Center on Budget and Policy Priorities

202-408-1080
center@cbpp.org
www.cbpp.org

CBPP STATEMENT
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Contact:
Michelle Bazie, 202-408-1080
bazie@cbpp.org

Statement of Robert Greenstein, President, on the 2014 Social Security Trustees' Report

Social Security can pay full benefits for close to two decades, the new trustees' report shows, but will then face a significant, though manageable, funding shortfall that the President and Congress should address in the near future.

Specifically, the trustees estimate that Social Security can pay full benefits until 2033, at which point its combined trust funds will be exhausted. After 2033, even if policymakers failed to act, Social Security would 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 projected for some time. In the late 1990s, they 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 trustees caution that their projections are uncertain. For example, they estimate an 80 percent probability that trust fund exhaustion would occur between 2029 and 2038 — and a 95 percent chance that it would happen between 2028 and 2041. The Congressional Budget Office (CBO) recently estimated that exhaustion would occur in 2030, largely because CBO expects somewhat faster improvements in mortality. Fluctuations of a year or two in either direction are no cause for either alarm or celebration. The key point is that all reasonable estimates show a manageable long-run challenge that policymakers must address, the sooner the better, but not an immediate crisis.

The trustees' 2033 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 disability fund, which faces depletion in 2016. (The much larger OASI fund, viewed separately, would be exhausted in 2034.) DI's 2016 depletion date is no 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 (those born between 1946 and 1964) ages out of its late 50s through mid-60s, the ages that dominate the disability rolls. The actuaries project that DI expenditures, as a share of the economy, have already subsided slightly from their recent peak and will be stable in the future — unlike Social Security retirement benefit costs, whose peak lies ahead.

Ideally, policymakers would address DI's financing needs as part of action on *overall* Social Security solvency. Both DI and OASI face fairly similar long-run shortfalls. And key features of Social Security — 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 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 harsh — options and require them to ignore the strong interactions between Social Security's disability and retirement components.

But regardless of whether policymakers craft a sensible solvency package by 2016 — which now seems unlikely — they'll need to reallocate revenues between Social Security's retirement and disability funds. That's a traditional and historically noncontroversial action that they have often taken between the two trust funds, in either direction. Moreover, a key reason why Social Security's disability component is scheduled to become insolvent in 2016, compared to 2034 for its retirement component, is that the 1983 Social Security amendments shifted some costs *from* the retirement program *to* the disability program even as it shifted some scheduled payroll tax revenues in the opposite direction (from the DI trust fund to the OASI trust fund). The need to replenish DI does not pose a crisis, unless some policymakers treat it as a bargaining chip or seek to hold it hostage to other policy aims.

The overall Social Security shortfall over the next 75 years — 2.88 percent of taxable payroll (the total wages and self-employment income subject to Social Security taxes), or 1.0 percent of gross domestic product (GDP) — is slightly larger than last year's estimate of 2.72 percent of taxable payroll. A little less than half of this modest deterioration results from the change in the 75-year period under examination (now ending in 2088 rather than 2087); such a change happens in every report. Other factors, including legislation and regulations, changes in economic and demographic assumptions, and improvements in methodology, account for the rest of this change.

As the trustees' report also indicates, the trust fund is still growing. Although Social Security's annual tax revenue has slipped below the benefits it pays — which was long expected to occur in the latter half of this decade but occurred sooner because of the Great Recession and tepid recovery — the trust funds continue to earn interest on their holdings of Treasury securities. The combined trust funds' assets are now $2.8 trillion and will keep growing through 2019.

Nevertheless, the graying of the population means that, even with interest, we will eventually see a mismatch between Social Security's total expenditures and its total income. That mismatch will result in trust-fund exhaustion in 2033 if policymakers do not take action. At that point, as noted, 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 over time, and the more confidently people can plan their work, savings, and retirement.

Acting sooner also helps the budget as a whole by modestly contributing to stabilizing the ratio of debt to GDP — a key test of fiscal sustainability — and limiting interest costs.

But policymakers must do a sound job in addressing Social Security reform. The program's benefits are the foundation of income security in old age, though they are modest in dollar terms; elderly retirees and widows receive an average Social Security benefit of less than $16,000 a year. Moreover, Social Security benefits replace a smaller share of pre-retirement earnings than do comparable programs in most other developed nations. Also, the median income of elderly married couples from all sources *other* than Social Security was just $22,000 in 2012, while for non-married 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 make up the principal source of income for the majority of recipients, policymakers should restore solvency through a mix of benefit changes and revenue increases, with increased revenues contributing a majority of the savings. *Without* such revenues, the required benefit cuts would harm millions of elderly people and people with disabilities who live on modest incomes. Revenues could come from such measures as raising the maximum amount of earnings subject to the payroll tax, broadening the payroll tax base, and, at some point a few decades from now, modestly raising the payroll tax rate. Social Security is a popular program, and poll respondents of all ages, incomes, and political affiliations express a willingness to support it through higher taxes.

Social Security is the most effective and successful income-security program in the nation's history. Policymakers should design reforms judiciously so that it remains so.

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