98-422 EPW

CRS Report for Congress

Social Security and the Federal Budget: What Does Social Security's Being "Off Budget" Mean?

Updated February 17, 1999

David Stuart Koitz
Specialist in Social Legislation
Domestic Social Policy Division

Congressional Research Servie ❖ The Library of Congress

ABSTRACT

As a result of a series of laws enacted in 1983, 1985 and 1990, Social Security is considered to be "off budget" for federal budget purposes. While the meaning of this might seem obvious, many people are perplexed by the continued use of budget figures that count Social Security in the totals. This report discusses how Social Security is presented in official budget documents and how it is treated in the congressional budget process.

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Summary

As a result of a series of laws enacted in 1983, 1985 and 1990, Social Security is considered to be "off budget" for federal budget purposes. While the meaning of this might seem obvious — that Social Security is not to be considered as part of the federal budget — many people are perplexed by the continued use of aggregate budget figures that include Social Security's receipts and expenditures.

Budget policymakers tend to emphasize these aggregates, or what is commonly referred to as the *unified* budget, because they summarize the government's overall impact on the economy — particularly the extent to which it is borrowing money from the financial markets or paying off debt it has incurred in the past. Social Security may be viewed as "different," but it is still part of the government and helps to form this overall impact. Its taxes like all other federal funds flow into the U.S. Treasury and its benefit payments flow out of the U.S. Treasury. The Treasury Department issues federal securities to the Social Security trust funds to reflect receipt of these taxes, and redeems securities from the trust funds to reflect Social Security expenditures, but the money itself flows to and from the Treasury.

While policymakers emphasize unified budget figures, "taking Social Security off budget" has changed the way the federal budget is formally presented. Annual congressional budget resolutions, for instance, do not show unified totals. They show Social Security's income and outgo separately. In addition, while budget projections prepared by the Congressional Budget Office and the Office of Management and Budget display unified totals, they also show so-called "on budget" totals, which exclude Social Security and the postal service, and "off budget" totals, which count only the operations of Social Security and the postal service. A major effect of this has been to highlight that Social Security is running a surplus and the rest of the government is running a deficit.

Perhaps as significant, but less understood, is how taking Social Security "off budget" has changed the way budget measures and Social Security legislation are handled in Congress. A provision enacted in 1985, for instance, permits Members to object to (or raise a "point of order" against) bills designed to achieve budget goals — so-called *reconciliation* bills — if they contain Social Security measures. In the House, a simple majority can override such an objection, but in the Senate it takes approval by three-fifths of its Members. In addition, Social Security is largely exempt from budget process rules enacted in 1990 designed to discourage future tax reductions or spending increases that would increase budget deficits. Key elements of these rules include setting specific dollar limits on discretionary spending (i.e., on programs requiring annual appropriations) and creation of a "pay-as-you-go" rule for direct spending (i.e., entitlement programs) and revenues requiring that any new spending increases or revenue reductions be offset by other changes. If the discretionary spending limits or the "pay-as-you-go" rule are violated, the President may be required to cut spending. With the exception of administrative expenses, Social Security is exempt from such cuts. Congress also adopted new rules designed to discourage bills that would erode the balances of the Social Security trust funds.

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Social Security and the Federal Budget: What Does Social Security's Being "Off Budget" Mean?

Introduction

Social Security and other federal programs that operate through trust funds were counted officially in the federal budget beginning in FY1969. Their inclusion in the budget, instituted by President Johnson, followed a recommendation by an expert panel that all the financial operations of the government be consolidated into a single budget.[1] It was implemented administratively under broad authority granted to the President by the Budget and Accounting Act of 1921 to devise the form in which the federal budget was to be presented. In 1974, with passage of the Congressional Budget and Impoundment Control Act (P.L. 93-344), Congress adopted a process of its own for developing budget goals through passage of annual budget resolutions. Up to that point, spending and revenue measures were adopted piecemeal through appropriations laws and periodic entitlement and tax legislation. Like the budgets then prepared by the President, the budget resolutions required under the new congressional procedures were to reflect a "unified budget" approach that included trust fund programs such as Social Security in the budget totals.

Beginning in the 1970s, financial problems plaguing Social Security and concern over the program's growing costs gave impetus to measures to curtail benefits. Social Security cutbacks were included in the Omnibus Budget Reconciliation Acts of 1980 and 1981 and the Social Security Amendments of 1983. However, despite passage of these measures, resolution of the program's financial problems, and the buildup of surpluses in the trust funds, interest in curbing Social Security expenditures continued because of the large federal budget deficits that arose in the 1980s.

This routine consideration of Social Security constraints raised concerns that the public's confidence in the program was being eroded and gave impetus to proposals to remove Social Security from the budget. The result was that although the program continued to be counted in the budget throughout the decade, measures were enacted in 1983, 1985, and 1987 explicitly stating that it was not to be included in the budget, making it a separate part of congressional budget resolutions, and imposing potential procedural hurdles for budgetary bills containing Social Security changes.

