SOCIAL SECURITY: Solvency, Sustainability, and Solutions

NASI Academy for Interns

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Office of the 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

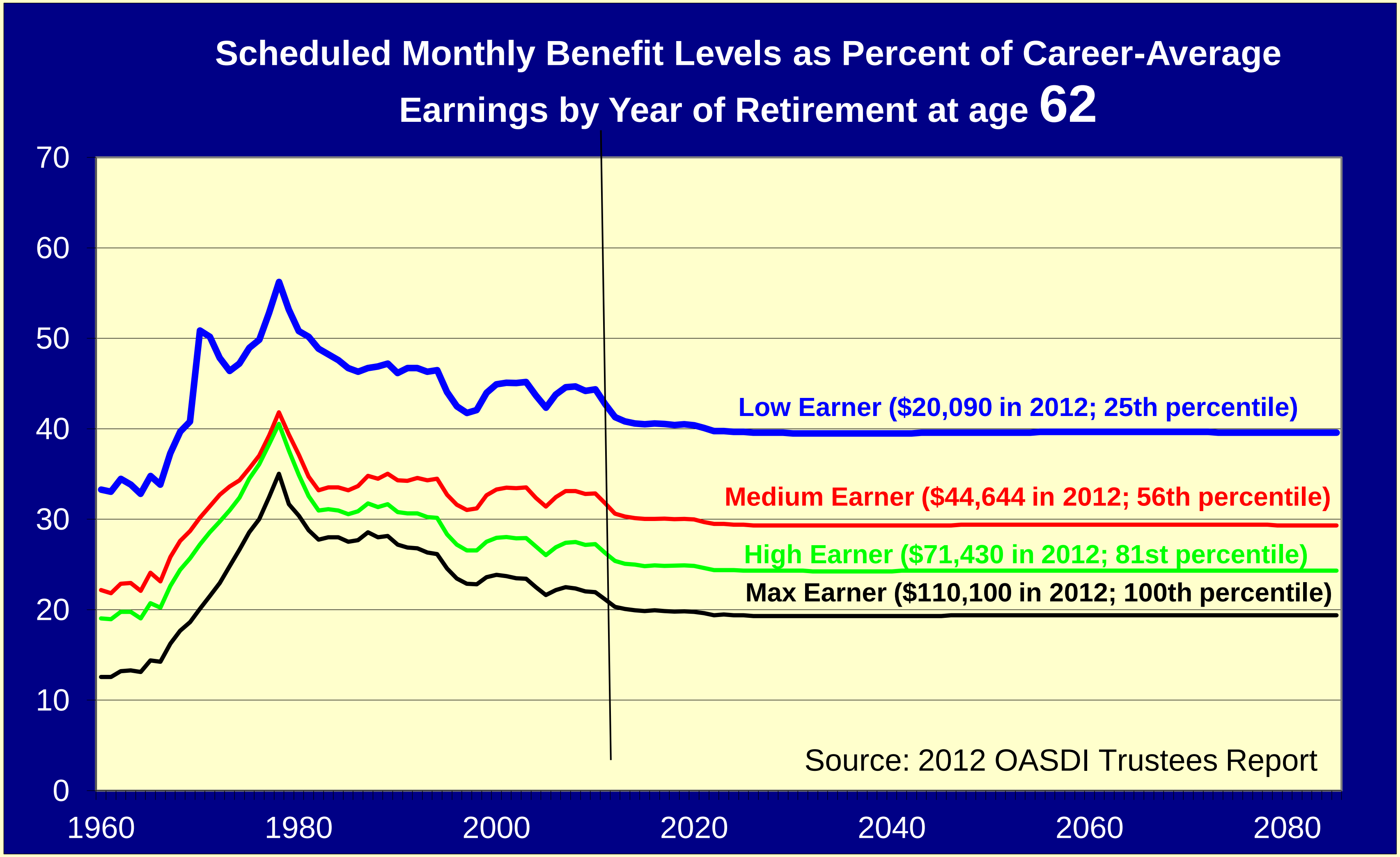
- Retirement and survivor benefits start 1940
- Eligible age lowered from 65 to 62 in 1957(F)/1962(M)
  - Full retirement age rises from 65 to 67 by 2022
- Disability benefits started in 1957

