

THE OUTLOOK FOR SOCIAL SECURITY

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Any New News?

- Very slight changes from last year
- Including 2079 $-.07\%$ of taxable payroll
- Economic $-.06\%$ of taxable payroll
- Demographic $+.03\%$ of taxable payroll
- Programmatic $+.07\%$ of taxable payroll
- TOTAL..... $-.04\%$ of taxable payroll

A CLOSER LOOK

- Current system discriminates against:
 - Singles, divorcees, and heads of household
 - Two-earner couples
- More of them = fewer benefits = improvement in “trust funds”
- Is that a fair way to reduce benefits and replacement wages?

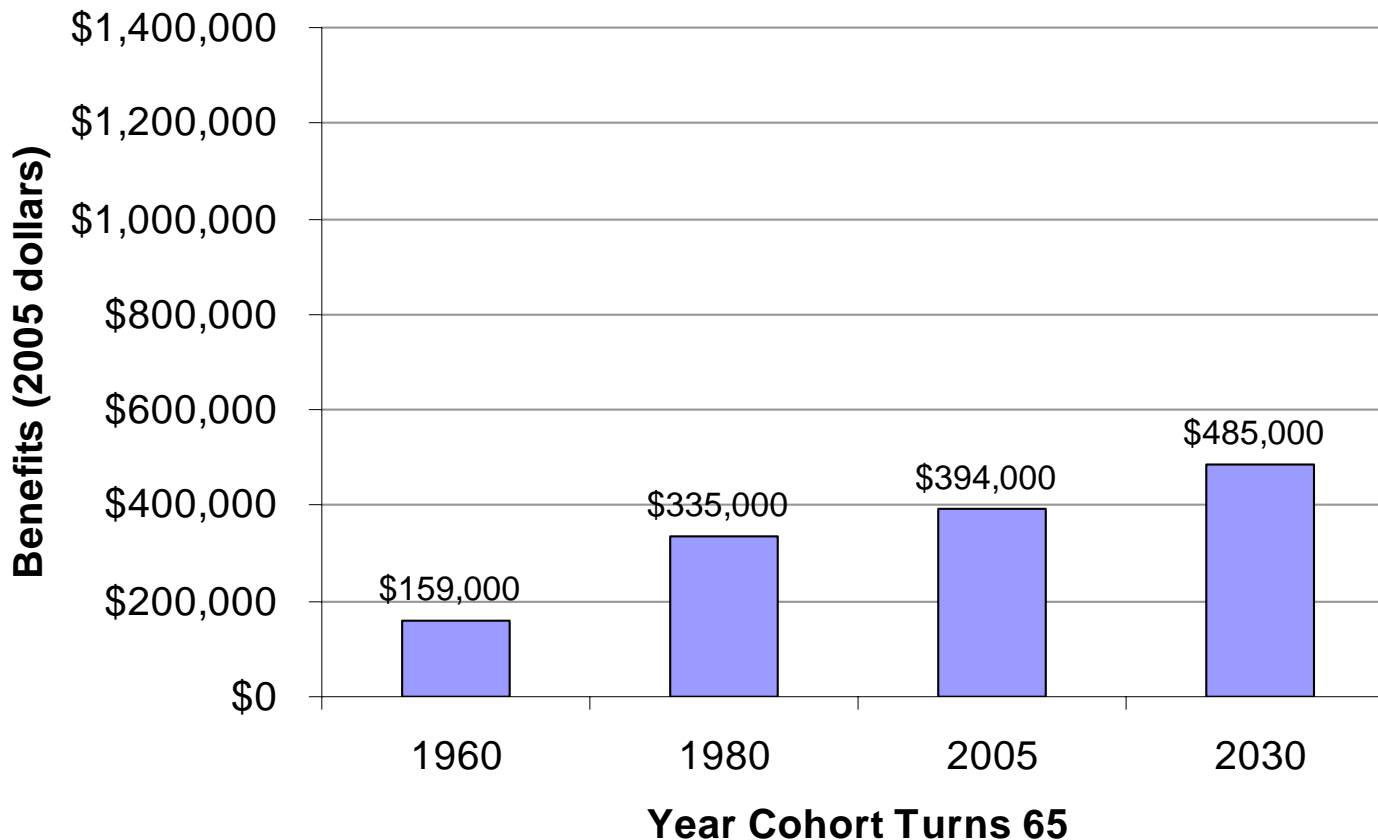
Is This *Any Way* to Run a System?

