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Social Security: Select Findings of the 2019 Annual Report

Social Security is a self-financing program that covers approximately 177 million workers and provides monthly cash benefits to 63 million beneficiaries. Social Security is the federal government's single largest program, both in terms of the number of people affected (i.e., covered workers and beneficiaries) and its finances. The Social Security program is composed of Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI); it is referred to collectively as OASDI.

The OASDI program is primarily financed through a payroll tax applied to Social Security covered earnings up to an annual limit (88.2% of total revenues in 2018). In addition, some beneficiaries pay income tax on a portion of their Social Security benefits (3.5% of total revenue in 2018). From 1983 to 2010, the OASDI program collected more in tax revenues than needed to pay benefits. These excess revenues were held in interest-bearing U.S. Treasury securities, providing a third source of funding for the program. In 2018, interest revenues accounted for 8.3% of total revenues. Monthly benefits are the largest OASDI program cost, accounting for 98.8% of total costs in 2018. Administrative and other costs accounted for the remainder.

The Trust Funds

Both the OASI and DI programs operate with a trust fund financing mechanism. Monies credited to these trust funds are earmarked for paying Social Security benefits and certain administrative costs. Using a trust fund allows the OASI and DI to track their respective programs' revenues and costs and to hold any accumulated assets from years when revenues exceed costs. The OASI Trust Fund and DI Trust Fund are legally distinct entities; they are discussed here collectively as the OASDI Trust Funds, or the trust funds.

The Board of Trustees manage the trust funds. The trustees are required to report to Congress annually on the trust funds' status and financial operations. In general, the trust funds' status is indicated by their *solvency*—the ability to pay full benefits scheduled under current law on a timely basis. If assets held in the trust funds were to be depleted, the OASDI program could only pay out in benefits what it receives in revenues. **Table 1** shows the trust funds' key dates under the trustee's intermediate assumptions, which reflect their best estimate of future economic, demographic, and program-specific factors. As shown, some dates such as for costs exceeding noninterest revenues, have already passed.

Table 1. Key Dates Projected for the Social Security Trust Funds in the 2018 and 2019 Trustees Reports

(under the intermediate assumptions)

	2018 Report			2019 Report		
	OASI	DI	OASDI	OASI	DI	OASDI
Cost exceeds noninterest revenues	2010	2019	2010	2010	2036	2010
Cost exceeds total revenues	2018	2019	2018	2020	2041	2020
Trust fund reserves depleted	2034	2032	2034	2034	2052	2035

Source: CRS, based on the 2018 and 2019 OASDI Trustees Report.

In 2018 and 2019, the projected date of OASI Trust Fund reserve depletion is unchanged. However, the trustees now project the DI Trust Fund reserve depletion to occur in 2052, a noticeable change from 2032 in last year's report. The trustees attribute this change to lower-than-anticipated disability applications and benefit awards. As stated in the 2019 annual report, "Steady declines in applications since 2010, and the resulting lower levels of disability beneficiaries, have caused the annual cost of the DI program to become much closer to annual revenues, making the DI Trust Fund reserve depletion date very sensitive to small changes in income [revenue] and cost." This development is a major reason the combined OASDI Trust Funds' reserve depletion date changed to 2035 in this year's report as opposed to 2034 in last year's report.

In last year's report, the trustees projected the trust funds' overall balance (i.e., the total amount of accumulated asset reserves) would decrease. However, asset reserves held in the trust funds increased during 2018, owing to larger-than-projected revenues and lower-than-projected costs. **Table 2** displays the projected and actual financial operations for the combined OASDI Trust Funds.

Table 2. Financial Operations for the Social Security Trust Funds in the 2018 and 2019 Trustees Reports

(in billions; projections under the intermediate assumptions)

	2018 (projected)	2018 (actual)	2019 (projected)
Starting Trust Funds' Reserves	$2,891.7	$2,891.7	$2,894.9
Total Revenue	1,001.1	1,003.4	1,061.0
Total Costs	1,002.8	1,000.2	1,060.0
Change in Trust Funds' Reserves	-1.7	3.1	1.0
Ending Trust Funds' Reserves	2,890.1	2,894.9	2,895.9

Source: CRS, based on the 2018 and 2019 OASDI Trustees Report.

Since 2010, costs (i.e., scheduled benefits) have exceeded *noninterest revenue* (i.e., payroll taxes and taxation of benefits). In last year's report, the trustees projected that costs would exceed *total revenues* (i.e., tax revenues and interest revenue) in 2018. The trustees now project that costs will exceed total revenues in 2020, resulting in a decline in asset reserves held in the trust funds. In 2020, the trust funds' reserves are projected to begin a decline from a peak value of $2.89 trillion in 2019 to zero in 2035. When the trust funds' asset reserves are depleted, the trustees project income from tax revenues would be sufficient to pay approximately 80% of scheduled benefits.

