A Guide to the 2018 Social Security and Medicare Trustees' Reports

Former Public Trustees of the Social Security and Medicare Trust Funds Charles P. Blahous III, Ph.D. and Robert D. Reischauer, Ph.D.

August 2018

BIPARTISAN POLICY CENTER

Authors

Charles P. Blahous III, Ph.D.

J. Fish and Lillian F. Smith Chair and Senior Research Strategist, Mercatus Center, George Mason University
Visiting Fellow, Hoover Institution, Stanford University
Former Public Trustee of the Social Security and Medicare Trust Funds

Robert D. Reischauer, Ph.D.

Distinguished Institute Fellow and President Emeritus, Urban Institute
Former Public Trustee of the Social Security and Medicare Trust Funds
Former Director, Congressional Budget Office

BPC Staff

Tim Shaw

Senior Policy Analyst

Jack T. Rametta

Project Associate

ACKNOWLEDGMENTS

This publication was made possible in part by a grant from the Peter G. Peterson Foundation. The statements made and views expressed are solely the responsibility of the authors.

Table of Contents

3 | Executive Summary

5 | Social Security's and Medicare's Financial Conditions

10 | Changes in This Year's Reports

12 | The Budgetary Implications of Program Cost Growth

14 | Conclusion

15 | Appendix A: Important Metrics in the Social Security and Medicare Trustees' Reports

22 | Endnotes

Executive Summary

The public trustees for Social Security and Medicare have been essential to the oversight of the programs' finances since the positions were established in 1983. These Senate-confirmed, presidential appointees are tasked with ensuring that the trustees' reports for Social Security and Medicare—the primary sources of information on the programs' finances—are developed in an objective manner.

Unfortunately, for the past three years, the public trustee positions have gone unfilled. As the most recent holders of these positions, we have partnered with the Bipartisan Policy Center to provide independent analysis of the trustees' reports while the positions remain vacant.

The following is a summary of our conclusions upon review of the 2018 Social Security and Medicare trustees' reports,[i] published by the *ex officio* trustees earlier this year.[a]

- **Both Social Security and Medicare face large and growing financial shortfalls.** Over the trustees' long-range (75-year) valuation window, both Social Security's and Medicare's trust funds have a substantial gap between their scheduled benefits and the revenues collected to fund them. Closing the shortfall in the combined Social Security trust funds would require the equivalent of an immediate increase in its payroll tax rate from 12.40 percent to 15.18 percent or a 21 percent reduction in benefits for all future claimants. Closing the shortfall in the Medicare Hospital Insurance (HI) trust fund would require the equivalent of increasing its payroll tax rate from 2.90 percent to 3.72 percent or a 17 percent reduction in all scheduled benefits. The costs of closing these financial shortfalls will only grow over time.
- **The short-term picture has worsened over the past year.** Both Medicare and Social Security will reach important adverse milestones this year: Medicare HI and Social Security's combined trust funds will begin drawing down assets on their ways to eventual depletion. The near-term decline is primarily attributable to lowered projections of payroll tax revenues. The outlook for Medicare HI has worsened a bit more than it has for Social Security. The Medicare HI trust fund is now projected to be depleted in 2026, three years earlier than projected in last year's report.
- **The window of opportunity to correct the financial imbalances of Social Security and Medicare is closing.** By the dates at which the trust funds are depleted, the changes required to restore financial balance will be so large that making such corrections within the programs' traditional financing frameworks will be programmatically, economically, and politically unrealistic.
- **While the long-term projections for Social Security and Medicare remain similar to those presented in the past few reports, further significant unfavorable changes to the projections are possible.** Current projections assume the Affordable Care Act's (ACA) "Cadillac plan tax" will successfully dampen the growth of health insurance premiums, thereby increasing worker wages subject to payroll taxation and the revenues of both programs. If this assumption proves incorrect, there will be a further deterioration of future program finances. This is but one example of the fluid policy environment that unavoidably injects uncertainty into the trustees' projections.

[a] Ex officio trustees—who are the Secretaries of the Treasury, the Department of Health and Human Services, and the Department of Labor, and the Commissioner of Social Security—are trustees by virtue of their government positions. The public trustees, in contrast, are appointed specifically to be trustees of the Social Security and Medicare trust funds.

- **As Social Security's and Medicare's financing strains worsen, the implications not only for these programs but for the broader federal budget are of concern.** Congressional Budget Office projections published earlier this year warned that federal debt held by the public could grow within a decade to exceed the entire U.S. gross domestic product.[ii] Correcting Social Security's and Medicare's financial imbalances would not only benefit those specific programs; it would have large ancillary benefits for the federal budget as a whole.

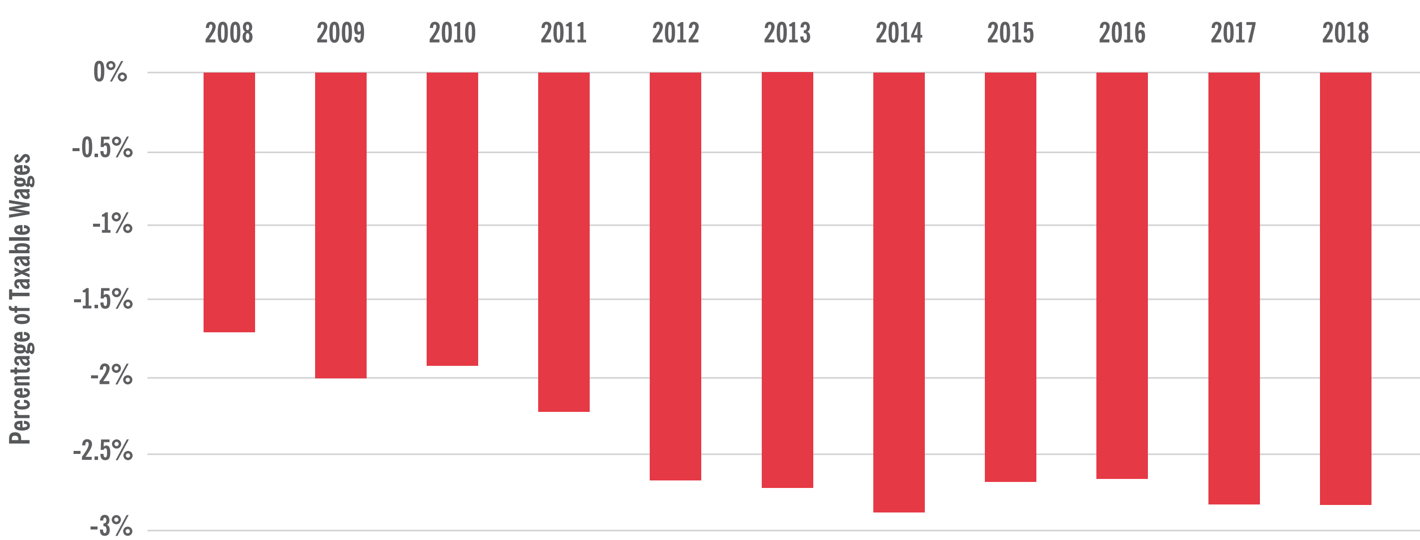
Social Security's and Medicare's Financial Conditions

Both Social Security and Medicare face large and growing financial shortfalls because scheduled benefit obligations substantially exceed those programs' projected financial resources. The long-term financing challenges identified in the 2018 trustees' reports remain similar to those projected in previous reports, albeit marked by increasing urgency with another passing year.

