
Social Security's Future

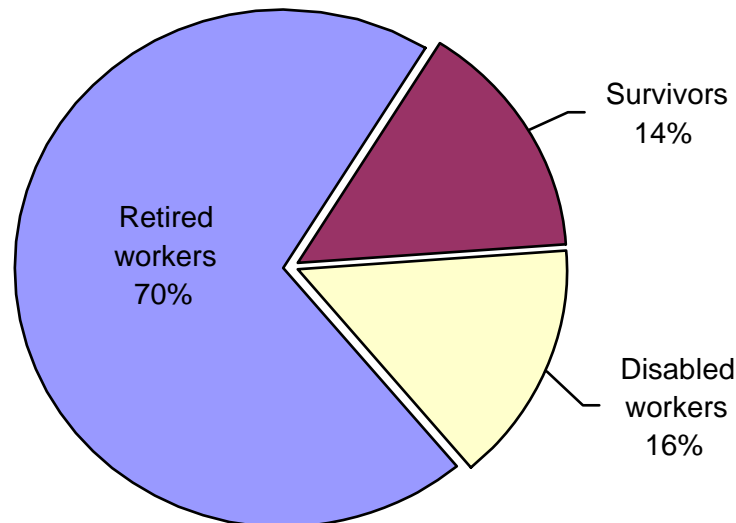


**Testimony of
James Lockhart, Deputy Commissioner
Before the Committee on Ways and Means
Social Security Subcommittee
Boca Raton, Florida
January 26, 2004**



Largest and Most Successful Government Program

- Social Security paid \$450 billion dollars in benefit payments to 47 million retirees, disabled workers, and survivors
 - Those benefits are safe and secure
- Social Security protects 157 million workers and their families





Social Security Taxes Have Grown

- The Social Security payroll tax rate has been increased 19 times
- The Social Security payroll tax rate is now 12.4%
 - 6.2% each from employee and employer
- Taxes are paid on earnings up to \$87,900 in 2004 (94% of workers are below cap)
- Over 80% of workers pay more in combined payroll tax than income tax



Benefit Formula Weighted Towards Low Earners

- Normal Retirement Age gradually increasing to 67 but Early Retirement Age still 62
- Benefits depend on earnings: 35 highest indexed years
- Benefits increase with earnings, but at a slower rate so that replacement rate is much higher for low-wage workers

