

**cepr**

Center for Economic and Policy Research

**Briefing Paper**

**Growing the Social Security Crisis:  
The Social Security Administration's Poverty Rate  
Projections**

**By Dean Baker and Mark Weisbrot<sup>1</sup>**

January 18, 2005

CENTER FOR ECONOMIC AND POLICY RESEARCH 1611 CONNECTICUT AVE., NW, SUITE 400  
WASHINGTON, D.C. 20009 (202) 293-5380 <WWW.CEPR.NET> EMAIL: CEPR@CEPR.NET

---

<sup>1</sup> Dean Baker and Mark Weisbrot are co-directors of the Center for Economic and Policy Research.

The Social Security Administration (SSA) recently examined the impact on the elderly poverty rate if the program failed to pay full benefits after the trust fund is projected to be depleted in 2042.<sup>2</sup> The SSA analysis (by Andrew G. Biggs) found that if benefits were cut to the level that could be paid from projected tax revenue (approximately 73 percent of scheduled benefits), then the poverty rate among people who will be age 64 to 78 at the time, would double from 2.0 percent to 4.0 percent.

While this finding is highlighted in the summary, there are several factors that should be noted in assessing its importance.

- 1) In its baseline projections of income, the model assumed that there would be no narrowing of the gap in income between men and women over the years 2022 to 2038;
- 2) Its baseline projections of income also assume no narrowing of the income gap between non-whites and whites over this 16 year period;
- 3) The base year for the Biggs analysis is 2039, the year that the trust fund was projected to be depleted in the 2001 trustees' report. The most recent trustees' report projects that the fund won't be depleted until 2042. Since the 2004 report also assumes more rapid wage growth, benefits projected for 2042 will be approximately 7 percent higher on average than the benefits projected in this analysis;
- 4) The analysis assumes proportionate benefit cuts, implying that Congress both does nothing ever to improve the finances of the program, and that it allows the poor to bear the same share of the cuts as the wealthy;
- 5) Even accepting all of the above assumptions in the Biggs paper, the size of the poverty gap created by the paper's projected benefit cuts would be a tiny fraction of the total federal budget at the time (approximately 0.02 percent);  
The dollar amount of this poverty gap is equal to the President's tax cut over a 16 hour period.
- 6) The projected benefit cuts examined in the Biggs paper are actually smaller than the cuts that would be imposed by Plan 2 from President Bush's Commission to Strengthen Social Security, on average.

When these factors are taken into account, the study's key finding appears to be far less consequential.

### **Race- and Gender-Based Income Differences**

Taking the items in turn, the study is quite explicit in describing the modeling exercise. It assumes that "there is no progress in closing the income gaps between men and women or whites and non-whites over the next 16 years [2022-2038]." This assumption is very important to the analysis because the projected poverty rate for women is 60 percent higher than the poverty rate for men. The poverty rate for Hispanics is more than three times the projected poverty rate for whites and the projected poverty rate for blacks is

---

<sup>2</sup> Biggs, A. (2004). "The Distributional Consequences of a 'No-Action' Scenario," Social Security Administration, Policy Brief No. 2004-01 [<http://www.ssa.gov/policy/docs/policybriefs/pb2004-01.html#mn6>].

almost five times the projected rate for whites.<sup>3</sup> If women and non-whites continued to make progress in closing the wage gap with whites, then their poverty rates would be considerably lower by 2039, both with and without the projected cut in benefits. While the decline in poverty rates may be partially offset by an increase in poverty rates among whites, it is likely that the net effect of further reduction in gender- and race-based differences in income would be lower poverty rates overall.

In the sixteen years from 1985 to 2001, the Census Bureau reports that the ratio of the median income for women to the median income for men rose from 44.2 percent to 57.1 percent.<sup>4</sup> Over the same period, the median income for blacks as a share of white income rose from 65.3 percent to 82.2 percent. For Hispanics, this ratio rose from 45.5 percent in 1985 to 74.5 percent in 2001. It would be reasonable to expect that the trends toward diminishing gender- and race-based income gaps would continue, barring a change in policy. If, in fact, policy does change in this period, so that the progress in diminishing these gaps comes to a halt, this would likely be viewed as a far more serious crisis than the increase in elderly poverty projected in the Biggs paper.

