OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS: 2003 TRUSTEES' PROJECTIONS

Introduction

The Trustees of the Old-Age and Survivors Insurance and Disability Insurance (OASDI) programs project in their 2003 report[1] that the combined trust funds are sufficient to pay full benefits for the next 39 years, until 2042. This is a one-year improvement over the 2002 report estimates and is primarily due to an increase in immigration and resultant contributions by immigrant workers.[2]

According to the intermediate or best estimate assumptions of the 2003 Trustees' Report,[3] the trust funds are in short-range (10-year) actuarial balance.[4] The combined assets of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds are projected to increase from $1,366 billion in early 2003 to $3,585 billion by 2012. While the combined trust funds are sufficient to pay full benefits for the next 39 years, the Trustees also report that both OASI and DI programs continue to face long-term deficits.

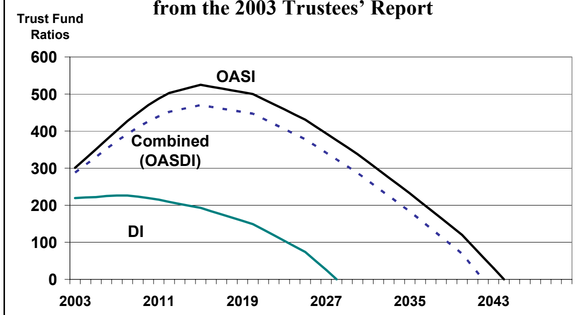
Trust Fund Ratios

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 301 percent in 2003 to a peak of 526 percent in 2016 and then decline steadily until exhaustion[5] in 2044. (See Figure 1.)

DI. The Trustees project DI trust fund assets to be exhausted one year later than the 2002 projections. The DI trust fund ratio, 219 percent at the beginning of 2003, is estimated by the Trustees to peak at a ratio of 226 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 2018, when a portion of the funds' annual interest earnings

Figure 1
OASI and DI Trust Fund Ratios Estimates from the 2003 Trustees' Report



Source: 2003 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds. Data for 2013, 2014 are interpolated; data between 2015 and year of 0 trust fund ratio are interpolated between every fifth year.

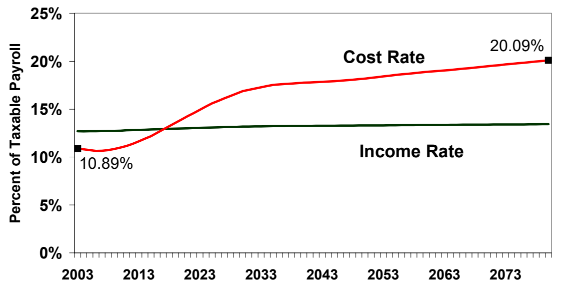
will have to be combined with tax revenue to pay annual benefits. This combined funding approach will suffice until 2028, when total income, including tax revenue and interest earnings, will fall short of expenditures. At this time, the trust fund principal along with accruing tax revenues will have to be spent. If no action is taken, the combined funds will be exhausted in 2042.

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 2003 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. Over the 75-year long-term projection period, the difference between the summarized income and cost rates for OASDI is a deficit of 1.92 percent

Figure 2
OASDI Annual Income and Cost Rates Estimates from the 2003 Trustees' Report



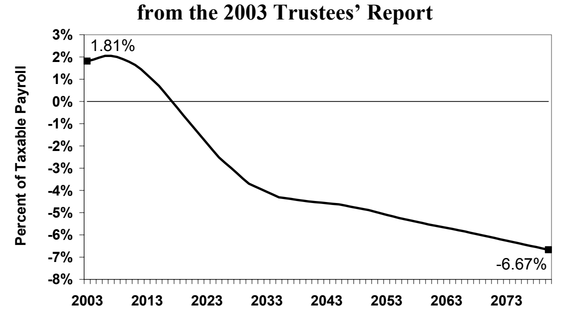
Source: 2003 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds. Data for 2013, 2014 are interpolated; data between 2015 and 2080 are interpolated between every fifth year.

of taxable payroll.[6] This is an increase from 2002's projected deficit of 1.87 percent of taxable payroll.

Annual Trust Fund Balances

The OASDI trust funds are in short-range balance and are projected to remain positive until 2018. Thereafter, the deficit increases rapidly, reaching 2.5 percent of taxable payroll in 2025. The deficit continues to increase to 6.67 percent of taxable payroll in 2080. (See Figure 3.)

Figure 3
OASDI Annual Trust Fund Balances Estimates from the 2003 Trustees' Report



Source: 2003 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds. Data for 2013, 2014 are interpolated; data between 2015 and 2080 are interpolated between every fifth year.

Trust Fund Assets

The U.S. Treasury invests assets of the trust funds, primarily FICA and SECA[7] taxes not needed to pay current benefits, in special issue, interest-bearing government securities. 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 2003 until 2018, 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 changes in 2028, and the trust fund securities will be redeemed by the U.S. Treasury and 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 2042 when annual income is projected to be about 73 percent of the cost of benefits. The Trustees observe that "continued national dialogue about, and timely action on, financial reform of Medicare and Social Security are imperative."[8] 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.

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1 *2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.*
2 Steve Goss, Chief Actuary, Social Security Administration, Social Security and Medicare Trustees Report briefing at the U.S. Treasury, March 17, 2003.
3 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.
4 For a definition of short-range actuarial balance, see the 2003 Trustees' Report, page 32.
5 The year of exhaustion is the first year that a trust fund is unable to pay benefits on time and in full.
6 For a definition of the 75-year long-term projection period, often called the long-range actuarial balance, see the 2003 Trustees' Report, page 44.
7 Federal Insurance Contributions Act and Self-Employment Contributions Act.
8 *Status of the Social Security and Medicare Programs*, Social Security and Medicare Board of Trustees, 2003.

Written by
Laurel Beedon and Mitja Ng-Baumhackl
AARP Public Policy Institute, March 2003
601 E Street, NW
Washington, DC 20049

www.aarp.org/ppi