

# **Status of the Social Security and Medicare Programs**

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**A SUMMARY OF THE  
1998 ANNUAL REPORTS**

**Washington, D.C.  
April 1998**

**Social Security and Medicare  
Boards of Trustees**

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*A MESSAGE TO THE PUBLIC:*

*Social Security and Medicare are among our most important public programs. As a current or future beneficiary, you should know that Social Security and Medicare have always paid full benefits on time.*

*Each year we, the Trustees of the Social Security and Medicare trust funds, report in detail on their financial condition. The reports describe their current and projected financial condition, within the next ten years (the “short term”) and over the next 75 years (the “long term”). This document is a summary of the 1998 reports.*

*The most important new information in this year’s reports is that, as we recommended last year, legislation was enacted to help control Medicare cost growth. The Balanced Budget Act of 1997 not only pushed back the exhaustion date of the Hospital Insurance Trust Fund, but also reduced by one-half the projected long-range financial imbalance facing that program.*

*To facilitate longer term reform of Medicare, including the rapid growth of costs of the Medicare Supplementary Medical Insurance program, we recommended establishing a national advisory group that could develop recommendations for effective solutions to Medicare financing problems. We are therefore gratified that the Balanced Budget Act also established the National Bipartisan Commission on the Future of Medicare, and that the Commission has begun its work. We also are pleased that program integrity efforts aimed at reducing waste, fraud and abuse appear to be having an impact on cost growth in some areas.*

*Finding good solutions to providing medical care for the elderly and disabled will be a continuing and difficult challenge as our population ages and medical care evolves. The action taken last year was a significant first step in meeting that challenge. It reaffirms our strong belief that even though periodic adjustments will likely be necessary, we can find good solutions to Medicare’s financing problems.*

*The Social Security trust funds are projected to be adequately financed until 2032. At that time, annual tax income to the combined trust funds is projected to equal about  $\frac{3}{4}$  of the cost of benefits payable. Individually, the Old-Age and Survivors Insurance (“OASI”) Trust Fund, which pays retirement and survivors benefits, is projected to be able to pay full benefits on time for about 36 years—until 2034. The Disability Insur-*

*ance (“DI”) Trust Fund, which pays disability benefits, is projected to be able to pay full benefits until 2019. It is important to address both the OASI and DI problems soon to allow time for phasing in any necessary changes and for workers to adjust their plans to take account of those changes.*

*Extensive public discussion and analysis of the practical implications of alternatives is essential to developing the broad support needed to enact any Social Security reform legislation. Thus, we cannot overstate the importance we attach to President’s Clinton’s plan for bipartisan forums on Social Security reform across the country this year followed by a White House Conference in December and development of bipartisan legislation early next year.*

*It is critical that every citizen, young, old and in-between, participate in or follow closely the information and arguments brought out in the forums and make their own views known. There is time to discuss and evaluate alternative solutions with deliberation and care, and we must use the coming months to find changes that effectively guarantee a basic level of income for the aged, disabled and survivors of deceased workers. Social Security is too important both to individuals who receive benefits and to our society as a whole to fail to find an acceptable means for protecting this program’s future.*

*With proper public discussion and timely legislative action, Social Security and Medicare will continue to play their critical role in the lives of virtually all Americans.*

*By the Trustees:*

*Robert E. Rubin,  
Secretary of the Treasury,  
and Managing Trustee*

*Alexis M. Herman,  
Secretary of Labor,  
and Trustee*

*Donna E. Shalala,  
Secretary of Health  
and Human Services,  
and Trustee*

*Kenneth S. Apfel,  
Commissioner of  
Social Security,  
and Trustee*

*Stephen G. Kellison,  
Trustee*

*Marilyn Moon,  
Trustee*

A SUMMARY OF THE 1998 ANNUAL SOCIAL SECURITY  
AND MEDICARE TRUST FUND REPORTS

**Who Are the Trustees?** There are six Trustees: the Secretary of the Treasury, the Secretary of Labor, the Secretary of Health and Human Services, the Commissioner of Social Security and two members appointed by the President and confirmed by the Senate to represent the public. Currently, the Public Trustees are Marilyn Moon, an economist who has written extensively on Medicare, and Stephen G. Kellison, an actuary who has taught and consulted widely on social insurance. All trustees serve on the Boards of all of the trust funds described below.

