

US Social Security Finances

Background

- Social Security, created in the 1930s, is a system in which workers and employers are taxed and the proceeds of tax used to pay to workers and/or spouses in retirement.
- Presently, Social Security tax rates are 6.2% for each of workers and employers, up to 2024 earnings ceiling of \$168,600. Self employed / independent contractors pay full tax of 12.4% on their earnings. Rates in 1930s were 1%.
- There also is a Medicare tax of 1.45% for each of workers and employers and 2.9% for self employed / contractors, with no earnings ceiling.
- There is not a direct line from taxes collected to benefits paid. Rather, taxes are funneled into trust funds, and then benefits paid out of trust funds.

Background

- These Social Security trust funds are financial accounts in the U.S. Treasury.
 - The Old-Age and Survivors Insurance (OASI) Trust Fund pays retirement and survivors benefits.
 - The Disability Insurance (DI) Trust Fund pays disability benefits.
 - There also is a Medicare Trust fund for medical benefits.
- Social Security taxes and other income are deposited in these accounts, and Social Security benefits are paid from them. The only purposes for which these trust funds can be used are to pay benefits and program administrative costs.

Background

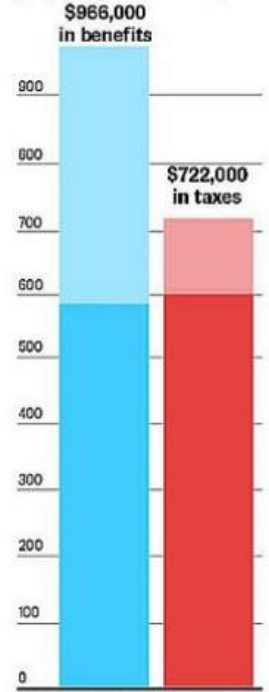
- During 2023, an estimated 183 million workers had earnings covered by Social Security and paid \$1.2 trillion in payroll taxes.
- More than 40 percent of current beneficiaries pay taxes on part of their benefits, and those taxes go OASDI trust funds and Medicare's Hospital Insurance Trust Fund. Income to combined SSA trust funds from these taxes amounts to \$49 billion.
- The trust funds also earned \$66 billion in interest payments on their accumulated reserves.
- Social Security trust funds hold money not needed in current year to pay benefits and administrative costs and, by law, invest this money in special Treasury bonds that are guaranteed by U.S. Government.
- A market rate of interest is paid to the trust funds on the bonds they hold, and when those bonds reach maturity or are needed to pay benefits, the Treasury redeems them.
- Source of above data is Social Security Administration database.

Social Security Taxes and Benefits Across Income Levels

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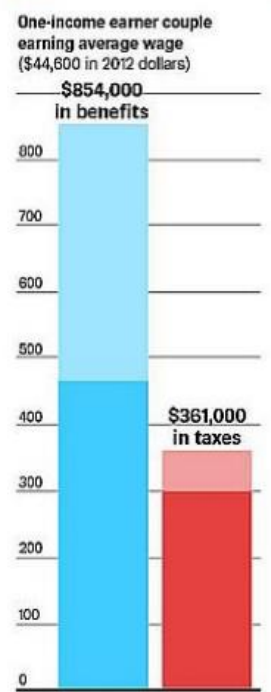
2 Income Couple Average Wage

Two-income couple earning average wage (\$44,600 each in 2012 dollars)



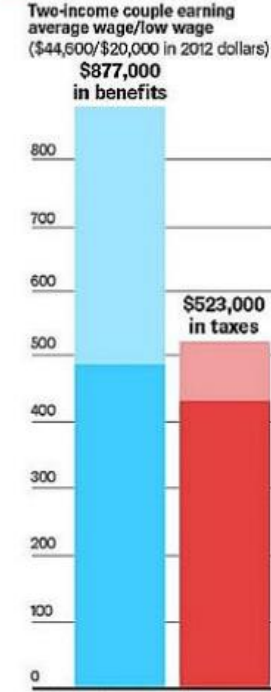
1 income couple Average Wage

One-income earner couple earning average wage (\$44,600 in 2012 dollars)



2 income couple Low Wage

Two-income couple earning average wage/low wage (\$44,600/\$20,000 in 2012 dollars)



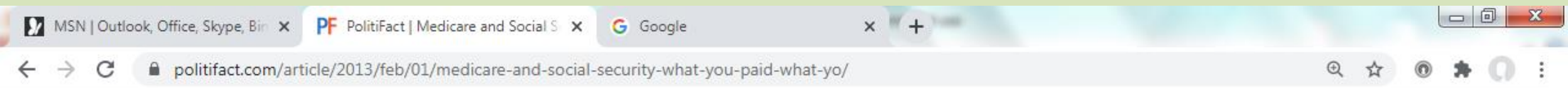
This and following 2 slides provide assessments of whether individuals in Social Security actually “make money” from being in program.

The red columns show taxes paid by average participants in various categories, the blue columns show benefits received. Darker segments show benefit:tax comparison for Social Security; the lighter areas the comparison for Medicare.

It appears the benefit:tax tradeoff for Medicare is better than for Social Security, which may be one reason Medicare trust fund is seen as exhausting sooner.



