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## Third Quarter 2010 Newsletter

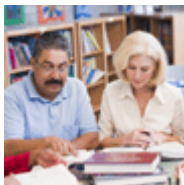
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Welcome to the third quarter issue of **Social Security and Medicare News** for 2010. The featured article summarizes the recently released 2010 Trustees Reports that evaluate the financial condition of the Social Security and Medicare programs. Included is a handy table comparing the 2010 figures to the projected 2011 figures and key dates for these programs.

Please [email us](#) with your suggestions and feedback on the newsletter.

## Featured article

### Trustees Issue 2010 Annual Reports



The Boards of Trustees for the Social Security and Medicare trust funds issued their 2010 reports on August 5, 2010. Two reports were issued: one for Social Security Old-Age, Survivors, and Disability Insurance (OASDI); and the other for Medicare Part A, Hospital Insurance (HI), and Medicare Parts B and D, Supplementary Medical Insurance (SMI). The boards have identical memberships.

The 2010 reports show future estimates based on three sets of assumptions ranging from optimistic (low-cost), to intermediate (best guess), to pessimistic (high-cost). The intermediate assumptions are used in this newsletter because they are viewed as the most likely to occur. The table below summarizes many of the 2010 Social Security and Medicare figures, as well as the 2011 projections. The actual 2011 figures are typically released in September for Medicare and October for Social Security.

**The forecast for OASDI remains unchanged compared to the 2009 report.** The trust fund exhaustion date is 2037 for Social Security (the same as the 2009 report). However, it is projected that program costs will exceed tax revenues in 2010 and 2011, and then permanently beginning in 2015 due to the retirement of an estimated 78 million baby boomers. The first ever shortfall in 2010 and 2011 is mostly due to the recent economic downturn that has caused many unemployed people to apply for Social Security early retirement benefits and this has reduced payroll tax revenues. In 2012 through 2014, the program costs are projected to be less than tax revenues.

The OASDI trust fund is two funds: 1) OASI (covers retirement and survivor benefits) and 2) DI (disability insurance). The DI trust fund is projected to become exhausted in 2018. DI costs have exceeded tax revenues since 2005. There were about 9.7 million people receiving disability benefits last year.

**The financial outlook for Medicare has greatly improved with the exhaustion date being extended to 2029 (12 years later than the 2009 report).** This improvement assumes the Affordable Care Act (ACA) will strengthen the solvency of the Medicare trust fund. The new law greatly reduces Medicare spending over the next 10 years including payment cuts for doctors' services by 23% on December 1 and another 6.5% on January 1 as required under existing law. This is unrealistic as Congress is certain to override these cuts as it has done in past years.

For the fourth time, a "Medicare funding warning" occurred because general revenues (rather

than dedicated revenues such as premiums and payroll taxes) will be more than 45% of Medicare's outlays within seven years of the projection period. When this happens in two consecutive reports, the President must propose legislation within 15 days of submitting the Fiscal Year 2012 budget (released in early February 2011). Congress has to consider the proposal on an expedited basis.

Read more on each of the programs projected changes by clicking on the links below.

- [Social Security Old-Age, Survivors, and Disability Insurance \(OASDI\)](#)
- [Medicare Hospital Insurance \(HI\)](#)
- [Medicare Supplementary Medical Insurance \(SMI\)](#)
- [Conclusion](#)

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## 2010 Social Security and Medicare Figures and 2011 Projections

### 2010 Social Security and Medicare Figures and 2011 Projections

<b>Social Security</b>	<b>2010</b>	<b>Projected 2011</b>
Cost-of-living Adjustment (COLA) for December (payable in January)	0% (12/09)	0% (12/10)
FICA tax rate remains 7.65% for both employees and employers Social Security Medicare (Hospital Insurance)	6.20% 1.45%	<b>6.20%</b> <b>1.45%</b>
Maximum Social Security earnings for tax contributions and benefits Medicare taxable earnings	\$106,800 no limit	<b>\$106,800*</b> <b>no limit</b>
Earnings required to earn one credit (maximum of four per year)	\$1,120	<b>\$1,120</b>
Retirement Earnings Test exempt amounts under full retirement age (FRA) throughout year (currently age 66) reaches FRA in year (period before the month FRA is attained) FRA and over	\$14,160 \$37,680 no limit	<b>\$14,160*</b> <b>\$37,680*</b> <b>no limit*</b>

\*Since there is no projected COLA increase, by law these figures remain the same as 2009 and 2010.

