Social Security Actuarial Status
Recent Experience and Prospects for the Future

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Association of Government Accountants
Baltimore Chapter
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Three Legged Stool: Basis for Retirement Planning

Common Wisdom---Aim for 75-80 percent Replacement Rate
Defined Benefit Plans Replaced by DC Plans: And Lump Sum options increasing for DB plans

Private-Sector Workers Participating in Employment-Based Retirement Plans, by Plan Type, 1979-2014

Social Security: What does it provide?

• Retirement and survivor monthly benefits started 1940
  – *Never Missed Payment!*
• Eligible age lowered from 65 to 62 in 1957F/1962M
  – Full retirement age rises from 65 to 67 by 2022
• Disability benefits started in 1957

• Benefits rise with average wage *across generations*
  --- but with just with CPI after eligibility
• Payroll taxes roughly pay-as-you go
  – Rose from 2% to 12.4% as system matured
Social Security Financing

• Basically “Pay-As-You-Go”
  Current Workers provide for current beneficiaries
  Trust Funds are “contingency reserve” because CANNOT borrow
  Total spending to date cannot exceed income to date
• Current OASDI Reserves (excess income) $2.9 trillion
  Available to augment tax income as needed
• Reserves projected to deplete in 2034 under current law
  *Expect Congress to Act—as it always has.*
What We Do—Office of the Chief Actuary

1) Baseline projections of OASDI cost and revenue under current law
   a) For the Trustees Reports
   b) For the President’s Budget
   c) SSA and Consolidated Financial Statements

2) Estimates for proposals to change law, regulations, and policy
   For Congress, the Administration, and others

3) Actuarial Notes and Studies
What We Do– Annual Trustees Reports

1) Trust Fund operations of the past year and the next five years

2) Actuarial status of the trust funds
   – This means the ability to meet the cost of scheduled benefits with scheduled revenue and trust fund reserves
   – And the extent to which scheduled revenue will fall short, forcing cuts or delays in benefits in the absence of legislative change

3) Results used for SOSI in Financial Statements
Full Scope Audit of the 75-year Projections


2) Mandated by the FASAB
   - For the 2018 audit, GT and GAO actuaries, economists AND accountants!
   - We received a clean opinion—again! CEAR Award 21!!

3) Audit starts after Trustees Report release through September
   - Huge learning experience for all
Full Scope Audit of the 75-year Projections

1) Audit covers all aspects of the Financial Statement
2) We review all assumptions and methods, and all changes
3) Review more than replication due to complexities
4) Extensive review of internal controls
5) Reasonableness of assumptions—as per attestation of the Chief Actuary
6) Sensitivity analysis
7) Subsequent events—where applicable
Current Actuarial Status

Projections from the 2018 Trustees Report

2019 Trustees Report will be coming soon
SOLVENCY: OASDI Trust Fund Reserve Depletion 2034 (same as last year)

- Reserve depletion date varied from 2029 to 2042 in reports over the past 26 years (1992-2018)
- **DI Trust Fund — reserve depletion in 2032, four years later than last year**
  - Due largely to lower recent and near-term disability applications and average benefit levels.
OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll
Persistent Negative Annual Cash-Flow Balance Starting in 2010
79% of scheduled benefits still payable at trust fund reserve depletion
Annual deficit in 2092: 4.32 percent of payroll — 0.21 percent smaller than last year

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<th>Calendar year</th>
<th>Cost: Scheduled and payable benefits</th>
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Payable benefits as percent of scheduled benefits:
2017-33: 100%
2034: 79%
2092: 74%

Expenditures: Payable benefits = income after trust fund depletion in 2034
SUSTAINABILITY: Cost as Percent of GDP

Rises from a 4.2-percent average in 1990-2008, to about 6.1% by 2038, then declines to 5.9% by 2052, and generally increases to 6.1% by 2092.

[Graph showing the trend of Cost as a percent of GDP over the years from 1990 to 2090, with Historical and Estimated data points.]
OASDI Beneficiaries per 100 Workers

Historical

Estimated
Aging (change in age distribution) mainly due to drop in birth rates

Aged Dependency Ratio 2018 TR
Population 65+/20-64

- Actual and TR Intermediate
- TFR remains at 3.0 after 1964
- TFR remains at 3.3 after 1964
Birth Rates—from 3 to 2

U.S. Total Fertility Rate: With and Without Adjustment for Survival to Age 10

Notes: TFRs prior to 1917 are for whites only and survival rates prior to 1900 use Massachusetts data only.
Mortality Experience: All Ages
Reductions continue to fall short of expectations
Mortality Experience: Ages 65 and Older
Reductions since 2009 continue to fall short of expectations
Replacement Rates Based on the 2018TR

Scheduled Monthly Benefit Levels as Percent of Career-Average Earnings by Year of Retirement at age 65

- Low Earner ($23,353 for 2018; 25th percentile)
- Medium Earner ($51,894 for 2018; 56th percentile)
- High Earner ($83,031 for 2018; 82nd percentile)
- Max Earner ($128,400 for 2018; 100th percentile)

Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html
How About at Age 62, Where Many Start Benefits?

