Fast Facts about Medicare and Social Security

Medicare and Social Security, the two largest and fastest-growing government programs, are unsustainable as currently structured. Medicare consists of four parts which provide inpatient care (Part A), outpatient care (Part B), prescription drug coverage (Part D), and subsidies for seniors to choose alternative health insurance providers through Medicare Advantage (Part C). Social Security consists of Old Age and Survivors Insurance (OASI) and Disability Insurance (DI). For the purposes of this fact sheet, Social Security will refer to OASI. Here are key fiscal details legislators and the public should know about Medicare and Social Security to examine their finances.

- Medicare is the second largest federal government program, spending **$1 trillion** in 2023, or an amount equal to **3.8 percent** of gross domestic product (GDP).
  - Medicare spending will double to **$2 trillion** or 5.1 percent of GDP by 2033. That's twice what the U.S. government is estimated to spend on defense that year.
  - 67 million Americans receive Medicare at an average cost of **$16,698 per beneficiary**, with taxpayers covering $13,150 on average. By 2033, Medicare will spend an average of $27,890 per beneficiary.
  - **One-third of Medicare spending provides no value for patients**: it makes them no healthier or happier.
  - Medicare increased total hospital spending **by 37 percent** over five years.

- Medicare adds significantly to federal deficits and faces increasing budget shortfalls.
  - Medicare was responsible for **$449 billion in deficits** (including associated interest costs), or 27 percent of the entire 2023 federal budget deficit.
  - Medicare's trust fund holds no real assets, and only Medicare Part A is funded by payroll taxes. The majority (65 percent) of Medicare spending is financed by other taxes and borrowing.
  - When the Medicare Hospital Insurance (Part A) trust fund ledger goes to 0 by **2036**, inpatient providers will face a reimbursement cut of **11 percent**.
  - **$48.5 trillion** or 62 percent of the $78.4 trillion in 75-year unfunded obligations for Medicare and Social Security is due to spending on Medicare Parts B and D, with taxpayers on the hook for the difference between what beneficiaries pay in premiums and the benefits they receive. For context, Medicare Part A accounts for $4.6 trillion in 75-year unfunded obligations.
  - If Congress raised payroll taxes just to cover Medicare Part A's 75-year unfunded obligations, a median wage earner ($48,000/year) would face an additional **$168** in payroll taxes, annually.

- Social Security is the single largest federal government program, spending **$1.2 trillion** in 2023 or **4.4 percent** of GDP.
  - Social Security spending will double to **$2.1 trillion** or 5.1 percent of GDP by 2033. By then, the government is estimated to spend more on Social Security annually than on the entire defense and nondefense discretionary budget.
  - By 2025, the number of beneficiaries will exceed a record **60 million**.
  - The average monthly benefit for an individual was **$1,760** in 2023.
  - The maximum monthly benefit for an individual in 2023 is **$4,873**.
  - Because initial benefit levels are **indexed to wage growth**, Social Security **benefits are growing much faster than inflation**. A maximum-benefit-eligible beneficiary, retiring in 2045, would receive $23,000 more in annual benefits that year, after adjusting for inflation, than a comparable worker who retired in 2020.
  - Since the program's inception, life expectancy at birth has increased **by nearly 16 years**. Yet, Social Security's eligibility age has only increased by **2 years**.

- Social Security is already contributing to federal deficits with rising cash-flow shortfalls.
  - Social Security was responsible for **$106 billion in deficits** (including associated interest costs), or 6 percent of the entire 2023 federal budget deficit.
  - **Social Security's trust fund is a liability, not an asset**. Social Security holds no real assets beyond IOUs against future U.S. taxpayers. Those IOUs, which amount to $2.6 trillion as of 2024, are part of the $34.7 trillion gross national debt.
  - When the Social Security trust fund ledger depletes by 2033, all beneficiaries, regardless of age, income, or need, will face a **21 percent benefit cut**.
  - Social Security's 75-year unfunded obligation (combined OASI and DI)—the difference between the present value of tax revenues and spending—is $25.2 trillion, comparable in size to nearly the entire publicly held debt of $27.6 trillion in 2024.
  - If Congress raised the payroll tax to cover 75 years of Social Security's unfunded obligations, median wage earners ($48,000/year) would have to pay an additional **$1,598** in payroll taxes, annually.

Further reading:

- **Cato Handbook for Policymakers: Medicare**
"In dollar terms, Medicare is the largest purchaser of medical care goods and services in the world—in part because it pays excessive prices to health care providers and wastes hundreds of billions of dollars on medical care that provides no value to enrollees."

- **Social Security Pays Excessive Benefits to the Highest-Income Earners: A UK Comparison**
"Reducing benefits for higher-income earners to keep program costs in check, and especially as part of a more fundamental rethinking of the proper purpose of an old-age-income support program, is a better alternative than raising taxes on current workers."

- **Medicare and Social Security Are Responsible for 100 Percent of US Unfunded Obligations**
"[L]egislators will make little progress on averting a fiscal crisis until they grapple with excess spending growth in old-age benefit programs."