<b>Medicare</b>	<b>2010</b>	<b>Projected 2011</b>
Part A (Hospital Insurance) voluntary monthly premium if not eligible for premium-free Part A	\$461	<b>\$451</b>
Part A reduced monthly premium for persons with 30-39 credits	\$254	<b>\$248</b>
Part B (Medical Insurance) standard monthly premium* <b>File an Individual Tax Return</b> <b>File a Joint Tax Return</b> 0 to \$85,000 annual income    0 to \$170,000 annual income \$85,001 to \$107,000    \$170,001 to \$214,000 \$107,001 to \$160,000    \$214,001 to \$320,000 \$160,001 to \$214,000    \$320,001 to \$428,000 over \$214,001    over \$428,001	\$110.50 \$154.70 \$221.00 \$287.30 \$353.60	<b>\$120.10</b> <b>\$168.10</b> <b>\$240.10</b> <b>\$312.10</b> <b>\$384.20</b>
*Income brackets based on beneficiaries 2008 federal income tax return filing status and adjusted gross income (2009 returns for 2011)		

<b>Original Medicare Plan</b>	<b>2010</b>	<b>Projected 2011</b>
Part A inpatient deductible per benefit period	\$1,100	<b>\$1,140</b>
Part A daily coinsurance 61st through 90th days	\$275	<b>\$285</b>
Part A daily coinsurance for up to 60 "lifetime reserve" days	\$550	<b>\$570</b>
Part A daily coinsurance 21st through 100th days in a skilled nursing facility	\$137.50	<b>\$142.50</b>
Part B annual deductible	\$155	<b>\$168</b>
Part D (Prescription Drug Coverage) monthly premium (estimate)* <b>File an Individual Tax Return</b> <b>File a Joint Tax Return</b> 0 to \$85,000 annual income      0 to \$170,000 annual income \$85,001 to \$107,000            \$170,001 to \$214,000 \$107,001 to \$160,000          \$214,001 to \$320,000 \$160,001 to \$214,000          \$320,001 to \$428,000 over \$214,001                    over \$428,001	\$31.94 n/a n/a n/a n/a	<b>\$33.41</b> <b>\$45.90</b> <b>\$65.50</b> <b>\$85.20</b> <b>\$104.80</b>
*Income brackets based on beneficiaries 2009 federal income tax return filing status and adjusted gross income for 2011		
	<b>2010</b>	<b>Actual 2011*</b>
Part D deductible	\$310	<b>\$310</b>
Part D initial benefit limit	\$2,830	<b>\$2,840</b>
Part D catastrophic threshold	\$4,550	<b>\$4,550</b>

\*Medicare Part D benefits are the same as 2010 except for a \$10 increase in the initial benefit limit.

#### Trustees Reports Key Projected Dates

	<b>2009 OASDI</b>	<b>2010 OASDI</b>	<b>2009 HI</b>	<b>2010 HI</b>
First year outgo exceeds income <b>excluding</b> interest (Best estimate)	2016	<b>2015</b>	2008	<b>2020</b>
First year outgo exceeds income <b>including</b> interest (Best estimate)	2024	<b>2025</b>	2008	<b>2022</b>
Fund balance exhausted (Best Estimate)	2037	<b>2037</b>	2017	<b>2029</b>
Fund balance exhausted (Low Cost)	Never	<b>Never</b>	2028	<b>Never*</b>
Fund balance exhausted (High Cost)	2029	<b>2029</b>	2014	<b>2017</b>

\*Under the low-cost scenario, trust fund assets would increase in 2012 and continue to increase throughout the projection period if the current laws stay the same.

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## Publications

### [2010 Social Security and Medicare Publications](#)

Mercer provides publications on Social Security and Medicare that are used by employers, insurance companies, banks,



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## Featured article (*continued*)

### Trustees Issue 2010 Annual Reports (Details for each programs projected changes)

#### Social Security Old-Age, Survivors, and Disability Insurance (OASDI)

OASDI pays benefits to workers and their families in the event of retirement, disability, or death. It is financed primarily by payroll taxes (83%), interest on trust-fund assets (14%), and revenue from the federal income taxation of Social Security benefits (3%). The program covered about 156 million workers in 2009 – a decrease of 6 million from 2010. The recent economic recession has reduced the number of workers paying taxes and caused many to elect Social Security early retirement benefits. About 53 million people were receiving monthly Social Security benefits at the end of 2009 – totaling \$675 billion in payments. There are currently 3.0 covered workers for each beneficiary – decreasing to 2.1 covered workers by 2035. Administrative costs were a very low 0.9% of total expenditures in 2009. The long-range financial condition of OASDI remains the same as the 2009 report based on the economic recession and longer life spans.

