

Social Security Actuarial Status

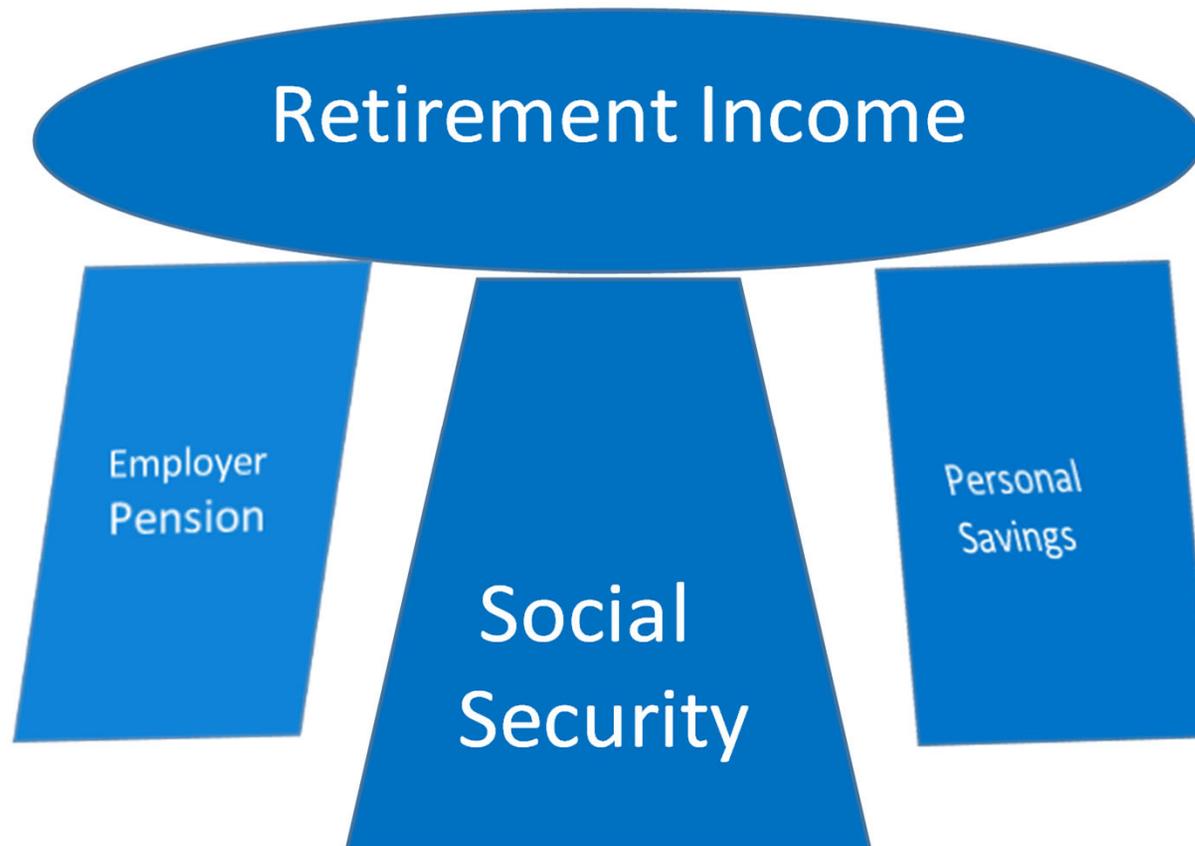
Recent Experience and Prospects for the Future

