



Session 3C: Updates on the Financial Status of Social Security and Proposals to Change the Program

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Moderator:

Piotr Krekora, ASA, EA, FCA, MAAA

Presenters:

Karen Glenn, FSA, EA, MAAA

Daniel Nickerson, ASA

Michael Stephens, ASA, MAAA

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Today's Presentation

- Social Security's actuarial status: 2025 Trustees Report results
- Main reasons for the worsening financial outlook over time
- What's happened since the 2025 report was released?
- How to eliminate the long-term actuarial deficit: individual changes and comprehensive proposals

Social Security's Actuarial Status: 2025 Trustees Report Results

What is the Legislative Mandate for the Social Security Annual Report?

1. Trust Fund operations of the past year and the next five years
2. Actuarial status of the trust funds
 - The ability to meet the cost of scheduled benefits with scheduled revenue and trust fund reserves
 - And the extent to which scheduled revenue would fall short under current law, indicating the size of legislative changes that will be needed

The report has been produced every year starting in 1941!

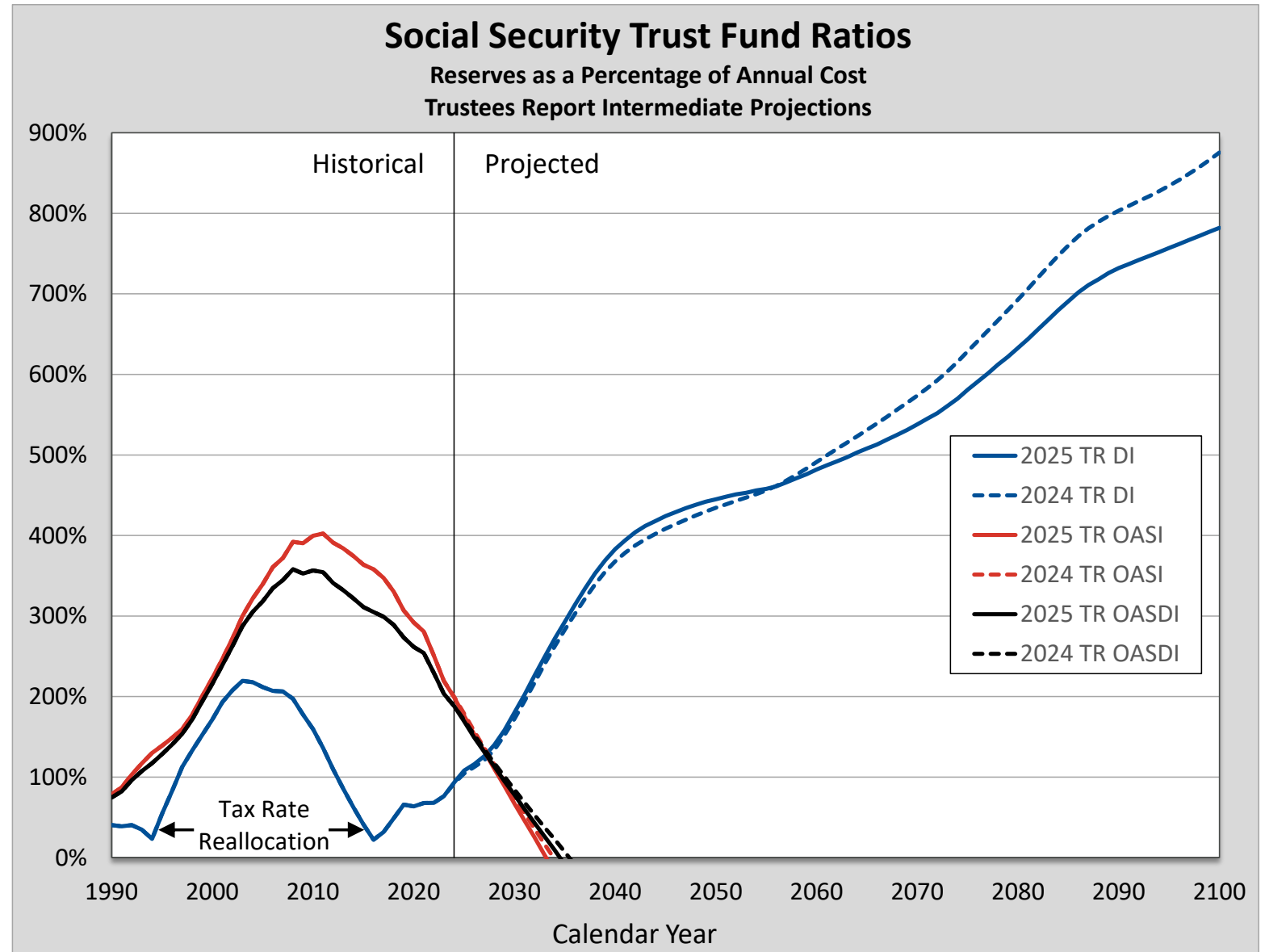
Solvency: OASI+DI Trust Fund Reserve Depletion in 2034

(one year earlier than last year)

OASDI reserve depletion date has varied from 2033 to 2035 in reports over the last 14 years (2012-2025) and from 2029 to 2042 in reports over the last 35 years (1991-2025).

OASI reserve depletion date is now in the first quarter of 2033 versus the fourth quarter of 2033 in last year's report.

DI Trust Fund: reserves do not deplete, due largely to continued low applications and awards.

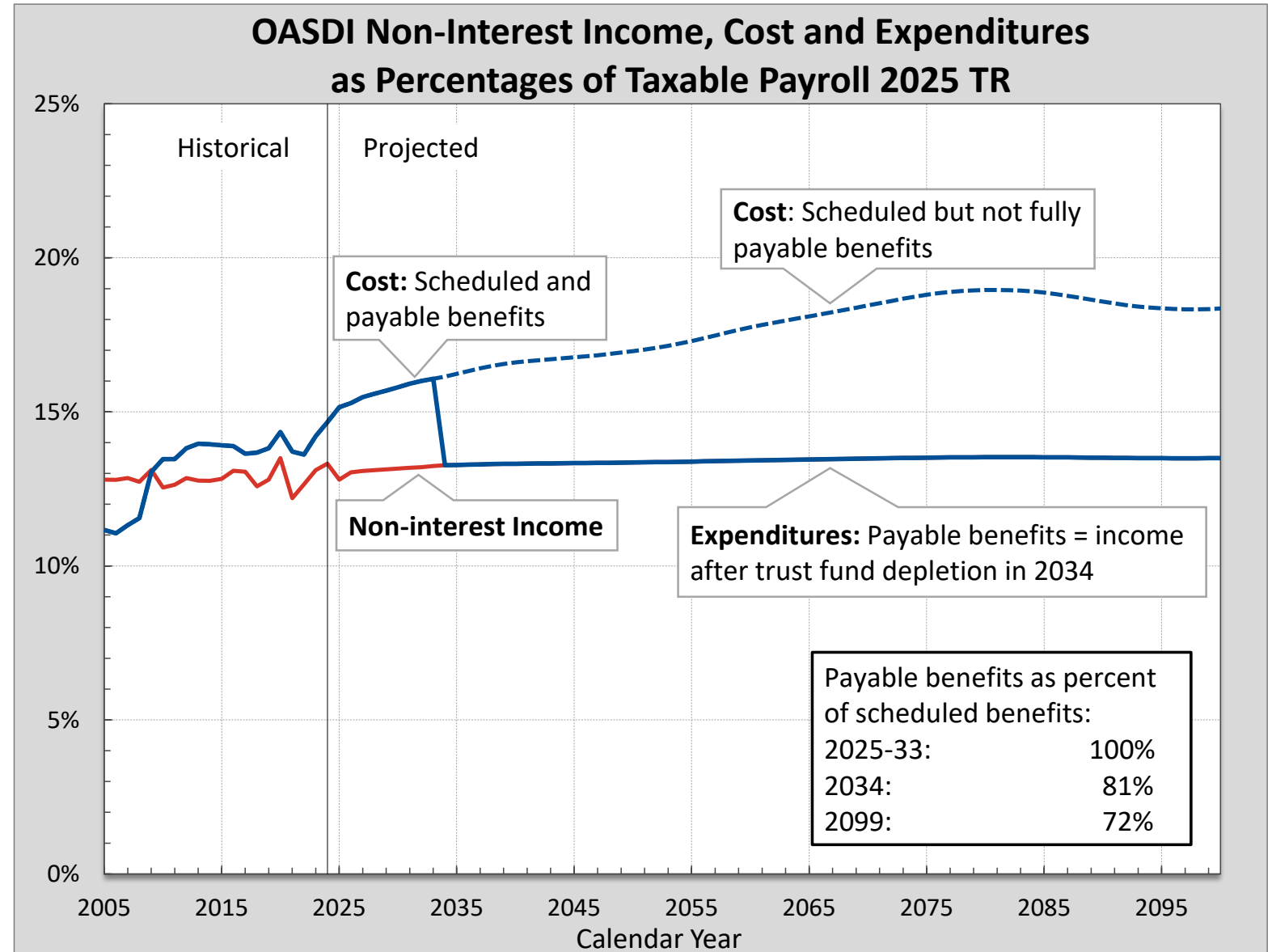


OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Persistent negative annual cash-flow balance starting in 2010.

