Social Security Actuarial Status

The 2016 Annual Report of the Board of Trustees of the OASI and DI Trust Funds

Key Results under Intermediate Assumptions

Prepared by the Office of the Chief Actuary, SSA

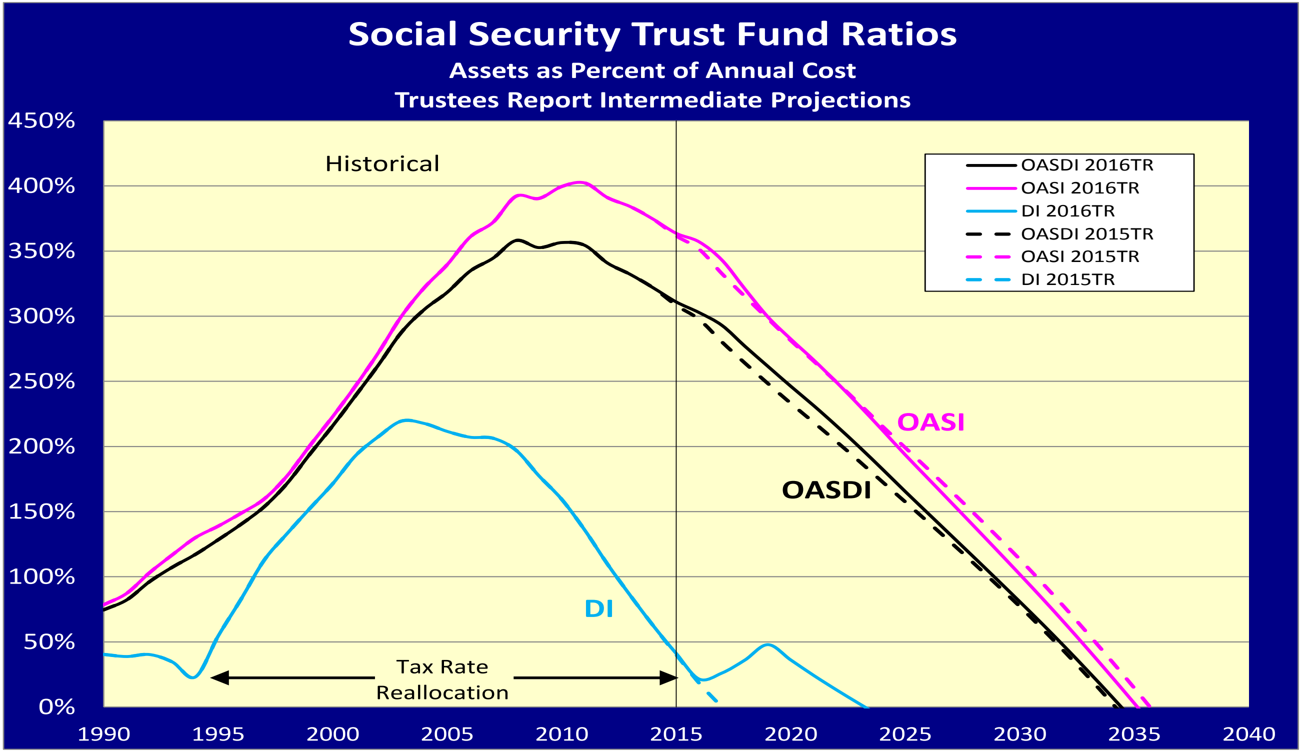
June 2016

What Is the Legislative Mandate for the 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 will fall short, forcing cuts or delays in benefits in the absence of legislative change

SOLVENCY: OASDI Trust Fund Reserve Depletion 2034 (same as last year)

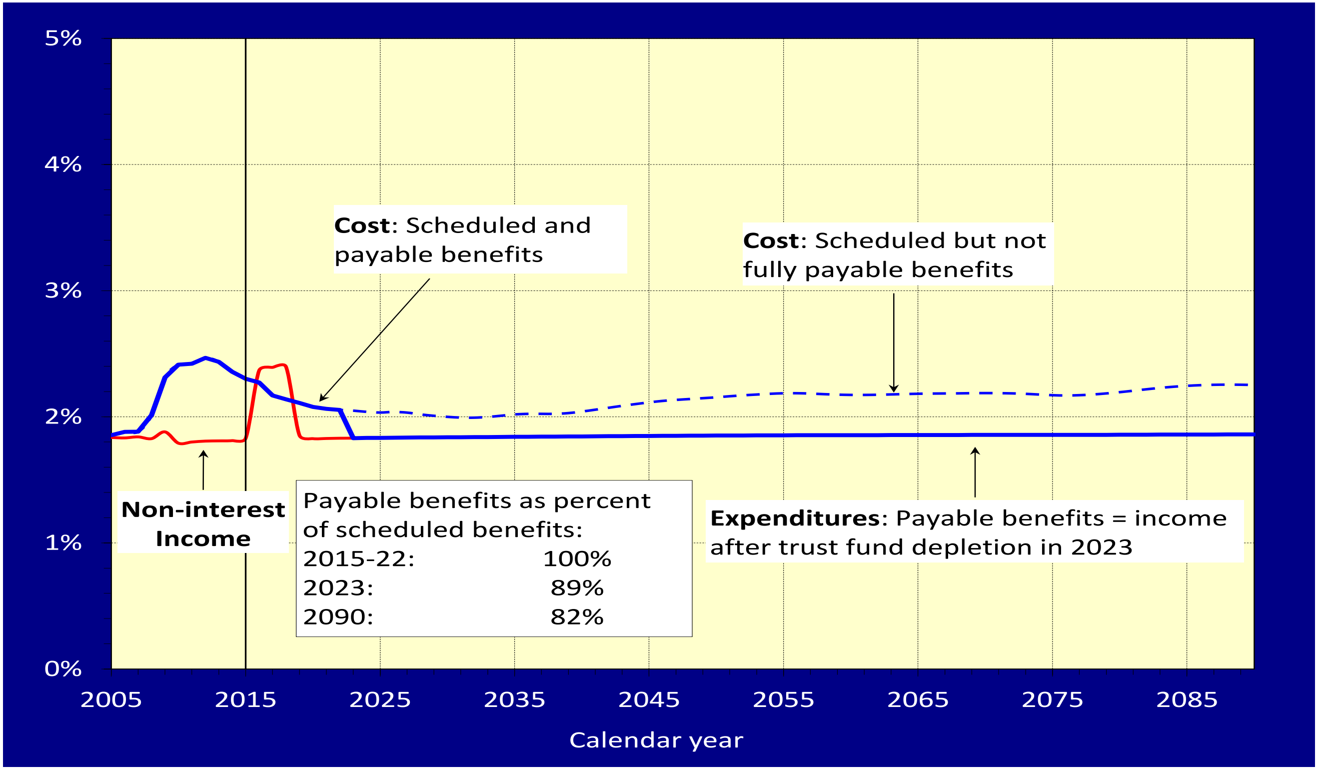
- Reserve depletion date varied from 2029 to 2042 in reports since 1995 (1995-2016)
- DI Trust Fund — reserve depletion in 2023, seven years later than last year
  - Change in depletion date due largely to the tax-rate reallocation enacted in the Bipartisan Budget Act of 2015



