CBPP STATEMENT

For Immediate Release:
Wednesday, July 13, 2017
Contact:
Jacob Kaufman-Waldron,
202-408-1080,
jkaufmanwaldron@cbpp.org

Social Security and Medicare Finances Remain Stable, According to 2017 Trustees' Reports

Statement of Paul N. Van de Water, Senior Fellow

The financial outlook for Social Security and Medicare is much the same as last year, according to today's reports from the programs' trustees. As previously projected, Social Security as a whole can pay full benefits until 2034. Social Security's Disability Insurance (DI) trust fund is now projected to be depleted in 2028 — five years later than projected last year — because of lower-than-expected applications for, and awards of, DI benefits. The number of DI beneficiaries has declined over the past several years, as demographic and economic pressures on the program have eased, and the trustees project that the share of Americans receiving DI will remain stable in the coming decades — contrary to the claims of some critics, including President Trump's budget director, Mick Mulvaney.

The Medicare Hospital Insurance (HI) trust fund depletion date is one year later than last year's projection. Medicare's trustees have also determined that projected spending will not exceed the target that would trigger Medicare reductions under the provisions of the Affordable Care Act (ACA) relating to the Independent Payment Advisory Board (IPAB).

Although both Social Security and Medicare face long-run financing challenges that must be addressed, the challenges are manageable. The programs are not "running out of money" or "going bankrupt," as critics sometimes suggest. Even if their trust funds were depleted, Social Security could still pay about three-fourths of scheduled benefits using its tax income, and Medicare HI could pay about 80 percent or more, though such an outcome 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 a third between now and 2040 as the baby boomers retire. That alone will raise Social Security spending from nearly 5 percent of gross domestic product (GDP) today to a little over 6 percent of GDP in 2040. Together with rising health care costs, the demographic shift will raise Medicare spending from 3.6 percent to 5.6 percent of GDP over the same period.

Social Security and Medicare benefits are not overly generous. The average Social Security retirement benefit is $16,400 a year, and aged widows and disabled workers typically receive less. 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 do other households.

There is some room to trim Social Security benefits for high earners (particularly to use much or all of the proceeds to strengthen benefits for particularly vulnerable groups), and policymakers must take further steps to curb the growth of health care costs both in public programs — particularly Medicare — and in the private sector. But even with reasonable efforts to limit their growth, Social Security and Medicare will necessarily 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' 2034 depletion date is for the combined Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds, the traditional focus of their report. The two funds are legally separate, however. The trustees expect the OASI fund to remain solvent until 2035 and the DI fund through 2028. The significant improvement in the outlook for the DI fund gives policymakers more time before they must revisit DI solvency and reduces any pressure for overly hasty action. This improvement is welcome news, though these are projections and could change, especially if there is a deep 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 largely anticipated this trend, since most of the recent growth in DI enrollment was due to demographic factors like the aging of the baby boom generation into its peak disability-prone years (ages 50-66), 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 three straight years. Likewise, DI applications, which spiked during the aftermath of the Great Recession, have fallen every year since 2010. The trustees project that the share of insured Americans receiving DI will remain relatively stable in coming decades. As a result, DI spending as a percent of gross domestic product (GDP) has peaked and is expected to decline slightly: from 0.76% of GDP to 0.72% of GDP by 2020, where it is expected to stay for the next two decades.

For now, Social Security's trust funds are still growing. The combined trust fund assets total $2.8 trillion and will grow through 2021. Nevertheless, the population's aging, which makes more Americans eligible for retirement benefits, means that even with interest earnings, the trust fund will gradually dwindle after 2021 and be depleted in 2034 if policymakers don't act by then.

Social Security's overall shortfall over the next 75 years — 2.83 percent of taxable payroll (which is the total wages and self-employment income subject to Social Security taxes), or 1 percent of GDP — is up from last year's estimate of 2.66 percent of taxable payroll.

Policymakers must address Social Security reform with great care. The program's benefits are modest but vital. For three-fifths of elderly beneficiaries, Social Security provides most of their income; for a fifth, it is their sole source of income. Moreover, the scheduled increase in Social Security's full retirement age — the age at which retirees can receive full benefits — from 66 to 67 between 2017 and 2022 will result in a roughly 7 percent across-the-board benefit cut for everyone who turns 62 after 2022. To avoid harming millions of low-income elderly people and those with severe disabilities, policymakers should restore Social Security solvency through a carefully crafted mix of benefit changes and revenue increases, with the latter contributing a substantial majority of the savings.

Medicare

The ACA, along with other factors, has significantly improved Medicare's financial outlook. The HI trust fund is now projected to remain solvent 12 years longer than before the ACA was enacted, and the HI program's projected 75-year shortfall of 0.64 percent of taxable payroll is much less than the 3.88 percent of payroll that the trustees estimated before health reform. This means that policymakers could close the entire projected funding gap by raising the Medicare payroll tax — now 1.45 percent each for employers and employees — to about 1.8 percent, or by enacting a mix of program cuts and tax increases.

The trustees' projections assume full implementation of the cost-control provisions in the ACA, including the IPAB, and in the 2015 Medicare Access and CHIP Reauthorization Act (MACRA). Along with directly reducing Medicare costs, the ACA and MACRA payment changes — and payment reforms in the private sector — may encourage structural changes in the health care delivery system that generate further savings. The trustees note that their projections do not assume such additional reductions in health care spending.

# # #

The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

Policy Futures, a Center initiative, focuses on medium- and long-term policy challenges, particularly the link between budget choices and the need to boost economic security and opportunity for low- and moderate-income individuals and families.