Then, in 1990, reacting to criticism that surplus Social Security taxes were masking the size of budget deficits, Congress enacted further measures to separate

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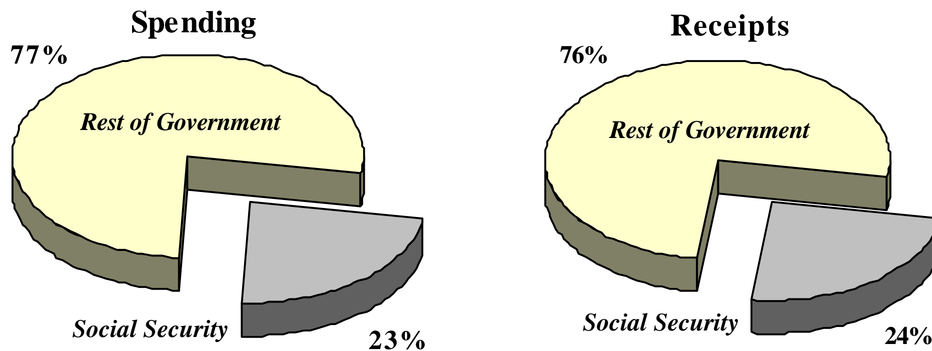
[1] *Report of the President's Commission on Budget Concepts*. Washington, GPO, October 1967.

Social Security from formulation of the budget and from procedures designed to discourage tax reductions or spending increases that would increase the size of the deficits. This was done as part of changes to the budget process included in a $500 billion deficit-reduction package enacted at the end of the 101st Congress. However, in excluding Social Security from budget procedures designed to control budget deficits, the reforms potentially removed fiscal constraints that protected the Social Security trust funds. Concerned that the lifting of these constraints would encourage proposals that could weaken the system's financial condition, Congress adopted new procedural hurdles for bills that would erode the balances of the trust fund accounts.

Figure 1. Social Security's Share of Federal Spending and Receipts, FY1998



Social Security Is Now Considered to Be "Off Budget"

For federal budget purposes, Social Security is now considered to be "off budget." If loosely defined, one could say that Social Security has been removed from the federal budget at least three times since the early 1980s, as part of:

1. the Social Security Amendments of 1983;
2. the Gramm-Rudman-Hollings budget act changes in 1985; and
3. the Budget Enforcement Act of 1990.

While the meaning of Social Security being "off budget" might seem obvious — that it is *not* to be considered as part of the federal budget — many people are perplexed by the continued use of aggregate budget figures that count the program's receipts and expenditures.

Official budget documents do display budget totals differently than they did before this legislation was enacted. In addition to aggregate or unified budget totals, official budget documents show the financial flows of Social Security and the postal service separately as well as the financial operations of the government when these two functions are excluded. In addition, a number of procedural changes have been put in place affecting how Congress deliberates and acts on budget-related bills and Social Security legislation. All these changes were designed to differentiate Social Security from other government activities. However, both the Congressional Budget

Office (CBO) and the President's Office of Management and Budget (OMB) continue to emphasize aggregate budget totals that include Social Security.

The basic reason is economic. Those who are interested in the aggregate financial flows of the Treasury and the impact those flows have on the economy — particularly the extent to which the government is borrowing money from the financial markets or paying off publicly-held debt it has incurred in the past — continue to view the financial affairs of the government on a unified budget basis, which means they count Social Security in computing revenue and spending totals. It is the difference between the government's total receipts and total spending, including Social Security's, that determines how much the government needs to borrow from the markets or can repay. CBO states it this way:

> Social Security benefits alone account for more than one-fifth of federal spending, and its payroll taxes account for about one-fourth of government revenues. Therefore, most economists, credit market participants, and policymakers, when they seek to gauge the government's role in the economy and its drain on the credit markets, look at the total budget figures — including Social Security.[2]

OMB takes a similar view:

> The unified budget is the most useful display of the Government's finances; it is vital in calculating how much the Government has to borrow.[3]

OMB also takes the position that the additional budget displays its documents provide — that show Social Security and the postal service separately and what the rest of the budget looks like without them — satisfy the legal requirements enacted in the 1983 to 1990 period that Social Security be treated off budget.

Hence, while Social Security is legally and officially considered off budget and does have certain procedural protections in the congressional budget process, in practice and largely because it is a federally-operated and financed program, it is considered as part of the federal budget for economic purposes.