On a related topic, it is worth noting that President Bush has often argued that Social Security is unfair to blacks because they have shorter life expectancies than whites, and therefore do not collect benefits for as many years on average. While the same logic applies to any annuity-type program that ensures retirees do not outlive their retirement income – including one based on private accounts – this argument is similar to the one presented in these poverty projections.

President Bush apparently objects to annuities because blacks don't live as long as whites, and this study shows that blacks will be far more vulnerable than whites to a cut in Social Security benefits, because they will have made little progress in closing the black/white income gap. One policy approach would be a renewed emphasis on efforts to close the racial gap in life expectancy and income. However, the direction of President Bush's comments, like the assumptions in these projections, is to take these race or gender based differences as facts, and then adjust government policy accordingly.

### **Choice of Base Years**

While the base year for an analysis typically does not make much difference, that is not true in this case. While the projections in the 2004 trustees' report are only slightly more optimistic than in the 2001 report used in this analysis, the combination of slightly higher real wage growth (1.1 percent annual growth in the 2004 report, compared to 1.0 percent in the 2001 report) and three additional years until the trust fund is projected to be depleted, leads to an average increase in income projected in 2042 of 7.3 percent compared with the projection for 2039 in the 2001 report. This increase in projected income would lower both the baseline poverty rate and the number of people who are projected to be pushed into poverty by the projected cut in benefits.

---

<sup>3</sup> These data appear in table 1 of the study.

<sup>4</sup> These numbers are taken from Census Bureau's, *Historical Income Tables*, Table P-4 and P-5. 2001 is the most recent available on the website.

In this respect, it is worth noting that the analysis by the Congressional Budget Office (CBO) assumes 1.3 percent real wage growth and that the trust fund will not be depleted until 2052.<sup>5</sup> Average wages and income under these assumptions will be 32.3 percent higher in 2052 than the projections used in this study. In the CBO analysis, poverty among this age group will have been virtually eliminated at the time the trust fund is projected to be depleted. It would still be extremely low (well under 2.0 percent) even if benefits were cut in the manner described in this study.<sup>6</sup>

### **Policy Response to a Shortfall In the Trust Fund**

This analysis effectively assumes that Congress never takes action, even as Social Security becomes unable to pay full scheduled benefits. While this is theoretically possible, it seems virtually inconceivable as a political outcome. The program did run out of money at the end of 1982 and had to borrow funds from the other trust funds to make current benefit payments. Congress and the President quickly moved the issue to the top of their priorities, and came out with the Greenspan Commission reforms, which are projected to have extended the life of the program by 59 years according to the trustees and by 69 years according CBO's analysis. The share of seniors in the voting age population is projected to rise to 27.2 percent in 2040 from just 16.3 percent in 1980.<sup>7</sup>

While no one can foresee the political environment of 2042 (or the intervening 37 years, if nothing is ever done even as the trust fund balance heads towards zero), it seems unlikely that Congress would either take no action whatsoever, or alternatively would resolve the full shortfall on the benefit side. Furthermore, it is even less believable that if Congress did decide that the shortfall should be fully met on the benefit side, no steps would be taken to protect the least advantaged among the elderly.

### **The Size of the Projected Poverty Gap**

The decision modeled in the Biggs paper is especially striking given the small size of the projected poverty gap. The paper projects that an additional 856,000 people will fall below the poverty line as a result of Social Security being unable to pay full benefits in 2039. For the reasons noted above, this is likely a substantial overstatement, especially if the CBO projections for the solvency of the program prove to be more accurate.

