

# Social Security and Medicare Trustees Reports— A Deep-Dive Discussion With the Programs' Chief Actuaries



AMERICAN ACADEMY *of* ACTUARIES

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# Assumptions for the Social Security and Medicare Reports (and a Bit More Background...)



# What is the Legislative Mandate for the Annual Reports?

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1. Trust fund operations of the past year and the next five years
2. Actuarial status of the trust funds
  - This means 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



# Why Do These Actuarial Projections Matter? *Particularly OASI/DI/HI*

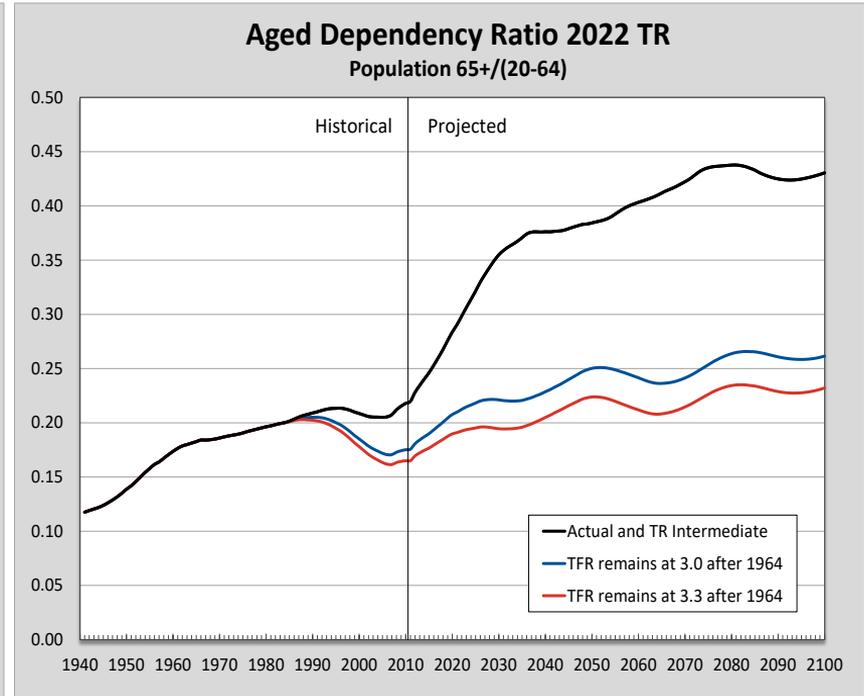
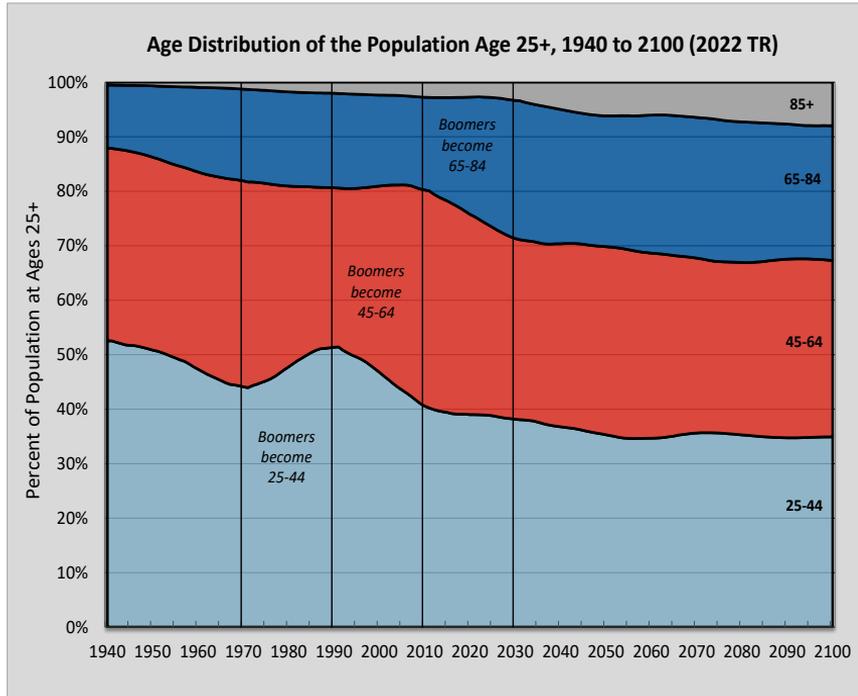
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- Long-term projections provide information to assess solvency and changes needed to eliminate shortfalls
- If trust fund reserves were to become depleted:
  - Full scheduled benefits could not be paid timely under current law
  - NO pressure on the 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



