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

NASI Academy for Interns

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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

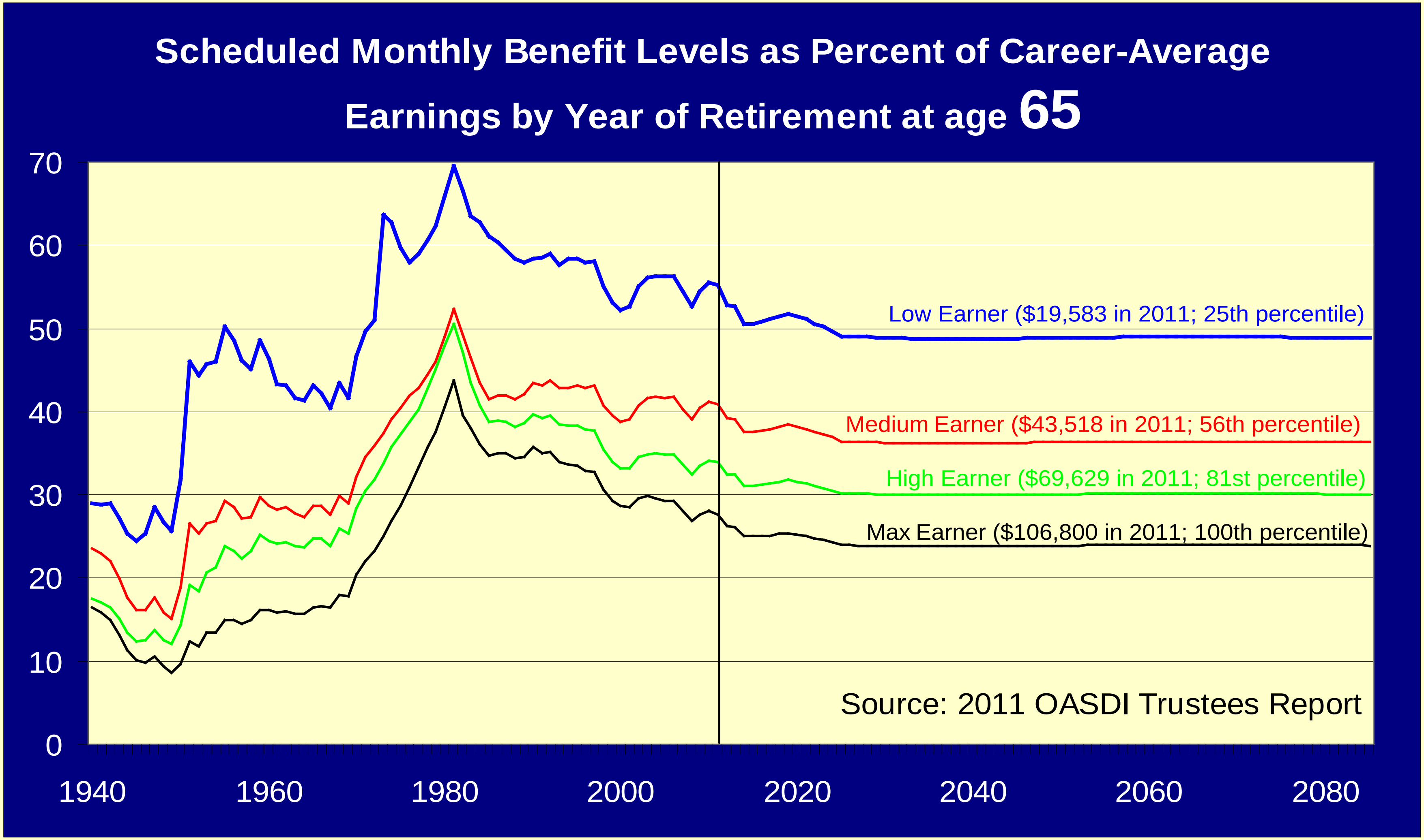
Options to balance income and outgo

(1) System: What it is

- Retirement and survivor benefits start 1940
- Eligible age lowered from 65 to 62 in 1957(F)/1962(M)
  - Full retirement age rises from 65 to 67 by 2022
- Disability benefits started in 1957
- Benefits rise with average wage *across generations* --- but with CPI after a beneficiary starts collecting
- 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