*Presented by Stephen C. Goss, Chief Actuary,
Social Security Administration*

*Florida School Finance Officers Association
November 16, 2022*

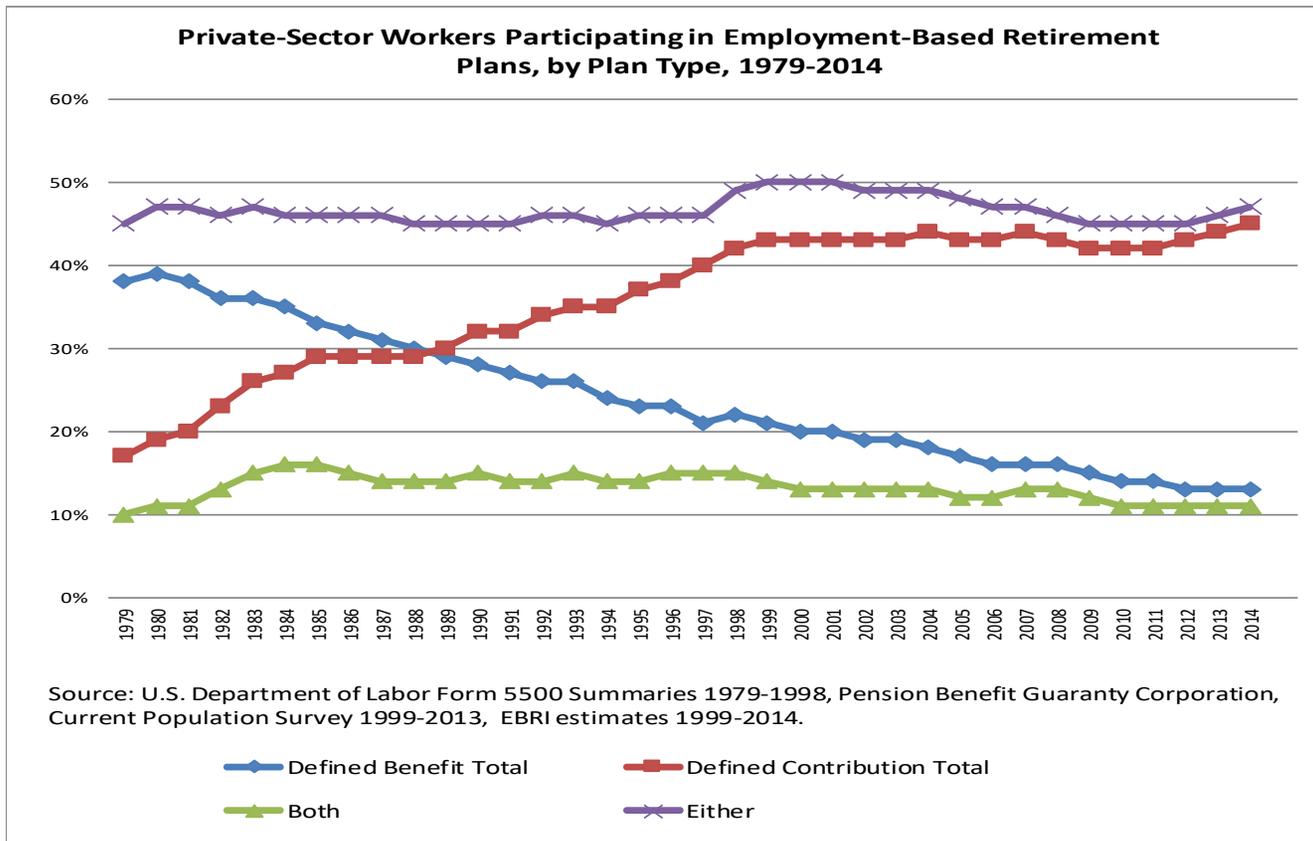
Three-Legged Stool: Basis for Retirement Planning

Common Wisdom: Aim for 75-80 Percent Replacement Rate



Defined Benefit Plans Replaced by DC Plans

And Lump Sum Options Increasing for DB Plans



Social Security: What Does It Provide?

- Retirement and survivor monthly benefits started in 1940
 - ***Never missed a payment!***
- Eligible age lowered from 65 to 62 in 1957 for women, 1962 for men
- Monthly benefits are higher if start receipt after 62, up to age 70
- Disability benefits started in 1957
- **Benefits rise with average wage across generations, and with CPI after initial eligibility**
- Payroll taxes are the primary source of financing
 - Rose from 2% in 1937 to 12.4% as system matured

Social Security Financing

- Basically “Pay-As-You-Go”
 - Current workers provide for current beneficiaries
 - Trust Funds are a “contingency reserve” because **cannot** borrow
 - Total spending to date cannot exceed income to date
- Current OASDI reserves (excess income) are \$2.9 trillion
 - Available to augment tax income as needed
- Reserves projected to deplete in 2035 under *current law*
 - But 80 percent of scheduled benefits would still then be payable
- **Expect Congress to act—as it always has**

