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Social Security: Selected Findings of the 2021 Annual Report

According to the recent report of the Board of Trustees of the Social Security Trust Funds, the program's finances are in a similar, albeit marginally worse, position in 2021 to what they were in 2020. Under intermediate assumptions, the projected combined Trust Fund asset depletion date is 2034 (versus 2035 in last year's report), after which the percentage of benefits payable would be 78% (versus 79% in 2020).

Social Security Overview

Social Security is a self-financing program that in 2021 covers approximately 176 million workers and provides monthly cash benefits to over 65 million beneficiaries. It is the federal government's largest program in terms of both the number of people affected (i.e., covered workers and beneficiaries) and its finances. Social Security is composed of Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI), referred to collectively as OASDI.

The OASDI program is primarily financed (89.6% of total revenues in 2020) through a payroll tax applied to Social Security–covered earnings up to an annual limit. In addition, some beneficiaries pay income tax on a portion of their Social Security benefits, accounting for 3.6% of total revenue in 2020. From 1983 to 2009, the OASDI program collected more in tax revenues than needed to pay benefits. Excess revenues are held in interest-bearing U.S. Treasury securities, providing a third source of funding for the program. In 2020, interest revenues accounted for 6.8% of total revenues. Monthly benefits are the largest OASDI program cost, accounting for 99.0% of total costs in 2020. Administrative and other costs accounted for the remainder.

The Trust Funds

Both the OASI and DI programs use a trust fund financing mechanism. Monies credited to these trust funds are earmarked for paying Social Security benefits and certain administrative costs. Using a trust fund allows OASI and DI programs to track their respective programs' revenues and costs and to hold any accumulated assets from years when revenues exceed costs. The OASI Trust Fund and DI Trust Fund are legally distinct entities; they are discussed here collectively as the OASDI Trust Funds, or the trust funds.

A Board of Trustees manages the trust funds. The trustees are required to report to Congress annually on the trust funds' status and financial operations. In general, the trust funds' *solvency*—the ability to pay full benefits scheduled under current law on a timely basis—indicates their status. If assets held in the trust funds were to be depleted, the OASDI program could pay out in benefits only what it receives in revenues. **Table 1** shows the trust funds' key dates under the trustees' intermediate assumptions, which reflect their best estimate of future economic, demographic, and program-specific factors.

Table 1. Key Dates Projected for the Social Security Trust Funds in the 2020 and 2021 Trustees Reports
(under the trustees' intermediate assumptions)

	2020 Report			2021 Report		
	OASI	DI	OASDI	OASI	DI	OASDI
Cost exceeds noninterest revenues	2010	2041	2010	2010	2040	2010
Cost exceeds total revenues	2021	2047	2021	2021	2045	2021
Trust fund reserves depleted	2034	2065	2035	2033	2057	2034

Source: CRS, based on the 2020 and 2021 OASDI Trustees Report.

In the 2021 report, the trustees project a date of 2033 for OASI Trust Fund reserve depletion and a noticeably changed date of 2057 for DI Trust Fund reserve depletion. As stated, "For the third year in a row, there has been significant change in the DI reserve depletion date because the DI reserve depletion date is very sensitive to changes in program cash flows, and there is now less revenue projected in the near term for the DI program than was expected in last year's report. Nevertheless, the DI program has continued to have low levels of disability applications and benefit awards for 2020."

In the previous year's (2020) report, as shown in **Table 2**, the trustees projected that the trust funds' overall balance (i.e., the total amount of accumulated asset reserves) would increase slightly. Asset reserves held in the trust funds increased more than expected during 2020 owing to larger-than-projected revenues and lower-than-projected costs.

Table 2. Financial Operations for the Social Security Trust Funds in the 2020 and 2021 Trustees Reports
(in billions; under the trustees' intermediate assumptions)

	2020 (projected)	2020 (actual)	2021 (projected)
Starting Trust Funds' Reserves	$2,897.4	$2,897.4	$2,908.3
Total Revenue	1,116.4	1,118.1	1,073.8
Total Costs	1,112.0	1,107.2	1,151.0
Change in Trust Funds' Reserves	4.4	10.9	-77.3
Ending Trust Funds' Reserves	2,901.8	2,908.3	2,831.0

Source: CRS, based on the 2020 and 2021 OASDI Trustees Report.

Since 2010, costs (i.e., scheduled benefits) have exceeded *noninterest revenue* (i.e., tax revenues). In last year's report, the trustees projected that *total costs* would exceed *total revenues* (i.e., tax revenues and interest revenue) in 2021. The same projection is made in this year's report (**Table 1**). If this projection were to be realized, the effect would be a decrease in trust fund asset reserves. As such, trust fund asset reserves are predicted to decline from a peak value of $2.91 trillion in 2021 to $0 in 2034. Upon the trust funds' asset reserves depletion, the trustees project that income from tax revenues would be sufficient to pay approximately 78% of scheduled benefits for the remainder of the projection period (2021-2095) versus 79% in 2020.

