

A MESSAGE TO THE PUBLIC:

Each year the Trustees of the Social Security and Medicare trust funds report on the current and projected financial status of the two programs. This message summarizes our 2009 Annual Reports.

The financial condition of the Social Security and Medicare programs remains challenging. Projected long run program costs are not sustainable under current program parameters. Social Security's annual surpluses of tax income over expenditures are expected to fall sharply this year and to stay about constant in 2010 because of the economic recession, and to rise only briefly before declining and turning to cash flow deficits beginning in 2016 that grow as the baby-boom generation retires. The deficits will be made up by redeeming trust fund assets until reserves are exhausted in 2037, at which point tax income would be sufficient to pay about three fourths of scheduled benefits through 2083. Medicare's financial status is much worse. As was true in 2008, Medicare's Hospital Insurance (HI) Trust Fund is expected to pay out more in hospital benefits and other expenditures this year than it receives in taxes and other dedicated revenues. The difference will be made up by redeeming trust fund assets. Growing annual deficits are projected to exhaust HI reserves in 2017, after which the percentage of scheduled benefits payable from tax income would decline from 81 percent in 2017 to about 50 percent in 2035 and 30 percent in 2080. In addition, the Medicare Supplementary Medical Insurance (SMI) Trust Fund that pays for physician services and the prescription drug benefit will continue to require general revenue financing and charges on beneficiaries that grow substantially faster than the economy and beneficiary incomes over time.

The drawdown of Social Security and HI Trust Fund reserves and the general revenue transfers into SMI will result in mounting pressure on the Federal budget. In fact, pressure is already evident. For the third consecutive year, a "Medicare funding warning" is being triggered, signaling that non-dedicated sources of revenues—primarily general revenues—will soon account for more than 45 percent of Medicare's outlays. A Presidential proposal will be needed in response to the latest warning.

The financial challenges facing Social Security and especially Medicare need to be addressed soon. If action is taken sooner rather than later, more options will be available, with more time to phase in changes and for those affected to plan for changes.

Medicare

As we reported last year, Medicare's financial difficulties come sooner—and are much more severe—than those confronting Social Security. While both programs face demographic challenges, rapidly growing health care costs also affect Medicare. Underlying health care costs per enrollee are projected to rise faster than the earnings per worker on which payroll taxes and Social Security benefits are based. As a result, while Medicare's annual costs were 3.2 percent of Gross Domestic Product (GDP) in 2008, or about three quarters of Social Security's, they are projected to surpass Social Security expenditures in 2028 and reach 11.4 percent of GDP in 2083.

The projected 75-year actuarial deficit in the Hospital Insurance (HI) Trust Fund is now 3.88 percent of taxable payroll, up from 3.54 percent projected in last year's report. The fund again fails our test of short-range financial adequacy, as projected annual assets drop below projected annual expenditures within 10 years—by 2012. The fund also continues to fail our long range test of close actuarial balance by a wide margin. The projected date of HI Trust Fund exhaustion is 2017, two years earlier than in last year's report, when dedicated revenues would be sufficient to pay 81 percent of HI costs. Projected HI dedicated revenues fall short of outlays by rapidly increasing margins in all future years. The Medicare Report shows that the HI Trust Fund could be brought into actuarial balance over the next 75 years by changes equivalent to an immediate 134 percent increase in the payroll tax (from a rate of 2.9 percent to 6.78 percent), or an immediate 53 percent reduction in program outlays, or some combination of the two. Larger changes would be required to make the program solvent beyond the 75-year horizon.

The projected exhaustion of the HI Trust Fund within the next eight years is an urgent concern. Congressional action will be necessary to ensure uninterrupted provision of HI services to beneficiaries. Correcting the financial imbalance for the HI Trust Fund—even in the short range alone—will require substantial changes to program income and/or expenditures.

Part B of the Supplementary Medical Insurance (SMI) Trust Fund, which pays doctors' bills and other outpatient expenses, and Part D, which pays for 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 next year's expected costs.

It is expected that about one quarter of Part B enrollees will be subject to unusually large premium increases in the next two years. This occurs because it is projected that the other three-quarters of Part B enrollees will not be subject to premium increases in those years due to low projected Social Security benefit COLAs and a “hold-harmless” provision of current law that limits premium increases to the increase in Social Security benefits.

