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** (three years earlier than last year's projection) and the Social Security Trust Funds for old-aged benefits and disability benefits 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 2017 was $334 billion
- Payroll taxes would have to increase more than 13 percent to pay for Medicare Part A in 2017
- Over the next 75 years, Social Security will owe over $13 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
- The solvency of the Social Security Old-age and Survivors Insurance (OASI) program

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The Solvency of Medicare

This week, Treasury Secretary Steve Mnuchin released the 2018 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:

$352 Billion

Medicare's Annual Cash Shortfall in 2017

- In 2017, Medicare spent $710.2 billion on medical services for America's seniors but only collected $358.5 billion in payroll taxes and monthly premiums.
- This cash shortfall represented 49 percent of the federal deficit in 2017.

$4.7 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.

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 driving this trajectory.
- The 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:

13 Percent Increase

Annual Payroll-Tax Increase Needed to Balance Medicare Part A

- In 2017, the Medicare Part A (hospitals) cash deficit was $35 billion.
- To balance, payroll taxes would increase from 1.45 percent to 1.64 percent.

$4,583 Increase

Annual Premium Increase Needed to Balance Medicare Part B

- In 2017, the Medicare Part B (physicians) cash deficit was $232 billion.
- To balance, seniors' premiums for physicians would need to increase by 285 percent, meaning the typical annual physician premium cost to seniors would rise from $1,608 to $6,191 – an increase of $4,583.

$2,354 Increase

Annual Premium Increase Needed to Balance Medicare Part D

- In 2017, the Part D (drugs) cash deficit was $85 billion.
- To balance, seniors' premiums for prescription drugs would need to increase by 545 percent, meaning the annual drug premium cost to seniors would rise from $432 to $2,786 – an increase of $2,354.

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 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 administration's soaring Medicare rhetoric meets fiscal reality. So far, President Trump has resisted undertaking significant Medicare reform. The 2018 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)

	2010	2011	2012	2013	2014	2015	2016	2017	2018*	2009-2017
Medicare Cash Revenue	$240 B	$261 B	$272 B	$294 B	$304 B	$324 B	$339 B	$359 B	$377 B	$ 2,284 B
Medicare Spending	$523 B	$549 B	$574 B	$583 B	$613 B	$648 B	$679 B	$710 B	$745 B	$ 5,385 B
Cash Deficit	**-$282 B**	**-$288 B**	**-$302 B**	**-$289 B**	**-$309 B**	**-$324 B**	**-$339 B**	**-$352 B**	**-$368**	**-$2,854 B**

*2018 Projections

The Obama Administration oversaw a $2.4 trillion cash shortfall over eight 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 2018, the Trustees project that the Trump Administration, will have overseen its own $720 billion Medicare cash shortfall in its first two 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 will surpass an annual cost of $2 trillion in 6 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 2034. The Trustees report provides additional metrics that make clear the program's structural imbalances:

$41 Billion

Social Security's Contribution to the Debt in 2017

- In 2017, Social Security spent $952.53 billion but only collected $911.5 billion in non-interest income, resulting in a $41 billion deficit.
- This year is the eighth in a row that Social Security has been in cash deficit, with the program running a cumulative deficit of $457.2 billion since 2010.

$13.2 Trillion

Social Security's Unfunded 75 Year Liability

- Social Security's promised benefits exceed projected payroll taxes and Trust Fund redemptions by $13.2 trillion – $700 billion higher than was estimated last year.
- Social Security faces an imbalance as a share of taxable payroll of 2.84 percent the second highest reported imbalance since 1982.

16 Years

Years Until the Trust Funds Are Exhausted

- The Trust Funds will be exhausted in 16 years – the shortest horizon to exhaustion since 1982.
- The combined 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, cutting benefits by 21 percent.
- This reduction deteriorates further, to 74 percent, by 2092.

Payroll Tax Increase

31 Percent

- Absent reform, to meet promised benefits over the long term, payroll taxes would have to be immediately increased by 31 percent, from a rate of 12.4 percent to 16.27 percent beginning in 2034.

The Solvency of Social Security Disability Insurance (DI)

This week, the board of trustees that oversees the Social Security program released its annual report. The report demonstrates that eventual collapse of the Disability Insurance (DI) program has only been delayed, not prevented, by a temporary reallocation of a greater share of payroll taxes to the DI Trust Fund enacted at the end of 2015.

The report estimated that the DI Trust Fund will be bankrupt in 2032. This delay merely reflects a temporary reallocation of 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.

$206.7 Billion

DI's Contribution to the Debt in Since 2004

- In 2017, DI spending was cash-flow positive for the second straight year, but it overall has added $206.7 billion to the debt since 2004.
- This improved cash position merely reflects a higher allocation of payroll revenues, reducing payroll revenues by an equal amount paid into the OASI Trust Fund.

$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.

14 Years

Years Until the DI Trust Fund Is Exhausted

- The DI Trust Fund was bolstered by a higher share of payroll revenues, but remains 14 years away from insolvency.

11.2 Million

Number of Beneficiaries in 2030

- Over 11.2 million Americans are projected to receive DI benefits in 2030, 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.

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

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) 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 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.

$64.3 Billion

<u>OASI's Contribution to the Debt in 2017</u>

- In 2017, OASI spent $806.7 billion but only collected $742.4 billion in non-interest income, leaving a shortfall of $64.3 billion.
- This is the eighth year in a row that OASI has been in cash deficit, with the program having added $288.4 billion to the debt since 2010.

$12 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 over $12 trillion.

16 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 has moved up one year from last year's estimate

70 Million

<u>Number of Beneficiaries in 2034 (Trust Fund Exhaustion Year)</u>

- Nearly 70 million Americans are projected to receive OASI benefits in the year the Trust Fund is projected to become exhausted.
- This figure is comprised of over 65 million retirees and nearly 6 million survivors (based on 2030 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 either to slash the benefits of nearly 70 million Americans, or to raise taxes significantly on future workers.