**What Are the Trust Funds?** The trust funds are financial accounts in the U.S. Treasury. Social Security and Medicare taxes, premiums and other income are deposited in these accounts, and Social Security and Medicare benefits are paid from them. The only purposes for which these trust funds can be used are to pay benefits and program administrative costs.

The trust funds hold money not needed in the current year to pay benefits and administrative costs and, by law, invest it in special Treasury bonds that are guaranteed by the U. S. Government. A market rate of interest is paid to the trust funds on the bonds they hold, and when those bonds reach maturity or are needed to pay benefits, the Treasury redeems them.

There are four separate trust funds. For Social Security, the Old-Age and Survivors Insurance (OASI) Trust Fund pays retirement and survivors benefits, and the Disability Insurance (DI) Trust Fund pays disability benefits. (The two trust funds are described together as OASDI.)

For Medicare, the Hospital Insurance (HI) Trust Fund pays for inpatient hospital and related care, and the Supplementary Medical Insurance (SMI) Trust Fund pays for physician and outpatient services. Medicare benefits are provided to most people age 65 and over and to workers who are receiving Social Security disability benefits.

**What Were the Trust Fund Results in 1997?** In December 1997, almost 38 million people were receiving OASI benefits, just over 6 million were receiving DI benefits, and about 38 million people were covered under Medicare. Trust fund operations, in billions of dollars, are shown below.

	OASI	DI	HI	SMI
Assets (end of 1996) . . . . .	\$514.0	\$52.9	\$124.9	\$28.3
Income during 1997 . . . . .	397.2	60.5	130.2	81.9
Outgo during 1997 . . . . .	322.1	47.0	139.5	74.1
Net increase in assets . . . . .	75.1	13.5	-9.3	7.8
Assets (end of 1997) . . . . .	589.1	66.4	115.6	36.1

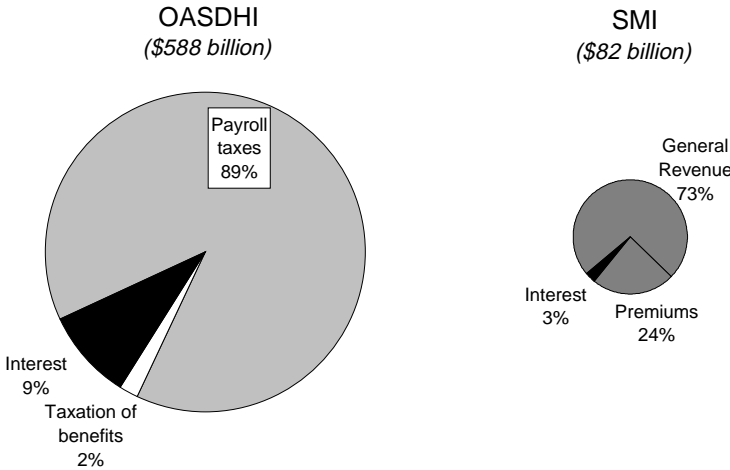
**How Are Social Security and Medicare Paid for?** For Social Security and the Hospital Insurance part of Medicare, the major source of financing is payroll taxes on earnings that are paid by employees and their employers, and by the self-employed. People who are self-employed are charged the equivalent of the combined employer and employee tax rates. In 1997, \$521 billion (89 percent) of total OASI, DI and HI income came from payroll taxes and HI miscellaneous sources (\$3 billion). The remainder was provided by interest earnings (\$53 billion or 9 percent) and revenue from taxation of OASDI benefits (\$11 billion or 2 percent).

The payroll tax rates are set by law and for OASI and DI apply to earnings up to a certain annual amount. This amount, called the earnings base, rises as average wages increase. In 1998, the earnings base for OASDI is \$68,400. HI taxes are paid on total earnings. The tax rates for employees and employers each under current law are:

Year	OASI	DI	OASDI	HI	Total
1997-99. . . . .	5.35	0.85	6.20	1.45	7.65
2000 and later. .	5.30	0.90	6.20	1.45	7.65

The Supplementary Medical Insurance part of Medicare is financed by monthly premiums charged beneficiaries (\$43.80 in 1998) and by payments from Federal general revenues. In 1997, premiums accounted for \$19.3 billion (24 percent) of SMI income and interest income was about \$2.5 billion (3 percent). The remainder, \$60.2 billion (73 percent), consisted of general revenue payments. Chart A shows sources of income in 1997 for OASDI and HI combined and for SMI.

