Highlights of the 2022 Social Security Trustees' Report

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Basics of Trust Fund Financing

Social Security is financed via two trust funds:

Old-Age & Survivors Insurance (OASI)

Disability Insurance (DI)

-- 90% of funding from payroll taxes; other 10% from interest credits + benefit taxation

-- With rare exceptions (2011-12 payroll tax cut), not subsidized from general government fund

-- Trust fund financing provides both financial discipline and political protection for benefits

-- If trust funds depleted, payments automatically restricted to levels incoming taxes can finance

-- Trustees reports illuminate whether program assets will be sufficient to finance benefits

What Does It Matter? Why Should We Care?

- The trustees' reports tell us whether we can continue to have the kind of Social Security program that we have had historically.

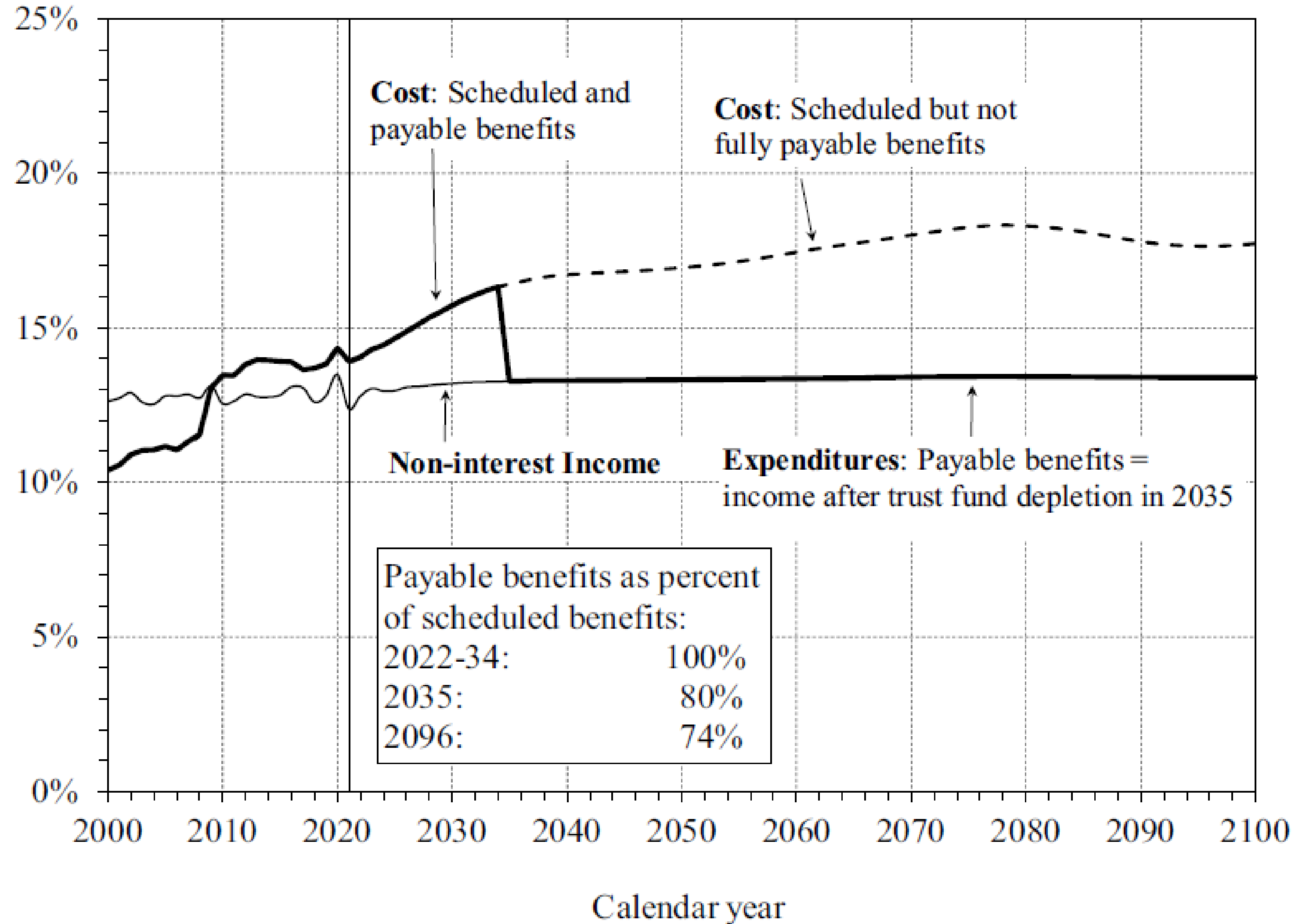
- The security of Social Security benefit payments depends on representations that workers have earned their benefits through their contributions to the trust funds.

