Center on Budget and Policy Priorities

CBPP STATEMENT

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Contact:
Shannon Spillane, 202-408-1080, spillane@cbpp.org

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

Robert Greenstein
Executive Director

STATEMENT BY ROBERT GREENSTEIN, EXECUTIVE DIRECTOR

Trustees' Report Shows Social Security Doesn't Face an Immediate Crisis but Does Require Changes, and the Sooner They're Made, the Better

The trustees' report on Social Security shows that the program does not face an immediate crisis and isn't at risk of collapsing and lacking funds to pay any benefits, even in the long run, but that Congress needs to restore Social Security's long-term solvency so it can meet its promises — and the sooner it does so, the better.

The report shows that Social Security will be able to pay full benefits until 2037, at which point the program's trust fund will be exhausted. After that, Social Security will be able to pay about 75 percent of scheduled benefits. This exhaustion date is four years earlier than the 2041 date in last year's report but is generally consistent with the trustees' forecasts over the last dozen years. For example, the trustees' report for 2000 also projected that the Social Security trust fund would be exhausted in 2037, and the trustees' reports in the 1990s generally predicted somewhat earlier exhaustion dates.

The size of the shortfall over the next 75 years — 0.7 percent of the Gross Domestic Product over the period, or 2.00 percent of projected taxable payroll — also is similar to estimates in previous trustees' forecasts. It is very close to the shortfalls estimated in every trustees' report from 1999 through 2007, which ranged from 1.89 percent to 2.07 percent of payroll.

As some commentators have noted, Social Security's annual tax revenue no longer substantially exceeds the benefits it pays, so the program no longer significantly reduces the overall federal deficit. While that does not pose a problem for paying Social Security benefits, it highlights the fundamental long-term problem facing the federal budget — that under current policies, spending will grow faster than revenues in coming decades.

These budgetary pressures underscore the importance of President Obama's proposal to allow tax cuts for Americans making over $250,000 to expire after 2010, as scheduled. If Congress does not enact that proposal, the revenue loss over the next 75 years will be almost as large as the entire Social Security shortfall over this period. Members of Congress cannot legitimately claim that the tax cuts for people at the top 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 they act, the more years they will have to spread out the needed adjustments in revenue and benefit formulas.

Acting sooner also helps the budget as a whole by reducing federal borrowing in coming years. The greater the borrowing, the higher the accumulated federal debt will be — and the higher the interest payments will be on that debt for as far as the eye can see.

Congress has not addressed Social Security's solvency largely due to a dispute over whether to partly privatize the program — that is, to partly replace guaranteed benefits with private accounts invested in the stock and bond markets. The recent downturn and turmoil in the financial markets exposed the folly of that approach. As a result, Congress now has a chance to reach agreement on restoring long-term solvency to one of the nation's most important programs, an opportunity that it should not squander.

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