REPUBLICAN CAUCUS

THE COMMITTEE ON THE BUDGET

B-71 Cannon House Office Building
Washington, DC 20515
Representative Paul D. Ryan, *Ranking Republican*

Phone: (202)-226-7270
Fax: (202)-226-7174
Augustine T. Smythe, *Republican Staff Director*

FACT SHEET

MEDICARE, SOCIAL SECURITY FINANCIAL STATUS

25 March 2008

Medicare and Social Security continue to face a mounting, and increasingly urgent, financial crisis that threatens the stability of both the Federal budget and the U.S. economy, according to the annual reports released today by Trustees for each of the programs. The Medicare report also issues a third consecutive warning about the amount of funding the program is drawing from resources other than its dedicated revenue. Here are some of the key findings of the reports:

MEDICARE AND SOCIAL SECURITY COMBINED

- **Combined Projected Costs.** Combined spending for the two programs, currently about 37 percent of total Federal outlays, or 7.5 percent of gross domestic product [GDP]), is projected to double in roughly 3 decades. It then will continue growing to nearly 20 percent of the economy – about the size of the entire Federal Government today. This projected spending growth results from three principal factors:
    - *Demographics*. The U.S. population is shifting to one with a greater percentage of retirees drawing benefits from the two programs, and significantly slower growth in the labor force. This change in the country's demographic makeup will continue through the entire century.
    - *Growth in Benefits*. Under the programs' current structures, benefits will outpace economic growth as well as annual dedicated resources.
    - *Health Care Costs.* Rising health care costs generally will continue to exert upward pressure on Medicare spending. These costs also will tend to reduce the share of compensation workers receive in wages subject to the Social Security payroll tax, slowing the growth in payroll tax receipts to the retirement program.
- **Unfunded Liabilities.** Current obligations in the two programs outpace projected resources by $40 trillion over the next 75 years. That figure will grow by approximately $14 trillion over the next 5 years, to $54 trillion (see chart on the next page).

MEDICARE

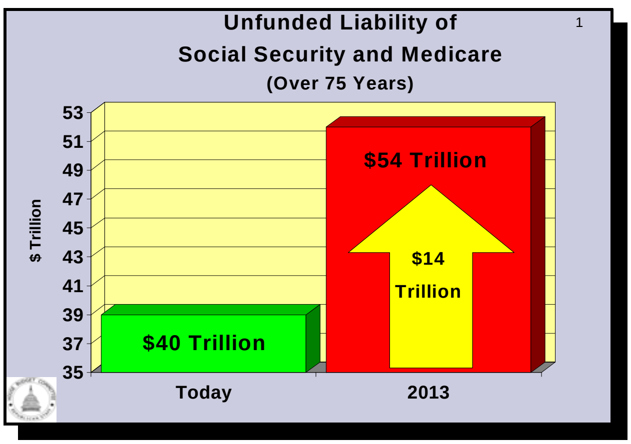
- **Cash Flow Shortfall.** Medicare's Hospital Insurance program is already paying out more than it collects in payroll taxes and other dedicated revenue. Overall, Medicare is drawing 12.3 percent of Federal income tax revenue to support its spending, and this percentage will double in the next 15 years, and triple in the next 25 years.
- **Third Consecutive Funding Warning.** For the third consecutive year, the Trustees' Report warns that Medicare spending will exceed dedicated revenue by more than 45 percent within the next 7 years.

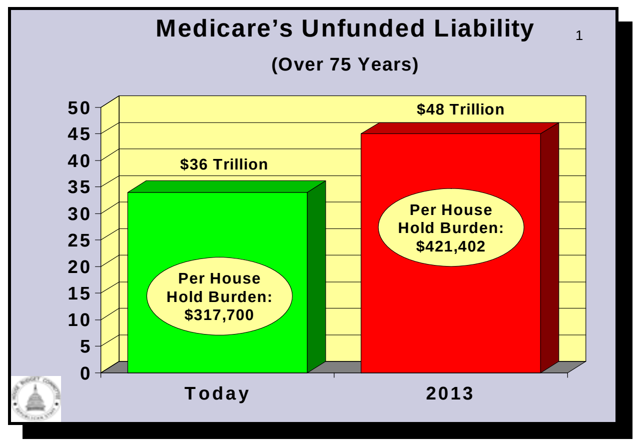
- *Legislation Required.* Under the 2003 Medicare Modernization Act [MMA], the second such warning, issued last year, required the President to submit legislation addressing the shortfall, and called for Congress to consider the proposal on an expedited basis.

- *Recent Administration Proposal.* The President recently submitted legislation in response to last year's warning. Congress has ignored the measure.

- **Projected Trust Fund Exhaustion.** Reserves in the Medicare Hospital Insurance Trust Fund are projected to be exhausted in just 11 years, by 2019. Under the program's current structure, bringing Medicare into actuarial balance over the next 75 years would require an immediate 51-percent reduction in outlays, a 122-percent increase in the payroll tax, or some combination of the two.

- **Unfunded Liabilities.** Medicare's obligations over the next 75 years now exceed the program's dedicated resources by $36 trillion – a $2-trillion increase from just 1 year ago – and that amount will grow to $48 trillion in the next 5 years (see chart below). Although the overall unfunded liability has grown, the long-term obligation for Medicare Part D (the prescription drug program) has actually declined due to market competition and lower-than-expected drug costs.





SOCIAL SECURITY

- **Forthcoming Cash Flow Deficit.** By 2017 – less than a decade from now – Social Security benefits will outpace the program's income from payroll taxes. This means the program will have to begin drawing down bonds in the Social Security Trust Fund to meet its obligations. The cash to redeem those bonds can come from only three sources: 1) reductions in other government programs; 2) higher taxes; 3) higher budget deficits.

- **Projected Trust Fund Exhaustion.** In 2041, the Social Security Trust Fund will be completely exhausted. This will leave the program insolvent, and it will fall 22 percent short of amounts needed to meet scheduled benefits.

- **Unfunded Liabilities.** According to the Trustees' Report, the unfunded liability of Social Security is $4.3 trillion. (The estimate is slightly less than last year's figure, but this is mainly due to a change in projection methods.) The unfunded liabilities are growing by $300 billion to $400 billion per year.