



Is Medicare A Good Deal?

By John C. Goodman
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Think about everything you will pay to support Medicare: the payroll taxes while you are working, the premiums during retirement, and your share of the income taxes that subsidize the system. Then compare that to the benefits of Medicare insurance, say, from age 65 until the day you die.

Are you likely to come out ahead? That depends in part on how old you are. If you are a typical 85-year-old, for example, you can expect about \$55,000 of insurance benefits over and above everything you have been paying into the system. If you're a typical 25-year-old, however, you will pay an extra \$111,000 into the system, over and above any benefits you can expect to receive.

By the way, this is not the sort of calculations you want to try at home on a pocket calculator. It's too complicated. Fortunately the heavy lifting has already been done by Andrew Rettenmaier and Courtney Collins in a [report](#) for the National Center for Policy Analysis and summarized in this [chart](#).

In terms of dollars in and dollars out, Medicare breaks down this way:

- A typical 85-year-old is going to get back \$2.69 in benefits for every dollar paid into the system in the form of premiums and taxes—a good deal by any measure.
- People turning 65 today don't do nearly as well — they get back \$1.25 for every dollar they pay in.
- The average worker under age 50 loses under the system — with a 45-year-old getting back only 95 cents on the dollar.
- That's better than the deal 25-year-olds get, however; they can expect to get back 75 cents for every dollar they contribute.

Why does Medicare favor the old and discriminate against the young? Because like Social Security, Medicare finances work like a chain letter. Although workers have been repeatedly told

that their payroll taxes are being securely held in trust funds, they are actually being spent—the very minute, the very hour, the very day they arrive in the Treasury’s bank account.

No money has been saved. No investments have been made. No cash has been stashed away in bank vaults. Today’s payroll tax payments are being spent to pay medical bills for today’s retirees. And if any surplus materializes, it’s spent on other government programs. As a result, when today’s workers reach the eligibility age of 65, they will be able to get benefits only if future taxpayers pay (higher) taxes to support them.

Just as Bernie Madoff was able to offer early investors above-market returns, early retirees got a bonanza from Social Security and Medicare. That’s the way chain-letter finance works. But in the long run, there’s no free lunch. That’s why things look so dismal for young people entering the labor market today.

The return from Medicare has been very much in the news lately because of an [Urban Institute finding](#) that seniors are getting a lot more out of Medicare than they put in. This conclusion is being used to justify cuts in Medicare spending favored by both Democrats and Republicans.

There is no question that Medicare needs reforming. But the Urban Institute paints a picture that is too rosy. That report failed to account for income taxes seniors pay to support Medicare, failed to adjust for the full measure of Medicare cuts under health reform (ObamaCare) and treated Medicare promises as though they are as secure as government bonds, even though they clearly are not.

Regardless of who cranks the numbers, the reality remains the same. The generations who will be hit the hardest by Medicare reform are the same people who weren’t going to get a good deal from the system even without reform.

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