Social Security Actuarial Status

Update and Perspective

Society of Actuaries Annual Meeting, Session 136

Steve Goss, Chief Actuary, Social Security Administration

October 17, 2017

Method for Social Security Financing

1) Payroll tax invested in Trust Funds

    Also tax on benefits and interest income

2) Pay-As-You-Go Financing

    Maintain contingency reserve because----

        No significant borrowing authority

        Must warn Congress to act in time

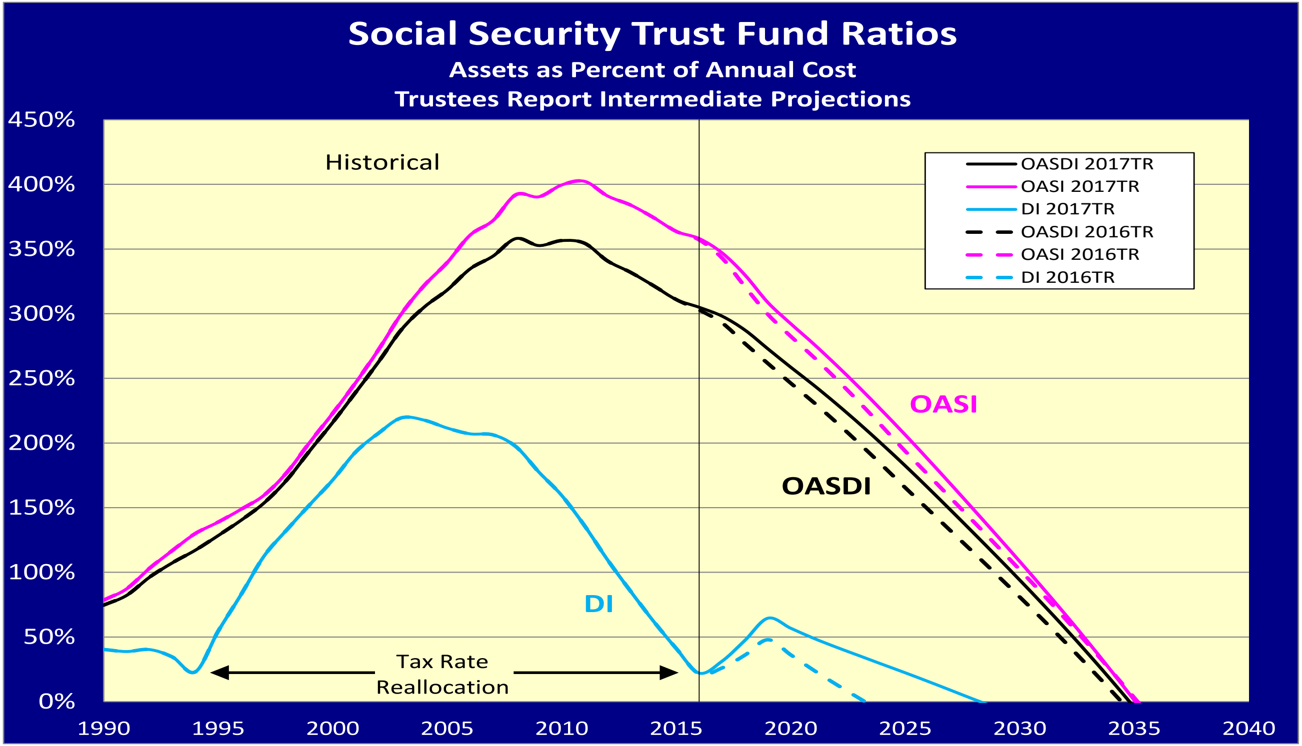
3) Annual Trustees Reports since 1941

    Congress has always acted in time

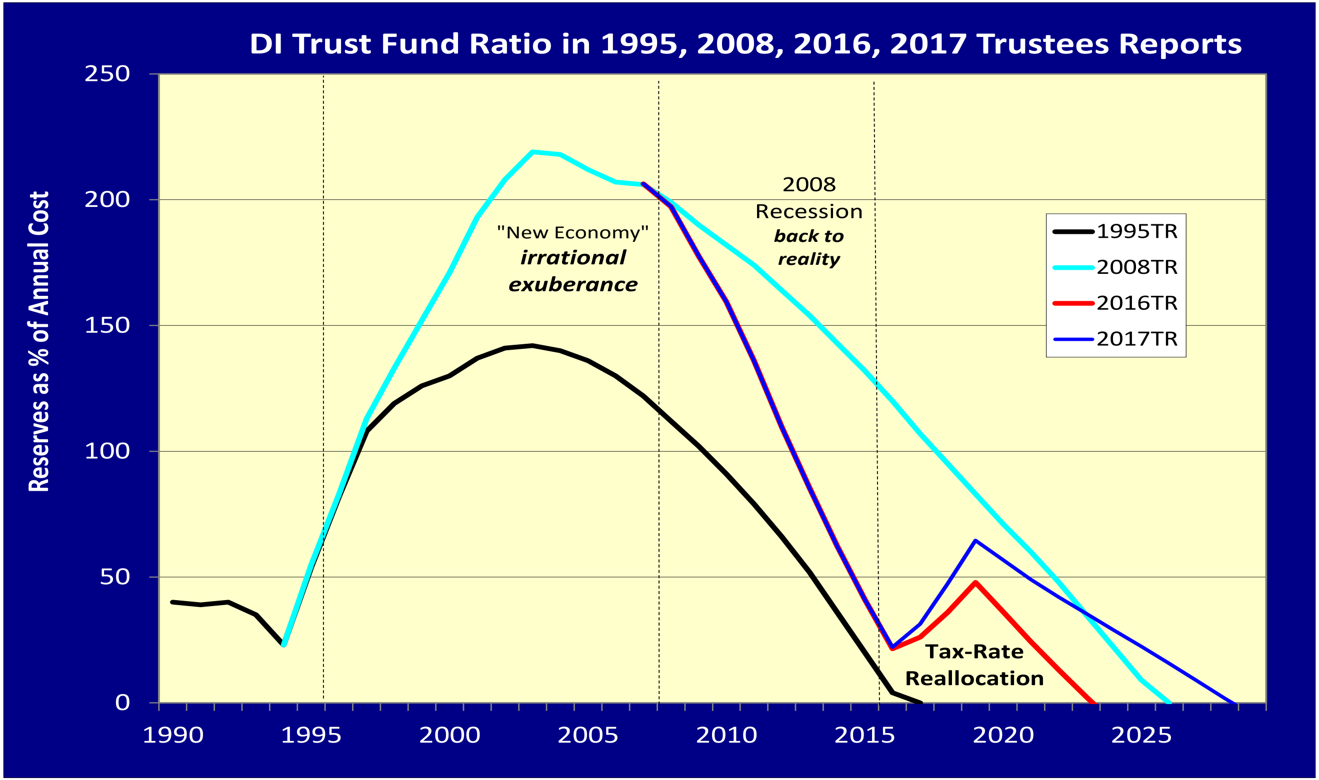
        Trust fund reserve depletion is the trigger