Social Security

The annual cost of Social Security benefits represented 4.4 percent of GDP in 2008 and is projected to increase to 6.2 percent of GDP in 2034, and then decline to about 5.8 percent of GDP by 2050 and remain at about that level. The projected 75-year actuarial deficit in the combined Old-Age and Survivors and Disability Insurance (OASDI) Trust Fund is 2.00 percent of taxable payroll, up from 1.70 percent projected in last year’s report. This increase is due primarily to the recession, slightly lower estimates for real GDP after the economy recovers in 2015, and faster reductions in mortality rates. Although the combined OASDI program passes our short-range test of financial adequacy, the Disability Insurance Trust Fund does not; DI program costs have exceeded tax revenue since 2005, and trust fund exhaustion is projected for 2020. In addition, OASDI continues to fail our long-range test of close actuarial balance by a wide margin. Projected OASDI tax income will begin to fall short of outlays in 2016, and will be sufficient to finance 76 percent of scheduled annual benefits in 2037, after the combined OASDI Trust Fund is projected to be exhausted.

Social Security could be brought into actuarial balance over the next 75 years with changes equivalent to an immediate 16 percent increase in the payroll tax (from a rate of 12.4 percent to 14.4 percent) or an immediate reduction in benefits of 13 percent or some combination of the two. Ensuring that the system remains solvent on a sustainable basis beyond the next 75 years would require larger changes because increasing longevity will result in people receiving benefits for ever longer periods of retirement.

Conclusion

The financial difficulties facing Social Security and Medicare pose serious challenges. For Social Security, the reform options are relatively well understood but the choices are difficult. Medicare is a bigger challenge. Its cost growth can be contained without sacrificing quality of care only if health care cost growth more generally is contained. But despite the diffi-

culties—indeed, because of the difficulties—it is essential that action be taken soon, particularly to control health care costs.

By the Trustees:

*Timothy F. Geithner,
Secretary of the Treasury,
and Managing Trustee*

*Hilda L. Solis
Secretary of Labor,
and Trustee*

*Kathleen Sebelius,
Secretary of Health
and Human Services,
and Trustee*

*Michael J. Astrue,
Commissioner of
Social Security,
and Trustee*

A SUMMARY OF THE 2009 ANNUAL SOCIAL SECURITY AND MEDICARE TRUST FUND REPORTS

Who Are the Trustees? There are six Trustees, four of whom serve by virtue of their positions in the Federal Government: the Secretary of the Treasury, the Secretary of Labor, the Secretary of Health and Human Services, and the Commissioner of Social Security. The other two Trustees are public representatives appointed by the President, subject to confirmation by the Senate. The two Public Trustee positions are currently vacant.

What Are the Trust Funds? Congress established the trust funds in the U.S. Treasury to account for all program income and disbursements. Social Security and Medicare taxes, premiums, and other income are credited to the funds. Disbursements from the funds can be made only to pay benefits and program administrative costs.

The Department of the Treasury invests program revenues in special non-marketable securities of the U.S. Government on which a market rate of interest is credited. The trust funds represent the accumulated value, including interest, of all prior program annual surpluses and deficits, and provide automatic authority to pay benefits.

There are four separate trust funds. For Social Security, the Old-Age and Survivors Insurance (OASI) Trust Fund pays retirement and survivors benefits, and the Disability Insurance (DI) Trust Fund pays disability benefits. (The two trust funds are often considered on a combined basis designated OASDI.) For Medicare, the Hospital Insurance (HI) Trust Fund pays for inpatient hospital and related care. The Supplementary Medical Insurance (SMI) Trust Fund comprises two separate accounts: Part B, which pays for physician and outpatient services, and Part D, which covers the prescription drug benefit.

What Were the Trust Fund Results in 2008? In December 2008, 41.6 million people received OASI benefits, 9.3 million received DI benefits, and 45.2 million were covered under Medicare. Trust fund operations, in billions of dollars, are shown below (totals may not add due to rounding). Three trust funds showed net increases in assets in 2008; HI Trust Fund assets declined.

	<u>OASI</u>	<u>DI</u>	<u>HI</u>	<u>SMI</u>
Assets (end of 2007)	\$2,023.6	\$214.9	\$326.0	\$42.9
Income during 2008	695.5	109.8	230.8	250.0
Outgo during 2008	516.2	109.0	235.6	232.6
Net increase in assets	179.3	0.9	-4.7	17.4
Assets (end of 2008)	2,202.9	215.8	321.3	60.3

How Has the Financial Outlook for Social Security and Medicare Changed Since Last Year? Under the intermediate assumptions, the combined OASDI Trust Funds show a 75-year actuarial deficit equal to 2.00 percent of taxable payroll, 0.30 percentage point larger than last

year's estimate. The increased deficit is due mainly to changes in starting values and near-term economic assumptions associated with the recession that began in late 2007, and faster reductions in mortality assumed for the longer term. Over the infinite horizon, the actuarial deficit is 3.4 percent of projected payroll, 0.2 percentage point larger than last year. The OASI Trust Fund and the combined OASI and DI Trust Funds are adequately financed over the next 10 years. The DI Trust Fund is expected to remain solvent during that period, but does not meet the short-range test for financial adequacy because its assets are projected to fall short of 100 percent of annual expenditures, reaching 98 percent by the beginning of 2014, and declining further to 40 percent by the beginning of 2018.

