Social Security Financing and Benefits: Myths vs. Facts

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What We Do at the Social Security Administration

- Administer Social Security—and Supplemental Security Income
- Provides income security for virtually all in the U.S. in the event of:
  - Becoming disabled,
  - Dying and leaving behind surviving family members, or
  - Reaching old age (62 for Social Security, 65 for SSI)
- Providing a bridge to health care through Medicare and Medicaid

Role of the Office of the Chief Actuary

- Evaluate financial status of OASDI and SSI
  - Project future population, workforce, employment, tax revenue, benefits, and (for OASDI) the status of trust funds
- Projections for the President’s FY Budget and MSR
- Projections for Annual Trustees Report (OASDI)
  - Board of Trustees: Treasury, HHS, DOL, SSA
- Projections for Annual SSI Report
- Estimate effects of all changes considered for law and regulations by the Administration and Congress

Role of the Office of the Chief Actuary

- For Social Security, projections under current law are crucial to indicate when and to what degree changes will be needed to maintain "solvency"
- For OASDI and SSI, crucial to know what cost will become in the future, near term $, long term share of GDP and taxable earnings
- We compute the COLA & compile W-2s to develop the national average wage index (AWI) for benefit growth
- We estimate the payroll tax liability that Treasury deposits in the Trust Funds

First, A Few Facts About Social Security…

Social Security: What Does It Provide?

- Retirement and survivor monthly benefits started in 1940
  - ***Never missed a payment!***
- Eligibility age lowered from 65 to 62 in 1957 for women, 1962 for men
  - Full retirement age rises from 65 to 67 by 2022
- Disability benefits started in 1957
- ***Benefits rise with average wage across generations—but with just CPI after eligibility***
- Payroll taxes roughly pay-as-you go
  - Rose from 2% to 12.4% as the system matured

Social Security: Who Pays, Who Benefits

WHO PAYS?

- 95% of workers contribute: 176 million in 2021
  - 12.4% of earnings up to $147,000 (6 percent of workers earn more)
  - 25% of state and local gov’t employees are not in Social Security

WHO BENEFITS?

- 65 million retirement, survivor, disability beneficiaries in 2021
  - 49 million retirees and their dependent beneficiaries (spouses and children)
  - Plus 6 million survivors
  - Plus over 9 million disabled workers and their dependents
- Over 155 million workers are insured against disability or death

Eligibility for Social Security is "Earned"

Getting Insured

- Earn quarters of coverage (QCs)
  - $1,510 earnings for a QC in 2022, maximum 4 earned in a year
  - "Fully insured" = earned 1 QC for each year since age 22, minimum 6
- For Retirement, fully insured, meaning 40 QCs generally
- For Disability, fully insured, plus "recent attachment"
  - Earn 20 QC in last 5 years, or half the QCs since age 22, minimum 6
- For Survivors, worker "fully insured" or "currently insured"
  - Earned 6 QCs of last 13 quarters

How Much Is the Social Security Benefit?

<u>First: Compute average indexed monthly earnings (AIME)</u>

- Computation years—35 for retirees, less for disabled under 62
- Average highest years of wage indexed earnings
  - Include zeroes if necessary
  - Wage index up to 2 years before eligibility, i.e., age 60 for retiree

<u>Second: Primary Insurance Amount (PIA), 2022 eligibility</u>

- 90% of AIME up to $1,024, then 32% to $6,172, then 15%
- There is no maximum PIA, and now no special minimum

<u>Third: % of PIA by benefit type, and age start benefits</u>

- Full PIA for workers and aged/disabled surviving spouse, half for dependents of workers, three-fourths for other survivors
- Reduce for early start, increase for delayed start of benefits

How Much Is the Social Security Benefit?

Retired worker benefit reduction, and increment for age

- Reduce 5/9% per month up to 36, then 5/12% if start early
  - So, 70% of PIA if start benefit at age 62, 80% at 64, with NRA 67
- Increase 8/12% per month if start after NRA
- Earnings test can reduce under NRA

Aged spouse and aged widow benefits

- Aged spouse slightly higher reduction for age, 25% at age 64
- Aged widow, 71.5% at age 60, and for disabled widow at 50-59
- Widows “inherit” reduction and delayed credit from worker

What if entitled to 2 benefits?

- Basically receive the higher of the 2, in total
- “Claiming strategies” now largely removed

Social Security Financing

- Basically "pay-as-you-go"
  - Current workers provide for current beneficiaries
  - Social Security *cannot* borrow
  - Trust Fund securities provide a "contingency reserve"
- Current OASDI reserves (excess income) = $2.9 trillion
  - Available to augment tax income as needed
  - About 3 times the annual cost of the program
- Reserves projected to deplete in 2021 Trustees Report
  - 2033 for OASI, 2057 for DI, 2034 on a combined basis
  - ***Expect Congress to act—as it always has***

Now, a Few Common Myths

1) Social Security is bankrupt, insolvent, running out of money, and COVID made it much worse
2) Increasing longevity and disability are the problem
3) The money in the trust funds has been spent
4) I should start benefits as soon as I can
5) My tax contributions have been saved up for ***me***
6) Benefits scheduled in the law would be all I need
7) Social Security is responsible for the Federal debt
8) “Fixing” the Social Security shortfall will be hard

Myth 1: Social Security Is Bankrupt, Insolvent, Running Out of Money, and COVID Made it Much Worse

