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

Today, 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 going bankrupt.

At its current pace, Medicare will go bankrupt in **2026** (the same as last year’s projection) and the Social Security Trust Funds for old-aged benefits and disability benefits will go bankrupt in **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’s Annual Cash Shortfall in 2018 was $363 billion;
- Payroll taxes would have to increase more than 15 percent to pay for Medicare Part A in 2018; and
- Over the next 75 years, Social Security will owe nearly $14 trillion more than it is projected to take in.

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

- 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 Solvency of Medicare

This week, Treasury Secretary Steve Mnuchin released the 2019 Medicare Trustees Report. This annual report 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 2026. While the bankruptcy projection may snag the headlines, there are three key budgetary numbers that shouldn't go unnoticed:

$363 Billion	**Medicare's Annual Cash Shortfall in 2018** · In 2018, Medicare spent $740.6 billion on medical services for America's seniors but only collected $377.4 billion in payroll taxes and monthly premiums. · This cash shortfall represented 46 percent of the federal deficit in 2018.
$5.1 Trillion	**Medicare's Cumulative Cash Shortfall Since 1965** · Medicare has had a cash shortfall every year since its creation except two: 1966 and 1974. · Medicare cover these cash shortfalls by "borrowing" unrelated tax revenues from other programs.
33 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 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 requires the following reforms:

15 Percent Increase	**Annual Payroll-Tax Increase Needed to Balance Medicare Part A** · In 2018, the Medicare Part A (hospitals) cash deficit was $40 billion. · To balance, payroll taxes would need to increase from 1.45 percent to 1.7 percent.
$4,204 Increase	**Annual Premium Increase Needed to Balance Medicare Part B** · In 2018, the Medicare Part B (physicians) cash deficit was $244 billion. · To balance, seniors' premiums for physicians would need to increase by 261 percent, meaning the typical annual physician premium cost to seniors would rise from $1,608 to $5,812 – an increase of $4,204.
$2,017 Increase	**Annual Premium Increase Needed to Balance Medicare Part D** · In 2018, the Part D (drugs) cash deficit was $79 billion. · To balance, seniors' premiums for prescription drugs would need to increase by 502 percent, meaning the annual drug premium cost to seniors would rise from $402 to $2,419 – an increase of $2,017.

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 Trump has resisted undertaking significant Medicare reform. The 2019 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)

	2011	2012	2013	2014	2015	2016	2017	2018	2019*	2011-2019
Medicare Cash Revenue	$261	$272	$294	$304	$324	$339	$359	$377	$399	$ 2,929
Medicare Spending	$549	$574	$583	$613	$648	$679	$710	$741	$797	$ 5,893
Cash Deficit	($288)	($302)	($289)	($309)	($324)	($339)	($352)	($363)	($398)	($2,964)

*2019 Projections

The Obama Administration oversaw a $2.4 trillion cash shortfall over 8 years (2009-2016). The fiscal reality is that continuing the previous administration's Medicare policies and leaving Medicare unchanged all but guarantees bankruptcy. By the end of 2019, the Trustees project that the Trump Administration will have overseen its own $1.1 trillion Medicare cash shortfall in its first 3 years.

With such unprecedented levels of cash shortfalls continuing through the budget horizon, it is evident that 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 to Continue to Rise · At the current pace, the Medicare and Medicaid programs continue to be on track to surpass an annual cost of $2 trillion in 5 years (more information here). · This budget shortfall is expected to continue even with Medicare premiums and deductibles rising every year (more information here).

The 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 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.

The report estimated that the combined (retirement and disability) Social Security Trust Funds will be bankrupt by 2035. The Trustees report provides additional metrics that make clear the program's structural imbalances.