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

89% of scheduled benefits still payable at trust fund reserve depletion

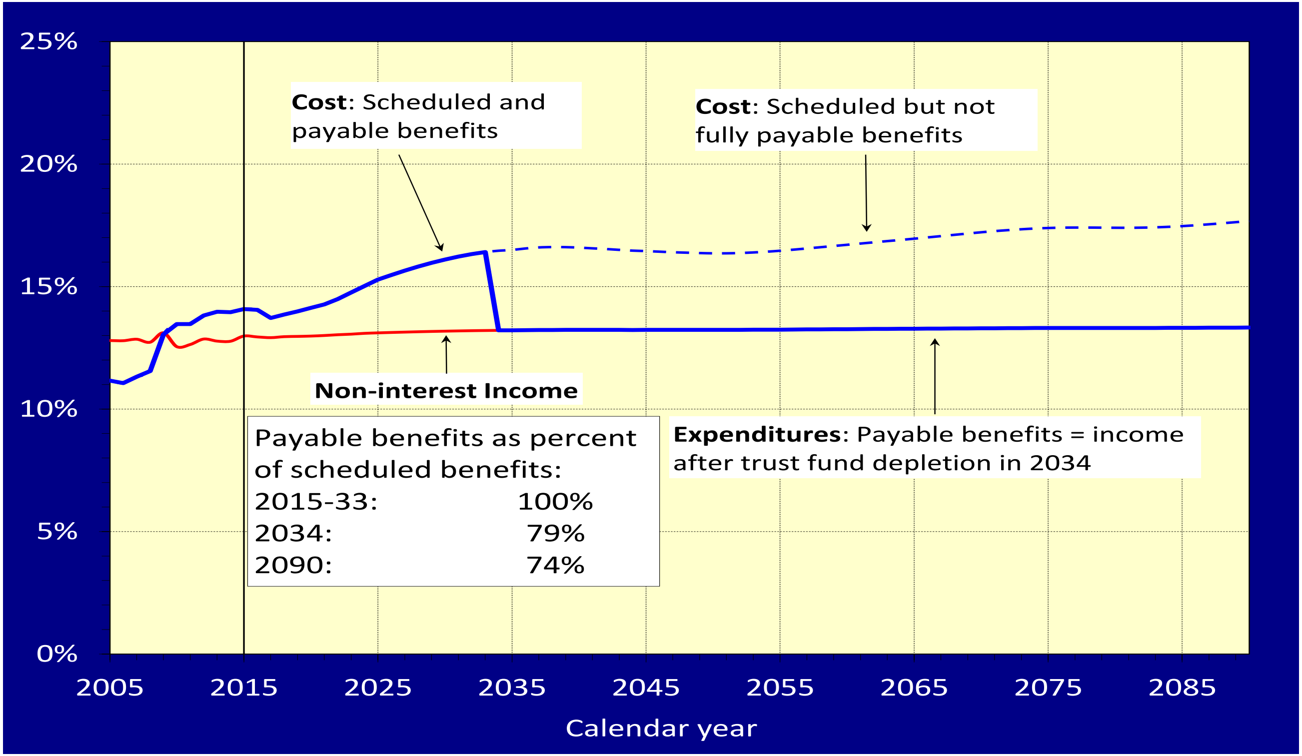
Annual deficit in 2090: 0.39 percent of payroll — 0.02 percent lower than last year



OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll
Persistent Negative Annual Cash-Flow Balance Starting in 2010

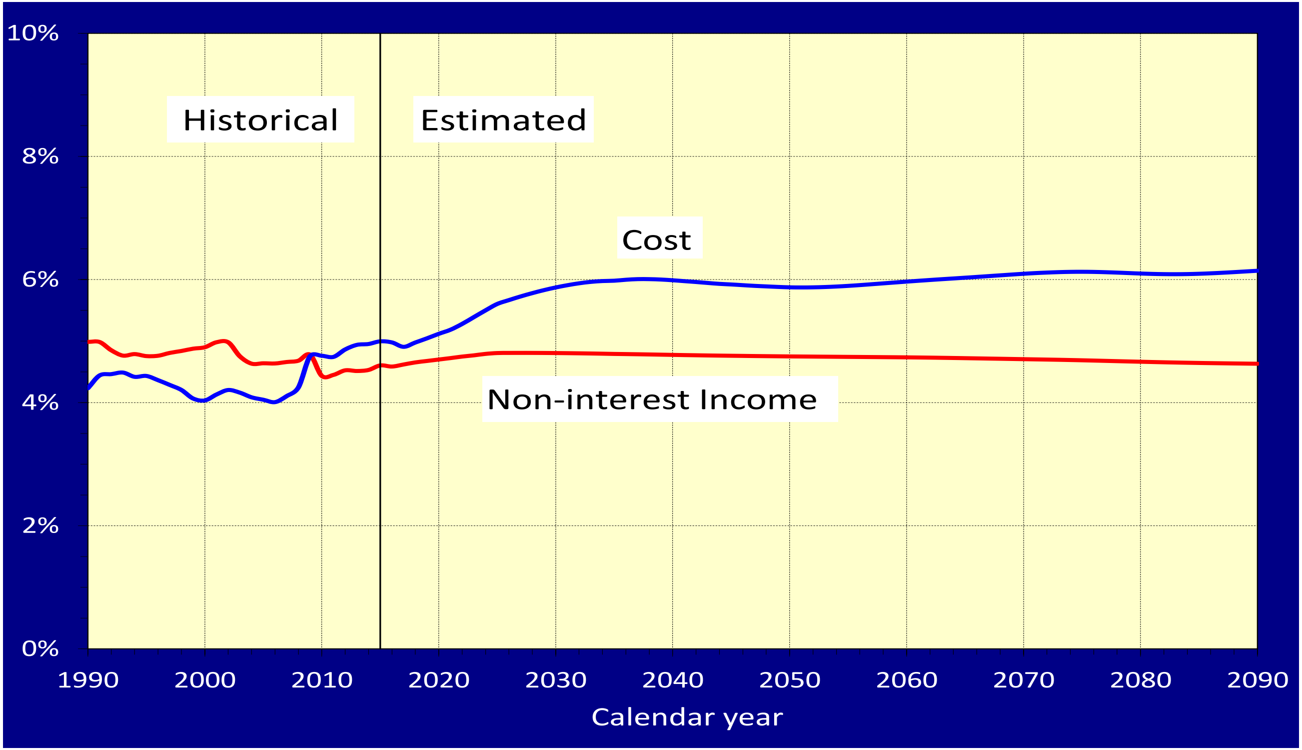
79% of scheduled benefits still payable at trust fund reserve depletion

Annual deficit in 2090: 4.35 percent of payroll — 0.35 percent lower than last year

