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## Social Security Long-Range Projections: Why 75 Years?

The Social Security Board of Trustees (Trustees) is required by law to report annually to Congress on the financial status of the Social Security trust funds. Since 1965, the Trustees have used a 75-year period for their long-range projections, based on the recommendation of the 1965 Social Security Advisory Council. This In Focus explains why the Trustees use a 75-year horizon for evaluating the financial status of the Social Security program under current law and, in turn, for evaluating the financial impact of Social Security legislative proposals. It also explains why comparing the valuation period used for Social Security with the valuation periods used for other systems, including private-sector defined benefit (DB) pension plans, can be misleading.

### Statutory Mandate

The Social Security Act requires the Trustees to report annually to Congress on “the operation and status of the Trust Funds during the preceding fiscal year and on their expected operation and status during the next ensuing five fiscal years.” In practice, the Trustees report on the 10-year (short-range) financial outlook for the trust funds. The Social Security Act also requires the Trustees to provide a “statement of the actuarial status of the Trust Funds.” This mandate is found in Title II of the Social Security Act, Section 201(c) [42 U.S.C. §401(c)]. The term *Trust Funds* refers to the separate Old-Age and Survivors Insurance (OASI) trust fund and the Disability Insurance (DI) trust fund. The two separate funds are referred to collectively as the OASDI trust funds or the Social Security trust funds.

### Before 1965: Long-Range Projections “into Perpetuity”

The Social Security Act does not require the Trustees to use a 75-year period (or any specified time period) when making long-range projections of actuarial status. Long-range projections highlight potential financial issues outside the short-range outlook, allowing Congress more time to implement policy changes. Over the years, the length of the long-range period has changed. Before 1965, the Trustees made trust fund projections “into perpetuity.” Under these projections, the Trustees assumed that the trends for the factors affecting the cost of the program would level off after 85 or 90 years and continue at that level indefinitely.

### 1965 and Later: Projections for 75 Years

In the 1965 Social Security Trustees Report, the length of the long-range period was changed to 75 years. The change was made based on the recommendation of the 1965 Social Security Advisory Council, which expressed concerns over attempts to provide estimates into perpetuity. The council recommended a 75-year projection period because it would generally cover the expected period of benefit receipt for workers covered by the Social Security system and “is as

long a period as can be expected to have a realistic basis for estimating purposes.”

### 1965 Social Security Advisory Council

The council’s report included the following statement on the long-range projections made by the Trustees:

The Council suggests only one significant change in the assumptions underlying the long-range estimates. In the past an attempt has been made to present cost estimates into perpetuity. Specifically, it has been assumed for purposes of the estimates that trends for the factors affecting the cost of the program will level off at some point in the distant future (about 85 to 90 years) and continue at that level indefinitely. The Council believes that it serves no useful purpose to present estimates as if they had validity in perpetuity. A period of 75 years would span the lifetime of virtually all covered persons living on the valuation date and is as long a period as can be expected to have a realistic basis for estimating purposes. When costs are reassessed at frequent intervals, as has always been the practice, 75-year projections allow sufficient time to adjust to new and changing experience as it emerges. The long-range cost estimates shown in this report, therefore, are developed for a period of 75 years and it is our recommendation that long-range estimates in the future also be made on this assumption (pp. 16-17).

Regarding the change to a 75-year valuation period in the 1965 Trustees Report, the current chief actuary of the Social Security Administration noted:

The 75-year period encompasses essentially the entire future life span of all current workers and beneficiaries, even the youngest current workers, at the beginning of the 75-year period. It also provides a projection period long enough to illustrate the complete and mature effects of past amendments and potential future changes to the Social Security Act. Restricting the long-range period to 75 years lowered the estimated long range cost by only about 3 percent in 1965, largely because estimates were made on a level cost basis, discounted by the full expected trust fund interest rate (Goss, p. 19).

