

FACTS from EBRI

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The Basics of Social Security Updated With the 2003 Board of Trustees Report

History

- The U.S. Congress enacted the Social Security Act in 1935, creating the Old-Age and Survivors Insurance (OASI) program, which provided retirement income benefits to workers age 65 and older in commerce and industry (except railroads). The system became effective in 1937, and is financed by a payroll tax paid by employers and employees. In 1939, the system was expanded to cover dependents and survivors of covered workers. Legislation enacted in 1950 and subsequent years allowed states the option, under certain conditions, to provide Social Security coverage to their employees. The Social Security Act Amendments of 1983 prohibited states from opting out of the Social Security program. In 1990, Social Security coverage became mandatory for state and local employees not covered by a state or local government retirement plan.
- In 1956, the Disability Insurance (DI) program was added to the Social Security program, providing income to disabled workers. In 1958, dependents of disabled workers receiving benefits under the DI program became eligible for benefit payments.

Financing

- Currently, the U.S. Department of the Treasury credits the Medicare and Social Security trust funds with any annual excess of Social Security and Medicare tax revenues over the amount spent for current benefits. By law, these assets must be invested in special securities issued by the Treasury. The trust fund surpluses are not reserved for future Social Security and Medicare benefits but are book-keeping entries showing how much the Social Security and Medicare programs have lent to the Treasury (or alternatively, what is owed to Social Security and Medicare, including interest, by the Treasury). When the trust funds go into negative cash flow, the Treasury must start repaying the money.
- For budgetary purposes, the date on which the trust funds go into negative cash flow (i.e., the benefit payments exceed the income from payroll taxes and the taxation of benefits) is significant because it marks the point at which the government must provide cash from general revenues to the programs rather than receive surplus cash from them to fund other current spending.
- According to the 2003 Social Security trustees' report, under intermediate assumptions, the combined Old-Age, Survivors and Disability Insurance (OASDI) trust fund expenses are expected to exceed income from taxes in 2018. By 2027, OASDI expenses are expected to exceed income from taxes plus interest income (negative cash flow), and the trust fund is expected to be exhausted by 2042.
- The Social Security trust funds are derived from payroll taxes assessed on employers and employees. Under current law, the payroll taxes are assessed as follows. OASI payroll taxes for 2003 are based on a combined employer/employee rate of 10.6 percent of earnings up to a maximum annual taxable amount of \$87,000. The maximum taxable amount of earnings increases in proportion to increases in the average wage level. In 2002, total income for the

OASI trust fund was \$539.7 billion: \$455.2 billion was in payroll taxes, \$12.9 billion was in taxation of benefits, and \$71.2 billion was interest income.

- DI payroll taxes for 2003 are based on a combined employer/employee rate of 1.8 percent of earnings, up to a maximum taxable amount of \$87,000. The maximum taxable amount of earnings increases in proportion to increases in the average wage level. In 2002, total income for the DI trust fund was \$87.4 billion: \$77.3 billion was from payroll taxes, \$0.9 billion was from taxation of benefits, and \$9.2 billion was from interest income.
- In 1992, the DI trust fund went into negative cash flow and was projected to become insolvent in 1995. To alleviate this problem, Congress enacted the Social Security Domestic Employment Reform Act of 1994 (P.L. 103-387), which reallocated a portion of OASI taxes to the DI trust fund, effective retroactively.

Coverage

- In 2002, 39.1 million beneficiaries received benefit payments from the OASI program. In 2002, 7.1 million individuals, disabled workers, and their dependents received benefit payments from the DI Program. Under intermediate assumptions, the number of OASI beneficiaries is projected to increase to 43.4 million in 2010 and to 71.3 million in 2030, and the number of DI beneficiaries is projected to increase to 9.3 million in 2010 and to 12.7 million in 2030.

**Estimated Average Monthly Social Security Benefits:
Before and After the December 2002 Cost-of-Living Adjustment (COLA)**

Source: "Fact Sheet Social Security: 2003 Social Security Changes"
www.ssa.gov/cola/colafacts2003.htm

	Before 1.4% COLA	After 1.4% COLA
All Retired Workers	\$ 882	\$ 895
Aged Couple, Both Receiving Benefits	1,463	1,483
Widowed Mother and Two Children	1,812	1,838
Aged Widow(er) Alone	850	862
Disabled Workers, Spouse and One Or More Children	1,376	1,395
All Disabled Workers	822	833

- In 1945, the number of covered workers per OASDI beneficiary was 41.9. By 1965, that number was 4.0, and in 2002, it was 3.3. Under intermediate assumptions, the number of covered workers per OASDI beneficiary is estimated to be 3.2 in 2010, 2.2 in 2030, and 1.9 in 2060.
- In 2002, total benefit payments from the OASI trust fund amounted to \$388.1 billion. Total benefit payments from the DI trust fund were \$65.6 billion.
- Treasury Secretary John W. Snow acts as the Managing Trustee of the OASDI trust funds, and James B. Lockhart, III, Deputy Commissioner of Social Security is the Secretary. The other

trustees include: Elaine Chao, Secretary of Labor; Tommy Thompson, Secretary of Health and Human Services; Jo Anne B. Barnhart, Commissioner of Social Security; John L. Palmer, and Thomas R. Saving.

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Source: Employee Benefit Research Institute, *EBRI Databook on Employee Benefits*, fourth edition; and U.S. Social Security Administration, *2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Disability Insurance Trust Funds* (Baltimore, MD: U.S. Social Security Administration, 2003).

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