

# Understanding the Annual Report of the Board of Trustees of the Federal OASI and DI Trust Funds

Polina Vlasenko

Economist

Office of the Chief Actuary

Social Security Administration

# Legislative Mandate for the Annual Report

Publication of the annual report is mandated by law, and the report is required to present:

- Trust Fund operations of the past year and the next five years
- Actuarial status of the trust funds
  - The ability to meet the cost of scheduled benefits with scheduled revenue and trust fund reserves
  - The extent to which scheduled revenue will fall short, forcing cuts or delays in benefits in the absence of legislative change.

Note: the annual report for Social Security (OASI and DI) Trust Funds is separate from the annual report for Medicare (HI and SMI) Trust Funds.

# Social Security: Basic Facts

## **WHO PAYS?**

- 95 percent of workers contribute—177 million people in 2019
  - Payroll tax of 12.4% of earnings up to \$132,900 (6 percent of workers earn more)

## **WHO BENEFITS?**

- 64 million retirement, survivor, disability beneficiaries in 2019
  - 45 million retirees, plus another 3 million of their spouses and children
  - Plus 6 million survivors
  - Plus over 10 million disabled workers and their dependents
- And 155 million workers are insured against disability or death

# Social Security Financing

- Basically “pay-as-you-go” system
  - Current workers provide for current beneficiaries
  - Social Security *cannot* borrow
  - If income of the program (taxes collected) in any given year exceed the costs of the program (benefits paid out) in that year, the difference accumulates in the Trust Fund
  - Trust Fund assets provide a “contingency reserve”, available to use if tax income falls short of scheduled benefit payments
- Current OASDI reserves (excess income) = \$2.9 trillion
  - Available to augment tax income as needed
  - About 3 times the annual cost of the program
- Trust funds reserves projected to be depleted in 2035 under current law
  - *Expect Congress to act—as it always has*

# The 2019 Annual Report for OASI and DI Trust Funds

Full report: <https://www.ssa.gov/oact/TR/2019/index.html>

## Operations in 2018

- In 2018, the OASDI program provided benefit payment to about 63 million people
- In 2018, total income of the program was \$1,003 billion
  - \$920 billion of non-interest income (primarily payroll taxes)
  - \$83 billion in interest earnings
- In 2018, total cost of the program was \$1,000 billion
- Asset reserves held in the trust funds grew from \$2,892 billion at the start of 2018 to \$2,895 at the end of the year.

# The 2019 Annual Report for OASI and DI Trust Funds

**Table 4: KEY DATES FOR THE TRUST FUNDS**

	<u>OASI</u>	<u>DI</u>	<u>OASDI</u>	<u>HI</u>
First year cost exceeds income excluding interest <sup>a</sup> . . . . .	2010	2036	2010	2008
First year cost exceeds total income <sup>a</sup> . . . . .	2020	2041	2020	2018
Year trust fund reserves are depleted . . . . .	2034	2052	2035	2026

<sup>a</sup> Dates indicate the first year a condition is projected to occur and to persist annually thereafter through 2093.

