Social Security Actuarial Status

The 2012 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

April 25, 2012

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
   – Not just cost under budget scoring convention

News from the 2012 OASDI Trustees Report

- Actuarial deficit increased from 2.22 to 2.67 percent of payroll due primarily to updated economic data and assumptions
- Combined OASI-DI Trust Fund reserves exhaust in 2033
  - 3 years earlier than last year's projection (2036)
  - With 75 percent still payable after exhaustion
- DI Trust Fund reserves alone exhaust in 2016
  - 2 years earlier than last year's projection (2018)
  - With 79 percent still payable after exhaustion
- Cost exceeded non-interest income permanently in 2010
- Cost exceeds total income, including interest, permanently in 2021
  - 2 years earlier than last year's projection (2023)

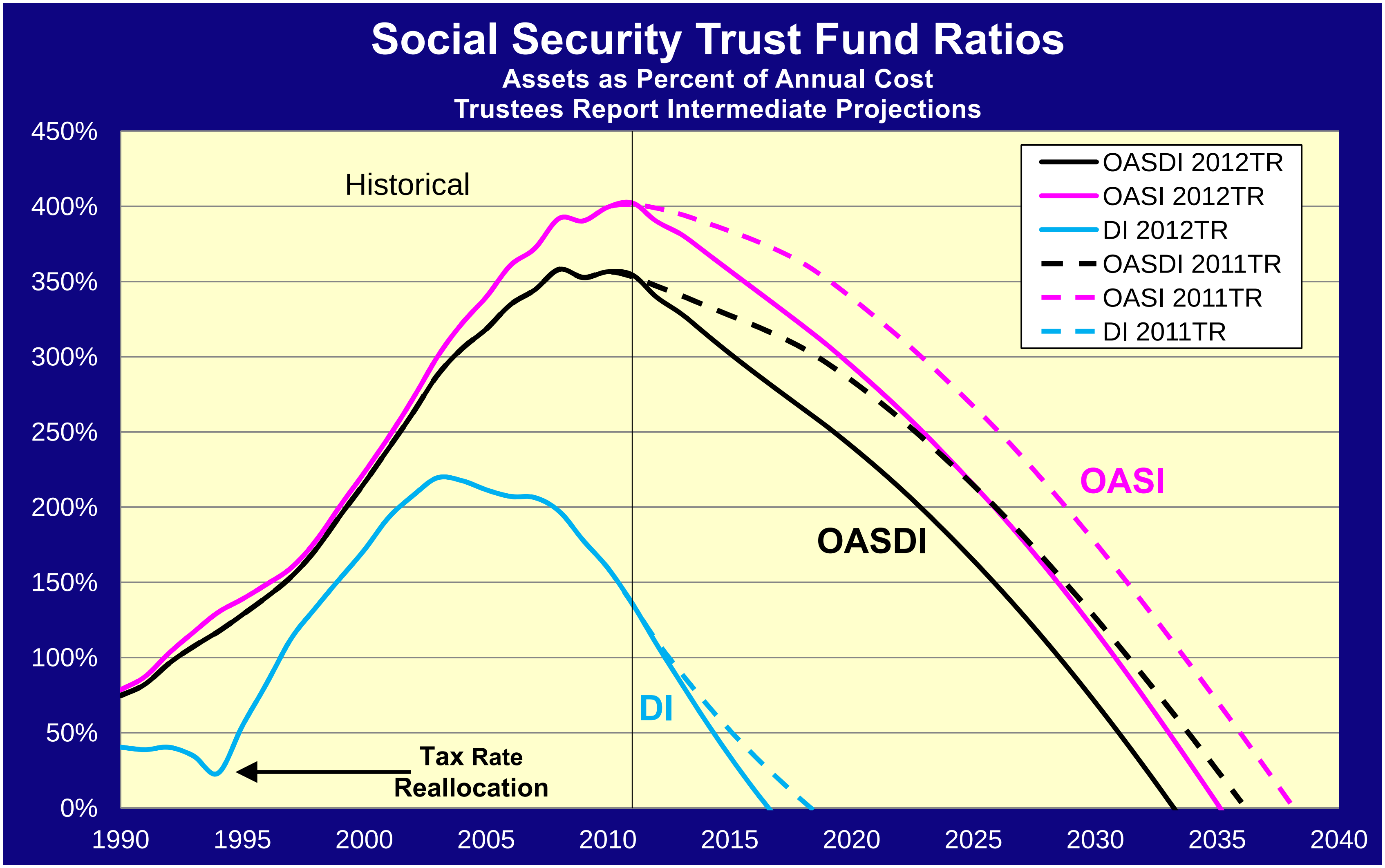
Changes in Economic Data and Expectations

Three factors with about equal long-range effects:

1. December 2011 COLA was 3.6% for benefits in 2012, 2.9% higher than expected
   - At the same time, average taxable earnings are 2% lower than expected for 2012, so 2% less payroll tax income in 2012
   - This 5% difference in “real” earnings drops to 2% for 2021 as the economy recovers
2. After 2021, we now assume 0.05% reduction per year in average hours worked per week—slowing growth in annual earnings and tax revenue
3. Over the next 10 years, we now assume lower interest rates

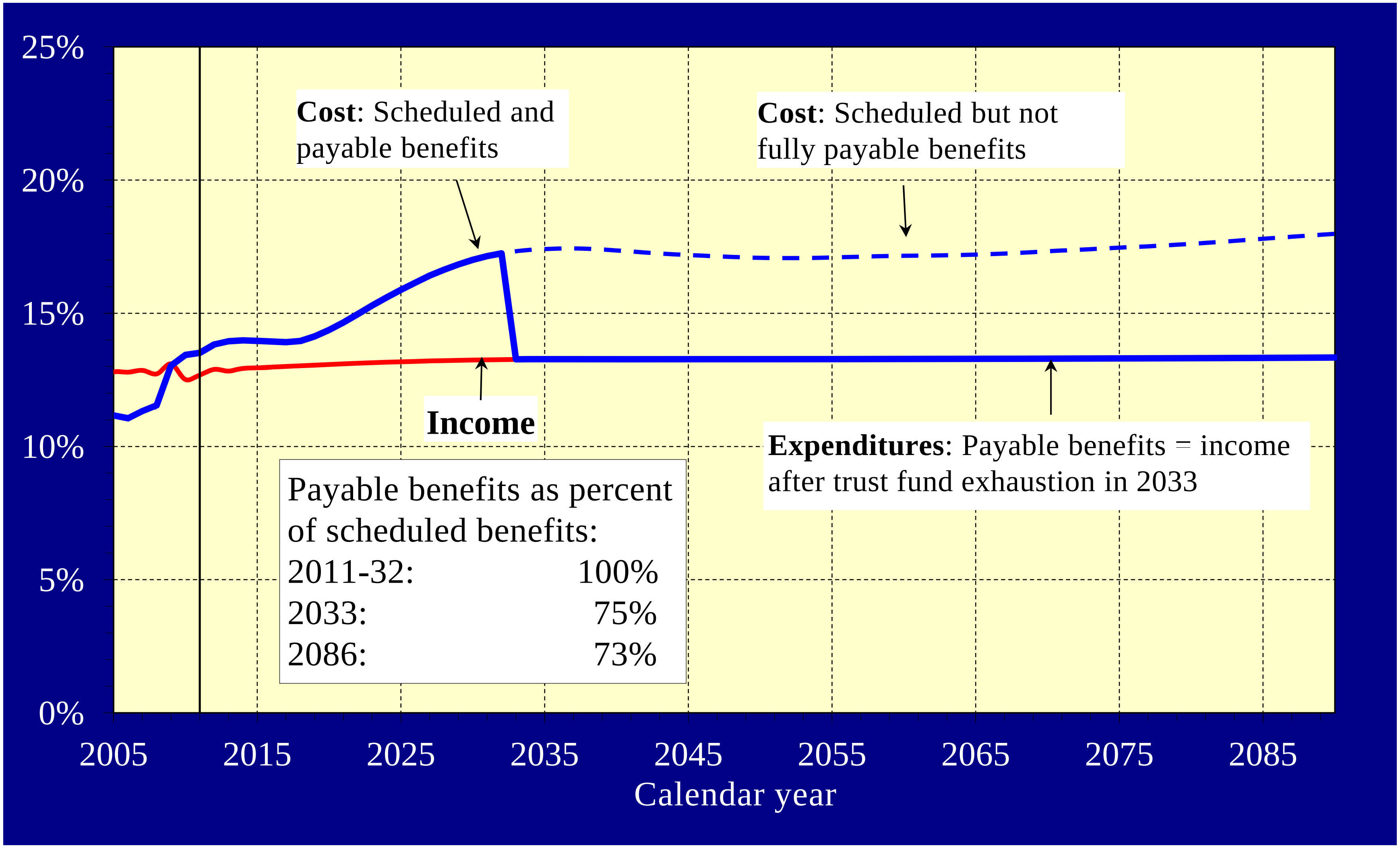
SOLVENCY: OASDI Trust Fund Exhaustion 2033 — 3 Years Sooner

