Center on Budget and Policy Priorities

202-408-1080
center@cbpp.org
www.cbpp.org

CBPP STATEMENT

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Contact:
Danielle Wells,
202-408-1080,
dwells@cbpp.org

2022 Social Security and Medicare Trustees' Reports Show Small Improvement in Outlook

Statement of Paul N. Van de Water, Senior Fellow

The annual reports of the Social Security and Medicare trustees, released yesterday, show that the strong recovery has increased tax income and slightly improved the programs' near-term financial condition. The trustees now project that the reserves of the combined Social Security trust funds will be depleted in 2035 and Medicare's Hospital Insurance (HI) trust fund in 2028. For HI, that's two years later than in last year's report. For Social Security, that's one year later. These projected depletion dates are uncertain, however, and could easily vary by years, one way or the other.

Changes in economic and other estimating assumptions have also modestly improved the programs' long-term financial picture. HI's 75-year shortfall has decreased from 0.77 percent to 0.70 percent of taxable payroll, and Social Security's deficit has dropped from 3.54 percent to 3.42 percent of payroll. The trustees continue to assume that the COVID pandemic and its aftermath will have no net effect on the long-range projections.

Social Security and Medicare do not face a financing "crisis," and the programs are not "bankrupt," as some critics charge. Even if policymakers took no further action and allowed the trust fund reserves to be depleted, Social Security could still initially pay about 80 percent of scheduled benefits, using its annual tax income, and Medicare HI could pay about 90 percent. (Medicare's programs for physician and outpatient costs and prescription drugs cannot run short of funds because beneficiary premiums and general revenue contributions are specifically set at levels to cover costs.)

In fact, Social Security and Medicare have always paid the benefits owed because Presidents and Congresses of both parties have taken steps to keep revenues and spending in balance. Beneficiaries can be assured that pattern will continue.

Nonetheless, acting sooner rather than later to improve the programs' ability to provide the full benefits upon which beneficiaries rely would cool overheated rhetoric and bolster public confidence. Prompt action is particularly important for Medicare, whose HI trust fund faces depletion of its reserves in only six years.

As part of its 2022 budget, the Biden Administration advanced a proposal that would extend the life of the Medicare HI trust fund for many years. It would close a loophole that allows some pass-through business income of high-income taxpayers to avoid both the Medicare tax on self-employment income and the net investment income tax (NIIT) on unearned income. In addition, the proposal would dedicate both this additional revenue and the existing revenue from the NIIT to the HI trust fund. The reconciliation bill that the House passed last year would also close this tax loophole, but without providing any additional income for HI. Congress should include a version of this proposal in the economic package that is now under consideration. Policymakers should also take further steps to slow the growth of Medicare spending, such as reducing the price of prescription drugs and curbing overpayments to Medicare Advantage plans, without shifting costs to beneficiaries.

Because Social Security benefits are modest and are the principal source of income for most beneficiaries, policymakers should improve the program's fiscal outlook primarily by increasing Social Security's tax revenues. Social Security will require an increasing share of our nation's resources in the coming decades as the population ages, and polls show a widespread willingness to support it through higher tax contributions. Revenues could come from increasing the share of earnings subject to the Social Security payroll tax (which has eroded due to growing earnings inequality), expanding the types of compensation subject to the payroll tax, or raising the payroll tax rate in small steps.

When Congress next legislates on Social Security, lawmakers may decide to aim for a medium-term solvency goal, such as ensuring that the program can pay full benefits for several decades, rather than the full 75-year projection period. But shoring up the program's financing for a substantial period of time is important for assuring both current and future beneficiaries that Social Security will be there for them in the years to come.

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