Session 1d: Updates on Proposed Changes and (Current) Financial Status of Social Security

STEPHEN C. GOSS, ASA, MAAA
CHIEF ACTUARY, US SOCIAL SECURITY ADMINISTRATION

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SOCIETY OF ACTUARIES ANNUAL MEETING

Actuarial Status of the OASI and DI Trust Funds

Reported on April 22, 2020 by the Board of Trustees

What is the Legislative Mandate for the Annual Trustees 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 would fall short under current law, indicating the size of legislative changes that will be needed

Primary Changes This Year

First, an important caveat! The projections in the 2020 Trustees Report do NOT reflect the potential implications of the COVID-19 pandemic, due to (1) the timing of the development of assumptions for the report and (2) the timing of the recognition of the pandemic.

1. DI reserve depletion extended another 13 years, to 2065!
   a) Applications and benefit awards remained at historically low levels in 2019
   b) Lower ultimate incidence rate
   c) Gradual increase to ultimate incidence rate
2. OASI reserve depletion is 2034 – the same as in last year's report.
3. OASDI reserve depletion is 2035, the same as in last year's report. Actuarial deficit increased by 0.43 percent of payroll versus expected increase of 0.05 percent from change in valuation period alone.

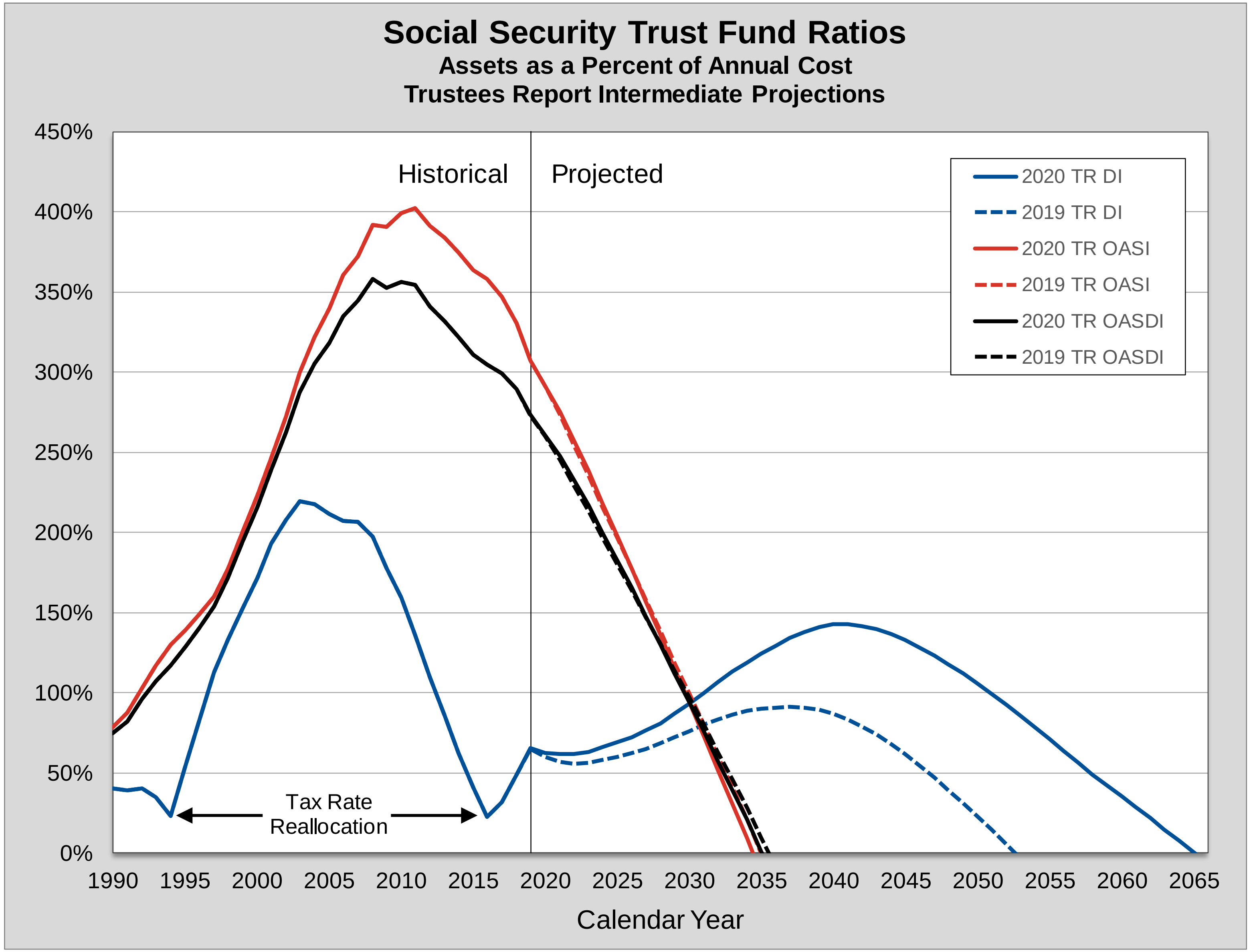
Solvency: OASDI Trust Fund Reserve Depletion in 2035

(same as last year)

Reserve depletion date varied from 2029 to 2042 in reports over the past 30 years (1991-2020).

