



Analysis of the 2019 Social Security Trustees' Report April 22, 2019

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The Social Security Trustees released their annual report today, continuing to show that the Social Security program must address its funding imbalances to prevent across-the-board benefit cuts or abrupt changes in tax or benefit levels. They find:

- **Social Security Will Be Insolvent in Only 16 Years.** Social Security cannot guarantee full benefits for current retirees. The Trustees project that on a theoretical combined basis, the trust funds will run out by 2035. That means the program will be insolvent when today's 51-year-olds reach the retirement age and today's youngest retirees turn 78. At that point, all beneficiaries will face a 20 percent across-the-board benefit cut, which will grow to 25 percent over time.
- **Social Security Faces Large and Rising Imbalances.** The Social Security program will run cash deficits of nearly \$1.8 trillion over the next decade, the equivalent of 1.8 percent of payroll or 0.6 percent of GDP. Program deficits will rise to 3.3 percent of payroll (1.2 percent of GDP) by 2040 and 4.1 percent of payroll (1.4 percent of GDP) by 2093. Social Security's 75-year actuarial imbalance totals 2.78 percent of payroll, which is nearly 1 percent of GDP and \$14.8 trillion in present value terms.
- **The Problem Is Similar to Last Year, but It Has Deteriorated This Decade.** This year's projected 75-year shortfall is slightly better than last year's – 2.78 percent of payroll as opposed to 2.84 percent – due to improvements in the disability program's finances. However, Social Security's shortfall has grown dramatically since 2010, from 1.92 percent of payroll to 2.78 percent in this year's report.
- **Lawmakers Must Start Making Changes Immediately.** The sooner changes are made, the less severe they will need to be. Restoring solvency today would require the equivalent of a 22 percent increase in payroll taxes, a 17 percent reduction in all benefits, a 20 percent cut to new benefits, or some combination. Waiting until 2035 would increase the needed adjustments to overall taxes and benefits by over a third and would make it impossible to save Social Security with changes for new beneficiaries alone. Acting now would also allow policymakers to phase in changes gradually.

With Social Security only 16 years from insolvency, policymakers cannot afford to continue delaying action. Significant changes to revenue, benefits, or more likely both will be needed to secure the program. Refusing to make changes or compromises today to fix Social Security means putting the retirement security of 84 million beneficiaries and another 190 million workers at risk.



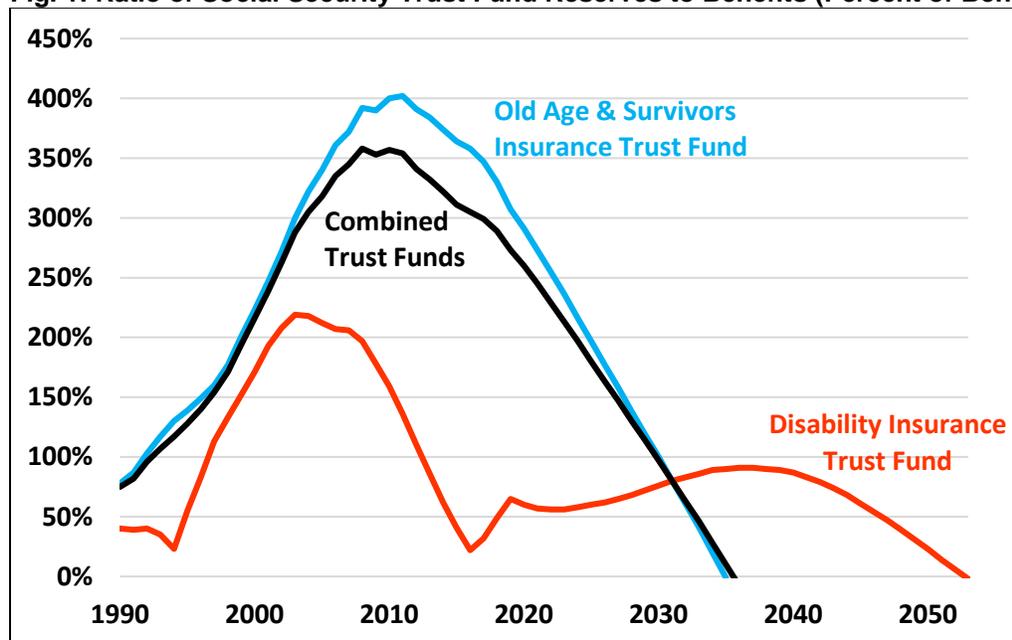
Social Security Is Approaching Insolvency

