CONFERENCE OF CONSULTING ACTUARIES

Retirement Webinars

Current State of Social Security and Implications of COVID

Wednesday, May 18, 2022

12:30 – 1:45pm Eastern Time

Moderator: Barbara J. Ruel – Mercer

Presenters: Stephen C. Goss – Social Security Administration

Thomas S. Terry – The Terry Group

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Agenda

Current State of Social Security

Effects of COVID on the System

A Few Common Myths

Proposals for Strengthening the System

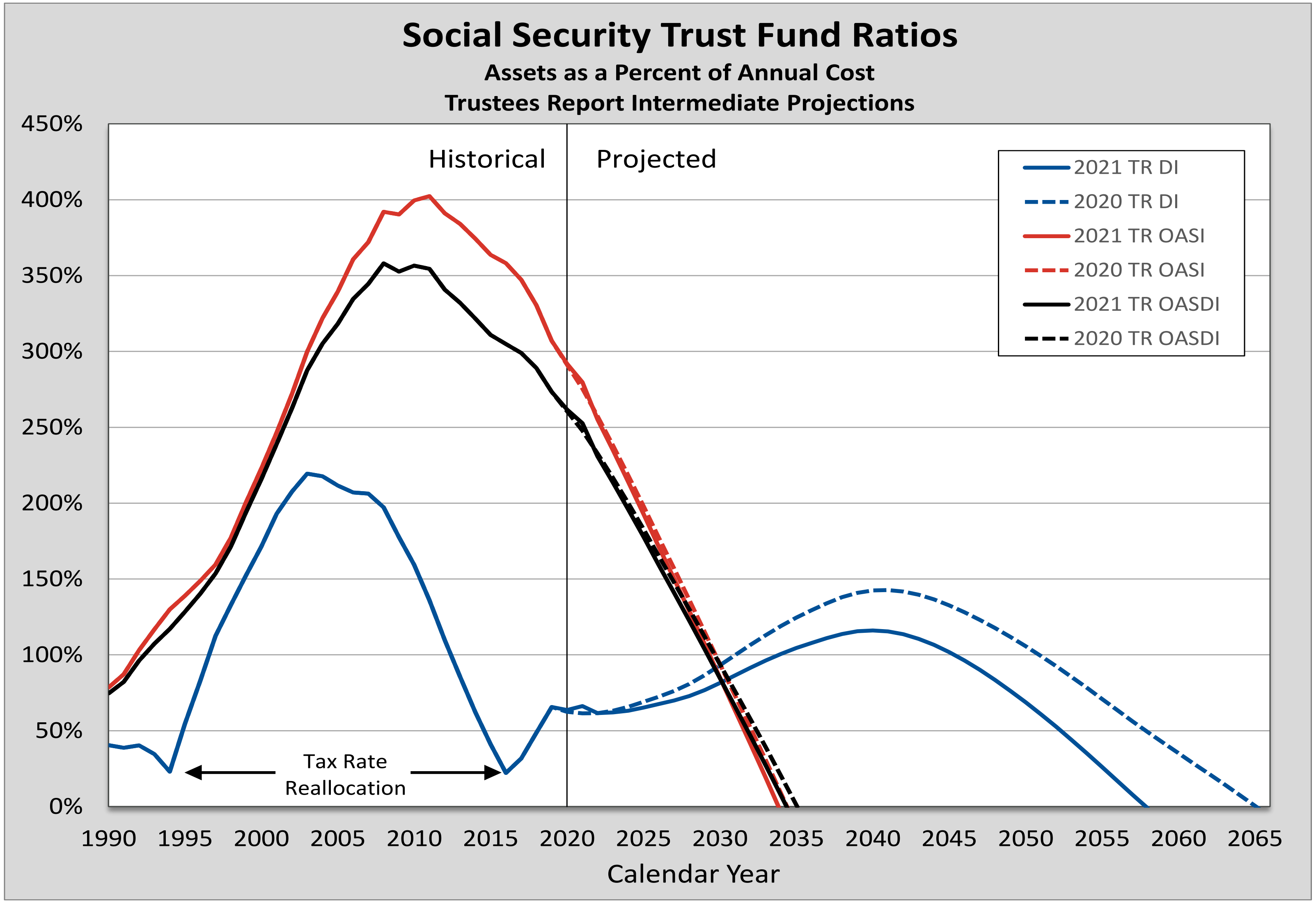
Current State of Social Security

Solvency: OASI+DI Trust Fund Reserve Depletion Projected to Occur in 2034

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

DI Trust Fund:
reserve depletion in 2057.

