Social Security: A New Form of Quantitative Tightening

It seems just like yesterday that this writer reviewed the Status of the Social Security and Medicaid Program, released on July 13th of last year. But then again on June 5th of this year, the summary for 2018 was released.

Beside covering a different year, they seem to be from different planets. Many words and even paragraphs are identical but the numbers for the most part…are really, really different.

One can understand that if the forecast is for "In the Year 2525…If Man can Survive", it can be off. This would not be a surprise since mistakes can be compounded over time. But the next year?

In the 2017 Annual Report, 2022 was the first year in which OASDI exceed total income. In this year's Annual Report, the first year in which OASDI costs exceed total income is…this year. Surprise!

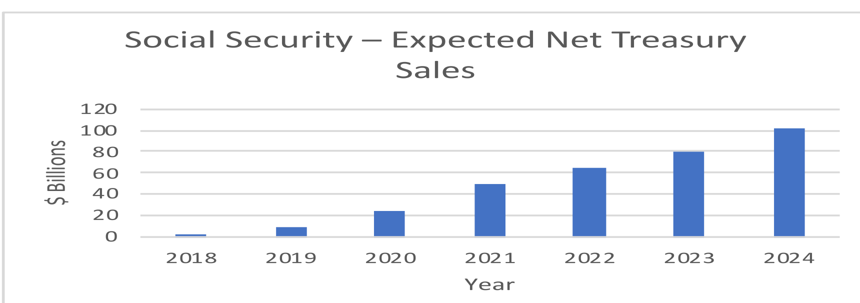
There are four Trust Funds: The Old-Age and Survivor's Insurance (OASI) Trust Fund and the Disability Insurance (DI) Trust Fund. These two funds are covered under Social Security. At the end of 2017, the asset reserves of these two funds were $2.9T. There are two separate Trust Funds covered under Medicare. The Hospital Insurance (HI) Trust Fund (aka Medicare Part A) and the Supplementary Medical Insurance (SMI) Trust Fund (aka Special Accounts for Medicare Part B and Part D), funded by general government funds.

In the 2017 and 2018 Reports the "Key Dates for the Trust Funds" when the first-year costs exceed total income were as follows:

	OASI	DI	OASDI	HI
2017 Report	2022	2019	2022	2023
2018 Report	2020	2019	2018	2018

Therefore, for this year, the cost of the OASDI and HI exceeds the total revenues of these trust funds, which includes non-interest income (i.e. taxes) and interest income (on the $2.9T of trust fund assets).

This year the Social Security system will not be a net Buyer of Treasuries, it will be a Seller. This is the first time this has happened since 1982. In other words, non-marketable U.S. Treasury debt will slowly be replaced with marketable debt at U.S. Treasury auctions. Although only $2B this year, the following graph illustrates the most recent projections by the Social Security Trustees:



It looks as though there has been a $100B swing in the near-term numbers from last year's Trustee Report to this year's. Every dollar the trust fund can't lend to the U.S. Treasury, but instead redeems, is a dollar the U.S. Treasury needs to borrow. These Social Security deficits have no impact of the size of future federal deficits only the government's financing cost through its Treasury auctions…just like Quantitave Tightening.