Section 3. Social Security Financing

## OVERVIEW

This section presents an overview of the financing of the old-age, survivors, and disability insurance (OASDI) trust funds and provides a summary of the short- and long-term projections for the financial solvency of these funds.

## CURRENT LAW FINANCING

The Social Security programs, or old-age, survivors, and disability insurance and hospital insurance trust funds (OASDHI), are primarily financed through the payroll tax and from income taxes paid on Social Security benefits. The payroll tax is imposed on covered earnings up to a specific dollar amount. Workers who earn more than the maximum taxable earnings base do not pay FICA (Federal Insurance Contributions Act) or SECA (Self-Employed Contributions Act) tax on their earnings above the base. Table 3-1 shows income to the OASI and DI trust funds for selected years.

Most of current income to the system goes out directly to meet current benefit obligations. Benefit outlays are made under a permanent appropriation, equal to the amount to which beneficiaries are entitled based on their earnings records, and are not limited to the amount of revenue credited to the trust fund from contributions and interest. If, as occurred in the early 1980's, yearly income is insufficient to cover benefit payments, reserves are used to make up the difference.

Any funds collected in excess of the amount needed to make benefit payments are credited to the trust funds as reserves, in the form of Government securities. These reserves serve as a cushion against temporary shortfalls in revenues or large increases in outlays due to economic fluctuations; the reserves also provide interest income to the trust funds. As a result of the Social Security Amendments of 1983, OASDI reserves are projected to build rapidly in the next quarter century.

The payroll tax is levied on earnings in employment covered by Social Security, with portions of the total tax rate allocated by law to each of the three trust funds (OASI, DI and HI). All persons who work in covered employment pay this mandatory tax on their earnings up to a maximum dollar amount (known as the maximum taxable earnings base, or wage base). Employers pay an equal tax for these workers. Beginning in 1991, two separate wage bases were made effective, one for the OASDI tax and another for the HI tax. As a result of the Omnibus Budget Reconciliation Act of 1993, the wage base for the HI portion of the payroll tax was eliminated beginning in 1994.

Prior to 1984, self-employed workers paid a tax rate which was less than the combined employee-employer rate. Effective in 1984, self-employed workers began to pay Social Security taxes that were equivalent to the combined employer-employee rate and to receive a partial credit against that tax through 1989. Effective in 1990 and thereafter, the credit was replaced with a system designed to achieve parity between employees and the self-employed. Under this system:

1. The base of the self-employment tax is adjusted downward to reflect the fact that employees do not pay FICA tax on the value of the employer's FICA tax. The base is equivalent to net earnings from self-employment (up to the taxable wage base) less 7.65 percent.
2. A deduction is allowed for income tax purposes, for half of SECA liability, to allow for the fact that employees do not pay income tax on the value of the employer's FICA tax.

TABLE 3-1.--INCOME TO THE OASI AND DI TRUST FUNDS FOR SELECTED FISCAL YEARS

[Dollars in millions]

| Fiscal year\1\ | 1970 | 1975 | 1980 | 1985 | 1990 | 1994\2\ | 1998\2\ |
|---|---|---|---|---|---|---|---|
| OASI: | | | | | | | |
| Net contributions.............. | $29,955 | $56,017 | $97,608 | $175,305 | $261,506 | $309,518 | $386,793 |
| Income from taxation of | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| benefits | ......... | ......... | ......... | 3,151 | 2,924 | 5,392 | 7,461 |
| Payments from the general fund | 442 | 447 | 557 | 105 | 34 | 10 | 3 |
| Net interest | 1,350 | 2,292 | 1,886 | 1,321 | 14,143 | 28,388 | 43,088 |
| Total | 31,746 | 58,757 | 100,051 | 179,881 | 278,607 | 343,308 | 437,345 |
| DI: | | | | | | | |
| Net contributions | 4,141 | 7,356 | 16,805 | 16,876 | 27,291 | 33,158 | 41,448 |
| Income from taxation of benefits | ......... | ......... | ......... | 218 | 158 | 303 | 439 |
| Payments from the general fund | 16 | 52 | 118 | ......... | ......... | ......... | ......... |
| Net interest\3\ | 223 | 512 | 453 | 890 | 766 | 685 | -1,274 |
| Total | 4,380 | 7,920 | 17,376 | 17,984 | 28,215 | 34,146 | 40,613 |
| Grand total--OASI and DI | 36,126 | 66,677 | 117,427 | 197,865 | 306,822 | 377,454 | 477,958 |

\1\Under the Congressional Budget Act for 1974, fiscal years 1977 and later consist of the 12 months ending on September 30 of each year. Fiscal years prior to 1977

consist of the 12 months ending on June 30 of each year.
\2\Based on President Clinton's fiscal year 1995 budget assumptions.
\3\Assets of the DI Trust Fund are estimated to be exhausted in 1996. For projection purposes, it is assumed that the DI Trust Fund could borrow money, to be repaid with interest, on the same terms that it normally would invest positive trust fund balances.

Source: Office of the Actuary, Social Security Administration.

Under current law, as of January 1994, the employer and employee each pay an OASDI tax equal to 6.20 percent of the first $60,600 of earnings and an HI tax equal to 1.45 percent on all earnings. (Self-employed persons pay 15.30 percent.) In general, increases in the wage base are automatic, based on the increase in average wages in the economy (excluding self-employment earnings) each year.\1\ (The Omnibus Reconciliation Act of 1989 raised the wage base beyond the automatic increase by including certain types of ``deferred compensation,'' such as contributions to section 401(k) retirement plans, in the calculation of the average wages.)

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\1\Increases in the wage base are triggered whenever cost-of-living adjustments are granted to Social Security beneficiaries and are effective on a calendar year basis.

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Tables 3-2, 3-3, and 3-4 show payroll tax rates, annual wage bases and maximum annual contributions.

TABLE 3-2.--PAYROLL TAX RATES FOR EMPLOYEES AND EMPLOYERS AND WAGE BASE LEVELS

| Calendar years | OASDI wage base\1\ | Tax rates (percent) for employer and employee, each: Total | OASI | DI | HI |
| --- | --- | --- | --- | --- | --- |
| 1937-49..................... | $3,000 | 1.000 | 1.000 | ....... | ....... |
| 1950....................... | 3,000 | 1.500 | 1.500 | ....... | ....... |
| 1951-53..................... | 3,600 | 1.500 | 1.500 | ....... | ....... |
| 1954....................... | 3,600 | 2.000 | 2.000 | ....... | ....... |
| 1955-56..................... | 4,200 | 2.000 | 2.000 | ....... | ....... |
| 1957-58..................... | 4,200 | 2.250 | 2.000 | 0.250 | ....... |
| 1959....................... | 4,800 | 2.500 | 2.250 | 0.250 | ....... |
| 1960-61..................... | 4,800 | 3.000 | 2.750 | 0.250 | ....... |
| 1962....................... | 4,800 | 3.125 | 2.875 | 0.250 | ....... |
| 1963-65..................... | 4,800 | 3.625 | 3.375 | 0.250 | ....... |
| 1966....................... | 6,600 | 4.200 | 3.500 | 0.350 | 0.350 |
| 1967....................... | 6,600 | 4.400 | 3.550 | 0.350 | 0.500 |
| 1968....................... | 7,800 | 4.400 | 3.325 | | |

| | | | | | |
|---|---|---|---|---|---|
| | | | | 0.475 | 0.600 |
| 1969 | 7,800 | 4.800 | 3.725 | 0.475 | 0.600 |
| 1970 | 7,800 | 4.800 | 3.650 | 0.550 | 0.600 |
| 1971 | 7,800 | 5.200 | 4.050 | 0.550 | 0.600 |
| 1972 | 9,000 | 5.200 | 4.050 | 0.550 | 0.600 |
| 1973 | 10,800 | 5.850 | 4.300 | 0.550 | 1.000 |
| 1974 | 13,200 | 5.850 | 4.375 | 0.575 | 0.900 |
| 1975 | 14,100 | 5.850 | 4.375 | 0.575 | 0.900 |
| 1976 | 15,300 | 5.850 | 4.375 | 0.575 | 0.900 |
| 1977 | 16,500 | 5.850 | 4.375 | 0.575 | 0.900 |
| 1978 | 17,700 | 6.050 | 4.275 | 0.775 | 1.000 |
| 1979 | 22,900 | 6.130 | 4.330 | 0.750 | 1.050 |
| 1980 | 25,900 | 6.130 | 4.520 | 0.560 | 1.050 |
| 1981 | 29,700 | 6.650 | 4.700 | 0.650 | 1.300 |
| 1982 | 32,400 | 6.700 | 4.575 | 0.825 | 1.300 |
| 1983 | 35,700 | 6.700 | 4.775 | 0.625 | 1.300 |
| 1984 | 37,800 | 7.000 | 5.200 | 0.500 | 1.300 |
| 1985 | 39,600 | 7.050 | 5.200 | 0.500 | 1.350 |
| 1986 | 42,000 | 7.150 | 5.200 | 0.500 | 1.450 |
| 1987 | 43,800 | 7.150 | 5.200 | 0.500 | 1.450 |
| 1988 | 45,000 | 7.510 | 5.530 | 0.530 | 1.450 |

| | | | | | |
|---|---|---|---|---|---|
| 1989...................... | 48,000 | 7.510 | 5.530 | 0.530 | 1.450 |
| 1990...................... | 51,300 | 7.650 | 5.600 | 0.600 | 1.450 |
| 1991...................... | 53,400 | 7.650 | 5.600 | 0.600 | 1.450 |
| 1992...................... | 55,500 | 7.650 | 5.600 | 0.600 | 1.450 |
| 1993...................... | 57,600 | 7.650 | 5.600 | 0.600 | 1.450 |
| 1994...................... | 60,600 | 7.650 | 5.600 | 0.600 | 1.450 |
| 1995-99................... | (\2\) | 7.650 | 5.600 | 0.600 | 1.450 |
| 2000+..................... | (\2\) | 7.650 | 5.490 | 0.710 | 1.450 |

\1\The maximum amount of taxable earnings for the HI program is the same as that for the OASDI program for 1966-90. Separate HI taxable maximums of $125,000, $130,200, and $135,000 were applicable to the years 1991-93, respectively. After 1993, the limitation on taxable earnings for the HI program does not apply.

