

REQUIRED SUPPLEMENTARY INFORMATION: SOCIAL INSURANCE

PROGRAM DESCRIPTION

The Old-Age, Survivors, and Disability Insurance (OASDI) program, collectively referred to as “Social Security,” provides cash benefits for eligible U.S. citizens and residents. At the end of calendar year 2010, OASDI benefits were paid to almost 54 million beneficiaries. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law provides that the amount of the monthly benefit payments for workers, or their eligible dependents or survivors, is based on the workers’ lifetime earnings histories.

The OASDI program is financed largely on a pay-as-you-go basis--that is, OASDI payroll taxes paid each year by current workers are primarily used to pay the benefits provided during that year to current beneficiaries. The retired-worker benefits it pays replaces a larger proportion of earned income for lower earners than for higher earners. The amount of OASDI income and benefits may be altered by changes in laws governing the program.

PROGRAM FINANCES AND SUSTAINABILITY

As discussed in Note 8 to the consolidated financial statements, a liability of \$77 billion as of September 30, 2011 (\$75 billion as of September 30, 2010) is included in “Benefits Due and Payable” on the balance sheet for unpaid amounts of OASDI benefits due to recipients on or before that date. Virtually all of this amount was paid in October 2011. Also, an asset of \$2,654 billion as of September 30, 2011 (\$2,586 billion as of September 30, 2010) is recognized for the “investments in Treasury securities.” These investments are referred to as the combined OASI and DI Trust Fund assets throughout the remainder of this Required Supplementary Information. They represent the accumulated excess for the OASDI program of all past income, including interest, over all past expenditures. They are invested only in securities backed by the full faith and credit of the Federal Government (see Investments and Interest Receivable, Note 5).

No liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the unpaid amounts as of September 30, 2011. This is because OASDI is accounted for as a social insurance program rather than as a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid, or are due to be paid, because benefit payments are nonexchange transactions and are not considered deferred compensation, as would be employer-sponsored pension benefits for employees. Accrual accounting for a pension program, by contrast, recognizes as a liability retirement benefit expenses as they are earned so that the full estimated actuarial present value of the worker’s expected retirement benefits has been recognized by the time the worker retires.

Required Supplementary Information - While no liability has been recognized on the balance sheet for future obligations beyond those due at the reporting date, actuarial estimates are made of the long-range financial status of the OASDI program and are presented here. Throughout this section, the following terms will generally be used as indicated:

- **Income:** payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; interest income from Treasury securities held as assets of the OASI and DI Trust Funds; and miscellaneous reimbursements from the General Fund of the Treasury;
- **Income excluding interest (Noninterest Income):** income, as defined above, excluding the interest income from Treasury securities held as assets of the OASI and DI Trust Funds;
- **Cost:** scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries;
- **Cashflow:** either income, noninterest income, or cost, depending on the context;
- **Net cashflow:** either income less cost or noninterest income less cost, however, net cashflow in this section refers to noninterest income less cost;

- **Present value:** the equivalent value, as of a specified point in time and adjusted using a specified interest rate, of a future stream of payments (either income or cost). The present value of a future stream of payments may be thought of as the lump-sum amount that, if invested at the specified interest rate as of the specified point in time, together with interest earnings would be just enough to meet each of the obligations as they fall due.

All estimates in this section are based on the 75-year projections under the intermediate assumptions in *The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (2011 Trustees Report) (see Note 17 to the Statement of Social Insurance). The Statement of Social Insurance, the Statement of Changes in Social Insurance Amounts, and the required supplementary information below are derived from estimates of future income and cost based on these assumptions and on the current *Social Security Act*, including future changes previously enacted. This information includes:

