Session 5E: Updates on the Financial Status of Social Security and Proposals

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2023 ImpACT SOA ANNUAL CONFERENCE

Presenters:

Steve Goss, ASA, MAAA
Chief Actuary, Social Security Administration

Karen Glenn, FSA, EA, MAAA
Deputy Chief Actuary, Social Security Administration

Moderator:

Piotr Krekora, ASA, EA, FCA, MAAA
Senior Consultant, Gabriel, Roeder, Smith & Company

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What Do We Want to Share Today About Social Security and "Entitlements"?

1. What's new in the 2023 Trustees Report (released March 31) regarding Social Security's actuarial status?
2. What options can be considered for closing the financing gap?
3. How do Social Security and Medicare ("entitlements") figure in the fiscal status of the federal government and the economy?

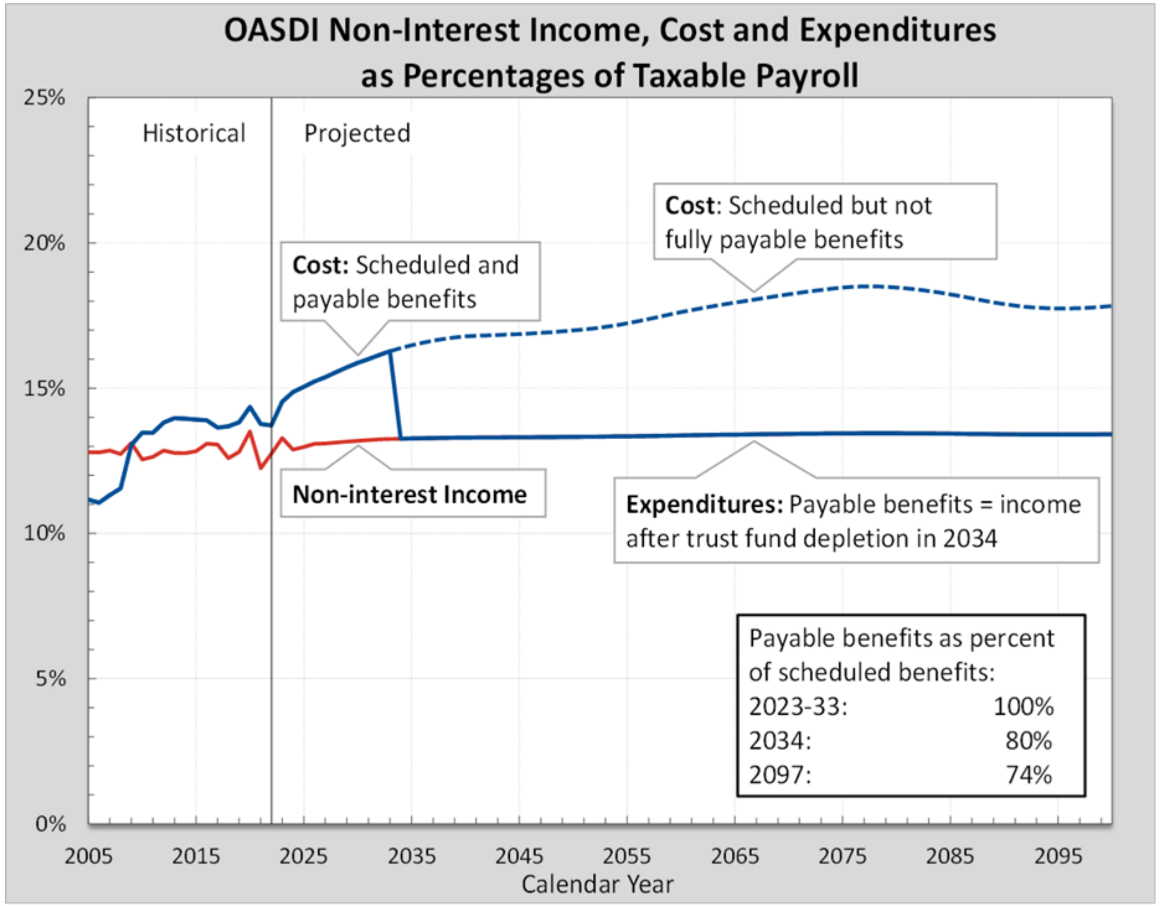
What’s new in the 2023 Trustees Report (released March 31) regarding Social Security’s actuarial status?

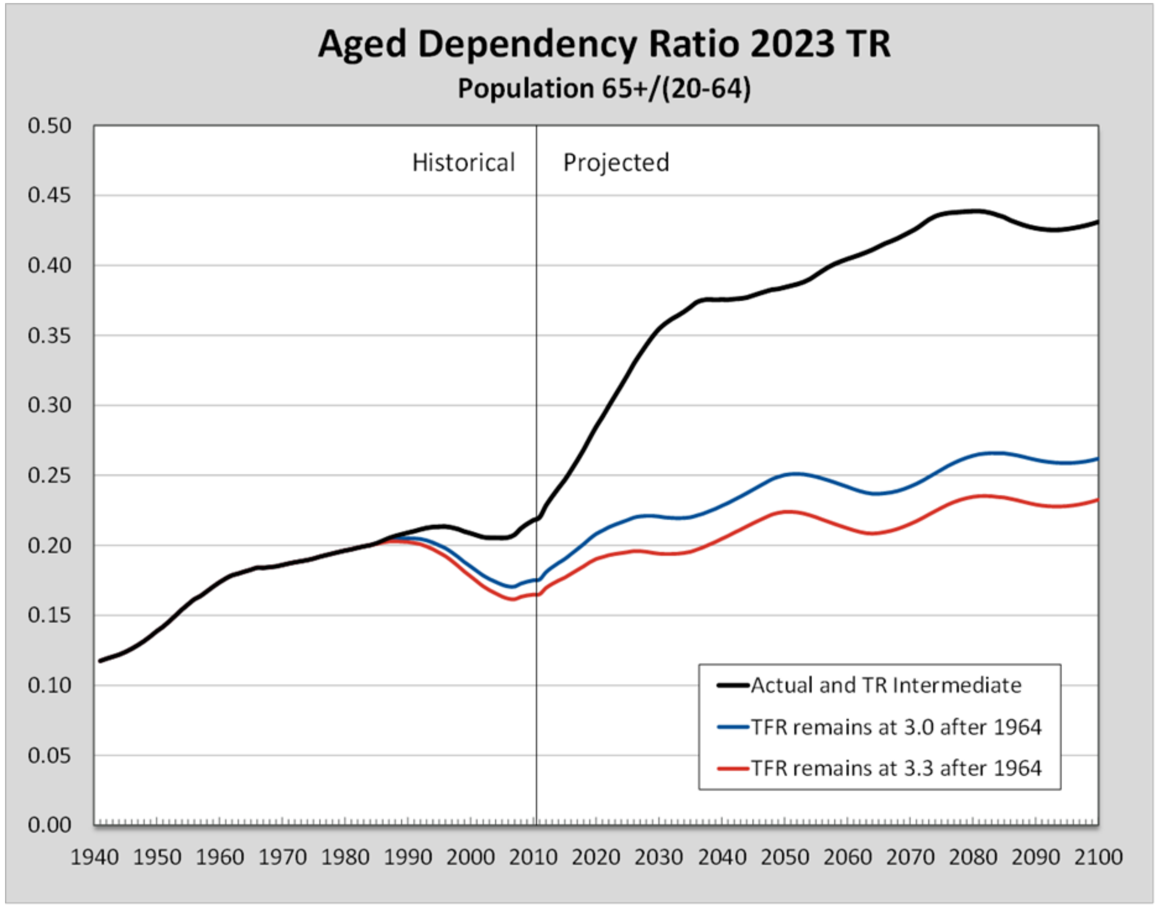
2023 Trustees Report Highlights

- Based on recent experience through the 3rd quarter of 2022, the Trustees lowered expectations for economic growth in 2023 and assumed a permanent 3-percent lower level of GDP thereafter
- This advanced the **OASI** (Old Age and Survivors Insurance) Trust Fund reserve depletion date one year earlier, from 2034 to **2033**
- The **DI** (Disability Insurance) Trust Fund reserves are **not projected to become depleted within 75 years**
- The reserves of the combined **OASDI** Trust Funds are also projected to become depleted one year earlier, in **2034**
- The year of combined OASDI reserve depletion has been in the range of 2033 to 2035 for 12 years now; we are approaching the need for action

The Current Financial/Actuarial Status of the OASDI Trust Funds

Cost is rising as a percent of payroll from 2008 to 2035, mainly due to birth rates affecting the population age distribution



