STRENGTHEN SOCIAL SECURITY
...don't cut it.

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Media Backgrounder for Release of 2015 Social Security Trustees Report

REPORT SHOWS THAT SOCIAL SECURITY CONTINUES TO WORK FOR AMERICA

Washington, D.C. – As reporters cover the 2015 Social Security and Medicare Trustees Reports released today, the Strengthen Social Security Coalition provides you with this background analysis which summarizes the Social Security Report's key findings, and puts them in context. Please note that this backgrounder does not deal with the Medicare Trustees Reports.

In addition to reviewing this backgrounder, we invite you to speak with our Coalition's Chair, Nancy Altman, who is a nationally recognized Social Security expert (see her bio below), and to read her new blog post on the 2015 Trustees Report, published today**.** We also encourage you to read *Columbia Journalism Review*'s "Report Card on Social Security Coverage," written in response to coverage of the 2012 Trustees Report, as well as *CJR*'s "Disability, Social Security, and the Missing Context," written upon the release of the 2013 Trustees Report. Very importantly, we urge you to review this just-released fact sheet, which discusses, among other things, distortions caused by over-reliance on unrealistically long valuation periods.

The most important takeaway from the 2015 Trustees Report is that Social Security has a large and growing surplus. The report projects Social Security's cumulative surplus to be roughly $2.8 trillion in 2015, growing to about $2.9 trillion around 2019. **Without any Congressional action to increase Social Security revenue or cut benefits, the system will be able to pay full benefits to America's seniors, people with disabilities, and survivors of deceased workers for nearly two decades, until 2034, one year later than projected in the 2014 report; and it will be able to pay about three-quarters of benefits after that**. **The 2015 report also shows that with modest legislated increases in revenue, Social Security will be able to pay all scheduled benefits for the foreseeable future.**

More specifically, journalists may want to give special attention to the following:

Income to Social Security from all sources WILL EXCEED all expenditures in 2015 (see Figure 2 on p. 2), which is why the program's reserves will continue to grow. This has been true every year since 1983. As Figure 1 (see p. 2) shows, Social Security has three revenue sources: 1) **wage contributions** from employees , matched by employers; 2) **interest earned on Social Security's U.S. Treasury bond holdings** (which have the same legal standing and status as other interest-bearing Treasury bonds issued by the government); and 3) dedicated **income taxes on the Social Security benefits** of those with higher incomes.

It is sometimes reported that Social Security is paying out more money in benefits than it is collecting in income, but that is wrong. This claim counts only Social Security's income from payroll contributions, disregarding one or both of its other two dedicated sources of income: investment income and dedicated income tax revenue, as stated above. While viewing Social Security's finances in this fashion, i.e. ignoring one or two of its three sources of revenue, portrays it in "cash deficit," this view (and term) has no legal meaning with regard to Social Security's finances, and no bearing on its ability to pay benefits. Indeed, so-called "cash deficits" have happened 26 times since 1957, without ever affecting the system's ability to pay benefits. Moreover, as Figure 2 shows, when income from all of Social Security's statutory revenue sources is counted, its 2015 revenue will surpass its outlays.

Figure 1

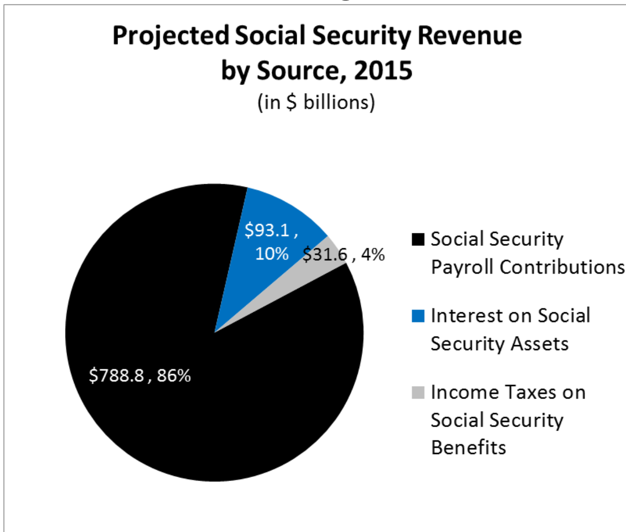
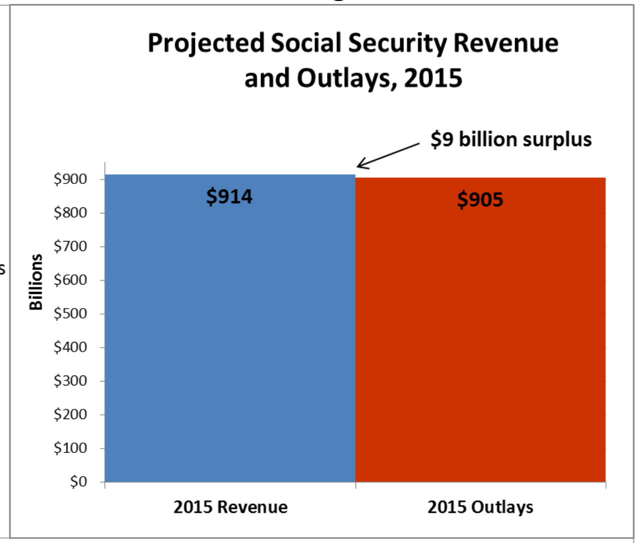


Figure 2



Source: *2015 Social Security Trustees Report*, Table IV.A3, 2015.

