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Financial Challenges Facing Social Security and Medicare Largely Unchanged From Last Year, Except for Improvement in Disability Insurance

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The financial outlook for Social Security as a whole is much the same as last year, with full benefits payable until 2035, while the program's trustees have dramatically revised their estimate for the Disability Insurance (DI) trust fund, projecting an additional 20 years of solvency.[1] The outlook for Medicare's Hospital Insurance (HI) trust fund is largely unchanged, according to new reports from the program's trustees, with the HI Trust Fund projected to be depleted in 2026.[2]

Social Security's DI trust fund is now projected to be depleted in 2052. That is 20 years later than projected last year and 29 years later than projected three years ago. DI applications have been declining since 2010, and the total number of disability beneficiaries has been declining since 2014. This year, the trustees incorporated that downward trend into their long-term assumptions regarding the percentage of future workers who will claim DI.

Both Social Security and Medicare face long-run financing challenges that policymakers must address, though the challenges should be manageable, especially if policymakers don't wait too long to act. The programs are not "going bankrupt" or "running out of money," as some critics have suggested. Even if their trust funds were depleted, Social Security could still pay about three-fourths of scheduled benefits, using its annual tax income, and Medicare HI could pay almost 90 percent, though such outcomes should not be acceptable.

The aging of the population is the major driver of the projected growth in Social Security and Medicare costs. The share of Americans 65 or older will grow by more than a third between now and 2040 as the baby boomers continue to retire. That alone will raise Social Security spending from nearly 5 percent of gross domestic product (GDP) today to about 6 percent of GDP in 20 years, where it is expected to remain for the remainder of the 75-year projection period. Together with

[1] *The 2019 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, April 2019, https://www.ssa.gov/OACT/TR/2019/index.html.

[2] Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *2019 Annual Report*, April 2019, https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2019.pdf.

rising health care costs, the demographic shift will raise Medicare spending by a considerably larger amount, from 3.7 percent to 6.5 percent of GDP over the same period.

Social Security and Medicare benefits are not overly generous. The average Social Security retired-worker benefit is about $17,600 a year, and aged widows and disabled workers typically receive less.[3] Medicare has significant cost-sharing requirements and gaps in coverage; as a result, Medicare households, on average, spend a much larger share of their budgets on health care costs than other households.

Policymakers need to take further steps to curb the growth of health care costs throughout the U.S. health care system, both in public programs — particularly Medicare — and in the private sector. But even with reasonable efforts to limit their growth, Medicare and Social Security 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.

Social Security

The trustees' projected depletion date for the combined Old-Age and Survivors Insurance (OASI) and DI trust funds — the traditional focus of their report — is now 2035. The two funds are legally separate, however. The trustees expect the OASI fund to remain solvent until 2034, and the DI fund through 2052. This improvement in the DI fund is welcome news, though these are projections and could change, especially if there is a recession.

The number of DI applicants and beneficiaries has declined over the past several years, as demographic and economic pressures on the program have eased. Analysts anticipated this basic trend, since most of the growth in DI enrollment in prior years was due to demographic factors like the aging of the baby-boom generation, but the slowdown in enrollment has proved even greater than expected. As the boomers reach retirement, the number of workers receiving DI benefits has declined for five straight years. Likewise, DI applications, which spiked during the aftermath of the Great Recession, have fallen every year since 2010. After treating this trend as temporary in the last several reports, the trustees have now reduced their long-term assumptions about the share of insured Americans who will receive DI.

Social Security's overall shortfall over the next 75 years — 2.78 percent of taxable payroll (i.e., 2.78 percent of the total wage and self-employment income subject to Social Security taxes), or 1 percent of GDP — is slightly lower than last year's estimate of 2.84 percent of taxable payroll. To illustrate the magnitude of the changes required to restore long-term (i.e., 75-year) solvency, the trustees provide estimates of the tax increases or benefit cuts necessary to do so. On the revenue side, an immediate payroll tax rate increase of 2.7 percentage points would close the gap, requiring a typical worker earning $50,000 to pay an additional $25 per biweekly paycheck, matched by another $25 from his or her employer. On the benefit side, an immediate benefit cut of 20 percent for all new beneficiaries would close the gap, which would amount to a reduction of about $270 in each monthly check that new beneficiaries receive.

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[3] Social Security Administration, "Monthly Statistical Snapshot," March 2019, https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/.

The trustees caution that their projections are uncertain. For example, they estimate a 95 percent chance that Social Security's trust fund reserves will be depleted between 2031 and 2044. The Congressional Budget Office has estimated that exhaustion would occur in 2031.[4] There is no scenario under which improved economic growth alone would eliminate the shortfall, as Treasury Secretary Steven Mnuchin has mistakenly implied.

Medicare

The projected outlook for the Medicare HI trust fund is identical to last year's. The fund is again projected to be depleted in 2026. Since 1970, changes in the law, the economy, and other factors have brought the projected year of HI depletion as close as two years away or pushed it as far as 28 years into the future. The latest projections fall well within that spectrum.

Trustees' reports have been projecting impending insolvency for over four decades, but Medicare has always paid the benefits owed because Presidents and Congresses have taken steps to keep spending and resources in balance in the near term. In contrast to Social Security, which has had no major changes in law since 1983, the rapid evolution of the health care system has required frequent adjustments to Medicare, a pattern that is virtually certain to continue.

The HI program's projected 75-year shortfall of 0.91 percent of taxable payroll means that policymakers could close the projected funding gap by raising the Medicare payroll tax — now 1.45 percent each for employers and employees — to about 1.9 percent each, or by enacting a mix of tax increases and program changes that reduce Medicare costs.

Last year's report showed a meaningful deterioration in the trust fund's outlook due in part to actions and inactions by the Administration and the Congress over the past two years. These included:

- Repealing the tax penalty for failing to get health insurance (part of the tax law enacted in 2017), which will increase the number of uninsured and increase Medicare payments for uncompensated care;
- Repealing the Independent Payment Advisory Board, which was projected to help slow Medicare's cost growth; and
- Failing to address higher Medicare Advantage (MA) payments due to insurance company assessments of their beneficiaries that make them appear less healthy than they are.

At the same time, Medicare's financial outlook remains stronger than before the Affordable Care Act (ACA), which improved Medicare's outlook through Medicare payment reforms and revenue increases. The HI trust fund is now projected to remain solvent eight years longer than before the ACA was enacted.

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[4] Congressional Budget Office, *CBO's Long-Term Social Security Projections: Changes Since 2017 and Comparisons With the Social Security Trustees' Projections*, December 2018, https://www.cbo.gov/system/files?file=2018-12/54711-SSProjections-Dec2018.pdf.