\2\Increases automatically with increases in the average wage index. The CBO estimates that the OASDI wage base will be $60,600 in 1995; $62,100 in 1996; $63,900 in 1997; $66,900 in 1998; and $72,000 in 1999.

Source: Office of the Actuary, Social Security Administration.

TABLE 3-3.--PAYROLL TAX RATES FOR SELF-EMPLOYED INDIVIDUALS, 1980 AND AFTER

| OASI | DI | OASDI combined | HI | OASDHI combined |
| --- | --- | --- | --- | --- |
| Calendar year | | | | |
| 1980 | | | | |
| 6.2725 | .7775 | 7.05 | 1.05 | 8.10 |
| 1981 | | | | |
| 7.0250 | .9750 | 8.00 | 1.30 | 9.30 |
| 1982 | | | | |
| 6.8125 | 1.2375 | 8.05 | 1.30 | 9.35 |
| 1983 | | | | |
| 7.1125 | .9375 | 8.05 | 1.30 | 9.35 |
| 1984 | | | | |
| 10.4000 | 1.0000 | 11.40 | 2.60 | \1\14.00 |
| 1985 | | | | |
| 10.4000 | 1.0000 | 11.40 | 2.70 | \1\14.10 |
| 1986-87 | | | | |
| 10.4000 | 1.0000 | 11.40 | 2.90 | \1\14.30 |
| 1988-89 | | | | |
| 11.0600 | 1.0600 | 12.12 | 2.90 | \1\15.02 |
| 1990-99 | | | | |
| 11.2000 | 1.2000 | 12.40 | 2.90 | 15.30 |
| 2000 and after | | | | |
| 10.9800 | 1.4200 | 12.40 | 2.90 | 15.30 |

\1\Excludes tax credits for the self-employed which equaled 2.7 percent in 1984, 2.3 percent in 1985, and 2.0 percent for the years 1986 through 1989. See text for explanation of change in tax treatment of the self-employed.

TABLE 3-4.--MAXIMUM ANNUAL CONTRIBUTION, 1937-94

| Calendar years | Employee taxes Total | OASI | DI | HI | Self-employed total |
|---|---|---|---|---|---|
| 1937-49 | $390.00 | $390.00 | .......... | .......... | .......... |
| 1950 | 45.00 | 45.00 | .......... | .......... | .......... |
| 1951-53 | 162.00 | 162.00 | .......... | .......... | $243.00 |
| 1954 | 72.00 | 72.00 | .......... | .......... | 108.00 |
| 1955-56 | 168.00 | 168.00 | .......... | .......... | 252.00 |
| 1957-58 | 189.00 | 168.00 | $21.00 | .......... | 283.50 |
| 1959 | 120.00 | 108.00 | 12.00 | .......... | 180.00 |
| 1960-61 | 288.00 | 264.00 | 24.00 | .......... | 432.00 |
| 1962 | 150.00 | 138.00 | 12.00 | .......... | 225.60 |
| 1963-65 | 522.00 | 486.00 | 36.00 | .......... | 777.60 |
| 1966 | 277.20 | 231.00 | 23.10 | $23.10 | 405.90 |
| 1967 | 290.40 | 234.30 | 23.10 | 33.00 | 422.40 |
| 1968 | 343.20 | 259.35 | 37.05 | 46.80 | 499.20 |
| 1969 | 374.40 | 290.55 | 37.05 | 46.80 | 538.20 |
| 1970 | 374.40 | 284.70 | 42.90 | 46.80 | 538.20 |
| 1971 | 405.60 | 315.90 | 42.90 | 46.80 | 585.00 |

| | | | | | |
|---|---|---|---|---|---|
| 1972........................................... | 468.00 | 364.50 | 49.50 | 54.00 | 675.00 |
| 1973........................................... | 631.80 | 464.40 | 59.40 | 108.00 | 864.00 |
| 1974........................................... | 772.20 | 577.50 | 75.90 | 118.80 | 1,042.80 |
| 1975........................................... | 824.85 | 616.88 | 81.08 | 126.90 | 1,113.90 |
| 1976........................................... | 895.05 | 669.38 | 87.98 | 137.70 | 1,208.70 |
| 1977........................................... | 965.25 | 721.88 | 94.88 | 148.50 | 1,303.50 |
| 1978........................................... | 1,070.85 | 756.68 | 137.18 | 177.00 | 1,433.70 |
| 1979........................................... | 1,403.77 | 991.57 | 171.75 | 240.45 | 1,854.90 |
| 1980........................................... | 1,587.67 | 1,170.68 | 145.04 | 271.95 | 2,097.90 |
| 1981........................................... | 1,975.05 | 1,395.90 | 193.05 | 386.10 | 2,762.10 |
| 1982........................................... | 2,170.80 | 1,482.30 | 267.30 | 421.20 | 3,029.40 |
| 1983........................................... | 2,391.90 | 1,704.68 | 223.13 | 464.10 | 3,337.95 |
| 1984........................................... | 2,532.60 | 1,862.15 | 179.05 | 491.40 | 4,271.40 |
| 1985........................................... | 2,791.80 | 2,059.20 | 198.00 | 534.60 | 4,672.80 |
| 1986........................................... | 3,003.00 | 2,184.00 | 210.00 | 609.00 | 5,166.00 |
| 1987........................................... | 3,131.70 | 2,277.60 | 219.00 | 635.10 | 5,387.40 |
| 1988........................................... | 3,379.50 | 2,488.50 | 238.50 | 652.50 | 5,859.00 |
| 1989........................................... | 3,604.80 | 2,654.40 | 254.40 | 696.00 | 6,249.60 |
| 1990........................................... | 3,924.45 | 2,872.80 | 307.80 | 743.85 | 7,848.90 |
| 1991........................................... | 4,085.10 | 2,990.40 | 320.40 | 774.30 | 8,170.20 |
| 1992........................................... | | | | | |

| | | | | |
|---|---|---|---|---|
| 4,245.75 | 3,108.00 | 333.00 | 804.75 | 8,491.50 |
| 1993............................................. | | | | |
| 4,406.40 | 3,225.60 | 345.60 | 835.20 | 8,812.80 |
| 1994............................................. | | | | |
| 4,635.90 | 3,393.60 | 363.60 | 878.70 | 9,271.80 |

Note.--In 1984 only, an immediate credit of 0.3 percent of taxable wages was allowed against the OASDI contribution paid by employees. Credits of 2.7 percent, 2.3 percent, and 2.0 percent were allowed against the combined OASDI and HI taxes on net earnings from self-employment in 1984, 1985, and 1986-89, respectively. Figures in table are reduced to reflect this credit.

Source: Office of the Actuary, Social Security Administration.

## COVERAGE

In 1940, approximately 24 million persons worked in employment covered by the Social Security system. Over the years, major categories of workers were brought under the system, such as State and local government employees (on a voluntary basis), regularly employed farm and domestic workers, members of the armed services, and self-employed professionals such as physicians and lawyers. In 1993, about 135 million workers and an estimated 96 percent of all jobs in the United States were covered under Social Security. The present-law Social Security wage base is updated automatically according to wage increases in the economy. In 1993, an estimated 86 percent of all earnings from jobs covered by Social Security were taxable.

TABLE 3-5.--CIVILIAN WORKERS COVERED BY SOCIAL SECURITY SYSTEM, 1939-92

[In millions]

| Year | Paid civilian employees\1\ | OASDI coverage | Percent covered | OASDHI coverage | Percent covered |
|---|---|---|---|---|---|
| 1939\2\ | 43.6 | 24.0 | 55.1 | 24.0 | 55.1 |
| 1944\2\ | 51.2 | 30.8 | 60.2 | 30.8 | 60.2 |
| 1949\2\ | 56.7 | 34.3 | 60.5 | 34.3 | 60.5 |
| 1955 | 62.8 | 51.8 | 82.5 | 51.8 | 82.5 |
| 1960 | 64.6 | 55.7 | 86.2 | 55.7 | 86.2 |
| 1961 | 65.3 | 56.1 | 85.9 | 56.1 | 85.9 |
| 1962 | 66.4 | 57.3 | 86.3 | 57.3 | 86.3 |
| 1963 | 67.6 | 58.5 | 86.5 | 58.5 | 86.5 |
| 1964 | 69.3 | 60.1 | 86.7 | 60.1 | 86.7 |
| 1965 | 71.6 | 62.7 | 87.6 | 62.7 | 87.6 |
| 1966 | 73.6 | 64.9 | 88.2 | 64.9 | 88.2 |
| 1967 | 74.4 | 65.7 | 88.3 | 65.7 | 88.3 |
| 1968 | 75.9 | 67.1 | 88.4 | 67.1 | 88.4 |
| 1969 | 78.0 | 68.6 | 87.9 | 68.6 | 87.9 |
| 1970 | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| | 77.8 | 69.9 | 89.9 | 69.9 | 89.9 |
| 1971 | 79.6 | 71.7 | 90.1 | 71.7 | 90.1 |
| 1972 | 82.6 | 74.7 | 90.4 | 74.7 | 90.4 |
| 1973 | 85.6 | 77.6 | 90.6 | 77.6 | 90.6 |
| 1974 | 85.4 | 77.3 | 90.5 | 77.3 | 90.5 |
| 1975 | 86.0 | 77.9 | 90.6 | 77.9 | 90.6 |
| 1976 | 89.2 | 81.0 | 90.9 | 81.0 | 90.9 |
| 1977 | 93.5 | 85.1 | 91.0 | 85.1 | 91.0 |
| 1978 | 97.0 | 88.4 | 91.2 | 88.4 | 91.2 |
| 1979 | 99.4 | 90.7 | 91.3 | 90.7 | 91.3 |
| 1980 | 98.9 | 89.3 | 90.3 | 89.3 | 90.3 |
| 1981 | 99.0 | 90.2 | 91.1 | 90.2 | 91.1 |
| 1982 | 98.3 | 89.8 | 91.4 | 89.8 | 91.4 |
| 1983 | 102.2 | 93.6 | 91.6 | 96.0 | 94.0 |
| 1984 | 105.5 | 97.9 | 92.7 | 100.3 | 95.0 |
| 1985 | 107.7 | 100.0 | 92.9 | 102.4 | 95.1 |
| 1986 | 110.2 | 104.1 | 94.4 | 106.5 | 96.6 |
| 1987 | 113.3 | 107.5 | 94.8 | 110.0 | 97.1 |
| 1988 | 115.6 | 109.8 | 95.0 | 112.4 | 97.3 |

| | | | | | |
|---|---|---|---|---|---|
| 1989 | 117.4 | 111.7 | 95.2 | 114.4 | 97.4 |
| 1990 | 117.0 | 111.3 | 95.2 | 114.1 | 97.5 |
| 1991 | 116.3 | 111.0 | 95.5 | 113.3 | 97.5 |
| 1992 | 117.8 | 112.7 | 95.7 | 114.8 | 97.5 |

\1\Includes paid employees and self-employed for all years.
\2\Monthly average for these years, all other years as of December.

