The Social Security Board of Trustees has warned that the long-term prospects for the Social Security system are not good. If action is not taken, the Social Security system will only be able to make partial payments in 2037.

EXAMPLE 6 Looking into the Future

Explain why the following demographics pose problems for Social Security.

a. Life expectancy: Life expectancy is increasing. In 1940, a 65-year-old man could expect to live another 12 years. In 2010, it was 16 years, and by 2040 it will be 18 years.

b. Birth rate: The birth rate is falling faster than expected, from 23.7 births per 1000 people in 1960 to just 13.5 births per 1000 people in 2009.

c. Elderly population: The elderly portion of the population is expected to rise from 13% in 2010 to 20% by 2050, increasing the number of retirees from 40 million to 88 million.

d. Working-age population: The smaller working-age population and larger elderly population means that while there were 6 workers for each retiree in 1960 and 5 workers for each retiree in 2010, by 2030 there will be just 3 workers to pay the taxes for the benefits of each retiree.

SOLUTION

a. Life expectancy: Longer life expectancy means that people will receive retirement payments from the system for a longer period of time. To help correct this problem, the age for full retirement benefits was raised from 65 to 67.

b. Birth rate: For any country, births are the source of future workers and future taxpayers. When birth rates decline, this source diminishes.

c. Elderly population: The elderly account for the bulk of the Social Security system's expenses. An increase in the percent of elderly people puts a further strain on the system. Over the next 20 years, nearly 80 million baby boomers will become eligible for Social Security.

d. Working-age population: Unlike most private retirement funds, Social Security is a "pay as you go" system. The taxes paid by working people are used to pay current Social Security benefits. As the percent of working people declines, the amount of tax that each worker pays will have to increase, or the amount that is paid out will have to decrease.

When the Social Security Act was signed by President Franklin D. Roosevelt in 1935, the United States was in the midst of the Great Depression. To publicize the new program and its benefits, the Social Security Board began an advertising campaign called "More Security for the American Family."

✓ Checkpoint

Help at Math.andYOU.com

Each year, the federal government determines a cost-of-living adjustment (COLA) for recipients of Social Security benefits. Here are a few recent COLA rates.

2005: 4.1%	**2006:** 3.3%	**2007:** 2.3%
2008: 5.8%	**2009:** 0%	**2010:** 0%

About $713 billion in Social Security benefits were distributed in 2010. How much does a COLA rate of 1% cost the federal government in increased Social Security benefits? Discuss the consequences of your answer.