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

- Reserve depletion date varied from 2029 to 2042 in reports over the past 25 years (1992-2017)
- ***DI Trust Fund — reserve depletion in 2028, five years later than last year***
  - Due largely to lower recent and near-term disability applications and incidence rate

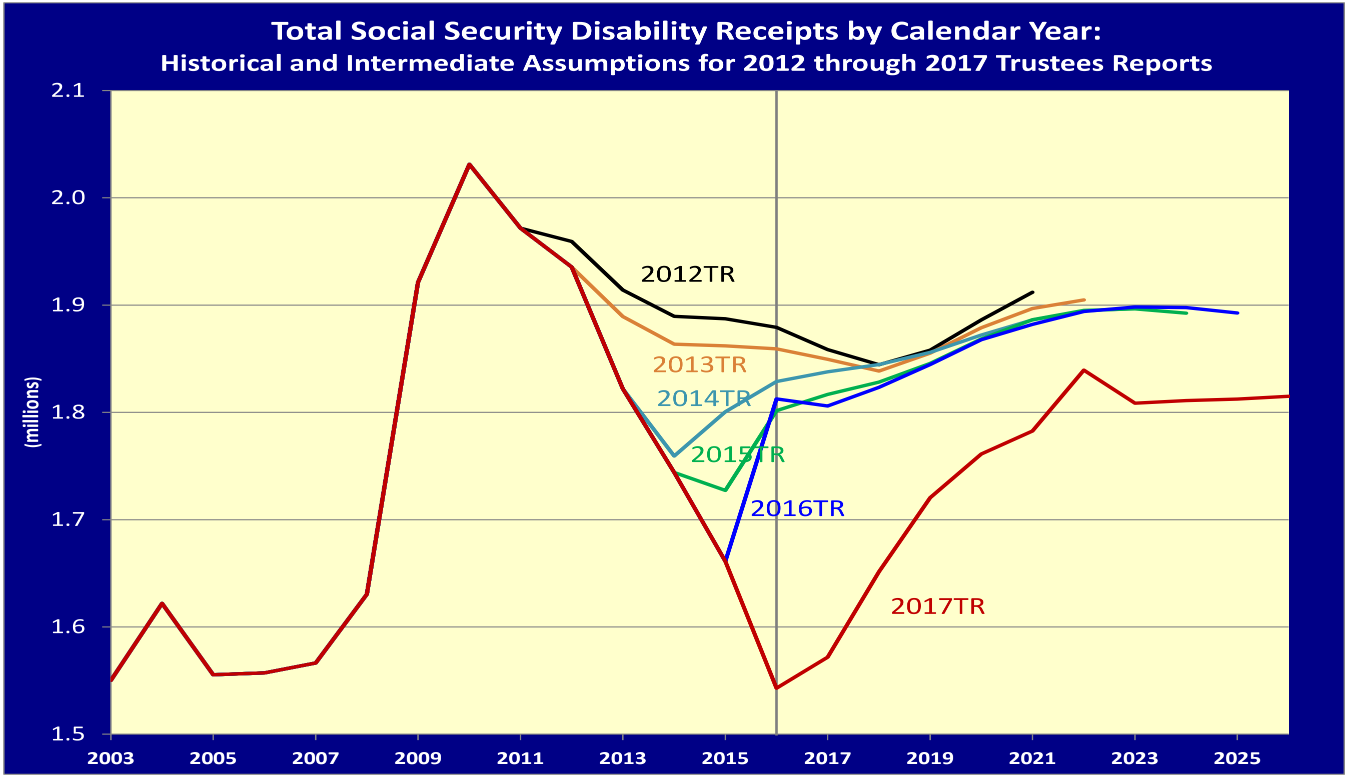


Changes in Solvency Projections for the DI Trust Fund; 2008 Recession Offset "New Economy"; Cycles Still Happen