Source: Office of Research and Statistics, Social Security Administration.

TABLE 3-6.--CIVILIAN WAGES COVERED BY OASDI SYSTEM, 1950-92\1\

[Dollars in billions]

Earnings in Taxable covered
employment Covered earnings
Total earnings as a
Total
earnings as a Taxable percent of
Year earnings
in covered percent earnings total
Employed
Self- employment of total earnings
employed earnings in covered
employment

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| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1950 | 186.1 | 109.8 | ........ | 109.8 | 59.0 | 87.5 | 79.7 |
| 1955 | 257.4 | 171.6 | 24.5 | 196.1 | 76.2 | 157.5 | 80.3 |
| 1960 | 324.9 | 236.0 | 29.2 | 265.2 | 81.6 | 207.0 | 78.1 |
| 1965 | 428.8 | 311.4 | 40.3 | 351.7 | 82.0 | 250.7 | 71.3 |
| 1970 | 631.7 | 483.6 | 48.0 | 531.6 | 85.2 | 415.6 | 78.2 |
| 1975 | 940.1 | 717.2 | 70.4 | 787.6 | 83.8 | 664.7 | 84.4 |
| 1976 | 1,037.2 | 797.2 | 76.8 | 874.7 | 84.3 | 737.7 | 84.3 |
| 1977 | 1,140.4 | 879.5 | 80.6 | 960.1 | 84.2 | 816.6 | 85.0 |
| 1978 | 1,288.6 | 998.9 | 93.7 | 1,092.6 | 84.8 | 915.6 | 83.8 |
| 1979 | 1,437.1 | 1,122.0 | 100.2 | 1,222.2 | 85.0 | 1,067.0 | 87.3 |
| 1980 | 1,548.4 | 1,231.0 | 97.8 | 1,328.8 | 85.8 | 1,180.7 | 88.9 |
| 1981 | 1,696.5 | 1,352.0 | 98.9 | 1,450.9 | 85.5 | 1,294.1 | 89.2 |
| 1982 | 1,764.0 | 1,418.0 | 98.6 | 1,516.6 | 86.0 | 1,365.3 | 90.0 |
| 1983 | 1,870.8 | 1,502.0 | 113.2 | 1,615.2 | 86.3 | 1,454.1 | 90.0 |
| 1984 | 2,086.0 | 1,671.5 | 129.3 | 1,800.8 | 86.3 | 1,608.8 | 89.3 |
| 1985 | 2,246.2 | 1,794.5 | 142.3 | 1,936.8 | 86.2 | 1,722.6 | 88.9 |
| 1986 | 2,389.2 | 1,921.0 | 160.8 | 2,081.8 | 87.1 | 1,844.4 | 88.6 |
| 1987 | 2,571.4 | 2,057.1 | 179.9 | 2,237.0 | 87.0 | 1,960.0 | 87.6 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 1988\2\ | 2,767.3 | 2,224.7 | 208.1 | 2,432.8 | 87.9 | 2,088.4 | 85.8 |
| 1989\2\ | 2,933.7 | 2,367.8 | 221.0 | 2,588.8 | 88.2 | 2,241.1 | 86.6 |
| 1990\2\ | 3,108.4 | 2,507.5 | 213.0 | 2,720.5 | 87.5 | 2,367.8 | 86.9 |
| 1991\2\ | 3,191.3 | 2,583.0 | 187.1 | 2,770.1 | 86.8 | 2,418.9 | 87.3 |
| 1992\2\ | 3,387.4 | 2,692.0 | 204.8 | 2,896.8 | 85.5 | 2,529.9 | 87.3 |

\1\Sum of wages and salaries and proprietors' income with inventory valuation and capital consumption adjustments, as estimated by the Bureau of Economic Analysis in the National Income and Product Accounts.
\2\Preliminary.

Source: Social Security Bulletin, Annual Statistical Supplement, 1993, and Office of Research and Statistics, Social Security Administration.

While coverage is compulsory for most types of employment, approximately 4.3 million workers were exempt from coverage under Social Security in 1993. The majority of these noncovered workers were and still are in the Federal Government and in State and local governments. Beginning January 1, 1983, Federal employees were covered under the Medicare portion of the Social Security tax, and all Federal employees hired after 1983 are covered under the OASDI portion as well. In 1990, about 67 percent of State and local government workers (13.5 million out of 20.3 million jobs), were covered by Social Security. Beginning January 1, 1984, all employees of nonprofit organizations became covered, and terminations of Social

Security coverage by State government entities were no longer allowed.\2\ State and local employees hired after March 31, 1986 are mandatorily covered under the Medicare program and must pay HI payroll taxes. Beginning July 1, 1991, State and local employees who were not members of a public retirement system were mandatorily covered under Social Security. This requirement was contained in the 1990 Omnibus Budget Reconciliation Act (OBRA).

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\2\Terminations were prohibited as of April 1983.

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While the most recent year for which actual data are available is 1990, the Social Security Administration estimates that in 1993, 21.5 million individuals will work at some time during the year for a State or local government, and the wages of 77 percent of these individuals will be covered by Social Security. Some 2.2 million of the 16.6 million covered State and local workers are estimated to have been covered as a result of OBRA 1990. Table 3-8 shows State-by-State data on State and local government jobs covered in 1990.

TABLE 3-7.--SOCIAL SECURITY COVERAGE, 1990
[In millions]

| Occupational group | Number of employees | Covered | |
| --- | --- | --- | --- |
| | | Number | Percent |

| | | | |
|---|---|---|---|
| Specifically exempt from OASDI coverage: | | | |
| Federal Civilian employees......... | 4.3 | 2.5 | 58.1 |
| Voluntary coverage: | | | |
| State and local government......... | 20.2 | 13.5 | 66.8 |
| Industry and commerce.............. | 92.6 | 92.4 | 99.8 |
| Nonprofit.......................... | 7.9 | 7.8 | 98.7 |
| Farm............................... | 1.2 | 1.0 | 83.3 |
| Domestic........................... | 1.0 | 0.5 | 50.0 |
| Self-employed...................... | 10.6 | 8.1 | 76.4 |

TABLE 3-8.--ESTIMATES OF SOCIAL SECURITY COVERAGE OF WORKERS WITH STATE AND LOCAL GOVERNMENT EMPLOYMENT, 1990

[Based on 1-percent sample; numbers in thousands]

| State | All workers\1\ | Covered workers | Percent covered |
|---|---|---|---|
| Total.......................... | 20,254 | 13,538 | 67 |
| Alabama.............................. | 339 | 309 | 91 |
| Alaska............................... | 81 | | |

30 37

Arizona............................. 360

321 89

Arkansas............................ 181

166 92

California.......................... 2,185

743 34

Colorado............................ 310

105 34

Connecticut......................... 251

151 60

Delaware............................ 60

44 73

Florida............................. 971

776 80

Georgia............................. 560

443 79

Hawaii.............................. 94

59 63

Idaho............................... 101

102 101

Illinois............................ 981

461 47

Indiana............................. 428

356 83

Iowa................................ 270

235 87

Kansas.............................. 249

222 89

Kentucky............................ 300

225 75

Louisiana........................... 350

74 21

Maine............................... 104

47 45

Maryland............................ 393

347 88

| | | | |
|---|---|---|---|
| Massachusetts | 473 | 19 | 4 |
| Michigan | 784 | 643 | 82 |
| Minnesota | 401 | 256 | 64 |
| Mississippi | 220 | 200 | 91 |
| Missouri | 381 | 286 | 75 |
| Montana | 84 | 72 | 86 |
| Nebraska | 160 | 144 | 90 |
| Nevada | 82 | 21 | 26 |
| New Hampshire | 88 | 77 | 88 |
| New Jersey | 578 | 544 | 94 |
| New Mexico | 165 | 129 | 78 |
| New York | 1,673 | 1,343 | 80 |
| North Carolina | 562 | 501 | 89 |
| North Dakota | 69 | 61 | 88 |
| Ohio | 828 | 25 | 3 |
| Oklahoma | 263 | 238 | 90 |
| Oregon | 259 | 231 | 89 |
| Pennsylvania | 733 | 673 | 92 |
| Rhode Island | 73 | 44 | 60 |

| | | | |
|---|---|---|---|
| South Carolina | 310 | 276 | 89 |
| South Dakota | 70 | 64 | 91 |
| Tennessee | 390 | 308 | 79 |
| Texas | 1,275 | 638 | 50 |
| Utah | 158 | 142 | 90 |
| Vermont | 54 | 51 | 94 |
| Virginia | 498 | 463 | 93 |
| Washington | 398 | 335 | 84 |
| West Virginia | 155 | 138 | 89 |
| Wisconsin | 439 | 343 | 78 |
| Wyoming | 63 | 57 | 90 |

\1\Includes seasonal and part-time workers for whom State and local government employment was not the major job.

Source: Social Security Administration Office of Research and Statistics.

## SOCIAL SECURITY ADMINISTRATIVE EXPENSES

The costs of administering the Social Security retirement and disability programs are financed from the Social Security trust funds, subject to annual appropriations.

