

Prospects for the Future of the OASI and DI Programs in the United States

Forecasts prepared for the

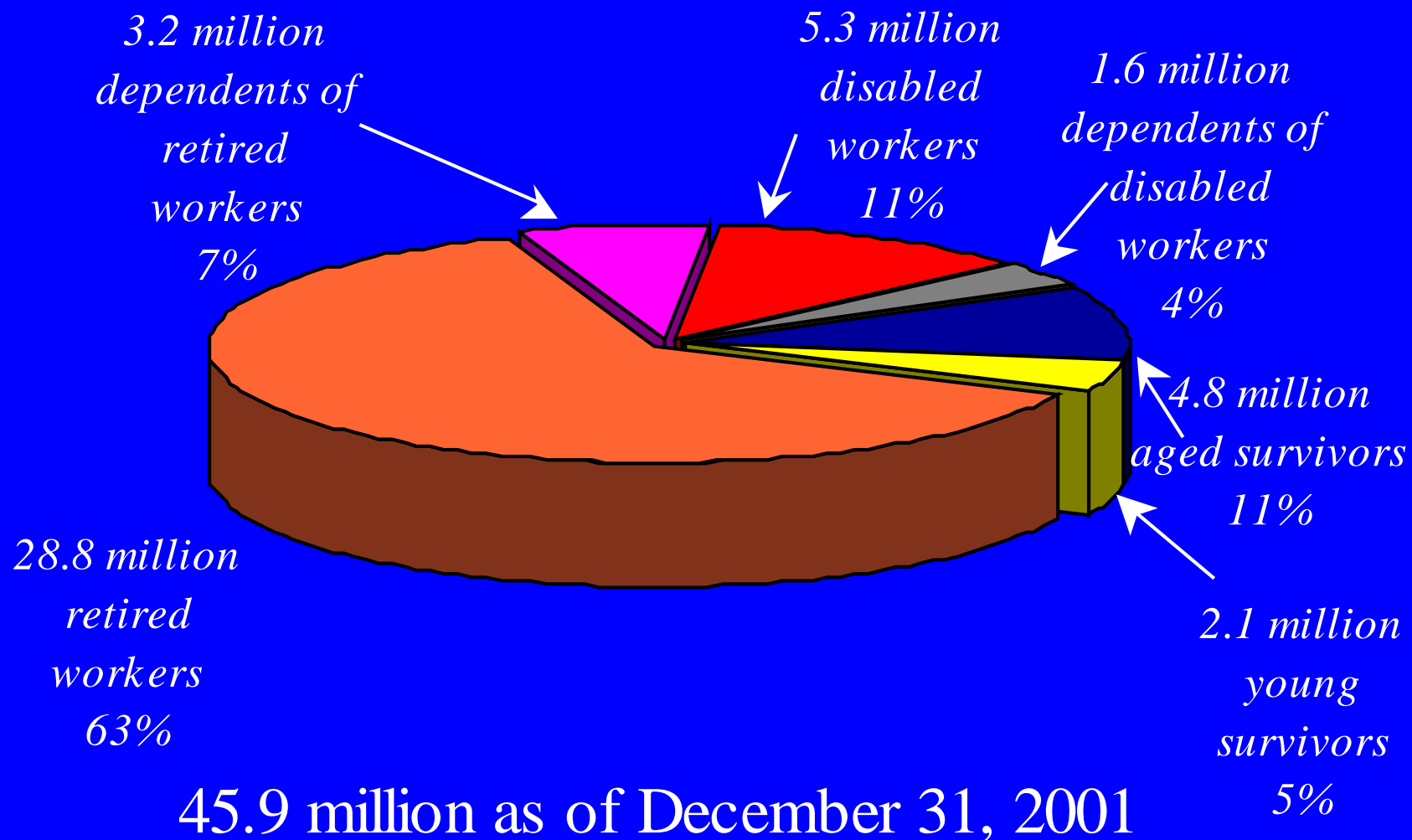
2002 OASDI Trustees Report

by SSA's Office of the Chief Actuary

OASDI now and in the future?

- Benefit and financing structure
- Current forecasts
- Quantification of the current problem
- President's Commission to Strengthen Social Security

Retired Workers Are The Largest Category of Beneficiaries



OASDI eligibility

- ◆ One quarter of coverage for each \$870 of covered earnings in 2002 (maximum of 4 in a calendar year)
- ◆ Fully-insured with 40 QCs (essentially 10 years of covered employment)
- ◆ Disability-insured status requires recent work (20 QCs in last 40 before disability onset)

OASDI Benefit Amounts

Average benefit amount
December 2001

Retired Workers	\$874
Men	985
Women	756
Aged widow(er)s	841
Disabled workers	814

Illustrative Benefit Amounts for Retirees in 2002

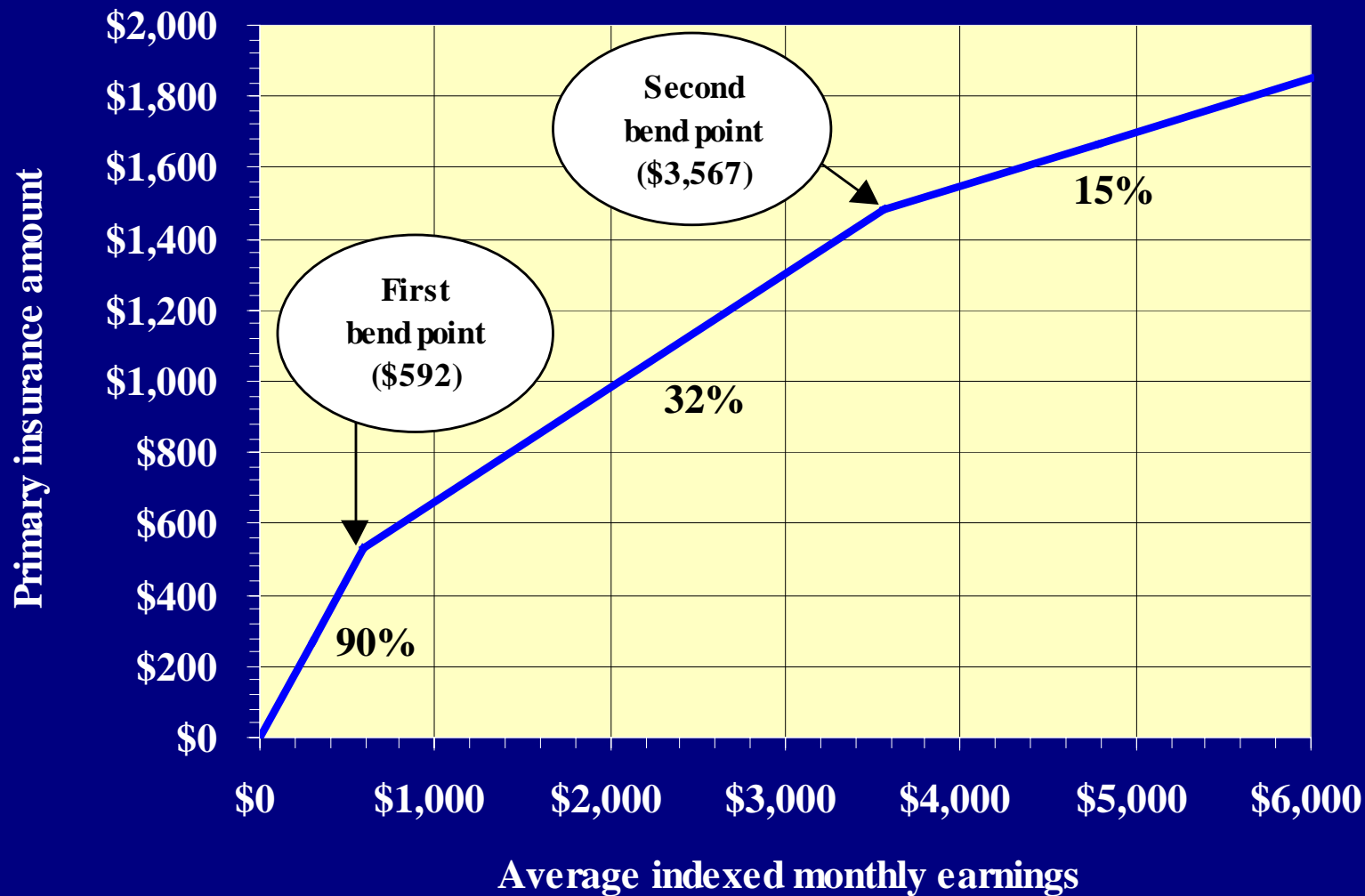
2001 Earnings ¹	Monthly Benefit Amount		Benefit as % of final earnings	
	Age 62 ²	Age 65	Age 62 ²	Age 65
\$10,000	\$475	\$569	57%	68%
20,000	682	820	41	49
30,000	890	1,072	36	43
40,000	1,098	1,323	33	40
50,000	1,212	1,453	29	35
60,000	1,281	1,536	26	31
80,400 ³	1,382	1,660	21	25

