



GENERATIONAL

FAIRNESS



DENNIS DUNN

A program fair to the current generation,
refrains from passing on burden to
the next generations.

GENERATIONAL FAIRNESS

DENNIS DUNN

Achieving Generational Fairness
with an Implementable,
Self-Adjusting, Self-Sufficient,
Easy, and Transparent Plan for
Taxes, Social Security, and
Health Care



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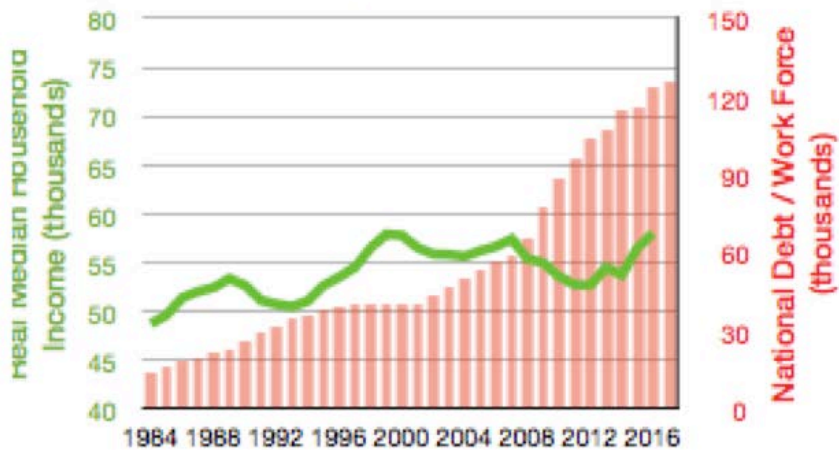
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Copyright 2017 Dennis Dunn
P O Box 2505
West Lafayette IN 47996-2505
Phone 765-464-0920

Please send comments to
Dennis@GrowingChild.com

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Real Median Household Income vs. Federal Debt per Worker, 1984-2016



Year	Real Median Household Income	National Debt / Work Force
1984	48.72	14.01
1988	52.43	21.51
1992	50.73	31.94
1996	53.51	39.40
2000	57.79	39.88
2004	55.63	50.25
2008	55.38	65.07
2012	52.67	104.07
2016	58.00	123.14

INTRODUCTION

The objective of this booklet is to present a financial program that is fair to the current generation, and refrains from passing on financial practices and laws that are a burden to the next and future generations, thereby limiting their potential for success.

The program is an implementable, self-adjusting, self-sufficient, easy, and transparent plan for taxes, Social Security, and health care. It allocates resources to the need rather than to administrative or bureaucratic costs or the transfer of special political favors.

There is a safety net, for everyone, but with it comes the responsibility, flexibility, and risk that everyone will make decisions in their own best interest.

- In 1935, President Franklin Roosevelt and Congress passed Social Security legislation with taxes and promises for the future.
- In 1965, President Lyndon Johnson and Congress established Medicare.
- In 1972, President Richard Nixon increased Social Security benefits.
- In 2003, President George Bush and Congress passed the Improvement and Modernization Act adding Prescription Drugs, Improvement, and Modernization.
- In 2010, President Barack Obama and Congress passed the Affordable Care Act.

These three Democrat and two Republican Presidents and Congress passed on to future generations increased benefits as well as the responsibility for raising taxes to meet these obligations.

When necessary, the Government borrowed from the Social Security Trust Fund to cover the increasing deficit. In 2001, the total debt was \$5.792 trillion, which was 54.8 percent of Gross Domestic Product (GDP). In July 2016 the total debt was \$19.428 trillion, or 106.1 percent of the GDP.

In 1970 when my company started publication of *Growing Child*, a child development newsletter, (and our first subscriber had a newborn) the national total debt was \$380.9 billion and GDP was 36 percent. Today that child is 45 years old and the debt is \$19,428 trillion; GDP is 106.1 percent.

A change is necessary or the years ahead look very bleak for future generations.

The following pages offer a concept for a self-adjusting plan for taxes, social security and health care. There should be no exemptions to the adjustments necessary to make the plan work.

The goal of this plan is to pay as we go, not push debt on to the next generation, and to provide retirement benefits that can be sustained.

The objective of this pamphlet is to follow the words of Thomas Jefferson: "*Place before mankind the common sense of the subject in terms so plain and firm as to command their assent.*"



GENERATIONAL FAIRNESS PLAN

1. **TAXES** Eliminate all federal income and excise taxes. Replace with one percent transactional tax on any and all transactions.
2. **SOCIAL SECURITY** All Social Security benefits become self-adjusting based on the revenue received in a given year.
3. **HEALTH CARE** Each person receives a debit medical card to be used to buy insurance or self-insure. Monthly deposits to these cards are funded by the one percent tax.

THE PLAN: GUIDING PRINCIPLES

The ideas in this essay offer a place to start—first by not adding to the national debt, and then by reducing the amount.

In some of the recommendations of this plan there will be resources that must be rationed at various times—just like we sometimes do with our own money. When our personal funds are low, we spread them out as best we can. We look for ways to save, and we think twice about purchases that would have a negative impact on our budgets.

It is time to start putting our fiscal house in order at the national level now or the prospects for our families and our childrens' quality of life will be seriously at risk.

I am in complete agreement with the following principles of financial responsibility outlined in the *Report of the National Commission on Fiscal Responsibility and Reform*, "The Moment of Truth," <http://momentoftruthproject.org/report>

"We all have a patriotic duty to make America better off tomorrow than it is today. Americans are counting on us to pull together, not pull apart, to put politics aside and do the right thing for future generations. Our country's economic and national security depends on us putting our fiscal house in order.

“Don’t disrupt the fragile economic recovery. We need a comprehensive plan now to reduce the debt over the long term. But budget cuts should start gradually so they don’t interfere with the ongoing economic recovery. Growth is essential to restoring fiscal strength and balance.

