

June 12, 2024

The Honorable Jodey Arrington
Chairman
Committee on the Budget
United States House of Representatives
Washington, DC 20515

The Honorable Brendan Boyle
Ranking Member
Committee on the Budget
United States House of Representatives
Washington, DC 20515

Letter for the Record: Budget Committee Hearing on “Medicare and Social Security: Examining Solvency and Impacts to the Federal Budget,” June 13, 2024

Dear Chairman Arrington and Ranking Member Boyle:

The Bipartisan Policy Center applauds the committee’s leadership in holding this timely hearing examining the solvency of Medicare and Social Security and their effect on the federal government’s unsustainable fiscal trajectory. As the share of Americans aged 65 and over rises, the population reliant on Medicare and Social Security will continue to grow, but these programs face significant financing challenges that threaten their ability to support older Americans in the years ahead. BPC has long focused on the need to address the sustainability of both Medicare and Social Security to ensure Americans continue receiving needed benefits while balancing the impact on the nation’s fiscal health.

Medicare Solvency

The 2024 Medicare Trustees report projected that the Medicare Part A (Hospital Insurance, or HI) Trust Fund will be depleted in 2036.¹ If Congress doesn’t act, the trustees project that Medicare will only be able to cover 89% of its costs at that point. Though this latest update is an improvement of five years compared to the previous report, it still underscores the need for Congress to address the long-term sustainability of the program.

Central to ensuring Medicare’s long-term survival is for Congress to address the program’s core financial issue—ensuring a balance between rising health care spending and incoming

¹ Centers for Medicare and Medicaid Services, *The 2024 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Supplementary Medical Insurance Trust Funds*. Available at: <https://www.cms.gov/oact/tr/2024>.

revenue. Medicare now covers nearly 20% of the U.S. population, and total expenditures for benefits are projected to exceed \$1 trillion this year, up from \$580 billion only 10 years ago. The number of workers who help finance the program through payroll taxes relative to the number of beneficiaries is declining: There were about four workers for every beneficiary from 1980-2008; by 2022, the number had dropped to about 2.9, and by 2030 is expected to be 2.5.

Congress also needs to examine a second significant problem: how Medicare can better meet the needs of enrollees. Beneficiaries, many of whom are retirees on fixed incomes, are struggling to pay their share of expenses and navigate a complex Medicare system to find the right coverage and benefits. Health care advocates question the program's fairness, too, as some enrollees get benefits that others do not depending on the coverage options they select.

Building on our 2021 report, *The Cost of Waiting to Act on Medicare's Hospital Insurance Trust Fund*, BPC issued additional congressional recommendations in 2023 on sustaining and improving Medicare benefits and financing.² BPC has encouraged Congress to address the HI Trust Fund's impending insolvency and affordability challenges for beneficiaries by slowing spending increases and raising revenues. At the same time, policymakers should enhance traditional Medicare by improving benefits, reducing costs, and simplifying the program for easier access. With over half of the share of the Medicare-eligible population now enrolled in Medicare Advantage (MA), Congress must consider the impact of MA's increasing costs on Medicare's long-term sustainability.³

Although current projections show that the short-term solvency outlook for the Medicare HI trust fund has improved, the Medicare program continues to face longer-term financial pressures associated with higher health care costs and an aging population. Congress has been reluctant to address Medicare's long-term solvency in recent years—due largely to the scale of the financial adjustments required and the political risks involved—but a politically viable path forward is possible. History has shown that bipartisanship has been and will be critical to past and future successes.

² Bipartisan Policy Center, *The Cost of Waiting to Act on Medicare's Hospital Insurance Trust Fund*. <https://bipartisanpolicy.org/report/hospital-insurance-trust-fund/>; Bipartisan Policy Center, *Sustaining and Improving Medicare: The Path Forward*. Available at: <https://bipartisanpolicy.org/report/sustaining-and-improving-medicare/>.

³ MedPAC, *March 2024 Report to the Congress: Medicare Payment Policy*. Available at: <https://www.medpac.gov/document/march-2024-report-to-the-congress-medicare-payment-policy/>.

