Social Security Actuarial Status

The 2018 Annual Report of the Board of Trustees of the OASI and DI Trust Funds

Key Results under Intermediate Assumptions

Prepared by the Office of the Chief Actuary, SSA

National Academy of Social Insurance Event
June 6, 2018

What Is the Legislative Mandate for the Annual Report?

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 will fall short, forcing cuts or delays in benefits in the absence of legislative change

Primary Changes this Year

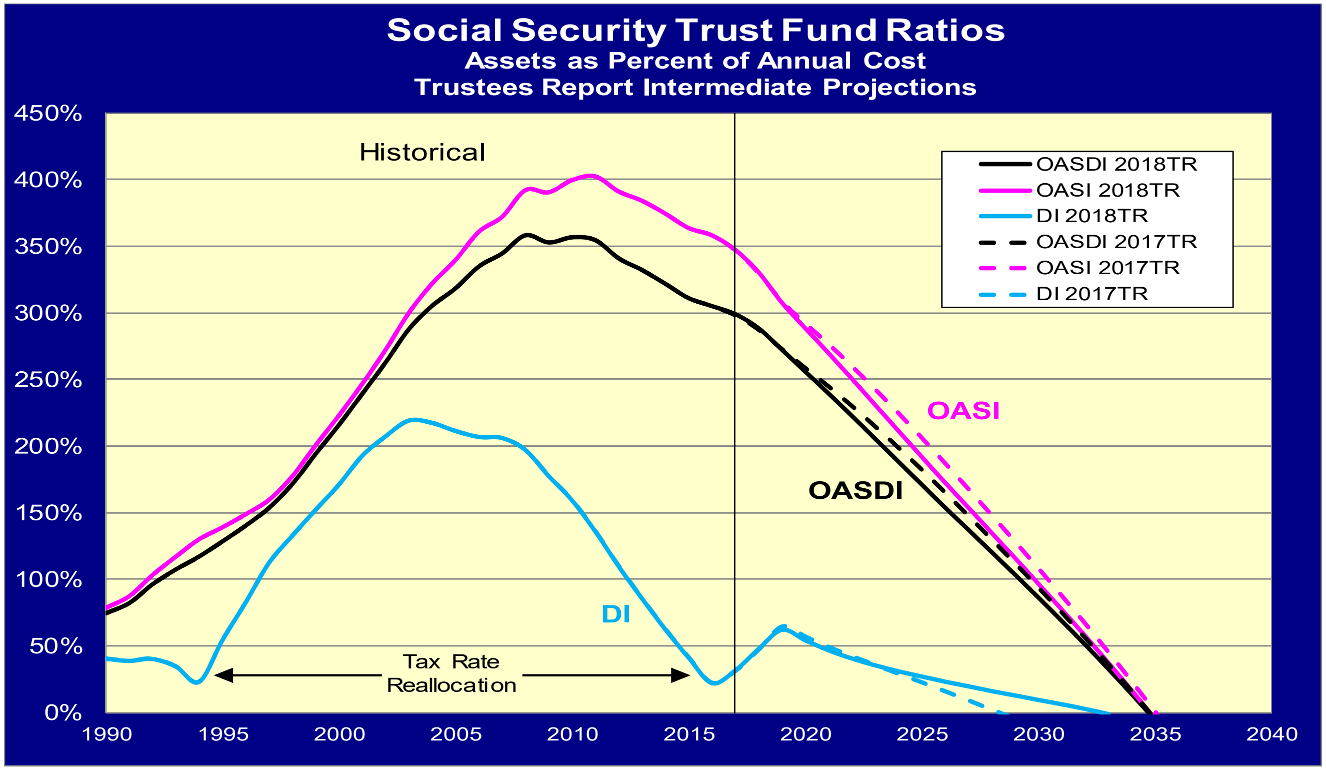
1) Continued lower-than-expected disability applications and incidence have extended DI reserve depletion another 4 years, to 2032.

2) OASI reserve depletion is now late 2034 versus early 2035 in last year's report. Primarily from lower projected payroll taxes (for OASI, DI, and HI) due to temporarily slower GDP growth and lower earnings as percent of GDP.

3) OASDI actuarial status is similar to last year. Actuarial deficit increased by only 0.02 percent of payroll versus expected increase of 0.06 percent from change in valuation period alone. Annual deficits smaller between 2025 and 2060, and after 2085.

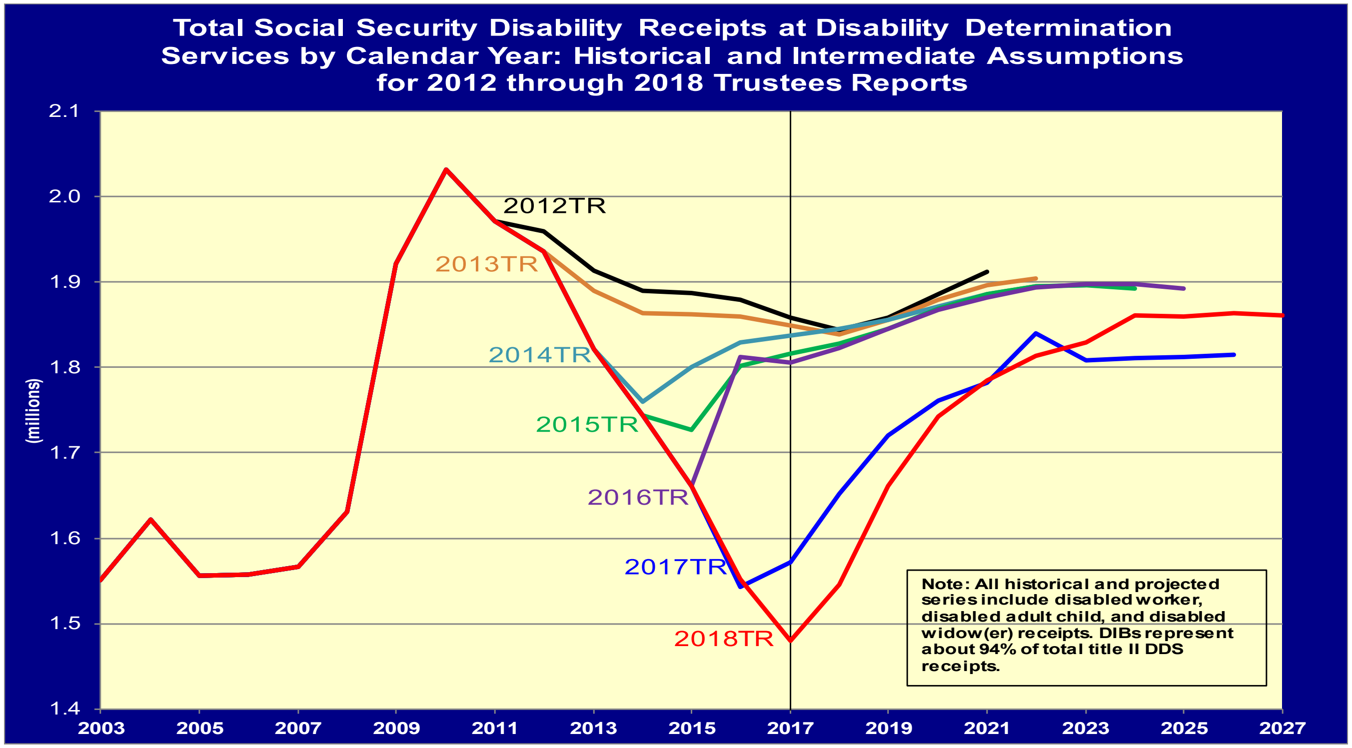
SOLVENCY: OASDI Trust Fund Reserve Depletion 2034 (same as last year)

