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Social Security and Medicare Trustees Reports: Financial Challenges Continue

According to the Social Security Trustees Report, during 2016, an estimated 171 million people paid payroll taxes on earnings covered by Social Security. At the end of 2016, approximately 61 million people were receiving some type of Social Security benefits.

According to the Medicare Trustees Report, in 2016, Medicare covered 56.8 million people: 47.8 million ages 65 and older and 9.0 million disabled.

Every year, the Trustees of the Social Security and Medicare Trust Funds release reports to Congress on the current financial condition and projected financial outlook of these programs. The newest reports, released on July 13, 2017, discuss the ongoing financial challenges that both programs face, and project a Social Security cost-of-living adjustment (COLA) for 2018.

What are the Social Security and Medicare Trust Funds?

Social Security: The Social Security program consists of two parts. Retired workers, their families, and survivors of workers receive monthly benefits under the Old-Age and Survivors Insurance (OASI) program; disabled workers and their families receive monthly benefits under the Disability Insurance (DI) program. The combined programs are referred to as OASDI. Each program has a financial account (a trust fund) that holds the Social Security payroll taxes that are collected to pay Social Security benefits. Other income (reimbursements from the General Fund of the U.S. Treasury and income tax revenue from benefit taxation) is also deposited in these accounts. Money that is not needed in the current year to pay benefits and administrative costs is invested (by law) in special Treasury bonds that are guaranteed by the U.S. government and earn interest. As a result, the Social Security Trust Funds have built up reserves that can be used to cover benefit obligations if payroll tax income is insufficient to pay full benefits.

Note that the Trustees provide certain projections based on the combined OASI and DI (OASDI) Trust Funds. However, these projections are theoretical, because the trusts are separate, and generally one program's taxes and reserves cannot be used to fund the other program.

Medicare: There are two Medicare trust funds. The Hospital Insurance (HI) Trust Fund pays for inpatient and hospital care (Medicare Part A costs). The Supplementary Medical Insurance (SMI) Trust Fund comprises two separate accounts, one covering Medicare Part B (which helps pay for physician and outpatient costs) and one covering Medicare Part D (which helps cover the prescription drug benefit).

Trustees Report highlights: Social Security

- The combined trust fund reserves (OASDI) are still increasing, but are growing more slowly than costs. The U.S. Treasury will need to start withdrawing from reserves to help pay benefits in 2022, when annual program costs are projected to exceed total income. The Trustees project that the combined trust fund reserves will be depleted in 2034, the same year projected in last year's report, unless Congress acts.
- Once the combined trust fund reserves are depleted, payroll tax revenue alone should still be sufficient to pay about 77% of scheduled benefits for 2034, with the percentage falling gradually to 73% by 2091.
- The OASI Trust Fund, when considered separately, is projected to be depleted in 2035, the same year projected in last year's report. Payroll tax revenue alone would then be sufficient to pay 75% of scheduled OASI benefits.
- The DI Trust Fund is expected to be depleted in 2028, five years later than projected in last year's report. Both benefit applications and the total number of disabled workers currently receiving benefits have been declining. Once the DI Trust Fund is depleted, payroll tax revenue alone would be sufficient to pay 93% of scheduled benefits.
- Based on the "intermediate" assumptions in this year's report, the Social Security Administration is projecting that beneficiaries will receive a cost-of-living adjustment (COLA) of 2.2% for 2018.

Trustees Report highlights: Medicare

- Annual costs for the Medicare program exceeded tax income annually from 2008 to 2015. The Trustees project surpluses in 2016 through 2022 and a return to deficits thereafter.
- The HI Trust Fund is projected to be depleted in 2029, one year later than projected last year. Once the HI Trust Fund is depleted, tax and premium income would still cover 88% of estimated program costs, declining to 81% by 2050, and then gradually increasing to 88% by 2091. The Trustees note that long-range projections of Medicare costs are highly uncertain.

Why are Social Security and Medicare facing financial challenges?

Social Security and Medicare are funded primarily through the collection of payroll taxes. Because of demographic and economic factors, fewer workers are paying into Social Security and Medicare than in the past, resulting in decreasing income from the payroll tax. The strain on the trust funds is also worsening as large numbers of baby boomers reach retirement age, Americans live longer, and health-care costs rise.

What is being done to address these challenges?

Both reports urge Congress to address the financial challenges facing these programs soon, so that solutions will be less drastic and may be implemented gradually, lessening the impact on the public. Combining some of these solutions may also lessen the impact of any one solution.

Some long-term Social Security reform proposals on the table are:

- Raising the current Social Security payroll tax rate. According to this year's report, an immediate and permanent payroll tax increase of 2.76 percentage points would be necessary to address the long-range revenue shortfall (3.98 percentage points if the increase started in 2034).
- Raising the ceiling on wages currently subject to Social Security payroll taxes ($127,200 in 2017).
- Raising the full retirement age beyond the currently scheduled age of 67 (for anyone born in 1960 or later).
- Reducing future benefits. According to this year's report, scheduled benefits would have to be reduced by about 17% for all current and future beneficiaries, or by about 20% if reductions were applied only to those who initially become eligible for benefits in 2017 or later.
- Changing the benefit formula that is used to calculate benefits.
- Calculating the annual cost-of-living adjustment for benefits differently.

According to the Medicare Trustees Report, to keep the HI Trust Fund solvent for the long-term (75 years), the current 2.90% payroll tax would need to be increased immediately to 3.54% or expenditures reduced immediately by 14%. Alternatively, other tax or benefit changes could be implemented gradually and might be even more drastic.

You can view a combined summary of the 2017 Social Security and Medicare Trustees Reports and a full copy of the Social Security report at ssa.gov. You can find the full Medicare report at cms.gov.
