

## Updated Long-Term Projections for Social Security

The Congressional Budget Office most recently released long-term (100-year) Social Security projections in *The Outlook for Social Security* (June 2004). As a result of both economic and technical revisions, those projections have changed slightly. The attached tables and figures present the updated projections. *The Outlook for Social Security* presented ranges of uncertainty around the central projections; those estimates will also be updated and will be posted in the near future.

CBO presents future Social Security benefits under two scenarios. In one scenario, outlays include the full benefits owed. This is the “scheduled benefits” scenario. In the second analysis, outlays include only those benefits that the Social Security Administration has legal authority to pay under current law. Thus, that scenario assumes that all benefits are reduced annually once the trust funds are exhausted so that total outlays equal available revenues. In the June report, that was described as the “trust-fund-financed” scenario. This is now labeled “current law.”

CBO projects that under current law Social Security outlays will first exceed revenues from payroll taxes and taxation of benefits in 2020 and that the program will exhaust the trust funds in 2052. After the trust funds are exhausted, Social Security spending cannot exceed annual revenues. As a consequence, because dedicated revenues are projected to equal 78 percent of scheduled outlays in 2053, CBO finds that the benefits paid will be 22 percent lower than the scheduled benefits.

Since the last estimates were released, CBO has updated its economic and budget forecast for the next 10 years (see *The Budget and Economic Outlook: Fiscal Years 2006 to 2015*), incorporated updated Social Security earnings records, and refined the method used to estimate retroactive disability payments. While the major long-term economic assumptions did not change, there were small revisions in the estimated historical values and projected values of hours worked in the economy, as well as the projected differential growth in two measures of prices: the price index for gross domestic product (GDP) and the consumer price index.

CBO projects that, over the next 10 years, Social Security outlays will average about 0.2 percentage points lower relative to GDP than was projected last summer, primarily because of an increase in projected GDP. The difference diminishes over the following decade, and CBO projects that, for 2030 to 2050, outlays will average 0.1 percentage points higher as a percent of GDP than projected last summer. Projected outlays for later years are essentially unchanged.

CBO revised its projection of Social Security revenues relative to GDP down slightly. By the end of the 100-year projection period, CBO projects, revenues will be 4.7 percent of GDP, 0.1 percentage point lower than projected last summer.

**Table 1-1.**

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**Social Security Outlays and Revenues as a Share of GDP in Selected Years  
Under the Scheduled Benefits Scenario, 2003 to 2100**

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|          | <b>Actual<br/>2003</b> | <b>2025</b> | <b>2050</b> | <b>2075</b> | <b>2100</b> |
|----------|------------------------|-------------|-------------|-------------|-------------|
| Revenues | 4.97                   | 5.07        | 4.98        | 4.86        | 4.72        |
| Outlays  | 4.35                   | 5.64        | 6.37        | 6.65        | 6.82        |
| Balance  | 0.62                   | -0.57       | -1.39       | -1.78       | -2.11       |

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Source: Congressional Budget Office.

Notes: Based on a simulation using the Social Security trustees' 2004 intermediate demographic assumptions and CBO's January 2005 economic assumptions.

Revenues equal payroll taxes and income taxes on benefits as a share of gross domestic product (GDP) in the specified year.

Outlays equal scheduled Social Security benefits and administrative costs as a share of GDP in the specified year.

