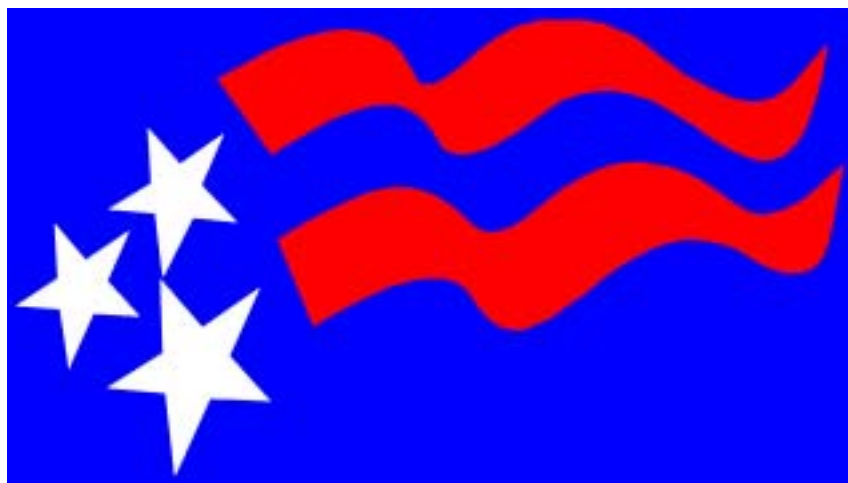


2003



Status of the Social Security and Medicare Programs

**A SUMMARY OF THE
2003 ANNUAL REPORTS**

**Social Security and Medicare
Boards of Trustees**

Hypertext versions of the Social Security and Medicare Trustees Reports as well as this document are available on the Internet at the following addresses:

Social Security (OASDI): <http://www.ssa.gov/OACT/TR/TR03/index.html>
Medicare (HI and SMI): <http://www.cms.hhs.gov/publications/trusteesreport/>
Summary: <http://www.ssa.gov/OACT/TRSUM/trsummary.html>

Other information about Social Security benefits and services is available at <http://www.ssa.gov> or by calling toll-free **1-800-772-1213**.

Other information about Medicare benefits and services is available at <http://www.cms.hhs.gov> or by calling toll-free **1-800-633-4227**.

A MESSAGE TO THE PUBLIC:

Each year the Trustees of the Social Security and Medicare trust funds report on the current status and projected condition of the funds over the next 75 years. This message summarizes the 2003 Annual Reports.

The fundamentals of the financial status of Social Security and Medicare under the intermediate economic and demographic assumptions remain highly problematic. Although both programs are currently running annual surpluses, these will give way to rapidly rising annual deficits soon after the baby-boom generation begins to retire in about 2010. The growing deficits will lead to rapidly mounting pressures on the Federal budget in a decade and exhaustion of trust funds beginning in little more than two decades that will not permit full payment of currently scheduled benefits. In the long run, these deficits are projected to grow at unsustainable rates.

Social Security

The annual cost of Social Security benefits represents 4.4 percent of gross domestic product (GDP) today and is projected to rise to 7.0 percent of GDP in 2077. The projected 75-year actuarial deficit in the combined Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds is 1.92 percent of taxable payroll, up from 1.87 percent in last year's report due primarily to the growing annual financial gap at the end of the valuation period. Thus, the program continues to fail our test of financial balance by a wide margin. Projected OASDI tax income will begin to fall short of outlays in 2018 and will be sufficient to finance only 73 percent of scheduled annual benefits by 2042, when the combined OASDI trust fund is projected to be exhausted.

Social Security could be brought into actuarial balance over the next 75 years in various ways, including an immediate increase in scheduled program revenues of 15 percent or an immediate reduction in benefits of 13 percent (or some combination of the two). To the extent that changes are delayed or phased in gradually, greater adjustments in scheduled benefits and revenues would be required. Ensuring the sustainability of the system beyond 2077 would require even larger changes.

Medicare

Medicare's financial difficulties come sooner—and are more severe—than those confronting Social Security. While both programs face essentially the same demographic challenge, health care costs per enrollee are projected to rise faster than the wages per worker on which the payroll tax is paid and on which Social Security benefits are based. As a result, while Medicare's annual costs are currently 2.6 percent of GDP, or less than 60 percent of Social Security's, they are projected to reach 9.3 percent of GDP and exceed Social Security's by 33 percent by 2077.

