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CBO's 2011 Long-Term Projections for Social Security: Infographic

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CBO's 2011 Long-Term Projections for Social Security: Infographic

Abstract
[Excerpt] 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.

Keywords
Congressional Budget Office, Social Security, projections, finances

Comments

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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

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%

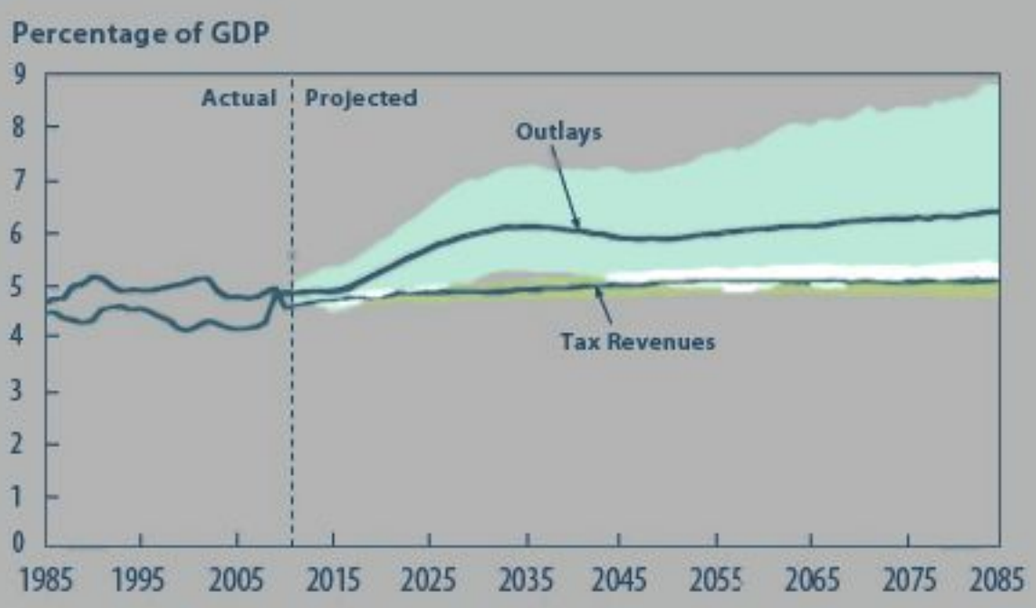
Share of **total U.S. budget** spent on Social Security in **2010**

