Click for Table of Contents

101st Congress, 1st Session - - - - - - - - - House Document 101-56

FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

COMMUNICATION

FROM

THE BOARD OF TRUSTEES

TRANSMITTING

THE 1989 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE TRUST FUND AND THE FEDERAL DISABILITY INSURANCE TRUST FUND, PURSUANT TO 42 U.S.C. 401(c)(2), 1395i(b)(2), 1395t(b)(2)

APRIL 26, 1989.—Referred to the Committee on Ways and Means and ordered to be printed

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LETTER OF TRANSMITTAL

BOARD OF TRUSTEES OF THE
FEDERAL OLD-AGE AND SURVIVORS INSURANCE
AND DISABILITY INSURANCE TRUST FUNDS,
Washington, D.C., April 24, 1989

HONORABLE JAMES C. WRIGHT, JR.
Speaker of the House of Representatives
Washington, D.C.

HONORABLE DAN QUAYLE
President of the Senate
Washington, D.C.

GENTLEMEN: We have the honor of transmitting to you the 1989 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund (the 49th such report), in compliance with section 201(c)(2) of the Social Security Act.

Respectfully,

Nicholas F. Brady

NICHOLAS F. BRADY, *Secretary of the Treasury, and Managing Trustee of the Trust Funds.*

Elizabeth Dole

ELIZABETH DOLE, *Secretary of Labor, and Trustee.*

Louis W. Sullivan, M.D.

LOUIS W. SULLIVAN, M.D., *Secretary of Health and Human Services, and Trustee.*

Mary Falvey Fuller

MARY FALVEY FULLER, *Trustee.*

Suzanne D. Jaffe

SUZANNE DENBO JAFFE, *Trustee.*

Dorcas R. Hardy

DORCAS R. HARDY, *Commissioner of Social Security, and Secretary, Board of Trustees.*

1989 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

COMMUNICATION

FROM

THE BOARD OF TRUSTEES, FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

TRANSMITTING

THE 1989 ANNUAL REPORT OF THE BOARD, PURSUANT TO SECTION 201(c)(2) OF THE SOCIAL SECURITY ACT, AS AMENDED

Click on a Topic Below

CONTENTS

TABLES

TABLES (Cont.)

TABLES (Cont.)

FIGURES

1989 ANNUAL REPORT OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS

SUMMARY

Highlights

As shown in the 1989 Annual Report, the assets of the Old-Age and Survivors Insurance (OASI) Trust Fund increased by $40.7 billion in calendar year 1988, reflecting, in part, the continuing growth in the economy. Including the increase of $0.2 billion in the Disability Insurance (DI) Trust Fund, the growth in the combined trust funds, at $41.0 billion, was about the same as the increase estimated in the 1988 Annual Report on the basis of the intermediate alternative II-A assumptions.

The trust funds are expected to continue growing for many years into the future. Based on intermediate assumptions, the combined trust funds are estimated to reach a level of about 5 or 6 times annual outgo in the next 20 to 30 years. Even if future experience is very adverse, the combined funds are estimated to increase to about 2 1/2 times annual outgo during the next 20 to 25 years. However, under such adverse conditions, the assets of the DI Trust Fund could decline to such a low level that financial problems with that fund would occur within the next 10 years.

The long-range 75-year estimates indicate that, under the intermediate assumptions, the OASDI program will experience about 3 decades of positive annual balances, with continuing annual deficits thereafter. Based on the intermediate alternative II-A assumptions, the positive balances in the first part of the 75-year projection period nearly offset the later deficits, so that the program, as a whole, has an actuarial deficit of 0.10 percent of taxable payroll. Based on the intermediate alternative II-B assumptions, the OASDI program has larger future deficits that yield an actuarial deficit of 0.70 percent of taxable payroll, which is 0.12 percent larger than in the 1988 report. However, the expected accumulation of the trust funds during the next 20 to 30 years provides ample time to monitor the financial status of the program and to take corrective action at some time in the future if it still appears to be warranted at that time.

During the first part of the long-range projection period, the combined OASI and DI Trust Funds are expected to accumulate rapidly to a peak fund ratio of 547 percent of annual outgo in the year 2014, based on the alternative II-B assumptions. Thereafter, the fund ratio is estimated to decline until the funds are exhausted in 2046, 2 years earlier than in last year's report. Thus, according to the alternative II-B projections, the OASDI program will have enough funds to cover expenditures for about 57 years into the future.

For OASI and DI, separately, the long-range actuarial balances, based on the alternative II-A assumptions, are +0.03 percent and -0.13 percent of taxable payroll, respectively. Based on the alternative II-B assumptions, both programs have actuarial deficits, which are 0.53 percent and 0.17 percent of taxable payroll, respectively. Because of the size of the DI deficit, relative to its cost rate, the DI program needs careful monitoring in both the short-range and the long-range periods.

