Social Security Actuarial Status

The 2013 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
May 31, 2013

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
   – Not just cost under budget scoring convention

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News from the 2013 OASDI Trustees Report

- Actuarial deficit increased from 2.67 to 2.72 percent of payroll, as expected by adding 2087
  - Increases in the deficit due to recently enacted legislation, and to demographic and economic data and assumptions, are offset by decreases due to updated program data and methodologies
- Combined OASI-DI Trust Fund reserves depleted in 2033
  - Same as last year's projection
  - With 77 percent still payable after depletion
- DI Trust Fund reserves alone become depleted in 2016
  - Same as last year's projection
  - With 80 percent still payable after depletion
- Cost exceeded non-interest income starting in 2010
- Cost exceeds total income, including interest, starting in 2021 -- TF reserves grow until then
  - Same as last year's projection

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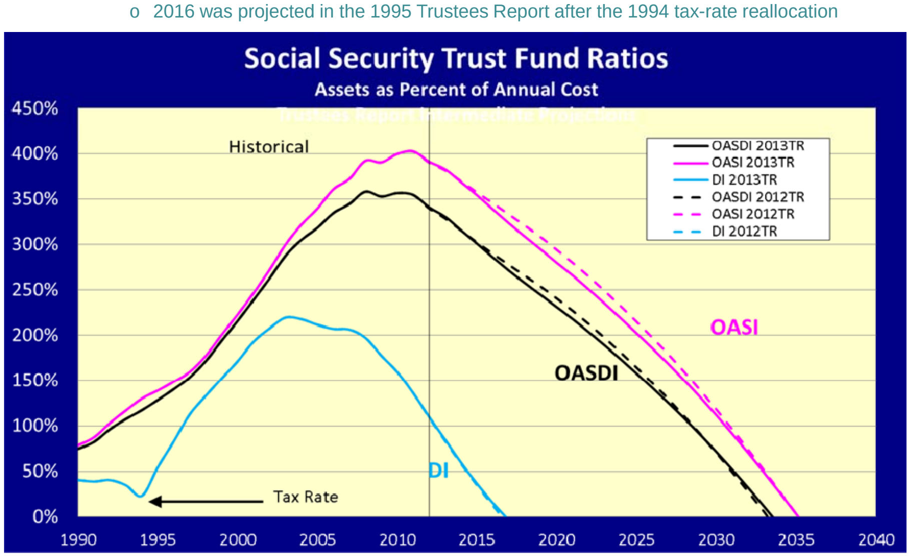
SOLVENCY: OASDI Trust Fund Reserve Depletion 2033 — Same as last year

- o Reserve depletion date varied from 2029 to 2042 in last 19 reports (1995-2013)
- 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



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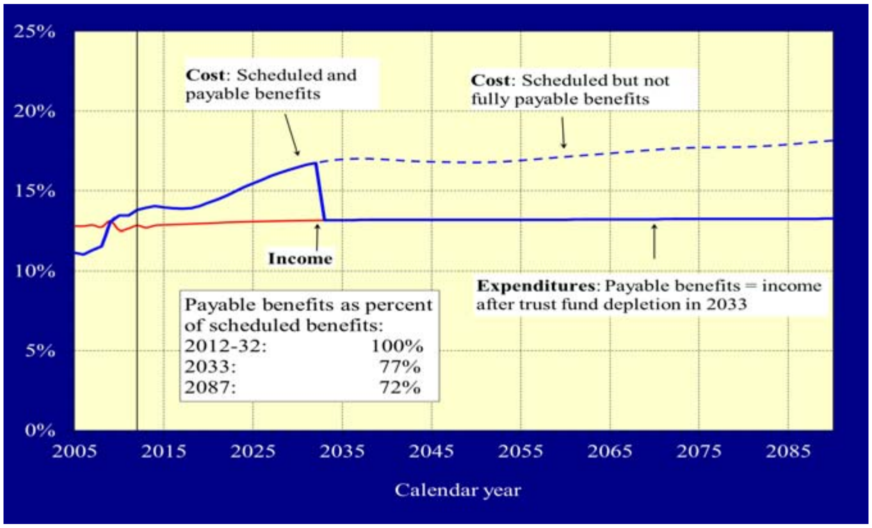
OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll
Persistent Negative Annual Cash-Flow Balance Starting in 2010