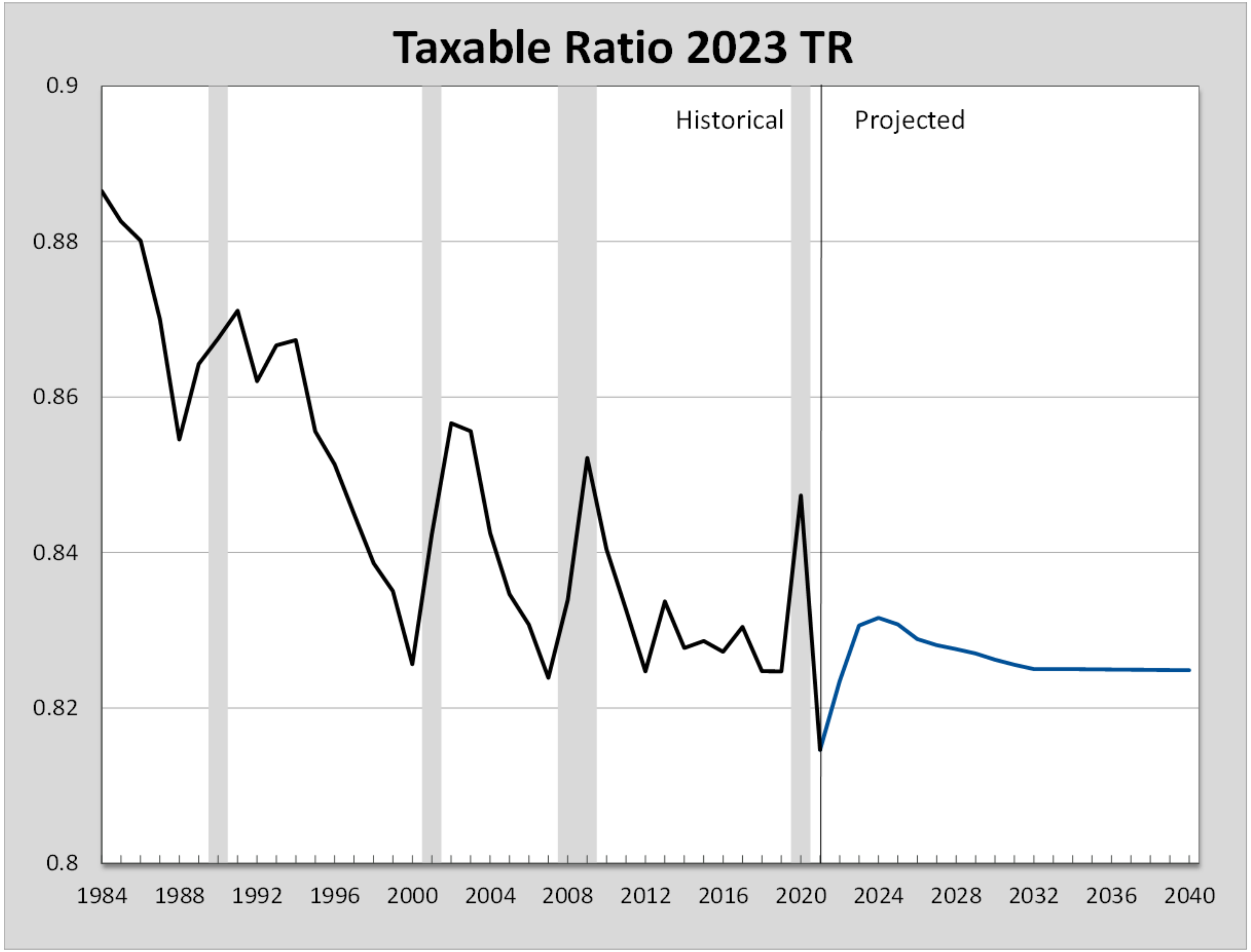


But Wait—After the 1983 Amendments, the 1983 Trustees Report Projected Reserve Depletion in 2063

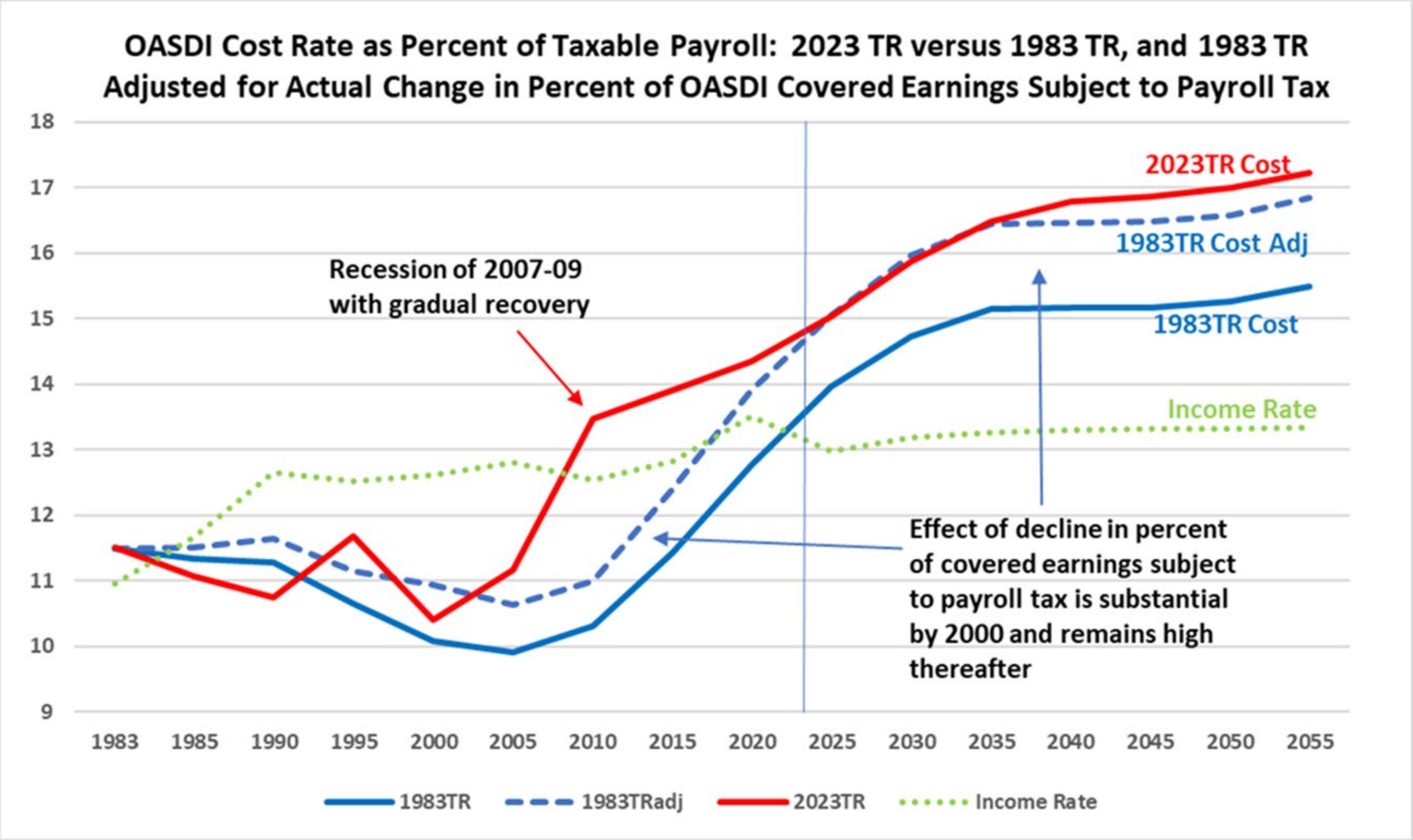
- Lower birth rates were anticipated in 1983, and mortality projections were extremely accurate
- So over 80% of worsening in projections since 1983 Trustees Report was due to unanticipated economic experience
- Redistribution of earnings from 1983 to 2000 reduced taxable payroll, and payroll tax revenue, by 8%
- Depth of 2007-09 recession and slow recovery reduced employment and tax revenue

Earnings "Dispersion" Between 1983 and 2000 Lowered the Percent of Earnings Taxable from 90% to 82.5%

Overall, average earnings increased more than expected, but real growth was 62% for the top 6% of workers, while only 17% for lower 94% of workers.



The Reduced Share of Earnings Subject to Payroll Tax Explains Most of the Increase in Cost as Percent of Payroll, Compared to the Projection in 1983