Traditionally these costs are low, comprising between 1 and 2 percent of annual benefit payments. During fiscal year 1993, they amounted to $3.0 billion.

These trust-fund financed administrative funds comprised 51 percent of the Social Security Administration's 1993 administrative budget. The agency received another 14 percent from the Medicare trust funds, as well as 35 percent from general revenues for administration of Supplemental Security Income (SSI). This brought SSA's total administrative budget to $4.8 billion (excluding the special appropriation for disability and automation investment).

While Social Security benefit payments were taken off-budget in 1990, the budgetary treatment of administrative expenses remains controversial. On the one hand, the Office of Management and Budget interprets the 1990 statute as applying to benefit payments only; and it has placed administrative costs under the budgetary cap on domestic discretionary spending. The Congressional Budget Office, on the other hand, interprets the 1990 statute as applying to all Social Security trust funds payments, including both benefits and administrative expenses. Legislation mandating that OMB comply with the CBO interpretation has been introduced in the 103d Congress.

TABLE 3-9.--NET ADMINISTRATIVE EXPENSES IN MILLIONS OF DOLLARS AND AS A PERCENTAGE OF BENEFIT PAYMENTS, FISCAL YEARS 1989-93

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| Fiscal year | Total administrative expenses | OASI trust fund benefit payments | DI trust fund benefit payments | Total benefit payments |
|---|---|---|---|---|
| 1989 | 2,407 | .8 | 3.3 | 1.1 |
| 1990 | 2,280 | .7 | 3.0 | .9 |
| 1991 | 2,535 | .7 | 2.9 | 1.0 |
| 1992 | 2,668 | .7 | 2.8 | .9 |
| 1993 | 2,955 | .8 | 2.8 | 1.0 |

Source: Social Security Office of the Actuary.

## CURRENT SHORT-RANGE STATUS OF THE TRUST FUNDS

An assessment of the short-range status of the trust funds depends heavily on the economic assumptions underlying the estimates because both the revenues and expenditures of the program are tremendously affected by general economic trends such as unemployment, wage growth, and inflation. Table 3-10 presents short-term projections of the financial status of the trust funds under the assumptions contained in the Congressional Budget Office baseline.

### Status of OASDI trust funds

Under the President's budget as well as CBO baseline assumptions, the combined OASDI trust funds will continue the growth begun in 1984 throughout the 5-year projection period incorporated in the President's and CBO's forecasts. Under CBO's assumptions, the annual excess of revenues over benefit outlays (sometimes called the ``surplus'') will reach almost $100 billion by 1999. Throughout the 1990's, and for some period into the next century, the favorable demographic pattern of a large baby-boom generation at peak earning years combined with the retirement of the relatively small generation born during the Depression should ensure large trust fund reserves.

For the combined OASDI funds, the trust fund reserve ratio is estimated to increase from 114 percent at the beginning of 1994 to 127 percent for 1995, and then continue to increase each year thereafter, reaching 182 percent by 1999.

TABLE 3-10.--CURRENT LAW PROJECTIONS OF THE OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUND OUTLAYS, INCOME, AND BALANCES UNDER CBO'S BASELINE ECONOMIC ASSUMPTIONS

[By fiscal year, in billions of dollars]

| Fiscal year-- | | | | | | |
| --- | --- | --- | --- | --- | --- | --- |
| 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Old-age survivors insurance: | | | | | | | |
| Total outlays | 270 | 282.6 | 296.2 | 311.4 | 324.7 | 339.7 | 355.5 |
| Income | 319.3 | 348.4 | 371.3 | 393.8 | 417.5 | 442.9 | 488.8 |
| Year-end balance | 355.7 | 421.4 | 496.5 | 578.8 | 871.6 | 774.7 | 887.9 |
| Start-of-year balance as a percent of outlays\1\ | 113 | 126 | 142 | 159 | 178 | 198 | 218 |
| Disability insurance: | | | | | | | |
| Total outlays | 34.6 | 38.2 | 41.5 | 45.0 | 48.5 | 52.1 | 55.9 |
| Income | 32.1 | 34.7 | 36.3 | 37.9 | 39.4 | 40.8 | 42.1 |
| Year-end balance | 10.3 | 6.8 | 1.6 | -5.5 | -14.6 | -25.9 | -39.7 |
| Start-of-year balance as a percent of outlays\1\ | 37 | 27 | 10 | 4 | -11 | -28 | -45 |
| Combined OASI and DI: | | | | | | | |
| Total outlays | 304.6 | 320.8 | 337.7 | 356.4 | 373.2 | 391.9 | 411.4 |
| Income | 351.4 | 383.1 | 407.6 | 431.7 | 456.8 | 483.7 | 510.8 |
| Year-end balance | 388.0 | 428.2 | 498.1 | 573.4 | 657.0 | 748.8 | 848.3 |
| Start-of-year balance as a percent of outlays\1\ | 105 | 114 | 127 | 140 | 164 | 168 | 182 |

\1\Start-of-year balances are computed as the balances at the end of the previous fiscal year. Beginning in 1996, they also include advanced tax transfers on October 1 for the DI trust fund.

Source: Based on Congressional Budget Office January 1994 baseline economic assumptions.

Budgetary treatment of OASDI trust funds

Social Security and other Federal programs that operate through trust funds were counted officially in the Federal budget beginning in fiscal year 1969. This was done administratively by President Johnson. At the time Congress did not have a budget-making process. In 1974, Congress began setting budget goals annually through passage of budget resolutions. Like the budgets the President prepared, these resolutions reflected a unified budget approach that included trust fund programs such as Social Security in the budget totals. Although Social Security continued to be counted in the budget throughout the 1970s and 1980s, measures were enacted in 1983, 1985, and 1987 making the program a more visible component of the budget and imposing potential procedural hurdles for budgetary bills containing Social Security changes.

Most significant among them was the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177), which incorporated the original Gramm-Rudman-Hollings deficit-reduction procedures and contained specific provisions setting forth the budgetary treatment of the OASDI trust funds. The act required that the OASDI trust funds be taken off-budget beginning in fiscal year 1986. (The 1983 Social Security Amendments had previously required that the funds be taken off budget in fiscal year 1993.) However, the act also required that the income and outgo of the OASDI trust funds be taken into account in determining if Federal spending had to be cut to meet the Gramm-Rudman-Hollings deficit-reduction goals. This meant that the OASDI trust funds would be counted in the budget figures throughout the period in which Gramm-Rudman-Hollings was in force which originally was fiscal years 1986-91, but was extended for 2 years--to fiscal year 1993--by the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 (P.L. 100-119).

Other provisions of the balanced budget act exempted OASDI benefits from automatic reductions, or so-called sequestration. Thus, while OASDI income and outgo were counted to determine the size of the Federal deficit, OASDI benefits were not subject to automatic reduction if the deficit was too high. \3\ The act further included provisions making it ``out of order'' for either the House or Senate to take up changes in OASDI as part of a budget reconciliation measure. Separate votes in each body--suspending or otherwise altering the rules under which the respective bodies operate--were required to make consideration of any proposed OASDI change permissible. In the Senate, this would require approval by three-fifths of its members.

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\3\However, administrative expenses of the Social Security Administration were subject to sequestration.

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Social Security also was affected by restrictions in the Act on bringing up legislative changes that would violate budget resolution totals or separate spending and revenue allocations for programs under the jurisdiction of each committee made subsequent to passage of budget resolutions. Social Security was affected by these restrictions in the same way as other programs and tax provisions; points of order (so-called sections 302 and 311 objections) could be raised against legislation involving revenue reductions or spending increases that violated the budget resolution totals or subsequent spending allocations by committees for the first year to which the budget resolution applied. These, too, could be overridden only by a vote of three-fifths of the Senate.

The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) made major changes in the Federal budget process. Among them was the removal of the Social Security trust funds from all Federal budget calculations, including calculations of budget deficits and surpluses. As a result, OASDI no longer affects or is affected by limitations caused by Federal deficits or the budget process in general (with the exception of administrative expenses).

The 1990 law established specific dollar limits on discretionary spending (mostly annual appropriations) and a so-called pay-as-you-go requirement for direct spending (mostly entitlement programs) and revenues. For fiscal years 1991-95, these new limits and the pay-as-you-go requirement replaced the overall deficit-reduction targets established under the former Gramm-Rudman-Hollings procedures. As under the old law, if any spending limit or the pay-as-you-go rule is violated, the President may be required to issue sequestration orders bringing spending down to the prescribed limits.

Social Security spending and revenues are excluded from these new limits and overall targets, with the exception of administrative expenditures, which, under an OMB interpretation, are incorporated in a limit on discretionary domestic spending.\4\ Social Security is also exempt from sequestration orders, as it was under the old law (again, with the exception of administrative expenses).

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\4\Under the law prior to passage of the Budget Enforcement Act of 1990, Social Security administrative expenses were subject to sequestration if Gramm-Rudman-Hollings deficit targets were exceeded. The 1990 law states that Social Security is not to be counted as budget authority or outlays for purposes of the Gramm-Rudman deficit reduction law (which the new law amends). However, it also lists Social Security among the programs subject to the discretionary domestic spending limit. One interpretation of this is that Social Security administrative expenses, as discretionary spending, are subject to the domestic discretionary limit. An alternative interpretation is that the provision excluding Social Security from all aspects of the budget law exempts these expenses from the discretionary limit. The inconsistency appears to give OMB latitude to make either interpretation.

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Finally, the new law continues the old law provision (section 310(g)) that permits points of order against reconciliation bills that contain Social Security measures.

OASDI tax receipts are expected to exceed benefits and other expenses continuously over the budget forecast period, i.e., the next 5 years. Barring a major recession, the excess receipts should grow substantially. What this means is that, with all other things held constant, surplus OASDI receipts would have offset a substantial portion of the deficits the Government incurs with respect to its other activities if Social Security had continued to be counted in the budget. The following table and chart show how the removal of the operations of the OASDI trust funds from the budget calculations affects CBO's 5-year forecast of Federal budget deficits.

