



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

### Summary

*Today, the ex officio trustees of the Social Security and Medicare trust funds released the 2017 annual reports on the financial conditions of the two programs. In the continued absence of public trustees, this letter provides the kinds of information and assurances that the public trustee message, which traditionally accompanies the reports, might otherwise have included.*

*The trustees' projections remain ominous for the financial future of the programs, with serious implications for millions of current and future program beneficiaries as well as taxpaying workers. This is particularly concerning as long as there are continued delays in legislative action to shore up the programs' financial outlooks. The reports show large projected funding shortfalls for both the Social Security and Medicare trust funds, which would require significant changes to close, even if addressed today. For Social Security alone, an immediate increase in payroll taxes from 12.40 percent to 15.16 percent, or a cut in benefits for all future beneficiaries of 20 percent would be required, for example. The corresponding payroll tax increase required for Medicare Hospital Insurance (HI) would be from 2.90 percent to 3.54 percent, or future insurance payments would need to be cut by 14 percent. Because of its unique financing structure, growing costs of the Medicare Supplementary Medical Insurance program also put pressure on the federal budget and premium paying beneficiaries. The longer legislative action to address these financing challenges is delayed, the harsher policy changes will need to be.*

### Background and Detail

A primary responsibility of the public trustees is to review and help develop the assumptions and methods by which the trustees' financial projections are made. This is intended to engender public confidence in the reports' objectivity and soundness. Throughout our tenures as public trustees (2010-2015), we consistently found that the reports' underlying assumptions and methods, developed with expert input from the independent offices of the Social Security and Medicare chief actuaries, amply warranted such public confidence. Though we cannot speak to the specific rationales employed in developing this year's assumptions and methods, we find in our initial review nothing in them that would make us hesitant to endorse the current projections.

For several years, the annual reports have contained a familiar warning from the trustees – that both Social Security and Medicare face substantial financing challenges, and that program participants are at an increasing risk of significant adverse effects the longer legislative corrections are postponed. The information in this year's report reinforces that sobering message, albeit with a further increase in the severity of the corrective options required, a consequence of another year of legislative delay.

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While both Social Security and Medicare face daunting financial outlooks, direct comparisons between them are difficult because of differences in the programs' financing methods. Social Security faces the larger actuarial imbalance of the two programs. The long-range imbalance in Social Security's combined Old-Age and Survivors (OASI) and Disability Insurance (DI) trust funds is 2.83 percent of the program's tax base in worker wages, a shortfall already substantially greater than the one closed in the landmark 1983 program reforms. To close the trustees' long-range shortfall today by raising Social Security's payroll tax rate would require that it immediately be increased from 12.40 percent to 15.16 percent. Alternatively, closing the shortfall by prospectively reducing scheduled benefits would require reductions of 20 percent for those becoming eligible starting next year. The size of these required adjustments will continue to grow in future years until, well before the point of trust fund depletion, corrective measures become prohibitively difficult to enact without fundamental changes to Social Security's longstanding financing structure.

The figures in the preceding paragraph refer to Social Security's *combined* trust funds. The first shortfall is arising in Social Security's DI trust fund, currently projected to be depleted in 2028. The balance in the DI trust fund is already dangerously low, with reserves at the start of this year only equaling 31 percent of one year's benefit payments, or less than four months' worth. Although projected depletion is soonest in the DI fund, most of Social Security's combined shortfall comes from the program's OASI trust fund – what most Americans think of as Social Security. That fund faces a substantially larger shortfall, albeit a later (2035) depletion date, because the baby boomers are passing through their peak disability years before hitting retirement age. Nonetheless, its long-range financing gap (2.59 percent of taxable payroll) is the most severe among any of the trust funds that the trustees monitor. Because of this, lawmakers would be well advised to approach Social Security's financing shortfalls not with an eye toward merely postponing the earliest date at which a single trust fund will face depletion, but rather with an eye towards resolving the shortfalls facing both components of Social Security.

Medicare's financing challenges are different but no less deserving of attention. Cost growth in Medicare is projected to exceed that in Social Security, as the effects of population aging (which affects both programs) are combined with the effects of rising health care costs (which tend to exceed general consumer price inflation and economic growth). In addition, Medicare places greater pressure on the general federal budget, primarily because roughly three-quarters of the costs of Medicare's Supplementary Medical Insurance (SMI) trust fund – which includes medical and prescription drug insurance – are met from general federal government revenues. The financing imbalance in Medicare's Hospital Insurance (HI) trust fund (0.64 percent of taxable worker wages) is not as large as Social Security's combined imbalance. This is not because Medicare as a whole faces lesser financing challenges, but rather because the rising cost of Medicare's SMI component is being paid for by rising commitments of general government revenues and rising beneficiary premiums.

Like Social Security's DI trust fund, Medicare's HI trust fund fails the trustees' short-term test of financial balance. The HI trust fund ratio was merely 67 at the start of this year, which means only enough reserves to meet 67 percent of one year's benefit payments – or roughly eight months. Even minor adverse changes to Medicare's HI financing could make the depletion of its trust fund, now projected for 2029, a more immediate crisis.

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Both the Social Security and Medicare financial projections are qualitatively similar to those in last year's reports. The primary reasons for the modest changes in the projections pertain to updated demographic and economic data, along with the loss of another year to legislative inaction.

The trustees' presentation this year is also quite similar to that in previous reports. Thus far, the current ex officio trustees, like the Obama administration ex officio trustees, have declined to make major modifications to the report in the absence of public trustee oversight, a posture that we commend. The overview of the Social Security report, revised in recent years to emphasize the imminent projected depletion of the DI trust fund, has been restored this year to its longstanding emphasis on the theoretical combined Social Security trust funds. We believe this is a reasonable modification given the recent postponement of the projected DI trust fund depletion date.

From our initial review and assessment, we believe that these reports, in the tradition of previous reports, are high quality, reasonable, and objective. Nevertheless, we also strongly believe that the continued absence of public trustees counters lawmakers' intent under the Social Security Act, and could be harmful to the long-term credibility of the trustees' reports. We therefore urge the president to nominate and the Senate to confirm individuals to serve in these important capacities.

As we routinely did while serving as public trustees, we also urge lawmakers to enact legislation to bring Social Security and Medicare into long-range financial balance, so that program participants and taxpayers alike are protected from the worsening threat of sudden and unpredictable changes to their incomes. By so doing, the income insecurity now arising from projected financing shortfalls would be replaced by the reassurance that Americans will continue to receive the reliable support from these programs for which they have long been known.

Sincerely,

/s/

Charles P. Blahous III,  
*Former Public Trustee*

/s/

Robert D. Reischauer,  
*Former Public Trustee*