For multiple reasons, the programs' near-term outlooks have worsened since the 2017 trustees reports were released. First, the time remaining to enact needed financing corrections has shrunk due to another year of lawmakers' inaction, further limiting the range of available options and worsening their potential adverse effects on program participants. Second, an unexpected deterioration in near-term financial flows is placing additional pressure on the Social Security and Medicare trust funds. In the specific case of Medicare's HI trust fund, the projected date of that fund's depletion has shifted forward by three years from 2029 to 2026. In 2026, Medicare HI will only have sufficient resources to finance 91 percent of health benefit payments, declining to 78 percent by 2039.

The projected shortfall in the combined Social Security trust funds, averaged over the trustees' long-range (75-year) valuation window, is 2.84 percent of its tax base of workers' wages subject to the program's payroll tax over this period.[b] This equates to 21 percent of the program's non-interest income, or 17 percent of its costs. As shown in Figure 1, Social Security's long-range shortfall as projected in the 2018 reports is similar to that projected in recent trustees' reports.

Figure 1. Combined Social Security (OASDI) Trust Funds Long-Range Financing Shortfall



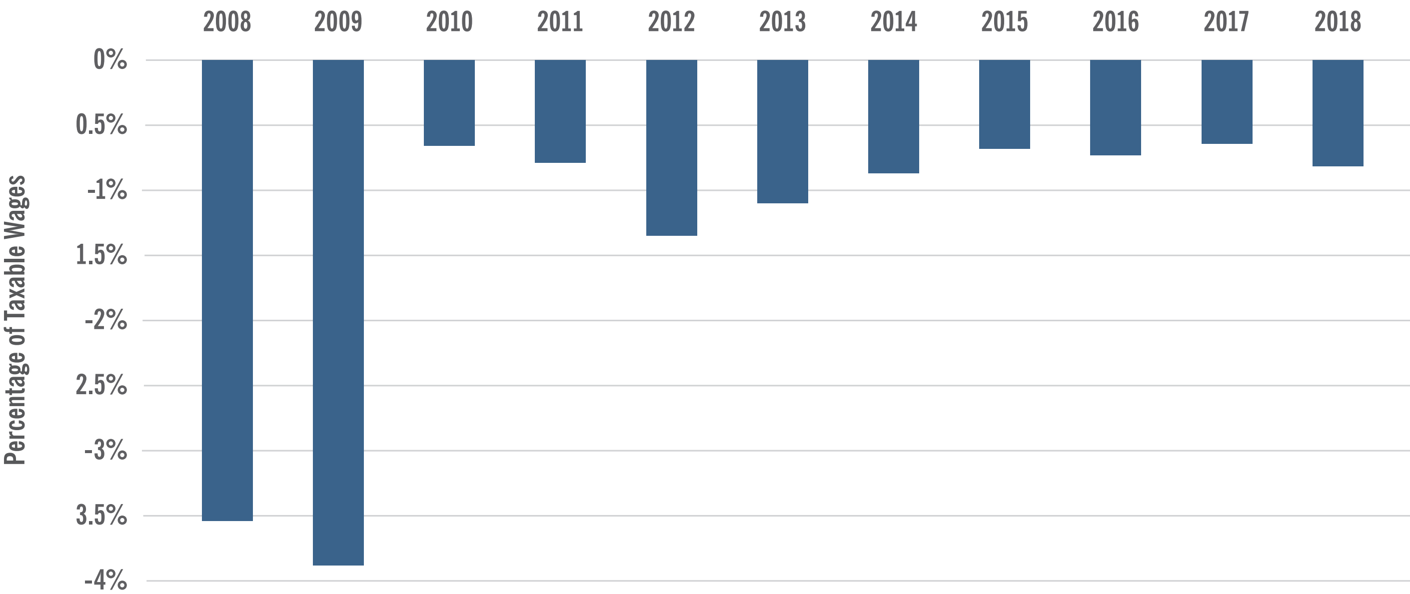
Source: 2008–2018 Social Security Trustees' Reports

---

[b] The Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds are distinct legal entities without authority to draw on the resources of the other. Despite this critical distinction, the trustees have often found it less confusing to analyze the theoretical combined OASI and DI trust fund as a single entity in order to convey a clearer sense of overall program finances.

As shown in Figure 2, the long-range shortfall in the Medicare HI trust fund has worsened somewhat, beyond the normal deterioration expected from another year of legislative inaction. The HI trust fund's long-range deficit, like Social Security's, equates to 21 percent of its non-interest income, or 17 percent of costs. Expressed as a percentage of that program's larger tax base, the HI long-range deficit equals 0.82 percent of taxable payroll, up from 0.64 percent in last year's report.[c]

Figure 2. Medicare (HI) Trust Fund Long-Range Financing Shortfall



Source: 2008–2018 Medicare Trustees' reports

Note: The large reduction in HI's actuarial imbalance from 2009 to 2010 is attributable primarily to enactment of the ACA's provisions affecting Medicare HI operations.

Both Medicare and Social Security will reach important adverse milestones this year: Medicare HI and Social Security's combined trust funds will begin drawing down assets on their ways to eventual depletion. The drawdowns are beginning now because the sum of the trust funds' tax revenue, interest earnings, and other income this year will be less than the amounts needed to cover benefits and administrative expenses, requiring the programs to begin to cash in some of their trust funds' bond holdings.[d] Social Security has not faced this situation since 1982, immediately before the 1983 Social Security amendments, the last major legislation to forestall that program's insolvency. Absent corrective legislation, the trustees project these drawdowns of Medicare HI and Social Security's combined trust funds to continue until the funds are depleted in 2026 and 2034 respectively.

Beneficiaries will not immediately feel the effects of the net redemptions of trust fund Medicare and Social Security assets that will begin this year. The money used to buy down these bonds is provided by the federal government's general fund, as is the case for payments of the trust funds' interest earnings whenever they are tapped to finance current benefit payments. Lacking sufficient income from payroll taxes and other revenue streams, Medicare HI has needed to draw on such interest payments to

[c] Certain OASDI and HI metrics are expressed as a percent of taxable payroll. However, the taxable payroll total is larger for HI than for OASDI. For OASDI, individual earnings above a income level are not subject to payroll taxes ($128,400 in 2018). HI has no income cap on taxable earnings, producing a larger total taxable payroll.

