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Social Security's Treatment Under the Federal Budget: A Summary

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Summary

The treatment of Social Security in the federal budget is often confusing. In legislation enacted in 1983, 1985 and 1990, Congress excluded the program from official calculations of the budget and largely exempted it from congressional procedures for controlling budget revenues and expenditures. However, because Social Security represents more than a fifth of federal revenues and expenditures, it often is included in summaries of the government's financial flows. It also is confusing because people mistakenly perceive that the program's removal from official budget calculations changed how its funds are handled. It did not; as has been the practice since the government first collected Social Security taxes in 1937, its taxes continue to be deposited in the federal treasury (with appropriate crediting of federal securities to its trust funds), and its expenditures continue to be paid from the treasury.

While Social Security is by law considered to be "off budget" for many key aspects of developing and enforcing congressional budget goals, it is still a federal program and its income and outgo help to shape the year-to-year financial condition of the government. As a result, fiscal policymakers often focus on "unified" or overall budget figures that include Social Security. With the President's urging last year that future unified budget surpluses be reserved until Social Security's problems are resolved, and his proposal this year to use 62% of the next 15 years' projected surpluses to shore up the system, Social Security's treatment in the budget has become a major policy issue. Congressional views about what to do with the budget surpluses are diverse — ranging from "buying down" the outstanding federal debt to cutting taxes to increasing spending. However, support for the President's proposition is substantial and to a large extent has made Social Security reform a place holder in much of the current fiscal policy debate. Both the House and Senate are now considering budget resolutions for FY 2000 (H.Con.Res.68 and S.Con.Res. 20), as well as other so-called "lock box" measures that would set aside the portion of the projected budget surpluses attributable to Social Security until Social Security reform legislation is enacted.

History

Social Security and other federal programs that operate through trust funds were counted officially in the budget beginning in FY1969. This was done administratively by President Johnson. At the time, Congress did not have a budget-making process. In 1974, with passage of the Congressional Budget and Impoundment Control Act (P.L. 93-344), Congress adopted procedures for setting budget goals through passage of annual budget resolutions. Like the budgets prepared by the President, these resolutions were to reflect a "unified" budget that included trust fund programs such as Social Security.

Beginning in the late 1970s, financial problems confronting Social Security and concern over its growing costs led to enactment of a number of benefit cutbacks in 1980, 1981, and 1983. However, because the federal budget deficit remained large, interest in curbing Social Security spending continued. This consideration of Social Security constraints led to concerns that cuts in Social Security were being proposed for budgetary purposes rather than programmatic ones. In response, measures were enacted in 1983, 1985, and 1987 making the program a more distinct part of the budget and permitting floor objections (points of order) to be raised against budget bills containing Social Security changes.

Later in the decade, when Social Security surpluses emerged, critics argued that the program was masking the size of the budget deficits. In response, Congress in 1990 excluded it from calculations of the budget, separated it from the rest of the budget in congressional budget resolutions, and largely exempted it from procedures for controlling spending (Omnibus Budget Reconciliation Act of 1990, P.L. 101-508). By these actions, however, Congress excluded Social Security from procedural constraints designed to discourage measures that would *increase* the deficits. Concerned that this would encourage Social Security spending increases and tax cuts that could weaken Social Security's financial condition, Congress also included provisions in that legislation permitting floor objections to be raised against bills that would erode the balances of the Social Security trust funds.

Current Budget Rules Pertaining To Social Security

Two key elements of the budget process are explicit dollar limits on discretionary spending (mostly for programs requiring annual appropriations) and a "pay-as-you-go" rule that requires that increases in direct spending (mostly for entitlement programs) and/or cuts in revenues must be offset by other changes so as not to increase the deficit. Originally written to cover the period from FY1991 to FY1995, these budget rules will 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). If the explicit spending limits or "pay-as-you-go" rules are violated during this period, the President may be required to sequester funds (i.e., cut spending). Social Security is not to be included in these calculations and is exempt from any potential sequestration, with the exception of administrative expenses (which are counted as discretionary spending). The law further permits floor objections to be raised against budget bills (so-called "reconciliation" bills) that contain Social Security measures.

