Social Security Actuarial Status

The 2024 Annual Report of the Board of Trustees of the OASI and DI Trust Funds

Key Changes and Results Under Intermediate Assumptions

Plus Myths and Facts about Social Security

NATIONAL ACADEMY OF SOCIAL INSURANCE WEBINAR MAY 15, 2024

PREPARED BY THE OFFICE OF THE CHIEF ACTUARY, SSA

What is the Legislative Mandate for the Social Security 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
   - And the extent to which scheduled revenue would fall short under current law, indicating the size of legislative changes that will be needed

The report has been produced every year starting in 1941!

Three Primary Changes This Year

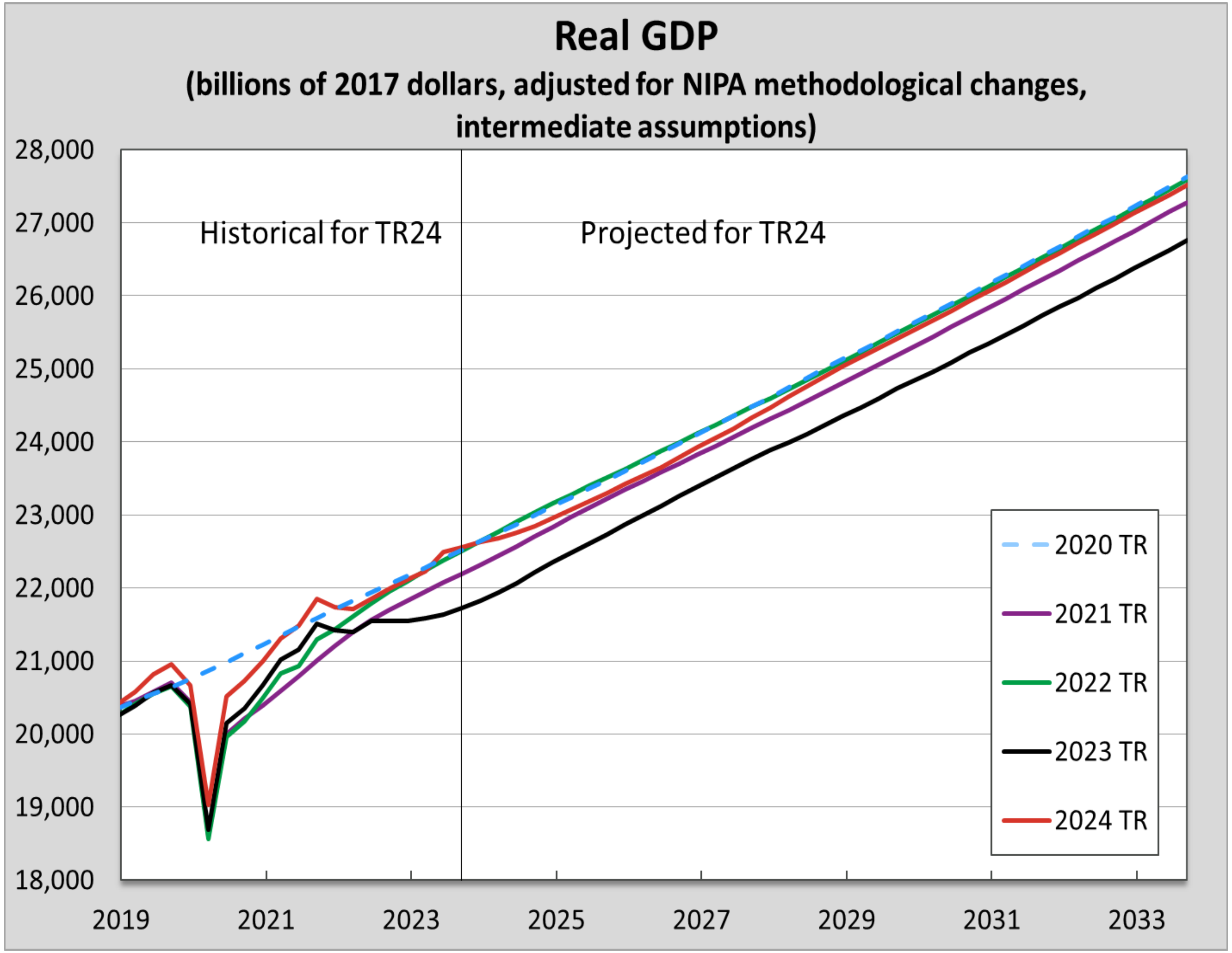
1. Economic: Given the unanticipated strength of the economy through 2023, the Trustees increased the level of labor productivity and the employment rate over the projection period. This offset the 3-percent permanent drop in the level of labor productivity and GDP assumed in last year's report.
2. Disability: The assumed ultimate disabled worker incidence rate was lowered from 4.8 to 4.5 per thousand, as applications for and awards of disability benefits have continued at low levels.
3. Demographic: The assumed ultimate total fertility rate (TFR) was lowered from 2.0 children per woman reached in 2056 to 1.9 children per woman reached in 2040, given continued low level of the TFR in recent years.

OASDI actuarial deficit now at 3.50 percent of payroll, down from 3.61 in 2023 report.

Primary Change 1: Higher GDP Level in 2024 TR Than in 2023 TR

As a result of recent economic developments, including strong growth in 2023, the assumed sustainable trend level of GDP for the 2024 TR is assessed to be about 3 percent higher than the level assumed in the 2023 TR.

The assumed ultimate trend growth rate of GDP is the same in both the 2023 and 2024 reports.