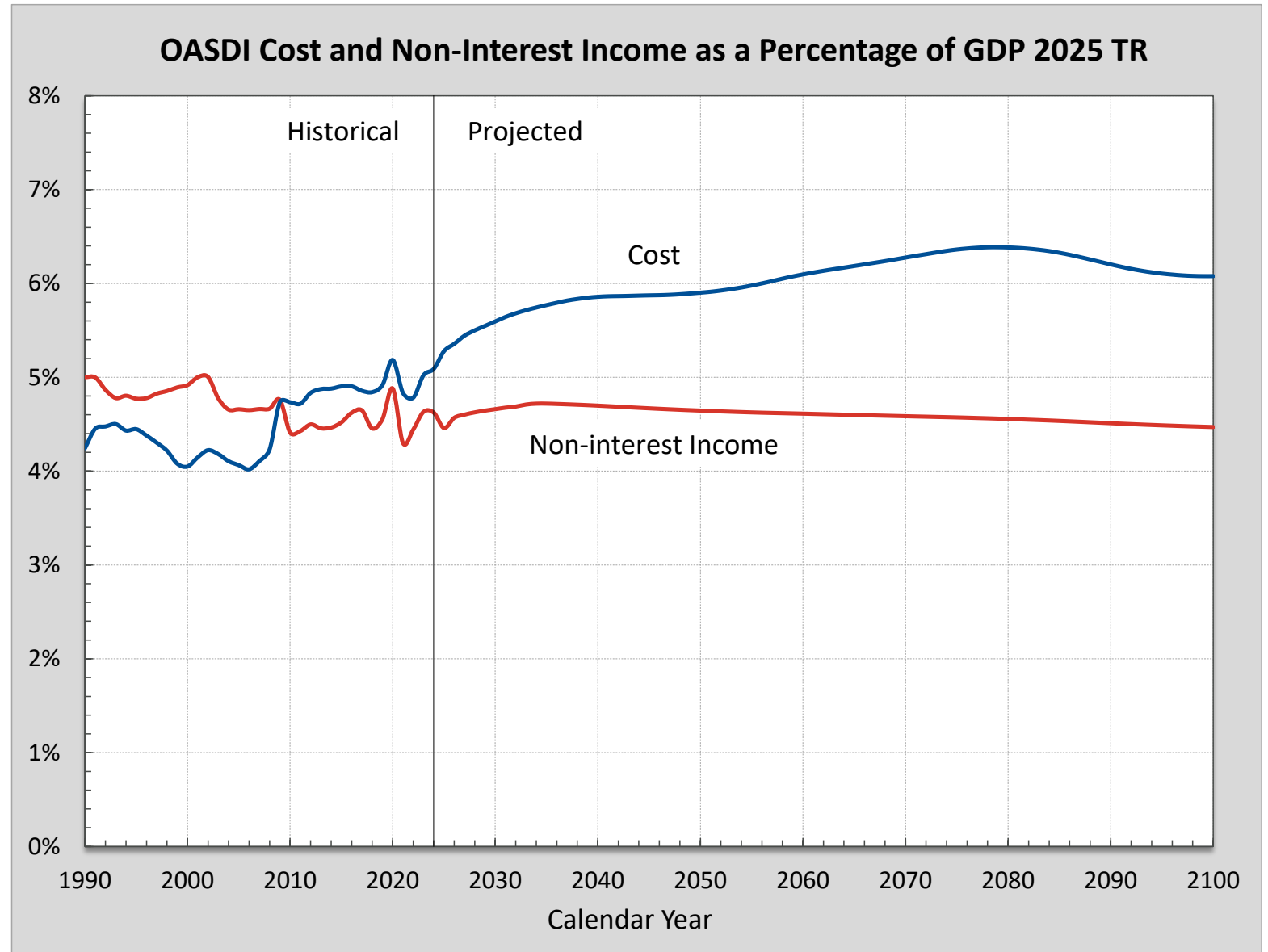
81 percent of scheduled benefits still payable at trust fund reserve depletion; was 83 percent in last year's report.

72 percent payable for 2099; was 73 percent for 2098 in last year's report.



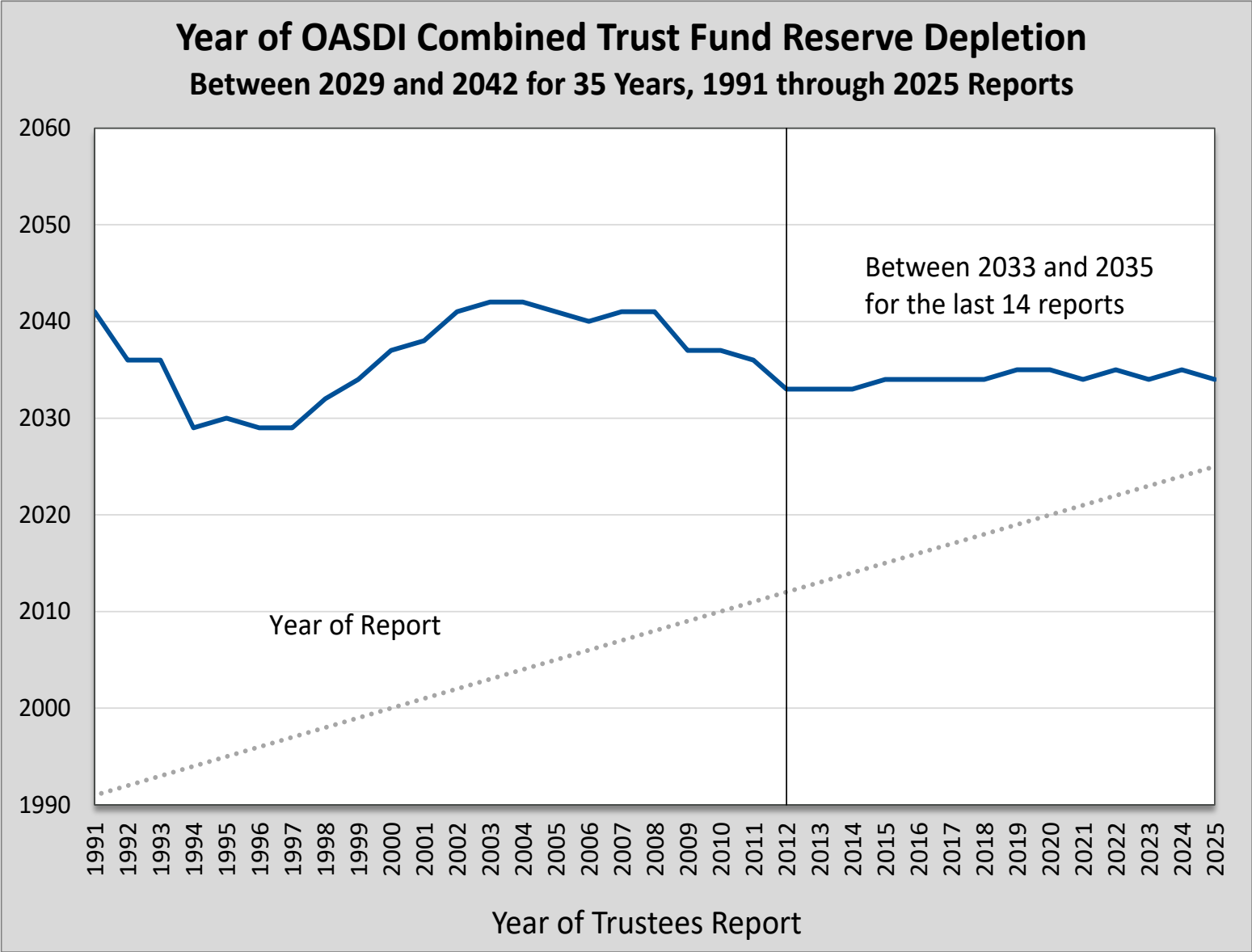
SUSTAINABILITY: Cost as a percent of GDP

Rises from a 4.2 percent average in 1990-2008 to 5.1 percent in 2024, continues to rise to a peak of about 6.4 percent for 2079, and then declines to 6.1 percent by 2099.



Year of OASDI Combined Trust Fund Reserve Depletion

OASDI reserve depletion date varied from 2033 to 2035 in reports over the last 14 years (2012-2025) and from 2029 to 2042 in reports over the last 35 years (1991-2025).



Three Primary Changes for the 2025 Report

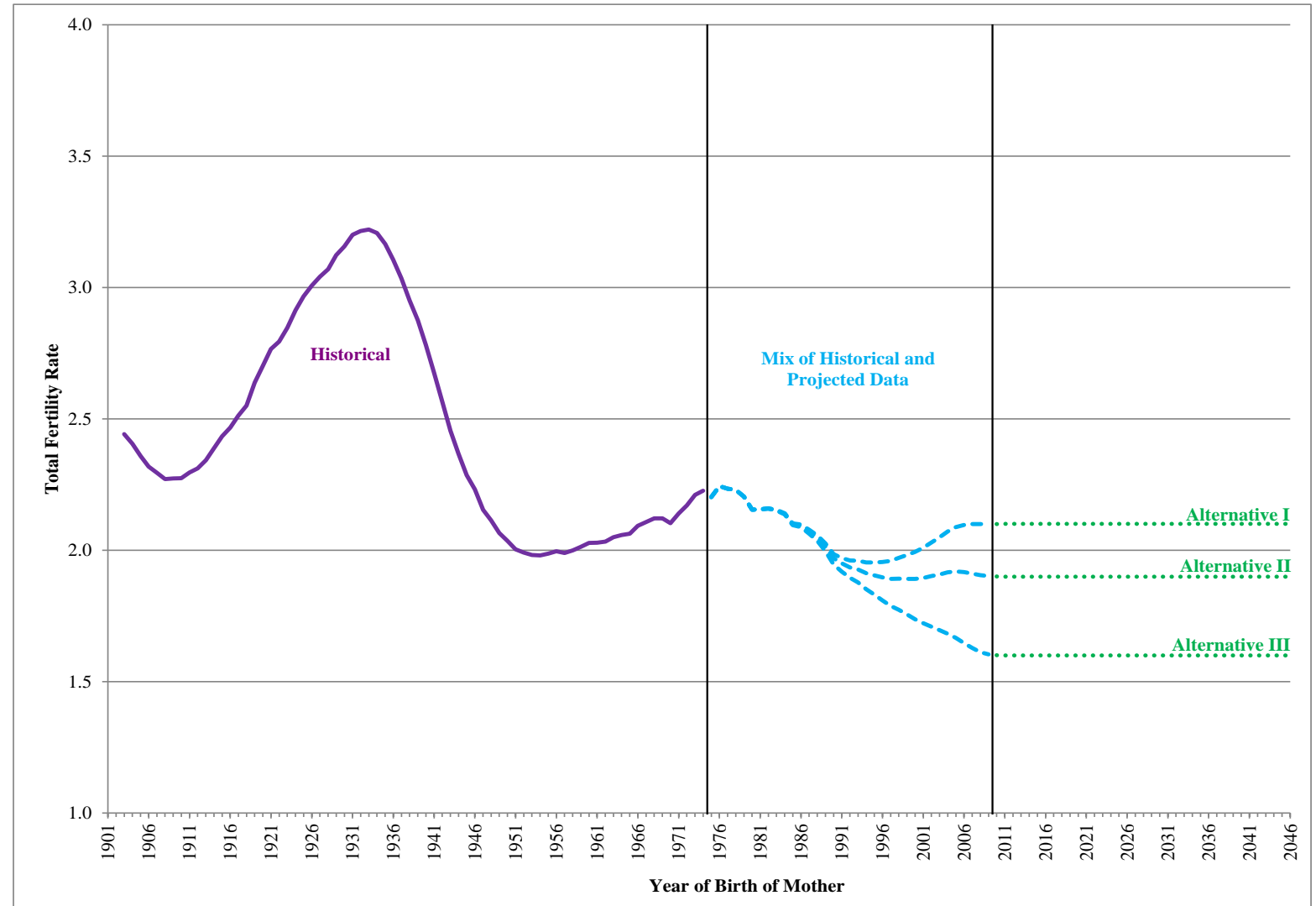
(released on June 18, 2025)

