



New Reports Show Challenging Financial Outlook Continues for Social Security and Medicare

Every year, the Trustees of the Social Security and Medicare Trust Funds release reports to Congress on the current financial condition and projected financial outlook of these programs. This year's reports, released on May 31, 2013, show that both programs face urgent financial challenges that should be addressed as soon as possible.

Why are Social Security and Medicare facing financial challenges?

Social Security and Medicare accounted for 38% of federal expenditures in fiscal year 2012. (Source: A Summary of the 2013 Annual Reports, Social Security and Medicare Boards of Trustees) These programs are funded primarily through the collection of payroll taxes. Partly because of demographics and partly because of economic factors, fewer workers are paying into Social Security and Medicare than in the past, resulting in decreasing income from the payroll tax. The strain on the trust funds is also worsening as large numbers of baby boomers reach retirement age and Americans live longer.

Trustees report highlights: Social Security

The Social Security program consists of two parts. Retired workers, their families, and survivors of workers receive monthly benefits under the Old-Age and Survivors Insurance (OASI) program, while disabled workers and their families receive monthly benefits under the Disability Insurance (DI) program. This year's trustees report shows that:

- The annual costs for the OASDI program already exceed income from the payroll tax. In 2012, the projected deficit was \$169 billion; the projected deficit for 2013 is \$79 billion. This improvement is primarily due to the expiration of the Social Security payroll tax reduction that was in place for 2011 and 2012, and the subsequent projected increase in payroll taxes collected.
- The combined assets of the OASDI Trust Funds will be depleted in 2033. The DI Trust Fund is in worse shape and becomes depleted in 2016 (the same as projected last year), while the OASI Trust Fund becomes depleted in 2035 (the same as projected last year). Once the OASDI Trust Funds are depleted, tax income would still be sufficient to pay 77% of scheduled benefits.
- Over the long term (a 75-year projection period), the Trust Funds would require additional revenue equivalent to \$9.6 trillion in present value dollars to pay all scheduled benefits (\$1 trillion more than projected last year).

You can view the 2013 OASDI Trustees Report at www.socialsecurity.gov.

Trustees report highlights: Medicare

There are two Medicare trust funds. The Hospital Insurance (HI) Trust Fund pays for inpatient and hospital care (Medicare Part A costs). The Supplementary Medical Insurance (SMI) Trust Fund comprises two separate accounts, one covering Medicare Part B (which pays for physician and outpatient costs) and one covering Medicare Part D (which covers the prescription drug benefit). According to this year's trustees report:

- Annual costs for the Medicare program have exceeded tax income annually since 2008, and will continue to do so in the foreseeable future. The report also notes that the future program costs projected in this year's report are likely to be underestimated, due to changes in law that are likely to occur, and actual future program costs are highly uncertain.



- The HI Trust Fund is projected to be depleted in 2026 (two years later than projected last year). Once the HI Trust Fund is depleted, tax and premium income would still cover 87% of program costs, under current law.
- Over the long term (a 75-year projection period), the actuarial deficit for the HI Trust Fund decreased slightly from 1.35% of taxable payroll (projected in last year's report) to 1.11% of taxable payroll. However, under alternative projections, the HI actuarial deficit is worse--2.17% of taxable payroll. (The actuarial deficit is basically the difference between annual income and costs expressed as a percentage of taxable payroll.)

You can view the 2013 Medicare Board of Trustees Report at the actuarial studies page at www.cms.gov. You can also view this report, as well as a combined summary of the Social Security and Medicare trustees reports at www.socialsecurity.gov/OACT/TRSUM/index.html.

What does the future hold?

Both the Social Security and Medicare trustees reports make it clear that these challenges aren't going away. Costs are projected to grow substantially in the coming decades. Both reports urge Congress to address the financial challenges in the near future, so that solutions will be less drastic and may be implemented gradually, lessening the impact on the public. As the Social Security Board of Trustees report states, "Neither Medicare nor Social Security can sustain projected long-run programs in full under currently scheduled financing, and legislative changes are necessary to avoid disruptive consequences for beneficiaries and taxpayers."

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