SOCIAL SECURITY: HOW BIG IS THE FINANCING PROBLEM, AND HOW CAN WE PAY FOR WHAT WE WANT?

NASI Academy for Interns, July 22, 2010

Presented by Stephen C. Goss, Chief Actuary

Social Security Administration

What We Need to Know

- (1) System
  - What it is, what it does, how it works
- (2) Solvency
  - Benefits payable in full on a timely basis
- (3) Sustainability
  - What Americans want---cost versus benefits
- (4) Solutions
  - Options to balance income and outgo

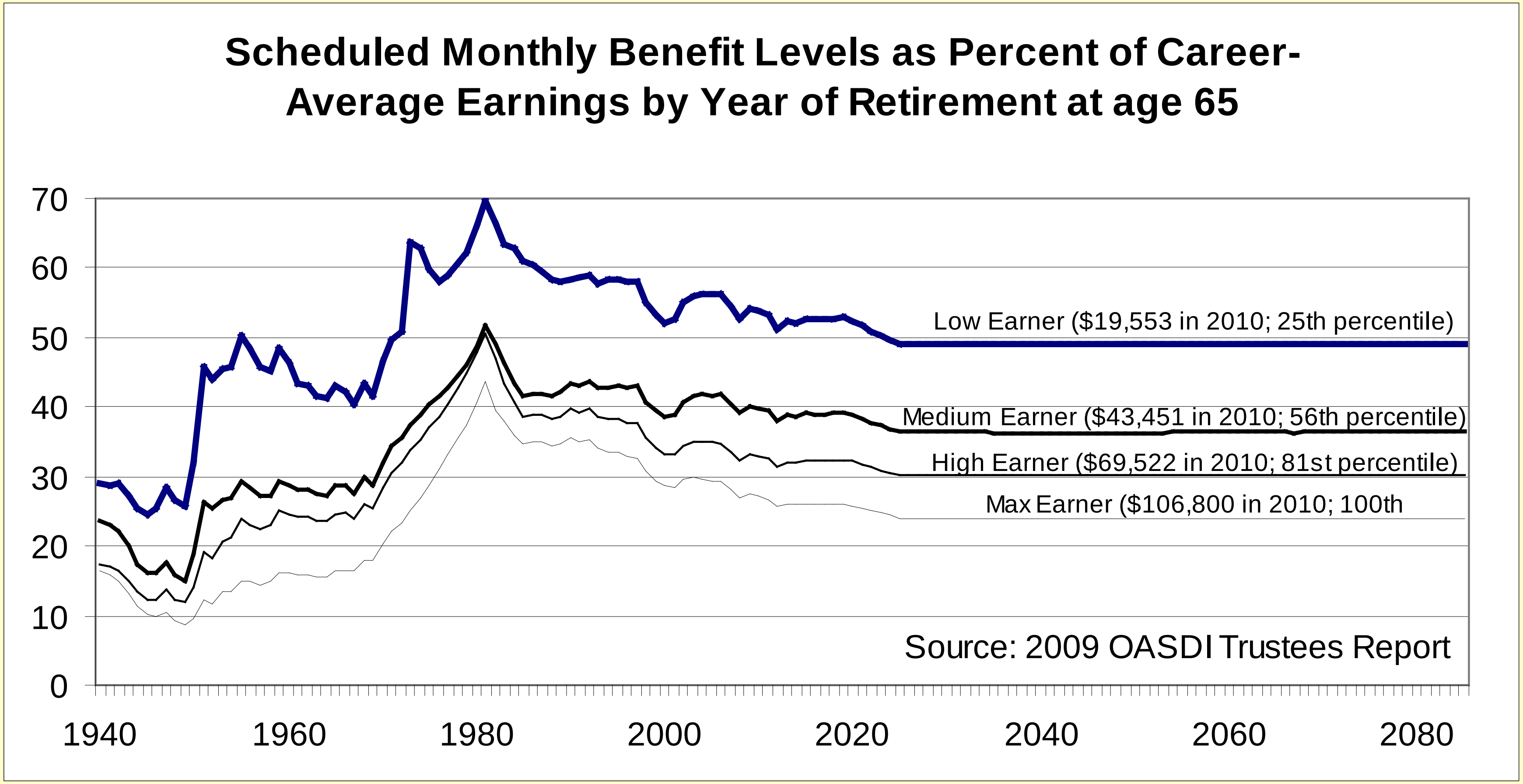
(1) System: What it is

- Retirement and survivor benefits start 1940
- Eligible age lowered 65 to 62 in 1957F/1962M
  - Full retirement age rises 65 to 67 by 2022
- Disability benefits started in 1957

- Benefits rise with average wage *across generations* --- but with CPI after eligible
- Payroll taxes roughly pay-as-you go
  - Rose from 2% to 12.4% as system matured

