

Social Security and the Federal Budget Challenge

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Views expressed in this presentation are those of the speaker and not necessarily those of the Center on Budget and Policy Priorities.

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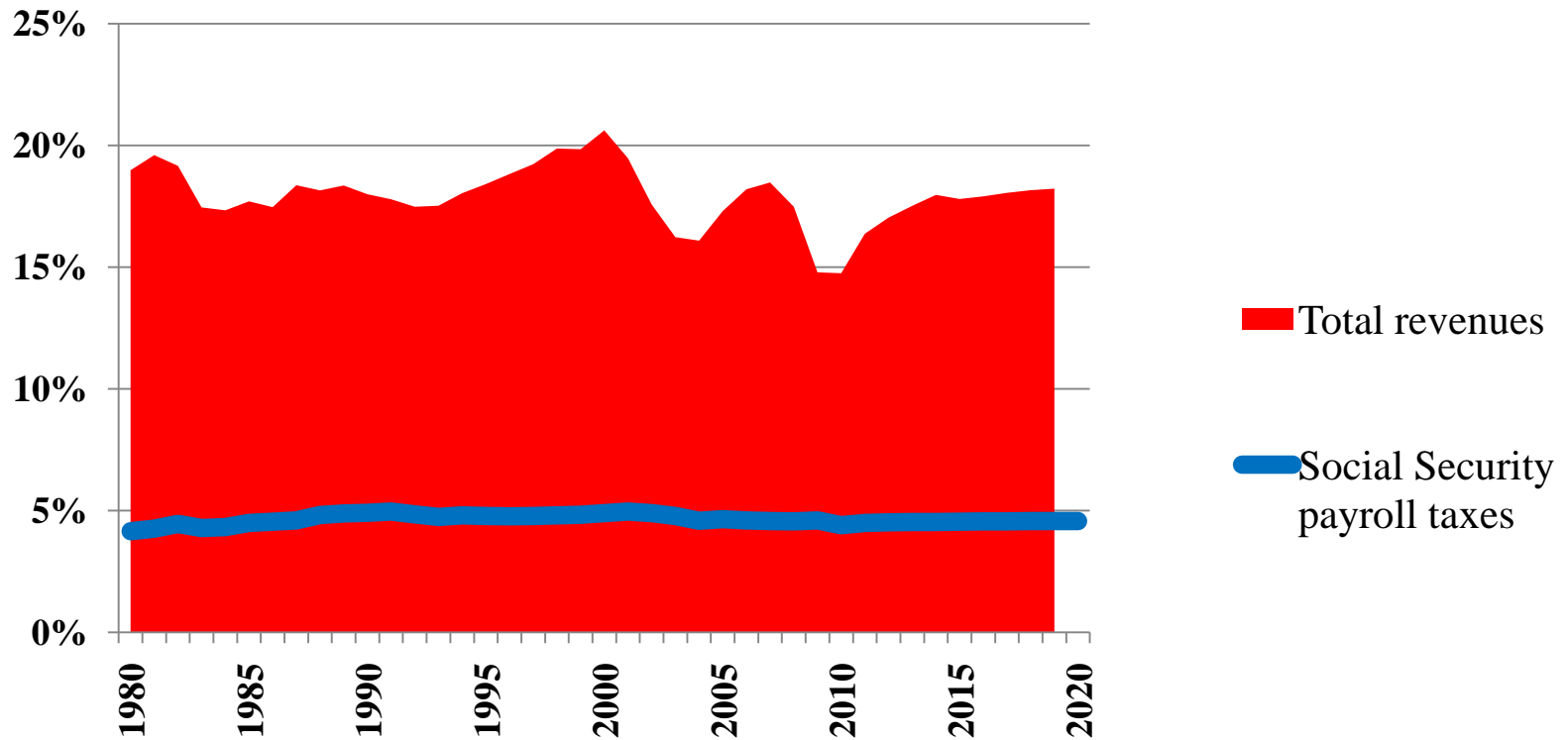
Test your Social Security IQ!

1. The average age of an “Intern Academy” attendee is about 21. What were the most popular names for babies born in 1989?
2. How old do you have to be to get Social Security benefits as the spouse of a retired worker? (Hint: the retired worker must be at least 62.)
3. How many pages does the Social Security Act contain?

