Social Security Financing & Options 101

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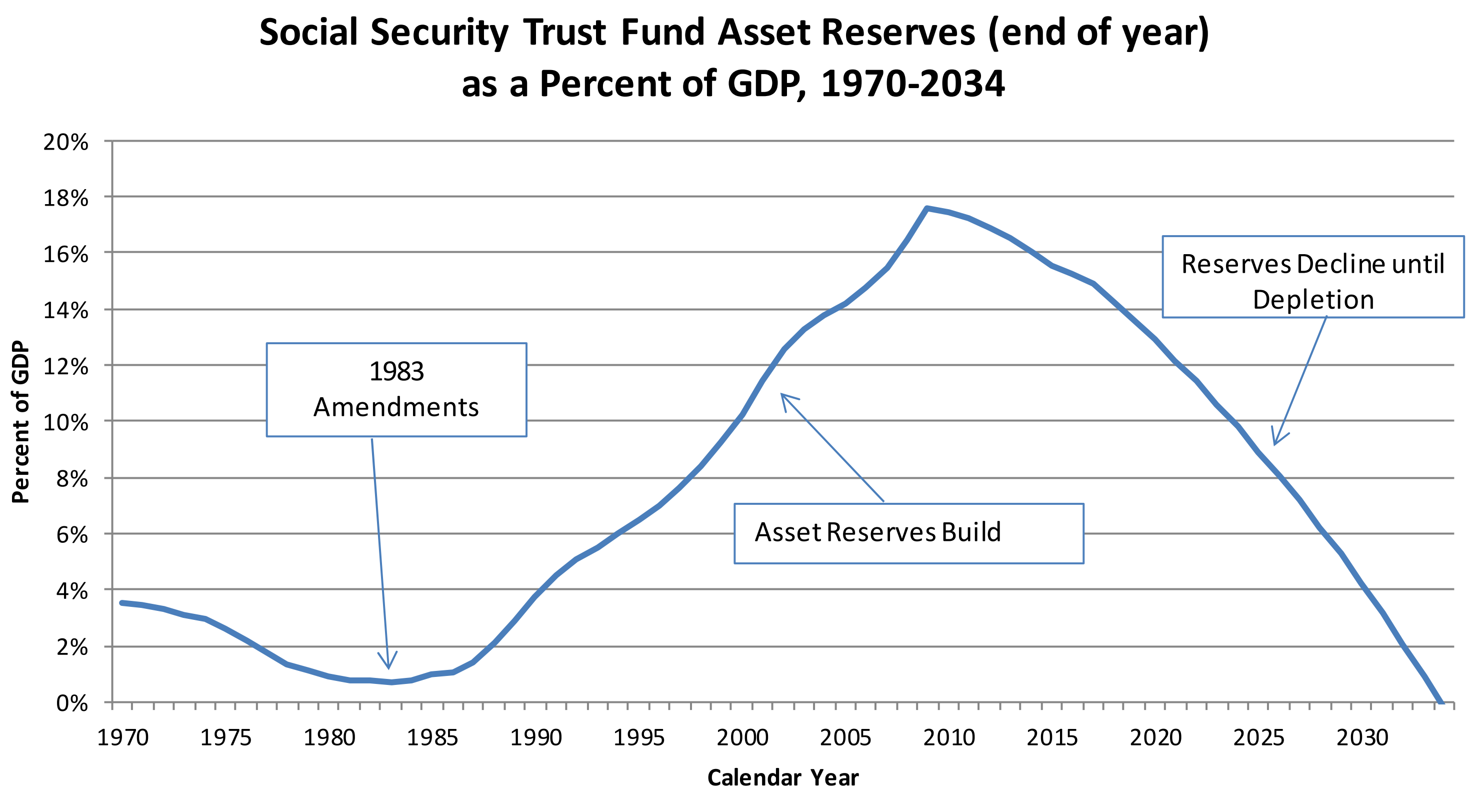
Social Security Trust Funds

