

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

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Executive Summary

Last week, the Medicare Trustees issued their annual report detailing the financial state of America's entitlement programs. The report confirmed what many Americans know: Medicare and Social Security are going bankrupt – quickly. At its current pace, Medicare will be bankrupt in 2024 and Social Security in 2033.

A deeper 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 2011 was \$288.3 billion
- Payroll taxes would have to increase 31% 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

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The Solvency of Medicare

Treasury Secretary Tim Geithner recently released the 2012 Medicare Trustees Report. This annual rite of spring 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 2024. While the bankruptcy projection may snag the headlines, there are 3 key budgetary numbers that shouldn't go unnoticed:

Medicare's Annual Cash Shortfall in 2011

\$288.3 Billion

- In 2011, Medicare spent \$549.1 billion on medical services for America's seniors but only collected \$260.8 billion in payroll taxes and monthly premiums.
- Trustees have now issued a funding warning for 7 straight years.

Medicare's Cumulative Cash Shortfall Since 1965

\$2.95 Trillion

- 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.

Medicare's True Contribution to the National Debt

28.4%

- 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 accumulated since 2001.

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:

Annual Payroll Tax Increase Needed to Balance Medicare Part A

31% Increase

- In 2011, Medicare Part A (hospitals) cash deficit was \$61 billion.
- To balance, payroll taxes would increase from 1.45% to 1.90%.

Annual Premium Increase Needed to Balance Medicare Part B

**\$3,499
Increase**

- In 2011, Medicare Part B (physicians) cash deficit was \$168 billion.
- To balance, seniors' premiums for physicians would need increase by 392% meaning the annual physician premium cost to seniors would rise from \$1,198 to \$4,697 – an increase of \$3499.

Annual Premium Increase Needed to Balance Medicare Part D

**\$3,250
Increase**

- In 2011, the Part D (drugs) cash deficit was over \$59 billion.
- To balance, seniors' premiums for prescription drugs would need to increase by 871% meaning the annual drug premium cost to seniors would rise from \$372 to \$3,250 – an increase of \$3250.

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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 2012 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	2009-2012
Medicare Revenue	\$253 B	\$240 B	\$260 B	\$275 B	\$1,028 B
Medicare Spending	\$509 B	\$523 B	\$549 B	\$586 B	\$2,167 B
Cash Deficit	-\$266 B	-\$283 B	-\$289 B	-\$311 B	-\$1,139 B

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 \$838 billion. This includes \$572 billion in red ink accumulated since the passage of the President's signature healthcare reform law. By the end of 2012, the trustees project that the Obama Administration will have overseen a \$1.2 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. Medicare is already showing signs of stress as a result of President Obama's signature healthcare law, which syphoned \$732 billion in Medicare funding over the next ten years to program's that do not improve the Medicare's solvency:

66.5% Fewer Plan Choices

ACA Medicare Cuts Will Reduce 66.5% of Health Plan Choices for Seniors

- By the time President Obama's Medicare cuts are phased-in, seniors will have lost 66.5% of their Medicare plan options.
- Over 14.8 million seniors are expected to be negatively impacted by the Medicare cuts ([University of Minnesota Working Paper](#)).

67.2% Fewer Appointments

ACA Medicare Cuts have led 67.2% of Doctors to Consider Fewer Seniors

- By syphoning \$732 billion in Medicare funding over the next ten years and failing to adopt a Medicare doc fix, 67.2% of physician practices are considering limiting the number of new Medicare patients and 27.5% may stop taking Medicare at all ([MGMA Study](#)).

The Solvency of the Social Security Trust Fund

On Monday, the board of trustees that oversees the Social Security program released their annual report. The report shows a substantial deterioration in the program's finances in the past year, 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. 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:

Social Security's Contribution to the Debt in 2011

\$45.4 Billion

- In 2011, Social Security spent \$736 billion but only collected \$691 billion in non-interest income.
- This is the second year in a row that Social Security has been in cash deficit, with the program running a \$48.9 billion deficit in 2010.

Social Security's Unfunded 75 Year Liability

\$8.6 Trillion

- Social Security's promised benefits exceed projected payroll taxes and Trust Fund redemptions by nearly \$9 trillion.
- Social Security faces the largest imbalance as a share of taxable payroll – 2.67 – since the program was overhauled in 1983.

Years Until the Trust Funds are Exhausted

21 Years

- This is the shortest horizon to exhaustion since 1982.
- The Trust Funds' exhaustion date is 3 years earlier than last year's estimate, following the 2nd largest 1-year deterioration in the program's actuarial balance since 1983.

The Trustees' report paints an unambiguously dismal 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:

Reduction in Benefits in 2033

25 Percent

- After the projected exhaustion of the Social Security Trust Funds, Social Security revenue will fund only 75 percent of promised benefits.
- This deteriorates further, to 73 percent, by 2086.

Payroll Tax Increase in 2033

35 Percent

- Absent reform, to meet promised benefits payroll taxes would have to increase by 35 percent, from a rate of 12.4 percent to 16.7 in 2033.
- This regressive tax hike would have to be increased further to 17.1 percent (a 38 percent increase over current law) by 2086.

The Solvency of Social Security Disability Insurance (DI)

Last week, the board of trustees that oversees the Social Security program released their annual report. The report demonstrates the pressing collapse of 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, 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.

DI's Contribution to the Debt in 2011

\$33.9 Billion

- In 2011, DI spent \$132.2 billion but only collected \$98.4 billion in non-interest income.
- This is the seventh year in a row that DI has been in cash deficit, with the program having added over \$105 billion since 2005.

DI's Unfunded 75 Year Liability

\$1.2 Trillion

- Social Security's promised disability benefits exceed projected payroll taxes and Trust Fund redemptions by over \$1 trillion.
- Social Security's disability program faces the 6th largest imbalance as a share of taxable payroll – 3.7 – since 1983.

Years Until the OASI Trust Fund is Exhausted

4 Years

- 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 2 years earlier than last year's estimate, following the 6th largest 1-year deterioration in the program's actuarial balance since 1983.

Number of Beneficiaries in 2015

11.6 Million

- 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 over 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)

Last 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 suffered material deterioration in its finances, 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.

OASI's Contribution to the Debt in 2011

\$11.5 Billion

- In 2011, OASI spent \$603.8 billion but only collected \$592.3 billion in non-interest income.
- This is the second year in a row that OASI has been in cash deficit, with the program running a \$16 billion deficit in 2010.

OASI's Unfunded 75 Year Liability

\$7.4 Trillion

- Social Security's promised retirement and survivor benefits exceed projected payroll taxes and Trust Fund redemptions by over \$7 trillion.
- Social Security's retirement program faces the largest imbalance as a share of taxable payroll – 2.3 – since the program was overhauled in 1983.

Years Until the OASI Trust Fund is Exhausted

23 Years

- This is the shortest horizon to exhaustion since 1982.
- The Trust Funds' exhaustion date is 3 years earlier than last year's estimate, following the 3rd largest 1-year deterioration in the program's actuarial balance since 1983.

Number of Beneficiaries in 2035 (Trust Fund Exhaustion Year)

78 Million

- Over 78 million Americans are projected to receive OASI benefits in the year the Fund is projected to become exhausted.
- This figure is comprised of over 72 million retirees and nearly 6 million survivors.

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 over 78 million Americans, or significantly raise taxes on future workers.