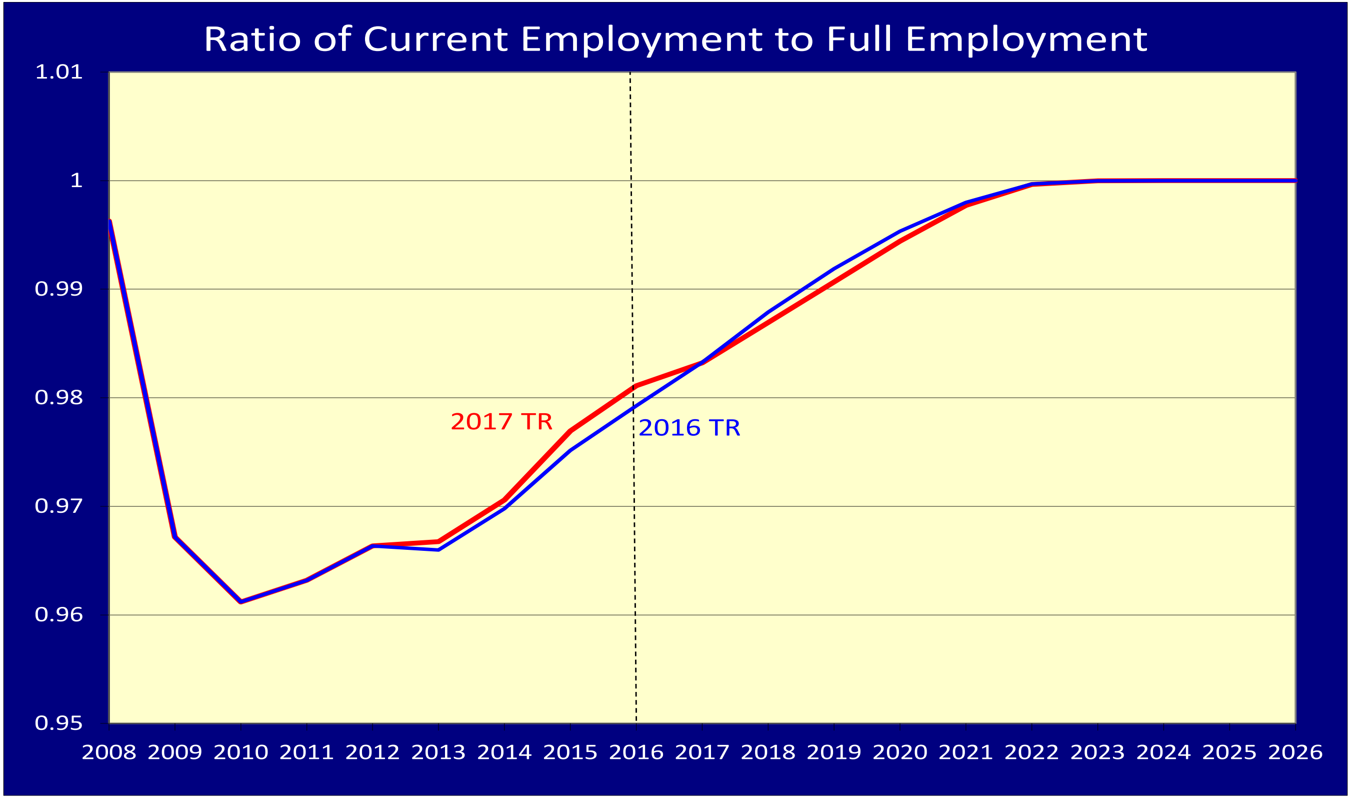
Big News: Applications for Disability Benefits Still Falling

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, with the economy still not fully recovered, applications were below the 2007 level. *2017 even lower!!*



Even with the Economy NOT Yet Back to Mid-Cycle

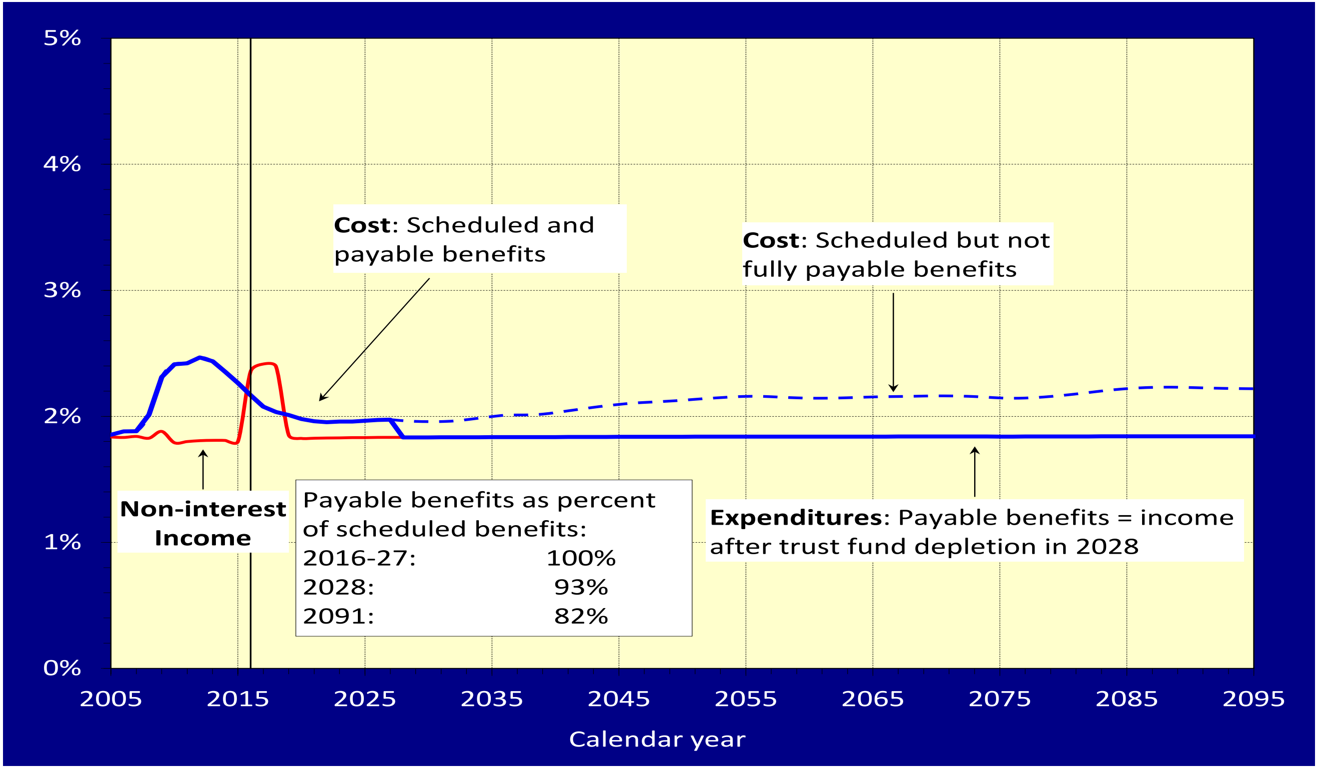
Despite the low unemployment rate (4.8 percent in 2016),
employment is estimated to be about 2 percent below full employment level



