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SOCIAL SECURITY'S FUTURE

Answers to Key Questions

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

Preface

The last decade has presented major challenges for many Americans' economic security. The most severe recession since the 1930s significantly impacted the national economy and household budgets. With high unemployment and a slow recovery, many Americans sought income from various sources, including unemployment and disability benefits, and some claimed Social Security retirement benefits earlier than they had planned. Through all of this, Social Security has remained the bedrock of retirement security, providing benefits to tens of millions of older Americans, while also providing benefits to survivors and other dependents, as well as workers with disabilities and their families.[1] Social Security has helped reduce poverty among older Americans and people with disabilities; many beneficiaries rely on Social Security for the majority of their income. However, demographic shifts associated with the aging baby boom generation, along with the effects of the 2007 to 2009 recession, have strained Social Security's finances.

Specifically, costs for the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs have begun to exceed tax revenues and, unless action is taken to avert depletion of the trust funds, these programs are projected to no longer be able to pay benefits in full on a timely basis. In fact, the DI program faces a more immediate problem, as it is projected to deplete its assets and be unable to pay full benefits by the end of 2016. The same financial shortfall is projected to occur in 2035 for the OASI program. The sooner policymakers act to address these financial challenges, the easier it will be to successfully meet them. Acting soon would allow changes to be smaller and spread across more generations of Americans.

Social Security is just one piece of a broader puzzle. In addition to Social Security, spending on major health care programs like Medicare and Medicaid is absorbing a greater share of federal revenues. While policymakers should take action to address the financial challenges of both Social Security and health care, the imminent financial challenges to Social Security's DI trust fund make action imperative.

[1]Throughout this publication, we use the term "worker," because eligibility for Social Security benefits is based, in part, on earnings in covered employment. However, many individuals may no longer be working at the time that they receive benefits and others, such as dependents and survivors of workers who contributed to Social Security, may never have worked in covered employment.

Given the imminent financial challenges facing the DI program, GAO has updated its guide on Social Security. This guide—first issued in 2005[2]—is intended to describe, in a concise and easy-to-understand way, the complexities of Social Security, the challenges the programs face, and the options available to address these challenges. The first section of this guide explains how Social Security works, from the benefits that are provided to how the programs are funded. The second section explains the programs' financial and other challenges, including their causes and broader implications for the federal budget. The third and fourth sections present a wide array of options that have been proposed to address challenges for the OASI and DI programs, respectively. Policymakers will need to determine which options—alone or in combination with others—best reflect our country's goals for the Social Security programs. To this end, the fifth section of this guide provides a framework for evaluating the various policy options.

Readers who are interested in a more in-depth discussion should refer to the list of related GAO products at the end of this guide. A glossary defining key terms is also included. This guide was prepared under the direction of Charles Jeszeck and Daniel Bertoni, Directors, Education, Workforce, and Income Security Issues. In addition, Michael Collins and Michele Grgich, Assistant Directors; Rachael Chamberlin, Analyst in Charge; and Kurt Burgeson, Sherwin Chapman, Mark Glickman, Jennifer Gregory, Nyree Ryder Tee, James Whitcomb, and Amber Yancey Carroll made key contributions to this publication. Also contributing to this report were Susan Offutt, Chief Economist; Frank Todisco, Chief Actuary; James Bennett, James Dalkin, Andrea Dawson, John Dicken, Holly Dye, Alexander Galuten, Angela Jacobs, Susan Irving, Walter Vance, Seyda Wentworth, and Michelle Loutoo Wilson.

Gene L. Dodaro

Gene L. Dodaro
Comptroller General
of the United States

[2]GAO, *Social Security Reform: Answers to Key Questions*, GAO-05-193SP (Washington, D.C.: May 2005).

Section I: How Does Social Security Work?

Social Security's Goals

1. How did Social Security begin?

In 1935, the nation was in the midst of the Great Depression and many Americans had lost their savings. Many older Americans (people age 65 and over) depended on others[3] for their livelihood and received public support.[4] In 1935, the Social Security Act was enacted, in part, to help ensure that older Americans would have adequate retirement incomes and would not have to depend on welfare. Social Security would provide benefits that were based on wages. In 1939, coverage was extended to dependents and survivors, and the program became known as the Old-Age and Survivors Insurance (OASI) program.[5] The Disability Insurance (DI) program, added in 1956, provides benefits to working-age adults who are unable to work due to a long-term disability. These two programs together are known as Social Security, or the Old-Age, Survivors, and Disability Insurance (OASDI) program.

2. What are Social Security's goals?

Income adequacy and individual equity have been described as important goals or principles of Social Security.[6] Social Security provides retirement income and survivors benefits, and replaces a portion of eligible workers' income if they are unable to work due to a long-term disability. While Social Security was not intended to guarantee an adequate income by itself, it provides an income base upon which to build. At the same time, the Social Security Act was intended in part to reduce dependence on welfare. The system is funded partly by workers' contributions, and both

[3]More specifically, children, other relatives, and friends often bore the costs of supporting older Americans during this period.

[4]For example, many older Americans received aid from the Federal Emergency Relief Administration (FERA), a federal agency created by the Federal Emergency Relief Act of 1933. FERA allocated funds to states for both direct relief (cash payments to individuals for immediate necessities such as food and shelter) and state-directed work relief (projects intended to get the unemployed back to work, even if only temporarily).

[5]Monthly benefits for dependents and survivors first became payable in 1940.

[6]See, for example, Larry DeWitt, "The Development of Social Security in America," *Social Security Bulletin*, vol. 70 no. 3 (2010).

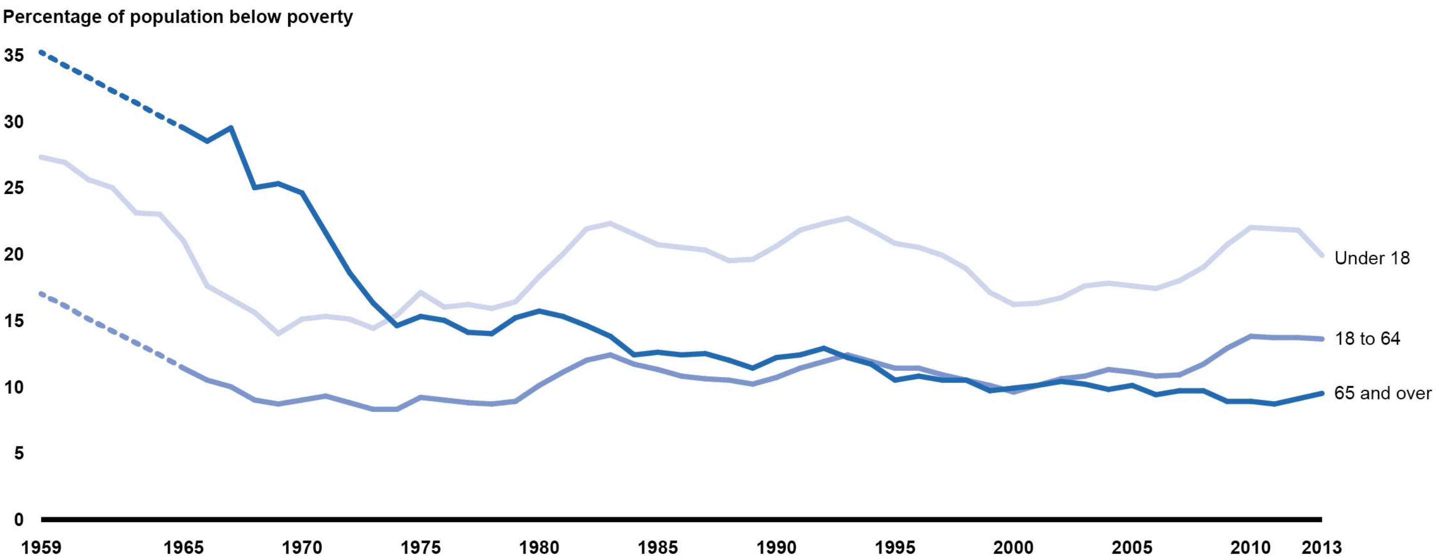
contributions and benefits are based on earnings.[7] Accordingly, Social Security helps ensure that benefits bear some relationship to contributions—a principle known as individual equity. The Social Security benefit formula ensures that benefits are somewhat higher for workers who have higher lifetime earnings, and therefore make higher lifetime contributions. However, the formula also helps ensure adequacy by providing somewhat higher benefits, relative to past earnings, for lower-income workers than higher-income workers.

3. How well has Social Security worked?

In 2014, Social Security paid more than $848 billion in OASI and DI benefits to about 59 million people, including retired workers and their spouses and children; survivors; and workers with disabilities and their spouses and children. Social Security has helped to reduce poverty among older Americans and people with disabilities, although many individuals in both groups still live in poverty. For older Americans, poverty rates have dropped by more than two-thirds since 1959, from 35 percent to about 10 percent in 2013 (see fig. 1). While poverty rates for older Americans in 1959 were higher than for children under age 18 or for working-age adults (ages 18 to 64), in 2013, they were lower than for either group.

[7]Throughout this publication, the term “earnings” generally refers to earnings from work (e.g., wages and salaries, and not other types of income sometimes labeled “earnings,” such as earnings on investments).

Figure 1: Poverty Rates for Older Americans Have Declined Faster Than for Other Groups



Source: U.S. Bureau of the Census, Current Population Survey, Annual Social and Economic Supplements. | GAO-16-75SP

Note: The dashed lines indicate years when precise data were unavailable. The recent recession of 2007 to 2009, the most severe recession since the 1930s, affected older Americans and other groups in different ways. During this period, poverty rates increased for adults aged 55 to 64, but declined for those 65 and older. However, poverty rates for those 65 and older were higher than the rates based on official levels when medical costs were considered.

Many older Americans rely on Social Security for nearly all of their income.[8] Still, even with Social Security benefits, many older Americans have incomes below the poverty threshold, and some subgroups are more likely to live in poverty than others. Women and minorities are more likely to be poor than other older Americans. Poverty rates were 12 percent for female older Americans in 2013, compared to 7 percent for males. In addition, poverty rates for black and Hispanic older Americans were 18 and 20 percent, respectively, compared to 8 percent for whites. Poverty rates are also higher for the oldest members of the 65-and-over age group. In 2012, the poverty rate for people 80 and over was 11 percent, compared to 8 percent for those 65 to 69.

[8]In 2012, 36 percent of older Americans received 90 percent or more of their income from Social Security. Other income sources for older Americans include income from saved assets, pensions, and earnings from employment.

Poverty rates for people with disabilities have consistently exceeded poverty rates for people without disabilities.[9] In 2012, the poverty rate for people with work disabilities (that is, health conditions that limited the kind or amount of work they could do)[10] was 24 percent, more than double the rate for people without work disabilities (11 percent). Poverty rates among people with disabilities are even higher for women and minorities.

In part because of program eligibility requirements,[11] DI beneficiaries, who made up 19 percent of all Social Security beneficiaries in 2014, rely heavily on Social Security as a source of income.[12] As of August 1984 (the earliest data available from the Social Security Administration, or SSA), about 80 percent of DI beneficiaries received half of their income or more from Social Security, while 19 percent had no income other than their Social Security benefits. As of December 2010 (the most recent data available from SSA), the percentage of DI beneficiaries who received half of their income or more from Social Security remained at about 80 percent, while the percentage of beneficiaries who had no income other than their Social Security benefits increased to 31 percent. Without DI benefits, one half of beneficiaries would have been in poverty in 2010.[13]

[9]This assessment is based on annual U.S. Census Bureau Survey of Income and Program Participation (SIPP) data from 2001—the first year that the Census Bureau began consistently reporting SIPP data for people with disabilities—to 2012. These data include non-institutionalized individuals, ages 15 to 69, and include people receiving DI benefits as well as those who are not receiving benefits. We selected SIPP data over other available data sources due to the consistency with which the SIPP measured disability over time and because the SIPP has regularly included questions regarding the impact of health conditions on respondents' ability to work, among other reasons. As discussed later, eligibility for DI benefits is based in part on an individual's ability to work.

[10]Specifically, in the most recent SIPP, people were classified as having a work disability if they had a physical, mental, or other health condition that limited the kind or amount of work they could do.

[11]To be eligible for DI benefits, a worker must have a physical or mental impairment that prevents him or her from engaging in work and earning over a certain dollar threshold—known as substantial gainful activity. We discuss the eligibility requirements for DI benefits in greater detail in the next question.

[12]People with disabilities may also receive income from other sources such as Supplemental Security Income (SSI) program benefits—a separate program from DI but also administered by SSA—and other public assistance benefits, such as Temporary Assistance for Needy Families.

[13]The Social Security Administration did not report comparable data for 1984.

4. Who gets benefits?

Social Security benefits are paid to workers who meet requirements for the time they have worked in "covered employment," that is, jobs through which they have paid Social Security taxes. Social Security covers about 96 percent of all U.S. workers; nearly all of the rest are state and local government employees and some federal employees.[14]

To qualify for retirement benefits under the OASI program, workers must typically have earned a minimum of 40 quarters of coverage (also referred to as credits) over their lifetime.[15] Workers generally become eligible to collect benefits when they reach age 62.

To qualify for disability benefits under the DI program, workers generally need less time in covered employment, but they must have recent work activity.[16] To meet the disability criteria for the program, a worker must have a medically determinable physical or mental impairment that (1) has lasted or is expected to last for at least a continuous period of 1 year or result in death, and (2) prevents him or her from engaging in any substantial gainful activity (SGA).[17] Generally, the individual must be unable to do his or her previous work and any kind of substantial gainful work that exists in the national economy, taking into account age, education, and work experience. Social Security does not pay benefits for short-term or partial disability.

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[14]About one-fourth of public-sector employees do not pay Social Security taxes on the earnings from their government jobs. Individuals who began working for the federal government starting in 1984 have been covered by Social Security. See GAO, *Social Security: Issues Regarding the Coverage of Public Employees*, GAO-08-248T (Washington, D.C.: Nov. 6, 2007).

[15]In 2015, a worker earns one quarter of coverage (QC) for each $1,220 of covered earnings, up to a maximum of four QCs for the year.

[16]Specifically, in addition to being fully insured—having worked for a sufficient amount of time in covered employment, irrespective of when the work occurred—workers aged 31 and older generally must have at least 20 quarters of coverage during the 40 calendar quarter period ending with the quarter in which their disability began. Workers under age 31 need quarters of coverage in at least one-half (not less than six) of the quarters in the period beginning with the quarter after the quarter they attained the age of 21 and ending in the quarter in which their disability began.

[17]SGA is work activity that involves significant physical or mental activities and is typically done for pay or profit, regardless of whether profit is realized. In 2015, SSA set SGA as monthly earnings above $1,820 for statutorily blind individuals and $1,090 for non-blind individuals.

Workers generally maintain their eligibility for DI benefits as long as they are under their full retirement age,[18] they do not have significant improvement in their physical or mental impairment, and they do not have earnings over the SGA threshold. SSA periodically conducts continuing disability reviews to investigate whether individuals on the program engage in work activity and to determine whether individuals on the program continue to meet medical eligibility criteria.

Benefits for both the OASI and DI programs can be paid to family members of workers under certain circumstances. Spouses and divorced spouses of eligible workers are eligible for benefits if they are 62 years old or caring for an eligible child. Spouses and divorced spouses of deceased workers may be eligible for benefits if they are at least 60 years old, at least 50 years old and disabled, or any age and caring for an eligible child. An eligible worker's children under 18 are eligible for benefits, and adult children are eligible if they became disabled before age 22. Dependent parents and grandchildren of eligible workers are also eligible for benefits under certain circumstances.

Workers may be eligible for more than one type of benefit, but are subject to limitations on the total benefit amount they can receive. For example, some workers qualify for Social Security benefits from both their own work history and their spouses'. Such workers receive their own full benefit and, if the spousal benefit is a higher amount, the difference between the two benefits. The total of these two benefits will equal the higher benefit amount.

5. What benefits does Social Security offer?

Social Security benefits are cash benefits that replace earnings that are lost due to workers' retirement, disability, or death. Social Security benefits do not fully replace lost earnings, but instead partially replace them. Individuals who receive DI benefits are also eligible for Medicare

[18]As discussed later, the full retirement age, which ranges from age 65 to 67 depending on an individual's year of birth, is the age at which Social Security pays unreduced retirement benefits.

Part A after a 24-month waiting period.[19] The basic benefit formula is the same for retirement benefits in the OASI program and for disability benefits in the DI program.

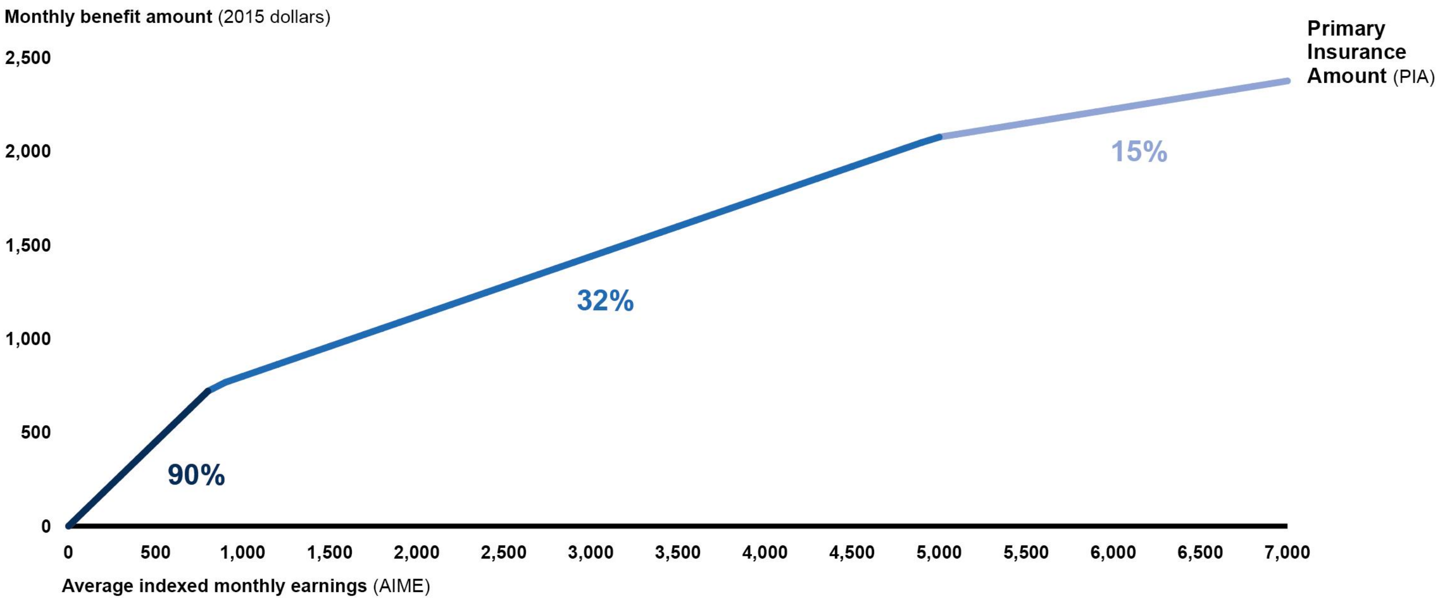
The first step of the benefit formula calculates a worker's average indexed monthly earnings (AIME). AIME is based on career-average earnings, and those earnings are indexed to changes in average wages. For retired workers, the AIME is based on the highest 35 years' earnings on which they paid Social Security taxes (known as computation years). For workers with disabilities, the number of computation years depends primarily on the age at which they become disabled, but ranges from 2 to 35 years.

The second step of the benefit formula calculates what is known as a primary insurance amount (PIA), based on the worker's AIME. For 2015, the benefit formula replaces 90 percent of the first $826 of AIME, 32 percent of AIME over $826 and up to $4,980, and 15 percent of AIME over $4,980[20] (see fig. 2).

[19]Individuals who are not entitled to DI generally become eligible for hospital insurance—Medicare Part A—at age 65. Individuals who are eligible for Medicare Part A can enroll in Medicare Part B, which covers hospital outpatient, physician, and other services, by paying a monthly premium. In addition, individuals who have Medicare Parts A and B have the option of obtaining coverage for Medicare services from private health plans that participate in Medicare Advantage—Medicare's managed care program—also known as Medicare Part C. Finally, anyone who has Medicare Part A, B, or C can obtain prescription drug coverage (Medicare Part D) by paying an additional monthly premium. Individuals who are not entitled to DI may be eligible for SSI, which may make them eligible for Medicaid—a federal-state health financing program for low-income and medically needy individuals.

[20]The formula bend points ($826 and $4,980 of AIME for 2015) are indexed for wage inflation. For workers who receive noncovered pensions (usually from federal, state, or local governments) and meet other criteria, the benefit formula is adjusted to offset these pensions pursuant to the Windfall Elimination Provision. The effect is to lower the amount of benefits for individuals receiving such pensions.

Figure 2: Social Security Benefit Formula Replaces Earnings at Different Rates



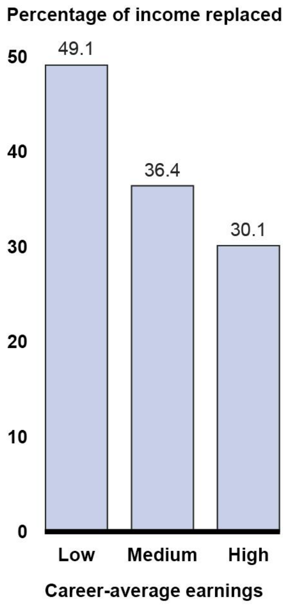
Source: GAO analysis of Social Security Administration data. | GAO-16-75SP

The formula is progressive; that is, it provides disproportionately larger benefits, as a percentage of earnings, to lower earners than to higher earners.[21] As a result, for example, retired workers with relatively lower average career earnings receive monthly benefits that, on average, equal about half of what they made while working, while workers with relatively higher career earnings receive benefits that equal about 30 percent of prior earnings[22] (see fig. 3).

[21]GAO, *Social Security: Distribution of Benefits and Taxes Relative to Earnings Level,* GAO-04-747 (Washington, D.C.: June 15, 2004).

[22]Although the formula is the same, it is more difficult to calculate these rates for the DI program because workers become disabled at different ages.

Figure 3: Social Security Benefit Formula Provides Relatively Larger Benefits for Beneficiaries with Low Career Earnings



Source: Social Security Administration, Office of the Chief Actuary, Replacement Rates for Hypothetical Retired Workers. Actuarial Note Number 2014.9. (Baltimore, Md.: July 2014). | GAO-16-75SP

Note: The example above is based on the scheduled annual benefits for hypothetical low, medium, and high career-average earners born in 1985 and retiring at age 65 (2 years prior to their full retirement age) in 2050. These workers were assumed to have scaled-earnings patterns, which are earnings patterns derived from the earnings experienced by actual workers covered by Social Security from 1991-2010. The career-average level of earnings for each hypothetical worker was based on a percentage of Social Security's national average wage index (AWI). The medium earner had earnings about equal to the AWI ($46,787 for 2014), while the low and high earners had earnings about 45 percent and 160 percent of the AWI ($21,054 and $74,859, respectively, for 2014).

Finally, the benefit formula makes adjustments to reflect various other provisions, such as those relating to early or delayed retirement, maximum family benefit amounts, and receipt of a noncovered pension.[23] In addition, once payments have begun, Social Security benefits are generally adjusted annually to reflect price inflation, known as a cost-of-living adjustment (COLA).

[23]SSA applies the Government Pension Offset (GPO) to reduce the benefits received by spouses and survivors who are recipients of noncovered federal, state, or local government pensions. Specifically, GPO reduces Social Security spousal and survivor benefits by two-thirds of the amount of the noncovered pension.

