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CBPP STATEMENT

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Greenstein: Social Security Trustees Confirm Long-Run Shortfall, Though Not an Imminent Crisis

CBPP President Robert Greenstein released the following statement on the 2015 Social Security trustees' report:

Social Security can pay full benefits until 2034, the new trustees' report shows, but it will then face a significant funding shortfall that the President and Congress should address reasonably soon.

After 2034, when Social Security's combined trust funds will be exhausted if policymakers don't act before then, Social Security would still pay about 75 percent of scheduled benefits, relying on Social Security taxes as they are collected. The exhaustion date is one year later than last year's report and is within the range that the trustees have projected for some time. In the late 1990s, they projected the exhaustion date as early as 2029; at one point about a decade ago, they projected an exhaustion date as late as 2042.

The trustees caution that their projections are uncertain. For example, they estimate an 80 percent chance that trust fund exhaustion will occur between 2030 and 2040 — and a 95 percent chance that it will occur between 2029 and 2046. The Congressional Budget Office (CBO) recently estimated that exhaustion would occur in 2029, largely because CBO expects somewhat faster improvements in mortality that will result in more people drawing Social Security for longer periods. Fluctuations of a year or two in either direction are no cause for either alarm or celebration. Most importantly, all reasonable estimates show a long-run challenge that policymakers need to address but can manage, not a crisis.

The trustees' 2034 exhaustion date is for the combined Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds, the traditional focus of their annual reports. The two funds are legally separate, however, and policymakers must take steps to replenish the DI fund by late 2016. (Viewed separately, the much larger OASI fund would be exhausted in 2035.) DI's 2016 depletion date is no surprise; the actuaries projected it the last time lawmakers shifted revenues between OASI and DI, in 1994. They recognized that DI was about to experience its peak demographic pressures, with the large baby-boom generation (people born between 1946 and 1964) moving through its late 50s and early- and mid-60s — the ages that dominate the disability rolls. (The percentage of people who receive DI is much higher for this age group than for any other age category.) Indeed, DI spending, as a share of the economy, has already subsided from its recent high point, and the actuaries project that it will be fairly stable in the future — unlike Social Security retirement spending, whose peak lies ahead as the baby boomers increasingly move from the peak-

DI receipt years into their retirement years. Nevertheless, if lawmakers do not act, DI benefits will have to be cut by about one-fifth in 2016.

DI and OASI are closely related, and policymakers should strengthen both by addressing overall Social Security solvency. Both components of Social Security face fairly similar long-run shortfalls, and key features — including the tax base, the work history required to become insured for benefits, the benefit formula, and cost-of-living adjustments — are similar or identical for both. In addition, most DI recipients are close to or even past Social Security's early-retirement age. Consequently, trying to address DI solvency — by making major changes to DI eligibility and benefits — in isolation would force policymakers to ignore the key interactions between Social Security's disability and retirement components and would leave policymakers with few, and unduly harsh, DI options.

And, even in the extremely unlikely event that policymakers crafted a sensible overall Social Security solvency package by late 2016, with program changes phasing in gradually, they still would need to reallocate revenues between the DI and OASI funds to avoid DI's pending depletion. They have done such reallocation from time to time over the years, shifting revenues in both directions, and it has not proved controversial. Moreover, a key reason why DI faces a projected insolvency in 2016, compared to 2035 for OASI, is that the 1983 Social Security amendments (enacted when OASI was approaching insolvency) shifted some costs from OASI to DI even as it shifted scheduled payroll tax revenues in the other direction. Now, policymakers should replenish DI by reallocating revenues once more, as they've done in the past, perhaps in tandem with stable funding for program-integrity measures and carefully designed demonstration projects to seek ways to enable more current or potential beneficiaries to continue working or return to work. They should not treat the need to replenish DI as a bargaining chip or hostage to secure other policy aims.

Social Security's overall shortfall over the next 75 years — 2.68 percent of taxable payroll (the total wages and self-employment income subject to Social Security taxes), or a little less than 1.0 percent of gross domestic product (GDP) — is slightly smaller than last year's estimate of 2.88 percent of taxable payroll. Changing the 75-year period under examination — which last year ended in 2088, and now ends in 2089 — worsens the shortfall by 0.06 percentage points; that change results from adding one distant year with a relatively large shortfall and occurs naturally in every trustees' report. But that is more than offset by a variety of regulatory, demographic, economic, and methodological changes that are individually small but combine to improve the shortfall by 0.26 percentage points.

As the trustees' report also confirms, Social Security's trust fund is still growing. The combined trust fund assets are now $2.8 trillion and will keep growing through 2019. Nevertheless, the population's aging, which makes more Americans eligible for retirement benefits, means that, even with interest, the trust fund will gradually dwindle after 2019 and become exhausted in 2034 if policymakers don't act by then. (As noted, the combined program could continue to pay about 75 percent of scheduled benefits.)

We should, of course, make sure we avoid that outcome. Although Social Security doesn't face an imminent crisis, policymakers should act sooner rather than later to restore its long-term solvency. The sooner they act, the more fairly they can spread out the needed adjustments in revenue and benefit formulas over time, and the more confidently people can plan their work, savings, and retirement around those adjustments.

Acting sooner also would strengthen the budget as a whole by modestly helping to stabilize the public debt so it stops growing as a share of GDP — a key test of the nation's fiscal sustainability — and limiting interest costs.

But policymakers must address Social Security reform with great care. The program's benefits are the foundation of income security in old age, though they are modest in dollar terms; the elderly receive an average retirement benefit of only $16,000 a year, and aged widows and disabled workers receive even less. Moreover, Social Security benefits replace a smaller share of pre-retirement earnings than do comparable programs in most other developed nations. That ratio (or "replacement rate") will fall further as Social Security's full retirement age — the age at which retirees can receive full benefits — rises from 66 to 67 between 2017 and 2022 (resulting in about a 7 percent across-the-board benefit cut for everyone who becomes eligible for retirement benefits after that date). The median income of elderly married couples from all sources other than Social Security was just $22,000 in 2012, while for unmarried elderly people (including widows and widowers), median income from other sources equaled just $2,400. And millions of beneficiaries have no income other than Social Security.

Because Social Security benefits are so modest and essential, policymakers should restore solvency through a mix of benefit changes and revenue increases, with the latter contributing a substantial majority of the savings. Without such revenues, the required benefit cuts would harm millions of elderly people and people with severe disabilities who live on very modest incomes. Policymakers could raise revenues through such measures as raising the maximum amount of earnings subject to the payroll tax, broadening the payroll tax base, and gradually raising the payroll tax rate in future decades as real wages rise. Social Security is a popular program, and poll respondents of all ages, incomes, and political affiliations express a willingness to help support it through higher tax contributions.

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