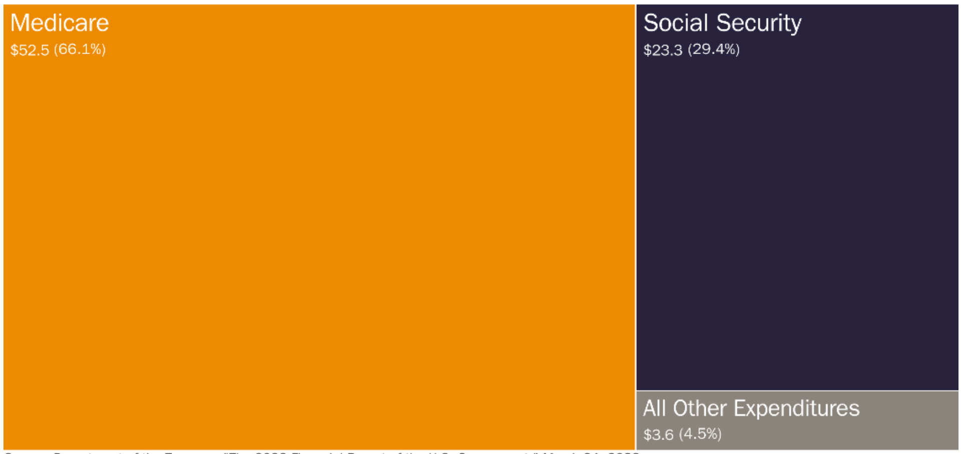
Fast Facts about Medicare and Social Security

Medicare and Social Security are the two largest federal government programs that are also growing the fastest. They are unsustainable as currently structured. Medicare consists of four parts which provide inpatient care (Part A), outpatient care (Part B), prescription drug coverage (Part D), and subsidies for seniors to choose alternative health insurance providers through Medicare Advantage (Part C). Social Security consists of Old Age and Survivors Insurance (OASI) and Disability Insurance (DI). For the purposes of this fact sheet, Social Security will refer to OASI. This fact sheet lays out key fiscal details legislators and the public should know about Medicare and Social Security to help them examine the unsustainability of these massive federal entitlement programs.

- Medicare is the second largest federal government program, spending **$1 trillion** in 2023 or **3.8 percent** of gross domestic product (GDP).
  - Spending will double to **$2 trillion** or 5.1 percent of GDP by 2033. That's twice what the U.S. government will spend on defense that year.
  - 65 million Americans receive Medicare at an average cost for taxpayers of **$12,100 per beneficiary**.
  - Studies estimate that **one-third of Medicare spending provides no value**: it makes patients no healthier or happier.
  - Studies have found Medicare increased total hospital spending by **37 percent** over five years.

- Medicare is already contributing to federal deficits and confronting increasing budget shortfalls.
  - Medicare will be responsible for **$446 billion in deficits**, or one third of the entire 2023 federal budget deficit of 5.3 percent of GDP.
  - Medicare's trust funds hold no real assets and only Medicare Part A is funded by payroll taxes. The majority (64 percent) of Medicare spending is financed by other taxes and borrowing.
  - When the Medicare Hospital Insurance (Part A) trust fund ledger goes to 0 by **2031**, inpatient providers will face a reimbursement cut of **11 percent**.
  - **$48.4 trillion** or 60 percent of the $78.4 trillion in 75-year unfunded obligations for Medicare and Social Security is due to spending on Medicare Parts B and D, with taxpayers on the hook for the difference between what beneficiaries pay in premiums and the benefits they receive.
  - If Congress raised payroll taxes to cover Medicare Part A's 75-year unfunded obligation, a median wage earner ($44,000/year) would face an additional **$700** in annual taxes.

Medicare and Social Security comprise 95 percent of unfunded obligations, trillions $



Source: Department of the Treasury, "The 2022 Financial Report of the U.S. Government," March 24, 2023
Note: The graph displays projected net expenditures (non-interest spending less revenue) in 2022 present value terms.

- Social Security is the single largest federal government program, spending **$1.2 trillion** in 2023 or **4.7 percent** of gross domestic product (GDP).
    - Social Security spending will double to **$2.1 trillion** or 5.4 percent of GDP by 2034. By then, the government will spend more on Social Security annually than on the entire defense and nondefense discretionary budget.
    - **57.5 million** Americans receive Social Security.
    - The average monthly benefit for an individual is **$1,747**.
    - The maximum monthly benefit for an individual is **$4,555**.
    - In 2022, Social Security raised all current benefits by **8.7% to adjust for inflation**, the largest single benefit increase in 40 years.
    - Since the program's inception, life expectancy at birth has increased **by nearly 20 years**. Yet, Social Security's eligibility age has only increased by **2 years**.

- Social Security is already contributing to federal deficits and confronting increasing budget shortfalls.
    - Social Security is responsible for **$157 billion in deficits in 2023**, or 11 percent of the entire annual federal budget deficit this year.
      Social Security's trust fund is a liability, not an asset. Social Security holds no real assets beyond IOUs against future U.S. taxpayers. Those IOUs, which amount to $2.8 trillion, are part of the $31 trillion gross national debt.
    - When the Social Security trust fund ledger depletes by **2033** all beneficiaries regardless of age, income, or need will face a **20 percent** benefit cut.
    - Social Security's 75-year unfunded obligation—the difference between the present value of payroll tax revenues and spending— is **$23 trillion**, comparable in size to nearly the entire publicly held debt of $24.7 trillion in 2023 (**$140,000** for every wage earner).
    - If Congress raised the payroll tax to cover the 75-year Social Security unfunded obligation, median wage earners ($44,000/year) would have to pay an additional **$1,600** in payroll taxes.

Further reading:

- **Cato Handbook for Policymakers: Medicare**
  "In dollar terms, Medicare is the largest purchaser of medical care goods and services in the world—in part because it pays excessive prices to health care providers and wastes hundreds of billions of dollars on medical care that provides no value to enrollees."
- **Medicare and Social Security Are Responsible for 95 Percent of U.S. Unfunded Obligations**
  "Over the next 75 years, U.S. taxpayers face nearly $80 trillion in long-term unfunded obligations. What's more, 95 percent of this unfunded obligation is driven by only two federal government programs: Medicare and Social Security…Adopting sensible reforms to old age entitlement programs is both necessary and urgent."
- **Overdue for Change: Social Security at Age 87**
  "Social Security provides income support to older Americans, regardless of need. The median net worth of working Americans aged 35–44 was $91,300 in 2019. Meanwhile median net worth among those 65 and older was nearly three times that. To the extent that the government provides income subsidies to retirees, it should focus them on those retirees with limited means to support themselves."
- **Social Security's COLA Increase Is Based on an Outdated Inflation Measure**
  "Using [the more accurate] chained CPI to determine future Social Security cost-of-living adjustments would extend benefits for longer without raising taxes on working Americans, while protecting beneficiaries from a real loss in purchasing power based on inflation."