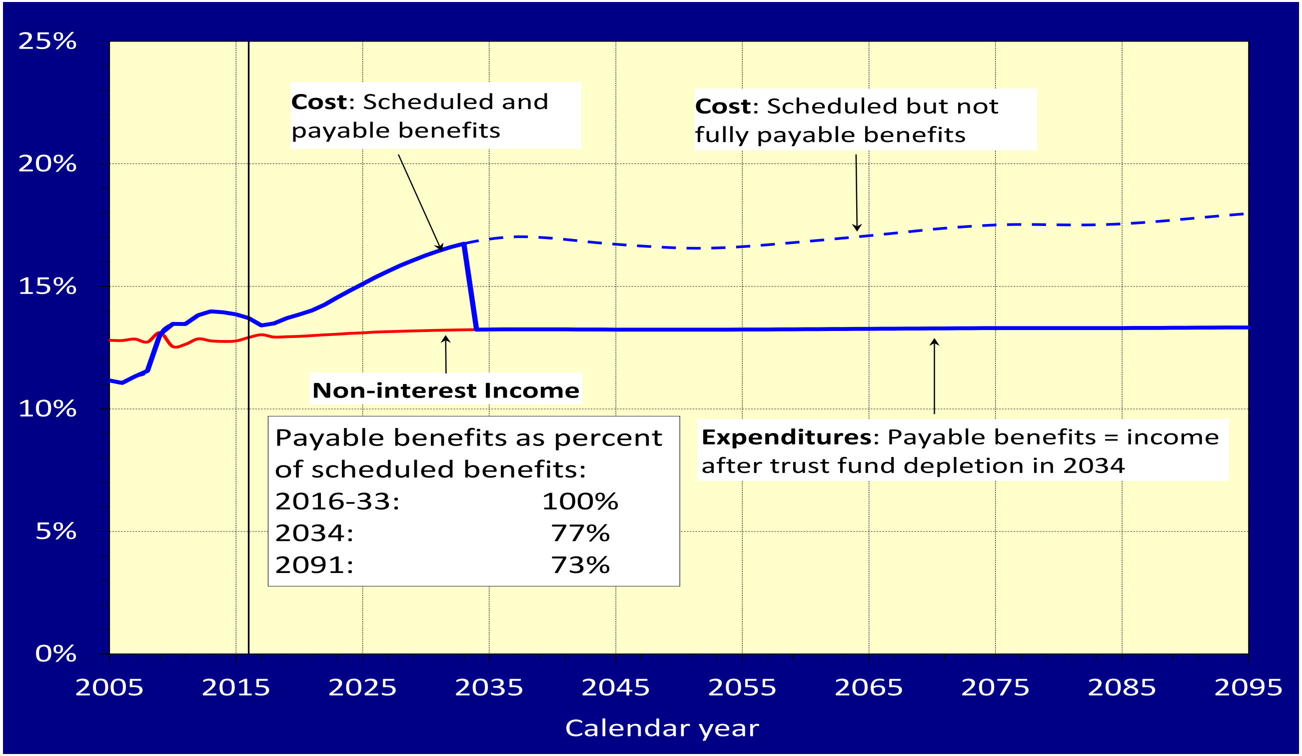
So… What is the Cash-Flow Shortfall for DI?

