

Social Security Finances: Findings of the 2015 Trustees Report

Summary

The 2015 Trustees Report updates projections about the future finances of Social Security's two trust funds. The Disability Insurance (DI) trust fund, which is legally separate from the Old-Age and Survivors Insurance (OASI) trust fund, requires legislative action soon to ensure that all scheduled benefits for disabled workers and their families can be paid in 2016 and beyond. Of the 6.2 percent of earnings that workers and employers each pay into Social Security, 5.3 percent goes to the OASI trust fund and 0.9 percent goes to the DI trust fund. A 0.2 percentage-point increase in the DI contribution rate (from 0.9 percent to 1.1 percent for workers and employers each) would fully fund the DI program for the next 75 years. Alternatively, temporarily increasing the DI contribution rate or reallocating part of the OASI contribution rate to the DI fund would extend the DI fund's reserve depletion date while changing the projected reserve depletion date of the OASI fund by only about a year. On a combined OASDI basis, Social Security is fully funded until 2034, but faces a long-term shortfall thereafter.

In 2014, Social Security revenue plus interest income exceeded outgo by \$25 billion, leaving a surplus. Reserves, now at \$2.8 trillion, are projected to grow to \$2.9 trillion by the end of 2019. Then — if Congress has taken no action in the meantime — reserves would start to be drawn down to pay benefits. If Congress does not act before 2034, Social Security is projected to face a shortfall. The program's reserves would be depleted, and revenue continuing to come into the trust funds from workers' and employers' contributions and taxation of benefits would cover about 79 percent of scheduled benefits (and administrative costs, which are less than 1 percent of outgo). Timely revenue increases and/or gradual benefit reductions can bring the program into long-term balance, preventing the projected shortfall.

What is the Trustees Report?

The Social Security Act establishes a Board of Trustees for the Social Security trust funds and requires the Board to report annually to Congress on the status of the funds. The Board issues a separate report on the Medicare trust funds. 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 must be from different political parties and are appointed by the President and confirmed by the Senate.

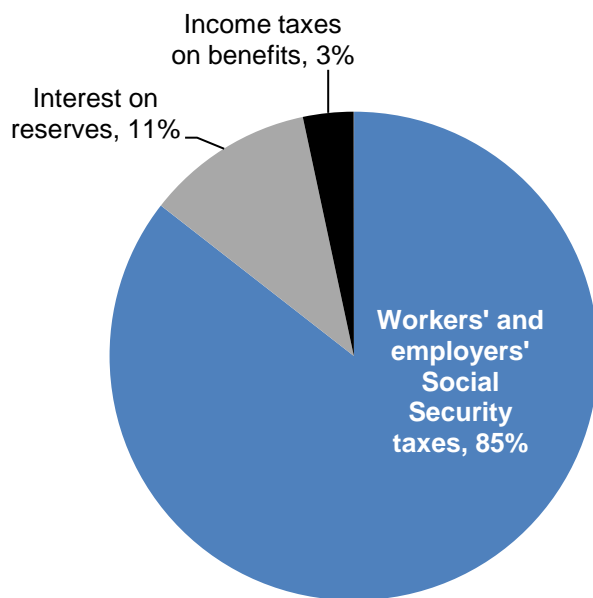
The Trustees Report is a tool for Congress and the public to gauge the financial status of the Social Security system and to understand the scope of the program's commitments. Social Security's financial balance is projected over 75 years, longer than almost all other government or private-sector projections. This reflects the great importance of Social Security and the fact that its commitments are very long-

term. A high degree of stability and predictability is a valued part of the Social Security tradition. Although 75-year projections are inherently uncertain, they provide a long lead time for policymakers to consider — and for citizens to express their views on — changes that achieve long-term balance. The 2015 report is the 75th to be issued and is available on the website of the Office of the Chief Actuary of Social Security: www.ssa.gov/OACT.

Who pays for Social Security?

