Social Security Actuarial Status

The 2025 Annual Report of the Board of Trustees of the OASI and DI Trust Funds

Key Changes and Results Under Intermediate Assumptions

PREPARED BY THE OFFICE OF THE CHIEF ACTUARY, SSA

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What is the Legislative Mandate for the Social Security Annual Report?

1. Trust Fund operations of the past year and the next five years
2. Actuarial status of the trust funds
   - The ability to meet the cost of scheduled benefits with scheduled revenue and trust fund reserves
   - And the extent to which scheduled revenue would fall short under current law, indicating the size of legislative changes that will be needed

The report has been produced every year starting in 1941!

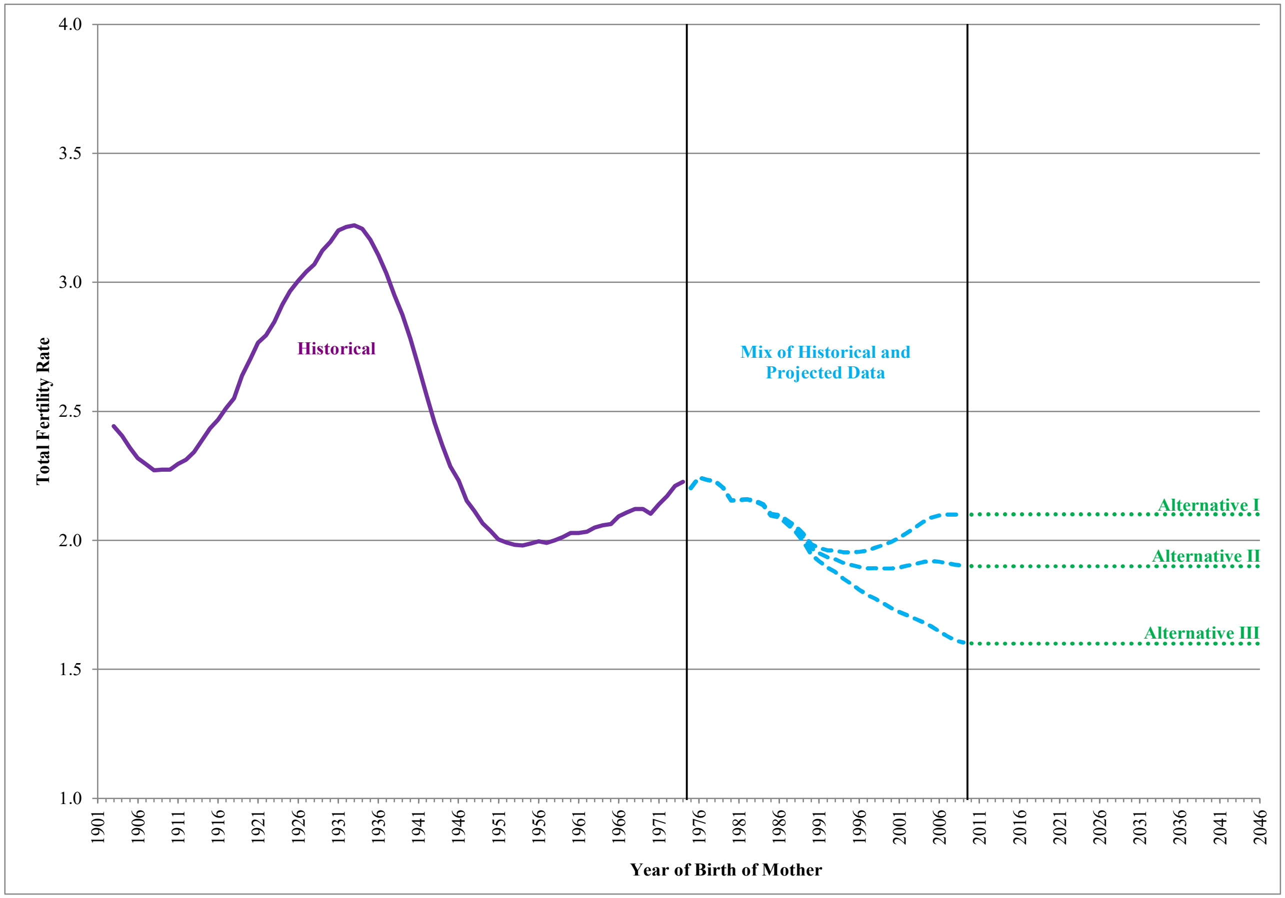
Three Primary Changes This Year

1. Law Change: The Social Security Fairness Act was enacted on January 5, 2025. This law repeals the Windfall Elimination Provision and Government Pension Offset. The repeal of these provisions increases benefits for many people who worked in jobs that were not covered by Social Security.
2. Fertility Assumption: The ultimate total fertility rate is 1.9 children per woman over her lifetime, unchanged from last year's report. However, the ultimate rate is reached in 2050, 10 years later than in last year's report. This extension of the transition path reflects the Trustees' expectation that fertility rates will recover relatively slowly from current low levels.
3. Labor Share Assumption: The ratio of total labor compensation to GDP is assumed to reach a lower long-term level than in last year's report. This updated assumption better reflects historical trends and implies somewhat slower average earnings growth in the near term.

Birth Rates by Cohort

Under intermediate assumptions, birth rates are projected to go below 2.0 for women born after 1990, reaching an assumed ultimate level of 1.9.

Chart 1.4: Historical and Projected Total Fertility Rates by Birth Cohort

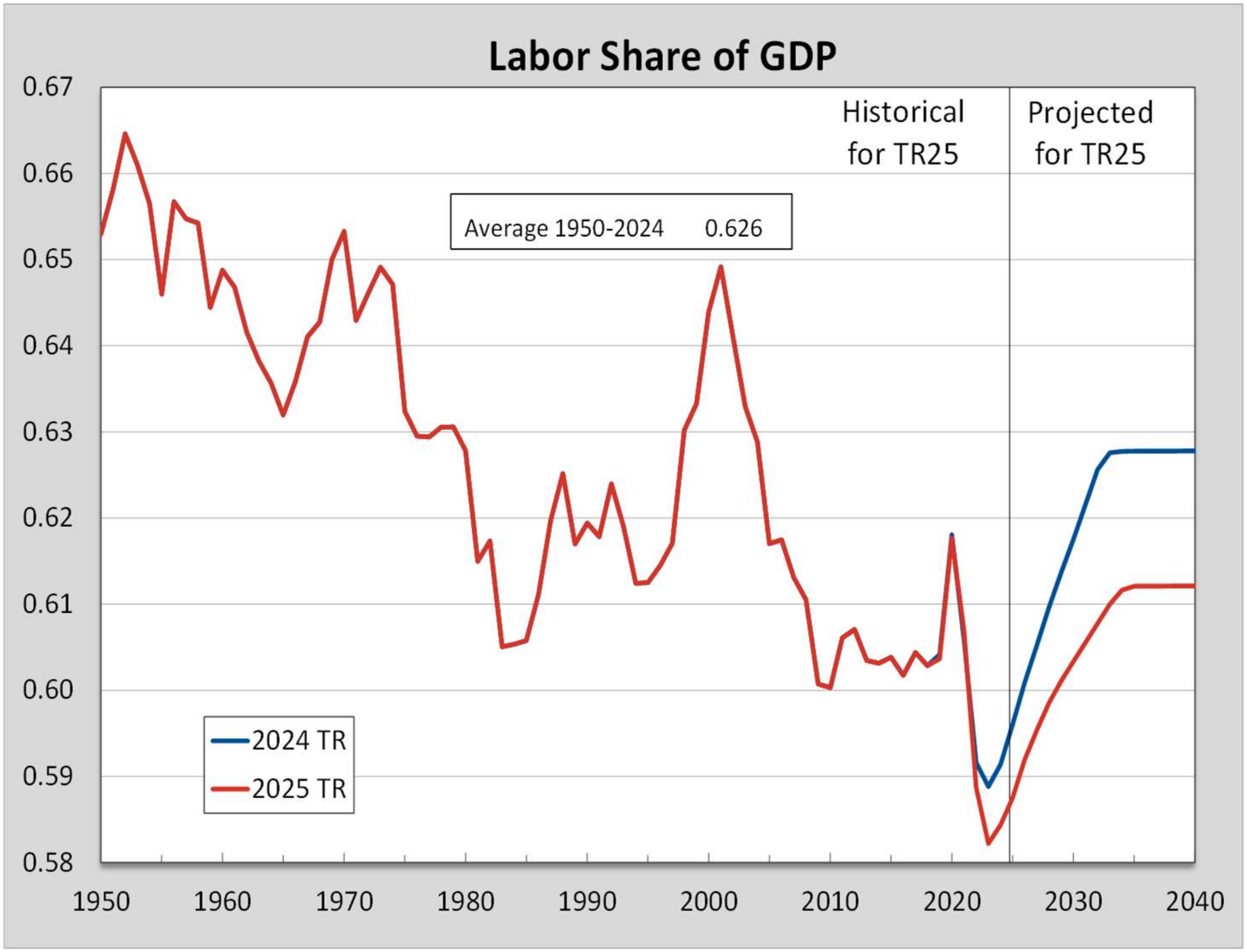


https://www.ssa.gov/oact/TR/2025/2025_Long-Range_Demographic_Assumptions.pdf

Ratio of Labor Compensation to GDP (Labor Share)