- o Reserve depletion date varied from 2029 to 2042 in reports over the past 26 years (1992-2018)
- o ***DI Trust Fund — reserve depletion in 2032, four years later than last year***
  - o Due largely to lower recent and near-term disability applications and average benefit levels.



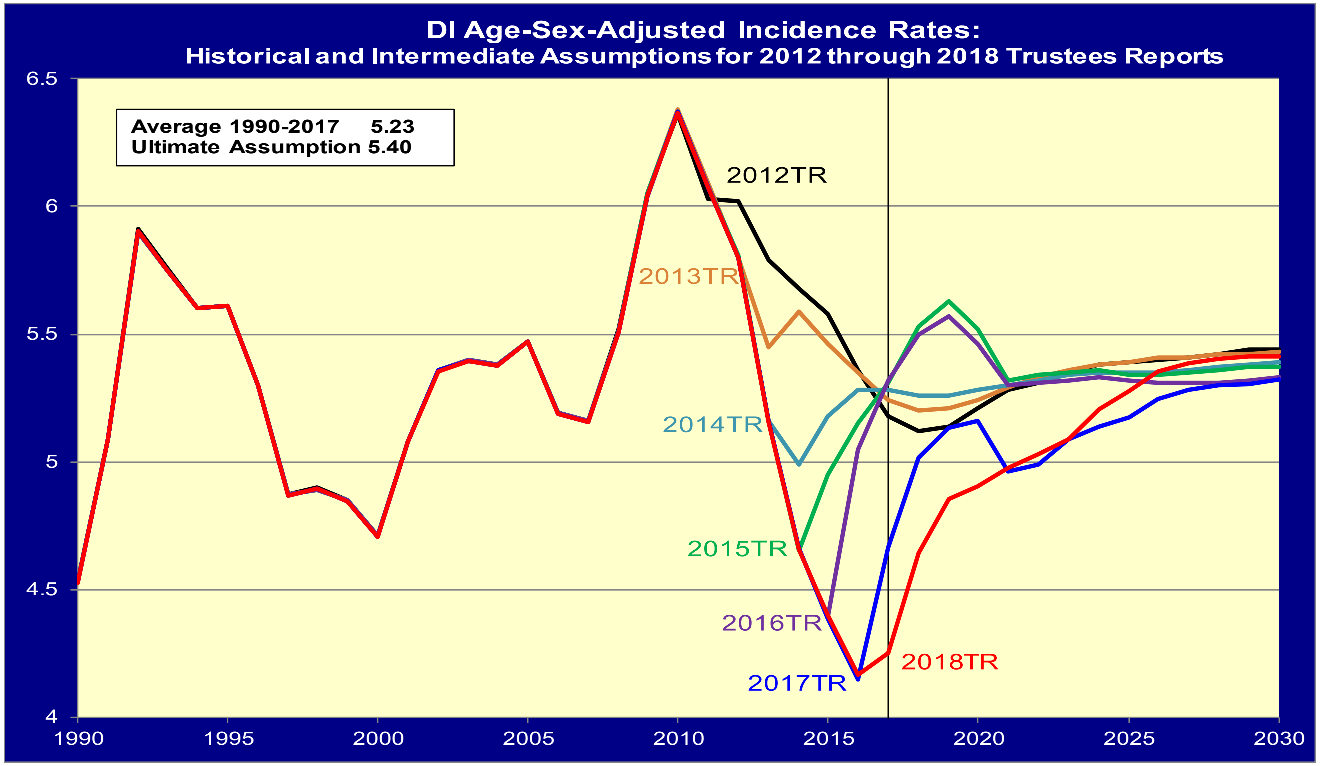
Applications for Disability Benefits Continue to Fall

At the peak of the last economic cycle in 2007, applications were low, but increased rapidly in the recession to over 2 million in 2010. In 2016 and 2017, with the economy still below the sustainable full-employment level, applications have dropped below the 2007 level