¹ Assumes earnings over work life kept pace with growth in average wages.

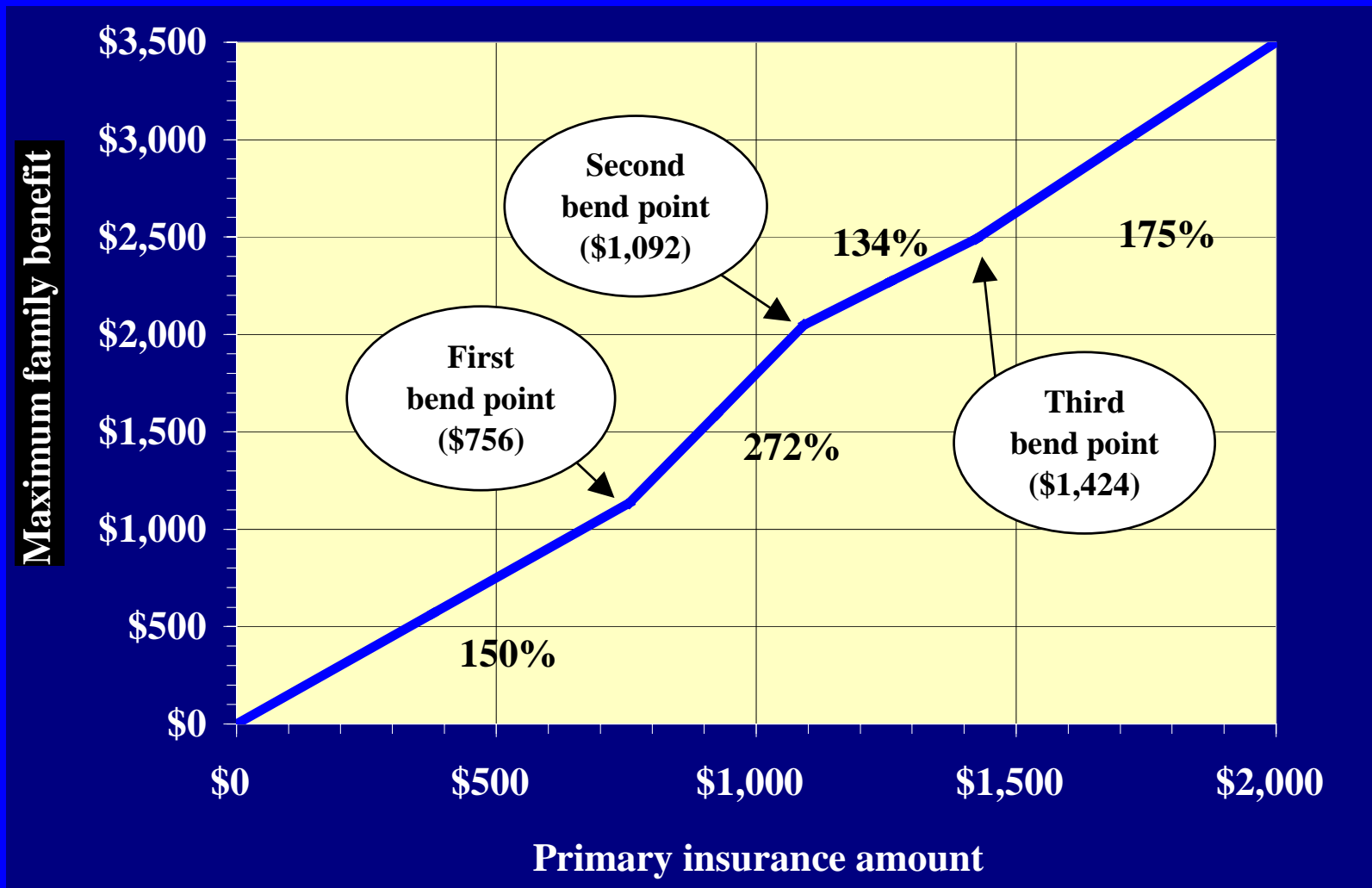
² Includes 40 months of actuarial reduction.

³ Taxable maximum in 2001.

Primary Insurance Amount Formula for the 2002 cohort



Maximum Family Benefit Formula for the 2002 cohort



Covered employment

- 152 million workers will pay Social Security taxes in 2002
- Workers outnumber beneficiaries by 3.4 to 1

The Social Security Payroll Tax

2002

Maximum taxable earnings:

OASDI \$84,900

HI No maximum

Tax rates for--

Employees and employers each:

Total 7.65%

OASDI 6.20

HI 1.45

Self-employed:

