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Executive Summary

Virtually every American politician is committed to protecting Social Security and its beneficiaries. Yet conspicuously absent from all the major budget discussions currently being contemplated by elected officials is reform of the Social Security system. Anyone who has taken the time to look through recent Social Security trustees' reports or the findings of the Bipartisan Commission on Entitlement and Tax Reform knows that the program is not sustainable in its current form. The only way for politicians to keep their commitment to the program's beneficiaries is to act to reform the Social Security system now. The American people should not fear such action; they should fear continued inaction.

Of the total $1.53 trillion in federal expenditures in 1995, Social Security was the largest, accounting for nearly 22 percent, or $334 billion. The figure is greater than the amount spent on all other entitlement programs, except Medicare, combined. By 2005 spending is expected to reach $556 billion (constant dollars). Alarmingly, the baby-boom generation will not begin retiring until approximately 2010, causing the cost of the program to balloon enormously.

The growing fiscal imbalance is a mathematical certainty that cannot be totally blamed on Congress. It is caused by the "graying" of America and the increased number of elderly who will collect benefits for a longer portion of their lives, coupled with a reduction of the number of workers available to pay for their benefits. Increasing costs of living and higher standards of living (as reflected in higher wages) also are causes of the program's growth.

After years of fiscal recklessness and political avoidance, policymakers are now faced with four choices: reduce benefit payments by altering the benefit formula or restricting eligibility, increase funding for the program, balloon the federal debt (and deficits), or restructure the program to allow individuals to save money in private accounts that yield higher returns than the current system. We cannot wait to act, as conventional wisdom suggests, until 2030--the year of projected insolvency. In approximately 2013 inflows to the program are projected to be insufficient to pay beneficiaries. To provide for adequate planning, the choice must be made well before then.

Introduction

For the past year the country's attention has been riveted on the federal budget and the serious disagreements between Congress and the president about the best way to control spending and balance the budget. Conspicuously absent from the current debate has been any mention of the single biggest federal expenditure--Social Security.[1] The only discussion of Social Security occurred early on when all parties agreed that, whatever plan was adopted, the solution to the budget crisis would not include changes to the Social Security program. Given the size of the program, the virtually unanimous decision to remove Social Security from the negotiating table seems at odds with otherwise honest
attempts to address our federal budget problem. Of the total $1.53 trillion of federal expenditures in 1995, Social Security was the largest, accounting for nearly 22 percent—or $334 billion. That figure is greater than the amount that the federal government spent on all other entitlement programs, except Medicare, combined.[2]

By the year 2005, the last year covered by Congressional Budget Office projections, the cost of the Social Security program in constant 1995 dollars is expected to increase to $556 billion. Alarmingly, Congressional Budget Office projections do not extend to the period when the baby-boom generation will begin to retire. After 2010 demographic changes will cause the cost of the Social Security program to balloon enormously.

Moreover, the figures may not accurately reflect the budgetary impact of the Social Security program. If the U.S. government was required to account for Social Security as private businesses must account for their retirement benefits, that is, to show its current unfunded pension liability, the national debt would be $17 trillion (rather than $5 trillion) because of the enormous obligation represented by the federal government's commitment to citizens under Social Security.[3]

The federal government's handling of pension monies is very different from that of private pension plans. Whereas contributions to private pension plans are invested in private-sector financial assets (stocks, bonds, and other instruments that provide a claim against real assets), Social Security revenues that are not paid out to current beneficiaries are not saved or invested in the marketplace. The funds are borrowed by the federal government to pay current operating expenses and replaced with government bonds. When the time comes for the federal government, which holds no earmarked assets for the contingency, to repay those obligations, it will have to do so by issuing additional debt or raising taxes. Instead of holding investments with real assets underlying their value, the Social Security "trust" fund represents claims based on the federal government's ability to tax, or continue to borrow from, the next generation of participants in the economy. For a variety of reasons discussed below, the burden existing promises impose on future generations is so great that it threatens the very existence of the Social Security program unless significant changes are undertaken.