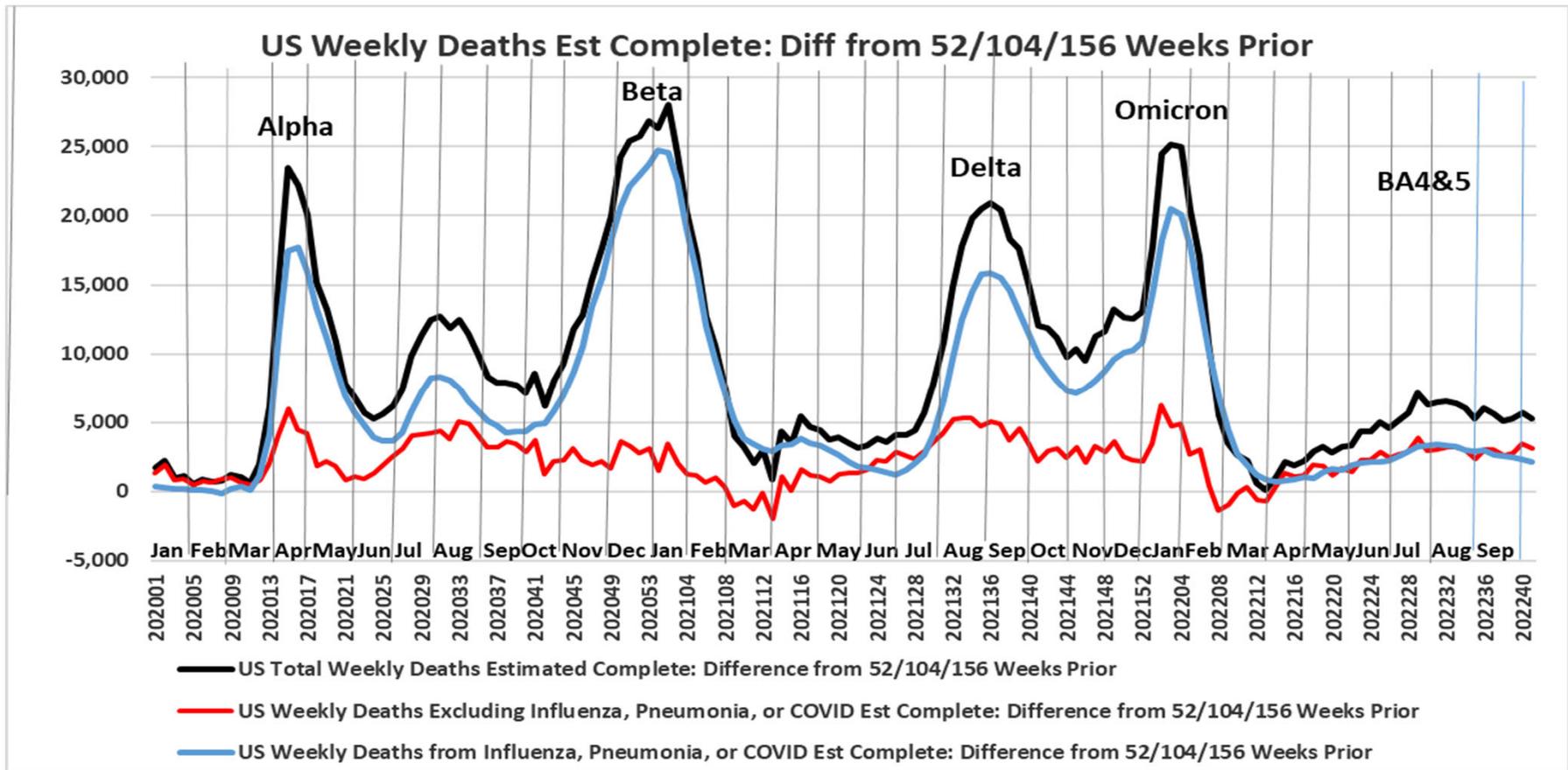
What We Do—Office of the Chief Actuary

- Baseline projections of OASDI cost and revenue under current law
 - For the Trustees Reports
 - For the President’s Budget (including SSI as well)
 - SSA and Governmentwide Financial Statements
- Estimates for proposals to change law, regulations, and policy
 - For Congress, the Administration, and others
- Actuarial notes and studies

COVID-19 Current and Long-Term Implications

- Raised death rates in US roughly 16% in 2020 and 18% in 2021
- Reduced life expectancy for affected cohorts
 - Many died earlier, disproportionately those with other conditions
 - Most survived infection, but will carry some residual compromise
 - Thus, possibly no net implication for “trend rate” in mortality
- However, this is the second coronavirus in 20 years
 - Expect periodically in a now mobile world population?
- If deaths are raised by 16% in 2 of every 20 years:
 - Average level of mortality will be 1.6% above “trend”

