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Guaranteed 22 Percent Benefit Cuts If Social Security Is Taken off the Table

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The Social Security debate is back. A number of unions and other organizations have banded together under the banner "Strengthen Social Security" to oppose any change to Social Security benefits, including raising the retirement age or including any form of means testing. They fear that the National Commission on Fiscal Responsibility and Reform will recommend these reforms when it attempts to reduce the coming multi-trillion-dollar budget deficits and the huge expansion in the federal debt.

The coalition's message is clear: Take Social Security off the table.[1] If they get their wish, massive Social Security benefit cuts are inevitable.

Sudden and Irregular Cuts. The easiest way to guarantee that Social Security benefits will be cut is to do nothing. Failing to fix the program in advance means that once the Social Security trust fund runs out in about 2037,[2] all Americans—from the lowest-income retiree whose Social Security benefit is already below the poverty level to the wealthiest retiree—would see their benefits reduced by 22 percent. The benefits of the most active retirees in their 60s will receive the same cut as the person in his or her 80s whose health is failing. Taking Social Security off the table—which is another way of saying doing nothing—would ensure that all Social Security recipients would face the real financial pain of sudden and irregular benefit cuts.

The way these crippling benefit cuts would be applied to retirees on a fixed income would add the anxiety of irregular checks to the sudden drop in income, since the Social Security Administration would not just reduce benefits by an estimated amount. Instead of shrinking a previously $1,000 monthly check to $780, the agency would pay full benefits on months when it has received enough payroll taxes to do so and issue no checks at all in months when it lacks enough money to pay full benefits. Since Social Security receives more of its total payroll tax collections earlier in the year instead of receiving an even amount each month, months without benefit checks would be randomly distributed throughout the year.

The cuts would hit everyone born after 1970, as well as those who were born before then and are still alive when the benefit cut happens. In short, all people receiving a Social Security check at the time these benefit cuts go into effect—no matter what other income they may have or not have—would see their benefits reduced. This is not some anonymous group in the far future; it is today's workers who are busy raising their families and building their careers.

Fully Funded? Or Is It 78 Percent Funded? Groups such as Social Security Works and MoveOn.org claim that Social Security is "fully

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funded." But MoveOn.org then notes that "after 2037, it'll still be able to pay out 75% of scheduled benefits—and again without any changes"[3] without noting the real implications of its argument. Moreover, their numbers are wrong—the Social Security Administration says that after 2037, the program will be able to pay 78 percent of promised benefits. Social Security Works makes the same argument[4] (and also uses the wrong numbers). However, the truth is that, while Social Security may have a legal claim on assets in the trust fund to pay full benefits until 2037, after that come the inevitable across-the-board benefit cuts.

And "fully funded" is an interesting phrase. For instance, MoveOn.org claims that "the Social Security Trust Fund isn't full of IOUs, it's full of U.S. Treasury Bonds. And those bonds are backed by the full faith and credit of the United States."[5]

Technically, that is correct, but as Bill Clinton's Office of Management and Budget noted back in 2000, "These balances are available to finance future benefit payments…only in a bookkeeping sense. 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."[6]

In short, the excess Social Security money was spent years ago on everything from schools to aircraft carriers to bureaucrats' salaries, and it is now gone.[7] There is no huge warehouse full of dollar bills just waiting for Social Security to start sending out bundles of cash to future retirees. Those bonds will be paid back, but as Bill Clinton's OMB noted, the money will come from raising taxes, cutting spending of some sort, or borrowing yet more money.

This repayment mechanism also shows that MoveOn.org's contention that "by law, Social Security funds are separate from the budget, and it must pay its own way…[meaning] that Social Security can't add one penny to the deficit"[8] is less than fully accurate. It is true that Social Security has its own funding (at least until 2037), but that funding relies on the government repaying the bonds in the trust fund—an action that will require hundreds of billions of dollars of additional taxes or borrowing each year.

If those bonds are repaid by borrowing, that action would increase the deficit. Unfortunately, those payments have already started: Social Security is expected to run a $41 billion deficit in 2010, a smaller deficit next year, and permanent annual deficits starting in 2015.

Where Is Their Solution? There is no painless way to change Social Security's financial future. The Social Security Administration says that there is a 95 percent chance that permanent deficits will start in 2015.[9] So how do the organizations in Strengthen

1. See Raul Grijalva, "Protecting Social Security: Let's Tell The Deficit Commission Not to Slash Entitlements," Daily Kos, August 12, 2010, at *http://www.dailykos.com/storyonly/2010/8/12/892544/-Protecting-Social-Security:-Lets-Tell-The-Deficit-Commission-Not-to-Slash-Entitlements* (September 27, 2010).
2. See U.S. Social Security Administration, "Status of the Social Security and Medicare Programs: A Summary of the 2010 Annual Reports," at *http://www.socialsecurity.gov/oact/TRSUM/index.html* (September 27, 2010).
3. MoveOn.org, "Top 5 Social Security Myths," at *http://pol.moveon.org/ssmyths/index.html?rc=homepage* (September 27, 2010).
4. Strengthen Social Security, "Principles," at *http://strengthensocialsecurity.org/principles* (September 27, 2010).
5. *Ibid*.
6. Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2000* (Washington, D.C.: U.S. Government Printing Office, 1999), p. 337.
7. For a discussion of the trust fund and how it works, see David C. John, "Misleading the Public: How the Social Security Trust Fund Really Works," Heritage Foundation *Executive Memorandum* No. 940, September 2, 2004, at *http://www.heritage.org/Research/Reports/2004/09/Misleading-the-Public-How-the-Social-Security-Trust-Fund-Really-Works*.
8. MoveOn.org, "Top 5 Social Security Myths."
9. U.S. Social Security Administration, "2010 OASDI Trustees Report," at *http://www.socialsecurity.gov/OACT/TR/2010/VI_stochastic.html* (September 27, 2010).

Social Security plan to avoid automatic 22 percent benefit cuts?

The closest thing to a plan is a statement in the Social Security Works principles: "Congress should act in the coming few years outside the context of deficit reduction to close this funding gap by requiring those who are most able to afford it to pay somewhat more."[10] In short, their answer is to raise taxes.

However, even raising taxes just delays the inevitable. Social Security Administration tables show that the most widely discussed tax increase—making all earnings up to about $160,000 subject to the Social Security payroll tax—would only delay the start of annual deficits until 2019.[11] Automatic benefit cuts would begin in 2048 rather than in 2037. They would hurt everyone born after 1981 and everyone born earlier who is still alive to receive Social Security benefits.

Talk Is Cheap. Taking Social Security "off the table" is not a solution. Instead of just rhetoric, opponents of Social Security reform need to come up with real solutions that would guarantee that automatic benefit cuts will not happen. Talk is cheap, but it will not buy groceries.

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10. Strengthen Social Security, "Principles."
11. U.S. Social Security Administration, "Financial Estimates for the OASDI Trust Fund Program," at *http://socialsecurity.gov/oact/solvency/provisions/tables/table_run273.html* (September 27, 2010).