

The Current and Future Role of Social Security in Retirement Planning

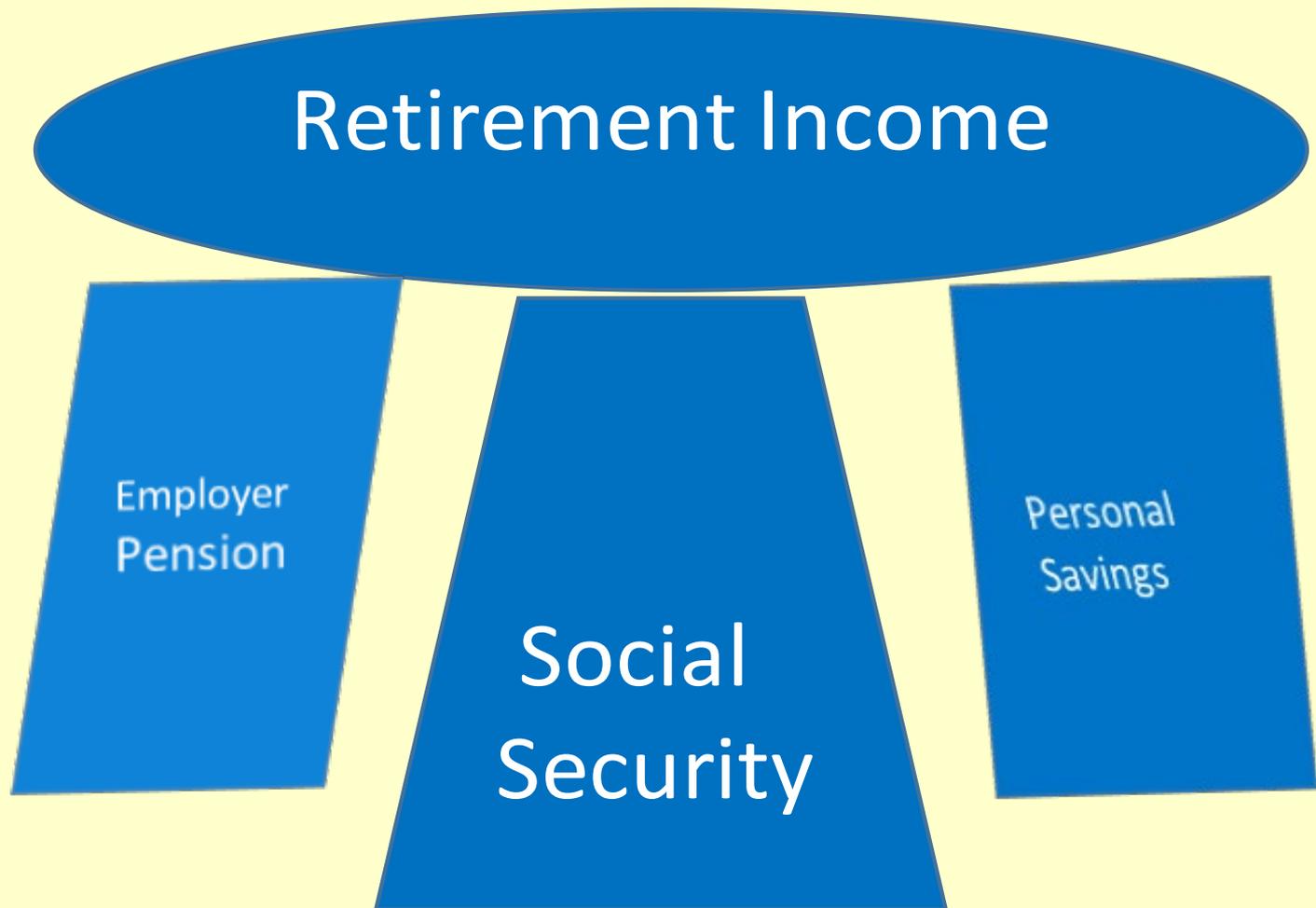
Retirement Industry Conference

April 5, 2019

Steve Goss, Chief Actuary, Social Security Administration

Three Legged Stool: Basis for Retirement Planning

Common wisdom—aim for 75-80 percent replacement rate



Social Security: What Does It Provide?