(1) System: What it is

Basic level of monthly benefits for aged, disabled, survivors

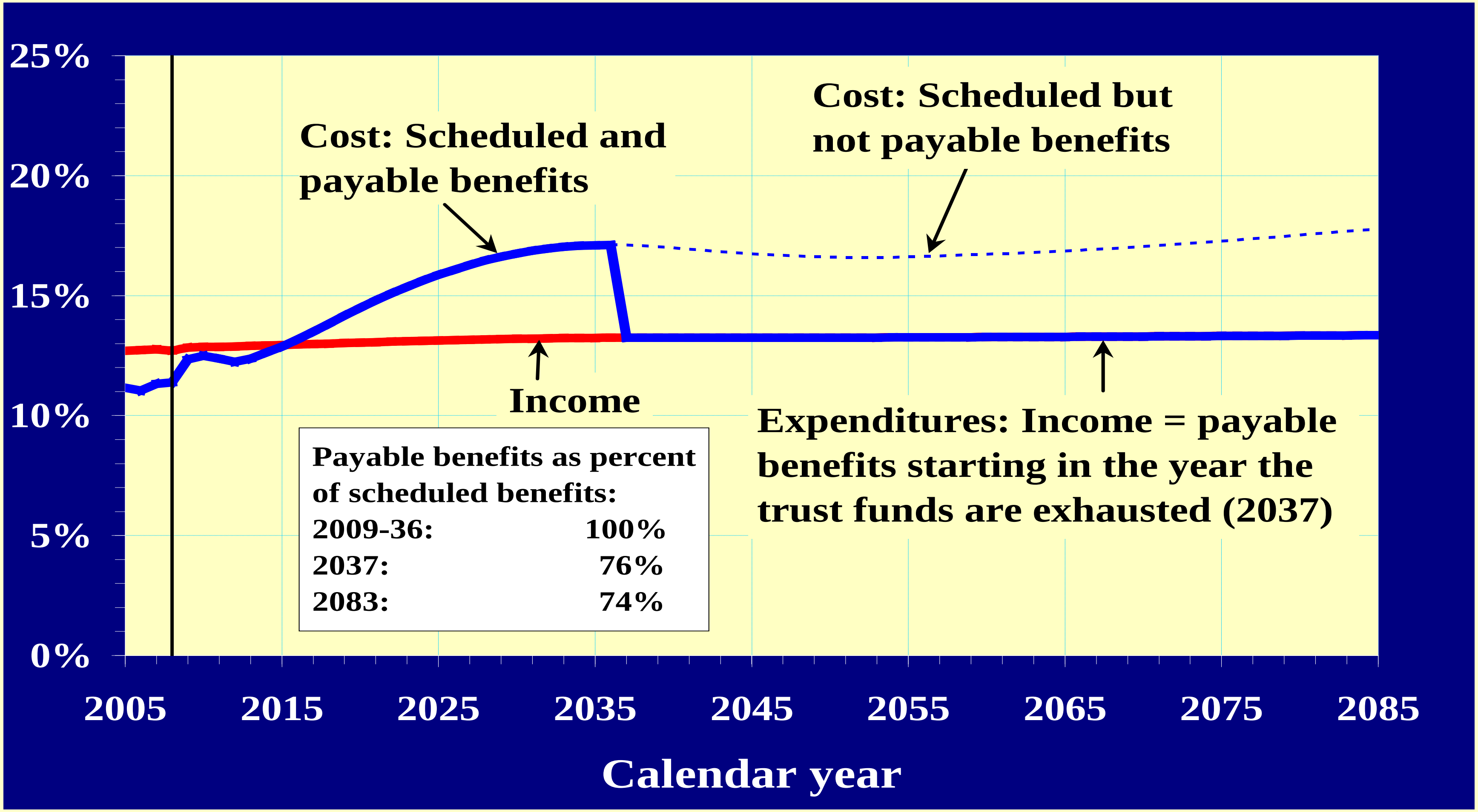


(1) System: Trust Fund Financing

- OASI, DI and HI ***cannot borrow***
  - Trust Funds enforce long-term budget neutrality
  - Total spending to date cannot exceed income to date
- Current OASDI Assets (excess income) $2.5 trillion
  - Available to augment tax income when needed
  - Treasury swaps trust-fund debt for publicly-held debt
    - Total debt subject to limit not affected
- If Trust Funds Exhaust in 2037 under current law?
  - Spending is limited----NO annual budget deficit

