SOCIAL SECURITY: HOW BIG IS THE FINANCING CHALLENGE?

NASI 2016 Summer 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

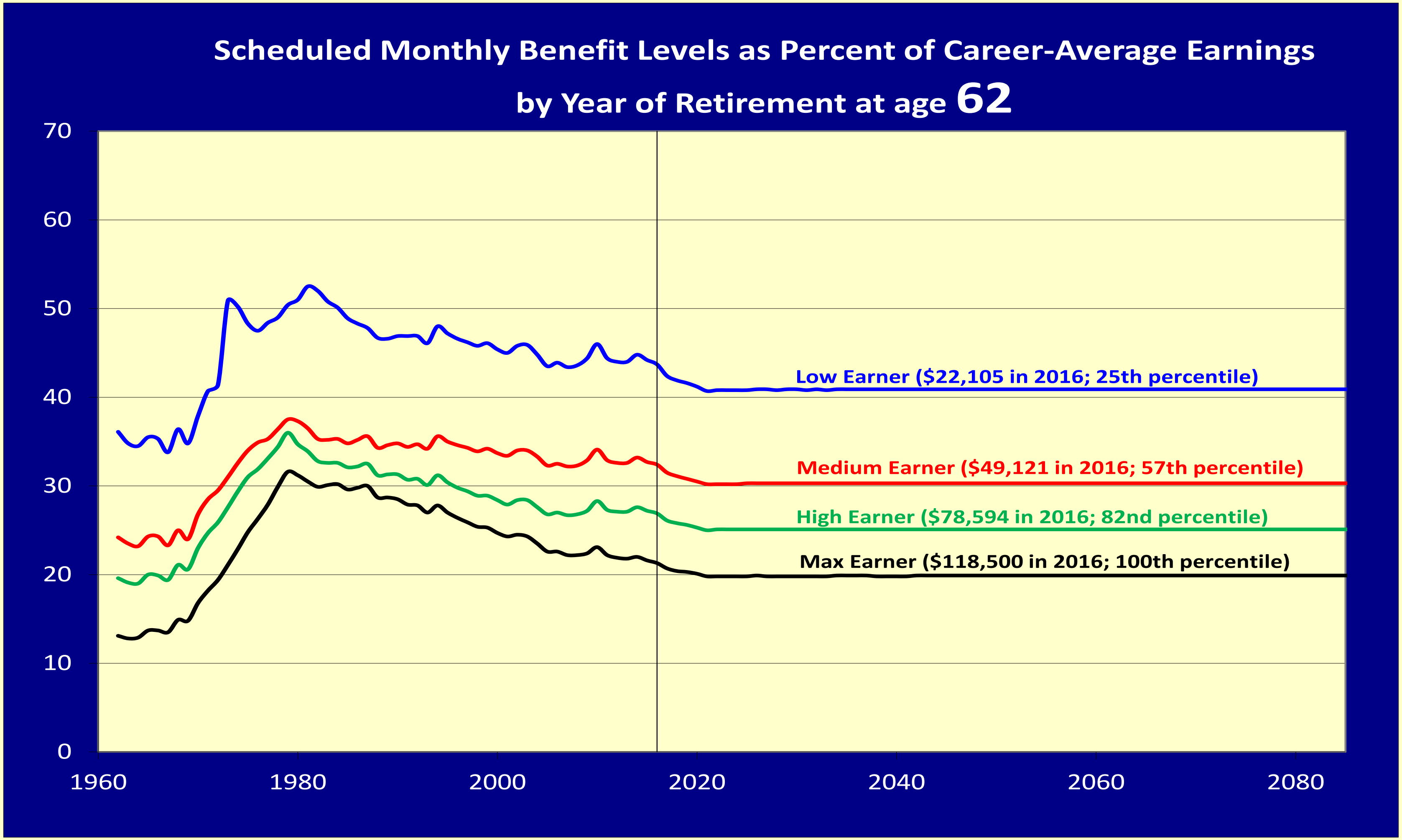
Options to balance income and outgo

