Research

The Future of America's Entitlements: What You Need to Know About the Medicare and Social Security Trustees Reports

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Executive Summary

Yesterday, the Social Security and Medicare Trustees issued their annual reports detailing the financial state of America's two largest entitlement programs. The reports echo past conclusions: Social Security and Medicare are still facing insolvency.

At its current pace, Medicare Part A will go bankrupt in **2036** and the Social Security Trust Funds for old-aged benefits and disability benefits will become exhausted by **2035**. A quick look at the data proves just how broken our current entitlement programs are. An American Action Forum analysis of the data found other startling statistics, including:

- Medicare as a whole had a deficit of $470 billion, with spending of $1,037 billion and cash revenue of $567 billion.
- Over the next 75 years, Social Security will owe $24.8 trillion more than it is projected to take in.

This paper addresses the following:

- The solvency of Medicare;
- The president's stewardship of Medicare;
- The solvency of the Social Security Trust Fund;
- The solvency of the Social Security Disability Insurance (DI) program; and

- The solvency of the Social Security Old-Age and Survivors Insurance (OASI) program.

The Long-term Solvency of Medicare

Yesterday, Treasury Secretary Janet Yellen released the 2024 Medicare Trustees Report. This annual report delivered yet another reminder to the American public that Medicare is undeniably going bankrupt.]

The report estimates that the Medicare Hospital Insurance Trust (HI) Fund will be bankrupt by 2036. While the bankruptcy projection may snag the headlines, there are three key budgetary numbers that shouldn't go unnoticed.

$470 Billion	**Medicare Finances in 2023** • In 2023, Medicare spent $1,037.0 billion on medical services for America's seniors but only collected $567 billion in payroll taxes and monthly premiums. • Medicare Part A ran a modest surplus of $12 billion. This surplus for HI represented approximately 0.7 percent of the federal deficit in 2023.
$6.87 Trillion	**Medicare's Cumulative Cash Shortfall Since 1965** • Previously, Medicare has had a cash shortfall every year since its creation except for two: 1966 and 1974. • Medicare covers these cash shortfalls by "borrowing" unrelated tax revenue.
29 Percent	**Medicare's True Contribution to the National Debt** • America's fiscal trajectory is unsustainable, and Medicare is the primary source of red ink. • Medicare's cash shortfall is responsible for about one-third of the federal debt.

Continuing with the Medicare status quo is unsustainable. Balancing Medicare's annual cash shortfalls under the existing system would prove devastating to seniors and failing to reform the status quo would result in the following:

$5,449 Increase	**Annual Premium Increase Needed to Balance Medicare Part B** • In 2023, the Medicare Part B (physicians) cash deficit was $342.1 billion. • Seniors' premiums for physicians would need to increase by 360 percent to cover the deficit, meaning the typical annual physician premium cost to seniors would rise from $2,096 to $7,545.6 – an increase of $5,449.6.

$2,092 Increase	**Annual Premium Increase Needed to Balance Medicare Part D** • In 2023, the Part D (prescription drugs) cash deficit was $93.7 billion. • Seniors' premiums for prescription drugs would need to increase by 603 percent to cover the deficit, meaning the annual drug premium cost to seniors would rise from $416.4 to $2,508.48 – an increase of $2,092.08.

The Executive Branch's Stewardship of Medicare

An Evaluation of the Executive Branch's Medicare Stewardship

Each year, the Trustees Report provides a non-partisan evaluation of the president's stewardship of Medicare. Prepared annually for Congress by the Office of the Chief Actuary, the Trustees Report offers unparalleled detail on the financial operations and actuarial status of the Medicare program. In short, it's where every administration's soaring Medicare rhetoric meets fiscal reality. So far, President Biden has resisted undertaking significant Medicare reform. The 2024 Trustees Report provides a sense of what the future may look like should Medicare continue to remain unchanged, and why sooner or later Medicare reform is inevitable.

MEDICARE FINANCIAL OPERATIONS (Billions)

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	2014	2013	2016	2017	2018	2019	2020	2021	2022	2023	2014-2024*
Medicare Cash Revenue	$304	$324	$339	$359	$378	$400	$430	$431	$501	$567	$4,544
Medicare Spending	$613	$648	$679	$710	$741	$796	$926	$839	$905	$1,037	$8,919
Cash Deficit	-$309	-$324	-$339	-$352	-$363	-$396	-$496	-$409	-$404	-$470	-$4,377

*2024 Projections

The Obama Administration oversaw a $2.4 trillion cash shortfall over eight years (2009–2016). The Trump Administration oversaw its own $1.6 trillion Medicare cash shortfall. The fiscal reality is that continuing the previous two administrations' Medicare policies and leaving Medicare unchanged all but guarantees bankruptcy. President Biden had already overseen a $1.6 trillion cash shortfall thus far in is term.