6. When can people get benefits?

For retired workers, Social Security pays unreduced benefits at the full retirement age,[24] which has begun gradually increasing from 65 (for those born in 1937 or earlier) to 67 (for those born in 1960 and later) under a law enacted in 1983 (see table 1). However, people may choose to retire as early as age 62 and receive reduced benefits. The reduction for early retirement takes account of the longer period of time over which benefits will be paid as well as the time value of money. Early retirement reductions can have the effect that, on average, beneficiaries receive benefits over their lifetime whose actuarial present value is about the same regardless of the age at which they claim benefits.[25] Workers who retire after their full retirement age receive a benefit increase for each month of delayed retirement up to age 70.[26]

Table 1: Full Retirement Age Has Increased

Year of birth	Full retirement age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months

[24]Although SSA uses the term “full retirement age” to refer to the age at which workers receive unreduced benefits, workers can actually receive a higher benefit if they claim benefits after their full retirement age. In addition, it is important to note that retirement ages for Social Security purposes can differ from the actual ages at which individuals stop working.

[25]Such “actuarial equivalencies” can be approximate and depend on the interest rate and longevity assumptions underlying the early retirement reduction factors. The actuarial equivalencies can be further complicated by “adverse selection,” meaning the possibility that workers in good health may tend to commence benefits at a later age than workers in poor health.

[26]Retirees born in 1943 or later who delay benefits beyond their full retirement age receive a retirement increase of 8 percent per year until age 70. With a current full retirement age of 66, a 70-year-old claiming benefits would receive benefits increased by 32 percent.

Year of birth	Full retirement age
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Source: 42 U.S.C. § 416(l). | GAO-16-75SP

For workers with disabilities and their dependents, DI benefits generally do not begin until a worker has been disabled for 5 full consecutive months (known as a "waiting period").[27] In addition, there is a 24-month waiting period before workers receiving DI benefits are eligible for Medicare Part A. Once workers receiving DI reach their full retirement age, their benefits automatically convert to OASI retirement benefits.

When a worker dies, Social Security pays benefits to survivors who satisfy other relevant requirements. For example, a widow can generally start receiving benefits as early as age 60 or, if she is disabled, age 50.

7. How much interest do workers' contributions earn?

Workers do not earn interest on their Social Security contributions as they would on a personal savings account. Their contributions are not deposited in interest-bearing accounts for individual workers. Rather, their contributions are credited to the Social Security trust funds, from which benefits are paid. Any contributions not used for current benefits are invested in interest-bearing federal government securities.[28] As noted earlier, the benefit payments paid to any given individual are derived from a formula that does not use interest rates or the amount of contributions, but rather uses the individual's average indexed monthly earnings as a basis for determining benefits. Social Security is a social insurance program that protects workers who are unable to work due to old age or disability. Under such a program, some individuals will receive benefits that exceed their individual contributions, and others will not.

[27]A beneficiary may be entitled to retroactive DI benefits for up to 12 months prior to the date of filing.

[28]The Social Security Act requires that trust fund assets be invested in interest-bearing obligations of the United States, or in obligations guaranteed as to both principal and interest by the United States. For the purposes of this publication, we are using the term "federal government securities" to refer to these obligations.

8. What is social insurance?

Under a social insurance program, society as a whole insures its members against various risks they all face, and members pay for that insurance through contributions to the system. Social Security is a social insurance program through which society pools some of the responsibility for a variety of risks that workers face. Such risks include individually based risks, such as how long individuals will be able to work, whether they will become disabled, how long they will live, whether they will be survived by a spouse or other dependents, how much they will earn and save over their lifetimes, and how much they will earn on retirement savings. Workers also face some collective risks, such as the performance of the economy and the extent of inflation. Other types of retirement income embody different ways of assigning responsibility for these risks. For example, employers sponsoring defined benefit pension plans bear the risk of investing a plan's assets and ensuring that contributions are adequate to fund promised benefits. In contrast, individuals saving for retirement through defined contribution plans bear that investment risk.

Social Security's Revenues

9. Where do Social Security's revenues come from?

Social Security's revenues largely come from three sources: contributions in the form of payroll taxes, interest on the trust funds, and income taxes attributable to Social Security benefits. In 2014, most of the revenue came from payroll taxes (about 85 percent). Any contributions to the Social Security trust funds that are not used to pay current benefits or administrative expenses are invested in interest-bearing federal government securities. Interest earned by these securities is returned to the Social Security trust funds. In 2014, this interest accounted for 11 percent of total trust fund revenues.

In 2014, total revenues for Social Security (OASDI) were $884 billion, which consisted of $786 billion in non-interest revenue and $98 billion in interest earnings. Total costs for the programs were $859 billion. In that year, reserves in the Social Security trust funds increased by $25 billion because total revenues to the trust funds, including interest earned on trust fund assets, exceeded total costs.

10. How much is the Social Security payroll tax?

Workers pay a payroll tax of 6.2 percent of their covered earnings into the Social Security trust funds. Their employers pay an equal amount, for a combined total tax rate of 12.4 percent. This tax applies only to workers' earnings up to an annual limit that has generally increased each year; for 2015, it is $118,500. Most analysts agree that employees bear at least some of the burden of the employers' share because employers pay lower wages than they would if the employers' contribution did not exist.[29] Self-employed workers pay 12.4 percent, but they are allowed an income tax deduction for half of the payroll tax. This deduction parallels the favorable tax treatment that employers receive on their share of the payroll tax.

Of the current 12.4 percent tax, 1.8 percent is allocated specifically to the DI trust fund. The other 10.6 percent is allocated to the OASI trust fund. In addition, workers and their employers each generally pay a payroll tax of 1.45 percent of all wage earnings (without any cap) into the Medicare trust fund.[30]

When Social Security started collecting payroll taxes in 1937, the total payroll tax rate was 2 percent. As the system matured—that is, as each year passed and another group of people reaching retirement age qualified for benefits—benefit costs increased and tax rates eventually were increased accordingly. When the program began, payroll taxes were anticipated to increase over time with the growth in benefit payments as the system matured and more retirees received benefits.

In several recent years, payroll tax rates were temporarily lowered and the Social Security trust funds received money from the general revenue fund to offset the reduced tax revenues. For example, after the recession of 2007 to 2009, legislation was enacted, effective for most of 2010, that exempted most employers from paying the employer share of the Social Security payroll tax on wages paid to certain qualified workers hired after February 3, 2010. More recently, legislation was enacted that lowered employees' and self-employed workers' share of the Social Security

[29]GAO, *Social Security: Issues in Comparing Rates of Return with Market Investments*, GAO-HEHS-99-110 (Washington, D.C.: Aug. 5, 1999).

[30]As with Social Security, self-employed workers pay both the employer and employee portion of the Medicare tax—generally 2.9 percent—and are allowed an income tax deduction.

payroll tax to 4.2 percent and 10.4 percent, respectively, for both 2011 and 2012.

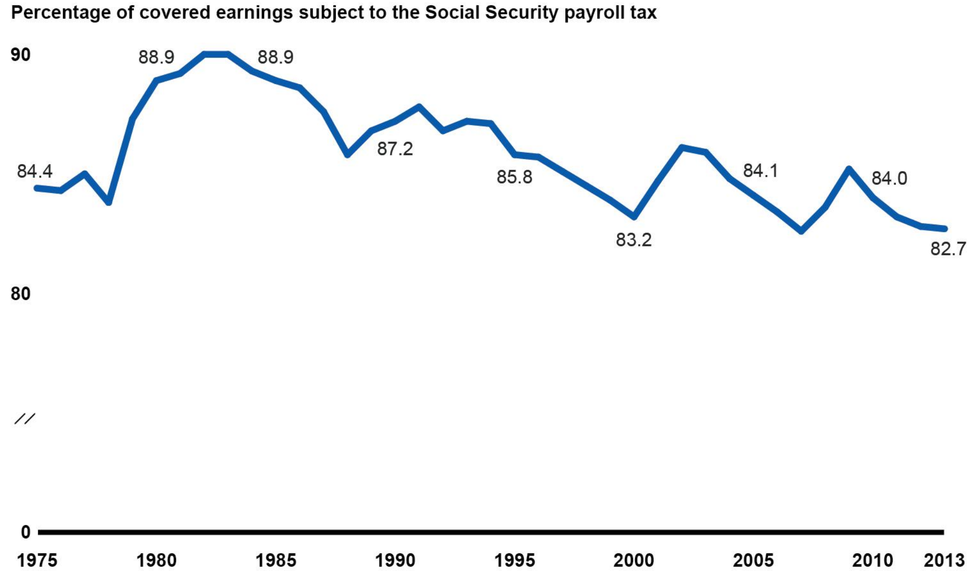
11. Why is there a cap on taxable earnings?

The cap on Social Security taxable earnings in 2015 is $118,500. This cap is technically known as the contribution and benefit base because the same cap is used to limit the amount of earnings subject to the payroll tax as well as the amount of earnings used in the formula to determine benefit levels. The cap limits the size of benefits—a maximum of $2,663 per month for those receiving retirement benefits at their full retirement age or receiving disability benefits in 2015—reflecting one of the program's features of only providing for a floor of protection. Applying that cap to both contributions and benefits reflects another of the program's features—ensuring that benefits bear some relationship to contributions.

The cap on taxable earnings has also changed over time. The maximum annual earnings subject to the payroll tax was $3,000 in 1937. However, in 1937, 97 percent of all covered workers had total earnings below that level. In recent years, about 94 percent have had total earnings below the taxable maximum. Meanwhile, the percentage of covered earnings that are subject to the payroll tax has fluctuated before declining in recent years. In 1983, this figure was more than 90 percent but it has declined since then and, in 2013, about 83 percent of earnings fell below the taxable maximum (see fig. 4). This percentage has declined because earnings among higher earners (those earning above the maximum) have grown faster than earnings among the rest of the working population.[31]

[31]Kevin Whitman and Dave Shoffner, *The Evolution of Social Security's Taxable Maximum,* Policy Brief no. 2011-02 (Social Security Administration, Office of Retirement and Disability Policy, September 2011).

Figure 4: Percentage of Covered Earnings Subject to the Social Security Payroll Tax, 1975 to 2013



Source: Social Security Administration, Annual Statistical Supplement, 2014. | GAO-16-75SP

Note: According to SSA, from 1937 through 1975, the taxable maximum was increased on an ad-hoc basis and since 1975, the taxable maximum has generally increased at the same rate as average wages each year. Data from 2010 and 2011 are preliminary. Taxable earnings from 2012 are preliminary estimates based on Social Security data; employment data for that year are preliminary estimates based on data from the Bureau of Labor Statistics. Data from 2013 are preliminary estimates based on data from the Bureau of Labor Statistics and the Bureau of Economic Analysis.

12. How are Social Security benefits taxed?

Since 1984, some individuals have had to pay federal income tax on a portion of their Social Security benefits.[32] Beginning that year, some individuals have had to pay income tax on up to half of their benefits. These income tax revenues are returned to the Social Security trust funds (whereas other income tax revenues are generally credited to the general fund). Taxing half of Social Security benefits can be thought of as taxing the portion provided by the employer half of the payroll tax. Due to additional changes made in 1993, some individuals have had to pay taxes

[32]Individual income tax filers pay tax on up to 50 percent of their benefits if their income (defined as the sum of adjusted gross income, certain tax-exempt interest income, and half of their Social Security benefits) is between $25,000 and $34,000 (between $32,000 and $44,000 for a married couple filing jointly). In addition, because of changes in 1993, individual filers pay tax on up to 85 percent of their benefits if their income exceeds $34,000 ($44,000 for a married couple).

on up to 85 percent of their benefits. These additional revenues are dedicated to the Hospital Insurance (HI, or Medicare Part A) trust fund rather than the Social Security trust funds.

In 2014, taxes on Social Security benefits provided 3 percent of the trust funds' total revenues. Currently, almost half of Social Security beneficiaries are affected by the taxation of benefits, up from one third in 2005. The income thresholds for the taxation of benefits are not adjusted for inflation, so the percentage of beneficiaries paying tax on Social Security benefits is expected to continue to rise in the future.

13. What are the Social Security trust funds?

Social Security revenues from the payroll tax and the income tax on benefits are transferred into two separate trust funds—one for the retirement program (OASI) and one for the disability program (DI). The OASI and DI trust funds, while often referred to collectively as the Social Security trust funds, are legally separate. Absent statutory authority, SSA cannot move money between the funds.

Like other federal trust funds that exist in the United States, such as those for Medicare, unemployment compensation, and federal employee retirement, the OASI and DI trust funds are accounting mechanisms that collect revenues and other monies and track expenditures for a specific purpose. The trust funds also have other effects besides being accounting mechanisms. For example, benefit payments are paid from the trust funds and do not require annual appropriations from Congress. Users—in this case, current and future beneficiaries and their employers—contribute to the funds.[33] Also like most other federal trust funds, Social Security trust fund revenues are invested in federal government securities and earn interest.

The Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds (often known as the Social Security Trustees) oversees the financial operations of the trust funds. The Trustees annually issue a report that presents the current and projected financial status of the trust funds. There are six Trustees, four of whom serve by virtue of their positions within the federal government: the Secretaries of the Treasury, Labor, and Health and Human Services, and

[33]GAO, *Federal Trust and Other Earmarked Funds: Answers to Frequently Asked Questions*, GAO-01-199SP (Washington, D.C.: January 2001).

the Commissioner of SSA. The two remaining Trustees are appointed by the President and confirmed by the Senate to represent the public.

14. Are the Social Security trust funds like private sector trust funds?

No. Almost all federal trust funds represent an accounting mechanism used to track funds dedicated for a specific program or purpose. Federal trust funds do not have the fiduciary relationships that characterize private trust funds. The Office of Management and Budget (OMB) summarizes the differences between federal and private trust funds as follows:

"In common usage, the term [trust fund] is used to refer to a private fund that has a beneficiary who owns the trust's income and may also own the trust's assets. A custodian or trustee manages the assets on behalf of the beneficiary according to the stipulations of the trust agreement, as established by the trustor.[34] Neither the trustee nor the beneficiary can change the terms of the trust agreement; only the trustor can change the terms of the agreement. In contrast, the Federal Government owns the assets and earnings of most Federal trust funds and can unilaterally change the law to raise or lower future trust fund collections and payments or change the purpose for which the collections are used. Only a few small Federal trust funds are managed pursuant to a trust agreement whereby the Government acts as the trustee; even then the Government generally owns the funds and has some ability to alter the amount deposited into or paid out of the funds."[35]

15. What interest rate do the Social Security trust funds earn?

In 2014, the Social Security trust funds earned interest at an effective nominal annual rate of 3.6 percent (or 1.6 percent after inflation). By law, the Social Security trust funds invest in federal government securities. This investment approach results in a relatively low return that reflects the low level of relative risk. The interest rate on special Treasury securities is equal, at the time of issue, to the average market yield on outstanding marketable government securities not due or redeemable for at least 4 years. This rate approximates how much it would cost the government to borrow from the public for a similar period.

[34]The trustor is a person or entity that establishes a trust and places assets under the protection and management of a trustee for the immediate or eventual benefit of beneficiaries.

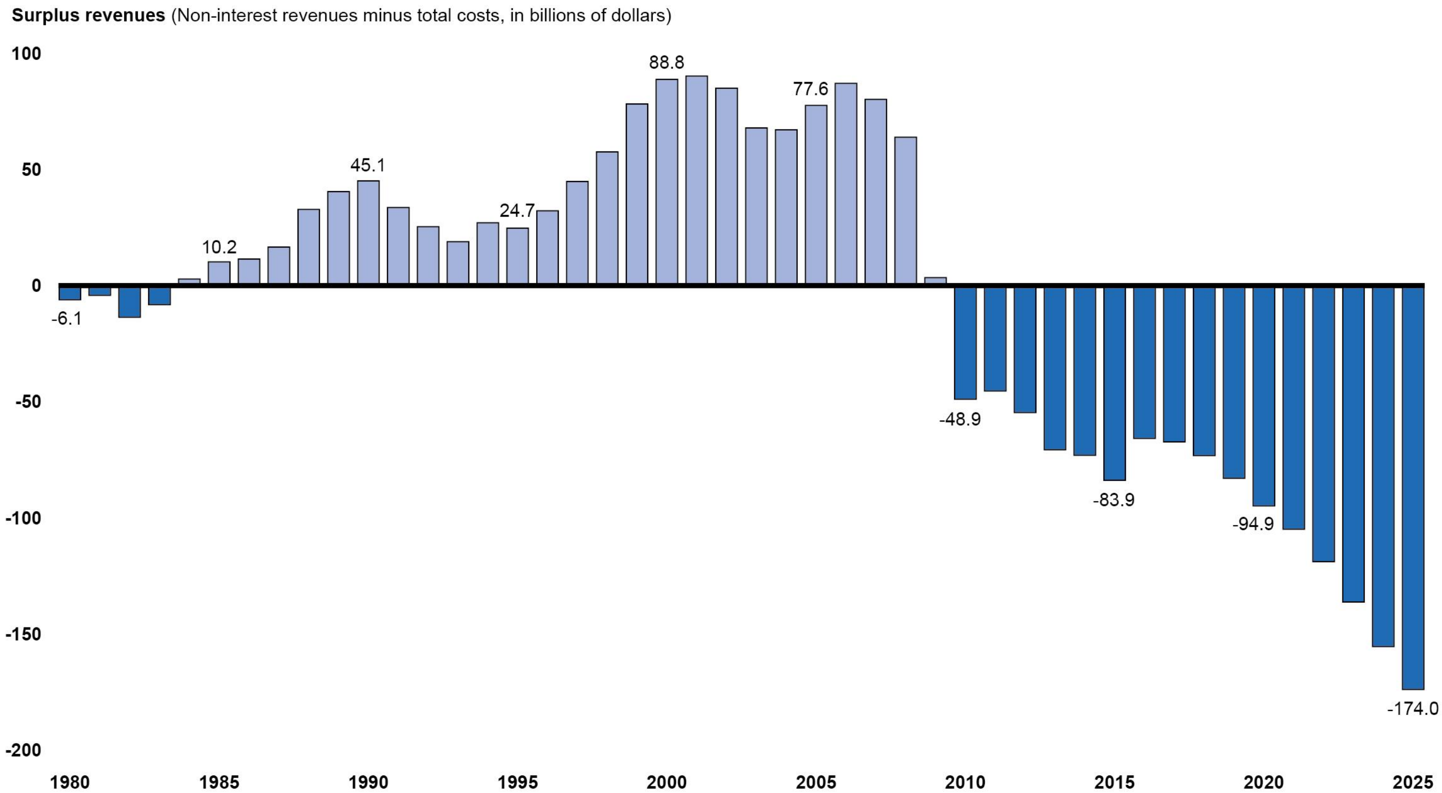
[35]OMB, Analytical Perspectives, *Budget of the United States Government, Fiscal Year 2014* (Washington, D.C.: 2015), p. 374.

16. What does "pay-as-you-go financing" mean?

By design, Social Security is financed largely on a pay-as-you-go basis. In a pure pay-as-you-go system, contributions that workers make in a given year are used primarily to pay beneficiaries in that same year, and the trust fund would not build up reserves.

For roughly a 25-year period, beginning in 1984, Social Security deviated from a pure pay-as-you-go system by building up significant levels of reserves (see fig. 5). This situation arose partly because of a number of legislative changes to the system, including an increase in the full retirement age and the taxation of Social Security benefits. Additionally, during this period, the baby boom generation made the size of the workforce larger relative to the beneficiary population. Since 2010, however, Social Security program costs have exceeded tax revenues. This situation is projected to continue as the ongoing retirement of the baby boom generation will result in a faster increase in the number of beneficiaries, relative to the number of workers.

Figure 5: Old-Age, Survivors, and Disability Insurance Trust Funds Had Surplus Revenues from 1984 to 2009, but the Financial Status of the Trust Funds Has Changed



Source: GAO analysis of data from the 2015 Social Security Trustees' Report. | GAO-16-75SP

Note: For this figure, surplus revenues are defined as non-interest revenues (that is, revenues from payroll taxes, taxation of benefits, and general fund reimbursements) minus total costs, which include benefit payments, administrative costs, and Railroad Retirement Board interchange costs. The exclusion of interest revenue is consistent with the way in which the Social Security Trustees present Social Security revenues in the 2015 Social Security Trustees' Report. If interest revenues were included in this figure, there would be additional surplus revenue years, the surplus revenue amounts shown above would be greater, and the deficit revenue amounts would be smaller. Data for 2015-2025 are inflation-adjusted projections (i.e., are in 2015 dollars) based on the 2015 Social Security Trustees' report (intermediate assumptions).

17. Are Social Security taxes spent on other government programs?

This has been the case in the past, but is no longer happening. By law, the Social Security trust funds must invest in interest-bearing federal government securities.[36] Over the past several decades, as the Social Security trust funds received more in revenue than they paid out in benefits, Treasury used Social Security's excess revenues to invest in federal government securities, reducing the amount it must borrow from the public to finance other federal programs. However, this situation has reversed as Social Security has begun paying out more in benefits than it receives in non-interest revenue.[37] In other words, until recently Social Security's excess revenues helped reduce the overall, or unified, federal budget deficit. If Treasury had not been able to borrow from the trust funds, it would have had to borrow more from the public and pay such interest in cash to finance current budget policy.

[36]These securities, while nonmarketable, are backed by the full faith and credit of the U.S. government and guaranteed as to both principal and interest.

[37]Treasury's actions when Social Security is in such a cash-flow deficit are described in the next section.

Section II: Why Is There a Need for Changes to Social Security?

Social Security's Outlook

1. What is the basic problem?

Put simply, costs for the Social Security programs have begun to exceed tax revenues,[38] and this trend is expected to continue, leading to the projected depletion of the assets of both trust funds.[39] Both Social Security programs are on a fiscally unsustainable path. Costs as a percentage of the gross domestic product (GDP)—the size of the nation's economy in terms of the total value of goods and services produced in a year—are projected to increase by about 20 percent through 2035, and the annual balance between revenues (excluding interest on trust fund assets) and costs as a percentage of GDP is projected to be negative through 2090.[40]

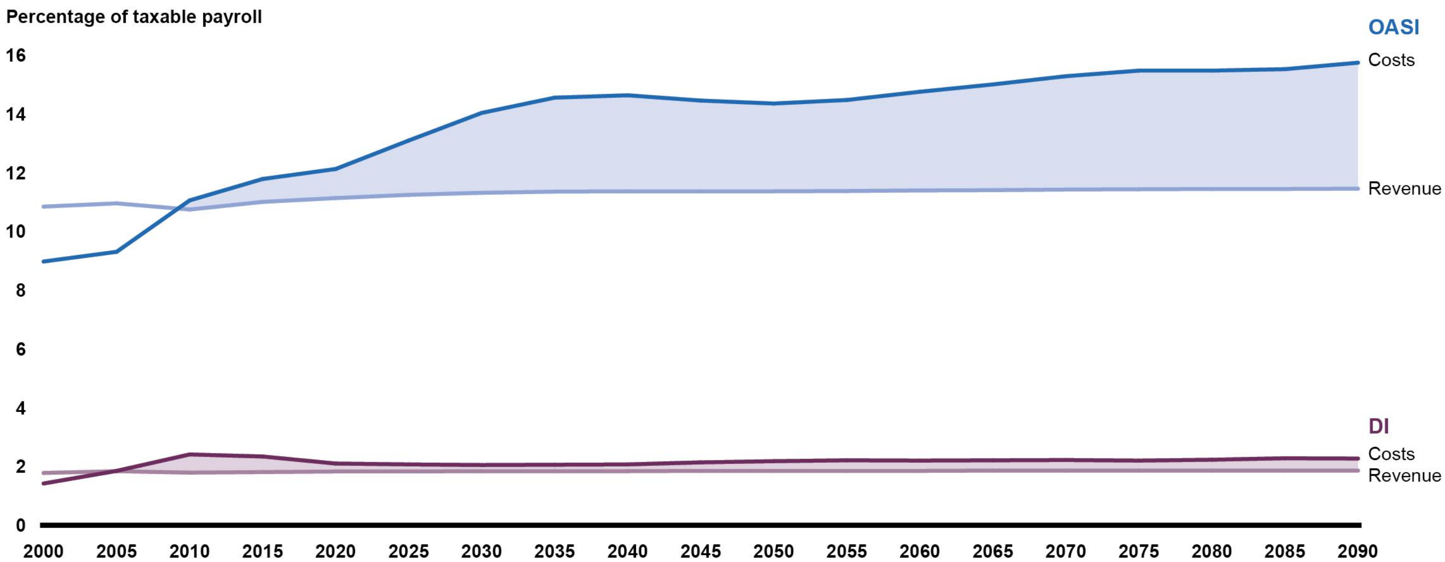
Specifically, costs began to exceed non-interest revenues for the Disability Insurance (DI) trust fund in 2005 and for the Old-Age and Survivors Insurance (OASI) trust fund in 2010. The gap for the DI trust fund reached a peak in 2012, following the 2007 to 2009 recession. The gap for the OASI trust fund is generally projected to continue to grow. See figure 6 for actual and projected annual costs and revenues for both trust funds, plotted at 5-year intervals.

