BOARD OF TRUSTEES OF THE FEDERAL
OLD-AGE AND SURVIVORS INSURANCE AND
FEDERAL DISABILITY INSURANCE TRUST FUNDS
WASHINGTON, D.C., JULY 13, 2017

HON. MICHAEL R. PENCE,
President of the Senate.

DEAR MR. PRESIDENT:

In accordance with the requirements of section 709 of the Social Security Act, "Recommendations by Board of Trustees to Remedy Inadequate Balances in the Social Security Trust Funds," we are writing to notify you that we project that the asset reserves held in the Federal Disability Insurance (DI) Trust Fund will become inadequate under the meaning of this section within the next 10 years. As shown in the 2017 OASDI Trustees Report, which we are issuing today and a copy of which is attached, the projected reserves expressed as a percentage of annual program cost (the balance ratio[1]) of the DI Trust Fund fall below 20 percent for calendar year 2026 based on our intermediate set of economic, demographic, and programmatic assumptions. Moreover, we project that the reserves of the DI Trust Fund will be depleted soon afterwards, during 2028, and only about 93 percent of benefits scheduled in current law will be payable at that time if no legislative action is taken.

Background—Section 709 of the Social Security Act specifies:

> *If the Board of Trustees . . . determines at any time that the balance ratio of any such Trust Fund for any calendar year may become less than 20 percent, the Board shall promptly submit to each House of the Congress a report setting forth its recommendations for statutory adjustments affecting the receipts and disbursements of such Trust Fund necessary to maintain the balance ratio of such Trust Fund at not less than 20 percent, with due regard to the economic conditions which created such inadequacy in the balance ratio and the amount of time necessary to alleviate such inadequacy in a prudent manner. The report shall set forth specifically the extent to which benefits would have to be reduced, taxes . . . would have to be increased, or a combination thereof, in order to obtain the objectives referred to in the preceding sentence.*

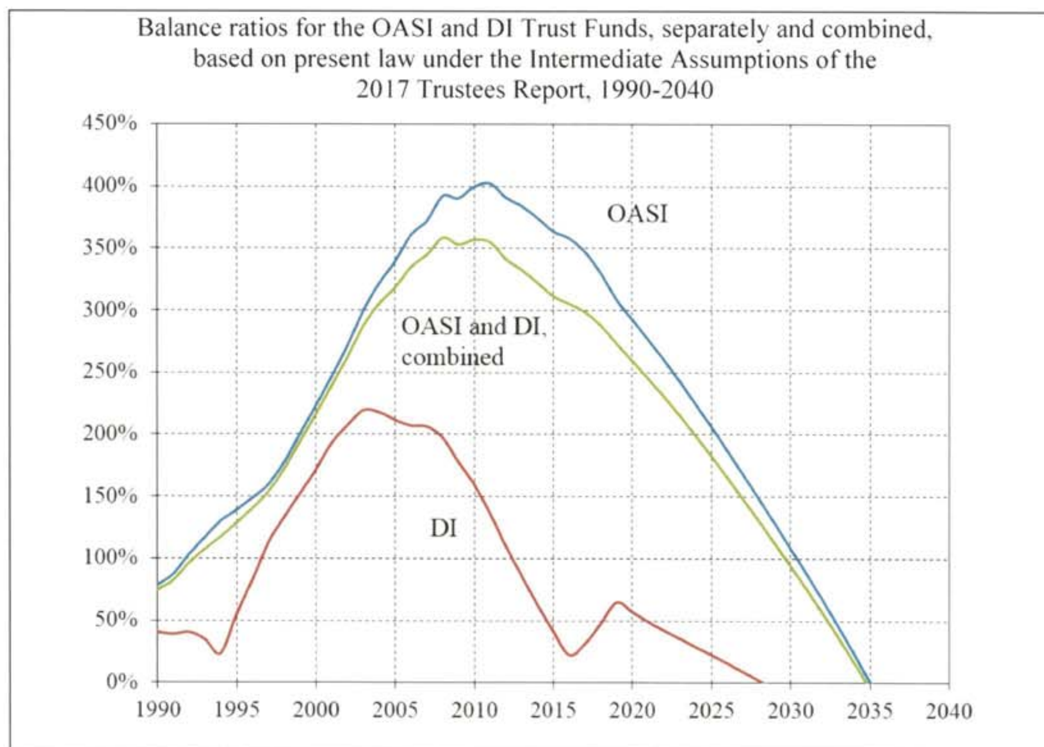
The Board believes that issuing a report under this section whenever the balance ratio of a trust fund is expected to fall below 20 percent within the next ten years provides reasonable advance notice and time for prudent action to alleviate inadequacy in the balance ratio. The annual reports that the Board submits to the Congress under section

[1] This ratio is also called a *trust fund ratio* in the 2017 OASDI Trustees Report.

