

Comments On:

Have The Social Security Trustees Been Too Conservative?

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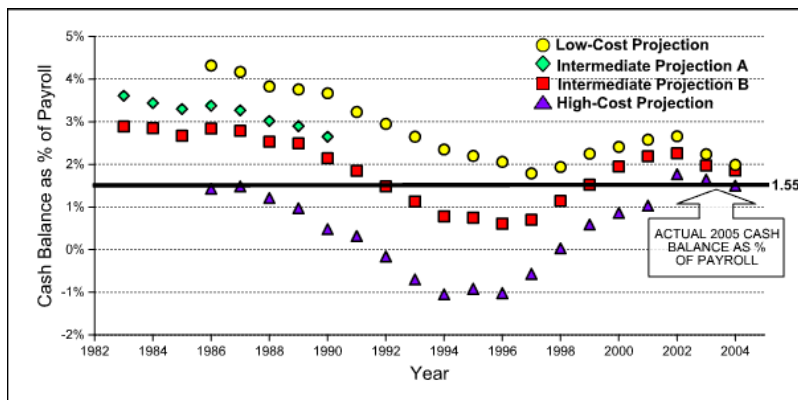
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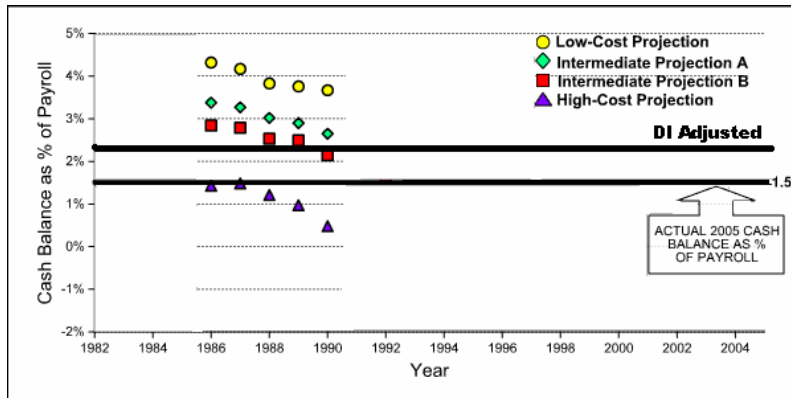
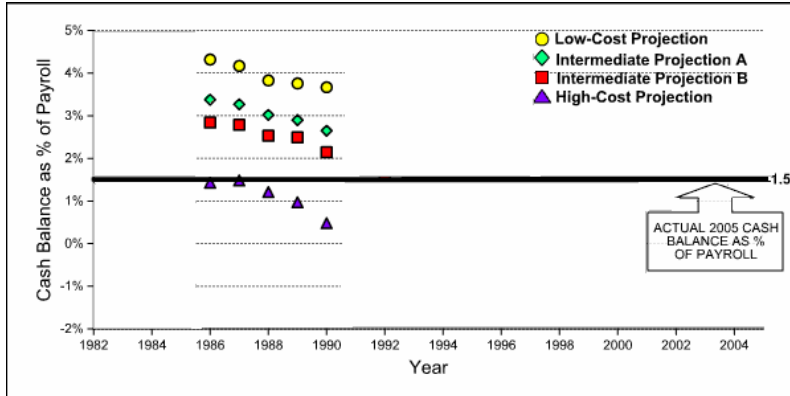
Three Sets of Comments

- Historical predictions should be evaluated post-policy changes.
- Longer-run predictions have evolved a lot last ten years; changes methodological, but consistent with pessimism story.
- How should the uncertainty about projections inform the policy process?

Post-Policy Projection Errors

- Errors from mid 1980s (after high/low) draws attention to DI changes.
- 1985 IIB projection showed DI cost rate in 2005 of 1.29%; actual was 1.85%.
- Most of that was the yet-to-be-realized effect of DI policy liberalization; “optimistic” becomes “neutral.”





Longer-Term Revisions

- Blahous Figure 5 shows how projections of the gap between cost and income have evolved recently for the out-years.
- In 1997, Trustees projected imbalance was 4.38% of payroll in 2030. In the 2007 report the 2030 number was 3.40%; changes were mostly methodology.

Was This Pessimism?

- A skeptic could say the Trustees were too pessimistic, and almost 25% of **THE PROBLEM** in the year 2030 disappeared!
- Fellow modelers would say the Trustees just lowered their 2030 cost rate by about 5% (17.47% to 16.59%) in response to new data/information.

Summary Balances Even Worse

- In 1997 **THE PROBLEM** in terms of AB was -2.23%; by 2007 valuation period added -0.7%, but 2007 AB was -1.95%
- Thus, 34% of **THE PROBLEM** went away.
- These sorts of revisions do not indicate pessimism, but ignoring them leads to a sense of false precision by policymakers.

Effect on the Policy Process

- False precision in long-run projections can actually encourage the skeptics.
- Skeptics can argue (Blahous quotes are a great list) that not only is **THE PROBLEM** a long way off, revisions imply pessimism.
- Skeptics bottom line: no need to act now, problems could resolve themselves.

Can Uncertainty Work For Us?

- First, Social Security analysts like us need to come together and be clear about what **THE PROBLEM** really is.
- Second, Social Security analysts need to encourage policy makers to adopt a probabilistic/contingency approach to making changes in taxes and benefits.

THE PROBLEM

- Some say the problem is trust fund exhaustion, some say cost > income in any given year, some say infinite horizon present value in billions or % of GDP.
- I say it is simpler: people entering labor force today can only expect about 75% to 80% of the money's worth Baby Boomers will receive—the rest is just accounting.

THE SOLUTION

- Rather than focus on “fixing” all future budgetary problems, shift attention to the expected unfairness we know about now, but acknowledge the uncertainty!
- Don't want to cut benefits or raise taxes too much right now for near-term retirees, because we may have to reverse that in good (budgetary) states of the world.

Uncertain Policy for an Uncertain World

- Sabelhaus/Topoleski paper in latest Jrnl of Policy Analysis and Management.
- Used CBOLT to solve for the largest near-term benefit cut that (probabilistically) would never need to be reversed (=5%).
- Last thought: wouldn't 5% be a nice down payment for the early Baby Boomers?