- o Exhaustion date varied from 2029 to 2042 in last 18 reports (1995-2012)
- o DI Trust Fund — exhaustion in 2016, 2 years sooner
  - o 2016 was projected in the 1995 Trustees Report after the 1994 tax-rate reallocation



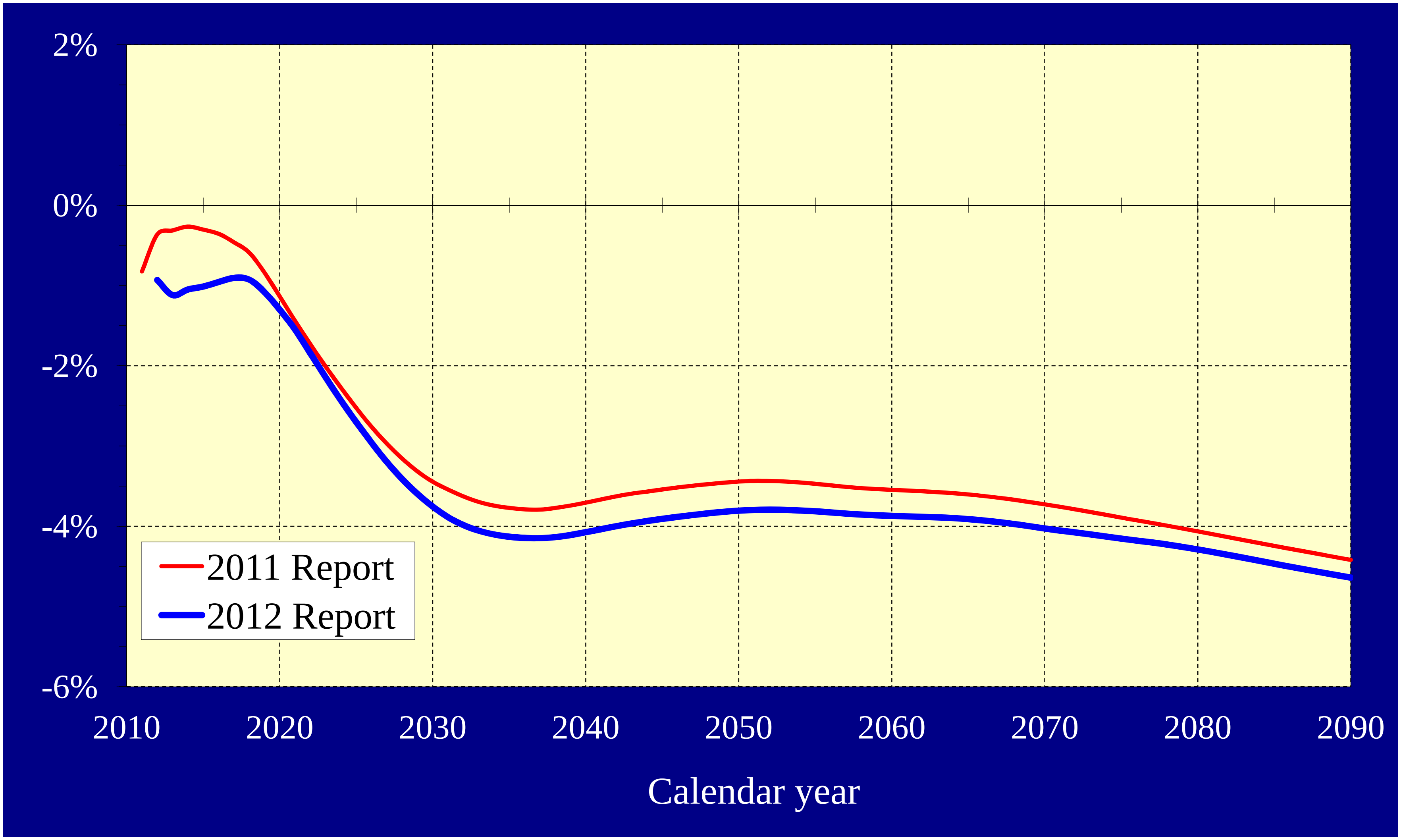
OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll
Persistent Negative Annual Cash-Flow Balance Starting in 2010

Three-fourths of scheduled benefits still payable after trust fund exhaustion
Annual deficit in 2085: 4.47 percent of payroll — 0.22 percent higher than last year



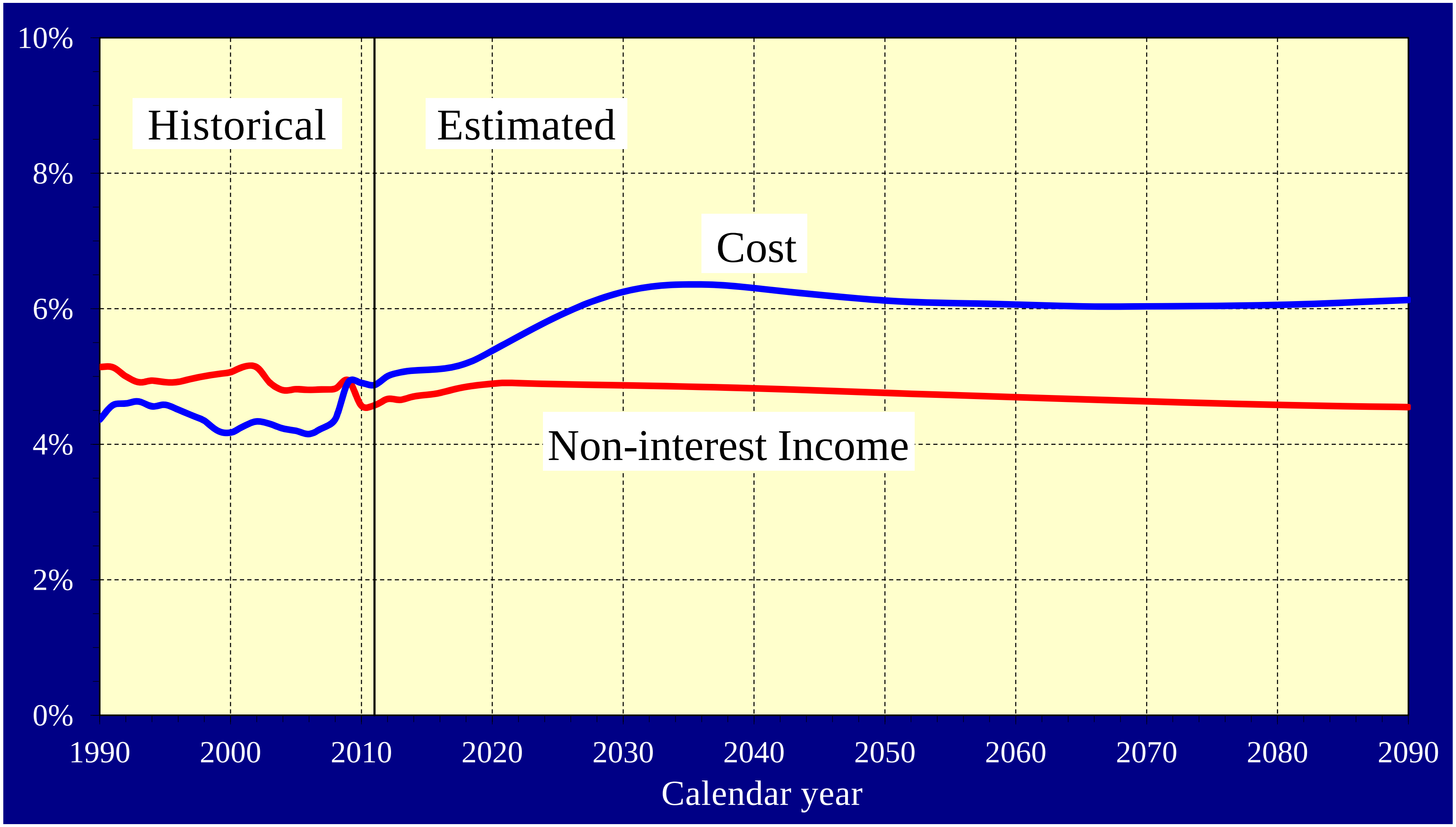
OASDI Annual *Cash-Flow* Balances Are Lower Throughout the Projection Period

