

Discussion with Representatives of North Macedonia

OFFICE OF THE CHIEF ACTUARY

UNITED STATES SOCIAL SECURITY ADMINISTRATION

MAY 24, 2023

Nature of the Social Security Program in the United States

Provide basic benefits for retirement, disability, and survivors

- Floor of protection—to be augmented with employer benefits and/or savings
- Employer “defined benefit” plans have been replaced with “defined contribution” plans—“de-risking”

Financing and actuarial status

- Financing primarily from payroll tax of 12.4% on up to \$160,200 in 2023
- Benefits based on career-average earnings level “wage-indexed” to eligibility
 - Indexed by price increases after initial eligibility
- “Pay as you go” financing dependent on workers per beneficiary

Office of the Chief Actuary's Core Policy and Analytical Functions

The Office of the Chief Actuary (OCACT) develops projections of actuarial status for the US Social Security Old-Age, Survivors, and Disability Insurance (OASDI) program

- Annual reports on current-law status since 1941 for the Board of Trustees
- Semiannual projections for President's Budget

OCACT works with policymakers on developing potential changes and estimating effects

- Changes in law to improve “solvency” of the program—increase revenue or reduce benefits
- Changes in regulations to modify implementation of current law

Baseline (Current-Law) Long-Term Assumptions and Projections—Work with Board of Trustees and Their Staff

OCACT develops assumptions and proposes them to the Board of Trustees

- Subject to approval by the Trustees
- Actuarial opinion required in the report attesting to “reasonableness”