Social Security Solvency

The 2024 Social Security Trustees report underscores the precarity of the nation’s most effective and popular federal program.⁴ Unless Congress acts, the trustees project that Social Security’s primary trust fund—the Old-Age and Survivors Insurance (OASI) trust fund—will be depleted in 2033.⁵ When that happens, to align payments with available revenue, each beneficiary will see an immediate benefit cut of 21%.⁶

Nearly a decade ago, BPC’s Commission on Retirement Security and Personal Savings showed that fixing Social Security’s finances is possible through a balanced package of benefit adjustments and tax increases.⁷ These recommendations would have made the program fiscally sustainable and boosted income in retirement for the lowest-earning workers while giving the vast majority of Americans more financial security in retirement than they would have under current law, maintaining the near-universal constituency that undergirds Social Security’s public support.

The commission, however, recommended this balanced approach in 2016; since then, the program’s challenges have grown while the time to address them has shrunk. To avert trust fund depletion and restore long-term solvency now, policymakers will have to phase in larger changes at a faster pace—and the magnitude of the changes needed will only increase as 2033 approaches. This situation calls not for retreat into partisan trenches but rather for a renewed commitment to an approach that shores up Social Security’s finances while simultaneously strengthening the program for those who rely on benefits most.

The trustees’ reports have illustrated for decades that Social Security’s finances are unsustainable. The primary reasons for the program’s shortfall are clear. As with Medicare, a major contributor is the aging U.S. population and low fertility rates, which together place an unprecedented burden on a workforce that hasn’t kept up in size with the retiree population. In 1960, there were more than five workers paying Social Security taxes per beneficiary, but that ratio has dropped to just three-to-one in 2023 and is projected to decline to less than 2.5-to-one by the middle of this century. Compounding the stress on Social Security’s finances is how long those retirees are living. The life expectancy of a 65-year-old has increased by 50%

⁴ Social Security Administration, *The 2024 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. Available at:

<https://www.ssa.gov/oact/TR/2024/index.html>.

⁵ Bipartisan Policy Center, “Social Security: On Autopilot and Heading Toward a Cliff.” Available at:

<https://bipartisanpolicy.org/blog/social-security-autopilot-heading-toward-cliff/>.

⁶ To achieve 75-year solvency at that point—putting the trust fund on track to ending the 75-year period with a level of assets equal to one year of benefit payments—would require a substantially higher benefit cut.

⁷ Bipartisan Policy Center, *Securing Our Financial Future: Report of the Commission on Retirement Security and Personal Savings*. Available at: <https://bipartisanpolicy.org/report/retirement-security/>.



Bipartisan Policy Center

since 1940 (shortly after Social Security was created), and the Social Security Administration projects that trend will continue. With record numbers of Americans spending record lengths of time in retirement—and population growth failing to keep up—Social Security can no longer sustain itself using policy parameters set decades in the past.

For example, when Congress last reformed Social Security in 1983, 90% of all earnings covered by the program were subject to the payroll taxes used to finance benefits. Now, the tax base is only 82% of covered earnings, as Americans earning more than the taxable maximum have seen their incomes increase much faster than those earning less. And as the tax base has shrunk, the tax rate has stayed at 12.4% for more than 40 years.⁸

BPC thanks the committee for convening this important hearing and urges bipartisan action sooner rather than later to avert the impending across-the-board benefit cuts to both Medicare and Social Security. We stand ready to assist with these efforts and thank you for the opportunity to comment.

Sincerely,

Jason J. Fichtner, Ph.D.
Chief Economist
Bipartisan Policy Center

⁸ The 1983 reform did implement a gradual increase in Social Security's full retirement age (FRA), phased in over 33 years. That increase is now fully phased in, and the FRA is not scheduled to increase further. For more information, see Bipartisan Policy Center, "The Full Retirement Age." Available at: <https://bipartisanpolicy.org/explainer/full-retirement-age/>.