- Two legally distinct trust funds:
  - **OASI** = Old-Age and Survivors Insurance
  - **DI** = Disability Insurance
- Financial operations are overseen by the Social Security Board of Trustees
- The two funds are often looked at on a theoretical combined basis
  - As of December 31, 2017, the trust funds hold about **$2.89 trillion** in asset reserves

Social Security Trust Funds

- The combined funds have run surpluses since the early 1980s and through 2017
- Beginning in 2018, combined asset reserves will start to decline until they are depleted in **2034**
- The DI fund alone is projected to become depleted in **2032**
- What happens then when the reserves are depleted? Stay tuned…

Social Security Trust Funds



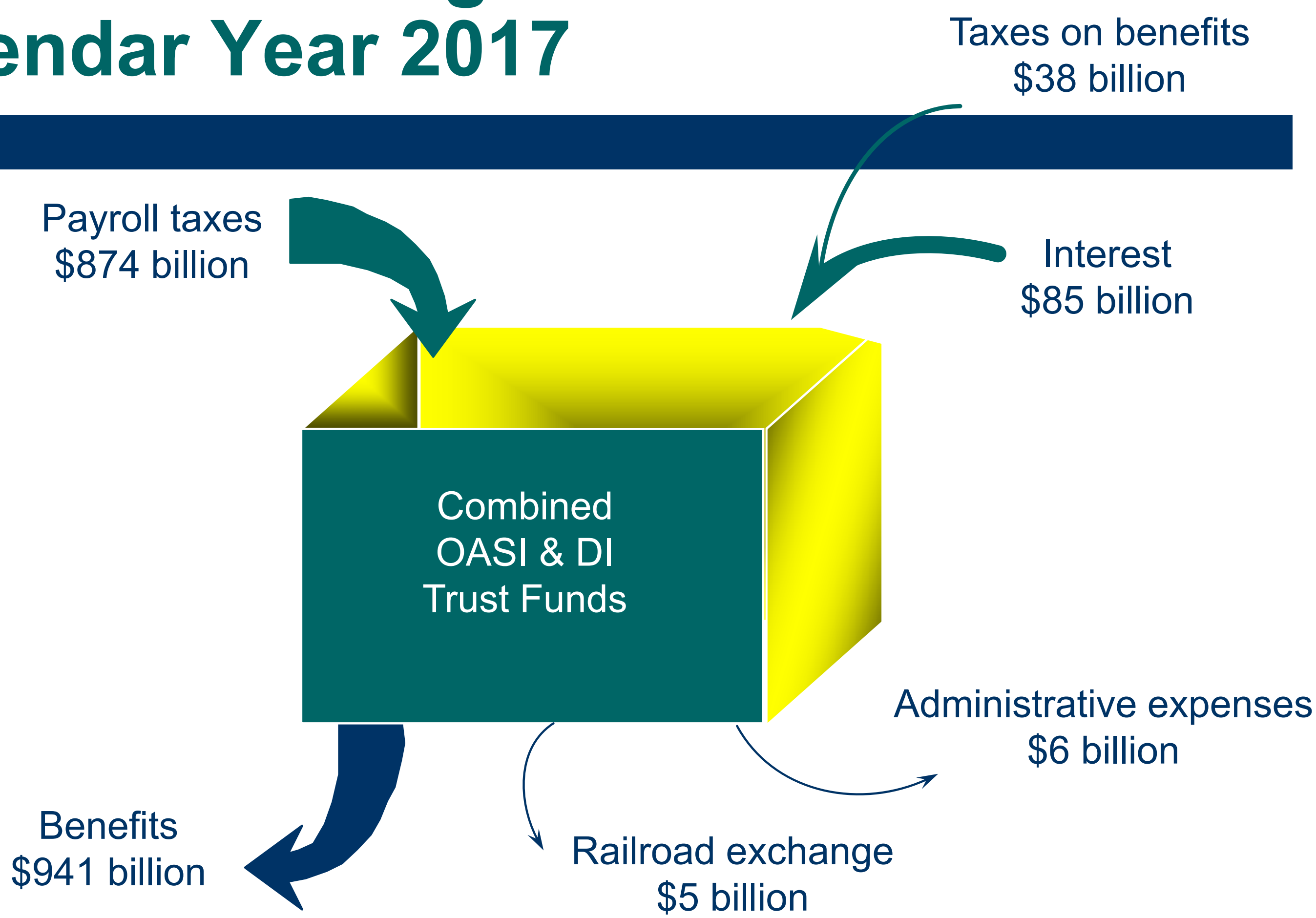
How Is Social Security Financed (Income)?