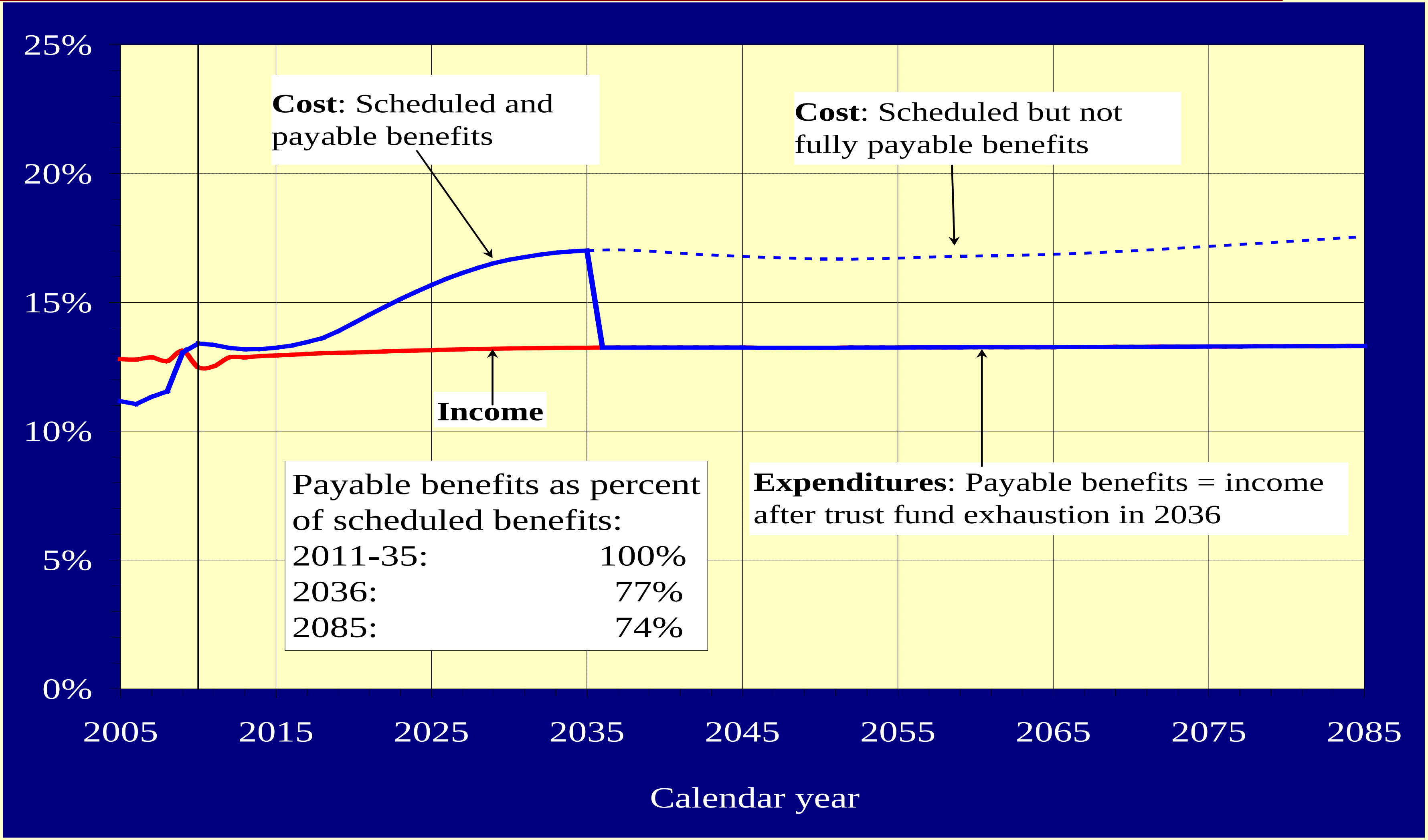


(1) System: Trust Fund Financing

- 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): $2.6 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 2036 under current law?
  - Spending is limited----NO annual budget deficit