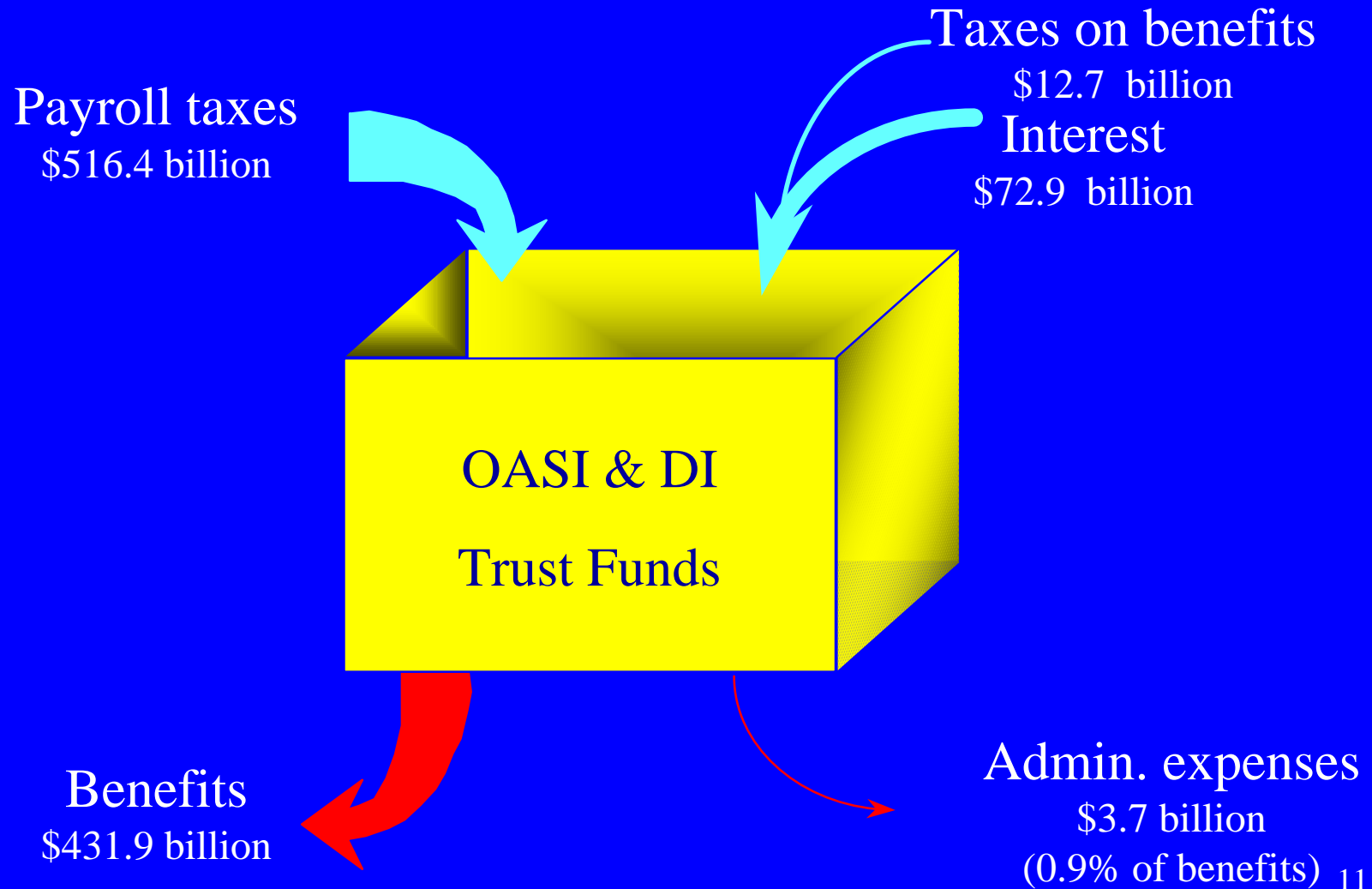
Total 15.30

OASDI 12.40

HI 2.90

Income and Outgo

Calendar Year 2001



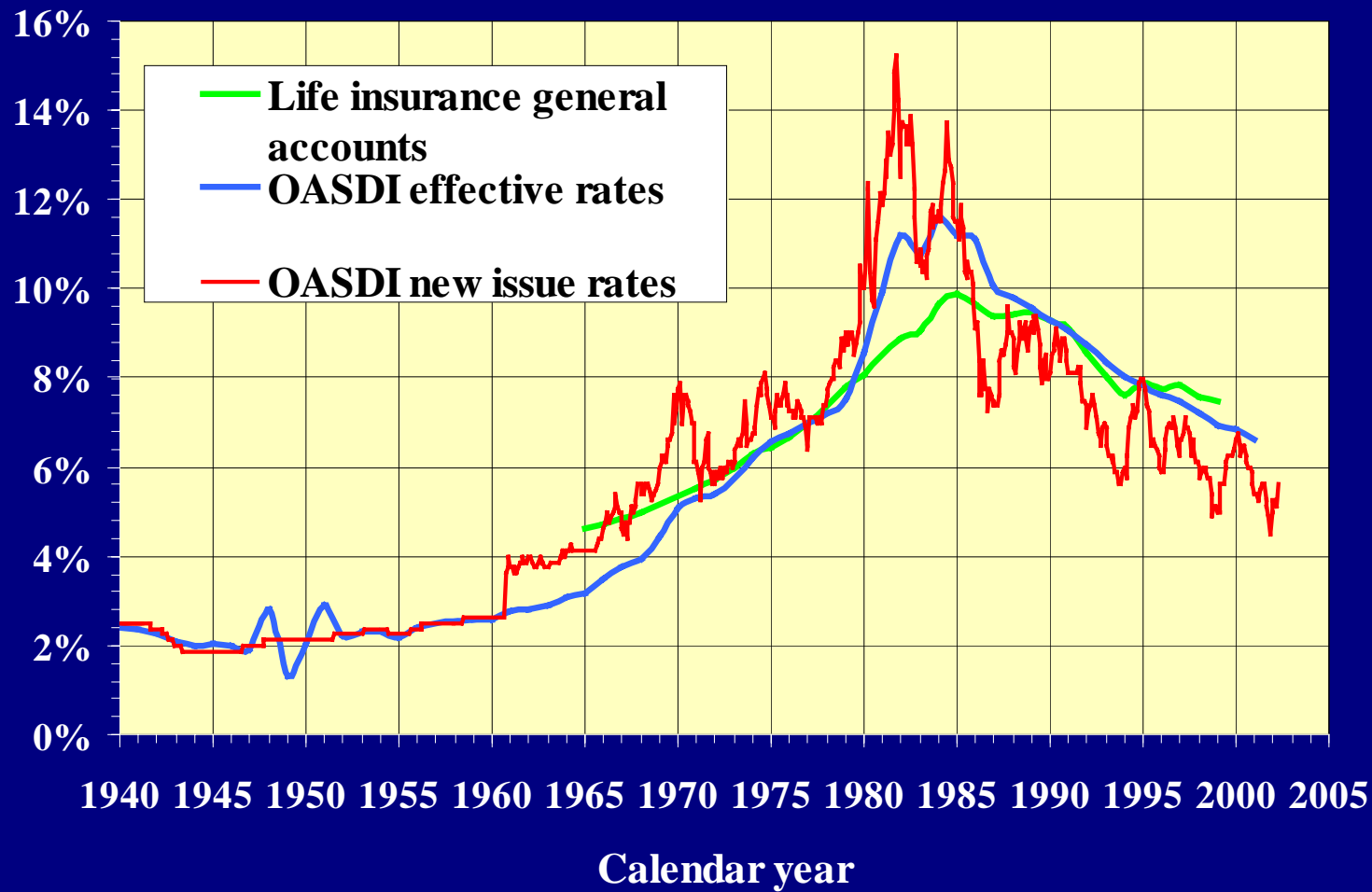
Sources of OASDI Income

- Mainly from OASDI payroll taxes (86%)
- Benefit taxation (2%) and interest (12%) is the source of virtually all the rest

Income taxation of OASDI benefits

- Enacted in 1983 amendments to the Social Security Act
- At most 85% of an individual's benefit is included in taxable income
- Approximates tax treatment of private pensions
- Revenue split between OASDI and HI

Interest rates earned by the OASDI Trust Funds



Board of Trustees

- Ex Officio Members:
 - Secretary of Treasury -- Managing Trustee
 - Secretary of Health & Human Services
 - Secretary of Labor
 - Commissioner of Social Security
- Two Public Members
 - John L. Palmer, Trustee
 - Thomas R. Saving, Trustee

Assumptions

Projections use 3 sets of assumptions about future economic and demographic conditions

Economic

Productivity
Average wage growth
Inflation (CPI)
Real wage differential
Unemployment
Interest rates

Demographic

Fertility
Mortality improvement
Immigration
Disability

Demographic assumptions

Ultimate assumptions	Intermediate	Low Cost	High Cost
Total fertility rate	1.95	2.2	1.7
Average annual reduction in age sex adjusted death rates	.73	.35	1.29
Annual net immigration (000)	900	1,210	655

