OPPORTUNITY 08
Independent Ideas For Our Next President

Social Insurance

Reviving the Social Contract
Economic Strategies for Health Insurance and Long-Term Care

Background

The social contract that emerged during the period stretching from the New Deal to the Great Society is slowly eroding in response to economic and demographic changes at home and abroad. A new social contract is needed, but it will take time. Our new President should consider proposing a range of economic policies that reflect a "real insurance" approach—one that distinguishes between predictable events, for which savings must be encouraged, and rare, catastrophic events, for which insurance is appropriate. Such an approach is particularly needed in two key areas. Small-group and individual health insurance should be made more affordable by creating a new, federal system of reinsurance that covers a substantial portion of catastrophic costs. The fiscal burden on Medicaid, Medicare, and state governments should be reduced by mandating individual *long-term care insurance* and establishing federal mechanisms for regulating the market and financing individual purchases.

Recommendations

In developing a new social contract to promote individual financial security, the new President should explore programs that

- distinguish more clearly between savings and insurance when addressing individual financial security
- mandate both personal savings and the purchase of insurance against risk to avoid free-riding, security-oriented programs
- offer subsidies to mitigate the burdens of saving and insurance premiums on low-wage workers and their families
- disseminate information and facilitate individual choice
- require all individuals to pay risk-based prices for insurance against self-incurred risks

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Key Facts

- the *public sector* faces a long-term actuarial imbalance of 25 to 30 percent in Social Security
- Medicare and Medicaid are on course to triple as a share of GDP (gross domestic product) over the next quarter-century and, if not restructured, will consume nearly12 percent of GDP by 2031
- at the state and local level, unfunded liabilities for future retiree pensions and health care are estimated to be as high as $1 trillion
- since 1980, the share of private sector jobs offering traditional pension plans has fallen to only 20 percent
- although nearly two-thirds of Fortune 1000 firms continue to have defined benefit plans, 11 percent had frozen them by 2004, up from 5 percent in 2001, and the trend is accelerating
- by 2006, only 61 percent of private employers offered health insurance coverage to their workers, down from 69 percent in 2000
- the personal savings rate averaged 8 percent between 1980 and 1994; today it stands at minus 1 percent

A full version of this proposal, as well as supporting background material, is available at www.opportunity08.org

About the Author and the Project

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William A. Galston, a senior fellow at Brookings, is an expert in domestic policy, political campaigns, and elections. He served as deputy assistant for domestic policy to President Clinton, and directed national efforts on civic renewal led by Sen. Sam Nunn and Secretary William Bennett. Galston also served as an advisor to presidential candidates Walter Mondale and Al Gore.

Opportunity 08 aims to help 2008 presidential candidates and the public focus on critical issues facing the nation, presenting policy ideas on a wide array of domestic and foreign policy questions. The project is committed to providing both independent policy solutions and background material on issues of concern to voters.