SOCIAL SECURITY

MEMORANDUM

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Subject: Potential Reallocation of the Payroll Tax Rate Between the Disability Insurance (DI) Program and the Old-Age and Survivors Insurance (OASI) Program – **INFORMATION**

The Board of Trustees of the Old-Age and Survivors Insurance (OASI) and the Disability Insurance (DI) Trust Funds issued their 2014 report today. Under the intermediate assumptions, the Trustees project that the OASI Trust Fund reserves will become depleted and unable to pay scheduled benefits in full on a timely basis starting in 2034. However, the Trustees project that the DI Trust Fund reserves will become depleted much sooner, in the fourth quarter of 2016. Lawmakers need to take legislative action soon to ensure that the DI Trust Fund reserves do not deplete. One possible action is a reallocation of the OASDI payroll tax rate between the OASI and DI programs, as was legislated in 1994. The purpose of this memorandum is to present one possible temporary reallocation of the payroll tax rate, one that would equalize the projected years of reserve depletion for the two programs.

We base all estimates in this memorandum on the intermediate assumptions of the 2014 Trustees Report.

Background

The Trustees project that the combined OASI and DI Trust Funds reserves, on a theoretical combined basis, will become depleted in 2033. However, the separate projected years of reserve depletion for the OASI Trust Fund and the DI Trust Fund are 2034 and 2016, respectively. By law, these two trust funds operate independently. Thus, in the absence of legislative action, if the DI Trust Fund reserves become depleted in 2016, then the trust fund cannot support full and timely payment of scheduled benefits to disability beneficiaries. Projected revenue from non-interest income specified for the DI program is sufficient to support 81 percent of program cost[1] after trust fund reserve depletion in the fourth quarter of 2016, decreasing slightly to 80 percent of program cost in 2088.

The DI program faced a similar situation in the 1990s. According to the 1994 Trustees Report, the Trustees projected that the DI Trust Fund reserves would become depleted in 1995. In October 1994, President Clinton signed *The Social Security Domestic Employment Reform Act of 1994* into

[1] Cost consists of scheduled benefit payments, other small payments, and administrative expenses.

law. This legislation included a provision to allocate a greater portion of the OASDI payroll tax rate to the DI program. The reallocation was effective with respect to wages and self-employment income after December 31, 1993. The table below shows Social Security payroll tax rates since 1990, illustrating the reallocation of the OASDI payroll tax rate legislated in 1994.

Social Security Payroll Tax Rates							
Calendar Years	Employees and employers each				Self-employed		
	OASDI	OASI	DI		OASDI	OASI	DI
Rates scheduled prior to 1994 legislation							
1990-99	6.2%	5.6%	0.6%		12.4%	11.2%	1.2%
2000+	6.2%	5.49%	0.71%		12.4%	10.98%	1.42%
Rates scheduled after 1994 legislation							
1990-93	6.2%	5.6%	0.6%		12.4%	11.2%	1.2%
1994-96	6.2	5.26	0.94		12.4	10.52	1.88
1997-99	6.2	5.35	0.85		12.4	10.7	1.7
2000+	6.2	5.3	0.9		12.4	10.6	1.8

Note: Legislation reduced the payroll tax rate for 2011 and 2012 by 2 percentage points for employees and for self-employed workers. The laws enacted required that the General Fund of the Treasury reimburse the OASI and DI Trust Funds for these temporary payroll reductions. The rates indicated for 2011 and 2012 include the General Fund reimbursements.

The trust fund ratio for a year is the ratio of asset reserves on hand at the beginning of the year to the cost for that year. For a given 10-year projection period, passing the short-range test of financial adequacy requires the following:

- If the estimated trust fund ratio is at least 100 percent at the beginning of the projection period, then the trust fund ratio must remain at or above 100 percent throughout the projection period.
- If the ratio is initially less than 100 percent, then it must reach at least 100 percent within 5 years (without trust fund reserve depletion at any time during this period) and then remain at or above 100 percent throughout the remainder of the 10-year period.

One goal in reallocating payroll tax rates is for the DI Trust Fund to meet or to come close to meeting the short-range test for financial adequacy.

Potential Reallocation of OASDI Payroll Tax Rate between the OASI and DI Programs

The table below contains one option for a temporary reallocation of payroll tax rates for 2015 through 2024. Under this option, the projected dates of reserve depletion of the OASI Trust Fund and the DI Trust Fund would occur in the same year.

Social Security Payroll Tax Rates						
Calendar Years	Employees and employers each			Self-employed		
	OASDI	OASI	DI	OASDI	OASI	DI
2014	*6.2*	*5.3*	*0.9*	*12.4*	*10.6*	*1.8*
2015-16	6.2	4.8	1.4	12.4	9.6	2.8
2017	6.2	4.9	1.3	12.4	9.8	2.6
2018-19	6.2	5.1	1.1	12.4	10.2	2.2
2020-23	6.2	5.2	1.0	12.4	10.4	2.0
2024	6.2	5.25	0.95	12.4	10.5	1.9
2025+	*6.2*	*5.3*	*0.9*	*12.4*	*10.6*	*1.8*

Note: Rates for 2014 and years after 2024 are those specified in current law.

Projections under this schedule of tax rates show the following:

- The financial status of the combined OASI and DI Trust Funds is essentially the same as under present law. The combined asset reserves of the OASI and DI Trust Funds become depleted in 2033. After reserve depletion in 2033, tax income covers 77 percent of cost. This percent drops to 72 for 2088.
- The asset reserves of the OASI Trust Fund become depleted in 2033. After reserve depletion in 2033, tax income covers 75 percent of cost. This percent drops to 70 for 2088.
- The asset reserves of the DI Trust Fund become depleted in 2033. After reserve depletion in 2033, non-interest income covers 88 percent of cost. This percent drops to 80 in 2088.
- The asset reserves of the DI Trust Fund would be between 100 and 150 percent of the DI cost in the period 2018-2024.
- For the 10-year projection period 2014-2023, the DI Trust Fund would pass the short-range test of financial adequacy because the projected trust fund ratio: (1) is 62 percent for 2014 (below 100 percent at the beginning of the projection period); (2) reaches 100 percent within 5 years; and (3) remains above 100 percent throughout the remainder of the 10-year period.
- For the 10-year projection period 2014-2023, the OASI Trust Fund would pass the short-range test of financial adequacy because the projected trust fund ratio: (1) is 373 percent for 2014 (at least 100 percent at the beginning of the projection period); and (2) remains above 100 percent throughout the projection period.

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