Social Security Taxes and Benefits Across Income Levels



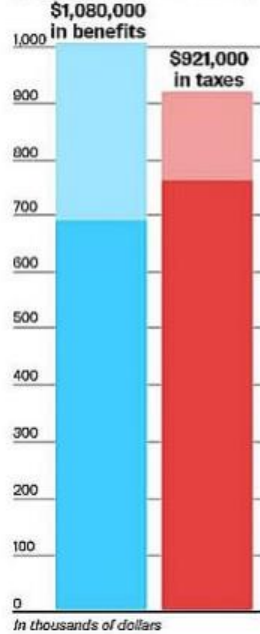
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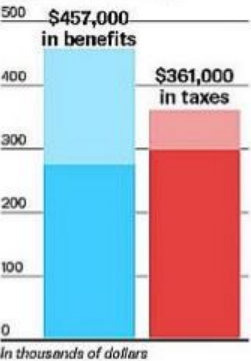
2 income couple High Wage

Two-income couple earning high wage/average wage (\$71,400/\$44,600 in 2012 dollars)



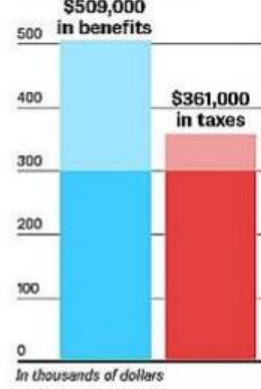
Single Male Average Wage

Single male earning average wage (\$44,600 in 2012 dollars)



Single Female Average Wage

Single female earning average wage (\$44,600 in 2012 dollars)



Note on this and the previous slide there is an income redistribution aspect to Social Security (although not Medicare) in that high wage earners “overpay” in taxes while low wage earners underpay.



Social Security Taxes and Benefits Across Income Levels

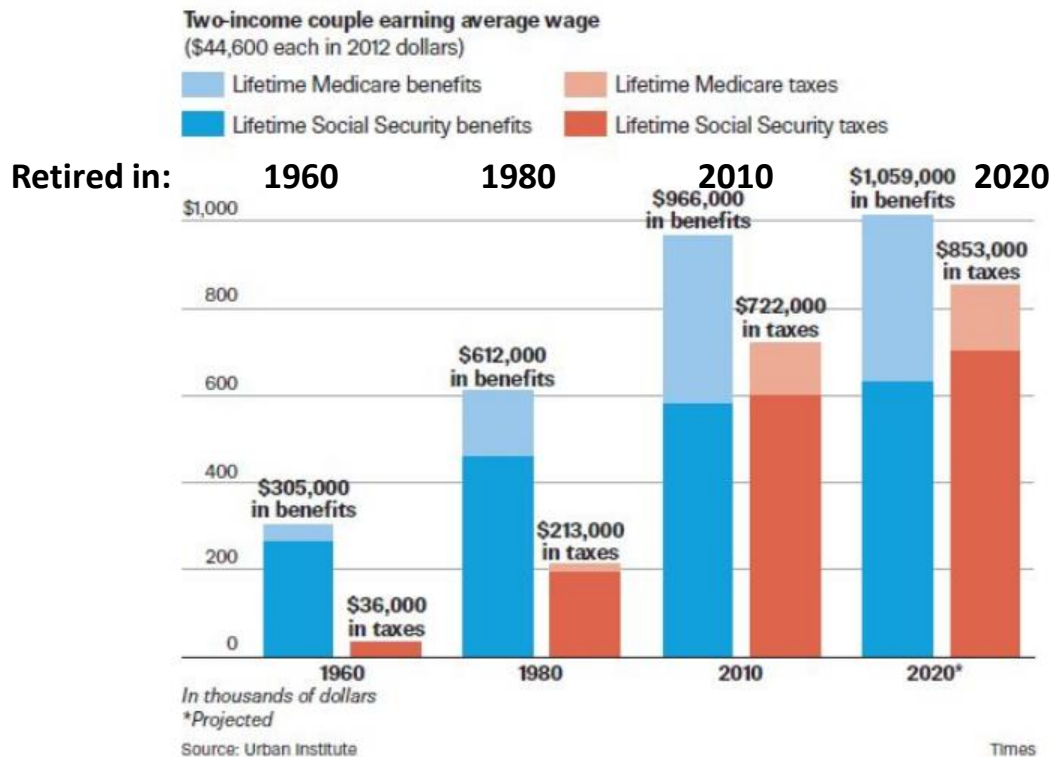
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politifact.com/article/2013/feb/01/medicare-and-social-security-what-you-paid-what-yo/

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Note on this slide the extent to which the net gains from Social Security decline as retirement dates get closer to present.



Windows taskbar with icons for Internet Explorer, Firefox, Chrome, and other applications. System tray shows the time as 10:14 PM on 10/23/2021.

