DeseretNews

Opinion: When Social Security and Medicare funds run dry, what's the plan?

July 19th, 2022

Opinion polls show Americans are worried about the economy. They ought to be.

But Americans don't fully understand how deeply they ought to be worried.

In a June poll conducted by the Deseret News and the Hinckley Institute of Politics, 88% of registered voters in Utah said they worry a recession is coming within the next year. A new national poll conducted for CNN by SSRS put this in a slightly different light, with 82% saying the nation's economic conditions are poor and 64% believing a recession already has begun.

Many people are upset about rising gasoline prices, the cost of food at the grocery store or the price of a new car. They worry about rising interest rates and what these might mean for home sales or the monthly payments on their credit cards. These are the visible, everyday evidence of trouble.

But the real worry ought to go much deeper than that, to troubles unseen. The United States has a long-term economic imbalance forming in two popular government programs — Social Security and Medicare — and few in Washington are talking about it or the nation's greater debt problems.

As the Cato Institute, a libertarian think tank, noted in a paper published last week, extra federal spending on the COVID-19 pandemic — for things such as stimulus checks and business loans — raised the nation's debt from 79.4% of GDP in 2019 to 99.6% in 2021, a figure higher than at any time since World War II.

But while the stimulus measures may have been necessary to blunt the economic shock of a pandemic-induced shutdown, they diverted attention from how the needs of Social Security and Medicare are outpacing the government's ability to keep up.

Trustees for these two programs issue reports yearly. The latest report, issued in May, showed Social Security's trust fund for old-age and survivors' benefits is projected to run dry in 2034. After that, its annual income would allow the funding of only 77% of promised benefits.

Medicare's Hospital Insurance Fund is projected to run dry in 2028.

"Social Security and Medicare both face long-term financing shortfalls under currently scheduled benefits and financing," the trustees said. "Costs of both programs will grow faster than gross domestic product (GDP) through the mid-2030s primarily due to the rapid aging of the U.S. population."

The projections tend to change a bit with each report, based on economic conditions, but this doesn't alter the fact that a day of reckoning is looming, and neither political party seems willing to come to terms with the situation.

Voters can hardly be blamed for not mentioning these looming problems as election-year issues. For one thing, few people talk about them. For another, voters wouldn't know which party to blame.

As for the larger debt picture, Cato notes that the Congressional Budget Office projects, if nothing changes, U.S. debt will reach 185% of GDP over the next 30 years.

The more the nation's economic output has to be devoted toward debt payments, the more of a drag debt will become on prosperity. And with interest rates rising, annual payments to service the nation's debt may severely hamper the government's ability to provide services.

As Cato noted, inflation could help the government make debt payments, because the dollar would become less valuable, but this is no long-term solution. "You cannot inflate away real health care demands from seniors and inflation-proofed Social Security checks."

The only answer to this looming catastrophe is to either dramatically reduce federal spending or increase taxes, or perhaps do a combination of both.

That's something few, if any, voters are calling for right now. However, it will be interesting to see who they decide to blame, and what political solutions they may support, when reality begins to force itself on everyone.