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**



21% in 2010
grows to
36% in 2035

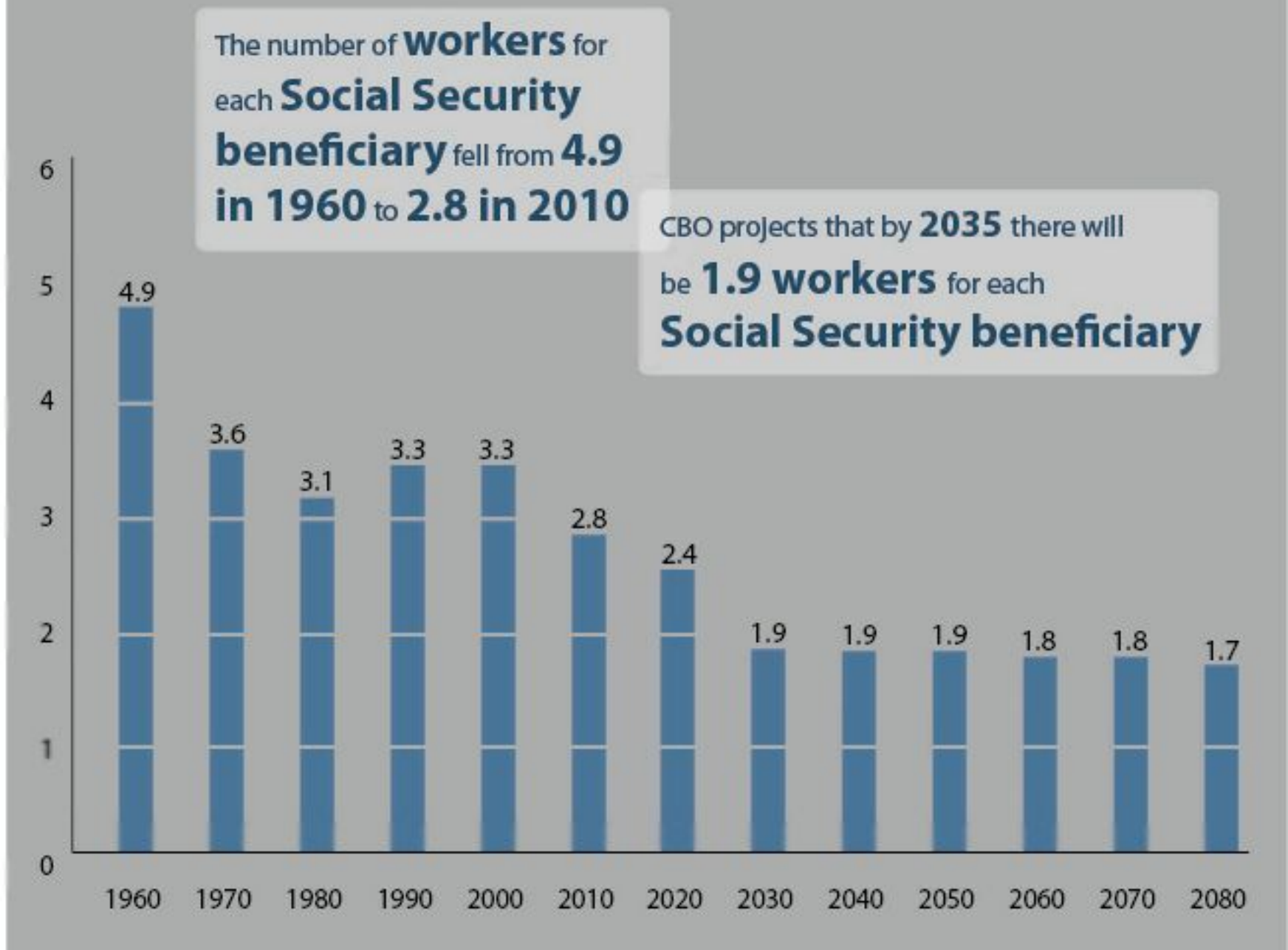
People **65+** as a share of the working-age population

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.

