

SOCIAL SECURITY: HOW BIG IS THE FINANCING CHALLENGE?

NASI Academy for Interns

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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) Fix the Shortfall

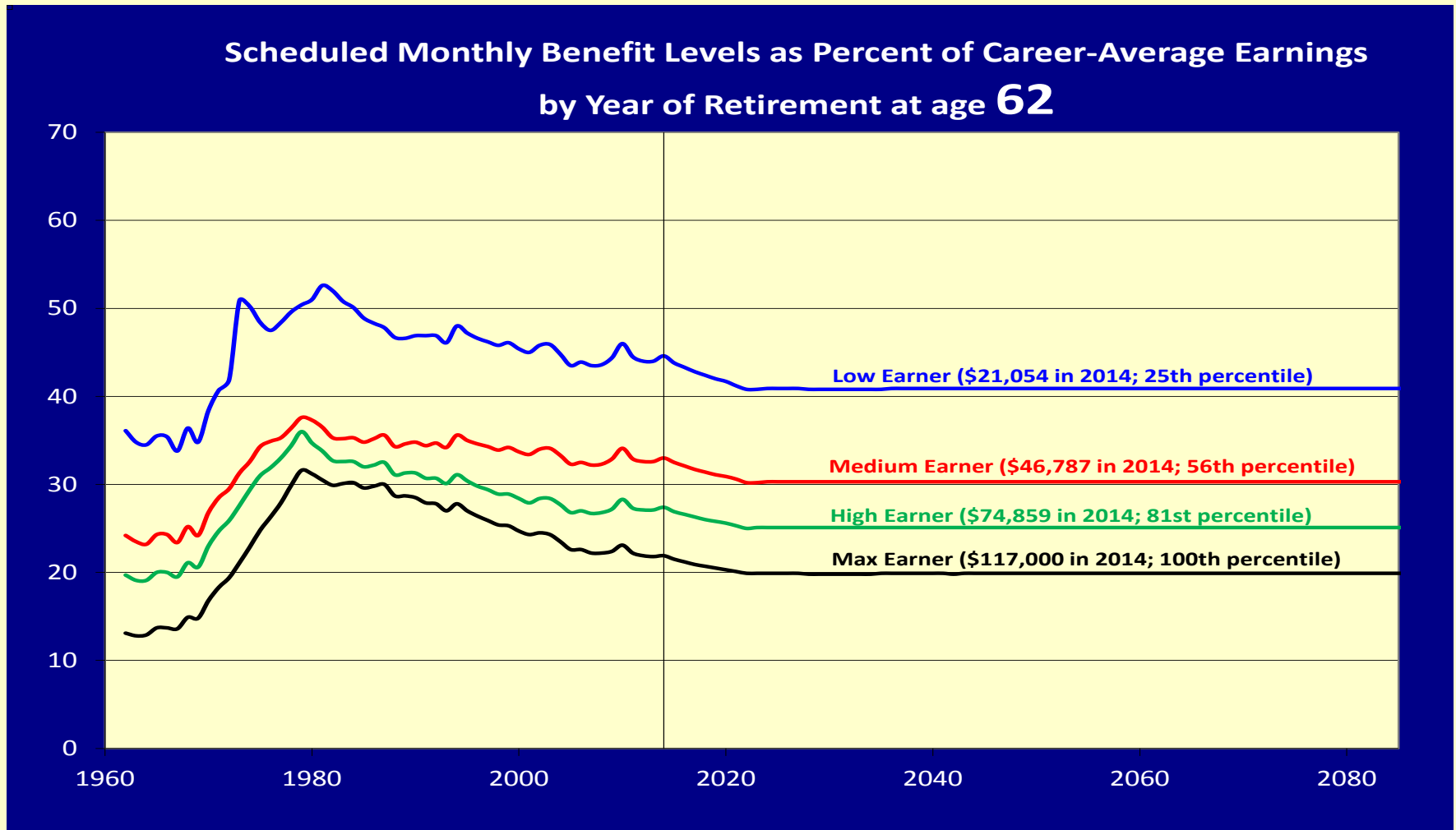
Options to balance income and outgo

(1) System: What It Is

- ◆ Retirement benefits start at 62, unreduced at 66 NRA
- ◆ Survivor benefits
- ◆ Disability benefits: unable to “engage in SGA”
- ◆ Benefits rise with average wage *across generations*, but with CPI after a beneficiary becomes eligible
 - However, even COLAs fall behind standard of living