- Payroll taxes
  - Employees and employers each pay **6.2%** of covered earnings
  - The self-employed pay **12.4%** of covered earnings
  - On earnings up to **$128,400** in 2018
- Taxes on Social Security benefits
  - High-income beneficiaries pay federal income tax on their benefits
- Interest on trust fund reserves
  - Invested in interest-bearing securities of the US government

Where Does the Money Go (Outgo)?

- Benefit payments
  - About **62 million** people getting benefits as of December 2017:
    - **45 million** retired workers and dependents of retired workers
    - **6 million** survivors of deceased workers
    - **10 million** disabled workers and dependents of disabled workers
- Administrative expenses
  - Only about **0.7 percent** of total expenditures in 2017

Income and Outgo
Calendar Year 2017



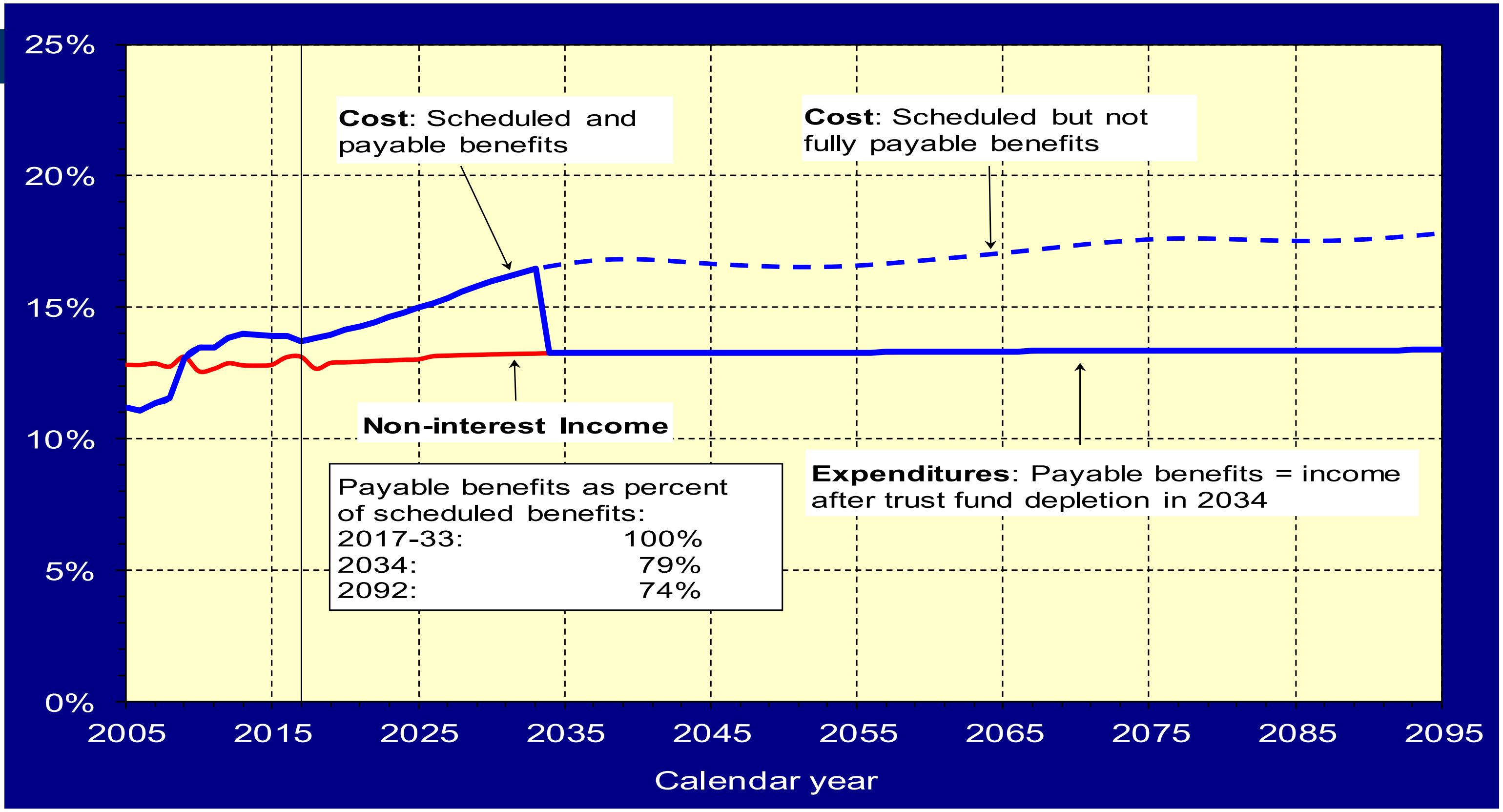
Social Security Trust Funds

- Why do we have trust funds?
  - The trust funds provide an essential reserve so benefits can be paid even when current income alone is not enough
  - Social Security (OASI and DI) cannot borrow; can only spend what has been collected
- Are the trust funds “real”?
  - If reserves deplete, full benefits cannot be paid
  - The trust funds force Congress to act in order to maintain continuous benefit payments

Trust Fund Financing

- How is the future shortfall expressed?
- To make shortfalls comparable over years, they are often scaled as a **percent of taxable payroll**
  - The amount of earnings taxable by the program for a time period
- For example, in **2045**:
  - Taxable payroll is expected to be about $23.6 trillion in nominal $$
  - Income to the program is expected to be about $3.1 trillion, or **13.27** percent of taxable payroll
  - The cost of the program is expected to be about $3.9 trillion, or **16.66** percent of taxable payroll
  - So the shortfall is **3.39** percent (16.66 – 13.27)

Trust Fund Financing
(as a percent of taxable payroll)