1. Law Change: The Social Security Fairness Act was enacted on January 5, 2025. This law repealed the Windfall Elimination Provision and Government Pension Offset. The repeal of these provisions increases benefits for many people who worked in jobs that were not covered by Social Security.
2. Fertility Assumption: The ultimate total fertility rate is 1.9 children per woman over her lifetime, unchanged from last year's report. However, the ultimate rate is reached in 2050, 10 years later than in last year's report. This extension of the transition path reflects the Trustees' expectation that fertility rates will recover relatively slowly from current low levels.
3. Labor Share Assumption: The ratio of total labor compensation to GDP is assumed to reach a lower long-term level than in last year's report. This updated assumption better reflects historical trends and implies somewhat slower average earnings growth in the near term.

Birth Rates by Cohort

Under intermediate assumptions, birth rates are projected to go below 2.0 for women born after 1990, reaching an assumed ultimate level of 1.9.

Chart 1.4: Historical and Projected Total Fertility Rates by Birth Cohort

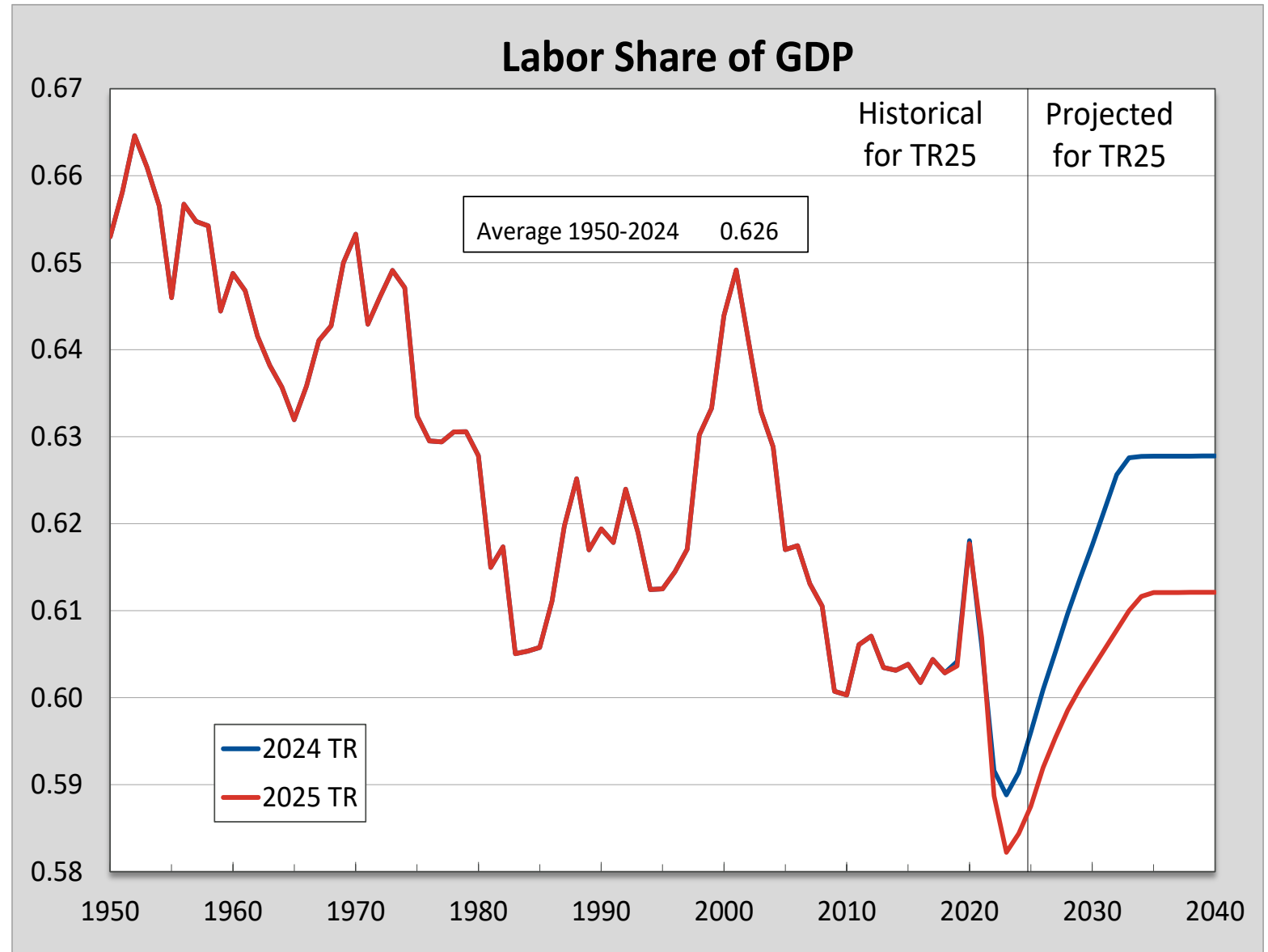


https://www.ssa.gov/oact/TR/2025/2025_Long-Range_Demographic_Assumptions.pdf

Ratio of Labor Compensation to GDP (Labor Share)

For the 2025 TR, the Trustees lowered the assumed long-term level for the labor share to 61.2 percent from 62.8 percent assumed in the 2024 TR, reflecting the experience of recent decades.

In the most recent data, the labor share of GDP in 2023 is lower than was estimated in the 2024 TR. Going forward, the labor share is projected to rise gradually to its assumed long-range value.

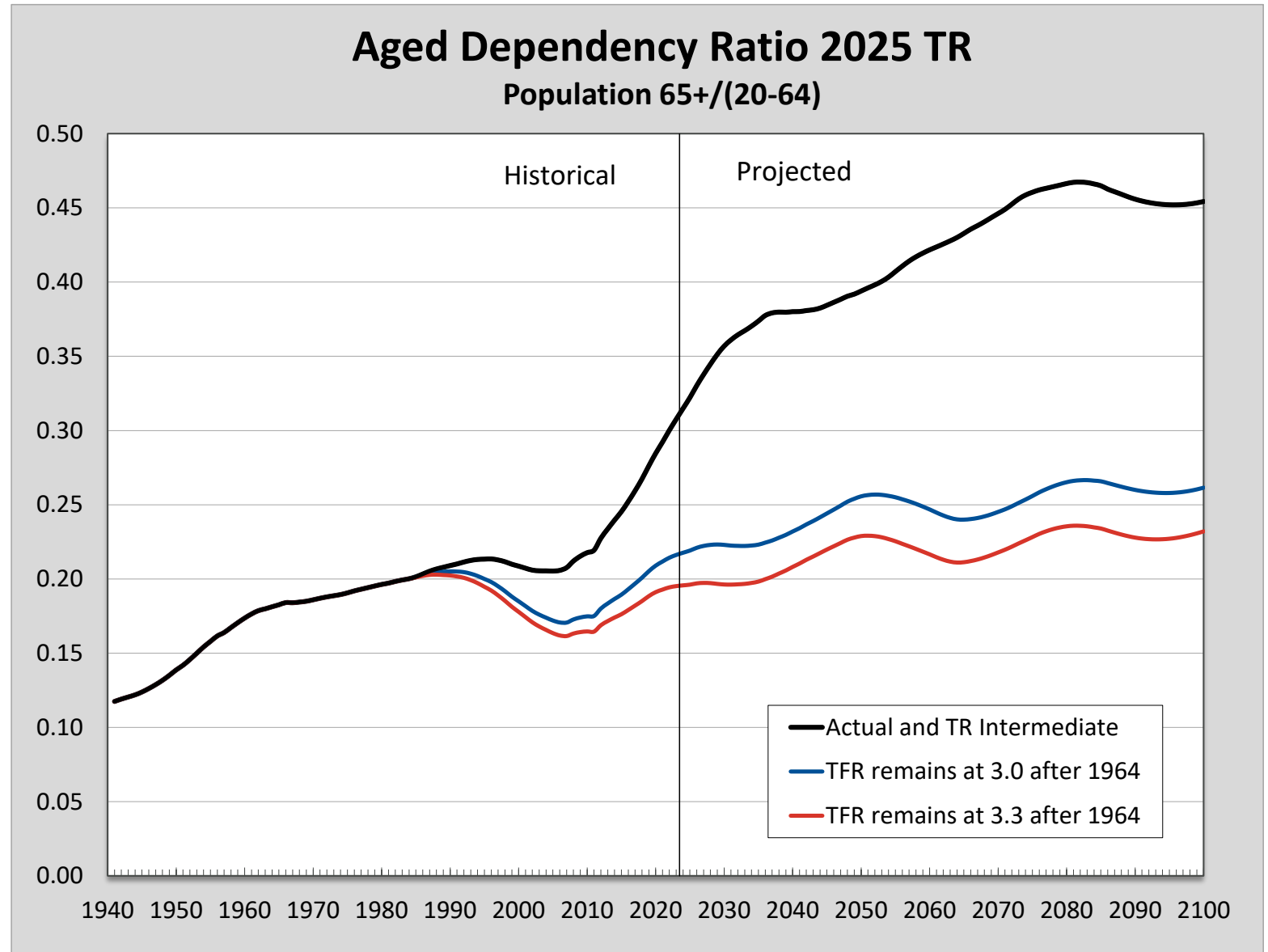


Main Reasons for the Worsening Financial Outlook Over Time

Aging: Change in Age Distribution

This is the primary reason for increasing cost relative to payroll and GDP - mainly due to the drop in birth rates.

