

FACTS from EBRI

Employee Benefit Research Institute • 1100 13th St. NW #878 • Washington, DC 20005 • 202/659-0670

April 2008

The Basics of Social Security Updated With the 2008 Board of Trustees Report

History and Background

- The U.S. Congress enacted the Social Security Act in 1935, creating the Old-Age and Survivors Insurance (OASI) program, which provided retirement income benefits to workers ages 65 and older in commerce and industry (except railroads). The system became effective in 1937, and is financed by a payroll tax paid by employers and employees. In 1939, the system was expanded to cover dependents and survivors of covered workers. Legislation enacted in 1950 and subsequent years allowed states the option, under certain conditions, to provide Social Security coverage to their employees. The Social Security Act Amendments of 1983 prohibited states from opting out of the Social Security program. In 1990, Social Security coverage became mandatory for state and local employees not covered by a state or local government retirement plan.
- In 1956, the Disability Insurance (DI) program was added to the Social Security program, providing income to disabled workers. In 1958, dependents of disabled workers receiving benefits under the DI program became eligible for benefit payments.
- In 1965, the Medicare program was added, providing health insurance coverage for the elderly; the program was expanded in 1972 to cover beneficiaries of the DI program. EBRI maintains a separate Fact Sheet detailing the basics of the Medicare program.
- For budgetary purposes, the date on which the trust funds go into negative cash flow (i.e., the benefit payments exceed the income from payroll taxes and the taxation of benefits) is significant because it marks the point at which the government must provide cash from general revenues to the programs rather than receive surplus cash from them to fund other current spending.

Key Dates in the Long-Range Financing of the OASDI Trust Fund

- Under intermediate assumptions, the combined OASDI trust fund expenses are expected to exceed income from taxes in 2017. By 2027, OASDI expenses are expected to exceed income from taxes plus interest income, and the trust fund is expected to be exhausted by 2041.
- Under low cost assumptions, the combined OASDI trust fund expenses are expected to exceed income from taxes in 2021. The trust fund is expected to remain solvent throughout the 75-year period.
- Under high cost assumptions, the combined OASDI trust fund expenses are expected to exceed income from taxes in 2014. By 2031, the trust fund is expected to be exhausted.
- The unfunded obligation of the OASDI trust funds, for 1935 through the end of the 75-year projection period ending in 2082, is estimated to be \$4.3 trillion. The unfunded obligation for 1935 through the infinite horizon is estimated to be \$13.6 trillion.
- In 2007, expenditures of the OASDI trust funds were the equivalent to 4.3 percent of gross domestic product (GDP). By 2082, that percentage is estimated to increase to 5.8 percent.

Tax Revenue

- The Social Security trust funds are derived from payroll taxes assessed on employers and employees. Under current law, the payroll taxes are assessed as follows. OASI payroll taxes for 2008 are based on a combined employer/employee rate of 10.6 percent of earnings up to a maximum annual taxable amount of \$102,000. The maximum taxable amount of earnings increases in proportion to increases in the average wage level. In 2007, total income for the OASI trust fund was \$675.0 billion: \$560.9 billion was in payroll taxes, \$17.2 billion was in taxation of benefits, and \$97.0 billion was interest income.
- DI payroll taxes for 2008 are based on a combined employer/employee rate of 1.8 percent of earnings, up to a maximum taxable amount of 102,000. The maximum taxable amount of earnings increases in proportion to increases in the average wage level. In 2007, total income for the DI trust fund was \$109.9 billion: \$95.2 billion was from payroll taxes, \$1.4 billion was from taxation of benefits, and \$13.2 billion was from interest income.
- In 1992, the DI trust fund went into negative cash flow and was projected to become insolvent in 1995. To alleviate this problem, Congress enacted the Social Security Domestic Employment Reform Act of 1994 (P.L. 103-387), which reallocated a portion of OASI taxes to the DI trust fund, effective retroactively.