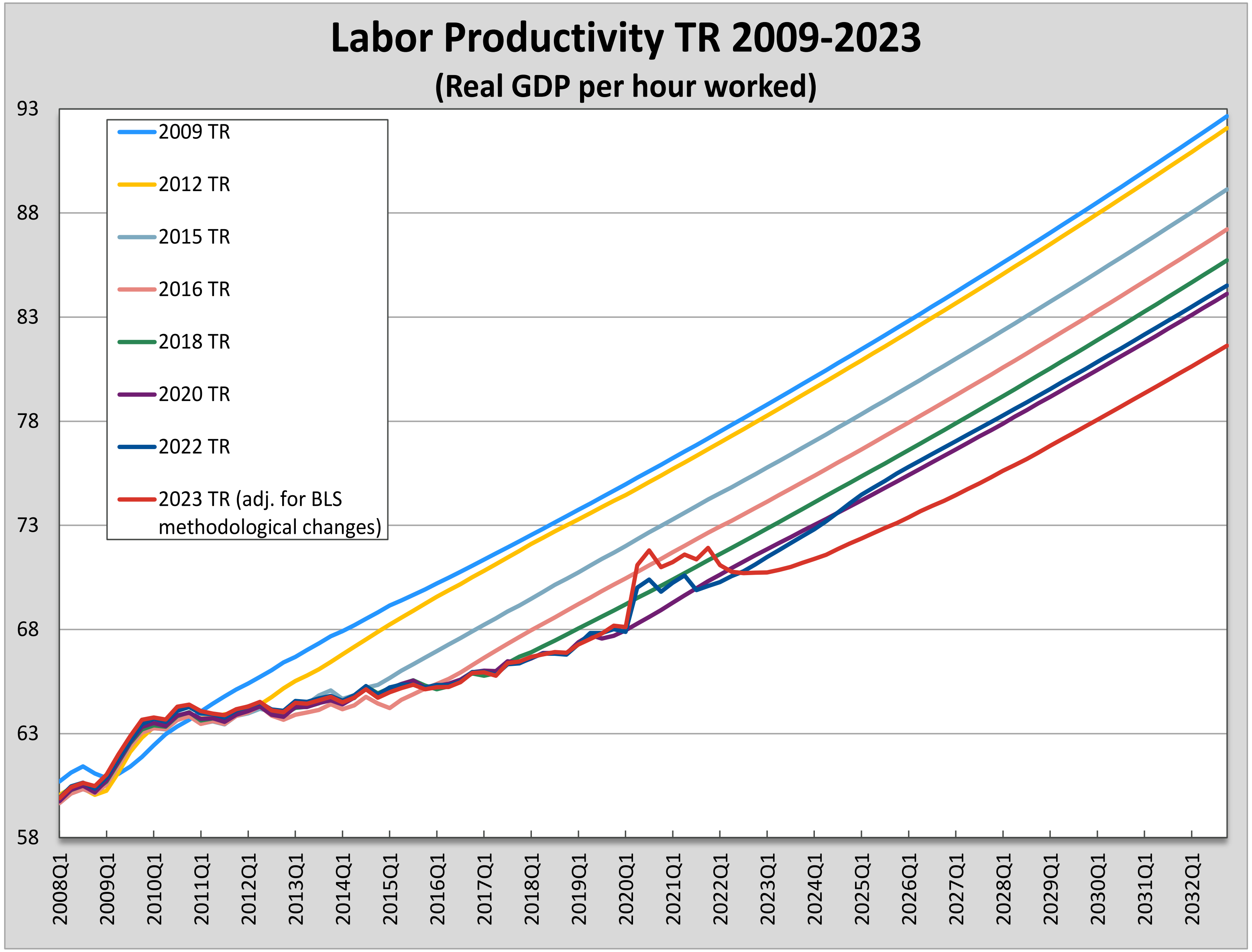


- But the depth of the 2007-09 recession and slow recovery further reduced expected trust fund accumulation through 2019

Changes to Labor Productivity From 2009 TR to 2023 TR

The assumed sustainable trend level of productivity was shifted downward several times between the 2009 TR and 2020 TR, in recognition of the persistent effects of the Great Recession once they became discernable in the data.

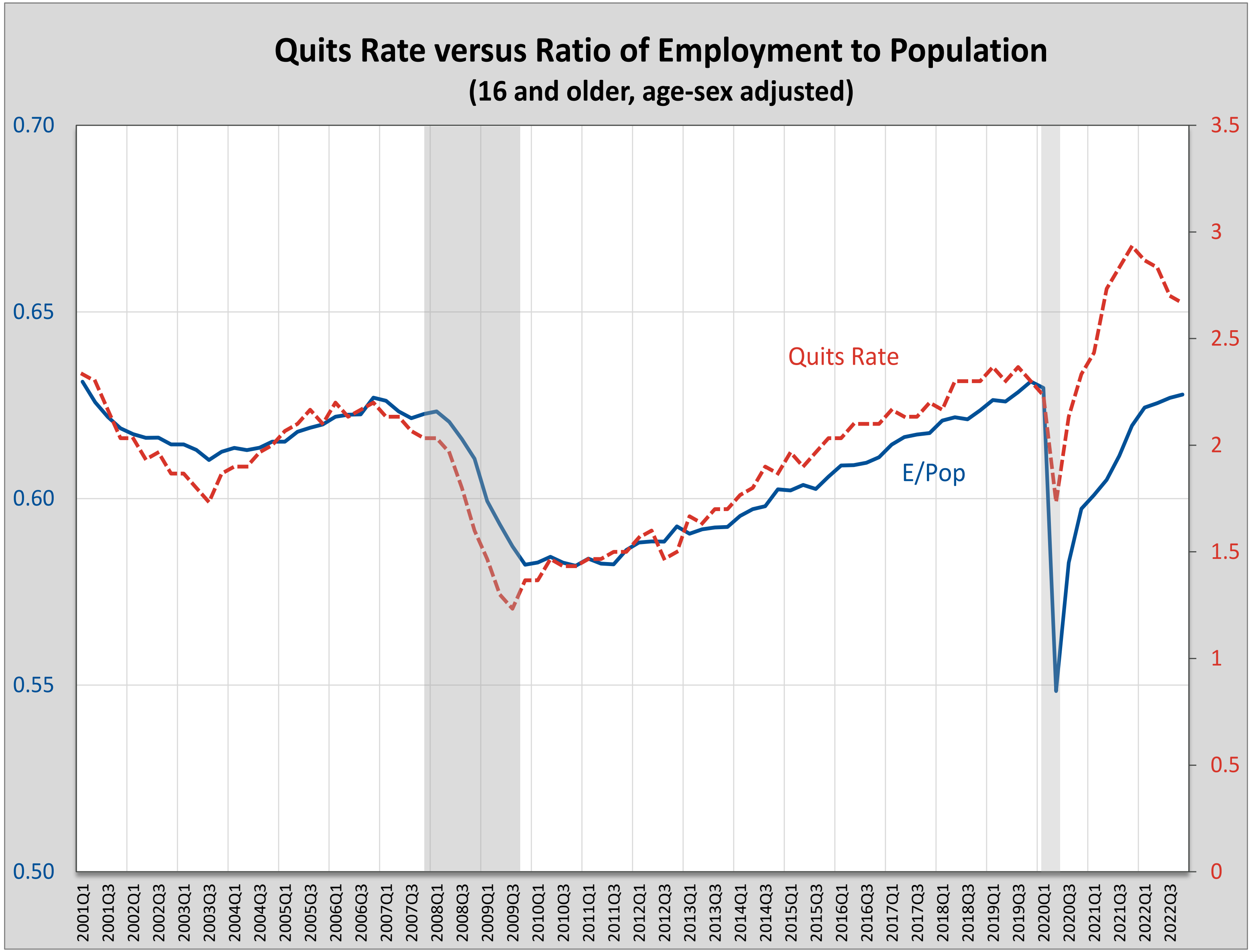
As a result of recent economic developments, the assumed sustainable trend level of productivity for the 2023 TR is assessed to be lower than the level assumed for the 2022 TR. The assumed long-term ultimate growth rate remains unchanged.