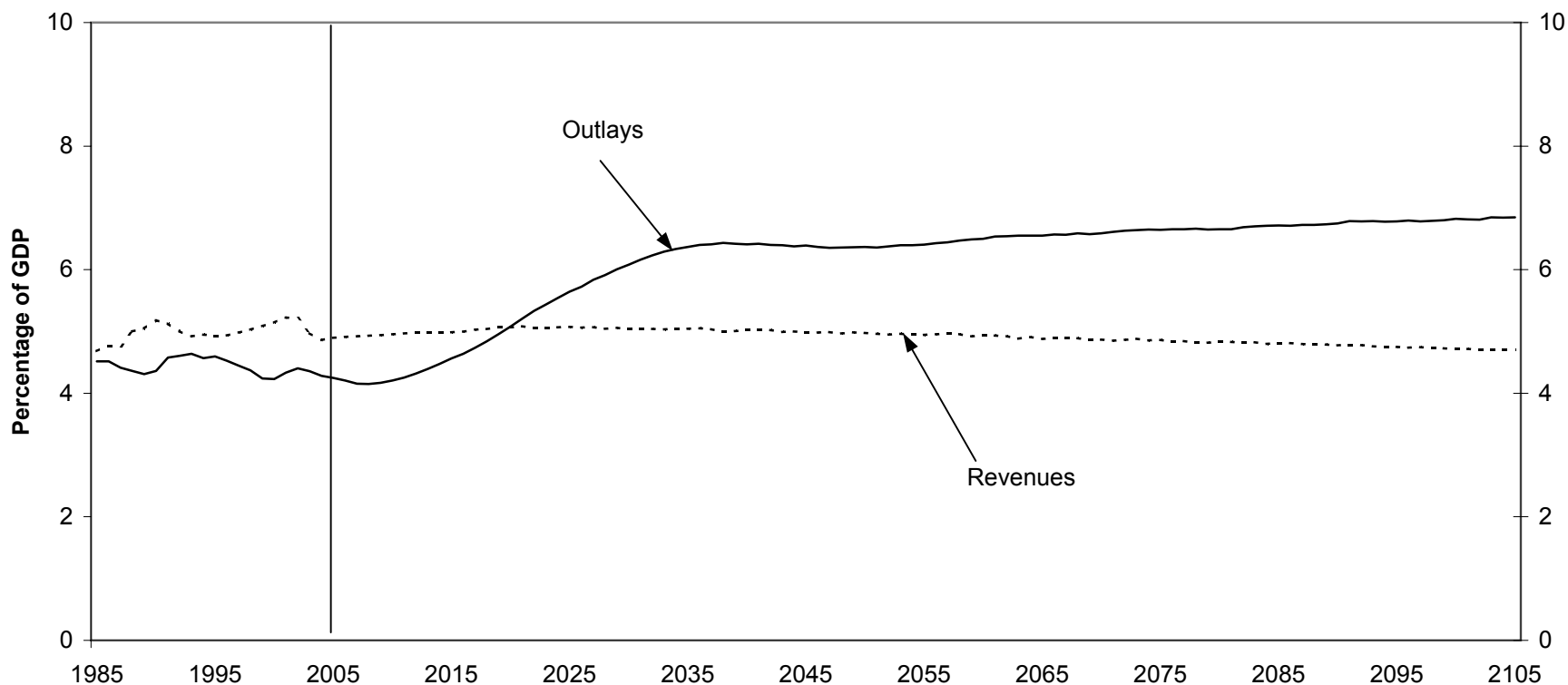
The balance is the difference between revenues and outlays as a share of GDP in the specified year and may not equal the difference of the previous two rows because of rounding.

**Figure 1-1.**

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**Projected Social Security Outlays and Revenues Under the Scheduled Benefits Scenario, 1985 to 2105**

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Source: Congressional Budget Office.

Notes: Based on a simulation using the Social Security trustees' 2004 intermediate demographic assumptions and CBO's January 2005 economic assumptions.

Revenues include payroll taxes and income taxes on benefits but exclude interest credited to the Social Security trust funds; outlays include scheduled Social Security benefits and administrative costs.

Under current law, outlays begin to exceed revenues starting in 2020; starting in 2053 scheduled benefits cannot be paid.

