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Social Security Finances: Findings of the 2000 Trustees Report

By Kathryn Olson and Virginia Reno

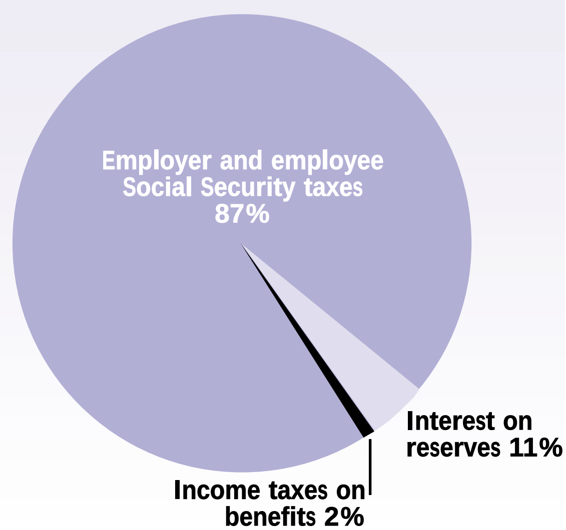
Summary

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 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 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 2000 report.

Short range surpluses

- In calendar year 2000, the Social Security trust funds will receive income of $566 billion and pay out $410 billion (almost all for benefits; less than 1 percent is for administration), leaving a surplus of $155 billion. (There are two separate funds: one for retirement and survivors insurance, and one for disability insurance.)
- By law, the annual surpluses — amounts not needed for current expenditures — are invested in interest-bearing U.S. government securities. By the end of 2000, the invested assets, or trust fund reserves, are estimated to be $1,052 billion.

Income Received by Social Security Trust Funds
Estimates for Calendar Year 2000



Long-range deficits

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

1 The Social Security tax is also known as FICA (Federal Insurance Contributions Act). In 2000, workers pay 6.2 percent of their annual wages, up to a cap of $76,200. 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 2015, 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 2037.

- In 2037, the reserves are projected to be depleted. Income coming into the funds at that time is expected to cover about 72 percent of the cost of benefits due at that time.

- By 2074, 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 67 percent of benefit costs.

The long-range actuarial deficit is 1.89 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 1.90 percentage points, starting this year. This would raise the Social Security tax paid by employees (and matched by employers) by 0.95 percentage points, from 6.2 to 7.15 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 65 in 2011, people are living longer after 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 2000 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 1999 and 2000 reports.

Table 1. Comparison of Projections in Trustees Reports

	2000 Report	1999 Report
Year when current tax revenue becomes less than current outgo	2015	2014
Year when trust fund reserves become fully drawn-down	2037	2034
Long-range actuarial deficit (expressed as a percent of taxable payroll)	1.89	2.07

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.

- 44.6 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 27.8 million retired workers, and 5.2 million widows and widowers. Almost 4.9 million disabled workers received benefits, along with 720,000 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, 1999

Type of Beneficiary	Average Monthly Benefit
Retired workers	$804
Aged widows (non-disabled)	$775
Disabled workers	$754

Source: Social Security Administration, "Highlights of Social Security Data, December 1999," www.ssa.gov/policy/programs/ssd.html

What is the Trustees Report?

- The Social Security Act established a Board of Trustees for the Social Security trust funds, and requires it to report to Congress each year on the financial status of the program. The Board also issues reports for Medicare, which is 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. Stephen Kellison, an actuary with the Variable Annuity Life Insurance Company, and Marilyn Moon, an economist at the Urban Institute, served in this role through the issuance of the 2000 Report.

- 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 guess," set of assumptions.) This year's report is the 60th to be issued.

Sources

Board of Trustees, *2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, March 31, 2000.

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