

Social Security Financing & Options 101

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Social Security Administration



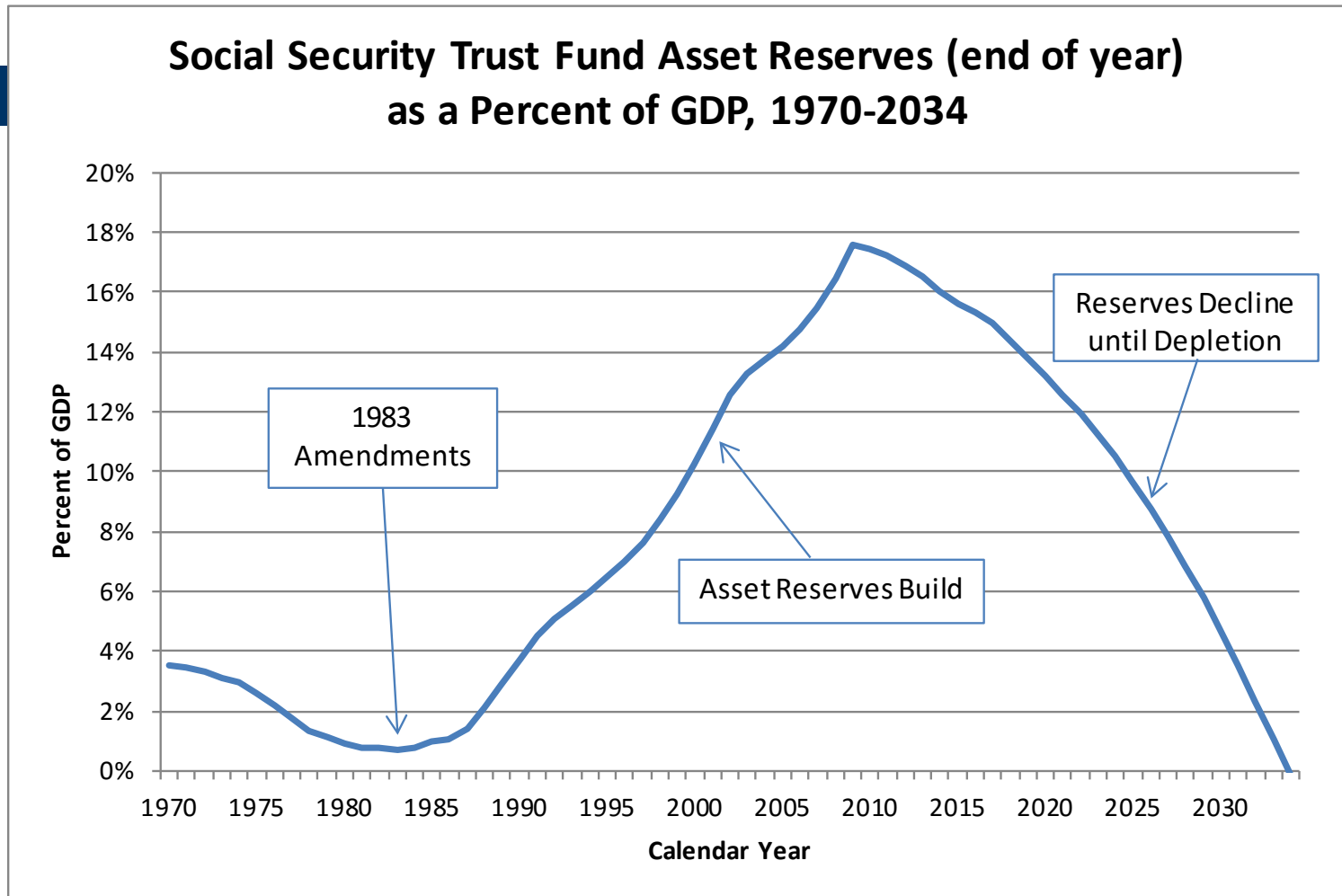
Social Security Trust Funds

- 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, 2016, the trust funds hold about **\$2.85 trillion** in asset reserves

Social Security Trust Funds

- The combined funds have run surpluses since the early 1980s and are expected to do so through 2021
- Beginning in 2022, combined asset reserves will start to decline until they are depleted in **2034**
- The DI fund alone is projected to become depleted in **2028**
- What happens then when the reserves are depleted? Stay tuned...

