GAO

Accountability•Integrity•Reliability

Highlights

Highlights of GAO-03-907, a report to congressional requesters

July 2003

SOCIAL SECURITY REFORM

Analysis of a Trust Fund Exhaustion Scenario

Why GAO Did This Study

Social Security is an important social insurance program affecting virtually every American family. It is the foundation of the nation's retirement income system and also provides millions of Americans with disability insurance and survivors' benefits. Over the long term, as the baby boom generation retires, Social Security's financing shortfall presents a major solvency and sustainability challenge.

The Chairman of the Senate Special Committee on Aging and the Chairman of the Senate Committee on Finance asked GAO to use its analytic framework to evaluate an illustrative "Trust Fund Exhaustion" scenario under which benefits are reduced proportionately for all beneficiaries by the shortfall in revenues occurring upon exhaustion of the combined Old-Age and Survivors Insurance and Disability Insurance Trust Funds. The analytic framework consists of three basic criteria: (1) the extent to which the proposal achieves sustainable solvency and how it would affect the U.S. economy and the federal budget; (2) the balance struck between the twin goals of income adequacy and individual equity; and (3) how readily changes could be implemented, administered, and explained to the public. The Trust Fund Exhaustion scenario is intended as an analytic tool, not a legal determination.

www.gao.gov/cgi-bin/getrpt?GAO-03-907.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara Bovbjerg at (202) 512-7215 or Susan Irving at (202) 512-9142.

What GAO Found

The "Trust Fund Exhaustion" scenario underscores the need to take action sooner rather than later to address Social Security's financing shortfall. In so doing, the scenario illustrates trade-offs between sustainable solvency and benefit adequacy and equity.

By definition this scenario would achieve sustainable solvency because after trust fund exhaustion, benefit payments would be adjusted each year to equal annual tax income. Before exhaustion, the scenario would have the same unified fiscal results as paying currently scheduled benefits with no policy changes. After exhaustion, fiscal results would be increasingly similar to funding currently scheduled benefits with a tax increase (tax increase benchmark) and a benefit reduction benchmark that incorporates gradual and progressive reductions.

Benefits would differ sharply over time. Before trust fund exhaustion, currently scheduled benefits would be paid in full. After, benefits for all would be reduced across the board by 27 percent (to 73 percent of currently scheduled levels). Additional reductions would need to be taken in successive years such that at the end of the 75-year projection period, benefits would be reduced by 33 percent (to 67 percent of currently scheduled levels).

The Trust Fund Exhaustion scenario raises significant intergenerational equity issues. Specifically, a much greater burden would be placed on younger generations. Those born in 1955 would see no benefit reductions until age 83, while those born in 1985 would experience reduced benefits immediately upon retirement and benefits lower than under either GAO's benefit reduction benchmark or tax increase benchmark in all years of retirement. Consequently, lifetime benefits would be reduced more for younger generations. Benefits would be adjusted proportionately for all recipients, increasing the likelihood of hardship for lower-income retirees and the disabled.

Assessing the Social Security Administration's (SSA) administrative challenges under this scenario is difficult given a lack of historical precedent and legislative clarity on how SSA would proceed. A focus on cash management would be needed to calculate and implement the needed ongoing benefit adjustments.