[38]The Social Security Trustees' Report uses the term "income" to include the sum of tax revenue on a cash basis (payroll tax contributions and income from the taxation of benefits), reimbursements from the General Fund of the Treasury, if any, and interest credited to the trust funds. For the purposes of this publication, we are using the term "revenue." The term "non-interest revenues" refers to tax revenues (payroll tax contributions and income from the taxation of benefits) and reimbursements from the general fund, if any, but excludes interest credited to the trust funds.

[39]This and all subsequent estimates are from the 2015 Social Security Trustees' Report and reflect the intermediate assumptions. Because the future is uncertain, the Trustees use three alternative sets of assumptions to show a range of possible outcomes. The intermediate assumptions represent the Trustees' best estimate of the trust funds' future financial outlook. The Trustees also present estimates using low cost and high cost sets of assumptions.

[40]The Social Security Trustees project that costs will increase as a share of GDP from 5.0 percent in 2015 to 6.0 percent by 2035, decline to 5.9 percent by 2050 and generally increase to 6.2 percent by 2089. Measuring receipts and expenditures as a percentage of GDP is a useful indicator of the economy's ability to sustain federal programs. For more information, see GAO, *Financial Audit: U.S. Government's Fiscal Years 2014 and 2013 Consolidated Financial Statements*, GAO-15-341R (Washington, D.C.: Feb. 26, 2015).

Figure 6: Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Costs Have Exceeded Non-Interest Revenues

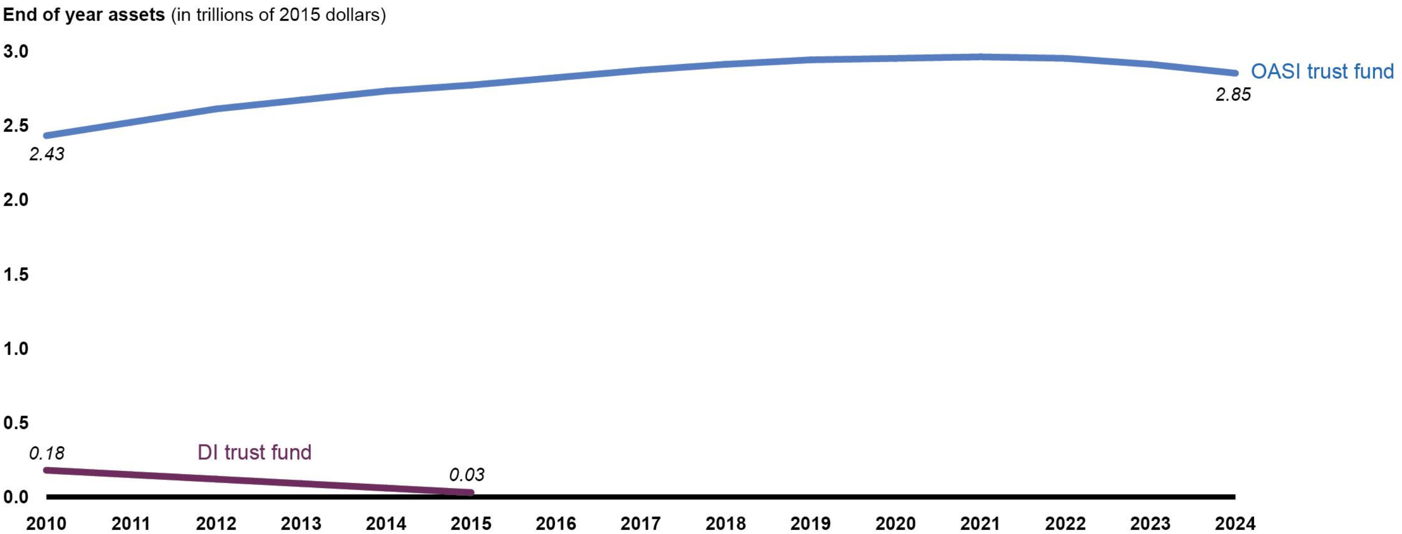


Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

Note: This figure presents the past and projected annual non-interest revenue (revenues from payroll taxes, taxation of benefits, and general fund reimbursements) and costs for both programs, expressed as a percentage of taxable payroll, for every fifth year. The difference between the revenue and cost rates is the trust funds' "balance" for the year. The concepts of revenue and cost rates are important for considering the long-term status of the trust funds.

The gap between costs and revenues has resulted in an immediate funding problem for the DI trust fund, which is projected to be able to pay benefits in full on a timely basis only until the fourth quarter of 2016. After this time, revenues coming into the DI trust fund would be sufficient to pay 81 percent of benefits. OASI is projected to be able to pay full benefits on a timely basis until 2035, at which point revenues would be sufficient to pay 77 percent of benefits (see fig. 7).

Figure 7: Past and Projected Balances in the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds



Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

Note: The "combined" trust funds are projected to be depleted in 2034.

2. What is the size of the funding gap?

Actuaries can project and measure the funding gap in several ways. One measure looks at the additional trust fund reserves that would be needed today, along with the programs' annual tax revenues and earnings on the reserves, to pay all the projected annual costs over the next 75 years.[41] The Social Security Trustees estimated this amount to be $10.7 trillion as of January 1, 2015.

Other measures give a sense of the size of the funding gap as it would be funded over the course of the 75-year period instead of all at once today. For example, one measure presents the gap as a percentage of projected taxable payroll over this period. In 2015, the Trustees projected this gap to be 2.53 percent of taxable payroll. Another measure shows the gap relative to the size of the economy over the 75-year period. In 2015, the Trustees projected this funding gap to be 0.9 percent of GDP.

[41]The Trustees call this the open-group unfunded obligation. The open group valuation includes non-interest revenue and cost for past, current, and future participants through the year 2089. The open-group unfunded obligation is equal to the present value of this future cost less the present value of this future non-interest revenue, minus the amount of trust fund reserves at the beginning of the projection period.

3. Why do the Trustees look at Social Security's future financial status over a 75-year period, and why are projections uncertain?

Although not specifically required by law,[42] the annual Trustees' reports since the 1960s have provided actuarial projections for Social Security over a 75-year period. According to the 2015 report, the Trustees use a 75-year period for their long-range actuarial projections because it is approximately the maximum remaining lifetime of current Social Security participants.[43] In addition to the 75-year projections, the 2015 report also provided projections for other time periods, such as 10 years.[44]

Similarly, the Boards of Trustees for Medicare provide 75-year projections for the Medicare program. The Centers for Medicare & Medicaid Services' Office of the Actuary noted that such long-range projections afford decision-makers a reasonable opportunity to investigate trends, to consider alternatives, and implement well-conceived policy adjustments before financial or programmatic challenges reach crisis proportions.[45]

All projections, especially those over longer time periods, are uncertain because they depend on many demographic, economic, and program-specific factors. Future levels of these factors and their interrelationships are inherently uncertain. Projections make basic assumptions about fertility, mortality, immigration, marriage, divorce, productivity, inflation, average earnings, unemployment, the real interest rate, and disability incidence and termination. In turn, factors such as total population, life expectancy, labor force participation, gross domestic product, and program-specific factors depend upon these assumptions. This publication presents projections from the Trustees' report that use the "intermediate" set of assumptions, which represents the Trustees' best estimates of the likely future course of the population and economy.

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[42]The Social Security Act requires the Trustees to report annually to Congress on the operation and status of the trust funds during the preceding fiscal year and on their expected operation and status during the next 5 fiscal years. These reports must include a statement of the actuarial status of the trust funds. Such statements must include a finding by the Trustees as to whether the trust funds are in close actuarial balance, as defined by the Trustees.

[43]Current Social Security participants are defined as those age 15 and older as of 2015.

[44]The Trustees also provide estimates over an infinite horizon; however, significant additional uncertainty surrounds an infinite projection, beyond the uncertainty already inherent in a 75-year projection.

[45]Centers for Medicare & Medicaid Services, Office of the Actuary, *The Long-Term Projection Assumptions for Medicare and Aggregate National Health Expenditures* (Baltimore, Md.: Aug. 26, 2014).

However, the Trustees also present several measures to illustrate and quantify the uncertainty inherent in these projections.[46]

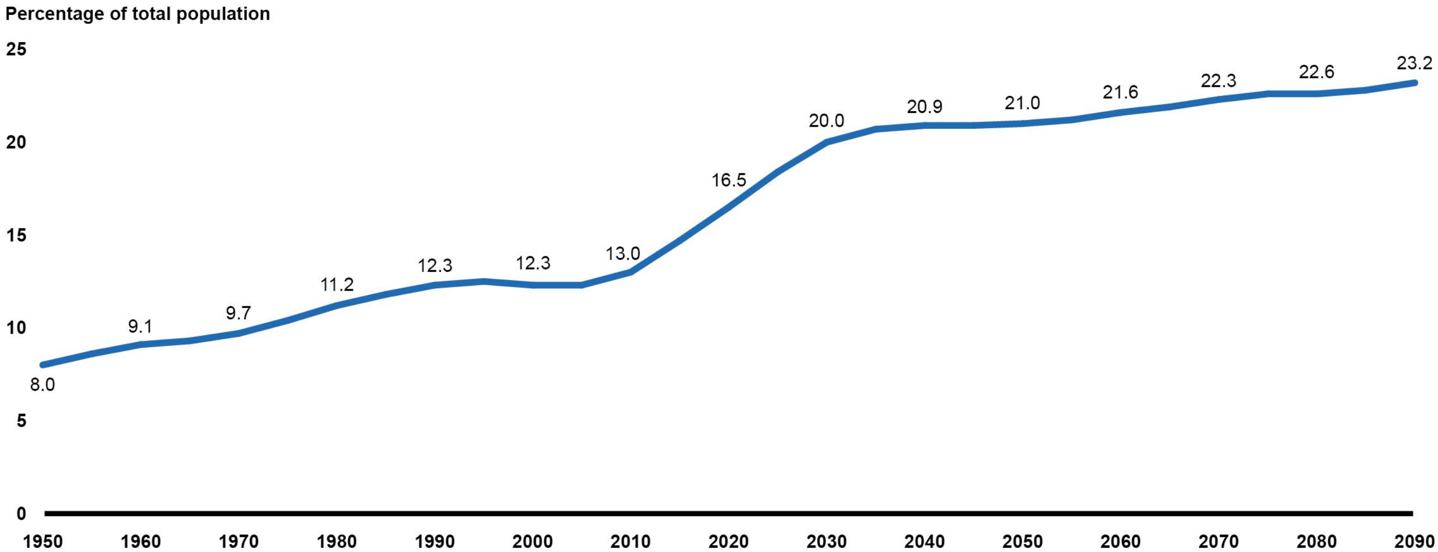
4. What are the root causes of the gap between costs and revenues?

Demographic factors, such as an aging population and slower labor force growth, are straining Social Security programs and contributing to a gap between program costs and revenues.[47] Fertility rates, which are the average number of children born to women during their childbearing years, are lower than in generations prior to the 1970s. In addition, life expectancy has increased continually since the 1940s, and further improvements are expected. As a result of these trends, the population of older Americans (people age 65 and over) has grown and is expected to continue to grow. Further, with the retirement of the baby boom generation over the next two decades, there will be a dramatic acceleration of the aging of the population (see fig. 8). For example, today, older Americans are 15 percent of the population, but in 30 years, they are projected to comprise 21 percent of the population.

[46]These measures of uncertainty include: (1) projections under an alternative “low-cost” and an alternative “high-cost” set of assumptions, in which key demographic and economic assumptions are all assumed to be more optimistic or more pessimistic than the intermediate set of assumptions; (2) projections under a “stochastic” model in which future demographic and economic outcomes are generated by a probabilistic model; and (3) measures of the sensitivity of the intermediate projection to isolated changes to one particular demographic or economic assumption.

[47]An “aging population” refers not just to longevity, but more generally to the portion of a population above a certain age, such as 65. Two key drivers of the proportion of a population above a certain age are fertility rates and longevity.

Figure 8: Older Americans Are Representing a Greater Share of the Total Population

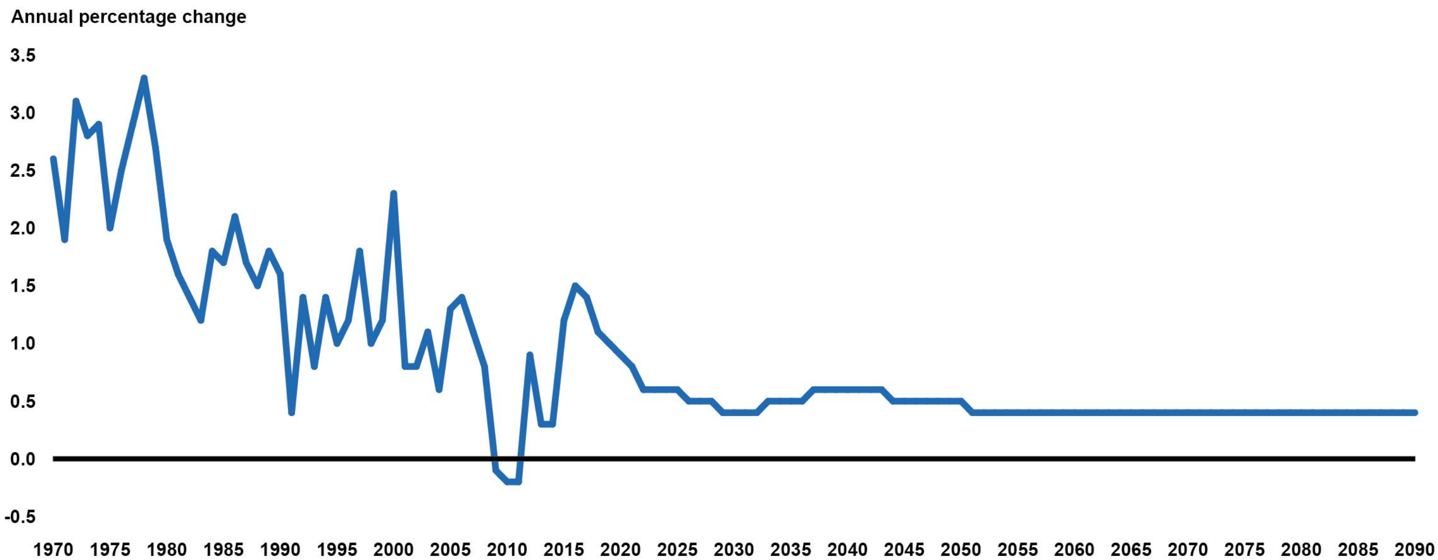


Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

Note: "Older Americans" includes people age 65 and over.

At the same time, the growth of the labor force has slowed dramatically for a number of reasons. As previously noted, fertility rates have fallen from decades earlier. In the 1960s, the rate was an average of three children per woman. Today it is a little under two and is expected to remain lower than what it takes to maintain a stable population (before taking immigration into account). In addition, the relatively rapid growth of participation in the labor force by women over the past several decades is expected to slow. Further, retiring baby boomers will continue leaving the labor force in large numbers. By 2035, while immigration is expected to make up some of the difference, labor force growth is expected to be about the same as it is today (see fig. 9).

Figure 9: Labor Force Growth Is Expected to Be Negligible by 2050

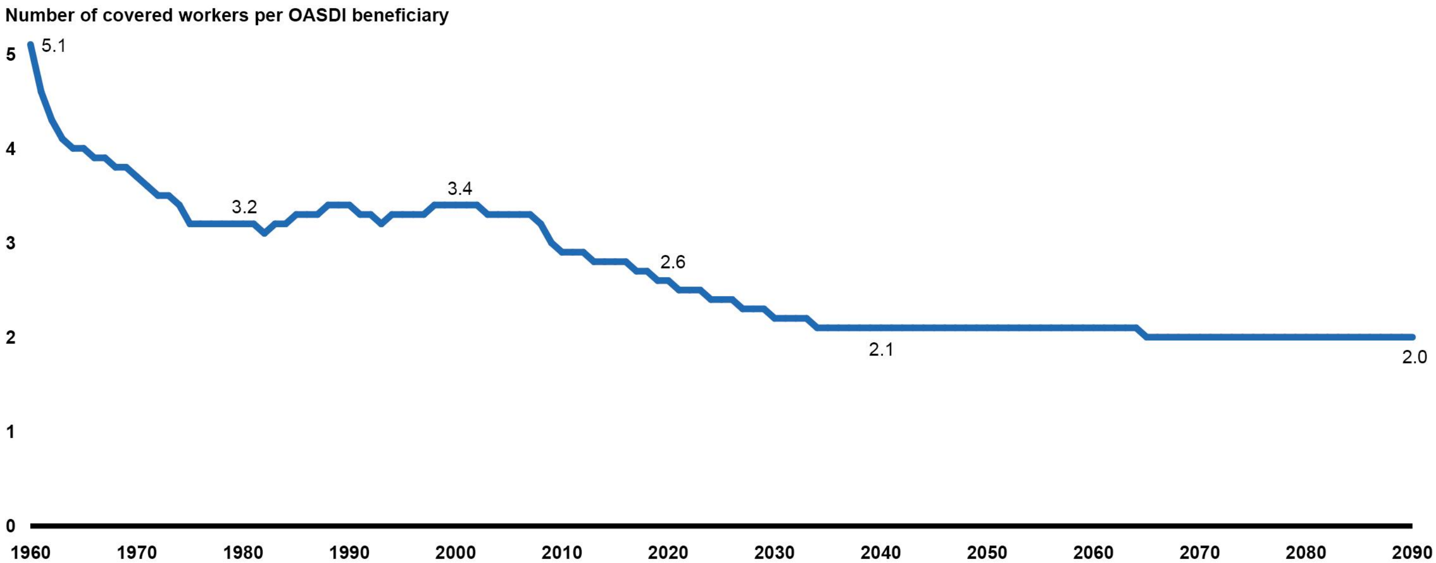


Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

As a result of the aging population and the slower labor force growth stemming from lower fertility rates and other factors, fewer workers will be contributing to Social Security for each aged, disabled, dependent, or surviving beneficiary. While 2.8 workers support each Social Security beneficiary today, only 2 workers are expected to be supporting each beneficiary by 2070 (see fig. 10). The retirement of the baby boomers is accelerating this trend, and it is expected to continue because historically low fertility rates and increasing life expectancy are also expected to continue. Further, expected gains in worker productivity are not projected to be sufficient to fully offset the impact of this gap on the solvency of the program.[48]

[48]Productivity is defined as the ratio of real GDP to hours worked by all workers. According to the intermediate assumptions in the 2015 Trustees' Report, the annual increase in productivity is projected to be 1.92 percent in 2016, but slowly decline to 1.67 percent by 2022 and 2023 before slightly increasing again to 1.68 percent in 2024 and beyond. For the 41-year period from 1966 to 2007, the annual increase in productivity averaged 1.73 percent.

Figure 10: Past and Projected Social Security Covered Workers per Old-Age, Survivors, and Disability Insurance (OASDI) Beneficiary



Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

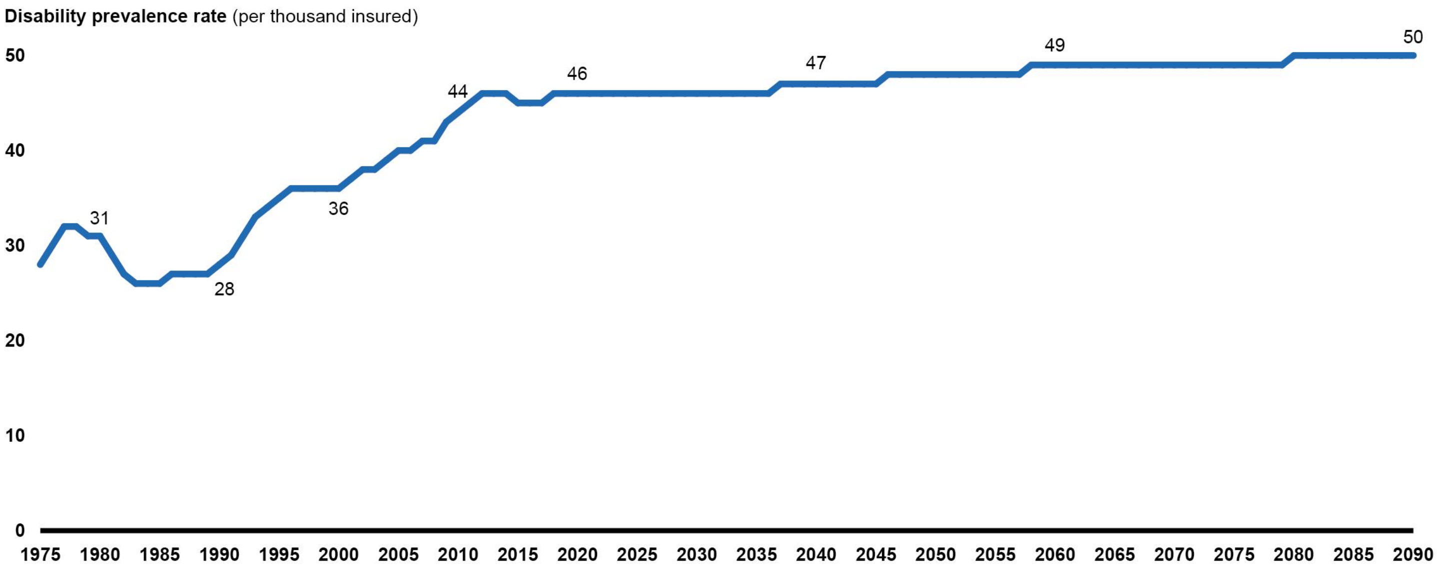
Similar demographic factors, along with economic factors, have also contributed to the growth in the number of individuals receiving DI benefits and the increase in program costs. Since 1990, the total number of individuals receiving DI benefits (disabled workers and their dependents) more than doubled, from 4.3 million to 11 million. The growth in the number of DI beneficiaries to date can largely be attributed to the aging of the working population, the increase in the percentage of women in the workforce who are insured for DI benefits, and the growth in disability incidence rates for women to a level similar to men. Since 2010, these demographic factors have begun to stabilize, resulting in much smaller projected increases in the number of DI beneficiaries in the future.

However, even after adjusting for age and sex, the proportion of the insured population (that is, those who have worked a sufficient number of years in a job covered by Social Security) receiving DI benefits has increased, from 18 per thousand insured in 1970 to 45 per thousand in 2015 (see fig. 11). Researchers have suggested various non-demographic factors that may have contributed to this increase, although consensus is lacking. For example, with regard to some of the growth in more recent years, the increases in the full retirement age for the OASI program increased the pool of older workers likely to apply for DI because of the financial incentive to do so and extended the period of time they could receive DI benefits.[49] Changes in employment opportunities, such as during the 2007 to 2009 recession, and rising health care costs also may have contributed to an increase in the number of individuals seeking DI benefits because DI beneficiaries are eligible for Medicare Part A after a 24-month waiting period.[50] In addition, changes to program eligibility criteria and how adjudicators apply them—such as legal changes to how SSA must evaluate mental impairments and the combined effects of multiple impairments—may have led to more applicants being approved for benefits and fewer beneficiaries leaving the rolls.

