Research

The Future of America's Entitlements: What You Need to Know About the 2016 Medicare and Social Security Trustees Reports

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Executive Summary

Today, the Medicare Trustees issued their annual report detailing the financial state of America's entitlement programs. The report echoed past conclusions: Medicare and Social Security are still going bankrupt.

At its current pace, Medicare will be bankrupt in **2028** (two years earlier than last year's projection) and *Social Security will go bankrupt in **2034***.

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's Annual Cash Shortfall in 2015 was $324 billion
- Payroll taxes would have to increase 16 percent to pay for Medicare Part A in 2016
- Over the next 75 years, Social Security will owe over $11 trillion more than it is projected to take in

What You Need to Know About the Medicare Trustees Report includes one-pagers and relevant statistics on:

- The solvency of Medicare
- President Obama's stewardship of Medicare
- The solvency of the Social Security Trust Fund
- The solvency of the Social Security Disability Insurance (DI) program
- The solvency of the Social Security Old-age and Survivors Insurance (OASI) Program

The Solvency of Medicare

Treasury Secretary Jacob Lew recently released the 2016 Medicare Trustees Report. This annual rite delivered yet another reminder to the American public that Medicare is undeniably going bankrupt.

The report estimated that the Medicare Hospital Insurance Trust Fund will be bankrupt by 2028. While the bankruptcy projection may snag the headlines, there are 3 key budgetary numbers that shouldn't go unnoticed:

$324 Billion	**Medicare's Annual Cash Shortfall in 2015** · In 2015, Medicare spent $647.6 billion on medical services for America's seniors but only collected $323.7 billion in payroll taxes and monthly premiums. · This cash shortfall represents 70 percent of the federal deficit in 2015.
$4 Trillion	**Medicare's Cumulative Cash Shortfall Since 1965** · Medicare has had a cash shortfall every year since its creation except two: 1966 and 1974. · The Medicare Trustees report covers these cash shortfalls by "borrowing" unrelated tax revenues from other programs.
32%	**Medicare's True Contribution to the National Debt** · America's fiscal trajectory is unsustainable and Medicare is the primary source of red ink driving this trajectory. · The cash shortfall is responsible for nearly one-third of the federal debt.

Continuing with the Medicare status quo is unacceptable. Balancing Medicare's annual cash shortfalls under the existing system would prove devastating to seniors and require:

16% Increase	**Annual Payroll Tax Increase Needed to Balance Medicare Part A** · In 2015, Medicare Part A (hospitals) cash deficit was $38 billion. · To balance, payroll taxes would increase from 1.45 percent to 1.68 percent.
$4,125 Increase	**Annual Premium Increase Needed to Balance Medicare Part B** · In 2015, Medicare Part B (physicians) cash deficit was $209 billion. · To balance, seniors' premiums for physicians would need to increase by 300 percent meaning the typical annual physician premium cost to seniors would rise from $1,377 to $5,502 – an increase of $4,125.

$1,843 Increase	**Annual Premium Increase Needed to Balance Medicare Part D** · In 2015, the Part D (drugs) cash deficit was over $77 billion. · To balance, seniors' premiums for prescription drugs would need to increase by 604 percent meaning the annual drug premium cost to seniors would rise from $305 to $2,148– an increase of $1,843.

President Obama's Stewardship of Medicare

"Now, these steps will ensure that you — America's seniors — get the benefits you've been promised. They will ensure that Medicare is there for future generations."

– President Barack Obama, Remarks to a Joint Session of Congress, September 9, 2009

An Evaluation of President Obama's Medicare Stewardship

The 2015 Trustees Report provides a non-partisan evaluation of President Obama's Medicare stewardship. 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 President's soaring Medicare rhetoric meets fiscal reality:

MEDICARE FINANCIAL OPERATIONS UNDER PRESIDENT OBAMA

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016***	**2009-2016**
Medicare Revenue	$253 B	$240 B	$261 B	$272 B	$293 B	$304 B	$324 B	$336	$ 2,284 B
Medicare Spending	$509 B	$523 B	$549 B	$574 B	$583 B	$613 B	$648 B	$683	$ 4,682 B
Cash Deficit	**-$256 B**	**-$282 B**	**-$288 B**	**-$302 B**	**-$289 B**	**-$309 B**	**-$324 B**	**-$347**	**-$2,398 B**

*2016 Projections

For President Obama's Medicare policies, the fiscal reality is that they all but guarantee bankruptcy. Since taking office, President Obama has run a Medicare cash flow deficit of over $2 trillion (2009-2015). This includes $1.7 trillion in red ink accumulated since the passage of the president's signature healthcare reform law. By the end of 2016, the trustees project that the Obama Administration will have overseen a $2.4 trillion Medicare cash shortfall.

At such unprecedented levels of cash shortfalls, it's evident that President Obama and the Affordable Care Act have failed to ensure that Medicare will be there for today's seniors, let alone the next generations of older Americans. The law's Medicare reforms have failed to meaningfully control costs and are harming seniors in the process:

20% Cuts to Medicare Advantage Benefits	**The ACA has cut Medicare Advantage benefits per-enrollee by over $2,400** · Between this year and next, Medicare Advantage payments per enrollee will rise by 3 percent. · In 2017, Medicare Advantage per-enrollee benefits will be 20 percent less than they have otherwise been without the ACA, a value of over $2,400. (Full AAF study)
Medicare and Medicaid will cost $2 trillion by 2023	**Medicare costs are going to continue to rise** · At the current pace, the Medicare and Medicaid programs will reach an annual cost of $2 trillion in 7 years. (More information here) · Since 1970, Medicare spending per beneficiary has tripled since 1970. (More information here)

The Solvency of the Social Security Trust Fund

On June 22nd, the board of trustees that oversees the Social Security program released their annual report. The report shows that the nation's primary safety net for retirees, survivors and the disabled remains in financial distress and proves that, absent reform, the program will fail to meet its promises to future seniors.