Facts:

a) Social Security ***cannot*** run out of money

b) Even if Congress allowed trust fund reserves to deplete…
   - Continuing income would cover 78% of scheduled benefits in 2034
   - And 74% of scheduled benefits in 2095

c) Over 80+ years, Congress has always acted timely

   Scheduled benefits have always been paid in full

d) COVID being temporary has a modest effect

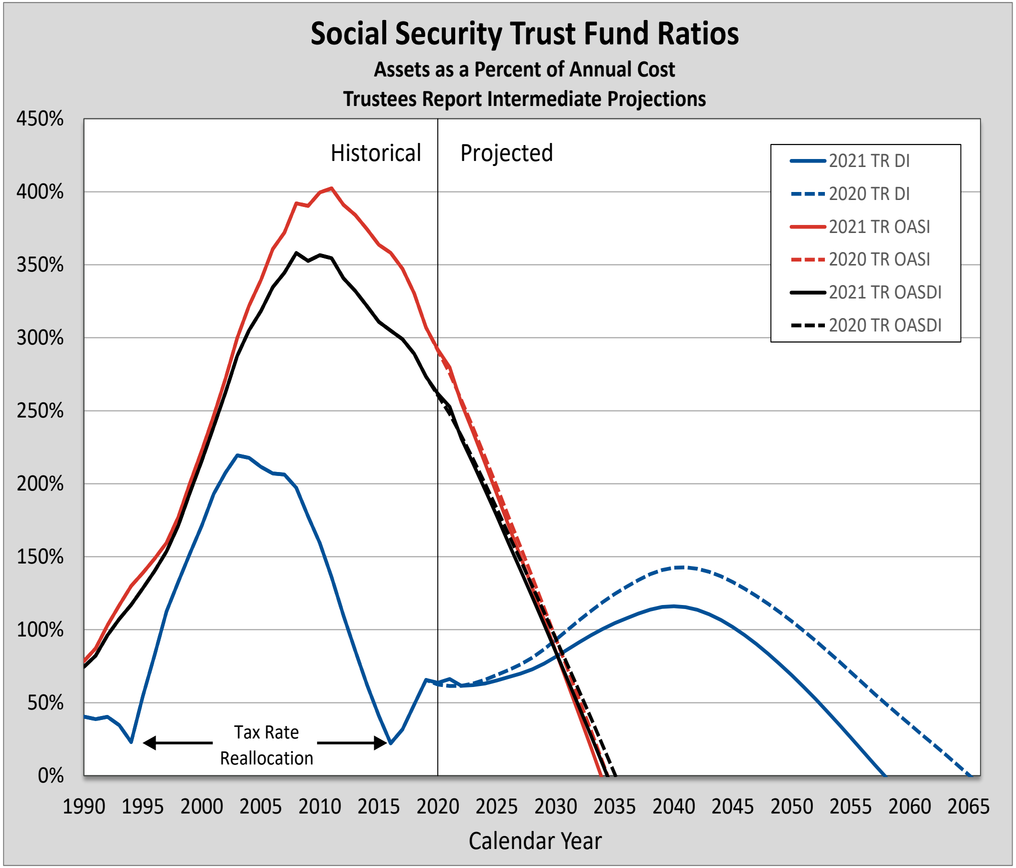
Solvency: OASDI Trust Fund Reserve Depletion in 2034

(one year earlier than last year due mainly to COVID)

Reserve depletion date varied from 2029 to 2042 in reports over the past 30 years (1992-2021).

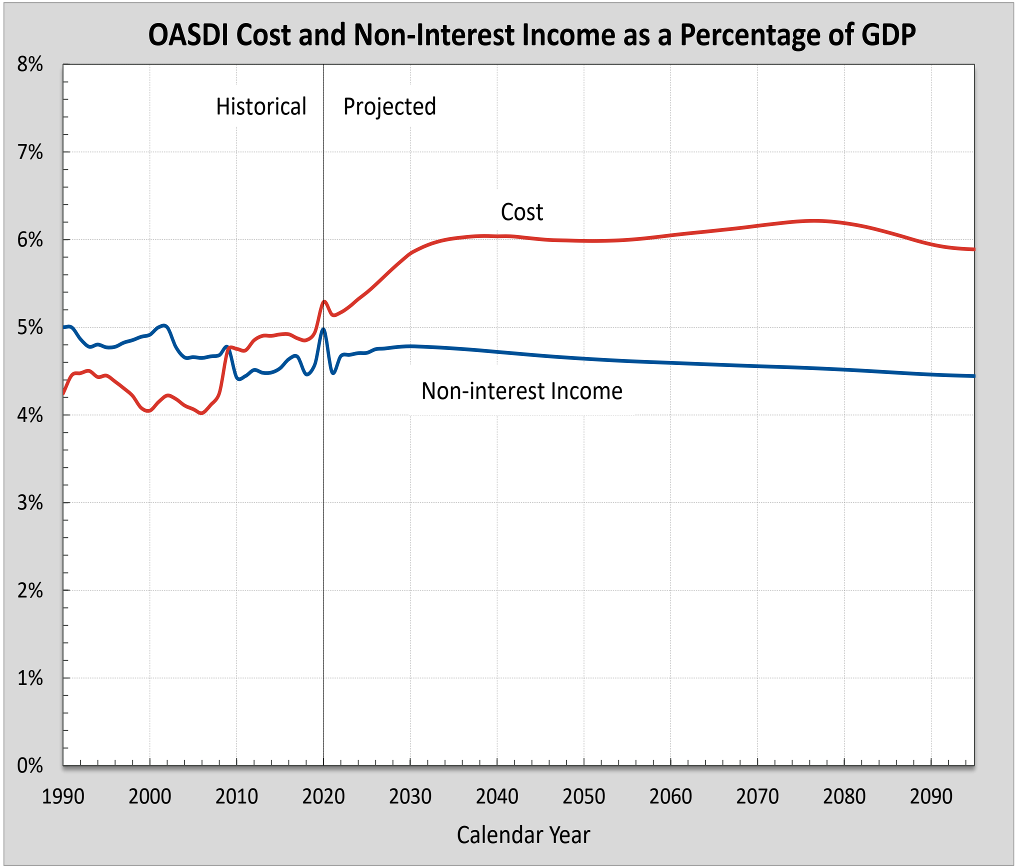
DI Trust Fund – reserve depletion in 2057, eight years earlier than last year.

