



The Upcoming Social Security and Medicare Trustees' Reports: A Preview

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BIPARTISAN POLICY CENTER

Prologue

Within the next several weeks, the trustees of the Social Security and Medicare trust funds are expected to release the 2017 Social Security and Medicare trustees' reports. This report is intended to serve as a primer on the contents of those reports, and to preview certain aspects that may be worthy of attention by lawmakers, media and the public.

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Introduction: The Trustees' Public Information Function

The Social Security Act requires that the boards of trustees of the several Social Security and Medicare trust funds^a report annually to the Congress on the recent and future operations of the trust funds. More specifically, the act requires that the trustees report on the “operation and status” of the trust funds during the preceding fiscal year as well as the next few years. The act also requires that the reports contain statements of the actuarial status of the trust funds, which the trustees have traditionally measured over a seventy-five year projection period. With respect to Social Security, the trustees are also required to issue a finding as to whether its trust funds are in “close actuarial balance.” The 2016 reports found that both the Social Security Federal Disability Insurance (DI) trust fund and the Medicare Federal Hospital Insurance (HI) trust fund failed the trustees’ test of short-range financial adequacy while Social Security’s Federal Old-Age and Survivors Insurance (OASI) trust fund failed their test of long-term adequacy. In short, the trust funds will eventually be depleted if lawmakers do not take corrective action.

The trustees’ reports, which have served as the primary public assessments of these programs’ financial conditions, also typically contain information of interest to policymakers that extends well beyond the specific evaluations required by law. This includes illustrative estimates of scheduled Social Security benefits, Medicare premiums, deductibles and provider payment updates, Social Security cost of living adjustments, and interactions between the trust funds and the federal government’s general fund.

By law the trust funds have six trustees: the Secretary of the Treasury, who serves as managing trustee; the Secretary of Health and Human Services; the Secretary of Labor; the Commissioner of Social Security, and “two members of the public (both of whom may not be from the same political party).” The public trustee positions were added by Congress in 1983 pursuant to recommendations of the National Commission on Social Security Reform, informally known as the “Greenspan Commission,” which was appointed by Congress and President Reagan in 1981 to study and make recommendations regarding the financing crisis that Social Security faced at that time.

The commission opined that the addition of public trustees would “inspire more confidence” in the trust funds’ “investment procedure.” The subtext of this opinion was that interactions between the trust funds and the government’s general fund should not be managed to advantage one at the expense of the other. The commission further suggested that public trustees would help ensure that “the cost estimates for the future operations of the program would continue to be developed in an objective manner.”

The 2017 Social Security and Medicare trustees’ reports will be unique in that both the public trustee positions are vacant and

^a These are the Federal Old-Age and Survivors Trust Fund (OASI), the Federal Disability Insurance Trust Fund (DI), the Federal Hospital Insurance Trust Fund (HI) and the Federal Supplementary Medical Insurance Trust Fund (SMI).

the reports will be signed only by *ex officio* trustees, all of whom will be participating in the report process for the first time.^b Of the 32 pairs of trustees' reports developed since public trustees first participated in crafting the reports in 1985, 27 featured the participation and signatures of public trustees. In four of the other five instances, at least three of the four participating *ex officio* trustees had co-authored the previous year's report. In the only instance of an incoming administration's developing the reports without public trustees, in 2009, one of the participating *ex officio* trustees was nevertheless completing a term of service begun during the prior administration. In the past, lawmakers have been so committed to maintaining public trustee input into the trustees' reports that in the only instance of the public trustee positions becoming vacant during a presidential election year, in the spring of 2000, the U.S. Senate confirmed new public trustees on a Saturday just over a week before that year's presidential election.

The commitment to an independent, bipartisan source of program financing information has facilitated a public education role for the public trustees that is unique and distinct from that of the *ex officio* trustees. Lawmakers have frequently called upon the public trustees to testify about program finances, separately from the cabinet officials who must simultaneously serve as spokespersons for administration policies. Historically the public trustees have exercised their discretion to speak and write in other forums as well, educating the public and press about program finances without coordinating these messages with the *ex officio* trustees.

In addition, when an administration has developed a policy to respond to a projection of near-term trust fund depletion or developed another reform proposal for one of these programs, the public trustees have not participated in its development. These traditions have helped preserve the function of the public trustees as independent expert sources of program financial information. Towards this end, it has helped immeasurably that the two public trustees have generally striven to operate as a bipartisan team, rather than dividing to offer competing partisan perspectives.

Even without public trustees, the trustees' reports benefit from the independent, non-partisan work of the Chief Actuary of the Social Security Administration and the Chief Actuary of the Centers for Medicare and Medicaid Services whose skilled career staffs, along with those of the other executive branch departments, have both the experience and non-partisan temperament required to ensure that the reports continue to be developed in an objective manner. It has also been our experience that administration political appointees typically join in the development of these reports with the same aim of performing objective analysis unaffected by administration policy goals.

Notwithstanding these reasons for public confidence, we are hopeful that the current administration will soon nominate, and the Senate will soon confirm, individuals to fulfill the vital functions of the public trustees. In recognition of the current absence of public trustees, however, the following information is offered to further public understanding of these critical reports.

^b *Ex officio* trustees are trustees by virtue of their government positions. For example, the Secretary of the Treasury is automatically a member of the Social Security and Medicare boards of trustees. The public trustees, in contrast, are appointed specifically as Social Security and Medicare trustees.

Trust Funds and the Financing of Social Security and Medicare

The trustees monitor the financial conditions of the two Social Security trust funds (the OASI trust fund and the DI trust fund) and the two Medicare trust funds (the HI trust fund, and the Federal Supplementary Medical Insurance (SMI) trust fund). Each of these is maintained as a separate legal entity.

