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GETTING BETTER ALL THE TIME

Social Security's ever-improving future

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The Social Security trustees' latest annual report shows much-improved projections for Social Security's future. In fact, the improvements to Social Security's projected finances are the largest in years, with the period over which the trust fund will be able to pay full benefits extended by another three years to 2037.

Even with these positive changes, though, the report continues to be based on pessimistic assumptions about the future economy. Recent developments suggest higher real GDP and productivity growth than the trustees assume. Hence, real wage and payroll-tax revenue growth should be greater than predicted by the trustees' report, increasing the size of the trust fund. Given the report's improved forecast in spite of these pessimistic assumptions, there is even less need to cut benefits or to privatize the system.

Improved finances

All of the relevant years have been pushed back in this year's report. Trust fund income from payroll taxes is expected to fall short of benefits in 2015 (compared with 2014 in the 1999 report). Total income — including tax revenue and interest income — will fall below expenditures in 2024 (as compared to the predicted 2022 in the 1999 report). Trust fund assets will be depleted in 2037 (compared to 2034 in last year's report). Contributions are expected to still cover two-thirds of benefits in 2075, the last year of the trustees' projections. This is of course not the first year that the trust fund's prospects have brightened. In fact, improvements in the shortfall predictions have been made in each annual report for the past several years (**Table 1**).

Pessimistic assumptions

The trustees' short-term projections reflect some of the economic improvements of recent years. However, the report still paints a bleaker picture of the long-term future than is warranted.

The trustees expect real economic growth to average 2.3% for the next 10 years, up from their prediction of 2.0% last year. However, the trustees project real growth will decline gradually from 2.1% to 1.5% over the 2010 to

TABLE 1
Changes in trustees' projections over time

Trustee report date	1996	1997	1998	1999	2000
Year when tax revenue falls short of benefits	2012	2012	2013	2014	2015
Year when trust fund income falls below expenditures	2019	2019	2021	2022	2024
Trust fund depletion date	2029	2029	2032	2034	2037
Shortfall as a share of taxable payroll	2.19%	2.23%	2.19%	2.07%	1.89%

Source: Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

2075 period. Since 1959, real GDP growth has never been this low for an extended period of time. During this period, the 10 years with the lowest average real growth rate (2.15%) extended from 1973 to 1983 — a decade that included two oil crises, rising unemployment, and rising inflation. More recently, since the last business-cycle peak, real growth has averaged 3.3% despite many years of slow growth in the early 1990s. The years since 1996 have been even more impressive, with an average real growth rate of 4.4%.

Similarly, the trustees' report assumes that real wage growth will average 1.0% in the long run, an estimate based on a somewhat pessimistic expectation regarding labor productivity growth.

The trustees assume long-run productivity growth will average that of the past 30 years (1968-98), or 1.5%, but this estimate is too low by historical standards. Fully 22 years in the 30-year period (1973-95) were years of historically low productivity growth. The 30-year period ending in 1998 had the lowest productivity growth of any 30-year period ending between 1980 and 1998. The *average* productivity growth over all 30-year periods ending between 1980 and 1998 is 33% larger, or 2.0%. Put another way, average productivity growth for the 47-year period between 1951 and 1998 was 2%. This was also the average for 1996-99. It is not clear whether the higher rates of recent years will be sustained for the long term, but clearly, a long-run *average* of 1.5% is too low. Assumptions of higher productivity and real wage growth would be more realistic and give a truer picture of Social Security's improved finances.

Ultimately, Social Security is sound. Even the trustees' less-optimistic projections show the program will pay full benefits for 37 years and will have enough funds to pay for two-thirds of benefits in 2075 — without any changes being made. Thus, benefit cuts or risky privatization proposals are unwarranted and harmful to America's retirees.

A better way to strengthen Social Security, and to make the payroll tax fairer, is to eliminate the cap on earnings subject to the Social Security payroll tax. Currently, this cap is set at $76,200; earnings above this level are not taxed for Social Security. Although this change would affect just 7% of workers — whose benefits would be increased as well — it would eliminate fully three-quarters of the 75-year funding short fall.