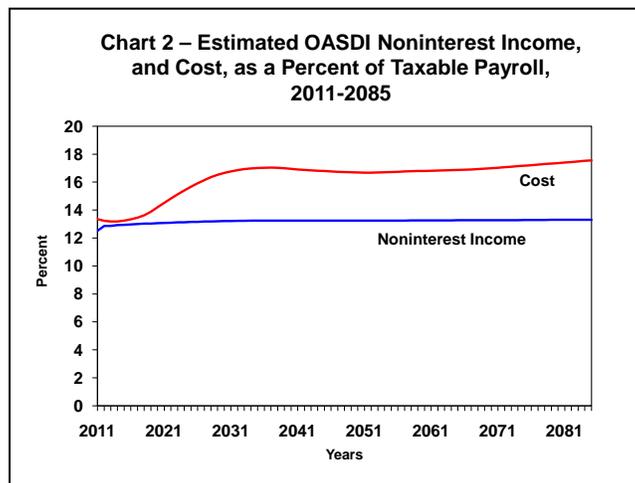
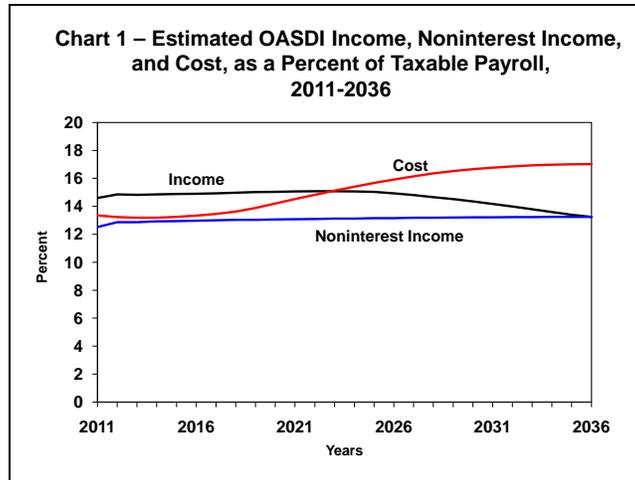
- (1) present values of future estimated cost for, and estimated income (excluding interest) from, or on behalf of, current and future program participants;
- (2) estimated annual income, income (excluding interest), and cost as percentages of taxable payroll and gross domestic product (GDP);
- (3) the ratio of estimated covered workers to estimated beneficiaries; and
- (4) an analysis of the sensitivity of the projections to changes in selected assumptions.

Sustainable Solvency - Based on the estimates of income and cost presented in the Statement of Social Insurance, the OASDI program would not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to be able to pay all scheduled benefits in full on a timely basis and maintain assets in the combined OASI and DI Trust Funds at all times within the 75-year projection period. In addition, the assets in the combined OASI and DI Trust Funds would need to be stable or rising as a percentage of annual program cost at the end of the period.

Cashflow Projections - Charts 1 through 4 show annual cashflow projections for the OASDI program. OASDI noninterest income and cost are estimated for each year from 2011 through 2085. However, income including interest is only estimated through 2036, the year that the combined OASI and DI Trust Funds are projected to become exhausted. After the point of such exhaustion, no interest earnings would be available. Moreover, because the program lacks the authority to borrow to continue paying benefits, benefit payments would be limited to the available tax income (noninterest income). Thus, displaying annual income levels beyond the point of combined OASI and DI Trust Fund exhaustion would be inappropriate unless the cost of scheduled benefits were replaced by the amount of benefits that would be payable.

Estimates are for the open-group population, all persons projected to participate in the OASDI program as covered workers or beneficiaries, or both, during that period. Thus, the estimates include payments from, and on behalf of, workers who will enter covered employment during the period as well as those already in covered employment at the beginning of that period. They also include cost for such workers and their dependents during that period.

Amounts as a Percentage of Taxable Payroll - Chart 1 shows estimated annual income, noninterest income, and cost through 2036 expressed as percentages of taxable payroll. Chart 2 is an extension of Chart 1, showing estimated annual noninterest income and cost through 2085 expressed as percentages of taxable payroll.



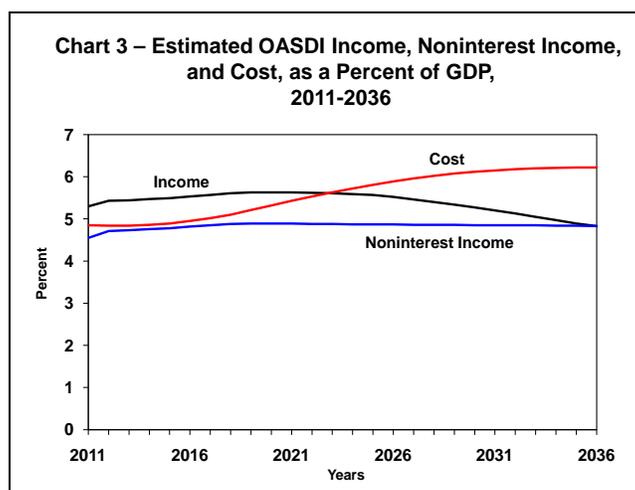
As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent), and the 12.4 percent that is paid on taxable self-employment income. (For the year 2011, a 2 percent temporary reduction in the employee and the self-employment payroll tax rates will be made up by reimbursements from the General Fund of the Treasury.) In all years of the projection period, estimated annual cost is more than estimated annual income, excluding interest. After 2014, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2035 and is rising at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover 74 percent of the estimated cost.

