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MEDICARE, SOCIAL SECURITY OUTLOOK WORSENS IN ABSENCE OF REFORM

Social Security and Medicare continue to face a growing financial crisis – one that is worsening with each year Congress fails to undertake meaningful transformation of these programs – according to today’s report by the Social Security and Medicare trustees. The report also makes clear that the threat to these programs is more than a matter of government financing: it is a question of whether the U.S. economy can produce sufficient resources to finance the retirement and medical care of 78 million retirees in the coming decades.

Here are some of the key findings of the report:

SOCIAL SECURITY AND MEDICARE COMBINED

- ▶ The combined costs of the two programs, currently about 40 percent of total Federal revenue (or 7 percent of gross domestic product [GDP]), is projected to double in roughly three decades, and then will continue growing to nearly one-fifth of the economy – about the size of the entire Federal Government today.
- ▶ The trustees also note that total Federal tax revenue historically averages slightly more than 18 percent of GDP, and has never been higher than 21 percent of GDP in a given year.

MEDICARE

- ▶ Medicare’s Hospital Insurance program is already paying out more than it collects in payroll taxes and other dedicated revenue, and its trust fund reserves will be exhausted in just 12 years, by 2019.
- ▶ Medicare is already drawing 12.3 percent of Federal income tax revenue to support its spending, and this percentage will double in the next 15 years, and triple in the next 25 years.
- ▶ The report issues the second 45-percent funding warning required by the Medicare Modernization Act [MMA], projecting the difference between Medicare spending and dedicated resources will surpass 45 percent in 2013. Because the 2006 report also issued such a warning, the President is required to propose legislation responding to this warning within 15 days of the submission of the fiscal year 2009 budget. The MMA requires that Congress must consider this proposal on an expedited basis.

SOCIAL SECURITY

- ▶ Social Security benefit payments will outpace Social Security income (from payroll taxes), starting in 2017. At this point, Social Security will have to begin drawing from general revenue funds each year to finance benefits in excess of payroll tax revenue.

- ▶ In 2041, the Social Security Trust Fund will be completely exhausted. This will leave the program insolvent and unable to pay all of its promised benefits to seniors. In fact, the Trustees Report predicts that program will fall 25 percent short of scheduled benefits if the program is not reformed.
- ▶ According to the Trustees Report, the unfunded liability of Social Security has increased to \$4.7 trillion, and continues to worsen each year.

Entitlement Reform: What Failure Means to America's Future

- Without reform, by 2040, Social Security, Medicare and Medicaid alone will cost Americans as much as the entire Federal Government does today.
- Our children will be forced to pay twice today's level of taxes, simply to maintain these programs as they are currently structured.
- This massive tax burden will jeopardize the competitiveness of American workers and small businesses, who are already facing tremendous challenges in the globalizing economy.
- The Democrats' budget consciously ignores these warnings, making the problem worse. Instead, they have chosen a fiscal strategy of immense new spending, and the largest tax increase in American history.