WEALTH SOLUTIONS GROUP

Highlights from Social Security Trustees Annual Report

An unexpected surplus in 2018 shouldn't obscure the precarious future of the Trust Funds

Operations of the Social Security Trust Fund were better than expected in 2018, but the long-range future of the fund shows a continuing need for action to secure this valuable retirement resource.

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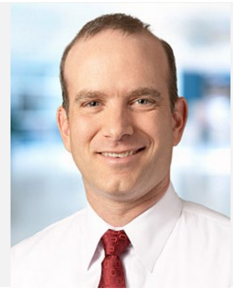

May 2019

The Board of Trustees of the Social Security Trust Funds issued their 2019 report on the operations and status of the funds, and it was a mixed bag of results. On the positive side, the report showed that 2018 ended up being a better year than was expected. Rather than running a deficit for the first time since 1982, as was forecast in last year's report, the trust fund actually recorded a small surplus for 2018. Another surplus is expected for 2019, albeit smaller than in 2018.

Despite a positive year in 2018, the overall Trust Fund is still in a precarious position. The fund is now expected to reach deficit status in 2020, and that deficit is expected to continue until the fund is entirely depleted in 2035, although this is an improvement of one year beyond what was forecast in last year's report.

A depleted Trust Fund doesn't mean Social Security benefits will stop being paid, however. As long as there remains a workforce that is paying taxes into the fund, there will be money available to pay future retirees. Those benefits will have to shrink, however – down to 80% of scheduled benefits in 2035, eventually falling to 75%. The Board offered some suggestions on how to ensure maximum benefits are paid to current and future retirees, but they are clear that the longer it takes to implement changes the harder it will be to ensure benefits remain available for future generations.

2018 SOCIAL SECURITY TRUST FUND ACTIVITY

The Social Security Trust Fund is comprised of two separate and distinct pools of money:

- The Old Age and Survivors Insurance Fund (OASI) pays benefits to retired workers, their families and survivors of deceased workers.
- The Disability Insurance Fund (DI) pays benefits to disabled workers.

These two Trust Funds are separate legal entities, and one fund is not allowed to borrow from the other. However, the Board typically assumes that if one of the Trust Funds were to be depleted, the laws would be changed to allow the transfer of resources between them. Therefore, the combined balance of these accounts is typically referred to as the OASDI Trust Fund.

The combined OASDI Trust Fund began 2018 with total assets of nearly $2.9 trillion. Net tax collections for the year were $920 billion, a slight increase from the $918 billion that was forecast. Earnings on the Trust Fund were more than $83 billion for the year, which nearly matched the forecast for the year. The Trust Funds are invested exclusively in special securities issued by the US Treasury, with a combination of short term certificates of indebtedness and longer term bonds. Total fund revenue for 2018 was $1.003 trillion, just ahead of the forecast of $1.001 trillion.

For 2018, the combined Trust Fund paid benefits to about 63 million people. This included roughly 47 million retired workers and their families, 6 million survivors of retired workers and 10 million disabled workers. Those benefit payments break down as follows:

Recipient	2018 Payment Amount (in millions)	Percentage of Total	Number of Recipients (in millions)
OASI Benefit Payments			
Retired Workers	$686,099	81.2	43.7
Spouses	31,615	3.7	2.4
Children	5,828	.7	.7
Total Retirement Benefit Payments	**$723,542**	**85.6**	**46.8**
Surviving Spouses	$98,995	11.7	3.9
Surviving Parents	20	*	.1
Surviving Children &Guardians	22,160	2.6	1.9
One-Time Lump Sum Death Payments	207	*	
Total Survivor Benefit Payments	**$121,382**	**14.3**	**5.9**
Total OASI Benefit Payments	**$844,924**	**100.0**	**52.7**
DI Benefit Payments			
Disabled Workers	$134,962	93.9	8.5
Spouses	536	.4	.1
Children	8,158	5.7	1.5
Total DI Benefit Payments	**$143,656**	**100.0**	**10.2**
Total OASDI Benefit Payments	**$988,580**		**62.9**

* Less than 0.05%
NOTE: Totals don't necessarily equal the sums of rounded components

The total benefit payments of $989 billion were down from the forecast of $992 billion, while expenses of the fund were up slightly over what was expected. The combination of higher than-expected revenue and lower-than-expected benefits turned the $1.7 billion deficit forecast for 2018 into a $3.1 billion surplus for the year.