# The Common Driving Force Is Aging:

## *Change in Age Distribution Mainly due to Drop in Birth Rates*



# Timing of Setting Assumptions

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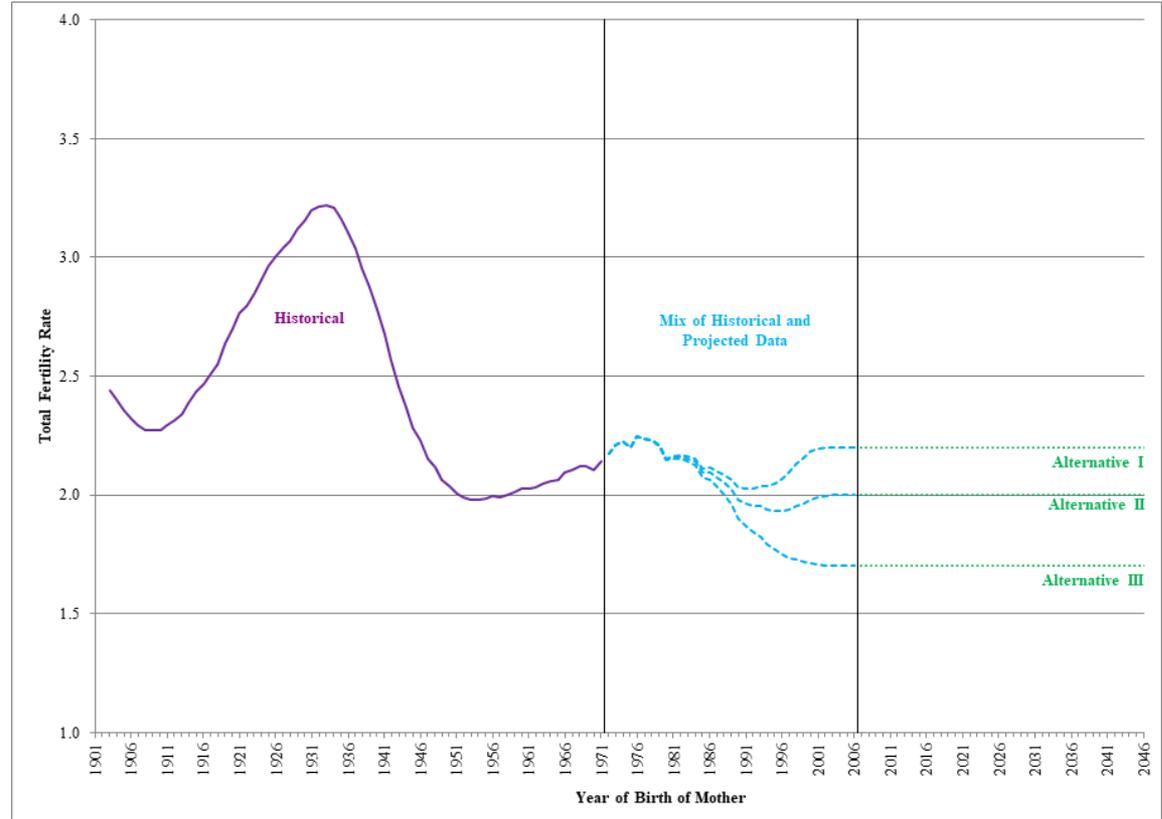
- Assumptions for the 2022 Trustees Reports were set in mid-February 2022
- Much has changed since then
- Inflation, instability in Europe, etc.
- COVID continues, with relatively high case counts

# Birth Rates by Cohort

Has been rising for women born since 1951.

Projected to dip below 2.0 for women born between 1990 and 2006, based on low rates since 2008.

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

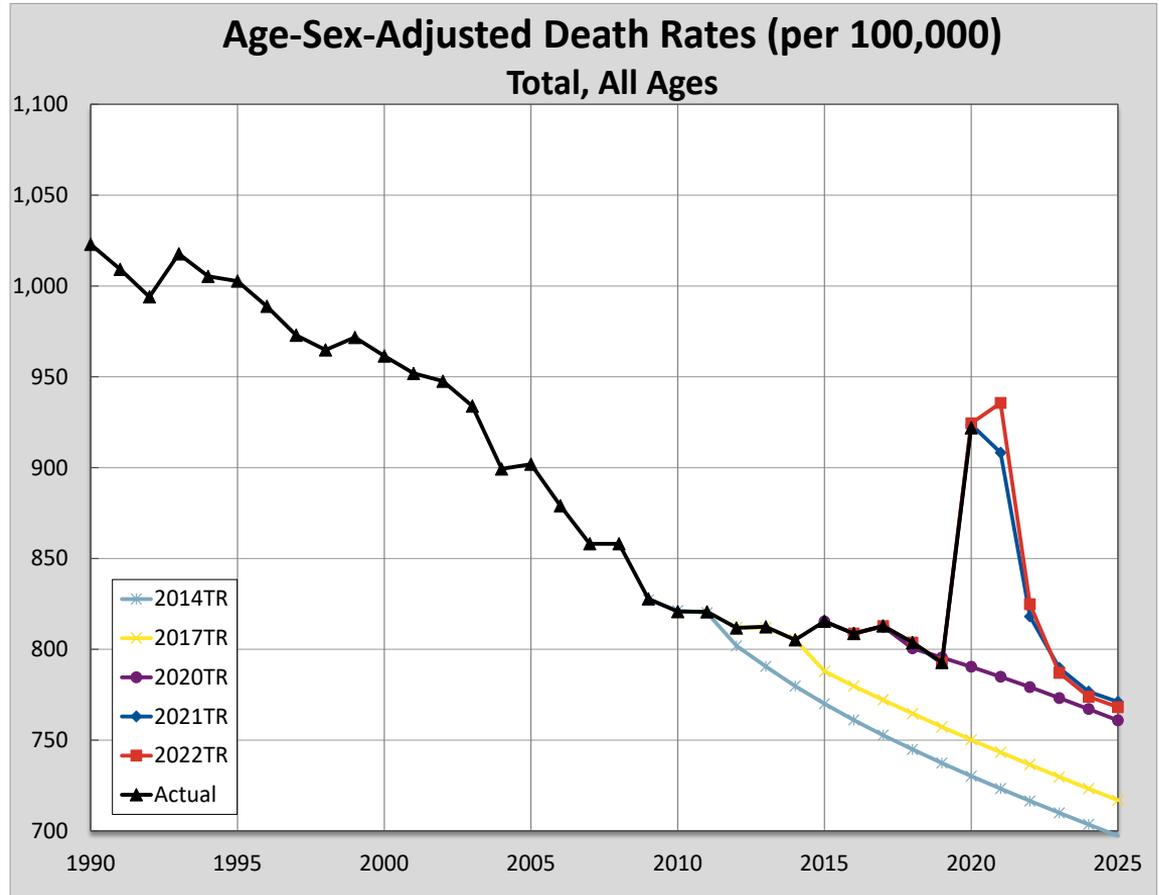


[https://www.ssa.gov/oact/TR/2022/2022\\_Long-Range\\_Demographic\\_Assumptions.pdf](https://www.ssa.gov/oact/TR/2022/2022_Long-Range_Demographic_Assumptions.pdf)



