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
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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 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 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
- Total: 54 million people
  - Retired Workers: 64%
  - Disabled Workers: 15%
  - Other: 21%

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

Federal Noninterest Spending

Percentage of GDP

- 2011: 23%
- 2020: 20%
- 2030: 22%
- 2040: 24%
- 2050: 25%
- 2060: 27%
- 2070: 28%
- 2080: 30%

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

Real Earnings
Inflation-Adjusted 2009 Dollars

Primary Insurance Amount (PIA)

Replacement Rate, 2010

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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Initial Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$30,000</td>
</tr>
<tr>
<td>2000</td>
<td>$25,000</td>
</tr>
<tr>
<td>2000</td>
<td>$20,000</td>
</tr>
</tbody>
</table>

Inflation-Adjusted 2011 Dollars

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

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

OASDI recipients constituted 2% of the population in 1950
- Life expectancy at age 65: 13 years for men and 16 years for women

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

OASDI recipients constituted 12% of the population in 1970
- 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.

1980
OASDI recipients constituted 15% of the population
Life expectancy at age 65: 15 years for men and 19 years for women

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

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