



Some food for thought, etc.

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The Future of Social Security and Medicare: Here's What Trustees Are Projecting

Most Americans will eventually receive Social Security and Medicare benefits. Each year, the Trustees of the Social Security and Medicare Trust Funds release lengthy reports to Congress that assess the health of these important programs. The newest reports, released on April 22, 2019, discuss the current financial condition and ongoing financial challenges that both programs face, and project a Social Security cost-of-living adjustment (COLA) for 2020.



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What are the Social Security and Medicare Trust Funds?

Social Security: The Social Security program consists of two parts. Retired workers, their families, and survivors of workers receive monthly benefits under the Old-Age and Survivors Insurance (OASI) program; disabled workers and their families receive monthly benefits under the Disability Insurance (DI) program. The combined programs are referred to as OASDI. Each program has a financial account (a trust fund) that holds the Social Security payroll taxes that are collected to pay Social Security benefits. Other income (reimbursements from the General Fund of the U.S. Treasury and income tax revenue from benefit taxation) is also deposited in these accounts. Money that is not needed in the current year to pay benefits and administrative costs is invested (by law) in special Treasury bonds that are guaranteed by the U.S. government and earn interest. As a result, the Social Security Trust Funds have built up reserves that can be used to cover benefit obligations if payroll tax income is insufficient to pay full benefits.

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Note that the Trustees provide certain projections based on the combined OASI and DI (OASDI) Trust Funds. However, these projections are theoretical, because the trusts are separate, and generally one program's taxes and reserves cannot be used to fund the other program.

Medicare: There are two Medicare trust funds. The Hospital Insurance (HI) Trust Fund helps pay for hospital care (Medicare Part A costs). The Supplementary Medical Insurance (SMI) Trust Fund comprises two separate accounts, one covering Medicare Part B (which helps pay for physician and outpatient costs) and one covering Medicare Part D (which helps cover the prescription drug benefit).

Highlights of Social Security Trustees Report

- Social Security's total cost is projected to exceed its total income (including interest) in 2020 and remain higher for the next 75 years. The U.S. Treasury will need to withdraw from trust fund reserves to help pay benefits. The Trustees project that the combined trust fund reserves (OASDI) will be depleted in 2035, one year later than projected in last year's report, unless Congress acts.
- Once the combined trust fund reserves are depleted, payroll tax revenue alone should still be sufficient to pay about 80% of scheduled benefits for 2035, with the percentage falling gradually to 75% by 2093.
- The OASI Trust Fund, when considered separately, is projected to be depleted in 2034. Payroll tax revenue alone would then be sufficient to pay 77% of scheduled benefits. These figures are unchanged from last year's report.
- The DI Trust Fund is expected to be depleted in 2052, 20 years later than projected in last year's report. The significant depletion date change reflects the fact that both benefit applications and the total number of disabled workers currently receiving benefits have been declining over the past few years. Once the DI Trust Fund is depleted, payroll tax revenue alone would be sufficient to pay 91% of scheduled benefits.
- Based on the "intermediate" assumptions in this year's report, the Social Security Administration is projecting that the cost-of-living adjustment (COLA), announced in the fall of 2019, will be 1.8%. This COLA would apply to benefits starting in January 2020.



Why are Social Security and Medicare facing financial challenges?

Social Security and Medicare are funded primarily through the collection of payroll taxes. Because of demographic and economic factors, including higher retirement rates and lower birth rates, there will be fewer workers per beneficiary over the long term, worsening the strain on the trust funds.



What is being done to address these challenges?

Currently, not much, but both reports urge Congress to address the financial challenges facing these programs soon, so that solutions will be less drastic and may be implemented gradually, lessening the impact on the public. Combining some of these solutions may also lessen the impact of any one solution.

Some Social Security reform proposals on the table are:

- Raising the current Social Security payroll tax rate. According to this year's report, an immediate and permanent payroll tax increase of 2.7 percentage points to 15.1% would be necessary to address the long-range revenue shortfall (3.65 percentage points to 16.05% if the increase started in 2035).
- Raising or eliminating the ceiling on wages currently subject to Social Security payroll taxes (\$132,900 in 2019).
- Raising the full retirement age beyond the currently scheduled age of 67 (for anyone born in 1960 or later).
- Reducing future benefits. According to this year's report, to address the long-term revenue shortfall, scheduled benefits would have to be immediately and permanently reduced by about 17% for all current and future beneficiaries, or by about 20% if reductions were applied only to those who initially become eligible for benefits in 2019 or later.
- Changing the benefit formula that is used to calculate benefits.
- Calculating the annual cost-of-living adjustment for benefits differently.

You can view a combined summary of the 2019 Social Security and Medicare Trustees Reports and a full copy of the Social Security report at ssa.gov. You can find the full Medicare report at cms.gov.

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Recipe of the Month

Alfredo Mostaccioli

Prep Total Time: 25 mins.

Ingredients:

- *1 (16 ounce) package mostaccioli*
- *1 cup heavy cream*
- *1/2 cup butter*
- *1/2 cup grated Parmesan cheese*
- *1 cup chopped fresh parsley*
- *1 teaspoon salt*
- *1/4 teaspoon freshly ground black pepper*
- *1/8 teaspoon garlic powder*



Directions:

- Bring a large pot of lightly salted water to a boil. Add pasta and cook for 8 to 10 minutes or until al dente; drain.
- Combine heavy cream and butter in a Dutch oven or large, heavy saucepan over medium heat. Heat until butter melts, stirring occasionally; be careful not to bring mixture to a boil. Stir in Parmesan cheese, parsley, salt, pepper and garlic powder. Toss with cooked pasta and serve immediately.

Original recipe makes 8 servings.