

Social Security & Medicare: Background

The Fiscal Commission will deal with the Federal debt generally.

Part of the deficit is a short-term result of economic cycles: Deficits are run during recessions, when the government spends to stimulate private economic activity and employment, and that deficit is paid off when private economic activity, with normal tax revenues, is restored.

Another part of the deficit is a result of long-term mismatches between particular Federal program outlays and the taxes normally allocated for those outlays. The prime examples are Social Security and Medicare, because their outlays and receipts are set by law.

Social Security

Social Security is a "mandatory" program, because its benefits and payroll taxes are set by law. They are not subject to annual budget negotiations but are changed only through amendments to the law.

1. Except for the recession that began in 2008, Social Security *would* have had more than enough current payroll tax income to pay current benefits to retirees for several years. (See the pre-2008 trends on the "Social Security & Medicare" chart.) The surplus of current income would have continued to build up the trust fund.
2. At some point in the future, payroll tax income would be insufficient to pay benefits, and money would be drawn from the trust fund to make up the difference. (The trust fund holds special government bonds: *All of it is borrowed by the government.*)
3. Before this recession, the trust fund was large enough to guarantee scheduled benefits until about 2041, after which either benefits would have to be reduced or more revenue would have to be found. At a minimum, benefits would continue at a level supported by incoming payroll taxes (estimated to be about 75% of scheduled benefits).

The recession upset this, however:

- Job losses have cut the amount of Social Security payroll taxes being paid.
- Outlays have increased above the trend line, suggesting that many people who lost their jobs and were eligible for Social Security (at age 62) retired early, causing higher outlays.

Social Security no longer is building the trust fund but started drawing it down in 2009. However, Social Security is manageable with relatively minor changes, because it isn't drawing down the trust fund very quickly.

Medicare

Medicare also is a "mandatory" program.

Medicare payroll tax revenues also have been cut by high unemployment; but Medicare has been drawing down the trust fund for some time. (See the "Social Security & Medicare" chart.) Because all of the trust fund had been borrowed by the government, the government now must borrow elsewhere to pay back the trust fund.

The Medicaid deficit — the gap between Medicaid outlays and Medicaid payroll taxes, which is being paid out of the trust fund — is ballooning at an alarming rate. During the

health care reform debate, it has been estimated that the life of the Medicare trust fund is seven (7) years without changes in outlays, payroll taxes, or both.

Medicare is hit by the same accelerating costs of medical care as are people under 65 years of age. Rather than simply cut benefits to current retirees, raise payroll taxes on current workers, raise the eligibility age for Medicare, or find another source of revenue, costs of medical care nationally must be brought under control through health care reform.