Economic assumptions

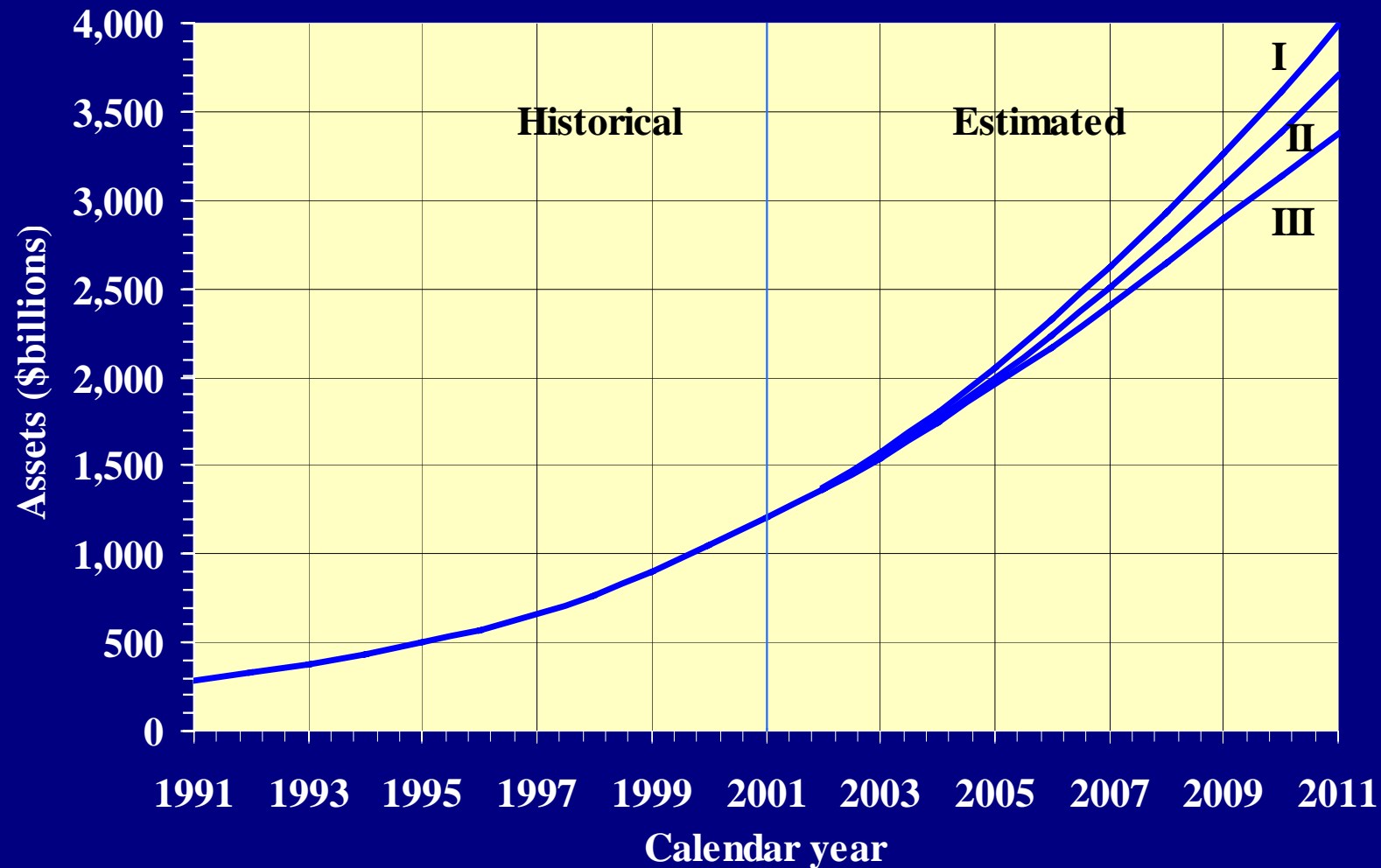
Ultimate assumptions	Intermediate	Low Cost	High Cost
Average annual % change in:			
Average wage	4.1	3.6	4.6
Consumer Price Index	3.0	2.0	4.0
Real wage differential(%)	1.1	1.6	.6
Productivity(total econ.)	1.6	1.9	1.3
Unemployment rate	5.5	4.5	6.5
Interest rate	6.0	5.7	6.2

Examples of Key Assumptions

	Total Fertility Rate	Real Wage Differential
I (Low cost)	2.20	1.60%
II (Intermediate)	1.95	1.10
III (High cost)	1.70	0.60
<u>History</u>		
1962-2001	2.1	1.19
1962-1971	2.8	1.81
1972-1981	1.8	-0.22
1982-1991	1.9	0.98
1992-2001	2.1	2.20

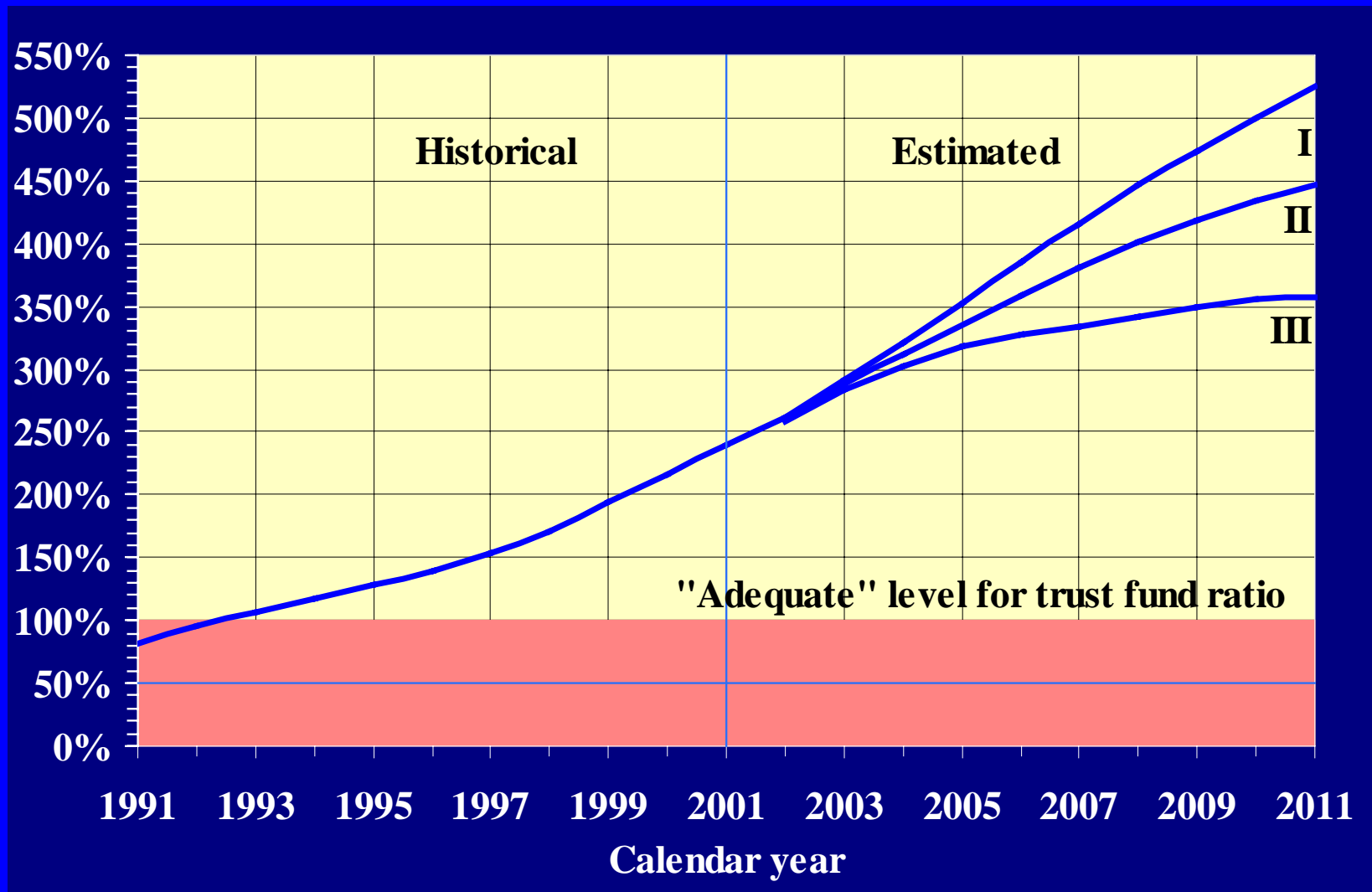
Assets at end of year, OASDI

[In billions]



