Op-Ed

Ken Kies

The Rising Storm

The silver tsunami of retiring baby boomers officially began last fall and because the United States has not prepared, we could soon face the greatest realignment of fiscal policy in the nation's history.

The path Congress decides to take could raise taxes to historic highs, sapping Americans of discretionary income, in turn putting those in so-called luxury industries, including the timeshare industry, at risk. While lawmakers have ignored the problem in the past, several factors, including the peculiar course Congress charted in 2001 for the estate tax, will force decisions sooner rather than later. As a result, those wishing to have a say in the debate need to start working now.

The Reality

The soon-to-be financially crushing onslaught of baby boom retirees should come as a surprise to no one. The storm has been steadily approaching for a quarter century, after Washington decided in 1983 to follow the Greenspan commission's recommendations and solve Social Security's fiscal problems for the short term but not permanently. Since then, the nation's entitlement problems have been compounded—most recently by the addition to Medicare of a prescription drug benefit.

But now the leading edge of the storm has quietly arrived. This fall, Kathleen Casey-Kirschling (born one second after midnight on January 1, 1946) decided to retire early. Before the rain abates and the clouds part, another 72 million boomers will have retired, pushing projected spending on Medicare and Medicaid to one-fifth of GDP by 2050 and then Social Security to nearly 6 percent of GDP the same year.

By comparison, the entire U.S. federal budget, including Medicare, Social Security, national defense, interest on the debt, and all the discretionary programs—national parks, highways, law enforcement, research, and education—consume just 20 percent of GDP today. With history as precedent, you would expect Congress to continue ignoring the problem, but nagging annual federal budget deficits, along with the expiration after 2010 of tax cuts enacted in President George W. Bush's first term, will force Congress to act.

Accelerating the debate even further, the odd see-saw set for the estate tax, which has been steadily declining since 2001, is set to fall to zero in 2010 but will return in full force in 2011. Given the nation's fiscal problems and the continued likely Democratic control of Congress, a total repeal of the estate tax is unlikely. But it's just as unlikely that the prospective Congress will allow the estate tax to disappear in 2010 and then reappear in 2011 in whatever compromise form has been negotiated. That means action in 2009.

Projections

Some may call these warnings "alarmist," particularly those wanting to avoid making the hard choices ahead, but as Congressional Budget Office Director Peter Orszag testified before Congress in December, "Under any plausible scenario, the federal budget is on an unsustainable path." And when policymakers do respond, it will alter the nation's taxpaying and investing landscapes to their foundations.

Fixing any one of the multi-faceted challenges facing the nation will require legislation on par with the Tax Reform Act of 1986, the Health Insurance Portability Act of 1996, or the Medicare Modernization Act of 2003. For example, simply deciding to make the 2001 and 2003 tax cuts permanent, while also patching the alternative minimum tax to allow taxpayers to benefit from those cuts, would cause a revenue swing of approximately $4 trillion.

Under a Democratic president, the vast majority of these provisions likely would expire. In addition, it is very possible that a tax reform bill drafted by House Ways and Means Committee Chairman Charles Rangel last fall would be given serious consideration next year. Assuming the pre-2001 top marginal rate of 39.6% were allowed to return, a 4% surtax included in Rangel's bill would bring the top marginal rate to 43.6% for taxpayers with annual incomes above $250,000. An additional 0.6 percentage point surcharge for those with incomes above $500,000 would bring the top marginal rate to 44.2 percent.

Rangel's surtax alone would raise more than $800 billion over 10 years and, coupled with income tax cuts proposed for lower-income taxpayers, would represent the most significant redistribution of wealth in the nation's history. There is no doubt this would have a huge impact on the potential pool of timeshare purchasers.

All told, if Congress acts immediately, closing the nation's long-

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term fiscal gap without tax increases would require a permanent reduction in federal spending levels of 7% of GDP, according to CBO. In other words, if Congress decided today to eliminate all federal spending on almost every program except Social Security, Medicare/Medicaid, and interest on the debt, the United States might be able to keep its books balanced through the next century.

So far, the presidential candidates for both parties are ignoring these facts. Sen. John McCain (R-Ariz) is promising to make permanent the 2001 and 2003 tax cuts while also cutting the corporate tax rate, while Sens. Barrack Obama (D-Ill.) and Hillary Clinton (D-N.Y.) are promising new spending worth hundreds of billions of dollars annually.

But, as President John Adams said, and his friend President Ronald Reagan later repeated, "facts are stubborn things." And no president or Congress will be able to ignore these facts when the bills start coming due. Likewise, no one wishing to have a say in the response can afford to ignore them either.

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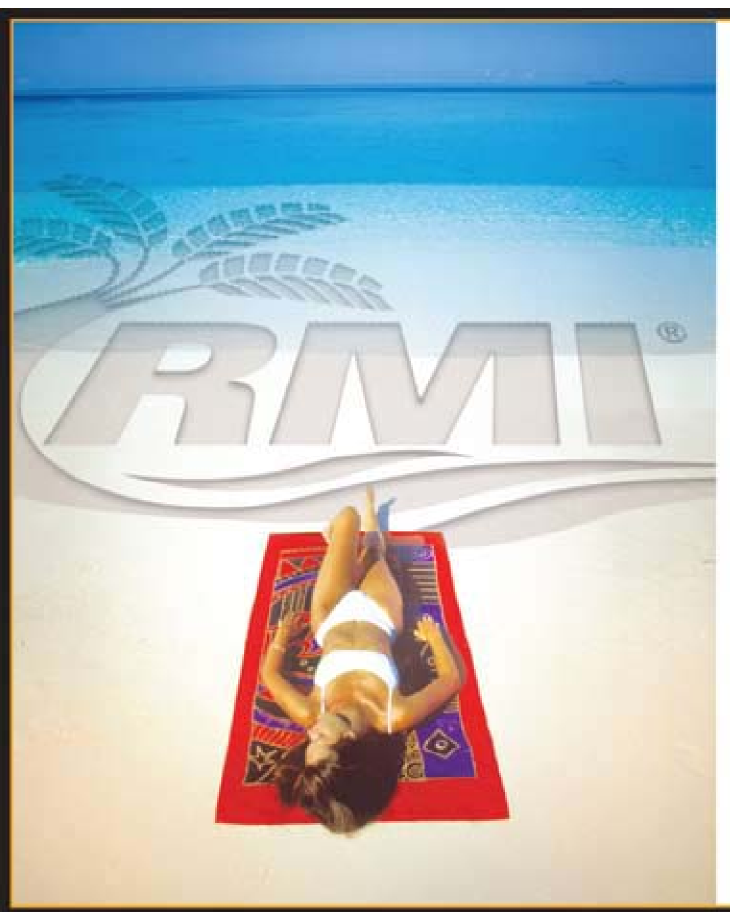

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