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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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The Honorable Jack T. Brinkley
House of Representatives

Dear Mr. Brinkley:

In response to your June 12, 1974, request concerning the status of the Social Security trust funds and statements attributed to the Commissioner of Social Security on this subject, we have reviewed the 1973 and 1974 Annual Reports of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance trust funds, which are enclosed. We also reviewed the newspaper articles and the transcript of statements made by the Commissioner of Social Security to reporters of the Washington Star-News.

SUMMARY OF 1974 TRUST FUND REPORT

The 1974 trust fund report contains both short- and long-range estimates of the financial status of the trust funds. The short-range estimates cover July 1, 1973, through December 1978 and the long-range estimates cover 1974 through 2048. The projected serious underfinancing of the Old-Age and Survivors Insurance and Disability Insurance systems is reflected in the long-range estimates.

Short-range estimates

Under existing law Social Security benefits increase on the basis of rises in the Consumer Price Index (a measure of the cost of living). In 1975, and in each year thereafter that immediately follows a year in which an automatic benefit increase becomes effective, the taxable earnings or contribution base ($13,200 in 1974) will also be automatically increased to help pay for the increased benefits. This contribution base is also the base on which the wage earner's future benefits are calculated.

The short-range estimates are based on alternative assumptions about projected increases in benefits and in the contribution and benefit base. Under one set of assumptions, the combined income for the Old-Age and Survivors Insurance and Disability Insurance trust funds is expected to exceed the combined disbursements each year for 1974 through 1978. This will result in a $1.6 billion increase in the combined assets of the two trust funds during December 31, 1973, to December 31, 1978.

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Under the second set of assumptions, the combined income for the two trust funds is expected to exceed combined disbursements for 1974, 1975, and 1976 and to be less than combined disbursements for 1977 and 1978. This will result in a net decrease of about $0.3 billion in the trust funds' combined assets for December 31, 1973, through December 31, 1978.

Therefore, under the two sets of assumptions, the 1974 trust fund report predicts that the combined assets of the trust funds will go from $44.4 billion on December 31, 1973, to either $46 billion or $44.1 billion on December 31, 1978.

Long-range estimates

The long-range estimates for the two trust funds are computed under dynamic actuarial assumptions about the future levels of the benefits and of the taxable earnings and benefits base where it is assumed that the automatic adjustment provisions in the present law will continue to be part of the system. Under these assumptions the Old-Age and Survivors Insurance and Disability Insurance trust funds are expected to be underfinanced over the next 75 years, with an average actuarial deficit of about 3 percent (actually 2.98 percent) of taxable payroll 1/. This long-range underfinancing is almost proportionately distributed between the two programs and is equivalent to about 30 percent of the current employee and employer contribution rates for these programs.

This estimate is based on new actuarial assumptions. New population projections were prepared on the basis of the results of the 1970 census under the assumption of significantly lower future fertility rates, which have substantially affected the actuarial balance. The 1973 trust fund report for the Old-Age and Survivors Insurance and Disability Insurance system projected an average actuarial deficit of 0.32 percent of taxable payroll over 75 years. The new population projections used in the 1974 report account for an additional deficit

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1/ Taxable payroll is that part of national earnings which (1) results from employment covered by the Social Security System and (2) is within the current statutory taxable earnings base for social security purposes. The 1974 taxable earnings base is $13,200; all income for an individual up to this amount is subject to withholding of social security contributions. Current contribution rates for the Old-Age Survivors and Disability Insurance trust funds as a percent of taxable payroll are 4.95 percent each for an employee and his employer and 7 percent for self-employed individuals.

of 1.87 percent of taxable payroll to the trust funds which is the major reason for the radical change in the projected status of the trust funds in the 1973 and 1974 reports.

This new lower fertility rate that is now being assumed results in a higher projected ratio of aged persons to workers and, therefore, in a higher ratio of costs to income for the programs. The major impact of the lower fertility rate is expected to occur after the turn of the century. However, based on the long-range actuarial assumptions used in the 1974 trust fund report, the Disability Insurance trust fund balance will be exhausted by 1986 and the Old-Age and Survivors Insurance trust fund balance will be exhausted by 1991.