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

93% of scheduled benefits still payable at trust fund reserve depletion

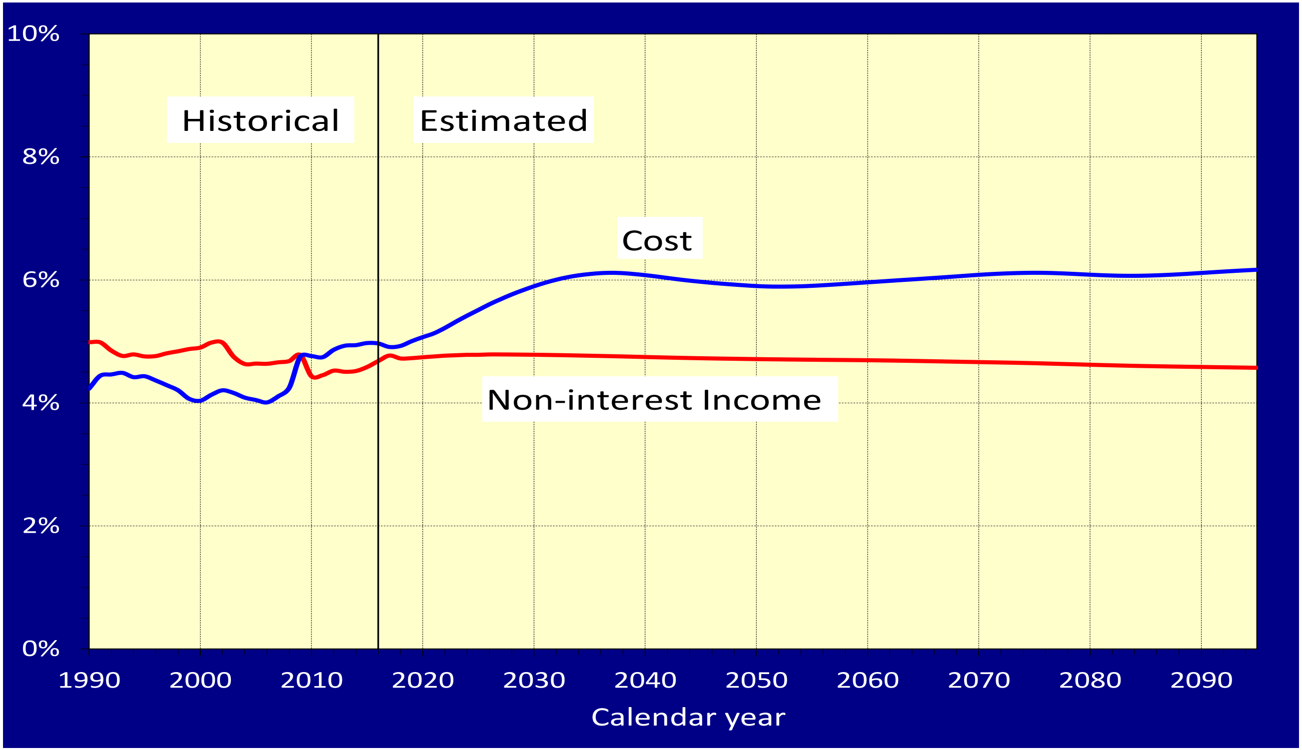


OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll
Persistent Negative Annual Cash-Flow Balance Starting in 2010
77% of scheduled benefits still payable at trust fund reserve depletion



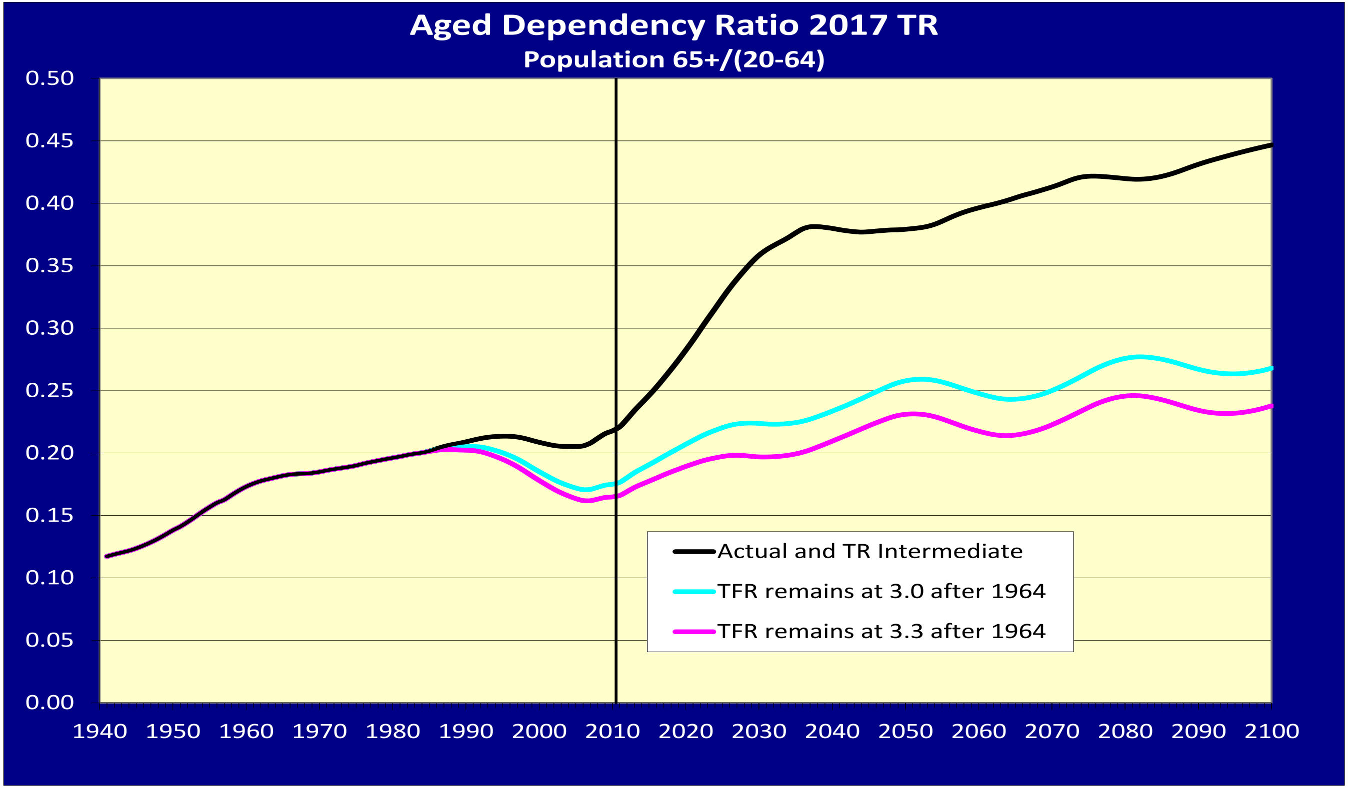
SUSTAINABILITY: Cost as Percent of GDP

Rises from a 4.2-percent average in 1990-2008, to about 6.1% by 2037, then declines to under 5.9% by 2050, and generally increases to 6.1% by 2091



