Social Security Financing & Options 101
National Academy of Social Insurance
2018 Summer Intern Academy
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Social Security Trust Funds

- Two legally distinct trust funds:
  - OASI = Old-Age and Survivors Insurance
  - DI = Disability Insurance

- Financial operations are overseen by the Social Security Board of Trustees

- The two funds are often looked at on a theoretical combined basis
  - As of December 31, 2017, the trust funds hold about $2.89 trillion in asset reserves
Social Security Trust Funds

- The combined funds have run surpluses since the early 1980s and through 2017
- Beginning in 2018, combined asset reserves will start to decline until they are depleted in 2034
- The DI fund alone is projected to become depleted in 2032
- What happens then when the reserves are depleted? Stay tuned…
Social Security Trust Funds

Social Security Trust Fund Asset Reserves (end of year) as a Percent of GDP, 1970-2034

1983 Amendments
Asset Reserves Build
Reserves Decline until Depletion
How Is Social Security Financed (Income)?

- **Payroll taxes**
  - Employees and employers each pay 6.2% of covered earnings
  - The self-employed pay 12.4% of covered earnings
  - On earnings up to $128,400 in 2018

- **Taxes on Social Security benefits**
  - High-income beneficiaries pay federal income tax on their benefits

- **Interest on trust fund reserves**
  - Invested in interest-bearing securities of the US government
Where Does the Money Go (Outgo)?

- **Benefit payments**
  - About **62 million** people getting benefits as of December 2017:
    - **45 million** retired workers and dependents of retired workers
    - **6 million** survivors of deceased workers
    - **10 million** disabled workers and dependents of disabled workers

- **Administrative expenses**
  - Only about **0.7 percent** of total expenditures in 2017
Income and Outgo
Calendar Year 2017

Payroll taxes
$874 billion

Benefits
$941 billion

Combined OASI & DI Trust Funds

Taxes on benefits
$38 billion

Interest
$85 billion

Administrative expenses
$6 billion

Railroad exchange
$5 billion
Social Security Trust Funds

- Why do we have trust funds?
  - The trust funds provide an essential reserve so benefits can be paid even when current income alone is not enough
  - Social Security (OASI and DI) cannot borrow; can only spend what has been collected

- Are the trust funds “real”?
  - If reserves deplete, full benefits cannot be paid
  - The trust funds force Congress to act in order to maintain continuous benefit payments
Trust Fund Financing

- How is the future shortfall expressed?
- To make shortfalls comparable over years, they are often scaled as a percent of taxable payroll
  - The amount of earnings taxable by the program for a time period

- For example, in 2045:
  - Taxable payroll is expected to be about $23.6 trillion in nominal $$
  - Income to the program is expected to be about $3.1 trillion, or 13.27 percent of taxable payroll
  - The cost of the program is expected to be about $3.9 trillion, or 16.66 percent of taxable payroll
  - So the shortfall is 3.39 percent (16.66 – 13.27)
Trust Fund Financing
(as a percent of taxable payroll)

Cost: Scheduled and payable benefits

Cost: Scheduled but not fully payable benefits

Non-interest Income

Payable benefits as percent of scheduled benefits:
2017-33: 100%
2034: 79%
2092: 74%

Expenditures: Payable benefits = income after trust fund depletion in 2034
SOCIAL SECURITY: HOW BIG IS THE FINANCING CHALLENGE?