(Non-interest income minus cost as a percent of payroll)

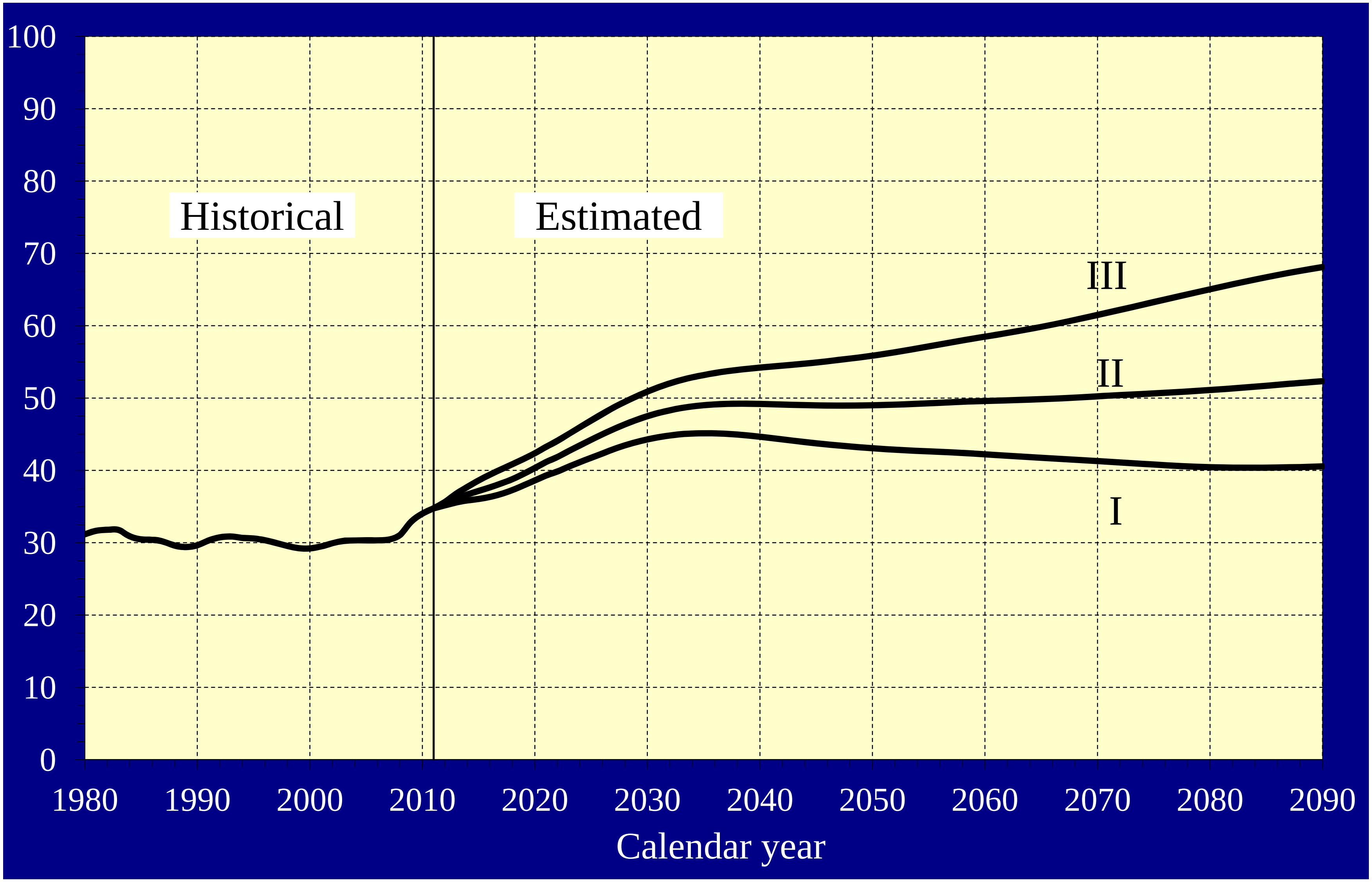


SUSTAINABILITY: Cost as Percent of GDP

Rises from a 4.4-percent average in 1990-2008, to a peak of 6.4% in 2035, then roughly stabilizes between 6.0% and 6.1% after 2050



Following the Ratio of Beneficiaries per 100 Workers



Reasons for Change in 2012 Trustees Report

Actuarial Deficit—Net Increase of 0.44 percent of payroll

Valuation Period—Increases the actuarial deficit by 0.05 percent of payroll

Legislation—None with significant long-range effect

Demographic Data/Assumptions—Increases the actuarial deficit by 0.05 percent of payroll

- Lower birthrates in 2009-10, and next 25 years transition (↑0.02 percent)
- Lower legal immigration in 2010 (↑0.01 percent)
- Updated estimates of starting population (↑0.02 percent)

Economic Data/Assumptions—Increases the actuarial deficit by 0.21 percent of payroll

- Ultimate assumption for decline in average weekly hours worked (↑0.07 percent)
- Lower recent earnings growth, higher recent inflation, permanently lower real earnings, slower economic recovery, lower near term interest rates (↑0.14 percent)