[49]Workers who are not at the full retirement age may receive full DI benefits (which would be the same as full OASI benefits), instead of OASI benefits that are reduced for early retirement. In addition, the increase in the full retirement age delays the conversion from DI to OASI. For example, as of December 2014, there were 466,814 disabled worker beneficiaries age 65 receiving DI benefits. In the past, these beneficiaries would have transitioned to OASI benefits at age 65. However, as noted previously, a law enacted in 1983 gradually increased the full retirement age from 65 (for those born 1937 or earlier) to 67 (for those born 1960 and later). Social Security Administration, Disabled worker beneficiaries in current payment status as the end of December 2014, distributed by age and sex, accessed July 2, 2015, http://www.ssa.gov/OACT/ProgData/benefits/da_age201412.html.

[50]According to the Congressional Budget Office (CBO), the effect of the Affordable Care Act on DI rolls is difficult to predict. On the one hand, the provisions in the Act that make it easier for individuals with health issues to qualify for insurance coverage may make them less inclined to apply for DI to obtain medical coverage. On the other hand, some people who would lose employment-based health coverage if they left their jobs to apply for DI benefits will have access to insurance through the health insurance exchanges during the waiting period for Medicare eligibility. This could increase the number of individuals applying for DI benefits. Joyce Manchester, Chief, Long-term Analysis Unit, CBO, *The Social Security Disability Insurance Program*, testimony before the Subcommittee on Social Security, Committee on Ways and Means, March 14, 2013.

Figure 11: Rate of Insured Population Receiving Disability Insurance (DI) Benefits, per Thousand



Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

Note: These data are adjusted to the age-sex distribution of the insured population for the year 2000.

5. Are there other issues that policymakers could also consider addressing?

As policymakers consider options to address Social Security's financial challenges, they may also consider options to address other concerns, such as benefits for economically vulnerable populations, including lifetime low earners, low-income women, the oldest beneficiaries, and people with disabilities. Economically vulnerable beneficiaries generally have limited income from other sources, such as employer-sponsored pension plans, personal savings, or earnings from work and therefore depend heavily on their Social Security benefits. Because they have limited resources, many of these beneficiaries also receive assistance from other programs for low-income individuals, including Supplemental Security Income (SSI). Proposals have addressed specific concerns, such as:

- mitigating persistent poverty among older women, especially those over age 85 and those with low lifetime earnings;
- addressing the needs of workers with lower lifetime earnings due to taking time out of the labor force or working part-time to care for family members;
- addressing beneficiaries who risk outliving their other sources of income and falling into poverty; and

- improving economic security for people of color, who are more likely to be born into lower-income and lower-wealth households.

Recent proposals have also sought to address the balance of income support for people with disabilities with other goals, such as improving incentives to work and participate in the workforce, and improving program administration. For example, some proposals would engage federal agencies and employers in helping individuals with disabilities stay at work or return to the workforce. Some of these proposals focus on young people with disabilities, who without supports may face a lifetime of dependency on public programs. Another goal of many proposals is to improve program administration—to ensure more efficient or effective delivery of benefits. Policy options that seek to support work or improve program administration may also improve program integrity and solvency.

Overall Fiscal and Economic Outlook

6. Now that Social Security's costs exceed revenues, where does the money come from?

When costs for Social Security exceed total revenues, the program is projected to be able to pay full scheduled benefits as long as the accumulated balance in the trust fund is sufficient.[51] As noted previously, costs have exceeded non-interest revenues (that is, revenues from the payroll tax and other sources, excluding interest on trust fund assets) for the DI program since 2005 and for the OASI program since 2010. As of 2009, costs for the DI program have also exceeded total revenues, including interest.[52] As a result, the U.S. Department of the Treasury (Treasury) is already redeeming trust fund assets to pay DI benefits. As discussed previously, the Social Security trust funds hold interest-bearing federal government securities. However, since benefits are paid in cash, not in government securities, when program costs exceed revenues, Treasury must redeem trust fund securities for cash in order to continue to pay benefits. Cash used to finance these redemptions may be offset by increased revenue or decreased spending in the rest of the budget, additional government borrowing from the public, or some combination thereof.

[51]The Social Security Trustees project that the OASI trust fund and the DI trust fund will have sufficient reserves to pay full scheduled benefits on time until 2035 and 2016, respectively. Scheduled benefits are benefits scheduled under the existing benefit formula established by law.

[52]Total costs for the OASI program are not projected to exceed total revenues until 2022, under the intermediate assumptions of the 2015 Social Security Trustees' Report.

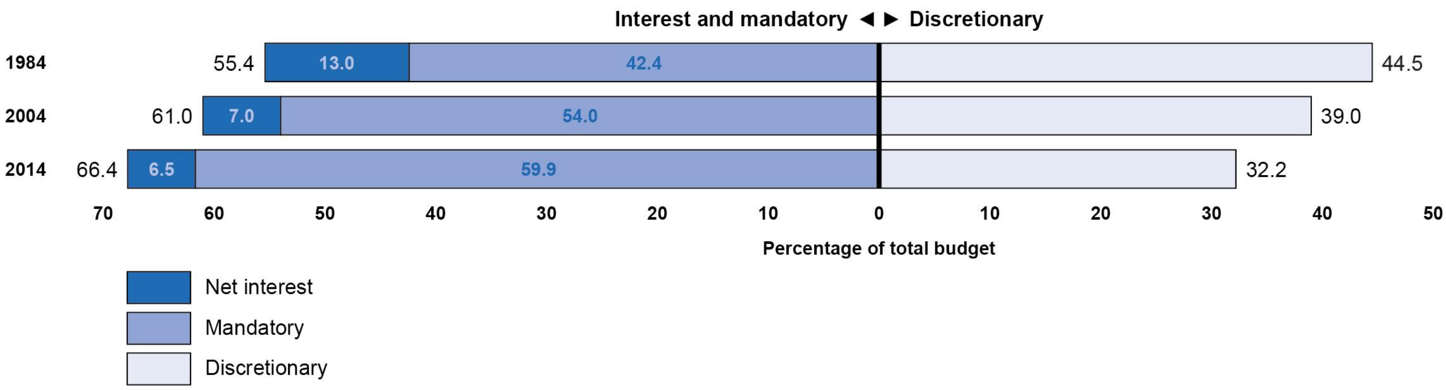
7. What is the outlook for the whole federal budget, especially when federal health care programs are included?

The challenge posed by the growth in Social Security spending becomes even more significant in combination with the more rapid expected growth in spending for major federal health care programs (Medicare, Medicaid, Children's Health Insurance Program, and Patient Protection and Affordable Care Act exchange subsidies).[53] Relative to projected revenue under current fiscal policy, this growth in spending on federal entitlements will become increasingly unsustainable over the long term. Over the past few decades, spending on mandatory programs—entitlement programs such as Social Security and Medicare—has consumed an increasing share of the federal budget. In 1984, spending for mandatory programs plus net interest accounted for about 55 percent of total federal spending.[54] By 2014, this share had increased to approximately 66 percent of the budget (see fig. 12).

[53]Every 2 years at the start of a new Congress, GAO calls attention to agencies and program areas that are high risk due to their vulnerabilities to fraud, waste, abuse, and mismanagement, or are most in need of transformation. The Medicare and Medicaid programs were included in the GAO's 2015 High-Risk Series, including a discussion of changes made by the Patient Protection and Affordable Care Act (PPACA). See GAO, *High-Risk Series: An Update*, GAO-15-290 (Washington, D.C.: Feb. 11, 2015). Additionally, GAO has reviewed the extension of federal funding for the Children's Health Insurance Program. See GAO, *Children's Health Insurance: Cost, Coverage, and Access Considerations for Extending Federal Funding*, GAO-15-268T (Washington, D.C.: Dec. 3, 2014).

[54]Net interest is primarily interest on debt held by the public, but also includes interest earned from other sources and interest paid for purposes other than borrowing from the public.

Figure 12: Federal Spending for Mandatory and Discretionary Programs, Fiscal Years 1984, 2004, and 2014



Source: Office of Management and Budget. | GAO-16-75SP

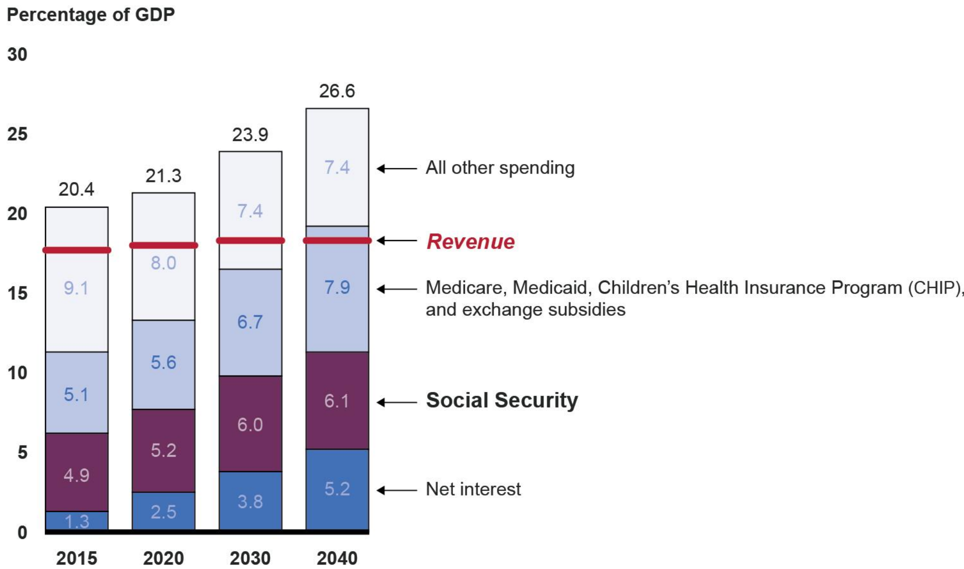
Note: Discretionary programs are those programs controlled by Congress through the annual appropriations process. They include a wide range of programs such as defense, environmental, education, and other programs.

As a consequence of the growth in mandatory spending, the nation faces growing budget deficits in the next several decades.[55] GAO budget simulations show that by 2040, absent fiscal policy changes, total federal revenues may be inadequate to cover anything other than interest, Social Security, and major health programs—including national defense,

[55]The Congressional Budget Office projects that although the federal budget deficit as a percentage of GDP will continue to decline through 2017 from its peak in 2009, it will then begin to rise to about 3.7 percent of GDP by 2025. See CBO, *An Update to the Budget and Economic Outlook: 2015 to 2025* (Washington, D.C.: August 2015).

homeland security, veterans' health care, mass transit, education, and basic research for future economic growth (see fig. 13).[56]

Figure 13: Composition of Spending as a Share of Gross Domestic Product (GDP), Based on GAO's Baseline Extended Simulation



Source: GAO analysis. | GAO-16-75SP

Note: This is based on GAO's 2015 Baseline Extended simulation, which generally follows current law for the first 10 years (e.g., tax provisions expire as scheduled) and then holds revenue and spending other than interest on the debt and large entitlement programs constant as a share of GDP. GAO analysis follows the Social Security and Medicare Trustees' 2014 intermediate projections for Social Security and current law projections for Medicare, and Congressional Budget Office's July

[56]GAO runs two sets of simulations of the federal budget—Baseline Extended and Alternative—that illustrate the potential implications of different policy choices. The Baseline Extended simulations generally follow current law for the first 10 years (e.g., tax provisions expire as scheduled) and then hold revenue and spending other than interest on the debt and large entitlement programs constant as a share of GDP. In this simulation, debt as a share of GDP declines in the short term before turning up again. In the Alternative simulations, in which some assumptions are changed to reflect historical trends (e.g., expiring tax provisions are extended), federal debt as a share of GDP grows throughout the period. Both simulations assume that Social Security and Medicare benefits are paid in full regardless of the amounts available in the trust funds. Budget simulations, particularly those that look out several decades into the future, are subject to substantial uncertainty about future changes in economic, demographic, and other factors that affect the federal budget. Therefore, GAO conducts sensitivity analyses showing how its simulations would change if certain key factors are higher or lower than assumed. For additional discussion of GAO's budget simulations, see GAO, Fiscal Outlook: Federal Fiscal Outlook, at http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview.

2014 long-term projections for Medicaid, adjusted to reflect excess cost growth consistent with the Trustees' assumptions. This includes discretionary spending limits and other spending reductions established by the Budget Control Act of 2011 and revised by subsequent legislation. For additional discussion of GAO's budget simulations, see GAO, Fiscal Outlook: Federal Fiscal Outlook, at http://www.gao.gov/fiscal_outlook/federal_fiscal_outlook/overview.

As increases in spending continue—driven by an aging population and rising health care costs with no comparable growth in revenue—the growing gap between revenue and spending will further limit the federal government's flexibility to address emerging budget issues and as-yet unforeseen challenges, such as another economic downturn or a large-scale disaster. As GAO noted in its financial audit of the U.S. government's fiscal years 2014 and 2013 consolidated financial statements, debt held by the public as a share of GDP remains well above historical averages. At the end of fiscal year 2014, debt held by the public reached 74 percent—the highest it has been as a share of GDP since 1950. Over the long term, the imbalance between spending and revenue that is built into current law and policy will lead to continued growth of debt held by the public as a share of GDP.[57] Significant action to change the long-term fiscal path should be taken soon to minimize the disruption to individuals and the economy. The entire range of federal revenue and spending activities—taxes, entitlement programs, other mandatory spending, and discretionary spending—will need to be re-examined.

8. What are the implications of this budgetary outlook?

Under current law, total spending for the major retirement and health programs will continue to increase as a share of GDP in the coming decades, putting greater pressure on the rest of the federal budget. This spending is driven largely by the aging of the population and rising health care costs. Figure 14 shows the total future draw on the economy represented by major retirement and health programs.[58] Under current law, total spending for the major retirement and health programs will continue to increase as a share of GDP in the coming decades, putting greater pressure on the rest of the federal budget. This spending is driven largely by the aging of the population and rising health care costs. Figure 14 shows the total future draw on the economy represented by major

[57] See GAO-15-341R.

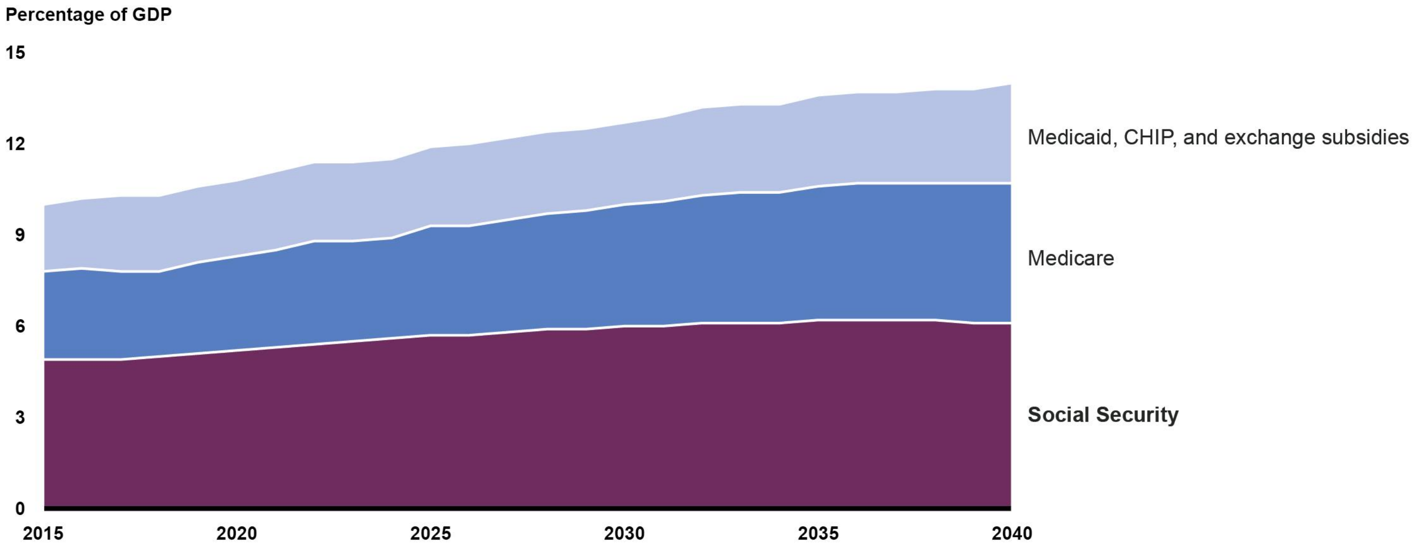
[58] For the purposes of this publication, we use the phrase "major retirement and health programs" to refer to Social Security, Medicare, Medicaid, Children's Health Insurance Program, and exchange subsidies provided for under the Patient Protection and Affordable Care Act.

retirement and health programs. Based on GAO analyses, scheduled spending for these entitlement programs combined will grow from 10 percent of GDP in 2015 to 14 percent in 2040.[59] Most of this increase stems from the growth in federal health care spending, which is expected to increase from 5.1 percent of GDP in 2015 to 7.9 percent in 2040. This represents about a 55 percent increase in federal health care spending as a share of GDP over the next 25 years. Under this simulation, by 2040, roughly 43 cents of every dollar of federal revenue would be spent on major health programs alone.

By comparison, Social Security spending is projected to increase from 4.9 percent to 6.1 percent of GDP over the next 25 years (approximately a 25 percent increase). By 2040, roughly 33 cents of every dollar of federal revenue would be spent on Social Security, based on GAO's simulation.

[59]GAO analysis follows the Social Security and Medicare Trustees' 2014 intermediate projections for Social Security and current law projections for Medicare, and Congressional Budget Office's July 2014 long-term projections for Medicaid, adjusted to reflect excess cost growth consistent with the Trustees' assumptions.

Figure 14: Social Security, Medicare, Medicaid, Children's Health Insurance Program (CHIP), and Exchange Subsidies Spending as a Percentage of Gross Domestic Product (GDP)



Source: GAO analysis based on Social Security and Medicare Trustees' 2014 intermediate projections for Social Security and current law projections for Medicare, and Congressional Budget Office's July 2014 long-term projections for Medicaid adjusted to reflect excess cost growth consistent with the Trustees' assumptions. | GAO-16-75SP

Note: Data are from GAO's 2015 simulation based on the 2014 Trustees' assumptions for Social Security and Medicare, assuming current laws continue into the future.

9. If most of the projected increase in entitlement spending is attributed to federal health care programs, should we focus on that first?

It would be prudent to address both. Health care spending accounts for a growing share of spending as a share of the nation's GDP, and cost containment efforts have been complicated due in part to the complexity of the system and the high degree of uncertainty of costs.[60] The Patient Protection and Affordable Care Act includes a number of provisions aimed at reducing costs, but the Chief Actuary of the Centers for Medicare & Medicaid Services and others have questioned whether certain cost containment mechanisms are sustainable.[61]

The DI trust fund is projected to deplete its assets at the end of 2016, which requires more immediate focus. In addition, Social Security's projected impact on the budget deficit is smaller in magnitude, but the problem and range of options are less complex than for the nation's health care system. A wide variety of options have been developed and studied for addressing solvency and other challenges. Moreover, taking action on Social Security can be an important first step toward addressing growing budget imbalances and building the credibility and time needed for tackling the growth in projected health care costs in a complex federal health care system.

[60]The 2015 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds states that projections of Medicare costs are highly uncertain, especially when looking out more than several decades. One reason for uncertainty is that scientific advances will make possible new interventions, procedures, and therapies. Some conditions that are untreatable today will be handled routinely in the future. Spurred by economic incentives, the institutions through which care is delivered will evolve, possibly becoming more efficient. While most health care technological advances to date have tended to increase expenditures, the health care landscape is shifting. No one knows whether these future developments will, on balance, increase or decrease costs.

[61]For example, significant uncertainties, primarily related to the achievement of projected reductions in Medicare cost growth reflected in the 2010–2014 Statements of Social Insurance, prevented GAO from expressing an opinion on those statements, as well as on the 2014 and 2013 Statements of Changes in Social Insurance Amounts. About $28.5 trillion, or 68.0 percent, of the reported total present value of future expenditures in excess of future revenue presented in the 2014 Statement of Social Insurance relates to Medicare programs reported in the Department of Health and Human Services' 2014 Statement of Social Insurance, which received a disclaimer of opinion. See GAO-15-341R.

Consequences of Inaction

10. What are the potential consequences of waiting for a more immediate solvency crisis to make changes to Social Security?

Waiting for an immediate solvency crisis could reduce the options to only those that are the most severe. For example, the DI trust fund is projected to deplete its assets in the near term and options now must include those that would immediately improve solvency, such as benefit cuts or tax increases, rather than just those that may improve solvency over the long run.[62] The immediacy of the problem limits policymakers' ability to look more broadly at the program and consider policy options that also address programmatic challenges.

With respect to the projected insolvency of the OASI trust fund, acting soon would allow changes to be smaller and spread across more generations of participants and be phased in so that some of those individuals who are likely to be affected, namely younger and future workers, will have more time to adjust their retirement planning. In addition, acting soon reduces the likelihood that policymakers will have to choose between imposing larger benefit cuts or tax increases later. Taking action soon would also promote increased budgetary flexibility in the future, which could lead to greater investment, productivity, and stronger economic growth.

Some of the benefits of early action—and the costs of delay—can be seen in figure 15. This figure compares what it would take to achieve projected solvency at different points in time by either reducing benefits or raising payroll taxes alone, with no other structural changes such as

[62]The DI trust fund faces a more immediate solvency issue than the OASI trust fund. The DI trust fund is projected to deplete its assets by the end of 2016. To delay trust fund depletion and have both trust funds deplete in the same year, Congress could effectively transfer funds from the OASI trust fund to the DI trust fund, for example, by increasing the share of Social Security payroll tax revenues that are credited to the DI trust fund. However, according to a February 2015 analysis by the Social Security Administration's Office of the Chief Actuary, such action would hasten the insolvency of the OASI trust fund by one year. Such a transfer could also defer policy debate on other potential changes to the DI program.

increasing the retirement age.[63] Projected solvency could be restored immediately with a permanent 16.4 percent benefit reduction for all current and future beneficiaries, or a permanent, 21.1 percent increase in payroll tax revenue, or an equivalent combination of benefit reductions and tax increases.[64] Delaying action until 2034—the year the combined trust funds are estimated to be depleted, i.e., the year of projected insolvency—would require an initial reduction in benefits of 21 percent or an initial increase in tax revenue of 29.8 percent,[65] or an equivalent combination of benefit reductions and tax increases; the required benefit reduction would rise to 27 percent and the required increase in taxes would reach 40.3 percent by 2089.[66] As the figure shows, the earlier actions are taken to restore projected solvency, the smaller and less abrupt the adjustment would need to be now as compared to what would be needed in the future.

