



**The Impact of Federal Deficits  
on the Social Security Contributions of Working Families  
in Los Angeles County**

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**Prepared for Rep. Henry A. Waxman**

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Special Investigations Division  
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## EXECUTIVE SUMMARY

In January 2001, as the Bush Administration took office, the Congressional Budget Office projected that the government would run a surplus of more than \$3 trillion over the next ten years. Due to the 2001 tax legislation and the economic recession, current projections are that the government will run an accumulated deficit under the President's proposed budget of over \$2 trillion during this period. This is the largest and most rapid decline in the federal budget since the Depression.

This sudden deterioration in the federal budget has significant implications for Social Security. As a result of the federal budget deficits, the federal government must borrow from the Social Security trust funds to pay for current government spending. Although the law requires that any funds borrowed from the trust funds be repaid, Bush Administration officials and Republican leaders in Congress have indicated that the government will not be able to repay Social Security. Any failure to repay the trust funds would have a profound impact on the ability of Social Security to pay benefits and provide retirement security to American families.

Virtually all of the debate over the federal budget and the Social Security trust funds has taken place at the national level, but the consequences of this debate will be felt in communities across the nation. For this reason, Rep. Henry A. Waxman requested that this report analyze the implications of the federal deficit and a failure to repay the Social Security trust funds on the Social Security contributions and benefits of working families in Los Angeles County. This is the first report to examine the local impact in these counties of federal borrowing from the Social Security trust funds.

The report finds:

- Over the next ten years, working families in Los Angeles County will make contributions of \$196 billion to the Social Security trust funds.
- As a result of the return of budget deficits, the federal government will borrow almost one-third of these contributions to pay for current government spending. In total, the amount the federal government will borrow from the Social Security contributions of working families in Los Angeles County over the next ten years to pay for current government spending will be \$63 billion.
- The average amount the federal government will borrow from the Social Security contributions of each individual worker in Los Angeles County over the next ten years to pay for current government spending will be over \$15,000.

Bush Administration officials and other Republican leaders have questioned the federal government's ability to repay the Social Security trust funds. These leaders have said that the government bonds that the trust funds receive when the federal government borrows money are "worthless IOUs," that the trust funds are "empty" and have "no assets," and that workers

paying into the system will get “nothing in return.” In evaluating the impact of failing to repay the trust funds, the report finds that this would have devastating consequences for working families in Los Angeles County. Specifically, the report finds that if the federal government does not repay the Social Security trust funds:

- The \$63 billion that the federal government will borrow from the Social Security contributions of working families in Los Angeles County over the next ten years will not be repaid and will not be available to pay future Social Security benefits.
- The Social Security program will run out of assets and be unable to pay full benefits to families in Los Angeles County in 2017, just 15 years from now.
- On an individual basis, the federal government will borrow by 2026 almost \$50,000 for each worker in Los Angeles County currently making Social Security contributions. This entire “investment” by workers in Los Angeles County in their retirement security will be worth nothing if the trust funds are not repaid.

Although several factors have contributed to the return of budget deficits, such as the economic recession and the September 11 attacks, the single most important cause is the President’s tax legislation, which was enacted by Congress last year. The 2001 tax legislation is responsible for \$42 billion of the \$63 billion that the federal government must borrow over the next ten years from the Social Security contributions of working families in Los Angeles County. Because most of the benefits of the tax legislation go to the wealthiest 1% of Americans, while most Social Security contributions come from low- and middle-income families, the effect of the 2001 tax legislation is to cause a “reverse” transfer of wealth from low- and middle-income families in Los Angeles County to the very wealthy.

## I. THE SOCIAL SECURITY PROMISE

The Social Security program was established in 1935.<sup>1</sup> It promised to provide a foundation of financial security for retired wage earners. With subsequent expansions to cover disabled workers and family members of retired and disabled workers, the program grew to be a “family-based economic security program.”<sup>2</sup>

Under the Social Security program, employees pay 6.2% of their wages up to a cap of \$84,900<sup>3</sup> into the Social Security trust funds.<sup>4</sup> Employers also contribute 6.2% of an employee’s wages up to the cap into the trust funds.<sup>5</sup> Because of the cap on taxable wages, very wealthy individuals pay a lower proportion of their wages into the trust funds than individuals with lower wages. For example, the Social Security tax on an individual who earns \$50,000 would be 6.2% of the individual’s wages (\$3,100), while the Social Security tax on an individual who earns \$500,000 would be 1.1% of the individual’s wages (\$5,264).

