

Social Security Actuarial Status

**The 2018 Annual Report of the Board of Trustees
of the OASI and DI Trust Funds**

Key Results and Implications

*Presented by Steve Goss, Chief Actuary, SSA
PWBM First Spring Policy Forum
Capitol Visitors Center
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What Is the Legislative Mandate for the Annual Report?

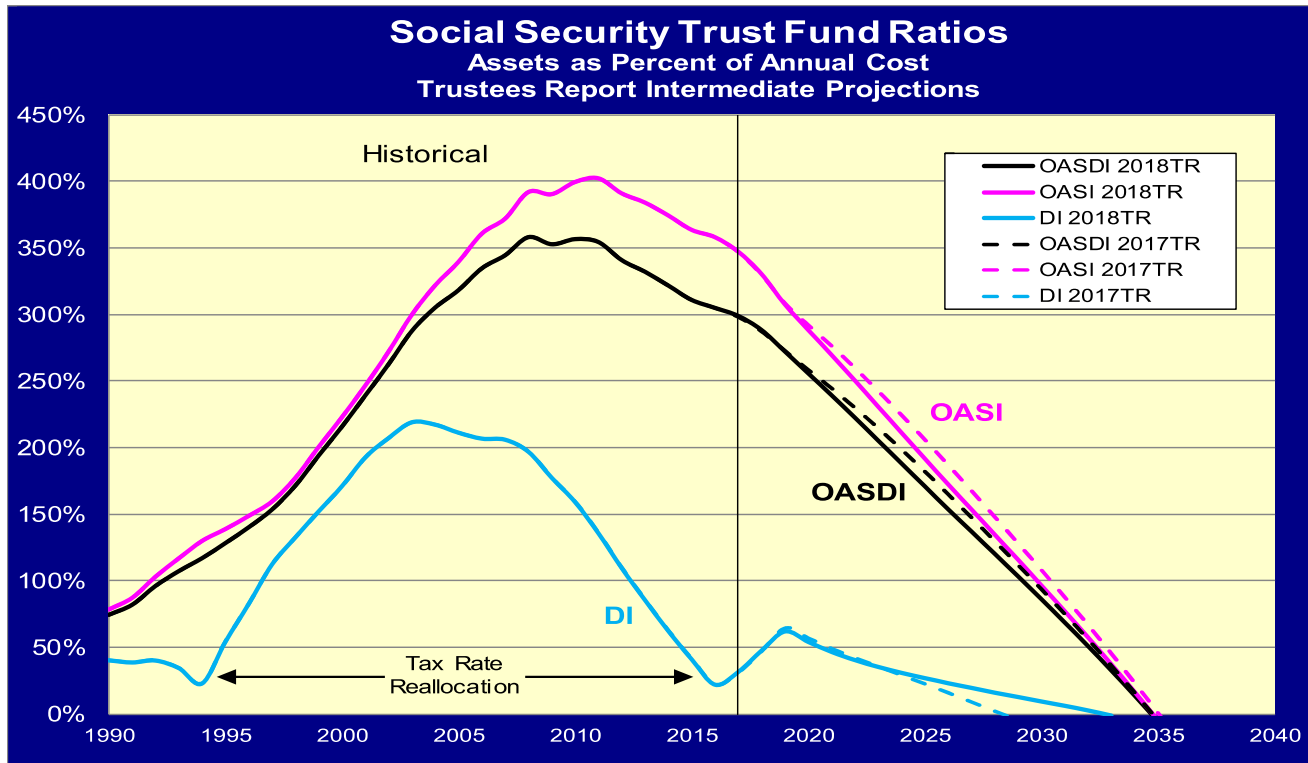
- 1) Trust Fund operations of the past year and the next five years
- 2) Actuarial status of the trust funds
 - This means the ability to meet the cost of scheduled benefits with scheduled revenue and trust fund reserves
 - And the extent to which scheduled revenue will fall short, forcing cuts or delays in benefits in the absence of legislative change

Primary Changes this Year

- 1) Continued lower-than-expected disability applications and incidence have extended DI reserve depletion another 4 years, to 2032.
- 2) OASI reserve depletion is now late 2034 versus early 2035 in last year's report. Primarily from lower projected payroll taxes (for OASI, DI, and HI) due to temporarily slower GDP growth and lower earnings as percent of GDP.
- 3) OASDI actuarial status is similar to last year. Actuarial deficit increased by only 0.02 percent of payroll versus expected increase of 0.06 percent from change in valuation period alone. Annual deficits smaller between 2025 and 2060, and after 2085.