"Walling Off" Social Security Surpluses

While Social Security is by law considered to be "off budget" for many key aspects of developing and enforcing budget goals set each year by Congress, it is still a federal program and its income and outgo help to shape the year-to-year financial condition of the government. As a result, fiscal policymakers often focus on "unified" or overall budget figures that include Social Security. With the President's urging last year that future unified budget surpluses be reserved until Social Security's problems are resolved, and his proposal this year to use 62% of the next 15 years' projected surpluses to shore up the system, Social Security's treatment in the budget has become a major policy issue. Congressional views about what to do with the budget surpluses are diverse — ranging from "buying down" the outstanding federal debt to cutting taxes to increasing spending. However, support for the President's proposition is substantial and to a large extent has made Social Security reform a place holder in much of the current fiscal policy debate. Both the House and Senate are now considering budget resolutions for FY 2000 (H.Con.Res. 68 and S.Con.Res. 20), as well as other measures that would set aside the portion of the projected budget surpluses attributable to Social Security until Social Security reform legislation is enacted. More than 20 bills introduced in the 106th Congress would do so either through constitutional amendments to balance the federal budget without counting Social Security or by changing how Social Security is viewed and treated in the congressional budget-making process. Most call for creation of a so-called budget "lock box" through which a portion of projected budget surpluses would be earmarked for federal debt reduction pending legislative action to reform the system.

Last year the House Republican leadership attempted to set alternative parameters with passage of a tax cut bill, H.R. 4579, and a companion measure, H.R. 4578, that would have created a new Treasury account (the "Protect Social Security Account") to which 90% of the next 11 years' projected surpluses would have been credited pending Social Security reform. The underlying principle was that 10% of the budget surpluses be used for tax cuts and the remainder held in abeyance until Social Security reform was enacted. However, both bills were heavily opposed by Democratic Members, who argued for 100% of the surpluses being held in abeyance pending Social Security reform. The Senate did not take up either measure before the 105th Congress adjourned.

Social Security and the Balanced Budget Amendment

Action in the 104th Congress. The 104th Congress twice considered an amendment to the Constitution requiring the federal government to achieve and maintain a balanced budget. Both the House and the Senate versions of the amendment — H.J.Res. 1 and S.J.Res. 1— included Social Security in calculations of the budget totals for purposes of the amendment. Members concerned that including the program in the totals would lead to future cuts in Social Security benefits proposed that it be exempted. They argued that because Social Security would be counted in computing the budget deficit, there would be incentives to cut Social Security benefits to achieve outlay reductions that would make the deficit smaller. They further argued that the system is running surpluses with its own dedicated tax receipts and is therefore not contributing to the deficit. They contended that including those surpluses in the totals would cause them to be used to finance the deficit in the rest of the budget and thereby hide its "true" size.

Those who wanted to keep Social Security in the calculations argued that it was not their purpose to cut Social Security but that the program represents too large a share of federal revenues and expenditures to be ignored. They contended that removing Social Security from the calculations would be fiscally misleading and make the goal of achieving a balanced budget much more difficult. They contended that the real goal of those who wanted Social Security excluded was to defeat the amendment by making senior citizens fear that their benefits would be in jeopardy and by making the deficit targets unrealistically large. They further contended that if Social Security were removed, advocates of future spending measures would attempt to expand the program's features to achieve other social purposes (since Social Security would be exempt from the balanced budget requirements) and that this would threaten the program's ultimate survival.

On January 26, 1995, the House passed its version of the Balanced Budget Amendment by a vote of 300 to 132. The measure included Social Security in calculations of the budget. Prior to the final vote, the House rejected four attempts to remove the program from the calculations. However, the House did pass a nonbinding resolution, H.Con.Res. 17, by a vote of 412 to 18 on January 25, 1995, stating that, for purposes of achieving a balanced budget, the appropriate congressional committees shall not report out legislation that would alter the receipts and disbursement of Social Security. A similar measure was passed the same day by the Senate in its consideration of S. 1, a bill to curb the imposition of "unfunded mandates" on the states.

The Senate version of the amendment, as reported by the Senate Judiciary Committee, also included Social Security in the budget calculations. However, after lengthy floor deliberations, the amendment failed to get the requisite two-thirds approval of the Senate. The final vote taken on March 2, 1995 was 65 to 35. In the weeks of consideration leading up to the vote, Social Security was a major part of the debate. On February 9, 1995, the Senate agreed by an 87-10 vote to instruct the Senate Budget Committee to develop a nonbinding plan to achieve a balanced budget without altering Social Security. However, in later action the Senate rejected four measures to either remove Social Security from the calculations or otherwise alter its treatment under the amendment. On February 14, 1995, by a vote of 55-41, the Senate tabled a measure offered by Senator Reid to exempt the program from the amendment. On February 28, 1995, the Senate tabled three other related measures. One, offered by Senator Feinstein, tabled by a vote of 60-39, would have taken Social Security out of the calculations in a fashion similar to the earlier defeated measure offered by Senator Reid. Another, offered by Senator Bob Graham, tabled by a vote of 59-40, would have required three-fifths of both houses of the Congress to approve an increase in the total outstanding debt of the government, including the portion held in federal trust funds such as the Social Security funds. The version of the amendment reported by the Senate Judiciary Committee required three-fifths approval to raise only the portion of the debt held by the public. The Graham amendment would have had an effect similar to the other defeated measures that excluded Social Security from the budget calculations. A third measure, also offered by Senator Graham, tabled by a vote of 57-43, would have permitted the portion of the debt held by the public to rise without three-fifths approval to the extent the rise reflected a reduction in the portion held by the Social Security trust funds.

