

# Medicare and Social Security: Weighing Solvency

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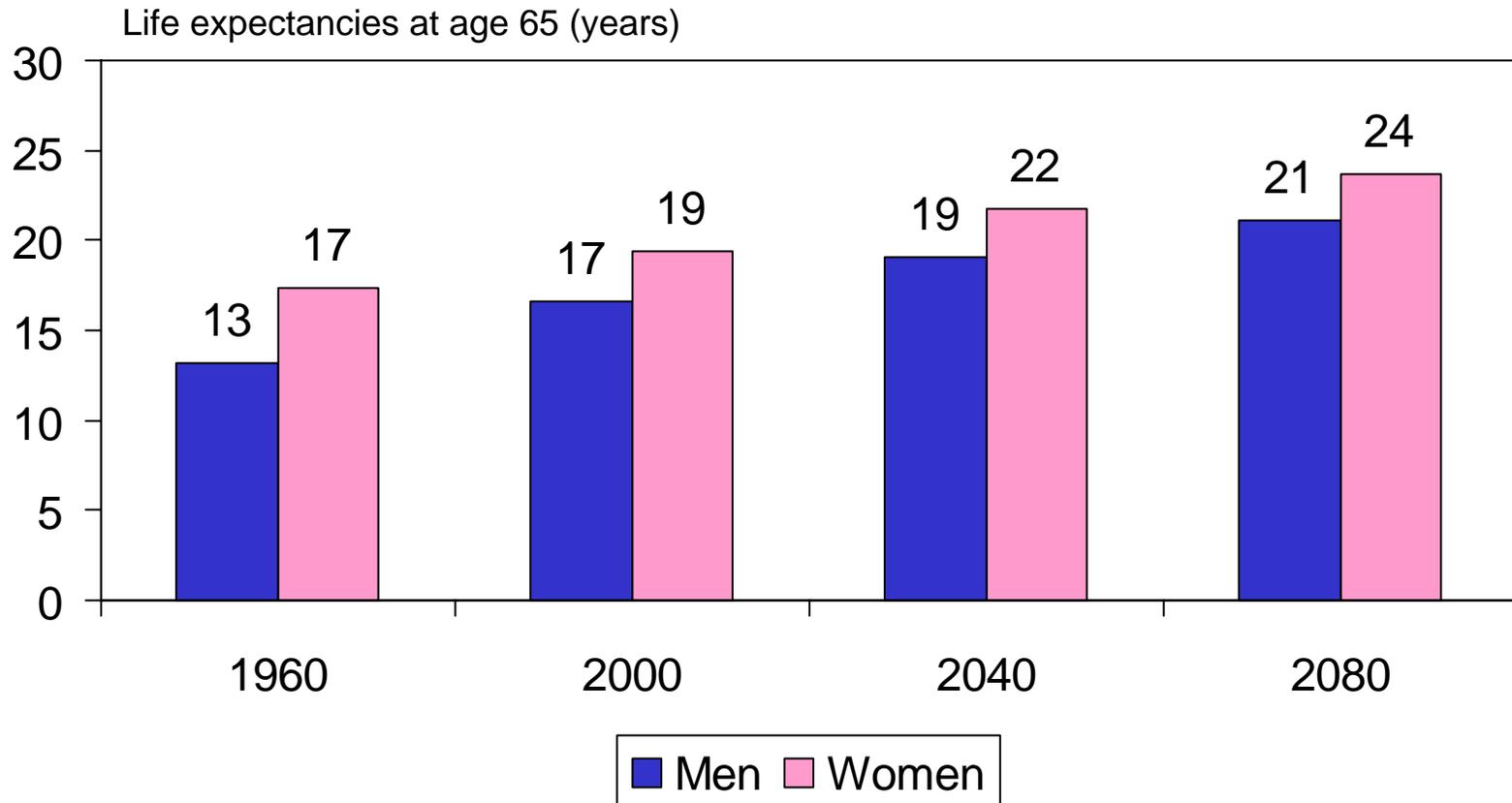
April 1, 2005

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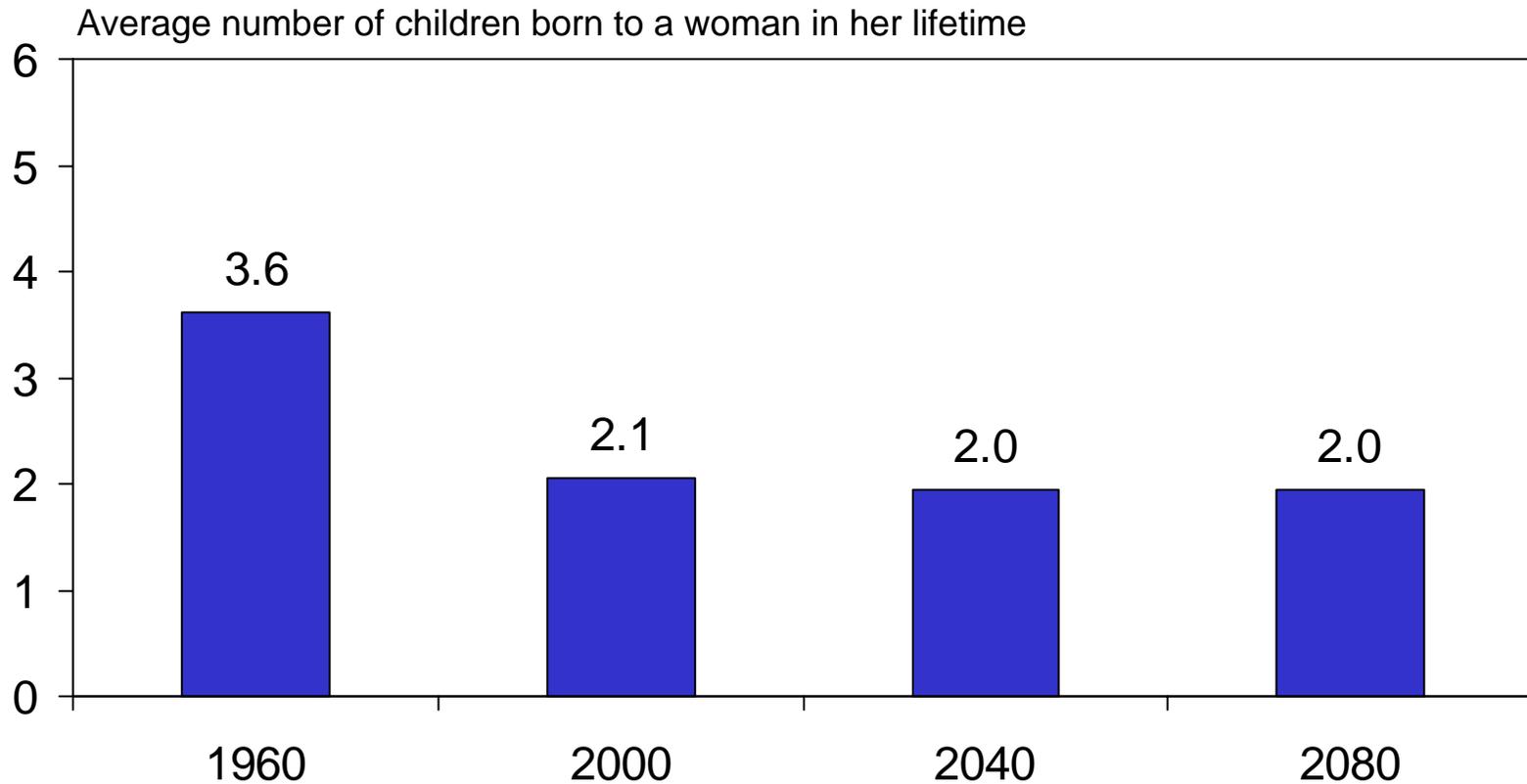
# Seniors Are Living Longer