The Social Security program is only a few years from insolvency, and action must be taken promptly to prevent an across-the-board benefit cut for many current and future beneficiaries.

According to the Trustees, the Old-Age & Survivors Insurance (OASI) trust fund is projected to deplete its reserves by 2034, while the Social Security Disability Insurance (SSDI) trust fund is projected to be exhausted by 2052. On a theoretical combined basis – assuming revenue is reallocated between the funds in the years between SSDI and OASI insolvency – Social Security will become insolvent by 2035.

Upon insolvency, all beneficiaries regardless of age, income, or need will face a 20 percent across-the-board benefit cut – which will grow to 25 percent by the end of the projection window.

Fig. 1: Ratio of Social Security Trust Fund Reserves to Benefits (Percent of Benefits)



Source: Social Security Administration.

The year 2035 is only 16 years away. That means the trust funds would run out of reserves when today's 51-year-olds reach the normal retirement age and today's youngest retirees turn 78. For perspective, the average new retiree will live to age 85 – meaning Social Security cannot guarantee full benefits for many current retirees, let alone future beneficiaries.

Our interactive tool [How Old Will You Be When Social Security's Funds Run Out?](#) allows individuals to determine what they stand to lose under current law. For example, the trust fund will run out when a typical 40-year-old turns 55. Assuming an average life expectancy and income, that individual would lose about \$118,000 in lifetime benefits compared to what is scheduled. Someone born this year stands to lose roughly \$253,000.



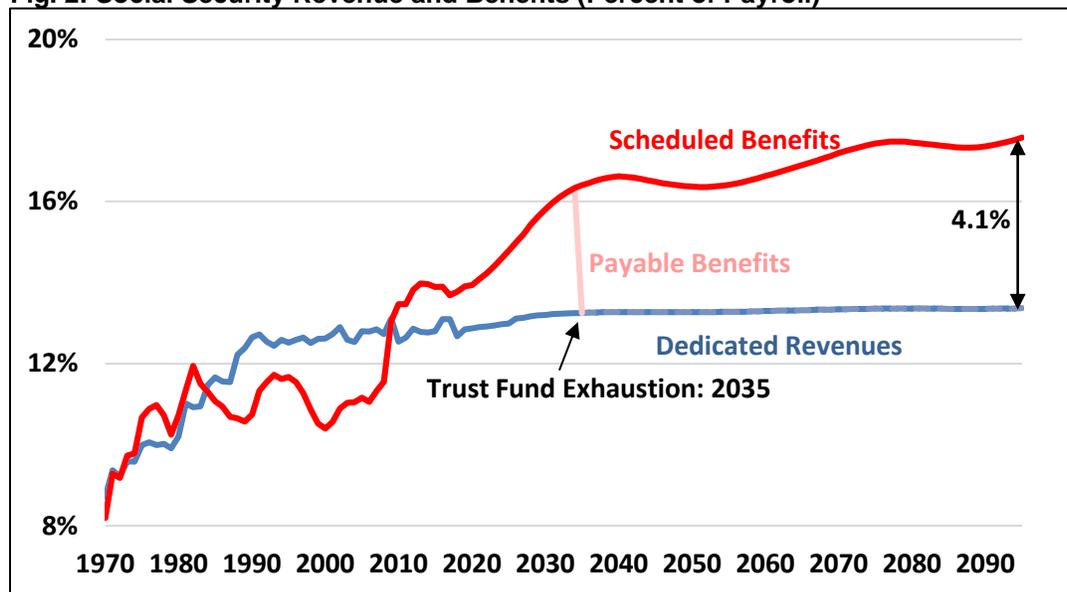
Social Security Faces a Large and Growing Shortfall

The Social Security Trustees project the program will run deficits until the trust fund is exhausted. Even including interest, spending will consume all income this year and exceed income by nearly \$1 trillion over the next decade. On a cash-flow basis, deficits will total \$81 billion this year and \$1.8 trillion over the next decade.