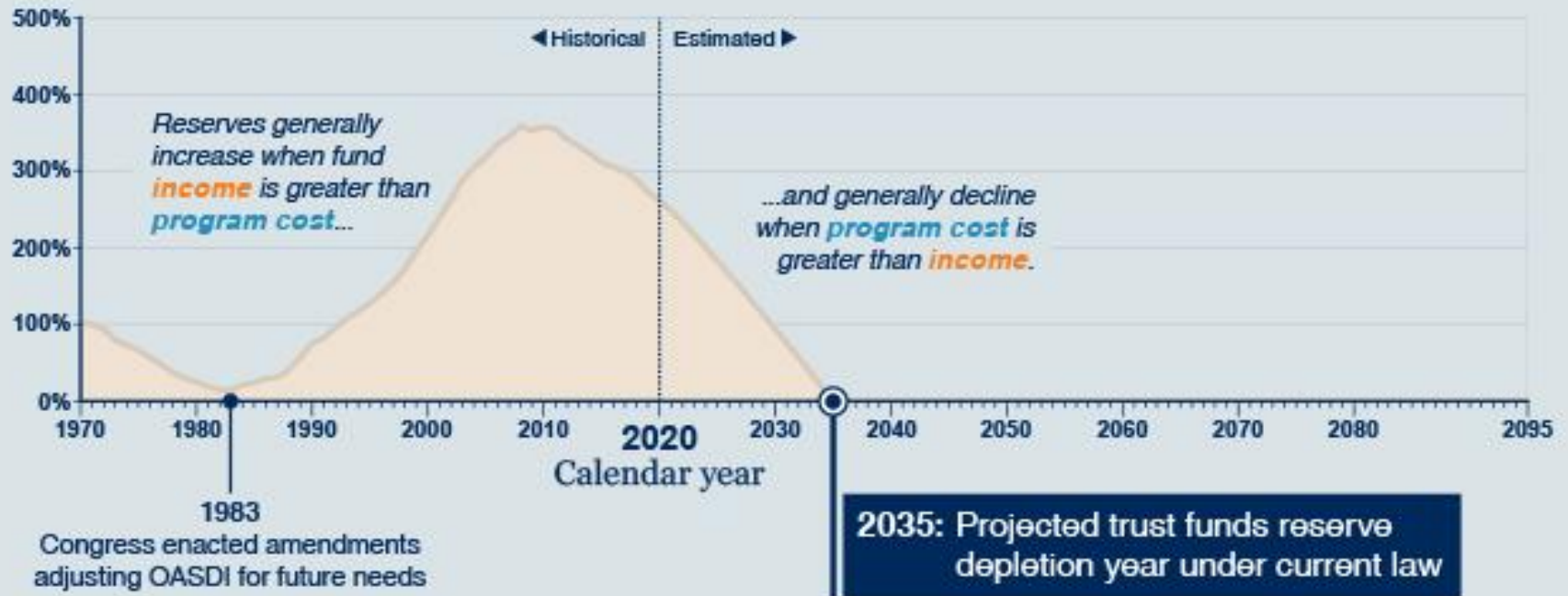
Present-Day Social Security Financial Problem

- At summary level, present-day Social Security financial problem is that, starting in last decade, after 30 years of opposite, amounts being paid out in benefits have exceeded amounts being taken in taxes and other earnings, and trust fund balances have been declining.
- According to most recent annual social security finances report, this decline in the trust fund will lead to its exhaustion in mid 2030s, 2034 to be exact according to Social Security Administration annual reports.
- The next few slides detail situation.

The Present-Day Social Security Financial Problem

Old-Age & Survivors Insurance (OASI) & Disability Insurance (DI) Combined Trust Funds Reserves

(as the ratio of start-of-year funds reserves to that year's program cost)



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Learn more at [SSA.gov/OACT/TR/](https://ssa.gov/OACT/TR/)

Source: 2020 Annual OASDI Trustees Report (intermediate assumptions)

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The Problem In Context of Other Trust Funds

