Social Security Reform Options

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Stephen C. Goss, MAAA, ASA

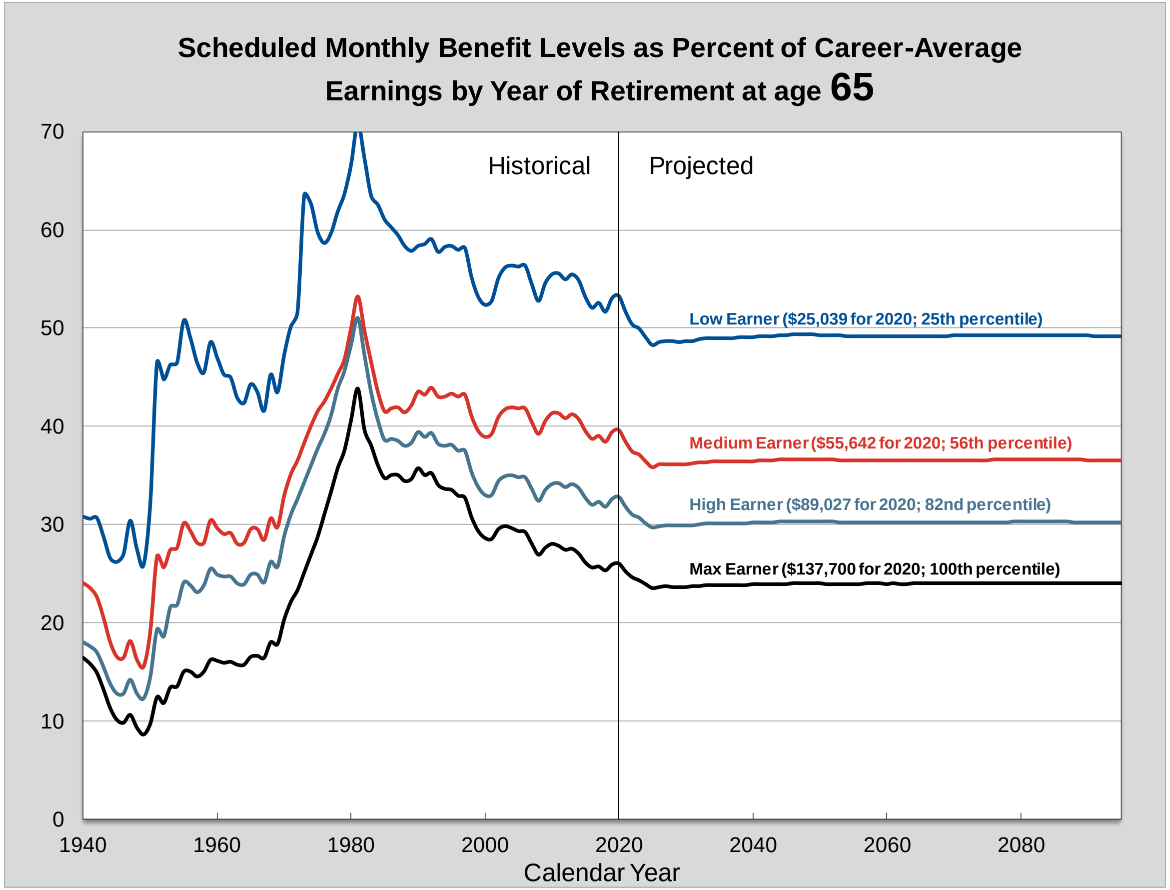
Chief Actuary, Social Security Administration

America's National Pension, Disability, and Survivors' Insurance Plan

- Monthly benefits started in 1940
- Almost all workers are covered
- Over 65 million beneficiaries
- Fully "portable"—follows you from job to job
- Scheduled benefit levels grow from generation to generation, keeping pace with worker earnings levels—"standard of living"
    - After first benefit eligibility, benefits grow with CPI—"cost of living"

