Narrative to go with TX Budget Shortfall

Page 1:

To help with third-party validation of the numbers, and to spread the message, we'd love to teach a continuing education seminar about this solution. This presentation is adapted from the course material we've prepared.

Page 2:

This is the flow chart that shows the whole path of how the resources freed up flow into the TX budget. Following pages will provide details of each box within this flow chart, so keep it handy as the reference tool guiding the overall presentation.

Page 3:

Refers to the red box. Pretty self-explanatory, especially after the Key Driver document.

Page 4:

Refers to the top left green box. "The Curve" shows the balance needed at each age to be on track toward accumulating the balance needed at retirement to pay your expected benefits. To convert Social Security and Medicare to the proven successful retirement-plan model, we issue Social Security bonds to everyone in the amount needed to put them on The Curve. The bonds work just like school bonds that are secured by their future stream of property-tax receipts (in this case, payroll-tax receipts).

As the property-tax receipts come in, school districts put the designated portion into the debt-service fund and pay interest and principal on the school bonds as scheduled. In our case, as the payroll-tax receipts come in, our Master Trust puts the designated portion into the debt-service fund and pays interest and principal on the Social Security bonds as scheduled.

The blue markers show the generations of family connected to "late" Baby Boomers approaching age 50 (their parents in early stages of retirement, their grandparents perhaps still drawing benefits in their 90's, their kids just entering or approaching the workforce. The yellow markers show the same splits for "early" Baby Boomers who are now approaching retirement age.

In each case, the combined family will receive over a million dollars of Social Security bonds in their accounts. That's a pretty good way to start a conversation, wouldn't you agree? "No, ma'am, we're not talking about cutting your benefits; we're talking about putting a million dollars of real assets in your account so you can receive double the amount you were getting, and know that it's fully funded." "Oh, well allright then – tell me more, please!"

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Page 4 continued:

It's important to note that this **is** the conversion cost. Once everyone is on The Curve, we're converted. It's done. You get your benefits paid out of the assets in your account, just like other retirement plans. The Social Security bonds **are** the conversion cost. We pay off the bonds with the designated portion of payroll tax receipts that we're already paying, so there's no tax increase to pay for the transition. Page 5 will show the amortization schedule.

The opening balance sheet shows the total amount needed in Social Security bonds. We just multiplied the population at age 77 times the amount on The Curve for age 77, plus the population at age 49 times The Curve balance for age 49, and so on. There are separate entries for existing Social Security benefits (which replace an average 42% of pre-retirement income); boosting benefits to 100% wage-replacement (another 58%); Disability benefits (DI); and Medicare benefits (HI for sum of all Medicare).

The Forfeiture Pool entries refer to the life annuity model which we currently have. We draw benefits during our lifetime and upon our death any reserves still associated with our account go back into the pool – we don't pass on any balance to our heirs. We can move toward full inheritability after a few years of economic growth, but cannot get there in the first move. We thought it more important to solve the pension and retirement problem by boosting benefits to 100% wage-replacement, than to go for inheritability right away (but at much lower benefit levels).

The left side of the balance sheet shows the present value of the portion designated for debt-service. We used the intermediate case projections in the Trustees Reports for Social Security and Medicare. There's enough cushion to pay off the national debt and provide a Contingency Pool of almost six trillion dollars for further safety, as well as an equity piece – the Capital Surplus of another six trillion.

That equity piece provides the inflation protection. As economic growth delivers receipts into the debt-service fund exceeding the forecast, that surplus is paid out in dividends so that every participant and beneficiary keeps up with the economy.

Page 5:

Bottom left box. To match debt-service to the available cash flow, we spread the bonds into 10-year tranches. The current tranche gets paid principal and interest in cash, while all other tranches accrue interest at 3.0% like savings bonds. When their turn arrives, each tranche then gets paid in cash from their assigned 10 years of cash flow.

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Page 5 continued:

For example, the 2031-2040 tranche has $7.1 trillion of initial Social Security bonds, which will have grown to $12.8 trillion by the end of 2030. That $12.8 trillion (plus interest on the remaining balance each year) is then paid off by cash flow designated for debt service from 2031 through 2040.

The bottom portion of page 5 shows how this solution balances the federal budget. The big factors are Net Interest Eliminated and Additional Receipts GDP. We remove interest expense from the federal budget by extinguishing Treasury obligations – debt holders will have Social Security bonds instead of what they hold now. Interest expense will be on the books of the Master Trust, not Congress. (And we've already seen how the Master Trust repays interest and principal on their bonds.)

The increased Social Security benefits, plus the healthcare and infrastructure resources freed up, will boost GDP which in turn produces additional tax receipts for the budget.

Page 6:

One box to the right, still on the bottom. Pretty self-explanatory (we hope).

Page 7:

Now up to the top row, center green box. This is the crux of the deal, this is how resources get freed up to flow into State budgets. We negotiate a trade with public employees: you've been promised pensions of 70% wage replacement (W-R), but we only have assets and tax rate today for 50% W-R. If you will agree to take 30% W-R, we'll give you a Social Security account providing 100% W-R, and use the 20% that you gave up to reduce your healthcare costs. So you would gain at least 69% (that's if you were already in Social Security).