77% of scheduled benefits still payable after trust fund reserve depletion

Annual deficit in 2085: 4.67 percent of payroll — 0.20 percent higher than last year



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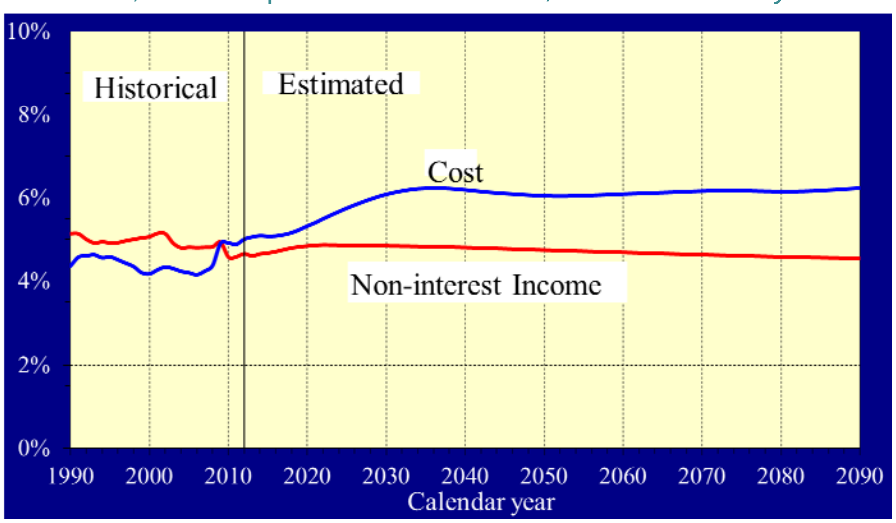
SUSTAINABILITY: Cost as Percent of GDP

Rises from a 4.4-percent average in 1990-2008, to a peak of 6.2% in 2038, then drops to 6.0% for 2050, back to 6.2% by 2087



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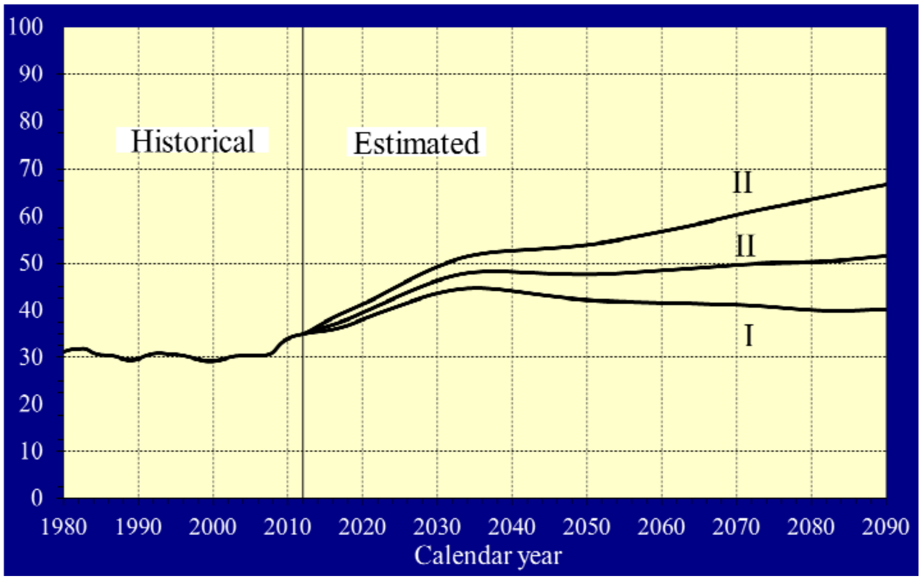
Following the Ratio of Beneficiaries per 100 Workers



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Reasons for Change in 2013 Trustees Report

