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Commentary

THE BUFFIN FOUNDATION SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

The 2017 Social Security Trustees Report

The 2017 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance (OASDI) Trust Funds presents updated information regarding the financial status of the United States Social Security system. The Board of Trustees is composed of six members: Secretary of the Treasury, Secretary of Labor, Secretary of Health and Human Services, Commissioner of Social Security, and two appointed public trustees. At the end of 2016, the OASDI program was providing benefit payments to 61 million persons, including 44 million retired workers and dependents, 6 million survivors of deceased workers, and 11 million disabled workers and dependents. During 2016, 171 million persons paid payroll taxes into the system. Income and expenditures for the year were $957 billion and $922 billion respectively. At the end of the year, assets of the system amounted to $2.848 trillion, invested in special issue US Treasury securities. Since the outset of the system, cumulative revenues including interest have aggregated $19.9 trillion, and cumulative benefits and administrative costs have aggregated $17.1 trillion. The main focus of the annual trustees reports is to evaluate the relationship between the actuarial values of the system's available future projected cash flows for income and expenditures as provided under current law. For this purpose, future projections are made over periods of 25 years, 50 years, and 75 years. The results of these projections provide a useful guide to the solvency and sustainability of the system. In this context, solvency refers to the extent of the adequacy of revenue cash flows (including the invested reserve assets) to meet scheduled benefits and administrative expenses. The results may also be applied to determine the requisite payroll tax rate necessary to establish an equal balance (or equilibrium) between projected cash flows for income and expenditures.

The basic unit of measurement for presenting the main results of these financial projections is as a percentage of the covered taxable earnings of workers in the system. The current payroll tax rate for 2017, payable by both workers and employers is 6.20 percent of covered earnings up to a limit of $127,200. The trustees present the projection results on three different bases: low-cost, intermediate, and high-cost, so as to allow for a range of plausible outcomes in the underlying economic and demographic assumptions. The trustees report discloses the key projected rates for asset-income and liability-outgo as percentages of covered earnings. The trustees state that the degree of reliability of the projections decreases as the length of term of the projections increases. On the low-cost projection basis, the derived solvency metrics (or cash flow adequacy) for 25 years, 50 years and 75 years are respectively 104.95 percent, 102.30 percent, and 101.95 percent. On the intermediate projection basis, the corresponding metrics are 93.43 percent, 86.76 percent and 83.88 percent. On the high-cost projection basis, the corresponding metrics are 82.44 percent, 73.11 percent, and 68.72 percent. The derived solvency equilibrium payroll tax rates, corresponding to the current 6.20 percent rate, that would be required in order to meet in full the projected expenditures for all scheduled benefits and administrative expenses, are useful guides to the solvency and sustainability situation of the system. On the low-cost projection basis, the payroll tax equilibrium metrics for 25 years, 50 years and 75 years are respectively, 5.86 percent, 6.05 percent, and 6.07 percent. On the intermediate projection basis, the corresponding metrics are 6.72 percent, 7.27 percent, and 7.53 percent. On the high-cost projection basis, the corresponding metrics are 7.79 percent, 8.83 percent, and 9.42 percent.

It is of interest to study not only the results of the latest trustees report, but also trends in the key metrics from previous reports over a period of years, such as ten years. Between 2007 and 2017, the solvency ratio on the intermediate basis for the 75-year projections declined from 88.49 percent to 83.88 percent. On the same intermediate basis and over the same 75-year projection period the requisite equilibrium payroll tax rate increased from 7.11 percent to 7.53 percent. The reasons for these ten-year secular changes may be attributed to two key components; one is simply the change in the projection period as the years beyond the original 75-years are incrementally included in the projection in successive annual trustees reports. The other main component is attributable to deviations of the actual emerging experience with respect to economic and demographic factors, as compared to the underlying assumptions incorporated in the projection model. Other factors, such as program-specific changes may also have an effect on the reported results. This attribution analysis merits further research, but the information available in the trustees report indicates that the greater part of this secular change is attributable to the extensions of the projection period and is accordingly a more significant factor than the net effect of deviations and fluctuations in emerging economic and demographic experience relative to the projection model assumptions.

The Buffin Foundation

1629 K Street, NW
Suite 300
Washington, DC 20006

Email: info@buffinfoundation.org
www.buffinfoundation.org