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Social Security: The Trust Fund

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Summary

The Social Security program pays benefits to retired and disabled workers and their family members, and to family members of deceased workers. Program income and outgo are accounted for in two separate trust funds authorized under Title II of the Social Security Act: the Federal Old-Age and Survivors Insurance (OASI) trust fund and the Federal Disability Insurance (DI) trust fund. This report refers to the two trust funds as an aggregate Social Security trust fund and discusses the operations of the OASI and DI trust funds on a combined basis.

Social Security is financed by payroll taxes paid by covered workers and their employers, federal income taxes paid by some beneficiaries on a portion of their benefits, and interest income from the Social Security trust fund investments. Social Security tax revenues are invested in federal government securities (special issues) held by the trust fund, and these federal government securities earn interest. The revenues exchanged for the federal government securities are deposited into the general fund of the U.S. Treasury and are indistinguishable from revenues in the general fund that come from other sources. Because the assets held by the trust fund are federal government securities, the trust fund balance represents the amount of money owed to the Social Security trust fund by the general fund of the U.S. Treasury. Funds needed to pay Social Security benefits and administrative expenses come from the redemption or sale of federal government securities held by the trust fund.

The Social Security trust fund represents funds dedicated to pay current and future Social Security benefits. However, it is useful to view the trust fund in two ways: (1) as an internal federal accounting concept, and (2) as the accumulated holdings of the Social Security program.

For internal accounting purposes, certain accounts within the U.S. Treasury are designated by law as trust funds to track revenues (and expenditures) dedicated for specific purposes. There are a number of trust funds in the U.S. Treasury, including those for Social Security, Medicare, unemployment compensation, and federal employee retirement.

By law, Social Security tax revenues must be invested in U.S. government obligations (debt instruments of the U.S. government). The accumulated holdings of U.S. government obligations are often viewed as being similar to assets held by any other trust on behalf of the beneficiaries. However, the holdings of the Social Security trust fund differ from those of private trusts because (1) the types of investments the trust fund may hold are limited and (2) the U.S. government is both the buyer and seller of the investments.

This report covers the basics of how the Social Security program is financed and how the Social Security trust fund works. It will be updated annually to reflect current projections of the financial status of the Social Security trust fund.

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Introduction

The Social Security program pays benefits to retired and disabled workers and their family members, and to the family members of deceased workers. As of April 2011, there were 54.6 million Social Security beneficiaries. Sixty-four percent of those beneficiaries were retired workers and 15% were disabled workers. The remaining 21% were survivors or the spouses and children of retired or disabled workers.[1]

Social Security is financed by payroll taxes paid by covered workers and their employers, federal income taxes paid by some beneficiaries on a portion of their benefits, and interest income from the Social Security trust fund investments. Social Security tax revenues are invested in federal government securities (special issues) held by the trust fund, and these federal government securities earn interest. The revenues exchanged for the federal government securities are deposited into the general fund of the U.S. Treasury and are indistinguishable from revenues in the general fund that come from other sources. Because the assets held by the trust fund are federal government securities, the trust fund balance represents the amount of money owed to the Social Security trust fund by the general fund of the U.S. Treasury. Funds needed to pay Social Security benefits and administrative expenses come from the redemption or sale of federal government securities held by the trust fund.[2]

The Secretary of the Treasury (as the Managing Trustee of the Social Security trust fund) is required by law to invest Social Security revenues in securities backed by the U.S. government.[3] The purchase of government securities allows any surplus Social Security revenues to be used for other (non-Social Security) government spending needs at the time.[4]

The Social Security trust fund is both a designated account within the U.S. Treasury and the accumulated holdings of special U.S. government obligations. Both represent the funds designated to pay current and future Social Security benefits.

How the Social Security Program Is Financed

The Social Security program is financed primarily by revenues from Federal Insurance Contributions Act (FICA) taxes and Self Employment Contributions Act (SECA) taxes. FICA taxes are paid by both employers and employees, but it is employers who remit the taxes to the U.S. Treasury. Employers remit FICA taxes on a regular basis throughout the year (for example, weekly, monthly, quarterly or annually), depending on the employer's level of total employment taxes (including FICA and federal personal income tax withholding). The FICA tax rate of 7.65% each for employers and employees has two components: 6.2% for Social Security and 1.45% for Medicare Hospital Insurance. The SECA tax rate is 15.3% for self-employed individuals, with 12.4% for Social Security and 2.9% for Medicare Hospital Insurance. The respective Social Security contribution rates are levied on covered wages/net self-employment income up to

[1] Social Security Administration (SSA), *Monthly Statistical Snapshot, April 2011*, May 2011, Table 2, http://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/index.html.

[2] Social Security Administration, Trust Fund FAQs, http://www.socialsecurity.gov/OACT/ProgData/fundFAQ.html.

[3] Social Security Act, Title II, §201(d).

[4] This is often referred to as "borrowing from the Social Security trust fund."

