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Social Security: Selected Findings of the 2020 Annual Report

According to the recent report of the Board of Trustees of the Social Security Trust Funds, the program's finances are in a similar position in 2020 as in 2019. The combined date of projected Trust Fund asset depletion is unchanged after which the percentage of benefits payable is relatively the same. The 2020 annual report reflects the Board of Trustees' understanding of the OASDI program at the start of 2020; thus, it does not include potential effects of the Coronavirus Disease 2019 (COVID-19).

Social Security Overview

Social Security is a self-financing program that in 2019 covered approximately 178 million workers and provided monthly cash benefits to over 64 million beneficiaries. It is the federal government's largest program, in terms of both the number of people affected (i.e., covered workers and beneficiaries) and its finances. Social Security is composed of Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI), referred to collectively as OASDI.

The OASDI program is primarily financed (89.0% of total revenues in 2019) through a payroll tax applied to Social Security covered earnings up to an annual limit. In addition, some beneficiaries pay income tax on a portion of their Social Security benefits, accounting for 3.4% of total revenue in 2019. From 1983 to 2009, the OASDI program collected more in tax revenues than needed to pay benefits. Excess revenues are held in interest-bearing U.S. Treasury securities, providing a third source of funding for the program. In 2019, interest revenues accounted for 7.6% of total revenues. Monthly benefits are the largest OASDI program cost, accounting for 98.9% of total costs in 2019. Administrative and other costs accounted for the remainder.

The Trust Funds

Both the OASI and DI programs operate with a trust fund financing mechanism. Monies credited to these trust funds are earmarked for paying Social Security benefits and certain administrative costs. Using a trust fund allows the OASI and DI programs to track their respective programs' revenues and costs and to hold any accumulated assets from years when revenues exceed costs. The OASI Trust Fund and DI Trust Fund are legally distinct entities; they are discussed here collectively as the OASDI Trust Funds, or the trust funds.

A Board of Trustees manages the trust funds. The trustees are required to report to Congress annually on the trust funds' status and financial operations. In general, the trust funds' *solvency*—the ability to pay full benefits scheduled under current law on a timely basis—indicates their status. If assets held in the trust funds were to be depleted, the OASDI program could pay out in benefits only what it receives in revenues. **Table 1** shows the trust funds' key dates under the trustee's intermediate assumptions, which reflect their best estimate of future economic, demographic, and program-specific factors.

Table 1. Key Dates Projected for the Social Security Trust Funds in the 2019 and 2020 Trustees Reports
(under the trustees' intermediate assumptions)

	2019 Report			2020 Report		
	OASI	DI	OASDI	OASI	DI	OASDI
Cost exceeds noninterest revenues	2010	2036	2010	2010	2041	2010
Cost exceeds total revenues	2020	2041	2020	2021	2047	2021
Trust fund reserves depleted	2034	2052	2035	2034	2065	2035

Source: CRS, based on the 2019 and 2020 OASDI Trustees Report.

In the 2020 annual report, as compared with the 2019 report, the trustees project an unchanged date of 2035 for OASI Trust Fund reserve depletion and a noticeably changed date of 2052 to 2065 for DI Trust Fund reserve depletion. The trustees attribute this change to lower-than-anticipated disability applications and benefit awards. As stated in the 2020 report, "The substantial decline in applications from 2010 to the level for 2018 and 2019, and the resulting declines in the number of disabled worker beneficiaries since 2013, have caused the annual cost of the DI program to become much closer to annual income, making the DI Trust Fund reserve depletion date very sensitive to small changes in income and cost."

In the 2019 report, as shown in **Table 2**, the trustees projected the trust funds' overall balance (i.e., the total amount of accumulated asset reserves) would increase slightly. Asset reserves held in the trust funds increased more than expected during 2019, owing to larger-than-projected revenues and lower-than-projected costs.

Table 2. Financial Operations for the Social Security Trust Funds in the 2019 and 2020 Trustees Reports
(in billions; under the trustees' intermediate assumptions)

	2019 (projected)	2019 (actual)	2020 (projected)
Starting Trust Funds' Reserves	$2,894.9	$2,894.9	$2,897.4
Total Revenue	1,061.1	1,061.8	1,116.8
Total Costs	1,060.0	1,059.3	1,112.0
Change in Trust Funds' Reserves	1.0	2.5	4.4

Ending Trust Funds' Reserves	2,895.9	2,897.4	2,901.8

Source: CRS, based on the 2019 and 2020 OASDI Trustees Report.