**Chart A—Sources of Income to Trust Funds in 1997**



**What Were the Administrative Expenses in 1997?** Administrative expenses, as a percentage of benefit payments, were:

	<u>OASI</u>	<u>DI</u>	<u>HI</u>	<u>SMI</u>
Administrative Expenses 1997 . . . . .	0.7	2.8	1.0	1.9

**How Are Estimates of the Trust Funds’ Future Status Made?**

Short-range (10-year) and long-range (75-year) estimates are reported for all funds. These estimates are based on assumptions about all of the factors that affect the income and outgo of each trust fund. They include economic growth, wage growth, inflation, unemployment, fertility, immigration, and mortality, as well as specific factors relating to disability incidence and the cost of hospital and medical services.

*Because the future cannot be predicted with certainty, three alternative sets of economic and demographic assumptions are used to show a range of possibilities.* The intermediate assumptions (alternative II) reflect the Trustees’ best estimate of future experience. The low-cost alternative I is more optimistic for trust fund financing, and the high-cost alternative III is more pessimistic; they show trust fund projections if economic and demographic conditions are more or less favorable than the best estimate.

The assumptions are reexamined each year in light of recent experience and new information about future trends, and are revised if warranted. In general, greater confidence can be placed in the assumptions and estimates for earlier projection years than for later years. While estimates of income and expenditures usually have been close to actual experience, any estimates for as long as 75 years into the future are inherently uncertain. Nonetheless, careful review and updating on an annual basis provides an indication of the range of future possibilities.

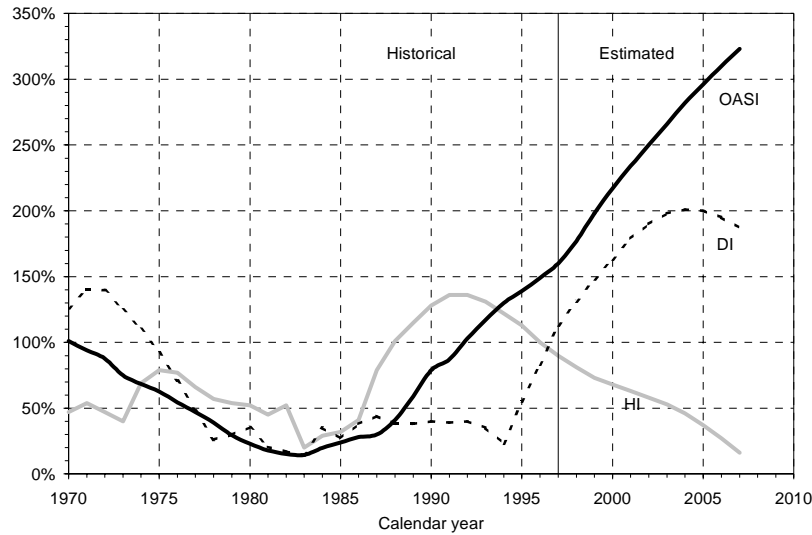
**What is the Short-Range Outlook (1998-2007) for the Trust Funds?**

For the short range, we measure the adequacy of the trust funds by comparing their assets at the beginning of a year to projected benefit payments for that year (the “trust fund ratio”). A trust fund ratio of 100 percent—that is, assets at the beginning of a year at least equal to projected benefit payments for that year—is considered a good test of a trust fund’s short-term adequacy. This level of assets means that even if no income were received for a year, the trust fund could pay full benefits, thereby allowing time for legislative action to restore financial adequacy.

By this measure, the OASI and DI funds are considered financially adequate throughout the short range because assets of both funds are over the 100 percent level through the year 2007. However, the trust fund ratio for HI is below 100 percent at the beginning of the 10-year period and

declines steadily. Under the intermediate assumptions, the HI Trust Fund is exhausted in 2008. Chart B shows the OASI, DI and HI “trust fund ratios” under the intermediate assumptions.

**Chart B—OASI, DI, and HI Trust Fund Ratios**  
*[Assets as a percentage of annual expenditures]*



A less stringent “contingency reserve” asset test applies to SMI, but only because its financing—beneficiary premiums and Federal general revenue payments—is automatically adjusted each year to meet expected costs.