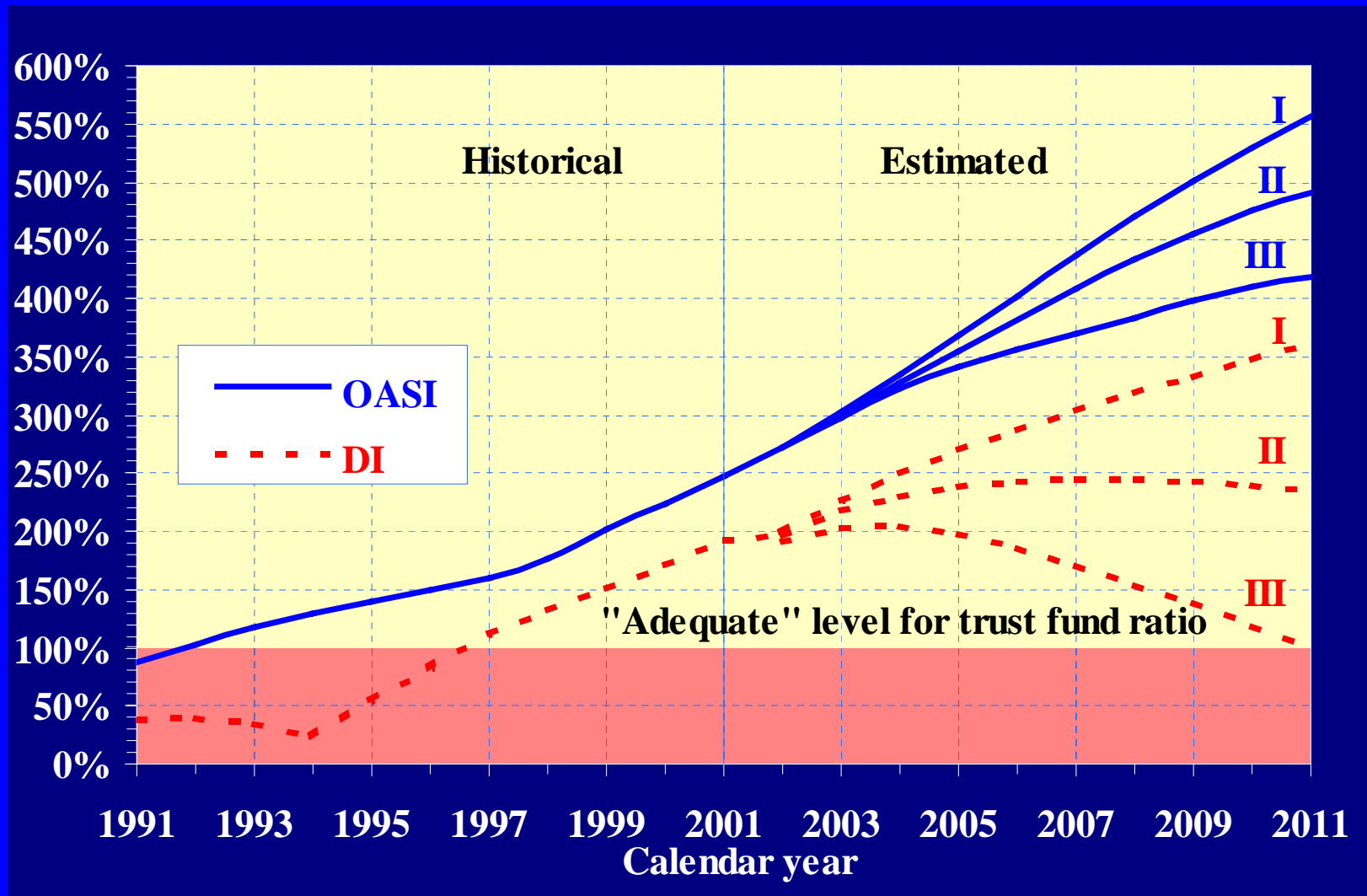
Trust Fund Ratios for OASDI

[Assets as a percentage of annual expenditures]

