

# Social Security Provisions and Proposals:

## What Analysis Do We Provide?

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# Provisions to Change Social Security

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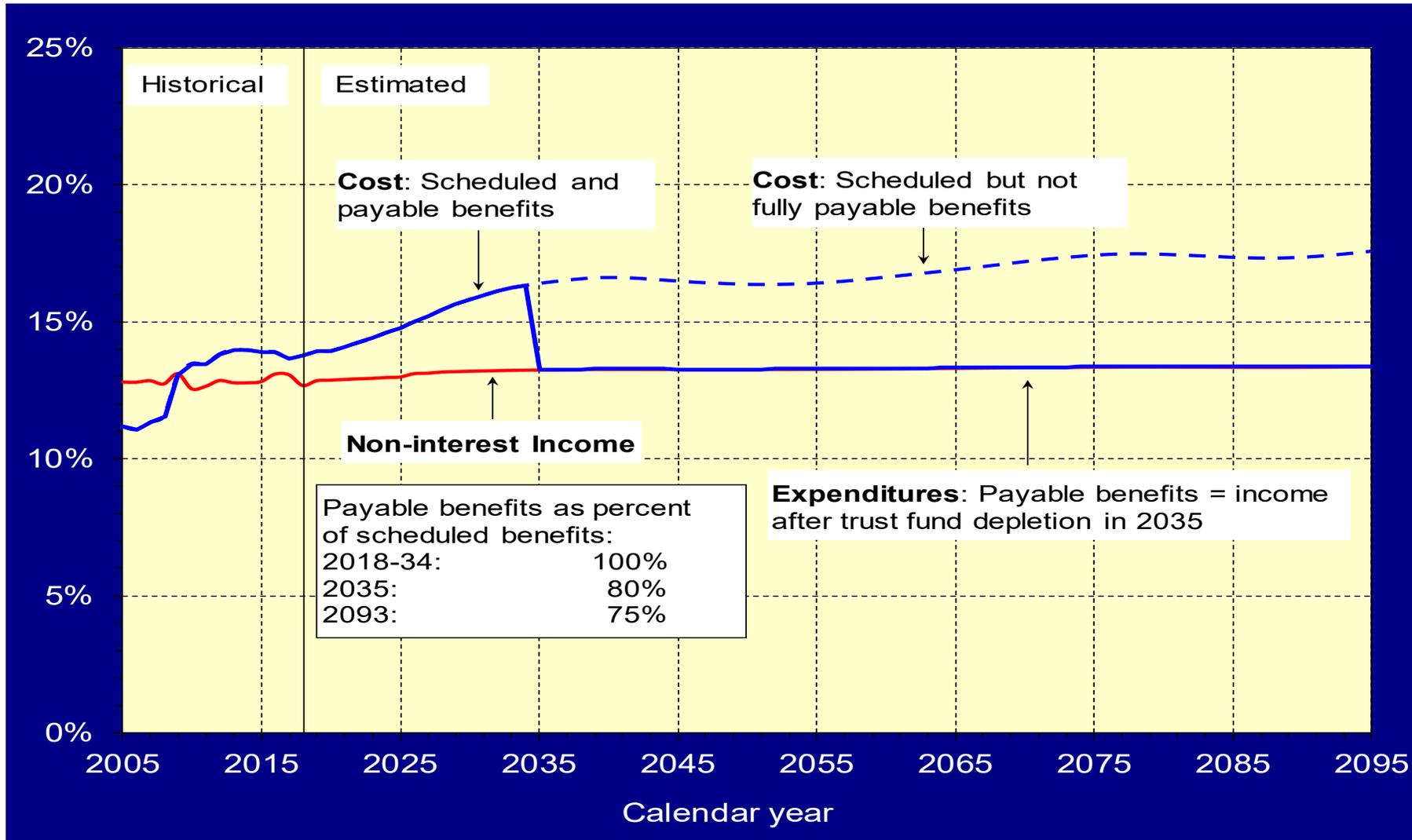
# 2019 Trustees Report Highlights

- The OASI fund alone is projected to be depleted in 2034
- The DI fund alone is projected to be depleted in 2052
- The *hypothetical* combined OASDI fund is projected to be depleted in 2035
- As of December 31, 2018, the trust funds hold about \$2.89 trillion in asset reserves
- The OASDI Summarized 75-year actuarial deficit is 2.78% of payroll
- Both total outgo from and total income into the combined OASDI trust funds exceeded one trillion dollars in 2018 for the first time ever



# 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*





# Provisions to Change the Social Security Program

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## Category of Change to the Social Security Program

*(Estimates based on the 2019 Trustees Report unless otherwise stated)*

A: Cost of Living Adjustment

F: Coverage of Employment or Earnings/Inclusion of Other Sources of Revenue

B: Level of Monthly Benefits (PIA)

G: Investment in Marketable Securities

C: Retirement Age

H: Taxation of Benefits

D: Benefits for Family Members

I: Individual Accounts

E: Payroll Taxes (including maximum taxable)

J: All Categories

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



# What Kind of Provisions Do We See In Solvency Packages?

## **Raise Scheduled Revenue**

- Increase payroll tax
- Increase or eliminate the taxable maximum
- Increase revenue from taxation of benefits
- Find other sources of revenue

## **Lower Scheduled Benefits**

- Change benefit formula
- Reduce cost of living adjustments
- Increase retirement age
- Reduce benefits for dependents

## **Restructure System**

- Individual accounts

## **Benefit “Enhancements”**

- Targeted benefit increases
- Increase cost of living adjustments
- Raise thresholds for taxation of benefits

