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Medicare and Social Security Reform—Over 60 Million Beneficiaries Are Likely to Say "No"

BY HELAINE FINGOLD AND LESLEY YEUNG

Concerns about the political future of the Medicare and Social Security benefit programs have become prevalent in the aftermath of the 2016 presidential campaign and election.

While President-elect Donald Trump did not campaign on a platform of repealing or restructuring either Medicare or Social Security, other leading Republicans are expressing renewed interest in such efforts. House Speaker Paul Ryan (R-Wis.) in particular, has pushed for privatization of both programs.

Since Republicans gained control of both houses of Congress, Ryan has added Medicare reform to his long desired effort to repeal the Affordable Care Act (ACA). Others who are advising and have been named as cabinet picks of the president-elect also support Medicare and Social Security privatization efforts. What is the likelihood that one or both of these programs will be privatized or disappear altogether? Based on the experience of past reform efforts as well as the ongoing growth in Medicare eligibles, it is highly unlikely that repeal or privatization could succeed.

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Growth in Pressures on Both Programs

There is no question that increasing life expectancy and the growing number of people approaching retirement age is putting pressure on both the Social Security and the Medicare programs.

The most recent Social Security Trustees' Report estimates that the two trust funds that pay for Social Security benefits, one for retiree benefits (the Old Age and Survivors Insurance Trust Fund) and one for disability benefits (the Social Security Disability Insurance Trust Fund), will be exhausted by 2034, meaning that the program will only have enough revenue coming in to pay 79 percent of promised benefits. These trust funds are projected to cover 62 million beneficiaries in 2017, growing to 68 million in 2020 and to 76 million in 2025.

The most recent Medicare Trustees Report projects a similar picture. The Medicare Hospital Insurance (HI) Trust Fund, which helps pay for hospital, post-acute and hospice care, will be depleted in 2028, such that dedicated revenues will be able to pay only 87 percent of HI costs. While trustees project that the Supplementary Medical Insurance (SMI) trust fund, which pays costs for doctors' services, other outpatient expenses and for prescription drug coverage under Part D, will remain adequately financed indefinitely, SMI costs are projected to grow steadily with the aging population and rise in health-care costs. The trustees project that total Medicare costs (including both HI and SMI expenditures) will grow from approximately 3.6 percent of the United States' Gross Domestic Product (GDP) in 2015 to 5.6 percent of GDP by 2040 and to about 6 percent of GDP by 2090.

In 2017, the CMS Actuary projects that Medicare will provide medical care and prescription drug coverage for nearly 58 million people who are age 65 or older, disabled or have end-stage renal disease (*see Table V.B4 of the report*). Driven by the nearly 10,000 people each day that age into Medicare, the Medicare Payment Advisory Commission expects the number of Medicare beneficiaries to rise to nearly 64 million by 2020 and 73 million by 2025.

Those in Leadership Will Push for Medicare and Social Security Reform

Solutions for making the Social Security Trust Funds solvent for the next 75 years generally include raising the Social Security payroll tax rate, cutting benefits or some combination of the two. Raising tax rates is a non-starter for Republicans, and therefore efforts to reduce benefits and privatize the program are likely to be endorsed by those in the Republican Party who have long supported cutting or reforming Social Security.

Paul Ryan in particular has long been interested in reforming the Social Security program. The very first bill Ryan introduced in Congress, in February 1999, was a resolution that Congress should take action to make Social Security sustainable. Since then, he has introduced plans to privatize the program and budget proposals to cut the program. Further, Trump's running mate, Vice President-elect Mike Pence, is a former Republican member of the House of Representatives who has long supported legislative efforts to cut Social Security benefits by raising the retirement age and reducing the Cost of Living Adjustment (COLA) and has been a proponent of privatizing the program through the increased use of personal retirement accounts. Indeed, in 2005, Pence led a House Republican Study Committee that proposed going beyond what President George W. Bush had proposed in his failed Social Security reform initiative.

To further complicate the determination of where Trump stands on the issue of Social Security reform, he recently chose Tom Leppert, to be on the transition team at the Social Security Administration that will help prepare the agency's transition to the Trump administration. Leppert called for partially privatizing Social Security when he ran for a U.S. Senate seat in 2012. He called for ''personal retirement accounts'' for workers younger than 55. He also suggested raising the retirement age for people 27 and younger to 68 or 69 before they could receive full Social Security benefits and providing ''more realistic'' cost-of-living benefit increases. Others on the Social Security Administration transition team have similarly supported privatization efforts in the past.

Medicare Reform is also on Paul Ryan's agenda and is supported by Rep. Tom Price (R-Ga.), Trump's pick for Secretary of the Department of Health and Human Services. Ryan's reform efforts seek to move Medicare from offering ''defined benefits,'' meaning the package of items and services Congress has articulated through legislation, to ''defined contribution'' or voucher, whereby beneficiaries would be given a set amount to purchase their coverage. Those who want broader coverage than could be purchased with the defined amount would have to cover the additional costs themselves. Proposals for moving Medicare to a defined contribution arose in the mid-1990s and have since come before Congress although without success. Paul Ryan himself has pressed for this approach since 2011.

Ryan's reform proposal would take effect in 2024, when Medicare would begin paying a defined premium support payment to the beneficiary's choice of plan, including the fee-for-service program. The premium support payment would be risk adjusted and would vary by income, with lower-income beneficiaries receiving assistance with out-of-pocket costs and higher income beneficiaries paying more of the share of their premiums. Ryan's proposal would also raise the Medicare eligibility age to 67.

Conclusion

In the near term, both Social Security and Medicare are likely to remain unchanged. In the long term, however, President-elect Trump's campaign statements that he would protect these programs will likely turn out to have been empty promises. Regardless, wholesale changes to these complex programs cannot be made over a matter of months. Concurrent pursuit of Medicare reform along with repeal or reform of the ACA would present Congress with an impossibly heavy legislative load. The ongoing focus on ACA repeal will likely need to be Congress' and the administration's first priority.

Should recommended Social Security and Medicare reforms come before Congress, they will be subject to intense review from legislators as well as their constituents. Controversy surrounding prior reform efforts led to their demise—something we can anticipate happening with any new reform attempts.

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