Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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STATEMENT OF ROBERT GREENSTEIN, REGARDING THE SOCIAL SECURITY AND MEDICARE TRUSTEES' REPORT

Today's report is another reminder of the serious long-term fiscal challenges the nation faces. Overall federal budget deficits will swell as the baby boom generation retires, medical costs continue their rapid ascent, and the growth of the U.S. workforce slows as a result of the aging of the population.

- The single largest source of long-term deficit growth is the projected rise in Medicare costs. This large rise is projected, however, *not* because of overly generous Medicare benefits or inefficiency in Medicare's structure (Medicare actually is more efficient than much of the private sector health care system), but because of the economy-wide increases expected in health care costs in the private and public sectors alike, and the steep increases in the number of elderly people that will occur in the years ahead.

- The second biggest source of projected long-term deficit growth is the 2001 and 2003 tax cuts. If made permanent, they will increase deficits by a projected $13.6 trillion (in present value) over the next 75 years.

- Social Security is the third largest contributing factor, behind the tax cuts. The size of the Social Security shortfall is dwarfed by the cost of the tax cuts (assuming the tax cuts are made permanent). The Trustees' report places the size of the Social Security shortfall at $4.6 trillion over the next 75 years, a little more than *one-third* the cost of the tax cuts over the same period. The cost of the tax cuts just for the top 1 percent of Americans — people with annual incomes today of more than $400,000 — itself is about equal to the cost of closing the Social Security shortfall.

Today's report underscores the need for the President and Congress to work together to develop a balanced plan to address these long-term fiscal challenges. Such a plan will need to include reforms in revenues and in the overall U.S. health care system as well as in Medicare and Social Security.

The Trustees' Report also provides further evidence that while Social Security faces a significant long-term problem, the problem is manageable — one that resembles a house with a leaking roof in need of repair rather than a boat headed for an iceberg. Social Security will be able to pay 100 percent of promised benefits until 2040 (the year in which the Trustees predict the trust fund will be exhausted) and 74 percent of promised benefits after that (declining to 70 percent in 2080). The data in the Report portray a program with a sizable long-term funding shortfall that needs to be addressed, but not with a devastating structural crisis that necessitates starting to dismantle Social Security in order to "save it."

Projection that Medicare Will Hit Threshold Triggering Presidential Action

For the first time, the Trustees' report contains an estimate that the share of Medicare funding that comes from general revenues will reach 45 percent within the next six years (in 2012). Under the 2003 prescription drug law, when the Trustees' report contains such an estimate two years in a row, the President must propose legislation to reduce the share below 45 percent.

But the 45 percent standard is unsound and of little value in evaluating Medicare's financial problems. Medicare physicians coverage and the new Medicare drug benefit are *supposed to be* financed with general revenues (and beneficiary premiums) rather than with regressive payroll taxes. Medicare does face serious financing challenges, but it is no more problematic that part of Medicare is financed with general revenues than that defense, education, homeland security, and medical research are financed with general revenues. Unfortunately, the new 45 percent standard is an ideologically laden measure whose principal effect will be to ensure that increases in general revenues — such as from paring back some of the Administration's tax cuts for people at the top of the income scale — cannot be included along with other reforms in an eventual Medicare solvency package. The exclusion of such general revenue measures will increase the pressure for deeper Medicare benefit cuts or larger payroll tax increases.