Research

The Future of America’s Entitlements: What You Need to Know About the Medicare Trustees Report

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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 2030 (four years later than last year’s projection) and Social Security will go bankrupt in 2033.

Despite what many will herald as good news for Medicare, a deeper look at the data proves just how broken our current entitlement programs are. An American Action Forum (AAF) analysis of the data found other startling statistics, including:

- Medicare’s Annual Cash Shortfall in 2013 was $289.2 billion
- Payroll taxes would have to increase 21% to pay for Medicare Part A just this year
- Over the next 75 years, Social Security will owe nearly $9 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

The board of trustees released the 2014 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 2030. While the bankruptcy projection may snag the headlines, there are 3 key budgetary numbers that shouldn't go unnoticed:

$289.2 Billion	**Medicare's Annual Cash Shortfall in 2013** • In 2013, Medicare spent $583 billion on medical services for America's seniors but only collected $283 billion in payroll taxes and monthly premiums. • This cash shortfall represents 40 percent of the federal deficit in 2013.
$3.4 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.
29.3%	**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 over one-fourth 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:

21% Increase	**Annual Payroll Tax Increase Needed to Balance Medicare Part A** • In 2013, Medicare Part A (hospitals) cash deficit was $45 billion. • To balance, payroll taxes would increase from 1.45 percent to 1.75 percent.
$3,676 Increase	**Annual Premium Increase Needed to Balance Medicare Part B** • In 2013, Medicare Part B (physicians) cash deficit was $184 billion. • To balance, seniors' premiums for physicians would needto increase by 392 percent meaning the typical annual physician premium cost to seniors would rise from $1,259 to $4,935 – an increase of $3,676.

$2,174 Increase	**Annual Premium Increase Needed to Balance Medicare Part D** • In 2013, the Part D (drugs) cash deficit was over $59.8 billion. • To balance, seniors' premiums for prescription drugs would need to increase by 704% meaning the annual drug premium cost to seniors would rise from $360 to $2,534 – an increase of $2,174.

At its current pace, Medicare will be bankrupt in 2030 (four years later than last year's projection) and ***Social Security will go bankrupt in 2033***.

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 2014 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*	2009-2013
Medicare Revenue	$253 B	$240 B	$261 B	$272 B	$293 B	$299 B	$1,320 B
Medicare Spending	$509 B	$523 B	$549 B	$574 B	$583 B	$612 B	$2,738 B
Cash Deficit	-$256 B	-$282 B	-$288 B	-$302 B	-$289 B	-$308 B	-$1,418 B

*2014 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 $1.4 trillion (2009-2013). This includes $1.2 trillion in red ink accumulated since the passage of the President's signature healthcare reform law. By the end of 2014, the trustees project that the Obama Administration will have overseen a $1.7 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 future generations of older Americans. The law's Medicare reforms have failed to meaningfully control costs and are harming seniors in the process:

13.3% Cuts to Medicare Advantage Benefits	**The ACA has cut Medicare Advantage benefits per-enrollee by over $1,500** • Between this year and next, Medicare Advantage benefits are being reduced by 3.1 percent. • In 2015, Medicare Advantage per-enrollee benefits will be 13.3 percent less than they have otherwise been without the ACA, a value of over $1,500. (Full AAF study)
14 Million enrollees facing potential drug plan cancellation	**The administration has pursued a Part D rule that puts 14 million plans at risk.** • The rule had proposed to effectively eliminate preferred pharmacy networks in Medicare Part D. This would have forced as many as 14 million seniors to find new, higher cost plans. While the rule was not finalized, the administration has left the door open to revisiting similar regulations. (More information on the impacts of the proposed rule)

THE SOLVENCY OF THE SOCIAL SECURITY TRUST FUND

On July 28th, the board of trustees that oversees the Social Security program released their annual report. The report shows a 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.

Monday's report estimated that the combined (retirement and disability) Social Security Trust Funds will be bankrupt by 2033. 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:

$70.7 Billion	**Social Security's Contribution to the Debt in 2013** • In 2013, Social Security spent $822.9 billion but only collected $752.2 billion in non-interest income. • This is the fourth year in a row that Social Security has been in cash deficit, with the program running a cumulative deficit of $219.7 billion since 2010.

$10.6 Trillion	**Social Security's Unfunded 75 Year Liability** • Social Security's promised benefits exceed projected payroll taxes and Trust Fund redemptions by over $10 trillion – $1 trillion larger than estimated last year. • Social Security faces the largest imbalance as a share of taxable payroll – 2.88 – since the program was overhauled in 1983.
19 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 but follows the 4 consecutive years of deterioration in the program's actuarial balance.

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:

23 Percent	**Reduction in Benefits in 2033** • After the projected exhaustion of the Social Security Trust Funds, Social Security revenue will fund only 77 percent of promised benefits. • This deteriorates further, to 72 percent, by 2088.
24 Percent	**Payroll Tax Increase** • Absent reform, to meet promised benefits over the long-term payroll taxes would have to be immediately increased by 24 percent, from a rate of 12.4 percent to 15.39 percent.

THE SOLVENCY OF SOCIAL SECURITY DISABILITY INSURANCE (DI)

On July 28th, the board of trustees that oversees the Social Security program released their annual report. The report demonstrates the pressing collapse of the Disability Insurance (DI) program, which will require near-term attention.

The report estimated that Social Security Disability Insurance Trust Fund will be bankrupt by 2016. This is not the first time the DI program has faced near-term shortfalls. 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.

$36.9 Billion	**DI's Contribution to the Debt in 2013** • In 2013, DI spent $143.4 billion but only collected $106.5 billion in non-interest income. • This is the ninth year in a row that DI has been in cash deficit, with the program having added over $179.8 billion to the debt since 2005.
$1.2 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.
2 Years	**Years Until the DI Trust Fund is Exhausted** • This is the shortest horizon to exhaustion since 1994, when Congress passed legislation to increase the payroll tax allocation to the DI Trust Fund. • The Trust Funds' exhaustion date is unchanged from last year's estimate but 2013 saw a worsening in the program's actuarial balance.
11.4 Million	**Number of Beneficiaries in 2015** • Over 11 million Americans are projected to receive DI benefits in 2015, 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 Monday, 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 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.

$33.8 Billion	**OASI's Contribution to the Debt in 2013** • In 2013, OASI spent $679.5 billion but only collected $645.7 billion in non-interest income. • This is the fourth year in a row that OASI has been in cash deficit, with the program having added $78.5 billion to the debt since 2010.
$9.4 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 $9.4 trillion.
20 Years	**Years Until the OASI Trust Fund is Exhausted** • This is the shortest horizon to exhaustion since 1982. • The Trust Funds' exhaustion date has worsened by one year from last year's estimate, following 4 consecutive years of deterioration in the program's actuarial balance.
78 Million	**Number of Beneficiaries in 2034 (Trust Fund Exhaustion Year)** • Nearly 78 million Americans are projected to receive OASI benefits in the year the Fund is projected to become exhausted. • This figure is comprised of nearly 72 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 78 million Americans, or significantly raise taxes on future workers.