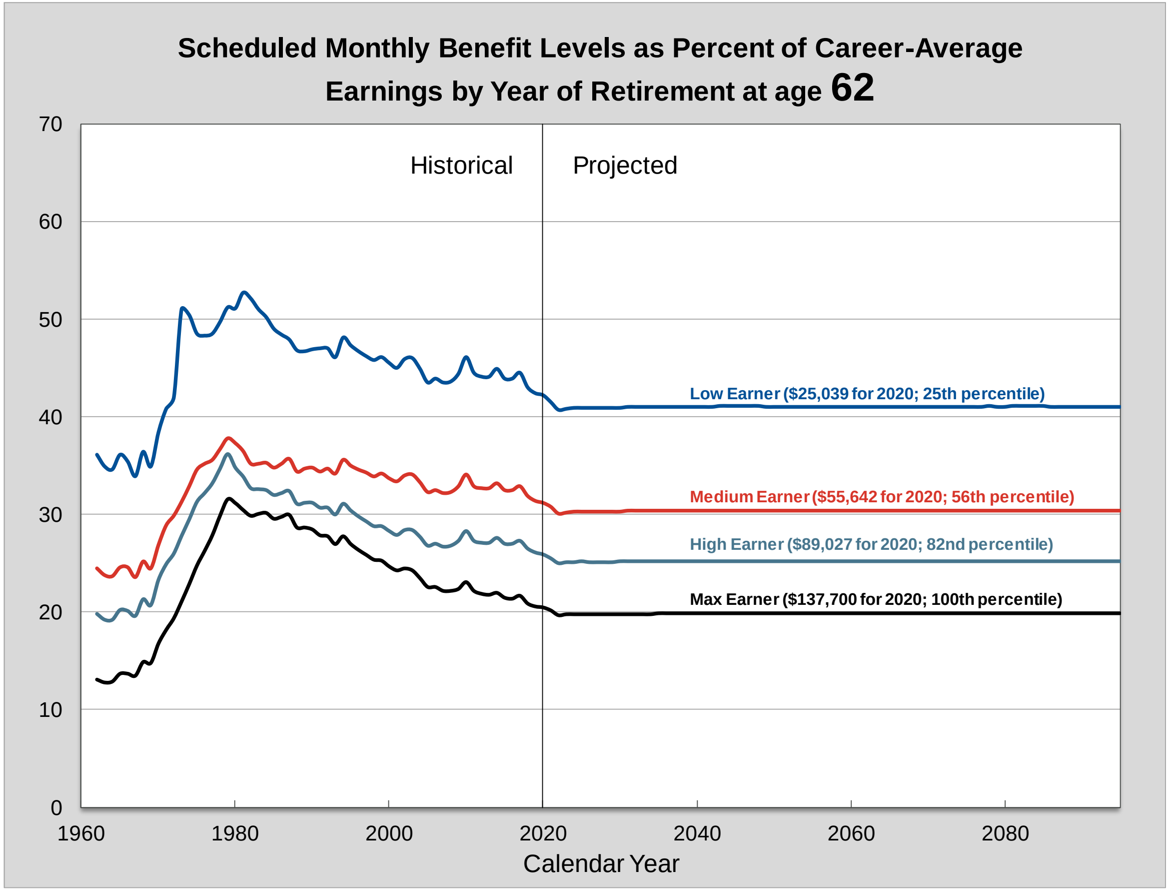
Scheduled Benefit Replacement Rates Based on the 2020 Trustees Report

