Social Security: Eight Questions for Its 80th Birthday

Social Security turns 80 years old on Aug. 14, 2015. That anniversary is a good time to note the program’s accomplishments and take a hard look at its future.

Social Security is the largest federal government program, with expenditures in 2014 totalling $859 billion. Its broad range of retirement, disability and survivors benefits provides a vital floor of protection for 59 million Americans (42 million retired workers and dependents, 11 million disabled workers and dependents, and 6 million survivors of deceased workers). Payroll taxes, which provide the largest source of funding for the program, are paid by 166 million workers.

Today a majority of seniors receive over half of their retirement income from Social Security. It provides 90 percent or more of retirement income for almost one-third of retired beneficiaries. And without Social Security, the poverty rate among the elderly would be almost four times what it is now.

But the program faces major challenges. Social Security has been running annual cash deficits since 2010. Absent congressional action, Social Security disability benefits will be cut across the board by 19 percent in 2016 and retirement benefits will be cut by 23 percent in 2035. Meanwhile, the expanding gap between Social Security’s dedicated revenues and benefit payments will contribute to future federal budget deficits.

Given the key role that Social Security plays for the retirement security of Americans and its substantial impact on the federal budget, The Concord Coalition believes that the program’s 80th birthday should be more than a celebration of its past. We must also look to its future. Lawmakers, the public and the media should focus on the following questions:

1. Is Social Security on sound footing for the next 80 years?
2. What are the budgetary consequences of doing nothing?
3. What is the most immediate concern?
4. What's driving the problem?
5. Did Congress “steal” from the trust fund?
6. Why take action now?
7. What reforms could solve the problem?
8. Is bipartisan cooperation possible?
Eight Questions for Social Security’s 80th Birthday

1. Is Social Security on sound footing for the next 80 years?

No. According to its trustees, Social Security “cannot sustain projected long-run program costs under currently scheduled financing.”

Social Security Tax Collections Are Not Enough to Fund Future Promises

In their July 2015 report, the trustees estimate that Social Security will be “solvent” until 2034. This means that its trust funds -- Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) -- will together possess sufficient assets, and hence budget authority, to cover benefits until that date.

So long as the trust funds possess assets, Social Security can pay promised benefits. Once they are insolvent, benefits would have to be cut by roughly one-quarter to match the system’s annual cash income.

That alone should set off alarm bells because it means that without reform, full benefits cannot be paid beyond the next 19 years. Even people in their 70s today are at risk of having their benefits cut at a time of life when they can least afford it. As
for people in their 40s and younger, they are paying into a system that cannot deliver all of its promised benefits.

The trustees also calculate the present value of future income against future costs over the next 75 years and through the “infinite horizon.” In the 2015 trustees report, these numbers totaled deficits (or “unfunded obligations”) of $10.7 trillion over 75 years and $25.8 trillion over the “infinite horizon.” While such long-term present-value calculations are subject to great uncertainty and do not reflect the importance of annual trends, they do offer a window into the generational transfer from young to old that is implied in current law.

2. **What are the budgetary consequences of doing nothing?**

Trust fund solvency says nothing about fiscal sustainability. Long before the trust funds are depleted, Social Security will pose a mounting burden on the rest of the federal budget. Because the program runs on on automatic pilot -- its spending does not require annual approval from Congress -- its subsidies from the rest of the federal budget are already squeezing other federal priorities and putting upward pressure on the deficit. Without reform, that will only increase in the years ahead.

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**Social Security Cumulative Cash Deficits 2015 - 2090**

As explained by the trustees: “Concern about the long-range outlook for Medicare and Social Security often focuses on the depletion dates for the HI (Hospital Insurance) and OASDI trust funds -- the times when the projected trust fund balances under current law will be insufficient to pay the full amounts of scheduled benefits. A more immediate issue is the effect the programs have on the unified federal budget prior to depletion of the trust funds. (emphasis added).”

The trust funds are primarily an accounting device. Their assets consist of Treasury bonds that can only be redeemed if Congress raises taxes, cuts other spending, or borrows from the public. Thus their existence, alone, doesn't ease the burden of paying future benefits. Fiscally it is not the trust fund balances, but the programs' annual operating balances that matter -- that is, the differences between their outlays and earmarked tax revenues.

Social Security began running an operating deficit in 2010. Last year, that deficit was $74 billion (0.4 percent of GDP). This will widen to an annual cash shortfall of $312 billion in today's dollars by 2033 (1.2 percent of GDP), the last full year the trust funds are projected to be solvent. By 2090, the annual deficit is projected to be 1.6 percent of GDP.

3. What is the most immediate concern?

Social Security consists of two distinct trust funds, Old Age and Survivors Insurance (OASI) and Disability Insurance (DI). Traditionally, the program is evaluated on the basis of a hypothetically combined trust fund (OASDI). However, as the trustees point out, "there is no legal authority to finance one program's expenditures with the other program's taxes or reserves."