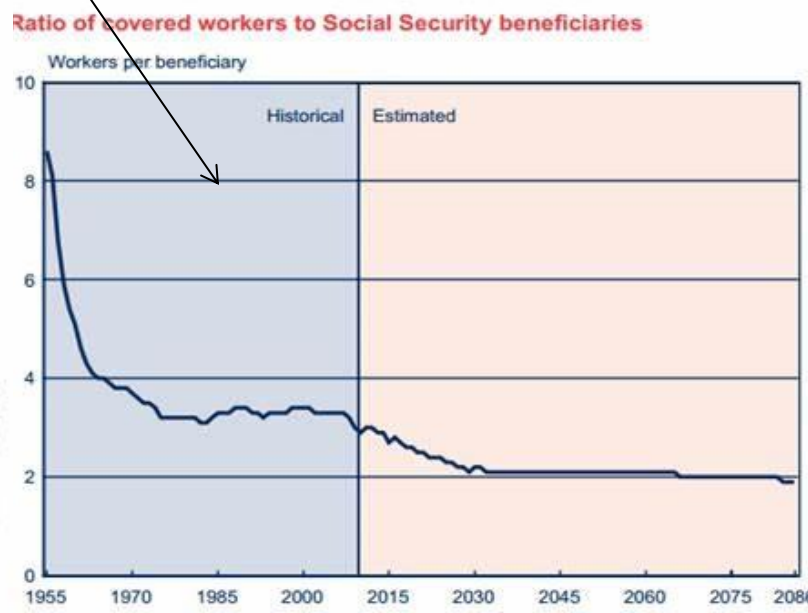
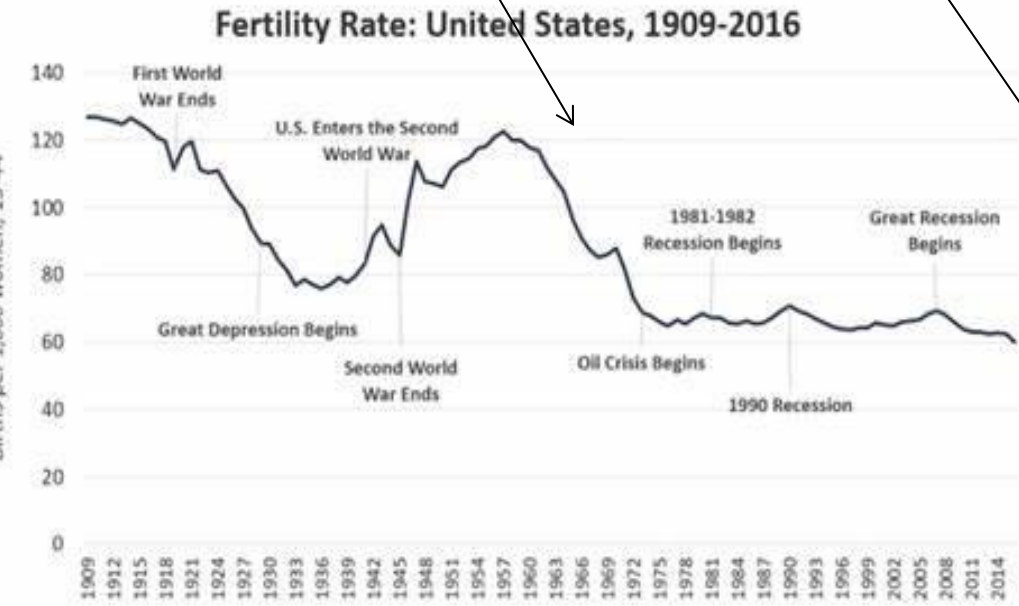
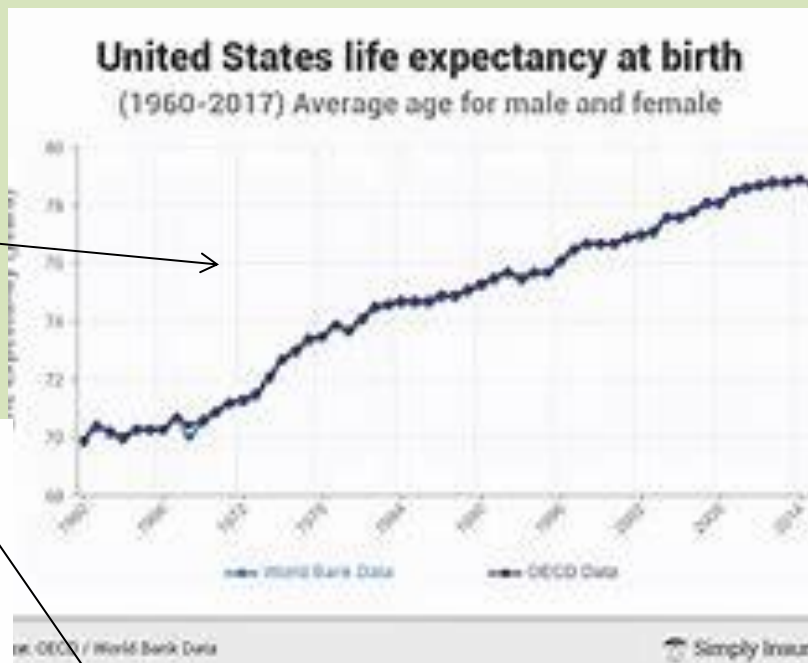
Table 1.
CBO's Baseline Projections of Trust Fund Balances
Billions of Dollars

	Actual, 2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Social Security												
Old-Age and Survivors Insurance	2,804	2,811	2,707	2,572	2,430	2,256	2,049	1,817	1,556	1,257	917	533
Disability Insurance ^a	97	95	80	63	48	29	10	0	0	0	0	0
Subtotal	2,901	2,907	2,787	2,636	2,477	2,285	2,059	1,817	1,556	1,257	917	533
Medicare												
Exhaustion now estimated for 2028												
Hospital Insurance (Part A) ^a	199	153	155	88	28	0	0	0	0	0	0	0
Supplementary Medical Insurance (Parts B and D)	105	115	128	109	114	152	173	194	211	182	240	240
Subtotal	303	268	283	197	142	152	173	194	211	182	240	240
Military Retirement												
Civilian Retirement ^b	827	905	1,005	1,106	1,212	1,323	1,436	1,553	1,559	1,564	1,567	1,567
Unemployment Insurance	960	976	996	1,015	1,034	1,054	1,073	1,093	1,114	1,135	1,157	1,179
Highway and Mass Transit ^a	84	0	0	70	69	67	53	49	44	56	66	71
Airport and Airway	28	11	0	0	0	0	0	0	0	0	0	0
Railroad Retirement (Treasury holdings) ^c	15	9	0	0	1	2	3	5	6	8	10	12
Other ^d	3	2	2	2	2	2	2	1	1	1	1	1
Other ^d	124	124	126	128	130	132	134	137	140	142	145	149
Total Trust Fund Balance	5,246	5,203	5,200	5,153	5,068	5,017	4,933	4,849	4,632	4,346	4,103	3,752
Memorandum:												
Railroad Retirement (Non-Treasury holdings) ^c	24	23	22	20	19	18	17	15	14	14	13	13

Causes of Problem

Part of reason is demographics. There have been:

- # Sharp increase in lifespans, raising number of beneficiaries;
- # Sharp drop in birth rates, lowering number of paying in workers,
- # Leading to sharp drop in workers per beneficiary.



