



Social Security: Trust Fund Investment Practices

Dawn Nuschler
Specialist in Income Security

April 1, 2013

Congressional Research Service

7-5700

www.crs.gov

RS20607

CRS Report for Congress
Prepared for Members and Committees of Congress

Congressional Briefing Conference: Capitol Hill Workshop

Politics, Policy, and Process

The definitive overview of how Congress works.

This intensive course is offered as a 3-day public Briefing and as a tailored on-site 3, 4 or 5-day program.

Public Briefings are offered throughout the year in Washington, DC.
Space is limited.

Dates, Agenda, Previous Faculty, and Secure Online Registration:

TCNCHW.com

On-site Congressional Briefings and
Capitol Hill Workshops for agencies:

CLCHW.com

703-739-3790 TheCapitol.Net



Non-partisan training and publications that show how Washington works.™

PO Box 25706, Alexandria, VA 22313-5706
703-739-3790 • www.thecapitol.net



TheCapitol.Net is on the
GSA Schedule, 874-4,
for custom on-site training.
GSA Contract GS02F0192X



Courses approved for CEUs from George Mason University

All of our courses and workshops include extensive interaction with our faculty, making our courses and workshops both educational as well as mini-consulting sessions with substantive experts.

Our Upcoming Schedule of Courses can be seen online on our web site or at TCNCourses.com.

All of our courses and any combination of their topics can be customized for on-site training for your organization—we are on GSA Advantage, Contract GS02F0192X.

thecapitol.net
703-739-3790

Summary

The Social Security Act has always required surplus Social Security revenues (revenues in excess of program expenditures) to be invested in U.S. government securities (or U.S. government-backed securities). In recent years, attention has been focused on alternative investment practices in an effort to increase the interest earnings of the trust funds, among other goals. This report describes Social Security trust fund investment practices under current law.

Contents

Background.....	1
Issues.....	2

Contacts

Author Contact Information.....	3
---------------------------------	---

Background

Social Security is financed primarily by payroll and self-employment taxes, as well as by a portion of the proceeds from the income taxation of Social Security benefits. The revenues are deposited in the U.S. Treasury. Social Security benefits and administrative expenses are also paid from the U.S. Treasury. By law, if Social Security revenues exceed expenditures, the “surplus” is credited to the Social Security trust funds in the form of U.S. government securities. The money itself, however, is used to pay for whatever other expenses the government may have at the time. There is no separate pool of money set aside for Social Security purposes. That is not to say that the trust funds are ephemeral—as long as the trust funds show a positive balance, they represent the authority and an obligation for the U.S. Treasury to issue benefit payments during periods when the program’s expenditures exceed revenues. At the end of calendar year 2012, the trust funds were credited with holdings of \$2.7 trillion.¹ By the end of calendar year 2020, trust fund assets are projected to reach \$3.1 trillion (in current dollars).² Section 201 of the Social Security Act provides the following guidelines for trust fund investment.

1. Funds not immediately in demand for benefits or administrative expenses are to be invested in interest-bearing obligations guaranteed as to both principal and interest by the United States.
2. Obligations are to be purchased at issue at the issue price or at the market price for outstanding obligations.
3. The Managing Trustee of the Social Security trust funds (the Secretary of the Treasury) is required to invest in special “nonmarketable” federal public-debt obligations—special issues to the trust funds that are not available to the general public—except where he or she determines that the purchase of marketable federal securities is “in the public interest.”
4. Special issues shall have maturities fixed with due regard for the needs of the trust funds and will pay a rate of interest, calculated at the time of issue, equal to the average market yield on all marketable interest-bearing obligations of the United States that are not due or callable (redeemable) for at least four years.
5. Marketable federal securities purchased by the trust funds may be sold at the market price and special issue obligations may be redeemed at par plus accrued interest (without penalty for redemption before maturity).