Excess Weekly Deaths for US—Estimated Complete

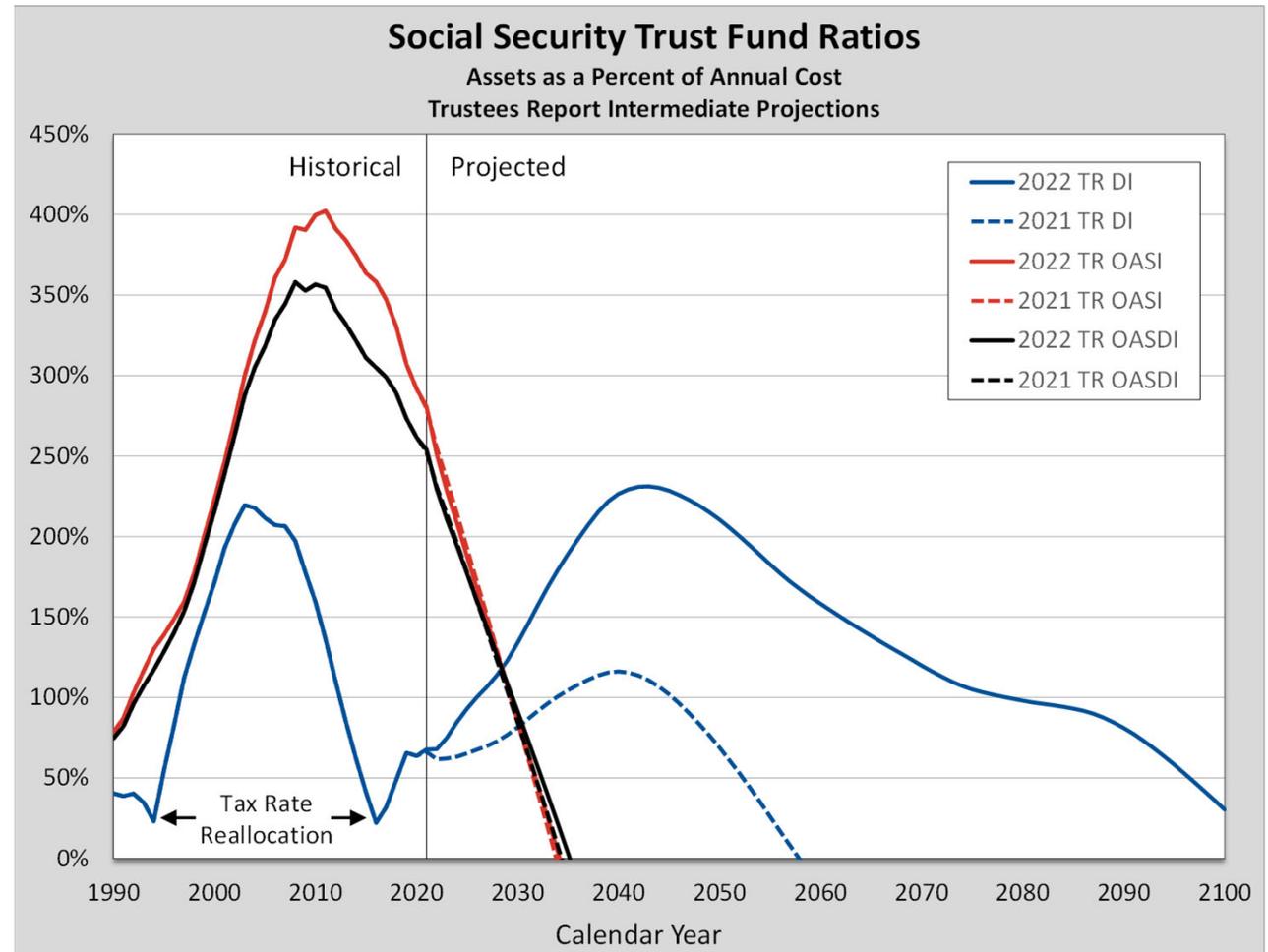


Solvency: OASI+DI Trust Fund Reserve Depletion in 2035 (one year later than last year)

Reserve depletion date varied from 2029 to 2042 in reports over the past 30 years (1993-2022).

DI Trust Fund: reserves do not deplete.

Due largely to continued low recent and near-term disability applications and awards, and a lower assumed ultimate disability incidence rate.

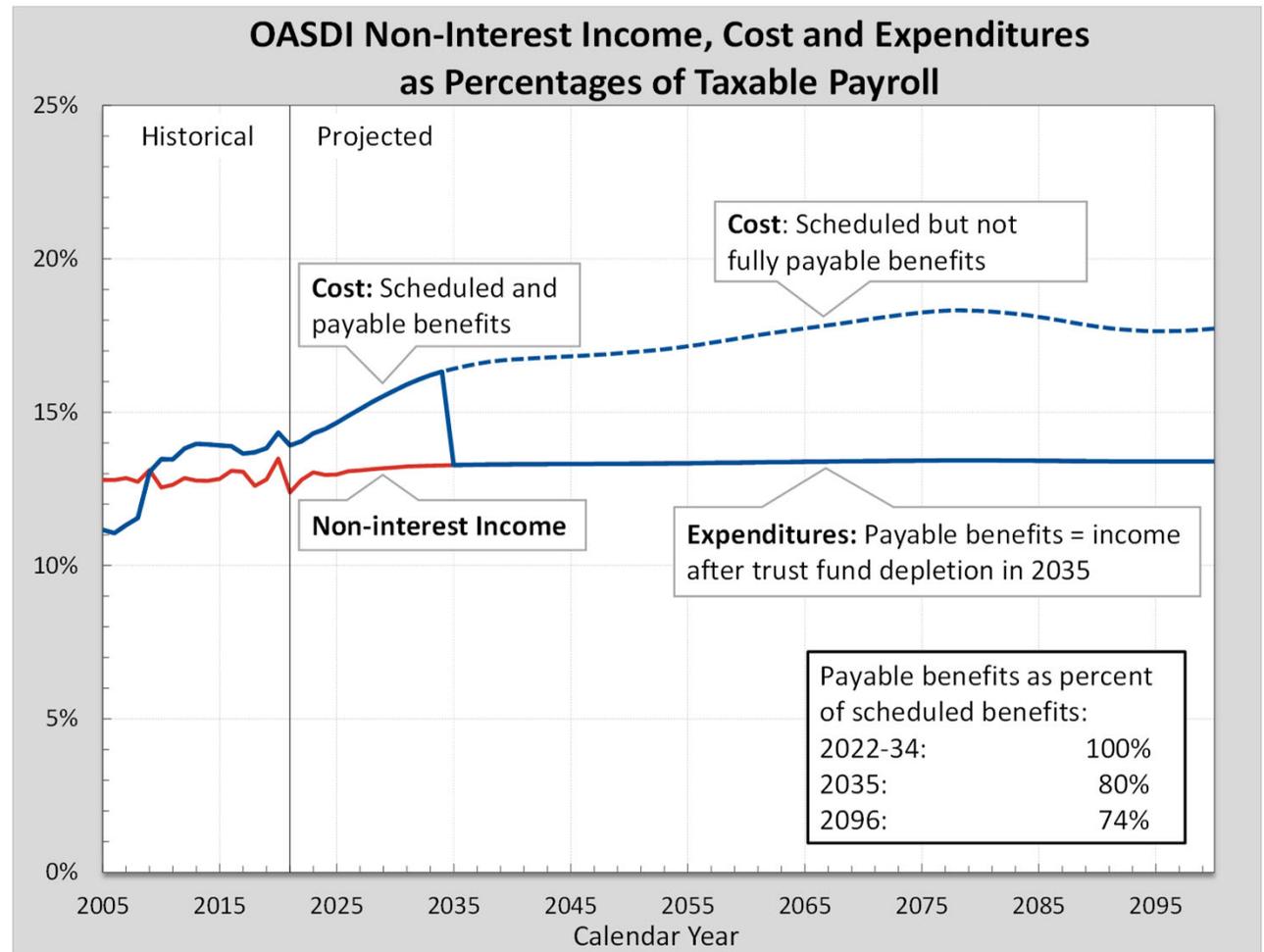


OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Persistent negative annual cash-flow balance starting in 2010.