- To delay booking known costs?
- To vary benefits arbitrarily
 - Not based on need
 - Not based on contributions

Hubris

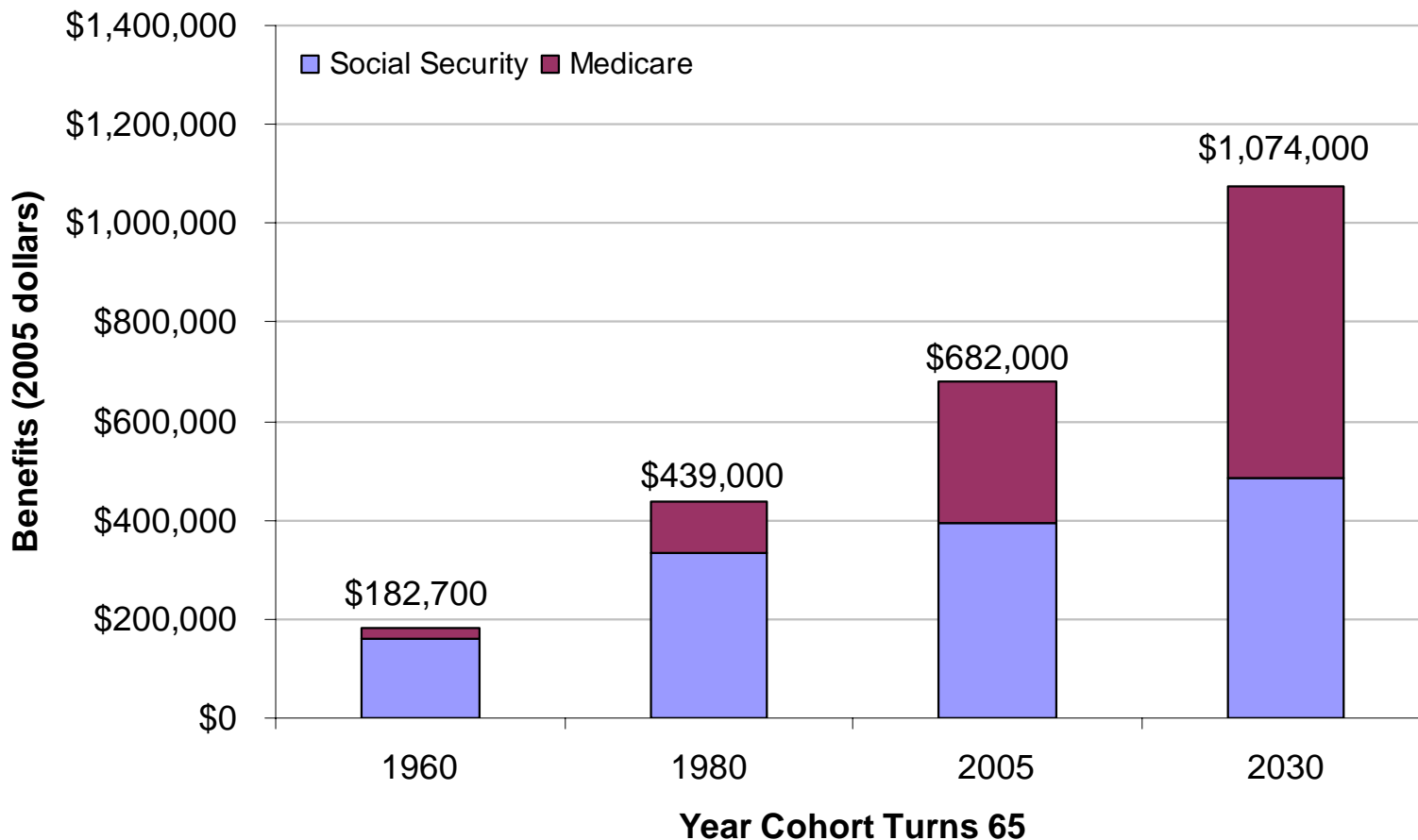
- Making unsustainable promises
- Making shaky promises
- Are reformers doing the same thing?

Social Security Lifetime Benefits for a Two-earner couple: Average Wage/Low Wage (\$36.5k/\$16.5k)