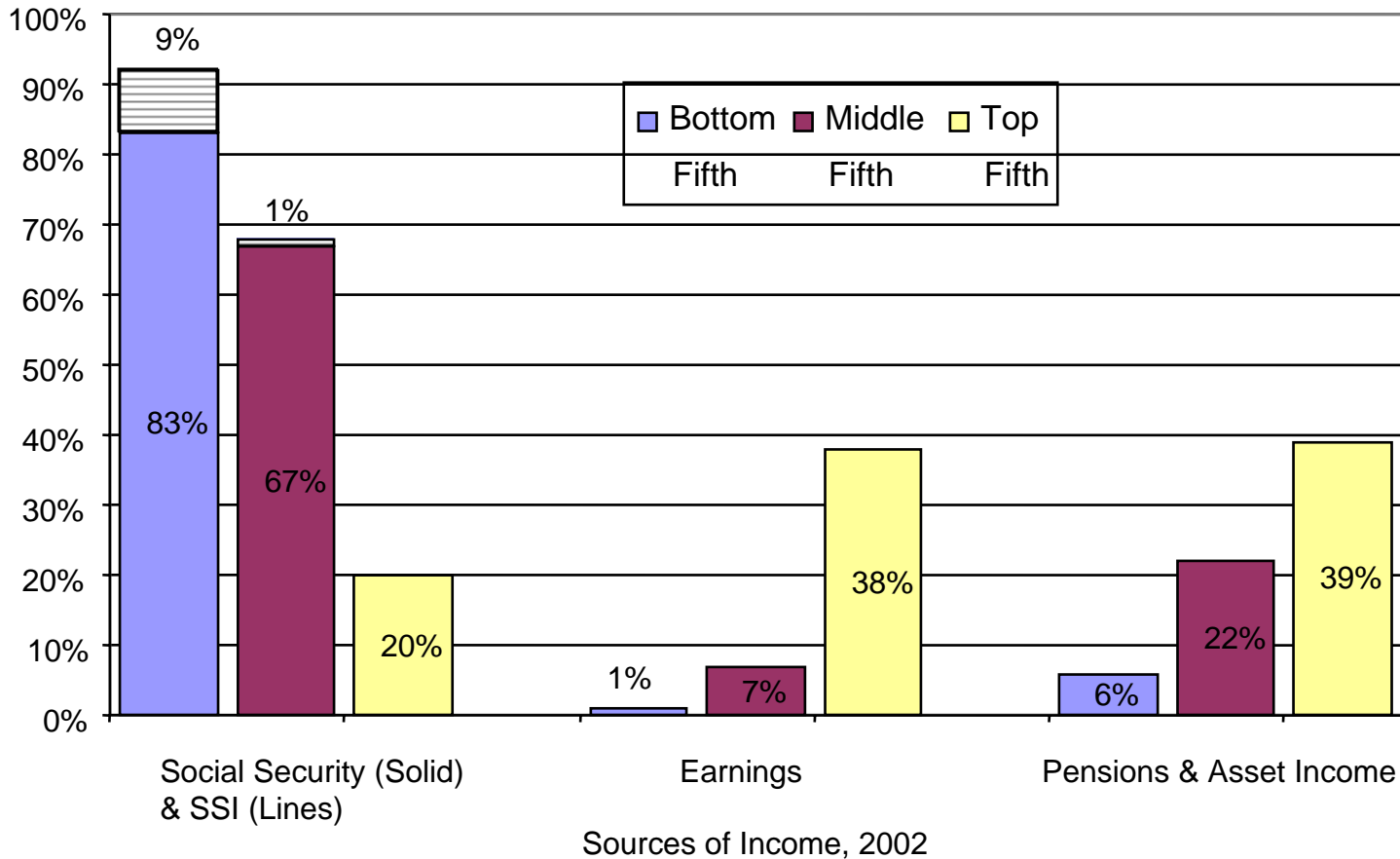
Retirement in 2004 at Normal Retirement Age

<u>Career Average Earnings Level</u>	<u>Annual Benefit¹</u>	<u>Replacement Rate</u>
Low	\$8,632	56%
Medium	\$14,219	42%
Maximum	\$21,455	30%

¹ Amounts expressed in constant 2003 dollars



Lower and Middle Income Workers Are Very Reliant on Social Security





Trust Fund Continues to Grow

Trust Fund in Billions of Dollars

Start 2002	<u>\$1,213</u>	Trust Fund Invested in Special Issue (S.I.) Treasury Bonds
	+ 80	S.I. Treasury Bonds Issued to Pay Interest
	+ 85	Excess of Tax Income (\$547) Over Expenditures (\$462) Invested in S.I. Treasury Bonds
	<u> </u>	
End 2002	<u><u>\$1,378</u></u>	Trust Fund Invested in S.I. Treasury Bonds