The projected 75-year actuarial deficit in the Hospital Insurance (HI) Trust Fund is now 2.40 percent of taxable payroll, up significantly from 2.02 percent in last year's report due to lower projected taxable payroll and higher projected hospital expenditures. The fund continues to fail our test of financial balance by a wide margin. The projected date of HI Trust Fund exhaustion has moved forward significantly to 2026, from 2030 in last year's report; and projected HI tax income falls short of outlays beginning in 2013, in contrast to 2016 in last year's report. HI could be brought into actuarial balance over the next 75 years by an immediate increase in scheduled program income of 71 percent or an immediate reduction in program outlays of 42 percent, or some combination of the two. However, as with Social Security, adjustments of far greater magnitude would be necessary to the extent changes are delayed or phased in gradually.

The Supplemental Medical Insurance (SMI) Trust Fund, which pays doctors' bills and other outpatient expenses, is projected to remain adequately financed into the infinite future, but only because current law automatically sets financing each year to meet next year's expected costs. This automatic provision will result in a rapidly growing amount of general revenue financing, projected to rise from 0.8 percent of GDP today to 3.2 percent in 2077, along with substantial increases in beneficiary premiums.

Conclusion

Though highly challenging, the financial difficulties facing Social Security and Medicare are not insurmountable. But we must take action to address them in a timely manner. The sooner they are addressed the more varied and less disruptive can be their solutions. With informed public discussion and creative thinking that relates the principles underlying these programs to the economic and demographic realities of the 21st cen-

ture, as well as to the changing needs and preferences of working and retired households, Social Security and Medicare can continue to play a critical role in the lives of all Americans.

By the Trustees:

*John W. Snow,
Secretary of the Treasury,
and Managing Trustee*

*Elaine L. Chao,
Secretary of Labor,
and Trustee*

*Tommy G. Thompson,
Secretary of Health
and Human Services,
and Trustee*

*Jo Anne B. Barnhart,
Commissioner of
Social Security,
and Trustee*

*John L. Palmer,
Trustee*

*Thomas R. Saving,
Trustee*

A SUMMARY OF THE 2003 ANNUAL SOCIAL SECURITY AND MEDICARE TRUST FUND REPORTS

Who Are the Trustees? There are six Trustees: the Secretary of the Treasury, the Secretary of Labor, the Secretary of Health and Human Services, the Commissioner of Social Security and two members appointed by the President and confirmed by the Senate to represent the public. The Public Trustees are John L. Palmer, Dean and Professor of Economics and Public Administration of the Maxwell School of Citizenship and Public Affairs at Syracuse University, and Thomas R. Saving, Director of the Private Enterprise Research Center and Professor of Economics at Texas A & M University.

What Are the Trust Funds? The trust funds are financial accounts in the U.S. Treasury. Social Security and Medicare taxes, premiums and other income are credited to these accounts, and Social Security and Medicare benefits are paid from them. The only purposes for which these trust funds can be used are to pay benefits and program administration costs.

The trust funds hold money not needed in the current year to pay benefits and administrative costs and, by law, invest it in interest bearing securities of the U.S. Government. A market rate of interest is paid to the trust funds on the securities, and when these securities reach maturity or are needed to pay benefits, the Treasury redeems them.

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 combined trust funds are described as OASDI.)

For Medicare, the Hospital Insurance (HI) Trust Fund pays for inpatient hospital and related care, and the Supplementary Medical Insurance (SMI) Trust Fund pays for physician and outpatient services. Medicare benefits are provided to most people age 65 and over and to most workers who are receiving Social Security disability benefits.

What Were the Trust Fund Results in 2002? In December 2002, 39.2 million people were receiving OASI benefits, 7.2 million were receiving DI benefits, and 41.1 million were covered under Medicare. Trust fund operations, in billions of dollars, are shown below.