The table below shows, in dollars, the projected income and outgo, and the change in the balance of each trust fund over the next 10 years.

**ESTIMATED OPERATIONS OF TRUST FUNDS**  
*(In billions of dollars—totals may not add due to rounding)*

Year	Income				Expenditures				Change in fund			
	OASI	DI	HI	SMI	OASI	DI	HI	SMI	OASI	DI	HI	SMI
1998	421	64	136	81	332	51	144	83	88	13	-8	-2
1999	437	66	140	88	343	54	147	88	95	13	-7	0
2000	454	73	145	98	357	57	150	97	97	16	-4	0
2001	476	77	151	108	372	61	154	107	104	16	-3	0
2002	500	81	157	119	389	66	161	118	111	15	-4	1
2003	526	85	163	131	407	71	170	130	119	14	-7	1
2004	554	90	170	143	427	77	181	142	127	13	-11	1
2005	586	94	178	156	449	84	193	155	137	11	-15	1
2006	620	99	186	173	473	91	207	169	147	8	-21	4
2007	658	105	195	191	500	99	221	186	159	5	-26	5



### What is the Long-Range (1998-2072) Outlook for the Trust Funds?

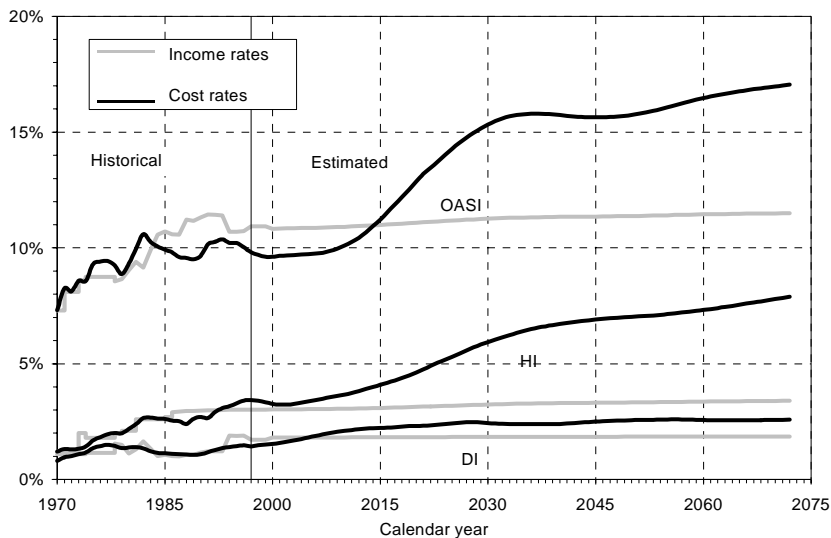
Over the long term neither the OASI, the DI nor the HI Trust Fund is projected to be in balance. Chart C compares, under the intermediate assumptions, the trends over the next 75 years in income and costs of these funds.

In Chart C the long-range income and cost of OASI, DI and HI are measured in percentage of taxable payroll rather than in dollars because the value of a dollar changes over time. (Taxable payroll is the portion of total wages and self-employment earnings that is taxed under the OASDI and HI programs.) Over the 75-year period, the income rates for OASI, DI and HI remain relatively constant, while the cost rates rise substantially.

For OASI, the income rate is projected to remain above the cost rate for 17 years. Starting in about 2010, however, the OASI cost rate will begin increasing rapidly as the leading edge of the “baby-boom” generation reaches retirement age. In 2015 and later, the cost rate for OASI will exceed the income rate by generally growing amounts—by the end of the 75-year projection period the cost rate for OASI will be almost 1½ times as large as the income rate.

The income rate for DI is higher than or equal to the cost rate only through 2005, after which the annual shortfall of tax income is projected to increase slowly over the 75-year period.

