

# BROOKINGS

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## Social Security: Getting the Facts Right

Social Security, U.S. Economy, Taxes

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MARCH 28, 2010 — Much is being made these days of the projection that benefit payments will exceed earmarked payroll tax revenues. The *New York Times* treats this development as front-page news. Unfortunately, there is almost no genuine news in this “news.” And, the story contains an important factual error.

The reporter, Mary Williams Walsh, writes:

“[Social Security’s] so-called balance is, in fact, a history of its vast cash flows: the sum of all of its revenue in the past, minus all of its outlays. The balance is currently about \$2.5 trillion because after the early 1980s the program had surplus revenue, year after year. Now that accumulated revenue will slowly start to shrink, as outlays start to exceed revenue [sic].”

Aside from the ungrammatical character of the last part of this quotation, Ms. Walsh got a key fact wrong. What she calls “accumulated revenue,” which is usually labeled as “reserves,” is going to rise, not fall, this year and next year and for several years to come.

Social Security derives revenues from three sources: payroll taxes levied on covered earnings, earmarked income taxes levied on benefits, and interest earnings on reserves. According to the Social Security Trustees’ annual report, released in May 2009, revenues from these sources in calendar year 2010 were projected to be, respectively: \$701 billion, \$26 billion, and \$120 billion, for a total of \$848 billion. Expenditures were anticipated to be \$709 billion.

These numbers indicate two key facts. First, there is no surprise in the fact that outlays exceed payroll tax revenues. This front-page story is based on something that was anticipated nearly a year ago. The weakness of the economy means that the gap may be a bit larger than the trustees projected in 2009. But if the gap was news, it is last year’s news. Second, the trust fund was projected to run an overall surplus of \$138 billion in calendar 2010. The Congressional Budget Office now puts the projected surplus for fiscal year 2010 at \$91 billion. The surplus is smaller than anticipated last year because of economic weakness, but a sizeable surplus will remain.

And reserves will grow for years to come. CBO anticipate cumulative surpluses of well over \$1 trillion in the next decade. Surpluses boost reserves; Social Security’s ‘accumulated revenue’ is going to grow, not shrink. Eventually, of course, the retirement of the baby-boom generation and their attendant benefit claims will cause outlays to exceed total revenues and the trust funds will indeed begin to shrink. According to last year’s trustees report, reserves would be exhausted in 2037. We will know this year’s projection in a few weeks. But the fundamental situation will be unchanged: Congress needs to raise Social Security revenues, cut benefits, or do a bit of both in order to assure that revenues and outlays are in balance over the very long run. But there is no big rush, as the system is currently in cash-flow surplus and will remain so for years. That said, the sooner action is taken to close the long-term gap, the better. Acting soon will permit changes to be implemented gradually, minimizing any possible disruption.

But Social Security is also a large component of the overall budget. Projections indicate that the nation faces large and unsustainable overall budget deficits under current policy. Projected growth of health care spending accounts for more than all of the growth of deficits projected to unfold between now and 2050. In fact, the budget other than health care, but including Social Security, is projected to shrink as a share of GDP over that period. But the source of the budget deficit problem is not necessarily the same as the source of the solutions to that problem. Given the size of the projected deficits and the vital importance of reducing them to acceptable levels, everything will have to be on the table, once the economic recovery is well under way and the nation is firmly on the path back to full employment.