SECTION 1 - SOCIAL SECURITY: THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE (OASDI) PROGRAMS

CONTENTS

OVERVIEW

BRIEF HISTORY OF SOCIAL SECURITY PROGRAMS

Prior to the 20th century, the majority of people in the United States lived and worked on farms, and economic security was provided by the extended family. However, this arrangement changed as America underwent the Industrial Revolution. The extended family and the family farm as sources of economic security became less common. Then, the Great Depression triggered a crisis in the Nation's economic life. It was against this backdrop that the Social Security programs emerged.

Beginning in 1932, the Federal Government first made loans, then grants, to States to pay for direct relief and work relief. After that, special Federal emergency relief and public works programs were started. In 1935, President Franklin D. Roosevelt proposed to Congress economic security legislation embodying the recommendations of a specially created Committee on Economic Security. Then followed the passage of the Social Security Act (the Act), signed into law on August 14, 1935 (Public Law 74-271).

This law established two social insurance programs on a national scale to help meet the risks of old age and unemployment: a Federal system of old-age benefits for retired workers who had been employed in industry and commerce, and a Federal-State system of unemployment insurance. The choice of old age and unemployment as the risks to be covered by social insurance was a natural development, since the Depression had wiped out much of the lifetime savings of the aged and reduced opportunities for gainful employment. The Act also provided Federal grants-in-aid to the States for the means-tested programs of Old-Age Assistance and Aid to the Blind, which were replaced by the Supplemental Security Income program that was enacted in 1972 (Public Law 92-603). These programs supplemented the incomes of persons who were either ineligible for Social Security (Old-Age and Survivors Insurance (OASI)) or whose benefits could not provide a basic living. The law established other Federal grants to enable States to extend and strengthen maternal and child health and welfare services. These latter grants became the Aid to Families with Dependent Children program, which was replaced in 1996 with a new block grant program, Temporary Assistance for Needy Families (Public Law 104-193). The Act also provided Federal grants to States for public health and vocational rehabilitation services. Provisions for these grants were later removed from the Social Security Act and incorporated into other legislation.

The Old-Age Insurance program was not yet in full operation when significant changes were adopted. In 1939, Congress made the old-age insurance system a family program when it added benefits for dependents of retired workers and surviving dependents of deceased workers (Public Law 76-379). No major changes were made again in the program until the 1950s, when it was broadened to cover many jobs that previously had been excluded--

in some cases because experience was needed to work out procedures for reporting the earnings and collecting the taxes of persons in certain occupational groups. The scope of the basic national social insurance system was significantly broadened in 1956 through the addition of disability insurance (DI) (Public Law 84-880). Benefits were provided for severely disabled workers aged 50 or older and for adult disabled children of deceased or retired workers. In 1958, the Social Security Act was further amended to provide benefits for dependents of disabled workers similar to those already provided for dependents of retired workers (Public Law 85-840). In 1960, the age 50 requirement for disabled worker benefits was removed (Public Law 86-778). The 1967 amendments (Public Law 90-248) provided disability benefits for widows and widowers aged 50 or older.

The 1972 amendments (Public Law 92-603) provided for annual cost-of-living adjustments in benefits, paid whenever there is an increase in the Consumer Price Index (prior to the 1972 amendments, benefits were increased on an ad hoc basis) and created the delayed retirement credit, which increased benefits for workers who retire after the full retirement age (age 65 at the time).

The 1977 amendments (Public Law 95-216) changed the method of benefit computation to ensure stable earnings replacement rates over time. Earnings included in the computation were to be indexed to account for changes in the economy from the time they were earned.

The 1983 amendments (Public Law 98-21) made coverage compulsory for newly hired Federal civilian employees and for employees of nonprofit organizations. State and local governments were prohibited from opting out of the system once they had joined. The amendments also provided for gradual increases in the age of eligibility for full retirement benefits from 65 to 67, beginning with persons born in 1938. For certain higher income beneficiaries, benefits became subject to income tax. Amendments in 1993 increased the amount of benefits subject to taxation (Public Law 103-66).

The 1996 amendments (Public Law 104-121) liberalized the retirement earnings test for seniors who have reached the full retirement age (age 65-67, depending on year of birth).

The 1999 amendments (Public Law 106-170) reformed certain provisions under the DI program, specifically to create stronger incentives and better supports for individuals to work.

An amendment passed in April 2000 (Public Law 106-182) eliminated the retirement earnings test for seniors who have reached the full retirement age, effective for the year 2000.

The Social Security Protection Act of 2004 (Public Law 108-203) included various provisions designed to reduce fraud and abuse in the Social Security program. Among other provisions, the act established stricter standards for individuals and organizations that serve as representative payees for Social Security recipients, prohibited the payment of Social Security benefits to fugitive felons, and established a work authorization requirement for certain noncitizens to gain insured status under the Social Security program.[1]

Concept of social insurance.

When the OASDI programs were created, "insurance" was included in their titles to show that their purpose is to replace income lost to a family through the retirement, death, or disability of a worker who earned protection against these risks. This protection is earned by working in jobs that are covered under Social Security and therefore subject to payroll taxes that finance Social Security benefits. Once individuals work long enough in covered jobs to be insured, they and their dependent family members become eligible for benefits as a matter of earned right. The level of benefits is based on the amount the worker earned in covered jobs, and is paid without a test of economic need. However, the social ends the programs serve diverge somewhat from the insurance analogy. The programs are national, and coverage is generally compulsory and nearly universal. They are designed to address social purposes such as alleviating poverty, providing added protection for families versus single workers, and providing a larger degree of earnings replacement for low-paid versus high-paid workers. The OASDI programs were therefore described as "social" insurance.

The importance of Social Security as an income replacement program is sometimes discussed in terms of the estimated cost of purchasing a private disability or life insurance policy that would provide benefits comparable to Social Security disability and survivor benefits. In 2006, the Social Security Administration, Office of the Chief Actuary, estimated the "insurance value" of Social Security disability and survivor benefits expressed in terms of the present value of expected lifetime disability and survivor benefits payable to a hypothetical male worker and his dependents under two specific scenarios.[2] In the illustrations, the present value of expected lifetime Social Security benefits represents a lump-sum amount that would provide the expected future stream of benefit payments if it were invested today and earned the same rate of interest as the Social Security Trust Funds.

The illustrations are based on a 30-year-old male worker with a 28-year-old wife (with no earnings of her own) and 2 children (age 2 and under age 1) in 2006. The worker is assumed to be a "medium-wage" earner with earnings beginning at age 21. In the disability benefit illustration, the worker's career average earnings are about $26,000; in the survivor benefit illustration, the worker's career average earnings are about $30,000 (the averages differ

[1] For a detailed history of the Social Security program, see CRS Report RL30920, *Major Decisions in the House and Senate on Social Security: 1935-2006*.

[2] Nichols, Orlo R. *The Insurance Value of Potential Survivor and Disability Benefits for an Illustrative Worker*. Social Security Administration, Office of the Chief Actuary, 2006. This analysis assumes benefit levels as scheduled under current law.

because the number of computation years differ in disability and survivor cases). In the first scenario, the 30-year-old worker is assumed to become entitled to disability benefits beginning in January 2006. The present value of expected lifetime benefits payable to the worker and his family members is $414,000. In the second scenario, the 30-year-old worker is assumed to die at the beginning of 2006. The present value of expected lifetime benefits payable to the worker's family members is $433,000.

Social Security as a source of income among the aged.

The Social Security program is a contributory system that provides monthly cash benefits to over 50 million qualified workers and their family members.[3] For many of these beneficiaries, the social insurance protections provided by Social Security are essential to their economic well-being. Among the various sources of retirement income (including earnings, pensions, personal savings, and public programs such as Social Security and Supplemental Security Income), Social Security represents the largest single source of income among the aged. In 2006, Social Security paid benefits to 86 percent of Americans age 65 and older living in households. Sixty-eight percent of Social Security beneficiaries age 65 or older receive more than half of their income from Social Security. For 39 percent of elderly recipients, Social Security contributed more than 90 percent of their income in 2006, and for one-fourth of all aged recipients, it was their only source of income. (See Table 1-1.)

TABLE 1-1--SOCIAL SECURITY AS A PERCENTAGE OF INCOME AMONG RECIPIENTS AGE 65 AND OLDER IN 2006

Percentage of income from Social Security	Number of recipients (in thousands)	Percentage of recipients
Less than 10%	840	2.7%
10% to 19%	1,835	5.9%
20% to 29%	2,136	6.9%
30% to 39%	2,496	8.0%
40% to 49%	2,650	8.5%
50% to 59%	2,635	8.5%
60% to 69%	2,232	7.2%
70% to 79%	2,164	7.0%
80% to 89%	2,134	6.9%
90% to 99%	3,958	12.7%
100% of income	8,043	25.8%

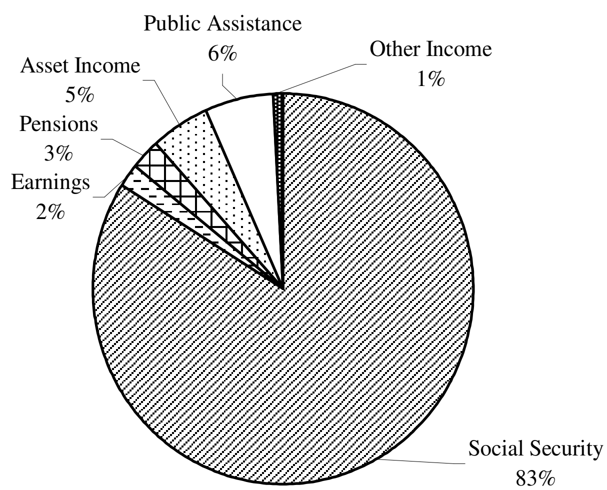
Source: Congressional Research Service based on March 2007 Current Population Survey.

Charts 1-1 through 1-4 illustrate the sources of income in 2006 of individuals age 65 and older by income quartile. In 2006, 83 percent of the income received by elderly individuals in the lowest income quartile (those

[3] Social Security Administration, *Fact Sheet on the Old-Age, Survivors, and Disability Insurance Program*, July 2, 2008, available at: [http://www.ssa.gov/OACT/FACTS/fs2008_06.pdf].

with less than $10,530 in total income) came from Social Security. For this group, just 5 percent of their income came from savings and only 3 percent was received from pensions (see Chart 1-1). Older Americans with higher incomes had more diversified sources of income. In 2006, 20 percent of income received by individuals in the highest quartile of the income distribution (those with $30,100 or more in income) came from Social Security (see Chart 1-2). These individuals also were more likely to have wage income and to receive income from pensions and assets. They received, in the aggregate, more than three-fourths of their income from these three sources. Chart 1-3 and Chart 1-4 show that Social Security comprised 81 percent and 56 percent, respectively, of income received by older Americans in the second and third income quartiles in 2006.[4]

CHART 1-1--SOURCES OF INCOME IN 2006, LOWEST INCOME QUARTILE, INDIVIDUALS AGE 65+
[2006 INCOME OF LESS THAN $10,530]



[4] For more information on this topic, see CRS Report RL32697, *Income and Poverty Among Older Americans in 2006*.

CHART 1-2--SOURCES OF INCOME IN 2006, HIGHEST INCOME QUARTILE, INDIVIDUALS AGE 65+
[2006 INCOME OF MORE THAN $30,100]

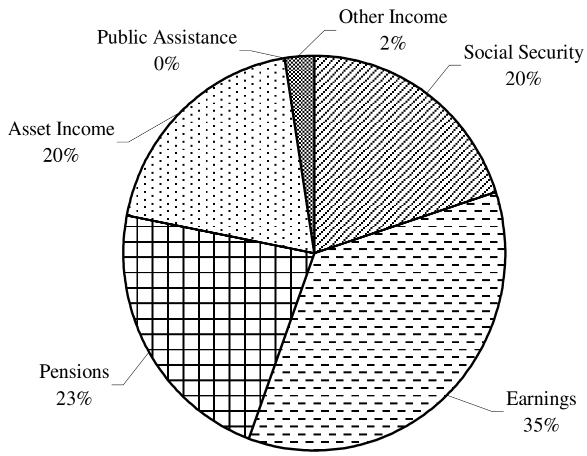


CHART 1-3--SOURCES OF INCOME IN 2006, SECOND INCOME QUARTILE, INDIVIDUALS AGE 65+
[2006 INCOME OF $10,530 TO $16,890]

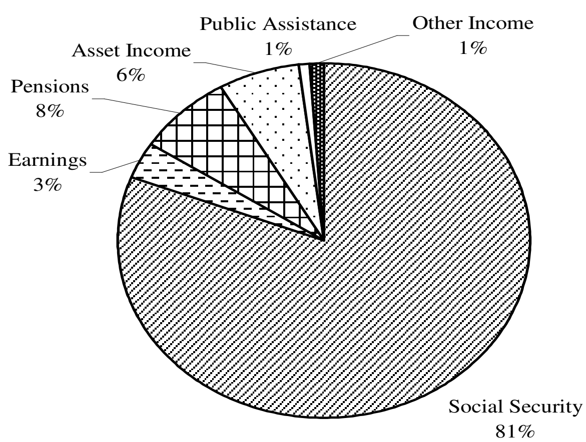
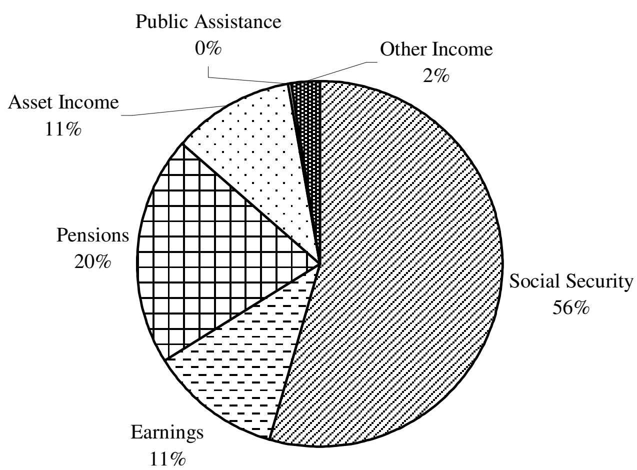


CHART 1-4--SOURCES OF INCOME IN 2006, THIRD INCOME QUARTILE, INDIVIDUALS AGE 65+
[2006 INCOME OF $16,890 TO $30,100]



WHO IS COVERED BY SOCIAL SECURITY?

In 1937, approximately 33 million persons worked in employment covered by the Social Security system. Over the years, major categories of workers were brought under the system, such as self-employed individuals, State and local government employees (on a voluntary basis at the option of the State), regularly employed farm and domestic workers, members of the armed services, and members of the clergy and religious orders (on a voluntary basis). In 2007, of a total work force of approximately 174.2 million workers, an estimated 163.2 million workers and an estimated 94 percent of all jobs in the United States were covered under Social Security (Table 1-2). In 2007, 83 percent of all earnings from jobs covered by Social Security were subject to Social Security payroll taxes (Table 1-3).

TABLE 1-2--ESTIMATED SOCIAL SECURITY COVERAGE, 2007

	Total (millions)	Non-covered (millions)	Percent covered
Workers[1]	174.2	11.0	93.7
Jobs:			
State and local government[2]	23.1	5.7	75.5
Federal civilian	3.7	0.6	84.6
Students[3]	1.5	1.5	1.5

[1] Includes both wage and salary and self-employed workers.
[2] Excludes students.
[3] Includes students employed at both public and private colleges and universities.
Source: Office of the Chief Actuary, Social Security Administration.

TABLE 1-3--EARNINGS COVERED BY THE SOCIAL SECURITY SYSTEM, 1950-2007
[DOLLARS IN BILLIONS]

		Earnings in covered employment					
Calendar year	Total earnings[1]	Wages and salaries	Self-employ-ment	Total	Covered earnings as a percent of total earnings	Taxable earnings	Taxable earnings as a percent of total earnings in covered employment
1950	$184.8	$109.8	--	$109.8	59.4	$87.5	79.7
1955	256.5	171.6	$26.7	198.3	77.3	157.5	79.4
1960	323.7	236.0	32.4	268.4	82.9	207.0	77.1
1965	427.7	311.4	45.9	357.3	83.5	250.7	70.2
1970	630.0	483.6	53.1	536.7	85.2	415.6	77.4
1975	934.2	717.2	75.9	793.1	84.9	664.8	83.8
1980	1,551.8	1,235.6	103.7	1,339.3	86.3	1,173.7	87.6
1985	2,258.0	1,802.4	149.6	1,952.0	86.4	1,717.2	88.0
1990	3,134.6	2,510.4	205.9	2,716.3	86.7	2,358.9	86.8
1991	3,200.1	2,566.7	207.9	2,774.6	86.7	2,422.5	87.3
1992	3,407.8	2,709.7	220.7	2,930.4	86.0	2,532.8	86.4
1993	3,536.5	2,808.9	228.0	3,036.9	85.9	2,636.3	86.8
1994	3,705.4	2,973.5	232.9	3,206.4	86.5	2,785.3	86.9
1995	3,911.5	3,164.5	242.4	3,406.9	87.1	2,919.6	85.7
1996	4,162.8	3,347.2	255.6	3,602.8	86.5	3,073.5	85.3
1997	4,453.6	3,607.9	272.0	3,879.9	87.1	3,285.3	84.7
1998	4,811.2	3,907.1	290.3	4,197.4	87.2	3,528.0	84.1
1999	5,144.6	4,172.7	307.9	4,480.6	87.1	3,749.1	83.7
2000	5,557.6	4,513.8	326.4	4,840.2	87.1	4,008.8	82.8
2001	5,714.7	4,608.0	332.4	4,940.4	86.5	4,170.9	84.4
2002	5,749.3	4,612.6	341.6	4,954.2	86.2	4,249.6	85.8
2003	5,924.0	4,730.3	360.5	5,090.8	85.9	4,355.0	85.5
2004	6,306.1	4,990.6	398.0	5,388.6	85.5	4,553.4	84.5
2005	6,637.8	5,260.6	439.3	5,699.9	85.9	4,765.9	83.6
2006	7,025.0	5,605.6	456.0	6,061.6	86.3	5,047.9	83.3
2007	7,412.3	5,935.9	468.8	6,404.7	86.4	5,300.0	82.8

[1]Sum of wages and salaries and proprietors' income with inventory valuation and capital consumption adjustments, as estimated by the Bureau of Economic Analysis in the National Income and Product Accounts.
Source: Office of the Chief Actuary, Social Security Administration.

While coverage is compulsory for most types of employment, an estimated 11.0 million workers did not have coverage under Social Security in 2007 (Table 1-2). The majority of these non-covered workers are in State and local governments or the Federal government. Beginning January 1, 1983, Federal employees were covered under the Medicare Hospital Insurance (HI) portion of the Social Security tax, and all Federal employees hired after 1983 are covered under the OASDI portion as well. In 2005, 71 percent of State and local government workers (16.9 million out of 23.7 million) were covered by Social Security (Table 1-4). Beginning January 1, 1984, all employees of nonprofit organizations became covered, and as of April 1983, termination of Social Security coverage by State government entities was no longer allowed. State and local employees hired after March 31, 1986 are mandatorily covered under the Medicare program and must pay HI payroll taxes. Beginning July 1, 1991, State and local employees who were not members of a public retirement system were mandatorily covered under Social Security. This requirement was contained in the 1990 Omnibus Budget Reconciliation Act (OBRA 1990, Public Law 101-508).

TABLE 1-4--ESTIMATED SOCIAL SECURITY COVERAGE OF WORKERS WITH STATE AND LOCAL GOVERNMENT EMPLOYMENT, 2005[1]

[BASED ON 1-PERCENT SAMPLE; NUMBERS IN THOUSANDS]

State	All workers[2]	Covered workers	Percent covered
Alabama	377	350	93
Alaska	86	41	47
Arizona	425	383	90
Arkansas	194	172	89
California	2,493	1,045	42
Colorado	409	116	28
Connecticut	287	193	67
Delaware	66	62	94
District of Columbia	58	40	68
Florida	1,173	1,011	86
Georgia	694	498	72
Hawaii	129	77	60
Idaho	140	129	92
Illinois	1,021	527	52
Indiana	493	441	89
Iowa	286	254	89
Kansas	286	256	90
Kentucky	373	271	73
Louisiana	359	99	28
Maine	127	63	50
Maryland	443	399	90
Massachusetts	457	16	3
Michigan	803	712	89
Minnesota	445	408	92
Mississippi	254	232	91
Missouri	469	340	72
Montana	96	84	88

TABLE 1-4--ESTIMATED SOCIAL SECURITY COVERAGE OF WORKERS WITH STATE AND LOCAL GOVERNMENT EMPLOYMENT, 2005[1] -cont.

[BASED ON 1-PERCENT SAMPLE; NUMBERS IN THOUSANDS]

State	All workers[2]	Covered workers	Percent covered
Nebraska	155	144	93
Nevada	149	33	22
New Hampshire	111	97	87
New Jersey	685	635	93
New Mexico	210	185	88
New York	1,725	1,665	97
North Carolina	698	643	92
North Dakota	75	63	84
Ohio	868	22	3
Oklahoma	305	268	88
Oregon	292	266	91
Pennsylvania	815	742	91
Puerto Rico	291	256	88
Rhode Island	69	57	83
South Carolina	358	338	94
South Dakota	79	72	91
Tennessee	488	440	90
Texas	1,749	827	47
Utah	220	199	90
Vermont	60	59	97
Virginia	650	611	94
Washington	528	468	89
West Virginia	156	140	90
Wisconsin	478	421	88
Wyoming	77	67	87
Other[3]	8	3	33
Total	23,741	16,940	71

[1] Workers with more than one State or local employer during the year are counted for each employer.

[2] Includes seasonal and part-time workers for whom State and local government employment was not the major job.

[3] Includes persons employed in American Samoa, Guam, and Virgin Islands, U.S. citizens employed abroad by American employers, and persons employed on ocean borne vessels.

Source: Office of Research, Evaluation, and Statistics, Social Security Administration, 2005 Employee-Employer File, 1-percent sample.

SOCIAL SECURITY'S FINANCING AND THE SOCIAL SECURITY TRUST FUNDS

CURRENT LAW

The OASDI program and the Medicare HI program are primarily financed through the collection of payroll taxes under the Federal Insurance Contributions Act (FICA) and the Self-Employment Contributions Act

(SECA). These taxes are levied on the wages and net self-employment income of workers covered by Social Security and Medicare.

The FICA tax is levied at a rate of 15.3 percent. The tax is shared by employees and their employers, with each paying half of the total amount.[5] Employers may deduct their share of the FICA tax for income tax purposes, but the employee's share is not tax deductible. Of the total 15.3 percent FICA tax, 12.4 percent is used to finance the OASDI program, and 2.9 percent is used to finance the Medicare HI program. The OASDI portion of the tax is levied on earnings up to $102,000 in 2008. This "taxable wage base" increases annually with average wage growth in the economy. The HI portion of the tax is levied on all earnings. When the FICA tax was first levied in 1937, the tax rate was 2 percent on earnings up to $3,000.

The SECA tax also is levied at a rate of 15.3 percent, with the same 12.4 percent and 2.9 percent split between OASDI and HI as the FICA tax. Prior to 1984, the SECA tax rate paid by self-employed workers was lower than the total FICA tax rate paid by employees and employers. Effective for 1984 through 1989, self-employed workers paid the same total tax as employees and employers, but received a partial credit against that tax liability. Effective in 1990 and thereafter, the credit was replaced with a system designed to achieve parity between employees and the self-employed. Under this system:

- The base of the SECA tax is adjusted downward to reflect the fact that employees do not pay FICA taxes on the employer's portion of the FICA tax. The adjusted base is equivalent to net earnings from self-employment (up to the taxable wage base) less 7.65 percent.
- In addition, self-employed workers are allowed to deduct half of their SECA tax liability for income tax purposes to reflect the fact that employees do not pay income tax on the employer's portion of the FICA tax.

Table 1-5 and Table 1-6 show FICA and SECA tax rates and maximum taxable earnings, both past and future.

The following workers are exempt from FICA and SECA taxes:

1. State and local government workers participating in alternative retirement systems (HI tax is mandatory for State and local government workers hired since April 1,1986);
2. Election workers earning $1,400 or less in 2008;
3. Ministers who choose not to be covered, and certain religious sects;
4. Federal workers hired before 1984 (the HI portion is mandatory for all Federal workers)[6];
5. College students working at their academic institutions;
6. Household workers earning less than $1,600 in 2008, or those under

[5] Although the FICA tax is shared between employers and employees, most economists agree that the total burden of the tax is borne by employees in the form of lower wages or fringe benefits.

[6] Elected office holders, political appointees, and judges are mandatorily covered by both OASDI and HI regardless of when their service began.

age 18 for whom household work is not their principal occupation;
7. Self-employed workers with annual net earnings below $400;
8. Foreign students and exchange visitors who hold F-1, J-1, M-1, Q1, and Q2 visas if the work is performed in connection with their studies or for the purpose of their visit to the United States;[7] and
9. Foreign agricultural workers who hold H-2A visas.

In addition to payroll taxes, the Social Security Trust Funds are credited with income from the taxation of Social Security benefits and interest on trust fund balances. In combination, these sources of income are used to pay Social Security benefits and administrative expenses. Administrative expenses are subject to an annual limitation set by appropriations acts.

TABLE 1-5--FICA TAX RATES, AVERAGE WAGE INDEX, AND MAXIMUM TAXABLE EARNINGS, SELECTED YEARS 1937-2008
[IN PERCENT]

Calendar year	Rate paid by employee and employer: OASI	Disability insurance (DI)	OASDI	Hospital insurance (HI)	Total	Average wage index	Maximum taxable earnings[1]
1937	1.00	NA	NA	NA	1.00	$1,138	$3,000
1950	1.50	NA	NA	NA	3.00	2,544	3,000
1960	2.75	0.25	3.00	NA	3.00	4,007	4,800
1970	2.75	0.55	4.20	0.60	4.80	6,186	7,800
1980	4.52	0.56	5.08	1.05	6.13	12,513	25,900
1990	5.60	0.60	6.20	1.45	7.65	21,028	51,300
1995	5.26	0.94	6.20	1.45	7.65	24,706	61,200
2000	5.30	0.90	6.20	1.45	7.65	32,155	76,200
2005	5.30	0.90	6.20	1.45	7.65	36,953	90,000
2008	5.30	0.90	6.20	1.45	7.65	41,680	102,000

[1]OASDI; no limit on HI.
NA- Not applicable.
Note- Until 1991, the maximum taxable earnings for HI were the same as for OASDI. In 1991, 1992, and 1993 maximum taxable earnings were $125,000, $130,200, and $135,000 respectively, with no limit after 1993. Only 92.35 percent net self-employment earnings are taxable and half of the SECA taxes so computed is deductible for income tax purposes.
Source: Social Security Administration.

[7] J-1 visa holders who are in the United States for 18 months or longer are required to pay Social Security payroll taxes.

TABLE 1-6--OASDI AND HI TAX RATES FOR SELF-EMPLOYED INDIVIDUALS, 1980-2008

[IN PERCENT]

Calendar year	OASI	DI	OASDI	HI	Total (OASDI and HI)
1980	6.2725	0.7775	7.05	1.05	8.10
1981	7.0250	0.9750	8.00	1.30	9.30
1982	6.8125	1.2375	8.05	1.30	9.35
1983	7.1125	0.9375	5.05	1.30	9.35
1984	10.4000	1.0000	11.40	2.60	14.00[1]
1985	10.4000	1.0000	11.40	2.70	14.10[1]
1986-1987	10.4000	1.0000	11.40	2.90	14.30[1]
1988-1989	11.0600	1.0600	12.12	2.90	15.02[1]
1990-1993	11.2000	1.2000	12.40	2.90	15.30
1994-1996	10.5200	1.8800	12.40	2.90	15.30
1997-1999	10.7000	1.7000	12.40	2.90	15.30
2000 and later	10.6000	1.8000	12.40	2.90	15.30

[1] Tax credits for the self-employed equaled 2.7 percent in 1984, 2.3 percent in 1985, and 2.0 percent in 1986-1989. The tax rate is not reduced for these credits. See text for explanation of change in tax treatment of the self-employed.

Source: Social Security Administration.

WHERE DO SOCIAL SECURITY TAXES GO AND HOW ARE THEY USED?

The costs of the Social Security program, both benefits and administrative expenses, are financed primarily by the FICA and SECA taxes. These taxes flow each day into thousands of depository accounts maintained by the government with financial institutions across the country. Along with many other forms of revenues, these Social Security taxes become part of the government's operating cash pool, or what is more commonly referred to as the U.S. Treasury. In effect, once these taxes are received, they become indistinguishable from other moneys the government takes in. However, they are accounted for separately through the issuance of Federal securities to the Social Security Trust Funds, which basically involves a series of bookkeeping entries by the Treasury Department.[8] The trust funds themselves do not hold money. They are simply accounts. Similarly, Social Security checks are paid from the Treasury, not the trust funds. As the checks are paid, securities of an equivalent value are removed from the trust funds.

In a sense, the mechanics of a Federal trust fund are similar to those of a bank account. The bank takes in a depositor's money, credits the amount to the depositor's account, and then loans it out. As long as the account shows a balance, the depositor can write checks that the bank must honor. When more Social Security taxes are received than spent, the balance of securities posted to the Social Security Trust Funds increases. The surplus taxes themselves are

[8] Public Law 103-296 requires the Secretary of the Treasury to issue "physical documents" to the trust funds. Under prior practice, trust fund securities were recorded only electronically.

then used for any of the many functions of government. While the securities issued to the trust funds generally are not marketable, they earn interest at market rates and have specific maturity dates. The Federal securities issued to the trust funds, like those sold to the public, are legal obligations of the U.S. Government.