Workers and employers pay for Social Security through mandatory contributions under the Federal Insurance Contributions Act (FICA). Workers and employers each pay 6.2 percent of earnings up to an annual cap, which is \$118,500 in 2015. Self-employed workers pay both the employee and the employer share and can deduct the employer share from their taxable personal income. Higher-income beneficiaries pay income taxes on part of their benefits; part of this income-tax revenue goes to the Social Security trust funds and part goes to the Medicare Hospital Insurance trust fund. Interest on Social Security's reserves provides an additional source of program income; the reserves are invested in special obligation U.S. Treasury bonds, which earned an effective interest rate of 3.6 percent in 2014.¹ Worker and employer contributions accounted for about 85 percent of trust fund income in 2014, while income taxes paid by beneficiaries accounted for about 3 percent, and interest on reserves accounted for about 11 percent (Figure 1).²

Figure 1. Shares of Income to the Trust Funds, 2014



Source: Board of Trustees, 2015: Table IV.A3.

Note: Percentages do not total 100 due to rounding and exclusion of certain reimbursements to the trust funds from the general fund of the Treasury. <http://www.socialsecurity.gov/OACT/STATS/table4a3.html>

Who receives Social Security?

Social Security pays monthly benefits that replace part of the earnings that are lost when a worker who has paid into the program becomes disabled, retires, or dies. In January 2015, 59.1 million Americans, or more than one in six, received Social Security benefits.³ One family in four receives income from Social Security.⁴ Beneficiaries include 39.1 million retired workers, 4.2 million widows and widowers, and 2.4 million spouses. About 3.2 million children under age 18 (or up to age 19 if still in high school) receive benefits as dependents. About 8.9 million disabled workers receive benefits.⁵

How much does Social Security pay?

The average monthly benefit paid to all retired workers in January 2015 was \$1,331, or about \$15,972 annually (Table 1).⁶ The average benefit was somewhat smaller for disabled workers (\$1,165) and for widows and widowers age 60 or older (\$1,277). Benefits are higher for families. For example, widowed mothers or fathers with two children received \$2,622 a month, on average, or about \$31,464 a year, while disabled workers with one or more children received \$1,790 a month, on average, or about \$21,480 a year.⁷ For comparison, the 2015 federal poverty guideline for an individual is \$11,770 a year; for a family of two it is \$15,930; for a family of three it is \$20,090; and for a family of four it is \$24,250.⁸

Table 1. Average Monthly Benefits, January 2015

By Beneficiary Type:^a	Benefit
Retired workers	\$1,331
Disabled workers	\$1,165
Widows or widowers (60 or older)	\$1,277
By Family Type:^b	Benefit
Retired worker and spouse (62 or older)	\$2,181
Widowed mother or father and two children	\$2,622
Disabled worker and one or more children	\$1,790

^a Source: SSA, 2015b. ^b Source: SSA, 2015c.

Social Security is the main source of income for most people age 65 and older. For one in two married beneficiary couples and nearly three in four unmarried beneficiaries age 65 and over, Social Security accounts for more than half of total income.⁹ More information about the role of Social Security in the incomes of beneficiaries is in the Academy's publication *What's Next for Social Security? Essential Facts for Action*.¹⁰

Social Security benefits are generally increased each year by a cost-of-living adjustment (COLA) that is based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). A 1.7 percent COLA took effect in December 2014, increasing benefits paid in January 2015 and thereafter.

A common way to assess benefit levels is to compare workers' benefit amounts at retirement with their earnings over their working careers. Under current law, the replacement rate for a medium earner (with career-average earnings of \$46,290 in 2014) retiring at age 65 is projected to decline from 40 percent of career-average earnings today to 36 percent in 2025 and thereafter.¹¹ Almost four out of every ten retirees take benefits at age 62 and thereby incur substantial reductions in their benefits for claiming

early.¹² The replacement rate for a medium earner retiring at age 62 is projected to decline from 33 percent today to 30 percent in 2022.¹³ The drop in replacement rates is a result of the 1983 Social Security amendments that increased the full retirement age to 67 for workers born in 1960 and later, who will reach 67 in 2027 and later. When considering options to strengthen Social Security in the future, it is useful to take into account reductions in benefits already scheduled in the law.

How do actuaries project the future?

Each year the Social Security actuaries review the performance of the economy, take into account new laws and regulations, and reassess assumptions about future economic and demographic trends that will affect the Social Security system — such as employment, wage levels, productivity, inflation, interest rates, birth rates, death rates, and immigration.