This change has been anticipated.

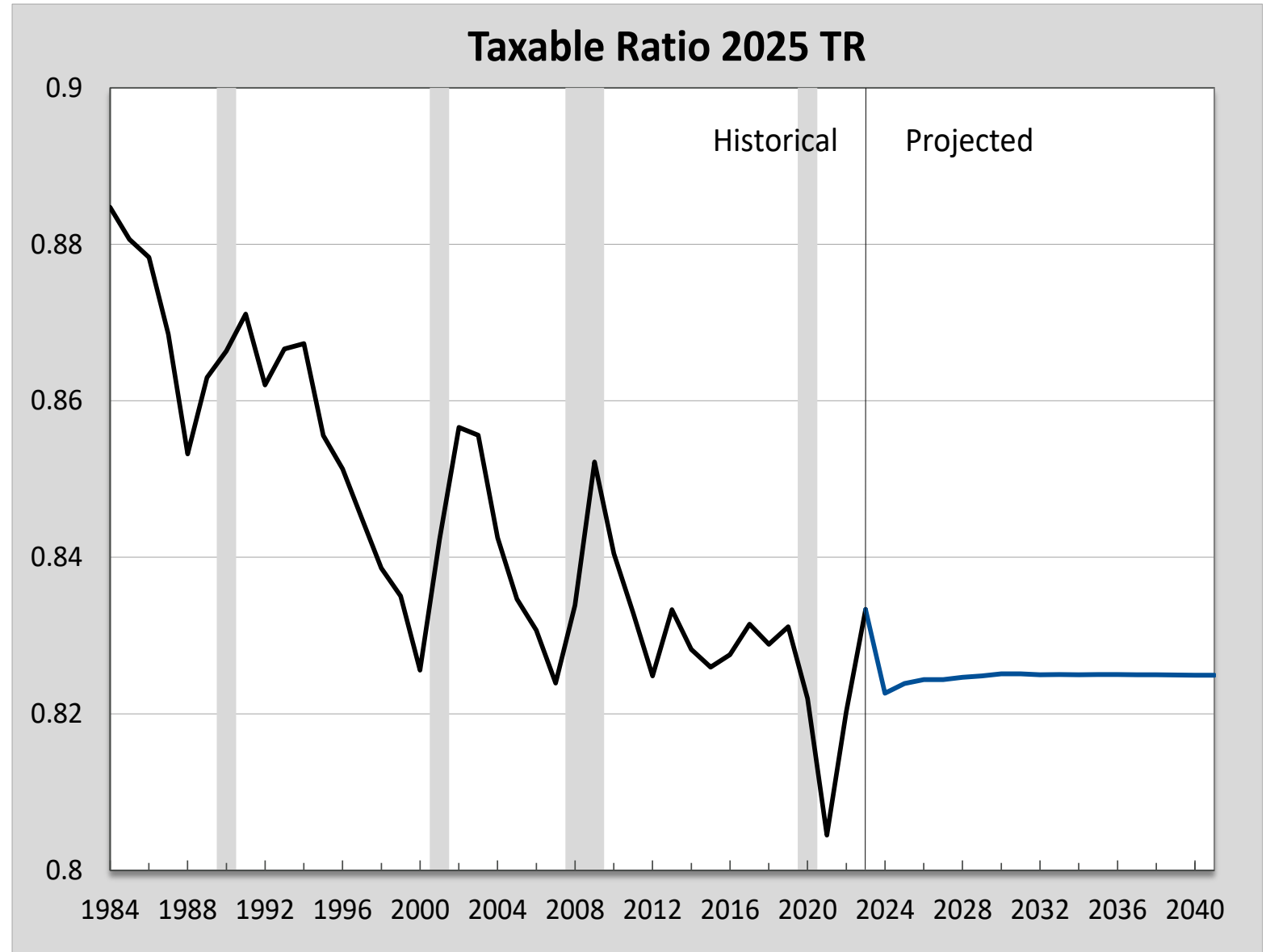


Ratio of Taxable Earnings to All OASDI Covered Earnings

Declined from 1983 due to increasing concentration of earnings at the top of the distribution. This change was not anticipated.

The share of workers earning more than the OASDI taxable maximum has remained stable at about 6 percent, but between 1983 and 2000, the average inflation-adjusted earnings of those top 6 percent rose by 62 percent vs. only 17 percent for the bottom 94 percent of earners.

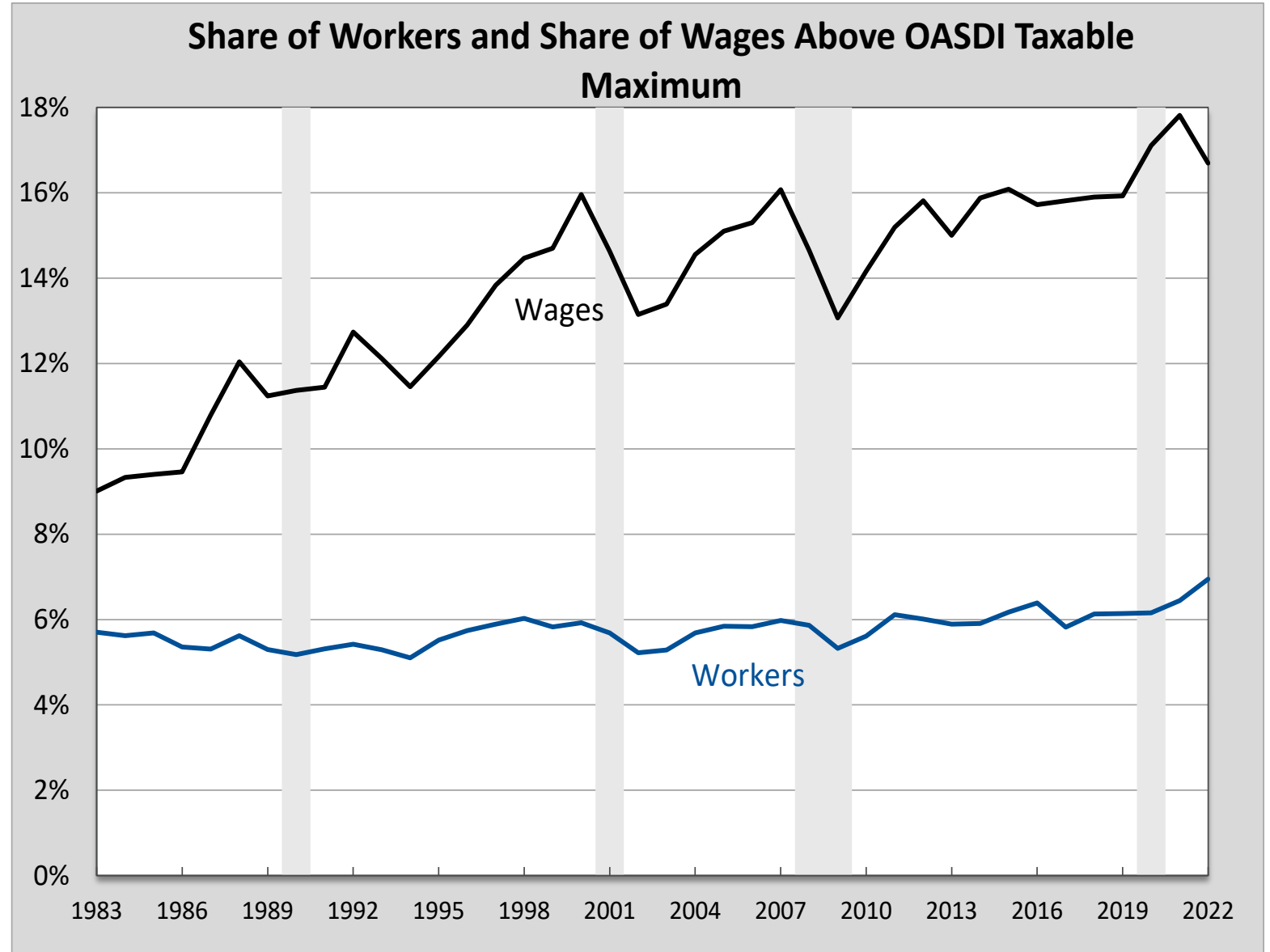
The decline in the ratio slowed down in the 2000s and ceased after 2012 except for cyclical effects.



OASDI-Covered Wages in Excess of the Taxable Maximum

The share of *workers* with wages exceeding the OASDI taxable maximum remained fairly stable around 6 percent.

The share of *wages* in excess of the OASDI taxable maximum has generally risen since 1983 and it stood at 16.7 percent in 2022 (the latest historical data available).



What's Happened Since the 2025 Report Was Released?