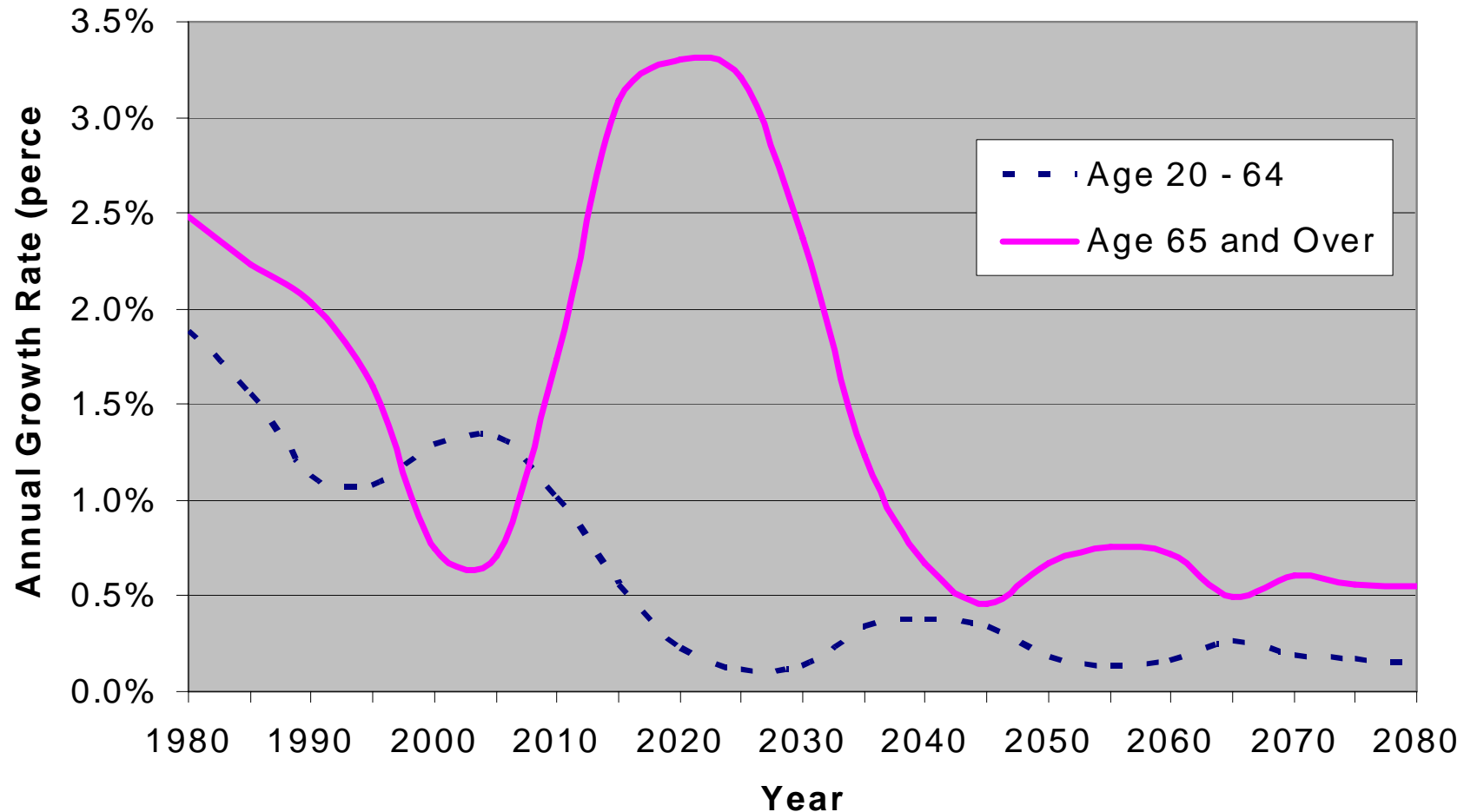
Trustees: Timely Action Needed

- Social Security is unsustainable at scheduled benefit and tax levels over the 75-year period
- Pressure on the program's finances will begin in 2008, when the first baby boomers reach early retirement age
- Cash flow turns negative in 2018 and the Trust Fund is exhausted in 2042
- Since last year's report, Social Security's 75-year long-term deficit has increased from \$3.3 trillion to \$3.5 trillion
- \$10.5 trillion would be sufficient to achieve sustainable solvency over the very long term