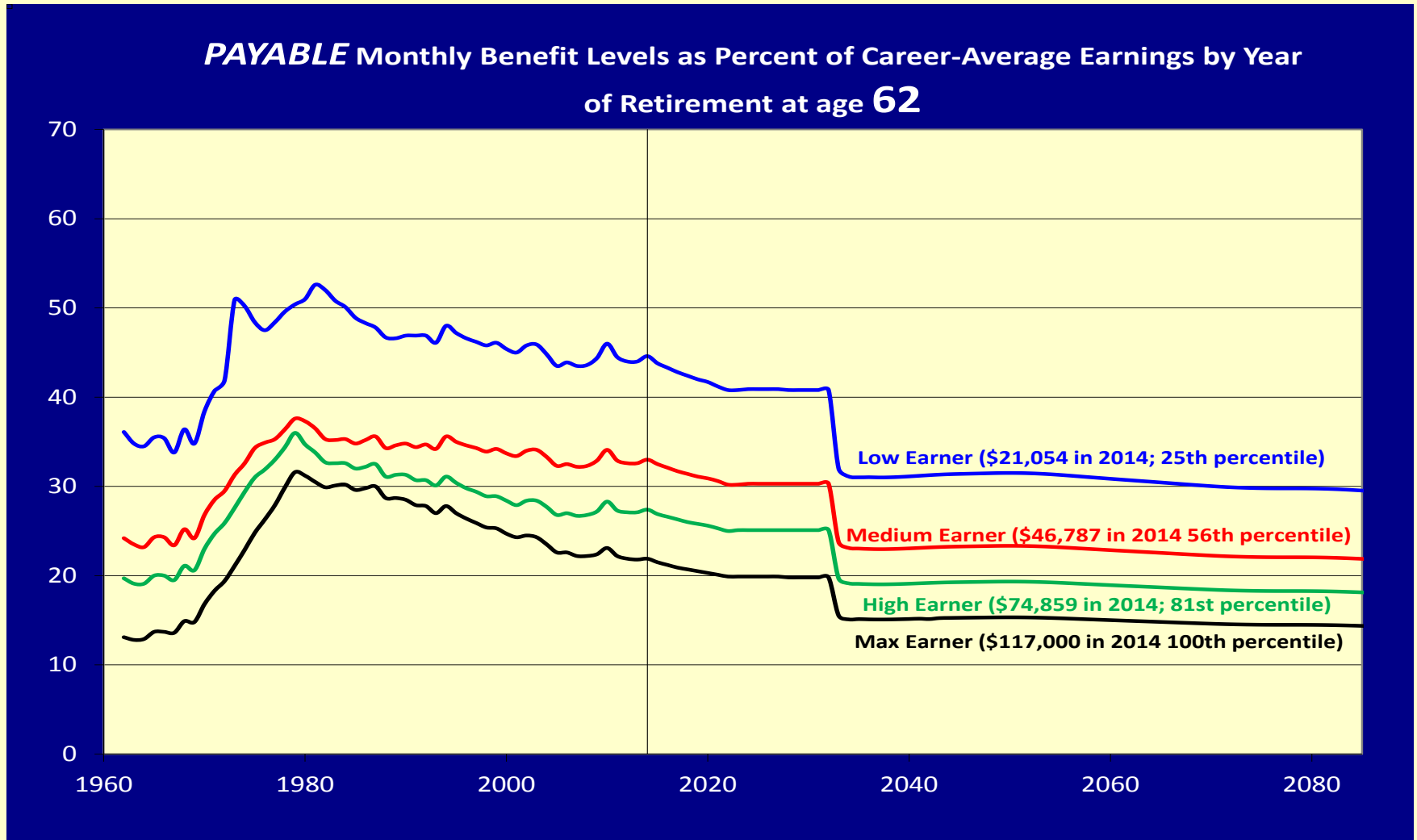
(1) System: What It Is

Scheduled monthly benefits when most retire