As a result of this activity in 2018, the OASDI Trust Funds ended the year with $2.89 trillion. Of this, nearly $2.80 trillion is in the OASI Trust Fund and just over $97 billion is in the DI Trust Fund.

FORECASTS FOR THE TRUST FUNDS

The Board evaluates the financial condition of the combined Trust Fund over two different time periods – a 10-year short-range period and a 75-year long-range period. Projections are also done using three sets of assumptions– known as the intermediate, low-cost and high-cost assumptions. The different sets use varying assumptions for population variables (birth & death rates, immigration, etc.), economic variables (workforce participation, interest rates, wage growth, etc.) and program-specific variables (the number of insured workers, tax revenue, administrative expenses, etc.). Lastly, the Board assumes there are no changes in how revenue is raised (such as tax law changes or new investment strategies) or how benefits are to be calculated or paid.

Using the intermediate-cost assumptions, the OASI Trust Fund is projected to increase in value in 2019 before beginning to decline in value every year from 2020 through 2028, the end of the short-range forecast period. By the end of 2028, the OASI Fund is expected to be worth $1.99 trillion. Because the total value of the OASI Fund is expected to exceed 100% of the annual cost of benefits each year, this fund is considered “financially adequate” by the Board for the short-range.

For the third year in a row, the outlook for the DI Fund has improved. This is due to a combination of lower-than-expected applications for disability coverage along with other changes in the forecasting assumptions. The DI Fund is forecasted to shrink in value in 2019 and 2020, but then steadily grow through the rest of the short-range period, leaving a forecasted value of more than $153 billion at the end of 2028. However, this forecasted value is still less than the annual cost of benefits, meaning the fund continues to fail the short-range financial adequacy test. This has been the case every year since the 2007 Board of Trustee’s report. When a fund fails the short-range test, the future of the program is in question and the Board encourages Congress to take prompt action to improve its viability.

When viewed in aggregate, the combined OASDI Trust Fund is projected to have enough money to pay all scheduled OASI and DI benefits through at least 2028, thereby meeting the short-range financial adequacy test. Under current law, one trust fund cannot be used to pay the obligations of the other, though the Board assumes a law change would be enacted to allow this to happen, if necessary.

While the short-range forecast shows mixed results, the long-range forecast continues to show a different picture for the OASI and DI Funds. The Board projects that the combined OASDI Trust Fund will only be sufficient to fully cover expected costs until 2035, using the intermediate assumptions. After this point, the Trust Fund would be fully depleted. When the Board uses their high-cost assumptions, this depletion is accelerated to 2030. Both of these depletion dates are one year later than were forecasted in the 2018 report. The fund would remain fully solvent for the 75-year period under the Board’s low-cost assumptions.

As the table below shows, this 2035 depletion date continues a trend of slight improvement over the last several years.

Combined OASDI Trust Fund	Year of Trustees Report								
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Projected year benefit payments exceed tax revenue + investment income	2023	2021	2021	2020	2020	2020	2022	2018	2020
Projected year Trust Funds will be depleted	2036	2033	2033	2033	2034	2034	2034	2034	2035

It’s important to note that once the combined Trust Fund is fully depleted in 2035, the Social Security Administration will still continue to provide benefit payments. However, because these payments will only be supported by the tax revenue collected in those years and not investment income or by accessing Trust Fund reserves, those benefit payments will have to be reduced. The Board projects that once the DI Trust Fund alone is depleted in 2052, benefit payments will be reduced to just 91% of the scheduled amounts. When the OASI Trust Fund is depleted in 2034, tax revenue would only be sufficient to pay 77% of scheduled benefits. On a combined basis the OASDI Trust Fund could support 80% of scheduled OASI and DI benefits in 2035. By 2093, that would fall to 75%.

POTENTIAL SOLUTIONS

Each year the Trustees Report includes a few suggestions on how to resolve this pending depletion of the Trust Funds. In the 2019 report, the Board provided the following suggestions:

- If changes are made immediately, any one of the following permanent changes would make the OASDI Trust Fund solvent for the next 75 years.

