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

Congressional Budget Office
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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
Suggested Citation

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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% 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% of GDP and in 10 percent they exceed 7.3% 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 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.)

2010
- Retired Workers (64%)
- Disabled Workers (15%)
- Other (21%)
- Total 54 million people

2035
- Retired Workers (76%)
- Disabled Workers (11%)
- Other (12%)
- Total 91 million people

Federal Noninterest Spending

Percentage of GDP

- Other Noninterest Spending
- Medicare, Medicaid, Children's Health Insurance Program, and Subsidies for Health Insurance Exchanges
- Social Security
Calculation of Social Security Benefits

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.

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).

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)

<table>
<thead>
<tr>
<th>Birth Cohort</th>
<th>Median Initial Benefits in 2011 Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940s</td>
<td>$16,000</td>
</tr>
<tr>
<td>1960s</td>
<td>$17,000</td>
</tr>
<tr>
<td>1980s</td>
<td>$21,000</td>
</tr>
<tr>
<td>2000s</td>
<td>$28,000</td>
</tr>
</tbody>
</table>

Legislative Timeline

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.

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

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

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

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 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.

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 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

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

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Sources: Congressional Budget Office, Social Security Administration, Bureau of Labor Statistics, Bureau of Economic Analysis