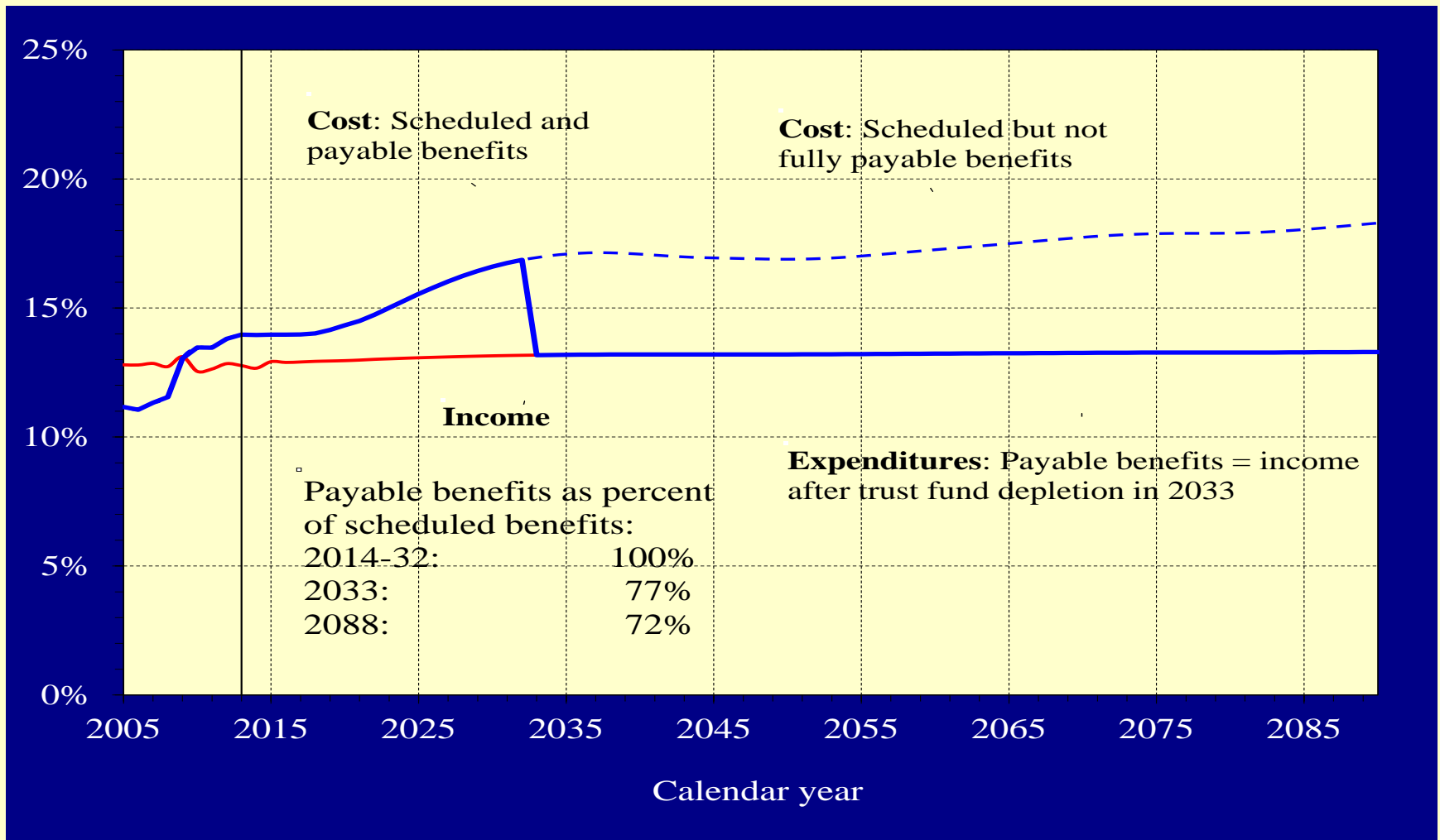
(1) System: What It Is

Payable monthly benefits when most retire

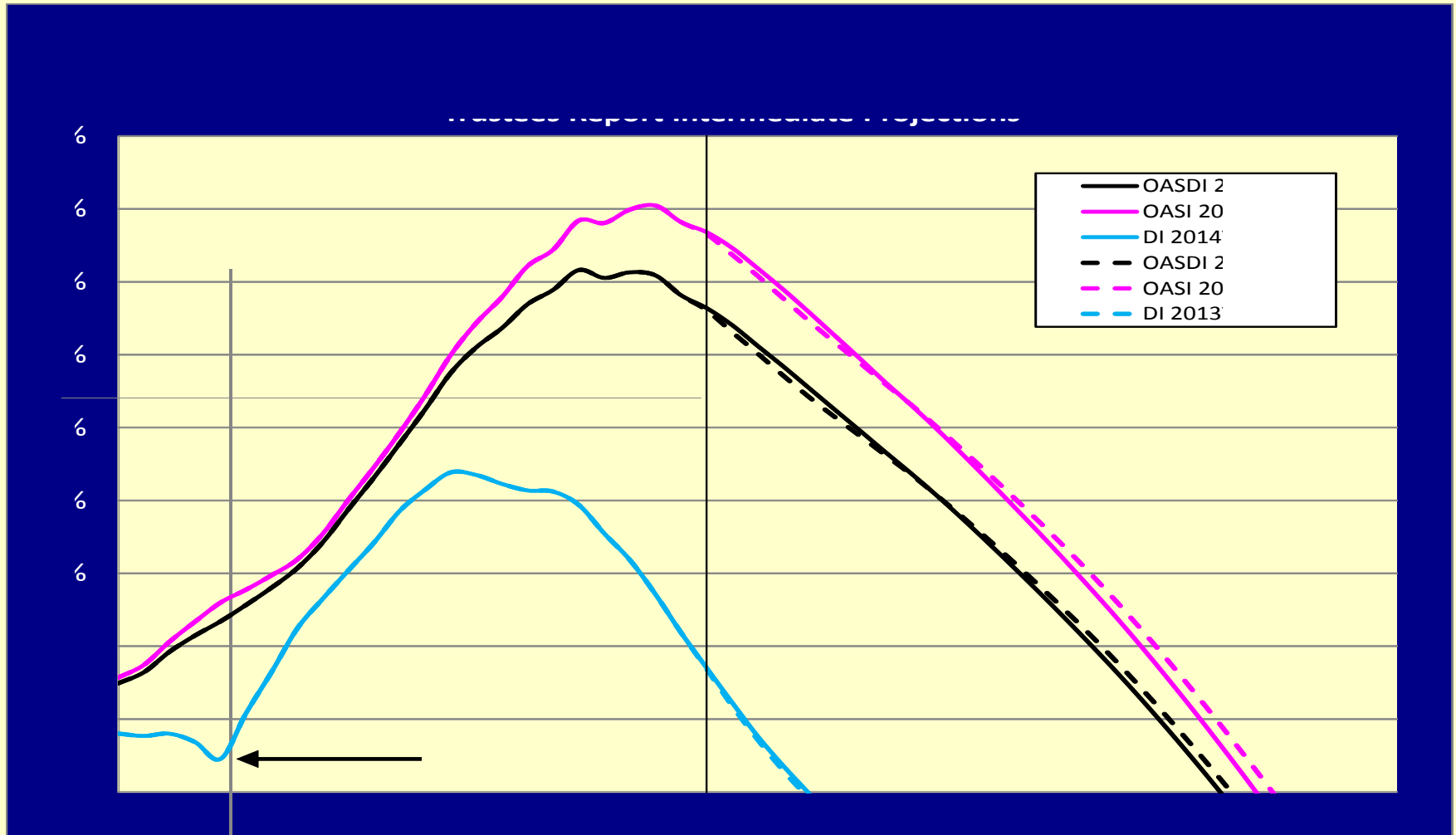


