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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, Social Security was excluded from official budget calculations 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, or what is referred to as the "unified" budget. It also is confusing because people mistakenly perceive that the program's removal from 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 are deposited in the federal treasury (with appropriate crediting of federal securities to its trust funds), and its expenditures are paid from the treasury.

With the President's urging that the Social Security portion of future unified budget surpluses be reserved until Social Security's problems are resolved, and his proposals to use a portion of the surpluses or the interest thereon to shore up the system, Social Security's treatment in the budget has become a major fiscal policy issue. Congressional views about what to do with budget surpluses are diverse — ranging from buying down the outstanding federal debt to cutting taxes to increasing spending. However, support for the proposition of "protecting" Social Security surpluses is substantial. Both the House and Senate agreed to budget resolutions for FY2000 and FY2001 incorporating totals that set aside the Social Security portion of the budget surpluses pending consideration of reform measures. They went on to consider "lock box" proposals that would create obstacles for bills that would use Social Security surpluses for tax cuts or spending increases. Among them are proposals to create new procedural points of order that could be lodged against bills that would dip into the Social Security surpluses, to require new limits on federal debt that would decline by the amount of annual Social Security surpluses, or to amend the Constitution to require a balanced federal budget without counting Social Security. This report will be updated as the issue progresses.

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 benefit cutbacks in 1980, 1981, and 1983. However, because the federal budget deficit remained large, interest in curbing Social Security spending continued. This in turn ignited 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 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 budget deficits. In response, Congress in 1990 excluded it from official calculations of the budget 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 adopted 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 (1) explicit dollar limits on discretionary spending (mostly for programs requiring annual appropriations) and (2) 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 FY1991-FY1995 period, these 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). 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 ("reconciliation" bills) that contain Social Security measures.

"Lock Boxes" to Protect Social Security Surpluses

While Social Security is by law considered "off budget" for many key aspects of developing and enforcing 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 that future budget surpluses be reserved until Social Security's problems are resolved, and his proposals last year to use a portion of the projected surpluses (or the interest thereon) to shore up the system, Social Security's treatment in the budget has become a major policy issue. In his State of the Union message in 1998 he had urged setting the entire amount of future budget surpluses aside pending enactment of reforms. Later in the year 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. The underlying principle was that 10% of the surpluses be used for tax cuts and the remainder held in abeyance (i.e., used for debt reduction) until Social Security reform was enacted. However, both bills were opposed by Democratic Members, who argued for 100% of the surpluses being held in abeyance. The Senate did not take up either measure before the 105th Congress adjourned.

Support, however, for protecting Social Security surpluses remains substantial. This policy is reflected in H.Con.Res. 68, the FY2000 budget resolution, passed by Congress last year, which incorporated budget totals setting aside the Social Security portion of the next 10 years' budget surpluses. A similar policy is reflected in the FY2001 budget resolution, H.Con.Res. 290, passed by Congress on April 13, 2000. The 106th Congress has been considering "lock box" measures that would create procedural obstacles for bills attempting to use the Social Security (and, in some cases, Medicare) surpluses for purposes other than Social Security or Medicare reform. A number of such measures have been approved by the House, including H.R. 3859 passed on June 20, 2000, H.R. 5173 passed on September 18, 2000, and H.R. 5203 passed on September 19, 2000.

H.R. 5173, *The Debt Relief Lock-Box Reconciliation Act for Fiscal Year 2001*, as amended, was approved by the House Ways and Means Committee on September 14, 2000 by a vote of 33-0 and passed by the House of Representatives on September 18, 2000 by a vote of 381-3. Like H.R. 3859, H.R. 5173 would reserve Social Security and Medicare surpluses for public debt reduction until legislation "to save" Social Security and Medicare is passed by creating procedural points of order against measures causing a reduction in the portion of budget surpluses attributable to these programs. In addition, H.R. 5173 would reserve $42 billion of the FY2001 budget surplus not attributable to Social Security and Medicare for public debt reduction. The measure would create a new off-budget account in the U.S. Treasury (the *Public Debt Reduction Payment Account*) to which $42 billion would be appropriated. The statutory limit on debt held by the public would be reduced by such amount. In total, the measure would reserve 90% of the unified budget surplus projected for FY2001 for public debt reduction. The measure would exclude Social Security and the Public Debt Reduction Payment Account from official federal budget documents and require such receipts and outlays to be submitted in separate budget documents. Provisions similar to those in H.R. 5173 were included in H.R. 5203, *Debt Relief and Retirement Security Reconciliation Act*, passed by the House on

