

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

By tradition, the public trustees of the Social Security and Medicare trust funds issue a joint message to the public upon the release of the annual trustees' reports on the financial status of Social Security and Medicare. Since our terms expired in 2015, the public trustee positions have remained vacant. During that vacancy, we have partnered with the Bipartisan Policy Center to provide an independent review of the reports' findings. This letter provides information about program finances that would typically be included in the public trustees' annual letter to the public.

Absent significant financing reforms, certain findings of the annual trustees' reports tend to remain essentially the same from year to year. Foremost among them are that both Social Security and Medicare face substantial financing challenges, and that these grow ever more difficult to surmount each additional year reforms are avoided. The 2018 reports reiterated these longstanding messages. While the long-term financial shortfall facing Social Security remains similar to that projected in previous reports, it has grown more difficult to close with another birth cohort of the large baby boomer generation having joined the retirement benefit rolls.

The trustees project that addressing the long-range (75-year) shortfall in the combined Social Security trust funds would require either a 21 percent increase in the program's projected revenues, a 17 percent reduction in its scheduled expenditures, or an equal sized combination of more modest revenue increases and expenditure reductions. It is notable that a 17 percent expenditure reduction would affect those already receiving benefits, an outcome that, in the past, lawmakers have tried to avoid. To confine benefit reductions to those becoming newly eligible for benefits in the future, the average cut would have to be 21 percent—a figure that tends to grow with each succeeding report. Adjustments of this size would almost certainly cause significant hardship among the economically vulnerable participants who depend on program benefits for much of their retirement income. An unfortunate consequence of delay is that this hardship will only grow worse with further inaction.

While certain findings of the 2018 reports are broadly similar to those of previous reports, others have grown substantially more unfavorable. For example, Medicare's Hospital Insurance (HI) trust fund reserves are now projected to be depleted in 2026, three years earlier than estimated in last year's report. This reflects unfavorable adjustments to near-term financial flows affecting both Medicare and Social Security. Both the Medicare HI trust fund as well as the combined Social Security trust funds will begin to draw down their respective trust fund balances this year. Under current projections, those drawdowns will continue

uninterrupted until each of the trust funds is depleted, leaving them with insufficient revenues to finance scheduled benefit and insurance payments. The start of the drawdowns is a striking finding in this year's reports, given that in last year's reports the combined Social Security trust funds were not projected to start being drawn down until 2022, and the Medicare HI trust fund was not expected to start drawing down its reserves until 2023.

Medicare's Supplementary Medical Insurance (SMI) trust fund is financed differently than the other trust funds. Whereas the Medicare HI and Social Security trust funds are financed primarily with payroll tax contributions from workers and employers, roughly three-quarters of SMI financing comes from federal general revenues, in automatically-adjusted amounts that ensure that the SMI trust fund never becomes insolvent. This, of course, does not mean that SMI lacks financing stresses, but they are manifested as growing pressures on the general federal budget rather than in the threat of program insolvency. The Medicare SMI outlook, like those for the other trust funds, has worsened over the last year. The trustees are projecting faster expenditure growth for SMI, with its total costs projected to rise from 2.1 percent of gross domestic product (GDP) last year to 3.6 percent of GDP in 2037, even faster than last year's projection of 3.4 percent of GDP in 2037.

Various factors contributed to the worsened near-term outlooks for both Social Security and Medicare. The leading factor is that revisions by the Bureau of Economic Analysis to the estimated share of GDP filtering through to the programs' payroll tax bases in 2016 and 2017 has lowered the projections for payroll tax collections in 2018 and beyond. For Medicare HI as well as Social Security's combined trust funds, this was the largest factor contributing to the unexpected finding that the interest earnings of those trust funds would, together with tax collections, be insufficient this year to finance their annual benefit, insurance, and administrative expenditures, necessitating the beginning of net redemptions of trust fund bonds. Medicare's finances in particular were also adversely affected by higher-than-expected spending in 2017 as well as by legislation enacted over the last year. The public should be mindful that future projections may continue to change as the trustees further incorporate ongoing changes in tax, immigration, health care, and other policies.

As with previous reports, caution is in order that projections of trust fund depletion dates can change by significant amounts from one year's reports to the next. This is particularly the case with the Medicare HI and Social Security Disability Insurance (DI) trust funds which have very small trust fund balances. (HI's trust fund ratio was 65 at the start of this year, meaning that it held fewer than eight months' worth of benefits; DI's was 48, representing fewer than six months' worth of benefits.) With virtually the entirety of their operations financed by annual tax revenues, even a slight adverse change to their annual operating balances could affect their near-term financing adequacy. By contrast, Social Security's Old-Age and Survivors Insurance trust fund has a much larger carryover balance (a trust fund ratio of 330 at the start of this year, or more than three years' worth of benefit payments), so changes in its projected annual operations have a relatively smaller effect on its projected depletion date.



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Our review of the 2018 trustees' reports gives us confidence that the programs' *ex officio* trustees, who continue to develop and publish these reports in the absence of public trustees, are doing so using appropriate methodologies and assumptions. That said, the process would benefit greatly from the participation of public trustees, to provide bipartisan independent oversight of assumptions and methods, to substantiate public confidence in the trustees' findings, and help explain the details of the projections to lawmakers, press, and the public. Even more important, however, is that lawmakers take seriously the trustees' warnings about the increasing urgency to repair the programs' financing shortfalls. Americans can no longer afford to indulge the myth that Social Security and Medicare are best safeguarded by leaving their benefit and tax schedules alone.

Sincerely,

/s/

Charles P. Blahous III,

Former Public Trustee

/s/

Robert D. Reischauer,

Former Public Trustee