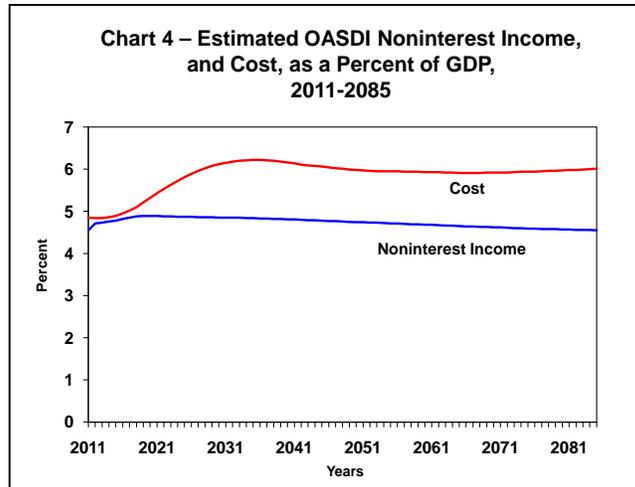
As Chart 1 shows, estimated cost starts to exceed income (including interest) in 2023. This occurs because of a variety of factors including the retirement of the “baby boom” generation, the relatively small number of people born during the subsequent period of lower birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. Estimated annual cost is projected to exceed noninterest income in all years of the projection period. In any year, to meet all OASDI cost on a timely basis, the combined OASI and DI Trust Funds will need to redeem Treasury securities. This redemption will differ from the situation of prior years when the combined OASI and DI Trust Funds had been net lenders to the General Fund of the Treasury. To finance this redemption, the Government would have to increase its borrowing from the public, raise taxes (other than OASDI payroll taxes), and/or reduce expenditures (other than OASDI cost). Alternatively, the Government could make this redemption unnecessary by changing the law to increase OASDI taxes and/or reduce OASDI scheduled benefits.

Actuarial Balance - The Statement of Social Insurance shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -\$9,157 billion. If augmented by the combined OASI and DI Trust Fund assets at the start of the period (January 1, 2011), it is -\$6,548 billion. This excess does not equate to the actuarial balance in the Trustees Report of -2.22 percent of taxable payroll because the actuarial balance includes the cost of attaining a target combined OASI and DI Trust Fund level at the end of the period equal to total projected cost for the 76th year of the period.

One interpretation of this negative actuarial balance (-2.22 percent of taxable payroll) is that it represents the magnitude of an increase in the combined payroll tax rate for the entire 75-year period that would allow the combined OASI and DI Trust Funds to remain solvent throughout the period with a small amount of assets remaining in the combined OASI and DI Trust Funds at the end of the period. The combined payroll tax rate is 12.4 percent today (including reimbursements from the General Fund of the Treasury) and is currently scheduled to remain at that level. An increase of 2.22 percentage points in this rate for each year of the 75-year projection period (1.11 percentage points for employees and employers each, resulting in a total rate of 14.62 percent or a rate of 7.31 percent for each) is estimated to produce enough income to pay all benefits due under current law for that period. Alternatively, all benefits during this period could be reduced by about 13.8 percent on average (or there could be some combination of both tax increases and benefit reductions) to achieve solvency throughout the period.

