Fact Sheet: 2021 Social Security and Medicare Trustees Reports

Each year the Trustees of the Social Security and Medicare trust funds report on the current and projected financial status of the two programs. The Trustees Reports include extensive information about the current operations of these important social insurance programs and careful analysis of their outlook. We believe the reports fully and fairly present the current and projected financial condition of the programs.

Social Security and Medicare both face long-term financing shortfalls under currently scheduled benefits and financing. Both programs will experience cost growth substantially in excess of GDP growth through the mid-2030s due to rapid population aging. Medicare also sees its share of GDP grow through the late 2070s due to projected increases in the volume and intensity of services provided.

The data and projections presented include the Trustees' best estimates of the effects of the COVID-19 pandemic and the 2020 recession, which were not reflected in last year's reports. The finances of both programs have been significantly affected by the pandemic and the recession of 2020. Employment, earnings, interest rates, and GDP dropped substantially in the second calendar quarter of 2020 and are assumed to rise gradually thereafter toward full recovery by 2023, with the level of worker productivity and thus GDP assumed to be permanently lowered by 1 percent even as they are projected to resume their pre-pandemic trajectories. In addition, the Trustees also project elevated mortality rates related to the pandemic through 2023 (15% for those over age 15 in 2021, declining to 1% by 2023) as well as reductions in immigration and childbearing in 2021-22 from the levels projected in the 2020 reports, with compensating increases a few years later. These alterations to near-term data and assumptions all significantly impact the outlook of the programs.

Given the unprecedented level of uncertainty, the Trustees currently assume that the pandemic will have no net effect on the individual long-range ultimate assumptions. At this time, there is no consensus on what the lasting effects of the COVID-19 pandemic on the long-term experience might be, if any. The Trustees will continue to monitor developments and modify the projections in later reports.

Based on our best estimates, the 2021 reports show:

- The Old-Age and Survivors Insurance (OASI) Trust Fund, which pays retirement and survivors benefits, will be able to pay scheduled benefits on a timely basis until 2033, one year earlier than reported last year. At that time, the fund's reserves will become depleted and continuing tax income will be sufficient to pay 76 percent of scheduled benefits.

- The Disability Insurance (DI) Trust Fund, which pays disability benefits, will be able to pay scheduled benefits until 2057, 8 years earlier than in last year's report. At that time, the fund's reserves will become depleted and continuing tax income will be sufficient to pay 91 percent of scheduled benefits.

- The OASI and DI funds are separate entities under law. The report also presents information that combines the reserves of these two funds in order to illustrate the actuarial status of the Social Security program as a whole. The hypothetical combined OASI and DI funds would be able to pay scheduled benefits on a timely basis until 2034, one year earlier than reported last year. At that time, the combined funds' reserves will become depleted and continuing tax income will be sufficient to pay 78 percent of scheduled benefits.
- The Hospital Insurance (HI) Trust Fund, or Medicare Part A, which helps pay for services such as inpatient hospital care, will be able to pay scheduled benefits until 2026, the same year as reported last year. At that time, the fund's reserves will become depleted and continuing total program income will be sufficient to pay 91 percent of total scheduled benefits.

- The Supplementary Medical Insurance (SMI) Trust Fund has two accounts: Part B, which helps pay for services such as physician and outpatient hospital care, and Part D, which covers prescription drug benefits. SMI is adequately financed into the indefinite future because current law provides financing from general revenues and beneficiary premiums each year to meet the next year's expected costs. Due to these funding provisions and the rapid growth of its costs, SMI will place steadily increasing demands on both taxpayers and beneficiaries.

- The Trustees are including in the report for the fifth consecutive year a determination of projected excess general revenue Medicare funding, as is required by law whenever annual tax and premium revenues of the combined Medicare funds will be below 55 percent of projected combined annual outlays within the next seven fiscal years. Under the law, two consecutive such determinations, as is the case again this year, constitute a "Medicare funding warning." Under current law and the Trustees' projections, such determinations and warnings will recur every year through the long-range projection period.

Key Changes Since Last Year

The long-range 75-year actuarial deficit of the combined OASI and DI trust funds increased from 3.21 to 3.54 percent of taxable payroll since the 2020 reports.[1] As shown in Table 1, this result was due to the combined effects of changes in methodology, legislation, regulation, economic, demographic, and programmatic assumptions, and recent observed experience. The following changes had significant effects.