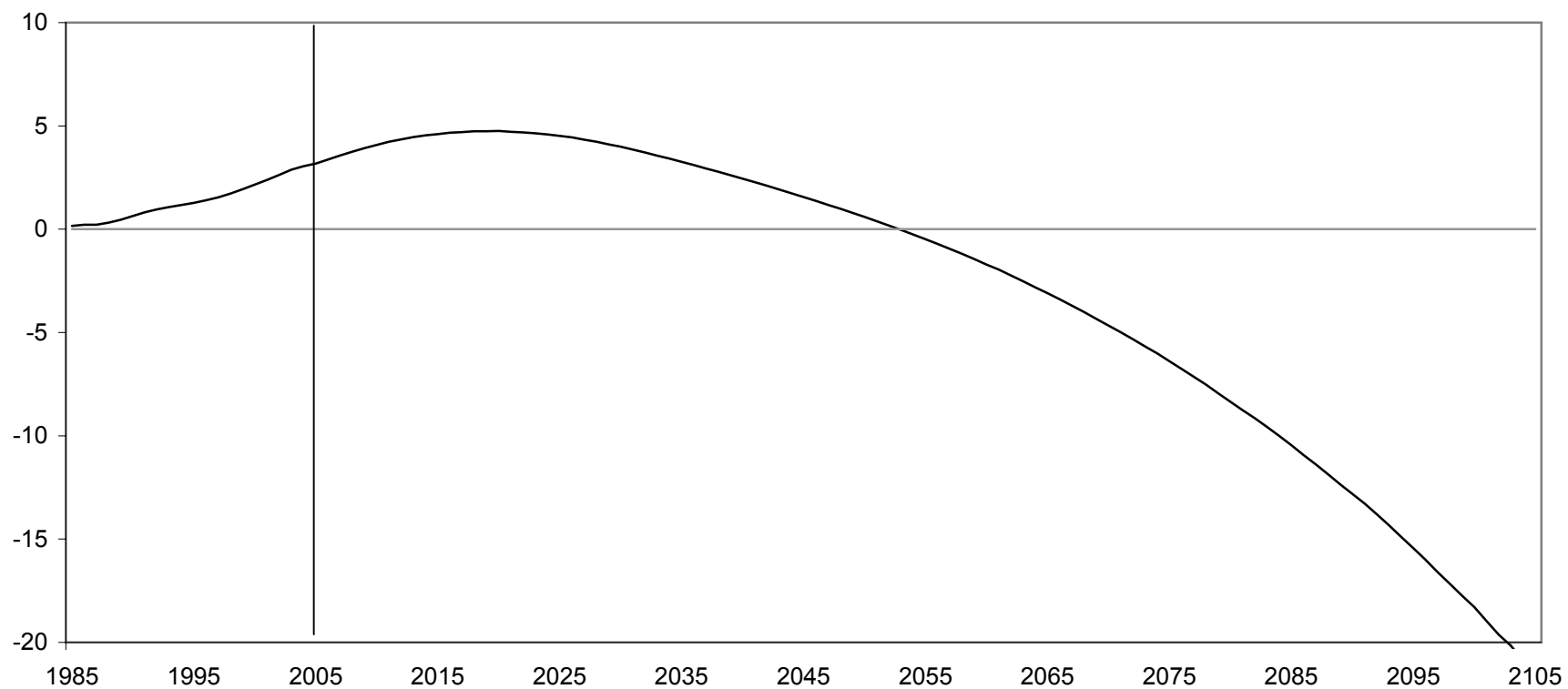


**Figure 1-2.**

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**The OASDI Trust Fund Ratio Under the Scheduled Benefits Scenario, 1985 to 2105**

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Source: Congressional Budget Office.

Notes: OASDI = Old-Age, Survivors, and Disability Insurance

Based on a simulation using the Social Security trustees' 2004 intermediate demographic assumptions and CBO's January 2005 economic assumptions.

The trust fund ratio is the ratio of the total trust fund balance at the beginning of a calendar year to total Social Security outlays in that year.