Answers on last page

Social Security accounts for about one-quarter of federal revenues....

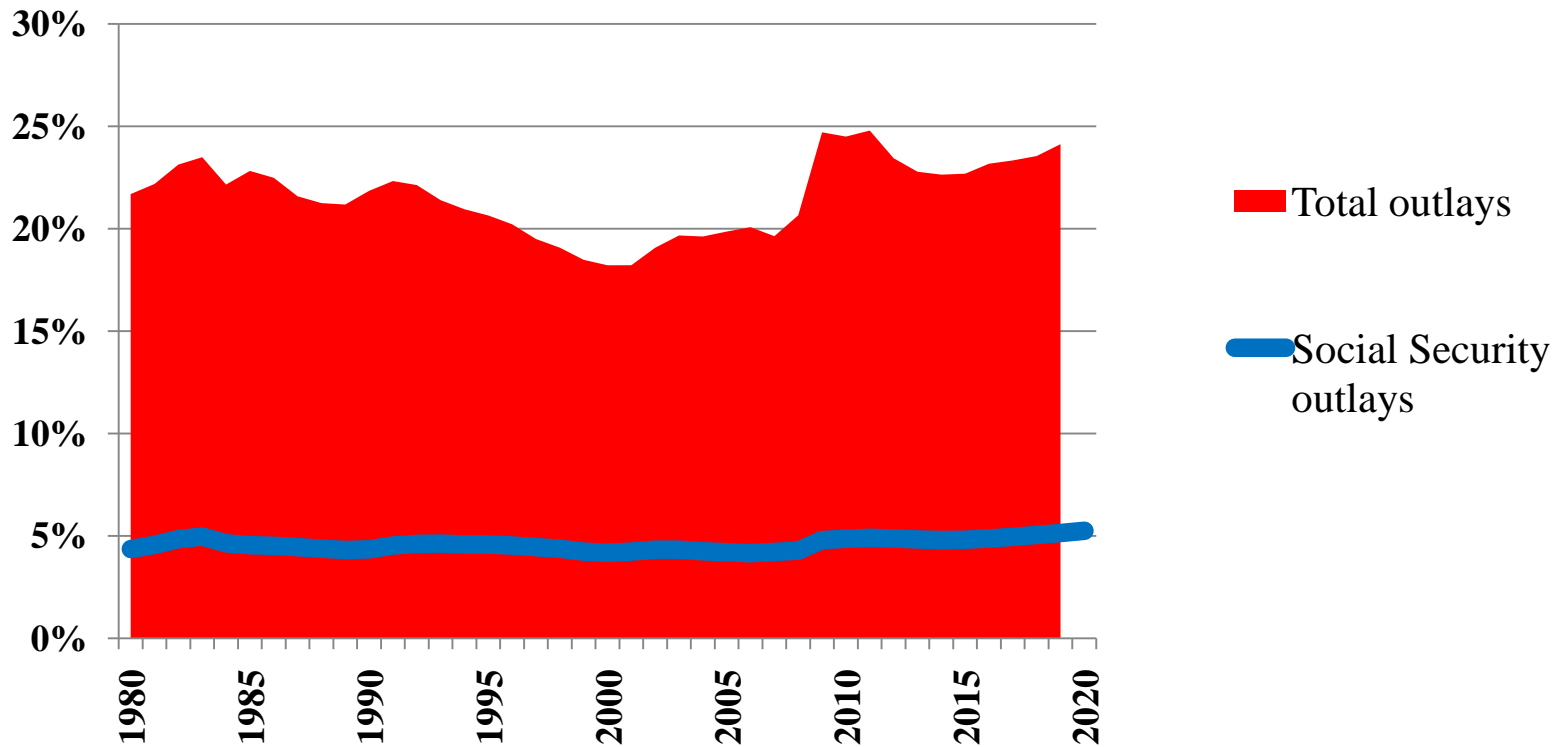
Federal revenues as a percentage of GDP



Source: Center on Budget and Policy Priorities based on data from Congressional Budget Office.