[d] The three trust funds receive income attributed to the inclusion in taxable income of a portion of Social Security benefits received by those with moderate and relatively high incomes. The HI trust fund receives a small amount of income from premiums paid voluntarily by some of those lacking normal eligibility.

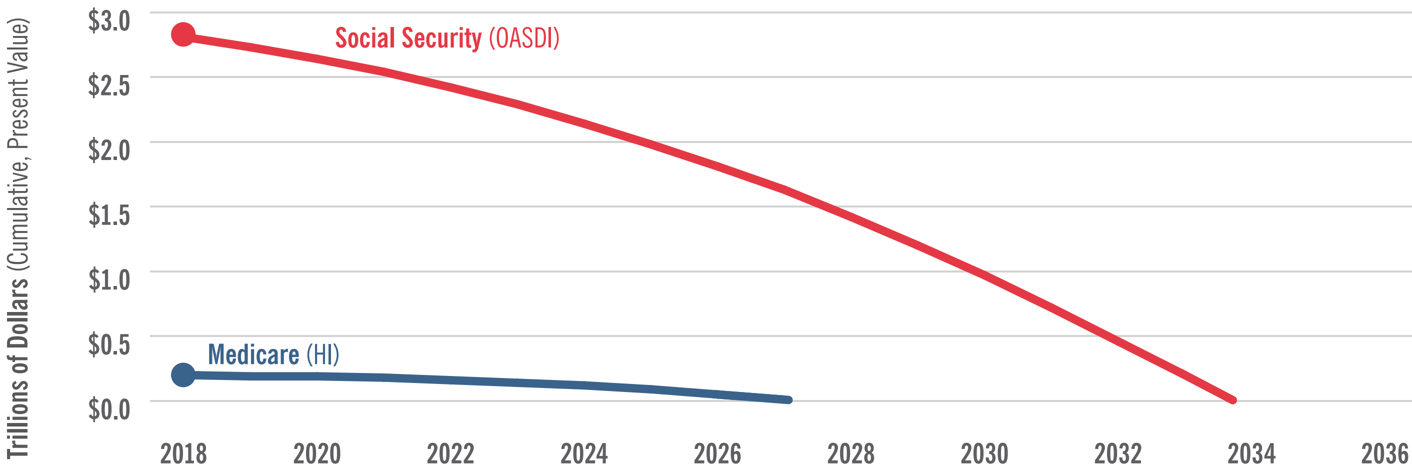
pay full benefits continuously since 2008. Social Security has needed to since 2010. Thus, it is not a new phenomenon for Social Security and Medicare HI to finance benefit payments by calling in obligations from the federal government's general fund. What is new in recent experience is the need to begin depleting the assets of these trust funds and especially the fact that this is occurring substantially sooner than under previous reports' projections.

A critical measure of financial adequacy is the "trust fund ratio" (TFR). This metric compares the assets held by a specific trust fund at the beginning of a year with expenditures projected over the coming year, illuminating the relative adequacy of trust fund assets. For example, a TFR of 100 indicates reserves sufficient to finance one year of benefits, whereas a TFR of 200 would be sufficient to finance two years of benefits. Medicare HI's trust fund and both of the Social Security trust funds' (Old-Age and Survivors Insurance, or OASI, and Disability Insurance, or DI) ratios have been declining for several years. The DI TFR peaked in 2003 and currently stands at only 48. This indicates reserves sufficient to finance less than six months of DI benefits. The OASI TFR has declined since 2011. The HI TFR peaked in 2003 and its current-year TFR of 65 indicates reserve levels sufficient to fully finance benefits for less than eight months. Both HI and DI fail the trustees' test of short-range financial adequacy due to their low trust fund balances, and both are therefore highly susceptible to substantial changes in their projected depletion dates if the trustees were to conclude that even minor changes were likely in projected revenue or expenditure trends.

While the finances of these trust funds have been in decline for several years as measured by their TFRs, until this year their balances had been growing in current-dollar terms because annual interest earnings have exceeded their deficits of tax and other income relative to benefit expenditures. However, this year the Medicare HI and combined Social Security trust funds will begin shrinking in current-dollar terms as well. In last year's reports, this was not projected to happen to Social Security until 2022 and to Medicare HI until 2023. The acceleration of this adverse milestone by several years in a single annual report is highly unusual and an unwelcome development. The following section of this report explains some of the reasons for the near-term financial decline.

Social Security's combined (OASI plus DI) trust funds together carry much larger balances than Medicare's HI trust fund. As a result, Social Security's trust funds will take much longer (until 2034, under current projections) to deplete entirely. However, this does not mean that Social Security is in better long-term financial condition. To the contrary, Social Security's actuarial imbalance is substantially larger than Medicare HI's, and at the point that its theoretical combined trust funds are depleted, Social Security would have enough annual income to finance 79 percent of scheduled benefits.

Figure 3. Drawdown of the Social Security and Medicare Trust Funds



Source: 2018 Social Security and Medicare Trustees' Reports

To maintain the historical financing structure of the Social Security and Medicare programs, lawmakers must enact financial corrections well in advance of their trust funds' projected depletion dates. By the time the dates of trust fund depletion arrive, or are even a few years away, the changes required to restore financial balance will be so large that making such corrections within the programs' traditional financing frameworks will be programmatically, economically, and politically unrealistic. Each successive year of delay excludes for practical purposes another large cohort of baby boomer retirees from contributing significantly to the solution, thereby reducing the numbers of those among whom the burdens of balancing system finances can be spread.

To close Social Security's aggregate shortfall with action today would require corrections equal to an immediate increase in its payroll tax rate from 12.4 percent to 15.18 percent, or to a 21 percent reduction in benefits for all future claimants. At the point of the combined trust funds' depletion, the payroll tax would need to increase from 12.4 percent to 16.27 percent. Completely eliminating benefits for all new claimants at that point would by itself be insufficient to maintain continuous trust fund solvency.

The immediate Medicare payroll tax rate increase required to maintain HI trust fund solvency would be from 2.90 percent to 3.72 percent, and that will rise to 3.84 percent if delayed until the year of trust fund depletion. Given how Medicare is structured, closing the shortfall through insurance payment reductions to providers would affect both those already receiving benefits as well as new claimants. To be sufficient to preserve trust fund solvency, such reductions would need to lower Medicare HI expenditures by 17 percent if implemented today, or 19 percent if postponed until trust fund depletion.