Change from prior Trustees Report largely due to reflecting the pandemic/recession.

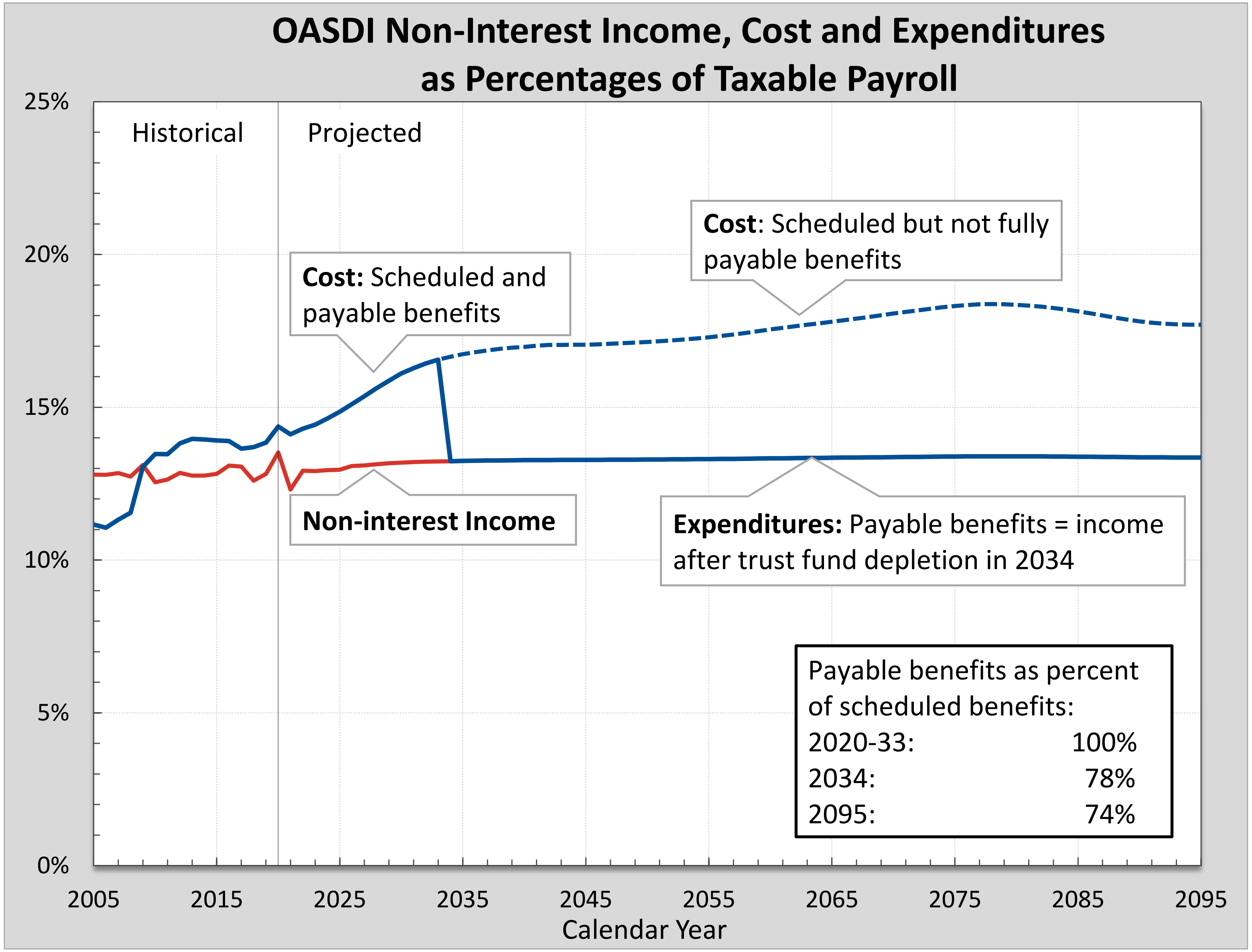


OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Cost began exceeding tax revenue in 2010 in the great recession, but has continued.