Since 2010, costs (i.e., scheduled benefits) have exceeded *noninterest revenue* from payroll taxes and taxation of benefits. In last year's report, the trustees projected that *total revenues* (i.e., tax revenues and interest revenue) would exceed costs in 2019, with costs exceeding total revenues in 2020 as shown in **Table 1**. They now project the same for 2020, resulting in a short-term increase in trust fund asset reserves. Asset reserves are predicted to decline from a peak value of about $2.90 trillion in 2021 to $0 in 2035. Upon the trust funds' asset reserves depletion, the trustees project income from tax revenues would be sufficient to pay approximately 79% of scheduled benefits for the remainder of the projection period (this figure was 80% in last year's report).

Projected Long-Range Financial Outlook

Despite short-term improvements, the 2020 annual report, similar to last year's report, projects a long-range funding shortfall. The long-range funding shortfall is largely a result of rising costs over the 75-year projection period, primarily due to demographic trends. The ratio of OASDI beneficiaries per 100 covered workers, a common indicator of rising costs, is projected to remain relatively the same as that in the 2019 annual report. The 2019 report projected an average of 45.0 beneficiaries per 100 covered workers over the 75-year projection; the 2020 annual report projects this ratio to be 45.4 beneficiaries per 100 covered workers. Although the projected ratio of beneficiaries to workers remains relatively the same, program costs are projected to grow faster than program revenues. In 2019, the trustees estimated that costs would exceed revenues by 20.2% over the projection period. In 2020, the trustees estimate that costs will exceed revenues by 21.7% over the next 75 years. The growing divergence between revenues and costs are explained by a combination of changes in the valuation period (i.e., the 75-year projection period includes an additional year of deficit as compared to last year) and long-range assumptions (see "Annual Balances").

If the total program revenues were to exceed total costs annually, the program would have a *surplus*; if the total program costs were to exceed the total revenues, the program would have a *deficit*. The trustees project the program to have a surplus in 2020 and an annual deficit from 2021 to the end of the 75-year projection period. The *actuarial balance*, a summarized measure of the annual surpluses and deficits over the projection period, is the Social Security program's long-range financial position. When the actuarial balance results in higher costs than revenues over the projection period, the program is described as having an *actuarial deficit.*

In 2019, the trustees estimated the long-range actuarial deficit over the next 75 years to average 2.78% of *taxable payroll* (i.e., total earnings subject to the OASDI payroll tax with some adjustments). In 2020, the trustees estimated the long-range actuarial deficit over the next 75 years to average 3.21% of taxable payroll. This amount represents the average increase in the payroll tax over the 75-year projection period that would be needed for the program to pay full scheduled benefits on time. The change in the estimated actuarial deficit, an increase of 0.43% of taxable payroll, is mainly attributed to changes in legislation that required changes in economic assumptions.

Annual Balances

In contrast to the 2019 annual report, the trustees' 2020 report projects the annual balances (i.e., difference between revenues and costs on an annual basis) to reflect a larger deficit for most years in the projection period. Several factors contributed to this change, and the three largest factors are described as follows. First, the trustees state the lower annual balances are principally due to slower projected growth in real covered earnings, largely the result of P.L. 116-94, which repealed the provision in the Affordable Care Act of 2010 that specified an excise tax on employer-sponsored group health insurance premiums. The excise tax had been expected to increase the share of employee compensation (i.e., wages) that would have been subject to the Social Security payroll tax. Second, the trustees estimated fertility in 2019 to be at historically low levels, prompting a decrease in assumed long-range fertility. Third, historically low interest rates also led the trustees to lower their assumed long-range interest rates.

What Can Be Done?

The trustees project that in fewer than two decades Social Security will be unable to pay scheduled benefits in full and on time. To illustrate the magnitude of the changes needed to make Social Security solvent over the next 75 years, the trustees have estimated the hypothetical payroll tax increase *or* hypothetical benefit reduction that would be needed to maintain solvency, as shown in **Table 3**. These hypothetical changes would take immediate effect and apply to all *current* and *future* beneficiaries. The table also shows the trustees' estimates for the changes that would be needed at the projected insolvency date (2035).

Table 3. Hypothetical Measures to Maintain Solvency
(in percentage points (pp))

	2019 Report		2020 Report	
	2019	2035	2020	2035
Payroll Tax Increase	2.70 pp	3.65 pp	3.14 pp	4.13 pp
Scheduled Benefit Reduction	17%	23%	19%	25%

Source: CRS, based on the 2019 and 2020 OASDI Trustees Report.

In the 2020 annual report, the size of the payroll tax increase and benefit reduction needed to maintain solvency are larger than estimated in 2019. A noted parallel to last year's report is that as time elapses, the magnitude of the changes needed to maintain Social Security solvency increases. This characteristic is attributable to the program's rising costs and suggests that the portfolio of legislative options to achieve solvency decreases as the trust funds approach the projected depletion date. As in many previous reports, the trustees state, "Implementing changes sooner rather than later would allow more generations to share in the needed revenue increases or reductions in scheduled benefits."

Barry F. Huston, Analyst in Social Policy

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