“Cut and invest to promote economic growth and keep America competitive. We should cut red tape and unproductive government spending that hinders job creation and growth. At the same time, we must invest in education, infrastructure, and research and development to help our economy grow, keep us globally competitive, and make it easier for businesses to create jobs.

“Protect the truly disadvantaged. We must ensure that our nation has a robust, affordable, fair, and sustainable safety net. Benefits should be focused on those who need them the most.

“Cut spending we cannot afford—no exceptions. We must end wasteful, and ineffective federal spending, wherever we find it. We should cut all excess spending—including domestic programs, entitlements spending, and spending through deductions in the tax code.

“Demand productivity and effectiveness from Washington. We must use fiscal restraint to promote reforms and efficiencies that force government to produce better results and save money. We should insist on consistent productivity growth in our government.

“Reform and simplify the tax code. The tax code is rife with inefficiencies, loopholes, incentives, tax earmarks, and baffling complexity. We need to lower tax rates, broaden the base, simplify the tax code, and bring down the deficit. We need to reform the corporate tax system to make America the best place to start and grow a business and create jobs.

“Don’t make promises we can’t keep. Our country has tough choices to make. We need to be willing to tell Americans the truth: We cannot afford to continue spending more than we take in, and we cannot continue to make promises we know full well we cannot keep. The problem is real, and the solution will be painful.

“Stabilize and then reduce the national debt, or we could spend \$1 trillion a year in interest alone by 2020. There is no easy way out of our debt problem, so everything must be on the table. A sensible, realistic plan requires shared sacrifice—and Washington must lead the way and tighten its belt.

“Keep America sound over the long run. We need to implement policies today to ensure that future generations have retirement security, affordable health care, and financial freedom. To do that, we must make Social Security solvent and sound, reduce the long-term growth of health care spending, and tackle the nation’s overwhelming debt burden.”

1. TAXES

Eliminate all federal income and excise taxes. Replace with a one percent transactional tax on any and all transactions.

Everyone will pay the transactional tax. Current tax code will be eliminated, along with special interests and exemptions.

PROPOSAL

A one percent tax, one cent of every dollar, will be collected on each and every financial transaction—whether paid by cash, check, or credit card.

Anyone who makes a financial transaction would pay one percent. There would be NO exceptions.

This plan eliminates all federal income and excise taxes and makes the system fairer, more transparent, and more efficient. It would remove the huge cost of tax preparations, and eliminate the expenses of collection from those who have avoided taxes.

Today we have the electronic capacity to track the flow of funds, to meter that flow, and to assess a tax as the money flows through the meter at the financial institutions.

The transactional tax can report daily the taxes paid to the government—with no monthly or annual surprises. Adjustments of expenses can be made quickly and be transparent when the flow of funds does not cover expenses.

Gone would be the classification of profit or not-for-profit corporations. Gone would be deductions for 401Ks and other tax deductions.

No corporation taxes would be assessed, but they would pay one percent on every economic transition. There would be no need for C or Subs, etc., or other corporation identification for tax purposes. None of the \$1.1 trillion special tax code would be necessary.

BACKGROUND

Lanny Davis reports that \$755 trillion in total transactions took place in 2008. If the one percent had been applied tax that year, \$7.55 trillion would have been paid in taxes (\$3.12 trillion from stock transactions, \$4.43 trillion in revenue). "*A Debt-free America? Yes – It's Possible,*" *The Hill.com*

However, if there had been an exemption for stock transactions, the total would have been \$4.43 trillion. The following calculation does not include the \$3.12 trillion transactional tax on stocks.

\$4.43 trillion. Compare this to the \$2.4 trillion the IRS collects annually. Add up the \$300 billion that we currently pay to collect taxes, the \$385 billion that is owed (but not collected), special tax code exemption, which is around \$1.1 trillion, and \$2.4

trillion currently collected by the IRS, you have a total of \$4.185 trillion.

This is just about the same as projected by a one percent tax projection of \$4.43 trillion.

The difference between \$4.43 trillion from one percent tax and the current deductions, and uncollected and collected taxes (\$4.185 trillion) would finance the government.

A debate should take place as to whether to include or exclude stock transactions. My judgment is there should be no exemption.

If you add the one percent on stock transactions, there would be considerable surplus.

The tax would also help squelch the alarming problem of high-frequency speculation and permit pay down some of the national debt.

What would happen if there was no tax code? Certainly there would be some unemployment on K Street.

The dreaded April 15 will come and go. There will be no more forms, no more tax courts, no quarterly reports. Business and personal financial decisions could be made based on sound judgment rather than a tax code.

The IRS still would be there, but it would be a much smaller agency with a narrower, but still necessary, focus: to audit compliance by the financial

institutions in collecting and reporting. They would also continue to audit other federal taxes outside the income tax.

Depending on the final amount of money raised by the one percent tax, it is possible that some of those taxes (for example, excise) could be included in the one percent plan, and then surplus funds could be applied to reduce the national debt.

Under this plan, there would be a stable and predictable tax policy, and the federal government would have the ability to know income flow at any given time. This plan also would limit congressional tax patronage.

Deductions and Special Interests

According to the National Commission on Fiscal Responsibility and Reform, special interests have riddled the tax system in this country with countless exemptions to the amount of \$1.1 trillion a year.

In his paper, Matthew Mitchell says that “the financial bailouts of 2008 were but one example in a long list of privileges that governments occasionally bestow upon particular firms or particular industries. At various times and places, these privileges have included (among other things) monopoly status, favorable regulations, subsidies, bailouts, loan guarantees, targeted tax breaks, protection from foreign competition, and noncompetitive contracts. Whatever its guise, government-granted privilege is an extraordinarily destructive force. It misdirects resources, impedes genuine economic progress, breeds corruption, and undermines the legitimacy

of both the government and the private sector.”
"The Pathology of Privilege: The Economic Consequences of Government Favoritism" by Matthew Mitchell of the Mercatus Center at George Mason University. <http://mercatus.org>

During the past 10 years there have been 4,428 changes to the U.S. tax code. I think it is fair to say many of them were favors to special interest groups.