The significance of having trust funds for the Social Security program is that they represent a long-term commitment of the government to the program. The balances of Federal securities posted to the trust funds represent and have served as financial claims against the government--claims on which the Treasury has never defaulted, nor used directly as a basis to finance anything other than Social Security costs. At the end of 2007, the balance of securities posted to the Social Security Trust Funds was $2.2 trillion.

The trust fund arrangement differs from that used by many other government programs that receive their operating balances (i.e., their permission to spend) through the annual appropriations process. Congress must pass an appropriations act each year giving the Treasury Department permission to expend funds for those programs (the technical term for the permission to spend is budget authority). For many programs accounted for through trust funds, annual appropriations are not needed. As long as the trust fund accounts show a balance of Federal securities, the Treasury Department has budget authority to expend funds for the program.

Another difference between trust fund programs and other programs is that a trust fund account earns interest, because it holds Federal securities. In the case of the Social Security Trust Funds, the interest is equal to the prevailing average rate on outstanding Federal securities with a maturity of 4 years or longer. This interest is credited to the trust funds twice a year (on June 30 and December 31) by issuing more securities to the trust funds. In effect, a trust fund account can automatically build future budget authority for the program, while accounts that depend on annual appropriations cannot.

Legislation enacted in 1990 (the Budget Enforcement Act, included in Public Law 101-508) removed Social Security taxes and benefits from calculations of the budget. This was done in large part to prevent Social Security from masking the size of Federal budget deficits and to protect the program from benefit cuts motivated by budgetary concerns. It was based on the supposition that Congress would act differently in trying to reduce budget deficits if Social Security surpluses were not counted in reaching the budget totals (i.e., that Congress would ignore Social Security in developing the Nation’s overall fiscal policies). It was not done to change where Social Security taxes go. The Federal budget is not a cash management account. It is simply a summary of what policymakers want the government’s financial flows to be during any given time period. Whether this summary is presented in a unified or fragmented form will not in and of itself change how much money the government receives and spends, and it will not alter where Federal tax receipts of any sort go. Social Security taxes will go into the Treasury whether or not the program is counted in the budget. Social Security taxes will go elsewhere only if Congress decides they will go elsewhere.

THE ANNUAL REPORT OF THE SOCIAL SECURITY BOARD OF TRUSTEES

Social Security's financial condition is assessed annually by its Board of Trustees, which is composed of the Secretary of Treasury (who is the Managing Trustee), the Secretary of Labor, Health and Human Services, the Commissioner of Social Security and two representatives of the public. The Social Security Act requires that the Board of Trustees, among other duties, report to the Congress annually on the financial status of the Social Security Trust Funds.

The Social Security Trustees report short-range (10-year) projections and long-range (75-year) projections of the financial status of the Social Security system. Projections are made separately for each of the two Social Security Trust Funds (the Old-Age and Survivors Insurance (OASI) Trust Fund and the Disability Insurance (DI) Trust Fund) and for the trust funds on a combined basis (the OASDI Trust Fund). Because the Social Security program is designed as a contributory system in which workers who pay payroll taxes to support the system are considered to be earning the right to future benefits, Congress has traditionally required long-range estimates of the program's actuarial balance and set future tax rates with a view to ensuring that the income of the program will be sufficient to cover its outgo. Under current procedures, the traditional long-range actuarial analysis of the program covers a 75-year period, which generally would be sufficient to cover the anticipated retirement years of persons currently in the work force.

The long-range projections are affected by three basic types of factors: (1) demographic factors, such as rates of fertility, life expectancy, and immigration, which determine the number of workers in relation to recipients; (2) economic factors, such as unemployment, productivity, and inflation; and (3) factors specifically related to the Social Security program, such as eligibility rules, benefit levels, and the categories of covered employment. Given the uncertainty surrounding the long-range projections, the actuaries at the Social Security Administration (SSA) employ three sets of alternative economic and demographic assumptions. Alternative I is based on optimistic assumptions; alternative II is based on intermediate assumptions; and alternative III is based on pessimistic assumptions. Alternative II generally is considered the "best guess" of long-term solvency and is the most frequently cited projections. It is clear that underlying factors cannot be predicted with any certainty as far into the future as 75 years. As a result, long-range projections should not be taken as absolute predictions of deficits or surpluses in the funds.

In the short range, the financial soundness of each of the trust funds can be assessed by considering the size of the trust fund balance in absolute terms, as a percentage of the annual expenditures, and with reference to whether the balance is increasing or declining. In the long range, the traditional measure of financial soundness has been the actuarial balance of the system. The actuarial balance is defined as the difference between the total summarized income rate (the ratio of the present value of tax income to the present value of taxable payroll over a 75-year period) and the total summarized cost rate (the ratio of the present value of expenditures to the present value of taxable payroll over a 75-year period).

The long-range status of the trust funds is often expressed in terms of *percent of taxable payroll* (workers' pay subject to Social Security payroll taxes) rather than in dollar amounts to allow a direct comparison between the tax rate in the law and the cost of the program. For example, if the program is projected to have a deficit equal to 2 percent of taxable payroll, the OASDI tax rate would have to be increased by 1 percentage point each for employees and employers (for a total of 2 percentage points) to pay for scheduled benefits on time. Alternatively, the program could be brought into balance by an equivalent reduction in benefit outgo, or by a combination of revenue increases and outgo reductions. In 2008, the total taxable payroll is estimated to be $5,567 billion. Thus, in 2008 terms, 2 percent of taxable payroll would represent an estimated $111 billion.

Beginning with the 1988 report, the Trustees have used an alternative method of determining the actuarial balance. Under this method, the actuarial balance for any given period is the difference between the present value of income and costs for the period, each divided by the present value of taxable payroll for the period. The present value calculations include the value today of the future tax revenue, benefit payments, and taxable payroll expected each year during the period, after taking into account a specified interest rate. They also include assets in the trust funds as of the start of the period and the value today of the ending target fund (equal to the next year's cost at the end of the period).

Traditionally, the Trustees based their conclusion about the long-range actuarial condition of the program on the "closeness" of the income and cost rates when averaged over a 75-year period. If the income rate was between 95 and 105 percent of the cost rate over this projection period, the system was said to be in close actuarial balance. The 1991 Trustees' Report incorporated a more refined measure of actuarial soundness designed to reveal problems occurring at any time during the 75-year measuring period. The 5-percent tolerance (i.e., the amount of acceptable actuarial deficit) was retained in measuring the program's actuarial soundness for the 75-year period as a whole, but less tolerance is now permitted for shorter periods of valuation.

The difference between income and outgo is evaluated throughout the measuring period in reaching a conclusion of whether close actuarial balance exists, with the amount of acceptable deviation gradually declining from 5 percent for the full 75-year period to 0 (or no acceptable deviation) for the first 10-year segment of the measuring period.

To meet the short-range test of financial adequacy, the reserve balance at the end of the first 10-year segment must be at least 100 percent of annual expenditures, a condition that is consistent with the 10-year segment of the long-range test of close actuarial balance. In addition, the reserve balance must be expected to reach that level within the first 5 years and remain at that level. Under this revised limit, if income were at least 95 percent of the cost level for the 75-year period overall, the trust funds could be deemed to be out of close actuarial balance if financial adequacy requirements are not met for shorter valuation periods.

"Infinite horizon" projections. In addition to the traditional 75-year projections, the Trustees began making projections to reflect the sustainability of the program over the "infinite horizon" (indefinitely into the future) in their 2003 report. The infinite horizon projections, which show the operations of the trust funds (including income, costs, and balances) into perpetuity, are intended to capture a more complete picture of Social Security's financial condition. As illustrated by this alternative portrayal in the Trustees' Report, the changes needed to bring the system into actuarial balance beyond 75 years would be much greater than those needed to achieve balance within the traditional 75-year projection period.[9]

There has been mixed reaction to the infinite horizon projections among policymakers. The Social Security Advisory Board, an independent board appointed by Congress and the President to advise on matters related to the Social Security program, commissioned a technical panel on assumptions and methods that addressed the Trustees' infinite horizon projections. In its 2003 report to the Social Security Advisory Board, the Technical Panel endorsed the infinite horizon projections included in the 2003 Trustees' Report, calling them a useful addition. However, the Technical Panel warned that the assumptions behind such projections should be analyzed carefully and cautioned that the results rely on compounding measures of uncertainty.[10] The American Academy of Actuaries, citing concern about the degree of uncertainty in such projections, noted that the infinite horizon projections have little value and could be misleading to policymakers.[11] The Government Accountability Office (GAO) has made statements on both the merit and reliability of projections that extend beyond 75 years. In GAO's view, the exclusion of projections that extend beyond 75 years provides a potentially misleading indication of the

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[9] U.S. House of Representatives. House Document 108-49. 2003 Annual Report of the Board of Trustees of the Old-Age, Survivors, and Disability Insurance Trust Funds. 108th Congress, 1st Session, March 17, 2003, p. 12.

[10] Technical Panel on Assumptions and Methods (2003). Report to the Social Security Advisory Board. Washington, DC, October 2003, pp. 10, 79, 87-88.

[11] American Academy of Actuaries. *Assumptions Used to Project Social Security's Financial Condition*, January 2004.

ultimate size of Social Security's actuarial imbalance. However, GAO notes that it is important to understand that longer-range projections are based on less reliable assumptions and involve higher degrees of uncertainty.[12]

More recently, the 2007 Technical Panel on Assumptions and Methods commissioned by the Social Security Advisory Board reported the following views on the Trustees' long-term projections:

> While it is clearly reassuring to address the long-term (including the impulse to assure the public of "sustainability" for an infinite horizon), it is more important to be straightforward about what is reasonably "knowable" and what remains highly speculative. Although we know (relatively) a lot about beneficiaries and workers for the next 25 years, substantial uncertainty still remains, for example, the rate of immigration. In contrast, 75 years into the future is far more uncertain; the longer the projection period, the more likely uncertainty exists. The single point estimates associated with distant horizons may yield a false sense of precision; and the casual use of these estimates can be misleading.
>
> Despite the fact that Trustees are required to report on system finances over a 75-year horizon, they have the discretion to focus greater attention on longer or shorter time periods. The Panel recognizes that there are pros and cons of emphasizing long-horizon forecasts. On balance we believe that for analysis of the trust funds the disadvantages of very long-range forecasts outweigh the advantages, and we recommend that for the annual Trustees Report emphasis be further shifted toward the intermediate term of 25 years. In addition, more emphasis should be placed on the use of annual cost and income rates, and away from long-term measures including the 75-year summarized balance.
>
> There are circumstances, however, when longer horizons are necessary to understand the dynamics of major policy changes – important effects may not appear until a generation or more in the future. For example, a change from pay-as-you-go funding to something akin to pre-funding would likely require a long transition period and the full effects would not be manifest until well beyond 75 years. For this purpose, a horizon of 150 years or more may be appropriate.[13]

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[12] U.S. General Accounting Office (now the Government Accountability Office). *Social Security: Actuarial Projections of the Trust Funds*. GAO/AIMD-00-53R, January 14, 2000, pp. 79-81.
[13] Technical Panel on Assumptions and Methods (2007). Report to the Social Security Advisory Board. Washington, DC, October 2007, p. 4.

HISTORICAL STATUS OF THE SOCIAL SECURITY TRUST FUNDS

For more than three decades after Social Security taxes were first levied in 1937, the system's income routinely exceeded its outgo, and its trust funds grew. The situation changed, however, in the early 1970s. Enactment of major benefit increases in the 1968-1972 period was followed by higher inflation and less favorable economic conditions than had been expected. Prices increased faster than wages, the post-World War II baby boom ended precipitously (leading to a large decline in projected birth rates), and Congress enacted benefit rules in 1972 that unintentionally overcompensated new Social Security retirees for inflation. These factors combined to dampen the financial outlook for Social Security and the outlook remained poor through the mid-1980s.

Before 1971, the balances of the trust funds had never fallen below 1 year's worth of outgo. Beginning in 1973, the program's income fell below expenditures, and the trust funds declined rapidly. Congress stepped in five times during the late 1970s and early 1980s to keep the trust funds from being exhausted. Although major changes enacted in 1977 greatly reduced the program's long-run deficit, they did not eliminate it, and the short-run changes made by the legislation were not sufficient to enable the program to withstand back-to-back recessions in 1980 and 1982. A disability bill in 1980 and temporary fixes in 1980 and 1981 were followed by another major reform package in 1983.

The 1983 changes, along with better economic conditions, helped alter the short-range picture. Income began to exceed outgo in 1983 and the trust funds grew substantially. Cumulatively, the changes were projected to yield $96 billion in surplus income by 1990, and to raise the trust funds' balances to $123 billion. In actual experience, the trust funds were credited with $200 billion in surplus income by 1990, and their balances reached $225 billion by the end of that year. By the end of calendar year 2007, the balance in the combined trust fund reached $2.2 trillion, an amount equivalent to 345 percent of estimated expenditures in 2008 (or more than 3 years' worth of benefits).

Following the 1983 projections, the long-range outlook for Social Security began to worsen gradually. By increasing the age at which "full" Social Security benefits are payable from 65 to 67, making benefits subject to Federal income taxes, and making new Federal and nonprofit workers join the system, Congress had attempted to eliminate the system's long-range financing problem, and projections at the time showed that Congress had eliminated the system's funding shortfall, at least on average, for the next 75 years. However, the *average* condition of the two trust funds did not represent the condition of the funds over the entire period. While the trust funds were not projected to become insolvent at any point during the projection period, expenditures were projected to exceed income in 2025 and each year thereafter. That is, 40 years of surpluses were to be followed by an indefinite period of deficits. With each passing year since 1983, the Trustees' 75-year valuation period has picked up one deficit year at the back end. This, by itself, would cause the average condition to worsen and is the major reason for the deterioration in the long-term outlook since 1983.

The Trustees' Report released in March 2008 shows that the Social Security system continues to face a projected long-range funding shortfall. However, the projected 75-year actuarial deficit declined from 1.95 percent of taxable payroll (as reported in 2007) to 1.70 percent of taxable payroll primarily due to improvements in actuarial methodology. Key dates for the Social Security Trust Funds are unchanged from the 2007 report: expenditures are projected to exceed *tax revenues* beginning in 2017; expenditures are projected to exceed *total income* beginning in 2027; and trust fund assets are projected to be exhausted in 2041. Trends in key measures of Social Security's financial status as shown in the Trustees' Reports each year from 1983 to 2008 are shown in Table 1-7 and Table 1-8. The tables show that the long-range projections have fluctuated over the years, depending upon methodology or economic factors. For example, the 75-year deficit as a percentage of payroll was projected to be 2.23 percent in 1997, but was down to 1.7 percent in the 2008 Trustees Report, without major changes in the OASDI programs. In other terms, the 1997 Report projects the Trust Fund to be exhausted by 2029, but the 2008 Report projects exhaustion in 2041.

TABLE 1-7--LONG-RANGE ACTUARIAL STATUS OF THE COMBINED OASDI TRUST FUND AS SHOWN UNDER INTERMEDIATE ASSUMPTIONS IN TRUSTEES' REPORTS FROM 1983 TO 2008

[AS A PERCENTAGE OF TAXABLE PAYROLL]

Year of report	Average income rate	Average cost rate	Actuarial balance or imbalance (-)	Imbalance as a percentage of average income
Intermediate II-B projections				
1983	12.87	12.84	0.02	NA
1984	12.90	12.95	-0.06	0.47%
1985	12.94	13.35	-0.41	3.17%
1986	12.96	13.40	-0.44	3.40%
1987	12.89	13.51	-0.62	4.81%
1988	12.94	13.52	-0.58	4.48%
1989	13.02	13.72	-0.70	5.38%
1990	13.04	13.95	-0.91	6.98%
Intermediate projections				
1991	13.11	14.19	-1.08	8.24%
1992	13.16	14.63	-1.46	11.09%
1993	13.21	14.67	-1.46	11.05%
1994	13.24	15.37	-2.13	16.09%
1995	13.27	15.44	-2.17	16.35%
1996	13.33	15.52	-2.19	16.43%
1997	13.37	15.60	-2.23	16.68%
1998	13.45	15.64	-2.19	16.28%
1999	13.49	15.56	-2.07	15.34%
2000	13.51	15.40	-1.89	13.99%
2001	13.58	15.44	-1.86	13.70%
2002	13.72	15.59	-1.87	13.63%
2003	13.78	15.70	-1.92	13.93%
2004	13.84	15.73	-1.89	13.66%
2005	13.87	15.79	-1.92	13.84%
2006	13.88	15.90	-2.02	14.55%
2007	13.92	15.87	-1.95	14.01%
2008	13.94	15.63	-1.70	12.12%

NA-Not applicable.

Note- Actuarial balance or imbalance may not equal the difference of rounded components.

Source: Congressional Research Service based on 1983-2008 OASDI Trustees' Reports. From 1983-1990, two intermediate forecasts were prepared (II-A and II-B). The intermediate II-B forecast is considered the one more closely aligned with traditional intermediate forecasting.

TABLE 1-8--PROJECTED TRUST FUND EXHAUSTION AND OPERATIONS AS SHOWN UNDER INTERMEDIATE ASSUMPTIONS IN TRUSTEES' REPORTS FROM 1983 TO 2008

Year of report	Year of projected insolvency			Year that expenses first exceed tax income			Year that expenses first exceed tax income plus interest income		
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI	OASDI
Intermediate II-B projections									
1983	**	**	**	NA	NA	2021	NA	NA	2047
1984	**	2050	**	2021	2012	2021	2045	2038	2044
1985	2050	2034	2049	2019	2010	2019	2032	2020	2032
1986	2054	2026	2051	2020	2009	2019	2035	2017	2033
1987	2055	2023	2051	2020	2008	2019	2036	2013	2033
1988	2050	2027	2048	2019	2009	2019	2033	2016	2032
1989	2049	2025	2046	2019	2009	2018	2032	2014	2030
1990	2046	2020	2043	2019	2008	2017	2030	2011	2028
Intermediate projections									
1991	2045	2015	2041	2018	1998	2017	2030	2011	2028
1992	2042	1997	2036	2018	1992	2016	2028	1992	2024
1993	2044	1995	2036	2019	1993	2017	2030	1993	2025
1994	2036	1995	2029	2016	1994	2013	2024	1994	2019
1995	2031	2016	2030	2014	2003	2013	2021	2007	2020
1996	2031	2015	2029	2014	2003	2012	2021	2007	2019
1997	2031	2015	2029	2014	2004	2012	2021	2007	2019
1998	2034	2019	2032	2015	2006	2013	2023	2009	2021
1999	2036	2020	2034	2015	2006	2014	2024	2009	2022
2000	2039	2023	2037	2016	2007	2015	2026	2012	2025
2001	2040	2026	2038	2016	2008	2016	2027	2015	2027
2002	2043	2028	2041	2018	2009	2017	2028	2018	2027
2003	2044	2028	2042	2018	2008	2018	2030	2018	2028
2004	2044	2029	2042	2018	2008	2018	2029	2017	2028
2005	2043	2027	2041	2018	2005	2017	2028	2014	2027
2006	2042	2025	2040	2018	2005	2017	2028	2013	2027
2007	2042	2026	2041	2018	2005	2017	2028	2013	2027
2008	2042	2025	2041	2018	2005	2017	2028	2012	2027

** Trust fund(s) expected to remain solvent throughout the long-range projection period.

NA-Not available.

Source: Congressional Research Service based on 1983-2008 OASDI Trustees' Reports and information provided by the Social Security Administration. From 1983-1990, two intermediate forecasts were prepared (II-A and II-B). The intermediate II-B forecast is considered the one more closely aligned with traditional intermediate forecasting.

FINDINGS IN THE 2008 TRUSTEES' REPORT

The 2008 report of the Social Security Board of Trustees was released on March 25, 2008.[14] Under the Trustees' intermediate (mid-range) assumptions,

[14] *The 2008 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, March 25, 2008, available at: [http://www.ssa.gov/OACT/TR/TR08/] (hereafter cited as the 2008 Social Security Trustees' Report).

on a combined basis, the OASDI program meets the short-range test of financial adequacy though it fails to meet the long-range test of close actuarial balance. In addition, the DI Trust Fund on its own does not meet the short-range test of financial adequacy. The latest projections show that the system will continue to generate surplus tax revenues through 2016 (the system will begin running cash flow deficits in 2017) and that the trust funds will be exhausted in 2041.[15] At that point, annual Social Security tax revenues will be sufficient to finance 78 percent of benefits scheduled under current law, with the percentage projected to decline over time. On average over the next 75 years (2008-2082), the system's projected actuarial deficit is 1.70 percent of taxable payroll. In dollar terms, over the next 75 years, the system's projected unfunded obligation is $4.3 trillion (in present value terms), an amount equivalent to 0.6 percent of Gross Domestic Product (GDP). In the 75th year of the period, the cost of the system is projected to exceed income by 4.20 percent of taxable payroll (compared to 5.20 percent in the 2007 report).

The change in the 75-year actuarial deficit from 1.95 percent of taxable payroll (as shown in the 2007 report) to 1.70 percent of taxable payroll is due primarily to changes in methodology. The most significant change is a major revision in the methods used for projecting undocumented and temporary legal immigration, or the "other-immigrant" (other than legal permanent resident) population. This revision results in (1) a much larger other-immigrant population projected at working ages, and (2) a smaller number of these immigrants remaining in the Social Security population at retirement ages because most are assumed either to leave the United States before obtaining the legal status or work credits needed to qualify for retired-worker benefits, or to obtain legal permanent resident status. Also, the projections take into account additional births due to the larger other-immigrant population at younger ages. As a result, the projections assume a substantial increase in the number of Social Security-covered workers, and a relatively smaller increase in the number of Social Security recipients in the second half of the 75-year projection period. This revised methodology lowers the projected 75-year actuarial deficit by about 0.30 percent of taxable payroll. When other changes are factored in, there is a net reduction in the projected long-range actuarial deficit of 0.26 percent of taxable payroll (after rounding, the projected long-range actuarial deficit declines from 1.95 percent to 1.70 percent of taxable payroll).[16]

Social Security revenues are paid into the U.S. Treasury and most of the proceeds are used to pay benefits. In 2008, an estimated 89 percent of Social Security tax revenues will be needed to meet current expenditures. Surplus revenues are invested in Federal securities recorded to the Social Security Trust Funds maintained by the Treasury Department. Social Security benefits and administrative costs are paid out of the Treasury and a corresponding

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[15] The term "exhausted" is commonly used to indicate that the trust fund balance plus payroll taxes and other revenues would be insufficient to pay all benefits when they are due.
[16] 2008 Social Security Trustees' Report, pp. 69-70.

amount of trust fund securities are redeemed. When current Social Security taxes are insufficient to pay benefits, the trust fund's securities are redeemed and Treasury makes up the difference with other receipts.

Currently, Social Security tax revenues exceed the amount of funds needed to pay benefits and administrative costs. Surplus tax revenues and interest credited to the trust funds in the form of government bonds are reflected in increasingly larger trust fund balances. The Trustees project that the balance in the combined OASDI Trust Fund will peak at $5.5 trillion in 2027 (in current dollars). After that point, the system's outgo is projected to exceed total income (tax revenues and interest income) and trust fund assets will begin to be drawn down. By 2041, the trust funds are projected to be exhausted and technically insolvent.

Beginning a decade sooner (in 2017), the system's outgo is projected to exceed Social Security tax revenues (income excluding interest credited to the trust funds). With the emergence of *cash flow* deficits, the system will have to rely on interest credited to the trust funds to meet annual expenditures. Because interest credited to the trust funds is an exchange of credits between Treasury accounts (rather than a financial resource for the government from outside sources), other Federal receipts will be needed to meet the system's costs (i.e., the system will begin to rely on general revenues). The system's reliance on general revenues is projected to be about $77 billion by 2020 and $258 billion by 2030 (in constant 2008 dollars). Stated another way, by 2030, nearly 20 percent of the program's expenditures would be funded by general revenues from interest payments and the redemption of government bonds in the trust funds. The U.S. Government has never defaulted on the Federal securities posted to its trust funds, however, the magnitude of the potential claims has prompted some observers to question where the government will find the money to cover them. If there are no other surplus governmental receipts, policymakers would have three options: raise taxes, reduce spending, or borrow the money from the public (i.e., replace bonds held by the trust funds with bonds held by the public). Table 1-9 and Table 1-10 show estimated trust fund operations for selected calendar years in current and constant dollars, respectively. Table 1-11 shows estimated trust fund balances as a percentage of annual expenditures for selected calendar years.

TABLE 1-9--ESTIMATED OPERATIONS OF THE COMBINED OASI AND DI TRUST FUNDS, IN CURRENT DOLLARS, SELECTED CALENDAR YEARS 2008-2040 [IN BILLIONS]

Calendar year	Tax income	Interest income	Total income	Outgo	End of year balance
2008	$703	$117	$820	$623	$2,435
2010	787	138	925	700	2,873
2015	994	208	1,202	972	4,051
2020	1,242	275	1,517	1,348	5,043
2025	1,543	311	1,854	1,818	5,525
2030	1,914	294	2,208	2,385	5,099
2035	2,378	207	2,586	3,034	3,413
2040	2,955	38	2,993	3,762	227

Source: Board of Trustees (2008; intermediate assumptions).

TABLE 1-10--ESTIMATED OPERATIONS OF THE COMBINED OASI AND DI TRUST FUNDS, IN CONSTANT 2008 DOLLARS, SELECTED CALENDAR YEARS 2008-2040 [IN BILLIONS]

Calendar year	Tax income	Interest income	Total income	Outgo	End of year balance
2008	$703	$117	$820	$623	$2,435
2010	747	131	878	664	2,727
2015	822	172	994	803	3,349
2020	894	198	1,093	971	3,632
2025	968	195	1,163	1,140	3,466
2030	1,046	161	1,207	1,303	2,786
2035	1,132	99	1,231	1,444	1,624
2040	1,225	16	1,241	1,560	94

Source: Board of Trustees (2008; intermediate assumptions).

TABLE 1-11--ESTIMATED TRUST FUND BALANCES AS A PERCENTAGE OF ANNUAL EXPENDITURES, SELECTED CALENDAR YEARS 2008-2040

Beginning of calendar year	OASI	DI	Combined
2008	392	199	359
2009	406	190	369
2010	420	182	378
2011	431	174	386
2012	439	164	392
2013	443	154	394
2014	445	143	395
2015	445	132	393
2016	443	120	390
2017	438	107	385
2020	413	71	361
2025	350	9	302
2030	263	-	221
2035	164	-	127
2040	59	-	26

Note- Under intermediate assumptions, the OASI fund is estimated to become exhausted in 2042, the DI fund in 2025, and the combined funds in 2041. The balances for the combined funds for years after a component fund has been exhausted are shown for illustrative purposes only, since no legal authority exists for interfund borrowing between OASI and DI.

Source: Board of Trustees (2008; intermediate assumptions).

In the 2008 report, as in the previous seventeen reports, the Trustees concluded that the Social Security system is not in close actuarial balance over the long run. For the period 2008-2082, the difference between the summarized income rate and the summarized cost rate for the OASDI program is a deficit of 1.70 percent of taxable payroll (see the center column of values in Table 1-12, which reflects the Trustees' intermediate projections). Therefore, on a combined basis, the OASDI program is not in close actuarial balance over the entire 75-year period. In addition, the individual OASI and DI Trust Funds are not in close actuarial balance. The OASI Trust Fund, which will be exhausted in 2042, has a projected 75-year actuarial deficit equal to 1.46 percent of taxable payroll (under the intermediate assumptions). The DI Trust Fund, which will be exhausted in 2025, has a projected 75-year actuarial deficit equal to 0.24 percent of taxable payroll (under the intermediate assumptions). The projected trust fund exhaustion dates under the Trustees' alternative assumptions are shown in Table 1-13. In addition, Table 1-13 shows the maximum projected trust fund ratios under each alternative. The trust fund ratio represents trust fund assets at the beginning of a year expressed as a percentage of expenditures during the year. The trust fund ratio for the OASDI Trust Fund is projected to peak at 395 percent (about 4 years' worth of benefits) in 2014 (under the intermediate assumptions).

TABLE 1-12--ESTIMATED OASDI INCOME AND COST RATES AND ACTUARIAL BALANCES AS A PERCENTAGE OF TAXABLE PAYROLL OVER 25, 50, AND 75-YEAR PERIODS[1]

Valuation period	Ultimate percentage increase in wages[2]		
	3.4 - 2.8	3.9 - 2.8	4.4 - 2.8
Summarized income rate:			
25-year: 2008-2032	14.92	14.81	14.71
50-year: 2008-2057	14.28	14.14	14.01
75-year: 2008-2082	14.09	13.94	13.79
Summarized cost rate:			
25-year: 2008-2032	14.87	14.43	14.00
50-year: 2008-2057	15.95	15.28	14.64
75-year: 2008-2082	16.37	15.63	14.92
Balance:			
25-year: 2008-2032	0.05	0.38	0.71
50-year: 2008-2057	-1.67	-1.14	-0.62
75-year: 2008-2082	-2.28	-1.70	-1.12

[1] Based on intermediate estimates with various real-wage assumptions.
[2] The first value in each pair is the assumed ultimate annual percentage increase in average wages in covered employment. The second value is the assumed ultimate annual percentage increase in the Consumer Price Index. The difference between the two values is the real-wage differential.
Source: Board of Trustees (2008).

TABLE 1-13--MAXIMUM TRUST FUND RATIOS AND YEAR OF EXHAUSTION FOR THE OASDI TRUST FUNDS UNDER ALTERNATIVE ASSUMPTIONS

Assumption	OASI	DI	Combined
Alternative I (optimistic):			
Maximum trust fund ratio (percent)	500	2073	624
Year attained	2018	2082	2082
Year of exhaustion	NA	NA	NA
Alternative II (intermediate):			
Maximum trust fund ratio (percent)	445	199	395
Year attained	2014	2008	2014
Year of exhaustion	2042	2025	2041

TABLE 1-13--MAXIMUM TRUST FUND RATIOS AND YEAR OF EXHAUSTION FOR THE OASDI TRUST FUNDS UNDER ALTERNATIVE ASSUMPTIONS -cont.

