Retirement Income
JOURNAL

Social Security Cash-Flow Turns Negative

By Editor Test *Thu, Mar 25, 2010*

Unemployment has forced many people to apply for benefits sooner than planned while also reducing payroll tax revenue. But the change won't affect benefits.

The Congressional Budget Office says the Social Security system will pay out more in benefits this year than it receives in payroll taxes, an event not expected until at least 2016, *The New York Times* reported.

Unemployment has forced many people to apply for benefits sooner than planned while also reducing payroll tax revenue. But Stephen C. Goss, chief actuary of the Social Security Administration, said that the change would not affect benefits in 2010.

The $29 billion shortfall projected for this year is small, relative to the roughly $700 billion that should flow in and out of the system, Goss said. The system, he added, has a balance of about $2.5 trillion that will take decades to deplete. The cushion is expected to grow again if the economy recovers.

Indeed, the Congressional Budget Office's projection shows the recession easing in the next few years, with small Social Security surpluses reappearing briefly in 2014 and 2015.

After that, demographic forces are expected to overtake the fund, as more and more baby boomers leave the work force, stop paying into the program and start collecting their benefits. At that point, outlays will exceed revenue every year, no matter how well the economy performs.

Although Social Security is often said to have a "trust fund," the term really serves as an accounting device, to track the pay-as-you-go program's revenue and outlays over time. Its so-called balance is, in fact, a history of its vast cash flows: the sum of all of its revenue in the past, minus all of its outlays. The balance is currently about $2.5 trillion because after the early 1980s the program ran surpluses, year after year.

Now the balance will slowly start to shrink, as outlays start to exceed revenue. By law, Social Security cannot pay out more than its balance in any given year.

For accounting purposes, the system's accumulated revenue is placed in Treasury securities. In a year like this, the paper gains from the interest earned on the securities will more than cover the difference between what it takes in and pays out.