**Table 5: LONG-RANGE ACTUARIAL DEFICIT OF THE OASI, DI, AND HI TRUST FUNDS**

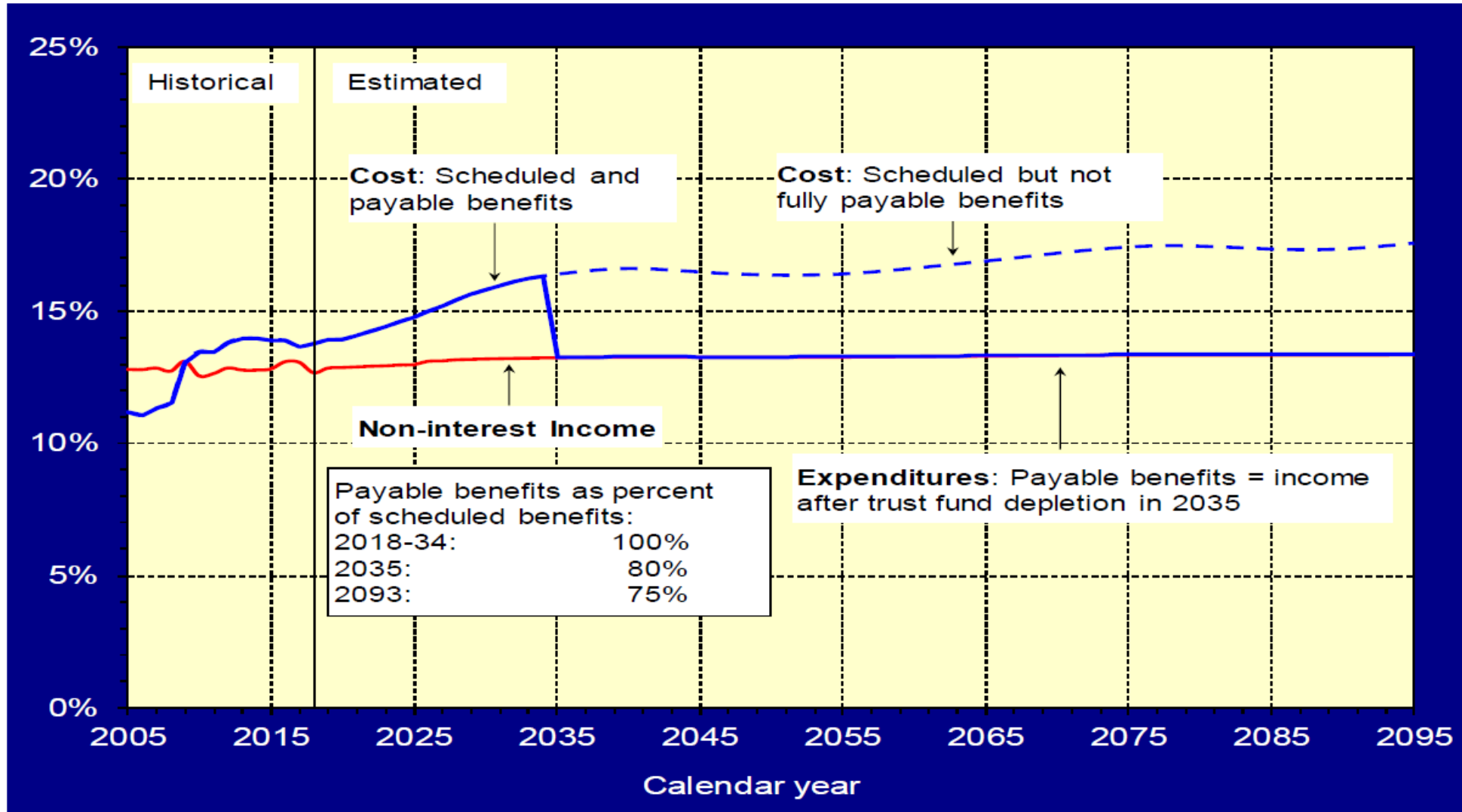
*[Percent of taxable payroll]*

	<u>OASI</u>	<u>DI</u>	<u>OASDI</u>	<u>HI</u>
Actuarial Deficit . . . . .	2.67	0.12	2.78	0.91

Note: Totals do not necessarily equal the sums of rounded components.

# The 2019 Annual Report for OASI and DI Trust Funds

## Projected income and costs



# Takeaways

- Cash flow (noninterest income less benefits paid) has been negative since 2010.
- Trust fund reserves are projected to be depleted in 2035.
- 80% of scheduled benefits still payable at trust fund reserve depletion.
- Currently the law does not allow Social Security to borrow.
- The Annual report does *not* make a prediction of what will happen. Rather, it presents a projection of the future under the assumption that the design of the Social Security program remains unchanged and the economic/demographic/other factors match the assumptions.
- What will likely happen?  
Most likely, Congress will act at some point before then to change the program in some way.  
The Annual Report serves as a tool to inform Congress about the necessity of changes.



# How are the projections made?

- Projection cover the next 75 years
- Assumptions (<https://www.ssa.gov/oact/TR/2019/index.html> )
  - Demographic (fertility, mortality, immigration)
    - => Result: projected SSA area population, detailed by age and gender
  - Economic (productivity growth, price inflation, real wage growth, unemployment rate, real interest rate, taxable ratio)
    - => Result: covered employment, taxable earnings
  - Disability (disability incidence rate, disability death rate, disability recovery rate)
    - => Important for the DI program, but also affects population, labor force, end employment
- Current design of the Social Security program (tax rates, benefit formula, annual indexing, COLA formula, etc.) are assumed unchanged
- Develop projections of population, covered employment, taxable earnings, tax revenue, benefit payments, etc.
- Determine the actuarial balance for the 75-year period, as well as the trust fund reserve depletion dates.

# Ultimate economic assumptions: a closer look

In 2019 Annual Report:

- Annual growth rate in total U.S. economy productivity: 1.63 percent
  - About 2.00 percent productivity growth in the nonfarm business sector
- Unemployment rate (age-sex adjusted): 5.5 percent
  - => Combined with projections of labor force and hours worked, this results in real GDP growth of about 2.0-2.1 percent per year
- Annual growth rate in average real wage: 1.21 percent
- Inflation (CPI-W): 2.6 percent
- Real interest rate: 2.5 percent

Important: Projections focus on long-term trends (no business cycles, not seeking to forecast actual GDP movements, etc.)