Social Security Trust Funds



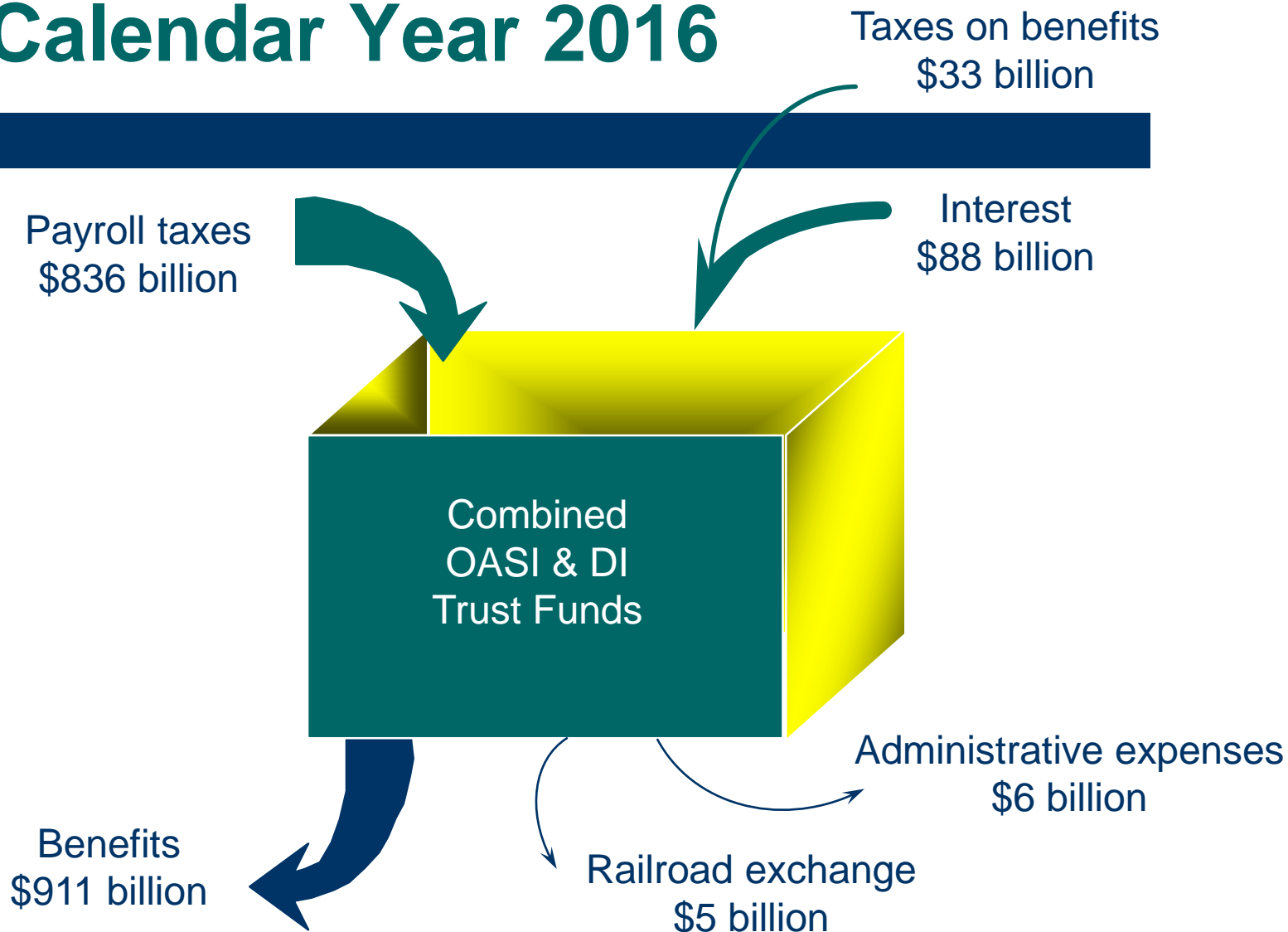
How Is Social Security Financed (Income)?

- 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 **\$127,200** in 2017
- 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 **61 million** people getting benefits as of December 2016:
 - **44 million** retired workers and dependents of retired workers
 - **6 million** survivors of deceased workers
 - **11 million** disabled workers and dependents of disabled workers
- Administrative expenses
 - Only about **0.7 percent** of total expenditures in 2016