Medicare's HI Trust Fund has a projected 75-year actuarial deficit equal to 3.88 percent of taxable payroll under the intermediate assumptions, 0.34 percentage point larger than reported last year. The increase is largely attributable to the current economic recession, other revisions in economic assumptions, moving the valuation period forward by one year (which adds a year (2083) with a large projected deficit to the calculation of the actuarial balance), and assumed faster reductions in mortality. The HI Trust Fund is inadequately financed over the next 10 years. Its assets are projected to fall below 100 percent of annual expenditures during 2011 and to be exhausted in 2017.

The SMI Trust Fund is adequately financed under current law because of the automatic financing established for Medicare Parts B and D. Nonetheless, projected SMI cost growth over the long term will require increases in enrollee premiums and general revenue funding that will average about 6.4 percent annually, placing a growing burden on beneficiaries and Federal revenues. Note that Part B cost projections are understated (by 18-21 percent in 2015, and by up to 10 percent in 2030 and beyond) as a result of incorporating substantial reductions in physician fees that would be required under current law, but are very unlikely to occur.

This year's Medicare Trustees Report is the fourth consecutive report in which the annual general revenue funding contribution to total Medicare expenditures is projected to exceed 45 percent within the first seven years of the 75-year projection period. The current projection is that the threshold will be reached in 2014, the same as reported last year. This result triggers another "Medicare funding warning."

How Are Social Security and Medicare Financed? For OASDI and HI, the major source of financing is payroll taxes on earnings that are paid by employees and their employers. The self-employed are charged the equivalent of the combined employer and employee tax rates. During 2008, an estimated 162 million people had earnings covered by Social Security and paid payroll taxes; for Medicare the corresponding figure was 166 million. The payroll tax rates are set by law and for OASDI apply to earnings up to an annual maximum (\$106,800 in 2009) that ordinarily increases

with the growth in the nationwide average wage. When the cost-of-living adjustment (COLA) for December of any year is zero, as is projected for December 2009 and December 2010, the maximum taxable amount of earnings is not increased for the following year. This constraint is projected to lower OASDI tax income for 2010 and 2011. In contrast, HI taxes are paid on total earnings. The payroll tax rates (in percent) for 2009 and later are:

	<u>OASI</u>	<u>DI</u>	<u>OASDI</u>	<u>HI</u>	<u>Total</u>
Employees	5.30	0.90	6.20	1.45	7.65
Employers	5.30	0.90	6.20	1.45	7.65
Combined total . . .	10.60	1.80	12.40	2.90	15.30

About 75 percent of SMI Part B and Part D expenditures are paid from Federal general fund revenues, with most of the remaining costs covered by monthly premiums charged to enrollees. Part B and Part D premium amounts are based on methods defined in law and increase as the estimated costs of those programs rise.

In 2009, the Part B standard monthly premium paid by most enrollees is \$96.40. There is also an income-related premium surcharge for Part B beneficiaries whose modified adjusted gross income exceeds inflation-indexed thresholds (in 2009, \$85,000 for individual tax filers, \$170,000 for joint tax filers). Income-related premiums range from \$134.90 to \$308.30 per month.

In 2009, the Part D “base monthly premium” is \$30.36. (Actual premium amounts charged to Part D beneficiaries depend on the specific plan in which they are enrolled and are expected to average around \$28 for standard coverage.) Part D also receives payments from States for the Federal assumption of Medicaid responsibilities for prescription drug costs for individuals eligible for both Medicare and Medicaid. In 2009, State payments are estimated to cover 13 percent of Part D costs.

Income to each trust fund, by source, in 2008 is shown in the table below (totals may not add due to rounding).

<u>Source (in billions)</u>	<u>OASI</u>	<u>DI</u>	<u>HI</u>	<u>SMI</u>
Payroll taxes	\$574.6	\$97.6	\$198.7	—
General fund revenue	—	—	0.7	\$184.1
Interest earnings	105.3	11.0	15.6	3.5
Beneficiary premiums	—	—	2.9	55.2
Taxes on benefits	15.6	1.3	11.7	—
Other	*	—	1.2	7.2
Total	<u>695.5</u>	<u>109.8</u>	<u>230.8</u>	<u>250.0</u>

* Less than \$50 million.