$80.1 Billion	**Social Security's Contribution to the Debt in 2018** · In 2018, Social Security spent $1,000.2 billion but only collected $920.1 billion in non-interest income. · This year is the ninth in a row that Social Security has been in cash deficit, with the program running a cumulative deficit of $537 billion since 2010.
$13.9 Trillion	**Social Security's Unfunded 75 Year Liability** · Social Security's promised benefits exceed projected payroll taxes and Trust Fund redemptions by $13.9 trillion – $700 billion higher than was estimated last year. · Social Security faces an imbalance as a share of taxable payroll of 2.78 percent.
16 Years	**Years Until the Trust Funds Are Exhausted** · The Trust Funds will be exhausted in 16 years, running out during the same year as projected in last year's estimate. · This horizon to exhaustion is the shortest since 1982, other than last year.

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:

20 Percent	**Reduction in Benefits in 2035** · After the projected exhaustion of the Social Security Trust Funds, Social Security revenue will fund only 80 percent of promised benefits. · This portion deteriorates further, to 75 percent, by 2093.
22 Percent	**Payroll Tax Increase** · Absent reform, to meet promised benefits over the long term, payroll taxes would have to be increased immediately by 21.8 percent, from a rate of 12.4 percent to 15.1 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 provides encouraging news about the outlook for the Disability Insurance (DI) program.

The report estimated that the DI Trust Fund will be exhausted in 2052. This outlook is a substantial improvement over last year's report, which projected Trust Fund exhaustion in 2032, and reflects declining applications and benefit awards. Nevertheless, the program has faced recent solvency challenges, requiring a payroll tax reallocation in 2015.

$184.6 Billion	**<u>DI's Contribution to the Debt Since 2004</u>** · In 2018, DI spending was cash-flow positive for the third time since 2004 but has added $184.6 billion to the debt since 2004. · This improved cash position, however, largely reflects a higher allocation of payroll revenues, reducing payroll revenues by an equal amount paid into the Old-age and Survivors Insurance (OASI) Trust Fund.
$510 Billion	**<u>DI's Unfunded 75 Year Liability</u>** · Social Security's promised disability benefits exceed projected payroll taxes and Trust Fund redemptions by over $510 billion, which is a remarkable improvement over past recent estimates.
33 Years	**<u>Years Until the DI Trust Fund Is Exhausted</u>** · The DI Trust Fund's exhaustion date has substantially improved over last year's estimate – driven by lower expected applications and benefit awards.
13.2 Million	**<u>Number of Beneficiaries in 2052</u>** · Over 13 million Americans are projected to receive DI benefits in 2052. · This figure is comprised of over 11 million disabled workers and more than 2 million spouses and children receiving auxiliary benefits.

The Trustees report provides rare good news for America's safety net for disabled workers, projecting a substantial improvement in the program's financial outlook.

Solvency of Social Security Old-Age and Survivors Insurance

This week, 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) program remains in jeopardy and will be unable to meet the needs of future beneficiaries, absent reform.

The report estimated that the OASI 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.

$103.2 Billion	**<u>OASI's Contribution to the Debt in 2018</u>** · In 2018, OASI spent $853.5 billion but only collected $750.3 billion in non-interest income. · This is the ninth year in a row that OASI has been in cash deficit, with the program having added $391.6 billion to the debt since 2010.
$13.4 Trillion	**<u>OASI's Unfunded 75 Year Liability</u>** · Social Security's promised retirement and survivor benefits exceed projected payroll taxes and Trust Fund redemptions by nearly $13.4 trillion – an increase of over $1 trillion from last year's report.

15 Years	**<u>Years Until the OASI Trust Fund Is Exhausted</u>** · This is the shortest horizon until Trust Fund exhaustion since 1982. · The Trust Fund's exhaustion date is unchanged from last year's estimate.
73 Million	**<u>Number of Beneficiaries in 2034 (Trust Fund Exhaustion Year)</u>** · Nearly 73 million Americans are projected to receive OASI benefits in the year the Trust Fund is projected to become exhausted. · This figure is comprised of 65 million retirees and nearly 5.5 million survivors.

The Trustees Report makes clear that the principal federal retirement program is facing its worst financial outlook since the program was last overhauled. On its present course, the program is on track either to slash the benefits of nearly 73 million Americans, or to raise taxes significantly on future workers.