The Treasury Department has determined that the purchase of marketable federal securities (i.e., public issues) would be in the public interest only when it might serve to stabilize the market for Treasury issues. Because an “unstable market” would be characterized by falling bond prices, purchases of marketable federal securities at these times would appear to be advantageous for the

¹ The Social Security program has two separate trust funds—the Old-Age and Survivors Insurance (OASI) trust fund and the Disability Insurance (DI) trust fund. The amounts cited in this report are for the OASI and DI trust funds on a combined basis (referred to as the Social Security trust funds). Historical trust fund data are available on the Social Security Administration (SSA) website at <http://www.ssa.gov/OACT/STATS/table4a3.html>.

² Projected trust fund assets are shown in The 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, April 23, 2012, table VI.F8 (intermediate assumptions), available on the SSA website at <http://www.socialsecurity.gov/OACT/TR/2012/Ir6f8.html>.

trust funds. In practice, however, open market purchases have been rare. Although the trust funds have held public issues in the past, the trust funds currently hold special issues only.³

The interest earned on these holdings is credited to the trust funds semiannually (on June 30 and December 31), and it is done by issuing additional federal securities to the trust funds. In calendar year 2012, net interest totaled \$109.1 billion.⁴ The effective annual rate of interest earned on all obligations held by the trust funds in calendar year 2012 was 4.1%.⁵ The interest rate earned on special issues purchased by the trust funds in March 2013 is 1.500%.⁶

The maturity dates of newly issued special issues are set by a standardized procedure. Revenues are invested immediately in short-term issues called certificates of indebtedness, which mature on June 30 of each year. On June 30, certificates of indebtedness that have not been redeemed are reinvested in longer-term special issue bonds. The maturities of these bonds range from 1 to 15 years—the goal is to have about one-fifteenth of them mature each year. This means that the average maturity of these long-term bonds is about 7½ years.

Issues

While some critics have questioned whether the current investment policy has constrained the earnings of the trust funds, over the years various advisory councils, congressional committees, and other groups generally have endorsed it. It has been justified as a way to ensure safety of principal and stability of interest, and as a way to avoid intrusion into private markets. It also has been regarded as a way to avoid the political influences that would be inherent in investing outside the U.S. government. Generally, the goal espoused has been to place the trust funds in the same position as any long-term investor seeking a safe rate of return by investing in U.S. securities, and neither advantage nor disadvantage the trust funds relative to these investors or other parts of the government.

For most of the program's history, interest income to the trust funds has not been a major factor in program financing. In recent years, however, the increasing role of interest income, as well as interest by some policymakers in preventing any surplus Social Security tax revenues from being used for other government spending purposes, have focused attention on alternative investment practices.⁷ For example, there have been proposals to replace the special issues held by the trust

³ The DI trust fund held a small amount of public issues until February 2005. At the end of calendar year 2004, public issues represented about 0.002% of total investments held by the trust funds. Data on investments held by the trust funds are available on the SSA website at <http://www.ssa.gov/OACT/ProgData/investheld.html>.

⁴ Data on trust fund receipts, including net interest, are available on the SSA website at <http://www.ssa.gov/OACT/STATS/table4a3.html#income>.

⁵ Data on effective interest rates earned on assets held by the trust funds are available on the SSA website at <http://www.ssa.gov/OACT/ProgData/effectiveRates.html>.

⁶ Data on nominal interest rates earned on special issues purchased by the trust funds are available on the SSA website at <http://www.ssa.gov/OACT/ProgData/newIssueRates.html>.

⁷ The Social Security trust funds ran annual cash flow surpluses from 1984 to 2009. Beginning in 2010, annual cash flow deficits emerged. In April 2012, the Social Security Board of Trustees projected that the Social Security trust funds will run annual cash flow deficits in 2012 and each year thereafter through the end of the 75-year projection period (under the intermediate assumptions). For more information on the Trustees' projections, see The 2012 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, April 23, 2012, at <http://www.socialsecurity.gov/OACT/TR/2012/>. In addition, see CRS Report RL33028, *Social Security: The Trust Fund*, by Dawn Nuschler and Gary Sidor.

