

Measuring Americans' Preferences for the Trade-offs Integral to Solving Social Insurance Funding Issues

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A research challenge

- **Social Security and Medicare face long-term funding gaps**
- **There are a multitude of ways to address these gaps**
- **Addressing options one at a time, without implications on funding gap, can lead to distorted views of preferences**



Trade-off Analysis, also called Conjoint Analysis, can provide insight

- Trade-off analysis utilized for over 30 years in consumer product design
- Ideal for complex issues
- Analysis of patterns indicates most effective design and impact of each feature on appeal
- Based on Bayesian math (see “The Signal and the Noise” by Nate Silver)



An example of a trade-off analysis question

Which of the following cell phone plans do you prefer?		
1400 minutes	1000 minutes	800 minutes
Unused minutes rollover for one month	No rollover of unused minutes	Unused minutes rollover for one year
New phone every year	New phone every two years	No new phone
Nights and weekends count toward monthly minutes	Free nights and weekends (do not count toward monthly minutes)	Free calling to top 5 contacts
Costs \$100/month	Costs \$75/month	Costs \$60/month



Great potential for insight on social insurance preferences

- **Determines most preferred package**
- **Considers the impact of each change on funding gap**
- **Measures the extent to which the level of each feature affects preference**
- **Forces “realism”**



Example:NASI Social Security study

- **NASI utilized trade off analysis on Social Security**
- **Eight policy options tested: taxes increases, benefit cuts, benefit increases**
- **National sample chose among four packages of options 10 times**
 - **No change in policy always a choice**
 - **Question format tested in focus groups and cognitive survey pre-test**



Specific impact of policy change on funding gap always shown

- Increasing taxes or decreasing benefits close the funding gap
- Increasing benefits widen the funding gap



Tax rate, retirement age and earnings cap have strong impact

Limit on Earnings Taxed for Social Security	
Eliminate the cap over 10 years	Strong Positive
Lift the cap over 5 years to 90% of earnings	Weak Positive
No change	Strong Negative
Social Security Tax Rate	
Raise tax over 20 years by 1/20 th of 1%	Strong Positive
Raise tax to 7.2% in 2022 and 8.2% in 2052	Strong Positive
No change	Strong Negative
Retirement Age	
No change	Strong Positive
Gradually raise full retirement age to 68	Weak Positive
Gradually raise full retirement age to 70	Strong Negative



Means test has strong negative impact

Means Test Social Security	
No change	Strong Positive
Use means testing to reduce benefits	Strong Negative
Children's Benefits for Students	
No change	Weak Positive
Extend benefits to children whose working parents have died or become disabled up to age 22	Weak Negative
Benefits for All Beneficiaries	
No change	Weak Positive
Increase benefits by \$60 per month for all beneficiaries	Weak Negative



Targeted benefit increase are a weak positive

Benefits for Lifetime Low-Wage Workers	
Raise minimum benefit to eliminate poverty for 30-year workers at age 62	Weak Positive
No change	Weak Negative
Social Security's COLA	
Increase the COLA by basing on inflation for the elderly	Weak Positive
No change	Little Impact
Lower the COLA	Weak Negative



Most preferred solution to Social Security funding gap

- Eliminate the earnings cap over 10 years so that 100% of earnings are taxed
- Raise the Social Security tax over 20 years by 1/20th of 1% per year for employees and employers
- Raise the minimum benefit for lifetime low wage earners for 30+ years retiring at age 62 or later
- Increase the COLA by basing it on inflation for the elderly
- These changes eliminate the funding gap and add to surplus



Recommendation: Trade-off study on policy preferences to sustain Medicare

- Would include reactions to ideas for increasing tax revenues of various types, increasing premiums and cost sharing by beneficiary,
- Would test other changes in structure of program
- Several levels of changes would be included on each idea
- Every change would show impact on funding gap
- **Trade-off study on long term care also appealing**