The DI trust fund is in need of immediate attention. The trustees say that it "faces an urgent threat of reserve depletion, requiring prompt corrective action by lawmakers if sudden reductions or interruptions in benefit payments are to be avoided."

If no action is taken by late 2016, the trustees project that the DI trust fund will run dry. At that point, benefits would have to be cut by an estimated 19 percent to match the program's cash income. That problem, the trustees warn, is "but the first manifestation of larger financial imbalances facing Social Security as a whole . . . ."

Some argue that DI's shortfall can be easily fixed by reallocating money from OASI. While this has been done in the past, doing so now would ignore the fact that OASI has its own difficulties. In fact, while the DI problem is more immediate, OASI has a larger gap over the long term.

In 1994, when the last such reallocation occurred, members of the baby boom generation had not begun retiring or collecting disability benefits in large numbers.
The OASI fund had an annual cash-flow surplus. It is now running a cash-flow deficit that will only get worse unless Congress takes action.

A simple reallocation from one fund that is in deficit to another fund that is in deficit would do nothing to strengthen Social Security’s overall finances. It would instead be just another example of lawmakers using a politically convenient short-term patch to avoid dealing with a politically inconvenient long-term problem.

No one wants to see draconian cuts in disability benefits. Given the deep hole in DI’s finances, some reallocation of payroll taxes may be necessary to avoid a sudden benefit cut. But this should be done within the context of a broader plan to address Social Security’s overall finances. Moreover, the trustees note that simply reallocating money “in the absence of substantive reforms might . . . serve to delay DI reforms and much needed corrections for OASDI as a whole.”

4. What’s driving the problem?

The basic problem for Social Security is that the ratio of workers to retirees -- Social Security payroll taxpayers to recipients of Social Security benefits -- is shrinking. The baby boom generation is reaching retirement and beginning to draw benefits. The baby boomers will also draw benefits for longer than past generations did because life expectancy is increasing. However, because Americans are having fewer children, the demographics shift is leaving fewer workers in the workforce to pay taxes to support the Social Security beneficiaries.

Between 2010 and 2030, the population over the age of 65 is expected to increase by around 80 percent while the working-age population (ages 20 to 64) is expected to increase by only 10 percent.

The current payroll tax rate (12.4 percent, split between workers and employers) will fall increasingly short of paying benefits to the rising number of beneficiaries. This is not an ideological problem. It is a problem of simple math.

In addition, Social Security benefits for each generation rise along with economic growth. This means that while strong economic growth brings in more payroll tax revenue, benefits also grow. So economic growth alone is not enough to get out of the basic structural problem facing Social Security.

Even when the baby boom generation has passed through the system, the ratio of workers to retirees will remain stable and will never reset at a sustainable level under current law.
5. Did Congress “steal” from the trust fund?

No. There is a common misperception that money has been “stolen” from Social Security and that this has contributed to the program’s financial problems. Nothing has been stolen.

When the program runs a cash surplus, as it did from 1984 to 2010, the excess money is credited to the Social Security trust funds in the form of special U.S. Treasury bonds. The Treasury can use this money to pay other bills, thus reducing the amount it has to borrow from the public.

When Social Security needs to draw down these bonds to cover a cash shortfall, as is now the case, the Treasury must come up with the money.

Thus, from the perspective of the Social Security program alone, the bonds (in effect, loans to the Treasury) provide a source of income when they are paid off. At the same time, however, the bonds are an obligation of the federal government and will need to be paid for by “some combination of increased taxation, reductions in other government spending or additional borrowing from the public,” according to the trustees.
Social Security’s projected finances, including its growing cash deficits and eventual trust fund exhaustion, assume that all past surpluses lent to the Treasury will be repaid. The key issue is not whether the money has been stolen but how the government will raise the money to repay the loans from Social Security to the Treasury.

6. Why take action now?

The longer we wait to make needed reforms in Social Security, the greater the gap will be between its traditional revenue sources and its promised benefits. Delay will only make the job harder.

The trustees point out that making Social Security solvent for 75 years would require an immediate increase in payroll taxes from the current 12.4 percent to 15.02 percent. Alternatively, it would require an immediate benefit cut of 16.4 percent, if applied to all current and future beneficiaries.

However, if such changes were delayed until 2034, payroll taxes would have to start at 16.1 percent and rise to 17.4 percent over 75 years. Alternatively, benefits would have to be cut by 21 percent, increasing to 27 percent.

Given the severity of the problem, the most plausible reform plan would involve both additional tax revenue and reductions in benefits for at least some recipients. These changes could be phased in to protect workers nearing eligibility. But the longer we wait to act, the longer taxpayers and beneficiaries will remain uncertain about what to expect -- and the larger and more abrupt the changes will have to be when they are finally enacted. Delay also means taxpayers and beneficiaries will have less time to adjust to the changes.