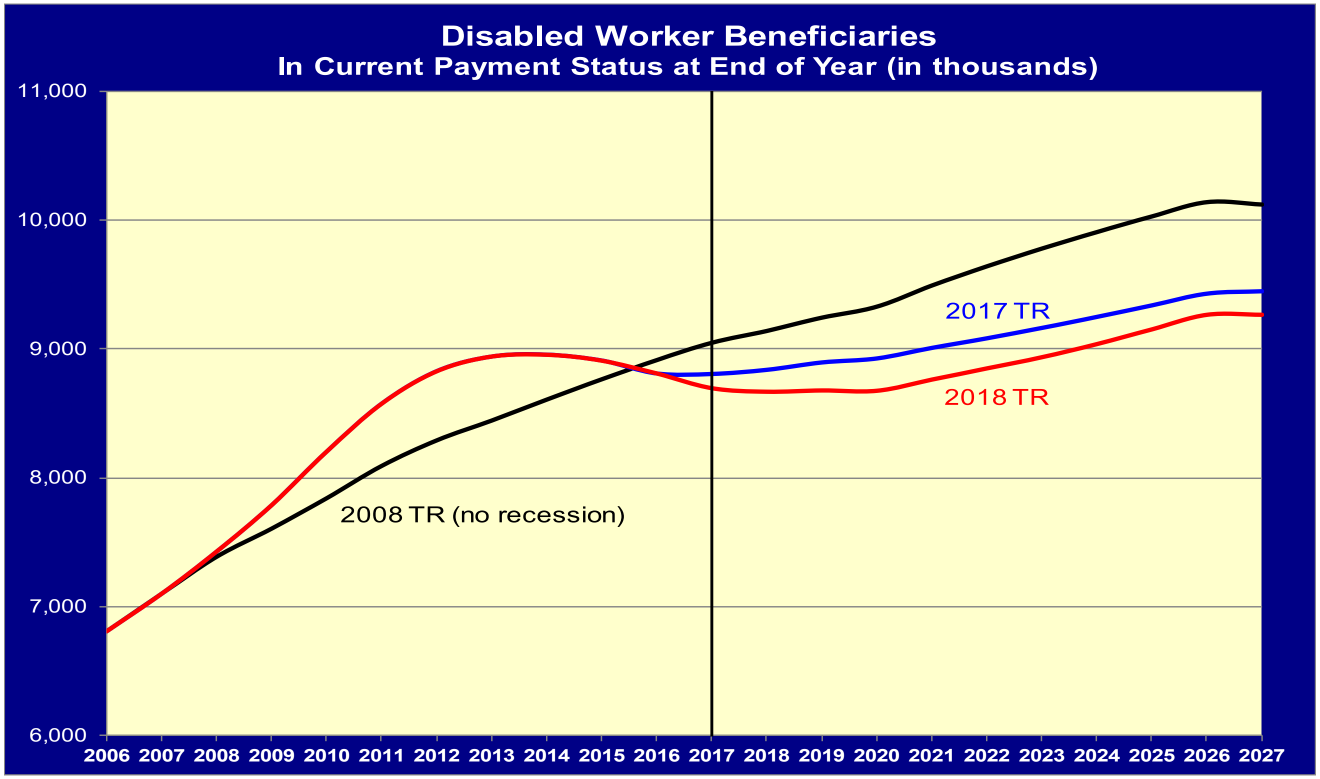
Disability Incidence Rate Falls to Historic Lows

DI disabled worker incidence rate rose sharply in the recession, and has declined since the peak in 2010 to extraordinarily low levels for 2016 and 2017