Taking Social Security Off Budget Has Changed the Way the Budget is Presented

Taking Social Security off budget has changed the way the budget is presented to a limited extent. For instance, annual congressional budget resolutions do *not* show unified budget totals. However, among the various tables presented in reports from the Budget Committees to their respective chambers, the budget summaries are unified (and thereby include Social Security). In addition, annual and semi-annual budget summaries of CBO and OMB show, and in fact highlight, what the overall budget looks like *with* Social Security. Their documents show (1) unified budget

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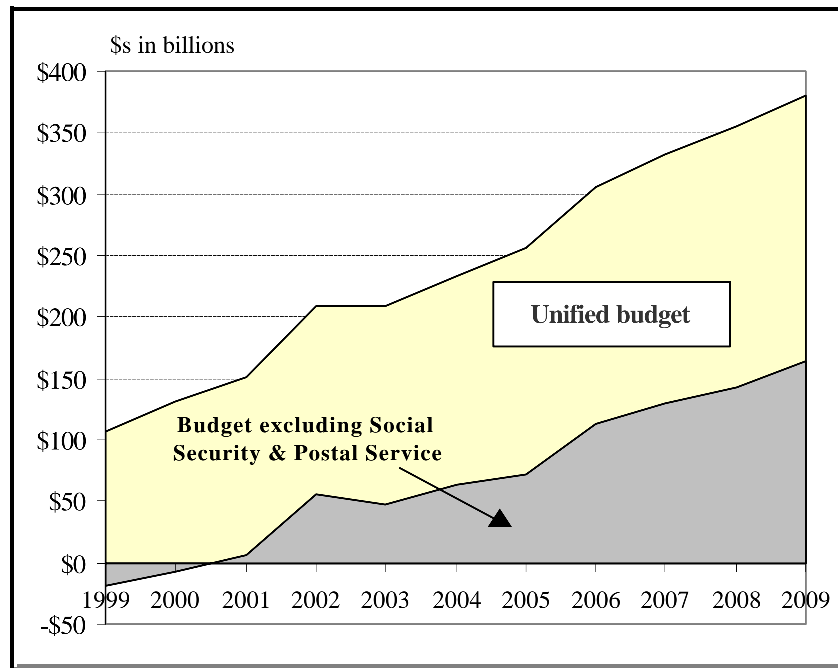
[2] *The Economic and Budget Outlook, Fiscal Years 1999-2008*, CBO, January 1998, Washington, GPO, p. 34.

[3] *A Citizen's Guide to the Federal Budget, FY1999*, OMB, Washington, GPO, p. 15.

totals which display the financial flows of the entire federal government as a single entity, and (2) "on budget" totals which exclude Social Security and the postal service. They also frequently show "off budget" totals which count only the operations of Social Security and the postal service. A major effect of this in budget summaries over the past decade has been to highlight that the Social Security system is running a surplus and the rest of the government is running a deficit (the postal service has a very minor effect on the "off budget" surplus).

Using the latest CBO projections for the FY1999-FY2009 period, **Figure 2** below shows the surpluses that result from using the unified budget array and the initial deficits and subsequent smaller surpluses that result when Social Security and the postal service are excluded (i.e., under the so-called "on-budget" array). **Table 1** on the following page shows the different surpluses or deficits that result under these alternative budget arrays.

Figure 2. CBO Projections of Surpluses or Deficits Under Unified Budget and "On-Budget" Arrays, FY1999-FY2009



Note about Figure 2: The unified budget surpluses include all programs of the government, including Social Security and the postal service. The bottom half of the graph reflects the "on budget" deficits resulting from including all programs except Social Security and the postal service. Data from CBO, January 1999.

Table 1. CBO Projections of Surpluses (+) or Deficits (-) Under Unified Budget, "On-Budget," and "Off-Budget" Arrays

(by fiscal year, dollars in billions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Unified budget[a]	+107	+131	+151	+209	+209	+234	+256	+306	+333	+355	+381
"On-budget"[b]	-19	-7	+6	+55	+48	+63	+72	+113	+130	+143	+164
"Off-budget"[c]	+127	+138	+145	+153	+161	+171	+183	+193	+204	+212	+217

Source: Congressional Budget Office baseline projections, January 1999.

[a] Includes all programs of the government, including Social Security and postal service.
[b] Includes all programs except Social Security and postal service.
[c] Includes only the income and outgo of Social Security trust funds and the postal service.

It is important to recognize that the "on budget" deficits in FY 1999 and FY 2000 and smaller budget surpluses shown in the previous table and chart are not caused by ignoring surplus Social Security taxes. Rather, they caused by counting interest paid to the Social Security trust funds as budget outlays. These interest payments are not outlays from the government — they are internal transactions between government accounts (from the government's general fund to the Social Security trust funds). Since Social Security is classified as "off budget," these payments show up as budget outlays in the "on budget" array even though they do not cause an expenditure from the government. And while they represent payments owed to the Social Security trust funds, the "on-budget" deficits resulting from showing them as outlays does not represent money that the government has to borrow from financial markets to function (or alternatively surplus money that it must use to make payments to the Social Security trust funds).

If only surplus Social Security tax receipts (and those resulting from the taxation of Social Security benefits) were ignored in calculating the budget totals, no budget deficits would appear at all under the "on-budget" array and the out-year surpluses would be larger than currently shown. **Table 2** on the next page compares the surpluses resulting from ignoring these taxes to the official "on budget" line (compare lines 3 and 4 in the table).