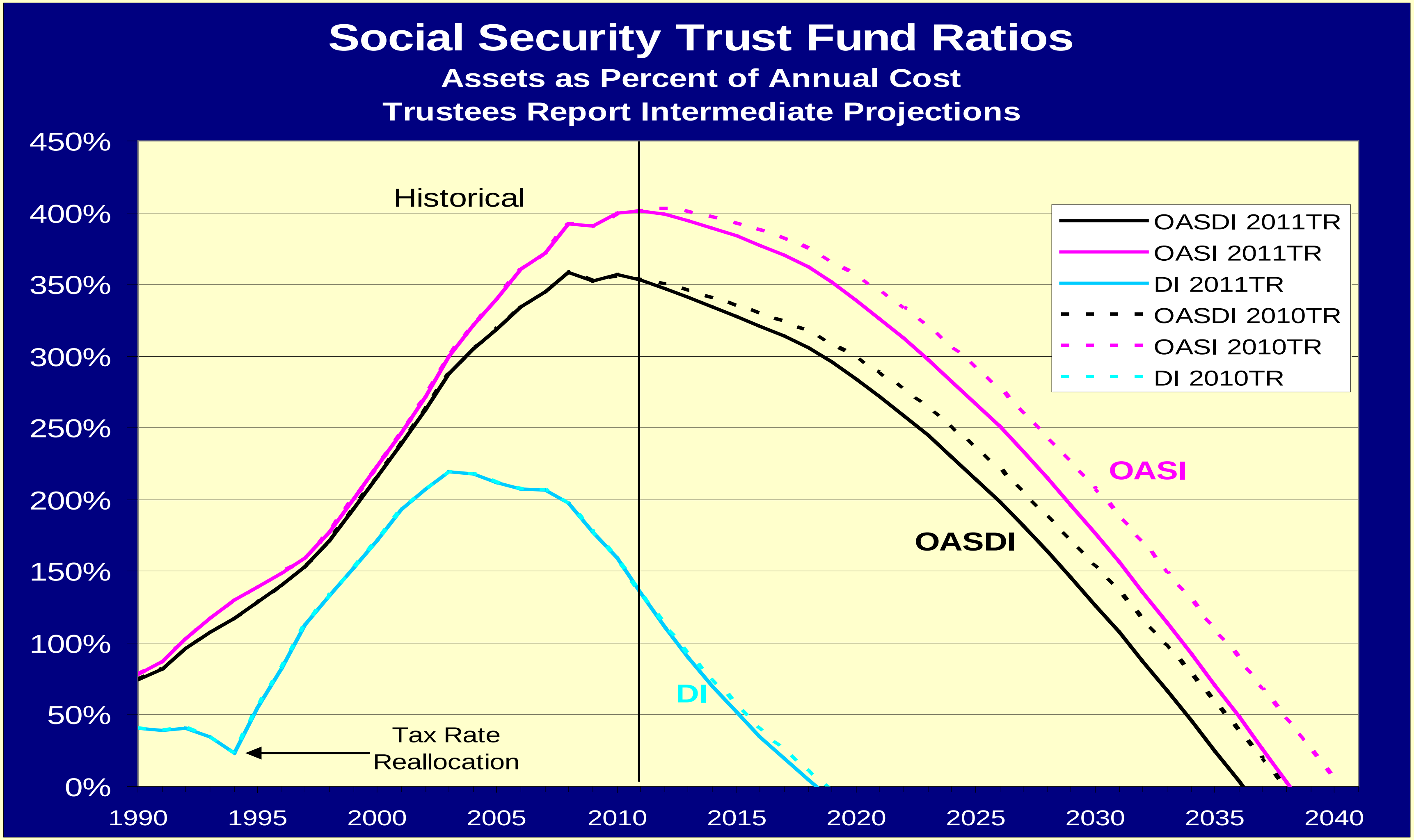
(1) System: Trust Fund Financing

Social Security Cost and Expenditures as Percent of Payroll



(2) Solvency: Ability to Pay Benefits

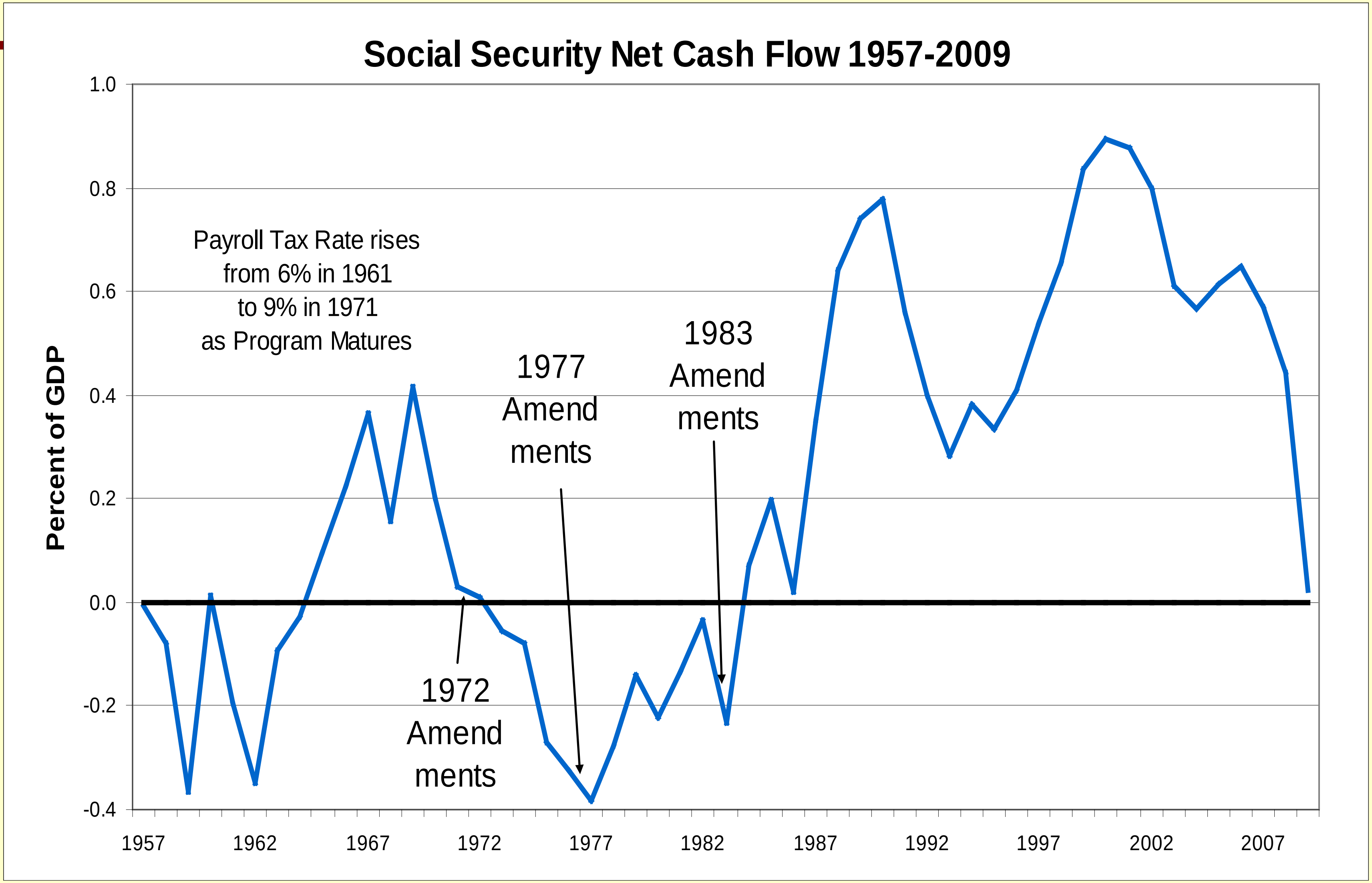
Solvent as long as Trust Funds have assets