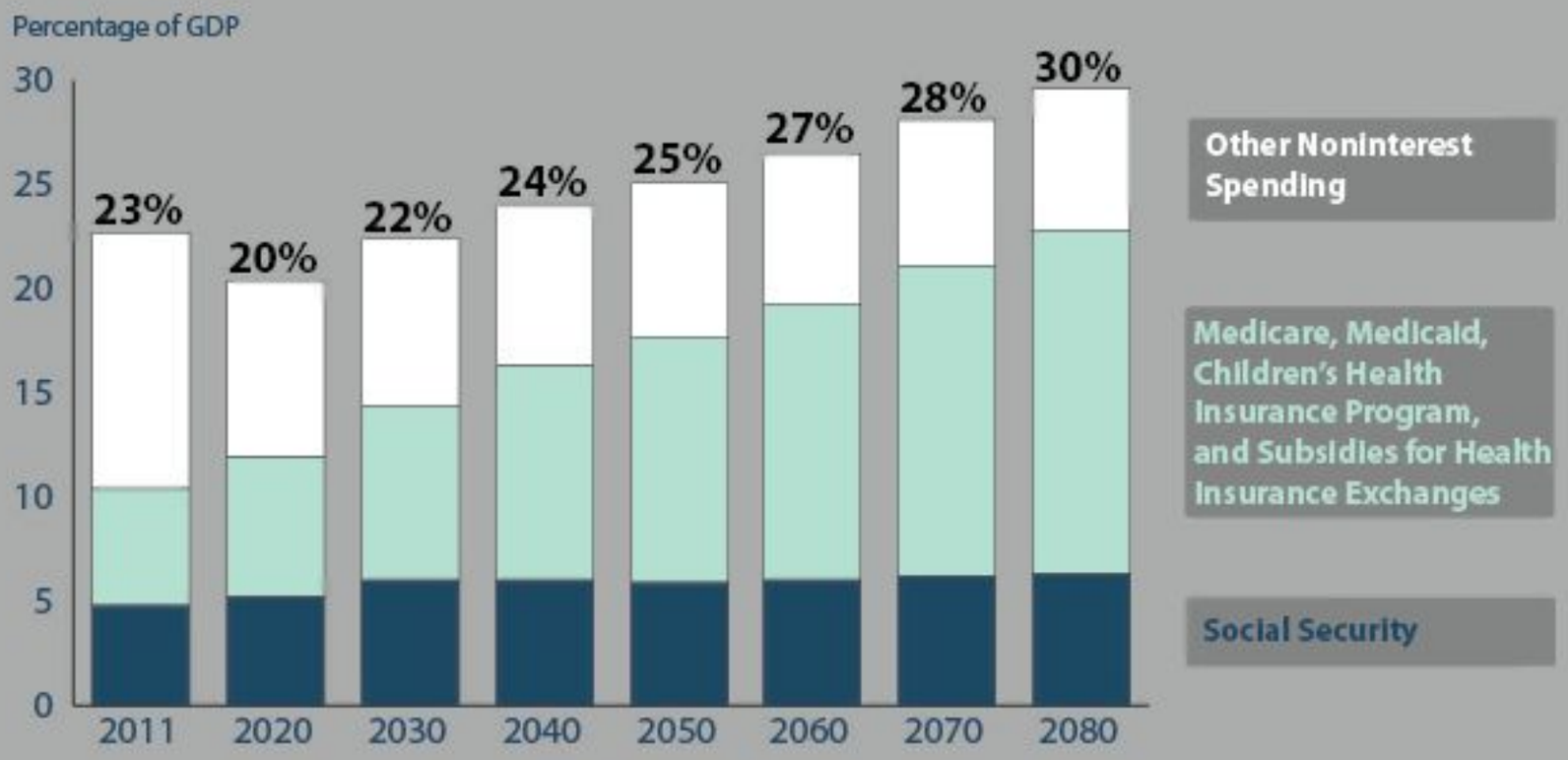
The Worker-to-Beneficiary Ratio



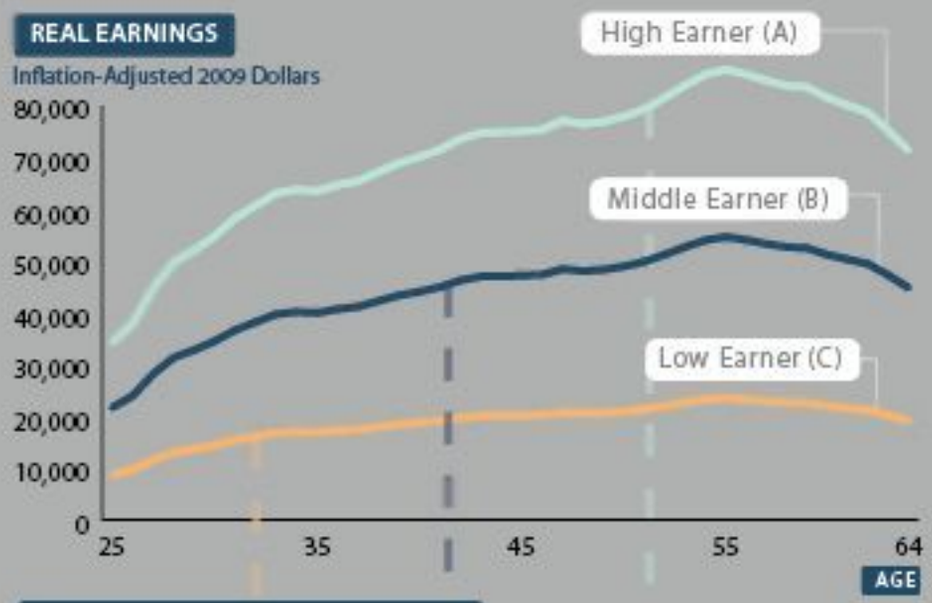
Distribution of Social Security Recipients