The Medicare Supplementary Medical Insurance (SMI) trust fund operates differently from the OASI, DI, and HI trust funds in that its solvency is ensured by statute. Roughly three-quarters of SMI revenues are provided by the federal government's general fund, with most of the rest derived from premiums collected from participants. Both the general revenue transfer to the trust fund and premium levels are automatically adjusted annually to maintain trust fund adequacy. However, this does not mean SMI avoids financial strains.

Financial strains in SMI are manifested not in the threat of trust fund depletion but in rising financial pressures on premium-paying beneficiaries and federal taxpayers. The 2018 trustees' reports project that, without reforms, Medicare SMI cost growth will continue to outpace national economic growth. This year Medicare SMI will require $319 billion in general revenue financing, or roughly 1.6 percent of gross domestic product (GDP). These general revenue demands will rise to 2.8 percent of GDP by the end of the trustees' long-range valuation period. Overall, total Social Security and Medicare costs are projected to rise from 8.6 percent of GDP today to 11.7 percent in 2035.

Changes in This Year's Reports

The most significant change in the recent trustees' projections results from an adverse adjustment to the near-term projections of payroll tax collections. This adjustment is largely responsible by itself for the new estimate that Social Security and Medicare HI will begin drawing down their trust fund balances this year. This year's report projects that Social Security will collect $883 billion in payroll taxes in 2018, down from last year's projection of $928 billion. This $45 billion reduction explains most of the change from 2017's projection that Social Security's combined reserves would grow by $45 billion, to 2018's projection that they will shrink by $0.2 billion. Medicare HI's 2018 payroll tax collections are also now projected to be $14 billion smaller than projected in 2017, a significant contributor to the change from 2017's projection that the HI trust fund would grow by $17 billion in 2018, to 2018's projection that it will shrink by $5 billion.

The near-term outlook for Medicare HI has worsened a bit more than it has for Social Security, for several reasons. First, Medicare HI is starting out with a substantially smaller trust fund balance, and its near-term financial outlook relies much more heavily on the balance of annual tax collections and expenditures. Accordingly, Medicare HI's trust fund is less able to withstand a negative adjustment to its near-term financial flows. In addition, the HI financial projections are adversely affected not only by lowered payroll tax estimates, but by the fact that "benefit payments in calendar year 2017 were slightly higher than projected in the 2017 report largely due to higher utilization of services than previously estimated."[iii]

The reduction in projected payroll tax collections for both Social Security and Medicare is primarily attributable to the National Income and Product Account revisions released by the Bureau of Economic Analysis after the 2017 trustees' reports were prepared which the trustees found indicated that "for 2017 …. the ratio of labor compensation to GDP was 3.1 percent below the level projected for the 2017 report."[iv] After incorporating the revised data, the trustees Social Security report states, "the ratio of [Social Security] effective taxable payroll to GDP for 2017 is now estimated to be 2.0 percent lower than projected for the 2017 report." Simplified, the trustees now foresee Social Security and Medicare having smaller tax bases in the near term than was previously expected, with the result that each program is now projected to collect less in payroll tax revenue. These revisions underscore the uncertainty inherent not just from assumptions about future developments but also from estimates of current and past conditions required to project the financial conditions of these programs.

Although Social Security's near-term outlook is somewhat worse than in last year's report, its long-term outlook has changed very little. The principal bad news with respect to Social Security's long-term finances is that another year has passed without legislative corrections, further limiting the numbers of potential contributors to those financing corrections and thereby increasing the average sacrifices required of those who eventually will be required to contribute.

Medicare HI, on the other hand, does show a worsened long-term balance in the 2018 report relative to the previous year's projection. The trustees traditionally express these imbalances as a percentage of workers' taxable income—a presentation that has the effect of making them appear deceptively small. For example, the Medicare HI imbalance projected in the 2018 report is 0.82 percent of taxable payroll, up from 0.64 percent projected in the 2017 report. Though small as a percentage of all future taxable payroll, the shortfall is large as a percentage (21 percent) of projected Medicare HI non-interest income. The 0.18 point taxable payroll deterioration in Medicare HI's long-range outlook is entirely accounted for by updated program data—0.13 points from lower payroll tax income, and 0.06 points from higher expenditures, than projected in 2017. Other changes to the long-term assumptions roughly balance one another out.

Although the long-term projections for Social Security and Medicare remain similar to those contained in previous reports, policymakers and the public should be aware of the substantial potential for additional changes to the projections, many of them unfavorable from a program financing standpoint. The trustees' latest projections incorporate recent legislative changes such as the repeal of the Independent Payment Advisory Board established under the ACA, the repeal of the ACA's health insurance purchase mandate, and recent income tax cuts that will reduce projected trust fund revenues deriving from the income taxation of Social Security benefits. Taken together, these legislative changes have a modest effect on the projections relative to other recent adjustments to program data.

At the same time, current projections assume the ACA's so-called "Cadillac plan tax" on high-premium insurance plans will be collected according to current statutory schedules, even though lawmakers have repeatedly postponed and limited the tax, raising questions as to whether it will ever be imposed. Current projections assume the "Cadillac plan tax" will successfully dampen the growth of health insurance premiums, thereby leading to increases in worker wages subject to payroll taxation. If this assumption proves incorrect, there will be an additional factor worsening future program finances relative to current projections.

This is but one example of the fluid policy environment that injects uncertainty into the projections. Another is immigration policy. If, for example, either legislative or administrative changes to immigration policy cause a reduction in net immigration, this would also somewhat worsen the financial projections.

Moreover, as the trustees state in their annual message, the projections continue to anticipate "a substantial reduction in per capita health expenditure growth rates relative to historical experience." If this anticipated reduction does not occur, Medicare's financial projections could worsen significantly.

All this said, even given these uncertainties, it remains clear that Social Security and Medicare both face substantial financing challenges that will require a legislative correction. A stochastic analysis in the Social Security report that incorporates uncertainty in its projections underscores this point. Even when allowing for substantial variation in the many demographic and economic assumptions that undergird Social Security's financial projections, the program's structural shortfall remains certain and severe. The trustees' intermediate or median projection is that the combined Social Security trust funds will become depleted in 2034, while the stochastic analysis finds an 80 percent probability that depletion will occur between 2032 and 2039. Even under the most favorable scenarios in which every variable (fertility, longevity, economic growth, and others) breaks in a positive direction from a financing perspective, lawmakers will still be forced to enact painful measures to close a substantial financing shortfall in the not too distant future.

The Budgetary Implications of Program Cost Growth

As Social Security's and Medicare's costs grow and their financing strains worsen, there are concerning implications not only for these programs but for the federal budget as a whole.