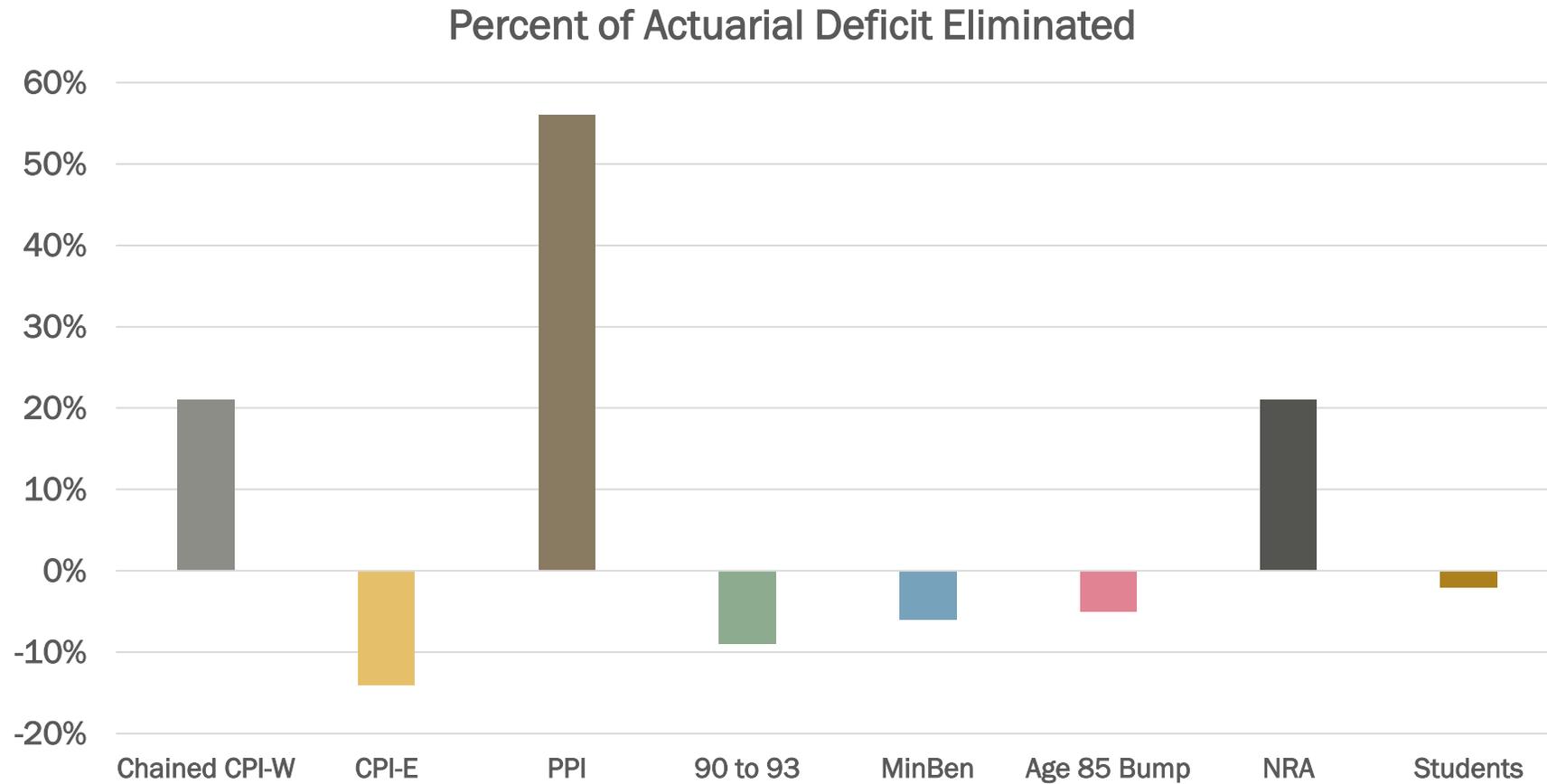


# Benefit Provisions

2019TR Provision #	Description	Change in Actuarial Balance
A3	Calculate COLA using chained CPI-W December 2020+	0.58
A6	Calculate COLA using CPI-E December 2021+	-0.40
B1.2	Progressive Price Indexing 2026+	1.57
B3.11	Increase the first PIA factor from 90 percent to 93 percent for all beneficiaries 2021+	-0.24
B5.2	Reconfigure the Special Minimum Benefit	-0.17
B6.3	Uniform benefit bump at age 85 equal to 5% of the average retired-worker PIA	-0.14
C1.3	Index the normal retirement age (NRA) to life-expectancy after the NRA reaches 67	0.58
D1	Expand student benefits for children of disabled or deceased workers to age 22	-0.06



# Benefit Provisions





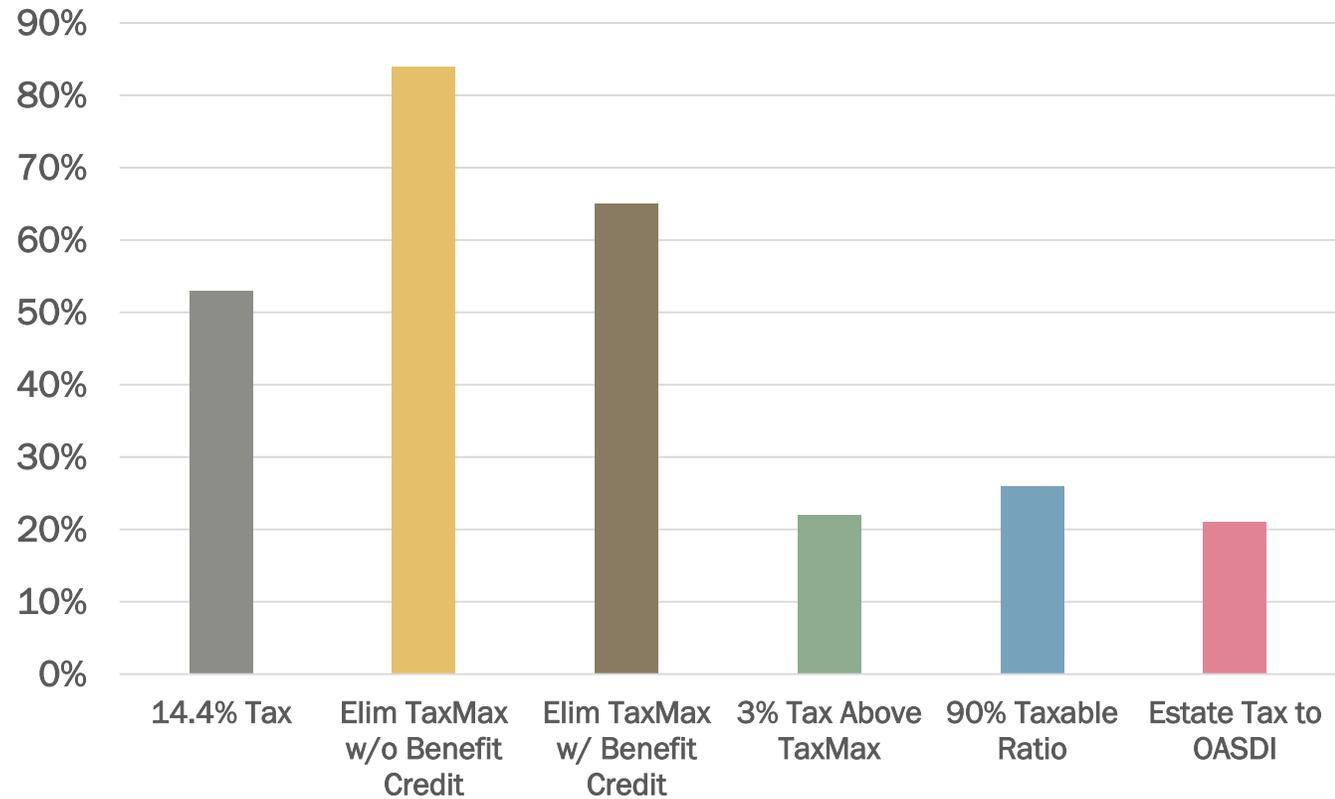
# Revenue Provisions

2019TR Provision #	Description	Change in Actuarial Balance
E1.4	Increase the payroll tax rate by 0.1 ppt annually from 2025-2044 to 14.4% in 2044+.	1.47
E2.1	Eliminate the taxable maximum in years 2020. No benefit credit.	2.35
E2.2	Eliminate the taxable maximum in years 2020. Full benefit credit.	1.80
E2.6	Apply a 3% payroll tax above the current-law taxable maximum 2020+. No benefit credit.	0.61
E3.1	Increase the taxable maximum to achieve 90% taxable ratio (phased in 2020-2029). Full benefit credit.	0.73
F7	Return to 2009 thresholds for the estate tax, gift tax, and GST tax and redirect all revenue to the combined OASDI Trust Fund.	0.58
G1	Invest 40 percent of reserves in equities (phased in 2020-2034).	0.50



# Revenue Provisions

Percent of Actuarial Deficit Eliminated





# Recent Non-Solvency Proposals

- *Change to Windfall Elimination Provision*
  - Representative Neal, September 2019
  - Representative Brady, July 2019
- *Elimination of the Retirement Earnings Test*
  - Representative Walorski, May 2019
- *Parental leave benefits in exchange for an increase in individual normal retirement age*
  - Senator Rubio and Representative Wagner, April 2019
  - Senators Lee and Ernst, March 2019

# PROPOSALS

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# *Actuarial Estimates*

- New proposed concepts
- Existing proposals
  - *150 provisions published online*