If policymakers are aware of the size and growth of the program, why has Social Security not been considered during the current budget debate? The program is not only a significant part of the budget, but its projected growth means that it will continue to be responsible for the lion's share of federal spending. The ominous silence has not occurred because either politicians or the American people believe that Social Security is a "perfect" federal program that should be left unchanged. To the contrary, recent public opinion polls indicate that Americans under the age of 30 do not believe that they will receive Social Security benefits when they reach retirement age. One survey revealed that more members of this generation of young Americans believe in UFOs than believe in the long-term viability of the Social Security system (Figure 1).[4] Other surveys likewise consistently evidence the public's skepticism about the viability of the program.[5]

Moreover, each Social Security trustees' report in the past few years has proclaimed the fiscal imbalance of the program, urging collective action by the administration and Congress to address the problems "sooner rather than later." The 1994 report stated that "changes that will be required can be relatively small if they are begun in the near future. However, the magnitude of those changes grows each year change is delayed."[6] The most recent report concluded that legislative action is needed to ensure the long-range financial integrity of the Social Security system.[7] The Bipartisan Commission on Entitlement and Tax Reform, comprising 12 senators and 10 representatives from both parties, as well as leaders from state and local government and private industry who were appointed by the president, painted a very unsettling picture of the health of the program if action is not taken. The commission found that "spending and revenue available for the program must be brought into long-term balance."[8]

In fact, few, if any, major policy analysts or Social Security actuaries characterize reform of the program as optional, rather than as absolutely necessary. And few experts would advise that changes, whatever their nature or shape, should be instituted later, rather than sooner. Instead, nearly all would describe the need for restructuring as urgent and unavoidable.

It seems strange that, despite well-founded concern for the future of Social Security, the president and congressional
leadership do not contemplate taking action in the short term. Perhaps they are not discussing reform because, although they acknowledge that the program is sick, they believe that plenty of time remains in which to find a lasting cure. After all, the insolvency of the Social Security Trust Fund is not projected to occur until 2030. Perhaps some policymakers perceive bankruptcy as a very distant possibility and, believing that the accuracy of long-term projections is always suspect, hope that the problems will simply disappear with the passage of time. Perhaps some policymakers believe other, arguably more pressing, problems must be addressed before they turn their attention to Social Security. Or perhaps the interest groups that oppose reform have mounted such a successful campaign to dissuade legislators from taking action that policymakers view reform as politically impossible, despite widespread knowledge of the significant and intractable problems. Most likely, the explanation of the silence lies in some combination of those reasons.

The reasons for taking immediate action to shore up the solvency of the Social Security program vastly outweigh any conceivable reasons for not doing so. The Social Security system is the largest federal social policy program, and it may be the most successful federal program in history. It provides cash and health insurance to the elderly and disabled, lifts millions out of poverty, and provides older Americans the means to live their last years in dignity. The program is too important to the many who rely on it for us to continue to ignore its problems and to fail to take decisive action in response to the need for restructuring.

Strong political pressures are partly responsible for the failure to discuss reform. Before the Bipartisan Commission presented even one recommendation concerning Social Security, it received 350,000 post cards from senior citizens lambasting the commission and its members. Nonetheless, the political fallout from the failure to act now will be substantially more devastating than beginning the search for solutions. Virtually every American politician has promised to protect Social Security and its beneficiaries. The only way to keep that commitment is to restructure the system now. Anyone who has looked through the trustees' latest report or skimmed the recommendations of the Bipartisan Commission must be aware of the urgent need for a serious national discussion of the future of Social Security. Certainly, courageous politicians willing to embark on that task will face the challenge of communicating the need for action to the American public and of overcoming citizens' fear and distrust of any governmental action taken with respect to Social Security. Only through public education and open and vigorous public debate that directly addresses the false claims of opposing interest groups can we hope to solve the serious fiscal crisis in the Social Security system.

Throughout the process of reform, we need to keep in mind the primary function of the Social Security program--to provide benefits to the needy and to prevent destitution and dependency of the elderly. What was meant to be a social safety net has turned into a massive money machine that transfers wealth between generations regardless of need. In part, lawmakers brought on the crisis in Social Security because they lost sight of the primary objective and transformed the program into a much broader initiative than it was ever designed to be. In their book Retooling Social Security for the 21st Century, Eugene Steuerle and Jon Bakija discuss the principle of progressivity that motivated the architects of the Social Security program when it was enacted in 1935. The system was constructed so that taxes were collected from the relatively well-to-do--working Americans--and redistributed to a group that was relatively poorer--retired citizens. Thus, a primary feature of the program was intergenerational redistribution on the theory that older retirees were generally needier than the Americans who were contributing to the program.