Trust Fund	Benefits Financed	Primary Financing Mechanism
OASI (Social Security)	Retired workers, their families, survivors	Payroll tax
DI (Social Security)	Disabled workers, their families	Payroll tax
HI (Medicare, Part A)	Hospital, home health following hospital, skilled nursing facilities, hospice	Payroll tax
SMI (Medicare, Parts B and D)	Physician, outpatient hospital, home health, drug coverage	General government revenue and premiums paid by and on behalf of participants

All Social Security benefits, Medicare insurance payments, and administrative expenses must be paid from the income flowing into the appropriate trust fund and from any accumulated balances. The trust funds have no authority to borrow. If a trust fund's assets were to be depleted and the income flowing into the fund were insufficient to pay full benefits, benefit and insurance payments would be delayed until sufficient additional income was accumulated, effectively reducing benefits relative to current schedules. Accordingly, as long as financing shortfalls are projected, beneficiaries and health care providers are at risk of sudden reductions or interruptions in payments when the trust funds are depleted, while taxpayers remain at risk of tax increases enacted to cover any shortfall. Under current financing arrangements, one or the other must occur, although disruptions can be minimized if corrective measures are enacted well before fund depletion, and their effects are spread among a larger number of beneficiaries and taxpayers.

Benefits paid from the various trust funds are financed in differing ways, with these differences in turn affecting the utility and relevance of the various financial information the trustees monitor. OASI, DI and HI are each financed primarily by payroll taxes levied on workers and their employers. The 2017 payroll tax rates for each of these three trust funds are shown in box 1. These tax rates are assessed on each worker's wages and paid half by the employer and half by the employee (the self-employed pay both the employee and employer share). OASI and DI taxes are assessed on the first \$127,200 of annual wages (this cap is indexed to grow each year along with growth in average wages), and benefits are calculated based on a worker's total wages subject to the tax. Once a worker's annual earnings reach the capped amount, the worker neither pays additional OASI/DI taxes nor accrues additional OASI/DI benefits during that year. Medicare HI insurance benefits, by contrast, do not vary with an individual's wages, and there is no limit to the wages subject to the Medicare HI tax.

Box 1: 2017 Payroll Tax Rates

OASI: 10.03 percent

DI: 2.37 percent

HI: 2.90 percent

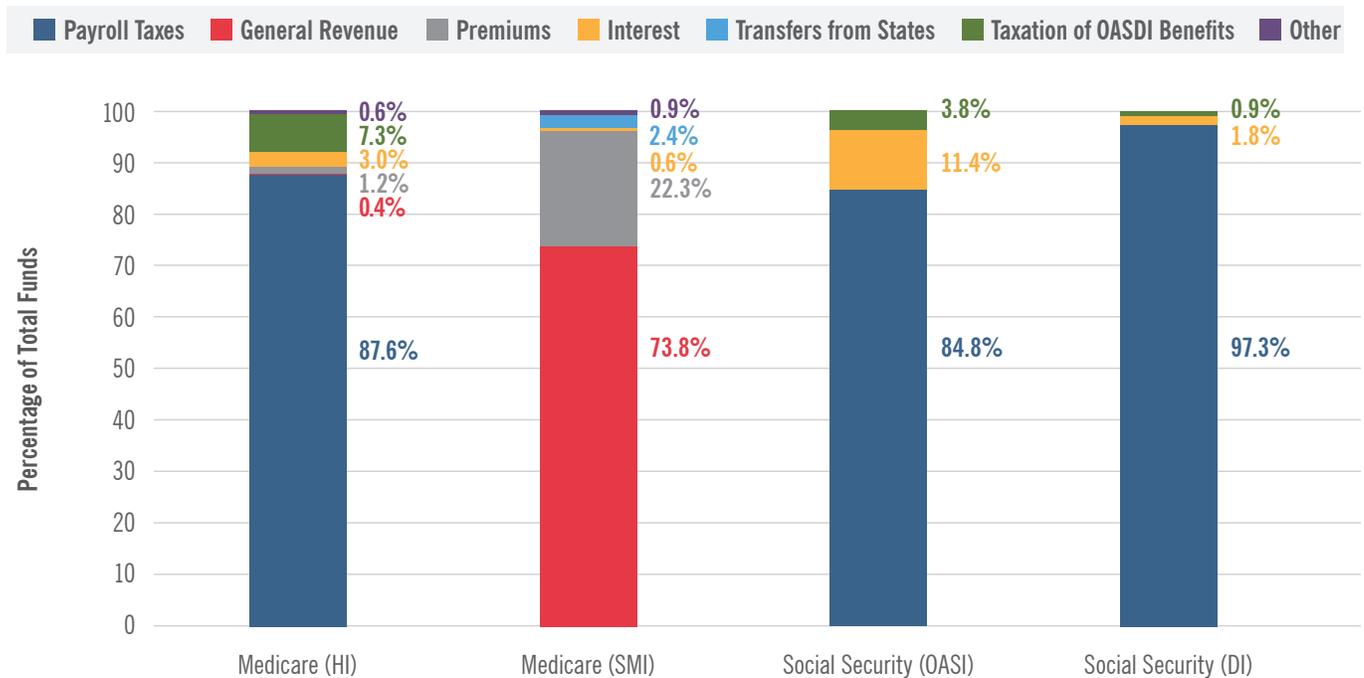
Total: 15.3 percent

The OASI and DI tax rates were temporarily rebalanced in 2015 under legislation that prevented near-term depletion of the DI trust fund. Under current law the OASI/DI rates will revert to 10.6 percent and 1.8 percent respectively starting in 2019, maintaining the same combined rate of 12.4 percent. Higher-income taxpayers (individuals and couples with earnings above \$200,000 and \$250,00 respectively) pay an additional 0.9 percent Medicare HI tax on earnings above those levels, raising their total Medicare tax rate on such income from 2.9 percent to 3.8 percent. These thresholds are not indexed, so the number of taxpayers subject to the higher Medicare tax rate will gradually increase as incomes rise over time.

