

Social Security: Financing 101

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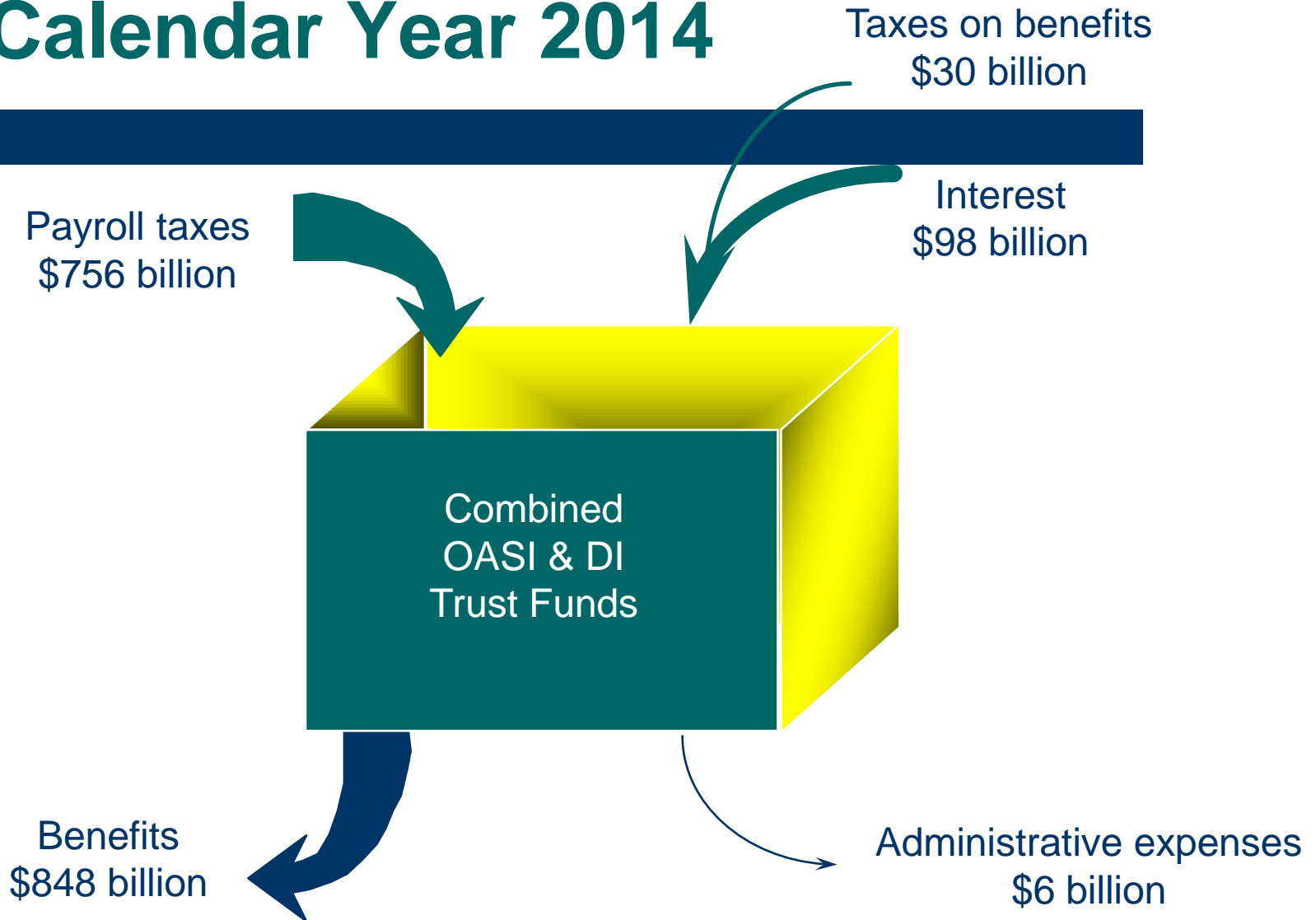
How Is Social Security Financed (Income)?