Note: Fertility rate is number of births per 1,000 women 15-44 years of age. Data prior to 1960 have been adjusted by the U.S. Census Bureau for under-registration. Data for census years (starting with 1940) are based on population enumeration as of April 1 whereas enumeration for all other years is as of July 1. Data for 1951-1954 and 1956-1971 are based off a 50% sample of births. Data 1972-1984, some states reporting are based off a 50% sample of births.

Source: NCHS, national vital statistics report, vol 66, no 1 (for data 1960-2015). NCHS, Vital Statistics of the United States, 2003, Volume 1, Natality (for data 1909-1960). POPULATION RESEARCH INSTITUTE

Source: Internet Websites

Causes of Problem

- Another reason is growth in generosity of benefits, as shown below.

Average real Social Security monthly benefit for retirees



Source: Internet Website

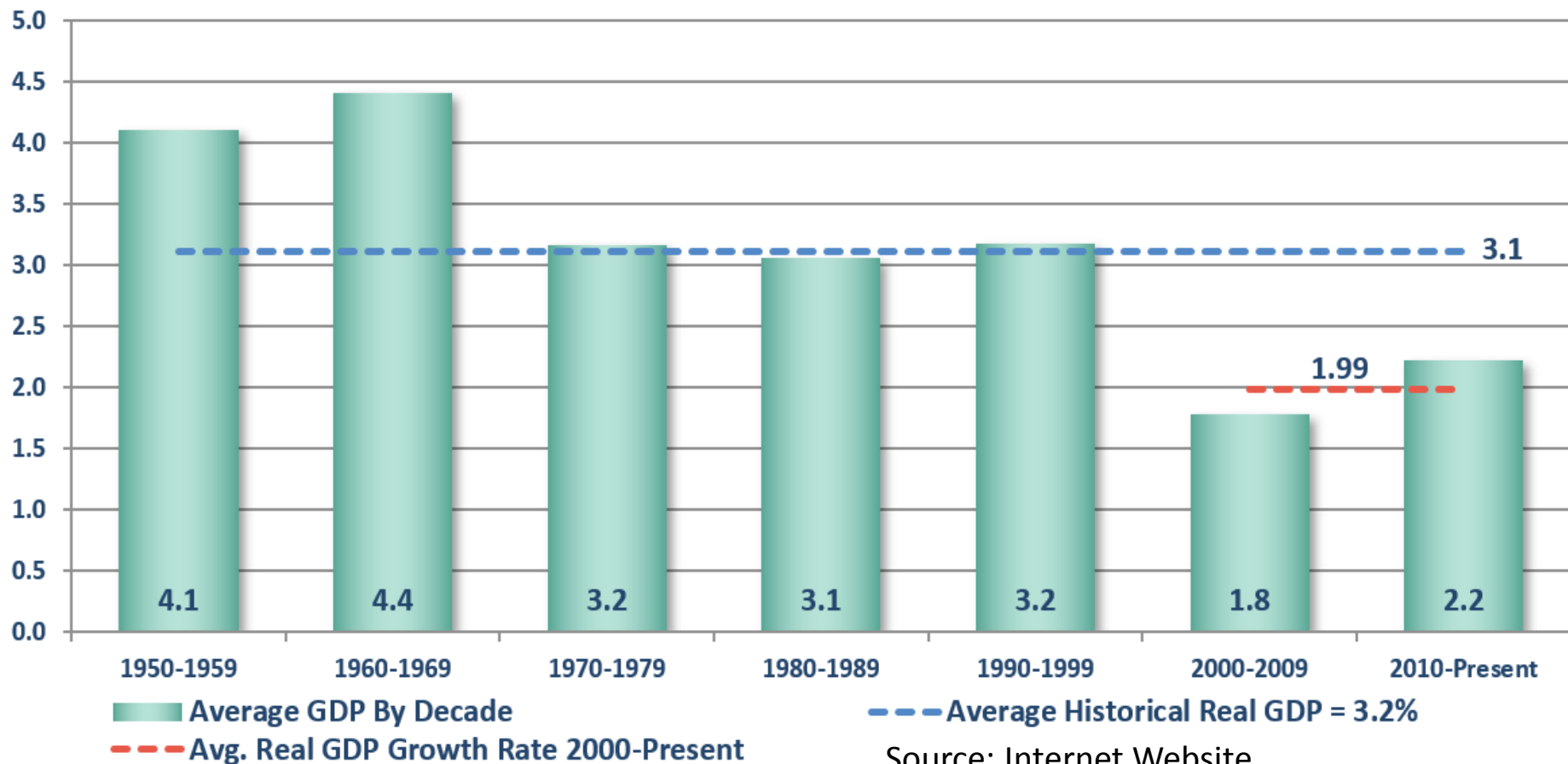
Causes of Problem

- A final contributor to problem is slower rates of US economic growth. Amount of social security taxes collected is based on number of workers and their earnings. If Real GDP growth slows over time, employment and earnings growth slow, and collections of social security taxes slow as well, and that has and is happening.