The Retirement Iceberg Is Fast Approaching

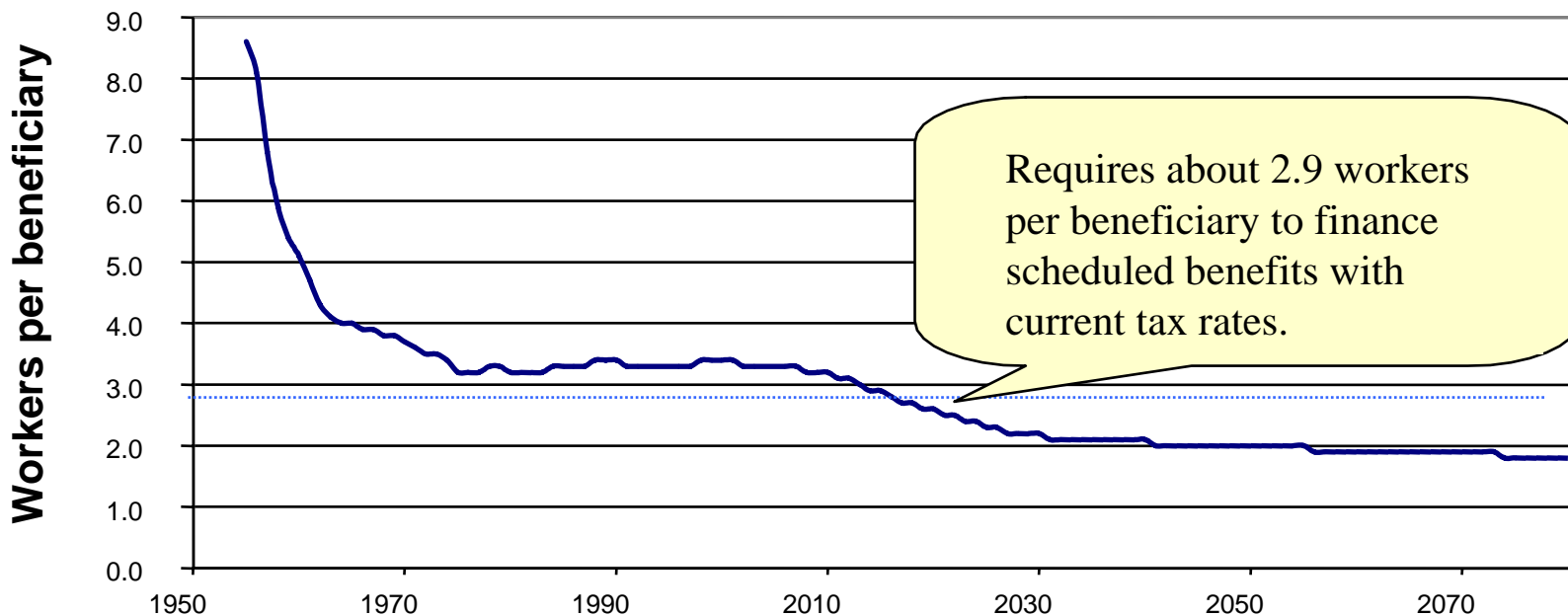
- Baby Boomers begin to retire in 4 years, birth rates are low and people are living longer