1. Program Description

The OASDI program consists of two separate parts which pay monthly benefits to workers and their families:

(1) Old-Age and Survivors Insurance (OASI) pays benefits after a worker retires and to survivors after a worker dies.

(2) Disability Insurance (DI) pays benefits after a worker becomes disabled.

The Board of Trustees of the trust funds is required by law to report annually to the Congress on the financial condition of the funds and on estimated future results. The Board has five members, three of whom serve in an ex officio capacity: the Secretaries of the Treasury, Labor, and Health and Human Services. The Board also has two members of the public, who are nominated by the President and confirmed by the Senate for 4-year terms. The terms of the present public members, Mary Falvey Fuller and Suzanne Denbo Jaffe, began on September 28, 1984. They are currently serving under recess appointments, which the Senate received on January 3, 1989, after the adjournment of the 100th Congress.

Most OASDI revenue consists of contributions paid by employees, their employers, and the self-employed. (Additional contributions are paid into a separate trust fund for the Hospital Insurance part of Medicare. This summary focuses on OASDI and does not discuss Medicare.) The contribution rates are established by law. Contributions are paid on earnings not exceeding the earnings base—$48,000 in 1989.

The earnings base will rise in the future as average wages increase. The current and future OASDI contribution rates for employees and employers, each, are shown below (as percentages):

Year	OASI	DI	Total
1989	5.53	0.53	6.06
1990-99	5.60	.60	6.20
2000 and later	5.49	.71	6.20

Since 1984, a portion (not more than one-half) of OASDI benefits received by higher income beneficiaries is subject to Federal income taxation. The revenues collected as a result of this provision are transferred from the general fund of the Treasury to the trust funds.

The outgo of the OASI and DI Trust Funds consists of benefit payments and administrative expenses. Trust fund assets may not be used for any other purposes.

During periods when outgo temporarily exceeds income, trust fund assets are used to meet the shortfall. In the event of recurring shortfalls, the trust funds can allow time for legislation to be enacted to restore balance to the program. The assets of the trust funds are invested in U.S. Government securities bearing rates of interest similar to those for long-term securities issued to the general public.

2. Recent Results

During 1988, about 128 million workers made contributions to the OASDI program. At the end of September 1988, 38.5 million persons were receiving monthly benefits under the OASDI program. Administrative expenses represented about 1.2 percent of benefit payments in fiscal year 1988.

Income to the OASI and DI Trust Funds in fiscal year 1988 was $258.1 billion, while outgo was $219.3 billion. Thus, the assets of the combined funds increased by $38.8 billion during the fiscal year. A summary of the OASDI financial operations in fiscal year 1988 is shown below (in billions):

Trust fund assets at end of fiscal year 1987	$65.4
Income during year:	
Contributions	248.1
Revenue from taxation of benefits	3.4
Payments from general fund	.1
Net interest	6.5
Total income	258.1
Outgo during year:	
Benefit payments	213.9
Administrative expenses	2.5
Transfer to Railroad Retirement program	2.9
Total outgo	219.3
Net increase in assets during year	38.8
Trust fund assets at end of fiscal year 1988	104.2

Note: Totals may not equal sums of components, due to rounding.

3. Actuarial Estimates

The annual report contains 75-year estimates of each fund's financial operations and status. Because precise prediction of the future is impossible, alternative sets of assumptions, representing a reasonable range of possible future experience, are used to make short- and long-range estimates. Future experience could, however, fall outside the range indicated by these assumptions.

Future OASDI income and outgo will depend on a variety of economic and demographic factors, including economic growth, inflation, unemployment, fertility, and mortality. These factors affect the levels of workers' earnings and OASDI benefits, as well as the numbers of people making contributions and receiving benefits.

The estimates in this report were prepared using four alternative sets of assumptions. Two sets—alternatives II-A and II-B—are designated "intermediate." Both intermediate sets share the same demographic assumptions, but differ with respect to economic assumptions; somewhat more robust economic growth is assumed for alternative II-A than for alternative II-B. One set—alternative I—is designated "optimistic," and another—alternative III—is "pessimistic."

No single measure is used to assess the actuarial status of the OASDI funds. Short-range measures usually focus on the adequacy of reserves available to pay benefits. Long-range measures usually focus on the balance between income and outgo during the projection period as well as the adequacy of the reserves.

The *contingency fund ratio* is the usual measure of the OASDI program's ability to pay benefits on time in the near future. This ratio is the amount in the trust funds at the beginning of the year, including advance tax transfers for January, divided by that year's expenditures. Thus, if the trust fund ratio is 50 percent, the amount in the fund represents about 6 months' outgo. A ratio of at least 8 to 9 percent is required to pay benefits at the beginning of each month. At the beginning of 1989, the fund ratio for OASDI was about 57 percent.