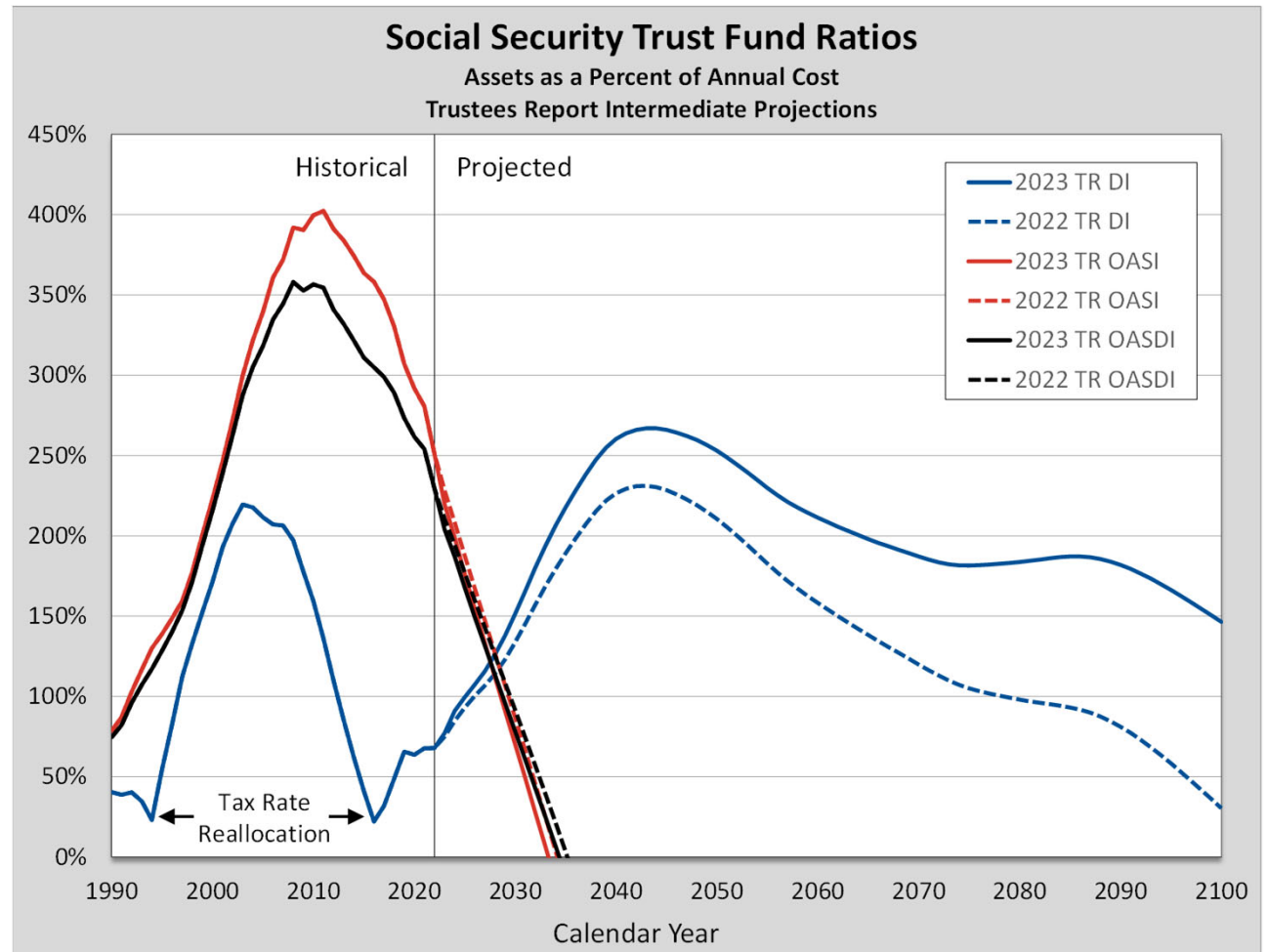
OCACT develops methods for projections

- We use multiple models
 - Macro (deterministic)
 - Stochastic
 - Microsimulation

Solvency: OASI+DI Trust Fund Reserve Depletion in 2034 (one year earlier than last year)

Reserve depletion date varied from 2029 to 2042 in reports over the past 30 years (1994-2023).

DI Trust Fund alone: reserves do not deplete, due largely to continued low recent and near-term disability applications and awards.