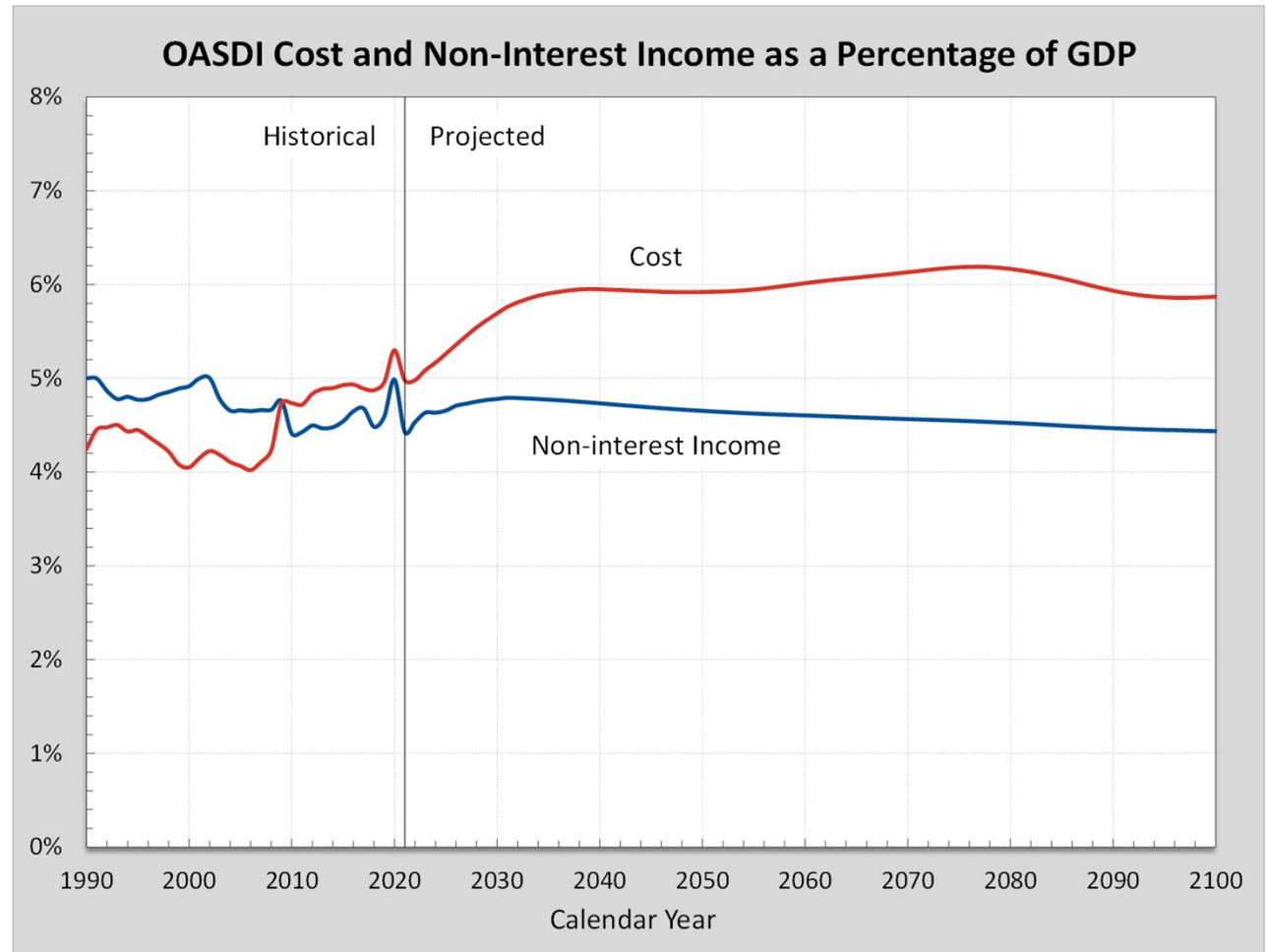
80 percent of scheduled benefits still payable at trust fund reserve depletion.

Annual deficit in 2096: 4.25 percent of payroll: 0.09 percent smaller than last year



