JOINT ECONOMIC COMMITTEE
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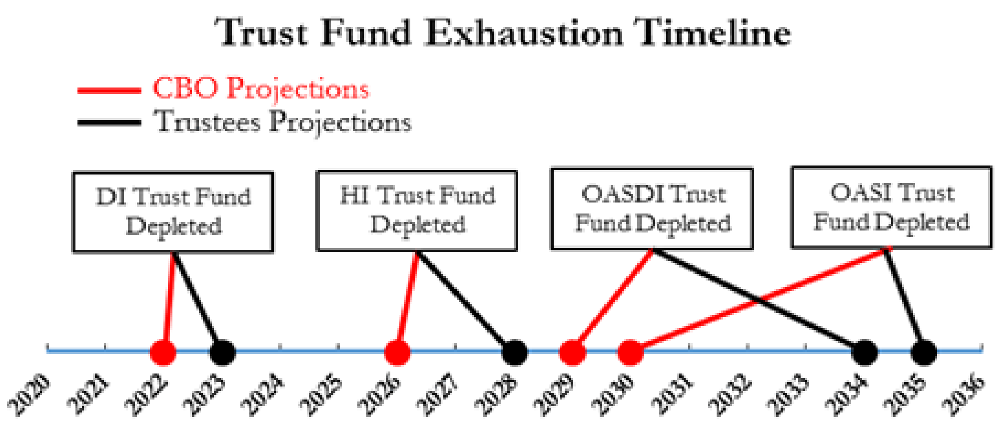
# If You Thought Insolvency Warnings from the Social Security and Medicare Trustees Were Dire, Check out CBO's New Projections

1. **Social Security bankruptcy is looming.** Under current law, once Social Security trust funds are depleted, automatic benefit cuts kick in. Both the Social Security and Medicare trustees (trustees)[i] and the Congressional Budget Office (CBO)[ii] expect the first bankruptcy to occur in the Social Security program for people unable to work due to a disability (Disability Insurance, or DI). CBO expects this will happen in 2022, one year earlier than the trustees projected. CBO projects the much larger program for retirees and their dependents (Old-Age and Survivors Insurance, or OASI) will be insolvent in 2030, five years earlier than the trustees' projection of 2035. Although the two programs' trust funds are legally separate, both CBO and the trustees state a hypothetical insolvency date for the combined programs (known together as OASDI) of 2029 and 2034, respectively.

| | OASI | DI | Combined Social Security (OASDI) |
|---|---|---|---|
| **Trustees** | 2035 | 2023 | 2034 |
| **CBO** | **2030** | **2022** | **2029** |

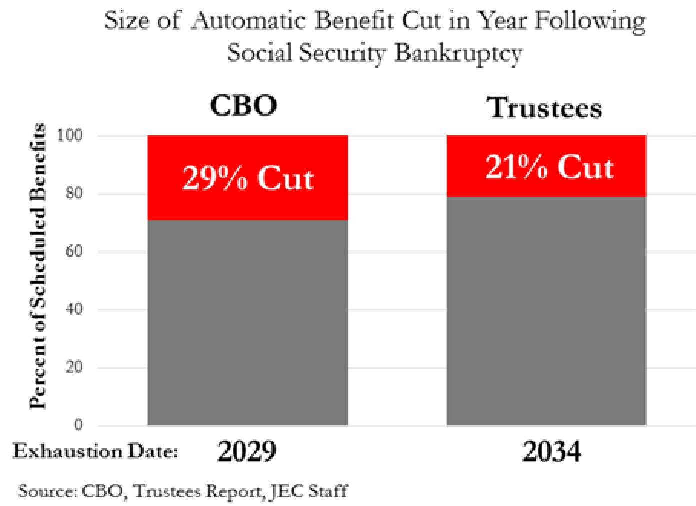
2. **Social Security bankruptcy could occur sooner than either projection.** The trustees' projections rely on an annual Gross Domestic Product growth rate of 2.7 percent from 2015-2025, a rate higher than anything we've seen in a decade. CBO's earlier bankruptcy date of 2029 for the combined programs reflects a much more realistic average growth rate of 2.1 percent. However, even CBO's projection may be too optimistic, since the Federal Reserve recently downgraded its own growth projections to 2 percent for 2016-2018.[iii]



