Order Code 95-206 EPW
Updated March 20, 2002

# CRS Report for Congress

Received through the CRS Web



# Social Security's Treatment Under the Federal Budget: A Summary

Updated by Dawn Nuschler[1]
Domestic Social Policy Division

## Summary

Social Security's treatment in the federal budget is often confusing. Legislation enacted in 1983, 1985 and 1990 excluded the program from official budget calculations and largely exempted it from procedures for controlling budget revenues and outlays. However, because Social Security represents more than a fifth of the government's revenues and outlays, it is often included in summaries of the government's financial flows, or what is referred to as the "unified" budget. It is also confusing because people mistakenly perceive that the program's removal from the budget changed how its funds are handled. It did not. As has been the practice since Social Security's inception, its taxes are deposited in the federal Treasury (with appropriate crediting of federal securities to its trust funds), and its expenditures are paid from the Treasury.

With the emergence of unified budget surpluses over the past few years, there was a growing sentiment for reserving a portion of them equal to Social Security and Medicare Hospital Insurance trust fund surpluses. Budget resolutions enacted for FY2000, FY2001, and FY2002 incorporated totals setting such sums aside, with the intent being that these amounts would be used for debt reduction pending reform of Social Security or Medicare. Congress also considered proposals to create procedural obstacles for bills that would use the set asides for other tax cuts or spending increases. Among them were measures to create new points of order against bills that would do so, to require new limits on publicly-held federal debt that would decline by the amount of annual Social Security surpluses, and to amend the Constitution to require a balanced federal budget without counting Social Security. Although taken up in the 106th Congress, none of these so-called "lock box" measures were ultimately passed. The 107th Congress began considering similar legislation with House passage of H.R. 2 on February 13, 2001. Attempts to consider related measures in the Senate failed on March 13 and July 10, 2001. Since the September 2001 terrorist attacks, the budget debate has focused on increased spending for the war on terrorism and economic stimulus efforts. This report will be updated periodically.

[1] This report was written by former CRS staffer David Koitz.

## History

Social Security and other federal programs that operate through trust funds were counted officially in the budget beginning in FY1969. This was done administratively by President Johnson. At the time, Congress did not have a budget-making process. In 1974, with passage of the *Congressional Budget and Impoundment Control Act* (P.L. 93-344), Congress adopted procedures for setting budget goals through passage of annual budget resolutions. Like the budgets prepared by the President, these resolutions were to reflect a "unified" budget that included trust fund programs such as Social Security.

Beginning in the late 1970s, financial problems confronting Social Security and concern over its growing costs led to enactment of benefit cutbacks in 1980, 1981, and 1983. However, because the federal budget deficit remained large, interest in curbing Social Security spending continued. This in turn ignited concerns that cuts in Social Security were being proposed for budgetary purposes rather than programmatic ones. In response, measures were enacted in 1983, 1985, and 1987 making the program a more distinct part of the budget and permitting floor objections to be raised against budget bills containing Social Security changes.

Later in the decade, when Social Security surpluses emerged, critics argued that the program was masking the size of budget deficits. In response, Congress in 1990 excluded it from official calculations of the budget and largely exempted it from procedures for controlling spending (*Omnibus Budget Reconciliation Act of 1990*, P.L. 101-508). By these actions, however, Congress excluded Social Security from procedural constraints designed to discourage measures that would *increase* the deficits. Concerned that this would encourage Social Security spending increases and tax cuts that could weaken Social Security's financial condition, Congress also adopted provisions in that legislation permitting floor objections to be raised against bills that would erode the balances of the Social Security trust funds.



## Current Budget Rules Pertaining To Social Security

Two key elements of the budget process are (1) explicit dollar limits on discretionary spending (mostly for programs requiring annual appropriations) and (2) a "pay-as-you-go" rule that requires that increases in direct spending (mostly for entitlement programs) and/or cuts in revenues must be offset by other changes so as not to increase the budget deficit or reduce the surplus. Originally written to cover the FY1991-FY1995 period, these budget rules now apply through FY2002 (as a result of provisions in the *Omnibus Budget Reconciliation Act of 1993* (P.L. 103-66) and the *Balanced Budget Act of 1997* (P.L. 105-33)). If the explicit spending limits or "pay-as-you-go" rules are violated during this period, the President may be required to sequester funds (i.e., cut spending). Social Security is not to be included in these calculations and is exempt from any potential sequestration, with the exception of administrative expenses (which are counted as discretionary spending). The law further permits floor objections to be raised against budget bills ("reconciliation" bills) that contain Social Security measures.