This is most readily seen in the operations of Medicare SMI, three-quarters of whose funding is provided from the government's general fund. Although Medicare HI's solvency is rightly a concern, the majority of Medicare spending comes from its SMI trust fund, which is financed overwhelmingly by federal general revenues and participant premium payments. These revenues are provided automatically to SMI by statute, and therefore solvency projections for SMI are not meaningful although cost growth projections are.

As noted earlier, Medicare SMI is projected to require $319 billion in general revenue financing this year, or 1.6 percent of GDP, rising to 2.8 percent of GDP over the trustees' 75-year valuation window. This long-term projection is predicated on the assumption that there will be a substantial slowdown in the growth of national health expenditures and is therefore subject to potential change for the worse.

It bears repeating that 2.8 percent of GDP, which equates to roughly 90 percent of all current national defense spending, would not be the cost of all of Medicare, or even the costs facing SMI alone, but only the portion of SMI costs that are paid from the federal government's general fund.[v] For context, the general fund contribution to SMI amounts to about 15 percent of current personal and corporate income tax revenues, a figure that would rise to about 25 percent by 2040 if income tax revenues maintained their historic share of GDP.[vi]

Social Security and Medicare HI interact somewhat differently with the federal government's general fund, but in upcoming years they will also place increasing strains upon it. For each of these trust funds, the predominant annual financing source is payroll tax revenue. None of these trust funds has borrowing authority under current law, which means that once their reserves are depleted (in 2026 for Medicare HI, 2032 for Social Security DI, and 2034 for Social Security OASI), outgoing benefit obligations would be suddenly reduced to the levels that could be financed from incoming payroll taxes and several much smaller sources of income.

Prior to trust fund depletion, however, the Social Security and Medicare HI trust funds will join SMI in making steadily increasing demands on federal budget resources. The trust funds' assets are invested in special-issue Treasury securities, which earn interest paid from the general fund and, when redeemed, are redeemed with general fund resources. Whenever annual benefit obligations exceed the amounts that can be financed from incoming payroll taxes and other non-interest income sources, as has been the case with Social Security since 2010 and Medicare HI since 2008, those benefit payments are financed by some combination of interest payments and redemptions of trust fund bonds, both paid from the general fund. Unless the federal government raises taxes or cuts other spending to finance these transactions, the cost of financing that portion of benefit payments is added to federal debt held by the public.

The trustees' reports summary illustrates the growing demands Social Security and Medicare payments will make on the general fund in upcoming years. In 2026, the year of projected Medicare HI depletion, general revenue needs would be roughly 3 percent of GDP, nearly 50 percent larger as a share of the economy as they are this year. If the law were changed to permit full payment of Social Security and Medicare benefits, the general revenue demands would hit 4.4 percent of GDP in 2042, "more than double the 2018 share."[vii]

The federal government faces broader fiscal challenges separate and apart from those facing Social Security and Medicare. Congressional Budget Office projections published earlier this year warned that federal debt held by the public could grow to a size that exceeds the entire U.S. GDP within a decade.[viii] Correcting Social Security and Medicare's financial imbalances would not only benefit those specific programs, but it would have large benefits for the federal budget as a whole.

Conclusion

The window of opportunity to correct Social Security's and Medicare's financial imbalances is closing. As our guide to last year's reports explained, further delay in correcting these imbalances poses a particular threat to economically vulnerable Americans, who are disproportionately affected by the lingering policy uncertainty over the benefit levels these programs will be able to provide in the future.[ix] At the same time, continuing uncertainty subjects taxpayers to the ongoing threat of tax increases of an unknown size. Further delay is also likely to exacerbate the programs' reliance on younger generations to shoulder the burden of corrections to program finances, whether imposed through benefit cuts or tax increases. This would inflict substantial net income losses on those generations, undercutting the future value provided by these historically vital programs.

As more time passes, it will become prohibitively difficult to enact a solution that stabilizes program finances, offers reasonable treatment of taxpayers, improves the programs' work incentives, and limits poverty among seniors. Unfortunately, policymakers continue to delay serious deliberations over how a solution can be achieved in the best interests of program beneficiaries and taxpaying workers, who would be harmed greatly by program insolvency. Swift action to repair Social Security and Medicare finances is vital to ensure that the programs' strength, efficacy, and financial integrity are sufficient to support not just the beneficiaries of today, but the generations to come.

Appendix A:

Important Metrics in the Social Security and Medicare Trustees' Reports[i]

Metric	Description	Result from 2017 Report	Result from 2018 Report
Metrics that Appear in the Trustees' Summary of the Annual Reports			
OASDI actuarial deficit[e]	Shortfall in total (combined) Social Security, averaged over 75 years, expressed as a percentage of workers' taxable wages	2.83 percent of taxable payroll, p. 1	2.84 percent of taxable payroll, p. 1
HI actuarial deficit	Shortfall in Medicare HI trust fund, averaged over 75 years, expressed as a percentage of workers' taxable wages	0.64 percent of taxable payroll, p. 1	0.82 percent of taxable payroll, p. 1
OASI actuarial deficit	Shortfall in OASI trust fund, averaged over 75 years, expressed as a percentage of workers' taxable wages	2.59 percent of taxable payroll, p. 11	2.63 percent of taxable payroll, p. 12
DI actuarial deficit	Shortfall in DI trust fund, averaged over 75 years, expressed as a percentage of workers' taxable wages	0.24 percent of taxable payroll, p. 11	0.21 percent of taxable payroll, p. 12
DI trust fund ratio, current year projection	Trust fund assets expressed as a function of the number of years' benefits they can finance (100 = one year, 500 = five years, 50 = half a year, etc.)	31, meaning 0.31 years or approximately 4 months, p. 9	48, meaning 0.48 years or approximately 6 months, p. 9
HI trust fund ratio, current year projection	Trust fund assets expressed as a function of the number of years' benefits they can finance (100 = one year, 500 = five years, 50 = half a year, etc.)	67, meaning 0.67 years or approximately 8 months, p. 9	65, meaning 0.65 years or approximately 8 months, p. 9
Projected DI trust fund depletion date	Date by which reserves in this specific trust fund are projected to be depleted	2028, p. 1	2032, p. 10
Percent of DI benefits that can be paid after trust fund depletion	Benefit payments cannot exceed available revenues	93 percent, p.10	96 percent, p. 11
Projected HI trust fund depletion date	Date by which reserves in this specific trust fund are projected to be depleted	2029, p. 1	2026, p. 10
Percent of HI payments that can be made after trust fund depletion	HI payments cannot exceed available revenues	88 percent, p. 11	91 percent, p. 11

[e] Certain OASDI and HI metrics are expressed as a percent of taxable payroll. However, the taxable payroll total is larger for HI than for OASDI. For OASDI, individual earnings above a certain income level are not subject to payroll taxes ($128,400 in 2018). HI has no income cap on taxable earnings, leading to a larger total taxable payroll.