The Myth of the Social Security Trust Fund

Social Security provides monthly benefits to retired workers and their dependents and to survivors of insured workers. The program has been expanded steadily since its inception nearly 60 years ago; today it covers approximately 43 million individuals. The Social Security program is credited with reducing to 13 percent the proportion of senior households with incomes at or below the poverty level, a figure that would otherwise stand at 50 percent. In fact, Social Security provides about 90 percent of the total income for almost half of the senior households below the poverty line.

For some time, policymakers have been aware that the baby-boom generation will pose challenges for the Social Security program. Historically, the program has been run largely on a pay-as-you-go basis. In other words, what we call a "trust fund" is really only a conduit through which the payroll taxes collected from today's workers are
redistributed to retirees and other beneficiaries. The 1983 amendments to the Social Security program, which represent the last major reform effort and which anticipated the special burdens that the baby boomers' retirement will place on workers in the future, included provisions for raising payroll taxes paid by members of that generation, thereby accumulating a substantial trust fund to prefund a larger share of the baby boomers' own retirement benefits than had been the case for prior generations. The amendments also gradually increased from 65 to 67 the age at which one can retire and receive full benefits.

In the first projections made after the adoption of the 1983 amendments, the Social Security Trust Fund was estimated to be solvent until at least 2063. Actuaries projected that the trust fund would grow from about $27.5 billion in 1983 to a peak of about $20.7 trillion in 2045 (in current dollars). In almost every year since 1983, the trustees have relied on increasingly less optimistic projections, and they have revised downward the estimates of the accumulations in the trust fund. By 1994 the peak asset year was no longer projected to be 2045, but rather to be 2020. Moreover, the peak figure was substantially reduced; the trust fund was projected to hold $3 trillion in 2020 (or $1.1 trillion in 1994 dollars).

As Figure 2 shows, even with the revised projections, the Social Security Trust Fund is currently running a surplus and will continue to do so in the near term. The annual surplus is estimated to be about $65 billion this year, rising to nearly $100 billion by the turn of the century. Once the baby-boom generation begins to leave the workforce in approximately 2010, however, the surplus rapidly begins to decline. The trustees' best estimate is that the trust fund will be bankrupt by 2030, when Americans who are now 30, 40, and 50 years old expect to be recipients.

If the trust fund is projected to be solvent for over three decades, why the need for immediate reform? The dynamics of the fund suggest that the system will face serious problems long before 2030. About one-half of the surplus is attributable to positive cash flow (i.e., the excess inflow of payroll taxes plus the revenue generated by the taxation of some Social Security benefits) over outlays to current beneficiaries. That money is used to purchase federal Treasury obligations that are credited to the trust fund; the government then uses the money it has borrowed from the trust fund to meet current operating expenses. The other half of the trust fund surplus can be traced to accounting transactions in which interest owed to the fund on Treasury obligations is credited to the fund. Accordingly, the trust fund's actual cash flow, or operating balance, is lower than its reported balance--by about half. In addition, the fund contains no money; it is full of federal IOUs representing the principal of the money loaned to the federal government and the interest that has accumulated.

The details of the surplus are important and often overlooked. Indeed, the term "trust fund" itself masks--perhaps intentionally--the fact that there is no money locked safely away for future retirees; there are only promises by the federal government to repay the fund, with interest, the money it has been using. As Figure 2 indicates, by approximately 2013 the cash outflow to beneficiaries will exceed the cash inflow from tax revenues, forcing the trustees to begin to spend down the trust fund. When they want to withdraw the cash surplus that has been accumulating, the trustees will find only federal Treasury obligations. In order to draw down the trust fund's assets and pay Social Security benefits in a timely manner, the trustees will have no choice but to call in the IOUs.