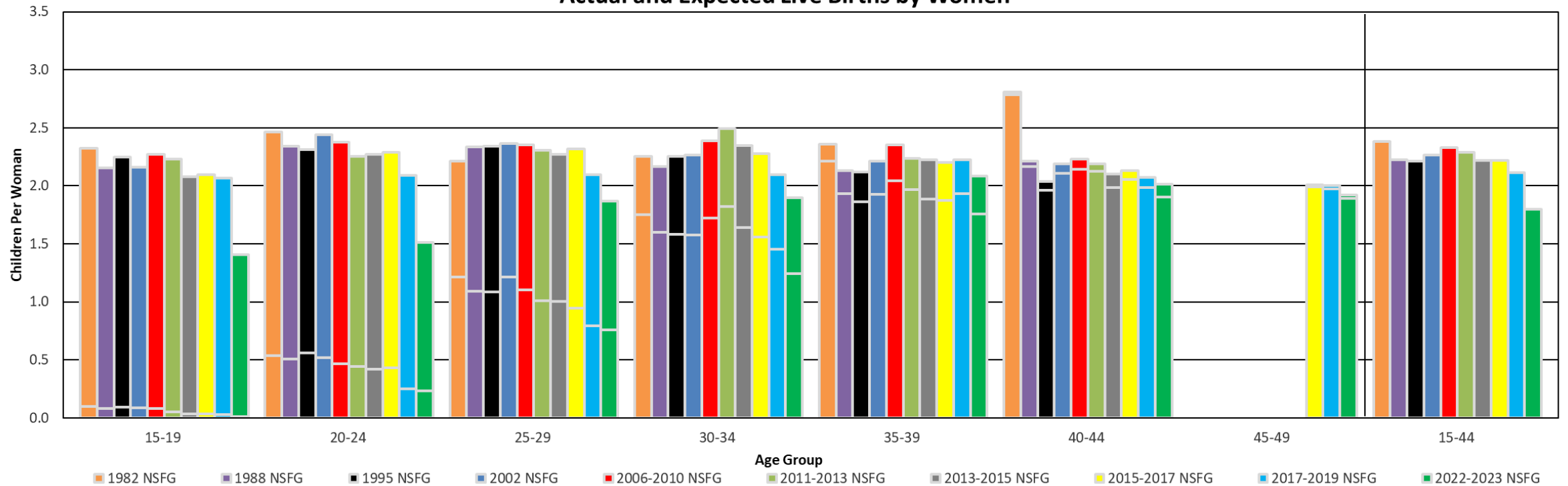
One Big Beautiful Bill Act (OBBBA)

- President Trump signed the OBBBA into law on July 4, 2025
- The income tax provisions in the OBBBA will lead to lower income tax liability for Social Security beneficiaries, in total
- Therefore, the OASI and DI Trust Funds will receive lower levels of revenue from income taxation of Social Security benefits
- This law change is estimated to increase the actuarial deficit by about 0.16 percent of taxable payroll, and to accelerate depletion of the combined OASDI funds from the third quarter of 2034 to the first quarter of 2034
- See www.ssa.gov/oact/solvency/RWyden_20250805.pdf and www.ssa.gov/oact/solvency/RWyden_20250902.pdf for details

Birth Rates: Current Experience and Survey Data

- Period birth rates remain well below the Trustees' ultimate assumption of 1.9 children per woman
- The total fertility rate for 2024 was 1.60; the rate for 2025 is estimated at 1.59
- The 2022-2023 National Survey of Family Growth (NSFG) became available in December 2024, after we already had solidified the assumptions for the 2025 Trustees Report
- The survey asks respondents of their current and future expected marriage, family, and fertility status; we are mainly concerned with current and future birth expectations for female respondents aged 14-49

Actual and Expected Live Births by Women



Notes:

1. The portion of the bar below the horizontal break for each age group shows the average births realized up to that age, while the full height of each bar indicates the total births expected at that age.
2. Surveys through the 2013-2015 wave contain data through age 44. Subsequent surveys contain data through age 49.
3. NCHS warns to exercise caution when comparing results of the 2022-2023 wave to prior waves given the switch to multimode data collection from just face-to-face data collection.

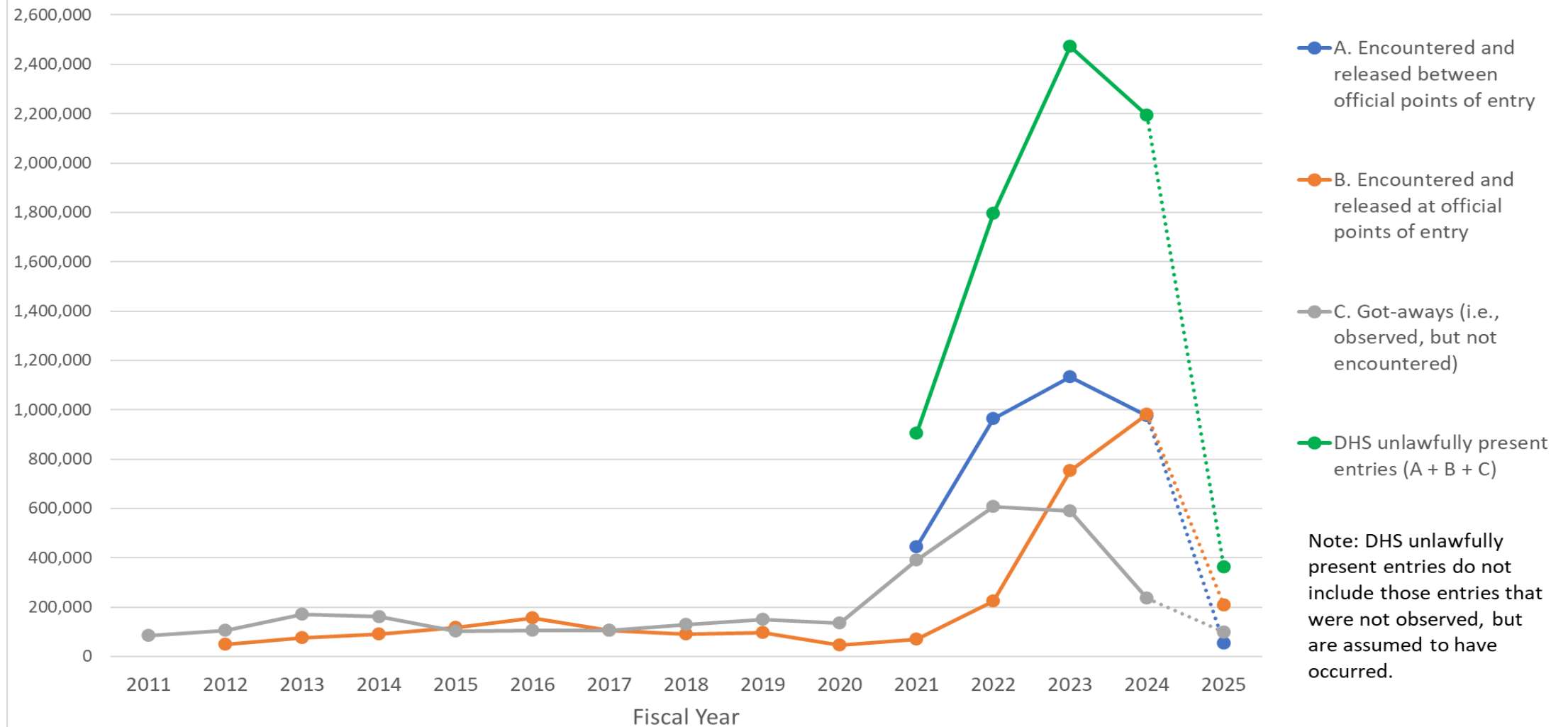
Birth Rates: Assumptions for the Future

- Recent low birth rates don't necessarily mean that birth rates will be low forever
- There is evidence that women are choosing to delay births to older ages, which temporarily depresses period birth rates ("tempo effects")
- However, there is also evidence that there have been societal changes in the US (and around the world) related to family formation and the desire for children
- "Family friendly" policy changes may also have some effect—for example, tax incentives and subsidized childcare
- We and the Trustees are considering this assumption carefully; each 0.1 decrease in the assumed ultimate total fertility rate is estimated to worsen the long-range actuarial deficit by about 0.22 percent of taxable payroll

Immigration: Executive Actions and Current Experience

- The Trump administration has issued several executive actions related to immigration (www.whitehouse.gov/presidential-actions/), including:
 - Detain unlawfully present immigrants who are arrested for various crimes
 - Build physical barriers to deter unlawful entry into the US
 - Remove foreign nationals who “bear hostile attitudes toward its citizens, culture, government, institutions, or founding principles . . .”
 - Stop government financial assistance to unlawfully present immigrants
 - Redefine birthright citizenship (this is held up in the courts)
- Unlawfully present immigrant entries have been extremely low so far in 2025, and will likely stay low in the near-term
- Not clear whether effects will persist into the long-term

DHS Unlawfully Present Entries



Data series 'A' is from CBP, using partial-year data (through July) to create an estimate for 2025.

Data series 'B' is from Trac Reports, based on CBP data, using partial-year data (through June) to create an estimate for 2025.

Data series 'C' is from DHS, using partial-year data (through June) to create an estimate for 2025.