Actuarial Balance—Net Change of -0.05 percent of payroll

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

Legislation—Changes actuarial balance by -0.15 percent of payroll

- Deferred Action for Childhood Arrivals increases actuarial deficit by (+0.01 percent)
  American Taxpayer Relief Act of 2012 increases actuarial deficit by (-0.15 percent)

Demographic Data/Assumptions—Changes actuarial balance by -0.17 percent of payroll

- Mortality data 3.5% lower than expected for 2009 (-0.20 percent)
- Fertility data lower than expected in 2011 and 2012 (-0.04 percent)
- Immigration ultimate assumptions and recent data (+0.01 percent)
- New historical data, new marriage rates (+0.06 percent)

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

- Real Interest rates lower in the near term (-0.05 percent)
- Starting values and near term growth rate assumptions (+0.02 percent)

Disability Assumptions—Changes the actuarial balance by +0.01 percent of payroll

- Slightly lower near term incidence rates

Methods and Programmatic Assumptions +0.35 percent of payroll

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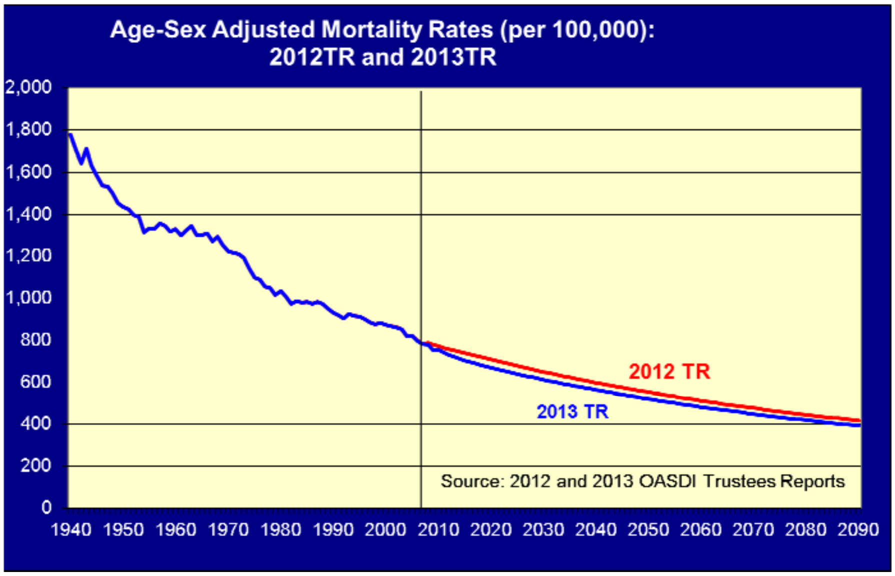
Slightly lower mortality based on recent experience



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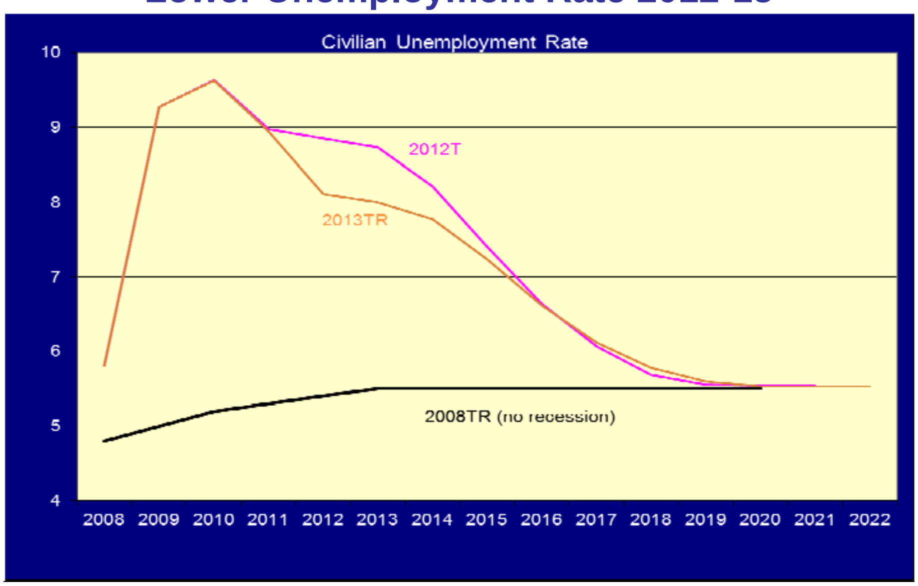
Lower Unemployment Rate 2012-15