Due largely to less revenue being projected for the DI program in the near-term. DI program continues to have low recent and near-term disability applications and awards.



SUSTAINABILITY: Cost as percent of GDP

Rises from a 4.2 percent average in 1990-2008, to a peak of about 6.2 percent for 2077, and then decline to 5.9 percent by 2095.



Myth 2: Increasing Longevity and Disability Are the Problem

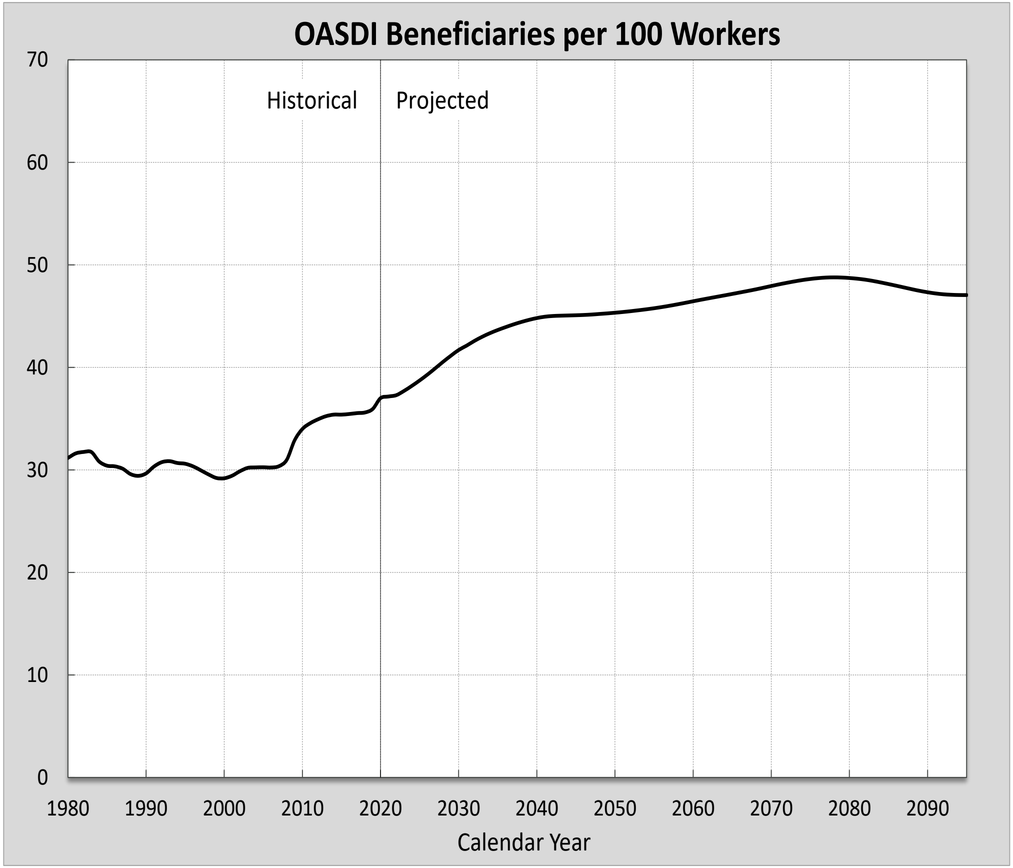
Facts:

a) The age distribution of the population is the most important factor in Social Security cost