Assumption	OASI	DI	Combined
Alternative III (pessimistic):			
Maximum trust fund ratio (percent)	413	196	365
Year attained	2011	2008	2011
Year of exhaustion	2033	2017	2031

NA- Not applicable.
Source: Board of Trustees (2008).

Trust fund income from OASDI payroll taxes represents 12.4 percent of taxable payroll. Because the payroll tax rate is not scheduled to change under current law, OASDI payroll tax income as a percentage of taxable payroll remains constant at 12.4 percent. Additional trust fund income from Federal income taxes paid by some Social Security recipients on a portion of their benefits yields a total income rate of 12.77 percent of taxable payroll in 2008. The income rate is projected to increase gradually to 13.30 percent of taxable payroll by 2085 (Table 1-14). The growth is attributable in part to increasing proportions in both the number of Social Security recipients and the amount of their benefits subject to Federal income taxation in the future. These proportions will increase because the income thresholds (above which benefits are taxable) are fixed dollar amounts. Over time, more Social Security recipients will have incomes above the thresholds due to projected increases in wages and prices in the future. As a share of GDP, Social Security income is projected to decline from 4.86 percent today to 4.77 percent in 2035 and 4.40 percent in 2085 (Table 1-15). Social Security income is projected to decline as a share of the economy because wages subject to Social Security payroll taxes are projected to increase more slowly than other forms of compensation (such as employer contributions for health insurance and 401(k) plans) and other types of income (such as income from property).

In 2008, the annual cost of the Social Security system ($623.5 billion) is equal to 11.20 percent of taxable payroll. The Trustees project that the system’s costs will increase at a faster rate than tax income over the next several decades. Between 2010 and 2030, program costs are projected to increase sharply as the post-World War II baby boom generation moves into retirement. As a share of taxable payroll, the cost of the system is projected to reach 12.62 percent in 2015, 14.14 percent in 2020, and 16.41 percent in 2030. Program costs are then projected to increase at a slower rate for about 5 years, reaching 16.84 percent of taxable payroll in 2035. Beyond 2035, program costs as a share of taxable payroll are projected to remain relatively stable for several decades before gradually increasing to 17.63 percent of taxable payroll in 2085 (Table 1-14). As a share of GDP, program costs are projected to increase from 4.32 percent today to a peak of 6.1 percent in the 2030s. Over the following decade, program costs are projected to decline slightly as a share of GDP before stabilizing at about 5.8 percent for the remainder of the projection period (Table 1-15). Table 1-16 shows projected trust fund operations (income rates, cost rates, and actuarial balances) as a percent of GDP summarized over 25, 50, and 75-year periods. As shown in the center column of values in the table, over the next 75 years, the system's projected unfunded obligation is equivalent to 0.61 percent of GDP under the Trustees' intermediate assumptions.

TABLE 1-14--ESTIMATED INCOME RATES AND COST RATES, AS A PERCENTAGE OF TAXABLE PAYROLL, SELECTED CALENDAR YEARS 2008-2085

Calendar	OASI			DI			Combined		
year	Income rate	Cost rate	Balance	Income Rate	Cost rate	Balance	Income rate	Cost rate	Balance
2008	10.94	9.26	1.68	1.83	1.94	-0.11	12.77	11.20	1.57
2009	10.97	9.31	1.67	1.83	1.96	-0.13	12.81	11.26	1.54
2010	10.99	9.39	1.60	1.84	1.98	-0.14	12.82	11.37	1.54
2011	11.00	9.54	1.47	1.84	2.00	-0.16	12.84	11.53	1.31
2012	11.03	9.73	1.29	1.84	2.03	-0.19	12.87	11.76	1.11
2013	11.06	9.98	1.08	1.84	2.05	-0.21	12.90	12.03	0.87
2014	11.07	10.25	0.83	1.85	2.07	-0.23	12.92	12.32	0.60
2015	11.09	10.52	0.57	1.85	2.10	-0.25	12.94	12.62	0.32
2016	11.11	10.81	0.31	1.85	2.12	-0.27	12.96	12.92	0.04
2017	11.13	11.10	0.03	1.85	2.14	-0.29	12.99	13.24	-0.25
2020	11.19	12.02	-0.82	1.85	2.12	-0.27	13.04	14.14	-1.09
2025	11.27	13.28	-2.00	1.85	2.16	-0.30	13.13	15.43	-2.30
2030	11.34	14.28	-2.94	1.85	2.13	-0.27	13.19	16.41	-3.21
2035	11.37	14.74	-3.36	1.85	2.10	-0.25	13.23	16.84	-3.61
2040	11.38	14.71	-3.33	1.86	2.11	-0.25	13.23	16.81	-3.58
2045	11.37	14.46	-3.09	1.86	2.16	-0.30	13.23	16.62	-3.39
2050	11.37	14.32	-2.95	1.86	2.20	-0.34	13.23	16.52	-3.29
2055	11.37	14.33	-2.96	1.86	2.23	-0.37	13.23	16.57	-3.33
2060	11.38	14.46	-3.07	1.86	2.23	-0.37	13.24	16.69	-3.44
2065	11.39	14.58	-3.19	1.86	2.24	-0.38	13.25	16.82	-3.57
2070	11.40	14.73	-3.33	1.86	2.26	-0.40	13.26	16.99	-3.72
2075	11.41	14.91	-3.49	1.86	2.28	-0.42	13.28	17.18	-3.91
2080	11.43	15.11	-3.68	1.86	2.30	-0.43	13.29	17.41	-4.12
2085	11.44	15.33	-3.89	1.86	2.30	-0.44	13.30	17.63	-4.33

Source: Board of Trustees (2008; intermediate assumptions).

TABLE 1-15--ESTIMATED INCOME RATES AND COST RATES, AS A PERCENTAGE OF GDP, SELECTED CALENDAR YEARS 2008-2085

Calendar	OASI			DI			Combined		
year	Income rate	Cost rate	Balance	Income rate	Cost rate	Balance	Income rate	Cost rate	Balance
2008	4.17	3.57	0.60	0.70	0.75	-0.05	4.86	4.32	0.55
2009	4.22	3.60	0.63	0.71	0.76	-0.05	4.93	4.35	0.57
2010	4.23	3.62	0.61	0.71	0.76	-0.06	4.94	4.39	0.55
2011	4.23	3.68	0.56	0.71	0.77	-0.06	4.94	4.44	0.49
2012	4.23	3.74	0.49	0.71	0.78	-0.07	4.94	4.52	0.42
2013	4.23	3.82	0.40	0.70	0.79	-0.08	4.93	4.61	0.32
2014	4.22	3.91	0.31	0.70	0.79	-0.09	4.92	4.70	0.22
2015	4.21	4.01	0.21	0.70	0.80	-0.10	4.91	4.80	0.11
2016	4.21	4.10	0.11	0.70	0.80	-0.10	4.91	4.90	0.00
2017	4.20	4.20	0.00	0.70	0.81	-0.11	4.90	5.01	-0.11
2020	4.19	4.51	-0.32	0.69	0.79	-0.10	4.88	5.30	-0.42
2025	4.16	4.91	-0.75	0.68	0.80	-0.11	4.85	5.71	-0.86
2030	4.14	5.22	-1.08	0.68	0.78	-0.10	4.81	6.00	-1.19
2035	4.10	5.33	-1.22	0.67	0.76	-0.09	4.77	6.09	-1.32
2040	4.06	5.26	-1.20	0.66	0.75	-0.09	4.73	6.02	-1.29
2045	4.02	5.13	-1.10	0.66	0.77	-0.11	4.68	5.89	-1.21
2050	3.99	5.03	-1.05	0.65	0.77	-0.12	4.64	5.81	-1.17
2055	3.96	5.00	-1.04	0.65	0.78	-0.13	4.60	5.77	-1.17
2060	3.93	5.00	-1.07	0.64	0.77	-0.13	4.57	5.77	-1.20
2065	3.90	5.00	-1.10	0.64	0.77	-0.13	4.53	5.76	-1.23
2070	3.87	5.00	-1.14	0.63	0.77	-0.14	4.50	5.77	-1.27
2075	3.84	5.02	-1.18	0.63	0.77	-0.14	4.46	5.79	-1.33
2080	3.81	5.05	-1.24	0.62	0.77	-0.15	4.43	5.81	-1.38
2085	3.78	5.08	-1.30	0.62	0.76	-0.15	4.40	5.84	-1.44

Source: Board of Trustees (2008; intermediate assumptions).

TABLE 1-16--ESTIMATED OASDI INCOME AND COST RATES AND ACTUARIAL BALANCES AS A PERCENTAGE OF GDP OVER 25, 50, AND 75-YEAR PERIODS[1]

	Ultimate percentage increase in wages[2]		
Valuation period	3.4 - 2.8	3.9 - 2.8	4.4 - 2.8
Summarized income rate:			
25-year: 2008-2032	5.36	5.57	5.79
50-year: 2008-2057	4.77	5.19	5.67
75-year: 2008-2082	4.43	5.02	5.74
Summarized cost rate:			
25-year: 2008-2032	5.34	5.43	5.51
50-year: 2008-2057	5.32	5.61	5.92
75-year: 2008-2082	5.15	5.63	6.21
Balance:			
25-year: 2008-2032	0.02	0.14	0.28
50-year: 2008-2057	-0.56	-0.42	-0.25
75-year: 2008-2082	-0.72	-0.61	-0.47

[1] Based on intermediate estimates with various real-wage assumptions.
[2] The first value in each pair is the assumed ultimate annual percentage increase in average wages in covered employment. The second value is the assumed ultimate annual percentage increase in the Consumer Price Index. The difference between the two values is the real-wage differential.
Source: Board of Trustees (2008).

Over the next 75 years, the system's *average* income is projected to be 13.94 percent of taxable payroll and the system's *average* cost is projected to be 15.63 percent of taxable payroll, resulting in an actuarial deficit of 1.70 percent of taxable payroll. Thus, over the next 75 years, on *average*, the cost of the system is projected to exceed income by 12 percent. However, the gap between income and outgo is projected to increase over the 75-year projection period. By the end of the period (2082), the cost of the system is projected to exceed income by 32 percent.

The long-range projections for the Social Security system are based on many demographic, economic, and program-specific factors. In large part, however, the system's projected long-range funding shortfall is related to demographic changes in the United States. According to the Social Security actuaries, lower birth rates are the principle reason that the cost of the Social Security program is shifting to a higher level over the next quarter century. The "total fertility rate," or the average number of children women have, was about 3.3 children per woman during the baby boom years from 1946 through 1965. By 1972, however, the total fertility rate dropped to 2 children per woman and has stayed at about that level ever since. Moreover, the first wave of the 80 million member baby boom generation moves into retirement in 2008 (they reach age 62, the age at which reduced Social Security retirement benefits are first payable), and projected increases in life expectancy will contribute to an older society. The Congressional Budget Office projects that the number of Social Security recipients will increase from 50 million in 2008 to 62 million by 2017 (an increase of 24 percent over 10 years). Similarly, the Trustees project that, between 2010 and 2030, the number of people age 65 and older will increase by 75 percent while the number of workers whose taxes will finance future benefits will increase by 8 percent. As a result, the number of workers supporting each Social Security recipient is projected to decline from 3.3 today to 2.2 in 2030. The aging of the U.S. population will continue to be an important factor after the baby boomers have died. Forecasts of continuing increases in life expectancy mean that Social Security recipients will receive benefits for longer periods in the future. In addition, projected increases in life expectancy combined with forecasts of continuing low fertility rates mean that persons age 65 and older will continue to represent a growing share of the U.S. population. Table 1-17 shows the historical and projected trends in life expectancy, as well as fertility and death rates.

With respect to key economic factors, the long-range projections assume that GDP will increase at an ultimate rate of 1.7 percent annually; the average wage will increase at an ultimate rate of 3.9 percent annually; inflation will increase at an ultimate rate of 2.8 percent annually; and unemployment will average 5.5 percent.[17] Table 1-18 shows the historical and projected trends in key economic assumptions. Thus, the projected growth in Social Security expenditures can be attributed both to an increase in the *number of recipients* and an increase in *spending per recipient*. If wages continue to increase faster than prices as projected, initial monthly benefits for future retirees will increase in *real* terms (i.e., above price inflation) because elements of the benefit formula are adjusted annually to reflect wage growth in the economy. While there is inherent uncertainty in projections made over a 75-year period, the system's long-range financial outlook suggests that an increase in income, a reduction in expenditures, or a combination of such measures would be needed to restore long-range solvency to the Social Security Trust Funds.

[17] Ultimate values are assumed to be reached within the first 25 years of the projection period. The ultimate economic assumptions are unchanged from the 2007 report.

TABLE 1-17--FERTILITY, DEATH RATE, AND PERIOD[1] LIFE EXPENCTANCY ASSUMPTIONS, SELECTED YEARS 1940-2080

Calendar year	Total fertility rate (per woman)	Age-sex adjusted death rate (per 100,000)	Period life expectancy at birth		Period life expectancy at age 65	
			Male	Female	Male	Female
1940	2.23	1,779.1	61.4	65.7	11.9	13.4
1945	2.42	1,586.6	62.9	68.4	12.6	14.4
1950	3.03	1,435.6	65.6	71.1	12.8	15.1
1955	3.50	1,334.2	66.7	72.8	13.1	15.6
1960	3.61	1,330.9	66.7	73.2	12.9	15.9
1965	2.88	1,304.6	66.8	73.8	12.9	16.3
1970	2.43	1,224.3	67.2	74.9	13.1	17.1
1975	1.77	1,099.0	68.7	76.6	13.7	18.0
1980	1.82	1,035.9	69.9	77.5	14.0	18.4
1985	1.84	984.2	71.1	78.2	14.4	18.6
1990	2.07	931.2	71.8	78.9	15.1	19.1
1995	1.98	913.9	72.5	79.1	15.4	19.1
2000	2.06	875.7	74.0	79.4	15.9	19.0
2005	2.05	835.8	74.9	79.8	16.5	19.2
2010	2.06	812.2	75.7	80.0	16.9	19.3
2015	2.04	782.4	76.3	80.4	17.3	19.5
2020	2.03	750.5	76.9	80.9	17.6	19.8
2025	2.02	719.3	77.5	81.3	17.9	20.0
2030	2.01	689.8	78.0	81.8	18.2	20.3
2035	2.00	662.0	78.5	82.2	18.5	20.6
2040	2.00	635.9	79.0	82.6	18.8	20.9
2045	2.00	611.5	79.5	83.1	19.0	21.2
2050	2.00	588.6	80.0	83.4	19.3	21.4
2055	2.00	567.0	80.4	83.8	19.6	21.7
2060	2.00	546.8	80.8	84.2	19.8	21.9
2065	2.00	527.8	81.3	84.6	20.1	22.2
2070	2.00	509.8	81.7	84.9	20.3	22.4
2075	2.00	492.9	82.0	85.2	20.6	22.6
2080	2.00	476.8	82.4	85.6	20.8	22.8

[1] The period life expectancy at a given age for a given year represents the average number of years of life remaining if a group of persons at the age were to experience the mortality rates for that year over the course of their remaining lives.

Source: Board of Trustees (2008; intermediate assumptions).

TABLE 1-18--SELECTED ECONOMIC ASSUMPTIONS,
SELECTED YEARS 1960-2085

Calendar year	Average annual percentage change in- Real GDP[1]	Average annual wage in covered employment	Consumer Price Index[2]	Real-wage differential[3] (percent)	Average annual nominal interest rate[4] (percent)	Average annual unemployment rate[5] (percent)	Average annual percentage change in labor force[6]
1960-1965	5.0	3.2	1.2	2.0	4.0	5.5	1.3
1965-1970	3.4	5.8	4.2	1.6	5.9	3.9	2.2
1970-1975	2.7	6.6	6.8	-0.2	6.7	6.1	2.5
1975-1980	3.7	8.9	8.9	-0.1	8.5	6.8	2.7
1980-1985	3.2	6.5	5.2	1.3	12.1	8.3	1.5
1985-1990	3.3	4.7	3.8	0.9	8.5	5.9	1.7
1990-1995	2.5	3.6	3.0	0.6	7.0	6.6	1.0
1995-2000	4.1	5.4	2.4	2.9	6.2	4.6	1.5
2000-2005	2.3	2.7	2.5	0.2	4.6	5.4	0.9
1997	4.5	5.6	2.3	3.3	6.6	4.9	1.8
1998	4.2	6.1	1.3	4.7	5.6	4.5	1.0
1999	4.4	4.9	2.2	2.7	5.9	4.2	1.2
2000	3.7	6.2	3.5	2.7	6.2	4.0	2.3
2001	0.8	2.1	2.7	-0.7	5.2	4.7	0.8
2002	1.6	0.7	1.4	-0.7	4.9	5.8	0.8
2003	2.5	2.6	2.2	0.4	4.1	6.0	1.1
2004	3.6	4.5	2.6	1.8	4.3	5.5	0.6
2005	3.1	3.7	3.5	0.1	4.3	5.1	1.3
2006	2.9	5.0	3.2	1.8	4.8	4.6	1.4
2007	2.2	4.4	2.8	1.6	4.7	4.6	1.1
2008	2.3	4.1	2.8	1.3	4.4	4.8	0.7
2009	2.8	4.2	2.5	1.7	5.1	5.0	1.1
2010	2.7	4.0	2.8	1.3	5.6	5.2	1.1
2011	2.5	3.9	2.8	1.1	5.7	5.3	0.9
2012	2.5	4.0	2.8	1.2	5.8	5.4	0.8
2013	2.5	4.0	2.8	1.2	5.8	5.5	0.7
2014	2.4	3.9	2.8	1.1	5.8	5.5	0.7
2015	2.3	3.9	2.8	1.1	5.8	5.5	0.6
2016	2.3	3.8	2.8	1.0	5.8	5.5	0.6
2017	2.3	3.8	2.8	1.0	5.7	5.5	0.6
2020	2.2	3.9	2.8	1.1	5.7	5.5	0.5
2025	2.1	3.9	2.8	1.1	5.7	5.5	0.4
2030	2.1	3.9	2.8	1.1	5.7	5.5	0.4
2035	2.2	3.9	2.8	1.1	5.7	5.5	0.5
2040	2.2	3.9	2.8	1.1	5.7	5.5	0.5
2045	2.2	3.9	2.8	1.1	5.7	5.5	0.5
2050	2.1	3.9	2.8	1.1	5.7	5.5	0.4
2055	2.1	3.9	2.8	1.1	5.7	5.5	0.4
2060	2.1	3.9	2.8	1.1	5.7	5.5	0.4
2065	2.1	3.9	2.8	1.1	5.7	5.5	0.4
2070	2.1	3.9	2.8	1.1	5.7	5.5	0.4

TABLE 1-18--SELECTED ECONOMIC ASSUMPTIONS, SELECTED YEARS 1960-2085 -cont.

Calendar year	Average annual percentage change in- Real GDP[1]	Average annual wage in covered employment	Consumer Price Index[2]	Real-wage differential[3] (percent)	Average annual nominal interest rate[4] (percent)	Average annual unemployment rate[5] (percent)	Average annual percentage change in labor force[6]
2075	2.1	3.9	2.8	1.1	5.7	5.5	0.4
2080	2.1	3.9	2.8	1.1	5.7	5.5	0.4
2085	2.1	3.9	2.8	1.1	5.7	5.5	0.4

[1] The real gross domestic product (GDP) is the value of total output of goods and services, expressed in 2000 dollars.

[2] The Consumer Price Index (CPI) is the annual average value for the calendar year of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

[3] The real-wage differential is the difference between the percentage increases, before rounding, in the average annual wage in covered employment, and the average annual Consumer Price Index.

[4] The average annual interest rate is the average of the nominal interest rates, which, in practice, are compounded semiannually, for special public-debt obligations issuable to the trust funds in each of the 12 months of the year.

[5] Unadjusted civilian unemployment rates are shown through 2017. Thereafter, the rates are adjusted to the age-sex distribution of the civilian labor force in 2006.

[6] The U.S. civilian labor force concept is used here.

Source: Board of Trustees (2008; intermediate assumptions).

SOCIAL SECURITY’S OFF-BUDGET STATUS

The Old-Age, Survivors, and Disability Insurance Trust Funds currently are off-budget. That is, by law, the receipts and disbursements of the Social Security Trust Funds are excluded from the totals in the President’s budget and the congressional budget resolution. In practice, the off-budget status of the Social Security Trust Funds (as well as the transactions of the Postal Service) has meant that budget documents present separately budget totals for all budgetary accounts not designated as off-budget (commonly referred to as “on-budget” accounts) and for accounts designated as off-budget, and then also present the combined budget totals (commonly referred to as the “unified budget”). In addition, the off-budget status of the Social Security Trust Funds has meant that legislation affecting the receipts and disbursements of the trust funds is excluded from the general budget constraints associated with the annual congressional budget resolution, leading to separate rules to ensure that legislation considered by Congress does not negatively affect the Social Security Trust Fund balances.

Prior to 1968, the Social Security Trust Funds, along with all other trust funds, were excluded from the most frequently used presentation of the budget, the administrative budget. As trust-fund activities increased, the existing budget presentations were seen as inadequate in representing the full impact of federal government financial activities on the national economy. The 1967

Report of the President's Commission on Budget Concepts stated that "the budget should, as a general rule, be comprehensive of the full range of federal activities."[18] The commission recommended a unified budget, consolidating the revenues and expenditures from both federal and trust funds. In 1968, President Lyndon B. Johnson adopted the unified budget for his FY 1969 budget submission to Congress.

Like other trust funds, the Social Security Trust Funds were incorporated into the unified budget beginning in 1968 to present the full range of federal activities in a single budget. However, as concerns regarding the solvency of the Social Security Trust Funds increased, Congress took several legislative actions related to the budgetary treatment of the trust funds resulting in the current off-budget status. First, in 1983, Congress set forth a process to gradually take the Social Security Trust Funds (as well as the Medicare Hospital Insurance Trust Fund) off budget by FY 1993 (Social Security Amendments of 1983; Public Law 98-21; 97 Stat. 65, specifically 97 Stat. 137-138). The trust funds first were to be treated as a separate major functional category in the budget, and then they would be removed from the budget totals beginning in FY 1993.

Second, as concerns arose that the Social Security Trust Fund surpluses were masking the size of budget deficits, Congress accelerated this process by providing that the receipts and expenditures from the Social Security Trust Funds be removed from the President's budget and congressional budget resolutions, beginning in FY 1986 (Balanced Budget and Emergency Deficit Control Act of 1985; Public Law 99-177; 99 Stat. 1037, specifically 99 Stat. 1093-1094). Under the enforcement mechanism established by the 1985 Balanced Budget Act, Social Security Trust Fund transactions were included in calculating the surplus or deficit totals for purposes of determining if a sequestration — an across-the-board cancellation of budgetary resources — was required. However, Social Security program benefits were exempt from any sequestration.

Finally, in 1990, Congress reaffirmed the off-budget status of the Social Security Trust Funds by excluding the receipts and expenditures of the Social Security Trust Funds from the surplus or deficit totals in the President's budget and the congressional budget resolution, and from the surplus or deficit calculations and sequestration related to the budget enforcement procedures established by the Budget Enforcement Act of 1990 (Title XIII of Public Law 101-508; 104 Stat. 1388-573 through 630, specifically 104 Stat. 1388-623). While the latter enforcement procedures effectively expired at the end of FY 2002, the off-budget status of the Social Security Trust Funds as it relates to the President's budget and the congressional budget resolution is permanent.

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[18] *Report of the President's Commission on Budget Concepts* (Washington: GPO, October 1967), p. 25.

HOUSE AND SENATE BUDGET PROCEDURES TO PROTECT SOCIAL SECURITY BALANCES

Budgetary legislation is constrained largely by the enforcement procedures associated with the annual congressional budget resolution established by the Congressional Budget Act of 1974 (Title I-IX of Public Law 93-344). The annual budget resolution sets forth Congress's budget plan for a period of at least five fiscal years. It includes total levels of new budget authority, outlays, revenues, the deficit, and the public debt for each of the fiscal years covered. Once a budget resolution is adopted, Congress may enforce its provisions, through points of order, at several levels: the total levels of spending and revenues, the level of resources allocated to each committee, and the level of resources allocated to each of the appropriations subcommittees. Congress also may use reconciliation legislation to enforce the direct spending and revenue provisions of a budget resolution.

Prior to 1986, the receipts and disbursements of the Social Security Trust Funds were included in the budget resolution totals and committee spending allocations. As a result, the budgetary impact of Social Security and any proposed legislation affecting the receipts and disbursements of the trust funds were considered in the context of the overall federal budget. Moreover, under the enforcement procedures noted above, the receipts and disbursements of the trust funds could be considered among the possible tradeoffs in the collection and allocation of budgetary resources. That is, for example, increases in receipts or reductions in disbursements of the Social Security Trust Funds could be used to offset reductions in other taxes or spending increases in other programs in order to comply with the budget constraints associated with the budget resolution. Alternatively, increases in other taxes or spending reductions in other programs could be used to offset reductions in receipts or increases in disbursements of the Social Security Trust Funds.

Given the current off-budget status of the Social Security Trust Funds, however, such possible tradeoffs now are no longer available. The off-budget status of the trust funds, as noted above, excludes the receipts and disbursements of the trust funds from the totals in the annual congressional budget resolution. As a result, the general budget enforcement procedures associated with the budget resolution that constrain the consideration of legislation affecting revenues and spending do not apply to legislation affecting the receipts and disbursements of the Social Security Trust Funds. Instead, Congress created separate rules to ensure that legislation considered by Congress does not negatively affect the Social Security Trust Fund balances.

In the House, a point of order (i.e., a floor objection) may be raised against a bill that proposes more than $250 million in Social Security spending increases or tax cuts over five years (counting the fiscal year it becomes effective and the following four years) unless the bill also contains offsetting changes to bring the net impact within the $250 million limit. Costs of prior legislation that fall within the five-year period must be counted. A point of order also may be raised against a measure that would increase long-range (75-year) average costs or reduce long-range revenues by at least 0.02 percent of taxable payroll.

In the Senate, the annual congressional budget resolution must include separate amounts for Social Security Trust Fund revenues and outlays for each year covered by the resolution (i.e., separate from the budget totals). These amounts must reflect surpluses of the Social Security Trust Funds that are not less than those projected under current law. Once the resolution is adopted by Congress, subsequent measures that would be projected to cause Social Security Trust Fund surpluses to be lower (or deficits to be higher) than those reflected in the amounts in the budget resolution are subject to a point of order. A motion to waive the point of order requires an affirmative vote of three-fifths of Senators (i.e., 60 Senators if there are no vacancies).

It is important to note that the rules do not prevent Congress from considering legislation that is projected to increase or reduce the receipts and disbursement levels of the Social Security Trust Funds. Instead, the rules require that the net effect of such changes do not negatively affect the balances of the Social Security Trust Funds. Congress, however, is prohibited from including any changes to the Social Security program in reconciliation legislation, which is considered under expedited procedures. As a result, Congress must consider changes to the Social Security program separate from other budgetary legislation.

In addition, both the House and Senate have "pay-as-you-go" (PAYGO) requirements for revenue and mandatory spending legislation (Social Security disbursements are a form of mandatory spending). The House and Senate PAYGO rules prohibit the consideration of revenue and direct spending legislation that would have the net effect of increasing the deficit over either a six-year period or an 11-year period. The House PAYGO rule applies to legislation affecting the unified budget deficit, which includes the receipts and disbursements of the Social Security Trust Funds. The Senate PAYGO rule, however, applies to legislation affecting the on-budget deficit, which excludes the Social Security Trust Funds.

SOCIAL SECURITY BENEFITS AND ELIGIBILITY

BENEFIT ELIGIBILITY

Benefits can be paid to workers and their dependents or survivors only if the worker has worked long enough in covered employment to be insured for these benefits. Insured status is measured in terms of “credits,” previously called “quarters of coverage.” In determining whether a person has the required credits for insured status, Social Security uses the lifetime record of earnings reported under the worker's Social Security Number (SSN) and counts the number of quarters which are covered credits.

Before 1978, one credit was earned for each calendar quarter in which a worker was paid $50 or more in wages for covered employment, or received $100 in self-employment income. A worker also could receive a credit for each multiple of $100 in annual agricultural earnings, up to a maximum of four credits per year. Since the beginning of 1978, the crediting of quarters of coverage has been on an annual rather than a quarterly basis, up to a maximum of four credits per year. In 1978, a worker earned one credit (up to a maximum of four) for each $250 of annual earnings reported from covered employment or self-employment. The amount of annual earnings needed for a credit increases each year in proportion to increases in average wages in the economy. In 2008, the amount of earnings needed for one credit is $1,050. For most wage earners, there is no coverage threshold. Wages, beginning with the first dollar, are covered and taxable. However, special coverage rules apply to domestic employees (such as nannies and housekeepers) and electoral campaign workers. For domestic employees, the coverage threshold is $1,600; and for election workers it is $1,400. If annual earnings for these workers are below the respective coverage threshold, the earnings are not covered or taxable under Social Security. Table 1-19 shows the amount of covered earnings needed for one credit, and the special coverage thresholds for domestic and election workers, in calendar years 1978 to 2017.