Table 2 also compares these surplus Social Security receipts to surplus governmental receipts. In this case only the portion of Social Security surpluses due to payroll taxes and income taxes on Social Security benefits are counted. (Compare the first and second lines in the table. It also is shown in **Figure 3** on the next page.) Basically, this presents a cash-flow view of Social Security — i.e., how much receipts and expenditures it generates for the government. Said another way, it addresses the question of how much of the projected unified budget surpluses are due to surplus or excess Social Security receipts. To sum up the CBO projections, initially surplus Social Security receipts are projected to account for nearly 2/3rds of the unified budget surpluses (e.g., $67 billion of the estimated $107 billion unified budget surplus in FY 1999). However, as time passes Social Security's contribution to the positive unified budget outlook diminishes. By FY 2009, its surplus receipts would account for only 17% of the unified budget surplus.

Table 2. Comparison of Projections of Surplus Social Security Taxes to Unified Budget Surpluses

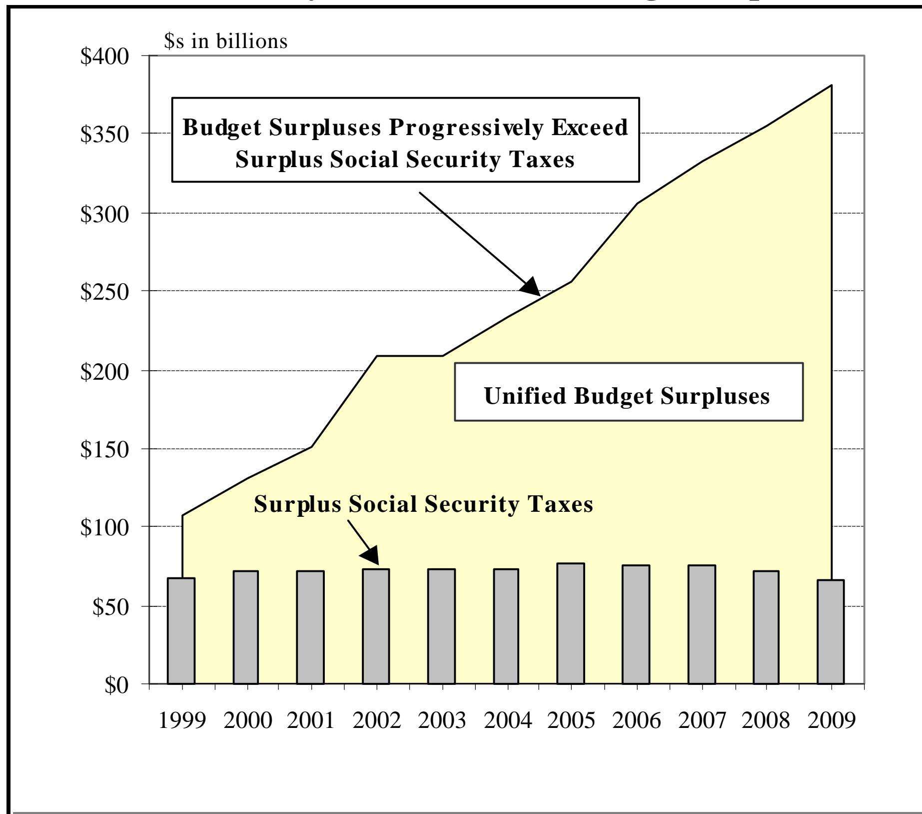
(by fiscal year, dollars in billions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Unified budget surpluses[a]	+107	+131	+151	+209	+209	+234	+256	+306	+333	+355	+381
Surplus Social Security taxes	+67	+72	+72	+73	+73	+74	+76	+76	+75	+72	+66
Budget surpluses (or deficits), ignoring surplus Social Security taxes[b]	+40	+59	+79	+136	+136	+160	+180	+230	+258	+283	+315
"On-budget" deficits or surpluses[c]	-19	-7	+6	+55	+48	+63	+72	+113	+130	+143	+164

Source: Congressional Budget Office baseline projections, January 1999.

[a] Includes all programs of the government, including Social Security and postal service.
[b] Includes all programs of the government, but excludes surplus Social Security taxes.
[c] Includes all programs except Social Security and postal service.

Figure 3. Comparison of Projections of Surplus Social Security Taxes to Unified Budget Surpluses



Taking Social Security Off Budget Has Changed How Budget-Related Measures and Social Security Legislation Are Handled in the Congress

Perhaps as significant, but less understood, is how "taking Social Security off budget" has changed the way budget-related measures and Social Security legislation are handled in Congress. In 1990, Congress passed budget process reforms as part of a $500 billion deficit-reduction package. They were designed largely to discourage future tax reductions or spending increases that would erode the deficit-reduction impact of the $500 billion package. Key elements of the reforms included setting specific dollar limits on discretionary spending (i.e., mostly on programs requiring annual appropriations)[4] and creation of a "pay-as-you-go" requirement for direct spending (mostly entitlement programs) and revenues. This "pay-as-you-go" rule generally requires that any new spending increases or revenue reductions be offset by other changes.[5]