The Social Security and Medicare trust funds receive revenue from other sources as well. Each of these trust funds receives revenue from the income taxation of Social Security benefits, though this represents a small percentage of the total, as shown in figure 1 below. The trust funds' assets, being invested in U.S. Treasury Securities, earn interest income paid from the U.S. government's general fund. Because these other sources of income account for less than one-sixth of the total income of each of the OASI, DI and HI trust funds, payroll tax contributions constitute the primary basis for their financing.

The Medicare SMI trust fund is financed differently from the others. It contains separate accounts for Medicare Part B (physician services) and Part D (drug benefits). Unlike OASI, DI and HI, income for SMI is administratively reset each year to ensure that its trust fund is never depleted. As shown in figure 1, roughly three-quarters of SMI income is provided from the government's general fund, with most of the remainder coming from annually reset premium payments by (or on behalf of) those who voluntarily choose to participate in the Part B and Part D programs.

Figure 1: Medicare and Social Security Funding Sources, 2015



Source: 2016 Social Security and Medicare Trustees Reports

Note: Numbers may not add to 100 due to rounding.

Note: General revenue funding for OASI and DI accounts for less than 0.1 percent of each program's total revenue.

Because SMI is financed differently from the other trust funds, its financial condition is reflected in different information. For each of OASI, DI and HI, the trustees are charged with comparing projected income and obligations, and informing lawmakers if – as has been the case for the last several reports – a financing shortfall is projected, threatening disruptions in scheduled benefit or provider payments. Financing challenges in SMI are manifested not in the threat of insolvency but rather in increasing revenue demands on premium-paying participants and the government’s general fund.

Because of these various financial considerations, the actuarial status of the trust funds, which bears limited meaning with respect to Medicare SMI, is but one theme of the annual trustees’ reports. The other three trust funds (OASI, DI and HI) are designed to be self-financing to a more substantial degree than Medicare SMI and their actuarial status is therefore more significant, but each of those trust funds nevertheless also affects the government’s general fund in ways that a narrow tabulation of actuarial status does not fully capture. In years in which tax collections by these programs exceed benefit and other program disbursements, the trust funds provide net financing to the general fund. In years in which program tax collections fall short of benefit and other program disbursements, the trust funds impose fiscal pressure on the general fund.

There have also been times when lawmakers have enacted legislation to provide income to a trust fund from the general fund as was done to offset the loss of Social Security tax revenue resulting from the 2011-12 payroll tax cut, or by crediting interest to a trust fund at above-market rates, as was done in the early 1980s. For these and other reasons, the trustees have generally supplemented their analyses of the trust funds’ actuarial status with explanations of the programs’ impact on the broader federal budget.

Critical Recurring Information in the Trustees' Reports

For the past several years, the trustees' reports have communicated a recurring theme to lawmakers: that both Social Security and Medicare face substantial financing shortfalls, and that "earlier action" to address them will help to minimize "adverse impacts on vulnerable populations, including lower-income workers and people already dependent on program benefits." The need is presently most urgent with respect to Social Security's DI trust fund, which fails the trustees' test of short-term financial adequacy and which currently possesses reserves equal to only a few months' worth of benefit payments. Medicare's HI trust fund also fails the trustees' short-term financial adequacy test, with reserves declining and currently amounting to less than one year's worth of expenditures. While the financing shortfall is less immediate in Social Security's OASI trust fund, it faces the largest long-term shortfall of the respective trust funds, and is thus the one trust fund requiring the largest adjustments which should be made further in advance of projected reserve depletion. Beyond this consistent and increasingly urgent message of mounting financial shortfalls, the annual reports also contain more specific data of interest to lawmakers and the public. A list of key information contained in the annual reports is included in Appendix A.

Much of the information described in Appendix A sheds light on the questions of whether Social Security and/or Medicare face financing shortfalls and if so, how large, certain, and immediate they may be. A recurring challenge facing the trustees is to explain why the media should focus their attention on more than the projected depletion dates of the respective trust funds. These dates do little to inform lawmakers and the public of when legislative action must be taken to ensure a reasonable chance that the financing shortfalls can be resolved within the programs' historical financing structures without precipitous and wrenching disruptions in benefits or taxes. Undue focus on trust fund depletion dates conveys the misimpression that action can be put off until depletion is imminent, when in reality policy options at that point will be severely constrained.