b) Population “aging” through 2035 is mainly due to birth rates

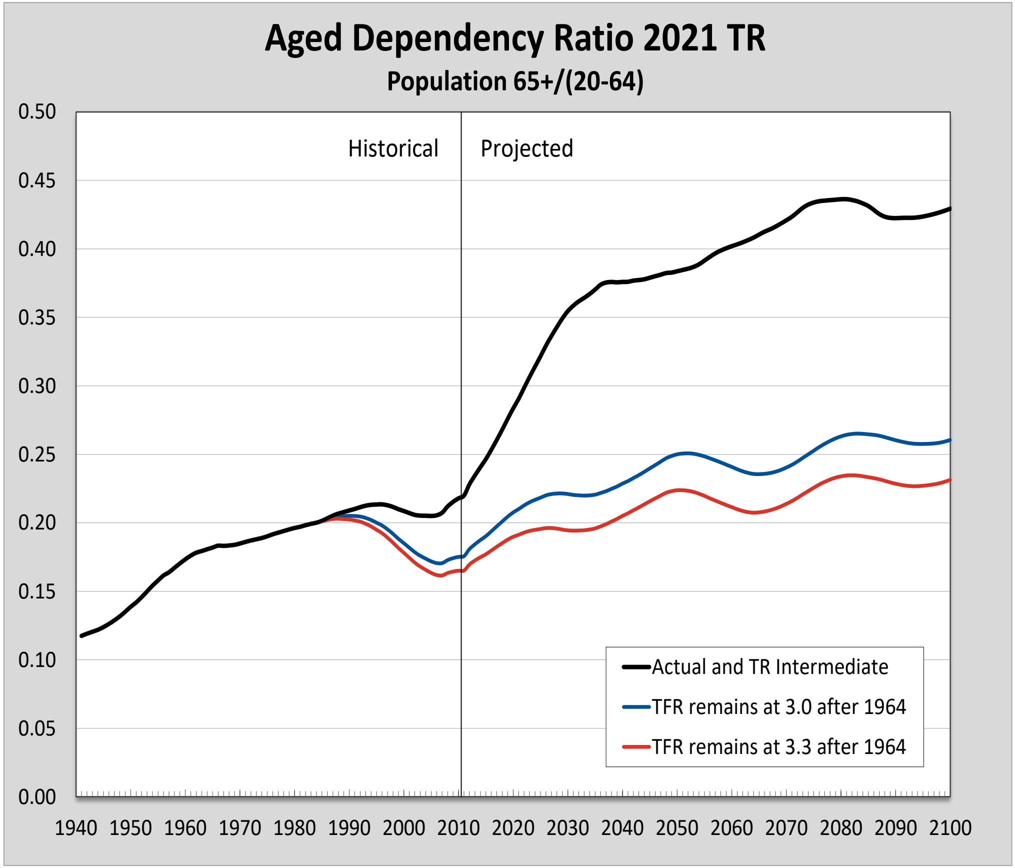
c) Disability costs have matured, and are dropping

