SOCIAL SECURITY: HOW BIG IS THE FINANCING CHALLENGE?

NASI 2017 Summer Academy for Interns
August 10, 2017
Steve Goss
Office of the Chief Actuary
Social Security Administration
SOLVENCY: OASDI Trust Fund Reserve Depletion 2034 (same as last year)

- Reserve depletion date varied from 2029 to 2042 in reports over the past 25 years (1992-2017)
- **DI Trust Fund — reserve depletion in 2028, five years later than last year**
  - Due largely to lower recent and near-term disability applications and incidence rate
Disability Incidence Rate Falls to Historic Lows

DI disabled worker incidence rate rose sharply in the recession, and has declined since the peak in 2010 to an extraordinarily low level for 2016.
OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll
Persistent Negative Annual Cash-Flow Balance Starting in 2010

77% of scheduled benefits still payable at trust fund reserve depletion
Annual deficit in 2091: 4.48 percent of payroll — 0.13 percent larger than last year
Aging (change in age distribution)

Mainly due to drop in birth rates

Aged Dependency Ratio 2017 TR
Population 65+/ (20-64)

- Actual and TR Intermediate
- TFR remains at 3.0 after 1964
- TFR remains at 3.3 after 1964
Changing Age Distribution Over Last 20 and Next 20 Years Mainly Due to Macro Aging—*permanent level shifts*
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 2017 TR

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

- Low Earner ($23,091 for 2017; 25th percentile)
- Medium Earner ($51,314 for 2017; 57th percentile)
- High Earner ($82,103 for 2017; 82nd percentile)
- Max Earner ($127,200 for 2017; 100th percentile)
How About at Age 62, Where Most Start Benefits?

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

Low Earner ($23,091 in 2017; 25th percentile)

Medium Earner ($51,314 in 2017; 57th percentile)

High Earner ($82,103 in 2017; 82nd percentile)

Max Earner ($127,200 in 2017; 100th percentile)
Payable Benefits Under the Law, After Trust Fund Reserves Are Depleted, Are Even Lower

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

- Low Earner ($23,091 in 2017; 25th percentile)
- Medium Earner ($51,314 in 2017; 57th percentile)
- High Earner ($82,103 in 2017; 82nd percentile)
- Max Earner ($127,200 in 2017; 100th percentile)
How to Fix Social Security Long-Term

Make choices addressing OASDI deficits 2034-2091:

- Raise scheduled revenue after 2033 by about 33%: increase revenue from 4.6 to 6.1% of GDP
- Reduce scheduled benefits after 2033 by about 25%: lower benefits from 6.1 to 4.6% of GDP
- Or some combination of the two
- Invest trust funds for higher return?
  - Limited help—it is a PAYGO world
  - So invest in coming generations of workers