

G

Provisions Affecting Trust Fund Investment in Marketable Securities

These provisions invest a portion of the Social Security Trust funds in marketable securities (e.g., equities, corporate bonds), rather than in special-issue government bonds as under current law. For each provision, we provide an estimate of the financial effect on the OASDI program over the long-range period (the next 75 years) and for the 75th year. We base all estimates on the intermediate assumptions described in the 2013 Trustees Report.

The selections G3, G5, and G7 provide a low-yield or risk-adjusted perspective where equity yields equal the average real yield on long-term Treasury bonds. Thus, these selections have no effect on the actuarial balance of the OASDI program. Many analysts believe the higher expected return for equities should not be included in valuations because the tendency for higher average returns is compensation for the higher volatility in equities. The low-yield or risk-adjusted assumption reflects this perspective.

Category G: Trust Fund Investment in Equities (2013 Trustees Report intermediate assumptions)

Description of proposed provisions		Change from present law		Results with this provision	
		Long-range actuarial balance	Annual balance in 75th year	Long-range actuarial balance	Annual balance in 75th year
	Present Law, Alternative II.			-2.72	-4.77
G1	Invest 40 percent of the Trust Funds in equities (phased in 2014-2028), assuming an ultimate 6.4 percent real rate of return on equities.	0.60	0.00	-2.12	-4.77
G2	Invest 40 percent of the Trust Funds in equities (phased in 2014-2028), assuming an ultimate 5.4 percent real rate of return on equities.	0.44	0.00	-2.28	-4.77
G3	Invest 40 percent of the Trust Funds in equities (phased in 2014-2028), assuming an ultimate 2.9 percent real rate of return on equities. Thus, the ultimate rate of return on equities is the same as that assumed for Trust Fund bonds.	0.00	0.00	-2.72	-4.77
G4	Invest 15 percent of the Trust Fund in equities (phased in 2014-2023), assuming an ultimate 6.4 percent annual real rate of return on equities.	0.25	0.00	-2.47	-4.77
G5	Invest 15 percent of the Trust Funds in equities (phased in 2014-2023), assuming an ultimate 2.9 percent annual real rate of return on equities. Thus, the ultimate rate of return on equities is the same as that assumed for Trust Fund bonds.	0.00	0.00	-2.72	-4.77
G6	Invest up to 25 percent of OASDI Trust Fund reserves in equities (phased in 2016-2025), assuming an ultimate 6.4 percent real rate of return on equities.	0.38	0.00	-2.33	-4.77
G7	Invest up to 25 percent of OASDI Trust Fund reserves in equities (phased in 2016-2025), assuming an ultimate 2.9 percent annual real rate of return on equities. Thus, the ultimate rate of return on equities is the same as that assumed for Trust Fund bonds.	0.00	0.00	-2.72	-4.77