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Chairperson's Corner

Social Insurance and the Federal Budget

By Sven Sinclair

Social Security and Medicare, the largest social insurance programs in the United States, are paid through dedicated trust funds. One of those trust funds—the Supplementary Medical Insurance (SMI) Trust Fund, which pays Medicare Part B and Part D benefits—is financed through a combination of beneficiary premiums and general revenues. All the other trust funds—Medicare's Hospital Insurance (HI) Trust Fund and Social Security's Old Age and Survivors' Insurance (OASI) and Disability Insurance (DI) trust funds—are financed from dedicated taxes. Notably, these trust funds have no borrowing authority, meaning that they can only pay benefits from taxes already paid and interest earned on the trust fund reserves.

This legal limit on trust funds is one important reason that the projected trust fund reserve depletion under current law is significant. If the trust funds are depleted, benefits can be paid only up to the amount of tax revenues coming in, which will not be enough to pay the full scheduled amounts. This would obviously cause financial hardship to millions of beneficiaries; however, it also means that Social Security and Medicare shortfalls would not increase annual federal budget deficits (or the accumulated debt) in the unlikely case that Congress does not act in time to bring those programs into financial balance.

In the article "Understanding Social Security Long-Term Fiscal Outlook," published in the April/May 2016 issue of *The Actuary*, Social Security Administration's Chief Actuary Stephen C. Goss discusses, among other things, how the budget-scoring convention used in projections of federal budget deficits and debt can be misleading. The budget-scoring convention presumes that the trust funds would continue paying full scheduled benefits after reserve depletion, through transfers from the general fund of the Treasury. Under current law, however, full scheduled benefits are not payable after depletion of the trust fund reserves, and any increase in payable benefits thus must be paid by a corresponding increase in dedicated taxes. Making up the shortfall from the general fund would only be possible if Congress fundamentally broke with history and authorized the trust funds to borrow from the general fund.

We should keep in mind that measures based on current law are necessary for understanding the size of the shortfalls and, hence, the changes needed to address them, but it is hard to imagine that Congress would allow the disruptive scenario of trust fund reserve depletion to actually play out. Sooner or later, some changes in benefits or taxes (or, most likely, both) will almost certainly be enacted to extend the life of the trust fund reserves, though it remains to be seen if these anticipated changes will fully restore the programs' long-range actuarial balance.

Many people wonder if we will be able to afford our current social insurance programs as they take up a greater share of GDP in the future, as is currently projected due to demographic and economic pressures. My answer is that there is no reason to think that we **could not** afford those programs, but we—current and future generations—will decide, through our political institutions, how much of the available resources we are **willing** to allocate to them.

Such questions will be discussed in one of the sessions our section is sponsoring at this year's Annual Meeting titled, "Sustainability of Public Finance in the United States." I believe we can expect diverse views from the panelists and interesting questions from the audience. I hope to see many of you there, as well as in our other sessions—on the status of Social Security and Medicare, on the differences between the work of private- and public-sector actuaries, and during the Section Breakfast, where we will have a discussion of some exciting new research. I hope to see many of you there! ■

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