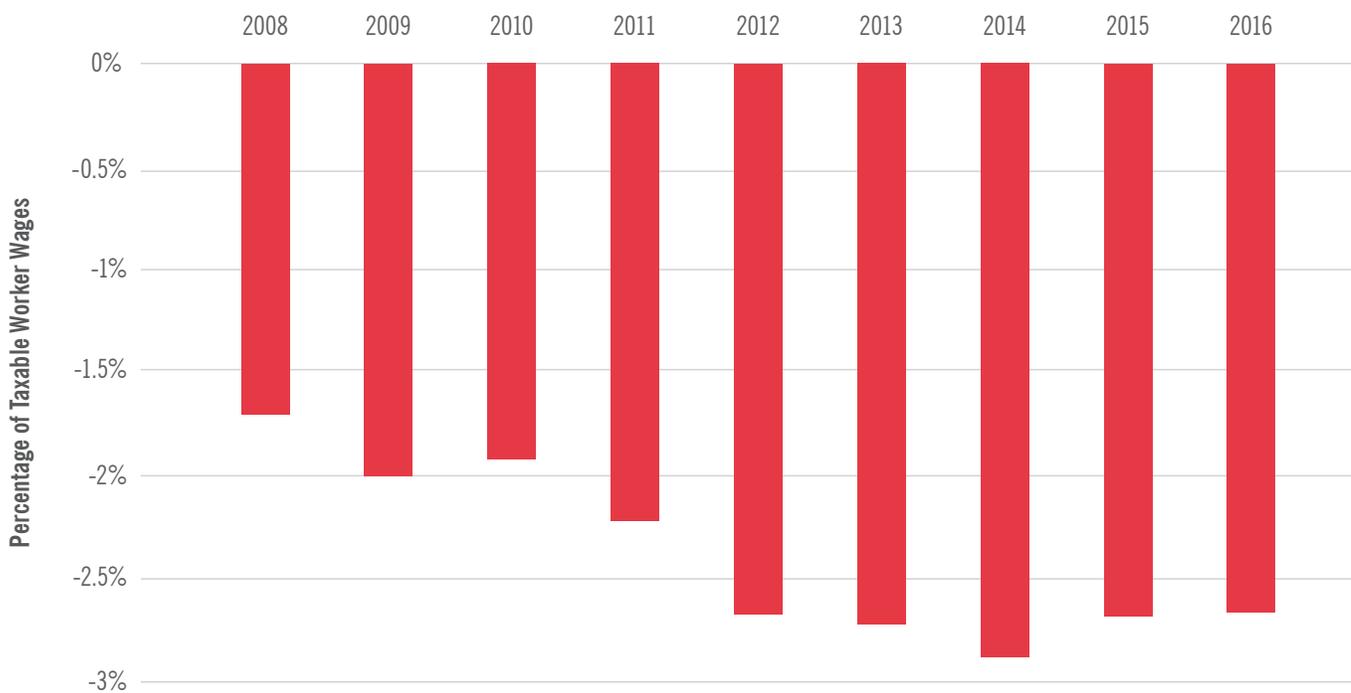
For example, 2034 is the currently projected date of depletion of the combined Social Security trust funds. However, by 2034 annual near-term financing shortfalls are projected to reach 3.25 percent of taxable payroll—over three times larger, in relative terms, than the near-term shortfalls corrected through the landmark 1983 program amendments. With incoming revenues now projected to equal just 79 percent of scheduled benefits in 2034, it would be highly undesirable and disruptive for lawmakers to delay action until that late in the game, rendering it prohibitively difficult to either reduce benefits and/or raise taxes sufficiently to preserve Social Security's current financing structure.

Items to Watch for in the 2017 Reports

Certain key information in the annual Social Security and Medicare trustees' reports is especially useful in assessing the status of the programs. The following considerations about how the reports have changed this year may help to illuminate the size and scope of the challenges the programs face moving forward.

OASI, DI, and HI financing shortfalls. Core information in the annual reports pertains to the sizes of the projected shortfalls in the OASI, DI and HI trust funds, and of the measures required to correct them. Have the projected shortfalls increased or decreased over the last few trustees' reports? Figure 2 shows the trend for the combined OASDI trust funds since the 2008 report, over which time the financing shortfall has grown significantly.

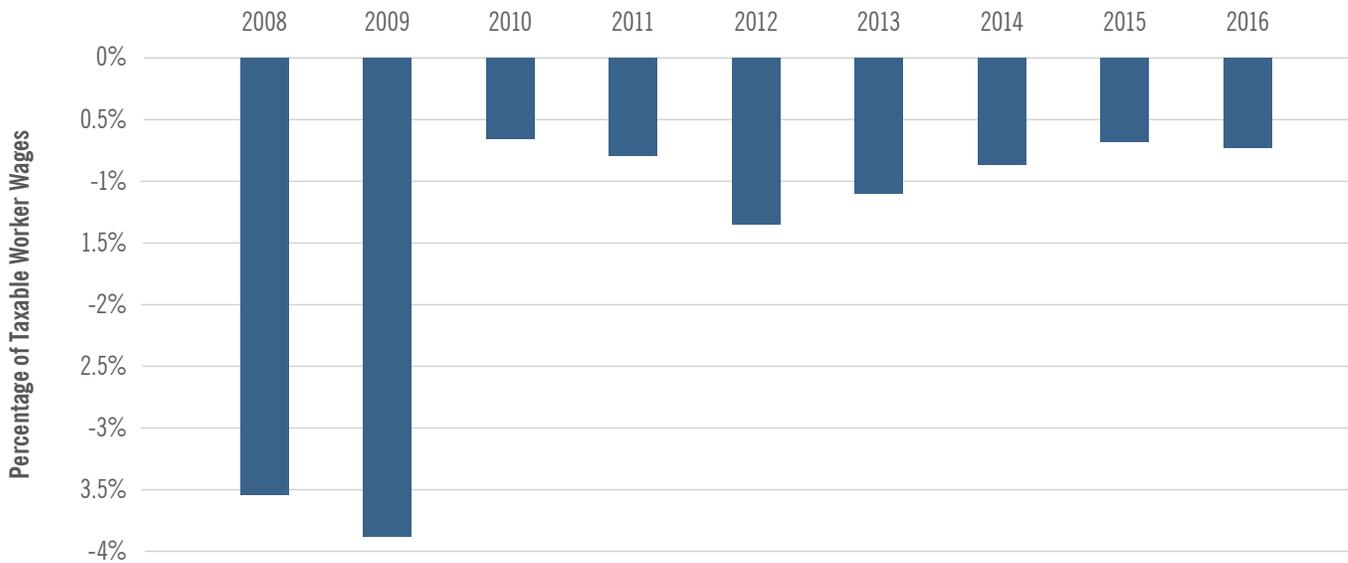
Figure 2: Combined Social Security (OASDI) Trust Funds Long-Range Financing Shortfall



Source: 2016 Social Security Trustees Report

Are there caveats to the Medicare projections? As figure 3 shows, enactment of major legislation, such as the Affordable Care Act (ACA) in 2010, can markedly change the actuarial balance of these programs. However, in recent years the trustees have expressed caveats to the current-law Medicare projections, reflecting uncertainty as to whether certain features of current law can be sustained over the long term. For example, the 2016 Medicare report references an illustrative alternative fiscal scenario in which certain Medicare cost-containment provisions of the 2010 ACA, as well as a physician payment schedule enacted with the Medicare and Children's Health Insurance Program Reauthorization Act of 2015, prove unsustainable over the long term, resulting in higher Medicare costs.

