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Can Social Security Survive the Baby Boomers?

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In 2010, the first of the Baby Boom generation will reach age 65. Many will choose to begin what they hope will be a long and financially secure retirement funded in part by Social Security. Social Security, however, has a looming fiscal problem. Social Security payments to current recipients are funded mainly by taxes levied on current workers. As more and more baby boomers retire, the number of persons receiving Social Security benefits will increase rapidly relative to the number of persons paying taxes to fund those benefits. According to the Trustees of the Social Security and Medicare Trust Funds, by 2017 Social Security benefit payments will exceed payroll tax revenues and by 2041 all trust fund assets likely will be exhausted.[1]

The Social Security System's revenue shortfall mainly reflects a rising *elderly dependency ratio*: that is, the number of elderly persons (65+ years) relative to the number of working-age persons (20 to 64 years). As shown in the chart, in 1950 there were some 14 persons age 65 and older for every 100 persons between the ages of 20 and 64. By 2000, there were 20; and, as more of the baby boom generation reaches age 65, the ratio will rise to 35 by 2030.

Although the coming stampede of baby boomers will cause the dependency ratio to increase sharply after 2010, rising adult life expectancy has been a major reason why the dependency ratio has risen and will continue to rise. The life expectancy of the typical 65-year-old man has risen over the years: In 1940, he could expect to live another 12.7 years; by 2005, he could expect to live another 17.1 years; and demographers expect that, by 2030, he could expect to live another 18.7 years. Although the age at which persons are eligible for full Social Security benefits—long fixed at 65—will gradually rise to 67 by 2025, this won't prevent System revenues from falling short of payments.

Declining fertility has also contributed to this rising dependency ratio. In 1950, the U.S. fertility rate was 3.0, meaning the average woman had three children in her lifetime. By 2002, the fertility rate had fallen to 2.0. This decline implies that fewer young persons will enter the labor force to support the growing elderly population.

Clearly, the looming Social Security funding crisis largely reflects changing U.S. demographics. The aging baby boom generation, increased adult life expectancy, and declining fertility will rapidly increase the number of retired persons drawing benefits relative to persons paying taxes to fund those benefits. Possible solutions to the problem include policies to (i) slow the growth in the number of retired persons per worker, perhaps by larger and more rapid increases in the age at which persons become eligible for benefits; (ii) otherwise reduce promised benefits; (iii) encourage more immigration of young workers; and/or (iv) substantially raise taxes on current workers. A more radical proposal would replace all or part of the existing system with a system of private retirement accounts. Unfortunately, the funding crisis cannot be solved without cost, no matter what route is taken. ■

[1] *Annual Report of the Social Security and Medicare Boards of Trustees for 2007*; www.ssa.gov/pressoffice/pr/trustee07-pr.htm.