The change from “into perpetuity” to a 75-year horizon in 1965 had a relatively small effect on the long-range projections at the time because costs were projected to remain flat. Under the “level cost basis,” the Trustees assumed no changes in the average wage level or the level of prices in the future. This approach was used because, at

the time, the Social Security Act did not include provisions for automatic increases in the maximum amount of a worker's wages subject to the Social Security payroll tax each year (the taxable wage base) or Social Security benefits. In 1972, Congress passed legislation that provided for automatic annual increases in the taxable wage base and Social Security benefits (cost-of-living adjustments) effective in 1975 as part of P.L. 92-336 (Public Debt Limit/Disaster Losses/Social Security Act Amendments). Following the adoption of the automatic indexing provisions, the Trustees specified explicit increases in average wage and price levels for future projections (Goss, pp. 19-20).

## Beyond 75 Years

While the Trustees have used a 75-year period for their long-range projections since 1965, the concept of projections *indefinitely into the future* was re-introduced in the 2003 Trustees Report. Since 2003, the Trustees have also included "infinite horizon" projections in their annual reports to Congress (see Appendix F in the 2020 Trustees Report). The 2020 Trustees Report explains:

Another measure of trust fund financial status is the infinite horizon unfunded obligation, which takes account of all past and future annual balances, even those after the next 75 years. The extension of the time period past 75 years assumes that the current law for the [Social Security] program and the demographic and economic trends used for the 75-year projection continue indefinitely (2020 Trustees Report, p. 203).

The Trustees note that "significant uncertainty surrounds the intermediate [or "best estimate"] assumptions" used for the 75-year projections. They further note that the infinite horizon projections are subject to much greater uncertainty than the 75-year projections. Under current law, extending the horizon beyond 75 years increases the system's measured unfunded obligation (projected financial shortfall). Thus, the magnitude of changes needed to bring the system into actuarial balance is greater under the infinite horizon projections than under the 75-year projections (2020 Trustees Report, pp. 17-18).

Over the next 75-year period, the Trustees project that program costs will exceed income by about 23% on average under the intermediate assumptions (2020 Trustees Report, Table IV.B5, p. 72). The 2020 Trustees Report notes that the projections in the report do not reflect the potential effects of the COVID-19 pandemic on the Social Security program. For more information on the projected financial outlook for the Social Security program, see CRS In Focus IF10522, *Social Security's Funding Shortfall*.

## Private-Sector DB Pension Plans

The 75-year period used to evaluate the financial status of the Social Security program is sometimes compared to the valuation periods used to evaluate other systems, including private-sector DB pension plans. Similar to Social Security retired-worker benefits, DB pension plans provide a monthly benefit at retirement generally based on a formula

that takes into account factors such as the employee's salary and years of service.

This type of comparison can be misleading. Social Security and private-sector DB plans are different by design, including different financing mechanisms. Social Security is a government-administered social insurance program with nearly universal coverage. About 94% of workers (an estimated 176 million people in 2021) work in jobs covered by the program. Participation is mandatory for those workers, providing a "guaranteed" stream of new program participants indefinitely into the future. In addition, Social Security is financed primarily on a *pay-as-you-go* basis, with payroll taxes paid by current workers supporting payments to current beneficiaries. In contrast, private-sector DB plans are not guaranteed a stream of new participants and are designed to be *pre-funded* (i.e., plans set aside funds each year for a current worker's future benefits).

The finances of private-sector DB plans are generally not evaluated using a fixed time period. To evaluate a DB plan's financial health, plan assets (the value of investments made with contributions to the plan) are compared to liabilities (the value of benefits expected to be paid from the plan to *current* plan participants). Projections of new entrants are not factored into DB pension accounting. The valuation period extends well into the future to span the expected lifetimes of the youngest plan participants. For more information, see CRS Report R46366, *Single-Employer Defined Benefit Pension Plans: Funding Relief and Modifications to Funding Rules*.

## Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation (PBGC) is a government corporation that insures pension benefits for participants in private-sector DB pension plans in the case of plan termination or insolvency. Similar to the Social Security Trustees, PBGC is required by law to report to the President and Congress annually on its operations and to provide a five-year actuarial projection (29 U.S.C. § 1308). In practice, PBGC provides 10-year projections of the financial status of the two insurance programs that it operates (one for single-employer plans and one for multiemployer plans). For information on PBGC, see CRS Report 95-118, *Pension Benefit Guaranty Corporation (PBGC): A Primer*.

## References

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