

Social Security Finances: Findings of the 2002 Trustees Report

By Catherine Hill and Virginia Reno

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 taxes¹ 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 establishes 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 2002 report.

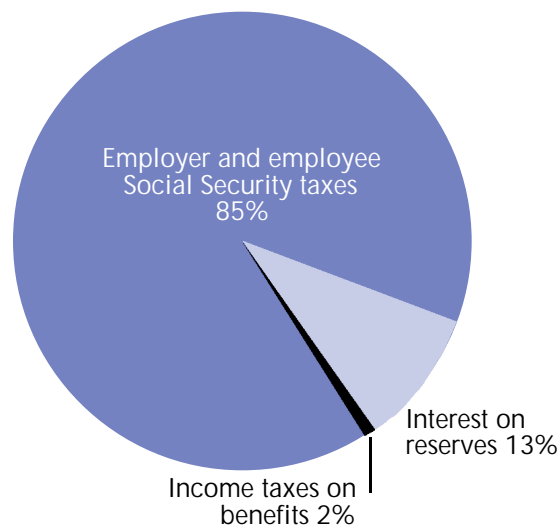
Short range surpluses

- In calendar year 2002, the Social Security trust funds will receive income of \$624 billion and pay out \$465 billion, leaving a surplus of \$159 billion.
- Almost all payments are for benefits; less than 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 2002, the invested assets, or trust fund reserves, are estimated to be \$1,372 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 2002



1 The Social Security tax is also known as FICA (Federal Insurance Contributions Act). In 2002, workers pay 6.2 percent of their annual wages, up to a cap of \$84,900. 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.

- In 2017, tax revenues flowing into the trust funds are projected to be less than benefit payments due 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 73 percent of the cost of benefits due at that time.
- By 2076, 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 66 percent of benefit costs.

The long-range actuarial deficit is 1.87 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 1.87 percentage points, starting this year. This would raise the Social Security tax paid by employees (and matched by employers) by 0.94 percentage points, from 6.2 to 7.14 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 occurs 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 2001 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 2000 and 2001 reports.

Table 1. Comparison of Projections in Trustees Reports

| | 2002 Report | 2001 Report |
|--|-------------|-------------|
| Year when current tax revenue becomes less than current outgo | 2017 | 2016 |
| Year when trust fund reserves become fully drawn-down | 2041 | 2038 |
| Long-range actuarial deficit (expressed as a percent of taxable payroll) | 1.87 | 1.86 |

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.
- 45.9 million people, or 1 out of every 6 Americans, receives Social Security benefits. Nearly 1 in 4 households receives income from Social Security.
- Beneficiaries include 28.8 million retired workers, and 5.0 million widows and widowers. About 5.3 million disabled workers received benefits, along with 737,000 severely disabled adult children of deceased, retired, or disabled workers. Another 3.0 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,
December 2001

| Type of Beneficiary | Average Monthly Benefit |
|----------------------------|-------------------------|
| Retired workers | \$874 |
| Aged widows (non-disabled) | \$841 |
| Disabled workers | \$815 |

Source: Social Security Administration, Office of Research, Evaluations and Statistics, www.ssa.gov/cola/cola2002.htm

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, an economist and 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 62nd to be issued.

Sources

Board of Trustees, 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, March 26, 2002.

Census Bureau, March 1999 Annual Demographic Supplement to the Current Population Survey.

Social Security Administration, Office of Research, Evaluation and Statistics, Income of the Population 55 or Older, 1998 March 2000.

Social Security Administration, Annual Statistical Supplement, 2001 2001.

Social Security Administration, Office of Research, Evaluations and Statistics, “Fact Sheet on Social Security, 2002 Social Security Changes,” www.ssa.gov/cola/cola2002.htm

Social Security Brief

The National Academy of Social Insurance is a nonpartisan research and education organization made up of the nation's leading experts on Social Security, Medicare and other social insurance programs. It does not lobby or take positions on policy issues. Any views expressed in its *Briefs* are those of the authors and do not represent an official position of the Academy or its funders.

Financial support for this Brief is provided by the Mary Ross Bequest.



If you would like to be on the mailing list to receive future briefs, fax your name and address to 202-452-8111, Attention: *Briefs*. Please indicate your interest in receiving briefs on Social Security, Medicare or both.



For other National Academy of Social Insurance briefs or for information on ordering reports, visit www.nasi.org, or call 202-452-8097.

Other Social Security Briefs...

Social Insurance for Survivors: Family Benefits from Social Security and Workers' Compensation

by Daniel Mont, Virginia Reno and Catherine Hill

Americans' Attitudes Toward Social Security: Popular Claims Meet Hard Data

by Fay Lomax Cook and Lawrence R. Jacobs, March 2001

Widows, Poverty, and Social Security Policy Options

by Christina Smith FitzPatrick and Joan Entmacher, August 2000

The Economic Status of the Elderly (Medicare Brief #4)

by Robert L. Clark and Joseph F. Quinn

Complete text of all NASI briefs available at www.nasi.org

**NATIONAL
ACADEMY
OF SOCIAL
INSURANCE**

1776 Massachusetts Avenue, NW
Suite 615
Washington, DC 20036-1904
202/452-8097
202/452-8111 Fax
nasi@nasi.org
www.nasi.org

Social Security Finances:
Findings of the 2002
Trustees Report

Social Security
No. 13 Brief