- ◆ Retirement and survivor monthly benefits started in 1940
 - *Never missed a payment!*
- ◆ Eligibility age lowered from 65 to 62 in 1957 for women, 1962 for men
 - Full retirement age rises from 65 to 67 by 2022
- ◆ Disability benefits started in 1957
- ◆ *Benefits rise with average wage across generations—but with just CPI after eligibility*
- ◆ Payroll taxes roughly pay-as-you go
 - Rose from 2% to 12.4% as the system matured

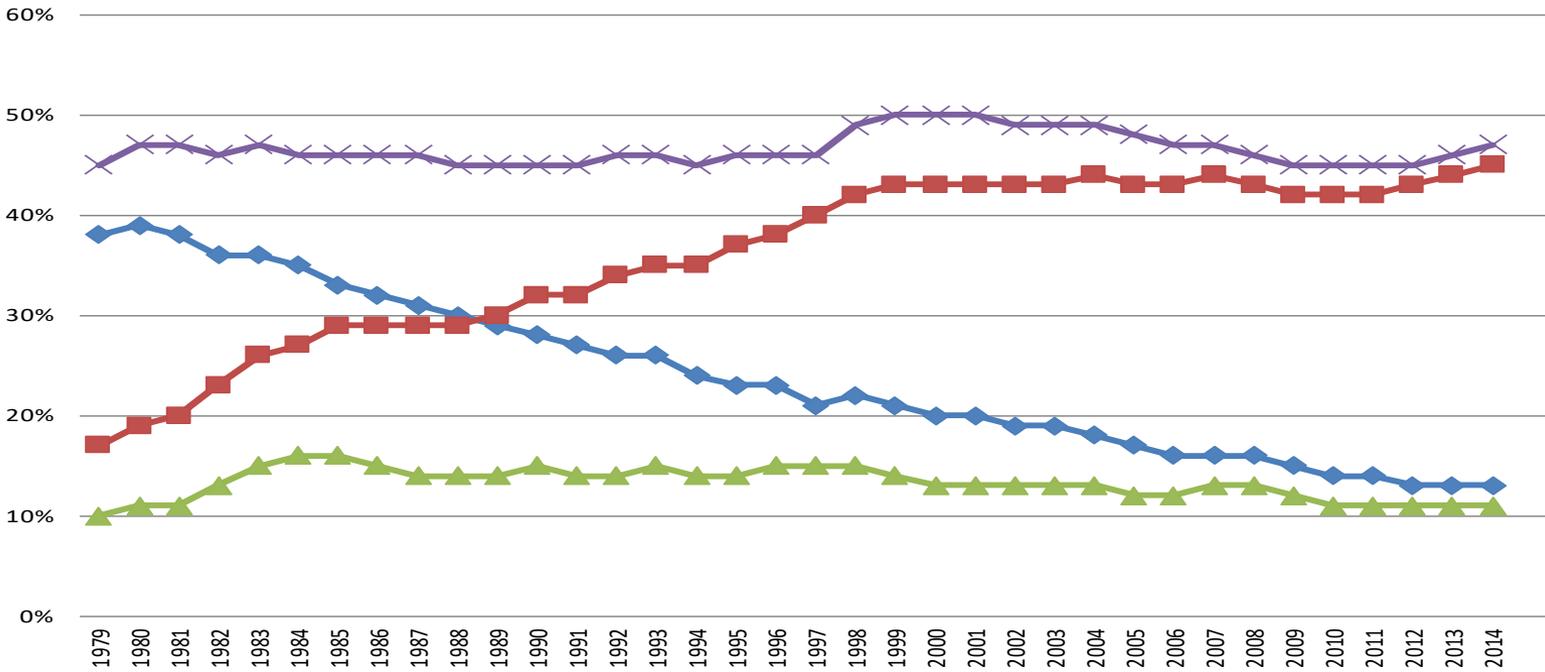
Social Security: Who Pays, Who Benefits

- ◆ 95 percent of workers contribute—177 million in 2019
- ◆ 64 million beneficiaries in 2019:
 - 45 million retirees, plus another 3 million of their spouses and children
 - Plus 6 million survivors
 - Plus over 10 million disabled workers and their dependents
- ◆ What share of retirement income does Social Security provide?
 - For about 1/3 of beneficiaries, Social Security is essentially their only income
 - For about 2/3 of beneficiaries, Social Security provides at least half of their income
- ◆ Note decline in employer-sponsored defined benefit pension plans

