A Proposal to Address Wealth and Health Inequality

April 12, 2021

by Ted Earl

Advisor Perspectives *welcomes guest contributions. The views presented here do not necessarily represent those of* Advisor Perspectives.

Our nation's major divisions are wealth and health inequality. Protracting both divisions are voters who want more benefits or lower taxes. I offer actuarially based solutions to both inequalities.

President Biden has promised to govern using science and financial services are based upon actuarial science. By examining each divisions' history and applying actuarial science to them, I will demonstrate an integrated solution exists. Actuarial science demonstrates how my public servant, Mr. Biden, can build from the bottom up and simultaneously increase our middle class.

Healthcare

In the early 1960s, Assistant Secretary of HEW Daniel Moynihan published *Maternal and Child Health Care,* which stated that if you take care of the children and mothers, the children will be healthy for almost 40 years. While insurers found this finding of actuarial winners a way to maximize profits, insurance regulators saw a potential for coverage-abuse denials and wanted to codify coverage within their states.

New York State met with insurers and they *negotiated* a simple, actuarially sound, group coverage Insurance law based upon the size of the group. The most pertinent result was if the group exceed 500 or more (including children), everyone had to receive coverage regardless of pre-existing conditions. This law worked for New York City, which – at the time – was the most diverse place in the nation. Further, while 500 was an actuarially sound number, the relatively small group size raised the possibility that a few outliers could make a group unprofitable. Therefore, once the group size reached 500, insurers had an incentive to make the group size as large as possible to minimize their risk. Since the standard was negotiated with insurers, they could profit.

In 1974, Alice Rivlin wrote, *Systematic Thinking for Social Action*, based upon her Gaithersburg lectures, which stated that one should never evaluate a social program by a single indicator, or you will get unintended consequences. Regretfully, in 1976, as CBO's head, she ignored her own advice and evaluated the Child Support Program based on the amount of money the program collected from absent parents for child support. Since the child support worker received no credit for maintaining the mother and children on private health insurance, these actuarial "winners" were systematically removed from the insurance pool by a federal program. With them removed – probably shifted to Medicaid – is it any wonder Medicaid and insurance costs rose? Further, this triggered a national health care crisis that lasted for almost four decades and was the rationale for Obamacare.

States, seeing that their Medicaid costs were rising, decided to evaluate if it was cost effective to buy private health insurance for Medicaid recipients using state Medicaid money. In 1980, N.Y. state Medicaid conducted a study verifying this cost effectiveness and the legislature passed a law permitting it as a state expenditure. In addition to saving the Medicaid program money, it simultaneously increased all providers' reimbursement rate to the more lucrative private insurance rate and permitted Medicaid recipients access to care from private insurance providers. In 1984, the General Accounting Office saw the cost effectiveness and recommended to Congress that federal money be used. Congress approved this in 1986.

With the national health care crisis continuing unabated, the federal government passed the Child Health Insurance Program (CHIP) and State Child Health Insurance Program (SCHIP) to give children more access to health care. Further, the National Medical Support Working Group met and issued a report concerning improvements that could be made.

But with no significant improvement evident, Congress passed the Affordable Care Act (Obamacare) in 2010. In 2013, Arkansas' Democratic Governor Beebe wanted to implement the law using Medicaid's purchase of private health insurance. When he proposed this, Republicans opposed him. I informed Governor Beebe of the actuarially sound New York group insurance law and transmitted the same letter to the Republican leadership. The Republicans reversed themselves and supported the legislation. Governor Beebe submitted it to Obama's HHS and these actuaries approved it because it granted equal access and private coverage to all Medicaid recipients.

Circa 2017, Senator Rand Paul, who opposes Obamacare, proposed using groups and associations to sponsor health care groups. Although hating some Obamacare provisions, these entities were reticent because of potential group insurance losses. I shared with Senator Paul the New York state law and these entities joined his efforts – which garnered President Trump's praise. As this occurred, several Democrats were concerned that Senator Paul's efforts would remove the actuarial winners from the Obamacare pool – raising Obamacare's cost and making it unaffordable for the poor. They did not express this concern for private insurance over the previous decades.