OASDI Beneficiaries per 100 Workers



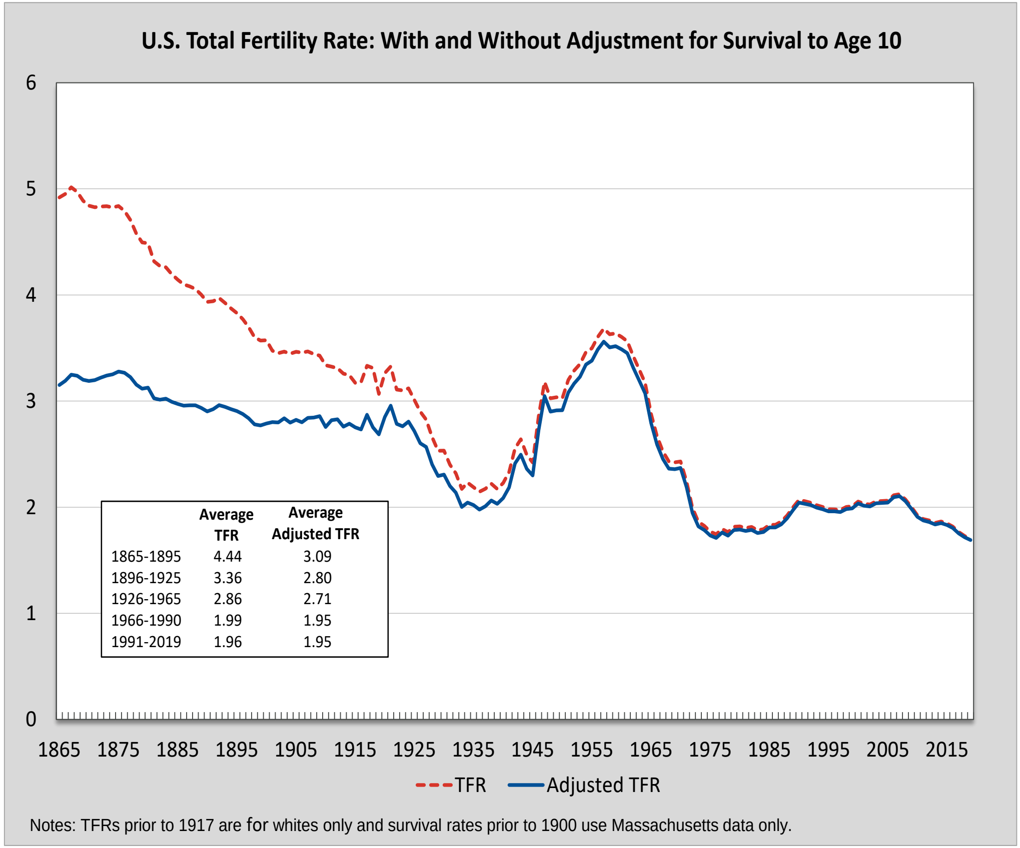
Aging - Change in Age Distribution

Mainly due to drop in birth rates



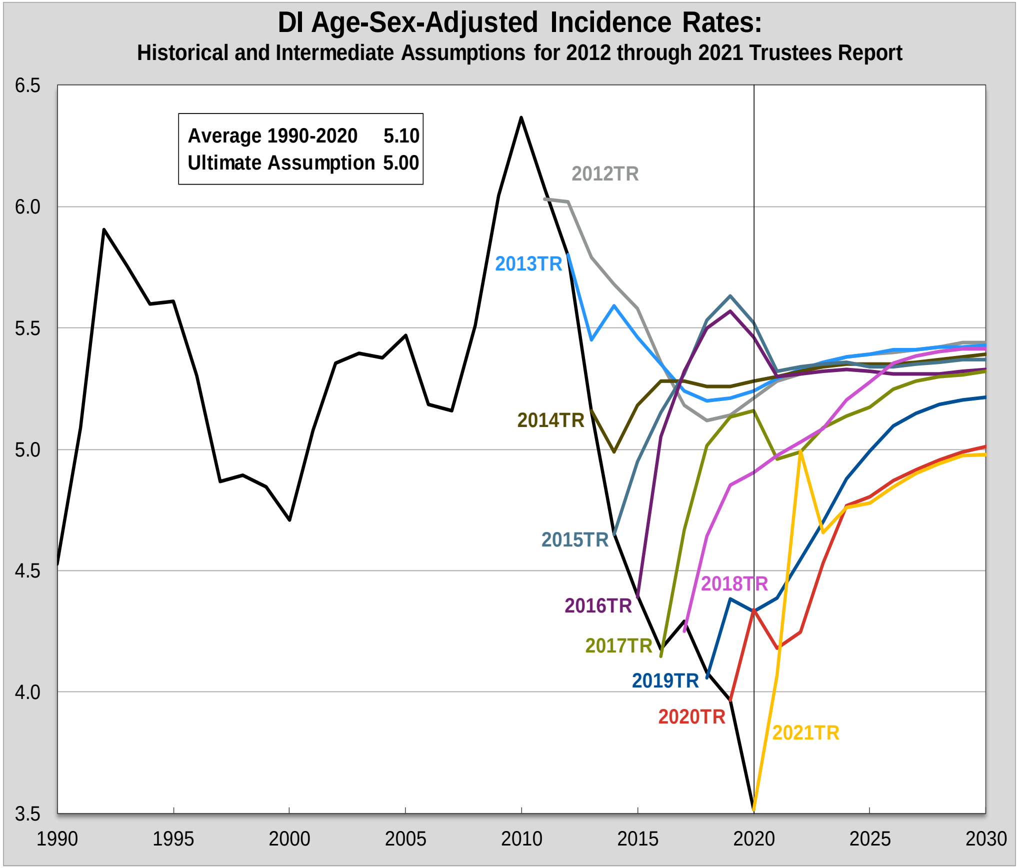
Birth Rates

Average Total Fertility Rate falls from 3 to 2



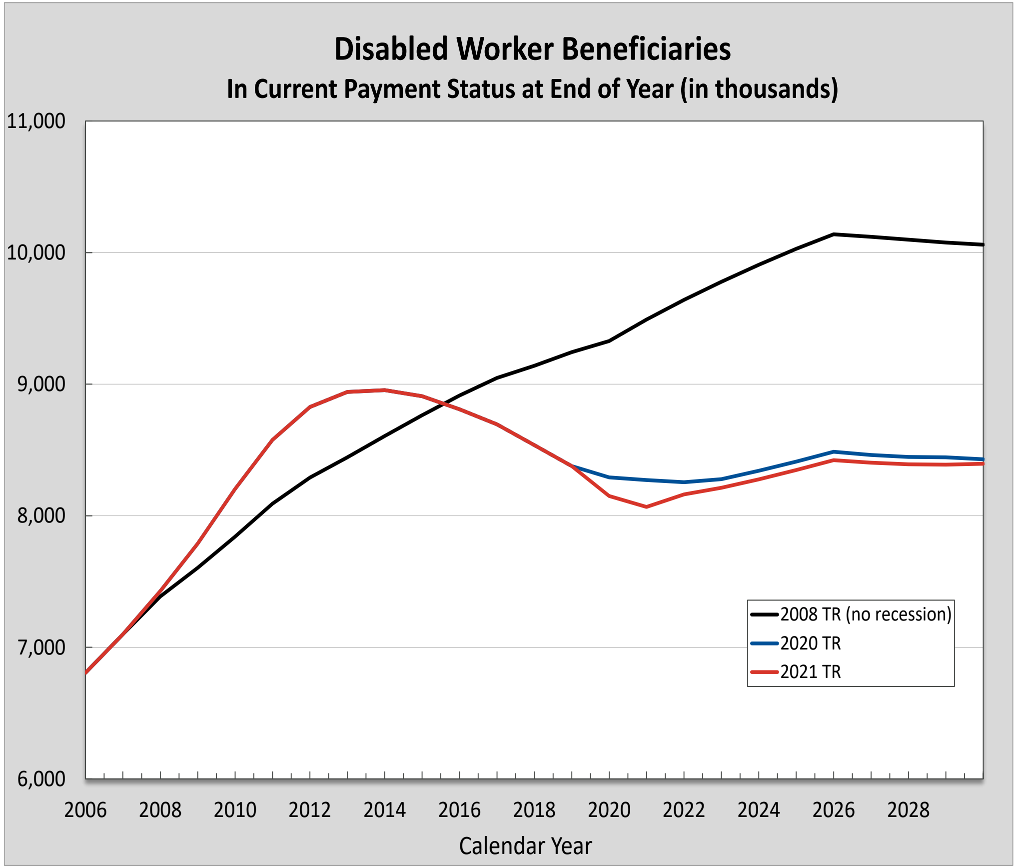
Disability Incidence Rate Also Remains Historically Low

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 2020.