The actuaries make projections using three scenarios agreed upon by the trustees: low-cost, high-cost, and intermediate. The intermediate scenario is considered the “best estimate.” In general, the low-cost estimate uses a more optimistic set of assumptions (such as higher economic growth, lower unemployment, and higher fertility rates) while the high-cost estimate is based on more pessimistic assumptions. For each scenario the Trustees Report projects the status of the funds for the short term (10 years) and longer term (up to 75 years).

What do the trustees project for the short term?

In 2015, the Social Security trust funds are projected to collect \$913.9 billion and pay out \$904.7 billion, leaving a surplus of \$9.2 billion (Table 2). Almost all outgo will be used to pay benefits; less than 1 percent of outgo will be spent on administration. Income consists of revenues – contributions from workers and employers, and income from taxation of benefits – plus interest earned on the trust fund reserves.

Table 2. Social Security at a Glance, 2013-2015

	2013	2014	2015 projected
Income (in billions)	\$855.0	\$884.3	\$913.9
Outgo (in billions)	\$822.9	\$859.2	\$904.7
Surplus (in billions)	\$32.1	\$25.0	\$9.2
Trust fund balance ^a (in billions)	\$2,764.4	\$2,789.5	\$2,798.7
Covered workers ^b (in thousands)	163,355	165,603	167,638
Beneficiaries ^c (in thousands)	57,471	58,574	60,031
COLA ^d	1.7%	1.5%	1.7% ^e
Taxable maximum	\$113,700	\$117,000	\$118,500 ^e

Source: Board of Trustees, 2015.

^a Trust fund balances shown are as of the end of the year indicated.

^b Workers who are paid at some time during the year for employment on which OASDI taxes are due.

^c Beneficiaries with monthly benefits in current-payment status as of June 30.

^d COLAs shown are effective beginning with benefits paid in January of the year indicated.

^e Actual.

By law, the amounts not needed for current outgo are invested in interest-bearing U.S. Treasury securities, and these invested assets make up the trust fund reserves. Since 1935, Social Security has collected \$18 trillion in revenues and interest and paid out \$15.2 trillion in benefits and administrative costs as of December 31, 2014, leaving a balance of \$2.8 trillion, including interest, in its trust funds. Under the intermediate assumptions, the Social Security trust funds are projected to have surpluses each year until 2020. That is, income from revenues and interest will exceed outgo for benefits and administrative costs and the reserves will continue to grow. By the end of 2019, the reserves are estimated to be \$2.9 trillion.

What do the trustees project for the longer term?

The Trustees Report provides summary measures of projected program income and outgo over the next 25, 50, and 75 years. The trustees recognize that the reliability of the financial projections declines as the projection period increases. Under intermediate assumptions:

- Over the next 19 years, Social Security is projected to be fully funded – that is, its income and trust fund reserves can cover all scheduled payments.
- Over the next 25 years, Social Security finances are projected to be 95 percent sufficient – that is, scheduled resources are expected to cover 95 percent of expected outgo.
- Over the next 50 years, Social Security finances are projected to be 88 percent sufficient.
- Over the next 75 years, Social Security finances are projected to be 85 percent sufficient.

These measures of financial self-sufficiency illustrate the extent to which the program's assets and income are projected to meet future obligations.¹⁴ The 25-, 50-, and 75-year projections indicate that remedial actions will be needed to ensure that all legislated benefits will be paid.

The Trustees Report highlights other key dates about Social Security's future finances:

- In 2020, revenues plus interest income plus taxation of benefits are expected to be less than total outgo for that year. If no action is taken before then, reserves would then start to be drawn down to pay benefits.
- If Congress does not act before 2034, the reserves are expected to be depleted, and revenue continuing to come into the funds would cover about 79 percent of scheduled benefits and administrative costs. By law, Social Security cannot pay benefits in excess of its income and reserves.

The long-range actuarial shortfall is projected to be 2.68 percent of taxable payroll – that is, 2.68 percent of all earnings that are subject to Social Security contributions. To put this in perspective, the projected shortfall would be eliminated if the contribution rate paid by employees and employers each were 7.6 percent instead of 6.2 percent.¹⁵

What do the high-cost and low-cost projections show?

In the trustees' high-cost scenario, Social Security's reserves would be depleted in 2028 (instead of 2034 in the best-estimate scenario), and during the first 25 years, the program's finances would be sufficient to cover 84 percent (instead of 95 percent) of its outgo. In the low-cost scenario, Social Security would be fully financed throughout the 75-year projection period, and during the first 25 years, Social Security's finances would cover 107 percent (instead of 95 percent) of program outgo. The difference among estimates reflects the great uncertainty about what the distant future holds.

