Just the Facts, Ma'am: This was the famous retort offered by fictional LA police detective, Sergeant Joe Friday, on the TV show *Dragnet* whenever a female witness started to delve into conjecture or opinion. In these missives, I usually give you heavy doses of my commentary and opinion.

Not today, or tomorrow. As the debt limit debate reaches the critical stage, I felt maybe you needed some facts, just plain facts, about the country's financial status. Last week in a Budget Committee hearing, the actuaries for the Social Security and Medicare systems testified as to the status of these two programs and provided actuarial projections for both. Here is a summary of the salient points they made. I will let you draw your own conclusions:

Social Security and Medicare currently amount to 35% of all federal spending. Both systems are currently in negative cash flow and are on track for insolvency or exhaustion of their trust funds. The reasons for these impending problems are largely demographic. The United States traditionally had a birth rate of about 3 children per woman up until 1965. By 1975, that rate had dropped to 2 children per woman and it has stayed there since. So, there are dramatically fewer young people to pay the retirement costs of a growing older population. Furthermore, added life expectancy has further increased this demographic imbalance. In 1935, when the Social Security Act was passed by Congress, the life expectancy of the average American was 60 years. Today, it is nearly 79 years and it continues to increase. It is easy to see that a declining birthrate and longer life expectancy has made no longer valid the actuarial assumptions upon which both Medicare and Social Security were based. Medical cost inflation is running at 7.6% per year, clearly much higher than CPI or GDP growth. So, Medicare's situation is worse than that of Social Security because of this cost growth, which is added to the demographic changes. Hence, both programs are in trouble without some changes in their metrics.

Here follow some facts on each system:

Social Security (SS): The SS system turned to negative cash flow in 2010. It is not projected to ever return to positive cash flow under existing law. That means it is now depleting the SS Trust Fund. Yes, the federal government has "raided" the SS Trust Fund for general spending purposes, but the fund still exists on paper and is receiving interest from the government on the borrowings. Even with the interest, the entire Trust Fund is projected to be exhausted in 2036. From that point on, benefits would need to be cut by 23% because the system could not pay out more than the total cash coming in. SS has no statutory authority to borrow money.

If you wanted to make SS actuarially sound for the next 75 years without changing the system, retirement age or benefits, you would need to increase the SS tax by 2% of income immediately. Since the combined SS tax is now 12.4% of income, that would be a 16.1% increase in that tax for every American continuing for 75 years. Conversely, it could be made sound by a similar benefit reduction continuing on in the future.

The present value cost of the 75-year deficit in SS is $6.5 trillion.

Medicare: The Medicare system has had a negative cash flow for some time. Currently, only 49% of Medicare spending is covered by Medicare taxes and other revenues. This results in a cash deficit, which last year was $32 billion. This amount is annually being borrowed by Treasury through the sale of Treasury bonds. It will never be cash flow positive under current law. Federal law requires that the Medicare Trustees issue a warning to the president and Congress whenever Medicare revenues are less than 55% of Medicare expenses. The law also requires the president to submit proposed corrective legislation within 15 days of submitting his budget whenever this warning is issued. This year will be the 6th consecutive year in which such a warning has been issued. President Bush submitted corrective legislation, as required. President Obama has yet to submit any such proposal in any of the 3 years of his presidency.

Currently, Medicare Part A (one of the 3 active parts of Medicare) is projected to exhaust all trust funds and become bankrupt and unable to pay claims and benefits in 2024. That projection, however, actually has several optimistic assumptions. It assumes that payments to doctors and hospitals will be cut by 30% next year, which is called for under existing law. The actuaries believe that such a cut would result in most doctors and hospitals refusing to accept Medicare patients. Since existing law forbids a patient to pay the difference, the system would likely collapse. So, there is an "alternative scenario" under which payments are held at today's levels. This scenario prevents immediate collapse, but makes the numbers much more dire over time.

The Affordable Care Act (ObamaCare) has a number of provisions that impact Medicare. The net effect of all of these provisions is a substantial increase in Medicare costs over the 75 year projection, although increased taxes and reduced benefits decrease the deficit temporarily from 2013 until 2019.

I was unable to determine, in the short time I was in this hearing, what tax increase would be necessary to make this system actuarially sound over the 75 year period. It would clearly be a large one since nearly doubling revenues would be necessary just to achieve positive cash flow now. Unlike with SS, it is hard to assess what the impact would be if it were done with only benefit cuts and without any reforms. With SS, you just reduce the monthly cash paid. How do you decide what not to pay with regard to Medicare? Do you only pay part of everyone's medical bills, or do you decide to pay for some people and not for others? This is why the system most likely just collapses.

The present value cost of the 75-year deficit in Medicare under the alternate scenario is $34.8 trillion.

There you go. This is why you absolutely have to make reforms in these systems, and make them soon, and why people who say we shouldn't touch them are assuring their demise!!! Oops. Sorry. That was clearly opinion. My bad. (-: