

Prognosis guarded for Medicare and Social Security

August 5 2010, By RICARDO ALONSO-ZALDIVAR and MARTIN CRUTSINGER , Associated Press Writers



This undated handout video image provided by Medicare.gov shows actor Andy Griffith in a new role: pitching President Barack Obama's health care law to seniors, in a cable television ad paid for by Medicare. (AP Photo/Medicare.gov)

(AP) -- Medicare and Social Security - the foundation of a secure retirement - are facing strains from an aging population and an economy that can't seem to get out of low gear.

And despite assertions to the contrary by the Obama administration, the new health care law doesn't improve Medicare's solvency by much.

As the government releases its annual financial checkup Wednesday on the two giant programs that support millions of middle-class retirees, the prognosis is guarded.

Demand for services is going up, and income from payroll taxes can't keep pace. Meanwhile, the government has used trust fund surpluses to pay for other needs, leaving [Medicare](#) and Social Security with a pile of IOUs.

Interest in the trustees' report is running high this year because it's expected to delve into the effects of the new federal health care law on Medicare.

The report is being issued by three top administration officials, Treasury Secretary Tim Geithner, Health Secretary Kathleen Sebelius and Labor Secretary Hilda Solis. They will be joined by a fourth trustee, Social Security Commissioner Michael Astrue, appointed to a six-year term in 2007 by former President George W. Bush.

But the number-crunching and analysis are done by nonpartisan professionals at the Office of the Actuary, an obscure economic unit in the Health and Human Services Department that has a reputation for independence.

To the consternation of White House officials, recent reports from that office have raised questions about the health care law's impact on Medicare.

An April 22 analysis pointed out that the highly touted gain of 12 years of additional solvency for Medicare from the health overhaul is largely an "appearance," stemming from how Medicare cuts are handled under federal accounting rules. Savings from those cuts would be used to finance coverage for the uninsured.

"In practice, the improved (Medicare) financing cannot be simultaneously used to finance other federal outlays (such as the coverage expansions) and to extend the trust fund, despite the

appearance of this result from the respective accounting conventions," the report said.

A companion report concluded that some of the \$575 billion in Medicare savings over 10 years "may be unrealistic" because future Congresses could be pressured to roll back cuts to providers in the health care law.

The actuary's office also projected enrollment will plummet in popular private insurance plans offered through Medicare, as a result of cuts in the [health care](#) law.

The picture for Social Security isn't encouraging, either.

Last year, the trustees projected that Social Security would run out of money by 2037 unless Congress acts. Since then, the poor economy has increased pressure on the program's finances, as payroll taxes fell and the number of people applying for early retirement and disability benefits increased.

For the first time since the 1980s, Social Security will pay out more money in benefits this year than it collects in payroll taxes, according to projections by the Congressional Budget Office.

More than 53 million people receive Social Security. Retirement benefits average \$1,100 a month, and disabled workers get an average of \$1,065. Medicare covers more than 46 million retirees and disabled people.

Social Security is financed by a 6.2 percent payroll tax on wages below \$106,800. The tax is paid by workers and matched by employers. Medicare is financed by a mix of general revenues, payroll taxes and premiums paid by beneficiaries.

The Social Security trust funds have built up a \$2.5 trillion surplus over the past 25 years. But the federal government has borrowed that money over the years to spend on other programs. The government must now start borrowing money from public debt markets - adding to annual budget deficits - to repay Social Security.

President Barack Obama has formed a bipartisan fiscal commission that is working on recommendations to improve government finances, including those for [Social Security](#) and Medicare. Seniors' groups are lobbying against benefit cuts, while conservatives say they will oppose tax increases, creating a difficult political environment for compromise.

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