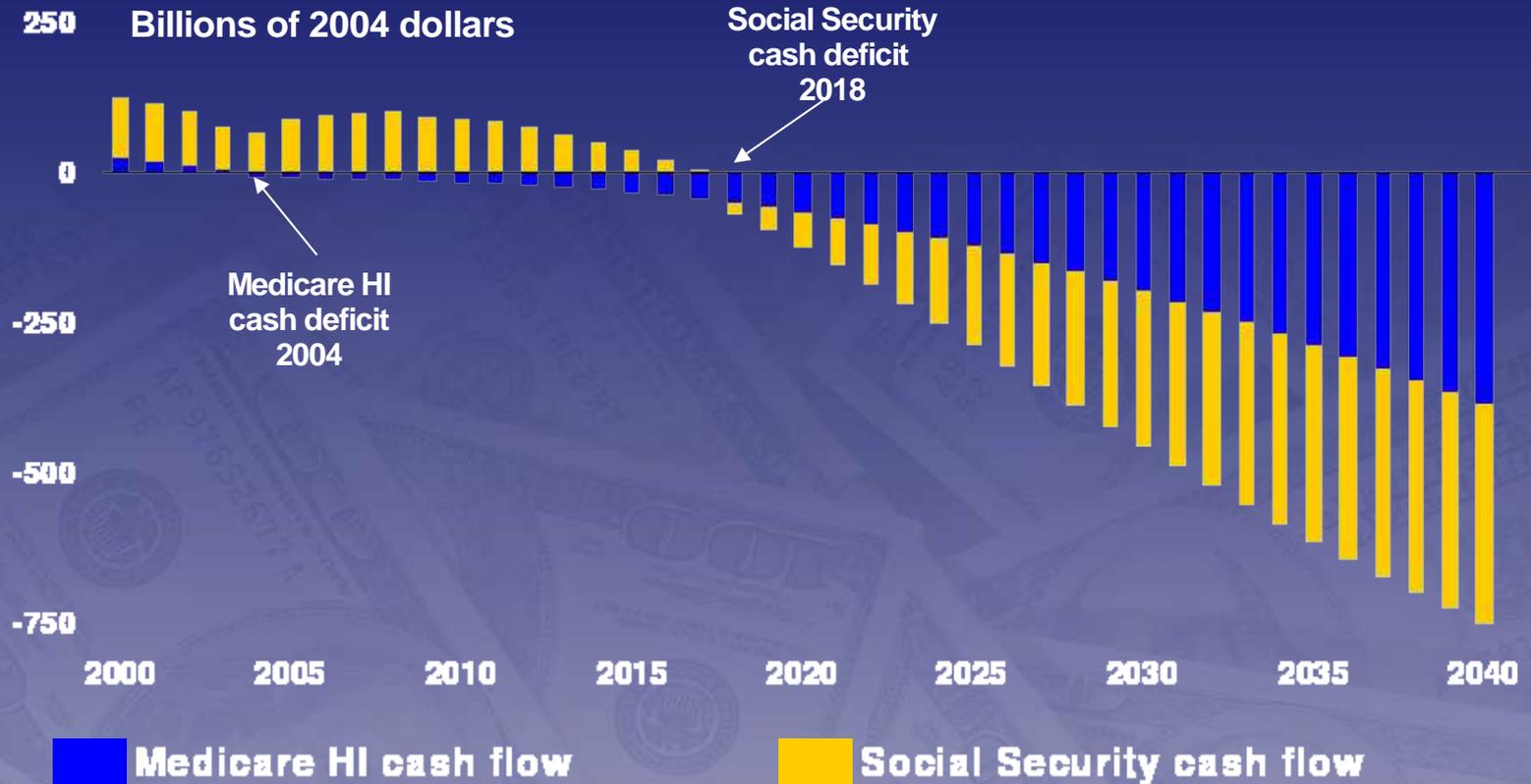


Is Social Security's Financial Future in Jeopardy?