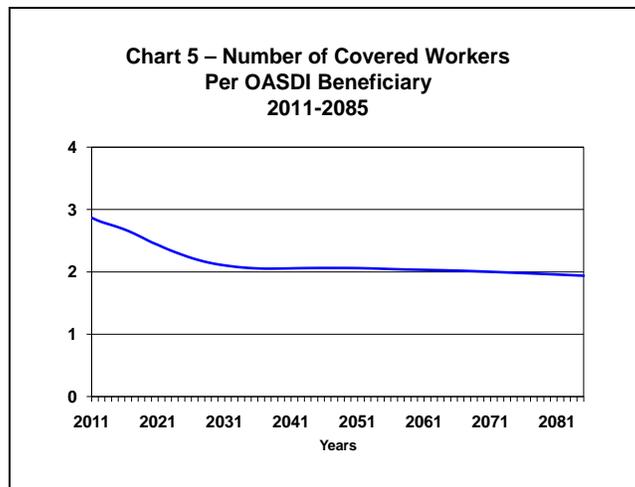
Amounts as a Percentage of Gross Domestic Product (GDP) - Chart 3 shows estimated annual income, noninterest income, and cost through 2036 expressed as percentages of GDP. Chart 4 is an extension of Chart 3, showing estimated annual noninterest income and cost through 2085 expressed as percentages of GDP. Analyzing these cashflows in terms of percentage of the estimated GDP, which represents the total value of goods and services produced in the United States, provides a measure of the cost of the OASDI program in relation to the size of the national economy that must finance it.





In 2010, OASDI cost was about \$713 billion, which was about 4.9 percent of GDP. The cost of the program (based on current law) rises rapidly to 6.1 percent of GDP in 2030, hits a peak of 6.2 percent of GDP in 2036, declines to a low of 5.9 percent in 2067, and then slowly increases, reaching 6.0 percent of GDP by 2085. The rapid increase from 2012 to 2030 is projected to occur as baby boomers become eligible for OASDI benefits, lower birth rates result in fewer workers per beneficiary, and beneficiaries continue to live longer.

Ratio of Workers to Beneficiaries - Chart 5 shows the estimated number of covered workers per OASDI beneficiary using the Trustees' intermediate assumptions. As defined by the Trustees, covered workers are persons having earnings creditable for OASDI purposes based on services for wages in covered employment and/or income from covered self-employment. The estimated number of workers per beneficiary declines from 2.9 in 2010 to 1.9 in 2085.



SENSITIVITY ANALYSIS

Projections of the future financial status of the OASDI program depend on many demographic and economic assumptions, including fertility, mortality, net immigration, average wages, inflation, and interest rates on Treasury securities. The income will depend on how these factors affect the size and composition of the working population and the level and distribution of wages and earnings. Similarly, the cost will depend on how these factors affect the size and composition of the beneficiary population and the general level of benefits. Because perfect long-range projections of these factors are impossible and actual experience is likely to differ from the estimated or assumed values of these factors, this section is included to illustrate the sensitivity of the long-range projections to changes in assumptions by analyzing six key assumptions: total fertility rate, mortality, net immigration, real-wage differential, consumer price index, and real interest rate. The range of values chosen for the sensitivity analysis is intended to present a reasonable range within which future experience is generally expected to fall, on average over long time periods. The range of values is not intended to represent any particular probability interval around the intermediate assumptions.

For this analysis, the intermediate assumptions in the 2011 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2011, and are based on estimates of income and cost during the 75-year projection period 2011-2085. In this section, for brevity, “income” means “noninterest income.”

For each assumption analyzed, one table and one chart are presented. The table shows the present value of the estimated excess of OASDI income over cost based on each of three selected values of the assumption being analyzed. The middle values provided correspond to the intermediate assumption of the Trustees. The chart shows the present value of each annual net cashflow.

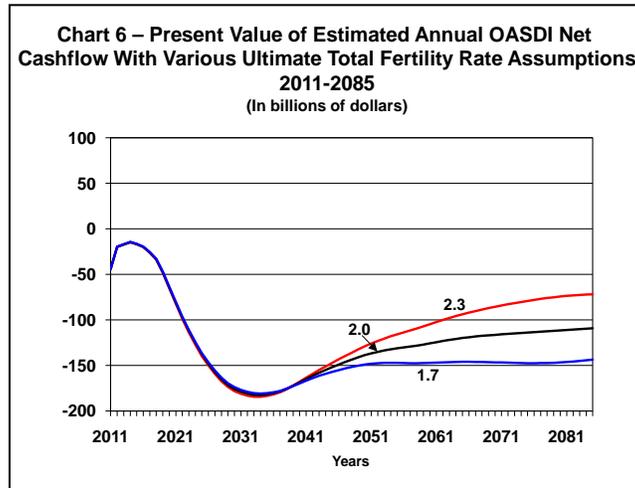
Sensitivity of program cost to changes in multiple assumptions is also useful. The Trustees Report presents high-cost and low-cost alternative assumption sets, which combine the variations shown individually in this report. It should be noted that due to interactions, the combined effect of two or more assumption changes may not be equal to the sum of the effects shown separately. The Trustees, in their annual report, also include estimates using a stochastic model developed by the Office of the Chief Actuary. These estimates provide an additional way of analyzing variability in assumptions, income, and cost.