## **Policymakers develop proposals and options**

- financial effects on the OASDI Trust Funds
- address long-term solvency
- revise specific aspects of law
  - *no significant long-term effects on solvency*
    - Parental Leave Benefit



# Proposed Acts for Social Security

- *Committee on Ways and Means*
  - *The Social Security 2100 Act*
    - *introduced on January 30, 2019*
      - Congressman Larson
  - *Social Security Reform Act of 2016*
    - *Introduced on December 8, 2016*
      - Representative Sam Johnson
  
- *Bipartisan Policy Center (BPC)*
  - *BPC Commission on Retirement Security and Personal Savings Plan*
    - *Introduced on June 9, 2016*



# Sustainable Solvency

75-year actuarial balance under intermediate assumptions

- *Key measure of the actuarial status of the trust funds*
- *=PV(future projected program income) – PV(program cost)*

## Comparison: Key Measures of Actuarial Status in the Social Security Trustees Reports

	2018 report	2019 report
<b>75-year actuarial deficit</b>		
As a percentage of taxable payroll	2.84%	2.78%
As a percentage of GDP	1.0%	1.0%

Actuarial Deficit – Negative Actuarial Balance

- *expressed as a percentage of taxable payroll*
- *increase payroll tax by just over 2.78% to be solvent for 75 years*



# The *Social Security 2100 Act*

- Increase benefits and the special minimum PIA
- Use CPI-E increase rather than CPI-W increase to calculate COLA
  - CPI-E (Consumer Price Index for the Elderly)
  - CPI-W (Consumer Price Index for Urban Wage Earners and Clerical Workers)
  - COLA (Cost-Of-Living Adjustment)
  - COLA increase by an average of 0.2 percentage point per year.
- Replace current-law thresholds for federal income taxation of OASDI benefits with a single set of thresholds
  - *at \$50k/\$100k for single/joint filers*
  - *up to 85 percent of OASDI benefits, effective for tax year 2020*
- Payroll tax on earnings above \$400,000
  - *While no tax on earnings between \$132,900 and \$400,000 (donut)*
- 2.4% gradual increase in payroll tax rate to 14.8% (phased in 2020-2043)
- New Social Security Trust Fund
  - combines the reserves of OASI and DI Trust Funds



# Current Law versus 2100 Act

## CURRENT LAW

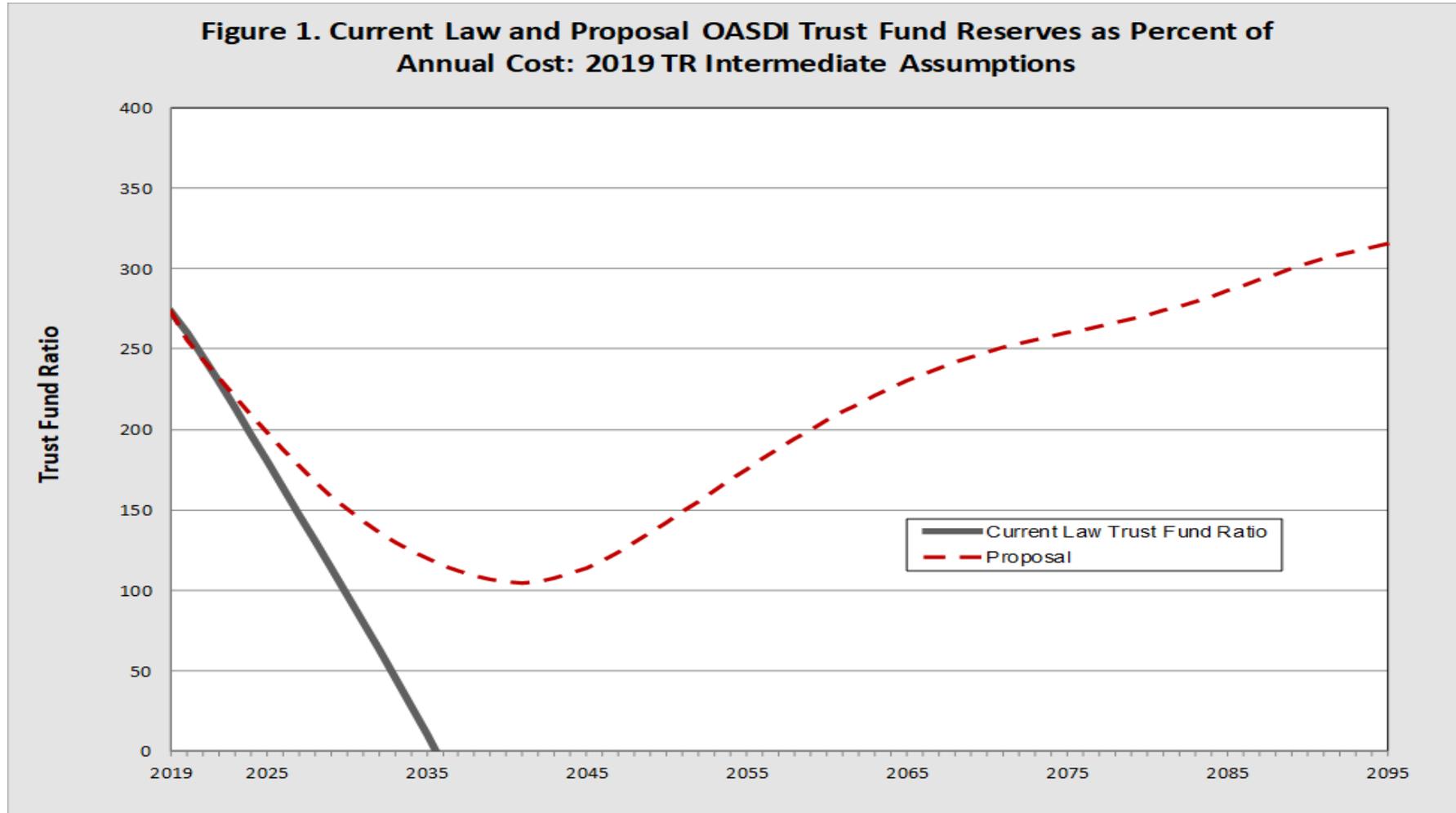
- 80% of scheduled benefits are projected to be payable on a timely basis in 2035 after depletion of the combined trust fund reserves
- Declining to 75% for 2093.
- 2.78% long-range OASDI actuarial deficit

## PROPOSAL

- 75-year solvency projected for OASDI program
- 100% of scheduled benefits paid for the foreseeable future
- 0.39% positive OASDI actuarial balance



# Trust Fund Ratio (CL vs 2100 Act)





## “Social Security 2100 Act”, introduced as H.R. 860 and S.269 on 1/30/2019

<u>Provision</u>	Estimated Change in OASDI Actuarial Balance ( <u>as a % of payroll</u> )
<i>** Based on intermediate assumptions of the 2019 Trustees Report</i>	
<b>Benefit Changes</b>	
Increase the first PIA formula factor from 90-93%	-0.24
Use CPI-E rather than current CPI for COLA increases	-0.41
Expand the current-law minimum benefit	-0.15
Increase income threshold amounts for taxation of benefits	-0.14
<b>Revenue Changes</b>	
Apply payroll tax rate on earnings over \$400,000 initially and eventually on all earnings	1.93
Increase the combined OASDI payroll tax rate to 14.8%	1.87
<b>Total for all provisions, including interaction</b>	<b>3.18</b>

