



Highlights of [GAO-03-1038T](#), a testimony for the Special Committee on Aging, United States Senate

Why GAO Did This Study

Social Security is an important social insurance program affecting virtually every American family. It is the foundation of the nation's retirement income system and also provides millions of Americans with disability insurance and survivors' benefits. Over the long term, as the baby boom generation retires, Social Security's financing shortfall presents a major program solvency and sustainability challenge.

The Chairman of the Senate Special Committee on Aging asked GAO to discuss Social Security's long-term financing challenges and the results of GAO's analysis of an illustrative "Trust Fund Exhaustion" scenario. Under this scenario, benefits are reduced proportionately for all beneficiaries by the shortfall in revenues occurring upon exhaustion of the combined Old-Age and Survivors Insurance and Disability Insurance Trust Funds. This scenario was developed for analytic purposes and is not a legal determination of how benefits would be paid in the event of trust fund exhaustion. GAO's analysis used the framework it has developed to analyze the implications of reform proposals. This framework consists of three criteria: (1) the extent to which the proposal achieves sustainable solvency and how it would affect the U.S. economy and the federal budget, (2) the balance struck between the twin goals of income adequacy and individual equity, and (3) how readily changes could be implemented, administered, and explained to the public.

www.gao.gov/cgi-bin/gettrpt?GAO-03-1038T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara Bovbjerg at (202) 512-5491 or Susan Irving at (202) 512-9142.

SOCIAL SECURITY REFORM

Analysis of a Trust Fund Exhaustion Scenario Illustrates the Difficult Choices and the Need for Early Action

What GAO Found

Although the Trustees' 2003 intermediate estimates show that the combined Social Security Trust Funds will be solvent until 2042, program spending will constitute a growing share of the budget and the economy much sooner. Within 5 years, the first baby boomers will become eligible for Social Security. By 2018, Social Security's tax income is projected to be insufficient to pay currently scheduled benefits. This shift from positive to negative cash flow will place increased pressure on the federal budget to raise the resources necessary to meet the program's ongoing costs. In the long term, Social Security, together with rapidly growing federal health programs, will dominate our nation's fiscal outlook. Absent reform, the nation will ultimately have to choose between persistent, escalating federal deficits, significant tax increases, and/or dramatic budget cuts of unprecedented magnitude.

The Trust Fund Exhaustion scenario we analyzed dramatically illustrates the need for action sooner rather than later. (See *Social Security Reform: Analysis of a Trust Fund Exhaustion Scenario*. GAO-03-907. Washington, D.C.: July 29, 2003.) Under this scenario, after the combined trust funds had been fully depleted, benefit payments would be adjusted each year to equal annual tax income. Under this scenario, after trust fund exhaustion those receiving benefits would experience large and sudden benefit reductions. Additional smaller reductions in the following years would result in benefits equal to about two-thirds of currently scheduled levels by the end of the 75-year simulation period.

The Trust Fund Exhaustion scenario raises significant intergenerational equity issues. The timing of the benefit adjustments means the Trust Fund Exhaustion scenario places a much greater burden on younger generations. Lifetime benefits would be reduced much more for younger generations. In addition, under the Trust Fund Exhaustion scenario, benefits would be adjusted proportionately for all recipients, increasing the likelihood of hardship for lower income retirees and the disabled, especially those who rely on Social Security as their primary or sole source of retirement income.

Fundamentally, the Trust Fund Exhaustion scenario illustrates trade-offs between achieving sustainable solvency and maintaining benefit adequacy. The longer we wait to take action, the sharper these trade-offs will become. Acting soon would allow changes to be phased in so the individuals who are most likely to be affected, namely younger and future workers, will have time to adjust their retirement planning while helping to avoid related "expectation gaps." Finally, acting soon reduces the likelihood that the Congress will have to choose between imposing severe benefit cuts and unfairly burdening future generations with the program's rising costs.