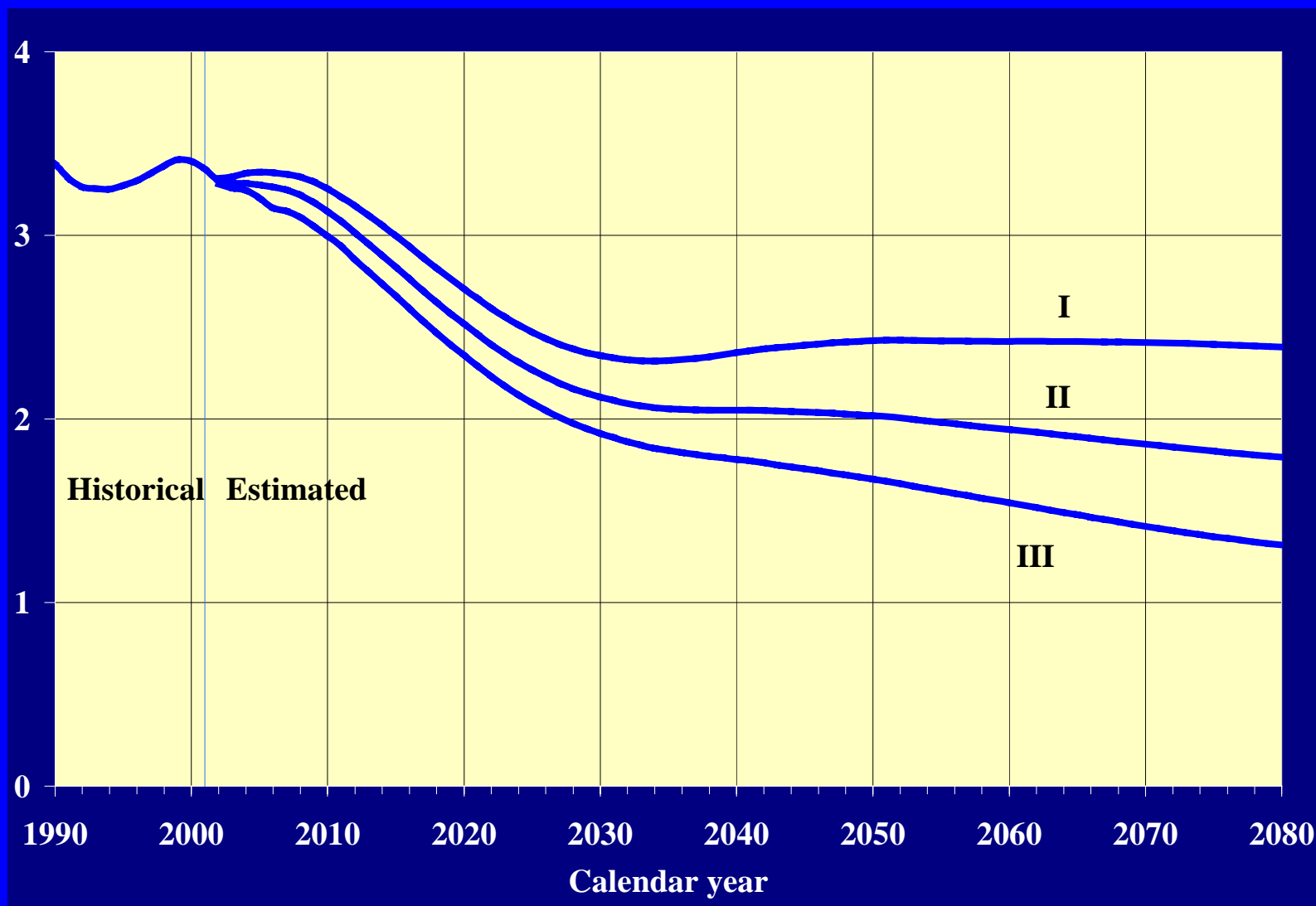


Fund Ratios for OASI and DI

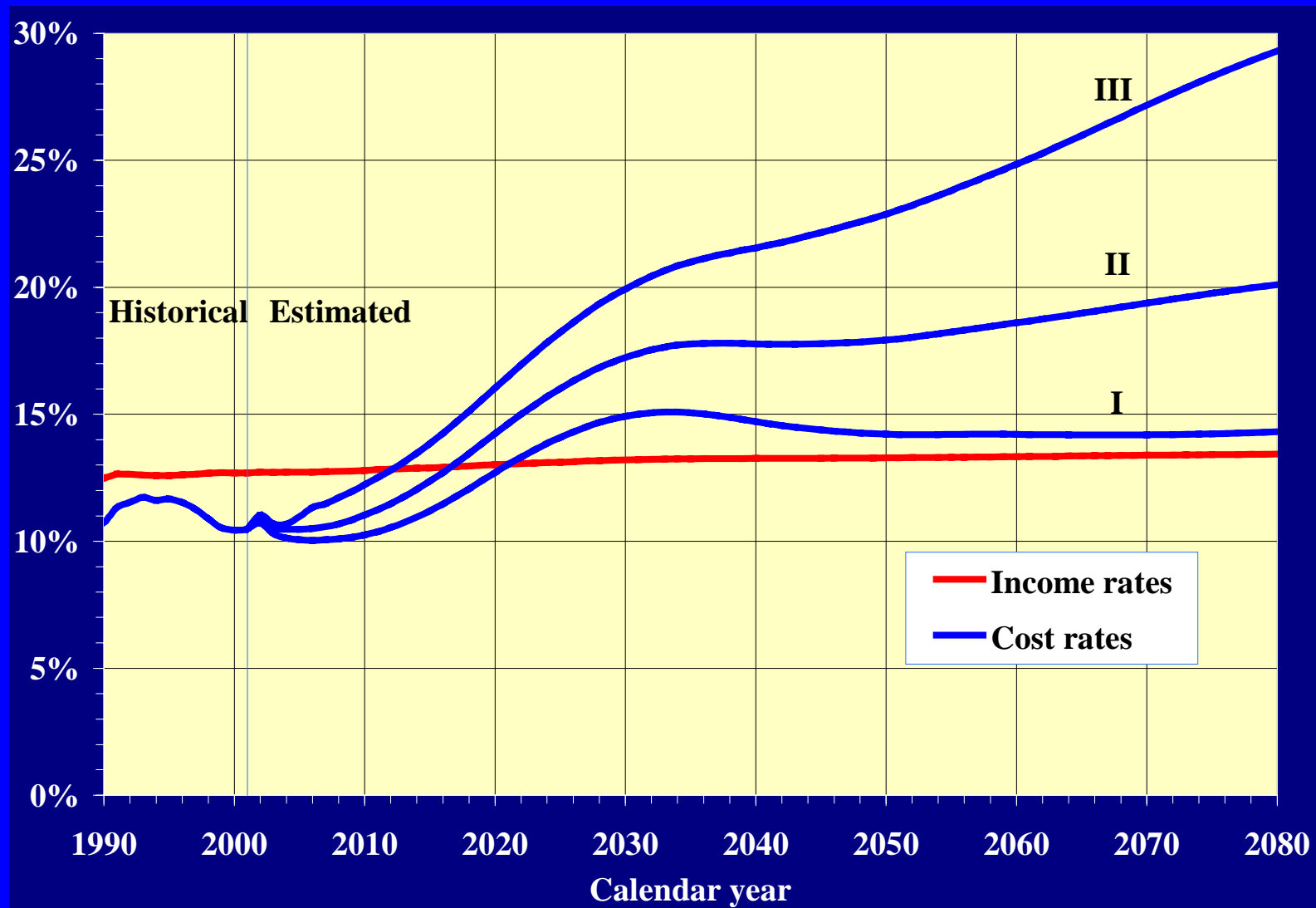
[Assets as a percentage of annual expenditures]



Number of Workers per Beneficiary



OASDI Income Rates and Cost Rates [As a percentage of taxable payroll]



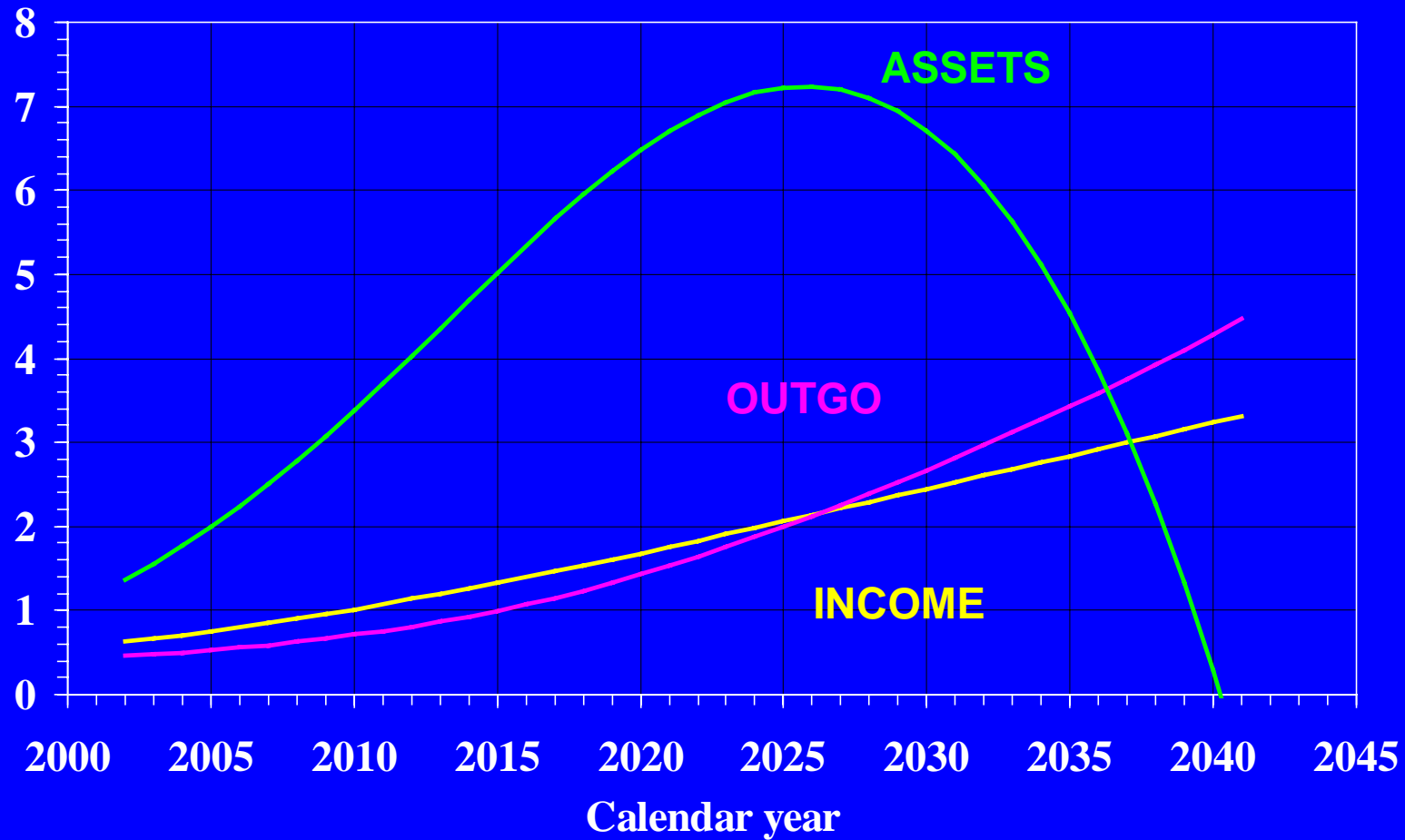
Actuarial Balance of the OASDI Program Over the Next 75 Years