Metric	Description	Result from 2017 Report	Result from 2018 Report
Metrics that Appear in the Trustees' Summary of the Annual Reports (Continued)			
Projected OASI trust fund depletion date	Date by which reserves in this specific trust fund are projected to be depleted	2035, p. 1	2034, p. 10
Percent of OASI benefits that can be paid after trust fund depletion	Benefit payments cannot exceed available revenues	75 percent, p. 10	77 percent, p. 11
Projected combined OASDI trust funds depletion date	Date by which total Social Security reserves would be depleted if the law were changed to combine its trust funds	2034, p. 1	2034, p. 10
Percent of OASDI benefits that can be paid after trust fund depletion	Benefit payments cannot exceed available revenues	77 percent, p. 10	79 percent, p. 11
Total general fund needs of OASDI, HI, and SMI, current year projection	Social Security and Medicare's combined net effect on the unified federal budget deficit for the current year as measured by the amount by which expenditures exceed income generated from sources external to the U.S. government.	$311 billion, p. 7	$416 billion, p. 9
OASDI deficit of non-interest income relative to expenditures, current year projection	OASDI's net effect on the unified federal budget deficit for the current year, as measured by the amount by which expenditures exceed income generated from sources external to the U.S. government	$27 billion, p. 7	$85 billion, p. 8
HI deficit of non-interest income relative to expenditures, current year projection	HI's net effect on the unified federal budget deficit for the current year, as measured by the amount by which expenditures exceed income generated from sources external to the U.S. government	$3 billion surplus, p. 7	$12 billion, p. 8
SMI general fund needs, current year projection	SMI's net effect on the unified federal budget deficit for the current year, as measured by the amount by which expenditures exceed income generated from sources external to the U.S. government	$287 billion, p. 7	$319 billion, p. 8
Total OASDI expenditures, current year projection	Social Security combined expenditures, current year projection	$955 billion, p. 10	$1,003 billion, p. 11
HI expenditures, current year projection	HI expenditures, current year projection	$295 billion, p. 1	$311 billion, p. 11
OASDI total income, current year projection	Social Security combined income, current year projection	$1,014 billion, p. 10	$1,001 billion, p. 11
HI total income, current year projection	HI total income, current year projection	$306 billion, p. 11	$306 billion, p. 11

Metric	Description	Result from 2017 Report	Result from 2018 Report
Metrics that Appear in the Trustees' Summary of the Annual Reports (Continued)			
Projected Social Security costs at end of the 75-year valuation period as a percent of taxable payroll	This projection illuminates how rapidly program costs are growing over the long term; it expresses projected costs as a percent of taxable worker earnings	17.80 percent of taxable payroll (up from 11.32 percent in 2007, before the baby boomers began to claim benefits), p. 5	17.68 percent of taxable payroll (up from 11.32 percent in 2007, before the baby boomers began to claim benefits), p. 5
Projected Social Security annual deficit at end of the 75-year valuation period as a percent of taxable payroll	Excess of annual obligations over annual income	4.48 percent of taxable payroll (in contrast with 1.53 percent surplus in 2007, before the baby boomers began to claim benefits), p. 12	4.32 percent of taxable payroll (in contrast with 1.53 percent surplus in 2007, before the baby boomers began to claim benefits), p. 12
Projected Medicare HI (not SMI) costs at end of the 75-year valuation period as a percent of taxable payroll	This projection illuminates how rapidly program costs are growing over the long term; it expresses projected HI costs as a percent of taxable worker earnings (SMI costs are not financed by payroll taxes)	4.96 percent of taxable payroll (up from 3.17 percent in 2007, before the baby boomers began to claim benefits), p. 5	5.16 percent of taxable payroll (up from 3.17 percent in 2007, before the baby boomers began to claim benefits), p. 5
Projected Social Security costs in 2037 or 2038 as a percent of GDP	Cost growth is steepest relative to GDP through the mid-2030s due to the retirements of the baby boom generation	6.1 percent of GDP by 2037 (up from 4.1 percent in 2007, before the baby boomers began to claim benefits), p. 4	6.1 percent of GDP by 2038 (up from 4.1 percent in 2007, before the baby boomers began to claim benefits), p. 3
Projected total Medicare (HI + SMI) costs in 2035 as a percent of GDP	Cost growth is steepest relative to GDP through the mid-2030s due to the retirements of the baby boom generation	5.4 percent of GDP by 2035 (up from 3.1 percent in 2007, before the baby boomers began to claim benefits), p. 4	5.6 percent of GDP by 2035 (up from 3.1 percent in 2007, before the baby boomers began to claim benefits), p. 3
Projected combined Social Security + Medicare costs in 2035 as a percent of GDP	Cost growth is steepest relative to GDP through the mid-2030s due to the retirements of the baby boom generation	11.5 percent of GDP by 2035 (up from 7.2 percent in 2007, before the baby boomers began to claim benefits), p. 4	11.7 percent of GDP by 2035 (up from 7.2 percent in 2007, before the baby boomers began to claim benefits), p. 4
Projected Social Security costs at end of the 75-year valuation period as a percent of GDP	This projection illuminates how rapidly program costs are growing relative to GDP over the long term	6.1 percent of GDP, p. 4	6.1 percent of GDP, p. 3
Projected total Medicare (HI + SMI) costs at end of the 75-year valuation period as a percent of GDP	This projection illuminates how rapidly program costs are growing relative to GDP over the long term	5.9 percent of GDP, p. 6	6.2 percent of GDP, p. 4
Projected combined Social Security + Medicare costs at end of the 75-year valuation period as a percent of GDP	This projection illuminates how rapidly program costs are growing relative to GDP over the long term	12.0 percent, p.4	12.3 percent, p. 4
Projected general fund financing required for Medicare SMI at end of the 75-year valuation period as a percent of GDP	Because roughly three-fourths of Medicare SMI is financed from the government's general fund, Medicare SMI cost growth places mounting pressures on the remainder of the US budget	2.7 percent of GDP (up from 1.5 percent in 2017), p. 6	2.8 percent of GDP (up from 1.6 percent in 2018), p. 7