DI Trust Fund – reserve depletion in 2065, thirteen years later than last year.

Due largely to low recent and near-term disability applications and awards, and an assumed lower ultimate disability incidence rate.



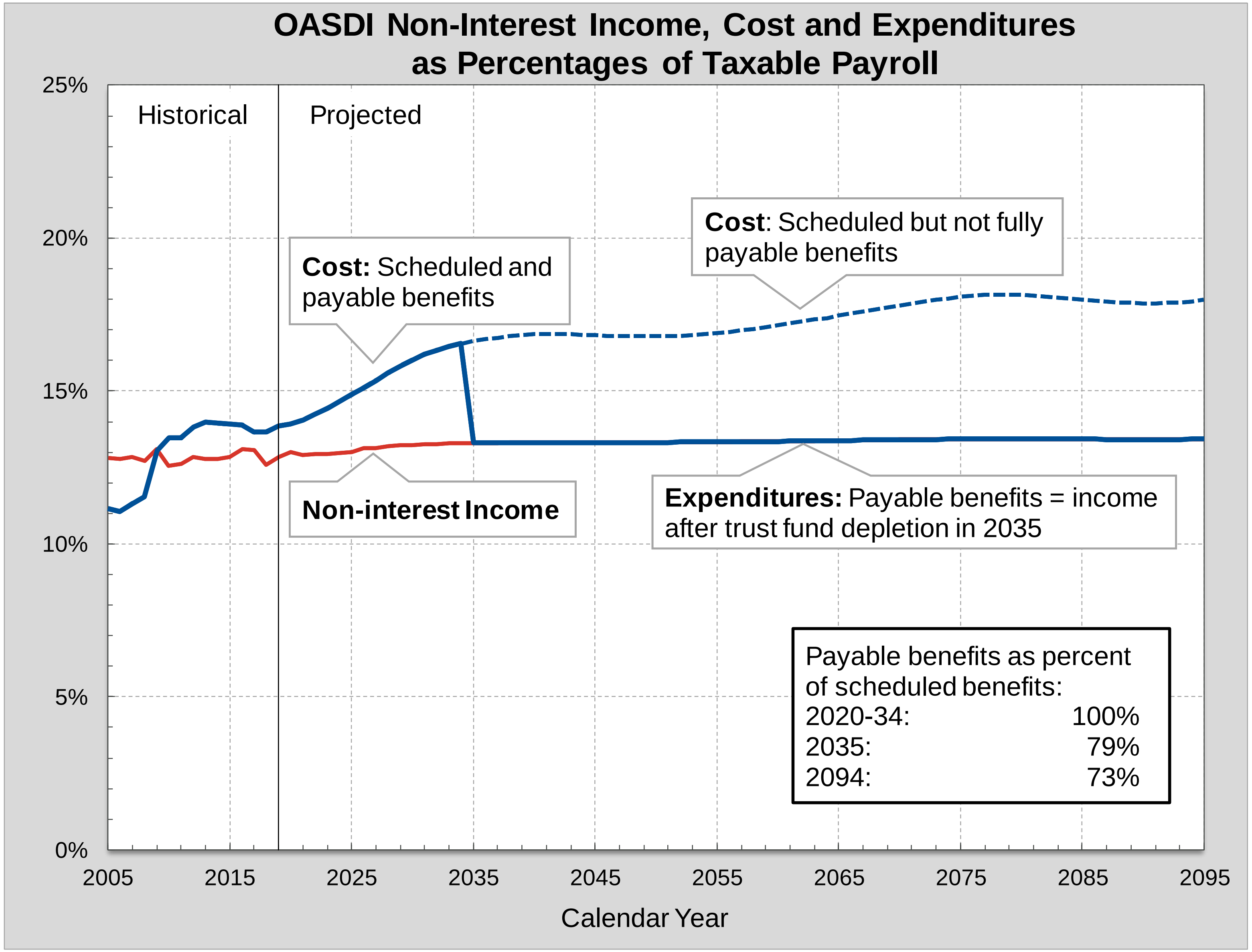
OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Persistent negative annual balance starting in 2010.