$106,800 in 2011.[5] Self-employed individuals may deduct one-half of the SECA taxes for federal income tax purposes.[6] SECA taxes are normally paid once a year as part of filing an annual individual income tax return.

In addition to Social Security payroll taxes, the Social Security program has two other sources of income. Certain Social Security beneficiaries must include a portion of Social Security benefits in taxable income for the federal income tax, and the Social Security program receives part of those taxes.[7] In addition, the Social Security program receives interest from the U.S. Treasury on its investments in special U.S. government obligations.

The Internal Revenue Service (IRS) processes the tax returns and tax payments for federal employment taxes and federal individual income taxes. All of the tax payments are deposited in the U.S. Treasury along with all other receipts from the public for the federal government.

Temporary Payroll Tax Reduction for Workers in 2011

As noted above, under current law, the Social Security payroll tax rate is 6.2% for employers and employees (each) and 12.4% for the self-employed. On December 17, 2010, the President signed into law H.R. 4853, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312). Title VI of the law provides a temporary reduction of 2 percentage points in the payroll tax rate for employees and the self-employed in 2011. As a result, the Social Security payroll tax rate is 4.2% for employees and 10.4% for the self-employed in 2011. The law makes no change to the Social Security payroll tax rate for employers (6.2%) or to the amount of wages and net self-employment income subject to the payroll tax ($106,800 in 2011).[8]

To protect the Social Security trust fund from a loss of revenues resulting from a temporary reduction in the payroll tax rate for employees and the self-employed, the law appropriates to the Social Security trust fund amounts equal to the reduction in revenues to the Treasury. The law specifies that these appropriated amounts “shall be transferred from the general fund at such times and in such manner as to replicate to the extent possible the transfers which would have occurred to such Trust Fund had such amendments not been enacted.”[9]

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[5] The limit on wages and net self-employment income subject to the Social Security payroll tax (known as the taxable wage base) is adjusted annually based on average wage growth, if a Social Security cost-of-living adjustment (COLA) is payable. Because no COLA was payable in 2010 and 2011, the taxable wage base has remained at its 2009 level ($106,800) in 2010 and 2011. The Medicare Hospital Insurance component of the FICA and SECA tax is levied on total wages. For more information on the Social Security COLA, see CRS Report 94-803, *Social Security: Cost-of-Living Adjustments*, by Gary Sidor.

[6] Self-employed individuals are required to pay Social Security payroll taxes if they have annual net earnings of $400 or more. Only 92.35% of net self-employment income (up to the annual limit) is taxable.

[7] The taxes associated with including Social Security benefits in federal taxable income go to the Social Security trust fund and the Medicare Hospital Insurance trust fund. See CRS Report RL32552, *Social Security: Calculation and History of Taxing Benefits*, by Christine Scott and Janemarie Mulvey.

[8] For more information, see CRS Report R41648, *Social Security: Temporary Payroll Tax Reduction in 2011*, by Dawn Nuschler.

[9] The text of P.L. 111-312 is available at http://www.gpo.gov/fdsys/pkg/PLAW-111publ312/pdf/PLAW-111publ312.pdf. Title VI, Temporary Employee Payroll Tax Cut, is on pages 124 STAT. 3309-10.

The Social Security Trust Fund as a Designated Account

Within the U.S. Treasury, there are numerous accounts established for internal accounting purposes. Although all of the monies within the Treasury are federal monies, the designation of an account as a trust fund allows the government to track revenues (and expenditures) dedicated for specific purposes. In addition, the government can affect the level of revenues and expenditures associated with a trust fund through changes in the law. Social Security program income and outgo are accounted for in two separate trust funds authorized under Title II of the Social Security Act: (1) the Federal Old-Age and Survivors Insurance (OASI) trust fund and (2) the Federal Disability Insurance (DI) trust fund.[10] This report refers to the two separate trust funds as an aggregate Social Security trust fund and discusses the operations of the OASI and DI trust funds on a combined basis.

Social Security Trust Fund Revenues

The Social Security trust fund receives a credit equal to the Social Security payroll taxes deposited in the U.S. Treasury by the IRS.[11] The payroll taxes are allocated between the OASI and DI trust funds based on a proportion specified by law.[12] Currently, of the 6.2% payroll tax rate, 5.3% is allocated to the OASI trust fund and 0.9% is allocated to the DI trust fund.[13]

Social Security Trust Fund Costs

The U.S. Treasury makes Social Security benefit payments to entitled individuals on a monthly basis. The Treasury is directed by the Social Security Administration (SSA) as to whom to pay and the amount of the payment. When benefit payments are made by the Treasury, the Social Security trust fund is debited for the payments. Periodically, the Social Security trust fund is also debited for the administrative costs of the Social Security program. These administrative costs are incurred by several government agencies, including SSA, the U.S. Treasury and the IRS.