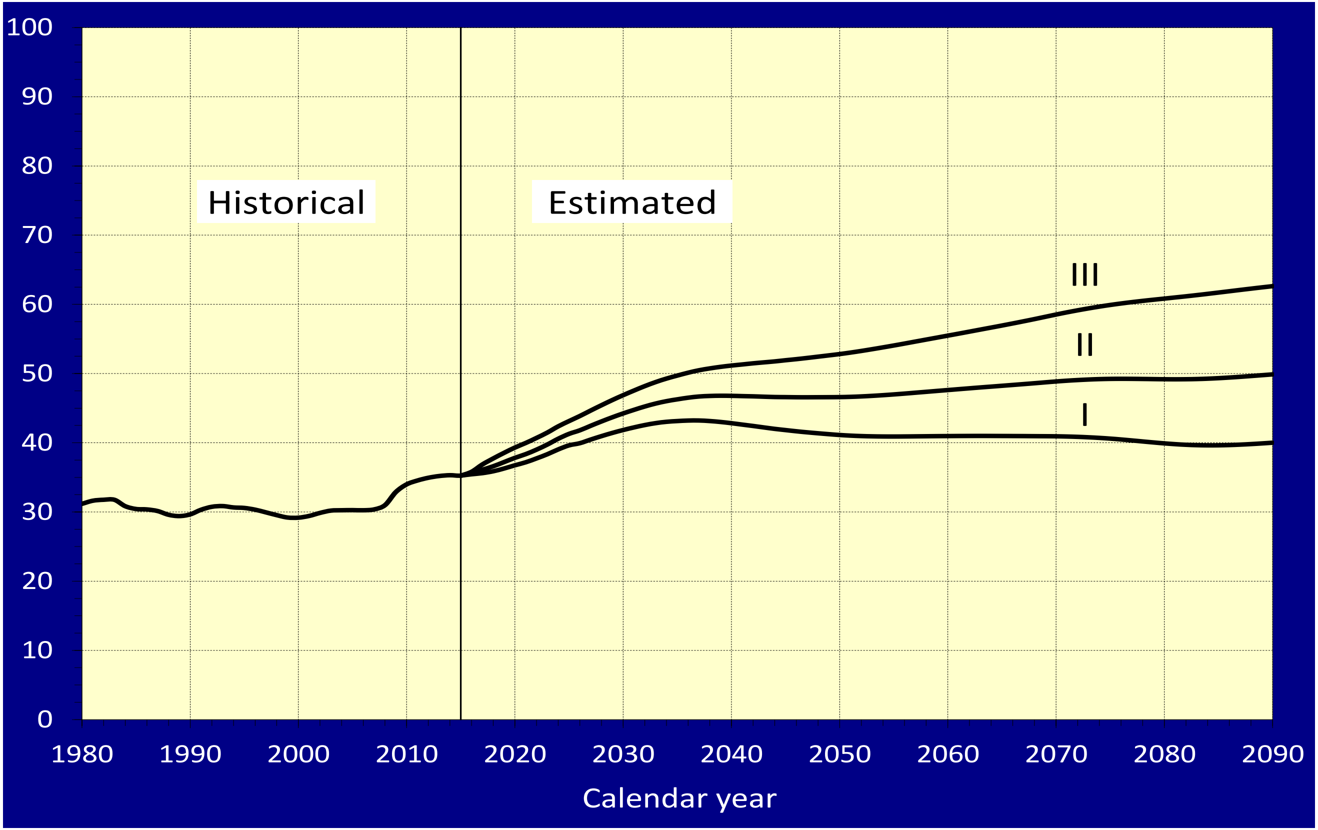


SUSTAINABILITY: Cost as Percent of GDP

Rises from a 4.2-percent average in 1990-2008, to about 6.0% by 2035, then drops to 5.9% in 2050 and generally increases to 6.1% in 2090