Metric	Description	Result from 2017 Report	Result from 2018 Report
Metrics that Appear in the Trustees' Summary of the Annual Reports (Continued)			
Annual individual earnings subject to Social Security taxes	Above this annual threshold, indexed each year for growth in the National Average Wage Index, workers neither contribute additional payroll taxes nor do they accrue additional Social Security benefits for that year; Medicare payroll taxes by contrast are assessed on all earnings, with no annual limit	$127,200, p. 4	$128,400, p. 5
Income thresholds for Social Security benefit taxation	Some Social Security benefits are subject to income tax; the thresholds are fixed and are not indexed to change from year to year, resulting in more individuals being subject to tax	$25,000 for individuals/$32,000 for married couples (50 percent of benefits subject to income tax) phasing to 85 percent of benefits subject to income tax for individuals at $34,000 and married couples at $44,000, p. 13	$25,000 for individuals/ $32,000 for married couples (50 percent of benefits subject to income tax) phasing to 85 percent of benefits subject to income tax for individuals at $34,000 and married couples at $44,000, p.14
Standard Medicare Part B monthly premium		$134.00, p.14	$134.00, p.15
Part B income-related premiums		Range from $187.50 to $428.60 per month, p. 14	Range from $187.50 to $428.60 per month, p. 15
Part D base monthly premium		$35.63, p.14	$35.02, p.15
Part D income-related premiums		Range from $13.30 to $76.20 per month, p. 14	Range from $13.00 to $74.80 per month, p. 15
Additional Measures Found in the Social Security Trustees' Report			
95 percent confidence band around OASDI actuarial deficit estimate	Actuarial imbalance projections ranging from the 2.5th to 97.5th percentile of outcomes modeled	1.07 percent to 5.01 percent of taxable payroll, p. 198	1.10 percent to 5.10 percent of taxable payroll, p. 198
Social Security benefit reduction, effective immediately, required to maintain 75-year solvency	This illustrative benefit reduction would affect all current and future beneficiaries	About 17 percent, p. 5	About 17 percent, p. 5
Social Security benefit reduction, effective immediately, required to maintain 75-year solvency without affecting current beneficiaries	This illustrative benefit reduction would exclude current beneficiaries	About 20 percent, p 5	About 21 percent, p 5
Social Security payroll tax increase, effective immediately, required to maintain 75-year solvency		Increase of the payroll tax rate from 12.4 percent to 15.16 percent, p. 5	Increase of the payroll tax rate from 12.4 percent to 15.18 percent, p. 5
Social Security benefit reduction, effective at the point of combined trust fund depletion required to maintain 75-year solvency	This illustrative benefit reduction would affect all beneficiaries	23 percent, p. 5	23 percent, p. 5

Metric	Description	Result from 2017 Report	Result from 2018 Report
Additional Measures Found in the Social Security Trustees' Report (Continued)			
Social Security benefit reduction, effective at the point of combined trust fund depletion required to maintain 75-year solvency without affecting those already collecting benefits	This illustrative benefit reduction would exclude those already collecting benefits	Even 100 percent would be insufficient to avoid temporary insolvency, p. 25 in 2015 report (not included in 2017 report)	Even 100 percent would be insufficient to avoid temporary insolvency, p. 25 in 2015 report (not included in 2018 report)
Social Security payroll tax increase, effective at the point of combined trust fund depletion required to maintain 75-year solvency		Increase of the payroll tax rate from 12.4 percent to 16.38 percent, p. 5	Increase of the payroll tax rate from 12.4 percent to 16.27 percent, p. 5
OASI trust fund ratio, current year projection	Trust fund assets expressed as a function of the number of years' benefits they can finance (100 = one year, 500 = five years, 50 = half a year, etc.)	347, meaning 3.47 years or approximately three years and six months, p. 64	330, meaning 3.3 years or approximately three years and four months, p. 64
OASDI trust fund ratio, current year projection	Theoretical combined trust fund assets expressed as a function of the number of years' benefits they can finance (100 = one year, 500 = five years, 50 = half a year, etc.)	298, meaning 2.98 years or approximately three years, p. 64	288, meaning 2.88 years or approximately two years and 11 months, p. 65
OASDI non-interest income, current year projection	Social Security combined income generated from sources external to the US government, current year projection	$928 billion, p. 222	$918 billion, p. 222
HI non-interest income, current year projection	HI income generated from sources external to the US government, current year projection	$299 billion, p. 222	$303 billion, p. 222
Projected Social Security costs in 2035 as a percent of taxable payroll	Cost growth is steepest through the mid-2030s due to the retirements of the baby boom generation; this expresses projected costs as a percent of taxable worker earnings	16.93 percent for 2035 of taxable payroll (up from 11.32 percent in 2007, before the baby boomers began to claim benefits), p. 54	16.65 percent for 2035 of taxable payroll (up from 11.32 percent in 2007, before the baby boomers began to claim benefits), p. 54
Projected Social Security annual deficit in 2035, as a percent of taxable payroll	Excess of annual obligations over annual income	3.69 percent of taxable payroll, p. 206	3.40 percent of taxable payroll, p. 206
Social Security 75-year unfunded obligation ($PV)	Excess of total Social Security obligations over assets	$12.5 trillion, p. 72	$13.2 trillion, p. 72

Metric	Description	Result from 2017 Report	Result from 2018 Report
Additional Measures Found in the Social Security Trustees' Report (Continued)			
Current end-of-year balance of combined Social Security trust funds	Social Security assets carried over from the past that can be applied to obligations over the next 75 years	\$2.9 trillion, p. 48	\$2.9 trillion, p.48
Medium-earner Social Security benefit, claimed at Normal Retirement Age	Assumes individual is currently 65, and had a full career of earnings at the average national wage (roughly the 56th percentile of all beneficiaries)	\$20,190, p. 150	\$20,662, p. 150
Total Social Security shortfall attributable to the excess of scheduled benefits over contributions for current/past participants, as a percent of future taxable payroll	The Social Security shortfall is attributable to an excess of scheduled benefits over contributions for individuals who have already entered the system	3.8 percent of future taxable payroll, p. 202	3.8 percent of future taxable payroll, p. 202
Portion of Social Security financing that cannot be precisely allocated among cohorts/generations, as a percent of future taxable payroll	Portion of Social Security financing has been provided through transfers of revenues from the general fund, the financing for which cannot be precisely allocated among cohorts/ generations	0.1 percent of future taxable payroll, p. 202	0.1 percent of future taxable payroll, p. 202
Net income loss to generations just now entering the Social Security system under current schedules, as a percent of future taxable payroll	Assuming benefits/contributions for current participants remain unchanged, new entrants to the Social Security system must contribute substantially more in contributions than they will receive in benefits	3.7 percent of future taxable payroll, p. 202	3.8 percent of future taxable payroll, p. 202
Additional Measures Found in the Medicare Trustees' Report			
Medicare HI benefit reduction, effective immediately, required to maintain 75-year solvency	This illustrative benefit reduction would affect all current and future beneficiaries	14 percent, p. 30	17 percent, p. 30
Medicare HI benefit reduction, effective at the point of trust fund depletion, required to maintain 75-year solvency	This illustrative benefit reduction would affect all beneficiaries	17 percent, p.66	19 percent, p.66
Medicare HI payroll tax rate increase, effective immediately, required to maintain 75-year solvency	This illustration provided by the trustees assumes that the increase is applied to the basic rate of 2.9 percent paid by workers at all income levels	Increase of the payroll tax rate from 2.90 percent to 3.54 percent, p. 30	Increase of the payroll tax rate from 2.90 percent to 3.72 percent, p. 29
Medicare HI payroll tax rate increase, effective at the point of trust fund depletion, required to maintain 75-year solvency	This illustration provided by the trustees assumes that the increase is applied to the basic rate of 2.9 percent paid by workers at all income levels	Increase of the payroll tax rate from 2.90 percent to 3.70 percent, p. 66	Increase of the payroll tax rate from 2.90 percent to 3.84 percent, p. 66