What Were the Administrative Expenses in 2008? Administrative expenses, as a percentage of total expenditures, were:

	<u>OASI</u>	<u>DI</u>	<u>HI</u>	<u>SMI</u>
Administrative expenses 2008. . .	0.6	2.3	1.4	1.4

How Are Estimates of the Trust Funds’ Future Status Made?

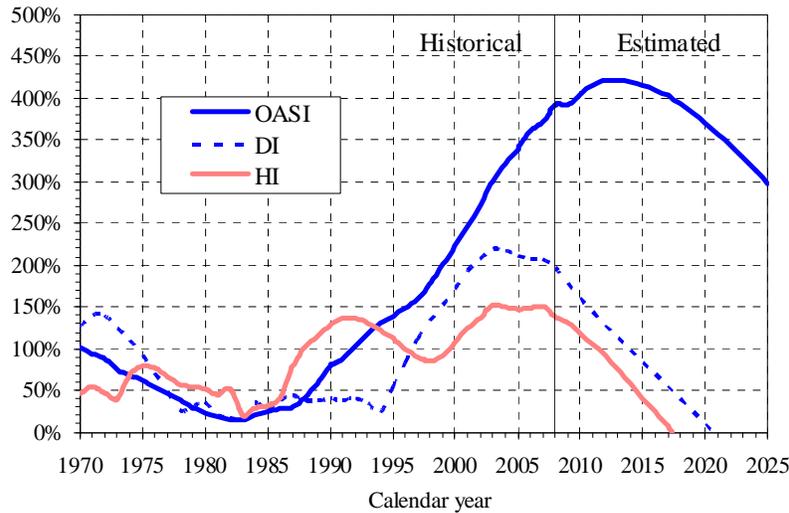
Short-range (10-year) and long-range (75-year) projections are reported for all funds. Estimates are based on current law and assumptions about factors that affect the income and outgo of each trust fund. Assumptions include economic growth, wage growth, inflation, unemployment, fertility, immigration, mortality, disability incidence and termination, as well as factors that affect the cost of hospital, medical, and prescription drug services.

Because the future is inherently uncertain, three alternative sets of economic, demographic, and programmatic assumptions are used to show a range of possibilities. The intermediate assumptions (alternative II) reflect the Trustees’ best estimate of future experience. The low-cost alternative I is more optimistic for trust fund financing, and the high-cost alternative III is more pessimistic; they show trust fund projections for more and less favorable conditions for trust fund financing than the best estimate. The assumptions are reexamined each year in light of recent experience and new information about future trends, and are revised as warranted. In general, greater confidence can be placed in the assumptions and estimates for earlier projection years than for later years. The statistics and analysis presented in this Summary are based on the intermediate assumptions.

What is the Short-Range Outlook (2009-18) for the Trust Funds? For the short range, the adequacy of the OASI, DI, and HI Trust Funds is measured by comparing their assets at the beginning of a year to projected costs for that year (the “trust fund ratio”). A trust fund ratio of 100 percent or more—that is, assets at least equal to projected costs for a year—is considered a good indicator of a fund’s short-term adequacy. That level of projected assets for any year means that even if expenditures exceed income, the trust fund reserves, combined with annual tax revenues, would be sufficient to pay full benefits for several years, allowing time for legislative action to restore financial adequacy.

By this measure, the OASI Trust Fund is financially adequate throughout the 2009-18 period, but the DI Trust Fund fails the short-range test because its trust fund ratio falls below 100 percent by the beginning of 2014. The HI Trust Fund also does not meet the short-range test of financial adequacy. Its trust fund ratio is expected to fall below 100 percent in 2011 and assets are expected to be exhausted in 2017, two years earlier than reported last year. Chart A shows the trust fund ratios through 2025 under the intermediate assumptions.

Chart A—OASI, DI, and HI Trust Fund Ratios
[Assets as a percentage of annual expenditures]



For SMI Part B, a less stringent annual “contingency reserve” asset test applies because the major portion of the financing for that account is provided by beneficiary premiums and Federal general fund revenue payments automatically adjusted each year to meet expected costs. Part D is similarly financed on an annual basis. Moreover, the operation of Part D through private insurance plans, together with a flexible appropriation for Federal costs, eliminates the need for a contingency reserve in that account. Note, however, that Part B costs are expected to be higher than projected for 2010 and beyond (understated by about 18 to 21 percent in 2015, and by up to 10 percent for 2030 and later) because the projections assume that current law will substantially reduce physician payments per service beginning in 2010. Multiple years of substantial physician fee reductions are very unlikely to occur before legislative intervention, as evidenced by Congress overriding scheduled reductions for 2003 through 2009. These understated physician payments affect projected costs for Part B, total SMI, and total Medicare.