# Mortality Experience: All Ages

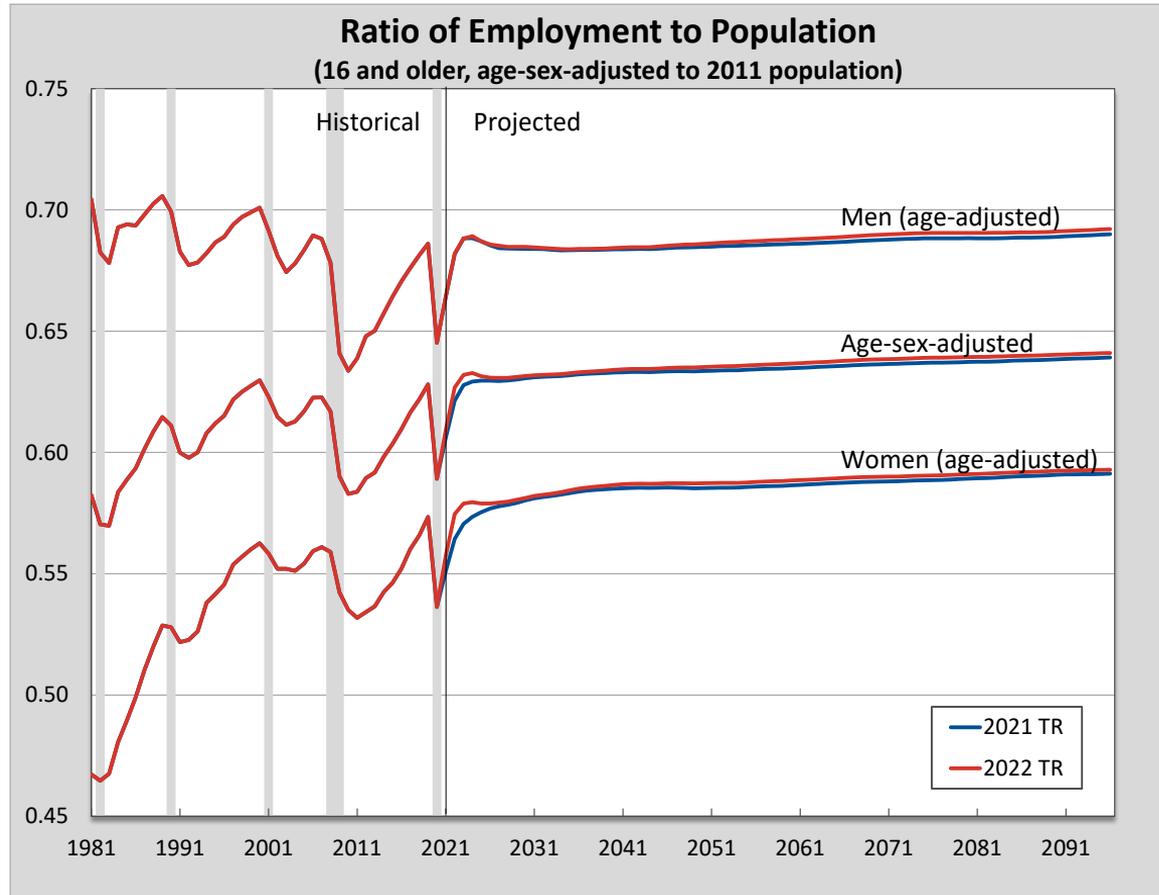
Increased mortality in the near term to reflect the effects of the COVID-19 pandemic.



# Ratio of Employment to Population

Recovered more strongly from the brief but steep recession than did LFPRs.

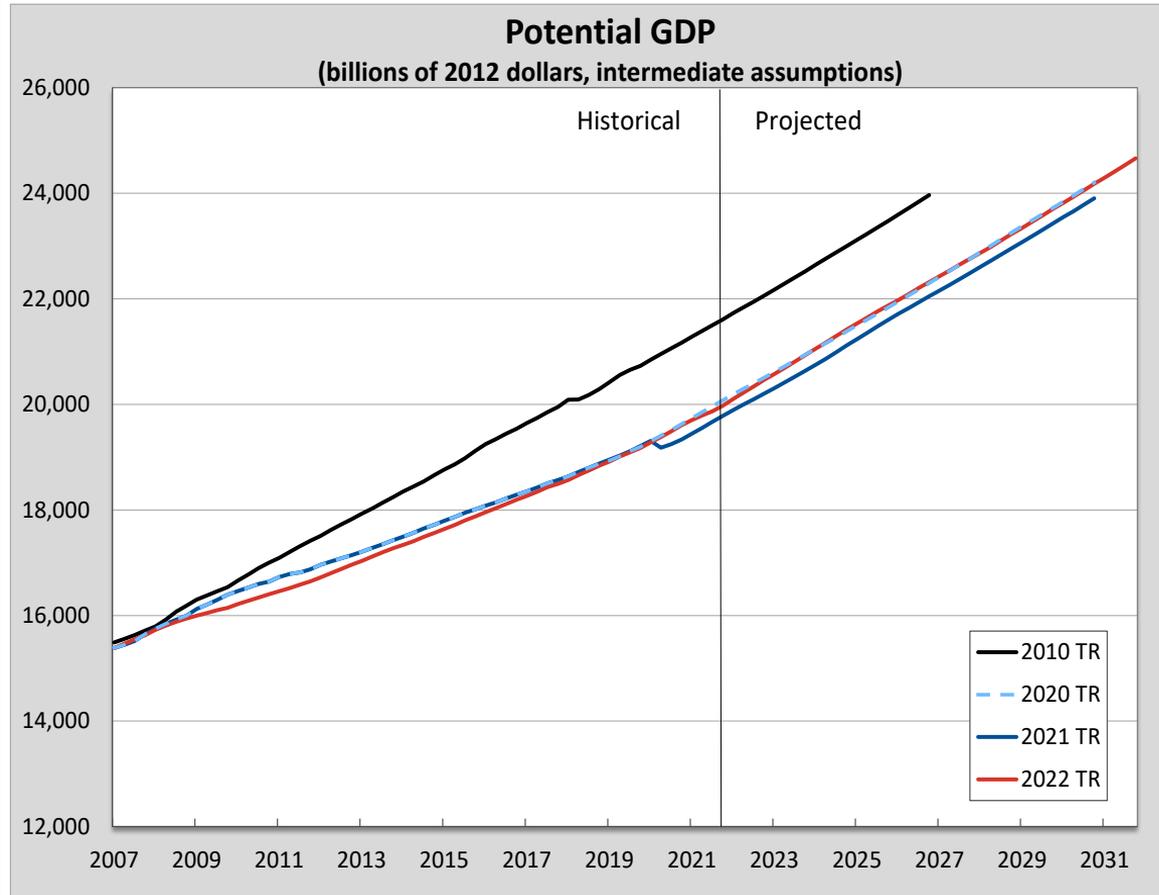
Projected to exceed the level seen at the peak of the last economic cycle by 2022 for women and by 2023 for men.



