2011 Medicare/Social Security Trustees' Report Analysis

Prepared by Senate Republican Budget and Finance Committee Staff

Today the Social Security and Medicare Trustees issued their annual reports on the financial status of the two programs. The following are the major highlights from the 2011 Trustees' reports:

Social Security

- Social Security is now permanently cash negative. Absent intra-governmental payments to the Trust Fund, Social Security is unable to pay benefits funded solely by the payroll tax.
- The Social Security Trust Fund 75-year unfunded obligation is estimated to be $6.5 trillion (old-age and disability programs combined), $1.1 trillion more than one year ago. This represents a significant deterioration in the program's financial stability.
- The combined old-age and disability Trust Funds within Social Security (OASDI) will be insolvent by 2036, one year sooner than last year's report. This also represents a significant deterioration in the program's financial stability.
- Insolvency of the combined Trust Funds, however, masks a greater danger in the Disability Insurance program (DI). According to the Trustees, the DI program will deplete its Trust Fund assets by 2018, and, therefore, does not satisfy the Trustees' 10-year "short-range" test of financial adequacy.

Medicare

Non-Stop Deficits:

- Medicare's Hospital Insurance (HI) Trust Fund continues to run annual cash flow deficits. In 2010, the deficit was $32.3 billion, thus the HI Trust Fund is already redeeming securities to pay benefits.
- The HI Trust Fund will be officially bankrupt in 2024, at which time it will no longer be able to pay full benefits for seniors. This is five years earlier than last year's projected date of exhaustion.

Unrealistic Assumptions:

- Like last year, the non-partisan Chief Actuary of the Centers for Medicare and Medicaid Services (CMS), Richard S. Foster, used his statement of actuarial opinion at end of the report to warn:

  "the financial projections shown in this report for Medicare do not represent a reasonable expectation for actual program operations in either the short range (as a result of the unsustainable reductions in physician payment rates) or in the long range (because of the strong likelihood that the statutory reductions in price updates for most categories of Medicare provider services will not be viable)."

  While the Chief Actuary encouraged readers to review his "illustrative alternative" projections that are "based on more sustainable assumptions", the link at the end of the Trustees' report to those projections was inoperative at the time of the report's release.

Massive Unfunded Obligations:

- Assuming current law remains unchanged, Medicare's total unfunded obligation over the infinite horizon is $38.4 trillion.

A Report Full of Warnings:

- The Trustees project Medicare will cover more than 45 percent of its expenses out of Treasury's general fund beginning in 2011. As a consequence, for the sixth year in a row (2006 through 2011), the Trustees made an "excess general revenue Medicare funding" determination. Two consecutive "excess general revenue Medicare funding" determinations trigger a "Medicare funding warning," which requires the President to submit (within 15 days of his next budget) a legislative proposal to address the crisis.
- The Trustees issued a Medicare funding warning for the fifth consecutive time this year (2007 through 2011). Former President Bush responded to the Medicare funding warning issued in 2007 (in his 2008 budget), but President Obama has failed to submit a single proposal to Congress to shore up Medicare's shaky finances.

Doubling Counting Gimmickry:

- Unfortunately, the Trustees' report did not address the controversy surrounding the double-counting of Medicare savings under the President's new health care law. However, in a letter responding to a request from Senators Sessions and Hatch, the Trustees *did* acknowledge that the double-counting problem is real.
- The Administration continues to claim that the health law will dramatically reduce Medicare's future cost. Over 87 percent of the reported savings accrued to Medicare

will come from decreased payments to providers. However, Medicare's chief actuary has stated that major savings in the health care law "are unlikely to be sustainable on a permanent annual basis."