

CBO's Long-Term Projections

SOCIAL SECURITY

Finances of the U.S. Social Security System

56 million

Number of people who will receive **Social Security benefits** this year, equal to 1/6 of the population

20%

Share of **total U.S. budget** spent on Social Security in 2010

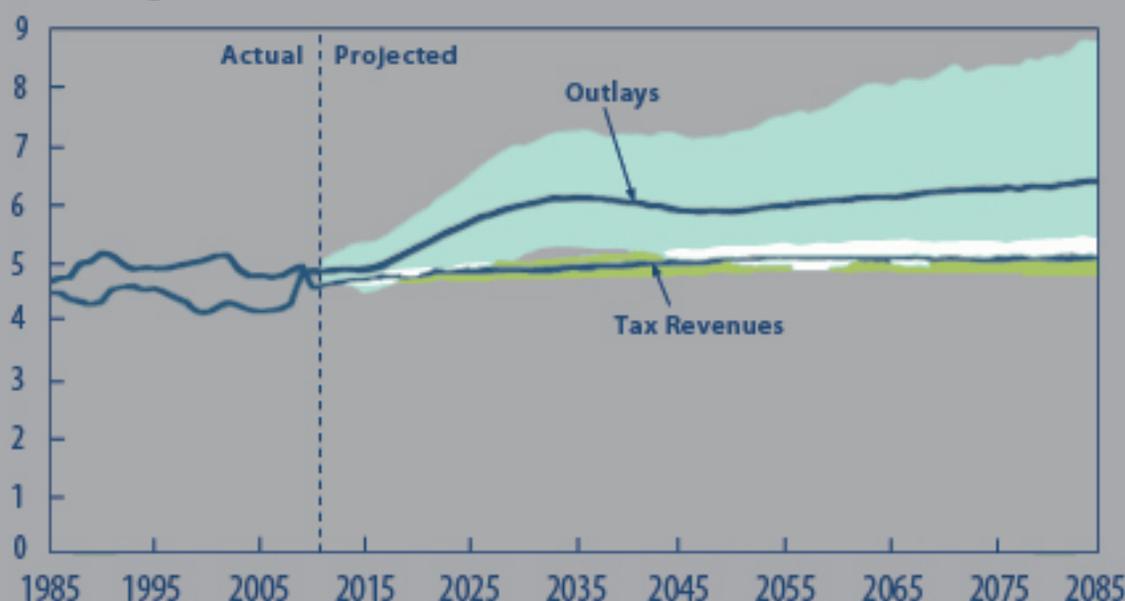
1.6 percentage points

Immediate and permanent **payroll tax rate increase** required for the Social Security system to be solvent over the next 75 years

19%

Across-the-board reduction in payable **benefits** in the year after the exhaustion of the combined Social Security **trust funds** in 2038