TABLE 1-19-- AMOUNT OF EARNINGS NEEDED FOR ONE CREDIT AND SPECIAL COVERAGE THRESHOLDS, 1978-2017

Year	Earnings needed for one credit[1]	Coverage threshold for domestic workers[2]	Coverage threshold for election workers
1978	$250	$50	$100
1979	260	50	100
1980	290	50	100
1981	310	50	100
1982	340	50	100
1983	370	50	100
1984	390	50	100
1985	410	50	100
1986	440	50	100
1987	460	50	100
1988	470	50	100
1989	500	50	100
1990	520	50	100
1991	540	50	100
1992	570	50	100
1993	590	50	100
1994	620	1,000	100
1995	630	1,000	1,000
1996	640	1,000	1,000
1997	670	1,000	1,000
1998	700	1,100	1,000
1999	740	1,100	1,000
2000	780	1,200	1,100
2001	830	1,300	1,100
2002	870	1,300	1,200
2003	890	1,400	1,200
2004	900	1,400	1,200
2005	920	1,400	1,200
2006	970	1,500	1,300
2007	1,000	1,500	1,300
2008	1,050	1,600	1,400
2009	1,090 [3]	1,700 [3]	1,500 [3]
2010	1,140 [3]	1,800 [3]	1,500 [3]
2011	1,180 [3]	1,800 [3]	1,600 [3]
2012	1,230 [3]	1,900 [3]	1,700 [3]
2013	1,280 [3]	2,000 [3]	1,700 [3]
2014	1,330 [3]	2,100 [3]	1,800 [3]
2015	1,380 [3]	2,200 [3]	1,900 [3]
2016	1,440 [3]	2,200 [3]	1,900 [3]
2017	1,490 [3]	2,300 [3]	2,000 [3]

[1] Up to four credits can be earned per calendar year.

[2] Prior to 1994, the threshold wage amount was $50 per *calendar quarter* for domestic employees. For 1994 and later, the threshold applies to *calendar year* wages.

[3] Estimated earnings based on intermediate assumptions in the 2008 Annual Report of the Board of Trustees of the Federal Old-Age, Survivors, and Disability Insurance Trust Funds.

Source: Social Security Administration.

For the purpose of the OASI program, there are two types of insured status: "fully insured" and "currently insured." A worker is fully insured for benefits (for himself or herself and for eligible dependents) if he or she has total credits that equal the number of years starting with the year *after* he or she reaches age 21 and ending with the year *before* he or she reaches age 62, becomes disabled, or dies, whichever occurs first. The credits may be earned at any time, and once a worker accumulates a total of 40 credits he or she is fully insured for life. Fully insured status is required for eligibility for all types of benefits except certain survivor benefits. No matter how young, a worker must have at least 6 credits to be fully insured, with the minimum number increasing with age.

Survivors of a worker who was not fully insured may still be eligible for benefits if the worker was currently insured. Workers are currently insured if they have 6 credits during the 13 calendar quarters ending with the quarter in which they died.

Workers are insured for disability if they are fully insured and have a total of at least 20 credits during the 40-quarter period ending with the quarter in which they became disabled. Workers who are disabled before age 31 are insured for disability if they have credits equal to half the calendar quarters which have elapsed since the worker reached age 21, ending in the quarter in which they became disabled. However, a minimum of 6 credits is required.

The Social Security Protection Act of 2004 (Public Law 108-203) requires certain noncitizens to have authorization from the Department of Homeland Security (DHS) to work in the United States at some point to gain insured status under the Social Security program. Specifically, a noncitizen who files an application for benefits based on a Social Security Number (SSN) assigned *on or after* January 1, 2004, is required to have work authorization at the time the SSN is assigned, or at some later time, to be fully or currently insured for Social Security purposes. If the individual has authorization to work in the United States at some point, all of his or her Social Security-covered earnings count toward insured status (including any earnings based on unauthorized work). If the individual never obtains work authorization, none of his or her earnings count toward insured status and Social Security benefits would not be payable on his or her work record. The work authorization requirement does not apply if the individual has been admitted to the United States at any time as a nonimmigrant visitor for business (B-1 visa) or as an alien crewman (D-1 or D-2 visa). In addition, a noncitizen who files an application for benefits based on an SSN assigned *before* January 1, 2004, is not subject to the work authorization requirement, and all of the individual's earnings count toward insured status under the Social Security program, regardless of his or her work authorization status.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193) requires persons applying for Old Age, Survivors, and Disability Insurance (OASDI) monthly benefits in the United States to provide evidence they are U.S. citizens, nationals, or aliens who are lawfully present in the United States in order to receive Social Security benefit payments while residing in the United States. Under provisions enacted before P.L. 104-193, noncitizens living outside of the United States can be paid benefits for the first six months that they are outside the United States. After the sixth month, eligible noncitizens outside of the United States can be paid benefits only if they meet certain exceptions as delineated by the Social Security Act in section 202(t).

Retirement benefits.

Reduced retirement benefits can be paid as early as age 62. Unreduced benefits are payable if retirement benefits are not claimed until full retirement age (FRA). For insured workers who postpone their retirement beyond FRA, benefits are increased for each month of nonpayment beyond the FRA up to age 70. Additional information is in the later sections on "*Adjustments related to age at retirement*" and "*Delayed retirement credits*."

Disability benefits.

Generally, disability is defined as the inability to engage in "substantial gainful activity" (SGA) by reason of a physical or mental impairment. The impairment must be medically determinable and expected to last for not less than 12 months, or to result in death. There is no minimum age requirement for disability benefits. Applicants may be determined to be disabled only if, due to such an impairment, they are unable to engage in any kind of substantial gainful work, considering their age, education, and work experience. The work need not exist in the immediate area in which the applicant lives, nor must a specific job vacancy exist for the individual. Moreover, no showing is required that the worker would be hired for the job if he or she applied.

In 2008, the SGA earnings level for non-blind beneficiaries is $940 a month (net of impairment-related work expenses). For blind beneficiaries, the SGA earnings level is $1,570 a month. Both limits are indexed annually to average wage growth. Table 1-34 shows SGA amounts applicable since 1968.

An initial 5 full-month waiting period is required before disability insurance (DI) benefits are paid. Benefits are payable beginning with the sixth full month of disability. However, benefits may be paid for the first full month of disability to a worker who becomes disabled within 60 months after termination of DI benefits from an earlier period of disability (for a disabled widow or widower the period is 84 months).

Related benefits under Medicare Part B.

Part B of Medicare is voluntary. All persons age 65 or older (including those who are not entitled to Medicare Part A) may elect to enroll in Medicare Part B (the Supplementary Medical Insurance program) by paying the monthly premium. The 2008 premium is $96.40 per month for most beneficiaries, however, those beneficiaries with a high enough countable income ($82,000 for an individual and $164,000 for a couple in 2008) are required to pay higher premiums (up to $238.40 per month). Persons who voluntarily enroll in Medicare Part A (thus paying a premium for Part A) are required to enroll in Medicare Part B.

Individuals under age 65 who have been receiving Social Security or Railroad Retirement disability benefits for at least 24 months, and most individuals who have end-stage renal disease or kidney failure, are also entitled to premium-free Medicare Part A. However, the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) waives the 24-month waiting period for Medicare coverage for those individuals disabled with Amyotrophic Lateral Sclerosis (ALS), also known as Lou Gehrig's Disease, as of July 1, 2001. (For information on Medicare, see Section 2 of the *Green Book*.)

BENEFITS FOR THE WORKER'S FAMILY

Dependents' benefits are payable in addition to benefits payable to the worker. What follows is a review of the various types of dependents and their benefits.

Spouse's benefit--A monthly benefit is payable to a spouse of an entitled retired or disabled worker under one of the following conditions: (1) a currently-married spouse is at least 62 or is caring for one or more of the worker's entitled children who are disabled or have not reached age 16; or (2) a divorced spouse is at least 62, is not married, and the marriage had lasted at least 10 years before the divorce became final. A divorced spouse may be entitled independently of the worker's retirement if both the worker and divorced spouse are at least age 62, and if the divorce has been final for at least 2 years.

Widow(er)'s benefit--A monthly survivor benefit is payable to a widow(er) or divorced spouse of a deceased worker who was fully insured at the time of death. The widow(er) or divorced spouse must be unmarried (unless the remarriage occurred after the widow(er) first became eligible for benefits as a widow(er)); and must be either (1) age 60 or older or (2) age 50-59 and disabled. There is a waiting period of 5 full consecutive calendar months and the disability must have begun no later than 7 years after the latest of the month the worker died, the last month of entitlement to benefits as a widowed mother or father, or the last month entitlement to benefits as a disabled widow(er) ended because the disability ended.

Child's benefit--A monthly benefit is payable to a dependent, unmarried biological or adopted child, stepchild, or grandchild, of a retired, disabled, or deceased worker who was fully or currently insured at the time of death. (To be entitled as a grandchild, the child's parents must be deceased or disabled.)

Dependency is deemed for the insured worker's biological children and most adopted children. The child must be either: (1) under age 18; (2) a full-time elementary or secondary student under age 19; or (3) a disabled person age 18 or older whose disability began before age 22.

Mother's/father's benefit--A monthly survivor benefit is payable to a mother (father) or surviving divorced mother (father) if: (1) the deceased worker on whose account the benefit is payable was fully or currently insured at the time of death; and (2) the mother (father) or surviving divorced mother (father) is not married and is caring for one or more entitled children of the worker. In the case of a surviving divorced mother or father, the child must also be the applicant's natural or legally adopted child. These payments continue as long as the youngest entitled child being cared for is under age 16 or disabled (see "*Child's benefit*" above).

Parent's benefit--A monthly survivor benefit is payable to a parent of a deceased fully insured worker if the parent is age 62 or older and has not married since the worker's death. The parent must have been receiving at least one-half of his or her support from the worker at the time of the worker's death or, if the worker had a period of disability which continued until death, at the beginning of the period of disability. Proof of support must be filed within 2 years after the worker's death or the month in which the worker filed for disability.

Lump-sum death benefit--A one-time lump-sum benefit of $255 is payable upon the death of a fully or currently-insured worker to the surviving spouse who was living with the deceased worker or was eligible to receive monthly cash survivor benefits upon the worker's death. If there is no eligible spouse, the lump-sum death benefit is payable to any child of the deceased worker who is eligible to receive monthly cash benefits as a surviving child. If the worker had no surviving spouse or children, then the lump-sum death benefit is not paid.

Table 1-20 and Table 1-21 provide detailed information on the number of OASDI beneficiaries in various categories, and the average amount of monthly benefits by type of beneficiary.

TABLE 1-20--OASDI BENEFICIARIES IN CURRENT PAYMENT STATUS
AND NEW AWARDS, DECEMBER 2007
[NUMBER IN THOUSANDS]

Type of beneficiary	Number in current payment	Percent of beneficiary population	Average monthly benefit	Number of new awards	Average new award
Retired workers	31,528	63.2	$1,079	2,036	$1,094
Wives and husbands of retired workers	2,432	4.9	532	317	390
Children of retired workers	494	1.0	538	127	503
Disabled workers	7,099	14.2	1,004	805	1,054
Wives and husbands of disabled workers	153	0.3	267	48	277
Children of disabled workers	1,665	3.3	299	453	280
Widowed mothers and fathers	165	0.3	782	34	755
Surviving children	1,892	3.8	704	322	700
Nondisabled widow(er)s	4,211	8.4	1,040	541	864
Disabled widow(er)s	225	0.5	646	29	635
Parents	2	---- [1]	918	---- [2]	863
Special age-72	---- [2]	---- [1]	261	0	0
Totals and averages	49,865	100.0	$987	4,711	$878

[1] Less than 0.05 percent.
[2] Fewer than 500.
Source: Office of Research, Evaluation, and Statistics, Social Security Administration.

TABLE 1-21--NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS
BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 2007

Beneficiaries	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Retired workers	31,528	63.2	$1,079	69.1
Men	16,112	32.3	1,216	39.8
Women	15,416	30.9	935	29.3
Disabled workers	7,099	14.2	1,004	14.5
Men	3,774	7.6	1,126	8.6
Women	3,325	6.7	866	5.8
Spouses of retired workers	2,432	4.9	531	2.6
Wives of retired workers	2,388	4.8	536	2.6
Wives with entitled children	42	0.1	457	[1]
Wives 62 and over without entitled children	2,346	4.7	537	2.6
Husbands of retired workers	44	0.1	308	[1]

TABLE 1-21--NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 2007 -cont.

Beneficiaries	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Spouses of disabled workers	153	0.3	$267	0.1
Wives of disabled workers	148	0.3	269	0.1
Wives with entitled children	76	0.2	211	[1]
Wives 62 and over without entitled children	71	0.1	331	[1]
Husbands of disabled workers	5	[1]	215	[1]
Children	4,051	8.1	517	4.3
Children of retired workers	494	1.0	538	0.5
Minor children (under age 18)	282	0.6	510	0.3
Student children (18-19)	16	[1]	603	[1]
Disabled children (18 and over)	196	0.4	573	0.2
Children of deceased workers	1,892	3.8	704	2.7
Minor children (under age 18)	1,303	2.6	691	1.8
Student children (18-19)	68	0.1	765	0.1
Disabled children (18 and over)	521	1.0	729	0.8
Children of disabled workers	1,665	3.3	299	1.0
Minor children (under age 18)	1,535	3.1	289	0.9
Student children (18-19)	52	0.1	411	[1]
Disabled children (18 and over)	77	0.2	420	0.1
Widowed mothers and fathers	165	0.3	782	0.3
Mothers	154	0.3	789	0.2
Fathers	10	[1]	677	[1]
Widows and widowers (nondisabled)	4,211	8.4	1,040	8.9
Widows	4,160	8.3	1,043	8.8
Widowers	51	0.1	865	0.1
Widows and widowers (disabled)	225	0.5	646	0.3
Widows	216	0.4	653	0.3
Widowers	9	[1]	469	[1]
Parents	2	[1]	918	[1]
Total OASI beneficiaries	40,949	82.1	$1,015	84.4
Total DI beneficiaries	8,916	17.9	$860	15.6
Total OASDI beneficiaries	49,865	100.0	$956	100.0

[1] Less than 0.05 percent.
[2] Fewer than 500.
Note- Columns may not add due to rounding.
Source: Office of Research, Evaluation, and Statistics, Social Security Administration.

BENEFIT COMPUTATION

Primary insurance amount.

All monthly benefits are computed based on a worker's primary insurance amount (PIA). The PIA is a monthly amount determined by applying the Social Security benefit formula to a worker's average lifetime covered earnings. It is also the monthly benefit amount payable to a worker who retires at the full retirement age (FRA) or becomes entitled to disability benefits.

Except for workers who are eligible for a "special minimum benefit" (see description below), the PIA is determined through a formula applied to the worker's average indexed monthly earnings (AIME). The AIME is a dollar amount that represents the average monthly earnings from Social Security-covered employment over most of the worker's adult life indexed to the increase in average annual wages. Indexing the earnings to changes in wage levels ensures that the same relative value is accorded to wages, no matter when they were earned. Because actual average-wage data take over a year to become available, past earnings are updated to the second calendar year (the "indexing year") before the worker becomes eligible for retirement (age 62) or, if earlier, becomes disabled or dies. This means that the year a worker turns age 60 is used as the indexing year for computing retirement benefits. Earnings in and after the indexing year are not indexed.

In determining the AIME: each year's earnings prior to age 60 is multiplied by the ratio of the average wage for the indexing year to the average wage in the economy for that year; and a specific number of "computation years" is determined based on the number of years elapsing after 1950 (or year of attaining age 21, if later) up to the year the worker attains age 62, becomes disabled, or dies, minus any "dropout" years. Dropout years exclude the years of lowest earnings from the computation. The law generally provides for 5 dropout years in retirement and survivor computations and in many disability benefit computations in which the worker is disabled at age 47 or later. For workers disabled before age 47, the number of dropout years varies from 1 to 4, depending on the worker's age and number of child care dropout years. The minimum number of computation years is 2.

The actual years used to compute an AIME are selected from the highest indexed yearly earnings in all years of earnings after 1950, up to a maximum of 35 years. The highest 35 years are selected in computing retirement benefits for workers born after 1929. The sum of the indexed earnings in the selected years is divided by the number of months in the computation period (i.e., the number of the selected years times 12) to determine the AIME.

The indexed earnings histories (rounded to whole dollars) are illustrated in Table 1-22 for four hypothetical workers retiring in 2008 at age 62. The actual (nominal) earnings for the four workers are shown in columns 4 through 7. These are multiplied by the ratio of the average wage index in the indexing year to the average wage index in the year of earnings to compute the indexed earnings (shown in the last 4 columns). The indexing year is the year in which the worker attains age 60. For years after the indexing year, an indexing ratio of 1.0 is used. The highest 35 years of indexed earnings are used to determine the worker's PIA. For example, a full-time worker who had maximum creditable earnings from ages 22 through 61 would drop low earnings in years 1968 through 1972, and would have total indexed–earnings of $3,049,387. Dividing total indexed earnings by the number of months in the computation period (35 years times 12 months = 420 months) results in AIME of $7,260. The corresponding AIMEs for the low, medium and high earners are $1,450, $3,224, and $5,158, respectively. Low earners are defined as workers with scaled earnings that average over their career to about 45 percent of the average wage; medium earners are defined as workers with scaled earnings that average over their career to about the average wage; high earners are defined as workers with scaled earnings that average over their career to about 160 percent of the average wage; and maximum earners are defined as workers with earnings each year equal to the Social Security maximum taxable earnings.

TABLE 1-22--EARNINGS HISTORIES FOR HYPOTHETICAL WORKERS AGE 62 IN 2008

[ROUNDED TO NEAREST DOLLAR]

Year	Age	Average wage index	Nominal earnings				Earnings indexed for AIME computation			
			Low[1]	Medium[2]	High[3]	Maximum[4]	Low[1]	Medium[2]	High[3]	Maximum[4]
1967	21	$5,213	$785	$1,744	$2,791	$0	$5,819[5]	$12,930[5]	$20,688[5]	$0[5]
1968	22	5,572	1002	2,227	3,564	7,800	6,953[5]	15,452[5]	24,723[5]	54,109[5]
1969	23	5,894	1,306	2,902	4,642	7,800	8,563[5]	19,028[5]	30,445[5]	51,153[5]
1970	24	6,186	1,605	3,567	5,707	7,800	10,028[5]	22,284[5]	35,654[5]	48,734[5]
1971	25	6,497	1,887	4,193	6,709	7,800	11,224[5]	24,943[5]	39,909[5]	46,403[5]
1972	26	7,134	2,266	5,035	8,057	9,000	12,277[5]	27,282[5]	43,651[5]	48,763[5]
1973	27	7,580	2,594	5,764	9,222	10,800	13,226	29,391	47,025	55,069
1974	28	8,031	2,915	6,478	10,365	13,200	14,031	31,179	49,887	63,531
1975	29	8,631	3,290	7,310	11,697	14,100	14,732	32,738	52,381	63,143
1976	30	9,226	3,660	8,132	13,012	15,300	15,331	34,068	54,508	64,094
1977	31	9,779	4,004	8,898	14,237	16,500	15,826	35,168	56,269	65,213
1978	32	10,556	4,435	9,855	15,768	17,700	16,238	36,085	57,736	64,809
1979	33	11,479	4,927	10,949	17,518	22,900	16,589	36,865	58,984	77,104
1980	34	12,513	5,478	12,173	19,476	25,900	16,919	37,598	60,157	80,000
1981	35	13,773	6,132	13,627	21,803	29,700	17,208	38,240	61,184	83,347
1982	36	14,531	6,563	14,584	23,334	32,400	17,456	38,790	62,065	86,180
1983	37	15,239	6,988	15,529	24,847	35,700	17,724	39,387	63,018	90,546
1984	38	16,135	7,485	16,633	26,613	37,800	17,930	39,845	63,752	90,550
1985	39	16,823	7,903	17,562	28,098	39,600	18,157	40,349	64,559	90,985
1986	40	17,322	8,230	18,288	29,261	42,000	18,364	40,808	65,293	93,718
1987	41	18,427	8,833	19,629	31,407	43,800	18,529	41,175	65,880	91,875
1988	42	19,334	9,372	20,826	33,321	45,000	18,735	41,633	66,613	89,961
1989	43	20,100	9,839	21,865	34,984	48,000	18,921	42,046	67,273	92,304
1990	44	21,028	10,372	23,049	36,879	51,300	19,065	42,367	67,787	94,294
1991	45	21,812	10,840	24,089	38,543	53,400	19,210	42,688	68,301	94,628
1992	46	22,935	11,460	25,467	40,747	55,500	19,313	42,917	68,667	93,530
1993	47	23,133	11,608	25,795	41,273	57,600	19,395	43,101	68,961	96,241
1994	48	23,754	11,932	26,516	42,426	60,600	19,416	43,146	69,034	98,607
1995	49	24,706	12,410	27,579	44,126	61,200	19,416	43,146	69,034	95,746

TABLE 1-22--EARNINGS HISTORIES FOR HYPOTHETICAL WORKERS AGE 62 IN 2008 –cont.

[ROUNDED TO NEAREST DOLLAR]

Year	Age	Average wage index	Nominal earnings				Earnings indexed for AIME computation			
			Low[1]	Medium[2]	High[3]	Maximum[4]	Low[1]	Medium[2]	High[3]	Maximum[4]
1996	50	$25,914	$12,962	$28,805	$46,087	$62,700	$19,333	$42,963	$68,741	$93,519
1997	51	27,426	13,631	30,290	48,464	65,400	19,210	42,688	68,301	92,168
1998	52	28,861	14,190	31,533	50,453	68,400	19,003	42,229	67,567	91,602
1999	53	30,470	14,802	32,893	52,628	72,600	18,776	41,725	66,760	92,094
2000	54	32,155	15,363	34,140	54,623	76,200	18,467	41,037	65,660	91,596
2001	55	32,922	15,378	34,173	54,677	80,400	18,054	40,120	64,192	94,392
2002	56	33,252	15,000	33,332	53,332	84,900	17,435	38,745	61,991	98,686
2003	57	34,065	14,821	32,935	52,696	87,000	16,816	37,369	59,791	98,714
2004	58	35,649	14,939	33,197	53,115	87,900	16,197	35,994	57,590	95,304
2005	59	36,953	14,815	32,921	52,674	90,000	15,496	34,435	55,095	94,137
2006	60	38,651	14,629	32,509	52,014	94,200	14,629	32,509	52,014	94,200
2007	61	40,307[6]	14,201[6]	31,558[6]	50,493[6]	97,500[6]	14,201[6]	31,558[6]	50,493[6]	97,500[6]

[1] Worker with scaled earnings that average over their career to about 45 percent of the Social Security average wage index.

[2] Worker with scaled earnings that average over their career to about 100 percent of the Social Security average wage index.

[3] Worker with scaled earnings that average over their career to about 160 percent of the Social Security average wage index.

[4] Worker with earnings each year equal to the Social Security maximum taxable earnings.

[5] Dropout years.

[6] Estimated years.

Source: Office of the Chief Actuary, Social Security Administration.

The PIA is determined by applying the primary benefit formula to the AIME. For a maximum-wage worker who becomes eligible for benefits in 2008, the PIA is determined as follows:

Factor	Average indexed monthly earnings (AIME)	Example of worker with AIME of $7,260
90 percent	first $711, plus	$639.90
32 percent	over $711 through $4,288, plus	$1,144.64
15 percent	over $4,288	$445.80
Total (PIA)		$2,230.30

Applying this formula to the AIMEs of the four hypothetical workers results in PIAs of $876.30 for the low-wage worker; $1,444.00 for the medium-wage worker; $1,915.00 for the high-wage worker; and $2,230.30 for the maximum-wage worker. (For the low-wage worker, the 2008 special minimum benefit (see below) PIA of $721.40 is less than the AIME-based PIA of $876.30, and therefore is not used to determine benefits.) The numbers $711 and $4,288 are often referred to as "bend points" of the PIA formula. These amounts are adjusted each year by the change in average wages. After the year of initial eligibility for benefits (age 62 for retired workers), the PIA is increased each year according to the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The PIAs of $876.30, $1,444.00, $1,915.00 and $2,230.30 would be in effect for January through November 2008, and will be increased by the cost-of-living adjustment (COLA) effective beginning December 2008 (see section on COLAs below). The PIA is recomputed after each year that an entitled worker has earnings that may lead to a higher benefit.

Other methods for determining a PIA also exist, and PIAs based on different methods must be compared to select the highest one, which is used to determine the worker's benefits. The most common of these other methods is the one used to determine the special minimum PIA. This PIA is designed to assist workers with long-term low earnings.

The monthly benefit amount payable to a disabled worker, or to a retired worker who first receives benefits at the FRA, is the PIA rounded to the next lower dollar, if not already a multiple of $1. Auxiliary benefit amounts are also based on the worker's PIA. Table 1-23 lists major types of auxiliary benefits and the percent of the insured worker's PIA that is applicable to benefits paid at the full rate. This full rate is reduced for early election of retirement.

TABLE 1-23--PERCENTAGE OF PRIMARY INSURANCE AMOUNT (PIA) PAID FOR DEPENDENTS' AND SURVIVORS' BENEFITS

Type of monthly benefit	Percent
Dependents:[1]	
Wives, husbands- FRA	50.0
Mothers, fathers, children, grandchildren	50.0
Survivors:[1]	
Widows, widowers- FRA[2]	100.0
Dependent parent- age 62	82.5
Widows, widowers age 60; disabled ages 50-59	71.5
Mothers, fathers, children	75.0

[1] Subject to maximum family benefit limitation.

[2] Subject to general limitation that the survivor cannot get a higher benefit than the deceased worker would be getting if alive.

Note- FRA- Full retirement age (currently 65, rising to 67 for workers born in 1960 or later).

Source: Social Security Administration.

Special minimum benefit--The special minimum PIA is payable to some persons who worked in covered employment for many years but had low earnings. It is not based on the amount of a worker's average earnings. Rather, it is based on the number of years of covered employment. The special minimum PIA is structured to provide a potentially larger benefit than would be payable otherwise based on the regular benefit formula. The amount of the special minimum is computed by multiplying the number of years of coverage in excess of 10 years and up to 30 years by $11.50 for monthly benefits payable in 1979, with automatic cost-of-living increases applicable to years 1979 and later. The number of years of coverage for the purpose of qualifying for a special minimum benefit equals the number obtained by dividing total creditable wages in 1937-50 by $900 (not to exceed 14), plus the number of years after 1950 and before 1991 for which the worker is credited with at least 25 percent of the annual maximum taxable earnings. For this purpose, for years after 1978, annual maximum taxable earnings are defined as the "old-law" taxable earnings base (i.e., the hypothetical earnings base that would be in effect if the ad hoc increases in the base enacted in 1977 were disregarded). In addition, for years after 1990, a year of coverage is earned if the worker is credited with at least 15 percent of the "old-law" taxable earnings base. The special minimum benefit is not subject to the delayed retirement credit provisions described previously. In December 2006, 102,296 persons were receiving a special minimum benefit.

Cost-of-living adjustments.

As a result of the Social Security Amendments of 1972, monthly cash benefits are adjusted annually for inflation to maintain the purchasing power of benefits over time. Prior to the 1972 amendments, monthly cash benefits were increased on an ad hoc basis 10 times. Automatic annual cost-of-living adjustments (COLAs) have been provided since 1975, except during calendar year 1983 when the adjustment was delayed 6 months. Table 1-24 shows Social Security benefit increases from October 1950 (when the first COLA was paid) through January 2008.

TABLE 1-24--SOCIAL SECURITY BENEFIT INCREASES
[IN PERCENT]

Date increase paid	Amount of increase	Date increase paid	Amount of increase
January 2008	2.3	January 1986	3.1
January 2007	3.3	January 1985	3.5
January 2006	4.1	January 1984	3.5
January 2005	2.7	July 1982	7.4
January 2004	2.1	July 1981	11.2
January 2003	1.4	July 1980	14.3
January 2002	2.6	July 1979	9.9
January 2001	3.5	July 1978	6.5
January 2000	2.4	July 1977	5.9
January 1999	1.3	July 1976	6.4
January 1998	2.1	July 1975[1]	8.0
January 1997	2.9	April/July 1974[2]	11.0
January 1996	2.6	October 1972	20.0
January 1995	2.8	February 1971	10.0
January 1994	2.6	February 1970	15.0
January 1993	3.0	March 1968	13.0
January 1992	3.7	February 1965	7.0
January 1991	5.4	February 1959	7.0
January 1990	4.7	October 1954	13.0
January 1989	4.0	October 1952	12.5
January 1988	4.2	October 1950[3]	77.0
January 1987	1.3		

[1] Automatic cost-of-living adjustments (COLAs) began.
[2] Increase came in two steps.
[3] First increase paid in October 1950.
Source: Social Security Administration.

Under section 215(i) of the Social Security Act, COLAs are indexed to increases in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) published by the Bureau of Labor Statistics, Department of Labor. Social Security COLAs are based on the percentage change in the average CPI-W for the third quarter of the previous year to the third quarter of the current year. No COLA is payable if the CPI-W declines. The COLA becomes effective in December of the current year and is payable in January of the following year (the Social Security payment received in January is the benefit for December). The 2.3 percent COLA effective in December 2007 (payable in January 2008) is computed as follows:

	CPI-W
July 2006	199.2
August 2006	199.6
September 2006	198.4
Average for the third quarter of 2006 (rounded to the nearest one-tenth of 1 percent)	199.067
July 2007	203.700
August 2007	203.199
September 2007	203.889
Average for the third quarter of 2007 (rounded to the nearest one-tenth of 1 percent)	203.596
Percentage increase from the third quarter average for 2006 to the third quarter average for 2007 (rounded to the nearest one-thousandth of 1 percent for initial calculations and rounded to the nearest one-tenth of 1 percent for the final application as required by law)	203.596–199.067=4.529 4.529/199.067=2.275% COLA=2.3%

Note- The Bureau of Labor Statistics began recording CPI-W and other selected series data to three decimal places in 2007.