For the 2025 TR, the Trustees lowered the assumed long-term level for the labor share to 61.2 percent from 62.8 percent assumed in the 2024 TR, reflecting the experience of recent decades.

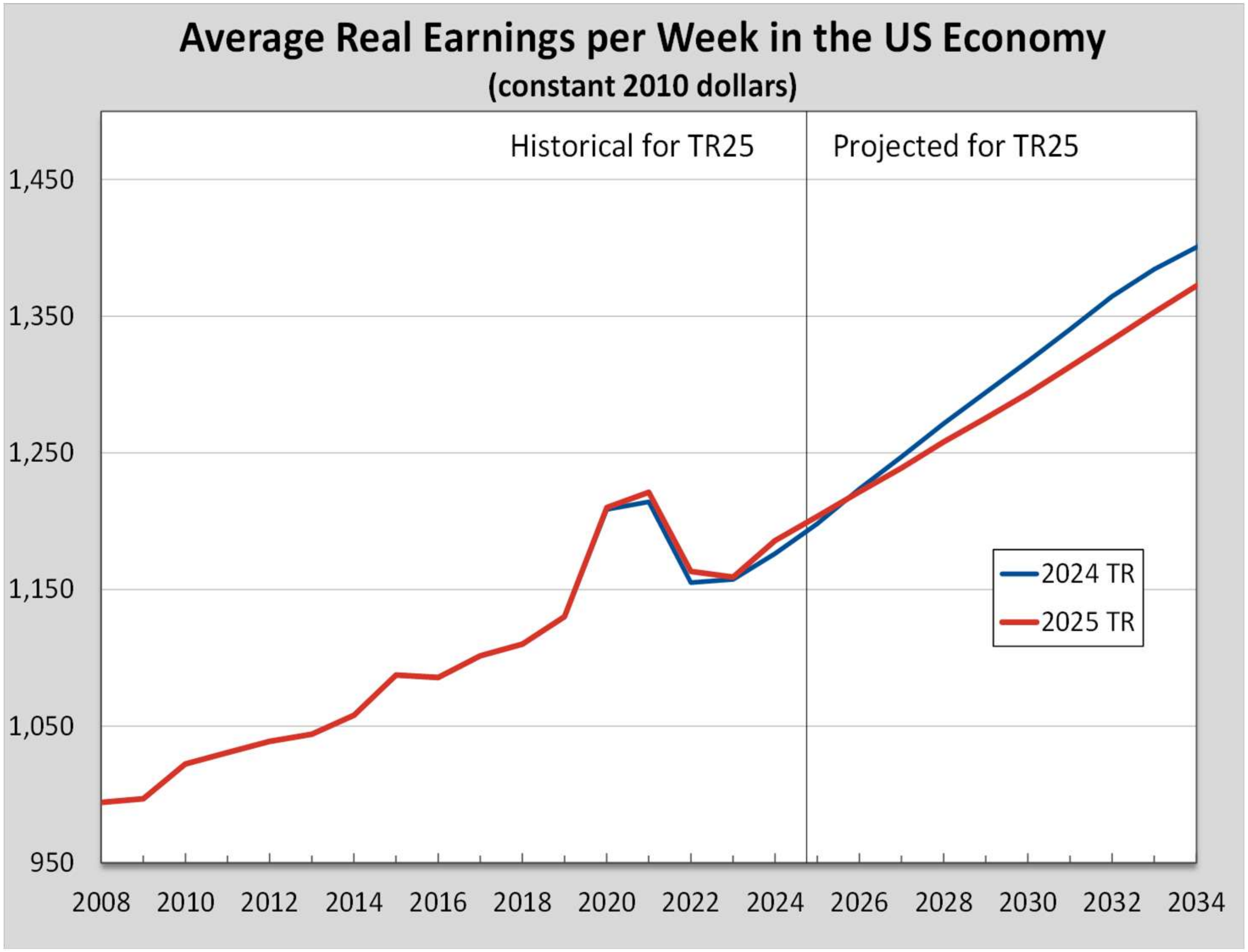
In the most recent data, the labor share of GDP in 2023 is lower than was estimated in the 2024 TR. Going forward, the labor share is projected to rise gradually to its assumed long-range value.



Average Weekly Real U.S. Earnings

Increased above trend in 2020 and 2021 due to the unusual features of the pandemic-induced recession, where job losses were concentrated in the low-wage sectors. This effect is largely reversed by 2022.

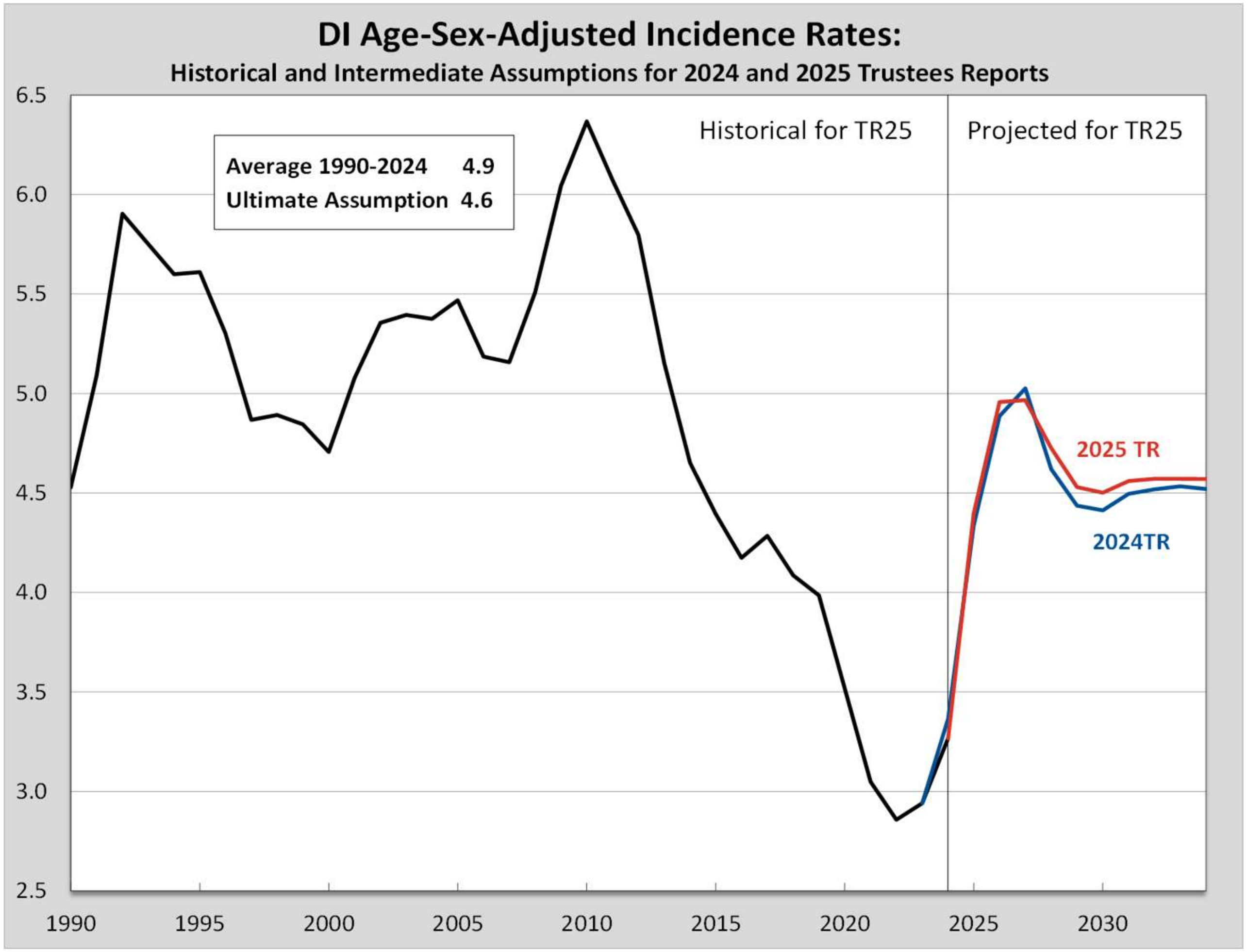
Compared to the 2024 TR, average real earnings are projected to grow slower through 2032 and remain at a lower level thereafter, consistent with the lower ratio of labor compensation to GDP. The projected growth rate after 2034 is the same as in last year's report.



