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Social Security 2011 Trustees Report Shows Permanent Deficits

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> *There are risks and costs to action. But they are far less than the long-range risks of comfortable inaction.*
>
> —John F. Kennedy

> *Projected long-run program costs for both Medicare and Social Security are not sustainable under currently scheduled financing, and will require legislative modifications if disruptive consequences for beneficiaries and taxpayers are to be avoided.*
>
> —2011 Social Security trustees report

The 2011 Social Security trustees report was released on May 13. This paper explains the important facts and answers the frequently asked questions about Social Security's financial outlook.

How Will This Report Affect the Social Security Debate? The debate about whether Social Security faces a problem is over. The 2011 trustees report shows that the program already faces massive permanent annual deficits. In 2010, Social Security spent $49 billion more in benefits than it took in from its payroll tax. This year, that deficit will be approximately $46 billion. Now is the time to focus on solutions.

Instead of just blindly defending the current program, both Congress and the Obama Administration should propose comprehensive programs that permanently fix Social Security. It is one thing to oppose a potential solution; it is something quite different to come up with a plan that actually fixes the problem.

Has the Size of the Social Security Problem Changed over the Past Year? In net-present-value terms, Social Security owes $9.1 trillion more in benefits than it will receive in taxes. The 2011 number consists of $2.6 trillion to repay the special-issue bonds in the trust fund and $6.5 trillion to pay benefits after the trust fund is exhausted in 2036. This is an increase of $1.2 trillion from last year's report, but that number also reflects several changes in assumptions and methodology. In addition, the 75-year period covered by the 2011 report adds 2085—a year in which the system is predicted to run a massive deficit—into the calculation period.

A key change in this year's report is that Social Security is predicted to run cash-flow deficits from now on. The immediate cash-flow deficits are largely due to the effects of the recession on the program's finances. The recession increased the amount of benefits paid out by Social Security as older workers who have lost their jobs choose to file for benefits earlier than they might have otherwise. Meanwhile, younger unemployed workers are unable to pay Social Security taxes, while work-

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ers who suffer a drop in their income pay lower amounts.

Net present value is the amount of money that would have to be invested today in order to have enough money on hand to pay deficits in the future. In other words, Congress would have to invest $9.1 trillion today in order to have enough money to pay all of Social Security's promised benefits through 2085. This money would be in addition to what Social Security receives during those years from its payroll taxes.

The trustees report's perpetual projection extends beyond the usual 75-year planning horizon. In net-present-value terms, the perpetual projection is $17.9 trillion, including money necessary to repay bonds in the trust fund. Last year's number was $16.1 trillion. If the assumptions and other details were the same as last year, this year's number would still have grown to $16.9 trillion.

This means that Social Security's net-present-value deficit after 2085 is $8.8 trillion. These projections show that the program's total deficit continues to grow well beyond the 75-year projection period. For that reason, a successful reform will both eliminate the deficits over the 75-year window and address those that come after that period.

Many opponents of reform claim that raising payroll taxes by about 2 percent (the average percentage difference between revenues and outlays over the 75-year period) would solve Social Security's problems. The reality, however, is that the program's future deficits are projected to be both large *and* growing, so this tax increase would still leave a huge shortfall. These new projections should end the claims that Social Security's impending financial crisis can be resolved with modest changes in the current system.

In actuarial terms, Social Security's long-term financing declined sharply from a 75-year deficit of 1.92 percent of taxable payroll in last year's report to a deficit of 2.22 percent. This 0.3 percent change resulted mainly from increased longevity projections for workers over the age of 65. However, another cause was the economy's continued weakness.

These deficits will quickly balloon to alarming proportions. After adjusting for inflation, annual deficits will reach $81.5 billion in 2020, $288.4 billion in 2030, and $343.6 billion in 2035.

Is the Important Year to Consider 2036 or 2010? Starting in 2010, Social Security began to permanently spend more than it takes in. From now on, Social Security will require large and growing amounts of general revenue money in order to pay all of its promised benefits. Even though this money will come technically from cashing in the special-issue bonds in the trust fund, the money to repay those bonds will come from other tax collections or borrowing. The billions that go to Social Security each year will make it harder to find money for other government programs or will require large and growing tax increases.

Compared to 2010, 2036—the year that the Social Security trust fund is projected to run out of its special-issue bonds—is of little importance. Even though the end of those bonds will make it necessary to reduce benefits by approximately 25 percent, Congress will have been paying about $250 billion a year (in 2011 dollars) to repay those bonds for about seven years by the time the trust fund runs out. Congress will have to do this through some combination of other spending cuts, new taxes, or additional borrowing. These are the same choices Congress would face without the trust fund.

What Are the Old-Age and Survivors' Insurance Operating Numbers from the Current Year? The trustees report includes detailed information about the aggregate amount of payroll taxes paid in the previous calendar year and the aggregate amount of benefits paid in that year. It also includes data on operating expenses. In 2010, the Old-Age and Survivors Trust Fund, which pays for retirement and survivors' benefits, took in $677.1 billion and paid out $584.9 billion. Its annual surplus was $92.2 billion, but after subtracting $108.2 billion that came from a paper transaction that credited interest to the trust fund, the trust fund actually lost $16 billion in 2010 alone. Additional losses were suffered by Social Security's disability program.

What Does It All Mean?

- ***Bad news for younger workers.*** Unfortunately, younger workers have a great deal to worry about. Even though their parents' and grandparents' benefits are fairly safe, their own are not. Any worker born after 1970 will reach full retirement age after the trust fund is exhausted. Unless Congress acts soon, younger workers can look forward to paying full Social Security taxes throughout their careers but receiving only about 75 percent or less of the benefits that have been promised to them. In addition, they will have to repay the Social Security trust fund, an expense that will total almost $6 trillion by the time the trust fund is exhausted in 2036.
- ***Improving retirement savings is a must.*** Allowing American workers to save and invest a portion of their income in accounts that they would own is the lowest-cost way to ensure that they have an adequate retirement income. Increasing the ability of workers to save for retirement will reduce their dependence on Social Security for retirement income and enable them to increase retirement security.

The Crisis Is Here Now. It takes about 22 years to grow a taxpayer. Almost every new taxpayer who will begin a career after graduating from college in 2033 is living today and can be counted. Similarly, all people who will face approximately 25 percent across-the-board benefit cuts starting in the year 2036 if Congress does nothing to fix the program are alive now, and most of them are paying taxes.

Social Security's problems are based on demographics, which do not change from year to year. The people who will be hurt if nothing is done to fix Social Security are not unknown people of the future: They are the nation's children and grandchildren of today.

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