Learn how Capitol Hill really works

All of our programs and any combination of their topics can be tailored for on-site training for your organization.

For more than 30 years, TheCapitol.Net and its predecessor, Congressional Quarterly Executive Conferences, have been training professionals from government, military, business, and NGOs on the dynamics and operations of the legislative and executive branches and how to work with them.

Our training and publications include congressional operations, legislative and budget process, communication and advocacy, media and public relations, research, testifying before Congress, legislative drafting, critical thinking and writing, and more.

- **Diverse Client Base**—We have tailored hundreds of custom on-site training programs for Congress, numerous agencies in all federal departments, the military, law firms, lobbying firms, unions, think tanks and NGOs, foreign delegations, associations and corporations, delivering exceptional insight into how Washington works.™
- **Experienced Program Design and Delivery**—We have designed and delivered hundreds of custom programs covering congressional/legislative operations, budget process, media training, writing skills, legislative drafting, advocacy, research, testifying before Congress, grassroots, and more.
- **Professional Materials**—We provide training materials and publications that show how Washington works. Our publications are designed both as course materials and as invaluable reference tools.
- **Large Team of Experienced Faculty**—More than 150 faculty members provide independent subject matter expertise. Each program is designed using the best faculty member for each session.
- **Non-Partisan**—TheCapitol.Net is non-partisan.
- **GSA Schedule**—TheCapitol.Net is on the GSA Schedule, 874-4, for custom on-site training: GSA Contract GS02F0192X.



We help your staff, members, and executives better understand Washington and Congress.™

Please see our Capability Statement on our web site at TCNCS.com.

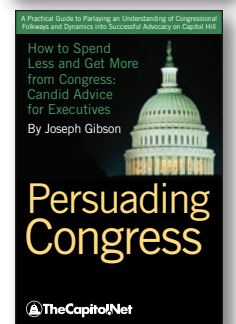
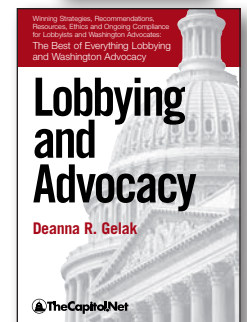
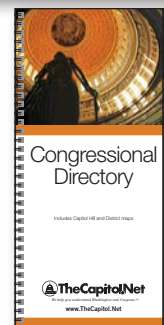
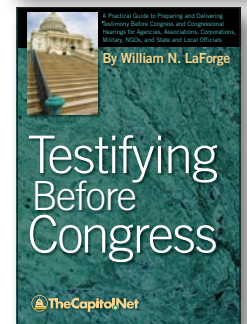
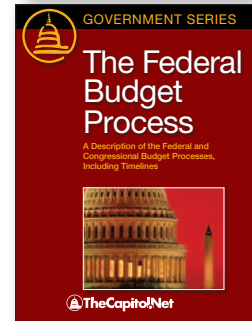
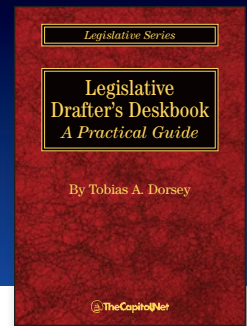
Custom training programs are designed to meet your educational and training goals, each led by independent subject-matter experts best qualified to help you reach your educational objectives and align with your audience.

As part of your custom program, we can also provide classroom space, breaks and meals, receptions, tours, and online registration and individual attendee billing services.

For more information about custom on-site training for your organization, please see our web site: TCNCustom.com or call us: 703-739-3790, ext 115.



PO Box 25706, Alexandria, VA 22313-5706
www.TheCapitol.Net 703-739-3790



funds with marketable federal securities, as well as proposals to allow any surplus Social Security tax revenues or a portion of trust fund reserves to be invested in assets other than U.S. government obligations, including equities.

Author Contact Information

Dawn Nuschler
Specialist in Income Security
dnuschler@crs.loc.gov, 7-6283