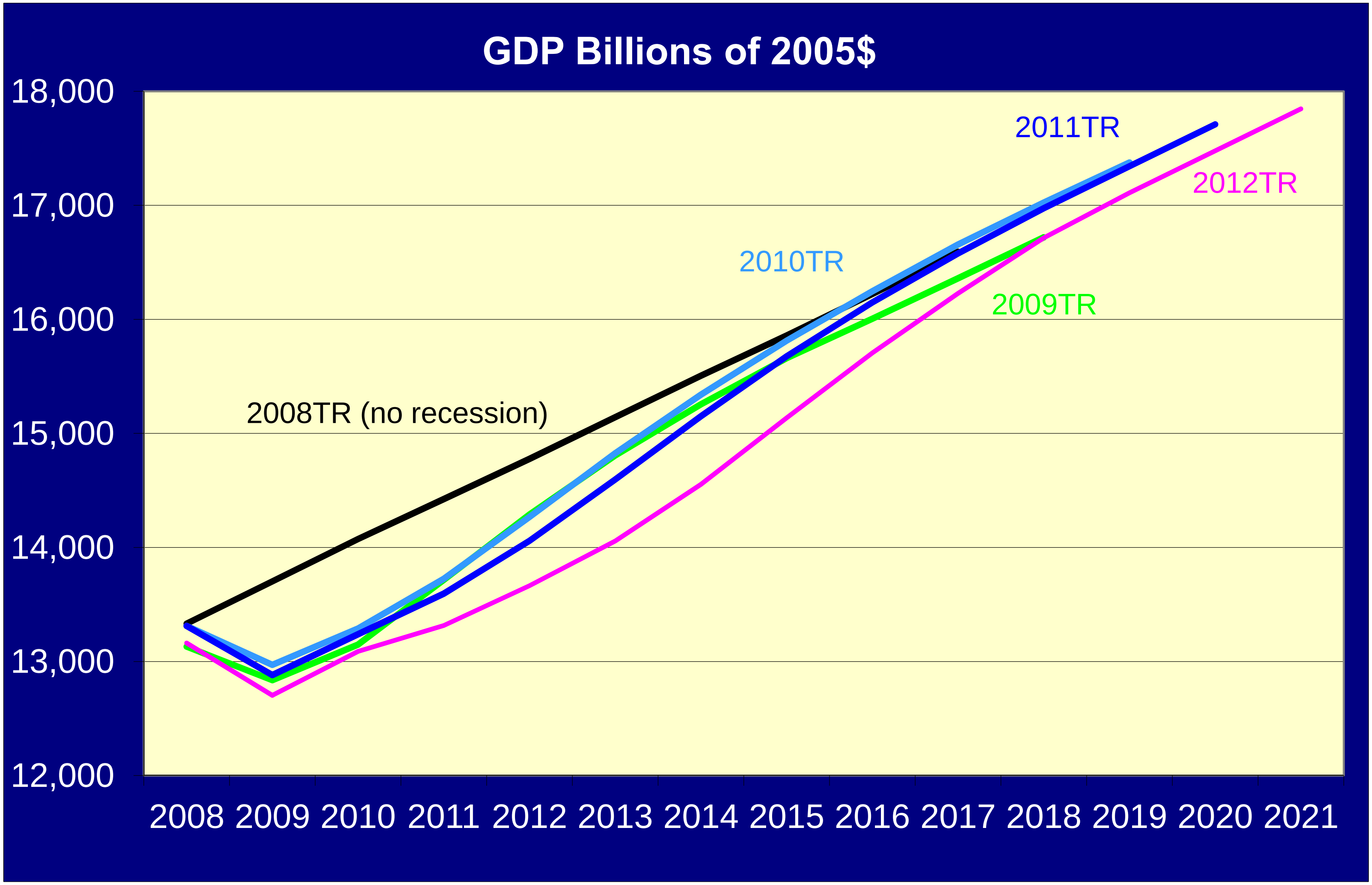
Disability Assumptions—Increases the actuarial deficit by 0.04 percent of payroll

- Increased ultimate disability incidence rates; up 2% for males and 5% for females

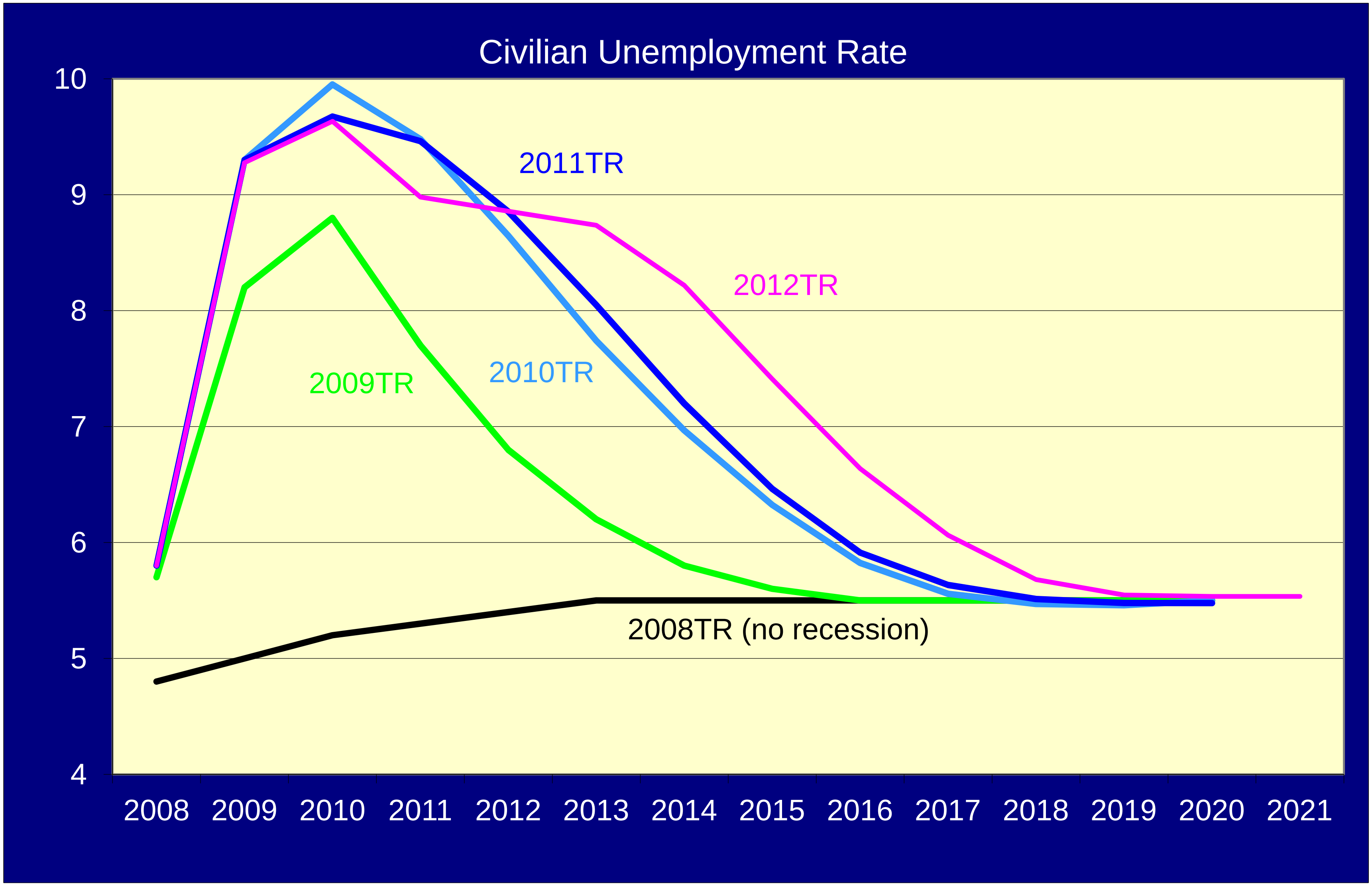
Methods Improvements/New Data—Increases the act. deficit by 0.08 percent of payroll

- Changes related to long-range projection of average benefits
- Updated program and projection factors