Projected Long-Range Financial Outlook

Despite short-term improvements, similar to last year's report, the 2019 annual report projects a long-range funding shortfall. The funding shortfall is largely a result of rising costs, primarily due to demographic trends. Social Security's costs are projected to increase faster than revenues over the 75-year projection period. In 2018, the trustees estimated that over the projection period costs would exceed revenues by 20.6%. In 2019, the trustees estimate that over the next 75 years, costs will exceed revenues by 20.1%. A common indicator of rising costs is the number of OASDI beneficiaries per 100 covered workers. In the 2018 annual report, the trustees projected an average of 46 beneficiaries per 100 covered workers over the 75-year projection. In the 2019 annual report, the trustees project an average of 45 beneficiaries per 100 covered workers over the 75-year projection period.

On an annual basis, if the total program revenues were to exceed total costs, the program would be described as having a *surplus*. However, if the total program costs were to exceed the total revenues, the program would be described as having a *deficit*. The trustees project the program to have a surplus in 2019. Thereafter, from 2020 to the end of the 75-year projection period, the trustees project the program to have an annual deficit. The *actuarial balance*, a summarized measure of the annual surpluses and deficits over the projection period, is the Social Security program's long-range financial position. When this summary measure results in higher costs than revenues over the projection period, the program is described as having an *actuarial deficit.*

In 2018, the trustees estimated the long-run actuarial deficit over the next 75 years to average 2.84% of taxable payroll (total earnings subject to the OASDI payroll tax with some adjustments). In 2019, the trustees estimated the long-run actuarial deficit over the next 75 years to average 2.78% of taxable payroll. This amount, or actuarial deficit, represents the average increase in the payroll tax over the 75-year projection period that would be needed for the program to pay full scheduled benefits on time.

The long-range financial position depends on many demographic, economic, and programmatic factors as well as changes in the valuation period. In the 2019 annual report, the trustees project the annual balance (e.g., difference between revenues and cost on an annual basis) throughout the 75-year period to be higher—reflecting a smaller deficit—than projected in the 2018 annual report. The trustees state the higher annual balances (i.e., the difference between revenue and cost for a given year) are principally due to lower disability incidence rates and higher mortality rates. As discussed earlier, the disability incidence rates have declined steadily since 2010. This prompted the trustees to lower the assumption for the long-term average incidence rates and lengthened the amount of time it would take for the incidence rate to return to that level. In addition, the trustees' intermediate assumptions now assume higher mortality rates. That is, the number of deaths as a percentage of the population is expected to increase. Although life expectancies, on average, are still assumed to increase, the higher mortality assumptions indicate the trustees expect life expectancies to increase at a slower rate than under the intermediate assumptions of last year's report.

What Can Be Done?

The trustees project that in less than two decades Social Security will be unable to pay scheduled benefits in full and on time; they recommend that legislative action should be taken sooner rather than later. To illustrate the magnitude of the changes needed to make Social Security solvent over the next 75 years, the trustees estimate the hypothetical payroll tax increase *or* hypothetical benefit reduction that would be needed to maintain solvency. These hypothetical changes would take immediate effect and apply to all *current* and *future* beneficiaries. In addition, the trustees indicate the magnitudes of changes that would be needed at the point of projected insolvency (i.e., 2034 in the 2018 annual report and 2035 in the 2019 annual report).

Table 3. Hypothetical Measures to Maintain Solvency
(in percentage points [pp])

	2018 Report		2019 Report	
	2018	2034	2019	2035
Payroll Tax Increase	2.78 pp	3.87 pp	2.70 pp	3.65 pp
Scheduled Benefit Reduction	17%	23%	17%	23%

Source: CRS, based on the 2018 and 2019 OASDI Trustees Report.

The OASDI Trust Funds are in a similar position in 2019 as they were in 2018. Their projected depletion date is now 2035 as opposed to 2034 in last year's report. Further, the size of the payroll tax increase needed to maintain solvency is lower than estimated in 2018. A noted parallel to last year's report is that as time elapses, the magnitude of the changes needed to maintain Social Security solvency increases. This characteristic is attributable to the program's rising costs and suggests that the portfolio of legislative options resulting in solvency decreases as the trust funds approach the projected depletion date. As in many previous reports, the trustees state, "Implementing changes sooner rather than later would allow more generations to share in the needed revenue increases or reductions in scheduled benefits."

Barry F. Huston, bhuston@crs.loc.gov, 7-0879

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