Committee for a Responsible Federal Budget

Analysis of the 2011 Social Security Trustees Report
May 13, 2011

Today, the Social Security Trustees released their 2011 report on the financial status of both Social Security and Medicare. The reports make clear that both programs are on unsustainable paths, and reforms will be necessary to make them solvent. This analysis focuses on the financial status of Social Security.

The latest Trustees report shows Social Security's position has deteriorated since last year. The Trustees estimate that the 75-year actuarial imbalance has now increased to 0.8 percent of GDP (2.22 percent of taxable payroll) compared to 0.7 percent of GDP (1.92 percent of taxable payroll) in last year's report. Over the coming decade, the Trustees project cash-flow deficits of about $490 billion (including $131 billion in 2021 alone), compared to about $380 billion in last year's report.

The Trustees now estimate that the program will exhaust its dedicated trust funds (one for old-age and the other for disability) in 2036, a year earlier than the 2037 date projected in last year's report. At that time, absent changes in law, all current and future beneficiaries would experience an immediate 23 percent cut in benefits.

Even more pressing is the state of the Disability Insurance trust fund, which (if not allowed to borrow from the rest of Social Security) will run out of money by 2018, only **seven years** from now.

According to the Trustees, making Social Security sustainably solvent would take savings equal to 0.8 percent of GDP (2.22 percent of payroll) over 75 years and 1.5 percent (4.24 percent of payroll) in the 75th year.

Fig. 1: Current and Projected Social Security Cash Flow Deficits

	2011	2020	2040	2060	2080	75-Year Shortfall
% of GDP	**-0.3%**	**-0.4%**	**-1.4%**	**-1.3%**	**-1.4%**	**-0.8%**
% of Taxable Payroll	**-0.8%**	**-1.1%**	**-3.7%**	**-3.6%**	**-4.1%**	**-2.2%**
Billions of Current Dollars	**-$46**	**-$99**	**-$778**	**-$1,785**	**-$4,870**	**-$6,500^**

^Present-value estimate of the 75-year unfunded obligation.

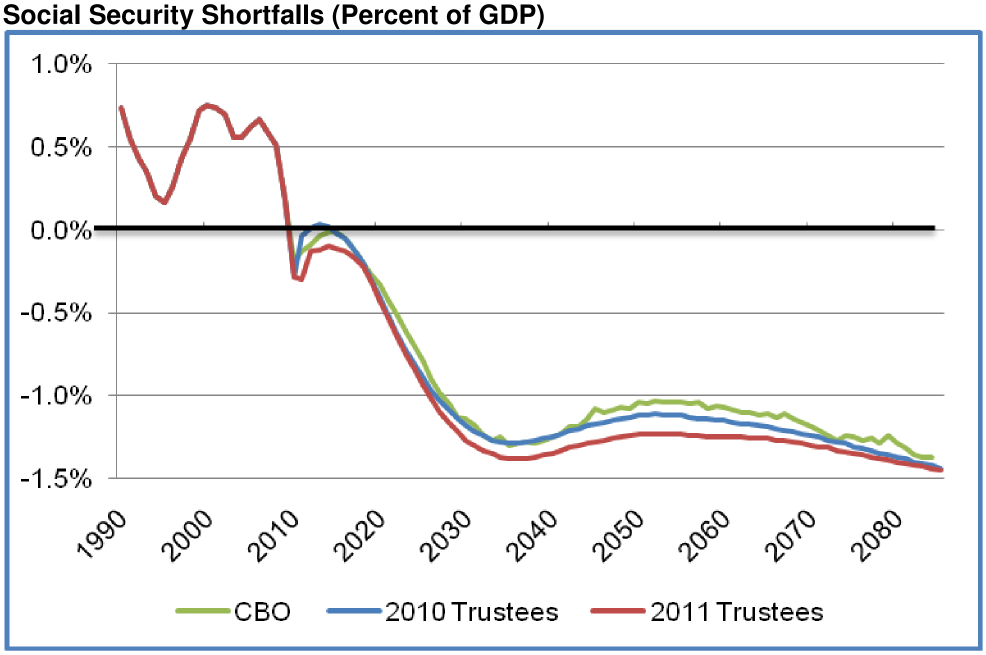
Social Security Projections

Social Security's short-term financial health has deteriorated since last year's report (see below for a discussion of the causes behind these changes). Whereas last year's report estimated Social Security briefly returning to surplus in 2012, 2013, and 2014, the Trustees now expect cash-flow deficits to continue indefinitely. Repaying what is owed to Social Security will add to deficits in the rest of the budget each year over the next 75 years (for more on Social Security and its relationship to the budget, see http://crfb.org/document/social-security-and-budget).

The situation has also deteriorated over the long-run. Deficits are projected to rise to about 0.4 percent of GDP (1.1 percent of payroll) in 2020, 1.2 percent of GDP (3.4 percent of payroll) by 2050, and 1.4 percent of GDP (4.1 percent of payroll) by 2080.