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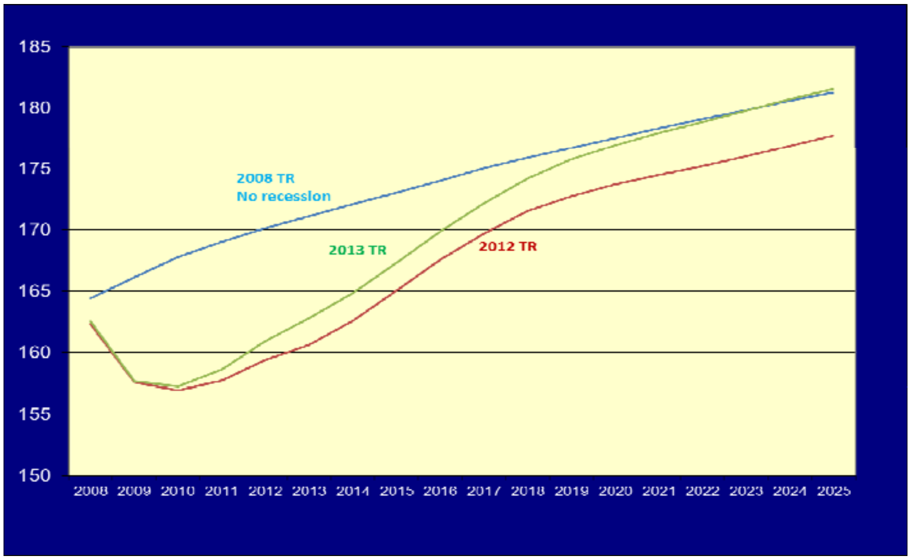
More Covered Workers (millions)



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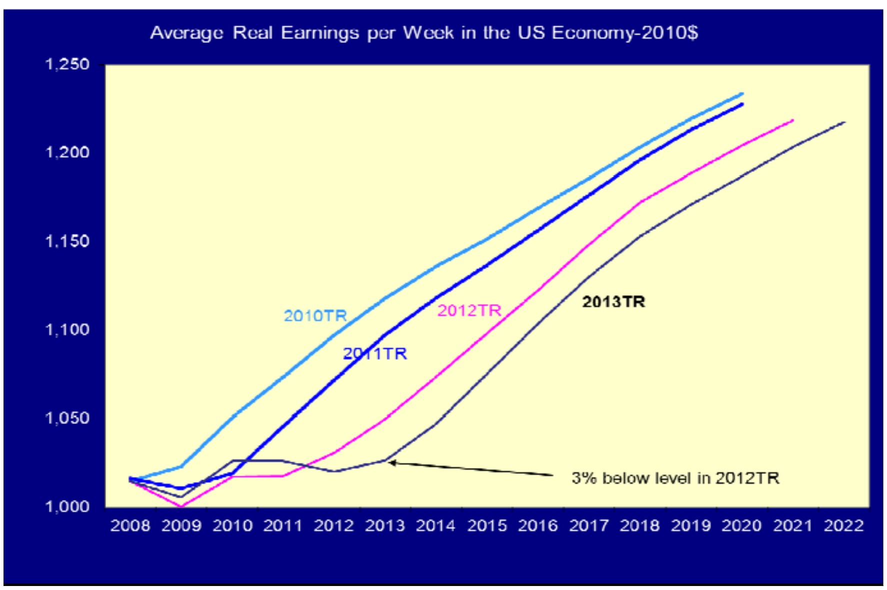
Lower *Average* Real Earnings in 2012-13, with Partial Recovery by 2021