In addition, a “hold-harmless” provision will prevent premiums for most Part B enrollees from increasing in 2010 and possibly additional years. This provision limits the premium increase to the dollar amount of a beneficiary’s cost-of-living adjustment (COLA). A substantial decrease in the Consumer Price Index from the level of the third quarter of 2008 is projected to result in zero COLAs for December 2009 and December 2010, and a small COLA increase for December 2011. The hold-harmless provision would limit the premium increases that could be charged to about three-quarters of Part B enrollees. To prevent asset exhaustion and main-

tain an adequate contingency reserve would require unusually large premium increases for Part B enrollees who are not subject to the hold-harmless provision (new enrollees each year and those who pay the income-related premium adjustment), as well as for State Medicaid programs that pay the full premium for dual Medicare-Medicaid beneficiaries. This method of addressing a revenue shortfall caused by the hold-harmless provision is the only one available under current law.

The following table shows the projected income and outgo, and the change in the balance of each trust fund (except for SMI) over the next 10 years. SMI income and expenditures are shown in separate columns for Parts B and D. Changes in the SMI Trust Funds are not shown because of the automatic annual adjustments in program income to meet the following year's projected expenditures.

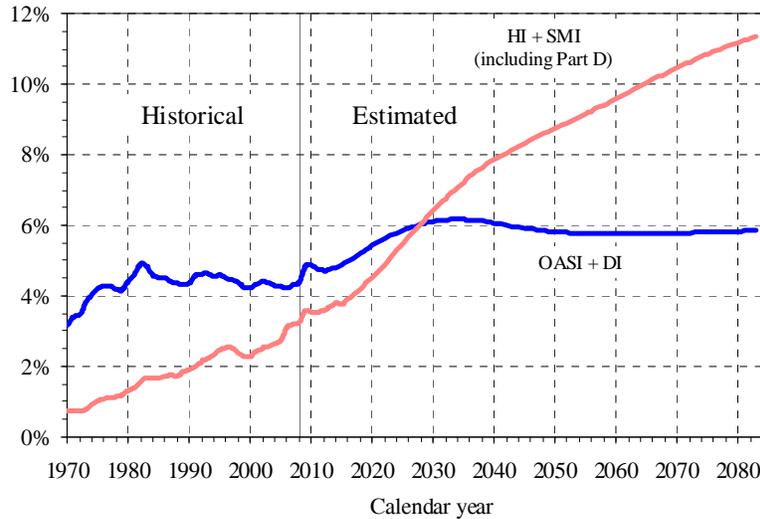
ESTIMATED OPERATIONS OF TRUST FUNDS

(In billions—totals may not add due to rounding)

Year	Income					Expenditures					Change in fund		
	OASI	DI	HI	SMI		OASI	DI	HI	SMI		OASI	DI	HI
				B	D				B	D			
2009	\$708	\$111	\$225	\$224	\$63	\$562	\$121	\$246	\$203	\$63	\$147	-\$10	-\$20
2010	734	114	237	196	66	581	128	254	201	66	153	-14	-17
2011	772	118	249	229	73	602	133	269	207	73	170	-15	-19
2012	822	124	262	259	80	634	139	289	223	80	189	-14	-27
2013	874	130	275	268	87	679	144	313	239	87	195	-14	-38
2014	925	135	287	276	95	730	151	342	261	95	195	-16	-54
2015	975	140	300	307	105	783	158	353	269	105	192	-17	-53
2016	1,024	146	312	274	115	840	166	376	293	115	184	-20	-65
2017	1,075	151	325	326	127	901	174	403	321	127	174	-23	-79
2018	1,126	156	336	358	141	965	182	433	352	141	161	-26	-97

What is the Long-Range (2009-83) Outlook for Social Security and Medicare Costs? An instructive way to view the projected cost of Social Security and Medicare is to compare the cost of all scheduled benefits for the two programs with the gross domestic product (GDP), the most frequently used measure of the total output of the U.S. economy. Costs for both programs rise steeply between 2010 and 2030 because the number of people receiving benefits will increase rapidly as the large baby-boom generation retires (Chart B). During those years, cost growth for Medicare is higher than for Social Security because of the rising cost of health services, increasing utilization rates, and anticipated increases in the complexity of services. Beyond 2030, Social Security costs increase slowly, reaching a peak of 6.2 percent of GDP in 2034, then gradually declining to about 5.8 percent, the approximate value during the last 35 years of the projection period. In contrast, Medicare costs continue to grow rapidly after 2030 due to expected increases in the cost of health care, reaching 11.4 percent of GDP in 2083.