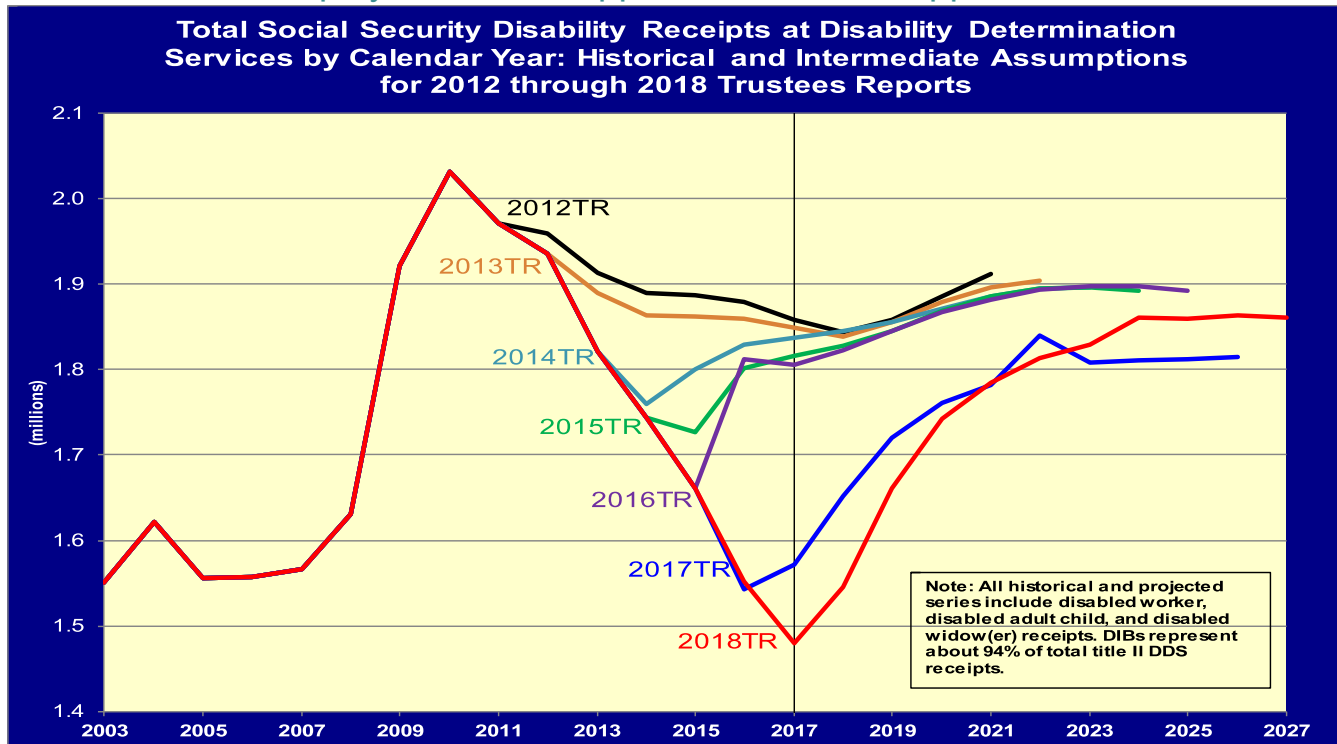
SOLVENCY: OASDI Trust Fund Reserve Depletion 2034 (same as last year)

- Reserve depletion date varied from 2029 to 2042 in reports over the past 26 years (1992-2018)
- **DI Trust Fund — reserve depletion in 2032, four years later than last year**
 - Due largely to lower recent and near-term disability applications and average benefit levels.



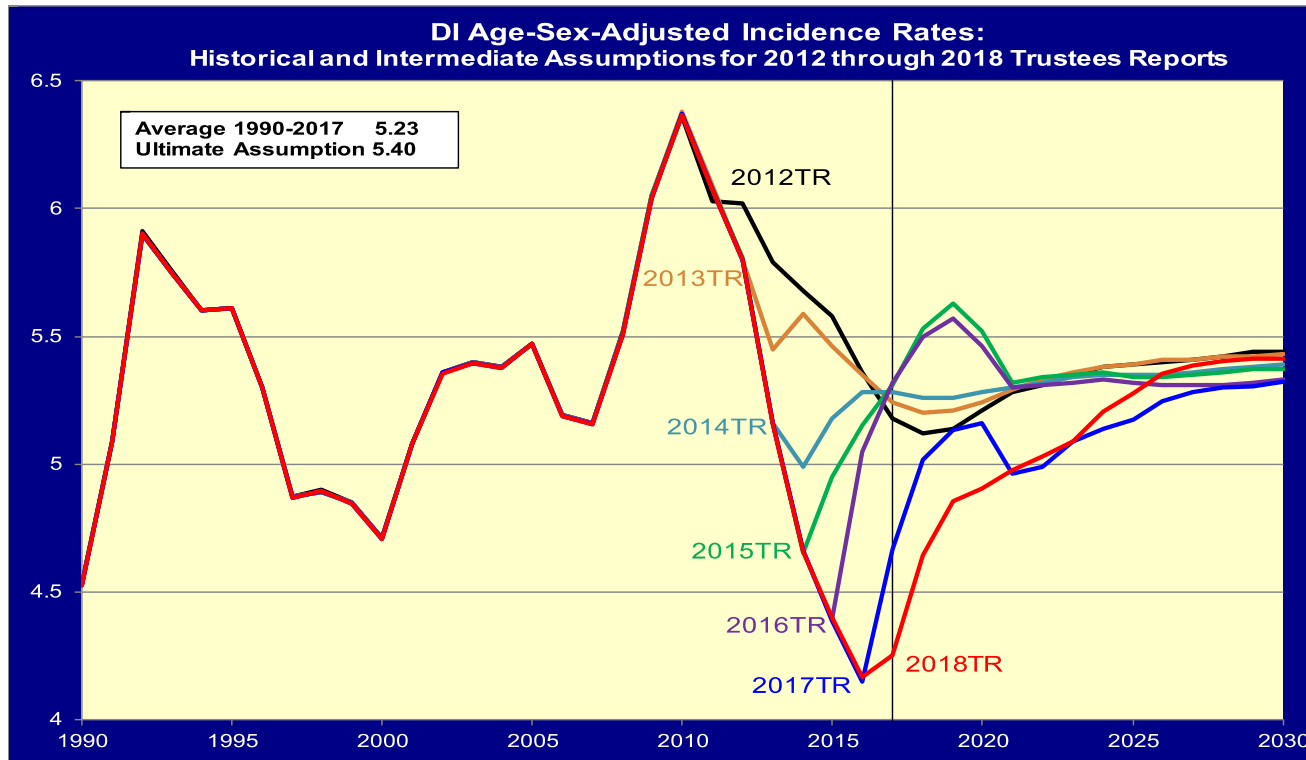
Applications for Disability Benefits Continue to Fall