- Benefits rise with average wage *across generations* --- but with CPI after a beneficiary becomes eligible
  - However, even COLAs fall behind standard of living

- Payroll taxes roughly pay-as-you-go
  - Rose from 2% to 12.4% as system matured

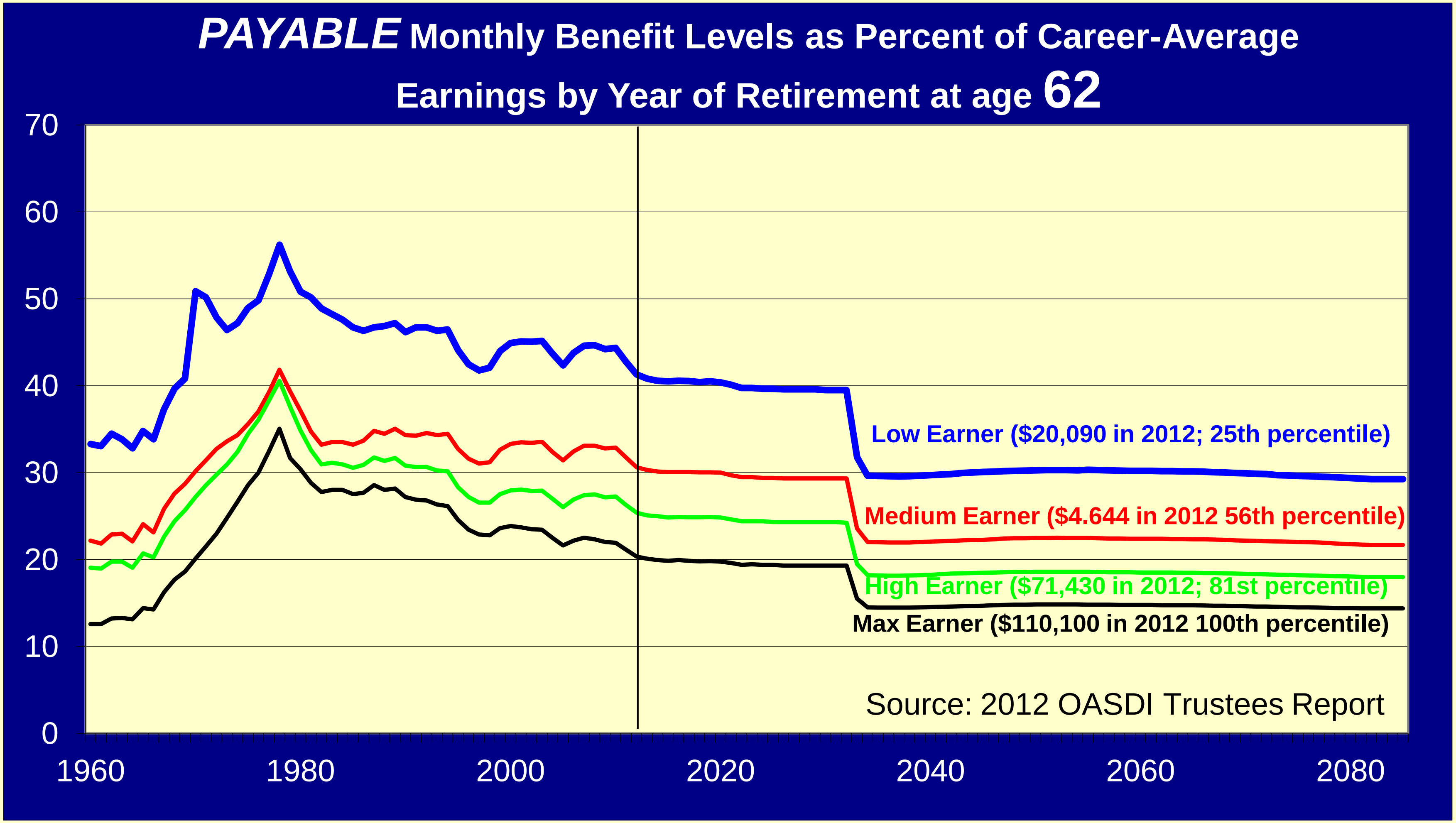
(1) System: What it is

Scheduled monthly benefits for retirees



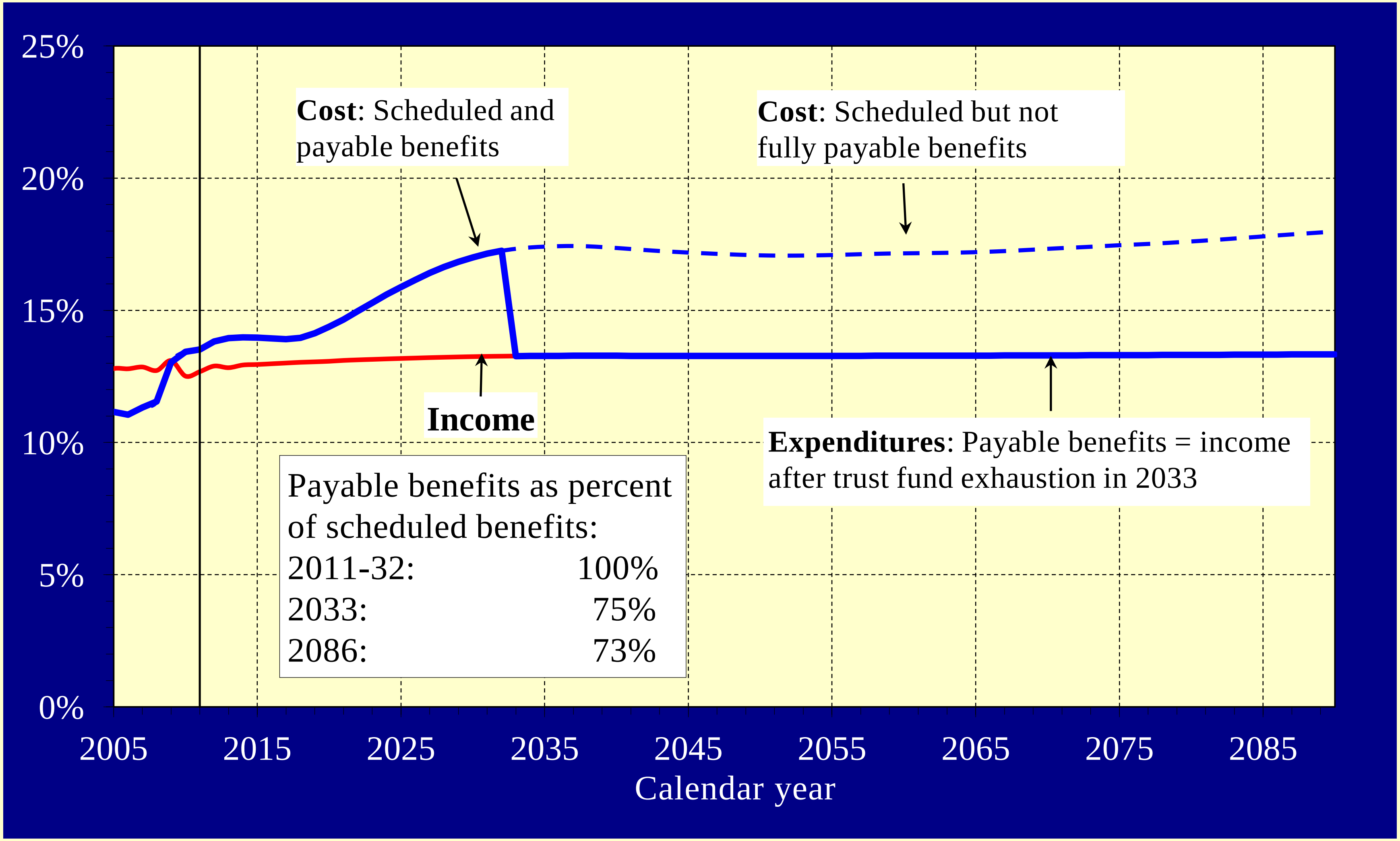
(1) System: What it is

Payable monthly benefits for retirees