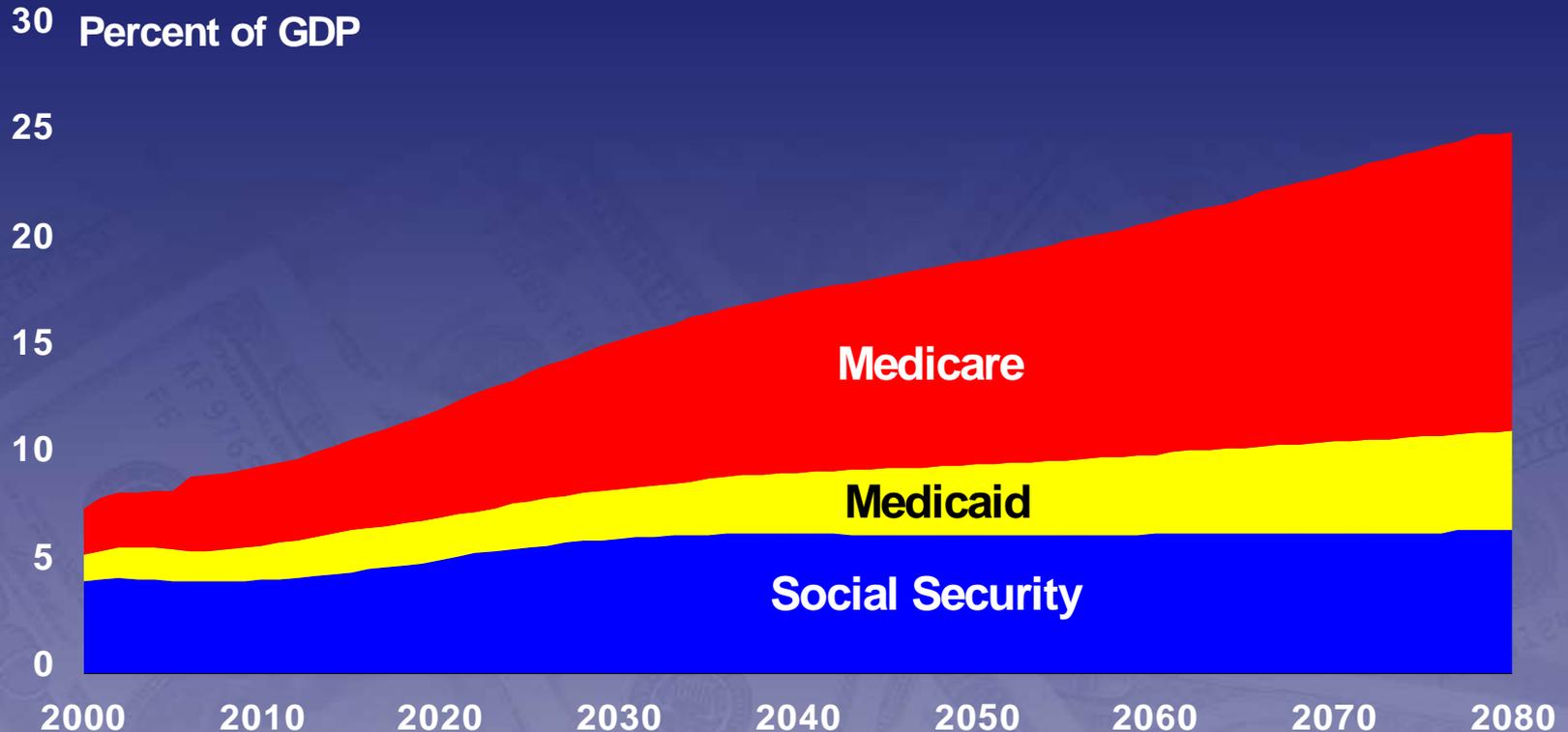
The Honorable David M. Walker
Comptroller General of the United States
Centrists.Org and Alliance for Worker Retirement Security
Washington, DC
January 21, 2005

Social Security and Medicare's Hospital Insurance Trust Funds Face Cash Deficits



Source: GAO analysis based on the intermediate assumptions of *The 2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds* and *The 2004 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*. The above excludes Medicare Part B and the newly enacted Medicare Part D benefit.