TABLE 3-11.--PROJECTED FEDERAL BUDGET DEFICITS, INCLUDING AND EXCLUDING OASDI TRUST FUNDS IN THE CALCULATION

[By fiscal year, in billions of dollars]

| Fiscal year | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
| --- | --- | --- | --- | --- | --- | --- |
| Projected budget deficit: | | | | | | |
| Including OASDI..... | 228 | 180 | 180 | 192 | 187 | 213 |
| Excluding OASDI..... | 290 | 249 | 255 | 275 | 279 | 312 |
| Increase in projected deficit from excluding OASDI.................. | 82 | 70 | 75 | 84 | 92 | 99 |

Note.--Details may not add to totals due to rounding.

Source: Congressional Budget Office based on January 1994 economic assumptions.

CHART 3-1. FEDERAL BUDGET DEFICITS WITH AND WITHOUT OASDI

<CHART 3-1>

NEW PROCEDURES TO PROTECT THE TRUST FUNDS

Since the fiscal constraints of the budget process no longer apply to Social Security, the 1990 budget law established separate rules for the House and Senate that make it difficult to bring measures to a floor vote if they would weaken the financial condition of the program.

In the House, a point of order can be raised against a bill that includes more than $250 million in Social Security spending increases or revenue reductions over a 5-year period, unless the bill also contains offsetting spending reductions or tax increases that bring its net impact within the limit. In determining whether a bill falls within the $250 million limit, any costs from prior legislation (i.e., enacted in the current or previous 4 years) that fall within the 5-year budgeting period would be counted. Also, a point of order can be raised against a measure that would increase long-range (75 year) program costs or reduce long-range revenues by at least 0.02 percent of taxable payroll.

In the Senate, budget resolutions must set specific amounts for Social Security income and outgo for the first fiscal year to which the budget resolution applies and cumulative amounts for a 5-year period. These amounts must be completely separate from budget resolution totals. Further, the Social Security income and outgo recommended in budget resolutions reported by the Senate Budget Committee cannot narrow the difference between Social Security income and outgo projected under current law. (Doing so could draw an objection). Once a conference agreement on a budget resolution is reached, allocations made to the Finance Committee must include a Social Security outlay allocation. Budget Act points of order can then be raised against Social Security bills that would cause outlays to be increased or revenues to be reduced (without offsetting changes) from those reflected in the budget resolution and Finance Committee allocation. Overriding such an objection requires a vote of three-fifths of the Senate.

## THE IMPACT OF THE OASDI SURPLUSES ON THE FINANCIAL CONDITIONS OF THE GOVERNMENT

As attention is increasingly drawn to the surplus OASDI receipts, questions have emerged about how the money is actually used. The basic concern is that the money was intended to be invested in the OASDI trust funds, to be set aside for future years, and not to be used to finance other Government spending today. However, the issue is a complex one and is often confusing and poorly described.

Part of the confusion arises from a lack of understanding that OASDI taxes are not deposited in trust funds and OASDI benefits are not paid from trust funds. OASDI taxes are deposited in the Federal Treasury like other taxes and become part of the general pool of funds through which the Government functions. Airport and highway taxes, civil service retirement contributions, Medicare receipts, and many other forms of dedicated Federal revenues--all of which have corresponding trust funds--are treated likewise. The trust funds themselves receive credit for the revenues when the Government receives them, usually in the form of postings of non-marketable, interest-bearing Federal securities. Conversely, when the Government makes expenditures for trust fund programs, the money is paid from the Treasury, and the securities posted to the trust funds are reduced by a corresponding amount. Simply stated, the OASDI trust funds are given IOUs when OASDI taxes are received by the Treasury, and those IOUs are taken back when the Treasury makes expenditures on the program's behalf. This handling of OASDI's finances goes back to the inception of the program and has not been altered by the inclusion or exclusion of the OASDI trust funds in or from the Federal budget.

In effect, whether or not OASDI is counted as part of the Federal budget, OASDI taxes will continue to be deposited in the Federal Treasury and the trust funds will continue to receive credit for them as they are collected. Moreover, this credit will continue to give the Treasury Department ``authority,'' or what might be described as a ``permanent appropriation,'' to spend for OASDI.\5\

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    \5\Meaning that as long as there are securities posted to the OASDI
trust funds, the Treasury Department can continue to make OASDI
expenditures.
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    The more fundamental issue about the use of surplus OASDI
taxes revolves around perceptions of how the existence of this
money will influence Congress and the administration in making
future fiscal policy decisions for the Government as a whole.
Since surplus OASDI taxes are deposited in the Federal
Treasury, there is no way of knowing their ultimate use. In the
course of fiscal policymaking, three basic uses can be made of
the money: (1) It can be spent on other programs; (2) it can
cause other taxes to be lower than they otherwise would be; or
(3) it can cause Government borrowing from financial markets to
be lower.\6\
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    \6\While the Government is said to ``borrow'' these surplus
receipts, technically, it is crediting one of its accounts and debiting
another--i.e., borrowing money from itself.
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    It is sometimes stated, ipso facto, that surplus OASDI
taxes cause the Government to borrow less from financial

markets. However, this perspective represents an oversimplification. The law has always dictated that OASDI trust funds be credited with Federal securities to reflect OASDI tax receipts, but it has never dictated how the surplus receipts themselves are to be used by the Federal Government. The outcome--what happens to the money--basically depends on what one assumes fiscal policymakers would decide about spending and taxation for the Government overall if the surplus OASDI taxes were not levied. If levying them influences Congress to avoid cutting spending elsewhere or raising other taxes, Government borrowing from financial markets is not being reduced.

The Government has the potential to increase savings in the economy by reducing the amount of borrowing it does in financial markets. However, this outcome depends on its ability to reduce the difference between its overall income and outgo. It is the Government's net deficit overall that determines how much is really being borrowed from financial markets, not a surplus arising in one of its accounts. All other things held constant, cutting Social Security taxes or increasing Social Security spending would impede efforts to reduce Federal borrowing from financial markets in the same way as any other tax reductions or spending increases, and thereby curtail efforts by the Government to increase savings in the economy.

The long-range impact of the OASDI surpluses

In their 1994 report, the Social Security trustees projected that surplus OASDI taxes would continue until the early years of the post-World War II baby-boom generation's retirement--i.e., until sometime between 2010 and 2015. After that, OASDI taxes would fall short of expenditures indefinitely. The program then would have to draw on the IOUs accumulated in its trust funds, and the Government would have to make good on them. In essence, beginning sometime between 2010 and 2015, the Government would no longer have the benefit of surplus OASDI taxes and, in fact, would have to find other resources to cover the trust funds' IOUs. How these resources will be obtained poses a major long-range fiscal policy question. Although the OASDI trust funds would have grown substantially--reaching approximately $1.3 trillion in 2015 as measured in constant 1994 dollars--and would continue to provide authority for the Treasury Department to keep spending for the program until almost the middle of the next century, the trust funds themselves will not provide the resources to pay the benefits. They simply give the Social Security system a claim on other Government resources. What this means in practice is that when the trust funds' IOUs are needed because OASDI tax receipts fall below expenditures, the Government will have to raise other taxes, curtail other expenditures, or increase its borrowing from the public.

CHART 3-2. PROJECTED SIZE OF SOCIAL SECURITY TRUST FUNDS

<CHART 3-2>

CHART 3-3. SOCIAL SECURITY INCOME AND COST RATES, 1995-2065

<CHART 3-3>

Economists argue that if the surplus OASDI taxes arising over the next two decades were to result in a reduction in Government borrowing from the public, more money would exist in investment markets, which could lead to greater economic growth. If this were to occur, extracting resources from the economy in the future to honor the OASDI claims would not necessarily be burdensome. Said another way, if one accepts the premise that reductions in the unified budget deficit today will lead to economic growth by increasing the amount of resources available for investment, then surplus OASDI taxes today could aid in building a higher economic base in the future from which to draw the resources to pay future OASDI benefits.

Even if fiscal policy decisions do lead to enhanced savings, and the Nation's growth rate is augmented in the coming decades, OASDI costs would grow automatically with the economy. In essence, larger OASDI claims would accompany greater economic growth (since that growth would manifest itself in higher wages and entitlement to larger benefits). Further, the post-World War II baby-boom generation and future retirees will raise financial demands across the board, not just for OASDI, as the ratio of workers to retirees falls in the next century. The goods and services to be consumed by society cannot be stockpiled in advance, and the economy will have to adjust. Whether this would be a mild or severe adjustment is largely conjecture, but the manner in which retirement claims are accumulated (publicly or privately) does not necessarily determine it. It may revolve just as much on how the future elderly feel about retiring versus working. No matter how much nominal wealth can be cashed in to produce given levels of retirement income, the amount of goods and services that can be furnished will depend heavily on the proportion of the population able and willing to do the furnishing.

## LONG RANGE STATUS OF THE TRUST FUNDS

### OASDI trust funds

Because the Social Security program has been designed as a contributory system in which those who pay the taxes supporting it are considered to be earning the right to future benefits, Congress has traditionally required long-range estimates of the program's actuarial balance and has set future tax rates with a view to assuring that the income of the program will be sufficient to cover its outgo. Under current procedures, the long-range actuarial analysis of the cash benefits program covers a 75-year period--this would generally be long enough to cover the anticipated retirement years of those currently in the work force.

The long-range status of the Social Security trust funds is ordinarily expressed in terms of ``percent of taxable payroll'' rather than in dollar amounts. This permits a direct comparison between the tax rate actually in the law and the cost of the program. For example, if the program is projected to have a deficit of ``1 percent of taxable payroll,'' this means that the Social Security tax rates now in the law would have to be increased by 0.5 percent points for employee and employer, each, in order to pay for the benefits due under present law. (Alternatively, the program could be brought back into balance by an equivalent reduction in benefit outgo or by a combination of revenue increases and outgo reductions.) If the program is projected to have a deficit of 1.5 percent of taxable payroll and expenditures are projected to be 10 percent of taxable payroll, then, under the given set of assumptions, 15 percent (1.5 divided by 10) of expenditures could not be met with that tax schedule. In 1994, the total taxable payroll is estimated to be $2.8 trillion so that in 1994 terms, 1.5 percent of payroll represented about $42 billion.

