The Daily Dish

The Trustees' Reports

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In what has become a sad tradition, this past Thursday the trustees of the Social Security and Medicare programs issued their annual reports to almost zero fanfare. To the extent that they got covered, it was largely because some unexpectedly strong economic growth bought a bit of time before the red ink hits. As *The Washington Post* put it: "A key Medicare trust fund that covers many hospital bills for seniors and those with disabilities will be unable to pay full benefits starting in 2028, two years later than reported last year. The Social Security Trust Fund, which covers benefits to retirees, workers' survivors and people with disabilities, will be able to pay full benefits until 2035, gaining an additional year beyond what was projected last year, according to the report issued by trustees for Medicare and Social Security."

A more realistic assessment is provided by AAF's Gordon Gray and Jackson Hammond. Both programs have big problems, and they are here right now. Both programs are running cash-flow deficits; Social Security to the tune of roughly $125 billion and Medicare totaling about $400 billion. Yes, each program also has "trust funds," but in practice this just means that the Treasury must borrow to transfer these shortfalls to the two programs. Looked at from that perspective, the $525 billion combined shortfall is nearly all of the non-interest (or "primary") deficits that the Congressional Budget Office projects over the next 5-7 years.

So, Medicare and Social Security are the budget problem and that is the good news. After 2028 (Medicare) or 2035 (Social Security) they will be budget problems that are also unable to fulfill their safety net function. Not much to cheer about, frankly.

Gray and Hammond also give us a taste of just how big these problems really are. For Social Security, the payroll tax rate would have to jump from 12.4 percent to 15.64 percent to keep paying full benefits – or face a 20 percent across-the-board cut in benefits. Medicare is even more daunting. The payroll tax would have to rise from 1.45 percent to 1.7 percent, Part B premium from $1,782 to $6,510, and Part D premiums from $378 to $2,330.

No politician would dare float these tax and premium hikes because seniors believe they actually have paid the full cost of the benefits they receive (not even close) and because the broader American public is blissfully unaware that there is a problem. Indeed, the Biden Administration spent the first 18 months of its existence making the argument that the United States needs more entitlement programs and not saying a word about the financial rot plaguing the existing ones.

During the 21st century there has been no presidential leadership on the budget trajectory. President Bush focused on winning the war against global terrorism. President Obama indicated that any problems with the federal budget could be fixed by having the rich pay their fair share. President Trump said nothing about the budget. Acknowledging the unsustainable federal budget outlook requires acknowledging the need for entitlement reform (remember that phrase?). A lot of public education will be needed in the run-up to addressing the future of these programs. A lot.

And the clock is ticking