Benefit as a percent of career average earnings



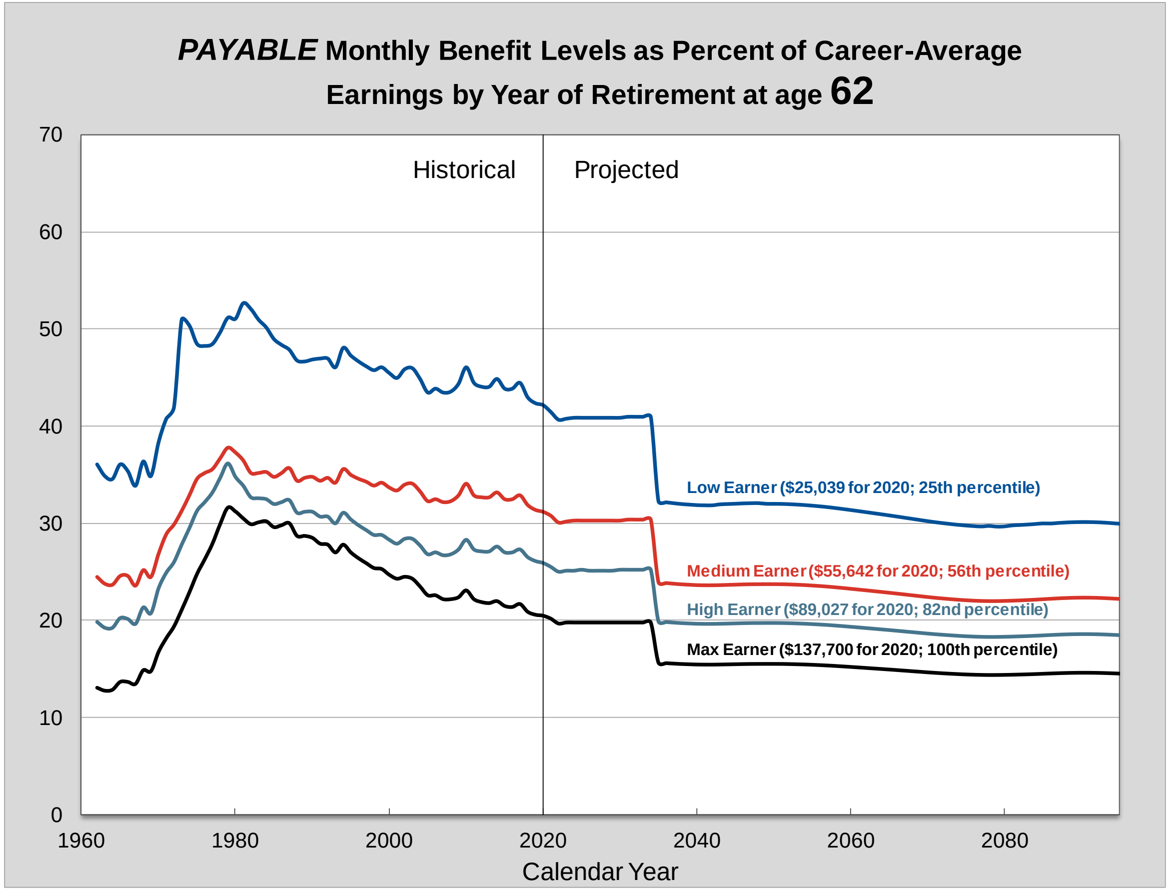
Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html

How About at Age 62, Where Many Start Benefits?



Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html

Payable Benefits Under the Law, After Trust Fund Reserves Are Depleted, Would be Reduced

