Center on Budget and Policy Priorities

202-408-1080

center@cbpp.org

www.cbpp.org

CBPP STATEMENT

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Contact:
Jacob Kaufman-Waldron,
202-408-1080,
kaufmanwaldron@cbpp.org

2020 Social Security and Medicare Trustees Reports Do Not Reflect Effects of Pandemic and Recession

Statement of Paul N. Van de Water, Senior Fellow

The annual reports of the Social Security and Medicare trustees, released today, do not reflect the effects of the COVID-19 pandemic and the resulting recession on the programs' trust funds. That's understandable, since the reports take several months to prepare. Nonetheless, it means that they don't provide an up-to-date picture of Social Security's and Medicare's financial status.

Absent the pandemic, the near-term outlook for the Social Security and Medicare trust funds would have changed very little. In their new report, using pre-pandemic assumptions, the trustees project that the combined Social Security trust funds would be depleted in 2035 and Medicare's Hospital Insurance (HI) trust fund in 2026 — the same as last year. Social Security's projected long-term shortfall has increased somewhat, while the HI deficit has decreased, primarily because of changes in assumptions and estimating methods.

The COVID-19 pandemic, its economic repercussions, and the legislative response will affect Social Security's and Medicare's near-term outlook in several ways. Although their magnitude is very uncertain, they will clearly worsen the outlook for the trust funds.

The emerging recession will significantly depress the payroll tax income of the Social Security and Medicare trust funds for several years. In addition, although less important quantitatively, some laid-off older workers will claim Social Security retirement benefits, and some who are unemployed with severe impairments will apply for Social Security Disability Insurance. Hospital admissions related to the virus will add to Medicare spending, although a reduction in elective, routine, and non-urgent health care will offset that increase to some degree. Together, these developments will move up the projected depletion dates of the trust funds. But policymakers will still have time to put Social Security and Medicare on a stronger financial footing, as they have never failed to do in the past.

For the moment, acting quickly and boldly to contain the virus, lessen its economic damage, and lay the groundwork for a subsequent economic recovery are among the most important steps that can be taken to protect Social Security and Medicare for the long run. That's because the financial strength of Social Security and Medicare ultimately rests on the productive capacity of the American economy.

When the pandemic is over and the economy has largely recovered, Congress and the President will need to act to strengthen Social Security's and Medicare's financing over both the short and long term. Policymakers must take further steps to slow the growth of health care costs throughout the

U.S. health care system — both in Medicare and the private sector. But even with reasonable efforts to limit their growth, Social Security and Medicare will require a larger share of our nation's resources in the coming decades as the population ages. Social Security and Medicare are highly popular programs, and polls show a widespread willingness to support them through higher tax contributions.

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