

Resource Sheet #16

“Why Social Security is Not in Crisis” by Bernard Wasow, The Century Foundation, November 15, 2004

Scare Tactics:

Opponents of Social Security have been striving to convince American workers, especially young adults, that Social Security will no longer exist by the time they retire. Phrases such as “imminent crisis” and “unmanageable costs” lace this rhetoric. To a large extent, this alarmism is voiced by those who are hostile to government and therefore favor replacing all or part of one of this nation’s most successful and essential programs with private investment accounts. The creation and expansion of Social Security in the twentieth century is one of the main reasons why the poverty rate among the elderly declined from more than 35 percent in the 1950s to around 10 percent today. Social Security is an essential source of retirement income for the majority of older Americans, providing an average benefit of about \$10,000 per year. For almost two-thirds of households headed by someone age sixty-five or over, Social Security provides more than half their income; for 12 million of those households, the program provides at least 90 percent of their income. Diverting a portion of Social Security taxes into a system of private investment accounts—the favored option for those who claim the program is in crisis—would have profound consequences. It would undermine a guaranteed minimum retirement income, indexed to the rate of inflation, in exchange for a chance to win—or lose—in financial markets. It also would erode guaranteed support for dependents and survivors of retirees.

Reality Check:

The argument for dramatically overhauling such a successful program largely depends on the claim that the system is in crisis and cannot survive without fundamental changes. The facts show, however, that Social Security faces no such crisis. Better than Ever Social Security is stronger today than it has been at any time in its history. The program had a major boost in 1983, when policies were implemented that had been recommended by a commission appointed by President Ronald Reagan and headed by Alan Greenspan. As a result, since 1983, the Social Security trust fund reserves have risen from essentially zero to more than \$1.6 trillion. These reserves were achieved primarily by a slight increase in the payroll tax and a gradual increase in the retirement age. Figure 1 shows how those changes caused reserves to balloon after the mid-1980s.¹ As Figure 2 shows, trust fund reserves are projected by the Social Security trustees to grow for another twenty years. At that point, the trustees predict that the reserves will begin to decline, running out in 2042. (The Congressional Budget Office recently projected that the reserves would last until 2052.) If nothing were done between now and the depletion of the reserves, benefits would have to be cut by about 25 percent thereafter. Different people can have different definitions of a crisis, but it is hard to imagine how a problem predicted to arrive nearly a half-century in the future would be designated a crisis today. By that timeline, the “Y2K crisis” would have been a great concern in 1960. In the case of Social Security, some anticipatory action may be warranted, but it would be unwise to act hastily when so much is at stake.

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