Contributions to the Social Security trust funds are used to pay benefits to current beneficiaries. Payments to individual beneficiaries are based on a formula that factors in the individual’s earnings over his or her lifetime.<sup>6</sup> Employees are currently eligible for full

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<sup>1</sup>The program was established by the Social Security Act of 1935, P.L. 74-271, 49 Stat. 620.

<sup>2</sup>Social Security Administration, *A Brief History of Social Security* (August 2000) (SSA Publication No. 21-059, ICN 440000).

<sup>3</sup>42 U.S.C. § 430; 26 U.S.C. § 3121(a); Congressional Research Service, *Social Security: Raising or Eliminating the Taxable Earnings Base*, Table 1 (Jan. 17, 2002). The cap on the amount of wages taxed is adjusted to match the growth in average wages in the economy. 42 U.S.C. § 430.

<sup>4</sup>26 U.S.C. §§ 3101, 3121(a). The Social Security Act and its amendments established both the “Federal Old-Age and Survivors Insurance Trust Fund,” which provides for benefits to retired workers, their families, and survivors of deceased workers, and the “Federal Disability Insurance Trust Fund,” which provides for benefits to disabled workers and their families. 42 U.S.C. § 401(a) & (b). This report refers to the two collectively as the “trust funds.”

<sup>5</sup>26 U.S.C. §§ 3111, 3121(a). Self-employed workers contribute 12.4% of their wages up to the cap. Social Security Administration, *If You’re Self-Employed* (February 2002) (Social Security Publication No. 05-10022).

<sup>6</sup>42 U.S.C. § 415; Social Security Administration, *Retirement Benefits* (August 2001) (SSA Publication No. 05-10035); Social Security Administration, *Disability Benefits* (February 2002) (SSA Publication No. 05-10029).

retirement benefits at age 65, but the eligibility age for full retirement benefits will gradually increase over the next few decades to 67.<sup>7</sup>

When contributions to the Social Security trust funds exceed the amount paid out to beneficiaries in a given year, the surplus is credited to the trust funds in the form of government securities.<sup>8</sup> The Social Security statute provides that the securities in the trust funds earn interest at a rate equal to the average market yield on all marketable interest-bearing obligations of the United States with maturities of four years or more.<sup>9</sup> This interest is credited to the trust funds.<sup>10</sup> In many years – including each year over the past two decades – Social Security contributions have exceeded program expenditures.<sup>11</sup> As a result, the trust funds have accumulated a reserve in the amount of over \$1.2 trillion.<sup>12</sup>

According to the latest report of the Social Security Board of Trustees, contributions will continue to exceed program expenditures in every year until some point in 2017.<sup>13</sup> At that time, the trust funds are projected to total over \$5.3 trillion.<sup>14</sup> Because of interest payments to the trust funds, the trust funds will continue to grow until 2026, when they are projected to peak at over \$7.2 trillion.<sup>15</sup> The surplus in the trust funds will decline after 2026 as the surplus is drawn down to pay for Social Security benefits. Assuming full repayment of the obligations held by the Social Security trust funds, the surplus is projected to last until 2041.<sup>16</sup>

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<sup>7</sup>42 U.S.C. §§ 402(a) & 416(l); Social Security Administration, *Retirement Benefits*, *supra* note 6. Workers can begin receiving benefits as early as age 62, but benefits will be permanently reduced based on the number of months workers receive a check before reaching the age at which they are eligible for full benefits. Social Security Administration, *Retirement Benefits*, *supra* note 6.

<sup>8</sup>42 U.S.C. § 401(d).

<sup>9</sup>42 U.S.C. § 401(d).

<sup>10</sup>42 U.S.C. § 401(f).

<sup>11</sup>The latest year in which the trust funds had a net decrease was 1981. Social Security Bulletin, Annual Statistical Supplement, *Table 4.A3 – Combined OASI and DI, 1957-99* (2000).

<sup>12</sup>Social Security Administration, *The 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Mar. 26, 2002).