Disability Incidence Rate Remains Near Historically Low Level

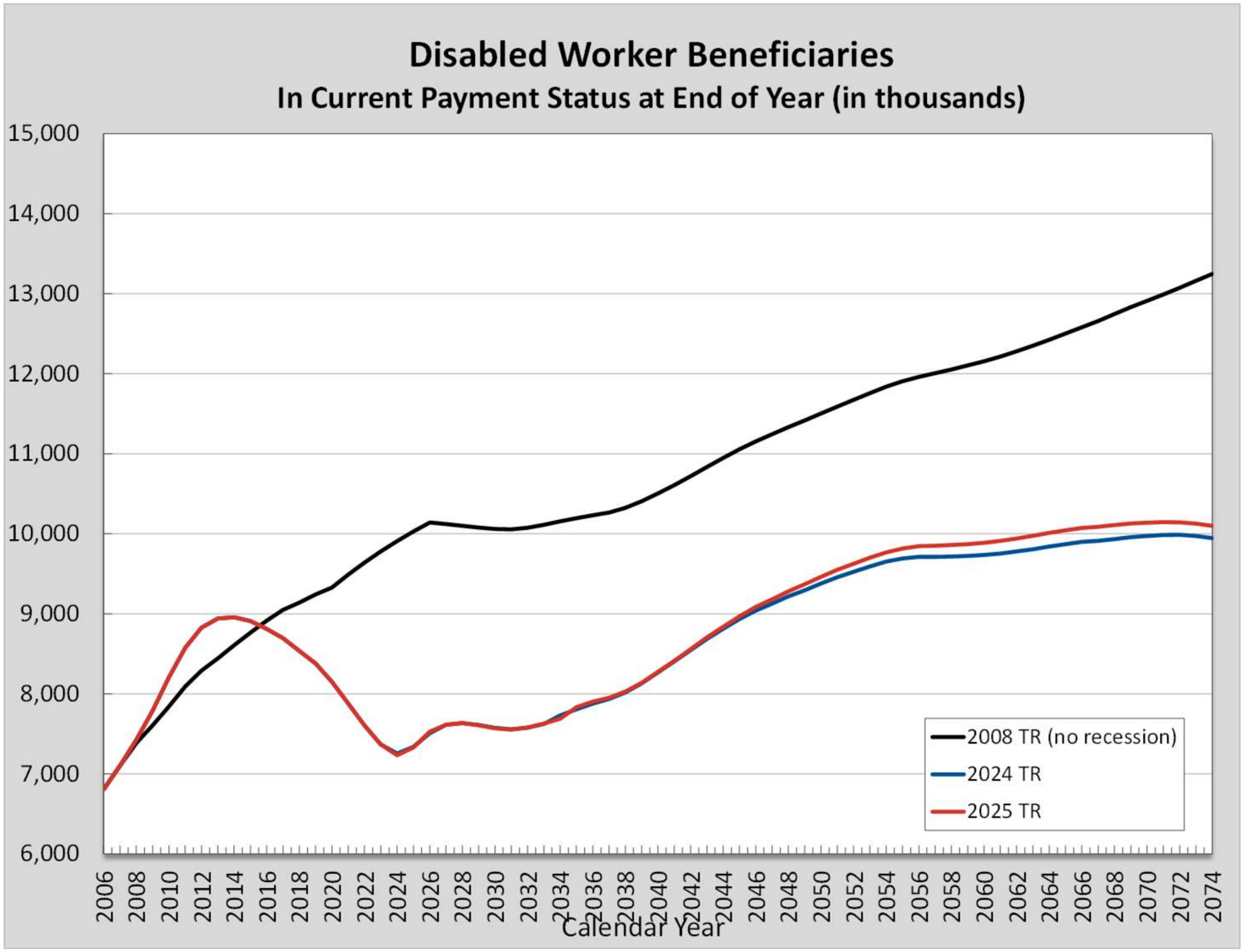
DI disabled worker incidence rate rose sharply in the 2007-2009 recession and has declined since the peak in 2010 to extraordinarily low levels in 2016 through 2022.

Incidence rates increased slightly in 2023 and 2024 and are projected to rise in order to reduce pending claims.



Disabled Worker Beneficiaries

Slightly higher in the long-term based on implementation of the past relevant work regulation.