## "Lock Boxes" to Set Aside Social Security Surpluses

While Social Security is by law considered "off budget" for many key aspects of developing and enforcing budget goals, it is still a federal program and its income and outgo help to shape the year-to-year financial condition of the government. As a result, fiscal policymakers often focus on "unified" or overall budget figures that include Social Security. With former President Clinton's urging that future budget surpluses be reserved until Social Security's problems were resolved, and his various proposals to use a portion of the projected surpluses (or the interest thereon) to shore up the system, Social Security's treatment in the budget became a major policy issue in the past two Congresses. In his State of the Union message in 1998 he had urged setting the entire amount of future budget surpluses aside for debt reduction. Later in the year the House Republican leadership attempted to set alternative parameters with passage of a tax cut bill, H.R. 4579, and a companion measure, H.R. 4578, that would have created a new Treasury account to which 90% of the next 11 years' surpluses would have been credited. The underlying principle was that 10% of the surpluses be used for tax cuts and the remainder used for debt reduction until Social Security reform was enacted. Both bills, however, were opposed by Democratic Members, who argued for setting all of the budget surpluses aside. The Senate did not take up either measure before the 105th Congress adjourned.

The idea re-emerged, however, in the 106th Congress with substantial support shown by both parties for setting aside a portion of the budget surpluses equal to the Social Security and, in some instances, Medicare Hospital Insurance (HI) trust fund surpluses. Budget resolutions for both FY2000 and FY2001 incorporated totals setting aside an amount equal to the Social Security surpluses for those years, as well as reserving funds for Medicare reform. By setting them aside, the resolutions in effect dedicated these amounts to debt reduction. The 106th Congress went on to consider other so-called "lock box" measures, intended to create additional procedural obstacles for bills that would cause the budget surpluses to fall below a level equal to the Social Security (and, in some cases, Medicare) surpluses if not used for Social Security or Medicare reform. Among them were measures to create new points of order that could be lodged against bills that would cause budget surpluses to be less than Social Security and Medicare HI surpluses, to require new limits on federal debt that would decline by the amount of annual Social Security surpluses, and to amend the Constitution to require a balanced federal budget without counting Social Security. While the House approved three specific "lock box" bills consisting primarily of procedural points of order (H.R. 3859, H.R. 5173, and H.R. 5203), the Senate could not reach a consensus on them and none was ultimately passed.

The 107th Congress passed a similarly structured budget resolution for FY 2002, and has again considered various "lock box" measures. The House passed H.R. 2 on February 13, 2001, a bill that again attempts to create points of order against measures that would cause the budget surpluses to be less than Social Security and Medicare HI surpluses. In the Senate, similar Democratic and Republican provisions were offered as amendments to S. 420, *Bankruptcy Reform Act of 2001*. One offered by Senator Conrad would have taken Medicare HI off-budget and enhanced procedural points of order for Social Security. Another offered by Senator Sessions contained provisions similar to H.R. 2. Neither amendment was adopted having been set aside due to procedural points of order raised against them during Senate debate on March 13, 2001. Subsequent attempts in the Senate on July 10, 2001 also failed (see CRS Report RS20165). Since the terrorist attacks on September 11, 2001, the focus of the budget debate in Congress has shifted from "lock box" measures to other priorities, particularly on spending for the war on terrorism and economic stimulus. Also, the budget outlook has changed dramatically over the past year with a sharp decline in projected budget surpluses. In August 2001, CBO projected a cumulative budget surplus of $3.4 trillion over the 2002-2011 period (down from $5.6 trillion projected in May 2001). CBO's latest projections, revised on March 18, 2002 to reflect enactment of the economic stimulus package (P.L. 107-147), show a cumulative surplus of $1.6 trillion over the same period, with unified budget deficits projected for fiscal years 2002 and 2003 (see table on page 6).