<sup>13</sup>*Id.*

<sup>14</sup>*Id.*

<sup>15</sup>*Id.*; Congressional Research Service, *Latest Social Security Projections* (Mar. 27, 2002).

<sup>16</sup>Social Security Administration, *supra* note 12.

The majority of the assets in the trust funds reflect contributions by low- to middle-income households. For example, according to the Congressional Budget Office (CBO), families with incomes under \$75,000 make over half of all payments to the trust funds. Over two-thirds of all payments to the trust funds are made by households with incomes below \$100,000.<sup>17</sup>

## II. FISCAL POLICY REGARDING USE OF THE SOCIAL SECURITY TRUST FUNDS

The federal government's fiscal policies affect how the surplus in the Social Security trust funds is used. During the Clinton Administration, a bipartisan consensus developed for using surpluses in the Social Security trust funds to pay down the federal debt, as opposed to using them to fund current government spending. As the *Washington Post* explained in 1998:

Paying down the debt would help solve the long-term Social Security problem in two respects. It would constitute an increase in national savings. The savings would lead to greater investment, the investment to greater economic growth and a larger economy. The larger the economy, the easier it will be to support Social Security in the future. By reducing debt now, the government also leaves itself more room to increase borrowing in the future when the baby boomers will retire and current revenues will be inadequate to pay current benefits.<sup>18</sup>

In his 1998 State of the Union address, President Clinton enunciated this policy of keeping Social Security surpluses off-limits from government spending, stating:

Tonight I propose that we reserve 100 percent of the surplus – that's every penny of any surplus – until we have taken all the measures necessary to strengthen the Social Security system for the 21<sup>st</sup> century.<sup>19</sup>

Both Republican and Democratic members of Congress endorsed walling off surpluses in the Social Security trust funds from government spending. In 1999, 2000, and 2001, the House of Representatives passed by overwhelming margins measures protecting the Social Security surplus, through a so-called "lock box," from being used to fund other government programs.<sup>20</sup>

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<sup>17</sup>Congressional Budget Office, *Effective Federal Tax Rates 1979-1997* (Table H-1b) (October 2001).

<sup>18</sup>*A Good Idea on Social Security*, *Washington Post* (Jan. 27, 1998).

<sup>19</sup>*Prepared Remarks of President Clinton's State of the Union Address*, Federal Document Clearing House, Inc. Political Transcripts (Jan. 27, 1998).

<sup>20</sup>See H.R. 1259, *The Social Security and Medicare Safe Deposit Box Act of 1999*, 106<sup>th</sup> Congress (passed by the House 416-12 on May 26, 1999); H.R. 3859, *The Social Security and Medicare Lock-Box Act of 2000*, 106<sup>th</sup> Congress (passed by the House 420-2 on June 6,

Both Democrats and Republicans in the Senate also sponsored legislation creating a “lock box” for Social Security. In 2000, then-Senator John Ashcroft explained the need for this legislation:

We need to ensure that the payroll taxes Americans contribute to pay for Social Security and Medicare are used solely to pay Social Security and Medicare benefits. Any surpluses in these accounts should be used to reduce publicly-held debt. It is wrong for Washington to spend this money on additional government programs or to finance additional government deficits.<sup>21</sup>

Consistent with these goals, the government began to use surplus funds in the Social Security trust funds to pay down the federal debt in fiscal year 1998. In fiscal years 1999 and 2000 the government did not use any of the surplus in the Social Security trust funds for government operations.<sup>22</sup>

In its 2000 party platform, the Republican Party promised to continue this approach. The 2000 Republican Platform states: “The Social Security surplus is off-limits, off budget, and will not be touched.”<sup>23</sup>

The policy of protecting the Social Security trust funds, however, has not been maintained during the Bush Administration. Based on the latest estimates from the Congressional Budget Office, under the budget proposed by President Bush, the federal government is projected to run a deficit of almost \$2.7 trillion over the next ten years.<sup>24</sup> The government will have to borrow the surplus in the Social Security trust funds to make up for this deficit. The nation has thus returned to the era when the trust funds are used for current government spending.

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2000); and H.R. 2, *The Social Security and Medicare Lock-Box Act of 2001*, 107<sup>th</sup> Congress (passed by the House 407-2 on February 13, 2001).