In a nutshell, you can keep the deal you have, which is: 20% W-R in cash plus bankrupt your kids and grandkids. Or you can choose what's behind Door #1, which is: 69% W-R in cash plus 20% W-R applied to lowering your healthcare costs, plus prosperity for your kids and grandkids. Even in a politically charged atmosphere, we really ought to be able to sell that deal, wouldn't you agree?

20 + bankruptcy vs. **69 + 20 + prosperity**

Private employers will likely make similar deals, applying the freed-up resources from their own pension plans to paying a greater portion of group health premiums.

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Page 8:

One box to the right, now at the corner. The surplus pension assets are used to eliminate the cost of uncompensated care so that providers' collection rate goes up and they can lower their list prices. (The actual mechanism through which these transfers occur is conceptually doable but needs to be fully developed.) Thus, everyone who has been paying for healthcare will pay 10% less … and that's the first big influx of savings to the TX budget.

Because we've balanced the federal budget by eliminating interest expense and boosting GDP, the States get to use the 10% savings for Medicare and Medicaid in their State. (Part of the data for this is on page 9.)

Page 9:

One to the left and down, to the green box with GDP. The immediate effect on GDP is pretty self explanatory. Here's the scoop on the chart at the bottom of page 9. This shows what happens after 10 ten years, when we've used up the pension surplus.

The bottom layer is the 1.6% annual economic growth forecast in the intermediate case of the Trustees Reports. That's the portion used for debt service. The next layer – from 1.6% to 4.0% growth - is used for the dividend mentioned earlier. The top layer – from 4.0% to 7.0% growth in this case – becomes a new source for funding healthcare.

When thinking about GDP growth, remember that our economy has not only been suffering the drag of this business model wasting 10% of GDP, but also our periodic episodes of living beyond our means, going deep into debt, then trying to evade the consequences by cheating the rest of the world … which provokes retaliation and economic collapse. (Protectionist trade legislation bringing on the Great Depression, going off the gold standard in 1971 bringing on the oil price hikes, and today's sub-prime mess plus "Quantitative Easing" bringing on a flight from the dollar.)

Looking at our history, it appears that we can enjoy 6.1% annual growth in GDP when we practice good stewardship, and that's *without* giving effect to five highly favorable factors not included in the base case:

- Increased profit margins *(volumes up, costs down)*
- Shift from welfare to work *(response to incentives)*
- Add'l investment from portfolio shift & risk-taking, not just continued earnings
- Increased stock-market return once we stop wasting 10% of GDP
- Further local gains from solving senior poverty and uncompensated care

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Pages 10-11:

Now the blue box. Summary is pretty self-explanatory.

To help you evaluate how much of your own State's budget shortfall this solution might solve, the next page is a "quick and dirty" estimate using TX factors applied to each State's share of Medicare and the GDP increase. To the extent that your State has a different ratio of healthcare costs in their budget, or a different ratio of variable tax receipts to GDP, your specific results will vary from these estimates. But this estimate ought to put you in the ballpark and help you ask for the rest of the data you need.

Noteworthy is Wisconsin, reported to be facing a two-year shortfall of $3.6 billion for 2012 and 2013 with protesters in the streets and Democrat legislators on the lam. This solution generates net budget savings for Wisconsin of $3.4 billion **per year**!

California is often said to be in the direst straits among the 50 States, facing a shortfall of $25.4 billion in 2011-12 and $20 billion per year through 2015-16. This solution generates net budget savings for California of $19.3 billion per year, which solves 91.6% of their five-year forecasted deficit. With a little bit of effort they ought to be able to figure out how to get the remaining 8.4%. ☺

Careful readers will note that a couple of the TX numbers in the table are different from what we presented in the other exhibits on the website. They're both in the same ballpark, savings for the biennium ranging from slightly over $23 billion to just under $28 billion. The difference has to do with using Medicare's actual expenditures in one approach vs. looking at the total list price of health care services in which Medicare was involved (as either primary or secondary) in the other approach.

Please remember that this is not a take-it-or-leave-it scenario. We chose one set of specific assumptions that seemed reasonable to us and used them consistently throughout our calculations so we could prove that the numbers work. Different choices for a number of features can certainly be negotiated – the main thing is to get compound interest working **for** us instead of against. As long as we do that, we'll be fine!