After its defeat in 1995, the majority leader, Senator Dole, said that he would attempt to bring up the amendment again later in the 104th Congress. It was voted on again in the

Senate on June 6, 1996, and failed a second time, on a 64-35 vote, to get the requisite two-thirds approval of the Senate.

Action in the 105th Congress. The amendment was brought up again in the 105th Congress with the Senate taking the lead. The Senate Judiciary Committee reported it out as S.J. Res 1 in a form similar to the amendment the Senate considered in the 104th Congress that included Social Security in the budget calculations. The Senate began deliberations on February 5, 1997. On February 25, 1997, by a vote of 55-44, it tabled a measure offered by Senator Reid to exclude Social Security. It tabled a similar measure by Senator Dorgan the next day by a vote of 59-41, as well as one offered by Senator Feinstein by a vote of 67-33. (The Feinstein measure included other alterations of S.J.Res. 1 as well.) Yet a fourth alternative, offered by Senator Bob Graham, was tabled by a vote of 59-39. It was similar to one he offered in the 104th Congress that would have required three-fifths approval by both houses of Congress to increase the total outstanding debt of the government, including the portion held in the Social Security trust funds. In a vote on final passage on March 4, 1997, the amendment in its original form was defeated by a vote of 66-34.

Current House and Senate Procedural Rules to Protect Social Security's Financial Condition

Under the budget rules that existed before 1991, Social Security was included in calculations of the budget deficit. This had the effect of potentially thwarting attempts to expand its benefits or cut its taxes if they were not accompanied by measures to offset the cost or revenue loss. Floor objections could be raised against such actions if they violated the budget totals or allocations, and if enacted, other programs were potentially threatened with sequestration because the deficit would be made larger. In effect, the old process imposed the same fiscal discipline on Social Security as applied to other programs. Since Social Security is now exempt from the budget limits (excepting its administrative expenses), these fiscal constraints no longer apply. In their place are rules intended to make it difficult to bring up measures for a vote that would weaken the program's financial condition.

In the House, a floor objection can be raised against a bill that proposes more than $250 million in Social Security spending increases or tax cuts over 5 years (counting the fiscal year it becomes effective and the following 4 years) unless the bill also contains offsetting changes to bring the net impact within the $250 million limit. Costs of prior legislation that fall within the 5-year period must be counted. An objection also can be raised against a measure that would increase long-range average costs (i.e., over 75 years) or reduce long-range revenues by at least 0.02% of taxable payroll (i.e., national earnings subject to Social Security taxes).

In the Senate, budget resolutions must include separate amounts for Social Security income and outgo for the first year and the 5-year period covered by the resolution (i.e., separate from the budget totals). These amounts cannot cause the balances of the Social Security trust funds to be lower than projected under current law. Measures that would do so could draw an objection, which can be overridden only by three-fifths approval of the Senate. Once the resolution is enacted, subsequent measures that on balance would cause Social Security outlay increases or revenue reductions could draw an objection, which again can be overridden only when three-fifths of the Senate votes to do so.

Table 1. Projected Budget Deficit (-) or Surplus (+) With and Without Social Security

	(by fiscal year, dollars in billions)										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
With Social Security	107	131	151	209	209	234	256	306	333	355	381
Without Social Security	-19	-7	6	55	48	63	72	113	130	143	164

Source: Congressional Budget Office baseline projections, January 1999.

Table 2. 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	2005	2006	2007	2008	2009
Debt held by the public	3630	3515	3378	3183	2989	2770	2529	2237	1917	1574	1206
Debt held by the Social Security trust funds	857	994	1139	1291	1453	1624	1807	2000	2204	2416	2633
Debt held by other gov't. accounts	1092	1160	1227	1298	1368	1437	1503	1567	1633	1692	1784

Source: Congressional Budget Office baseline projections, January 1999.

For additional reading, see: CRS Report 98-422, *Social Security and the Federal Budget: What Does Social Security's Being "Off-budget" Mean?* by David Koitz, and Issue Brief 98048, *Social Security Reform*, by David Koitz.