# Higher Potential GDP Trajectory in 2022 TR Compared to 2021 TR

Stronger-than-expected recovery from the 2020 recession led us to reassess the likelihood of permanent scarring for potential GDP.

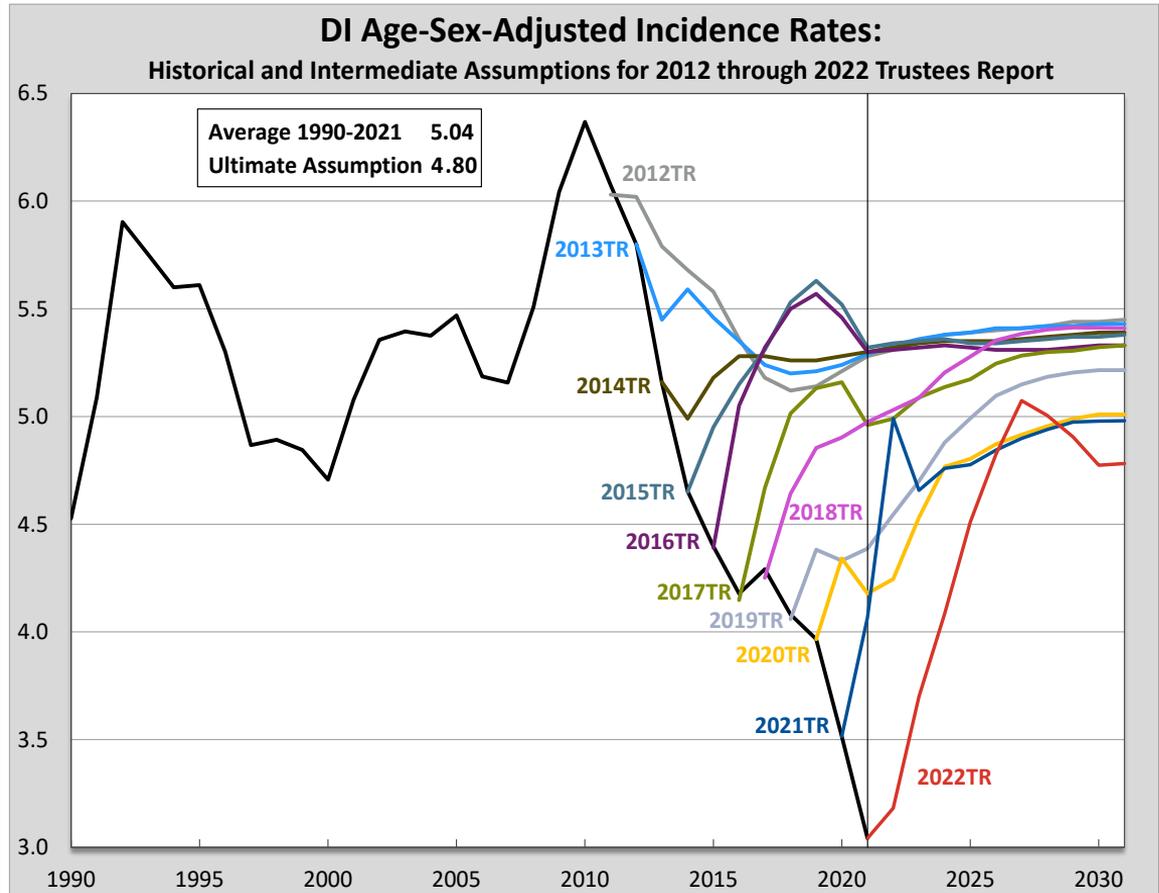
The trajectory of potential GDP for the 2022 TR is very close to the trajectory for the 2020 TR.



# Disability Incidence Rate Remains Historically Low

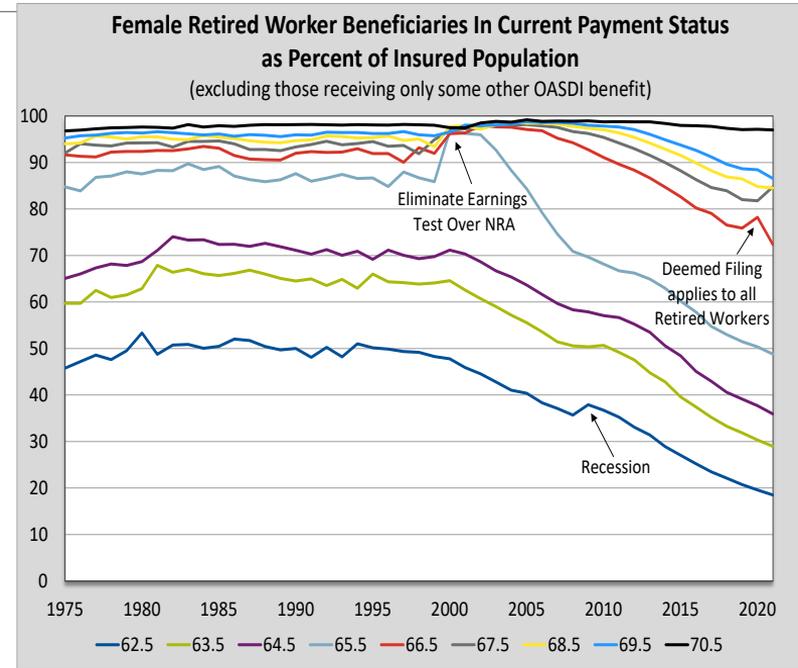
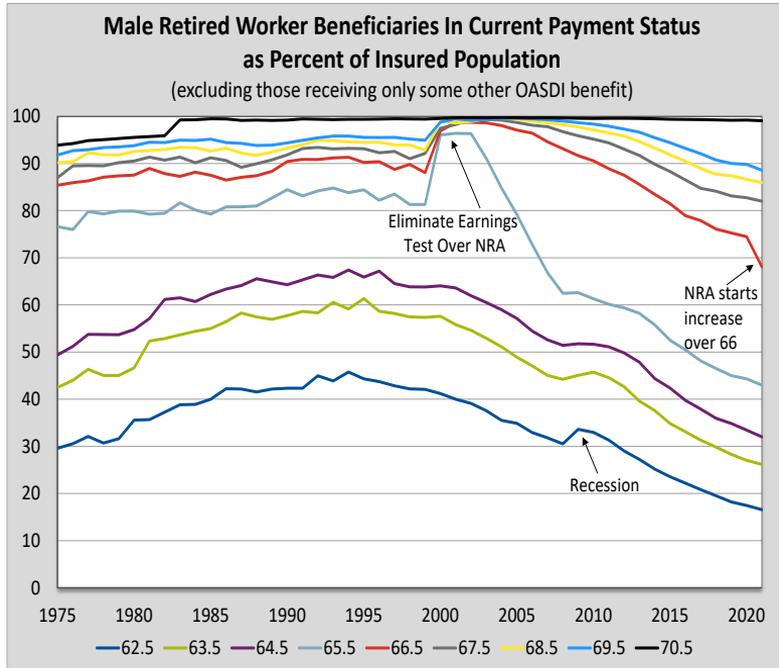
DI disabled worker incidence rate rose sharply in the 2008 recession, and has declined since the peak in 2010 to extraordinarily low levels in 2016 through 2021.

