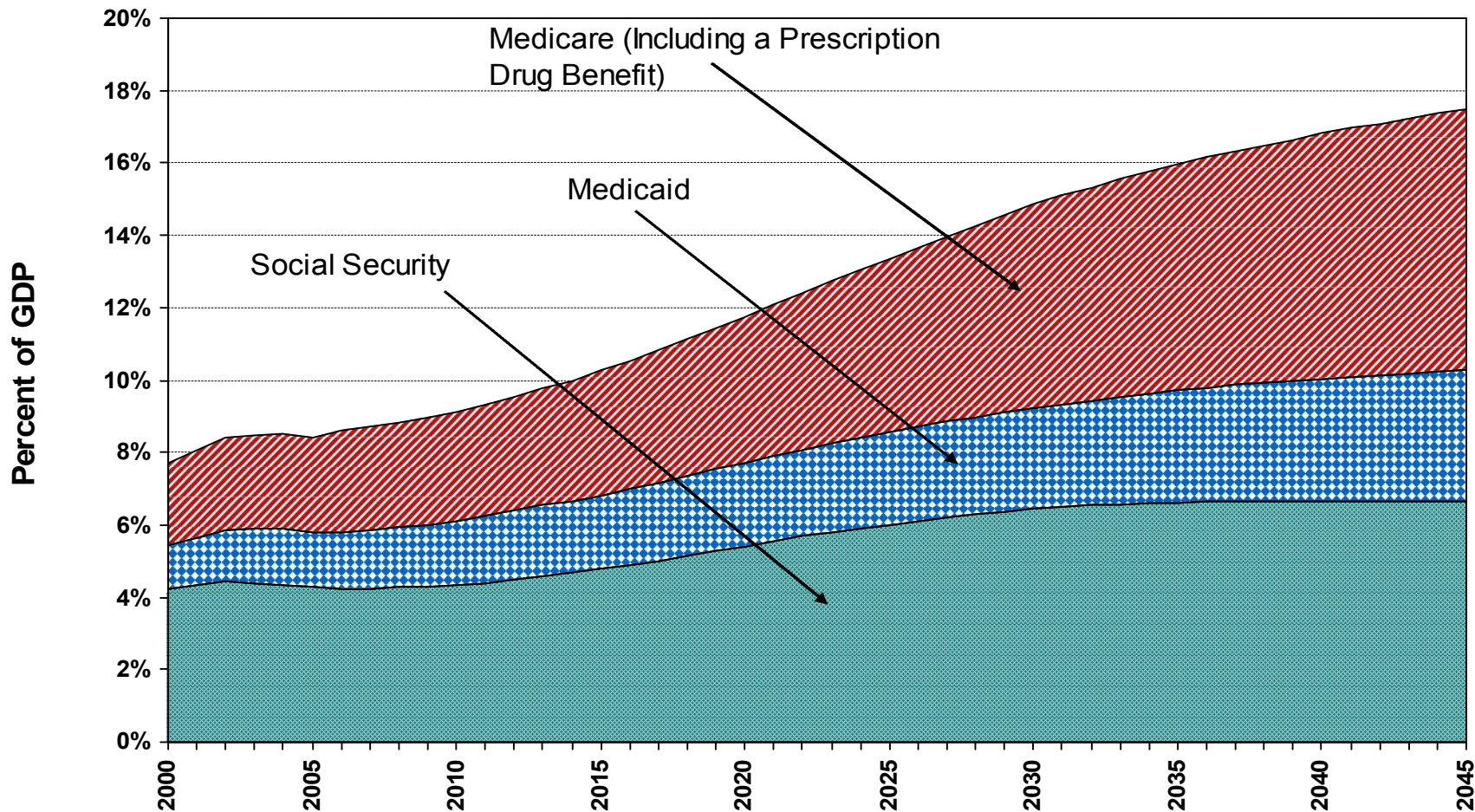
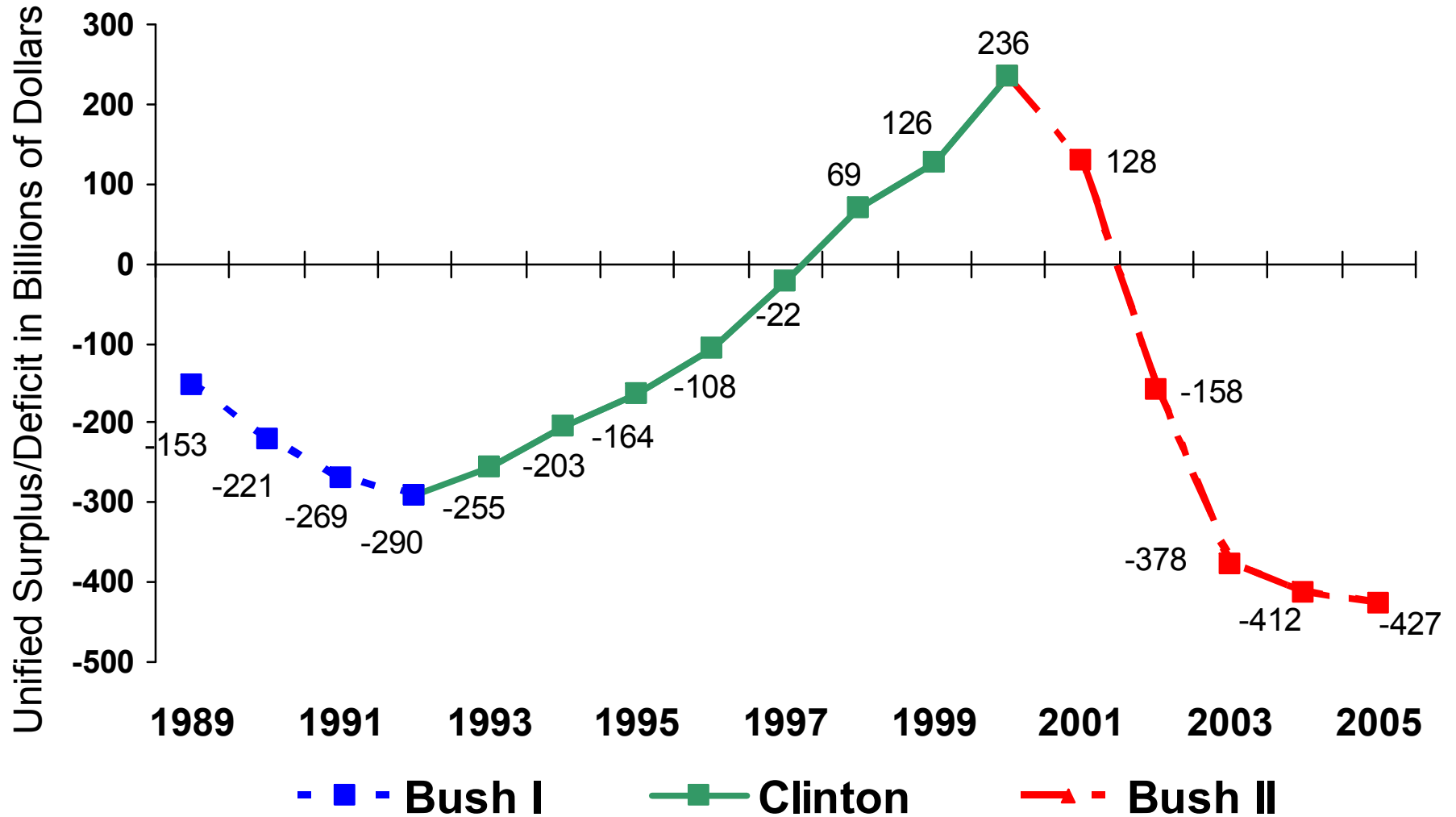