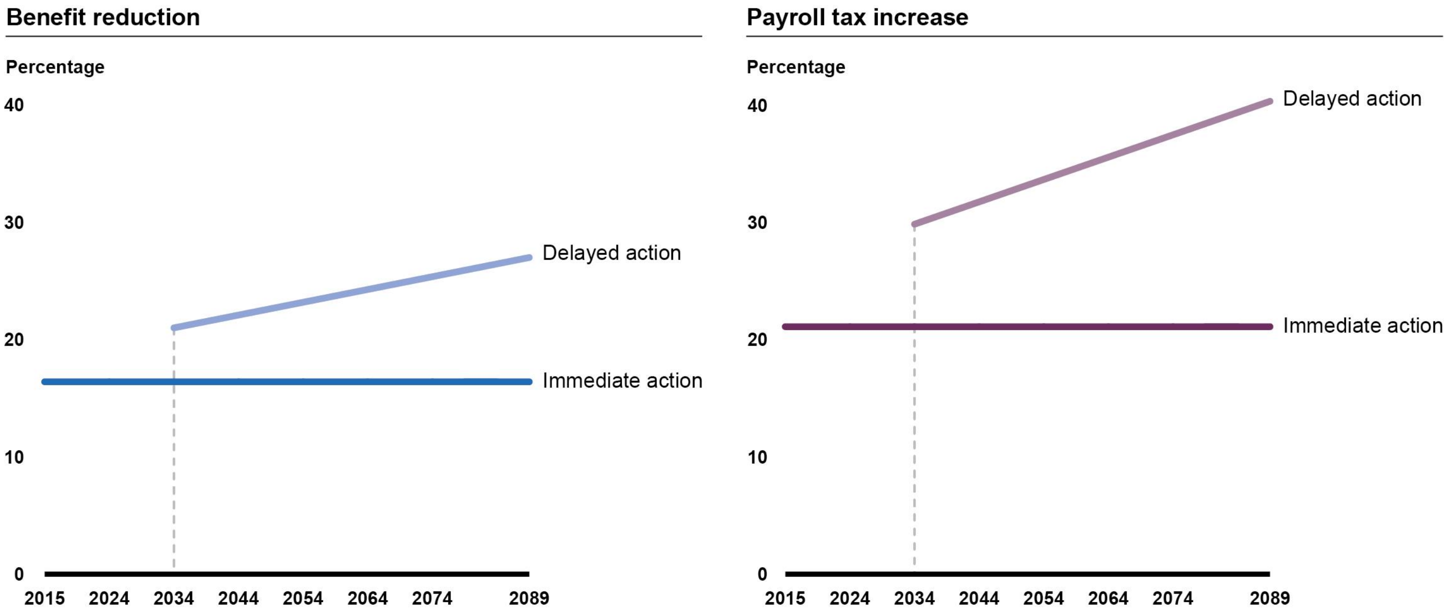
[63]A program is solvent at a point in time if it is able to pay scheduled benefits when due with scheduled financing. Under the intermediate assumptions, the OASI program is projected to become insolvent in 2035, while the DI program is projected to become insolvent by the end of 2016. Projected solvency could be achieved through a combination of tax and benefit actions. This would reduce the magnitude of the required change in taxes or benefits compared with changes made exclusively to taxes or benefits as shown in figure 15.

[64]This would be an increase from the current payroll tax of 12.4 percent to 15.02 percent beginning in 2015.

[65]This would be an increase from the current payroll tax rate of 12.4 percent to 16.1 percent after insolvency. To sustain balance, the payroll tax rate would have to reach 17.4 percent by 2089.

[66]A reduction in benefits or increase in payroll tax revenue does not take into account behavioral responses, such as workers changing the amount they work and earn or shifting earnings to a form of compensation not subject to the Social Security payroll tax. When considering these additional aspects, the actual benefit cuts and tax increases required to achieve solvency could be somewhat higher than the percentages listed here.

Figure 15: Delaying Action to Achieve Social Security Solvency Would Likely Require Greater Benefit Reductions or Tax Revenue Increases



Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

Note: In this illustration, immediate action would be effective 2015 and delayed action would begin in 2034, the first year of projected insolvency of the hypothetical joint Old-Age, Survivors, and Disability Insurance (OASDI) trust fund. The immediate benefit reduction or payroll tax revenue increase in this graph represents an immediate and permanent change to all existing and future benefits or taxes. The delayed benefit reduction or payroll tax revenue increase represents changes beginning in 2034 and increasing through 2089.

The timing of actions to restore projected solvency has implications for the average Social Security beneficiary or worker, in terms of the amount that their benefits would be reduced or their payroll taxes would increase, respectively, under each scenario (see tables 2 and 3).

Table 2: Examples of Changes in Average Social Security Benefit Payments Necessary to Achieve Projected Social Security Solvency by Reducing Benefits Alone

Benefit reduction timing	Benefit reduction	Average monthly benefit reduction (2015 dollars)	
		OASI	DI
Immediate action	16.4 percent	$207	$167
Delayed action (beginning in 2034)	21-27 percent	$265-341	$214-275

Source: GAO analysis of data from the 2015 Social Security Trustees' Report (intermediate assumptions) and the Social Security Administration Monthly Statistical Snapshot, January 2015. | GAO-16-75SP

Note: These examples are for illustrative purposes only. The benefit reduction for immediate action in this table represents an immediate and permanent change to all existing and future benefits. The delayed action in this table represents an initial benefit reduction beginning in 2034 and increasing through 2089. These figures are based on the average OASI and DI monthly benefit, $1,262 and $1,017, respectively, as of January 2015, according to SSA. Other combinations of benefit reductions and tax increases would result in different estimates.

Table 3: Examples of Changes in Median Household Payroll Tax Necessary to Achieve Projected Social Security Solvency by Increasing Payroll Taxes Alone

Tax increase timing	Tax increase	Median biweekly tax increase (Worker's share)	Median annual tax increase (Worker's share)
Immediate action	21.1 percent[a]	$26	$684
Delayed action (beginning in 2034)	29.8-40.3 percent[b]	$37-50	$967-1,306

Source: GAO analysis of data from the 2015 Social Security Trustees' Report (intermediate assumptions) and the U.S. Census Bureau. | GAO-16-75SP

Note: These examples are for illustrative purposes only. The payroll tax increase for the immediate action in this table represents an immediate and permanent change. The delayed action in this table represents an initial payroll tax increase beginning in 2034 and increasing through 2089. These figures are based on the median household income of $52,250 in 2013 according to the U.S. Census Bureau. Other combinations of benefit reductions and tax increases would result in different estimates. The employer's share of the tax would also increase, but this example assumes that there are no secondary effects on employment or wages.

[a]This 21.1-percent tax increase represents a 2.62 percentage-point increase over the current 12.4-percent payroll tax rate, which would be a rate of 15.02 percent. The worker share of this increase would be 1.31 percentage points over the current 6.2 percent worker share of the payroll tax, which would be a rate of 7.51 percent.

[b]These 29.8-40.3-percent tax increases represent a 3.7 to 5 percentage-point increase over the current 12.4-percent payroll tax rate, which would be rates from 16.1 to 17.4 percent. The worker share of these increases would be 1.85 to 2.5 percentage points over the current 6.2-percent worker share of the payroll tax, which would be rates from 8.05 to 8.7percent.

11. What happens if we don't do anything?

While the Social Security trustees project that the combined trust funds will continue to have sufficient reserves to pay all scheduled benefits in full until 2034, when considered separately, the DI trust fund is projected to only have sufficient reserves to pay full benefits on time until the fourth quarter of 2016.[67] If no action is taken, the trust funds are projected to deplete their assets and be unable to support paying full benefits. However, because the Social Security Act does not provide for any procedure for paying less than full benefits, it is difficult to say exactly how this would unfold. Given the differences in the two trust funds' finances, the differences between scheduled and payable benefits would begin at different times for the disability and retirement trust funds. Specifically, the Trustees project the DI trust fund reserves will become depleted in the fourth quarter of 2016, at which time revenues coming into the trust fund would be sufficient to pay 81 percent of scheduled disability benefits.[68] The OASI trust fund is projected to become depleted in 2035, at which time revenues would be sufficient to pay 77 percent of benefits.[69]

[67] Although the two funds are often described in combination, they are legally separate. This is an important distinction, as under current law the two funds cannot be combined.

[68] Revenues coming into the trust fund would be sufficient to pay a somewhat higher percentage of benefits from 2020 through 2040, then ultimately declining to 81 percent of benefits by 2089.

[69] This amount would ultimately decline to 71 percent of benefits by 2089.

Section III: What Are the Options for Addressing Social Security's Challenges?

Both of Social Security's programs—Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI)—face solvency challenges. A wide variety of proposals would affect benefits, revenues, or both. Options to alter OASI benefits could also apply to the DI program, unless the legal change specified that it only be applied to one of the programs. In general, changes to the OASI program have larger effects on combined measures of solvency than changes to the DI program because expenditures for the retirement and survivors' program are about five times as much as expenditures for the DI program.

Proposals to change Social Security generally package several options together, and the various options can interact with or offset one another. For example, some proposals aim to enhance benefits for specific groups who are especially at risk of poverty, while reducing benefits for middle- and higher-level earners. Other proposals could raise or lower benefits more broadly. Evaluating complete proposals as a package of various options helps capture such interactions.

This section lists and describes a range of options individually. The options presented here are based on proposals introduced in Congress or suggested by experts, but are not exhaustive. GAO is not recommending or endorsing the adoption of any of the specific options presented.

Readers interested in a more detailed compendium of proposed changes to the Social Security programs may refer to the website of the Social Security Administration Office of the Chief Actuary.[70] The Office of the Chief Actuary has prepared memoranda for many of the policy options, which include analyses showing the estimated effect of the changes on the financial status of the Social Security programs.

[70]See http://www.ssa.gov/OACT/solvency/provisions/index.html.

Changing Benefits

1. What options have been proposed for changing the benefit formula?

As described in Section I, Social Security uses a multifaceted formula to determine initial benefits. This formula could be modified in various ways; for example, changes could enhance or reduce benefits overall, or for particular types of beneficiaries. Options to change the formula include:

- ***Changing the replacement percentage of each worker's average indexed monthly earnings (AIME)***. For an individual who first becomes eligible for OASI or DI benefits in 2015, the benefit formula replaces 90 percent of the first $826 of AIME, 32 percent of AIME above $826 and up to $4,980, and 15 percent of AIME over $4,980. These replacement percentages could be increased or reduced or additional earnings brackets could be added. One proposal would add a fourth earnings bracket by breaking the middle bracket in two at the median earnings level for the bracket and then gradually changing the replacement rates from 90 percent, 32 percent, and 15 percent to 90 percent, 30 percent, 10 percent, and 5 percent. Such a change would reduce benefits for all but the lowest earners. Another option would increase the replacement percentage of the lowest income bracket to greater than 90 percent, which would increase benefits overall, with the highest-percentage increases going to lower-income earners.

- ***Indexing the earnings used in the formula by prices instead of wages***. Under the current formula, the determination of initial benefits includes a calculation of the worker's AIME, which is indexed to the growth in wages over the worker's career.[71] In most years, wages—based on the metric used by the Social Security programs—have grown faster than prices; if that trend continues, calculating AIME based on price levels (known as price indexing), rather than wage levels, would reduce benefits. This change would result in a proportional benefit reduction across all earnings levels, but could also be formulated in a more targeted manner,

[71]Specifically, SSA uses the national average wage index (AWI) series to compute benefits. This index is based on compensation (wages, tips, and the like) subject to federal income taxes, as reported by employers on the form W-2.

where only those individuals above a certain income level would be subject to price indexing.

- ***Indexing the benefit formula to reflect improvements in longevity.*** If people live longer in retirement and collect benefits for more years, the aggregate cost of those benefits increases. Indexing the benefit formula to reflect improvements in the average life span of the population could be used to keep the aggregate cost of lifetime benefits the same as people live longer.[72] Indexing benefits to such improvements in longevity would be similar to increasing the full retirement age, as workers would have to retire at an older age to get the same monthly benefit as they would under the current full retirement age.

- ***Increasing benefits for the oldest beneficiaries.*** In order to enhance benefits for the oldest beneficiaries, who are at risk of outliving their own retirement savings, one option would be to increase benefits for beneficiaries beginning at a certain age, such as 85. This option could particularly benefit women, who make up a disproportionate share of the oldest beneficiaries.

- ***Changing the number of working years over which earnings are averaged.*** Under the current benefit formula, the calculation of a worker's AIME is based on the highest 35 years of that worker's indexed earnings. Including more years of earnings into the calculation would reduce most workers' benefits, compared to the current formula, because the formula would take into account more lower-earning years. Conversely, decreasing the number of years used in the benefit formula—for example, to exclude years when women are temporarily out of the labor force caring for children—would eliminate years of lower or no earnings, and in turn, increase benefits for these workers.

[72]More precisely, the aggregate cost of lifetime benefits would be measured as an actuarial present value, reflecting both the time value of money and probability of surviving to different ages. In addition, improvements in the average life span would logically be measured not as average life span from birth, but as average life span remaining for those who have attained a retirement age, such as average life span remaining at age 65 or at Social Security's full retirement age.

- ***Changing benefits for spouses and widow(er)s.*** Under the current system, spouses receive benefits that can be as much as one-half of the working spouse's benefit. Widows or widowers receive survivor benefits that generally vary from about one-half to two-thirds of the benefit the couple received while both spouses were living, depending, in part, on the work records of the deceased spouse and the age at which they began receiving benefits. The percentage of the worker's benefit that spouses receive could be reduced in order to boost the benefits of widow(er)s, who are at especially high risk of poverty.

- ***Modifying minimum benefit amounts.*** Social Security pays "special minimum benefits" to workers with at least 11 years of minimum earnings. This minimum benefit increases with additional years of work in covered employment, and targets lower earners, who are at higher risk of poverty.[73] However, because the special minimum benefit grows with prices, rather than wages, it affects fewer new beneficiaries over time. One option would be to increase minimum benefits to provide greater support for these individuals.

- ***Allowing individuals to invest a portion of their Social Security contributions in private securities.*** Under past proposals to augment or replace part of Social Security with individual accounts, individuals would have been able to invest a portion of their contributions in private financial assets, potentially increasing investment returns but assuming increased investment risk. If implemented as a supplement to the current Social Security program through additional payroll taxes or contributions on top of existing payroll taxes, individual accounts likely would not change the existing benefit formula or structure. On the other hand, if individual accounts are implemented as a substitute for all or part of the current Social Security program, traditional benefits could be reduced (or offset) in some way to account for the portion of a person's existing payroll contributions that are diverted.

[73]Special minimum benefits are based on the number of years a person has at least a minimum level of earnings, whereas the standard Social Security benefit formula is based on a worker's average monthly earnings. For 2014, the minimum monthly Primary Insurance Amount (PIA) was $39.90 for an eligible beneficiary with 11 years of coverage and $829.80 for someone with 30 years of coverage.

2. What options have been proposed for modifying COLAs?

Each year, monthly benefit payments for retired workers, those with disabilities, and all other beneficiaries are generally increased using a cost-of-living adjustment (COLA). The COLA is based on the consumer price index (CPI). Some argue that the CPI measure traditionally used may overstate the true rate of inflation because it does not fully account for how consumers substitute some purchases, as some goods become more expensive relative to others.[74]

One option that would address this concern would index benefits to an alternative measure known as the "chained CPI." This version of the CPI accounts for substitution of goods across item categories that consumers make when the relative prices change. Over the long term, the chained CPI can be expected to rise more slowly than the traditional CPI. Thus, the use of the chained CPI as an index would be expected to produce lower COLAs for Social Security benefits.

However, because older Americans consume a greater-than-average share of certain goods, such as health care, for which prices tend to rise more rapidly, they may face higher inflation than other households. Therefore, some have proposed adjusting benefit payments based on a third measure, known as CPI for the elderly. An experimental version of this measure, developed by the Bureau of Labor Statistics, is designed to account for the different consumption patterns of older Americans. COLAs based on this version of the CPI could also be appropriate for the DI population, to the extent that health care also makes up a disproportionately high portion of their purchases. However, this measure would likely require further refinement before it could be used to adjust Social Security benefit payments. According to the Bureau of Labor Statistics, the CPI for the elderly has some limitations as an estimate of the inflation rate experienced by older Americans.[75]

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[74]The CPI formula does allow for some degree of substitution among close substitutes within an "item-area component" of the index, such as between different types of apples within a geographic area when one type changes in price. For further explanation of this and other issues that affect CPI calculation and interpretation, see John S. Greenlees and Robert B. McClelland, "Addressing Misconceptions about the Consumer Price Index," *Monthly Labor Review* (August 2008).

[75]U.S. Bureau of Labor Statistics, "The Experimental Consumer Price Index for Older Americans," *Focus on Prices and Spending: Consumer Price Index,* vol. 2, no. 15 (February 2012).

Changes to the calculation of the COLA would affect estimated future benefit costs immediately, and they would affect both current and future beneficiaries. The Social Security COLA provisions could also be changed to more directly reduce or increase benefits by, for example, lowering the COLA to less than the CPI; increasing the COLA by 1 percent for certain groups, such as the very elderly or people with disabilities; limiting the COLA to a specified ceiling; or making these adjustments less frequently.

3. What options have been proposed for further increasing the retirement age?

Increases in life expectancy, and years in retirement, have underpinned proposals to raise the OASI retirement ages. According to data from the Centers for Disease Control and Prevention, average life expectancy at age 65 has increased from 16.7 years in 1983, when statutory changes raised the future full retirement age, to 19.1 years in 2010. However, gains in longevity have not been shared equally across the population. Life expectancy at age 65 for white males has risen more over that period than for other groups, such as black males, and one study indicated that Americans with less education have made few gains in life expectancy since the 1950s and 1960s.[76]

OASI pays unreduced benefits at the full retirement age, which has begun gradually increasing from 65 (for 1937 and earlier birth cohorts) to 67 (for 1960 and later birth cohorts). Workers can still elect to start receiving retirement benefits at age 62, but the percentage reduction in benefits, compared to benefits at full retirement age, is higher for those with higher full retirement ages.[77] Workers who retire after their full retirement age receive a benefit increase for each month of delayed retirement up to age

[76]S. Jay Olshansky, et al., "Differences in Life Expectancy Due to Race and Educational Differences Are Widening, and Many May Not Catch Up," *Health Affairs,* vol. 31, no. 8 (2012): 1803-1813.

[77]Under the current formula, the benefit reduction is 5/9 of 1 percent for each month up to the first 36 months before the full retirement age (which is equivalent to a reduction of 6-2/3 percent per year for the first 3 years before the full retirement age) and then 5/12 of 1 percent for each additional month before the full retirement age (which is equivalent to a reduction of 5 percent per year for each year earlier than 3 years before the full retirement age). Thus, with a current full retirement age of 66, a 62-year old claiming benefits would receive benefits reduced 25 percent.

70.[78] Different options for raising retirement ages could affect the projected solvency of each trust fund differently and change the relationship between OASI and DI benefits.

One option for changing the program would increase the full retirement age above 67. This change would reduce monthly benefits, assuming there are no changes to the early retirement age or the formula for reducing benefits for early retirement, and workers make no changes to their planned retirement age. Raising the full retirement age would create an incentive for healthy people to work longer and delay claiming retirement benefits. However, an increase in the full retirement age for the OASI program would increase the incentive for individuals with work-limiting health conditions to instead apply for DI benefits because those benefits are not reduced for early retirement. This could especially affect workers in certain occupations (e.g., construction) who may not be able to work longer. In addition, a higher full retirement age means that DI beneficiaries transition to OASI at a later age. So while a higher full retirement age may extend the solvency of the OASI trust fund, it also is likely to deplete the DI trust fund more quickly.

Another option would increase the earliest age workers are able to claim OASI benefits, which is currently 62. However, unless changes were also made to the full retirement age and early retirement benefit reductions, there would be a limited impact on lifetime benefits and, therefore, program solvency. For example, if the earliest retirement age were raised to 63, those claiming at 63 would receive the same benefits as 63-year-olds under current law. However, similar to increasing the full retirement age, increasing the earliest eligibility age for retirement benefits could increase DI applications and benefits.[79] Thus, raising the earliest eligibility age alone could worsen solvency for the Social Security trust funds.

[78]Retirees born in 1943 or later delaying benefits beyond their full retirement age receive a delayed retirement increase of 8 percent per year until age 70. With a current full retirement age of 66, a 70-year-old claiming benefits would receive benefits increased by 32 percent.

[79]A so-called "hardship exemption" could mitigate the effects of increasing the early retirement age for those who may not qualify for disability benefits, but are physically unable to work beyond the age of 62. This exemption would allow certain beneficiaries to continue to claim early retirement benefits at age 62. However, determining who is eligible for the exemption might be administratively challenging for SSA, which already faces claims backlogs for the DI program.

Changing Revenues

4. What options have been proposed for increasing tax revenues?

There are a variety of options for increasing tax revenues, most of which can be implemented independently or together as part of a package. As with changes to the benefit formula, unless any proposal limited changes specifically to OASI, changes to revenues could also affect the DI program. Options include:

- ***Raising the Social Security payroll tax rate.*** According to the Social Security Administration (SSA), until 1990, increases in the payroll tax rate paid by workers and their employers occurred quite regularly.[80] The Social Security Amendments of 1977 gradually raised the tax rate for workers and employers to 6.2 percent in 1990. The Social Security Amendments of 1983 increased the payroll tax rate for the self-employed, raising it to 12.4 percent in 1990. According to SSA, these rates have generally remained the same since 1990.[81]

- ***Raising the cap on taxable earnings.*** In 2015, earnings above $118,500 are not subject to payroll taxes. This amount generally increases each year to keep pace with the growth in average wages. If the cap was raised and the benefit formula remained the same (such that earnings up to the higher cap were also included in the calculation of benefits), workers with earnings above the old cap would ultimately receive somewhat higher benefits as well as pay more taxes. Another variation on this option would apply a tax to earnings over a certain threshold, such as $300,000, without taxing earnings between this threshold and the current cap. Such options would result in a net increase in revenues, given Social Security's progressive benefit formula.

[80]The Social Security tax rate was initially set, starting in 1937, at 1 percent of the first $3,000 of earnings for both the employee and the employer, and according to SSA, the rate increased 20 times from 1950 to 1990. Higher rates were not needed early in the program, when relatively few people qualified for benefits. The tax rate increases were always anticipated as part of the maturing of the pay-as-you-go program.

[81]For 2011 and 2012, the Social Security payroll tax was temporarily reduced to 4.2 percent for employees and to 10.4 percent for self-employed workers; general fund transfers to the Social Security trust funds made up for the lost revenues from these reductions.

- ***Covering all employment.*** Today, Social Security covers and collects payroll taxes from about 96 percent of the workforce. According to SSA, the majority of the remaining uncovered workers are state, local, and federal government employees.[82] Covering all remaining workers would increase revenues relatively quickly and improve program cash flow for some time, since most of the newly covered workers would not receive benefits for many years. In the long run, however, benefit payments would increase as the newly covered workers started to collect benefits. Overall, this change would still represent a net improvement in projected Social Security trust fund solvency, although it would be small.[83]

  Extending Social Security's coverage could improve benefits for affected workers by, for example, providing automatic inflation protection and eligibility for dependent benefits, which are not currently available in many public pension plans, but also increase costs for state and local governments. The effects on state and local employees and employers would depend on how states and localities changed their currently noncovered pension plans in response to the new obligation to contribute to Social Security; they could, for example, reduce their plans' benefits and costs. Thus, workers' total contribution rate and total benefits (from Social Security and the public pension plans combined) could possibly increase or decrease relative to their contributions and benefits under their previously noncovered

[82]About one-fourth of public employees do not pay Social Security taxes on the earnings from their government jobs. Starting in 1984, individuals who began working for the federal government have been covered by Social Security. See GAO, *Social Security: Issues Regarding the Coverage of Public Employees*, GAO-08-248T (Washington, D.C.: Nov. 6, 2007).

[83]Covering all remaining workers may also allow for the phase out of the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP), two provisions that attempt to take noncovered employment into account when calculating the Social Security benefits for public employees. Even if all workers were not covered, providing SSA with information on state and local workers who are receiving noncovered pension benefits could help the agency more accurately and fairly administer these provisions. The Congressional Budget Office estimates that such information sharing would result in $2.7 billion in savings over 10 years, while the President's fiscal year 2016 budget projects over $6 billion in savings over 10 years (with both estimates assuming some recovery of past overpayments). For more on the GPO and the WEP, see GAO-08-248T or GAO's Action Tracker, an online tool for monitoring the progress executive branch agencies and Congress have made in addressing the actions identified in GAO's annual duplication and cost savings reports:
http://www.gao.gov/duplication/action_tracker/Social_Security_Offsets/action1.

pension plans. In addition, such a change could require several years to design and implement, and state and local governments would have to administer two different systems—one for existing noncovered employees and another for newly covered employees—until the provisions no longer applied to anyone or were repealed.[84]

5. Are there other proposals to increase Social Security's revenues?

Social Security could obtain revenues from a variety of sources currently outside of the program. For example, these include:

- ***Transferring revenues from the U.S. Department of the Treasury's (Treasury) general fund.*** General revenue transfers could partially fund the system with money from other government revenue sources. Such transfers would ultimately be financed either by reducing other government spending, increasing taxes, or borrowing from the public. This funding source would depart from the general principle of Social Security as a self-financed system.

