A Letter to the Public from the Former Public Trustees of Social Security and Medicare

Due to another year of legislative inaction, financial pressures on Social Security and Medicare have become increasingly acute and urgent for lawmakers to address. That is the takeaway finding of estimates contained in the 2019 trustees' reports showing that serious financial challenges continue to mount for Social Security and Medicare – a finding that has remained largely unchanged over the past few years.

The consistency in these successive assessments has resulted primarily from two factors. First, despite the trustees' repeated and increasingly urgent calls for action, Congress has not enacted legislation to make significant financial corrections in either Social Security or Medicare for several years. Specifically, Social Security law has not been amended in a major way since 1983, and the last amendments significantly affecting Medicare's finances were enacted nearly a decade ago, as part of the Affordable Care Act (ACA) of 2010. The second factor contributing to this stasis is that Social Security's and Medicare's financial outlooks, at least through the first four decades of the 21st century, have long been more predictable than might otherwise be assumed, given the usual uncertainties of economic forecasting. This is because the programs' finances are currently being driven more by demographics than unpredictable variations in economic conditions, and many of the relevant demographic changes have long been known.

The rapid growth in in the number of baby boomers eligible for these programs has been evident for decades. Due to this increasing number of baby boomer beneficiaries, Social Security and Medicare costs are projected to surge well into the 2030s. These boomer retirees will also be collecting higher benefits for more years of life than previous generations did. And while Medicare's finances are also affected by the difficult-to-project factor of health care cost growth, its Hospital Insurance (HI) trust fund is projected to become insolvent by 2026, long before the uncertainty surrounding long-term health cost estimates becomes a large factor in Medicare financial projections. Put all of these factors together, and no one should be surprised that the financial outlooks for these two programs have remained largely stable but stubbornly dire in the absence of corrective legislation.

A consistent financial outlook might otherwise seem to program participants to be a good thing because it means that benefit payments have been reliably maintained, without sudden alterations or interruptions. Unfortunately, this recent absence of change masks a large and increasingly worsening problem. While the Social Security and Medicare financing challenges remain basically what they have long been projected to be, the stability of their recent legislative history ironically portends ever larger instability to come. This is because every passing year reduces lawmakers' latitude to phase in the necessary corrections gradually and spread their effects among more participants, thereby limiting the adverse effects inflicted on any one group.

Under their historical structures, Social Security and Medicare finances can only be corrected by some combination of workers paying increased taxes and slowing the growth of benefit payments relative to current schedules. The programs' shortfalls conceal a substantial and unavoidable future hit to participants' personal finances—an impact not yet widely appreciated—which continues to grow more severe for each affected participant, the longer a solution is postponed.

Key facts and figures from the Social Security and Medicare reports illustrate how program participants are harmed by the continued delay in addressing the programs' financial challenges. Social Security's long-term actuarial deficit is currently estimated at 2.78 percent of participating workers' taxable wages, which means that closing the shortfall would require either reducing the benefits of all current and future beneficiaries by 17 percent, reducing benefits for all future claimants by 20 percent while leaving current recipients unaffected, immediately increasing the Social Security payroll tax rate by 22 percent (from 12.4 percent to 15.1 percent), or some combination of measures producing total savings equal to these one-sided alternatives.

These changes are much more severe than those enacted in the crisis environment of 1983, when Social Security's Old-Age and Survivors Insurance trust fund was on the verge of insolvency. The 1983 amendments delayed cost-of-living adjustments by six months, subjected benefits to income taxation for the first time, brought newly hired federal employees (and their payroll taxes) into the program, gradually raised the full retirement age, and accelerated a previously-enacted payroll tax increase. But while action today would require more drastic changes than those, further delays will make the problem even more intractable. By 2035, even denying benefits to all newly entitled claimants would be insufficient to spare Social Security's combined trust funds from depletion.

Medicare's finances are more complex because its components are funded in different ways. While Medicare's HI trust fund operates similarly to Social Security's trust funds (it is financed by a payroll tax and also faces the risk of insolvency if benefit obligations exceed tax revenue and trust fund reserves), HI constitutes less than half of total Medicare spending. The parts of Medicare that are funded from its Supplementary Medical Insurance (SMI) trust fund – such as physician services, outpatient procedures and prescription drug benefits – are automatically provided for each year with a combination of general government revenue funding and income from premium assessments in amounts sufficient to cover expenditures, which typically grow faster than national economic growth. This means that as SMI costs grow rapidly, as they have throughout Medicare's history and are projected to do in the future, the resulting financial strains are reflected not in trust fund insolvency but in rising financial pressure on the federal budget and on premium-paying participants. While the ACA improved Medicare HI's financial outlook in a way no legislation has done for Social Security for decades, enough time has passed since enactment of the ACA that Medicare HI's financial situation is again troubled and urgent. Medicare HI now faces the most immediate projected insolvency (2026) of any trust fund monitored by the trustees. This depletion date is but seven short years away – a shorter period of time until insolvency even than when the ACA was enacted. In other words, the recent years of procrastination in enacting further Medicare financing corrections have already dissipated all the breathing space bought by the ACA.

This continuing failure to address the finances of Social Security and Medicare is not a mere matter of abstract government accounting; it will directly reduce the incomes of future program participants. According to analyses contained in the trustees' reports, most of Social Security's financing shortfall is attributable to an excess of promised benefits over tax contributions (and interest earnings on those contributions) for current and past participants. This means that if current participants fail to contribute to the solution, young workers just entering the Social Security system will experience a net income loss through the program of more than 3 percent of their lifetime earnings, even after accounting for all benefits they have been promised. In other words, unless benefit growth is moderated or tax contributions increased for current participants, Social Security will have to take a bigger bite out of the net incomes of younger generations. The same is true of Medicare, under which scheduled benefits for current participants well exceed the tax contributions they will have made. While these programs by their natures are appropriately designed to transfer some income from later-born generations to earlier ones, they will only be able to reasonably serve future generations if current participants contribute to placing these programs on a sounder financial footing.

Social Security and Medicare owe much of their policy efficacy and political strength to their historic structures as contributory social insurance programs financed through separate trust funds. This financing design has shielded both programs from being thought of as "welfare" and from frequent and unpredictable changes in their benefit structures and eligibility rules that would come from having to compete for funding within the general federal budget. But the survival of this design, and of the historical policy and political successes of Social Security and Medicare, depend on lawmakers' willingness to make the changes necessary to balance their benefit obligations and dedicated income streams. With further procrastination, such financing corrections will become prohibitively difficult, rendering the programs' historic financing structures untenable, despite the American public's overwhelming preference to retain them. This is among the many reasons why lawmakers should act now to strengthen Social Security's and Medicare's financial outlooks.

As the two individuals who last served as public trustees (2010 -2015), we are deeply concerned by the bipartisan complicity in the weakening financial conditions of Social Security and Medicare. It is difficult to say whether corrective legislation would have been more likely had the public trustees' roles been filled during the past four years. Nevertheless, it is clearly unhelpful for the public trustee positions to remain vacant when Social Security and Medicare face worsening financial challenges that warrant urgent attention and prompt correction by federal lawmakers. We urge that new public trustees be confirmed at the earliest possible time, to help inform much-needed deliberations about how to best preserve Social Security and Medicare for future generations.

Sincerely,

/s/	/s/
Charles P. Blahous III,	Robert D. Reischauer,
Former Public Trustee	*Former Public Trustee*