Since 1975, the Social Security COLA triggers identical percentage increases in Supplemental Security Income (SSI), veterans pensions, and railroad retirement benefits, and causes other changes in the Social Security program. Although COLAs under the Federal Civil Service Retirement System (CSRS) and the Federal Military Retirement program are not triggered by the Social Security COLA, these programs use the same measuring period and formula for computing their COLAs. Table 1-25 compares average wage increases, increases in the average annual CPI-W, and benefit increases from 1965 to 2007.

TABLE 1-25--COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN THE CPI, 1965-2007

[IN PERCENT]

Calendar year	Increase in wages[1]: Over prior year	Increase in wages[1]: Cumulative from each year to 2007	Increase in CPI[2]: Over prior year	Increase in CPI[2]: Cumulative from each year to 2007	Increase in benefits[3]: Over prior year	Increase in benefits[3]: Cumulative from each year to 2007
1965	1.8%	765.3%	1.6%	539.5%	7.0%	675.7%
1970	5.0%	551.7%	5.8%	419.6%	15.0%	496.9%
1975	7.5%	367.1%	9.2%	274.6%	8.0%	277.2%
1980	9.0%	222.2%	13.5%	144.5%	14.3%	150.2%
1981	10.1%	192.7%	10.3%	121.8%	11.2%	125.0%
1982	5.5%	177.4%	6.0%	109.3%	7.4%	109.5%
1983	4.9%	164.5%	3.0%	103.1%	3.5%	102.5%
1984	5.9%	149.8%	3.4%	96.4%	3.5%	95.6%
1985	4.3%	139.6%	3.5%	89.6%	3.1%	89.7%
1986	3.0%	132.7%	1.6%	86.8%	1.3%	87.3%
1987	6.4%	118.8%	3.6%	80.3%	4.2%	79.7%
1988	4.9%	108.5%	4.0%	73.4%	4.0%	72.8%
1989	4.0%	100.6%	4.8%	65.4%	4.7%	65.1%
1990	4.6%	91.7%	5.3%	57.2%	5.4%	56.6%
1991	3.7%	84.8%	4.0%	51.0%	3.7%	51.0%
1992	5.2%	75.8%	2.9%	46.8%	3.0%	46.6%
1993	0.9%	74.3%	2.8%	42.7%	2.6%	42.9%
1994	2.7%	69.7%	2.5%	39.2%	2.8%	39.0%
1995	4.0%	63.2%	2.8%	35.4%	2.6%	35.5%
1996	4.9%	55.6%	2.9%	31.5%	2.9%	31.7%
1997	5.8%	47.0%	2.2%	28.7%	2.1%	29.0%
1998	5.2%	39.7%	1.3%	27.0%	1.3%	27.3%
1999	5.6%	32.3%	2.2%	24.2%	2.5%	24.2%
2000	5.5%	25.4%	3.5%	20.1%	3.5%	20.0%
2001	2.4%	22.5%	2.7%	16.9%	2.6%	17.0%
2002	1.0%	21.2%	1.4%	15.3%	1.4%	15.4%
2003	2.4%	18.3%	2.2%	12.8%	2.1%	13.0%
2004	4.6%	13.1%	2.6%	9.9%	2.7%	10.0%
2005	3.7%	9.1%	3.5%	6.2%	4.1%	5.7%
2006	4.6%	4.3%	3.2%	2.9%	3.3%	2.3%
2007	4.3%[4]		2.9%		2.3%	

[1] Average annual wage used to index earnings records.
[2] Increase in annual average CPI-W.
[3] Legislated benefit increases through 1974 and increases based on the CPI thereafter. After 1974, the CPI and benefit increases are different because they reflect the change in prices over different periods of time. In particular, benefit increases for 1976-83, effective for June of each year, were based on increases in the average CPI from the first quarter of the prior year to the first quarter of the current year. Benefit increases for years after 1983 are effective for December, are payable in January of the following year, and are based on increases in the average CPI from the third quarter of the prior year to the third quarter of the current year.
[4]Estimated.
Source: Office of the Chief Actuary, Social Security Administration.

Adjustments related to age at retirement.

Reduction for early retirement--Benefits for retired workers, aged spouses, and widow(er)s taken before the FRA are subject to an actuarial reduction, such that over their lifetimes on average they receive the same aggregate benefits as someone who retires later. The FRA is the earliest age at which unreduced retirement benefits can be received. The FRA is gradually rising from age 65 in two steps beginning with people born in 1938. First, for workers and their spouses, the FRA will increase by 2 months for each year that a person is born after 1937, until it reaches age 66 for persons born in 1943. The FRA will remain age 66 for persons born from 1943 to 1954. Second, it will increase again by 2 months for each year that a person is born after 1954, until it reaches age 67 for those who were born after 1959. For widow(er)s, the increase to age 67 will be phased in similarly, but will begin for persons born after 1935. Early retirement still will be available at age 62, but benefits will be lower. The actuarial reduction on retirement benefits at age 62 ultimately will be 30 percent, instead of the present 20 percent.

Delayed retirement credits--Benefits of workers who choose to retire after their FRA are increased by delayed retirement credits, as are the benefits payable to their widow(er)s. The delayed retirement credit was 1 percent per year for workers who attained age 65 before 1982, and 3 percent per year for workers who attained age 65 between 1982 and 1989. Starting in 1990, the delayed retirement credit increased by one-half percent every other year until it reaches 8 percent for workers who attain age 65 after 2007. Table 1-26 shows the schedule of increases in the FRA and adjustments related to a worker's age at the time he or she elects to receive benefits.

TABLE 1-26--INCREASES IN FULL RETIREMENT AGE AND DELAYED RETIREMENT CREDITS WITH RESULTING BENEFIT, AS A PERCENT OF PRIMARY INSURANCE AMOUNT, PAYABLE AT SELECTED AGES, FOR PERSONS BORN IN 1924 OR LATER

Year of Birth	Age 62 attained in-	Full retirement age	Credit for each year of delayed retirement after full retirement age	Benefit, as a percent of PIA, beginning at age-				
				62	65	66	67	70
1924	1986	65	3	80	100	103	106	115
1925-26	1987-88	65	3 1/2	80	100	103 1/2	107	117 1/2
1927-28	1989-90	65	4	80	100	104	108	120
1929-30	1991-92	65	4 1/2	80	100	104 1/2	109	122 1/2
1931-32	1993-94	65	5	80	100	105	110	125
1933-34	1995-96	65	5 1/2	80	100	105 1/2	111	127 1/2
1935-36	1997-98	65	6	80	100	106	112	130
1937	1999	65	6 1/2	80	100	106 1/2	113	132 1/2
1938	2000	65 and 2 months	6 1/2	79 1/6	98 8/9	105 5/12	111 11/12	131 5/12
1939	2001	65 and 4 months	7	78 1/3	97 7/9	104 2/3	111 2/3	132 2/3
1940	2002	65 and 6 months	7	77 1/ 2	96 2/3	103 1/2	110 1/2	131 1/2
1941	2003	65 and 8 months	7 1/2	76 2/3	95 5/9	102 1/2	110	132 1/2
1942	2004	65 and 10 months	7 1/2	75 5/6	94 4/9	101 1/4	108 3/4	131 1/4
1943-54	2005-2016	66	8	75	93 1/3	100	108	132
1955	2017	66 and 2 months	8	74 1/6	92 2/9	98 8/9	106 2/3	130 2/3
1956	2018	66 and 4 months	8	73 1/3	91 1/9	97 7/9	105 1/3	129 1/3
1957	2019	66 and 6 months	8	72 ½	90	96 2/3	104	128
1958	2020	66 and 8 months	8	71 2/3	88 8/9	95 5/9	102 2/3	126 2/3
1959	2021	66 and 10 months	8	70 5/6	87 7/9	94 4/9	101 1/3	125 1/3
1960 or later	2022 or later	67	8	70	86 2/3	93 1/3	100	124

Source: Ballantyne, H.C. (1984).

Table 1-27 shows the percentage of workers electing to receive retirement benefits at various ages since the beginning of the Social Security program. The data illustrate a trend toward early retirement in the 1960-1985 period. Since that time, the trend generally has leveled out and the average age (the combined average for men and women) at which workers elect retirement benefits has been around the current average age of 63.5. Table 1-28 shows the number and percentage of retired workers electing reduced benefits since they first became available (totals for men and women are shown separately).

TABLE 1-27--PERCENTAGE OF WORKERS ELECTING SOCIAL SECURITY RETIREMENT BENEFITS AT VARIOUS AGES, SELECTED YEARS 1940-2006[1]

Year	Age 62	Ages 63-64	Age 65	Ages 66 and older	Average
1940	---[2]	---[2]	8.3	91.7	68.7
1945	---[2]	---[2]	17.9	82.1	70.0
1950	---[2]	---[2]	23.1	76.9	68.5
1955	---[2]	---[2]	41.2	58.8	68.2
1960	10.0	7.9	35.3	46.7	66.2
1965	23.0	17.7	23.4	35.9	65.9
1970	27.8	23.2	36.9	12.1	64.2
1975	35.7	24.5	31.1	8.7	63.9
1980	40.5	22.2	30.7	6.6	63.7
1985	57.2	21.1	17.7	4.0	63.6
1990	56.6	20.2	16.6	6.7	63.6
1995	58.3	19.5	16.3	6.0	63.6
2000	51.7	17.2	19.6	11.5	64.0
2001	55.4	21.2	17.9	5.5	63.7
2002	56.0	22.6	17.2	4.1	63.7
2003	57.0	20.6	17.8	4.6	63.6
2004	57.5	19.0	18.6	4.8	63.7
2005	56.6	18.2	19.7	5.4	63.8
2006	53.8	19.0	22.3	4.8	63.5

[1] The age distribution excludes conversions at age 65 to retirement rolls. Disability conversions are included in the computation of the average age. Age in year of award.

[2] Retirement before age 65 was not applicable.

Source: Office of Research, Evaluation, and Statistics, Social Security Administration.

TABLE 1-28--NUMBER OF SOCIAL SECURITY RETIRED WORKER NEW BENEFIT AWARDS AND PERCENT RECEIVING REDUCED BENEFITS BECAUSE OF ENTITLEMENT BEFORE FRA, SELECTED YEARS 1956-2006

[NUMBER IN MILLIONS]

	Total		Men		Women	
Year[1]	Number	Percent	Number	Percent	Number	Percent
1956	0.9	12	0.6	NA	0.4	31
1960	1.0	21	0.6	NA	0.4	60
1965	1.2	49	0.7	43	0.4	60
1970	1.3	63	0.8	57	0.5	72
1975	1.5	73	0.9	69	0.6	79
1980	1.6	76	0.9	73	0.7	80
1985	1.7	74	1.0	70	0.7	79
1990	1.7	74	1.0	71	0.7	78
1995	1.6	72	0.9	69	0.7	75
2000	2.0	64	1.1	60	0.8	69
2001	1.8	69	1.0	67	0.8	72
2002	1.8	71	1.0	69	0.8	73
2003	1.8	75	1.0	74	0.8	77
2004	1.9	76	1.0	75	0.9	78
2005	2.0	76	1.1	75	0.9	78
2006	2.0	75	1.1	73	0.9	76

[1] As of December of given year; data for 1985-1990 based on a 1-percent sample; data for other years based on 100 percent. Includes conversions at FRA (age 65-67, depending on year of birth) from disability to retirement rolls.

NA- Not applicable.

Source: Office of Research, Evaluation, and Statistics, Social Security Administration.

Adjustments for multiple beneficiaries.

Maximum family benefit--A maximum family benefit is payable based on a worker's PIA. For benefits payable on the earnings records of retired and deceased workers, the maximum varies from 150 to 188 percent of the PIA. The family maximum cannot be exceeded regardless of the number of recipients entitled on that earnings record. The family maximum is computed by adding fixed percentages of dollar amounts that are part of the PIA. For the family of a worker who turns 62 or dies in 2008 before attaining age 62, the total amount of benefits payable is limited to:

150 percent of the first $909 of PIA; plus
272 percent of PIA over $909 through $1,312; plus
134 percent of PIA over $1,312 through $1,711; plus
175 percent of PIA over $1,711.

The dollar amounts in this benefit formula (i.e., the "bend points") are indexed to average wage growth as in the primary benefit formula.

Whenever the total of the individual monthly benefits payable to all recipients entitled on one earnings record exceeds the maximum, each dependent's or survivor's benefit is reduced in equal proportion to bring the total within the maximum. In computing the maximum family benefit, any benefit payable to a divorced spouse or to a surviving divorced spouse is not included.

For the family of a worker who is entitled to disability benefits, the maximum family benefit is the smaller of 85 percent of the worker's AIME, or 150 percent of the worker's PIA. However, in no case can the benefit be less than 100 percent of the worker's PIA.

Adjustments related to earnings and other benefits.

Retirement Earnings Test--The retirement earnings test is a provision in the law that reduces benefits for nondisabled beneficiaries under the FRA who earn income from work in excess of a certain sum (the "exempt" amount).

The retirement earnings test was part of the original plan that led to Social Security. The 1935 report of the Committee on Economic Security appointed by President Franklin D. Roosevelt recommended that no benefits be paid before a person had "retired from gainful employment." Initially, the Social Security Act provided that benefits would not be paid for any month in which the individual had received "wages with respect to regular employment."

The retirement earnings test has been changed many times over the years. Effective in 2000, it no longer applies to individuals when they attain the FRA. For beneficiaries below the FRA, the law provides that recipients who will not attain the FRA in that year may earn up to $13,560 (in 2008) in annual wages or self-employment income without having their benefits affected. For earnings above these amounts, beneficiaries lose $1 of benefits for each $2 of excess earnings. There is a different reduction factor and exempt amount in the year beneficiaries attain the FRA. In 2008, these individuals can earn up to $36,120 a year in the months before they attain the FRA. For earnings above these amounts, they lose $1 in benefits for each $3 of excess earnings. The exempt amounts rise each year at the same rate as average wages in the economy. The test does not apply to beneficiaries at the FRA or older, or to those who are disabled (disabled recipients are subject to separate limits on earnings known as substantial gainful activity (SGA) amounts). In December 2006, 134,743 recipients had all of their benefits withheld because of the retirement earnings test.

Retired workers whose benefits are not paid due to the retirement earnings test for one or more months are compensated through future increases in their benefit amount because their actuarial reduction factor is lowered.

The following example illustrates the effect of the retirement earnings test. John is age 63 and has $12,000 in annual benefits before the test is applied:

Earnings in 2008 ....$14,560
Exempt amount for persons under FRA........................13,560
Excess over exempt amount…..................................... .. 1,000
Benefit reduction (50 percent of excess)....................... …. 500
Benefits John will receive in 2008 11,500

The retirement earnings test does not apply to pensions, rents, dividends, interest, and other types of "unearned" income. These forms of income always have been exempted in order to encourage savings for retirement to supplement Social Security.

Of 10.3 million recipients entitled to retired worker benefits who were under the age of 70 in 2004, about 3.4 million had earnings from work. Table 1-29 shows the distribution of the earnings of these workers.

TABLE 1-29--NUMBER OF RETIRED WORKERS WITH EARNINGS IN 2004[1]

Total earnings	Ages 62-64	Ages 65-69
$1-4,999	268,700	833,700
5,000-9,999	164,800	464,700
10,000-14,999	129,300	345,400
15,000-19,999	36,000	234,600
20,000-24,999	13,900	161,700
25,000-29,999	7,600	118,600
30,000-34,999	4,700	97,600
35,000-39,999	2,400	71,600
40,000-44,999	2,300	55,600
45,000-49,999	1,500	48,000
50,000-54,999	900	35,900
55,000-59,999	900	30,200
60,000-64,999	400	26,600
65,000-69,000	300	19,600
70,000-74,999	---[2]	16,500
75,000-79,999	300	14,800
80,000-84,999	---[2]	13,600
85,000-89,999	400	13,000
90,000-94,999	---[2]	9,400
95,000-99,999	---[2]	9,700
100,000+	3,000	102,500
Total	638,000	2,723,300

[1] Includes retired workers entitled to Social Security benefits as of December 31, 2003.
[2] Fewer than 300 workers.
Sources: Office of Research, Evaluation, and Statistics, Social Security Administration; 2005 Continuous Work History Sample Active File, 1–percent sample; 2004 Employee-Employer File, 1-percent sample.

Dual entitlement--An individual may be entitled to benefits both as a worker, based on his or her own earnings, and as a dependent (a spouse or widow(er)) of another worker. In this case, the individual does not collect the full amount of both benefits. The amount of the benefit payable as a spouse or widow(er) is offset dollar for dollar by the amount of any benefit the individual is entitled to as a worker. In other words, workers first receive the benefit based on their own work record. A dependent benefit is payable only if it is higher than the benefit based on the spouse's own work. The dependent benefit equals the difference between the full spouse benefit and the benefit based on the spouse's own work.

Government pension offset--Social Security benefits payable to spouses of retired, disabled, or deceased workers are generally reduced to take account of any public pension the spouse receives as a result of work in a government job (Federal, State, or local) not covered by Social Security. The amount of the reduction is equal to two-thirds of the government pension. This provision is intended to place spouses who worked in jobs not covered by Social Security in a position similar to other workers by applying the equivalent of the Social Security "dual entitlement" rule, which imposes a dollar-for-dollar offset of spouses' benefits (discussed above). Two-thirds of the government pension represents an approximation of the Social Security worker's benefit that would be subtracted from any Social Security spousal benefit. The offset does not apply to workers whose government job is covered by Social Security for at least the last 60 calendar months of the person's employment.

Generally, Federal workers hired before 1984 are part of the Civil Service Retirement System (CSRS) and are not covered by Social Security. Federal workers hired after 1983 are covered by the Federal Employees Retirement System Act of 1986 (FERS), which includes coverage by Social Security. Employees covered by the CSRS were given opportunities to join FERS and thereby obtain Social Security coverage. Workers who switched from CSRS to FERS after 1987 must have at least 5 years of FERS coverage prior to the end of the month they first became entitled to spousal benefits to be exempt from the government pension offset.

Windfall elimination provision--The Social Security Amendments of 1983 included a provision known as the windfall elimination provision. Under this provision, the benefits of workers who also have pensions from work that was not covered by Social Security are calculated using a different formula called the windfall benefit formula. This formula is designed to equalize the rate at which Social Security replaces their career earnings that were covered by Social Security with those of workers who had all their work covered by Social Security.

Social Security's benefit formula is designed to help keep people out of poverty by replacing more of low-wage workers' career earnings than higher-wage workers. However, if a person's job is not covered by Social Security, his or her wage record shows "zero" earnings for the year. If a person had many years of "zero" earnings averaged into the benefit formula, he or she would appear to have had low earnings during their work career when that was not the case. Before the law was changed, workers who were employed for only a portion of their careers in jobs covered by Social Security received an unintended "windfall" because their benefits replaced more of their pre-retirement wages compared to identical workers who were covered by Social Security for their entire careers. This happened because many years of "zero" earnings were recorded for the jobs not covered under Social Security, making the public employee appear to have had low lifetime earnings for purposes of computing Social Security benefits.

The windfall benefit formula is intended to remove this unintentional advantage for these workers. It does so by substituting 40 percent for the 90 percent factor in the first bracket of the benefit formula (see discussion in previous section on "*Benefit Computation*"). The resulting reduction in the worker's Social Security benefit is limited to one-half the amount of the non-covered pension. This provision was phased in over a 5-year period and affects those first eligible for both Social Security benefits and non-covered pensions after 1985.

Workers who have 30 years or more of substantial Social Security covered earnings are fully exempt from this provision. For workers who have 21-29 years of substantial covered earnings, the percentage in the first bracket in the formula increases by 5 percentage points for each year over 20, as shown in Table 1-30.

TABLE 1-30--WINDFALL BENEFIT FORMULA FACTOR

Years of Social Security substantial covered earnings[1]	First factor in formula (percent)
20 or fewer	40
21	45
22	50
23	55
24	60
25	65
26	70
27	75
28	80
29	85
30 or more	90

[1]$18,975 in 2008.

Source: Social Security Administration.

Offset for other public disability benefits--When a worker receiving Social Security disability benefits also qualifies for other disability benefits that are provided by Federal, State or local governments or worker's compensation, any Social Security benefits payable to the worker and his family are reduced by the amount, if any, that the total monthly benefits payable under the two or more programs exceed 80 percent of average current earnings before the worker became disabled. Needs-tested benefits, Veterans Administration disability benefits, and benefits based on public employment covered by Social Security are not subject to the reduction. A worker's average current earnings for this purpose are the largest of: (1) the average monthly earnings used for computing Social Security benefits; (2) the average monthly earnings in employment or self-employment covered by Social Security during the 5 consecutive years of highest covered earnings after 1950; or (3) the average monthly earnings for the calendar year of highest covered earnings during the year disability began and the preceding 5 years (based on total earnings, not limited to maximum taxable earnings). The combined payments after the reduction are never less than the total amount of the DI benefits payable before the reduction. In addition, the Social Security benefit after the reduction is increased by the full amount of the cost-of-living increase as applied to the unreduced benefit. Every 3 years the original amount of benefits subject to reduction is redetermined to reflect changes in average wage levels. If increases in average national wages would result in a higher benefit than that payable based on the original computation, the benefit is increased effective in January of the redetermination year.

The reduction begins in the month during which concurrent entitlement begins under a Federal or State law. However, the offset will not be made if the State workers' compensation law provides for an offset against Social Security disability benefits and was in effect as of February 18, 1981.

Suspension of benefits to prisoners.

In 1980, prisoners who committed felonies were barred from receiving disability benefits (Public Law 96-473). In 1983, the prohibition was broadened to include retirement and survivor benefits (Public Law 98-21); and in 1994, payment of benefits was barred to those in public institutions who committed serious crimes, but who were found incompetent to stand trial, or not guilty by reason of insanity (Public Law 103-387). Only benefits to the prisoner are barred; benefits to a prisoner's eligible spouse and children are payable.

The Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170) further revised the bar on OASDI benefits to include prisoners who are convicted of a criminal offense and are confined (for more than 30 days) to (1) a penal institution; (2) a public institution if found guilty but insane; or (3) a public institution upon completion of a prison term for a sex offense, pursuant to a court finding that they remain a danger to others. It also provided for incentive payments of up to $400 to State and local institutions for each Social Security beneficiary found ineligible because of their incarceration.

Prohibition on payment of benefits to fugitive felons.

The Social Security Administration (SSA) is prohibited from paying Social Security benefits to fugitive felons (i.e., persons who are fleeing prosecution, custody, or confinement after conviction, as well as persons who are in violation of probation or parole). In addition, upon written request, SSA is required to provide information about fugitive felons (current address, Social Security Number, and photograph) to law enforcement officials to assist in the apprehension of these individuals. The Commissioner of Social Security is authorized to pay, with good cause, Social Security benefits previously denied because of an individual's status as a fugitive felon.

TAXATION OF BENEFITS

Beneficiaries with income (defined as adjusted gross income plus tax-exempt bond interest plus one-half of Social Security benefits) above certain thresholds are required to include a portion of their Social Security benefits (and railroad retirement tier 1 benefits) in their Federally taxable income. The Social Security Amendments of 1983 required beneficiaries with income of more than $25,000 if single, and $32,000 if married filing jointly, to include up to 50 percent of their benefits in their taxable income, beginning in 1984. Revenues from this provision are credited to the OASDI Trust Funds. The Omnibus Budget Reconciliation Act of 1993 required beneficiaries with incomes of more than $34,000 if single, and $44,000 if married filing jointly, to include up to 85 percent of their benefits in their taxable income, beginning in 1994. Revenues from this provision are credited to the Medicare Hospital Insurance (HI) Trust Fund. (There is no separate threshold for married persons who live together and file separately.)

These income thresholds are specified in the law. By design, they are not indexed to wage growth. Thus over time, an increasing number of individuals will be subject to the income tax on Social Security benefits. When the first tier of benefit taxation was enacted in 1983, the Social Security Trust Funds faced almost immediate insolvency. Fixed thresholds were established to provide the program with a growing source of revenue from the income tax on benefits to help shore up the Social Security Trust Funds. When taxes on benefits were first imposed, 8 percent of recipients were affected. As shown in Table 1-31, the Congressional Budget Office (CBO) estimates that for tax year 2005, 39 percent of recipients had some benefits taxed. Table 1-32 shows amounts credited to the trust funds from the taxation of benefits. Table 1-33 provides a worksheet for determining the taxable portion of Social Security benefits. Examples of the effects of the taxation of benefits are shown below (based on tax year 2008 personal exemption and standard deduction amounts and tax rate schedules):

	Single	Single	Married	Married	Married
Total income (including Social Security)	$31,000	$35,000	$38,000	$50,000	$80,000
Social Security benefits	12,000	7,000	12,000	12,000	18,000
Amount of taxable benefits	0	3,250	0	6,000	15,300
Percent of benefit taxable	0	46	0	50	85
Income tax liability on all benefits taxable	0	488	0	900	2,295

TABLE 1-31--EFFECT OF TAXING SOCIAL SECURITY BENFITS BY INCOME CLASS FOR TAX YEAR 2005

[NUMBERS OF PERSONS IN THOUSANDS; DOLLARS IN MILLIONS]

Level of individual or couple income[1]	Persons age 65 and older: Number	Persons age 65 and older: Number affected by taxation[2]	Persons age 65 and older: Percent affected by taxation[2]	All recipients: Number of Social Security beneficiaries[3]	All recipients: Number affected by taxation[3]	All recipients: Percent affected by taxation[3]	Aggregate amount of Social Security benefits	Aggregate amount of taxes on benefits	Taxes as a percent of benefits
Less than $10,000	5,525	0	0	5,957	0	0	$40,403	$0	0
$10,000-$15,000	4,049	2	0	5,201	4	0	53,769	1	0
$15,000-$20,000	2,806	12	0	3,688	12	0	40,480	4	0
$20,000-$25,000	2,527	9	0	3,347	11	0	36,927	9	0
$25,000-$30,000	2,219	55	2	2,917	76	3	33,009	17	0
$30,000-$40,000	4,214	1,240	29	5,260	1,478	28	59,893	390	1
$40,000-$50,000	3,790	2,626	69	4,497	3,168	70	51,717	1,412	3
$50,000-$100,000	7,387	6,927	94	8,931	8,578	96	110,421	11,508	10
Over $100,000	3,306	3,131	95	3,632	3,607	99	49,378	10,767	22
All	35,822	14,003	39	43,429	16,934	39	475,997	24,107	5

[1] Income is defined as AGI plus statutory adjustments, tax-exempt interest, and nontaxable Social Security benefits.

[2] Some elderly individuals do not receive Social Security benefits and thus are not affected by taxation of benefits.

[3] Includes beneficiaries under and over age 65.

Source: Congressional Budget Office simulations based on data from the Statistics of Income and supplemented by data from the Current Population Survey.

TABLE 1-32--TAXATION OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE (OASDI) BENEFITS BY TRUST FUNDS CREDITED AND AS A PERCENTAGE OF TOTAL OASDI BENEFITS, SELECTED CALENDAR YEARS 1985-2012

[DOLLARS IN MILLIONS]

Year	Total OASDI benefits	Taxes credited to trust funds from the taxation of OASDI benefits			Taxes credited to trust funds as percent of OASDI benefits		
		OASDI	HI [1]	Total	OASDI	HI [1]	Total
1985	$186,075	$3,430	--	$3,430	1.8%	--	1.8%
1990	247,816	4,992	--	4,992	2.0%	--	2.0%
1991	268,162	6,054	--	6,054	2.3%	--	2.3%
1992	285,995	6,084	--	6,084	2.1%	--	2.1%
1993	302,368	5,616	--	5,616	1.9%	--	1.9%
1994	316,812	5,306	1,625	6,931	1.7%	0.5%	2.2%
1995	332,554	5,831	3,883	9,714	1.8%	1.2%	2.9%
1996	347,050	6,844	4,039	10,883	2.0%	1.2%	3.1%
1997	361,952	7,896	3,541	11,437	2.2%	1.0%	3.2%
1998	374,969	9,707	5,036	14,743	2.6%	1.3%	3.9%
1999	385,765	11,559	6,498	18,057	3.0%	1.7%	4.7%
2000	407,635	12,314	8,710	21,024	3.0%	2.1%	5.2%
2001	431,931	12,715	7,489	20,204	2.9%	1.7%	4.7%
2002	453,821	13,839	8,262	22,101	3.0%	1.8%	4.9%
2003	470,778	13,441	8,258	21,699	2.9%	1.8%	4.6%
2004	493,263	15,703	8,522	24,225	3.2%	1.7%	4.9%
2005	520,748	14,916	8,711	23,627	2.9%	1.7%	4.5%
2006	546,238	16,858	10,260	27,118	3.1%	1.9%	5.0%
2007	584,939	18,585	10,526	29,111	3.2%	1.8%	5.0%
Projected [2]							
2008	613,690	20,471	12,457	32,928	3.3%	2.0%	5.4%
2009	650,017	23,876	14,097	37,973	3.7%	2.2%	5.8%
2010	689,439	26,114	16,171	42,284	3.8%	2.3%	6.1%
2011	733,169	28,436	17,519	45,955	3.9%	2.4%	6.3%
2012	782,501	31,621	19,067	50,688	4.0%	2.4%	6.5%

[1] Medicare Hospital Insurance Trust Fund.

[2] Projected based on intermediate assumptions in the 2008 Annual Report of the Board of Trustees of the Federal Old-Age, Survivors, and Disability Insurance Trust Funds.

Note- Tax amounts are the amounts collected through the Federal income tax system (including adjustments for actual experience) plus, for OASDI only, taxes withheld from the OASDI benefits of certain nonresident aliens.

Source: Office of the Chief Actuary, Social Security Administration.