- ***Adding a new revenue stream.*** A new revenue source could be earmarked for Social Security, as was done by amendments made in 1983, which extended the income tax to a portion of Social Security benefits for higher income beneficiaries and earmarked the funds for Social Security.

- ***Increasing the investment returns on Social Security holdings.*** Currently, by law, the trust funds are invested in federal government securities, which earn a relatively low, safe rate of return.[85] Investing a portion of Social Security trust funds in private sector securities could increase investment returns but also increase investment risk.

[84]GAO-08-248T.

[85]As noted previously, the Social Security Act requires that trust fund assets are invested in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States.

Section IV: What Are the Options for Addressing Challenges Specific to the Disability Insurance Program?

The Disability Insurance (DI) program faces a near-term financial solvency problem as well as broader challenges. The DI trust fund is projected to deplete its assets by the fourth quarter of 2016, according to the 2015 Social Security Trustees' Report. Once depleted, revenues would be sufficient to cover only about 81 percent of the program's costs, which could result in benefit reductions for as many as 11 million DI beneficiaries. The Social Security Act does not specify how benefits would adjust if the DI trust fund is depleted. For example, according to the Social Security Administration (SSA), benefits could be reduced across the board by a set percentage, certain benefits could be prioritized, or benefits could be delayed.

The DI program also faces challenges beyond the near-term solvency problem that led GAO to include the program—along with other federal disability programs—in its High-Risk Series more than a decade ago.[86] For example, the program relies on outdated criteria to determine whether individuals should qualify for benefits. Although SSA has undertaken efforts to update the criteria, aspects of the program continue to emphasize medical conditions when assessing an individual's ability to work without sufficient consideration of improvements offered by advances in medicine, technology, or changes in the modern work environment. Moreover, growth in the DI program has created challenges for SSA associated with making timely, accurate, and consistent decisions about initial and continuing eligibility—decisions that are complex because they involve determining who is able to work and who has a disability so severe that they may not be able to work even after extensive assistance.

To address these challenges, policymakers, researchers, and others have proposed a variety of policy options aimed at (1) slowing the flow of people applying for the program; (2) helping target DI's finite resources more efficiently and effectively; or (3) better aligning DI with changes in the labor market, advances in medicine and technology, and modern concepts of disability. Other options seek to enhance benefits for people with disabilities. Viewed together, these options provide an opportunity for policymakers and citizens to reexamine the purpose and goals of the DI

[86]Every 2 years at the start of a new Congress, GAO calls attention to agencies and program areas that are high risk due to their vulnerabilities to fraud, waste, abuse, and mismanagement, or are most in need of transformation. Federal disability programs have been on GAO's High-Risk Series since 2003. See GAO-15-290.

program and how to best serve people with disabilities of varying types and levels of severity, while also considering other factors such as federal financial resources.

Given the number of policy options for addressing various facets of this complex program, this section presents a list of options that are not exhaustive, but illustrate the range of possibilities for mitigating the challenges facing DI. GAO is not recommending or endorsing the adoption of any of the specific options presented in this report. The options generally fall into three categories:

1. Changing eligibility criteria,
2. Improving program administration, and
3. Expanding opportunities for work.

The options could be implemented separately, or together as part of a package that could also include changes to benefits or revenues, similar to those discussed in Section III. The potential savings derived from the specific policy options vary widely. While options exist that could immediately improve DI's projected solvency, the estimated savings associated with some of the options addressing the broader challenges would be modest overall and generally greater in the medium- and long-term than in the short-term; and for many options, potential savings are uncertain. Moreover, implementation of many of the options to address the broader challenges, either separately or as part of a package, will take time, given the program's inherent complexity and the possible need to pilot and evaluate policy changes to build support within the Congress, the administration, SSA, and the broader public to justify recommended changes.[87]

[87] SSA was initially granted demonstration authority for the DI program and its authority was subsequently renewed several times, but this authority has now expired. The President's fiscal year 2015 and 2016 budgets proposed restoring and expanding SSA's demonstration authority.

Restoring DI Solvency in the Short Term

1. What options exist for restoring DI trust fund solvency in the short term?

There are at least two options to shore up the DI trust fund in the short term, both of which have been used in the past under similar circumstances, according to SSA. Each would be intended to be a temporary solution to allow more time for Congress to craft a more comprehensive long-term solution. One option would change the allocation of the 12.4 percent Social Security payroll tax to provide the DI trust fund a greater share. Currently, most of the payroll tax (10.6 of the 12.4 percentage points) is allocated to finance Old-Age and Survivors Insurance (OASI) benefits, with the remaining amount (1.8 percentage points) allocated to DI. There are many ways that policymakers could choose to change the payroll tax allocation. In February 2015, SSA analyzed the temporary re-allocation of payroll tax revenues proposed in the President's fiscal year 2016 budget; it estimated that reallocating a greater share of the payroll tax to DI (from 2016 to 2020, with no change in the overall tax rate), could delay the depletion of the DI trust fund to 2033, while moving the estimated OASI trust fund depletion date only one year earlier. Under SSA's projection, starting in 2021, the tax rates would revert back to the current allocation. (See table 4 for this potential yearly allocation.)[88]

[88]In January 2015, the House of Representatives passed a rule that would prohibit consideration of any bill, joint resolution, amendment, or conference report that would reduce the actuarial balance of the OASI trust fund by at least .01 percent of the present value of future taxable payroll. H.R. Res. 5, 114th Congress. According to SSA's Office of the Chief Actuary, the threshold established by the rule could allow for a 1-year reallocation of the payroll tax to cover the projected shortfall for the DI trust fund, which would allow Congress more time to consider possible measures for longer-term solvency.

Table 4: Potential Reallocation of Social Security Payroll Tax Rate between the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Programs, 2016 to 2020 and Afterwards

Year	Combined employee-employer tax rates		
	Social Security payroll tax	OASI	DI
Current allocation	12.4	10.6	1.8
2016-2020	12.4	9.7	2.7
2021+	12.4	10.6	1.8

Source: GAO analysis of Social Security Administration letter to the Office of Management and Budget, February 5, 2015, accessed May 1, 2015, from http://ssa.gov/OACT/solvency/FY16Budget_20150205.pdf. | GAO-16-75SP

Note: In January 2015, the House of Representatives passed a rule that would prohibit consideration of any bill, joint resolution, amendment, or conference report that would reduce the actuarial balance of the OASI trust fund by at least .01 percent of the present value of future taxable payroll. H.R. Res. 5, 114th Congress. According to SSA's Office of the Chief Actuary, the threshold established by the rule could allow for a 1-year reallocation of the payroll tax to cover the projected shortfall for the DI trust fund, which would allow Congress more time to consider possible measures for longer-term solvency.

The second option would allow for inter-fund borrowing until Congress reaches a longer-term solution for DI solvency. Statutory changes could be made to permit temporary borrowing between the OASI and DI trust funds to restore short-term solvency for the DI trust fund.

Addressing Broader Challenges

2. What options have been proposed for changing eligibility criteria for the DI program?

The number of people who enroll in DI is in part determined by program eligibility requirements. Eligibility requirements could be modified in various ways to slow program growth, such as tightening eligibility requirements for certain people who have demonstrated some capacity to work, but are otherwise currently eligible for DI benefits. At the same time, such proposed options could cause workers with health conditions that limit work to seek other income supports, including early retirement,[89] Supplemental Security Income (SSI), workers' compensation, and/or private disability insurance, depending on individual characteristics of age, income, employment history, and other factors. Alternatively, some options have been proposed that would change eligibility criteria to allow

[89]If significant numbers of individuals choose OASI as an alternative source of income, OASI spending may increase and affect solvency for that program.

more people to access benefits or to increase support for certain individuals with disabilities, given that many individuals with disabilities and their families depend on their benefits for subsistence. As noted previously, poverty rates for people with disabilities exceed those for people without disabilities. Proposed policy options include:

- ***Increasing the recency-of-work requirement.*** One option that has been proposed to tighten program eligibility would require claimants over age 30 to have worked more in recent years—for example, 4 out of the past 6 years—rather than 5 out of the past 10 years under current law. Increasing the threshold for recent work would reduce the number of people who would qualify for DI because only those with a recent record of work would qualify for benefits. Theoretically, this option would cover those more likely to work if they were not disabled. On the other hand, this option may negatively affect individuals with intermittent work histories and may disproportionately affect women, who are more likely to leave the workforce to become caregivers.

- ***Adjusting or eliminating the vocational factors.*** As part of SSA's five-step process to determine eligibility for DI, SSA uses a set of rules (referred to as grid rules) to evaluate the effect of vocational factors—age, education, and work experience—combined with the residual functional capacity on an individual's ability to adjust to other work in the national economy. SSA's criteria vary by age, becoming less stringent for older age groups than they are at earlier ages. Specifically, SSA generally categorizes workers across four age ranges: 45-49, 50-54, 55-59, and 60 and older. One proposed option to tighten eligibility would be to shift the age ranges for the vocational factors, which are set by SSA in regulation. The starting age in each range could be increased by a set number of years (e.g., the age ranges could become 50-54, 55-59, 60-64, and 65 and older). According to proponents of this option, increasing the age ranges would be consistent with increases in life expectancy and would more accurately assess whether an individual is able to substantively work. However, according to SSA, increases in life expectancy may not necessarily mean that it is easier for older workers to transition to other occupations.

A related proposal would amend the law to eliminate the vocational factors altogether and limit decisions strictly to medical evidence.[90] Doing so would slow the program's growth because SSA currently approves a large percentage of older DI claimants based on these factors. Proponents of adjusting or eliminating the vocational factors believe that the vocational factors are out-of-date; reflecting a period of time, for example, when physical labor was more common and education levels were lower than today. SSA has acknowledged that the grid rules may no longer accurately reflect the nature and scope of work available in the national economy and stated that the agency is conducting a review to determine if changes to the vocational factors are necessary. However, SSA has cautioned that a change to a knowledge- and skills-based economy could mean that more people are found eligible for DI on the basis of their mental impairments or inability to perform skilled or semi-skilled work. If the vocational factors were adjusted or eliminated, SSA may continue to offer protection for certain individuals who have done many years of physical labor, such as farm workers.[91]

- ***Eliminating DI eligibility starting at the early retirement age (currently 62).*** Individuals who claim DI benefits at age 62 and then move to the OASI program at their full retirement age are not subject to a reduction in their OASI benefits like early retirees, and DI beneficiaries are also eligible for Medicare Part A after a 24-month waiting period. To reduce the incentive for individuals with work-limiting health conditions and who are not old enough to claim full OASI retirement benefits to apply for DI, one proposal would eliminate the option for workers with disabilities to apply for DI at the early retirement age. Instead of restricting eligibility, a similar proposed option would reduce benefits for individuals receiving DI before the full retirement age, similar to the reduction that early retirees receive

[90]For more information about adjusting or eliminating the grid rules, see Jeffrey S. Wolfe and David W. Engel, "Restoring Social Security Disability's Purpose: Does the decisionmaking process serve the purposes of the program?" *Regulation* (Washington, D.C.: Spring 2013), and Mark J. Warshawsky and Ross A. Marchand, *Modernizing the SSDI Eligibility Criteria: A Reform Proposal that Eliminates the Outdated Medical Vocational Grid*, Mercatus Working Paper (Arlington, VA: Mercatus Center, April 2015).

[91]Under SSA's current "Worn out Worker" rule—which exists alongside of SSA's grid rules—claimants who have no more than a marginal education and who have done 35 years of arduous unskilled physical labor can be considered disabled for purposes of DI if they are no longer able to do that work because of a severe impairment.

under OASI.[92] Both options would reduce the number of people applying for DI or reduce lifetime DI and retirement benefits by as much as 30 percent.[93] However, reduced program spending for DI could be offset, in part, by increased spending for other programs, such as OASI and SSI, if individuals seek out alternative sources of income.[94]

- ***Changing the waiting period for benefits.*** To qualify for DI, federal law requires that a disability must have lasted for at least 5 consecutive months, during which a claimant must not have been able to earn income above a certain threshold (known as substantial gainful activity, or SGA). Increasing or eliminating this waiting period would reduce or increase enrollment and outlays for benefits. One proposed option to increase the waiting period would be to extend it—for example, from 5 to 12 months—which might deter some people from applying for DI. This option could create a hardship for individuals with disabilities because they would be forced to wait longer for benefits. Conversely, another proposal would eliminate the 5-month waiting period so that an individual would be eligible for DI benefits the day he or she was deemed disabled or had to stop working because of the onset of disability. This option would increase the program's costs.

3. What changes have been proposed to help improve administration of the DI program?

Another set of proposed options could help improve SSA's ability to appropriately determine who initially qualifies and continues to qualify for benefits, as well as assist eligible beneficiaries in returning to work. Improving these administrative aspects of DI could reduce growth in DI enrollment, improve program integrity, and target resources more efficiently and effectively. These include:

- ***Updating disability criteria to increase consideration of functional ability.*** SSA relies on outdated disability criteria that do

[92]This reduction could begin for workers starting at any age—such as 53, as proposed in one option—up to the early retirement age.

[93]See Congressional Budget Office, *Options for Reducing the Deficit: 2014 to 2023* (Washington, D.C.: November 2013).

[94]CBO generally did not estimate the effects of this option on those other federal programs. See Congressional Budget Office, *Policy Options for the Social Security Disability Insurance Program* (Washington, D.C.: July 2012).

not reflect medical and technological advances and labor market changes, such as the move from a manual labor to a more knowledge- and service-based economy. Consistent with modern concepts of disability, SSA could give greater consideration to incorporating assistive devices, such as wheelchairs, and workplace accommodations into its disability criteria.[95] While such a step could improve benefit decisions (i.e., awarding benefits only to individuals who are unable to work), it remains to be seen what effect these efforts might have on the inflow of DI applications.

- ***Changing hearing-level decision making***. If a claimant's application is denied, the claimant may ultimately request a hearing before a federal administrative law judge (ALJ).[96] Approval rates vary across ALJs and claims at the hearing level are approved at higher rates than initial claims. In addition, the claimant may elect to have an attorney or other individual represent them, but SSA does not have similar representation. One proposed option would change the hearings process by creating an attorney position to represent SSA so that both claimant and SSA are afforded representation, much like a traditional courtroom setting. While likely to increase administrative costs in the short term, proponents argue that this alternative would improve the quality and consistency of ALJ decisions, which may help lower the overall allowance rate and thus reduce the growth of DI enrollment. However, little empirical information about the effects of this option is

[95]GAO, *Modernizing SSA Disability Programs: Progress Made, but Key Efforts Warrant More Management Focus*, GAO-12-420 (Washington, D.C.: June 19, 2012). In response to our recommendation, SSA reported that it has contracted with the National Academy of Sciences, Institute of Medicine, to provide the agency with updated information on the extent to which assistive devices and workplace accommodations are relevant to SSA's disability criteria and are universally available. However, SSA has also noted that the concept of "workplace accommodations" tracks closely with the Americans with Disabilities Act's concept of "reasonable accommodations." According to SSA, under the Americans with Disabilities Act, courts determine what constitutes a reasonable accommodation by looking at a specific employer and a specific employee or job applicant, but SSA has asserted that this approach is not compatible with the Social Security Act's definition of disability.

[96]In most states, prior to requesting a hearing before an ALJ, the claimant must first have his or her claim reconsidered. However, according to SSA, the agency has eliminated the reconsideration step in 10 states.

available.[97] As a result, SSA may want to pilot test this or related options to determine whether such changes could improve hearing-level decision making in a cost-effective manner.

Another option is closing the record after the ALJ hearing or ALJ decision. SSA currently permits claimants to continue to introduce new evidence after the ALJ hearing or decision—showing that their disability has worsened or that they have incurred additional medical impairments—relating to the period on or before the date of the ALJ decision. Proponents of this option have argued that claimants and their representatives have abused their due process and that the ever-changing evidentiary record has further increased an already lengthy and costly process. Requiring claimants to produce all needed evidence prior to a hearing or ALJ decision could potentially alleviate some of these challenges. However, others have cautioned that information important to making sound decisions may not always be obtained before the record closes. In these cases, the record may need to be reopened if the claimant can show good cause.

- ***Stabilizing funding for SSA.*** Aside from the benefits SSA pays beneficiaries, SSA's administrative activities—such as determining eligibility and conducting program integrity work—are funded by the annual appropriations process. SSA's challenges with managing its workloads given available resources have led, in part, to backlogs, and some have suggested transferring SSA administrative funding to the mandatory side of the federal budget to help reduce these backlogs. While spending for administrative activities only represents 0.7 percent of Social Security expenditures, this option would increase mandatory spending, which is a growing area of the federal budget.

- ***Stabilizing funding and addressing challenges with continuing disability reviews (CDR).*** A related option would make funding mandatory specifically for conducting CDRs. CDRs—periodic assessments of whether DI beneficiaries continue to meet SSA's

[97]In 1986, a federal judge issued an injunction against SSA's previous pilot involving SSA representation. See Salling v. Bowen, 641 F. Supp. 1046 (W.D. Va. 1986). Since then, the Social Security Advisory Board has considered an alternative approach that may avoid legal challenges similar to those received in the past and could improve ALJ decision making. For more information, see Frank Bloch, Jeffrey Lubbers, and Paul Verkuil, *Introducing Nonadversarial Government Representatives to Improve the Record for Decision in Social Security Disability Adjudications: A Report to the Social Security Advisory Board* (May 2003).

definition of disability—are a key to ensuring the integrity of the program. These assessments provide an important check on program growth by removing recipients who are no longer eligible from the program, even while new applicants are added. In an October 2014 report, SSA estimated total savings across four programs (i.e., DI, OASI, Medicare, and Medicaid) to be more than $14 for every $1 invested in conducting CDRs. SSA also projected that CDRs completed in fiscal year 2012 will result in a present value of $7 billion in future benefits saved across these four programs.[98] SSA also reported that it ceased benefits for about 7 percent of all adult DI beneficiaries who received a full medical CDR decision in fiscal year 2012. However, SSA has struggled to keep up with CDRs, and the number of adult CDRs conducted fell 69 percent from fiscal years 2000 to 2011.[99]

While stabilizing funding could help SSA address CDR workloads, other challenges remain that have implications for the consistency and fairness of the CDR decision-making process using the medical improvement standard. Regarding individuals whose impairments have improved, this standard generally requires SSA to find substantial evidence demonstrating medical improvement before ceasing a recipient's benefits.[100] As such, the standard makes efforts to cease a recipient's benefits more difficult than to continue them. In implementing the standard, SSA has faced several challenges, such as inadequate documentation of evidence in prior decisions and limitations in its guidance for applying the standard, which may make it difficult to assess medical improvement. In 2006, we recommended that SSA fully clarify guidance concerning (1) the degree of improvement required to meet the standard and (2) when the use of

[98]SSA, *Annual Report on Continuing Disability Reviews, Fiscal Year 2012* (Washington, D.C.: Oct. 23, 2014).

[99]For more information on CDRs, see GAO, *Social Security Disability Programs: SSA Could Take Steps to Improve Its Assessment of Continued Eligibility,* GAO-14-492T (Washington, D.C.: Apr. 9, 2014).

[100]SSA must also find substantial evidence that such an individual is able to engage in substantial gainful activity (SGA).

exceptions to medical improvement is appropriate.[101] Since then, SSA has taken some steps that may help address the issues we raised, but has not fully implemented the actions we recommended.[102]

- ***Improving awareness of existing return-to-work services.*** There are policies and programs that encourage financial independence and help eligible beneficiaries overcome barriers to employment. For example, DI beneficiaries can test their ability to work by participating in a 9-month trial work period (and a 3-month grace period) and still receive full DI benefits. In addition, the Ticket to Work and Self Sufficiency Program allows individuals to obtain employment services while still receiving disability benefits.[103] Nevertheless, few beneficiaries permanently leave the DI program. Moreover, participation in the Ticket to Work program has been low due, in part, to a lack of understanding and awareness of the program or fear of losing benefits if beneficiaries increase their incomes through work.[104] SSA could increase awareness of work incentives and Ticket to Work services by, for example, mandating that future beneficiaries receive counseling to educate them on return-to-work services provided by SSA. For example, SSA could increase awareness of options for continued health care coverage under the Patient Protection and Affordable Care Act. However, SSA has noted that DI beneficiaries are more likely to stay on the rolls due to their poor health than their

[101]GAO, *Social Security Disability Programs: Clearer Guidance Could Help SSA Apply the Medical Improvement Standard More Consistently*, GAO-07-8 (Washington, D.C.: Oct. 3, 2006). Federal law allows SSA to discontinue benefits even when the individual has not improved medically, if one of the exceptions set forth in law applies: the person benefits from advances in medical or vocational therapy or technology and is able to engage in substantial gainful activity, the person has undergone a vocational therapy program related to his or her ability to work and is able to engage in substantial gainful activity, new or improved diagnostic techniques or evaluations reveal that the impairment is less disabling than originally thought and the person is able to engage in substantial gainful activity, or the prior decision was in error.

[102]GAO-14-492T.

[103]The Ticket to Work and Self Sufficiency Program, established in 1999, provides eligible beneficiaries (ticket holders) with a ticket they may assign to SSA-approved public or private providers (referred to as employment networks) or from traditional state vocational rehabilitation agencies. Employment networks or state agencies are to provide employment services, vocational rehabilitation services, or other support services to help ticket holders obtain and retain employment and reduce dependence on SSA benefits.

[104]GAO, *Social Security Disability: Ticket to Work Participation Has Increased, but Additional Oversight Needed*, GAO-11-324 (Washington, D.C.: May 6, 2011).

lack of knowledge about return-to-work services. The Mental Health Treatment Study demonstration found that employment supports, along with medical support and coordinated care, resulted in improved health and employment outcomes for DI beneficiaries with certain impairments. At the same time, few participants had earnings above a level that would suggest departure from the program rolls was likely.[105]

4. What other options have been proposed for expanding opportunities to work?

DI's definition of disability and related eligibility processes require claimants to prove they cannot work at substantial levels. Since this definition was statutorily established, social attitudes and the U.S. economy have changed and medical and technological advancements afford greater opportunities for people with disabilities to work. Consistent with modern views of disability, attachment to the workforce is a positive goal for both the individual and society because it leads to better integration into society, greater worker participation, and other intangible benefits like greater sense of self-worth and independence. Yet, people with disabilities experience relatively low rates of employment and high poverty, and SSA's efforts to boost employment among DI applicants and beneficiaries have met with limited success over the years.

Evidence suggests that DI claimants' and beneficiaries' return to the workforce is made difficult, in part, by the substantial amount of time they have spent away from employment while applying for or receiving DI benefits. To help workers with disabilities stay in or return to the workforce, options could include providing assistance or supports to (1) people before they apply for DI, (2) claimants applying for benefits, or (3) beneficiaries to help them achieve their full work potential. Options also include altering disability benefits or work incentives to encourage individuals to return to the workforce. To the extent these options encourage people with disabilities to forgo applying for DI or limit the amount of time they receive benefits, they have the potential to reduce the number of beneficiaries and program costs. At the same time, some people have disabilities so severe that they may not succeed at work even after extensive assistance. While proponents of these options believe that many DI beneficiaries can achieve their full work potential,

[105]Social Security Administration, *Mental Health Treatment Study: Final Report* (Baltimore, Md., July 2011).

other researchers suggest that the number of beneficiaries who can work may be relatively small.[106]

The first three proposed options presented below generally emphasize intervening early to help people with disabilities remain in the workforce. They include:

- ***Providing services to individuals before they enter DI.*** To help people with disabilities remain in the workforce, federal agencies could partner to provide financial support, vocational rehabilitation, and health benefits directly to individuals before they apply for DI or for those who voluntarily suspend their DI applications. Several proposals call for SSA, in partnership with other federal agencies, to test early-intervention strategies to acquire the evidence needed to assess their merits.[107] Effectively testing possible changes to DI is important given that SSA's past demonstration projects have generally missed opportunities to identify ways to modernize the program and related policies.[108]

- ***Instituting employer incentives to support workers with disabilities.*** To encourage employers to provide return-to-work services and workplace accommodations rather than viewing DI as a program of first resort, one proposal would adopt an approach generally used to fund state unemployment insurance and workers' compensation benefits (termed "experience rating").[109] This approach

[106]Jody Schimmel, David C. Stapleton, and Jae Song, “How Common is ‘Parking’ Among Social Security Disability Insurance Beneficiaries? Evidence from the 1999 Change in the Earnings Level of Substantial Gainful Activity,” *Social Security Bulletin*, vol. 71, no. 4 (2011); Nicole Maestas and Na Yin, “The Labor Supply Effects of Disability Insurance Work Disincentives: Evidence from the Automatic Conversion to Retirement Benefits at Full Retirement Age,” Michigan Retirement Research Center, Working Paper 2008-194 (September 2008). See also GAO, *SSA Disability: SGA Levels Appear to Affect the Work Behavior of Relatively Few Beneficiaries, but More Data Needed,* GAO-02-224 (Washington, D.C.: Jan. 16, 2002).