Social Security Trust Fund Operations

The annual revenues to the Social Security trust fund are used to pay current Social Security benefits and administrative expenses. If, in any year, revenues are greater than costs, the surplus Social Security revenues in the U.S. Treasury are available for spending by the government on other (non-Social Security) spending needs at the time. If, in any year, costs are greater than revenues, the cash flow deficit is offset by selling some of the accumulated holdings of the trust fund (government securities) to help pay benefits and administrative expenses.

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[10] Social Security Act, Title II, §201.

[11] A portion of the federal income taxes paid on Social Security benefits and the interest income on Social Security trust fund investments are also credited to the Social Security trust fund.

[12] Social Security Act, Title II, §201(b).

[13] The share allocated to the DI trust fund was last changed (to 0.9%) in 2000. The proportional split between the OASI and DI trust funds has been altered five times since 1985.

There are two measures of Social Security trust fund operations: the annual cash flow operations and the accumulated holdings (or trust fund balance).[14] The annual cash flow operations of the Social Security trust fund are a measure of current revenues and current costs. The cash flow operations are positive when current revenues exceed costs (a cash flow surplus) and negative when current costs exceed revenues (a cash flow deficit). In years with cash flow deficits, the Social Security program (unlike other federal programs that operate without a trust fund) may use the accumulated holdings of the Social Security trust fund from prior years to help pay benefits and administrative expenses.[15]

Although Social Security is often referred to as a pay-as-you-go system (meaning that current revenues are used to pay current costs), changes made to the Social Security program in 1983 began a sustained period of annual cash flow surpluses through 2009.[16] In 2010, Social Security had a cash flow deficit (program costs exceeded tax revenues), and the 2011 Annual Report projects that cash flow deficits will continue throughout the current 75-year projection period (2011-2085), under the intermediate assumptions.[17]

The 2011 Annual Report projects that the Social Security trust fund will remain solvent until 2036. Social Security benefits scheduled under current law can be paid in full until that time. This is one year earlier than projected in the 2010 Annual Report. In addition, the average 75-year actuarial deficit for the trust fund is projected to be equal to 2.22% of taxable payroll. This is an increase of 0.30% of taxable payroll from the projection in the 2010 Annual Report. Some of this change (0.05%) is attributed to a shift in the valuation period (from 2010-2084 to 2011-2085) which adds the relatively large negative annual balance for 2085 to the projection period. The remaining 0.25% is attributed to changes in demographic and economic data, assumptions, and methods, such as a projected increase in life expectancy. The trustees also note that the negative effect is attributed to near-term lower levels of "net other immigration" and real earnings than assumed in the 2010 Annual Report.[18]

As noted above, on a combined basis, the Social Security trust fund is projected to remain solvent until 2036. Separately, the OASI trust fund is projected to remain solvent until 2038 and the DI trust fund is projected to remain solvent until 2018. With respect to the DI trust fund, the trustees state, "Given that the DI Trust Fund is projected to become exhausted in 2018, legislative action

[14] The accumulated holdings of the Social Security trust fund in U.S. government obligations are also referred to as the Social Security trust fund balance.

[15] Certain government projects may be given "budget authority until expended," which allows the authority to spend funds on the project to be carried over each year until all of the authority to spend funds has been exhausted.

[16] The Social Security Amendments of 1983 (P.L. 98-21) made a number of program changes, including the coverage of federal workers, an increase in the full retirement age and the taxation of Social Security benefits. For more information on the 1983 amendments, see CRS Report RL30920, *Major Decisions in the House and Senate on Social Security: 1935-2010*, by Gary Sidor.

[17] The Social Security Board of Trustees is composed of three officers of the President's cabinet (the Secretary of the Treasury, the Secretary of Labor and the Secretary of Health and Human Services), the Commissioner of Social Security and two public representatives who are appointed by the President and subject to confirmation by the Senate. The Board of Trustees issues an annual report to Congress on the financial status of the Social Security trust fund. The trustees make three sets of projections based on low-cost, intermediate and high-cost assumptions reflecting the uncertainty surrounding projections for a 75-year period. The trust fund projections cited in this CRS report are based on the intermediate (or "best guess") assumptions of The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, Washington, DC, May 13, 2011, available at http://www.ssa.gov/OACT/TR/2011/tr2011.pdf. (Hereafter cited as 2011 Annual Report.)

[18] 2011 Annual Report, pp. 17-18. For a definition of net other immigration, see pages 81-82.

will be needed as soon as possible. At a minimum, a reallocation of the payroll tax rate between OASI and DI would be necessary, as was done in 1994.”[19]

As shown in **Table 1**, during the 1957 to 1983 period, the cash flow operations of the Social Security trust fund (annual revenues less annual costs) were negative in 21 of the 27 years.