Source: Cohort life expectancies from the 2005 Social Security Trustees' Report



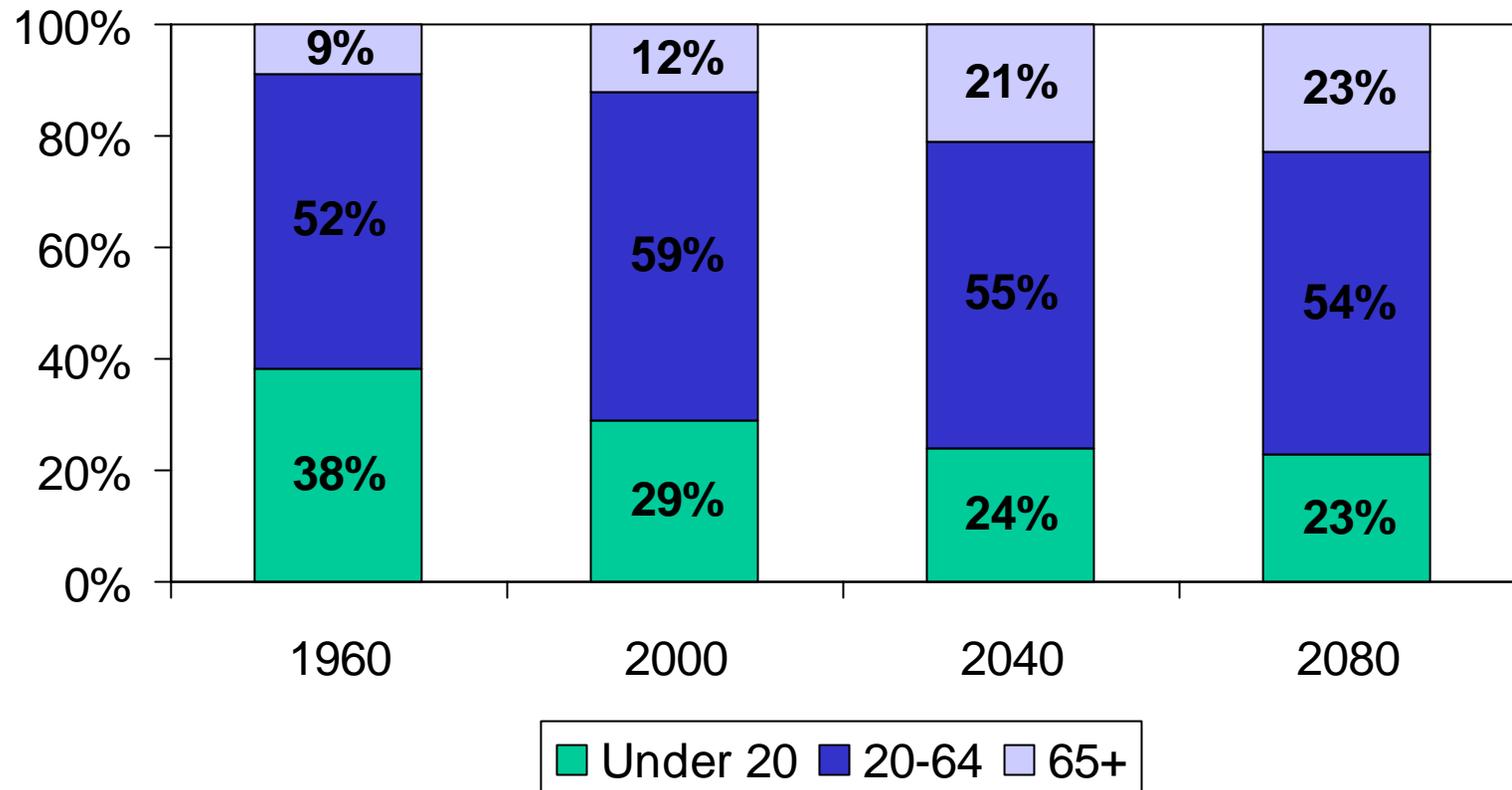
# Birth Rates Have Declined



Source: 2005 Social Security Trustees' Report



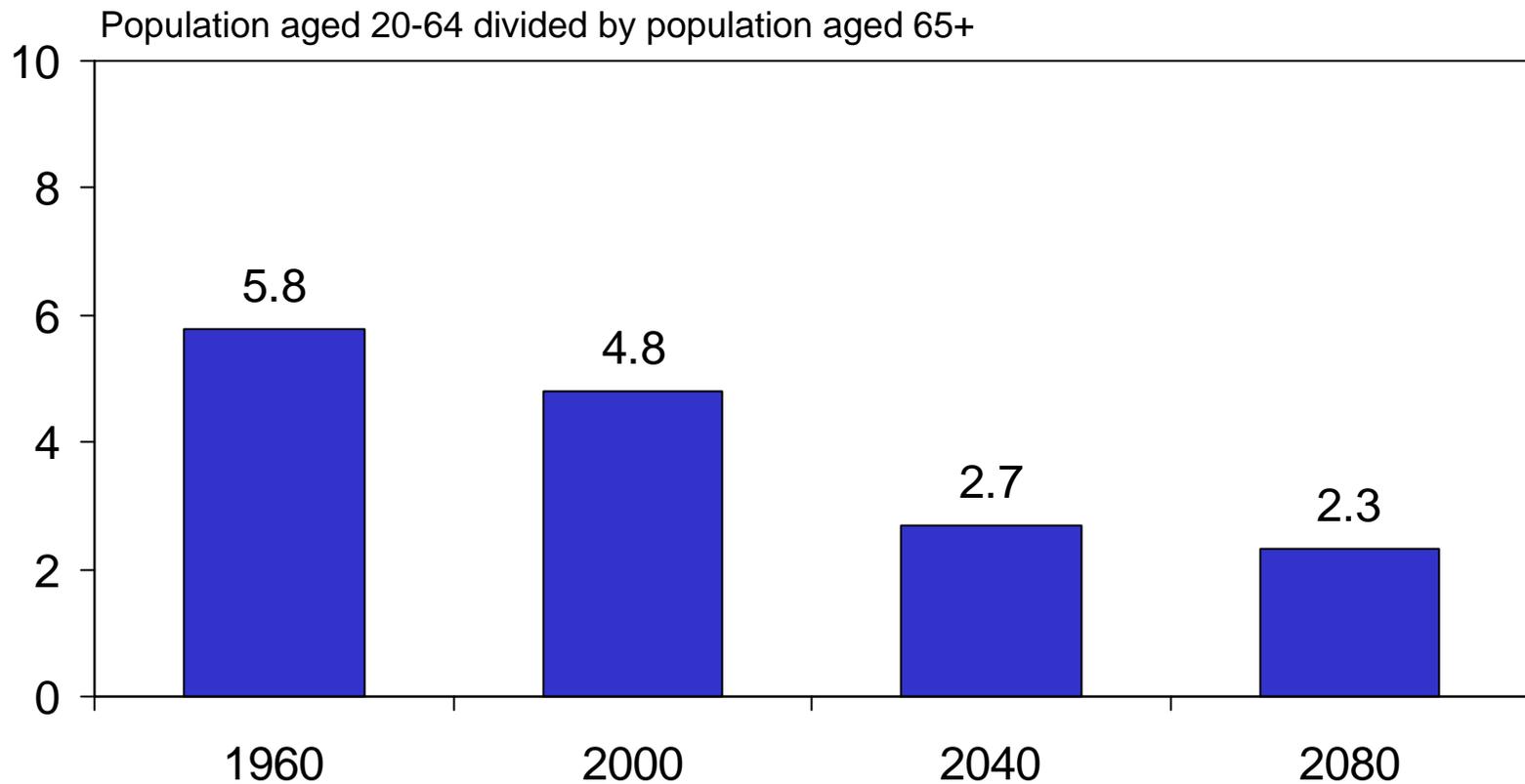
# Seniors Are a Growing Share of the Population