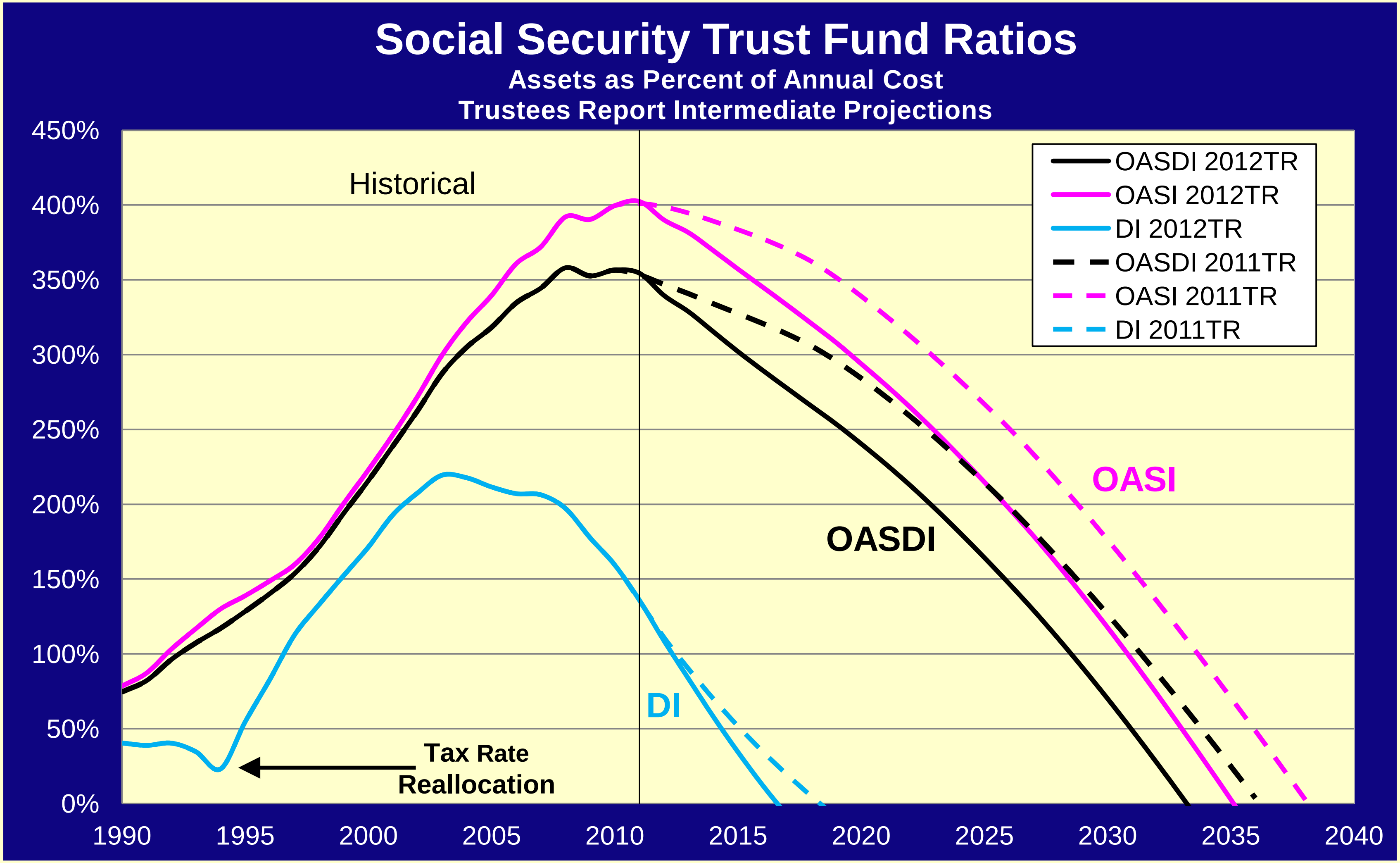


(1) System: Trust Fund Financing

Social Security Cost and Expenditures as Percent of Payroll



(2) Solvency: Ability to Pay Full Scheduled Benefits on a Timely Basis: Requires Trust Fund Reserves