Projected Long-Range Financial Outlook

The 2021 annual report projects a long-range funding shortfall. The funding shortfall is largely a result of rising costs over the 75-year projection period, primarily due to demographic trends. The ratio of OASDI beneficiaries per 100 covered workers, a common indicator of rising costs, is projected to remain relatively the same as that in the 2020 annual report. The 2020 report projected an average of 45.4 beneficiaries per 100 covered workers over the 75-year projection; the 2021 annual report projects this ratio to be 45.5 beneficiaries per 100 covered workers. Although the projected ratio of beneficiaries to workers remains relatively the same, program costs are projected to grow faster than program revenues. In 2020, the trustees estimated that costs would exceed revenues by 21.7% over the projection period. In 2021, the trustees estimate that costs will exceed revenues by 22.7% over the next 75 years.

If the total program revenues were to exceed total costs annually, the program would have a *surplus*; if the total program costs were to exceed the total revenues, the program would have a *deficit*. The trustees project the program to have a deficit in 2021—the first since 1982—and for all remaining years in the 75-year projection period.

The *actuarial balance*, a summarized measure of the annual surpluses and deficits over the projection period, is the Social Security program's long-range financial position. When the actuarial balance results in higher costs than revenues over the projection period, the program is described as having an *actuarial deficit*. In 2020, the trustees estimated the long-range actuarial deficit over the next 75 years to average 3.21% of *taxable payroll* (i.e., total earnings subject to the OASDI payroll tax with some adjustments). In 2021, the trustees estimated the long-range actuarial deficit over the next 75 years to average 3.54% of taxable payroll. This amount represents the average increase in the payroll tax over the 75-year projection period that would be needed for the program to pay full scheduled benefits on time.

The change in the estimated actuarial deficit, an increase of 0.33% of taxable payroll, is mainly attributable to a change in *valuation period* and to changes in *methods and programmatic data*. The shifting of the 75-year valuation period from 2020-2094 to 2021-2095 means that a large negative annual balance for 2095 is now included in the actuarial balance. Several factors contributed to changes in methods and programmatic data. A new fertility model resulted in the ultimate fertility rate being reached 25 years later than projected last year, increasing the actuarial deficit. Updates to the civilian labor force model to reflect new economic data lowered projected labor force participation rates, worsening the actuarial balance. Updates to the methodology for projecting average benefit levels and Department of the Treasury tax information that indicated future lower levels of revenue from taxation of Social Security benefits also contributed, among other factors, to the increase in the actuarial deficit.

Annual Balances

In the 2021 annual report, the trustees project the annual balances (i.e., difference between revenues and costs on an annual basis) to reflect a larger deficit for most (i.e., 2021-2089) years in the projection period. The trustees attribute the changes in annual balances to the changes in fertility methodology and assumptions. Over the 75-year projection period, annual balances are lower than last year's report by an average of 0.23 percentage point.

COVID-19

The 2021 report confined the "significant" pandemic-related effects to the near term; last year's report did not include potential COVID-19 effects. The 2021 intermediate assumptions project economic recovery by 2023. By the mid-2020s, most demographic factors (i.e., fertility, mortality, immigration) are assumed to return to the rates that would have been estimated absent the pandemic.

What Can Be Done?

The trustees project that in 13 years Social Security will be unable to pay scheduled benefits in full and on time. To illustrate the magnitude of changes needed to make Social Security solvent over the next 75 years, the trustees estimate the hypothetical payroll tax increase *or* hypothetical benefit reduction needed to maintain solvency (**Table 3**). These hypothetical changes would take immediate effect and apply to all *current* and *future* beneficiaries. The table also shows estimates for changes that would be needed at the projected 2034 insolvency date.

Table 3. Hypothetical Measures to Maintain Solvency
(in percentage points [pp])

	2020 Report		2021 Report	
	2020	2035	2021	2034
Payroll Tax Increase	3.14 pp	4.13 pp	3.36 pp	4.20 pp
Scheduled Benefit Reduction	19%	25%	21%	26%

Source: CRS, based on the 2020 and 2021 OASDI Trustees Report.

In the 2021 report, the size of the payroll tax increase and benefit reduction needed to maintain solvency are larger than estimated in 2020. A noted parallel to last year's report is that as time elapses, the magnitude of the changes needed to maintain Social Security solvency increases. This characteristic is attributable to the program's rising costs and suggests that the portfolio of legislative options to achieve solvency decreases as the trust funds approach the projected depletion date. As in many previous reports, the trustees state, "Implementing changes sooner rather than later would allow more generations to share in the needed revenue increases or reductions in scheduled benefits."

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