At the peak of the last economic cycle in 2007, applications were low, but increased rapidly in the recession to over 2 million in 2010. In 2016 and 2017, with the economy still below the sustainable full-employment level, applications have dropped below the 2007 level



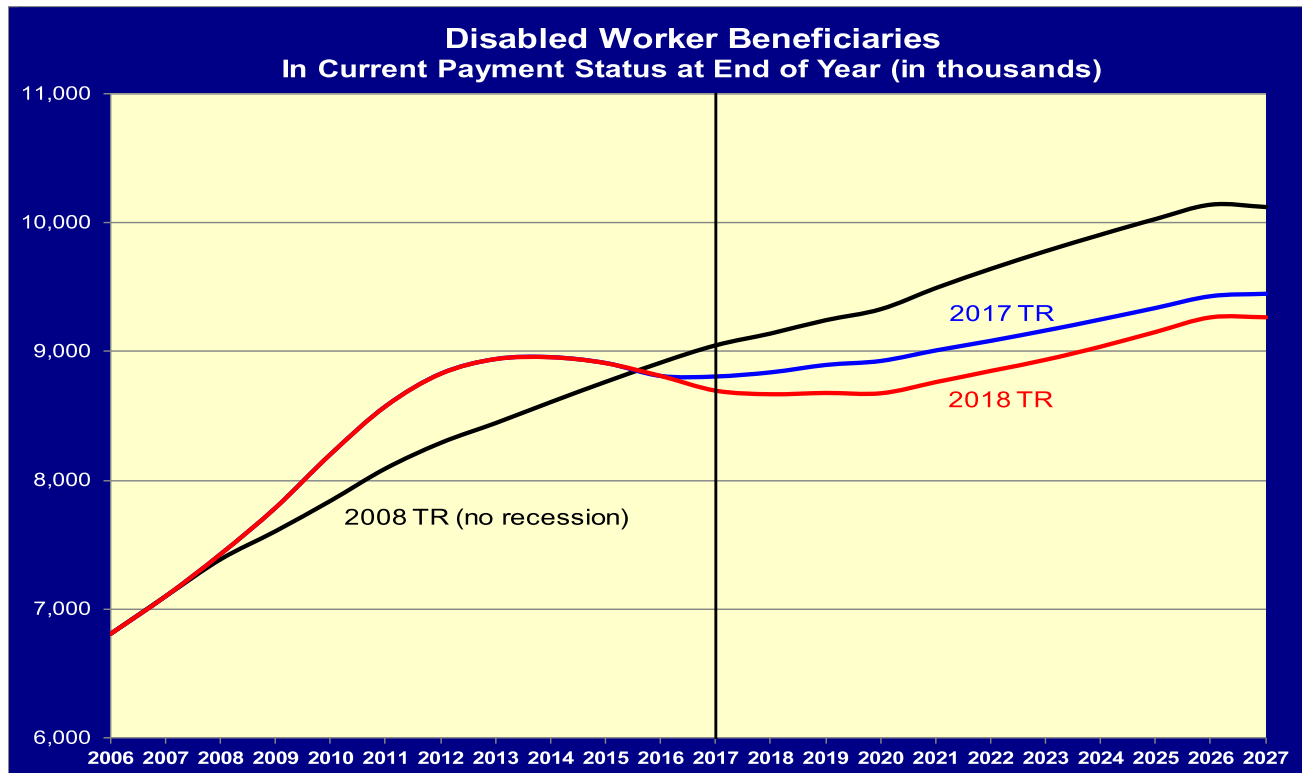
Disability Incidence Rate Falls to Historic Lows

DI disabled worker incidence rate rose sharply in the recession, and has declined since the peak in 2010 to extraordinarily low levels for 2016 and 2017