(2) Solvency: Ability to Pay Benefits

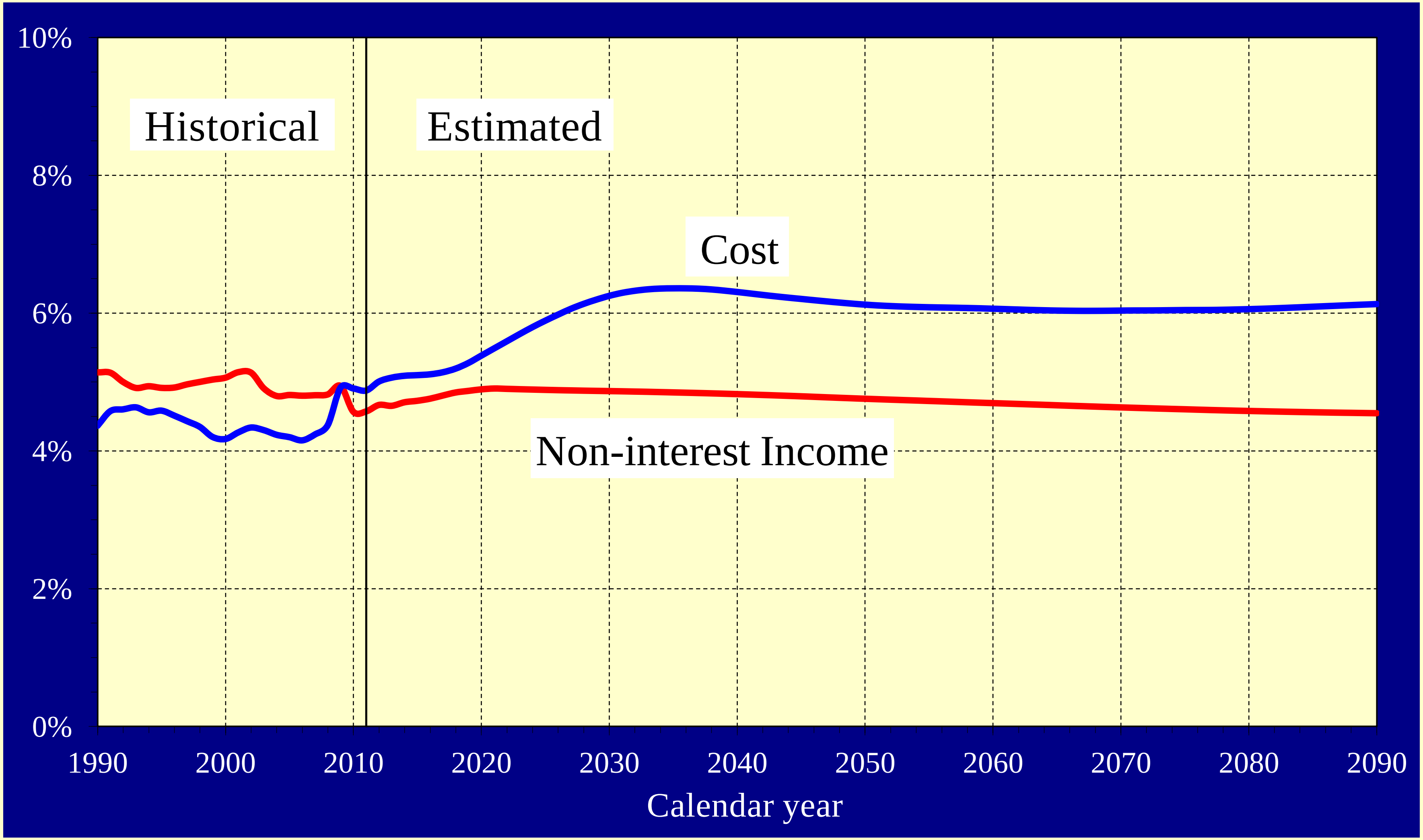
- DI needs attention by 2016 !!!!!!!!!!
- If OASDI asset reserves are depleted in 2033, then by law,
  - only 75% of scheduled benefits are payable
    - OASDi & HI have no borrowing authority
- Has this ever happened??
  - NO. Trust Fund exhaustion forces action
    - » 1977 and 1983 Social Security Amendments

