CEPR Fact Sheet
Social Security
ECONOMICS AND THE ELECTIONS

Social Security: A Problem for the President Elected in 2032

Proponents of privatizing all or part of the Social Security program have been trying for more than a quarter century to convince the public that the program is about to go bankrupt. Their reasoning is that if people believe that they will receive nothing from Social Security, then they have nothing to lose by having the program replaced by private accounts.

Key Facts

- Social Security can pay all future benefits until 2046 with no changes whatsoever
- Defaulting on the bonds held by the Social Security trust fund would redistribute $1 trillion to the richest 5 percent
- Longer life spans, not poorly managed funds, account for Social Security's anticipated problems
- Social Security is an efficient and popular program that can be sustained indefinitely into the future with minor changes

SHORTFALL

However, the reality is that the program is fundamentally quite sound. The financing problems projected for the program are distant and relatively minor. According to the non-partisan Congressional Budget Office, Social Security can pay all future benefits until 2046, almost thirty years after the latest date that the next president can leave office, with no changes whatsoever.[1] Measured relative to the size of the economy, the projected shortfall over the program's 75-year planning horizon is equal to approximately 0.6 percent of GDP, approximately half of what the country is currently spending on the wars in Iraq and Afghanistan. The size of the projected shortfall to the program is no larger than the changes made to the program in each of the decades from the 50s to the 80s.

The situation would be even more promising if the economy does somewhat better than CBO projects. For example, if immigration continues at the rate of the last decade, the date when the program would first face a shortfall would be pushed out close to 2050.[2] Similarly, if productivity growth continues at its post 1995 rate, it would eliminate close to 40 percent of the projected shortfall. Also, reversing the upward redistribution of income over the last quarter century would also eliminate more than 40 percent of the projected shortfall.

SOLVENCY

Even if no changes were ever made to the program to maintain full solvency, the program would always be able to pay a higher benefit in today's dollars than the benefits received by current retirees.

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[1] This projection can be found in Congressional Budget Office, 2006, "Updated Long-Term Projections for Social Security," Figure 1-3 [http://www.cbo.gov/ftpdocs/72xx/doc7289/06-14-LongTermProjections.pdf] .

[2] These calculations are based on the sensitivity analyses in the Social Security Trustees Report (Tables VI.D3 and VI.D4) [http://www.ssa.gov/OACT/TR/TR07/VI_LRsensitivity.html#wp100036].

For example, if no changes are ever made, the program is projected to be able to pay the median male worker born in 2000 a benefit that is 19.7 percent higher than a worker who retired six years ago (CBO 2006, Table B1).

The projected benefits for workers born in later years would be higher, although they would be smaller relative to their annual wage income during their working lifetime. The main reason that Social Security is projected to face problems over the long-term is that our children and grandchildren are projected to live longer than we do. If they want to enjoy a longer retirement relative to their working years, their will either have to pay a higher tax rate during their working lifetime or accept lower benefits relative to their work income. That is arithmetic, not a flaw in the Social Security program.

TRUST FUND?

Finally, there has been a considerable effort made by President Bush and other proponents of privatization to claim that the Social Security trust fund does not exist – that is just an "accounting entry" or "pieces of paper." In fact, most stores of wealth are accounting entries or pieces of paper in a modern economy – very few people carry around gold anymore. The trust fund holds U.S. government bonds that are guaranteed by the full faith and credit of the United States government. Under the law, they are to be repaid from general revenue, the vast majority of which is obtained through relatively progressive income taxes.

Defaulting on these bonds, as some politicians have implicitly advocated, would imply a massive transfer of more than $1 trillion from the bottom 80 percent of the population to the richest 5 percent, with the richest 1 percent pocketing more than $750 billion.[3] It is unlikely that Congress would ever vote for such a massive upward redistribution unless the public was completely misled about the facts and the law surrounding the program.

SURVIVAL

In short, the finances of the Social Security program are fundamentally sound. It is an extremely efficient and enormously popular program that does exactly what it was intended to do – provide security to hundreds of millions of workers and their families in retirement and also against sickness or early death. There is no reason it cannot continue to fulfill this mission indefinitely into the future. The only real threat to the program's survival is the political threat from those who want to dismantle it.

For more information, please visit our webpage on Social Security.

[3] See Baker, D. 2001. "Defaulting on the Social Security Trust Fund's Bonds: Winner and Losers," Center for Economic and Policy Research [http://www.cepr.net/index.php?option=com_content&task=view&id=422].