**Figure 10:  
Medicaid, Medicare, and Social Security are  
Expected to Rise Rapidly (2000-2045)**

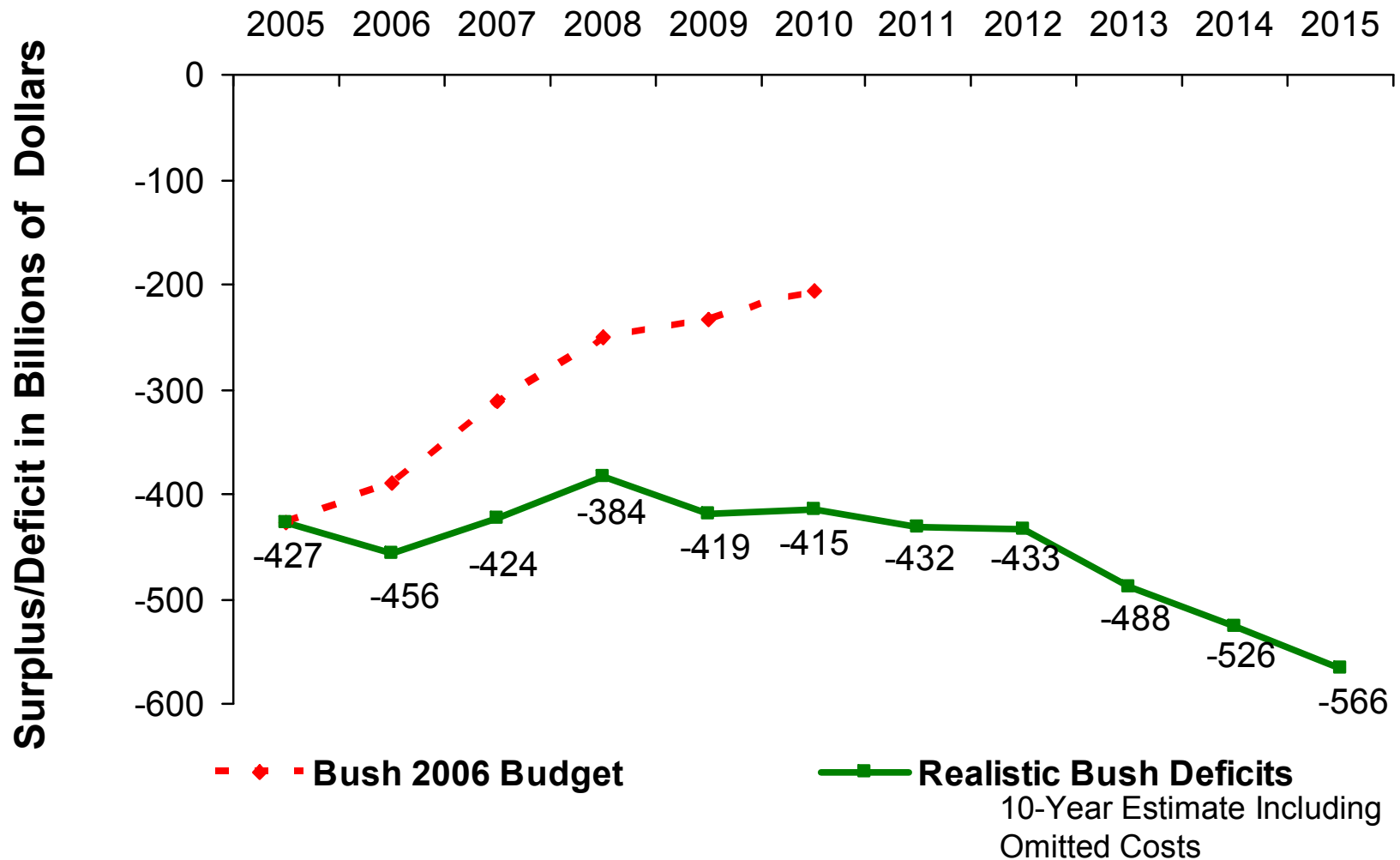


# Backsliding Into the Deficit Ditch

From Deficit to Surplus to Deficit Again



# More Accurate Estimate Shows Even Bleaker Budget Outlook



# Surplus Declines **\$9.4 Trillion** **2002 -2011**

Unified Budget Surplus, Trillions of Dollars

	<b>2002-2011</b>
January 2001	\$5.610
August 2001	\$3.397
January 2002	\$1.601
August 2002	\$0.336
January 2003	\$0.020
January 2004	<b>\$-2.876</b>
President's FY06 Budget	<b>\$-2.945</b>
Including Omitted Costs	<b>\$-3.750</b>