- The following long-range ultimate assumptions were changed:
  - The total fertility rate was raised from 1.95 to 2.0 births per woman. This change was combined with a change to the methodology for projecting fertility described below that offset the assumption change.
  - The unemployment rate was reduced from 5.0 percent to 4.5 percent. This change was combined with a change to the methodology for projecting the size of the labor force described below that offset the assumption change.
- Changes were made to near-term economic and demographic assumptions reflecting the pandemic and the 2020 recession, resulting in lower payroll tax income and lower revenue from income taxation of benefits.
- Three significant methodological changes were made:
  - Future birth rates are now projected using a cohort-based (number of births in a woman's lifetime) approach which better captures a gradual shift towards childbearing at older ages.

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[1] The 75-year actuarial balance is a summary measure that calculates the difference between the projected summarized income rate and the summarized cost rate of the trust funds as a percentage of taxable payroll. When that balance is negative, or in "deficit," projected income over the long-range valuation period (2021-95 for the 2021 reports) plus any trust fund reserves at the start of the period are insufficient to pay all program costs over the period and leave an adequate "contingency reserve" at the end of the period.

- The model for projecting the size of the civilian labor force was updated to include data from the most recent completed economic cycle, thereby putting more weight on the recent relationships among the various factors affecting labor force participation.

- A methodological change was made to allow for improved projection of the initial benefit levels of retired workers by age.

• The 75-year valuation period was changed from 2020-94 to 2021-95.

Table 1.—Change in the OASDI 75-Year Actuarial Balance Since the 2020 Report, Based on Intermediate Assumptions
[As a percentage of taxable payroll]

Item	OASI	DI	OASDI
Shown in the 2020 report:			
Actuarial balance	**-3.14**	**-.07**	**-3.21**
Changes in actuarial balance due to changes in:			
Legislation / Regulation	-.01	.00	-.01
Valuation period	-.05	-.01	-.06
Demographic data and assumptions	.06	.01	.07
Economic data and assumptions	.00	.00	.00
Disability data and assumptions	.00	.00	.00
Methods and programmatic data	-.32	-.01	-.33
Total change in actuarial balance	-.32	-.01	-.32
Shown in the 2021 report:			
Actuarial balance	**-3.46**	**-.08**	**-3.54**

Note: Totals do not necessarily equal the sums of components due to rounding.

The long-range 75-year actuarial deficit of the HI Trust Fund increased from 0.76 to 0.77 percent of taxable payroll. As shown in Table 2, this result was due to the combined effects of changes in methodology, and economic, demographic, and programmatic assumptions, including the changes discussed above for OASDI:

• Three significant methodological changes exclusively affecting Medicare were made:

- Two improvements were made to the methodology developed last year to incorporate time-to-death in the calculation of the demographic factors.[2]

[2] The 2020 report was the first in which the demographic factors incorporated information on time-to-death in addition to age and sex. For more information on the demographic factors, see https://www.cms.gov/files/document/incorporation-time-death-medicare-demographic-assumptions.pdf.

- The population for each hospice time-to-death category was adjusted to reflect private health plan beneficiaries as well as those enrolled in fee-for-service Medicare.
- The method for weighting the demographic factors together was adjusted to reflect reduced exposures for part-year enrollees.

♦ Improvements were also made to better reflect the increasing number of end stage renal disease (ESRD) beneficiaries joining private health plans beginning in 2020.

Table 2.—Change in the HI 75-Year Actuarial Balance Since the 2020 Report, Based on Intermediate Assumptions
[As a percentage of taxable payroll]

Shown in the 2020 report:	
Actuarial balance	**-0.76**
Changes in actuarial balance due to changes in:	
Valuation period	-.01
Base estimate	-.04
Private health plan assumptions	.03
Hospital assumptions	-.01
Other provider assumptions	.00
Methodological changes	.24
COVID-19 spending assumptions	.00
Other economic and demographic assumptions	-.22
Total change in actuarial balance	-.01
Shown in the 2020 report:	
Actuarial balance	**-0.77**

Conclusion

Lawmakers have many policy options that would reduce or eliminate the long-term financing shortfalls in Social Security and Medicare. Taking action sooner rather than later will permit consideration of a broader range of solutions and provide more time to phase in changes so that the public has adequate time to prepare.