(1) System: Trust Fund Financing

Social Security Cost and Expenditures as Percent of Payroll



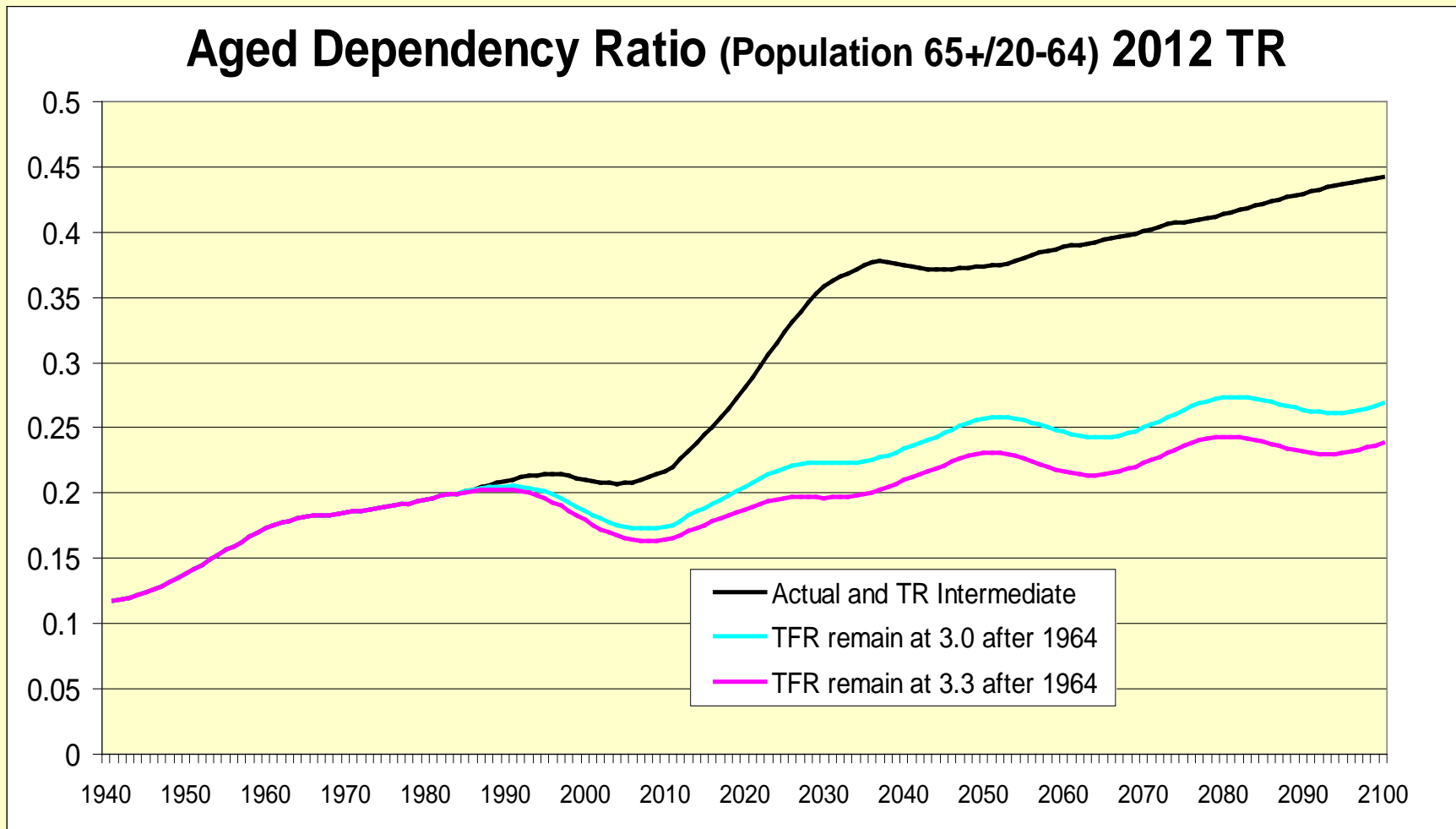
(2) Solvency: Ability to Pay Full Scheduled Benefits on a Timely Basis: Requires Trust Fund Reserves



