



CENTER ON BUDGET AND POLICY PRIORITIES

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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 face 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, *by 2012*, tax revenues would no longer be sufficient to pay benefits and the Social Security system would have to start using the interest on the trust fund.² That is six years earlier than under current law.

¹ Jason Furman, 1/11/04, "Does Social Security Face a Crisis in 2018?" 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.

² According to the *2004 OASDI Trustees Report*, Social Security is projected to run a cash surplus of 1.39 percent of payroll in 2012. According to the Social Security actuaries ("Estimated Financial Effects for Three Models Developed by the President's Commission to Strengthen Social Security," 1/31/2004), the private accounts in Model

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.

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 released by the White House on February 2, 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 \$6 trillion to the debt by 2030, an increase equal to 15 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 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

2 of the President’s Commission to Strengthen Social Security would divert 1.52 percent of payroll into individual accounts in 2012 assuming two-thirds of people participated. The diversion in the President’s new plan could be slightly larger because the maximum annual contribution would be slightly larger in 2012 than those that would be allowed under Model 2. As a result, the President’s plan would result in a small cash-flow deficit in 2012.

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 released by the White House on February 2, 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.