In analyzing the actuarial status of OASDI for the next 75 years, several different measures are commonly used. The *income rate* is the combined OASDI employee-employer contribution rate scheduled in the law, plus the income from taxation of benefits, expressed as a percentage of taxable payroll. The *cost rate* is the annual outgo expressed as a percentage of taxable payroll. The annual balance, which is the difference between the annual income rate and the annual cost rate, measures the adequacy of funding in each year of the long-range projection period. If the difference is negative, the annual balance is a deficit. The level and pattern of annual positive balances and annual deficits during various periods of time within the next 75 years measure the financial strength of the program over such periods.

If a trust fund becomes exhausted during the projection period, the year in which the exhaustion occurs is an important measure of the financial condition of the fund.

Summarized income and cost rates over the 75-year projection period can be compared directly to measure the adequacy of the program's overall level of financing during the entire long-range period. The summarized income and cost rates reflect the full effect of interest. In addition, the trust fund balance at the beginning of the projection period, expressed as a percentage of taxable payroll, is included in the summarized income rate for the 75-year period.

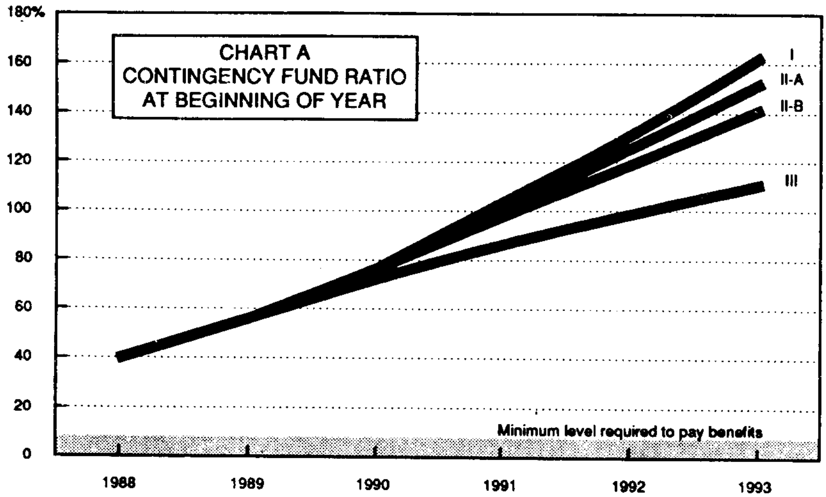
The *actuarial balance* for the 75-year long-range projection period, is the difference between the summarized estimated income rate and the summarized estimated cost rate. If this actuarial balance is negative, the program is said to have an actuarial deficit. Such a deficit is a warning that future changes may be needed in the program's financing or benefit provisions, although it does not present a complete picture without the other measures of financing discussed here.

4. Short-Range Financing (1989-93)

Estimates for the next 5 years are used to assess the adequacy of OASDI financing in the short range. In this period, the numbers of persons receiving OASDI benefits can be estimated fairly accurately. Changes in the national economy, however, which are difficult to predict, can have major effects on income and outgo.

The actuarial estimates shown in the 1989 report indicate that the combined assets of the OASI and DI Trust Funds will be sufficient to pay OASDI benefits on time throughout the 5-year period and for many years thereafter, based on all four sets of assumptions. In addition, the estimates based on alternatives I, II-A, and II-B indicate that the OASI and DI programs, separately, can operate satisfactorily for many years. During the next 10 years, however, if experience is very adverse, the assets of the DI Trust Fund could decline to such a low level that financial problems would occur.

Chart A shows the OASDI contingency fund ratio for 1989, 57 percent, and the projected OASDI ratios for 1990-93, on the basis of all four sets of assumptions. The fund ratios for the combined trust funds are estimated to increase each year.



5. Long-Range Financing (1989-2063)

Long-range 75-year estimates for OASDI, although sensitive to variations in the assumptions, indicate the trend and general range of the program's future financial status. During this long-range period, income and outgo are greatly affected by demographic, as well as economic, conditions. Most of the beneficiaries during the next 75 years have already been born, so that their numbers are projected mainly from the present population. The numbers of workers involved in these projections, however, depend largely on future birth rates, which are subject to more variability.

Several important demographic trends are anticipated, which will raise the proportion of the aged in the population during the next 75 years. First, because of the large number of persons born in the two decades after World War II, rapid growth is expected in the aged population after the turn of the century. Second, assumed declines in death rates also would increase the numbers of aged persons. At the same time, birth rates, which began to decline in the 1960s and are assumed to remain relatively low in the future, would hold down the numbers of young people.

Chart B shows the long-range trend in the number of covered workers per OASDI beneficiary. (The term "beneficiary" includes not only retired workers, but also disabled workers, spouses, children, and survivor beneficiaries.) Based on the intermediate assumptions, this ratio is estimated to decline gradually from 3.3 in 1988 to 3.0 in 2010. From 2010 to 2030, the estimated ratio falls rapidly to 2.0 as the number of beneficiaries increases more rapidly than the number of covered workers. After 2030, the ratio is estimated to decline gradually.