TABLE 1-33--WORKSHEET FOR DETERMINING THE TAXABLE PORTION OF SOCIAL SECURITY BENEFITS

1. Enter yearly Social Security benefits	______
2. Multiply line 1 by 0.50	______
3. Enter adjusted gross income plus tax-free interest	______
4. Add line 2 and line 3	______
5. Enter: $25,000 if single or head of household; $32,000 if married filing jointly; $0 if married filing separately	______
6. Subtract line 5 from line 4 (If result on line 6 is zero or a negative number, stop; no benefits are taxable.)	______
7. Divide line 6 by 2	______

TABLE 1-33--WORKSHEET FOR DETERMINING THE TAXABLE PORTION OF SOCIAL SECURITY BENEFITS -cont.

8. Enter smaller of amounts on line 2 or line 7	______
9. Enter amount on line 4	______
10. Enter: $34,000 if single or head of household; $44,000 if married filing jointly; $0 if married filing separately	______
11. Subtract line 10 from line 9	______
12. Multiply line 11 by 0.85	______
13. Enter smallest of: amount on line 8; $4,500 if single or head of household; $6,000 if married filing jointly; $0 if married filing separately	______
14. Add amounts on line 12 and line 13	______
15. Multiply line 11 by 0.85	______
16. Enter smaller of amounts on line 14 or line 15	
The amount on line 16 is the total amount of benefits taxable.	

Source: Congressional Research Service.

SOCIAL SECURITY DISABILITY PROGRAM

CHARACTERISITCS OF SOCIAL SECURITY DISABILITY BENEFICIARIES

Social Security and the larger population of people with disabilities.

Social Security disability beneficiaries are a subset of a much larger population of people with impairments or illnesses. Many people have various kinds of disabilities or medical impairments which affect their ability to work or to function in other ways, but only a small proportion of these qualify for Social Security disability benefits, which are limited to those with very severe work incapacity.

People with disabilities have varying needs, and a variety of State and Federal programs exist to help meet those needs. Generally, these programs use a definition of disability that is aligned with the benefit or service that program provides. For example, the Federal-State Vocational Rehabilitation program focuses on individuals whose disability presents a substantial impediment to employment, and who could benefit from vocational rehabilitation services. The Americans with Disabilities Act protects the civil rights of people with disabilities, and thus has a very broad definition of who is covered – one which is not limited to people with work disabilities, and which even includes people who are merely “regarded” as having a disability.

Earnings-replacement programs such as Social Security and private disability insurance generally define disability as having an impairment which limits the ability to work, but they may vary in the degree of severity necessary to qualify for benefits. For example, private long-term disability insurance contracts usually define disability in terms of inability to perform one’s usual occupation.[19]

[19] *Balancing Social Security and Opportunity: The Challenge of Disability Policy*, Report of the Disability Policy Panel, National Academy of Social Insurance, 1996.

The Social Security Act defines disability using much more stringent criteria. In order to qualify for either Social Security or Supplemental Security Income (SSI) disability benefits, an individual must have an impairment or combination of impairments that is expected to prevent the individual from working for at least 12 months, or result in death. The Social Security Act also says that an individual is disabled only if the impairment or impairments are sufficiently severe to prevent the individual from performing not only their own previous work, but any other kind of substantial gainful work.

In December 2007, about 7.1 million people received Social Security disability insurance (DI) benefits based on their own work record (including concurrent beneficiaries who received both Social Security and SSI) while nearly 3 million more people who did not meet Social Security's insured status requirements received SSI on the basis of disability. In addition, almost 800,000 disabled adult children received Social Security benefits because their own parent had died, retired, or become disabled. About 225,000 disabled surviving spouses were also receiving benefits.

In addition to paying benefits to disabled dependents, Social Security also provides benefits to non-disabled dependents of disabled workers. As of December 2007, SSA was paying benefits to about 153,000 spouses of disabled workers and 1.5 million of their minor children.

Characteristics of DI beneficiaries.

According to information published by the Social Security Administration, Social Security DI beneficiaries are, on average, older, less healthy, and less educated than the general working-age population. Sixty percent of the disabled worker population is 50 or older, while only 21 percent of the general working-age population falls into that category (1994 data). About 1 in 5 male beneficiaries die within 5 years of first receiving benefits; for women, the proportion is nearly 1 in 6. Among new beneficiaries, 1 out of 10 have cancer. Many beneficiaries suffer from diseases associated with aging, such as arthritis, heart disease, lung disease, or stroke.

In addition, Social Security disability beneficiaries have fewer years of education than the general public. Seventy-five percent of disabled worker beneficiaries are high school graduates or less, while only 48 percent of the general working-age population have this level of education.

Disabled worker beneficiaries generally tend to rely heavily on their Social Security disability benefits. Almost half rely on these benefits for 50 percent or more of their family income. Almost one-fifth rely on DI for nearly all their income, while about 6 percent have no other income.

THE DISABILITY DETERMINATION AND APPEALS PROCESS

The disability determination and appeals process is generally the same for most disability benefits administered by SSA. These include benefits for disabled workers and their families under the Social Security disability program, benefits for disabled widow(er)s and disabled adult children under the Social Security retirement and survivors programs, and benefits for disabled adults under the Supplemental Security Income (SSI) program. The definition of disability is different for disabled children applying for SSI and for statutorily blind adults under both Social Security and SSI.[20]

Application for disability benefits is made online, by telephone, or at a Social Security field office. The applicant must provide information about his or her impairment, work history, and sources of medical evidence. After determining whether the applicant meets the insured status requirements (or, in the case of SSI, financial requirements), the SSA field office sends the case to the State Disability Determination Service (DDS), which makes the initial determination of disability.

5-Step Sequential Evaluation Process--The determination of whether a claimant is disabled is made on a sequential basis. The first step is to determine whether the individual is engaging in Substantial Gainful Activity (SGA). Under current regulations, in most cases if a nonblind person is earning more than $940 a month (net of impairment-related work expenses) in 2008, he or she will be considered to be engaging in SGA. In the case of blind individuals, SGA is $1,570 a month in 2008. Both amounts are indexed annually to average wage growth. Table 1-34 shows SGA amounts applicable since 1968. If it is determined that the individual is engaging in SGA, a decision is made that he or she is not disabled without considering medical factors.

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[20] Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, established a new disability definition for children under age 18 which requires a child to have "a medically determinable physical or mental impairment which results in marked and severe functional limitations, and which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months." Statutory blindness is defined in sections 216(i) and 1614(a)(2) of the Social Security Act.

TABLE 1-34--MONTHLY SUBSTANTIAL GAINFUL ACTIVITY (SGA) AMOUNTS SINCE 1968

Year	SGA amounts for nonblind beneficiaries	SGA amounts for blind beneficiaries
1968-73	$140	$140
1974-75	200	200
1976	230	230
1977	240	240
1978	260	334
1979	280	375
1980	300	417
1981	300	459
1982	300	200
1983	300	550
1984	300	580

TABLE 1-34--MONTHLY SUBSTANTIAL GAINFUL ACTIVITY (SGA) AMOUNTS SINCE 1968 –cont.

Year	SGA amounts for nonblind beneficiaries	SGA amounts for blind beneficiaries
1985	$300	$610
1986	300	650
1987	300	680
1988	300	700
1989	300	740
1990	500	780
1991	500	810
1992	500	850
1993	500	880
1994	500	930
1995	500	940
1996	500	960
1997	500	1,000
1998	500	1,050
1999 (January 1-June 30)	500[1]	1,100
1999 (July 1-December 31)	700[2]	1,110
2000	700	1,170
2001	740	1,240
2002	780	1,300
2003	800	1,330
2004	810	1,350
2005	830	1,380
2006	860	1,450
2007	900	1,500
2008	940	1,570

Note- SGA amounts for nonblind and blind beneficiaries are indexed to increases in the average wage level. Before 1978, SGA levels for blind beneficiaries were the same as those for nonblind beneficiaries.

Source: Office of Research, Evaluation, and Statistics, Social Security Administration.

If an individual is found not to be engaging in SGA, the severity and duration of the impairment are evaluated. If the impairment is determined either to be “not severe” (i.e., it does not significantly limit the individual's capacity to perform basic work activities), or not to meet the durational requirement (i.e., the impairment has lasted or is expected to last for a continuous period of not less than 12 months or result in death), the individual's disability claim is denied. If the impairment is “severe,” and meets the durational requirement, a determination is made as to whether the impairment “meets” or “equals” the medical listings published in regulations by SSA,[21] and whether it has lasted or can be expected to last for a continuous period of not less than 12 months. If the impairment neither “meets” nor “equals” the listing (which would result in an allowance), but meets the 12-month duration rule, the individual's residual functional capacity (what an individual still can do despite his limitations) and the physical and mental demands of past relevant work must be evaluated. If the impairment does not prevent the individual from meeting the demands of past relevant work, benefits are denied. If the impairment does, then it must be determined whether the impairment prevents other work.

At this stage in the adjudication process, because of a court decision and subsequent administrative and legislative ratification of this decision, the burden of proof switches to the government to show that the individual can, considering his or her impairment, age, education, and work experience, engage in some other kind of SGA that exists in the national economy. Such work does not have to exist in the immediate area in which he or she lives, and a specific job vacancy does not have to be available. Work in the national economy is defined in statute as work which exists in significant numbers either in the region where such individual lives or in several regions of the country.

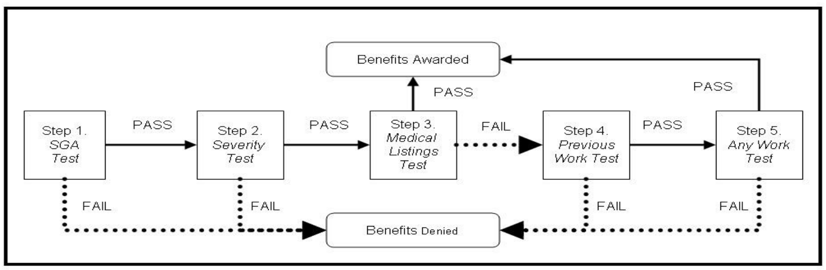
By regulation, SSA uses a vocational “grid” designed to reduce subjectivity and maximize uniformity in applying the vocational factors. The grid regulations relate the vocational factors of age, education, and past work experience to the individual’s residual functional capacity to perform work-related physical and mental activities despite his or her medical impairments. The grids are tables of rules based on residual functional capacities for “sedentary,” “light,” and “medium” work and various combinations of age, education, and work experience. The rules “direct” conclusions of “disabled” or “not disabled” when they are matched exactly. When they are not, they provide guidance for decisionmaking.

Individuals are not considered to be disabled unless they furnish such medical and other evidence as the Commissioner may require. The

[21] The listing of impairments contains over 100 examples of medical impairments that are considered significant enough to prevent an individual from engaging in SGA. Each listing describes a degree of severity such that an individual who is not working, and has such an impairment, is considered unable to work by reason of the medical impairment. The listing describes specific medically acceptable clinical and laboratory findings and signs which establish the severity of the impairments. An impairment or combination of impairments is said to “equal the listings” if the medical findings for the impairment are at least equivalent in severity and duration to the findings of a listed impairment.

Commissioner will generally reimburse physicians or hospitals for supplying medical evidence in support of claims for disability benefits. The Commissioner also pays for medical examinations that are needed to adjudicate the claim. Chart 1-5 displays the 5-step sequential evaluation process.

CHART 1-5--THE FIVE-STEP DISABILITY DETERMINATION PROCESS



Source: The Congressional Research Service (CRS).

Role of the State Disability Determination Service (DDS)--Initial disability determinations (and first level appeals, as discussed below) are made by State DDS agencies. This work is 100 percent federally funded, and the agencies agree to comply with the regulations of the Commissioner that specify performance standards, administrative requirements, and procedures to be followed in performing the disability determination function.

The law authorizes the Commissioner to terminate State administration and assume responsibility for making disability determinations when a State DDS is substantially failing to make determinations consistent with regulations. The law also allows for termination by the State.

Appealing a Disability Determination--If an applicant is dissatisfied with an initial denial of disability benefits by the DDS, he or she can request a reconsideration within 60 days of receipt of the notice of denial. The reconsideration on the disability claim is carried out by DDS personnel other than those who made the initial determination. Among DI and SSI cases first filed in 2003 that reached the reconsideration stage, 14.5 percent were awarded benefits at this stage, accounting for approximately 6.0 percent of all allowances from that applicant cohort. SSA is currently running a prototype project in 10 States that eliminates this reconsideration step.[22]

An applicant denied benefits at the reconsideration stage may request a hearing before an administrative law judge (ALJ) in SSA's Office of Disability Adjudication and Review, provided he or she files a request for a hearing within 60 days of receipt of the notice of denial. This hearing, which may held either in person or via video conference, is a *de novo* process in which an applicant may submit new evidence on his or her behalf or make new claims not previously considered by the DDS.

As shown in Chart 1-6, among DI and SSI disability claims first filed in 2003 that reached the hearing stage, almost 66 percent were awarded benefits at this stage, accounting for approximately 25 percent of all allowances from that applicant cohort. Table 1-40 provides additional historical data on ALJ decisions. If the claim is denied by the ALJ, the applicant has 60 days to request review by the Appeals Council, a 24-member body located in the Office of Disability Adjudication and Review. The Appeals Council may also, on its own motion, review a decision within 60 days of the ALJ's decision. The 1980 disability amendments required the Appeals Council to review a percentage of ALJ hearing decisions.

The Appeals Council may affirm, modify, or reverse the decision of the ALJ, or may remand it to the ALJ for further development. The applicant is notified in writing of the final action of the Appeals Council and of his or her right to obtain further review by commencing a civil action within 60 days in a U.S. District Court. Of the nearly 2.5 million DI and SSI claims first filed in 2003, approximately 91,000 were ultimately appealed to the Appeals Council. Of these, about 2 percent were allowed by the Appeals Council and about 29 percent were remanded back to the ALJ for further action.

Federal courts--The Appeals Council is the final administrative step in the SSA appeals process. Applicants dissatisfied with the decision of the Appeals Council (or the decision of the ALJ after remand) may file a case in the United States District Court within 60 days of the decision. An unfavorable decision in the District Court can be appealed to the United States Court of Appeals and, ultimately, the United States Supreme Court. Less than 1/10th of 1 percent of all applications for benefits are appealed to the federal court system, and only a handful of cases are appealed to the United States Court of Appeals.

Chart 1-6 shows longitudinal disability claims and appeals data based on the tracking of 2.5 million calendar year 2003 disability claims through August 2007. Chart 1-7 provides data on disability determinations and appeals from FY 2007.

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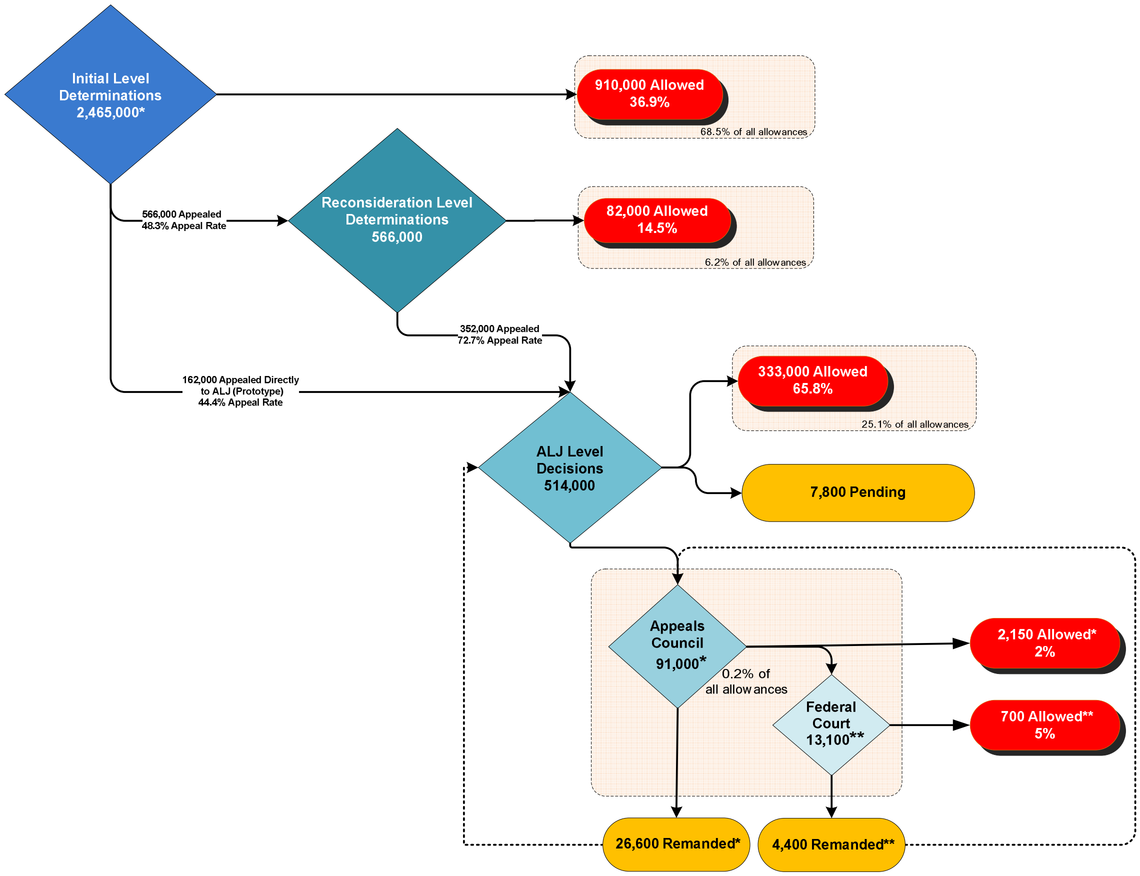
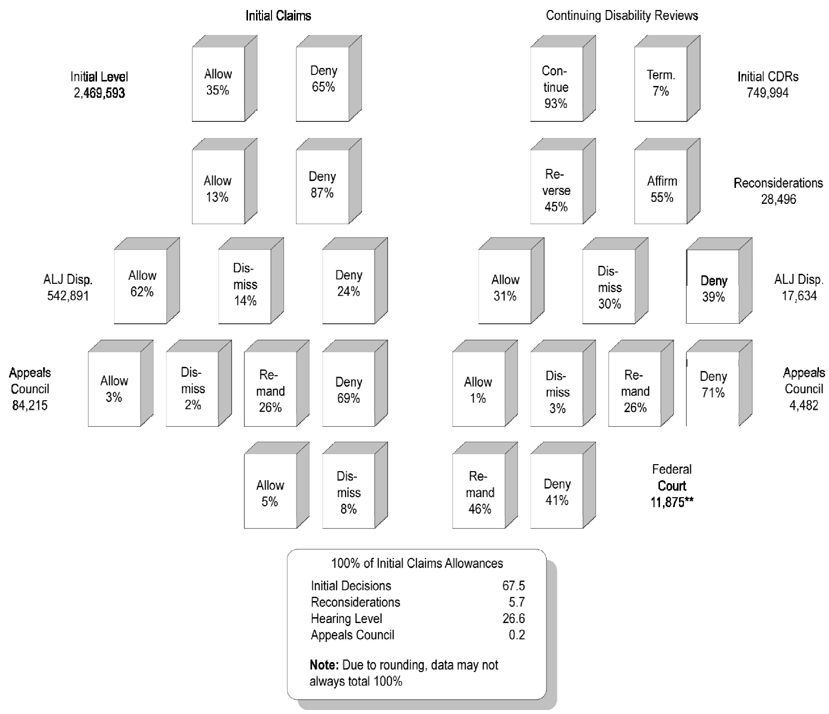
[22] The Disability Redesign Prototype eliminates the reconsideration stage of the appeals process. Currently, it is being used statewide in Alabama, Alaska, Colorado, Louisiana, Michigan, Missouri, New Hampshire, New York, and Pennsylvania, and in the Los Angeles area of California.

CHART 1-6--LONGITUDINAL DISABILITY CLAIMS
AND APPEALS DATA***



Notes:
-- Approximately 54 percent of all initial claims for disability benefits are ultimately allowed.
-- The reconsideration stage of the process is eliminated in the 10 prototype states.
-- 7,800 Pending include 3,200 claims pending at the Appeals Council, 1,800 pending at Federal Court, and 2,800 claims pending at the ALJ Level (virtually all from remands).
*Estimated.
**Estimated and includes Continuing Disability Reviews (CDRs).
***Based on the longitudinal tracking of 2.5 million calendar year 2003 disability claims through August 2008.
Source: Office of Disability Programs, Social Security Administration.

CHART 1-7--FISCAL YEAR 2007 WORKLOAD DATA: DISABILITY DETERMINATIONS*



*Data is not longitudinal – Numbers presented include all Title II and Title XVI disability determinations processed (but not necessarily received) in FY 2007.
**Includes Initial Claims and Continuing Disability Reviews (CDRs).
Source: Office of Disability Programs, Social Security Administration.

Representation and attorneys' fees--Claimants may appoint an attorney or any other qualified person to serve as their representative in proceedings before SSA. The representative may submit evidence, make statements about facts and law, and make any request or give any notice concerning the proceedings. The representative may not sign an application on behalf of a claimant for rights or benefits, or testify on the claimant's behalf in any administrative proceeding.

In general, the amount of any fee that an attorney or other person may charge and collect from the claimant for services performed as a representative must be authorized by SSA. SSA has two methods of authorizing fees for representation: fee petition and fee agreement.

Under the fee petition process, representatives must promptly file a fee petition with SSA after completing their services on a claim and send a copy of the fee petition to the claimant. SSA determines the amount of the fee authorized under the fee petition process based on several factors, including, but not limited to, the extent and type of services the representative performed, the complexity of the case, and the amount of time the representative spent on the case.

Under the fee agreement process, the claimant and representative must file a written agreement with SSA before the date SSA makes a favorable determination or decision on the claim. SSA usually will approve the fee agreement if: (1) it is signed by both the claimant and representative; (2) the fee specified in the agreement does not exceed the lesser of 25 percent of the past-due benefits or $5,300 for fee agreements approved on or after February 1, 2002; (3) SSA's determination or decision in the claim is fully or partially favorable; and (4) the claim results in past-due benefits.

If the claimant is represented by an attorney and the claim is for Social Security benefits, the SSA may withhold the authorized representation fee out of past-due benefits and pay it directly to the attorney. Under the Social Security Protection Act of 2004 (SSPA), SSA was required to develop and carry out a nationwide demonstration project to extend fee withholding and direct payment of authorized fees under Social Security and SSI to non-attorney representatives who meet certain prerequisites regarding education, liability insurance, a criminal background check, passage of an examination, and continuing education. The demonstration project began February 28, 2005 and is scheduled to sunset on March 1, 2010.

In addition, the SSPA temporarily allowed the direct payment process applicable under Social Security to also apply to SSI claims. SSA implemented this change on February 28, 2005. Direct payment of representative fees under SSI claims will also sunset on March 1, 2010.

The Social Security Act requires the Commissioner to impose an assessment on the attorney's fee to cover SSA's costs of determining and certifying these fees. Effective January 31, 2000, the assessment is set at 6.3 percent of the attorney's fee. For years after 2000, the percentage rate will be set at a level determined by the Commissioner to achieve full recovery of the costs of calculating, withholding, and paying fees from the claimant's past-due benefits, but not in excess of 6.3 percent. The attorney is prohibited from recovering this assessment from the claimant. SSPA imposed a $75 cap on the amount of the assessment beginning with payments made on September 1, 2004. The legislation also required an annual cost-of-living adjustment (COLA) of the $75 cap. As a result, for payments made after December 1, 2007, SSA can collect an assessment not to exceed $79, adjusted annually for inflation, or 6.3 percent of the amount of the attorney’s fee, whichever is less.

Continuing Disability Reviews (CDRs)--The 1980 disability amendments required that, at least once every 3 years, the Social Security Administration reexamine every individual on the rolls who is determined to be non-permanently disabled. Where there is a finding of permanent disability, the Commissioner may reexamine the individual at such times as are determined to be appropriate. These reviews are in addition to the administrative eligibility review procedures existing before the 1980 amendments. Effective in 2001, these reviews cannot begin while an individual is participating in the Ticket to Work Program (discussed below) and making progress toward self-sufficiency.

The 1984 Disability Benefits Reform Act required that benefits may be terminated in continuing eligibility review cases only if the Commissioner finds that there has been medical improvement in the individual's impairment and that the individual is now able to engage in SGA. The 1984 Disability Benefits Reform Act also provided that disability insurance (DI) beneficiaries whose benefits have been terminated because of recovery or improvement in the medical impairment that was the basis for the disability have the opportunity to receive a hearing at the reconsideration stage and can elect to continue to receive disability and Medicare benefits through the ALJ hearing stage of the appeals process, subject to repayment if the individual is ultimately found not disabled.

Table 1-35 presents information on the number of CDRs that were conducted in fiscal years 1977-2007 of Social Security disability beneficiaries. Due to an increase in initial claims, the number of CDRs processed declined sharply in the early 1990s. National implementation of a new review process in 1993 enabled the Social Security Administration to increase the number of CDRs significantly. From fiscal years 1998-2006, the Social Security Administration processed over 800,000 CDRs every year. In FY 2007, the number of CDRs processed declined due to the increase in the disability claims backlog (see discussion below). By the end of FY 2007, based on the statutory requirement for periodic reviews, CDRs were past due for 287,200 Social Security disability beneficiaries.

TABLE 1-35--TITLE II CONTINUING DISABILITY REVIEW (CDR) CESSATIONS AND CONTINUATIONS, FISCAL YEARS 1977- 2007

	Total cases			Cessations		Continuations	
Fiscal year	CDRs conducted	Total disabled beneficiaries[3]	Percent reviewed	Number	Percent of CDRs	Number	Percent of CDRs
1977	107,220	3,322,230	3.2	41,475	38.7	65,745	61.3
1978	83,651	3,447,767	2.4	38,847	46.4	44,804	53.6
1979	94,084	3,457,837	2.7	45,216	48.1	48,868	51.9
1980	94,550	3,454,010	2.7	44,273	46.8	50,227	53.1
1981	168,922	3,413,602	4.9	80,956	47.9	87,966	52.1
1982	401,182	3,263,354	12.3	179,857	44.8	221,325	55.2
1983	436,498	3,226,888	13.5	182,074	41.7	254,424	58.3
1984[1]	129,679	3,249,367	4.0	31,927	24.6	97,752	75.4
1985[1]	3,260	3,332,870	0.1	475	14.6	2,785	85.4
1986	45,359	3,261,768	1.4	2,554	5.6	42,805	94.4
1987	164,055	3,433,524	4.8	20,343	12.4	143,712	87.6
1988	290,942	3,492,762	8.3	33,565	11.5	257,377	88.5
1989	261,824	3,559,840	7.4	24,102	9.2	237,722	90.8
1990[2]	144,180	3,678,509	3.9	15,154	10.5	129,026	89.5
1991[2]	45,446	3,866,645	1.2	5,697	12.5	39,749	87.5
1992	46,214	4,165,133	1.1	6,923	15.0	39,291	85.0

TABLE 1-35--TITLE II CONTINUING DISABILITY REVIEW (CDR) CESSATIONS AND CONTINUATIONS, FISCAL YEARS 1977-2007 –cont.

	Total cases			Cessations		Continuations	
Fiscal year	CDRs conducted	Total disabled beneficiaries[3]	Percent reviewed	Number	Percent of CDRs	Number	Percent of CDRs
1993	49,202	4,457,500	1.1	4,886	9.9	44,316	90.1
1994	99,129	4,729,948	2.1	13,940	14.1	85,189	85.9
1995	195,975	4,980,462	3.9	31,694	16.2	164,281	83.8
1996	346,493	5,216,126	6.6	35,452	10.2	311,041	89.8
1997	431,692	5,354,315	8.1	48,562	11.2	383,130	88.8
1998	980,184	5,557,486	17.6	52,698	5.4	927,486	94.6
1999	865,181	5,751,600	15.0	40,465	4.7	824,716	95.3
2000	1,153,904	5,930,388	19.5	44,577	3.9	1,109,327	96.1
2001	1,034,562	6,135,549	16.9	40,282	3.9	994,280	96.1
2002	925,221	6,495,868	14.2	42,500	4.6	882,721	95.4
2003	806,615	6,835,846	11.8	29,746	3.7	776,869	96.3
2004	973,478	7,168,270	13.6	29,477	3.0	944,001	97.0
2005	885,749	7,500,525	11.8	32,248	3.6	853,501	96.4
2006	974,645	7,803,692	12.5	23,254	2.4	951,391	97.6
2007	532,278	8,118,382	6.6	11,315	2.1	520,963	97.9

Note- Data for fiscal years beginning in 1993 includes CDR mailers.
[1]The decline in the number of reviews in 1984 and 1985 was due to the national moratorium on reviews pending enactment and implementation of new legislation that revised criteria for CDRs.
[2]The decline in CDR processing in 1990 was due to the demands of processing approximately 40,000 class action court cases. The continued decline in 1991 was due to the increase in the initial claims workload.
[3]The number of disabled persons is a calendar year number.
Source: Office of Quality Performance, Social Security Administration.

Quality Assurance in the Disability Process--The Commissioner is required by statute to review 50 percent of allowances for initial disability claims, and also to review a sufficient number of disability continuations to ensure a high degree of accuracy. These reviews are conducted prior to effectuating the decision, and are known as Pre-Effectuation Reviews (PERs).

The Commissioner may also, on his or her own initiative, review any determination by a DDS (i.e., both allowances and denials). These Quality Assurance Reviews (QARs) are statistically valid reviews to determine whether individual DDSs are performing acceptably. QARs are also used to collect detailed data on characteristics of allowance errors to enable SSA to efficiently select cases for Pre-Effectuation Reviews.

WORK INCENTIVES IN THE DISABILITY INSURANCE (DI) PROGRAM

The DI program includes a number of provisions, known as work incentives, to provide assistance to DI beneficiaries who would like to test their ability to work or attempt to transition to self-support. The work incentives in the DI program are available to all beneficiaries who receive Social Security benefits on the basis of disability or blindness, including disabled widow(er)s and disabled adult children. In general, DI beneficiaries have at least 9 months to test their ability to work while continuing to receive some cash benefits and at least 8 years to continue health care benefits (see below for more detail).