Chart B—Social Security and Medicare Cost as a Percentage of GDP

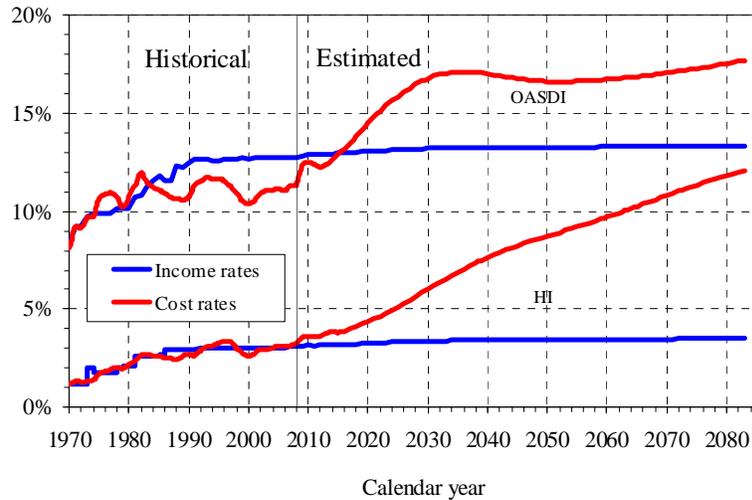


The projected cost outlook for Social Security and Medicare is somewhat worse than described in last year’s report. In 2008, the combined cost of the Social Security and Medicare programs represented about 7.6 percent of GDP. Social Security outgo amounted to 4.4 percent of GDP in 2008 and is projected to increase to 5.9 percent of GDP in 2083. Medicare’s cost was smaller in 2008—3.2 percent of GDP— but is projected to surpass the cost of Social Security in 2028, growing to 11.4 percent of GDP in 2083, when it would be 94 percent larger than Social Security’s cost. In 2083, the combined cost of the programs would represent 17.2 percent of GDP. As a point of comparison, in 2008 total Federal receipts amounted to 17.3 percent of GDP.

What is the Outlook for OASDI and HI Costs Relative to Tax

Income? Both Social Security and Medicare costs are projected to grow substantially faster than the economy over the next several decades, but tax income to the OASDI and HI Trust Funds will not. Because the primary source of income for OASDI and HI is the payroll tax, it is customary to compare the programs’ income and costs expressed as percentages of taxable payroll (Chart C). Although both the OASDI and HI annual cost rates show marked increases from their 2008 levels (11.38 and 3.31 percent), income rates increase little over the long run. The reason is that payroll tax rates are not scheduled to change and income from the other tax source, taxation of OASDI benefits, will increase only gradually as a greater proportion of beneficiaries is subject to taxation in future years.

Chart C—Income and Cost Rates
[Percentage of taxable payroll]



What is the Long-Range Actuarial Balance of the OASI, DI, and HI Trust Funds? Another way to view the outlook of the payroll tax financed trust funds is in terms of their actuarial balances for the 75-year valuation period. The actuarial balance of a fund is the difference between annual income and costs, expressed as a percentage of taxable payroll, summarized over the 75-year projection period. Because SMI is brought into balance annually through premium increases and general revenue transfers, actuarial balance is not an informative concept for that program.

The OASI, DI, and HI Trust Funds all have actuarial deficits under the intermediate assumptions, as shown in the following table.

LONG-RANGE ACTUARIAL DEFICIT OF THE OASI, DI, AND HI TRUST FUNDS
(As a percentage of taxable payroll)

	OASI	DI	OASDI	HI
Actuarial Deficit	1.68	0.32	2.00	3.88

The actuarial deficit can be interpreted as the percentage points that could be either added to the current law income rate or subtracted from the cost rate for each of the next 75 years to bring the funds into actuarial balance. Actuarial balance is achieved if trust fund assets at the end of the period are equal to the following year's expenditures. Because large and growing annual deficits are projected at the end of the long-range period, adequate financing beyond 2083 would require even larger changes than are needed for solvency in 2009-83. Projections show that over the infinite

horizon the actuarial deficit for OASDI is 3.4 percent, 1.4 percentage points higher than the 75-year deficit. For HI, the actuarial deficit over the very long run is 6.5 percent of taxable payroll, 2.6 percentage points higher than the 75-year imbalance.

What Are Key Dates in Long-Range OASI, DI, and HI Financing?

