Social Security: Short by 2.9% of payroll

By Editorial Staff *Fri, Aug 1, 2014*

Raising the payroll tax rate to 15.23% (without alternating the level of income subject to the tax) or reducing benefits by 17.4%, or a combination of the two, would fix Social Security overnight, the 2014 Trustees Report said.

Although millions of Americans worry that Social Security "won't be there for them" when they are older, the just-released 2014 report of the board of trustees of the Social Security old age and disability trust funds indicate—as have previous iterations of this annual reports—that the program is far from bankrupt.

Unless the government itself defaults on the special-issue bonds that it sold to Social Security in exchange for the program's surplus revenues over the years, the $2.8 trillion trust fund, interest on the special-issue bonds, and ongoing payroll tax revenues are expected to cover promised old age benefits until 2034. Tax receipts alone will cover 77% of full benefits to 2088, and 72% thereafter.

What would it take to make up that shortfall?

In their new report, the trustees estimate that the 75-year actuarial deficit for the old age and disability trust funds is currently 2.88% of taxable payroll, or slightly above the 2.72% deficit estimated in the trustees' report a year ago.

Making the Old Age and Survivors Insurance and Federal Disability Insurance Trust Funds fully solvent for the next 75 years, the latest report says, could be accomplished with an immediate and permanent payroll tax rate increase of 2.83 percentage points (to 15.23% from the current 12.40%) or a reduction in benefits for all current and future recipients of 17.4%, or a combination of the two.

"Much larger changes would be necessary if action is deferred until the combined trust fund reserves become depleted in 2033," the report said. The Trustees did not recommend those specific changes, according to a Society of Actuaries spokesperson, but was only used those numbers to quantify the shortfall.

The old age benefits aren't immediately endangered. But the federal disability insurance program is dire straits, with enough reserves to cover full disability benefits only until 2016, after which it will only be able to pay 81% of benefits. The situation could be temporarily fixed, the trustees said, if Congress moves some of the old age insurance trust fund assets into the disability trust fund, as it did in 1994.