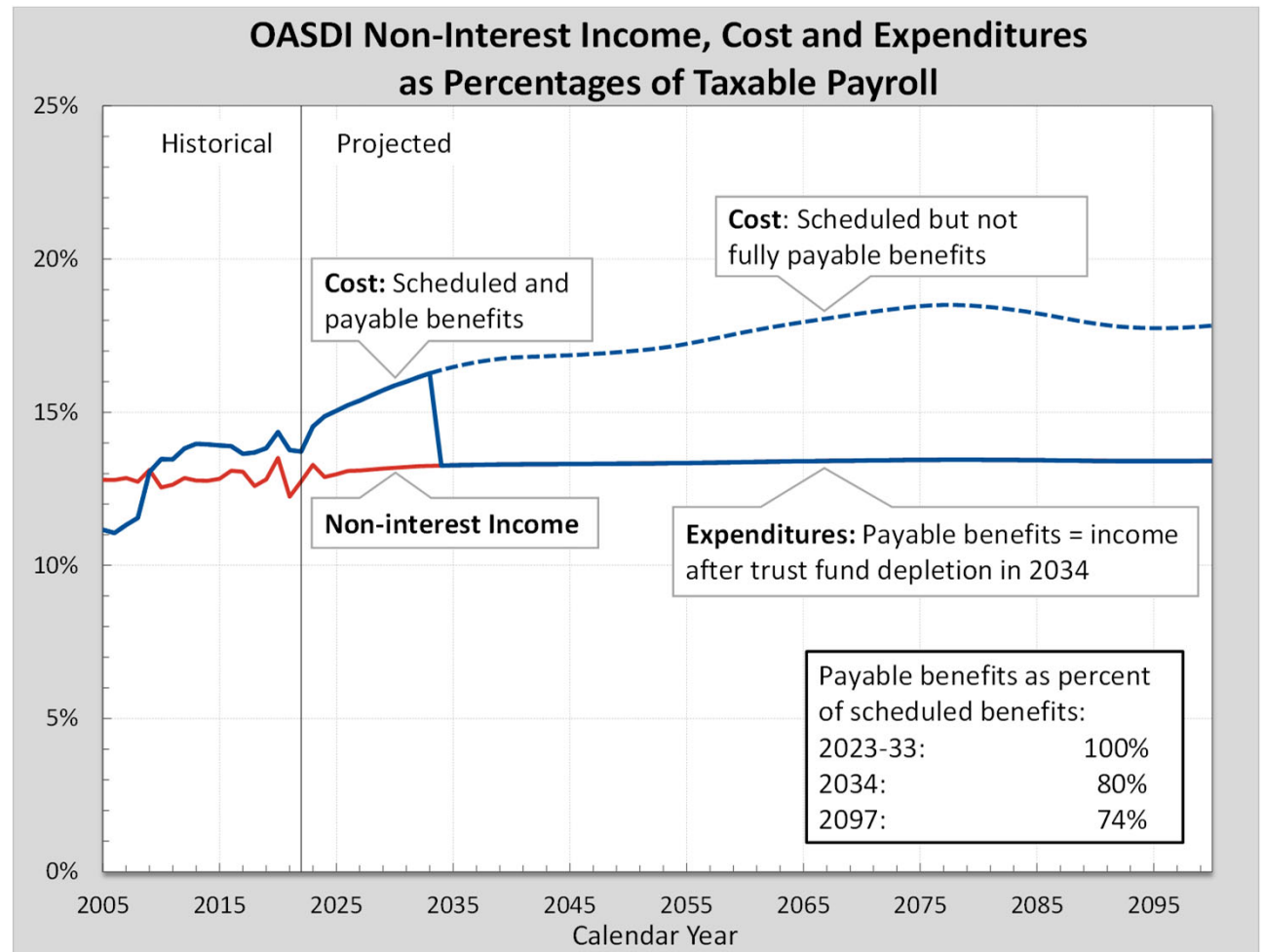


OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Persistent negative annual cash-flow balance starting in 2010.

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

Annual deficit in 2027: 4.35 percent of payroll: 0.09 percent larger than last year.



Selection and Validation of Appropriate Economic and Demographic Assumptions