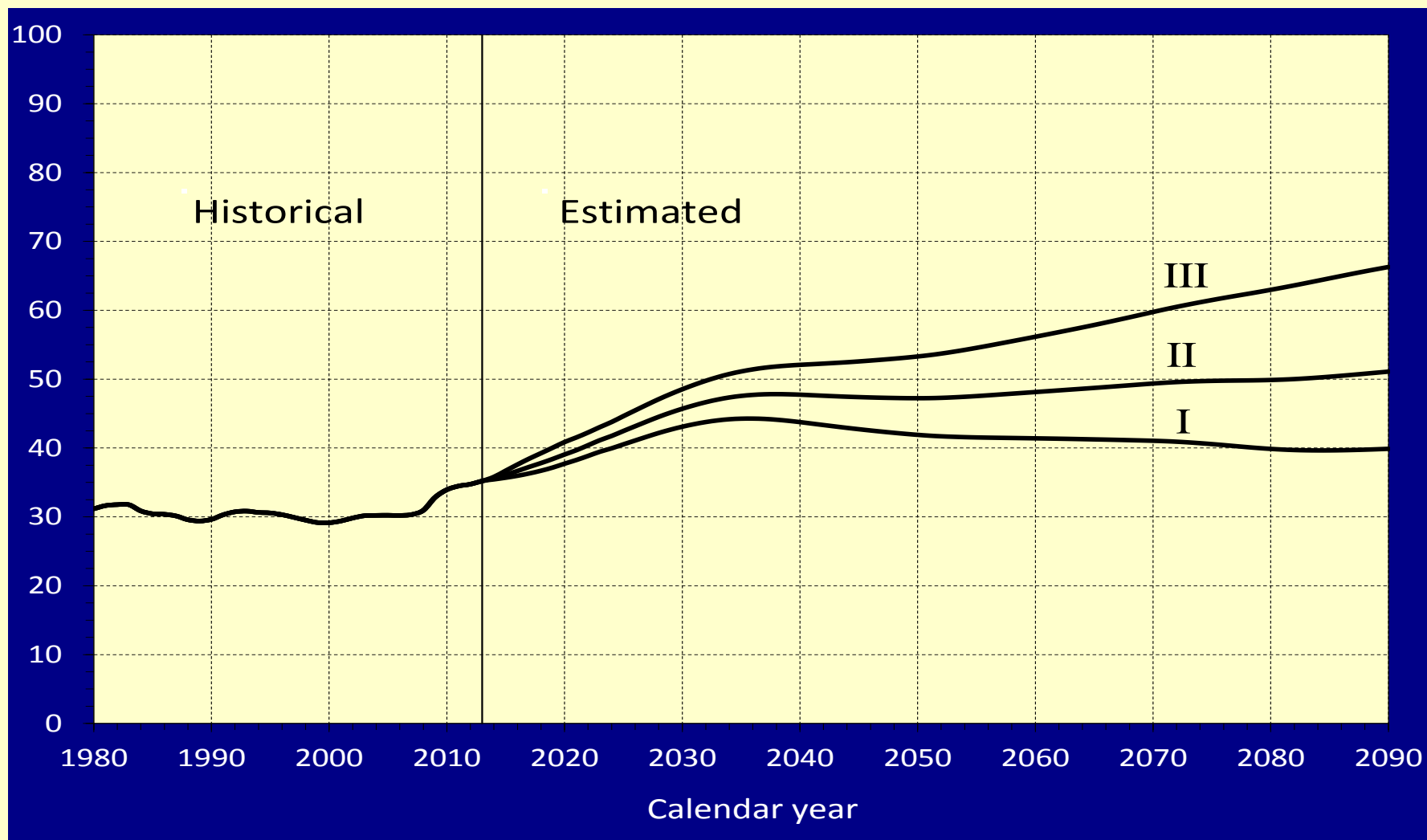
(2) Solvency: Ability to Pay Benefits

- ◆ DI needs attention by 2016 !!!!!!!!!!!!!
- ◆ If OASDI asset reserves are depleted in 2033, then by law, **only 77% of scheduled benefits are payable**
 - » OASDI & HI have no borrowing authority
- ◆ Has this ever happened??
NO. Trust Fund depletion forces action
 - » 1977 and 1983 Social Security Amendments

(3) Sustainability: We Are an “Aging” Society; Lower Birth Rates Change the Age Distribution