Metric	Description	Result from 2017 Report	Result from 2018 Report
Additional Measures Found in the Medicare Trustees' Report (Continued)			
SMI expenditures, current year projection	SMI expenditures, current year projection	$412 billion, p. 32	$434 billion, p. 32
SMI total income, current year projection	SMI total income, current year projection	$402 billion, p. 32	$447 billion, p. 32
Projected Medicare HI (not SMI) costs in 2035 as a percent of taxable payroll	Cost growth is steepest through the mid-2030s due to the retirements of the baby boom generation; this expresses projected HI costs as a percent of taxable worker earnings (SMI costs are not financed by payroll taxes)	4.50 percent of taxable payroll (up from 3.17 percent in 2007, before the baby boomers began to claim benefits), p. 62	4.66 percent of taxable payroll (up from 3.17 percent in 2007, before the baby boomers began to claim benefits), p.62
Projected Medicare HI (not SMI) annual deficit in 2035, as a percent of taxable payroll	Excess of annual obligations over annual income	0.77 percent of taxable payroll, p. 62	0.92 percent of taxable payroll, p. 62
Projected Medicare HI (not SMI) annual deficit at end of the 75-year valuation period as a percent of taxable payroll	Excess of annual obligations over annual income	0.60 percent of taxable payroll (up from 0.02 percent in 2007, before the baby boomers began to claim benefits), p. 29	0.75 percent of taxable payroll (up from 0.02 percent in 2007, before the baby boomers began to claim benefits), p. 28
Net Social Security financing requirements over 75 years from a unified budget perspective	Net pressure placed on unified federal budget if Social Security benefit obligations were met without increasing tax collections	$15.4 trillion, p. 210	$16.1 trillion, p. 207
Medicare HI 75-year unfunded obligation ($PV)	Excess of Medicare HI obligations over assets	$3.3 trillion, p. 68	$4.5 trillion, p. 68
Current year balance of Medicare HI trust fund	Medicare HI assets carried over from the past that can be applied to obligations over the next 75 years	About $0.2 trillion, p. 69	About $0.2 trillion, p. 69
Net Medicare HI financing requirements over 75 years from a unified budget perspective	Net pressure placed on unified federal budget if Medicare HI benefit obligations were met without increasing tax collections	$3.5 trillion, p. 210	$4.7 trillion, p. 207
Medicare SMI 75-year unfunded obligation	Zero by statutory definition because the program is provided revenues as necessary to finance benefits	$0, p. 210	$0, p. 207
Current balance of Medicare SMI trust fund	Medicare SMI assets carried over from the past that can be applied to obligations over the next 75 years	$0.1 trillion, p. 210	$0.1 trillion, p. 207
Net Medicare SMI financing requirements over 75 years from a unified budget perspective	Net pressure placed on unified federal budget if Medicare SMI benefit obligations were met without increasing revenue collections	$30.0 trillion, p. 210	$33 trillion, p. 207

Endnotes

i Social Security and Medicare Boards of Trustees, *Status of the Social Security and Medicare Programs. A Summary of the 2018 Annual Reports*. June 2018. Available at: https://www.ssa.gov/OACT/TRSUM/tr18summary.pdf.

Social Security and Medicare Boards of Trustees, *The 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. June 2018. Available at: https://www.ssa.gov/OACT/TR/2018/tr2018.pdf.

Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *The 2018 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplemental Medical Insurance Trust Funds*. June 2018. Available at: https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2018.pdf.

ii Congressional Budget Office, *The Long-Term Budget Outlook Under Alternative Scenarios for Fiscal Policy*. August 2018. Available at: https://www.cbo.gov/publication/54325.

iii Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *The 2018 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplemental Medical Insurance Trust Funds*. June 2018. Available at: https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2018.pdf.

iv Social Security and Medicare Boards of Trustees, *The 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. June 2018. Available at: https://www.ssa.gov/OACT/TR/2018/tr2018.pdf.

v Ibid.

vi Social Security and Medicare Boards of Trustees, *Status of the Social Security and Medicare Programs. A Summary of the 2018 Annual Reports.* June 2018. Available at: https://www.ssa.gov/OACT/TRSUM/tr18summary.pdf.

vii Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028*. April 2018. Available at: https://www.cbo.gov/publication/53651.

viii Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *The 2018 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplemental Medical Insurance Trust Funds*. June 2018. Available at: https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2018.pdf.

ix Social Security and Medicare Boards of Trustees, *Status of the Social Security and Medicare Programs. A Summary of the 2018 Annual Reports*. June 2018. Available at: https://www.ssa.gov/OACT/TRSUM/tr18summary.pdf.

x Congressional Budget Office, *The Long-Term Budget Outlook Under Alternative Scenarios for Fiscal Policy*. August 2018. Available at: https://www.cbo.gov/publication/54325.

xi Bipartisan Policy Center, *A Guide to the 2017 Social Security and Medicare Trustees' Reports*, October 2017. Available at: https://bipartisanpolicy.org/wp-content/uploads/2017/10/BPC-Economy-A-Guide-to-the-2017-Social-Security-and-Medicare-Trustees-Reports.pdf.

Notes

Notes

Notes

BIPARTISAN POLICY CENTER

The Bipartisan Policy Center is a non-profit organization that combines the best ideas from both parties to promote health, security, and opportunity for all Americans. BPC drives principled and politically viable policy solutions through the power of rigorous analysis, painstaking negotiation, and aggressive advocacy.

bipartisanpolicy.org | 202-204-2400
1225 Eye Street NW, Suite 1000 | Washington, D.C. 20005

@BPC_Bipartisan
facebook.com/BipartisanPolicyCenter
instagram.com/BPC_Bipartisan

BPC Policy Areas

- Economy
- Education
- Energy
- Evidence
- Finance
- Governance
- Health
- Housing
- Immigration
- Infrastructure
- National Security

BIPARTISAN POLICY CENTER

1225 Eye Street NW, Suite 1000 | Washington, D.C. 20005
202-204-2400 | bipartisanpolicy.org