

# 5 (More) Signs Social Security Is Going Insolvent

The Social Security Administration released its [annual trustees report](#) this week, and the prognosis is not good.

Trust fund depletion—the date when Social Security’s reserves will be exhausted and the program will only be able to spend what it receives in payroll taxes at that time—is approaching at a rapid pace. This year, Social Security will dip into its reserves for the first time since 1982.

Simply put, the trust fund is being drained.

The Social Security trustees report is a key pulse check on the single largest federal government program—the Old-Age and Survivors Insurance program—and its sibling, the Disability Insurance Program.

Americans should be made aware of the true state of Social Security so they can better understand why reforming the program is not only necessary, but absolutely essential.

Here are five takeaways from the most recent financial report:

## 1. \$41 billion cash-flow deficit in 2017.

Social Security is still considered solvent and able to pay full benefits because it has accumulated a \$2.9 trillion trust fund, but since the entirety of its trust fund consists of IOUs, cash-flow deficits must be financed by general revenue taxes or new public borrowing.

Since 2010, the Old-Age and Survivors Insurance program has taken in less money from payroll tax revenues and the taxation

of benefits than it pays out in benefits, resulting in cash-flow deficits.

## **2. \$16.1 trillion in unfunded obligations.**

The trustees report that Social Security's unfunded obligation has reached \$13.2 trillion. That's the difference between what the program is expected to receive in income, and what it's expected to spend over the next 75 years.

But this figure assumes that the \$2.9 trillion in trust fund reserves are available to be spent. The problem is that these reserves represent liabilities for the U.S. taxpayer.

The payroll revenues have already been spent and the trust fund has been credited with U.S. bonds, which represent claims on the American taxpayer. So, the actual unfunded obligation is \$16.1 trillion.

## **3. Insolvent by 2034.**

Social Security is only legally permitted to spend more than it takes in until its trust fund is depleted. And, based on current projections, the Social Security Old-Age, Survivors, and Disability Insurance trust funds will be depleted by 2034.

When that happens, Social Security payouts will automatically be cut to the amount the programs will receive in revenues, regardless of benefits due at that time.

## **4. Automatic 21 percent cut in benefits.**

Once both Social Security trust funds are depleted, the programs will only be able to pay out 79 percent of scheduled

benefits, based on payroll and other Social Security tax revenues projected at that time.

What this means for beneficiaries is that in the absence of congressional action, benefits could be delayed or indiscriminately cut across the board by 21 percent.

## **5. Delaying reform comes with a high cost.**

In their report, the trustees highlight that if Congress waits until the trust funds become exhausted, the cost of making the program solvent will be as much as 40 percent higher. That means much deeper benefit cuts and higher tax increases for workers and beneficiaries.

If Congress opted to raise the payroll tax rate to cover the shortfall, without adjusting benefits, workers would need to part with 16.3 percent of their covered earnings, up from the current rate of 12.4 percent.

## **What Congress Can Do**

There are several key reforms Congress should pursue in order to preserve benefits for the most vulnerable beneficiaries, without increasing the tax or debt burden on younger generations. The longer Congress waits the act, the more painful the changes will be down the road to address Social Security's looming insolvency.

The [Social Security Reform Act of 2016](#), introduced by Rep. Sam Johnson, R-Texas, presents a reasonable, targeted, and fiscally responsible approach to begin reforming Social Security.

Johnson's plan would enhance the progressive features of the Social Security benefit formula, focusing benefits on American

workers with lower incomes, while reducing benefits for upper-income earners who are better able to provide for their own retirement needs through savings and investment.

Johnson's proposal would also gradually raise the full retirement age to 69. Americans would be encouraged to work longer, if they can, through the accrual of higher benefits for those who wait until 72 years of age to collect benefits.

These and other policies in the Johnson bill demonstrate that commonsense reform is possible and can be done without requiring higher taxes.

The growing Social Security crisis is not going away, and the president and Congress must work together to begin to resolve it. Social Security benefits should be [more appropriately targeted](#), and Americans of all income levels should be empowered to own more of their retirement by reaping the gains from economic growth in their personal nest eggs.

The trust fund is steadily being drained. Social Security reform is both urgent and essential.

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