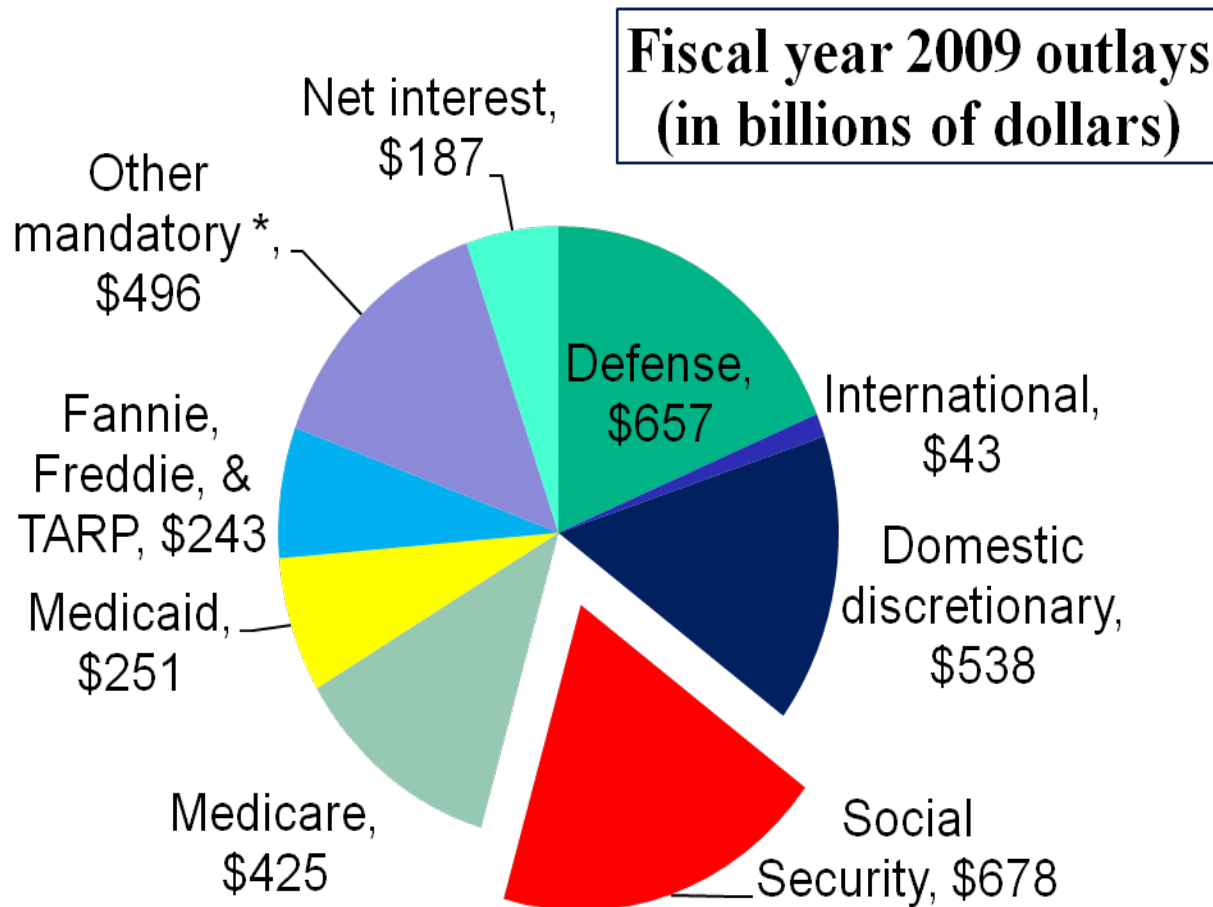
...and about one-fifth of federal outlays.

Federal outlays as a percentage of GDP



Source: Center on Budget and Policy Priorities based on data from Congressional Budget Office.

Social Security is the biggest domestic program in the federal budget.



*Includes offsetting receipts (except Medicare premiums).

Source: Congressional Budget Office. "Domestic discretionary" includes administrative expenses for Medicare (\$5 billion) and Social Security (\$5.2 billion).

Social Security is currently running a surplus, as it has every year since the 1983 Amendments.