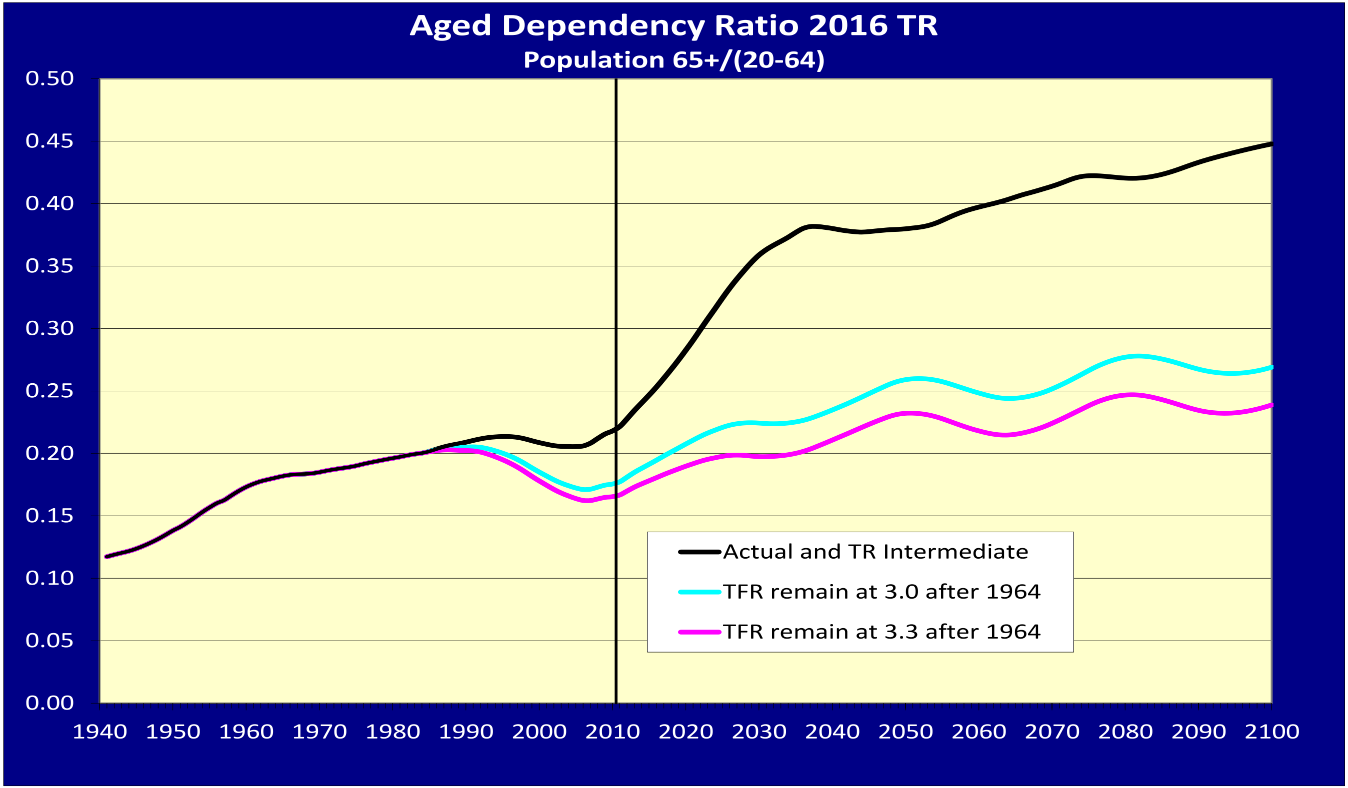


Following the Ratio of Beneficiaries per 100 Workers



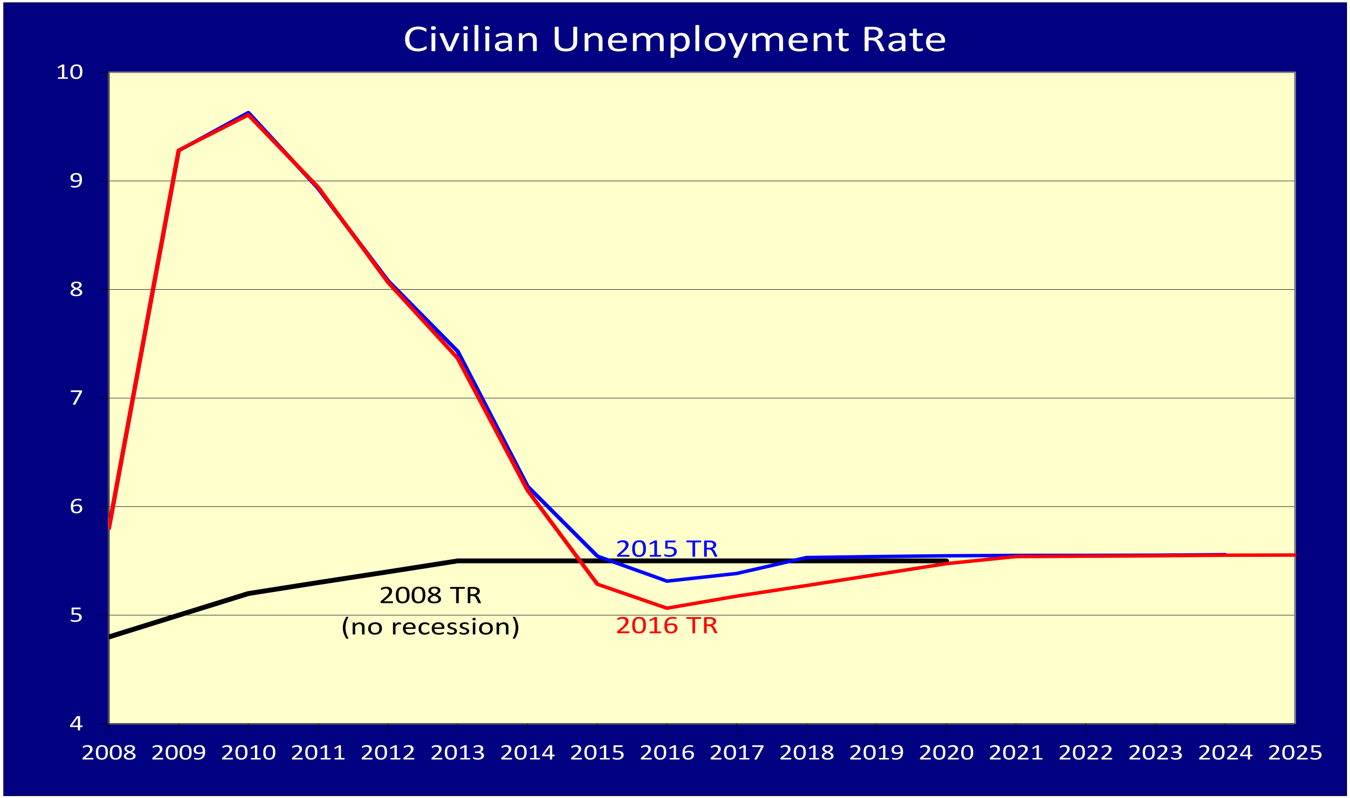
Aging (change in age distribution)

mainly due to drop in birth rates



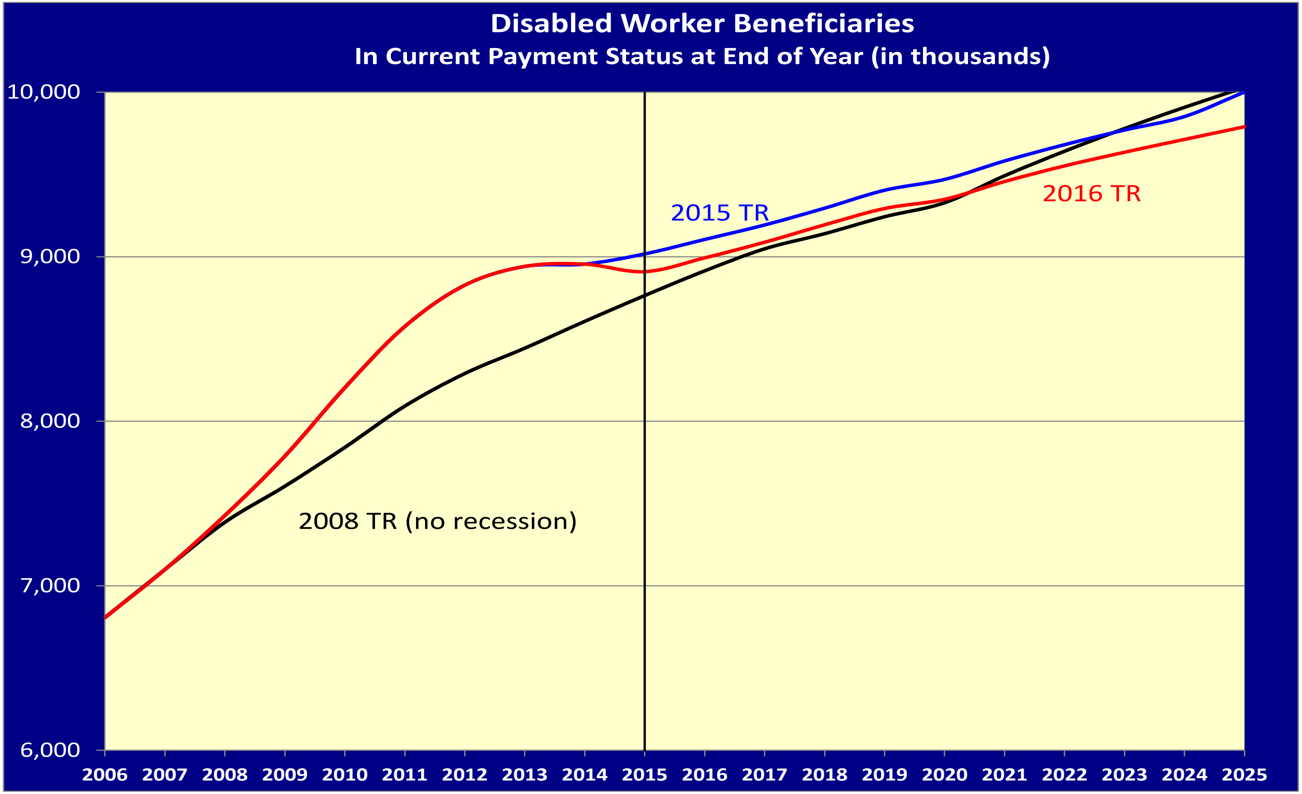
Lower Unemployment Rate in the Near Term