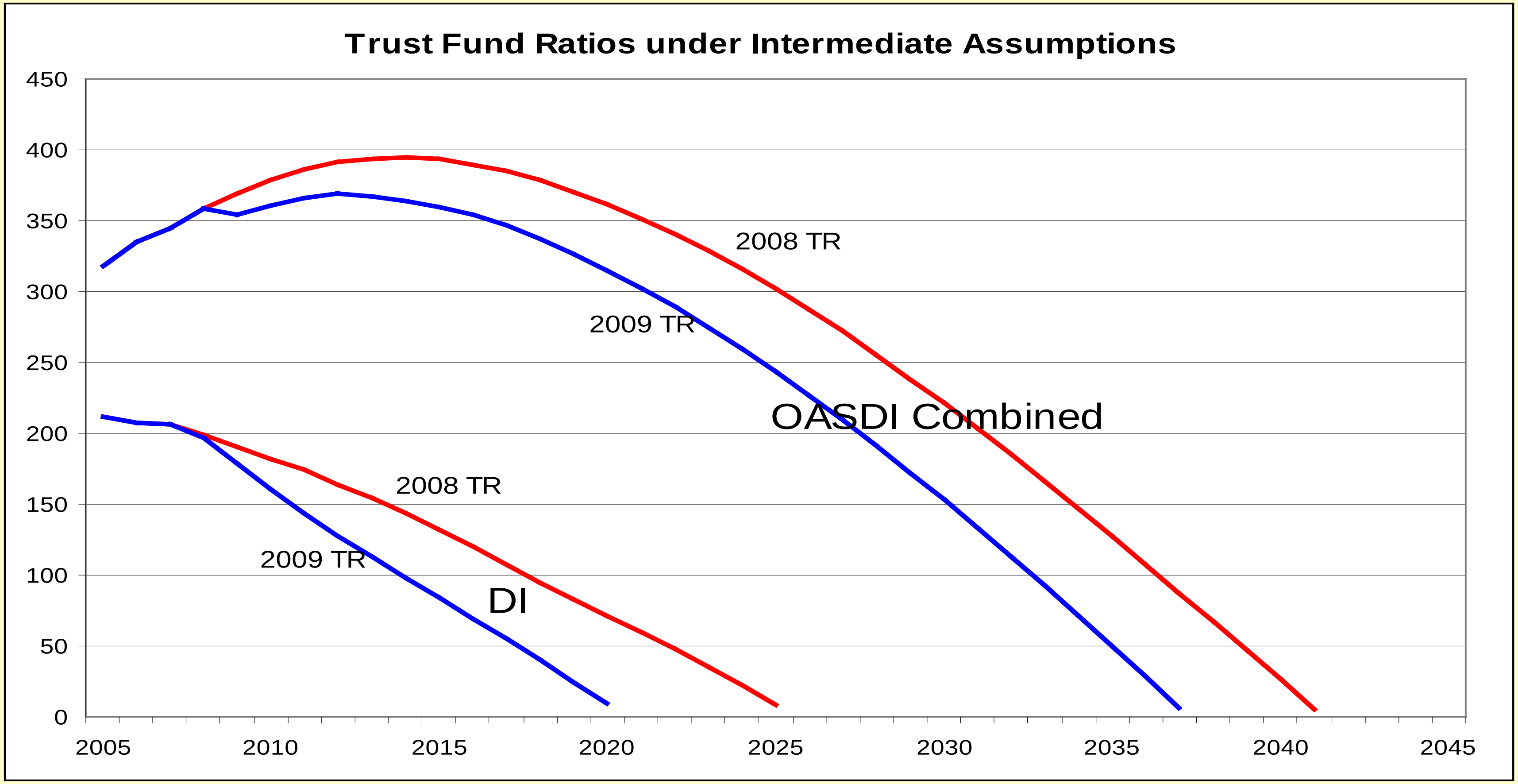
(1) System: Trust Fund Financing

Social Security Cost and Expenditures as Percent of Payroll



(2) Solvency: Ability to Pay Benefits

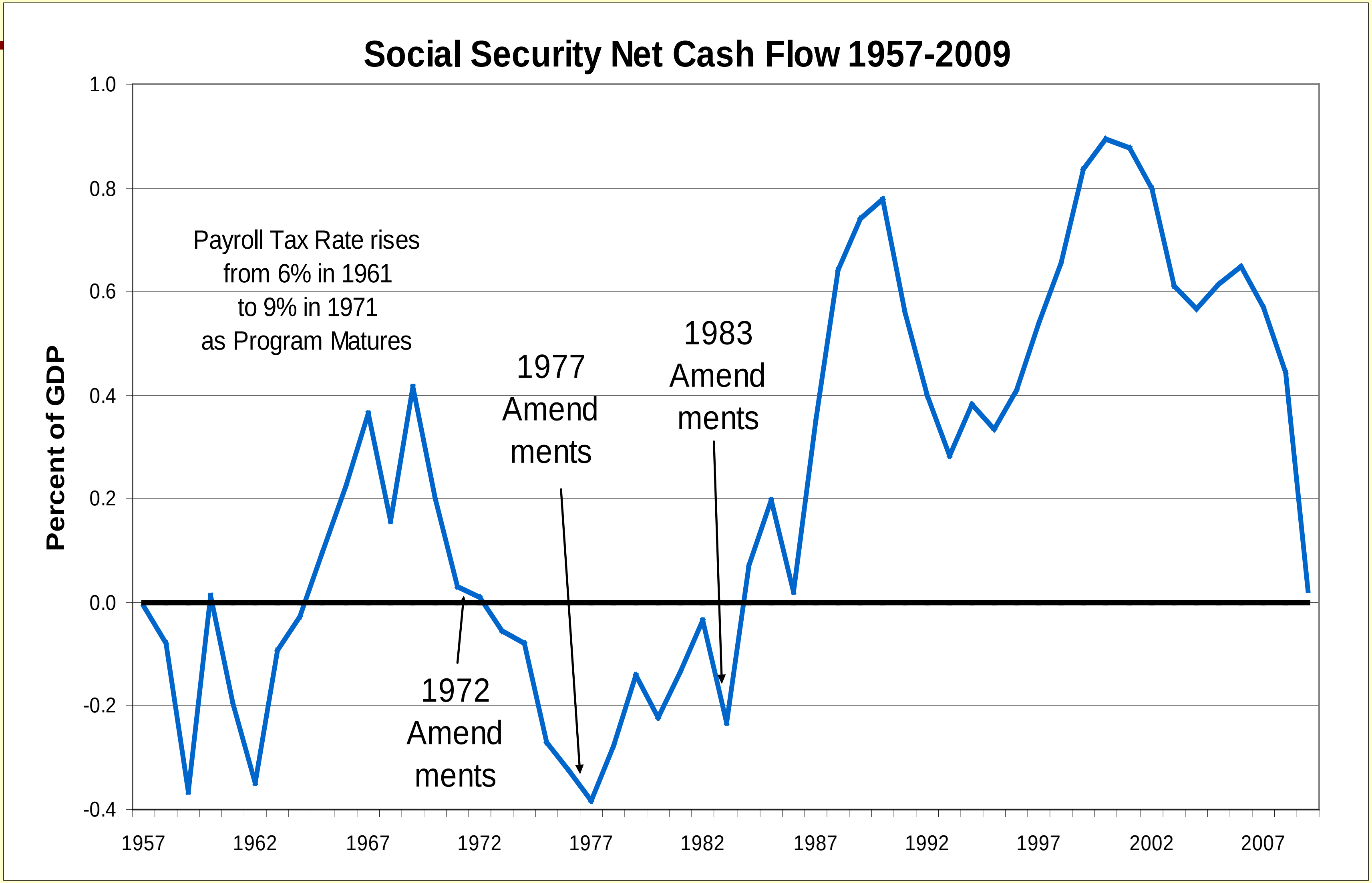
Solvent as long as Trust Funds have assets