**Chart C—Income and Cost Rates**  
*[Percentage of taxable payroll]*



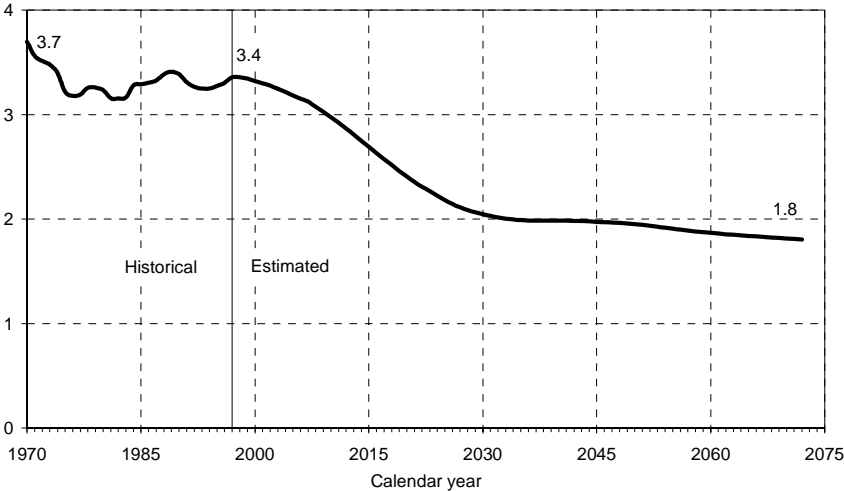
The cost rate for HI is higher than the income rate by growing amounts throughout the projection period—by 2072, the HI cost rate is projected to be over 2 1/4 times as large as the HI income rate.

The income rates for OASI, DI and HI remain relatively constant in Chart C because the payroll tax rates for the programs are not scheduled to change (except for a small shift from OASI to DI in 2000). Income from taxation of benefits will rise gradually, primarily because a greater proportion of beneficiaries will become subject to taxation in future years, and this accounts for the slight upward trend in the income lines.

The cost rates increase much more rapidly, especially for OASI and HI. The cost rate for OASI rises slowly until 2010, increases rapidly for about the next 20 years, and then grows more moderately. The cost rate for HI increases throughout the 75-year period.

**Why Do Costs Rise Faster Than Income?** The primary reason that the OASI cost rate increases more steeply after 2010 is that the number of people receiving benefits will increase rapidly as the “baby-boom” generation retires, while the number of workers paying payroll taxes grows more slowly. The HI cost rate increases not only because of growth in the number of beneficiaries per worker, but also because of increases in both the use and cost of health care per person. Chart D shows the number of workers per OASDI beneficiary over the 75-year period. (The ratio of workers to HI beneficiaries is similar.)

**Chart D—Number of Workers per OASDI Beneficiary**



In addition to demographic changes, the other major factor in the long-range financing of OASDI and HI is the rate of increase in the wages on which workers pay Social Security and Medicare taxes. The rate of increase in workers' wages in turn depends on how workers are able to combine their skills and work tools to increase the amount they can produce. Thus, increases in workers' productivity can help offset some of the decline in the number of workers per beneficiary.

**What is the Long-Range Actuarial Balance of Each Trust Fund?**

Another useful way to view the outlook of the trust funds is in terms of their long-range actuarial balances over the whole 75-year valuation period. The actuarial balance of a fund is the difference between annual income and costs, expressed as a percentage of taxable payroll, summarized over the 75-year projection period. The OASI, DI and HI Trust Funds each have an actuarial deficit under the intermediate assumptions, as shown below. These actuarial deficit amounts can be interpreted as the percentage that would have to be added to the current law income rate in each of the next 75 years, or subtracted from the cost rate in each year, to bring the funds into actuarial balance.

**ACTUARIAL DEFICIT OF THE OASI, DI AND HI TRUST FUNDS**  
*(Deficit as a percent of taxable payroll)*

	<u>OASI</u>	<u>DI</u>	<u>OASDI</u>	<u>HI</u>
Actuarial Deficit . . . . .	1.81	0.38	2.19	2.10

**What Are Key Dates in Long-Range OASI and DI Financing?** For the next 15 years (through 2012) annual income to the OASI and DI Trust Funds is projected, under the intermediate assumptions, to exceed outgo. As the “baby-boom” generation reaches retirement age over the period from 2010 to 2030, several important points will occur, as shown below.

- 2013 - First year OASDI outgo exceeds tax income
- 2019 - Year DI trust fund assets are exhausted
- 2021 - First year OASDI outgo exceeds tax plus interest income
- 2032 - Year combined OASDI trust funds' assets are exhausted
- 2034 - Year OASI trust fund assets are exhausted

These key dates are 1 to 4 years later than those shown in the 1997 report, due in large part to better actual and expected economic performance.