With such unprecedented levels of cash shortfalls continuing through the budget horizon, maintaining the status quo ensures that Medicare will soon not exist for today's seniors, let alone future generations of Americans. These rising costs and the measures necessary to cover them will increasingly harm seniors if Medicare reform is not undertaken.

Medicare and Medicaid Will Cost $2 Trillion by 2024	**Medicare Costs Will Continue to Rise** • At the current pace, the Medicare and Medicaid programs are still on track to surpass an annual cost of $2 trillion in one year. • This budget shortfall is expected to continue even with Medicare premiums and deductibles rising nearly every year.

The Long-term Solvency of the Social Security Trust Fund

This week, the board of trustees that oversees the Social Security program released its annual report. The report shows that the financial outlook for the nation's primary safety net for retirees, survivors, and the disabled will fail to meet its promises to future seniors in the absence of meaningful reform.

The report estimates that the combined (retirement and disability) Social Security Trust Funds will be exhausted by 2035, one year later than last year's estimate. The Trustees Report demonstrates the program's structural imbalance that puts the retirement benefits of millions of working Americans at risk.

$102.0 Billion	**Social Security's Contribution to the Debt in 2023** • In 2023, Social Security spent $1.392 trillion but only collected $1.290 trillion in non-interest income. • This is the 14th year in a row that Social Security has been in cash deficit, with the program running a cumulative deficit of $998 billion since 2010.

$22.4 Trillion	**Social Security's Unfunded 75-year Liability** • Social Security's promised benefits exceed projected payroll taxes and Trust Fund redemptions by $24.8 trillion – more than $2.0 trillion higher than was estimated last year. • Social Security faces an imbalance as a share of taxable payroll of 3.63 percent, a deterioration from last year's estimate.
11 Years	**Years Until the Trust Funds Are Exhausted** • The Trust Funds will be exhausted in 11 years, which is the same as estimated in last year's report. • This horizon to exhaustion remains the shortest since 1982.

The Trustees Report paints a troubled picture of Social Security's financial health and demonstrates that the present course is unsustainable. Social Security is now contributing to the annual deficit, while promised benefits exceed planned funding by over $24 trillion. The implications of failing to reform the status quo are:

21 Percent	**Reduction in Benefits in 2034** • After the projected exhaustion of the Social Security Trust Funds, Social Security revenue will fund only 79 percent of promised benefits. • This portion deteriorates further, to 69 percent, by 2098.
27 Percent	**Payroll Tax Increase** • Absent reform, to meet promised benefits over the long term, payroll taxes would have to be increased immediately by 37 percent, from a rate of 12.4 percent to 15.7 percent.

The Solvency of Social Security Disability Insurance

This week, the board of trustees that oversees the Social Security program released its annual report. The report reflects continued improvement in the outlook for the Disability Insurance (DI) program.

The report estimates that the DI Trust Fund is *solvent* over the long term**.** This outlook marks the third time since 1983 the program has been sustainable over the long-term. The program has faced recent solvency challenges, requiring a payroll tax reallocation in 2015.

$0	**DI's 10-year Contribution to the Debt** • In 2023, the DI program was in balance, but has added $85.3 billion to the debt since 2012. • Recent improvements in the program's cash position reflect a significant decline in benefit applications and awards.
-$932 Billion	**DI's Unfunded 75-year Liability** • Social Security's promised disability benefits are funded over the long-term, a reflection of the recent improvement and payroll tax reallocation.

Solvency of Social Security Old-Age and Survivors Insurance

This week, the board of trustees that oversees the Social Security program released its annual report. The report shows that the Old-Age and Survivors Insurance (OASI) program remains unsustainable and will be unable to meet the needs of future beneficiaries absent reform.

The report estimates that the OASI Trust Funds will be exhausted by 2034. The report also makes clear several additional structural challenges that endanger the millions of current and future retirees and survivors who rely on this program.

$133 Billion	**OASI's Contribution to the Debt in 2023** • In 2022, OASI spent $1.237 trillion but only collected $1.104 billion in non-interest income. • This is the 14th year in a row that OASI has been in cash deficit, with the program having added $893 billion to the debt since 2010.
$24.8 Trillion	**OASI's Unfunded 75-year Liability** • Social Security's promised retirement and survivor benefits exceed projected payroll taxes and Trust Fund redemptions by $24.8 trillion – an increase of over $2 trillion from last year's report.
11 Years	**Years Until the OASI Trust Fund Is Exhausted** • The duration until the Trust Fund's exhaustion date is the same as last year's estimate. • Eleven years is the second-shortest horizon until Trust Fund exhaustion since 1982.

72 Million	**Number of Beneficiaries in 2033 (Trust Fund Exhaustion Year)** • Over 70 million Americans are projected to receive OASI benefits in the year the Trust Fund is projected to become exhausted. • This figure is composed of nearly 66 million retirees and 6 million survivors.

The Trustees Report makes clear that the primary federal retirement program remains unsustainable. On its present course, the program is on track either to reduce the retirement benefits of over 72 million Americans or to raise taxes significantly on future workers.