	1	2		3	4	5	6	= 1 + .1*2 + 3 + 4 + 5 - 6	
	Share of Healthcare Resources	Share of Infrastructure Resources	Share of GDP Increase	Tax Receipts on Additional GDP	Share of Medicare Savings	Medicaid + Other Public Savings	10% Reduction in Health Care Prices	Net Budget Savings	Private Pay Savings
	billion	billion	billion	billion	billion	billion	billion	billion	billion
State	2011	2011	2011	2011	2011	2011	2011	2011	2011
USA	242.0	80.0	2,152.0	77.5	50.6	56.4	252.3	182.1	145.3
AL	3.3	1.1	36.0	1.3	0.9	0.7	3.9	2.4	2.3
AK	0.6	0.2	3.4	0.1	0.1	0.1	0.6	0.3	0.4
AZ	5.0	1.6	42.6	1.5	0.9	1.2	4.8	4.0	2.6
AR	2.1	0.7	22.2	0.8	0.6	0.5	2.3	1.8	1.2
CA	28.4	9.4	213.7	7.7	5.0	6.4	29.2	19.3	17.8
CO	4.2	1.4	29.2	1.1	0.6	0.5	4.0	2.5	2.8
CT	3.0	1.0	27.7	1.0	0.6	0.8	3.1	2.3	1.8
DE	0.7	0.2	6.8	0.2	0.2	0.2	0.8	0.5	0.4
FL	14.4	4.8	144.7	5.2	3.6	2.4	15.6	10.5	9.6
GA	7.3	2.4	57.1	2.1	1.2	1.2	7.6	4.5	5.1
HI	1.0	0.3	8.8	0.3	0.2	0.2	1.1	0.7	0.7
ID	1.2	0.4	10.1	0.4	0.2	0.2	1.2	0.8	0.8
IL	10.4	3.5	89.0	3.2	2.0	1.9	10.5	7.4	6.6
IN	4.9	1.6	47.9	1.7	1.1	1.0	5.3	3.5	3.2
IA	2.6	0.9	24.2	0.9	0.6	0.5	2.5	2.1	1.5
KS	2.3	0.8	20.6	0.7	0.5	0.4	2.4	1.7	1.5
KY	3.3	1.1	32.3	1.2	0.8	0.8	3.6	2.5	2.0
LA	3.3	1.1	29.5	1.1	0.7	1.0	3.7	2.5	1.9
ME	1.1	0.4	10.8	0.4	0.3	0.4	1.2	1.0	0.5
MD	4.6	1.5	36.9	1.3	0.8	0.9	4.8	3.1	3.0
MA	5.5	1.8	47.9	1.7	1.1	1.8	5.8	4.5	2.9
MI	7.4	2.5	78.6	2.8	1.8	1.6	8.0	5.9	4.6
MN	4.6	1.5	37.1	1.3	0.8	1.2	4.5	3.6	2.5
MS	2.1	0.7	21.1	0.8	0.5	0.6	2.4	1.7	1.2
MO	4.7	1.5	45.2	1.6	1.1	1.2	5.0	3.8	2.7
MT	0.8	0.3	7.2	0.3	0.2	0.1	0.8	0.6	0.5
NE	1.5	0.5	13.0	0.5	0.3	0.3	1.5	1.1	1.0
NV	2.1	0.7	16.6	0.6	0.4	0.2	2.1	1.2	1.5
NH	1.2	0.4	10.3	0.4	0.2	0.2	1.1	0.9	0.7
NJ	7.0	2.3	65.8	2.4	1.4	1.6	7.4	5.2	4.4
NM	1.5	0.5	13.1	0.5	0.3	0.5	1.6	1.2	0.8
NY	15.0	5.0	139.8	5.0	3.3	7.9	17.1	14.6	5.9
NC	7.0	2.3	65.3	2.4	1.5	1.7	7.8	5.0	4.5
ND	0.6	0.2	4.9	0.2	0.1	0.1	0.6	0.4	0.4
OH	9.2	3.0	86.4	3.1	2.1	2.2	9.7	7.2	5.5
OK	2.7	0.9	26.5	1.0	0.6	0.6	3.0	2.0	1.8
OR	3.1	1.0	28.0	1.0	0.6	0.5	3.1	2.3	1.9
PA	9.9	3.3	104.4	3.8	2.5	2.7	10.8	8.4	5.6
RI	0.9	0.3	8.4	0.3	0.2	0.3	0.9	0.8	0.4
SC	3.4	1.1	33.1	1.2	0.8	0.7	3.7	2.4	2.2
SD	0.7	0.2	5.9	0.2	0.1	0.1	0.7	0.5	0.4
TN	4.8	1.6	46.0	1.7	1.1	1.2	5.3	3.6	3.0
TX	19.1	6.3	140.3	5.1	3.0	3.6	19.7	11.6	13.1
UT	2.1	0.7	14.2	0.5	0.3	0.3	2.3	1.0	1.7
VE	0.6	0.2	5.0	0.2	0.1	0.2	0.5	0.5	0.3
VA	6.5	2.2	52.7	1.9	1.2	0.9	6.8	3.9	4.8
WA	5.5	1.8	45.4	1.6	1.0	1.0	5.4	3.9	3.4
WV	1.2	0.4	16.1	0.6	0.4	0.4	1.5	1.2	0.7
WI	4.8	1.6	43.3	1.6	1.0	0.8	4.9	3.4	3.1
WY	0.5	0.2	3.8	0.1	0.1	0.1	0.4	0.4	0.3
	242.0	80.0	2,152.0	77.5	50.6	56.4	252.6	181.8	145.6