# Uncertainty of projections: What if reality differs from the assumptions?

The uncertainty is illustrated in three ways:

- Intermediate, low-cost, and high-cost alternatives

2019 Annual Report – OASDI Trust Fund			
	Intermediate	Low-cost	High-cost
Trust fund reserves depleted in...	2035	never	2030
Payable benefits as percent of scheduled benefits			
- at reserve depletion	80%	--	72%
- for 2093	75%	100%	53%

- Sensitivity analysis (Appendix D in the Annual Report)
  - Shows income rate, cost rate, the actual balance, and the year of trust fund reserve depletion for reasonable variations *in individual assumptions* (fertility rate, mortality, immigration, real wage, CPI-W, real interest rate, taxable ratio)
  - Variations in the assumptions alter the trust fund reserve depletion date by at most three years
- Stochastic projections (Appendix E in the Annual Report)

Trust Fund  
reserve depletion  
dates in Annual  
Reports since  
1990:  
  
varied from 2029 to  
2043.

**Table VI.B1.—Long-Range OASDI Actuarial Balances and Trust Fund Reserve Depletion Dates as Shown in the Trustees Reports for 1982-2019 under Intermediate Assumptions<sup>a</sup>**  
[As a percentage of taxable payroll]

Year of report	Summarized income rate	Summarized cost rate	Actuarial balance <sup>b</sup>	Change from previous year <sup>c</sup>	Year of combined trust fund reserve depletion
1982	12.27	14.09	-1.82	<sup>d</sup>	1983
1983	12.87	12.84	+0.02	+1.84	solvent
1984	12.90	12.95	-0.06	-0.08	solvent
1985	12.94	13.35	-0.41	-0.35	2049
1986	12.96	13.40	-0.44	-0.03	2051
1987	12.89	13.51	-0.62	-0.18	2051
1988	12.94	13.52	-0.58	+0.04	2048
1989	13.02	13.72	-0.70	-0.13	2046
1990	13.04	13.95	-0.91	-0.21	2043
1991	13.11	14.19	-1.08	-0.17	2041
1992	13.16	14.63	-1.46	-0.38	2036
1993	13.21	14.67	-1.46	<sup>d</sup>	2036
1994	13.24	15.37	-2.13	-0.66	2029
1995	13.27	15.44	-2.17	-0.04	2030
1996	13.33	15.52	-2.19	-0.02	2029
1997	13.37	15.60	-2.23	-0.03	2029
1998	13.45	15.64	-2.19	+0.04	2032
1999	13.49	15.56	-2.07	+0.12	2034
2000	13.51	15.40	-1.89	+0.17	2037
2001	13.58	15.44	-1.86	+0.03	2038
2002	13.72	15.59	-1.87	-0.01	2041
2003	13.78	15.70	-1.92	-0.04	2042
2004	13.84	15.73	-1.89	+0.03	2042
2005	13.87	15.79	-1.92	-0.04	2041
2006	13.88	15.90	-2.02	-0.09	2040
2007	13.92	15.87	-1.95	+0.06	2041
2008	13.94	15.63	-1.70	+0.26	2041
2009	14.02	16.02	-2.00	-0.30	2037
2010	14.01	15.93	-1.92	+0.08	2037
2011	14.02	16.25	-2.22	-0.30	2036
2012	14.02	16.69	-2.67	-0.44	2033
2013	13.88	16.60	-2.72	-0.05	2033
2014	13.89	16.77	-2.88	-0.16	2033
2015	13.86	16.55	-2.68	+0.20	2034
2016	13.84	16.50	-2.66	+0.02	2034
2017	13.84	16.67	-2.83	-0.17	2034
2018	13.84	16.69	-2.84	-0.02	2034
2019	13.81	16.60	-2.78	+0.06	2035

<sup>a</sup> This table shows the actuarial balance and year of trust fund reserve depletion based on the intermediate assumptions, which the 1982-90 reports referred to as alternative II-B and the 1991 and later reports refer to as alternative II.

<sup>b</sup> The definition and method of calculating the actuarial balance were changed in 1988 and 1991. See text for details.

<sup>c</sup> A detailed year-by-year breakdown of the reasons for the changes in the actuarial balance since the 1983 Trustees Report may be found in Actuarial Note 2019.8 at [www.ssa.gov/OACT/NOTES/ran8/](http://www.ssa.gov/OACT/NOTES/ran8/).

<sup>d</sup> Between -0.005 and 0.005 percent of taxable payroll.

Note: Totals do not necessarily equal the sums of rounded components.

# Conclusion / Takeaways

- Social Security is an important program, affecting millions of people, whether or not they currently receive benefits.
- Annual report on the financial status of OASI and DI trust funds is not meant to be a prediction of the future; rather, it is projections under a given set of assumptions.
- An important goal of the annual report is to lay out the facts about the financial status of the program, thus providing information to the Congress so that it can act in time to correct imbalances.
- Office of the Chief Actuary also uses the model underlying the Trustees Report projections to evaluate the effects on the financial status of Social Security of various reform provisions  
<https://www.ssa.gov/oact/solvency/index.html>