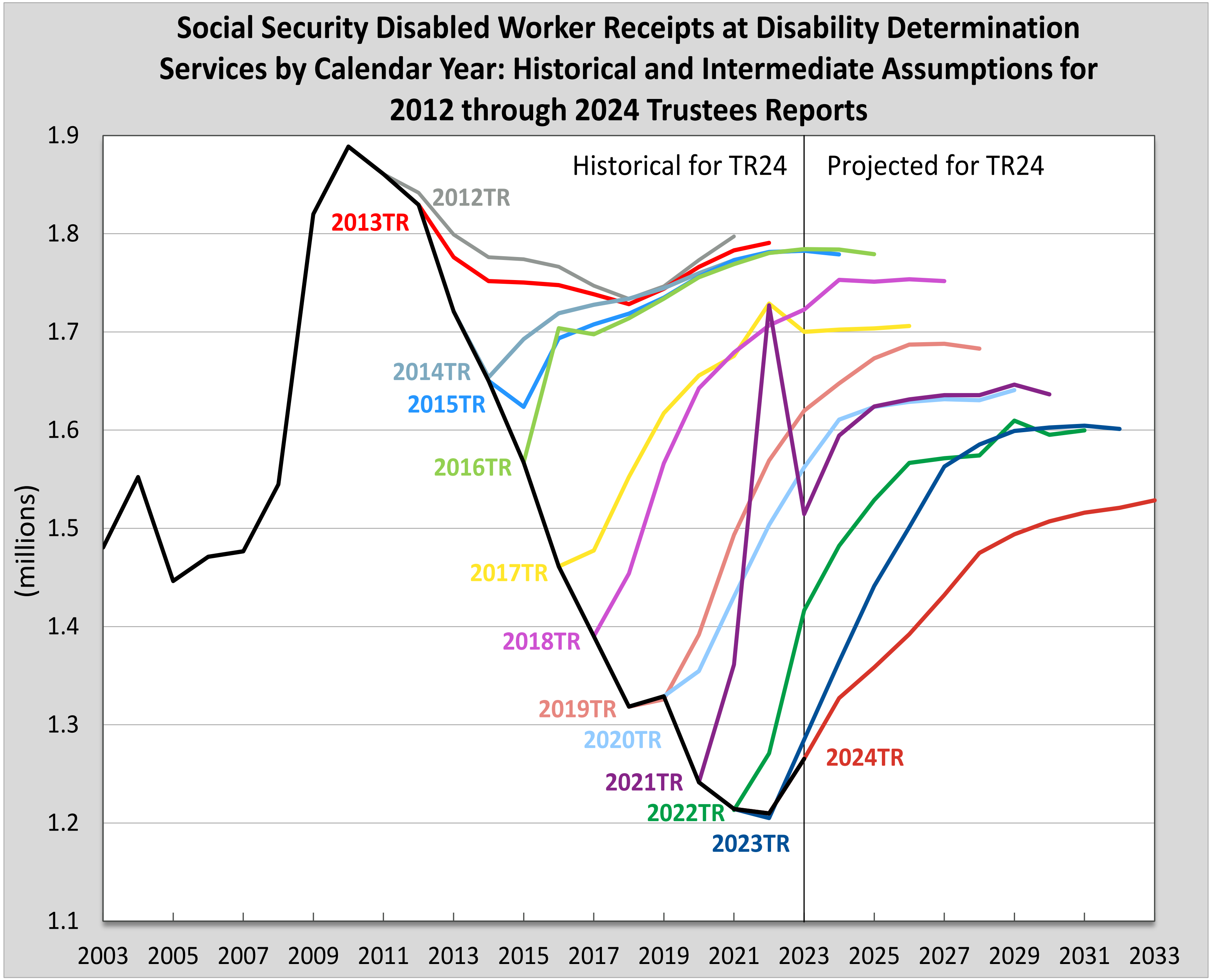


Primary Change 2: Applications for Disability Benefits Remain Near Historically Low Level

At the peak of the last economic cycle in 2007, applications were low, but increased rapidly in the 2008 recession from 1.5 million in 2007 to 1.9 million in 2010.

In 2017 through 2022, applications have dropped below the 2007 level.

Applications increased in 2023 but remain near historically low levels.

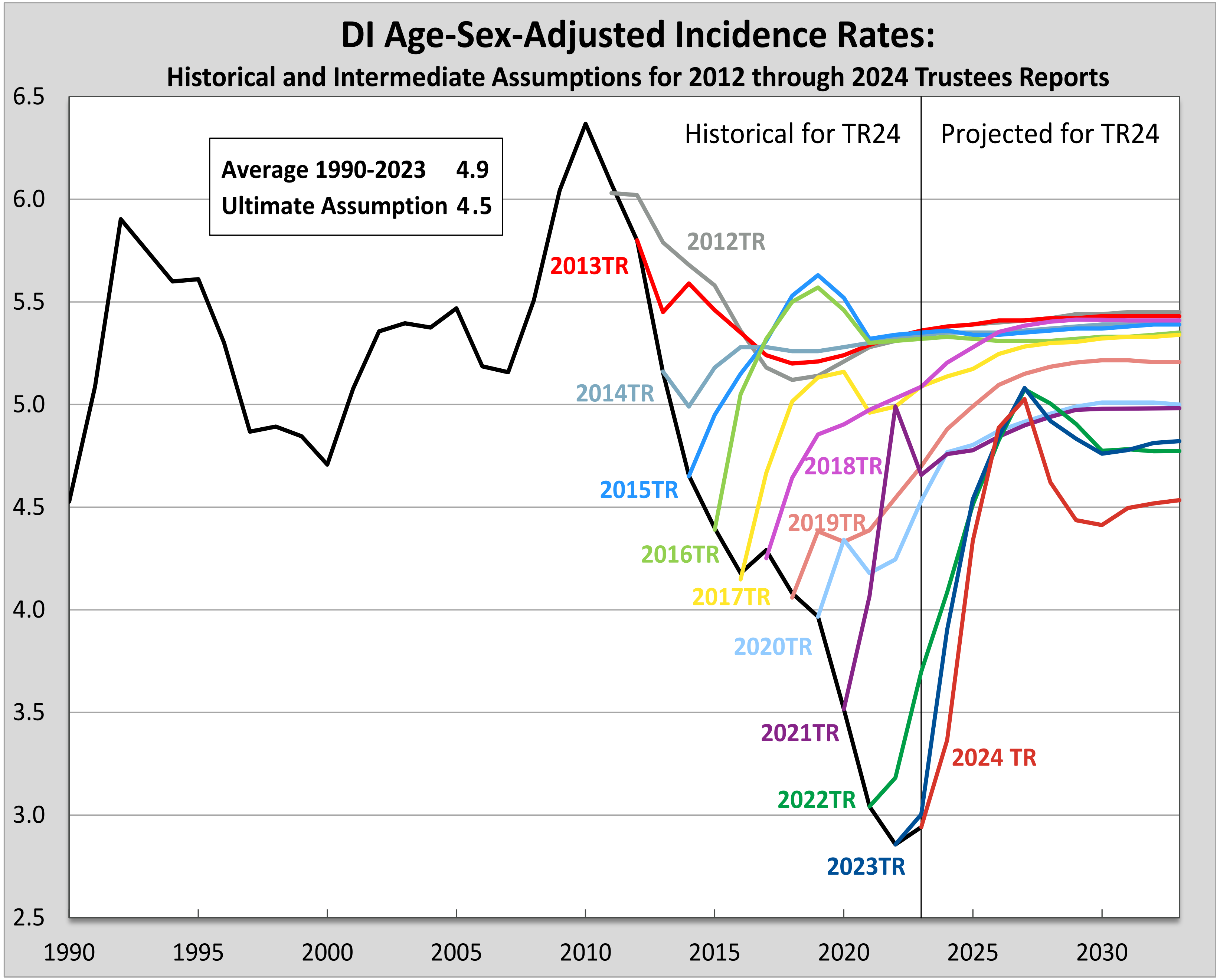


Primary Change 2: Disability Incidence Rate Also Remains At Historic Low Level

DI disabled worker incidence rate rose sharply in the 2008 recession and has declined since the peak in 2010 to extraordinarily low levels in 2016 through 2022.

Incidence rates increased slightly in 2023 and are projected to surge in order to reduce pending claims (assuming increased staffing).

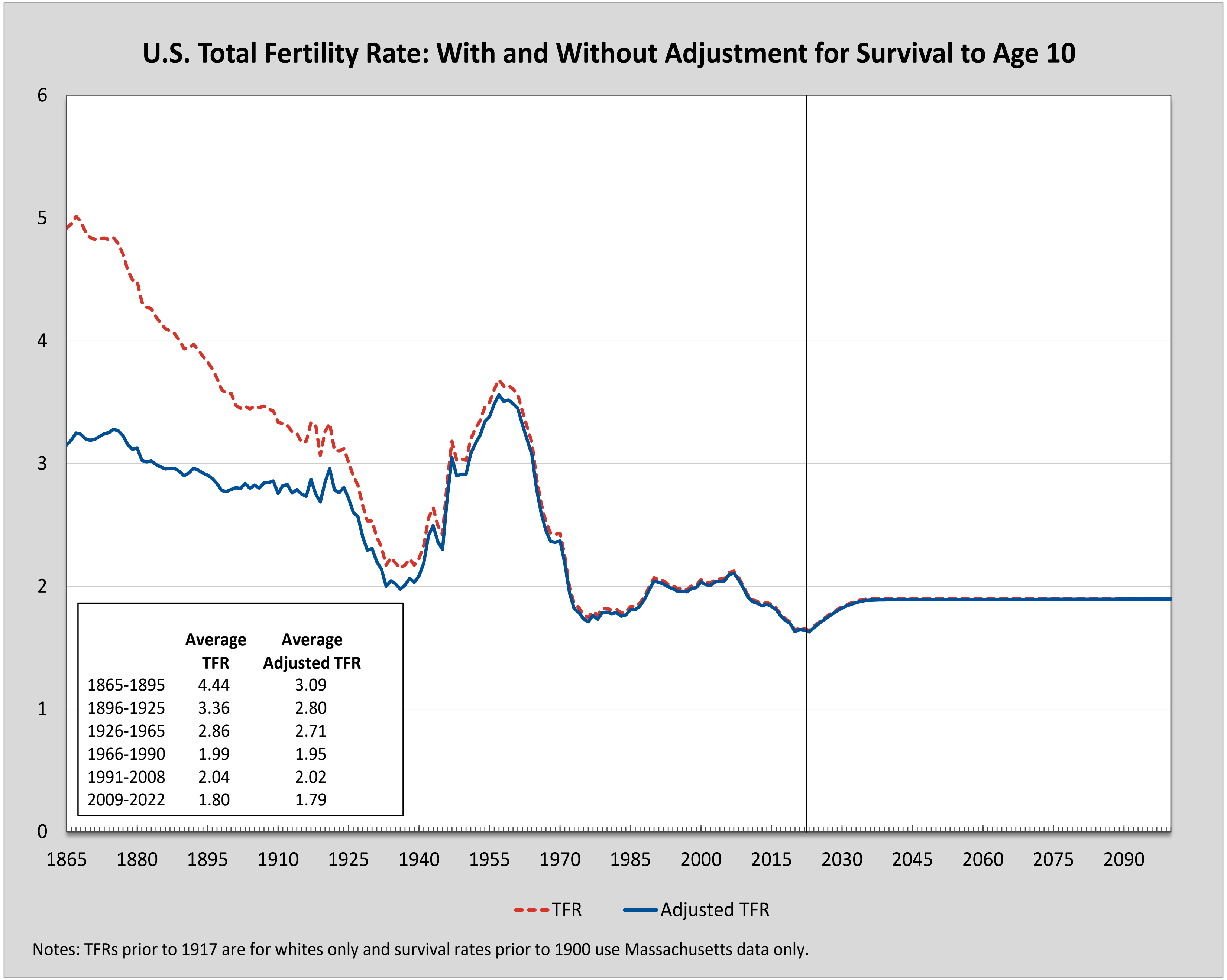
Note recent rise in pending claims due to limited staffing: see Actuarial Note 163.



