Insight

Social Security and Medicare Trustees' Reports

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After considerable delay, the Administration finally "came clean" on the financial outlook for Social Security and Medicare. A close inspection suggests it's not very pretty.

1. In both cases the focus should be on cash-flow operating surpluses/deficits, not trust fund "solvency". Solvency just means the trust funds contain bonds. To pay them off requires higher taxes, selling assets, or cutting other spending; i.e., you are already in trouble. Cash-flows indicate the health of the programs in real time.

2. The highlights for Social Security:

- Cash-flow deficits in 2010 and 2011, small cash-flow surpluses in 2012-2014, and permanent benefit costs in excess of tax revenues as 2015.
- Permanent deficits one year sooner than in last year's report. The deterioration in the outlook stems from job losses that depressed payroll tax revenue and forced early retirement that increased benefit costs beyond what was expected.
- Over 75 years the trust funds would require additional revenue equivalent to $5.4 trillion in present value dollars to pay all scheduled benefits.
- To highlight the irrelevance of "solvency" measures, the trust fund is "solvent" in 2025, but Social Security will have an estimated $275 billion cash-flow deficit.

3. The highlights for Medicare:

- The "official" line is that the ObamaCare reform was a good thing for Medicare, namely:
- The financial outlook for the Medicare program is substantially improved as a result of the far-reaching changes in the Patient Protection and Affordable Care Act. Much of this improvement depends on the feasibility of the PPACA's downward adjustments to future Medicare prices for most categories of health care providers.
- Payroll taxes and other dedicated revenues are expected to fall short of hospital expenditures in most future years, but the shortfalls are reduced by the reform, postponing the depletion of the Hospital trust fund by about 12 years compared to prior law. It still remains out of actuarial balance, however.

- The doctors (Part B) and drug (Part D) benefits are adequately financed because premiums and general revenue income are reset each year to match expected costs. Such financing, however, would have to increase faster than the economy to match expected expenditure growth under current law. In particular, Part B will have to be raised significantly in 2011 and 2012 to ensure adequate program financing.
- But the Administration's own Actuary slams the report in his Statement of Actuarial Opinion:
- "The financial projections shown in this report for Medicare do not represent a reasonable expectation for actual program operations in either the short range (as a result of the unsustainable reductions in physician payment rates) or the long range (because of the strong likelihood that the statutory reductions in price updates for most categories of Medicare provider services will not be viable)."

The Bottom Line: More bad news from the old entitlement programs, with Medicare made significantly worse by using it as a financing source for the new health insurance entitlement. Real health care reform begins with real Medicare reform. And real fiscal reform begins with putting Social Security on a sustainable