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CBO Releases Social Security Projections
August 11, 2009

Last week, the Congressional Budget Office (CBO) released its long-term projections for Social Security. Although their projections are somewhat more favorable than those put forward by the Social Security Trustees (see http://crfb.org/documents/SocialSecurityTrustees.pdf for our analysis), CBO clearly shows that, under any reasonable set of assumptions, Social Security is on an unsustainable path.

While the recent focus in Washington has been health care reform, reforming Social Security remains a key component to restoring fiscal sustainability. Without action, CBO projects that Social Security's outlays will surpass revenues in 2017 and the trust funds will become exhausted in 2043. Over the next 75 years, they project Social Security will face an average shortfall of 1.3 percent of payroll (0.5 percent of GDP) and a shortfall of 3.6 percent of payroll (1.3 percent of GDP) in the 75th year.

By comparison, the Trustees have projected a 75-year shortfall equal to 2 percent of payroll (around 0.75 percent of GDP) and a shortfall of 4.4 percent of payroll (1.5 percent of GDP) in the 75th year. The Trustees also projected that outlays would exceed revenues in 2016 and the trust funds would be exhausted in 2037.

Despite these differences, both reports show with near certainty that the Social Security system will add significantly to projected deficits and require considerable revenue or spending adjustments to remain solvent.
Accordingly, the Committee for a Responsible Budget urges policymakers to reform the Social Security system promptly.

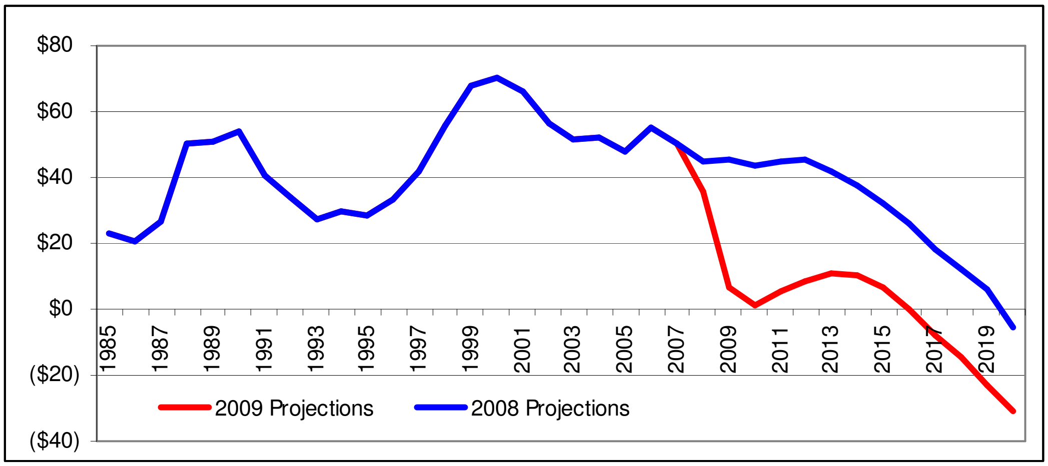
Although *properly designed* health care reform (which significantly slows overall health care cost growth, more than fully-finances new spending, and addresses the long-term paths of Medicare and Medicaid) can help to significantly improve the nation's long-term fiscal picture, that alone will be insufficient in fully addressing the nation's massive long-term fiscal gap.

Social Security reform, therefore, should be next on the President's agenda.

Long-Term Insolvency

CBO projections of a 1.3 percent of payroll 75-year shortfall are significantly higher than last year's projected shortfall of 1.06 percent of payroll. As with last year's report, the CBO projects surpluses over the next few years. In large part due to the economic recession, however, these surpluses are expected to average only 0.2 percent of payroll (around $50 billion in total) over the next 8 years, rather than 1.3 percent of payroll ($315 billion) as the CBO projected last year.