Fewer Disabled Worker Beneficiaries

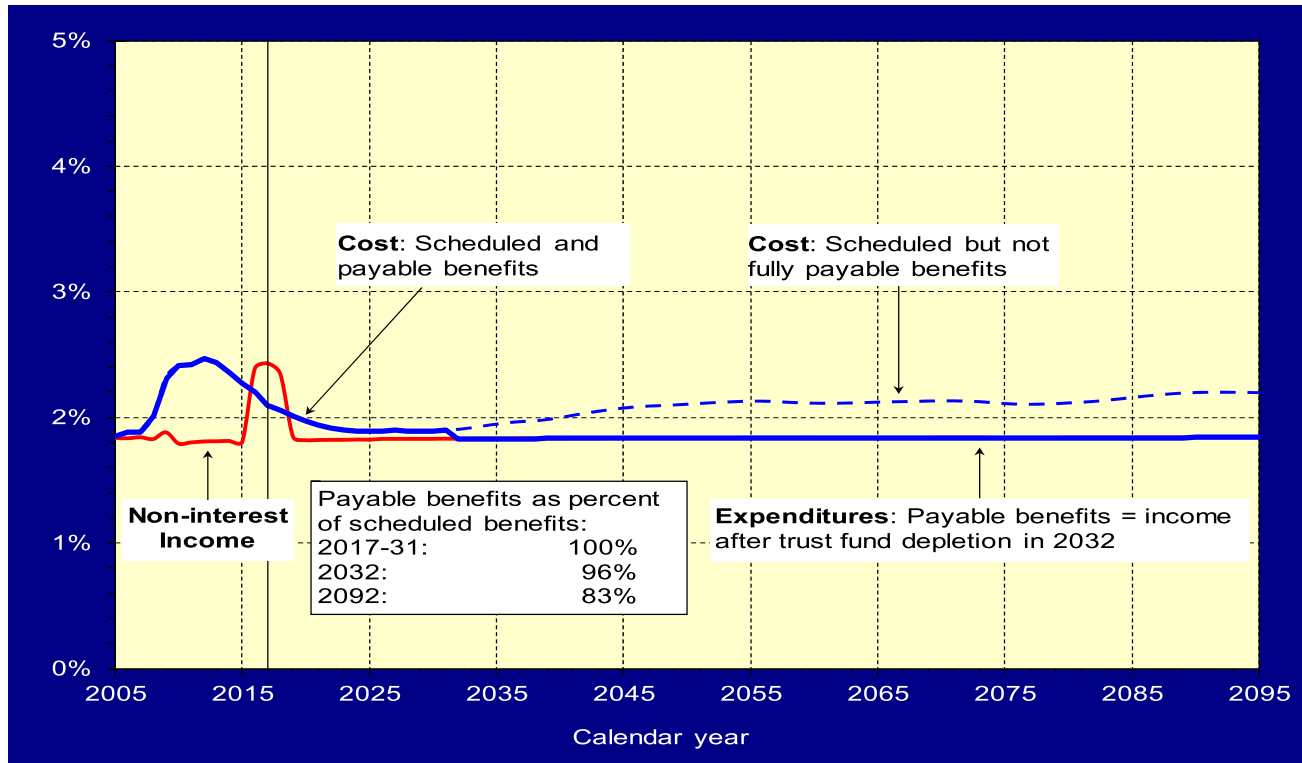
Fewer now and in near term based on recent applications and incidence rates



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

96% of scheduled benefits still payable at trust fund reserve depletion

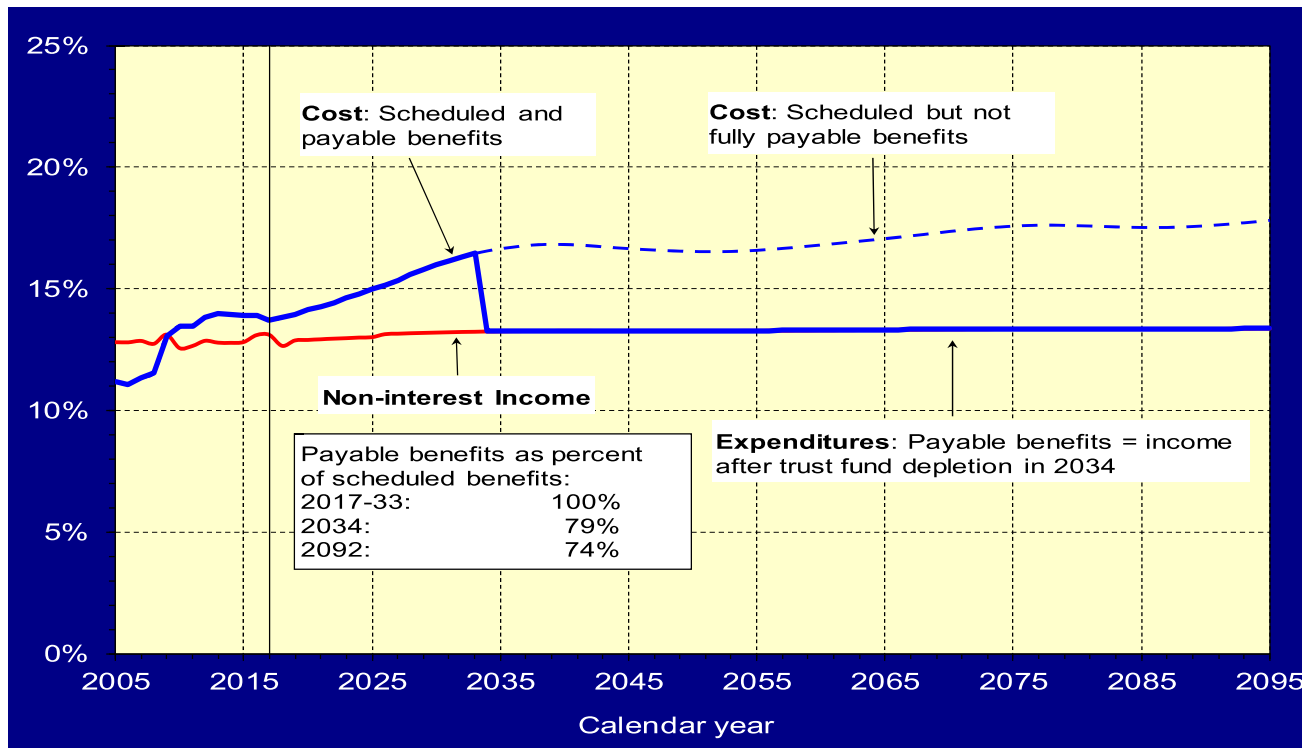
Annual deficit in 2092: 0.36 percent of payroll — 0.02 percent smaller than last year