(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

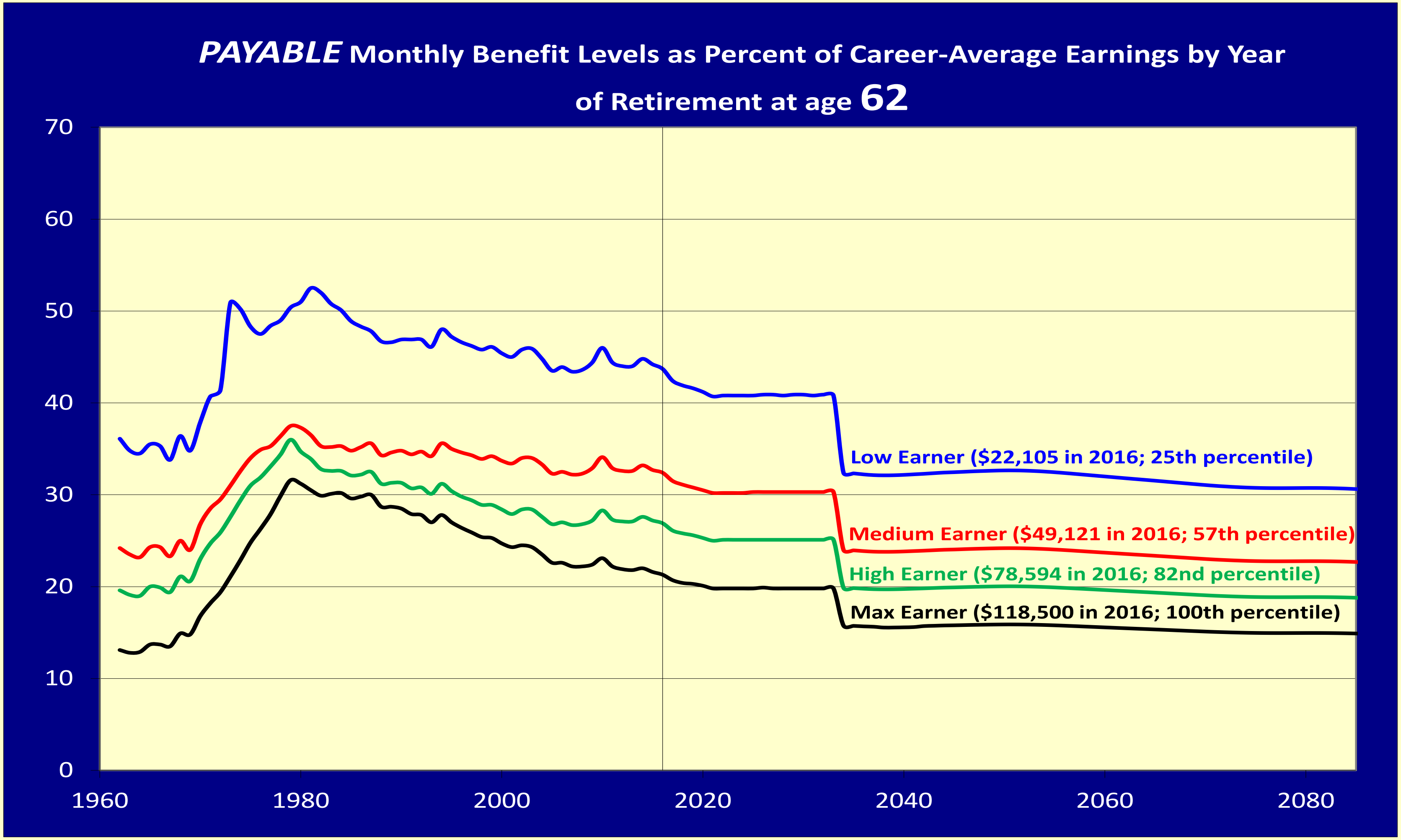
Scheduled monthly benefits when most retire



Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html.