Why? Aging (change in age distribution)

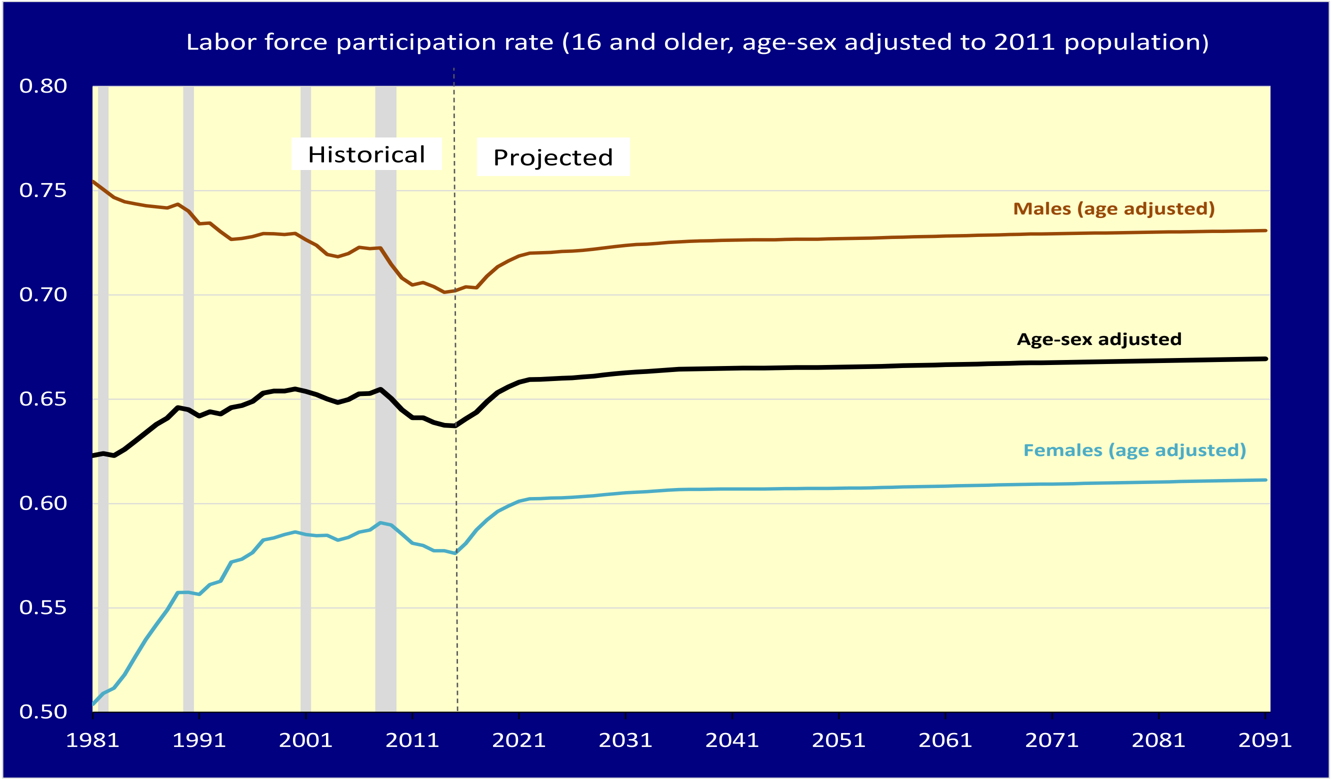
mainly due to drop in birth rates



How About Labor Force Participation

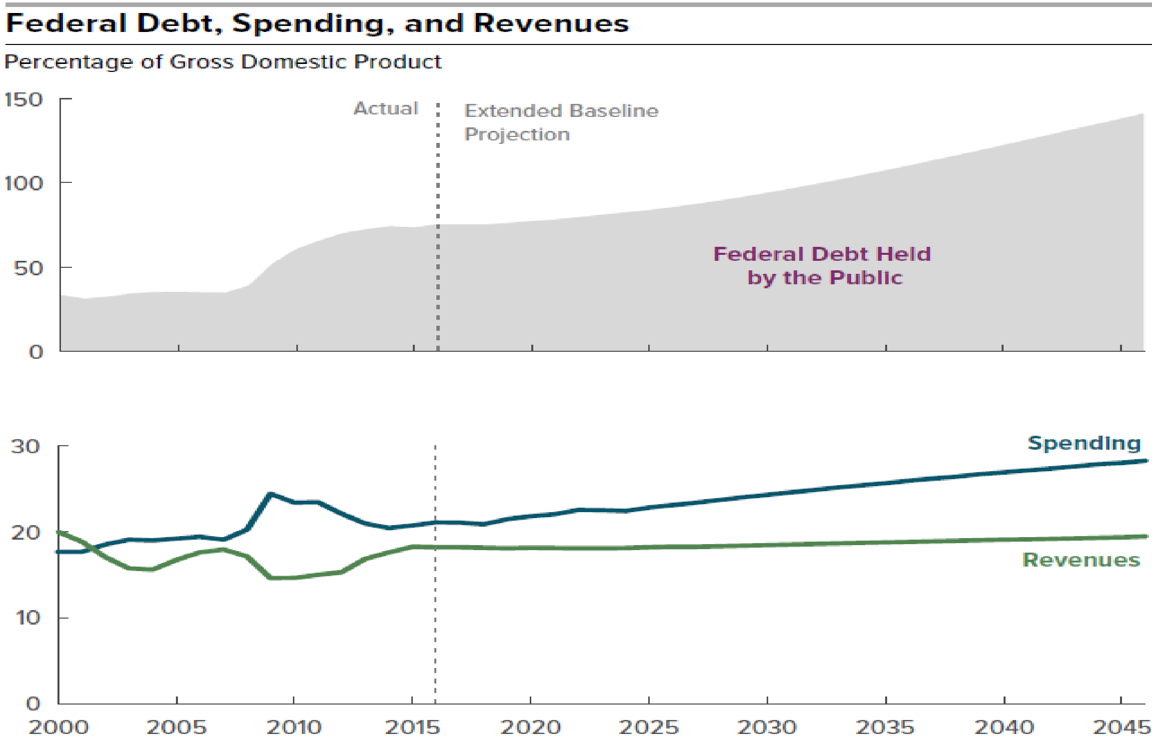
Trustees: Age-sex adjusted labor force participation rate recovers; rises with longevity

