



Pioneer Bank & Trust

Trust & Investments

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How healthy is Social Security?

The trustees of Social Security and Medicare released their annual report in late July. Even as the “great recession” recedes, the long-term financial damage done to these programs continues.

As recently as 2009, Social Security represented a positive cash flow to the federal budget. Shortfalls began in 2010, as tax revenue fell below benefit payments. The shortfall reached \$76 billion in 2013 and is projected at \$80 billion in 2014. As more and more baby boomers retire, the shortfall is projected to increase rapidly after 2018. However, the trust fund balances continue to earn interest, and that has been sufficient to offset the shortfalls so far.

One culprit for the deteriorating financial condition is the disability program, which has experienced payouts far in excess of projections. That also means fewer taxpayers paying into the system. The reason for the zooming disabilities among employment-age persons has not been explained. The consequence is that the disability insurance trust fund is projected to be depleted by 2016.

The trust fund for old age and survivors payments is in better shape. It won't be exhausted until 2033 under current projections. At that point, the trustees project that tax revenue will be able to cover only 77% of the scheduled benefits.

The gap between Medicare expenditures and the amounts raised from payroll taxes and premiums was \$249.4 billion, up slightly from 2012. The growth rate of Medicare costs seems to be slowing. Part D benefits, for prescription drugs, increased by 4.3% in 2013, as more and more retirees enrolled in the program. The per capita benefits paid actually declined slightly, from \$1,777 to \$1,773.

The asset reserves of the OASDI trust fund stood at \$2.76 trillion. Certainly, Social Security is in no immediate danger. On the other hand, the interest earned by those funds is also an expense of the federal government. As interest rates rise when the economy improves, that will be helpful for the trust funds but a difficult problem for the federal budget.

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