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**CBPP STATEMENT**

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# STATEMENT OF ROBERT GREENSTEIN ON THE 2012 SOCIAL SECURITY TRUSTEES' REPORT

The trustees' report, with its projection that, in the absence of policy changes, Social Security will be able to pay full benefits only until 2033 — and about 75 percent of scheduled benefits after that — indicates Congress should act soon to address the program's long-term financing shortfall. The projected 2033 date is three years earlier than the date in last year's trustees' report, although it is consistent with various earlier trustees' reports. Over the past couple of decades, the year when the trustees project the Social Security trust funds will be exhausted has ranged from 2029 to 2042, moving both closer and farther away with new developments and projections relating to the economy, demographics, and other factors.

The new trustees' report also projects that the Disability Insurance trust fund will be exhausted in 2016. It has been standard practice, however, for Congress to reallocate funds between the two Social Security trust funds when one is approaching exhaustion well ahead of the other. The 2033 date assumes such a reallocation so that both trust funds expire at the same time.

Finally, the size of the shortfall over the next 75 years — 2.67 percent of taxable payroll (the total of wages and self-employment income subject to Social Security taxes), or 1.0 percent of Gross Domestic Product — represents some deterioration from last year's report. In 2011, the trustees put the 75-year deficit at 2.22 percent of taxable payroll. Of the deterioration — which equals 0.44 percent of taxable payroll — the actuaries ascribe 0.05 percentage points to the change in the 75-year period under examination (from 2011-2085 to 2012-2086), and the remaining 0.39 percent to other factors, chiefly assumptions about the economy's performance. Changes of this magnitude modestly exceed the size of typical changes in past trustees' reports; in the reports from 2000 through 2011, the annual change in the projected 75-year deficit ranged from negative 0.30 to positive 0.26 (as a percent of taxable payroll).

## Health Reform, Economic Downturn, Payroll Tax Holiday Have Affected Program

The 2010 trustees' report showed a small but significant improvement in Social Security's finances due to that year's health reform law, which the actuaries expect will shift some employee compensation from (nontaxable) fringe benefits to (taxable) wages. That's no longer new but is worth reiterating. Repealing health reform would not only leave many millions of people uninsured and abandon various cost-saving measures in Medicare, but also harm Social Security's financial outlook.

As some commentators have noted, Social Security's annual tax revenue has slipped below the benefits it pays each year. That was long expected to happen in the latter half of this decade, but the weak economy has taken a toll on Social Security, as on many other parts of the budget. That imbalance, however, does not jeopardize Social Security benefits (and ought not to worry recipients), because Social Security can draw on its trust fund — which now stands at nearly $2.7 trillion and will keep growing until 2020 — to enable it to continue paying full benefits for some years to come.

Likewise, program participants need not worry about the payroll-tax holiday in 2011 and 2012 that temporarily reduced payroll-tax rates for the program by two percentage points, because the Treasury is compensating the trust funds for the resulting revenue loss (estimated at slightly over $200 billion for the two years' holiday). In short, the program is strong enough to withstand the economic downturn.

But policymakers should address the permanent mismatch between total Social Security expenditures and total income (including tax revenue plus the interest that the trust fund earns on its reserves) that will eventually materialize as tens of millions of baby boomers retire, and that will culminate in trust-fund exhaustion in 2033 if policymakers do not take action. (Even at that point, the combined program could continue to pay about three-quarters of scheduled benefits.)

That projection is for the *combined* Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds. Before then, policymakers must take steps to restore solvency to the Social Security disability program, which faces depletion in 2016. (The much larger OASI fund, viewed separately, would be exhausted in 2035.)

We strongly urge policymakers to address DI's pending depletion in the context of action on overall Social Security solvency. Both DI and OASI face fairly similar long-run shortfalls; DI simply requires action sooner. Key features of Social Security — including the tax base, the benefit formula, and cost-of-living adjustments — are similar or identical for the two programs, and most DI recipients are near or over Social Security's early-retirement age. Tackling DI in isolation would leave policymakers with few — and unduly harsh — options, and lead them to ignore the strong interactions between Social Security's disability and retirement components. A balanced and comprehensive solvency package that covers both parts of Social Security would produce sounder policy changes and also provide an opportunity to make needed changes to the needs-tested Supplemental Security Income (SSI) program, which is distinct from Social Security but has important interactions with it.

However, if policymakers are unable to agree in time on a sensible solvency package, they should reallocate revenues between the retirement and disability funds — a traditional and historically noncontroversial action that they have often taken between the two trust funds, in either direction.

### Cost of Tax Cuts Is Twice as Big as Social Security Shortfall

The budgetary pressures that the nation will face in the decades ahead also underscore the high stakes of the tax decisions that policymakers will face later this year. The tax cuts enacted under President Bush — and extended for two years at the end of 2010 — will expire at the end of this year. Experts including Alan Greenspan (former chair of the Federal Reserve Board) and Peter Orszag (former head of the Congressional Budget Office and the Office of Management and

Budget) have argued against making the tax cuts permanent. The revenue loss over the next 75 years from making those tax cuts permanent would be about *two times* the entire Social Security shortfall over that period. Indeed, the revenue loss just from extending the tax cuts for people making over $250,000 — the top 2 percent of Americans — would itself be nearly as large as the entire Social Security shortfall over the 75-year period. Members of Congress cannot simultaneously claim that the tax cuts are affordable while the Social Security shortfall constitutes a dire fiscal threat.

Although Social Security faces no imminent crisis, policymakers should act sooner rather than later to restore its long-term solvency. The sooner policymakers act, the more fairly they can spread out the needed adjustments in revenue and benefit formulas, and the more confidently people can plan their work, savings, and retirement.

Acting sooner also helps the budget as a whole by modestly reducing federal borrowing in coming years. That will help stabilize the ratio of debt to GDP — a key test of fiscal sustainability — and limit the overall interest costs that we must pay.

Nevertheless, policymakers need to get Social Security reform right. Nearly every American participates in Social Security, first as a worker and eventually as a beneficiary. The program's benefits — though modest both in dollar terms (elderly beneficiaries receive an average Social Security benefit of less than $15,000 a year) and compared with benefits in other countries (Social Security benefits replace a smaller share of pre-retirement earnings than comparable programs in most other developed nations) — are the foundation of income security in old age. In fact, the median income of elderly married couples from all sources *other* than Social Security equaled just $23,000 in 2010; for non-married elderly people (including widows and widowers), median income from other sources equaled only $3,000. And millions of beneficiaries have *no* income other than Social Security.

As a result, Social Security changes need to be designed with great care. Treating Social Security as just one component of a big deficit-reduction package can lead policymakers to reach for "off-the-shelf" options without sufficiently considering the program's adequacy, equity, and relationship to other programs such as Medicare and SSI, or the interactions of the options they are selecting. (For example, the Bowles-Simpson Social Security plan intended to shield low-income beneficiaries but was hastily designed and failed to meet that goal.) Policymakers need to design reforms judiciously so that Social Security continues to be the most effective and successful income-security program in the nation's history.

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