The OASDI Trust Fund assets were \$2.5 trillion at the end of 2009 – virtually all invested in special-issue U.S. government bonds. The assets at the beginning of 2010 represent 355% of the year's estimated outgo. A fund ratio of 100% or more means assets are at least equal to projected benefit payments and is seen as a good indicator of the fund's short-term adequacy.

Beginning in 2025, the OASDI Trust Funds will have continuing annual deficits when baby boomers born between 1946 and 1964 are retiring in large numbers until **assets are depleted in 2037** (the same as the 2009 report). In 2037, the trust funds will have substantial income from current payroll taxes, but sufficient to pay only about 78% of benefits.

For the second year, there is **no COLA increase projected for December 2010 – and a small 1.2% COLA increase projected for December 2011**. This is due to the decline in consumer prices and expected low inflation. Without an increase in the COLA, the estimated 2011 OASDI taxable earnings base and retirement earnings test limits will remain the same as 2009-2010 – see the table above for other estimates.

The pattern of annual trust-fund growth followed by annual deficits is summarized in a single statistic called the long-range actuarial balance. At the end of the 75-year valuation period, the program has a long-range actuarial deficit of 1.92% of taxable payroll. Some solutions to fix OASDI's financial crisis include one or a combination of the following.

1. Social Security payroll tax was immediately increased from 12.4% (6.2% each for employees and employers) to 14.24%
2. Reduce all current and future benefits by about 12%

3. Make transfers from general revenues
4. Raise the full retirement age (currently set to reach age 67 in 2027)
5. Change the calculation for the cost-of-living adjustment (COLA)

OASI is adequately financed for the next ten years but the DI program is projected to decline steadily over the next ten years and become exhausted in 2018. Some action is needed for the long-range situation due to the aging baby boomers, low birth rates, and increasing life expectancies. The 2010 report states, *"The projected trust fund shortfalls should be addressed in a timely way so that necessary changes can be phased in gradually and workers can be given time to plan for them. ... With informed discussion, creative thinking, and timely legislative action, present and future Congresses and Presidents can ensure that Social Security continues to protect future generations."*

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### **Medicare Hospital Insurance (HI)**

The HI Part A program pays benefits for inpatient hospital and other care. In 2009, it covered 38.3 million people age 65 or older and 7.6 million long-term disabled people under age 65. It is financed primarily by payroll taxes from about 161 million covered workers in 2009 which includes some government workers who pay the HI tax only. Administrative costs were only 1.3% of total expenditures.

The HI payroll tax rate is currently 1.45% paid by both employers and employees (2.9% for the self employed). This tax cannot be adjusted to match expenditures except by enacting new legislation. For HI, 85% of the revenue comes from payroll taxes on covered earnings.

The assets of the HI Trust Fund are primarily invested in special-issue U.S. government bonds. At the end of 2009, the fund held \$304.2 billion in assets. The assets at the beginning of 2010 represent 122% of the estimated outgo for the year. A fund ratio of 100% or more means assets are at least equal to projected benefit payments and is seen as a good indicator of the fund's short-term adequacy. Again this year, the HI Trust Fund will fall below 100% within the next 10 years and has triggered another "Medicare funding warning" that the President has to address within 15 days of submitting the 2012 budget. **Assets are depleted in 2029** (12 years later than in the 2009 report). This improvement is partly based on existing law that has a 23% cut in physician payments on December 1 and another 6.5% on January 1. Congress has always legislatively overridden this provision and will likely do so again.

The initial hospital inpatient deductible for 2011 is projected to be \$1,140 (\$1,100 in 2010). All other HI cost-sharing provisions are based on this figure. It is estimated to rise to \$1,468 in 2019. Other relevant figures are in the table above.

The Medicare program could be brought into balance over the next 75 years by an immediate increase in the payroll tax from 2.9% to 3.56%, or an immediate 15% reduction in expenditures or some combination of the two. These changes could be made gradually but would ultimately have to be at a higher level to eliminate the deficit.