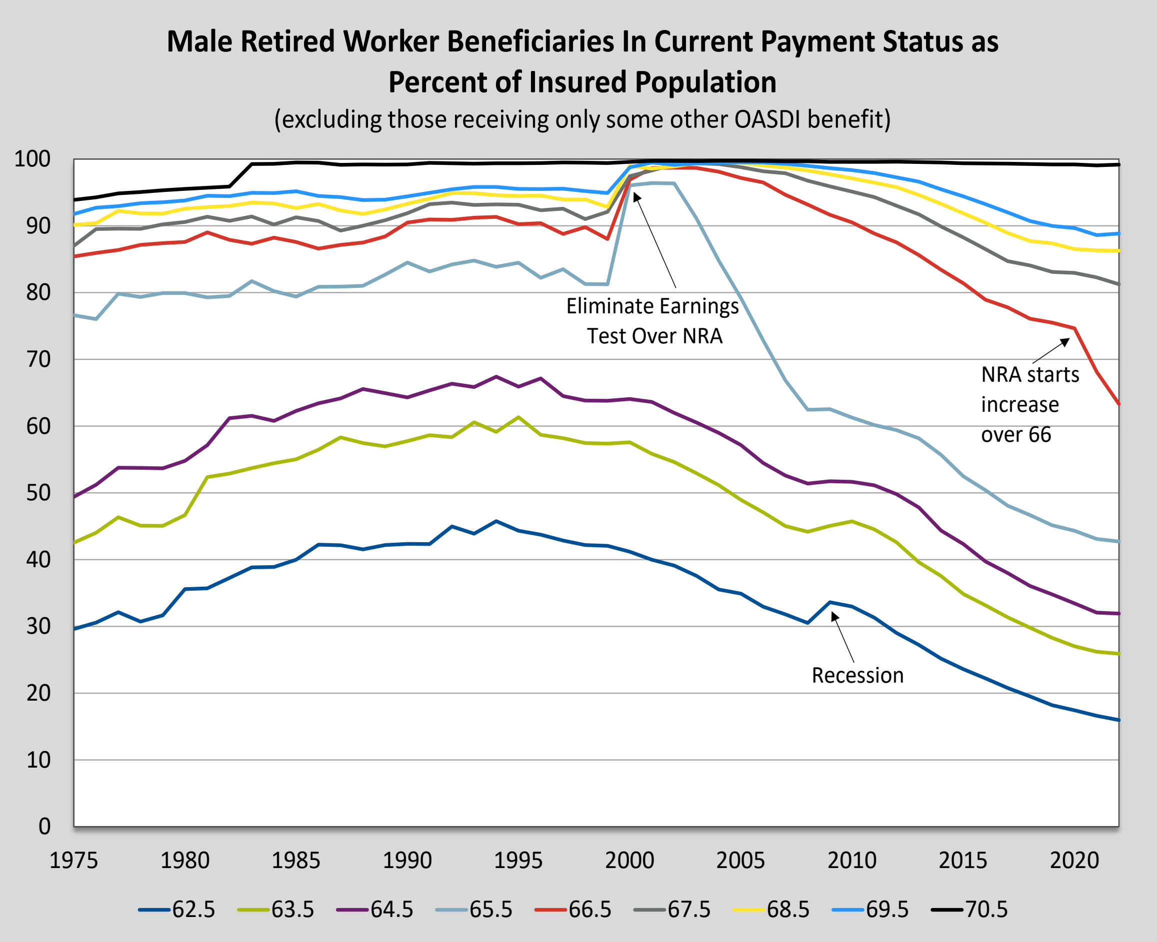
Ratio of Employment to Population

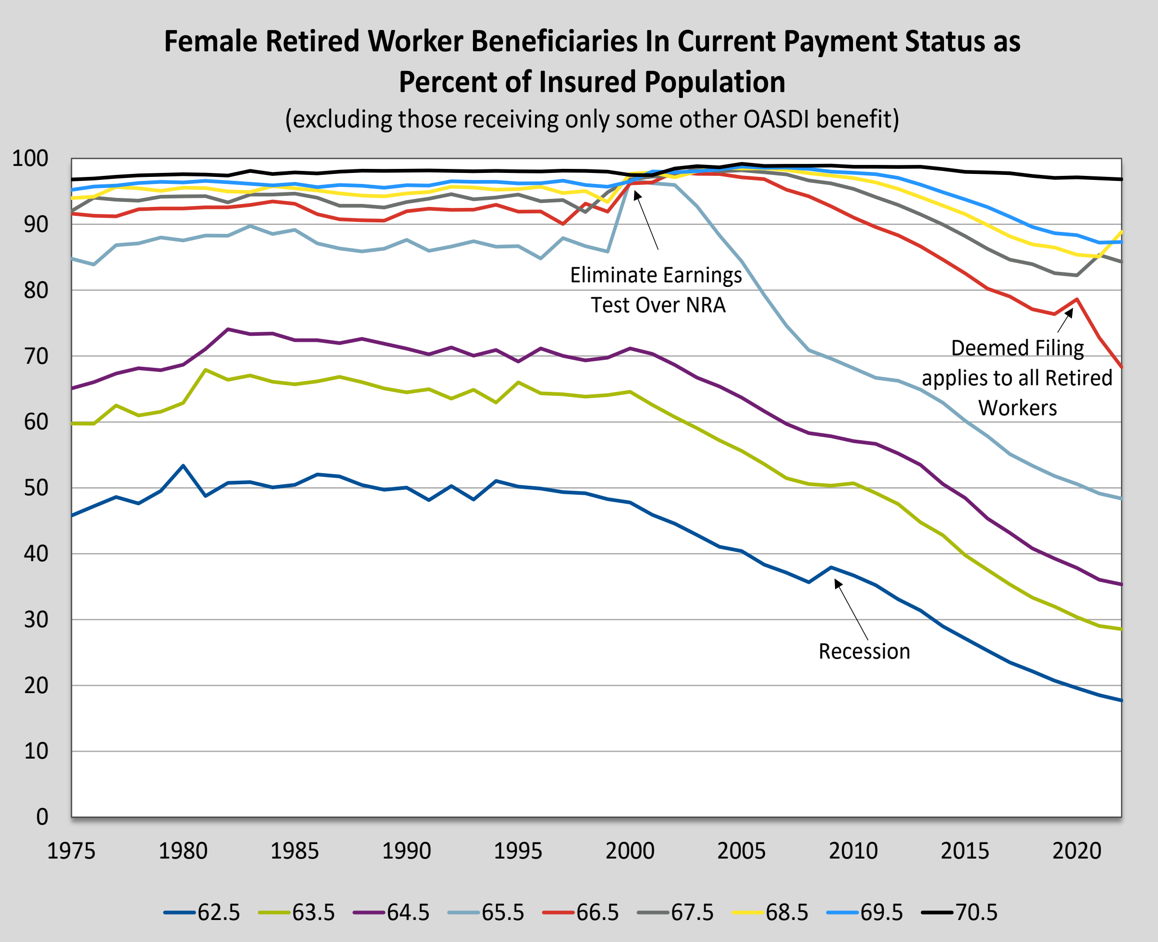
Recovered very gradually after 2007-09 recession, but MUCH more rapidly after 2020 recession.

The quits rate represents the number of voluntary separations, generally for a better job. This suggests a “tighter” labor market going forward, consistent with the changing age distribution.



Age of Starting Social Security Retirement Benefits Continues to Increase, Even in 2020 Pandemic/Recession

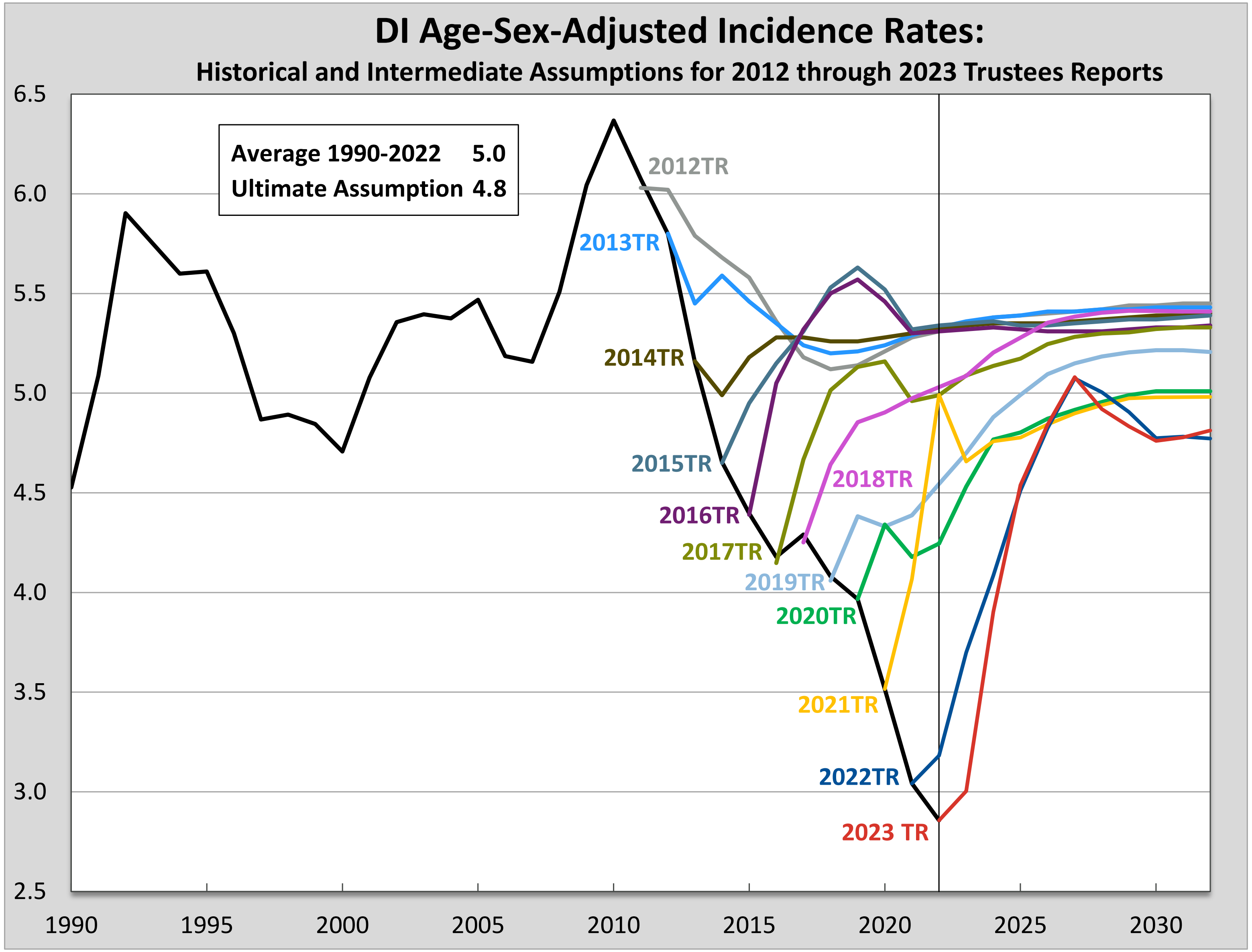




Disability Incidence Rate Also Remains Historically Low

DI disabled worker incidence rate rose sharply in the 2008 recession and has declined since the peak in 2010 to extraordinarily low levels in 2016 through 2022.

What will be the NET effect of COVID and post-COVID conditions?