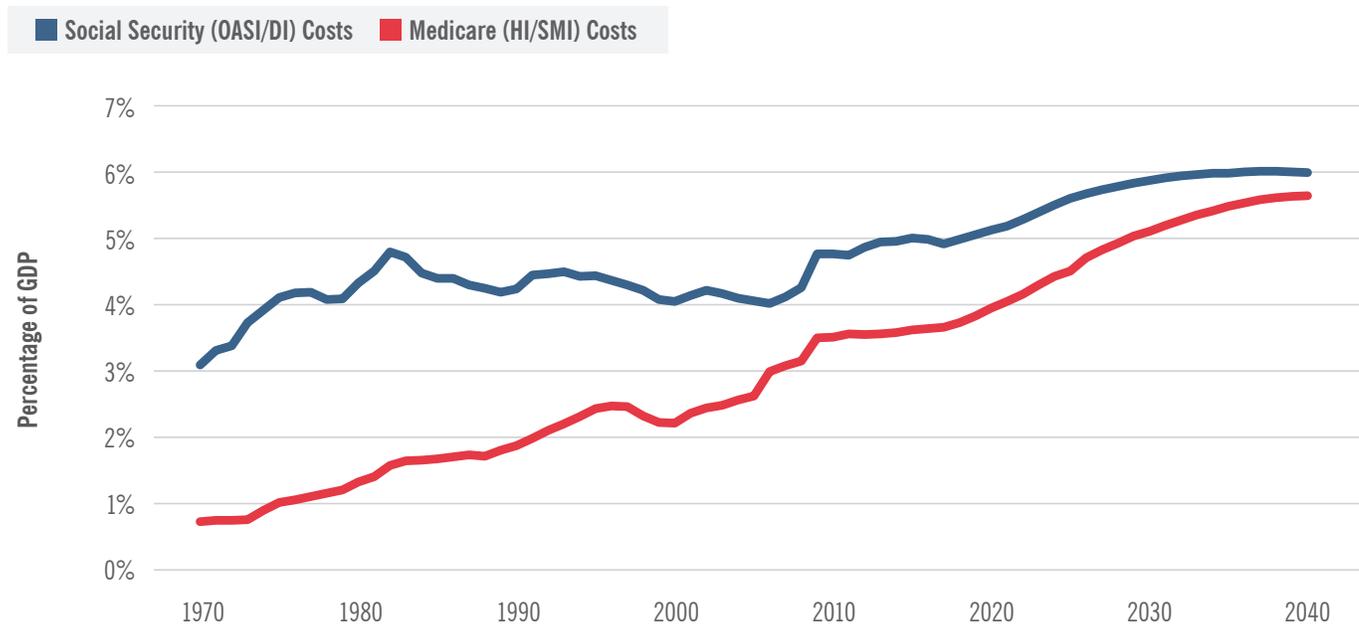
Figure 3: HI Trust Fund Long-Range Financing Shortfall



Source: 2008-2016 Medicare Trustees Reports

Total Medicare and Social Security cost growth. Important though the OASI, DI, and HI actuarial balance estimates are, they do not capture financing challenges arising from Medicare SMI, which maintains solvency through statutory annual adjustments. Financing challenges in SMI instead manifest themselves as increasing burdens on premium-paying participants and the general federal budget. Therefore, another critical piece of information is the projected growth of total program costs (especially for Medicare), often expressed in relation to Gross Domestic Product (GDP). As shown in the following figure, the 2016 report projected Social Security costs to grow from 4.98 percent of GDP in 2016 to 5.98 percent in 2035 and Medicare spending to increase from 3.63 percent of GDP in 2016 to 5.48 percent in 2035.

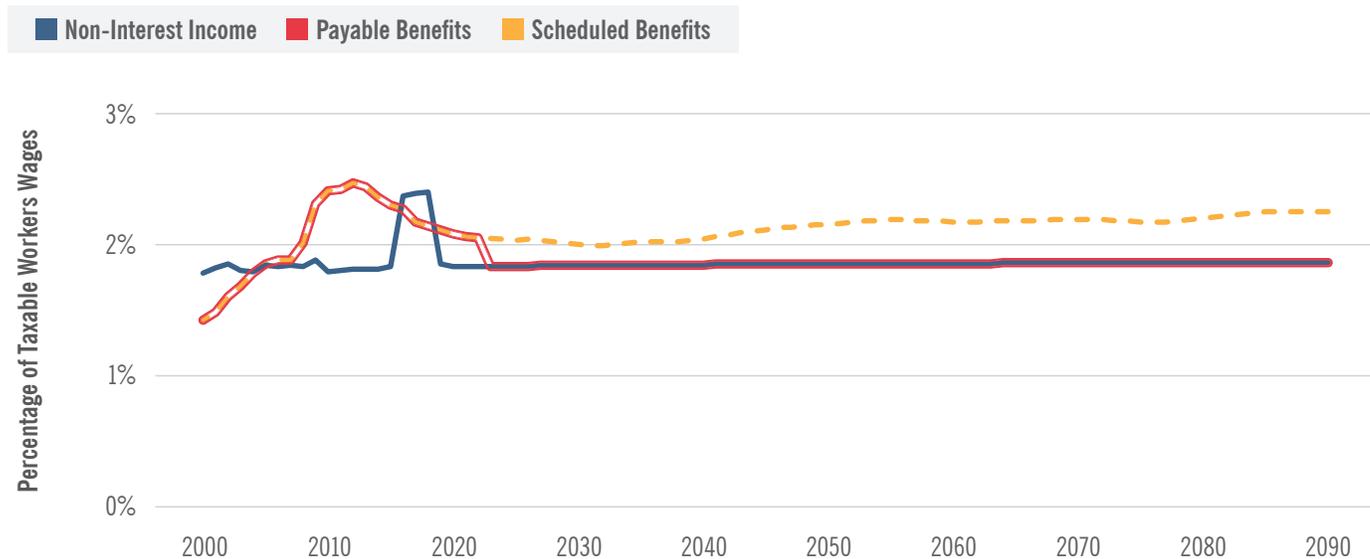
Figure 4: Social Security and Medicare Cost as a Percentage of GDP, 1970-2040