Table 1. Annual Revenues, Costs, and Cash Flow Surpluses or Deficits for the Social Security Trust Fund, 1957-1983

($ in billions)

Year	Annual Revenues (not including interest)	Annual Costs	Annual Cash Flow Surpluses or Deficits (annual revenues less annual costs)
1957	$7.50	$7.60	($0.10)
1958	8.50	8.90	(0.40)
1959	8.90	10.80	(1.90)
1960	11.90	11.80	0.10
1961	12.30	13.40	(1.10)
1962	13.10	15.20	(2.10)
1963	15.60	16.20	(0.60)
1964	16.80	17.00	(0.20)
1965	17.20	19.20	(2.00)
1966	22.60	20.90	1.70
1967	25.40	22.50	2.90
1968	27.00	26.00	1.00
1969	31.50	27.90	3.60
1970	34.70	33.10	1.60
1971	38.30	38.50	(0.20)
1972	42.90	43.30	(0.40)
1973	51.90	53.10	(1.20)
1974	58.90	60.60	(1.70)
1975	64.30	69.20	(4.90)
1976	71.60	78.20	(6.60)
1977	78.70	87.30	(8.60)
1978	88.90	96.00	(7.10)
1979	103.00	107.30	(4.30)
1980	116.70	123.60	(6.90)
1981	139.40	144.40	(5.00)
1982	145.70	160.10	(14.40)

[19] 2011 Annual Report, p. 20.

Year	Annual Revenues (not including interest)	Annual Costs	Annual Cash Flow Surpluses or Deficits (annual revenues less annual costs)
1983	156.30	171.20	(14.90)

Source: Table prepared by the Congressional Research Service (CRS) from data provided in the 2011 Annual Report, Table VI.A4.

Table 2 shows the actual cash flow operations of the Social Security trust fund (annual revenues, costs, and cash flow surpluses or deficits) for the 1984 to 2010 period. **Table 3** shows the projected cash flow operations of the Social Security trust fund (projected annual revenues, costs, and cash flow deficits) for the 2011 to 2035 period, as projected by the Social Security trustees in the 2011 Annual Report (under the intermediate assumptions).

Table 2. Annual Revenues, Costs, and Cash Flow Surpluses or Deficits for the Social Security Trust Fund, 1984-2010

($ in billions)

Year	Annual Revenues (not including interest)	Annual Costs	Annual Cash Flow Surpluses or Deficits (annual revenues less annual costs)
1984	$183.10	$180.40	$2.70
1985	197.50	190.60	6.90
1986	212.80	201.50	11.30
1987	225.60	209.10	16.50
1988	255.20	222.50	32.70
1989	276.70	236.20	40.50
1990	301.10	253.10	48.00
1991	307.80	274.20	33.60
1992	317.20	291.90	25.30
1993	327.70	308.80	18.90
1994	350.00	323.00	27.00
1995	364.80	339.80	25.00
1996	385.70	353.60	32.10
1997	413.90	369.10	44.80
1998	439.90	382.30	57.60
1999	471.20	392.90	78.30
2000	504.80	415.10	89.70
2001	529.10	438.90	90.20
2002	546.30	461.70	84.60
2003	546.90	479.10	67.80
2004	568.70	501.60	67.10
2005	607.80	529.90	77.90

Year	Annual Revenues (not including interest)	Annual Costs	Annual Cash Flow Surpluses or Deficits (annual revenues less annual costs)
2006	642.50	555.40	87.10
2007	674.70	594.50	80.20
2008	689.00	625.10	63.90
2009	689.20	685.80	3.40
2010	663.60	712.50	(48.90)

Source: Table prepared by the Congressional Research Service (CRS) from data provided in the 2011 Annual Report, Table VI.A4.

Table 3. Projected Annual Revenues, Costs, and Cash Flow Deficits for the Social Security Trust Fund, 2011-2035

($ in billions)

Year[a]	Annual Revenues (not including interest)	Annual Costs	Annual Cash Flow Deficits (annual revenues less annual costs)
2011	$692.80	$738.40	($45.60)
2012	750.70	772.00	(21.30)
2013	794.40	813.80	(19.40)
2014	843.10	860.50	(17.40)
2015	890.10	911.00	(20.90)
2016	939.10	964.80	(25.70)
2017	988.10	1023.10	(35.00)
2018	1,040.00	1086.90	(46.90)
2019	1,090.60	1160.60	(70.00)
2020	1,141.20	1240.40	(99.20)
2021	1,192.60	1323.70	(131.10)
2022	1,246.00	1410.60	(164.60)
2023	1,302.00	1501.50	(199.50)
2024	1,360.80	1596.20	(235.40)
2025	1,421.80	1694.80	(273.00)
2026	1,485.40	1797.00	(311.60)
2027	1,553.00	1903.00	(350.00)
2028	1,623.70	2012.10	(388.40)
2029	1,697.10	2123.30	(426.20)
2030	1,774.20	2236.80	(462.60)
2031	1,856.20	2353.50	(497.30)
2032	1,942.00	2474.50	(532.50)
2033	2,031.50	2598.80	(567.30)
2034	2,124.90	2725.50	(600.60)

Year[a]	Annual Revenues (not including interest)	Annual Costs	Annual Cash Flow Deficits (annual revenues less annual costs)
2035	2,222.20	2854.90	(632.70)

Source: Table prepared by the Congressional Research Service (CRS) from data provided in the 2011 Annual Report, Table VI.F8 (intermediate assumptions).