Exhaustion of a trust fund means that its accumulated assets are depleted. Payroll tax and other income will continue to flow into the fund, however. For example, in 2034, tax income to the OASI fund is estimated to be sufficient to pay about  $\frac{3}{4}$  of program costs; that ratio is projected to decline to about  $\frac{2}{3}$  by the end of the projection period.

Before a trust fund is exhausted, the cash flow of the fund changes in stages. When combined OASDI expenditures exceed current tax income beginning in 2013, a portion of annual interest income will be needed to meet expenditures in 2013 through 2020. Beginning in 2021 and continuing through exhaustion of the combined OASDI Trust Funds in 2032, a portion of the principal balance in the trust funds will also be needed to pay benefits.

As noted earlier, the future cannot be predicted with certainty, and three sets of assumptions are used to project the range of possibilities. The year in which the trust funds are projected to be exhausted varies significantly under the three sets of assumptions. The table below shows this range.

**YEAR OF TRUST FUND EXHAUSTION**

Set of Assumptions	OASI	DI	OASDI	HI
Alternative I (Low Cost) . . . . .	Never	Never	Never	2030
Alternative II (Best Estimate). . . . .	2034	2019	2032	2008
Alternative III (High Cost). . . . .	2025	2009	2022	2004

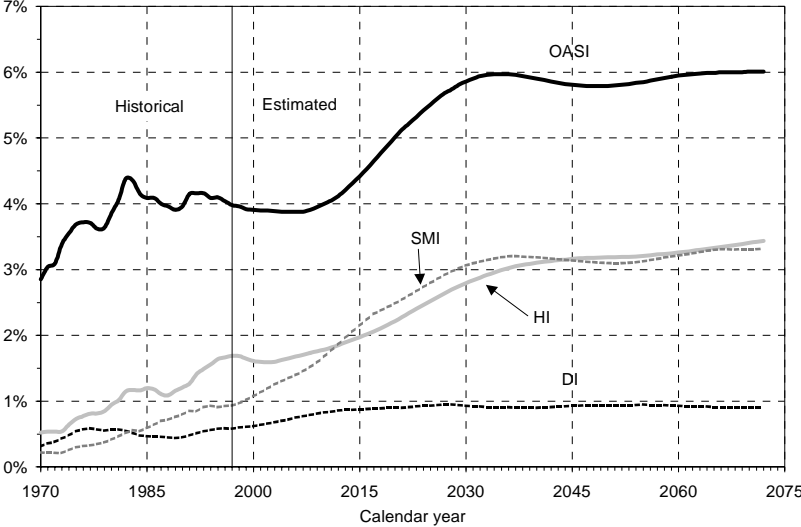
**How Large Are Social Security and Medicare Compared to the Whole Economy?** An additional way to view the outlook for the trust funds is in relation to the economy as a whole. The table below shows the estimated outgo from each trust fund as a percentage of estimated gross domestic product (GDP) from 1998 to 2072.

**OASI, DI, HI AND SMI OUTGO AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT**

Trust Fund	1998	2020	2045	2072	% Increase
OASI . . . . .	3.96	5.01	5.81	6.01	52
DI . . . . .	0.60	0.90	0.93	0.91	52
HI . . . . .	1.69	2.22	3.16	3.44	104
SMI . . . . .	0.97	2.48	3.14	3.31	241

Chart E shows in graphic form the growth in the outgo as a percentage of GDP. OASI and DI outgo increase by the same percentage over the full long-range period, while the percentage increases in HI and especially SMI outgo are much larger.

**Chart E—OASI, DI, HI, and SMI Cost as a Percentage of GDP**



**Conclusions**

Based on the Trustees best estimates (alternative II):

The Hospital Insurance (HI) Trust Fund, which pays inpatient hospital expenses, will be depleted in about 10 years and remains seriously out of financial balance in the long range even though the HI deficit is only one-half as large as it was prior to the Balanced Budget Act of 1997. The Supplementary Medical Insurance (SMI) Trust Fund, which pays doctor bills and other outpatient expenses, is financed on a year-by-year basis and trust fund income is projected to equal expenditures for all future years, but only because beneficiary premiums and Government general revenue contributions are automatically set to meet expected costs each year.