Source: 2016 Social Security and Medicare Trustees Reports

Are any of the trust funds facing near-term depletion? While the trust fund depletion date is generally not a reliable proxy for the urgency of necessary action (because action must occur earlier to preserve a reasonable chance of success), the imminent projected depletion of a trust fund nevertheless requires more immediate action by lawmakers. In recent years' reports, Social Security's DI trust fund has been in danger of near-term depletion. The 2016 report projected the DI trust fund would be depleted in 2023, causing a corresponding reduction in payable benefits as shown in figure 5. It would only take slight changes to the projections for the Medicare HI trust fund to be in a similar situation.

Figure 5: DI Trust Fund Non-Interest Income, Scheduled and Payable Benefits, 2000-2090



Source: 2016 Social Security Trustees Report

What sizes of adjustments to benefits and/or taxes are needed to restore Social Security and Medicare to long-term solvency? These estimates are generally updated in each annual trustees' report. Of particular interest are projections that reflect likely constraints on legislative action; for example, the longstanding bipartisan desire to shield current beneficiaries and those close to the age of eligibility from sudden benefit interruptions or reductions. Last year's report estimated that eliminating the Social Security shortfall, without affecting current beneficiaries or raising taxes, would require that the benefits of those first eligible in 2016 or later be reduced by 19 percent. This number is almost certain to rise in future trustees' reports.

What are the current trust fund ratios in DI and HI? As of last year's report, each of these trust funds held asset balances equal to less than one year's worth of benefit payments in reserve—dangerously low levels that fail the trustees' test of short-term financial adequacy.

Have any significant presentations been added to or removed from the reports and their accompanying summary? Much of the material in the annual reports is similar to that presented in previous reports, for ease of reference and comparison by lawmakers, press and public. The addition or removal of material is generally a signal of a change in viewpoint among the trustees, or an indication of an issue that they collectively wish to emphasize or de-emphasize.

Have the trustees changed underlying assumptions in response to updated economic or demographic data? Each year, the trustees make assumptions for short-term and long-term trends in fertility, life expectancy, price inflation, wage growth, labor force participation, interest rates, and health-cost inflation, among other factors. Changes in these assumptions change the projections. It is useful to know whether certain key trustee assumptions have been changed, and why. Some projections in the annual reports are especially sensitive to specific assumptions. For example, measures of long-term unfunded obligations given in present value terms are extremely sensitive to interest rate assumptions. Long-term Medicare cost projections are similarly quite sensitive to assumptions for national health expenditure growth.

Have the trustees made any changes to their projection methodology that affect estimated program financial outcomes?

Have the trustees changed underlying assumptions to reflect expected policy changes that do not require legislative action? Some assumptions—for example those with respect to immigration and emigration—reflect current policy expectations. The 2016 trustees' report reduced estimates of the numbers of illegal immigrants expected to leave the country in the future relative to the 2015 report, resulting in higher net immigration figures and a slight improvement in actuarial balance. If the trustees now expect changes in future immigration policy to move these numbers in the opposite direction, actuarial estimates would be affected accordingly.

Would the projections, particularly those for Medicare, be significantly affected by potential legislation to repeal and replace the ACA? If repeal-and-replace legislation is enacted later this year, certain provisions would affect the trustees' projections. For example, provisions to repeal the ACA's Medicare payroll tax increase and/or increase certain hospital payments could accelerate Medicare HI trust fund depletion by a few years. Repeal of the ACA's Medicare cost containment provisions

would accelerate HI trust fund depletion by several more years, though this is not expected. Repeal of the ACA's excise tax on high-cost health plans, also known as the "Cadillac Tax," without replacement by an alternative method of scaling back the tax preference for employer-sponsored health insurance could also result in lowered projections for wage growth net of employer-provided health benefits, thereby lowering projected revenues for both Medicare and Social Security.

What are the differences with Congressional Budget Office (CBO) projections? In recent years, CBO has been projecting a substantially larger actuarial deficit in Social Security in addition to an earlier depletion date for its combined trust funds. CBO assumptions that differ from those of the trustees have included lower estimates of earnings subject to the payroll tax, labor force participation rates, productivity growth, fertility rates and real interest rates, in addition to faster growth in longevity. There are also differences between the trustees' analytical methods and those of CBO, particularly with respect to interactions between various factors.

Are there any warnings or triggers of significance in the report? Current law requires that the trustees issue a "Medicare funding warning" if in two consecutive Medicare reports general revenue funding is projected to exceed 45 percent of Medicare's total outlays in any of the next seven years. The 2016 report did not contain a warning. Another provision of law would trigger cost-saving recommendations from an Independent Payment Advisory Board (IPAB) called for in the ACA if projected Medicare spending growth exceeds statutory thresholds.⁶ In the 2016 report, the trustees projected that the IPAB provisions would be triggered in 2017 and reduce Medicare cost growth for the first time in 2019.

⁶ Members of the IPAB have not been nominated. However, the ACA specifies that if the board fails to submit cost-saving recommendations to Congress, cost-savings proposals are to be developed by the Secretary of Health and Human Services. IPAB's (or the Secretary's) proposals will take effect unless Congress acts to achieve at least the same amount of Medicare savings as is required by the savings target.