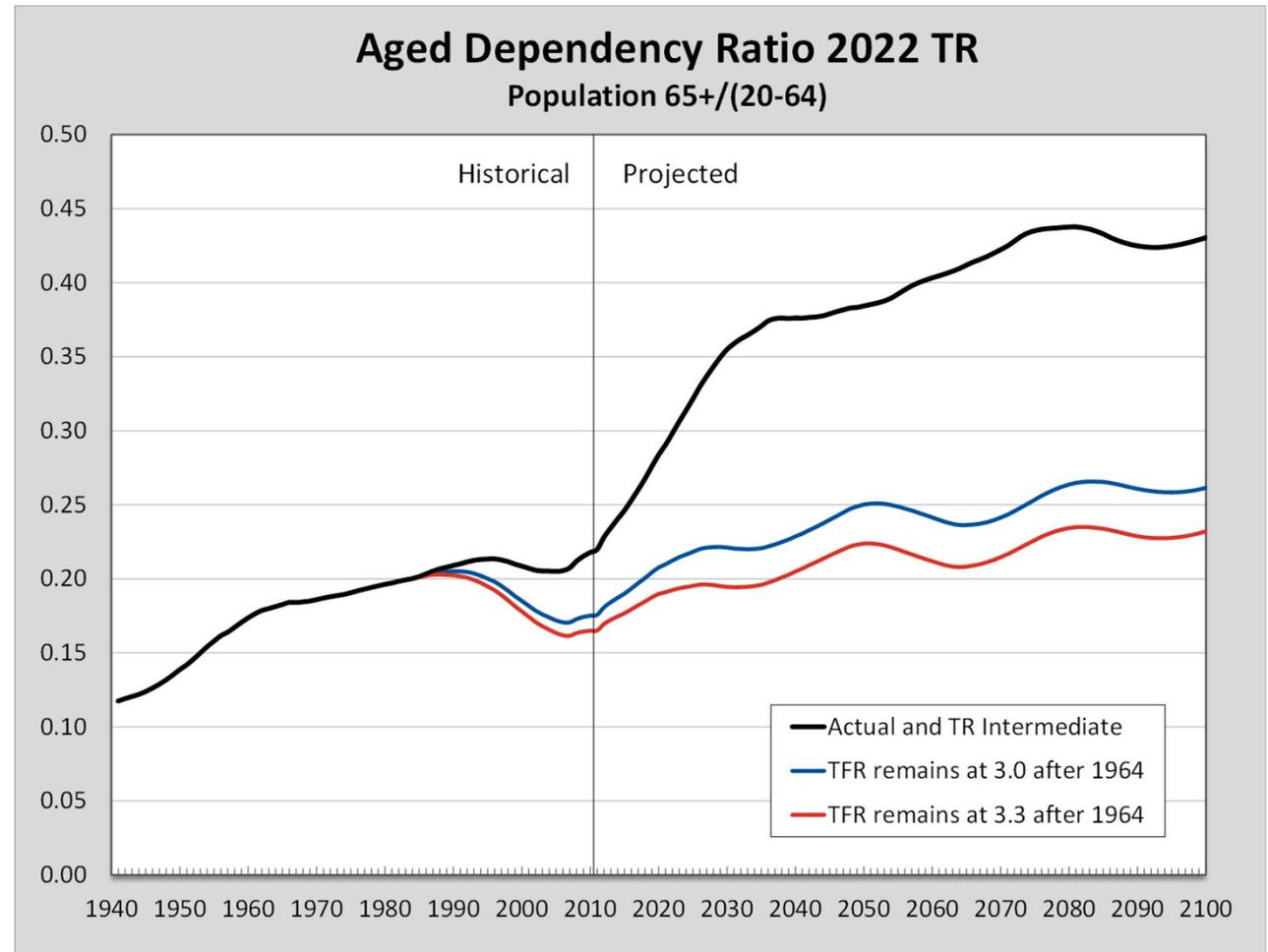
SUSTAINABILITY: Cost as percent of GDP

Rises from a 4.2 percent average in 1990-2008, to a peak of about 6.2 percent for 2077, and then declines to 5.9 percent by 2096.