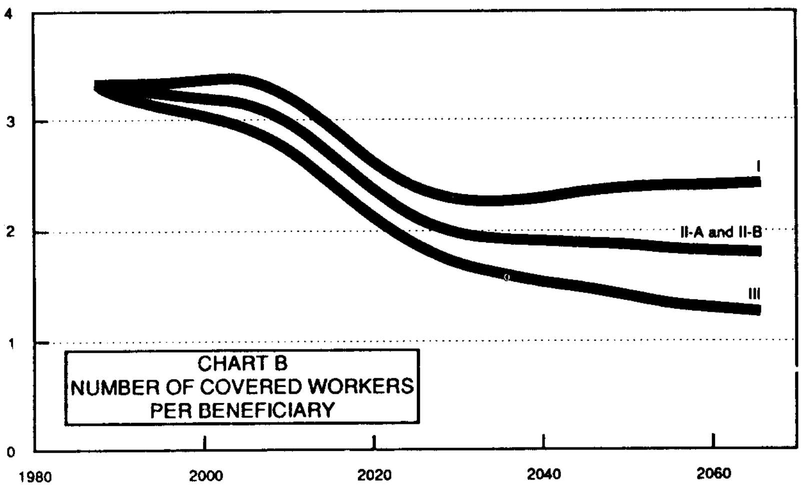


CHART B
NUMBER OF COVERED WORKERS
PER BENEFICIARY

Chart C shows the estimated OASDI income and cost rates for the long-range projection period, based on the intermediate II-B assumptions. During the first three decades of this period, the estimates indicate that the income rate will generally exceed the cost rate, resulting in substantial positive balances each year. Beginning about 2020, the reverse is true, with the cost rate exceeding the income rate, thus resulting in substantial deficits. These positive balances and deficits do not reflect interest earnings, which result in trust fund growth continuing for about 10 years after the first actuarial deficits occur. The cost rate is estimated to increase rapidly after the first half of the 75-year projection period, primarily because the number of beneficiaries is projected to increase more rapidly than the number of covered workers.

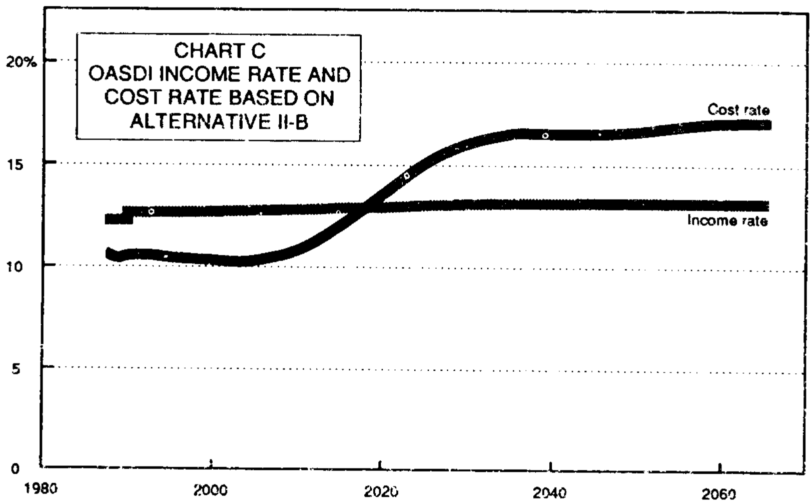
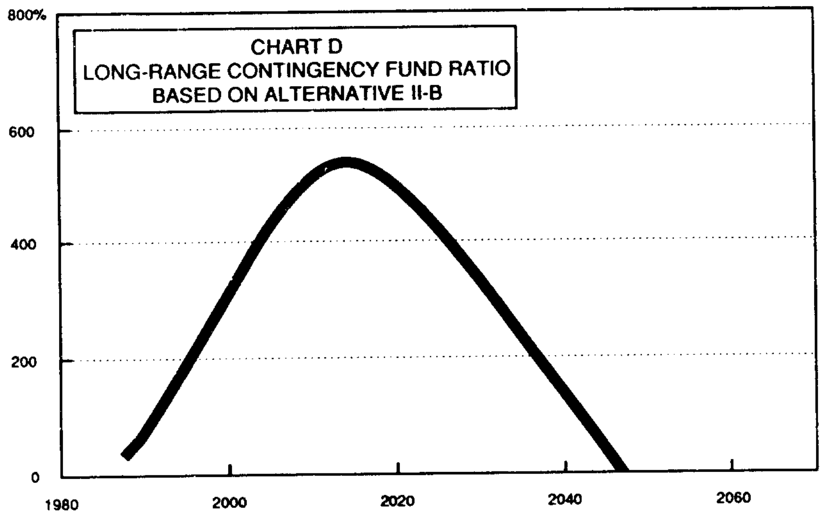


Chart D shows the projected OASDI contingency fund ratios for the 75-year period, based on the intermediate alternative II-B assumptions. The ratio rises steadily and reaches 547 percent in 2014. After 2014, the ratio declines until the combined funds are exhausted in 2046. The importance of the trust fund accumulating reserves is emphasized by Chart D. As the chart shows, the build-up in the reserves will be needed later on to pay benefits to the increasing numbers of retired persons who were born in the high birth-rate years from the mid-1940s to the mid-1960s.



