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Commentary

The (Still) Missing Social Security Annual Report

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The Social Security's trustees' annual report is, by law, supposed to be published by April 1. This year, however, the trustees have postponed its release indefinitely. The program's financial condition continues to remain hidden from public view--and by many accounts will continue to be so until the end of the fiscal year.

The program's cash flow has been in the red for several months as payroll tax revenues have declined because of the recession. The recession and slow economic growth are worsening Social Security's long-term finances as well, as the latest Congressional Budget Office report on the long-range federal budget outlook confirms. According to liberal folklore, the Social Security trust funds will ride in to the rescue and are capable of plugging the revenue shortfall for a long time. Unfortunately, when it comes to those trust funds, there is no "there" there; they are just accounting devices--and the call on general revenues has already begun.

Given the lead times necessary to prepare the trustees' report, it is highly likely that a final draft report was readied by early March to meet the April 1 legal deadline. But the trustees' decision to table that report was clearly unopposed because Social Security currently has no confirmed public trustees. All of its current trustees are ex officio members of the Obama administration, leaving no one to register concern that delay would prevent the public from knowing how rapidly Social Security's finances are deteriorating.

The excuse for the delay is to take account of the effects of the new health care laws, passed at the end of March, on Social Security's finances--with the expectation that ObamaCare will restore a semblance of financial viability to the program. The new health care laws create the possibility of offsetting the recession-induced decline in payroll tax revenues if many employers substitute higher taxable wages in place of health insurance coverage for their employees.

That appears possible because prescribed minimum insurance standards under the new laws would increase costs and cause employers to drop coverage. Moreover, the "Cadillac plan" excise tax will lead many employers to cut back on the generous health benefits they provide to employees in exchange for higher taxable wages. And the new law gives incentives to employers to pay a penalty, drop coverage and put workers on the heavily subsidized public exchanges (particularly for part-time and low-paid workers).

Estimating the effects ObamaCare's effects on Social Security's finances is quite difficult given how uncertain these effects are. How much additional Social Security revenue would result each year is not easy to determine because no reliable information exists on how employers would respond to incentives built into the new health care laws.

The correct procedure under such circumstances would be to issue the report on time (or in this case, immediately) excluding the effects of ObamaCare and reissue an update when revised estimates become available. But that would reveal too much information--for example, someone could calculate the effective Social Security payroll tax increases on middle-income families levied under the new health care laws--and that would be poor politics.

What will the public eventually learn once the report is released? Only the effect of *official assumptions* about how ObamaCare--combined with the many other economic and technical changes that occur every year--will affect Social Security. Whatever those assumptions, the system finances excluding those effects won't be made public. There will be strong pressure to make optimistic assumptions this year. If they turn out to be incorrect, subsequent years' estimates of Social Security's finances would be gradually adjusted and no one would be any the wiser.

Another important reason to be concerned about the delay is that it flouts laws set by Congress about Social Security's reporting requirements. Under the Employee Retirement Income Security Act, private pension plan managers must also file many reports--with the federal government, employees and beneficiaries--under strict reporting deadlines. For private pension managers, willful refusal to make annual financial disclosures at specified times can incur criminal penalties--up to 10 years in prison.

For the Obama administration, delaying the release of Social Security's annual report appears to be a fait accompli despite soaring deficits and widespread concern about the sustainability of the government's finances. The advantage of this strategy is clear. Making more optimistic assumptions about the effects of Obamacare on Social Security will reduce political pressure to make changes to Social Security for a few more years. But delaying reforms to Social Security will render eventual policy adjustments, which appear unavoidable because the program was headed into insolvency even before the 2007 recession, all the more burdensome for our children and grandchildren.

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