Fig. 1: Historical and Projected Social Security Surpluses (billions)



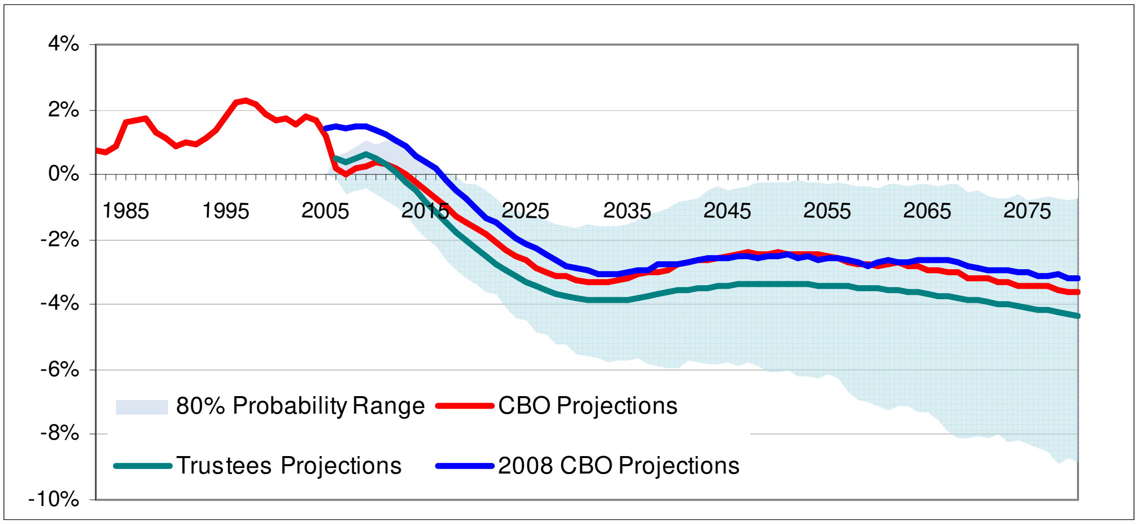
After 2017, Social Security is projected to begin running large and growing deficits, requiring the system to pull funds from general revenues until its trust funds are depleted in 2043. Under current law, the exhaustion of the trust funds will result in an automatic benefit cut, which is projected to equal 17 percent of benefits and grow to 21 percent by 2083. Averting this scenario would require the equivalent of a 3 percentage point increase in the payroll tax in 2042 – the equivalent of a little over 1 percent of GDP.

Certain Unsustainability

CBO's projections are considerably more optimistic than those of the Social Security Trustees, who project a 75-year shortfall of around 2 percent of payroll (CBO projects 1.3 percent). These differences have led some to argue that, because there is so much uncertainty, Social Security may face no real shortfall at all.

Unfortunately, this optimism is unfounded. A large part of the difference between the estimates is due to assumptions made over the 2001/2003 tax cuts. CBO projects, as it is required, that these cuts will expire in 2010, resulting in considerably more revenue from the taxation of Social Security benefits. The Trustees, meanwhile, assume overall income tax revenues stay roughly constant as a percent of GDP – which appears to be somewhat more realistic given the President's budget. Other major differences come from differing assumptions over interest rates and wage growth, which can be hard to predict.

Fig. 2: Historical and Projected Surpluses from Various Projections (percent of payroll)



Still, CBO projects only a 10 percent probability that Social Security will experience an average 75-year shortfall of less than 0.1 percent of GDP (and even then, there would be large shortfalls between 2025 and 2045). They project an equal probability of an average shortfall *above* 1 percent of GDP (and 3.2 percent of GDP in 2083). Absent policy change, it is a near certainty that the system will begin running deficits by the early 2020s and that this will ultimately lead to the exhaustion of the trust fund.

Fig. 3: Probability of Various Scenarios

Probability Outlays Exceed Revenue by At Least:				Probability of Trust Fund Exhaustion
Year	0% of GDP	1% of GDP	2% of GDP	
2020	86%	9%	0%	0%
2040	97%	59%	12%	48%
2060	91%	52%	16%	86%
2080	94%	67%	28%	94%

While the exact size of the shortfall cannot be precisely predicted, one thing is certain: Social Security cannot continue on its path in the current fiscal context. The system will need to be rebalanced through adjustments to benefits and/or revenues; and the sooner we act the more we can spread out these changes and give workers time to prepare.

Although it can contribute, even the best designed health care reform plan cannot close the fiscal gap by itself – especially if it includes a new spending entitlement. The President and Congress should therefore take on Social Security reform as soon as possible, and address it with the same intensity and sense of urgency as they are putting into health care reform.