Over the longer term, the Trustees project Social Security's cash shortfall (assuming full benefits are paid) will grow from 1.1 percent of payroll (0.4 percent of GDP) this year to 2.6 percent of payroll (0.9 percent of GDP) by 2030, 3.3 percent of payroll (1.2 percent of GDP) by 2040, and 4.1 percent of payroll (1.4 percent of GDP) by 2093.

This rising shortfall is the result of continued benefit growth, most of which is due to the aging of the population. The program's costs have risen from 10.4 percent of payroll in 2000 to 13.9 percent of payroll today and are projected to rise further to 15.8 percent of payroll by 2030 and 17.5 percent of payroll by 2093. Revenue will fail to keep up, rising only slightly from 12.9 percent of payroll this year to 13.4 percent of payroll by 2093.

Fig. 2: Social Security Revenue and Benefits (Percent of Payroll)



Source: Social Security Administration.

Generally, the Trustees measure Social Security's financial imbalance over 75 years. They find the program faces an actuarial shortfall of 2.78 percent of payroll, which is about 1 percent of GDP or \$14.8 trillion on a present value basis.

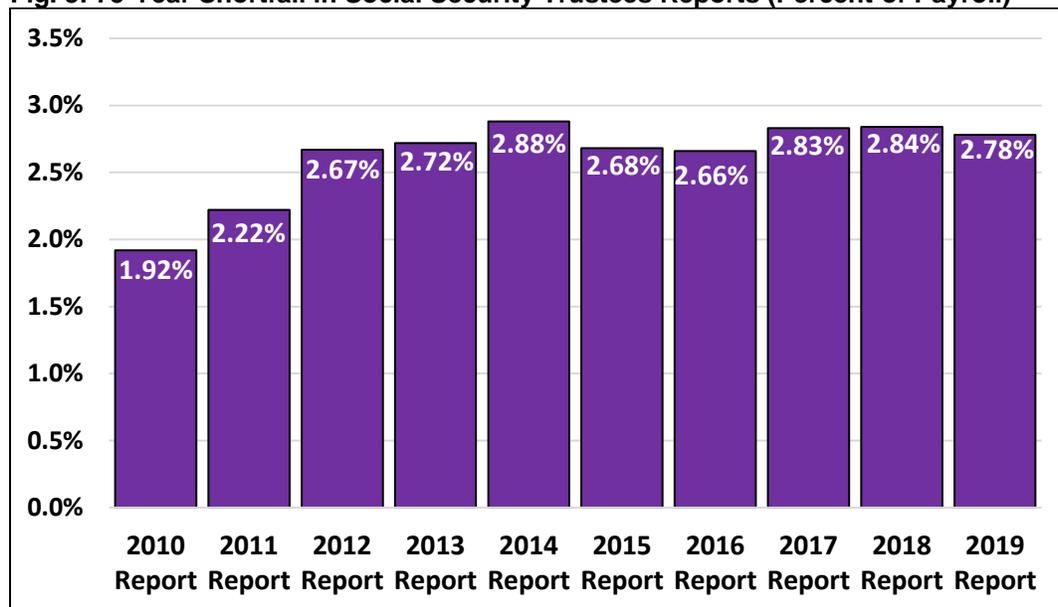
A plan to restore sustainable solvency would require the equivalent of increasing payroll taxes by one-fifth over the next 75 years and by one-third in the 75th year, reducing spending by one-sixth over 75 years and by one-quarter in the 75th year, or some combination. Actual reforms could be well targeted, rather than across-the-board, and phased in gradually.



