2016 MAKING ISSUES COUNT

SOCIAL SECURITY

SOCIAL SECURITY IS THE MOST SIGNIFICANT public program for retirement security in the United States. Ninety percent of Americans who are 65 and older receive benefits from the program, which provides an average of nearly 40 percent of their income.

In 2016, the program provided benefits to more than 60 million retirees, survivors of deceased workers, disabled workers, and dependents. Social Security currently receives more in payroll taxes and interest income than it pays out in benefits, but as more Americans retire and continue to live longer, this is projected to change. While not imminently facing insolvency, Social Security does face long-term financial viability challenges unless changes are made.

Social Security is designed to be a pay-as-you-go system: Current benefits are supported by payroll taxes from current workers, who later retire and then collect benefits from tomorrow's workers. Payroll taxes today comprise about 85 percent of Social Security's income, with the remainder coming from taxes on Social Security benefits and investment earnings on its trust funds. Demographic shifts of Americans living longer and having smaller families will translate into a ratio of fewer workers supporting each beneficiary over the next several decades, which is challenging Social Security's long-term sustainability.

When the program began, the payroll tax rate rose over time, and Social Security's trust fund had been used mainly as a buffer against short-term fluctuations in income and expenses. In 1983, Congress adopted changes to maintain a level tax rate beginning in 1990, and the trust fund was expected to grow in order to pay off higher costs later. Initially, the goal was to keep the system solvent through 2058, but higher costs have led Social Security's trustees to estimate the trust funds will be depleted in 2034, according to the latest trustees report. After that, existing payroll taxes will support 79 percent of benefits. Several proposals have been made to alter Social Security's financing.

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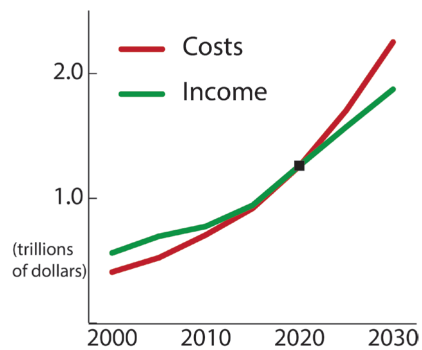
The combined OASDI trust fund, which most analysts focus on, totaled \$2.8 trillion in 2015 and is expected to increase to \$2.89 trillion in 2019. It then faces large annual withdrawals until depleted in 2034, when only 79 percent of the promised benefits can be paid unless changes are made.

This does not mean that Social Security is "going broke." Smaller adjustments adopted soon could help avoid more drastic options required later to maintain the program's fiscal integrity. Yet, Social Security has not received the focus during the presidential campaign that its importance warrants thus far, especially in light of the need to act in the near term to address Social Security's long-term financial sustainability.

Program's Costs Estimated to Exceed Income Around 2020



Social Security is supported by two trust funds – the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) funds. The DI trust fund faced depletion in 2016 but, in late 2015, Congress changed the funding formula for the disability insurance program. The DI trust fund is not projected to be exhausted until 2023. The OASI trust fund that pays benefits to retirees and their dependents is projected to run out of surplus assets in 2035.

Options to provide adequate long-term financing for Social Security involve revenue increases, benefit cuts, or some combination of the two. Here are some questions to consider as the 2016 election unfolds.

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Should benefits be lowered or raised, and how would that change affect Social Security's solvency? READ MORE...

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