Largely due to temporary drop in labor force participation

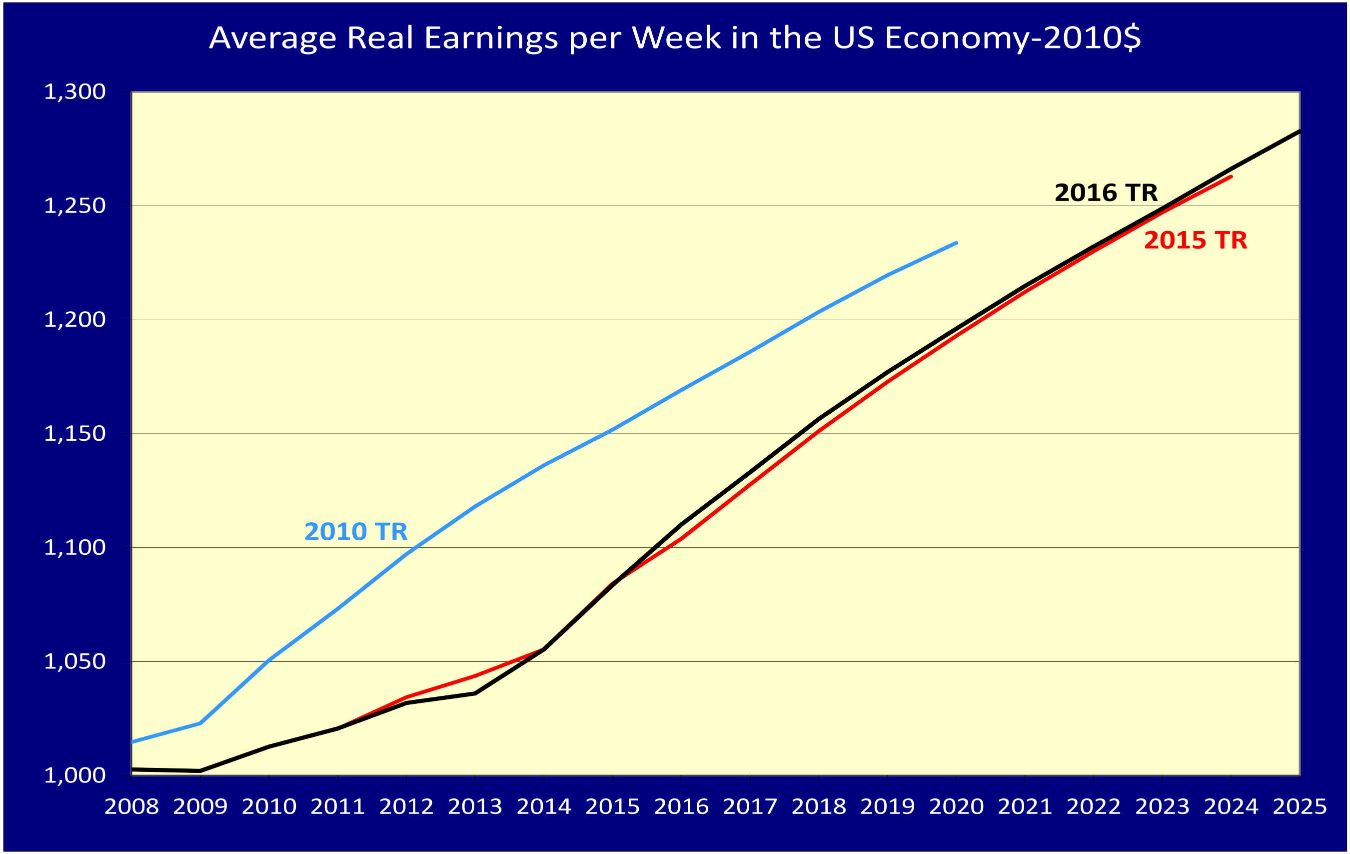


Slightly Fewer Disabled Worker Beneficiaries

Fewer now from recent experience, later based on effects of BBA of 2015

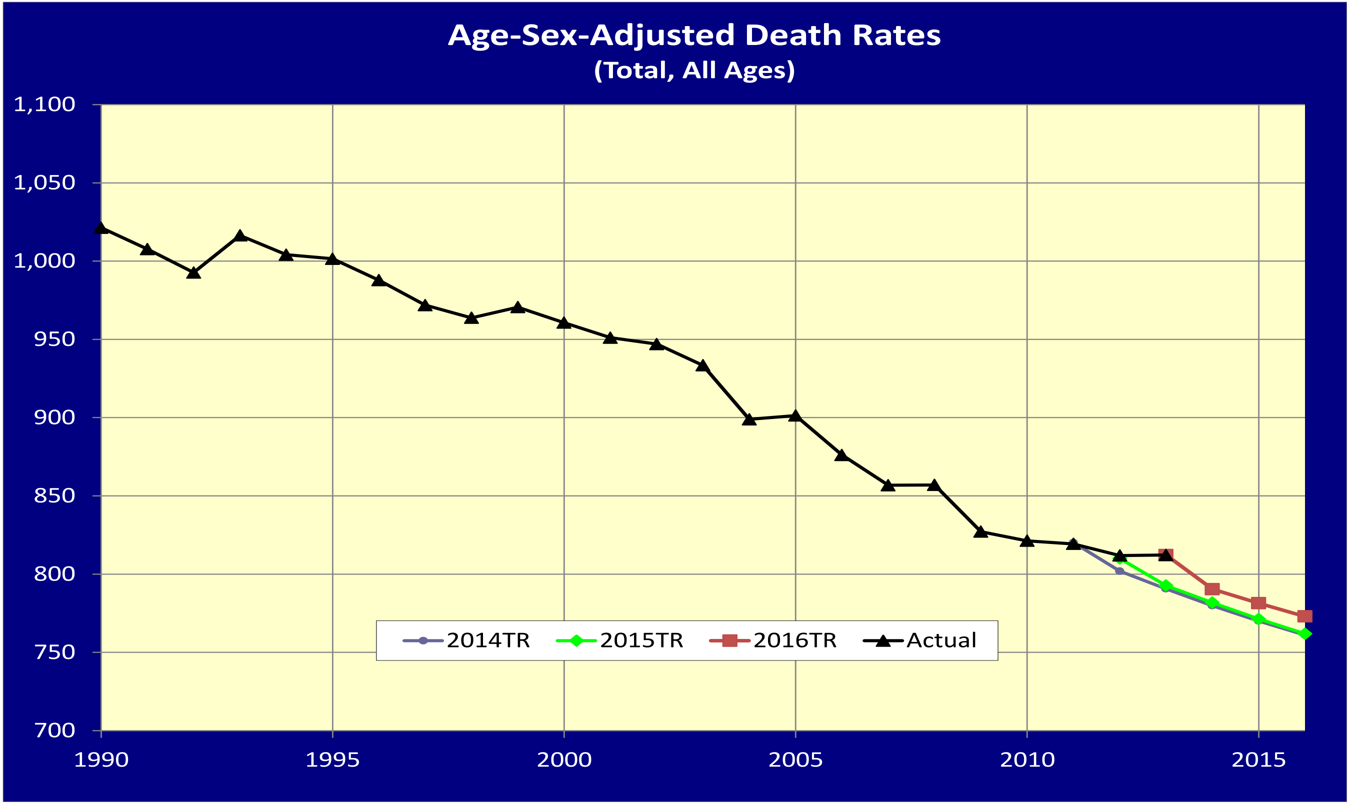


Slightly Higher Average Real U.S. Earnings Due to Reduced Health Cost



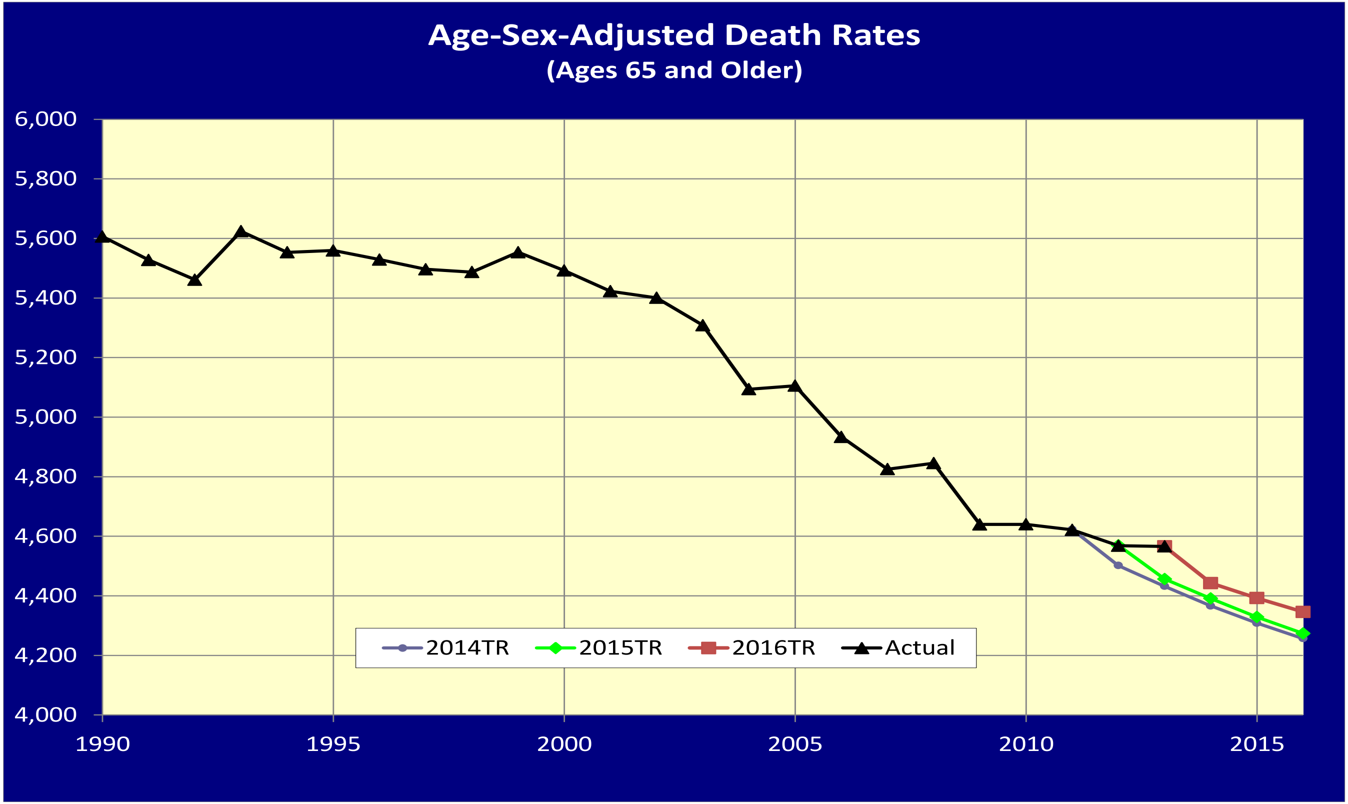
Mortality Experience

Comparison of recent data and near-term projections



Mortality Experience

Comparison of recent data and near-term projections



Principal Reasons for Change in 2016 Report

Actuarial Balance—Net Change of +0.02 percent of payroll

• Valuation Period	-0.06 percent
• Bipartisan Budget Act of 2015 enacted Nov. 2015	+0.03 percent
• Lower recent fertility and higher recent mortality	0.00 percent