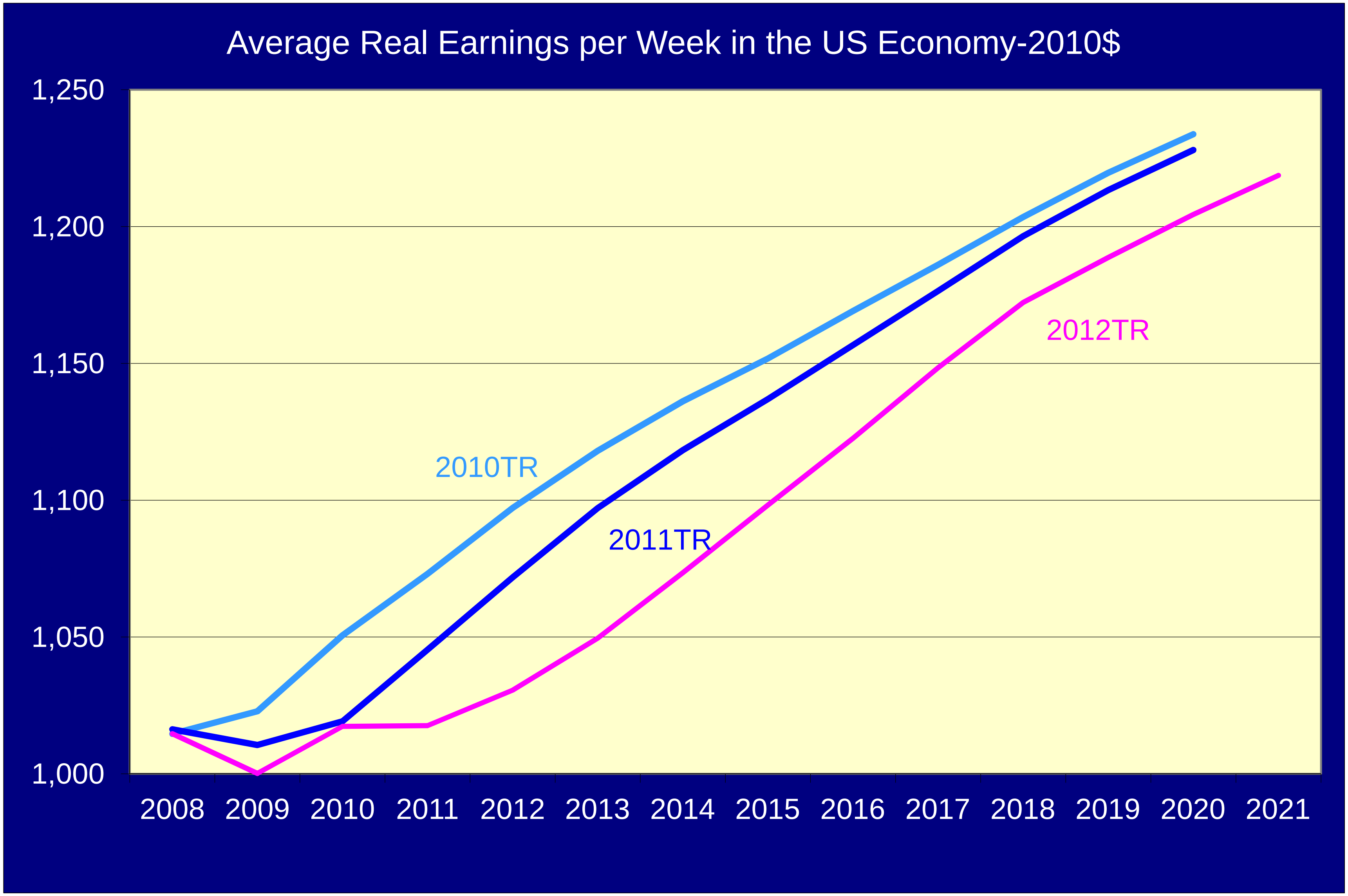
Slower Recovery in GDP for 2012 Trustees Report