The table below presents a comparison of the annual income and cost rates for the 75-year long-range projection period, based on the four sets of assumptions. The figures are expressed as percentages of taxable payroll.

Assumptions	Income rate	Cost rate	Actuarial balance
Optimistic	12.90	11.16	1.74
Intermediate II-A	12.98	13.08	-.10
Intermediate II-B	13.02	13.72	-.70
Pessimistic	13.15	16.78	-3.63

Note: Income rate, cost rate, and actuarial balance are defined in the text.

The long-range OASDI actuarial deficit of 0.70 percent of taxable payroll, based on the intermediate II-B assumptions, results from an income rate of 13.02 percent of taxable payroll over the 75-year period (including beginning trust fund balances) and a cost rate of 13.72 percent over the period. In the absence of other changes, the long-range actuarial balance will tend to worsen slowly in future annual reports, as the valuation period moves forward and additional distant years of deficit are included in the valuation. The actuarial deficits in the later years of the 75-year projection period are caused primarily by the demographic trends described above, in combination with a flat contribution rate schedule.

I. THE BOARD OF TRUSTEES

The Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund are held by the Board of Trustees under the authority of section 201(c)(1) of the Social Security Act. The Board has five members, three of whom serve in an ex officio capacity: the Secretary of the Treasury, the Secretary of Labor, and the Secretary of Health and Human Services. The other two members, Mary Falvey Fuller and Suzanne Denbo Jaffe, are members of the public whose terms began on September 28, 1984. They are currently serving under recess appointments, which the Senate received on January 3, 1989, after the adjournment of the 100th Congress.

By law, the Secretary of the Treasury is designated as the Managing Trustee, and the Commissioner of Social Security is designated as the Secretary of the Board. The Board of Trustees reports to the Congress each year on the operations and status of the trust funds, in compliance with section 201(c)(2) of the Social Security Act. This annual report, for 1989, is the 49th such report.

II. SOCIAL SECURITY AMENDMENTS SINCE THE 1988 REPORT

Since the 1988 Annual Report was transmitted to the Congress on May 5, 1988, only one law affecting the OASDI program in a significant way has been enacted. The Technical and Miscellaneous Revenue Act of 1988 (Public Law 100-647, enacted into law on November 10, 1988) included a number of provisions affecting the OASDI program. The more important legislative changes, from an actuarial standpoint, are described below.

1. Provides for the payment of interim disability benefits to those persons who have had a disability claim allowed (or continued) by an administrative law judge (ALJ) but who have not received a final decision within 110 days after the ALJ decision because the Appeals Council has the case for review. The interim benefits would not be considered overpayments if the favorable ALJ decision is later reversed. The provisions are effective for ALJ decisions made after May 9, 1989 (180 days after enactment).
2. Provides that when a beneficiary who is subject to the retirement earnings test dies during a year, the full annual exempt amount is applicable to the beneficiary's earnings in that year, rather than a pro rata share of the exempt amount based on the number of months the beneficiary lived during the year. Also provides that in a year in which a beneficiary dies before attaining the normal retirement age (NRA) in that year, the applicable annual exempt amount is the amount that would have applied if the beneficiary had attained the NRA by the beginning of the year. (The NRA, currently age 65, is the age at which full-rate benefits are payable.) These provisions are effective with respect to deaths after November 10, 1988 (date of enactment).
3. Modifies the provisions that eliminate windfall benefits for persons receiving pensions from noncovered employment as well as monthly Social Security retirement or disability benefits. Instead of gradually phasing out for persons having 26 to 30 years of covered employment, the provisions eliminating the windfall benefits will phase out more gradually for persons having 21 to 30 years of covered employment. The provision is effective for benefits for months after December 1988 (requiring the recomputation of benefits for persons already being paid).
4. Extends for 1 year a provision that enables disability beneficiaries, whose benefits would otherwise be terminated due to a determination of medical cessation of disability, to have their benefits temporarily continued while they are appealing that cessation decision. Under the provision, benefits may be continued until an ALJ makes a decision on the appeal. The provision was extended to include determinations made prior to January 1, 1990. However, benefits may not be continued under this provision beyond June 1990.

Detailed information regarding these changes and other less significant changes can be found in documents prepared by and for the Congress. The actuarial estimates shown in this report reflect the anticipated effects of these changes.