Many bad business and personal decisions are made to take advantage of these codes. What may be good for one group may force others to make decisions that are not in their best interests.

Cost of Tax Preparation and Collection

The compliance costs for tax preparation, Internal Revenue Service collections, and legal costs are huge, estimated to be \$300 to \$431 billion a year. This tax plan would eliminate compliance costs and deductions.

The objective is to remove the cost of tax preparation and collect from those who have avoided taxes. These savings will permit those funds to flow to the U.S. Treasury with no increase in taxes. And if all else fails, the self-adjustment of expense will keep the government in compliance with the revenue. \$300 to \$431 billion is the cost of compliance for tax preparation, Internal Revenue Service collections, and legal costs. *Arthur B. Laffer, "The 30-Cent Tax Premium," Wall Street Journal, April 18, 2011. <http://www.wsj.com>*

However, this figure of \$431 billion is challenged and both the GAO and the Tax Foundation note minimum compliance costs of \$300 billion. *Wayne*

Crews, January 28, 2013 in Open Market.org, the staff blog of the Competitive Enterprise Institute (CEI). <https://cei.org>

The negative impact the tax code has had on the business community is substantial. Some potential business people never enter business simply for lack of understanding the regulations and tax codes. Myriad questions confront them: Should I be a C corporation, Sub S, partnership? And the list goes on.

Individual taxpayers are frightened by tax preparation companies' radio and television commercials that say: "The IRS will come get you, your house, your car, and they will continue to hound you for years to come." The tax preparers say, "We can save you thousands of dollars if you let us represent you!"

Sixty percent of all individual taxpayers hire someone to do their taxes for them. *Nina Olson, "Majority of Americans Will Pay Someone Else To Fill Out Tax Returns This Year," by Abby Ohlheiser, Jan. 9, 2013, Slate.com.*

For businesses and individuals alike, there is a significant cost of compliance due to the complexity of the tax law as it stands today. If it were not for the convoluted mess that is our tax system, most of these tax preparers would not be needed.

Tinkham Veale II, a successful entrepreneur who died in 2012 at age 97, wrote in the Wall Street Journal in 1992 about the plight of businesses and the high cost of meeting their tax burdens. Companies couldn't grow because they "were

having a terrible time getting over legal, tax and accounting complications,” he said. This is a long-standing problem in our society that has not improved over time.

And there’s still more.

- \$385 billion was the amount of unpaid taxes owed to the federal government in 2006. *Mark Trumbull, "Tax Deadline: 5 Quick Tips to Avoid an IRS Audit," Christian Science Monitor, April 16, 2012. <http://www.csmonitor.com>*

- The Urban Institute-Brookings Tax Policy Center data estimates that in 2009, 17 percent of taxpayers underpaid their taxes. *Chuck Marr, Chye-Ching Huang, Center on Budget and Policy Priorities, "Misconceptions and Realities About Who Pays Taxes," Sept. 17, 2012. www.cbpp.org*

- Nina Olson, the National Taxpayer Advocate, says “that the “tax gap”—the gap between what Americans technically owe in taxes and what they actually pay—should be viewed as a concern of honest taxpayers, not just the IRS. By one past estimate, each taxpayer effectively pays an extra \$2,200 in taxes, on average, to subsidize noncompliance by others.” *Mark Trumbull, "Tax Day: 1040 Reasons You Should Know Nina Olson," Christian Science Monitor, April 12, 2012. <http://www.csmonitor.com>*

- Nearly half of all Americans don’t pay income taxes, according to a Heritage Foundation calculation based on data from IRS. *"Individual Income Tax Returns," Publication 1304, 1962-2009, Table I.4. http://thf_media.s3.amazonaws.com*

“True tax reform that removes loopholes while

lowering tax rates is the Holy Grail of social policy. It appeals equally to Left and Right because it promotes both economic efficiency and fairness: economic efficiency—because it removes tax dodges that distort capital flows (and thereby diminishing productivity) while cutting marginal tax rates (thereby spurring growth); fairness—because a corrupt tax code with myriad breaks grants unfair advantage to the rich who buy the lobbyists who create the loopholes and buy the lawyers who exploit them.” *Charles Krauthammer, National Review Online, Aug. 5, 2011.*

CONCLUSION

Auditing all tax returns for honest and proper reporting is impossible. The fewer points there are to audit, the better the chance to ensure compliance. With this in mind, I searched for various ideas, and the transactional tax made the most sense to me.

This is not a new idea, but each case in which I came across it in reading, it was treated as just one more tax among others. That is not my intention. My plan is that this should replace the income tax, the excise tax, and possibly other taxes.

In writing this essay I have not had access to numbers that would define actual amounts, so I have used reasonable figures based on other studies. This is where public input on those numbers can be very helpful. While the figures in this paper may be dated, they do not alter the general content. In fact, it has been possible to test several events in past years and I am pleased that the ideas have stood the test of time.

Suggested Reading and Data Sources

Professor Edgar Feige is emeritus professor of economics at the University of Wisconsin–Madison. He is a graduate of Columbia University (B.A. 1958) and the University of Chicago (Ph.D., 1963).

Taxation for 21st Century: The Automated Payment Transaction (APT) by Edgar L Feige, Oct. 2000, https://www.academia.edu/166378/_Taxation_for_the_21st_Century_The_Automated_Payment_Transaction_APT_Tax_Economic_Policy_October_2000

Taxation for 21st Century: The Automated Payment Transaction (APT) by Edgar L Feige, 2005 presentation to the President’s Advisor Panel on Federal Tax Reform, https://www.academia.edu/166375/_The_Automated_Payment_Transaction_APT_Tax_Presentation_to_the_President_s_Advisory_Panel_on_Federal_Tax_Refor

Rethinking Taxation: The Automated Payment Transaction Tax, <http://blog.heartland.org/2014/05/rethinking-taxation-the-automated-payment-transaction-tax/>

The APT Tax

<http://apptax.com> and <http://apptax.com/taxbase.php> and <http://www.apptax.com/faq.php>

Dreaming Out Loud One Tiny Little Tax, by Daniel Akst, New York Times, <http://www.nytimes.com/2003/02/02/business/on-the-contrary-dreaming-out-loud-one-tiny-little-tax.html>

Tax Revolution – Replace All Taxes on Few with One Tiny Tax on All Transactions Including Stocks and Currency Trades, <http://bigbatusa.org/balanced-budget/a-tax-revolution/>

2. SOCIAL SECURITY

Self-adjusting Social Security benefits would be based on the revenue received in a given year.