• Lower emigration for unauthorized population (method)	+0.09 percent
• Lower ultimate price inflation (CPI-W) from 2.7% to 2.6%	-0.02 percent
• Increase ultimate real wage differential from 1.17% to 1.20%	+0.05 percent
• Lower ultimate real interest rate from 2.9% to 2.7%	-0.08 percent
• Other new data and methods improvements	+0.02 percent

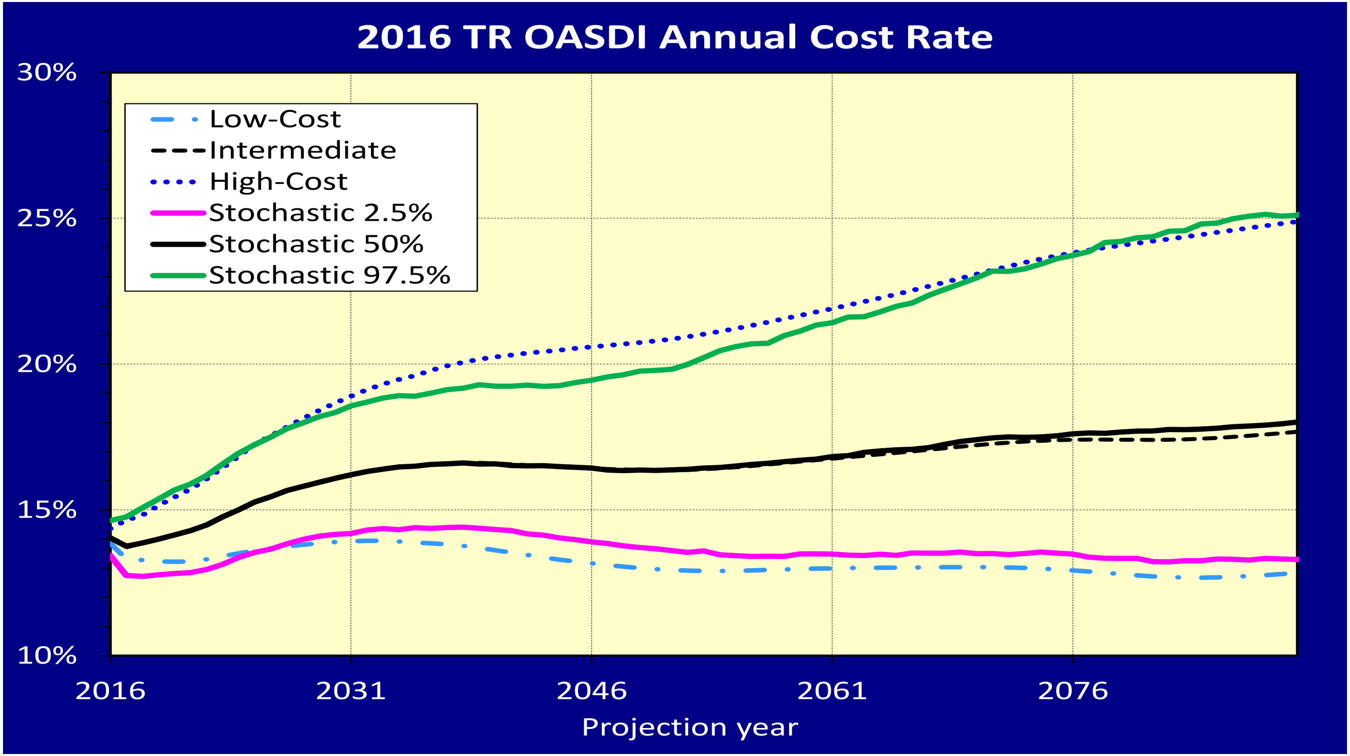
Principal Reasons for Change in 2016 Report

Unfunded Obligation through 2090

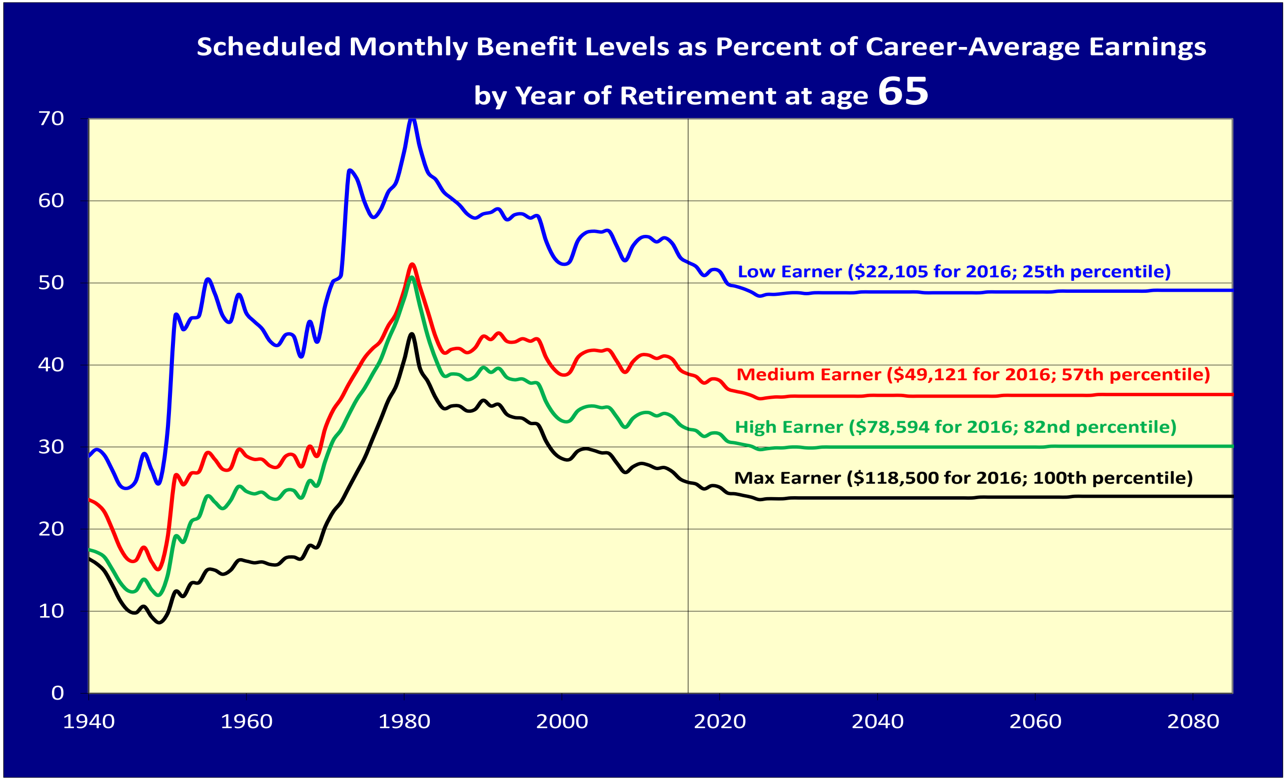
• Estimate for 2015 Report	\$10.7 trillion PV	0.91% of GDP
• Change valuation date only	\$11.2 trillion PV	0.93% of GDP
• All changes *except* ultimate real interest rate	\$10.5 trillion PV	0.87% of GDP
• 2016 Report with interest rate change	\$11.4 trillion PV	0.89% of GDP