Total Fertility Rate - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, for each of the assumptions about the ultimate total fertility rate. These assumptions are 1.7, 2.0, and 2.3 children per woman, where 2.0 is the intermediate assumption in the 2011 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2035.

Table 1 demonstrates that, if the ultimate total fertility rate is changed from 2.0 children per woman, the Trustees’ intermediate assumption, to 1.7, the shortfall for the period of estimated OASDI income relative to cost would increase to \$10,130 billion, from \$9,157 billion; if the ultimate rate were changed to 2.3, the shortfall would decrease to \$8,179 billion.

Table 1: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Total Fertility Rate Assumptions Valuation Period: 2011-2085			
Ultimate Total Fertility Rate	1.7	2.0	2.3
Present Value of Estimated Excess (In billions)	-\$10,130	-\$9,157	-\$8,179

Using the same total fertility rates used for the estimates in Table 1, Chart 6 shows the present value of the estimated annual OASDI net cashflow.



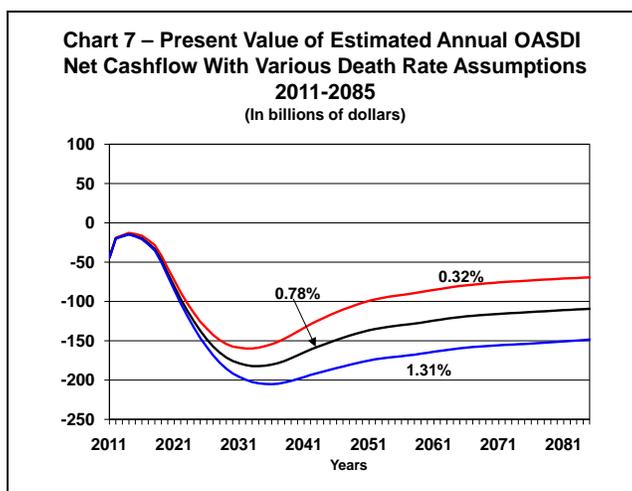
The three patterns of the present values shown in Chart 6 are similar. The present values based on all three ultimate total fertility rates are negative in all years of the 75-year projection period. The net cashflow estimates corresponding to a 1.7 ultimate total fertility rate increase (become less negative) in years 2012-14, decrease (become more negative) in years 2015-34, and then increase through 2054, remaining fairly stable thereafter. The net cashflow estimates corresponding to a 2.0 ultimate total fertility rate increase (become more negative) in years 2012-14, decrease (become less negative) in years 2015-34, and increase thereafter. The net cashflow estimates corresponding to a 2.3 ultimate fertility rate increase (become less negative) in years 2012-14, decrease (become more negative) in years 2015-33, and increase thereafter. Based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2035 than it would to cover the annual deficit in 2034.

Mortality - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2010-2085 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.32, 0.78, and 1.31 percent per year, where 0.78 percent is the intermediate assumption in the 2011 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 22, 45, and 63 percent, respectively). The life expectancy at birth, on a unisex period life table basis, is projected to rise from 78.1 in 2010 to 81.2, 85.0, and 88.9 in 2085 for average annual reductions in the age-sex-adjusted death rate of 0.32, 0.78, and 1.31 percent, respectively.

Table 2 demonstrates that, if the annual reduction in death rates is changed from 0.78 percent, the Trustees' intermediate assumption, to 0.32 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to \$7,017 billion, from \$9,157 billion; if the annual reduction were changed to 1.31 percent, meaning that people live longer, the shortfall would increase to \$11,244 billion.

Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions Valuation Period: 2011-2085			
Average Annual Reduction in Death Rates (from 2010 to 2085)	0.32 Percent	0.78 Percent	1.31 Percent
Present Value of Estimated Excess (In billions)	-\$7,017	-\$9,157	-\$11,244

Using the same assumptions about future reductions in death rates used for the estimates in Table 2, Chart 7 shows the present value of the estimated annual OASDI net cashflow.