<sup>21</sup>Statement of Senator John Ashcroft, Congressional Record, S5654 (June 22, 2000).

<sup>22</sup>Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2002, Historical Tables*, Table 1-1 (2001).

<sup>23</sup>*Republican Platform 2000: Renewing America’s Purpose* (online at [www.rnc.org/gopininfo/platform](http://www.rnc.org/gopininfo/platform)).

<sup>24</sup>Congressional Budget Office, *The Budget and Economic Outlook: An Update*, Table 1 (August 2002); Office of Management and Budget, *Fiscal Year 2003 Mid-Session Review* (August 2002). The Congressional Budget Office estimates that the on-budget deficit will be \$1.5 trillion between 2003 and 2012, while the President’s budget calls for an additional \$1.2 trillion in reduced revenues or increased spending during this time-frame.



Numerous commentators have warned that this development threatens our nation's fiscal health. For example, David S. Broder noted:

For four years, starting with fiscal 1998, we were able to break the habit of using Social Security and Medicare taxes to help finance the rest of the government. Now, we are going back to that wicked practice. And, as many critics on Capitol Hill have pointed out, Bush's own budget anticipates that this will continue for years. At the very time when we should be saving for the certain costs of meeting the retiree wave's retirement and health care costs, we are borrowing against their future – and our own.<sup>25</sup>

*USA Today* stated:

[I]n the long term, it amounts to a disastrous shift away from protecting the nation's financial security. Remember that right up until Sept. 11, Bush and just about everyone else in Washington were pledging to keep Social Security surpluses off-limits to tax cutters and spendthrifts. And for good reason. Left unspent, the surpluses go toward paying down the federal government's gargantuan debt. That would help cut interest rates, boost economic growth and free up money to reform Social Security and Medicare before baby boomers start retiring.<sup>26</sup>

Other commentators have said that borrowing from the Social Security trust funds to pay for current government spending is a “ticking bomb,”<sup>27</sup> an “experiment with fiscal irresponsibility,”<sup>28</sup> and “raiding the supposedly sacrosanct Social Security ‘surplus.’”<sup>29</sup>

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<sup>25</sup>David S. Broder, *Back to Deficit Spending*, Washington Post (Feb. 10, 2002).

<sup>26</sup>USA Today, *Budget Takes Ugly Turn: Deficits for Years to Come*, (Feb. 4, 2002).

<sup>27</sup>*Backloaded Federal Budget Will Explode in the Out Years*, Newsday (Feb. 10, 2002) (“The budget proposed last week by the White House is a ticking bomb that will explode in the out years, just as retiring baby boomers put unprecedented stress on the system”).

<sup>28</sup>William G. Gale and Peter R. Orszag (economists at the Brookings Institution), *Debating the Budget*, San Diego Union-Tribune (Feb. 10, 2002) (“With the coming retirement of the baby boomers, the nation cannot afford another experiment with fiscal irresponsibility”).

<sup>29</sup>*Questions, No Answers from Bush Budget Plan*, Baltimore Sun (Feb. 7, 2002) (“When a president is talking about this level of spending, war or no war, the country deserves to know what it's getting. And ‘security,’ wrapped in the flag, isn't a good enough answer, especially when it means rolling back social programs, raiding the supposedly sacrosanct Social Security ‘surplus’ for the next decade and potentially costing taxpayers billions of dollars in interest on debt over the next decade”).

### III. STATEMENTS OF REPUBLICAN LEADERS QUESTIONING THE FEDERAL GOVERNMENT'S COMMITMENT TO REPAY THE SOCIAL SECURITY TRUST FUNDS

At the same time the budget proposed by President Bush has returned to borrowing from the Social Security trust funds, statements by Administration officials have heightened concerns about the future of the Social Security system by indicating that the government will not pay the trust funds back. White House spokesman Ari Fleischer recently stated that Social Security is “going bankrupt” and that workers who contribute to Social Security will get “nothing in return.”<sup>30</sup> Secretary of the Treasury Paul O’Neill, the managing trustee of the Social Security trust funds’ Board of Trustees, has characterized the Social Security program as a “pyramid game,”<sup>31</sup> and has said that the trust funds have “no assets” and leave future beneficiaries dependent on “someone else’s promise.”<sup>32</sup> The President’s Commission on Social Security also recently argued that the trust funds have no real assets.<sup>33</sup>

