

# STRENGTHEN SOCIAL SECURITY

## ...don't cut it.

FactCheck Gets it Wrong, Democratic Leaders get it Right, on Social Security and the Deficit

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Brooks Jackson's recent FactCheck.org article, "Democrats Deny Social Security's Red Ink," wrongly accuses Democratic leaders of lying for claiming that Social Security does not contribute to the deficit. But before casting aspersions on the credibility of lifelong Social Security experts like Budget Director Jacob Lew, who as senior aide to Tip O'Neill was one of the architects of the Social Security legislation of 1983, Jackson would do well to check *his* facts. Lew and Democratic Senators Dick Durbin, Harry Reid, and Chuck Schumer are right, and Brooks Jackson is wrong. Social Security is currently in surplus, and regardless of the state of its internal finances, it cannot contribute to the general budget deficit. The only exception is the \$120 billion being credited to the Trust Fund in 2011 to offset the revenue lost from the 2% reduction in payroll tax revenue.

Jackson's argument is based on two false premises. First, he asserts that Social Security's internal finances are already in deficit by misrepresenting data from the CBO's "Budget and Economic Outlook." In reality, the CBO estimates that the program ran an annual surplus of \$82 billion in 2010 and will run a surplus of \$72 billion in 2011, despite a very high jobless rate.<sup>1</sup> Social Security's accumulated surplus is currently \$2.6 trillion and estimated to grow to \$4.3 trillion in 2025.

It is true, that as Jackson states, benefit outlays exceeded payroll tax income in 2010, but that is neither unusual nor noteworthy because it has occurred 15 times since 1956.<sup>2</sup> In his calculations, Jackson makes the common mistake of assuming that Social Security relies entirely on payroll tax contributions to finance its operations. He fails to account for the revenue accrued from the interest on Social Security's bonds and the taxation of benefits, which together constituted 17 percent of Social Security's revenues in 2010.<sup>3</sup>

By ignoring the interest on the Trust Fund's bonds, Jackson apparently believes that the full faith and credit of the United States government no longer applies to Social Security. Jackson briefly concedes that when one includes the interest on the bonds the Trust Fund is in surplus, but still discounts them, because "unless taxes are increased or other spending is cut severely, the government will have to borrow from the public to pay the interest that it owes to the trust funds." Thus, according to Jackson, because the government has borrowed money to pay for other programs, and paying back the interest on Social Security's bonds might cause it to borrow further in other areas, the interest should not be counted toward Social Security's assets.

Like the bonds themselves, however, the interest on Social Security's bonds are insured by the full faith and credit of the United States government. Effectively, Jackson would assess Social Security's assets as if the government no longer had to honor the loans made to it by Social Security. By that logic, the

United States should default on its obligations to all of its creditors. If China and other foreign creditors are still allowed to count interest on the bonds owed to them as part of their assets, American workers that paid into Social Security should be entitled to do so as well.

In addition, even if Social Security were to lack the funds necessary to pay full benefits, it is forbidden by law from borrowing from the federal budget, and thus cannot contribute to the deficit. Social Security is a self-financed program with its own threefold revenue stream of FICA or payroll tax contributions, interest on the bonds it has invested, and taxation of its own benefits. The very reason to be concerned about the modest funding shortfall that is projected to take effect in 2037 is that Social Security does not have the luxury of borrowing to make up the difference. In the event that Congress failed to act to close the shortfall, rather than divert general budget funds to Social Security, benefits would be cut automatically.

Finally, Jackson is correct that the present 2 percent reduction in the payroll tax has required a temporary diversion of funds from the general budget to replace the missing revenue. Left to its own devices, Social Security does not contribute to the deficit. In this case, the government temporarily reduced the Trust Fund's revenues to stimulate the economy, and gave it funds from the general budget so as not to penalize the program for foregoing a portion of its revenue. More importantly, the payroll tax reduction is set to expire in one year and both the President and Republican leaders in Congress have promised that it will not be renewed. Rather than entertain doomsday scenarios that risk becoming a self-fulfilling prophecy, we should hold our elected officials accountable for their promises and let the payroll tax reduction expire.

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<sup>1</sup> Congressional Budget Office (CBO), "Table C-1 CBO's Baseline Projections for Surpluses or Deficits in the Trust Funds," in *The Budget and Economic Outlook: Fiscal Years 2011 to 2021*, January 2011, p. 122. Available at [http://www.cbo.gov/ftpdocs/120xx/doc12039/01-26\\_FY2011Outlook.pdf](http://www.cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf)

<sup>2</sup> Social Security Administration (SSA), "Annual Statistical Supplement: Table IV.A3—Combined OASI and DI, 1957–2008," Available at <http://www.ssa.gov/policy/docs/statcomps/supplement/2009/4a.pdf> Benefits also exceeded payroll contributions in 2009, according to the Social Security Trustees, *Ibid.*, "Table IV.A3.," 2010, p. 43.

<sup>3</sup> Social Security Trustees, "Table II.B1—Summary of 2009 trust Fund Financial Operations," in *The 2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, August 2010, p. 5. Available at <http://www.ssa.gov/OACT/TR/2010/tr10.pdf>