In the short range, the financial soundness of each of the trust funds can be assessed by considering the size of the trust fund balance, in absolute terms and as a percentage of the annual expenditures, and whether the balance is growing or declining. In the long range, the traditional measure of financial soundness has been the actuarial balance of the system. The actuarial balance is defined as the difference between the total summarized income rate and the total summarized cost rate.

Projections of the long-range financial condition of the Social Security programs are affected by three basic types of factors: (1) demographic factors, such as rates of fertility, life expectancy, and labor force participation, which determine how many workers there will be in the society in relation to nonworking beneficiaries; (2) economic factors such as unemployment, productivity, and inflation; and (3) factors specifically related to the Social Security program, such as benefit levels, total number of covered workers, and percent of eligible workers drawing early retirement benefits.

In projecting the long-term condition of the OASDI trust funds, the actuaries at the Social Security Administration employ three sets of alternative economic and demographic assumptions. Alternative I is based on optimistic assumptions, alternative II on moderate assumptions, and alternative III on pessimistic assumptions. In general, alternative II is considered the most balanced estimate of long-term solvency.

It is clear that these factors cannot be predicted with any certainty as far into the future as 75 years, and the long-range projections should not be taken as absolute predictions of deficits or surpluses in the funds.

Beginning with the 1988 trustees report, the Social Security trustees used an alternative method of determining actuarial balance. Under the ``present value'' method, interest earnings on the fund are more fully recognized. Calculations were based on the present value of future income, outgo and taxable payroll by discounting the future annual amounts at an assumed rate of interest.

Traditionally, the trustees based their conclusion about the long-range actuarial condition of the program on the ``closeness'' of the income and cost rates when averaged over a 75-year period. If the income rate was between 95 and 105 percent of the cost rate over this projection period, the system was said to be in close actuarial balance.

The 1991 trustees report incorporated a more refined measure of actuarial soundness ``designed to reveal problems occurring at any time during the'' 75-year measuring period. The 5 percent ``tolerance'' (i.e., the amount of acceptable actuarial deficit) was retained in measuring the program's actuarial soundness for the 75-year period as a whole, but less tolerance is now permitted for shorter periods of valuation. The spread between income and outgo is evaluated throughout the measuring period in reaching a conclusion of whether close actuarial balance exists, with the amount of acceptable deviation gradually declining from 5 percent for the full 75-year period to 0 (or no acceptable deviation) for the first 10-year segment of the measuring period. (To meet the short-range test of financial adequacy, the reserve balance at the end of the first 10-year segment must be at or higher than 100 percent of annual expenditures, which condition is consistent with the 10-year segment of the long-range test of close actuarial balance, and also must be expected to reach that level within the first 5 years and then remain there.) Under this new

test,
if income were at least 95 percent of the cost level for the
75-year period as a whole, the trust fund still could be deemed
to be out of close actuarial balance if income and outgo were
too small, compared to cost, for shorter segments of the measuring period.

Under this new measure, the trustees concluded in their 1994 report, as they did in their 1991, 1992, and 1993 reports,
that OASDI is not in close actuarial balance over the long run.

## 1994 TRUSTEES' REPORT

The 1994 Trustees Report was released just prior to the publication of the 1994 Greenbook. Following are highlights of
the 1994 report, accompanied by tables showing projections for
the trust funds.

- o In the short range, the assets of the OASI and DI Trust Funds, if combined, would be expected to increase under
intermediate assumptions from the current level of $378.3 billion, or 116 percent of annual expenditures, to $1,048 billion, or 197 percent of annual expenditures, at the beginning of the year 2003.
- o The OASI Trust Fund is expected to increase rapidly during the next 10 years, from 129 percent of annual
expenditures at the beginning of 1994 to about 259 percent of
annual expenditures at the beginning of the year 2003, based on
the intermediate assumptions.
- o The assets of the DI Trust Fund are expected to decline steadily from $9.0 billion at the end of 1993 until the

fund is exhausted in 1995, unless corrective legislation is enacted promptly to strengthen the financing of the DI program.

The Board of Trustees is again recommending a reallocation of contribution rates between the OASI and DI Trust Funds, to remedy the expected financial shortfalls in the DI Trust Fund.

o In the long range, income and expenditures are generally expressed as a percentage of the total amount of earnings subject to taxation under the OASDI program (referred to as ``taxable payroll''). Summarized income and cost rates over the 75-year long-range period are determined through present-value calculations and by taking into account actual beginning fund balances and targeted ending fund balances (or reserves) of 100 percent of annual expenditures.

Overall, for the period 1994-2068, the difference between the summarized income and cost rates for the OASDI program is a deficit of 2.13 percent of taxable payroll based on the intermediate assumptions. This is a substantial increase over the estimated deficit of 1.46 percent of taxable payroll shown in the 1993 Annual Report for the period 1993-2067, based on the intermediate assumptions. The increase in the deficit is attributable to a number of factors, including an increase in the estimated level of future average benefits, a decrease in the assumed ultimate level of average real-wage gains in the future, an increase in the assumed ultimate levels of disability incidence rates, and the change in the 75-year projection period to include the relatively large annual deficit for the year 2068.

o On a combined basis, the OASDI program is not in close actuarial balance over the next 75 years. In addition, the individual OASI and DI Trust Funds are not in close actuarial balance. These results are the same as those shown in the 1993 Annual Report.

o Income from OASDI payroll taxes represents 12.4 percent of taxable payroll. Since the tax rate is not scheduled to change in the future under present law, OASDI payroll tax income as a percentage of taxable payroll remains constant at 12.4 percent. Adding the OASDI income from the income taxation of benefits to the income from payroll taxes yields a total ``income rate'' of 12.6 percent. This rate is estimated to increase gradually to 13.3 percent of taxable payroll by the end of the 75-year projection period based on the intermediate assumptions. The growth is attributable, in part, to increasing proportions in both the number of beneficiaries and the amount of their benefits subject to taxation in the future. These proportions will increase because the income thresholds, above which benefits are taxable, are not indexed to future increases in average prices or average income.

o OASDI expenditures for benefit payments and administrative expenses currently represent about 11.6 percent of taxable payroll. This ``cost rate'' is estimated to remain below the corresponding income rate for the next 19 years, based on the intermediate assumptions. With the retirement of the ``baby-boom'' generation starting in about 2010, OASDI costs will increase rapidly relative to the taxable earnings of workers. By the end of the 75-year projection period, the OASDI cost rate is estimated to reach 18.9 percent under the intermediate assumptions, resulting in an annual deficit of about 5.6 percent.

o Under the intermediate assumptions, the excess of OASDI tax revenues over expenditures for the next 19 years, together with interest earnings on the trust funds, will result in a rapid accumulation of assets for the combined OASI and DI Trust Funds during this period. However, total income is estimated to fall short of expenditures beginning in 2019 and continuing thereafter, under the intermediate assumptions. In this circumstance, trust fund assets would be redeemed to cover the difference. The assets of the combined OASI and DI Trust Funds are estimated to be depleted under present law in 2029 based on the intermediate assumptions.

TABLE 3-12.--MAXIMUM TRUST FUND RATIOS AND YEAR OF EXHAUSTION FOR THE OASI, DI AND COMBINED TRUST FUNDS UNDER ALTERNATIVE ASSUMPTIONS

| | OASI | DI | Combined |
|---|---|---|---|
| Alternative I: | | | |
| Maximum trust fund ratio (percent).... | 1,014 | 23 | 882 |

| | | | |
|---|---|---|---|
| Year attained | 2070 | 1994 | 2070 |
| Year of exhaustion | ........ | 1995 | ........ |
| Alternative II: | | | |
| Maximum trust fund ratio (percent) | 361 | 23 | 241 |
| Year attained | 2014 | 1994 | 2012 |
| Year of exhaustion | 2036 | 1995 | 2029 |
| Alternative III: | | | |
| Maximum trust fund ratio (percent) | 180 | 22 | 131 |
| Year attained | 2007 | 1994 | 1998 |
| Year of exhaustion | 2023 | 1995 | 2014 |

Source: 1994 OASDI Trustees' report.

TABLE 3-13.--ESTIMATED INCOME RATES AND COST RATES UNDER ALTERNATIVE II OF THE 1994 TRUSTEES' REPORT, CALENDAR YEARS 1994-2070

[As a percentage of taxable payroll]

| | OASI | DI | Combined |
|---|---|---|---|
| Calendar year | Income | Income | Income |