Fewer Disabled Worker Beneficiaries

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



Myth 3: The Money in the Trust Funds Has Been Spent

<u>Facts:</u>

a) Every dollar of income is invested by law in ***interest-bearing securities backed by the full faith and credit of the United States***
   - These are not “worthless IOUs”!

b) Securities are issued at market yield rates

c) Securities held by the Trust Funds have always been honored, as have all other Treasury issues

Myth 4: I Should Start Benefits As Soon As I Can

Facts:

a) Social Security retirement benefits are designed to provide about the same lifetime value regardless of when you start, ***on average***

b) When to start is personal—you might want to wait if you are in average or better health

c) If you delay by working or using other assets, Social Security increases your life annuity at terms available nowhere else

Myth 5: My Tax Contributions Have Been Saved Up for *ME*

Facts:

a) Social Security is a “social contract”

b) Basically, benefits paid today are financed from contributions by recent workers

c) This is why the age distribution of the population is fundamental—the workers of the day share with the retirees, survivors, and disabled of the day

d) This is true for advance-funded systems as well

Myth 6: Benefits Scheduled in the Law Would Be All I Need

Facts:

a) Recall the 3-legged stool: 75-80% in retirement

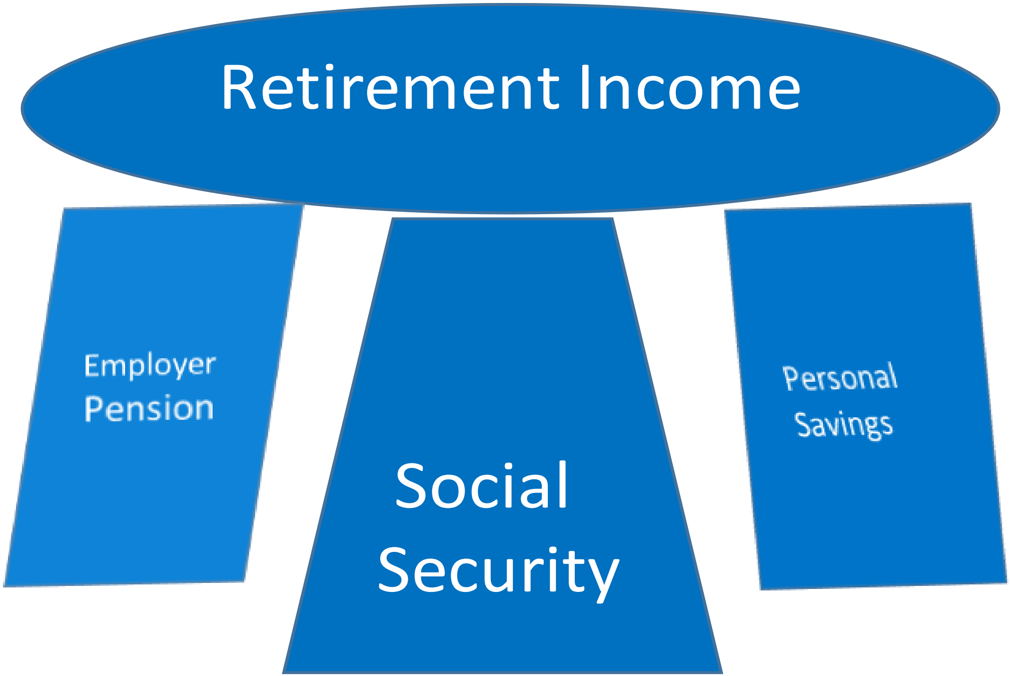
b) Social Security provides about 40% of career-average earnings (varies from 25% to over 80%)

c) So the other legs of the stool—personal savings and private pensions—are needed

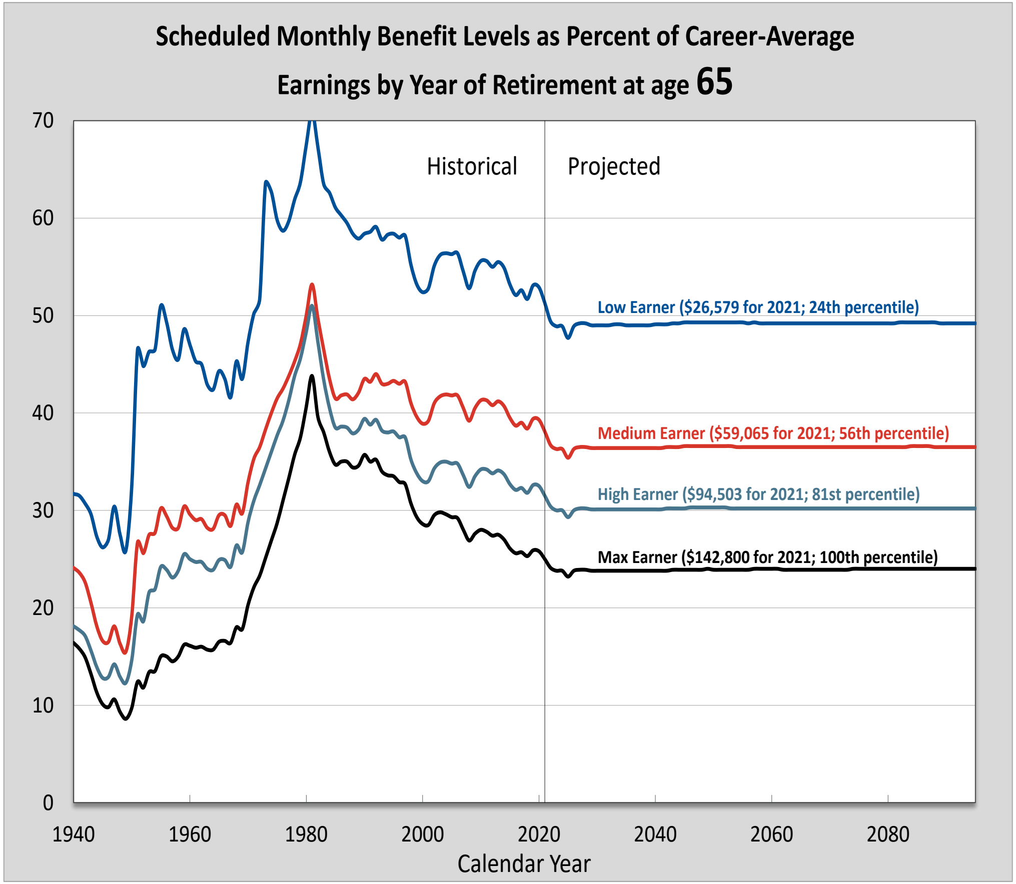
d) But increasingly, Social Security is the primary source of lifetime income

