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Economic Policy Group
FISCAL ANALYSIS INITIATIVE

Social Security Shortfall Warrants Action Soon

NOVEMBER 9, 2010

EXECUTIVE SUMMARY

Social Security faces a significant shortfall, which policy makers would be better off addressing sooner rather than later. Action in the near future would allow them to make changes in Social Security that can be phased in gradually, reducing the risk of sudden future changes in the benefit or tax structure, better informing current workers' retirement planning and increasing public confidence in Social Security.

Policy makers disagree on how to close the shortfall, and a compromise solution has proved elusive. Furthermore, not everybody agrees there is a problem to solve: Some have questioned the wisdom of acting now when insolvency is projected to be decades away, while others have challenged the certainty of the projected shortfall. It's true that projections are rarely perfect. Nevertheless, future outcomes are extremely unlikely to deviate from current projections by enough—and in the right direction—to eliminate the need for legislative action. It would be unwise for policy makers to delay action in hope of a spontaneous correction.

The 1983 Social Security reforms ushered in an era of substantial annual surpluses. The amounts of these surpluses are credited to the Social Security trust fund, which is currently projected to remain solvent through 2037 even as the retirement of the large "baby boom" generation moves the program from annual surpluses to growing annual deficits. If no action is taken, at the point of trust fund exhaustion benefit payments would be reduced to the level that incoming tax revenues can support. This would mean a sudden 22-percent reduction in benefits for all beneficiaries (including those already receiving benefits) in 2037.

Reasonable and well-intentioned policy makers from across the political spectrum differ on how to resolve the Social Security shortfall. The authors of this paper represent different viewpoints: Charles Blahous was an economic adviser to President George W. Bush and Robert Greenstein is the executive director of the Center on Budget and Policy Priorities. Blahous and Greenstein favor different strategies to close the gap, but they agree on the reality of the problem and on the desirability of acting soon to fix it. Acting soon would yield several benefits, according to the authors:

- *Reductions in scheduled benefits and/or tax increases can be phased in gradually.* The longer a solution is postponed, the more difficult it will be to restore solvency without imposing large, sudden reductions in benefits or increases in taxes.
- *More options will be available.* Delaying action forecloses some options for restoring solvency and can produce less attractive distributional outcomes. For example, if Social Security tax increases were phased in soon, some or all current workers could contribute to restoring solvency. But if payroll tax increases are not implemented until 2037, the additional tax burden would fall entirely on younger workers still in the labor force after that date.
- *Beneficiaries and taxpayers will have more advance notice of changes and will be able to adjust their work, saving and retirement plans accordingly.* For example, if scheduled Social Security benefits are to be reduced, people should receive ample warning so they can compensate by saving more or delaying their planned retirement.
- *Confidence in Social Security will be strengthened.* If people do not believe that they can count on Social Security, the program will not be fully effective in serving as a basis for their retirement planning.
- *Strengthening Social Security's finances could provide a modest early step toward closing the federal government's long-run fiscal gap.* Even if the changes were not scheduled to be fully effective for many years, their enactment would cause an immediate improvement in the long-run budget outlook.