Source: 2005 Social Security Trustees' Report



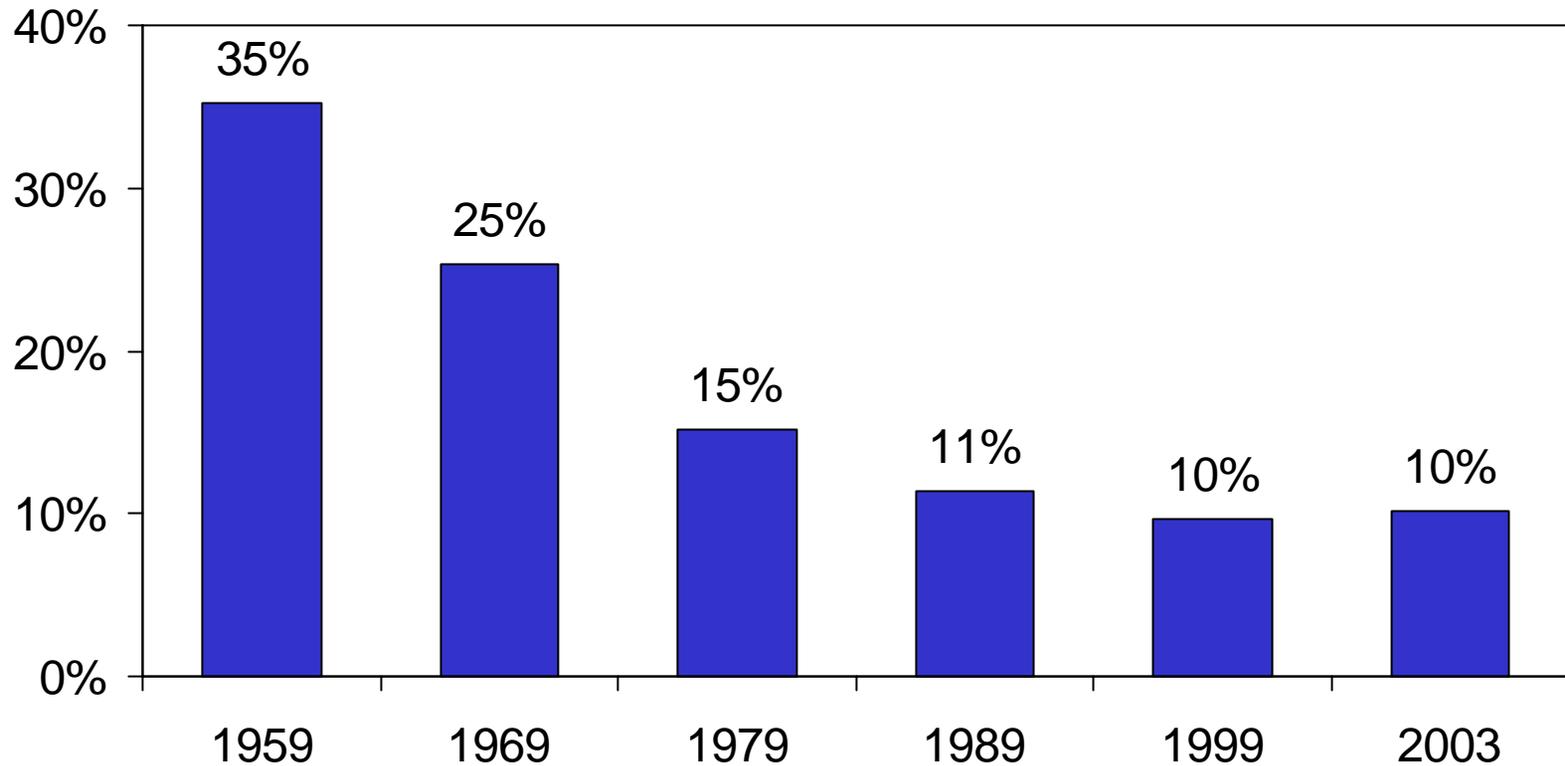
# Fewer Workers To Support Each Retiree



Source: 2005 Social Security Trustees' Report



# Poverty Rates Among Seniors Have Declined Dramatically



Source: US Census Bureau's Current Population Survey.



