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Social Security, Medicare Healthier Than Expected

Annual trustees report says health care law may help ease deficit worries

by: Melissa Preddy | from: AARP Bulletin | August 5, 2010
Social Security will be able to pay full benefits through 2037, and thanks to health care reform, Medicare will sustain itself until 2029—12 years longer than forecast a year ago—according to the trustees report released Thursday.

Both programs will last another 75 years under current funding rules, though benefit cuts of up to 25 percent for Social Security and 23 percent for Medicare might be necessary a few decades from now.

But analysts and officials say more tweaks are needed to bolster both systems—and the four trust funds that support them—amid uncertainty over rising medical costs and an expected wave of new retirees.

The yearly report examines the short-term and long-term financial health of the Medicare and Social Security systems, based on forecasts of income and outgo.

The authors admit that the forecasts are unable to account for all possible variables in the economy, employment, health care costs and demographics, but analysts say the fiscal snapshots paint an encouraging picture overall.

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Building up Medicare

Adjusting payments to providers, more taxes on high earners, and other aspects of health care reform will help stretch Medicare trust funds to 2029, the report says.

After that, the payouts to recipients—currently about 46 million—would be sustained on a pay-as-you-go basis from payroll taxes collected.

Boosting Medicare payroll taxes by 0.66 percent for all workers would make Medicare self-sustaining for the next 75 years, the report said.

However, it's unclear whether the cuts to health provider payments truly are feasible, the report cautions.

The system faces a real crunch from 2020 to 2045, when a large number of Gen-Xers will join boomers in the program.

"The financial problems facing Medicare are the same problems facing private plans and younger people: rising health care costs," said Pamela Herd, associate professor of public affairs and sociology at the University of Wisconsin-Madison. "If anything, Medicare has been more efficient than the private sector in controlling costs.

"It's clear we are going to have some savings. What's unclear is how large they will be."

As for Social Security ...

"Social Security is not in that bad of shape," said Herd. "And this has been consistent for a long time now."

Social Security this year will pay its 52.5 million recipients some $41 billion more than it takes in via payroll taxes, which have been eroded by several years of high unemployment rates. The deficit is due in part to an accounting adjustment, but a $7 billion shortfall also is expected in 2011.

The fund that covers retiree and survivor benefits—which were paid to nearly 43 million people by the end of 2009—is running a surplus. But the disability pool, which provided benefits for 9.7 million recipients last year, is on track to exhaust its own assets by 2018. Disability payouts still can be fully covered through 2037, trustees said, if lawmakers allow the retirement and survivor trust funds to be tapped.

In 2018, when the new health care law calls for taxes on "Cadillac" insurance plans, employers are expected to reduce those high-cost health benefits in favor of paying higher wages. The anticipated payroll taxes on that extra income is expected to ease Social Security deficits.

Overall, the Social Security trust fund will continue to grow because of interest income, and payouts won't begin whittling away at assets until 2025. Under current funding methods, 75 percent of benefits could be paid out through 2084.

Small changes would work

Herd, of the University of Wisconsin, says that a variety of proposed solutions could prevent benefit cuts, from hiking the retirement age to raising payroll taxes. According to the actuarial figures released today, for example, Social Security retirement, survivor and disability payments could be stabilized for 75 years by adding another 1.92 percent to the existing 12.4 percent payroll tax.

"You could easily pull it all together with a few very small changes," said Herd. "They may be changes people don't like, but they aren't dramatic and they'd prevent a 25 percent cut in benefits after 2037."

According to a Gallup poll released in July, 67 percent of Americans surveyed preferred that payroll taxes be applied to all income, instead of just the first $106,800 as it is now.

"The trustees confirm that Social Security can pay full benefits for decades, and approximately 75 percent into the future even if nothing is done," said AARP Executive Vice President John Rother.

"However, that is not good enough. AARP renews its call to act in the coming few years to shore up the system's long-term ability to pay promised benefits to retirees, survivors and those with disabilities."

"Social Security plainly faces challenges in the future, but it remains a bedrock of economic security for tens of millions of Americans and we will ensure it remains that way for generations to come," said Sander M. Levin, D-Mich., chairman of the House Ways and Means Committee.

Melissa Preddy is a Michigan-based freelance writer specializing in personal finance and consumer affairs. She formerly worked for the Detroit News.