Defined Benefit Plans Replaced by DC Plans

And lump sum options increasing for DB plans

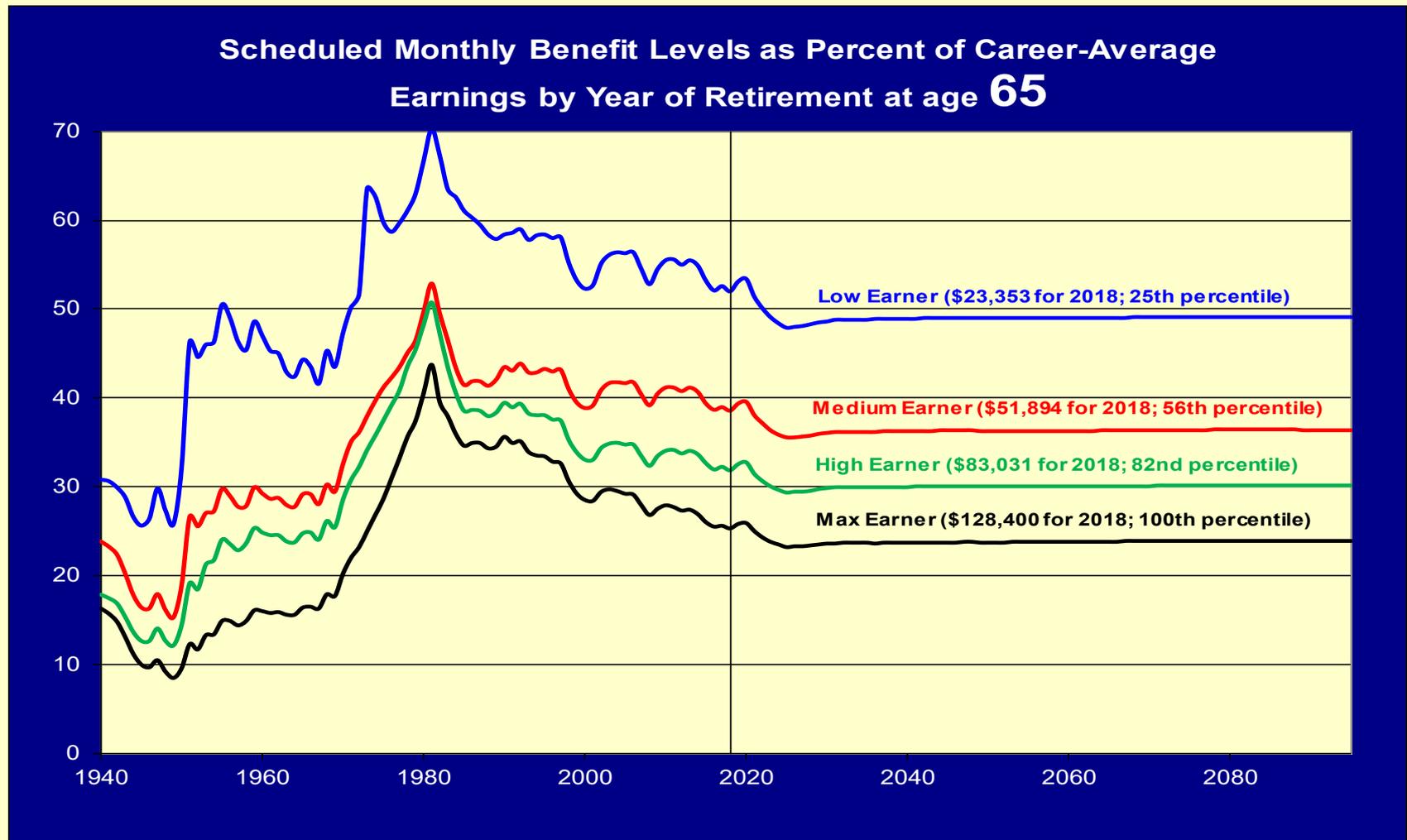
Private-Sector Workers Participating in Employment-Based Retirement Plans, by Plan Type, 1979-2014



