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Mixed Messages: Outlook for Medicare and Social Security

The 2014 Trustees' Reports for Medicare and Social Security brought some welcome news as well as cautionary forecasts for the future as the nation's baby boomers put ever-increasing stress on these two government programs.

The premiums charged for Medicare Part B -- the portion of Medicare that pays for doctor visits and outpatient care -- will likely remain at its current monthly rate of $104.90 for a third year in a row.

Good News for Medicare…

The Medicare trustees report that the program's outlook has improved considerably in the past year, and it attributes that good news in large part to the passage of the highly controversial Affordable Care Act (ACA). Specifically, the trustees found that Medicare's Hospital Insurance Trust Fund is in good shape until 2030 -- that's four years longer than the trustees projected last year -- and 13 years longer than they anticipated the year before the passage of the ACA.[1]

Officials indicated that the marked slowdown in Medicare spending is due to the ACA's legislated cutbacks in payments to health care providers who have been tasked with finding more cost-efficient ways to deliver services. Additionally, they contend, the post-recession slowdown in wage and price growth has also contributed to the Medicare spending decline.

What this means for Medicare recipients is that the premiums charged for Medicare Part B -- the portion of Medicare that pays for doctor visits and outpatient care -- will likely remain at its current monthly rate of $104.90 for a third year in a row. Similarly, Medicare spending per beneficiary has remained static at $12,210 since 2012 and is likely to stay the same through 2015.[2]

… Buffered by Longer Term Woes

Even though Medicare appears to be in good shape for the time being, serious fiscal issues loom in the decades ahead as the nation's population ages. Today 54 million Americans receive Medicare benefits. By 2030, when the trustees indicate Medicare will start having financial difficulties, the ranks of Medicare enrollees will hit 81 million and the numbers will keep growing.[3]

Put in a different context, the trustees report that Medicare spending will consume 5.6% of the U.S. economy by 2040 and 6.3% by 2088. Today, all government spending accounts for approximately 20% of the nation's gross domestic product (GDP).[3]

Social Security: Outlook Unchanged

The nation's other major social insurance program, Social Security, is in a financial holding pattern for the time being. The 2014 Trustees' Report continued to indicate that assets in the Social Security Trust Fund were slated to be exhausted in 2033.

The slow increase in costs is being driven by well-documented demographic trends: fewer workers to fund the system and more retirees tapping into the system. To a lesser extent, Social Security is being weakened by the Disability Insurance portion of the program, which is now projected to run out of money in just two years -- 2016 -- unless Congress acts to remedy the problem.

The Social Security Trust Fund: An Evolving Story

The chart below displays a brief but rapidly evolving history of the Social Security Trust Fund. According to The Center for Retirement Research at Boston College, until 2009, Social Security was running cash surpluses -- bringing in more tax revenue than it was paying out to retirees, and these surpluses were expected to last for years. But the Great Recession brought with it a decline in payroll taxes coupled with an increase in benefit claims. In 2010, these factors resulted in Social Security outflows exceeding its income -- a pattern that experts say will continue indefinitely.[4]

Key Dates for Social Security Trust Fund*

Event	Trustees' Report -- 2010	Trustees' Report -- 2011	Trustees' Report -- 2012	Trustees' Report -- 2013	**Trustees' Report -- 2014**
First year outgo exceeds income *excluding* interest	2015	2010	2010	2010	**2010**
First year outgo exceeds income *including* interest	2025	2023	2021	2021	**2020**
Year Trust Fund assets are exhausted	2037	2036	2033	2033	**2033**

**Source: The Center for Retirement Research at Boston College; 2010-2014 Social Security Trustees' Reports.*

The shift from surplus to deficit means that Social Security is currently chipping away at the interest earned on the Trust Fund to cover benefits. By 2020, it is predicted that workers' payroll taxes combined with Trust Fund interest will not be enough to cover annual benefit payments. With no recourse but to tap into Trust Fund principal to meet benefit commitments, Trust Fund assets are projected to be depleted by 2033.[4]

It should be noted that even though the Social Security Trust Fund is scheduled to be depleted by 2033, that does not mean the Social Security program will cease to exist. It is, after all, a pay-as-you-go system, and the inflows from current workers' payroll taxes will continue to cover 75% of benefits for the period indicated.[4] Yet at just 75% of benefits covered, "something will have to give" -- for example, Social Security benefits may decline for future retirees, payroll taxes may increase for workers, or some other yet-to-be-determined solution will need to be created to restore the system to long-term solvency.

A Politically Charged Path to Resolution

Medicare and Social Security are two of the largest and arguably most politically divisive programs in the federal budget and fixing them will require a rare show of bipartisan teamwork on the part of Congress and the White House. While the jury is out on if and when that will happen, the fact remains that finding a solution is critical for the future of the country and for each American who hopes to rely on these programs for financial support in their later years.

[1]*Kaiser Health News*, "Good News for Boomers: Medicare's Hospital Trust Fund Appears Flush Until 2030," July 28, 2014.

[2]*The New York Times,* "Gains Seen for Medicare, but Social Security Holds Steady," July 28, 2014.

[3]*The New York Times*, "Good News and Gloom for Medicare, Wrapped in a Mystery," July 28, 2014.

[4]The Center for Retirement Research at Boston College, "Social Security's Financial Outlook: The 2014 Update in Perspective," August 2014.