

Money Talks May 2023

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A March 2023 survey found that more than 90% of Americans worry about the Social Security program and about half of those said they worry a great deal. A separate survey the same month found that more than 80% of Americans worry Medicare will not be able to provide the same level of benefits in the future.

These concerns are well-founded, because both of these programs face serious fiscal challenges that require Congressional action. And the longer Congress waits to act, the more extreme the solutions will have to be. Even so, it's important to keep in mind that neither of these programs is in danger of collapsing completely. The question is what type of changes will be required to rescue them.

The fundamental problem facing both programs is the aging of the American population. Today's workers pay taxes to fund benefits received by today's retirees, and with lower birth rates and longer life spans, there are fewer workers paying into the programs and more retirees receiving benefits for a longer period of time. In 1960, there were 5.1 workers for each Social Security beneficiary, in 2023 there are 2.7, dropping steadily to 2.2 by 2045.

Payroll taxes from today's workers, along with income taxes on Social Security benefits, go into interest bearing trust funds. During times when payroll taxes and other income exceed benefit payments, these funds built up reserve assets. But now the reserves are being depleted as they supplement payroll taxes and other income to meet scheduled benefit payments. Each year, the Trustees of Social Security and Medicare Trust Funds provide detailed reports to Congress that track the programs' current financial condition and projected financial outlook. These reports have warned for years that the trust funds would be depleted in the not-too-distant future, and the most recent reports, both released on March 31, 2023, suggest that the future may arrive even sooner than expected.

Social Security consists of two programs, the Old-Age and Survivors Insurance (OASI) program and the Disability Insurance (DI) program. The OASI Trust fund is projected to be depleted in 2033 while the DI Trust fund, on stronger footing, is not projected to be depleted until 2097. Under current law, these two funds cannot be combined but the Trustees also provide an estimate for the combined program, which would extend full benefits another year, to 2034, at which time, income revenue would pay only 80% of scheduled benefits.

Medicare also has two funds, covering Part A and another for Parts B and Part D. The Hospital Insurance Trust, covering Part A, reserves are projected to be depleted in 2031. At that time, the revenue would pay only 89% of the program's costs. The Supplementary Medical Insurance Trust Fund, covering Parts B and D, are expected to have sufficient funds as they are automatically balanced through premiums and revenue from the federal government's general fund.

The Trustees of both programs continue to urge Congress to address these shortfalls soon, so the solutions will be less drastic and may be implemented gradually. Many options have been suggested

but any permanent fix to Social Security would likely require a combination of changes. Based on past changes to these programs, it's likely that any future changes would primarily affect future beneficiaries and have a relatively small effect on those already receiving benefits. While neither Social Security nor Medicare is in danger of disappearing, it would be wise to maintain a strong retirement savings strategy to prepare for potential changes to America's Safety Net.