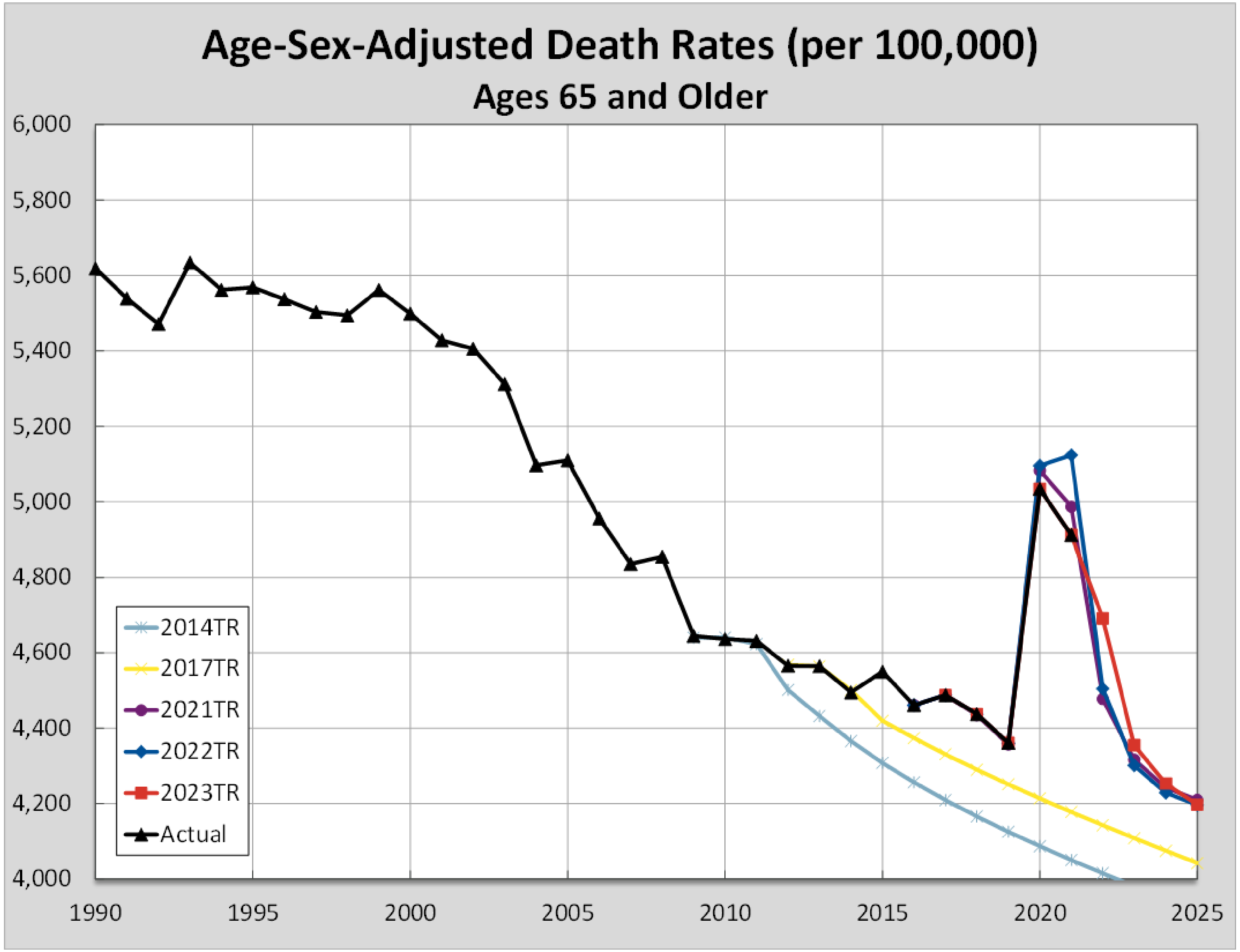


Mortality Experience: Ages 65 and Older

Increased mortality in the near-term to reflect the effects of the COVID-19 pandemic.

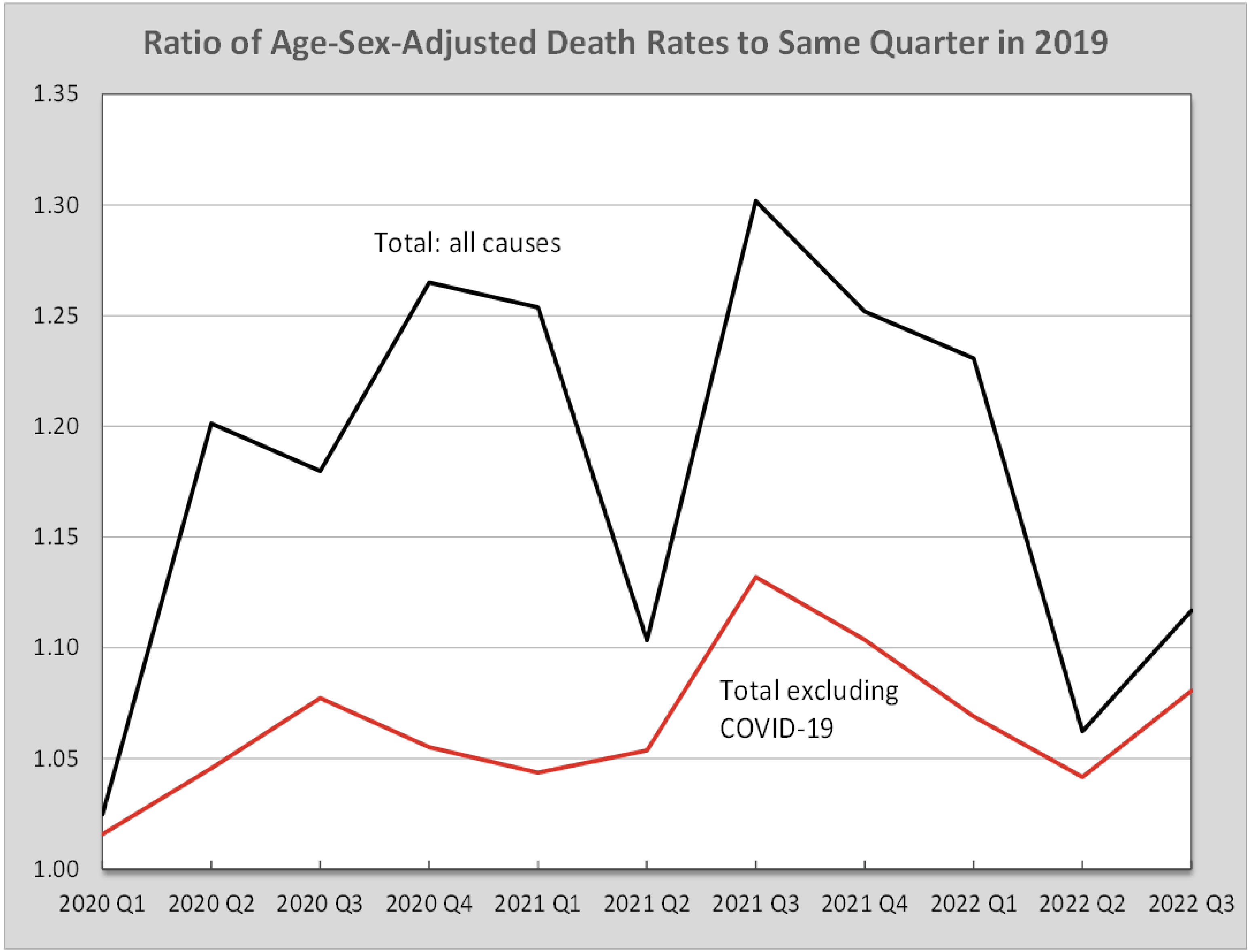
What will the net effect of the pandemic be on mortality in the future?

We assume offsetting effects for the residual population after the pandemic, around 2025.



Ratio of Age-Sex Adjusted Death Rates to Same Quarter in 2019

Death rates for causes other than COVID have been about 5% higher in the pandemic period through 2022 than they were in 2019.



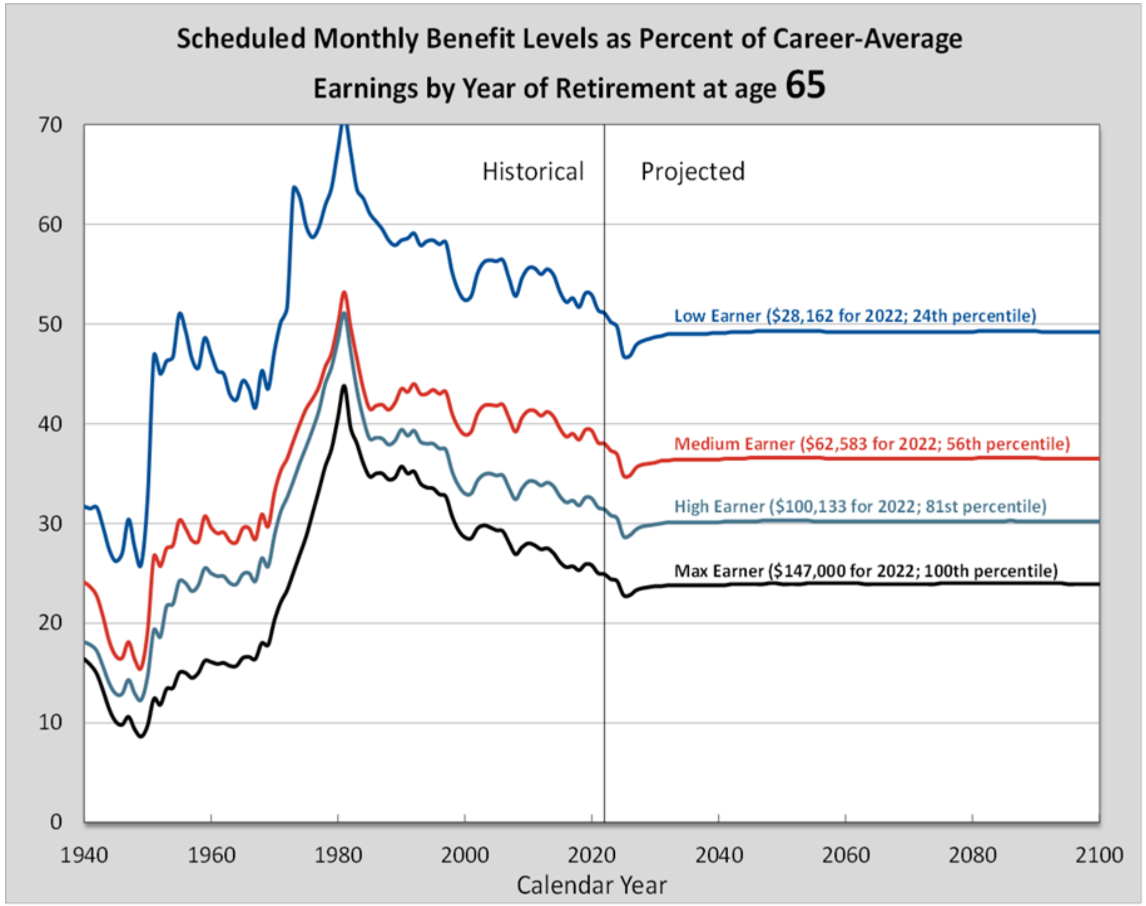
Source: NCHS Quarterly Provisional Estimates as of March 20, 2023

