Committee On Finance

Max Baucus, Ranking Member

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For Immediate Release
Wednesday, April 9, 2003

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Statement of Senator Max Baucus
Hearing on Social Security Trustees' Report

Mr. Chairman, thank you for holding today's hearing on Social Security's finances. I am particularly interested in looking at the health of Social Security's Trust Funds.

The 63rd annual report of the Social Security Trust Funds Board of Trustees was recently released. Like the reports before it, this year's annual report has been completed with attention to quality and not to politics. So I want to thank all of the Trustees: Secretaries Snow, Thompson, and Chao. Commissioner Barnhart, and the two public Trustees: John Palmer and Thomas Saving.

Mr. Steven Goss, our witness today, is the Chief Actuary of the Social Security Administration. I want to take this opportunity to thank him and the other highly skilled actuaries at Social Security. They have a difficult job. And they do it exceedingly well.

This year's annual report provides some good news as well as some bad news. We should pay careful attention to both.

First, the good news. Social Security will be able to pay full benefits until the year 2042. In last year's report, the date was 2041. So this is a slight improvement.

But, there is also some bad news. After 2042, the Social Security trust fund will be empty. However, Social Security will still be able to pay a significant portion of benefits out of the payroll taxes that are collected each year. But Social Security cannot pay full benefits. For example, in 2043, Social Security will be able to pay 73% of the benefits that are scheduled.

We need to fix the problems that will occur after 2042. Fixing these problems will require some heavy lifting and we cannot wait until 2042. The Trustees state very clearly that we must begin to close this financial gap soon. Otherwise, the solutions will be far more painful. And workers will not have enough time – while they are in their working years – to make the required adjustments for changes to their retirement benefits.

There is another figure in the report that tells the same story. This figure is called the "actuarial imbalance over the next 75 years." The report indicates that over 75 years, there is an imbalance of 1.92 percent of the amount of wages and salaries payroll subject to the Social Security payroll tax. This means that the Trust Funds could be put back into balance for 75 years if Social Security payroll taxes were immediately raised by 1.92 percentage points. That would mean that the current total rate that employers and employees are taxed would increase from 12.4 percent to 14.32 percent.

There are other alternatives for eliminating the 75-year actuarial imbalance besides raising payroll taxes. Benefits could be cut by 13 percent. Or we could direct general revenues into the Trust Fund in an amount equivalent to $3.5 Trillion today, taking into account the time value of money. Or we could have some combination of all of these changes.

None of these solutions are easy. Each would require very painful choices. But the numbers involved are within somewhat reasonable bounds. If we take steps soon.

But that's not the end of the story. For the first time, this year's Trustees report tells us what we would need to do to achieve actuarial balance over an infinite horizon, not just over 75 years. In other words, it tells us what we would need to do to achieve permanent actuarial balance.

How difficult would it be to reach this goal? The answer is that if we want to achieve actuarial balance permanently, the size of the problem doubles. We would have to raise payroll taxes immediately by 3.8 percentage points, not 1.9 points. And the amount of general revenues needed would triple. From $3.5 trillion to $10.5 trillion. These numbers are huge. They will require much more heavy lifting than is needed to achieve 75-year balance.

These numbers tell us that whatever combination of solutions we come up with, general revenues are almost assuredly going to have to play a big part. Without general revenues, the other solutions are just too draconian.

How hard will it be to find massive amounts of general revenues to transfer? General revenues, by definition, must come from surpluses in the non-Social Security Budget. In other words, from all of the budget – except the benefits and revenues from Social Security.

Unfortunately, in this regard, we are moving in the wrong direction, as we continue to run up bigger and bigger deficits in the non-Social Security budget. In fact, the Congressional Budget Office projects that if all of the proposals in the President's Budget were enacted, the non-Social Security budget would still have an annual deficit of over $400 billion ten years from now.

Suppose, however that we decide not to enact the President's entire $726 Billion economic growth package. For example, Peter Orszag of the Brookings Institution has calculated that if we do not enact the dividend proposal, we would save an amount over an infinite horizon that is equal to $2.4 trillion today, taking into account the time value of money.

If this amount were instead diverted into the Social Security Trust Fund, it would reduce the permanent actuarial imbalance by 25%. That's a lot of money.

Now, looking at a measure for achieving actuarial balance permanently has a disadvantage too. It has a lot more uncertainty than the 75-year measure. It means that making small changes in economic or demographic assumptions could create extremely large changes in outcomes.

Fortunately, for Trust Funds that do not exhaust during the next 75 years, there is a proxy method for analyzing whether they are in permanent actuarial balance. And this method does not involve making any projections beyond 75 years. Here it is: For each of the last few years of the 75-year period, look at the ratio of assets in the Trust Fund at the end of the year to the size of next year's expenditures. If the ratio is declining, then the Trust Funds are likely to be in permanent actuarial imbalance. However, to get a better idea for the size of the imbalance, we can and should look at projections over an infinite horizon, as is done in this year's Trustee's report for the first time.

We've found that Social Security can pay full benefits until 2042. But we must fix the system in order to pay full benefits beyond 2042. And we need to do it soon. Moreover, to put the Social Security system into balance on a permanent basis is going to require substantially more resources than we have been thinking about up to now. This means that we have to impose some very serious fiscal discipline in the rest of the budget if we are going to succeed.