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History Suggests Social Security Insolvency Is Coming Sooner Than Projected

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This year's Social Security trustees report was released with little fanfare, as the projected date of Social Security's financial insolvency held steady at 2033.[1] Many analysts and lawmakers have pointed to 20 years of alleged solvency as an excuse to delay meaningful Social Security reform. However, if history is any guide to future solvency, the Social Security program could become insolvent much sooner than 2033.

Past Reforms Have Failed. Social Security has been reformed numerous times throughout history, often in response to deteriorating program finances. In 1977, lawmakers enacted reforms to Social Security that were expected to keep the program solvent over the next 50 years.[2] But just six years and one double-dip recession later, Social Security was confronted with immediate insolvency. In 1983, Social Security was mere months from being unable to send out benefit checks due to lack of finances.

Lawmakers enacted new reforms that year that were projected to make the trust fund solvent over at least the next 75 years, including gradually increasing the normal retirement age by two years, bringing previously exempt workers into the Social Security system, accelerating scheduled tax increases, raising tax rates for the self-employed, and taxing a portion of benefits for higher-income earners.[3]

Following the 1983 reforms, the annual Social Security trustees report asserted: "On the basis of all but the most pessimistic of the four sets of assumptions used, the program is now estimated to be financially sound over the next 75 years."[4]

Seventy-five years of future solvency meant the program was sound through at least 2058. Yet once again, the projected solvency of Social Security was too optimistic. Ten years later, the projected date of insolvency moved up by 22 years to 2036. Now, 30 years after the 1983 reforms, the projected date of insolvency has moved up by 25 years to 2033.

Economic and Demographic Changes. Although Social Security was intended to be self-sustaining over the long term, its financing is susceptible to factors unforeseen by its creators. As the United States has undergone significant demographic and economic changes over the decades since Social Security's inception, Social Security's projected date of insolvency has drawn closer.

Some of the reasons cited by the trustees for these declines over the years have included decreased mortality, lower birth rates, higher incidences of disability, lower economic growth, reduced average hours of work, lower interest rates on the trust fund, and higher inflation. Additionally, legislative changes, such as enhanced and new benefits, have affected Social Security's solvency.

Insolvency Will Likely Come Even Earlier. Over the past five years alone, the projected date of Social Security insolvency has declined by eight years. This most recent decline in projected

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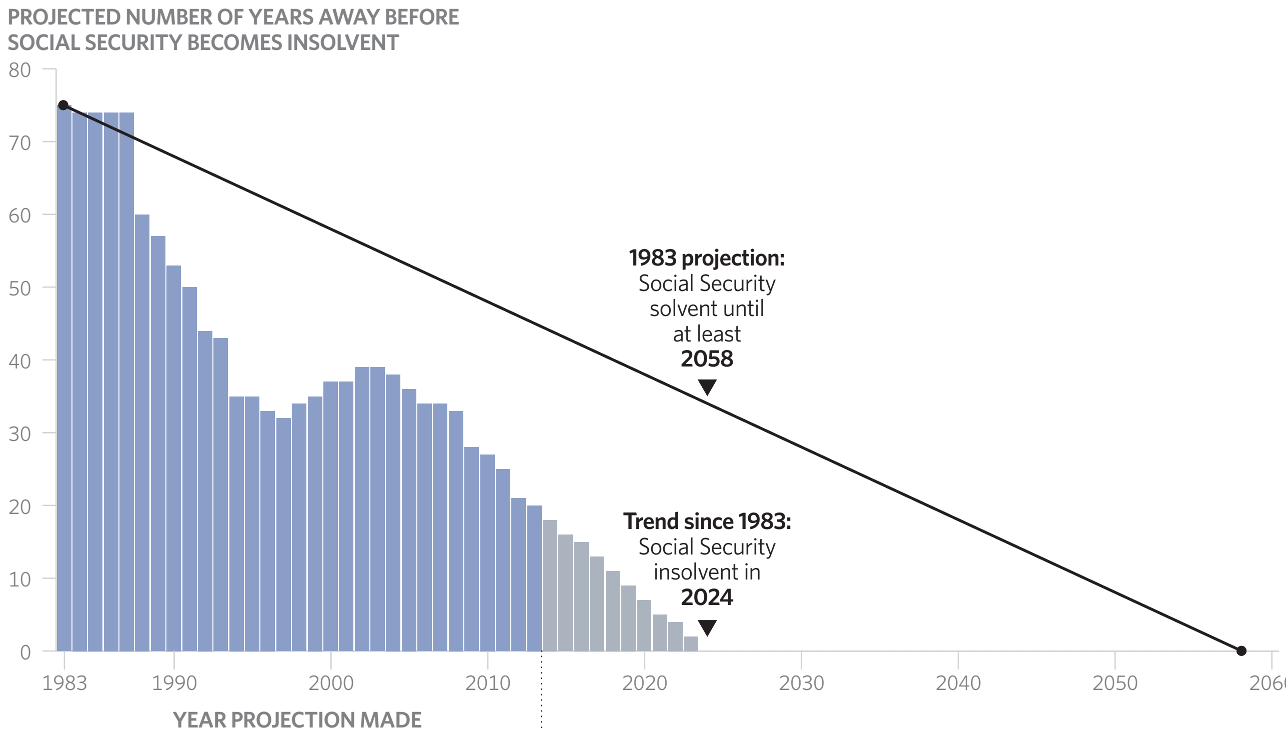
CHART 1

Social Security's Life Expectancy Keeps Getting Shorter

In 1983, Social Security's trustees projected that the recently enacted Social Security reforms would keep the program solvent for at least the next 75 years through 2058. However, over successive annual reports, that approach date has accelerated. If the trend since 1983 continues, the program will become insolvent in 2024—34 years earlier than originally projected.



