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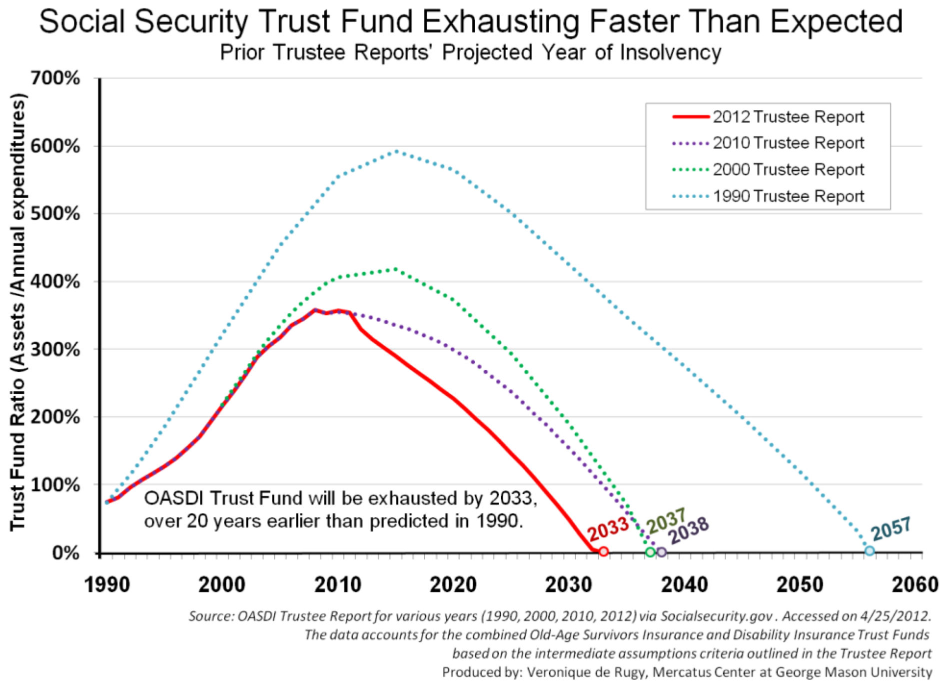

According to the latest Social Security Trustee Report released last week, the Social Security trust fund will likely be exhausted by 2033 - three years earlier than last year's projection and over 20 years earlier than projections made in 1990.

Mercatus Center Senior Research Fellow Veronique de Rugy compares projected Social Security Trust Fund exhaustion dates from Trustee Reports dating back to 1990. Looking at past Trustee Reports, the trend is clear –the Old-Age, Survivors, and Disability Insurance (OASDI) trust fund is exhausting much faster than predicted.

The shifts in exhaustion dates to earlier years have been a function of various factors including demographics (e.g. population, life expectancy), economic prospects (e.g. cost of living, average wages), and program-specific assumptions (e.g. beneficiaries' current-payment status). The real problem is that for years, the federal government has used Social Security's surpluses to pay for roads, education and wars. Now that the Social Security program will be demanding its money back from the Department of Treasury on an annual basis, the government will have to borrow more and more from investors, increasing the publicly held debt at a greater pace.

Social Security benefits hinge on what's available in the trust funds. Without a positive balance in the trust fund, the program won't be able to pay full benefits but only what it collects in taxes, which would require a cut in benefits across the board. By 2033, benefits would have to be slashed by 25 percent.

The silver lining to Social Security's new annual deficit is that it exposes the fiction that the program doesn't need reform because it is fully backed by tax contributions. Lawmakers have many policy options to choose from: private accounts, privatization with safety net for the poor, or eligibility age hike. The only bad option is to do nothing, in which case, benefits will be cut and more additions to U.S. debt.

Veronique de Rugy blogs the Trustees' Report at NRO's The Corner.

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