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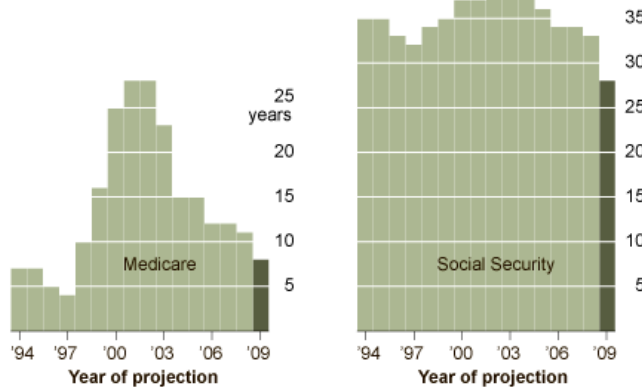
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Recession Drains Social Security and Medicare

Dwindling Assets

The projected number of years that the Medicare and Social Security trust funds would remain solvent.



Sources: Treasury Department; Health and Human Services Department

By ROBERT PEAR Published: May 12, 2009

WASHINGTON — Even as Congress hunted for ways to finance a major expansion of health insurance coverage, the Obama administration reported Tuesday that the financial condition of the two largest federal benefit programs, Medicare and Social Security, had deteriorated, in part because of the recession.

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As a result, the administration said, the Medicare fund that pays hospital bills for older Americans is expected to run out of money in 2017, two years sooner than projected last year. The Social Security trust fund will be exhausted in 2037, four years earlier than predicted, it said.

Spending on Social Security and Medicare totaled more than \$1 trillion last year, accounting for more than one-third of the federal budget.

The fragility of the two programs is a concern not just for current beneficiaries, but also for future retirees, taxpayers and politicians. Lawmakers say they would never allow Medicare's trust fund to run out of money. But beneficiaries could be required to pay higher premiums, co-payments and deductibles to help cover the costs.

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Treasury Secretary Timothy F. Geithner, with, from left, Michael J. Astrue, the Social Security administrator, Kathleen Sebelius, the Health and Human Services secretary, and Labor Secretary Hilda L. Solis, discussed the financial status of benefit programs.

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The projected date of insolvency, a widely used measure of the benefit programs' financial health, shows the immense difficulties Mr. Obama and Congress will face in trying to shore them up while also extending health coverage to millions of Americans.

The labor secretary, [Hilda L. Solis](#), noted that 5.7 million jobs had been lost since the recession began in December 2007. With fewer people working, the government collects less in payroll taxes, a major source of financing for Medicare and Social Security.

A resumption of economic growth is not expected to close the financing gap. The trustees' bleak projections already assume that the economy will begin to recover late this year.

The [Treasury](#) secretary, [Timothy F. Geithner](#), said the only way to keep Medicare solvent was to "control runaway growth in both public and private health care expenditures." And he said Mr. Obama intended to do that as part of his plan to guarantee access to health insurance for all Americans.

But if cost controls do not produce the expected savings, Congress is likely to find it difficult to preserve benefits without increasing taxes.

Just hours before the trustees of Medicare and Social Security issued their annual report, suggesting that the nation could not afford the programs it had, the Senate Finance Committee finished a hearing on how to pay for the expansion of health insurance coverage that Mr. Obama seeks.

Mr. Obama has said he does not want to finance expanded health coverage with more deficit spending. Rather, he says, Congress must find ways to offset the costs, so they do not add to the deficit over the next decade.

Federal deficits and debt are soaring because of the recession and federal efforts to shore up banks and other industries while trying to revive the economy with a huge infusion of federal spending.

"The financial outlook for the hospital insurance trust fund is significantly less favorable than projected in last year's annual report," the Medicare trustees said. "Actual payroll tax income in 2008 and projected future amounts are significantly lower than previously projected, due to lower levels of average wages and fewer covered workers."

In coming years, the trustees said, Medicare spending will increase faster than either workers' earnings or the economy over all.

The trustees predicted that, for the first time in more than three decades, Social Security recipients would not receive any increase in their benefits next year or in 2011. In 2012, they predicted, the cost-of-living adjustment will be 1.4 percent.

The updates are calculated under a statutory formula and reflect changes in the [Consumer Price Index](#), which was unusually high last year because of energy prices.

If there is no cost-of-living adjustment for Social Security, about three-fourths of Medicare beneficiaries will not see any change in their basic premiums for Part B, which covers doctors' services. The monthly premium, now \$96.40, is usually deducted from Social Security checks, the main source of income for more than half of older Americans.

The trustees said that one-fourth of Medicare beneficiaries would face sharply higher premiums: about \$104 next year and \$120 in 2011. This group includes new Medicare beneficiaries and those with higher incomes (over about \$85,000 a year for individuals

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beneficiaries and those with higher incomes (over about \$85,000 a year for individuals and \$170,000 for couples).

Seventy-five percent of beneficiaries will not pay any increase, so the remaining 25 percent have to pay more to keep the trust fund at the same level, Medicare officials said.

The aging of baby boomers will strain both Medicare and Social Security, but Medicare's financial problems are more urgent.

The trustees predict a 30 percent increase in the number of Medicare beneficiaries in the coming decade, to 58.8 million in 2018, from 45.2 million last year.

But the projected increase in health costs and the use of medical care is a more significant factor in the growth of Medicare. The trustees predict that average Medicare spending per beneficiary will increase more than 50 percent, to \$17,000 in 2018, from \$11,000 last year.

Representative Pete Stark, the California Democrat who is chairman of the Ways and Means Subcommittee on Health, said the Medicare report "underscores the urgent need for health reform."

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