# Medicare

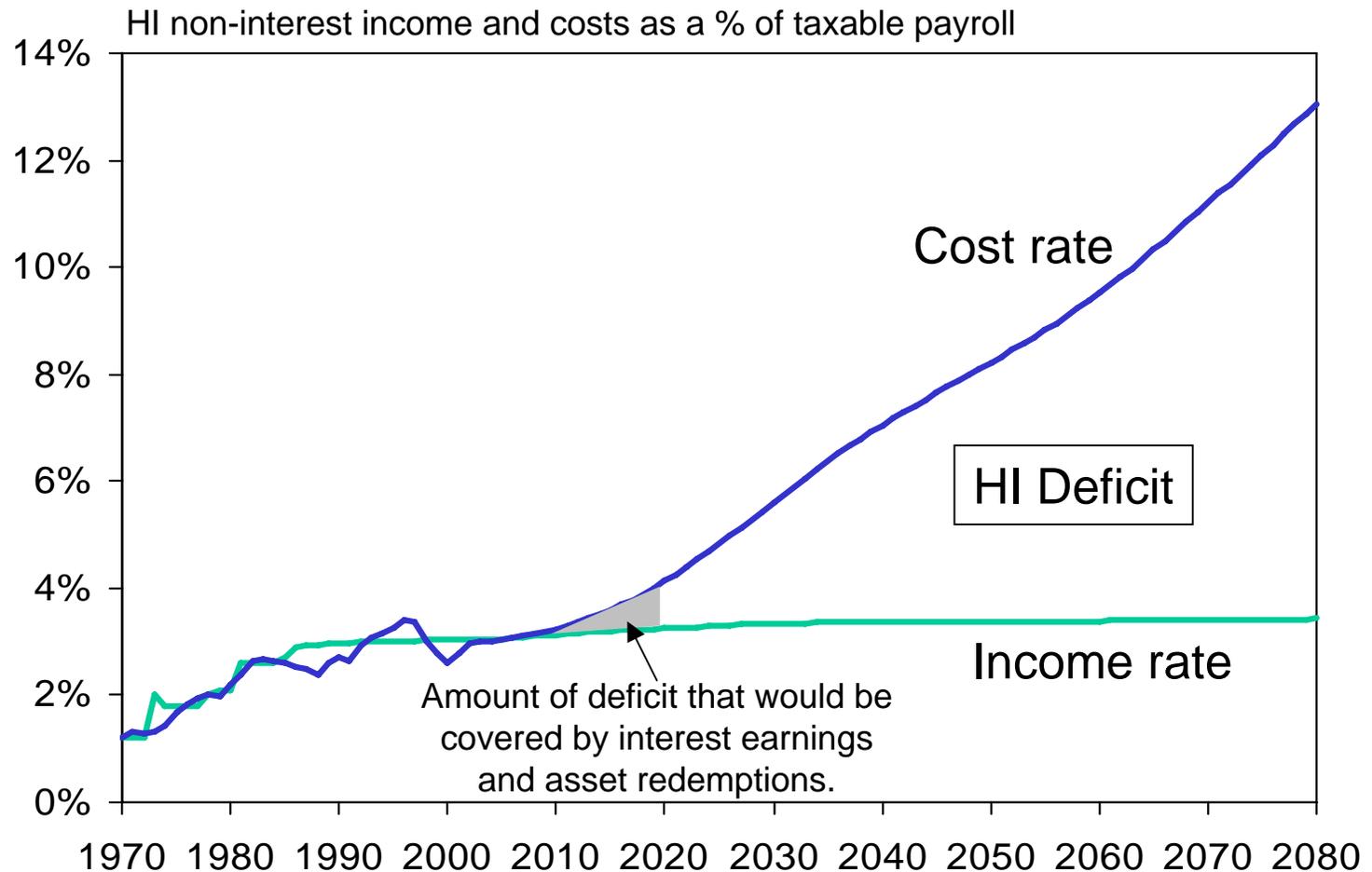


# Medicare Trust Fund Basics

	<b>Hospital Insurance (HI)</b>	<b>Supplementary Medical Insurance (SMI)</b>
Benefits	Inpatient hospital care	Physician and outpatient care; Part D benefit
Financing	Payroll taxes	Beneficiary premiums (~25%) and general tax revenues (~75%)



# HI Costs Already Exceed Non-Interest Income



Source: 2005 Medicare Trustees' Report



# Key Dates For HI Trust Fund

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- First year outgo exceeds income
  - Excluding interest income – 2004
  - Including interest income – 2012
- Year trust fund assets are depleted=2020
- Trust fund depletion date (2020) is one year later than projected last year, due to:
  - Slightly lower hospital expenditures
  - Slightly higher payroll taxes



# Bottom Line for HI Trust Fund

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- HI tax revenues will cover 79% of benefits in 2020, when trust fund assets are depleted
- HI deficit over the next 75 years = \$8.8 trillion
- Eliminating 75-year deficit would require:
  - Immediate 107% increase in payroll taxes, or
  - Immediate 48% reduction in benefits, or
  - Some combination



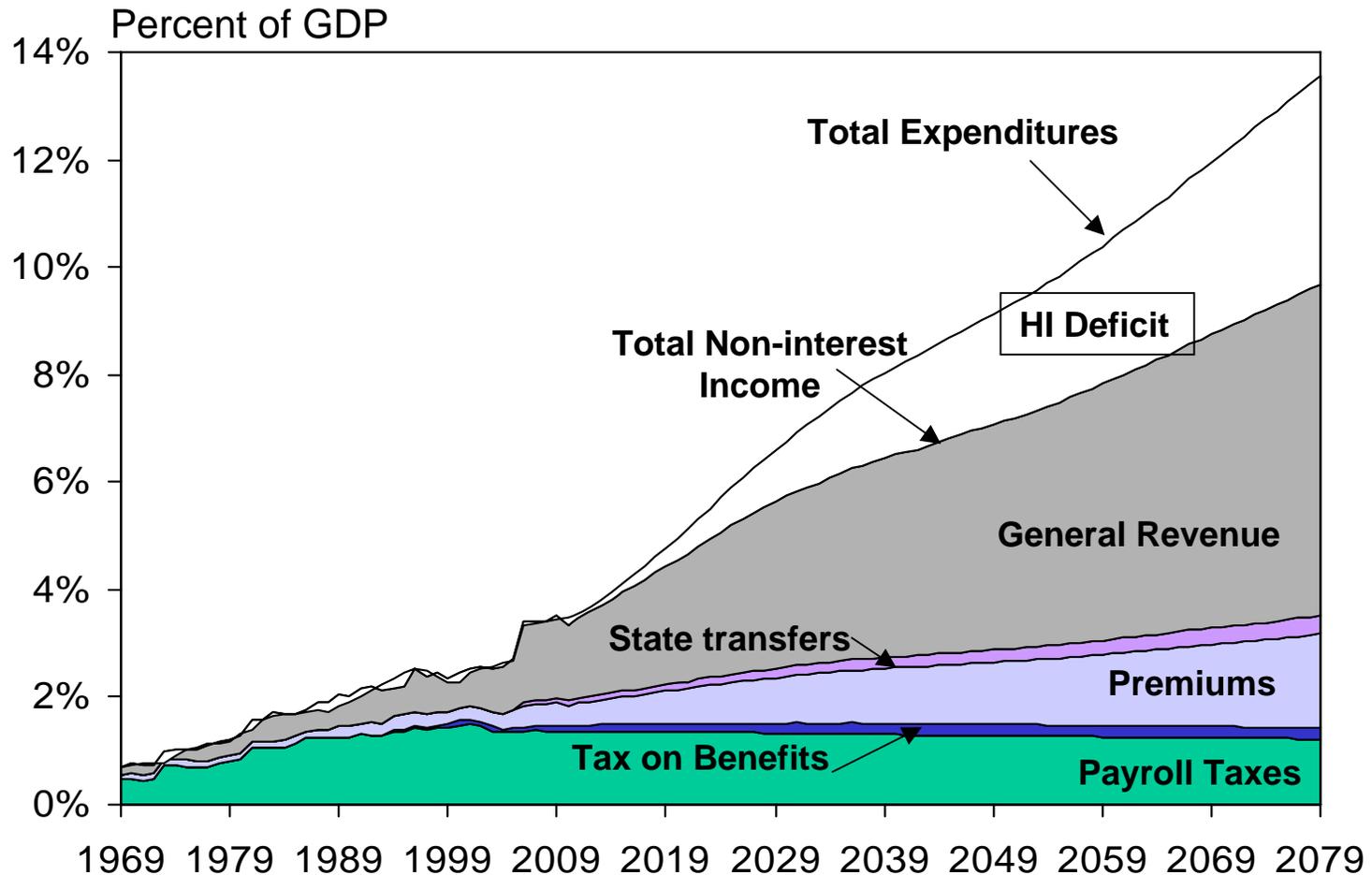
# SMI Trust Fund

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- The SMI Trust Fund, which includes new Rx benefit, is expected to remain solvent, but only because its financing is reset each year to meet projected future costs.
  - Projected increases in SMI expenditures will require increases in beneficiary premiums and general revenue contributions over time.
    - 2004 Part B monthly premium: \$66.60
    - 2005 Part B monthly premium: \$78.20
    - 2006 Part B monthly premium (projected): \$87.70
- SMI expenditures are projected to increase faster than HI expenditures. Therefore, general revenues will finance increasing share of overall Medicare expenditures.