Income and Outgo of the Combined Old-Age and Survivors Insurance Trust Funds
(by fiscal year, in billions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Tax revenue	679	713	754	801	848	891	931	972	1,014	1,057	1,104
Interest	120	119	119	121	126	133	141	150	160	170	180
Total income	799	832	873	923	974	1,023	1,071	1,122	1,174	1,227	1,284
Expenditures	708	734	768	805	844	886	936	991	1,050	1,114	1,182
Surplus	91	97	106	118	131	137	136	131	124	113	102
Holdings	2,594	2,692	2,797	2,915	3,046	3,183	3,319	3,450	3,574	3,687	3,789

“Tax revenue” includes payroll taxes plus income taxes on benefits and minor proprietary receipts.

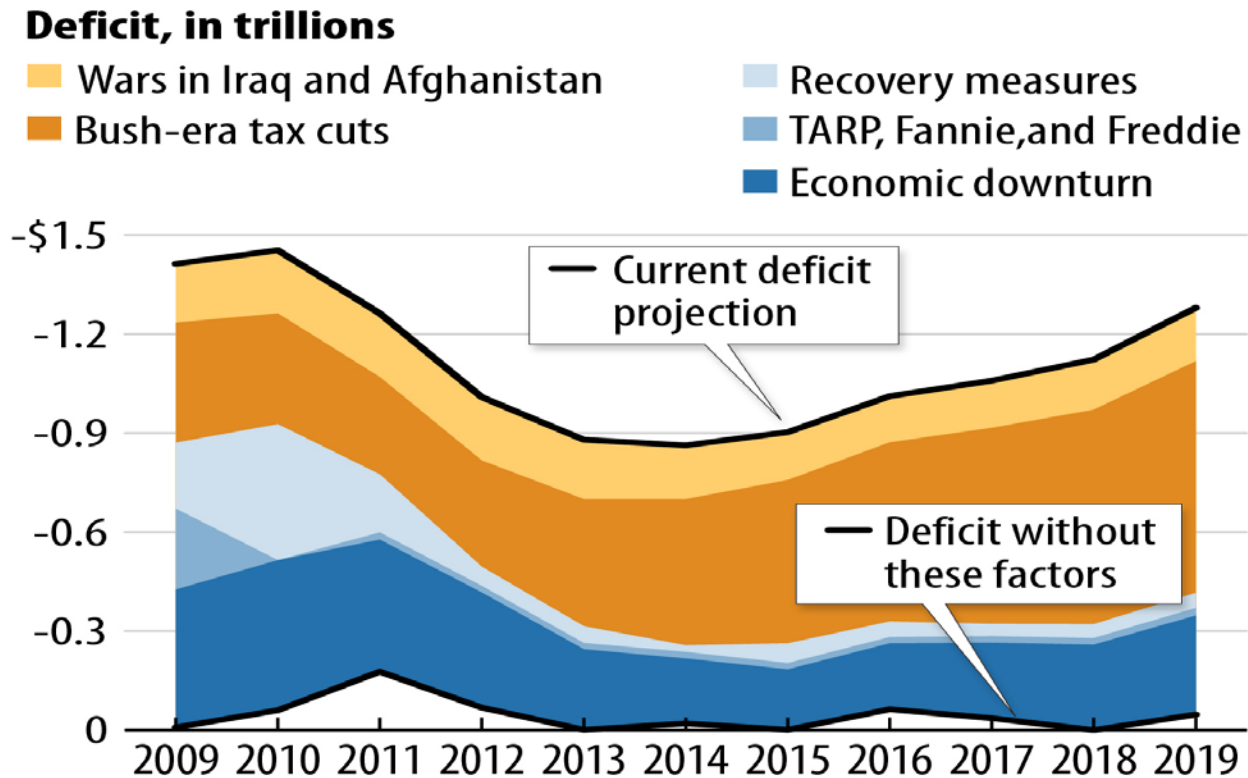
“Holdings” denote trust funds’ investments in Treasury securities, which earn interest at a market rate (currently about 4.7 percent).

Source: Congressional Budget Office, March 2010 baseline projections.

Special budgetary rules apply to Social Security.

- It is “off-budget.”
- It’s not on the pay-as-you-go (PAYGO) scorecard.
- It can’t be in budget reconciliation bills.
- It has special rules in both the House and Senate designed to keep legislators from *worsening* program’s solvency.