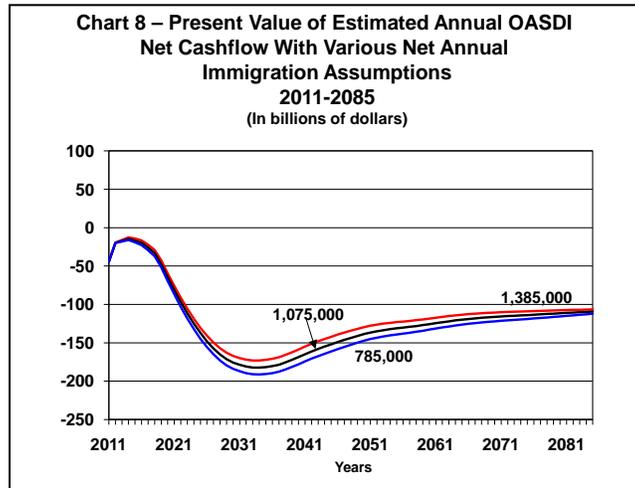
The three patterns of the present values shown in Chart 7 are similar. Under all three sets of assumptions, the net cashflow estimates are negative in all years of the 75-year projection period. After increasing (becoming less negative) in years 2012-14, the present values decrease rapidly until around 2030. Present values based on all three sets of assumptions begin to increase (become less negative) in the 2030's (2034, 2035, and 2037 for projected reductions of 0.32, 0.78, and 1.31 percent per year, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time, and continues to increase through 2085.

Net Annual Immigration - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of annual immigration. Assumptions are made about the levels of legal immigration, legal emigration, other immigration, and other emigration. Based on these levels, it is projected that net annual immigration (legal and other) will average 785,000 persons, 1,075,000 persons, and 1,385,000 persons over the 75-year valuation period, where 1,075,000 persons is the average value based on the intermediate assumptions in the 2011 Trustees Report.

Table 3 demonstrates that, if the Trustees' intermediate immigration assumptions were changed so that the average level for the 75-year period decreased from 1,075,000 persons to 785,000 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to \$9,645 billion, from \$9,157 billion. If instead, the immigration assumptions were changed so that net annual immigration would be expected to average 1,385,000 persons, the present value of the shortfall would decrease to \$8,659 billion.

Table 3: Present Value of Estimated Excess of OASDI Income over Cost With Various 75-Year Average Net Annual Immigration Assumptions Valuation Period: 2011-2085			
75-Year Average Net Annual Immigration	785,000 Persons	1,075,000 Persons	1,385,000 Persons
Present Value of Estimated Excess (In billions)	-\$9,645	-\$9,157	-\$8,659

Using the same assumptions about net annual immigration used for the estimates in Table 3, Chart 8 shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 8 are similar. The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. After increasing (becoming less negative) in years 2012-14, the net cashflow estimates decrease steadily through 2033 for an average net annual immigration level of 1,385,000, and through 2034 for an average net annual immigration level of 1,075,000 and 785,000. Present values based, on all three assumptions about net annual immigration, increase (are less negative) from 2035 through the end of the projection period.

Very little difference is discernible in the first few years among the estimates of present values of net annual cashflow based on the three sets of assumptions about annual immigration. However, as the effect of these three levels of net annual immigration accumulate, variations in present values become more apparent. Because immigration generally occurs at relatively young adult ages, the effects initially are similar to those of total fertility rates. There is no significant effect on beneficiaries (and, therefore, on benefits) in the early years but the effect on the numbers of workers (and, therefore, on payroll tax income) is immediate. Thus, even in the early years, the present values, year by year, are generally higher (less negative in later years) for higher net annual immigration. However, the increased payroll taxes for a given year are eventually offset by benefits paid in that year to earlier immigrant cohorts. Thus, the present values based on the three assumptions about net annual immigration become more similar at the end of the projection period.

