

FACTS from EBRI

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The Basics of Social Security, Updated With the 2005 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 and 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 2022. 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 2013. By 2030, 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 2079, is estimated to be \$4.0 trillion. The unfunded obligation for 1935 through the infinite horizon is estimated to be \$11.1 trillion.
- In 2004, expenditures of the OASDI trust funds were the equivalent to 4.3 percent of gross domestic product (GDP). By 2080, that percentage is estimated to increase to 6.4 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 2005 are based on a combined employer/employee rate of 10.6 percent of earnings up to a maximum annual taxable amount of \$90,000. The maximum taxable

amount of earnings increases in proportion to increases in the average wage level. In 2004, total income for the OASI trust fund was \$566.3 billion: \$472.8 billion was in payroll taxes, \$14.6 billion was in taxation of benefits, and \$79.0 billion was interest income.

- DI payroll taxes for 2005 are based on a combined employer/employee rate of 1.8 percent of earnings, up to a maximum taxable amount of \$90,000. The maximum taxable amount of earnings increases in proportion to increases in the average wage level. In 2004, total income for the DI trust fund was \$91.4 billion: \$80.3 billion was from payroll taxes, \$1.1 billion was from taxation of benefits, and \$10.0 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 2004, 39.6 million beneficiaries received benefit payments from the OASI program. In 2004, 7.8 million individuals, disabled workers, and their dependents received benefit payments. Under intermediate assumptions, the number of OASI beneficiaries is projected to increase to 43.2 million in 2010 and to 71.2 million in 2030, and the number of DI beneficiaries is projected to increase to 9.4 million in 2010 and to 12.3 million in 2030.

**Estimated Average Monthly Social Security Benefits:
Before and After the December 2004 Cost-of-Living Adjustment (COLA)**

Source: “Fact Sheet Social Security: 2005 Social Security Changes”

www.ssa.gov/cola/colafacts2005.htm

	Before 2.7% <u>COLA</u>	After 2.7% <u>COLA</u>
All Retired Workers	\$ 930	\$ 955
	(millions)	
Aged Couple, Both Receiving Benefits	1,532	1,574
Widowed Mother and Two Children	1,927	1,979
Aged Widow(er) Alone	896	920
Disabled Workers, Spouse and One Or More Children	1,458	1,497
All Disabled Workers	871	895

- In 1945, the number of covered workers per OASDI beneficiary was 41.9. By 1965, that number was 4.0, and in 2004, 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, and 2.0 in 2060.
- In 2004, total benefit payments from the OASI trust fund amounted to \$415.0 billion. Total benefit payments from the DI trust fund were \$78.2 billion.

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

- “Comparing Social Security Reform Options,” *EBRI Issue Brief* no. 281 (Employee Benefit Research Institute, May 2005) www.ebri.org/ibs/281ib.htm

- “Encouraging Workers to Save: The 2005 Retirement Confidence Survey,” *EBRI Issue Brief* no. 280 (Employee Benefit Research Institute, April 2005) www.ebri.org/ibs/280ib.htm
- “Income of the Elderly Population: 2003,” *EBRI Notes*, no. 1 (January 2005) www.ebri.org/notes/0105note.htm
- “The Inflation Rate and the Actuarial Balance of the OASDI Trust Funds,” *EBRI Notes* no. 6 (Employee Benefit Research Institute, June 2004) www.ebri.org/notes/0604note.htm
- “Americans’ Future Retirement Security: Implications of the EBRI-ERF Retirement Security Projection Model,” *EBRI Issue Brief* no. 266 (Employee Benefit Research Institute, February 2004) www.ebri.org/ibs/266ib.htm
- “Social Security Actuarial Balance and the Labor Force Participation Rate,” *EBRI Notes* no. 5 (Employee Benefit Research Institute, May 2003) www.ebri.org/notes/0503note.htm
- EBRI also maintains its Social Security Research Program www.ebri.org/SSProject/index.htm 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 2004

- Treasury Secretary John W. Snow 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; Jo Anne B. Barnhart, Commissioner of Social Security; John L. Palmer, and Thomas R. Saving.
- The 2005 trustees’ report and a summary of the 2005 Social Security and Medicare reports is available on the Internet at www.ssa.gov/OACT/TR/TR05/

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Source: U.S. Social Security Administration, *2005 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, 2005).