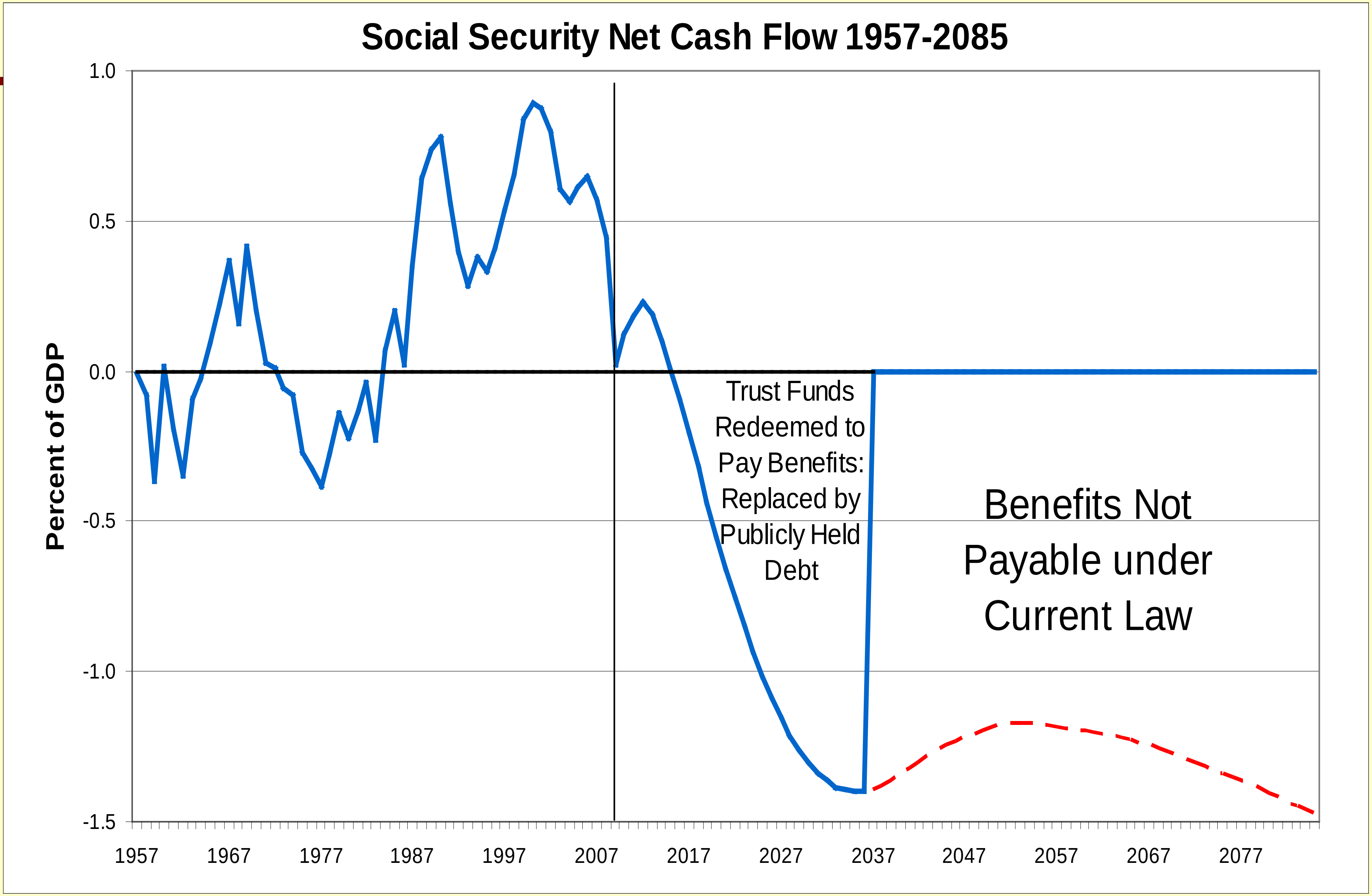
(2) Solvency: Ability to Pay Benefits

- If Assets exhaust in 2037, then by Law---
  - only 75% of scheduled benefits are payable
- Has this ever happened?????
  - NO. Trust Fund exhaustion forces action
    - » 1977 and 1983 Social Security Amendments
- Does “negative cash flow” force action?
  - Consider History

