Social Security Actuarial Status
Update and Perspective

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Method for Social Security Financing

1) Payroll tax invested in Trust Funds
   Also tax on benefits and interest income

2) Pay-As-You-Go Financing
   Maintain contingency reserve because----
   No significant borrowing authority
   Must warn Congress to act in time

3) Annual Trustees Reports since 1941
   Congress has always acted in time
   Trust fund reserve depletion is the trigger
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

Social Security Trust Fund Ratios
Assets as Percent of Annual Cost
Trustees Report Intermediate Projections

Historical

OASDI 2017TR
OASI 2017TR
DI 2017TR
OASDI 2016TR
OASI 2016TR
DI 2016TR

Tax Rate Reallocation

Changes in Solvency Projections for the DI Trust Fund; 2008 Recession Offset “New Economy”; Cycles Still Happen


- "New Economy" irrational exuberance
- 2008 Recession back to reality
- Tax-Rate Reallocation
Big News: Applications for Disability Benefits Still Falling

At the peak of the last economic cycle in 2007, applications were low, but increased rapidly in the recession to over 2 million in 2010. In 2016, with the economy still not fully recovered, applications were below the 2007 level. **2017 even lower!!**
Even with the Economy NOT Yet Back to Mid-Cycle

Despite the low unemployment rate (4.8 percent in 2016), employment is estimated to be about 2 percent below full employment level.
So… What is the Cash-Flow Shortfall for DI?
DI Annual Cost and Non-Interest Income as Percent of Taxable Payroll
93% of scheduled benefits still payable at trust fund reserve depletion
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

Cost: Scheduled and payable benefits

Cost: Scheduled but not fully payable benefits

Non-interest Income

Payable benefits as percent of scheduled benefits:
2016-2033: 100%
2034: 77%
2091: 73%

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 2037, then declines to under 5.9% by 2050, and generally increases to 6.1% by 2091.
Why? 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
How About Labor Force Participation

**Trustees:** Age-sex adjusted labor force participation rate recovers; rises with longevity

**Recent Technical Panel:** No further recovery; then males drop, females stable

![Labor Force Participation Graph](image_url)
But, Wait—How About Budget Scoring? How do entitlements affect Federal debt?

Source: Congressional Budget Office, June 2016
Take Note. Budget Scoring Is Inconsistent with the Law, and All Past Experience.

- **See Actuarial Opinion in the 2017 TR (also 2014, 2015, and 2016 TR)**

  1) Reserve redemptions through 2034 just spend the excess revenues collected and invested in earlier years.

     ➢ *This just replaces debt owed to the TF with debt owed to the public*

  2) If reserves deplete in 2034, the $12.5 trillion unfunded obligation through 2091 cannot be paid under the law.

     ➢ *Budget deems these “expenditures” creating publicly held debt !!!*

  3) Therefore-----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 over time.
So—What If We Projected Federal Debt Consistent With the Law? Dramatic difference back in 2015!!!
But starting 2016, CBO projects the total Federal Budget only 30 years!

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 2016
- Less OASDI Unfunded Obligations (2016 Trustees Projections)
- Less OASDI&HI Unfunded Obligations (2016 Trustees Projections)
The Bottom Line

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

• If trust fund reserves were to deplete:
  – Full benefits cannot be paid timely
  – NO pressure on the Budget or Federal Debt
  – So Congress must and WILL act, as always

• Straightforward solutions:
  – Add revenue and/or lower cost for OASDI
    • Comprehensive changes *implemented* by 2034
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
• Achieve “sustainable solvency”
  – Trust Fund reserves stable or rising as percent of annual cost
  – This is a new concept since about 1995---- Kerry/Simpson and the 1994-96 Advisory Council
Questions----------------

• If “aging” is the problem, what to do?
  – Index the normal retirement age after it hits 67??
    • Remember longevity is just a small part of the future aging
  – How to address the lower birth rate??

• Fewer children pay more of their earnings?
  – Increase payroll tax rate, or
  – Tax investment income (like the ACA)

• Elders get lower monthly benefits?
  – Reduce the benefit replacement rate below 40% average?
  – What implications given the demise of private defined benefit pension plans?
For More Information Go To
http://www.ssa.gov/oact/

• There you will find:
  – 2017 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
  – Extensive databases
  – Congressional testimonies
  – Presentations like this