(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*

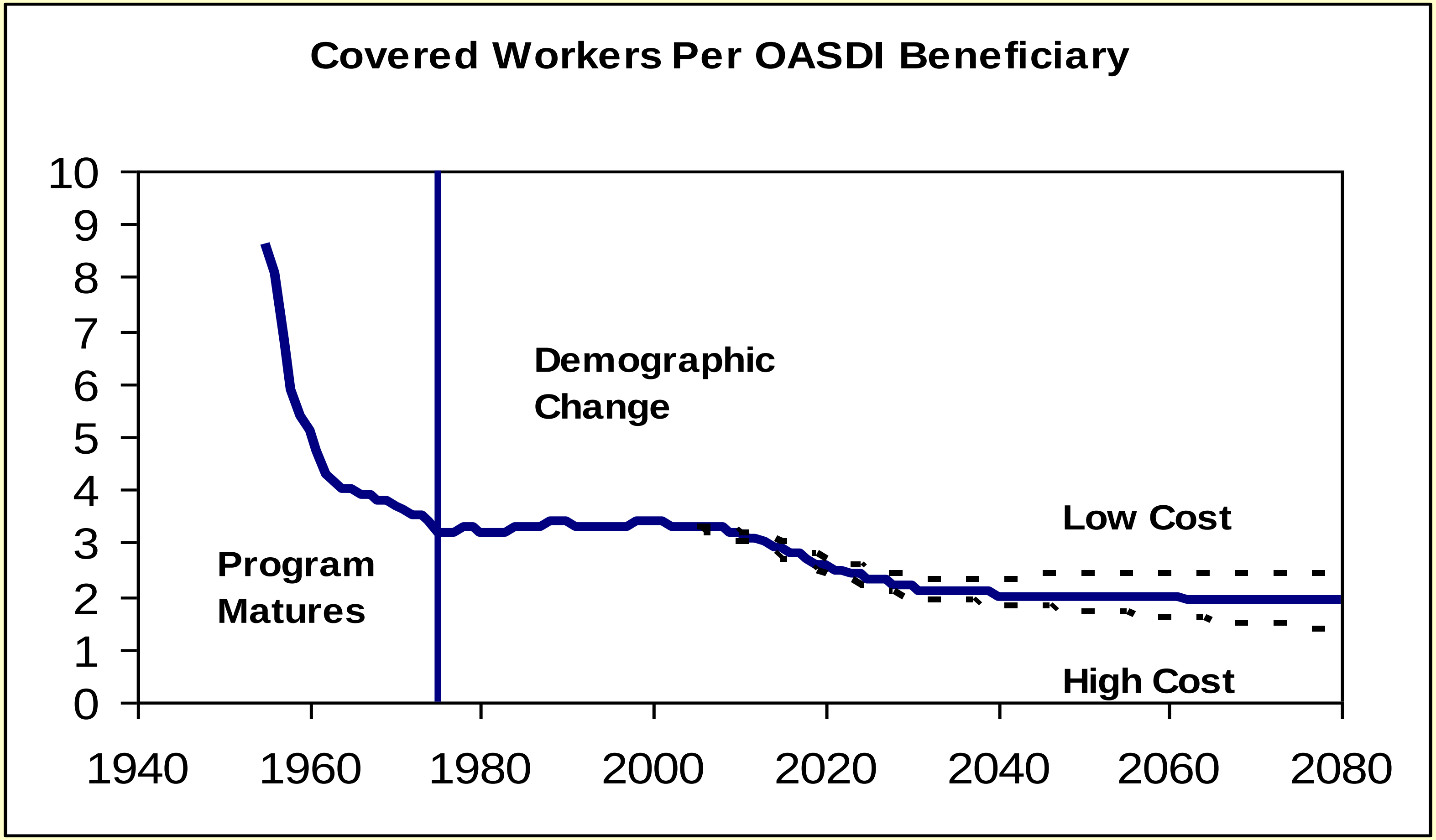
(3) Sustainability: Cost for Scheduled Benefits