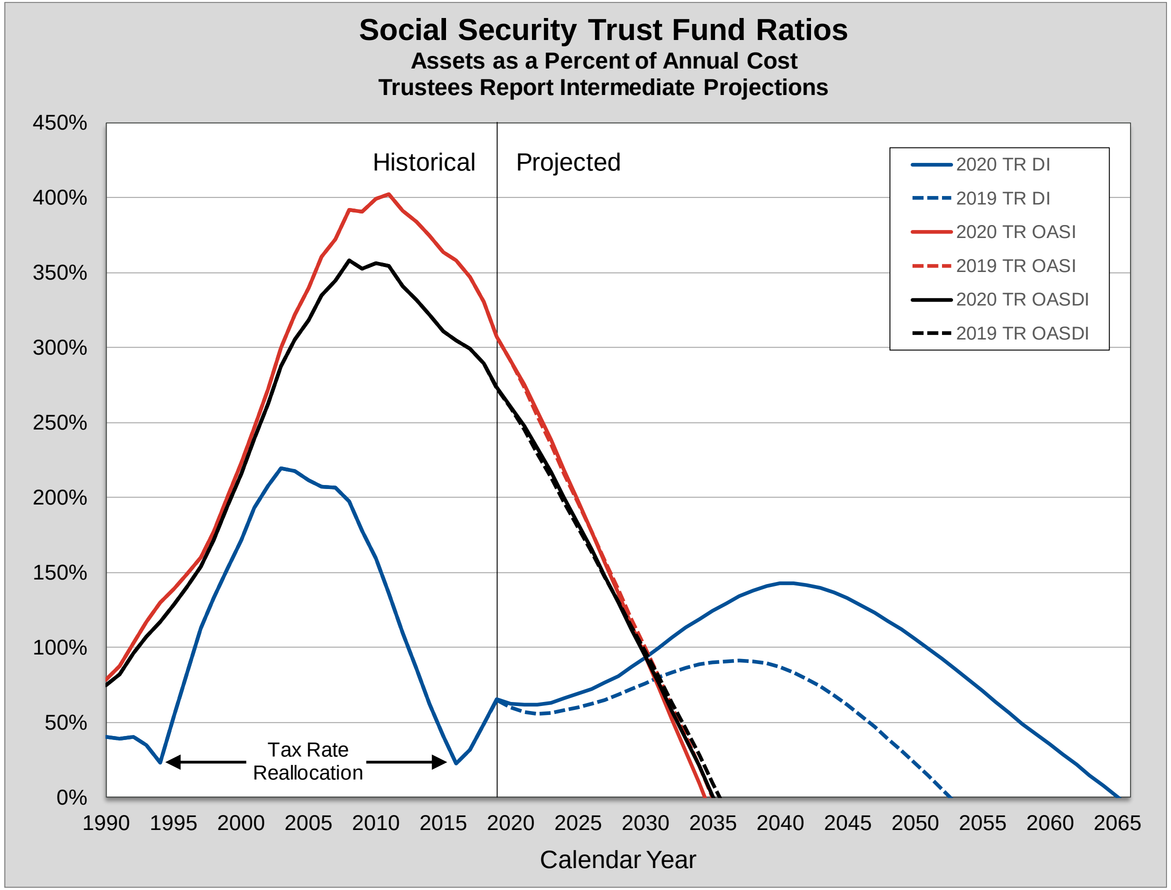


Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html

Solvency: OASDI Trust Fund Reserve Depletion in 2035

Reserve depletion date varied from 2029 to 2042 in reports over the past 30 years (1991-2020)