Leading Republicans in Congress have made similar comments. According to Senator Phil Gramm, member of both the Senate Budget and Finance Committees, “There is no Social Security trust fund. That’s a total fraud.”<sup>34</sup> Senator Gramm has further characterized the Social Security trust funds as “worthless IOUs.”<sup>35</sup> Representative Chris Cox, Chairman of the House Policy Committee, has stated, “Today, the full amount of our Social Security payroll taxes is ‘invested’ in U.S. Treasury securities. But because these securities represent money owed by the government, they really are not an asset at all, but rather a liability.”<sup>36</sup>

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<sup>30</sup>*Bush Stands by Social Security Plan*, Associated Press (July 25, 2002).

<sup>31</sup>*Why Should I Be a Ballerina Barre?* National Journal (Aug. 11, 2001) (excerpt of National Journal interview with Secretary O’Neill on July 2 and July 31, 2001).

<sup>32</sup>*O’Neill Faults ‘No Assets’ Social Security*, Washington Post (June 19, 2001).

<sup>33</sup>President’s Commission to Strengthen Social Security, *Interim Report*, 17-19 (August 2001).

<sup>34</sup>*US Budget Week — Dems, GOP Brace for New CBO Surplus Estimates*, Market News International (Aug. 3, 2001).

<sup>35</sup>*Id.*

<sup>36</sup>*Social Security Investments Must Be Made by Workers Themselves*, New Haven Times (Feb. 21, 1999).

In a July 2001 memo to House Republicans, Majority Leader Dick Arme y stated: “The hard truth is the Social Security trust fund is empty. It’s a mere accounting device.”<sup>37</sup>

If these views prevail and the government does not honor its commitment to repay Social Security, trillions of dollars paid by working Americans into the Social Security trust funds will never be used for Social Security benefits at all.

#### IV. PURPOSE AND METHODOLOGY

Rep. Waxman requested this report to examine the implications of the national debate on Social Security on working families in Los Angeles County. Rep. Waxman represents California’s 29th Congressional District, which is located in Los Angeles County. The report analyzes how much workers in Los Angeles County are likely to contribute to the Social Security trust funds over the next ten years. It then examines how those funds are likely to be used. Finally, the report considers the consequences to families in Los Angeles County of failing to repay the funds borrowed from the Social Security trust funds. This is the first report to estimate the impact of the return to deficit spending on the Social Security contributions and benefits of workers in Los Angeles County.

The analysis is based upon data obtained from the Social Security Administration on contributions to the trust funds by employees and employers in Los Angeles County. The report uses county-level data from 1998, which is the most recent county-level data available, to estimate the number of workers and the percentage of the trust funds that is contributed by workers in Los Angeles County and employers on their behalf.<sup>38</sup> The report then extrapolates from this data to future years.<sup>39</sup>

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<sup>37</sup>Memo from House Majority Leader Dick Arme y to House Republicans, *The Next Big Challenge: Re-Limiting Government* (July 5, 2001).

<sup>38</sup>In order to estimate the number of workers who currently pay Social Security taxes in Los Angeles County, the report assumes that between 1998 and 2002 the number of workers in Los Angeles County increased by 2.3%. This is the same rate as the nationwide increase in the number of workers between 1998 and 2002. See Social Security Administration, *Covered Workers and Beneficiaries, Calendar Years 1945-2080* (2002) (online at [www.ssa.gov/OACT/TR/TR02/lrIndex.html](http://www.ssa.gov/OACT/TR/TR02/lrIndex.html)).

<sup>39</sup>If economic growth and job creation are higher in Los Angeles County than in the United States as a whole, the percentage of Social Security contributions by workers in Los Angeles County will increase. If economic growth and job creation are lower in Los Angeles County than in the United States as a whole, the percentage of Social Security contributions by workers in Los Angeles County will decrease.

## V. FINDINGS

### A. Contributions from Working Families in Los Angeles County to the Social Security Trust Funds

In 1998, there were 4,117,257 workers in Los Angeles County who paid Social Security taxes. These workers contributed a total of \$12.4 billion in Social Security taxes.<sup>40</sup> Nationwide, total Social Security contributions in 1998 were \$430 billion.<sup>41</sup> Workers in Los Angeles County thus accounted for 2.9% of the total payment to the Social Security trust funds.

