

# **Social Security: Financing 101**

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# Social Security Trust Funds

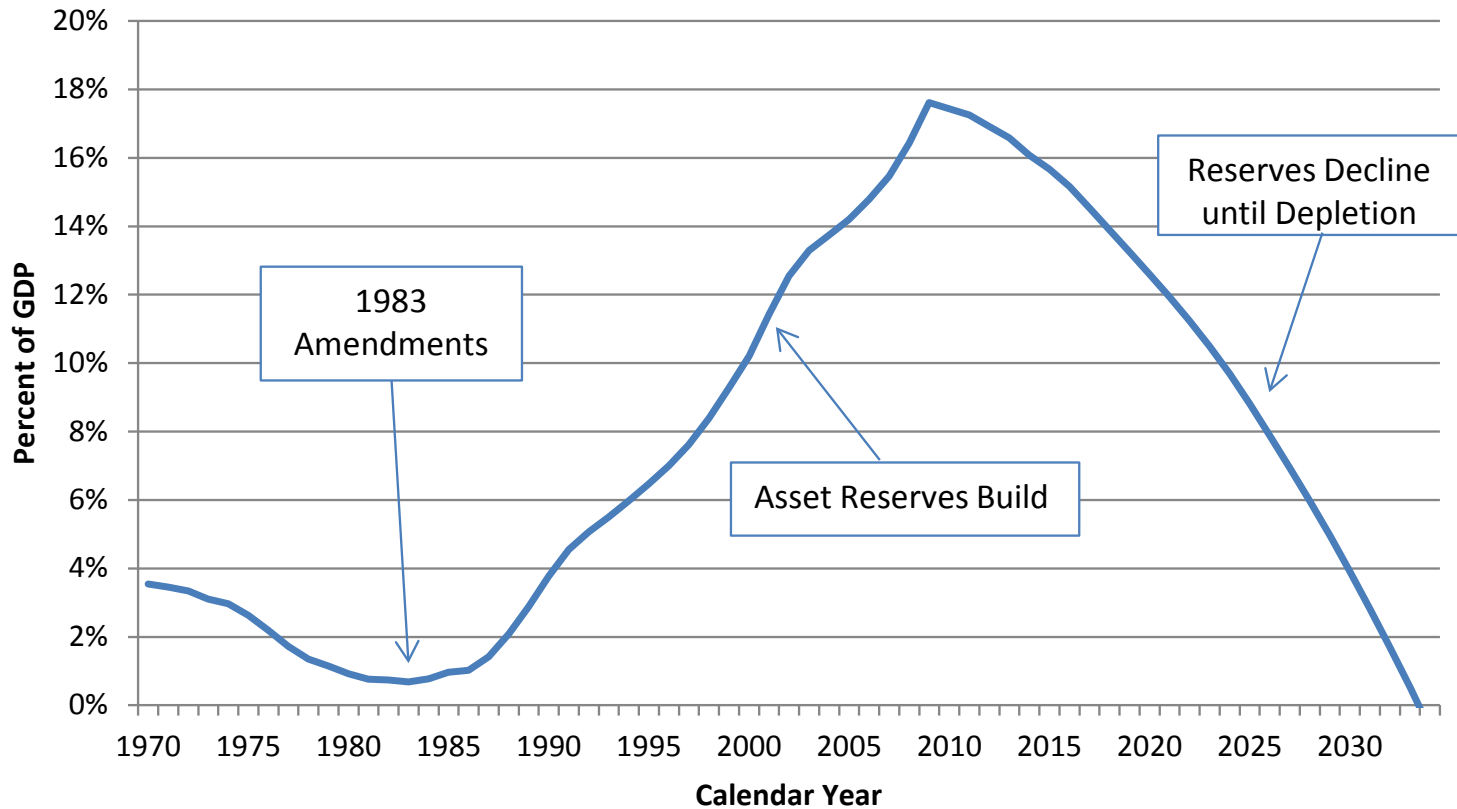
- Two legally distinct trust funds:
  - **OASI** = Old-Age and Survivors Insurance
  - **DI** = Disability Insurance
- Financial operations are overseen by the Social Security Board of Trustees
- The two funds are often looked at on a theoretical combined basis
  - As of December 31, 2015, the trust funds hold more than **\$2.8 trillion** in asset reserves

# 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 **2034**
- The DI fund alone is projected to become depleted in **2023** – extended from 2016 by BBA 2015
- What happens then when the reserves are depleted? Stay tuned...