(1) System: What It Is

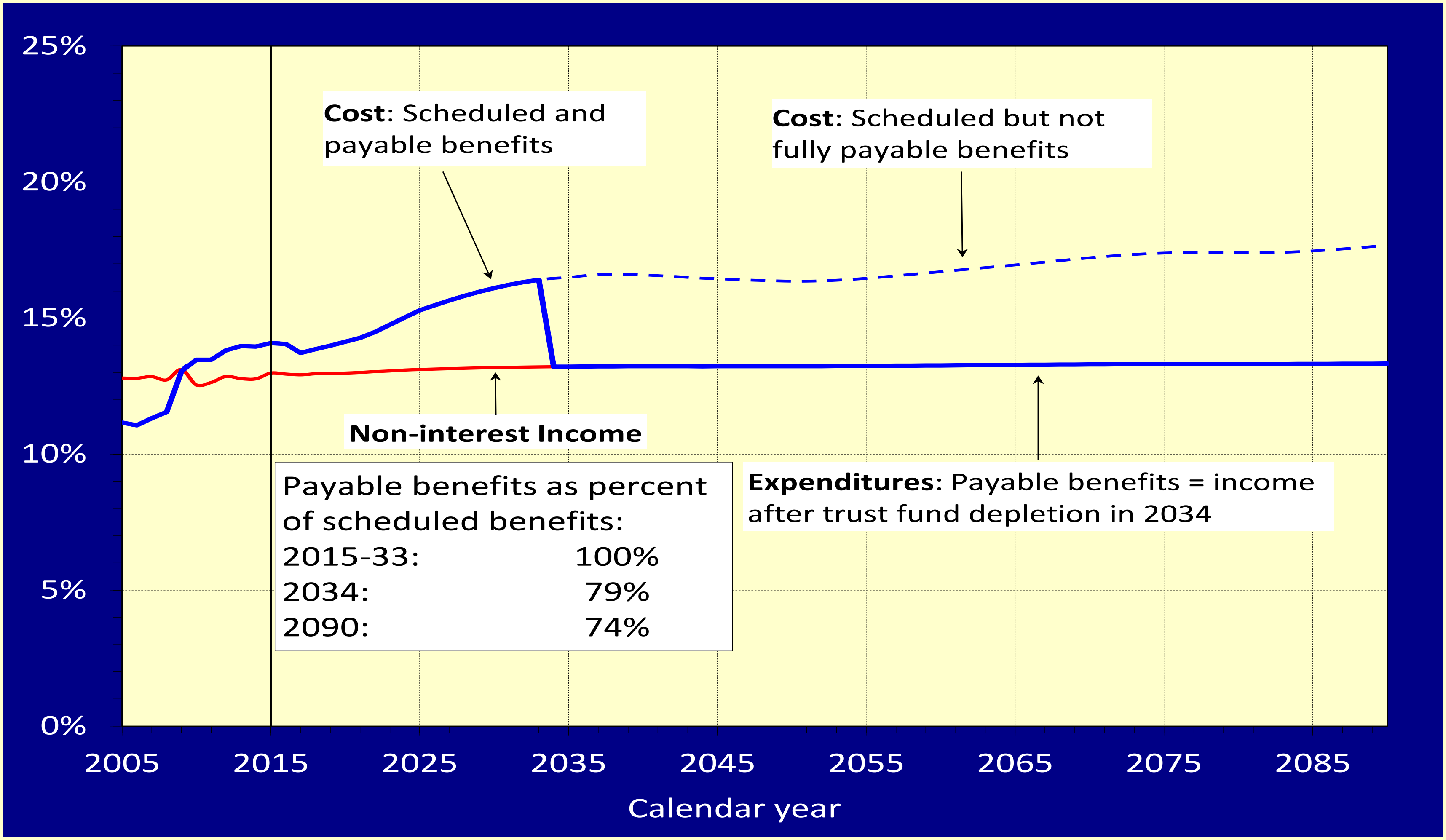
Payable monthly benefits when most retire