Beneficiaries and Benefit Amounts

- In 2007, 40.9 million beneficiaries received benefit payments from the OASI program. In 2007, 8.7 million individuals, disabled workers, and their dependents received benefit payments from the DI program. Under intermediate assumptions, the number of OASI beneficiaries is projected to increase to 43.2 million in 2010; to 78.4 million in 2040; and to 102.7 million in 2085, and the number of DI beneficiaries is projected to increase to 9.6 million in 2010; to 13.0 million in 2040; and to 17.3 million in 2085.

Estimated Average Monthly Social Security Benefits: Before and After the January 2008 Cost-of-Living Adjustment (COLA)

	Before 2.3% COLA	After 2.3% COLA
All Retired Workers	\$ 1,055	\$ 1,079
Aged Couple, Both Receiving Benefits	1,722	1,761
Widowed Mother and Two Children	2,192	2,243
Aged Widow(er) Alone	1,017	1,041
Disabled Workers, Spouse and One Or More Children	1,652	1,690
All Disabled Workers	981	1,004
<i>Source:</i> Social Security Administration, "2008 Social Security Changes," http://www.ssa.gov/cola/colafacts2008.htm		

- In 1945, the number of covered workers per OASDI beneficiary was 41.9. By 1965, that number was 4.0, and in 2007, it was 3.3. Under intermediate assumptions, the number of covered workers per OASDI beneficiary is estimated to be 3.2 in 2010, 2.2 in 2030, 2.1 in 2060, and 2.0 in 2085.
- In 2007, total benefit payments from the OASI trust fund amounted to \$489.1 billion. Total benefit payments from the DI trust fund were \$95.9 billion.

Recent EBRI Research on Social Security and Social Security Within Retirement Income

- "Americans Much More Worried About Retirement, Health Costs a Big Concern," *EBRI Issue Brief* no. 316 (April 2008),
- "The Retirement System in Transition: The 2007 Retirement Confidence Survey," *EBRI Issue Brief* no. 304 (April 2007).
- "Estimating the Value of Changes in OASI Benefits Under Social Security Reforms," *EBRI Notes* no. 6 (June 2006).
- "Changes in the OASI Benefit Distribution Under Various Social Security Reform Alternatives." *EBRI Notes*, no. 4 (April 2006).
- "Income of the Elderly Population, Age 65 and Over: 2004," *EBRI Notes*, no. 1 (January 2006).
- "Retirement Income Security: A Look at Social Security, Employment-Based Retirement Plans, and Health Savings Accounts," *EBRI Notes*, no. 8 (August 2005).
- "Social Security Reform: The Importance of Disability Insurance and Annuities in Individual Accounts," *EBRI Notes*, no. 7 (July 2005).
- "Comparing Social Security Reform Options," *EBRI Issue Brief* no. 281 (May 2005).
- "The Inflation Rate and the Actuarial Balance of the OASDI Trust Funds," *EBRI Notes*, no. 6 (June 2004).
- "Americans' Future Retirement Security: Implications of the EBRI-ERF Retirement Security Projection Model," *EBRI Issue Brief* no. 266 (February 2004).
- EBRI also maintains its [Social Security Research Program](#). Contained on that site is EBRI research on administrative issues involved with individual accounts in Social Security as well as links to over 100 Web sites on Social Security.

Trustees in 2008

- Treasury Secretary Henry M. Paulson, Jr. acts as the Managing Trustee of the OASDI trust funds. The other trustees include: Elaine Chao, Secretary of Labor; Michael O. Leavitt, Secretary of Health and Human Services; Michael J. Astrue, Commissioner of Social Security; the two public trustee positions are currently vacant.
- For a copy of the 2008 trustees report and a summary of the 2008 Social Security and Medicare reports, click on the following link. www.ssa.gov/OACT/TR/TR08/index.html

For more information, contact Ken McDonnell (202) 775-6367, e-mail mcdonnell@ebri.org

Source: U.S. Social Security Administration, *2008 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Disability Insurance Trust Funds* (Baltimore, MD: U.S. Social Security Administration, 2008).