# Social Security's Shortfalls

*Trust Fund = \$3.7 Trillion*

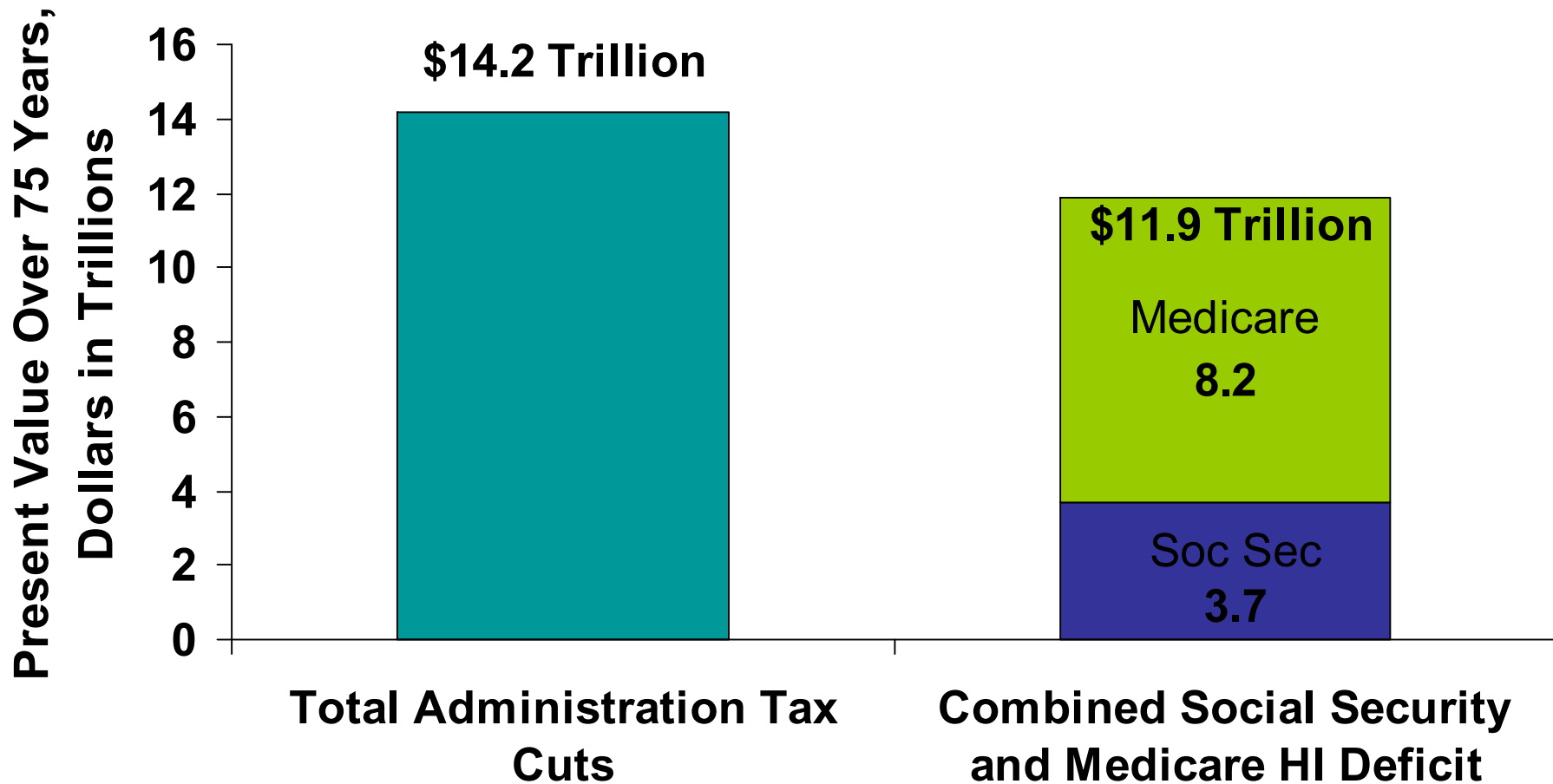
*Payroll Tax = 1.9 Percentage Points*

	OASDI as a % of GDP (2079)	Trust Fund Exhaustion Date	Percent of Benefits Payable After Exhaustion
Social Security Trustees	6.4 %	2041	74 %
Congressional Budget Office	6.4%	2052	78 %

# Accounts Hasten Onset of the Problem

	<b>Current Law</b>	<b>Bush SOTU Proposal</b>
Benefits Exceed Tax Revenues	2017	2012
Trust Fund Exhausted	2041	2031
Cash Deficit in 2027	\$202 bln	\$309 bln

# Tax Cuts Larger than Social Security and HI Medicare Deficit Combined



# Budget Consequences of Social Security Privatization

## *President's