Disability Insurance trust fund requires legislative action

Of the 6.2 percent of earnings that workers and employers each pay for Social Security, 5.3 percent goes to the Old-Age and Survivors Insurance (OASI) trust fund, and the remaining 0.9 percent goes to the Disability Insurance (DI) trust fund. While the two trust funds are often considered together and described as the OASDI trust fund, or for convenience simply as "Social Security's trust fund," by law the two funds are separate and cannot borrow from each other without congressional authorization. Viewed separately, the OASI fund can cover scheduled benefits until 2035, but the DI fund can do so only until the fourth quarter of 2016.

Lawmakers need to act soon to ensure that benefits continue for the approximately 9 million disabled workers and their families — a total of about 11 million Americans — who currently receive benefits.¹⁶ On average, disabled worker beneficiaries worked and paid into Social Security for 22 years prior to becoming disabled, and more than half rely on DI benefits for 75 percent or more of their total income.¹⁷ Absent congressional action, the DI program would be able to pay only about 81 percent of benefits after depletion of the trust fund's reserves in 2016. Congress has never permitted such a drop in Social Security benefits to occur. It would cause extraordinary hardship for millions of very vulnerable individuals and their families.

What has caused the DI trust fund to face a shortfall in 2016?

The DI shortfall does not come as a surprise. Social Security's actuaries long ago anticipated that the costs of both disability and retirement benefits would rise with the aging of the disproportionately large baby-boom generation (born 1946-1965). Boomers entered their high-disability-risk years (ages 50-66) starting in 1996. In 1995, the actuaries accurately projected that the DI trust fund would face a shortfall in 2016.¹⁸

The shortfall is manageable. In testimony before the Senate Finance Committee in July 2014, Social Security's Chief Actuary, Stephen C. Goss, noted that "many analysts have raised questions about the 'sustainability' of the recent period of rapid growth in

What has changed since last year's projections?

Social Security's projected long-term revenue shortfall decreased from 2.88 percent of taxable payroll in 2014 to 2.68 percent in the 2015 Trustees Report. In the absence of congressional action, the year in which the combined OASDI trust funds would be fully drawn down has shifted to 2034. For the Disability Insurance trust fund, that projection remains 2016.

In short, the projections have not changed much this year. The slight decrease in the program's long-term shortfall is due in part to updated economic data and assumptions.

Year-to-year changes in the estimates are to be expected. Reasons for the changes between the 2014 and 2015 projections are described in Table II.D2 and Section IV.B6 of the Trustees Report.

the numbers of DI beneficiaries and the cost of their benefits.” He added: “I am glad to report that this period of rapid growth (1) was foreseen, (2) can be explained, and (3) is now at its predicted end.” The growth of the cost of benefits as a percent of GDP, from just under 0.4 percent in 1990 to nearly 0.9 percent in 2010, is “almost entirely explained by changes in the population and the economy,” Goss testified.¹⁹

Despite much-publicized instances of DI fraud, improper payments appear to account for only a small share of DI’s increased program costs, according to both the Government Accountability Office (GAO) and the Social Security Administration’s Office of the Inspector General (OIG).²⁰ In remarks at a Social Security Advisory Board (SSAB) forum in 2013, former Social Security Commissioner Michael J. Astrue, appointed by President George W. Bush, stated that “the level of actual fraud is still extremely low, probably some fraction of one percent of the people receiving benefits,” and added: “It is the frailty of the aging human body, not ideology or mismanagement, that has caused almost all of the increase in the [DI] rolls over the last decade. It is *basic* arithmetic — we get a lot sicker in our fifties than we do in our twenties and we have a bulge of people in their fifties in our work force.”²¹

With the baby boomers aging into their sixties and becoming eligible for Social Security retirement benefits (starting in 2008 for reduced benefits and in 2012 for full benefits at age 66), and with the drop in birth rates after 1965, pressure on DI rolls has eased. “Therefore,” Chief Actuary Goss stated in congressional testimony delivered in 2013, “restoring sustainable solvency for the DI program will *not* require continually greater benefit cuts or revenue increases. A one-time change to offset the drop in birth rate and past shifts in other [cost drivers] is all that is needed to sustain the DI program for the foreseeable future.”²²

How can policymakers address the DI shortfall in 2016?

