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, 2017, the trust funds hold about $2.89 trillion in asset reserves
Social Security Trust Funds

- The combined funds have run surpluses since the early 1980s and through 2017
- Beginning in 2018, combined asset reserves will start to decline until they are depleted in 2034
- The DI fund alone is projected to become depleted in 2032
- 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

- Reserves Decline until Depletion
- Asset Reserves Build
- 1983 Amendments
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 $128,400 in 2018

- **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 **62 million** people getting benefits as of December 2017:
    - **45 million** retired workers and dependents of retired workers
    - **6 million** survivors of deceased workers
    - **10 million** disabled workers and dependents of disabled workers

- **Administrative expenses**
  - Only about **0.7 percent** of total expenditures in 2017
Income and Outgo
Calendar Year 2017

Payroll taxes $874 billion

Benefits $941 billion

Combined OASI & DI Trust Funds

Taxes on benefits $38 billion

Interest $85 billion

Administrative expenses $6 billion

Railroad exchange $5 billion
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 $23.6 trillion in nominal $$
  - Income to the program is expected to be about $3.1 trillion, or 13.27 percent of taxable payroll
  - The cost of the program is expected to be about $3.9 trillion, or 16.66 percent of taxable payroll
  - So the shortfall is 3.39 percent (16.66 – 13.27)
Trust Fund Financing
(as a percent of taxable payroll)

- **Cost:** Scheduled and payable benefits
- **Cost:** Scheduled but not fully payable benefits
- **Non-interest Income**
- **Expenditures:** Payable benefits = income after trust fund depletion in 2034

Payable benefits as percent of scheduled benefits:
- 2017-33: 100%
- 2034: 79%
- 2092: 74%
How to Fix Social Security Long-Term

- How can the financing shortfalls be covered?
  - Lower cost (reduce benefits) by about one-fourth
  - Increase revenues by about one-third
  - 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
For More Information, Go To:
http://www.ssa.gov/OACT

There you will find:

- The 2018 Trustees Report and all prior reports
- Detailed single-year tables for recent reports
- Our estimates for comprehensive proposals
- Our estimates for individual policy provisions
- Actuarial notes, including replacement rates
- Actuarial studies
- Extensive databases
- Congressional testimonies
- Presentations by OCACT employees