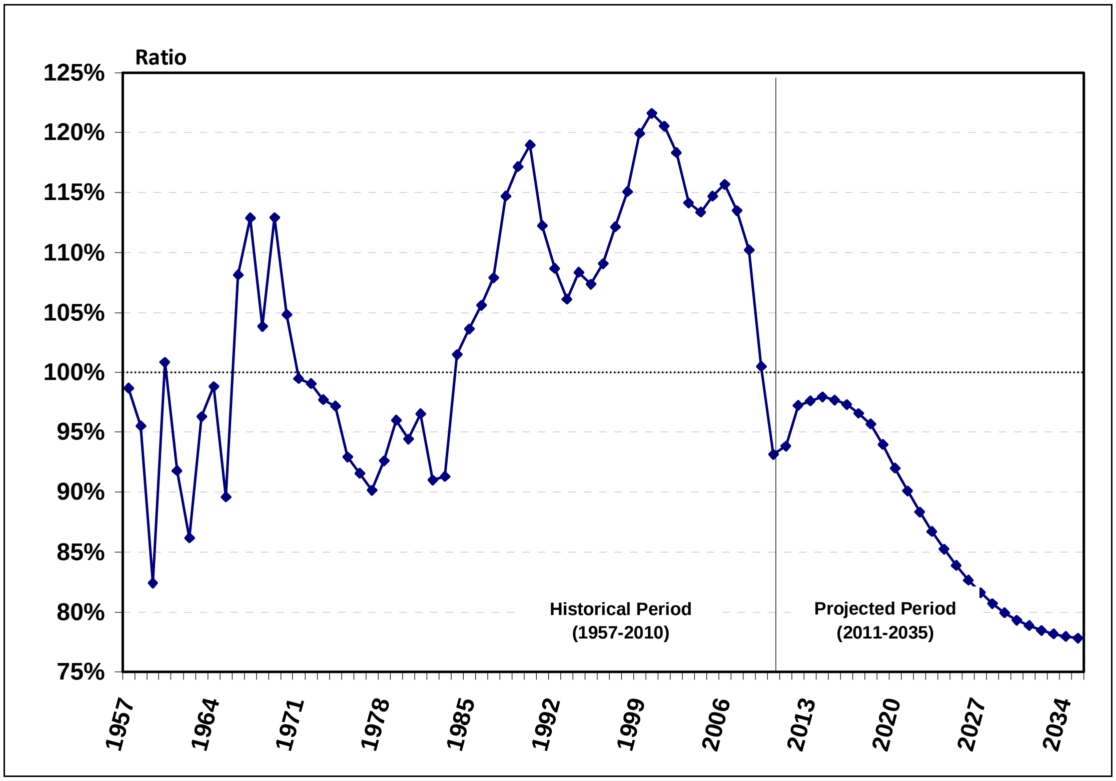
a. Projections for years after 2035 are not shown because the Social Security trust fund is projected to be exhausted in 2036 under the intermediate assumptions.

One way to measure the annual cash flow operations over time is to take the ratio of current revenues to current costs for each year. A ratio greater than 100% indicates positive cash flow (a cash flow surplus). Conversely, a ratio less than 100% indicates negative cash flow (a cash flow deficit). **Figure 1** shows the ratio of current revenues to current costs for the Social Security trust fund over the historical period from 1957 to 2010 and over the future period from 2011 to 2035, as projected by the Social Security trustees in the 2011 Annual Report (under the intermediate assumptions).[20]

As shown in the figure, in 2009, revenues of $689.2 billion divided by costs of $685.8 billion results in a ratio just over 100% (100.5%), indicating a cash flow surplus for the Social Security trust fund. By comparison, in 2010, revenues of $663.6 billion divided by projected costs of $712.5 billion results in a ratio of 93%, indicating a cash flow deficit for the Social Security trust fund. In the 2011 Annual Report, the Social Security trustees project that the ratio of current revenues to current costs will remain below 100% for the remainder of the projection period, with the gap between revenues and costs increasing over time (under the intermediate assumptions).

[20] 2011 Annual Report, Tables VI.A4 and VI.F8 (intermediate assumptions).

Figure 1. Ratio of Current (Annual) Revenues to Costs for the Social Security Trust Fund, 1957-2035



Source: Figure prepared by the Congressional Research Service (CRS) from data provided in the 2011 Annual Report, Tables VI.A4 and VI.F8 (intermediate assumptions).

Notes: Annual revenues do not include interest on accumulated holdings of U.S. government obligations. A ratio above 100% indicates a cash flow surplus for the year. A ratio below 100% indicates a cash flow deficit.