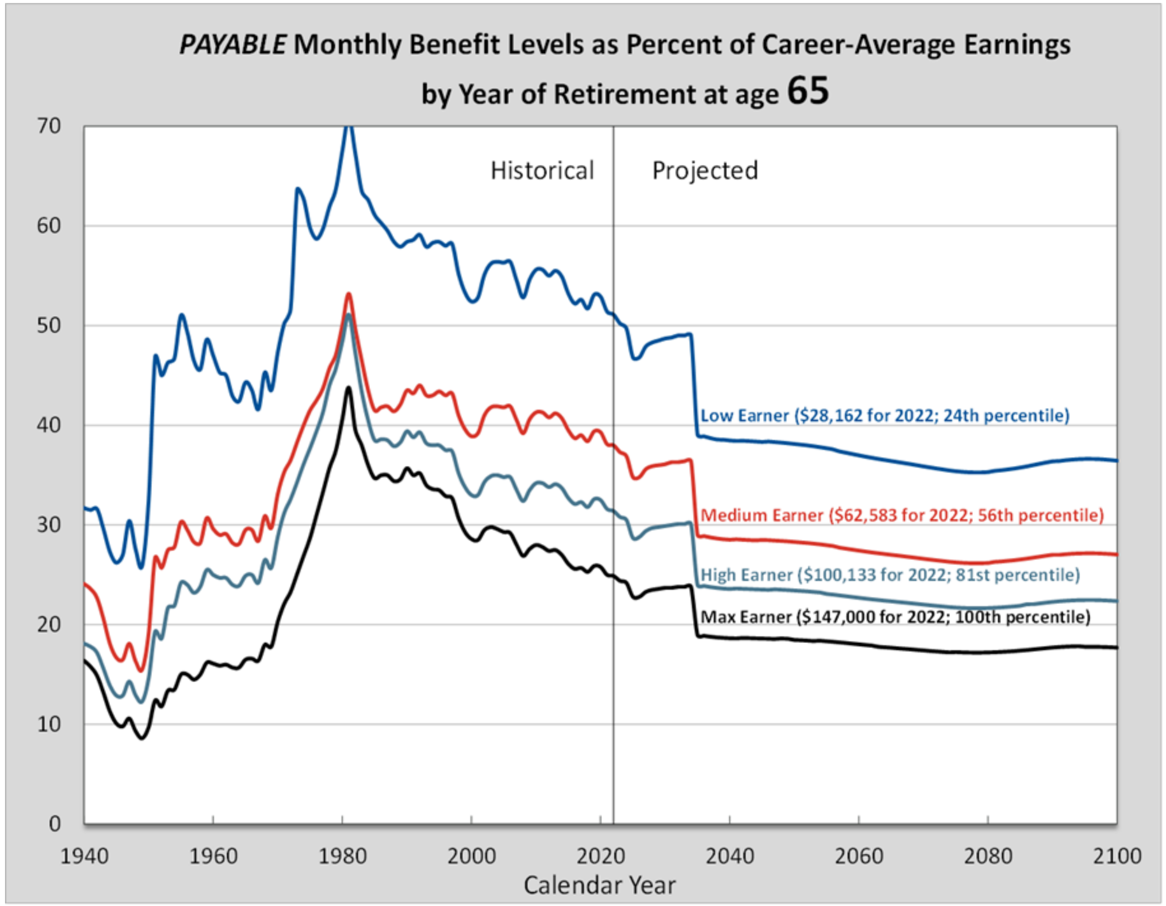
What options can be considered for closing the financing gap?

By 2034, We Need to Reduce Scheduled Benefits by One-Fourth or Increase Revenue by One-Third

- Lower scheduled benefits:
  - **Increase the NRA**—Reduce retirees but not disabled; consider less increase for long-career low-pay earners, as Simpson/Bowles 2010
  - **Reduce the COLA**—Most affects the oldest
  - **Reduce growth in benefits**—Modify the PIA formula to increase benefits from generation to generation with price inflation, not average earnings
- Increase scheduled revenue:
  - **Increase payroll taxes**—By raising the 12.4% tax rate or taxing some or all earnings above the current taxable maximum
  - Take advantage of **returns on private-sector investments**—Invest trust fund reserves, or tax investment income as in the 2010 ACA

Retired Worker Benefit Replacement Rates, Both Scheduled and Payable Under Current Law





Question: How Much *Should* Social Security Provide? What Share of Pre-Retirement Earnings to “Replace”?

- Note that “career-average CPI-indexed earnings” are not the appropriate basis
  - The standard of living increases through time—new goods and services do not increase the CPI, but actually reduce its growth rate
  - Career-average wage-indexed earnings approximate late career earnings (Actuarial Note 155, 2014)
  - Career-average wage-indexed earnings are also the basis for determining Social Security benefit levels
- In total, financial planners generally suggest about 75% to 80% of late career earnings level

If Reduce Benefits, By How Much, and For Whom?

- **Increase NRA**—as done in the 1983 Amendments
  - Reduce monthly benefit for retirees (and most survivors) by about 7% for each year NRA is increased, but no change for disabled worker beneficiaries
- **Reduce the COLA**—affects the oldest increasingly more as they age
- **Reduce growth in benefits**—modify the PIA formula to increase benefits across generations using price inflation, not average earnings growth
  - 1976 Hsiao Commission—fix PIA factors at 80%, 35%, 25%
    - But index PIA "bend points" and AIME by only CPI inflation (current law index is AWI)
  - 1999 Kasich and 2001 Commission—true CPI indexing across generations
    - Reduce PIA factors (90, 32, 15) by real growth in average wage
  - Progressive Price Indexing—reduce for only the top half of career earners

Effects of "Price Indexing" on Social Security Benefits

- Very different effects on benefits for these 2 approaches
  - Hsiao "compression of brackets" reduces Very Low earners 3 times Max earners
  - Kasich and 2001 Commission reduce even more, "across the board"
  - Both approaches continue reductions indefinitely

Hsiao Commission 1976: Reduction of PIA Below Current Law

	Career Average Earnings Level as Percent of AWI				
	Very Low 25%	Low 45%	Medium 100%	High 160%	Max 245%
2023	17%	15%	16%	15%	5%
2050	27%	22%	23%	20%	8%
2097	41%	36%	34%	28%	15%

Assume implementation in 1976; 2023 TR growth rates

Kasich and 2001 Commission: Reduction of PIA Below Current Law

	Career Average Earnings Level as Percent of AWI				
	Very Low 25%	Low 45%	Medium 100%	High 160%	Max 245%
2023	21%	21%	21%	21%	21%
2050	41%	41%	41%	41%	41%
2097	65%	65%	65%	65%	65%

Assume implementation in 2001; 2023 TR growth rates

If Increase Revenue, By How Much, and For Whom?

- **Increase payroll taxes** by raising the 12.4% tax rate or taxing some or all earnings above the current taxable maximum
  - Gradually raise the tax max to again apply to 90 percent of covered earnings
  - Apply the payroll tax to earnings over $250,000 (Sanders) or $400,000 (Larson, Whitehouse)
  - Apply to all covered earnings
- Take advantage of **returns on private-sector investments**
  - Invest trust fund reserves, in higher yield private securities—Kerrey-Simpson 1995
  - Tax net investment income, as in ACA—Larson, Sanders, Whitehouse
  - Tax active S-corporation holders and active limited partners—Sanders, Whitehouse

Timing for Changes

- Historically, Congress has waited until reserve depletion is imminent
  - Difficult to lower benefits or raise taxes until necessary
- Enacting sooner allows more options, more gradual phase in, and more advance notice
  - Best example: 17-year delay in implementing NRA increase in 1983 amendments
- OASDI reserve depletion now projected for 2034
  - One year sooner than in the 2022 Trustees Report
  - The date has varied between 2033 and 2035 over the past 12 years
  - And between 2029 and 2042 over the past 30 years

How do Social Security and Medicare (“entitlements”) figure in the fiscal status of the federal government and the economy?