	<u>OASI</u>	<u>DI</u>	<u>HI</u>	<u>SMI</u>
Assets (end of 2001)	\$1,071.5	\$141.0	\$208.7	\$41.3
Income during 2002	539.7	87.4	178.6	106.2
Outgo during 2002	393.7	67.9	152.5	113.2
Net increase in assets	146.0	19.5	26.1	-7.0
Assets (end of 2002)	1,217.5	160.5	234.8	34.3

How Are Social Security and Medicare Paid for? For OASDI and HI, the major source of financing is payroll taxes on earnings that are paid by employees and their employers and by the self employed (156 million in 2002). People who are self employed are charged the equivalent of the combined employer and employee tax rates. The payroll tax rates are set by law and for OASDI apply to earnings up to an annual amount, which rises as average wages increase (it is \$87,000 in 2003). HI taxes are paid on total earnings. The tax rates (in percent) for 2003 and later are:

	OASI	DI	OASDI	HI	Total
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

The Supplementary Medical Insurance part of Medicare is financed largely by payments from Federal general revenues supplemented by monthly premiums charged beneficiaries (\$58.70 in 2003). The SMI premium amount is based on a method defined in law and increases as the estimated cost of SMI rises. Income to each trust fund by source in 2002 is shown in the table below (totals may not add due to rounding).

Source (<i>in billions</i>)	OASI	DI	HI	SMI
Payroll taxes	\$455.2	\$77.3	\$152.7	—
General revenue	—	—	0.6	\$78.3
Interest earnings	71.2	9.2	14.4	2.7
Beneficiary premiums	—	—	1.6	25.1
Taxes on benefits	12.9	0.9	8.3	—
Other	0.4	—	1.0	—
Total	539.7	87.4	178.6	106.2

What Were the Administrative Expenses in 2002? Administrative expenses, as a percentage of total expenditures, were:

	OASI	DI	HI	SMI
Administrative expenses 2002 . . .	0.5	3.0	1.7	1.9

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

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

Because the future cannot be predicted with certainty, three alternative sets of economic and demographic 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 economic and demographic conditions for trust fund financing than the best estimate.

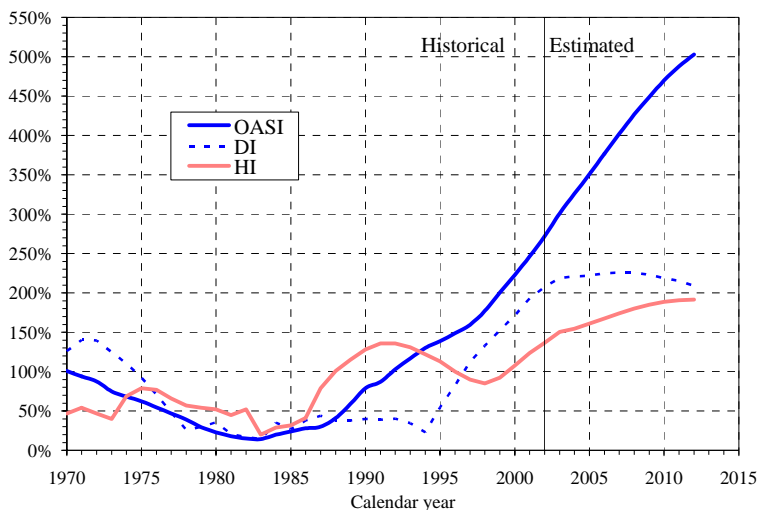
The assumptions are reexamined each year in light of recent experience and new information about future trends, and are revised as warranted. In general, greater confidence can be placed in the assumptions and estimates for earlier projection years than for later years. While estimates of income and expenditures usually have been close to actual experience, any estimates for as long as 75 years into the future are necessarily uncertain because the future is unknown. Nonetheless, careful updating of the assumptions on an annual basis provides the best current indication of the future possibilities.

What is the Short-Range Outlook (2003-2012) for the Trust Funds?

For the short range, we measure the adequacy of the OASI, DI, and HI Trust Funds by comparing their assets at the beginning of a year to projected benefit payments for that year (the "trust fund ratio"). A trust fund ratio of 100 percent or more—that is, assets at the beginning of a year at least equal to projected benefit payments for that year—is considered a good indicator of a fund's short-term adequacy. This level of projected assets for any year means that even if expenditures exceed income, the trust fund could pay full benefits for several years, allowing time for legislative action to restore financial adequacy.