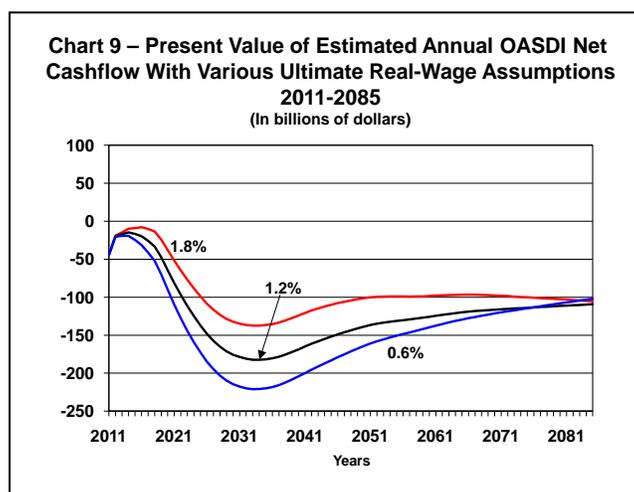
Real-Wage Differential - The annual real-wage differential is the difference between the percentage increases in (1) the average annual wage in OASDI covered employment and (2) the average annual Consumer Price Index (CPI). The ultimate real-wage differential is the average of the annual real-wage differential for the last 65 years of the 75-year projection period. Table 4 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.6, 1.2, and 1.8 percentage points, where 1.2 percentage point is the intermediate assumption in the 2011 Trustees Report. In each case, the ultimate annual increase in the CPI is

assumed to be 2.8 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.4, 4.0, and 4.6 percent, respectively.

Table 4 demonstrates that, if the ultimate real-wage differential is changed from 1.2 percentage point, the Trustees' intermediate assumption, to 0.6 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to \$10,554 billion from \$9,157 billion; if the ultimate real-wage differential were changed from 1.2 to 1.8 percentage points, the shortfall would decrease to \$7,099 billion.

Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2011-2085			
Ultimate Annual Increase in Wages, CPI; Real Wage Differential	3.4% , 2.8%; 0.6%	4.0% , 2.8%; 1.2%	4.6% , 2.8%; 1.8%
Present Value of Estimated Excess (In billions)	-\$10,554	-\$9,157	-\$7,099

Using the same assumptions about the ultimate real-wage differential used for the estimates in Table 4, Chart 9 shows the present value of the estimated annual OASDI net cashflow.



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. Estimated net cashflows increase (become less negative) in years 2012-14 for assumed ultimate real-wage differentials of 0.6 and 1.2 percentage points and from 2012-16 for an assumed ultimate real-wage differential of 1.8. The present values then decrease through 2033 for assumed ultimate real wage differentials of 0.6 and 1.8, and through 2034 for an assumed ultimate real-wage differential of 1.2. Present values based on all three assumptions begin to increase (become less negative) by 2035. Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real-wage differential of 1.8 percentage points, the present values generally continue to increase until 2066 when decreases begin again. The present values for the other two assumptions continue increasing throughout the remaining projection period.

Differences among the estimates of annual net cashflow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cashflow is higher for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small and the effects on wages are compounding, the patterns of the estimates of annual net cashflow based on the three assumptions diverge fairly rapidly. However, toward the

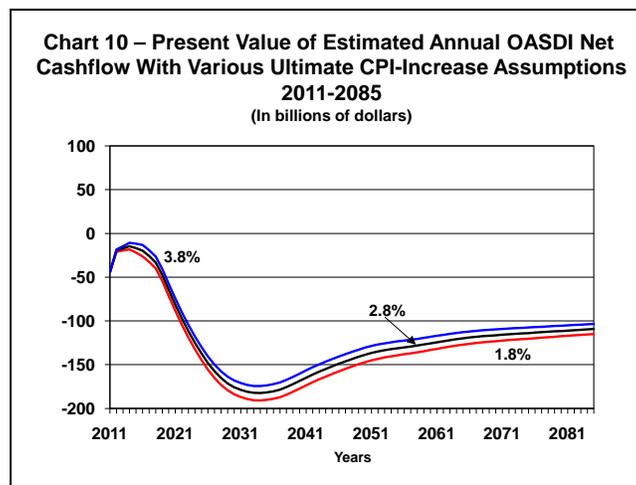
end of projection period, annual net cashflow becomes more similar for all assumed real-wage differentials. This occurs because benefits would then be more fully realized at a time when the projected cost substantially exceeds noninterest income. These effects are depicted by the patterns in Chart 9 coming together at the end of the projection period.

Consumer Price Index - Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 1.8, 2.8, and 3.8 percent, where 2.8 percent is the intermediate assumption in the 2011 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.2 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 3.0, 4.0, and 5.0 percent, respectively.