At that point the federal government will face two very unpleasant realities. First, the absence of cash flow into the trust fund will deprive the government of a source of revenue it has used to meet current operating expenses. More important, perhaps, the government will have to find the money to pay off its debt to the Social Security system. It will have several alternatives, most of which are unpalatable or unwise, or both. The government could increase payroll or other taxes to raise money, or it could borrow money by issuing new bonds and use the proceeds to pay off the prior obligations held by the trust fund. It could decide to monetize the debt (to print more money), but the economic repercussions of that course of action are serious, and potentially disastrous. Finally, the government could cut benefits to Social Security recipients so that benefits equaled the level of revenues coming into the trust fund, but such an abrupt and substantial reduction in benefits would be politically difficult and potentially detrimental to needy beneficiaries.

In short, if no action is taken in the interim, by approximately 2013 the federal government will have to raise taxes, increase the debt, print more money, reduce Social Security benefits immediately, or do some combination of those
things to rectify the Social Security cash-flow imbalance. The surplus will be gone. The amounts needed by the Social Security system, even in the early years, are not insignificant. In 2015 the government will have to find approximately $57 billion to meet its obligations. By 2020 the revenue shortfall will have grown to $232 billion. Thus, concentrating on the Social Security surplus and allowing its presence to justify current inaction appear myopic.

What Is Causing the Fiscal Imbalance? Demographics

The demographic makeup of America is changing. The share of the population over the age of 65 will continue to grow well into the next century. Today, approximately 13 percent of the population of the United States is over age 65. By 2030 that percentage will increase to more than 20 percent. As a reference point, in 1991, 18.4 percent of the population of Florida was over the age of 65. In 2030 the entire United States will have a demographic profile similar to that of Florida today. Even more surprising, in less than 50 years, there will be as many Americans aged 80 and older as there are now people over 65.

As the baby-boom generation begins retiring, around 2010, this country will have a greater proportion of elderly citizens than it ever has. Approximately 24 million people over the age of 70 live in the United States today. By the year 2030, twice as many septuagenarians--48 million--will be alive. Those demographic trends are illustrated in Figure 3. Their increased numbers have given the elderly significant political clout. Spending on the elderly now accounts for nearly one-third of the federal budget and more than one-half of all federal domestic spending other than interest. As the group makes up more and more of the population, its visibility and political influence will undoubtedly intensify.

More important for the Social Security system, in the 1950s there were approximately eight working-age Americans for every person over 65 years old. As Figure 4 shows, by 2030, there will be just two working-age Americans for every person older than 65. Accordingly, fewer workers will be available to support the increasing number of retirees.

Exacerbating the situation caused by an increasing number of retiring Americans is the fact that we are now living a great deal longer than did our grandparents. The framers of the Social Security system designed it with contemporary life spans in mind. When they created the program in 1935 and chose 65 as the benchmark retirement age, the average life expectancy of a child born in that year was only 61. Today, the average life expectancy is 76 years, and by 2030 it is expected to approach 80 years of age. Figure 5 shows the change in life expectancy, a testament to improvements in health care and nutrition but a ticking time bomb for the solvency of an unaltered Social Security system. As increasing numbers of Americans claim Social Security benefits and do so for a much longer period of time than was originally envisioned, and as fewer workers are available to support those transfer payments, the strain on the Social Security system threatens to rip the program apart at the seams.

Cost of Living Adjustments

Automatic increases in benefits account for about one-third of the increased spending on all entitlement programs. Cost-of-living adjustments (COLAs), which are pegged to the overall consumer price index, are expected to average more than 3 percent annually through the year 2000. Benefits of Social Security, the largest entitlement program, are increased annually through COLAs so that the basic monthly payment remains constant in real terms after age 62; a significant portion of the expected growth in the cost of Social Security stems from that feature of the program. Benefits are indexed not only to prices; the benefits formula also is indexed to wages. The benefits formula employs a series of "bend points," or dividing points, that make benefits progressive. Benefits are a proportion of workers' average indexed monthly earnings, and the proportion varies progressively according to the amount of earnings. Those with lower monthly earnings receive a larger proportion of their earnings than those with higher monthly earnings. Bend points are determined for each group of retirees for a particular year and remain fixed after the initial determination. Bend points are increased for each successive group of retirees on the basis of wage growth in the economy. As Eugene Steuerle and Jon Bakija explain, "Wage indexing of bend points ... tends to keep the ratio between [benefits and average monthly earnings] constant for people with similar relative earnings history but different birth years, and keeps average benefit levels for each successive cohort growing at roughly the same rate as average wages in the economy." In their intermediate projections for the trust fund, the Social Security trustees estimate that
wage growth will exceed inflation by 1 percent. Of course, as benefit levels increase for each successive generation, the amount of money obligated to those benefits grows. The higher costs, coupled with more beneficiaries (due to increases in longevity and baby-boom retirements) and fewer workers to support them, are the crux of the financial strain on the Social Security system.