# Social Security Trust Funds

**Social Security Trust Fund Asset Reserves (end of year)  
as a Percent of GDP, 1970-2034**



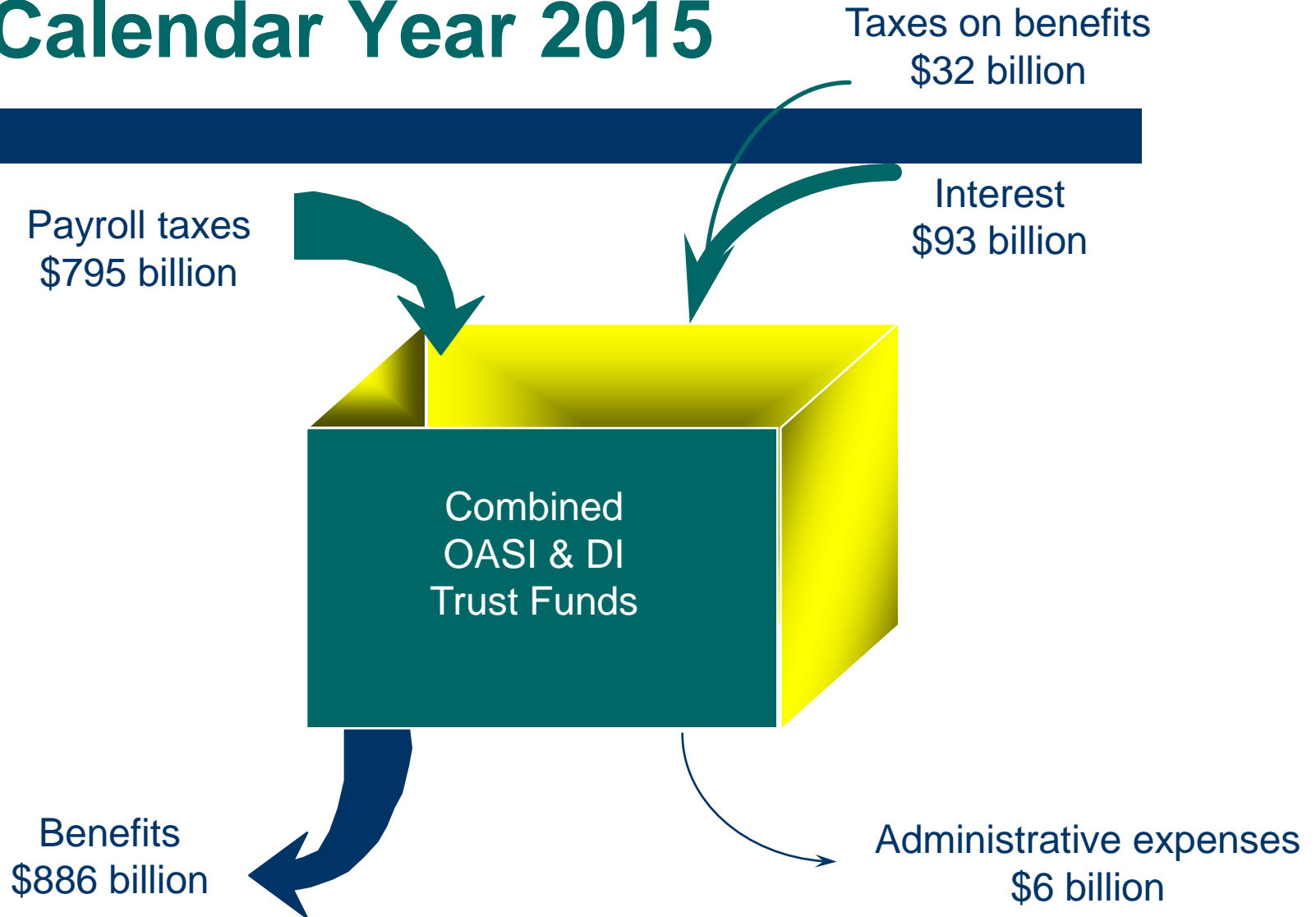
# How Is Social Security Financed (Income)?