Even if reserves deplete in 2034, 78 percent of scheduled benefits will still payable.

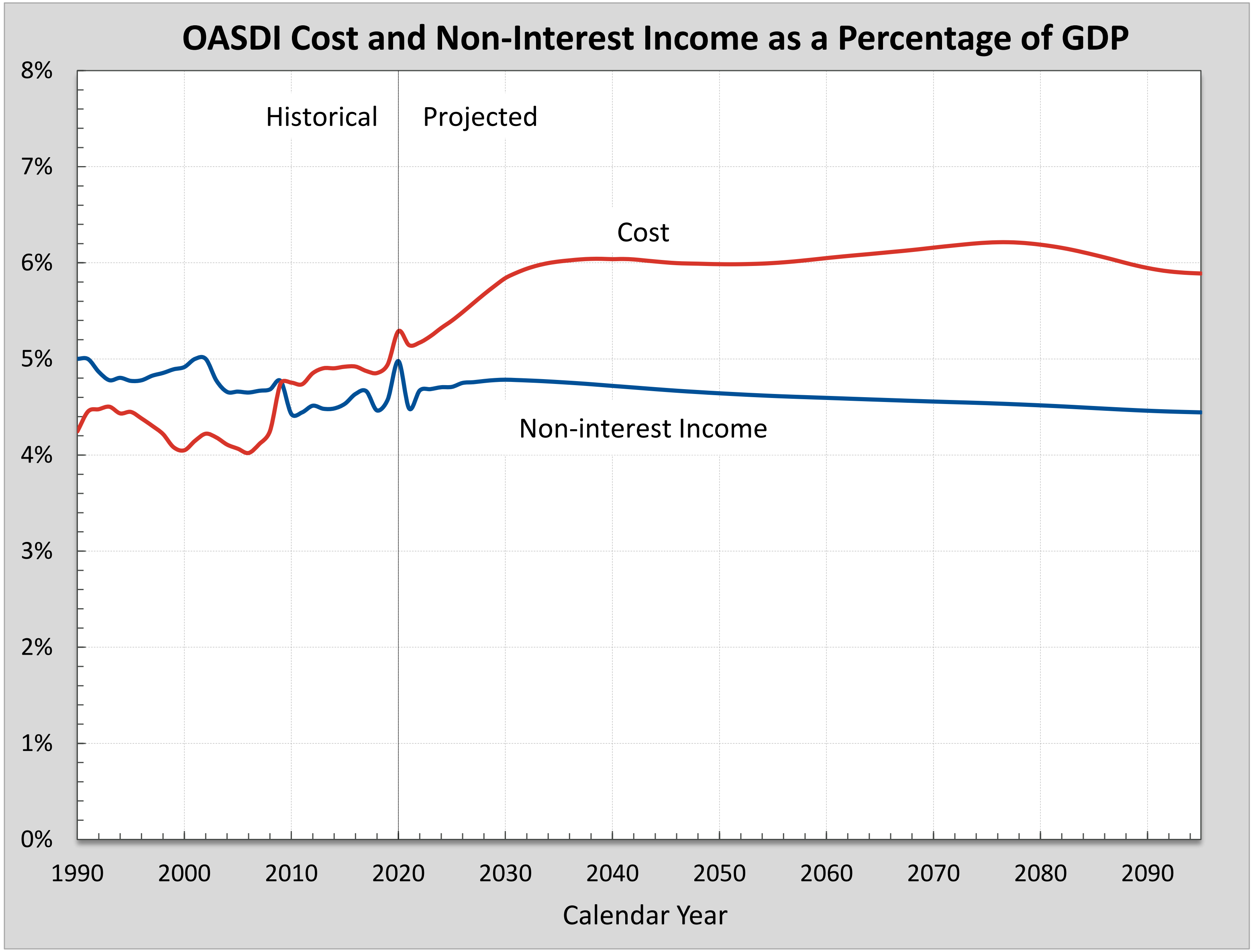
And 74 percent would be payable in 2095.