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

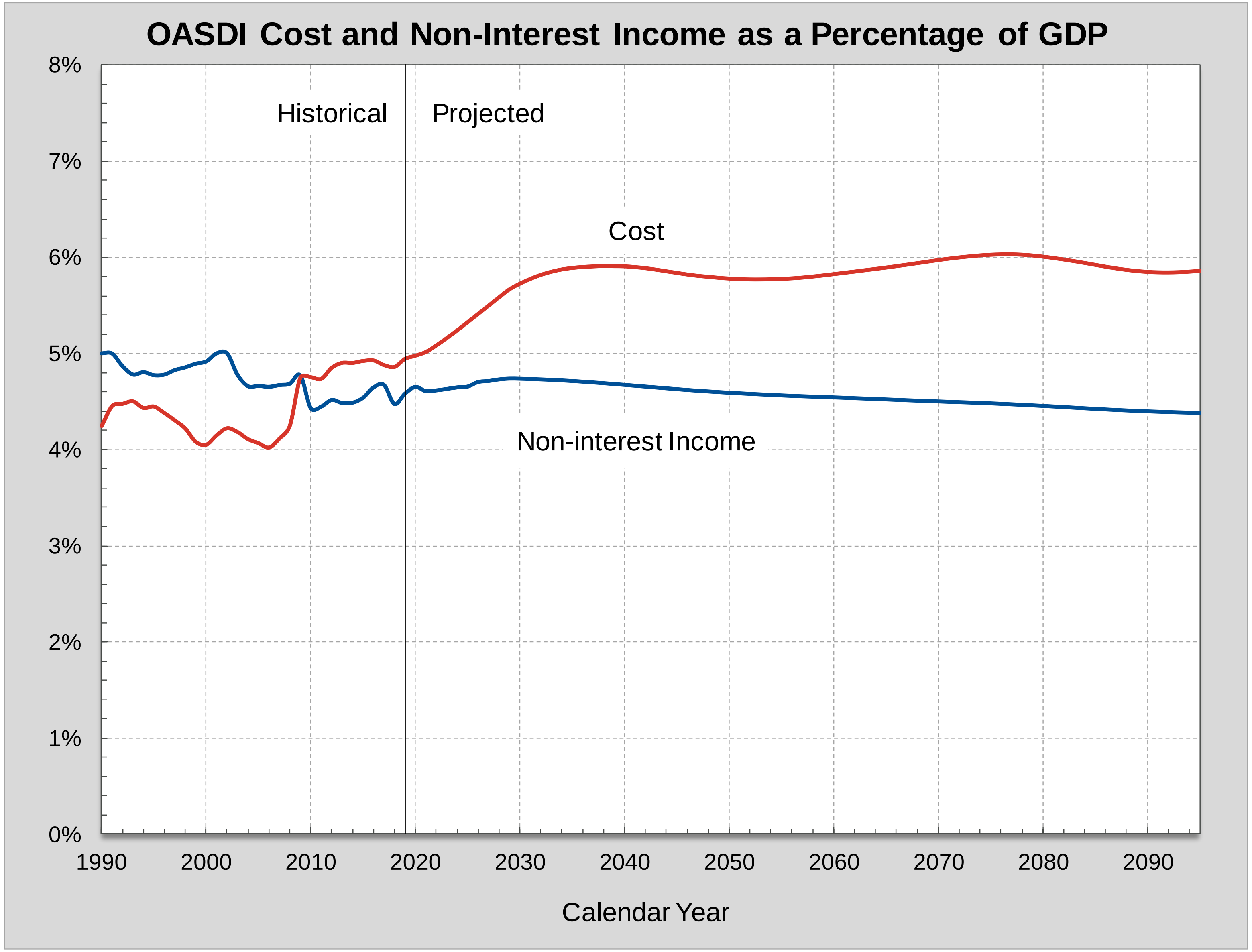
Annual Deficit in 2094:

4.51 percent of payroll – 0.36 percent larger than last year



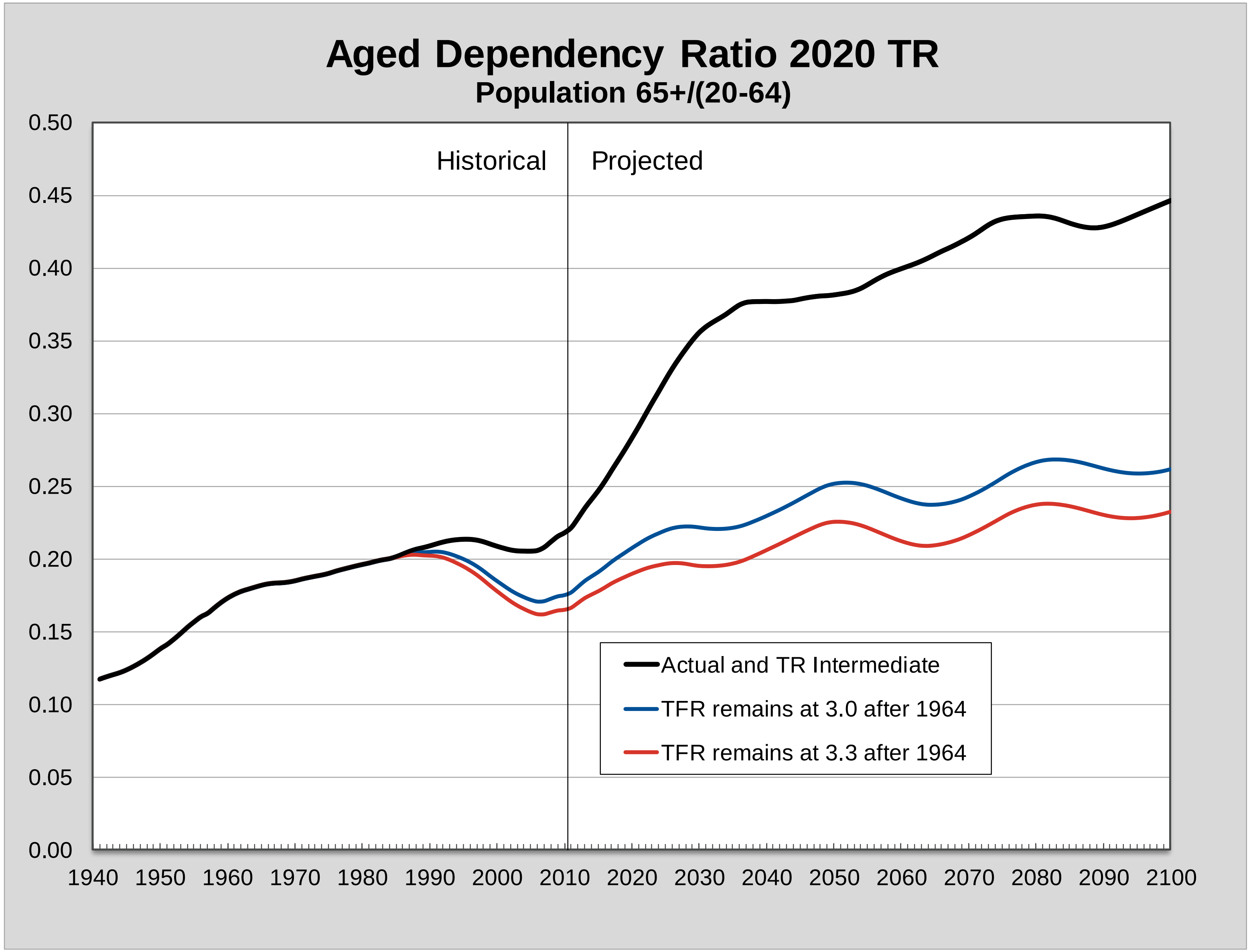
SUSTAINABILITY: Cost as percent of GDP

Rises from a 4.2 percent average in 1990-2008, to about 5.9 percent by 2038, then declines to 5.8 percent by 2053, and generally increases to 5.9 percent by 2094.



Why Cost Rises Between 2008 and 2035 as Percent of Payroll and GDP: Aging - Change in Age Distribution