- 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 2016
- 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 **60 million** people getting benefits as of December 2015:
    - **43 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 2015

# Income and Outgo Calendar Year 2015



# 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
  - The trust funds force Congress to act in order to maintain continuous benefit payments

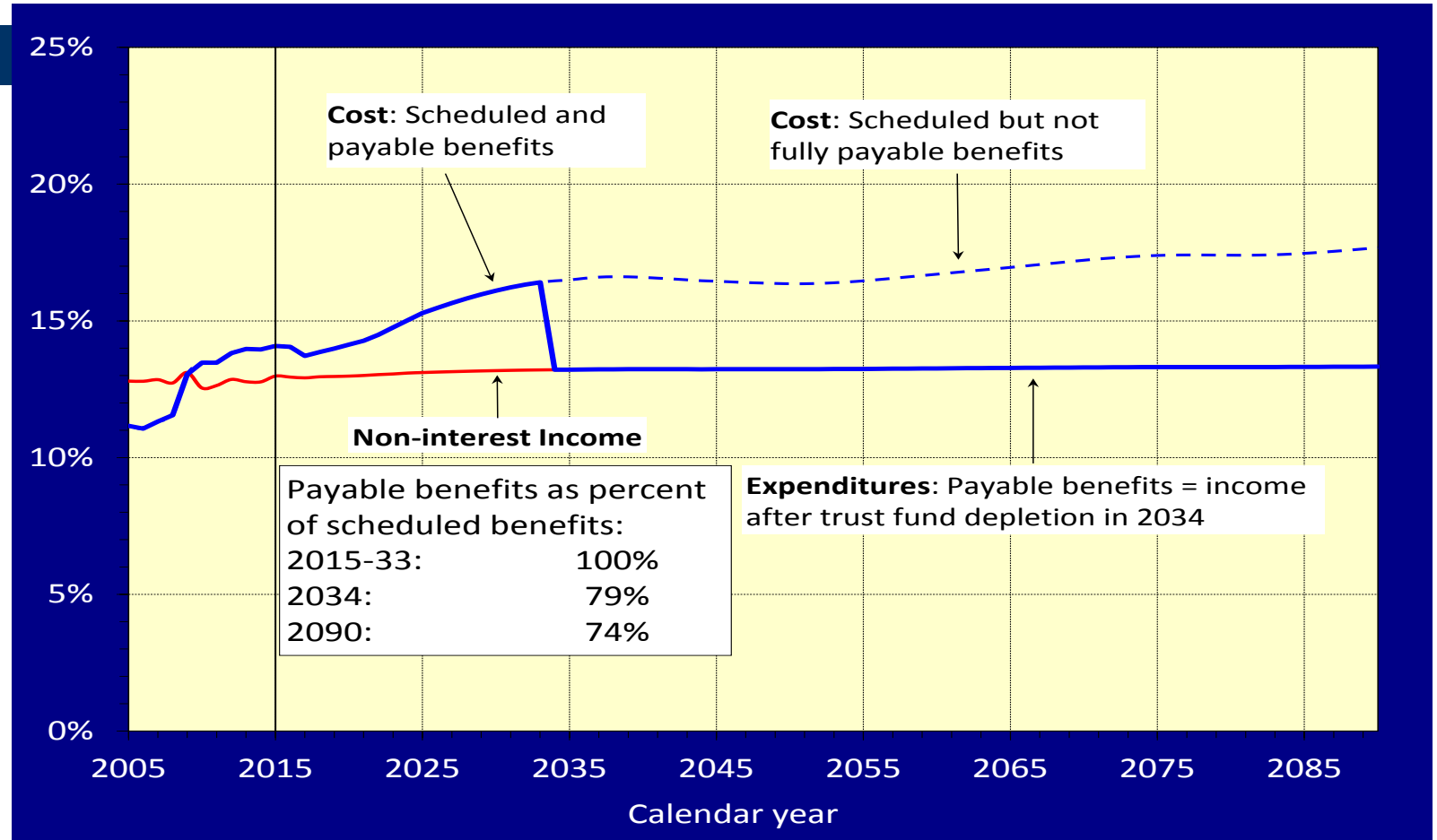




# Trust Fund Financing

- 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 \$24.6 trillion in nominal \$\$
  - Income to the program is expected to be about \$3.3 trillion, or **13.23** percent of taxable payroll
  - The cost of the program is expected to be about \$4.0 trillion, or **16.45** percent of taxable payroll
  - So the shortfall is **3.22** percent ( $16.45 - 13.23$ )

# 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

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## Office of the Chief Actuary

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