Plan for Private Accounts, Assuming Benefit Cuts to Achieve Solvency*

- **President's Proposal:** Starting in 2009, divert up to 4% of payroll tax (capped at \$1,000 per year) from Social Security trust fund to private accounts.
- **Potential Benefit Cut:** Index initial benefit formula to prices instead of wages, as recommended by President's Social Security Commission.
- **Results:**
  - Deficits worsen for 40 years, then improve
  - Trust fund cash imbalance date 2012 vs. 2017
  - Trust fund exhaustion date 2031 vs. 2041

### First Ten and 20 Years of Plan: Change in Unified Budget Balance

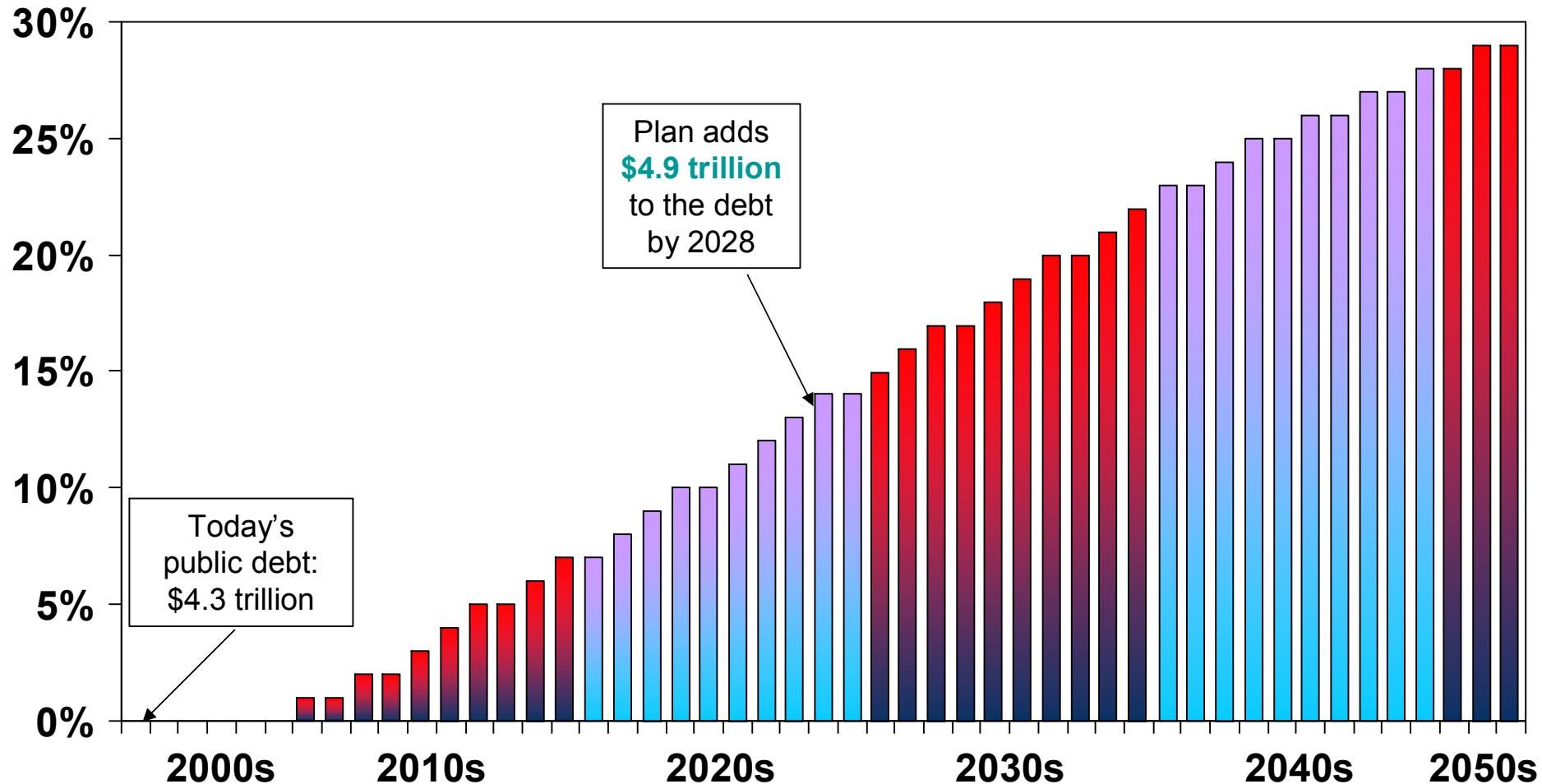
(billions of dollars)