- *Social Security tax would be increased on those making over \$140,000 a year.*
- *Retirees who fall below the median payment would receive the median amount.*
- *The payout of the social benefits would not exceed the amount received from gross Social Security taxes in a given year.*

PROPOSAL

Implement a self-adjusting plan based on the revenue received in a given year.

1. Allocate payout of benefits to the total amount of funds received. There would be no guaranteed set amount beneficiaries receive each period. In implementation, there would be a floor for benefits. At our current funding levels, benefits would have to be shaved to account for an approximate \$30 billion deficit.

2. Only the oldest 15 percent of the population will be eligible to receive benefits. Reduced benefits can be paid up to five years prior to the maximum retirement age. Once one becomes eligible, they are grandfathered in. At first blush this may seem impossible, but this would account for mass fluctuations in population (e.g., perhaps an influx of older immigrants who came to our shores during a particularly bad spike in infant mortality). "U.S. Census in 1913 estimated that 14% were over 65," <https://econproph.com>.

3. Raise the maximum amount subject to payroll taxes. Currently, the combined employee/ employer tax rate is 12.4 percent on wages up to \$113,700. Any income over that level is not taxed.

The following schedule for increasing the taxable level has been proposed by The Social Security Administration's Office of the Chief Actuary. <https://tax.thomsonreuters.com/media-resources>

The intermediate forecasts of Social Security payroll tax through 2025 are as follows:

- 2017 — \$126,000
- 2018 — \$129,900
- 2019 — \$135,900
- 2020 — \$142,500
- 2021 — \$148,800
- 2022 — \$155,100
- 2023 — \$161,700
- 2024 — \$168,300
- 2025 — \$175,200

However, in the early implementation of the plan some of the funds held in the Trust Fund can be used to work out a final proposal.

4. Raise the minimum benefit to the median.

Benefits are paid out based on what recipients paid in during their working years. That range, from the very smallest amount to the largest amount, will be progressively flattened to the median. If the lowest payments calculated are less than the median, all the lower numbers would be bumped up to the median. The shortfall will be made up from raising the maximum that is paid. The objective is that those who had years of low paying jobs will at least have benefits that will give them improved quality of life in retirement.

5. Limit abuse on disability.

The disability insurance program has grown from 1.7 percent in 1970 to almost five percent now. Although this does not, in and of itself, demonstrate abuse, it is certainly a cause for concern.

Rules must be tightened while monitoring and enforcement unit given the tools they need to succeed. Attention should be paid to potential motivations for abuse, and a mechanism be put in place to move people to other, more appropriate, services if they qualify, or incentivize them to reenter the workforce. *Trends in the Social Security and Supplemental Security Income Disability Programs.* www.ssa.gov/policy/docs/chartbooks/disability_trends/sect01.html

6. Means testing

Recently I attended a talk by a person of considerable wealth, and his comment was “why should I receive Social Security?” I also read a story about another wealthy person who did not want the payments but was unable to stop them.

It is difficult to determine what amount the means test should be, however this is a starting point: anyone who receives a Social Security payment would be means tested.

BACKGROUND

Changes in Social Security Social Security revenue is generated from Federal Deposit Insurance Corporation (FDIC) taxes on employees' and employers' income. Since the beginning, more has been taken in than paid out, and the surplus has been placed in a trust fund.

Many of the current rules that judge eligibility for Social Security benefits can remain the same, however, it is clear that changes must be made in Social Security taxes and benefits, with rules to make it flexible enough to address upcoming shortfalls in income.

The revenue generated today is less than the payout, but the trust fund has enough assets at the current rate of payout to last until about 2037. In 2013, the primary deficit was \$28 billion, and in 2014, it was projected to be \$30 billion.

A combination of unyielding factors (mainly people living longer and an influx of retiring baby boomers) has just begun to stretch a system already operating in a deficit.

The reality is that after the reserves are depleted, the system will only receive enough tax revenue to pay about three-quarters of scheduled benefits. A long-term outlook doesn't offer any relief, as the

gap between tax receipts and claims only increases over the foreseeable future.

It will be a delicate balance to keep within financial realities while maintaining Social Security's promise. The services were designed as a buffer against poverty for people who could no longer be reasonably expected to work. The change needs to be more than just a change in accounting. In addition to financial shortfalls, the system does not measure up to current economic conditions and needs of the poor and elderly.

Rather than starting from scratch, this paper offers some basic suggestions that would strengthen any future Social Security plan. The National Commission on Fiscal Responsibility and Reform has offered a number of very sound recommendations for Social Security in a document called *The Moment of Truth* which has been used as source material throughout this paper. *The National Commission on Fiscal Responsibility and Reform: The Moment of Truth*. <https://www.fiscalcommission.gov>

Although we're six years further down the path from the time those recommendations were made, these basic proposals have entered the policy sphere in one form or another.

Briefly, these are:

- Gradually increase early and full retirement ages based on increases in life expectancy.
- Make the retirement benefit formula more progressive.
- Reduce poverty by providing an enhanced minimum benefit for low-wage workers.

- Enhance benefits for the very old and the long-term disabled.

In general all of these concerns are covered by the program we are purposing.

SUMMARY

Since this program is self-adjusting, there will be no need for the Trust Fund other than part of it to support cash flow needs, and adjustments during the formative years of the self-adjusting program.

