What Is the Legislative Mandate for the Annual Report?

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
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
Applications for Disability Benefits Continue to Fall

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 below the sustainable full-employment level, applications have dropped below the 2007 level.
Employment Remains below Full Employment

Despite the low unemployment rate (4.8 percent in 2016), employment is estimated to be about 2 percent below full employment level.
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

Average 1990-2016 5.27
Ultimate Assumption 5.40

DI Age-Sex-Adjusted Incidence Rates:
Historical and Intermediate Assumptions for 2012 through 2017 Trustees Reports
Fewer Disabled Worker Beneficiaries
Fewer now and in near term based on recent applications and incidence rates

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

- 2008 TR (no recession)
- 2016 TR
- 2017 TR

Year:
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012
- 2013
- 2014
- 2015
- 2016
- 2017
- 2018
- 2019
- 2020
- 2021
- 2022
- 2023
- 2024
- 2025
- 2026
**DI Annual Cost and Non-Interest Income as Percent of Taxable Payroll**

93% of scheduled benefits still payable at trust fund reserve depletion

Annual deficit in 2091: 0.38 percent of payroll — 0.01 percent smaller than last year

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<table>
<thead>
<tr>
<th>Calendar year</th>
<th>Cost: Scheduled but not fully payable benefits</th>
<th>Expenditures: Payable benefits = income after trust fund depletion in 2028</th>
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- **Non-interest Income**
  - Payable benefits as percent of scheduled benefits:
    - 2016-27: 100%
    - 2028: 93%
    - 2091: 82%

- **Cost**: Scheduled benefits and payable benefits
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

Cost: Scheduled and payable benefits
Cost: Scheduled but not fully payable benefits
Non-interest Income

Payable benefits as percent of scheduled benefits:
2016-33: 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.
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
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
Principal Reasons for Change in 2017 Report

Actuarial Balance—Net Change of -0.17 percent of payroll

- Valuation Period: -0.05 percent
- Higher recent mortality: +0.04 percent
- Lower recent fertility, immigration and other data updates: -0.07 percent
- Lower level of productivity & GDP (down by about 1 percent): -0.02 percent
- Lower avg real wage differential in near- and long-term: -0.03 percent
- Starting values and other near-term economic assumptions: -0.03 percent
- Lower recent and near-term disability applications and incidence rate: +0.03 percent
- Other new data and methods improvements: -0.04 percent
Uncertainty Illustrations

Unrealistically narrow stochastic results due to lack of central tendency variation.

2017 TR OASDI Annual Cost Rate

- Low-Cost
- Intermediate
- High-Cost
- Stochastic 2.5%
- Stochastic 50%
- Stochastic 97.5%

Projection year:
- 2017
- 2032
- 2047
- 2062
- 2077
- 2092
Replacement Rates Based on the 2017TR

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)

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

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

**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)

Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html
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
• Invest trust funds for higher return?
  – Limited help—it is a PAYGO world
  – So invest in coming generations of workers
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)
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