NATIONAL ACADEMY OF·SOCIAL INSURANCE

Short Answers to Common Questions about Social Security

Social Security Brief #47, August 2016

A companion resource to

Social Security Finances: Findings of the 2016 Trustees Report

1. Who are Social Security's trustees and why do they issue an annual report? Social Security has six trustees: the Secretaries of the Treasury, of Labor, and of Health and Human Services; the Social Security Commissioner; and two public trustees, who by law must be from different political parties, are appointed by the President, and must be confirmed by the Senate. They issue an annual report on Social Security's finances to give Congress and the public ample time to consider any changes that may be warranted to keep the program's income and outgo in balance over the entire 75-year period for which Social Security's financial estimates are made.

2. How can the trustees know what's going to happen 75 years from now? They can't; no one can. Still, they provide essential guidance to policymakers responsible for ensuring that Social Security can pay all scheduled benefits. The trustees make three long-range financial forecasts — high-cost, low-cost, and intermediate — and use the intermediate estimate as the basis for projecting income, outgo, and possible imbalances. The one sure thing is that the trustees' 75-year estimates can never be precisely accurate and will change from year to year.

3. The trustees talk about a projected 75-year shortfall as a "percent of payroll." What do they mean? Why not just talk about dollars? Workers' earnings — employers' payrolls — are the main source of Social Security financing. Calculating program costs as a percentage of the payrolls covered by Social Security avoids the complications that would arise from using dollar figures to measure the cost of one set of benefits in one time period versus another set of benefits in another time period when the value of a dollar is different.

4. Last year the trustees projected that the 75-year shortfall would average 2.68 percent of payroll. This year they're projecting 2.66 percent of payroll. Why the difference? One main reason for the change is the one-year advance in the 75-year projection period, which is now 2016-2090. The substitution of a relatively high-cost year (2090) for a lower-cost year (2015) inevitably increases the projected shortfall somewhat, unless offset by other factors. In the case of this year's Trustees' Report, this increase in the actuarial deficit is offset by other factors that lessened (improved) the deficit. These factors are mainly improvements in the actuaries' methodology and assumptions. The trustees noted that the projected date when Social Security's reserves will be depleted (if Congress takes no action in the meantime) is the same as was estimated in the 2015 report: depletion of the trust funds is projected to occur in 2034.

5. Is Social Security contributing to the national debt? Social Security cannot contribute to the debt because by law it cannot borrow money. Since 1935 Social Security has collected $19 trillion and paid out $16 trillion, leaving a balance of $2.8 trillion in the trust funds at the end of 2015.

6. Last year the program spent more on benefits than it collected in payroll taxes. Is it going broke? No. Social Security has three sources of income: payroll taxes, income taxes on benefits paid to higher-income recipients, and interest earned on its reserves. Social Security is still accumulating reserves through interest earned on the money in its trust funds. The reserves are projected to increase from $2.8 trillion to $2.9 trillion at the end of 2019. After that, if Congress has not acted in the meantime to increase revenues or lower benefits, the reserves would start to be drawn down to help pay benefits.

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7. The media sometimes refer to Social Security's "cash-flow imbalance." Is it running out of cash? No. The term "cash flow" as used in the unified federal budget refers to the program's total annual outgo compared to the income from payroll taxes and the taxation of benefits without counting interest earned by the trust fund reserves. If interest is ignored, income was less than outgo in 2015. But interest is part of Social Security's total income, and the U.S. Treasury is firmly obligated to pay the interest due to the trust funds – an obligation just as firm as the commitment of the United States to any other holder of U.S. Treasury bonds. With interest income included, Social Security had a $23 billion surplus in 2015.

8. If the reserves are used up to help pay benefits, will Social Security be bankrupt? No. Although the trustees estimate that the reserves will be depleted by 2034 (if Congress has not acted in the meantime), revenue continuing to come into Social Security from payroll taxes and income taxes on benefits paid to higher-income recipients would cover about 79% of scheduled benefits in that year. It is this partial shortfall after 2034 — not bankruptcy — that lawmakers need to address.

9. Are there ways to fix Social Security's shortfall without cutting benefits? Yes. Many public opinion surveys, including a recent NASI study, have found that most Americans would rather pay somewhat more to keep Social Security strong than cut benefits for current or future beneficiaries. For example, gradually increasing the contribution rate from 6.2% to 7.2% and gradually removing the cap on earnings taxable for Social Security could address the shortfall and pay for modest benefit improvements.

10. There have been reports that Social Security's Disability Insurance (DI) trust fund will soon be depleted. What did the 2015 budget deal change? Social Security pays benefits from two legally separate trust funds: Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI). Of the 6.2% of earnings that workers and employers each pay to Social Security, one portion goes to OASI and another to DI. From 2000 through 2015, these portions were set at 5.3% for OASI and 0.9% for DI. The Bipartisan Budget Act of 2015 modified these portions to 5.015% for OASI and 1.185% for DI for a period beginning January 1, 2016 through December 31, 2018. Congress has made reallocations like this many times in the past without controversy in order to rebalance the trust funds. Prior to this most recent budget deal, the DI trust fund was expected to be depleted by the end of 2016. Now, as a result of the reallocation authorized in the budget deal, the trust fund is projected to be able to pay all benefits until 2023.

11. Will the retirement of the baby boomers overwhelm Social Security? No. The baby boomers' retirement did not catch Social Security by surprise. Benefit reductions that were enacted 30 years ago, including gradually raising the age of eligibility for full benefits from 65 to 67, are still phasing in and have slowed spending for future benefits. In addition, the boomers' payroll contributions throughout their working years have helped cover the cost of their retirement.

12. Some commentators claim that Social Security is simply unaffordable. Is this true? A widely accepted way to evaluate the affordability of Social Security — or other major systems such as health care, education, or defense — is as a share of the entire economy, or gross domestic product (GDP). Social Security made up 5.0% of GDP in 2015 and is expected to increase to 6.0% of GDP by 2035, after all of the baby boomers have retired; it is then expected to decline slightly to 5.9 percent by 2050, after which it increases slowly to 6.1 percent by 2090. By way of comparison, this projected increase through 2035 is smaller than the increase in national spending for public education when the baby boomers were children.