Real GDP Average Per Decade



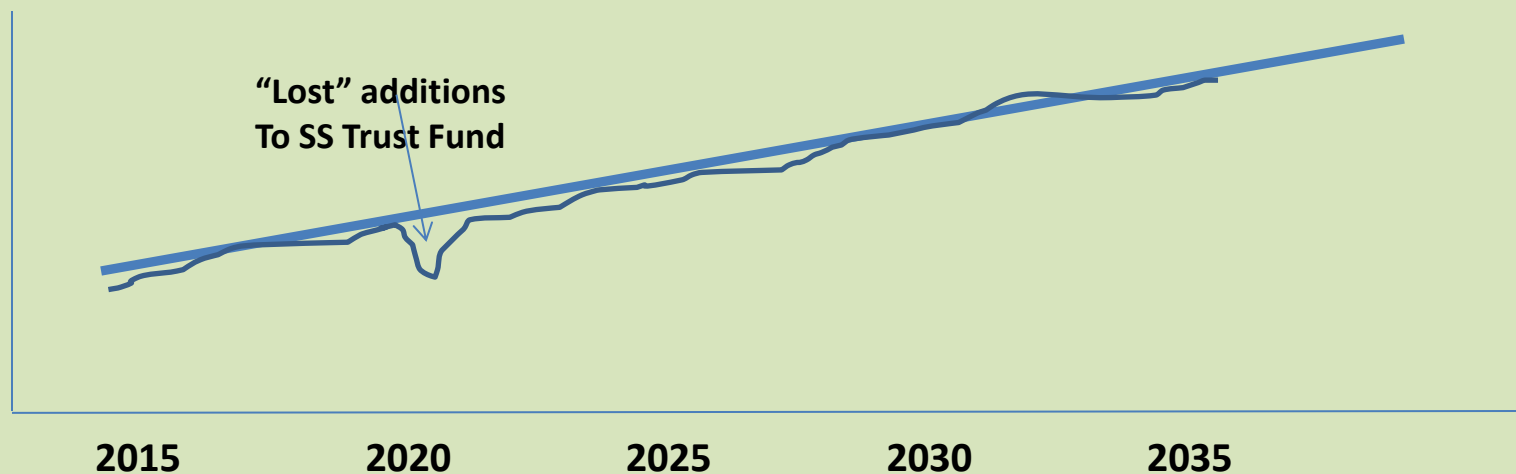
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Impact of Covid Recession

- Covid recession initially was thought to likely have major negative impact on social security financial situation by reducing number working and amount of earnings from what was assumed in projections. However, while recession was deep, it was very short lived, SSA estimates little negative impact, with the 2035 date being projected before Covid recession being brought forward by only 1 year. Below graph illustrates, with darker line showing projections before Covid recession, and lighter line after Covid.