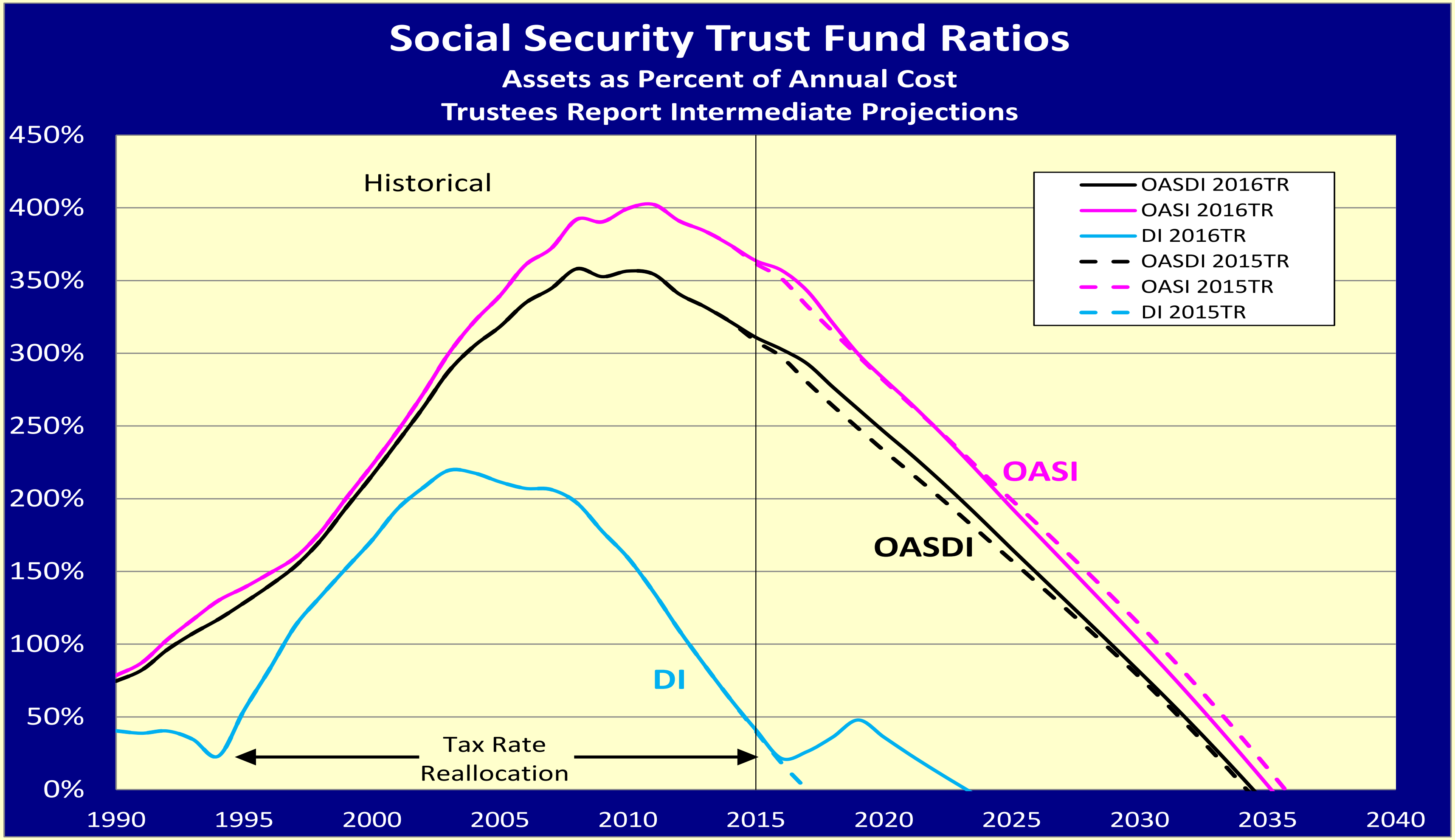
Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html.