Social Security Scheduled Cost as Percent of GDP

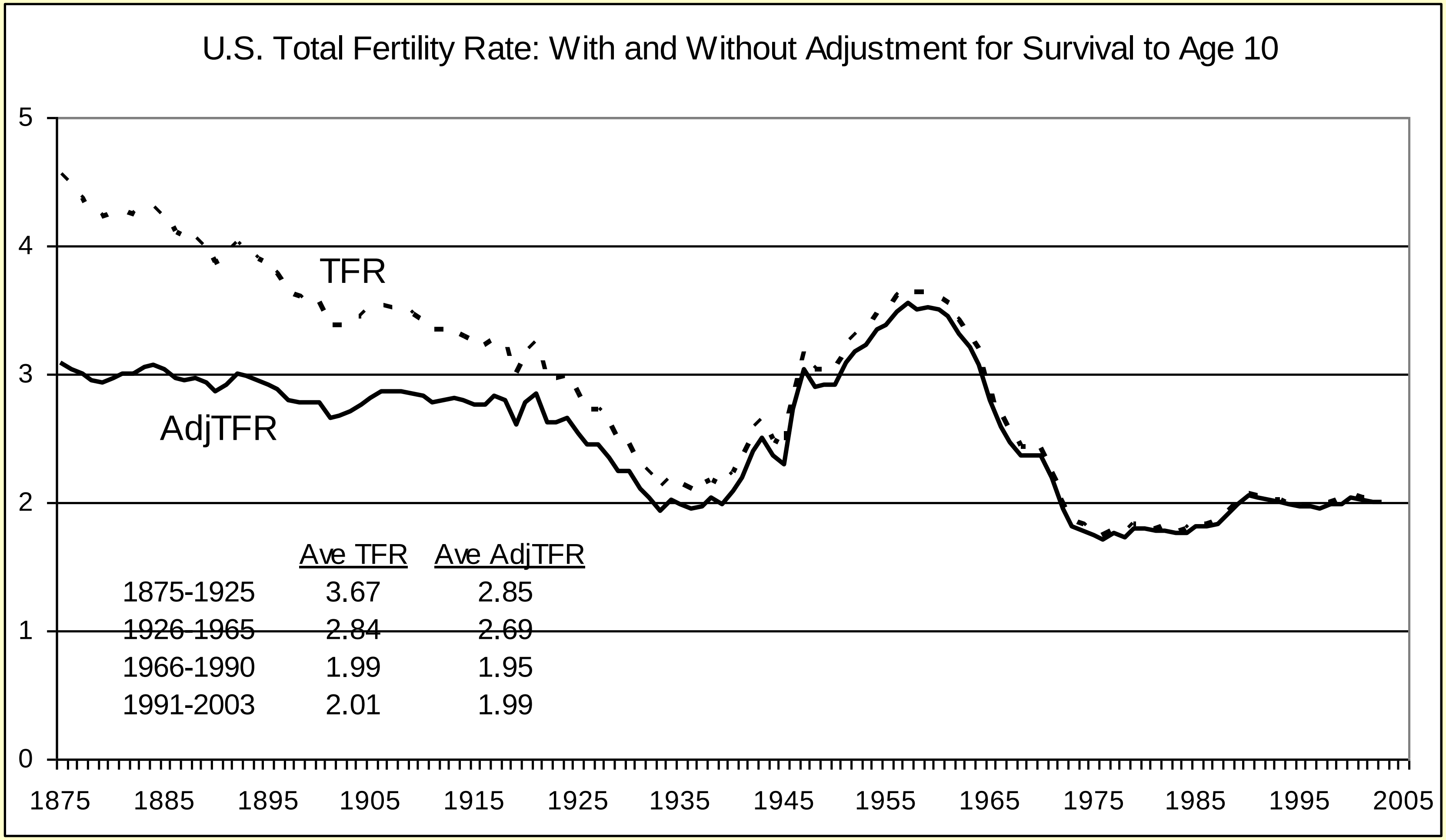


(3) Sustainability: Why has cost gone up?