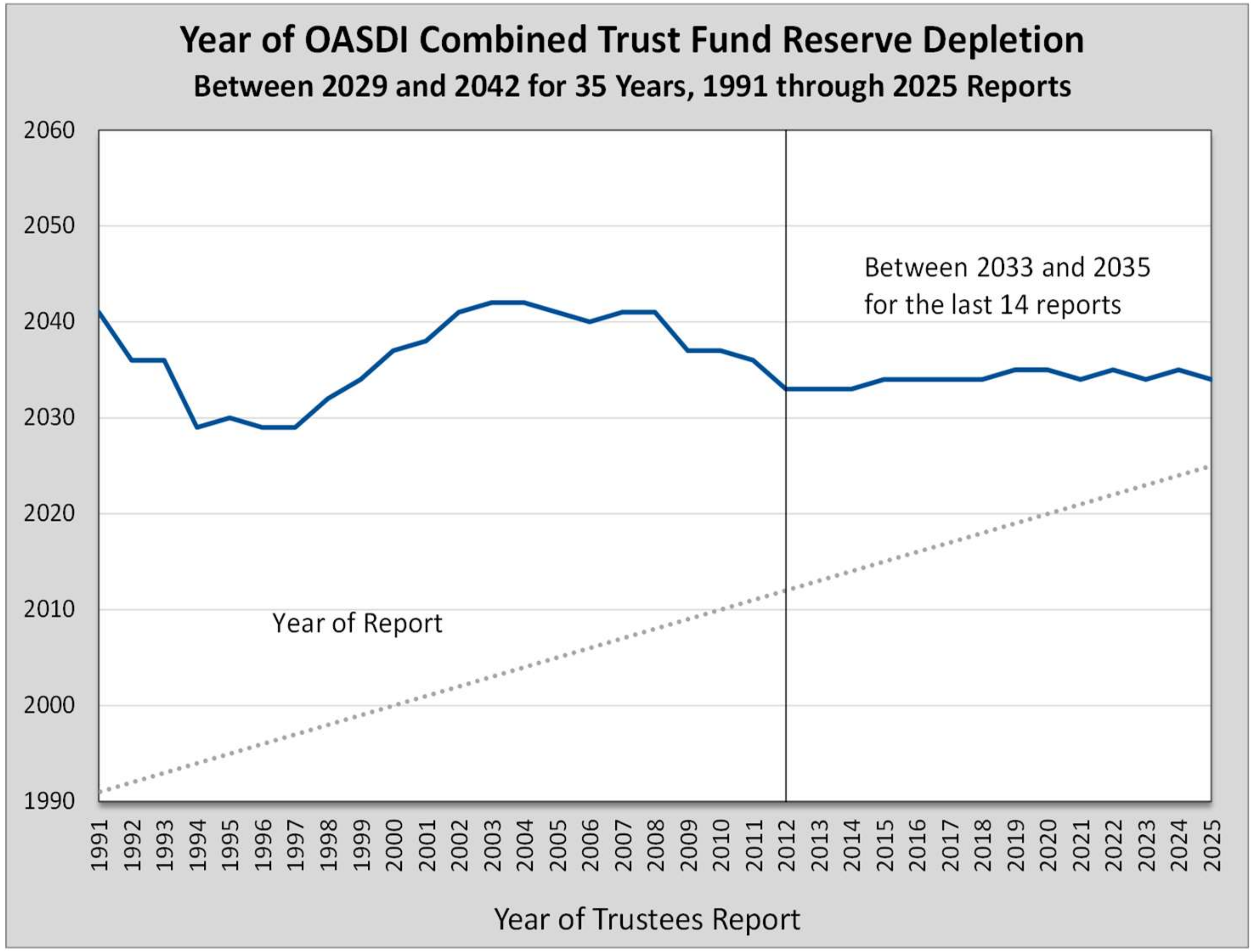


Changes in Timing of Trust Fund Reserve Depletion in 2025 Report

1. OASDI reserve depletion is in 2034 (versus 2035 in last year's report), mainly due to:
   a) The implementation of the Social Security Fairness Act
   b) The extension in the assumed year the ultimate total fertility rate is reached
   c) The reduction in the long-term assumption for the ratio of total labor compensation to GDP
2. OASI reserve depletion is again in 2033 (although 3 quarters earlier than in last year's report)
3. DI reserves do not become depleted over the 75-year long-range projection period (same as in last year's report)
   a) Applications and benefit awards continue to be quite low through 2024
   b) Assumed gradual increase in initial applications to ultimate levels

Year of OASDI Combined Trust Fund Reserve Depletion

OASDI reserve depletion date varied from 2033 to 2035 in reports over the last 14 years (2012-2025) and from 2029 to 2042 in reports over the last 35 years (1991-2025).



Reasons for Change in Actuarial Balance in 2025 Trustees Report

Actuarial Balance: -3.82 percent of taxable payroll (from -3.50 percent in last year's report)

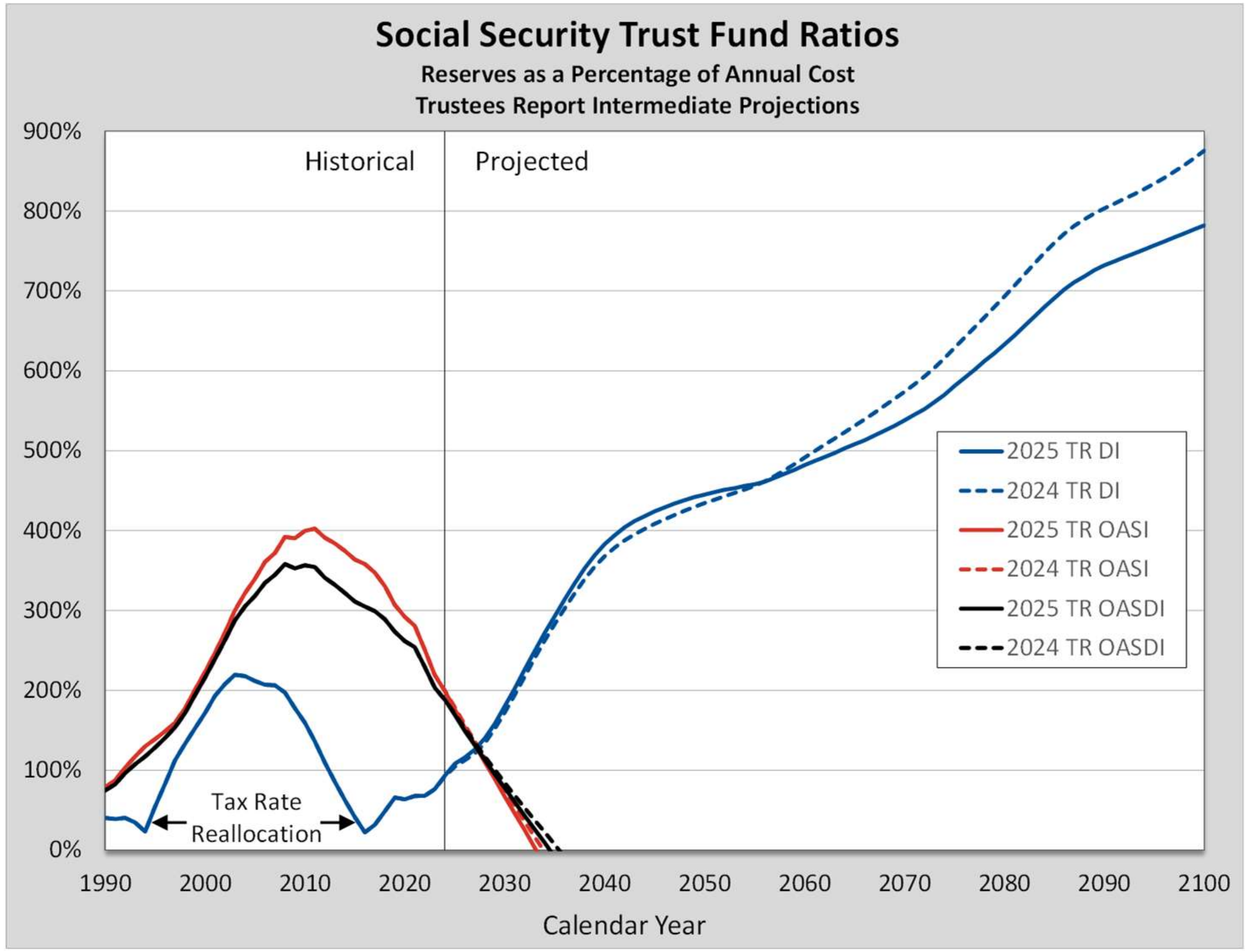
Valuation Period - Changes the actuarial balance by	**-0.06 percent of payroll**
Legislation etc. – Changes the actuarial balance by	**-0.16 percent of payroll**
• Regulation on past relevant work	(-0.02 percent)
• Social Security Fairness Act	(-0.14 percent)
Demographic Data/Assumptions – Changes the actuarial balance by	**-0.02 percent of payroll**
• Extended the year the ultimate fertility rate is reached	(-0.11 percent)
• Recent birth data and slightly lower assumed near-term total fertility rates	(-0.02 percent)
• Higher near-term assumed levels of temporary or unlawfully present immigrant entrants	(+0.05 percent)
• New data for mortality, immigration, marriage/divorce, and historical population	(+0.05 percent)
Economic Data/Assumptions – Changes the actuarial balance by	**-0.06 percent of payroll**
• Lowered the assumed ratio of total labor compensation to GDP	(-0.12 percent)
• New historical OASDI covered employment data	(+0.02 percent)
• New data and other near-term economic assumptions	(+0.03 percent)
Disability Data/Assumptions – Changes the actuarial balance by	**0.00 percent of payroll**
• New disability data and near-term assumptions have a negligible effect	
Methods and Programmatic Assumptions	**-0.03 percent of payroll**
• Methodological improvements, programmatic data and other improvements and updates	

Solvency: OASI+DI Trust Fund Reserve Depletion in 2034
(one year earlier than last year)

OASDI reserve depletion date has varied from 2033 to 2035 in reports over the last 14 years (2012-2025) and from 2029 to 2042 in reports over the last 35 years (1991-2025).

OASI reserve depletion date is now in the first quarter of 2033 versus the fourth quarter of 2033 in last year's report.

DI Trust Fund: reserves do not deplete, due largely to continued low applications and awards.

