

Social Security and Medicare: Key

1. This is an accounting issue. Because these programs are supposed to be self-financing, the government is supposed to count their revenues and expenditures separately. Increasingly, however, reported deficits include these programs.
2. There are two broad solutions, payroll taxes must be increased or benefits must be reduced. The former may include raising the earnings limit on Social Security taxes. The latter may include raising the retirement age.
3. In this scenario, these programs are part of a broader problem of unsustainable fiscal policy. The solutions are similar to #2 except that they now include any type of tax increase (not necessarily payroll taxes) and any type of spending cut.
4. Lower taxes increase households' disposable income and potentially consumption.
5. False. By including payroll taxes, marginal tax rates decline at \$110,100, the earnings limit on Social Security taxes.