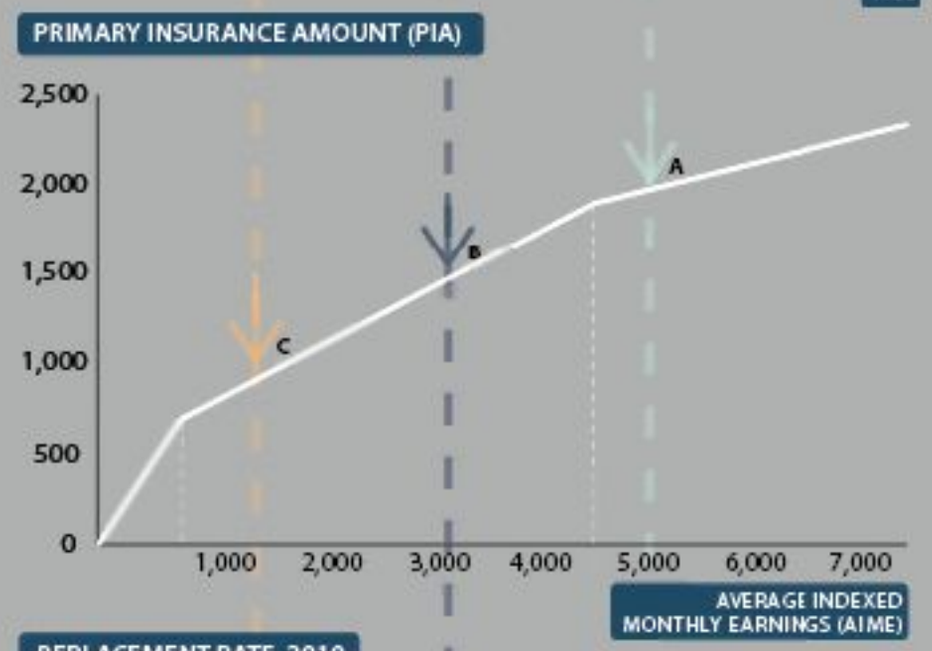
("Other" represents survivors of deceased workers as well as spouses and children of retired or disabled workers.)

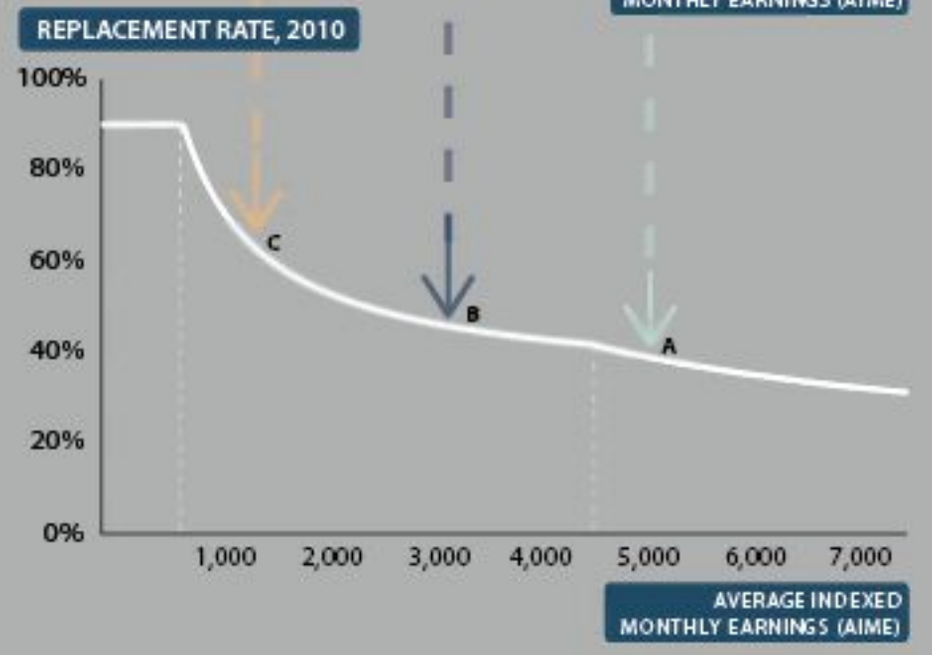
Federal Noninterest Spending



Calculation of Social Security Benefits







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)

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

Social Security Amendments of 1956
Created Disability Insurance, which expanded coverage to workers who lose earnings because of disability.

1960
OASDI recipients constituted 8% of the population
Life expectancy at age 65: 13 years for men and 17 years for women

Social Security Act of 1965
Established Medicare, federal health insurance for people 65 and older.

1970
OASDI recipients constituted 12% of the population
Life expectancy at age 65: 14 years for men and 19 years for women

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

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