By this measure, the OASI, DI, and HI funds are considered financially adequate throughout the short range because the assets of each fund are over the 100 percent level through the year 2012. Chart A shows these trust fund ratios under the intermediate assumptions.

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



For SMI, a less stringent annual “contingency reserve” asset test applies because its financing—provided by beneficiary premiums and Federal general revenue payments—is automatically adjusted each year to meet expected costs. Thus, under current law SMI is fully financed throughout the 75-year projection period no matter what its cost may be.

The table below shows the projected income and outgo, and the change in the balance of each trust fund over the next 10 years.

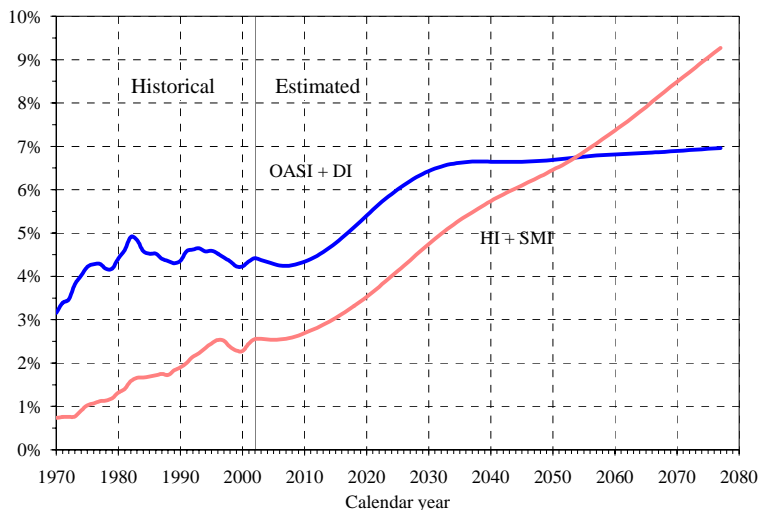
ESTIMATED OPERATIONS OF TRUST FUNDS
(In billions—totals may not add due to rounding)

Year	Income				Expenditures				Change in fund			
	OASI	DI	HI	SMI	OASI	DI	HI	SMI	OASI	DI	HI	SMI
2003	\$553	\$90	\$180	\$116	\$405	\$73	\$156	\$123	\$148	\$16	\$24	-\$7
2004	585	94	191	131	419	80	167	127	166	14	24	5
2005	626	100	204	136	436	86	176	134	190	14	28	3
2006	667	106	216	145	456	91	185	143	211	15	31	3
2007	713	112	230	156	480	97	196	153	233	15	33	3
2008	759	119	244	168	508	104	208	164	252	14	35	3
2009	807	125	258	181	538	112	222	177	269	13	36	4
2010	857	131	273	196	572	120	237	192	285	11	36	4
2011	910	138	288	212	609	128	253	207	301	10	35	4
2012	964	144	304	229	650	136	270	225	313	8	34	5

What is the Long-Range (2003-2077) Outlook for Social Security and Medicare? Costs for both programs increase steeply between 2010 and 2030 because the number of people receiving benefits will increase rapidly as the large “baby-boom” generation retires. Thereafter, Social Security costs grow slowly due primarily to projected increasing life expectancy. Medicare costs continue to grow rapidly due to expected increases in the use and cost of health care. In particular, continuing development and use of new technology is expected to cause health care expenditures to grow faster than gross domestic product (GDP) in the long term.

A good way to view the projected cost of Social Security and Medicare is in relation to the U.S. economy as a whole (Chart B below). Social Security outgo amounts to 4.4 percent of GDP today and is projected to increase by about 60 percent to 7.0 percent of GDP in 2077. Medicare outgo is smaller today, 2.6 percent of GDP, but is projected to more than triple to 9.3 percent of GDP in 2077, when it will exceed Social Security’s cost by 33 percent.