For the most part, the discretionary spending limits and the "pay-as-you-go" rule took the place of deficit-reduction targets established under the former Gramm-Rudman-Hollings (GRH) procedures. Under the GRH procedures, Social Security's income and outgo were included in the budget totals for estimating budget deficits. In contrast, under the 1990 procedures, Social Security's income and outgo were largely exempted. Although classified as an "entitlement" program, its taxes and benefits were excluded from the "pay-as-you-go" rule for direct spending. The only exception involves the system's administrative expenses, which are counted as discretionary spending. If the discretionary spending limits are exceeded or the "pay-as-you-go" rule is violated, the President may be required to issue sequestration orders to bring spending into compliance with the limits or rules. With the exception of administrative expenses, Social Security is exempt from such sequestration orders.

Concerned that exempting Social Security from these procedures would encourage proposals that could weaken the system's financial condition, Congress also adopted new procedures in 1990 intended to discourage bills that would erode the balances of the trust funds. These are known as the Social Security *firewall* rules. Different rules apply in the House and Senate.

In the House these rules permit points of order to be raised against bills that (1) propose more than $250 million in Social Security spending increases or revenue reductions over a 5-year period beginning with the year the legislation is to become effective, or (2) would increase the average cost or reduce the average income of the program over the long run (considered to be 75 years) by at least 0.02 % of taxable payroll. In the Senate, budget resolutions must set specific amounts for Social Security income and outgo for a 5-year period covered by each budget resolution and points of order can be raised against measures that would cause income to be lower

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[4] Notably, the limit does not apply to certain entitlement programs whose funding is subject to annual appropriations.

[5] Failure to do so can result in an end of the session sequestration of funds from programs subject to the rule.

or outgo to be higher than these amounts. Three-fifths of the Senate would have to vote to override an objection. These new procedures took effect in FY 1991.

The 1990 law also continued a provision enacted in 1985 that permits points of order to be raised against reconciliation bills or resolutions that contain Social Security measures. In the House, a simple majority can override the objection; in the Senate it takes approval by 3/5ths of its Members.

The rules enacted in 1990 have largely been extended through FY2002 with passage of budget reconciliation legislation in 1993 and 1997. It should be noted that these rules were not affected by legislation enacted in 1994 making the Social Security Administration an independent agency.

The Financial Operations of the Social Security System Have Not Been Altered by Taking it Off Budget

Taking the Social Security trust funds "off budget" has not changed how Social Security funds are handled. They are treated the same way today as they were in 1937 when Social Security taxes were first levied — the tax receipts flow into the U.S. Treasury and benefit payments flow out of the U.S. Treasury. The Treasury Department issues federal securities to the Social Security trust funds to reflect the receipt of these taxes, and redeems securities from the trust funds to reflect Social Security expenditures, but the money itself flows to and from the Treasury.

While the trust funds have an important role in monitoring the finances of the program and maintaining its fiscal discipline, they are basically accounting devices. The federal securities they hold are not assets for the government. When an individual buys a government bond, he or she has established a claim against the government. When the government issues a bond to one of its own accounts, it hasn't purchased anything or established a claim against some other entity or person. It is simply creating a form of IOU from one of its accounts to another. It certainly establishes legal claims against the government for the Social Security system (i.e., it is a legal form of indebtedness of the government and does count as part of the federal debt; see **Table 3** on the next page), but the system is part of the government. Those claims are not resources the government has at its disposal to pay for future Social Security claims. Simply put, the trust funds do not reflect an independent store of money for the program or the government, and taking Social Security "off budget" did not change this.

Table 3. Projected Federal Debt, Including Debt Held by the Social Security Trust Funds

	(End of fiscal year, dollars in billions)					
	1999	**2000**	**2001**	**2002**	**2003**	**2004**
Debt held by public	3,630	3,515	3,378	3,183	2,989	2,770
Debt held by Social Security trust funds	857	994	1,139	1,291	1,453	1,624
Debt held by other government accounts	1,092	1,160	1,227	1,298	1,368	1,437
Total federal debt	5,579	5,669	5,743	5,772	5,810	5,831
	2005	**2006**	**2007**	**2008**	**2009**	
Debt held by public	2,529	2,237	1,917	1,574	1,206	
Debt held by Social Security trust funds	1,807	2,000	2,204	2,416	2,633	
Debt held by other government accounts	1,503	1,567	1,633	1,692	1,784	
Total federal debt	5,839	5,805	5,753	5,682	5,587	

Source: Congressional Budget Office baseline projections, January 1999.

APPENDIX

Social Security's Budget Treatment Under the Social Security Amendments of 1983. The Social Security Amendments of 1983 (P.L. 98-21) required that beginning with the federal budget for FY1993, income and expenditures for Social Security — Old-Age, Survivors, and Disability Insurance (OASDI) — and the Hospital Insurance (HI) portion of the medicare program would be excluded from the totals of the budget formulated by the President and Congress and would be "exempt from any general budget limitation imposed by statute on expenditures ... ."[6] The Supplementary Medical Insurance (SMI) portion of medicare, although remaining a component of the official budget figures, was to be more prominently displayed in the budget as a separate functional category.

