
Social Security trustees issue annual report

By Editor Test Wed, May 18, 2011

The Social Security and Disability Insurance trust funds may be a figment of accounting, but the funds' trustees continue to calculate the changes in payroll tax rates and/or benefit levels that would keep the funds solvent until the last surviving Boomer reaches age 121.

To maintain the solvency of the combined Old Age and Survivors Insurance and Federal Disability Insurance Trust Funds for the next 75 years, the combined payroll tax rate could be increased by 2.15 percentage points, scheduled benefits could be reduced by 13.8%, or some combination of the two could be adopted, says the annual report of the funds' trustees, released last Friday.

The report's summary is reprinted below:

In 2010

At the end of 2010, about 54 million people were receiving benefits: 37 million retired workers and dependents of retired workers, 6 million survivors of deceased workers, and 10 million disabled workers and dependents of disabled workers.

During the year, an estimated 157 million people had earnings covered by Social Security and paid payroll taxes. Total expenditures in 2010 were \$713 billion. Total income was \$781 billion (\$664 billion in non-interest income and \$117 billion in interest earnings), and assets held in special issue U.S. Treasury securities grew to \$2.6 trillion.

Short-Range Results

The assets of the OASI Trust Fund and of the combined OASI and DI Trust Funds are projected to be adequate over the next 10 years under the intermediate assumptions. However, the assets of the DI Trust Fund are projected to steadily decline under the intermediate assumptions, and would fall below 100 percent of annual cost by the beginning of 2013 and continue to decline until the trust fund is exhausted in 2018. The DI Trust Fund does not satisfy the short-range test of financial adequacy, which requires that the trust fund remain above 100 percent of annual cost throughout the short-range period.

The combined assets of the OASI and DI Trust Funds are projected to grow throughout the short-range period, from \$2,609 billion at the beginning of 2011, or 353 percent of annual cost, to \$3,526 billion at the beginning of 2020, or 284 percent of annual cost, under the intermediate assumptions. This increase in assets indicates that annual cost is less than total income throughout the short-range period. However, annual cost exceeds non-interest income in 2011 and remains higher throughout the remainder of the short-range period. For last year's report, combined assets were projected to be 353 percent of annual cost at the beginning of 2011 and 299 percent at the beginning of 2020.

Long-Range Results

Under the intermediate assumptions, OASDI cost generally increases more rapidly than non-interest income through 2035 because the retirement of the baby-boom generation increases the number of beneficiaries much faster than subsequent lower-birth-rate generations increase the labor force.

From 2035 to 2050, the cost rate declines due principally to the aging of the already retired baby-boom generation. Thereafter, increases in life expectancy generally cause OASDI cost to increase relative to non-interest income, but more slowly than prior to 2035. Annual cost is projected to exceed non-interest income in 2011 and remain higher throughout the remainder of the long-range period. However, total income, including interest earnings on trust fund assets, will be sufficient to cover annual cost until 2023. The dollar level of the combined trust funds is projected to be drawn down beginning in 2023 until assets are exhausted in 2036. Individually, the DI Trust Fund is projected to be exhausted in 2018 and the OASI Trust Fund in 2038.

The OASDI annual cost rate is projected to increase from 13.35 percent of taxable payroll in 2011 to 17.01 percent in 2035 and to 17.56 percent in 2085, a level that is 4.24 percent of taxable payroll more than the projected income rate for 2085. For last year's report, the OASDI cost for 2085 was estimated at 17.47 percent, or 4.16 percent of payroll more than the annual income rate for that year. Expressed in relation to the projected gross domestic product (GDP), OASDI cost is estimated to rise from the current level of 4.8 percent of GDP to about 6.2 percent in 2035, then to decline to 6.0 percent by 2050, and to remain between 5.9 and 6.0 percent through 2085.

For the 75-year projection period, the actuarial deficit is 2.22 percent of taxable payroll, 0.30 percentage point larger than in last year's report. The open group unfunded obligation for OASDI over the 75-year period is \$6.5 trillion in present value and is \$1.1 trillion more than the measured level of a year ago. If the assumptions, methods, starting values, and the law had all remained unchanged, the unfunded obligation would have risen to about \$5.8 trillion due to the change in the valuation date.

Conclusion

Under the long-range intermediate assumptions, annual cost for the OASDI program is projected to exceed non-interest income in 2011 and remain higher throughout the remainder of the long-range period. The combined OASI and DI Trust Funds are projected to increase through 2022, and then to decline and become exhausted and unable to pay scheduled benefits in full on a timely basis in 2036. However, the DI Trust Fund is projected to become exhausted in 2018, so legislative action will be needed as soon as possible. At a minimum, a reallocation of the payroll tax rate between OASI and DI would be necessary, as was done in 1994.

For the combined OASDI Trust Funds to remain solvent throughout the 75-year projection period, the combined payroll tax rate could be increased during the period in a manner equivalent to an immediate and permanent increase of 2.15 percentage points, scheduled benefits could be reduced during the period in a manner equivalent to an immediate and permanent reduction of 13.8 percent, or some combination of these approaches could be adopted. Significantly larger changes would be required if current beneficiaries and those close to retirement age were to be held harmless, or if trust fund asset levels were to be stabilized at the end of the 75-year projection period.

The projected trust fund shortfalls should be addressed in a timely way so that necessary changes can be phased in gradually and workers and beneficiaries can be given time to adjust to them. Implementing changes sooner would allow the needed revenue increases or benefit reductions to be spread over more generations. Social Security will play a critical role in the lives of 56 million beneficiaries and 158 million covered workers and their families in 2011. With informed discussion, creative thinking, and timely legislative action, Social Security can continue to protect future generations.