Thus, the primary causes of the growth in Social Security that is projected to occur over the next several decades are not factors that Congress can control. The program's growth will be driven by the "graying" of America, an increasing cost of living, and a higher standard of living (as reflected in higher wages). Congress must recognize those trends, however, and understand that they will place a substantial strain on the economy and the social programs that provide a safety net for the less well-off in our country. In the end, Social Security is simply not sustainable in its current form at existing funding levels. Policymakers have four choices: alter the benefit formula, increase funding for the program, balloon the deficit to meet existing obligations, or restructure the program to allow individuals to save money in private accounts that yield higher returns than the current system. Until serious reforms are undertaken, the American people will rightly lack confidence in the financial stability of Social Security, and the country's financial house will remain seriously out of order--with or without a successful resolution of the current budget crisis.

Principles for Reform

The previous discussion has illuminated the true nature of the Social Security "surplus" and the reasons that the condition of the program will only worsen in the future. Reform of the program is unavoidable and essential. The following principles should be incorporated in the effort to restructure Social Security.

1. Reform should be instituted immediately, so that it can be phased in over time. The longer the delay in solving Social Security's financial imbalance, the more dramatic the steps that must be taken. By way of example, Social Security payroll taxes in 1995 were 12.4 percent of wages up to $61,200 (paid equally by employers and employees). The Social Security trustees have concluded that an immediate 2.13 percent combined payroll tax increase would bring the program into 75-year actuarial balance.[19] Financing through higher taxes, as has been done at least 17 times in the past, would mean a tax increase of over $300 billion over the next five years--significantly larger than the $268 billion tax increase passed in 1993. Alternatively, if nothing is done until insolvency occurs in 2030, payroll taxes would have to rise 4 percentage points to 16.5 percent of the Social Security payroll tax base to offset outlays (that would be on top of Medicare Part A payroll taxes). Figure 6 shows the increases in the payroll tax rate and the wage base since the program's inception. Each increase in labor taxes has contributed to a dampening of wage growth and deprived individuals of the ability to save on their own. Although raising payroll taxes to ameliorate Social Security's financial woes is the wrong approach to reform, this example demonstrates the financial costs of delaying reform.

Delay is unacceptable for other reasons as well. Individuals should be given time to incorporate changes in the Social Security program into their long-term financial plans. In addition, changes to the program will almost certainly have an effect on the responsibility of employers. Many private-sector retirement plans are integrated with Social Security benefits, and those plans will have to be changed to reflect reforms in the government program. Moreover, immediate and significant changes to the program will not prove easy politically. As we see now with proposed changes to the Medicare program--changes necessary to prevent its pending insolvency--changes to programs benefiting the elderly require substantial political will and face coordinated and substantial opposition.

3. Reform should account for the realities of longer life spans and the increased ability of individuals to remain a productive part of the workforce for a longer portion of their lives. As life spans increase, beneficiaries are collecting benefits for a quarter of their lives--or longer.

5. Reform should maximize economic efficiency. The Social Security system is not a good investment for most working Americans. That was not always true. A recent study by the Tax Foundation reveals that "Social Security provided workers retiring before the early 1980s with substantial real rates of return on their
employer/employee payroll tax payments, because these people generally received benefits based on their highest lifetime wage levels but faced relatively low lifetime payroll tax rates and, in many instances, paid no payroll taxes for a large fraction of their working lives."[20] The early high rates of return on Social Security account, in large measure, for the program's political popularity. However, many beneficiaries retiring today and in the future will see low rates of return (compared to other investments and by historical standards) or negative returns as they pay the increased level of payroll taxes for a greater percentage of their working lives.

