Social Security Trust Funds

- Two legally distinct trust funds:
  - OASI = Old-Age and Survivors Insurance
  - DI = Disability Insurance
- Financial operations are overseen by the Social Security Board of Trustees
- The two funds are often looked at on a theoretical combined basis
  - As of December 31, 2016, the trust funds hold about $2.85 trillion in asset reserves
Social Security Trust Funds

- The combined funds have run surpluses since the early 1980s and are expected to do so through 2021.
- Beginning in 2022, combined asset reserves will start to decline until they are depleted in 2034.
- The DI fund alone is projected to become depleted in 2028.
- What happens then when the reserves are depleted? Stay tuned…
Social Security Trust Funds

Social Security Trust Fund Asset Reserves (end of year) as a Percent of GDP, 1970-2034

1983 Amendments
Asset Reserves Build
Reserves Decline until Depletion
How Is Social Security Financed (Income)?

- **Payroll taxes**
  - Employees and employers each pay 6.2% of covered earnings
  - The self-employed pay 12.4% of covered earnings
  - On earnings up to $127,200 in 2017

- **Taxes on Social Security benefits**
  - High-income beneficiaries pay federal income tax on their benefits

- **Interest on trust fund reserves**
  - Invested in interest-bearing securities of the US government
Where Does the Money Go (Outgo)?

- **Benefit payments**
  - About **61 million** people getting benefits as of December 2016:
    - **44 million** retired workers and dependents of retired workers
    - **6 million** survivors of deceased workers
    - **11 million** disabled workers and dependents of disabled workers

- **Administrative expenses**
  - Only about **0.7 percent** of total expenditures in 2016
Income and Outgo
Calendar Year 2016

- Payroll taxes: $836 billion
- Benefits: $911 billion
- Taxes on benefits: $33 billion
- Interest: $88 billion
- Administrative expenses: $6 billion
- Railroad exchange: $5 billion

Combined OASI & DI Trust Funds
Social Security Trust Funds

- Why do we have trust funds?
  - The trust funds provide an essential reserve so benefits can be paid even when current income alone is not enough
  - Social Security (OASI and DI) cannot borrow; can only spend what has been collected

- Are the trust funds “real”?
  - If reserves deplete, full benefits cannot be paid
  - The trust funds force Congress to act in order to maintain continuous benefit payments
Trust Fund Financing

- How is the future shortfall expressed?
- To make shortfalls comparable over years, they are often scaled as a percent of taxable payroll
  - The amount of earnings taxable by the program for a time period
- For example, in 2045:
  - Taxable payroll is expected to be about $24.1 trillion in nominal $$
  - Income to the program is expected to be about $3.2 trillion, or 13.24 percent of taxable payroll
  - The cost of the program is expected to be about $4.0 trillion, or 16.72 percent of taxable payroll
  - So the shortfall is 3.48 percent (16.72 – 13.24)
Trust Fund Financing
(as a percent of taxable payroll)

Payable benefits as percent of scheduled benefits:
- 2016-33: 100%
- 2034: 77%
- 2091: 73%

Cost: Scheduled and payable benefits

Cost: Scheduled but not fully payable benefits

Expenditures: Payable benefits = income after trust fund depletion in 2034
How to Fix Social Security Long-Term

- How can the financing shortfalls be covered?
  - Lower cost (reduce benefits) by about 25%
  - Increase revenues by about 33%
  - Or some combination of approaches
  - Also consider benefit adequacy?
Ways to Lower Cost

- **Lower benefits for retirees—not disabled**
  - Increase normal retirement age (lowers OASDI cost, but increases DI cost)
  - Can exempt long-career low earners

- **Lower benefits mainly for high earners**
  - Reduce PIA above some level
  - Often combined with increasing PIA below some level, subject to work year requirements
Ways to Lower Cost (continued)

- Lower benefits mainly for the oldest old
  - Reduce the COLA by using a *chained* version of the CPI
  - Some say instead raise the COLA by using the CPI-E (based on purchases of consumers over age 62)

- Increase the number of years used in calculation (currently 35)
  - Hurts those who haven’t been in the workforce for 35 years
Ways to Increase Revenue

- **Raise tax rate on all earners**
  - Increasing rate from current 12.4 percent to 15.2 percent is projected to eliminate the long-range shortfall

- **Raise tax on highest earners**
  - Increase taxable maximum amount
  - Some tax on all earnings above the maximum
Ways to Increase Revenue (continued)

- Tax employer group health insurance premiums
  - Affects only middle class if taxable maximum remains the same

- Tax certain investment income
  - Consistent with ACA approach?

- Maintain larger trust fund reserves
  - Added interest/yield can lower needed taxes
Your Solution?

● Soon, you will hear more details about these and other policy options

● Then you will come up with your own solution during the afternoon exercise
### Additional Resources

http://www.ssa.gov/OACT

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