BOARD OF TRUSTEES OF THE FEDERAL
OLD-AGE AND SURVIVORS INSURANCE AND
FEDERAL DISABILITY INSURANCE TRUST FUNDS
WASHINGTON, D.C., AUGUST 5, 2010

The Honorable Nancy Pelosi
Speaker of the House of Representatives
Washington, D.C. 20510

Dear Madam Speaker:

We are writing to notify you, per the requirements of section 709 of the Social Security Act, that the Federal Disability Insurance (DI) Trust Fund is now projected to become inadequate within the next 10 years. As shown in the 2010 OASDI Trustees Report, which we are issuing today and a copy of which is attached, the assets of the DI Trust Fund are projected to fall below 20 percent of annual cost during 2017 based on our intermediate set of economic, demographic, and programmatic assumptions. Moreover, the assets of the DI Trust Fund are now projected to become exhausted in 2018, if no action is taken.

Background—Section 709 of the Social Security Act requires the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (the Board) to submit a report to each House of the Congress when it determines that the balance ratio of a trust fund for any calendar year may become less than 20 percent. The balance ratio is the ratio of assets at the beginning of a year to the cost for that year.[1] Section 709 further requires that the report include:

> *. . . 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.*

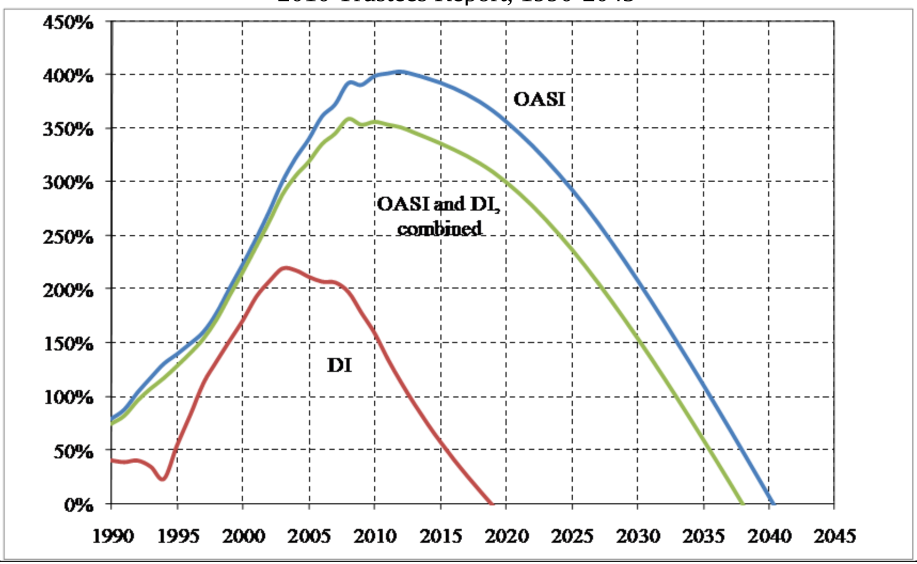
The Disability Insurance Trust Fund—Each year, the Board prepares a report, commonly referred to as the Trustees Report, on the financial outlook for the Social Security trust funds. Estimates in the 2010 Trustees Report show that, although the Old-Age and Survivors Insurance (OASI) Trust Fund and the theoretical combined OASI and

[1] This ratio is also called a *trust fund ratio* in the 2010 OASDI Trustees Report.

Disability Insurance (DI) Trust Funds are adequately financed during the 10-year short-range projection period under intermediate assumptions, the DI fund alone is not.

Under the intermediate assumptions of the 2010 Trustees Report (those representing the Trustees' best estimate of future economic and demographic trends), the assets of the DI Trust Fund are projected to fall below 20 percent of annual cost during 2017 and are estimated to become exhausted in 2018. 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 exhaustion.