The provision also required that for FY1985-FY1992 the Social Security and medicare programs be displayed more prominently in both the President's and congressional budgets as separate major functional categories of the budget. Previously, Social Security was displayed in the category labeled *income security*, which included civil service retirement and disability, railroad retirement, unemployment insurance, food stamps, and other public assistance programs. Medicare was displayed in the category for health activities, which included such programs as medicaid, health block grants to the States, biomedical research, and medical education and health training grants.

Social Security's Budget Treatment Under the 1985 Gramm-Rudman-Hollings Procedures. The Balanced Budget and Emergency Deficit Control Act of 1985 (Title II of P.L. 99-177) included several measures further altering Social Security's budget treatment. This was the original enabling legislation for the Gramm-Rudman-Hollings (GRH) deficit-reduction provisions, the purpose of which was to bring the federal budget into balance by FY1991. Among the changes it made to the budget process, the act accelerated the "off-budget" treatment of Social Security to FY1986 (from FY1993, as prescribed by the Social Security Amendments of 1983).[7] However, for the purpose of setting a schedule for eliminating the deficits, it stipulated that the receipts and expenditures of the Social Security trust funds be counted in calculating the budget deficits and enforcing the deficit goals established under the Act. In effect, the 1985 law appeared to make contradictory statements about how Social Security was to be viewed in the federal budget.

The only notable manifestation of the off-budget status of the program was that the President's budget and other tabulations of the budget began to show what the figures would be with and without Social Security.

Congress altered the GRH procedures and extended the time period over which the budget deficits would be eliminated to FY1993 (instead of FY1991) in passing Title I of P.L. 100-119, cited as the Balanced Budget and Emergency Deficit Control

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[6] This provision became Section 710 of the Social Security Act.

[7] The measure did not accelerate the "off-budget" treatment of HI (i.e., under the 1983 Social Security Amendments, HI was not to be taken "off-budget" until FY1993).

Reaffirmation Act of 1987. Except for the 2-year extension in arriving at a balanced budget, the treatment of Social Security under the budget process was not altered.[8]

— ***Sequestration and Reconciliation To Enforce the Budget Targets:*** A key element of the GRH procedures was a requirement that the President reduce (or sequester) expenditures if projected budget deficits exceeded the targets set in the law. The idea was that if economic or legislative developments did not lead to meeting the targets, across-the board spending cuts would be triggered. Social Security's income and outgo were counted in determining the deficits; however, Social Security benefits were exempt from any spending cuts that the President was required to make. Social Security administrative expenses were not exempt.[9]

Congress could take action on its own to bring overall spending and receipts in line with the targets (and avoid sequestration) by enacting budget reconciliation legislation. As part of budget resolutions, specific outlays and/or revenue targets were given to each Committee, and if it could not meet the targets under present law, it was expected to recommend changes in its programs. The recommended changes from the various committees would then be joined together and passed in one or more budget reconciliation acts.[10] Social Security benefits were again protected from potential cutbacks through rules that made it out of order for either the House or Senate to take up Social Security changes in a reconciliation bill, resolution, or conference report thereon. If an objection were raised (a so-called Section 310(g) objection), a separate vote, suspending the rules under which the respective bodies operate, was required to consider a reconciliation measure containing proposed Social Security changes. In the Senate, this required approval by three-fifths of its Members.

— ***Maintenance of Budget Discipline on New Legislation:*** Restrictions also were enacted with the GRH procedures on bringing up legislative changes that would violate budget resolution totals (including, with respect to the Senate, the GRH deficit target) or the separate spending and revenue allocations made to each committee. Social Security was affected by these restrictions in the same way as other programs; points of order (so-called Sections 302 and 311 objections) could be raised against Social Security legislation that violated the resolution totals or

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[8] The law also contained a provision that stated that no legislation enacted after December 12, 1985, could authorize payments from the General Fund of the Treasury to the Social Security and HI trust funds and vice versa (with the exception of appropriation measures for which authority existed on or before that date). This item did not create any practical changes in the process. Basically, it was a statement of principal that no new provisions should be enacted in the future that would authorize new forms of interfund "payments" between the government's General Fund and the Social Security and HI trust funds.

[9] Interest earned on the holdings of the Social Security trust funds, and appropriated "payments to the Social Security trust funds" for military wage credits and benefits paid to certain uninsured recipients were exempted from sequestration along with regular benefits.