Social Security’s Finances Have Deteriorated Since 2010

Social Security’s overall finances have changed only modestly since last year but have significantly worsened over the past decade. In 2010, the Trustees estimated the trust funds would be exhausted by 2037, and the program faced a 75-year shortfall of 1.92 percent of payroll. That shortfall rose to 2.22 percent of payroll in 2011, mostly stabilized at about 2.7 percent between 2012 and 2016, and now totals 2.78 percent. Meanwhile, the projected exhaustion date has been accelerated slightly to 2035, meaning the trust funds are 16 years from insolvency today compared to 27 years back in 2010.

Fig. 3: 75-Year Shortfall in Social Security Trustees Reports (Percent of Payroll)



Source: Social Security Administration.

While the program’s finances have worsened since 2010, they have improved slightly compared to last year. Insolvency of the theoretically combined trust funds is now expected in 2035 instead of 2034, and the 75-year shortfall is now projected to be 2.78 percent of payroll as opposed to 2.84 percent of payroll last year.

The entire improvement can be explained by the reduction in current and projected disability applicants and awardees. With a larger share of workers with disabilities remaining in the workforce, SSDI’s projected costs have fallen by 5 percent (8 percent since 2016). As a result, the Trustees now believe SSDI will be solvent until 2052 – a two-decade improvement relative to last year’s projections and an almost three-decade improvement relative to 2016’s projections.

While the Trustees note that disability incidence rates have continued to fall well below expectations, this trend could reverse if improvements are driven by the strong economy and expanded job opportunities for workers with disabilities. A 0.1 percentage point increase in successful disability applications would worsen Social Security’s shortfall by about 9 percent. For



this reason, policymakers should continue to support [improvements to disability programs](#), particularly those that can help to support and encourage individuals with disabilities to remain in or return to the workforce – even when the economy is not quite so strong.

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

	Effect on 75-Year OASI Shortfall	Effect on 75-Year DI Shortfall	Effect on 75-Year OASDI Shortfall
75-Year Actuarial Imbalance (2018 Report)	-2.63%	-0.21%	-2.84%
Change in Disability Assumptions	-0.02%	+0.09%	+0.07%
Change in Demographic Assumptions	+0.06%	0.00%	+0.06%
Change in Economic Assumptions	-0.03%	0.00%	-0.04%
Other (Methodological, Legislation, Regulatory)	0.00%	+0.02%	+0.01%
Shifting of 75-Year Window	-0.05%	-0.01%	-0.05%
75-Year Actuarial Imbalance (2019 Report)	-2.67%	-0.12%	-2.78%

Source: Social Security Administration. Note: numbers do not sum due to rounding.

Outside of changes in disability assumptions, other differences from last year's report are relatively modest.

New demographic assumptions reduced the 75-year shortfall by 0.06 percent as a result of slightly lower estimates of new lawful permanent residents due to lower annual refugee ceilings set by the administration, a lower fertility rate, higher mortality rates, and changes to immigration and population projections as a result of new data and assumptions.

Changes in economic assumptions, meanwhile, added 0.04 percent to the actuarial shortfall. Slower projected productivity growth and lower projected interest rates worsen the 75-year shortfall by 0.09 and 0.08 percent, respectively. On the other hand, reductions in assumed price index differentials and in the assumed growth of employer-provided health insurance improved projections by a combined 0.12 percent of payroll.

Most of the remaining change in projections is due to the new projection window. Including the year 2093 in its 75-year solvency projections worsened the 75-year actuarial imbalance by 0.05 percent of payroll. Other legislative, regulatory, and methodological factors had little or no effect on the program's long-term outlook.