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

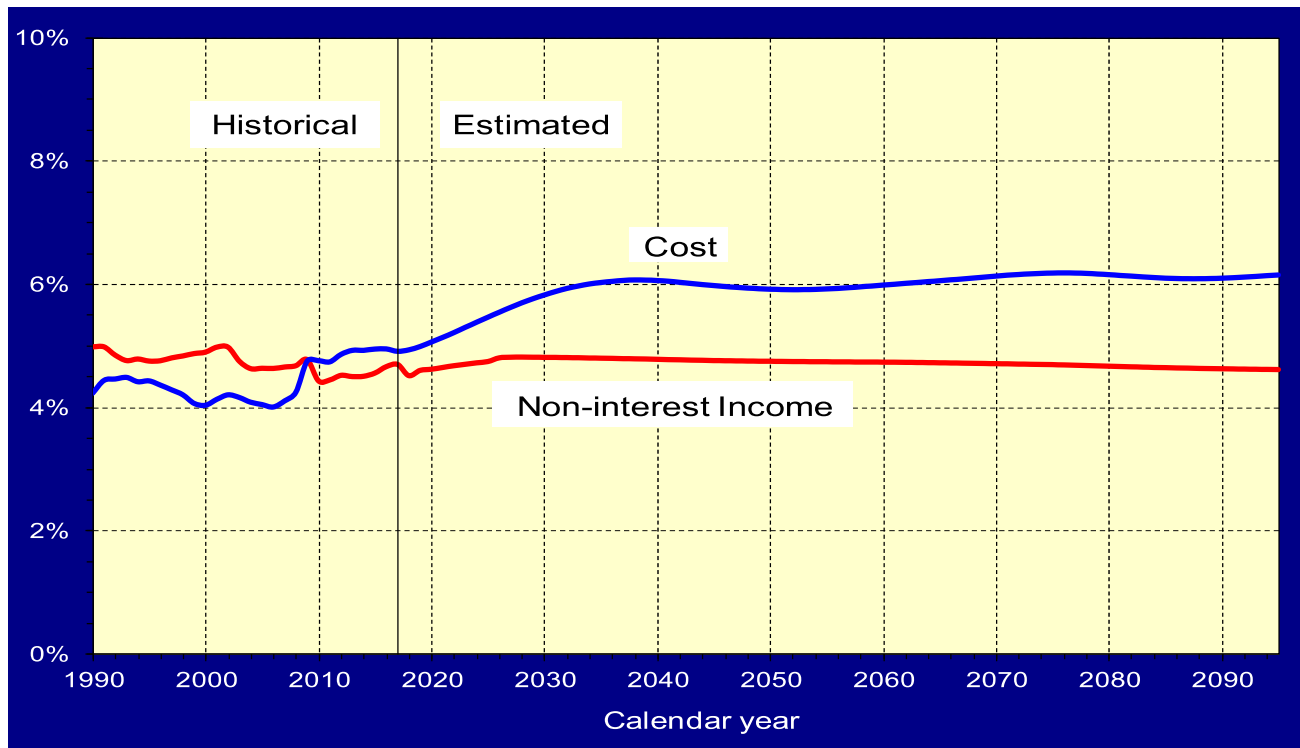
79% of scheduled benefits still payable at trust fund reserve depletion

Annual deficit in 2092: 4.32 percent of payroll — 0.21 percent smaller than last year



