



SOCIAL SECURITY REFORM

Early Action Would Be Prudent

Highlights of [GAO-05-397T](#), a report to the Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Social Security is the foundation of the nation's retirement income system, helping to protect the vast majority of American workers and their families from poverty in old age. However, it is much more than a retirement program, also providing millions of Americans with disability insurance and survivors' benefits. Over the long term, as the baby boom generation retires and as Americans continue to live longer and have fewer children, Social Security's financing shortfall presents a major program solvency and sustainability challenge that is widening as time passes.

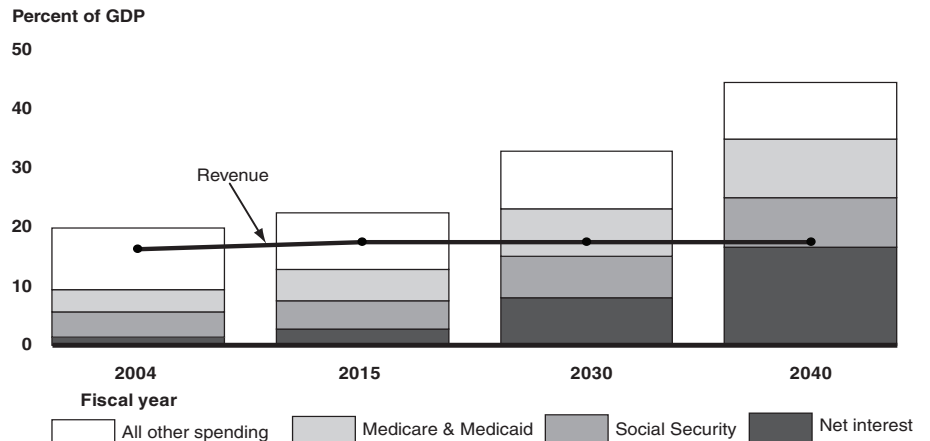
The Committee asked GAO to discuss the need for Social Security reform. This testimony addresses the nature of Social Security's long-term financing problem and why it would be prudent for Congress to take action sooner rather than later. This testimony also notes the broader context in which reform proposals should be considered and the criteria that GAO has recommended as a basis for analyzing any Social Security reform proposals.

What GAO Found

Although the Social Security system is not in crisis, it faces a serious solvency and sustainability challenge that is growing as time passes. If we do nothing until 2042, achieving actuarial balance would require a 30-percent reduction in benefits or a 43-percent increase in payroll taxes for the period 2042-2078. Furthermore, Social Security's problems are a subset of the grave fiscal challenge facing our nation. Absent changes in budget policy, the nation will ultimately have to choose among escalating federal deficits and debt, huge tax increases and/or dramatic budget cuts. As GAO's long-term budget simulations show, substantive reform of Social Security and our major federal health programs (e.g., Medicare and Medicaid) is critical to saving our nation's fiscal future. (See figure below.) Taking action soon would serve to reduce the magnitude of changes needed to ensure that Social Security is solvent, sustainable, and secure for current and future generations. It would also allow time to phase in certain changes and time for individuals to adjust to any such changes. Acting sooner would also serve to improve the federal government's credibility with financial markets and bolster the confidence of the American people in our government's ability to address long-range financial challenges.

However, financial solvency and sustainability should not be the only consideration when evaluating Social Security reform proposals. Other key objectives, such as balancing the adequacy and equity of the benefit structure and various administrative and operational issues need to be considered. Furthermore, any changes to Social Security should be considered in the context both of the whole program—including disability and survivors' benefits—and of the broader challenges facing our nation, such as the changing nature of the private pension system, long-term care needs, escalating health care costs, and the need to reform the Medicare and Medicaid programs.

Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP after 2005 and All Expiring Tax Provisions Are Extended



Source: GAO's January 2005 analysis

www.gao.gov/cgi-bin/getrpt?GAO-05-397T.

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 bovbjergb@gao.gov.