Percentage of GDP



21% in 2010
grows to
36% in 2035

People **65+** as a share of the working-age population

4.9% in 2010
grows to
6.1% in 2035

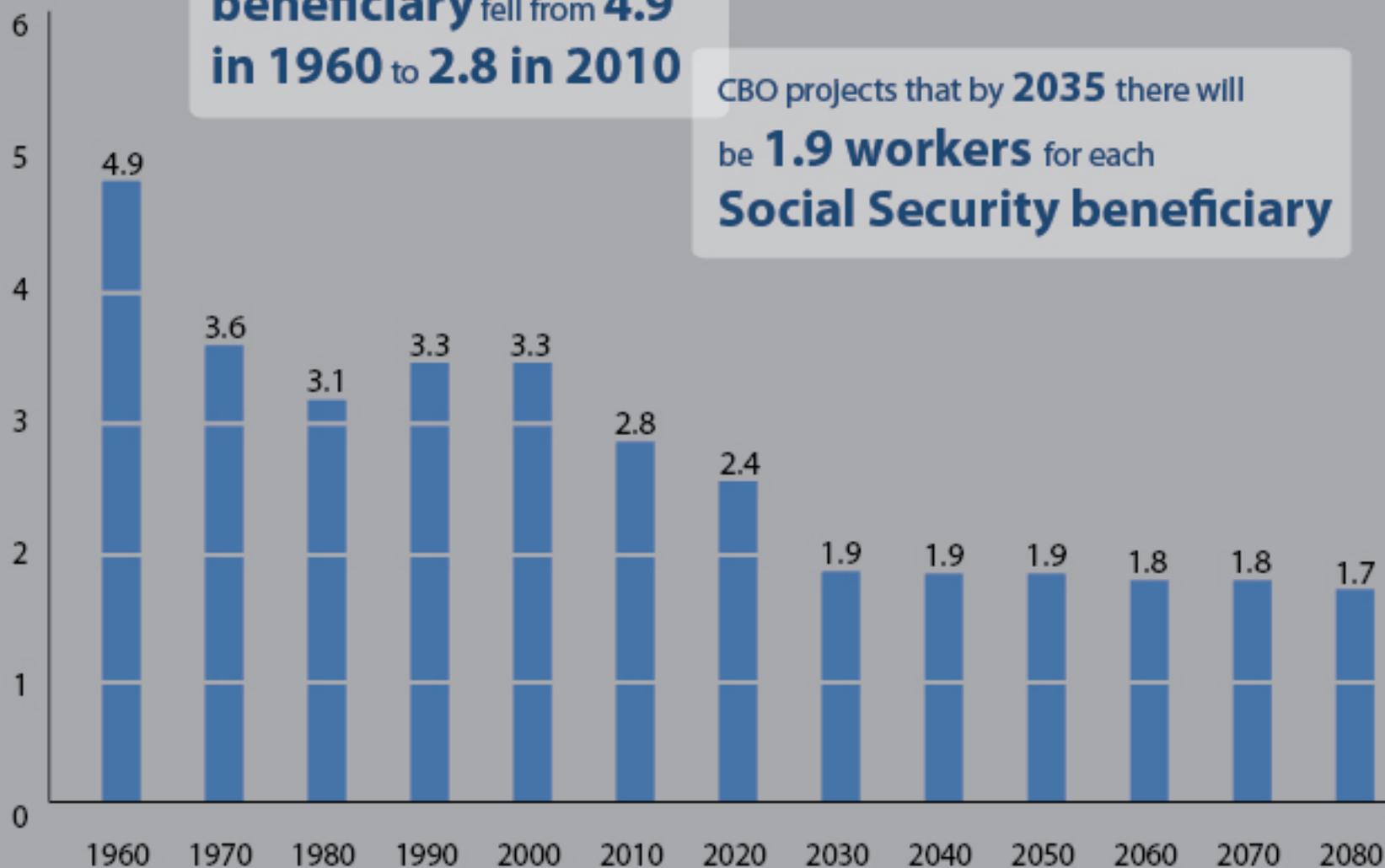
Social Security **spending** as a share of GDP

By 2035, the **growing** number of **beneficiaries** due to the **aging** of the baby-boom generation will cause scheduled spending to climb to **6.1 percent of GDP**, CBO estimates. However, there is uncertainty inherent in CBO's projections; in **10 percent** of the simulations, **outlays** in 2035 are **below 5.3 percent** of GDP and in **10 percent** they **exceed 7.3 percent** of GDP. In most simulations, outlays in 2035 are projected to account for a **much larger share** of GDP than the share in 2010.

The Worker-to-Beneficiary Ratio

The number of **workers** for each **Social Security beneficiary** fell from **4.9** in **1960** to **2.8** in **2010**

CBO projects that by **2035** there will be **1.9 workers** for each **Social Security beneficiary**