[107]For example, the President’s fiscal year 2016 budget proposes $400 million for SSA and other federal agencies to test strategies intended to help people with disabilities remain in the workforce.

[108]GAO, *Social Security Disability: Management Controls Needed to Strengthen Demonstration Projects*, GAO-08-1053 (Washington, D.C.: Sept. 26, 2008).

[109]Richard V. Burkhauser and Mary C. Daly, *The Declining Work and Welfare of People with Disabilities: What Went Wrong and a Policy for Change* (Washington D.C.: AEI Press, 2011).

involves levying higher Social Security payroll taxes on employers whose former employees apply and qualify for DI at higher rates than other employers.[110] Employers whose employees enroll in DI at below-average rates would pay a lower payroll tax. Under the current cost structure, employers do not pay additional costs when an employee moves onto the DI program. If employers bore more of the costs of workers moving onto the DI program, they might be encouraged to invest in accommodations and rehabilitation. According to proponents of this option, the Netherlands adopted similar financial incentives for employers to promote continued employment of workers with disabilities and experts report that this nation has experienced a decline in the share of the workforce receiving disability benefits. However, it is unclear how such foreign experiences would translate to the United States. Further, critics have cautioned that such incentives might cause employers to hire fewer workers who are older or have disabilities and potentially shift these workers to unemployment or general assistance programs.

- ***Expanding employer-sponsored short-term disability insurance.*** Expanding employer-sponsored short-term disability insurance could be done by providing incentives or requiring that employers pay disability benefits for a fixed term and provide return-to-work services to workers soon after the onset of disability.[111] Incentives might include offering tax credits or subsidies or lowering payroll taxes employers pay. One specific proposal would require employers to pay benefits (a partial wage replacement) for 2 years, with employers able to collect up to 40 percent of the private insurance premiums from their workers to offset the costs.[112]

[110]For more information about experience rating in workers' compensation programs, see Burkhauser, Daly and Richard V. Burkhauser, Maximilian D. Schmeiser and Robert R. Weathers II, *The Importance of Anti-Discrimination and Workers' Compensation Laws on the Provision of Workplace Accommodations Following the Onset of a Disability,* funded by the Department of Education, National Institute on Disability and Rehabilitation Research, October 2009.

[111]According to the Department of Labor, several states provide short-term disability insurance.

[112]David H. Autor and Mark Duggan, *Supporting Work: A Proposal for Modernizing the U.S. Disability Insurance System* (Washington, D.C.: The Center for American Progress and The Hamilton Project, December 2010).

Others have proposed structural changes to how benefits are determined or delivered to beneficiaries. These options include:

- ***Adopting a partial disability system.*** DI is limited to individuals with disabilities that generally prevent them from working.[113] In contrast to this generally all-or-nothing approach, a partial disability benefit recognizes that some individuals with disabilities can still work, but have lower earning potential and may need financial support to make up for lost earnings. Policymakers could adopt a partial disability system—like that of the Department of Veterans Affairs—that uses a predetermined schedule or medical listings to assign a percent disability rating to a person. These ratings determine the amount of cash benefits a person receives. Although cash benefits would be lower for those with less-severe disabilities, this option may increase the overall number of people with disabilities eligible for DI and increase program complexity.

- ***Replacing DI for working-age people with a custom package of work and other supports.*** Research suggests that an increasing number of DI claimants are younger workers with mental or musculoskeletal disorders, even though such workers may have recent attachment to and often have some capacity to remain in the workforce. One proposal would replace DI for individuals who have some capacity to work with a customized benefit package—including one or more of the following: cash benefits, tax credits, employment services, and accommodations.[114] Eligibility criteria would focus on potential work capacity rather than on inability to work. Current DI benefits could generally be maintained for individuals deemed to have very limited or no capacity to work. However, SSA has noted that individuals who are restricted to unskilled work, regardless of age, would retain very little or no capacity to work in an increasingly knowledge- and skills-based economy.

- ***Improving work incentives for beneficiaries.*** The DI program's limit on income earned from working (known as substantial gainful activity or SGA) presents a disincentive for individuals to work beyond the

[113]Individuals receiving DI benefits generally may not earn more than a certain threshold, known as substantial gainful activity (SGA).

[114]David Mann and David Stapleton, *A Roadmap to a 21st-Century Disability Policy*, (Washington, D.C.: Mathematica Policy Research, 2012).

SGA amount.[115] Currently, SSA is conducting a test demonstration—the Benefit Offset National Demonstration (BOND)—whereby certain beneficiaries may earn more than SGA, and benefits are reduced by $1 for every $2 in earnings above SGA.[116] Another proposed option would further increase work incentives and make the program more flexible by reducing or temporarily suspending DI benefits when a beneficiary is able to work and restoring the benefits when earnings decline for any reason.[117] This would allow people with disabilities to choose when and how much to work according to their health condition, work opportunities, and abilities.[118] Advocates of this option believe it provides DI beneficiaries with a greater incentive to work than the BOND approach that SSA has been testing, which reduces individuals' benefits as a result of earnings above SGA.

- ***Time-limiting DI benefits.*** Another proposed option is to limit DI benefits based on the likelihood of improvement in a beneficiary's disability over time. Upon reaching the specified time limit, beneficiaries whose medical condition is expected to improve would need to reapply for DI. For this group of beneficiaries, SSA could forgo conducting a CDR and the need to find substantial evidence of medical improvement. The process for determining medical improvement—known as the medical improvement standard, as discussed earlier—is a time-consuming effort and one that SSA has struggled to apply effectively. However, adopting this option would

[115]For the SGA in 2015, a DI beneficiary must not earn more than $1,090 (or $1,820 if one is blind) per month, or they risk losing their benefits.

[116]Federal law required SSA to conduct, among other demonstrations, the BOND demonstration in part to test alternative DI work rules that attempt to increase the incentive for beneficiaries to work. Under BOND, beneficiaries participating in the demonstration are eligible for a benefit offset after completing a 9-month trial work period and a 3-month grace period. Although the demonstration and related analyses are still underway, some experts have criticized this demonstration project for methodological and implementation deficiencies.

[117]Currently, SSA provides flexibility to earn above the SGA for a specified period of time. Specifically, after completing a 9-month trial work period, beneficiaries enter a 36-month extended period of eligibility. During this time, SSA pays benefits in months that an individual earns below SGA and suspends them in months that the individual earns above SGA.

[118]Jagadeesh Gokhale, *SSDI Reform: Promoting Gainful Employment while Preserving Economic Security* (Washington, D.C.: Cato Institute, Oct. 22, 2014).

likely increase the number of beneficiaries reapplying for benefits, resulting in additional administrative costs.

Section V: A Framework for Evaluation

Social Security is so deeply woven into the fabric of our nation that any proposed change should take into account the program in its entirety. Changes that address solvency will present trade-offs regarding the distribution of benefits, revenues, and program costs, but Social Security's challenges also extend beyond projected solvency. In addition, proposals to change Social Security often combine various changes to the program in a comprehensive package. These changes can interact with or offset one another, so it is important to evaluate complete proposals to capture such interactions. Since evaluating such proposals can be complex, GAO developed a broad framework that considers not only projected solvency but other aspects of the program as well.[119]

Specifically, the framework for evaluating proposals uses three basic criteria:

- the extent to which a proposal achieves "sustainable solvency" and how it would affect the national economy and the federal budget;
- the relative balance struck between the goals of individual equity and income adequacy; and
- how readily a proposal could be implemented, administered, and explained to the public.

"Sustainable solvency"—ensuring that the projected balance between program assets and costs is positive throughout a 75-year period and stable or rising at the end of the period—is the first important criterion in assessing proposals to change Social Security. In addition, policymakers should also consider the balance between the twin goals of individual equity and income adequacy. Individual equity focuses on whether, over the course of a lifetime, individuals receive benefits that bear a reasonable relationship to their past earnings and contributions (for example, the rates of return on contributions). Income adequacy, on the other hand, focuses on the level and certainty of benefits for individuals and families. Finally, considering how readily a proposed change could be implemented, administered, and explained to the public is important. Factors such as feasibility, complexity, and cost of implementation and administration can influence policy choices, and changes that are not

[119]GAO, Social Security: *Criteria for Evaluating Social Security Reform Proposals.* GAO/T-HEHS-99-94 (Washington, D.C.: Mar. 25, 1999).

well-understood could face difficulties in achieving broad public acceptance and support.

Different policymakers may value certain criteria or underlying attributes over others. For example, if policymakers want to protect economically vulnerable populations, then proposals emphasizing income adequacy might be preferred. As they fashion a comprehensive proposal, however, policymakers will ultimately have to balance the relative importance they place on these and other criteria. Careful monitoring and periodic evaluation, accompanied by potential refinements, should therefore be part of the implementation of any change.

Criterion 1: Financing Sustainable Solvency

- Improving projected solvency for the long term requires that Social Security either receives additional revenues, reduces costs (through benefit reductions or stricter eligibility requirements), or undertakes some combination of the two.
- It is important to consider how proposals to achieve solvency would be financed, since this could have important implications for the federal budget and national economy.
- Projections over periods as long as 75 years involve uncertainty because they depend on many demographic, economic, and program-specific factors. As a result, even if Social Security projections suggest that the trust funds are solvent, future demographic patterns and economic trends could emerge that affect solvency in ways that have not been anticipated.

Criterion 2: Balancing Adequacy and Equity in the Benefit Structure

- Social Security's benefit structure addresses the twin goals of individual equity and income adequacy. Virtually all proposals to change Social Security address the concept of income adequacy, but some place a different emphasis on it relative to the goal of individual equity. Differences in how various proposals balance these competing goals will help determine which proposals will be acceptable to policymakers and the public.
- In addition, the effect of a proposal on income adequacy for subgroups of beneficiaries—such as dependents, survivors, people with disabilities, or certain economically vulnerable populations—will depend on how the proposal changes benefits for these subgroups. Proposals that feature a program-wide benefit reduction might also include enhanced benefits for specific subgroups, which can

substantially improve their income adequacy. As a result, any evaluations of adequacy should consider a proposal's provisions taken together as a whole.

- Proposals could also be assessed from a "group equity" perspective. For example, as mentioned earlier, longevity gains have not been uniformly achieved across subgroups of the population, so proposals can have different overall impacts on different segments of the population.

- Proposals may also have different effects on different generations. The sooner a proposal is implemented, the greater the potential equity across generations, since the benefit reductions or tax increases required could be smaller than if the changes were made further down the road. Further, the cost of the changes could be spread across a larger group of workers.

Criterion 3: Implementing and Administering Proposed Reforms

Feasibility of Implementation and Administration

- Some degree of implementation and administrative complexity arises in virtually each proposed policy change to Social Security.

- Another important consideration is the time it takes to phase in changes to Social Security. For example, changes to the full retirement age made in 1983 are still being phased in today.

- Changes to the Disability Insurance (DI) program may raise particular implementation challenges, given the program's inherent complexity. For example, proposals that would change the program's design may require pilot testing to evaluate the potential effects and obtain information on implementation challenges or unintended consequences.

- The broad implications and interactive nature of Social Security and related federal programs may call for the creation of a comprehensive package of policy changes. Implementing a comprehensive package could require collaboration across the Social Security Administration

(SSA), other federal agencies, and state agencies, as well as various congressional committees responsible for different programs.

Public Understanding

- A reasonable amount of time will be required for the general public to understand how program changes might affect them, and to make adjustments based on these changes. For instance, individuals may decide they need to work longer. An outreach and education effort will be needed to increase public confidence and set expectations appropriately.
- Retirement planning is, by nature, a long-term process, and it is important to give Americans not only the time to adapt their plans to changes in Social Security, but also the necessary information to do so.

Section VI: Glossary of Key Terms

Term	Definition
Average indexed monthly earnings (AIME)	The average monthly earnings received over a worker's career, adjusted by the change in national average earnings. It is the dollar amount used to calculate Social Security benefits. To arrive at the AIME, SSA adjusts a person's actual past earnings using an "average wage index."
Baby boom generation	Cohort of Americans born from 1946 through 1964; they represent the longest sustained population growth in U.S. history.
Cash cliff	A term used to describe the abrupt termination of benefits for a Disability Insurance (DI) beneficiary who earns more than the substantial gainful activity (SGA) threshold, as opposed to a more gradual reduction in benefits on a sliding scale as earnings increase. Under current program rules, if a beneficiary earns more than SGA for 12 months via a 9-month trial work period and 3-month grace period, their cash benefits will drop to $0.
Consumer Price Index (CPI)	A measure of the change over time in the prices, inclusive of sales and excise taxes, paid by urban households for a representative market basket of consumer goods and services. The CPI is prepared by the U.S. Department of Labor and used to compute COLA increases for Social Security benefits.
Continuing disability reviews (CDR)	SSA's periodic assessments of whether DI beneficiaries continue to meet the definition of disability.
Contribution and benefit base	The cap on taxable earnings used to fund Social Security. The cap, also called the taxable maximum wage or taxable wage base, also limits the earnings that can be used in the benefit formula and, therefore, limits the size of benefits. In 2015, the cap is $118,500.
Cost-of-living adjustment (COLA)	An increase (or decrease) in wages or benefits according to the rise (or fall) in the cost-of-living as measured by some statistical measure, often the Consumer Price Index (CPI). Social Security benefits are generally increased each year to keep pace with increases (if any) in the cost of living (inflation), as measured by the CPI.
Covered workers	Workers in covered employment, that is, jobs through which the workers make contributions to Social Security.
Debt held by the public	Federal debt held by all investors outside of the federal government, including individuals, corporations, state or local governments, the Federal Reserve banking system, and foreign governments.
Deficit	The amount by which the government's spending exceeds its revenues in a given period, usually a fiscal year. The federal deficit is the shortfall created when the federal government spends more in a fiscal year than it receives in revenues.
Defined benefit	A type of retirement plan that guarantees a specified retirement payment, generally at a certain age and after a specified period of service. Defined benefit plans promise their participants a steady retirement income, based on a formula that often reflects factors such as years of service, age at retirement, and salary averaged over some number of years. Defined benefit plans offer benefits as a lifetime annuity, but may offer departing participants the opportunity to receive lump sum distributions. Defined benefit plans are one of two basic types of employer-sponsored pension plans.

Term	Definition
Defined contribution	A type of retirement plan that establishes individual accounts for employees to which the employer, participants, or both make periodic contributions. Defined contribution plan benefits are based on employer and participant contributions to and investment returns (gains and losses) on the individual accounts. Employees bear the investment risk and often control, at least in part, how their individual account assets are invested. Defined contribution plans are one of two basic types of employer-sponsored pension plans.
Dependent	A person who is eligible for benefits or care because of his or her relationship to an individual.
Disability	Disability under Social Security is based on the inability to work. A person is disabled if the person cannot do work that he or she did before and SSA decides that the person cannot adjust to other work because of his or her medical condition(s). A person’s disability must also last or be expected to last for at least 1 year or be expected to result in death. The definition of disability under Social Security is different than under some other programs. Social Security pays only for total long-term disability. No benefits are payable for partial disability or for short-term disability.
Disability Insurance (DI)	Social Security program that provides monthly benefits to eligible working-age adults who are unable to work due to a long-term disability.
Early retirement age	The age at which individuals qualify for reduced retirement benefits if they choose to collect benefits before the full retirement age; the current early retirement age for Social Security is 62. Individuals who choose to take retirement benefits early will have their monthly benefits permanently reduced, based on the number of months they receive benefits before they reach full retirement age.
Eligibility	Conditions that must be met for participation. For example, to be eligible for Social Security retirement benefits, individuals generally need 40 quarters of coverage. Each year, the amount of earnings needed for a credit generally rises as the average earnings levels rise. In 2015, a worker receives 1 credit for each $1,220 of earnings, up to the maximum of 4 credits per year.
Entitlement	A federal program or provision of law that requires payments to any person or unit of government that meets the eligibility criteria established by law. Social Security, Medicare, Medicaid, and veterans' compensation are examples of entitlement programs.
Extended period of eligibility (EPE)	A 36-month period that follows a 9-month trial work period in the Disability Insurance program. During this 36-month period, SSA will pay DI benefits to individuals in months in which they earn below SGA. SSA determines that a disability has ceased in the first month an individual earns above SGA. Benefits are paid in that month and the next 2 months (known as the grace period). SSA reinstates benefits during the EPE, without requiring the individual to reapply for benefits, for any subsequent months in which the individual earns less than SGA.
Full retirement age (FRA)	The age at which individuals qualify for unreduced, retirement benefits from Social Security. The full retirement age for Social Security was 65 for many years. Beginning with individuals and spouses born in 1938 or later, the full retirement age increases gradually from age 65 to age 67.
General revenue transfers	Funds moved from the General Fund of the Treasury to other programs, sometimes to maintain the solvency of those programs. General funds have no direct link between how they are raised and how they are spent. General fund receipts include income and excise taxes.

Term	Definition
Gross Domestic Product (GDP)	A commonly used measure of domestic national income. GDP measures the market value of total output of final goods and services produced within a country's territory, regardless of the ownership of the factors of production involved, i.e., local or foreign, during a given time period, usually a year. It is a rough indicator of the economic earnings base from which government draws its revenues.
Hospital Insurance (HI)	Also referred to as Part A of Medicare. HI provides inpatient hospital care, skilled nursing facility care, home health care, and hospice care subject to a benefit period deductible and copayments for certain services.
Income adequacy	The Social Security Act does not explicitly define “adequacy.” However, Social Security was not intended to guarantee an adequate income by itself. Various measures help examine different aspects of this concept, but no single measure can provide a complete picture. Such measures include poverty rates, replacement rates, and the proportion of the population that depends on others for income support.
Individual equity	The relationship of benefits to contributions; for example, implicit rates of return on Social Security contributions or money's-worth ratios.
Medical improvement standard	Under this standard, regarding individuals whose impairments have improved, SSA may only discontinue DI benefits for an individual if it finds substantial evidence demonstrating that 1) the beneficiary’s medical condition has improved and 2) that the individual is able to engage in substantial gainful activity (SGA). If SSA determines that these conditions have not been met in the course of conducting a CDR, the individual may continue to receive benefits until he or she is subject to a subsequent CDR (which potentially could result in a discontinuation of benefits), dies, or transitions to Social Security retirement benefits.
Off-budget	Refers to the status of transactions of the government (either federal funds or trust funds) that belong on-budget according to generally accepted budget concepts, but which are required by law to be excluded from the budget. The budget documents routinely report the on-budget and off-budget amounts separately and then add them together to arrive at the unified budget totals.
Old-Age and Survivors Insurance (OASI)	Social Security program that provides monthly cash benefits to eligible workers and their dependents when workers retire and to workers’ eligible surviving dependents when eligible workers die.
Old-Age, Survivors, and Disability Insurance (OASDI)	The two Social Security programs—Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI)—that provide monthly cash benefits to beneficiaries and their dependents when the beneficiaries retire, to beneficiaries’ surviving dependents, and to workers with disabilities and their dependents.
On-budget	Refers to transactions that are included within the budget.
Pay-as-you-go	System of financing in which contributions that workers make in a given year fund the payments to beneficiaries in that same year, and the system’s trust funds are kept to a relatively small contingency reserve.
Payroll tax	Tax imposed on some or all of workers' earnings that can be imposed on employers, employees, or both. Payroll taxes are one of the means used to finance the Social Security and Medicare programs. Employers and employees each pay Social Security taxes equal to 6.2 percent of all employee earnings up to a cap and pay Medicare taxes of 1.45 percent, with no cap. Payroll taxes are also known as FICA (Federal Insurance Contributions Act) taxes or SECA (Self-Employment Contributions Act), if self-employed.

Term	Definition
Poverty	Americans are considered “poor” or “in poverty” if they reside in a household with income below the U.S. poverty threshold, as defined by the U.S. Census Bureau. Poverty thresholds differ by family size and are updated annually for inflation using the Consumer Price Index. Median Social Security benefits have historically been close to the poverty threshold. Social Security has contributed to reducing poverty among older Americans.
Price indexation	A method by which benefits are adjusted at periodic intervals by a factor derived from an index of prices; one prominent Social Security policy proposal would price-index earnings to compute benefits, instead of using wage indexing. In the past, wages have grown faster than prices; if this trend continues, indexing earnings to prices instead of wages would reduce benefits.
Primary insurance amount (PIA)	The monthly amount payable to a worker who retires at full retirement age, or to a disabled worker; it is based on a worker’s average indexed monthly earnings.
Progressive	To help ensure that beneficiaries have adequate incomes, Social Security’s benefit formula is progressive; that is, it provides larger benefits, as a percentage of earnings, to lower earners than to higher earners. In the context of tax policy, it describes a tax in which those with higher incomes pay a larger fraction of their income than those with lower incomes. In other words, a tax rate increases as the amount of taxable income increases, or a benefit rate decreases as the amount of income increases.
Rate of return	The gain or loss generated from an investment over a specified period of time. In the context of Social Security, the implicit rate of return on Social Security contributions would be the constant rate of interest (also called the discount rate) that equates the present discounted value of contributions with the present discounted value of benefits.
Replacement rate	The ratio of retirement benefits (from Social Security or employer-sponsored plans) to pre-retirement earnings. Analysts often compare current benefits to a recipient’s previous wages to judge the adequacy of Social Security payments.
Social insurance	Under a social insurance program, society as a whole insures its members against various risks they all face, and members pay for that insurance at least in part through contributions to the system. Social insurance programs, including Social Security, are designed to achieve certain social goals.
Social Security Administration (SSA)	The federal agency that administers all Social Security-related programs including the Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (SSI) programs.
Solvency	For Social Security, a condition of financial viability in which the program can meet its full financial obligations as they come due. Specifically, the ability to pay full benefits using existing revenue sources and trust fund balances. When a program does not meet these conditions, it is said to be insolvent.
Substantial gainful activity (SGA)	The Disability Insurance program’s limit on the amount of income individuals may earn from working while still retaining eligibility for DI benefits.
Supplemental Security Income (SSI)	A federal supplemental income program funded by general revenues (not by Social Security taxes) that helps aged (those 65 and over), blind, and disabled people who have little or no income, by providing monthly cash payments.