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2009-</u> <u>2018</u>	<u>2009-</u> <u>2028</u>
-30	-64	-103	-125	-143	-162	-182	-199	-215	-234	-1,456	-4,719



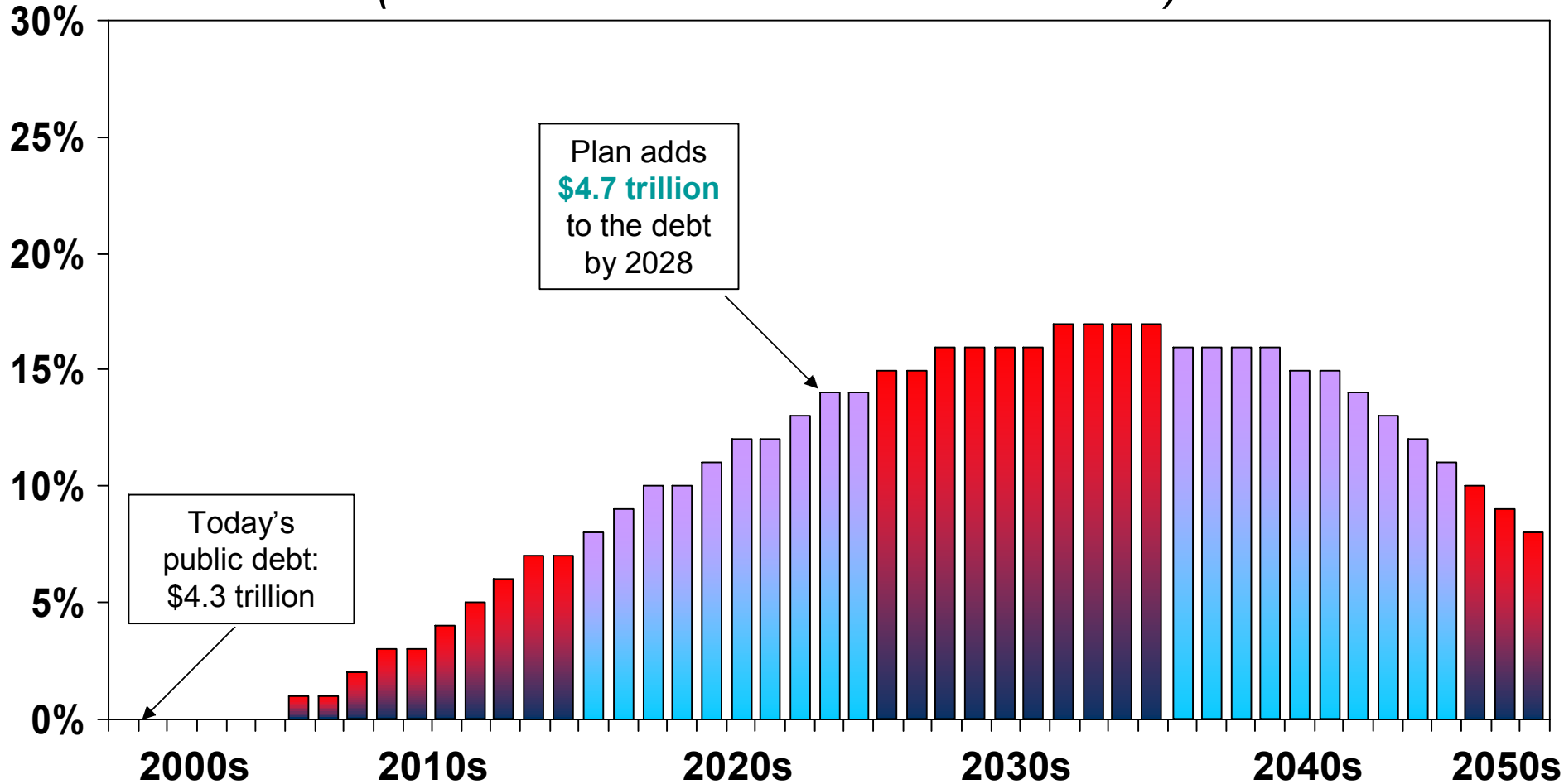
# President's Social Security Privatization Plan Worsens Debt for Decades to Come

President's Private Account Plan Only, Assuming No Other Changes  
*(Increase in Debt as Percent of GDP)*



# President's Social Security Privatization Plan Worsens Debt for Decades to Come

President's Private Account Plan, Assuming Price-Indexed Benefits  
*(Increase in Debt as Percent of GDP)*