Primary Change 3: Reduce Ultimate Total Fertility Rate from 2.0 to 1.9

Average “Adjusted” Total Fertility Rate falls from 3 to 2 after 1965.

Will birth rates rebound from recent historic low as in 1990-2008? If so, by how much? How about immigration?



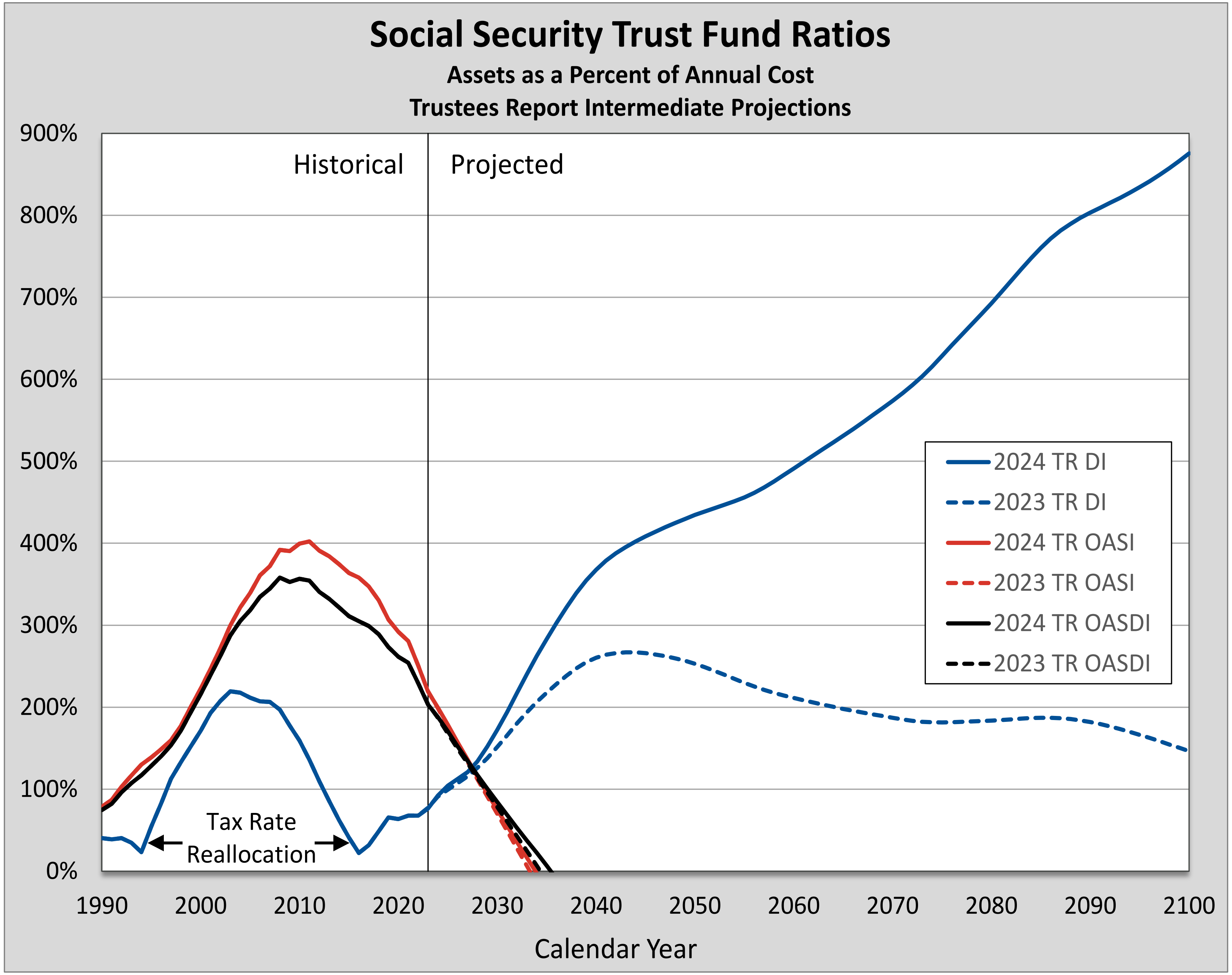
Solvency: OASI+DI Trust Fund Reserve Depletion in 2035

(13 months later than last year)

OASDI reserve depletion date has varied from 2033 to 2035 in reports over the last 13 years (2012-2024) and from 2029 to 2042 in reports over the last 30 years (1995-2024).

OASI reserve depletion date now November 2033 versus April 2033 in the 2023 report.

DI Trust Fund: reserves do not deplete, due largely to continued low applications and awards, and a lower assumed ultimate disability incidence rate.