[As a percentage of taxable payroll]

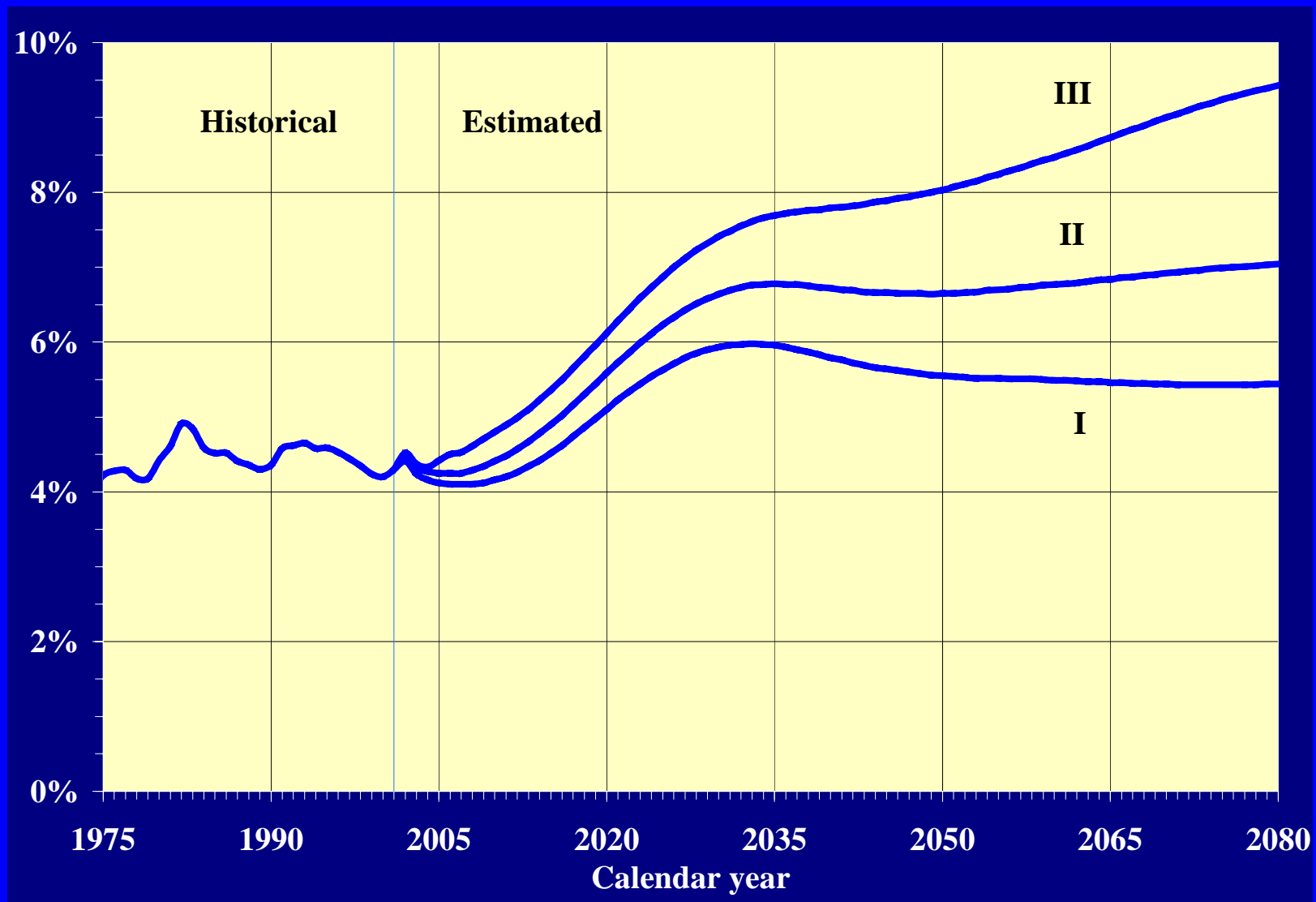
	Intermediate	Low Cost	High Cost
Income rate	13.72	13.60	13.87
Cost rate	15.59	13.16	18.87
Actuarial balance	-1.87	.44	-5.00

OASDI Income, Outgo, and Assets

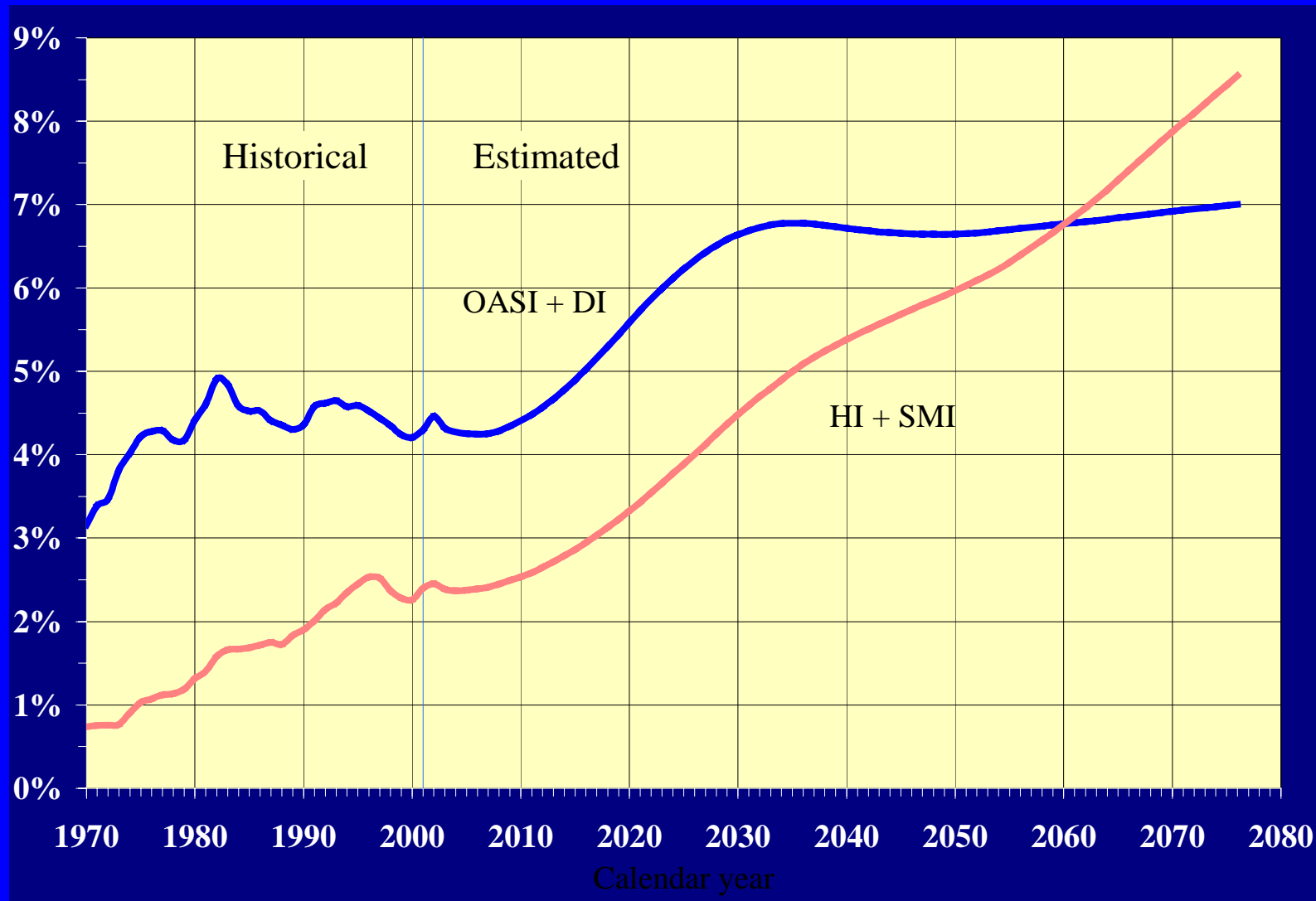
[In trillions of dollars]