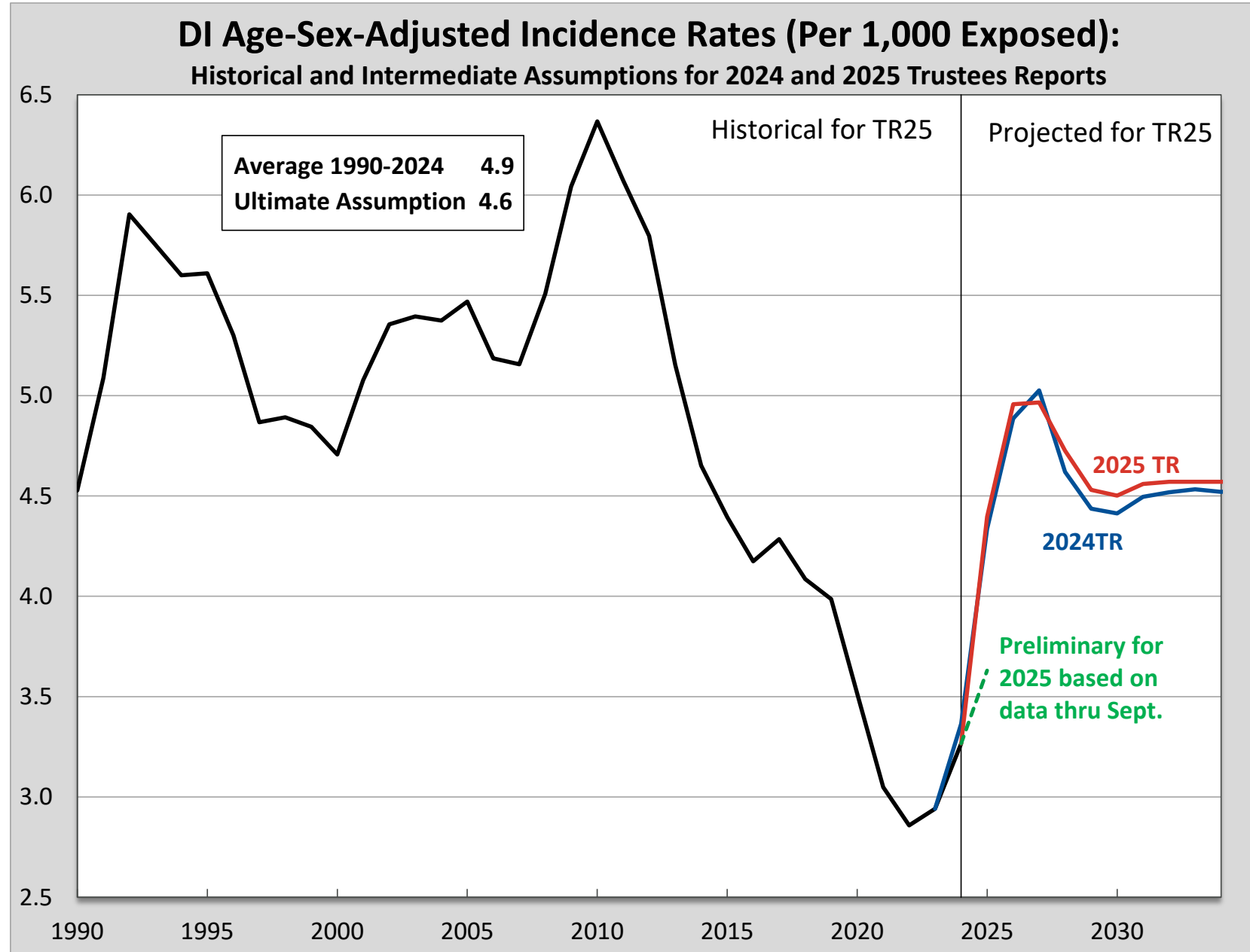
Immigration: Assumptions for the Future

- Immigration, both lawful and unlawful, is overall a positive for Social Security's financial status (see www.ssa.gov/OACT/NOTES/pdf_notes/note151.pdf)
- Changes to birthright citizenship, if they're eventually implemented, could have significant negative effects on financial status
- Other changes in policies and general attitudes toward immigration affect both inflows and outflows, both for lawful immigrants and unlawfully present immigrants
- We and the Trustees are also considering these assumptions carefully; a decrease in the annual ultimate net immigration flow of 100,000 is estimated to worsen the long-range actuarial deficit by about 0.10 percent of taxable payroll

Disability Incidence Rate Remains Near Historically Low Level

DI disabled worker incidence rate rose sharply in the 2007-2009 recession and has declined since the peak in 2010 to extraordinarily low levels in 2016 through 2022.

Incidence rates increased slightly in 2023 and 2024 and are projected to rise as a result of reducing pending claims.

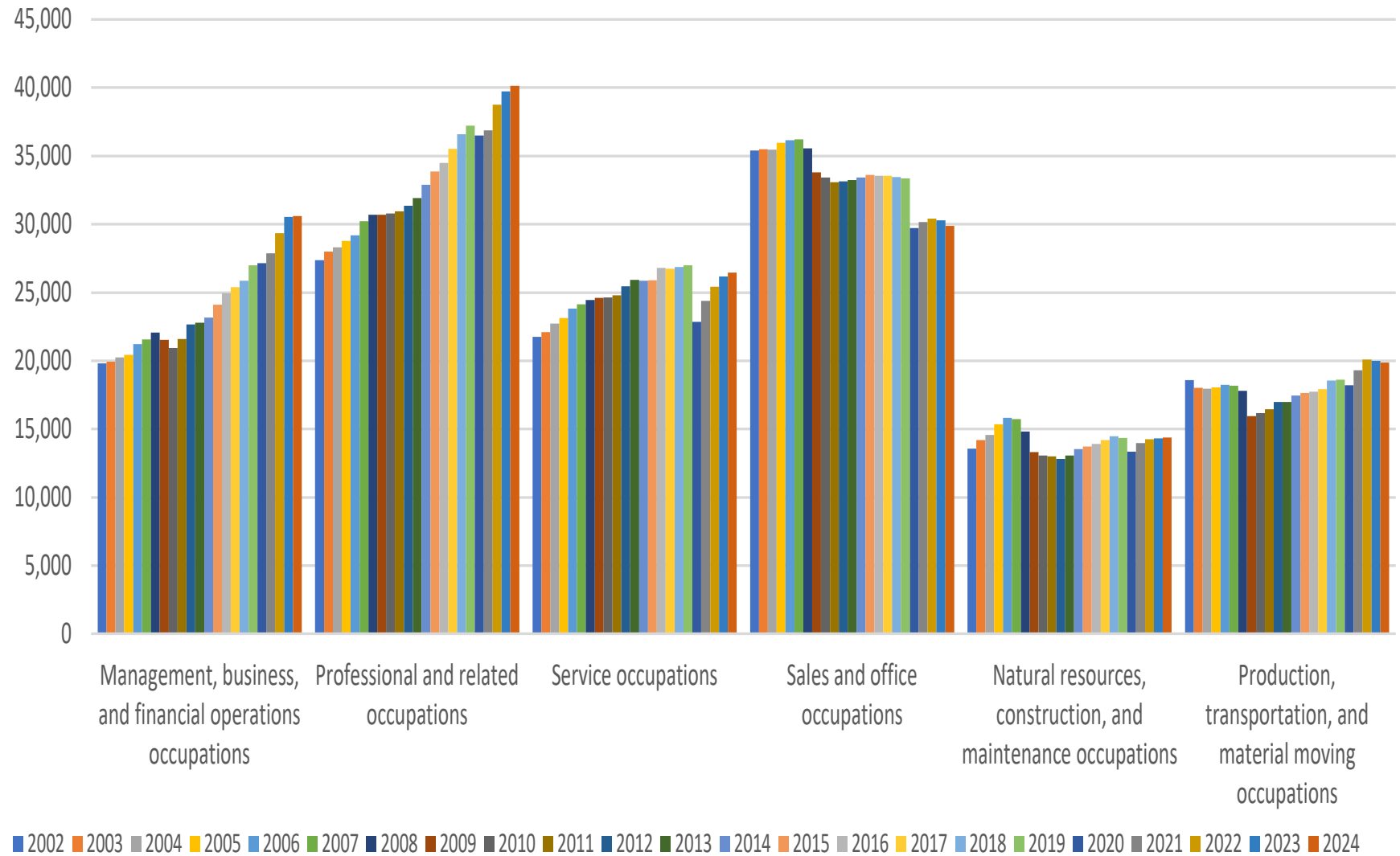


Changing Nature of Work: Trends in Employment by Occupation

- Employment effects in all areas in 2020; share for management and professional, highly paid, increased (BLS cpsaat09)
- Will trends of 2002-24 return, and continue?
- Will these shifts continue with technology, automation, and increasing education levels?
- Might changes in infrastructure spending change these trends?
- In addition, there have been changes in how job-specific tasks are performed

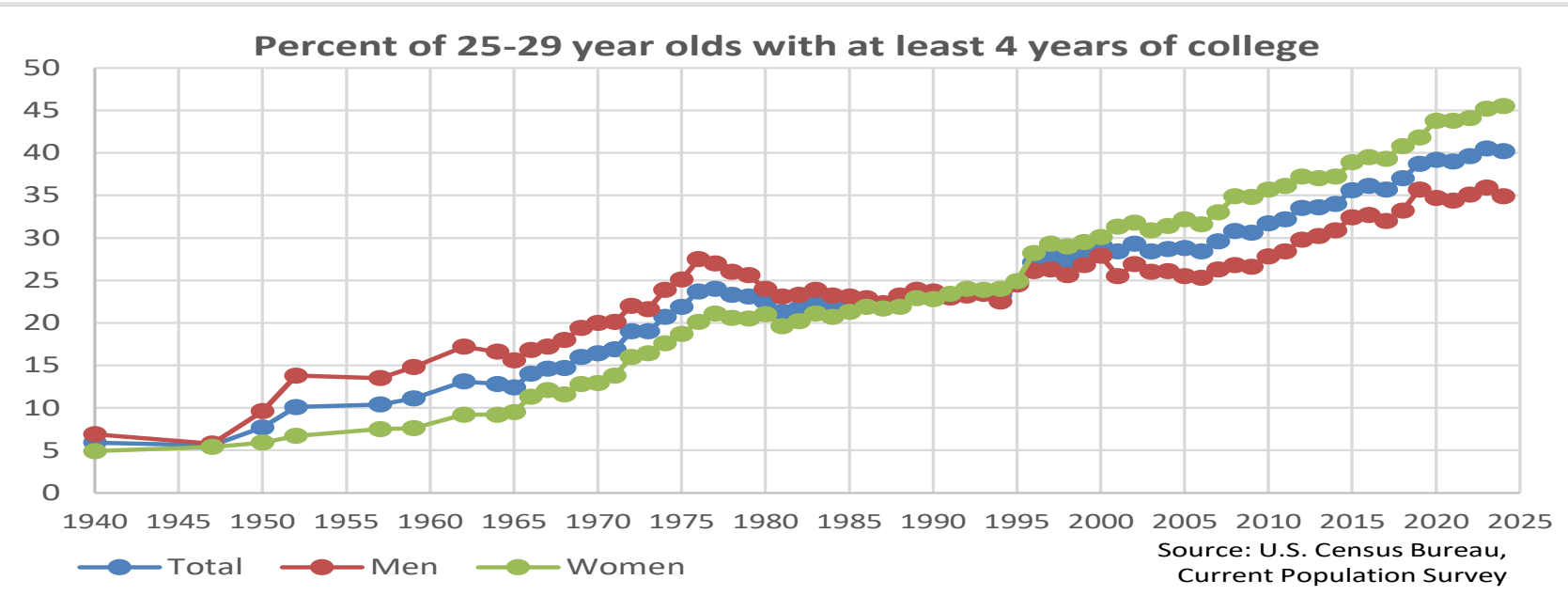
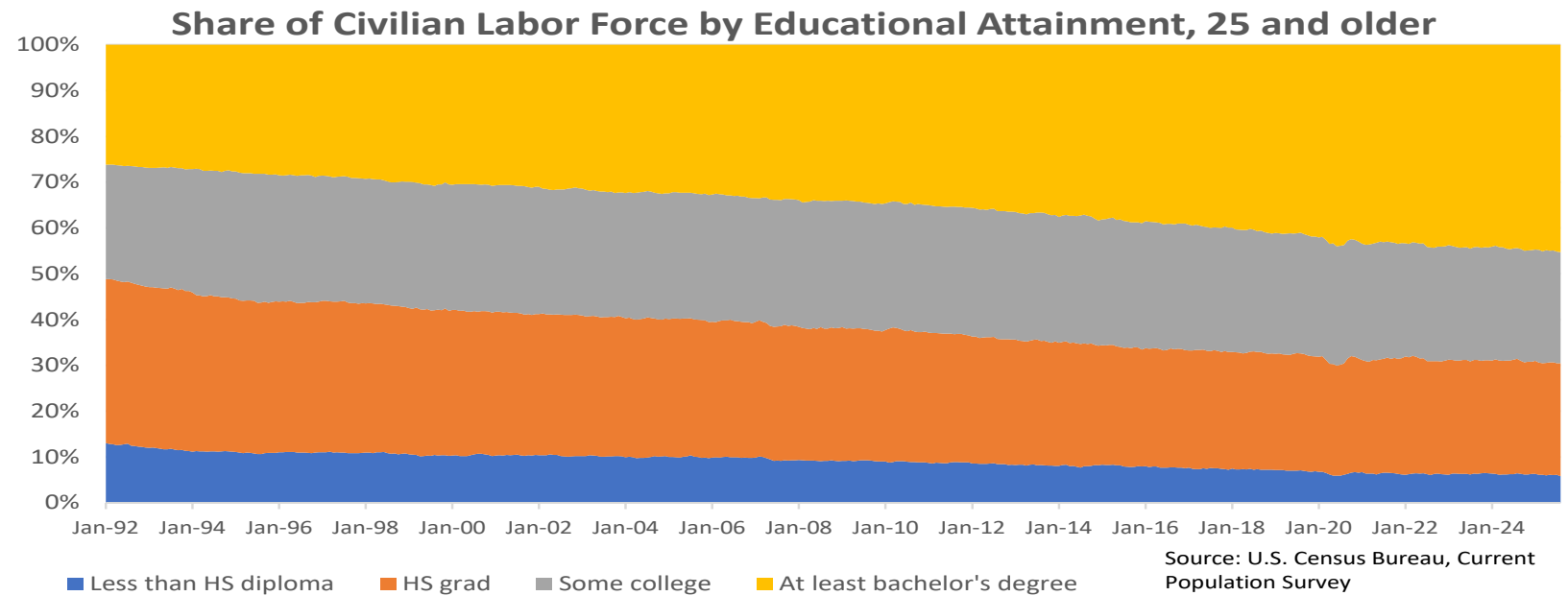
• Source: U.S. Census Bureau, Current Population Survey