However, even accepting the projections in this paper as accurate, the size of the poverty gap created by the projected cut in benefits would still be relatively small. The amount by which the newly impoverished elderly fell below the poverty line would average just over

---

<sup>5</sup> Congressional Budget Office, 2004. *The Outlook for Social Security*.  
[\[http://www.cbo.gov/showdoc.cfm?index=5530&sequence=0\]](http://www.cbo.gov/showdoc.cfm?index=5530&sequence=0)

<sup>6</sup> This can be seen from the fact that the payable benefit projected by CBO for 2052 (83 percent of the scheduled benefit) is 5.9 percent higher than the base benefit used in this analysis for 2039, when the poverty rate for people aged 64 to 78 was projected at 2.0 percent.

<sup>7</sup> Social Security Trustees Report 2004, Table V. A2.

\$1050 annually in this scenario.<sup>8</sup> This creates a cumulative poverty gap of \$935 million for this group as a result of the projected Social Security cuts.

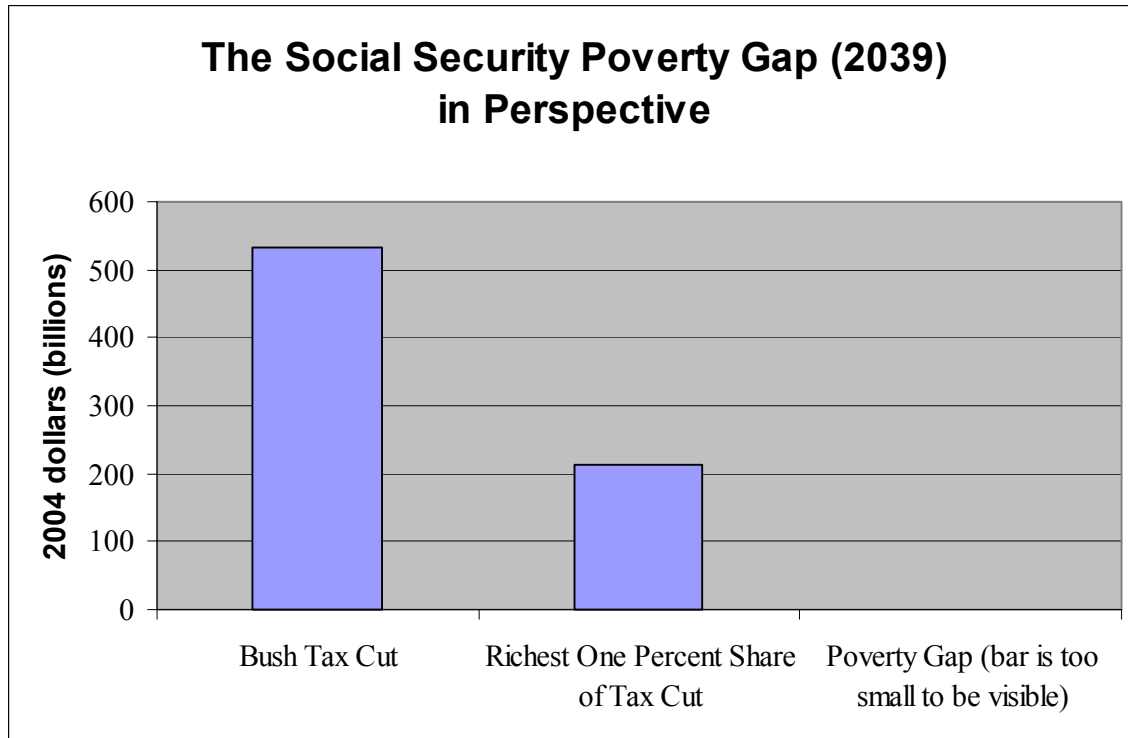
By comparison, CBO projects that GDP will be equal to \$26,637.2 billion (in 2004 dollars) in 2039, meaning that the projected poverty gap for this group will be equal to 0.0035 percent of GDP in 2039. This projected poverty gap is also small relative to the size of President Bush's tax cuts, which are equal to 2.0 percent of GDP. This projected poverty gap would be equal to just 0.18 percent of the size of President Bush's tax cuts.