*What will be the NET effect of COVID and post-COVID conditions?*



# Age of Starting Social Security Retirement Benefits

*Note significant shift in recent years*



# 2022 Trustees Report Results: Social Security



# Changes in OASDI Actuarial Balance in 2022 Report

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•Valuation Period	- 0.06 percent
•Legislation (1-year delay in resuming approval of new DACA applications)	0.00 percent
•Demographic data, assumptions and methods <ul style="list-style-type: none"><li>• Lower recent birth data and lower assumed near-term total fertility rate</li><li>• Immigration and other data updates</li></ul>	- 0.04 percent
•Economic data, assumptions and methods <ul style="list-style-type: none"><li>• Higher near-term real interest rates</li><li>• Higher level of productivity and GDP</li></ul>	+0.13 percent
•Disability data, assumptions and methods <ul style="list-style-type: none"><li>• New data, near-term disability assumptions and lower ultimate disability incidence rate</li><li>• Disability incidence rate assumptions incorporated into labor force/employment model</li></ul>	+0.07 percent
•Other new data and methods improvements <ul style="list-style-type: none"><li>• Higher level of revenue from taxation of benefits</li></ul>	+0.01 percent
<b>Net Changes for All Reasons</b>	<b>+0.12 percent</b>

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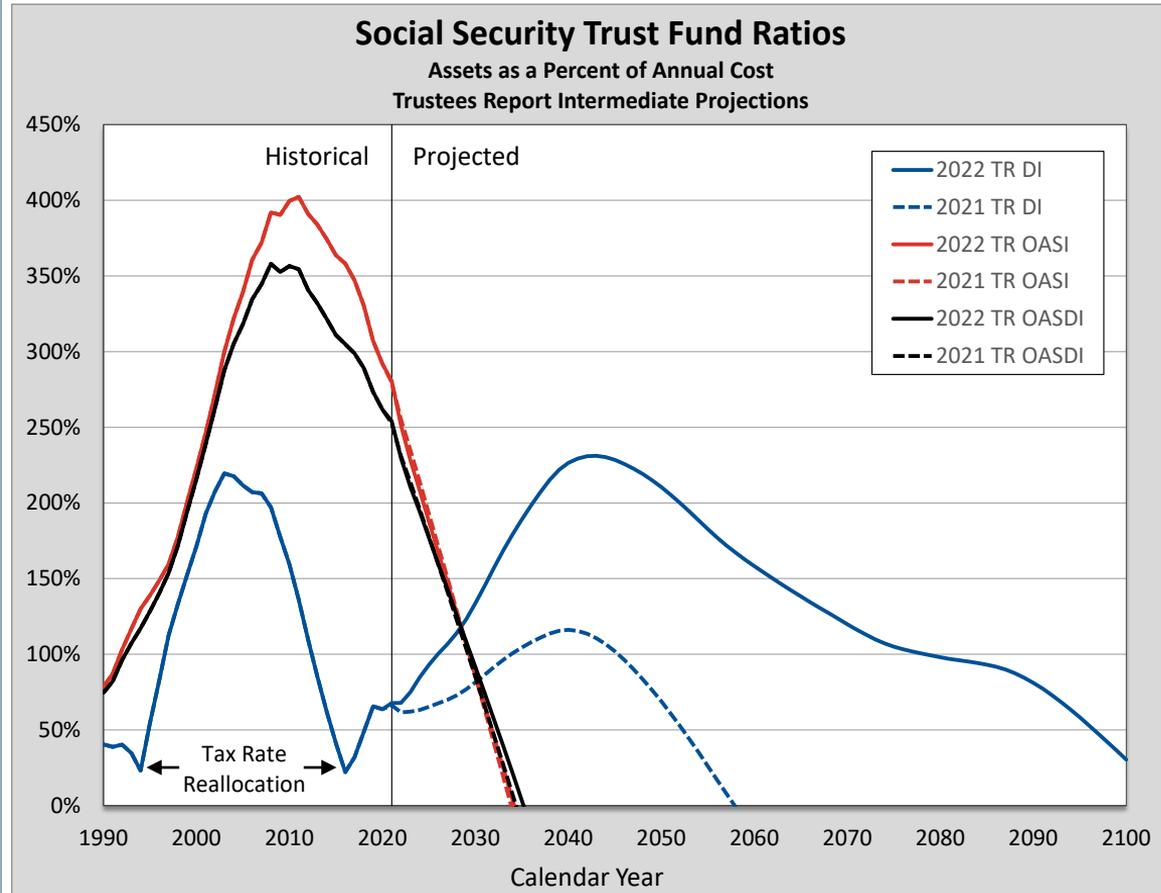


# Solvency: OASI+DI Trust Fund Reserve Depletion in 2035 (one year later than last year)

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.