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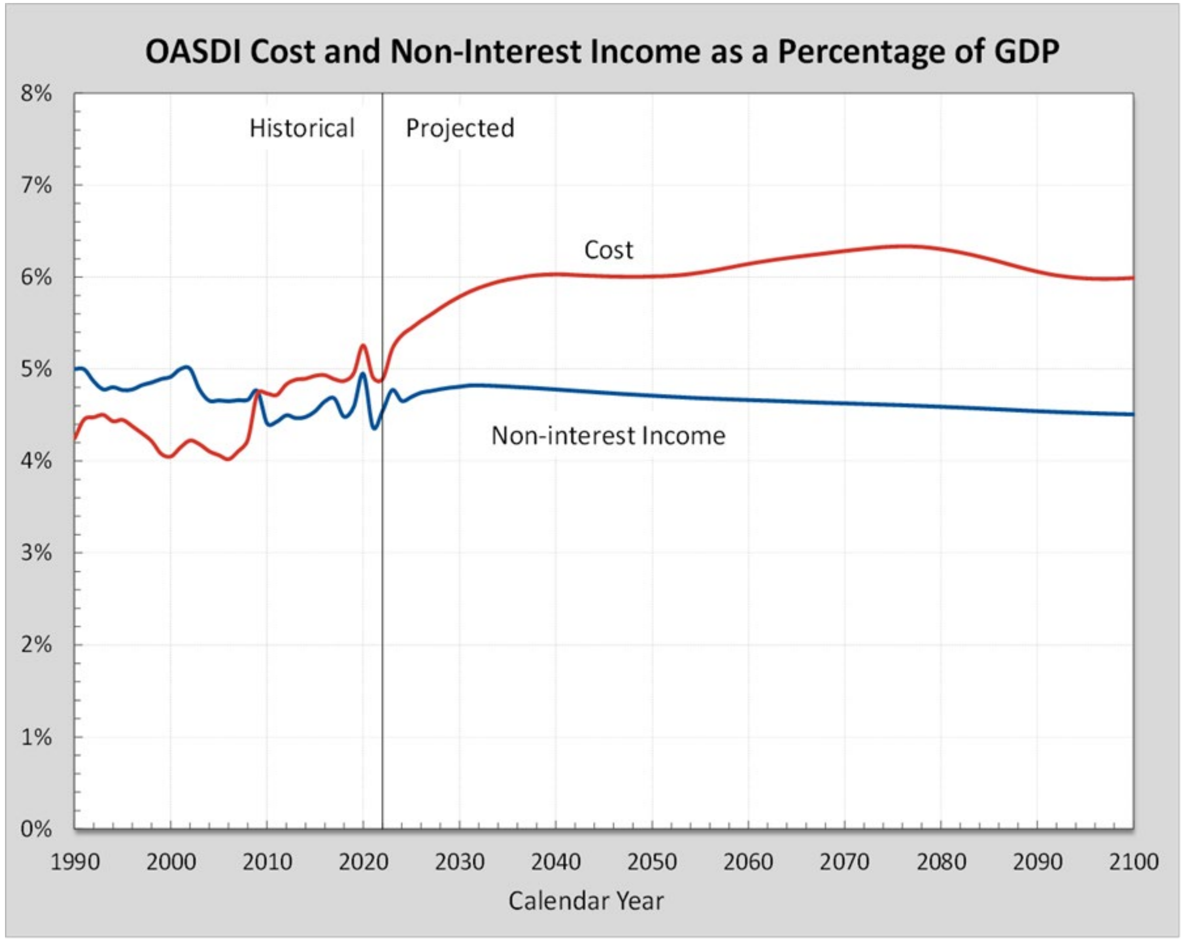
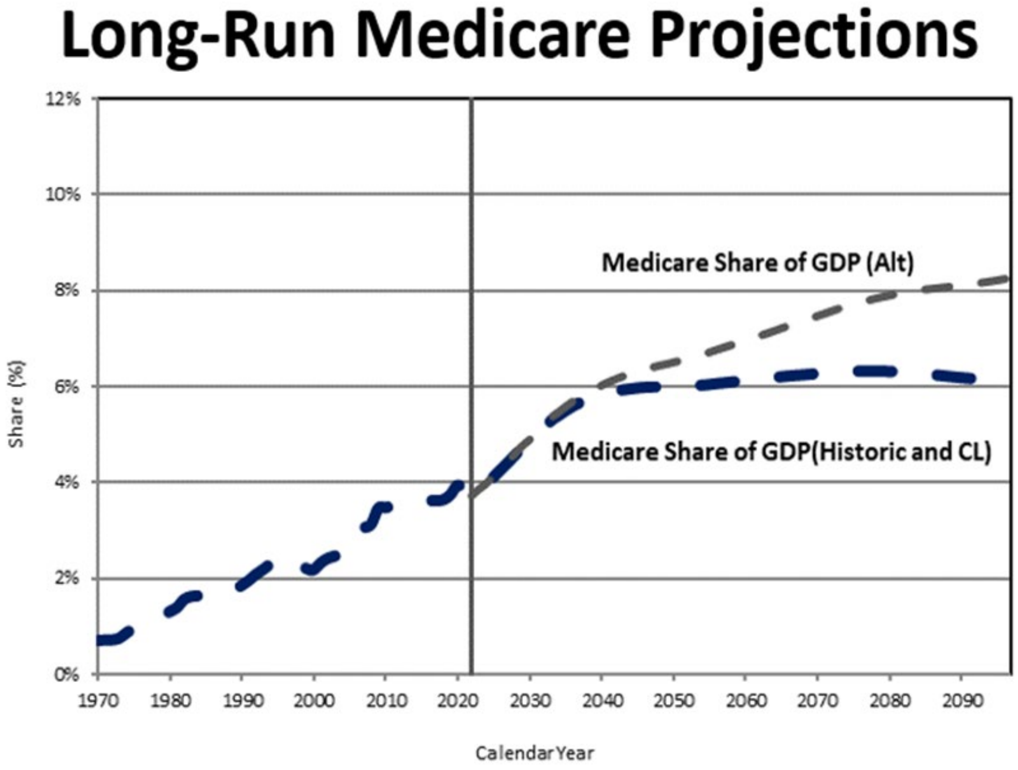
What Is the Projected Cost of OASDI and Medicare as a Share of GDP?

Under current law, both rise similarly to 6 percent of GDP; the Trustees also illustrate that Medicare might increase further without ACA

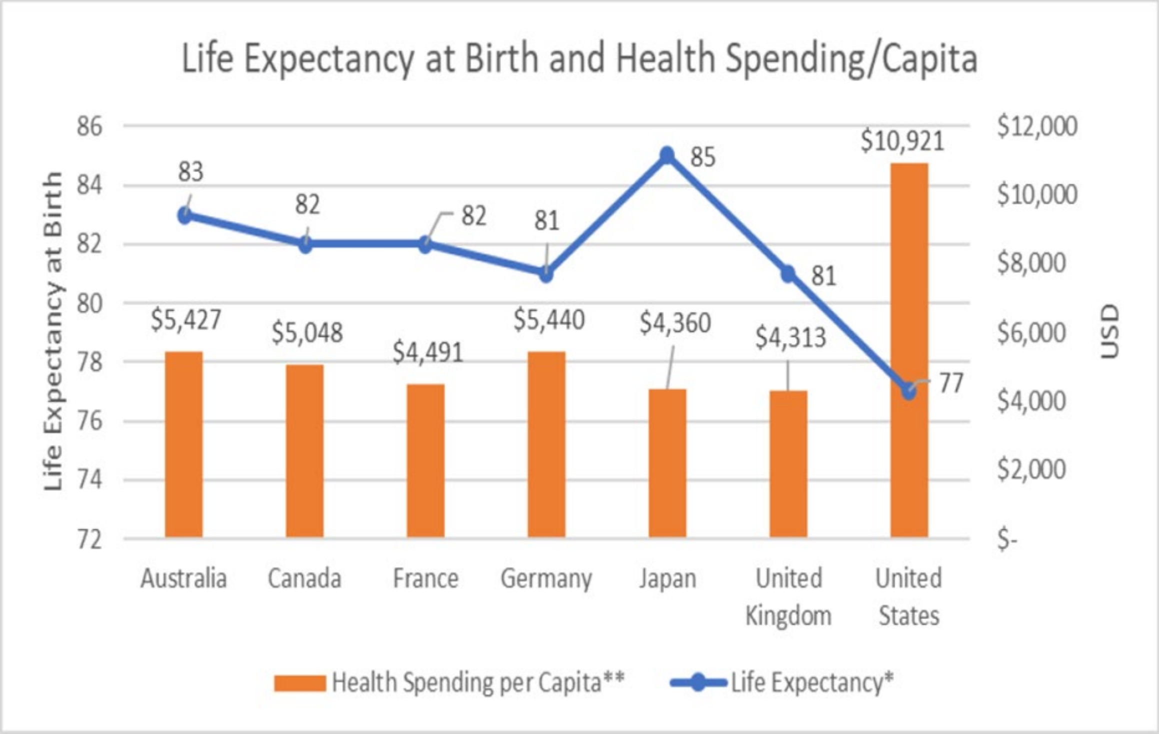




Based on 2023 Medicare Trustees Report

How About National Health Expenditures?