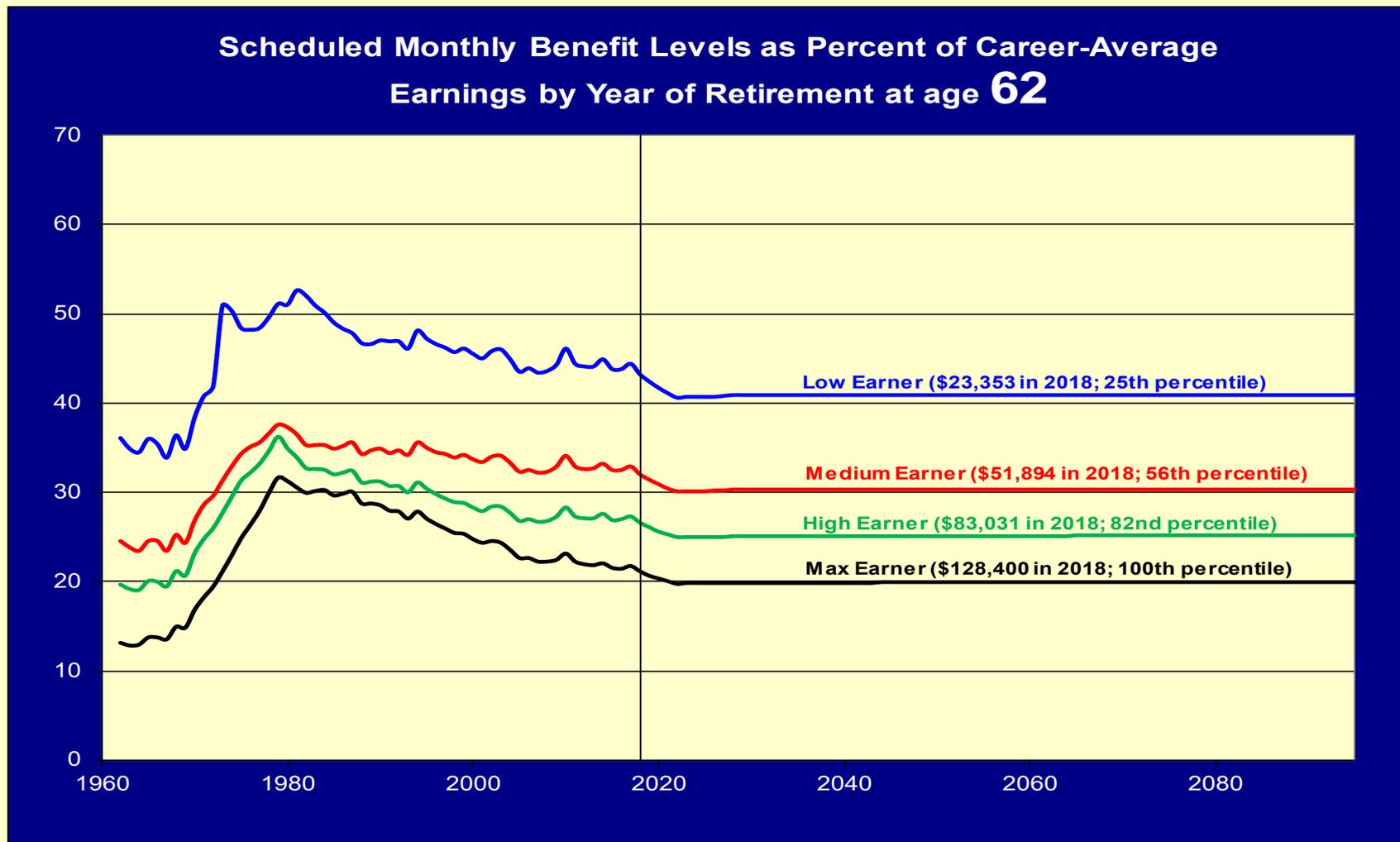
Source: U.S. Department of Labor Form 5500 Summaries 1979-1998, Pension Benefit Guaranty Corporation, Current Population Survey 1999-2013, EBRI estimates 1999-2014.

- ◆ Defined Benefit Total
- Defined Contribution Total
- ▲ Both
- ✕ Either

Start Social Security Scheduled Benefit at Age 65: Replace 25% to Over 50% of Career Earnings



Start Social Security Scheduled Benefit at Age 62: Replace 20% to Over 40% of Career Earnings

