



2016 Trustees Reports Project Social Security COLA, Medicare Premiums, and Long-Term Outlook



According to this year's Trustees reports, Social Security and Medicare accounted for 41% of federal program expenditures in fiscal year 2015.

Every year, the Trustees of the Social Security and Medicare trust funds release reports to Congress on the current financial condition and projected financial outlook of these programs. The 2016 reports, released on June 22, 2016, project a small Social Security cost-of-living adjustment (COLA) and Medicare premium increases for 2017, and discuss ongoing financial challenges.

What are the Social Security and Medicare trust funds?

Social Security: The Social Security program consists of two parts. Retired workers, their families, and survivors of workers receive monthly benefits under the Old-Age and Survivors Insurance (OASI) program; disabled workers and their families receive monthly benefits under the Disability Insurance (DI) program. The combined programs are referred to as OASDI. Each program has a financial account (a trust fund) that holds the Social Security payroll taxes that are collected to pay Social Security benefits. Other income (reimbursements from the General Fund of the Treasury and income

tax revenue from benefit taxation) is also deposited in these accounts. Money that is not needed in the current year to pay benefits and administrative costs is invested (by law) in special Treasury bonds that are guaranteed by the U.S. government and earn interest. As a result, the Social Security trust funds have built up reserves that can be used to cover benefit obligations if payroll tax income is insufficient to pay full benefits.

(Note that the Trustees provide certain projections based on the combined OASI and DI (OASDI) trust funds. However, these projections are theoretical, because the trusts are separate, and generally one program's taxes and reserves cannot be used to fund the other program.)

Medicare: There are two Medicare trust funds. The Hospital Insurance (HI) Trust Fund pays for inpatient and hospital care (Medicare Part A costs). The Supplementary Medical Insurance (SMI) Trust Fund comprises two separate accounts, one covering Medicare Part B (which helps pay for physician and outpatient costs) and one covering Medicare Part D (which helps cover the prescription drug benefit).

Trustees report highlights: Social Security

- The combined trust fund reserves (OASDI) are still increasing and will continue to do so through 2019. Not until 2020, when annual program costs are projected to exceed total income, will the U.S. Treasury need to start withdrawing from reserves to help pay benefits. Without congressional action, the Trustees project that the combined trust fund reserves will be depleted in 2034, the same year projected in last year's report.



- Once the combined trust fund reserves are depleted, payroll tax revenue alone should still be sufficient to pay about 79% of scheduled benefits in 2034, with the percentage falling gradually to 74% for 2090.
- The OASI Trust Fund, when considered separately, is projected to be depleted in 2035 (the same year projected in last year's report). At that time, payroll tax revenue alone would be sufficient to pay 77% of scheduled OASI benefits.
- The DI Trust Fund is expected to be depleted in late 2023. Once the DI Trust Fund is depleted, payroll tax revenue alone would be sufficient to pay 89% of scheduled benefits.
- Based on the "intermediate" assumptions in this year's Trustees report, the Social Security Administration is projecting that beneficiaries will receive a small cost-of-living adjustment (COLA) of 0.2% for 2017.

Trustees report highlights: Medicare

- Annual costs for the Medicare program have exceeded tax income annually since 2008, although the Trustees project slight surpluses in 2016 through 2020 before a return to deficits thereafter.
- The HI Trust Fund is projected to be depleted in 2028, two years earlier than projected last year. Once the HI Trust Fund is depleted, tax and premium income would still cover 87% of estimated program costs, declining to 79% by 2040, and then gradually increasing to 86% by 2090. The Trustees note that projections of Medicare costs are highly uncertain, especially long-range projections.
- Because of the small Social Security COLA (0.2%) projected, about 70% of beneficiaries (those who have Medicare premiums deducted from their Social Security benefits) may see only a small increase in their Part B premiums in 2017. For these beneficiaries, a so-called "hold-harmless" provision in the law limits the dollar increase in the Medicare Part B premium to the dollar increase in an individual's Social Security benefit. However, the remaining 30% not eligible for this hold-harmless provision may be subject to a much greater premium increase. This group includes new enrollees, wealthier beneficiaries, and those who choose not to have their premiums deducted from their Social Security benefit. These beneficiaries could see their base premium rise to \$149.00 in 2017, up from \$121.80 in 2016.
- The report also projects Part B premium increases for those subject to income-related premiums. For example, for individuals with a modified adjusted gross income above \$85,000 up to \$107,000 or married couples with a MAGI above \$170,000 up to \$214,000, the monthly premium is projected to increase to \$208.60 per person in 2017, up from \$170.50 per person in 2016.

NOTE: Medicare premium projections are based on the projected Social Security COLA. Consequently, premiums for 2017 may be significantly different once the final COLA is calculated in October.

Why are Social Security and Medicare facing financial challenges?

Social Security and Medicare accounted for 41% of federal program expenditures in fiscal year 2015. These programs are funded primarily through the collection of payroll taxes. Because of



demographic and economic factors, fewer workers are paying into Social Security and Medicare than in the past, resulting in decreasing income from the payroll tax. The strain on the trust funds is also worsening as large numbers of baby boomers reach retirement age, Americans live longer, and health-care costs rise.

What is being done to address these challenges?

Both reports urge Congress to address the financial challenges facing these programs in the near future, so that solutions will be less drastic and may be implemented gradually, lessening the impact on the public.

Some long-term Social Security reform proposals on the table are:

- Raising the current Social Security payroll tax rate (according to this year's report, an immediate and permanent payroll tax increase of 2.58 percentage points would be necessary to address the long-range revenue shortfall)
- Raising the ceiling on wages currently subject to Social Security payroll taxes (\$118,500 in 2016)
- Raising the full retirement age beyond the currently scheduled age of 67 (for anyone born in 1960 or later)
- Reducing future benefits, especially for wealthier beneficiaries
- Changing the benefit formula that is used to calculate benefits
- Calculating the annual cost-of-living adjustment for benefits differently

You can view a combined summary of the 2016 Social Security and Medicare Trustees reports or a full copy of the Social Security report at www.ssa.gov. You can find the full Medicare report at www.cms.gov.



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