820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

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PRESIDENT TRIES TO HAVE IT BOTH WAYS: USING MISLEADING NUMBERS ABOUT A SOCIAL SECURITY CRISIS WHILE ADVANCING A PLAN THAT WOULD MAKE MATTERS WORSE

by Jason Furman

In his State of the Union Address, President Bush used misleading statistics to create a false sense of crisis about Social Security. At the same time, in a White House briefing several hours before the President's address, a senior Administration official acknowledged that the private accounts the Administration is proposing would do nothing to extend the solvency of Social Security. In fact, by the President's (misleading) measures, the private accounts he is proposing would actually *worsen* the financial problems Social Security faces.

Social Security faces a problem and it is surely better to act sooner than later. But misleading and exaggerated descriptions are not the way to build a consensus for genuine Social Security reform.

The President Warns About 2018, But With His Private Accounts, the Problem Would Occur Six Years Earlier

In his speech, the President warned, "Thirteen years from now, in 2018, Social Security will be paying out more than it takes in." Another Center on Budget and Policy Priorities analysis, issued last month, explains why Social Security does not face a problem in paying full benefits in, or for more than 20 years after, 2018 (although the federal budget as a whole may faces serious problems then).[1] But, if one believes that Social Security faces a serious problem starting in 2018, then the President's private accounts proposal would make this problem worse.

Specifically, the President's plan would allow individuals to divert 4 percent of payroll into private accounts, up to a maximum amount annually. This would reduce the revenue available to pay Social Security benefits and thereby *advance* the date when the program's benefit costs exceed its non-interest income. As a result, according to the Social Security actuaries, *by 2012,* tax revenues would no longer be sufficient to pay benefits and the Social

[1] Jason Furman, "Does Social Security Face a Crisis in 2018?," Center on Budget and Policy Priorities, January 11, 2005 The Social Security Trustees project that in 2018, Social Security's trust fund will hold $5.3 trillion in assets, in the form of U.S. Treasury bonds. Starting in that year, Social Security payroll tax collections and taxes on Social Security benefits will not be sufficient to cover the cost of all Social Security benefits, so the Social Security system will start to use a portion of the interest the trust fund earns on its bonds to cover the remaining benefit costs. The rest of the interest the trust fund earns will be reinvested in the trust fund. The actuaries project that as a result of these interest earnings, the trust fund's assets will increase by another $1 trillion in the decade after 2018 and reach $6.6 trillion by 2028.

Security system would have to start using the interest on the trust fund.[2] That is six years earlier than under current law.

In addition, based on preliminary estimates, the private accounts the President is proposing would require the trust fund to begin cashing in its bonds in 2020, compared to 2028 under current law.[3]

Finally, under the President's proposal, the trust fund would be exhausted by the end of 2031, as compared to 2042 under current law. These dates are shown in Table 1.

Table 1
Key Dates for Social Security

	Current Law	**Bush Proposal**
Benefits exceed tax revenues	2018	2012
Benefits exceed all revenues (trust fund starts declining)	2028	2020
Trust fund is exhausted	2042	2031

Source: Preliminary estimates based on the details of the individual accounts provided in the Social Security actuaries' memorandum of February 3, 2005. Includes the individual accounts and the offset to future benefits for individuals who choose individual accounts. Estimates assume a two-thirds participation rate. Does not include the effects of price indexing or other benefit cut proposals the President has not specifically endorsed.

Not only would such individual-account plans advance the date at which the trust fund must start using a portion of its interest income to pay Social Security benefits, but they also would add to the debt held by the public, unless they were fully and contemporaneously financed by offsetting tax increases or reductions in other government programs. Under the President's plan, individual accounts would add about $5 trillion to the debt by 2028, an increase equal to 14 percent of GDP. If anything, this would make it harder for the government to meet its commitment to Social Security, not easier.

The President Warns About Large Shortfalls, But His Plan Would Make These Shortfalls Even Larger

In his address, the President stated, "For example, in the year 2027, the government will somehow have to come up with an extra $200 billion to keep the system afloat — and by 2033, the annual shortfall would be more than $300 billion." By diverting revenue from Social

[2] See Stephen Goss, Chief Actuary, Social Security Administration, "Preliminary Estimated Effects of a Proposal to Phase In Personal Accounts," February 3, 2005, page 10. This table shows that under current law, Social Security is projected to have a cash surplus of $48 billion in 2012 (in current dollars) and that under the President's proposal, it would have a cash deficit of $14 billion.

[3] Traditionally, the Social Security actuaries release a memo showing the impacts of Social Security proposals over 75 years. In this case, however, the actuaries' memo shows only 10 years of the plan. As a result, all estimates in this paper are based on a conservative extrapolation of the data past the first 10 years. Specifically, the White House has not formally decided what happens to the maximum account contribution after 2015, although Administration officials have stated that, "Yearly contribution limits would be raised over time, eventually permitting all workers to set aside 4 percentage points of their payroll taxes in their accounts." The estimates provided here are based on the conservative assumption that the contribution limits would not continue to increase after 2015 (beyond the standard indexing for wage inflation) and thus that after 2015, the contribution limits would remain below 4 percent of taxable wages for many middle and upper-income workers. If the contribution limits do continue to rise after 2015, the adverse fiscal impacts will be even larger.

Security to private accounts, however, the President's plan would *add* about $100 billion to the shortfall in 2027 and a similar amount in 2033 (these numbers, like the numbers in the President's speech, are expressed in inflation-adjusted 2004 dollars and do not include the associated interest costs). In other words, under the President's plan the government will somehow have to come up with hundreds of billion dollars more to keep the system afloat.

Moreover, Social Security's gap in these years, under current law, is less than the cost of the tax cuts enacted in 2001 and 2003 (assuming tax cuts are extended and not eroded by the alternative minimum tax). The tax cuts will cost approximately $345 billion in 2027 and $375 billion in 2033. (These numbers are shown in Table 2.)

In other words, the additional amounts the government will have to come up with in those years, as a result of the large revenue losses caused by the tax cuts, will substantially exceed the amounts the government will face a need to come up with under current law to cover the gap between Social Security benefit costs and Social Security tax revenue.

Table 2
Social Security "Shortfall" in Selected Years
(billions of inflation-adjusted 2004 dollars)

	Under Current Law	Under Bush Proposal	Cost of 2001 & 2003 Tax Cuts
2027	$202	$309	$344
2033	$302	$405	$377

Source: Preliminary estimates based on the details of the individual accounts provided in the Social Security actuaries' memorandum of February 3, 2005. Shortfalls are the difference between tax revenues and benefits. The estimate of the shortfall under the Bush proposal does not include the effects of price indexing or other benefit cut proposals the President has not specifically endorsed. These are conservative estimates that do not assume the maximum allowable account contribution continues to increase faster than wages after 2015. If the maximum contribution is allowed to continue increasing until all workers could direct four percent of taxable wages to individual account, the shortfalls would be larger than shown here.