BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND FEDERAL DISABILITY INSURANCE TRUST FUNDS WASHINGTON, D.C., JULY 28, 2014

HON. JOSEPH R. BIDEN, JR.,
President of the Senate.

DEAR MR. PRESIDENT:

In accordance with the requirements of section 709 of the Social Security Act, "Recommendations by Board of Trustees to Remedy Inadequate Balances in the Social Security Trust Funds", we are writing to notify you that we project that the asset reserves held in the Federal Disability Insurance (DI) Trust Fund will become inadequate under the meaning of this section within the next 10 years. As shown in the 2014 OASDI Trustees Report, which we are issuing today and a copy of which is attached, the projected reserves expressed as a percentage of annual program cost (the balance ratio[1]) of the DI Trust Fund fall below 20 percent for calendar year 2016 based on our intermediate set of economic, demographic, and programmatic assumptions. Moreover, we project that the reserves of the DI Trust Fund will be depleted soon afterwards, during the fourth calendar quarter of 2016, and only about 81 percent of benefits scheduled in current law will be payable at that time if no legislative action is taken.

Background—Section 709 of the Social Security Act specifies:

> *If the Board of Trustees . . . determines at any time that the balance ratio of any such Trust Fund for any calendar year may become less than 20 percent, the Board shall promptly submit to each House of the Congress a report setting forth its recommendations for statutory adjustments affecting the receipts and disbursements of such Trust Fund necessary to maintain the balance ratio of such Trust Fund at not less than 20 percent, with due regard to the economic conditions which created such inadequacy in the balance ratio and the amount of time necessary to alleviate such inadequacy in a prudent manner. The report shall set forth specifically the extent to which benefits would have to be reduced, taxes . . . would have to be increased, or a combination thereof, in order to obtain the objectives referred to in the preceding sentence.*

The Board believes that issuing a report under this section whenever the balance ratio of a trust fund is expected to fall below 20 percent within the next ten years provides reasonable advance notice and time for prudent action to alleviate inadequate financing. The annual reports that the Board submits to the Congress under section 201(c) of the

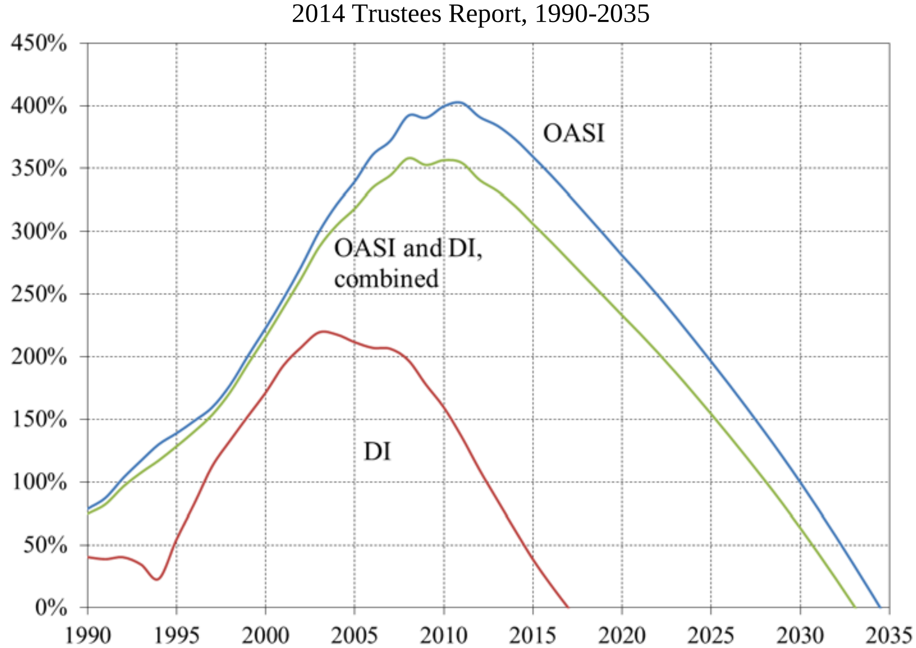
[1] This ratio is also called a *trust fund ratio* in the 2014 OASDI Trustees Report.

Social Security Act (commonly referred to as the Trustees Reports) provide a more extensive evaluation of the actuarial status of the trust funds through the next 75 years.