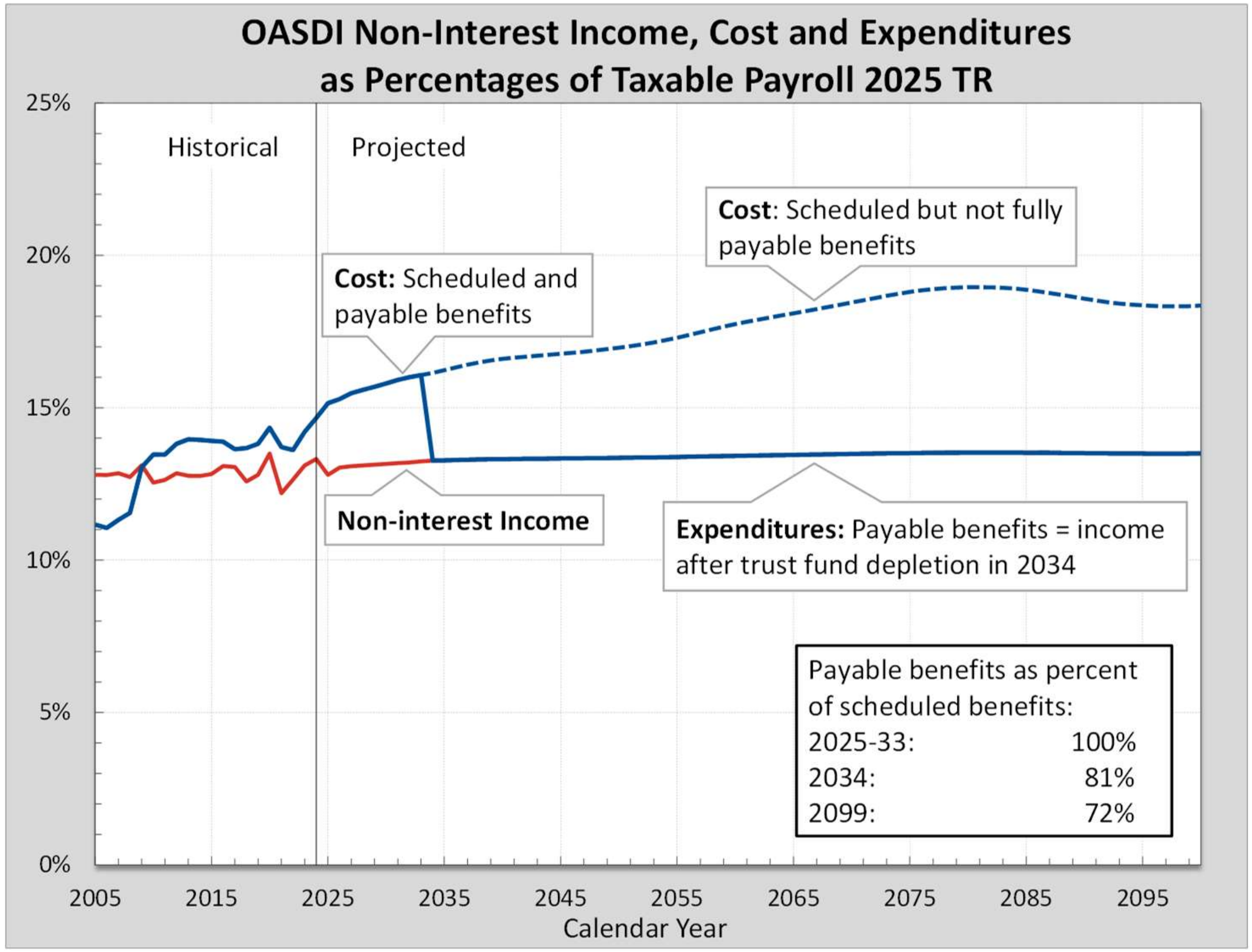


OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Persistent negative annual cash-flow balance starting in 2010.

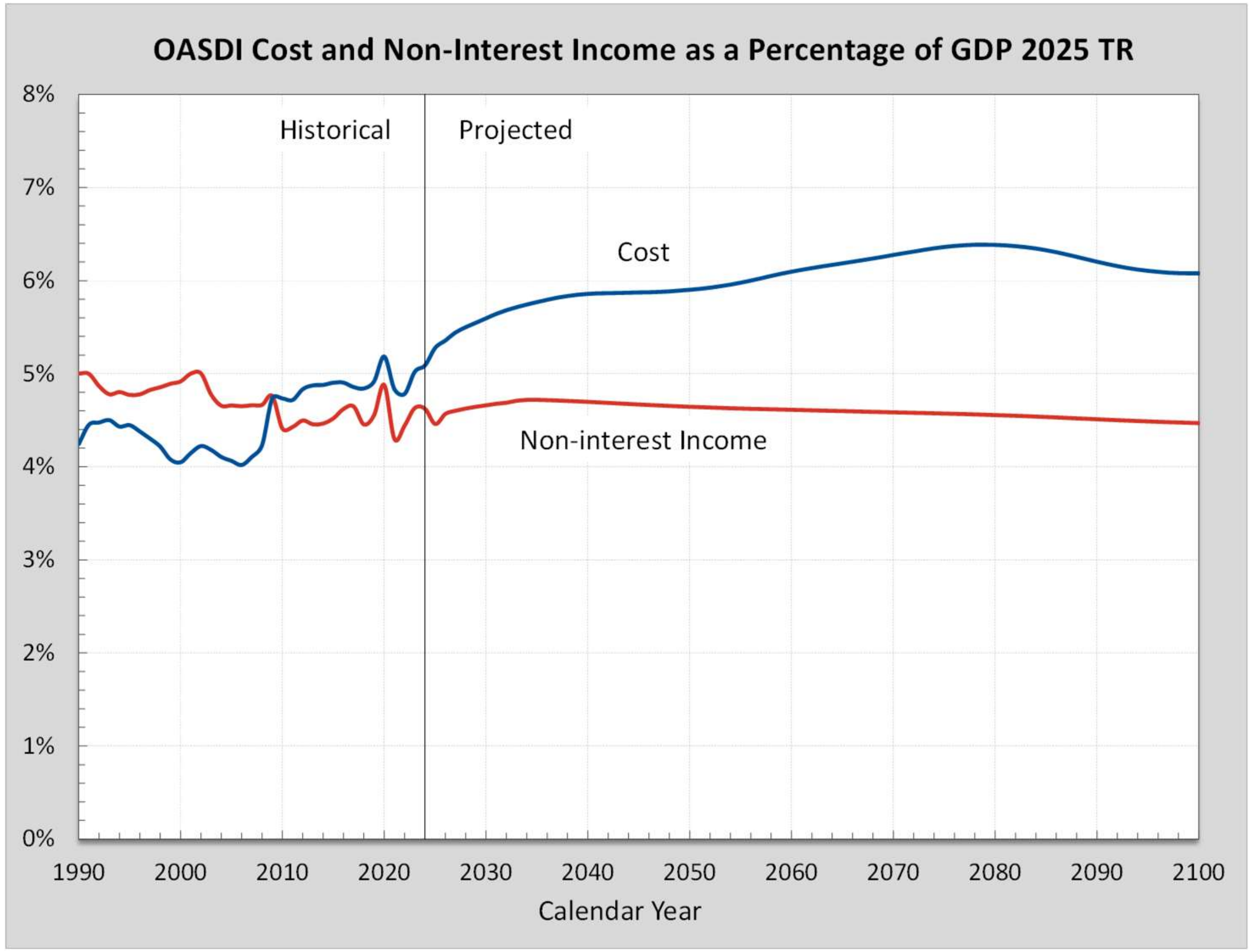
81 percent of scheduled benefits still payable at trust fund reserve depletion; was 83 percent in last year's report.

72 percent payable for 2099; was 73 percent for 2098 in last year's report.