As the COVID-19 virus entered our country, the *Wall Street Journal* reported that low Obamacare (Medicaid) reimbursements had caused six New York City hospitals in poor areas to close. With their local hospitals, which they used for their primary care, closed the poor traveled elsewhere spreading the virus. Hence, Obamacare's reimbursement scheme caused the virus to spread killing hundreds of thousands – especially black, Hispanic and poor citizens. Regretfully, New York's governor wasn't informed of or ignored his state's law.

Since both political parties know and have used a simple actuarial solution for creating private health insurance groups, access to health care for the poor could have been expanded. Further, Obamacare's costly federal and state overhead would evaporate, leaving more funds for private health care expansion.

The success of this expansion is demonstrated by Medicare Advantage plans. The plans are based on a fixed beneficiary's monthly premium to supply basic Medicare coverages. If the plans can make basic coverages less costly, they have options: Give the money back to the clients or expand their plan's Medicare coverages. Anyone who has seen the recent commercials recognizes their expansion into no co-pays, annual physicals, vision, dental, transportation, etc. Expanded coverages benefits the beneficiary's current and future health outcomes while reducing the Advantage plans' costs.

Ignoring the aforementioned legal and actuarial guarantees, *Medicare For All* proponents claim private health insurers will withdraw coverage if it becomes too expensive. Yet, Medicare has a coverage called "lifetime reserve (LTR) days, which are 60 Medicare-paid days that the recipient can use when Medicare refuses to pay. The original definition of LTR days was based on a Medicare part A day. But Medicare part A days covered *both* hospital and skilled nursing facilities (SNF). Medicare's attempts to save money by moving patients out of hospitals has been well documented. So, when this happened, the SNFs billed the LTR days – especially for the last days of the patient's life – which are the most medically expensive. As this legitimate billing used Medicare's own definition, Medicare changed the definition so it was no longer responsible – doing *exactly* what they claim the private insurers would do!

Wealth

For more than a decade, public officials (e.g., Elizabeth Warren and Janet Yellen) have struggled – without success – to reduce the "wealth gap." While recent proposals (Ackman, Booker, etc.) have included attempts to use sound investment principles, the pandemics' deaths have demonstrated a glaring deficiency when actuarially documented early death impacts black, Hispanic and poor citizens and communities disproportionally.

As others have proposed, a potent wealth creation mechanism is the stock market with its compounded returns. Yet, only 54% of Americans are invested in it. Further, the 46% not invested are most probably the poor, including many Blacks, Hispanics and women, exacerbating the observed "wealth gap".

To achieve 100% participation, ask yourself what program includes all Americans? Social Security. Before anyone says "bankruptcy," examine the program. Social Security has two original components: a monthly annuity check and group life insurance. The cash life insurance ($255) was added in the 1930s by Frances Perkins (FDR's female Secretary of Labor) to close the *wealth gap,* and that life insurance has never been updated in 85 years by Congress.

Because the $255 group life insurance does not reduce the current wealth gap, it needs to be updated and the updates must be dynamic to account for inflation. Since group life insurance requires updating and inflation protection, variable universal life insurance offers the needed features. It is based on stock market investments, and the historical return – *before* the SEC's proposed, long-term private securities inclusion – is an average of three times the rate of inflation. The insurance's investment strategy could replicate 529 investment plans, which were twice approved on a bipartisan basis. While 529 plan investments compound for 20 years, the updated insurance could compound investments for 60-70 or more years.

Group life insurance is supported by Congress. In 2008, Congress examined group life insurance and concluded *all parties benefited*. (I independently verified this with the New York state insurance department.) Insurers have privately indicated their interest to me, but one company cannot assume the entire Social Security group's risk. This is similar to the situation that was solved for Medicare Advantage plans, where a consortium allowed insurers to compete for the business.

Any new regulation must conform with the client's best interest. When is the best time to buy Social Security's group life insurance that protects the client's best interest? The cheapest time is to obtain coverage at birth and to include a disability waiver of premium rider. The policy's face value must balance the child's best interest and increase to accommodate future needs. Therefore, Social Security's group child policy could start at $10,000 and automatically increase to $50,000 at age of majority.

With the adult's group policy face value tentatively established at $50,000, that amount can be significantly increased by selecting prudent investments and compounding (e.g., private securities). Why? The IRS requires that as the cash value approaches the face value of the policy, the policy's payout must increase without a premium increase. Therefore, when compounded over decades, prudent investment could cause the policy's value to attain hundreds of thousands or millions of dollars.

