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Social Security's Deficits Reinforce the Need to Reform Spending

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Social Security's finances are the latest proof that government spending is out of control. Earlier this year, the Social Security Administration predicted that it would start to spend more in benefit payments than it receives in taxes, a sharp reversal from the surpluses that the program has run for the last 26 years. Since 1983, the government has collected more money from taxpayers than the program needs to pay benefits and used the excess to pay for other programs ranging from congressional pork projects to salaries for bureaucrats.

Those predictions have turned into facts. In September 2009 alone, Social Security ran a deficit of $4.3 billion, which was financed by borrowing. That was on top of a $5.7 billion deficit in August. This is very bad news for taxpayers, but worse is yet to follow.

Permanent Red Ink. Social Security will run a deficit for the entire year of 2009, and that deficit will be followed by another one in 2010. If there is a strong economic recovery—which is questionable at best—the program could briefly return to surpluses. But by 2016, deficits will return and continue permanently. A far more likely scenario is that Social Security will run deficits from this point on. This happens at the same time that the annual deficit is expected to again go over $1 trillion. The net result is that the government is running out of money.

Combined with other massive spending programs, this is why the federal debt is about to reach the maximum allowed level of $12.1 trillion. In theory, once it reaches that level, the government will have to stop borrowing, perhaps leading to a more responsible spending level. Instead, Congress expects to just raise the debt limit by another $1–1.5 trillion and continue to spend irresponsibly.

In normal families, unexpected spending is almost always followed by cutting costs elsewhere. And this would be a fair reaction since Social Security's surpluses have been used for over 25 years to pay for other programs. However, Congress's response will almost certainly be to just borrow more money.

The Reality of the Trust Fund. Social Security's deficits do not mean that benefits will be cut, but they do increase the burden on taxpayers to pay them. On top of the $1 trillion-plus deficit predicted for this year to pay for the Obama Administration's programs, taxpayers will have to find still more money to pay Social Security's deficits. It is true that a trust fund exists that has been funded by $2.4 trillion of Social Security surpluses since 1983, but there is no real money in that trust fund.

As the Office of Management and Budget said in 2000, "These balances are available to finance future benefit payments…only in a bookkeeping sense.

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They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits, or other expenditures."[1]

Congress has already spent every penny of that money, and all that is left are IOUs that must be repaid by the same taxpayers who paid the extra taxes in the first place. Taxpayers, not the trust fund, will end up covering Social Security's deficits.

Massive Deficits and an Even Worse Future. Just last year, Social Security's 2009 cash surplus was predicted to be about $80 billion. Even in May of this year, the program's actuaries predicted a roughly $19 billion surplus. However, they failed to allow for the full effects of the recession, and the soaring unemployment both reduced tax collections and increased the number of workers who were forced to take early retirement.

Things only get worse in the future. After adjusting for inflation, in May, annual Social Security deficits were predicted to reach $68.5 billion in 2020, $170.4 billion in 2030, and $293.6 billion in 2035. Now those deficits will come much sooner than expected and will almost certainly be higher than predicted.

In net present value terms, Social Security owes $7.7 trillion more in benefits than it will receive in taxes. This consists of $2.4 trillion to repay the special issue bonds in the trust fund and $5.3 trillion to pay benefits after the trust fund is exhausted in 2037. In other words, Congress would have to invest $7.7 trillion today in order to have enough money to pay all of Social Security's promised benefits between 2016 and 2083. This money would be in addition to what Social Security receives during those years from its payroll taxes.

According to the 2009 trustees' report, Social Security is projected to owe $7.4 trillion after 2083, making a perpetual deficit of $15.1 trillion. Last year's number was $13.6 trillion. This means that Social Security's total deficit continues to grow well beyond the 75-year projection period. Therefore, any reform that just eliminates deficits over the 75-year window would not be sufficient to solve the program's problems.

Fix Social Security Now or Face the Consequences. Social Security's future has arrived early. After years of talk about how well-funded the program is, the reality is that never-ending deficits will eat up money that could be used for other programs or tax cuts. Despite reassuring words that these deficits are temporary, the reality is much worse. These deficits are likely to be permanent, and the only way out of this cash crunch is to fix the program.

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1. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2000: Analytical Perspectives* (Washington, D.C.: U.S. Government Printing Office, 1999), p. 335.