



Highlights of [GAO-05-318T](#), a testimony before the Budget Committee, House of Representatives

Why GAO Did This Study

Social Security is the foundation of the nation's retirement income system, helping to protect the vast majority of American workers and their families from poverty in old age. However, it is much more than a retirement program, providing millions of Americans with disability insurance and survivors' benefits. As the baby boom generation retires and given longer life spans and lower birth rates, Social Security's financing shortfall will grow. The current gap between promised and funded benefits is \$3.7 trillion and is growing daily.

The Chairman of the House Budget Committee asked GAO to discuss the need for Social Security reform. This testimony addresses the nature of Social Security's long-term financing problem and why it is preferable for Congress to take action sooner rather than later. This testimony also notes the broader context in which reform proposals should be considered and the criteria that GAO has recommended as a basis for analyzing any Social Security reform proposals.

www.gao.gov/cgi-bin/getrpt?GAO-05-318T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Susan Irving at (202) 512-9142 or irvings@gao.gov.

LONG-TERM FISCAL ISSUES

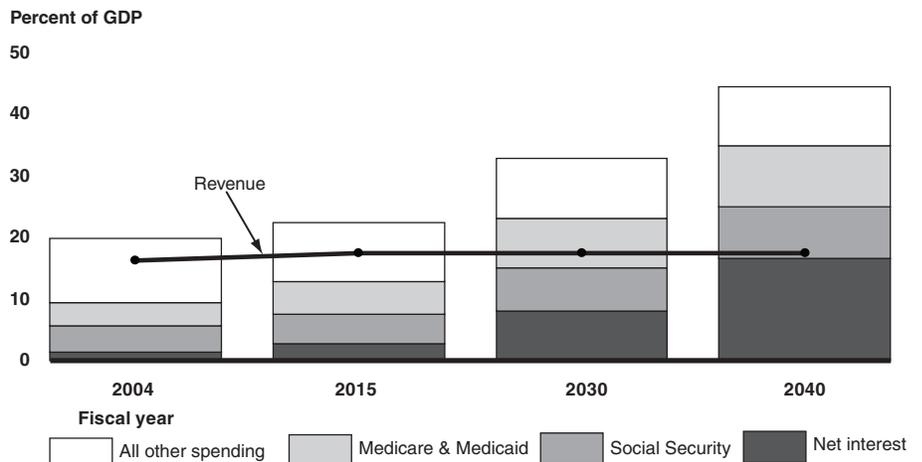
The Need for Social Security Reform

What GAO Found

Although the Social Security system is not in crisis today, it faces a serious and growing solvency and sustainability challenge that is growing as time passes. If we did nothing until 2042, achieving actuarial balance would require a 30-percent reduction in benefits or a 43-percent increase in payroll taxes. Furthermore, Social Security's problems are a subset of our nation's overall fiscal challenge. Absent reform, the nation will ultimately have to choose among escalating federal deficits and debt, huge tax increases and/or dramatic budget cuts. As GAO's long-term budget simulations show, substantive reform of Social Security and our major federal health programs (e.g., Medicare and Medicaid) is critical to saving our fiscal future. Taking action soon would also serve to reduce the amount of change needed to ensure that Social Security is solvent, sustainable, and secure for current and future generations. Acting sooner would also serve to improve the federal government's credibility with the markets and the confidence of the American people in the government's ability to address long-range challenges before they reach crisis proportions.

However, financial stability should not be the only consideration when evaluating reform proposals. Other important objectives, such as balancing the adequacy and equity of the benefits structure and various administrative and operational issues need to be considered. Furthermore, any changes to Social Security should be considered in the context of the broader challenges facing our nation, such as the changing nature of the private pension system, escalating health care costs, and the need to reform Medicare and Medicaid.

Composition of Spending as a Share of Gross Domestic Product (GDP) Assuming Discretionary Spending Grows with GDP after 2005 and All Expiring Tax Provisions Are Extended



Source: GAO's January 2005 analysis