Joint Economic Committee Democrats

Senator Jack Reed (D-RI) – Ranking Democrat

Economic Fact Sheet May 2006

Highlights of the 2006 Social Security Trustees' Report

The 2006 annual report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds shows that Social Security does not face a funding crisis anytime in the near future. However, some of the summary measures used to describe the long-range fiscal health of the Trust Funds have changed slightly since last year's report. For example, the date at which the Trust Funds will no longer be able to pay full benefits moved forward by one year, from 2041 to 2040, due mainly to a reduction in the projected level of long-term interest rates.

Social Security currently receives significantly more money than it pays out each year.

- About 76 percent of Social Security receipts will go to pay current benefits and administrative expenses in 2006. Those receipts include revenues from payroll taxes, income taxes on benefits, and interest on trust fund assets.
- Total expenses in 2006 are projected to be $564 billion and total receipts are projected to be $741 billion. The resulting surplus of $177 billion will be credited to the Trust Funds.
- The addition of this surplus will increase the value of assets in the Trust Funds to $2.04 trillion.

In the future, Social Security's expenses are projected to exceed its revenues.

- Revenues from dedicated payroll taxes and income taxes will be enough to cover Social Security's expenses until 2017. At that time, the program would have to begin drawing on the Trust Funds' current interest income.
- Considering both the interest earned on the Trust Funds' assets and dedicated taxes, receipts will be enough to cover Social Security's expenses until 2027. At that time, the program would have to begin redeeming securities held in the Trust Funds.
- The Trust Funds will no longer be able to pay full benefits beginning in 2040. At that time, all of the Trust Funds' assets would be depleted leaving only tax revenue available to pay benefits.
- In 2040, the Trust Funds will be able to pay 74 percent of scheduled benefits.

The long-run shortfall can be measured in several ways

- The long-range shortfall is projected to be 1.88 percent of taxable payroll over the next 75 years. The actuarial deficit of 2.02 percent of taxable payroll differs from the shortfall in that it includes the cost of accumulating a target trust fund balance equal to 100 percent of annual cost by the end of the period.
- Another way to measure the shortfall is as a share of gross domestic product (GDP). The 75-year deficit is projected to equal 0.69 percent of cumulative GDP.
- In present value terms, the shortfall over the 75-year projection period is $4.6 trillion. (Present value is the amount today that, with interest, could make up the difference between future cost and revenue.)
- The report also provides an estimate of $13.4 trillion for the size of the projected shortfall over an infinite horizon. Almost two-thirds of the shortfall over an infinite horizon occurs after the first 75 years. The American Academy of Actuaries has said that estimates over an infinite future are misleading and make the financial condition of Social Security appear worse than it is.

The long-run outlook has deteriorated some compared with last year's projections.

The most widely cited figure from the report—the year when the Trust Funds will no longer be able to pay full benefits—moved from 2041 to 2040. That change results almost entirely from a small reduction in the projected long-term real interest rate. Other estimates of Social Security's shortfall—shown in the table—are slightly higher because of the change in the interest rate assumption, but also because of two additional factors. The years in which there will be an annual deficit are one year closer (the valuation date has moved from 2005 to 2006) and changing the projection window from 2005-2079 to 2006-2080 adds an additional year of net deficits to the calculations.

Table

Comparison of Projections in the 2005 and 2006 Social Security Trustees' Reports

	2005 Report	2006 Report
Year in which annual spending exceeds annual tax revenue	2017	2017
Year in which annual spending exceeds total receipts (tax revenue plus interest income)	2027	2027
Year in which Trust Funds can no longer pay full benefits	2041	2040
Percentage of scheduled benefits payable when Trust Funds can no longer pay full benefits	74% in 2041	74% in 2040
75-year shortfall as a percent of taxable payroll [a]	1.79%	1.88%
75-year shortfall as a percent of gross domestic product	0.65%	0.69%
75-year shortfall (present value) [b]	$4.0 trillion	$4.6 trillion

[a] Differs from the actuarial deficit, which is 2.02 percent of taxable payroll in 2006. The actuarial deficit includes the cost of accumulating a target trust fund balance equal to 100 percent of annual cost by the end of the period.

[b] The difference in the present value between 2005 and 2006 is the result of a lower assumed real interest rate, a later valuation date starting in 2006 instead of 2005, and the addition of a larger deficit year at the end of the 75-year period.

JOINT ECONOMIC COMMITTEE – DEMOCRATS
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

804 HART SENATE OFFICE BUILDING
PHONE: (202) 224-0372 FAX: (202) 224-5568
INTERNET: JEC.SENATE.GOV/DEMOCRATS