The Medicare/Social Security Trustees Spring Report: A Bleak Future

The Social Security/Medicare Trustees recently published their annual report, which shows the financial wellbeing of the nation's entitlement trust funds. As expected, the report projects a gloomy outlook for the entitlement trust funds. Nevertheless, it whitewashes the underlying (and more pressing) reality. The report focuses everyone's attention on the trust funds (which scholars understand have no real money in them). However, the report ignores the huge unfunded liabilities we continue to amass, as well as the severe cash flow problems elderly entitlement programs are already creating.

I. UNFUNDED LIABILITIES

Unfunded liabilities are especially important in light of the enormous increase in unfunded obligations and cash flow deficits that are about to be added. Currently, about 100 million people depend on Medicare and Medicaid for their health care. Under President Obama's new health reform plan, an additional 100 million or so could be enrolled in public and quasi-public plans with the entitlement guarantee that their premiums will not exceed 10% of family income.

The Social Security/Medicare Trustees report shows that we have an unfunded liability in excess of $100 trillion (see table below), about 6 ½ times the size of the entire economy. This is the excess of promises we have made over and above expected taxes and premiums. To avoid draconian benefit cuts or tax increase in future years we would need to have that $100 trillion in the bank, earning interest today. But of course we do not.

	Unfunded Obligations through Infinite Horizon (2009)	**Unfunded Obligations through Infinite Horizon (2008)**	**Change from 2008 to 2009**
OASDI (Social Security)	**$17.5 trillion**	**$15.8 trillion**	**+ 1.7**
Medicare Part A	$36.7 trillion	$34.7 trillion	+ 2.0
Medicare Part B	$37.0 trillion	$34.0 trillion	+ 3.0
Medicare Part D	$15.6 trillion	$17.2 trillion	- 1.6
Total Medicare	**$89.3 trillion**	**$85.9 trillion**	**+ 3.4**
Total Medicare and Social Security	**$106.8 trillion**	**$101.7 trillion**	**+ 5.1**

The $100 trillion figure is based on looking indefinitely into the future. Yet a different way of accounting is to use the method private companies and state and local governments now have to use. If we halted these programs tomorrow, collecting no more taxes and allowing no more benefit accruals, how much do we owe people for benefits they have already earned? Answer: $52 trillion.

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II. CASH FLOW DEFICITS ARE AFFECTING GOVERNMENT REVENUES

Of more immediate concern is the cash flow problem these programs are creating. Social Security and Medicare together are paying out more than they are taking in. As the baby boomers retire, the deficit will grow dramatically. By 2012, we will need 1 in every 10 income tax dollars to cover the deficits in these two programs. By 2020, we will need 1 in 4. By 2030, we will need 1 in 2. Clearly, elderly entitlements are on a course to crowd out everything else the federal government is doing.

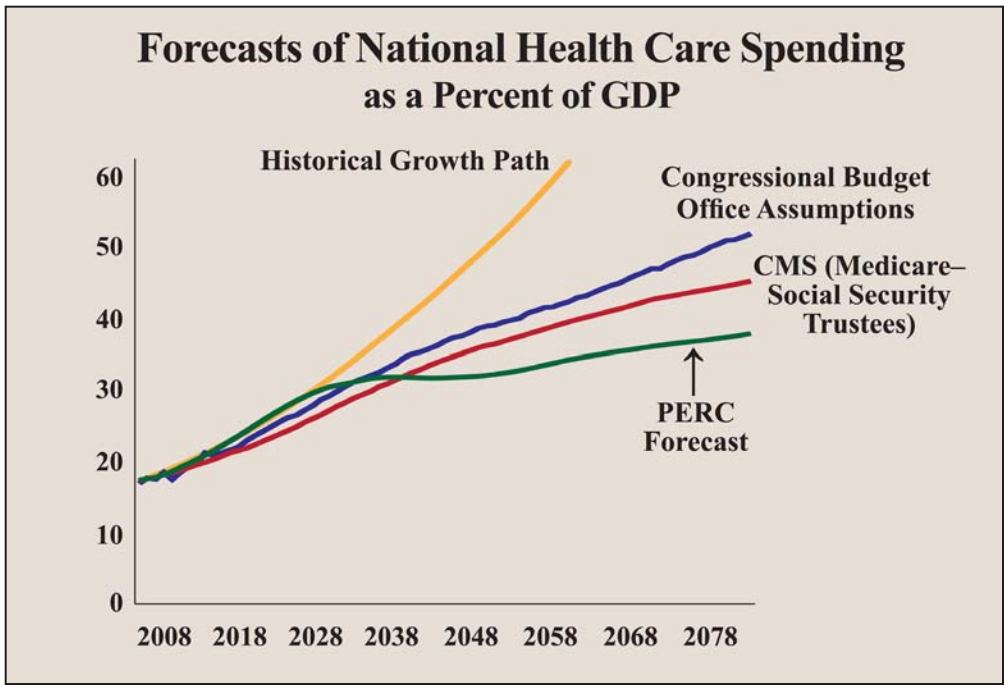
Of course, all of these numbers are based on underlying assumptions. The most important being assumptions about the growth of health care spending.

III. WHY THE REALITY IS EVEN WORSE THAN THE TRUSTEES HAVE REPORTED

The reality is even worse than reported by the Social Security/Medicare Trustees. The reason? To estimate future Medicare spending, the Social Security/Medicare Trustees and the economists at the Congressional Budget Office (CBO) must forecast how much health care spending is expected in the future. However, these government economists are not forecasting the actual path we are on!

Ignoring the current policies that are driving health care costs, these two agencies assume that health care spending will inexplicably slow down in the future. What policy changes will cause health care spending to slow down? This question is left completely unanswered. In fact, it isn't even discussed!

In reality, as the graph below shows, if we stay on our current path, the country will be spending half the national income on health care by mid-century. Yet, the CBO assumes we will be spending only 37.4%, and the Trustees only assume 34.8%. They offer no explanation about why they think health care spending will inexplicably slow down.



In their defense, the estimators note that it is simply impossible for health care to grow forever at twice the rate of growth of income. This is absolutely true. But this response confuses the problem with the solution. The job of the estimators is not to predict what changes Congress will make and when it will make them. It is to show Congress what path we are on so that it will appreciate why changes in policy are necessary.