Number of Employed Workers by Major Occupation: Men + Women (in thousands)



Changing Educational Attainment

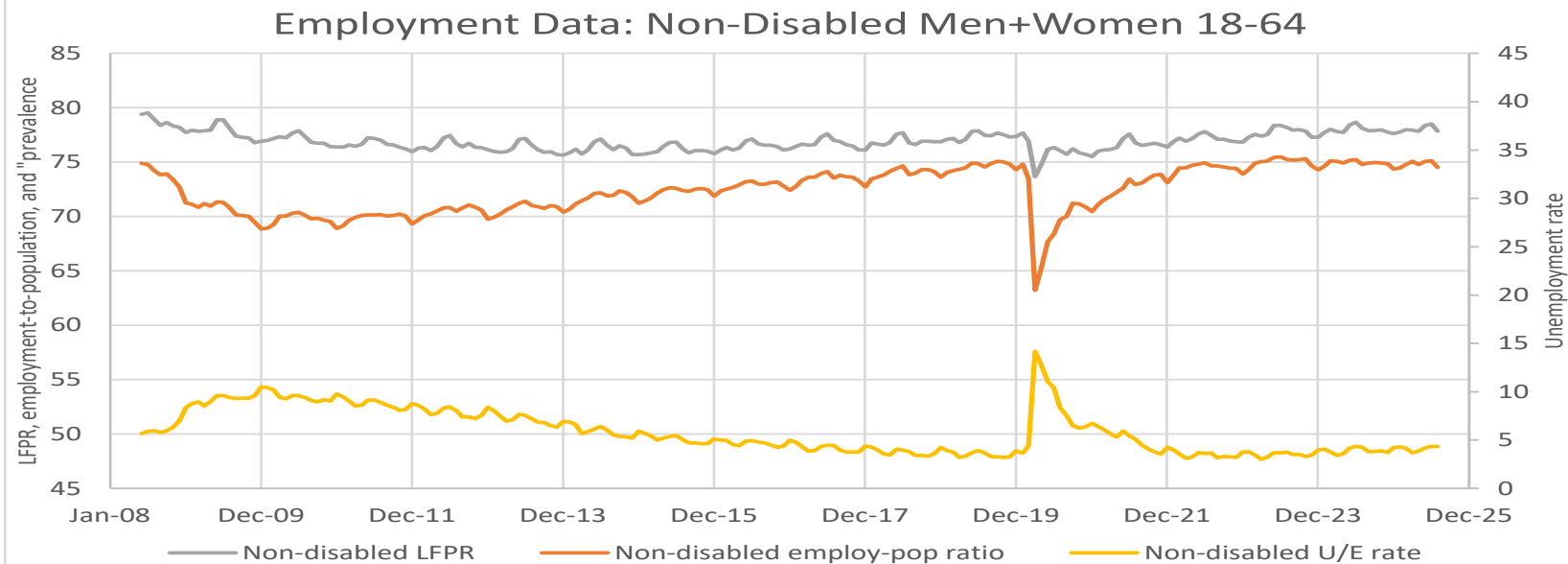
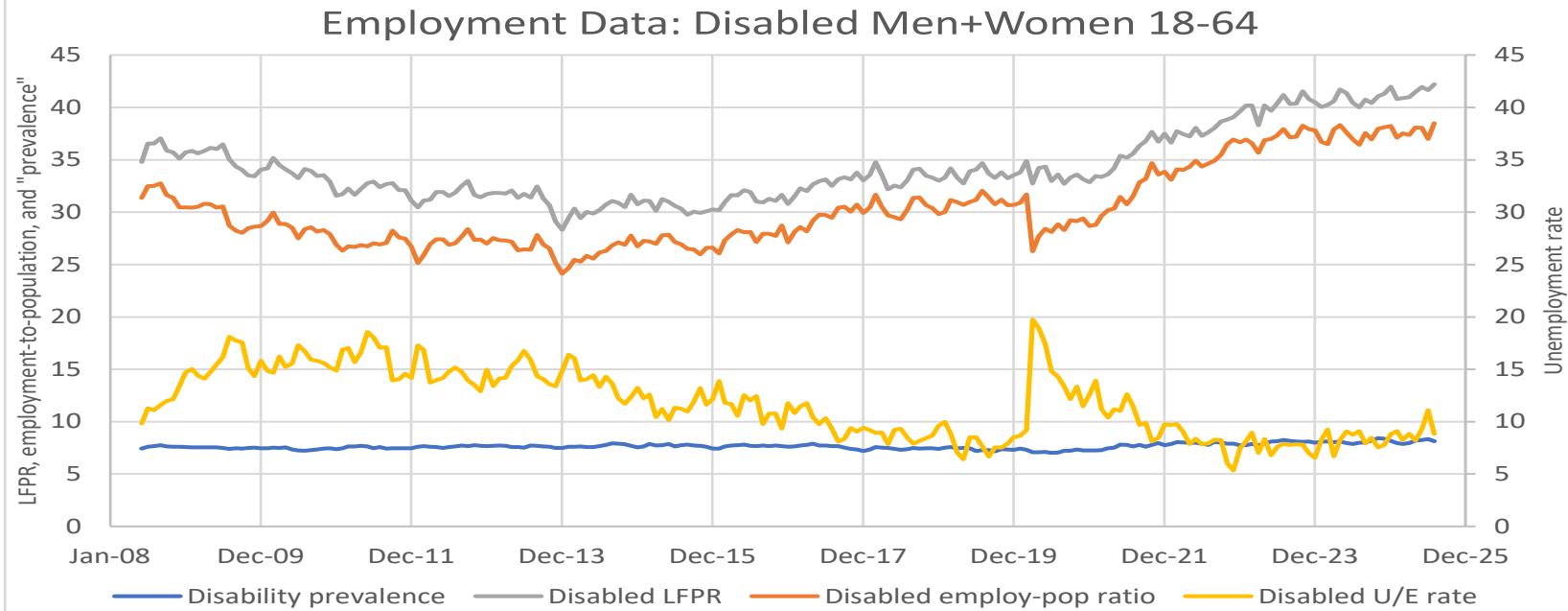
- Increasing share of labor force has at least a bachelor's degree – around 25 percent in 1992 to about 45 percent in 2025
- By birth cohort, for those born in the early 1900s, about 5 percent had at least 4 years of college, increasing to 40 percent for those born in the 1990s
- Women have increased attainment more than men



Employment of the Disabled

- Employment of individuals self-identifying as disabled appears to be gradually rising from low rates experienced in 2013-15.
- Current rates of employment are at the highest levels since the beginning of 2008. Will this continue to increase or level out?
- Note that this is self-identification of disability by CPS survey respondents, so the definition of disability may greatly differ from what is used for the OASDI program.