The Trust Fund gives the lawmakers time to develop new rules. The sooner the better. Now is the time to fix the problem instead of waiting until the Fund is depleted. *Summary of the 2016 annual reports by the Social Security and Medicare Boards of Trustees, <https://www.ssa.gov/oact/trsum/>*

These four suggestions should be incorporated into any serious plan to overhaul Social Security. The superiority of a self-adjusting plan over the more traditional, current model lies in its simplicity: it is always within budget.

Deficit spending becomes an impossibility on one hand while on the other hand, there's no temptation for innovative policy wonks to find justifications to borrow from a surplus.

This is a different approach, and like many others, it will require adjustment in many new areas. For example, some additional burden of budgeting will fall to recipients, but mechanisms to delay or mitigate any economic shocks are relatively easy to devise.

This plan, like the transactional tax, radically alters the approach we have to budgeting. Rather than relying on the old model of forecasting followed by correction, this plan is immediate. It is more reliable by eliminating the risks associated with fluctuations. It also prevents one congress or administration from passing the problem on to the next.

The flexibility of the system guarantees government can fulfill its promise made in 1935. The 100th anniversary of Social Security doesn't have to mark the program's end.

With a self-adjusting plan, we'll always be able to keep our promise to the disabled and honor each older generation as they retire.

On the flipside, these problems are the result of good news. On the whole Americans are living longer and retiring earlier. This is a good problem to have. We should welcome any problems resulting from advancements in our health and leisure.

It also makes evident the need for flexible systems that are insulated from demographic and economic swings. Both the One Percent Transactional Tax and the Self-Adjusting Benefit Plan share this in common.

Suggested Reading and Data Sources

1. *Social Security*. <https://www.ssa.gov/agency/>
2. *Trustee's Report Summary*. <https://www.ssa.gov/oact/trsum/>
3. *Proposals Affecting Trust Fund Solvency*. <https://www.ssa.gov/oact/solvency/>
4. *View that Social Security isn't broke*. <https://econproph.com/2015/03/28/why-ssis-not-broke-and-how-the-trust-fund-works/>
5. *The Economist*, "Entitlements in America," May 25, 2013

3. HEALTH CARE

Each person receives a debit medical card to be used to buy insurance or self-insure. Each citizen or green card holder would have \$175 per month (adjusted for medical price index) deposited on their medical debit card. At the conception of a child, this amount would increase to \$300 a month until the child was six months old.

As consumers of medical services, in time cardholders would become better medical consumers. Medical costs would be contained by the wise purchase of medical service by cardholders who would have a vested interest in using their debit card wisely.

PROPOSAL

Here are my suggestions for a free choice medical plan:

1. Each individual person with a Social Security card or a green card would be issued a medical debit card. It would seem anyone living in United States will be paying the Transactional Tax so it would seem they should be entitled a medical debit card. The plan starts at conception. At the point of conception until child is six months old, the parent will receive \$300 additional funds on the card.

2. The medical debit card program would replace many of the state and federal government plans.

3. Each medical debit card would receive \$175 each month. When the medical debit card is issued during the start-up period, the starting balance would be \$3,000. The funds would be taken from the Social Security Trust Fund. At the end of the start-up period, the funds for a new debit card would be funded from the transactional tax.

4. The Social Security Trust Fund would be available to insure a smooth transition from current programs to the new programs described in this paper. The current fund is approximately \$2.8 trillion, expected to grow to \$3 trillion by 2021.

5. Medicaid and Medicare are the last resort. These programs are important to total health care services however, like all programs the cost continues to increase.

Consider the following:

- It is estimated that 40 percent of Medicare's costs are incurred in the last months of a beneficiary's life. *"Keeping the Republic," Mitch Daniels, page 204.*
- Medicare utilization is roughly 50 percent higher than private health insurance utilization, even after adjusting for age and medical condition. *Merrill Matthew and Mark Litow. "Why Medicare Patients see the Doctor Too much" WSJ, July, 2011*

The debit card can help bring down these costs and abuses. If the medical card is the first dollars paid,

and the person holding the card depends on it for medical needs, it can be assumed they will look to protect their balance for future needs. In effect, they become better buyers of medical services.

I see this as a three-level payment plan. If the debit card is the first dollar to purchase insurance or medical service, the next money can come from other resources of the individual's personal assets, insurance, and small loans. The insurance should, where possible, cover nursing home care.

This story tells how one family handled the cost of insurance. This came from a period when there was little government support for medical care.

"After all four of us children were married, and our parents were aging, it occurred to me that our parents had no medical insurance at all. They thought, probably realistically, that they could not afford it. I wrote my sisters and brother suggesting that it was in the best interest of all of us if we paid for such insurance. Dad contacted the Farm Bureau and through them got medical coverage. Each of us children then, rotated in paying the premium one quarter each year. When cancer struck them, this saved all of us a lot of anxiety over getting the bills paid." *The Long, Long Winding Road,* Wallace Denton, page 25.

After these sources of payment have been utilized the final source is Medicare and Medicaid. It seems reasonable that with the debit card and some personal insurance or assets, this source of support should be used only in extreme cases. Deductions

from an individual's pay should be much lower than currently is the case. Monitoring use of the backup is primary to avoid abuse.

An idea: use the debit card first, then personal assets or a high deductible insurance policy. Cost higher than that would be paid by Medicaid or Medicare. Finally, for those cases of catastrophic medical cost, it would be covered by Medicare and Medicaid.

It is easy to fall into the trap of thinking that medical services are free. When there is an economic impact on the individual, they become better buyers and services and more aware of a healthy life style.

6. Medical debit cards may be used for any medical service that is supplied by a licensed provider, which includes, but is not exclusive to, physicians, dentists, midwives, veterinarians, etc. The total list would need to be determined. Prescription drugs that are currently bought outside the country could be purchased from authorized druggists with the medical debt card.

Health insurance can be purchased by individuals or groups of individuals with the medical debit card.

The risk is that the monthly \$175 will only cover insurance costs and there will be no funds for monthly expenses.

There are years that people, especially young people, do not have high medical costs. Suggestion: Build the balance in the debit card to a high balance

and buy high deductible or catastrophic insurance.