# Benefit Cut #1: Repaying the Loan

- If you invest in a 401(k), the entire balance at retirement is yours
- If you divert payroll taxes into private accounts, you must repay Social Security:
  - (1) Principal (money diverted)
  - (2) Interest at 3% above inflation

# Calculation of Initial Social Security Benefit

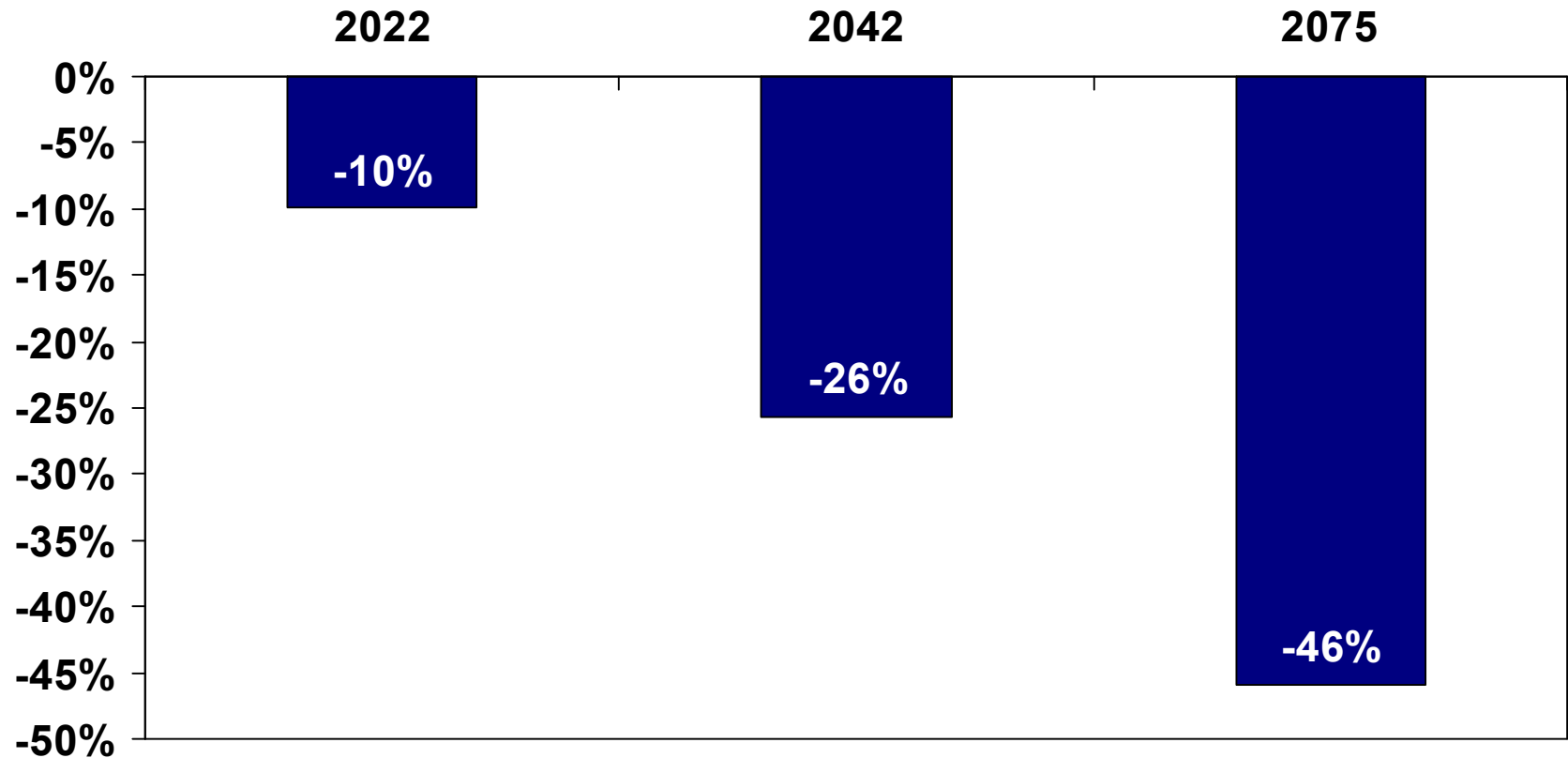
AIME = Average Monthly Income over 35 years

Initial Benefit =

- \* First \$627 of AIME @ 92%
- \* Next \$3,779 of AIME @ 30%
- \* Rest of AIME up to Cap @ 15%
- \* Bend Points Indexed to Wage Growth

