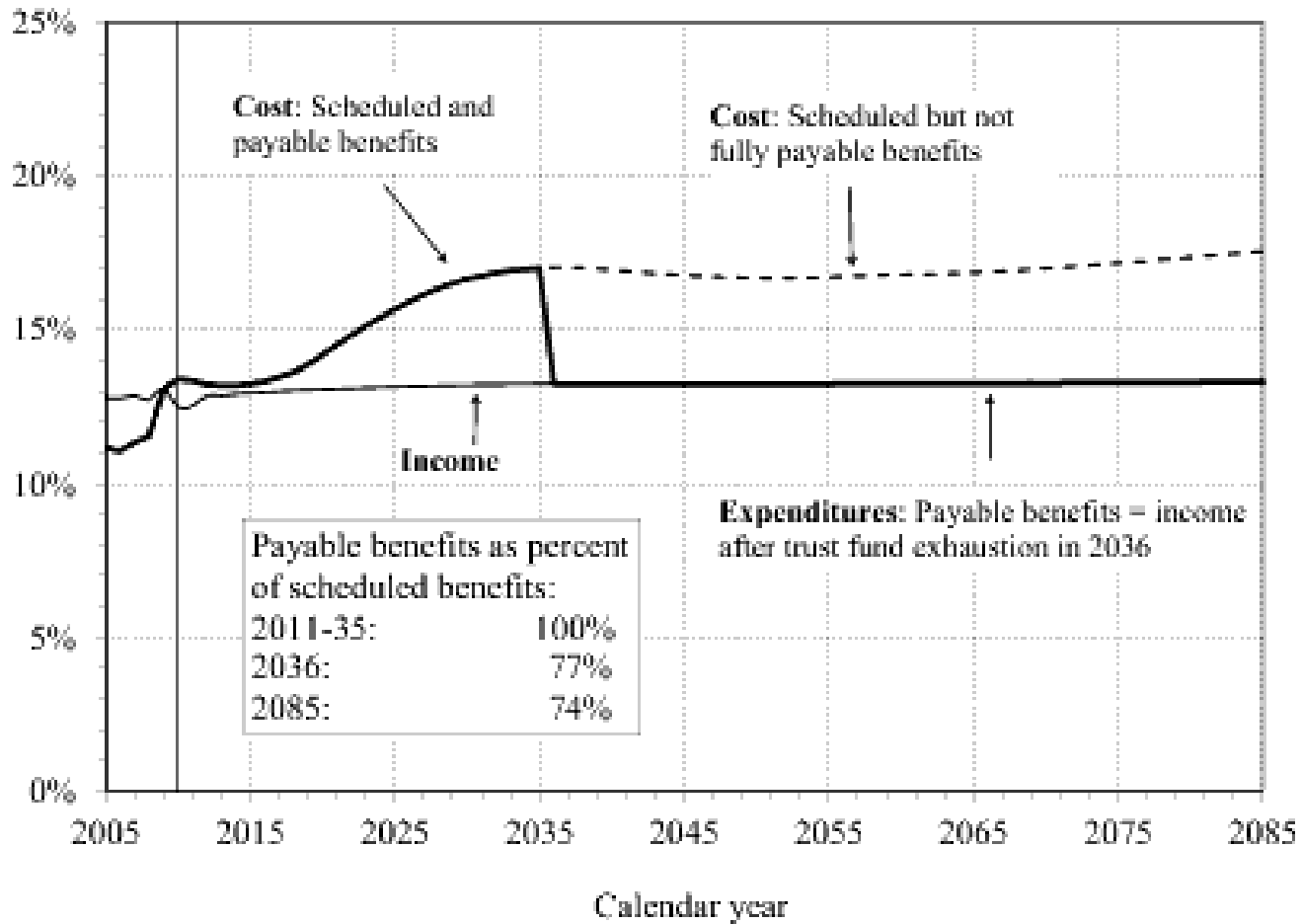


The Social Security Trustees' Report: The Public Trustees' Role

Charles Blahous
Retirement Conference
National Press Club
August 5, 2011

Social Security Income and Costs as a % of Taxable Payroll



Key Summary Measures and Statistics (Combined Social Security Trust Funds)

Trust Fund Exhaustion Date:

2036 (OASI = 2038, DI = 2018)

Choices if resolution delayed until 2036:

Benefits reduced 23%, or;

Payroll tax rate = 16.4%

75-Year Actuarial Imbalance:

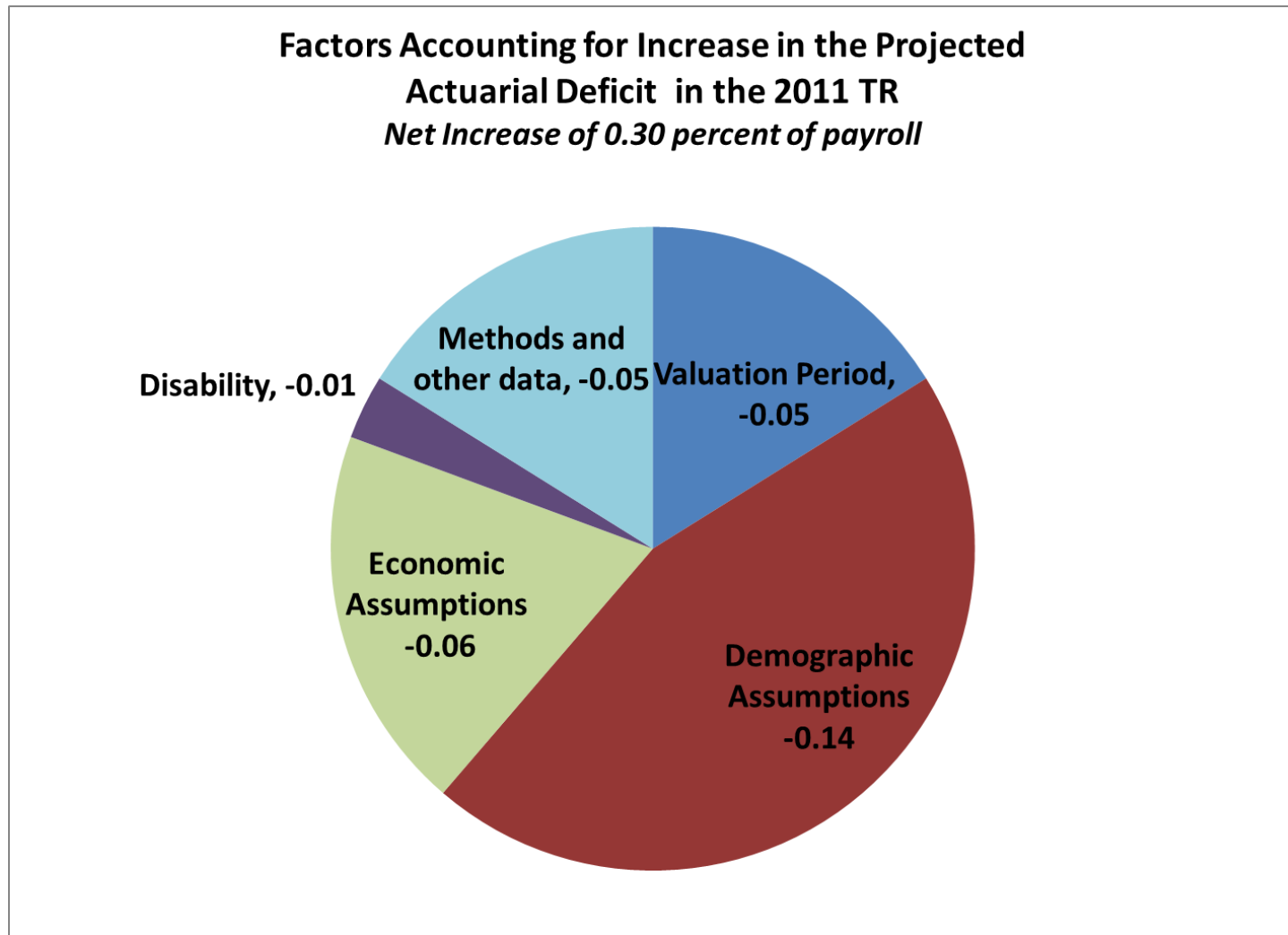
2.22% of Taxable Payroll (previous report = 1.92%)

(\$PV = \$6.5 T on TF basis; \$9.1 T on unified budget basis)

Trust Fund Ratio (100 x TF assets/annual costs):

353 (was 358 in 2008)