DI Trust Fund – reserve depletion in 2065

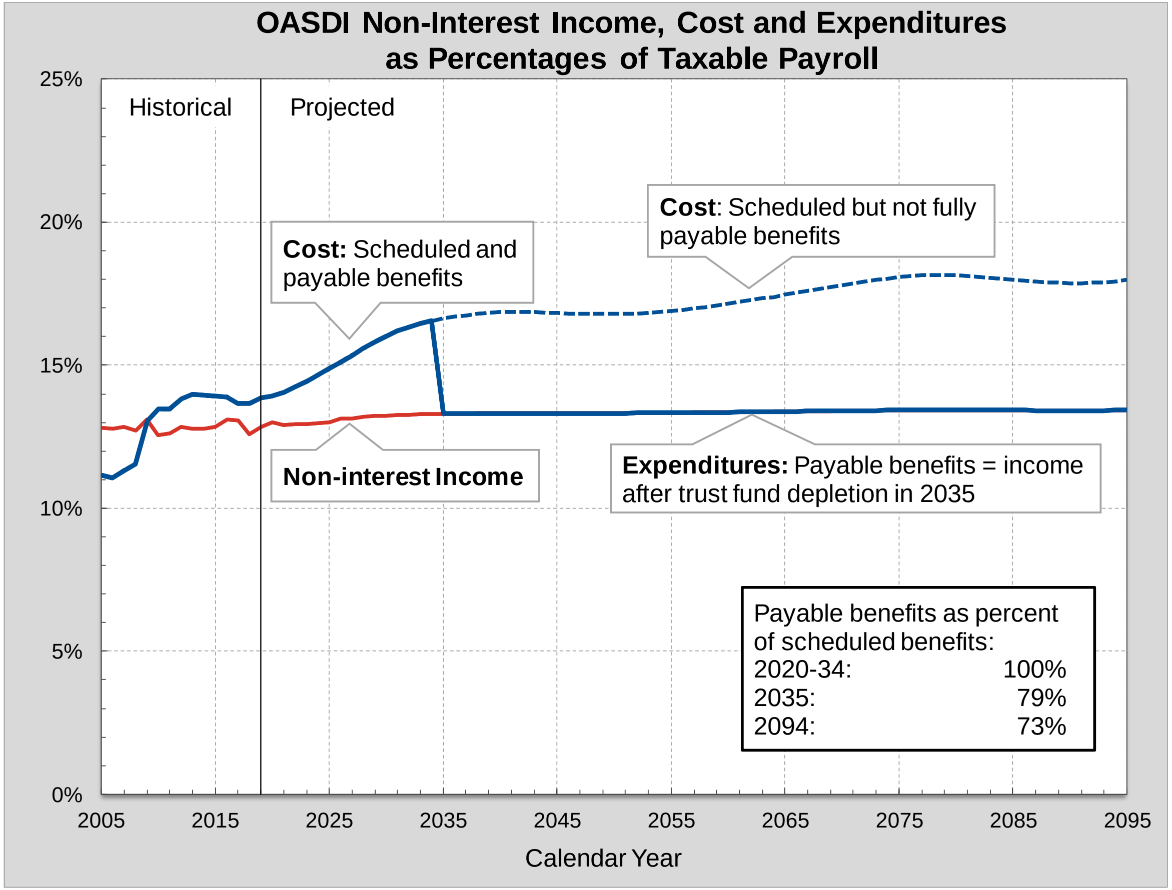


OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Persistent negative annual cash-flow balance starting in 2010