Table 5 demonstrates that, if the ultimate annual increase in the CPI is changed from 2.8 percent, the Trustees' intermediate assumption, to 1.8 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to \$9,696 billion, from \$9,157 billion; if the ultimate annual increase in the CPI were changed to 3.8 percent, the shortfall would decrease to \$8,634 billion. The seemingly counter-intuitive result that higher CPI increases result in decreased shortfalls (and vice versa) is explained by the time lag between the effects of the CPI changes on taxable payroll and on benefit payments. The effect on taxable payroll due to a greater increase in average wages is experienced immediately, while the effect on benefits is experienced with a lag of about 1 year. For this reason, larger increases in the CPI cause earnings and income to increase sooner, and thus by more each year, than benefits and cost.

Table 5: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate CPI-Increase Assumptions Valuation Period: 2011-2085			
Ultimate Annual Increase in Wages, CPI; Real Wage Differential	3.0% , 1.8% ; 1.2%	4.0% , 2.8% ; 1.2%	5.0% , 3.8% ; 1.2%
Present Value of Estimated Excess (In billions)	-\$9,696	-\$9,157	-\$8,634

Using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 5, Chart 10 shows the present value of the estimated annual OASDI net cashflow.



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. The three patterns of the present values shown in Chart 10 are similar. After increasing (becoming less negative) in years 2012-14, the net cashflow estimates decrease through 2034. Present values begin

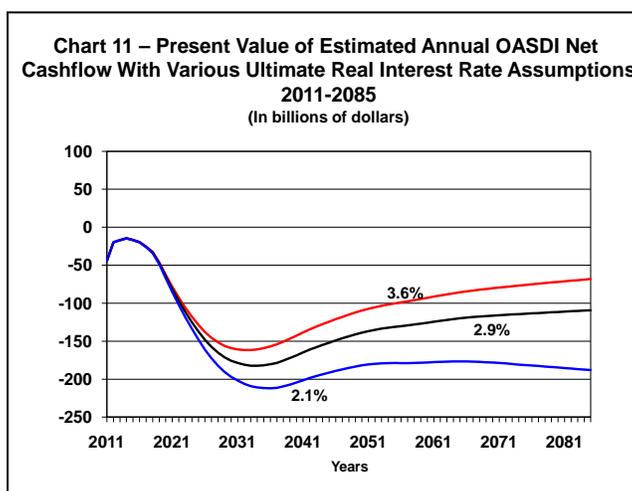
to increase (become less negative) in 2035 for all three assumptions. Thus, in terms of today’s investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time, and continue to increase through 2085.

Real Interest Rate - Table 6 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold to the OASI and DI Trust Funds. These assumptions are that the ultimate annual real interest rate will be 2.1, 2.9, and 3.6 percent, where 2.9 percent is the intermediate assumption in the 2011 Trustees Report. Changes in real interest rates change the present value of cashflow, even though the cashflow itself does not change.

Table 6 demonstrates that, if the ultimate real interest rate is changed from 2.9 percent, the Trustees’ intermediate assumption, to 2.1 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms, would increase to \$12,103 billion, from \$9,157 billion; if the ultimate annual real interest rate were changed to 3.6 percent, the present-value shortfall would decrease to \$7,313 billion.

Table 6: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Interest Assumptions Valuation Period: 2011-2085			
Ultimate Annual Real Interest Rate	2.1 Percent	2.9 Percent	3.6 Percent
Present Value of Estimated Excess (In billions)	-\$12,103	-\$9,157	-\$7,313

Using the same assumptions about the ultimate annual real interest rate used for the estimates in Table 6, Chart 11 shows the present value of the estimated annual OASDI net cashflow.



The net cashflow estimates corresponding to all three sets of assumptions are negative in all years of the 75-year projection period. The three patterns of the present values shown in Chart 11 are similar. After increasing (becoming less negative) in years 2012-14, the present values decrease rapidly until around 2030. Present values based on all three assumptions begin to increase (become less negative) in the 2030’s (2037, 2035, and 2034 for assumed ultimate real interest rates of 2.1, 2.9, and 3.6 percent, respectively). Thus, in terms of today’s investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real interest rate of 2.1 percent, the present values continue generally increasing through 2066, then decrease thereafter. The present values for the other two assumptions continue increasing throughout the remaining projection period.

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