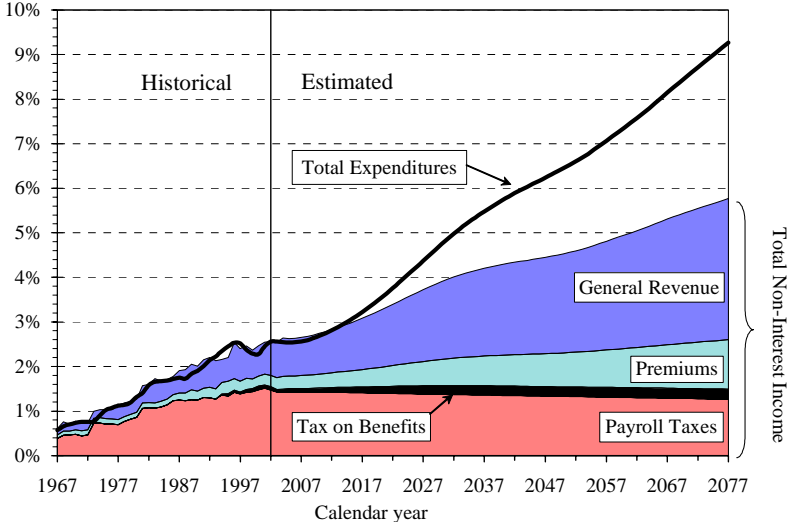
Chart B—Social Security and Medicare Cost as a Percentage of GDP



It is important to recognize the rapidly increasing long-range cost of Medicare and the large role of general revenues and beneficiary premiums in financing the SMI program. Chart C shows expenditures and current-law non-interest revenue sources for HI and SMI combined as a percentage of GDP. The total expenditure line is the same as shown in Chart B and shows Medicare costs rising to 9.3 percent of GDP by 2077. Revenues from taxes and premiums are expected to increase from 1.8 percent to only 2.6 percent of GDP, while general revenue contributions are

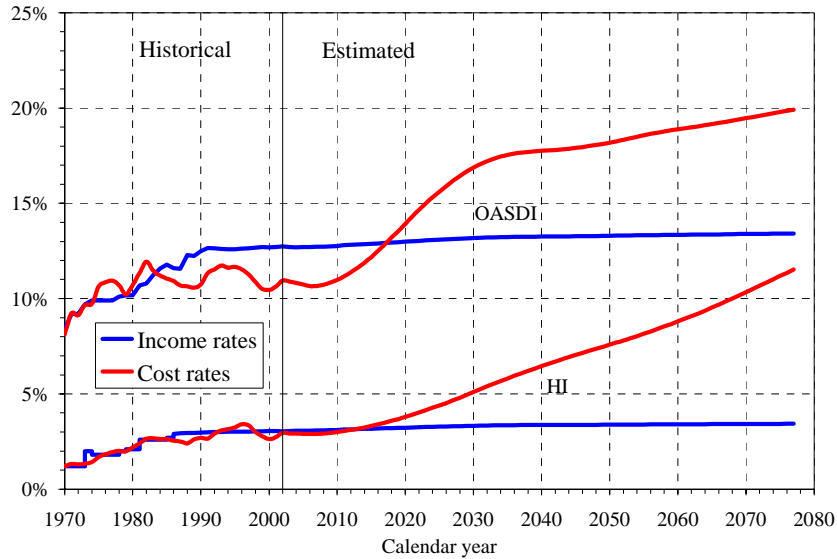
projected to rise from 0.8 percent to 3.2 percent of GDP. Thus, revenues from taxes and premiums will fall substantially as a share of total non-interest Medicare income (from 69 percent to 45 percent) while general revenues will rise (from 31 percent to 55 percent). The gap between total non-interest Medicare income and expenditures steadily continues to widen, reaching 3.5 percent of GDP by 2077.

Chart C—Medicare Expenditures and Non-Interest Income by Source as a Percent of GDP



Income from the payroll tax to Social Security and the HI part of Medicare does not increase significantly over the long range because the tax rates are not scheduled to change and the number of workers paying payroll taxes grows slowly in the future because current low fertility rates, relative to historical U.S. experience, are projected to continue. Income from the other tax source of income to these programs, taxation of OASDI benefits, will rise gradually, primarily because a greater proportion of beneficiaries will become subject to taxation in future years. Chart D shows the income and costs, in percent of taxable payroll, of Social Security and HI.

