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Trustees Report: Social Security and Medicare are Unsustainable

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The Social Security and Medicare Trustees today released their annual reports on the fiscal condition of the programs, and the situation for these programs is still dire.

Although the programs' fiscal health hasn't worsened since last year, both programs are still on an unsustainable course. Most significantly, the programs are running trillion-dollar shortfalls because they've promised more benefits than they can afford:

- Social Security has a \$7.9 trillion shortfall (up \$0.1 trillion from last year), which means the program would require \$7.9 trillion in cash—today!—to afford its promises. Alternatively, closing that gap would require payroll taxes to rise immediately and permanently from 12.4 percent of earnings to 14.24 percent. For a worker earning \$50,000, that's a \$920 tax increase.
- Medicare has a \$30.8 trillion shortfall. To put that into perspective, that is more than twice the size of the entire U.S. economy, which means it would be impossible to infuse enough cash into Medicare to fix the program.

However, the assumptions used to arrive at this number give new meaning to the word optimistic.

The good news for Social Security is that the [basic position of the trust fund](#) is unchanged: The trust fund, which is currently running deficits and will rebound by 2012, will begin to run deficits in 2015, and the whole piggy bank will be exhausted 2037. The bad news for workers, as the Trustees indicated, is that the main reason these dates are unchanged is that workers will be paying more in payroll taxes thanks to Obamacare, which has made a larger share of earnings subject to Social Security taxes.

The good news for Medicare—at least in theory—is that Obamacare is assumed to extend the life of the Part A Hospital Insurance trust fund by 12 years and bring the costs of outpatient Supplementary Medical Insurance (Part B) and drug benefits (Part D) down. The bad news is that it will never happen.

Indeed, the [Trustees noted that they are skeptical of their own savings projections](#):

"[Much of Medicare's projected improvement] is premised on the assumption that productivity growth in the health care sector can match that in the economy overall, rather than lag behind as has been the case in the past. This report notes that achieving this objective for long periods of time may prove difficult."

In other words, not so fast declaring victory for Medicare and Obamacare. If these assumptions turn out to be wrong—as the Trustees suggest is highly likely—the situation for Medicare will be far worse than these numbers reveal. It would be a mistake to accept them at face value.

With both programs on an unsustainable course, urgent reform is necessary. Although the Trustees report modest progress for these programs this year, we must not lose sight of the real long-term challenges these programs face and the \$39 trillion debt future generations will inherit if we fail to act now.

**Heritage Foundation analysts David John and J.D. Foster will post expanded Web Memos on the reports later today.*