Recent Technical Panel: No further recovery; then males drop, females stable



But, Wait—How About Budget Scoring?

How do entitlements affect Federal debt?



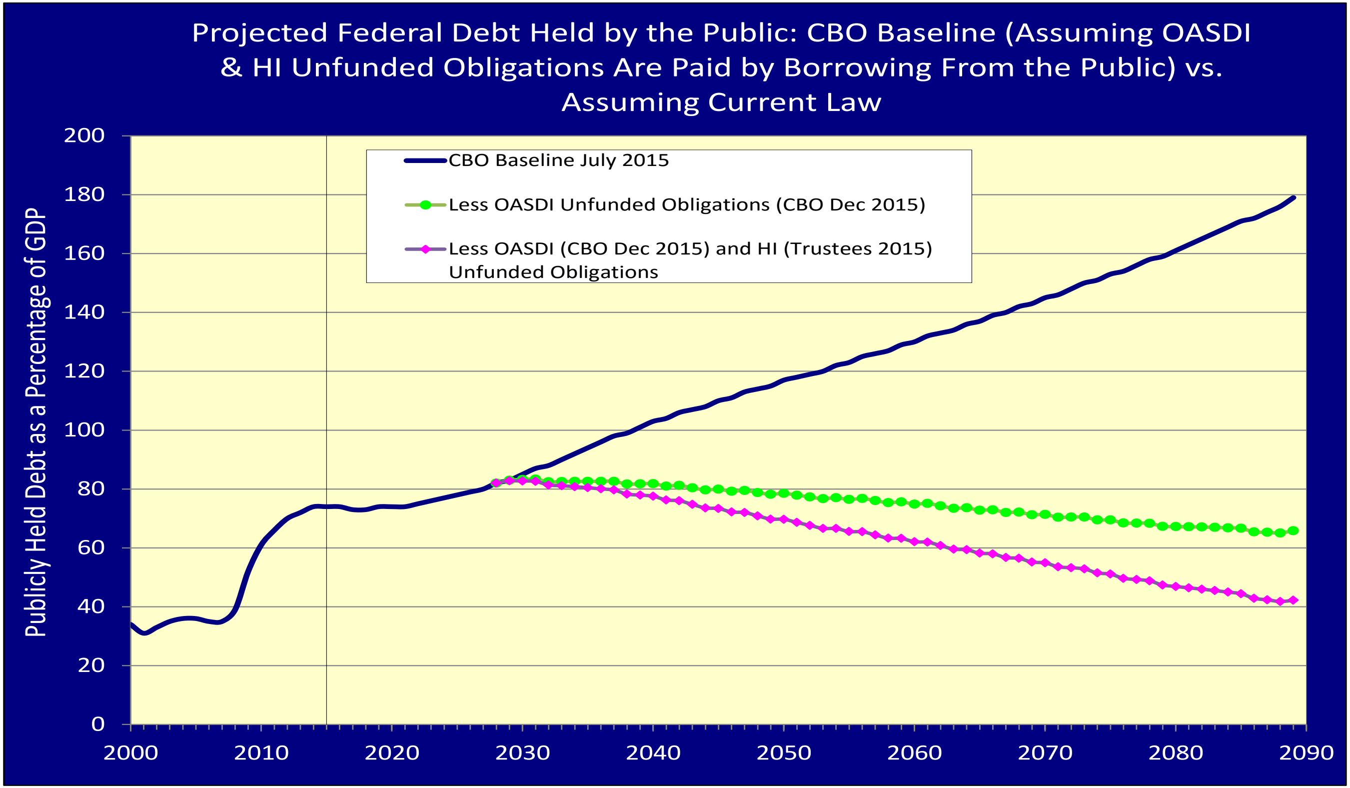
Source: Congressional Budget Office, June 2016

Take Note. Budget Scoring Is Inconsistent with the Law, and All Past Experience.

