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Social Security Finances: Findings of the 2005 Trustees Report

By Virginia Reno and Anita Cardwell

Summary

Social Security pays monthly benefits to retired and disabled workers, to their families, and to the families of deceased workers. Benefits and the administrative costs of the program are paid from the Social Security trust funds. The funds receive income from Social Security taxes[1] paid by workers and matched by their employers; from income taxes that beneficiaries pay on their benefit income; and interest earnings on the trust funds' reserves. The Social Security Act established a Board of Trustees to oversee the management and investment of the trust funds, and requires it to report annually to Congress and the public on the financial status of the funds. The report is prepared by the Office of the Chief Actuary of the Social Security Administration. The complete report is available at www.ssa.gov / OACT. This *Brief* gives an overview of the 2005 report.

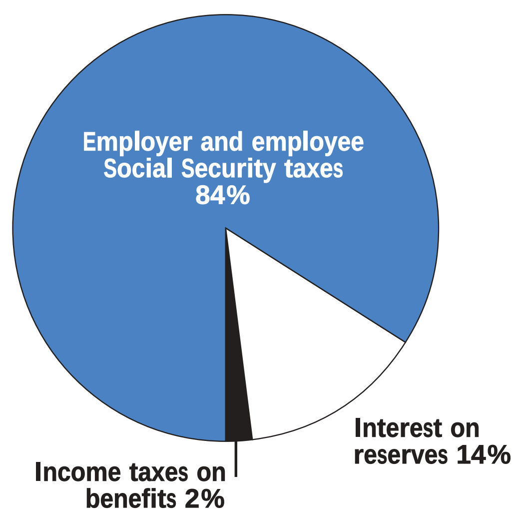
Short range surpluses

- In calendar year 2005, the Social Security trust funds will receive income of $690 billion and pay out $527 billion, leaving a surplus of $163 billion.
- Almost all payments are for benefits; about 1 percent is spent on administration.
- By law, the annual surpluses—amounts not needed for current expenditures—are invested in interest-bearing U.S. government securities. By the end of 2005, the invested assets, or trust fund reserves, are estimated to be $1,850 billion.

Long-range deficits

Current tax rates are projected to not produce enough income to cover all benefits over the next 75 years.

Income Received by Social Security Trust Funds
Estimates for Calendar Year 2005



1 The Social Security tax is also known as FICA (Federal Insurance Contributions Act). In 2005, workers pay 6.2 percent of their annual wages, up to a cap of $90,000. Employers match the employee tax. (The Medicare tax is an additional 1.45 percent on all wages, matched by employers). Self-employed persons pay SECA tax (Self-Employment Contributions Act), equal to the combined employer-employee Social Security and Medicare tax.

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- In 2017, tax revenues flowing into the trust funds are projected to be less than total expenditures for that year. Interest on the reserves and the assets themselves will continue to supplement tax revenues until 2041.

- In 2041, the reserves are projected to be depleted. Income coming into the funds at that time is expected to cover about 74 percent of the cost due at that time.

- By 2079, the end of the 75-year projection period used by the Social Security trustees, and assuming no changes in taxes, benefits, or actual experience (i.e. in fertility, mortality, and economic growth, as against what is assumed in the report), revenues are projected to cover about 68 percent of costs.

The long-range actuarial deficit is 1.92 percent of taxable payroll. This means that to close the gap solely with a tax increase, the Social Security tax rate would have to rise by 1.92 percentage points, starting this year. This would raise the Social Security tax paid by employees (and matched by employers) by 0.96 percentage points, from 6.2 to 7.16 percent. The Trustees are not proposing a tax increase. This is simply a way to show the size of a long-range deficit in relation to taxable earnings that, through the Social Security tax, provide the largest source of income to the system.

Why will Social Security cost more in the future?

Social Security is projected to cost more largely because the number of Americans over 65 will grow faster than the number of workers. This will occur for three reasons: the baby boomers will begin to reach age 65 in 2011, people are living longer after age 65, and birthrates are assumed to remain historically low. While costs are projected to rise, the tax rate is constant under current law.

How do the 2005 projections compare to last year's?

Each year the actuaries who prepare the report review the performance of the economy, take into account new laws and regulations, and reassess the assumptions about the economic and demographic factors that affect the Social Security system (including employment, wage levels, inflation, interest rates, birth rates, death rates, and immigration). Table 1 compares some key results from the 2004 and 2005 reports.

Table 1. Comparison of Projections in Trustees Reports

	2004 Report	2005 Report
Year when current tax revenue becomes less than current outgo	2018	2017
Year when trust fund reserves become fully drawn-down	2042	2041
Long-range actuarial deficit (expressed as a percent of taxable payroll)	1.89	1.92

Who receives Social Security? What are typical benefit levels?

- Social Security pays monthly benefits that replace, in part, income from wages lost when a worker retires, becomes disabled, or dies. Benefits are paid to the worker and to family members who relied on the lost earnings.

- 47.7 million people, or 1 out of every 6 Americans, receive Social Security benefits. Nearly 1 in 4 households receives income from Social Security.

- Beneficiaries include 30.0 million retired workers, and 4.8 million widows and widowers. About 6.2 million disabled workers received benefits, along with 759,000 severely disabled adult children of deceased, retired, or disabled workers. Another 3.1 million children under age 18 received benefits because their parent had died, become disabled, or retired.

- Social Security provides more than half of all income for 2 out of 3 elderly beneficiaries. For all but the highest-income 20 percent of the elderly, Social Security is the largest single source of income.

Table 2. Average Monthly Benefits, Payable as of January 2005

Type of Beneficiary	Average Monthly Benefit
Retired workers	$955
Aged widows and widowers (non-disabled)	$920
Disabled workers	$894

Source: Social Security Administration, Office of the Chief Actuary, www.ssa.gov/OACT/Facts/fs2004_12.html.

What is the Trustees Report?

- The Social Security Act established a Board of Trustees for the Social Security trust funds; the Board issues a report to Congress each year on the financial status of the program. The Board also reports on the Medicare trust funds, which are not discussed in this Brief.
- The Board has six members: the Secretaries of the Treasury; of Labor; and of Health and Human Services; the Commissioner of Social Security; and two trustees representing the public who are appointed by the President and subject to Senate confirmation. They are John L. Palmer, University Professor and former Dean of the Maxwell School of Citizenship and Public Affairs at Syracuse University, and Thomas R. Saving, Professor of Economics at Texas A&M University.
- The report is a tool for Congress and the public to gauge the financial status of the system, and to understand the size of the long-term commitments made through Social Security. The report includes detailed projections of the short-range (10 years) and long-range (75 years) actuarial and financial status of the trust funds. It projects revenue, benefit costs and benefit amounts. It includes assumptions about mortality, fertility, immigration, and the economy; and it shows projections for a range of economic and demographic assumptions. (All projections contained in this *Brief* reflect the Intermediate, or "best estimate," set of assumptions.) This year's report is the 65th to be issued.

Sources

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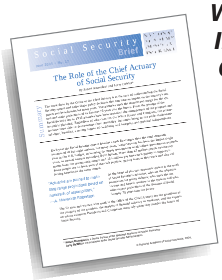
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The Role of the Chief Actuary of Social Security

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