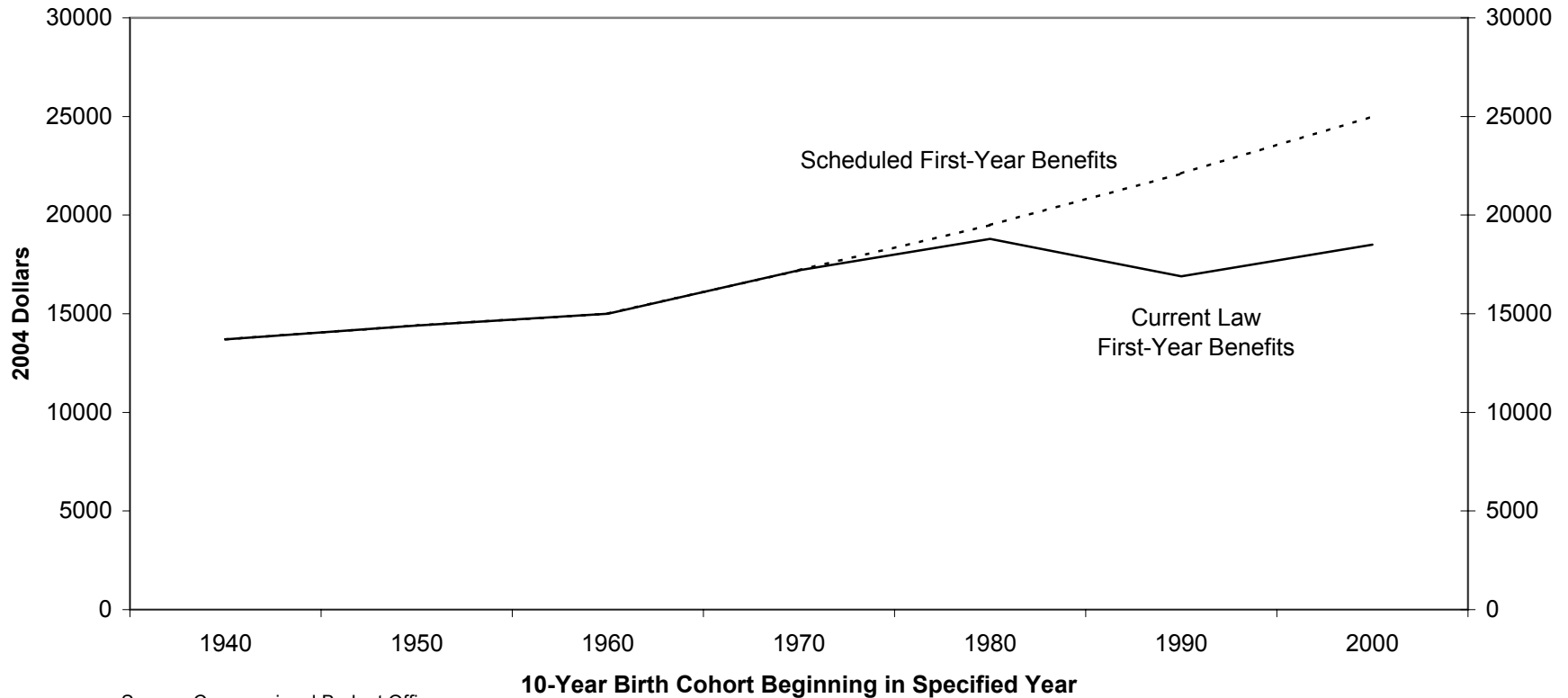


**Figure 2-1.**

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**Median First-Year Retirement Benefits, by Birth Cohort**

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Source: Congressional Budget Office.

Notes: Based on a simulation using the Social Security trustees' 2004 intermediate demographic assumptions and CBO's January 2005 economic assumptions.

First-year benefits are projected assuming that all workers claim benefits at age 65. Values are net of income taxes paid on benefits and credited to the Social Security trust funds.