Social Security, Medicare, and Medicaid Spending as a Percent of GDP



Note: Social Security and Medicare projections based on the intermediate assumptions of the 2004 Trustees' Reports. Medicaid projections based on CBO's January 2004 short-term Medicaid estimates and CBO's December 2003 long-term Medicaid projections under mid-range assumptions.

Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

U.S. Elderly Dependency Ratio Expected to Continue to Increase

Elderly Dependency Ratio (in percent)



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: 2000 Revision and World Urbanization Prospects: 2001 Revision. Data for 2030 - 2050 are projected.

U.S. Labor Force Growth Will Continue to Decline

Percentage change (5-yr moving average)



Note: Percentage change is calculated as a centered 5-yr moving average of projections based on the intermediate assumptions of the 2004 Trustees Reports.

Source: GAO analysis of data from the Office of the Chief Actuary, Social Security Administration.

Key Dates Highlight Long Term Challenges of the Social Security System

Date	Event
2008	Social Security cash surplus begins to decline
2018	Annual benefit costs exceed cash revenue from taxes
2028	Trust fund ceases to grow because even taxes plus interest fall short of benefits
2042 (SSA) 2052 (CBO)	Trust fund exhausted, annual revenues sufficient to pay about 73% – 81% of promised benefits

Sources: Social Security Administration, *The 2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*. Washington, DC, March 2004. Congressional Budget Office, *The Outlook for Social Security: Potential Range of Social Security Outlays and Revenues Under Current Law*. Washington, DC, June 2004.

Different Measures, Same Challenge

- 75-year projection of funding shortfall:
 - \$3.7 trillion in present value
 - 0.7% of GDP
 - 1.8% of taxable payroll
- Infinite horizon projection of funding shortfall:
 - \$10.4 trillion in present value
 - 1.2% of GDP
 - 3.5% of taxable payroll

Source: Social Security Administration, *The 2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington D.C.: March 2004).

Social Security Reform Elements

Reform proposals should be evaluated as packages that strike a balance among individual reform elements and important interactive effects, including consideration of both funded and promised benefit levels.

Comprehensive proposals can be evaluated against three basic criteria:

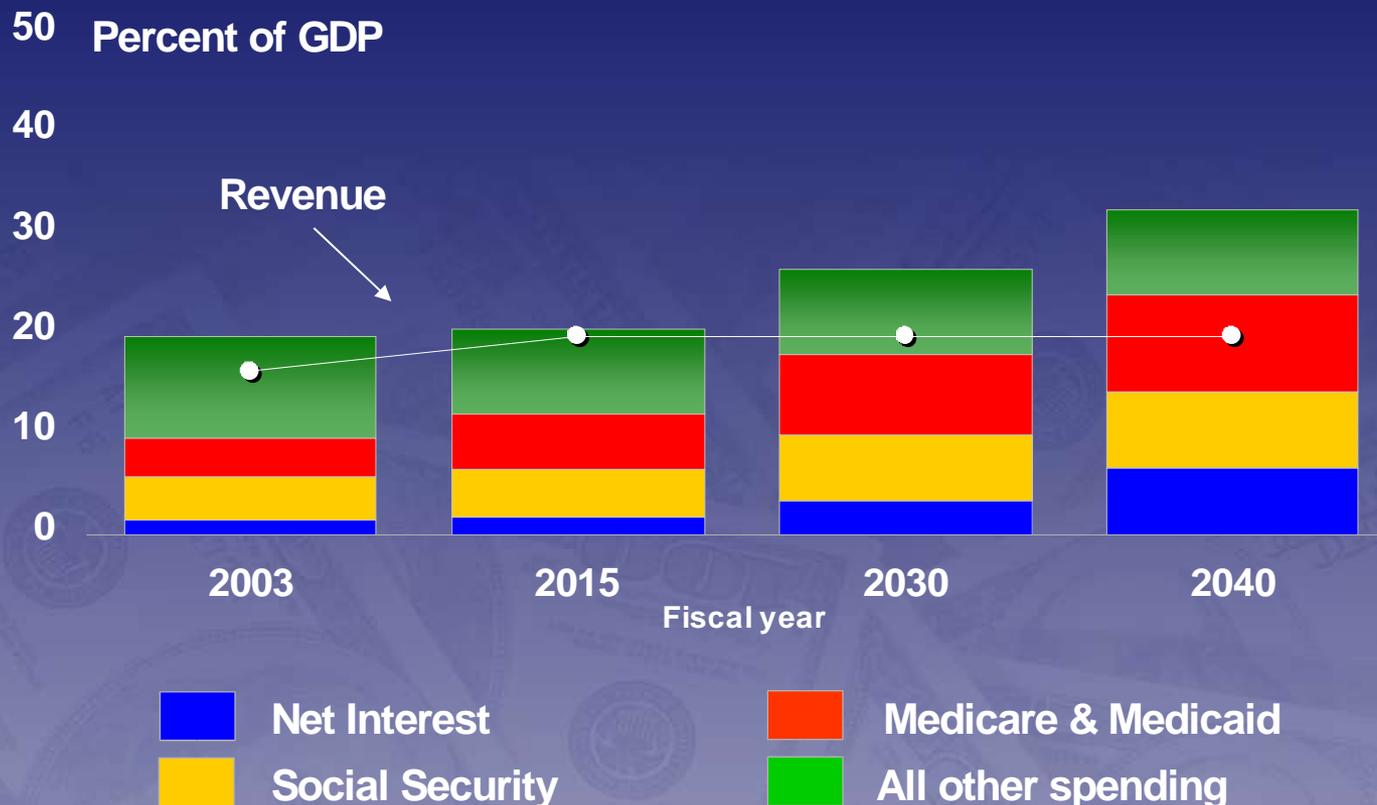
- Financing sustainable solvency
- Balancing adequacy and equity in the benefits structure
- Implementing and administering reforms