<table>
<tr><th>Term</th><th>Definition</th></tr>
<tr><td>Survivor
(Survivor benefits)</td><td>After a beneficiary’s death, Social Security survivor benefits are paid to the beneficiary’s survivors, which include:
the beneficiary's widow/widower age 60 or older, 50 or older if disabled, or any age if caring for an eligible child under age 16 or who is disabled;
the beneficiary's children, if they are unmarried and either under age 18, under 19 but still a full-time elementary or secondary student, or disabled before age 22; and
the beneficiary's parents, if the beneficiary provided at least one-half of their support.
A special one-time lump sum payment of $255 is generally to be made to a widow/widower or minor children. An ex-spouse could also be eligible for a widow/widower's benefit on the beneficiary's record.</td></tr>
<tr><td>Sustainable solvency</td><td>For Social Security to achieve sustainable solvency, the balance between program assets and costs would need to be positive throughout the 75-year projection period and stable or rising at the end of the period.</td></tr>
<tr><td>Trial work period</td><td>The trial work period allows Disability Insurance beneficiaries to test their ability to work for 9 months (not necessarily consecutive months). During this period, beneficiaries will continue to receive full benefits, regardless of earnings, as long as they have reported their work activity to SSA and continue to have a disabling impairment.</td></tr>
<tr><td>Trust fund</td><td>An account designated as a “trust fund” by law that is credited with income from earmarked collections and charged with certain outlays. Collections may come from the public (for example, from taxes or user charges) or from intrabudgetary transfers. The federal government has numerous trust funds. The largest and best-known of these finance major benefit programs (including Social Security and Medicare) and infrastructure spending (the Highway and the Airport and Airway Trust Funds). These trust funds are essentially accounts of the federal government’s budget.</td></tr>
<tr><td>Unified budget</td><td>The budget of the federal government, presented with receipts and outlays from federal funds and trust funds consolidated into a single total. The unified budget includes trust fund receipts as income and trust fund payments as expenditures. As a result, any Social Security surpluses serve to reduce the overall, or unified, federal budget deficit.</td></tr>
<tr><td>Wage indexation</td><td>A method by which benefits are adjusted at periodic intervals. Under its current formula, SSA uses the national average wage indexing series to index a person’s earnings when computing that person’s Social Security benefits.</td></tr>
</table>

Section VII: Related GAO Products

High-Risk Series: *An Update.* GAO-15-290. Washington, D.C.: February 11, 2015.

Retirement Security: *Challenges for Those Claiming Social Security Benefits Early and New Health Coverage Options.* GAO-14-311. Washington, D.C.: April 23, 2014.

Social Security Disability Programs: *SSA Could Take Steps to Improve Its Assessment of Continued Eligibility.* GAO-14-492T. Washington, D.C.: April 9, 2014.

Social Security Administration: *Long-Term Strategy Needed to Address Key Management Challenges.* GAO-13-459. Washington, D.C.: May 29, 2013.

Retirement Security: Women Still Face Challenges. GAO-12-699. (Washington, D.C.: July 19, 2012.

Employment for People with Disabilities: *Little Is Known about the Effectiveness of Fragmented and Overlapping Programs.* GAO-12-677. Washington, D.C.: June 29, 2012.

Modernizing SSA Disability Programs: *Progress Made, but Key Efforts Warrant More Management Focus.* GAO-12-420. Washington, D.C.: June 19, 2012.

Unemployed Older Workers: *Many Face Long-Term Joblessness and Reduced Retirement Security.* GAO-12-724T. Washington, D.C.: May 15, 2012.

Income Security: *Older Adults and the 2007-2009 Recession.* GAO-12-76. Washington, D.C.: October 17, 2011.

Social Security Disability: *Ticket to Work Participation Has Increased, but Additional Oversight Needed*. GAO-11-324. Washington, D.C.: May 6, 2011.

Social Security Reform: *Raising the Retirement Ages Would Have Implications for Older Workers and SSA Disability Rolls.* GAO-11-125. Washington, D.C.: November 18, 2010.

Highlights of a Forum: *Actions that Could Increase Work Participation for Adults with Disabilities.* GAO-10-812SP. Washington, D.C.: July 2010.

Social Security: *Options to Protect Benefits for Vulnerable Groups When Addressing Program Solvency.* GAO-10-101R. Washington, D.C.: December 7, 2009.

Social Security Disability: *Management Controls Needed to Strengthen Demonstration Projects.* GAO-08-1053. Washington, D.C.: September 26, 2008.

Social Security: *Issues Regarding the Coverage of Public Employees.* GAO-08-248T. Washington, D.C.: November 6, 2007.

Social Security Reform: *Issues for Disability and Dependent Benefits.* GAO-08-26. Washington, D.C.: October 26, 2007.

Retirement Security: *Women Face Challenges in Ensuring Financial Security in Retirement.* GAO-08-105. Washington, D.C.: October 11, 2007.

Highlights of a Forum: *Modernizing Federal Disability Policy.* GAO-07-934SP. Washington, D.C.: August 2007.

Social Security Reform: *Greater Transparency Needed about Potential General Revenue Financing.* GAO-07-213. Washington, D.C.: March 22, 2007.

Social Security Reform: *Implications of Different Indexing Choices.* GAO-06-804. Washington, D.C.: September 14, 2006.

Social Security Reform: *Other Countries' Experiences Provide Lessons for the United States.* GAO-06-126. Washington, D.C.: October 21, 2005.

Social Security Reform: *Answers to Key Questions.* GAO-05-193SP. Washington, D.C.: May 2005.

Social Security: *Distribution of Benefits and Taxes Relative to Earnings Level.* GAO-04-747. Washington, D.C.: June 15, 2004.

Federal Trust and Other Earmarked Funds: *Answers to Frequently Asked Questions.* GAO-01-199SP. Washington, D.C.: January 2001.

Social Security: *Issues in Comparing Rates of Return with Market Investments.* GAO/HEHS-99-110. Washington, D.C.: August 5, 1999.

Social Security: *Criteria for Evaluating Social Security Reform Proposals.* GAO/T-HEHS-99-94. Washington, D.C.: March 25, 1999.

Social Security Financing: *Implications of Government Stock Investing for the Trust Fund, the Federal Budget, and the Economy.* GAO/AIMD/HEHS-98-74. Washington, D.C.: April 22, 1998.

Social Security Reform: *Demographic Trends Underlie Long-Term Financing Shortage.* GAO/T-HEHS-98-43. Washington, D.C.: November 20, 1997.

Section VIII: Accessible Data

Data Tables

Data Table for Figure 1: Poverty Rates for Older Americans Have Declined Faster Than for Other Groups (Percentage of population below poverty level)

Year	18 to 64	65 and over	Under 18
1959	27.3	17	35.2
1960	26.9	16.1	34.2
1961	25.6	15.1	33.3
1962	25	14.2	32.3
1963	23.1	13.3	31.4
1964	23	12.4	30.4
1965	21	11.4	29.5
1966	17.6	10.5	28.5
1967	16.6	10	29.5
1968	15.6	9	25
1969	14	8.7	25.3
1970	15.1	9	24.6
1971	15.3	9.3	21.6
1972	15.1	8.8	18.6
1973	14.4	8.3	16.3
1974	15.4	8.3	14.6
1975	17.1	9.2	15.3
1976	16	9	15
1977	16.2	8.8	14.1
1978	15.9	8.7	14
1979	16.4	8.9	15.2
1980	18.3	10.1	15.7
1981	20	11.1	15.3
1982	21.9	12	14.6
1983	22.3	12.4	13.8
1984	21.5	11.7	12.4
1985	20.7	11.3	12.6
1986	20.5	10.8	12.4
1987	20.3	10.6	12.5
1988	19.5	10.5	12
1989	19.6	10.2	11.4
1990	20.6	10.7	12.2
1991	21.8	11.4	12.4
1992	22.3	11.9	12.9

Year	18 to 64	65 and over	Under 18
1993	22.7	12.4	12.2
1994	21.8	11.9	11.7
1995	20.8	11.4	10.5
1996	20.5	11.4	10.8
1997	19.9	10.9	10.5
1998	18.9	10.5	10.5
1999	17.1	10.1	9.7
2000	16.2	9.6	9.9
2001	16.3	10.1	10.1
2002	16.7	10.6	10.4
2003	17.6	10.8	10.2
2004	17.8	11.3	9.8
2005	17.6	11.1	10.1
2006	17.4	10.8	9.4
2007	18	10.9	9.7
2008	19	11.7	9.7
2009	20.7	12.9	8.9
2010	22	13.8	8.9
2011	21.9	13.7	8.7
2012	21.8	13.7	9.1
2013	19.9	13.6	9.5

Source: U.S. Bureau of the Census, Current Population Survey, Annual Social and Economic Supplements. | GAO-16-75SP

Data Table for Figure 2: Social Security Benefit Formula Replaces Earnings at Different Rates

Average indexed monthly earnings (AIME)	Monthly benefit amount (2015 dollars)
0	0
100	90
200	180
300	270
400	360
500	450
600	540
700	630
800	720
900	767.08

Average indexed monthly earnings (AIME)	Monthly benefit amount (2015 dollars)
1,000	799.08
1,100	831.08
1,200	863.08
1,300	895.08
1,400	927.08
1,500	959.08
1,600	991.08
1,700	1023.08
1,800	1055.08
1,900	1087.08
2,000	1119.08
2,100	1151.08
2,200	1183.08
2,300	1215.08
2,400	1247.08
2,500	1279.08
2,600	1311.08
2,700	1343.08
2,800	1375.08
2,900	1407.08
3,000	1439.08
3,100	1471.08
3,200	1503.08
3,300	1535.08
3,400	1567.08
3,500	1599.08
3,600	1631.08
3,700	1663.08
3,800	1695.08
3,900	1727.08
4,000	1759.08
4,100	1791.08
4,200	1823.08
4,300	1855.08
4,400	1887.08
4,500	1919.08
4,600	1951.08

Average indexed monthly earnings (AIME)	Monthly benefit amount (2015 dollars)
4,700	1983.08
4,800	2015.08
4,900	2047.08
5,000	2075.68
5,100	2090.68
5,200	2105.68
5,300	2120.68
5,400	2135.68
5,500	2150.68
5,600	2165.68
5,700	2180.68
5,800	2195.68
5,900	2210.68
6,000	2225.68
6,100	2240.68
6,200	2255.68
6,300	2270.68
6,400	2285.68
6,500	2300.68
6,600	2315.68
6,700	2330.68
6,800	2345.68
6,900	2360.68
7,000	2375.68

Source: GAO analysis of Social Security Administration data. | GAO-16-75SP

Data Table for Figure 3: Social Security Benefit Formula Provides Relatively Larger Benefits for Beneficiaries with Low Career Earnings

Career-average earnings	Percentage of income replaced
Low	49.1
Medium	36.4
High	30.1

Source: Social Security Administration, Annual Statistical Supplement, 2014. | GAO-16-75SP

Data Table for Figure 4: Percentage of Covered Earnings Subject to the Social Security Payroll Tax, 1975 to 2013

Year	Percentage of covered earnings subject to the Social Security payroll tax
1975	84.4
1976	84.3
1977	85
1978	83.8
1979	87.3
1980	88.9
1981	89.2
1982	90
1983	90
1984	89.3
1985	88.9
1986	88.6
1987	87.6
1988	85.8
1989	86.8
1990	87.2
1991	87.8
1992	86.8
1993	87.2
1994	87.1
1995	85.8
1996	85.7
1997	85.1
1998	84.5
1999	83.9
2000	83.2
2001	84.7
2002	86.1
2003	85.9
2004	84.8
2005	84.1
2006	83.4
2007	82.6
2008	83.6

Year	Percentage of covered earnings subject to the Social Security payroll tax
2009	85.2
2010	84
2011	83.2
2012	82.8
2013	82.7

Source: Social Security Administration, Annual Statistical Supplement, 2014. | GAO-16-75SP

Data Table for Figure 5: Old-Age, Survivors, and Disability Insurance Trust Funds Had Surplus Revenues from 1984 to 2009, but the Financial Status of the Trust Funds Has Changed (Surplus revenues is calculated as Non-interest revenues minus total costs, in billions of dollars)

Year	Surplus revenues
1980	-6.1
1981	-4.2
1982	-13.6
1983	-8.2
1984	2.8
1985	10.2
1986	11.4
1987	16.6
1988	32.8
1989	40.5
1990	45.1
1991	33.6
1992	25.3
1993	18.9
1994	27
1995	24.7
1996	32.2
1997	44.8
1998	57.6
1999	78.2
2000	88.8
2001	90.2
2002	85
2003	67.9

Year	Surplus revenues
2004	67.1
2005	77.6
2006	87.1
2007	80.2
2008	63.9
2009	3.4
2010	-48.9
2011	-45.4
2012	-54.7
2013	-70.7
2014	-73.1
2015	-83.9
2016	-65.8
2017	-67.3
2018	-73.2
2019	-83
2020	-94.9
2021	-104.9
2022	-118.9
2023	-136.3
2024	-155.5
2025	-174

Source: GAO analysis of data from the 2015 Social Security Trustees' Report. | GAO-16-75SP

Data Table for Figure 6: Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Costs Have Exceeded Non-Interest Revenues

Year	OASI costs	OASI revenue	DI costs	DI revenue
2000	10.85	8.98	1.78	1.42
2005	10.96	9.31	1.84	1.85
2010	10.75	11.06	1.79	2.41
2015	11.01	11.79	1.81	2.34
2020	11.14	12.13	1.83	2.1
2025	11.25	13.1	1.83	2.07
2030	11.32	14.04	1.84	2.05
2035	11.36	14.56	1.84	2.06
2040	11.37	14.64	1.84	2.07
2045	11.37	14.46	1.85	2.14

Year	OASI costs	OASI revenue	DI costs	DI revenue
2050	11.37	14.36	1.85	2.18
2055	11.38	14.48	1.85	2.21
2060	11.4	14.76	1.85	2.2
2065	11.41	15.01	1.86	2.21
2070	11.43	15.29	1.86	2.22
2075	11.44	15.48	1.86	2.2
2080	11.45	15.48	1.86	2.23
2085	11.45	15.53	1.86	2.28
2090	11.46	15.75	1.86	2.27

Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

Data Table for Figure 7: Past and Projected Balances in the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds (End of year assets (in trillions of 2014 dollars))

Year	DI trust fund	OASI trust fund
2010	0.18	2.43
2011	0.15	2.52
2012	0.12	2.61
2013	0.09	2.67
2014	0.06	2.73
2015	0.03	2.77
2016		2.82
2017		2.87
2018		2.91
2019		2.94
2020		2.95
2021		2.96
2022		2.95
2023		2.91
2024		2.85

Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

Data Table for Figure 8: Older Americans Are Representing a Greater Share of the Total Population

Year	Percentage of total population
1950	8
1955	8.6
1960	9.1

Year	Percentage of total population
1965	9.3
1970	9.7
1975	10.4
1980	11.2
1985	11.8
1990	12.3
1995	12.5
2000	12.3
2005	12.3
2010	13
2014	14.3
2015	14.7
2020	16.5
2025	18.4
2030	20
2035	20.7
2040	20.9
2045	20.9
2050	21
2055	21.2
2060	21.6
2065	21.9
2070	22.3
2075	22.6
2080	22.6
2085	22.8
2090	23.2

Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

Data Table for Figure 9: Labor Force Growth Is Expected to Be Negligible by 2050

Year	Annual percentage change
1970	2.6
1971	1.9
1972	3.1
1973	2.8
1974	2.9
1975	2

Year	Annual percentage change
1976	2.5
1977	2.9
1978	3.3
1979	2.7
1980	1.9
1981	1.6
1982	1.4
1983	1.2
1984	1.8
1985	1.7
1986	2.1
1987	1.7
1988	1.5
1989	1.8
1990	1.6
1991	0.4
1992	1.4
1993	0.8
1994	1.4
1995	1
1996	1.2
1997	1.8
1998	1
1999	1.2
2000	2.3
2001	0.8
2002	0.8
2003	1.1
2004	0.6
2005	1.3
2006	1.4
2007	1.1
2008	0.8
2009	-0.1
2010	-0.2
2011	-0.2
2012	0.9

Year	Annual percentage change
2013	0.3
2014	0.3
2015	1.2
2016	1.5
2017	1.4
2018	1.1
2019	1
2020	0.9
2021	0.8
2022	0.6
2023	0.6
2024	0.6
2025	0.6
2026	0.5
2027	0.5
2028	0.5
2029	0.4
2030	0.4
2031	0.4
2032	0.4
2033	0.5
2034	0.5
2035	0.5
2036	0.5
2037	0.6
2038	0.6
2039	0.6
2040	0.6
2041	0.6
2042	0.6
2043	0.6
2044	0.5
2045	0.5
2046	0.5
2047	0.5
2048	0.5
2049	0.5

Year	Annual percentage change
2050	0.5
2051	0.4
2052	0.4
2053	0.4
2054	0.4
2055	0.4
2056	0.4
2057	0.4
2058	0.4
2059	0.4
2060	0.4
2061	0.4
2062	0.4
2063	0.4
2064	0.4
2065	0.4
2066	0.4
2067	0.4
2068	0.4
2069	0.4
2070	0.4
2071	0.4
2072	0.4
2073	0.4
2074	0.4
2075	0.4
2076	0.4
2077	0.4
2078	0.4
2079	0.4
2080	0.4
2081	0.4
2082	0.4
2083	0.4
2084	0.4
2085	0.4
2086	0.4

Year	Annual percentage change
2087	0.4
2088	0.4
2089	0.4
2090	0.4

Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

Data Table for Figure 10: Past and Projected Social Security Covered Workers per Old-Age, Survivors, and Disability Insurance (OASDI) Beneficiary

Year	Annual percentage change
1960	5.1
1961	4.6
1962	4.3
1963	4.1
1964	4
1965	4
1966	3.9
1967	3.9
1968	3.8
1969	3.8
1970	3.7
1971	3.6
1972	3.5
1973	3.5
1974	3.4
1975	3.2
1976	3.2
1977	3.2
1978	3.2
1979	3.2
1980	3.2
1981	3.2
1982	3.1
1983	3.2
1984	3.2
1985	3.3
1986	3.3
1987	3.3

Year	Annual percentage change
1988	3.4
1989	3.4
1990	3.4
1991	3.3
1992	3.3
1993	3.2
1994	3.3
1995	3.3
1996	3.3
1997	3.3
1998	3.4
1999	3.4
2000	3.4
2001	3.4
2002	3.4
2003	3.3
2004	3.3
2005	3.3
2006	3.3
2007	3.3
2008	3.2
2009	3
2010	2.9
2011	2.9
2012	2.9
2013	2.8
2014	2.8
2015	2.8
2016	2.8
2017	2.7
2018	2.7
2019	2.6
2020	2.6
2021	2.5
2022	2.5
2023	2.5
2024	2.4

Year	Annual percentage change
2025	2.4
2026	2.4
2027	2.3
2028	2.3
2029	2.3
2030	2.2
2031	2.2
2032	2.2
2033	2.2
2034	2.1
2035	2.1
2036	2.1
2037	2.1
2038	2.1
2039	2.1
2040	2.1
2041	2.1
2042	2.1
2043	2.1
2044	2.1
2045	2.1
2046	2.1
2047	2.1
2048	2.1
2049	2.1
2050	2.1
2051	2.1
2052	2.1
2053	2.1
2054	2.1
2055	2.1
2056	2.1
2057	2.1
2058	2.1
2059	2.1
2060	2.1
2061	2.1

Year	Annual percentage change
2062	2.1
2063	2.1
2064	2.1
2065	2
2066	2
2067	2
2068	2
2069	2
2070	2
2071	2
2072	2
2073	2
2074	2
2075	2
2076	2
2077	2
2078	2
2079	2
2080	2
2081	2
2082	2
2083	2
2084	2
2085	2
2086	2
2087	2
2088	2
2089	2
2090	2

Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

Data Table for Figure 11: Rate of Insured Population Receiving Disability Insurance (DI) Benefits, per Thousand

year	Annual percentage change
1975	28
1976	30
1977	32

year	Annual percentage change
1978	32
1979	31
1980	31
1981	29
1982	27
1983	26
1984	26
1985	26
1986	27
1987	27
1988	27
1989	27
1990	28
1991	29
1992	31
1993	33
1994	34
1995	35
1996	36
1997	36
1998	36
1999	36
2000	36
2001	37
2002	38
2003	38
2004	39
2005	40
2006	40
2007	41
2008	41
2009	43
2010	44
2011	45
2012	46
2013	46
2014	46

year	Annual percentage change
2015	45
2016	45
2017	45
2018	46
2019	46
2020	46
2021	46
2022	46
2023	46
2024	46
2025	46
2026	46
2027	46
2028	46
2029	46
2030	46
2031	46
2032	46
2033	46
2034	46
2035	46
2036	46
2037	47
2038	47
2039	47
2040	47
2041	47
2042	47
2043	47
2044	47
2045	47
2046	48
2047	48
2048	48
2049	48
2050	48
2051	48

year	Annual percentage change
2052	48
2053	48
2054	48
2055	48
2056	48
2057	48
2058	49
2059	49
2060	49
2061	49
2062	49
2063	49
2064	49
2065	49
2066	49
2067	49
2068	49
2069	49
2070	49
2071	49
2072	49
2073	49
2074	49
2075	49
2076	49
2077	49
2078	49
2079	49
2080	50
2081	50
2082	50
2083	50
2084	50
2085	50
2086	50
2087	50
2088	50

year	Annual percentage change
2089	50
2090	50

Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

Data Table for Figure 12: Federal Spending for Mandatory and Discretionary Programs, Fiscal Years 1984, 2004, and 2014

Year	Net interest	Mandatory	Discretionary
1984	13	42.4	44.5
2004	7	54	39
2014	6.1	61.7	32.2

Source: Office of Management and Budget. | GAO-16-75SP

Data Table for Figure 13: Composition of Spending as a Share of Gross Domestic Product (GDP), Based on GAO's Baseline Extended Simulation (Percentage of GDP)

Year	Net interest	Social Security	Medicare, Medicaid, Children's Health Insurance Program (CHIP), and exchange subsidies	All other spending	Total	Revenue
2014	1.3	4.9	5.1	9.1	20.4	17.7
2020	2.5	5.2	5.6	8	21.3	18
2030	3.8	6	6.7	7.4	23.9	18.3
2040	5.2	6.1	7.9	7.4	26.6	18.3

Source: GAO analysis. | GAO-16-75SP

Data Table for Figure 14: Social Security, Medicare, Medicaid, Children's Health Insurance Program (CHIP), and Exchange Subsidies Spending as a Percentage of Gross Domestic Product (GDP)

Year	Social Security	Medicare	Medicaid, CHIP, and exchange subsidies
2015	4.9	2.9	2.2
2016	4.9	3	2.3
2017	4.9	2.9	2.5
2018	5	2.8	2.5
2019	5.1	3	2.5
2020	5.2	3.1	2.5
2021	5.3	3.2	2.6
2022	5.4	3.4	2.6

Year	Social Security	Medicare	Medicaid, CHIP, and exchange subsidies
2023	5.5	3.3	2.6
2024	5.6	3.3	2.6
2025	5.7	3.6	2.6
2026	5.7	3.6	2.7
2027	5.8	3.7	2.7
2028	5.9	3.8	2.7
2029	5.9	3.9	2.7
2030	6	4	2.7
2031	6	4.1	2.8
2032	6.1	4.2	2.9
2033	6.1	4.3	2.9
2034	6.1	4.3	2.9
2035	6.2	4.4	3
2036	6.2	4.5	3
2037	6.2	4.5	3
2038	6.2	4.5	3.1
2039	6.1	4.6	3.1
2040	6.1	4.6	3.3

Source: GAO analysis based on Social Security and Medicare Trustees' 2014 intermediate projections for Social Security and current law projections for Medicare, and Congressional Budget Office's July 2014 long-term projections for Medicaid adjusted to reflect excess cost growth consistent with the Trustees' assumptions. | GAO-16-75SP

Data Table for Figure 15: Delaying Action to Achieve Social Security Solvency Would Likely Require Greater Benefit Reductions or Tax Revenue Increases

	Benefit reduction		Payroll tax increase	
Year	Immediate action	Delayed Action	Immediate action	Delayed Action
2015	16.4	na	21.1	na
2024	16.4	Na	21.1	Na
2033	16.4	Na	21.1	Na
2034	16.4	21	21.1	29.84
2044	16.4	Na	21.1	Na
2054	16.4	Na	21.1	Na
2064	16.4	Na	21.1	Na
2074	16.4	Na	21.1	Na
2084	16.4	na	21.1	Na
2089	16.4	27	21.1	40.32

Source: 2015 Social Security Trustees' Report (intermediate assumptions). | GAO-16-75SP

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