Social Security Actuarial Status
The 2015 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 22, 2015
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 (1 year later than last year)
  o Reserve depletion date varied from 2029 to 2042 in reports since 1995 (1995-2015)
  o DI Trust Fund — reserve depletion in 2016, same as last year
    o 2016 was projected in the 1995 Trustees Report after the 1994 tax-rate reallocation
DI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

- 81% of scheduled benefits still payable at trust fund reserve depletion
- Annual deficit in 2089: 0.41 percent of payroll — 0.04 percent lower than last year

**Cost:** Scheduled and payable benefits

**Cost:** Scheduled but not fully payable benefits

**Expenditures:** Payable benefits = income after trust fund exhaustion in 2016

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>Income</th>
<th>Payable benefits as percent of scheduled benefits:</th>
<th>Expenditures</th>
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</thead>
<tbody>
<tr>
<td>2014-15:</td>
<td></td>
<td>100%</td>
<td></td>
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<tr>
<td>2016:</td>
<td></td>
<td>81%</td>
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<td>2089:</td>
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<td>81%</td>
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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 2089: 4.65 percent of payroll — 0.30 percent lower than last year

Payable benefits as percent of scheduled benefits:
- 2014-33: 100%
- 2034: 79%
- 2089: 73%

**Cost:** Scheduled and payable benefits

**Cost:** Scheduled but not fully payable benefits

**Expenditures:** Payable benefits = income after trust fund exhaustion in 2034
SUSTAINABILITY: Cost as Percent of GDP
Rises from a 4.2-percent average in 1990-2008, to 6.0% by 2035, then averages a little under 6.1% through 2089.
Following the Ratio of Beneficiaries per 100 Workers
Aging (change in age distribution) *mainly due to drop in birth rates*

Aged Dependency Ratio (Population 65+/20-64) 2015 TR

- Actual and TR Intermediate
- TFR remain at 3.0 after 1964
- TFR remain at 3.3 after 1964
Lower Unemployment Rate 2013-16: Contributed to slightly fewer disabled workers
Slightly Fewer Disabled Worker Beneficiaries 2014 - 2018
Lower Applications and Awards; Offset by Reducing ALJ Backlog Faster

Disabled Worker Beneficiaries
In Current Payment Status at End of Year (in thousands)
Slightly faster growth in Average Real U.S. Earnings
Mortality Experience
Comparison of recent data and near-term projections

Age-Sex-Adjusted Death Rates
(Total, All Ages)

- 2014TR
- 2015TR
- Actual
Mortality Experience

Comparison of recent data and near-term projections

Age-Sex-Adjusted Death Rates
(Ages 65 and Older)
Reasons for Change in 2015 Trustees Report

Actuarial Balance—Net Change of +0.20 percent of payroll

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

Legislation etc.—Changes actuarial balance by +0.02 percent of payroll

• Presidential immigration actions announced Nov. 2014 (+0.02 percent)

Demographic Data/Assumptions—Changes actuarial balance by -0.03 percent of payroll

• Lower than expected fertility data in 2013; revisions in transition to the ultimate (-0.04 percent)
• Higher than expected deaths for those over 65 in 2012 (+0.02 percent)
• Revised historical immigration data (-0.01 percent)

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

• Increase ultimate real wage differential (slower growth in employer-sponsored group health insurance premiums) (+0.06 percent)
• Starting values and near term economic assumptions (+0.04 percent)

Methods and Programmatic Assumptions

• Methodological improvements in projected benefits for newly entitled worker beneficiaries and other improvements and updates.
Methods Improvements/New Program Data in 2015 Trustees Report

Changes the actuarial balance by +0.17 percent of payroll

1) Improve consistency of projected age-patterns of career earnings for worker beneficiaries newly entitled after 2008 with most recent experience (+0.10 percent)

2) Improve the estimation of the insured rate for immigrants with temporary visa status. (+0.03 percent)

3) Align with updated experience for revenue from Taxation of benefits produced by the Office of Tax Analysis at Treasury. (+0.03 percent)

4) Update for recent programmatic data, including beneficiaries and benefit levels, plus other small methodological improvements. (net of +0.01 percent)
Uncertainty Illustrations
Unrealistically narrow stochastic results due to lack of central tendency variation

![2015TR OASDI Annual Cost Rate Diagram]
Replacement Rates based on the 2015TR

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

Low Earner ($21,519 for 2015; 25th percentile)
Medium Earner ($47,820 for 2015; 57th percentile)
High Earner ($76,512 for 2015; 82nd percentile)
Max Earner ($118,500 for 2015; 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?

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

- Low Earner ($21,519 in 2015; 25th percentile)
- Medium Earner ($47,820 in 2015; 57th percentile)
- High Earner ($76,512 in 2015; 82nd percentile)
- Max Earner ($118,500 in 2015; 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 2015 TR** *(also 2014 TR)*

1) After reserves deplete, $10.7 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 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 (2015 Trustees Projections)
- Less OASDI&HI Unfunded Obligations (2015 Trustees Projections)
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 soon for DI (before 2017)
  – Add revenue and/or lower cost for OASDI
    • Comprehensive changes implemented by 2034
How to Fix Social Security Long-Term

• **First:** Help DI soon—*reallocate tax rate?*

• **Second:** make choices addressing 2034-2089
  – 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
  – 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 (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

• Lower benefits mainly for the oldest old?
  – Reduce the COLA
  – Some say increase it with the CPI-E (based on purchases of consumers over age 62)
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/

• 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
  – Congressional testimonies
Additional Information

Disability Insurance Experience
Changing age distribution over last 20 and next 20 years mainly due to Macro Aging—*permanent level shifts*
DI cost as percent of GDP has peaked, but scheduled income is too low

**DI Cost and Income as Percent of GDP 1975-2090**

*2015 Trustees Report Intermediate Assumptions*

- Baby Boomers reach ages 25-44 in 1990
- Baby Boomers reach ages 45-64 in 2010

*Note: Recession raised DI Cost/GDP by 15% for 2010*
Solvency of the DI Trust Fund; reserve depletion in 2016
2008 recession offset “new economy”; cycles still happen.

"New Economy"
irrational exuberance

2008 Recession
back to reality
How DI Compares to other Countries—
Disabled Worker Gross Prevalence: Burkhauser/Daly 2014

Figure 1 Growth in disability recipiency across countries.
Most of the Recession Effect Is from Less GDP, Not More DI Cost

Change in DI Benefit Cost and in GDP Between 2008 TR and 2013 TR
Additional Disabled Worker Beneficiaries Are a Small Fraction of Reduced Employment

Changes in Disabled Worker Beneficiaries and in Covered Workers from 2008 TR to 2013 TR

- Increase in Disabled Workers
- Reduction in Covered Workers