Key Elements for Economic Security in Retirement

- Adequate retirement income
 - Social Security
 - Pensions
 - Savings
 - Earnings from continued employment (e.g., part-time)
- Affordable health care
 - Medicare
 - Retiree health care
- Long-term care (a hybrid)
- Major Players
 - Employers
 - Government
 - Individuals
 - Family
 - Community

Composition of Spending as a Share of GDP

Under Baseline Extended

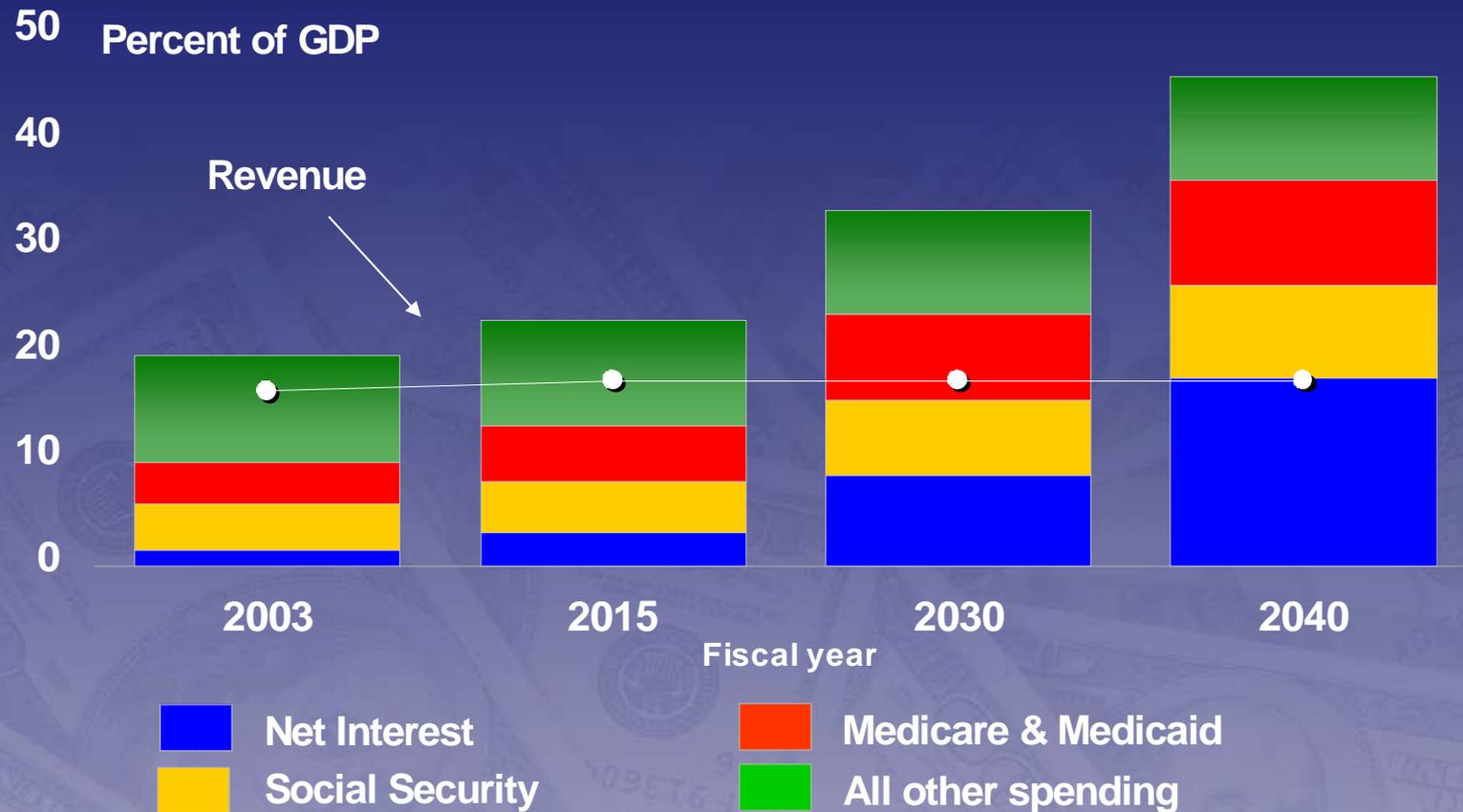


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant. Budgetary effects due to passage of the Working Families Tax Relief Act of 2004 are not reflected in this simulation.

Source: GAO's September 2004 analysis.

Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2004 and All Expiring Tax Provisions are Extended



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant.

Source: GAO's September 2004 analysis.

Social Security: The Bottom Line

Illustrative Questions and Answers Based on the Latest Trustees' Reports

- Does Social Security have a financing problem? [Yes]
- Will the Social Security program ever go bust? [No]
- Will the Social Security trust fund balance ever be exhausted? [Yes]
- Should the trust fund solvency date be the primary action-forcing event for Social Security reform? [No]
- What other factors should be considered?
 - Cash flow
 - Total unfunded commitments
 - Percent of the budget and GDP
 - Percent of taxable payroll

Questions and Answers (cont'd)

- Should we act sooner rather than later to reform Social Security? [Yes]
 - Time is working against us
 - We have an opportunity to exceed the expectations of every generation of Americans
 - We have bigger problems that we ultimately will have to address
 - A successful reform effort would help to improve the credibility of government and enhance confidence in government

Questions and Answers (cont'd)

- Will individual accounts solve the problem by themselves? [No]
- Should they be considered as part of a more comprehensive reform proposal? [Yes]
- What other types of reforms need to be considered?
 - Strengthening progressivity (e.g., replacement rates)
 - Indexing formulas
 - Retirement ages
 - Tax base and rates

Questions and Answers (cont'd)

- What is an example of a government retirement system that includes private accounts? [The Federal Thrift Savings Plan]
- Would individual accounts involve significant transition costs? [Yes]
- What other possible implications would individual accounts have?
 - Personal savings rate
 - Rates of return on Social Security payroll taxes
 - Pre- and post-retirement survivors' benefits
 - Savings and investment education
 - Supplemental retirement savings vehicle

Questions and Answers (cont'd)

- Should we consider both promised and funded benefits in analyzing Social Security Reform proposals? [Yes]
- Should we consider both cash and present value related costs and implications of Social Security reform proposals? [Yes]
- Can Social Security reform exceed the expectations of all generations of Americans? [Yes]
- Does the Social Security reform process matter? [Yes]
- Should Social Security be about the public good versus political gain? [Yes]

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