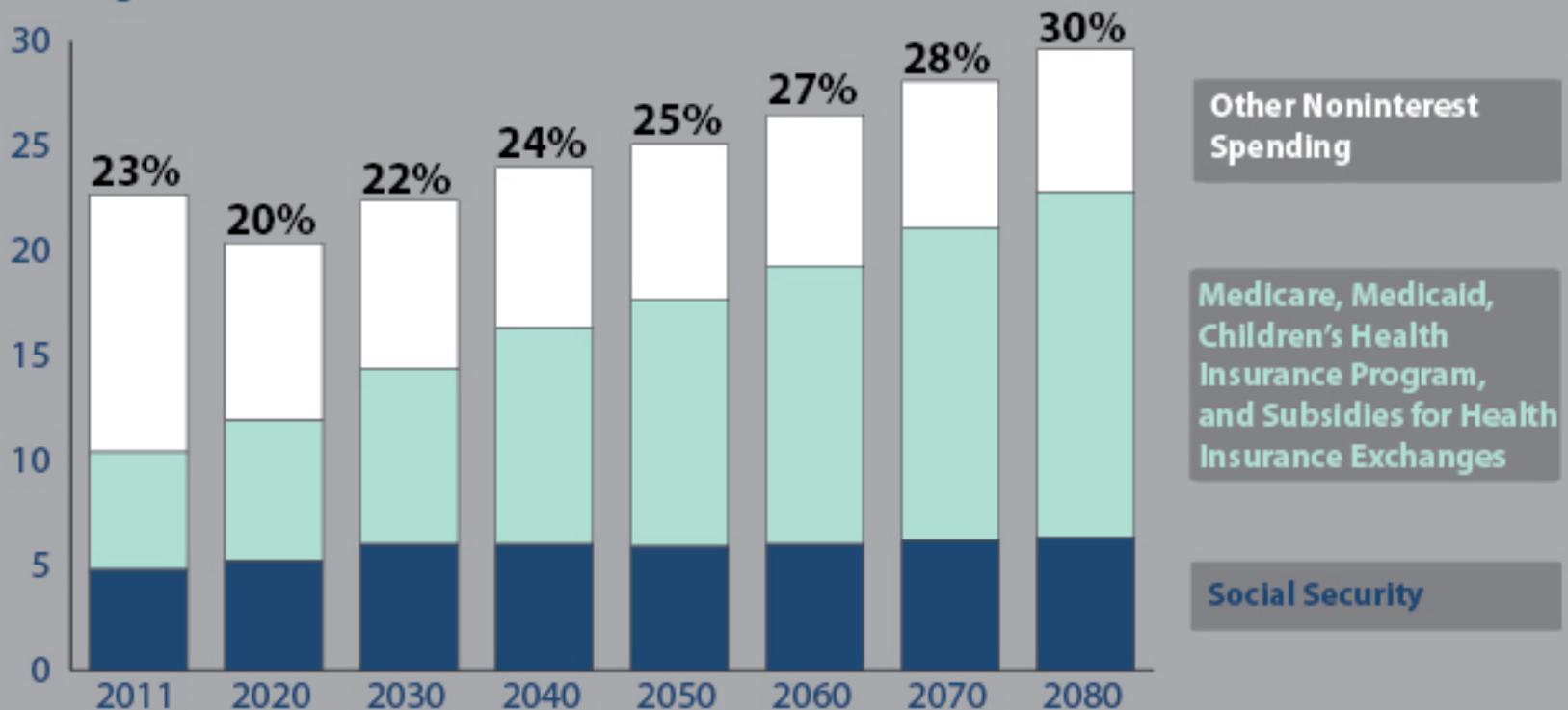
Distribution of Social Security Recipients

(*Other* represents survivors of deceased workers as well as spouses and children of retired or disabled workers.)



