Research

The Future of America’s Entitlements: What You Need to Know About the Medicare and Social Security Trustees Reports

JACKSON HAMMOND, GORDON GRAY | JUNE 2, 2022

Executive Summary

Today, the Social Security and Medicare Trustees issued their annual reports detailing the financial state of America’s two largest entitlement programs. The reports echo past conclusions: Social Security and Medicare are still going bankrupt.

At its current pace, Medicare will go bankrupt in **2028** and the Social Security Trust Funds for old-aged benefits and disability benefits will become exhausted by **2035**.

A quick look at the data proves just how broken our current entitlement programs are. An American Action Forum analysis of the data found other startling statistics, including:

- Medicare’s Annual Cash Shortfall in 2021 was $409 billion;
- Payroll taxes would have had to increase by almost 18 percent to pay for Medicare Part A in 2021; and
- Over the next 75 years, Social Security will owe $20.4 trillion more than it is projected to take in.

What You Need to Know About the Medicare and Social Security Trustees Reports includes one-pagers and relevant statistics on:

- The solvency of Medicare;
- The president’s stewardship of Medicare;
- The solvency of the Social Security Trust Fund;
- The solvency of the Social Security Disability Insurance (DI) program; and
- The solvency of the Social Security Old-age and Survivors Insurance (OASI) program.

The Solvency of Medicare

This week, Treasury Secretary Janet Yellen released the 2022 Medicare Trustees Report. This annual report delivered yet another reminder to the American public that Medicare is undeniably going bankrupt.

The report estimates that the Medicare Hospital Insurance Trust Fund will be bankrupt by 2028. While the bankruptcy projection may snag the headlines, there are three key budgetary numbers that shouldn’t go unnoticed.

$409 Billion	**Medicare's Annual Cash Shortfall in 2021** • In 2021, Medicare spent $839.3 billion on medical services for America's seniors but only collected $430.5 billion in payroll taxes and monthly premiums. • This cash shortfall represented 15 percent of the federal deficit in 2021.
$6.4 Trillion	**Medicare's Cumulative Cash Shortfall Since 1965** • Medicare has had a cash shortfall every year since its creation except two: 1966 and 1974. • Medicare covers these cash shortfalls by "borrowing" unrelated tax revenues from other programs.
29 Percent	**Medicare's True Contribution to the National Debt** • America's fiscal trajectory is unsustainable, and Medicare is the primary source of red ink. • Medicare's cash shortfall is responsible for about one-third of the federal debt.

Continuing with the Medicare status quo is unacceptable. Balancing Medicare's annual cash shortfalls under the existing system would prove devastating to seniors and failing to reform the status quo would result in the following impacts:

9 Percent Increase	**Annual Payroll-Tax Increase Needed to Balance Medicare Part A** • In 2021, the Medicare Part A (hospitals) cash deficit was $26.4 billion. • To balance, payroll taxes would need to increase from 1.45 percent to 1.6 percent.
$4,728 Increase	**Annual Premium Increase Needed to Balance Medicare Part B** • In 2021, the Medicare Part B (physicians) cash deficit was $294.5 billion. • To balance, seniors' premiums for physicians would need to increase by 265 percent, meaning the typical annual physician premium cost to seniors would rise from $1,782 to $6,510 – an increase of $4,728.
$1,952 Increase	**Annual Premium Increase Needed to Balance Medicare Part D** • In 2021, the Part D (prescription drugs) cash deficit was $88 billion. • To balance, seniors' premiums for prescription drugs would need to increase by 517 percent, meaning the annual drug premium cost to seniors would rise from $378 to $2,330 – an increase of $1,952.

The Executive Branch's Stewardship of Medicare

An Evaluation of the Executive Branch's Medicare Stewardship

Each year, the Trustees Report provides a non-partisan evaluation of the president's stewardship of Medicare. Prepared annually for Congress by the Office of the Chief Actuary, the Trustees Report offers unparalleled detail on the financial operations and actuarial status of the Medicare program. In short, it's where every administration's soaring Medicare rhetoric meets fiscal reality. So far, President Biden has resisted undertaking significant Medicare reform. The 2022 Trustees Report provides a sense of what the future may look like should Medicare continue to remain unchanged, and why sooner or later Medicare reform is inevitable.

MEDICARE FINANCIAL OPERATIONS (Billions)

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022*	2013-2022*
Medicare Cash Revenue	$294	$304	$324	$339	$359	$378	$400	$430	$431	$495	$ 3,754
Medicare Spending	$583	$613	$648	$679	$710	$741	$796	$926	$839	$940	$ 7,475
Cash Deficit	-$289	-$309	-$324	-$339	-$352	-$363	-$396	-$496	$409	$445	-$ 3,722

*2022 Projections

The Obama Administration oversaw a $2.4 trillion cash shortfall over eight years (2009-2016). The Trump Administration oversaw its own $1.6 trillion Medicare cash shortfall during this presidential term. The fiscal reality is that continuing the previous two administration's Medicare policies and leaving Medicare unchanged all but guarantees bankruptcy. The Trustees project that President Biden will oversee an $854 billion cash shortfall before he is even halfway through his first term.

With such unprecedented levels of cash shortfalls continuing through the budget horizon, maintaining the status quo ensures that Medicare will soon not exist for today's seniors, let alone future generations of Americans. These rising costs and the measures necessary to cover them will increasingly harm seniors if Medicare reform is not undertaken.