Uncertainty Illustrations

Unrealistically narrow stochastic results due to lack of central tendency variation

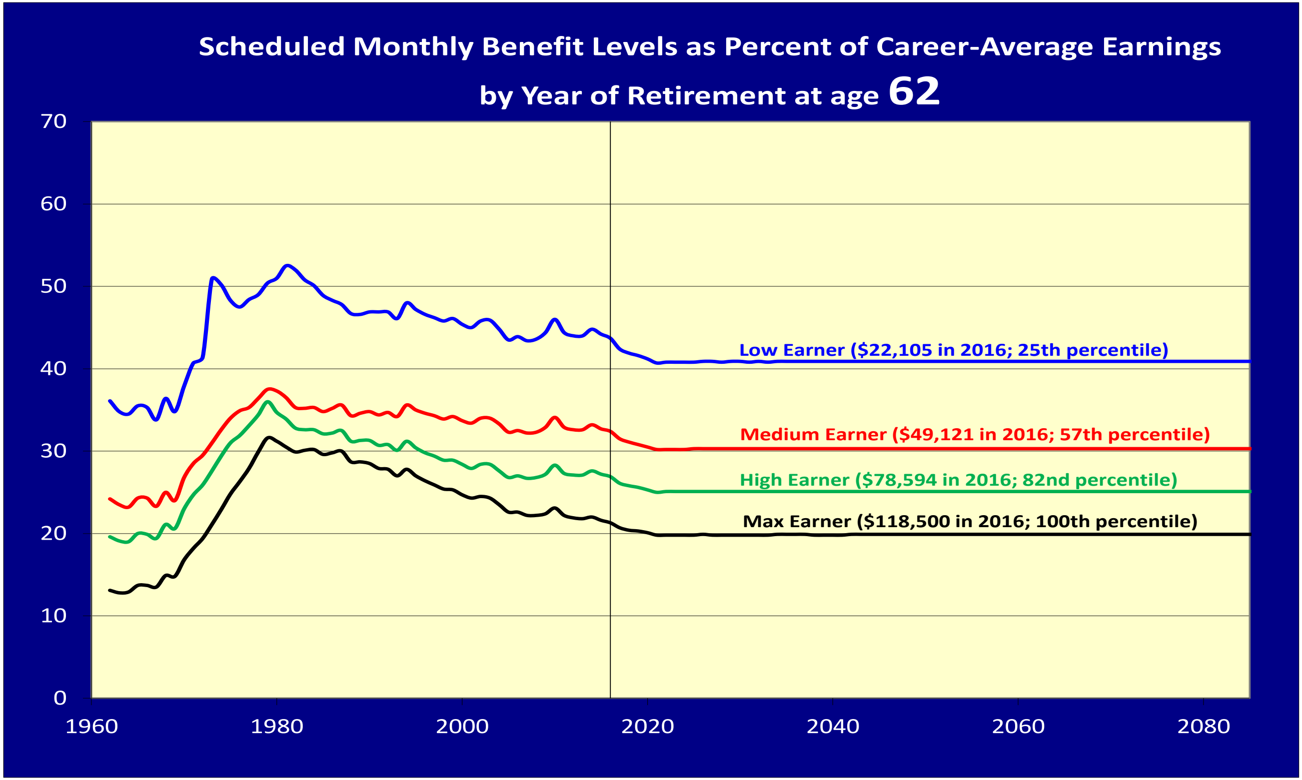


Replacement Rates Based on the 2016TR



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

How About at Age 62, Where Most Start Benefits?



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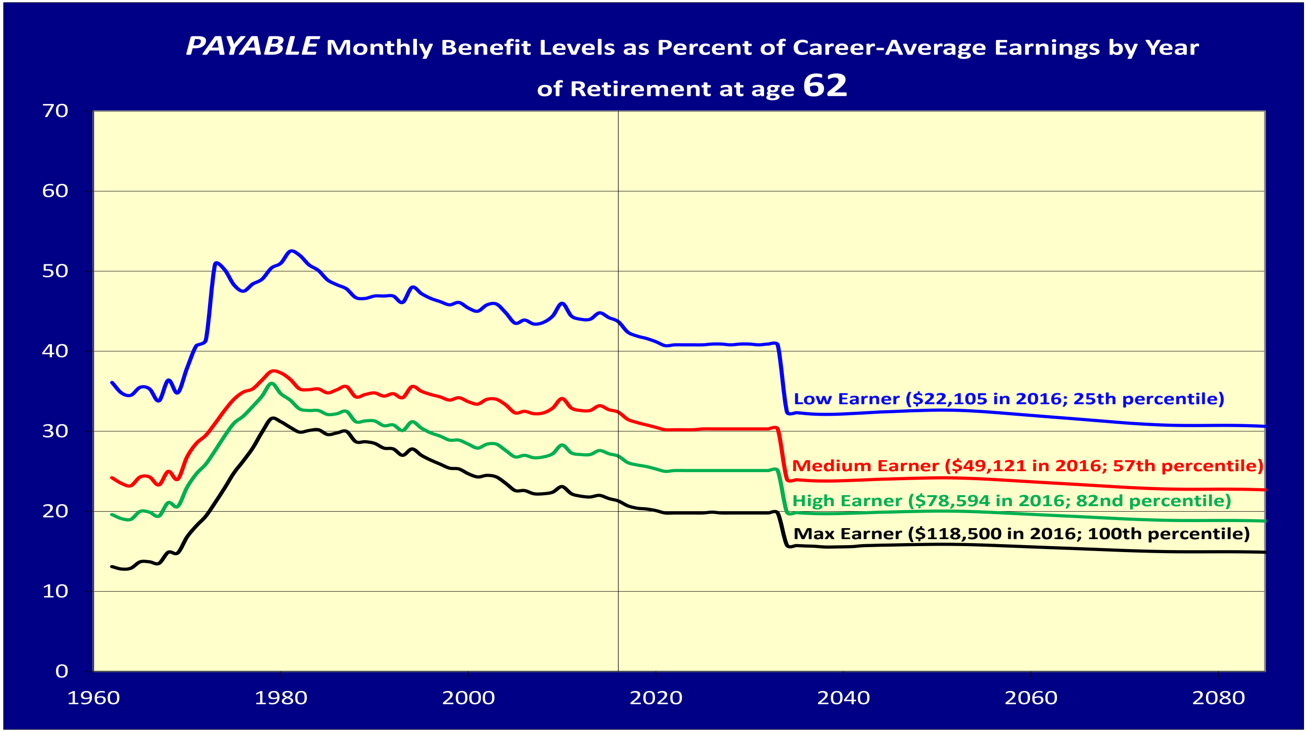
Payable Benefits Under the Law, After Trust Fund Reserves Are Depleted, Are Even Lower