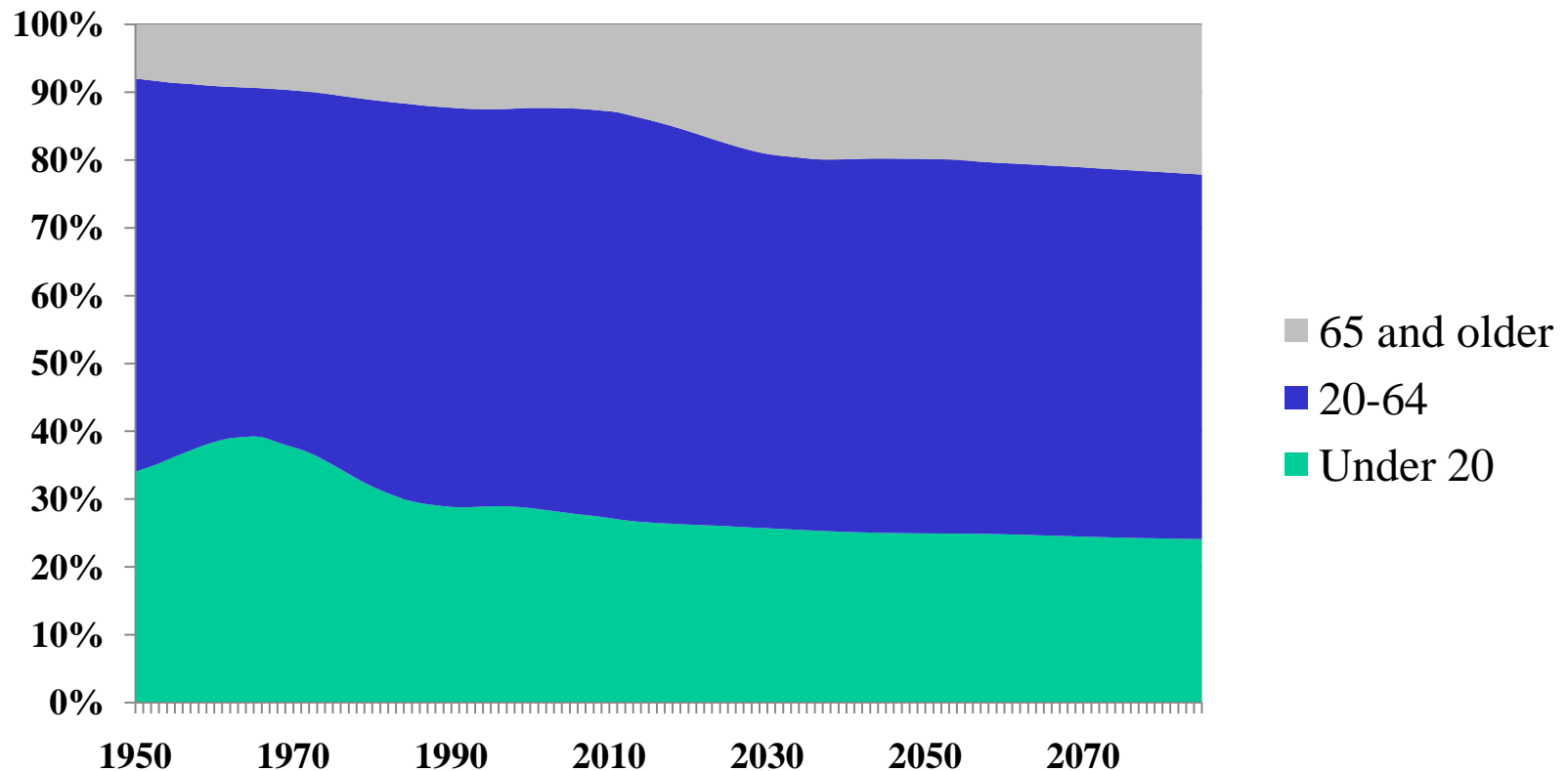
Today's record deficits will shrink as the economy gradually recovers from a painful recession, but will resume climbing inexorably after mid-decade...