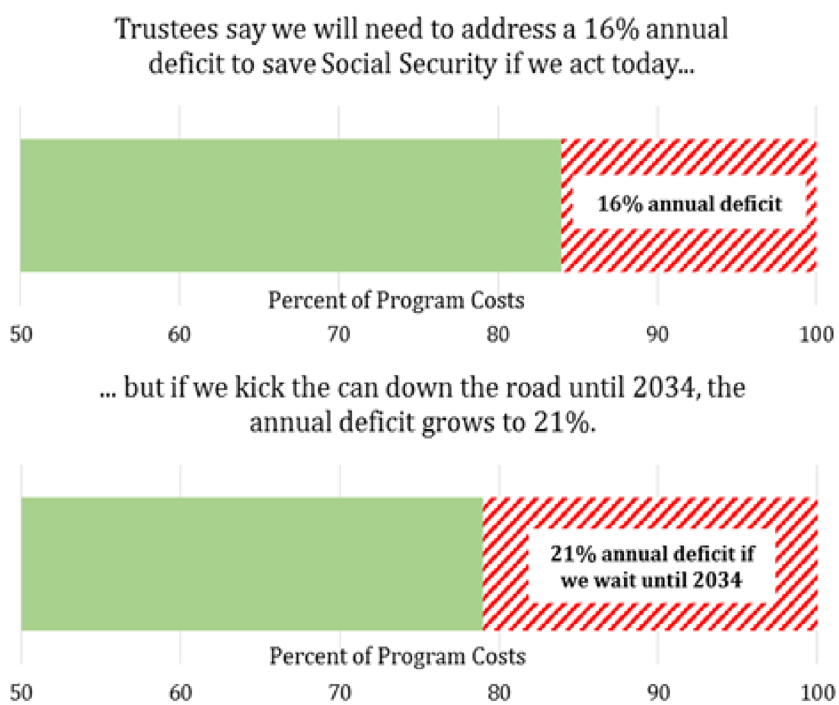

3. **Medicare Hospital Insurance (HI) bankruptcy threatens seniors' access to care.** The HI trust fund finances the hospital-related services covered by Medicare Part A. CBO projects that HI will be depleted in 2026, two years earlier than the trustees projected. At that point, the law requires payments to Part A health plans and providers to be cut to match revenues from HI payroll taxes. The trustees project an 11 percent cut in 2028,[iv] and while CBO did not list a percentage cut, CBO noted that "beneficiaries' access to health care services covered under Part A almost certainly would be reduced as well."[v] It is also important to remember that the Affordable Care Act (ACA) imposed cuts affecting Part A providers that are scheduled to go into effect before the HI trust fund becomes insolvent. The first set are productivity-based cuts premised on productivity within the health care industry increasing at the same rate as the rest of the economy, which has not been the case in recent history. Additionally, the ACA's Independent Payment

Advisory Board can propose cuts on hospitals beginning in 2018 if overall Medicare growth is exceeding its targets. The combination of all these cuts will make it harder for seniors to find the lifesaving services they may need. Sensible reforms now would prevent more drastic measures in the future.

4. **Unless we change course, retirees and people with disabilities are doomed to face automatic benefit cuts.** When the Social Security trust funds are exhausted, the Social Security Administration will be forced to shift from the current system of "scheduled benefits" (what beneficiaries are "owed" under the current benefit formula) to "payable benefits" (the amount the trust funds are able to pay based on incoming revenues). The trustees project that Social Security will only be able to pay 89 percent of scheduled disability benefits in 2023 and that retiree benefits will be cut to 77 percent of scheduled benefits in 2035, or a combined cut of 21 percent for both programs after 2034. CBO projects a more severe cut of 29 percent for both programs after 2029, five years sooner.




5. **Delaying reforms needed to save Social Security will only cause more pain in the future.** OASI has been paying out more in benefits than it takes in through taxes every year since 2010. DI also has a cash-flow problem, which required it to be propped up last year by temporary transfers of OASI revenue. We cannot save Social Security by simply shifting money from one troubled fund to another. It will become increasingly difficult to protect those in or near retirement from drastic changes the longer Congress waits to act. While CBO did not make a similar calculation based on its 2029 insolvency date, the trustees forecast that the scope of changes needed to stabilize Social Security amount to a 16 percent annual long-term deficit if they were implemented today. This grows to a 21 percent annual deficit if action is delayed until the combined trust funds are exhausted.

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i "The 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds," Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, June 22, 2016, https://www.ssa.gov/OACT/TR/2016/tr2016.pdf.

ii "The 2016 Long-Term Budget Outlook," Congressional Budget Office, July 2016, https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/51580-LTBO.pdf.

iii "Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy, June 2016," United Federal Reserve, June 15, 2016, https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20160615.pdf.

iv "2016 Annual Report of the Boards of Trustees of the Federal Hopsital Insurance and Federal Supplementary medical Insurance Trust Funds," The Board of Trustees, Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, June 22, 2016, https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/ReportsTrustFunds/Downloads/TR2016.pdf.

v CBO, p. 45.