When compared to last year's report, the shortfall has notably worsened over 75-years – increasing from 1.92 percent of payroll to 2.22 percent, a change of 0.3 percentage points. Compared to CBO's projections from March of this year, the Trustees shortfall projections have worsened even further. The projected shortfall at the end of 75-year shortfall has also worsened – increasing from 4.16 percent of payroll in last year's report to 4.24 this year.

Fig. 2: Social Security Shortfalls (Percent of GDP)



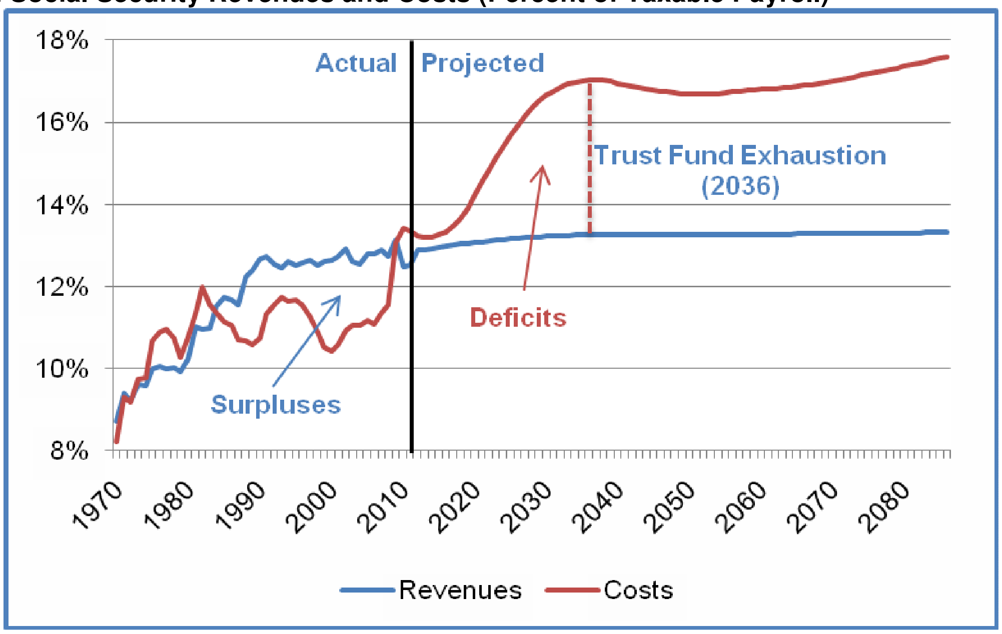
Note: Social Security Trustees numbers reflect calendar year data while CBO uses fiscal year data.

These long-term deficits are due to the aging of the population, which has pushed the program's costs from 4.2 percent of GDP in 2000 to 4.9 percent this year, and will push them to as high as 6.2 percent by 2035. Revenues, meanwhile, will fail to keep up. Though they are projected to rise from 4.6 percent of GDP today to 4.9 percent by 2020 – as the economy recovers – they will then gradually decline, falling below 4.6 percent by the end of the 75-year window.

Including the $2.7 trillion of government bonds currently in the trust funds, which must be repaid, the program is projected to face a 75-year actuarial shortfall of 0.8 percent of GDP (2.22 percent of payroll), and a cash-flow imbalance of about 1.5 percent of GDP (4.24 percent of payroll) by the end of the 75-year actuarial window.

If this gap is not closed, the Trustees project insolvency by 2036. Absent any policy changes, benefits would be automatically cut by approximately 23 percent in that year in order for revenues to equal outlays.

Fig. 3: Social Security Revenues and Costs (Percent of Taxable Payroll)



Overall, the Trustees are very clear: the program is not currently a solvent one. As we have explained in the past, it is possible to look at the program either in isolation or as part of the larger unified budget. But no matter how one views Social Security, the program will require substantial changes, and sooner rather than later.

Reasons for Changes in Projections

In the near-term, the reason for larger shortfalls in this year's report is largely due to economic changes that caused considerably lower taxable earnings in 2010 and projected taxable earnings over the next few years than were projected in the August report.

Over the longer-term, the changes stem from multiple factors, but mainly from demographic shifts. In addition to revised economic projections affecting the short-term, updated demographic data show longer life expectancies (or, conversely, lower mortality rates), lower birth rates, and lower immigration rates. For example, for babies born in 2011, male life expectancy at age 65 is 0.4 years higher and female life expectancy at age 65 is 0.1 years higher than what was projected last year for babies born in 2011. In addition, moving the 75-year window a year forward to incorporate the large deficit in 2085 adds 0.05 percentage points to the projected 75-year shortfall.