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SOLVENCY: OASDI Trust Fund Reserve Depletion 2034 (same as last year)
- Reserve depletion date varied from 2029 to 2042 in reports over the past 28 years (1991-2018)
- DI Trust Fund — reserve depletion in 2032, four years later than last year
  - Due largely to lower recent and near-term disability applications and average benefit levels

Social Security Trust Fund Ratios
Assets as Percent of Annual Cost
Trustees Report Intermediate Projections

Historical

0% 50% 100% 150% 200% 250% 300% 350% 400% 450%

OASDI 2018TR
OASI 2018TR
DI 2018TR
OASDI 2017TR
OASI 2017TR
DI 2017TR

Historical
Tax Rate
Reallocation
OASI
OASDI

50%
100%
150%
200%
250%
300%
350%
400%
450%
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.
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

Payable benefits as percent of scheduled benefits:
2017-33: 100%
2034: 79%
2092: 74%
OASDI Beneficiaries per 100 Workers
Aging (change in age distribution) mainly due to drop in birth rates
Changing Age Distribution Over Last 20 and Next 20 Years Mainly Due to Macro Aging—permanent level shifts
Mortality Experience: All Ages
Reductions continue to fall short of expectations
Mortality Experience: Ages 65 and Older
Reductions since 2009 continue to fall short of expectations
Replacement Rates Based on the 2018 Trustees Report
Source: Annual Recurring Actuarial Note #9, www.ssa.gov/oact/NOTES/ran9/index.html

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

- Low Earner ($23,353 for 2018; 25th percentile)
- Medium Earner ($51,894 for 2018; 56th percentile)
- High Earner ($83,031 for 2018; 82nd percentile)
- Max Earner ($128,400 for 2018; 100th percentile)
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 ($23,353 in 2018; 25th percentile)
- Medium Earner ($51,894 in 2018; 56th percentile)
- High Earner ($83,031 in 2018; 82nd percentile)
- Max Earner ($128,400 in 2018; 100th percentile)
Payable Benefits Under the Law, After Trust Fund Reserves Are Depleted, Are Even Lower

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

- Low Earner ($23,353 in 2018; 25th percentile)
- Medium Earner ($51,894 in 2018; 56th percentile)
- High Earner ($83,031 in 2018; 82nd percentile)
- Max Earner ($128,400 in 2018; 100th percentile)
How to Fix Social Security Long-Term

Make choices addressing OASDI deficits 2034-2092:

• Raise scheduled revenue after 2033 by about one-third:
  increase revenue from 4.6 to 6.1% of GDP
• Reduce scheduled benefits after 2033 by about one-fourth:
  lower benefits from 6.1 to 4.6% of GDP
• 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
How to Fix Social Security Long-Term

How can the financing shortfalls be covered?
- Lower cost (reduce benefits) by about one-fourth
- Increase revenues by about one-third
- Or some combination of approaches
- Also consider benefit adequacy?
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

- **Lower benefits mainly for high earners**
  - Reduce PIA above some level
  - Often combined with increasing PIA below some level, subject to work year requirements
Ways to Lower Cost (continued)

- Lower benefits mainly for the oldest old
  - Reduce the COLA by using a *chained* version of the CPI
  - Some say instead raise the COLA by using the CPI-E (based on purchases of consumers over age 62)

- Increase the number of years used in calculation (currently 35)
  - Hurts those who haven’t been in the workforce for 35 years
Ways to Increase Revenue

● Raise tax rate on all earners
  - Increasing rate from current 12.4 percent to 15.2 percent is projected to eliminate the long-range shortfall

● Raise tax on highest earners
  - Increase taxable maximum amount
  - Some tax on all earnings above the maximum
Ways to Increase Revenue (continued)

- Tax employer group health insurance premiums
  - Affects only middle class if taxable maximum remains the same

- Tax certain investment income
  - Consistent with ACA approach?

- Maintain larger trust fund reserves
  - Added interest/yield can lower needed taxes
Your Solution?

- Soon, you will hear more details about these and other policy options
- Then you will come up with your own solution during the afternoon exercise
For More Information, Go To:
http://www.ssa.gov/OACT

There you will find:

- The 2018 Trustees Report and all prior reports
- Detailed single-year tables for recent reports
- Our estimates for comprehensive proposals
- Our estimates for individual policy provisions
- Actuarial notes, including replacement rates
- Actuarial studies
- Extensive databases
- Congressional testimonies
- Presentations by OCACT employees