Scheduled Monthly Benefit Levels as Percent of Career-Average Earnings by Year of Retirement at age 62

Low Earner ($23,353 in 2018; 25th percentile)
Medium Earner ($51,894 in 2018; 56th percentile)
High Earner ($83,031 in 2018; 82nd percentile)
Max Earner ($128,400 in 2018; 100th percentile)

Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html
Payable Benefits Under the Law, Should Trust Fund Reserves Become Depleted, Somewhat Lower

PAYABLE Monthly Benefit Levels as Percent of Career-Average Earnings by Year of Retirement at age 62

Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html
Age of Starting Social Security Retirement Benefits

Male Retired Worker Beneficiaries In Current Payment Status as Percent of Insured Population (excluding those receiving only some other OASDI benefit)

Female Retired Worker Beneficiaries In Current Payment Status as Percent of Insured Population (excluding those receiving only some other OASDI benefit)

Recession
Eliminate Earnings
Test Over NRA
Disability----Applications Continued Dropping in 2018!

Total Social Security Disability Receipts at Disability Determination Services by Calendar Year: Historical and Intermediate Assumptions for 2012 through 2018 Trustees Reports (thousands)

Note: All historical and projected series include disabled worker, disabled adult child, and disabled widow(er) receipts. DIBs represent about 94% of total title II DDS receipts.
DDS Disabled Worker Receipt Rates have Been Dropping Since 1990 at Higher Ages, and at all Ages Lately
Disability Incidence Rate Falls to Historic Lows

DI disabled worker incidence rate has declined to extraordinarily low levels since 2015

Average 1990-2017  5.23
Ultimate Assumption 5.20 (for 2008-11TR)
Ultimate Assumption 5.40 (for 2012-18TR)

Current Estimate for 2018
Number of Disabled Workers Dropping

Disabled Worker Beneficiaries
In Current Payment Status at End of Year (in thousands)

2008 TR (no recession)
2017 TR
2018 TR
But, Wait—How About Budget Scoring?
Do entitlements really borrow?

Source: Congressional Budget Office, June 2016
Actually, NO. Budget Scoring Is Inconsistent With the Law, and All Past Experience.

- **See Actuarial Opinion in the 2018 TR** *(also 2014—2017 TRs)*

  1) After reserves deplete, full scheduled benefits cannot be paid under the law.

    - *Budget deems these “expenditures” creating publicly held debt*

  2) Reserve redemptions spend excess “earmarked” revenues invested in an earlier year.

    - *Budget deems these “a draw on other Federal resources”*

  3) Trust Fund operations have NO direct effect on total Federal debt subject to ceiling in any year—and no *net* effect on publicly held debt.

    - *Budget says redemptions increase Federal debt held by the public and often gives no credit for reserve accumulation*
So—What If We Project Federal Debt Consistent With the Law? Projection to 2090 back in 2015

Projected Federal Debt Held by the Public: CBO Baseline (Assuming OASDI & HI Unfunded Obligations Are Paid by Borrowing From the Public) vs. Assuming Current Law

- CBO Baseline July 2015
- Less OASDI Unfunded Obligations (CBO Dec 2015)
- Less OASDI (CBO Dec 2015) and HI (Trustees 2015) Unfunded Obligations
The Bottom Line

• Long-term projections provide information to assess solvency and changes needed to eliminate shortfalls

• Adjustments needed:
  – Lower scheduled benefits by about 23 percent
  – Increase scheduled revenue by about 29 percent
  – Or some combination
  – So Congress must and WILL act, as always

• Straightforward solutions:
  – Comprehensive changes needed by 2034
Some Ways to Lower Cost

• Lower benefits for retirees—not disabled?
  – Increase normal retirement age (lowers OASDI cost, but increases DI cost)
  – Can exempt long-career low earners

• Lower benefits mainly for high earners?
  – Reduce PIA above some level
  – Often combined with increasing PIA below some level, subject to work year requirements

• Lower benefits mainly for the oldest old?
  – Reduce the COLA
  – Some say increase it with the CPI-E (based on purchases of consumers over age 62
Some Ways to Increase Revenue

• Raise tax on highest earners?
  – Increase taxable maximum amount
  – Some tax on all earnings above the maximum

• Tax employer group health insurance premiums?
  – Affects only middle class if taxable maximum remains

• Maintain larger trust fund reserves?
  – Added interest can lower needed taxes
For More Information Go To http://www.ssa.gov/oact/

• There you will find:
  – This and all prior OASDI Trustees Reports
  – Detailed single-year tables for recent reports
  – Our estimates for comprehensive proposals
  – Our estimates for the individual provisions
  – Actuarial notes; including replacement rates
  – Actuarial studies; including stochastic
  – Extensive databases
  – Congressional testimonies