Social Security Actuarial Status
The 2014 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
July 28, 2014
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
Results for the 2014 OASDI Trustees Report

- Actuarial deficit up from 2.72 to 2.88 percent of payroll
  - Adding 2088 increases deficit by 0.06 percent of payroll
  - All other changes and updates increase deficit by 0.10 percent
- Combined OASI-DI Trust Fund reserves depleted in 2033
  - Same as last year’s projection
  - With 77 percent still payable after depletion, 72 percent for 2088
- DI Trust Fund reserves alone become depleted in 2016
  - Same as last year’s projection
  - With 81 percent still payable after depletion, 80 percent for 2088
- Cost exceeded non-interest income starting in 2010
- Cost exceeds total income, including interest, starting in 2020 -- TF reserves grow until then
- Unfunded obligation increased from 0.9 to 1.0 percent of GDP (from $9.6 to $10.6 trillion in present value)
SOLVENCY: OASDI Trust Fund Reserve Depletion 2033 — Same as last year

- Reserve depletion date varied from 2029 to 2042 in last 20 reports (1995-2014)
- DI Trust Fund — reserve depletion in 2016, same as last year
  - 2016 was projected in the 1995 Trustees Report after the 1994 tax-rate reallocation
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
Annual deficit in 2087: 4.85 percent of payroll — 0.08 percent higher than last year

Cost: Scheduled and payable benefits
Cost: Scheduled but not fully payable benefits
Income
Expenditures: Payable benefits = income after trust fund exhaustion in 2033

Payable benefits as percent of scheduled benefits:
2014-32: 100%
2033: 77%
2088: 72%
SUSTAINABILITY: Cost as Percent of GDP
Rises from a 4.2-percent average in 1990-2008, to a peak of 6.2% in 2037, then drops to 6.0% for 2050, back to 6.1% by 2087
Following the Ratio of Beneficiaries per 100 Workers

[Graph showing the ratio of beneficiaries per 100 workers over calendar years from 1980 to 2090, with historical and estimated data for different scenarios labeled I, II, III.]
Projected OASDI Total Income Exceeds Annual Cost until 2020
For a *Unified Budget* perspective (where trust fund interest is scored to cancel): non-interest income is less than cost starting in 2010
Reasons for Change in 2014 Trustees Report

Actuarial Balance—Net Change of -0.16 percent of payroll

Valuation Period—Changes the actuarial balance by -0.06 percent of payroll

Legislation etc.—Changes actuarial balance by -0.01 percent of payroll

• Expansion of benefits to same-sex married couples (-0.01 percent)

Demographic Data/Assumptions—Changes actuarial balance by +0.04 percent of payroll

• Fertility data lower than expected in 2013 (-0.01 percent)
• New historical divorce data, shift in ages at divorce (+0.02 percent)
• Revised historical population data, smoothing of married population (+0.03 percent)

Economic Data/Assumptions—Changes the actuarial balance by -0.10 percent of payroll

• Lower ultimate average increase in Consumer Price Index (CPI-W) (-0.02 percent)
• Starting values and lower ultimate level of output and taxable earnings (-0.08 percent)

Disability Assumptions—Changes the actuarial balance by +0.02 percent of payroll

• Slightly lower near term incidence rates and updated starting levels of beneficiaries and benefit levels

Methods and Programmatic Assumptions

• Labor force model alignment, and other changes

-0.05 percent of payroll
Lower Unemployment Rate 2013-16: Contributed to slightly fewer disabled workers
Slightly Fewer Disabled Worker Beneficiaries Lower
Unemployment, Applications, and Allowance Rates

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

6,000 7,000 8,000 9,000 10,000

2008 TR (no recession)
2014 TR
2013 TR
Higher Average Real U.S. Earnings in 2012-16: Revised data

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

2010 TR  2012 TR  2013 TR  2014 TR

2% higher for 2013 in the 2014TR
Slightly Lower GDP after 2014:
Modest 1-percent permanent reduction in level of output

GDP Billions of 2005$
Methods Improvements/New Program Data in 2014 Trustees Report

Changes the actuarial balance by **-0.05 percent of payroll**

1) Improve alignment of labor force participation rates with future trends in marital status and longevity (-0.05 percent)

2) Disaggregate “other immigrant” population: implications for immigration flows and earnings and employment levels. (between -0.005 and +0.005 percent)

3) Taxation of benefits: increase the ultimate projected ratio of income from taxation of benefits to total benefits. (+0.02 percent)

4) Update programmatic data, including changes in projected OASI beneficiaries and benefit levels over the first 10 years of the projection period. (-0.02 percent)
Uncertainty Illustrations

**Alternatives**: expanded by reversing CPI assumption;

**Stochastic**: narrowed by immigration model change

*unrealistically narrow due to lack of central tendency variation*

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**2013TR OASDI Annual Cost Rate**

- Low-Cost
- Intermediate
- High-Cost
- Stochastic 2.5%
- Stochastic 50%
- Stochastic 97.5%

**2014TR OASDI Annual Cost Rate**

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Stochastic simulations unrealistically narrow—Example from Actuarial Study 117. Range of cumulative average values for real average wage growth compresses to zero for long periods.

Figure IV.12—Real Average Covered Wage, Calendar Years 1968-2078
Replacement Rates removed from the 2014TR
But OCACT will continue to provide in annual Actuarial Note

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

Low Earner ($21,054 for 2014; 25th percentile)
Medium Earner ($46,787 for 2014; 56th percentile)
High Earner ($74,859 for 2014; 81st percentile)
Max Earner ($117,000 for 2014; 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

Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html
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

Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html
See also New Actuarial Note #155 Comparing Different Replacement Rate Approaches

Source: Actuarial Note #155 at www.ssa.gov/oact/NOTES/pdf_notes/note155.pdf
Reference in 2014TR to “Budget Perspective” —Reference to Medicare TR

• **Caveat and Warning to the Reader---**

Assumptions **inconsistent** with trust fund reality, and with the law

1) After reserves deplete, $10.6 trillion unfunded obligation cannot be paid under the law
   - *Budget deems these “expenditures” creating public 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 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*
Actual Trust Fund Operations Have No Effect Total Federal Debt, and No Net Effect on Publicly-Held Debt

Social Security Trust Fund Effect on Federal Debt Measures 1957-2085

- Publicly-Held Debt under Current Law
- Publicly-Held Debt under "Budget Scoring Convention"
- Total Federal Debt

Under "Budget Scoring Convention": Benefits Not Payable under Current Law Are Presumed to Add to Publicly-Held Debt

Trust Fund Reserves Hold Down Publicly-Held Debt—All Else Equal

Source: Intermediate projections in the 2010 OASDI Trustees Report
How to Fix Social Security Long-Term

• First: OASI help DI soon—*reallocate*
• Second: make choices for 2033-2088
  – Raise scheduled revenue by about 33%: increase revenue from 4.6 to 6.0% of GDP
  – Reduce scheduled benefits by about 25%: lower benefits to what 4.6% of GDP will buy
  – 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
Ways to Lower Cost

• Lower benefits for retirees—not disabled?
  – Increase normal retirement age
  – Can exempt long-career low earners

• Lower benefits mainly for high earners?
  – Reduce PIA above some level
  – Like progressive indexing

• Lower benefits mainly for the oldest old?
  – Reduce the COLA
Ways to Increase Revenue

• 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

• Maintain larger trust fund reserves?
  – Added interest can lower needed taxes
For More Information Go To----
http://www.ssa.gov/oact/pubs.html

• 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 data bases
  – Past Congressional testimonies