When cost exceeds income excluding interest (Chart C), use of trust fund assets occurs in stages. For HI, the process began in 2008 when the fund began using interest income (\$16 billion) and net asset redemptions (\$5 billion) to cover the excess of expenditures over tax income. Projected HI expenditures will continue to require assets to be redeemed each year until the trust fund is exhausted in 2017. In 2017, tax income is estimated to be sufficient to pay 81 percent of HI costs—and by 2083 only 29 percent.

For OASDI, interest income will first be needed to pay a portion of benefits in 2016, although the trust funds will continue to accumulate assets. In 2024, trust fund assets will begin to be depleted and are projected to be exhausted in 2037, after which continuing tax income would be sufficient to cover 76 percent of scheduled benefits. Tax income would cover 74 percent of scheduled benefits in the final year (2083) of the 75-year projection period. Although the projected exhaustion date for the DI Trust Fund is 2020, the value of the OASI Trust Fund would be sufficient at that point to make assets available to pay full DI benefits, but only with authorizing legislation.

The key dates regarding cash flows are shown in the following table.

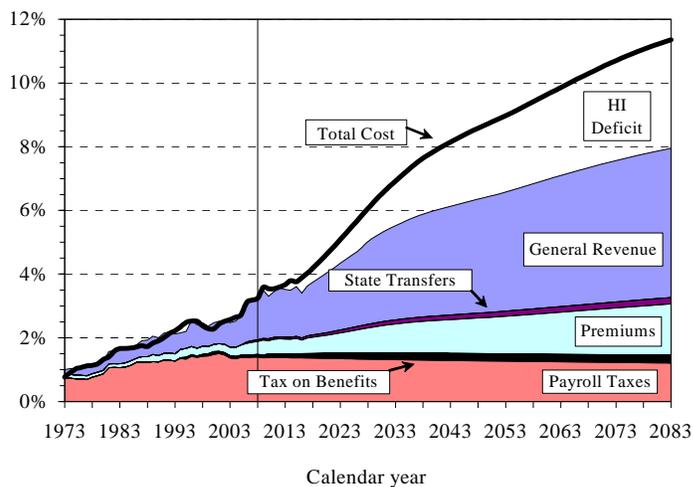
KEY DATES FOR THE TRUST FUNDS

	OASI	DI	OASDI	HI
First year outgo exceeds income excluding interest	2017	2005	2016	2008
First year outgo exceeds income including interest	2025	2009	2024	2008
Year trust fund assets are exhausted	2039	2020	2037	2017

How Do the Sources of Medicare Financing Change? As Medicare costs grow over time, general revenues and beneficiary premiums will play a larger role in financing the program. Chart D shows scheduled cost and current law non-interest revenue sources for HI and SMI combined as a percentage of GDP. The total cost line is the same as displayed in Chart B and shows Medicare cost rising to 11.4 percent of GDP by 2083. Revenue from taxes would remain at roughly 1.5 percent of GDP under current law, while general fund revenue contributions are projected to increase from 1.5 percent of GDP in 2009 to 4.7 percent in 2083, and beneficiary premiums from 0.5 to 1.6 percent of GDP. Thus the share of total non-interest Medicare income from payroll taxes and the taxation of benefits would fall substantially (from 42 percent to 18 percent) while general

fund revenue would rise (from 43 to 59 percent), as would premiums (from 13 percent to 20 percent). These current-law funding relationships could change as a result of the need to address the projected annual HI Trust Fund deficits. By 2083 the Medicare program is projected to require general revenue transfers equal to 4.7 percent of GDP. Moreover, the HI deficit represents a further 3.6 percent of GDP in 2083, and there is no provision to finance this deficit under current law through general fund transfers or any other revenue source.

Chart D—Medicare Cost and Non-Interest Income by Source as a Percent of GDP



The Medicare Modernization Act (2003) requires that the Board of Trustees determine each year whether the annual difference between program outlays and dedicated revenues (the bottom four layers of Chart D) exceeds 45 percent of total Medicare outlays within the first seven years of the 75-year projection period. In effect, the law sets a threshold condition that signals that a trust fund’s dedicated financing is inadequate and/or that general revenue financing of Medicare is becoming excessive. In that case, the annual Trustees Report includes a determination of “excess general revenue Medicare funding.” When that determination is made in two consecutive reports, a “Medicare funding warning” is triggered. The warning requires the President to respond by submitting proposed legislation within 15 days of the next budget submission to address the problem, and for Congress to consider the proposal on an expedited basis.