Conclusion

The release of the annual Social Security and Medicare trustees' reports provides the primary source of public information about Social Security and Medicare finances, pursuant to the requirements of the Social Security Act. The current vacancies in the public trustee positions have interrupted the performance of the public information functions traditionally performed by the public trustees. While it can be confidently expected that the 2017 trustees' report will continue to warn lawmakers of substantial financing shortfalls in the OASI, DI and HI trust funds, and of very rapid cost growth in Medicare's SMI trust fund, it remains to be seen what changes will be made to the trustees' assumptions, estimates, and presentational emphasis. We hope that this guide will provide a useful reference for use in increasing public understanding of these vital annual reports.

Appendix A:

Important Metrics in the Social Security and Medicare Trustees' Reports^{1,2,3}

Metric	Notes	Result for 2016 (from 2016 Reports)
Metrics that Appear in the Trustees' Summary of the Annual Reports		
OASDI actuarial deficit ^d	Shortfall in total (combined) Social Security, averaged over 75 years, expressed as a percentage of workers' taxable wages	2.66 percent of taxable payroll, p. 12
HI actuarial deficit	Shortfall in Medicare HI trust fund, averaged over 75 years, expressed as a percentage of workers' taxable wages	0.73 percent of taxable payroll, p. 12
OASI actuarial deficit	Shortfall in OASI trust fund, averaged over 75 years, expressed as a percentage of workers' taxable wages	2.39 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	0.26 percent of taxable payroll, p. 12
DI trust fund ratio, current year (2016)	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.)	21, meaning 0.21 years or approximately two-and-a-half months, p. 9
HI trust fund ratio, current year (2016)	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
Projected DI trust fund depletion date	Date by which reserves in this specific trust fund are projected to be depleted	2023, p. 10
Percent of DI benefits that can be paid after trust fund depletion (2023)	Benefit payments cannot exceed available revenues	89 percent, p.11
Projected HI trust fund depletion date	Date by which reserves in this specific trust fund are projected to be depleted	2028, p. 10
Percent of HI benefits that can be paid after trust fund depletion (2028)	Benefit payments cannot exceed available revenues	87 percent, p. 11
Projected OASI trust fund depletion date	Date by which reserves in this specific trust fund are projected to be depleted	2035, p. 10
Percent of OASI benefits that can be paid after trust fund depletion (2035)	Benefit payments cannot exceed available revenues	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. 10

^d 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 (\$127,200 in 2017). HI has no income cap on taxable earnings, leading to a larger total taxable payroll.

Metric	Notes	Result for 2016 (from 2016 Reports)
Metrics that Appear in the Trustees' Summary of the Annual Reports, continued		
Percent of OASDI benefits that can be paid after trust fund depletion (2034)	Benefit payments cannot exceed available revenues	79 percent, p. 11
Total general fund needs of OASDI, HI and SMI, current year (2016) projection	Social Security and Medicare's combined net effect on the unified federal budget deficit for the current year (2016 in last year's report), as measured by the amount by which expenditures exceed income generated from sources external to the US government	\$401 billion, p. 8
OASDI deficit of non-interest income relative to expenditures, current year (2016) projection	OASDI's net effect on the unified federal budget deficit for the current year (2016 in last year's report), as measured by the amount by which expenditures exceed income generated from sources external to the US government	\$73 billion, p. 8
HI deficit of non-interest income relative to expenditures, current year (2016) projection	HI's net effect on the unified federal budget deficit for the current year (2016 in last year's report), as measured by the amount by which expenditures exceed income generated from sources external to the US government	\$7 billion, p. 8
SMI general fund needs, current year (2016) projection	SMI's net effect on the unified federal budget deficit for the current year (2016 in last year's report), as measured by the amount by which expenditures exceed income generated from sources external to the US government	\$319 billion, p. 8
Total OASDI expenditures, current year (2016) projection	Social Security combined expenditures, current year projection	\$929 billion, p. 11
HI expenditures, current year (2016) projection	HI expenditures, current year projection	\$287 billion, p. 11
OASDI total income, current year (2016) projection	Social Security combined income, current year projection	\$945 billion, p. 11
HI total income, current year (2016) projection	HI total income, current year projection	\$288 billion, p. 11
Projected Social Security costs in 2090 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	17.68 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 in 2090 as a percent of taxable payroll	Excess of annual obligations over annual income	4.35 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 in 2090 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)	5.08 percent of taxable payroll (up from 3.17 percent in 2007, before the baby boomers began to claim benefits), p. 5

Metric	Notes	Result for 2016 (from 2016 Reports)
Metrics that Appear in the Trustees' Summary of the Annual Reports, continued		
Projected Medicare HI (not SMI) annual deficit in 2090 as a percent of taxable payroll	Excess of annual obligations over annual income	0.71 percent of taxable payroll (up from 0.02 percent in 2007, before the baby boomers began to claim benefits), p. 12
Projected Social Security 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	6.0 percent of GDP (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	5.5 percent of GDP (up from 3.1 percent in 2007, before the baby boomers began to claim benefits), p. 4
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 (up from 7.2 percent in 2007, before the baby boomers began to claim benefits), p. 4
Projected Social Security costs in 2090 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. 3
Projected total Medicare (HI + SMI) costs in 2090 as a percent of GDP	This projection illuminates how rapidly program costs are growing relative to GDP over the long term	6.0 percent of GDP, p. 4
Projected Combined Social Security + Medicare costs in 2090 as a percent of GDP	This projection illuminates how rapidly program costs are growing relative to GDP over the long term	12.1 percent of GDP, p. 4
Projected general fund financing required for Medicare SMI in 2090 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 pressure on the remainder of the US budget	2.7 percent of GDP (up from 1.7 percent today), p. 7
Annual individual earnings subject to Social Security taxes (2016)	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	\$118,500, 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 over time	\$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 (2016)		\$121.80, p. 14
Income-related Part B monthly premiums (2016)		Range from \$170.50 to \$389.80, p. 14