    - The payroll tax used to fund the combined OASDI Trust Funds would need to increase from 12.40%[1] to 15.10%, an increase of 2.70%.
    - Benefits scheduled to be paid to all current and future beneficiaries would have to be reduced by 17%.
    - Benefits scheduled to be paid to anyone who becomes eligible for benefits in 2019 or later would have to be reduced by 20%. Current beneficiaries would be unaffected.
- If action is deferred until 2035, the year the OASDI Trust Fund is scheduled to be depleted, either of the following permanent changes would ensure solvency through the 75-year period:
    - Increase the payroll tax from 12.4% to 16.05%, an increase of 3.65%.
    - Reduce the amount paid to all beneficiaries by 23%.

The following table shows how these possible solutions have changed over the last several years. While the solutions have fluctuated some over time, it's clear that by waiting to enact some form of change, the required changes become harsher for workers and retirees.

Change to Ensure 75-Year Solvency		Year of Trustees Report							
	2011	2012	2013	2014	2015	2016	2017	2018	2019
Immediate payroll tax increase	2.15%	2.61%	2.66%	2.83%	2.62%	2.58%	2.76%	2.78%	2.70%
Immediate reduction in benefits for all current & future beneficiaries	13.8%	16.2%	16.5%	17.4%	16.4%	16%[2]	17%	17%	17%

The Social Security Administration's actuaries have also evaluated a variety of other proposals that have been put forth by members of Congress or others. A full list of those proposals can be found at www.ssa.gov/OACT/solvency/provisions/, but below are several of the options and their projected impact on the date the OASDI Trust Fund would be fully depleted. Data below is based on the 2019 Board of Trustees Report unless otherwise indicated.

[1] Both employers and employees share in paying this tax today, which each side paying a 6.2% tax on wages. Self-employed individuals pay both halves of this tax. The required increase could also be split between employers and employees, or could be levied on just one or the other.
[2] In 2016, the Board stopped reporting these estimates in tenths of a percentage point.

Proposed Change	Additional Years Added to Life of OASDI Trust Fund
Reduce the annual Cost of Living Adjustment by 1% in December 2020	10
Gradually increase Full Retirement Age from 67 to 68 in 2023 - 2034	0
Gradually reduce spousal benefits from 50% to 33% by 2035 beginning with new retirees in 2019	0*
Eliminate the cap on earnings subject to the payroll tax, applying the full 12.4% tax to all earnings, and credit <u>all earnings</u> toward Social Security benefits	29*
Eliminate the cap on earnings subject to the payroll tax in 2019, applying the full 12.4% tax to all earnings, but only credit the <u>current maximum earnings</u> toward Social Security benefits	39*
Invest 40% of the OASDI Trust Fund in equities, phased in from 2020-2034, with an assumed equity return of 6%	1
Reduce benefits by 5% for those newly eligible for benefits in 2019 or later.	1*
Gradually reduce benefits by up to 50% for single taxpayers with income over $60,000 (couples over $120,000), beginning with those newly eligible for benefits in 2023.	1*
Apply a new 6.2% tax on investment income, calculated similarly to the current 3.8% Net Investment Income Tax	5*

* Results based on data from 2018 Board of Trustees Report

CONCLUSION

The OASDI Trust Funds continue face a significant challenge in meeting their scheduled benefit payments, and those challenges threaten to impact all current and future beneficiaries. The Board of Trustees annually provide estimates of the type of tax increases or benefit cuts that are necessary to ensure the long-range solvency of the Trust Funds, but there is little appetite among politicians –as well as the general public – for these one-solution proposals. As a result, the changes necessary to protect the benefits paid by the Trust Fund become more extreme each year. Politicians and others have proposed a variety of other changes to all aspects of the revenue and benefit side of the equation, but many of these proposals would only provide modest extensions to the life expectancy of these funds. As this problem continues to grow, and the date at which the funds are depleted grows closer, it's incumbent on all sides to work toward solutions. This is not a problem that will be solved by just changing one variable, and all affected parties will need to accept that the most likely solution to this problem will be a combination of increased revenue to the fund, including tax increases, and changes to how benefits are calculated and paid.

The full 2019 Report from the Board of Trustees, as well as historical Trustee reports back to 1941, are available at the Social Security Administration website by going to www.ssa.gov/oact/tr/.