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Commentary

THE BUFFIN FOUNDATION SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

Degringolade all over again for Social Security?

In the early nineteen-eighties, the United States Social Security trust fund had a near-death experience as the size of the reserve fund assets declined to almost zero. This degringolade necessitated remedial action, resulting in the appointment of the Greenspan Commission and the implementation of major structural reforms to the design of the Social Security system. Post-reform, the system was brought into a state of actuarial equilibrium, such that the projected revenues and expenditures over a seventy-five year period were expected to be of equal actuarial value in aggregate. However, the reforms had a built-in fatal flaw that would result in an eventual degringolade all over again. This fatal flaw was in the financing arrangements that involved a fixed payroll tax rate that, although adequate for the first seventy-five years post-reform, did not recognize the projected escalation of emerging costs beyond the initial seventy-five year period. The so called "out-years" starting with the seventy-sixth year require a higher level of financing due to differences in demographic and economic factors over successive rolling seventy-five year periods, such as increasing life expectancy and declining birth rates, resulting in an aging population with a declining ratio of workers to beneficiaries.

Mainly as a result of this built-in fatal flaw in the financing arrangements, the solvency period (for which revenues and trust fund assets are projected to be sufficient to meet scheduled benefits and administrative expenses) has been in a steady decline since 1983. By 1990 the solvency period had declined to 53 years, by 2000 the solvency period had reduced to 37 years, subsequently reaching 27 years by 2010, and currently only 17 years as indicated in the 2017 trustees' annual report.. The current payroll tax rate, payable by both workers and employers, is 6.20 percent of covered annual earnings up to a maximum of $127,200. By contrast, the requisite payroll tax rates to provide 100% projected solvency over the next 25, 50 and 75 years, are 6.62 percent, 7.18 percent, and 7.45 percent respectively. The current trust fund assets amount to 2.8 trillion dollars and are projected to reach a peak value of 3.0 trillion dollars in 2021, but decline rapidly thereafter to zero in 2034.

At a recent joint conference of the National Academy of Social Insurance and the American Association of Retired Persons, keynote speaker Professor Peter Diamond of the Massachusetts Institute of Technology drew attention to the fact that if the present situation is allowed to continue, history will inevitably repeat itself with 2034 becoming 1983 all over again in terms of another Commission and more reforms that might entail cuts to the benefits scheduled under the current law, or even the possibility of having the Social Security system borrowing from the United States Treasury to cover emerging deficits so as to be able to meet scheduled benefits in full.

The American Academy Actuaries publishes an Issue Brief each year following the release of the trustees' report. Each year, the Academy's Issue Brief contains an exhortation for Congress to take action to restore the actuarial balance sooner rather than later so as to avoid the possibility of a rapidly declining trust fund reserve and possible benefit cuts in the future. The necessary adjustments to the payroll tax rate to extend the projected period of 100% solvency are quite small and easily affordable. Increasing the current 6.20 percent FICA payroll tax rate to 6.62 percent would essentially provide twenty-five years of solvency and so protect the payment of scheduled benefits without any reduction. An automatic balancing system that would simply adjust the payroll tax each year subsequently to maintain forward solvency for successive future projection periods would require only small annual increments of the order of 0.05 percent. In fact the system would now be in full seventy-five year actuarial balance if such an automatic increment to the payroll tax rate been in effect each year in the past since 1983.

It is heartening to observe the steadily increasing appeals from the academic and professional community for Congress to overcome its historical apathy to taking timely action to correct the fatal flaw in the financing arrangements and adopt a more realistic and adequate means of ensuring the solvency and sustainability of the Social Security system. However, more needs to be done to educate the general public about this issue and for more intense advocacy efforts from appropriate organizations, over and above the purely objective research and educational efforts of the academic and professional community. Philosopher George Santayana is famously remembered for his advice "Those who cannot learn from history are doomed to repeat it and those who do not remember their past are condemned to repeat their mistakes." Let us hope that the 1983 degringolade experience and its aftermath will not be repeated again between now and 2034.

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