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Social Security Finances Significantly Worse, Says 2012 Trustees Report

David C. John

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

“Lawmakers should not delay addressing the long-run financial challenges facing Social Security and Medicare,” the trustees wrote. “If they take action sooner rather than later, more options and more time will be available to phase in changes so that the public has adequate time to prepare.”
—*2012 Social Security trustees report*

Social Security’s finances significantly worsened last year, according to the new 2012 trustees report,[1] because of a weakened economy and structural problems with the program. The April 23 report shows that all people who receive Social Security benefits face about a 25 percent benefit cut as soon as 2033—three years earlier than predicted in last year’s report. The program’s long-term deficit is now larger than it was before the 1983 reforms. In order to pay all of its promised benefits, Social Security would require massive annual injections of general revenue tax money in addition to what the program receives from payroll taxes. These additional funds would be needed for the next 75 years and beyond.

Factors Dragging Down Social Security. The poor numbers come from a number of factors, including the continued weakness of the U.S. economy, high energy prices holding down wages, and a significant increase in the number of people who receive benefits from Social Security’s disability program (SSDI). SSDI has its own sub-trust fund that will be exhausted in 2016. While some SSDI costs will be paid from money that would have gone to pay retirement and survivors’ benefits, SSDI recipients face across-the-board benefit reductions in just four years. As this year’s report shows, the need to reform SSDI is as great as the need to fix the rest of the program.

Long-Term Financial Picture Worsens. In net-present-value terms, Social Security owes $11.3 trillion more in benefits than it will receive in taxes. This 2012 number consists of $2.7 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 2033. This is an increase of $2.2 trillion from last year’s report. This is the largest one-year drop in the program’s finances since 1994.

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 $11.3 trillion today in order to have enough money to pay all of Social Security’s promised benefits through 2086. 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 $20.5 trillion, including money necessary to repay bonds in the trust fund. Last year’s number was $17.9 trillion.

This means that Social Security’s net-present-value deficit after 2086

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The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

is $9.2 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 would need to eliminate the deficits over the 75-year window and address those that come after that period.

In actuarial terms, Social Security's long-term financing declined sharply from a 75-year deficit of 2.22 percent of taxable payroll in last year's report to a deficit of 2.67 percent. This 0.44 percent change resulted mainly from the economy's continued weakness and the effects of high energy costs.

Social Security Ran Another Deficit Last Year. In 2011, the Old-Age and Survivors Trust Fund, which pays for retirement and survivors' benefits, took in $698.8 billion, which includes $106.5 billion that came from a paper transaction that credited interest to the trust fund. Excluding the interest, the retirement and survivors program had income of $592.3 billion but paid out $603.8 billion in benefits, leaving a deficit for 2011 of $11.5 billion. Additional deficits were suffered by Social Security's disability program.

Counting both programs together, in 2011, Social Security spent $45 billion more in benefits than it took in from its payroll tax. This deficit is in addition to a $49 billion gap in 2010 and an expected average annual gap of about $66 billion between 2012 and 2018. These deficits will quickly balloon to alarming proportions. After adjusting for inflation, annual deficits will reach $95 billion in 2020 and $318.7 billion in 2030 before the trust fund runs out in 2033. Now is the time to focus on solutions.

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 lost their jobs chose to file for benefits earlier than they might have otherwise. Meanwhile, younger unemployed workers did not pay Social Security taxes, while workers who suffered a drop in their incomes paid lower amounts. However, this year's projections show that these effects will continue. Higher energy prices are expected to dampen income increases, while the longer-term effects of the recession are likely to hold down the number of hours individuals can work.

Moreover, the condition of Social Security continues to deteriorate in future years so that the overall estimate is further worsened in 2012, when the 75-year financial window shifts to include 2086—a year when Social Security is expected to run a very large deficit.

The Trust Fund Does Not Make Social Security Healthy. The existence of a trust fund does not make Social Security healthy. Although those assets are guaranteed by the full faith and credit of the United States, the bonds it contains must be repaid using general revenue that would otherwise go to other programs. Similarly, the interest that Social Security receives on existing trust fund balances is not spendable income. It merely inflates the numbers in the trust fund and increases the amount that Social Security will eventually receive from general revenue. The only part that counts today is the cash that Social Security receives from the Treasury to cover its annual operating losses.

Many opponents of reform claim that raising payroll taxes by about 2.7 percent (the average percentage difference between revenues and outlays over the 75-year period) would permanently 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. Modest changes will not fix the current system.

Delay in Fixing Social Security Will Only Make Matters Even Worse. Congress could have fixed Social Security several years ago but delayed because it feared making the difficult decisions. A further delay in addressing Social Security's financial problems will only make the situation even worse. The new trustees report is not based on conjecture; it is based on a firm understanding of the economy and the U.S. population. Almost every new taxpayer who will begin a career before 2033 is living today and can be counted. Similarly, all the people who will face approximately 25 percent across-the-board benefit cuts starting in the year 2033 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 that 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

1. U.S. Social Security Administration, "The 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds," April 23, 2012, http://www.socialsecurity.gov/OACT/TR/2012/index.html (accessed April 23, 2012).

nation's children and grandchildren of today.

—***David C. John*** *is Senior Research Fellow in Retirement Security and Financial Institutions in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.*