One option is to raise the DI tax rate from 0.9 percent to 1.1 percent for workers and employers each. This would fully fund DI over the next 75 years, according to the Social Security actuaries.²³

Alternatively, relatively small changes in the allocation of the 6.2 percent tax rate for OASDI could equalize the DI and OASI trust funds. Temporarily reallocating a small part of the tax rate to DI would balance the two funds so that both are fully funded until 2034, after which continuing revenue from workers’ and employers’ contributions would cover 79 percent of combined costs.²⁴ In his proposed Fiscal Year 2016 budget, President Obama included a proposal to “reallocate payroll taxes to address DI trust fund reserve depletion.”²⁵ Treasury Secretary Jack Lew, in his congressional testimony on the budget request, described reallocation as “the only short-term solution” to imminent DI trust fund depletion.²⁶

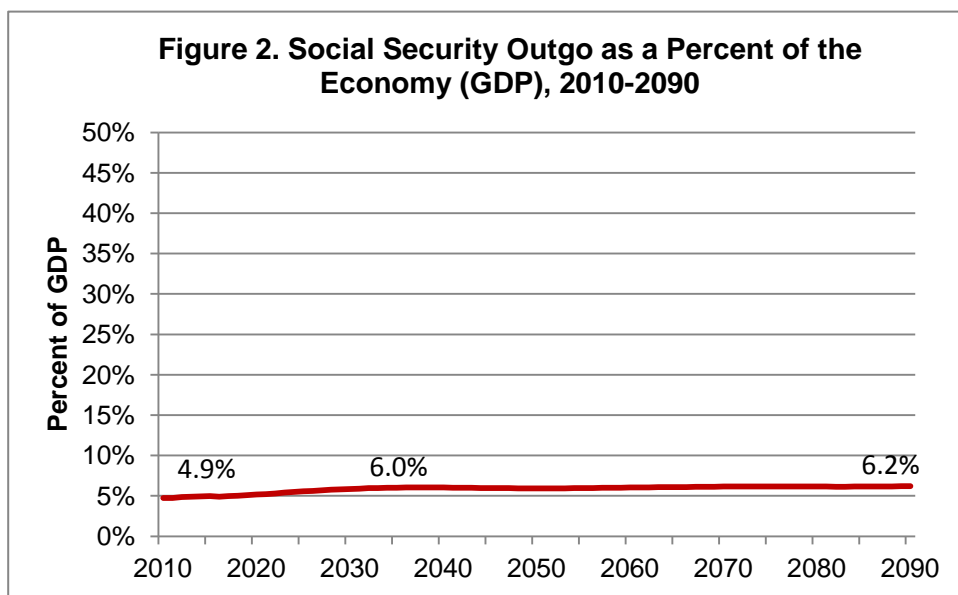
Because the OASI trust fund is so much larger than the DI fund, such a rebalancing plan would strengthen DI, extending its projected reserve depletion date while moving up the projected reserve depletion date of the OASI fund by only about a year.²⁷ The two funds are usually discussed together, and the combined funds’ reserve depletion date would be 2034.

Reallocation has historically been a routine and uncontroversial way to balance the two funds. Since 1957 – when DI, enacted in 1956, became effective – the combined contribution rate has been reallocated 11 times.²⁸ Some reallocations increased the contribution rate going to the OASI trust fund,

while others did the opposite. The most recent rebalancing, in 1994, was expected to fully fund DI until 2016. Despite the great uncertainty of long-range projections, that estimate has proved accurate. For more information on the DI trust fund and options to strengthen it, see the Academy's brief, *Social Security Disability Insurance: Action Needed to Address Finances*.²⁹

What will Social Security cost as a share of the total economy?

A widely accepted way to assess Social Security's future affordability is to compare benefits scheduled to be paid under current law with the size of the entire economy at the time. In 2014, Social Security outgo was 4.9 percent of the economy, or gross domestic product (GDP). It is projected to rise to 6.0 percent of the economy by



Source: Board of Trustees, 2015: Table VI.G4.

2035, when all baby boomers will be retired, and then to decline somewhat, remaining between about 5.9 and 6.2 percent of the economy thereafter (Figure 2).