## Social Security and the Balanced Budget Amendment

**Action in the 104th Congress.** The 104th Congress twice considered a constitutional amendment that would require the federal government to achieve and maintain a balanced budget. Both the House and the Senate versions of the amendment — H.J.Res. 1 and S.J.Res. 1— included Social Security in the budget totals. Members concerned that including Social Security would lead to future cuts in its benefits proposed that it be exempted. They argued that because Social Security would be counted in computing the budget deficit, there would be incentives to cut its benefits to achieve reductions in outlays that would make the deficit smaller. They stressed that the system is running surpluses with its own dedicated tax receipts and is therefore not contributing to the deficit, and argued that including those surpluses in the totals would cause them to be used to finance the deficit in the rest of the budget and thereby hide its "true" size.

Those who wanted to keep Social Security in the calculations argued that their purpose was not to cut Social Security but to recognize that the program represented too large a share of federal revenues and expenditures to be ignored. They contended that removing Social Security from the calculations would be fiscally misleading and make the goal of achieving a balanced budget more difficult. They averred that the real goal of those who wanted Social Security excluded was to defeat the amendment by making senior citizens fear that their benefits were in jeopardy and by making the deficit targets unrealistically large. They argued that if Social Security were removed, advocates of future spending measures would attempt to expand the program's features to achieve other social purposes (since Social Security would be exempt from the balanced budget requirements) and that this would threaten the program's ultimate survival.

On January 26, 1995, the House passed its version of the Balanced Budget Amendment by a vote of 300 to 132. It called for including Social Security in the budget totals. Before the final vote, the House rejected four attempts to remove the program from the calculations. However, the House did pass a non-binding resolution, H.Con.Res. 17, by a vote of 412 to 18 on January 25, 1995, stating that, for purposes of achieving a balanced budget, the appropriate congressional committees shall not report out legislation that would alter the receipts and disbursement of Social Security. A similar measure was passed the same day by the Senate in its consideration of S. 1, a bill to curb the imposition of "unfunded mandates" on the states.

The Senate version of the amendment, as reported by the Senate Judiciary Committee, also included Social Security in the budget calculations. However, after lengthy floor deliberations, the amendment failed to get the requisite two-thirds approval of the Senate. The final vote taken on March 2, 1995 was 65 to 35. In the weeks of consideration leading up to the vote, Social Security was a major part of the debate. On

February 9, 1995, the Senate agreed by an 87-10 vote to instruct the Senate Budget Committee to develop a non-binding plan to achieve a balanced budget without altering Social Security. However, in later action the Senate rejected four measures to either remove Social Security from the calculations or otherwise alter its treatment under the amendment. On February 14, 1995, by a vote of 55-41, the Senate tabled a measure offered by Senator Reid to exempt the program from the amendment. On February 28, 1995, the Senate tabled three other related measures. One, offered by Senator Feinstein, tabled by a vote of 60-39, would have taken Social Security out of the calculations in a fashion similar to the earlier defeated measure offered by Senator Reid. Another, offered by Senator Bob Graham, tabled by a vote of 59-40, would have required three-fifths of both houses of the Congress to approve an increase in the total outstanding debt of the government, including the portion held in federal trust funds such as the Social Security funds. The version of the amendment reported by the Senate Judiciary Committee required three-fifths approval to raise only the portion of the debt held by the public. The Graham amendment would have had an effect similar to the other defeated measures that excluded Social Security from the budget calculations. A third measure, also offered by Senator Graham, tabled by a vote of 57-43, would have permitted the portion of the debt held by the public to rise without three-fifths approval to the extent the rise reflected a reduction in the portion held by the Social Security trust funds.

After its 1995 defeat, the majority leader, Senator Dole, said he would bring up the amendment later in the 104$^{th}$ Congress. He did so again on June 6, 1996, and the measure failed a second time, on a 64-35 vote, to get the requisite two-thirds Senate approval.