How to Fix Social Security Long-Term

- How can the financing shortfalls be covered?
  - Lower cost (reduce benefits) by about one-fourth
  - Increase revenues by about one-third
  - Or some combination of approaches
  - Also consider benefit adequacy?

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
- Lower benefits mainly for high earners
  - Reduce PIA above some level
  - Often combined with increasing PIA below some level, subject to work year requirements

Ways to Lower Cost (continued)

- Lower benefits mainly for the oldest old
  - Reduce the COLA by using a *chained* version of the CPI
  - Some say instead raise the COLA by using the CPI-E (based on purchases of consumers over age 62)
- Increase the number of years used in calculation (currently 35)
  - Hurts those who haven't been in the workforce for 35 years

Ways to Increase Revenue

- Raise tax rate on all earners
  - Increasing rate from current 12.4 percent to 15.2 percent is projected to eliminate the long-range shortfall
- Raise tax on highest earners
  - Increase taxable maximum amount
  - Some tax on all earnings above the maximum

Ways to Increase Revenue (continued)

- Tax employer group health insurance premiums
  - Affects only middle class if taxable maximum remains the same
- Tax certain investment income
  - Consistent with ACA approach?
- Maintain larger trust fund reserves
  - Added interest/yield can lower needed taxes

Your Solution?

- Soon, you will hear more details about these and other policy options
- Then you will come up with your own solution during the afternoon exercise

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

There you will find:

- The 2018 Trustees Report and all prior reports
- Detailed single-year tables for recent reports
- Our estimates for comprehensive proposals
- Our estimates for individual policy provisions
- Actuarial notes, including replacement rates
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