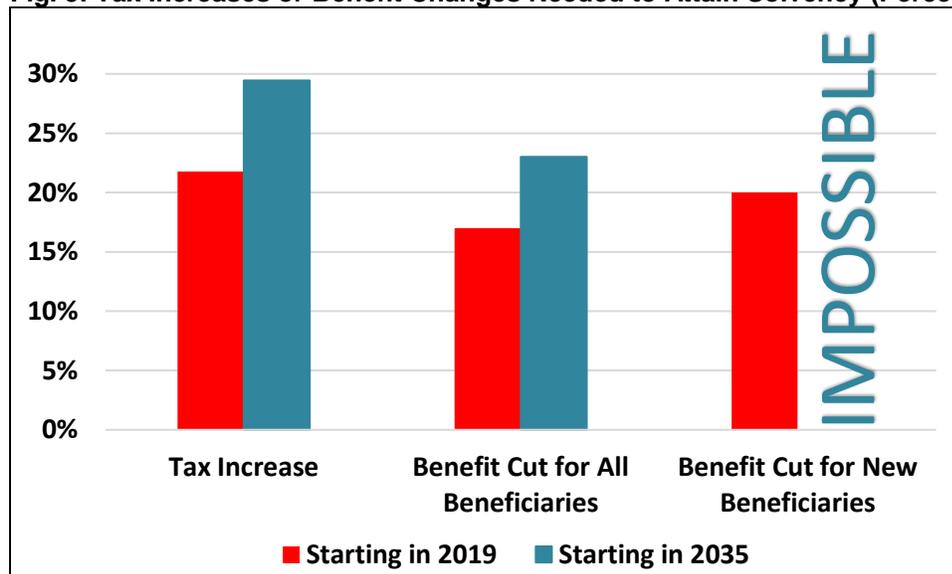
Delaying Fixes to Social Security is Costly

There is no doubt that policymakers will need to slow Social Security’s cost growth, increase the program’s revenue sources, or both. Numerous proposals from [the left](#), [right](#), and [center](#) have outlined possible ways to do so. It is important such changes be made promptly, as the cost of delay is high.

Indeed, the Trustees’ only recommendation is that “lawmakers address the projected trust fund shortfalls in a timely way in order to phase in necessary changes gradually and give workers and beneficiaries time to adjust to them” and “allow more generations to share in the needed revenue increases or reductions in scheduled benefits.”

Delaying reform until 2035 would increase the magnitude of needed tax increases or benefit reductions by more than one third. According to the Trustees, 75-year solvency could be achieved with the equivalent of a 22 percent (2.7 percentage point) payroll tax increase today but would require a 29 percent (3.65 percentage point) tax increase in 2035. Similarly, Social Security solvency could be achieved with a 17 percent across-the-board benefit cut today, which would rise to 23 percent by 2035.

Fig. 5: Tax Increases or Benefit Changes Needed to Attain Solvency (Percent Change)



Source: Social Security Administration.

If benefit reductions applied only to new beneficiaries, solvency could be restored with a 20 percent cut today. Yet even *eliminating* benefits for new beneficiaries starting in 2035 would not be enough to avoid insolvency.

Taking action today, instead of waiting, would allow for adjustments to be better targeted among and between generations. Such changes could also be phased in much more gradually and with far greater notice, giving workers more time to plan and adjust their savings and retirement plans.



Conclusion

The Social Security Trustees continue to warn that the program is significantly out of balance and only a few years from insolvency. Under current law, Social Security will not be able to pay full benefits to many *current* beneficiaries, let alone today's workers and future generations. Action must be taken soon to avoid a 20 percent across-the-board cut to all beneficiaries in only 16 years.

Fortunately, most of the options to fix Social Security's finances are well known and could be enacted and implemented with political will. A number of [comprehensive plans](#) already exist to restore solvency, and our [Social Security Reformer Tool](#) allows anyone to design their own. Policymakers should also consider pursuing new, innovative solutions to promote economic growth and improve retirement security in concert with addressing the program's finances.

Policymakers cannot afford to wait much longer to enact thoughtful fixes to the Social Security program.