What happens to the Social Security surplus?

By law, Social Security's surplus funds are invested in interest-bearing Treasury securities, which earned an effective interest rate of 3.6 percent in 2014.³⁰ The interest earned is credited to Social Security's trust funds. The securities can be redeemed whenever needed to pay Social Security benefits. In financial markets, Treasury securities (bills, notes and bonds) are considered an extremely safe investment because they are backed by the full faith and credit of the United States. Private pension funds maintain large investments in U.S. bonds, as do many institutional investors and foreign governments.

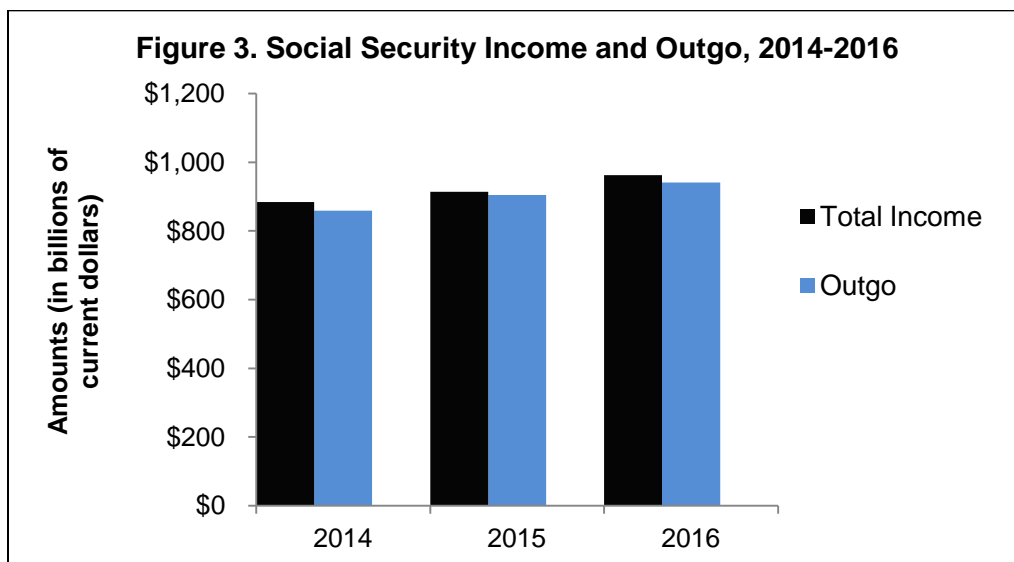
The sum of all Treasury securities makes up the national debt. Most of the debt is held by (that is, owed to) the public: individuals, corporations, and other investors in the United States and abroad who have loaned money to the government by investing in government securities. As of March 2015, 15 percent of the national debt was owed to the Social Security trust funds; another 13 percent was owed to other federal trust funds or accounts.³¹

Some people express concern when they hear that Social Security's annual cash surpluses are loaned to the U.S. Treasury. This is not a misuse of Social Security funds; rather, it is the procedure that has been required by law since the inception of the program. This procedure has the advantage of investing Social Security's reserves in one of the safest financial instruments available.³² Regardless of how the government uses the cash, the Treasury securities held by the trust funds are a binding legal commitment

requiring the Treasury to redeem the securities with interest when the money is needed to pay Social Security benefits. The promise to pay that is embodied in U.S. Treasury securities has never been broken.

What is the Social Security “cash flow” balance?

Discussions of “cash flow” balance calculate Social Security’s annual income and outgo without counting the interest on trust fund reserves. In recent years some media reports have stated that “Social Security has gone cash flow negative.” But the cash flow balance is not an accurate representation of the Social Security trust funds. In fact, the program had a \$25 billion surplus of total income over total outgo in 2014 and is projected to continue running surpluses until 2020. Figure 3 shows Social Security’s annual income from revenues, interest, and taxation of benefits and its annual outgo for 2014 and as projected for 2015 and 2016.



Source: Board of Trustees, 2015: Table VI.G8.

Note: Total income includes income from revenues, interest, taxation of benefits, and certain reimbursements to the trust funds from the general fund of the Treasury.

From a unified federal budget perspective, the interest owed to Social Security is an outflow from the non-Social Security budget to the Social Security trust fund. From a Social Security financing perspective, the interest earned on the reserves is an integral part of the program’s income. It is a legal obligation of the federal government to the Social Security system and its beneficiaries.