# Total Medicare Expenditures and Income



Source: 2005 Medicare Trustees' Report



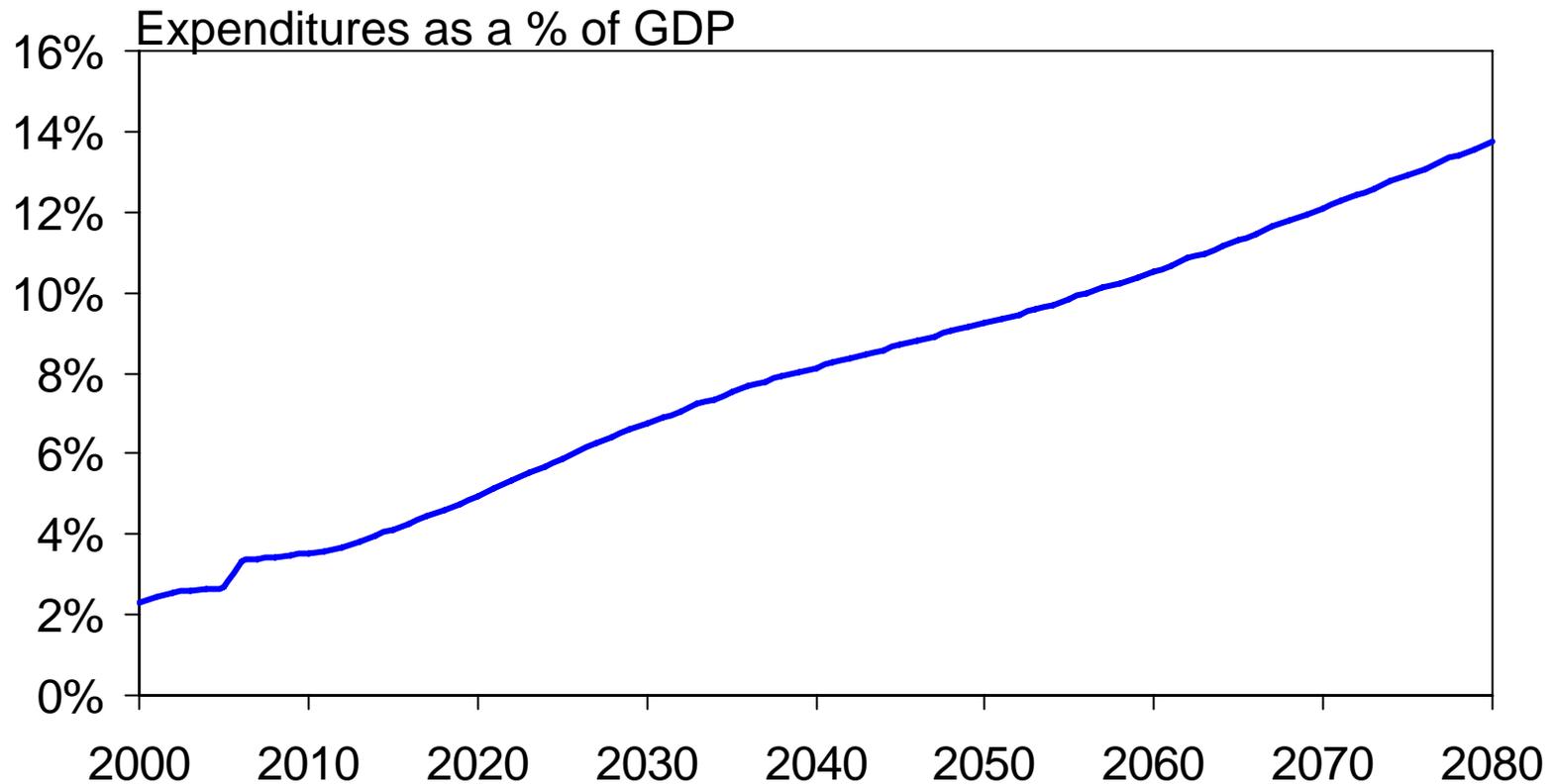
# Limit on General Revenue Financing

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- If for 2 consecutive Trustees' Reports, general funding sources account for more than 45% of Medicare spending within the next 7 years, the President is required to recommend ways to reduce this share.
  - President's legislative proposal must come within 15 days of next budget submission.
- Congress required to *consider* the legislation on an expedited basis.
- Medicare Trustees' Report estimates that the 45% threshold will be reached in 2012, thereby triggering the provision in 2007.
  - President's legislative proposal would be required in 2008.



# Rising Costs Are Key Challenge to Medicare's Long-Term Sustainability



Source: 2005 Medicare Trustees' Report



# Social Security



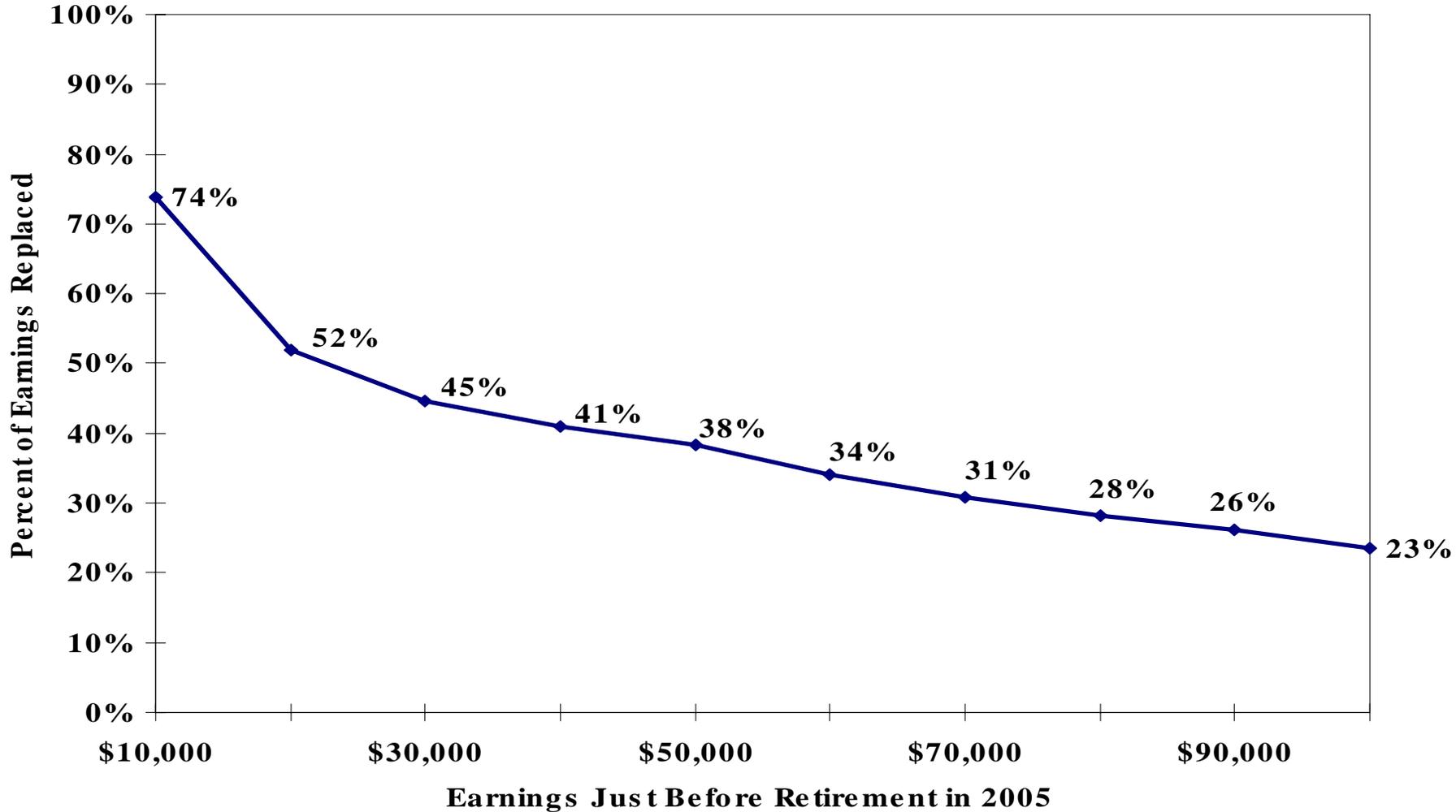
# Social Security Benefits

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- Replacement rates maintained
  - Initial benefits increase by average wages each year
- Benefits being paid increase by CPI each year
- Payable for life
  - No matter how long you live
  - No matter how bad the markets
- Disability and Survivor benefits (1/3<sup>rd</sup> of total benefits)
- Spousal benefits (at least 50% of worker's benefit)
  - Valuable for traditional family