Trust fund report conclusions

According to the 1974 trust fund report, the balance of the Hospital Insurance trust fund (another Social Security trust fund) is increasing more rapidly than previously projected, and this trust fund is developing an excess of funds. Therefore, for the next 5 to 10 years, a reallocation of the contributions to the three trust funds should cover any deficit problem. The report states, however, that after this period a tax increase or constraints in the growth of benefits will be needed for all three programs. According to the Board of Trustees, the actuarial deficit of 3 percent of taxable payroll for the Old-Age and Survivors Insurance and Disability Insurance trust funds over the 75-year period substantially exceeds the "acceptable" limit of variation for the programs--0.69 percent of taxable payroll which is the equivalent of about 5 percent of the costs of the programs.

It should be noted that there is a significant difference between a percent of taxable payroll for a given year and a percent of the costs of the programs for that year. For example, 1 percent of the taxable payroll estimated by Social Security for 1990 is about $18 billion, which amounts to 9.4 percent of the estimated costs of the Old-Age and Survivors and Disability Insurance systems for that year.

Also, it should be noted that these long-range estimates are sensitive to changes in economic assumptions. For example, for years after 1980 the 1974 long-range estimates assume an average annual wage increase of 5 percent and an average annual increase in the Consumer Price Index of 3 percent. If the average annual Consumer Price Index were to increase by 2 instead of 3 percent, the fund would show a long-range actuarial surplus of 0.86 percent of taxable payroll. On the other hand, if the average annual Consumer Price Index were to increase by 4 percent, the fund would show a long-range actuarial deficit of 9.5 percent of taxable payroll.

The 1974 report states, however, that in view of the inherent uncertainties in the demographic and economic assumptions and in view of the fact that the newly appointed Advisory Council on Social Security is studying the long-range financial status of the Social Security System, the Board of Trustees is not recommending a specific increase in the combined trust fund contribution rates scheduled in the present law. The Board believes there is time to await the Council's findings and recommendations, which are to be submitted to the Secretary of Health, Education, and Welfare no later than January 1975, before making specific proposals.

STATEMENTS OF THE COMMISSIONER OF SOCIAL SECURITY

Regarding your inquiry about the statements which have been attributed to the Commissioner of Social Security, we reviewed (1) the two-part newspaper article which summarized the Commissioner's statements about the status of the trust funds and (2) the transcript of the actual interview between the Commissioner and the reporters. The only statement we found which alluded to a 3 percent deficit for the trust funds was in the May 30, 1974, newspaper article. It quoted a Social Security actuary as saying that this year's projection of the deficit will be close to 3 percent. Apparently the actuary was referring to the 75-year projection of an actuarial deficit of 3 percent of taxable payroll in the long-range estimate which has been previously discussed.

Commissioner Cardwell, however, did discuss in very general terms, the problems of the decreasing work force resulting from a lower fertility rate and the potential impact this could have on the long-range financial status of the trust funds.

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In summary, it appears that the Board of Trustees and the Commissioner of Social Security are alerting the Congress and the public to the possibility of long-range problems in maintaining the financial solvency of the Old-Age and Survivors Insurance and Disability Insurance trust funds but are deferring specific recommendations for changes pending further study by the advisory Council on Social Security.

We noted that on July 15, 1974, the United States Senate approved Senate Resolution 350 which authorized $30,000 for the Senate Committee on Finance to obtain an expert independent evaluation of the status of the Social Security System. According to the resolution, the Committee will report its findings and such legislation as it deems advisable to the Senate no later than February 28, 1975.

We are concerned about the long-range actuarial deficit of the trust funds shown by the 1974 trust fund report; however, in view of the study by the Advisory Committee on Social Security and the study by the Senate Committee on Finance, it appears that an indepth study by us at this time would be duplicative.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

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