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



What is the Long-Range Actuarial Balance of the OASI, DI, and HI Trust Funds? The traditional 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 essentially 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 increase and general revenue transfers, actuarial balance is not a useful concept for that program.

The OASI, DI, and HI Trust Funds each have an actuarial deficit under the intermediate assumptions, as shown below. Each actuarial deficit can be interpreted as the percentage that could be added to the current law income rate for each of the next 75 years, or subtracted from the cost rate for each year, to bring the funds into actuarial balance. However, such uniform changes, while adequate for this period as a whole, would close just over one-quarter of the gap for 2077 between the annual income and cost rates for OASI and HI as shown in Chart D, and less than one-half of the gap for DI.

ACTUARIAL DEFICIT OF THE OASI, DI, AND HI TRUST FUNDS
(As a percentage of taxable payroll—total does not add due to rounding)

	OASI	DI	OASDI	HI
Actuarial Deficit	1.56	0.35	1.92	2.40

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

The projected actuarial deficit for each of the trust funds indicates that at some point in the next 75 years the assets of the fund will be completely used to meet expenses. Payroll taxes and other income will continue to flow into the fund but will be insufficient to pay full benefits. In 2042 when the combined OASI and DI funds are projected to be exhausted, tax income to the combined funds is estimated to be sufficient to pay 73 percent of program costs, but that fraction is projected to decline to 65 percent by 2077 as program costs rise faster than income for the reasons discussed above. For HI, tax revenue would cover an estimated 73 percent of costs in 2026 (at the time of asset exhaustion) and would meet only 30 percent of costs in 2077.

Before a trust fund is exhausted, the cash flow of the fund changes in stages. When combined OASDI expenditures exceed current tax income beginning in 2018, in order to pay benefits the program would need to utilize interest earned on invested assets, and beginning in 2028 it would need to redeem a portion of those assets. The comparable dates for HI are 2013 and 2018. These key dates regarding cash flows are shown below.

KEY DATES FOR THE TRUST FUNDS

	OASI	DI	OASDI	HI
First year outgo exceeds income excluding interest	2018	2008	2018	2013
First year outgo exceeds income including interest	2030	2018	2028	2018
Year trust fund assets are exhausted	2044	2028	2042	2026

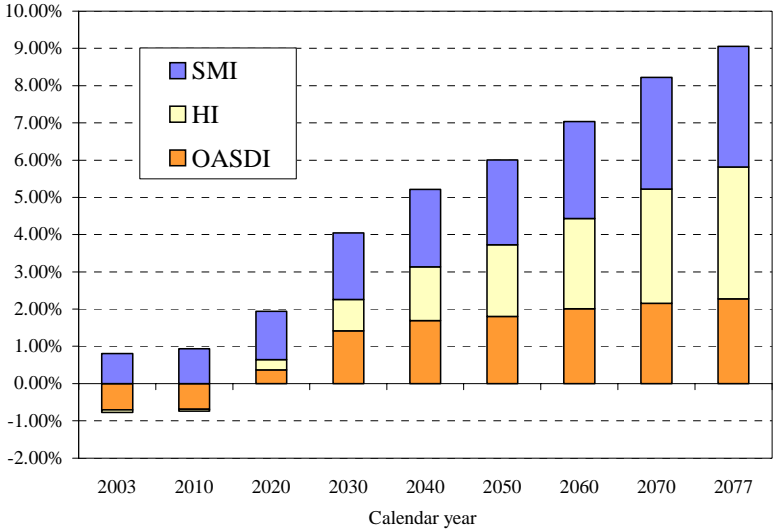
Why is Reform to Improve Medicare and Social Security Financing Needed? Public concern about the financial status of Medicare and Social Security tends to focus on the HI and OASDI trust fund exhaustion dates when benefits scheduled under current law technically can no longer be paid in full. But there are more immediate and fundamental reasons why Medicare and Social Security financing reform is needed: namely, the two programs together will place rapidly mounting demands on the Federal budget long before trust fund exhaustion, and their financing in the long term is far more problematic than suggested by the 75-year actuarial deficits for HI and OASDI.

