

*Remarks of Laurie Young, Ph.D.
NCWO Briefing on Social Security, April 1, 2005*

A False Promise for Women

Good afternoon. I'm Laurie Young, the executive director of OWL, the voice of midlife and older women founded as the Older Women's League. OWL is the only national grassroots membership organization to focus solely on issues unique to women as we age. OWL has a 25 year history of speaking the truth about the lives of midlife and older women. We work tirelessly with our grassroots membership to affect social and economic policy improvements for women. We particularly value the independence and self respect promised by the wage adjusted, guaranteed, inflation proof, lifetime Social Security benefit.

When President Franklin Delano Roosevelt signed the Social Security Act in 1935, he was responding to an overwhelming national need to address economic insecurity in old age. At that time, when there were no official retirement support systems, over half of the older population lacked sufficient income to live. Since then, Social Security has evolved into an increasingly significant program, offering critical retirement benefits as well as invaluable protections from the unexpected risks people confront throughout the course of their lives.

Over the past six decades, Social Security has lifted millions of older Americans out of poverty and has provided enormous relief to widows, widowers, children, and disabled persons. It is arguably the most successful federal government program.

Today I will focus on The Great Solvency Debate and how Social Security is financed

Social Security is a "pay-as-you-go" system. Workers pay payroll taxes to support Social Security; these funds are not kept in personal accounts, but are used to support the current generation of retirees, disabled workers, survivors, and their families. For the past few decades, revenues exceeded what was needed to pay benefits. This was an intentional result of 1983 legislation designed to shore up Social Security and prepare for the future and the retirement of the baby boom generation in particular. The surpluses have been placed in a trust fund for Social Security, intended to be used when the baby boomer generation retired and payroll taxes alone could not cover all outgoing benefits. There has been much debate and rhetoric regarding the financial status of Social Security.

Proponents of private accounts for younger workers began a national conversation by declaring that Social Security was facing doom and bankruptcy with trust funds being used as early as 2017 to meet the current level of projected benefits by that year. Last week, the Social Security Trustees issued their 2005 report on the status of Social Security finances. This board was established to oversee the management and investment of trust funds and requires an annual report to Congress and the public on the status of

those funds. In 2005, the trust funds will receive a surplus of \$153 billion. By the end of this year, the invested assets or fund reserves are expected to be \$1.85 trillion dollars.

It is true that changing demographics mean that the system will eventually have to use trust fund dollars to cover outgoing benefits. The number of workers per Social Security beneficiary is expected to drop from 3.4 in 2000 to 2.1 in 2030. This in itself should not be cause for alarm, as the trust fund was created for this exact purpose—to balance the system during periods of shifting demographics or finances. Another factor is expected to affect the shortfall as well: increasing life expectancies. As people live longer, the system will have to pay benefits for a longer period of time. In 2017, payroll tax revenues (income) will fall short of outlays (benefits paid) creating the need to spend the interest earned on the trust fund's bonds. By 2027, the trust fund's principal will need to be tapped. The trustees' 2005 annual report estimated that in 2041 the trust fund would be fully drawn down. At that point, incoming revenues would be able to cover only about 73 percent of full benefit levels.

It's important to note that these estimates vary year to year, and that the past several trustees' reports have consistently postponed the date of the trust fund's exhaustion. While this year's report shows a one year decline in the estimate of when trust funds must be used to fully fund benefits, it should be remembered that an estimate is just that, and while it can be used to spot possible future trends, it should not be taken as simple truth. Moreover, the Trustees estimate that the shortfall represents only 1.89% of taxable payroll or 0.7% of the entire economy (GDP). Many people have suggested many small and incremental measures that could deal with a future shortfall when or if it becomes more certain.

One thing that is certain – private accounts paid out of the Social Security Trust Fund for future beneficiaries will do nothing to improve the financing of Social Security – rather they would accelerate the time when the surplus is estimated to be depleted. And the so-called transition costs to implement private accounts over the next ten years would add \$2 trillion to the deficit with more trillions to follow.

It should also be noted that the trustees are focused on the long-term health of the program some 75 years from now, and that it is an especially challenging task to look so far into the future.

Predicting payroll tax revenues for the next 75 years is that much more difficult than shorter term forecasting. This is evident by the fact that the trustees' projections typically change every year and the trustees' projections also assume that no changes will be made to the program's structure to head off this potential shortfall. When faced with much more dire financing challenges in the late 1970s and early 1980s, Congress made adjustments to the system's financing to boost the trust fund's long-range health.

The Question of the Trust Fund

A second question of the solvency debate is whether the trust fund actually exists. **Let's put this to rest right now: the trust fund exists.** The trust fund is an account in the United States Treasury where revenues are deposited and benefits paid. As the Social Security Advisory Board explains: "Funds not used for current expenses are invested in government securities, as required by law, and the interest earned is also deposited in the trust fund". In other words, as incoming revenues have exceeded outgoing benefits, the trust fund has kept a running total of all surplus funds and has turned those surplus dollars into Treasury bond investments.

Because Social Security is a government program, it isn't organized in the same way as a household budget or a bank account. Throughout the 1980s and 1990s, funds were borrowed from the trust fund to pay for other items, such as paying down the national debt, or to offset other spending to prevent the federal budget from running a deficit. When this occurred, the trust fund was issued interest bearing Treasury bonds from the federal government—one of the most conservative and stable investments available, backed by the full faith and credit of the United States government. If Social Security outlays exceed revenues in 2017, the interest earned on the bonds will be used to pay out full benefits. In 2027 or later, the Treasury bonds will be cashed in and the money returned directly to the trust fund in order to meet benefit obligations.

Some critics say that because the trust fund dollars have to be paid back by the government—which may mean borrowing the money from other government sources (such as general tax revenues), raising taxes, or issuing new government debt—then the trust fund does not truly exist. OWL believes the stronger argument is that the U.S. government is too powerful, wealthy, and aware of the consequences to allow a default on the bonds it owes one of its most successful and necessary programs. Calling the trust fund bonds "worthless" essentially challenges the safety and security of government-issued Treasury bonds.

Actual Size of the Social Security Shortfall

Some have argued that the Social Security shortfall is large, and that the system is unaffordable. But the fact of the matter is, that for the huge American economy, the shortfall represents only a fraction of what we spend on a number of consumer items, and it is dwarfed in comparison to the size of the federal government's budget.

The government is no more likely to default on Social Security's trust fund's bonds than it is to default on the same Treasury bonds owned by millions of individual and institutional investors. It's easy to develop a chart illustrating the potential future solvency gap of Social Security in a way that creates alarm or a sense of urgency and wrongly predicts a doomsday scenario, but this would be misleading if not put into a larger context. OWL recognizes that Social Security may face some long-term solvency challenges. If the trustees' estimates come to pass, then the government will have to act to prevent a shortfall from cutting benefits. The political reality, however, is that lawmakers must realize the importance of shoring up the financing of this vital program, not devastating the foundation of the program by diverting payroll taxes to private accounts.

Women only stand to lose with privatization, as do the vast majority of Americans, because it would only dismantle the very aspects of Social Security that we all count on. Privatization ignores the social insurance tradition of Social Security, it ignores the national commitment to insure all Americans against life's risks, and it threatens the overall vitality of this critical program.