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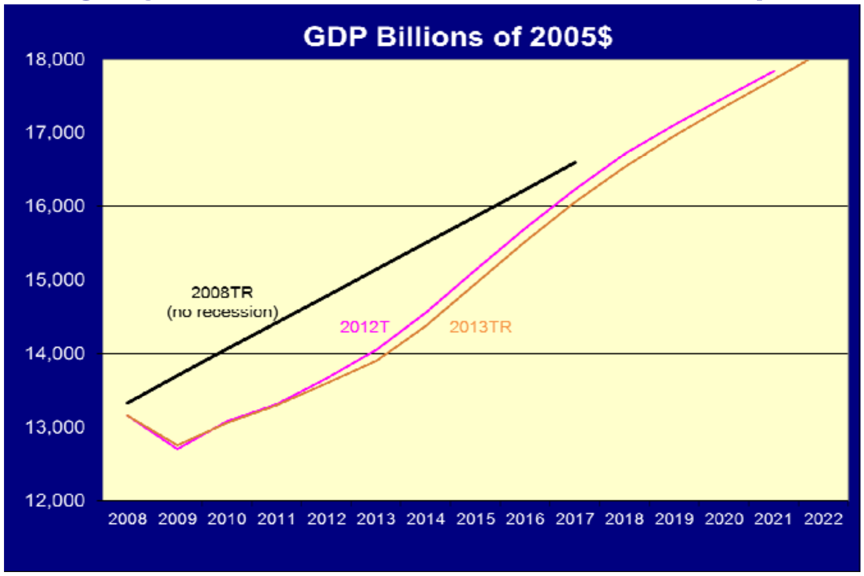
Slightly Lower GDP for 2013 Trustees Report



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Methods Improvements/New Program Data in 2013 Trustees Report

Increases the actuarial balance by **+0.35 percent of payroll**

1) Align labor force participation rates with future trends in disability, longevity, and population levels (+0.01 percent)
2) Develop age-sex specific unemployment rates based on long-term historical patterns (+0.06 percent)
3) New model insured workers & credited earnings (+0.09 percent)

   Separate by (1) citizens and LPR status and (2) other immigrants
4) New average benefit awards sample for 2008 (+0.05 percent)
5) Taxation of benefits: Model income tax brackets to increase by CPI for 10 years, by average income thereafter (+0.05 percent)
6) Update programmatic data, SR method changes for beneficiaries and benefit projection levels (+0.09 percent)

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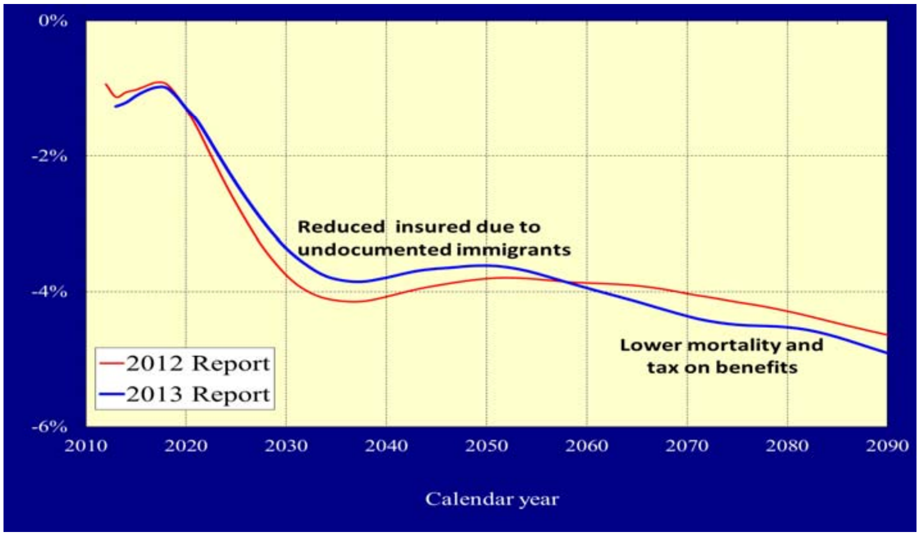
OASDI Annual *Cash-Flow* Balances Are Higher 2020-2057, and Lower Thereafter

(Non-interest income minus cost, as a percent of payroll)