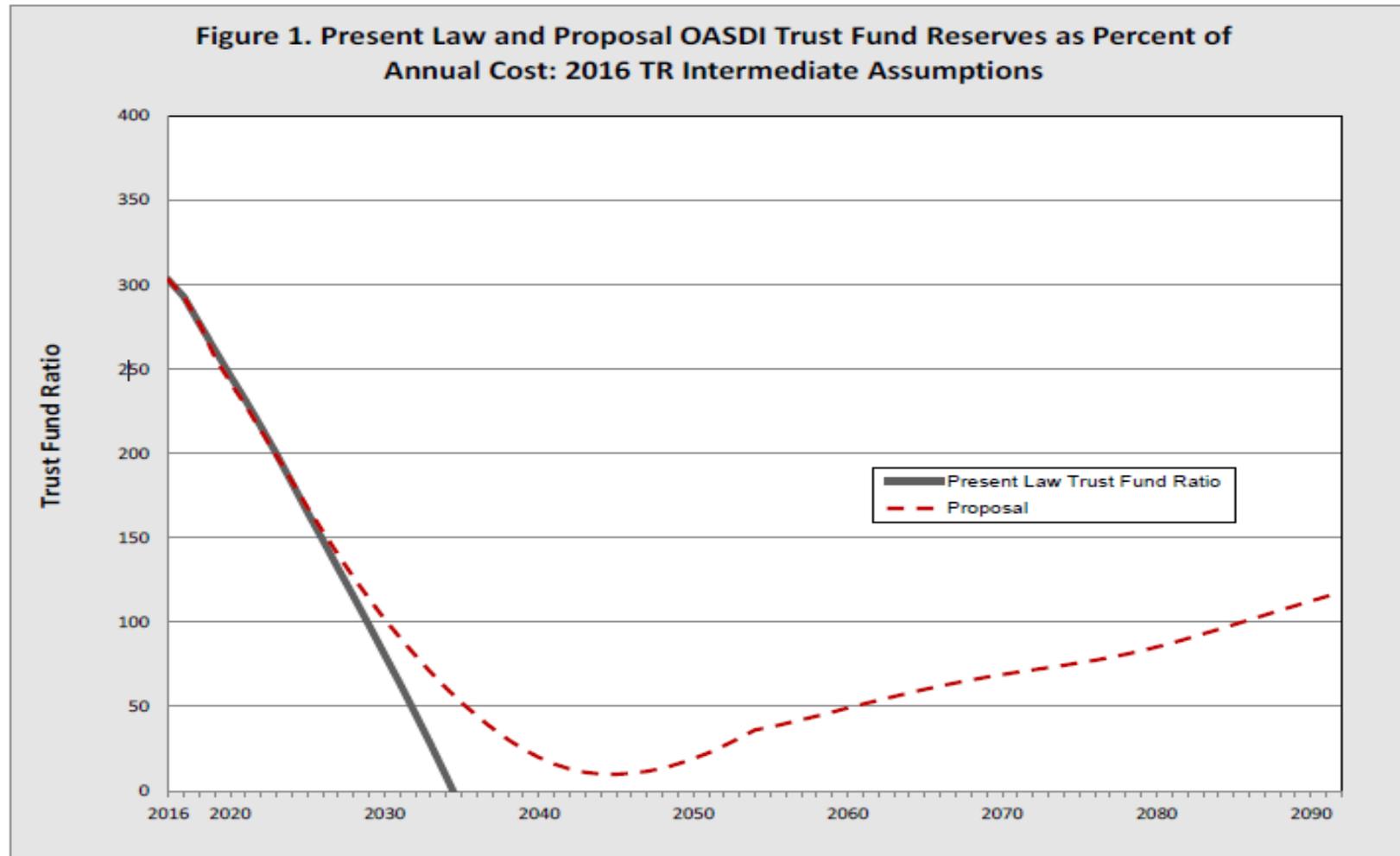


# *Social Security Reform Act of 2016*

- ✓ 75-year solvency
  
- ✓ Benefit cuts rather than revenue increases
  - *Changes in the benefit formula*
  - *Expand benefits for long term low-wage earners*
  - *Reduction or elimination of COLA for all beneficiaries*
  - *Eventually eliminate income taxation of Social Security benefits*



# Chairman Johnson Bill



Note: *Trust Fund Ratio* for a given year is the ratio of reserves in the combined OASI and DI Trust Funds at the beginning of the year to the cost of the program for the year.

## “Social Security Reform Act of 2016”, introduced as H.R. 6489 on 12/8/2016

<u>Provision</u>	Estimated Change in OASDI Actuarial Balance <u>(as a % of payroll)</u>
<i>** Based on intermediate assumptions of the 2016 Trustees Report</i>	
Revise benefit formula to include factors of 95%/27.5%/5%/2% instead of current-law 90%/32%/15%, on indexed earnings. Revise current law bend points	0.85
Use a “mini-PIA” approach rather than aggregating all earnings for computing the PIA	0.34
Alternative Windfall Elimination Provision approach using covered and non-covered earnings levels	0.03
Increase normal retirement age to 69	0.84
Use chained CPI-U (estimated to be 0.3pp lower than current law) for COLA if below certain income levels, no COLA if above those thresholds	1.25
Require full times school enrollment at age 15 and higher for child benefits	0.01
Expand the current-law minimum benefit	-0.23
Eliminate the retirement earnings test at earliest eligibility age	0.01
Eliminate taxation of Social Security benefits, phased in 2045-54	-0.40
Provide additional benefit if at least 20 years eligibility and below certain income thresholds	-0.07
<b>Total for all provisions, including interaction</b>	<b>2.67</b>



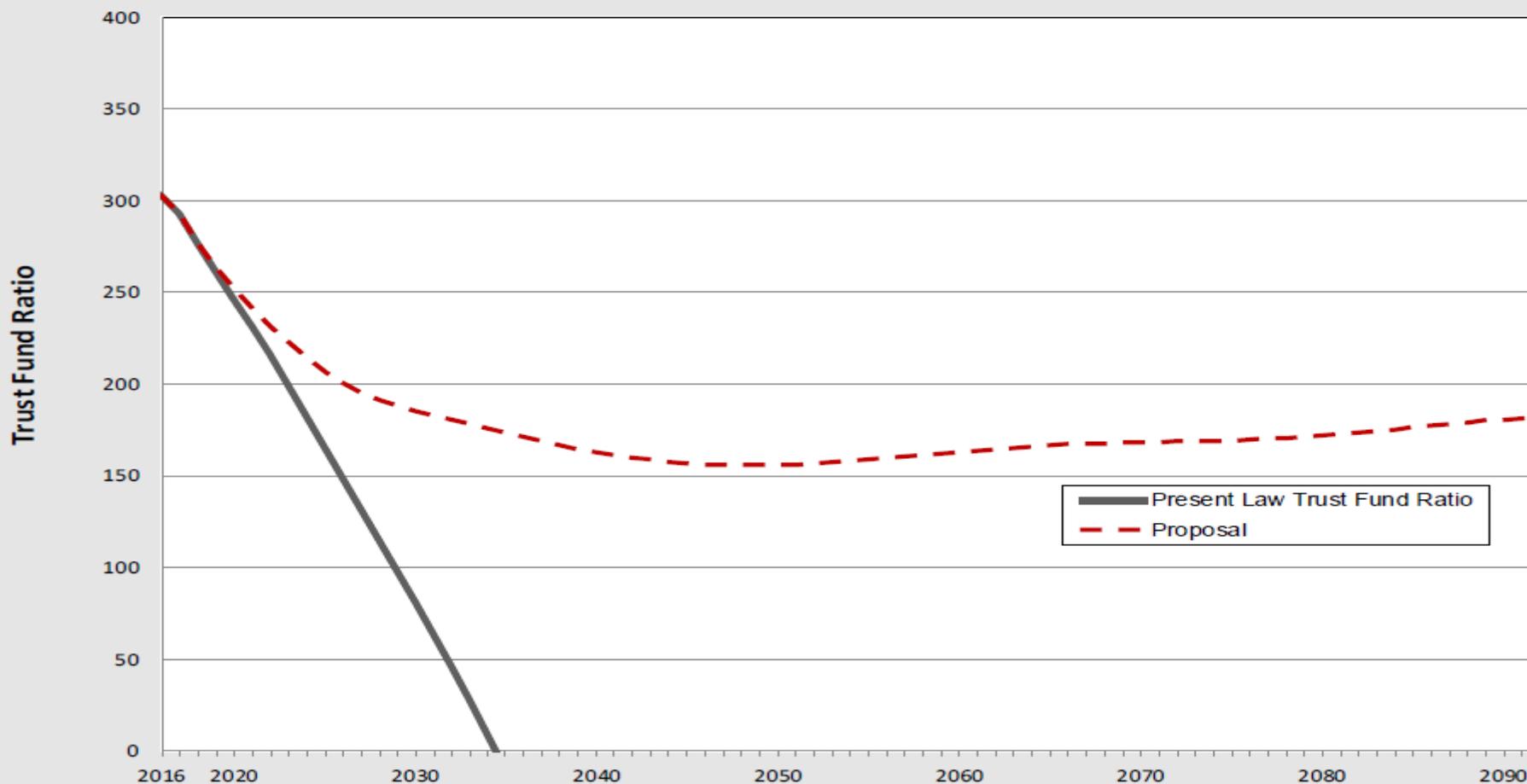
# BPC Commission on Retirement Security and Personal Savings Plan