III. BASIS FOR TRUST FUND RECEIPTS AND EXPENDITURES

The Federal Old-Age and Survivors Insurance Trust Fund was established on January 1, 1940, as a separate account in the United States Treasury. All the financial operations of the OASI program are handled through this fund. The Federal Disability Insurance Trust Fund is another separate account in the United States Treasury; it was established on August 1, 1956. All the financial operations of the DI program are handled through this fund.

The primary receipts of these two funds are amounts appropriated to each of them under permanent authority on the basis of contributions payable by workers, their employers, and individuals with self-employment income, in work covered by the OASDI program. Beginning January 1, 1987, these appropriated amounts include contributions paid by, or on behalf of, workers employed by State and local governments and by such employers, with respect to wages covered under the program through State agreements. (Prior to 1987, such contributions were collected by the State and deposited directly into the trust funds.) All employees, and their employers, in covered employment are required to pay contributions with respect to their wages. Employees, and their employers, are also required to pay contributions with respect to cash tips if their monthly cash tips amount to at least $20. (Prior to 1988, employers were required to pay contributions on only that part of tip income deemed to be wages under the Federal minimum-wage law.) All self-employed persons are required to pay contributions with respect to their covered net earnings from self-employment. In addition to making the required employer contributions on the wages of covered Federal employees, the Federal Government also pays amounts equivalent to the employer and employee contributions that would be paid on deemed wage credits attributable to military service performed after 1956 if such wage credits were covered wages.

In general, an individual's contributions, or taxes, are computed on annual wages or net earnings from self-employment, or both wages and net self-employment earnings combined, up to a specified maximum annual amount. The contributions are determined first on the wages and then on any net self-employment earnings, such that the total does not exceed the annual maximum amount. An employee who pays contributions on wages in excess of the annual maximum amount (because of employment with two or more employers) is eligible for a refund of the excess employee contributions. The monthly benefit amount to which an individual (or his or her spouse and children) may become entitled under the OASDI program is based on the individual's taxable earnings during his or her lifetime. In computing benefits for almost all persons who first become eligible to receive benefits in 1979 or later, the earnings in each year are indexed to take account of increases in average wage levels. The maximum amount of earnings on which contributions are payable in a year, and which is also the maximum amount of earnings creditable in that year for benefit-computation purposes, is called the contribution and benefit base.

The contribution rates, or tax rates, applicable in each calendar year, and the allocation of the rates between the two trust funds, are shown in table 1. For 1990 and later, the rates shown are those scheduled in present law. The contribution and benefit bases are also shown in table 1. The bases for 1975-78 were determined under the automatic-adjustment provisions in section 230 of the Social Security Act. The bases for 1979-81 were specified in the law, as amended in 1977. The bases for 1982-89 were again determined under the automatic-adjustment provisions, as will be the bases in 1990 and later.

TABLE 1.—CONTRIBUTION AND BENEFIT BASE AND CONTRIBUTION RATES

Calendar years	Contribution and benefit base	Contribution rates (percent): Employees and employers, each			Self-employed		
		OASDI	OASI	DI	OASDI	OASI	DI
1937-49	$3,000	1.000	1.000	—	—	—	—
1950	3,000	1.500	1.500	—	—	—	—
1951-53	3,600	1.500	1.500	—	2.2500	2.2500	—
1954	3,600	2.000	2.000	—	3.0000	3.0000	—
1955-56	4,200	2.000	2.000	—	3.0000	3.0000	—
1957-58	4,200	2.250	2.000	0.250	3.3750	3.0000	0.3750
1959	4,800	2.500	2.250	.250	3.7500	3.3750	.3750
1960-61	4,800	3.000	2.750	.250	4.5000	4.1250	.3750
1962	4,800	3.125	2.875	.250	4.7000	4.3250	.3750
1963-65	4,800	3.625	3.375	.250	5.4000	5.0250	.3750
1966	6,600	3.850	3.500	.350	5.8000	5.2750	.5250
1967	6,600	3.900	3.550	.350	5.9000	5.3750	.5250
1968	7,800	3.800	3.325	.475	5.8000	5.0875	.7125
1969	7,800	4.200	3.725	.475	6.3000	5.5875	.7125
1970	7,800	4.200	3.650	.550	6.3000	5.4750	.8250
1971	7,800	4.600	4.050	.550	6.9000	6.0750	.8250
1972	9,000	4.600	4.050	.550	6.9000	6.0750	.8250
1973	10,800	4.850	4.300	.550	7.0000	6.2050	.7950
1974	13,200	4.950	4.375	.575	7.0000	6.1850	.8150
1975	14,100	4.950	4.375	.575	7.0000	6.1850	.8150
1976	15,300	4.950	4.375	.575	7.0000	6.1850	.8150
1977	16,500	4.950	4.375	.575	7.0000	6.1850	.8150
1978	17,700	5.050	4.275	.775	7.1000	6.0100	1.0900
1979	22,900	5.080	4.330	.750	7.0500	6.0100	1.0400
1980	25,900	5.080	4.520	.560	7.0500	6.2725	.7775
1981	29,700	5.350	4.700	.650	8.0000	7.0250	.9750
1982	32,400	5.400	4.575	.825	8.0500	6.8125	1.2375
1983	35,700	5.400	4.775	.625	8.0500	7.1125	.9375
1984[1]	37,800	5.700	5.200	.500	11.4000	10.4000	1.0000
1985[1]	39,600	5.700	5.200	.500	11.4000	10.4000	1.0000
1986[1]	42,000	5.700	5.200	.500	11.4000	10.4000	1.0000
1987[1]	43,800	5.700	5.200	.500	11.4000	10.4000	1.0000
1988[1]	45,000	6.060	5.530	.530	12.1200	11.0600	1.0600
1989[1]	48,000	6.060	5.530	.530	12.1200	11.0600	1.0600
Rates scheduled in present law:							
1990-99	(2)	6.200	5.600	.600	12.4000	11.2000	1.2000
2000 and later	(2)	6.200	5.490	.710	12.4000	10.9800	1.4200