When the Social Security trust fund operates with a cash flow deficit, benefits can continue to be paid by the Treasury at levels scheduled under current law as long as the accumulated balance in the Social Security trust fund is positive. This is because the Social Security program has budget authority to pay benefits as long as the balance in the Social Security trust fund (the designated account) is positive. However, when current revenues are not sufficient to pay benefits, the U.S. government must raise the funds necessary to honor the redemption of U.S. government obligations held by the Social Security trust fund as they are needed to pay benefits. If there are no surplus governmental receipts, the U.S. government may raise the necessary funds by increasing taxes or other income, reducing other spending, borrowing from the public (i.e., replacing bonds held by the trust fund with bonds held by the public), or some combination of these measures.

Investment of the Social Security Trust Fund

The Secretary of the Treasury is required by law to invest Social Security revenues in securities backed by the U.S. government.[21] In addition, the Social Security trust fund receives interest on

[21] Social Security Act, Title II, §201(d).

its holdings of special U.S. government obligations. Each government security issued by the Treasury for purchase by the Social Security trust fund must be a paper instrument in the form of a bond, note, or certificate of indebtedness.[22] Any interest or proceeds from the sale of government securities held by the Social Security trust fund must be paid in the form of paper checks from the general fund of the Treasury to the Social Security trust fund.[23] The interest rates paid on the government securities issued to the Social Security trust fund are tied to market rates.[24]

For internal federal accounting purposes, when special U.S. government obligations are purchased by the Social Security trust fund, the Treasury is shifting surplus Social Security revenues from one government account (the Social Security trust fund) to another government account (the Treasury's "general fund" account). The special U.S. government obligations are physical documents held by the Social Security Administration, not the U.S. Treasury. The government securities held by the Social Security trust fund are redeemed on a regular basis. These special U.S. government obligations, however, are not resources for the government because they represent both an asset and a liability for the government.

The Social Security Trust Fund and the Federal Budget

The Social Security program is indirectly part of the annual congressional budget process. This creates some confusion on the part of the public.

On-Budget Versus Off-Budget

For federal budget purposes, *on-budget* status generally refers to programs that are included in the annual congressional budget process, whereas *off-budget* status generally refers to programs that are not included in the annual congressional budget process.

The Social Security program is a government program that, like the Postal Service, has had its receipts and (most) outlays designated by law as off-budget.[25] The off-budget designation, however, has no practical effect on program funding, spending or operations. The annual congressional budget resolution, in its legislative language, separates the off-budget totals (receipts and outlays) from the on-budget totals (receipts and outlays). The report language accompanying the congressional budget resolution usually shows the unified budget totals (which combine the on- and off-budget amounts) as well as the separate on- and off-budget totals. The President's budget tends to use the unified budget measures in discussing the budget totals. The President's budget documents also include the totals for the on- and off-budget components, as

[22] Social Security Act, Title II, §201(d). The Social Security trust fund may purchase certain other government securities, such as those issued by Fannie Mae or Freddie Mac, but this option is seldom used.

[23] Social Security Act, Title II, §201(f). The funds are then used to purchase additional government securities credited to the Social Security trust fund.

[24] For more information, see CRS Report RS20607, *Social Security: Trust Fund Investment Practices*, by Dawn Nuschler.

[25] Although the Social Security program is off-budget, the annual congressional budget process does provide the budget authority for Social Security administrative spending. SSA's administrative funding, which is paid for out of the Social Security trust fund, is subject to an annual appropriated limit. In contrast, the Social Security program has budget authority to pay benefits as long as the balance in the Social Security trust fund (the designated account) is positive.

required by law. The Congressional Budget Office uses the unified budget numbers in its analyses of the budget; it generally does not include on- and off-budget data in its regular annual reports.

The unified budget framework is important because it includes all federal government revenues and expenditures providing a more comprehensive picture of the size of the federal government, as well as the impact of the federal budget on the economy. In the unified budget, the Social Security program is a large source of both federal government revenues (29% in FY2010) and expenditures (20% in FY2010).[26] For purposes of the unified budget, the annual Social Security cash flow surplus or deficit is counted in determining the overall federal budget surplus or deficit.

The Social Security Trust Fund as Accumulated Holdings

The Social Security trust fund can be (and often is) viewed as a trust fund, similar to any private trust fund, that is to be used for paying current and future benefits (and administrative expenses). By law, Social Security revenues credited to the trust fund (within the U.S. Treasury) are invested in non-marketable U.S. government obligations. These obligations are physical (paper) documents issued to the trust fund and held by the Social Security Administration. When the obligations are redeemed, the Treasury must issue a check (a physical document) to the Social Security trust fund for the interest earned on the obligations.[27]

However, unlike a private trust that may hold a variety of assets and obligations of different borrowers, the Social Security trust fund can hold only non-marketable U.S. government obligations. The sale of these obligations by the U.S. government to the Social Security trust fund is federal government borrowing (from itself) and counts against the federal debt limit. The requirement that the Social Security trust fund purchase U.S. government obligations serves several purposes, such as:

- offering a mechanism for the Social Security program to recoup the surplus revenues loaned to the rest of the government;
- paying interest so that the loan of the surplus revenues does not lose value over time;
- ensuring that the Social Security trust fund (and not other government accounts) receives credit for the interest earnings;
- ensuring a level of return (interest) to the Social Security trust fund; and
- providing a means outside of the securities market for the U.S. government to borrow funds.