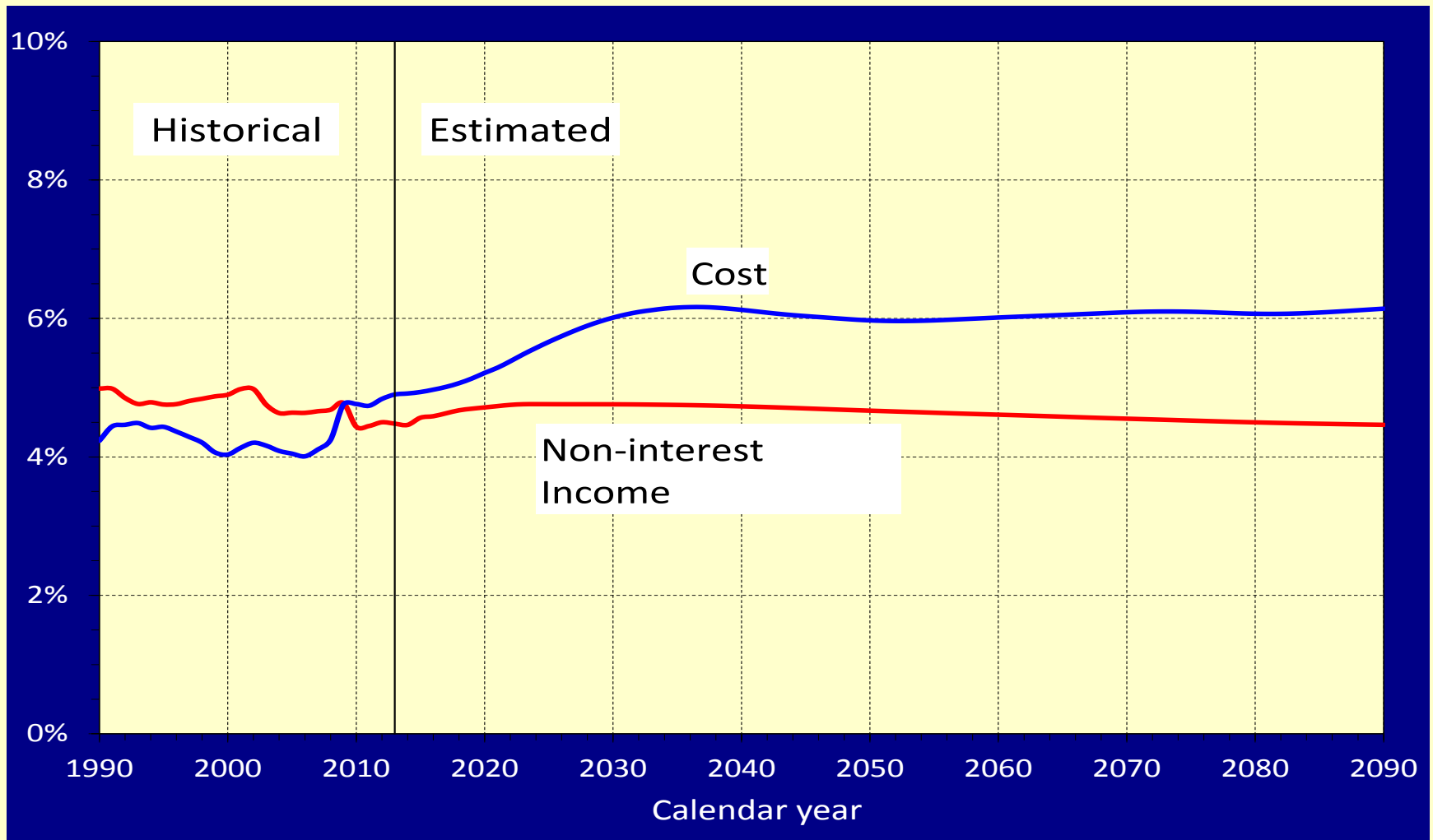


(3) Sustainability: Age Distribution Affects the Ratio of Beneficiaries per 100 Workers



(3) Sustainability: Cost for Scheduled Benefits

Social Security Scheduled Cost as Percent of GDP



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

- ◆ Eliminate 2.88% actuarial deficit (1.0% GDP)
 - Reduce cost by about 25%, or
 - Increase revenue by about 33%, or
 - Some combination
- ◆ Sustainable Solvency – Stable trust fund ratio at 75th year