[1]See text for description of tax credits.

[2]Subject to automatic adjustment.

In 1984 only, an immediate credit of 0.3 percent of taxable wages was allowed against the OASDI contributions paid by employees. In accordance with the law, this credit was implemented by a deliberate under-withholding of the employee contributions for 1984, resulting in an effective contribution rate of 5.4 percent (as compared to the employer rate of 5.7 percent). The appropriations of contributions to the trust funds, however, were based on the combined employee-employer rate of 11.4 percent, as if the credit for employees did not apply. Similar credits of 2.7 percent, 2.3 percent, and 2.0 percent are allowed against the combined OASDI and Hospital Insurance (HI) contributions on net earnings from self-employment in 1984, 1985, and 1986-89, respectively. The appropriations of contributions to the trust funds, however, are based on the contribution rates, before adjustment for the credit, that apply in each year. After 1989, self-employed persons will be allowed a deduction, for purposes of computing their net earnings, equal to half of the combined OASDI and HI contributions that would be payable without regard to the contribution and benefit base. The contribution rate is then applied to net earnings after this deduction, but subject to the base. This provision will reduce contributions for those self-employed persons with earnings less than, or not greatly above, the contribution and benefit base.

All contributions, except for amounts received under State agreements for covered wages paid prior to January 1, 1987, are collected by the Internal Revenue Service and deposited in the general fund of the Treasury. The exact amount of contributions received is not known initially because amounts paid under the OASDI and HI programs and individual income taxes are not separately identified in collection reports received by the Internal Revenue Service.

Amounts representing the estimated total collections of OASDI contributions by the IRS for each month are credited to the OASI and DI Trust Funds on the first day of the month. Because these estimated collections are credited to the trust funds on the first of the month, instead of throughout the month as contributions are actually received, the trust funds pay interest to the general fund to reimburse it for the interest costs attributable to these advance transfers. Periodic adjustments (principal only) are subsequently made to the extent that the estimates are found to differ from the amounts of contributions actually payable as determined from reported earnings. Adjustments are also made to account for any refunds to employees (with more than one employer) who paid contributions on wages in excess of the contribution and benefit base.

Beginning in 1984, a portion (not more than one-half) of OASDI benefits is subject to Federal income taxation under certain circumstances. The proceeds from this taxation of benefits are credited to the trust funds, in advance, on an estimated basis, at the beginning of each calendar quarter, with no reimbursement to the general fund for interest costs attributable to the advance transfers. Subsequent adjustments are made based on the actual amounts as shown on annual income tax records. The amounts appropriated from the general fund of the Treasury are allocated to the OASI and DI Trust Funds on the basis of the income taxes paid on the benefits from each fund. (A special provision applies to benefits paid to non-resident aliens. A flat-rate tax, usually 15 percent, is withheld from the benefits before they are paid and, therefore, remains in the trust funds.)

Another source of income to the trust funds is interest received on investments held by the trust funds. That portion of each trust fund which, in the judgment of the Managing Trustee, is not required to meet current expenditures for benefits and administration is invested, on a daily basis, in interest-bearing obligations of the U.S. Government (including special public-debt obligations described below), in obligations guaranteed as to both principal and interest by the United States, or in certain federally sponsored agency obligations that are designated in the laws authorizing their issuance as lawful investments for fiduciary and trust funds under the control and authority of the United States or any officer of the United States. These obligations may be acquired on original issue at the issue price or by purchase of outstanding obligations at their market price.

The Social Security Act authorizes the issuance of special public-debt obligations for purchase exclusively by the trust funds. The Act provides that these obligations shall bear interest at a rate equal to the average market yield (computed on the basis of market quotations as of the end of the calendar month next preceding the date of such issue) on all marketable interest-bearing obligations of the United States then forming a part of the public debt which are not due or callable until after the expiration of 4 years from the end of such calendar month. These special issues are always redeemable at par value and thus bear no risk with respect to the interest rate (i.e., risk due to price fluctuations).