Based on past experience, considering past conditions and expected future conditions

- Not a simple extrapolation of past trend or average level
- Essential to state assumptions and basis for expectation
- Sensitivity analysis of possible changes in assumptions

When making changes in assumptions: incremental, gradual

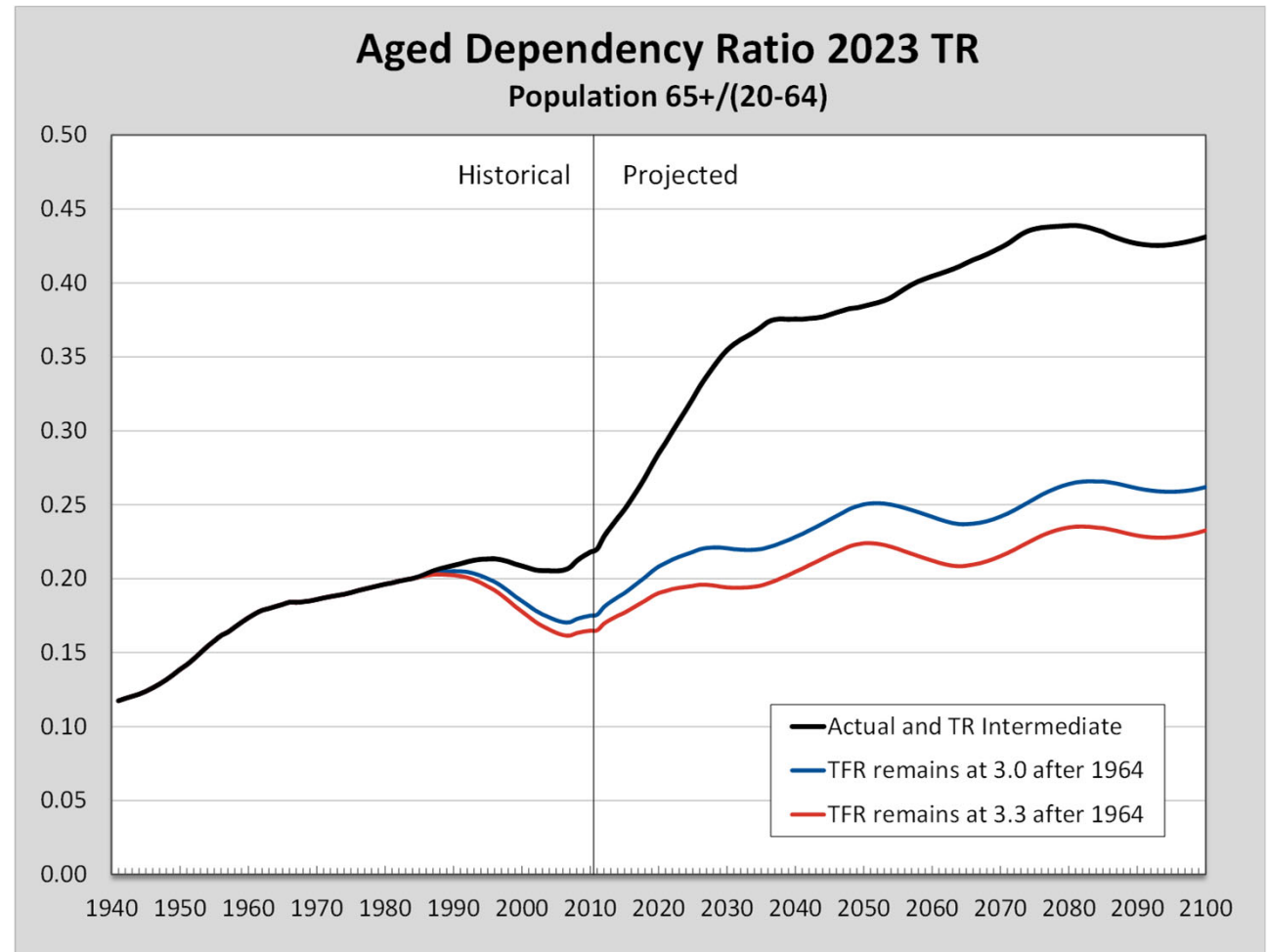
- Consistency and stability of assumptions and projections is important