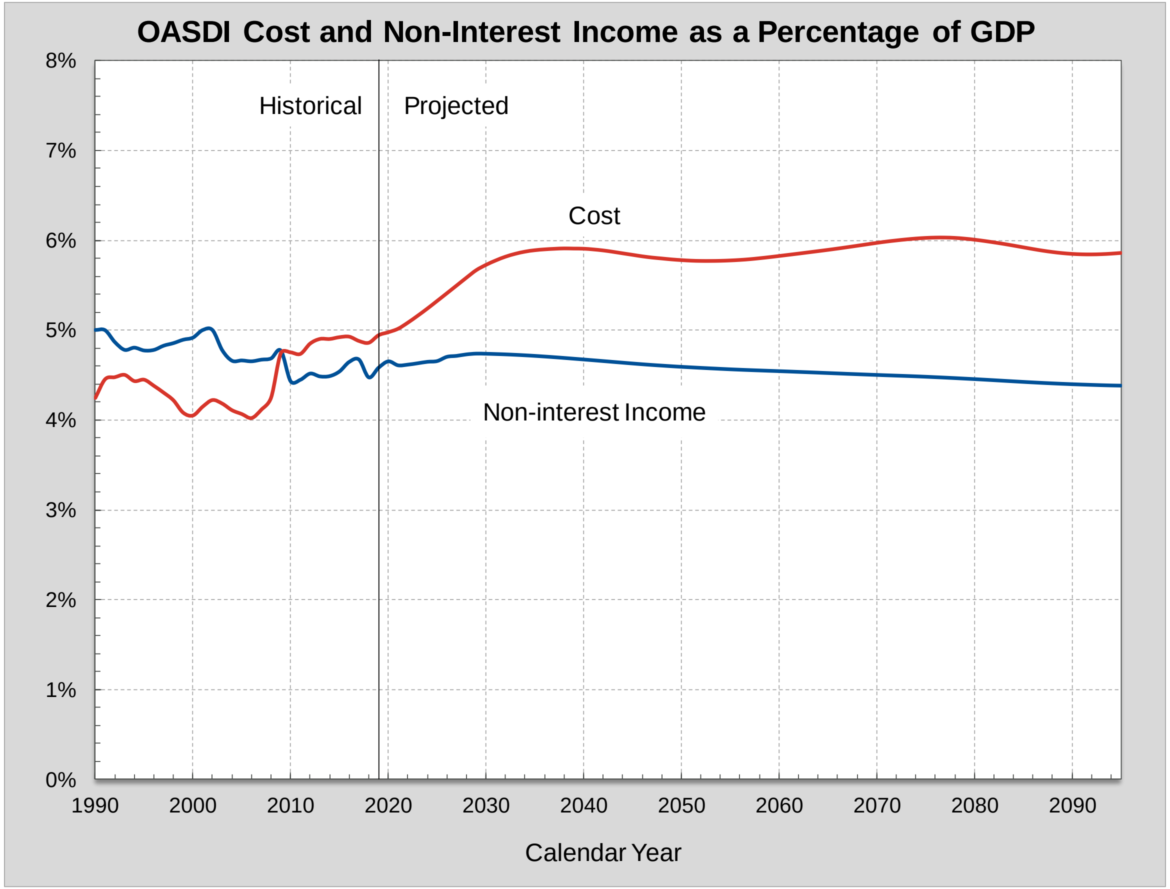
79 percent of scheduled benefits still payable at trust fund reserve depletion