Social Security Tax Collections

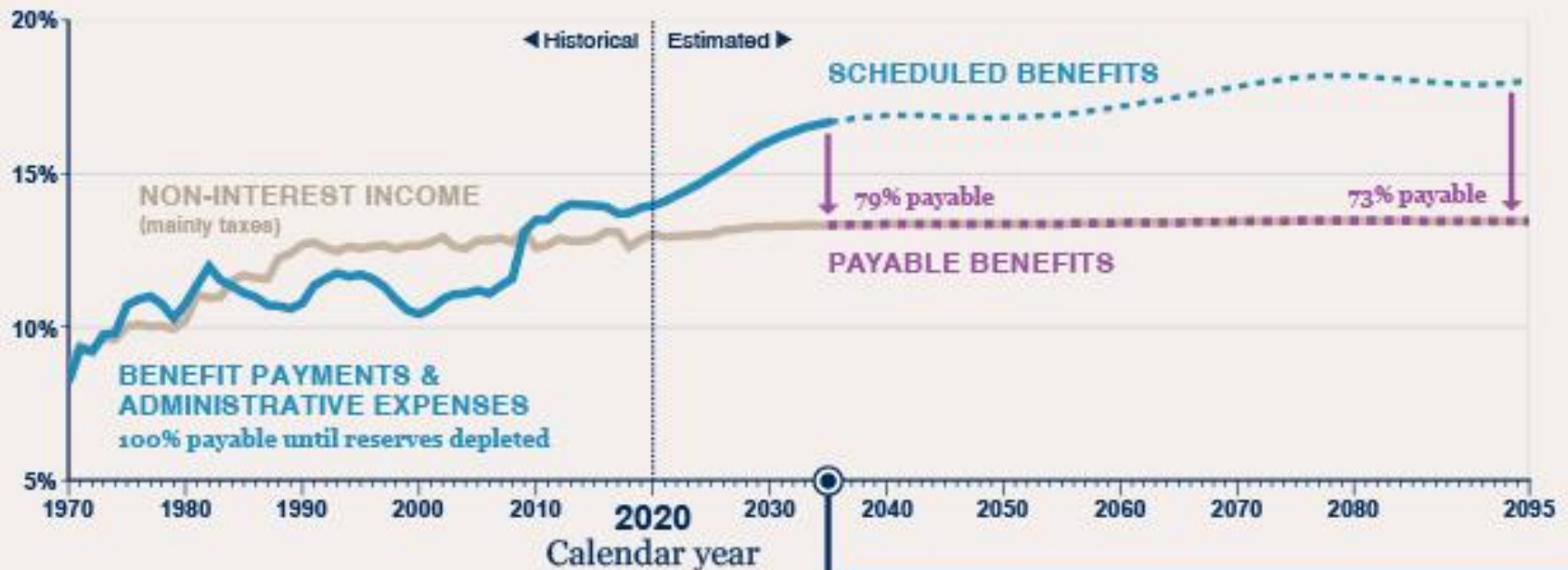


What Happens If Trust Fund Depleted

- Depletion of trust fund does not mean that social security benefits will cease, as there will still be taxes coming in to pay benefits, but it does mean there will be a sharp, somewhere around 20%, drop in benefits paid. Below chart illustrates this.

Annual OASDI Non-Interest Income & Cost
(as a percentage of OASDI taxable payroll)

Source: 2020 Annual
OASDI Trustees Report
(intermediate assumptions)



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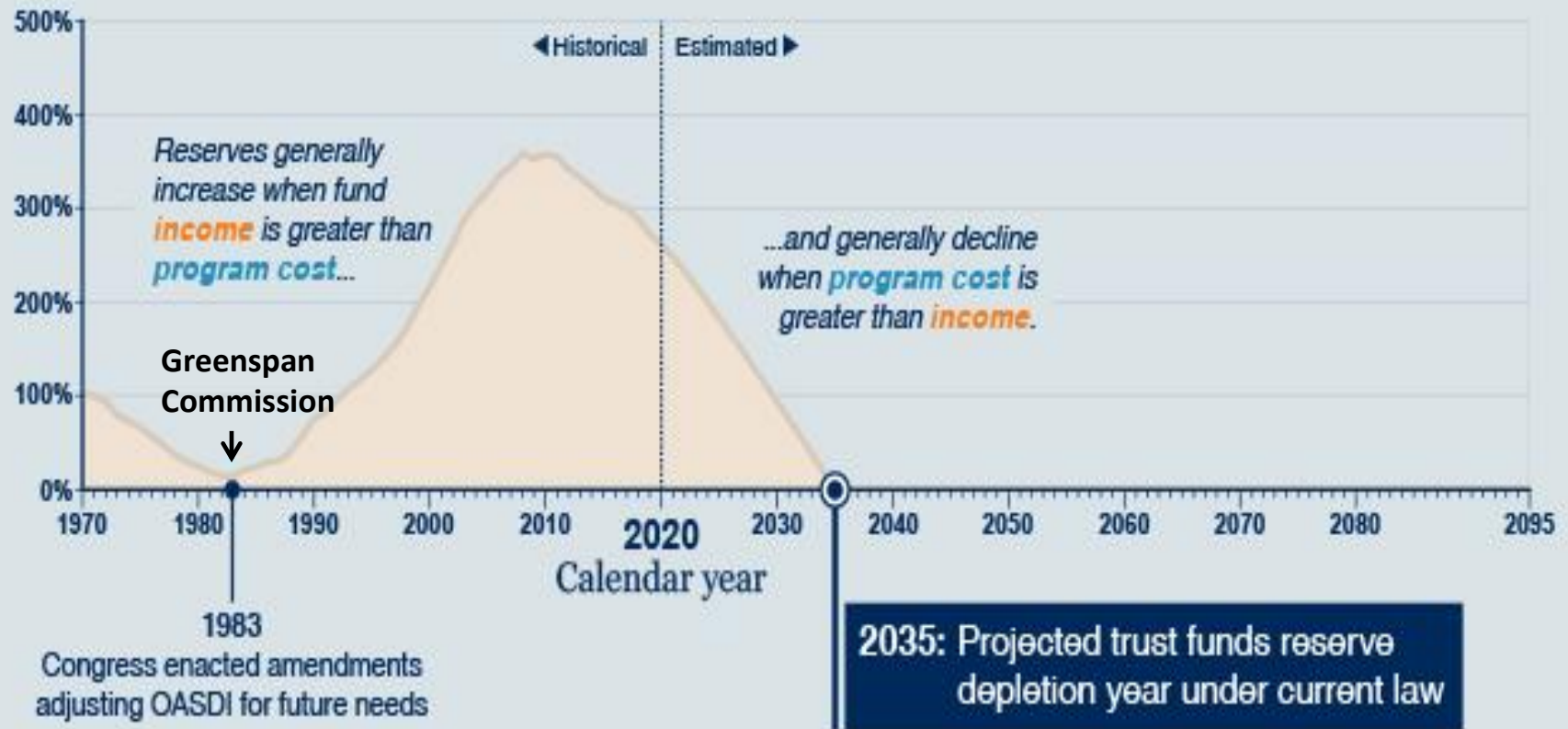
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What Can/Should Be Done

- Social Security Trust Fund has been in this situation of rapidly declining and potential depletion of reserves before, and even more severely, in the early 1980s as shown on Slide 9.
- The solution then was that President Reagan appointed commission, headed by Alan Greenspan and known as Greenspan Commission, made up of both Democrats and Republicans, government and private sector experts, that studied problem, made recommendations that were largely enacted, and, as shown on the repeat of Slide 9 on next slide, took care of the problem for 3 ½ decades.