[10] Special procedures also existed in the Senate under which a reconciliation bill could be initiated to alter a sequestration order issued by the President.

committee allocations. These, too, could be overridden only by a vote of three-fifths of the Senate.[11]

Social Security's Budget Treatment Under The 1990 Budget Enforcement Act. The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) made substantial changes in the budget process (under Title XIII, entitled the Budget Enforcement Act of 1990). Among them was a statement again prescribing the removal of the income and outgo of the Social Security trust funds from calculations of the federal budget, including the budget deficit or surplus. This exclusion applied to the budgets prepared by the President, to the federal budgets formulated by the Congress (e.g., budget resolutions), and to the budget process provisions designed to reduce and control the budget deficits. Originally written to cover the period from FY1991 to FY1995, these budget "enforcement" rules now apply through FY2002 (as a result of provisions in the Omnibus Budget Reconciliation Act of 1993, P.L. 103-66, and the Balanced Budget Act of 1997, P.L. 105-33). The 1990 law also included provisions creating new floor procedures for considering Social Security legislation intended to protect the balances of the Social Security trust funds.

— Exclusion of Social Security Benefits From Spending Limits and Deficit-reduction Targets: A key element of the budget process was the establishment of a set of specific limits or "caps" on discretionary spending (encompassing most programs requiring annual appropriations) and a "pay-as-you-go" requirement for direct spending (mostly entitlement programs) and revenues. The discretionary spending caps and the pay-as-you-go requirement, for the most part, took the place of the overall deficit-reduction targets established under the former Gramm-Rudman-Hollings procedures. Under the old procedures, the income and outgo of Social Security were included in estimating the budget totals to determine if the deficit was expected to fall within the targets set under the law. In contrast, under the procedures established in 1990, Social Security's income and outgo were to be excluded from calculations of the new budget enforcement rules, with the exception of administrative expenditures, which were incorporated under the discretionary spending caps.

As under the old law, if any of the discretionary spending caps or the "pay-as-you-go" rule were violated (i.e., exceeded), the President was required to issue sequestration orders to bring spending down to the prescribed limits. Social Security was to be exempt from such sequestration orders as it was under the old law (again, with the exception of administrative expenses).

The 1990 law also continued the old law provision (section 310 (g)) that permits points of order to be raised against reconciliation bills or resolutions that contain Social Security measures.

— Inclusion of Social Security Administrative Expenses Under the Spending Limits and Deficit-Reduction Targets: Under the prior law Social Security administrative expenses were subject to sequestration if the deficit targets were

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[11] A Section 311 objection existed under the original budget act for violations of the budget resolution totals.

exceeded. The 1990 law stated that Social Security "shall not" be counted as budget authority or outlays for purposes of the Balanced Budget and Emergency Deficit Control Act of 1985. The accompanying explanatory statement of the conferees reiterated that Social Security benefits would be exempt from sequestration, but made no mention of administrative expenses. However, Social Security was listed among the programs subject to the limit on discretionary spending with a footnote stating that portions of the Social Security accounts are "non-appropriated mandatory." One interpretation was that the only reason to list Social Security in the discretionary domestic category was to subject its administrative expenses to the limit, since benefits payments, interest, and payments to the trust funds were all explicitly excluded. An alternative interpretation was that the provision in the new law stating that Social Security was not to be counted for purposes of the Balanced Budget and Emergency Deficit Control Act of 1985 (which the new law amended) was sufficient language to exempt all aspects of Social Security from the limit. The lack of specificity gave the Office of Management Budget latitude to make either interpretation, and OMB decided it should be counted as discretionary spending.

— ***Procedures To Protect the Social Security Trust Funds:*** The 1990 law also made changes in House and Senate procedures intended to protect the Social Security trust funds from benefit liberalizations or revenue reductions that would erode their balances. Under the old law, Social Security's inclusion in the budget had the potential effect of thwarting attempts to increase Social Security spending or cut its revenue base. Points of order could be raised against such actions for violating the budget resolution totals or spending and revenue allocations, if they would be effective in the year of the budget resolution. Moreover, these violations would have potentially threatened other programs with sequestration and posed difficulty for Congress and the President in reaching subsequent budget targets. In effect, the former process imposed a fiscal discipline on Social Security.

Since under the 1990 law, Social Security benefits were not to be part of the budget, the fiscal constraints of the budget process technically no longer applied. In their place, the 1990 law established separate rules for the House and Senate that attempt to make it difficult to bring up measures for a vote in the respective chambers that would weaken the financial condition of the program by reducing revenue or increasing spending without offsetting changes.

— ***House firewall***: In the House a point of order can be raised against a bill that proposes more than $250 million in Social Security spending increases or revenue reductions over the 5-year period consisting of the fiscal year in which the legislation becomes effective and the following 4 years, unless the bill also contains other offsetting spending reductions or tax increases that bring the net impact of the measures within the $250 million limit. In calculating the impact, any costs from prior legislation (i.e., enacted in the current or previous 4 years) that fall within the 5-year period would be counted in calculating whether the pending legislation falls within the $250 million limit. A point of order also can be raised against a measure that would increase long-range (75 years) average costs or reduce long-range revenues by 0.02% of taxable payroll or more. Hence, a bill whose financial impact fell within the 5-year $250 million limit could still be subject to a point of order if its long-range costs were equal to or greater than 0.02 % of taxable payroll.