To facilitate longer term reform of Medicare, including the rapid growth of costs of the Medicare Supplementary Medical Insurance program, the Board of Trustees recommended last year establishing a national advisory group that could develop recommendations for effective solutions to

Medicare financing problems. The Trustees are therefore gratified that the Balanced Budget Act established the National Bipartisan Commission on the Future of Medicare, and that the Commission has begun its work.

Finding good solutions to providing medical care for the elderly and disabled will be a continuing and difficult challenge as our population ages and medical care evolves. The legislative action taken last year was a significant first step in meeting that challenge. It reaffirms the Trustees' strong belief that even though periodic adjustments will likely be necessary, good solutions to Medicare's financing problems can be found.

The combined OASDI trust funds are projected to be adequately financed until 2032, when annual expenditures will begin to exceed annual income. At that time, annual tax income to the combined funds is projected to equal about  $\frac{3}{4}$  of the cost of benefits payable. The Board of Trustees believes that the long-range financing problem facing Social Security should be addressed in a timely way. Extensive public discussion and analysis of the practical implications of alternatives is essential to developing the broad support needed to enact any Social Security reform legislation. Thus, the Trustees cannot overstate the importance they attach to President's Clinton's plan for bipartisan forums on Social Security reform across the country this year followed by a White House Conference in December and development of bipartisan legislation early next year.

*A MESSAGE FROM THE PUBLIC TRUSTEES:*

*This is the third set of Trustees Reports in which we have participated since we began four-year terms as Public Trustees on July 20, 1995. Our goal as Public Trustees is to ensure the integrity of the process by which these Reports are prepared and the credibility of the information they contain. Further, although we are of different political parties, we approach our work as Public Trustees on a bipartisan basis because we strongly believe that this is the only way through which financial problems facing Medicare and Social Security can be solved. It is in this vein that we offer the following observations regarding the 1998 Annual Reports.*

*1997: A Very Good Year*

*The financing of both Medicare and Social Security is stronger today than it was a year ago. Bipartisan legislative action in the Balanced Budget Act of 1997 improved the projected life of the Medicare Hospital Insurance Trust Fund, and the strong performance of the economy, particularly low inflation and high employment, improved the overall financial condition of both programs. This reminds us that the demography of an increasingly older population with its resulting declining number of workers per retiree does not completely define our destiny—that strong economic growth can make promised benefits more affordable in the future.*

*Beyond their actual effects on the trust funds, the positive legislative and economic experience in 1997 offers greater hope for the future than thought possible a few years ago. Legislative action on Medicare came after it seemed that political partisanship would be impossible to overcome, and the changes offer long-term as well as short-term improvement in Medicare financing. Once again we have proof that our political system works. Belief that the system can work is critical because legislative action on Medicare and Social Security will be periodically necessary in the future, as it has been in the past, to enable these programs to serve the needs of a constantly changing society.*

*We also hope that the National Bipartisan Commission on the Future of Medicare and the public discussion of Social Security now underway will result in sound proposals to address the future financing of both programs. In view of the broad-ranging discussion of Medicare and Social Security changes, the remainder of our message states what we believe to be critical facts these discussions must recognize.*

## Medicare

*The first thing we must recognize is that Medicare's cost is going to increase in future years both because new, more expensive (and effective) medical technology is being developed every year and because an aging U.S. population will have a greater need per capita for medical care. Improved prevention techniques and healthier lifestyles may reduce the rate of growth in medical care costs, but it is almost certain that medical care costs per person will continue to rise.*

*The second fact is that health care delivery will also change. Shifting care out of hospitals to less formal settings has occurred at remarkable speed, for example, and new forms of health insurance are being developed each year, adding acronyms like HMO to our vocabulary. Therefore, flexible coverage and financing arrangements are needed so that Medicare does not have to be reshaped constantly as medical treatments and delivery evolve. These facts also convince us that there is a compelling question whether the already blurred financing and coverage distinction between Part A-Hospital Insurance (HI) and Part B-Supplementary Medical Insurance (SMI) should be continued. The rapid growth in SMI costs—by 48 percent over the last 5 years—and the shift of a substantial share of home health care from HI to SMI last year makes this question even more critical.*

*Third, there is no magic solution to ensure the long-term financing of Medicare. Instead, we should expect that legislative adjustments will be needed periodically as medical care evolves. The changes enacted in 1997 offer a number of promising approaches, but their implementation will need to be carefully monitored.*