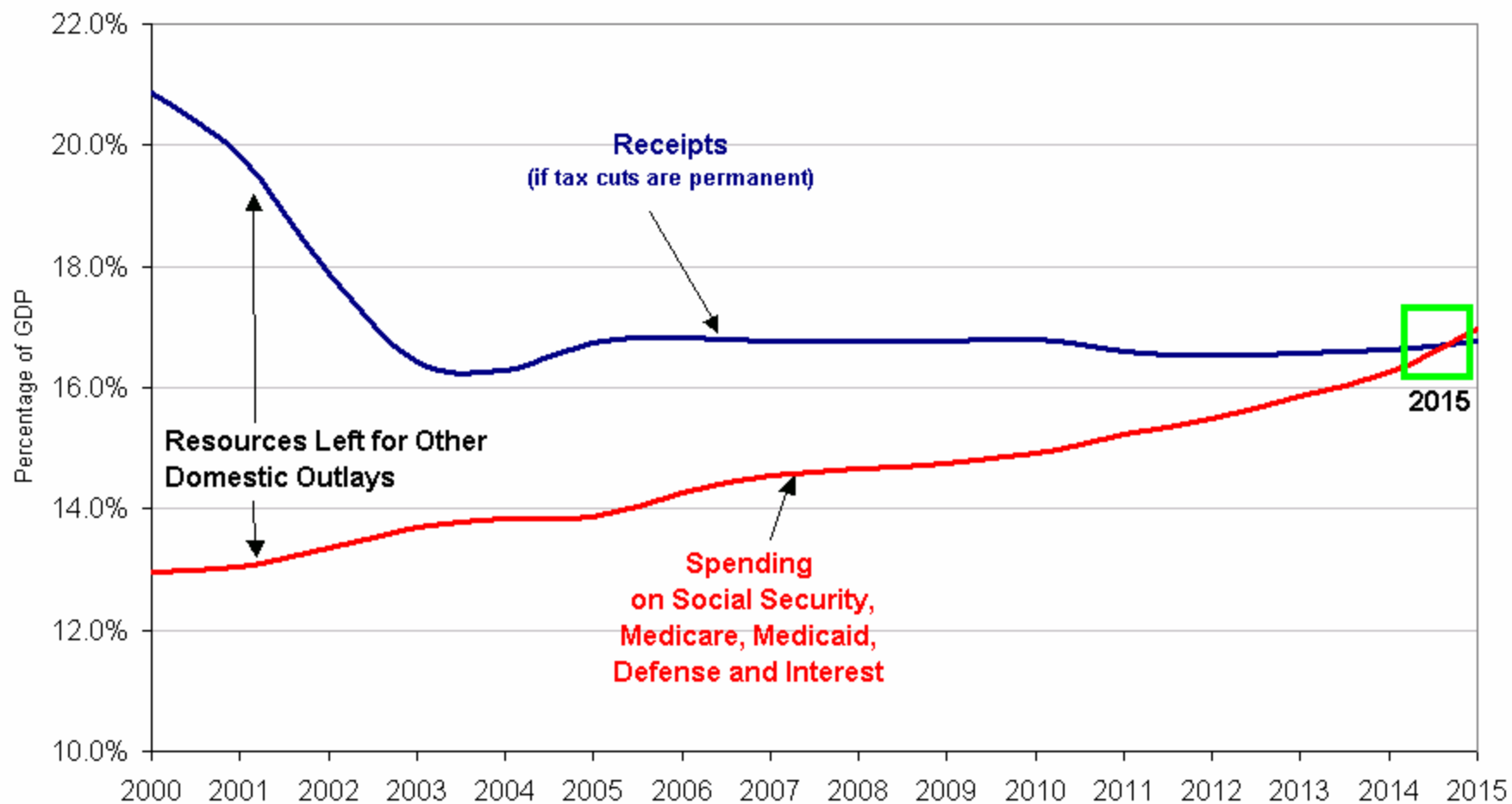
Notes: The “high” and “average” wage profiles are those hypothetical profiles routinely employed by the Social Security Administration in its analyses. Lifetime amounts – rounded to the nearest \$5,000 – are discounted to present value at age 65 using a 2 percent real interest rate and adjusted for mortality. Projections based on intermediate assumptions of the 2004 OASDI and HI/SMI Trustees Reports. Source: C. Eugene Steuerle and Adam Carasso, The Urban Institute, 2004.

Social Security and Expected* Medicare Benefits for a Two-Earner Couple: Average Wage/Low Wage (\$36.5k/\$16.5k)



* Expected rather than realized benefits. Notes: The “high” and “average” wage profiles are those hypothetical profiles routinely employed by the Social Security Administration in its analyses. Lifetime amounts – rounded to the nearest \$5,000 – are discounted to present value at age 65 using a 2 percent real interest rate and adjusted for mortality. Projections based on intermediate assumptions of the 2004 OASDI and HI/SMI Trustees Reports. Includes Medicare Part D. Source: C. Eugene Steuerle and Adam Carasso, The Urban Institute, 2004.

The Current Squeeze



Source: C. Eugene Steuerle, Adam Carasso, and Elizabeth Bell, The Urban Institute, 2005. Authors' calculations based on data from CBO (2005) and Trustees (2004).