How can policymakers address Social Security’s long-term shortfall?

Policymakers have many options to schedule additional revenues and/or reduce future benefits to keep the system in balance for the entire 75-year projection period (see the Academy’s report, *Fixing Social Security*).³³ For example, in recent years the Academy has conducted two national public opinion surveys to find out how Americans would prefer to balance Social Security’s finances for the long term. Both studies found that those surveyed would rather pay more than see benefits reduced.³⁴ In particular, more than 7 in 10 of those surveyed, across generations and income groups, preferred a package of changes that would raise revenues in two ways: by gradually eliminating the cap on taxable earnings and by gradually increasing the payroll tax rate from 6.2 percent to 7.2 percent. The preferred package would also increase the minimum benefit for low-paid workers with long work records, and would adopt a

COLA based on price increases experienced by seniors. This package of four changes would convert the program's projected long-term revenue shortfall into a modest surplus, providing a margin of safety. Many other policy options exist.³⁵

Conclusion

In the short term, legislation is needed to ensure that DI will continue to pay all benefits scheduled in law. A temporary reallocation of the existing 6.2 percent tax rate would strengthen DI and equalize the OASI and DI trust funds so that both funds can pay all legislated benefits until 2034. In the longer term, timely revenue increases and/or gradual benefit adjustments can bring the program into long-term balance, ensuring that Social Security will continue to pay all promised benefits for the next 75 years and beyond.

Endnotes

¹ Social Security Administration (SSA), 2015a.

² Board of Trustees, 2015: Table IV.A3.

³ SSA, 2015b; U.S. Census Bureau, 2015.

⁴ U.S. Census Bureau, 2014.

⁵ SSA, 2015b.

⁶ SSA, 2015b.

⁷ SSA, 2015c.

⁸ U.S. Department of Health and Human Services, 2015.

⁹ SSA, 2014: Table 9.A2.

¹⁰ Reno, 2013.

¹¹ SSA, 2015d.

¹² SSA, 2015e: Table 6.B5.

¹³ SSA, 2015d.

¹⁴ These measures of actuarial solvency draw on work by Kenneth Buffin (2002). They compare the resources available to the program (beginning balance plus future revenues and interest) over a period of time to scheduled obligations over the same period. For this purpose, obligations do not include a target fund at the end of the period. The estimates are derived from information in Table IV.B5 of the Trustees Report (Board of Trustees, 2015).

¹⁵ The combined increase is slightly higher than the actuarial deficit due to the assumed response of employees and employers to an increase in the contribution rate.

¹⁶ SSA, 2015b.

¹⁷ Zients and Donovan, 2015; Bailey and Hemmeter, 2014: Table 2.

¹⁸ Board of Trustees, 1995: table, p. 26.

¹⁹ Goss, 2014.

²⁰ Government Accountability Office, 2012; Social SSA, 2015f.

²¹ Astruc, 2013.

²² Goss, 2013.

²³ Board of Trustees, 2015.

²⁴ SSA, 2015g; personal communication to the Office of the Chief Actuary, July 22, 2015.

²⁵ Office of Management and Budget, 2015. The budget request offers this explanation for its reallocation proposal: "To address reserve depletion of the Social Security Disability Insurance (DI) Trust Fund, the Budget proposes to reallocate existing payroll tax collections between the Old-Age and Survivors Insurance (OASI) and DI trust funds while a longer-term solution to overall Social Security solvency is developed with the Congress. At various points over the course of Social Security's history, the Congress has passed reallocation legislation as the need arose for reallocating revenue from DI to OASI, and vice versa. This proposed reallocation will have no effect on the overall health of the OASI and DI trust funds on a combined basis."

²⁶ Lew, 2015.

²⁷ Chaplain, Schultz, and Nickerson, 2013.

²⁸ Ruffing and Van de Water, 2014.

²⁹ Reno, Walker, and Bethell, 2013.

³⁰ SSA, 2015a.

³¹ U.S. Department of the Treasury, 2015: Tables FD-1 and FD-3.

³² Van de Water, 2014.

³³ Reno and Lavery, 2009.

³⁴ Tucker, Reno, and Bethell, 2013; Walker, Reno, and Bethell, 2014.

³⁵ SSA, 2015h.

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