Social Security Is in Far Worse Shape Than You Think

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For years, politicians and policymakers have reassured the American public that the Social Security system, which sends monthly checks out to 53 million beneficiaries, is safely solvent -- and will be for decades to come. But federal spending and income data from the Treasury Department reveal that the Social Security program is already deep in the red, with outlays exceeding payroll tax revenues by $76 billion in 2010 alone.

This stunning shortfall calls into question the rosy fiscal forecasts made by the Social Security Administration (SSA) about the program's future solvency.

The annual report of the Social Security Trustees, published in August 2010, forecast that the primary Social Security program, the Old Age and Survivors Insurance Trust Fund (OASI), would not exceed its tax receipts until 2018. Unfortunately, it happened in fiscal 2010, which ended in October. That year's outlays for the OASI fund were about $580 billion, while receipts came to only $540 billion -- a whopping $40 billion shortfall.

Add in the deficit from the second Social Security fund, Disability Insurance (DI), and the gap between total SSA outlays ($707 billion in 2010, according to the Treasury) and tax receipts ($631 billion) grows to $76 billion -- more than 10% of the program's expenses.

Short-Term Estimates Were Way Off the Mark

The SSA trustees had estimated a $41 billion deficit (excluding interest income), but the final deficit came to $76 billion -- almost twice what they had guessed. Just as troubling, their estimate for total SSA income in 2010 (which included both Social Security payroll taxes and interest paid by the Treasury on the Social Security Trust Funds) was $791 billion -- a number that overshot the actual total income of $741 billion (tax receipts of $631 billion plus interest income of about $110 billion) by $50 billion.

That the trustees could miss estimates only a few months into the future by such huge margins calls into question the accuracy of their long-term projections, which are stated in the report:

> "Social Security expenditures are expected to exceed tax receipts this year for the first time since 1983. The projected deficit of $41 billion this year (excluding interest income) is attributable to the recession. This deficit is expected to shrink substantially for 2011 and to return to small surpluses for years 2012-2014 due to the improving economy. After 2014 deficits are expected to grow rapidly as the baby boom generation's retirement causes the number of beneficiaries to grow substantially more rapidly than the number of covered workers. The annual deficits will be made up by redeeming trust fund assets in amounts less than interest earnings through 2024, and then by redeeming trust fund assets until reserves are exhausted in 2037."

SSA's estimate for total income in 2011 is $855 billion -- fully $114 billion more than the program's actual income in 2010 ($741 billion). With employment stagnant, is a 15% jump in payroll taxes remotely plausible?

Payroll Taxes Won't Bounce Back That Fast

For context, let's look at what happened to Social Security receipts in 2009, a recession year, and 2010, a year of modest economic recovery.

According to the SSA, the system's income for 2009 was $807 billion ($698.2 billion in the OASI and $109.3 billion in the DI). Income in 2010 was $741 billion -- a massive one-year decline of $66 billion.

Given the magnitude of this recessionary drop in income, it's difficult to place much faith in the trustees' extremely optimistic forecast of double-digit payroll tax increases in 2011. As I reported on *DailyFinance* in December, job gains have been exceedingly modest in the 154 million-worker U.S. economy, and many of those jobs were temporary or part-time. Factor in lower incomes for the self-employed, and it's little wonder that payroll tax receipts have been flat.

The trustees' forecast of Social Security's outlays in 2010 were much more accurate than their estimates of income: The report anticipated outlays of $714 billion, and the final total came in at $707 billion. The report's estimate of 2011 outlays is $742 billion, an increase of $35 billion, which is higher than the 3.5% ($23.8 billion) jump in 2010 costs over 2009 outlays.

That $742 billion estimate for 2011 costs is almost exactly equal to 2010 income of $741 billion. That means if outlays were to rise even a bit more than expected, or income were to decline from 2010 totals, Social Security would hit a deficit that the trustees aren't expecting to occur until 2025. Given that shortfalls have already reached levels the SSA hadn't expected until 2018, it's not that big a leap to conclude that the system's projections are woefully out of alignment with the nation's new realities.

Retiring on Borrowed Time

What do these potentially large, structural deficits in Social Security mean? It's simple: The Treasury will have to borrow more money on the global bond market to fill the gap, increasing pressure on an already unprecedented federal deficit.

Given the above data, it's unsurprising to find that the Treasury needed to borrow money to pay Social Security benefits in 15 out of the last 25 months. When the cost of monthly benefit payments exceeds the Social Security tax revenues, then the Treasury has to fill the gap with borrowed money.

Policymakers and citizens alike will need to have a realistic grasp of these Social Security deficits if they're to make the tough decisions about taxes and spending that lie ahead.