The accumulated holdings of the Social Security trust fund represent the sum of annual surplus Social Security revenues (for all past years) which were invested in U.S. government obligations, plus the interest earned on those obligations. As a result of surplus Social Security revenues from

[26] Percentages calculated by the Congressional Research Service (CRS) from data provided in: Office of Management and Budget, *Historical Tables, Budget of the U.S. Government, Fiscal Year 2012*, Tables 2.1, 2.4, 6.1 and 13.1.

[27] The funds are then used to purchase additional government securities credited to the Social Security trust fund.

1984 to 2009 and the interest income credited to the Social Security trust fund, the accumulated holdings of the Social Security trust fund totaled $2.6 trillion at the end of calendar year 2010. It is the accumulated holdings of the Social Security trust fund (or the trust fund balance) that many people refer to when discussing the Social Security trust fund. **Table 4** shows the accumulated holdings of the Social Security trust fund for the historical period from 1957 to 2010. **Table 5** shows the accumulated holdings of the Social Security trust fund for the future period from 2011 to 2035, as projected by the Social Security trustees in the 2011 Annual Report (under the intermediate assumptions). The Social Security trustees project that the level of accumulated holdings will begin to decline in 2023 and that the Social Security trust fund will be exhausted in 2036.[28]

The Social Security trustees project that, on average over the next 75 years (2011 to 2085), program costs will exceed total income (tax revenues plus interest income) by an amount equal to 2.22% of taxable payroll (on average, costs are projected to exceed income by 16%).[29] The gap between income and costs, however, is projected to increase over the 75-year projection period. For example, in 2035, the cost of the program is projected to exceed income by an amount equal to 3.77% of taxable payroll (costs are projected to exceed income by 28%). By the end of the projection period, in 2085, the cost of the program is projected to exceed income by an amount equal to 4.24% of taxable payroll (costs are projected to exceed income by 32%).

The Social Security trustees project that the Social Security trust fund would remain solvent throughout the 75-year projection period, for example, if:

- the combined employer and employee payroll tax rate were increased during the period in a manner equivalent to an immediate increase of 2.15 percentage points (from 12.4% to 14.55%);[30]
- benefits scheduled under current law were reduced during the period in a manner equivalent to an immediate benefit reduction of 13.8%; or
- general revenue transfers equivalent to $6.5 trillion (in present value terms) were made to the Social Security trust fund during the period.

These potential revenue and benefit changes illustrate the magnitude of changes needed for the Social Security trust fund to remain solvent throughout the 75-year projection period. The Social

[28] Under the intermediate assumptions of the 2011 Annual Report, the Social Security trustees project that program costs will exceed total income (tax revenues plus interest income) beginning in 2023. At that point, the trust fund balance will begin to be drawn down to help pay benefits and administrative expenses. The trustees project that the assets (government securities) held by the trust fund will be exhausted in 2036. Following projected trust fund exhaustion, the program would continue to operate with annual tax revenues.

[29] Program costs and income are evaluated as a percentage of taxable payroll because Social Security payroll taxes are the primary source of funding for the program. The projected 75-year actuarial deficit (2.22% of taxable payroll) represents $6.5 trillion in present value terms.

[30] The Social Security trustees note that the projected increase in the payroll tax rate needed for the trust fund to remain solvent throughout the 75-year projection period (2.15 percentage points) differs from the projected 75-year actuarial deficit (2.22% of taxable payroll) for two reasons. The trustees state on page 4 of the 2011 Annual Report: "First, the necessary tax rate is the rate required to maintain solvency throughout the period that would result in any trust fund reserve at the end of the period. Second, the necessary tax rate is increased based on the expectation that any change in tax rates will affect the proportion of employee compensation paid in wages."

Security trustees point out that some combination of these approaches could be used and that larger changes would be needed to maintain trust fund solvency beyond the 75-year period.[31]

Table 4. Accumulated Holdings of the Social Security Trust Fund, 1957-2010

($ in billions)

Year	Accumulated Holdings[a]
1957	$23.00
1958	23.20
1959	22.00
1960	22.60
1961	22.20
1962	20.70
1963	20.70
1964	21.20
1965	19.80
1966	22.30
1967	26.30
1968	28.70
1969	34.20
1970	38.10
1971	40.40
1972	42.80
1973	44.40
1974	45.90
1975	44.30
1976	41.10
1977	35.90
1978	31.70
1979	30.30
1980	26.50
1981	24.50
1982	24.80
1983	24.90
1984	31.10
1985	42.20

[31] 2011 Annual Report, pp. 3-4.

