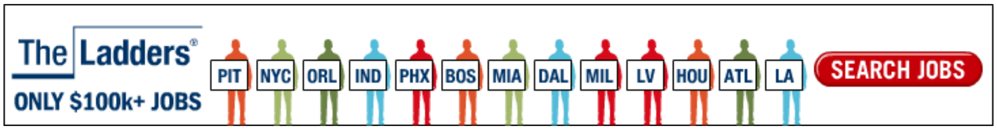


Social Security to See Payout Exceed Pay-In This Year

By MARY WILLIAMS WALSH
Published: March 24, 2010

The bursting of the real estate bubble and the ensuing recession have hurt jobs, home prices and now Social Security.

This year, the system will pay out more in benefits than it receives in payroll taxes, an important threshold it was not expected to cross until at least 2016, according to the Congressional Budget Office.

Stephen C. Goss, chief actuary of the Social Security Administration, said that while the Congressional projection would probably be borne out, the change would have no effect on benefits in 2010 and retirees would keep receiving their checks as usual.

The problem, he said, is that payments have risen more than expected during the downturn, because jobs disappeared and people applied for benefits sooner than they had planned. At the same time, the program's revenue has fallen sharply, because there are fewer paychecks to tax.

Analysts have long tried to predict the year when Social Security would pay out more than it took in because they view it as a tipping point — the first step of a long, slow march to insolvency, unless Congress strengthens the program's finances.

"When the level of the trust fund gets to zero, you have to cut benefits," Alan Greenspan, architect of the plan to rescue the Social Security program the last time it got into trouble, in the early 1980s, said on Wednesday.

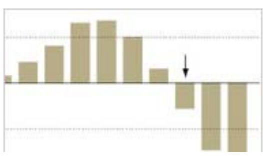
That episode was more dire because the fund could have fallen to zero in a matter of months. But partly because of steps taken in those years, and partly because of many years of robust economic growth, the latest projections show the program will not exhaust its funds until about 2037.

Still, Mr. Greenspan, who later became chairman of the Federal Reserve Board, said: "I think very much the same issue exists today. Because of the size of the contraction in economic activity, unless we get an immediate and sharp recovery, the revenues of the trust fund will be tracking lower for a number of years."

Simple Steps to Fix Social Security

What Congress can do to keep the program stable.
Post a Comment »

Multimedia



Graphic
Shrinking Sooner Than Expected

Related

Times Topic: Social Security (US)

The Social Security Administration is expected to issue in a few weeks its own numbers for the current year within the annual report from its board of trustees. The administration has six board members: three from the president's cabinet, two representatives of the public and the Social Security commissioner.

Though Social Security uses slightly different methods, the official numbers are expected to roughly track the Congressional projections, which were one page of a voluminous analysis of the federal budget proposed by President Obama in January.

Mr. Goss said Social Security's annual report last year projected revenue would more than cover payouts until at least 2016 because economists expected a quicker, stronger recovery from the crisis. Officials foresaw an average unemployment rate of 8.2 percent in 2009 and 8.8 percent this year, though unemployment is hovering at nearly 10 percent.

The trustees did foresee, in late 2008, that the recession would be severe enough to deplete Social Security's funds more quickly than previously projected. They moved the year of reckoning forward, to 2037 from 2041. Mr. Goss declined to reveal the contents of the forthcoming annual report, but said people should not expect the date to lurch forward again.

The long-term costs of Social Security present further problems for politicians, who are already struggling over how to reduce the nation's debt. The national predicament echoes that of many European governments, which are facing market pressure to re-examine their commitments to generous pensions over extended retirements.

The United States' soaring debt — propelled by tax cuts, wars and large expenditures to help banks and the housing market — has become a hot issue as Democrats gauge their vulnerability in the coming elections. President Obama has appointed a bipartisan commission to examine the debt problem, including Social Security, and make recommendations on how to trim the nation's debt by Dec. 1, a few weeks after the midterm Congressional elections.

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 had surplus revenue, year after year.

Now that accumulated revenue 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.

Mr. Goss, the actuary, emphasized that even the $29 billion shortfall projected for this year was small, relative to the roughly $700 billion that would flow in and out of the system. The system, he added, has a balance of about $2.5 trillion that will take decades to deplete. Mr. Goss said that large cushion could start to grow again if the economy recovers briskly.

Indeed, the Congressional Budget Office's projection shows the ravages of the recession easing in the next few years, with small 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.

Mr. Greenspan recalled in an interview that the sour economy of the late 1970s had taken the program close to insolvency when the commission he led set to work in 1982. It had no contingency reserve then, and the group had to work quickly. He said there were only three choices: raise taxes, lower benefits or bail out the program by tapping general revenue.

The easiest choice, politically, would have been "solving the problem with the stroke of a pen, by printing the money," Mr. Greenspan said. But one member of the commission, Claude Pepper, then a House representative, blocked that approach because he feared it would undermine Social Security, changing it from a respected, self-sustaining old-age program into welfare.

Mr. Greenspan said that the same three choices exist today — though there is more time now for the painful deliberations.

"Even if the trust fund level goes down, there's no action required, until the level of the trust fund gets to zero," he said. "At that point, you have to cut benefits, because benefits have to equal receipts."

Stephanie Strom contributed reporting.

A version of this article appeared in print on March 25, 2010, on page A1 of the New York edition.

Past Coverage

ECONOMIC SCENE; A Drop In the Wrong Bucket (October 28, 2009)
Recession Erodes 2 Largest Funds In U.S. Safety Net (May 13, 2009)
Official Says State Cuts Are Delaying U.S. Benefits (April 13, 2009)
Obama Finds Resistance in His Party on Addressing Social Security (February 23, 2009)

Related Searches

Social Security (US)	**Get E-Mail Alerts**
United States Economy	**Get E-Mail Alerts**
Recession and Depression	**Get E-Mail Alerts**

INSIDE NYTIMES.COM

FASHION & STYLE »

A Collector of Scoops Steps Down

HOME & GARDEN »

Container Gardens Get Spring Started Indoors

N.Y. / REGION »

A 'Jail' for Children Stirs a Ruckus in Brooklyn

OPINION »

Bloggingheads: G.O.P.'s Misplayed Hand

Joshua Cohen and Brink Lindsey discuss why the G.O.P. lost the fight over health care reform.

MOVIES »

A Cheesy Horror Turkey Becomes a Cult Hit

OPINION »

Letters: National or Local School Standards?