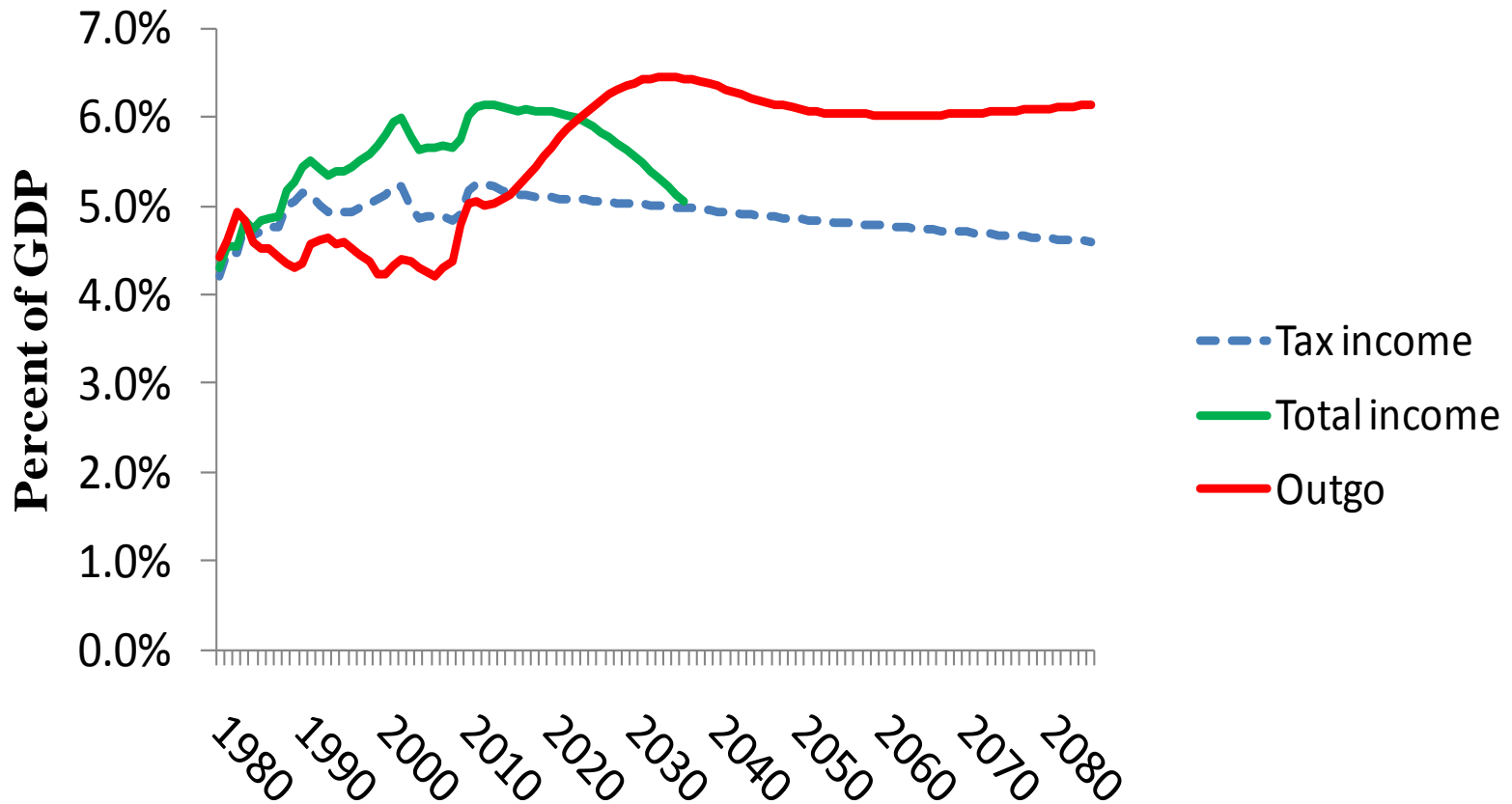
Source: Center on Budget and Policy Priorities, June 2010, based on data from the Congressional Budget Office. These “current-policy” projections assume extension of the 2001 and 2003 tax cuts and certain other expiring tax provisions, continued relief from the Alternative Minimum Tax (AMT), cancellation of scheduled cuts in Medicare physician fees, and necessary funding for operations in Iraq and Afghanistan assuming a phasedown to 60,000 troops by 2015.

...largely because the population is “greying” as mortality improves and the baby boom (born in 1946-1964) swells the Social Security and Medicare rolls.