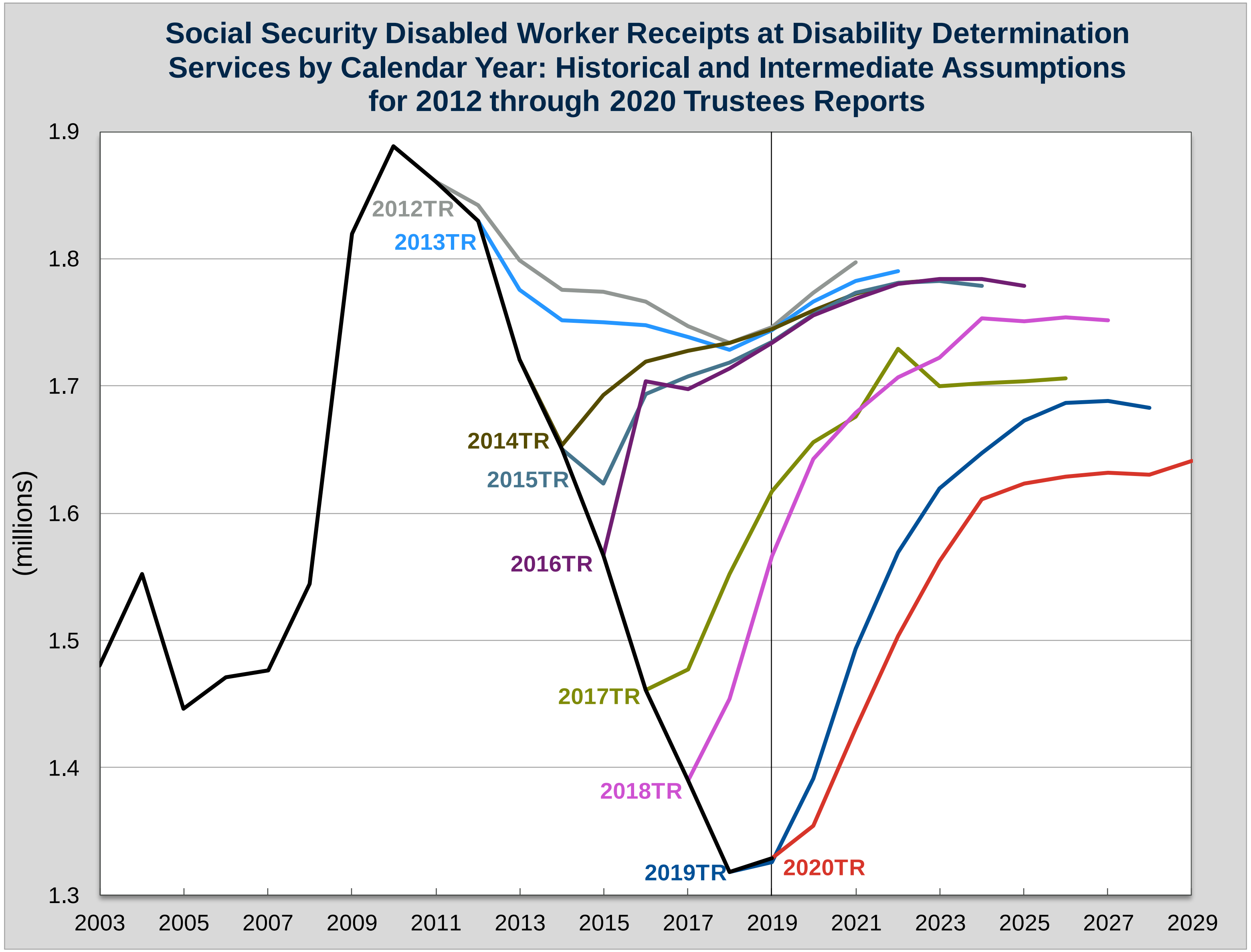
Mainly due to drop in birth rates



Applications for Disability Benefits Remain Historically Low

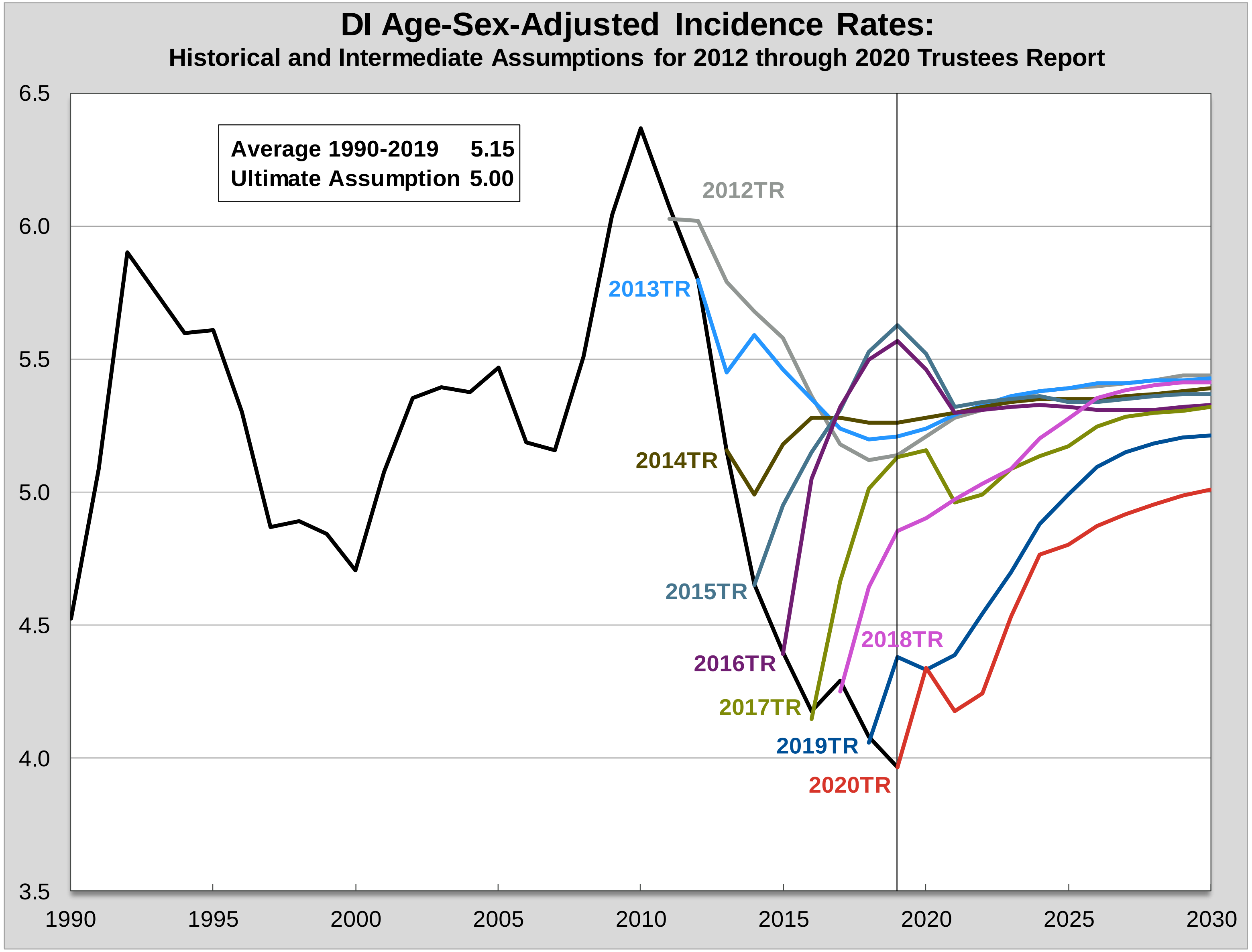
At the peak of the last economic cycle in 2007, applications were low, but increased rapidly in the recession from 1.5 million in 2007 to 1.9 million in 2010.