- Annualized “mini-PIA” formula for beneficiaries newly eligible in 2023
- Limit the spousal benefit
- Specified joint-and-survivor annuity approach.
- New PIA benefit formula
  - *adding new and changing current bend points*
- Increase taxable maximum
- Increase the total OASDI payroll tax rate gradually
- Retirement age increase
  - *1 mo / 2 yrs until the NRA = 69 for those attaining age 62 in 2070*
- C-CPI-U is used to calculate COLA
- Extend student benefits to age 22
  - *for children of disabled or deceased workers*
- Additional federal personal income tax credited to the OASI and DI Trust Funds.
- New Social Security Basic Minimum Benefit (BMB)



# BPC Commission on Retirement Security and Personal Savings Plan

Figure 1. Present Law and Proposal OASDI Trust Fund Reserves as Percent of Annual Cost: 2016 TR Intermediate Assumptions



Bipartisan Policy Center's Commission on Retirement Security and Personal Savings Plan,  
released on June 9, 2016

<u>Provision</u>	Estimated Change in OASDI Actuarial Balance (as a % of payroll)
<i>** Based on intermediate assumptions of the 2016 Trustees Report</i>	
<b>Benefit Changes</b>	
Use a “mini-PIA” approach rather than aggregating all earnings for computing the PIA	0.23
Alternative Windfall Elimination and Government Pension Offset using covered & non-covered earnings levels	0.06
Limit spouse benefit to that received for worker at the 75 <sup>th</sup> percentile of PIA	0.11
Convert couple benefit to a “joint & 75% survivor” annuity approach, equivalent in aggregate to current law	0.02
Revise benefit formula by adding bend point and factors of 95/32/15/5 rather than 90/32/15	0.04
Increase normal retirement age to 69 in a gradual manner	0.50
Use chained CPI-U (0.3pp lower than current) for COLA for benefits paid out of OASI Fund only	0.47
Extend student benefits to age 22	-0.06
Create a new basic minimum benefit for those with income below specific thresholds	-0.19
<b>Revenue Changes</b>	
Continually increase the contribution and benefit base beyond the current-law level (~99% in 75 <sup>th</sup> year)	0.56
Increase payroll tax rate to 13.4 percent over a 10-year period	0.88
<b>Total for all provisions, including interaction</b>	<b>2.77</b>

# SUPPLEMENTARY TABLES

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# Effects on Beneficiaries

- Policymakers do not solely focus on solving long-range solvency.
  - *Need to consider the effect of their proposal on beneficiaries with regards to changes in benefit levels and payroll taxes.*
- OCACT provides policymakers with tables to illustrate these effects.
  - *B Tables - Changes in Benefit Levels*
    - Effect of individual provisions
    - Comparison of the scheduled and payable benefits under the proposal to current law
  - *T Table – Changes in Payroll Tax Contributions*
    - Percent change in scheduled payroll taxes
    - Comparison scheduled payroll taxes under the proposal to current law



# Benefit Illustrations

- Structure of benefit tables highlight various effects of the proposal provisions
- We provide projected changes in benefit levels for:
  - *Workers retiring and beginning benefit receipt at age 65*
  - *Workers reaching age 65 in 2030, 2050, 2080 and the current year*
  - *Hypothetical workers at six selected earnings levels with selected numbers of years of work.*
- Show the proposal benefit as a percent of the current law benefit at ages 65, 75, 85 and 95

