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CBPP STATEMENT

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Trustees' Report Shows Social Security Doesn't Face an Immediate Crisis, But Policymakers Should Act to Shore Up System

The trustees' report on Social Security shows that the program does not face an immediate crisis and that — even in the long run — will still have substantial resources to pay benefits. Nevertheless, Congress needs to restore Social Security's long-term solvency so that it can meet its promises, and acting sooner is better than acting later.

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 over 75 percent of scheduled benefits. This exhaustion date is unchanged from the date in last year's report.

The size of the shortfall over the next 75 years — 0.7 percent of Gross Domestic Product over the period, or 1.92 percent of projected taxable payroll (the total of wages and self-employment income subject to Social Security taxes) — represents a mild improvement from last year's report. In 2009, the trustees put the 75-year deficit at 2.00 percent of taxable payroll. Of the improvement — which equals 0.08 percent of taxable payroll — the actuaries ascribe 0.14 percentage points to the positive effects of the new health-care reform law, which is expected to shift some employee compensation from (nontaxable) fringe benefits to (taxable) wages, and a negative 0.06 percentage points to the change in the 75-year period being examined from 2009-2083 to 2010-2084. All other changes are negligible.

As some commentators have noted, Social Security's annual tax revenue has temporarily slipped below the benefits it pays. (As the economy recovers, tax revenues will again exceed benefit payments for several years, but will begin falling short of expenditures again in 2015.) But that imbalance does not pose a problem for paying 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 2025 — to enable it to continue paying full benefits for years to come. The imbalance that should be addressed is the mismatch between total Social Security revenue (including interest that the trust fund earns on its reserves) and expenditures that eventually materializes as tens of millions of baby boomers retire, and that will culminate in trust-fund exhaustion in 2037 if no action is taken.

The budgetary pressures that the nation will face in the decades ahead also underscore the importance of allowing the Bush tax cuts for Americans making over $250,000 to expire at the end of this year, as scheduled. If Congress instead extends those tax cuts for one or a few years and subsequently makes them permanent, the revenue loss over the next 75 years just from extending the tax cuts for people making over $250,000 — the top 2 percent of Americans — will be almost as large as the entire Social Security shortfall over this period. Members of

Congress cannot simultaneously 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 fairly they can spread out the needed adjustments in revenue and benefit formulas, and the more confidently people can plan for their work, savings, and retirement.

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 more interest we will owe to lenders who finance our budget deficits.

Congress has not addressed Social Security's solvency, in part because of a long-running dispute over whether to partly privatize the program (that is, to replace a portion of guaranteed benefits with private accounts invested in the stock and bond markets). The recent downturn and turmoil in the financial markets have exposed the folly of that approach. As we mark Social Security's 75th anniversary this year, policymakers have an opportunity to restore solvency to the program for decades to come.

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