Old-Age & Survivors Insurance (OASI) & Disability Insurance (DI) Combined Trust Funds Reserves

(as the ratio of start-of-year funds reserves to that year's program cost)



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Source: 2020 Annual OASDI Trustees Report (intermediate assumptions)

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Some Details on Greenspan Commission

- The National Commission on Social Security Reform (NCSSR), chaired by [Alan Greenspan](#), was empaneled to investigate long-run solvency of Social Security. The 1983 Amendments to the SSA were based on NCSSR's Final Report. The NCSSR recommended enacting six-month delay in COLA and changing tax-rate schedules for the years between 1984 and 1990. It also proposed an income tax on the Social Security benefits of higher-income individuals.
- Also of concern was long-term prospect Social Security because of demographic considerations. Of particular concern was issue of what would happen when people born during the [post-World War II baby boom](#) retired. NCSSR made several recommendations for addressing the issue. Under the 1983 amendments to Social Security, a previously enacted increase in payroll tax rate was accelerated, additional employees were added to system, full-benefit retirement age was slowly increased, and up to one-half of value of Social Security benefit was made potentially taxable income.

Specific Actions That In Some Combination Must Happen In Present Situation

- **Actions To Prevent Depletion**

- # Reduce growth rate of benefits. Benefits do not have to be reduced absolutely, just rate of growth slowed. This can be accomplished by raising retirement age, changing COLA formula, raising taxes on social security benefits, among other ways.
- # Increase social security contribution tax rate on employees and employers and self employed.
- # Raise or abolish income limit on which SS tax falls.

- **Actions Dealing With Depletion**

- # Let Trust Fund exhaust and then earmark general tax revenues to keep benefits at scheduled levels; estimates place the amount of additional taxes that would be required at 1-2 percent of GDP / 4-8 percent increase in Federal taxes.
- # Let benefits fall to levels payable with current year social security taxes.
- To prevent depletion, less a matter of which, but when. Starting soon enables relative minor adjustments, whereas waiting close to depletion forces much larger changes. Next slide shows a simple, illustrative, so-called static, i.e, not accounting for impacts on GDP tax base, solution.

What Can/Should Be Done – An Example

Baseline Projection
\$ bil

	Actual,												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
OASI Trust Fund													
Beginning-of-Year Balance	2,801	2,804	2,811	2,707	2,572	2,430	2,256	2,049	1,817	1,556	1,257	917	
Income (Excluding interest)	820	879	823	853	913	954	996	1,047	1,096	1,143	1,190	1,235	
Expenditures	-897	-949	-996	-1,049	-1,108	-1,173	-1,242	-1,313	-1,385	-1,468	-1,549	-1,633	
Noninterest Deficit (-)	-76	-70	-173	-196	-195	-219	-246	-266	-289	-324	-360	-398	
Interest Received	80	77	69	62	52	45	39	34	29	25	20	14	
Total Deficit (-) or Surplus	3	7	-104	-135	-142	-174	-207	-232	-260	-300	-340	-384	
End-of-Year Balance	2,804	2,811	2,707	2,572	2,430	2,256	2,049	1,817	1,556	1,257	917	533	

Alternative Projection: Assumes in 2022, that the social security tax rate was raised by 1.2 percentage point ,split between employees and employers, and growth rate in benefits is cut from 5.6 to 4.5 percent a year.

\$bil

	Actual,												
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
OASI Trust Fund													
Beginning-of-Year Balance	2,801	2,804	2,811	2,707	2,658	2,618	2,567	2,505	2,440	2,367	2,283	2,186	
Income (Excluding interest)	820	879	823	938	1004	1049	1096	1152	1206	1257	1309	1359	
Expenditures	-897	-949	-996	-1,049	-1,096	-1,146	-1,197	-1,251	-1,307	-1,366	-1,428	-1,492	
Noninterest Deficit (-)	-77	-70	-173	-111	-92	-96	-101	-99	-102	-109	-119	-133	
Interest Received	80	77	69	62	52	45	39	34	29	25	20	14	
Total Deficit (-) or Surplus	3	7	-104	-49	-40	-51	-62	-65	-73	-84	-99	-119	
End-of-Year Balance	2,804	2,811	2,707	2,658	2,618	2,567	2,505	2,440	2,367	2,283	2,185	2,065	

Source: CBO and my calculations

References

- <https://www.nasi.org/sites/default/files/research/2020%20Social%20Security%20Trustees%20Report%20-%20Issue%20Brief.pdf#:~:text=The%202020%20Social%20Security%20Trustees%20Report%20updates%20projections,financial%20status%20of%20the%20Social%20Security%20system.%20Social>
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- https://www.forbes.com/sites/eriksherman/2020/08/26/trumps-payroll-tax-cut-social-security-2023/?fbclid=IwAR2MpZpxV19M5IORCE8XNOq4zXBliBx7un6PaKgewtnhOAFt_Mpqk99CU6w#1b7510121180