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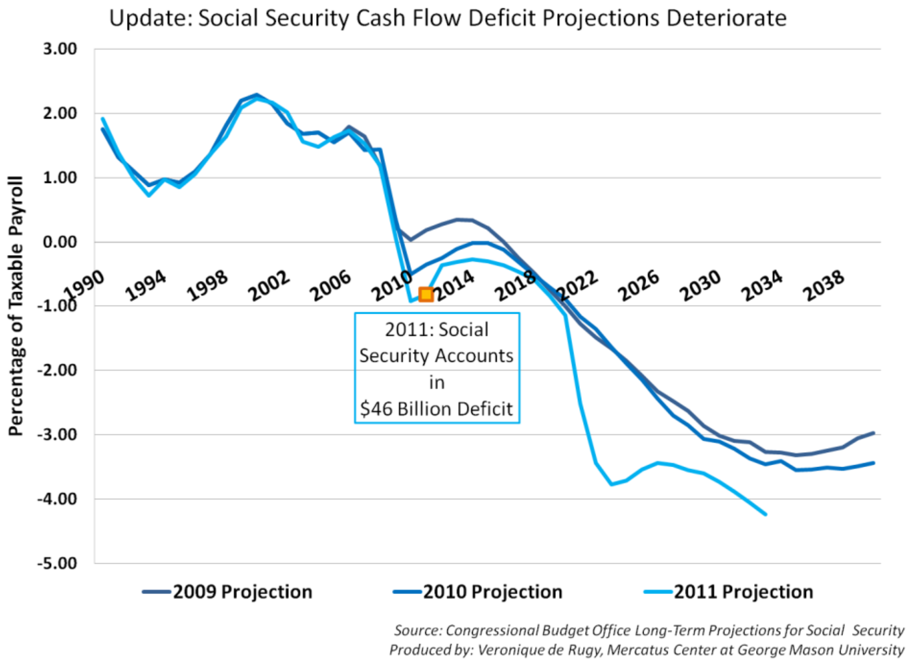

This week Mercatus Center Senior Research Fellow Veronique de Rugy charts the three most recent long-term projections of the social security trust funds. These projections show an arresting pattern – each year's projections have shown an even more negative outlook for the trust funds' balances.

Above, the Congressional Budget Office's (CBO's) projections for the year-end balance of Social Security accounts from 2008,2009 and 2010 with the Trustees' most recent 2011 projection. These balances are presented as percentages of taxable payroll, a weighted average of taxable wages and taxable self-employment income which provides an estimate of the earnings subject to payroll taxation each year. When the balance of these accounts is negative, Social Security is paying out more in benefits than it collects in payroll taxes in a given year.

This year Social Security will pay out $46 billion more in benefits than it collects. From now on, Social Security will be running a permanent cash-flow deficit, which means that taxes collected for the program will be insufficient to cover the benefits paid to retirees. Starting now, the program will draw from the trust fund assets to keep payments to retirees going.

Since the Social Security trust funds are filled with Treasury securities and the cash used to purchase them has already been spent, the government will have to borrow, raise taxes, or cut spending to pay out benefits – starting now.

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