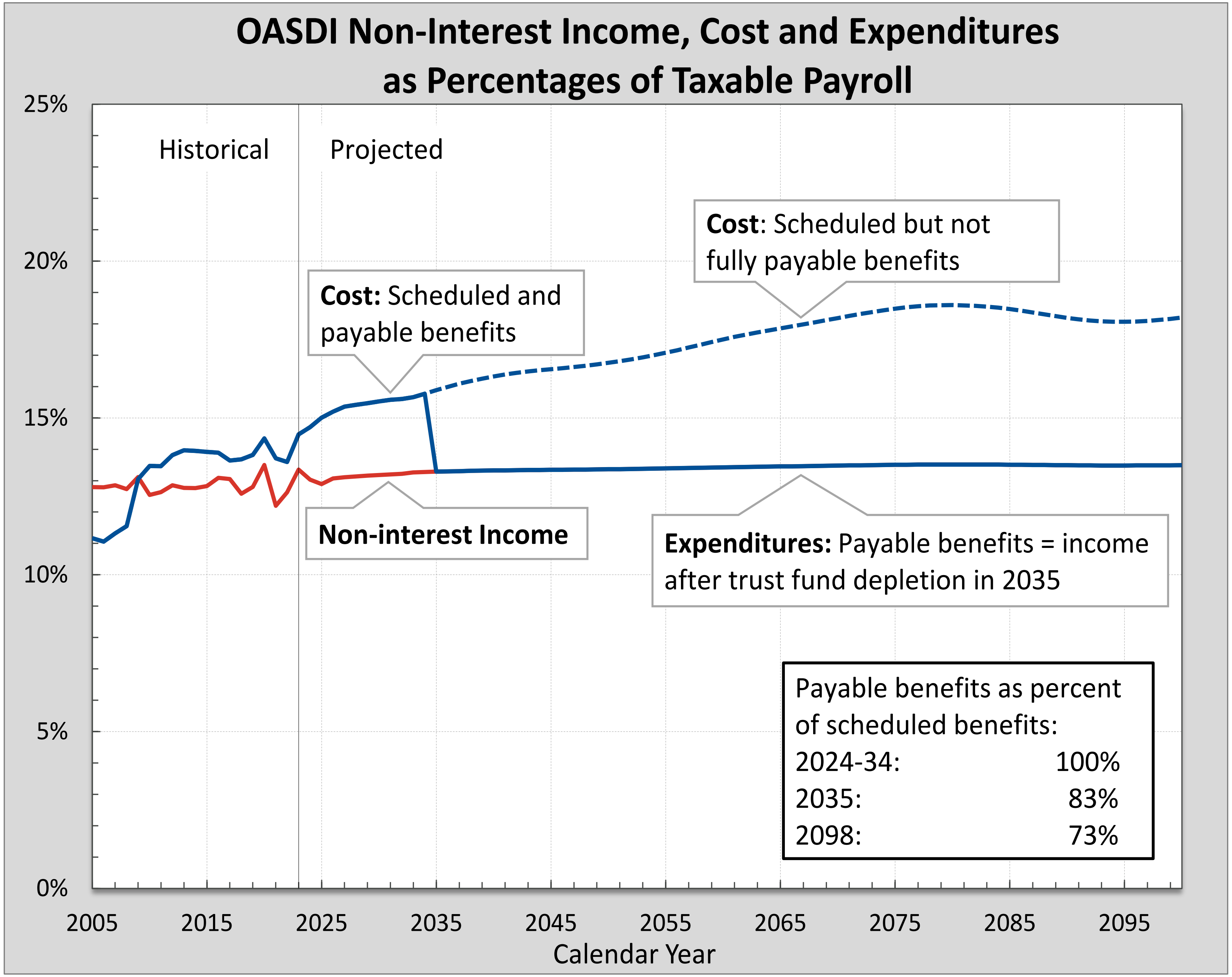


OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Persistent negative annual cash-flow balance starting in 2010.

83 percent of scheduled benefits still payable at trust fund reserve depletion: was 80 percent in last year's report.

73 percent payable for 2098: was 74 percent for 2097 in last year's report.

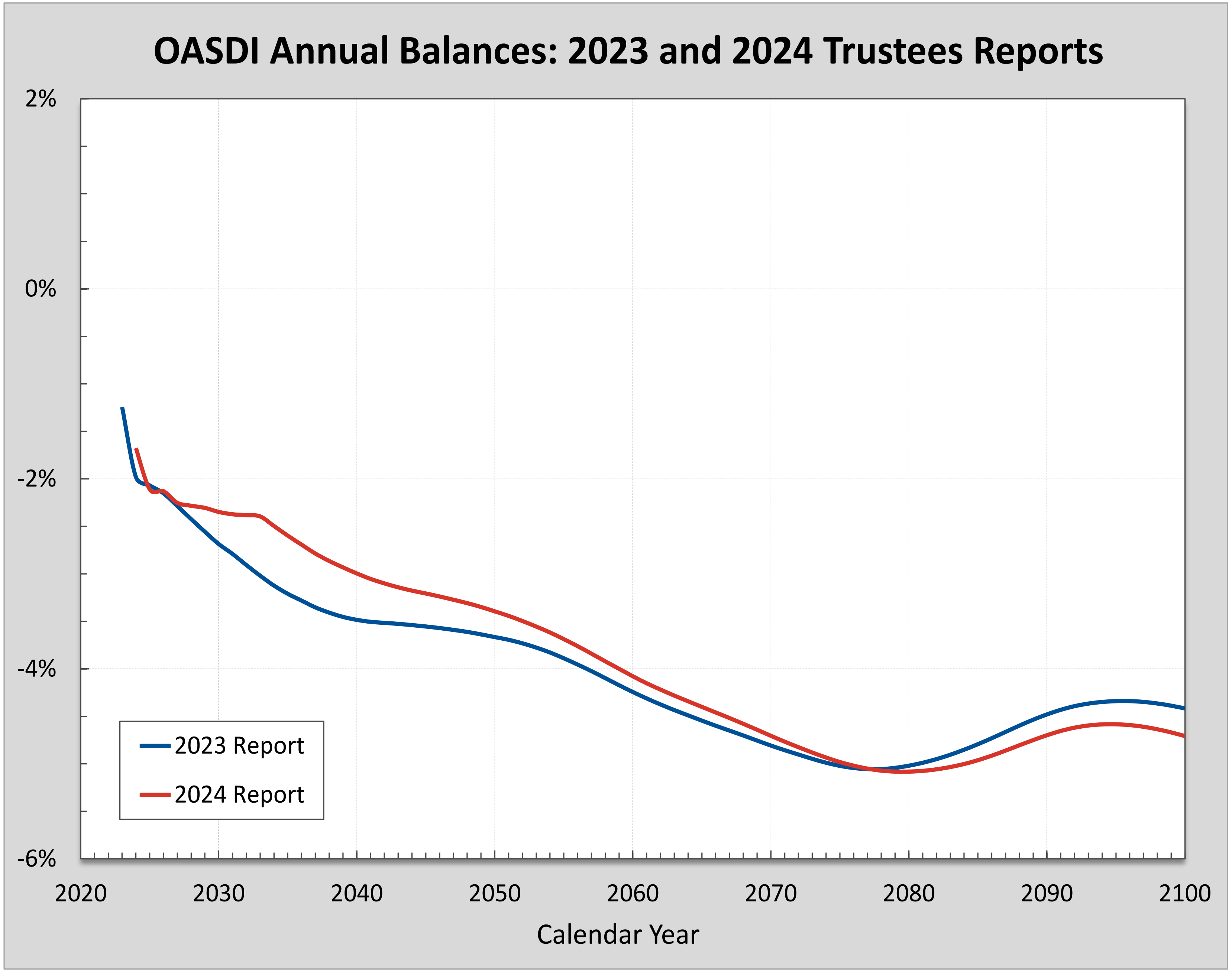


Changes in OASDI Annual Balance

Annual income rate minus annual cost rate.

Annual deficits are smaller through 2077 and larger thereafter.