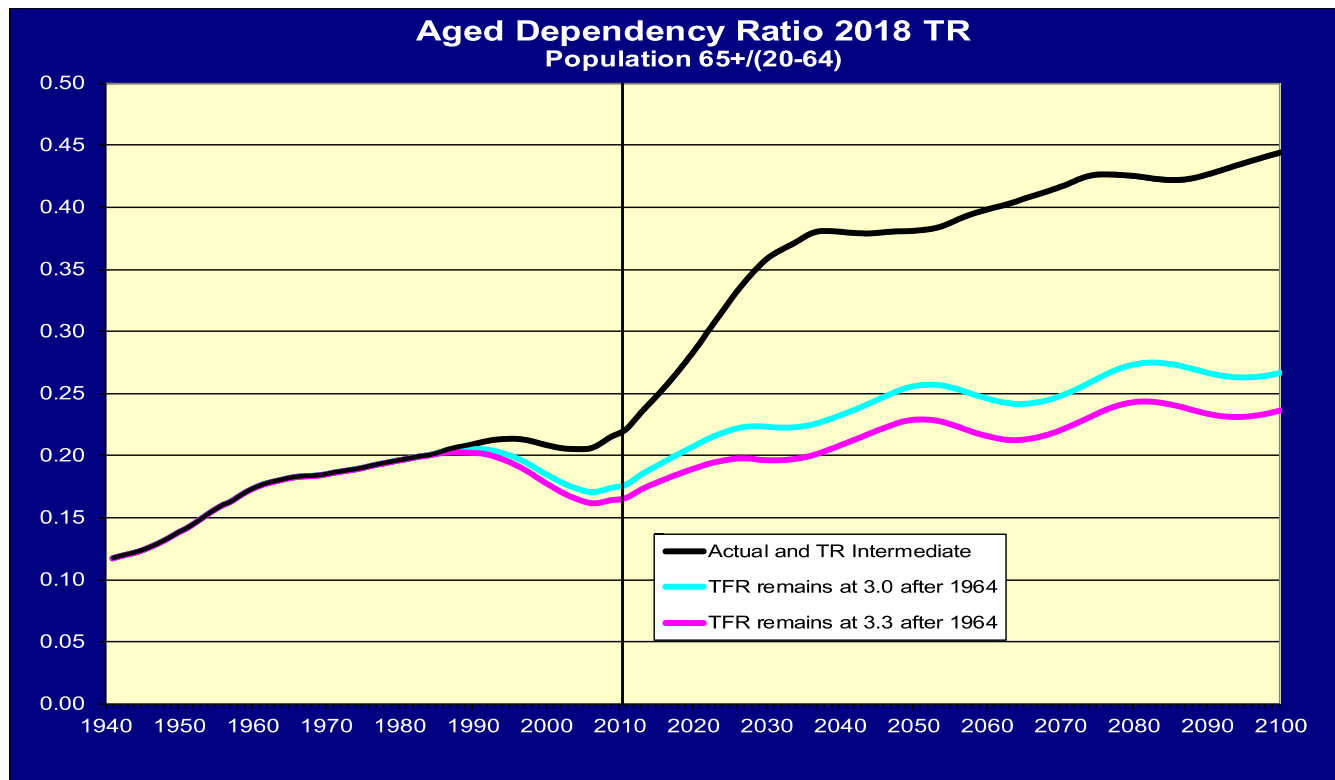
SUSTAINABILITY: Cost as Percent of GDP

Rises from a 4.2-percent average in 1990-2008, to about 6.1% by 2038, then declines to 5.9% by 2052, and generally increases to 6.1% by 2092



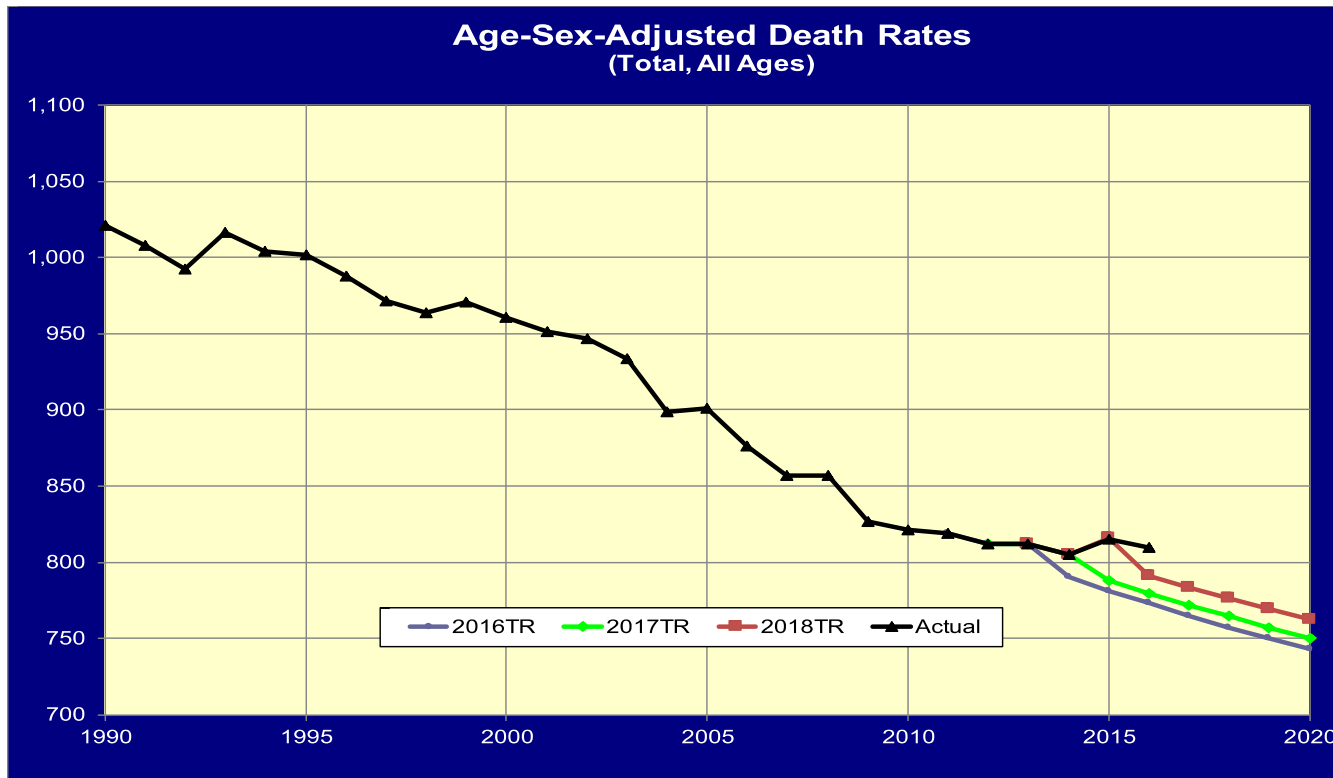
Aging (change in age distribution)