Social Security's Current Financing Is Unsustainable

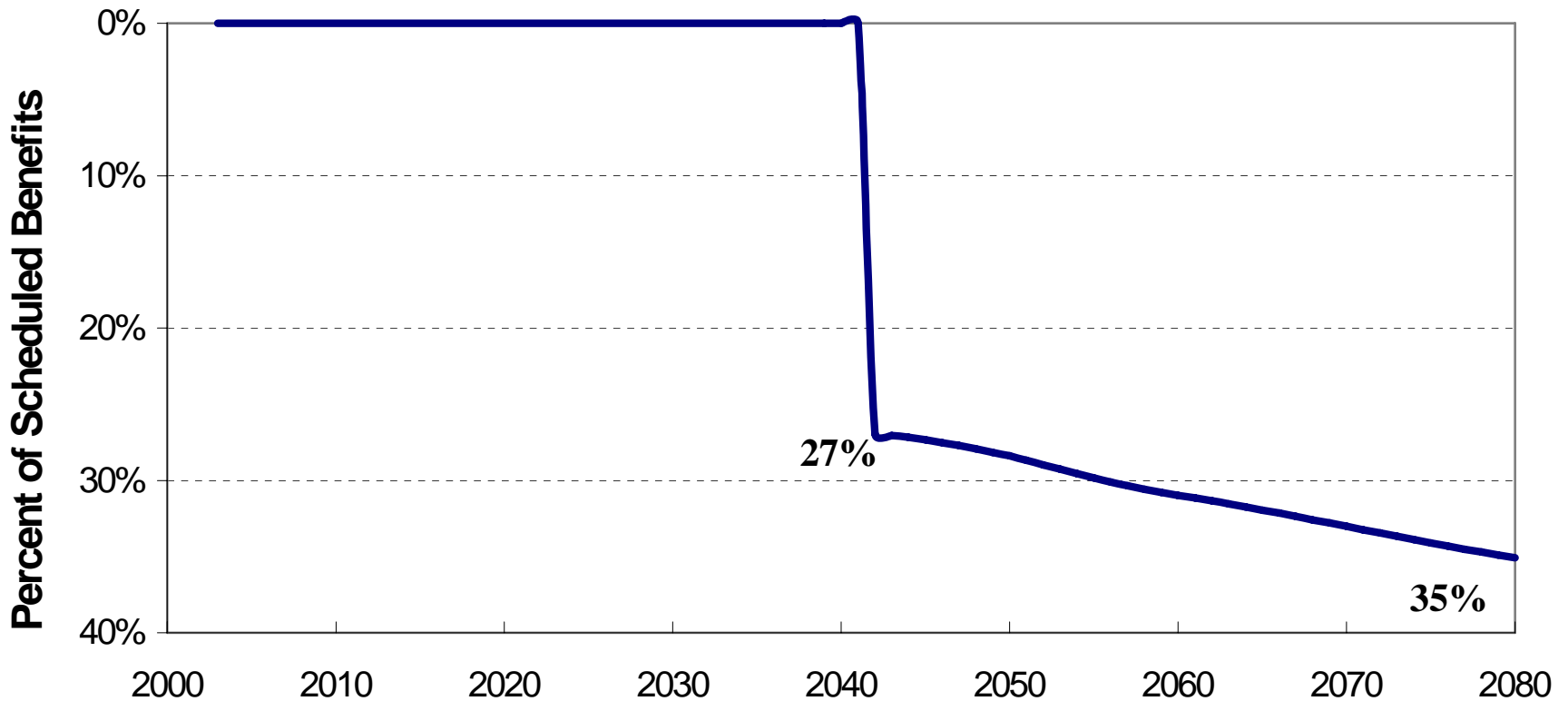
- The ratio of workers to beneficiaries has fallen from 8 to 1 to 3.3 to 1 today, and will fall below affordable levels in less than 15 years