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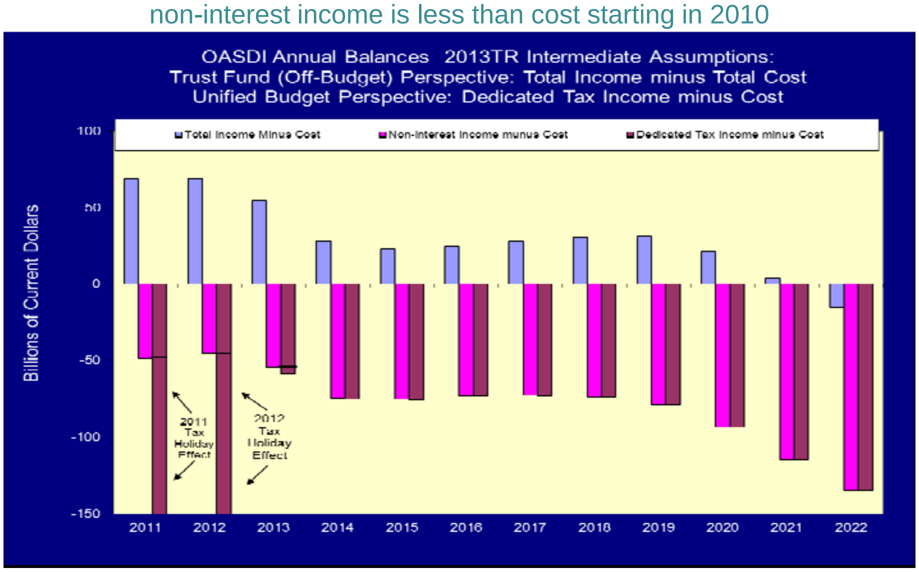
Projected OASDI Total Income Exceeds Annual Cost until 2022

For a *Unified Budget* perspective (where trust fund interest is scored to cancel): non-interest income is less than cost starting in 2010



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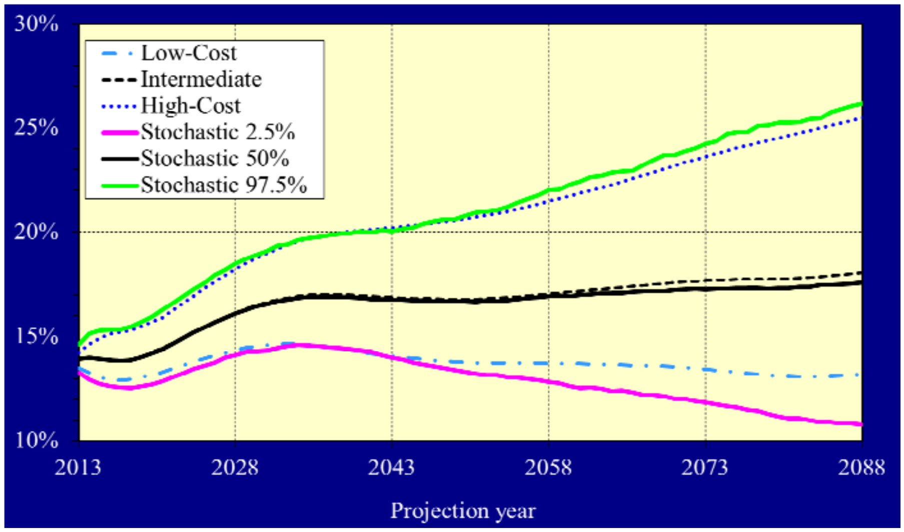
Uncertainty Illustrations

Low cost rates less optimistic but high cost rates more optimistic
Alternatives provide a narrower range than stochastic percentiles



