Social Security Financing & Options 101

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Two legally distinct trust funds:
- **OASI** = Old-Age and Survivors Insurance
- **DI** = Disability Insurance

Financial operations are overseen by the Social Security Board of Trustees

The two funds are often looked at on a theoretical combined basis
- As of December 31, 2018, the trust funds hold about **$2.89 trillion** in asset reserves
Social Security Trust Funds

- The combined funds have run surpluses since the early 1980s and through 2018
- Beginning in 2020, combined asset reserves will start to decline until they are depleted in 2035
- The OASI fund alone is projected to be depleted in 2034; the DI fund alone in 2052
Social Security Trust Funds

Social Security Trust Fund Asset Reserves (end of year) as a Percent of GDP, 1970-2035

- Asset Reserves Build
- 1983 Amendments
- Reserves Decline until Depletion
How Is Social Security Financed (Income)?

- **Payroll taxes**
  - Employees and employers each pay **6.2%** of covered earnings
  - The self-employed pay **12.4%** of covered earnings
  - On earnings up to **$132,900** in 2019

- **Taxes on Social Security benefits**
  - High-income beneficiaries pay federal income tax on their benefits

- **Interest on trust fund reserves**
  - Invested in interest-bearing securities of the US government
Where Does the Money Go (Outgo)?

- **Benefit payments**
  - About **63 million** people getting benefits as of December 2018:
    - **47 million** retired workers and dependents of retired workers
    - **6 million** survivors of deceased workers
    - **10 million** disabled workers and dependents of disabled workers

- **Administrative expenses**
  - Only about **0.7 percent** of total expenditures in 2018
Income and Outgo
Calendar Year 2018

Combined OASI & DI Trust Funds

Payroll taxes $885 billion

Benefits $989 billion

Taxes on benefits $35 billion

Interest $83 billion

Administrative expenses $7 billion

Railroad exchange $5 billion
Social Security Trust Funds

- Why do we have trust funds?
  - The trust funds provide an essential reserve so benefits can be paid even when current income alone is not enough
  - Social Security (OASI and DI) cannot borrow; can only spend what has been collected

- Are the trust funds “real”?
  - If reserves deplete, full benefits cannot be paid
  - The trust funds force Congress to act in order to maintain continuous benefit payments
Trust Fund Financing

- How is the future shortfall expressed?
- To make shortfalls comparable over years, they are often scaled as a **percent of taxable payroll**
  - The amount of earnings taxable by the program for a time period
- For example, in **2045**:
  - Taxable payroll is expected to be about $23.3 trillion in nominal $$
  - Income to the program is expected to be about $3.1 trillion, or **13.27** percent of taxable payroll
  - The cost of the program is expected to be about $3.8 trillion, or **16.49** percent of taxable payroll
  - So the shortfall is **3.22** percent (16.49 – 13.27)
OASDI Annual Cost and Non-Interest Income as % of Taxable Payroll

Persistent negative annual cash-flow balance starting in 2010
80% of scheduled benefits still payable at trust fund reserve depletion

Cost: Scheduled and payable benefits

Cost: Scheduled but not fully payable benefits

Non-interest Income

Payable benefits as percent of scheduled benefits:
2018-34: 100%
2035: 80%
2093: 75%

Expenditures: Payable benefits = income after trust fund depletion in 2035
**SOLVENCY: OASDI Trust Fund Reserve Depletion in 2035**

Reserve depletion date varied from 2029 to 2042 in reports over the past 27 years (1992-2019)

*DI Trust Fund: reserve depletion in 2052, twenty years later than last year*

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**Social Security Trust Fund Ratios**

Assets as Percent of Annual Cost

Trustees Report Intermediate Projections

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**Historical**

**Estimated**

- OASDI 2019TR
- OASI 2019TR
- DI 2019TR
- OASDI 2018TR
- OASI 2018TR
- DI 2018TR

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*Tax Rate Reallocation*
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 extraordinarily low levels for 2016, 2017, and 2018*
OASDI Beneficiaries per 100 Workers

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Historical

Estimated
Aging (Change in Age Distribution)

*Mainly due to drop in birth rates*

![Aged Dependency Ratio 2019 TR](image)

- **Actual and TR Intermediate**
- **TFR remains at 3.0 after 1964**
- **TFR remains at 3.3 after 1964**
Changing Age Distribution Over Last 20 and Next 20 Years Mainly Due to Macro Aging

Permanent level shifts

Age Distribution of the Population Age 25+, 1940 to 2100 (2019 TR)
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
Replacement Rates Based on the 2019 Trustees Report

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

Scheduled Monthly Benefit Levels as Percent of Career-Average Earnings by Year of Retirement at age 65

- Low Earner ($24,239 for 2019; 25th percentile)
- Medium Earner ($53,864 for 2019; 56th percentile)
- High Earner ($86,182 for 2019; 82nd percentile)
- Max Earner ($132,900 for 2019; 100th percentile)
How About at Age 62, When Many Start Benefits?

Scheduled Monthly Benefit Levels as Percent of Career-Average Earnings by Year of Retirement at age 62

- Low Earner ($24,239 in 2019; 25th percentile)
- Medium Earner ($53,864 in 2019; 56th percentile)
- High Earner ($86,182 in 2019; 82nd percentile)
- Max Earner ($132,900 in 2019; 100th percentile)
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** ($24,239 in 2019; 25th percentile)
- **Medium Earner** ($53,864 in 2019; 56th percentile)
- **High Earner** ($86,182 in 2019; 82nd percentile)
- **Max Earner** ($132,900 in 2019; 100th percentile)
How to Fix Social Security Long-Term

- How can the financing shortfalls from 2035-2093 be covered?
  - Lower cost (reduce benefits) after 2034 by about one-fourth
  - Increase revenues after 2034 by about one-third
  - Or some combination of approaches
  - Also consider benefit adequacy?
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
Ways to Lower Cost (continued)

● Lower benefits mainly for the oldest old
  - Reduce the COLA by using a *chained* version of the CPI
  - Some say instead raise the COLA by using the CPI-E (based on purchases of consumers over age 62)

● Increase the number of years used in calculation (currently 35)
  - Hurts those who haven’t been in the workforce for 35 years
Ways to Increase Revenue

- Raise tax rate on all earners
  - Increasing rate from current 12.4 percent to 15.1 percent is projected to eliminate the long-range shortfall

- Raise tax on highest earners
  - Increase taxable maximum amount
  - Some tax on all earnings above the maximum
Ways to Increase Revenue *(continued)*

- Tax employer group health insurance premiums
  - Affects only middle class if taxable maximum remains the same

- Tax certain investment income
  - Consistent with ACA approach?

- Maintain larger trust fund reserves
  - Added interest/yield can lower needed taxes
Your Solution?

- Soon, you will hear more details about these and other policy options
- Then you will come up with your own solution during the afternoon exercise
For More Information, Go To:
http://www.ssa.gov/OACT

There you will find:

• The 2019 Trustees Report and all prior reports
• Detailed single-year tables for recent reports
• Our estimates for comprehensive proposals
• Our estimates for individual policy provisions
• Actuarial notes, including replacement rates
• Actuarial studies
• Extensive databases
• Congressional testimonies
• Presentations by OCACT employees