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Medicare's Problems Growing Worse, Trustees Say

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WASHINGTON — The financial condition of Medicare is growing progressively worse and its problems will soon eclipse those of Social Security, the trustees of the government's two biggest programs said today.

But the warning — for all its urgency — appeared unlikely to spur major action during an election year. Virtually every American family pays Social Security and Medicare taxes or collects benefits from the pension and health insurance programs — or both.
The trustees' report provides an annual accounting of the programs' long-term financial health. Four of the six trustees are senior officials of the administration and two are independent experts chosen to represent the public.

Social Security, which provides cash payments to 48-million elderly and disabled Americans, faces a financial outlook little changed from a year ago, the trustees said. Expenses were projected to overtake income after 2017, as last year, and to deplete the program's financial cushion in 2040, one year earlier than estimated a year ago. Unless changes are made, Social Security will then be able to pay only 74% of promised benefits.

Medicare is a more serious matter. The soaring cost of healthcare has the program on the edge of bankruptcy.

The huge Medicare fund for inpatient hospital care will not be able to cover the full amount of billings beginning in 2018, two years earlier than estimated last year. The Medicare fund has been in dire straits before — as recently as 1997 it was only four years from insolvency — but with 78 million baby boomers about to become eligible for benefits, the challenge now is far greater.

Health and Human Services Secretary Michael Leavitt urged Congress to adopt President Bush's budget proposal for $36 billion in Medicare cuts over the next five years as a down payment, but lawmakers have expressed reluctance to tackle any spending reductions this year. As a fallback, the administration is pressing for creation of a bipartisan commission to study the problem and make recommendations.

Part of the dilemma is that Bush and Congress have significantly increased Medicare benefits in recent years. As a result of the new prescription program, spending per beneficiary is expected to grow by nearly 33% this year.

Unlike Social Security, which is expected to run annual surpluses through 2017, the Medicare trust fund for inpatient hospital care is forecast to spend more than it collects beginning in 2010.

And that is only the beginning of Medicare's woes. Expenses for doctors' visits and the new prescription drug program, which are financed from general income tax revenue supplemented by beneficiary co-payments, are soaring.

According to the reading of the trustees' report by the private National Center for Policy Analysis, maintaining benefit levels would cost Medicare about $7.50 for every $1 for Social Security — or $32 trillion for the next 75 years. The new drug program alone, although it is costing less than the trustees' estimated last year because

fewer potential beneficiaries are signing up, would drain twice as much from the Treasury as Social Security would.

As a percentage of national economic output, the trustees said, Medicare's expenses will rise from a formidable 2.7% to an unmanageable 11% in 2080. It would surpass Social Security as the government's biggest program in 2028 and nearly double Social Security in 2080.

"The projections shown in this report continue to demonstrate the need for timely and effective action to address Medicare's financial challenges," the trustees wrote.

By contrast, Social Security's problems seem like a walk in the park. In 2005, revenue from all sources — mostly the payroll tax but also profits on investments plus taxation of the benefits of well-to-do recipients — exceeded benefit payments and administrative costs by $172 billion.

But as the baby boom generation reaches full retirement age between 2012 and 2031, the number of workers per beneficiary will decline from 3.2 to 2.2. The Social Security trust fund, which pays benefits not only for retired workers and spouses and minor children of deceased workers but also for the disabled, will reach a peak of $2.5 trillion in 2017 and then begin an indefinite plunge that will leave it broke in 2040.

At that point, Social Security will be able to pay only the benefits it can finance out of that year's payroll tax revenue — 74% of benefits promised by current law. That share would decline gradually, and by 2080, the payroll tax would be sufficient to pay only 70% of promised benefits.

Altogether, the trustees reported, the trust fund would need $4.6 trillion more in order to pay all benefits promised.

If Congress chose to plug the gap solely by raising more revenue, it would have to jack up Social Security's share of the payroll tax — now 12.4%, shared equally by employers and workers — by an immediate 2.02 percentage points. If it chose only to cut benefits, it would have to slash them now by 13.3%.

The longer Congress waits, the trustees said, the bigger the tax increases and benefit cuts would have to be.

Politicians of all stripes found cause in the trustees' report to support their position.

Sen. Jim DeMint (R-S.C.), a supporter of President Bush's proposal to replace a share of payroll tax payments with contributions to personal investment accounts, said the report showed the program in "critical condition." He accused Democrats of "driving Social Security and Medicare over the cliff of financial instability."

Senate Democratic Leader Harry Reid of Nevada said the trustees' report "confirms that, despite White House scare tactics, Social Security remains sound for decades to come. The real threat to Social Security comes from Republicans."