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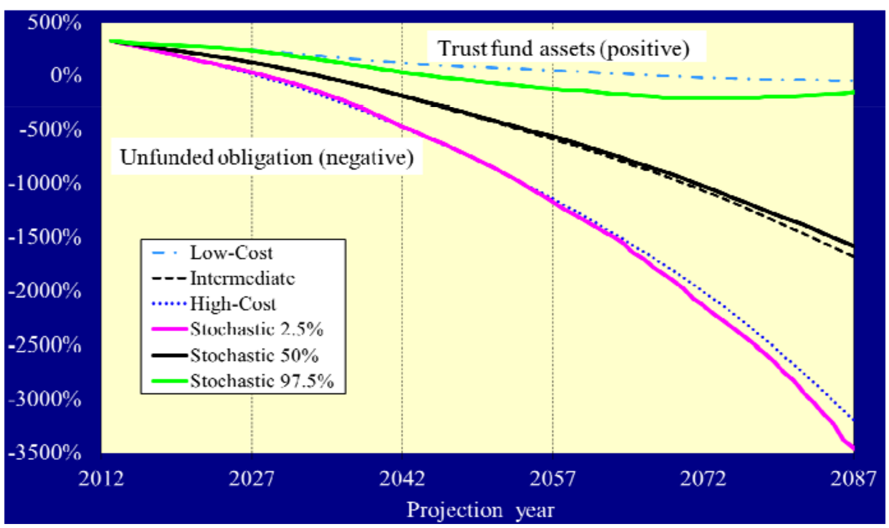
Uncertainty Illustrations

But low cost and high cost ratios are *both* more optimistic than the stochastic percentiles—because *interest rates not correlated to economy in stochastic*



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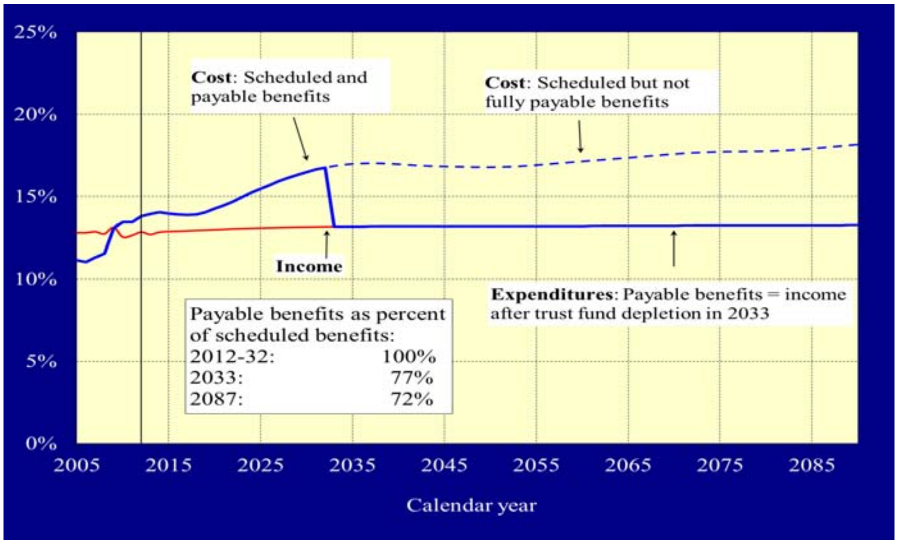
In Summary—Currently Scheduled Income is Only Enough to Pay 77 Percent of Currently Scheduled Benefits after 2032



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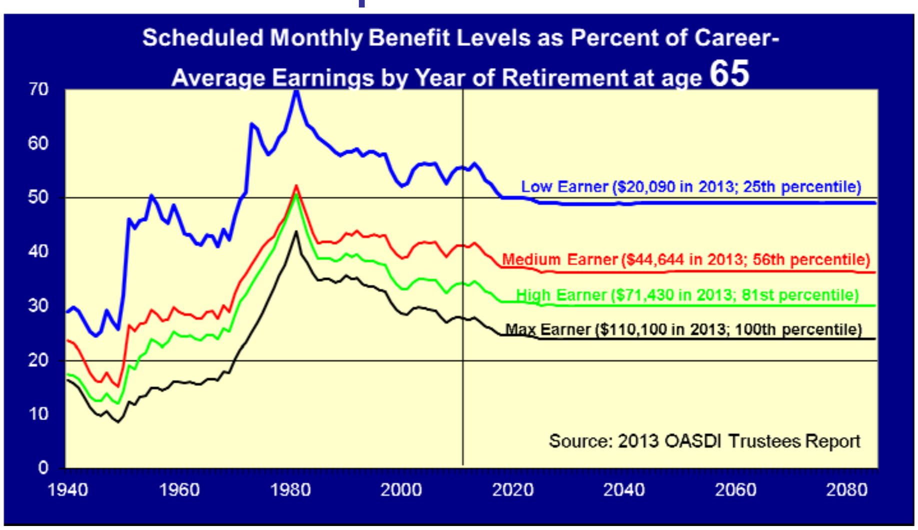
Ultimately—What Benefits at What Cost? Our Elected Representatives Will Decide