Source: U.S. Census Bureau, Current Population Survey

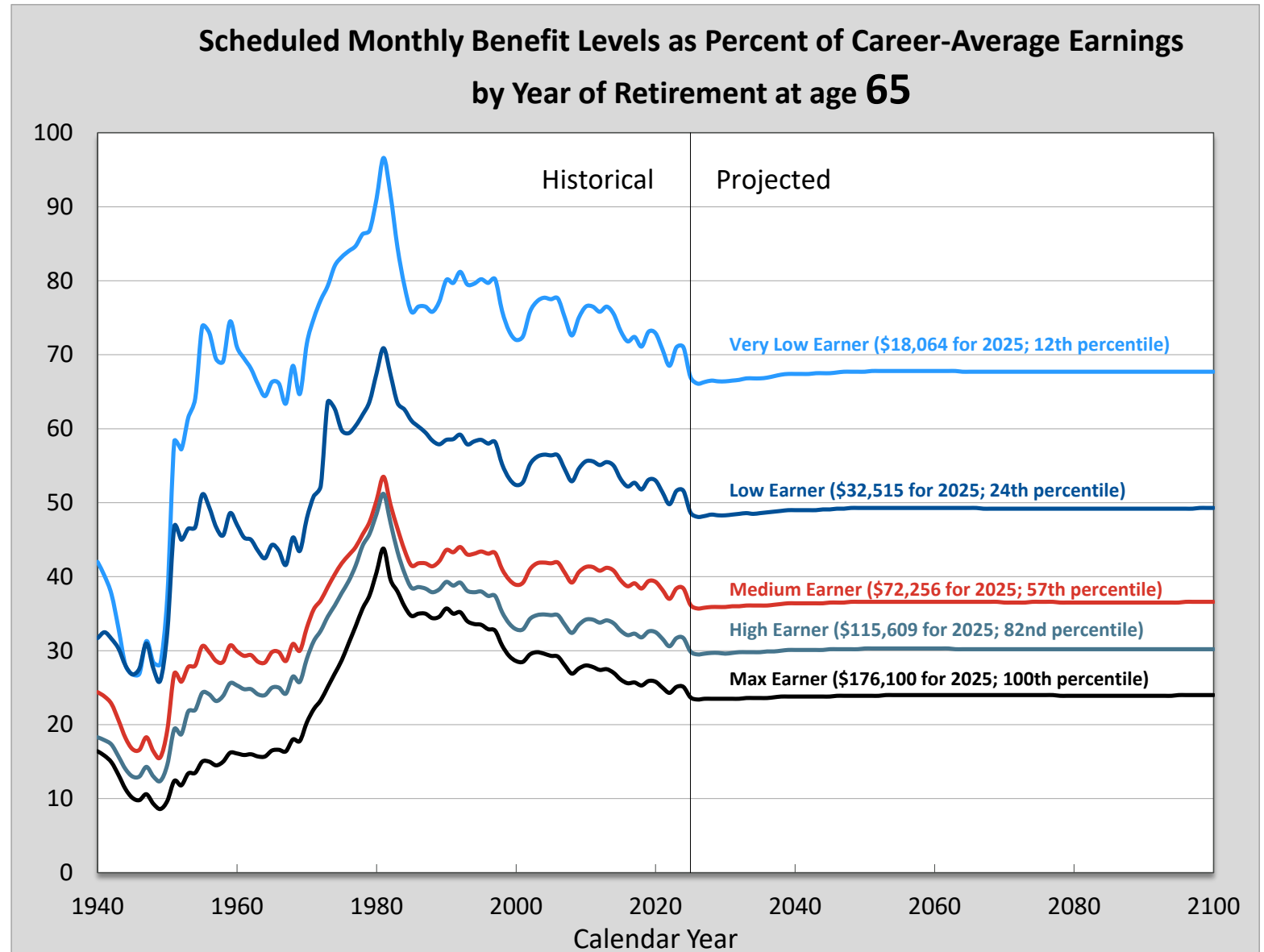


How to Eliminate the Long-Term Actuarial Deficit

Long-Term Projections Inform Policymakers

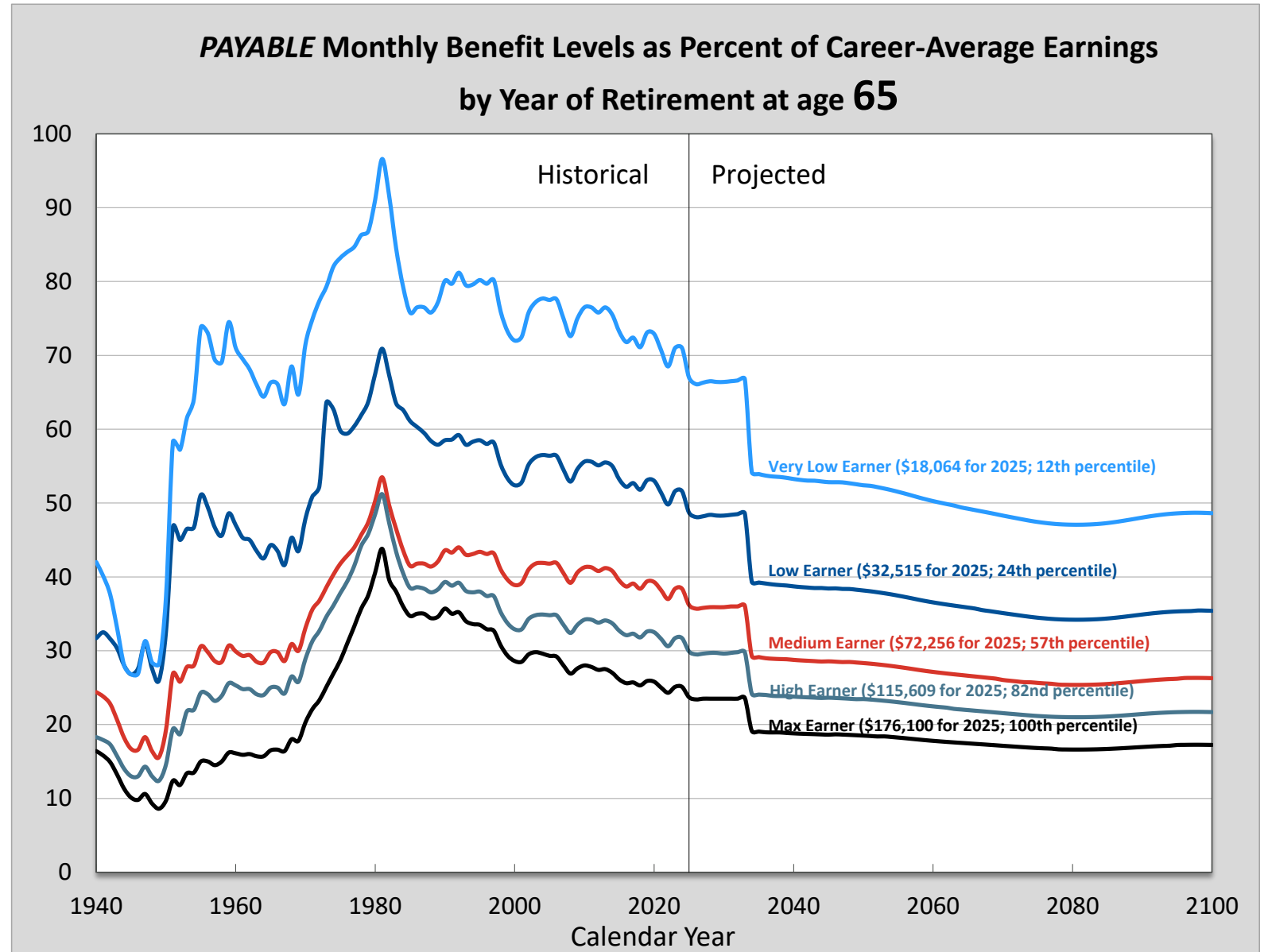
- Congress needs to act, as it always has
- Straightforward solutions:
 - Raise scheduled revenue by 2034 by about one-third
 - Reduce scheduled benefits by 2034 by about one-fourth
 - Or some combination of the two
 - Comprehensive changes *implemented* by 2034
- Also consider adequacy of benefits

Replacement Rates Based on the 2025 TR



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



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

Ways to Lower Cost

- Lower benefits for retirees – not disabled?
 - Increase normal retirement age (lowers OASI 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 by using the chain-weighted CPI-U
 - But some say increase it with the CPI-E (based on purchase of consumers over age 62)

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
- Tax employer group health insurance premiums?
 - Affects only middle class if taxable maximum remains
- Tax individuals' investment income?
 - Or potentially a wealth tax?
- Invest the trust funds in higher-yielding investments?
 - Potentially increasing risk

Notable Proposals Scored: Hoyer/Primus

Rep. Steny Hoyer and Dr. Wendell Primus (Brookings)—January 3, 2025

- Significant provisions:
 - Increase the taxable maximum level by 6 percent faster than current law, until it reaches 90 percent of covered earnings
 - Place all proceeds from taxation of Social Security benefits into the OASI and DI funds
 - Change immigration policies to increase lawful immigration
 - Increase the number of computation years from 35 to 40, gradually
 - Increase the NRA for those in the top 40 percent of the all-career average earnings distribution
 - Several other provisions with smaller effects (17 provisions in total)
- Making these changes would lead to 75-year solvency under TR24 baseline
- See https://www.ssa.gov/OACT/solvency/HoyerPrimus_20250103.pdf

Notable Proposals Scored: Larson

Representative John Larson—July 12, 2023 (*original version July 2014*)

- Significant provisions:
 - Several benefit improvements similar to his prior bills, but for 10 years only
 - Apply payroll tax on earnings above \$400,000, with a small benefit credit
 - Add a 12.4-percent tax on net investment income above \$400,000
- Making these changes would lead to an additional 32 years of full solvency under TR23 baseline (reserve depletion in 2066)
- See www.ssa.gov/OACT/solvency/JLarson_20230712.pdf

Notable Proposals Scored: Johnson

Former Representative Sam Johnson—December 8, 2016

- Significant provisions:
 - Make benefit formula less generous but more “progressive”; change to mini-PIA approach; add a new minimum benefit
 - Raise Normal Retirement Age to age 69 (8-year phase-in)
 - Lower the COLA by using chain-weighted CPI; no COLA if high income
 - Eliminate taxation of Social Security benefits
- Making these changes would have led to 75-year solvency under TR16 baseline
- See www.ssa.gov/OACT/solvency/SJohnson_20161208.pdf

For More Information Go to www.ssa.gov/oact/

- There you will find:
 - The 2025 and all prior OASDI Trustees Reports
 - Detailed single-year tables for recent reports
 - Our estimates for comprehensive proposals and individual provisions
 - Actuarial notes
 - Actuarial studies
 - Extensive databases
 - Congressional testimonies
 - Presentations by OCACT employees

Questions?



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