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CBPP STATEMENT
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Statement of Robert Greenstein, President, on the 2013 Social Security Trustees' Report

Social Security does not face an immediate crisis, the trustees' report shows, but it does face a funding shortfall two decades from now that the President and Congress should address in the near future so the program can fully meet its promises.

Specifically, the trustees estimate that Social Security will be able to pay full benefits until 2033, 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 exhaustion date is unchanged from last year's report, and is within the range 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.

That exhaustion date is for the *combined* Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds, the traditional focus of the trustees' annual reports. The two funds are legally separate, however, and policymakers must take steps to restore solvency to the disability fund, which faces depletion in 2016. (The much larger OASI fund, viewed separately, would be exhausted in 2035.) DI's depletion should not come as a surprise — the actuaries projected it the last time that lawmakers reallocated revenues between the OASI and DI trust funds, in 1995, as they foresaw that DI was about to experience its peak demographic pressures. Those pressures will subside as the large baby-boom generation — people born between 1946 and 1964 — ages out of its late 50s through mid-60s, the ages that dominate the disability rolls.

We 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. And 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. In addition, most DI recipients are close to or past Social Security's early-retirement age. Tackling DI in isolation would leave policymakers with few — and unduly draconian — options and require them to ignore the strong interactions between Social Security's disability and retirement components.

However, if policymakers are not able to agree in time on a sensible solvency package, they should reallocate revenues between Social Security's retirement and disability funds — a traditional and historically noncontroversial action that has often been taken in the past between the two trust funds, in either direction.[1]

The size of the overall Social Security shortfall over the next 75 years — 2.72 percent of taxable payroll (the total of wages and self-employment income that are subject to Social Security taxes), or 1.0 percent of gross domestic product (GDP) — is slightly larger than in last year's report. In 2012, the trustees put the 75-year deficit at 2.67 percent of taxable payroll. The entire deterioration — which equals 0.05 percent of taxable payroll — results from the change in the 75-year period under examination (now ending in 2087 rather than 2086); such a change happens in *every* report. Other factors — including legislation and regulations, changes in economic and demographic assumptions, and improvements in methodology — on balance had no effect.[2]

It's worth noting that without the Affordable Care Act, Social Security's financing would be modestly worse. The 2010 trustees' report showed a small but significant improvement in Social Security's finances — amounting to 0.14 percent of taxable payroll — due to enactment of the health reform law, which the actuaries expect will shift some employee compensation from nontaxable fringe benefits to taxable wages. Repealing health reform would not only leave many millions of people uninsured and jettison various cost-saving measures in Medicare, but would also worsen Social Security's financial outlook.

As the trustees' report also indicates, 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 of the last five years has taken a toll on Social Security, as it has on many other parts of the budget. This imbalance, however, does not jeopardize Social Security benefits (and ought not to worry recipients), because Social Security can draw on its Treasury securities to continue paying full benefits for some years to come. The combined trust funds' assets now exceed $2.7 trillion and will keep growing through 2020.

Likewise, program participants need not worry about the partial "payroll tax holiday" in 2011 and 2012 that temporarily reduced payroll tax rates for the program, because the Treasury fully compensated the trust funds for the resulting revenue loss. In short, the program proved strong enough to weather the economic downturn.

Nevertheless, the graying of the population will eventually create a permanent mismatch between Social Security's total expenditures and its total income (including interest on the trust fund's balance as well as tax revenue). This mismatch will culminate in trust-fund exhaustion in 2033 if policymakers do not take action. As noted, even at that point, the combined program could continue to pay about three-quarters of scheduled benefits.

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 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.

But 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 are the foundation of income security in old age, though they are modest both in dollar terms (elderly retirees and widows receive an average Social Security benefit of $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). 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.[3]

Because Social Security benefits are so modest and make up the principal source of income for most recipients, policymakers should restore solvency through a mix of revenue increases and benefit changes, with increased revenues contributing at least half of the savings. Revenues could come from raising the maximum amount of wages subject to the payroll tax (which now encompasses only about 83 percent of covered earnings, well short of the 90 percent figure envisioned in the 1977 Social Security amendments); broadening the tax base by subjecting voluntary salary-reduction plans, such as cafeteria plans and health-care Flexible Spending Accounts, to the payroll tax (as 401(k) plans and similar retirement accounts are); and raising the payroll tax rate modestly at some point in the future.

Future workers are expected to be more prosperous than today's. Under the trustees' assumptions, the average worker will be almost 50 percent better off — in real terms — in 2040 than in 2013, and twice as well off by 2070. It is appropriate to devote a small portion of those gains to the payroll tax, while still leaving future workers with much higher take-home pay. Social Security is a popular program, and poll respondents of all ages and incomes express a willingness to support it through higher taxes.

In addition, tax burdens are now at quite low levels in historical terms. For example, Congressional Budget Office data show that households in the middle fifth of the income distribution paid an average of just 11.1 percent of income in federal income, payroll, and excise taxes combined in 2009 (the latest year for which these data are available). That's the lowest percentage on record, with data back to 1979. Tax Policy Center data similarly show federal income tax burdens for middle-class families to be at near record lows in 2013.

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 Supplemental Security Income, or the interactions of various elements of the package. 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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[1] Testimony of Kathy A. Ruffing, Senior Fellow, Center on Budget and Policy Priorities, Before the Subcommittee on Social Security, Committee on Ways and Means, U.S. House of Representatives, March 20, 2013, http://www.cbpp.org/cms/index.cfm?fa=view&id=3934.

[2] In trustees' reports from 2000 through 2012, the annual change in the projected 75-year deficit ranged from negative 0.44 to positive 0.26 (as a percentage of taxable payroll), and in *each* of those years, the longer valuation period accounted for a deterioration of 0.05 to 0.07 percent of taxable payroll. Kathy A. Ruffing, *What the 2012 Trustees' Report Shows About Social Security,* Center on Budget and Policy Priorities, May 10, 2012, http://www.cbpp.org/cms/?fa=view&id=3774.

[3] *Top Ten Facts about Social Security*, Center on Budget and Policy Priorities, November 6, 2012, http://www.cbpp.org/cms/index.cfm?fa=view&id=3261.