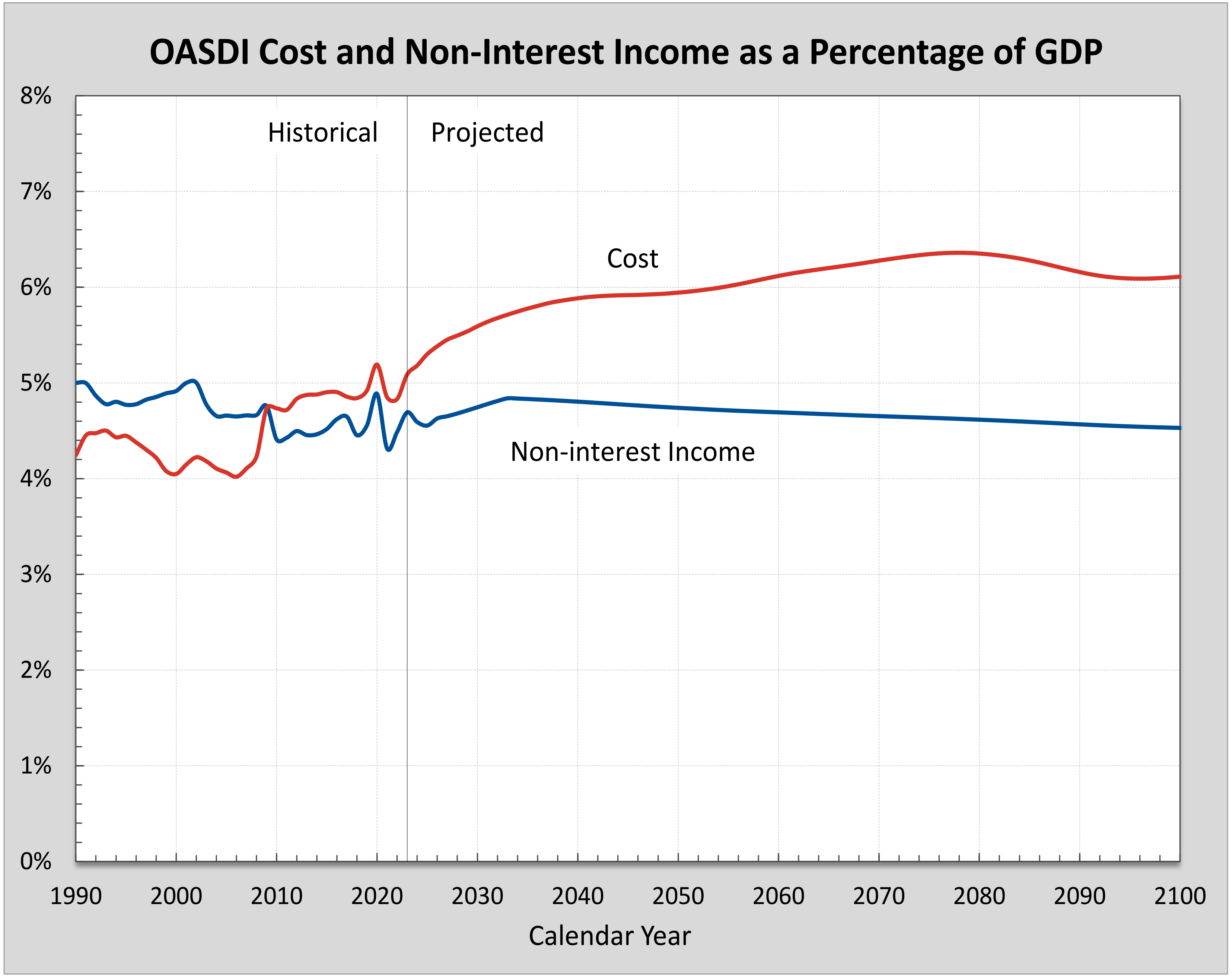
The decreased annual deficits are mainly due to changes in economic factors and the lower assumed ultimate disability incidence rate, which are gradually offset by the lower recent and assumed ultimate total fertility rate.



SUSTAINABILITY: Cost as percent of GDP

Rises from a 4.2 percent average in 1990-2008, to a peak of about 6.4 percent for 2078, and then declines to 6.1 percent by 2098.

Need to close the gap: raise revenue by about 33%, lower cost by about 25%, or some combination.



Why are we now facing OASDI Trust Fund reserve depletion in 2035, almost 30 years earlier than projected in the 1983 report, after enactment of the 1983 Amendments?

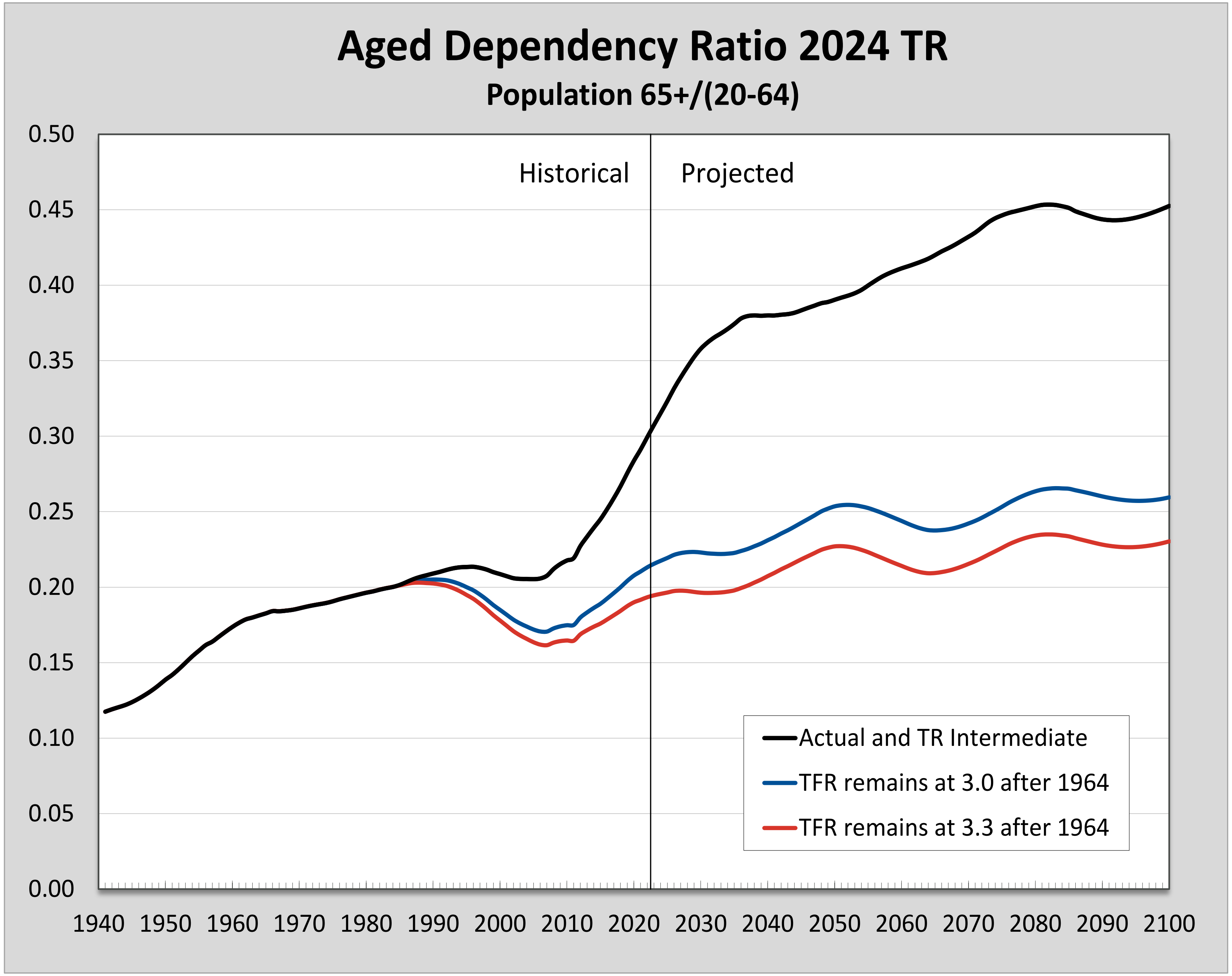
Not due to increased longevity—projected life expectancy at age 65 in the 1983 report was extremely accurate.

Aging – Change in Age Distribution

This is the primary reason for increasing cost relative to payroll and GDP.

Mainly due to drop in birth rates.

However, this was also known and anticipated in 1983.