Even the share of the tax cut going to the richest one percent of taxpayers would dwarf the projected poverty gap in this study – coming to approximately \$210.0 billion in 2039. In other words, the projected poverty gap in the Biggs paper is approximately equal to the cost of President's tax cuts over a 16 hour period. It is approximately equal to the cost of the tax cut for the richest one percent of families over a 2 day period. Of course, the size of the projected shortfall would be even smaller, if more realistic assumptions about the decline in the gender and racial income gaps were used, or if the projections in more recent Social Security trustees' reports or the CBO projections were used for the analysis. For example, if the CBO projections were used, the poverty gap created among the elderly in 2052 would be less than 5 hours of the cost of the Bush tax cut, and about 13 hours of the cost of the tax cut for the richest one percent.

The chart below shows the relative size of the Bush tax cuts, the share of the tax cuts going to the richest one percent of families and the elderly poverty gap that this paper projects will result in 2039. (There is a bar for the Social Security Poverty Gap – it is just too small to be visible next to the other bars.) In short, if an increase in poverty rates for the elderly proved to be a result of a Social Security shortfall that is never addressed, then it will clearly be a statement of the public's priorities at the time, not an inability to address the problem of poverty among the elderly.

---

<sup>8</sup> This estimate is obtained by calculating a weighted average for the elderly poverty line of \$8,143 per person, assuming that 70 percent of the elderly poor live alone, in which case the poverty line is \$9,143 in 2004 dollars, and 30 percent live in couples, in which case the poverty line for 2 is \$11,122. The average amount by which it is assumed that people fall below this line is 13.5 percent – half of the projected cut in Social Security benefits. Those pushed the most below the poverty line as result of this Social Security cut will be those right at the poverty line, who will see a 27 percent cut in benefits and therefore will be pushed 27 percent below the poverty line. On the other hand, some people in this group will be pushed just marginally below the poverty line by the cut in benefits. Assuming an even distribution of people over this income category, the average extent to which this group falls below the poverty line will be 13.5 percent of the poverty line, or \$1,057 in 2004 dollars.



Source: CBO and author's calculations.

### Comparing the Cuts in the Baseline with the Cuts in Plan 2

One final point worth noting in considering the implications of this analysis is the size of the cuts projected in the baseline scenario with the size of the cuts projected in alternative proposals, specifically Plan 2 produced by the President's Social Security Commission. This plan calls for indexing the Social Security benefit formula to prices rather than wages. Therefore it will lead to progressively larger cuts through time compared with the currently scheduled benefit.

By 2042, this formula would lead to benefit cut of approximately 26 percent for an average wage earner, almost exactly the same as the cuts modeled in the Biggs paper. The size of the benefit cut under Plan 2 would rise to approximately 32 percent by the 2052 date of trust fund depletion projected by CBO. This cut is far larger than the 18 percent cut that CBO projects would be needed to keep the program balanced assuming no other changes are made.

Of course, Plan 2 does include some increases in benefits for low income workers which will help protect them from these cuts. However, these increases are relatively low cost – Congress could put them into effect at any time between now and the trust fund's depletion (if it occurs) without having to make any substantial cuts in other spending and/or tax increases. In other words, addressing the needs of the poorest among the elderly would be an extremely simple matter if Congress were to devote its attention to

the topic. It has very little to do with the basic structure of the Social Security program, which is intended to provide a core retirement income for the whole workforce.

In short, the usefulness of this analysis from the Social Security Administration seems rather questionable. Several dubious assumptions, most importantly the disappearance of any reduction in gender-or race-based income gaps between 2022 and 2038, appear to play an important role in its finding that cuts in Social Security benefits will double poverty rates among the aged. More importantly, if the benefit cuts and resulting increase in poverty were to actually occur as projected in the Biggs study, the amount of money needed to correct the problem would be a trivial share of the total Federal government budget. If the political will existed to reverse the rise in poverty it could be accomplished with spending equal to less than 0.02 percent of the projected budget for 2039. Congress routinely makes such appropriations in a matter of days; it does not need to prepare for such contingencies thirty or forty years in advance.