Social Security's projected funding shortfall is still more than a decade and a half away and modest in size. The Trustees Report projects that if Congress takes no action whatsoever before the early 2030s to increase Social Security's revenue, Social Security will still be able, starting at that point and continuing into the foreseeable future, to pay 79 percent of scheduled benefits. **In other words, after the early 2030s, the ongoing dedicated revenue of Social Security will be sufficient to pay about three-quarters of earned benefits and all associated administrative costs.**

The Trustees Report projects that, though there is sufficient income to pay all benefits in full and on time through 2034, Congress must take action before late 2016 to ensure that earned benefits paid to disabled workers and their families continue to be paid beyond 2016. The need for Congressional action results from the fact that Social Security's revenue is divided into two trust funds, rather than one combined one and the two trust funds are out of balance, thanks to action taken in the late 1970s and 1980s. We urge you to look at our fact sheet showing the overbalancing that was done at that time, an overbalancing that has only been partly redressed.

The projection that the Disability Insurance component of Social Security faces an imminent shortfall is neither a surprise, nor a matter of great concern. Some Beltway politicians and pundits may make much of the fact that the Disability Insurance (DI) trust fund is projected to be unable to pay 100 percent of promised benefits by around the end of 2016, but as just mentioned, this was projected last year as well, and indeed was projected in the 1995 Trustees Report, after Congress took the routine step in 1994 of re-allocating income from payroll contributions between the funds.

It is important to note the long-anticipated DI shortfall can be easily addressed. unless opponents of Social Security choose to engage in hostage-taking. Congress can and should rebalance the revenue between the OASI and the DI trust fund as it has done 11 times in the past. The long history of transfers between the Social Security trust funds reflects policymakers' traditional and proper treatment of the old age, survivors, and disability programs as one entity, because they are so intertwined and their income is from the same sources. That is why lawmakers and experts generally attribute far greater significance to 2033 – the year when, according to the 2014 report, the combined Social Security trust funds will no longer be able to pay full benefits – than to 2016 or 2034, the years the 2014 report projected that the DI and OASI trust fund shortfalls are projected to occur, respectively. Rebalancing simply corrects an overbalancing that Congress did in 1983, which was only partially corrected in 1994. Departing from this time-honored approach to OASDI financing – rebalancing the OASI and DI trust funds as needed – would lead needlessly to hastily conceived and, likely, poor policies. While some opponents of Social Security may use DI's more immediate shortfall to try to force broader action -- and a rule adopted on the very first day of the new Congress by the Republican-controlled House of Representatives signaled this intent-- this would be an inappropriate case of the proverbial tail wagging the dog. Moreover, this unusual rule change undermines the peace of mind of the 11 million disability insurance beneficiaries by threatening and greatly ratcheting up the possibility that disability benefits will be cut by nearly 20 percent.

Journalists have an opportunity to correct widespread misunderstanding and confusion about the DI program. As stated above, estimates of the Disability Insurance trust fund's forthcoming shortfall are not new. As long ago as 1995, the DI shortfall was projected to begin in 2016. (Since 1995, estimates have varied by a few years, but stayed more or less in that range.) The correct response should be a re-balancing of revenue from Social Security contributions between the Old Age and Survivors Insurance trust fund and the Disability Insurance trust fund. There are several, well-understood, but underreported reasons that Social Security disability claims have grown, necessitating the reallocation. Their impact has already begun to taper off. Indeed the growth in the number of DI beneficiaries is at its lowest rate in 25 years :