In 2016 through 2020, applications have dropped below the 2007 level.



Disability Incidence Rate Also Remains Historically Low

DI disabled worker incidence rate rose sharply in the recession, and has declined since the peak in 2010 to extraordinarily low levels in 2016 through 2020.



Principal Reasons for Actuarial Balance Change in 2020 Report from -2.78 to -3.21 percent of payroll

•Valuation Period	- 0.05 percent
•Legislation (primarily repeal of the ACA excise tax)	- 0.12 percent
•Lower ultimate total fertility rate	- 0.11 percent
•Lower recent birth data and lower assumed near-term total fertility rate	- 0.04 percent
•Higher recent mortality	**+0.04 percent**
•Immigration assumptions and other data updates	- 0.02 percent
•Lower ultimate rate of price inflation (CPI-W)	- 0.05 percent
•Higher long-term real-wage differential	- 0.01 percent
•Lower ultimate unemployment and labor force participation rates	0.00 percent
•Lower ultimate real interest rate	- 0.07 percent
•Starting values and other near-term economic assumptions	- 0.04 percent
•Lower ultimate disability incidence rate	**+0.04 percent**
•Lower recent and near-term disability applications and incidence rates	**+0.01 percent**
•Other new data and methods improvements	0.00 percent
Net Changes for All Reasons	- 0.43 percent

How to Eliminate the Social Security Long-Term Actuarial Deficit

Make choices addressing OASDI deficits 2035-2094:

- Raise scheduled revenue after 2034 by about one-third
- Reduce scheduled benefits after 2034 by about one-fourth
- Or some combination of the two

Implications of COVID-19 on Actuarial Status

See also https://www.ssa.gov/oact/presentations/ocact_20200722.pdf

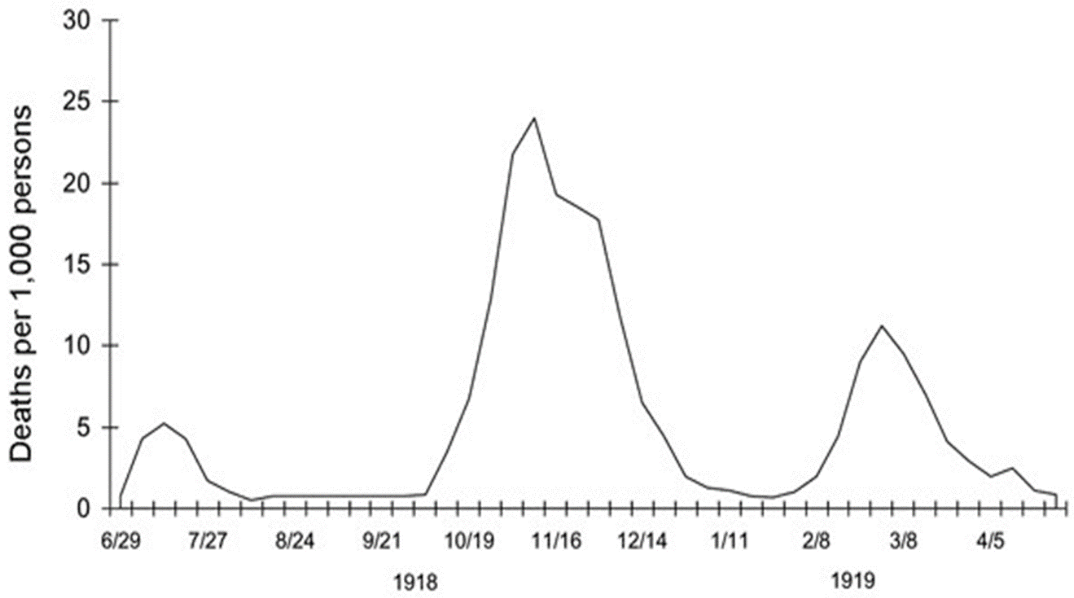
Characteristics of COVID-19

- Highly communicable
- Transmissible prior to symptoms
    - Some never show symptoms
- Immunity after infection appears to be limited
    - Less than 12 months; implications for “herd immunity”
    - Potential for repeated reinfection
- Death rate overall 0.4% to 1%: proportionate increase across ages
- Compromise for survivors?
- Vaccine or therapy? How effective?