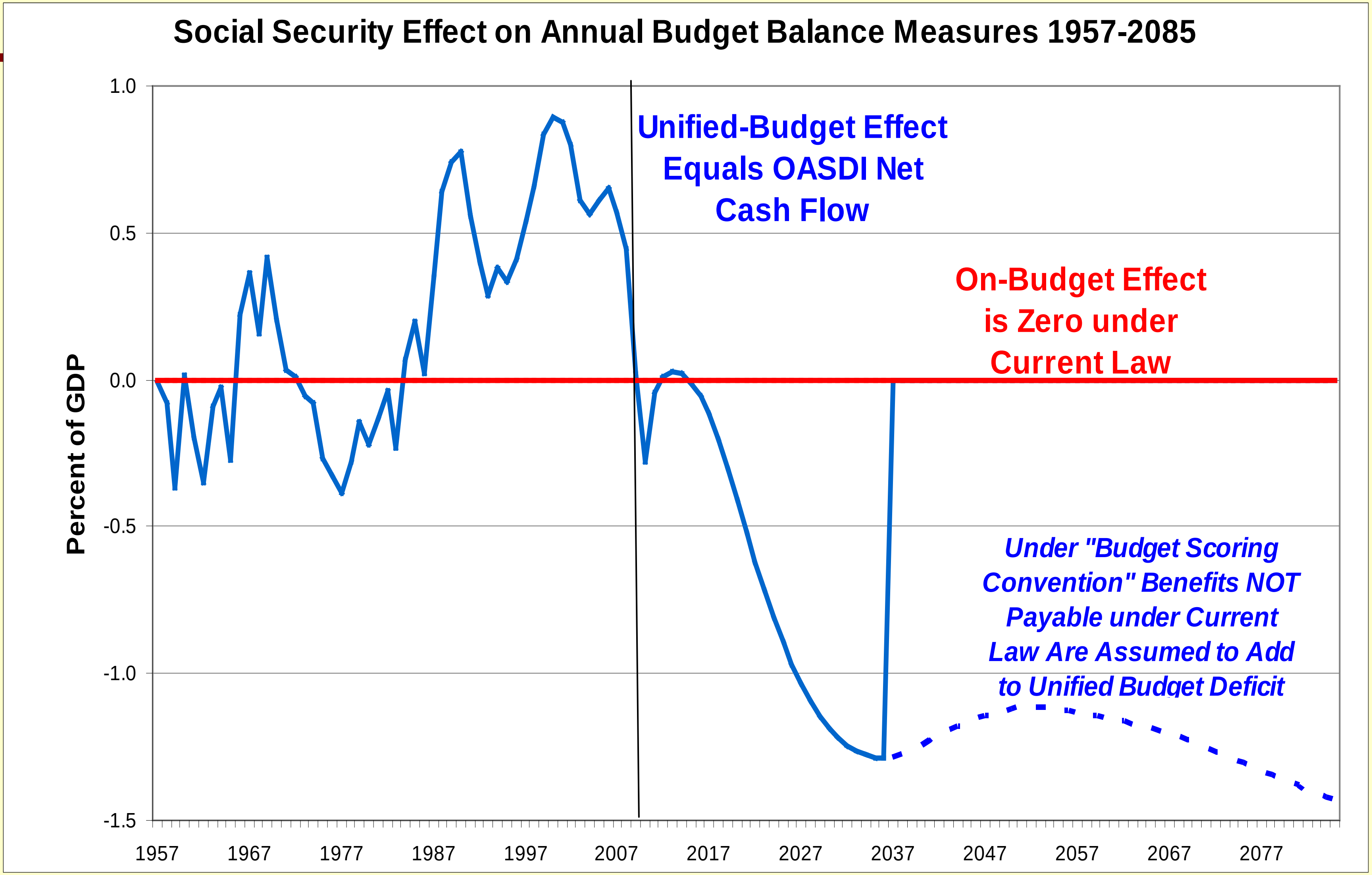
(2) Solvency: Ability to Pay Benefits

- If assets exhaust in 2036, 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