A related concern, expressed by Social Security’s two “public trustees,” is that delay could make it more likely that lawmakers will resort to increasing general-revenue subsidies to shore up the system. This would be a substantial departure from the basic premise that Social Security should be a “self-funded” system.

“Continued inaction going forward to the point where the combined trust funds near depletion would -- unlike 1983 [when the last major reforms were enacted] -- likely preclude any plausible opportunity to maintain Social Security’s historical financing structure,” the public trustees wrote in the 2015 report.

If we begin reforms sooner, conversely, they can be gradually phased in. This would give taxpayers and beneficiaries alike time to plan for the changes and anticipate them in a variety of ways. For example, many people would likely increase their personal savings. That would foster long-term economic growth, among other benefits. Phased-in reforms might also prompt some people to change their
prospective retirement dates, decide to work part-time after retiring from their current jobs, or revise their current financial plans.

Starting reforms soon would also be more fair to younger Americans because it would mean that older generations would be helping to solve the system’s problems. The longer Washington procrastinates, the more it will shift the burden of reform onto younger workers and even the next generation.

7. What reforms could solve the problem?

Some combination of benefit reductions and additional revenue will probably be necessary, both for political reasons and because there are such large gaps to close between current revenue and spending.

Bipartisan panels and others have suggested an array of thoughtful proposals that could help. Some would reduce benefits for at least some recipients. Other recommendations would raise additional revenue through the system’s payroll tax, either by raising the rate or the cap that currently applies on taxable wages ($118,500 in 2015).

Many proposals would make the program more progressive, trimming net benefits for higher-income households while increasing benefits for lower-income households.

The Social Security trustees score a large list of potential changes and their effects on the program’s sustainability.

Whatever the mix of policy trade-offs and choices, a key test of any plan to achieve sustainability is how effectively, and in what time frame, reforms would close Social Security’s long-term gap between outlays and dedicated tax revenues. Does the proposed plan put us on a sustainable path or leave us headed over a cliff?

It is important not to look just at “solvency” as a 75-year average measure because reforms could be enacted that would immediately leave the system out of balance as new years of large deficits are added to the 75-year average and trust fund surpluses are subtracted. Instead the goal should be sustainable solvency -- reforms that make the system solvent beyond just the 75-year measure, for the long-term.

That is not what happened in the case of the 1983 reforms that enacted benefit cuts and tax increases but only focused on 75-year solvency. By 1985, the trustees estimated that the program was solvent for just 64 years, not 75, and 10 years later solvency was projected for just 35 years. That projection is now down to 19 years.

Social Security reform plans should meet three fundamental objectives: ensure long-term fiscal sustainability; raise national savings and thus increase productivity
growth and the size of tomorrow's economy; and should not exacerbate the generational inequity of today's benefit structure -- and, ideally, make the system more equitable.

8. Is bipartisan cooperation possible?

Yes. In fact, bipartisan cooperation will be essential to make the kind of changes that will be necessary. Even with both parties involved, these changes will require political courage on the part of elected officials. If only one party is behind the reform effort, it will be too easy for the other side to score political points by denouncing the changes as unnecessary or premature.

Fortunately, in recent years a number of bipartisan panels and organizations have developed credible sets of Social Security proposals -- providing both good ideas and ample evidence that people with different political perspectives can find common ground on this issue. Two of the most prominent of these groups are the National Commission on Fiscal Responsibility and Reform, headed by Erskine Bowles and Alan Simpson, and the Bipartisan Policy Center’s Debt Reduction Task Force, chaired by Alice Rivlin and Pete Domenici. Both offered recommendations for Social Security reform that Democrats and Republicans alike found acceptable.

People across the political spectrum have cause to support reasonable reforms because the current path jeopardizes many other national priorities, ranging from military defense to environmental protection, from law enforcement to medical research.

In addition, people in both parties must recognize that their children and grandchildren have a great deal at stake. Without reform, younger Americans can expect to pay far more into Social Security throughout their working lives without a clear picture of what disability and retirement benefits they might eventually receive -- and whether those benefits would be sufficient. We owe younger people and the next generation more than that.

Conclusion

It has been more than 20 years since a bipartisan commission led by former Senators Bob Kerrey (D-NE) and Jack Danforth (R-MO) recommended that:

“To respond to the Social Security Trustees’ call to action and ensure the long-term viability of Social Security, spending and revenues available for the program must be brought into long-term balance. Any savings that result should be used to restore the long-term soundness of the Social Security Trust Fund.”
Since that time nothing has been done to address Social Security’s funding gap. Meanwhile, the urgency of the situation has increased. We don’t have another 20 years to wait.

So as we mark the program’s first eight decades, we should resolve to pursue the necessary changes to ensure that Social Security can serve Americans well for the next 80 years.