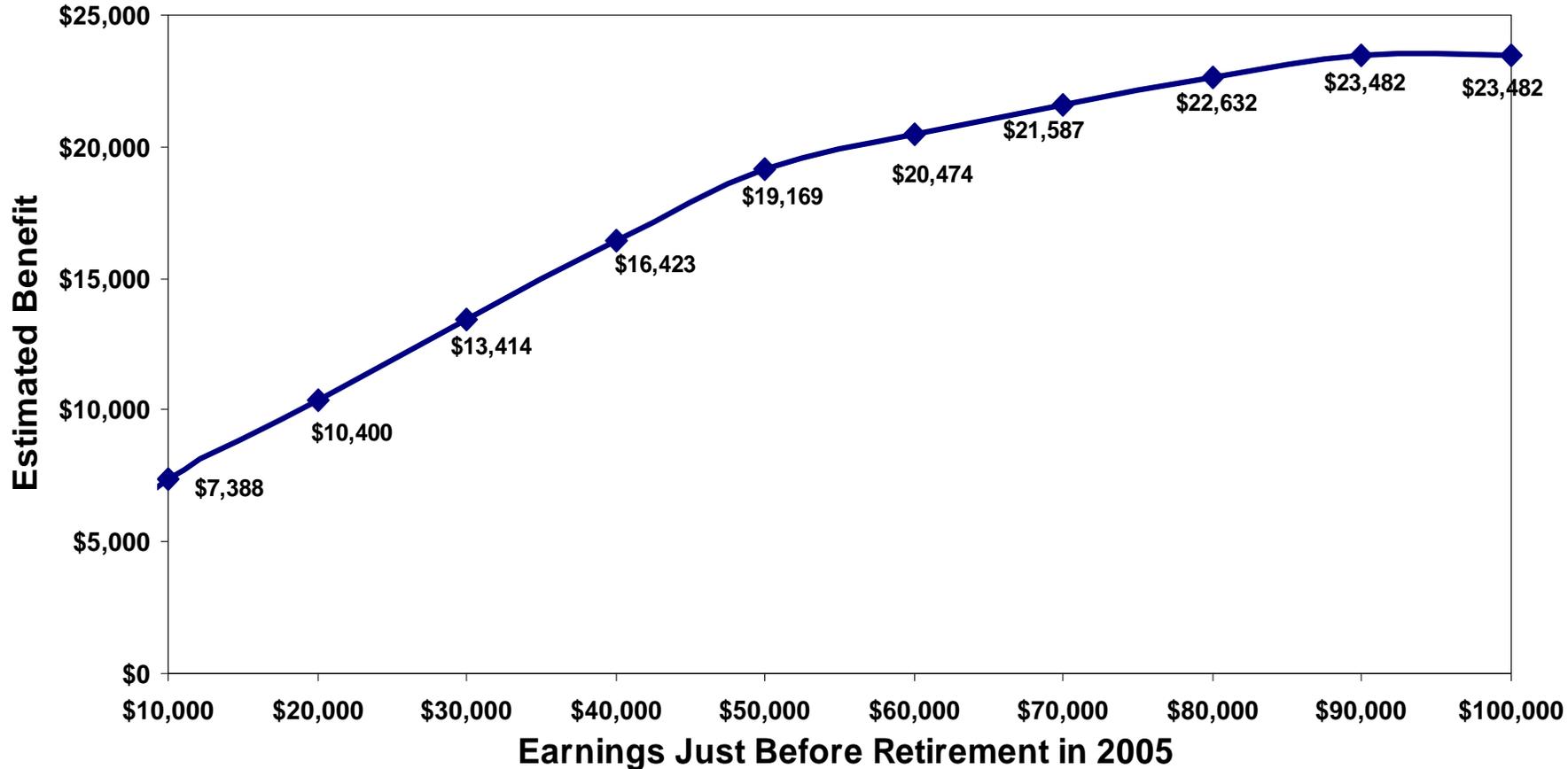
# Social Security Replacement Ratios at Normal Retirement Age (and at Disability)



See History of Provisions at [www.ssa.gov/OACT/HOP](http://www.ssa.gov/OACT/HOP). Past wages based on National Average Wage Index  
These percentages decrease by about 2 to 3 percentage points over the next 10 years, per Table VLF10 in 2005 rpt.



# Social Security Benefits at Normal Retirement Age (and at Disability)

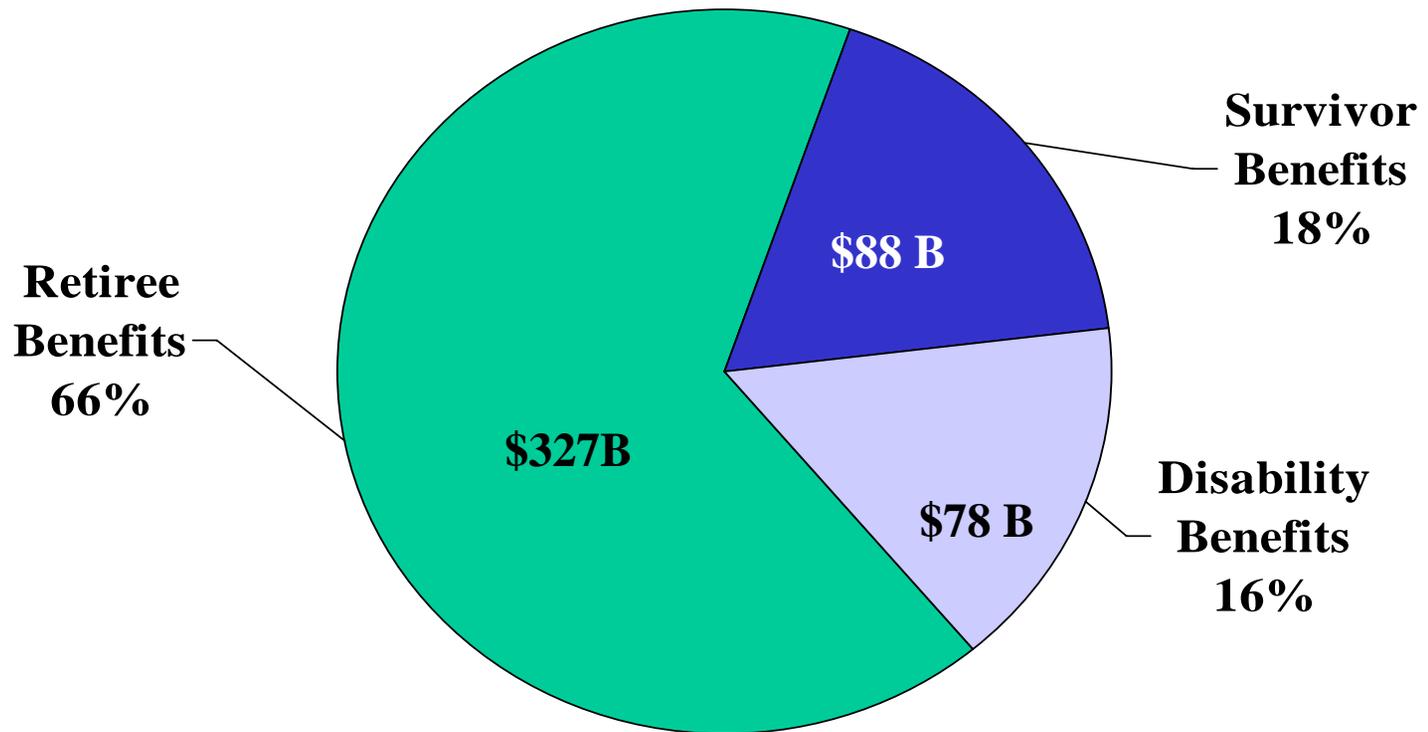


This and prior graph show the primary goals of Social Security:

- (1) **Socially Adequate** benefits (progressive benefits that are more important to lower wage earners)
- (2) **Individually Equitable** benefits (important to higher wage earners - the more contributed, the more received).