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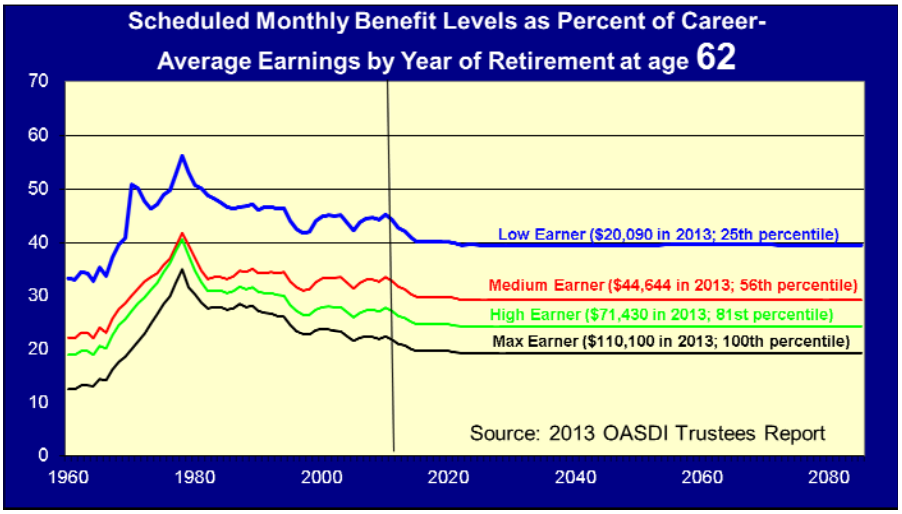
Scheduled Monthly Benefits Are Lower for the Majority Who Start at Age 62



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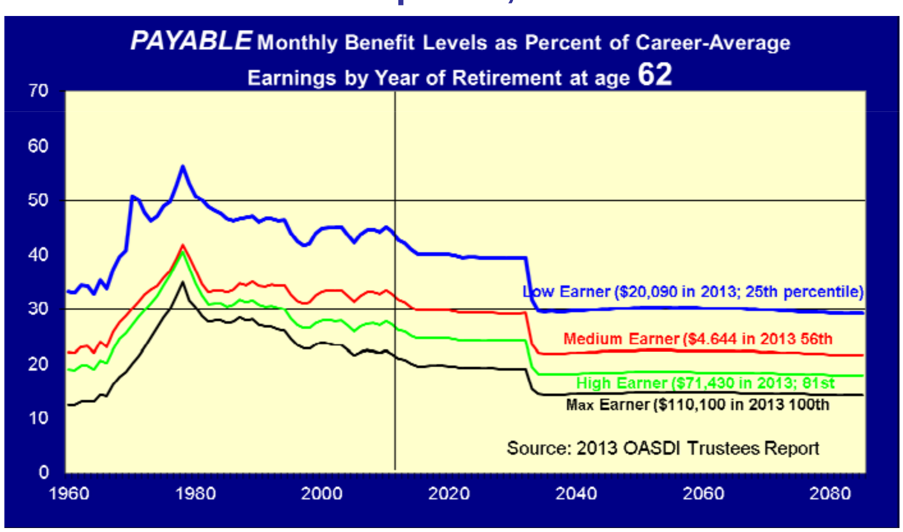
Payable Benefits Under the Law, After Trust Fund Reserves Are Depleted, Are Even Lower



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How to Fix Social Security Long-Term

- First: equalize OASI and DI soon
- Second: make choices
  - Raise scheduled revenue by about 25%: cover cost rise from 4.7 to 6.0% of GDP
  - Reduce scheduled benefits by about 20%: lower benefits to what 4.7% 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

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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

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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

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