Besides enriching *all* Americans through compounded market investments from birth, *updating one Social Security component* has positive societal benefits and ramifications.

According to the IRS, life insurance creates instant wealth for Americans' estates. Further, our Federal Reserve allows banks to own cash-value, bank-owned life insurance (BOLI) as an asset. Therefore, $50,000 times 300 million people converts to a $15 trillion government asset – before any investment growth.

Health costs would be reduced, and medical research funds increased

With private life insurers incurring potentially large payouts, life insurers have a compelling business incentive to reduce their losses by investing in research, medications and procedures enabling Americans to live longer, healthier lives. Our entire society lives longer and healthier when research is funded by a financially at-risk party that has incentives to increase its profits by reducing life-insurance policy losses and costs. With life insurance companies at financial risk, do you think they would form a vigilant safeguard to events like COVID-19? $50,000 times 500,000 deaths = $25 billion in losses.

Medicaid reductions

In addition to Medicaid health care cost savings, Medicaid's eligibility is reduced because Social Security's updated life insurance produces assets, income and/or proceeds making people ineligible. Further, existing life insurance policies can apportion their assets to pay for long-term care insurance – a significant savings to Medicaid's highest cost.

Social Security's retirement income increased

When one reaches retirement, the life insurance is converted (tax free) to a market-based annuity supplementing Social Security's income. For couples, when a spouse dies, the survivor has three sources of Social Security income: the higher of the couples' Social Security, and their two compounding, market-based life insurance annuities.

Increasing diversity and compliance

The financial services industry needs to increase minority and female representation. However, COVID-19 vaccinations indicate minority distrust of the system. Therefore, these representatives' natural clients have heightened reluctance to use scarce financial resources to pay life-insurance investment premiums.

Besides this entrenched resistance, inexperienced agents – no matter how smart – are not selected by wealthier clients to manage their money. Additionally, new agents starve for the lack of meaningful, interested, and well-funded leads. When agents cannot make money to pay their bills, they leave the profession. (Only about 5% of agents are left after five years.) Recruitment and training is costly. Starving agents create a potential breeding ground for shady sales practices that hurt our industry's reputation.

Under this proposal, young agents would tap about 2.7 million leads per year of individuals approximately their own age funded by taxes. Younger individuals receive professional management and agents survive while they develop their practices.

Ancillary trends, benefits and situations

Congressman John Larson (D-CT) says Social Security is not an entitlement because your Social Security employment taxes pay for it. While several proposals to increase Social Security taxes exist (not including the tax increases from raising the minimum wage), no proposal (including those from the Social Security program's trustees) allocates funds to increase life-insurance benefits.

Beyond the benefits from Social Security life-insurance increases, payouts at the industry standard $50,000 close the "wealth gap," become a state/local aid package and prevent the consigning of minority families (or communities) to poverty. Additionally, the current design of Social Security is racially and sexually biased. It prevents Blacks, Hispanics and women access to recognized wealth-creating, stock market investment opportunities.

As a fiduciary, I am required to identify and mitigate adverse situations affecting my client's investments. In that spirit, I have found the Democratic party has surveys that state that as people get richer, they vote Republican and they lose political power. That partially explains why Democrats, who advertise themselves as guardians of Social Security, have not updated the original life insurance– even though getting rich is every Americans' desire.

National debt and modern monetary theory (MMT)

MMT hypotheses that the limits to government borrowing are based on the use of productive resources and the potential for inflation. Since there is no requirement on how these borrowed funds could be invested, the amount borrowed should buy Social Security's life insurance. Since life insurance is leveraged, only a small portion of the borrowed funds need be committed to create a neutral or credit balance on the government's books.

Part of this was published in my comments to SEC Regulation S7-25-19. When I informed JP Morgan Chase and Goldman Sachs of its existence, they coincidentally purchased small investor outlets, which the *Wall Street Journal* said it made no sense. However, would it make sense to access 150 million new investors?

Based upon the above analysis, reallocating a single tax increase from a person's earnings can both increase Americans' benefits and reduce their future tax burden.

Having a bachelor's degree in Physics, a Masters in Public Administration, CFP courses completed with certification unfinished, 25 years in Medicaid with a concentration in coordination of benefits, and more than 20 years in investments and insurance, Mr. Earl offers a unique capability to interpret and explain newspaper headlines - creating actionable interface plans.