(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



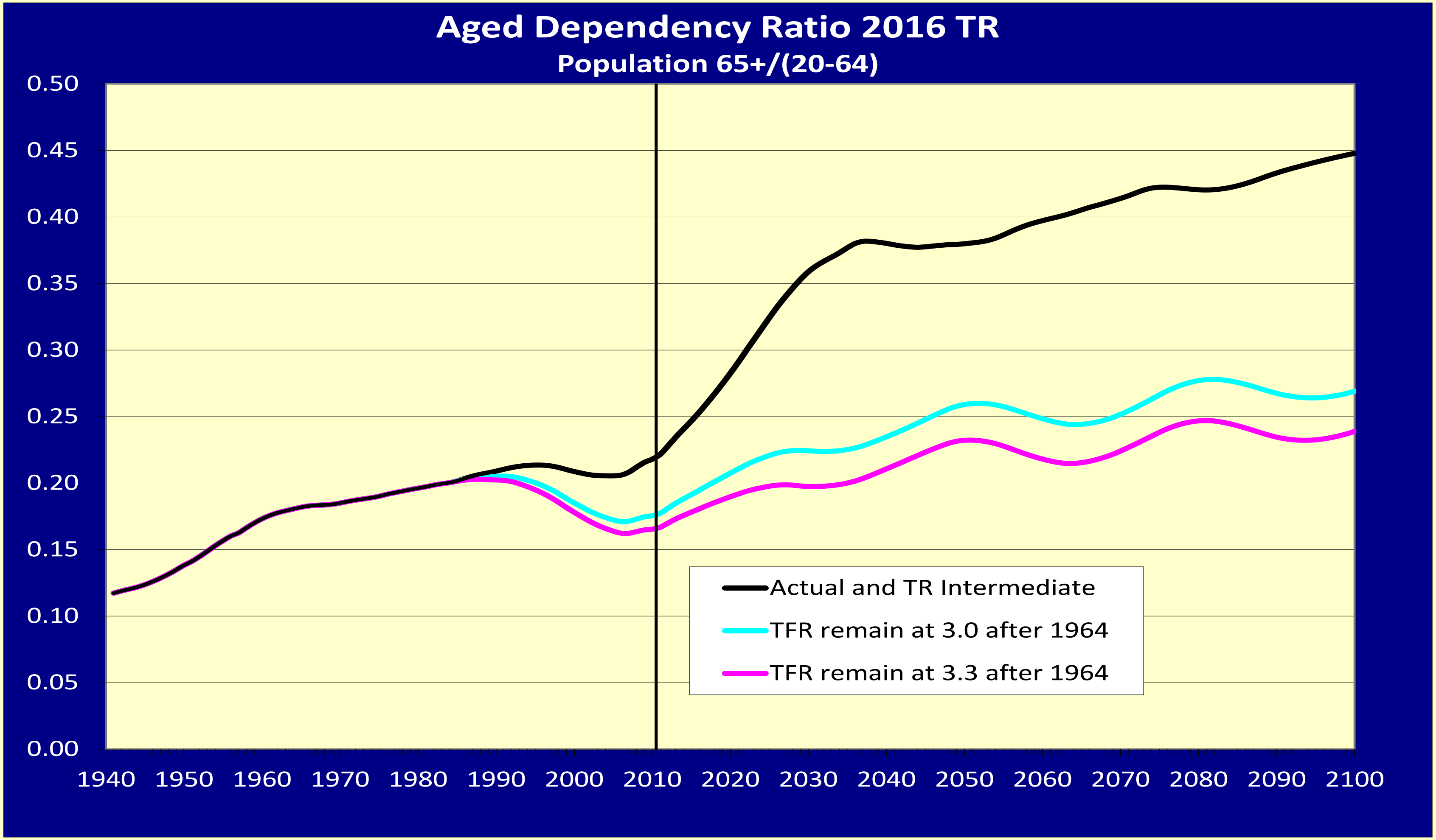
(2) Solvency: Ability to Pay Benefits

- DI needs additional attention by 2023
- If OASDI asset reserves are depleted in 2034, then by law, only 79% of scheduled benefits are payable
  - » OASDI & HI have no borrowing authority
- Has this ever happened?