*Fourth, ideally the next Medicare financing legislation should be enacted by 2003, the year Medicare annual expenditures are projected to begin again substantially exceeding annual income by a growing margin each year. Although the HI Trust Fund is projected to have assets to cover annual shortfalls until 2008, the annual shortfalls increase rapidly once they begin. It is equally important to find additional ways to reduce the growth of SMI costs, which are projected to exceed HI costs by 2015.*

*These facts cause some to ask whether Medicare should, or indeed, can be continued. We believe the answer is a definitive "Yes," but a process needs to be found for formulating and gaining public support for necessary changes. The National Bipartisan Commission on the Future of Medicare should contribute to that process, and we trust that it will agree on a next set of changes that can be enacted in a timely manner.*



### Social Security

*The major reason that in 30 years Social Security's income is projected to cover only about three-quarters of the cost of promised benefits is that the large "baby-boom" generation born after World War II will have reached retirement age and caused the cost of benefits to increase sharply. For example, the number of workers for each retiree will fall from 3.4 now to 2.0 in 2030. Except for possibly increasing the retirement age, the role that demographics will play in the problem is largely set—we, our parents and our children are here, hopefully for a long time to come. The other major factor is economic growth. An improved economic picture can play a key role in how Social Security will need to change. But, to find a solution to the program's financing problem, we need as a nation to carefully consider what changes will help produce the kind of society we would like to have in the future.*

*The most important issue in considering structural changes in Social Security is to determine how much of the risk and responsibility for retirement income to place on each individual worker. Only about one-half of workers have a job-related pension and those pensions are increasingly in 401(k)-type individual investment plans where the worker bears the full risk of gain or loss. And the minority of workers who have private savings for retirement apart from their job also bear full risk in investing those savings. Thus, for most workers Social Security is the only source of assured lifetime retirement income. Social Security is a compromise that assures all workers a modest retirement base on which they can, if possible, add a private pension and personal savings. The tradeoff for this safety is a lower retirement benefit than at least some knowledgeable individual investors might build over their lifetimes. But, we should remember that Social Security also provides substantial survivor and disability benefits, as well as higher relative benefits to those with lower lifetime earnings.*

*Social Security benefits are not entirely risk free either—the money must be there to pay the benefits promised. Strong economic growth will improve the prospects both for funding Social Security over time and for higher returns from private investments. But while we devoutly hope that the recent strong performance of the economy continues for the next 75 years, we must in our fiduciary role as Public Trustees warn policymakers and the public that there are serious reasons at this point to project that it may not, and that action needs to be taken to ensure that Social Security can pay the retirement benefits people expect. This also means that it is difficult to compare our projections for Social Security with the often optimistic forecasts of those who wish to promote a private investment approach.*

*The financing problem facing Social Security is significant but could be solved by small gradual changes IF those changes are enacted soon. Solely for purposes of illustration, payroll tax rates can be used to show the effect of delaying change: if payroll taxes were raised in 1998 to eliminate the projected Old-Age and Survivors Insurance (OASI) deficit, employers and employees each would have to pay about 18 percent more in all future years (i.e. an OASI tax rate of 6.3 percent rather than the current 5.35 percent). If such a change were not enacted until 2010, that tax rate would have to be increased almost one-fourth (to about 6.5 percent), and if delayed until 2025, the tax rate would have to be increased by about one-third (to approximately 7.2 percent).*

*Acting soon and using the opportunity offered by budget surpluses may provide an opportunity to experiment with different ways of supplementing Social Security without making deep immediate reductions in Social Security benefits. The practical implementation challenges of private accounts and other investment proposals need careful assessment. Social Security is too important to American workers and their families both now and into the future to change the program without extensive scrutiny. The national discussions underway regarding Social Security and the plan for working on a bipartisan basis toward legislation deserve our full support and offer hope that plans for Social Security reform can be developed that will meet the needs and goals of all Americans.*

### Conclusion

*We are privileged to take part in the thorough and careful process by which the Annual Reports are prepared to provide this vital public accounting. We strongly believe that these Reports serve as an early warning of the need for changes to ensure continuation of these programs and not as evidence of their failure to protect future generations. Working cooperatively, with informed public debate, solutions can be found to the financing problems facing America as our population ages.*

*Stephen G. Kellison  
Trustee*

*Marilyn Moon  
Trustee*