If beneficiaries medically recover to the extent that they no longer meet the definition of disability, both disability and Medicare benefits are terminated after 3 months. However, a person who contests this determination may elect to continue to receive disability benefits (subject to repayment) and Medicare while the appeal is being reviewed.

Ticket to Work Program--Public Law 106-170 created a Ticket to Work and Self-Sufficiency Program (Ticket to Work Program) to allow Social Security and SSI disability beneficiaries to access a broader pool of employment services providers to assist them in attempting to work. Under this legislation, the Commissioner of Social Security provides a “ticket” to a disabled beneficiary that can be used as a voucher to obtain employment services, case management, vocational rehabilitation, and support services under an Individual Work Plan (IWP) or an Individual Plan for Employment (IPE) from a provider participating in the program. Participating providers are referred to as employment networks (ENs), and may include State Vocational Rehabilitation agencies. Participation in the Ticket to Work Program is voluntary for the beneficiary and for the provider. In addition, beneficiaries participating in the Ticket to Program are not subject to medical CDRs while they are making progress toward self-sufficiency. Payments to ENs are tied to employment outcomes.

The Ticket to Work Program has been implemented nationwide since January 1, 2004, but the participation rate of both ENs and beneficiaries has been lower than expected. In May 2008, SSA issued new regulations for the program that will provide for more generous and earlier payments to ENs and allow beneficiaries to receive services from both State vocational rehabilitation agencies and ENs. SSA expects these new regulations to increase the attractiveness of the Ticket program to both ENs and beneficiaries.

Impairment-related work expenses (IRWE)--In determining whether a DI beneficiary who is working is engaging in SGA, SSA disregards the costs of qualified impairment-related work expenses (IRWEs). IRWEs can include any expenses that are related to the disability and that enable the beneficiary to work in a given month. Examples include the costs of attendant care in the workplace, modifying a vehicle used to travel to work, or medication or medical equipment that enables the beneficiary to function in the workplace.

Subsidy and special condition--SSA can consider the existence of a subsidy or special condition when determining the whether work being performed by a beneficiary is SGA. If SSA determines that the beneficiary is being paid more than the actual value of his or her services – for example, if the beneficiary has fewer or simpler tasks than other employees making the same wage – SSA will only count the wages that represent the true value of the work in determining whether the beneficiary is engaging in SGA.

Unincurred business expenses for the self-employed--When determining the earnings of DI beneficiaries who are self-employed, SSA deducts the value of business expenses, such as business equipment, provided to the beneficiary at no cost. This allows SSA to determine the true value of a person's self-employment work activity.

Unsuccessful work attempt--SSA considers work activity to be an "unsuccessful work attempt" when earnings were above the SGA level for six months or less and the work was stopped or reduced below SGA due to the disability or the loss of a special condition. When determining if a person qualifies for the DI program or if a person has performed SGA, SSA does not count earnings from unsuccessful work attempts.

Continued benefit payments for participants in vocational rehabilitation or similar programs--In general, if SSA determines that a DI beneficiary is no longer disabled due to medical improvement, his or her eligibility for benefits ends. However, if the beneficiary is participating in a vocational rehabilitation or similar program and SSA determines that continued participation in the program will increase the likelihood that the individual will not return to the disability rolls, benefit payments can continue until participation in the program ends or until SSA determines that continued benefit payment will no longer increase the likelihood that the individual will not return to the disability rolls.

Trial Work Period (TWP)--A DI beneficiary is entitled to a Trial Work Period (TWP), which consists of nine months of work (not necessarily consecutive) during any rolling 60 month period. During the TWP, a beneficiary can earn any amount and still receive full DI benefits. A month is counted as a TWP month if during that month the beneficiary earned above a special "services" amount or worked more than 80 self-employed hours. The services amount is indexed to wage changes. For 2008, the services amount is $670 per month. At the end of the ninth TWP month, the beneficiary's work status is evaluated. If he or she is working below the SGA level, then DI benefits continue. If he or she is working above the SGA level, then the beneficiary is no longer eligible for DI benefits and will stop receiving benefits after a two month grace period. Benefits will be reinstated for non-SGA months in the Extended Period of Eligibility.

Extended Period of Eligibility (EPE)--The Extended Period of Eligibility (EPE) begins immediately after the TWP. In this 36-month period, a DI beneficiary whose benefits were ceased due to work after the TWP can have these benefits reinstated without having to file a new benefit application. In addition, during this 36-month period, the beneficiary is entitled to benefits for any month in which he or she does not engage in SGA. When SGA work is performed after this 36-month period, benefits will be terminated.

Continuation of Medicare--An individual whose DI benefits were terminated because of work but who remains disabled, (and who has already satisfied his or her 24-month Medicare waiting period), will continue receiving Medicare coverage while working for at least 93 months after the end of the TWP. If the individual has not satisfied the Medicare waiting period, he or he is eligible for Medicare coverage while working after the waiting period is satisfied and for the remainder of the 93 months after the end of the TWP.

Medicare for individuals with disabilities who work--After the completion of the up to 93 months of continued Medicare coverage, a former DI beneficiary who has returned to work and is still disabled is eligible to purchase Medicare Part A coverage at the same premiums offered to uninsured persons age 65 or older. This special eligibility to purchase Medicare ends when the person reaches the age of 65, at which point these individuals are eligible to purchase Medicare coverage in the same manner as other persons age 65 or older.

Expedited reinstatement--A former DI beneficiary whose benefits were terminated due to work, but who is no longer able to work at SGA due to the disability, can qualify for expedited reinstatement of DI benefits if he or she applies within five years of the date that DI benefits were terminated. An applicant for expedited reinstatement is eligible for up to six months of provisional benefits while SSA evaluates the applicant to determine if he or she remains disabled. If SSA determines that the person is not disabled, these provisional benefits do not have to be repaid. After the beneficiary has been reinstated and received benefits for 24 months, he or she is entitled to a new Trial Work Period.

DISABILITY PROGRAM DATA

The following tables present additional information on the DI caseload.

TABLE 1-36--NUMBER OF DISABILITY INSURANCE (DI) BENEFICIARIES, SELECTED YEARS 1960- 2007

Year	Disabled workers	Spouses	Children	Total
1960	455,371	76,599	155,481	687,451
1965	988,074	193,362	557,615	1,739,051
1970	1,492,948	283,447	888,600	2,664,995
1975	2,488,774	452,922	1,410,504	4,352,200
1980	2,861,253	462,204	1,358,715	4,682,172
1985	2,656,500	305,528	945,141	3,907,169
1990	3,011,294	265,528	988,797	4,265,981
1995	4,185,263	263,539	1,408,854	5,857,656
2000	5,042,334	165,123	1,465,905	6,673,362
2001	5,274,183	156,899	1,482,161	6,913,243
2002	5,543,981	151,614	1,525,673	7,221,268
2003	5,868,541	150,889	1,570,854	7,590,284
2004	6,197,385	152,995	1,598,712	7,949,092
2005	6,519,001	156,552	1,633,206	8,308,759
2006	6,806,918	153,456	1,651,727	8,612,101
2007	7,098,723	152,796	1,664,688	8,916,207

Source: Office of Research, Evaluation, and Statistics, Social Security Administration.

TABLE 1-37--DISABLED WORKERS' APPLICATIONS, AWARDS, AWARDS AS A PERCENT OF APPLICATIONS, AND AWARDS PER 1,000 INSURED WORKERS, SELECTED CALENDAR YEARS 1965-2007

[NUMBER OF APPLICATIONS AND TOTAL AWARDS IN THOUSANDS]

Calendar year	Number of applications	Total awards	Awards as a percent of applications	Awards per 1,000 insured workers
1965	529.3	253.5	47.9	4.7
1970	869.8	350.4	40.3	4.8
1975	1,285.3	592.0	46.1	7.1
1980	1,262.3	396.6	31.4	4.0
1985	1,066.2	377.4	35.4	3.5
1990	1,067.7	468.0	43.8	4.0
1991	1,208.7	536.4	44.4	4.5
1995	1,338.1	645.6	48.3	5.1
2000	1,330.6	621.3	46.7	4.5
2001	1,498.6	690.5	46.1	5.0
2002	1,682.5	750.0	44.6	5.3
2003	1,895.5	777.5	41.0	5.6
2004	2,137.5	795.8	37.2	5.7
2005	2,122.1	829.7	39.1	5.9
2006	2,134.1	803.8	37.7	5.6
2007	2,190.2	818.5	37.4	5.7

Source: Office of the Chief Actuary, Social Security Administration.

TABLE 1-38--PERCENT DISTRIBUTION BY AGE AND SEX OF TITLE II DISABLED WORKER BENEFICIARIES AWARDED BENEFITS IN SELECTED CALENDAR YEARS 1970-2007 COMPARED WITH ADULT U.S. POPULATION IN 2000

Age and sex	Year awarded benefits										Adult U.S. population[1]
	1970	1975	1980	1985	1990	1995	2000	2005	2006	2007	
Age:											
Under 30	6.0	7.2	8.0	8.7	10.0	6.9	6.4	6.4	6.2	6.2	26
30–39	7.3	8.2	9.7	13.2	16.7	16.5	13.3	11.2	10.7	10.3	25
40–44	6.4	6.2	6.1	7.3	9.5	11.0	11.5	10.2	9.8	9.2	13
45–49	10.3	9.7	8.7	10.1	10.8	12.5	13.1	13.4	13.6	13.3	12
50–54	15.4	16.3	15.2	15.0	13.8	16.3	18.1	18.4	18.9	18.8	10
55–59	24.5	23.8	24.9	23.2	21.2	20.4	21.3	23.1	23.4	23.2	8
60 and older	30.1	28.6	27.4	22.4	18.0	16.4	16.3	17.3	17.4	19.0	6
Median age[2]	56	56	55	54	51	51	52	52	53	53	39
Sex:											
Male	74	69	69	67	64	58	54	54	53	53	49
Female	26	31	31	33	36	42	46	46	47	47	51

Note- This table includes awards decided at the initial and appeals levels. Prior editions of the *Green Book* included only awards decided at the initial and reconsideration levels. Data on the levels of education of beneficiaries is not available.

[1] Derived from 2000 census for population ages 18-64.

[2] Estimated using five year interval data.

Source: Office of Research, Evaluation, and Statistics, Social Security Administration.

TABLE 1-39--PERCENT DISTRIBUTION BY DISABLING IMPAIRMENT OF TITLE II DISABLED WORKER BENEFICIARIES AWARDED BENEFITS IN SELECTED CALENDAR YEARS 1970-2007

	Year awarded benefits									
Diagnostic group	1970	1975	1981	1985	1990	1995	2000	2005	2006	2007
Infectious and parasitic diseases [1]	2.5	1.3	0.7	0.8	4.7	4.3	1.8	1.3	1.3	1.2
Neoplasms	10.3	10.1	16.0	14.6	14.1	10.0	10.4	10.1	10.3	10.1
Endocrine, nutritional, and metabolic diseases	3.8	3.9	4.2	4.5	3.5	5.2	2.8	3.3	3.4	3.4
Mental disorders	11.0	11.4	10.3	18.2	22.5	22.9	23.4	24.2	23.2	22.8
Diseases of the—										
Nervous system and sense organs	6.4	6.7	8.1	7.6	8.1	7.2	8.2	8.1	8.2	8.1
Circulatory system	31.1	29.9	24.4	19.3	15.7	12.9	12.3	10.9	10.7	10.8
Respiratory system	6.9	6.7	6.1	5.4	4.7	4.5	4.3	4.1	4.1	4.0
Digestive system	2.6	3.0	2.1	1.5	1.6	1.7	2.1	2.3	2.3	2.3
Musculoskeletal system and connective tissue	14.9	18.7	16.7	13.0	15.9	21.9	25.2	27.6	28.2	29.0
Injuries	8.1	5.5	5.9	4.4	4.8	4.3	4.7	3.8	3.9	3.9
Other/unknown	2.5	3.0	5.5	10.8	4.5	5.3	4.7	4.1	4.3	4.4
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note- This table includes awards decided at the initial and appeals levels. Prior editions of the *Green Book* included only awards decided at the initial and reconsideration levels. Diagnostic groups were renamed to correspond with current guidelines. Data for 1979 and 1980 were not available.

[1] Beginning in 1990, AIDS/HIV cases are included in this category.

Source: Office of Research, Evaluation, and Statistics, Social Security Administration.

TABLE 1-40--ADMINISTRATIVE LAW JUDGE DI DECISION RATES, SELECTED FISCAL YEARS 1980-2007

Fiscal year	Dismissed	Unfavorable	Favorable	Total	Percent favorable
1980	7,093	31,703	56,733	95,529	59.4
1985	14,806	61,161	92,118	168,085	54.8
1990	19,297	45,264	127,707	192,268	66.4
1991	19,880	44,594	144,945	209,419	69.2
1992	19,665	48,407	166,661	234,733	71.0
1993	20,190	47,579	171,508	239,277	71.7
1994	23,576	49,110	189,373	262,059	72.3
1995	44,234	65,415	220,558	330,207	66.8
1996	33,367	89,817	237,131	360,315	65.8
1997	53,205	89,689	199,040	341,934	58.2
1998	53,395	90,591	190,182	334,168	56.9
1999	43,228	78,553	181,938	303,719	59.9
2000	24,951	66,460	183,505	274,916	66.7
2001	20,124	58,571	168,675	247,370	68.2
2002	24,793	65,122	200,240	290,155	69.0
2003	33,046	74,633	224,549	332,228	67.6
2004	34,727	74,019	231,116	339,862	68.0
2005	39,467	78,349	252,727	370,543	68.2
2006	45,420	85,511	272,944	403,875	67.6
2007	45,257	84,471	270,582	400,310	67.6

Note- Data only includes decisions on initial claims.
Sources: Data for FY 1980-2002 from Division of Disability Information Systems, ODSSIS, DCS, SSA. Data for FY 2003-2007 from Reports Management Information Unit, OM, DCDAR, SSA.

PROGRAM ADMINISTRATION AND ADMINISTRATIVE FUNDING

PROGRAM ADMINISTRATION

The Social Security Administration (SSA) has a broad range of administrative responsibilities. SSA administers the Social Security retirement, survivors, and disability programs and the Supplemental Security Income (SSI) program. The agency determines eligibility for Social Security and SSI benefits, pays those benefits, issues new and replacement Social Security cards, maintains earnings records for covered workers, issues annual Social Security statements, conducts reviews to determine continuing eligibility for Social Security and SSI benefits, and provides direct service to the public at more than 1,300 field offices nationwide and through teleservice centers.

SSA also provides substantial administrative support for the Medicare program. SSA enrolls Medicare beneficiaries and withholds Part B and Part D premiums (for those beneficiaries who elect to pay Part D premiums through benefit withholding). In addition, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 required SSA to administer income-related Medicare Part B premiums and determine eligibility for Medicare Part D premium assistance for low-income beneficiaries. In fiscal year 2008, SSA processed 1.2 million applicants for premium subsidy assistance.

Finally, Congress often relies on SSA to provide data matching services for other federal, state and local agencies as well as private businesses by requiring verification of Social Security numbers (SSNs) for welfare eligibility and employment purposes. SSA plays a supporting role in the Department of Homeland Security's "E-Verify" pilot program, which allows employers to compare SSN and name information provided by employees against SSA's databases. In fiscal year 2008 about 88,000 employers made over 6.6 million queries on the system. Under a proposed mandatory system, as many as 60 million queries would be expected. Data entry errors and database discrepancies between the information entered into the E-Verify program and what is on SSA's database often require U.S. citizens and legal immigrants to contact SSA to resolve tentative non-confirmations.

SSA's ADMINISTRATIVE FUNDING

The costs of administering the Social Security retirement, survivors, and disability programs are financed from the Social Security Trust Funds, subject to annual appropriations. Traditionally these costs are low, less than 1 percent of total expenditures. During calendar year 2007, they amounted to $5.5 billion (Table 1-41).

TABLE 1-41--NET ADMINISTRATIVE EXPENSES AND ADMINISTRATIVE EXPENSES AS A PERCENTAGE OF TOTAL EXPENDITURES, CALENDAR YEARS 1998-2007

[DOLLARS IN BILLIONS]

Year	Net administrative expenses	Administrative expenses as a percentage of total expenditures paid from: OASI	DI	OASI and DI, combined
1998	$3.47	0.6%	3.1%	0.9%
1999	3.33	0.5%	2.9%	0.8%
2000	3.79	0.6%	2.9%	0.9%
2001	3.70	0.5%	2.8%	0.8%
2002	4.19	0.5%	3.0%	0.9%
2003	4.56	0.6%	2.7%	1.0%
2004	4.54	0.6%	2.7%	0.9%
2005	5.27	0.7%	2.6%	1.0%
2006	5.34	0.7%	2.5%	1.0%
2007	5.54	0.6%	2.5%	0.9%

Source: Office of the Chief Actuary, Social Security Administration.

These Social Security Trust Fund-financed administrative funds constituted about 54 percent of the Social Security Administration's calendar year 2007 administrative expenses. The agency received another 16 percent from the Medicare Trust Funds, as well as 29 percent from general revenues for administration of the Supplemental Security Income program. SSA's total calendar year 2007 administrative expenses were $10.2 billion.

Even though most of SSA's administrative funding is provided from the Social Security and Medicare Trust Funds, Congress in recent years has included in its annual budget resolution a provision requiring that the "discretionary administrative expenses of the Social Security Administration" be included in the total discretionary spending amount allocated to the Committee on Appropriations. As a result, the amounts provided in the annual appropriations acts for SSA's administrative expenses are included in determining whether or not the act complies with the levels associated with the budget resolution.[23]

Funding for SSA's administrative expenses is provided in the annual Labor, Health and Human Services, Education, and Related Agencies Appropriations bill. Table 1-42 shows SSA's administrative funding levels from FY 1996 to 2009. The amounts shown are for SSA's Limitation on Administrative Expenses (LAE) account, which funds SSA's general administrative expenses. Additional discretionary funding is provided for research and for SSA's Inspector General.

[23] Social Security's outlays and receipts were removed from the budget in three separate actions by Congress. However, the exemption from the discretionary caps was less clearly stated when the Budget Enforcement Act of 1990 was passed. Prior to discretionary caps, appropriations acts limited expenditures for administration through a "limitation on administrative expenses." When confusion arose over the intended treatment of administrative costs and the discretionary caps, both OMB and CBO eventually agreed that those costs would be subject to the discretionary caps, even though the program was an entitlement with its administration paid from Social Security tax receipts.

Congress can dedicate funds for a specific purpose above the discretionary spending limits. For example, under the Senior Citizens' Right to Work Act of 1996 (Public Law 104-121), Congress provided additional funds for SSA to conduct Continuing Disability Reviews (CDRs) in fiscal years 1996-2002. (SSA is required by law to conduct periodic CDRs to verify that Social Security disability beneficiaries continue to meet the medical eligibility requirements under the program.) More recently, additional funds for CDRs would be allowed under the FY 2009 congressional budget resolution agreed to June 5, 2008 (S.Con.Res. 70, Conference Report: H.Rept. 110-659).

TABLE 1-42--SSA LIMITATION ON ADMINISTRATIVE EXPENSES (LAE) ACCOUNT, FY 1996-FY 2009

[DOLLARS IN MILLIONS]

Fiscal year	Commissioner's request	President's budget	Final appropriation
1996	NA	$6,209	$5,865
1997	$6,239	6,582	6,407
1998	6,654	6,521	6,409
1999	6,640	6,448	6,418
2000	6,908	6,706	6,572
2001	7,356	7,134	7,124
2002	7,982	7,574	7,562
2003	7,974	7,937	7,885
2004	8,895	8,530	8,313
2005	9,310	8,878	8,733
2006	10,106	9,403	9,109
2007	10,230	9,496	9,298
2008	10,420	9,597	9,745
2009	10,395	10,327	na

NA- Not applicable.

na- Not available.

Notes- This table does *not* include SSA administrative funding provided outside the LAE appropriation: the OIG account (about 1 percent of SSA's total administrative expenses), research funding, $500 million in start-up costs for the Medicare Modernization Act in FY 2004, supplemental appropriations for Hurricane Katrina and 9/11, or the Administration's FY 2003 proposal to charge the full cost of accruing retirement benefits and annuitant health benefits to agency accounts (the proposal was not adopted). The appropriation for FY 2008 includes an across-the-board cut of 1.747 percent. SSA became an independent agency in March 1995, therefore, there is no Commissioner's request shown for FY 1996.

Sources: OMB, *Budget of the United States Government: Appendix*, SSA, *Budget Justification,* FY 2002-FY 2009, Appropriations Committee tables.

SSA STAFFING

SSA staffing levels peaked at about 87,000 in FY 1977, shortly after the 1974 implementation of the SSI program. Staffing then began to decline sharply, and by FY 1990 had declined by more than 25 percent, to about 64,000. From FY 1990 through FY 2006, staffing levels remained relatively flat – fluctuating within the range of about 62,000 to 66,000 employees – while workloads and the number of beneficiaries continued to increase. Due to administrative funding shortfalls, by the end of FY 2008, staffing had dropped to about 61,000, the lowest level since before SSA's implementation of the SSI program, even though the number of beneficiaries served by SSA's programs has nearly doubled since that time.

SSA's productivity increased by 15 percent from 2001 to 2008; however, these productivity improvements were not sufficient to offset flat or declining staffing levels combined with increased workloads.

In addition, employee retirements play a major role in the loss of staffing at SSA. By FY 2018, about 50 percent of its total workforce, including 66 percent of supervisors, will be eligible to retire.

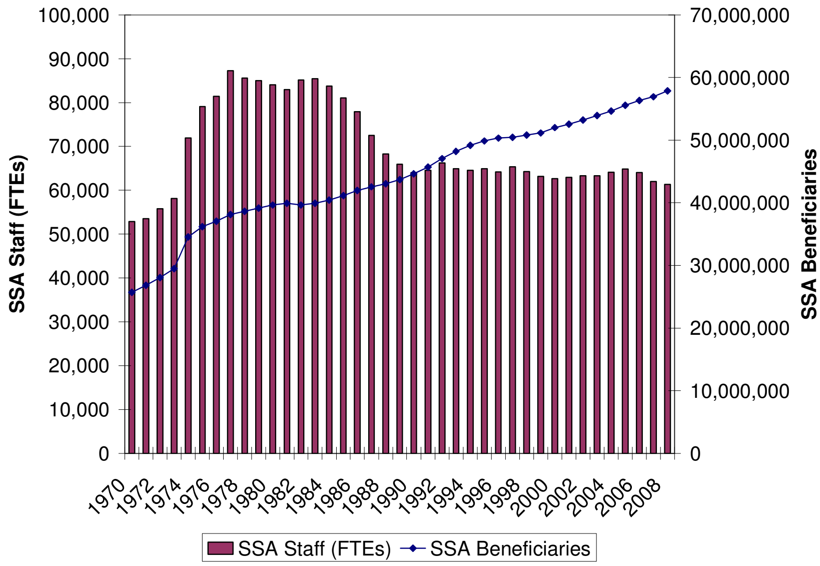
Table 1-43 provides SSA staffing levels from FY 1973 to FY 2008. Chart 1- 8 depicts the changes in SSA staffing levels and SSA's beneficiary population from 1970 to 2008.

TABLE 1-43--SSA FULL-TIME EQUIVALENT STAFF, FY 1973-FY 2008

Fiscal year	Full-time equivalents (FTEs)
FY 1973	58,111
FY 1974	71,917
FY 1975	79,083
FY 1976	81,454
FY 1977	87,277
FY 1978	85,578
FY 1979	85,003
FY 1980	84,049
FY 1981	82,950
FY 1982	85,147
FY 1983	85,428
FY 1984	83,806
FY 1985	81,070
FY 1986	77,954
FY 1987	72,560
FY 1988	68,274
FY 1989	65,933
FY 1990	64,041
FY 1991	64,573
FY 1992	66,222
FY 1993	64,923
FY 1994	64,595
FY 1995	64,891
FY 1996	64,203
FY 1997	65,376
FY 1998	64,220
FY 1999	63,167
FY 2000	62,639
FY 2001	62,933
FY 2002	63,304
FY 2003	63,299
FY 2004	64,123
FY 2005	64,826
FY 2006	64,024
FY 2007	61,981
FY 2008	61,610

Note- Includes SSA and OIG FTEs, as well as lump sum leave workyears for accrued annual leave paid to employee upon retirement.
Source: Social Security Administration, DCBFM, OB.

CHART 1-8--SSA BENEFICIARIES AND FULL-TIME EQUIVALENT STAFF, 1970-2008



Note- Beneficiary figures reflect OASDI and SSI beneficiaries at the end of each calendar year. FTE figures reflect each fiscal year.
Source: Social Security Administration.

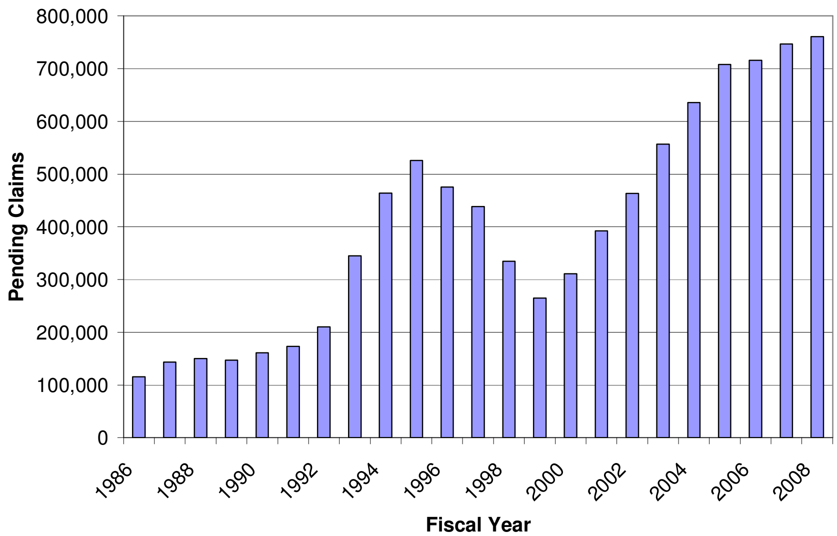
DISABILITY CLAIMS BACKLOG

Due to a combination of rising claims and funding and staffing shortfalls, the number of pending disability claims grew significantly from FY 2000 to FY 2008, particularly at the hearings level. At the end of FY 2008 there were a total of more than 1.3 million claims pending for DI or SSI disability benefits. These included more than 555,000 DI and SSI initial and reconsideration claims pending before State DDS agencies. Average processing times for FY 2008 were 106 days at the initial level and 514 days at the hearing level.

At the hearings level, pending claims increased from about 310,000 in FY 2000 to more than 760,000 at the end of FY 2008. The average processing time for appeals to the hearings level increased from an average of 274 days in FY 2000 to 514 days in FY 2008, almost twice as long.

Charts 1-9 and 1-10 and Tables 1-44 and 1-45 provide historical data on pending appeals and average processing times at the hearings level from FY 1986 to FY 2008.

CHART 1-9--PENDING DISABILITY CLAIMS AT SOCIAL SECURITY HEARING OFFICES, FY 1986-FY 2008



Source: Social Security Administration.

TABLE 1-44--PENDING DISABILITY CLAIMS AT SOCIAL SECURITY HEARING OFFICES, FY 1986-FY 2008

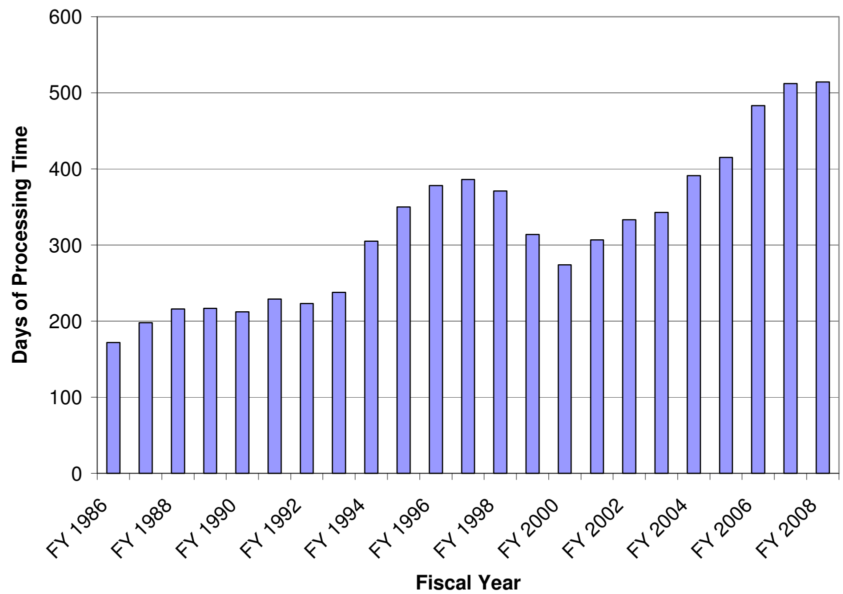
Fiscal year	Number of pending disability claims
FY 1986	115,372
FY 1987	143,567
FY 1988	150,173
FY 1989	147,132
FY 1990	160,879
FY 1991	173,391
FY 1992	210,546
FY 1993	344,882
FY 1994	463,588
FY 1995	525,941
FY 1996	475,330
FY 1997	438,129
FY 1998	334,524
FY 1999	264,978
FY 2000	310,852
FY 2001	392,387
FY 2002	463,052
FY 2003	556,369
FY 2004	635,601

TABLE 1-44--PENDING DISABILITY CLAIMS AT SOCIAL SECURITY HEARING OFFICES, FY 1986-FY 2008 –cont.