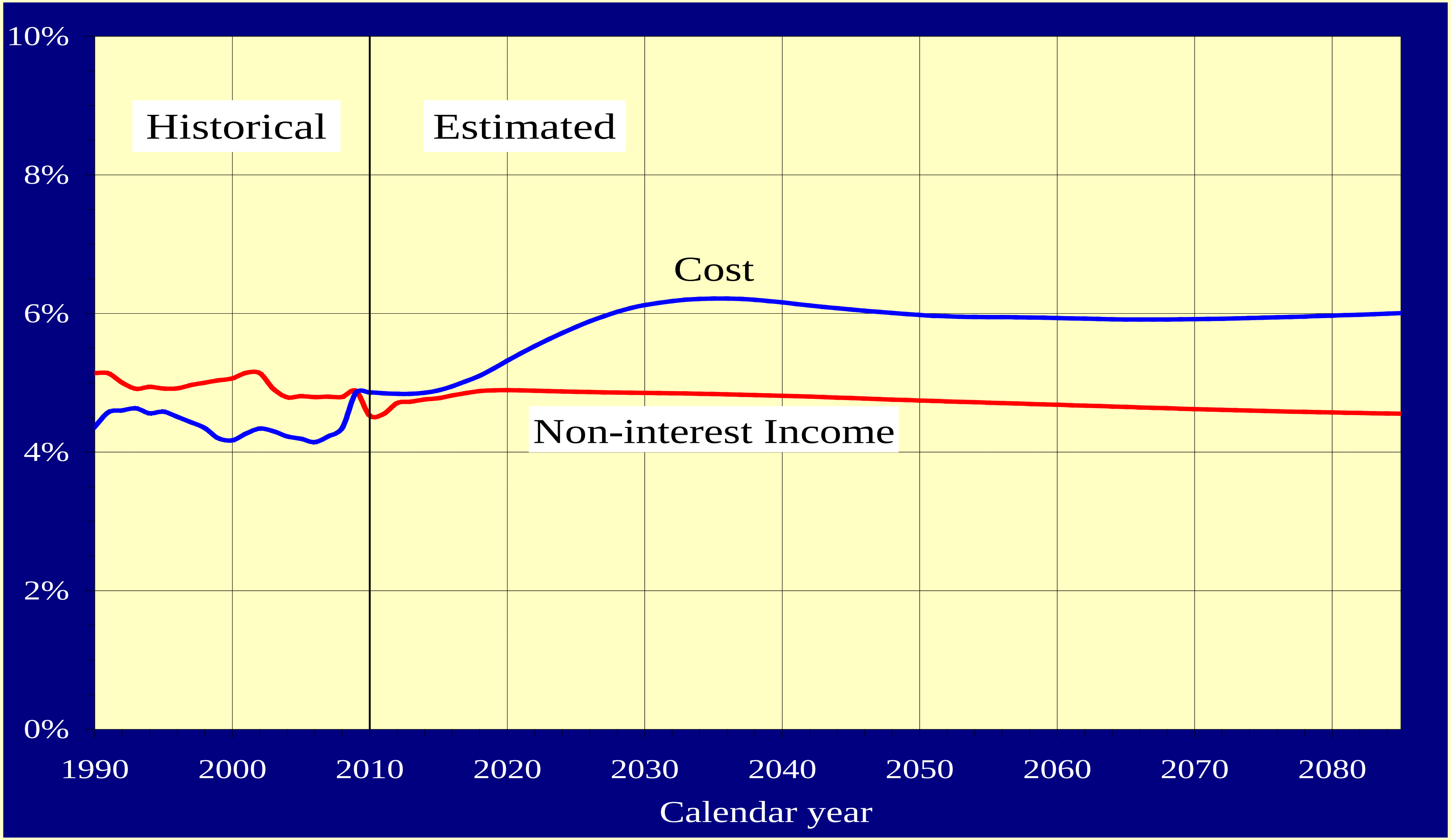


(3) Sustainability: Two Meanings

- 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

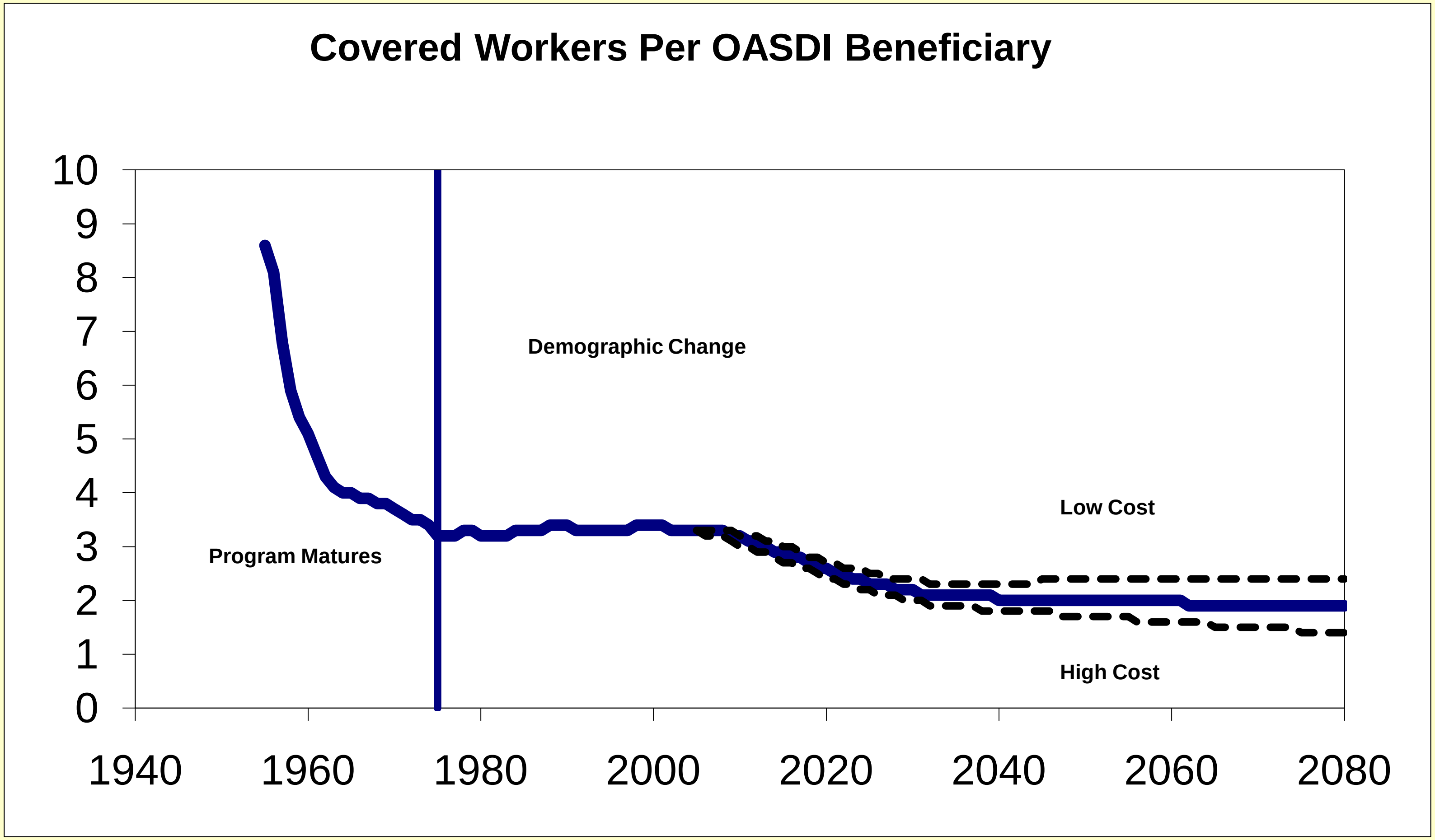
(3) Sustainability: Cost for Scheduled Benefits