Potential Path Going Forward

1918: worst case scenario?

Figure 1. Death Rates of the Spanish Flu, June 1918 to May 1919



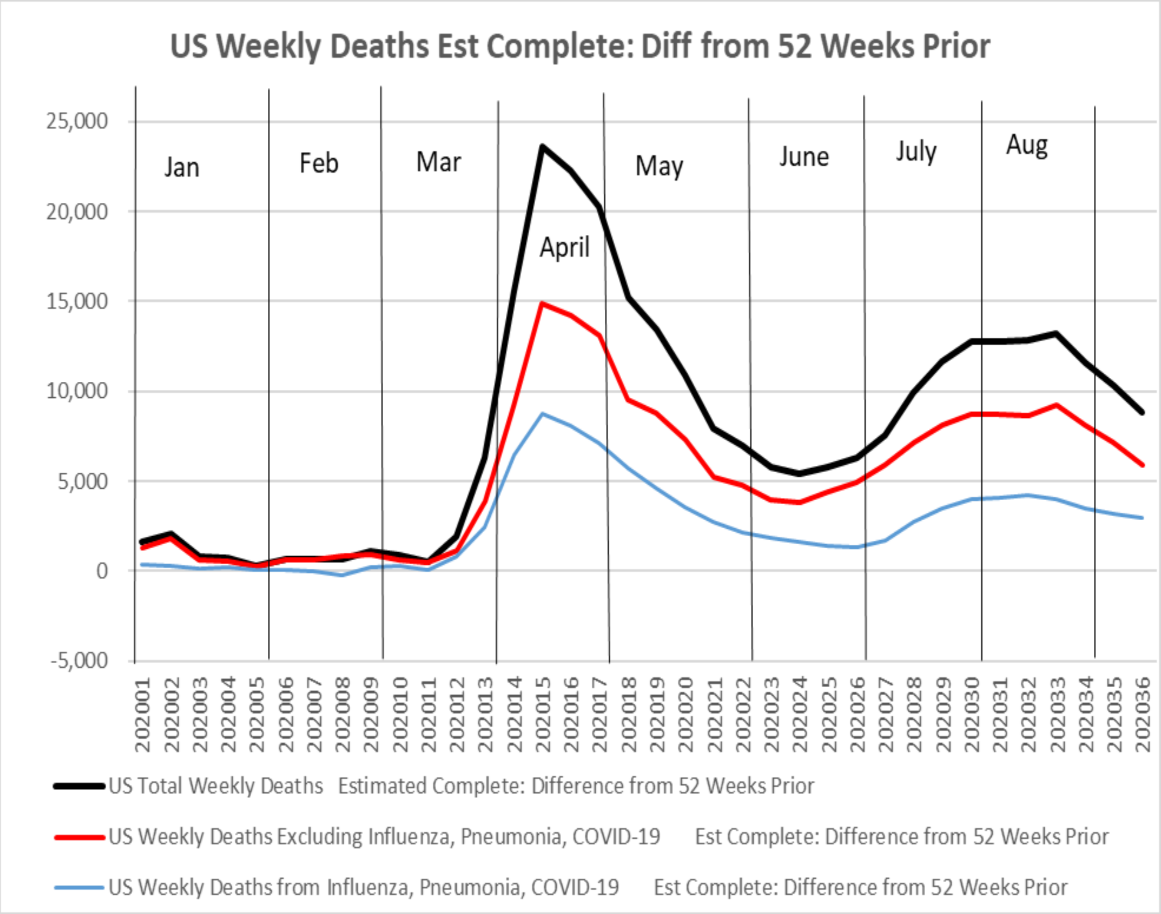
Source: The Spanish Flu and the Stock Market: The Pandemic of 1919 by Bryan Taylor | Feb 27, 2020 | Economics, Historical, Insights

Will we do much better in 2020?

Will we avert a substantial second wave in the fall? If so, we my be able to return to “normal” next year

If not…

Mortality to this point has been significant both reported for COVID and otherwise



Deaths are reported to CDC with a lag,

Estimated complete are adjusted

Excess deaths spiked in April,
and again in July-August

This Fall and Winter are to be determined

Next year?