| | rate | Cost rate | Balance | rate | Cost rate | Balance | rate | Cost rate | Balance |
|---|---|---|---|---|---|---|---|---|---|
| 1994 | 11.42 | 10.24 | 1.18 | 1.21 | 1.40 | -0.19 | 12.63 | 11.64 | 0.98 |
| 1995 | 11.39 | 10.21 | 1.19 | 1.21 | 1.47 | -.26 | 12.60 | 11.67 | .93 |
| 1996 | 11.42 | 10.19 | 1.23 | 1.21 | 1.52 | -.31 | 12.63 | 11.71 | .92 |
| 1997 | 11.42 | 10.15 | 1.27 | 1.21 | 1.57 | -.35 | 12.63 | 11.72 | .92 |
| 1998 | 11.42 | 10.12 | 1.30 | 1.21 | 1.62 | -.41 | 12.64 | 11.74 | .90 |
| 1999 | 11.42 | 10.09 | 1.34 | 1.21 | 1.67 | -.45 | 12.64 | 11.75 | .88 |
| 2000 | 11.20 | 10.06 | 1.14 | 1.43 | 1.71 | -.27 | 12.64 | 11.77 | .87 |
| 2001 | 11.21 | 10.05 | 1.15 | 1.43 | 1.75 | -.32 | 12.64 | 11.80 | .84 |
| 2002 | 11.21 | 10.04 | 1.16 | 1.44 | 1.79 | -.36 | 12.64 | 11.83 | .81 |
| 2003 | 11.21 | 10.03 | 1.18 | 1.44 | 1.83 | -.40 | 12.64 | 11.86 | .78 |
| 2005 | 11.23 | 9.99 | 1.25 | 1.44 | 1.90 | -.46 | 12.67 | 11.89 | .78 |
| 2010 | 11.31 | 10.24 | 1.07 | 1.44 | 2.03 | -.59 | 12.75 | 12.27 | .48 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 2015 | 11.40 | 11.31 | .09 | 1.45 | 2.10 | -.66 | 12.85 | 13.42 | -.56 |
| 2020 | 11.50 | 12.82 | -1.31 | 1.45 | 2.14 | -.69 | 12.96 | 14.96 | -2.01 |
| 2025 | 11.60 | 14.15 | -2.55 | 1.45 | 2.21 | -.76 | 13.05 | 16.36 | -3.31 |
| 2030 | 11.67 | 15.03 | -3.36 | 1.46 | 2.20 | -.74 | 13.13 | 17.22 | -4.10 |
| 2035 | 11.71 | 15.37 | -3.66 | 1.46 | 2.15 | -.69 | 13.17 | 17.52 | -4.35 |
| 2040 | 11.73 | 15.27 | -3.54 | 1.46 | 2.15 | -.69 | 13.19 | 17.42 | -4.23 |
| 2045 | 11.74 | 15.18 | -3.44 | 1.46 | 2.24 | -.78 | 13.20 | 17.42 | -4.22 |
| 2050 | 11.77 | 15.35 | -3.58 | 1.46 | 2.29 | -.83 | 13.23 | 17.64 | -4.41 |
| 2055 | 11.80 | 15.75 | -3.95 | 1.46 | 2.32 | -.86 | 13.26 | 18.07 | -4.81 |
| 2060 | 11.83 | 16.19 | -4.35 | 1.46 | 2.29 | -.83 | 13.30 | 18.48 | -5.18 |
| 2065 | 11.86 | 16.49 | -4.64 | 1.46 | 2.28 | -.81 | 13.32 | 18.77 | -5.45 |
| 2070 | 11.87 | 16.71 | -4.84 | 1.46 | 2.29 | -.83 | 13.34 | 19.00 | -5.67 |

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

Source: 1994 OASDI Trustees' report.

TABLE 3-14.--ESTIMATED TRUST FUND RATIOS UNDER ALTERNATIVE II OF THE 1994 TRUSTEES' REPORT, CALENDAR YEARS 1994-2070

[In percent]

| Calendar year | OASI | DI | Combined |
|---|---|---|---|
| 1994 | 129 | 23 | 116 |
| 1995 | 143 | 8 | 126 |
| 1996 | 157 | (\1\) | 136 |
| 1997 | 173 | (\1\) | 146 |
| 1998 | 188 | (\1\) | 156 |
| 1999 | 204 | (\1\) | 165 |
| 2000 | 219 | (\1\) | 173 |
| 2001 | 233 | (\1\) | 182 |
| 2002 | 246 | (\1\) | 189 |
| 2003 | 259 | (\1\) | 197 |
| 2005 | 286 | (\1\) | 211 |
| 2010 | 346 | (\1\) | 239 |
| 2015 | 359 | (\1\) | 231 |
| 2020 | 316 | (\1\) | |

| | | | |
|---|---|---|---|
| | | | 180 |
| 2025 | 238 | (\1\) | 96 |
| 2030 | 139 | (\1\) | (\1\) |
| 2035 | 28 | (\1\) | (\1\) |
| 2040 | (\1\) | (\1\) | (\1\) |
| 2045 | (\1\) | (\1\) | (\1\) |
| 2050 | (\1\) | (\1\) | (\1\) |
| 2055 | (\1\) | (\1\) | (\1\) |
| 2060 | (\1\) | (\1\) | (\1\) |
| 2065 | (\1\) | (\1\) | (\1\) |
| 2070 | (\1\) | (\1\) | (\1\) |
| Trust fund is estimated to be exhausted in | 2036 | 1995 | 2029 |

\1\The trust fund is estimated to have been exhausted by the beginning of this year. The last line of the table shows the specific year of trust fund exhaustion.

Note.--The OASDI ratios shown for years after a given fund is estimated to be exhausted are theoretical and are shown for informations purposes only.

Source: 1994 OASDI Trustees' report.

TABLE 3-15.--ESTIMATED OPERATIONS OF THE COMBINED OASI AND DI TRUST FUNDS IN CONSTANT 1994 DOLLARS\1\ UNDER ALTERNATIVE II, CALENDAR YEARS 1994-2070

[In billions]

| Calendar year | Income excluding interest | Interest income | Total income | Outgo | Assets at end of year |
|---|---|---|---|---|---|
| 1994 | $347.0 | $30.4 | $377.4 | $324.8 | $430.9 |
| 1995 | 357.5 | 32.2 | 389.7 | 332.0 | 475.4 |
| 1996 | 365.4 | 34.2 | 399.6 | 338.9 | 521.0 |
| 1997 | 372.1 | 36.3 | 408.4 | 345.6 | 566.8 |
| 1998 | 378.1 | 38.5 | 416.6 | 352.1 | 612.3 |
| 1999 | 384.4 | 40.7 | 425.1 | 358.5 | 657.1 |
| 2000 | 390.9 | 42.9 | 433.8 | 364.8 | 701.5 |
| 2001 | 397.3 | 45.2 | 442.5 | 371.5 | 745.5 |
| 2002 | 403.5 | 47.7 | 451.2 | 378.6 | 789.5 |
| 2003 | 410.4 | 50.1 | 460.6 | 385.9 | 833.8 |
| 2005 | 426.6 | 55.3 | 481.9 | 401.2 | 925.9 |
| 2010 | 467.0 | 68.7 | 535.7 | 450.2 | 1,159.8 |
| 2015 | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| | 504.1 | 76.6 | 580.8 | 527.3 | 1,273.6 |
| 2020 | 537.8 | 68.2 | 606.1 | 622.3 | 1,106.4 |
| 2025\2\ | 570.9 | 38.2 | 609.0 | 716.9 | 578.8 |

\1\The adjustment from current to constant dollars is by the CPI.
\2\Estimates for later years are not shown because the combined OASI and DI Trust Funds are estimated to become exhausted in 2029 under alternative II and in 2014 under alternative III.

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

Source: 1994 OASDI Trustees' Report.

TABLE 3-16.--ESTIMATED COST OF OASDI AND HI SYSTEMS AS PERCENT OF GDP UNDER ALTERNATIVE II, 1994-2070
[In percent]

| Calendar year | OASDI | HI | OASDI and HI |
|---|---|---|---|
| Alternative II: | | | |
| 1994 | 4.83 | 1.60 | 6.43 |
| 1995 | 4.82 | 1.66 | 6.47 |
| 1996 | 4.82 | 1.71 | 6.53 |
| 1997 | 4.82 | 1.76 | 6.58 |

| | | | |
|---|---|---|---|
| 1998.......................... | 4.82 | 1.82 | 6.64 |
| 1999.......................... | 4.82 | 1.89 | 6.71 |
| 2000.......................... | 4.82 | 1.95 | 6.77 |
| 2001.......................... | 4.82 | 2.01 | 6.84 |
| 2002.......................... | 4.83 | 2.07 | 6.90 |
| 2003.......................... | 4.83 | 2.13 | 6.97 |
| 2005.......................... | 4.83 | 2.24 | 7.08 |
| 2010.......................... | 4.96 | 2.48 | 7.44 |
| 2015.......................... | 5.38 | 2.84 | 8.22 |
| 2020.......................... | 5.95 | 3.22 | 9.16 |
| 2025.......................... | 6.44 | 3.64 | 10.08 |
| 2030.......................... | 6.71 | 4.04 | 10.75 |
| 2035.......................... | 6.76 | 4.33 | 11.09 |
| 2040.......................... | 6.66 | 4.47 | 11.14 |
| 2045.......................... | 6.60 | 4.55 | 11.15 |
| 2050.......................... | 6.62 | 4.59 | 11.21 |
| 2055.......................... | 6.72 | 4.66 | 11.38 |
| 2060.......................... | 6.80 | 4.77 | 11.57 |
| 2065.......................... | 6.84 | 4.90 | 11.74 |
| 2070.......................... | 6.86 | 5.03 | 11.89 |

| | | | |
|---|---|---|---|
| Summarized rates:\1\ | | | |
| 25-year: 1994-2018....... | 5.22 | 2.39 | 7.61 |
| 50-year: 1994-2043....... | 5.80 | 3.10 | 8.90 |
| 75-year: 1994-2068....... | 6.02 | 3.51 | 9.53 |

\1\Summarized rates are calculated on the present-value basis including the value of the trust funds on January 1, 1994 and the cost of reaching and maintaining a target trust fund level equal to 100 percent of annual expenditures by the end of the period.

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

Source: 1994 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

## ECONOMIC AND DEMOGRAPHIC ASSUMPTIONS

The following tables provide specific information concerning the economic and demographic assumptions which underlie the Social Security trustees' 1994 short and long-run financial projections.