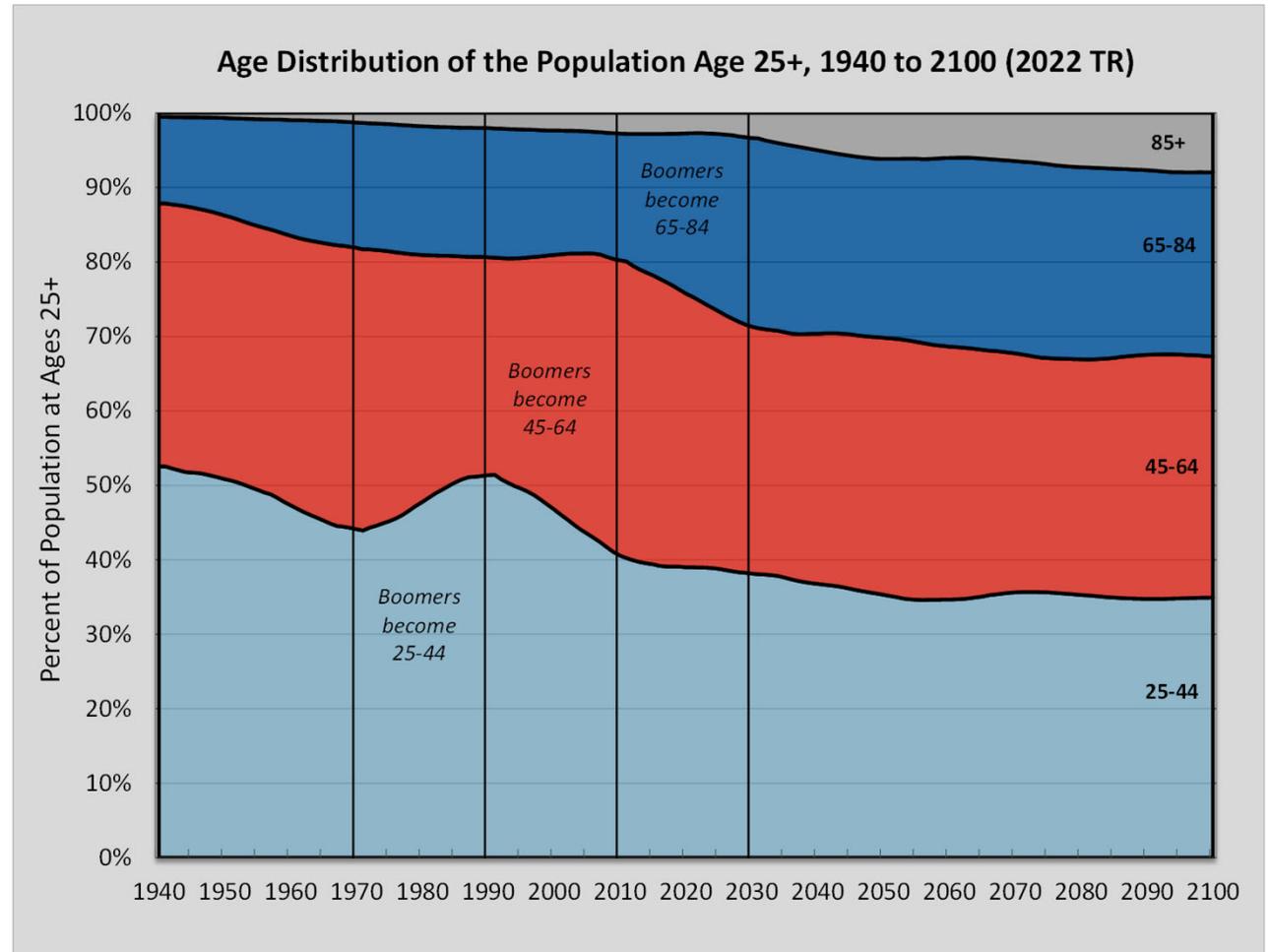
Aging - Change in Age Distribution

Mainly due to drop in birth rates



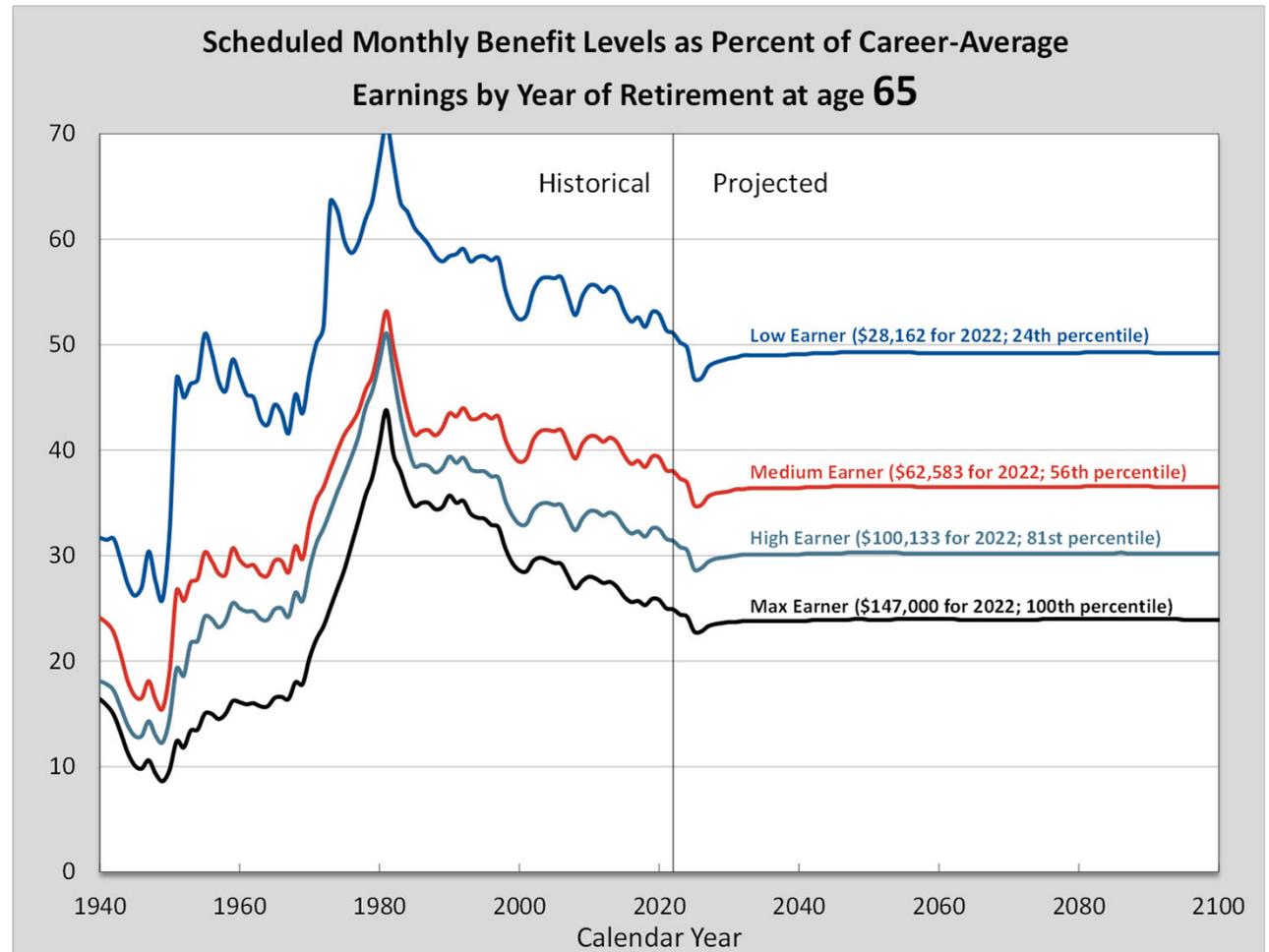
Changing Age Distribution Over Last 20 and Next 20 Years Mainly Due to Macro Aging