Sustainability: Cost as Percent of GDP

OASDI Cost averaged 4.2 percent of GDP for 1990-2008.

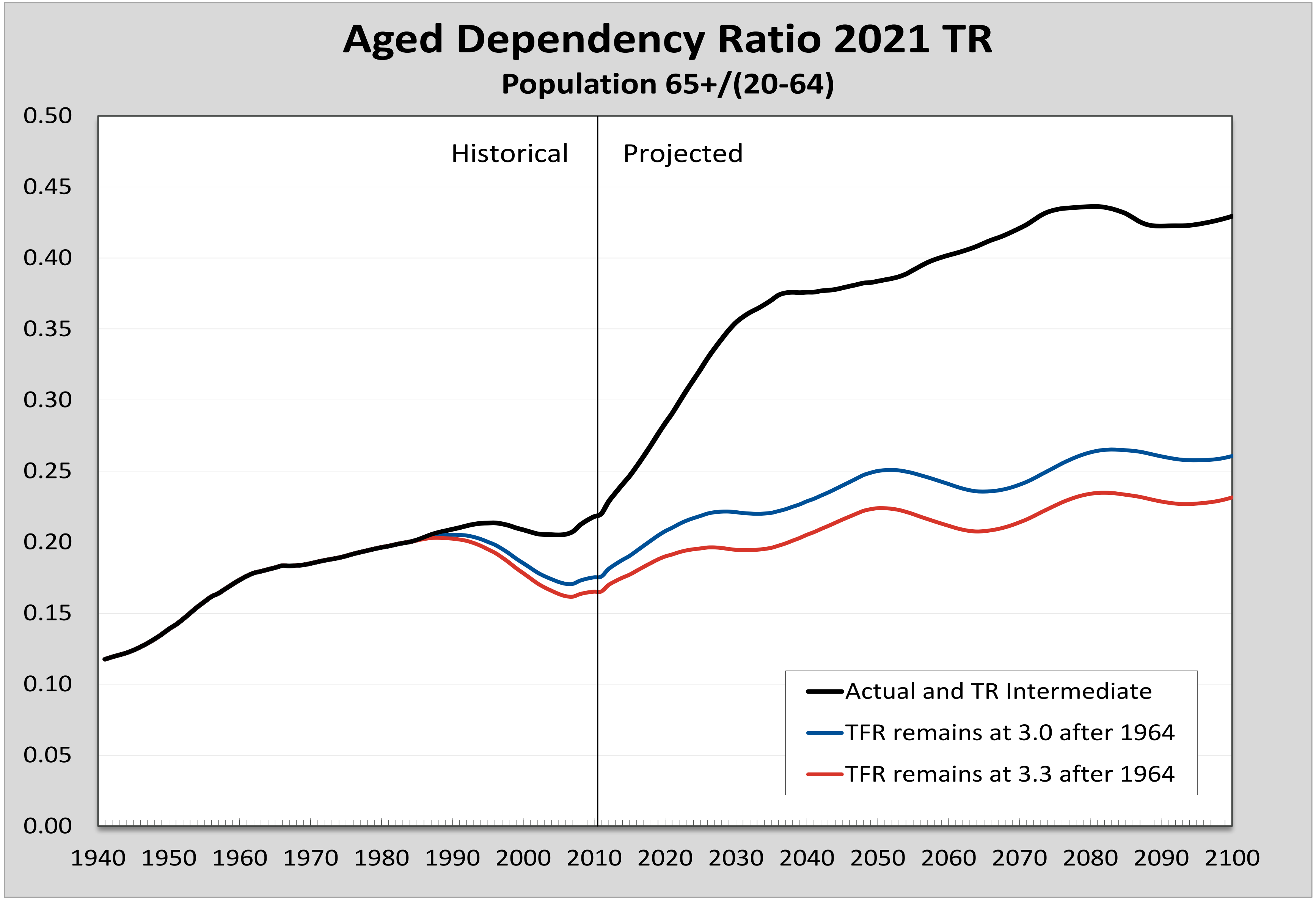
But has risen to over 5 percent, on the way to 6 percent by about 2035.