Fiscal year	Number of pending disability claims
FY 2005	708,164
FY 2006	715,568
FY 2007	746,744
FY 2008	760,813

Source: Social Security Administration.

CHART 1-10--AVERAGE DISABILITY APPEALS PROCESSING TIME, FY 1986-FY 2008



Source: Social Security Administration.

TABLE 1-45--AVERAGE DISABILITY APPEALS PROCESSING TIME, FY 1986-FY 2008

Fiscal year	Days of processing time
FY 1986	172
FY 1987	198
FY 1988	216
FY 1989	217
FY 1990	212
FY 1991	229
FY 1992	223
FY 1993	238
FY 1994	305
FY 1995	350
FY 1996	378
FY 1997	386
FY 1998	371
FY 1999	314
FY 2000	274
FY 2001	307
FY 2002	333
FY 2003	343
FY 2004	391
FY 2005	415
FY 2006	483
FY 2007	512
FY 2008	514

Source: Social Security Administration.

LEGISLATIVE HISTORY

For a description of legislative changes made in the 95th through 102nd Congresses, please refer to the 1996 *Green Book*. For changes made in the 103rd Congress, please refer to the 1998 *Green Book*.

104th CONGRESS

Senior Citizens' Right To Work Act of 1996 (incorporated into Public Law 104-121, the Contract With America Advancement Act of 1996).

Authorizing additional Continuing Disability Review (CDR) funds--The legislation authorized additional administrative funding to enable the Social Security Administration to increase CDRs. Amounts spent for CDRs above the already assumed base funding levels were not subject to the discretionary spending caps through fiscal year 2002. SSA was required to report annually on CDR expenditures and savings to the Social Security, Supplemental Security Income, Medicaid and Medicare programs.

Raising the threshold for the Social Security retirement earnings test--The act gradually raised the retirement earnings test for persons between FRA and age 70 to $30,000 by the year 2002, phased in over 7 years as follows:

Year	Prior law	Law as altered by Public Law 104-121
1996	$11,520	$12,500
1997	$11,880	$13,500
1998	$12,240	$14,500
1999	$12,720	$15,500
2000	$13,200	$17,000
2001	$13,800	$25,000
2002	$14,400	$30,000

Senior citizens between FRA (age 65-67, depending on year of birth) and age 70 who earned over the annual exempt amounts would continue to lose $1 in benefits for every $3 of earnings over the specified threshold. After 2002, the annual exempt amounts were indexed to the growth in average wages. The substantial gainful activity (SGA) amount applicable to individuals under FRA who are eligible for disability benefits on the basis of blindness was no longer linked to the retirement earnings test for persons between FRA and age 70. As under prior law, this SGA amount continued to be wage-indexed and, at the time, was projected to increase to $14,400 by 2002.

Making stepchildren entitled to child's benefits based on actual dependency on stepparent support--Benefits were made payable to a stepchild only if it is established that the stepchild is dependent on the stepparent for at least one-half of his or her financial support. In addition, benefits to the stepchild were to be terminated if the stepchild's natural parent and stepparent divorce. The dependency requirement was made effective for stepchildren who become entitled or re-entitled to benefits beginning in July 1996. In cases of a subsequent divorce, benefits to stepchildren were to be terminated 1 month after the divorce becomes final. Stepparents were required to notify SSA of the divorce. In addition, SSA was required to notify annually persons potentially affected by this provision.

Removing drug addiction and alcoholism as disabling impairments--An individual no longer is considered disabled for purposes of entitlement to cash Social Security and Supplemental Security Income disability benefits if drug addiction or alcoholism is the contributing factor material to his or her disability. Individuals with drug addiction or alcoholism who have another severe disabling impairment (such as AIDS, cancer, cirrhosis) can qualify for benefits based on that disabling impairment.

If a person who qualifies for benefits based on another disability also is determined to be an alcoholic or drug addict incapable of managing his or her benefits, a representative payee will be appointed to receive and manage the individual's benefits. Recipients who are unable to manage their own benefits as a result of alcoholism or drug addiction will be referred to the appropriate State agency for substance abuse treatment services. In each of fiscal years

1997 and 1998, $50 million was authorized to fund additional drug (including alcohol) treatment programs and services. Individuals entitled to benefits before March 1996 remained eligible for benefits until January 1, 1997.

Studying the efficacy of providing benefit and contribution statements to recipients--The Commissioner of Social Security was required to conduct a 2-year pilot study (beginning in 1996) of the efficacy of providing individual benefit and contribution information to recipients of Old-Age and Survivors Insurance (OASI) benefits.

Protecting the Social Security and Medicare Trust Funds--The legislation codified Congress' understanding of present law that the Secretary of the Treasury and other Federal officials are not authorized to use Social Security and Medicare funds for debt management purposes.

Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193).

The legislation prohibited the payment of Social Security benefits to any noncitizen in the United States who is not lawfully present in the United States. Subsequent legislation enacted in the following month, the Illegal Immigration Reform and Immigrant Responsibility Act of 1996 (P.L. 104-208), added the prohibition of payments to noncitizens not lawfully present in the United States to the Social Security Act in section 202(y), and clarified that the Attorney General of the United States has the responsibility to determine whether a person is not lawfully present.

Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Public Law 104-134).

Providing for mandatory electronic funds transfers--Required Federal payments, including Social Security and Supplemental Security Income benefits payable beginning after July 1996 to persons with bank accounts, to be made by electronic funds transfer (EFT). Required all recurring Federal payments made after January 1, 1999 to be made by EFT and allowed the Secretary of the Treasury to waive the requirement under certain circumstances.

Enhancing debt collection--Provided SSA with permanent debt collection authorities, including administrative offset of other Federal benefit payments, offset of Federal salaries, reporting of delinquent debt to credit bureaus, use of private collection agencies, and assessment of late charges.

105th CONGRESS

Revenue Reconciliation Act of 1997 (incorporated into Public Law 105-34).

Expanding SSA records for tax collection--The legislation provided that, for a Social Security Number (SSN) application for a person under age 18, SSA must collect the SSNs of each parent, in addition to the currently required evidence of age, identity, and citizenship, and share this information with the Internal Revenue Service for administration of tax benefits based on support or residency of a child.

Excluding termination payments made to insurance salesmen--Payments made to a self-employed insurance salesman after his or her agreement to work for the insurance company has terminated were excluded from Social Security coverage if: he or she performed no additional work for the company in that taxable year; he or she entered into a covenant not to compete with the company; and the amount of the payment was based entirely on the policies the salesman sold during the last year of the agreement which remain in force and not on his or her length of service or overall earnings from the company.

106th CONGRESS

Foster Care Independence Act of 1999 (Public Law 106-169).

Enforcing benefit restrictions for prisoners--The Commissioner was required to share (on a reimbursable basis) information obtained under agreements with institutions reporting prisoners with other Federal or Federally-assisted cash, food, or medical assistance programs to ensure that other Federal, State or local benefits do not inappropriately flow to prisoners.

Creating new administrative sanctions to deter abuse--A new penalty was added to previous penalties for nonpayment of OASDI and SSI benefits for individuals found to have lied or misrepresented facts in applying for benefits. The penalty is a period of nonpayment of 6 months for the first violation, 12 months for the second violation, and 24 months for the third violation. A prior provision banning benefits for 10 years for individuals who misrepresent their place of residence to claim benefits in two or more States was repealed.

Protecting Social Security funds--Representative payees were made liable for an OASDI or SSI overpayment caused by a payment made to a beneficiary who has died. SSA was required to establish an overpayment control record under the representative payee’s SSN. The legislation also barred from the OASDI and SSI programs representatives and health care providers found to have helped commit fraud. The bar from participation would last 5 years, 10 years, and permanently for the first, second and third such finding, respectively.

Adding resources and legislative tools to combat fraud--The Commissioner was required to consult with the Inspector General of SSA and the Attorney General regarding additional measures to combat fraud in Social

Security's disability programs, as well as methods for improving the processing of reported changes to beneficiaries' income. In addition, SSA was required to itemize funds needed to combat fraud in its annual budget. The legislation also provided for readier data exchanges with State and Federal agencies to ensure proper benefit payment.

Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170).

Creating new avenues to work and self-sufficiency--The Social Security Administration phased in a new "Ticket to Work" program nationally over a 3-year period, with full implementation in all States in 2004. Since 2002, SSA has provided eligible Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) disability beneficiaries with a "ticket" they may use to receive employment, vocational rehabilitation (VR) and other support services needed to obtain, regain, or maintain employment and reduce their dependence on cash benefits programs. Services were tailored to individual needs and choices, with providers paid for results when beneficiaries return to the work force or achieve certain milestones. To protect individuals who attempt to work but must return to benefits, certain rules were eased for requalifying for benefits for those in need due to failing health.

Expanding availability of health care services for the disabled--For SSDI beneficiaries who go to work, the legislation extended Medicare coverage for an additional period of 4.5 years beyond current law (for a total of 8.5 years). The legislation also expanded State options to provide Medicaid to workers with disabilities, provide grants to States to support workers with disabilities, create State demonstration programs to provide medical aid to workers with potentially severe disabilities, and hold down insurance costs for certain disabled workers.

Funding new studies and demonstration projects--SSDI demonstration project authority was renewed for 5 years; SSA was required to conduct a project to study the incentives created by gradually reducing SSDI benefits $1 for every $2 in earnings over a set level. Several GAO and SSA reports were required to be conducted on current work incentives for individuals with disabilities and on ways to improve such incentives.

Ensuring changes are paid for--The legislation made a number of technical changes to Social Security to ensure that any new benefits are fully paid for, including: awarding certain prisons reporting inmate lists up to $400 per inmate found to be collecting Social Security benefits (preventing fraud and benefit overpayments); restricting Social Security benefits for certain sex offenders and prisoners jailed for under 1 year; allowing clergy members a 2-year "open season" to opt into Social Security; assessing a charge to cover administrative costs created by attorneys who have SSA process their fees; and clarifying rules related to the removal of drug addiction and alcoholism as disabling impairments under the SSDI and SSI programs.

Senior Citizens Freedom To Work Act (Public Law 106-182).

Eliminated the retirement earnings test as of the month a recipient reaches full retirement age, effective in 2000. In the year a recipient reaches full retirement age, the 1-for-3 reduction rate and the exempt amounts established by Public Law 104-121 would continue to apply.

107th CONGRESS

Department of Defense Appropriations Act for FY 2002 (Public Law 107-117).

Eliminated "deemed" extra wages credited to military service personnel beginning in calendar year 2002.

108th CONGRESS

Social Security Protection Act of 2004 (Public Law 108-203).

The legislation included various provisions designed to reduce fraud and abuse in programs administered by the Social Security Administration. Several major provisions that affect the OASDI program are described below.

Imposing stricter standards on individuals and organizations that serve as representative payees for Social Security and SSI recipients. – The legislation required the Commissioner of Social Security to expand the reissuance of benefits to cases in which an individual representative payee who represents 15 or more recipients, or an organizational representative payee, has misused the benefits received on behalf of the beneficiaries they represent.

In addition, nongovernmental representative payees (i.e., those other than Federal, State, and local government agencies) were made liable for the reimbursement of misused funds. SSA was given authority to impose a civil monetary penalty (up to $5,000 for each violation) and an assessment (up to twice the amount of misused benefits) on representative payees who misuse benefits. The legislation included a number of additional provisions aimed at strengthening the accountability of representative payees.

Extending temporarily the fee withholding process to non-attorney representatives of disability claimants--Social Security disability claimants may choose to have an attorney or other qualified individual represent them in proceedings before SSA, and the claimant representative may charge a fee for his or her services. The fee, which is subject to limits, must be authorized by SSA. If a disability claimant is awarded past-due benefits and his or her representative is an *attorney*, SSA withholds the attorney's fee payment from the benefit award and sends the payment directly to the attorney. To cover administrative costs associated with the fee withholding process for attorney representatives of disability claimants, SSA withholds an assessment of up to 6.3 percent from the attorney's fee.

Before Public Law 108-203, if the claimant representative was not an attorney, SSA would send the full benefit award to the claimant and the claimant representative would be responsible for collecting his or her fee from the individual. The legislation capped the assessment for processing attorney fee payments at the lesser of 6.3 percent of the attorney's fee and $75 (indexed to inflation); authorized a 5-year demonstration project to extend the fee withholding process to non-attorney representatives in disability claims; and required the General Accounting Office (now the Government Accountability Office) to study the fee payment process for claimant representatives.

Prohibiting payment of OASDI benefits to fugitive felons--Before Public Law 108-203, SSA was prohibited from paying *SSI* benefits to fugitive felons (i.e., persons fleeing prosecution, custody, or confinement after conviction, and persons violating probation or parole). In addition, upon written request, SSA was required to provide information about these individuals (current address, Social Security Number, and photograph) to law enforcement officials. The legislation prohibited SSA from paying *Social Security* benefits as well to fugitive felons and required SSA, upon written request, to provide information to law enforcement officials to assist in the apprehension of these individuals. The legislation authorized the Commissioner of Social Security to pay, with good cause, SSI and Social Security benefits previously denied because of an individual's status as a fugitive felon.

Closing the loophole on the "last day" rule to avoid the Government Pension Offset and other provisions affecting workers with non-covered employment--If an individual receives a government pension from work that was not covered by Social Security, his or her Social Security spousal or widow(er) benefit is reduced by an amount equal to two-thirds of the non-covered government pension, under a provision known as the Government Pension Offset (GPO). Before Public Law 108-203, a State or local government employee who was not covered by Social Security would be exempt from the GPO if he or she worked in a Social Security-covered government position on his or her last day of employment. That is, under the "last day rule," a non-covered State or local government employee could avoid having his or her Social Security spousal or widow(er) benefit reduced under the GPO by switching to a Social Security-covered government position for one day (or longer). The legislation required State or local government employees to be covered by Social Security for at least the last 60 calendar months of employment to be exempt from the GPO. In addition, the legislation required disclosure to workers of the effects of the GPO and the Windfall Elimination Provision (WEP); added information relating to the GPO and the WEP to the Social Security Statement; and provided for a new one-page Statement From Social Security sent to individuals with only non-covered earnings posted to their record.

Establishing a work authorization requirement for certain noncitizens--Before Public Law 108-203, a noncitizen was not required to have authorization to work in the United States at any point to qualify for Social Security benefits. Under the legislation, a noncitizen who is assigned a Social Security Number (SSN) in *2004 or later* is required to have work authorization at the time the SSN is assigned, or at some later time, to gain insured status under the Social Security program. Specifically, if the individual obtains work authorization at some point, *all* of his or her Social Security-covered earnings count toward qualifying for benefits (including any earnings based on unauthorized work). If the individual never obtains authorization to work in the United States, *none* of his or her Social Security-covered earnings count toward qualifying for benefits. A noncitizen who was assigned an SSN *before 2004* is not subject to the work authorization requirement established under the legislation (i.e., all of the individual's Social Security-covered earnings count toward qualifying for benefits, regardless of his or her work authorization status).

Other provisions--The legislation (1) required the Commissioner of Social Security to issue a receipt to acknowledge submission of reports of changes in work or earnings status of disabled beneficiaries; (2) authorized Federal courts to order a defendant convicted of defrauding Social Security, Special Veterans' Benefits or SSI to make restitution to SSA; (3) allowed SSA to more fully recover overpayments paid under one program from the benefits paid under another program; (4) clarified definitions for widow(er) benefits when the length of marriage requirement was affected by a prior spouse who was institutionalized due to mental incapacity; (5) provided clear legal authority to exempt a worker's earnings from U.S. Social Security tax in cases where his or her earnings are subject to the laws of a totalization agreement partner; and, (6) for purposes of determining Social Security and Medicare coverage, extended the authority to establish a divided retirement system to Kentucky and Louisiana.

109th CONGRESS

No programmatic changes were adopted in the 109th Congress.

110th CONGRESS

No programmatic changes were adopted in the 110th Congress, First Session.

SUPPLEMENTAL STATISTICAL TABLES

TABLE 1-46--CIVILIAN WORKERS COVERED BY SOCIAL SECURITY SYSTEM, SELECTED YEARS 1939-2007

[NUMBERS IN MILLIONS]

Year	Paid civilian workers [1]	OASDI coverage		OASDI and HI-only coverage	
		Number	Percent	Number	Percent
1939[2]	43.6	24.0	55.1	24.0	55.1
1944[2]	51.2	30.8	60.2	30.8	60.2
1949[2]	56.7	34.3	60.5	34.3	60.5
1955	62.8	51.8	82.5	51.8	82.5
1960	64.6	55.7	86.2	55.7	86.2
1965	71.6	62.7	87.6	62.7	87.6
1970	77.8	69.9	89.9	69.9	89.9
1975	86.0	77.9	90.6	77.9	90.6
1980	99.4	89.3	90.3	89.3	90.3
1985	107.7	100.0	92.9	102.4	95.1
1990	117.8	111.7	94.8	114.2	97.0
1991	117.1	110.3	94.2	112.8	96.3
1992	118.7	111.9	94.3	114.4	96.4
1993	121.3	114.6	94.5	117.1	96.5
1994	124.6	117.9	94.6	120.4	96.6
1995	125.0	118.1	94.5	120.7	96.5
1996	127.7	120.7	94.5	123.3	96.5
1997	130.6	123.4	94.5	126.0	96.5
1998	132.6	125.1	94.4	127.8	96.4
1999	134.6	127.0	94.4	129.8	96.4
2000	137.7	130.0	94.4	132.8	96.4
2001	136.1	128.2	94.1	131.1	96.3
2002	136.5	128.2	93.9	131.3	96.2
2003	138.4	129.9	93.9	133.1	96.1
2004	140.2	131.5	93.8	134.6	96.0
2005	142.8	133.8	93.7	137.1	96.0
2006	146.0	136.7	93.6	140.0	95.9
2007	146.2	136.8	93.6	140.1	95.8

[1]Includes paid wage and salary and self-employed workers for all years.

[2]Monthly average for these years, all other years as of December.

Note- The number of workers reported in Table 1-2 is greater than that reported above because Table 1-2 includes the military and those who worked "at any time" during the calendar year.

Source: Office of the Chief Actuary, Social Security Administration.

TABLE 1-47--OASDI BENEFITS PAID, SELECTED YEARS 1940-2006[1]

[IN MILLIONS OF DOLLARS]

Calendar year	OASDI	OASI	DI
1940	$35	$35	NA
1950	961	961	NA
1960	11,245	10,677	$568
1970	31,863	28,796	3,067
1980	120,511	105,074	15,437
1985	186,196	167,360	18,836
1990	247,796	222,993	24,803
1995	332,580	291,682	40,898
1999	385,768	334,437	51,331
2000	407,644	352,706	54,938
2001	431,947	372,370	59,577
2002	453,815	388,170	65,645
2003	470,798	399,892	70,906
2004	493,284	415.082	78,202
2005	520,767	435,373	85,394
2006	552,841	460,457	92,384

[1] Unegotiated checks not deducted.

NA- Not applicable.

Source: Office of Research, Evaluation, and Statistics, Social Security Administration.

TABLE 1-48--MONTHLY BENEFITS AMOUNTS CREDITED FOR SELECTED BENEFICIARY FAMILIES WITH FIRST ELIGIBILITY IN 2008, FOR SELECTED WAGE LEVELS, DECEMBER 2008

Beneficiary family	Workers with: Low scaled earnings [1]	Medium scaled earnings [2]	Maximum taxable earnings [3]
Retired-worker families: [4]			
Average indexed monthly earnings	$1,450.00	$3,224.00	$7,260.00
Primary insurance amount	899.90	1,482.90	2,290.50
Maximum family benefit	1,349.80	2,707.60	4,008.30
Monthly benefit credited:			
Retired worker claiming benefits at age 62			
Worker alone	674.00	1,112.00	1,717.00
With spouse claiming benefits at full retirement age	1,123.00	1,853.00	2,862.00
With spouse claiming benefits at age 62	988.00	1,630.00	2,518.00
Survivor families: [5]			
Average indexed monthly earnings	1,359.00	3,022.00	7,987.00
Primary insurance amount	870.00	1,416.60	2,402.40
Maximum family benefit	1,305.10	2,618.70	4,204.30
Monthly benefit credited:			
Survivors of worker deceased at age 40			
One surviving child	652.00	1,062.00	1,801.00
Widowed mother or father and one child	1,304.00	2,124.00	3,602.00
Widowed mother or father and two children	1,305.00	2,616.00	4,203.00

TABLE 1-48--MONTHLY BENEFITS AMOUNTS CREDITED FOR SELECTED BENEFICIARY FAMILIES WITH FIRST ELIGIBILITY IN 2008, FOR SELECTED WAGE LEVELS, DECEMBER 2008 –cont.

Beneficiary family	Workers with: Low scaled earnings [1]	Medium scaled earnings [2]	Maximum taxable earnings [3]
Disabled worker families: [6]			
Average indexed monthly earnings	$1,458.00	$3,241.00	$7,849.00
Primary insurance amount	902.60	1,488.60	2,381.20
Maximum family benefit	1,272.70	2,232.90	3,571.80
Monthly benefit credited:			
Disabled worker age 50:			
Worker alone	902.00	1,488.00	2,381.00
Worker, spouse, and one child	1,272.00	2,232.00	3,570.00

[1] Worker assumed to begin work at age 21 with low scaled earnings.
[2] Worker assumed to begin work at age 21 with medium scaled earnings.
[3] Worker assumed to begin work at age 22 with maximum taxable earnings.
[4] Worker assumed to retire at age 62 in 2008 with maximum reduction and no prior disability.
[5] Assumes worker died in 2008 at age 40 with no earnings that year and no prior period of disability.
[6] Assumes worker became disabled in 2008 at age 50 and had no prior period of disability.
Source: Social Security Administration.

TABLE 1-49--SOCIAL SECURITY REPLACEMENT RATES FOR HYPOTHETICAL WORKERS RETIRING AT FULL RETIREMENT AGE (FRA), SELECTED YEARS 1940-2080

[IN PERCENT]

Year attains FRA	Age at retirement (FRA)[2]	Replacement rates[1]: Low earnings[3]	Medium earnings[4]	High earnings[5]	Maximum earnings[6]
1940	65	28.9	23.5	17.4	16.4
1950	65	31.9	18.7	14.2	9.7
1960	65	46.3	28.6	24.5	16.1
1970	65	46.6	32.1	28.1	20.3
1980	65	66.0	48.9	47.9	40.6
1990	65	58.4	43.5	39.8	35.7
2000	65	52.2	38.8	33.2	28.6
2001	65	52.6	39.0	33.2	28.5
2002	65	55.0	40.8	34.5	29.5
2003	65 and 2 months	56.6	42.0	35.3	30.0
2004	65 and 4 months	57.2	42.5	35.6	30.0
2005	65 and 6 months	58.3	43.2	36.1	30.2
2006	65 and 8 months	58.4	43.3	36.2	30.0
2007	65 and 10 months	56.7	42.0	35.0	28.8
2009[7]	66	55.1	40.8	33.9	27.9
2010	66	54.6	40.5	33.6	27.6
2020	66	56.0	41.5	34.4	27.6
2030	67	55.4	41.1	34.1	27.3
2040	67	55.3	41.0	34.0	27.2
2050[8]	67	55.3	41.0	34.0	27.3
2060[8]	67	55.4	41.1	34.0	27.3
2070[8]	67	55.4	41.0	34.0	27.3
2080[8]	67	55.4	41.0	34.0	27.3

TABLE 1-49--SOCIAL SECURITY REPLACEMENT RATES FOR HYPOTHETICAL WORKERS RETIRING AT FULL RETIREMENT AGE (FRA), SELECTED YEARS 1940-2080 –cont.

[1] Total monthly benefits payable for year of entitlement at FRA expressed as percent of career average earnings for workers with scaled career earnings.
[2] FRA will rise from 65 starting with workers attaining age 62 in 2000 and ultimately will reach 67 for workers attaining age 62 in 2022 and later.
[3] Worker with scaled earnings that average over his or her career to about 45 percent of the Social Security average wage index.
[4] Worker with scaled earnings that average over his or her career to about 100 percent of the Social Security average wage index.
[5] Worker with scaled earnings that average over his or her career to about 160 percent of the Social Security average wage index.
[6] Worker with earnings each year equal to the Social Security maximum taxable earnings.
[7] Table assumes that workers are born on January 2. No worker born on January 2 attains FRA in 2008. A worker born on January 2, 1942 attains FRA of 65 and 10 months in November 2007. A worker born on January 2, 1943 attains FRA of 66 in January 2009.
[8] Based on benefits scheduled in present law.
Note- Projections are based on the intermediate assumption projection of the 2008 Trustees' Report.
Source: Office of the Chief Actuary, Social Security Administration.

TABLE 1-50--ANNUAL EXEMPT AMOUNTS UNDER THE RETIREMENT EARNINGS TEST, SELECTED CALENDAR YEARS 1975-2017

Year	Under FRA	At FRA
Historical		
1975	$2,520	$2,520
1980	3,720	5,000
1985	5,400	7,320
1990	6,840	9,360
1995	8,160	11,280
1996	8,280	12,500
1997	8,640	13,500
1998	9,120	14,500
1999	9,600	15,500
2000	10,080	17,000
2001	10,680	25,000
2002	11,280	30,000
2003	11,520	30,720
2004	11,640	31,080
2005	12,000	31,800
2006	12,480	33,240
2007	12,960	34,440
2008	13,560	36,120
Projected[1]		
2009	14,160	37,560
2010	14,760	39,120
2011	15,360	40,800
2012	15,960	42,360
2013	16,560	44,040

TABLE 1-50--ANNUAL EXEMPT AMOUNTS UNDER THE RETIREMENT EARNINGS TEST, SELECTED CALENDAR YEARS 1975-2017 -cont.

Year	Under FRA	At FRA
2014	17,160	45,840
2015	17,880	47,640
2016	18,600	49,440
2017	19,320	51,360

[1] Based on intermediate assumptions in the 2008 Annual Report of the Board of Trustees of the Federal Old-Age, Survivors, and Disability Insurance Trust Funds.
Note- In 1955-1982, the retirement earnings test did not apply at ages 72 and over; in 1983-1999, the test did not apply at ages 70 and over; beginning in 2000, it does not apply beginning with the month of attainment of FRA. In the year of attainment of FRA, the higher exempt amount applies to earnings in the year prior to the month of FRA attainment. Amounts for 1978-1982 specified by Public Law 95-216; for 1996-2002, Public Law 104-121.
Source: Office of the Chief Actuary, Social Security Administration.

TABLE 1-51--ESTIMATED COST OF OASDI AND HI PROGRAMS AS A PERCENT OF GROSS DOMESTIC PRODUCT (GDP), SELECTED CALENDAR YEARS 2008-2085

Calendar year	OASDI	HI	OASDI and HI
Annual cost rates			
2008	4.32	1.56	5.87
2009	4.35	1.59	5.94
2010	4.39	1.61	6.00
2011	4.44	1.63	6.07
2012	4.52	1.66	6.18
2013	4.61	1.69	6.30
2014	4.70	1.73	6.43
2015	4.80	1.77	6.57
2016	4.90	1.80	6.71
2017	5.01	1.85	6.85
2020	5.30	2.00	7.30
2025	5.71	2.31	8.02
2030	6.00	2.67	8.66
2035	6.09	3.02	9.10
2040	6.02	3.30	9.32
2045	5.89	3.52	9.42
2050	5.81	3.69	9.50
2055	5.77	3.85	9.63
2060	5.77	4.03	9.80
2065	5.76	4.22	9.99
2070	5.77	4.41	10.18
2075	5.79	4.58	10.37
2080	5.81	4.73	10.54
2085	5.84	4.62	10.47

TABLE 1-51--ESTIMATED COST OF OASDI AND HI PROGRAMS AS A PERCENT OF GROSS DOMESTIC PRODUCT (GDP), SELECTED CALENDAR YEARS 2008-2085 –cont.

Calendar year	OASDI	HI	OASDI and HI
Summarized cost rates			
2008-2032	5.43	2.15	7.58
2008-2057	5.61	2.73	8.34
2008-2082	5.63	3.13	8.76

Note-Summarized rates are calculated on the present value basis including the value of the trust funds in the first year and the cost of reaching and maintaining a target trust fund level of 1 year's expenditures by the last year.
Source: Board of Trustees (2008; intermediate assumptions).

TABLE 1-52--POPULATION, WORK FORCE, AND OASDI BENEFICIARY DATA AND DEPENDENCY RATIOS, SELECTED YEARS 1960-2040

Work force measure	1960	1980	2000	2020	2040
Total population (in millions)	190	235	288	345	392
Covered workers (in millions)	72	113	155	178	194
OASDI beneficiaries (in millions)	14	35	45	69	91
Worker/beneficiary ratio	5.1	3.2	3.4	2.6	2.1
Aged dependency ratio[1]	0.173	0.195	0.209	0.269	0.358
Total dependency ratio[2]	0.905	0.754	0.695	0.719	0.815

[1] Ratio of the number of persons age 65 and older to the number of persons ages 20-64.
[2] Ratio of the number of persons age 65 and older plus the number of persons under age 20, to the number of persons ages 20-64.
Source: Board of Trustees (2008; intermediate assumptions).

TABLE 1-53--LIFE EXPECTANCY AT AGE 65, SELECTED YEARS 1940-2080

Year	Life expectancy (in years)	
	Male	Female
1940	12.7	14.7
1960	13.2	17.4
1980	14.7	18.7
2000	16.9	19.5
2010	17.7	20.0
2020	18.3	20.6
2030	18.9	21.2
2040	19.5	21.7
2050	20.0	22.2
2060	20.6	22.7
2070	21.0	23.2
2080	21.5	23.6

Note- The life expectancy at a given age for a given year represents the average number of years of life remaining if a group of persons at that age were to experience the mortality rates for the years in which they reach each succeeding age.
Source: Board of Trustees (2008; intermediate assumptions).

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