Slower Decline in Unemployment Rate After 2011

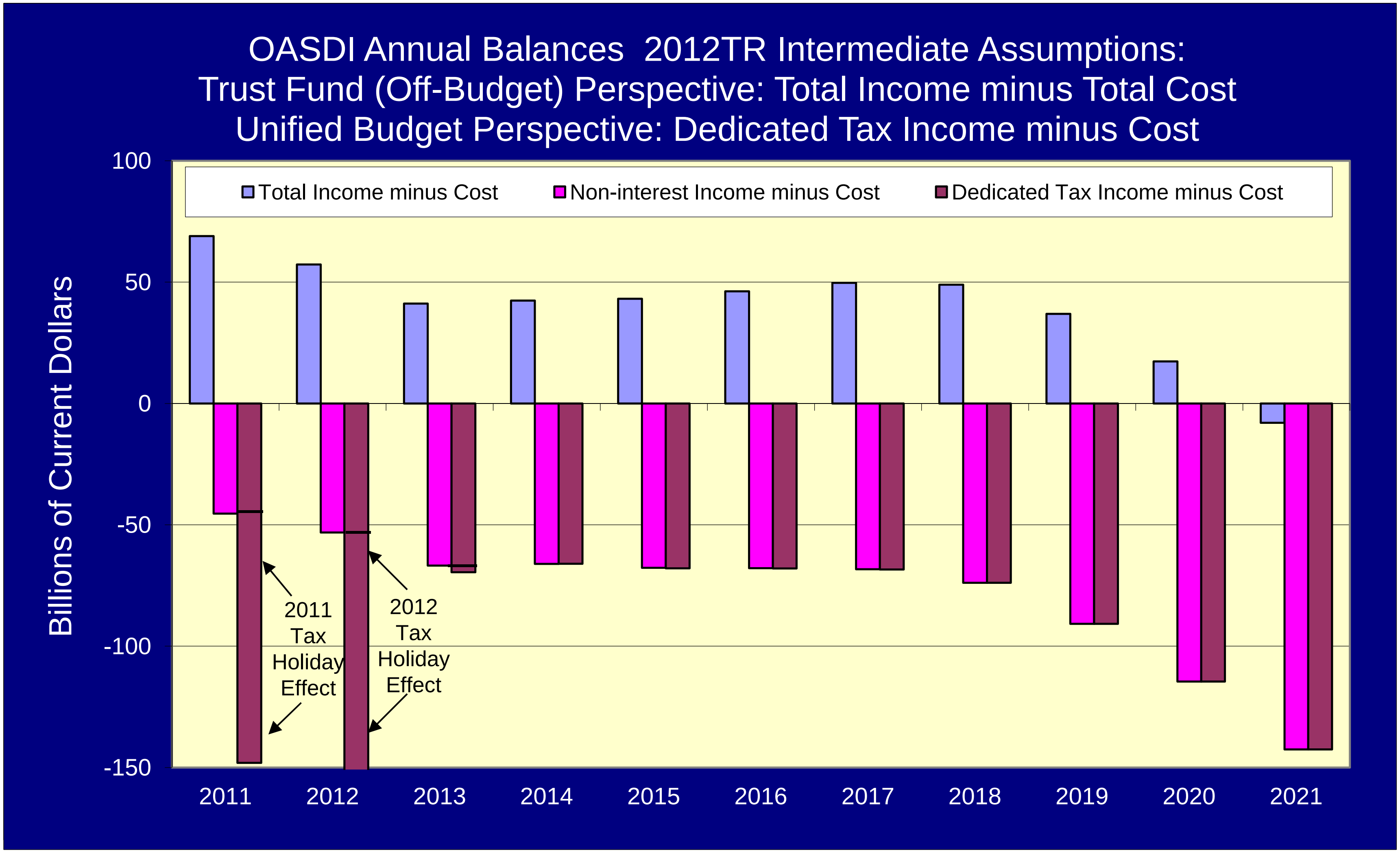


Lower Average Real Earnings in 2011-13, with Partial Recovery by 2021



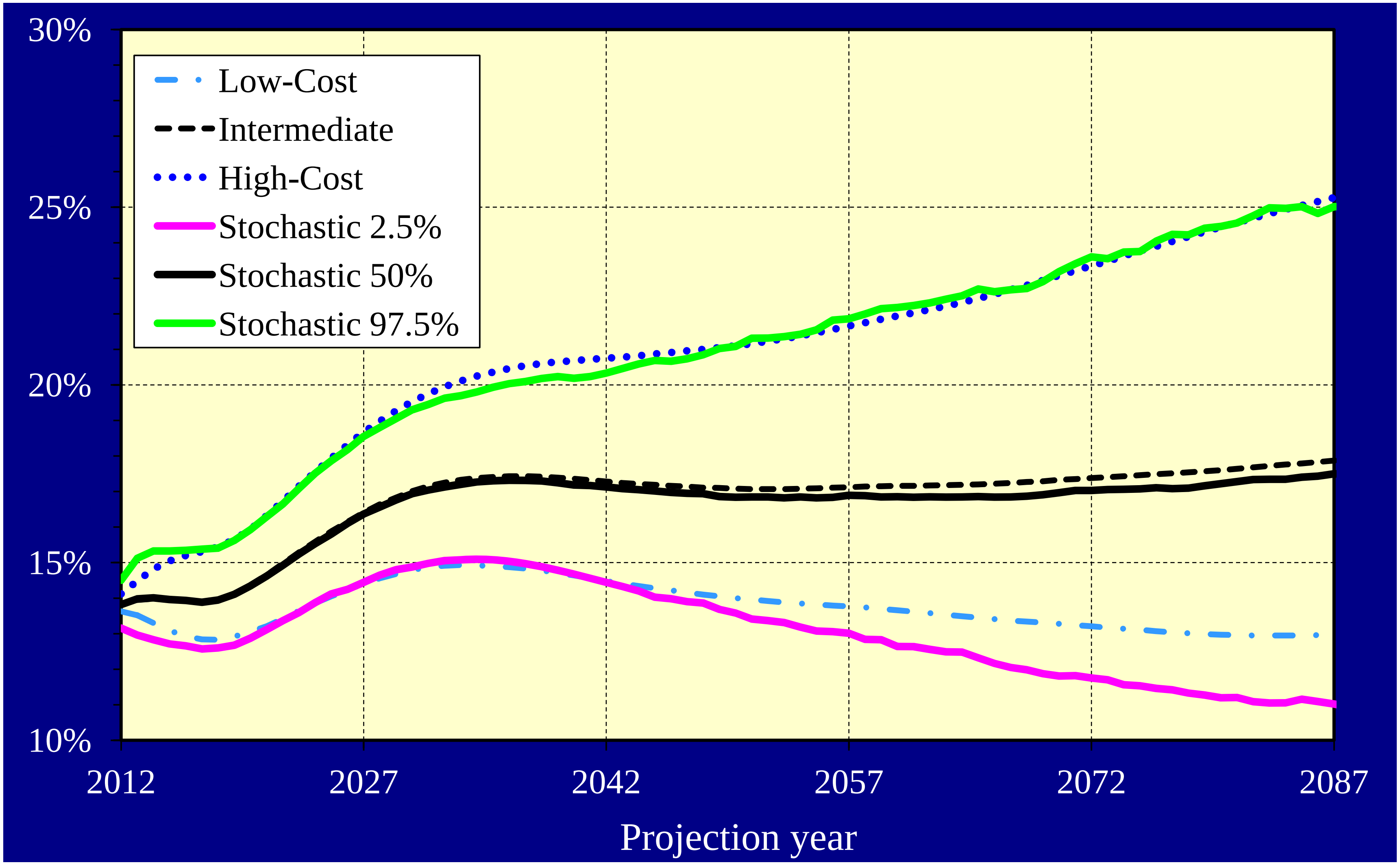
Projected OASDI Total Income Exceeds Annual Cost until 2021

For a Unified Budget perspective (where trust fund interest is scored to cancel): non-interest income is less than cost starting in 2010



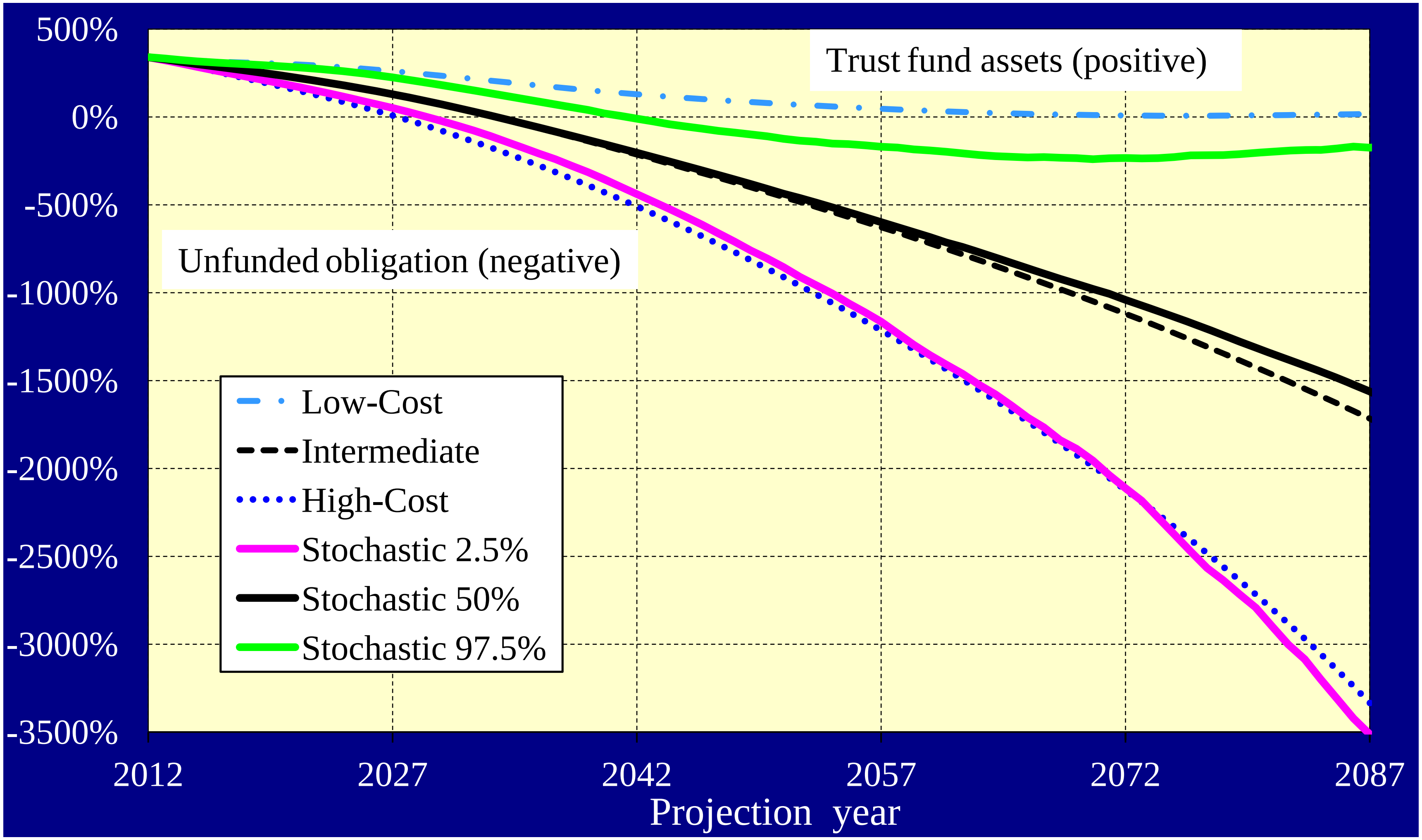
New Understanding of Uncertainty Illustrations