As a result, the total shortfall over 75-years has moved from 1.92 percent of taxable payroll in last year's report to 2.22 percent this year.

Fig. 4: Reasons for Change in 75-Year Actuarial Shortfall (Percent of Taxable Payroll)

	Effect on 75-Year Shortfall
75-Year Actuarial Imbalance (2010 Report)	**-1.92**
Changes in Life Expectancy	-0.16
Economic Changes	-0.05
Shifting of 75-Year Window	-0.05
Other Changes (Mainly Immigration Changes)	-0.04
75-Year Actuarial Imbalance (2011 Report)	**-2.22**

Note: Categories as defined by authors, not Social Security Trustees.

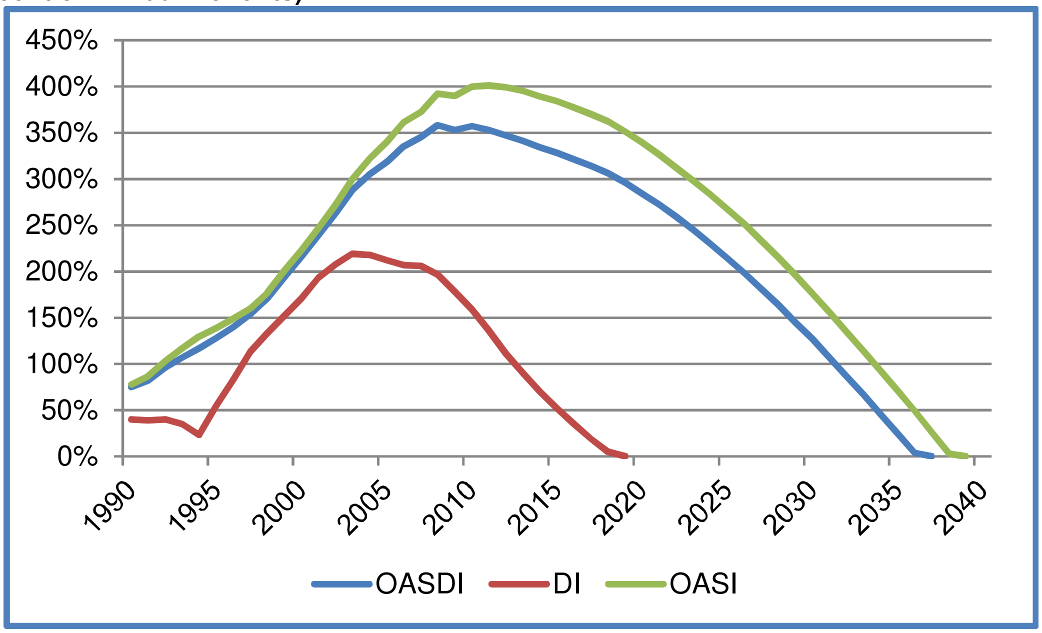
Disability Insurance

Disability Insurance faces the most immediate threat. Technically, Social Security is two programs – an old-age program, which stakes claim on 10.6 percent of payroll taxes, and a DI program which is funded by the remaining 1.8 percent (for a total of 12.4 percent). When looked at together, there are sufficient revenues and trust fund assets to last through 2036. The DI program, though, is projected to run out of money by 2018.

Over the past few years, the cost of the DI program has increased substantially – from 1.9 percent of payroll in 2005 to 2.4 percent this year, over a 25 percent increase. This is largely a result of the down economy, which has led many more people to enroll in the DI program when in better times they could have found work. From 2007 (823,106 awards) to 2010 (1,052,551 awards), the number of DI awards rose 28 percent, compared to only 3 percent from 2004 (797,226 awards) to 2007. At the same time, the economic recession has depressed revenue, exacerbating yearly DI program deficits.

According to the Trustees, the DI program deficits will equal about $275 billion over the next decade. Over the next 75 years, the program faces a shortfall of 0.1 percent of GDP (0.3 percent of payroll), about 16 percent of program cost. By 2018, when the trust fund runs out of money, it will technically require the equivalent of a 14 percent across the board cut in all DI benefits. The Trustees assume that Congress will not let this happen, and instead will allow borrowing between the Social Security trust funds.

Fig. 5: Social Security's Old Age and Survivors, Disability, and Combined Trust Funds (Percent of Annual Benefits)



Conclusion

If there is one central message among all of the findings from this year's Trustees report, it is that the time for Social Security reform is now. The Trustees consistently reaffirm each year that the program is on an unsustainable path, and with each year's updated projections we learn that we have less and less time to implement gradual changes. Whether for the sake of the budget or for all current and future beneficiaries after 2035 who face an immediate 23 percent benefit cut, lawmakers must implement changes soon.

As the Trustees say, the longer we wait, the more painful the necessary reform will have to be. The changes that can put Social Security back on a sustainable path are well known. It's time to enact a fix.