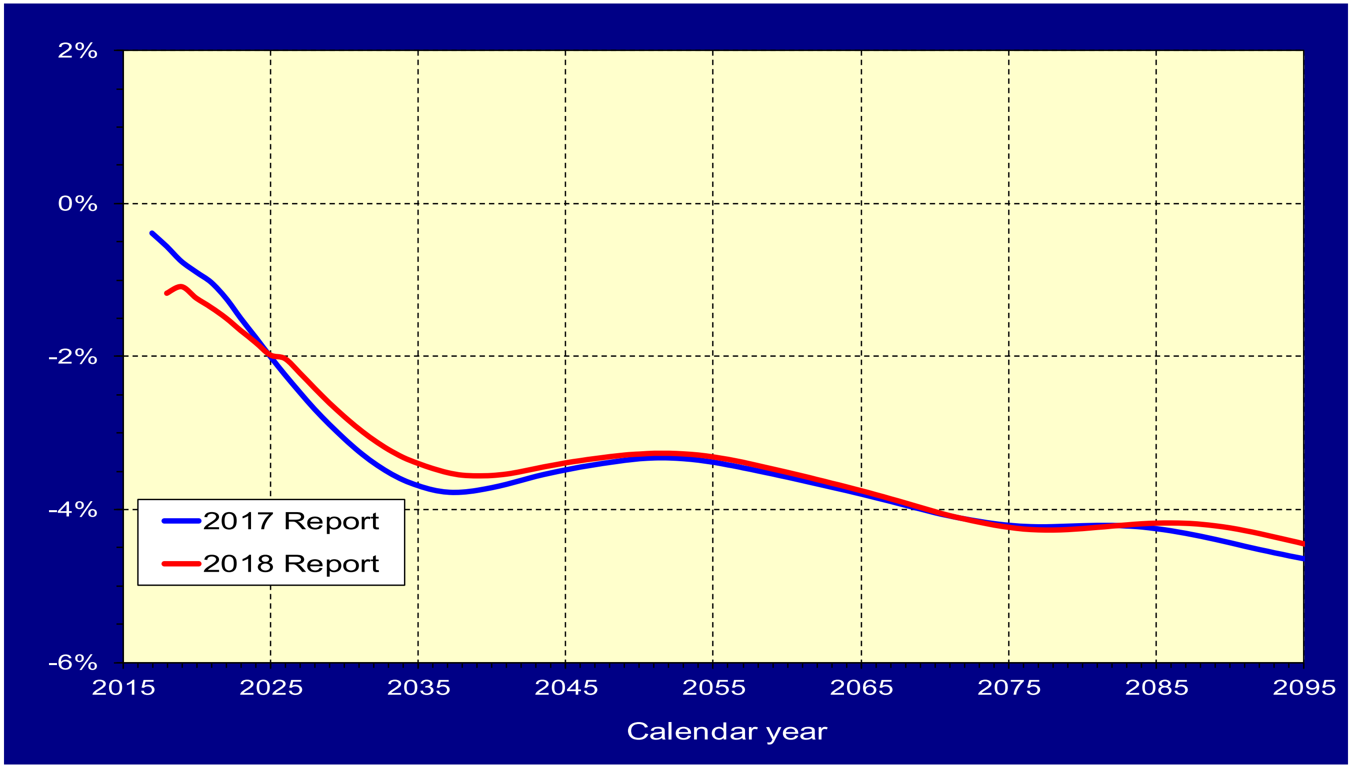
Fewer Disabled Worker Beneficiaries

Fewer now and in near term based on recent applications and incidence rates



Changes in OASDI Annual Balance

Annual income rate minus annual cost rate

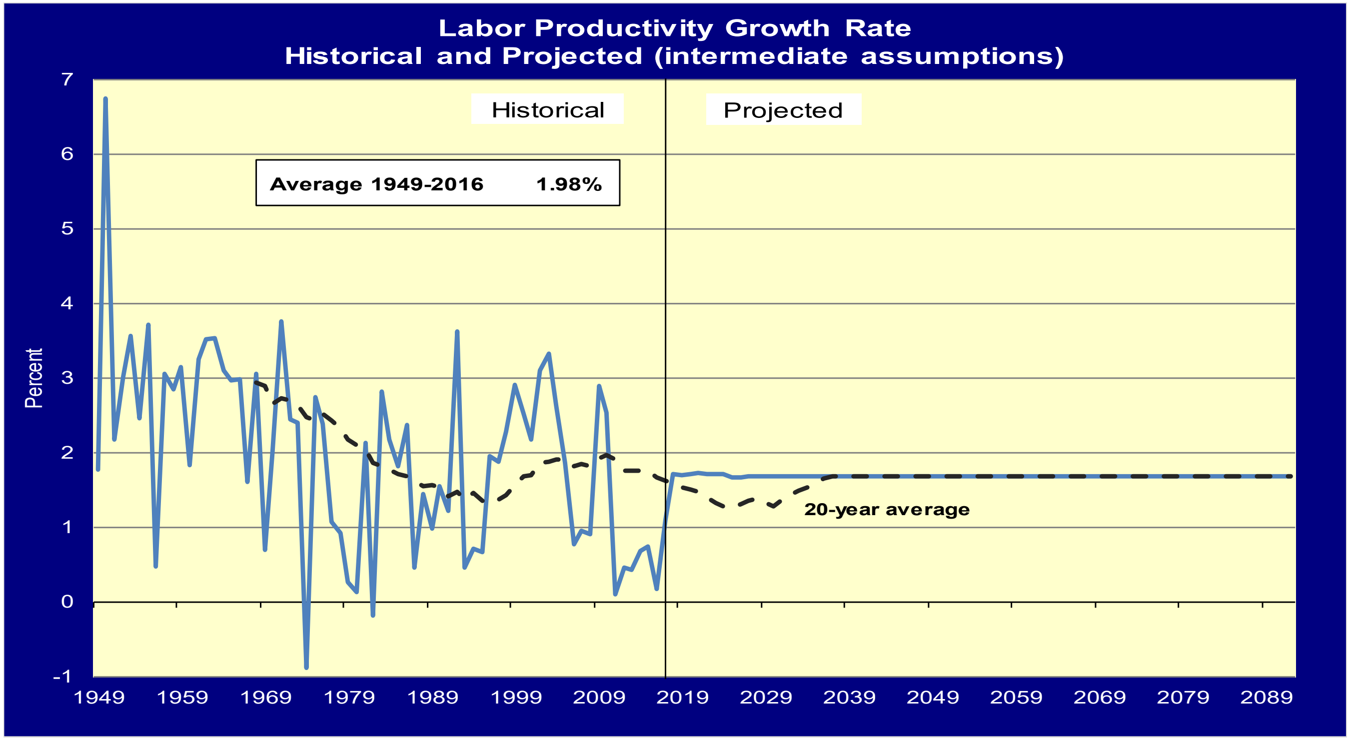


Principal Reasons for Actuarial Balance Change in 2018 Report

• Valuation Period	- 0.06 percent
• Legislation etc.	0.00 percent
• Lower recent birth data and lower assumed near-term total fertility rate	- 0.08 percent
• Higher recent mortality	+0.05 percent
• Immigration and other data updates	+0.02 percent
• Lower ultimate level of productivity & GDP	- 0.02 percent
• Lower near-term interest rates	- 0.02 percent
• Starting values and other near-term economic assumptions	+0.03 percent
• Lower recent and near-term disability applications and incidence rate, lower average benefit levels	+0.01 percent
• Other new data and methods improvements	+0.05 percent
Net Change for All Reasons	-0.02 percent

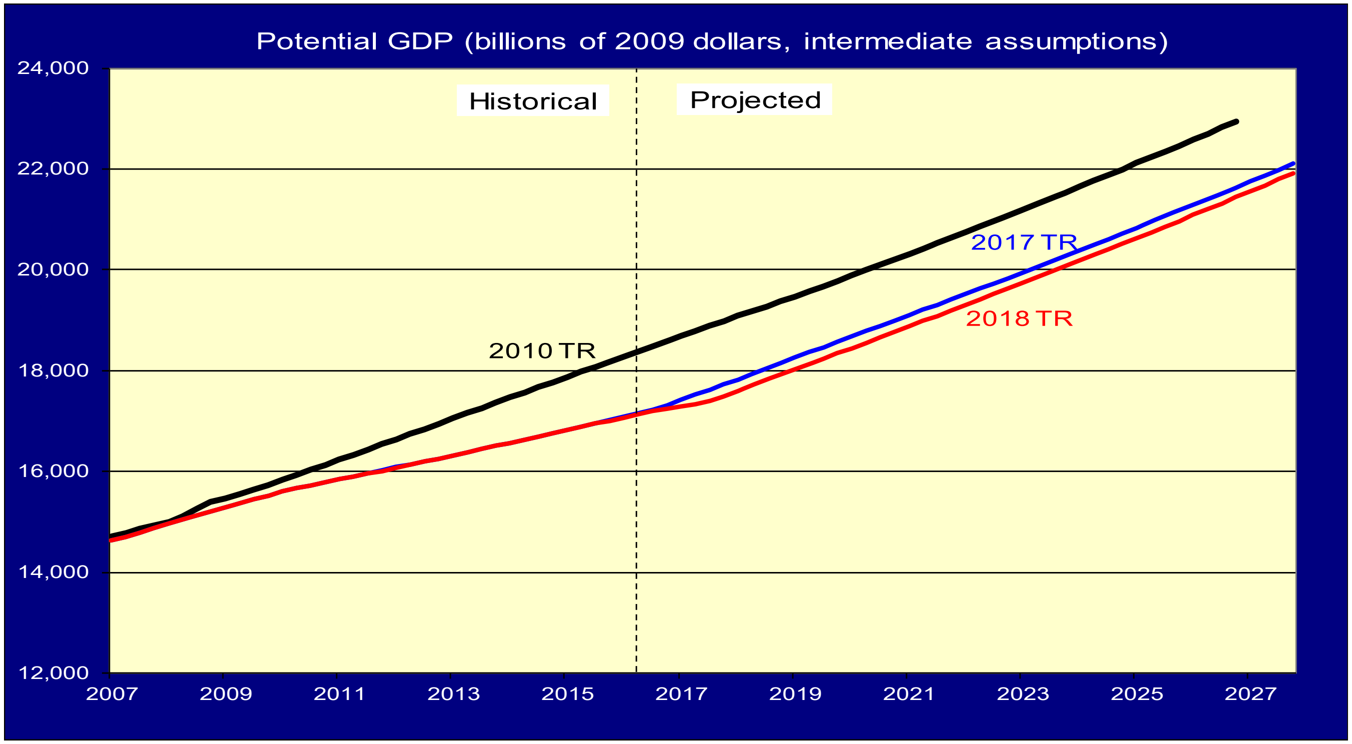
Labor Productivity Growth Rate

- Recent slowdown in productivity growth is assumed to be temporary
- Productivity growth is projected to be in line with the longer-term trend seen in recent decades