# Benefit Cut #2: Price Indexing

(Benefit Reduction for Average Wage Earner Retiring in Year Shown Below)\*

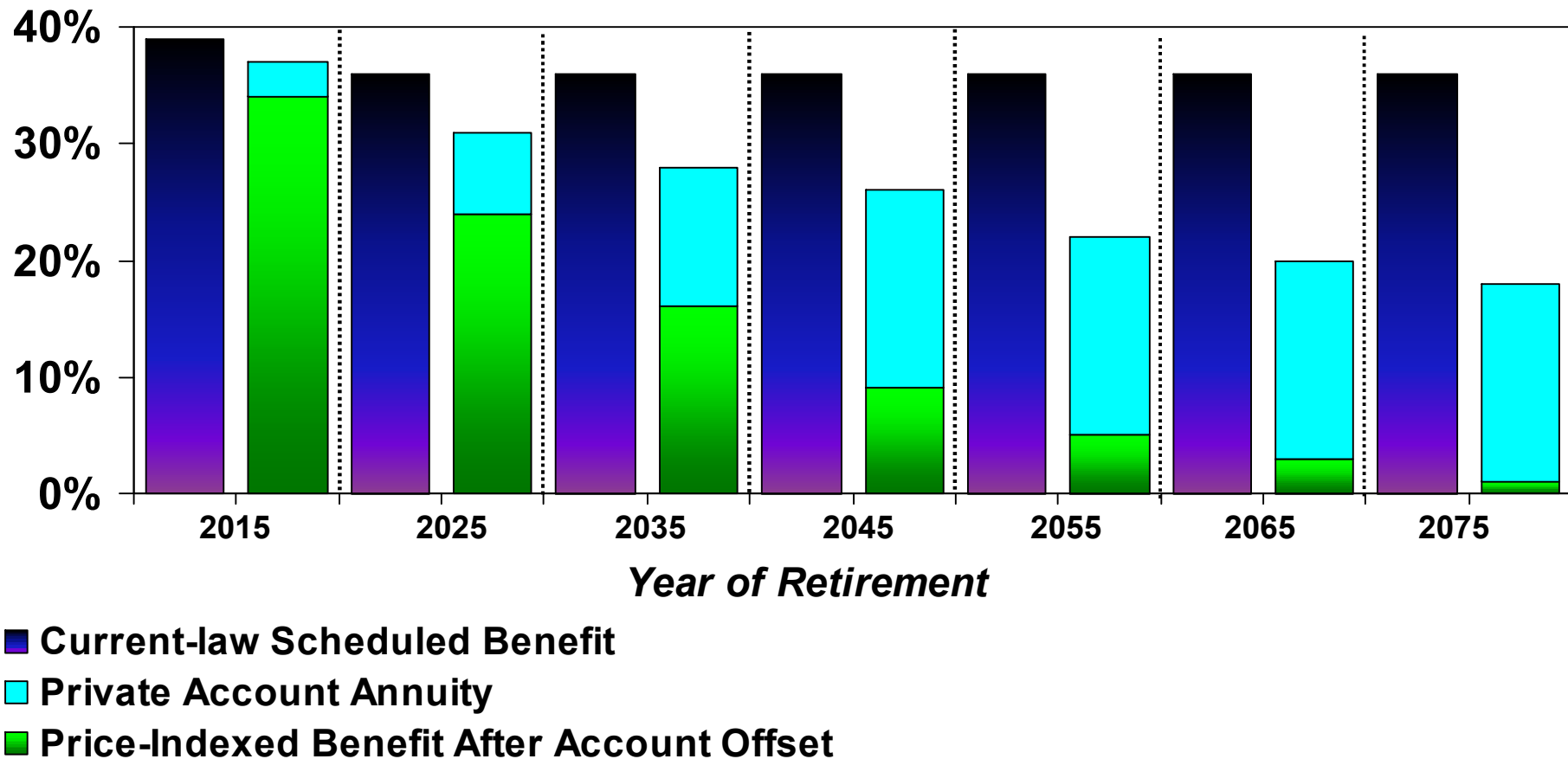


Notes: \* Assumes price indexing begins in 2009.

Source: Social Security Administration, Office of the Chief Actuary, "Estimates of Financial Effects for Three Models Developed by the President's Commission to Strengthen Social Security," January 31, 2002.