(2) Solvency: OASDI Net Cash Flow Past



(2) Solvency: OASDI Net Cash Flow Future

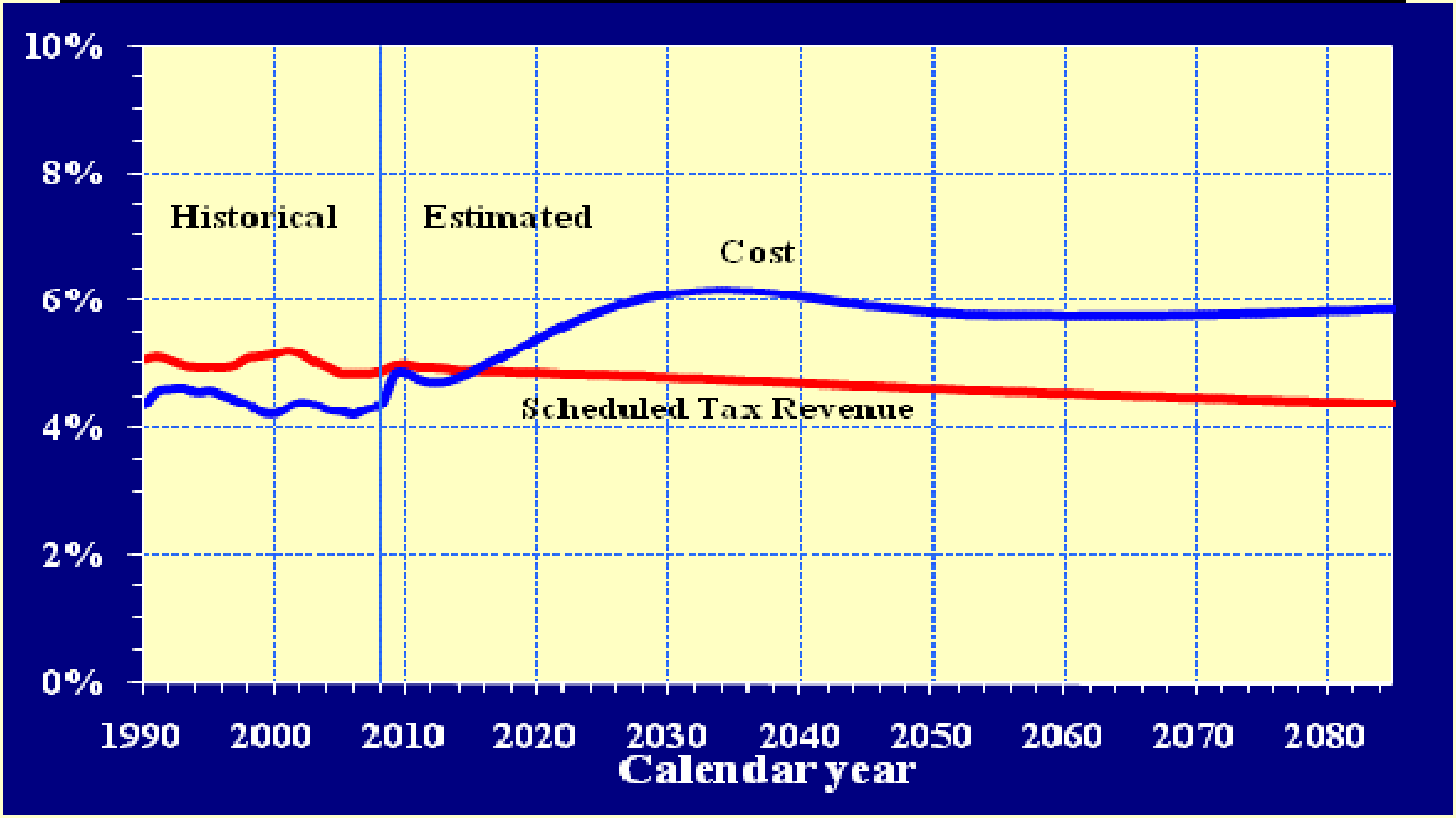


(3) Sustainability: Two Meanings

- First:
  - Clearly *scheduled* benefits NOT sustainable with *scheduled* income
- Second:
  - Current program *structure* IS sustainable with adjustments
  - Or structure can be modified
  - Sustainable is what Americans want and are willing to pay for

