NATIONAL CENTER FOR POLICY ANALYSIS

Congressional Brief: Social Security

Social Security is the cornerstone of retirement security in the United States today. A third of Americans depend on the program for almost all their retirement income; without it, one-in-five would have no retirement income. But the program so many depend on simply cannot afford what it promises today's workers, and faces a shortfall of more than $4.7 trillion over the next 75 years. Reforms are desperately needed.

Key Facts about Social Security

- Social Security provides retirement and disability benefits for qualified workers and their dependents, as well as benefits for survivors of deceased workers.
- In 2008, Social Security is projected to pay retirement and survivors benefits to more than 41 million people and disability to about 9 million. Meanwhile, 163 million workers will contribute.
- Social Security is a pay-as-you-go program, which means the government writes checks to today's beneficiaries using payroll taxes collected from today's workers.
- When Social Security began in 1935, the payroll tax on workers' salaries to support the program was 2 percent on the first $3,000 of income; today, Social Security is financed by a 12.4 percent payroll tax — half by the employee and half by the employer — on the first $102,000 of wages (about 11 million workers have wages above the cap).
- The average Social Security benefit in 2007 for retired workers was $1,084 per month, or $13,008 per year.
- Sixty-four percent of retirees depend on Social Security for half or more of their income, a third (32 percent) of beneficiaries rely on Social Security for 90 percent or more of their retirement income, and one-in-five rely on the program for all their retirement income.

Social Security Is in Trouble

- The number of Social Security beneficiaries is growing faster than the number of workers supporting them — the number of elderly will nearly double between now and 2034 (38.6 million to 74 million) while the number of new workers will only increase 16 percent.
- People are living longer and collecting more Social Security benefit checks: In

1940, life expectancy was 61.4 years for men and 65.7 for women. By 2000, life expectancy was 74.0 years for men and 79.4 for women; by 2050, life expectancy will be 80.0 years for men and 83.4 for women.

- Fewer children are born each year: For each generation to be the same size as the one before (the replacement rate), women must have 2.1 children. In 1940, the fertility rate was 2.23. Today, the rate is 2.10 and by 2050 it is expected to trend upward to 2.19.

- The result has been dramatic. In 1940, there were 42 workers per retiree. Today the ratio is 3.3-to-1; by 2050 it will be 2-to-1. The burden on each individual worker will increase substantially and we will no longer be able to keep our promises to retirees at current payroll tax levels.

- By 2017 Social Security will spend more in benefits than it collects in taxes; by 2041 the program will have spent all the assets credited to the trust fund and the program will only be able to afford three-quarters of promised benefits.

- In all, the program faces an unfunded liability (the amount Social Security promises in benefits above what it will collect in taxes) of more than $15.0 trillion.

Trust Fund: Accounting Fiction?

- The real problem comes in 2017: Currently, payroll tax collections exceed benefit payments, and will continue to do so until 2017 when the program will spiral into annual deficits.

- Surpluses credited to the trust fund are not saved or invested. Rather, they are immediately borrowed by the government and spent on other priorities or used to pay down debt. All that remains in the trust fund are government IOUs.

- For the government to pay Social Security benefits in 2017, it must first raise taxes or reduce spending to generate the needed funds.

How to Fix the Problem

- To shore up Social Security's financial shortfall, the government must increase the program's income (raise taxes), decrease expenses (reduce benefits) or find a new source of funding.

- One way to create a new funding source is to allow younger workers to invest a portion of their payroll taxes into a personal retirement account (PRA). Over time, the PRA balances — with their accumulated interest and dividends — would replace an increasing portion of retirees' Social Security benefits, saving future tax payers trillions of dollars.