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CBPP STATEMENT

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2021 Social Security and Medicare Trustees' Reports Show Modest Effect 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, indicate that the COVID-19 pandemic and recession will only modestly worsen the programs' financial condition. The trustees now project that the reserves of the combined Social Security trust funds will be depleted in 2034 and Medicare's Hospital Insurance (HI) trust fund in 2026. For HI, that's the same as in last year's report, which did not reflect the pandemic. For Social Security, that's one year earlier.

The pandemic and recession, as well as other changes in estimating assumptions and methods, have also only slightly affected the long-run financial outlook. HI's 75-year shortfall is virtually unchanged. Social Security's long-term shortfall has increased from 3.21 percent to 3.54 percent of taxable payroll, largely because of changes in estimating methods. The trustees assume that the pandemic will have no effect on the reports' underlying assumptions in the long run.

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 pay about three-fourths 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 ensure this.)

In fact, however, 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. Alarmists who claim that Social Security and Medicare won't be around when today's young workers retire either misunderstand or misrepresent the projections.

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 five years.

As part of its 2022 budget, the Biden Administration has advanced proposals that would extend the life of the Medicare HI trust fund for many years. The budget 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. Congress should include this proposal in the forthcoming reconciliation bill. In addition, the President's budget would dedicate both this additional revenue and the existing revenue from the NIIT to the HI trust fund. Policymakers should also take further steps to slow the growth of health care costs — both in Medicare and the private sector.

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.

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