It will be important that the integrity of each debit card be maintained. Each debit card must have a photo. Medical data should be added to the card and updated.

Much like a bank account, the card owner should be able to review changes and balances, much like those on regular debit cards issued by banks. This helps make sure there have been no unauthorized charges. The cardholder also can better plan for use of the card.

Medical facilities or banks should be able to offer the account auditing in the presence of the cardholder and offer help to those who do not have access to digital reports.

Deaths are tracked so that payment can be terminated at death, and distribution of the reserve funds to the proper parties.

Like a driver's license, the card should have an expiration date and be renewed.

The funds in the account cannot be attached by any creditor. This is the same provision that currently exists for Social Security benefits. Funds in the medical debit card would be approved only for medical care and to pay medical bills.

Medical debit cards for children under age 18 would be administered by a parent or guardian and families could transfer balances from one member to another.

At death, the account could be willed as the holder of the card wishes, once expenses eligible under the program are paid. If no instruction is left, the inheritance laws of the state would apply.

7. Considering major natural disasters, there are times when major disasters impact people, like the several states that were hit by Hurricane Sandy, Hurricane Katrina, the fires of Colorado, etc. These kinds of events are difficult to plan for, and coming up with numbers that address them in planning are difficult to determine. Since there is great potential for abuse in this area, more data is needed to determine the risk and potential solutions. It is most likely that FEMA and HHS would supplement aid with additional deposit in the medical debit cards.

8. While employers and individuals would make contributions to debit cards, keep in mind that since there would no longer be any income tax, there also would be no tax advantage to the employer. Funds added to the account would stay in the account under the control of the cardholder, even if they changed employment.

9. Means test. There would be a means test on who should receive monthly deposits in their debit card. The criteria for the means test needs more data to determine the parameters.

The same test should be for Medicaid and Medicare.

Suggested reading: Keeping the Republic: Saving America by Trusting Americans, by Mitch Daniels, pp. 199-206.

Administrative Rules

Every man, woman and child would have his or her own personal medical debit card. Parents would be authorized to act on behalf of their minor child until the child reaches age 18.

The medical service provider would be required to post prices. Prices can be negotiable for special situations. The medical professional would become more aware of prices and be selective of treatments and testing.

It also would be my judgment that pricing services would arise to help consumers in their medical selections. The creative energies of the private sector could develop various ways to serve out patient needs, such as special clinics with nurse practitioners and physician's assistants for tests and physical exams.

The choices would be many, and as long as the providers would be licensed to offer the service, the medical debit card could be used.

One of the advantages of the medical debit card is that people would have the choice to use the medical debit card for dental or optical care, or elective surgery. Not all employers currently have plans that cover these options.

1. Insurance companies would be able to offer policies across state lines, and they should not

be bound by any mandates. The consumer should be able to pick and choose the type of coverage needed.

Affinity groups such as churches, corporations, drug companies, small businesses, etc., could offer insurance plans specifically for their unique groups. There also could be insurance for those who practice good health habits, such as non-smokers, etc.

Once a person buys insurance, the insurer could not cancel or raise rates other than rates that are universal to all policyholders in the group. As long as the insured have continuous coverage, they could not be declined coverage for a pre-existing condition.

2. Any person using the medical debit card would be subject to binding arbitration agreements to settle disputes unless the patient has opted out prior to treatment. The objective is to reduce one of the major costs for providers of medical care—legal expenses—and ensure fair reimbursement for claims.

Under our current system, it is assumed that punitive damages in medical lawsuits are to punish malpractice. Rooting out bad doctors is the responsibility of the medical profession. Hospitals do this is by denying privileges to doctors not wanted on staff, for example. There are methods currently in place to ensure proper accreditation of medical professionals without passing the costs to the patients through higher fees. *"Malpractice (tort) reform: The cost of defensive medicine for doctors to protect*

themselves against frivolous lawsuits is estimated between \$66 and \$178 billion per year," John Sanderson, editorial, Journal Courier, Lafayette, IN, Sept. 6, 2009.

There is no free lunch. If doctors must pay high premiums for malpractice insurance, those costs are passed on to each one of us.

3. Once treatment is authorized and the medical service provider has indicated that it is medically necessary, there would be no insurance review or second opinion. If a review is requested, it is at the expense of the person requesting the review. This includes fees for dentists, mental health practitioners, optometrists, midwives, prescription drugs, hospital services, nursing homes, home care and others as determined by professionals.

4. Veterans' coverage would be discontinued except for those who received injuries as a result of service. Those expenses remain the responsibility of the military or a related organization. The military, just like any employer, would have the option to make deposits in the debit card for the military. Active duty personnel would have access to military hospitals.

5. There would be no anti-trust protection for anyone covered by this plan. There also would be no fair trade protection on medicine. The purpose of this is to ensure competition to establish a free market price of medical services and medication.

BACKGROUND

I can hear the voices saying most people are not wise enough to make the correct decision. I am sure that is true, but they will not get any wiser with over 2,000 pages of the Affordable Health Care Act or the 77,000 pages to tax code.

My observation from years of owning a business is that people have a built-in ability to adjust to the current situations in their life and to make the best of most situations. This opportunity does not happen if there is the dependence on the government.

I can also hear the voices say that the monthly payment of \$175 per person is not adequate to cover current insurance premiums or out-of-pocket medical expenses.

There are a number of recommendations that will reduce the cost of medical service—for example consumers should shop for competitive prices, and also take steps to reduce the need for medical care by improved and healthy lifestyle. Family members would also be able to shift balances from one to another.

Funds in the medical debit card at the end of life are for the family, and are not returned to the government.

Consider these numbers:

- \$750 billion waste in the health care sector. *Based on report of unneeded care, byzantine paperwork, fraud and other waste, The Associated Press, Sept. 6, 2012.*

- \$84 to \$174 billion, wasteful spending last year due to lack of transparency and competitive pricing in medical services. *Donald Berwick, former head of the Centers for Medicare and Medicaid Services, Forbes, July 16, 2012.*

- \$66 and \$178 billion, defensive medicine. *Editorial by John Sanderson, Journal and Courier, Lafayette, IN, Sept. 6, 2009. Sanderson is also the author of It's All About Money: Winning the Health care War!*

The current medical system has to pass on the cost of those who cannot pay to those who do. With all people having a medical support pay plan, this should reduce the pass on of these cost to other payers.