Consult with Trustees plus auditors and numerous demographers, economists, and other actuaries

Aging – Change in Age Distribution

The primary reason for increasing cost relative to payroll and GDP.

Mainly due to drop in birth rates.



Updates to Policymakers: Current Law and Proposals to Change

Inform policymakers annually on actuarial status of Trust Funds and degree of any imbalance, shortfall of future financing under current law

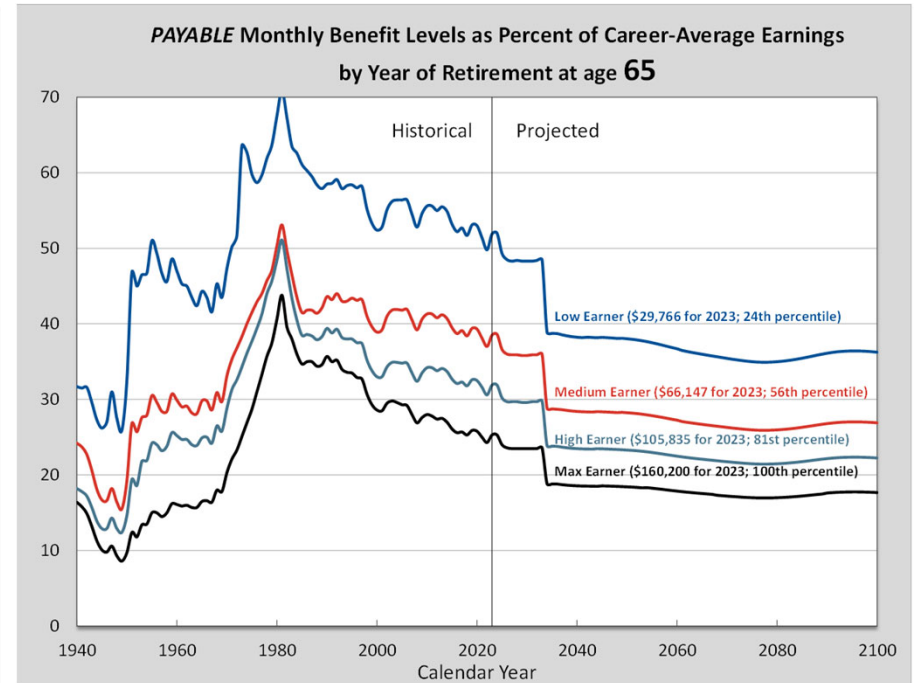
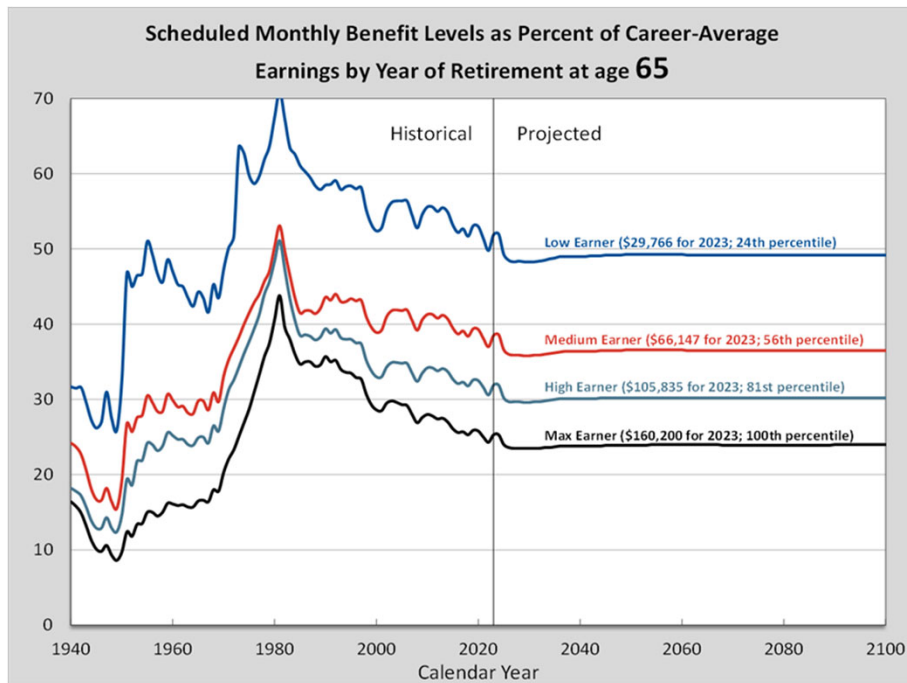
Develop and re-estimate proposals to change law and regulations

- As new proposals are desired by policymakers, based on THEIR goals
- Also update annually effects of past proposals considered
- Thus providing a wide range of potential changes for different goals

Provide effects on Trust Fund sufficiency, on cost relative to payroll and GDP, implications for the Federal Budget, and implications for benefit levels

Managing Public Expectations About Income Replacement Expected From Social Security

Benefit replacement rates: Vary by career earnings level, and by solvency (adequacy of financing)



Lessons on Communication From Previous Experience

Language and context essential

Example 1:

- Trust fund reserve depletion means continuing tax income is insufficient to fully pay scheduled benefits—NOT trust fund “running out of money”

Example 2:

- If trust fund reserves become depleted, then full benefits would not be payable
- But others say the shortfall would be covered from general federal tax revenue increasing federal debt—which is NOT true under current law

North Macedonia Strives to Build Actuarial Capacity—Key Roles and Responsibilities That Should Be Created In-House

Demographic models and assumptions

- Birth, death, marriage, immigration, disability rates

Economic models and assumptions

- Employment rates and assumed growth in prices and earnings levels
- Expectations for “real growth” in worker productivity and earnings

Models for programmatic expectations

- Ages at retirement, rates and prevalence of disability

Building and Maintaining Capacity in our Unit and Among Stakeholders Who Need to Understand the Modeling Results

Must maintain a fully competent team of actuaries, demographers, and economists

Must maintain models that fully project all financial aspects of the program

Must recruit new staff and maintain experienced staff, anticipating retirements with new hires to be assimilated into the team

For More Information Go To <https://www.ssa.gov/oact/>

There you will find:

- The 2023 and all prior OASDI Trustees Reports
- Detailed single-year tables for recent reports
- Our estimates for comprehensive proposals and individual provisions
- Actuarial notes; including replacement rates
- Actuarial studies; including stochastic
- Extensive databases
- Congressional testimonies
- Presentations by OCACT employees