



**THE CONCORD
COALITION**

1011 Arlington Blvd
Suite 300
Arlington, VA 22209

Tel: (703) 894-6222
Fax: (703) 894-6231
concordcoalition.org

FOR IMMEDIATE RELEASE:
Monday, July 28, 2014

CONTACT: Steve Winn (703) 254-7828
swinn@concordcoalition.org

**TRUSTEES' REPORTS UNDERSCORE NEED FOR PROMPT REFORMS TO MAKE
MEDICARE, SOCIAL SECURITY PROGRAMS SUSTAINABLE**

WASHINGTON -- The Concord Coalition said today that the new reports from the Social Security and Medicare trustees highlight the need for prompt reform of federal entitlement programs, with further delays in such work creating a particular problem for Social Security's Disability Insurance program.

"As in past years, the trustees' annual reports remind us that without broad reforms, Social Security and Medicare will increasingly squeeze other parts of the federal budget while putting steady upward pressure on annual deficits and the nation's level of debt," said Robert L. Bixby, Concord's executive director. "The basic reasons for this are no mystery: an aging population and rising health care costs."

"These programs are critical to millions of Americans of all ages," he added, "which is why Washington must take steps soon to ensure that we meet the fiscal and demographic challenges ahead."

The trustees' reports confirm again that Social Security and Medicare Part A (Hospital Insurance), which are primarily funded by payroll taxes, are paying out more than they are taking in. Consequently, they are becoming more reliant on general government revenues to make up the difference.

Premiums for Medicare Parts B and D are designed to only cover about a fourth of their costs. The remaining funding comes through their open pipelines to the U.S. Treasury.

The combined general-revenue subsidy for Medicare and Social Security was \$366 billion in Fiscal 2013, according to the trustees. Of that total, \$267 billion went to Medicare and \$99 billion to Social Security.

Concord has long argued that policymakers and the public should focus more on the programs' cash flows rather than on their trust fund balances. Cash flows show how these programs impact the overall federal budget and the American taxpayer. Trust fund balances, on the other hand, simply show how much one part of government owes another.

Although the trustees' projections about trust fund "solvency" garner much attention every year, those

projections really say nothing about fiscal sustainability. With or without the trust funds, the government would need to find money somewhere to finance the benefits that it promises to deliver.

Social Security's Disability Insurance program deserves special attention in the coming year. Its trust fund is still projected to become "insolvent" in 2016. If Congress fails to take corrective action by then, beneficiaries will face a 19 percent across-the-board cut to their benefits.

Washington ran into a similar problem 20 years ago. Congress approved what seemed like an easy solution at the time, simply shifting revenue from the Old Age and Survivors Insurance (OASI) trust fund to disability benefits. This, however, ducked the long-term problem.

While calling for legislation to address all of Social Security's financial imbalances, the trustees say in this year's report that the need for congressional action has become "most urgent" with the Disability Insurance (DI) program.

In an additional message, Social Security's two public trustees warn that the disability program's situation "signals that the time has arrived for reforms that strengthen the financing outlooks for OASI and DI alike." They also note that of the two funds, "OASI faces the larger long-term imbalance between income and obligations."

Bixby cautions against a short-term approach: "To avoid difficulties with Disability Insurance in 2016, the temptation will be to simply grab some of the money flowing to the Old Age and Survivors trust fund. But this would just be a short-sighted accounting fix, essentially a gimmick. The same amount of money would be flowing into the combined Social Security programs and the same amount of money would be flowing out. It wouldn't change the need for Social Security to rely more and more on general revenues in the years ahead. So elected officials should take a more comprehensive approach that would put all of Social Security -- and ideally Medicare as well -- onto a more sustainable path while enabling the government to adequately fund other important programs as well."

In recent years the growth of health care costs has slowed. This has led the trustees to reduce projected growth in Medicare substantially and is good news for the federal budget. Since the 2012 trustees' report, projected Medicare costs in 2040 are down by around 1 percent of GDP -- an almost 15 percent decrease.

However, the trustees point out that achieving this reduction will require health care providers to "generate and sustain unprecedented levels of productivity gains" -- a task the trustees say will be "very challenging and uncertain."

Furthermore, this highlights an undeniable tension for those who use recent good news on health care costs to deny the overall magnitude of the budget challenges ahead.

Josh Gordon, Concord's policy director, says: "For all of the recent good news on health care cost

growth, the trustees point out that continuing the trend will require a transformation of the U.S. health care system through means that are still mostly untested and uncertain. And even successful transformation of health care would simply hold spending and debt to the current problematic projections. We are left still needing Congress and the President to take action, and they should do it sooner rather than later.”

###

The Concord Coalition is a nonpartisan, grassroots organization dedicated to fiscal responsibility. Since 1992, Concord has worked to educate the public about the causes and consequences of the federal deficit and debt, and to develop realistic solutions for sustainable budgets. For more fiscal news and analysis, visit concordcoalition.org and follow us on Twitter: [@ConcordC](https://twitter.com/ConcordC)