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# RECOMMENDATIONS BY BOARD OF TRUSTEES TO REMEDY INADEQUATE BALANCES IN THE SOCIAL SECURITY TRUST FUNDS

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COMMUNICATION

FROM

## THE BOARD OF TRUSTEES OF THE FEDERAL HOSPITAL INSURANCE TRUST FUND

TRANSMITTING

NOTIFICATION OF A PROJECTION THAT THE ASSET RESERVES HELD IN THE FEDERAL HOSPITAL INSURANCE TRUST FUND WILL BECOME INADEQUATE UNDER THE MEANING OF SECTION 709 OF THE SOCIAL SECURITY ACT, PURSUANT TO 42 U.S.C. 910(a); AUG. 14, 1935, CH. 531, TITLE VII, SEC. 709 (AS ADDED BY PUBLIC LAW 98–21, SEC. 143); (97 STAT. 102)

MAY 1, 2020.—Referred to the Committee on Ways and Means and ordered to be printed

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BOARD OF TRUSTEES OF THE FEDERAL
HOSPITAL INSURANCE TRUST FUND,
*Washington, DC, April 22, 2020.*

Hon. NANCY PELOSI,
*Speaker of the House of Representatives,*

DEAR MADAM SPEAKER: In accordance with the requirements of section 709 of the Social Security Act, "Recommendations by Board of Trustees to Remedy Inadequate Balances in the Social Security Trust Funds," we are writing to notify you that we project that the asset reserves held in the Federal Hospital Insurance (HI) Trust Fund will become inadequate under the meaning of this section within the next 10 years. As shown in the 2020 Medicare Trustees Report, which we are issuing today and a copy of which is attached, the projected reserves expressed as a percentage of annual program cost (the balance ratio) of the HI trust fund fall below 20 percent by the beginning of calendar year 2025 based on our intermediate set of economic, demographic, and programmatic assumptions. Moreover, we project that the reserves of the HI trust fund will be depleted soon afterwards, during 2026, and that only about 90 percent of benefits scheduled in current law will be payable at that time if no legislative action is taken.

Background—Section 709 of the Social Security Act specifies:

> *If the Board of Trustees . . . determines at any time that the balance ratio of any such Trust Fund for any calendar year may become less than 20 percent, the Board shall promptly submit to each House of the Congress a report setting forth its recommendations for statutory adjustments affecting the receipts and disbursements of such Trust Fund necessary to maintain the balance ratio of such Trust Fund at not less than 20 percent, with due regard to the economic conditions which created such inadequacy in the balance ratio and the amount of time necessary to alleviate such inadequacy in a prudent manner. The report shall set forth specifically the extent to which benefits would have to be reduced, taxes . . . would have to be increased, or a combination thereof, in order to obtain the objectives referred to in the preceding sentence.*

The Board believes that issuing a report under this section, whenever the balance ratio of a trust fund is expected to fall below 20 percent within the next 10 years, provides reasonable advance notice and time for prudent action to alleviate inadequacy in the balance ratio. The annual report that the Board submits to the Congress under section 201(c) of the Social Security Act (commonly referred to as the Trustees Report) provides a more extensive evaluation of the actuarial status of the trust funds through the next 75 years.

The Hospital Insurance Trust Fund—Estimates in the 2020 Trustees Report show that the HI trust fund is not adequately financed through the next 10 years under the intermediate assumptions (those representing the Trustees' best estimate of future economic and demographic trends), based on the meaning of section 709. Under the intermediate assumptions of the 2020 Trustees Report, the HI trust fund reserves steadily decline, falling below 20 percent of annual cost by the beginning of calendar year 2025 and becoming depleted in 2026.

Maintaining a Balance Ratio of at Least 20 Percent—To maintain a balance ratio of at least 20 percent, it would be necessary to either increase payroll tax revenue or reduce costs. For payroll tax revenue, the increases are calculated in order to achieve a stable HI balance ratio of 20 percent, beginning at the point when the balance is projected to fall below that level under current law. For reducing net costs, the reduction in the first year with a balance ratio below 20 percent is calculated such that, in subsequent years, variations in reductions are minimized to achieve a balance ratio of exactly 20.0 percent in those later years. There are many other possibilities to maintain a balance ratio of at least 20 percent, including various combinations of payroll tax revenue increases and net cost reductions.

The following table shows, for each year through 2029, two alternatives—the additional payroll tax revenue amounts or the net cost reduction amounts—that would prevent the HI balance ratio from declining below 20 percent under the intermediate assumptions of the 2020 Trustees Report.

| Calendar year | Additional payroll tax revenue only (in billions) | Net cost reductions only [1] (in billions) |
|---|---|---|
| 2024 | $21.8 | $18.3 |
| 2025 | 54.1 | 46.6 |
| 2026 | 57.6 | 57.4 |
| 2027 | 61.1 | 60.3 |
| 2028 | 66.7 | 67.1 |
| 2029 | 74.4 | 68.3 |
| Total, 2024–2029 | 335.7 | 318.0 |

[1] Amounts shown for net cost reductions through changes in benefits are net of premiums and general revenue transfers.

The additional payroll tax revenue amounts required to meet the 20-percent minimum HI balance ratio differ somewhat from the required net reductions in cost. Payroll tax revenue changes affect trust fund reserves (the numerator of the balance ratio) but have no effect on cost (the denominator); benefit changes needed to reduce net program cost affect both reserves and cost directly.

Recommendation—Based on the intermediate projections in the 2020 Trustees Report, the HI trust fund reserves will fall below 20 percent of annual cost by the beginning of calendar year 2025 and will become depleted in 2026 in the absence of legislation to address this imbalance between scheduled benefits and revenue. We note that results presented a year ago based on the intermediate projections in the 2019 Trustees Report also indicated that the HI trust fund reserves would be depleted in 2026.

Lawmakers need to take prompt action to strengthen the actuarial status of the HI trust fund. Lawmakers could choose (i) to increase revenues to the fund, (ii) to reduce cost through modification of the HI benefit levels or eligibility requirements, or (iii) to use a combination of methods to strengthen the fund's financial condition.

The Board recommends that lawmakers enact appropriate legislation as soon as possible to make necessary adjustments for the HI program.

A similar letter is being sent to the President of the Senate.

Respectfully,

STEVEN T. MNUCHIN,
*Secretary of the Treasury, and Managing Trustee of the Trust Funds.*

EUGENE SCALIA,
*Secretary of Labor, and Trustee.*

ALEX M. AZAR II,
*Secretary of Health and Human Services, and Trustee.*

ANDREW SAUL,
*Commissioner of Social Security, and Trustee.*

VACANT,
*Public Trustee.*

VACANT,
*Public Trustee.*

SEEMA VERMA, MPH,
*Administrator, Centers for Medicare & Medicaid Services, and Secretary, Boards of Trustees.*