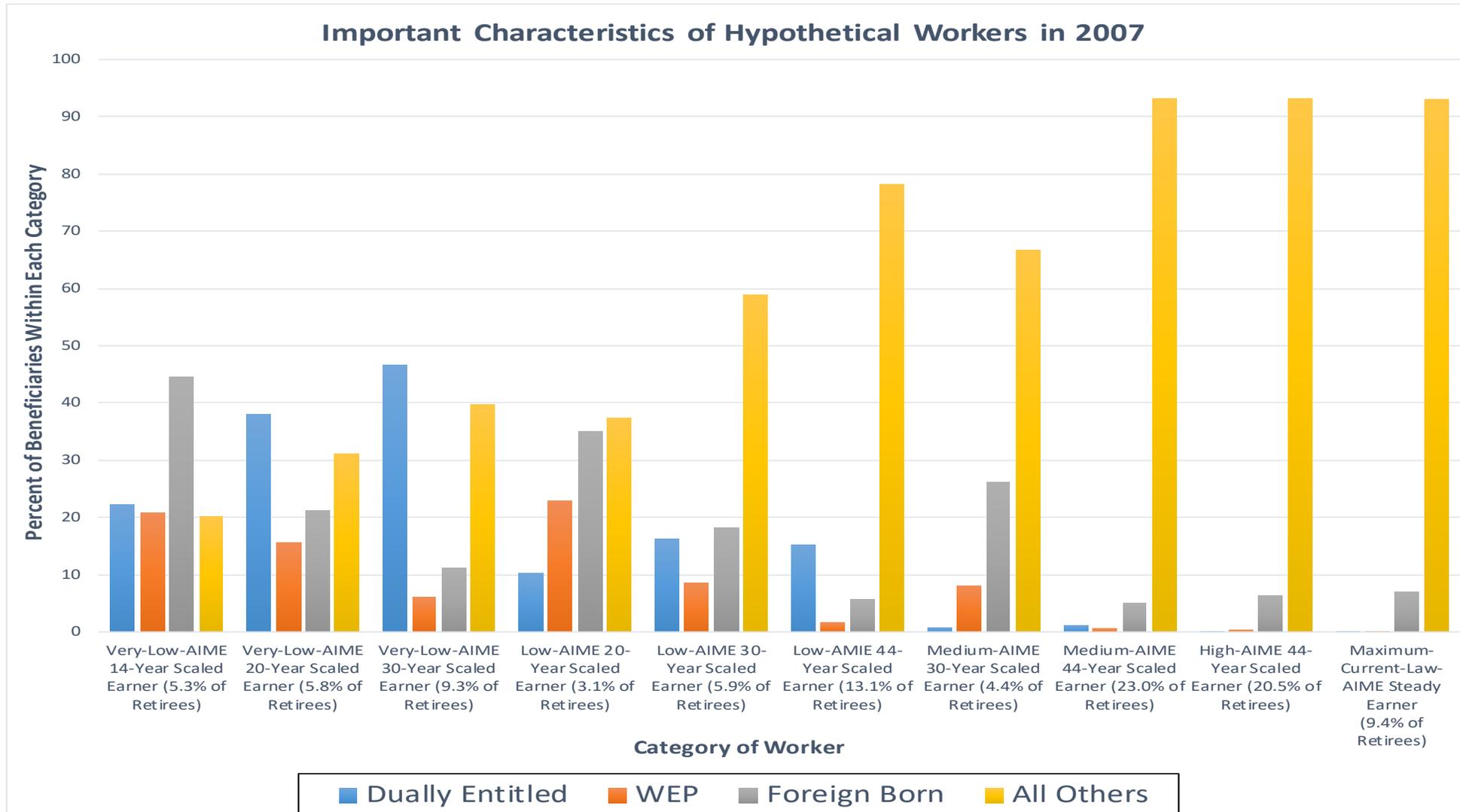


# Hypothetical Workers

- Present hypothetical workers with different earnings levels based on career average earnings levels.
  - *Career average earnings are defined as the average of highest 35 years of earnings indexed for growth in average wages to the year prior to benefit entitlement.*
- Six categories of hypothetical workers:
  - *Very-Low-AIME scaled earner, \$13,466 for 2019*
  - *Low-AIME scaled earner, \$24,239 for 2019*
  - *Medium-AIME scaled earner, \$53,864 for 2019*
  - *High-AIME scaled earner, \$86,182 for 2019*
  - *Maximum-Current-Law-AIME steady earner, \$132,900 for 2019*
  - *Twice Maximum-Current-Law AIME steady earner, \$265,800 for 2019*
- Reflect the average career-earnings patterns of workers who began receiving retirement benefits under Social Security in recent years.
- The very-low, low and medium hypothetical workers are further broken down by the number of years of non-zero earnings.



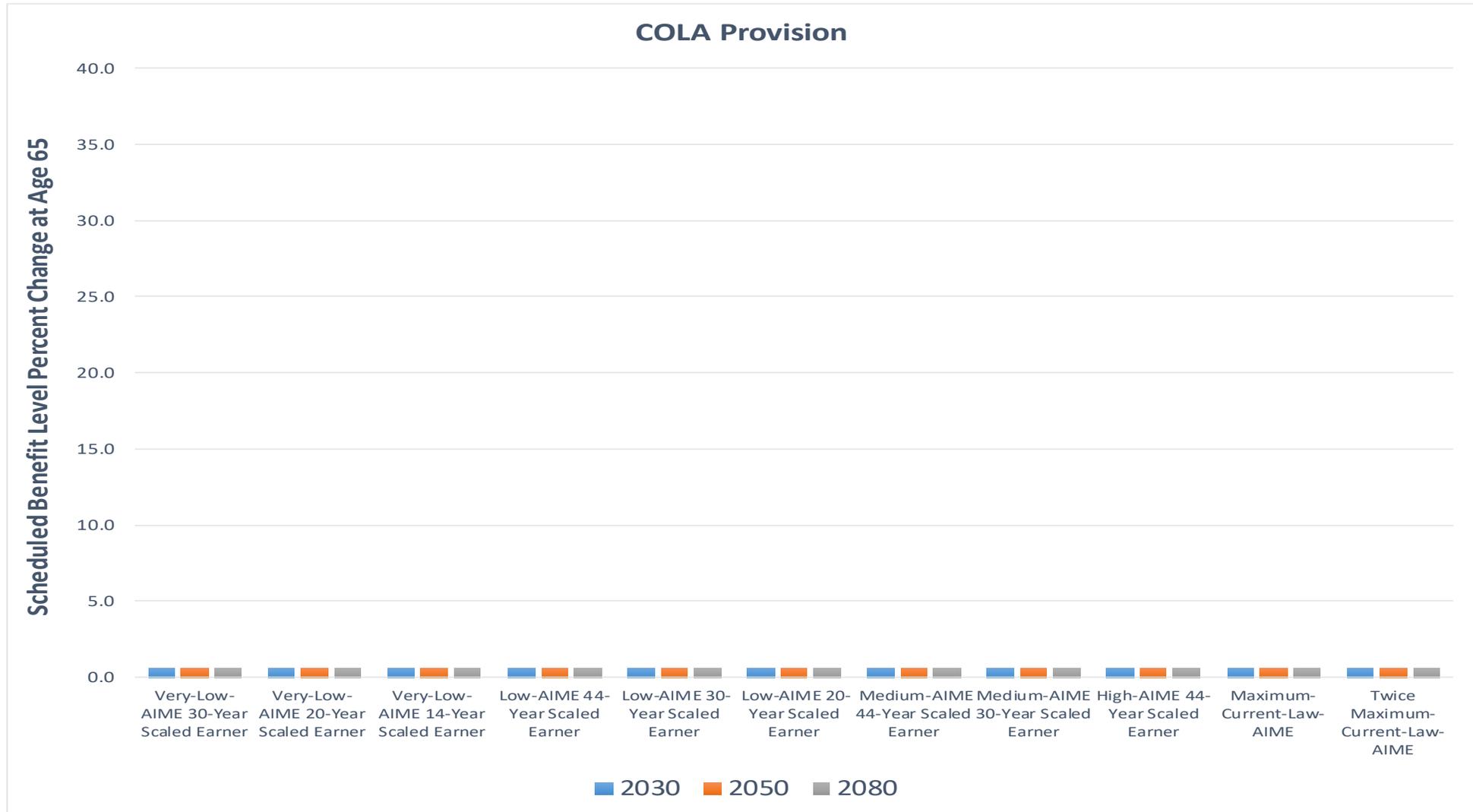
# Who are the Hypothetical Workers?