Source: Heritage Foundation calcluations based on data from Social Security Administration, *The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, May 31, 2013, http://www.socialsecurity.gov/OACT/TR/2013/index.html (accessed May 31, 2013).

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insolvency is largely the result of the 2007–2008 recession. While some of the sources of reduced solvency—such as lower economic growth, lower wages, increased disability incidence, and lower birth rates—are hopefully temporary, other consequences of the recession are unlikely to be reversed. For example, the Social Security trustees now project lower average hours of work and higher rates of disability incidence well into the future, and the lifetime earnings of the long-term unemployed are likely to be permanently lower.

Aside from a short period in the late 1990s and early 2000s, when the exceptionally strong economy pushed Social Security's projected solvency date forward, Social Security's financial trajectory has been decidedly negative. If the historical pattern of

1. U.S. Social Security Administration, *The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, May 31, 2013, http://www.socialsecurity.gov/OACT/TR/2013/index.html (accessed June 6, 2013).
2. Geoffrey Kollmann, "Social Security: Summary of Major Changes in the Cash Benefits Program," Social Security Administration, May 18, 2000, http://www.ssa.gov/history/reports/crsleghist2.html (accessed June 6, 2013).
3. Ibid.
4. Social Security Administration, "Summary of the Social Security Trustees Report: Old-Age, Survivors, and Disability Insurance Program," Social Security Board of Trustees, June 27, 1983, http://www.ssa.gov/history/pdf/1983.pdf (accessed June 6, 2013).

declining solvency continues, the Social Security trust fund could become insolvent in 2024, a full nine years sooner than currently projected.[5]

Absent a bailout from general revenues, insolvency will result in immediate, across-the-board Social Security benefit cuts of about 23 percent.[6] Such benefit cuts would be particularly harmful to current retirees. The average 70-year-old today is probably not expecting to see the day that Social Security becomes insolvent. But if actual insolvency comes just 11 years from now, rather than 2033, that is just what will happen.

Moreover, such drastic benefit cuts could come at a time when the most vulnerable Social Security recipients are neither prepared nor capable of sustaining substantial cuts in income. Those approaching retirement need time to plan and adjust their savings well in advance of any changes to Social Security. Waiting is simply not an option.

Ad Hoc Reforms Do Not Work. As history has demonstrated, ad hoc reforms—even those as significant as the 1983 reforms—will not generate lasting solvency for Social Security. Within just five years of the massive 1983 reforms, the Social Security trustees projected that the program had already lost 10 years of solvency.

Furthermore, focusing on solvency over the 75-year horizon generates a false sense of security and can encourage reforms that initially boost Social Security's finances but ultimately generate larger liabilities than assets.

As it exists today, Social Security attempts to be both a defined-benefit and defined-contribution program. But with both the benefits it pays and the contributions it receives being subject to demographic and economic uncertainties, it is impossible for Social Security to maintain financial balance over the long run. To make Social Security permanently solvent and affordable, it should be converted it into a defined-contribution program, and benefit eligibility should be indexed to changes in life expectancy.

Life expectancy in the U.S. has risen by 17 years since Social Security's inception.[7] Indexing Social Security's retirement age to life expectancy would prevent the program from paying out benefits for decades longer than originally planned. Furthermore, Social Security benefit eligibility and levels may need to be adjusted based on earnings profiles to better align each generation's benefits with their contributions.

Fix Social Security Once and for All. Although Social Security is projected to remain solvent through 2033, its annual cash-flow deficits are already adding to federal deficits. As a Heritage Foundation report shows, Social Security ran a $55 billion cash flow deficit in 2012, and over the next 10 years, it will add nearly $1 trillion to U.S. deficits.[8] Moreover, history suggests the actual date of Social Security insolvency could come much sooner than 2033, perhaps as early as 2024—just 11 years from now.

The current Social Security system is neither self-sustaining nor a true anti-poverty insurance program. These flaws could be fixed by indexing Social Security's eligibility and benefits to changes in factors such as life expectancy and wages and by limiting benefits to those who need them most while providing a minimum benefit that would keep all beneficiaries out of poverty.

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5. The historical trend rate calculates an annual decline in the projected date of insolvency of 0.83 years. This figure is calculated by dividing the change in projected solvency of 25 years (2058–2033) by the 30-year period over which that decline occurred (1983–2013).
6. The 2013 trustees report projected that benefit cuts would begin at 23 percent at the projected insolvency date of 2033 and that cuts would increase to 28 percent by 2087.
7. U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, "Health, United States, 2011," Table 22, http://www.cdc.gov/nchs/data/hus/hus11.pdf#022 (accessed May 29, 2013), and "United States Life Tables, 2002," http://www.cdc.gov/nchs/data/nvsr/nvsr53/nvsr53_06.pdf (accessed May 29, 2013).
8. Romina Boccia and Rachel Greszler, "Social Security Trust Fund Reports Massive Deficits, Benefit Cuts by 2033," Heritage Foundation *Issue Brief* No. 3952, May 31, 2013, http://www.heritage.org/research/reports/2013/05/2013-social-security-trust-fund-reports-massive-deficits-benefit-cuts.