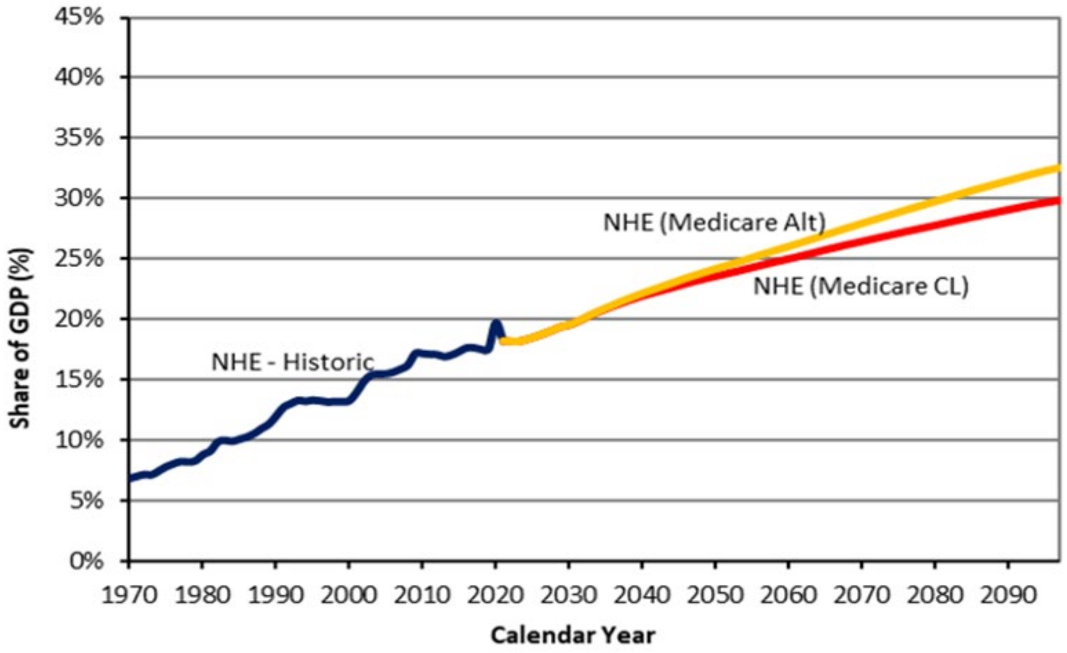
How do we compare to other countries? Currently double per capita spending!
Will/can NHE really continue rising from 18% to 30% or more of GDP?



*At 2020. **At 2019.

Source: Health spending/Capita - https://data.worldbank.org/indicator/SH.XPD.CHEX.PC.CD?most_recent_value_desc=false
Life Expectancy - https://data.worldbank.org/indicator/SP.DYN.LE00.IN

Long-Run NHE Projection



Based on 2023 Medicare Trustees Report

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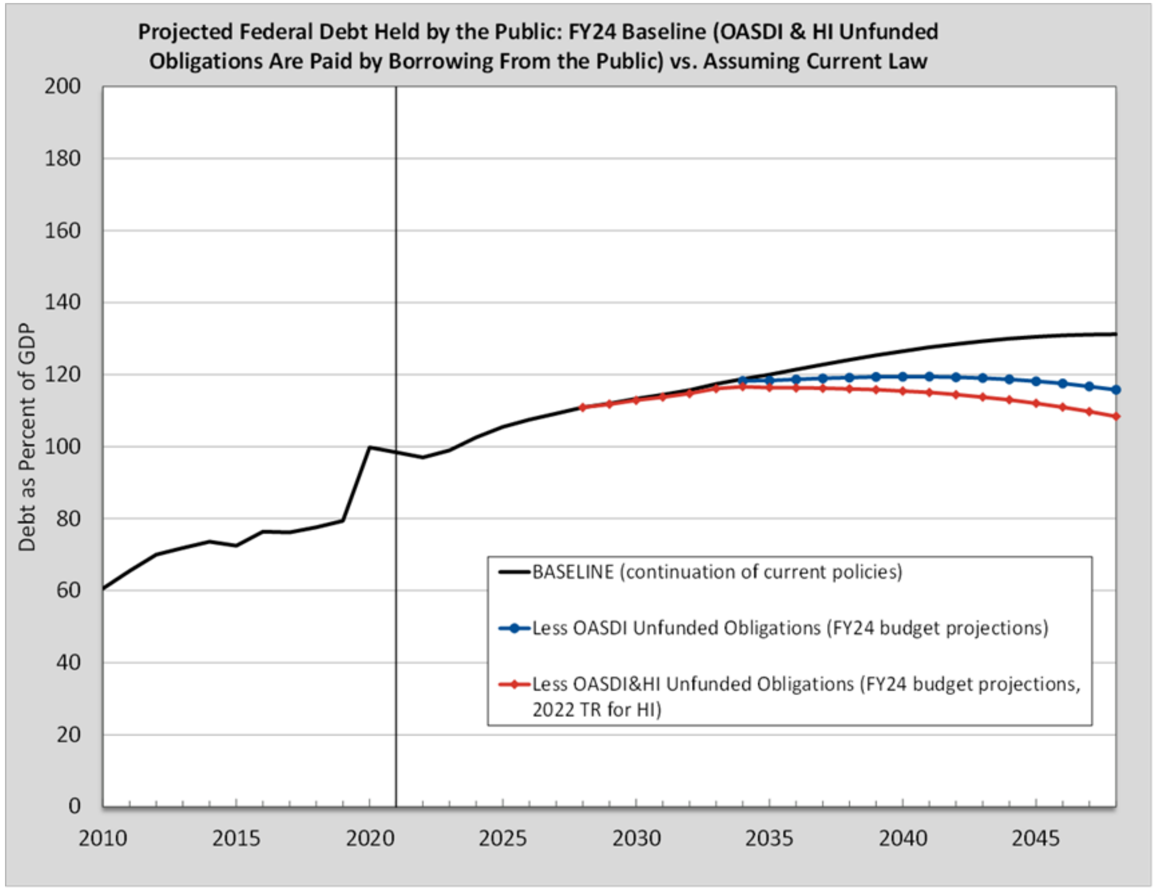
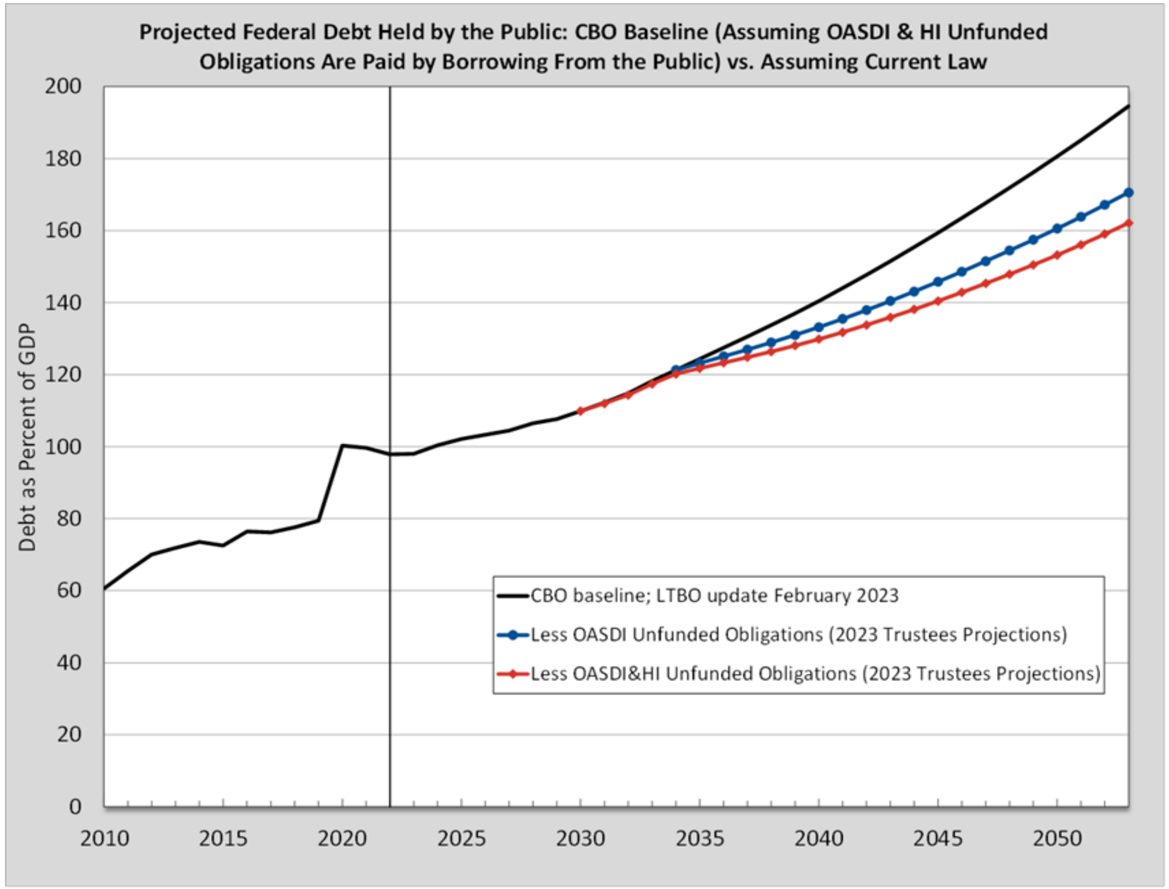
A Note On Projected Federal Debt Held By the Public

Administration and CBO projections are VERY different—but both assume change in law to fully finance OASDHI by borrowing from the public after trust fund reserve depletion; in fact, trust funds cannot borrow and even REDUCE borrowing from the public





So, What Is Plausible For the Cost of Social Security and Medicare Over the Next 75 Years?

- The bad news: due to lower birth rates and changing age distribution of the population, the number of beneficiaries for both programs will increase as a share of adult population and relative to potential workers
- The good news: with people living longer after eligibility age, cost per beneficiary will be constrained somewhat—only CPI increase after eligibility for Social Security and a smaller share die in a year for Medicare
- Question: is it plausible that the ACA and other means to slow health care cost are NOT possible, even as we seriously consider reducing cash benefit income for Social Security (which is needed for all expenses, including copayments and Medigap premiums)? How do other countries do it?

For More Information About Social Security Go To www.ssa.gov/oact/

There you will find:

- The 2023 and all prior Social Security Trustees Reports
- Detailed single-year tables for recent reports
- Our estimates for comprehensive proposals and individual provisions
- Actuarial notes and studies
- Extensive databases
- Congressional testimonies
- Presentations by OCACT employees

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