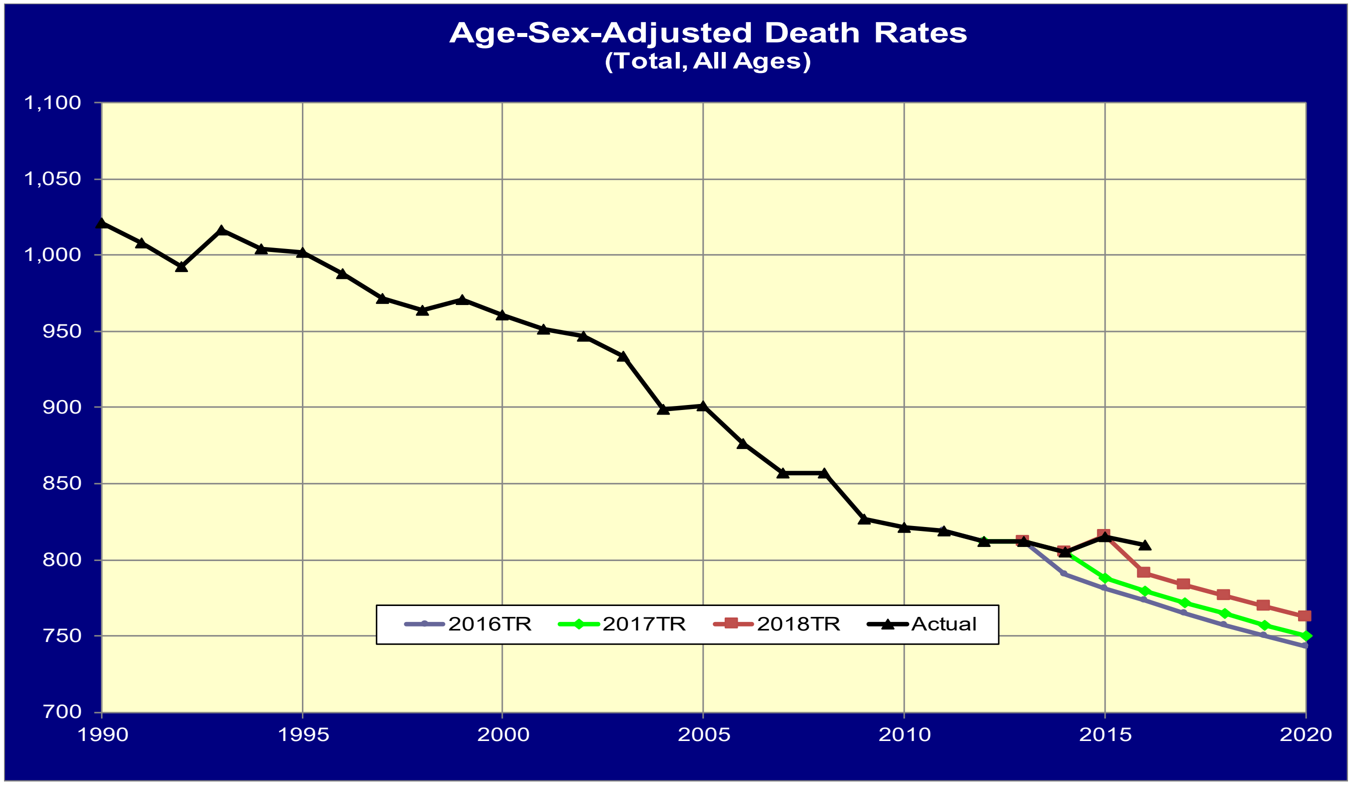
Lower Potential GDP

- Persistently slow growth since the end of recession in 2009, largely due to slowdown in labor productivity, led to a gradual adjustment of the potential GDP estimate
- In 2018 TR, the level of potential GDP is about 1 percent lower than in 2017 TR



Mortality Experience: All Ages

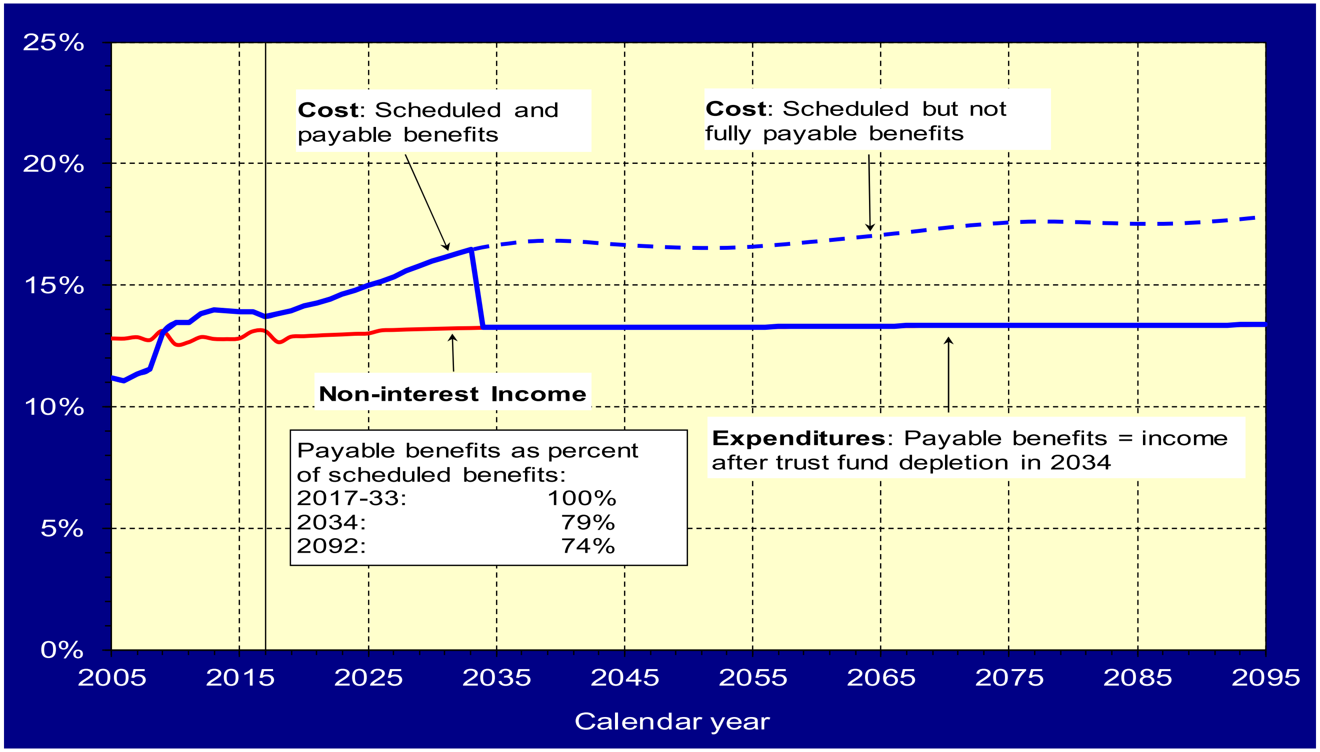
Reductions continue to fall short of expectations



OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll
Persistent Negative Annual Cash-Flow Balance Starting in 2010

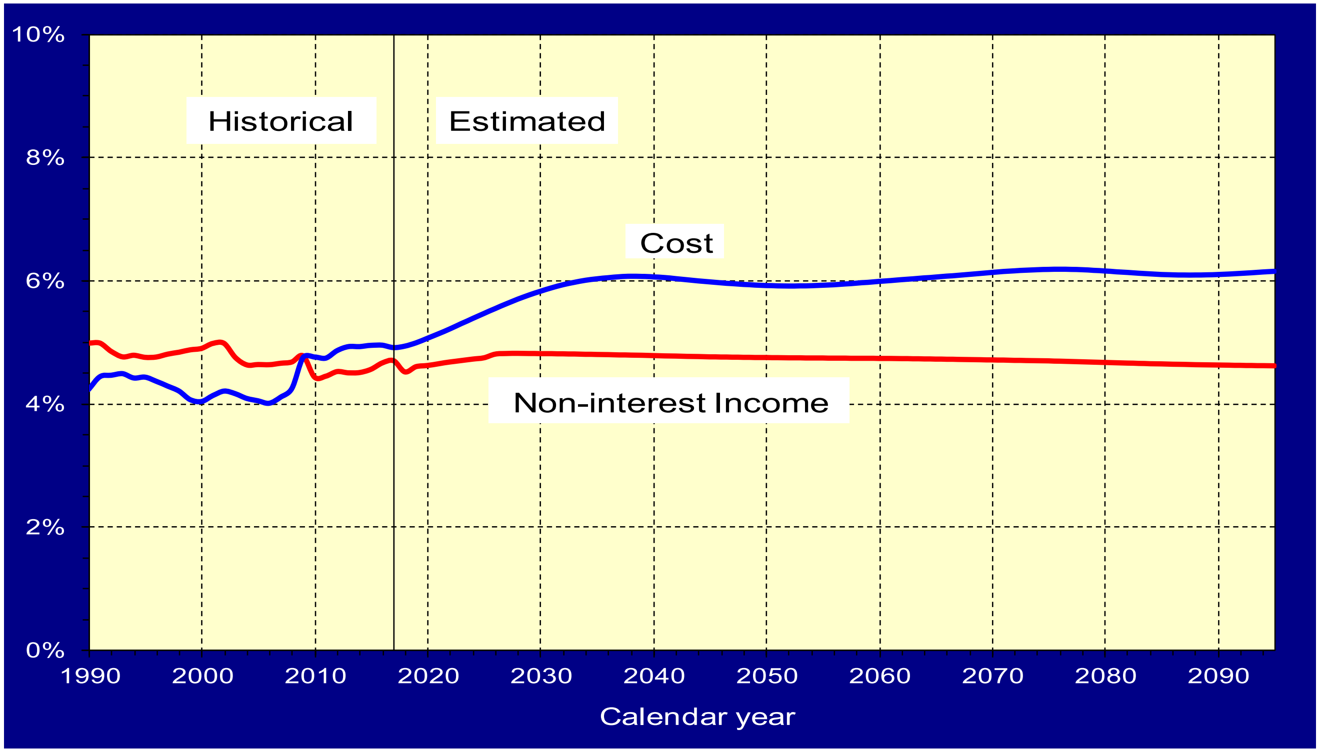
79% of scheduled benefits still payable at trust fund reserve depletion

Annual deficit in 2092: 4.32 percent of payroll — 0.21 percent smaller than last year