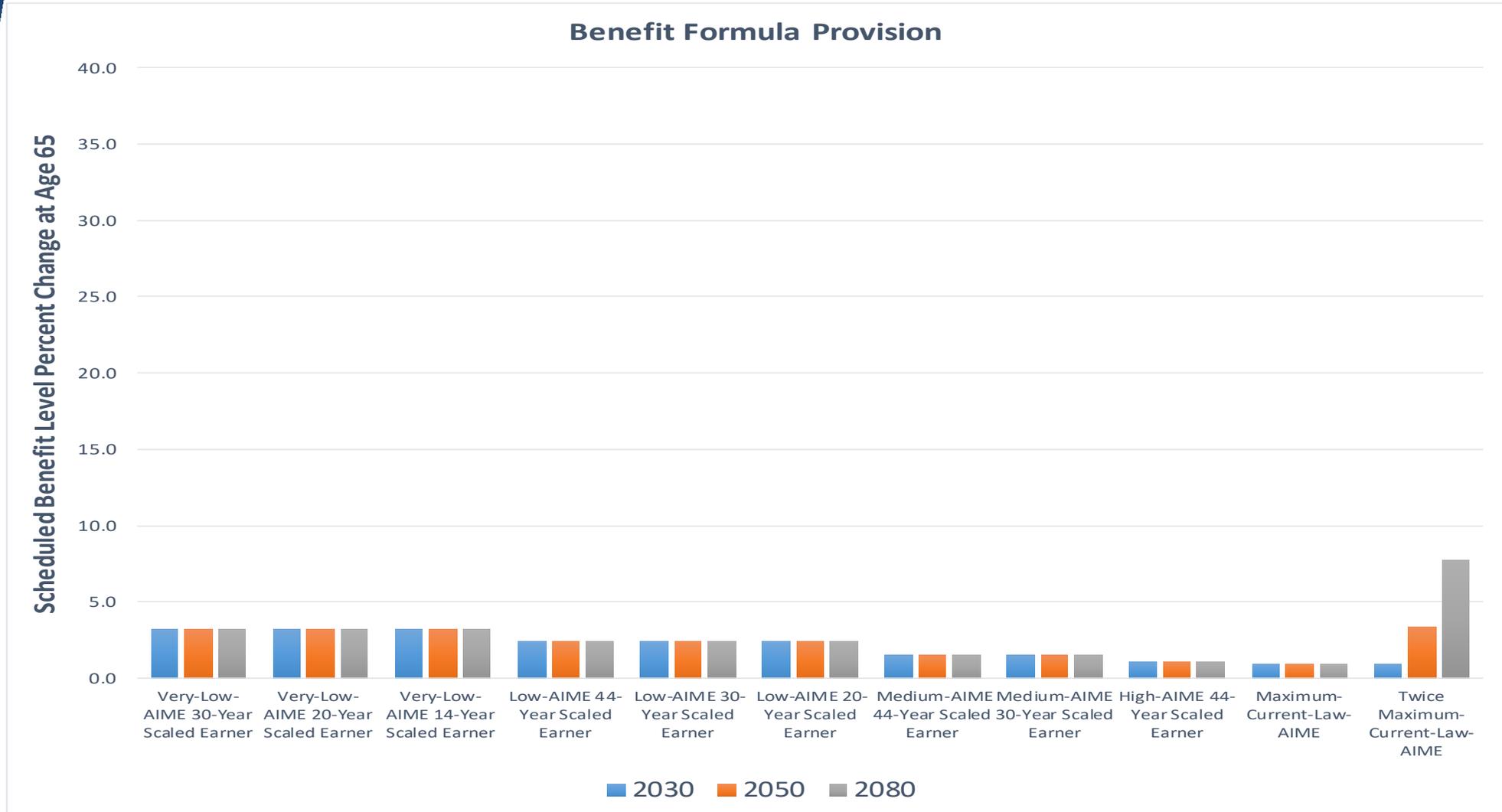


# Social Security 2100 Act



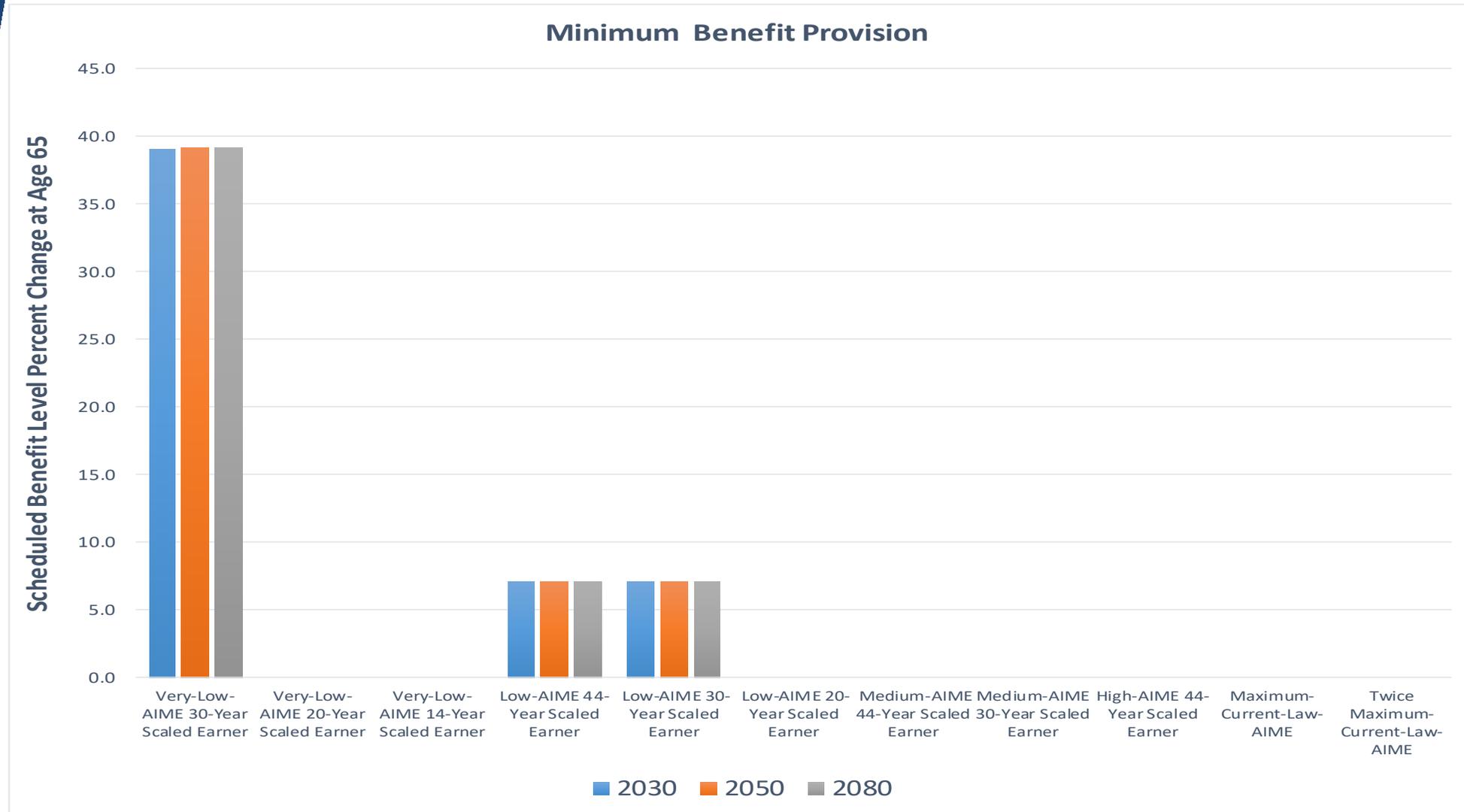


# Social Security 2100 Act



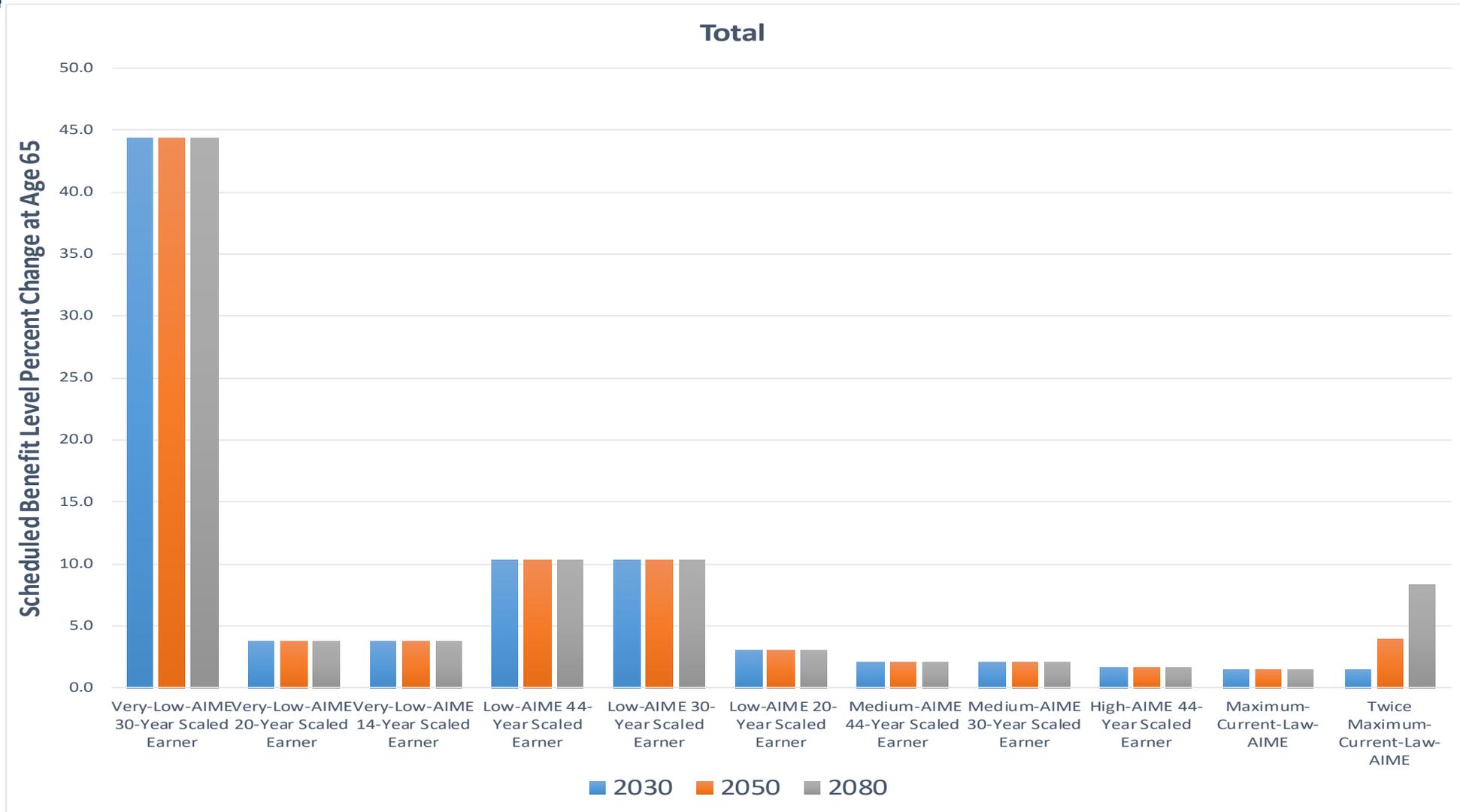


# Social Security 2100 Act





# Social Security 2100 Act





# Benefit Illustrations - Table B2

**Table B2. Changes in Benefits for Hypothetical Workers Beginning Benefit Receipt at age 65  
"Social Security 2100 Act," Introduced by Chairman Larson, Senator Blumenthal, and Senator Van Hollen**

Year Attain <u>Age 65</u>	<u>Proposal Scheduled Benefit as Percent of Current Law Scheduled Benefit</u>				<u>Proposal Payable Benefit as Percent of Current Law Payable Benefit</u>			
	<u>Age 65</u>	<u>Age 75</u>	<u>Age 85</u>	<u>Age 95</u>	<u>Age 65</u>	<u>Age 75</u>	<u>Age 85</u>	<u>Age 95</u>
	(Percent)							
	<b>Very-Low-AIME (\$13,466 for 2019<sup>1</sup>) 30-Year Scaled Earner (11.2% of Retirees<sup>2</sup>)</b>							
2019	100.0	102.0	104.0	106.0	100.0	102.0	132.0	132.7
2030	144.4	147.2	150.1	153.0	144.4	186.9	187.7	194.2
2050	144.4	147.2	150.1	153.1	180.5	186.9	196.9	203.8
2080	144.4	147.2	150.1	153.1	192.3	194.9	4	4
	<b>Very-Low-AIME (\$13,466 for 2019<sup>1</sup>) 20-Year Scaled Earner (5.3% of Retirees<sup>2</sup>)</b>							
2019	100.0	102.0	104.0	106.0	100.0	102.0	132.0	132.7
2030	103.8	105.8	107.9	110.0	103.8	134.4	134.9	139.6
2050	103.8	105.8	107.9	110.0	129.8	134.3	141.5	146.5
2080	103.8	105.8	107.9	110.0	138.2	140.0	4	4
	<b>Very-Low-AIME (\$13,466 for 2019<sup>1</sup>) 14-Year Scaled Earner (4.0% of Retirees<sup>2</sup>)</b>							
2019	100.0	102.0	104.0	106.0	100.0	102.0	132.0	132.7
2030	103.8	105.8	107.9	110.0	103.8	134.4	134.9	139.6
2050	103.8	105.8	107.9	110.0	129.8	134.3	141.5	146.5
2080	103.8	105.8	107.9	110.0	138.2	140.0	4	4



# Payroll Tax Effects

- The payroll tax effects table shows the changes in payroll tax contributions for workers with OASDI Covered Earnings
- We show percent change in scheduled payroll taxes due to changes in the payroll tax rate and taxable maximum.