Annual deficit in 2094: 4.51 percent of payroll



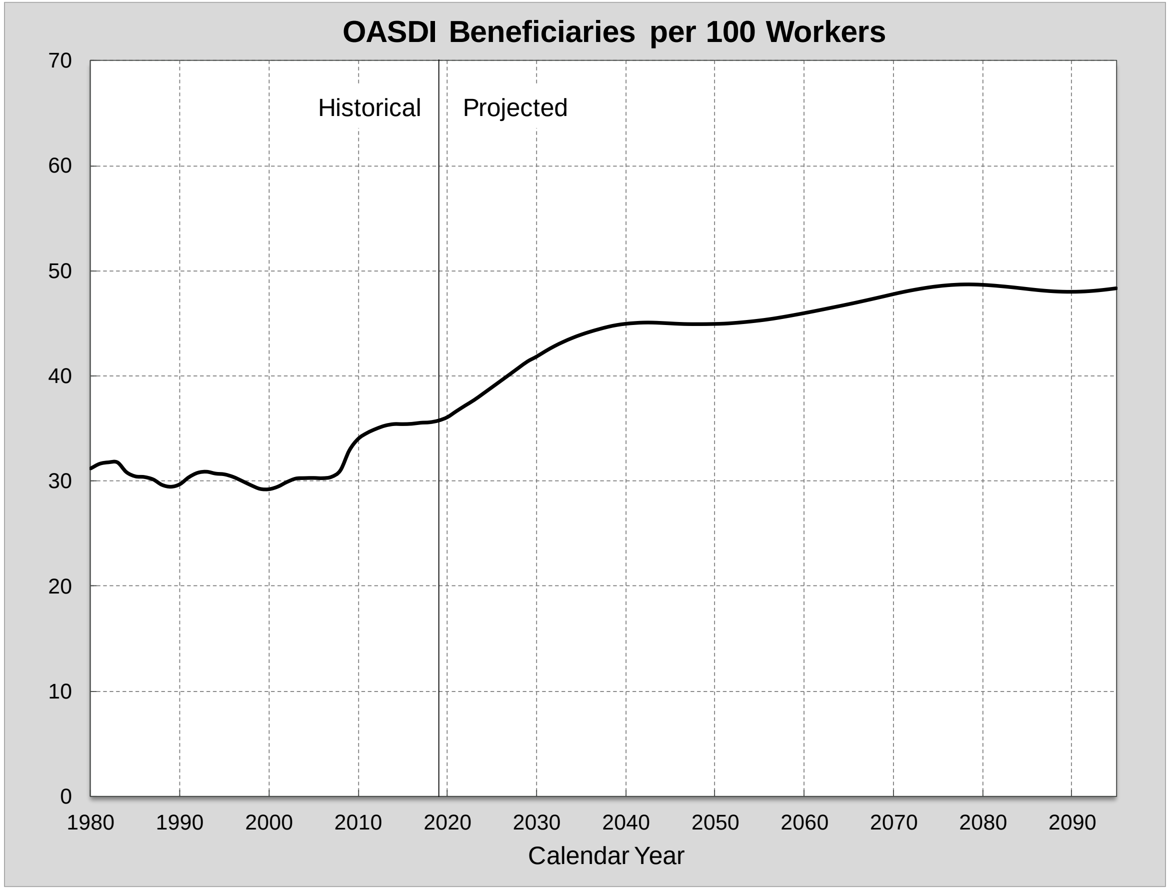
SUSTAINABILITY: Cost as Percent of GDP

Rises from a 4.2 percent average in 1990–2008, to about 5.9 percent by 2038, then declines to 5.8 percent by 2053, and generally increases to 5.9 percent by 2094



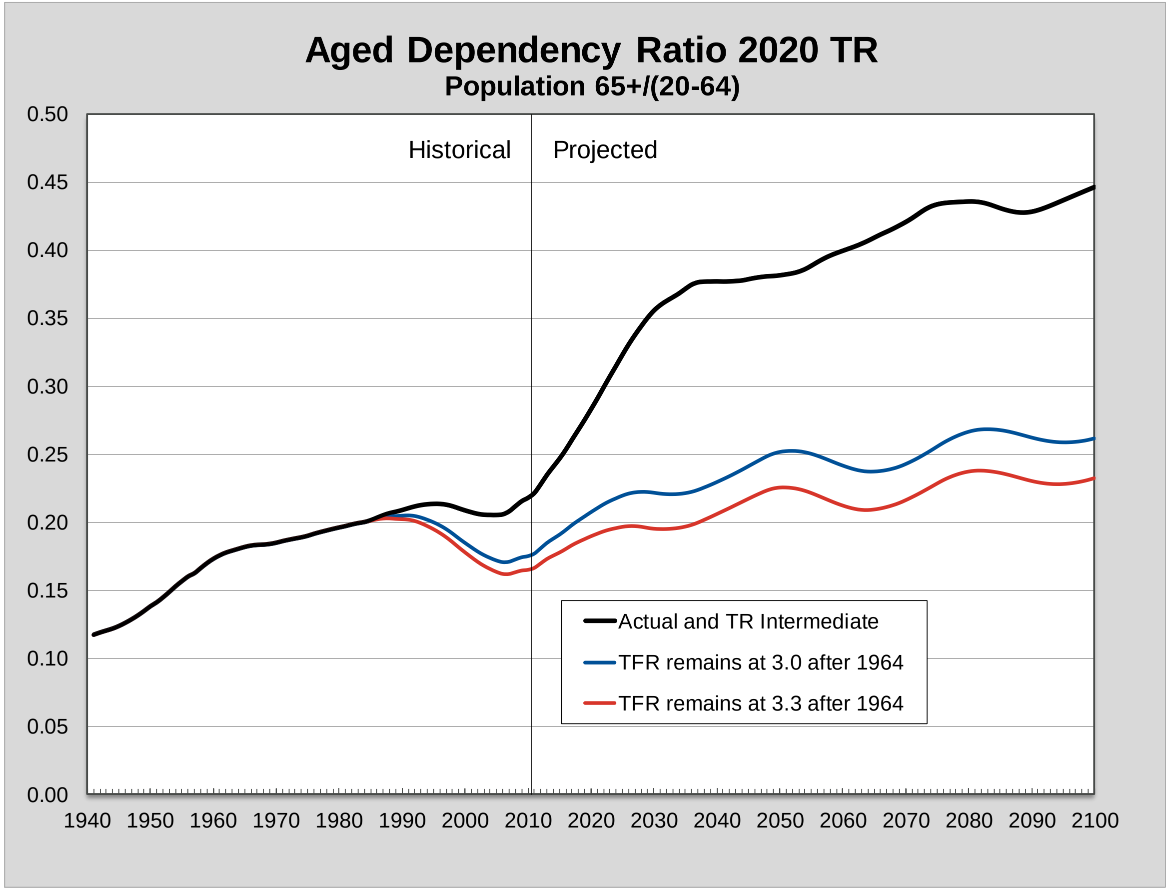
Why Is Cost Rising Compared to Payroll and GDP?