OASDI Outgo as a Percent of GDP



OASDI and Medicare Outgo as a Percent of GDP

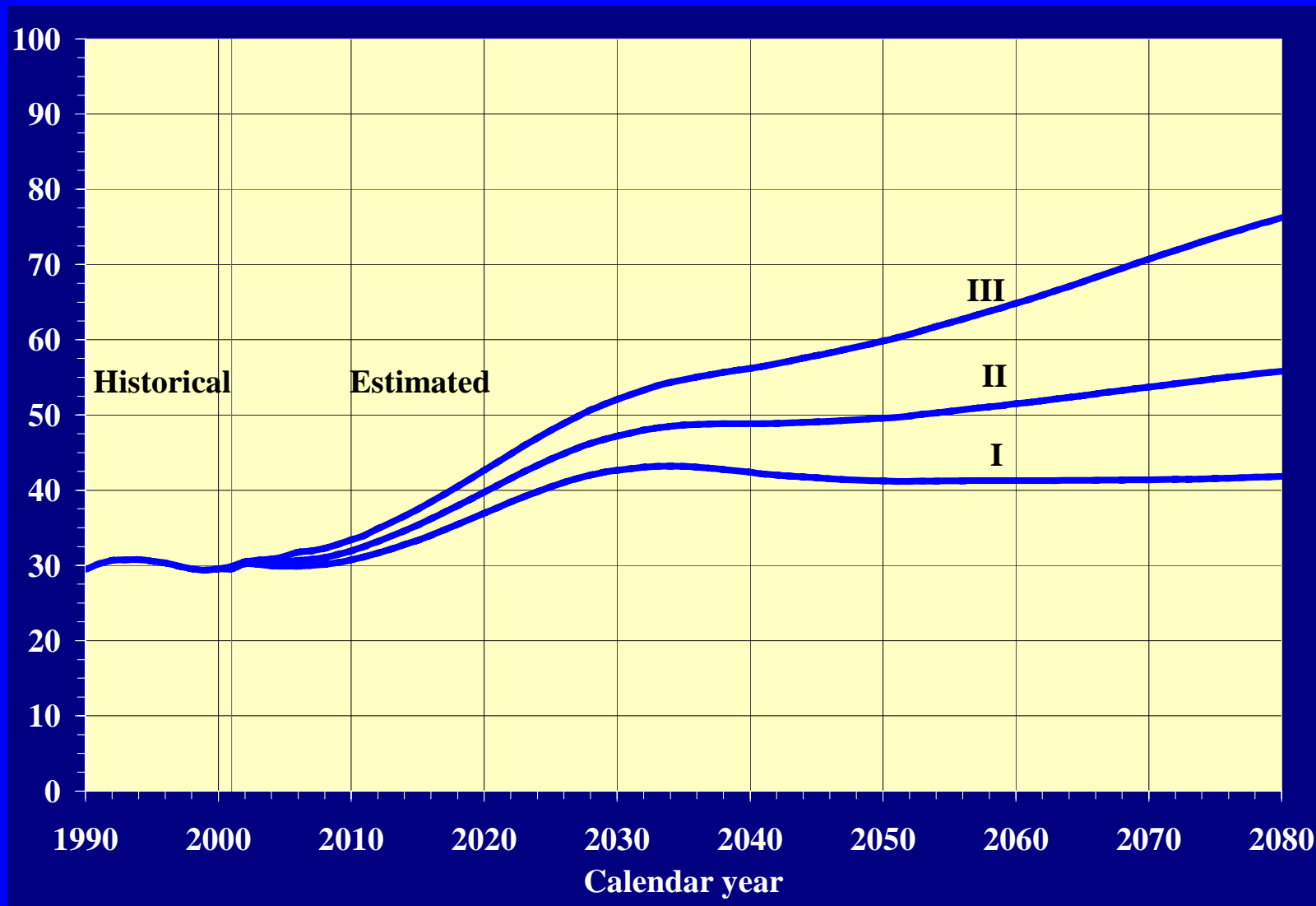


PAYGO Financing

Required tax rate =

$$\frac{(\textit{Average benefit})}{(\textit{Average wage})} \times \frac{(\textit{\# of beneficiaries})}{(\textit{\# of taxpayers})}$$

Number of Beneficiaries per 100 Covered Workers



1994-96 Advisory Council: The three plans

- *Maintenance of benefits* – marginal changes to fix funding of current system
- *Individual accounts* – preserve social adequacy protections of current system, while increasing overall national retirement saving through additional contributions to publicly managed individual accounts
- *Personal security accounts* – move toward fully funded defined contribution plan for retirement

What can we do?

- ◆ PAYGO would require 6.42 percentage point tax rate increase by 2076 and growing thereafter
- ◆ Reduce benefits over 2002-76 by 13% but what about later
- ◆ Structural changes needed

President's Commission to Strengthen Social Security

Propose reform plans to strengthen Social Security using the following principles:

- ◆ No changes for those already retired or soon to retire
- ◆ Social Security surplus dedicated to Social Security
- ◆ No increases in SS payroll taxes
- ◆ No government investment of SS funds in stock market
- ◆ Preserve disability and survivor components
- ◆ Include individually controlled, voluntary personal retirement accounts to augment SS safety net

Three reform models...

- ◆ All three include voluntary personal accounts
- ◆ Promise of benefits under new system at least as high as today after adjusting for inflation
- ◆ Significantly increase benefits for low-income workers
- ◆ Move current system toward fiscal sustainability
- ◆ All need some transitional investments
- ◆ Goal of increasing national savings

Model #1

- ◆ Voluntary personal account based on 2% of taxable earnings
- ◆ Traditional SS benefit offset by worker's personal account accumulated at rate of price inflation + 3.5%
- ◆ No other changes

Model #2

- ◆ Voluntary personal account based on 4% of taxable earnings, up to \$1,000 (indexed), redirected from OASI payroll tax
- ◆ Traditional SS benefit offset by worker's personal account accumulated at rate of price inflation + 2%
- ◆ Index OASDI benefits across generations by prices rather than wages
- ◆ Enhance benefits for long-time low paid workers and widows
- ◆ Temporary transfers from general revenue between 2025 and 2054

Model #3

- ◆ If worker makes 1% contribution, gets match of 2.5% redirected from OASI payroll tax (up to \$1,000)
- ◆ Traditional SS benefit offset by worker's personal account accumulated at rate of inflation + 2.5%
- ◆ Longevity indexed benefits
- ◆ Reduce benefits for high earners; enhance benefits for low earners; modify actuarial adjustments for early and late retirement
- ◆ Additional general revenue transfers required (some specified, others not specified)

<http://www.csss.gov>



President's Commission to Strengthen Social Security

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Federal Register Notices

On May 2, President Bush announced establishment of a bipartisan, 16-member Commission "to study and report ... specific recommendations to preserve Social Security for seniors while building wealth for younger Americans."



Guiding Principles

The Commission was asked to make recommendations to modernize and restore fiscal soundness to Social Security, using six guiding principles:

<http://www.ssa.gov/OACT/pubs.html>



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- [Status of the Social Security and Medicare Programs](#) -- a summary of the 2002 OASDI and Medicare [Trustees Reports](#); also available in [PDF](#)
- [2002 OASDI Trustees Report](#) --the annual report on the status of the Social Security program, published March 26, 2002. See list of prior [OASDI Trustees Reports](#). Also see [who signed](#) the reports.
- [2001 Annual Report of the Supplemental Security Income Program](#)
[Prior reports](#) -- reports issued in 1997-2000