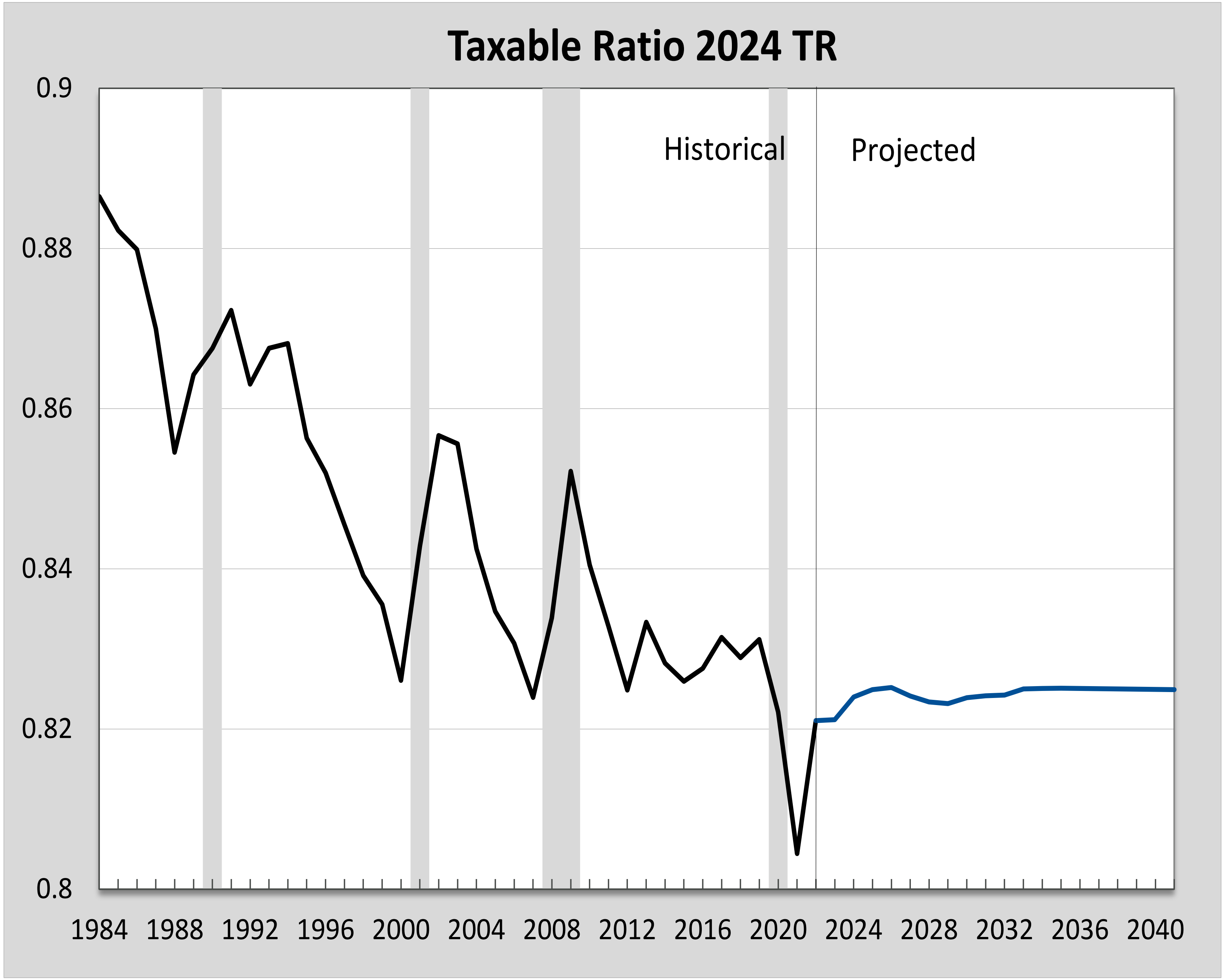


The Main Issue: Drop in Ratio of Taxable Earnings to All OASDI Covered Earnings

Declined since 1983 due to increasing concentration of earnings at the top of the distribution. Between 1983 and 2000, the average annual earnings for the top 6 percent of earners rose 62 percent more than CPI, but only 17 percent more for the other 94 percent of earners.

The ratio dropped to 82.5 percent by 2000 and has remained there except for cyclic effects.

This drop was NOT anticipated in 1983.



Now, a Few Common Myths

1) Social Security is bankrupt, insolvent, running out of money
2) Increasing longevity and disability are the problem
3) The money in the trust funds has been spent
4) I should start benefits as soon as I can
5) My tax contributions have been saved up for ***me***
6) Benefits scheduled in the law would be all I need
7) Social Security is responsible for the Federal debt
8) "Fixing" the Social Security shortfall will be hard

Myth 1: Social Security Is Bankrupt, Insolvent, Running Out of Money

Facts:

a) Social Security ***cannot*** run out of money

b) Even if Congress allowed trust fund reserves to deplete…

- Continuing income would cover 83% of scheduled benefits in 2035
- And 73% of scheduled benefits in 2098

c) Over 80+ years, Congress has always acted timely

- Scheduled benefits have always been paid in full and on time

Myth 2: Increasing Longevity and Disability Are the Problem

Facts:

a) The age distribution of the population is the most important factor in Social Security cost
   - Population "aging" through 2040 is mainly due to birth rates

b) Shifting earnings levels have reduced income since 1983 and for the future

c) Disability costs have been dropping

Myth 3: The Money in the Trust Funds Has Been Spent

<u>Facts:</u>

a) Every dollar of income is invested by law in ***interest-bearing securities backed by the full faith and credit of the United States***
   - These are not “worthless IOUs”!

b) Securities are issued at market yield rates

c) Securities held by the Trust Funds have always been honored, as have all other Treasury issues

Myth 4: I Should Start Benefits As Soon As I Can

Facts:

a) Social Security retirement benefits are designed to provide about the same lifetime value regardless of when you start, ***on average***

b) When to start is personal—you might want to wait if you are in average or better health

c) If you delay by working or using other assets, Social Security increases your monthly life annuity at terms available nowhere else

Myth 5: My Tax Contributions Have Been Saved Up for *ME*

Facts:

a) Social Security is a “social contract”

b) Basically, benefits paid today are financed primarily from recent contributions by current workers

c) This is why the age distribution of the population is fundamental—the workers of the day share with the retirees, survivors, and disabled of the day

d) This is true for advance-funded systems as well

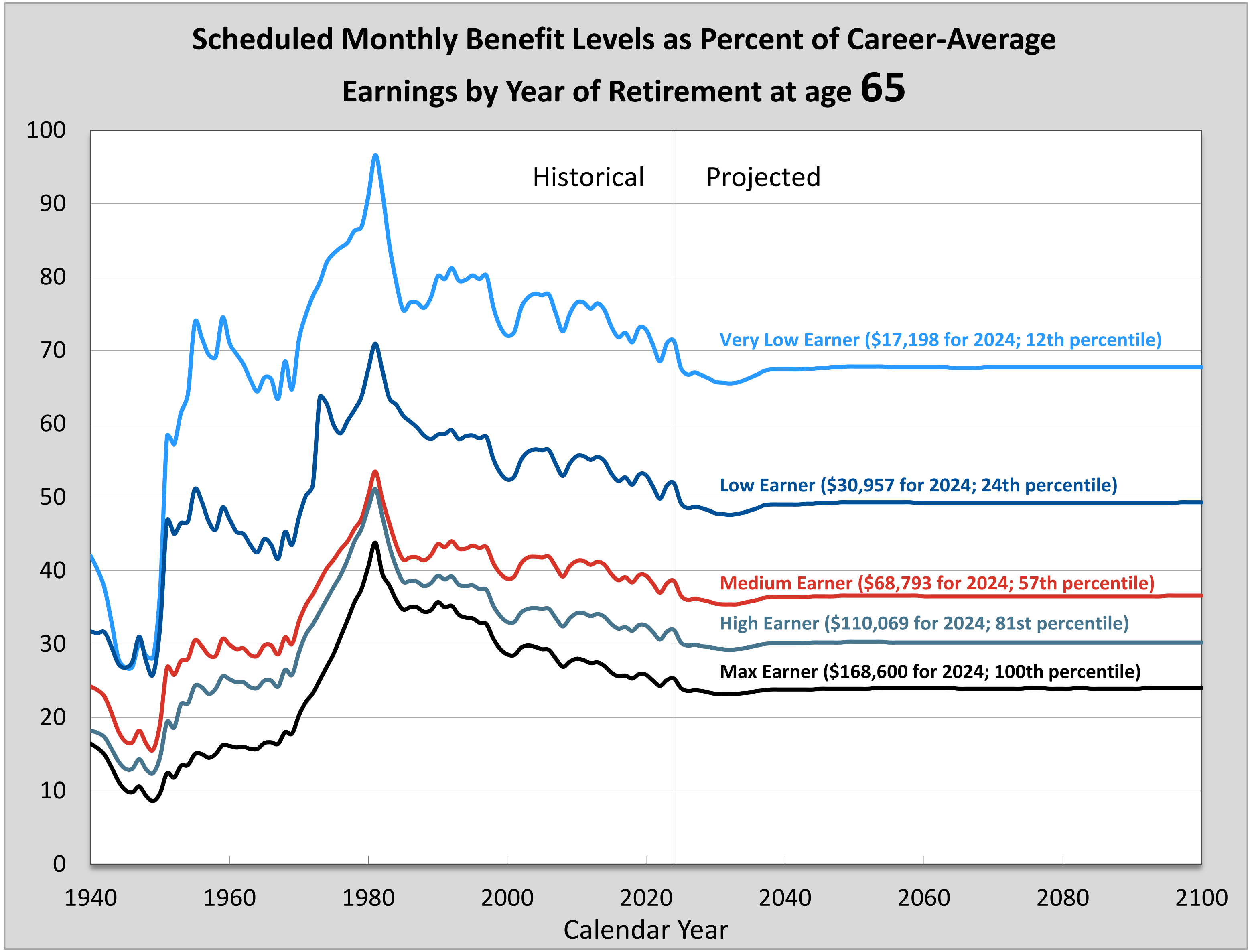
Myth 6: Benefits Scheduled in the Law Will Be All I Need