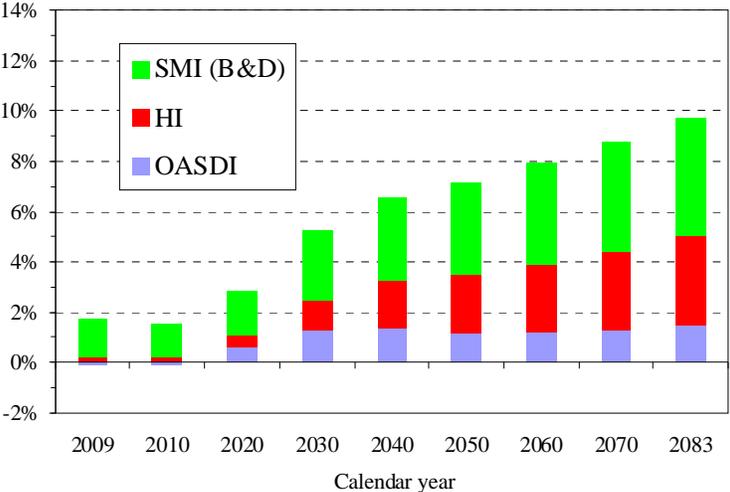
This year’s report projects the difference between outlays and dedicated financing revenues to exceed 45 percent in 2014, prompting a determination of “excess general revenue Medicare funding” for the fourth consecutive report. Another “Medicare funding warning” is triggered.

Why is Reform to Improve the Social Security and Medicare Financial Imbalances Needed? Concern about the long-range financial outlook for Medicare and Social Security often focuses on the exhaustion dates for the HI and OASDI Trust Funds—the time when projected finances under current law would be insufficient to pay the full amount of scheduled benefits. A more immediate issue is the growing burden that the programs will place on the Federal budget well before the trust funds are exhausted.

The difference between the cost of scheduled benefits and tax income for the HI and OASDI Trust Funds is shown in Chart E, together with the Federal general fund revenues provided under current law for SMI. During 2009-17 for HI, general revenues (the red bars in the chart) must be used to cover the interest earnings and asset redemptions required to offset the shortfall of HI tax revenues. Similarly, general revenues cover these offsets for the OASDI deficits during 2016-37 (blue bars). In addition, general revenues pay for roughly 75 percent of all SMI costs under current law (green bars).

In 2017 and later for HI, and in 2037 and later for OASDI, there is no provision in current law that would enable full payment of benefits when the trust funds are exhausted. If asset exhaustion actually occurred, benefits could be paid only up to the amount of continuing dedicated revenues. Further general fund transfers could not be made to finance the deficits.

Chart E— Projected OASDI and HI Tax Income Shortfall plus the 75-Percent General Fund Revenue Contribution to SMI
(Percentage of GDP)



The initial negative amounts shown for OASDI indicate that tax income exceeds cost (which occurs during 2009-15) and represent net cash flow

to the Treasury that results in the issuance of special Treasury bonds to the trust funds. Those OASDI net revenues are more than offset by the Medicare general revenue requirements under current law. For instance, in 2009 the Social Security tax income surplus (\$19 billion) is estimated to be significantly smaller than the statutory Medicare Part B and Part D general revenue transfers, resulting in an overall cash requirement of \$223 billion (1.6 percent of GDP) from the general fund of the Treasury.

The combined difference grows each year, so that by 2016, net revenue flows from the general fund would total \$369 billion (1.8 percent of GDP). The positive amounts that begin in 2016 for OASDI, and started in 2008 for HI, initially represent payments the Treasury must make to the trust funds when assets are depleted to help pay benefits in years prior to exhaustion of the funds. Neither the redemption of trust fund bonds, nor interest paid on those bonds, provides any new net income to the Treasury, which must finance redemptions and interest payments through some combination of increased taxation, reductions in other government spending, or additional borrowing from the public.

Chart E shows that the difference between outgo and dedicated payroll tax and premium income will grow rapidly in the 2010-30 period as the baby-boom generation reaches retirement age. Beyond 2030, the difference continues to increase nearly as rapidly due primarily to health care costs that grow faster than GDP. After the trust fund exhaustion dates (2037 for OASDI, 2017 for HI), the increasing positive amounts for OASDI and HI depict the excess of scheduled benefits over projected program income. When the statutory SMI general fund revenue requirements are added in, the projected combined Social Security and Medicare deficits and statutory general fund revenues in 2083 equal 9.7 percent of GDP. A similar burden in 2008 would have required all Federal income tax revenues, which also equaled 9.7 percent of GDP.

This year's Trustees Reports describe large long-term financial imbalances for Social Security and Medicare, and demonstrate the need for timely and effective action. The sooner that solutions are adopted, the more varied and gradual they can be.

Because the two Public Trustee positions are currently vacant, there is no Message from the Public Trustees for inclusion in the Summary of the 2009 Annual Reports.