

## OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS: 2002 TRUSTEES' PROJECTIONS

### Introduction

The Trustees of the Old-Age and Survivors Insurance and Disability Insurance (OASDI) programs project in their 2002 report<sup>1</sup> that the combined trust funds are sufficient to pay full benefits for the next 39 years, until 2041. This three-year improvement over the 2001 report estimates is based primarily on projected growth in productivity.

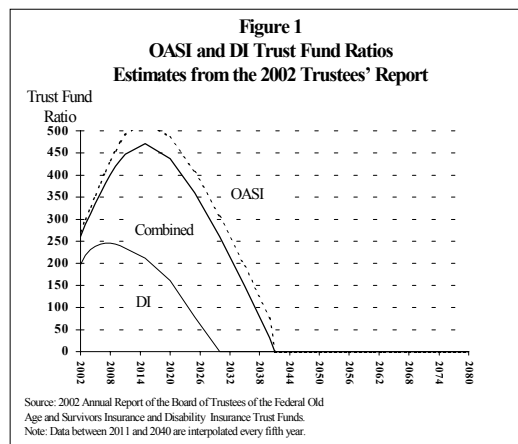
According to the intermediate or best estimate assumptions of the 2002 Trustees' Report,<sup>2</sup> the trust funds are in short-range (10-year) actuarial balance.<sup>3</sup> The combined assets of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds are projected to increase from \$1,213 billion in early 2002 to \$3,382 billion by 2011. The Trustees also report that while the combined trust funds are sufficient to pay full benefits for the next 39 years, both OASI and DI programs continue to face long-term deficits.

### Trust Fund Ratios

**OASI.** The OASI trust fund ratio, the number that represents projected trust fund assets at the beginning of the year as a percentage of that year's expenditures, is projected to increase from 272 percent in 2002 to a peak of 522 percent in 2015 and then decline steadily until exhaustion<sup>4</sup> in 2043. (See Figure 1.)

**DI.** The Trustees project the DI trust fund will be able to pay benefits one year longer than was projected in 2001. The DI trust fund ratio, 197 percent at the beginning of 2002, is estimated by the Trustees to peak at a ratio of 246 percent in 2007. After this, the DI trust fund will decline and be exhausted in 2028.

**OASDI.** If the OASI and DI trust fund expenditures are combined, outgo is projected to exceed current taxes beginning in 2017, when a portion of the funds' annual interest earnings



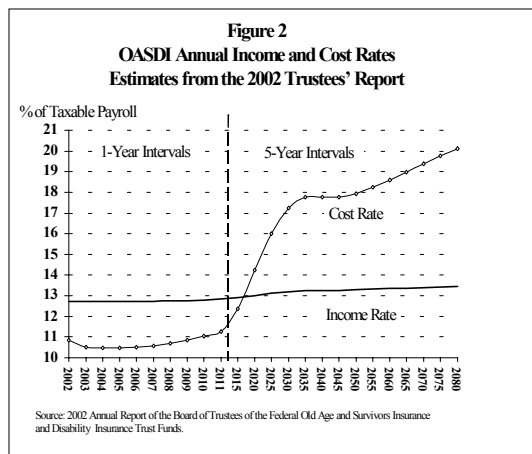
will have to be combined with tax revenue to pay annual benefits. This combined funding approach will suffice until 2027, when total income, including tax revenue and interest earnings, will fall short of expenditures. At this time, the trust fund principal along with accruing tax revenues will have to be spent. If no action is taken, the combined funds will be exhausted in 2041.

### Annual Cost and Income Rates

Another indicator of the financial status of the trust funds is a series of projected annual income and annual cost rates.

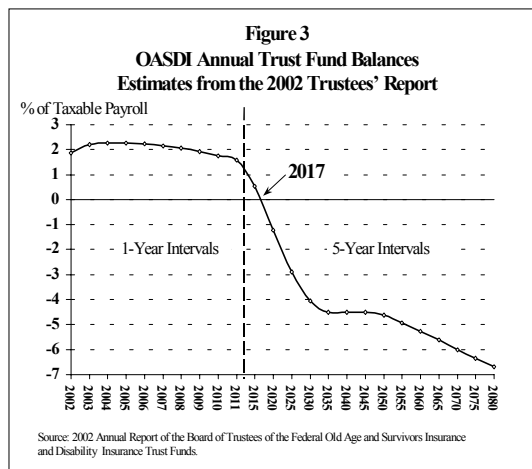
The 2002 Trustees' Report shows trust fund income rates rising slowly and steadily through 2080 due to a flat payroll tax and the increasing effect of the taxation of benefits. (See Figure 2.) Cost rates are also projected to rise slowly with faster increases by 2010. Cost rates will then increase rapidly between 2010 and 2030 as the baby boomers retire, then decline slightly as the baby boomers age and the small birth cohort of the late 1970s leaves the workforce. Thereafter, cost rates rise steadily but slowly, reflecting projected increases in life expectancy and continued relatively low birth rates. (See Figure 2.) Over the 75-year long-term projection period the difference between the summarized

income and cost rates for OASDI is a deficit of 1.87 percent of taxable payroll.<sup>5</sup>



### Annual Trust Fund Balances

The OASDI trust funds are in short-range balance and are projected to remain positive until 2017. Thereafter, the deficit rises rapidly, reaching 2.9 percent of taxable payroll in 2025. The deficit continues to rise to 6.68 percent of taxable payroll in 2080. (See Figure 3.)



### Trust Fund Assets

The U.S. Treasury invests assets of the trust funds, primarily FICA and SECA<sup>6</sup> taxes not needed to pay current benefits, in special issue, interest-bearing government securities, i.e., the trust funds lend money to the U.S. Treasury. The securities can be redeemed at any time to

pay benefits or administer the Social Security program. The U.S. Treasury must redeem the securities by transferring cash from another source (for example, income taxes) to the trust funds.

From 2002 until 2017, large sums of money will be flowing into the trust funds, and thus the U.S. Treasury will borrow large sums of money. The situation reverses in 2027, and the trust fund securities are redeemed by the U.S. Treasury, paid for with potential budget surpluses or general revenues raised at that time.

### Conclusions

In this report, the OASDI trust funds are projected to be adequately financed until 2041, when annual income is projected to be about 73 percent of the cost of benefits. The Trustees urge that “we must take action to address the OASDI financial short fall in a timely manner.” There are numerous options for improving the long-term solvency of the program. If careful consideration is given now, radical changes can be avoided and the program can be made actuarially sound for the long-term.

<sup>1</sup> 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

<sup>2</sup> All discussion, unless otherwise noted, is based upon the alternative II or intermediate assumptions. These are the actuaries' best estimates of future economic and demographic conditions.

<sup>3</sup> For a definition of short-range actuarial balance, see the 2002 Trustees' Report, page 33.

<sup>4</sup> The year of exhaustion is the first year that a trust fund is unable to pay benefits on time and in full.

<sup>5</sup> For a definition of long-range actuarial balance, see the 2002 Trustees' Report, page 45.

<sup>6</sup> Federal Insurance Contributions Act and Self-Employment Contributions Act.

*Written by Laurel Beedon and Steven R. Gregory  
Public Policy Institute, April 2002*

© 2002, AARP. Reprinting with permission only.  
AARP, 601 E Street, NW, Washington, DC 20049  
<http://research.aarp.org/ppi>