SUSTAINABILITY: Cost as percent of GDP

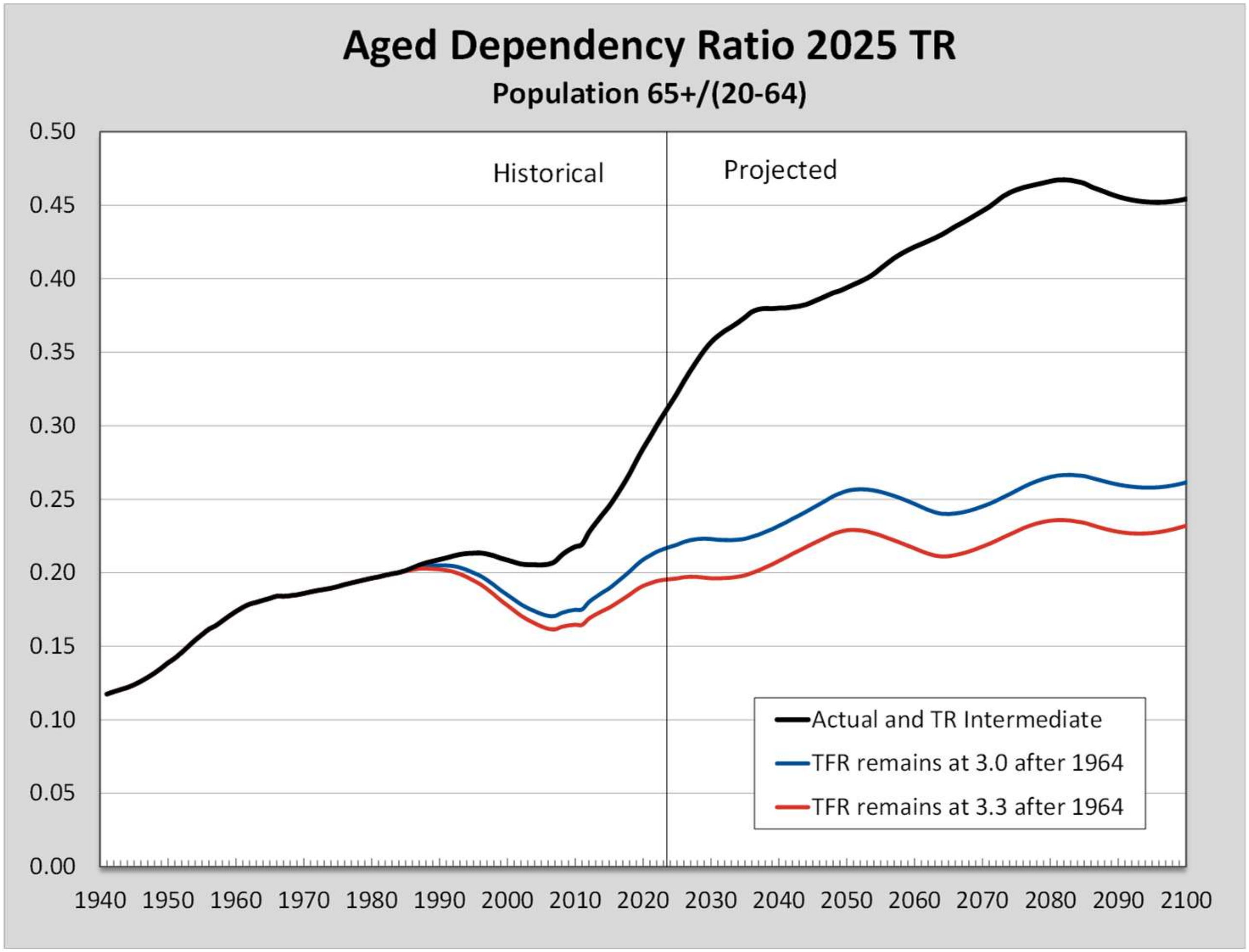
Rises from a 4.2 percent average in 1990-2008, to a peak of about 6.4 percent for 2079, and then declines to 6.1 percent by 2099.



Aging – Change in Age Distribution

This is the primary reason for increasing cost relative to payroll and GDP.

Mainly due to drop in birth rates.

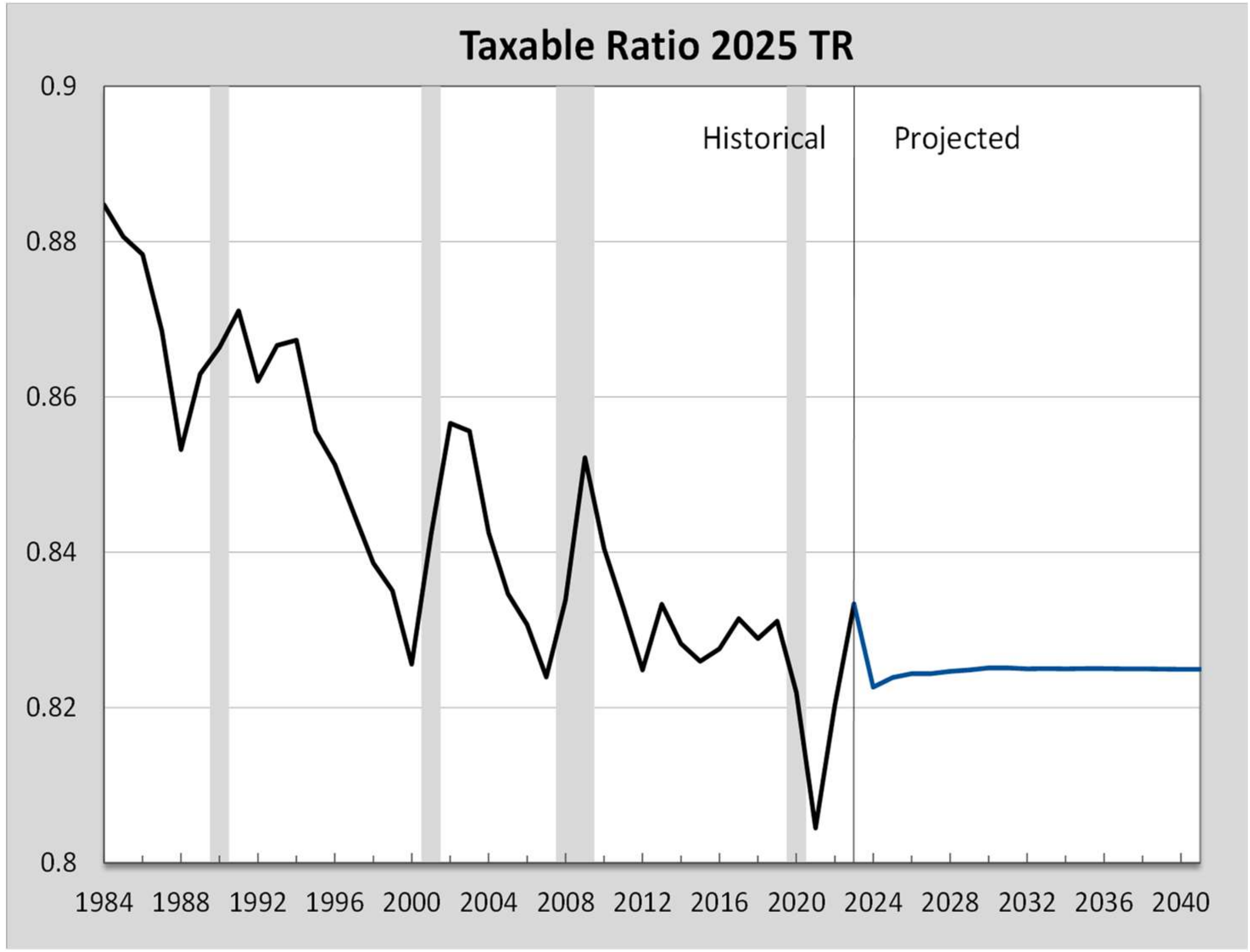


Another Reason: Ratio of Taxable Earnings to All OASDI Covered Earnings

Declined since 1983 due to increasing concentration of earnings at the top of the distribution.

The share of workers earning more than the OASDI taxable maximum has remained stable at about 6 percent, but between 1983 and 2000, the average inflation-adjusted earnings of those top 6 percent rose by 62 percent vs. only 17 percent for the bottom 94 percent of earners.

