Understanding the Annual Report of the Board of Trustees of the Federal OASI and DI Trust Funds

Polina Vlasenko
Economist
Office of the Chief Actuary
Social Security Administration
Legislative Mandate for the Annual Report

Publication of the annual report is mandated by law, and the report is required to present:

• Trust Fund operations of the past year and the next five years
• Actuarial status of the trust funds
  • The ability to meet the cost of scheduled benefits with scheduled revenue and trust fund reserves
  • The extent to which scheduled revenue will fall short, forcing cuts or delays in benefits in the absence of legislative change.

Note: the annual report for Social Security (OASI and DI) Trust Funds is separate from the annual report for Medicare (HI and SMI) Trust Funds.
Social Security: Basic Facts

WHO PAYS?
• 95 percent of workers contribute—177 million people in 2019
  • Payroll tax of 12.4% of earnings up to $132,900 (6 percent of workers earn more)

WHO BENEFITS?
• 64 million retirement, survivor, disability beneficiaries in 2019
  • 45 million retirees, plus another 3 million of their spouses and children
  • Plus 6 million survivors
  • Plus over 10 million disabled workers and their dependents
• And 155 million workers are insured against disability or death
Social Security Financing

• Basically “pay-as-you-go” system
  • Current workers provide for current beneficiaries
  • Social Security cannot borrow
  • If income of the program (taxes collected) in any given year exceed the costs of the program (benefits paid out) in that year, the difference accumulates in the Trust Fund
  • Trust Fund assets provide a “contingency reserve”, available to use if tax income falls short of scheduled benefit payments

• Current OASDI reserves (excess income) = $2.9 trillion
  • Available to augment tax income as needed
  • About 3 times the annual cost of the program

• Trust funds reserves projected to be depleted in 2035 under current law
  • Expect Congress to act—as it always has
The 2019 Annual Report for OASI and DI Trust Funds


Operations in 2018

• In 2018, the OASDI program provided benefit payment to about 63 million people

• In 2018, total income of the program was $1,003 billion
  • $920 billion of non-interest income (primarily payroll taxes)
  • $83 billion in interest earnings

• In 2018, total cost of the program was $1,000 billion

• Asset reserves held in the trust funds grew from $2,892 billion at the start of 2018 to $2,895 at the end of the year.
The 2019 Annual Report for OASI and DI Trust Funds

**Table 4: KEY DATES FOR THE TRUST FUNDS**

<table>
<thead>
<tr>
<th>Event</th>
<th>OASI</th>
<th>DI</th>
<th>OASDI</th>
<th>HI</th>
</tr>
</thead>
<tbody>
<tr>
<td>First year cost exceeds income excluding interesta</td>
<td>2010</td>
<td>2036</td>
<td>2010</td>
<td>2008</td>
</tr>
<tr>
<td>First year cost exceeds total incomea</td>
<td>2020</td>
<td>2041</td>
<td>2020</td>
<td>2018</td>
</tr>
<tr>
<td>Year trust fund reserves are depleted</td>
<td>2034</td>
<td>2052</td>
<td>2035</td>
<td>2026</td>
</tr>
</tbody>
</table>

*a Dates indicate the first year a condition is projected to occur and to persist annually thereafter through 2093.*

**Table 5: LONG-RANGE ACTUARIAL DEFICIT OF THE OASI, DI, AND HI TRUST FUNDS**

*Percent of taxable payroll*

<table>
<thead>
<tr>
<th>Actuarial Deficit</th>
<th>OASI</th>
<th>DI</th>
<th>OASDI</th>
<th>HI</th>
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</thead>
<tbody>
<tr>
<td>Deficit</td>
<td>2.67</td>
<td>0.12</td>
<td>2.78</td>
<td>0.91</td>
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</tbody>
</table>

*Note: Totals do not necessarily equal the sums of rounded components.*
The 2019 Annual Report for OASI and DI Trust Funds
Projected income and costs

Payable benefits as percent of scheduled benefits:
2018-34: 100%
2035: 80%
2093: 75%

Expenditures: Payable benefits = income after trust fund depletion in 2035
Takeaways

• Cash flow (noninterest income less benefits paid) has been negative since 2010.
• Trust fund reserves are projected to be depleted in 2035.
• 80% of scheduled benefits still payable at trust fund reserve depletion.
• Currently the law does not allow Social Security to borrow.
• The Annual report does not make a prediction of what will happen. Rather, it presents a projection of the future under the assumption that the design of the Social Security program remains unchanged and the economic/demographic/other factors match the assumptions.
• What will likely happen?
  Most likely, Congress will act at some point before then to change the program in some way. The Annual Report serves as a tool to inform Congress about the necessity of changes.
How are the projections made?

• Projection cover the next 75 years

  • Demographic (fertility, mortality, immigration)
    • => Result: projected SSA area population, detailed by age and gender
  • Economic (productivity growth, price inflation, real wage growth, unemployment rate, real interest rate, taxable ratio)
    • => Result: covered employment, taxable earnings
  • Disability (disability incidence rate, disability death rate, disability recovery rate)
    • => Important for the DI program, but also affects population, labor force, end employment

• Current design of the Social Security program (tax rates, benefit formula, annual indexing, COLA formula, etc.) are assumed unchanged

• Develop projections of population, covered employment, taxable earnings, tax revenue, benefit payments, etc.

• Determine the actuarial balance for the 75-year period, as well as the trust fund reserve depletion dates.
Ultimate economic assumptions: a closer look

In 2019 Annual Report:

• Annual growth rate in total U.S. economy productivity: 1.63 percent
  • About 2.00 percent productivity growth in the nonfarm business sector
• Unemployment rate (age-sex adjusted): 5.5 percent
  => Combined with projections of labor force and hours worked, this results in real GDP growth of about 2.0-2.1 percent per year
• Annual growth rate in average real wage: 1.21 percent
• Inflation (CPI-W): 2.6 percent
• Real interest rate: 2.5 percent

Important: Projections focus on long-term trends (no business cycles, not seeking to forecast actual GDP movements, etc.)
Uncertainty of projections: What if reality differs from the assumptions?

The uncertainty is illustrated in three ways:

• Intermediate, low-cost, and high-cost alternatives

<table>
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<tr>
<td>Trust fund reserves depleted in...</td>
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<tr>
<td>Payable benefits as percent of scheduled benefits</td>
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<tr>
<td>- at reserve depletion</td>
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<tr>
<td>- for 2093</td>
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• Sensitivity analysis (Appendix D in the Annual Report)
  • Shows income rate, cost rate, the actual balance, and the year of trust fund reserve depletion for reasonable variations in individual assumptions (fertility rate, mortality, immigration, real wage, CPI-W, real interest rate, taxable ratio)
  • Variations in the assumptions alter the trust fund reserve depletion date by at most three years

• Stochastic projections (Appendix E in the Annual Report)
Trust Fund reserve depletion dates in Annual Reports since 1990: varied from 2029 to 2043.
Conclusion / Takeaways

• Social Security is an important program, affecting millions of people, whether or not they currently receive benefits.

• Annual report on the financial status of OASI and DI trust funds is not meant to be a prediction of the future; rather, it is projections under a given set of assumptions.

• An important goal of the annual report is to lay out the facts about the financial status of the program, thus providing information to the Congress so that it can act in time to correct imbalances.

• Office of the Chief Actuary also uses the model underlying the Trustees Report projections to evaluate the effects on the financial status of Social Security of various reform provisions

  https://www.ssa.gov/oact/solvency/index.html