When Trust Fund Exhausted in 2042, Benefit Cuts Would be Drastic

Reduction in Scheduled Benefits Assuming No Tax Increase





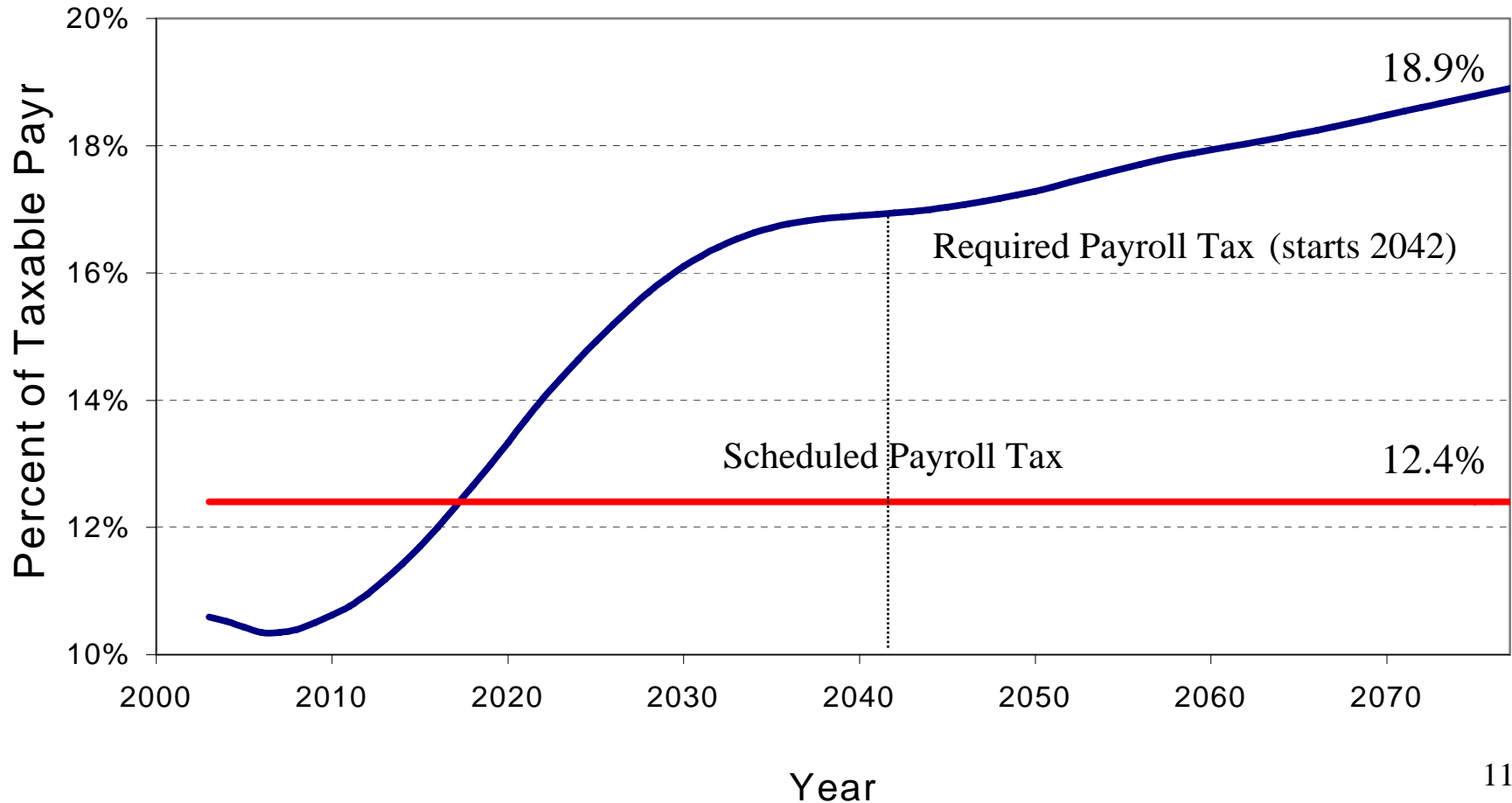
Action Is Needed Sooner Rather than Later

- Reform alternatives are well-known:
 - Payroll Tax Increases
 - Benefit Reductions
 - For younger generations
 - Not for today's retirees and near-retirees
- 3. Increases in Return on Investments
 - Direct investment by government
 - Personal accounts held by individuals