# Social Security Benefits Paid in Calendar Year 2004



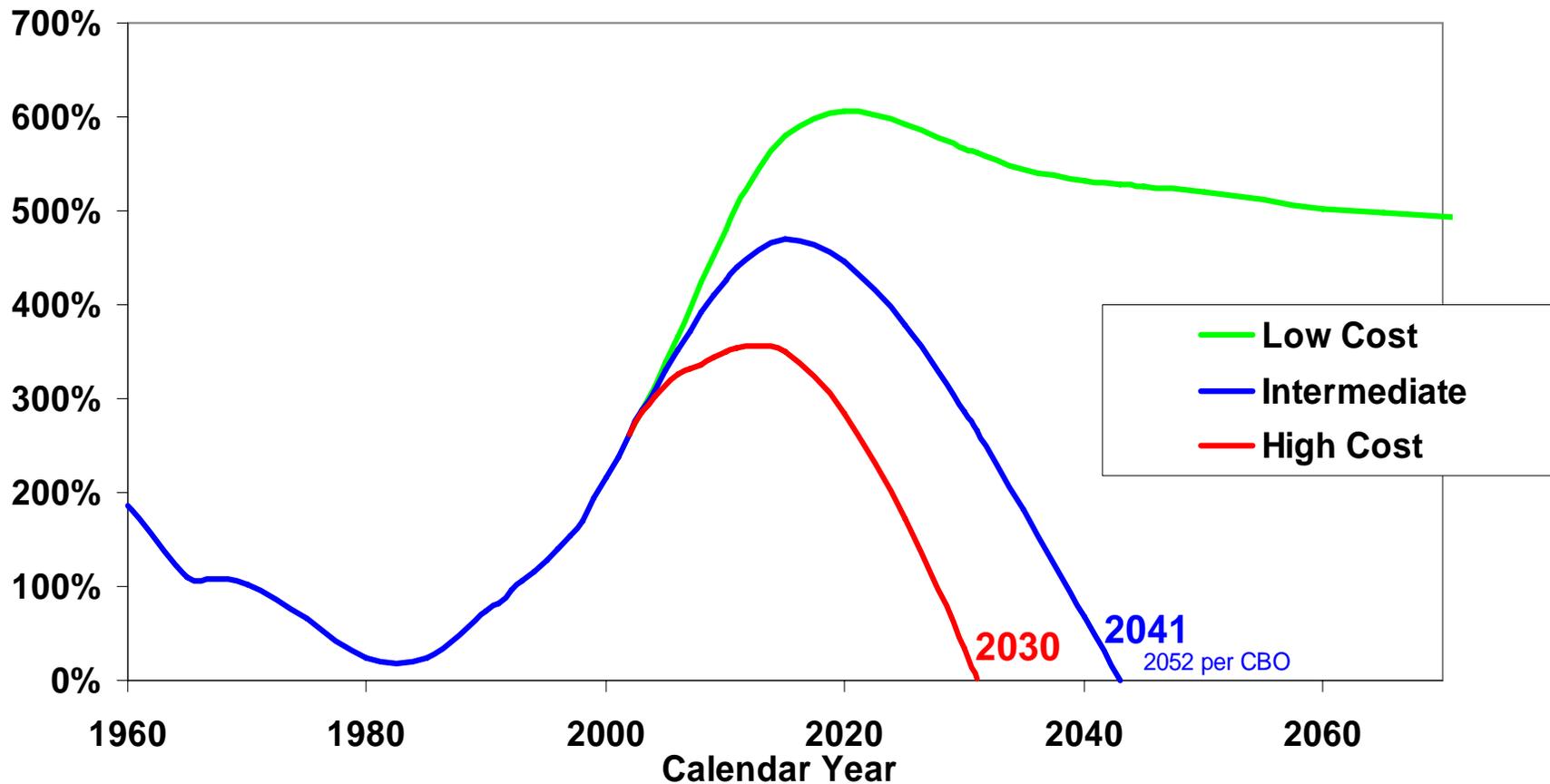
**Total Benefits Paid = \$493 Billion**

Source: 2005 Trustees' Report, Table III.A5



# Social Security Trust Fund Ratios

(Beginning of Year Assets as a % of Expenditures)



The Social Security Trust Funds are projected to be exhausted in 2041 using the Intermediate Assumptions. The assumptions are reasonable in the aggregate per GAO/PWC report & individually reasonable per SS Chief Actuary. 2005 SSA Trustees' Report: Table IV.B3. Historical Trust Fund Ratios are from VI.A4. Even on the low cost assumptions, Social Security does not meet their Sustainability Test (trust fund ratios stable or increasing around 75th year).