Three-Legged Stool: Basis for Retirement Planning

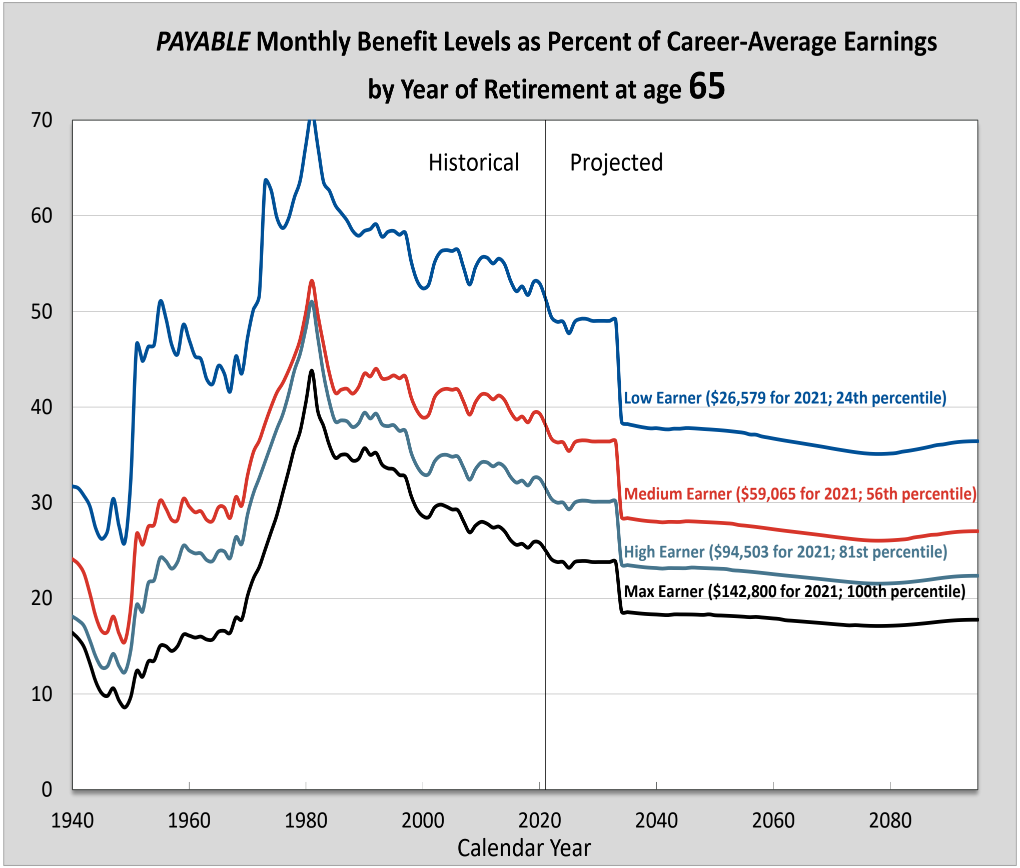
Common wisdom—aim for 75-80 percent replacement rate