- **Aging Baby Boomers. Most disabilities appear later in life.** Workers are twice as likely to become severely disabled at age 50 as at age 40, and twice as likely to become severely disabled at age 60 as at age 50. The aging of the baby boom generation into peak disability years has contributed significantly to the overall increase in disability beneficiaries over the past few decades. In 1990, 46.1 million persons were ages 45 to 64. By 2010, when all baby boomers were in this age group, the number increased to 81.5 million persons ages 45 to 64.
- **The labor force participation of women has grown.** Women's labor force participation jumped starting in the 1970s and 1980s. Consequently and not surprisingly, the number of women receiving Social Security disability benefits, earned through work, has risen steadily since then, and is now plateauing as the first generation of women in covered employment age into their 50s and 60s. In 1990, there were roughly two disabled male workers for every disabled female. Today the ratio is roughly 1:1 (4.6 million men and 4.3 million women).
- **The population of the United States has grown by 28% since 1990, from** about 249 million in 1990 to 318 million in 2014**.** Independent of aging baby boomers and the increased labor force participation of women, this trend also swelled the numbers of people eligible for Disability Insurance benefits.
- **Full Retirement Age Increasing from 65 to 66.** The Social Security benefits of people with disabilities are automatically paid for from the old age trust fund when they reach the full retirement age. Prior to that, they are paid from the disability trust fund. For no reason other than that Congress increased the full retirement age, funds are flowing more rapidly from the DI trust fund, which is why reallocation of the percentage of payroll contributions going to the two funds is appropriate. There were 450,000 disability beneficiaries between ages 65 and 66 in December 2013, for example, who would have been

receiving benefits from the old age fund if the full retirement age were still 65, but instead are drawing benefits from the disability fund.

The basic structure of Social Security is sound, its benefits fully affordable. However, when Congress enacted the increase in the retirement age, it failed to schedule periodic re-allocations of the payroll contributions. It should do so now. Using what is in essence a manufactured crisis to push through benefit cuts which are unnecessary and contrary to the will of the people would be out of step with our democratic principles.

To restore public confidence, Social Security's projected shortfall should be addressed sooner rather than later, but it must be addressed properly. The shortfall should not be addressed by cutting benefits, which are already extremely modest in size, averaging just around $16,000 for a retiree in 2015, considerably lower for workers with disabilities and other beneficiaries. The nation is facing a looming retirement income crisis where most workers will be unable to cease work without a drastic reduction in their standards of living. Cutting Social Security will make the retirement income crisis worse.

Working Americans face a serious retirement income crisis. Like defense or education spending, Social Security's finances can be meaningfully discussed only in terms of the public policy challenges the program addresses, which, in this case, is retirement income security. America faces a severe retirement income crisis. Over half (52 percent) of American households headed by someone of working age will not be able to maintain their standard of living in old age, and this figure rises to roughly two-thirds when health and long-term care costs are also considered. Defined contribution retirement plans have proven inadequate. Among the minority of households who had a 401(k) plan in 2010, the median household headed by a person aged 55-64 had a combined 401(k)/IRA balance of only $120,000 – Among those with some retirement savings, the median amount of those savings is about $104,000 for households age 55-64 and $148,000 for households age 65-74, equivalent to an inflation-protected annuity of $310 and $649 per month, respectively. Thus, it is not surprising that with nearly two-thirds of senior households relying on Social Security for a majority of their income, Social Security's modest benefits are more essential than ever for American families.

Reflecting the growing awareness of the nation's retirement income crisis, serious analysts and politicians are beginning to advance proposals to expand Social Security. A growing number of policymakers and nonprofit organizations have advocated expanding Social Security. Forty-three Senators and 116 Members of the House of Representatives, as well as two candidates for the Democratic nomination for President, support expansion. *Social Security Works! Why Social Security Isn't Going Broke and How Expanding It Will Help Us All* (The New Press, 2015), a book co-authored by Nancy Altman and Eric Kingson and available at http://amzn.to/1uBmbce, includes charts highlighting the various legislation and expansion plans proposed at the time of the book's publication.

The modest shortfall projected in the Social Security trustees reports should be addressed by increasing Social Security's dedicated revenue. Requiring millionaires and billionaires, who currently only contribute to Social Security on wages up to $118,500, pay their fair share can, depending on how structured can entirely eliminate the projected shortfall while bringing in sufficient revenue to expand benefits.

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Nancy Altman, Chair, Strengthen Social Security Coalition, has a 35-year background in the areas of Social Security and private pensions. Before she became co-chair of the coalition, she taught at Harvard University. Prior to that, she served as Alan Greenspan's assistant in his position as chairman of the so-called Greenspan commission, the bipartisan commission whose recommendations formed the basis of the Social Security Amendments of 1983. She is the author of The Battle for Social Security: From FDR's Vision to Bush's Gamble

(John Wiley & Sons, 2005).Altman is co-author, with Eric R. Kingson, of the new book, *Social Security Works! Why Social Security Isn't Going Broke and How Expanding It Will Help Us All* (The New Press, 2015).

Of special interest to journalists, Altman and Kingson co-authored a 2010 article about questions the press should be asking on the release of the Social Security Trustees Report for the *Neiman Watchdog,* an online publication of the Nieman Foundation for Journalists at Harvard University. For more information about the Strengthen Social Security Coalition, visit http://strengthensocialsecurity.org/.