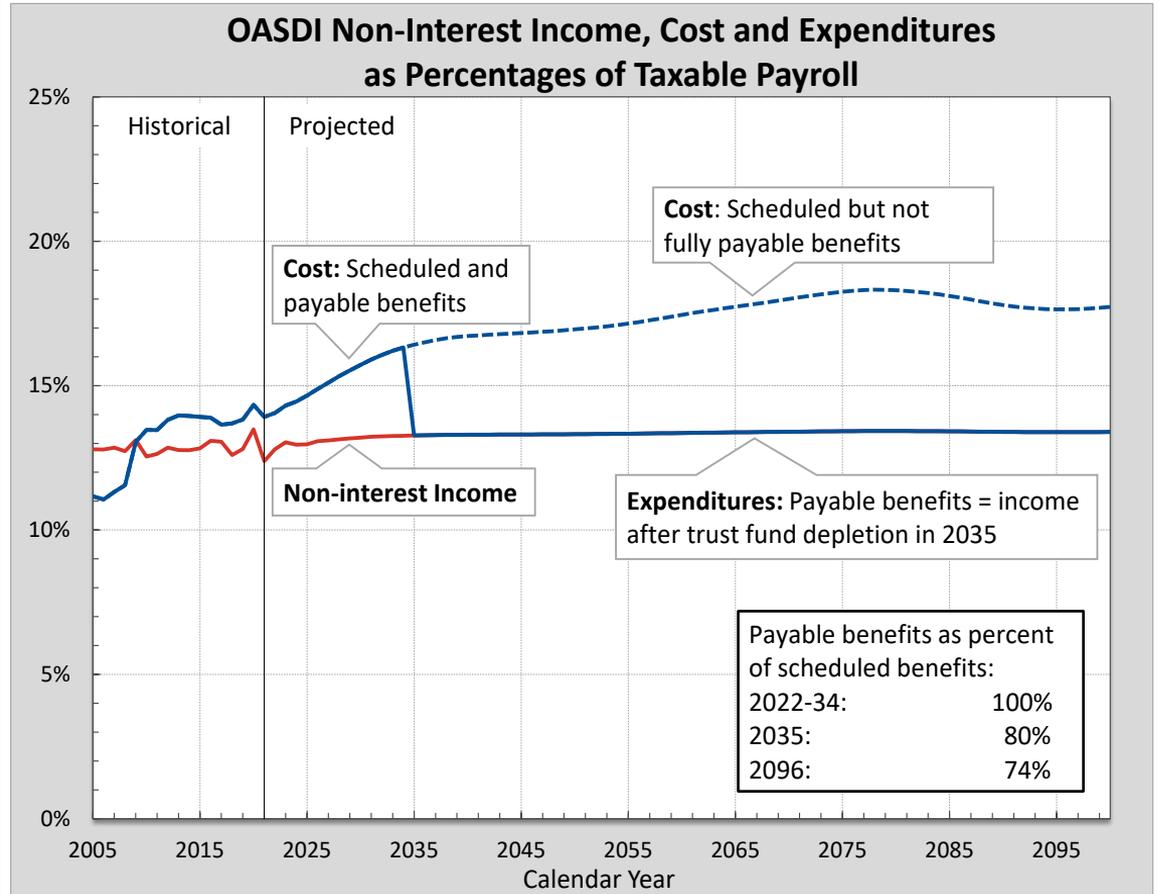


# OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Persistent negative annual cash-flow balance starting in 2010.

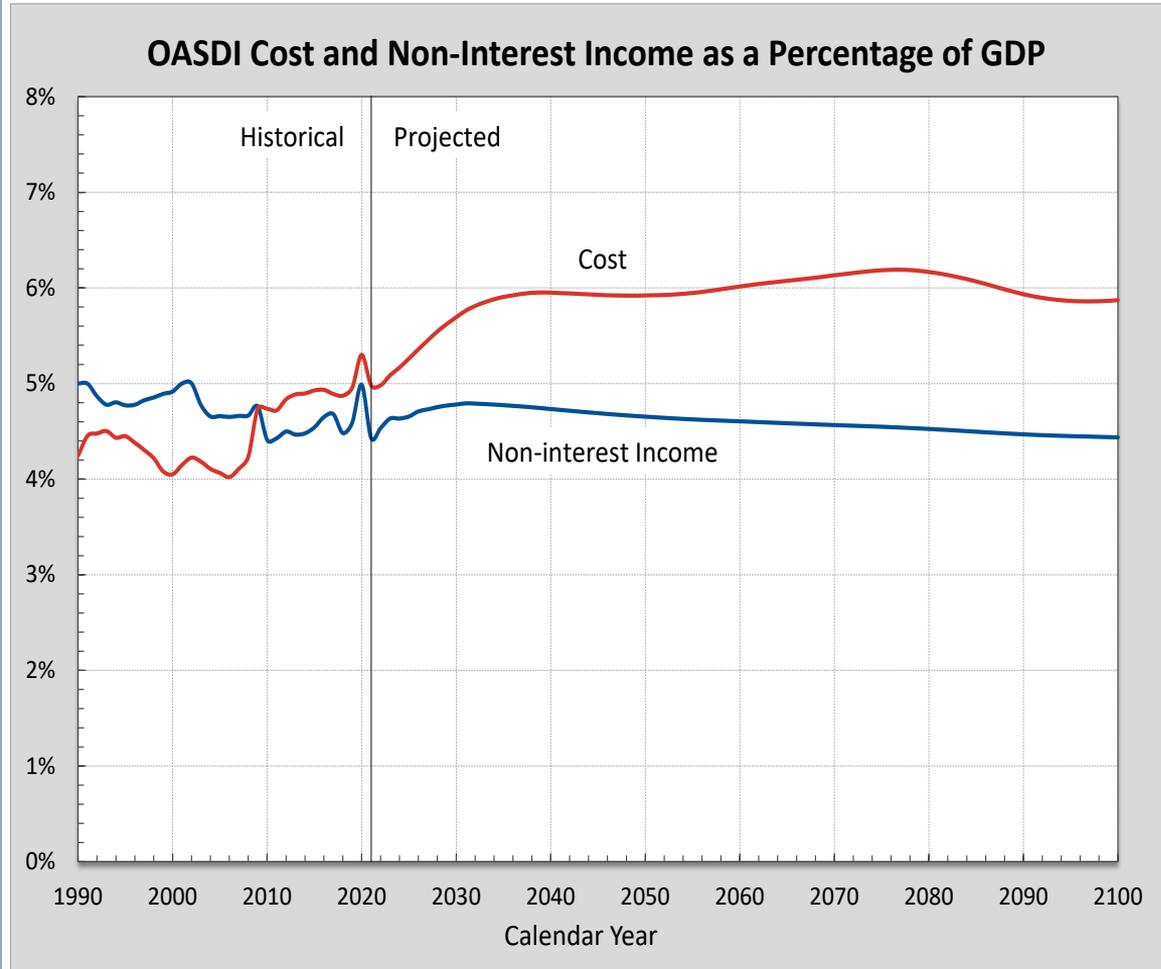
80 percent of scheduled benefits still payable at trust fund reserve depletion.