TABLE 3-17.--ECONOMIC ASSUMPTIONS IN THE 1994 TRUSTEES REPORT, 1960-2070

Average annual percentage change in-- Average

| Calendar year | Real GDP\1\ | Average annual wages in covered employment | Consumer Price Index\2\ | Real-wage differential\3\ (percent) | Average annual unemployment rate\4\ (percent) |
|---|---|---|---|---|---|
| Historical data: | | | | | |
| 1960-64 | 3.9 | 3.4 | 1.3 | 2.1 | 5.7 |
| 1965-69 | 4.4 | 5.4 | 3.4 | 2.0 | 3.8 |
| 1970-74 | 2.4 | 6.3 | 6.1 | .2 | 5.4 |
| 1975 | -.8 | 6.7 | 9.1 | -2.4 | 8.5 |
| 1976 | 4.9 | 8.7 | 5.7 | 3.0 | 7.7 |
| 1977 | 4.5 | 7.3 | 6.5 | .8 | 7.1 |
| 1978 | 4.8 | 9.7 | 7.7 | 2.0 | 6.1 |
| 1979 | 2.5 | 9.8 | 11.4 | -1.6 | 5.8 |
| 1980 | -.5 | 9.0 | 13.4 | -4.4 | 7.1 |
| 1981 | 1.8 | 9.8 | 10.3 | -.5 | 7.6 |
| 1982 | -2.2 | 6.5 | 6.0 | .5 | 9.7 |
| 1983 | 3.9 | 5.1 | 3.0 | 2.1 | 9.6 |
| 1984 | 6.2 | 7.3 | 3.5 | 3.8 | 7.5 |
| 1985 | 3.2 | | | | |

4.3 3.5 .8 7.2
1986...................................... 2.9
5.1 1.6 3.5 7.0
1987...................................... 3.1
4.7 3.6 1.1 6.2
1988...................................... 3.9
4.8 4.0 .8 5.5
1989...................................... 2.5
4.3 4.8 -.5 5.3
1990...................................... 1.2
\5\4.8 5.2 -.4 5.5
1991...................................... -.7
\5\3.8 4.0 -.2 6.7
1992...................................... 2.6
\5\5.2 2.9 2.3 7.4
1993...................................... \5\2.9
\5\2.4 2.8 -.5 6.8
Intermediate assumptions:
1994...................................... 3.2
2.7 2.7 .0 6.3
1995...................................... 2.8
4.8 3.2 1.6 6.2
1996...................................... 2.6
4.3 3.3 1.0 6.0
1997...................................... 2.4
4.3 3.4 1.0 6.0
1998...................................... 2.2
4.3 3.5 .9 6.0
1999...................................... 2.2
4.6 3.7 .9 6.0
2000...................................... 2.1
4.8 3.9 .9 6.0
2001...................................... 2.0
4.8 4.0 .8 5.9
2002...................................... 2.0
5.0 4.0 1.0 5.9
2003...................................... 2.0
5.1 4.0 1.1 5.9
2010...................................... 1.7
5.1 4.0 1.1 6.0
2020...................................... 1.3

| | | | | | |
|---|---|---|---|---|---|
| | | 5.0 | 4.0 | 1.0 | 6.0 |
| 2030 | 1.3 | 5.0 | 4.0 | 1.0 | 6.0 |
| 2040 | 1.2 | 5.0 | 4.0 | 1.0 | 6.0 |
| 2050 | 1.2 | 5.0 | 4.0 | 1.0 | 6.0 |
| 2060 | 1.2 | 5.0 | 4.0 | 1.0 | 6.0 |
| 2070 | 1.2 | 5.0 | 4.0 | 1.0 | 6.0 |

\1\The real GDP (gross domestic product) is the value of total output of goods and services, expressed in 1987 dollars.
\2\The Consumer Price Index is the annual average value for the calendar year of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).
\3\The real-wage differential is the difference between the percentage increases, before rounding, in (1) the average annual wage in covered employment, and (2) the average annual Consumer Price Index.
\4\Through 2003, the rates shown are unadjusted civilian unemployment rates. After 2003, the rates are total rates (inclduing military personnel), adjusted by age and sex based on the estimated total labor force for July 1, 1992.
\5\Preliminary.

Source: 1994 Trustees Report.

TABLE 3-18.--PROJECTED EARNINGS FOR HYPOTHETICAL WORKERS

| Year | Low\1\ | Average\2\ | Maximum\3\ |
|---|---|---|---|

| | | | |
|---|---|---|---|
| 1994 | $10,840 | $24,090 | $60,600 |
| 1995 | 11,338 | 25,196 | 62,100 |
| 1996 | 11,811 | 26,246 | 63,600 |
| 1997 | 12,308 | 27,352 | 66,600 |
| 1998 | 12,832 | 28,516 | 69,300 |
| 1999 | 13,407 | 29,794 | 72,300 |

\1\Worker with earnings equal to 45 percent of the SSA average wage index.

\2\Worker with earnings equal to the SSA average wage index.

\3\Worker with earnings equal to the Social Security maximum taxable earnings.

Source: Office of the Actuary, Social Security Administration.

TABLE 3-19.--MAJOR LONG-TERM DEMOGRAPHIC ASSUMPTIONS

[1994 trustees' report alternative II assumptions]

| Calendar year | Total | Age-sex-adjusted death | Life expectancy\3\ At birth | Life expectancy\3\ At age 65 |
|---|---|---|---|---|

fertility rate\2\ ----------------------------------
rate
\1\ (per
100,000) Male Female Male Female

| | | | | | | |
|---|---|---|---|---|---|---|
| 1995 | 2.04 | 761.6 | 72.3 | 79.2 | 15.4 | 19.2 |
| 2000 | 2.01 | 731.0 | 73.0 | 79.7 | 15.6 | 19.4 |
| 2005 | 1.98 | 701.1 | 73.8 | 80.2 | 15.8 | 19.5 |
| 2010 | 1.95 | 678.4 | 74.3 | 80.5 | 16.0 | 19.7 |
| 2015 | 1.92 | 659.2 | 74.7 | 80.9 | 16.3 | 19.9 |
| 2020 | 1.90 | 641.0 | 75.0 | 81.2 | 16.5 | 20.2 |
| 2025 | 1.90 | 623.8 | 75.3 | 81.5 | 16.7 | 20.4 |
| 2030 | 1.90 | 607.3 | 75.6 | 81.8 | 16.9 | 20.6 |
| 2035 | 1.90 | 591.6 | 75.9 | 82.1 | 17.1 | 20.9 |
| 2040 | 1.90 | 576.7 | 76.2 | 82.3 | 17.3 | 21.1 |
| 2045 | 1.90 | 562.4 | 76.5 | 82.6 | 17.5 | 21.3 |
| 2050 | 1.90 | 548.8 | 76.8 | 82.9 | 17.7 | 21.5 |
| 2055 | 1.90 | 535.7 | 77.1 | 83.2 | 17.9 | 21.7 |
| 2060 | 1.90 | 523.3 | 77.4 | 83.5 | 18.1 | 21.9 |
| 2065 | 1.90 | 511.4 | 77.6 | 83.7 | 18.3 | 22.1 |
| 2070 | 1.90 | 500.0 | 77.9 | 84.0 | 18.5 | 22.3 |

\1\The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire child-bearing period. The ultimate total fertility rate is assumed to be reached in 2018.

\2\The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 1980, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year.

\3\The life expectancy for any year is the average number of years of life remaining for a person if that person were to experience the death rates by age observed in, or assumed for, the selected year.

TABLE 3-20.--COVERED WORK FORCE--NUMBER OF BENEFICIARIES AND DEPENDENCY RATES

| | 1960 | 1980 | 2000 | 2020 | 2040 |
|---|---|---|---|---|---|
| Total population (in millions)................. | 190 | 235 | 285 | 325 | 349 |
| Covered workers............ | 73 | 112 | 147 | 161 | 166 |
| Beneficiaries (OASI and DI) | 14 | 35 | 47 | 68 | 84 |
| Aged dependency ratio\1\... | .173 | .195 | .210 | .279 | .372 |
| Total dependency ratio\2\.. | .904 | .749 | .691 | .701 | .791 |
| Worker/beneficiary ratio... | 5.1 | 3.2 | 3.1 | 2.4 | 2.0 |

-------------

\1\Ratio of persons aged 65 and over to the number of persons aged 20-64.

\2\Ratio of non-working-age to working-age population--population under 20 plus population 65 and over divided by population 20-64.

Source: 1994 Trustees Report.

## SENSITIVITY OF LONG-RANGE PROJECTIONS

Long-range estimates of the financial status of the OASDI trust funds are extremely sensitive to the basic social, economic, and demographic variables that underpin the projections. Slight variations in assumptions about future demographic or economic trends can lead to substantially different financial projections, and thus any longer term estimate is necessarily very uncertain. In general terms, the income to the funds crucially depends on long-run trends in covered wages paid to employees, which in turn depends on many fundamental economic and demographic factors, such as real wage growth in the economy, fluctuations in the size of the work force, productivity, and overall rates of fertility and immigration. The expenditures of the program depend on the amount of benefits that are paid, which is of course affected by the level of consumer inflation, changes in mortality rates and life expectancy, disability incidence, and work and retirement patterns among the elderly population.

As a way of illustrating the sensitivity of long-term projections to variations in basic assumptions, table 3-21 presents data on the effects of varying assumptions about real wage growth in the alternative II estimates. This table is based on the premise that all other alternative II demographic and economic assumptions are held constant. (Under alternative II, the real wage growth assumption is 1.0 percent.)

TABLE 3-21.--ESTIMATED OASDI SUMMARIZED INCOME RATES, COST RATES, AND ACTUARIAL BALANCES, BASED ON ALTERNATIVE II WITH VARIOUS REAL-WAGE ASSUMPTIONS

[As a percentage of taxable payroll]

| Valuation period | Ultimate percentage increase in wages--CPI\1\ | | |
|---|---|---|---|
| | 4.5-4.0 | 5.0-4.0 | 5.5-4.0 |
| Summarized income rate: | | | |
| 25-year: 1994-2018.................. | 13.39 | 13.35 | 13.31 |
| 50-year: 1994-2043.................. | 13.29 | 13.24 | 13.19 |
| 75-year: 1994-2068.................. | 13.30 | 13.24 | 13.19 |
| Summarized cost rate: | | | |
| 25-year: 1994-2018.................. | 13.25 | 12.85 | 12.45 |
| 50-year: 1994-2043.................. | 15.09 | 14.53 | 13.97 |
| 75-year: 1994-2068.................. | 15.97 | 15.37 | 14.77 |
| Balance: | | | |
| 25-year: 1994-2018.................. | +.14 | +.50 | +.86 |

| | | | |
|---|---|---|---|
| 50-year: 1994-2043................. | -1.80 | -1.29 | -.79 |
| 75-year: 1994-2068................. | -2.67 | -2.13 | -1.58 |

\1\The first value in each pair is the assumed ultimate annual percentage increase in average wages in covered employment. The second value is the assumed ultimate annual percentage increase in the Consumer Price Index. The difference between the two values is the real-wage differential.

Source: 1994 Trustees' Report.