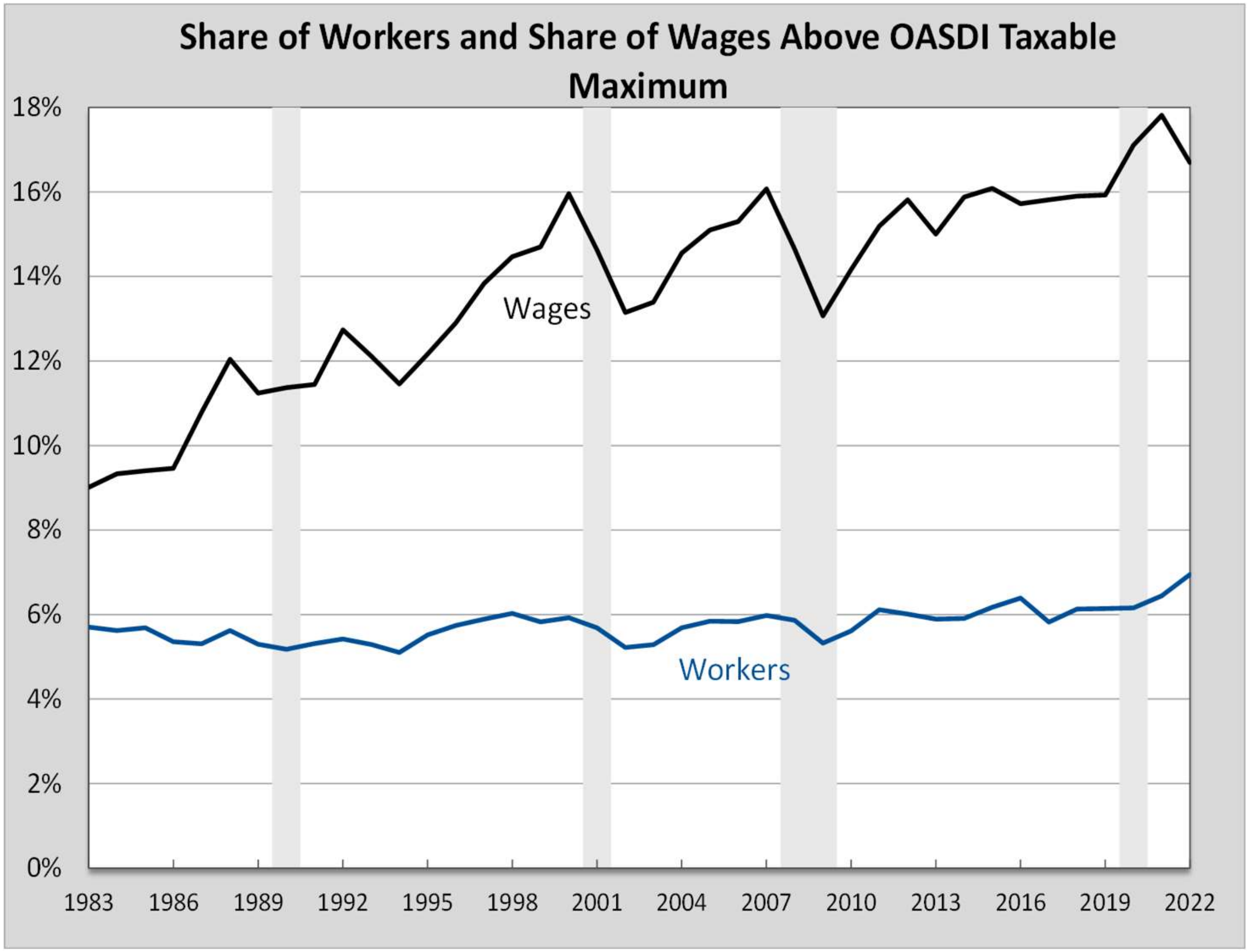
The decline in the ratio slowed down in the 2000s and ceased after 2012 except for cyclical effects.



OASDI-Covered Wages in Excess of the Taxable Maximum

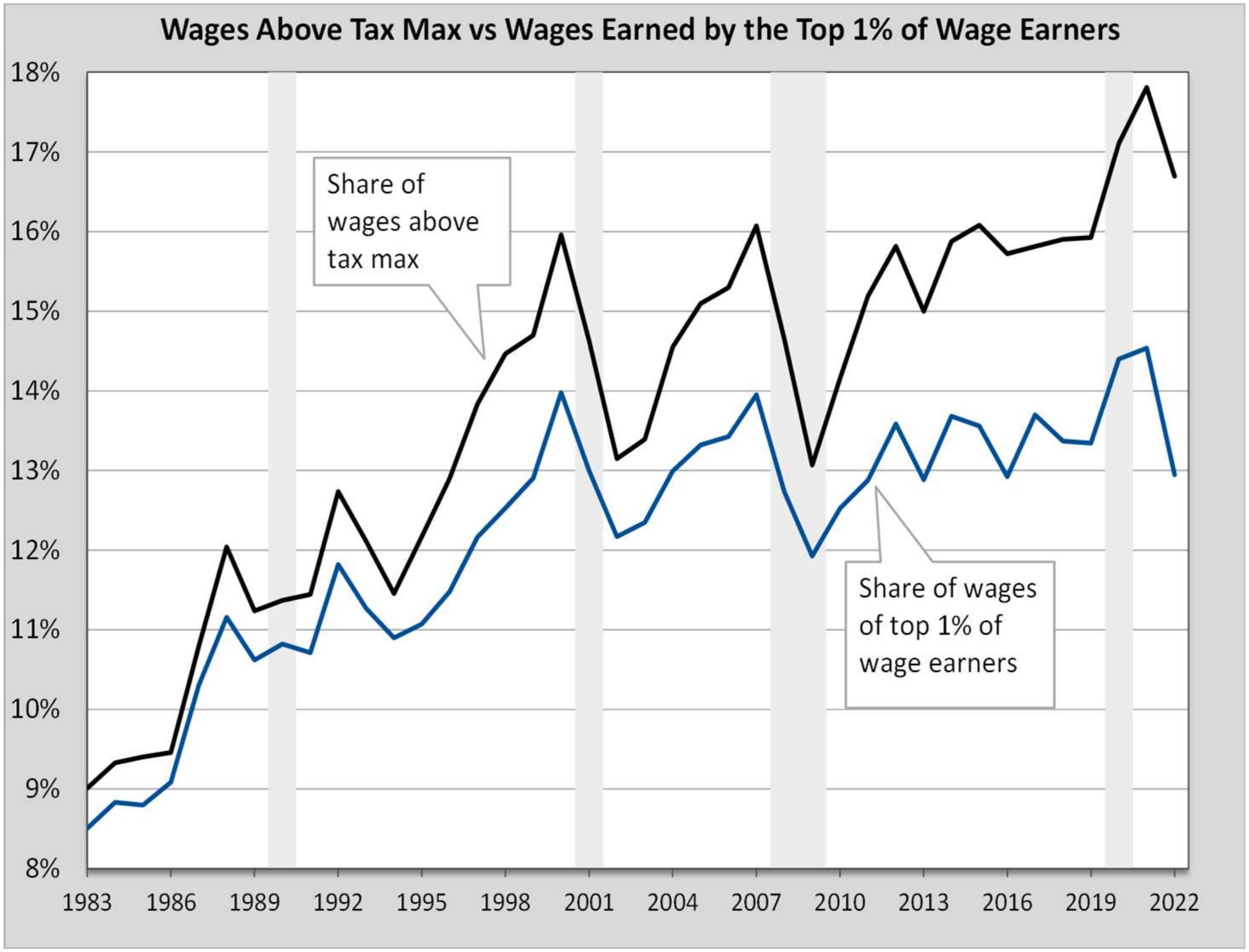
The share of *workers* with wages exceeding the OASDI taxable maximum remained fairly stable around 6 percent.

The share of *wages* in excess of the OASDI taxable maximum has generally risen since 1983 and it stood at 16.7 percent in 2022 (the latest historical data available).



Share of Wages Earned by the Top 1% of Wage Earners

The trend and fluctuations in wages earned by the top 1% significantly influence the trend and fluctuations of all wages above the taxable maximum.