OASDI Beneficiaries per 100 Workers



Because of Aging of Our Population!

Change in age distribution—mainly due to drop in birth rates



The Bottom Line

- Long-term projections provide information to assess solvency and changes needed to eliminate shortfalls
- If trust fund reserves were to become depleted:
  - Full benefits could not 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 2035

How to Eliminate the Social Security Long-Term Actuarial Deficit

- Make choices addressing OASDI deficits 2035–2094:
  - Raise scheduled revenue after 2034 by about one-third
  - Reduce scheduled benefits after 2034 by about one-fourth
  - Or some combination of the two

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
  - Actuarial notes, including replacement rates
  - Actuarial studies, including stochastic
  - Extensive databases
  - Congressional testimonies
  - Presentations by OACT employees

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Bottom Line: Effects on Trust Funds Under COVID

- In April, OCACT SSA speculated 15% reduction in earnings and payroll tax for one or two years, and then full recovery: Trust Fund reserve depletion advanced from early 2035 to mid or early 2034

- Now, consider an illustrative scenario: assume total earnings in 2020 are reduced to 10% below the 2020 TR intermediate projection, with full recovery to expected earnings in 2021 and thereafter
  - This could happen if there is no substantial second wave in the fall, with resulting closure of the economy
  - Then payroll tax revenue would be reduced by about $100 billion in 2020
  - The trust fund reserve depletion date for the combined OASI and DI Trust Funds would likely move from early in 2035 to mid-2034

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Bottom Line: Effects on Trust Funds Under COVID

- If, instead, closure due to the pandemic extends through 2021, or if there is a permanent reduction in the level of economic activity, then negative effects on the actuarial status could be substantially larger
- Trust Fund reserve depletion could be earlier than 2034, and the percent of scheduled benefits payable after depletion could be reduced
- The degree of longer-term persistent effects on the level of economic activity and on demographic factors is as yet unknowable

Implications of the COVID-19 Pandemic for the US Social Security Program - https://www.ssa.gov/oact/presentations/ocact_20200722.pdf
House Ways and Means Subcommittee on Social Security Hearing on the effects of Covid-19 - https://www.ssa.gov/oact/testimony/HouseWM_20200717.pdf

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 purchase of consumers over age 62)

Source: Social Security Administration Office of the Chief Actuary

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
- Tax investment income?
  - Or potentially a wealth tax?

Source: Social Security Administration Office of the Chief Actuary

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