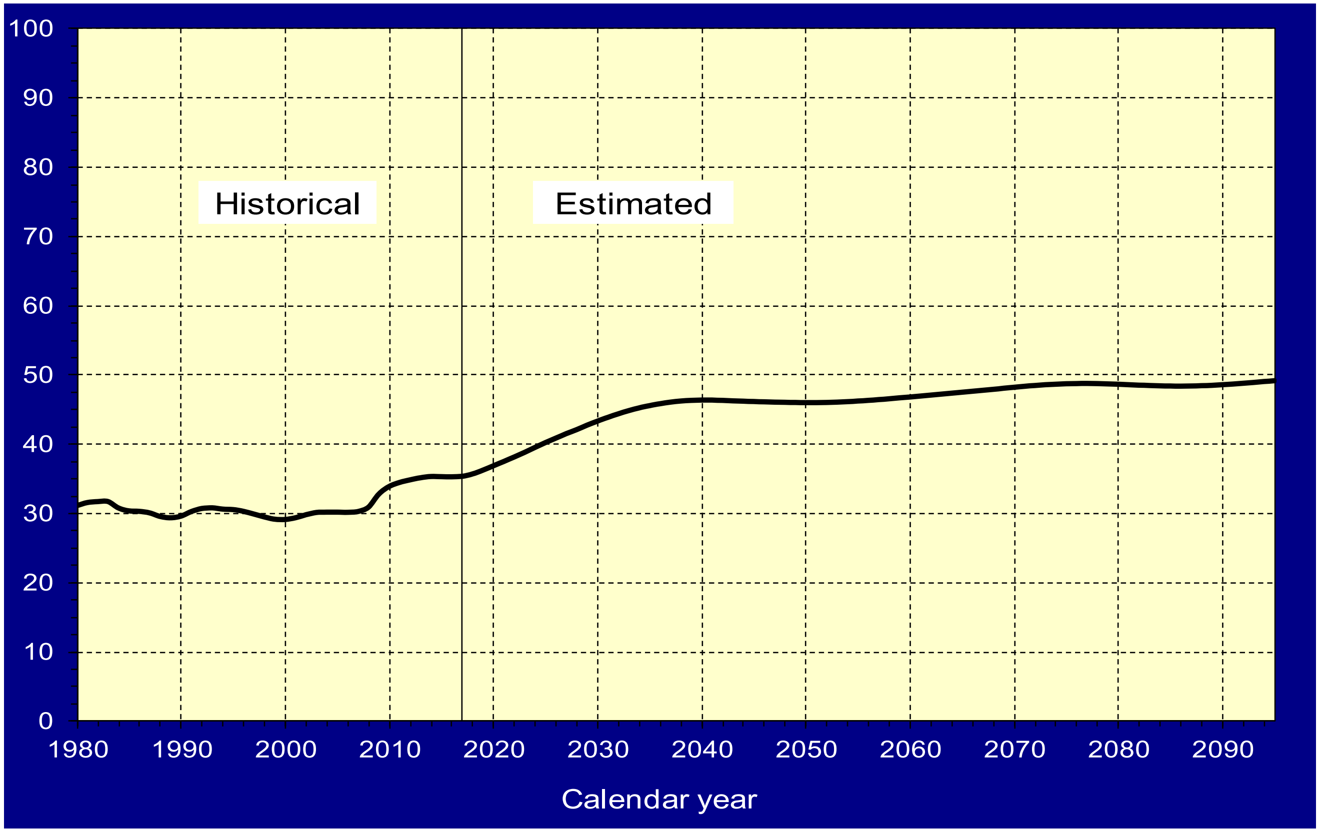


SUSTAINABILITY: Cost as Percent of GDP

Rises from a 4.2-percent average in 1990-2008, to about 6.1% by 2038, then declines to 5.9% by 2052, and generally increases to 6.1% by 2092