Balance ratios for the OASI and DI Trust Funds, separately and combined, based on present law under the Intermediate Assumptions of the 2010 Trustees Report, 1990-2045



The Board believes that reporting the expected future decrease in the balance ratio for the DI Trust Fund at this time fulfills the statutory requirement to give due regard to the amount of time necessary to alleviate the inadequacy in a prudent manner.

Maintaining a Balance Ratio of at Least 20 Percent—The following table shows the minimum annual amounts of change necessary to keep the DI balance ratio from falling below 20 percent over the next 10 years. The amounts of (1) additional employment tax revenue, (2) cost reductions, and (3) a combination of equal amounts of employment tax revenue increase and cost reduction are shown for each year through 2019. This period was chosen to coincide with the short-range projection period in the 2010 Trustees Report and because nominal dollar amounts become increasingly less meaningful for years farther in the future. Larger changes would be needed after 2019 in order to maintain a balance ratio of at least 20 percent for the DI Trust Fund.

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

Amounts required to prevent DI balance ratio from declining below 20 percent under the Intermediate Assumptions of the 2010 Trustees Report
(In billions)

Calendar year	Additional employment tax revenue only	Cost reductions[1] only	Total amounts of additional employment tax revenue and cost reductions[1] under a combined approach
2017	$15.6	$10.4	$13.0
2018	26.1	26.2	26.1
2019	27.1	27.0	27.1
Total, 2017-2019	68.8	63.6	66.2

[1]Amounts shown for cost reductions through changes in benefits are net of partially offsetting estimated reductions that would occur automatically due to income taxes on Social Security benefits.

A projected trust fund level of 20 percent of annual cost may be sufficient to enable the timely payment of benefits but does not provide an adequate reserve against adverse contingencies. A more stringent measure of trust fund strength is the test of short-range financial adequacy. As described in the 2010 Trustees Report, meeting this test requires that the estimated balance ratio remain at or above 100 percent if the current ratio is at least 100 percent. If the current balance ratio is under 100 percent, then the projected ratio is required to reach 100 percent by the beginning of the sixth year and to remain at or over 100 percent throughout the remainder of the 10-year short-range period. In addition, projected assets must be sufficient to pay all estimated costs over the entire 10-year period. The test is applied on the basis of the intermediate assumptions. Compliance with this test should be an important goal for any statutory adjustments designed to strengthen the financial condition of the DI Trust Fund.

Recommendation—Based on the intermediate estimates in the 2010 Trustees Report, the assets of the DI Trust Fund would fall below 20 percent of annual cost during 2017 and would become exhausted in 2018 in the absence of corrective legislation. Legislative action should be taken to remedy the inadequate future assets of the DI Trust Fund.

Since the inception of the DI Trust Fund, inadequate assets in either the OASI or the DI Trust Fund have at times been remedied by reallocating part of the existing employment tax rate from the more adequately financed fund to the less adequately financed fund. This has provided additional revenue for the inadequate fund without requiring an increase in overall tax rates. Such action was taken most recently in 1994, when the DI Trust Fund was projected to become exhausted within 10 years, but the OASI Trust Fund and the combined OASI and DI Trust Funds were not.

Alternatively, the Congress could choose: to increase revenues to the DI Trust fund in another manner; to reduce cost through modification of the Disability Insurance program; or to use a combination of methods to strengthen the financial condition of the Disability Insurance Trust Fund. The Board recommends that appropriate legislation be enacted after consideration of the status of the program by both the Congress and the Administration.

Respectfully,

/S/

Timothy F. Geithner, *Secretary of the Treasury, and Managing Trustee of the Trust Funds*

/S/

Hilda L. Solis, *Secretary of Labor, and Trustee*

/S/

Kathleen Sebelius, *Secretary of Health and Human Services, and Trustee*

/S/

Michael J. Astrue, *Commissioner of Social Security, and Trustee*

Vacant, *Public Trustee*

Vacant, *Public Trustee*

/S/

Jason J. Fichtner, *Associate Commissioner, Office of Retirement Policy, Social Security Administration, and Acting Secretary, Board of Trustees*