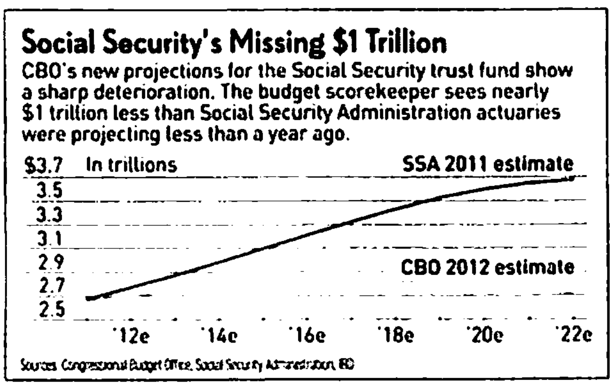
INVESTORS.com
POWERED BY INVESTOR'S BUSINESS DAILY

BUSINESS

Social Security Trust Fund Outlook Takes $1 Tril Dive

By JED GRAHAM , INVESTOR'S BUSINESS DAILY
Posted 02/02/2012 08:05 AM ET



View Enlarged Image

The outlook for Social Security's trust fund has deteriorated to an astonishing degree over the past year, new Congressional Budget Office projections show.

The nonpartisan budget scorekeeper released the estimates Tuesday as part of broader economic and budget forecasts. CBO expects the trust fund to peak in 2018 and decline to $2.7 trillion in 2022 — a full $1 trillion less than Social Security's own actuaries predicted last year

The new trajectory suggests that the trust fund's current depletion date of 2036 may jump ahead several years when Social Security's trustees release their annual report this spring, making the retirement program more central to the 2012 election .

The trust fund doesn't mean much for the government's ability to afford benefits — Social Security's assets are offset by Treasury's equal debt. But it does give the program the legal authority to pay all promised benefits until its special Treasuries are spent.

Under current law, once the trust fund is gone, Social Securi ty could only pay 78% of benefits. Since older retirees and the disabled would be protected, new retirees would face much deeper cuts to a benefit that is not especially generous to begin with.

The average retired worker received a $1,200 monthly benefit last year before Medicare premiums were subtracted.

Social Security's earlier reckoning day gives people less time to set aside savings to make up for what the program can't afford

Assuming a 22% automatic cut, average earners (about $43,000 in 2012) halfway into a 40-year career would have to set aside more than 5% of annual wages, or $2,150 a year, to replace lost benefits. This assumes the money is invested in Treasuries and is used to buy a lifetime annuity.

Whoever is in the White House next year likely will have to give workers notice as to how this looming hole in the safety net will be filled, whether by longer careers, more saving or tax hikes.

Disabled Trust Fund

Already, the next president will have to address a near-term crisis in Social Security's disability insurance program that CBO expects to hit in 2016 — resulting in immediate cuts for many of the neediest beneficiaries.

The separate trust fund for the working-age disabled is nearly depleted. Though resources can't be shared between the two trust funds without a legal change, budget analysts — and this article — combine them to offer a single view of overall program finances

The plunge in overall projected trust fund balances partly reflects CBO's gloomier view of the economy and job market, yielding moderately larger cash deficits than previously seen.

Social Security already is cash-flow negative, taking less in revenue than it pays out in current benefits. CBO sees the program's $48 billion cash gap in 2011 rising above $100 billion by 2019.

And depressed Treasury rates mean smaller interest payments on the trust fund's official balances.

CBO expects the trust fund to peak in 2018, after which cash-flow deficits would exceed interest payments. That's four years earlier than Social Security actuaries projected last spring.

The double-whammy of bigger cash-flow deficits and lower interest payments would quickly build up. In 2022, CBO projects $113 billion in interest paid to the trust fund vs. $189 billion forecast by SSA last year. The latest projections continue a stream of bad news since 2007, when Social Security actuaries expected the trust fund to peak at $5.8 trillion in 2026 and last until 2041.

But it is perhaps surprising that the deterioration should accelerate in the second full year of economic recovery. The reason is that CBO now expects the hang-over from the financial crisis and recession to be more enduring.

Not only will jobs recover more slowly than previously expected, but CBO sees GDP as 1.25 percent age points lower in 2021 than it projected a year ago. A higher cost of capital due to rising debt levels, as well as eroding skills and early retirement due to weak labor markets, will continue to curb investment, CBO says.

CBO was moderately more pessimistic than SSA a year ago, but has grown much more so, guided by incoming economic data.

The 2-percentage-point payroll-tax cut doesn't affect the trust fund outlook, because that money is repaid to Social Security.