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



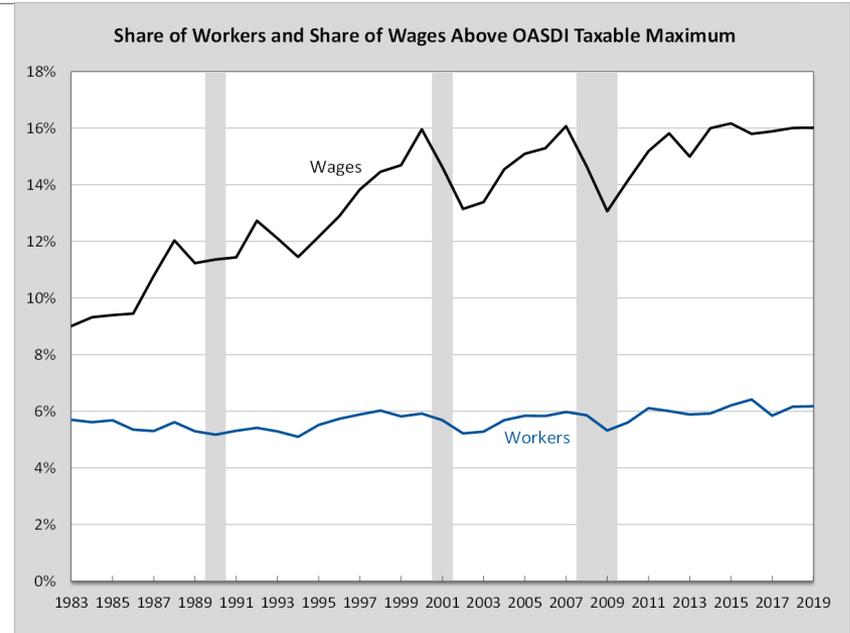
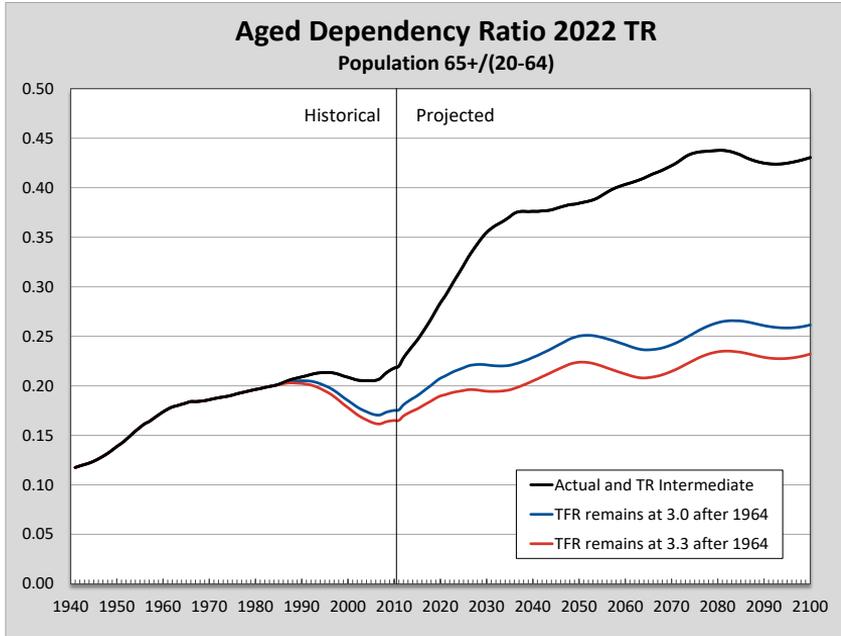
# SUSTAINABILITY: Cost as percent of GDP

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.