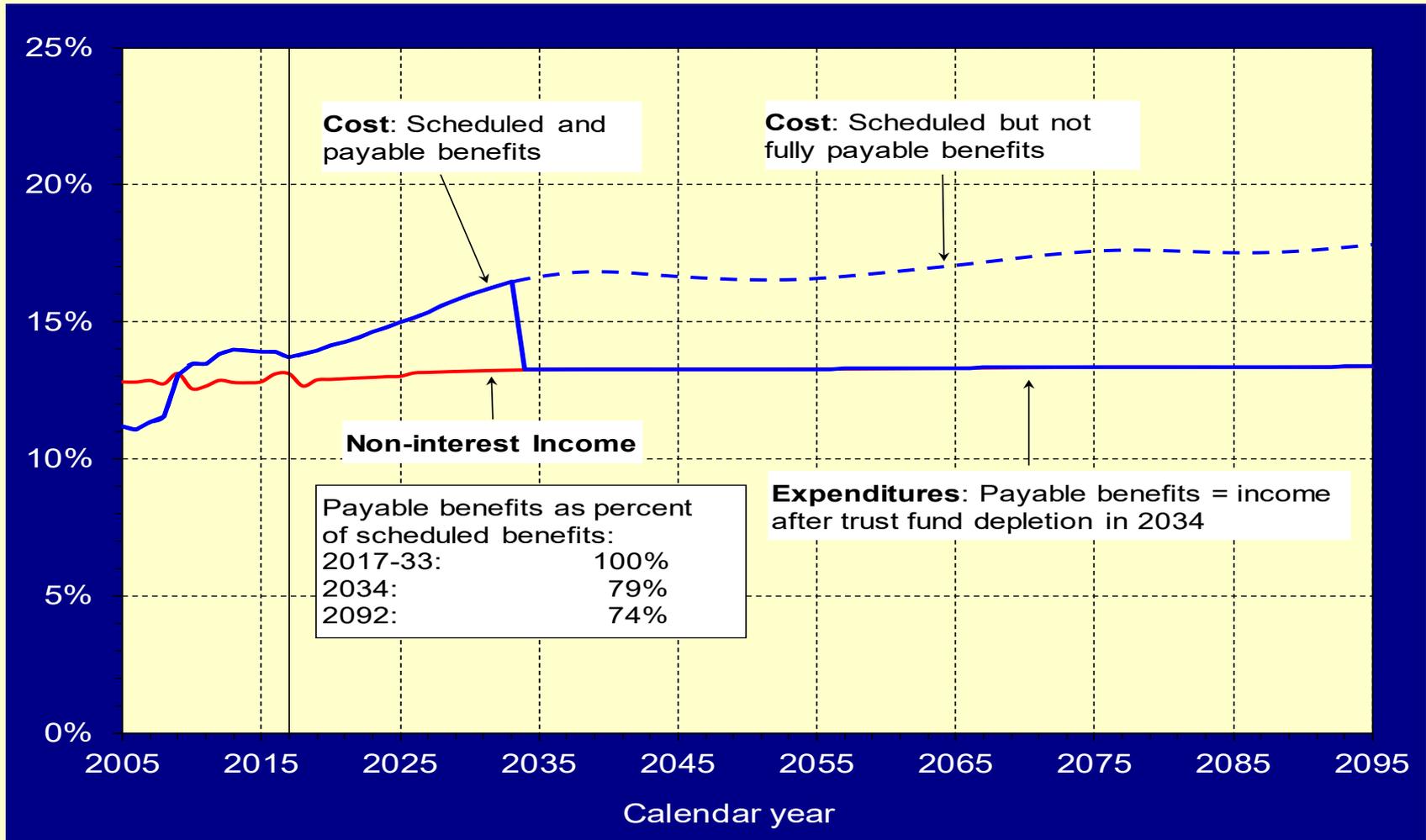


Social Security Financing

- ◆ Basically “pay-as-you-go”
 - Current workers provide for current beneficiaries
 - Trust Funds provide a “contingency reserve” because they *cannot* borrow
 - Total spending to date cannot exceed income to date
- ◆ Current Social Security reserves (excess income) = \$2.9 trillion
 - Available to augment tax income as needed
- ◆ Reserves projected to deplete in 2034 under current law
 - *Expect Congress to act—as it always has*

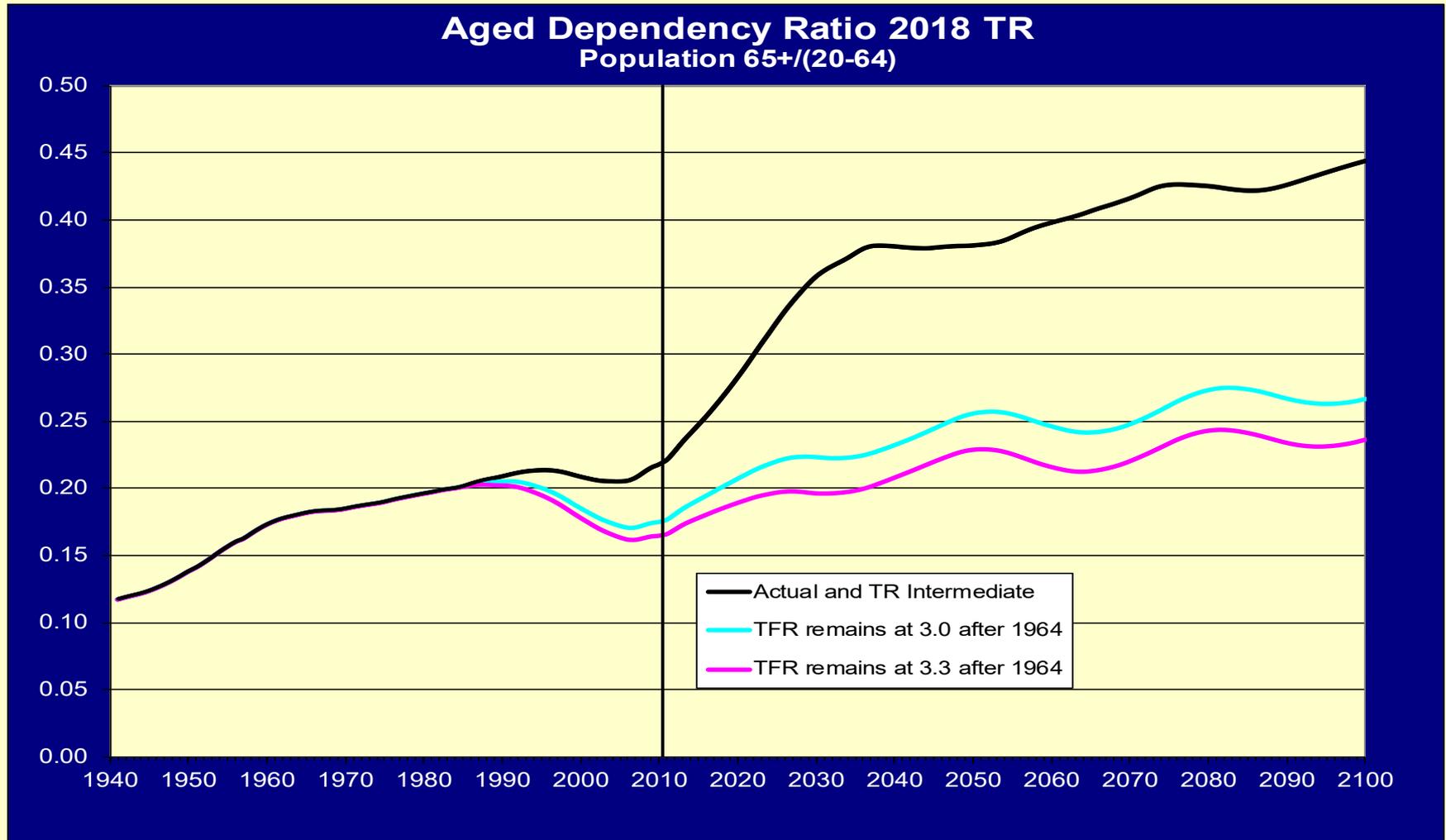
Social Security Cost Is Now Above Scheduled Income:

With no change in the law, trust fund reserves would deplete in 2034 and continuing revenue would cover 79%, and eventually 74%, of cost



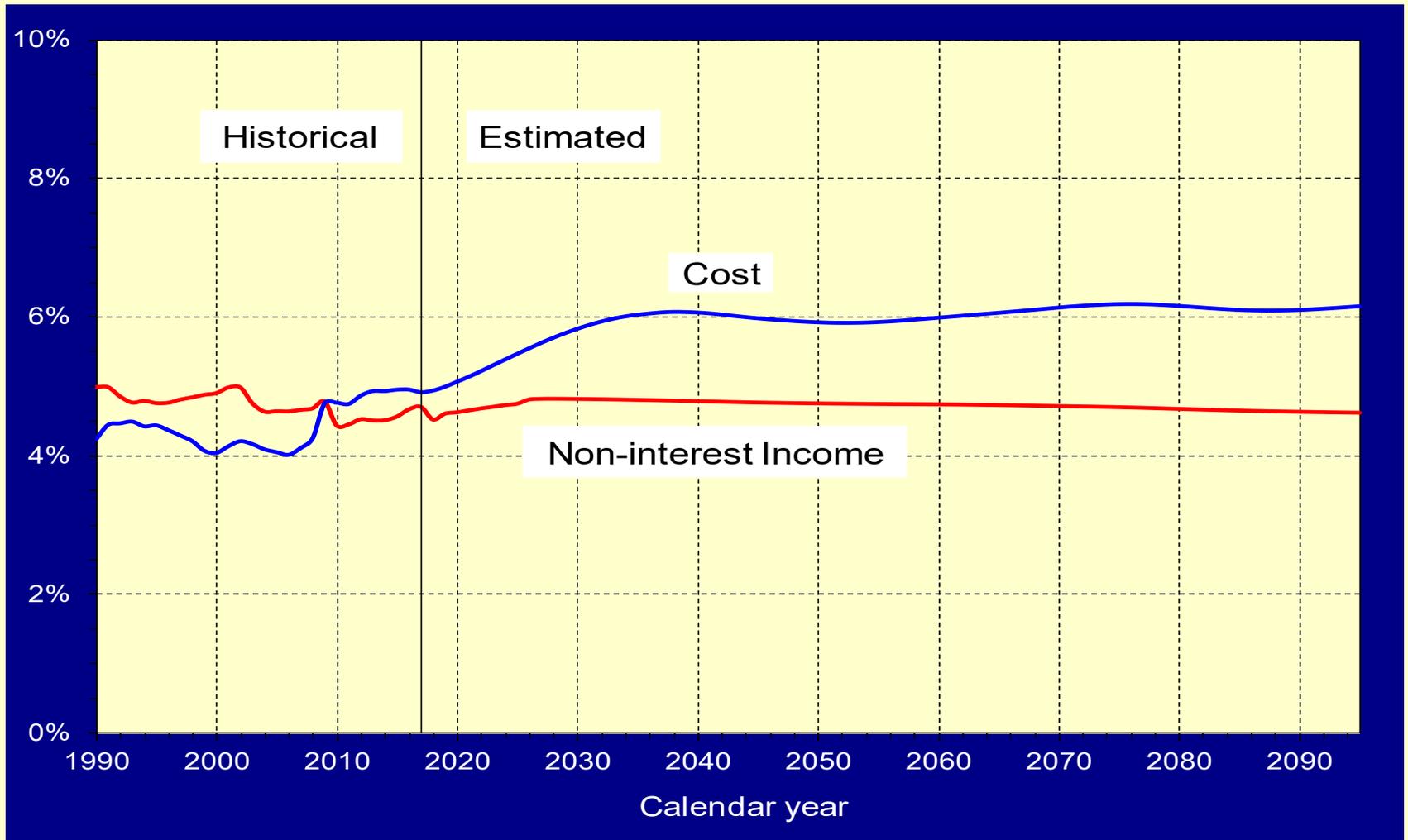
Rising Social Security Cost Is Due to the Changing Age Distribution

mainly due to drop in birth rates



What Will Congress Do?

