Will Social Security Go Bust?

You may have read that the Social Security Trust Fund is due to be depleted in 2033, a year earlier than previous projections. This sounds alarming, except for several caveats.

First, the projected date of depletion has been in the 2035 range for the past decade, so this shift is really nothing new—or particularly alarming. The immediate cause of the shortened timeline is, of course, the slowdown of economic activity due to Covid. The Social Security Trust Fund collects payments out of the wages of millions of American workers; when those workers are laid off or otherwise unable to collect paychecks, then the Trust Fund is unable to collect its share of those paychecks.

In its annual report, the Social Security Administration says that it is projecting that employment and wages will gradually rise to full recovery by 2023, but that the level of worker productivity and U.S. Gross Domestic Produce will be permanently lowered by 1%. That permanent decline is not a consensus view of economists, and should be viewed with caution. In addition, the report projects that there will be a higher mortality for persons aged 15 and older through 2023—meaning, once again, fewer workers collecting paychecks. But the Covid mortality figures are much lower for working individuals and much higher for the people who would actually be collecting old age benefits—and there is no provision in the report accounting for the death of more than 200,000 Americans who were collecting Social Security checks.

In actual fact, the report notes that the trust fund’s reserves, at $2.9 trillion, were actually $11 billion *higher* this year than they had been the previous year—and the pool that pays out retirement income increased by $7.4 billion. A chart shows that the Old Age and Survivor Insurance pool took in $968.3 billion in 2020 and paid out just $961 billion. The gloomy projection reported in the press is based on “less revenue anticipated in the near term,” meaning, once again, those projections of permanently lower economic activity, and the death of many more workers, due to Covid.

Of course, most people—including reporters—don’t understand how the Trust Fund actually works. The Social Security system collects its revenues from those worker paychecks (and employer matches), and then turns around and pays that money out to Social Security beneficiaries. The trust fund currently, as mentioned, has $2.9 trillion in assets—much of it in government securities. That pool of money pays out any annual shortfall between the amounts collected and the benefits—and the fact that it increased this past year suggests that it didn’t have to reach into its pocket, at all, for the past 12 months.

If and when the Trust Fund *does* run out of money, the Social Security Administration would simply pay out the monies collected without a supplement—and if nothing is done by 2033, that is projected to be 78% of the benefits paid out today—remembering, of course, that it was enough to pay out 100% in the past year. The important thing to note is that 78% is not zero; it’s more than three-quarters of the expected benefits. And of course, once again, this is based on a lot of assumptions, including the idea that few Americans will continue working after they receive their benefits, that the economy will never fully recover from Covid, and that pandemic mortality will be evenly distributed between the young and the old.

Finally, does anybody really think that Congress would allow the cohort of voters currently receiving Social Security benefits to take a sudden 22% haircut in that portion of their retirement income? 69.1 million people currently receive benefits, and one can guess that many of them are motivated voters. Expect some age/benefit tweaks, and some higher payroll taxes, long before you see any reductions in the Social Security income received by elderly Americans,

Source:

<https://www.ssa.gov/oact/trsum/>

<https://www.ssa.gov/policy/docs/chartbooks/fast_facts/2020/fast_facts20.html#:~:text=69.1%20million%20people%20received%20benefits,Social%20Security%20benefits%20in%202019>.