

# **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 **\$117,000** in 2014

- Taxes on Social Security benefits

- High-income beneficiaries pay federal income tax on their benefits

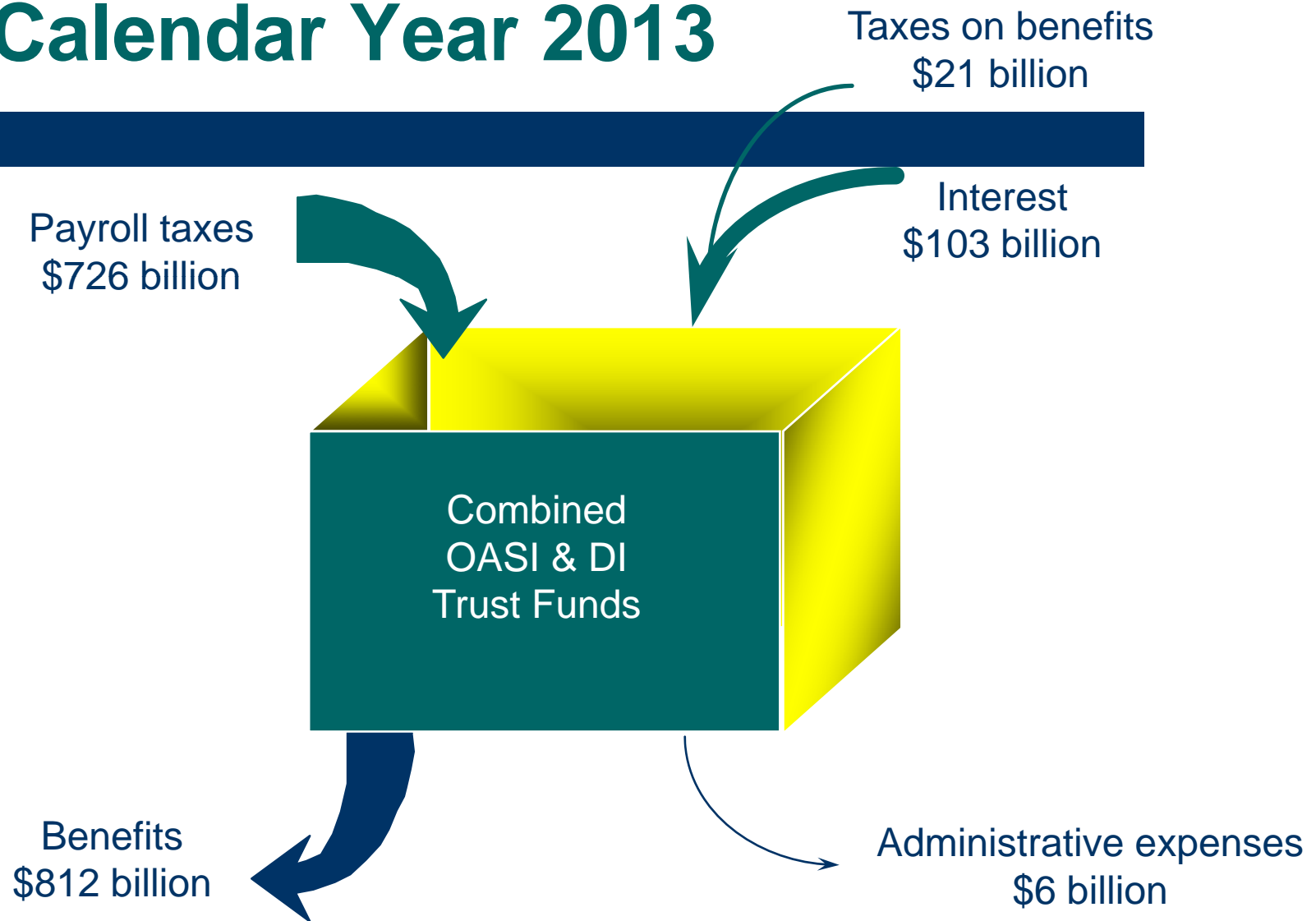
- Interest on trust fund reserves

- Invested in interest-bearing securities of the US government

# Where Does the Money Go (Outgo)?

- Benefit payments
  - About **58 million** people getting benefits as of December 2013:
    - **41 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 2013