Health Care in the Workplace

Health care issues sometimes drive the choice of a career path. Parents, in particular, are sometimes heard to say, "I am only working for health care." It may be that they would prefer to work in their own businesses or stay home with their children. But because they need health care for themselves and their families, they must choose a job that includes insurance. The choice might be different if they had a universal health care program. A well-developed program can ensure that employees will not make employment decisions based on the availability of insurance, but rather on their personal goals.

A well-planned program will ensure that the cost of care for the current generation is not passed on to the next, and the cost of the program will not be a hindrance to economic development.

A well-defined program will maintain free choice on how one's health care dollars will be spent—and not dictated by special interests that force mandates. We are a nation of about 313 million people with widely varying needs. The needs of one person differ from another due to many things, among them geographic location, time of life, and many other factors.

As it is today, many insurance programs provided by businesses for their employees determine what will be covered and who will provide the service. The employee has little or no choice.

Creative Ingenuity

It is also necessary that we profit from the creative ingenuity of the American people. When we do, how quickly they adopt new ideas and figure out what is in their best interests! Employers may continue to provide health care benefits as a way to reward and keep good employees. Consumers may make healthier lifestyle choices to make the most of their benefits.

Having a medical debit card would encourage consumers to shop for the best prices. There are a number of services that give comparative prices. *"Health care costs are a medical mystery."* USA Today, 9-21-2015. The Indiana Hospital Association's website MycareInsight.org allows visitors to search by condition or hospital and compare price up to three hospitals with another. The website also offers quality information.

An example: here are the price variations between the place I live (Lafayette, IN) and other locations:

Knee orthoscopic

New York-\$10,000; Lafayette-\$4,306

Cataract Surgery

Milwaukee-\$5,500; Lafayette-\$3,890

Rotator cuff surgery

Milwaukee-\$7,828; Lafayette-\$5,767

There are reasons for the variations, but it gives an idea as to the potential saving with some shopping.

Here is just one illustration: A friend's wife was in need of an MRI—it was not an emergency, but still the need was there. In checking with the hospital, there was some question as to what the charge would be, but in time, the hospital quoted a price of \$4,000. There was little reason for concern by the hospital because they were sure the charge would be covered by the patient's insurance.

Being one of those people with that creative energy and a good bit of rural common sense, my friend thought maybe he could get a better price. To the internet he went and began a search for MRI service near his home.

In a larger community 60 miles away, he found the same service for \$400. That's right: 10 times cheaper! Take this anecdote, which is hardly rare in the medical community, and extrapolate it over hundreds and thousands of medical services, devices, and exchanges.

Lack of transparency and lack of competitive pricing was responsible for between \$84 billion and \$174 billion in wasteful spending last year. *Donald Berwick,*

Forbes, July 16, 2012, former head of the federal Centers for Medicare & Medicaid Services.

A patient who underwent a routine echocardiogram at his cardiologist's office was surprised to learn that the heart scan cost his insurer \$1,605. That was more than four times the \$373 it paid when he had the same procedure at the same office just six months earlier.

What changed? Nothing, except, as happens very often these days, the cardiologist's practice had been bought by a local hospital system. *Wall Street Journal, August 27, 2012.*

Patients often worry that they will be forced to accept shoddy treatment in second-rate institutions. The famed Mayo Clinic in Minnesota and the renowned Cleveland Clinic in Ohio offer outstanding care at bargain prices compared with higher-priced, equally prestigious medical centers elsewhere. *Editorial, "Quality Care at Bargain Prices," New York Times, April 10, 2008.*

It is so easy to not worry about cost because insurance covers the expense. Insurance companies do take your money and pay the charge. The catch is that they may not be as interested in saving money as you would be. They will just pass the cost back to you through a higher premium next year.

"Pay me now or pay me later?" In fact, we must pay our way now, or the next generation will pay much more later. We know what is right. Now is the time to make the changes. The impact will be less

negative now than it will be in just a couple of short years from now.

There is a simple economic lesson to keep in mind: If prices rise and revenue does not increase, cuts must be made in your budget. Maybe you can expect others to pay, but for how long?

The goal of this essay is to provide a simple-to-understand program for Social Security and health care, with no new taxes or borrowing to pass our expense on to the next generation.

The plan depends on individuals making decisions that are affordable for them, and the medical professionals will develop programs that will meet their needs.

Making Wise Choices

One potential criticism of both the Social Security and health care plans is that an additional burden of responsibility will be passed on to the consumer. There is a feeling that many people are unable to make the wise choices.

Don't believe it. Yes, there will be some people who can't handle it at first. There will be bumps in the road and some people will have to take on additional responsibility. But it is a sort of responsibility that the government has shown it cannot effectively manage and shouldn't.

Having been in business for more than 50 years, I have developed a great respect for the wisdom of people. However, the more the government makes

the decisions for individuals, the less experience they have to develop their own judgment. Government can become the great enabler when we're not careful. Habits solidify. When personal agency is diminished, so goes accountability.

People who have control over their own money will use their creative energies to make wise decisions. In most cases, they will make better choices than those folks who have been making the decisions for them in some far-off government office. I expect there will be professional providers to help those who struggle, just like the health care navigators industry has sprung up in the wake of the Affordable Care Act.

As it stands today, less than 12 percent of the payment of medical services are directly paid by the patients, with the bulk being paid by health insurance companies and by the taxpayer via government programs like Medicare and Medicaid. *Devon Herrick, "Why Health Costs Are Still Rising," National Center for Policy Analysis website, Nov. 18, 2010.*

Medicare is a large piece of the pie. "Medicare utilization is roughly 50 percent higher than private health insurance utilization, even after adjusting for age and medical condition." *Merrill Matthews and Mark Litow, "Why Medicare Patients See the Doctor Too Much," WSJ, July 11, 2011.*

"Today, the American people must face up to significant structural changes in entitlement programs that reduce promised benefits. We have exhausted the alternatives." *Working Paper: "The*

Truth About Entitlements,” by Arnold Kling, Mercatus Center, George Mason University, November 2010.