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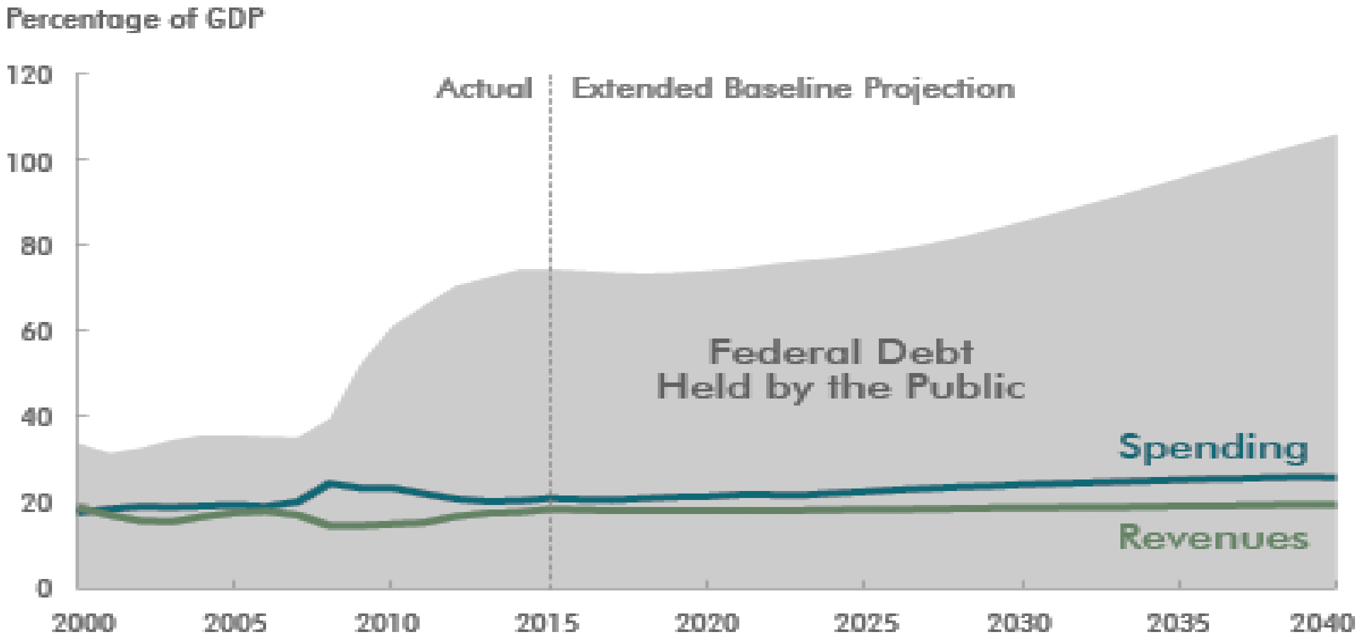
But, Wait—How About Budget Scoring?

Don't entitlements just keep borrowing?

Debt Held by the Public, Total Spending, and Total Revenues



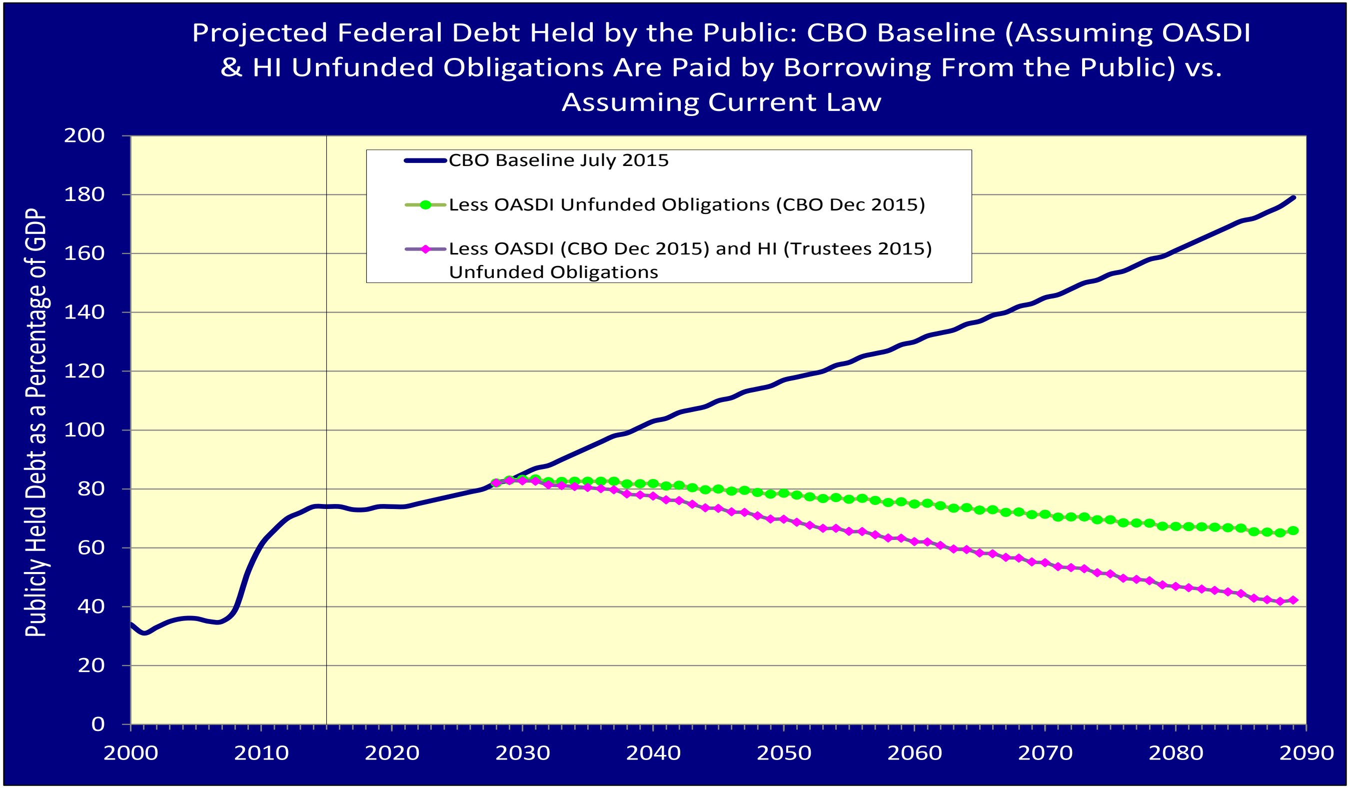
Source: Congressional Budget Office, June 2015

Actually, NO. Budget Scoring Is Inconsistent With the Law, and All Past Experience.

- *See Actuarial Opinion in the 2016 TR (also 2014 and 2015 TR)*

  1) After reserves deplete, $11.4 trillion unfunded obligation through 2090 cannot be paid under the law.
     - ***Budget deems these "expenditures" creating publicly held debt***
  2) Reserve redemptions spend excess "earmarked" revenues invested in an earlier year.
     - ***Budget deems these "a draw on other Federal resources"***
  3) Trust Fund operations have NO direct effect on total Federal debt subject to ceiling in any year—and no *net* effect on publicly held debt.
     - ***Budget says redemptions increase Federal debt held by the public and often gives no credit for reserve accumulation***

So—What If We Project Federal Debt Consistent With the Law?



The Bottom Line

- Long-term projections provide information to address solvency.
- If trust fund reserves were to deplete:
  - Full benefits cannot be paid timely
  - NO pressure on the Budget or Federal Debt
  - So Congress must and WILL act, as always
- Straightforward solutions:
  - Add revenue and/or lower cost for OASDI
    - Comprehensive changes ***implemented*** by 2034