- The system depends on whether lawmakers being willing to make the changes necessary to align benefit payments with dedicated tax income.

- Failure would force abandonment of program's historical financing structure, destroy its "earned benefit" construct, and undermine income security.

The Financing Problem in One Visual Image

(Trustees’ Projections of Costs, Income and Expenditures as a % of Workers’ Earnings)



Choices Are Becoming Untenable

(Requirements to maintain 75-year solvency of hypothetical combined trust funds)

Choices today:

1) Payroll tax rate 12.4% → 15.64%
2) Cut benefits 20% for all beneficiaries, including those already collecting
3) Reduce scheduled benefits 24% for new claimants
4) Combination of above approaches

Choices in 2035:

1) Payroll tax rate 12.4% → 16.47%
2) Cut benefits 25% for all beneficiaries, including those already collecting
3) Required reductions if confined to new claimants > 100%!

What matters is when the problem becomes **so large as to be insoluble** – not the date on which the trust funds would be depleted.

A Common Myth:
Lawmakers Can Wait until Insolvency Is Imminent before Enacting Corrections

The myth is often based on the 1983 reforms, when a bipartisan agreement rescued Social Security from the brink of insolvency at the last moment.

The unique conditions that facilitated the 1983 reforms *no longer exist*. Among them:

-- Much smaller annual deficits (~7% of benefits) due to previous pay-go financing.

-- Only a few years of deficits to be repaired in the near term.

-- Bipartisan dedication to the self-financing principle.

None of these conditions exist today, nor will they in the future. Going forward, we see:

-- Much larger annual shortfalls (~20% of benefits).

-- Permanent deficits as opposed to a manageable short-term hurdle.

-- A breakdown of commitment to the principles of self-financing.

Situation Even Worse than Initially Appears

- Social Security's old-age fund worse off than its mythical combined funds
  (short by 23% of benefits at first, growing to 28%)
- Combined deficits keep worsening after projected insolvency
  (short by 20% of benefits at first, growing to 26%)
- Median scenario shows sooner insolvency, larger shortfall
- Assumes only 4.5% inflation in 2022, 2.3% in 2023
- Assumes real wage growth of 2% in 2022, 2.4% in 2023, much higher than historical norms
- Assumes dramatic increases in fertility (rising from <1.7% to 2.0%)
- Assumes disability incidence remains below historical averages
- Disability trust fund on a knife's edge: only eight months' worth of assets currently in it

Social Security Financing Reform Levers

1) Eligibility ages (Early Eligibility Age, Full Retirement Age)

2) Benefit formula changes (bend points, bend point factors)

3) Work incentive fixes (accrual formula, early/delayed claims)

4) COLA changes (CPI reform)

5) Taxes (payroll tax cap, payroll tax rate)

Politics May Not Favor Slowing Benefit Growth. . .
But Research Findings Do

Progressive reforms to slow the growth of costs can:

reduce regressive income transfers
moderate system cost growth
strengthen program finances
improve fairness across generations
ameliorate income inequality
increase Social Security’s efficacy as income insurance