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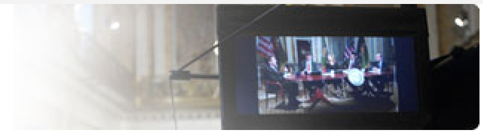

Statement of Secretary Lew on the Release of the Social Security and Medicare Trustees Reports

7/28/2014

For the Social Security Report, visit link.
For the Medicare Report, visit link.
For the summaries of both Reports, visit link.

The Social Security and Medicare Boards of Trustees met this morning to complete their annual financial review of the programs and to transmit their Reports to Congress. I'd like to welcome my fellow Trustees. I also want to acknowledge the chief actuaries, Stephen Goss and Paul Spitalnic and their staffs. Thank you all for your hard work.

Today's reports make clear that while both Social Security and Medicare have sufficient resources to meet their obligations for at least the next decade, it is important that we put in place reforms to strengthen these programs. Fundamentally, Social Security and Medicare benefits are secure today, but reform will be needed so that they will continue to be there for current and future retirees.

When considered on a combined basis, Social Security's retirement and disability programs have dedicated resources sufficient to cover benefits for the next 19 years. But, as was true last year, it is projected that the combined Social Security Trust Funds will be exhausted in 2033 and incoming revenues will be insufficient to maintain payment of full benefits. Medicare's Hospital Insurance (HI) Trust Fund is projected to exhaust its assets in 2030, 4 years later than was projected in last year's report, and 13 years later than was projected in the last report released prior to passage of the Affordable Care Act.

Social Security's Disability Insurance (DI) program faces the most immediate financing shortfall of any of the separate trust funds. The Trustees project trust fund depletion in 2016, the same year projected in the last Trustees Report. Legislation will be needed to address this financial imbalance. As has occurred many times in the past, a reallocation of revenues between the retirement and disability trust funds will likely be required to rebalance the two Trust Funds, while broader reforms should be put in place to extend their combined lifespan.

Social Security's total expenditures have exceeded non-interest income of its combined trust funds since 2010, and the Trustees estimate that Social Security costs will exceed non-interest income throughout the 75-year projection period. Since the cash-flow deficit will be less than interest earnings through 2019, reserves of the combined trust funds will continue to grow until then. After 2019, Treasury will redeem trust fund asset reserves to the extent that program cost exceeds tax revenue and interest earnings until depletion of total trust fund reserves in 2033, the same year projected in last year's Trustees Report. Thereafter, tax income would be sufficient to pay about three-quarters of scheduled benefits through the end of the projection period in 2088.

Relative to Social Security's combined trust funds, the Medicare Hospital Insurance Trust Fund faces a somewhat more immediate funding shortfall, though its longer term financial outlook is better. The projected date of HI Trust Fund depletion is 2030, four years later than projected in last year's report. At that time, dedicated revenues will be sufficient to pay 85 percent of HI costs. The Trustees project that the share of HI cost that can be financed with HI dedicated revenues will decline slowly to 75 percent in 2047 and will then stay about flat. The projected 75-year actuarial deficit in the HI Trust Fund is 0.87 percent of taxable payroll, down from 1.11 percent projected in last year's report.

The improvement in the outlook for HI long-term finances is principally due to lower than expected spending in 2013 for most HI service categories, which reduced the base period expenditure level about 1.5 percent and contributed to the Trustees' decision to reduce its projection of near-term spending growth trends.

Part B of Supplementary Medical Insurance (SMI), which pays doctors' bills and other outpatient expenses, and Part D, which provides access to prescription drug coverage, are both projected to remain adequately financed into the indefinite future because current law automatically provides financing each year to meet the next year's expected costs. However, the aging population and rising health care costs will cause SMI costs to grow steadily from 1.9 percent of GDP in 2013 to approximately 3.3 percent of GDP in 2035 and 4.5 percent of GDP by 2088. As has always been the case, roughly three-quarters of these costs will be financed from general revenues and about one-quarter from premiums paid by beneficiaries.

Despite the projection that Social Security can continue to pay full benefits for 19 years, and HI for 16 years, the sooner action is taken, the more options for reform will be available to preserve this social compact for generations to come. We must reform these programs to keep true to our commitments and ensure that the young as well as the old are confident of their retirement security.

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