Range of alternative scenario cost rates is more pessimistic (higher)…

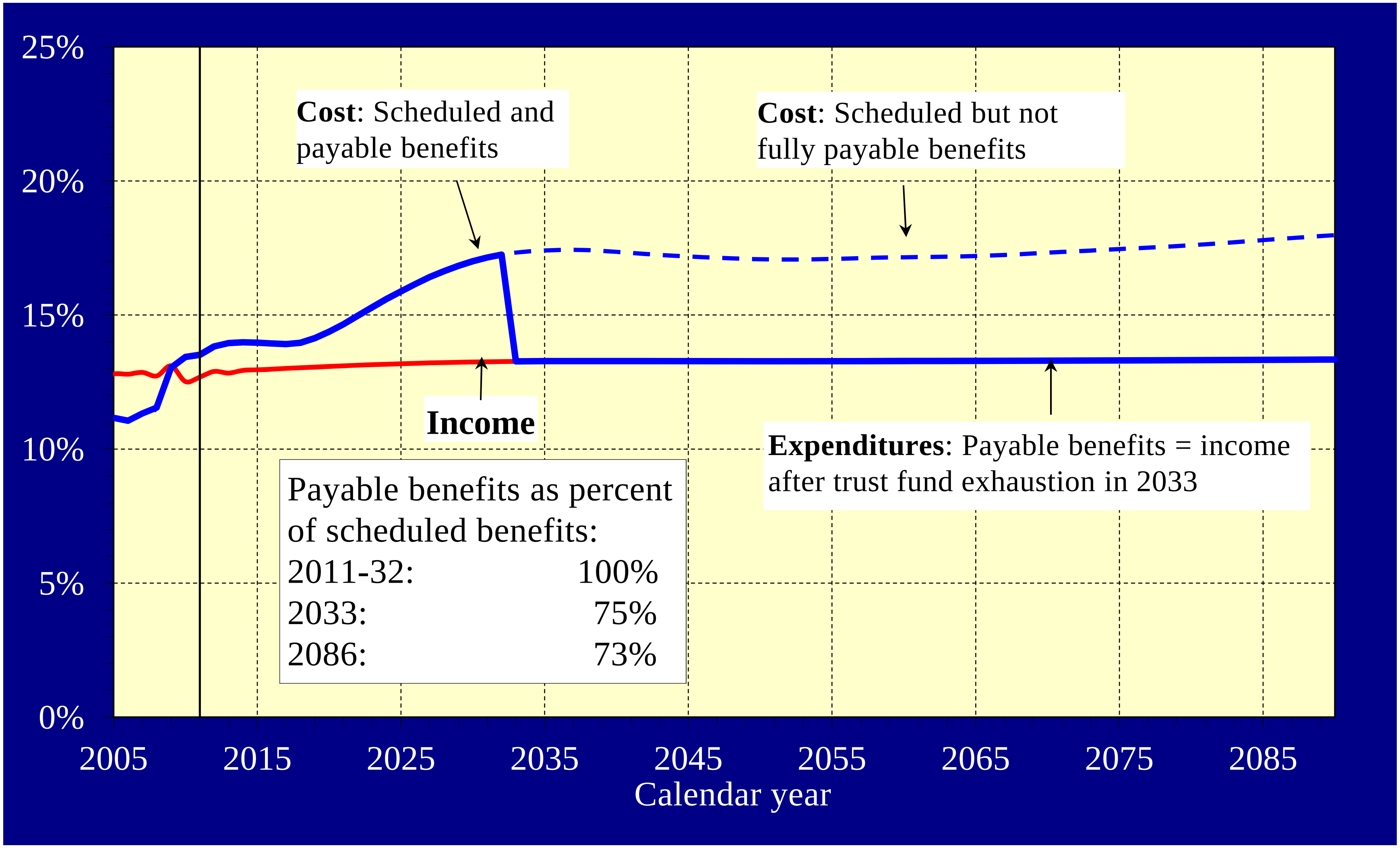


New Understanding of Uncertainty Illustrations

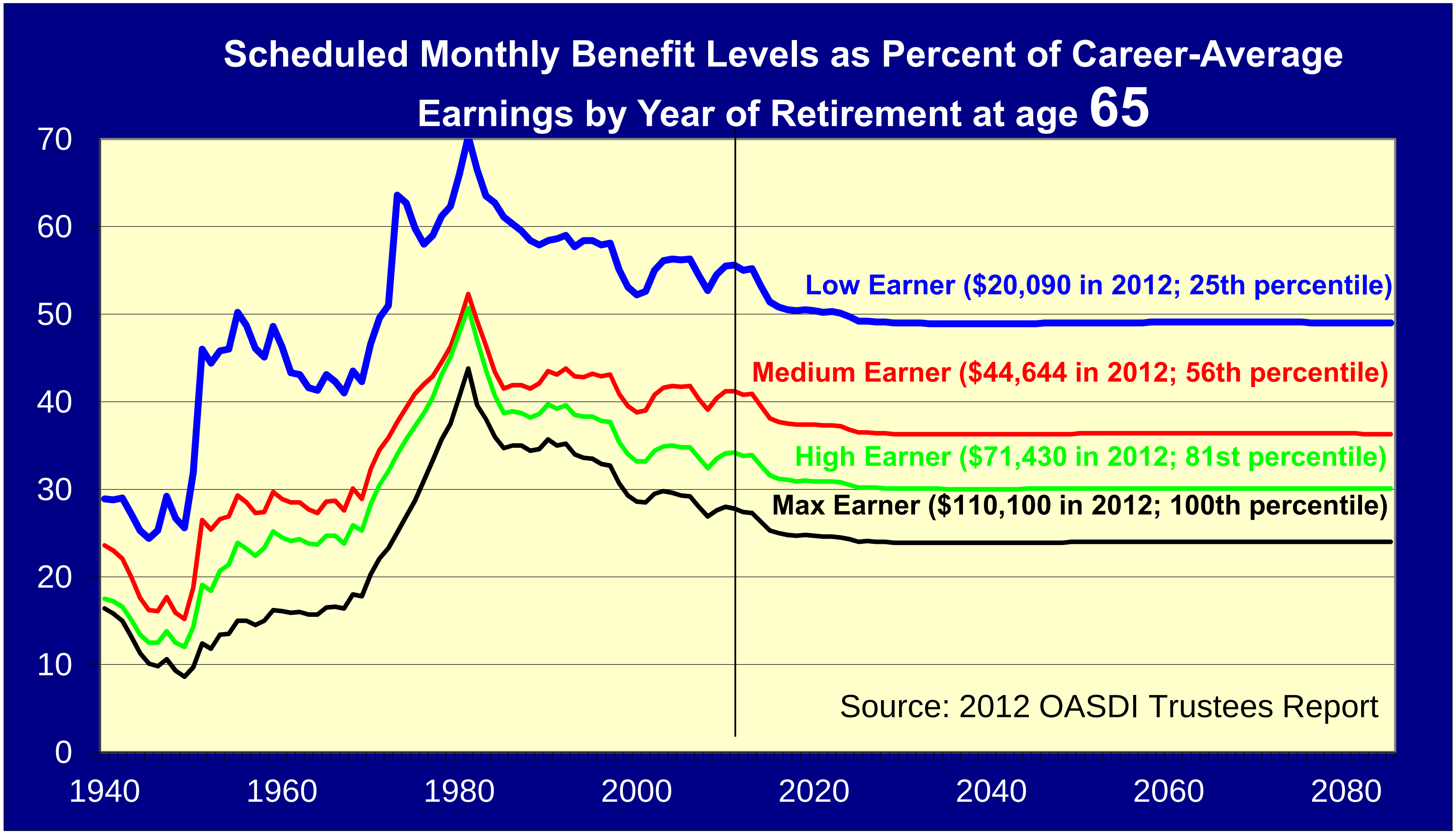
But range of alternative scenario trust fund (unfunded obligation) ratios is more optimistic (higher)—*because interest rates not correlated to economy in stochastic*