Cost rises from 4.2% of GDP in 1990-2008 to 6% by 2035. Will Americans prefer to keep scheduled benefits and pay more? Or keep payroll tax at 12.4% and lower benefits?



So How Does Social Security Fit Into Retirement Planning?

- ◆ Provides monthly CPI-indexed income that covers 25% to 75% of target retirement income, depending on career earnings level
 - Future amount might be somewhat lower depending on how Congress addresses the future shortfall, reflecting the will of the American people
 - *But few things are more certain than that Social Security benefits will be there for you in the future*
- ◆ Individuals should learn what they can expect by signing up for a “*my* Social Security” account at <https://www.ssa.gov/myaccount/> and looking at their prospective benefits

Opportunities to be Considered/Conveyed

- ◆ The age you start receiving benefits is crucial:
 - Starting benefits as early as 62 will lower your monthly benefit level to 70% of what you can get by waiting to 67
 - Delaying the start of benefits until 70 adds 24% to what you would get starting at 67, or 77% to what you get starting at 62
 - The decision is personal, depending on health, ability to keep working, and other sources of income

Opportunities to be Considered/Conveyed

- ◆ The availability of additional “CPI-indexed life annuity” income by delaying claiming is unique
 - Some who retire early can even consider living off of other resources up to age 67 or 70, in order to increase monthly benefit thereafter
 - The increase may convey to a surviving spouse
- ◆ Or, if preferred, individuals can start benefits early and purchase a deferred income annuity for later, particularly if their other retirement income is not indexed like Social Security

Opportunities No Longer Available

◆ “Withdrawal of claim”

- It used to be possible to pay back prior benefits and “restart” them at higher amount if still very healthy at (say) age 70
- Now repayment is limited to 1 year

◆ “File and Suspend”

- It used to be possible to file for your worker benefit at (say) age 67, then suspend it, and receive a spouse benefit or have your spouse receive a spouse benefit on your account