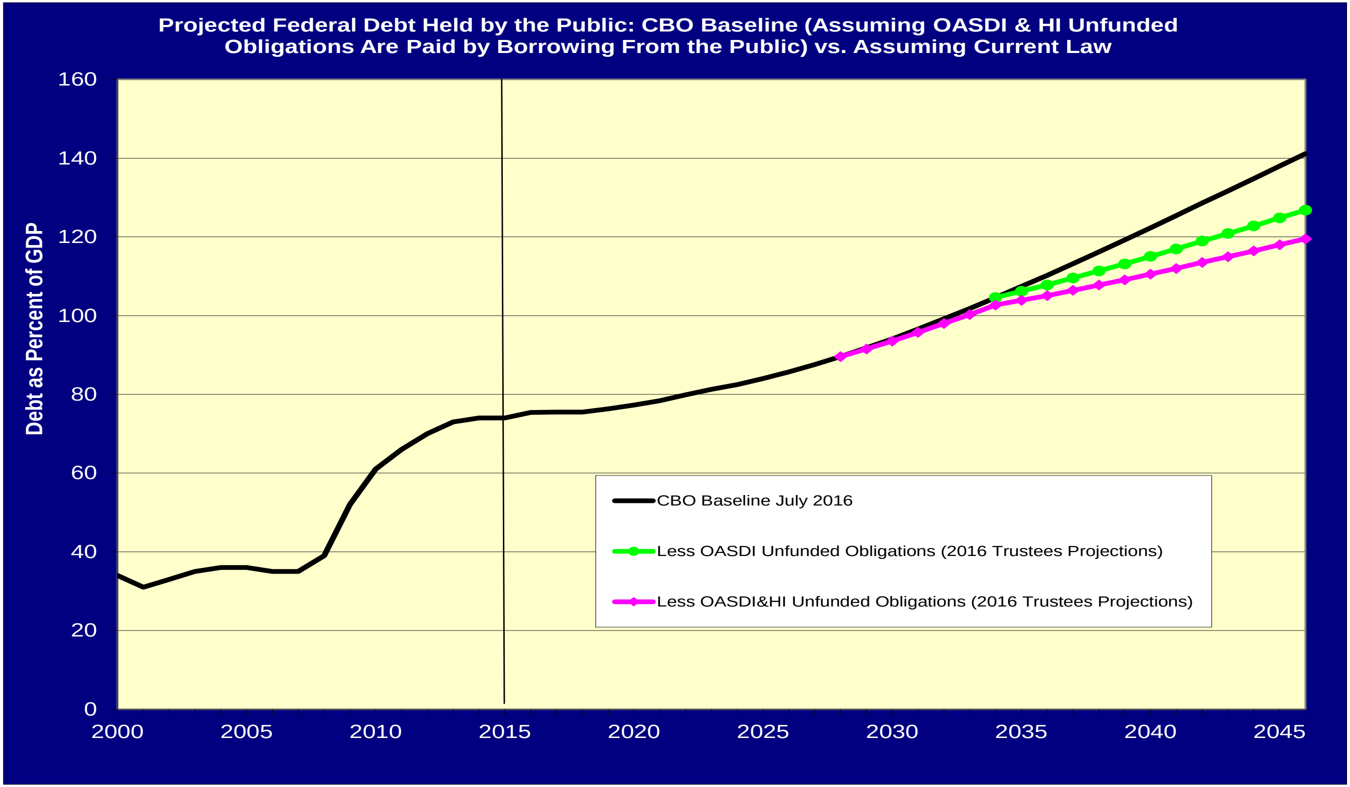
- *See Actuarial Opinion in the 2017 TR (also 2014, 2015, and 2016 TR)*

  1) Reserve redemptions through 2034 just spend the excess revenues collected and invested in earlier years.
     - ***This just replaces debt owed to the TF with debt owed to the public***
  2) If reserves deplete in 2034, the $12.5 trillion unfunded obligation through 2091 cannot be paid under the law.
     - ***Budget deems these "expenditures" creating publicly held debt !!!***
  3) Therefore-----Trust Fund operations have NO direct effect on total Federal debt subject to ceiling in any year—
     and no *net* effect on publicly held debt over time.

So—What If We Projected Federal Debt Consistent With the Law? Dramatic difference back in 2015!!!!



But starting 2016, CBO projects the total Federal Budget only 30 years!



The Bottom Line

- Long-term projections provide information to assess solvency and changes needed to eliminate shortfalls
- If trust fund reserves were to deplete:
  - Full benefits cannot be paid timely
  - NO pressure on the Budget or Federal Debt
  - So Congress must and WILL act, as always
- Straightforward solutions:
  - Add revenue and/or lower cost for OASDI
    - Comprehensive changes ***implemented*** by 2034

How to Fix Social Security Long-Term

Make choices addressing OASDI deficits 2034-2091:

- Raise scheduled revenue after 2033 by about 33%: increase revenue from 4.6 to 6.1% of GDP
- Reduce scheduled benefits after 2033 by about 25%: lower benefits from 6.1 to 4.6% of GDP
- Or some combination of the two
- Achieve *"sustainable solvency"*
  - Trust Fund reserves stable or rising as percent of annual cost
  - This is a new concept since about 1995---- Kerry/Simpson and the 1994-96 Advisory Council

Questions-----------------

- If "aging" is the problem, what to do?
  - Index the normal retirement age after it hits 67??
    - Remember longevity is just a small part of the future aging
  - ***How to address the lower birth rate??***

- Fewer children pay more of their earnings?
  - Increase payroll tax rate, or
  - Tax investment income (like the ACA)

- Elders get lower monthly benefits?
  - Reduce the benefit replacement rate below 40% average?
  - What implications given the demise of private defined benefit pension plans?

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

- There you will find:
  - 2017 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
  - Extensive databases
  - Congressional testimonies
  - Presentations like this