Age Composition of the U.S. is Changing



Social Security faces a long-run deficit.



Source: Social Security Administration, 2009 Trustees Report. “Total income” includes taxes plus interest on trust fund balances. “Outgo” depicts scheduled benefits—that is, benefits that would be paid under current law notwithstanding trust fund depletion (projected to occur in 2037).

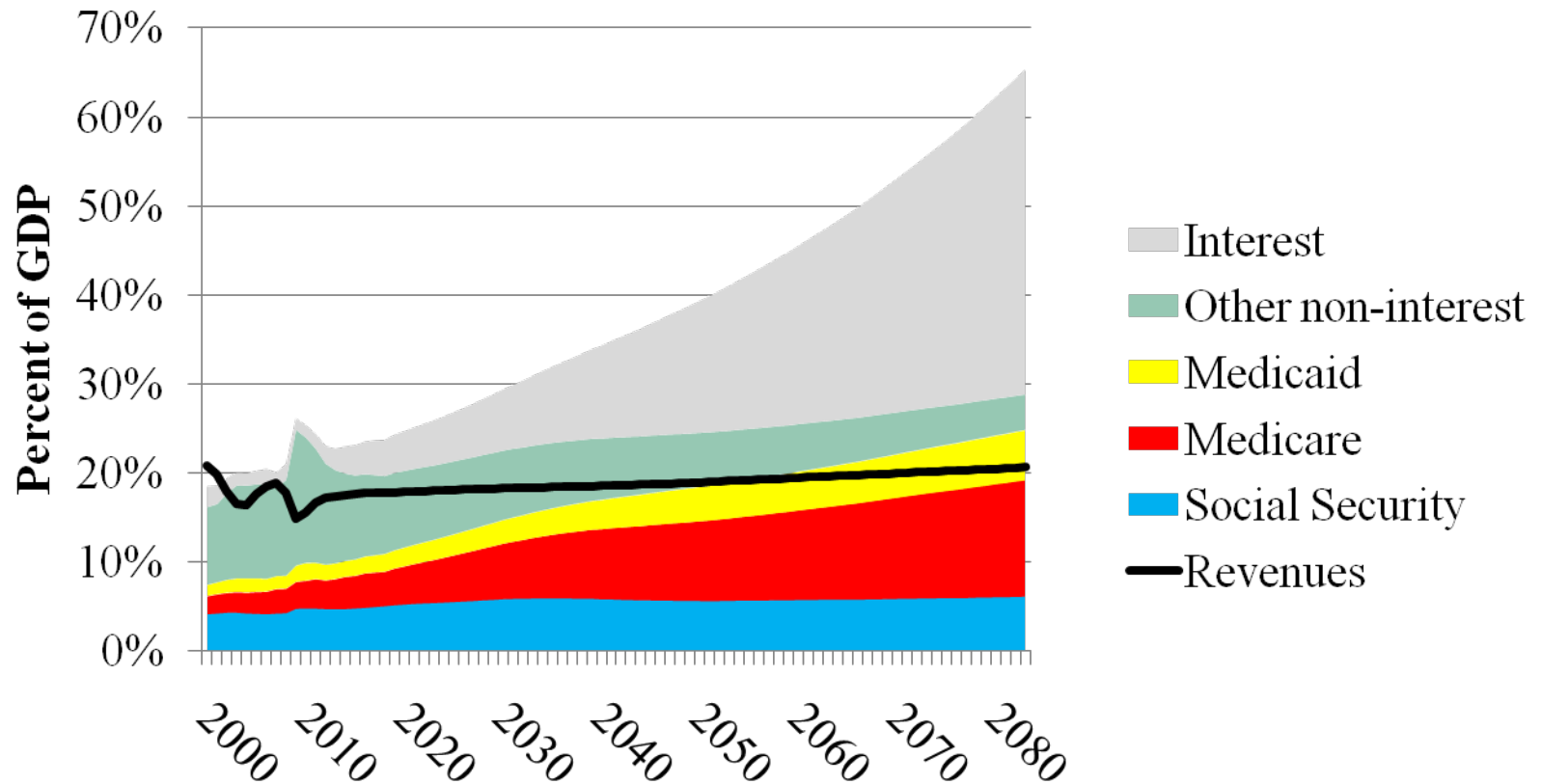
In dollar terms, Social Security’s funding gap looks daunting...but it’s more useful to express it in relation to taxable payroll or GDP.

