SOCIAL SECURITY HIGHLIGHTS

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Medicare Changes in 2021

We've spent a considerable amount of time talking about the future and the solvency of Social Security. According a government estimate, the Social Security Trust Fund is expected to run out of money by 2035. But did you know that Medicare's hospital fund is now expected to run out of money much sooner, in 2024?

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The Problem

Here's a very brief summary of the biggest components of Medicare:

- Part A is for major medical, and that is "free" when you use it, although you've been paying for it your entire working life through withholding taxes, and it doesn't actually cover everything.
- Part B is for doctor's visits and tests, and that costs a minimum of $148.50 per month if you turn 65 this year.
- Part D is prescription drug coverage, which has a cost element as well, although it's usually much less expensive than Part B.
- Part C is "Medicare Advantage" plans. It is an optional arrangement where one plan covers all three parts above.
- Finally, there are various supplements which fill in some of the coverage gaps in Part A.

Part A is where the biggest solvency concerns are right now. This part of Medicare is funded through a payroll tax that is 1.45 percent of your pay as an employee, plus another 1.45 percent paid by the employer. Unlike Social Security payroll taxes, there is no income limit to this combined 2.9 percent.

As the cost of heathcare has gone up over the years, the "doomsday" date—the projected date when the hospital fund runs out of money—has crept closer and closer, and the pandemic has pushed it back further. In April of last year, the Medicare Trustees reported that the hospital trust fund would start to run out of money in 2026. But according to the Committee for a Responsible Federal Budget, a nonpartisan group focused on fiscal policy, the pandemic has pushed that date back to early 2024.

It's important to note the problem here. In this case, it's not so much that medical costs are going up (although, of course, they are). It's that with fewer people working, the government is collecting less than they expected in payroll taxes.

Keep in mind that, as with Social Security, the doomsday date doesn't mean that Medicare will disappear if it ever actually occurs. Both programs are funded primarily through the taxes withheld from the paychecks of current employees and from their employers. It just means that the "rainy day fund" will be exhausted. Based on current projections, at that point Medicare Part A would have enough money to pay only about 90 percent of its expenses.

There has always been a projected insolvency date. In the past it has been anywhere from 2 to 28 years in the future.

As far as Parts B and D go, the amount charged to recipients gets adjusted every year. So there is less of a direct problem for the government. Rather than facing an insolvency problem, the government can (and often does) simply increase the price it charges to the people who use it.

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The Solution?

"Fixing" Medicare, as you might imagine, could be very expensive. In more recent years, the government has relied on modest increases in payroll taxes and limiting the amounts they pay to healthcare providers.

President Biden himself hasn't said much about fixing the Medicare funding problem. Some of his fellow Democrats have suggested that reforms to Part D and Medicare Advantage plans can result in some savings, which could then be used to support the hospital trust fund.

The Future

President Biden has stated publicly that he would prefer to expand Medicare and make it available to people under age 65.

His plan is to make Medicare available to anyone age 60 or older. Part of the motivation for this is to reduce the number of uninsured Americans. And while healthcare is generally less expensive for younger people, reducing the age would result in a significant increase in cost. Of course, funding that cost is where the real problem lies. President Biden has proposed that the cost of these new enrollees should be covered from the general revenue of the U.S. Treasury. He does not wish to put further stress on the hospital trust fund.

The problem is not going away, and many people in Washington feel a new sense of urgency in their desire to fix it. Whether there will be any significant change this year remains to be seen.

Social Security Evaluator

To learn about your Social Security options, contact your Security Mutual Life insurance agent. Using the Security Mutual Life Social Security Evaluator, your agent can provide you with an easy-to-understand illustration showing your various options, and then help you evaluate those options based on your personal financial needs and goals.

Sources

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