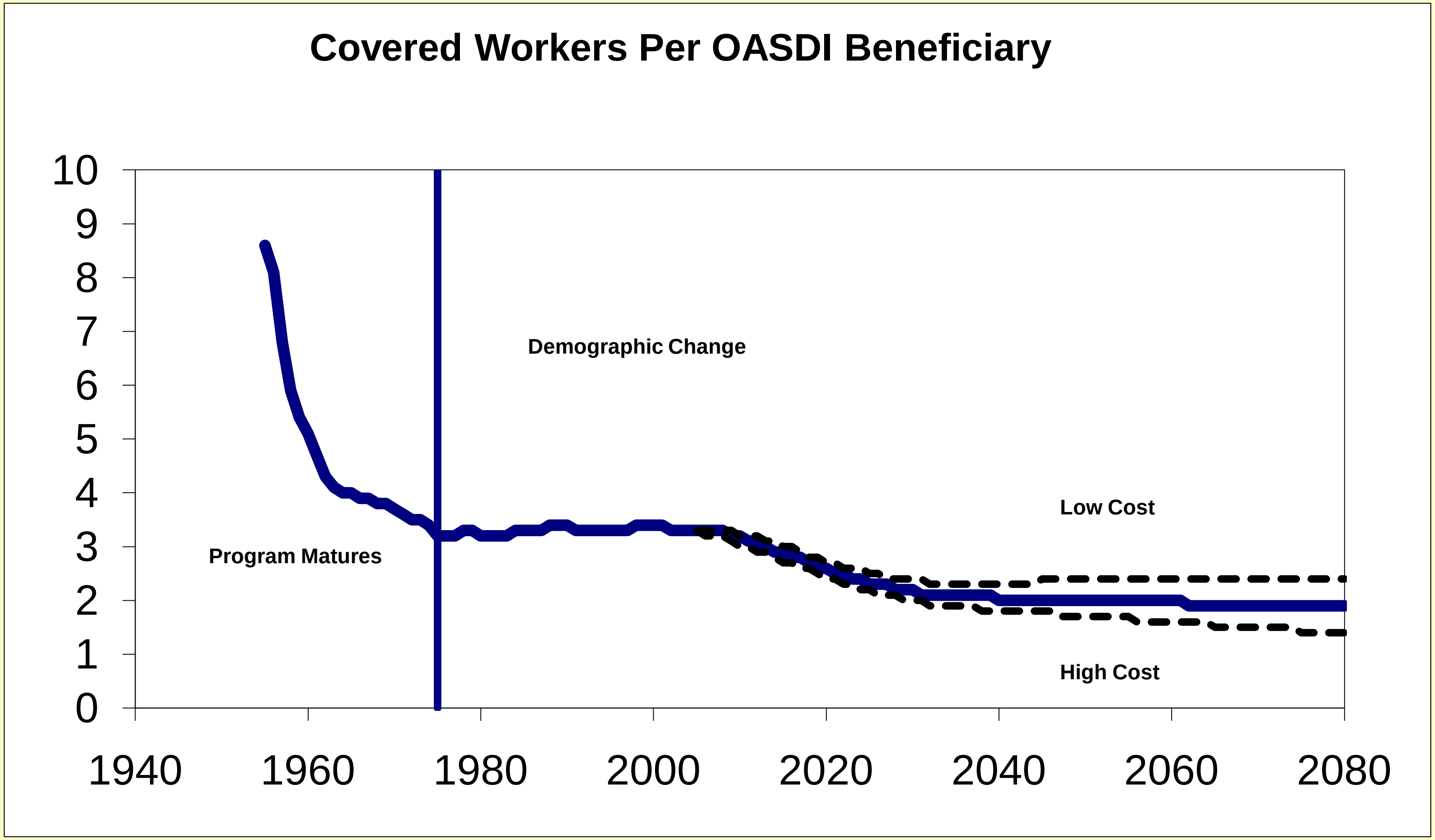
(3) Sustainability: Cost for Scheduled Benefits