# President's Plan Implies Steep Benefit Cuts To Assure Social Security Solvency

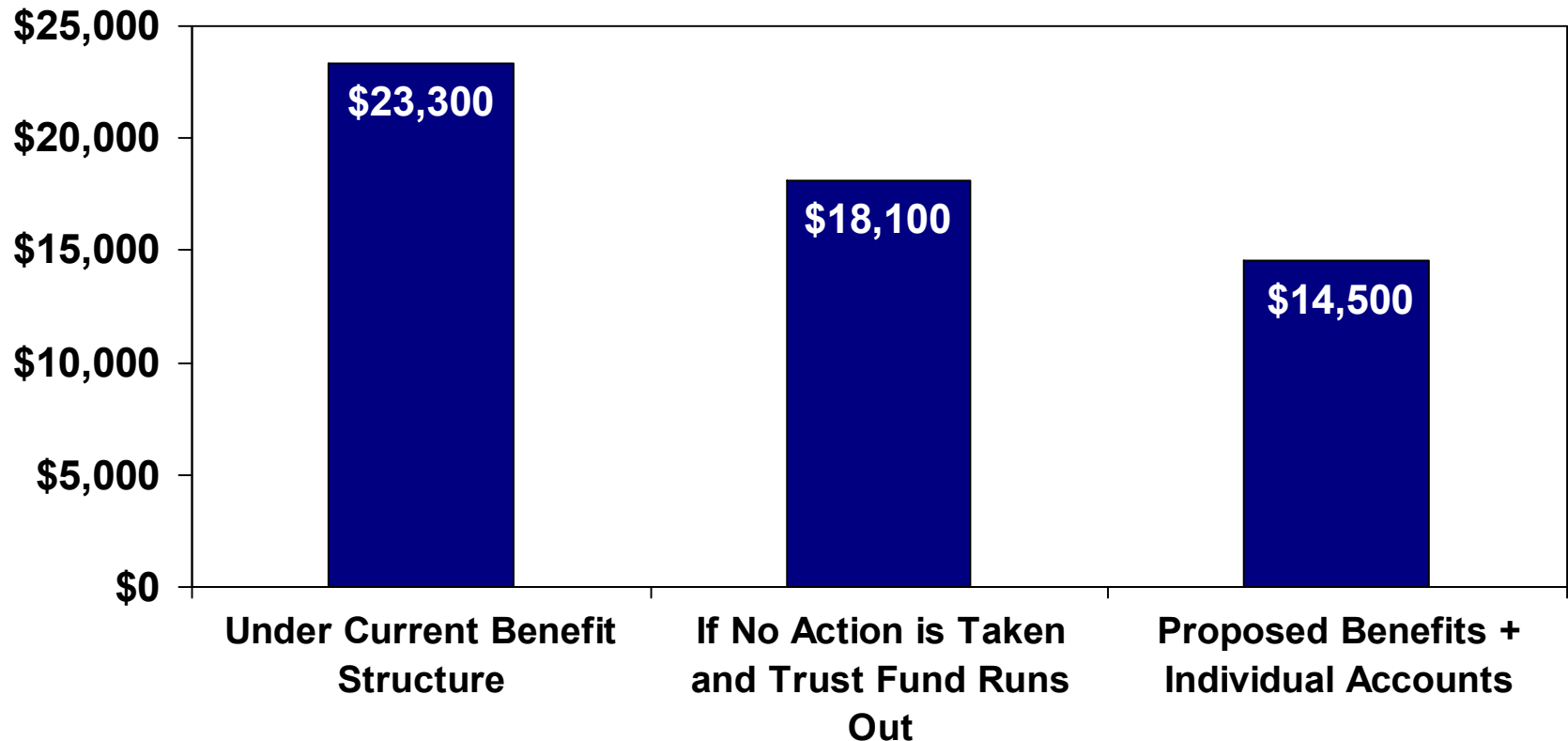
*Estimated first-year benefits and account annuities for average worker retiring at age 65, expressed as percentage of pre-retirement earnings*



# Future Retirees Would Be Better Off With *Nothing* Than Under Commission Plan

(Average Annual Benefit for Median Wage Earner Born in the 1990s, Retiring at 65)

**2004 Dollars**



Source: Congressional Budget Office, "Long-Term Analysis of Plan 2 of the President's Commission to Strengthen Social Security," July 21, 2004.

# Generational Factors

## Younger Americans

- Traditional Benefits Cut Over Time
- Trillions in Debt and Interest to Pay
- Survivor and Disability Benefits Difficult to Fund with Private Accounts

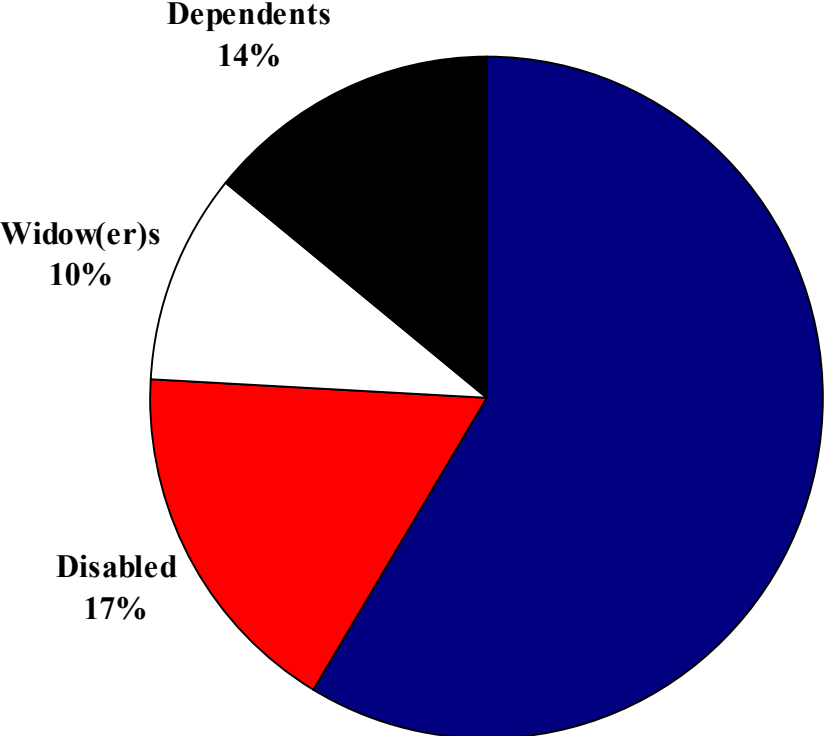
## Older Americans

- Added Borrowing, Swollen Deficits, Cuts in Medicare and Medicaid



# SOCIAL SECURITY RECIPIENTS BY CONGRESSIONAL DISTRICT

### 5TH DISTRICT



### 6TH DISTRICT