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: Ultimately - reduce benefits 25%, increase income 33%, or some combination!!

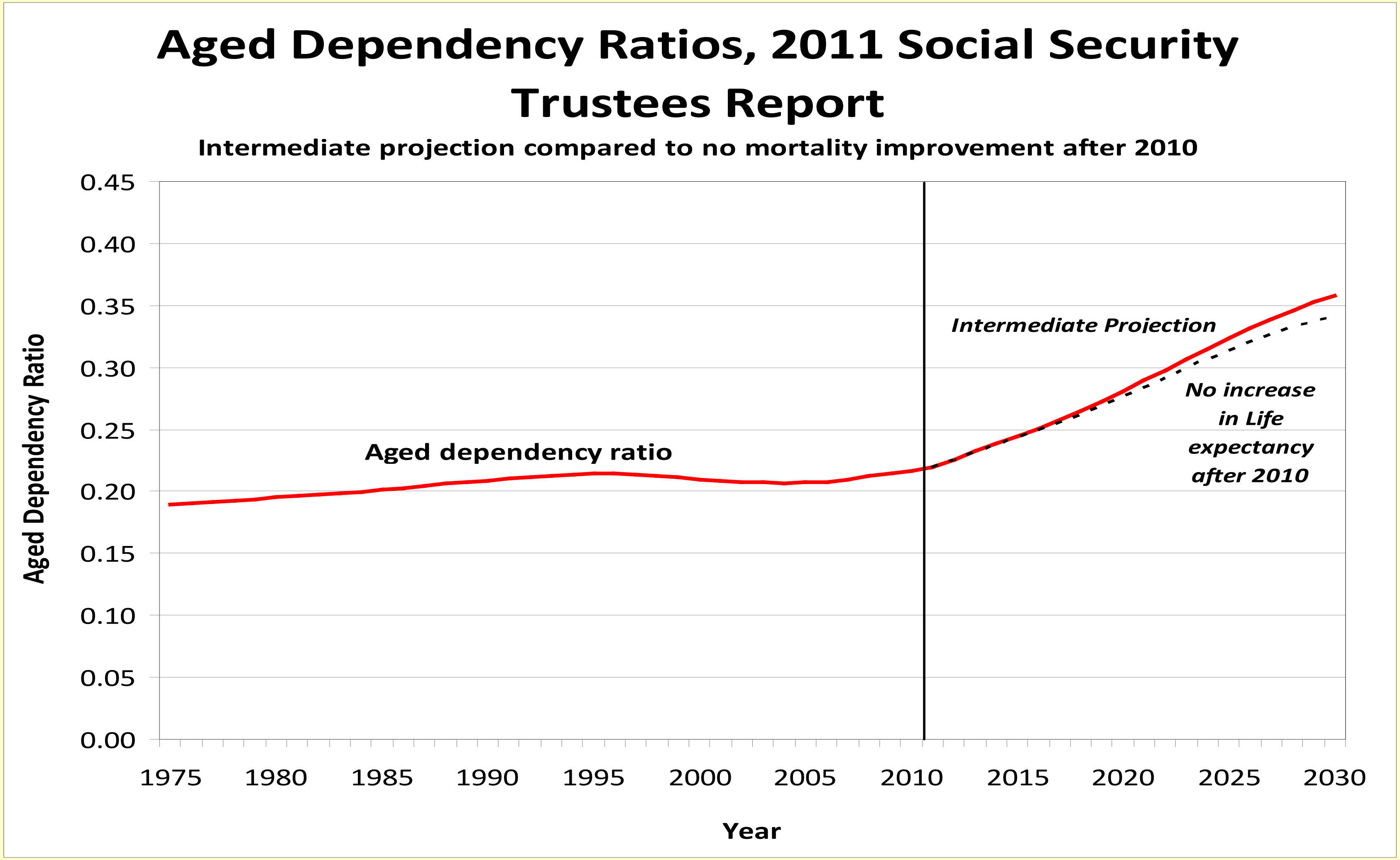
Average retiree benefit is about $1,000/month