— ***Senate firewall:*** In the Senate, budget resolutions must set specific amounts for Social Security income and outgo for the first fiscal year and 5-year period (cumulatively) covered by the resolution. (They are separate in the sense that they are not counted in the budget resolution totals themselves). These amounts cannot reflect a narrowing in the surplus of income (or a larger deficit) from what is projected under current law. Recommended resolutions or amendments that do so could draw an objection that can be overridden only by approval of three-fifths of the Senate.[12] Simply stated, Senate rules preclude consideration of budget resolutions that would erode the near term balances of the Social Security trust funds. In addition, once a conference agreement on the budget resolution is reached, allocations of the Social Security amounts included in the resolution must be made to the Finance Committee and budget act points of order (under Sections 302 and 311) can then be brought up against subsequent Social Security measures that would cause outlays to be increased or revenues to be reduced (without offsetting changes) from those reflected in the allocations to the Committee. To override these objections requires approval by three-fifths of the Senate.

— ***Report to Congress on the Actuarial Balance of the Trust Fund by the Trustees:*** The 1990 law also added a provision requiring the Social Security board of trustees to include in its annual report a statement as to whether the OASI and DI trust funds are in "close actuarial balance." Traditionally, close actuarial balance is said to exist if projected average income over the trustees' estimating period as a whole (which extends 75 years into the future) falls within 95% and 105% of the projected average cost of the program. Over the years, it has been considered a primary indicator of the long-range soundness of the Social Security program. Although trustees' reports routinely have made a statement about the program's actuarial balance, the practice of doing so is not required by law. In their 1989 report, the trustees declined to make such a statement (the projections themselves showed that the program was slightly outside the lower limit of actuarial balance with average income projected to be 94.9% of average costs). Its absence drew an objection from the chief actuary of the Social Security Administration in his legislatively-required certification of the report. The 1990 law required a statement by the trustees about close actuarial balance to be included in each trustees' report (but left discretion with the trustees to define the concept).

All reports issued since enactment of this provision have included a substantive analysis of whether the system was projected to be in close actuarial balance and a statement about it by the trustees.

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[12] In its original form this provision only precluded the Senate Budget Committee from recommending a budget resolution that would reduce the current law balances of the trust funds. It was *not* out of order to subsequently consider floor amendments to modify a pending budget resolution to reflect measures that would reduce the trust funds' balances. Such amendments could be passed by a simple majority. In enacting the FY1992 budget resolution, the Senate adopted a rule making it out of order to consider measures (including amendments to a budget resolution) that would erode the balances of the trust funds during the period covered by the resolution (and requiring approval of three-fifths of the Senate to suspend the rules to do so). In enacting the FY1993 budget resolution, the Senate made this a permanent rule.

— ***Display of Retirement Trust Fund Balances:*** The 1990 law further required that budget resolutions display the balances of federal retirement trust fund programs, presumably including Social Security. This display was to show the amount of the securities expected to be recorded to the trust funds.

Chronology

1990 —- Congress enacted P.L. 101-508, which included among its titles, *the Budget Enforcement Act of 1990*. This law established new budgeting rules to enforce a 5-year $500 billion deficit-reduction package. It included provisions (1) largely exempting Social Security from these rules, (2) officially taking Social Security out of all calculations of the budget totals, and (3) creating new floor procedures for considering Social Security legislation intended to protect the balances of the Social Security trust funds. Originally written to cover the period from FY1991 to FY1995, the new budget rules now apply through FY2002 (as a result of provisions in the *Omnibus Budget Reconciliation Act of 1993*, P.L. 103-66, and the *Balanced Budget Act of 1997,* P.L. 105-33).

1987 —- Congress enacted P.L. 100-119, which included among its titles, *the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987*. This law made changes to the GRH procedures including extending the point at which a balanced budget would be reached to FY1993. The financial operations of the Social Security trust funds remained part of the budget calculations for purposes of estimating the overall deficits.

1985 —- Congress enacted P.L. 99-177, which included among its titles, *the Balanced Budget and Emergency Deficit Control Act of 1985*, better know as the Gramm-Rudman-Hollings (GRH) deficit reduction law. Although technically removing Social Security from the budget totals effective for FY1986, this law included Social Security in the budget totals through FY1991 for purposes of estimating the overall deficits.

1983 —- Congress enacted P.L. 98-21, *the Social Security Amendments of 1983*, which included a provision calling for removal of the Social Security and Medicare HI trust funds from the budget totals beginning in FY1993.

1974 —- Congress enacted P.L. 93-344, *the Congressional Budget and Impoundment Control Act of 1974*, establishing new procedures to formulate and control the budget that encompasses a "unified" approach to the budget that includes Social Security and other trust fund programs in the budget totals.

1968 —- President Johnson issued a “unified” federal budget for FY1969. This was done administratively (i.e., not as a result of legislation).