Wednesday's report estimated that the combined (retirement and disability) Social Security Trust Funds will be bankrupt by 2034. Less than two decades until bankruptcy is only the beginning of the bad news. The Trustees reported more critical data that make clear the program's structural imbalances:

$70.2 Billion	**Social Security's Contribution to the Debt in 2015** · In 2015, Social Security spent $897.1 billion but only collected $826.9 billion in non-interest income. · This is the sixth year in a row that Social Security has been in cash deficit, with the program running a cumulative deficit of $363 billion since 2010.
$11.4 Trillion	**Social Security's Unfunded 75 Year Liability** · Social Security's promised benefits exceed projected payroll taxes and Trust Fund redemptions by over $11 trillion – $700 billion larger than estimated last year. · Social Security faces an imbalance as a share of taxable payroll of 2.66, exceeding every reported imbalance prior to 2012 since 1983.

18 Years	**Years Until the Trust Funds are Exhausted** · This is the shortest horizon to exhaustion since 1982. · The Trust Funds' exhaustion date is unchanged from last year's estimate

The Trustees' report paints a distressed picture of Social Security's financial health and proves that the present course is unsustainable. Social Security is now contributing to the annual deficit, while promised benefits vastly exceed planned funding. 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 deteriorates further, to 74 percent, by 2090.
21 Percent	**Payroll Tax Increase** · Absent reform, to meet promised benefits over the long-term payroll taxes would have to be immediately increased by 20.8 percent, from a rate of 12.4 percent to 14.98 percent.

The Solvency of Social Security Disability Insurance (DI)

On June 22nd, the board of trustees that oversees the Social Security program released their annual report. The report demonstrates that eventual collapse of the Disability Insurance (DI) program has only been delayed, not prevented by recent legislation reallocating a greater share of payroll taxes to the DI Trust Fund.

The report estimated that Social Security Disability Insurance Trust Fund will be bankrupt in 2023. This merely reflects a recently enacted increase in the share of payroll taxes devoted to the DI Fund last year. This is not the first time the DI program has been spared from immediate bankruptcy. To avoid trust fund exhaustion, in 1994 Congress increased the allocation of payroll taxes devoted to the DI Trust Fund. However, as experience makes clear, absent long-term reform, similar measures will only provide short-term solvency.

$30.1 Billion	**DI's Contribution to the Debt in 2015** · In 2015, DI spent $146.6 billion but only collected $116.5 billion in non-interest income. · This is the 11th year in a row that DI has been in cash deficit, with the program having added over $243.5 billion to the debt since 2005.
$1.1 Trillion	**DI's Unfunded 75 Year Liability** · Social Security's promised disability benefits exceed projected payroll taxes and Trust Fund redemptions by over $1 trillion.
7 Years	**Years Until the DI Trust Fund is Exhausted** · Last year's Trustees Report projected the imminent collapse of the DI fund – the 7-year improvement reflects a mere reallocation of available resources rather than program reform,
11.7 Million	**Number of Beneficiaries in 2025** · Nearly 12 million Americans are projected to receive DI benefits in 2025, the nearest year provided by the Trustees Report to the projected exhaustion date. · This figure is comprised of over 9 million disabled workers and nearly 2 million spouses and children receiving auxiliary benefits.

The Trustees' report makes clear that the nation's primary assistance program for disabled workers is facing imminent financial distress. Absent long-term reform, the program will remain on a financially precarious trajectory, undermining a critical feature of America's safety net.

Solvency of Social Security Old-Age and Survivors Insurance (OASI)

On June 22nd, the board of trustees that oversees the Social Security program released their annual report. The report shows that the Old-age and Survivors Insurance (OASI) remains in distress following the material deterioration in its finances of the prior year, and will be unable to meet the needs of future beneficiaries absent reform.

The report estimated that Social Security's retirement and survivors' Trust Funds will be bankrupt by 2035. 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.

$40.1 Billion	**OASI's Contribution to the Debt in 2015** · In 2015, OASI spent $750.5 billion but only collected $710.4 billion in non-interest income. · This is the sixth year in a row that OASI has been in cash deficit, with the program having added $158.2 billion to the debt since 2010.
$10.2 Trillion	**OASI's Unfunded 75 Year Liability** · Social Security's promised retirement and survivor benefits exceed projected payroll taxes and Trust Fund redemptions by over $10.2 trillion.
19 Years	**Years Until the OASI Trust Fund is Exhausted** · This is the shortest horizon until Fund exhaustion since 1982. · The Trust Fund's exhaustion date is unchanged from last year's estimate
77 Million	**Number of Beneficiaries in 2035 (Trust Fund Exhaustion Year)** · Nearly 77 million Americans are projected to receive OASI benefits in the year the Fund is projected to become exhausted. · This figure is comprised of over 70 million retirees and nearly 6 million survivors (based on 2035 estimate).

The Trustees' report makes clear that the principle federal retirement program is facing its worst financial outlook since the program was last overhauled. On its present course, the program is on track to slash the benefits of nearly 77 million Americans, or significantly raise taxes on future workers.