

WILL THINGS IMPROVE FOR MEDICARE AND SOCIAL SECURITY?

The healthcare reforms may lead to some short-term aid.

Provided by: Tri Pillar Investments, LLC

Quote for the week: “Chance favors only the prepared mind” Louis Pasteur

Could Medicare soon be in better shape? Maybe. At the start of August, Medicare’s trustees reported to Congress that Medicare should remain financially in the black through 2029, a 12-year improvement over last year’s estimate.¹ They credited the healthcare reforms carried out by Congress and the Obama administration, citing greater efficiency that would translate to savings for the program.

However, there is no guarantee that Medicare will get to retain those federal savings, and no certainty that the savings projected by eliminating subsidies paid to private insurers will result.

Additionally, as Concord Coalition executive director Robert Bixby told *the Los Angeles Times*, “You can’t spend the same money twice.”² It would seem unwise to use Medicare savings to expand Medicare coverage.

The Medicare trustees claimed that with the projected \$192 billion in cuts to Medicare Advantage plans, home health care and hospitals across the next ten years, both the 75-year shortfall for its hospital fund and projected costs of the Medicare Supplementary Insurance program will shrink. More alterations will be needed to keep Medicare running in decades to come, the August report notes.^{1,3}

Social Security’s fortunes could be enhanced in 2019. Why 2019? In that year, a new tax is scheduled to kick in for so-called “Cadillac plans” - health insurance packages with annual premiums of \$8,000 or more for individuals or \$21,000 or more for families. In 2019, insurers offering these plans will have to pay a 40% federal tax for every dollar spent over the \$8,000 or \$21,000 cutoff.^{1,4}

That tax is projected to give Social Security a bit of relief. In 2010, Social Security is paying out more than it is taking in - and by previous federal estimates, that wasn’t supposed to happen until 2016. According to government forecasts, it can continue using payroll taxes and interest income to cover benefits until 2024.¹

The projection that Social Security’s accumulated surplus will run dry in 2037 is unchanged. After 2037 (assuming things don’t change), Social Security’s program revenues would only cover about 75% of its expenses - so payroll taxes would have to increase, or benefits would have to be scaled down.¹

Until both programs receive true long-term fixes, we will all have to make do with these short-term encouragements.

Citations

- 1 - nytimes.com/2010/08/06/health/policy/06medicare.html [8/5/10]
- 2 - latimes.com/news/nationworld/nation/wire/sc-dc-0806-social-security-20100805,0,6306255.story [8/5/10]
- 3 - csmonitor.com/USA/Politics/2010/0322/Health-care-reform-bill-101-What-does-it-mean-for-seniors [3/22/10]
- 4 - slate.com/id/2232434 [10/14/09]