RSC
Republican Study Committee
Rep. Sue Myrick (R-NC), Chairman
Neil Bradley, Executive Director
230 Cannon House Office Building
Washington, D.C. 20515
ph (202) 226-9717 / fax (202) 226-1633

Highlights from the 2004 Social Security and Medicare Trustees Report

Medicare:

- Medicare is comprised of two parts: Hospital Insurance (HI), which is Part A; and Supplemental Medical Insurance (SMI), which is Part B and the new Part D drug benefit.
- HI is collected through payroll taxes and SMI is a combination of beneficiary premiums and general revenue.
- HI and SMI expenditures as a percentage of Gross Domestic Product (GDP) are projected to increase rapidly, from 2.6 percent currently to 7.7 percent by 2035 and then to 13.8 percent by 2077 (last year's trustee's report predicted an increase to 5.3 percent by 2035 and then to 9.3 percent by 2077).
- According to the Trustees, total Medicare expenditures amount to $280.8 billion in 2003 (up from $265.7 billion in 2002) and are expected to increase in future years at a faster pace than either workers' earnings or the economy overall.
- The sharp increase reflects continuing growth in the utilization of services provided per beneficiary and the impact of a large increase in beneficiaries starting in about 2010 as the 1945-65 baby boom generation turns 65.
- In 2006, when the Medicare drug benefit is fully implemented, general revenue transfers would constitute the largest single source of income to the Medicare program last year's date was 2023). According to the Trustees, this would place a large burden on the federal budget.
- Under the cost containment provisions of last year's Medicare bill, a Medicare funding warning would be issued if general revenues are predicted to fund 45 percent of total Medicare spending within the next 7 years. The Trustees estimate that general revenues will grow from 32 percent of total Medicare spending in 2003 to 43 percent in 2006 and 45 percent in 2012.
- The HI account is running a surplus and, like Social Security, the money not used to pay benefits is invested in U.S. Treasury securities.
- Between 2003-2010, the HI account will run a surplus. **But in 2010 – only six years away – HI will not bring in enough money to cover its expenses.** At this point, money will have to be raised by cashing in Treasury securities. This means that the Federal government will transfer money from general revenues to pay for Medicare.
- The sale of Treasury securities to fund **the HI account will be exhausted by 2019 – seven years earlier than the 2003 Trustees report.**

- The HI unfunded obligations total $8.2 trillion over 75 years.
- For SMI (Parts B and D), transfers from the general fund of the treasury represent the largest source of income, covering roughly 75 percent of program costs. Beneficiaries pay monthly premiums that finance 25 percent of costs.
- Over the next 10 years, the average annual increase in SMI Part B benefit payments (expenditures) is estimated to be 6.6 percent, compared to a growth rate of 5.0 percent for GDP. Part B outlays were 1.1 percent of GDP in 2003 and are projected to grow to 4.8 percent by 2078.
- Part D benefits are also expected to rise significantly faster than GDP, with aggregate benefits increasing 9.5 percent in 2007 and rising to 11.1 percent in 2013, compared to a 5.0 percent GDP growth rate. Part D outlays were 0.02 percent of GDP in 2003 and are projected to grow to 0.67 percent in 2006 (first year of the full drug benefit), reaching 3.42 percent of GDP by 2078.
- The Trustees predict Part D drug expenditures will total $957.3 billion from 2004-2013. For the first five years of the fully implemented drug benefit, the Trustees predict expenditures of $512 billion (2006-2010). The total ten-year cost of the Medicare bill is estimated at $534 billion.

Social Security:

- Total benefits from the combined Old-Age and Survivors and Disability Insurance (OASDI) accounts totaled $471 billion in 2003. Income to the OASDI accounts totaled $632 billion.
- **For the combined OASDI accounts, benefits will exceed payroll tax receipts beginning in 2018 and "trust fund" balances will be exhausted by 2042.** This means that starting in 2018, like in the Medicare HI account, the Social Security program will have to start redeeming U.S. Treasury securities to pay benefits (these dates are unchanged from the 2003 Trustee's report).
- The present value of the OASDI deficit is $3.7 trillion – up $200 billion from 2003. It is more accurate to think of the unfunded obligation as $4.9 trillion, which includes the $1.4 trillion needed from general revenues to restore the trust fund after 2018.
- Scheduled payroll taxes would have to immediately increase from 12.4 percent to 14.29 percent or benefits would have to be reduced 13 percent to eliminate this actuarial deficit.
- **Workers under the age of 26 will reach full retirement age after the trust fund is exhausted.**
- At current tax rates, in 2042, beneficiaries will only receive 73 percent or less of their promised benefits. This means that those young Americans are paying the full tax rate, but will receive only a fraction of the benefits those before them received.
- By 2078, beneficiaries will see benefits cut by 32 percent.

Note: The estimates and outlooks above assume no change in the current benefit structure of Medicare or Social Security.