Year	Accumulated Holdings[a]
1986	46.90
1987	68.80
1988	109.80
1989	163.00
1990	225.30
1991	280.70
1992	331.50
1993	378.30
1994	436.40
1995	496.10
1996	567.00
1997	655.50
1998	762.50
1999	896.10
2000	1,049.40
2001	1,212.50
2002	1,378.00
2003	1,530.80
2004	1,686.80
2005	1,858.70
2006	2,048.10
2007	2,238.50
2008	2,418.70
2009	2,540.30
2010	2,609.00

Source: Table prepared by the Congressional Research Service (CRS) from data provided in the 2011 Annual Report, Table VI.A4.

a. The accumulated holdings of the Social Security trust fund are also referred to as the trust fund balance.

Table 5. Projected Accumulated Holdings of the Social Security Trust Fund, 2011-2035

($ in billions)

Year[a]	Accumulated Holdings[b]
2011	$2,678.20
2012	2,773.00
2013	2,874.30

Year[a]	Accumulated Holdings[b]
2014	2,983.70
2015	3,096.10
2016	3,210.20
2017	3,322.20
2018	3,431.30
2019	3,526.10
2020	3,599.10
2021	3,648.90
2022	3,673.20
2023	3,669.20
2024	3,634.40
2025	3,565.50
2026	3,453.00
2027	3,294.60
2028	3,087.50
2029	2,829.80
2030	2,519.90
2031	2,156.50
2032	1,735.90
2033	1,255.40
2034	713.00
2035	106.20

Source: Table prepared by the Congressional Research Service (CRS) from data provided in the 2011 Annual Report , Table VI.F8 (intermediate assumptions).

a. Projections for years after 2035 are not shown because the Social Security trust fund is projected to be exhausted in 2036 under the intermediate assumptions.

b. The accumulated holdings of the Social Security trust fund are also referred to as the trust fund balance.

The Social Security Trust Fund and the Level of Federal Debt

As part of the annual congressional budget process, the level of federal debt (the federal debt limit) is set for the budget by Congress. The federal debt limit includes debt held by the public as well as the internal debt of the U.S. government (i.e., debt held by government accounts). Borrowing from the public and the investment of the Social Security trust fund in special U.S. government obligations both fall under the restrictions of the federal debt limit. This means that the Social Security trust fund balance has implications for the federal debt limit.

For a discussion of how reaching the debt limit potentially could affect Social Security trust fund investment practices and benefit payments, see CRS Report R41633, *Reaching the Debt Limit: Background and Potential Effects on Government Operations,* coordinated by Mindy R. Levit.

The Social Security Trust Fund and Benefit Payments

The accumulated holdings of the Social Security trust fund, which represent budget authority for the program, can be viewed as a measure of funds dedicated to pay current and future benefits. However, when current tax revenues are below levels needed to pay benefits,[32] these funds (the accumulated holdings) are available to pay benefits only as the government raises the resources necessary to pay for the securities as they are redeemed by the Social Security trust fund. The securities are a promise, by the U.S. government, to raise the necessary funds.[33] When the system is operating with a cash flow surplus, the surplus Social Security revenues (which are invested in government securities held by the trust fund) are used to fund other government activities at the time. The surplus Social Security revenues, therefore, are not available to finance benefits directly when the system is operating with a cash flow deficit.

Stated another way, when the Social Security trust fund runs a cash flow deficit, the trust fund cashes in more federal government securities than the amount of current Social Security tax revenues. Because general revenues are used to redeem the federal government securities held by the trust fund, this results in increased spending for Social Security from the general fund. With respect to the Social Security program's reliance on general revenues, it is important to note that the program is relying on revenues collected for Social Security purposes in previous years that were used by the federal government at the time for other (non-Social Security) spending needs. The program draws on those previously collected Social Security tax revenues (plus interest) when current Social Security tax revenues fall below current program expenditures.

The Social Security trustees project that the accumulated holdings of the Social Security trust fund will be exhausted in 2036 and that an estimated 77% of annual benefits scheduled under current law will be payable with incoming receipts at that time (based on the intermediate assumptions of the 2011 Annual Report). The Social Security Act does not state what would happen to the payment of benefits scheduled under current law in the event of Social Security trust fund exhaustion. Two possible scenarios are the payment of monthly benefits in full on a delayed schedule or the payment of partial (reduced) monthly benefits on time.[34]

Acknowledgments

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[32] In the 2011 Annual Report, the Social Security trustees project that revenues will remain below program costs each year throughout the 75-year projection period (2011-2085), under the intermediate assumptions.

[33] If there are no surplus governmental receipts, the U.S. government may raise the necessary funds by increasing taxes or other income, reducing other spending, borrowing from the public (i.e., replacing bonds held by the trust fund with bonds held by the public), or some combination of these measures.

[34] For related information, see CRS Report RL32822, *Social Security Reform: Legal Analysis of Social Security Benefit Entitlement Issues*, by Kathleen S. Swendiman and Thomas J. Nicola.