Social Security Actuarial Status
The 2016 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
June 2016
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
SOLVENCY: OASDI Trust Fund Reserve Depletion 2034 (same as last year)

- Reserve depletion date varied from 2029 to 2042 in reports since 1995 (1995-2016)
- DI Trust Fund — reserve depletion in 2023, seven years later than last year
  - Change in depletion date due largely to the tax-rate reallocation enacted in the Bipartisan Budget Act of 2015
DI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

89% of scheduled benefits still payable at trust fund reserve depletion

Annual deficit in 2090: 0.39 percent of payroll — 0.02 percent lower than last year

Cost: Scheduled and payable benefits

Cost: Scheduled but not fully payable benefits

Expenditures: Payable benefits = income after trust fund depletion in 2023

Payable benefits as percent of scheduled benefits:
- 2015-22: 100%
- 2023: 89%
- 2090: 82%
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 2090: 4.35 percent of payroll — 0.35 percent lower than last year

Payable benefits as percent of scheduled benefits:
- 2015-33: 100%
- 2034: 79%
- 2090: 74%

Expenditures: Payable benefits = income after trust fund depletion in 2034

Cost: Scheduled and payable benefits
Cost: Scheduled but not fully payable benefits
Non-interest Income

Calendar year: 2005 to 2085
SUSTAINABILITY: Cost as Percent of GDP

Rises from a 4.2-percent average in 1990-2008, to about 6.0% by 2035, then drops to 5.9% in 2050 and generally increases to 6.1% in 2090.
Following the Ratio of Beneficiaries per 100 Workers

Calendar year

Historical

Estimated

I

II

III
Aging (change in age distribution)

*mainly due to drop in birth rates*

![Aged Dependency Ratio 2016 TR](chart)

- Population 65+/20-64
- TFR remain at 3.0 after 1964
- TFR remain at 3.3 after 1964
Lower Unemployment Rate in the Near Term
Largely due to temporary drop in labor force participation

Civilian Unemployment Rate
Slightly Fewer Disabled Worker Beneficiaries

Fewer now from recent experience, later based on effects of BBA of 2015

Disabled Worker Beneficiaries
In Current Payment Status at End of Year (in thousands)

2008 TR (no recession)

2015 TR

2016 TR
Slightly Higher Average Real U.S. Earnings Due to Reduced Health Cost

Average Real Earnings per Week in the US Economy-2010$
Mortality Experience

Comparison of recent data and near-term projections

Age-Sex-Adjusted Death Rates
(Total, All Ages)
Principal Reasons for Change in 2016 Report

Actuarial Balance—Net Change of +0.02 percent of payroll

- Valuation Period: -0.06 percent
- Bipartisan Budget Act of 2015 enacted Nov. 2015: +0.03 percent
- Lower recent fertility and higher recent mortality: 0.00 percent
- Lower emigration for unauthorized population (method): +0.09 percent
- Lower ultimate price inflation (CPI-W) from 2.7% to 2.6%: -0.02 percent
- Increase ultimate real wage differential from 1.17% to 1.20%: +0.05 percent
- Lower ultimate real interest rate from 2.9% to 2.7%: -0.08 percent
- Other new data and methods improvements: +0.02 percent
Principal Reasons for Change in 2016 Report

Unfunded Obligation through 2090

- Estimate for 2015 Report: $10.7 trillion PV, 0.91% of GDP
- Change valuation date only: $11.2 trillion PV, 0.93% of GDP
- All changes except ultimate real interest rate: $10.5 trillion PV, 0.87% of GDP
- 2016 Report with interest rate change: $11.4 trillion PV, 0.89% of GDP
Uncertainty Illustrations

Unrealistically narrow stochastic results due to lack of central tendency variation
Replacement Rates Based on the 2016TR

Scheduled Monthly Benefit Levels as Percent of Career-Average Earnings by Year of Retirement at age 65

- Low Earner ($22,105 for 2016; 25th percentile)
- Medium Earner ($49,121 for 2016; 57th percentile)
- High Earner ($78,594 for 2016; 82nd percentile)
- Max Earner ($118,500 for 2016; 100th percentile)

Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html
How About at Age 62, Where Most Start Benefits?

Scheduled Monthly Benefit Levels as Percent of Career-Average Earnings by Year of Retirement at age 62

Low Earner ($22,105 in 2016; 25th percentile)
Medium Earner ($49,121 in 2016; 57th percentile)
High Earner ($78,594 in 2016; 82nd percentile)
Max Earner ($118,500 in 2016; 100th percentile)

Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html
PAYABLE Monthly Benefit Levels as Percent of Career-Average Earnings by Year of Retirement at age 62

Low Earner ($22,105 in 2016; 25th percentile)
Medium Earner ($49,121 in 2016; 57th percentile)
High Earner ($78,594 in 2016; 82nd percentile)
Max Earner ($118,500 in 2016; 100th percentile)

Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html
But, Wait—How About Budget Scoring?

Don’t entitlements just keep borrowing?

Debt Held by the Public, Total Spending, and Total Revenues

Source: Congressional Budget Office, June 2015
Actually, NO. Budget Scoring Is Inconsistent With the Law, and All Past Experience.

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

  1) After reserves deplete, $11.4 trillion unfunded obligation through 2090 cannot be paid under the law.
     - Budget deems these “expenditures” creating publicly held debt
  2) Reserve redemptions spend excess “earmarked” revenues invested in an earlier year.
     - Budget deems these “a draw on other Federal resources”
  3) 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.
     - Budget says redemptions increase Federal debt held by the public and often gives no credit for reserve accumulation
So—What If We Project Federal Debt Consistent With the Law?

Projected Federal Debt Held by the Public: CBO Baseline (Assuming OASDI & HI Unfunded Obligations Are Paid by Borrowing From the Public) vs. Assuming Current Law

- **CBO Baseline July 2015**
- **Less OASDI Unfunded Obligations (CBO Dec 2015)**
- **Less OASDI (CBO Dec 2015) and HI (Trustees 2015) Unfunded Obligations**
The Bottom Line

• Long-term projections provide information to address solvency.

• 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