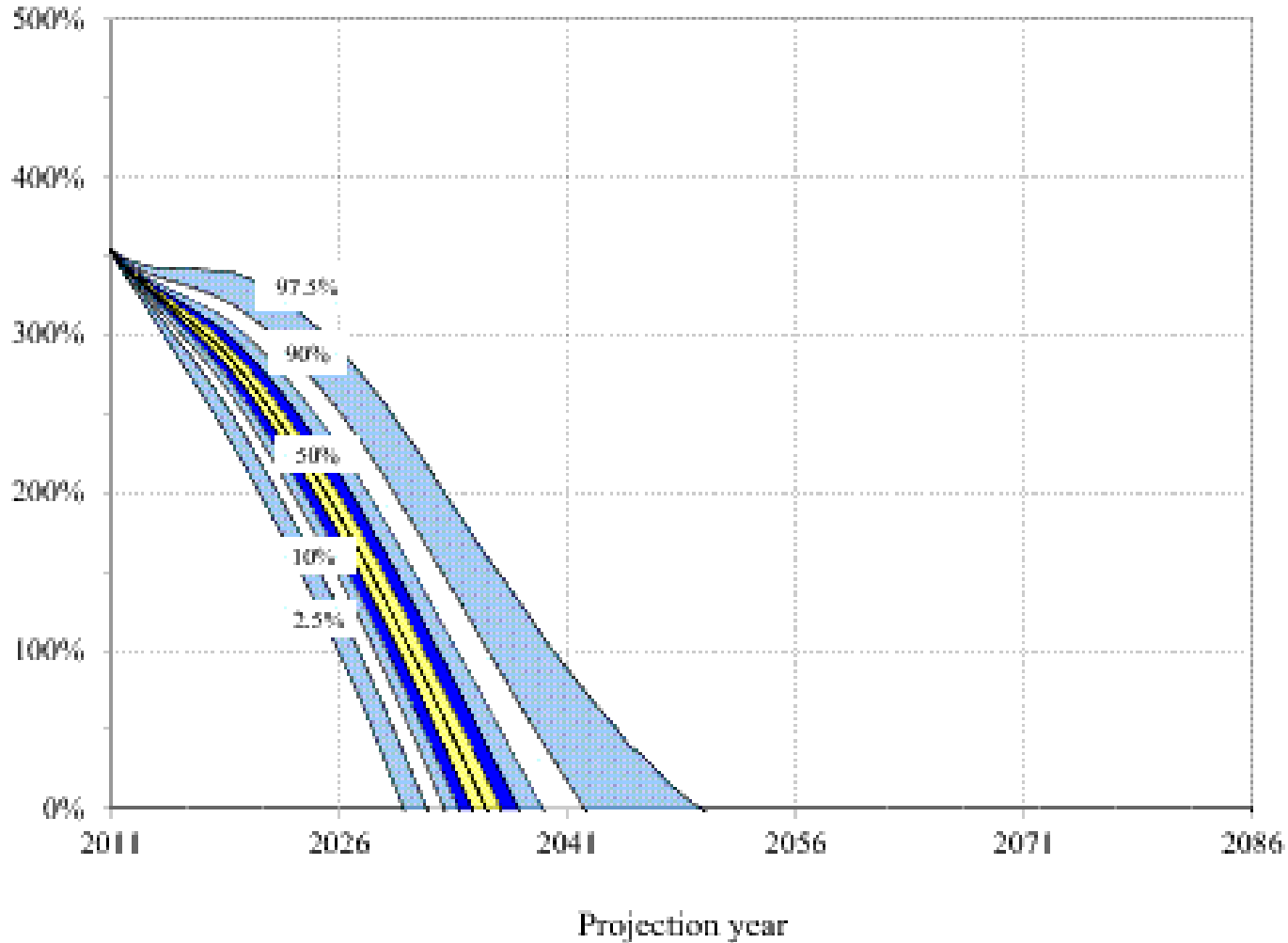
Reasons for Deterioration in 2011 Report



Long-range Assumptions Underlying Social Security Projections

Long-range assumption	Intermediate	Low-cost	High-cost
Fertility rate	2.0	2.3	1.7
Annual reduction in death rates	0.78	0.32	1.31
Net immigration	1.075 M	1.385 M	0.785 M
Productivity	1.7	2.0	1.4
CPI	2.8	1.8	3.8
Real-wage differential	1.2	1.8	0.6
TF real interest rate	2.9	3.6	2.1

Explaining Projection Uncertainty: Social Security Trust Funds Exhausted In Nearly All Projection Scenarios (Trust Fund Ratios, Analysis Varying Economic/Demographic Assumptions)



Deciding What is Important: Key Points from Trustees' Messages

- 1) Legislative corrections best enacted soon: *“Earlier action will. . . afford elected officials with a greater opportunity to minimize adverse impacts on vulnerable populations, including lower-income workers and those . . . already substantially dependent on program benefits.”*
- 2) Demographic changes prior to 2035 primary driver of cost growth: *“Under current law, demographic trends will be the primary driver of cost growth . . . over the next couple of decades. . . . More than 90 percent of combined cost growth in Social Security and Medicare from 2007 through 2085 relative to GDP will have occurred by 2035 under current projections.”*
- 3) The problems are certain: *“The financial shortfalls confronting both Social Security and Medicare are substantial and – absent legislation to correct them – quite certain.”*
- 4) Don't get distracted by Trust Fund/budget debate: *“Whether viewed from the narrower trust fund perspective or from the wider unified budget perspective, the financial challenges . . . must be addressed.”*
- 5) Practical policy constraints increase the costs of delay: *“In the past, policy makers have been reluctant to significantly reduce the benefits of those who have already begun to collect them. . . .The costs that will be borne by younger generations will grow significantly each year that a new cohort of baby boomers joins the benefit rolls.”*