- Payroll taxes
 - Employees and employers each pay **6.2%** of covered earnings
 - The self-employed pay **12.4%** of covered earnings
 - On earnings up to **\$118,500** in 2015
- Taxes on Social Security benefits
 - High-income beneficiaries pay federal income tax on their benefits
- Interest on trust fund reserves
 - Invested in interest-bearing securities of the US government

Where Does the Money Go (Outgo)?

- Benefit payments
 - About **59 million** people getting benefits as of December 2014:
 - **42 million** retired workers and dependents of retired workers
 - **6 million** survivors of deceased workers
 - **11 million** disabled workers and dependents of disabled workers
- Administrative expenses
 - Only about **0.7 percent** of total expenditures in 2014

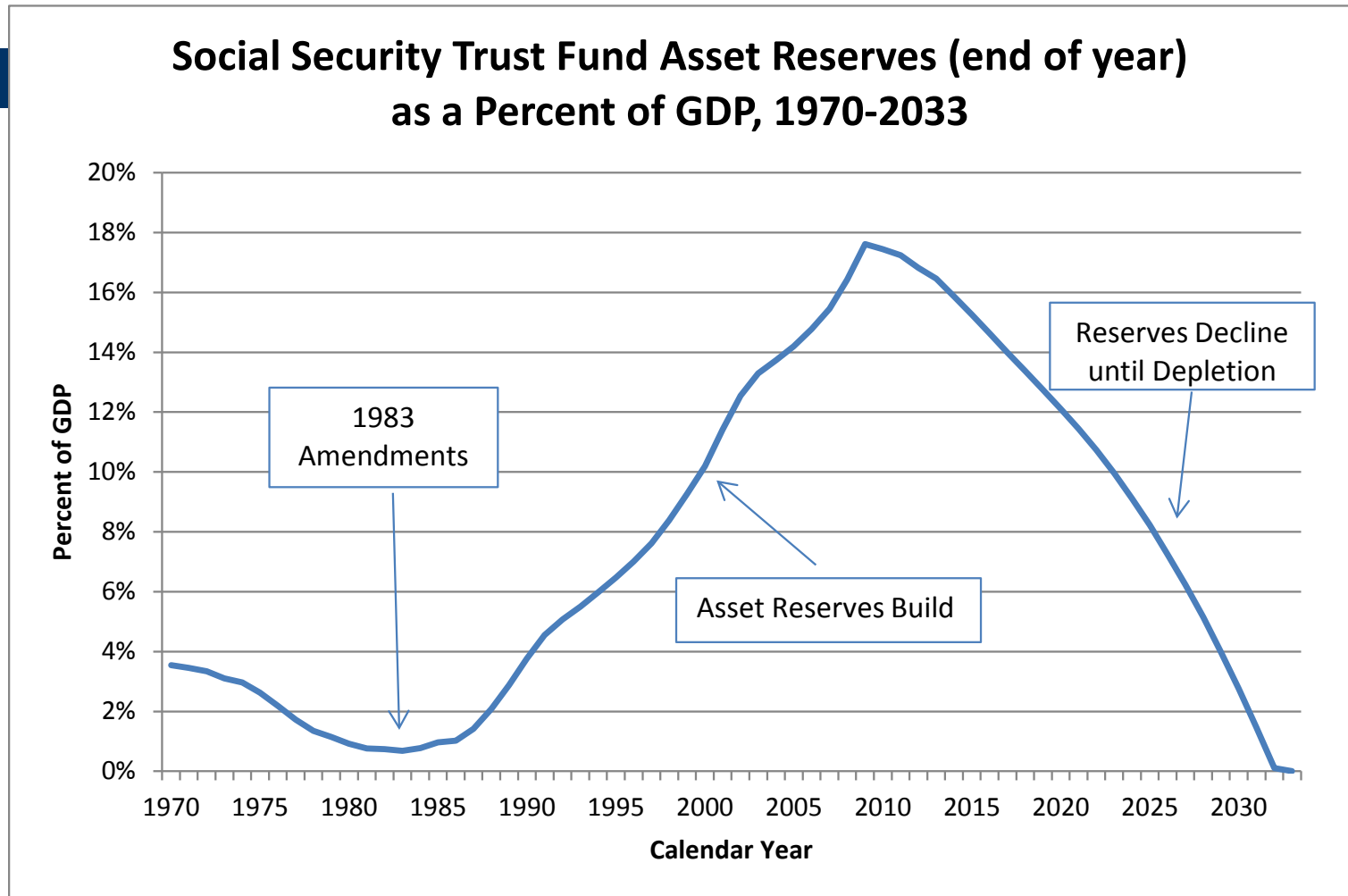
Income and Outgo Calendar Year 2014



Social Security Trust Funds

- Two legally distinct trust funds:
 - **OASI** = Old-Age and Survivors Insurance
 - **DI** = Disability Insurance
- Financial operations are overseen by the Social Security Board of Trustees
- The two funds are often looked at on a theoretical combined basis
 - As of December 31, 2014, the trust funds hold nearly **\$2.8 trillion** in asset reserves

Social Security Trust Funds



Social Security Trust Funds

- Why do we have trust funds?
 - The trust funds provide an essential reserve so benefits can be paid even when current income alone is not enough
 - Social Security (OASI and DI) cannot borrow; can only spend what has been collected
- Are the trust funds “real”?
 - If reserves deplete, full benefits cannot be paid
 - Therefore the trust funds force Congress to act in order to maintain continuous benefit payments

