

Social Security: Will it be there when I need it?

It will never run out of money. Or it is headed for insolvency. It depends who you ask.

According to the non-partisan Congressional Budget Office, 2010 was the first year that Social Security paid out more than it received, and its Trust Fund (made up of special-issue Treasury bonds) will be exhausted in 2037. (However, taxes will continue to feed into the system.)

AARP: Good through 2037

The AARP says that “Social Security is in no immediate danger of ‘going broke,’” and adds that the program planned for baby boomer retirement with the result that “the Social Security Trust Funds hold more than \$2.4 trillion in U.S. Treasury bonds, which earn interest every year. Without any changes, Social Security will be able to pay 100 percent of benefits until 2037 and more than 70 percent of promised benefits after that.”

Based on CBO estimates, current retirees do not have to worry about receiving monthly checks. Younger workers may be justified in wondering about the future of Social Security.



The original Social Security program

It was created in the midst of the Great Depression only for workers as **insurance** that workers did not live their retirement years in poverty. Since benefits kicked in at age 65, and life expectancy then was 59 ½ for men and about 64 ½ for women, the system was statistically geared to stay financially flush.

Congress later expanded beneficiaries to retirees’ dependents and survivors and for disabled workers, who together now account for about 36% of Social Security payments.

Today is different

Social Security was meant to be a self-sustaining program that taxes a large base of workers to cover a smaller number of recipients. However, the original formula is feeling modern pressures:

- ▶ More beneficiaries who typically live longer than in the 1930s
- ▶ Individual benefits that can begin at 62 (at a reduced rate)
- ▶ Reduced revenue because of a prolonged recession with high unemployment
- ▶ A huge retiring baby boomer generation collecting rather than contributing

Fixes

Few would argue that the current system needs to change for long-term sustainability.

Former Federal Reserve Board Chairman Alan Greenspan said, “Because of the size of the contraction in economic activity, unless we get an immediate and sharp recovery, the revenues of the trust fund will be tracking lower for a number of years.”

Gene Steuerle, a former Treasury Department official predicts that, “Social Security is going to be there for everyone in the future... However you won't get the promised benefits that you have under current law because the current system basically has trouble supporting that.”

Various proposals (all hotly debated) have included:

- ▶ Raising the retirement age
- ▶ Reducing benefits
- ▶ Raising taxes
- ▶ Privatization in part or whole
- ▶ Locking away Social Security revenue from Congress, which routinely spends it on other programs

The CBO projects that a recovering economy will add small surpluses in 2014 and 2015. After that, payments are expected to exceed revenue every year, no matter how strong the economy.

Greenspan said, “Even if the trust fund level goes down, there’s no action required, until the level of the trust fund gets to zero. At that point, you have to cut benefits, because benefits have to equal receipts.”



“Social Security is going to be there for everyone in the future...”

Gene Steuerle, a former Treasury Department official