Moreover, the benefit formulas do not provide equal benefits to similarly situated beneficiaries. Whereas an average-wage-earning couple aged 79 in 1996 will receive a 17 percent return on their Social Security investment, a 64-year-old, similarly situated couple will receive a return of less than 2 percent. For younger couples, the return on investment will be negative. Working Americans' investment in the Social Security system should not result in a lower return than they could get from private investment alternatives with a comparable risk profile.

7. Reform should transform at least a portion of the Social Security program into a true savings program. To the extent that current surpluses in the trust fund are invested in federal obligations, with the Treasury in turn spending the funds to meet current operating expenses, Social Security contributions do not result in an increase in the net national savings rate. An individual should be able to divert all or part of his Social Security taxes to a personal retirement account separate from the trust fund. Contributions to those personal accounts could be taxed and earnings and distributions not taxed, or contributions could be tax-free with distributions taxed when distributed. It may also be advisable to let contributors match their Social Security-replacement contributions with additional funds.

The amounts in personal accounts would be available for investment in assets other than federal obligations and could be controlled by the contributor, who would be informed that the potential for increased return would be related to an increase in the risk involved in the investment. Funds invested in the economy by the contributor would not be available to be spent by the federal government. The difference in the return could be substantial. For example, in a recent study for the Cato Institute, William Shipman, a principal with State Street Global Advisors, compared the projected returns from Social Security and private capital markets. According to Shipman, allowing people the freedom to invest their Social Security taxes in financial assets such as stocks and bonds produces yields three to six times higher than Social Security.[21] Further, to foster the accumulation of wealth, such funds could be passed on to the contributor's heirs should he or she not exhaust them during life.

9. Reform should treat similar taxpayers similarly. Aspects of the current system that result in different benefit levels to similarly situated taxpayers who contributed identical amounts of taxes should be eliminated. For example, two couples with identical earnings and payroll tax contributions receive different benefits upon retirement if one member of one couple worked and both partners in the other couple worked and each earned half of the wage of the single earner in the first couple. The one-earner couple would receive $21,600 (in 1995 dollars) in benefits annually while both spouses are alive and $14,400 after the death of one, compared to $19,272 and $9,636, respectively, for the two-earner couple.

11. Payroll taxes should not be increased to fund additional benefits. Too often in the past, funding imbalances have been addressed with payroll tax increases. In 1937, the first year of Social Security taxes, the tax rate was 2 percent on wages up to $3,000. Figure 6 shows that the situation in 1995 was very different. Today, the Social Security tax rate is 12.4 percent of wages up to $61,200; that tax is in addition to the Medicare tax, which is now 2.9 percent of all wages. Increased payroll taxes significantly depress wage growth and the standard of living for all working Americans. Virtually every economist agrees that all the burden of the employer's share of the payroll tax is actually borne by the worker through reduced wages. In addition, such taxes deprive many workers of the ability to accumulate private savings.
The principles for reform of the Social Security system must be delineated early so that national debate can include a full consideration of them. Social Security touches the lives of virtually every American. If a successful restructuring of the system is to be implemented, the American people must be informed of the problems and the need for action. Lawmakers must work to develop a consensus about the principles of reform, so that all citizens can be confident that the changes are fair as well as necessary.

Focusing on the Social Security system alone may be unduly and unwisely confining. The federal government's role in providing retirement benefits to a significantly increasing elderly population is going to prove extremely costly as the country moves into the 21st century--costly to American workers and costly to the economy. The federal government should plan also to strengthen the other two legs of the stool that supports people during their retirement years--private savings and employer-provided retirement plans--so as to ease the pressure on the federally financed leg.

When President Clinton charged the Bipartisan Commission with its important task, he said, "The Commission will be asked to grapple with real issues of entitlement reform. . . . This panel, I expect, will ask and answer the tough questions. . . . [M]any may regard [this] as a thankless task. It will not be thankless if it gives us a strong and secure and healthy American economy and society moving into the 21st century."[22] Although the commission has finished its work, the process of reforming a vital American program--Social Security--is only beginning.

