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CBPP STATEMENT

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STATEMENT OF ROBERT GREENSTEIN ON 2011 SOCIAL SECURITY TRUSTEES' REPORT

The trustees' report shows that Social Security faces no immediate crisis and will have substantial resources to pay benefits even over the long run, but it faces a long-term shortfall that Congress should address sooner rather than later so the program can meet its promises.

Specifically, Social Security will be able to pay full benefits until 2036, at which point its combined trust funds will be exhausted. After that, Social Security will still be able to pay about 75 percent of scheduled benefits, relying on Social Security taxes as they are collected. The 2036 exhaustion date is a year earlier than the 2037 date in last year's report, and is in the range of exhaustion dates that the trustees have been projecting for some time. For example, in the late 1990s, the trustees projected the exhaustion date as early as 2029; at one point in the last decade, they projected an exhaustion date as late as 2042.

The size of the shortfall over the next 75 years — 0.8 percent of Gross Domestic Product, or 2.22 percent of projected taxable payroll (the total of wages and self-employment income subject to Social Security taxes) — represents somewhat of a deterioration from last year's report. In 2010, the trustees put the 75-year deficit at 1.92 percent of taxable payroll. Of the deterioration — which equals 0.30 percent of taxable payroll — the actuaries ascribe 0.05 percentage points to the change in the 75-year period under examination (from 2010-2084 to 2011-2085), and 0.25 percent to other factors, chiefly slightly lower mortality and immigration. Changes of this magnitude are well within recent bounds — in trustees' reports from 2000 through 2010, the annual change in the projected 75-year deficit ranged from negative 0.30 to positive 0.25 (as a percentage of taxable payroll).

Superficially, today's report returns us to the shortfalls that the trustees projected in the late 1990s. In the reports for 1995 through 1998, the trustees similarly estimated a 75-year gap of about 2.2 percent of payroll. (In fact, the new estimates are somewhat more sanguine that those of the late 1990s. The 1997 report, for example, focused on the period through 2071; today's report goes through 2085. In the meantime, we have moved more than a decade closer to the baby boomers' retirement and the long-term aging of America's population. Also, the 1997 report projected trust fund depletion in 2029.)

The Role of Health Reform

Last year's trustees' report showed a small but significant improvement in Social Security's finances due to last 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 it's worth reiterating. Repealing health reform would not only leave many millions of people uninsured and abandon various cost-saving measures in Medicare, but would also harm Social Security's outlook.

As some commentators have noted, Social Security's annual tax revenue has slipped below the benefits it pays. 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 it has 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 $2.6 trillion and will keep growing until 2023 — to enable it to continue paying full benefits for some years to come. Policymakers should not worry about temporary fluctuations in Social Security income and outlays that stem from the business cycle.

Rather, they 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 2036 if policymakers do not take action. (Policymakers must also take steps to restore solvency to the Social Security disability program, which faces depletion in 2018, but those steps may be as simple as reallocating the tax rates between the Old-Age and Survivors Insurance and the Disability Insurance trust funds, as Congress has often done in the past.)

Cost of Tax Cuts Is Three Times the Social Security Shortfall

The budgetary pressures that the nation will face in the decades ahead also underscore the desirability of allowing President Bush's tax cuts to expire on schedule at the end of 2012. The revenue loss over the next 75 years from making those tax cuts permanent would be *three 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 almost 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. As I explained in a paper last fall with Charles Blahous, one of the two public trustees of Social Security, 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 contribute to helping 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 benefit of about $14,000 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 western nations) — are the foundation of income security. Treating Social Security as just one component of a big deficit-reduction package could mean that policymakers will reach for "off-the-shelf" options without sufficiently considering the program's adequacy, equity, and relationship to other programs such as Medicare and Supplemental Security Income. Policymakers need to design reforms carefully so that Social Security continues to be the most effective and successful income-security program in the nation's history.

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