# Assumptions

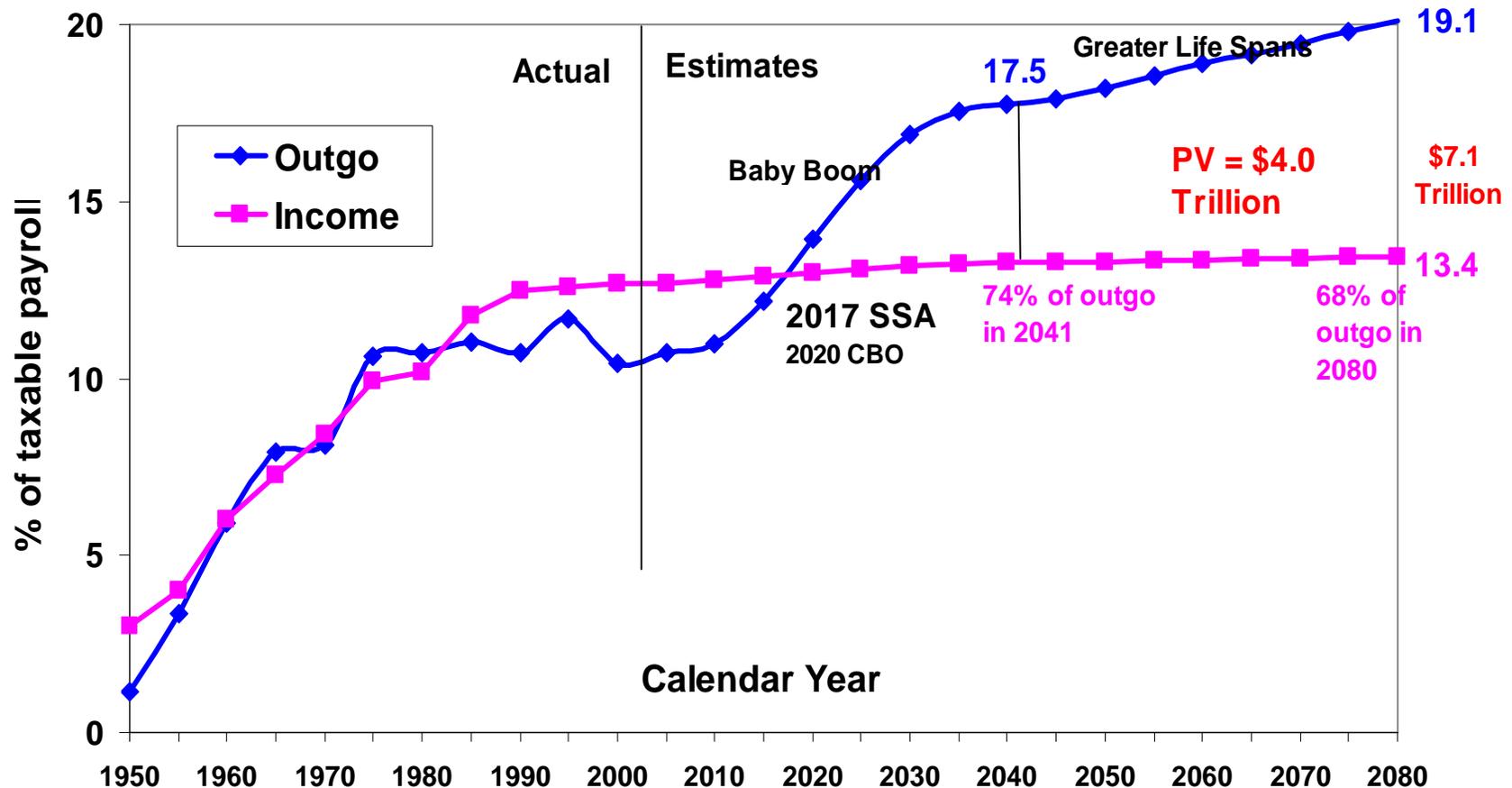
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- Demographic
  - Fertility
  - Mortality
  - Immigration
- Economic
  - Interest Rates on Treasury Bonds
  - Productivity
  - Wage Increases
  - Price Inflation
  - Labor Force Participation and Unemployment Rates



# Social Security Income & Outgo

## Intermediate Assumptions



2005 Trustees Report Table IV.B1. Using low (high) cost assumptions, the 2080 outgo is 14% (27%), and the 2017 date is 2022 (2013). It's 2027, if interest is included, per Summary. The 75-yr actuarial balance = -1.92% (1.0% per CBO), -4.96, & 0.38% of taxable payroll for the intermediate, high, & low cost assumptions, per Table IV.B4, and -3.5% (1.2% of future GDP) without the 75-yr limit per p. 59 (although we could increase SSNRA some century). Table IV.B6&7, UTL = \$12.0 T, so future workers pay for themselves & \$0.9 T of UTL



# Reasons to Reform Social Security Sooner Rather Than Later

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- More options available to us
- More people included in reform
- Benefit cuts & tax increases for future cohorts can be less, if desired
- We can phase reforms in
- We can plan ahead for the changes
- We can restore faith in SS and government

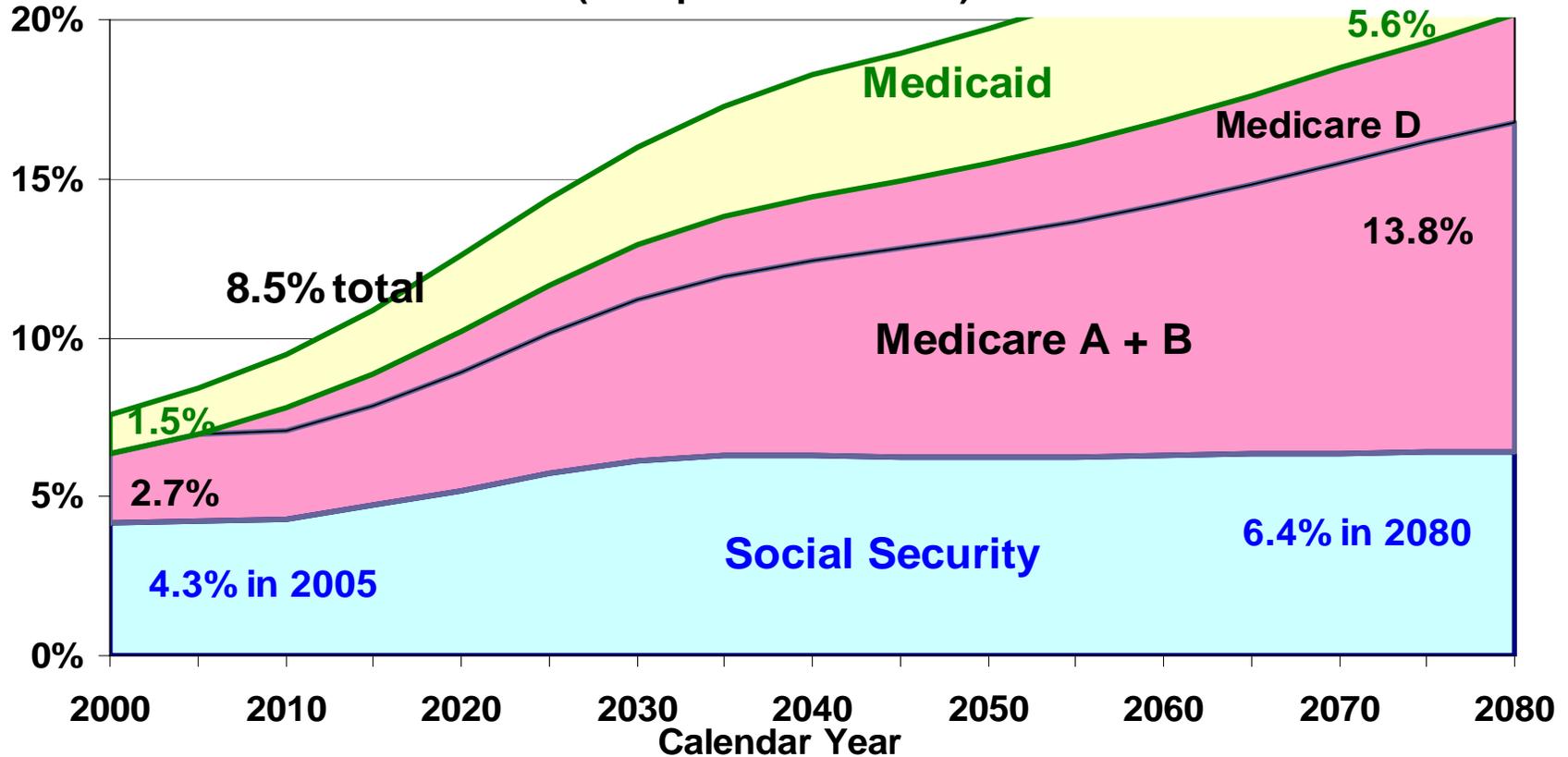
Delaying decision could force the solution to rely more on raising taxes



# Conclusion



# Total Costs of Social Security, Medicare, & Medicaid (as a percent of GDP)



Sources: 2005 OASDHI Table VI.F4; SMI from Medicare report Tables III.C14 & 20; and Medicaid from CBO's 10/2000 and 6/14/2002 reports. Today, these programs are half of non-interest government expenses. Their total costs more than triple to 26% (Medicare quintuples, surpassing SS by 2024). If estimates are accurate, they will exceed 20% of the economy, thus absorbing all federal taxes, unless taxes increase or government programs shrink.



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