Summary of trust fund operations over 75 years

	In trillions of dollars	As a percent of--	
		Taxable payroll	GDP
Tax income	\$37.2	13.2%	4.7%
Cost	\$44.9	15.9%	5.7%
Deficit	\$7.7	2.7%	1.0%
Trust fund adjustment	-\$2.0	-0.7%	-0.3%
Equals 75-year imbalance	\$5.7	2.0%	0.7%

Source: Social Security Administration, 2009 Trustees Report. “Trust fund adjustment” reflects subtracting the current value of the trust funds—an asset—from the deficit, and adding a target value for the trust funds at the end of the period equal to a single year’s outgo.

And it's a much more tractable challenge than Medicare and Medicaid.



Source: CBPP January 2010 long-term baseline projections.

Things to know about the long-run extrapolations:

- They're meant to illustrate the consequences of continuing today's policies
- They assume steady economic growth and interest rates, even in the face of unsustainable fiscal policies
- They continue Social Security and Medicare Hospital Insurance benefits even after trust-fund exhaustion
- They're highly uncertain—but probabilistic (“stochastic”) analyses show *negligible* probability that our fiscal problems will disappear

In the words of Herb Stein...

“....If something cannot continue forever, it will stop.”



How to fix Social Security?

- Trim benefits: lengthen the averaging period, phase out spouse benefits, raise retirement age, shift to price- rather than wage-indexing for initial benefits, reduce COLAs
 - But some people want *more* benefits: caregiver credits, no earnings test, higher benefits for widows, no wait for disability, poverty-level guarantee
- Boost payroll or other taxes
- Individual accounts—a distraction

Why fix Social Security?

- We know the *size* of the problem
- We know the possible *solutions* to the problem
- More options are feasible if we act soon—we can spread the sacrifice fairly
- We can give people a basis for planning their work, saving, and retirement
- We'd improve public confidence in the program
- We won't cure the long-run deficit, but we'd make a significant dent

Answers to Test your Social Security IQ!

1. For boys, Michael, Christopher, and Matthew; for girls, Jessica, Ashley, and Brittany. See <http://www.socialsecurity.gov/OACT/babynames/>. (This all started, on what was apparently a slow day for actuarial science in 1998, when the Social Security actuaries decided to troll through their data bases to find trends in baby names for the last 100-plus years. This is now one of the government's most popular websites, and SSA announces the past year's popularity poll just before Mother's Day.)
2. Trick question! The spouse may be any age, if she (face it, we're discussing wives) is caring for the young children of the retired worker. In December 2009, there were 88 women under age 25 who collected as wives of retired workers.
3. Another trick question! In addition to Title II, which establishes Federal Old-Age, Survivors, and Disability Insurance Benefits (the formal name for Social Security) and runs 243 pages, the Act also creates unemployment insurance (Title III), the program of Temporary Assistance to Needy Families (Title IV), the Supplemental Security Income program (Title XVI), and the Medicare and Medicaid programs (Title XVIII and XIX, respectively), among others. In all, the latest compilation of the Act contains 2,072 pages. This was *before* enactment of the health-care reform bill.

Top baby names, by decade

2000s	Jacob, Michael, Joshua	Emily, Madison, Emma
1990s	Michael, Christopher, Matthew	Jessica, Ashley, Emily
1980s	Michael, Christopher, Matthew	Jessica, Jennifer, Amanda
1970s	Michael, Christopher, Jason	Jennifer, Amy, Melissa
1960s	Michael, David, John	Lisa, Mary, Susan
1950s	James, Michael, Robert	Mary, Linda, Patricia
1940s	James, Robert, John	Mary, Linda, Barbara
1930s	Robert, James, John	Mary, Betty, Barbara
1920s	Robert, John, James	Mary, Dorothy, Helen
1910s	John, William, James	Mary, Helen, Dorothy
1900s	John, William, James	Mary, Helen, Margaret
1890s	John, William, James	Mary, Anna, Margaret
1880s	John, William, James	Mary, Anna, Emma