◆ These “claiming strategies” have both been eliminated

Other Considerations for Financial Planners

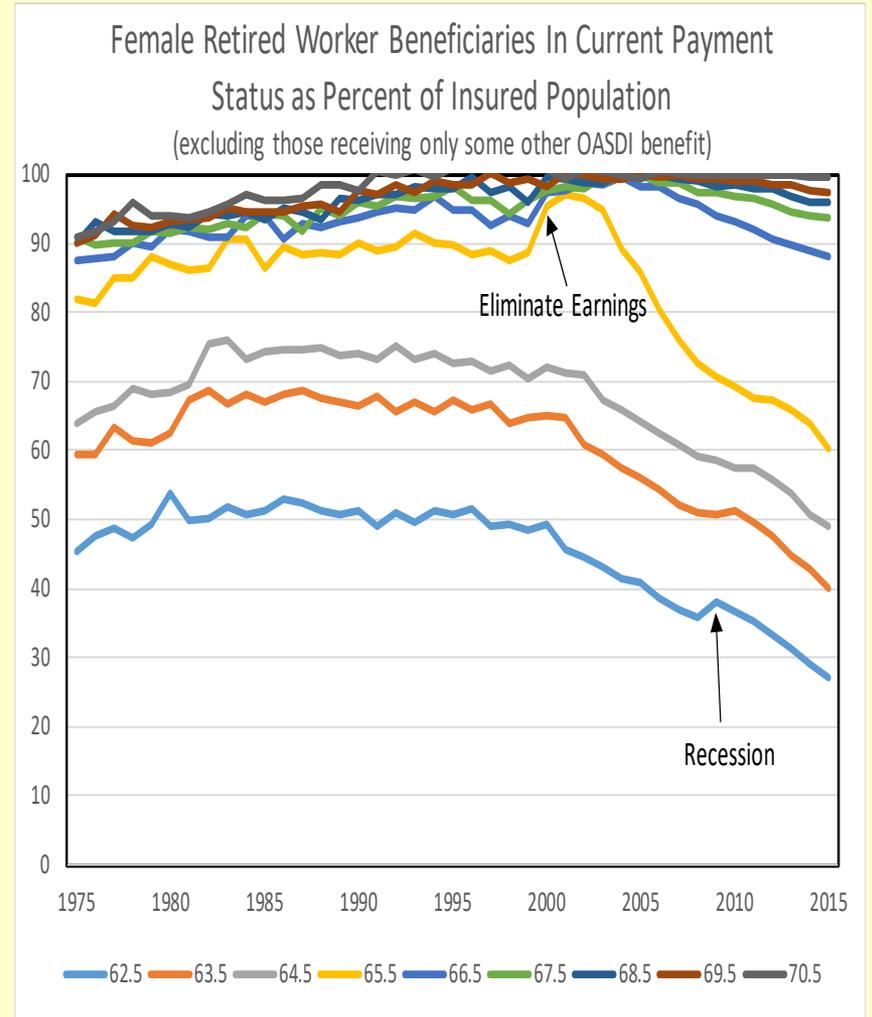
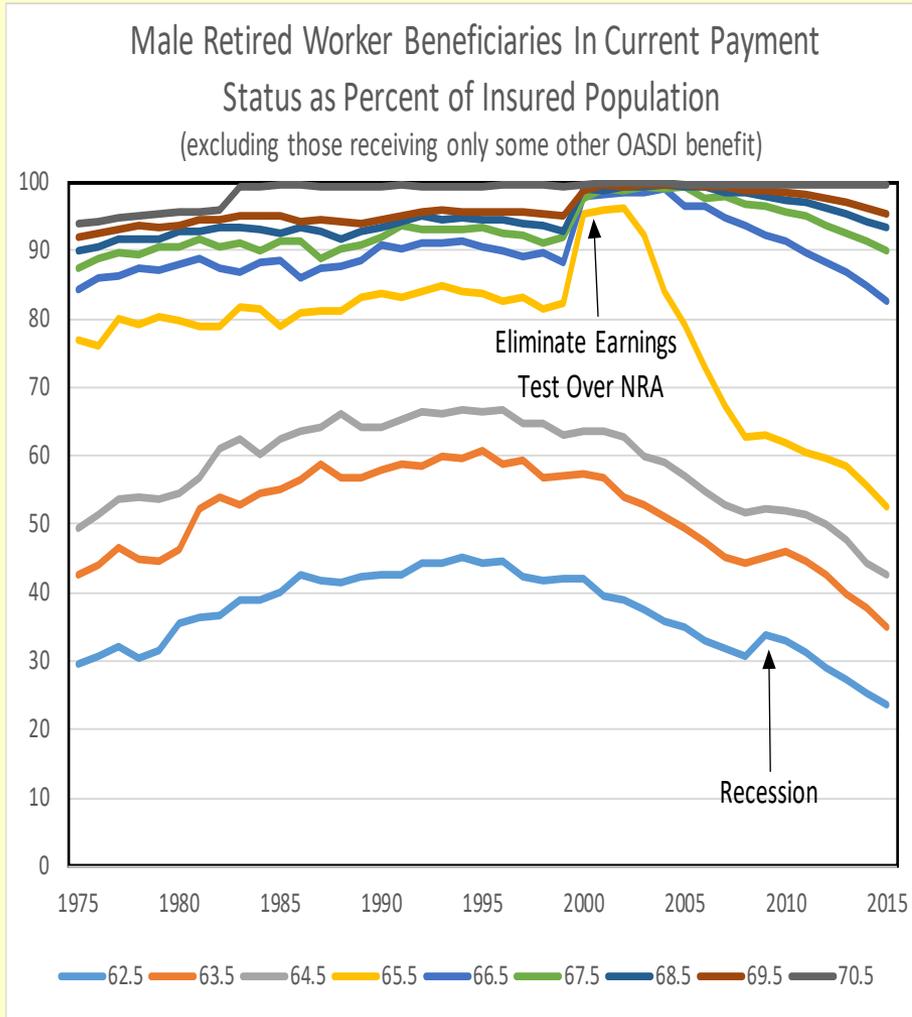
- ◆ How to better emphasize the importance of lifetime income?
 - Planning to have enough income for your life expectancy will fail for half of us
 - Without a life annuity, should assets be drawn down to last until age 120?
 - How to better convey the value of a life annuity that may appear small compared to an equivalent lump sum value?
 - How to convey the need for increasing income after retirement, not just from Social Security?

Other Considerations for Financial Planners

- ◆ How to deal with fewer private DB plans, and with lump sum options for those remaining?
 - Are good private annuities available that are fairly priced?
 - Will indexed life annuities become more available? If so, will anti-selection render them unaffordable or unattractive?
 - Have we simply been too successful in emphasizing the accruing balances in DC accounts, without regard to what they mean for lifetime income? Should a “translation” into monthly lifetime income be required?

Finally, What Have People Been Doing About Claiming Social Security Benefits?

Consider the effect of eliminating the retirement earnings test over NRA in 2000



Employment Over Age 65...

is rising, and was even resistant to the last recession. How much of this is from changing the NRA and earnings test? Is the best retirement approach “a job” (Paul Samuelson)?