September 19, 2000, by a vote of 401-20. (For further discussion of "lock box" measures, see CRS Report RS20165 and CRS Report RS20676.)

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. 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 represented 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 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 were in jeopardy and by making the deficit targets unrealistically large. They argued 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. It called for including Social Security in the budget totals. Prior to the final vote, the House rejected four attempts to remove the program from the calculations. However, the House did pass a non-binding 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 non-binding 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 1995 defeat, the majority leader, Senator Dole, said he would bring up the amendment later in the 104th Congress. He did so again on June 6, 1996, and the measure failed a second time, on a 64-35 vote, to get the requisite two-thirds Senate approval.

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 as S.J. Res 1 in a form similar to the amendment the Senate considered in the 104th Congress that included Social Security in 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 59-39. It was similar to one he offered in the 104th Congress that would have required 3/5 approval by both Houses 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

Under budget rules that existed before 1991, Social Security was included in calculations of budget deficits. Since there were limits on the size of permissible budget deficits imposed by the Gramm-Rudman-Hollings deficit reduction rules enacted in 1985, attempts to expand Social Security's benefits or cut its taxes were discouraged if not accompanied by measures to offset the cost or revenue loss. Floor objections could be raised against such actions if the budget totals or allocations were violated, 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 (except administrative expenses) as a result the budget rules that took effect in 1991, these implicit constraints no longer apply. In their place, however, are rules intended to make it difficult to bring up measures 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 the system's long-range average costs (i.e., over 75 years) or its 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 Surpluses and Federal Debt

Federal Budget Surpluses With and Without Social Security (by fiscal year, dollars in billions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total 2001-10
Assuming discretionary spending grows at the rate of inflation after 2000:												
With Social Security	232	268	312	345	369	402	469	523	565	625	685	4,561
Without Social Security	84	102	126	143	154	169	222	260	288	332	377	2,173

Federal Debt/or Net Asset Position (end of fiscal year, dollars in billions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Assuming discretionary spending grows at the rate of inflation after 2000:											
Debt held by the public	3409	3158	2854	2522	2165	1774	1315	800[a]	242[a]	-376[a]	-1054[a]
Debt held by the Social Security trust funds	1005	1171	1358	1560	1775	2007	2254	2517	2795	3087	3394
Debt held by other govt. accounts	1202	1287	1384	1481	1573	1662	1762	1858	1954	2050	2145

[a] Net publicly-held debt after subtracting excess cash held in depository accounts from debt still outstanding at fiscal year end. Assumes portion of debt is not redeemable with budget surplus of that year.
[b] Cash held in depository accounts in excess of outstanding debt at fiscal year end (i.e., a net asset position).

Note about Table 1: Data from CBO, *The Budget and Economic Outlook: An Update*, July 2000. The figures shown above represent one of three alternative sets of projections made by CBO under which federal discretionary spending would rise with inflation after the FY2000. Two other CBO scenarios show larger unified and on-budget surpluses by assuming either (1) that discretionary spending would be frozen after the year 2000 at the level provided in that year, or (2) that discretionary spending would be held to levels prescribed by budget limits enacted in 1997 (in effect through FY2002) after which it would be allowed to rise with inflation. The differences are significant, with larger projected unified budget surpluses and Social Security surpluses that represent considerably smaller shares of the totals (albeit the actual dollar amounts of the Social Security surpluses stay the same as shown above).

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.