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Commentary

THE BUFFIN FOUNDATION SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

The 2020 Social Security Trustees Report

The 2020 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. At the end of 2019, the OASDI program was providing benefits to 64 million persons, including 48 million retired workers and dependents, 6 million survivors of deceased workers, and 10 million disabled workers and dependents. During 2019, 178 million persons paid payroll taxes into the system. Income and expenditures for the year were $1,062 billion and $1,059 billion respectively. At the end of the year, assets of the system amounted to $2.897 trillion, invested in special-issue Treasury securities. Since the outset of the system, cumulative revenues including interest have aggregated $23.9 trillion, compared to cumulative benefits and administrative costs of $21.0 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 2020, payable by both workers and employers is 6.20 percent of covered earnings up to a limit of $137,700. 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 102.88 percent, 100.51 percent, and 100.15 percent. On the intermediate projection basis, the corresponding metrics are 91.39 percent, 85.11 percent and 82.05 percent. On the high-cost projection basis, the corresponding metrics are 81.34 percent, 72.13 percent, and 67.31 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, 6.00 percent, 6.17 percent, and 6.19 percent. On the intermediate projection basis, the corresponding metrics are 6.89 percent, 7.43 percent, and 7.72 percent. On the high-cost projection basis, the corresponding metrics are 7.91 percent, 8.97 percent, and 9.65 percent. It is noteworthy that the 2020 results are less favorable than the 2019 results, indicating a decline in the system's solvency and sustainability.

A particular focus of the trustees' report 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 $2.897 trillion representing only a small fraction (about 3.1 percent) of the 75-year projected costs of $93.595 trillion, whereas future payroll tax revenue amounts to $68.739 trillion (about 73 percent).

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