Social Security Scheduled Cost as Percent of GDP



(3) Sustainability: Why has cost gone up

3.3 workers per beneficiary since 1975; just 2 after 2030

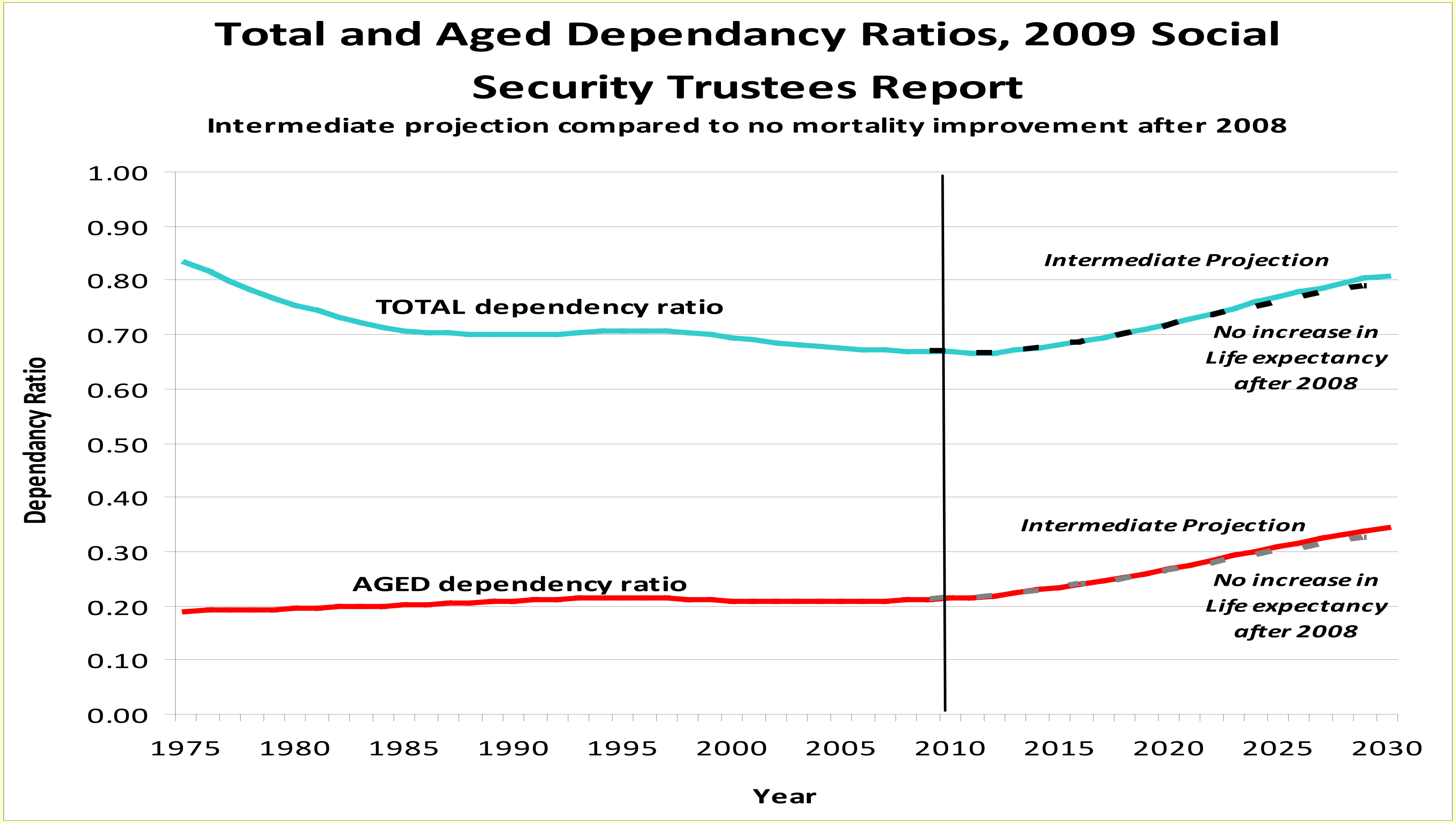


(3) Sustainability: Effect of fewer workers per beneficiary

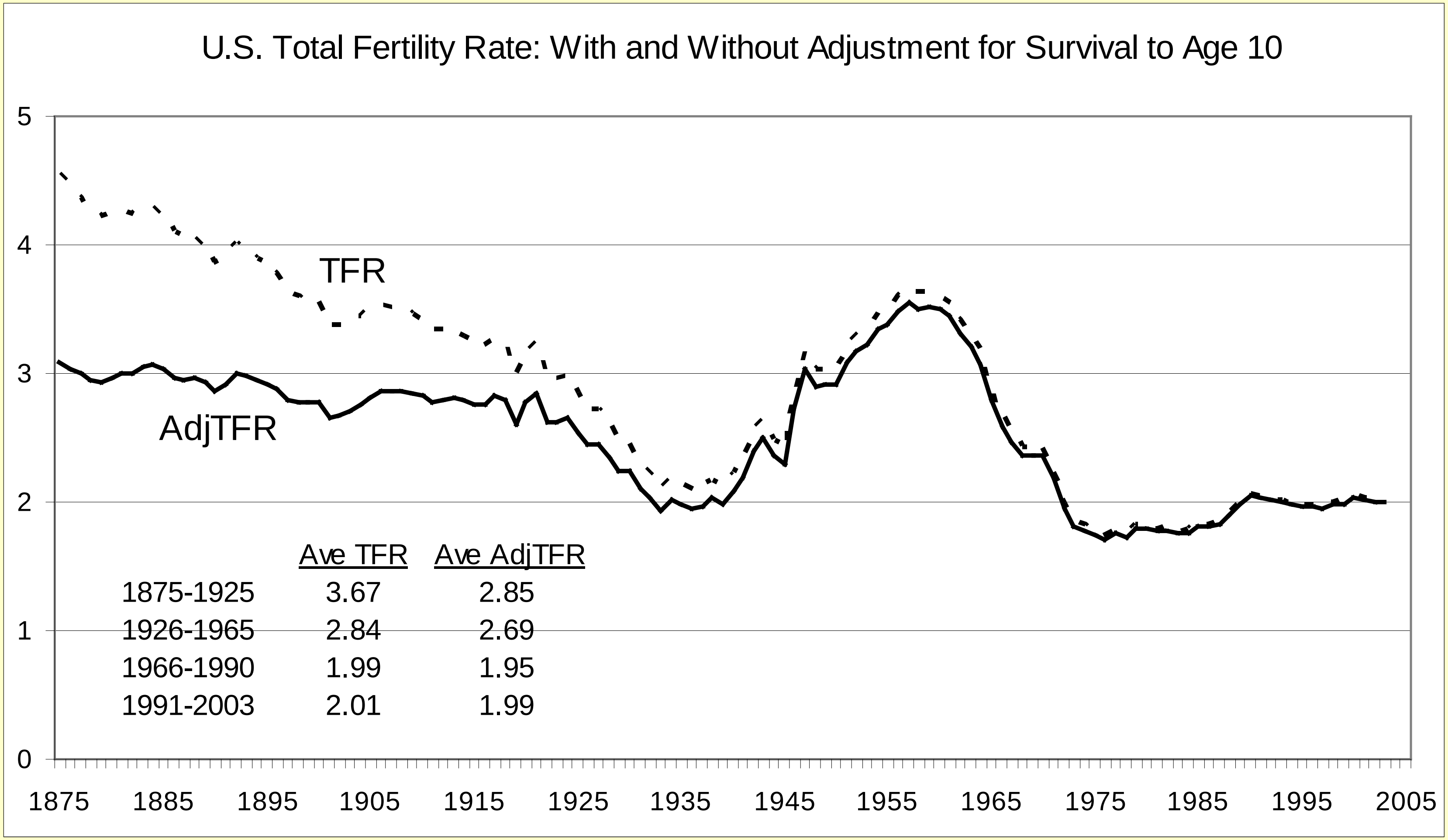
- **An Example**
  - Average Retiree benefit is about $1,000/month
  - 3.3 workers sharing pay $300 each