Income is also affected by provisions of the Social Security Act for (1) transfers between the general fund of the Treasury and the OASI and DI Trust Funds for any adjustments to prior payments for the cost arising from the granting of noncontributory wage credits for military service prior to 1957, according to periodic determinations made by the Secretary of Health and Human Services; (2) annual reimbursements from the general fund of the Treasury to the OASI Trust Fund for any costs arising from the special monthly cash payments to certain uninsured persons—i.e., those who attained age 72 before 1968 and who generally are not eligible for cash benefits under other provisions of the OASDI program; and (3) the receipt of unconditional money gifts or bequests made for the benefit of the trust funds or any activity financed through the funds.

The major expenditures of the OASI and DI Trust Funds are for (1) OASDI benefit payments, net of any reimbursements from the general fund of the Treasury for unnegotiated benefit checks, and (2) expenses incurred by the Department of Health and Human Services and by the Department of the Treasury in administering the OASDI program and the provisions of the Internal Revenue Code relating to the collection of contributions. Such administrative expenses include expenditures for construction, rental and lease, or purchase of office buildings and related facilities for the Social Security Administration. The Social Security Act does not permit expenditures from the OASI and DI Trust Funds for any purpose not related to the payment of benefits or administrative costs for the OASDI program.

The expenditures of the trust funds are also affected by (1) costs of vocational rehabilitation services furnished as an additional benefit to disabled persons receiving cash benefits because of their disabilities where such services contributed to their successful rehabilitation, and (2) the provisions of the Railroad Retirement Act which provide for a system of coordination and financial interchange between the Railroad

Retirement program and the Social Security program. Under these provisions, transfers between the Railroad Retirement program's Social Security Equivalent Benefit Account and the trust funds are made on an annual basis in order to place each trust fund in the same position in which it would have been if railroad employment had always been covered under Social Security.

The net worth of facilities and other fixed capital assets is not carried in the statements of the operations of the trust funds presented in this report. This is because the value of fixed capital assets does not represent funds available for the payment of benefits or administrative expenditures, and therefore is not considered in assessing the actuarial status of the trust funds.

From December 29, 1981, until January 1, 1988, the Social Security Act authorized borrowing among the OASI, DI, and HI Trust Funds when necessary "to best meet the need for financing the benefit payments" from the three funds. (Although the initial borrowing authority expired at the end of 1982, the Social Security Amendments of 1983 reinstated the borrowing authority and extended it through 1987.) Interfund loans under the borrowing authority were made to the OASI Trust Fund from the DI and HI Trust Funds in November and December 1982. The loans were fully repaid by May 1, 1986. No additional interfund loans were made after 1982. In this report, the assets of the OASI Trust Fund, as of the end of each year 1982-85, include any amounts then owed to the DI and HI Trust Funds. The assets of the trust funds to which amounts were owed do not include such amounts. This procedure is followed because the borrowed amounts were available for the payment of benefits or other obligations of the OASI fund, while such amounts were not readily available to the lending funds.

IV. SUMMARY OF THE OPERATIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, FISCAL YEAR 1988

A. OLD-AGE AND SURVIVORS INSURANCE TRUST FUND

A statement of the income and disbursements of the Federal Old-Age and Survivors Insurance Trust Fund in fiscal year 1988, and of the assets of the fund at the beginning and end of the fiscal year, is presented in table 2.

TABLE 2.—STATEMENT OF OPERATIONS OF THE OASI TRUST FUND DURING FISCAL YEAR 1988

[In thousands]

Total assets, September 30, 1987		$58,264,742
Receipts:		
Contributions:		
Appropriations:		
Employment taxes	$224,524,817	
Tax credits	2,072,064	
Total appropriations	226,596,881	
Deposits arising from State agreements	39,815	
Payment from general fund of the Treasury representing employee-employer contributions on deemed wage credits for military service in 1988	284,000	
Gross contributions	226,920,696	
Less payment to the general fund of the Treasury for contributions subject to refund	511,950	
Net contributions		226,408,746
Income from taxation of benefit payments:		
Withheld from benefit payments to non-resident aliens	69,662	
All other, not subject to withholding[1]	3,265,000	
Total income from taxation of benefits		3,334,662
Reimbursement from general fund of the Treasury for costs of payments to uninsured persons who attained age 72 before 1968		54,554
Investment income and interest adjustments:		
Interest on investments	6,744,298	
Interest on interfund transfers due to adjustment in allocation of administrative expenses	14,354	
Gross investment income and interest adjustments	6,758,652	
Less interest on transfers between the trust fund and the general fund account for the Supplemental Security Income program due to adjustment in allocation of administrative expenses	315	
Less interest on general fund advance tax transfers	836,040	
Net investment income and interest adjustments		5,922,297
Gifts		52
Total receipts		235,720,311