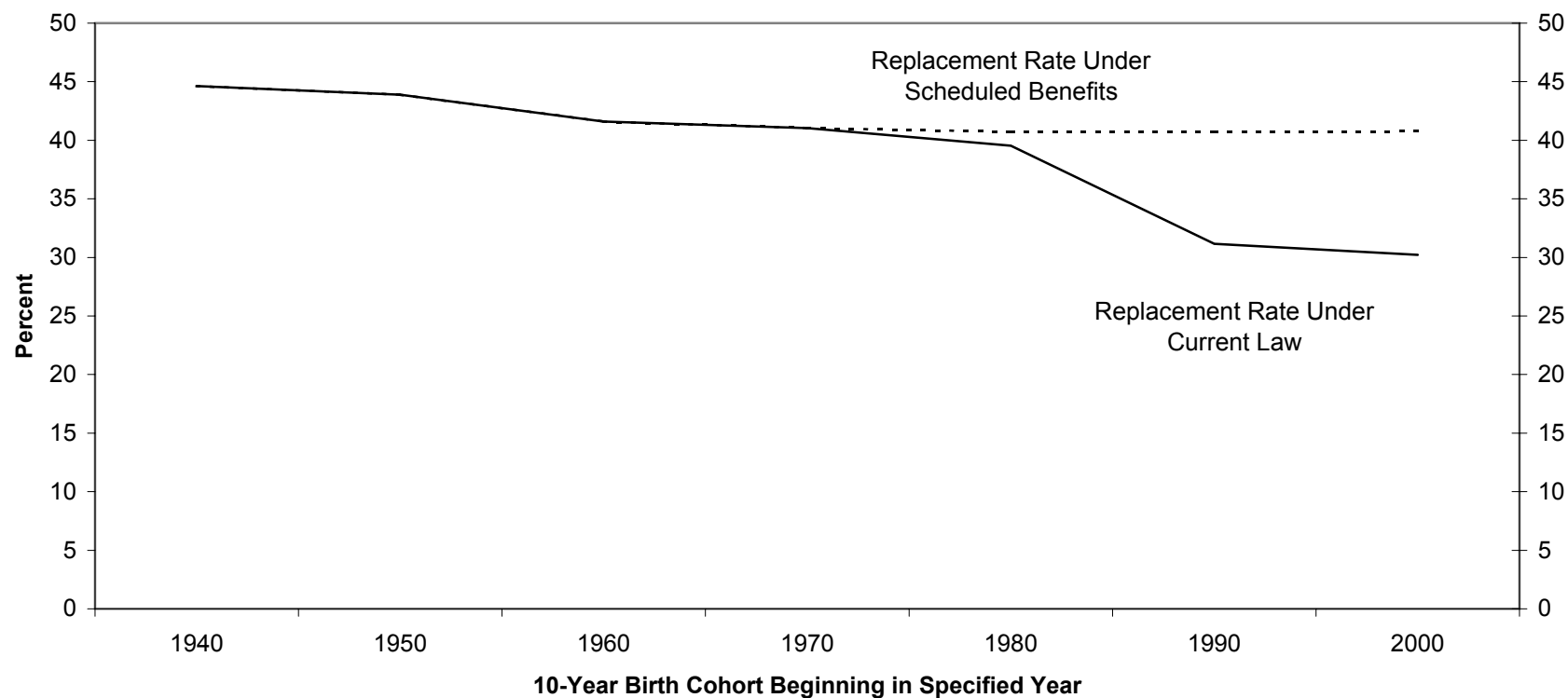
Current law benefits fall below scheduled benefits beginning in 2053, when the trust funds are exhausted. Thereafter benefits are projected by assuming an across-the-board cut in benefits each year such that total annual benefits are limited to total annual revenues.

**Figure 2-2.**

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**Median Replacement Rates, by Birth Cohort**

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Source: Congressional Budget Office.

Notes: Based on a simulation using the Social Security trustees' 2004 intermediate demographic assumptions and CBO's January 2005 economic assumptions.

Replacement rates are first-year benefits (net of income taxes paid on benefits and credited to the Social Security trust funds) as a percentage of average career earnings.

Current law benefits fall below scheduled benefits beginning in 2053, when the trust funds are exhausted. Thereafter benefits are projected by assuming an across-the-board cut in benefits each year such that total annual benefits are limited to total annual revenues.