Medicare and Medicaid Will Cost $2 Trillion by 2024	**Medicare Costs Will Continue to Rise** • At the current pace, the Medicare and Medicaid programs continue to be on track to surpass an annual cost of $2 trillion in 2 years (more information here). • This budget shortfall is expected to continue even with Medicare premiums and deductibles rising every year (more information here).

The Solvency of the Social Security Trust Fund

This week, the board of trustees that oversees the Social Security program released its annual report. The report shows that the financial outlook for the nation's primary safety net for retirees, survivors, and the disabled will fail to meet its promises to future seniors in the absence of meaningful reform.

The report estimates that the combined (retirement and disability) Social Security Trust Funds will be exhausted by 2035, one year later than last year's estimate. The Trustees Report makes clear the program's structural imbalance that puts at risk the retirement benefits of millions of working Americans.

$126.4 Billion	**Social Security's Contribution to the Debt in 2021** • In 2021, Social Security spent $1,144.6 billion but only collected $1,018.2 billion in non-interest income. • This year is the 12th in a row that Social Security has been in cash deficit, with the program running a cumulative deficit of $807.2 billion since 2010.
$20.4 Trillion	**Social Security's Unfunded 75-Year Liability** • Social Security's promised benefits exceed projected payroll taxes and Trust Fund redemptions by $20.4 trillion – $600 billion higher than was estimated last year. • Social Security faces an imbalance as a share of taxable payroll of 3.42 percent, which marks a modest improvement relative to last year's long-run deficit but is the second-worst imbalance recorded in 40 years.
13 Years	**Years Until the Trust Funds Are Exhausted** • The Trust Funds will be exhausted in 13 years, which was the same period estimated in last year's report. • This horizon to exhaustion remains the shortest since 1982.

The Trustees Report paints a distressed picture of Social Security's financial health and demonstrates that the present course is unsustainable. Social Security is now contributing to the annual deficit, while promised benefits exceed planned funding by over $20 trillion. The implications of failing to reform the *status quo* are:

20 Percent	**Reduction in Benefits in 2035** • After the projected exhaustion of the Social Security Trust Funds, Social Security revenue will fund only 80 percent of promised benefits. • This portion deteriorates further, to 74 percent, by 2096.

26 Percent	**Payroll Tax Increase** • Absent reform, to meet promised benefits over the long term, payroll taxes would have to be increased immediately by 26 percent, from a rate of 12.4 percent to 15.64 percent.

The Solvency of Social Security Disability Insurance

This week, the board of trustees that oversees the Social Security program released its annual report. The report reflects continued improvement in the outlook for the Disability Insurance (DI) program.

The report estimates that the DI Trust Fund is *solvent* over the long term**.** This outlook marks the first time since 1983 the program has been sustainable over the long-term. The program has faced recent solvency challenges, requiring a payroll tax reallocation in 2015.

$85.3 Billion	**DI's 10-Year Contribution to the Debt** • In 2021, the DI program roughly broke even for the second year in a row, but has added $85.3 billion to the debt since 2012. • Recent improvements in the program's cash position reflect a significant decline in benefit applications and awards, as well as a higher allocation of payroll revenues, which reduces payroll revenues by an equal amount paid into the Old-age and Survivors Insurance (OASI) Trust Fund.
$-56 Billion	**DI's Unfunded 75-Year Liability** • Social Security's promised disability benefits are funded over the long-term, a first for the program in 39 years.

The Trustees Report reflects a significant decline in the outlook for America's safety net for disabled workers.

Solvency of Social Security Old-Age and Survivors Insurance

This week, the board of trustees that oversees the Social Security program released their annual report. The report shows that the Old-age and Survivors Insurance (OASI) program remains unsustainable and will be unable to meet the needs of future beneficiaries absent reform.

The report estimates that the OASI Trust Funds will be exhausted by 2034. The report also makes clear several additional structural challenges that endanger the millions of current and future retirees and survivors who rely on this program.

$126.5 Billion	**OASI's Contribution to the Debt in 2021** • In 2021, OASI spent $1001.9 billion but only collected $875.40 billion in non-interest income. • This is the 12th year in a row that OASI has been in cash deficit, with the program having added $655.50 billion to the debt since 2010.
$20.5 Trillion	**OASI's Unfunded 75-Year Liability** • Social Security's promised retirement and survivor benefits exceed projected payroll taxes and Trust Fund redemptions by over $20.5 trillion – an increase of over $1 trillion from last year's report.
12 Years	**Years Until the OASI Trust Fund Is Exhausted** • The duration until Trust Fund's exhaustion date is unchanged from last year's estimate. • 12 years is the shortest horizon until Trust Fund exhaustion since 1982.
71.6 Million	**Number of Beneficiaries in 2034 (Trust Fund Exhaustion Year)** • Over 71 million Americans are projected to receive OASI benefits in the year the Trust Fund is projected to become exhausted. • This figure is comprised of nearly 65 million retirees and 5.7 million survivors.

The Trustees Report makes clear that the primary federal retirement program remains unsustainable. On its present course, the program is on track either to reduce the retirement benefits of over 71 million Americans, or to raise taxes significantly on future workers.