The Disability Insurance Trust Fund—Estimates in the 2014 Trustees Report show that although the Old-Age and Survivors Insurance (OASI) Trust Fund and the theoretical combined OASI and DI Trust Funds are adequately financed in the meaning of this section (709) through the next 10 years under intermediate assumptions, the DI fund alone is not.

Under the intermediate assumptions of the 2014 Trustees Report (those representing the Trustees' best estimate of future economic and demographic trends), the DI Trust Fund reserves steadily decline, falling below 20 percent of annual cost by the beginning of calendar year 2016 and becoming depleted in the fourth calendar quarter of 2016. The figure below shows the estimated balance ratios for the combined OASI and DI Trust Funds and for each fund separately up to the date of trust fund reserve depletion.

Balance ratios for the OASI and DI Trust Funds, separately and combined, based on present law under the Intermediate Assumptions of the 2014 Trustees Report, 1990-2035



Maintaining a Balance Ratio of at Least 20 Percent—The following table shows minimum annual amounts of change necessary for each of the next 10 years to keep the DI balance ratio from falling below 20 percent. For each year through 2023, the table shows the amounts of: (1) additional payroll tax revenue alone; (2) net cost reductions alone; and (3) a combination of equal amounts of payroll tax revenue increases and net cost reductions needed to meet this goal. Maintaining a balance ratio of at least 20 percent for the DI Trust Fund after 2023 would require changes in revenue and/or net cost in subsequent years that are similar when expressed as a percentage of total program costs.

The additional payroll tax revenue amounts required to meet the 20-percent minimum DI balance ratio differ somewhat from the required net reductions in cost. Payroll tax revenue changes affect trust fund reserves (the numerator of the balance ratio) but have little if any immediate effect on cost (the denominator); benefit changes needed to reduce net program cost affect both reserves and cost directly and simultaneously. Under the combined approach, roughly one-half of the amounts shown would be raised through additional payroll tax revenue and one-half would be implemented through net cost reductions.

Amounts required to prevent DI balance ratio from declining below 20 percent under the Intermediate Assumptions of the 2014 Trustees Report
(In billions)

Calendar year	Additional payroll tax revenue only	Net cost reductions[a] only	Total amounts of additional payroll tax revenue and net cost reductions[a] under a combined approach
2015	$2.7	–	–
2016	29.7	$26.9	$29.7
2017	27.4	28.2	27.8
2018	25.1	25.7	25.4
2019	23.8	24.2	24.0
2020	23.2	23.2	23.2
2021	23.9	23.9	23.9
2022	24.9	24.9	24.9
2023	26.2	26.2	26.2
Total, 2015-2023	206.9	203.1	205.0

[a]Amounts shown for net cost reductions through changes in benefits are net of partially offsetting reductions in income from income taxes on Social Security benefits.

Recommendation—Based on the intermediate projections in the 2014 Trustees Report, the DI Trust Fund reserves will fall below 20 percent of annual cost by the beginning of calendar year 2016 and will become depleted in the fourth calendar quarter of 2016 in the absence of legislation to address this imbalance between scheduled benefits and revenue. Lawmakers should take prompt action to strengthen the actuarial status of the DI Trust Fund.

Lawmakers could choose to increase revenues to the DI Trust Fund, to reduce cost through modification of the DI program benefit levels or eligibility requirements or to use a combination of methods to strengthen the financial condition of the DI Trust Fund. Such actions could apply only to the DI program benefits and revenue, or might have effects also on the OASI program.

Lawmakers may consider responding to the impending DI Trust Fund reserve depletion, as they did in 1994, solely by reallocating the payroll tax rate between OASI and DI. Such a response might serve to delay DI reforms and much needed financial corrections for OASDI as a whole. However, enactment of a more permanent solution could include a tax reallocation in the short-run.

The Board recommends that lawmakers enact appropriate legislation as soon as possible to make necessary adjustments for the DI program.

Respectfully,

JACOB J. LEW,
Secretary of the Treasury,
and Managing Trustee
of the Trust Funds.

THOMAS E. PEREZ,
Secretary of Labor,
and Trustee.

SYLVIA M. BURWELL,
Secretary of Health
and Human Services,
and Trustee.

CAROLYN W. COLVIN,
Acting Commissioner
of Social Security,
and Trustee.

CHARLES P. BLAHOUS III,
Trustee.

ROBERT D. REISCHAUER,
Trustee.

DAVID A. WEAVER,
Associate Commissioner, Office of Research,
Demonstration, and Employment Support,
Social Security Administration,
and Acting Secretary, Board of Trustees.