mainly due to drop in birth rates



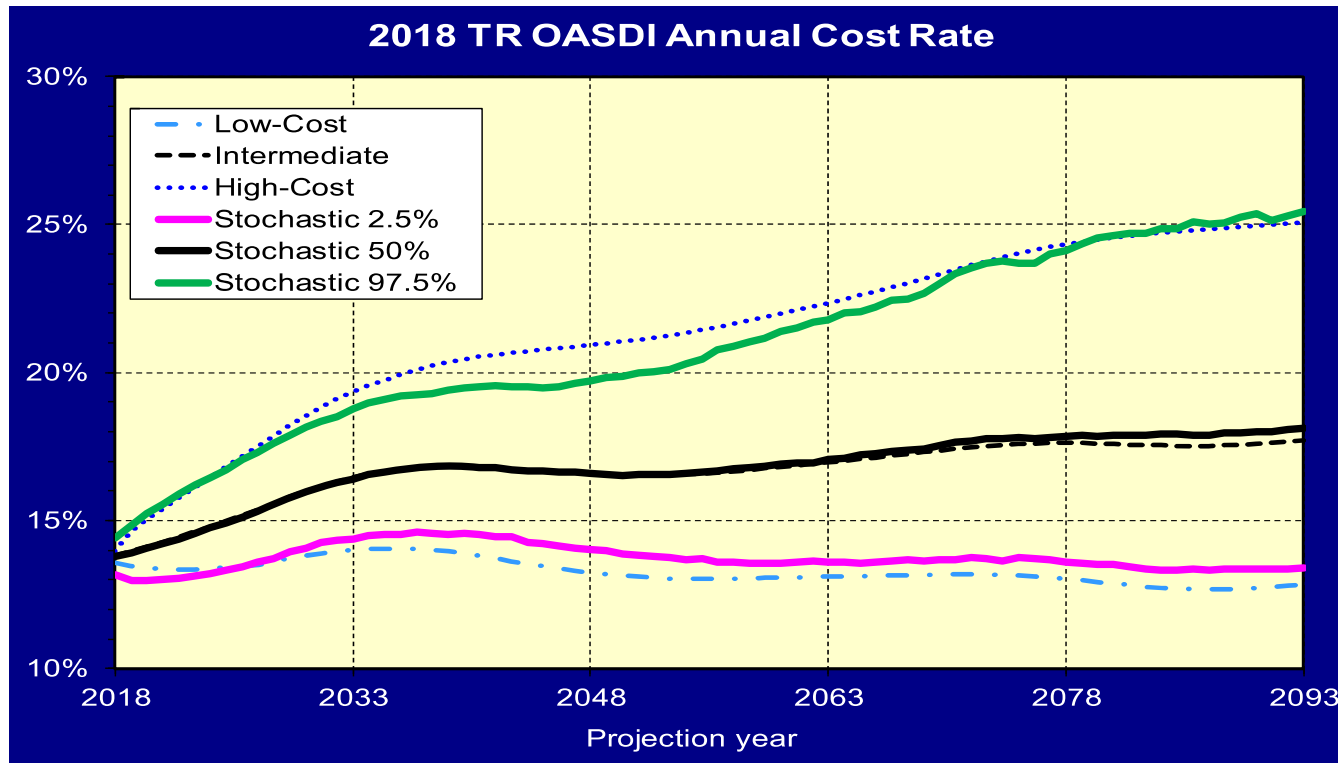
Mortality Experience: All Ages

Reductions continue to fall short of expectations

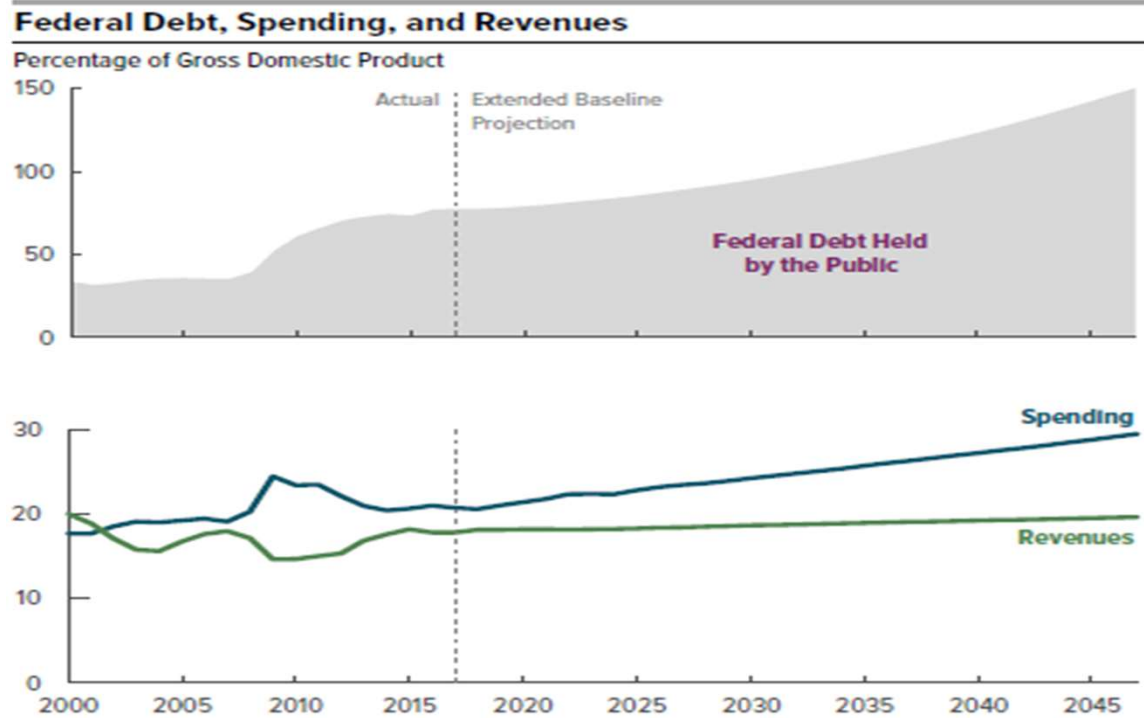


Uncertainty Illustrations

Unrealistically narrow stochastic results due to lack of central tendency variation



But, Wait—How About Budget Scoring? Don't entitlements just keep borrowing?

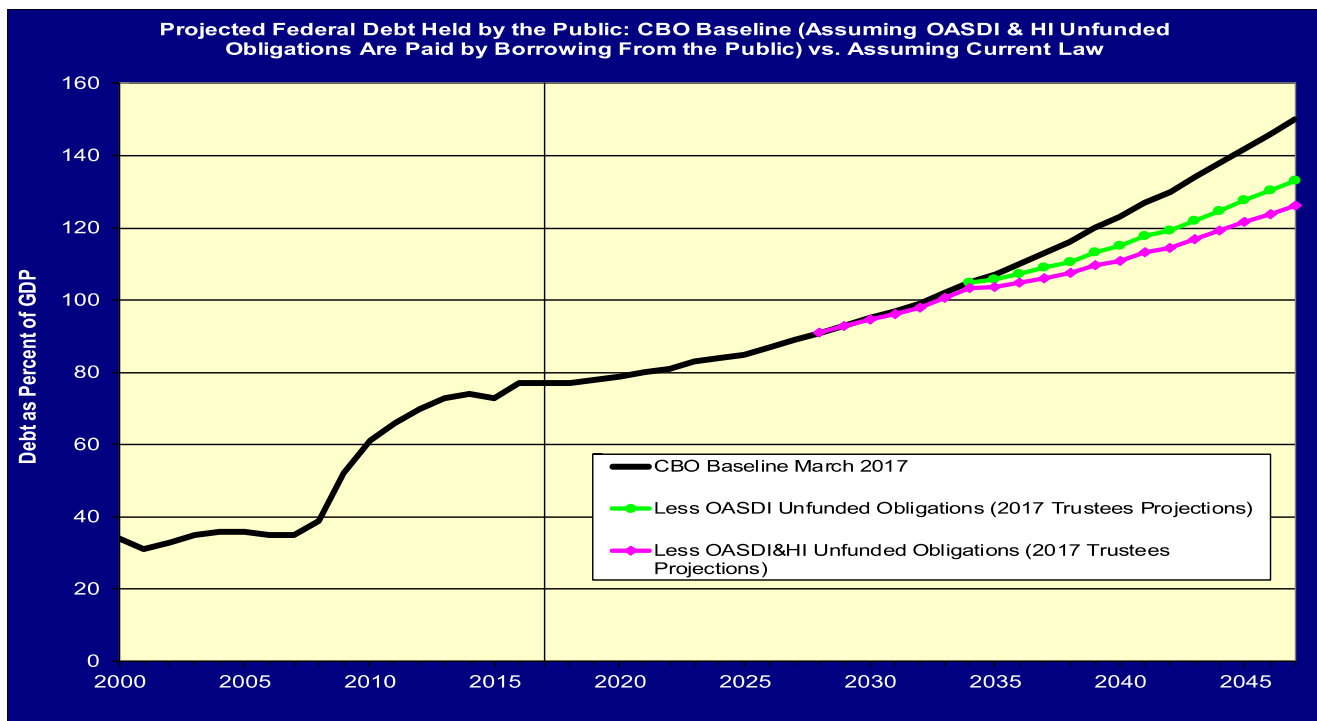


Source: Congressional Budget Office, March 2017

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

- See Actuarial Opinion in the 2018 TR (also 2014, 2015, 2016, and 2017 TR)
 - 1) After reserves deplete, \$13.2 trillion unfunded obligation through 2092 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 assess solvency and changes needed to eliminate shortfalls
- If trust fund reserves were to deplete:
 - Full benefits cannot be paid timely
 - NO pressure on the Budget or Federal Debt
 - So Congress must act, as it always has
- Straightforward solutions:
 - Add revenue and/or lower cost for OASDI
 - Comprehensive changes *implemented* by 2034

How to Fix Social Security Long-Term

Make choices addressing OASDI deficits 2034-2092:

- Raise scheduled revenue by 2033 by about one-third (29%)
- Reduce scheduled benefits by 2033 by about one-fourth (23%)
- 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 (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
- Lower benefits mainly for the oldest old?
 - Reduce the COLA
 - But, some say increase it with the CPI-E (based on purchases of consumers over age 62)

Ways to Increase Revenue

- Raise the 12.4 percent OASDI payroll tax rate?
- 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

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

- There you will find:
 - This and all prior OASDI Trustees Reports
 - 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; including stochastic
 - Extensive databases
 - Congressional testimonies
 - Presentations by OCACT employees