  - But if 2 workers share they pay $500 each
  - Or if 2 workers pay $300 each
    - Then average retiree gets $600 per month

(3) Why the Shift?: We are an "Aging" society; Not from living longer, but fewer Births

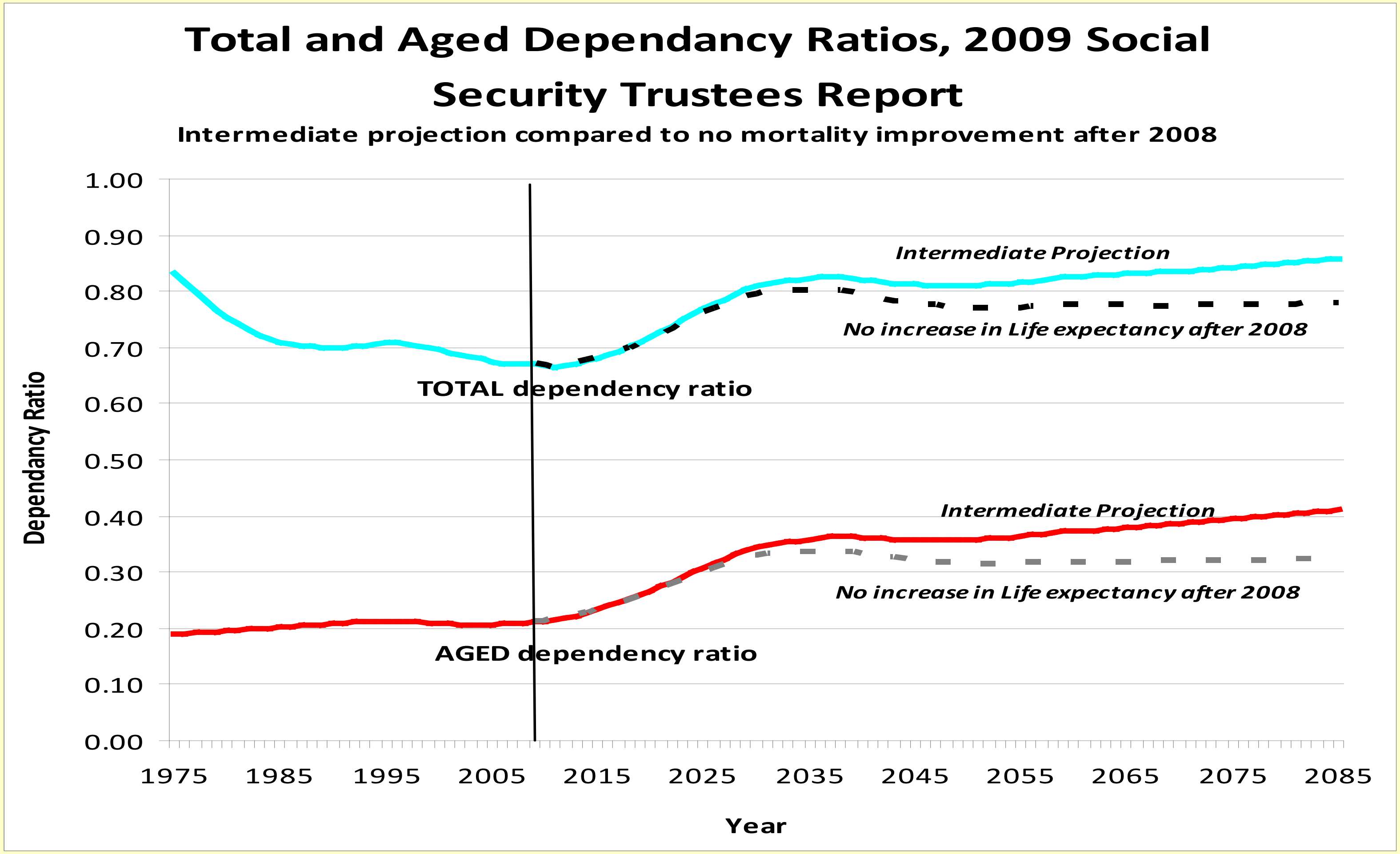


(3) Sustainability: Permanently fewer Births, shift age distribution for the future



	Ave TFR	Ave AdjTFR
1875-1925	3.67	2.85
1926-1965	2.84	2.69
1966-1990	1.99	1.95
1991-2003	2.01	1.99

(3) Sustainability: We are an "Aging" society; Longer life---gradual effect after 2030



(4) Solutions: Get Sustainable Solvency, or at least make progress

- Eliminate 2.00% Actuarial Deficit (0.7% GDP)
- Sustainable Solvency– Stable Trust Fund Ratio
  - Largely reduce the 2083 annual deficit
    - » 4.34% of payroll, 1.45% of GDP

- BUT, Sustainability is about *timing* and *trend*
  - Meet or reduce obligations when shortfalls occur
- Enact soon with changes implemented later
  - Gradual changes with time for planning

(4) Solutions: No Need to “Bend” the Cost Curve (% of GDP) for Social Security