The rapidly mounting financial shortfall in these programs is illustrated in Chart E below. It shows, as a percentage of GDP, the gap between annual HI and OASDI tax income and the cost of scheduled benefits, plus the 75-percent general revenue contribution to SMI. The initial negative amounts for HI and OASDI in 2003 and thereafter represent net revenues to the Treasury that result in the issuance of Treasury bonds to the trust

funds in years of annual cash surpluses. Conversely, the positive amounts for OASDI and HI initially represent payments the Treasury must make to the funds to supplement tax income to help pay benefits in the years leading up to exhaustion of these trust funds, then their widening financing gap thereafter.

For the next few years, annual surpluses for the OASDI and HI trust funds roughly offset the required 75-percent Federal general revenue contribution to SMI. But then, as the baby-boom generation begins to retire, these surpluses quickly dwindle and are replaced by growing annual cash deficits—such that by 2020 net Treasury payments to all four trust funds will total \$495 billion, or nearly 2 percent of GDP. Since neither the interest paid on the Treasury bonds held in the HI and OASDI trust funds, nor their redemption, provides any net new income to the Treasury, the full amount of the required Treasury payments to these trust funds must be financed by increased taxation, increased Federal borrowing and debt, and/or a reduction in other government expenditures. Thus, these payments—along with the 75-percent general revenue contribution to SMI—will add greatly to pressures on the Federal budget much sooner than is generally appreciated.

Chart E—OASDI and HI Income Shortfall to Pay Scheduled Benefits, and the 75-Percent General Revenue Contribution to SMI
(Percentage of GDP)



It is also evident from Chart E that currently projected benefit costs for Medicare and Social Security pose a far more serious long-term financing problem than is generally understood. Even after the baby-boom generation ceases to be a major factor, around 2060, there is a continually widening gap between currently scheduled benefits and dedicated tax and premium income due to the increasing life expectancy of beneficiaries and expected faster-than-GDP growth in health care costs. In 2002, the combined annual cost of HI, SMI and OASDI equaled 7 percent of GDP, or just over one-third of total Federal revenues, whereas it is projected to rise to 12 percent of GDP by 2040 and almost 16 percent of GDP in 2077, or to nearly two-thirds and four-fifths, respectively, of Federal revenues projected as a constant percentage of GDP. We do not believe such a long-term rate of growth for the two programs can be sustained.

In sum, the projections for Medicare and Social Security under current law manifest mounting pressures on the Federal budget that begin in less than a decade, exhaustion of trust funds in little more than two decades that would not permit full payment of currently scheduled benefits, and unsustainable long-term growth in costs. The sooner these problems are addressed, the more varied and less disruptive will be their solutions.

A MESSAGE FROM THE PUBLIC TRUSTEES:

These are the third annual Trustees Reports in which we have participated since beginning our terms as Public Trustees in late 2000. Our goal as Public Trustees is to work in a nonpartisan way to ensure the integrity of the process by which these reports are prepared and the credibility of the information they contain. Despite the inherent uncertainty due to the numerous assumptions that must be made, we believe the projections in these reports are the most reliable picture available of the financial outlook under current law for the Medicare and Social Security programs.

2002 Experience and Outlook

In 2002, non-interest income exceeded outgo in the combined Social Security (OASDI) Trust Fund by \$85 billion and in the Medicare Hospital Insurance (HI) Trust Fund by \$12 billion. Thus, the sizeable annual tax surpluses the funds have experienced in recent years continued in 2002 and are now projected in these reports to grow until peaking in 2008. They then begin a decline that will accelerate with the onset of the retirement of the baby-boom generation and soon turn into rapidly growing annual tax deficits. As a result, annual expenditures are expected to first exceed non-interest income for HI in just ten years in 2013, with the corresponding date for OASDI coming five years later in 2018, and all trust fund assets are expected to be exhausted for HI in 2026 and for OASDI in 2042. These dates represent little change from the projections in last year's report for OASDI, but a significant deterioration in the financial outlook for HI in both the near and longer term due to lower projected payroll tax income and higher projected expenditures for inpatient hospital care.

