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New Projections on Social Security, Medicare

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WASHINGTON (March 23) - The trust fund for Social Security will go broke in 2041 - a year earlier than previously estimated - the trustees reported Wednesday. Trustees also said that Medicare, the giant health care program for the elderly and disabled, faces insolvency in 2020.

The new projections made in the trustees annual report were certain to be cited by both sides in the massive battle to overhaul Social Security, which President Bush has made the top domestic priority of his second term.

The go-broke date for Medicare was delayed by one year, compared to the estimate that trustees gave a year ago.

The insolvency dates represent when both trust funds will have exhausted the government bonds that have been building up to take care of the pending retirement of 78 million baby boomers.

Equally important are when benefits paid to the elderly start exceeding the payroll taxes designated to support the two programs. That's when the government will have to increase its borrowing on financial markets, raise taxes or divert money from other government programs to sustain Medicare and Social Security at current levels.

For Medicare, the threshold when benefits exceed program income occurred last year. For Social Security, that threshold will be crossed in 2017, one year earlier than the 2018 date projected in last year's report.

The administration cited that change as a sign of the urgency to act to deal with Social Security's funding woes. Democrats argue that the real crisis is in Medicare and that the administration is ignoring the health care crisis.

"The reason we are dealing with Social Security now is that it cries out for answers," Snow told reporters at a briefing on the trustees report. He predicted that Congress will deal with legislation to overhaul Social Security later this year.

Snow, chairman of the six-member board of trustees for both programs, said the estimates "leave no question that Social Security reform is needed and it is needed soon."

However, Democratic critics drew different findings from the report, arguing that it showed that Social Security was not in a crisis situation and did not require the private accounts that the administration wants to establish for younger workers.

"Today's report confirms that the so-called Social Security crisis exists in only one place - the minds of Republicans," said Senate Democratic Leader Harry Reid of Nevada. "In reality, the program is on solid ground for decades to come."

Rep. Sander Levin, D-Mich., said that Bush "started this discussion off on the wrong foot by insisting on diverting trillions of dollars from Social Security to private accounts. ... This report offers the opportunity to remove private accounts from the table so we can come up with a thoughtful, bipartisan solution that will protect Social Security for generations to come."

The trustees said that Social Security's unfunded obligations total \$4 trillion over the next 75 years, an increase from last year's projection of \$3.7 trillion in unfunded liabilities.



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Social Security provides retirement, survivors and disability income for 47.6 million Americans.

The report also updated a forecast of unfunded obligations over an infinite horizon of hundreds of years. That unfunded liability was put at \$11.1 trillion, up from \$10.4 trillion last year. While the administration insisted it was legitimate to include a forecast over such a long time horizon, Democrats charged that the administration had developed this figure in an effort to make the funding problems in Social Security look even worse.

Bush has said he will not raise payroll taxes to deal with the funding problem although he has left the door open to raising the \$90,000 cap on incomes subject to the payroll tax.

In the report, the trustees said that "the projected trust fund deficits should be addressed in timely way to allow for a gradual phasing of the necessary changes and to provide advanced notices to workers. The sooner adjustments are made, the smaller and less abrupt they will have to be."

The report said in 2017, the new date for Social Security's insolvency, payroll taxes will be generating enough income to cover 74 percent of benefit payments. That represented an increase from last year's projection that only 73 percent of benefits would be covered in the year that the trust fund went broke.

For Medicare, the trustees estimated that taxes will be sufficient to cover 79 percent of the program's cost in 2020, when the Medicare trust fund is exhausted. Last year, when the insolvency date was projected to be 2019, tax income was estimated to be sufficient to pay 81 percent of the program's costs.

Social Security provides retirement, survivors and disability income for 47.6 million Americans and Medicare provides health care for 41.7 million seniors and disabled people.

The six-member board of trustees is headed by Snow and also includes Labor Secretary Elaine Chao, Health and Human Services Secretary Mike Leavitt and Social Security Commissioner Jo Anne Barnhart.

In addition, there are two public trustees, Thomas Saving of Texas and John L. Palmer of New York.

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