Permanent level shifts



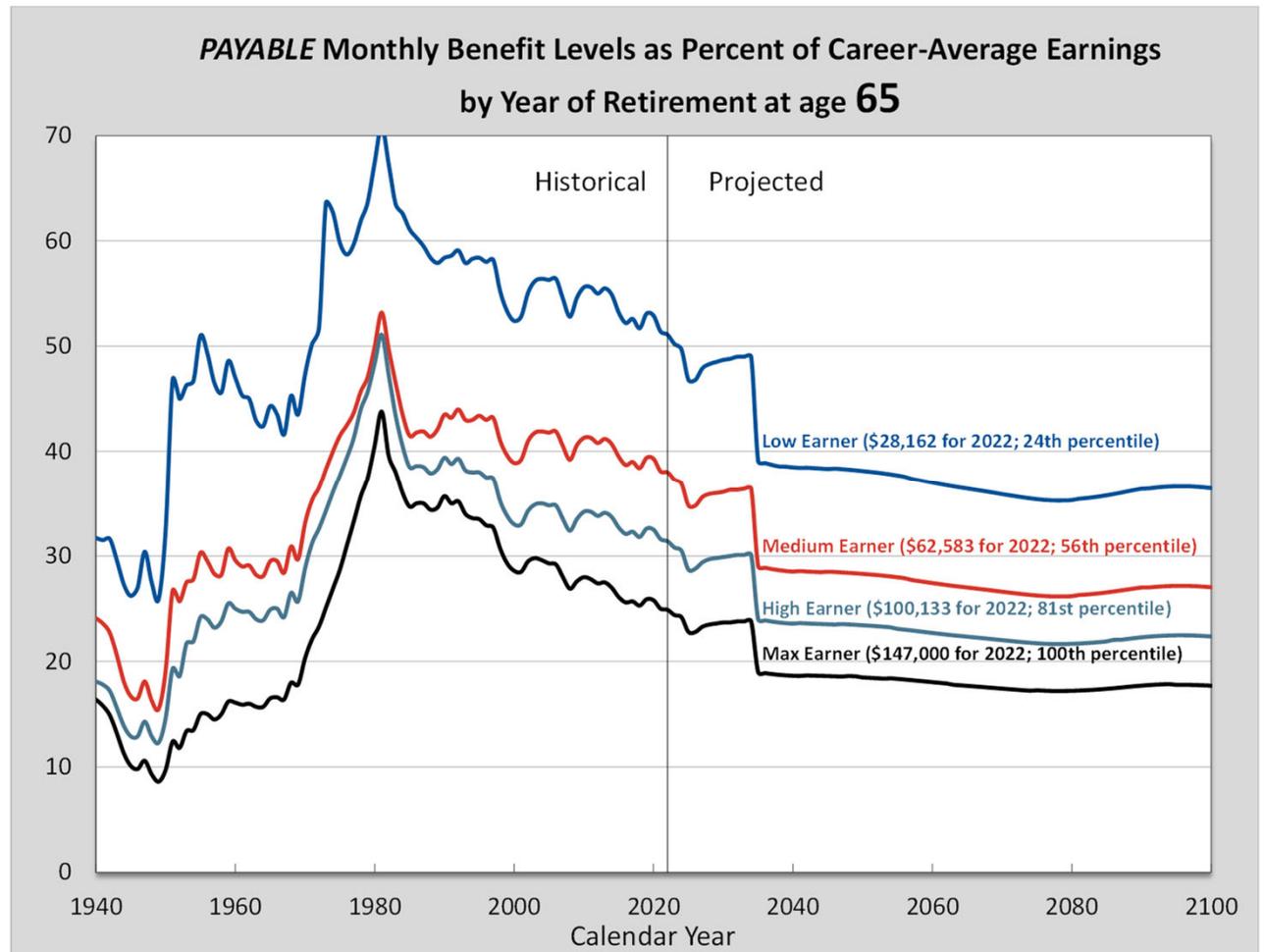
Currently
Scheduled Benefit
Replacement
Rates Based on
the 2022 TR

*But, 15 percent
higher if wait to
start benefits until
age 67, and
43 percent higher
if wait until age 70*



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, Would Be Lower



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 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 2035

Some 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 (Simpson Bowles 2010)
- Lower benefits mainly for high earners?
 - Reduce PIA above some level
 - Noting that higher earners generally live longer
- Lower benefits mainly for the oldest old?
 - Reduce the COLA
 - Others say increase it with the CPI-E (based on purchases of consumers over age 62)

Some 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
 - Provide additional benefit credit?
- Tax employer group health insurance premiums?
 - Affects only middle class if taxable maximum remains
- Tax investment income?
 - Or potentially a wealth tax?

Finally, Timing for Changes

- Historically, Congress has waited until reserve depletion is imminent
 - Given uncertainties, difficult to lower benefits or raise taxes until necessary
- Enacting “sooner” allows more options, more gradual phase in, and more advance notice
 - Best example: 17-year delay in implementing NRA increase in 1983 amendments
- OASDI reserve depletion now projected for 2035
 - The date has varied between 2029 and 2042 over the past 30 years

For More Information: <http://www.ssa.gov/oact/>

There you will find:

- Current and all prior OASDI Trustees Reports
- Detailed single-year tables for recent reports
- Our estimates for comprehensive proposals
- Actuarial notes; including replacement rates
- Actuarial studies; including stochastic
- Extensive databases
- Congressional testimonies
- Presentations by OCACT employees