Metric	Notes	Result for 2016 (from 2016 Reports)
Additional Measures Found in the Social Security Trustees Report		
Part D base monthly premium (2016)		\$34.10, p. 14
Income-related Part D monthly premiums (2016)		Range from \$46.80 to \$107.00, p. 14
95 percent confidence band around OASDI actuarial deficit estimate	Actuarial imbalance projections ranging from the 2.5th to 97.5th percentile of outcomes modeled	0.93 percent to 4.95 percent of taxable payroll, p. 200
Social Security benefit reduction, effective in 2016, required to maintain 75-year solvency	This illustrative benefit reduction would affect all current and future beneficiaries	16 percent, p. 5
Social Security benefit reduction, effective in 2016, required to maintain 75-year solvency without affecting current beneficiaries	This illustrative benefit reduction would exclude current beneficiaries	19 percent, p. 5
Social Security payroll tax increase, effective in 2016, required to maintain 75-year solvency		Increase of the payroll tax rate from 12.40 percent to 14.98 percent, p. 5
Social Security benefit reduction, effective at the point of combined trust fund depletion (2034), required to maintain 75-year solvency	This illustrative benefit reduction would affect all beneficiaries	21 percent, p. 6
Social Security benefit reduction, effective at the point of combined trust fund depletion (2034), 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 2016 report)
Social Security payroll tax increase, effective at the point of combined trust fund depletion (2034), required to maintain 75-year solvency		Increase of the payroll tax rate from 12.40 percent to 15.98 percent, p. 6
OASI trust fund ratio, current year (2016)	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.)	357, or roughly three and a half years, p. 66
OASDI trust fund ratio, current year (2016)	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.)	303, or roughly three years, p. 3
OASDI non-interest income, current year (2016) projection	Social Security combined income generated from sources external to the US government, current year projection	\$856 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	16.50 percent of taxable payroll (up from 11.32 percent in 2007, before the baby boomers began to claim benefits), p. 55

Metric	Notes	Result for 2016 (from 2016 Reports)
Additional Measures Found in the Social Security Trustees Report, continued		
Projected Social Security annual deficit in 2035, as a percent of taxable payroll	Excess of annual obligations over annual income	3.28 percent of taxable payroll, p. 55
Social Security 75-year unfunded obligation (\$PV)	Excess of total Social Security obligations over projected assets	\$11.4 trillion, p. 5
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	\$14.2 trillion, p. 214
Current year (2016) 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	\$2.8 trillion, p. 49
Medium-earner Social Security benefit, claimed at Normal Retirement Age (2016)	Assumes individual is currently 65, and had a full career of earnings at the average national wage (roughly the 56th percentile of all beneficiaries)	\$19,455, p. 152
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 primarily attributable to an excess of scheduled benefits over contributions for individuals who have already entered the system	3.7 percent of future taxable payroll, p. 204
Portion of Social Security financing that cannot be precisely allocated among cohorts/generations, as a percent of future taxable payroll	A 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. 204
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	3.6 percent of future taxable payroll, p. 204
Additional Measures Found in the Medicare Trustees Report		
Medicare HI benefit reduction, effective in 2016, required to maintain 75-year solvency	This illustrative benefit reduction would affect all current and future beneficiaries	16 percent, p. 31
Medicare HI benefit reduction, effective in 2028, required to maintain 75-year solvency	This illustrative benefit reduction would affect all beneficiaries	18 percent, p. 68
Medicare HI payroll tax rate increase, effective in 2016, 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 3.63 percent, p. 30
Medicare HI payroll tax rate increase, effective at the point of trust fund depletion (2028), 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 3.80 percent, p. 68

Metric	Notes	Result for 2016 (from 2016 Reports)
Additional Measures Found in the Medicare Trustees Report, continued		
SMI expenditures, current year (2016) projection	SMI expenditures, current year projection	\$396 billion, p. 33
SMI total income, current year (2016) projection	SMI total income, current year projection	\$419 billion, p. 33
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)	4.57 percent of taxable payroll (up from 3.17 percent in 2007, before the baby boomers began to claim benefits), p. 64
Projected Medicare HI (not SMI) annual deficit in 2035 as a percent of taxable payroll	Excess of annual obligations over annual income	0.87 percent of taxable payroll, p. 64
HI non-interest income, current year (2016) projection	HI income generated from sources external to the US government, current year projection	\$280 billion, p. 56
Medicare HI 75-year unfunded obligation (\$PV)	Excess of Medicare HI obligations over assets	\$3.6 trillion, p. 70
Current year (2016) 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	\$0.2 trillion, p. 71
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	\$3.8 trillion, p. 214
Medicare SMI 75-year unfunded obligation	Zero by statutory definition because the program is provided revenues as necessary to finance benefits	\$0, p. 214
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. 214
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	\$28.6 trillion, p. 214

Endnotes

- ¹ Social Security and Medicare Boards of Trustees, *Status of the Social Security and Medicare Programs. A Summary of the 2016 Annual Reports*, 2016. Available at: <https://www.ssa.gov/oact/TRSUM/tr16summary.pdf>.
- ² Board of Trustees of the Federal Old-Age and Survivors and Federal Disability Insurance Trust Funds, *The 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, 2016. Available at: <https://www.ssa.gov/oact/tr/2016/tr2016.pdf>.
- ³ Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, *The 2016 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplemental Medical Insurance Trust Funds*, 2016. Available at: <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2016.pdf>.



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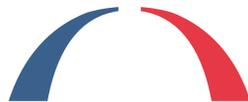
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