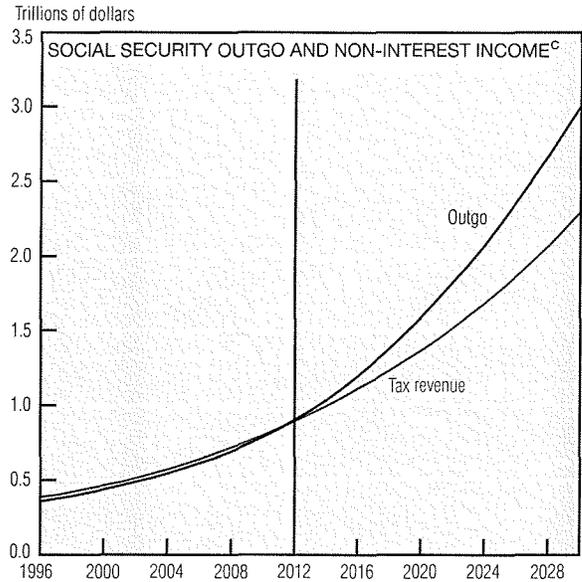
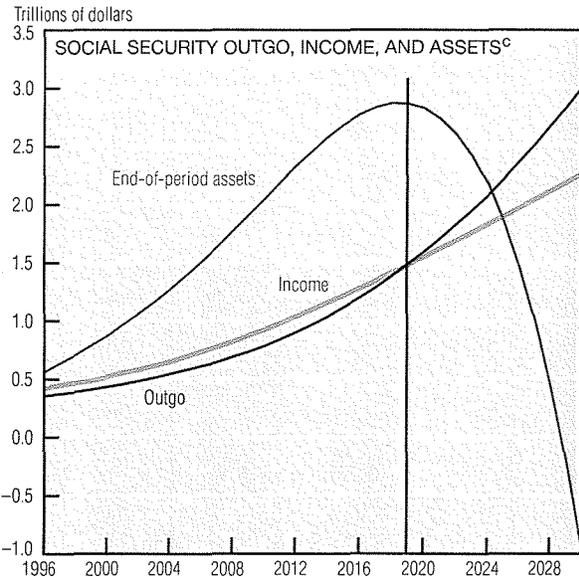
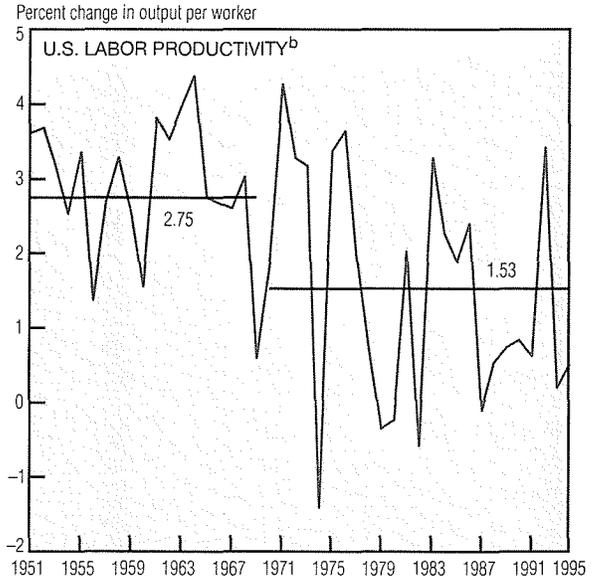
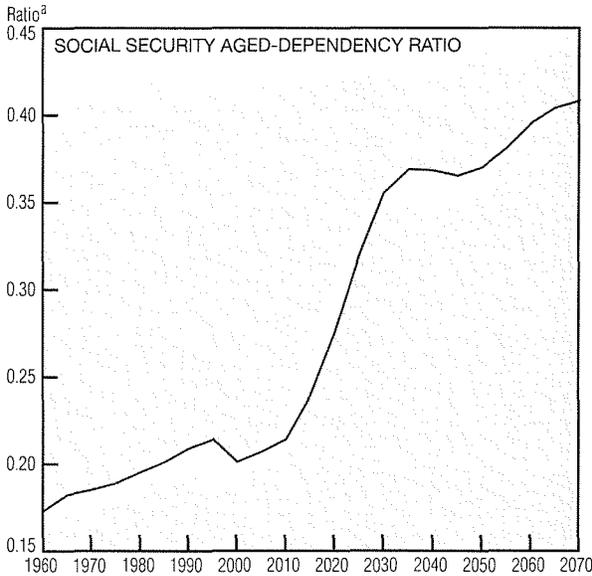


# Social Security Insolvency



a. Population age 65 and over divided by population age 20-64.  
 b. Green lines represent average growth rates.  
 c. Vertical line represents point at which outgo begins to exceed income.

SOURCES: 1996 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds; and Economic Report of the President, 1995 and 1997.

The surge in U.S. birth rates between the mid-1940s and mid-1960s implies that an increasing share of the population will be retired in the coming decades. The so-called aged-dependency ratio is projected to rise 66% by 2030 and to double between now and 2070. Thus, maintaining retirees' living standards will require higher output per worker and/or redistribution of a larger share of output toward the nonworking elderly.

Unfortunately, labor productivity has fallen since the early 1970s. If current trends continue, increases

in output will not be sufficient to maintain retirees' living standards without redistributing a greater share of output toward them. The major channel for doing so is the U.S. Social Security System. Official projections suggest that under current payroll tax and benefit rules, the Social Security trust fund will be broke by the year 2029. Total Social Security income will begin to fall short of total outgo in 2019. Thereafter, trust fund assets will be able to maintain benefits at current levels until the date of insolvency.

Social Security assets, however,

are "invested" exclusively in government securities, with the interest financed out of non-payroll taxes. Once payroll tax revenue falls short of mandated benefit payments, non-payroll tax revenue will have to be tapped to cover the difference. Hence, the date of Social Security's insolvency should be based on the date when payroll tax revenue can no longer cover current benefits, not when trust fund assets are exhausted. Under current projections, the former will occur in the year 2012—just four years after the oldest baby boomers retire.