Despite little change in the near term financial outlook for OASDI, in the longer term the outlook has deteriorated somewhat. This is because the annual financing gaps for both OASDI and HI are large and steadily growing in the long term due to continued increases in life expectancy and, for HI, faster-than-GDP growth in health care costs. Thus, the inclusion of a new year at the end has a significant negative impact on the 75-year projections.

Other Dimensions of the Financing Problem

As noted in the final section of the preceding summary of the 2003 Trustees Reports, we believe public concern about the financial future of Medicare and Social Security tends to focus unduly on their trust fund

exhaustion dates, when benefits scheduled under current law legally could no longer be paid in full, rather than on the more immediate and fundamental financial challenges posed by the two programs. The recent dramatic change in the outlook for the Federal government's finances over the remainder of this decade has raised these challenges into higher relief.

Two years ago the annual Social Security and HI trust fund tax surpluses were contributing to sizeable surpluses in the overall Federal budget—welcome news if we are to save more as a society in anticipation of the growing economic burden we face for retirement and health care costs in the decades ahead. But now these surpluses are simply serving to partially offset the much larger deficits occurring in the rest of the Federal accounts. Moreover, as these reports project, HI and Social Security's finances soon will cease having a net positive impact on the overall Federal budget and become a growing negative force.

In 2002, the general revenue transfer to the SMI Trust Fund required by law to finance 75 percent of program outlays was \$78 billion, and an additional \$10 billion was transferred for redeemed interest and assets. In combination with the annual surpluses in OASDI and HI noted above, this resulted in a small overall positive net impact of Social Security and Medicare on the Federal budget equivalent to approximately 1 percent of all Federal income tax revenues—reducing the Federal deficit by about \$10 billion compared to what it otherwise would have been. This net impact is projected to be negligible over the next six years. But, thereafter, the required general revenue transfer for SMI will exceed the declining combined tax surplus in OASDI and HI by a rapidly widening amount, which will be about \$80 billion (in today's dollars) by 2013 when non-interest income to the HI Trust Fund first falls short of HI outgo. Subsequently, HI will require growing cash payments from general revenues as it begins to rely first upon the interest due on the Treasury bonds held in its trust fund, and then on the bonds' redemption, to pay a portion of scheduled annual benefits. Five years later the same will be true for OASDI, when non-interest income to this trust fund will no longer suffice to pay scheduled Social Security benefits. At the same time, the general revenue requirements for SMI will continue to grow at the same rate as program expenditures.

Thus, by the time the HI Trust Fund is exhausted in 2026, Medicare already will be requiring \$370 billion (in today's dollars) in annual general revenue transfers to HI and SMI combined, as opposed to about

\$75 billion in 2002. To obtain some idea of the resulting added pressures on the Federal budget, consider that financing such an amount would require 24 percent of Federal income tax revenues in 2026 if such revenues were to remain at their current share of GDP. Similarly, by the time the combined OASDI Trust Fund is exhausted in 2042, the redemption of its Treasury bonds to pay scheduled benefits will be requiring an annual general revenue transfer of \$375 billion (in today's dollars), or the equivalent of nearly 19 percent of Federal income tax revenues under the same assumption.

Conclusion

While projected assets of the HI and OASDI Trust Funds are sufficient to pay projected Medicare and Social Security benefits under current law for another 23 and 39 years, respectively, such a perspective belies the enormous—and more immediate—fiscal challenge these programs pose. From a unified budget perspective, substantial fiscal pressure from Medicare and Social Security will appear in a decade and mount rapidly thereafter. At the time of OASDI Trust Fund estimated exhaustion in 2042, annual Social Security expenditures are projected to exceed annual tax income by 34 percent, with this excess growing to 49 percent by the end of the 75-year projection period. Similarly, at the time of HI Trust Fund exhaustion in 2026, annual expenditures are projected to exceed tax revenues by 37 percent, with this excess growing to over 200 percent by the end of the projection period. While SMI technically has no projected shortfall—because of the way in which it is financed—its costs nevertheless also will require a rapidly increasing draw on the Federal budget.

As Public Trustees, we believe that continued national dialogue about, and timely action on, financial reform of Medicare and Social Security are imperative. It is crucial that changes be initiated in these programs sooner rather than later.

*John L. Palmer,
Trustee*

*Thomas R. Saving,
Trustee*

2003