The Congressional Budget Office estimates that between 2003 and 2012, workers in the United States will make an estimated \$6.8 trillion in contributions to the Social Security trust funds.<sup>42</sup> If workers in Los Angeles County continue to account for 2.9% of national Social Security contributions, these workers will make an estimated \$196 billion in contributions over the next ten years. This is an average of \$46,423 per current worker.

### B. Federal Borrowing of Social Security Contributions from Working Families in Los Angeles County

When the federal government is in deficit, it borrows from the Social Security trust funds to pay for government spending. As discussed in part II, the projected deficit over the next ten years is \$2.7 trillion. According to data from the Congressional Budget Office and the Administration, the vast majority of this deficit — \$2.2 trillion — will be paid for by borrowing from the Social Security trust funds over that time period.<sup>43</sup> On the national level, almost one-

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<sup>40</sup>This figure includes the employer contribution for each worker. Social Security Administration, *Earnings and Employment Data for Workers Covered Under Social Security and Medicare, by State and County, 1998* (December 2001).

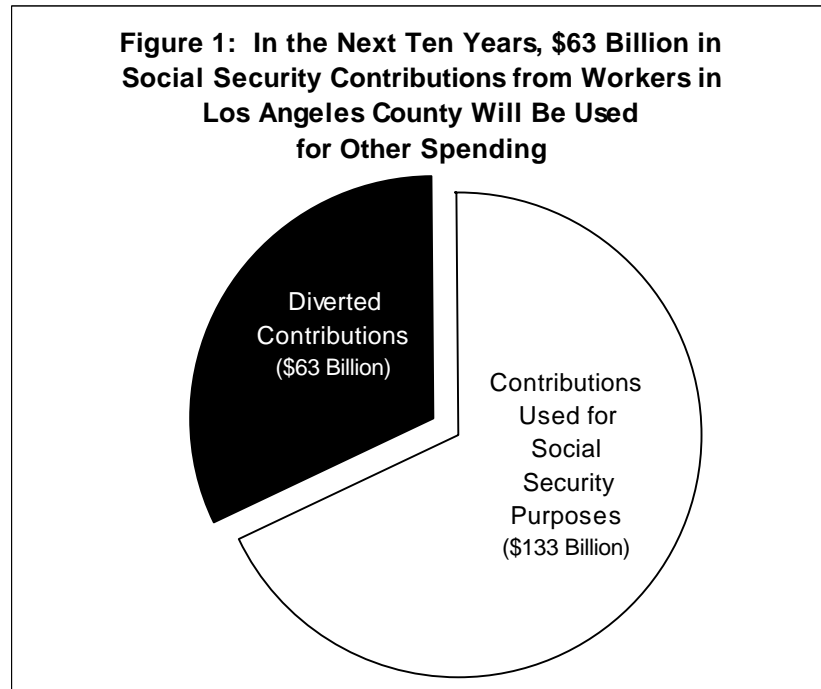
<sup>41</sup>Social Security Administration, *2002 OASDI Trustees Report* (2002).

<sup>42</sup>Congressional Budget Office, *CBO Social Insurance Revenues*, August 2002 Baseline (August 2002).

<sup>43</sup>Data from the Congressional Budget Office and the White House Office of Management and Budget indicate that under the President's proposed budget, in fiscal years 2003 through 2008, the estimated on-budget deficit will be larger than the Social Security surplus. This means that financing the entire on-budget deficit for these six years will require the issuance of additional government debt in addition to borrowing from the Social Security surplus. In fiscal years 2009 through 2012, the Social Security surplus will be larger than the estimated on-budget deficit, so in those years the deficit will be entirely paid for by borrowing from the Social Security surplus. See Congressional Budget Office, *supra* note 24; Office of Management and Budget, *supra* note 24.

third of all Social Security contributions over the next ten years will be borrowed by the federal government to pay for government spending.

For workers in Los Angeles County, this means that \$63 billion of their estimated \$196 billion in Social Security contributions will be borrowed by the federal government to pay for government spending over this period. This is an average of over \$15,000 per worker. Figure 1.



