Retirement Security for All Americans: The Role of Social Security

American Academy of Actuaries Briefing on “Modernizing the U.S. Retirement System – Aligning Policy With Reality”

Presented by Steve Goss, Chief Actuary
Social Security Administration
July 27, 2018
Social Security: What Does It Provide?

- Retirement and survivor benefits started in 1940
- Eligibility age was lowered from 65 to 62 in 1957 for women and 1962 for men
  - Full retirement age rises from 65 to 67 by 2022
- Disability benefits started in 1957

- Benefits rise with average wage across generations—but with CPI after eligible
- Payroll taxes are roughly pay-as-you go
  - Tax rate rose from 2% to 12.4% as the system matured
  - Minimal advance funding left investment in private hands
Over 95% of those over age 62 are eligible for benefits.

At the end of 2017, beneficiaries are:

- 42 million retired workers
- 9 million disabled workers
- 4 million widow(er)s
- 4 million children
- 2 million spouses
Social Security: What Does It Provide?

- Intent was a 3-legged stool
  - Social Security—floor of protection
  - Employer-provided pension
  - Personal savings
- Target 75-80% “replacement rate” in total?
- So how much has Social Security provided?
- And how much will it provide in the future?
  - First, consider benefit starting at age 65
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)
The large majority start benefits by NRA (now 66+), because there is no earnings test after NRA

Missed opportunity to purchase a CPI-indexed life annuity
  – By deferring start from age 66 to 70, the monthly payment increases by 32%
  – And this carries over to a surviving spouse
What if start benefits earlier than age 65 (Medicare eligibility age), say at 62?

Monthly benefits starting at age 62 are about:
- 20% lower than if you start at 65
- 25% lower than if you start at 66
And the reduction is for life
Replacement Rates at Age 62

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)
Social Security: What Does It Provide?

- But the trust fund reserves are projected to become depleted in 2034
  - If nothing is done, only 79% of scheduled benefits will be payable in 2034
  - And this drops to 74% by 2092
  - This is what can be provided with the currently-scheduled level of revenue for the program
Replacement Rates at Age 62: Payable Benefits

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

Calendar year

Payable benefits as percent of scheduled benefits:
- 2017-33: 100%
- 2034: 79%
- 2092: 74%

Expenditures: Payable benefits = income after trust fund depletion in 2034

Cost: Scheduled and payable benefits

Cost: Scheduled but not fully payable benefits
Rising Cost as a Percent of Payroll due to Changing Age Distribution (affects all 3 legs)
Solutions: Get to Sustainable Solvency (or at least make progress)

- By 2034, reduce cost by about 25% or raise revenue by about 33%
- Or some combination of these

- Lowering benefits and raising taxes will both put additional pressure on the other two legs

- Keep in mind, it is a PAYGO world, and accumulated assets are only worth what others will pay
The Big Shift in Employer-Sponsored Pensions: How Much Will Be in a Lifetime Annuity?

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

Some Ways to Lower Social Security Cost that Have Been Considered

https://www.ssa.gov/oact/solvency/provisions/index.html

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

- 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 a chain-weighted version
  - But some say increase it with the CPI-E (based on purchases of consumers over age 62)
Some Ways to Increase Social Security Income that Have Been Considered

https://www.ssa.gov/oact/solvency/provisions/index.html

- 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