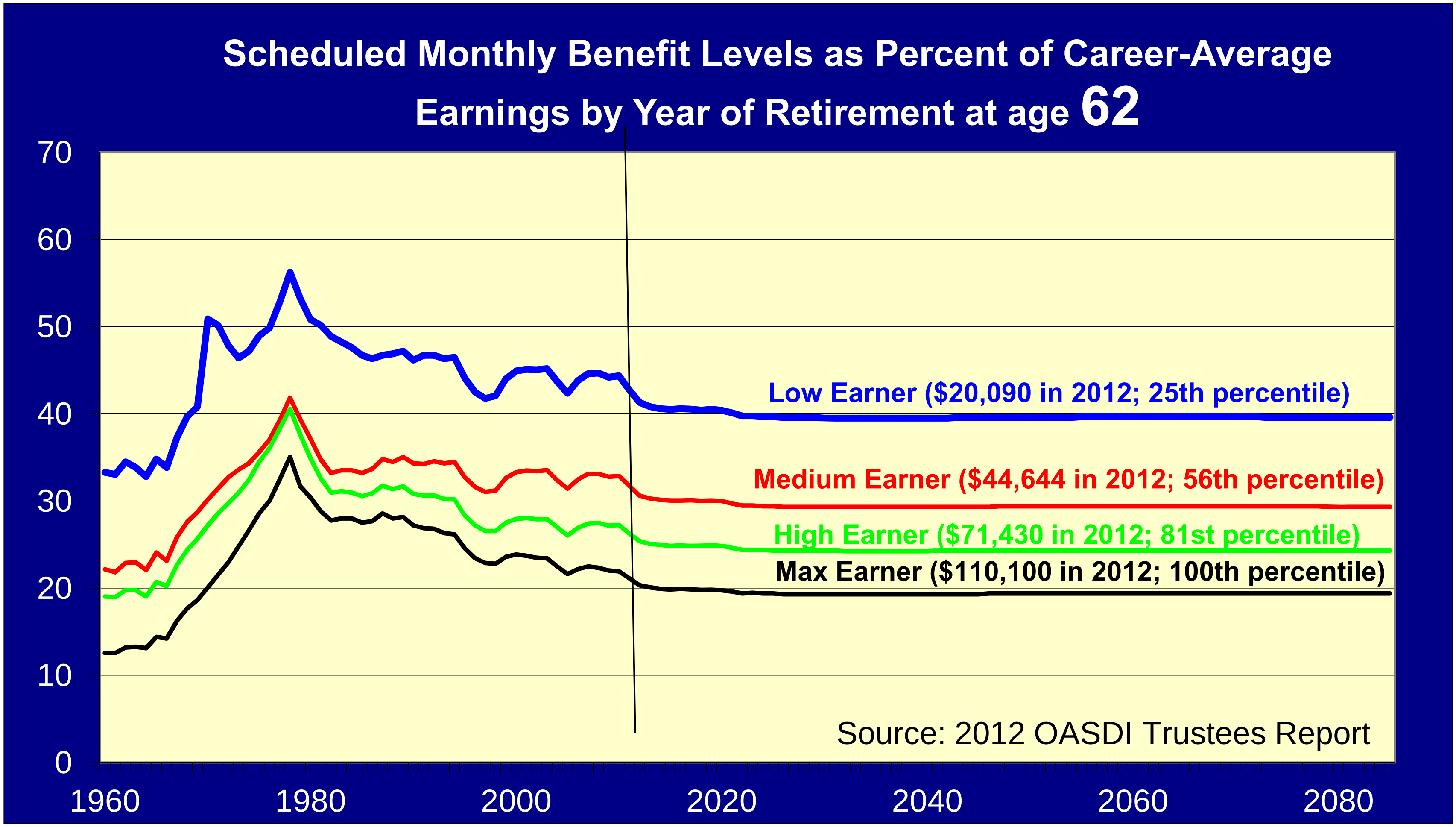
In Summary—Currently Scheduled Income is Only Enough to Pay Three-Fourths of Currently Scheduled Benefits after 2032



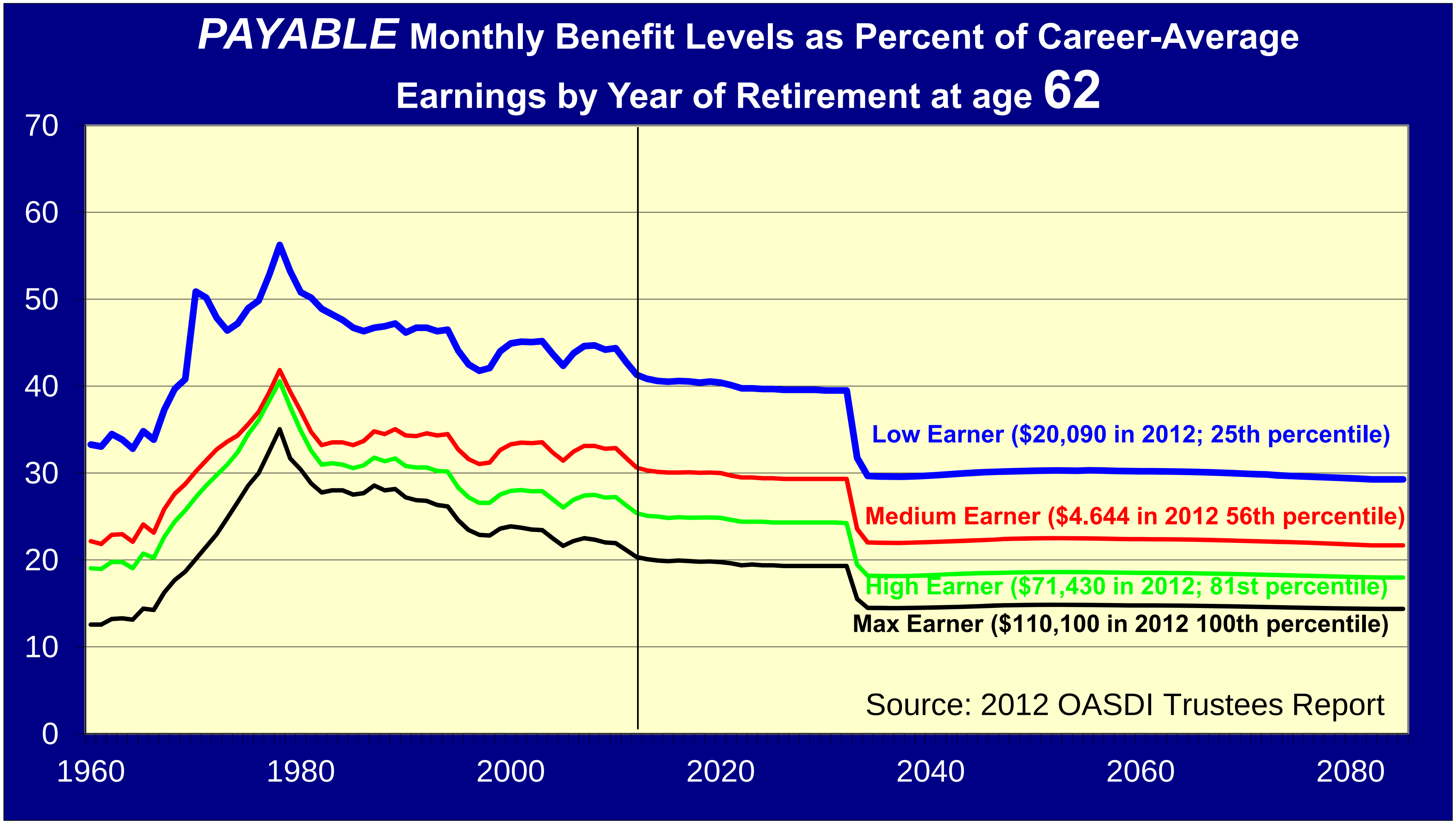
Ultimately—What Benefits at What Cost? Our Elected Representatives Will Decide



Scheduled Monthly Benefits Are Lower for the Majority Who Start at Age 62



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



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

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

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