201(c) of the Social Security Act (commonly referred to as the Trustees Reports) provide a more extensive evaluation of the actuarial status of the trust funds through the next 75 years.

The Disability Insurance Trust Fund—Estimates in the 2017 Trustees Report show that although the Old-Age and Survivors Insurance (OASI) Trust Fund and the hypothetical combined OASI and DI Trust Funds are adequately financed in the meaning of this section (709) through the next 10 years under intermediate assumptions, the DI fund alone is not.

Under the intermediate assumptions of the 2017 Trustees Report (those representing the Trustees' best estimate of future economic and demographic trends), the DI Trust Fund reserves rise until 2019 and then decline, falling below 20 percent of annual cost by the beginning of calendar year 2026 and becoming depleted in 2028. The figure below shows the estimated balance ratios for the combined OASI and DI Trust Funds and for each fund separately up to the date of trust fund reserve depletion.



Maintaining a Balance Ratio of at Least 20 Percent—The following table shows annual amounts of change necessary for each year within the next 10 years where a change would be required to keep the DI balance ratio from dropping below 20 percent. For each such year through 2026, the table shows the amounts of: (1) additional payroll tax revenue alone, (2) net cost reductions alone, and (3) a combination of equal amounts of payroll tax

revenue increases and net cost reductions needed to meet this goal. Maintaining a balance ratio of at least 20 percent for the DI Trust Fund after 2026 would require changes in revenue and/or net cost in subsequent years that are similar when expressed as a percentage of total program costs.

The additional payroll tax revenue amounts required to meet the 20-percent minimum DI balance ratio differ somewhat from the required net reductions in cost. Payroll tax revenue changes affect trust fund reserves (the numerator of the balance ratio) but have little if any immediate effect on cost (the denominator); benefit changes needed to reduce net program cost affect both reserves and cost directly and simultaneously. Under the combined approach, roughly one-half of the amounts shown would be raised through additional payroll tax revenue and one-half would be implemented through net cost reductions.

Amounts required to prevent DI balance ratio from declining below 20 percent under the Intermediate Assumptions of the 2017 Trustees Report
(In billions)

Calendar year	Additional payroll tax revenue only	Net cost reductions[a] only	Total amounts of additional payroll tax revenue and net cost reductions[a] under a combined approach
2025	$9.3	$6.2	$7.8
2026	15.1	15.1	15.1
Total, 2025-2026	24.4	21.4	22.9

[a]Amounts shown for net cost reductions through changes in benefits are net of partially offsetting reductions in income from income taxes on Social Security benefits.
Note: Totals do not necessarily equal the sums of rounded components.

Recommendation—Based on the intermediate projections in the 2017 Trustees Report, the DI Trust Fund reserves will fall below 20 percent of annual cost by the beginning of calendar year 2026, and will become depleted in 2028 in the absence of legislation to address this imbalance between scheduled benefits and revenue. We note that results presented a year ago based on the intermediate projections in the 2016 Trustees Report indicated that the DI Trust Fund reserves would be depleted in the third quarter of 2023. Revisions reflecting recent experience have extended the DI Trust Fund reserve depletion date by five years, to 2028, in this year's report.

While the estimated reserve depletion of the DI Trust Fund has been delayed to 2028, lawmakers still need to take action to strengthen the actuarial status of the DI Trust Fund before 2028. Lawmakers could choose to increase revenues to the DI Trust Fund, to reduce cost through modification of the DI program benefit levels or eligibility requirements, or to use a combination of methods to strengthen the financial condition of the DI Trust Fund. Such actions could apply only to the DI program benefits and revenue, or might have effects also on the OASI program.

The Board recommends that lawmakers enact appropriate legislation as soon as possible to make necessary adjustments for the DI program.

Respectfully,

STEVEN T. MNUCHIN,
Secretary of the Treasury,
and Managing Trustee
of the Trust Funds.

R. ALEXANDER ACOSTA,
Secretary of Labor,
and Trustee.

THOMAS E. PRICE, M.D.,
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