The Board of Trustees states, *"While the financial outlook for Medicare in this year's report is substantially improved relative to last year, further reforms will be needed. It is expected that the HI Trust Fund balance will fall below one year's projected expenditure beginning in 2012, which means the test for short-range financial adequacy is not met. ... The sooner action is taken to address the long-run financial imbalances, the more reform options will be available, and the more time there will be to phase in changes so that those affected will have adequate time to prepare."*

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## Medicare Supplementary Medical Insurance (SMI)

The SMI Part B program pays benefits for physician services, outpatient hospital services, and certain other medical expenses for the aged and disabled who have voluntarily enrolled. The program is essentially yearly renewable term insurance financed by premiums paid by enrollees (25%), transfers from the General Fund of the Treasury (73% or about 3 times the enrollee premiums in 2010), and a small percentage from interest on trust fund assets. In 2009, administrative costs were only 1.4% of the total enrollee premiums and government contributions.

Because of the automatic financing provisions for Parts B and D, the SMI trust fund is expected to be adequately financed into the indefinite future, so a high and low cost analysis is not done.

For Part B enrollees, the "hold-harmless" provision in the law is projected to apply again in 2011 to keep the Part B monthly premium at the 2009 rate of \$96.40 (the same as 2010). This will apply to about 75% of enrollees because of the projected zero Social Security cost-of-living adjustment (COLA).

The concept of actuarial soundness for SMI is that (1) the assets and income for the year are sufficient to meet benefit payments and administrative costs and (2) assets at the end of the year exceed estimated liabilities incurred, but not yet paid. Even if the latter test is not met, the program can continue to operate as long as the trust fund is large enough to pay claims as they are presented.

The assets at the end of 2009 were \$75.5 billion. This is well over the \$13.8 billion in total liabilities. The estimated fund balance at the end of 2010 is \$59.1 billion. This is well more than the estimated \$14.4 billion of incurred but unpaid benefits.

Under current law, the standard Part B premium and deductible would be affected by scheduled reductions in physician payments. However since 2001, Congress has passed annual legislation to maintain or increase physician payments and would affect projected costs for Part B, SMI and total Medicare. Without any law changes, the 2011 monthly Part B premium will be \$120.10 (\$110.50 in 2010) and the Part B annual deductible will be \$168 (\$155 in 2010). See the table above for the projected Part B premiums for high-income beneficiaries.

The SMI Part D program is a voluntary outpatient prescription drug benefit. Through 2019, income and expenditures for Part D are projected to grow at an average annual rate of 9.4%, reflecting increases in enrollment and drug costs. The intermediate estimate shows the Part D base monthly premium in 2011 is projected to be about \$33 (\$31.94 in 2010). Starting in 2011, the Part D prescription drug coverage gap (the "donut hole") will gradually phase out and be eliminated by 2020. For the first time in 2011, high-income Medicare beneficiaries will pay a premium surcharge for Part D prescription drug coverage (modeled on the high-income Part B premium surcharge) – see the table above. The 2011 premium-related income brackets will be announced in the fall of 2010 and are projected to stay the same until 2020, then indexed for inflation.

Several key 2011 Part D limits were released by the Centers for Medicare and Medicaid Services on April 5, 2010. The 2011 figures are used in 2010 for certain retiree drug subsidy purposes and are listed in the table above.

On average, a Medicare beneficiary's costs will be an estimated \$11,963 in 2010 – Part A \$5,230, Part B \$4,936, and Part D \$1,797. This is a 1.9% increase in 2010 (7.9% increase in 2009).

The Board points out, *"The Part B and Part D accounts in the SMI trust fund are adequately financed under current law, since premium and general revenue income are reset each year to match expected costs. Such financing, however, would have to increase faster than the economy to match expected expenditure growth under current law. ... The Affordable Care Act has*

*introduced important changes to the Medicare program that are designed to reduce costs, increase revenues, expand the scope of benefits, and encourage the development of new systems of health care delivery that will improve health outcomes and cost efficiency. The financial projections in this report indicate a need for additional steps to address Medicare's remaining financial challenges."*

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## Conclusion

In July 2010, President Obama created the bipartisan National Commission on Fiscal Responsibility and Reform (deficit commission) to start the national discussion required to ensure that Social Security remains a foundation of economic security. The panel is scheduled to make recommendations to Congress by December 1.

*The Trustees concluded, "The ACA makes significant progress toward making Medicare financially viable. But while it is projected that the Medicare HI Trust Fund is adequately financed until 2029, and the Social Security OASI and DI Trust Funds are adequately financed until 2040 and 2018, respectively, [combined OASDI is adequately financed until 2037] the significant longer term financial imbalances of the programs still need to be addressed. The sooner action is taken to address the long-run financial imbalances, the more reform options will be available, and the more time there will be to phase in changes so that those affected will have adequate time to prepare."*

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