



Response to the 2008 Social Security Trustees' Annual Report

Social Security is one of the great accomplishments of the 20th Century. It has made it possible for a majority of Americans to retain middle class status in retirement. It keeps millions of families and children with a disabled or deceased breadwinner out of poverty.

The Social Security Trustees recently released their 2008 annual report. The Trustees projections for Social Security are similar to 2006 and 2007. Evidence in the report shows that: ***Social Security is in excellent shape over the short term and that the program will have the resources to continue as a foundation of economic security for Americans of all generations through the 21st century.***

The annual Trustees report was envisioned as a way to provide policy makers and citizens with information on the long-term stability of Social Security. The report projects the finances of the program for the next 75 years. Doing so has always required a degree of fortune telling. Projecting 75 years into the future requires the use of numerous assumptions. Minor changes in assumptions carried out over many years can make massive differences in the end results. Adding to the confusion of this already difficult task, is that in recent years, conservative politics appears to be having a greater influence on the contents of the report. The report is increasingly influenced by the partisan politics of the Presidential appointees who serve as trustees.

What goes into making the projections?

Assumptions such as wages, job growth, employment and unemployment, immigration, birth and death rates, inflation and productivity are factored into Social Security projections. Gross Domestic Product (GDP) and the increase in GDP from year to year is a major driver in calculating the amount of revenue that will come into the Social Security Trust Fund from payroll taxes.

There are three sets of projections

What we see and hear about most frequently are the projections from one set of assumptions of the Trustees. This projection is called the intermediate projection. It is in fact, one of three from the Trustees. A somewhat better economic scenario is presented in the low-cost estimate. In this scenario, the Trust Fund is flush with cash in perpetuity. On the other hand, the high-cost estimate paints a very bleak picture with a lower benefit beginning in the 2030s or the need for higher taxes.

The intermediate projection receives the attention of the media because it is supposed to be the most likely. However, many would argue that the intermediate projection is influenced by the current Administration's push for privatization and that the economic assumptions are not the best guess, as

"Building an economy that works. For everyone."

Strong Schools • Work-Life Standards • Retirement Security • Shared Prosperity

1900 N. Northlake Way, Suite 237, Seattle, WA 98103 || P: 206-633-6580 || F: 206-633-6665 || www.eoionline.org

they are quite a bit more pessimistic than historical trends. For example, the 40 year historical average for GDP growth between 1966 and 2006 is 3.1%. The projected growth in GDP in the Intermediate Scenario is only 2.4% between 2007 and 2017, while the most "optimistic" low cost estimate projects growth at the historic norm of 3.1%.

What are the financial predictions of the Trustees?

Since 1983, the Social Security program has taken in more in payroll taxes than it has spent. This year's surplus for 2008 is projected to be \$196 billion. The Social Security Trust Fund now has \$2.2 trillion. Based on the intermediate projection of the Trustees, Social Security will continue to take in more from payroll taxes than it pays out in a given year until 2041. The Trust Fund has a great deal of interest income from investments in Treasury Bonds. This investment income, when combined with payroll taxes, is projected to grow reserves to \$5.5 trillion by 2026. At that point, it is projected the costs of the program will exceed the payroll taxes and interest income on a yearly basis. By spending down the Trust Fund, it is projected that full benefits can be paid until 2041. In 2042, the Trustees are guessing that benefit amounts would need to be reduced to 78% of full projected payment dropping to 75% of scheduled benefits in 2082.

While the year 2041 remains unchanged from last year, there is a change in the projected amount of money the program is short. A year ago the Trustees predicted that with no changes the program would be able to fund 74% of benefits after 2041.

What concerns are being raised about Social Security and should I be worried?

Many of those who would have us worry about the future viability of Social Security talk about the impending doom that will be created by the Baby Boom Generation's retirement. The fact is demographic changes have already been accounted for in the changes that were made to Social Security in the 1980s.

The term "bankrupt" is thrown out by those who oppose the program as if there will be no funds available for the program. The fact is in the Intermediate projection, after 2041, Social Security will still be in place. At that point in time, it is projected to be a purely "pay as you go" system with the funds coming in each year going back out to retirees. And what is never reported is that those funds will pay seniors in the 2040s more income, even at 78% of currently scheduled benefits, than is received by retirees today when the amount is adjusted for inflation.

Even using the conservative intermediate forecast, Social Security certainly has enough funds to continue offering benefits as planned through 2041. It is likely that we will see the year when a shortfall will occur will move later and later after the current downturn in the economy has passed and realistic growth rates are put back into the calculations.

While Social Security may need minor adjustments to continue operating smoothly, just as a car needs the occasional tune-up, no major repairs (changes to the basic structure) should be considered in the immediate future.