“We will not have cost control until everyone is a cost controller.” — former Indiana Gov. Mitch Daniels

FINAL THOUGHTS

In the preceding discussion on taxes, Social Security and medical plans, there are many ideas. There are also many unknowns, but a healthy response by those with access to numbers and industry experience will help in developing the plan.

The concept is based on making funds available so that individuals can decide what is in their best interests, not what is in the best interests of special interest groups. The plan also depends on re-directing funds that are now used for other, less productive, services, such as collecting taxes.

In addition to eliminating deficit spending, this plan greatly reduces potential for graft and abuse. Special interests won't find much opportunity in real-time systems. Self-adjusting, pay-as-you-go systems are insulated from corruption and pay-to-play schemes.

Inequality of the rich versus the needs of the low-income population is sure to be brought up. Although there will certainly be some disruption, there is reason to believe this plan is not only more equitable, it also better attends to the needs of low-income populations. The program calls for everyone to pay the one percent tax, including not-for-profit groups and all government agencies. Not only does this seem to have less regressive effects, it frees up money on

each paycheck. The effect for workers will be difficult to determine, but coupling the newly freed funds with an additional monthly health payment both empowers workers and secures them against uncertainty in health care decisions.

The budget at the end of the year must be in balance. Programs must not pay out more than they take in. We must pay as we go. We must have no transfer of debt from one generation to another. Government plans to help various sectors of the economy would have to do so through the budget process.

The success of these programs I am proposing depends a great deal on the creative energy of all Americans, be they rich or poor. They will be in charge of their own lives, which this author believes is the crux of the American dream. With that they will become better stewards of their resources and all of us will be better for it.

One final story: While I was a forward observer in the U.S. Army many years ago, I learned a very important lesson. You never fire the first round to hit the target. You fire the first to mark the sector of fire. You then follow with a series of steps that bracket the target. When the bracket is narrow, you then fire all of your weapons at the target coordinates. This is my first round to mark the target area.

Comments to dennis@growingchild.com

About the Author

Each of us looks at issues based on our life-time experience, education, environment. Dennis Dunn's experiences over the past 84 years are reflected in the ideas presented in this essay.

He was a child of the Depression. At 10 years old he became an entrepreneur selling small model steamboats in front of the family home which was on a major east west highway. For four years he worked at the small town drug store soda counter and was president of the student body Class of '50 and editor of the school newspaper.

Income from odd jobs and drawing cartoons paid his way through Indiana University. Completing ROTC, he became an air defense guided missile maintenance officer and instructor.

After the Army, for over 35 years, his business was in the commodity futures market with several firsts including creating the first commodity database of future prices; member of the first board of directors of the National Futures Industry, and first to advise a European firm in commodities positions based on computer programs. It was here he learned the value of a price-driven market.

Dunn's business was also publishing: 45 years of publishing *Growing Child*, a child development newsletter serving over six million families across the world; 13 years of publishing a weekly newspaper in Lafayette, Indiana; author of a book, *Every Child is Our Child*. He also restored a 1845

building built by John Purdue, founder of Purdue University, and was the founding president of Museums at Prophetstown.

He received the Silver Beaver Award from the Boy Scouts of America and the Sagamore of the Wabash award from the Governor of Indiana.

Dennis has been involved in many community activities including Boy Scouts, with two sons and two grandsons achieving Eagle rank. He is proud of his daughter (junior high math teacher), and three sons (architect, IRS appeals officer, custom home builder).

Dennis' life has had the support of many people, but in particular his parents, and two very important women. With his first wife he raised three wonderful children. His current wife has been a very important part of his business and personal life as editor and friend.

PERSONAL PHILOSOPHY

"I am grateful for my family, my faith, and the many other people who have been a part of this interesting journey of life. I want to share a few guidelines I have followed in my personal life and career."

- In more than 50 years of ownership of a business, having employed a number of people over those years, I have come to appreciate the survival skills and creative energy of the American people. I am always amazed at the ability of those who may have

limited knowledge or resources to figure out ways to get the things they and their families need.

- Boy Scouts and others who camp learn an important lesson: *Do Not Feed the Animals*. The reason is simple. Wild animals who have contact with humans will become dependent on humans to feed them, and they will lose the skill of self-preservation.

The same is true of humans who are given too much without working for it. In our well-intentioned generosity, we rob many people of the ability to enjoy their own success and to learn from their mistakes in order to make decisions in their best interests.

- A classic children's story illustrates another point: We are a nation of "Little Engines That Could." We have the determination to achieve. We shouldn't make the field so level that we are all the same. Success and failure are part of the joy of life.

Parenting is primary and parts of this essay are to make it possible to survive as a family and have some of the burdens removed from the day-to-day pressures.

- *"I do not want to be a burden as I grow old."* My parents said those very words. They had lived through two World Wars and the Great Depression. My father died as the result of Parkinson's at 70, and my mother worked until she was 84 and died at 92. Social Security, along with a lifetime of saving and living within their means, helped them keep their pledge to not become a financial burden to their families.

After the Second World War, their generation paid down the debt incurred to win the war. Today, in contrast, the national debt has reached \$19.4 trillion.

We are passing huge debt—this plus other unfunded burdens—on to our children. We must not burden them with the debt we have created.

The ideas in this essay offer a place to start—first by not adding to the debt, and then by reducing the amount.

In some of the recommendations of this plan there will be resources that must be rationed at various times—just like we sometimes do with our own money. When our personal funds are low, we spread them out as best we can. We look for ways to save, and we think twice about purchases that would have a negative impact on our budgets.

It is time to start putting our fiscal house in order at the national level now or the prospects for our families and our childrens' quality of life will be seriously at risk.