- **3.3 workers have been sharing cost of $300 each**
- **But paid 13.6% over cost 1990-2008, $341 each**

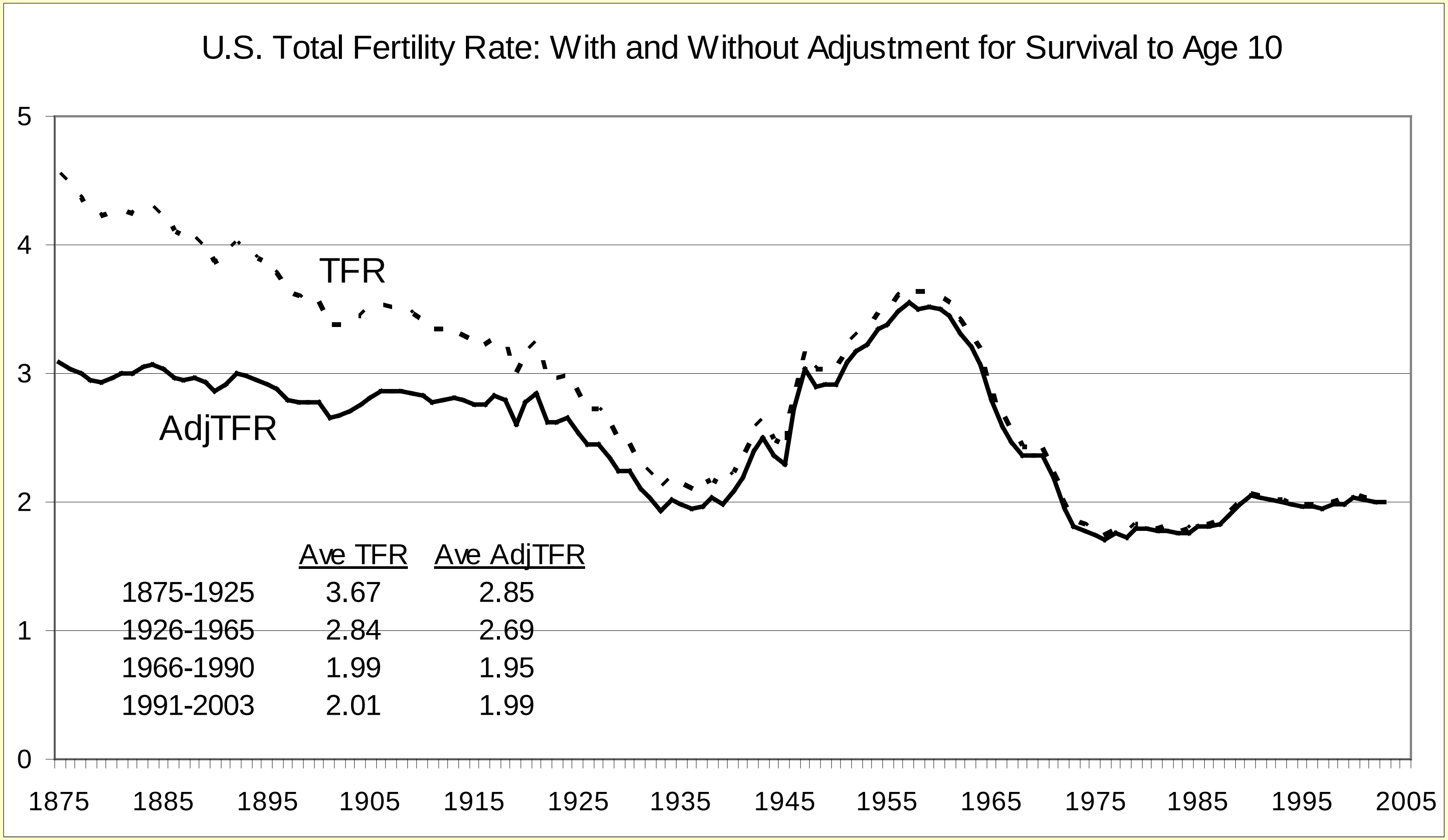
- **When 2 workers pay same $341 each, then average retiree apparently gets $682 per month, or 32% less. But shortfall after 2040 is 25%, NOT 32%, because**