# Primary Reasons for OASDI Cost Rising Faster than Revenue

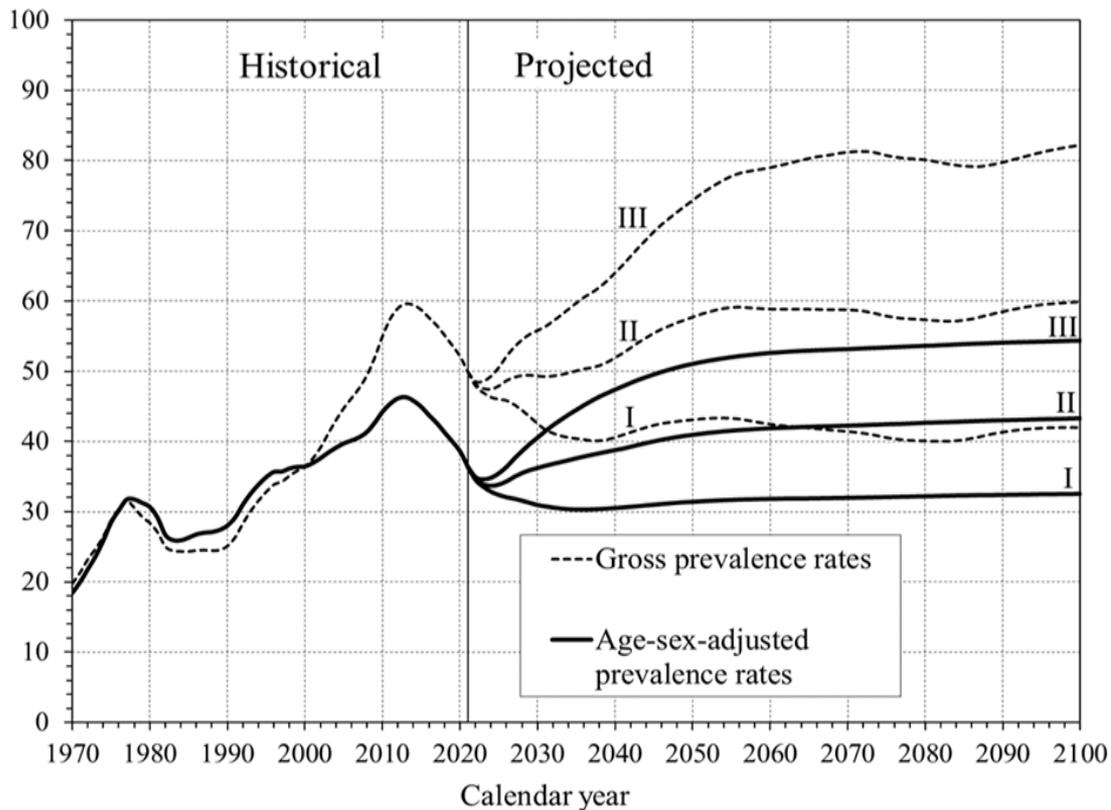
*Change in age distribution; drop in birth rates and dispersion of earnings*



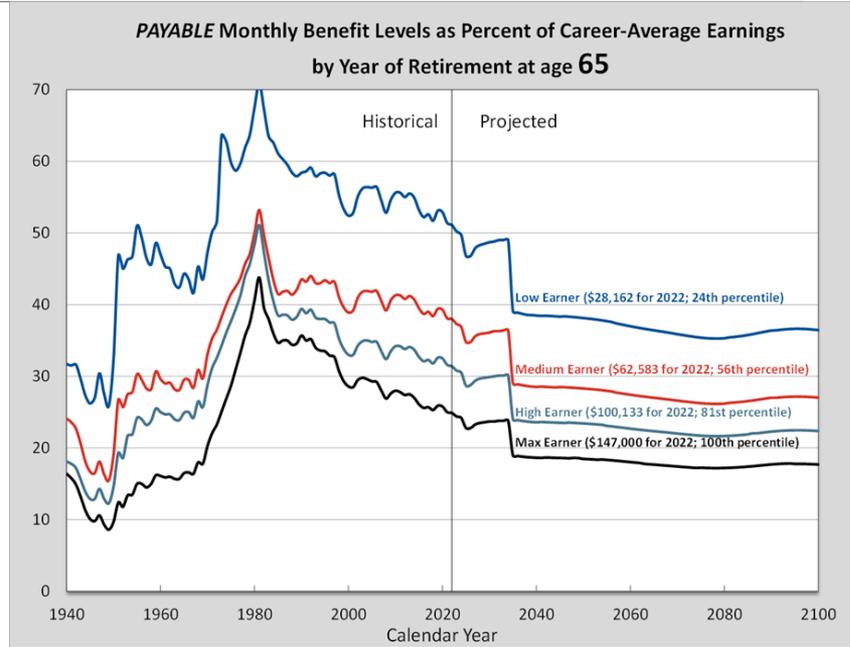
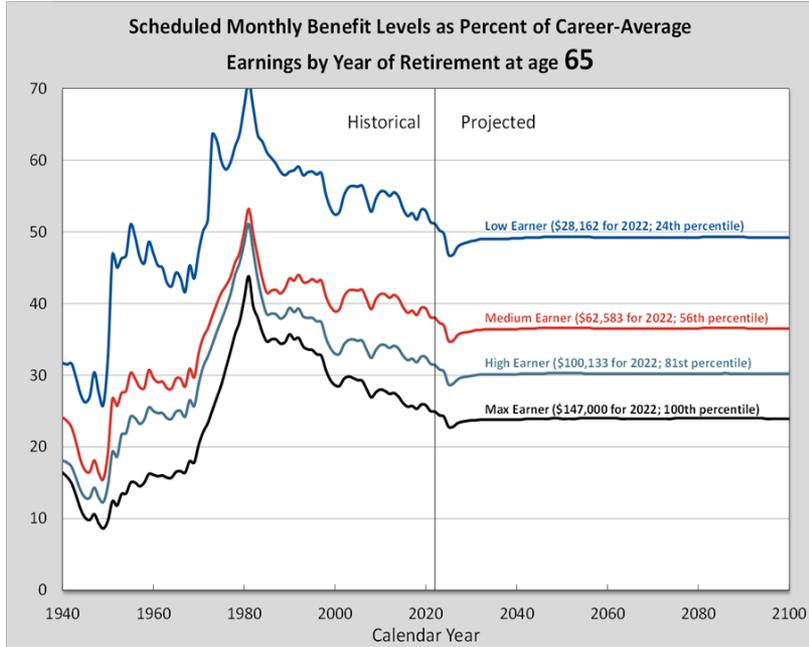
## DI Disability Prevalence Rates, 1970-2100

# Disabled Worker Prevalence Rates

Cease declining, and rise to level above that before the 2007-09 recession?



# Retired Worker Benefit Replacement Rates: Scheduled and Payable under Current Law



# In Conclusion...



# Timing for Changes

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- Historically, Congress has waited until reserve depletion is imminent
  - 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
  - One year sooner due to COVID-19
  - The date has varied between 2029 and 2042 over the past 30 years



# For More Information About Social Security Go To <http://www.ssa.gov/oact/>

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- There you will find:
  - This 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