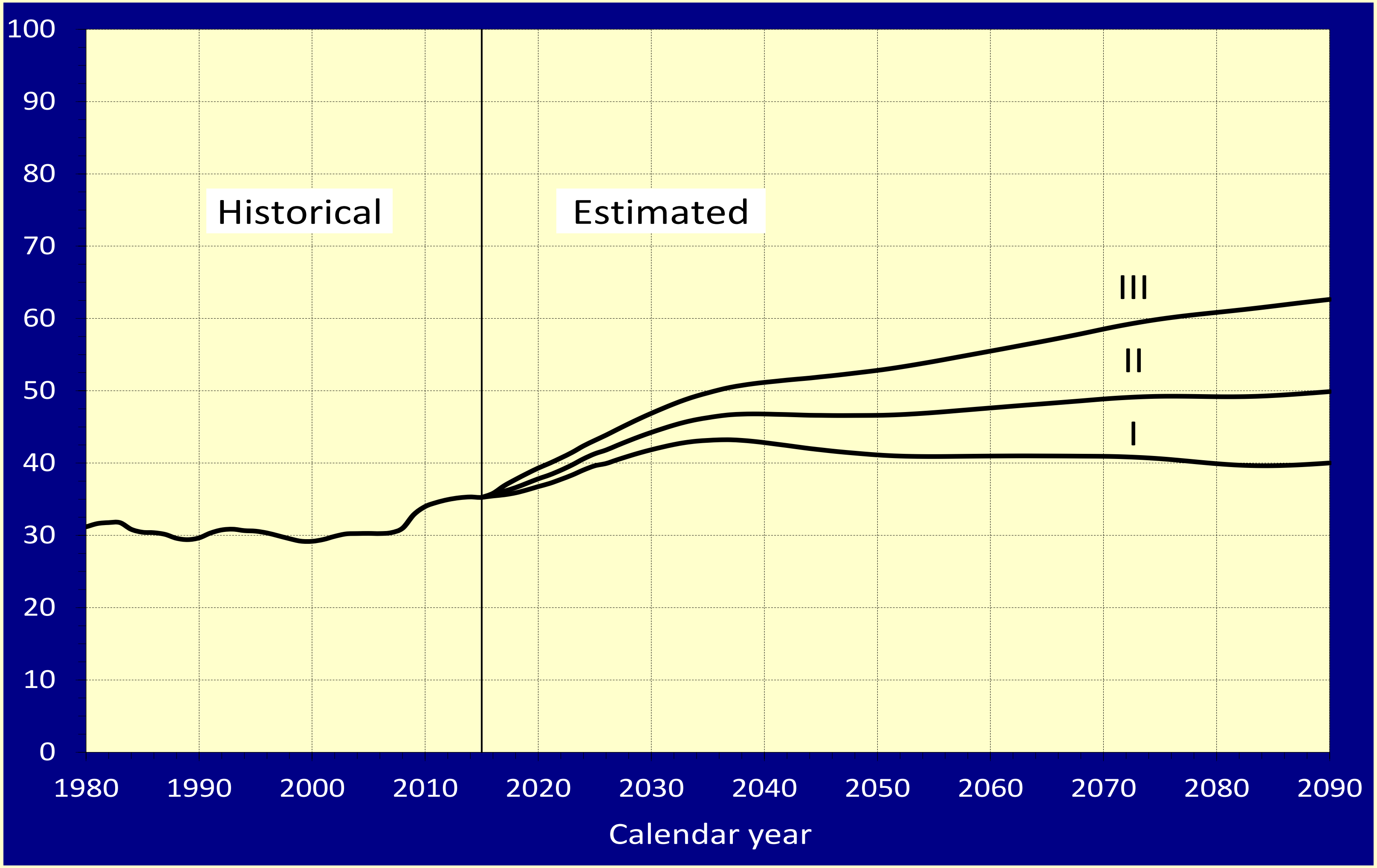
NO. Trust Fund depletion forces action

- » 1977 and 1983 Social Security Amendments

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

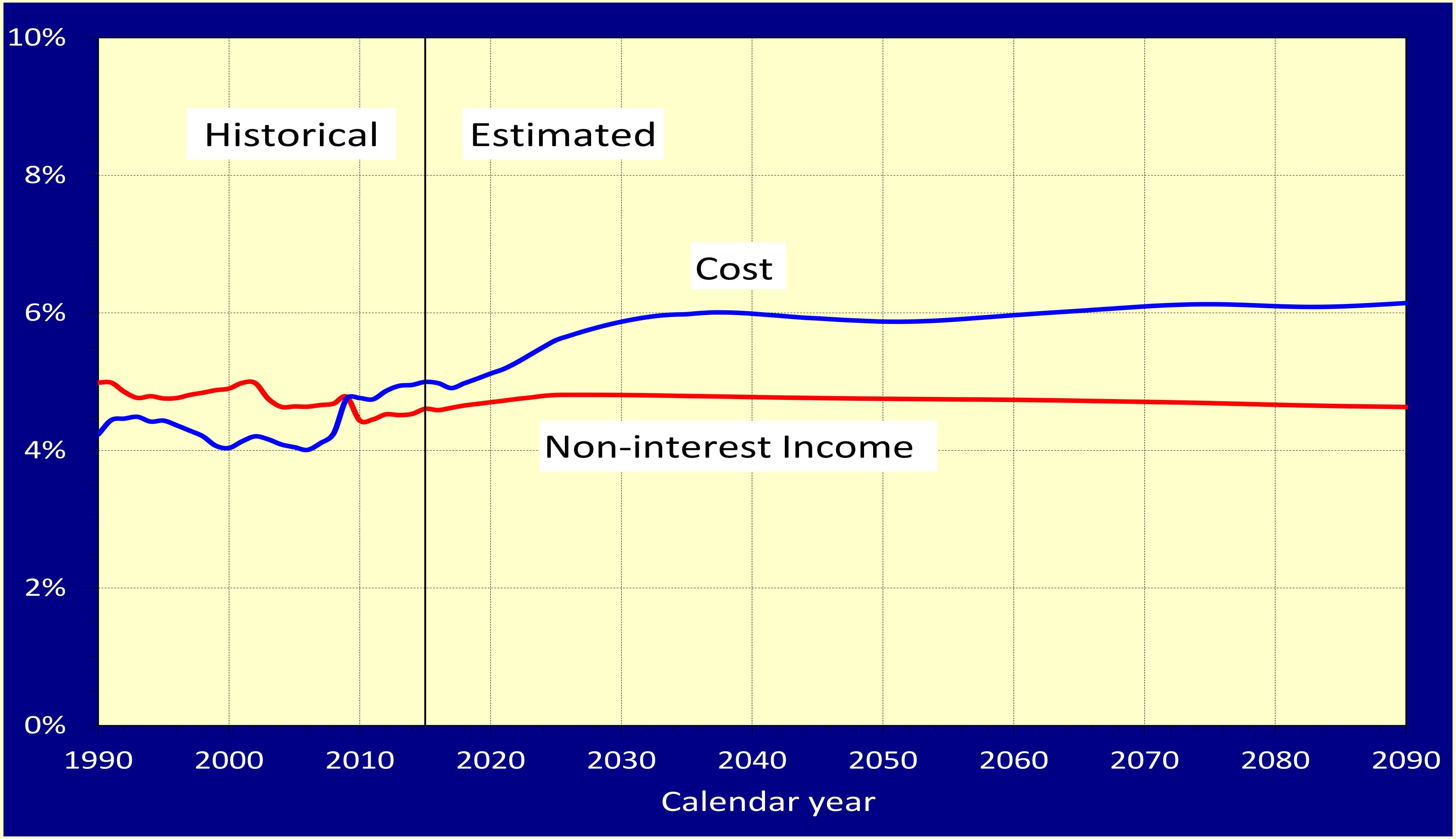


(3) Sustainability: Age Distribution Affects the Ratio of Beneficiaries per 100 Workers



(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 2.66% 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