Figure 1
Survey Results

Do you think Social Security will still exist by the time you retire?

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<table>
<thead>
<tr>
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<tr>
<td>Yes</td>
<td>- 28%</td>
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<td>- 63%</td>
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<td>Don't know/Refused</td>
<td>- 9%</td>
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Do you think UFOs exist?

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<td>- 11%</td>
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Source: Luntz Research Companies and Mark A. Siegel and Associates, "Third Millennium," September 1994. (Note: People interviewed were between the ages of 18 and 34; N = 500; margin of error = ±4.4 percent.)

Figure 2
Social Security Revenues and Outlays
Figure 3
Number of Americans over 70 (millions)

[Bar graph omitted. Data presented in tabular form.]

<table>
<thead>
<tr>
<th>Year</th>
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<tbody>
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<td>2000</td>
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<td>2010</td>
<td>27.3</td>
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<td>34.8</td>
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Figure 4
Ratio of Working-Age Americans to Persons 65 and Older


Figure 5
Life Expectancy by Year of Birth

[Bar graph omitted. Data presented in tabular form.]

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<thead>
<tr>
<th>Year</th>
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<tbody>
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### Payroll Tax Rates and Wage Bases

[Bar graph omitted. Data presented in tabular form.]

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<tr>
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<td>2.0%</td>
<td>($3,000)</td>
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<tr>
<td>1957</td>
<td>4.5%</td>
<td>($4,800)</td>
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<tr>
<td>1977</td>
<td>11.7%</td>
<td>($16,500)</td>
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<tr>
<td>1995</td>
<td>15.3%</td>
<td>($61,200/12.4%; no cap/2.9%)</td>
</tr>
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### Notes

1. Proposals by some members of Congress to adjust the consumer price index (CPI) to reflect more accurately increases in the cost of living would affect Social Security outlays.

2. All means-tested programs (e.g., Medicaid, food stamps, Supplemental Security Income, veterans', pensions, child nutrition, family support, and the Earned Income Tax Credit) are expected to cost $193 billion; federal civil and military retirement programs, $74 billion; federal unemployment compensation, $21 billion; and miscellaneous other programs, $42 billion. Congressional Budget Office, "Baseline Projections for Mandatory Spending," April 1995.


5. Dee, for example, the surveys done by the Wirthlin Group in January 1995 and the Gallup Organization, for the Employee Benefit Research Institute, in January 1995.


11. "The payroll tax actually funds several different trust funds: 1) The Old-Age and Survivors Insurance (OASI) Trust Fund is used to pay monthly benefits to retired workers, to their spouses and minor children, and to survivors of deceased workers. Those are the benefits most commonly thought of as Social Security. 2) The Disability Insurance (DI) Trust Fund is used to pay benefits to disabled workers their spouses and minor children and to provide rehabilitation services for the disabled. The DI Trust Fund is often linked with the OASI Trust Fund as OASDI to distinguish them from the Hospital Insurance Trust Fund. 3) The Hospital Insurance (HI) Trust Fund is used to pay hospital costs under Medicare Part A. That trust fund was established in 1965.

12. As have all the projections relating to Social Security, the date of insolvency has been continually revised since the 1983 amendments. Immediately after the amendments were adopted, the trustees estimated that insolvency would occur
in 2063. By 1990 they had moved the date forward to 2043. In 1993 the date was again moved forward to 2036; and in 1994, to 2029. The latest trustees' report contains the new estimated insolvency date of 2030.

13. By law, the trustees are allowed to invest only in government bonds. 42 U.S.C. 401.

14. Printing more money would probably add to inflation, which would increase consumer prices. An increase in consumer prices would result in larger increases in cost-of-living adjustments, which in part determine the level of Social Security benefits paid out. Monetization could cause a vicious cycle that would increase benefit payments and exacerbate the problem.


17. Steuerle and Bakija, p. 60.

18. Ibid., pp. 78-79.

19. Actuarial balance generally means that the present value of future outlays is matched by the current trust fund surplus plus the present value of future tax revenues. For purposes of actuarial balance, the immediate increase in payroll taxes effectively prefunds future Social Security benefits.


22. Bipartisan Commission on Entitlement and Tax Reform, p. 5.