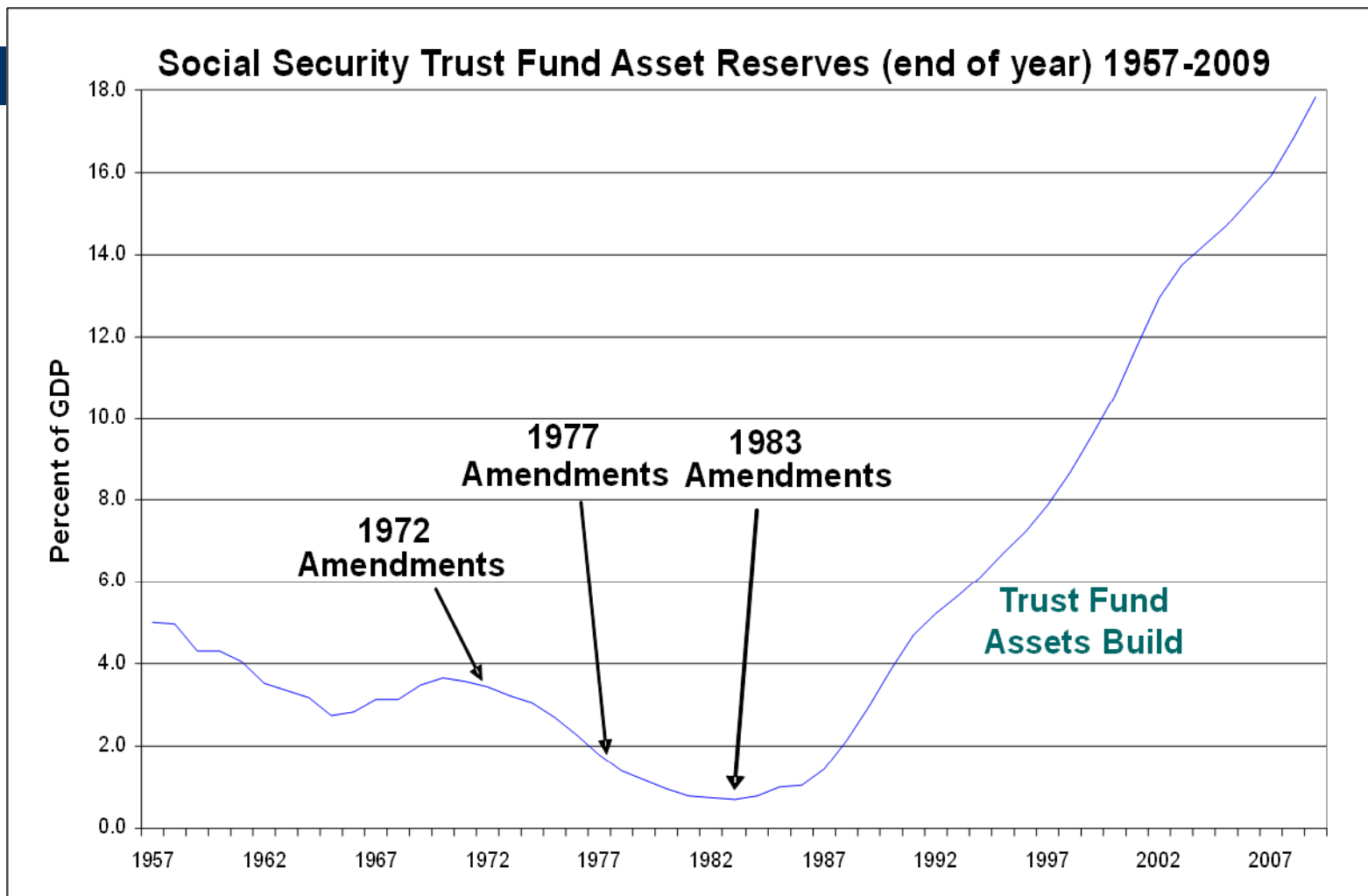
# Income and Outgo Calendar Year 2013



# 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, 2013, 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

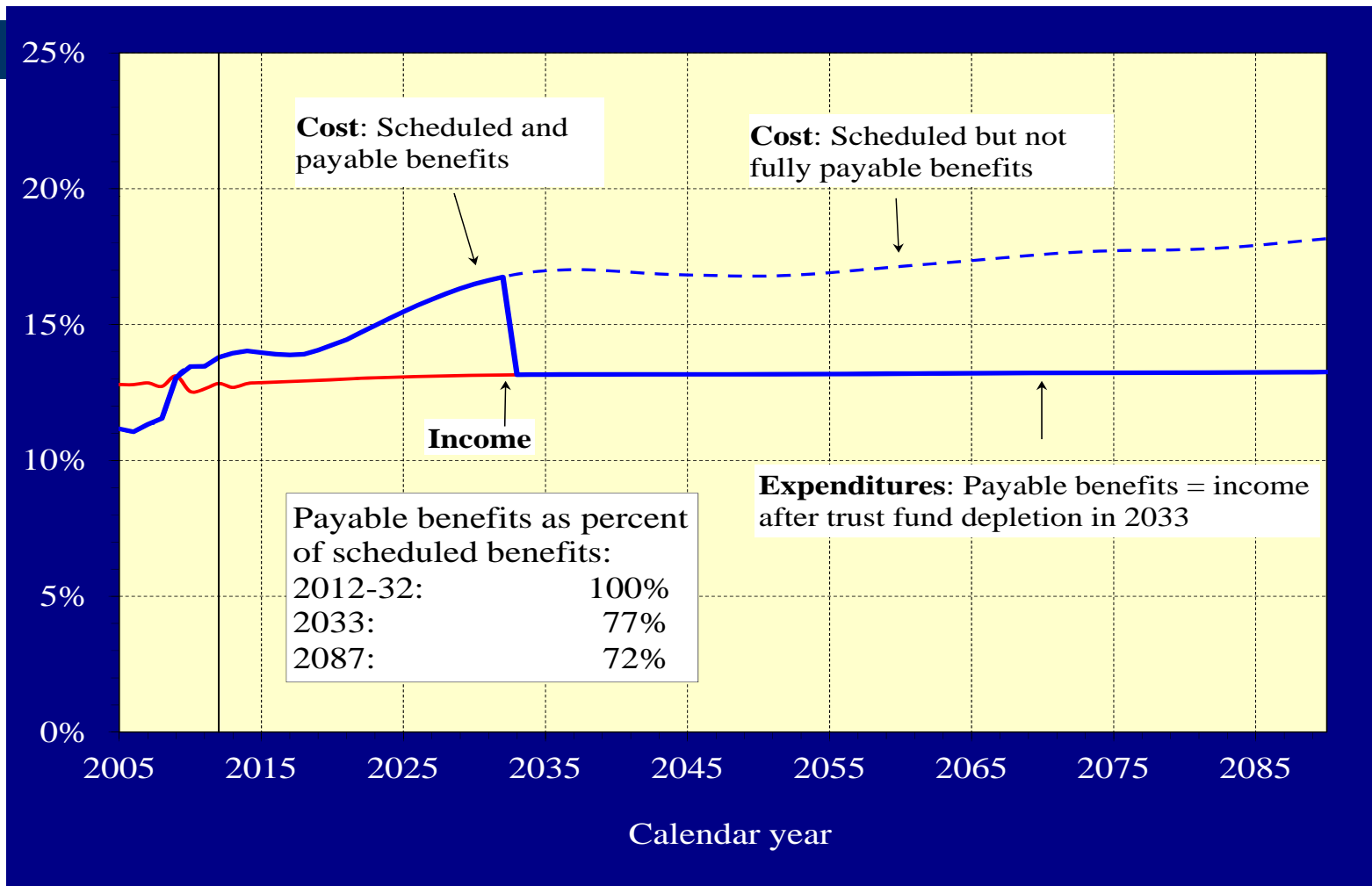
- The funds have run surpluses since the early 1980s and are expected to do so through 2020
- After 2020, asset reserves will start to decline until they are depleted in 2033
- What happens then when the reserves are depleted? Stay tuned...



# Trust Fund Financing

- How is the future shortfall expressed?
- Often as a percent of taxable payroll
  - The total amount of earnings taxable by the program for a time period
- For example, in 2045:
  - Income to the program is expected to be about 13.17 percent of taxable payroll
  - The cost of the program is expected to be about 16.83 percent of taxable payroll
  - So the shortfall is 3.66 percent (16.83 – 13.17)

# 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>



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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>
<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