**C. Impact of a Failure to Repay the Social Security Trust Funds on Working Families in Los Angeles County**

As discussed above in part III, Bush Administration officials and leading Republicans in Congress have indicated that the government will not be able to repay the funds borrowed from the Social Security trust funds. Such a policy would have severe consequences for workers in Los Angeles County.

Over the next ten years, workers in Los Angeles County will contribute \$63 billion of the amount the government is expected to borrow from the Social Security trust funds. If the government fails to pay its debts to the trust funds, this \$63 billion will never be repaid. As a result, it will not be available to pay future Social Security benefits.

In 2017, Social Security benefits payments and administration costs are expected to begin to exceed annual contributions by workers to the Social Security program. If the government does

not repay the funds it owes the trust funds, the trust funds in 2017 will cease to have sufficient funds to pay full benefits. This means that families in Los Angeles County would see cuts in Social Security benefits beginning in 2017, just 15 years from now.

In contrast, if the federal government repays the amounts it borrows from the Social Security trust funds with interest, the Social Security program will have sufficient assets to pay full benefits until 2041.<sup>44</sup> Moreover, experts believe that through minor adjustments, the ability of Social Security to pay full benefits could be extended for 75 years.<sup>45</sup>

By 2026, the reserve in the Social Security trust funds is expected to reach its peak at \$7.2 trillion, assuming the federal government repays amounts it has borrowed. An estimated \$207 billion of this amount is attributable to contributions from workers in Los Angeles County. If the government reneges on its commitment to repay the trust funds, none of this \$207 billion will be used for Social Security benefits. On an individual basis, this \$207 billion represents an “investment” of \$49,154 per worker in Los Angeles County in his or her retirement security. If the federal government does not repay Social Security, this entire “investment” in Social Security will be worthless.

#### **D. Impact of the President’s Tax Legislation**

Data from CBO indicates that while the slowing economy and additional federal spending due to the September 11 terrorist attacks have impacted budget projections, the single largest cause of the return to deficit spending is the tax legislation signed into law by President Bush in June 2001. As discussed above in part II, the projected deficit over the next ten years is \$2.7 trillion. According to CBO, the President’s tax legislation, which Congress enacted in 2001, will reduce federal revenues by \$1.8 trillion over this period.<sup>46</sup> The tax legislation is thus responsible for two-thirds of the projected budget deficit.

For workers in Los Angeles County, this means that two-thirds of the amounts that will be borrowed from their Social Security contributions — \$42 billion — can be attributed to the 2001 tax legislation. On an individual basis, the federal government will borrow an average of over \$15,000 from each worker in Los Angeles County to pay for government operations over the next ten years. Of this amount, over \$10,000 can be attributed to passage of the 2001 tax legislation.

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<sup>44</sup>Social Security Administration, *supra* note 12.

<sup>45</sup>*E.g.*, Center on Budget and Policy Priorities, *What the Trustees’ Report Indicates about the Financial Status of Social Security* (Mar. 27, 2002) (stating that the projected shortfall over a 75-year period “can be closed with relatively moderate steps if taken soon. Radical restructuring of the system is not necessary to close a gap of this size”).

<sup>46</sup>Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2002 - 2011* (January 2001).

When fully phased in, over half the benefits of the 2001 tax cuts will go to the wealthiest 1% of Americans.<sup>47</sup> In contrast, over two-thirds of Social Security contributions come from low- and middle-income families earning less than \$100,000 per year. In effect, the use of the Social Security contributions from workers in Los Angeles County to pay for the budget deficit caused by the 2001 tax legislation represents a “reverse” transfer of wealth. The Social Security contributions from low- and middle-income families in Los Angeles County are being used to pay for tax breaks for the wealthy.

## **VI. CONCLUSION**

As a result of the return of budget deficits, \$63 billion in contributions from working families in Los Angeles County will be borrowed by the federal government over the next ten years to pay for government spending. This is an average of over \$15,000 for each worker in Los Angeles County. If the federal government does not repay the funds it borrows from the Social Security trust funds, the Social Security benefits of families in Los Angeles County will be reduced as early as 2017.

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<sup>47</sup>Citizens for Tax Justice, *Year-by-Year Analysis of the Bush Tax Cuts Shows Growing Tilt to the Very Rich* (June 12, 2002).