Federal Noninterest Spending

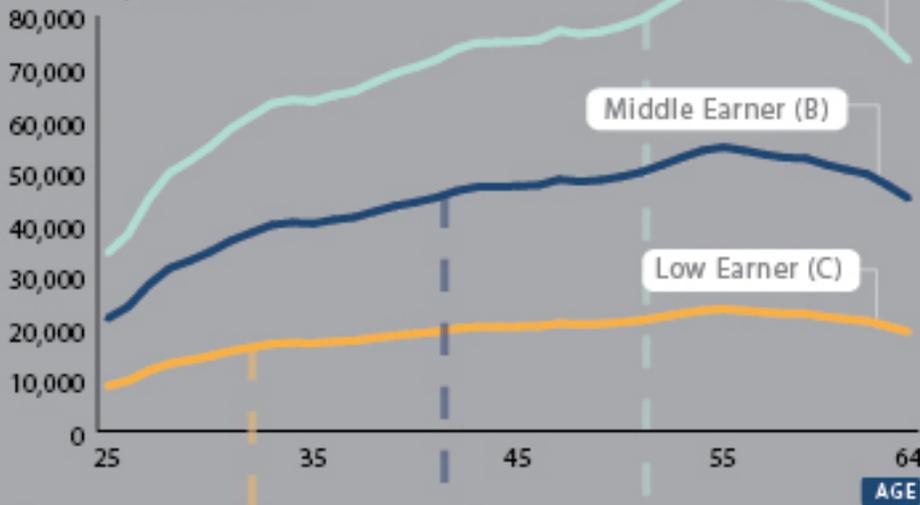
Percentage of GDP



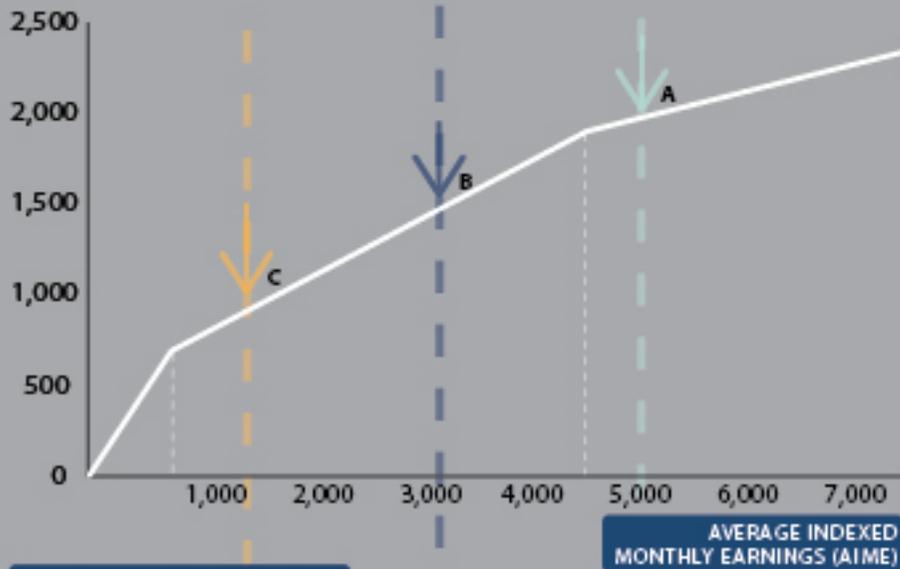
Calculation of Social Security Benefits

REAL EARNINGS

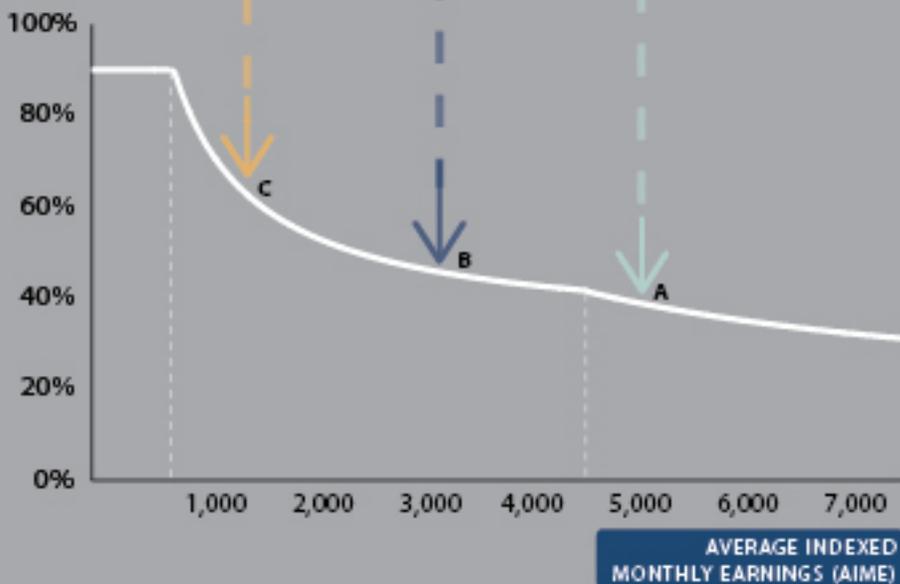
Inflation-Adjusted 2009 Dollars



PRIMARY INSURANCE AMOUNT (PIA)



REPLACEMENT RATE, 2010



Earnings of Three Example Workers

These three graphs illustrate how Social Security retirement benefits are calculated. Here, three workers earn different amounts in each year between the ages of 25 and 64. For example, the Middle Earner has inflation-adjusted earnings that rise from about \$22,000 at age 25 to about \$42,000 at age 55. All three claim Social Security benefits in 2010 at age 66.

