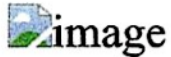


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Social Security's Looming Problem Is Already Here

You may have read recently about a retirement crisis that's just over the horizon. It's actually already here.

The 33 senators elected to full terms in November will have the unpleasant distinction of being the first U.S. politicians who might have to deal with automatic Social Security benefit cuts while in office. Actuaries now peg the fourth quarter of 2032 as the date when the Old-Age and Survivors Insurance Trust Fund will run dry, reducing checks by more than one-fifth. Note

Thinking of that only as a potential problem years from now isn't quite right, though. Payroll taxes stopped being enough to cover the retiree and disability programs' expenses 16 years ago. Interest income kept their combined trust funds from shrinking until five years ago. Last year, the retiree-and-survivor fund's reserves shrank by \$200 billion to \$2.34 trillion, and the shortfalls will grow.

Payroll taxes to support Social Security get spent right away, with any surplus turned into special-issue IOUs outside the regular Treasury debt market. Now that its main trust fund is shrinking, the line item for Social Security spending looks the same but the federal budget needs extra cash from regular Treasury investors. Note

That's getting trickier at a time of rising fiscal worries. Even for those Americans with enough personal savings to consider Social Security a supplement, not what will keep a roof over their heads, that matters. It could affect taxes, mortgage rates and stock and bond portfolios. Note

The funds' projected depletion is just the date by which something must be done politically on its cost or income ledger. Bold fixes have happened before—notably on a bipartisan basis in the 1980s. They could include higher payroll taxes or extending the levy to investment income.

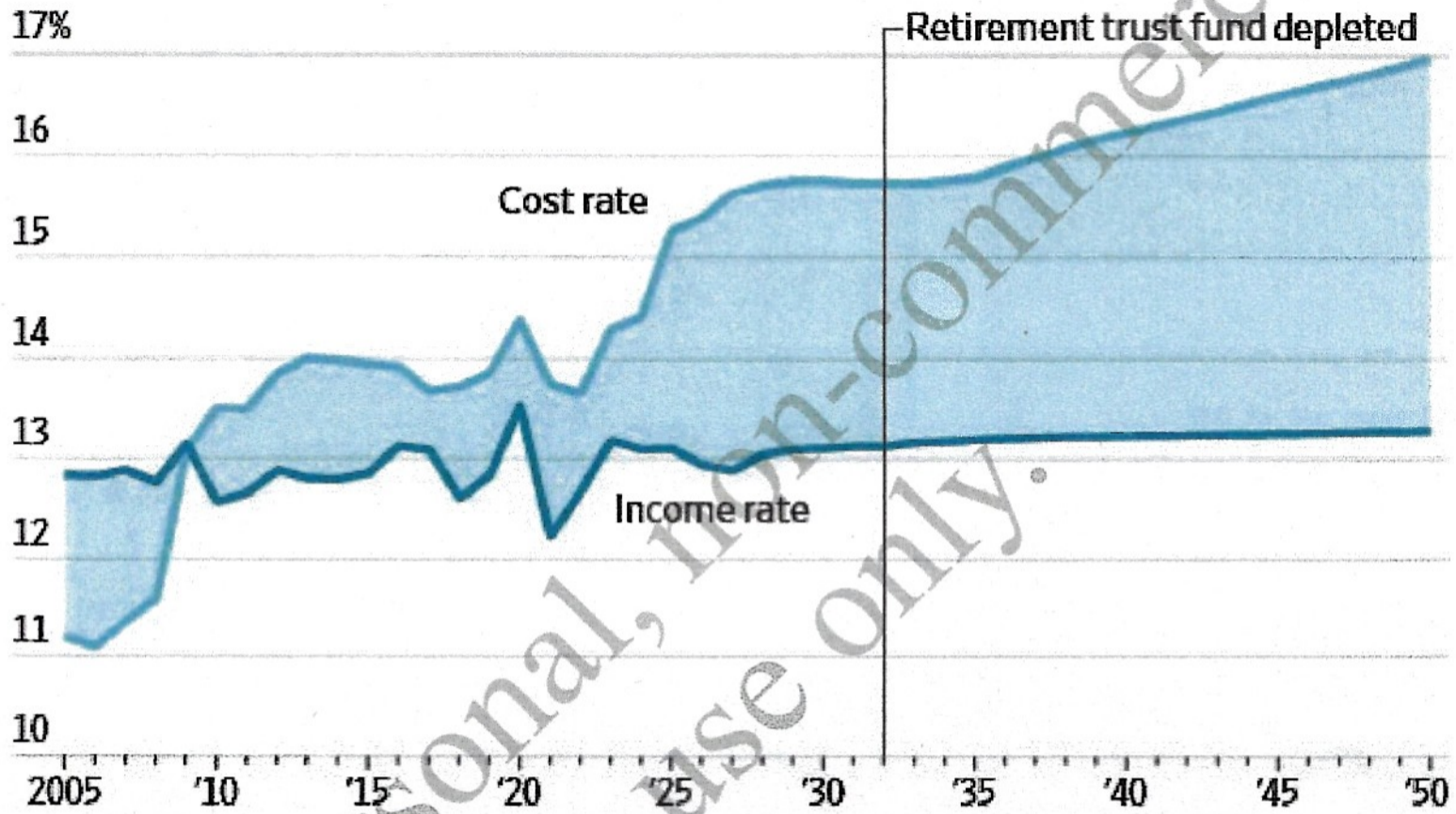
Congress also could direct the general federal budget to plug the gap, but that would mean either raising regular income taxes or borrowing much more money. Even with rosy assumptions such as no recessions ever, the Congressional Budget Office already projects a federal budget deficit of \$2.7 trillion in fiscal year 2033.

Benefit cuts could help plug the gap, too, such as by slowing cost-of-living adjustments or paying less to wealthy retirees. But Social Security is a large enough chunk of national income that the consumer spending impact would be felt no matter who gets smaller monthly checks.]

Senators still have time before they need to make unpopular decisions. Investors and taxpayers can't just decide to kick the proverbial can down the road, unfortunately. Social Security's funding gap could make itself felt much sooner.

—Spencer Jakab

Social Security cost and income as share of taxable payrolls



Note: Combined retiree, survivor and disability

Source: Social Security Administration

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