RSC
Republican Study Committee

Rep. Sue Myrick (R-NC), Chairman
Neil Bradley, Executive Director

432 Cannon House Office Building
Washington, D.C. 20515

www.house.gov/burton/RSC
ph (202) 226-9717 • fax (202) 226-1633

Highlights from the 2003 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.
- 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 5.3 percent by 2035 and then to 9.3 percent by 2077 (meaning that **1 of every 10 dollars** in the economy will go to Medicare).
- According to the Trustees, total Medicare expenditures amount to $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.
- By 2023, under current law, general revenue transfers would constitute the largest single source of income to the Medicare program. According to the Trustees, this would place a large burden on the federal budget.
- 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 2003-2012, the HI account will run a surplus. **But in 2012 – only nine 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 2026 – four years earlier than the 2002 Trustees report.**
- The Trustees recommend an immediate increase in payroll tax to 5.3 percent or a 5.3 percent cut in expenditures, or an immediate 42 percent cut in benefits, in order to keep the HI account sustainable for the long run.
- In sum, the outlook for HI (Part A) is severe:
  1. Taxes are estimated to cover only 1/3rd of program spending by 2077.
  2. There is a $6 trillion present value shortfall in Part A.
  3. HI expenditures will increase from 1.44 percent of GDP to 4.91 percent of GDP.

4. In order to correct the long-term imbalance in the HI fund, taxes would have to increase immediately by 71 percent, benefits would have to be cut immediately by 42 percent, or some combination of the two.

- For SMI (Part B), 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 benefit payments (expenditures) is estimated to be 7.1 percent, compared to a growth rate of 5.3 percent for GDP. SMI outlays were 1.1 percent of GDP in 2002 and are projected to grow to 4.2 percent by 2077.

- In sum, the outlook for SMI is also grave:
  1. 12.4 percent would have to be withheld from Social Security benefits to match program growth over the next 20 years. In contrast, in 2002 about 6.8 percent of Social Security benefits were withheld from beneficiaries to pay their Part B premiums.
  2. Part B general revenues totaled 7.8 percent of personal and corporate income taxes collected in 2002. By 2077, Part B general revenue financing would represent 32 percent of total income taxes.

Social Security:

- Total benefits from the combined Old-Age and Survivors and Disability Insurance (OASDI) accounts totaled $453.8 billion in 2002. Income to the OASDI accounts totaled $627 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.

- The present value of the OASDI deficit is $3.5 trillion – up $200 billion from 2002. 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 increase by 50 percent, from 12.4 percent to 18.9 percent by 2077, to eliminate this actuarial deficit.

- **Workers under the age of 27 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 2077, beneficiaries will see benefits cut by 35 percent.

Note: The estimates and outlooks above assume no change in the current benefit structure of Medicare or Social Security. For example, adding a stand-alone prescription drug benefit would dramatically affect the date of Medicare insolvency and cause the program to go bankrupt sooner.