Income and Outgo Calendar Year 2016



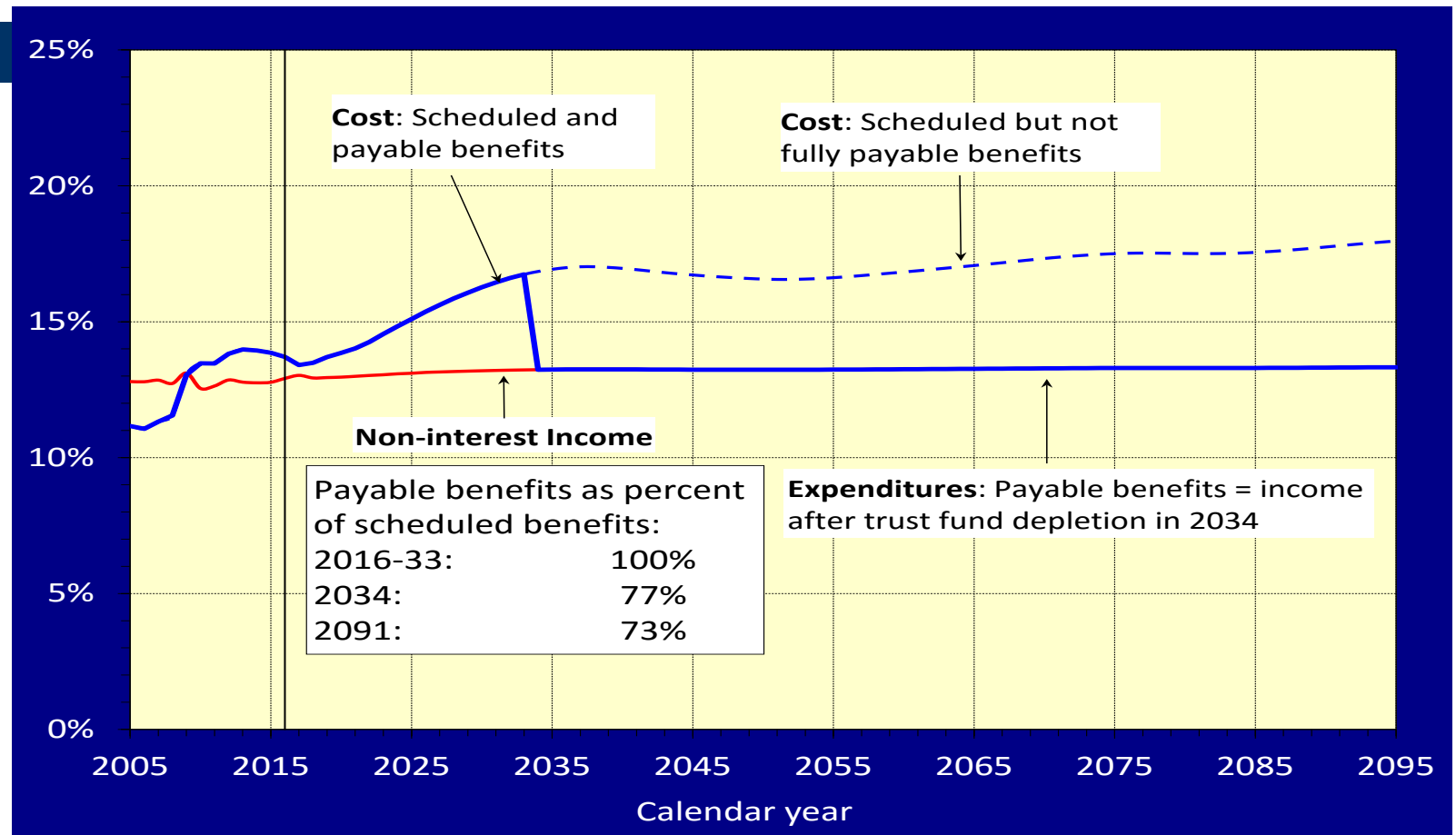
Social Security Trust Funds

- 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 \$24.1 trillion in nominal \$\$
 - Income to the program is expected to be about \$3.2 trillion, or **13.24** percent of taxable payroll
 - The cost of the program is expected to be about \$4.0 trillion, or **16.72** percent of taxable payroll
 - So the shortfall is **3.48** percent ($16.72 - 13.24$)

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 25%
 - Increase revenues by about 33%
 - 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

Additional Resources

<http://www.ssa.gov/OACT>



Social Security

SEARCH

MENU

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Office of the Chief Actuary

Actuarial Publications	Actuarial publications include Trustees Reports, SSI Annual Reports, Actuarial Studies and Notes, ...
Program Changes— <ul style="list-style-type: none"> ▸ Proposals ▸ Provisions 	Proposals affecting the Trust Funds, including those addressing Trust Fund solvency <ul style="list-style-type: none"> ▸ Memoranda providing estimates for proposals and groups of provisions ▸ Individual changes considered for modifying Social Security
Automatic Increases	Cost-of-living adjustment (COLA), national average wage index, taxable maximum, benefit formulas, ...
Benefit Calculators	Estimate your Social Security benefit with one of our calculators
Data— <ul style="list-style-type: none"> ▸ Beneficiaries ▸ Trust Funds 	Social Security data on— <ul style="list-style-type: none"> ▸ Number of beneficiaries paid, average benefits paid, ... ▸ Trust fund assets, income, outgo, interest rates, ...
Historical Estimates and Projections <ul style="list-style-type: none"> ▸ Death Probabilities ▸ Population 	Downloadable files— <ul style="list-style-type: none"> ▸ Probabilities of death ▸ Population of the Social Security area
Social Security Actuaries	General information about the actuary's role at SSA, including a site map for the Office of the Chief Actuary
Congressional Testimony	Testimony and other communications by the Office of the Chief Actuary Staff