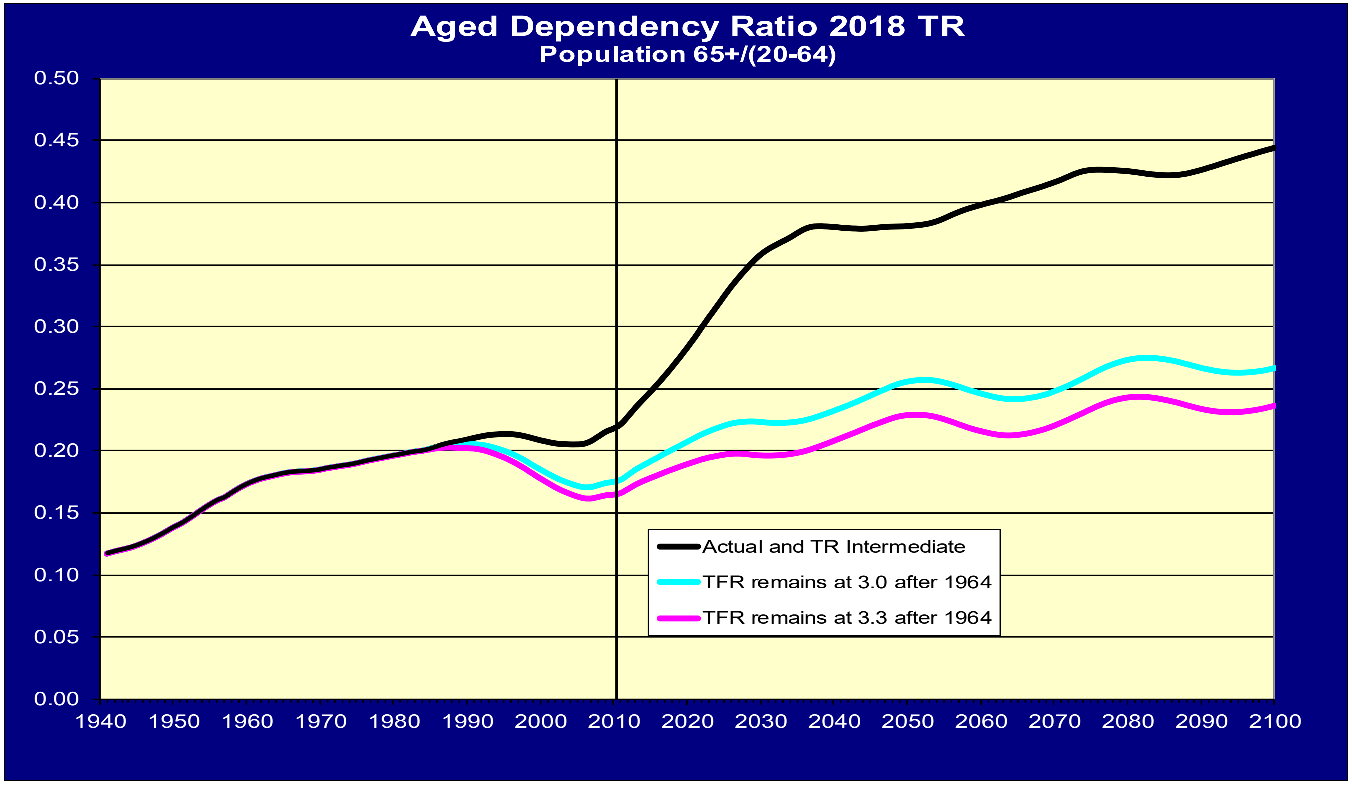


OASDI Beneficiaries per 100 Workers



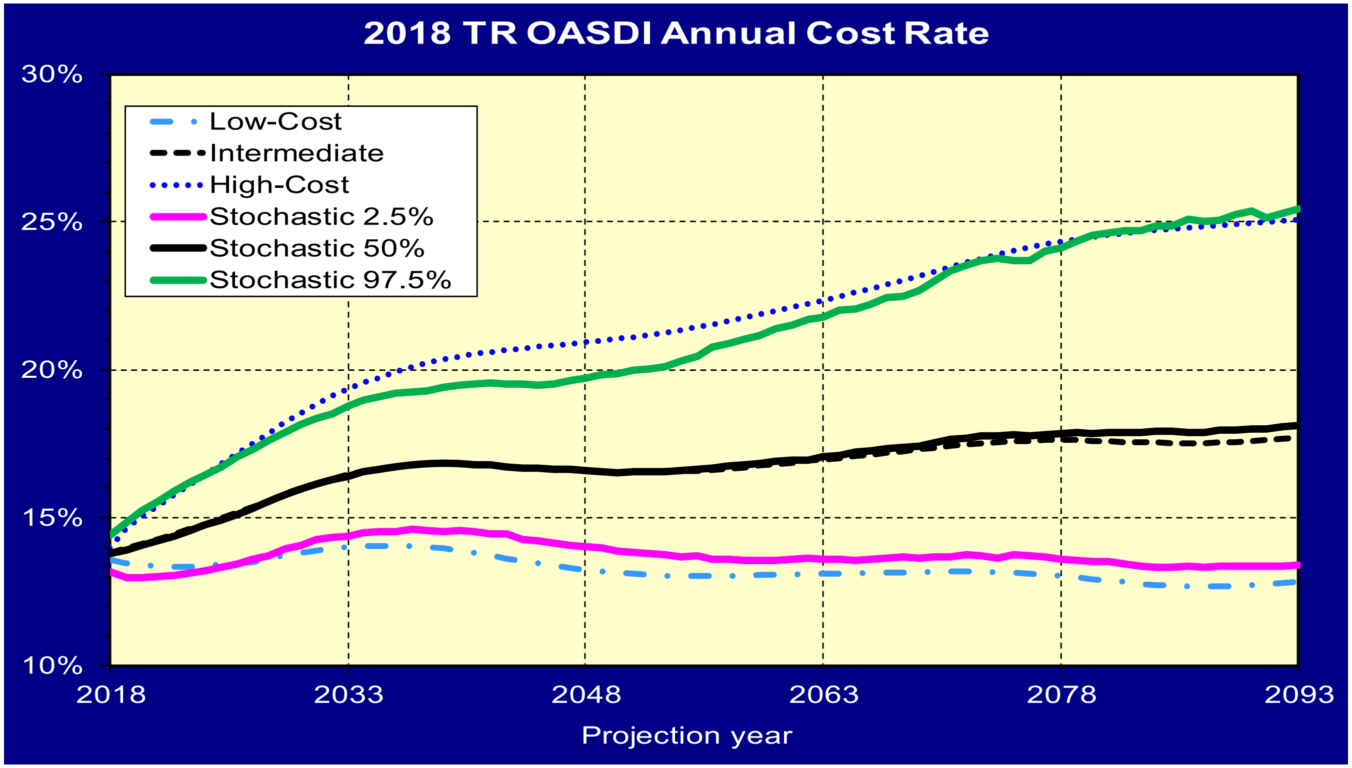
Aging (change in age distribution)

mainly due to drop in birth rates

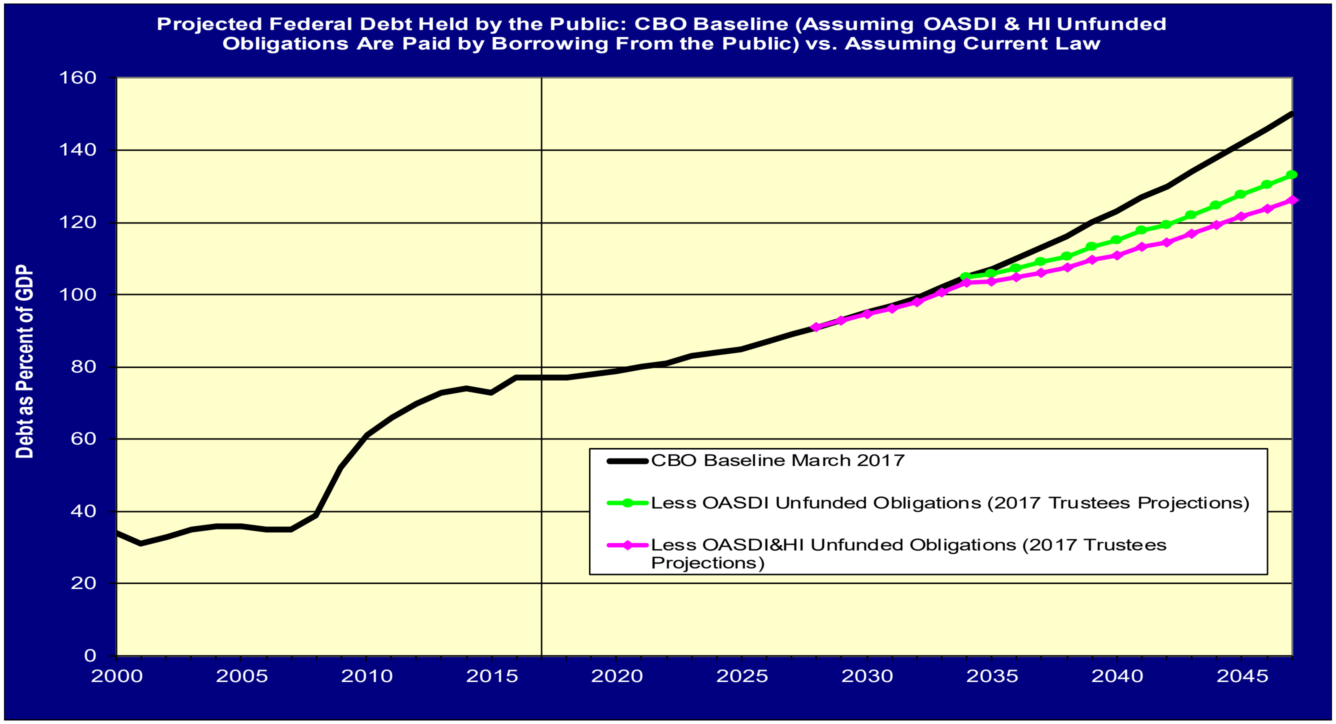


Uncertainty Illustrations

Unrealistically narrow stochastic results due to lack of central tendency variation



So—What If We Project Federal Debt Consistent With the Law?



How to Fix Social Security Long-Term

Make choices addressing OASDI deficits 2034-2092:

- Raise scheduled revenue after 2033 by about one-third
- Reduce scheduled benefits after 2033 by about one-fourth
- Or some combination of the two
- Invest trust funds for higher return?
  - Limited help—it is a PAYGO world
  - So invest in coming generations of workers

For More Information Go To
http://www.ssa.gov/oact/

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