- We provide the effects on workers with earnings in the year shown in the 26<sup>th</sup>, 40<sup>th</sup>, 69<sup>th</sup>, 85<sup>th</sup>, 94<sup>th</sup> and 99<sup>th</sup> percentile.



# Payroll Tax Effects – Table T

**Table T. Changes in Payroll Tax Contributions (Employee + Employer) for Workers with OASDI Covered Earnings in the Year "Social Security 2100 Act," Introduced by Chairman Larson, Senator Blumenthal, and Senator Van Hollen**

Earnings in Year	<u>Current Law Scheduled</u>		<u>Scheduled Payroll Taxes Percent Change</u>			<u>Proposal Scheduled Payroll Taxes</u>
	<u>Monthly Total Payroll Taxes</u>		Payroll Tax Rate <sup>2</sup>	Taxable Maximum <sup>3</sup> (Percent change)	Total	<u>Percent of Current Law</u> (Percents)
	(Wage-Indexed 2019 Dollars)	(CPI-Indexed 2019 Dollars)				
<b>26th Percentile Earner<sup>1</sup> in Year (\$13,466 in 2019)</b>						
2019	139	139	0.0	0.0	0.0	100
2030	139	165	8.9	0.0	8.9	109
2050	139	210	19.4	0.0	19.4	119
2080	139	298	19.4	0.0	19.4	119
<b>94th Percentile Earner<sup>1</sup> in Year (\$132,900 in 2019) Current-Law Maximum Earnings Level</b>						
2019	1,373	1,373	0.0	0.0	0.0	100
2030	1,373	1,627	8.9	0.0	8.9	109
2050	1,373	2,069	19.4	0.0	19.4	119
2080	1,373	2,945	19.4	0.0	19.4	119
<b>99th Percentile Earner<sup>1</sup> in Year (\$265,800 in 2019) Twice Current-Law Maximum Earnings Level</b>						
2019	1,373	1,373	0.0	0.0	0.0	100
2030	1,373	1,627	8.9	7.0	16.5	117
2050	1,373	2,069	19.4	100.0	138.7	239
2080	1,373	2,945	19.4	100.0	138.7	239



# Additional Information

- 2019 OASDI Trustees Report:  
<https://www.ssa.gov/oact/TR/2019/index.html>
- Memoranda for proposals to change Social Security:  
<https://www.ssa.gov/oact/solvency/index.html>
- Estimates of Individual Changes Modifying Social Security:  
<https://www.ssa.gov/oact/solvency/provisions/index.html>
- Scaled Factors for Hypothetical Earnings Examples:  
<https://www.ssa.gov/oact/NOTES/ran3/an2019-3.pdf>

