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Commentary

THE BUFFIN FOUNDATION SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

The 2019 Social Security Trustees Report

The 2019 Annual Report of the Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance (OASDI) Trust Funds presents information regarding the financial status of the U.S. 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 2018, the OASDI program was providing benefits to 63 million persons, including 47 million retired workers and dependents, 6 million survivors of deceased workers, and 10 million disabled workers and dependents. During 2018, 176 million persons paid payroll taxes into the system. Income and expenditures for the year were $1003 billion and $1000 billion respectively. At the end of the year, assets of the system amounted to $2.895 trillion, invested in special-issue Treasury securities. Since the outset of the system, cumulative revenues including interest have aggregated $21.9 trillion, compared to cumulative benefits and administrative costs of $19.0 trillion. The main purpose of the trustees' report is to evaluate the relationship between the actuarial values of the system's expected 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 between projected cash flows for income and expenditures.

The unit of measurement for presenting the main results of these financial projections is a percentage of the covered taxable earnings of workers in the system. The current payroll tax rate for 2019, payable by both workers and employers is 6.20 percent of covered earnings up to a limit of $132,900. 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 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 solvency metrics (or cash flow adequacy) for 25 years, 50 years and 75 years are respectively 104.53 percent, 102.69 percent, and 102.50 percent. On the intermediate projection basis, the corresponding metrics are 93.03 percent, 86.93 percent and 84.10 percent. On the high-cost projection basis, the corresponding metrics are 82.57 percent, 73.47 percent, and 68.86 percent. The solvency equilibrium payroll tax rates, corresponding to the current 6.20 percent rate, that would be required to meet in full the projected expenditures for all scheduled benefits and administrative expenses, are useful guides to the solvency and sustainability of the system. On the low-cost projection basis, the payroll tax equilibrium metrics for 25 years, 50 years and 75 years are respectively, 5.89 percent, 6.02 percent, and 6.04 percent. On the intermediate projection basis, the corresponding metrics are 6.75 percent, 7.25 percent, and 7.51 percent. On the high-cost projection basis, the corresponding metrics are 7.77 percent, 8.77 percent, and 9.39 percent. It is particularly noteworthy that the 2019 results are more favorable than the 2018 results, indicating an improvement in the system's solvency and sustainability.

A particular focus of the trustees' reports is the projected size of the trust fund over its expected lifetime. The trust fund's projected future level, in relation to the projected annual cost of benefits, is referred to as the trust fund ratio, or a measure of how many years of benefit payout it will provide. The nature of the trust fund is essentially a stabilization reserve that arises from the financing arrangement whereby the projected trajectory of increasing annual costs is financed by a revenue stream that is provided principally by a fixed payroll tax rate applied to workers' covered earnings. The resulting effect of this financing arrangement over a 75-year period is that the trust fund is expected to accumulate in the early years while the revenue exceeds outgo, and then decline in later years when the outgo exceeds revenue. It is designed to reach a maximum approximately around the middle of the 75-year period and to reach zero at the end of the 75-year period. This so-called "trust fund exhaustion" is not an unexpected weakness of the system; it is inherent in the financing arrangement. At the present time the trust fund amounts to $2.895 trillion representing only a small fraction (about 3.3 per cent) of the 75-year projected costs of $87.229 trillion, whereas future payroll tax revenue amounts to $65.801 trillion (about 75 percent).

The Buffin Foundation

1629 K Street, NW
Suite 300
Washington, DC 20006

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