3.3 workers per beneficiary since 1975; just 2 after 2030

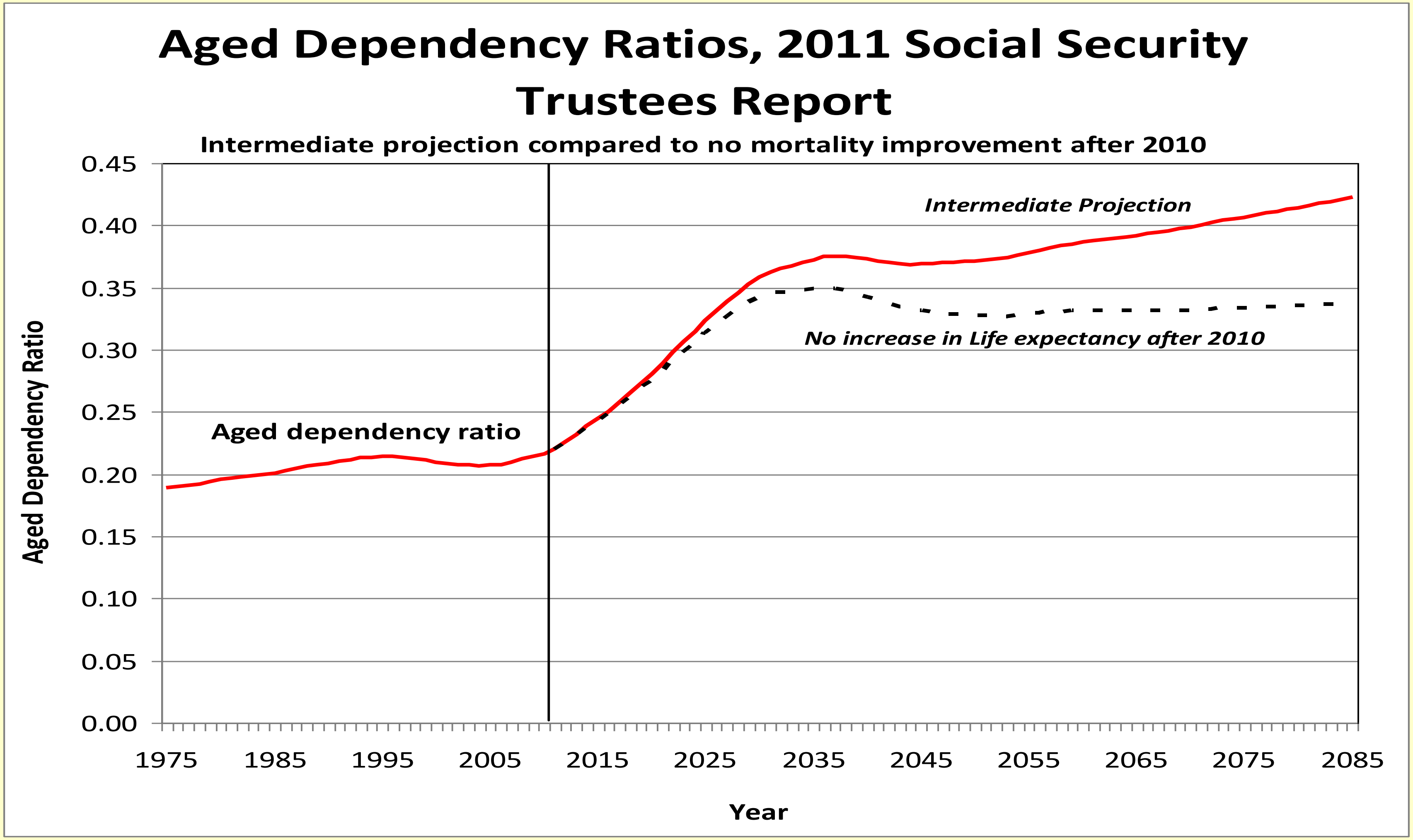


(3) Sustainability: Permanently fewer births, shifts age distribution for the future



	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 2.67% Actuarial Deficit (0.8% GDP)

- *Sustainable Solvency* – Stable Trust Fund Ratio at 75th Year
  - Largely reduce the 2086 annual deficit
    - » Over 4% of payroll, 1.5% of GDP

(4) Solutions: How to Fix Social Security Long-Term

- First: equalize OASI and DI soon
- Second: make choices
  - Raise scheduled revenue by about 33%: cover cost rise from 4.5 to 6% of GDP
  - Reduce scheduled benefits by about 25%: lower benefits to what 4.5% 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

(4) 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
- Means test?
  - Might reduce incentive to save

(4) 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
- General revenue component?
  - Might diminish "earned right" argument
- Maintain larger trust fund reserves
  - Added interest can lower needed taxes