Testimony to the House Committee on Ways and Means Stephen C. Goss, Deputy Chief Actuary Office of the Chief Actuary
Social Security Administration
June 10, 1999

Mr. Chairman and Members of the Committee, thank you for the opportunity to describe the work of the Office of the Chief Actuary in assessing the plans to reform Social Security that have been developed by Members of Congress.

The Social Security Act requires that the Board of Trustees report annually to the Congress providing the expected operations and status of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds for the next 5 fiscal years and "a statement of the actuarial status of the Trust Funds." The Office of the Chief Actuary works with the trustees in the development of this annual report of the financial status of the program under present law.

In addition, the Office of the Chief Actuary provides to the Administration and to the Congress estimates of the financial effects on the Social Security (OASDI) program of potential or proposed legislation. The mission of the Office of the Chief Actuary is to provide objective analyses that will permit policymakers to make informed decisions about the future of the Social Security program.

Current Financial Status of The Social Security Program

The Social Security program currently provides monthly benefits to more than 44 million individuals. The primary source of financing is a payroll tax on the nearly 150 million workers in covered employment. Tax revenue currently exceeds the cost of the program, so the trust funds are growing. Trust funds are currently almost twice the size of the annual cost of the program, and growing.

Based on the intermediate assumptions of the 1999 Trustees Report, tax income to the OASDI program is expected to exceed cost until 2014. The combined OASI and DI trust funds are expected to continue growing until 2022. The combined trust funds are then expected to decline until they are exhausted in 2034.

At the point of trust fund exhaustion in 2034, continuing tax income is expected to be equal to 71 percent of the cost of the program.

Measures for Evaluating the Long-Range Actuarial Status of Social Security

The Social Security program is a complex system developed more than 6 decades ago to provide monthly benefits that offer what has been referred to as a "floor of protection" against loss of income due to retirement, death, or disability. The program provides a blend between individual equity and social adequacy that has evolved through the judgement of several generations of policymakers.

Both Annual Trustees Reports and estimates by the Office of the Chief Actuary for legislative proposals focus primarily on the financial status of the OASDI program. Because current program financing is expected to be adequate for the full payment of benefits on a timely basis for over 30 years, I will describe the criteria used for evaluating the "actuarial status" of Social Security over the long run.

The actuarial status of the OASDI program is evaluated over a 75-year, long-range projection period. This period provides a view of the adequacy of financing over the entire lifetime of virtually all current participants in the program, from the oldest beneficiaries to the youngest workers. This period also provides the opportunity to view the full, mature financial effects of legislative proposals that may take decades to become fully implemented.

The most fundamental criterion for evaluating the financial status of the OASDI program is its ability to pay full benefits in a timely manner. The inability to do so is indicated by expected exhaustion of the trust funds within the 75-year period.

Perhaps the most commonly used measure of long-range solvency of the OASDI program is the actuarial balance. This measure indicates the size of the difference between expected financing and cost for the program over the 75-year period, on a summarized present-value basis. An actuarial balance of zero indicates that financing over the 75-year period is equal to the expected cost of the program, with enough left over for a trust fund balance at the end of the period equal to the annual cost of the program.

The actuarial balance is expressed as a percentage of taxable payroll over the 75-year period. Under the intermediate assumptions of the 1999 Trustees report, the estimated actuarial balance is -2.07 percent of taxable payroll. Because this balance is negative, it is referred to as an actuarial deficit.

An additional important measure for evaluating the actuarial status of Social Security is the stability of the financing at the end of the 75-year period. Financial stability is achieved at the end of the period if total program income is sufficiently meets the costs of the program and maintains stable trust fund reserves. Stability of trust fund reserves means that the trust fund balance expressed as a percentage of the annual cost of the program (the "trust fund ratio") is essentially constant.

At the request of the Chairman and other Members of Congress, the Office of the Chief Actuary has assessed a number of plans to reform Social Security. While many of the plans would bring the Social Security program into long-range actuarial balance, the plans are all different to some degree. The Office of the Chief Actuary will continue to work with the Administration and the Congress as policymakers develop and consider these, and any additional plans, for addressing the long-range financing issues facing the Social Security program.