Facts:

a) Recall the 3-legged stool: 75-80% in retirement
b) Social Security provides about 40% of career-average earnings (varies from 20% to 70%)
c) So the other legs of the stool—personal savings and private pensions—are needed
d) But increasingly, Social Security is the primary source of lifetime income

Replacement Rates Based on the 2024 TR

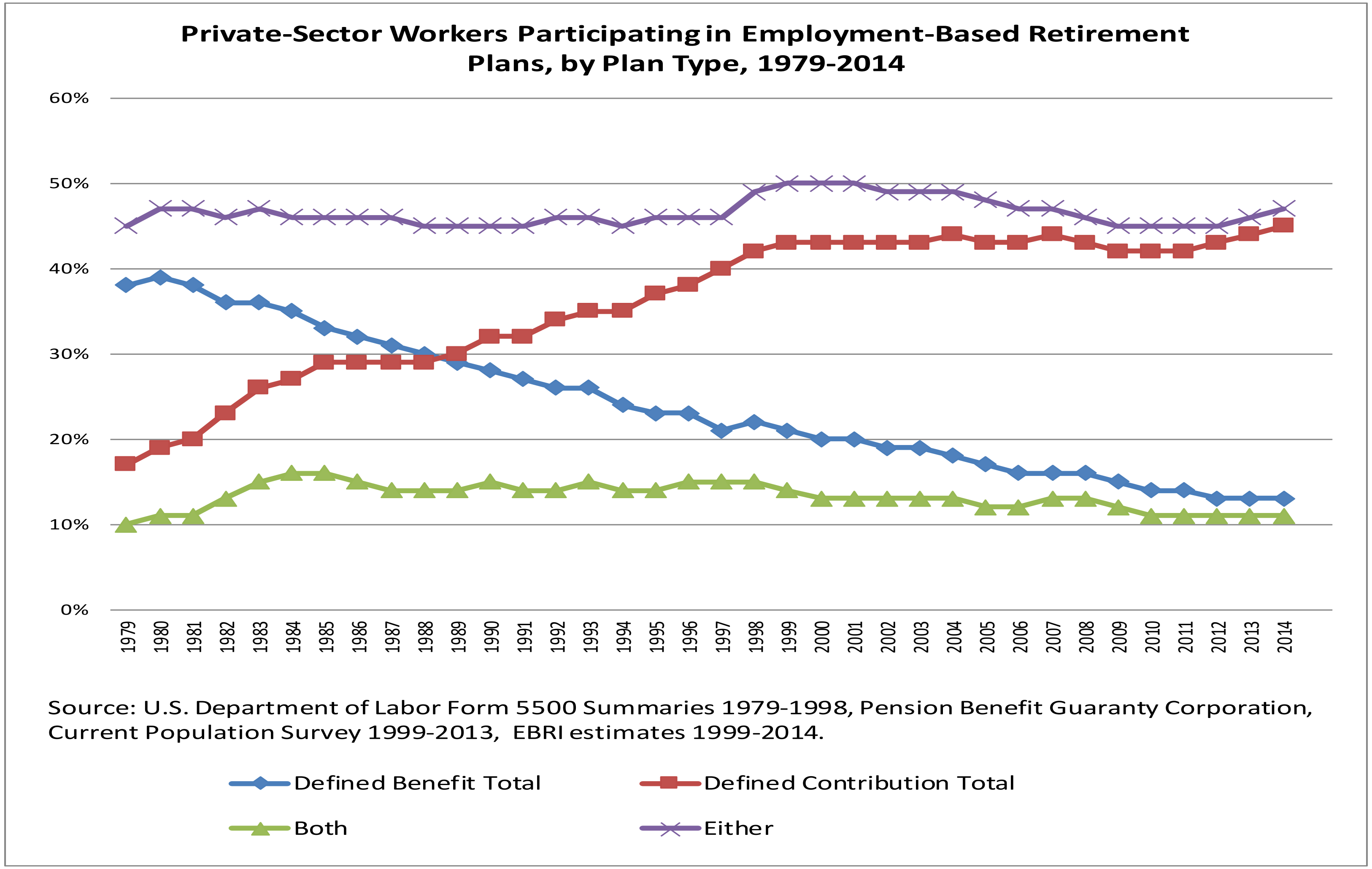
Scheduled in current law reflecting progressive benefit formula



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

Defined Benefit Plans Replaced by DC Plans

And lump sum options increasing for DB plans



Myth 7: Social Security Is Responsible for the Federal Debt

Facts:

a) OASI, DI, HI Trust Funds do ***not*** add to the debt

b) In fact, these trust funds finance part of the total federal debt

c) These programs ***cannot*** borrow under current law

d) The "budget scoring convention" is inconsistent with the law

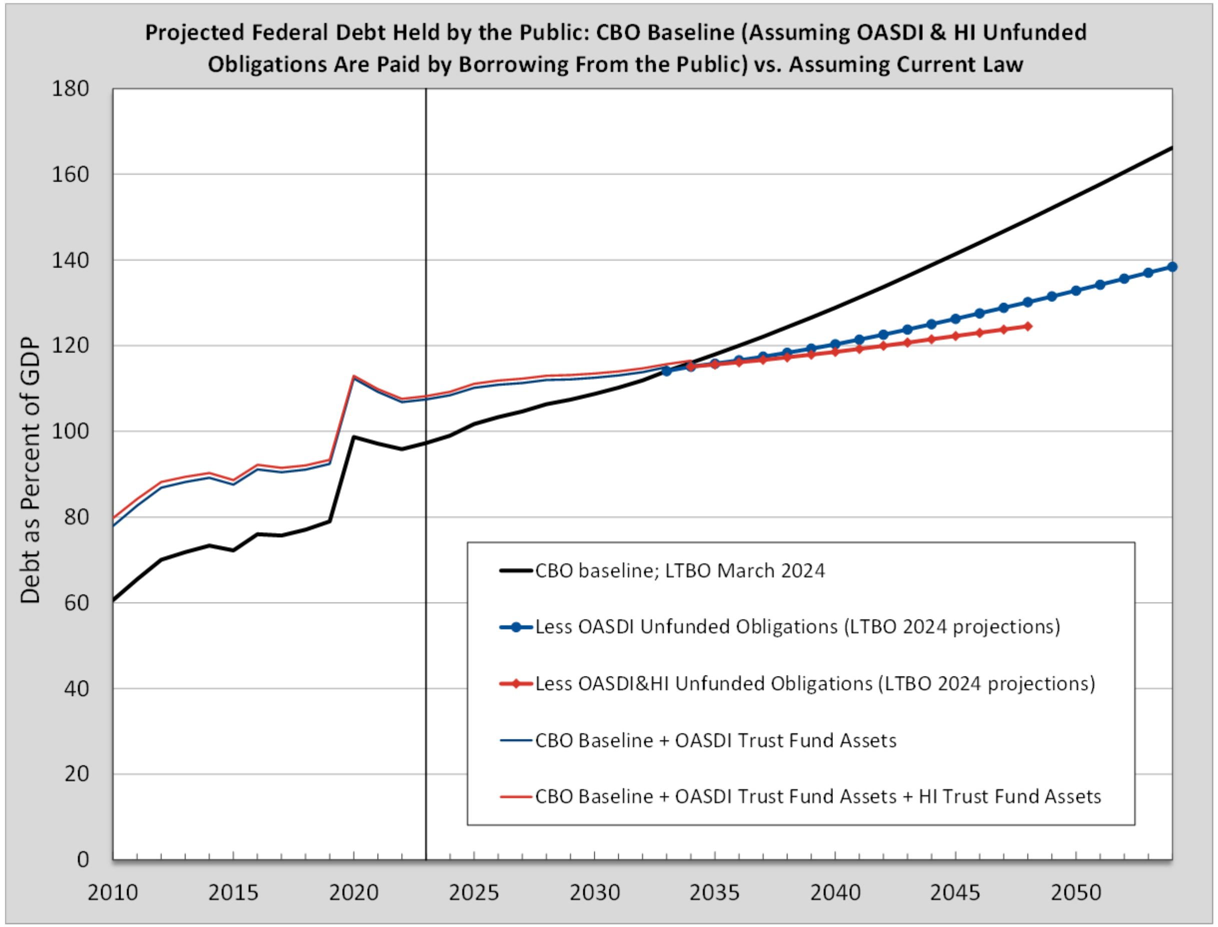
Sec. 257(b)(1) of the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177

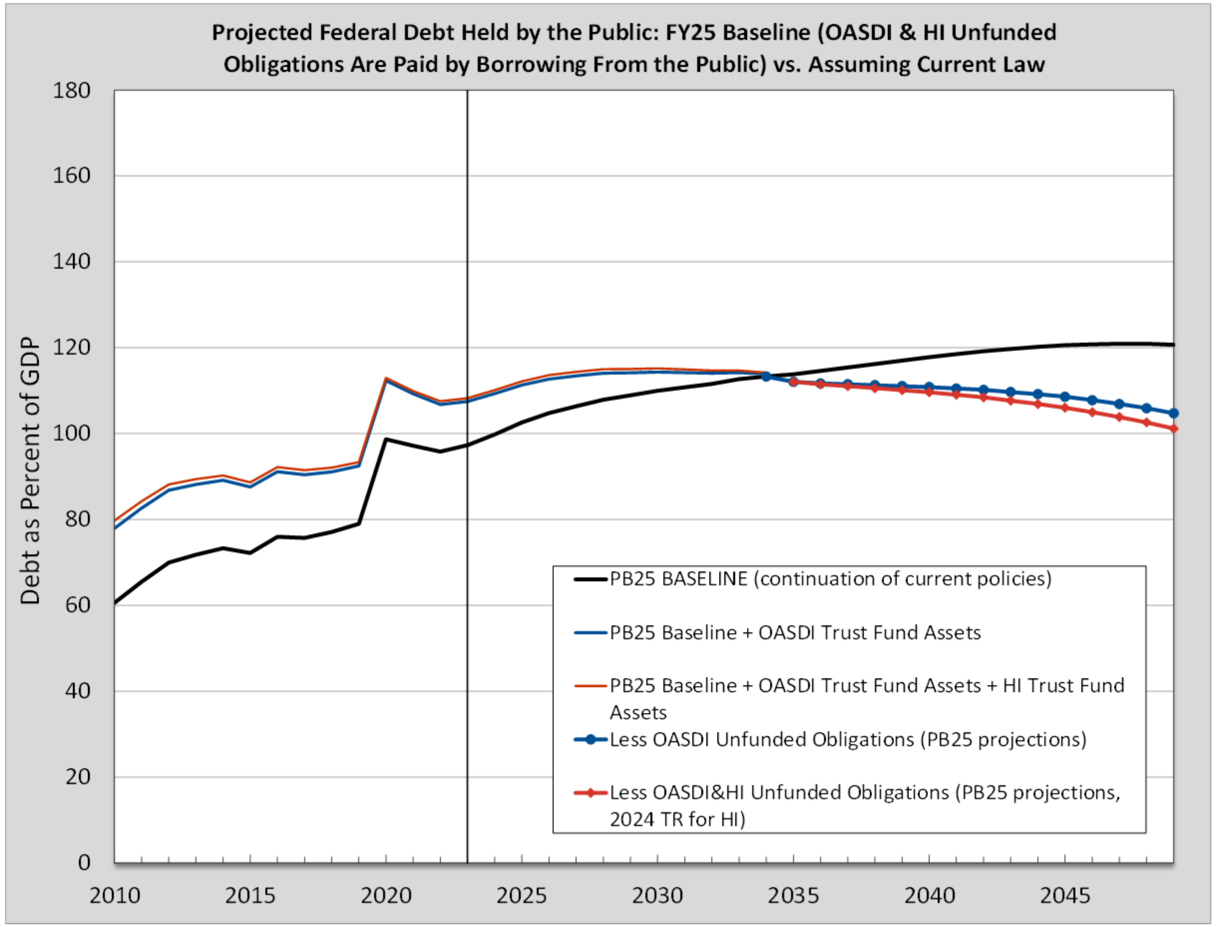
"Laws providing or creating direct spending and receipts are assumed to operate in the manner specified in those laws for each such year and funding for entitlement authority is assumed to be adequate to make all payments required by those laws."

Full scheduled payments are not required after Trust Fund reserve depletion, they are not even allowed.

What If We Project Federal Debt Consistent With the Law?

CBO and OMB Budget baselines assume borrowing Trust Fund from the public versus projections consistent with current law, where OASDHI shortfalls must be met with added revenue or reduced cost; note Trust Fund reserves are part of total federal debt





Myth 8: "Fixing" the Social Security Shortfall Will Be Hard

Facts:

a) Need to adjust the benefits or revenue given the shift in the age distribution

b) By 2035, lower scheduled benefits by 1/4, or raise revenue by 1/3, or some combination

c) Question: what do the American people want?

d) Many options are already under consideration

Some Ways to Lower Cost

- Lower benefits for retirees—not disabled?
  - Increase normal retirement age (lowers OASDI cost, but increases DI cost)
  - Can exempt long-career low earners *(Simpson Bowles 2010)*
- Lower benefits mainly for high earners?
  - Reduce PIA above some level
  - Often combined with increasing PIA below some level, subject to work year requirements
- Lower benefits mainly for the oldest old?
  - Reduce the COLA, using the chain-weighted C-CPI-U
  - But some say increase it with the CPI-E (based on purchases of consumers over age 62)

Some Ways to Increase Revenue

- Raise the 12.4 percent OASDI payroll tax rate?
- Raise tax on highest earners?
  - Increase taxable maximum amount, to tax 90% of earnings?
  - Or tax earnings above some level, like $400,000
- Take advantage of **returns on investments**
  - Invest trust fund reserves as suggested by Kerrey/Simpson 1995 proposal and Ball in 1994-96 Advisory Council
  - Or tax investment returns as in the 2010 ACA and in many proposals since

For More Information Go To http://www.ssa.gov/oact/

- There you will find:
  - All OASDI Trustees Reports: 1941-2024
  - Detailed single-year tables for recent reports
  - Our estimates for comprehensive proposals
  - Our estimates for the individual provisions
  - Actuarial notes, including replacement rates
  - Actuarial studies
  - Extensive databases
  - Congressional testimonies
  - Presentations by OCACT employees