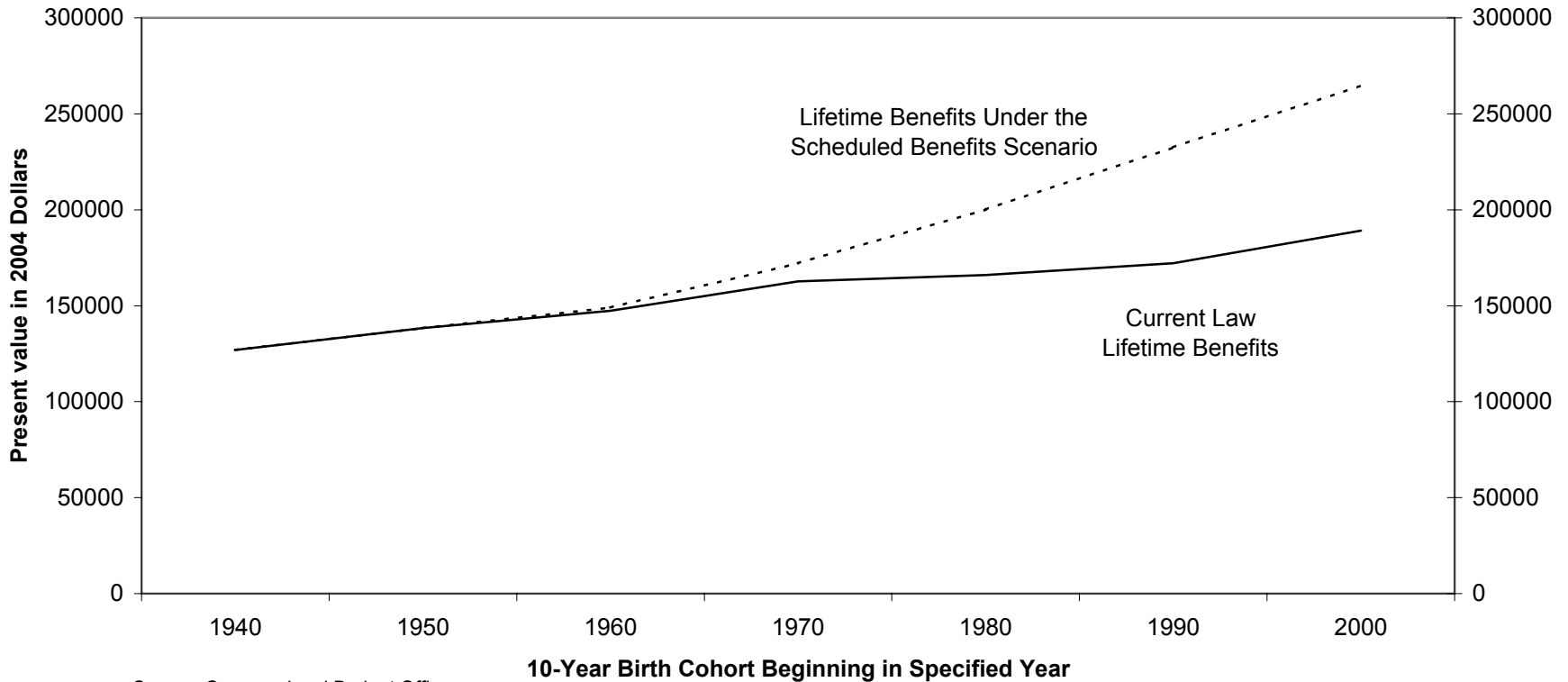


**Figure 2-3.**

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**Median Lifetime Retirement Benefits, by Birth Cohort**

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Source: Congressional Budget Office.

Notes: Based on a simulation using the Social Security trustees' 2004 intermediate demographic assumptions and CBO's January 2005 economic assumptions.

Lifetime retirement benefits have been adjusted for inflation (to put them in constant dollars) and discounted to age 60. Values are net of income taxes paid on benefits and credited to the Social Security trust funds.

Current law benefits fall below scheduled benefits beginning in 2053, when the trust funds are exhausted. Thereafter benefits are projected by assuming an across-the-board cut in benefits each year such that total annual benefits are limited to total annual revenues.

**Table 2-1.****Measures of the Benefits Received by the Median Retired Worker,  
by Birth Cohort and Lifetime Earnings Level**

