



News Release

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CONTACT: Tracey Young: 202-785-7872
young@actuary.org

Social Security and Medicare Trustees' Reports Show No Significant Change

Financial Condition of Both Programs Make Case for Reforms "Sooner Rather than Later"

Washington, D.C. – The 2005 annual reports on Social Security and Medicare did not reveal any notable changes in the financial condition of either program. “The outstanding analyses prepared by the actuaries at the Social Security Administration and the Centers for Medicaid and Medicare Services, confirm that both programs face significant underfunding over the next 75 years,” said **Ron Gebhardtsbauer, the Academy’s senior pension fellow and chairperson of its Federal Agenda Task Force**. The year that Social Security benefits paid exceeds revenues collected has moved from 2018 to 2017, while the year that the trust fund’s assets are exhausted has dropped from 2042 to 2041, which are not significant differences.

“Calling for Social Security reform ‘sooner rather than later’ has been the mantra of the actuarial profession for many years,” he said. “The hard part is finding the right balance of reforms to make Social Security both solvent and sustainable for future generations, which will require leadership from both the president and Congress.”

Making Social Security solvent and sustainable will require reductions in benefits, increases in taxes, or a combination. “There is no painless way to solve Social Security’s solvency problems,” said Gebhardtsbauer. “To its credit, the administration has advanced the debate by recognizing that the personal account ideas they have been floating will not help Social Security’s solvency,” he added.

A reporter cited [the Academy’s letter](#) to the Social Security trustees in Dec. 2003 on the use of infinite horizon estimates of Social Security’s unfunded obligations during the trustee’s news conference. The infinite horizon estimate used in the report rose from \$10.4 to \$11.1 trillion. “We still believe infinite horizon estimates are unreliable and potentially misleading,” said Gebhardtsbauer.

(more)

The Medicare program faces “more imminent and severe financial problems than the Social Security program,” says **Cori Uccello, the Academy’s senior health fellow and vice-chairperson of its Federal Agenda Task Force**. “Last year, expenditures under Medicare’s Hospital Insurance (HI) program, which pays for inpatient hospital care, began to exceed its cash revenues,” she said. According to the trustees report, HI’s trust fund reserves will be depleted by 2020. At that time, HI revenues will fund only 79 percent of its costs. Medicare’s Supplementary Medical Insurance (SMI) program pays for physician and outpatient care and the new prescription drug benefit program. The SMI program will remain solvent, but only because its financing (including beneficiary premiums) is reset annually to meet projected future costs.

Projected insolvency is not Medicare’s only problem, however. “The long-range impact of Medicare’s funding problems on the federal budget and the economy are far more serious than Social Security,” said Uccello. Medicare spending will place increasing demands on the federal budget as payroll taxes cover a decreasing share of Medicare spending and general tax revenues cover an increasing share. The Trustees report estimates that Medicare costs will rise from today’s 2.6 percent of Gross Domestic Product (GDP) to 14.0 percent of GDP by 2079, a five-fold increase in its share of the economy.

Medicare and Social Security have increased the health and income security among older and disabled Americans. To ensure that future generations also benefit from these programs, the president and Congress need to implement changes to improve their financial outlook. They should explore the full range of potential options, and action should be taken sooner rather than later. The American Academy of Actuaries agrees with the trustees that the sooner the financial problems are addressed the more varied and less disruptive the solutions can be.

For further information on Social Security and Medicare reform, including publications and an on-line Social Security reform game, go to the Academy’s website at www.actuary.org.

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