Computing the Social Security Benefit Amount

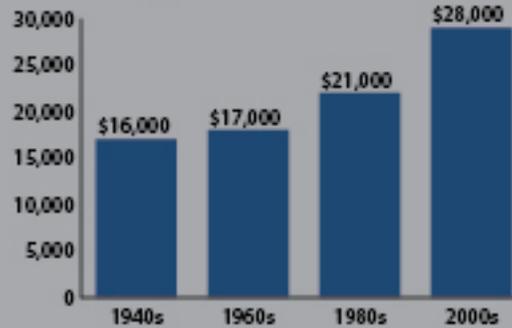
To compute benefits, a worker's past earnings are first adjusted for average wage growth in the economy. The monthly average of adjusted earnings in the 35 highest-earning years is called the average indexed monthly earnings (AIME). A formula in the law translates an AIME into a basic Social Security benefit, known as the primary insurance amount (PIA).

Replacement Rate

The progressive nature of the Social Security benefit formula means that workers with higher lifetime earnings will receive Social Security benefits that replace a lower percentage of their lifetime earnings. For example, the High Earner's benefits will equal about 40% of his or her AIME, while the Low Earner's benefits will equal about 62% of his or her AIME.

Median Initial Benefits for Retired Workers by 10-Year Birth Cohort (with benefits as scheduled)

Inflation-Adjusted 2011 Dollars



Legislative Timeline

(OASDI - Old-Age, Survivors, and Disability Insurance)

Social Security Act of 1935

Created the Social Security Program. Benefits were financed by a payroll tax on current workers – half paid by the worker and half paid by the employer.

Social Security Amendments of 1939

Added benefits for spouses of retired workers and for survivors of deceased workers.

1950

OASDI recipients constituted 2% of the population

Life expectancy at age 65: 13 years for men and 16 years for women

1960

OASDI recipients constituted 8% of the population

Life expectancy at age 65: 13 years for men and 17 years for women

Social Security Amendments of 1956

Created Disability Insurance, which expanded coverage to workers who lose earnings because of disability.

1970

OASDI recipients constituted 12% of the population

Life expectancy at age 65: 14 years for men and 19 years for women

Social Security Act of 1965

Established Medicare, federal health insurance for people 65 and older.

Social Security Amendments of 1972

Created automatic cost-of-living adjustments that are tied to the inflation rate. Previously, each across-the-board increase in benefits required an act of Congress.

Social Security Amendments of 1977

Increased revenues by increasing the payroll tax rate, raising the amount of a worker's earnings subject to the payroll tax, and indexing that amount to growth in average wages.

1980

OASDI recipients constituted 15% of the population

Life expectancy at age 65: 15 years for men and 19 years for women

Social Security Amendments of 1983

Raised the retirement age from 65 to 67 (for workers born in 1960 or later), made some Social Security benefits subject to income taxes, and required new federal employees to participate in the program.

1990

OASDI recipients constituted 15% of the population

Life expectancy at age 65: 16 years for men and 19 years for women

2000

OASDI recipients constituted 16% of the population

Life expectancy at age 65: 18 years for men and 20 years for women

2010

OASDI recipients constituted 17% of the population

Life expectancy at age 65: 19 years for men and 21 years for women

Authors: Jonathan Schwabish and Courtney Griffith
Sources: Congressional Budget Office, Social Security Administration, Bureau of Labor Statistics, Bureau of Economic Analysis

For more information, see the following CBO publications:
CBO's 2011 Long-Term Projections for Social Security: Additional Information
CBO's 2011 Long-Term Budget Outlook
Social Security Policy Options