  1) NRA increases again under PL
  2) Revenue from tax on benefits is rising
  3) Average benefit rises slower than average earnings with increasing longevity---more COLAs put benefits further below the general standard of living of current workers

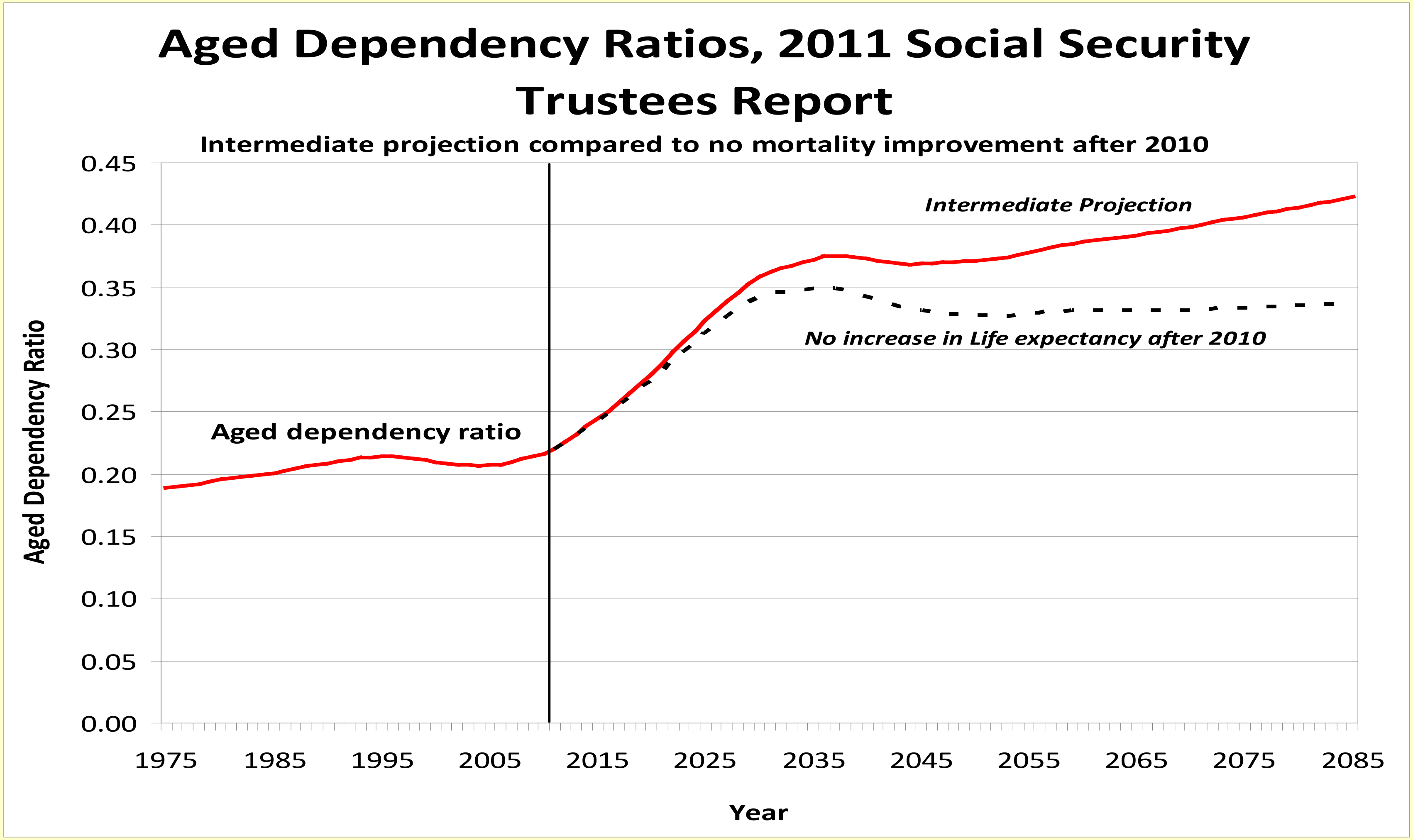
(3) Why the Shift? We are an “aging” society; Not from living longer, but from fewer births



(3) Sustainability: Permanently fewer births, shifts age distribution for the future



(3) Sustainability: We are an “aging” society; Longer life---gradual effect after 2030



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

- Eliminate 2.22% Actuarial Deficit (0.7% GDP)
- Sustainable Solvency – Stable Trust Fund Ratio
  - Largely reduce the 2085 annual deficit
    - 4.24% 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: Social Security and Medicare: …similar ultimate cost; 6% of GDP each