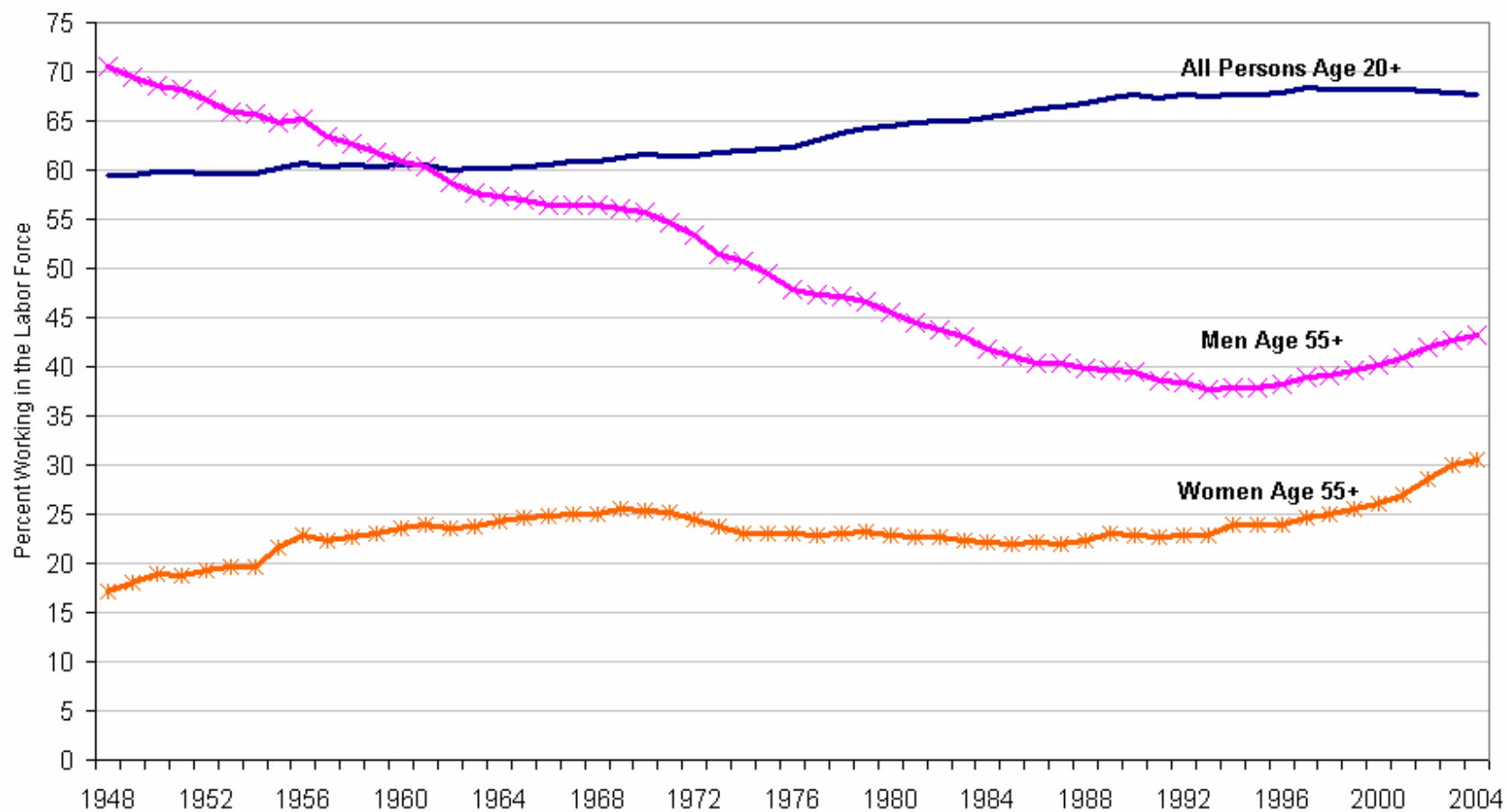
The Shaky Benefit

- Balance subject to changes in:
 - Productivity
 - Life expectancy
 - Birth rates
- Most reforms don't address this issue
- These risks easily removable

One Possible Reprieve

- Despite debates over capital (individual accounts), the main problem is labor
- Many so-called elderly are middle-aged
- They still want to be productive
- Estimates may seriously understate demand for these workers

Labor Force Participation Rates: Males and Females Aged 55+ vs. the Adult Population, 1948-2004



Source: U.S. Bureau of Labor Statistics, 2005.

Conclusion

- Accounting required for infinite future
 - Required when promises made for infinite future
- Excessive promises treat future voters like adolescents who must be controlled
- Imagine trust fund report under reform
 - Always sustainable?
 - Doesn't automatically usurp other government?
 - Not subject to whims & unnecessary risk?
 - Let's hope so