| 10-Year<br>Birth Cohort<br>Starting in Year   | First-Year Benefits<br>(2004 Dollars) |             | First-Year Replacement<br>Rate (Percent) /a |             | Present Value of Lifetime<br>Benefits (2004 Dollars) /b |             |
|---|---------------------------------------|-------------|---|-------------|---|-------------|
|   | Scheduled                             | Current Law | Scheduled                                   | Current Law | Scheduled   | Current Law |
| Median for All Retired Workers                |                                       |             |   |             |   |             |
| 1940  | 13,700                                | 13,700      | 44.6  | 44.6        | 127,000   | 127,000     |
| 1950  | 14,400                                | 14,400      | 43.9  | 43.9        | 138,300   | 138,300     |
| 1960  | 15,000                                | 15,000      | 41.6  | 41.6        | 149,000   | 147,400     |
| 1970  | 17,200                                | 17,200      | 41.0  | 41.0        | 172,200   | 162,700     |
| 1980  | 19,500                                | 18,800      | 40.7  | 39.5        | 200,100   | 166,000     |
| 1990  | 22,100                                | 16,900      | 40.7  | 31.2        | 232,600   | 172,200     |
| 2000  | 25,000                                | 18,500      | 40.8  | 30.2        | 264,700   | 189,200     |
| Median in Lowest Household Earnings Quintile  |                                       |             |   |             |   |             |
| 1940  | 7,500                                 | 7,500       | 72.4  | 72.4        | 60,900  | 60,900      |
| 1950  | 8,300                                 | 8,300       | 69.6  | 69.6        | 69,600  | 69,600      |
| 1960  | 9,000                                 | 9,000       | 62.8  | 62.8        | 76,900  | 76,600      |
| 1970  | 9,800                                 | 9,800       | 64.5  | 64.5        | 85,500  | 83,000      |
| 1980  | 10,600                                | 10,200      | 68.5  | 64.7        | 90,000  | 76,900      |
| 1990  | 12,100                                | 9,300       | 67.5  | 51.5        | 109,100   | 80,000      |
| 2000  | 13,500                                | 10,000      | 69.3  | 50.9        | 122,000   | 87,000      |
| Median in Middle Household Earnings Quintile  |                                       |             |   |             |   |             |
| 1940  | 15,500                                | 15,500      | 43.1  | 43.1        | 144,300   | 144,300     |
| 1950  | 15,800                                | 15,800      | 42.7  | 42.7        | 157,300   | 157,200     |
| 1960  | 16,200                                | 16,200      | 40.9  | 40.9        | 168,300   | 166,600     |
| 1970  | 18,500                                | 18,500      | 40.3  | 40.3        | 196,700   | 186,300     |
| 1980  | 21,300                                | 20,500      | 39.8  | 38.8        | 231,400   | 192,100     |
| 1990  | 24,000                                | 18,400      | 39.8  | 30.4        | 267,700   | 199,900     |
| 2000  | 27,100                                | 20,100      | 39.7  | 29.5        | 306,300   | 217,900     |
| Median in Highest Household Earnings Quintile |                                       |             |   |             |   |             |
| 1940  | 20,200                                | 20,200      | 28.6  | 28.6        | 216,800   | 216,800     |
| 1950  | 22,300                                | 22,300      | 28.0  | 28.0        | 243,000   | 242,800     |
| 1960  | 23,300                                | 23,300      | 25.6  | 25.6        | 257,100   | 254,800     |
| 1970  | 26,200                                | 26,200      | 25.2  | 25.1        | 296,000   | 277,600     |
| 1980  | 30,300                                | 29,200      | 23.5  | 22.6        | 355,300   | 289,500     |
| 1990  | 34,300                                | 26,300      | 23.5  | 18.0        | 408,000   | 305,300     |
| 2000  | 38,800                                | 28,900      | 23.1  | 17.1        | 467,600   | 337,700     |

Source: Congressional Budget Office.

Notes: Based on a simulation using the Social Security trustees' 2004 intermediate demographic assumptions and CBO's January 2005 economic assumptions.

First-year annual benefits and replacement rates are computed for all individuals eligible to claim Old-Age Insurance benefits at age 62 and have not yet claimed any other benefit. All workers are assumed to have claimed benefits at age 65. All values are net of income taxes paid on benefits and credited to the Social Security trust funds. The current law scenario subjects all beneficiaries to an across-the-board cut in benefits each year such that total projected benefits equal projected revenues once the Social Security trust funds have been exhausted.

The overall median values differ from the median values in the middle quintile because individuals are sorted into quintiles on the basis of household earnings, not benefit levels.

a. First-year benefits as a percentage of average career earnings.

b. The present value of all retired-worker benefits received.