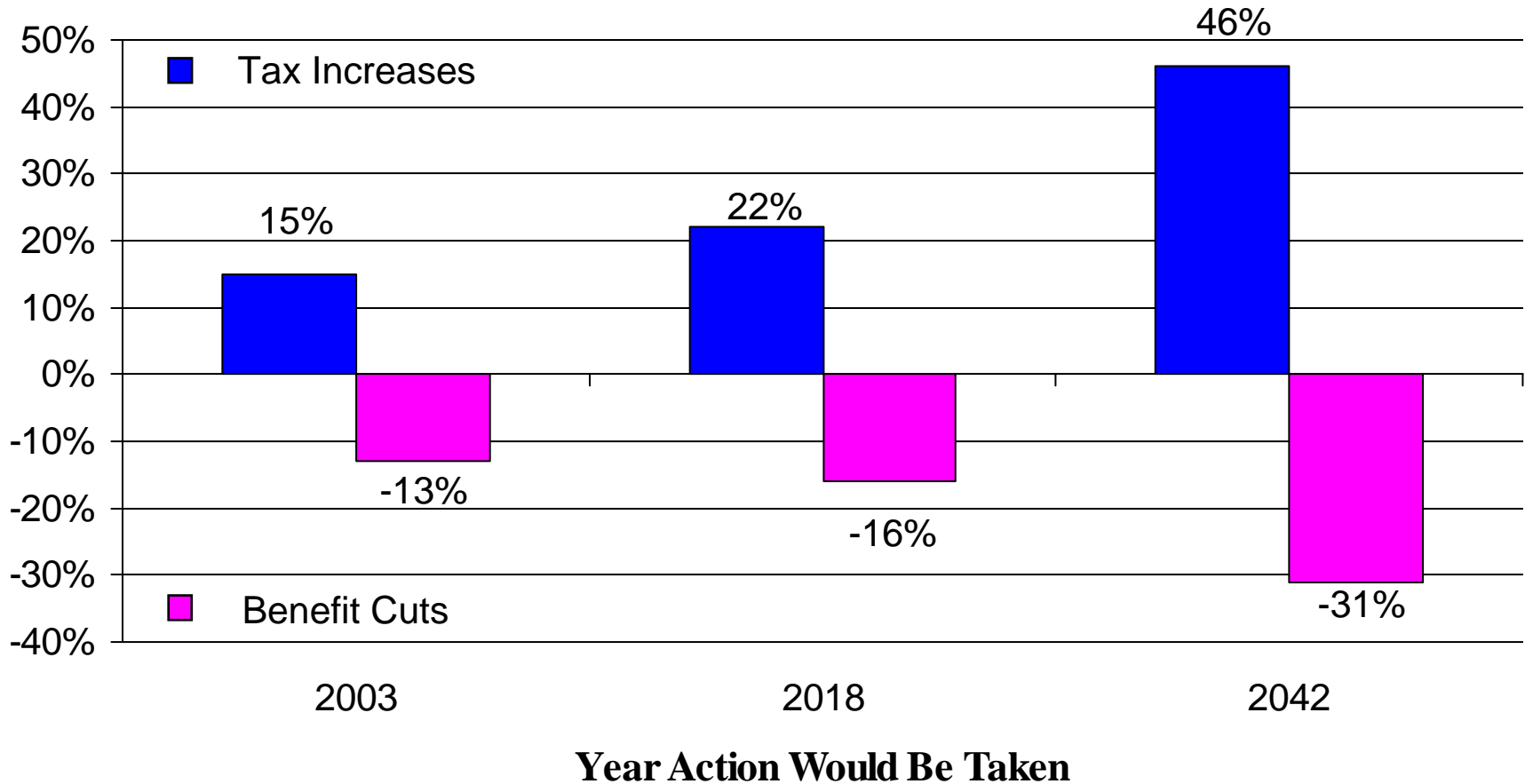
To Pay Scheduled Benefits, Payroll Taxes Would Have to Increase Over 50%

Payroll Tax Required for Scheduled Benefits





Delay Increases the Cost to Fix Social Security





Strengthening Social Security

“Benefits for today’s seniors are safe and secure...

“Social Security, in its present form, is unsustainable ...

“If we give workers the opportunity to invest a portion of their wages in personal accounts, Social Security will be able to offer higher benefits than would otherwise be the case...

“I hope that Members of Congress will join with the Social Security Administration and other interested parties in a national dialogue about how to best strengthen and protect Social Security... for today’s and tomorrow’s retirees.”

*President George W. Bush
March 17, 2003*