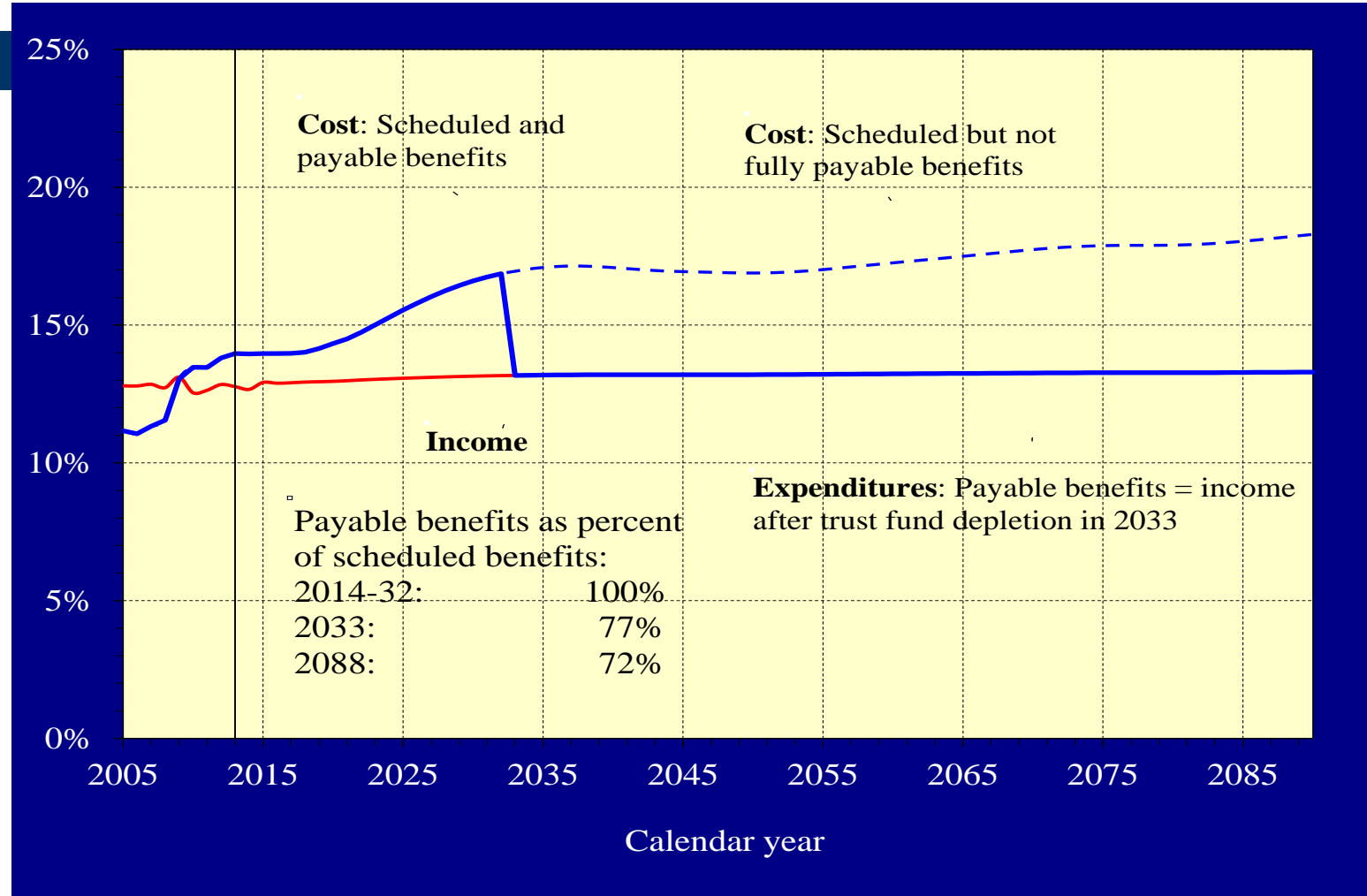
Social Security Trust Funds

- The combined funds have run surpluses since the early 1980s and are expected to do so through 2019
- Beginning in 2020, combined asset reserves will start to decline until they are depleted in **2033**
- The DI fund alone is projected to become depleted in the fourth quarter of **2016**
- What happens then when the reserves are depleted? Stay tuned...

Trust Fund Financing

- How is the future shortfall expressed?
- To make shortfalls comparable over years, they are often scaled as a **percent of taxable payroll**
 - The amount of earnings taxable by the program for a time period
- For example, in **2045**:
 - Taxable payroll is expected to be about \$25.4 trillion in nominal \$\$
 - Income to the program is expected to be about \$2.6 trillion, or **13.20** percent of taxable payroll
 - The cost of the program is expected to be about \$3.3 trillion, or **16.94** percent of taxable payroll
 - So the shortfall is **3.74** percent ($16.94 - 13.20$)

Trust Fund Financing (as a percent of taxable payroll)



Trust Fund Financing

- How can the financing shortfalls be covered?
 - Reduce benefits
 - Increase revenues
 - Some combination of approaches
- Soon, you will hear about some of the policy options that have been proposed
- Then you will come up with your own solution during the afternoon exercise

Additional Resources

<http://www.socialsecurity.gov/OACT>



Social Security

Official Social Security Website

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Office Of The Chief Actuary

Actuarial Publications	Actuarial publications include Trustees Reports, SSI Annual Reports, Actuarial Studies and Notes, ...
Program Changes— <ul style="list-style-type: none">ProposalsProvisions	Proposals affecting the Trust Funds, including those addressing Trust Fund solvency <ul style="list-style-type: none">Memoranda providing estimates for proposals and groups of provisionsIndividual changes considered for modifying Social Security
Automatic Increases	Cost-of-living adjustment (COLA), national average wage index, taxable maximum, benefit formulas, ...
Benefit Calculators	Estimate your Social Security benefit with one of our calculators
Data— <ul style="list-style-type: none">BeneficiariesTrust Funds	Social Security data on— <ul style="list-style-type: none">Number of beneficiaries paid, average benefits paid, ...Trust fund assets, income, outgo, interest rates, ...
Social Security Actuaries	General information about the actuary's role at SSA, including a site map for the Office of the Chief Actuary
Congressional Testimony	Testimony and other communications by the Office of the Chief Actuary Staff