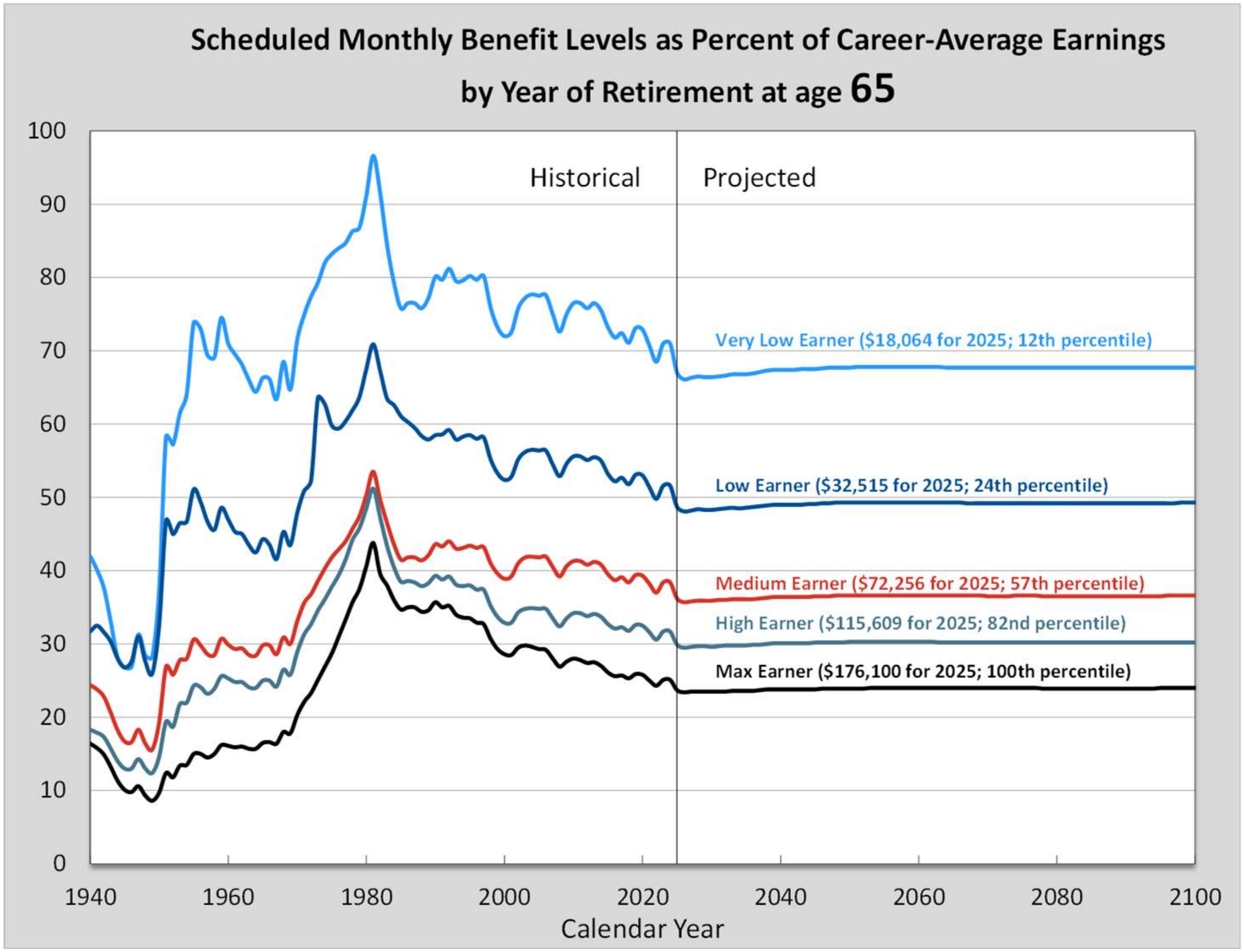


How to Eliminate the Social Security Long-Term Actuarial Deficit

Make choices addressing OASDI shortfall 2034-2099:

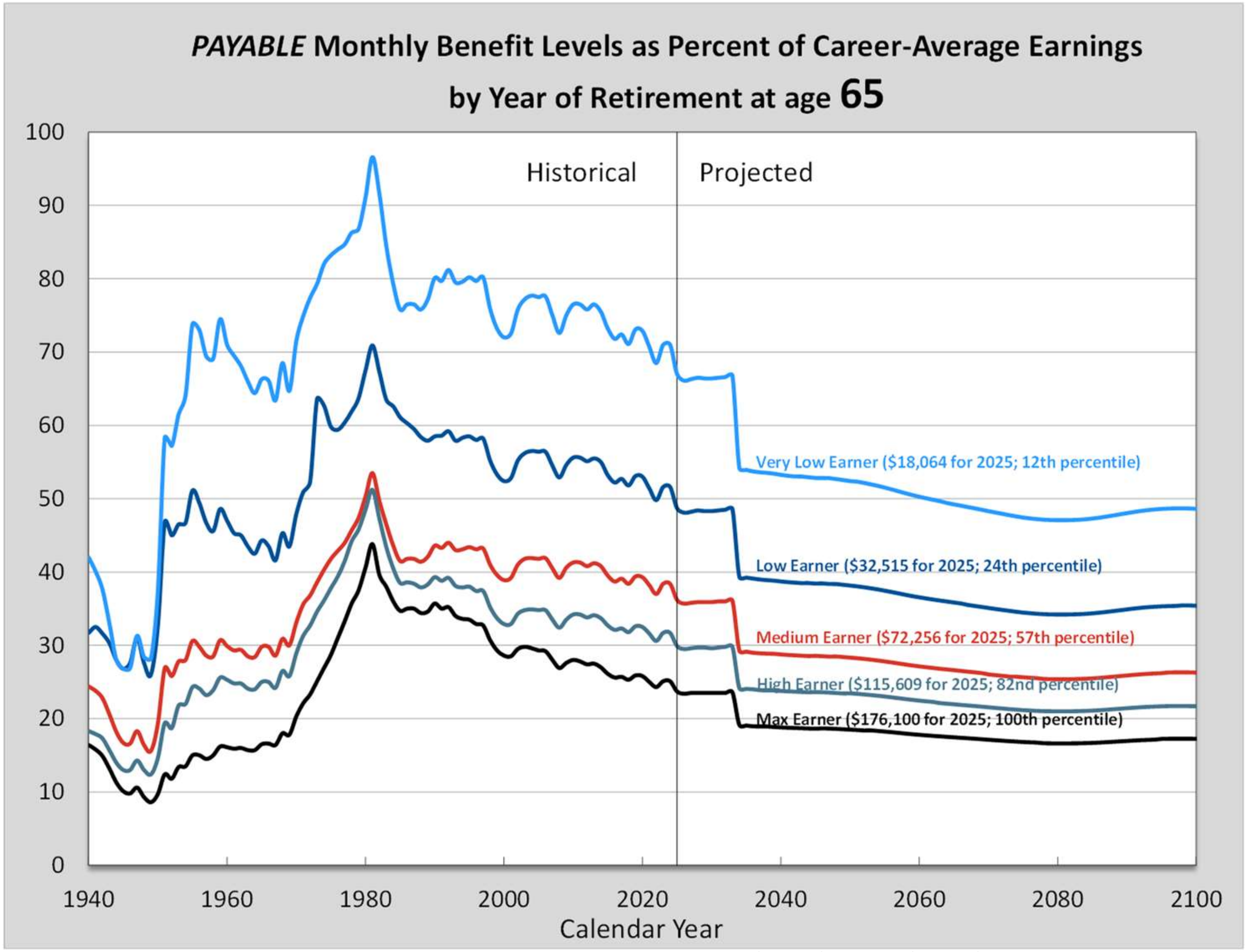
- Raise scheduled revenue by 2034 by about one-third
- Reduce scheduled benefits by 2034 by about one-fourth
- Or some combination of the two

Replacement Rates Based on the 2025 TR



Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html

Payable Benefits Under the Law, After Trust Fund Reserves Are Depleted, Are Even Lower



Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html

Ways to Lower Cost

- Lower benefits for retirees – not disabled?
  - Increase normal retirement age (lowers OASI 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 by using the chain-weighted CPI-U
  - But, some say increase it with the CPI-E (based on purchase of consumers over age 62)

Ways to Increase Revenue

- Raise the 12.4 percent OASDI payroll tax rate?
- 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
- Tax individuals' investment income?
  - Or potentially a wealth tax?
- Invest the trust funds in higher-yielding investments?
  - Potentially increasing risk

The Bottom Line

- Long-term projections provide information to assess solvency and changes needed to eliminate shortfalls.
- If trust fund reserves were to become depleted:
  - Full benefits could not be paid timely
  - NO pressure on the Budget or Federal Debt
  - So Congress must act, as it always has
- Straightforward solutions:
  - Add revenue and/or lower cost for OASDI
  - Comprehensive changes ***implemented*** by 2034

For More Information Go to http://www.ssa.gov/oact/

- There you will find:
  - The 2025 and all prior OASDI Trustees Reports
  - Detailed single-year tables for recent reports
  - Our estimates for comprehensive proposals and individual provisions
  - Actuarial notes
  - Actuarial studies
  - Extensive databases
  - Congressional testimonies
  - Presentations by OCACT employees