**Action in the 105$^{th}$ Congress.** The amendment was brought up again in the 105$^{th}$ Congress with the Senate taking the lead. The Senate Judiciary Committee reported it as S.J. Res 1 in a form similar to the amendment the Senate considered in the 104$^{th}$ Congress that included Social Security in budget calculations. The Senate began deliberations on February 5, 1997. On February 25, 1997, by a vote of 55-44, it tabled a measure offered by Senator Reid to exclude Social Security. It tabled a similar measure by Senator Dorgan the next day by a vote of 59-41, as well as one offered by Senator Feinstein by a vote of 67-33. (The Feinstein measure included other alterations of S.J.Res. 1 as well.) Yet a fourth alternative, offered by Senator Bob Graham, was tabled 59-39. It was similar to one he offered in the 104$^{th}$ Congress that would have required 3/5 approval by both Houses to increase the total outstanding debt of the government, including the portion held in the Social Security trust funds. In a vote on final passage on March 4, 1997, the amendment in its original form was defeated by a vote of 66-34.

## Current House and Senate Procedural Rules to Protect Social Security

Under budget rules that existed before 1991, Social Security was included in calculations of budget deficits. Since there were limits on the size of permissible budget deficits imposed by the Gramm-Rudman-Hollings deficit reduction rules enacted in 1985, attempts to expand Social Security's benefits or cut its taxes were discouraged if not accompanied by measures to offset the cost or revenue loss. Floor objections could be raised against such actions if the budget totals or allocations were violated, and if enacted, other programs were potentially threatened with sequestration because the deficit would be made larger. In effect, the old process imposed the same fiscal discipline on Social

Security as applied to other programs. Since Social Security is now exempt from the budget limits (except administrative expenses) as a result the budget rules that took effect in 1991, these implicit constraints no longer apply. In their place, however, are rules intended to make it difficult to bring up measures that would weaken the program's financial condition. In the House, a floor objection can be raised against a bill that proposes more than $250 million in Social Security spending increases or tax cuts over 5 years (counting the fiscal year it becomes effective and the following 4 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 5-year period must be counted. An objection also can be raised against a measure that would increase the system's long-range average costs (i.e., over 75 years) or its reduce long-range revenues by at least 0.02% of taxable payroll (i.e., national earnings subject to Social Security taxes). In the Senate, budget resolutions must include separate amounts for Social Security income and outgo for the first year and the 5-year period covered by the resolution (i.e., separate from the budget totals). These amounts cannot cause the balances of the Social Security trust funds to be lower than projected under current law. Measures that would do so could draw an objection, which can be overridden only by three-fifths approval of the Senate. Once the resolution is enacted, subsequent measures that on balance would cause Social Security outlay increases or revenue reductions could draw an objection, which again can be overridden only when three-fifths of the Senate votes to do so.

## Projected Budget Surpluses and Federal Debt

**Federal Budget Surpluses With and Without Social Security[a] (by fiscal year, $ in billions)**

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | Total 2003-12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **March 6, 2002 Baseline** | | | | | | | | | | | | |
| With Social Security | 5 | 6 | 61 | 111 | 135 | 175 | 213 | 263 | 309 | 454 | 653 | 2,380 |
| Without Social Security | -152 | -170 | -133 | -100 | -90 | -65 | -43 | -8 | 21 | 150 | 335 | -102 |
| **Revised Baseline of March 18, 2002[b]** | | | | | | | | | | | | |
| With Social Security | -46 | -40 | 26 | 100 | 144 | 185 | 223 | 271 | 313 | 456 | 653 | 2,332 |

**Federal Debt (end of fiscal year, $ in billions)**

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **March 6, 2002 Baseline** | | | | | | | | | | | |
| Debt held by the public | 3,355 | 3,361 | 3,314 | 3,219 | 3,099 | 2,938 | 2,739 | 2,489 | 2,193 | 1,750 | 1,107 |
| Debt held by the Social Security trust funds | 1,330 | 1,507 | 1,701 | 1,911 | 2,137 | 2,378 | 2,634 | 2,905 | 3,192 | 3,496 | 3,813 |
| Debt held by other govt. accounts | 1,337 | 1,424 | 1,545 | 1,681 | 1,825 | 1,974 | 2,126 | 2,285 | 2,451 | 2,625 | 2,808 |

[a] Also includes the Postal Service, although its impact is very small.
[b] The revised total budget deficit/surplus projections of March 18, 2002, reflect enactment of the economic stimulus package (*Job Creation and Worker Assistance Act of 2002,* P.L. 107-147, signed March 9, 2002).

**Source**: CBO, *An Analysis of the President's Budgetary Proposals for Fiscal Year 2003*, March 2002.