

5 things from annual check-up for Social Security, Medicare

July 23 2015, by Ricardo Alonso-Zaldivar And Stephen Ohlemacher



This Feb. 2, 2015, file photo, depicts a part of a U.S. \$100 bill. The federal government's two largest benefit programs face short- and long-term financial problems as they close in on milestone anniversaries. The magnitude of those problems will become clearer when the trustees for Social Security and Medicare issue their annual report cards. (AP Photo/Jon Elswick, File)

Looking at the big picture, the financial health of Social Security and

Medicare doesn't appear to have worsened.

Wednesday's annual check-up found that Social Security's retirement trust fund has enough money to pay full benefits until 2035, a year later than previously projected. Medicare's giant trust fund for inpatient care won't be exhausted until 2030, the same date as last year's report.

But below those reassuring projections, program trustees said there's cause for concern. Some 11 million people who receive Social Security disability face steep benefit cuts next year—unless Congress acts.

Medicare's outpatient premium could go up dramatically for a subset of beneficiaries—about 7.5 million people.

And they warned that the time is now to make changes in the long-term financing of both programs, when benefit cuts and tax increases can be phased in gradually.

Here are five things you need to know about the 2015 Social Security and Medicare trustees reports:

ALARMS FOR DISABILITY PROGRAM

The disability trust fund is expected to run out of money late next year, right in the middle of a presidential election. That would trigger an automatic 19 percent cut in benefits.

The average monthly benefit for disabled workers and their families is \$1,017. That means the typical beneficiary would see their benefits reduced by \$193 a month.

The report said the "urgent threat" of insolvency requires prompt action by Congress.

There is an easy fix available: Congress could shift tax revenue from Social Security's much larger retirement fund, as it has done in the past.

President Barack Obama supports the move. But Republicans say they want changes in the program to reduce fraud and to encourage disabled workers to re-enter the work force.

COST-OF-LIVING INCREASE UNLIKELY

Unlike most private pensions, Social Security benefits have built-in inflation protection.

The average Social Security check is \$1,220 a month, and beneficiaries count on their annual cost-of-living adjustment, or COLA, to preserve the purchasing power of their benefits.

But the trustees projected there will be no COLA at the end of this year. It would mark only the third year without an increase since automatic adjustments were adopted in 1975.

Things could change before the end of the year. Program economists are constantly crunching numbers to track fluctuating prices.

But if there's no adjustment for 2016, some people will face dramatically higher Medicare premiums.

MEDICARE PREMIUMS SPIKE?

Some beneficiaries may face steep premium increases for Medicare Part B, which provides coverage for outpatient services.

For about 70 percent of beneficiaries, premium increases cannot exceed

the dollar amount of their Social Security cost-of-living adjustment. Because no COLA is currently expected for 2016, increased costs of outpatient coverage would have to be spread among the remaining 30 percent.

That would result in an increase of about \$54 in the base premium, bringing it to \$159.30 a month. It works out to paying 52 percent more.

Those who would feel the impact include 2.8 million new beneficiaries, 1.6 million who pay the premium directly instead of having it deducted from their Social Security, and 3.1 million upper income beneficiaries, those making at least \$85,000 for an individual and \$170,000 for a married couple.

The increases for upper-income beneficiaries would be higher, up to \$174 a month for those in the highest bracket.

State budgets would also take a hit, because states pay the Part B premium for low-income beneficiaries who have dual Medicare and Medicaid coverage.

Health and Human Services Secretary Sylvia M. Burwell said no final decision has been made, and that premium increases are expected to average less than 5 percent a year over the long run.

PRICE OF POSTPONEMENT

Every year the Social Security and Medicare trustees deliver a sober warning: neither program is adequately financed for the long haul.

That means some combination of benefit cuts, tax increases, or in Medicare's case, reining in health care costs, is needed to keep the programs in balance.

"Don't focus on the date of trust fund depletion," trustee Robert Reischauer admonished reporters. "Under current law, both of these vitally important programs are on a financially unsustainable path." An economist, Reischauer is one of two so-called "public" trustees. The other four are high-ranking administration officials.

His fellow public trustee, economist Charles Blahous, said the travails of the disability program should be a lesson to all. "The last thing we need is continual delay," he said.

Reischauer is a Democrat and Blahous is a Republican.

THE BASICS

Nearly 60 million people receive Social Security benefits, including 42 million retired workers and dependents, 11 million disabled workers and 6 million survivors of deceased workers.

About 55 million retirees and disabled people get Medicare. The hospital trust fund is only part of the program. Coverage for outpatient care and prescription drugs is covered by premiums and other government spending.

Medicare is adding 10,000 new beneficiaries a day as baby boomers reach age 65.

The administration officials serving as Medicare and Social Security trustees are the secretaries of the Treasury, Health and Human Services, and Labor departments, as well as the Social Security commissioner. The trustees provide oversight of the programs' finances.

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