GDP, Earnings, and Payroll Tax Revenue

- Social Security payroll tax revenue will certainly be lower than we projected for 2020—by between 5 and 10 percent
- Neither the employer payroll tax deferral in COVID legislation nor the employee payroll tax deferral in the executive order affect revenue to the trust funds
- What will effects be beyond 2020?
  - Substantial economic recovery since the second quarter of 2020
  - Main issue is path of pandemic and responses

OASDI Beneficiaries

- There will clearly be competing effects on the size of the beneficiary population in the near term
- Decrease in beneficiaries due to increased deaths
- Potential increase in beneficiaries due to additional applications—assuming recession persists, and recovery is not as abrupt as the recession
    - However, to this point, retirement applications are not above prior expectations, and disability applications are substantially lower than prior expectations
- Implications for 2021 and beyond depend on the pandemic and responses

Bottom Line: Effects on Trust Funds Under COVID

- In April, we speculated potential 15% reduction in earnings and payroll tax for one or two years, and then full recovery: Trust Fund reserve depletion advanced from early 2035 to mid or early 2034
- Now, consider an illustrative scenario: assume total earnings in 2020 are reduced to 5-10% below the 2020 TR intermediate projection, with recovery in 2021 and 2022
  - This could happen if there is no substantial second wave in the fall, with resulting closure of the economy
  - The trust fund reserve depletion date for the combined OASI and DI Trust Funds would likely about 1 year earlier (CBO estimated 1 year earlier in July and September)

Bottom Line: Effects on Trust Funds Under COVID

- If, instead, a fall/winter return to closure due to the pandemic extends through 2021, and possibly beyond, then negative effects on the actuarial status could be substantially larger
- Trust Fund reserve depletion could be earlier than 2034, and the percent of scheduled benefits payable after depletion could be reduced
- The Bipartisan Policy Center speculated possible substantial reduction in GDP and earnings for 9 to 10 years, with OASDI combined trust fund reserve depletion 6 years earlier (2029)
    - Even this is in the range of Trustees Report projections over the last 30 years

Update on Proposed Changes for Social Security

Implications of COVID-19

Available Options to Restore Actuarial Balance

Implications of COVID-19 for Changes in OASDI

- Over the long-range period, likely minor
  - The pandemic-induced recession may be brief with little permanent effect
  - Note that Trustees Reports have incorporated the likelihood of periodic negative events
    - Specifically, Trustees Report ultimate mortality decline has been assumed to be at around 0.73 percent on average. Others have persistently assumed 1.0 percent or higher in the long term with no deceleration.
    - The Trustees Reports have also assumed long-term unemployment rates will be higher than “forecasters”
- However, there are near-term considerations

Average Wage Index (AWI): “Notch” and “Boost”

- The AWI declined in 2009 by 1.5%, and may decline by more for 2020
- If the AWI declines for 2020 by say 5%, then ALL beneficiaries becoming newly eligible in 2022 (retirees, disabled, survivors) would have benefits permanently lower than those who became eligible a year earlier (notch)
- But for those becoming eligible after 2022 who had earnings in 2020, the indexed value of their 2020 earnings will be increased (boost)
- The net effect on actuarial status is small
- However, two bills have been introduced to address this possibility for the 2020 AWI, and for the possibility of declines in the future; see testimony at https://www.ssa.gov/oact/testimony/HouseWM_20200717.pdf

Currently-Proposed Comprehensive Changes for OASDI

- Currently, only the Social Security 2100 Act is introduced
  - Increase payroll tax rate and gradually eliminate the taxable maximum
  - Some benefit enhancements
- In addition, bipartisan support for changing the Windfall Elimination Provision
- Comprehensive changes proposed by Sam Johnson have not been reintroduced since he passed away

Some Ways to Lower Cost

- Lower benefits for retirees – not disabled?
  - Increase normal retirement age (lowers OASDI cost, but increases DI cost)
  - Can exempt long-career low earners (Simpson Bowles 2010)
- Lower benefits mainly for high earners?
  - Reduce PIA above some level
  - Noting that higher earners generally live longer
- Lower benefits mainly for the oldest old?
  - Reduce the COLA
  - Others say increase it with the CPI-E (based on purchases of consumers over age 62)

Some Ways to Increase Revenue

- Raise the 12.4 percent OASDI payroll tax rate?
- Raise tax on highest earners?
  - Increase taxable maximum amount
  - Some tax on all earnings above the maximum
- Tax employer group health insurance premiums?
  - Affects only middle class if taxable maximum remains
- Tax investment income?
  - Or potentially a wealth tax?

Finally, Timing for Changes

- Historically, Congress has waited until reserve depletion is imminent
  - Given uncertainties, 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
  - COVID-19 will make depletion sooner
  - The date has varied between 2029 and 2042 over the past 30 years

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
  - Actuarial notes; including replacement rates
  - Actuarial studies; including stochastic
  - Extensive databases
  - Congressional testimonies
  - Presentations by OCACT employees