Replacement Rates Based on the 2021 TR

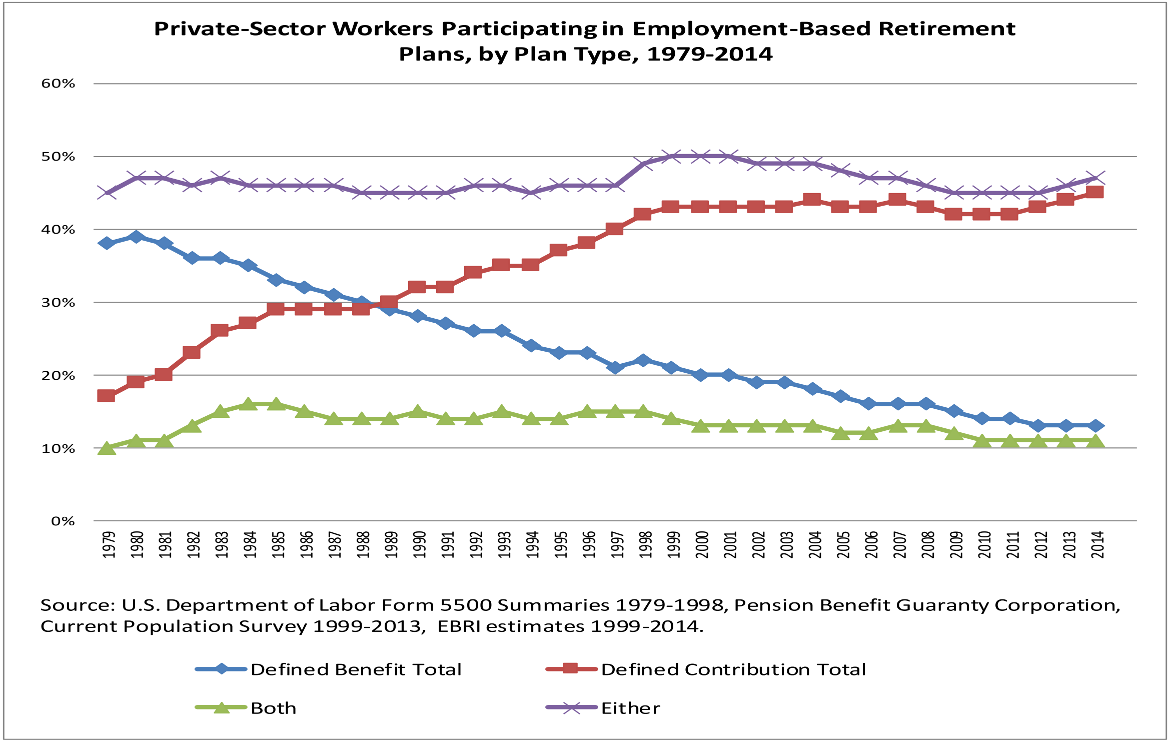


Payable Benefits Under the Law, After Trust Fund Reserves Are Depleted, Are Even Lower



Defined Benefit Plans Replaced by DC Plans

And lump sum options increasing for DB plans



Myth 7: Social Security Is Responsible for the Federal Debt

Facts:

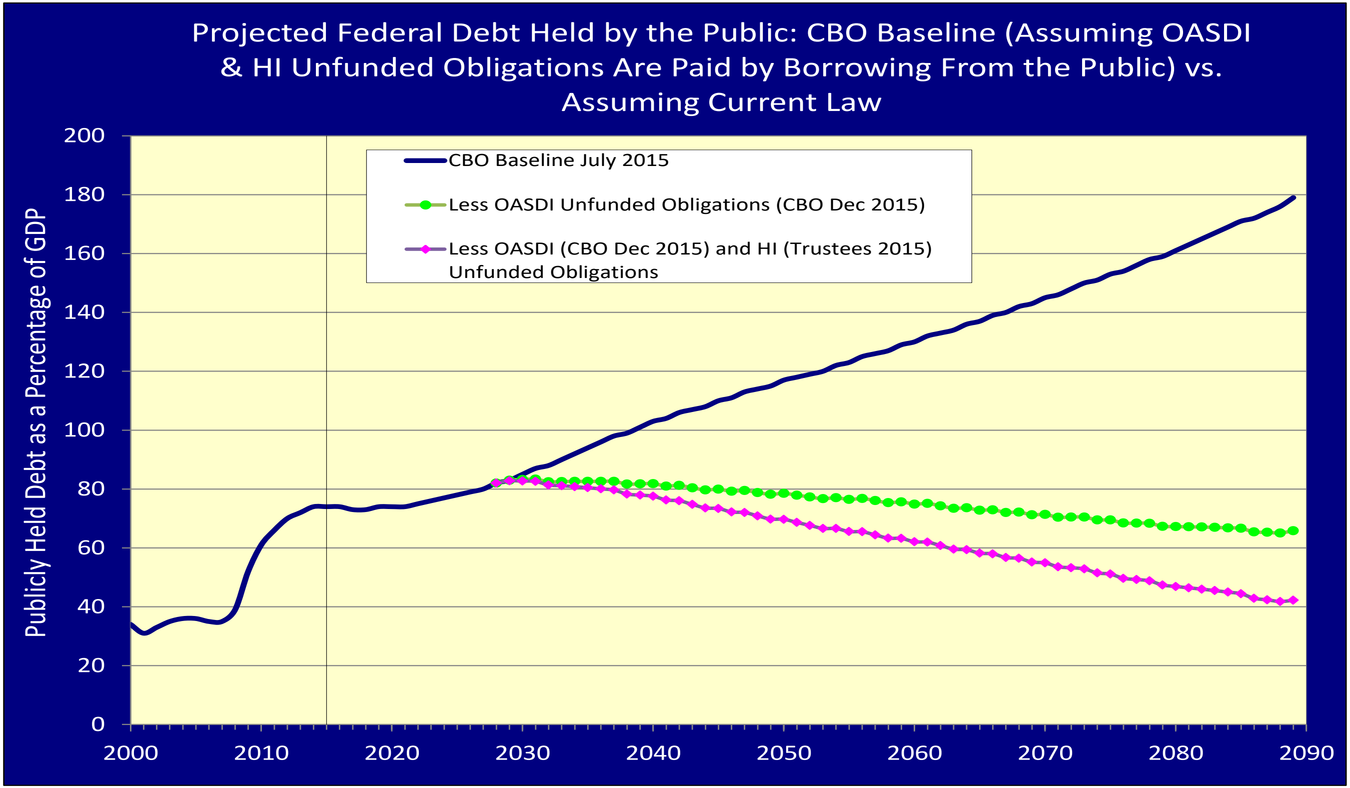
a) OASI, DI, HI Trust Funds do ***not*** add to the debt

b) In fact, these trust funds finance part of the debt

c) If trust fund reserves are ever depleted, the programs ***cannot*** borrow

d) Thus, the common "budget scoring convention" is misleading and inconsistent with the law

So—What If We Project Federal Debt Consistent With the Law? Projection to 2090 Back in 2015



Myth 8: “Fixing” the Social Security Shortfall Will Be Hard

Facts:

a) Need to adjust the benefits or revenue given the shift in the age distribution

b) By 2034, lower scheduled benefits by 1/4, or raise revenue by 1/3, or some combination

c) Question: what do the American people want?

d) Many options are already under consideration

Some 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)

Some 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:
  - All OASDI Trustees Reports: 1941-2021
  - 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
  - Extensive databases
  - Congressional testimonies
  - Presentations by OCACT employees