Why is Cost Rising Faster than Payroll and GDP?

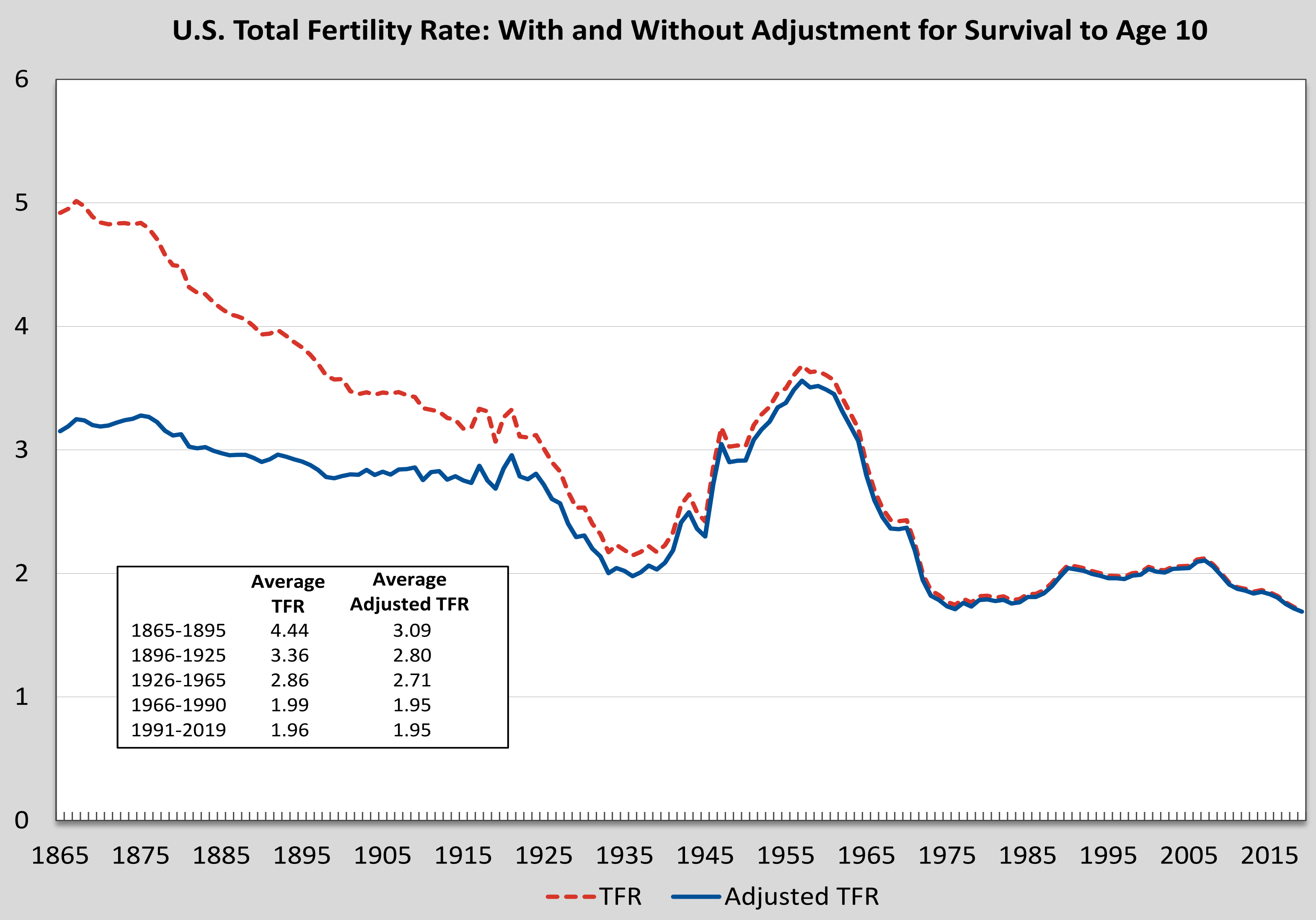
Changing Age Distribution.

Largely lower birth rates.



Birth Rates

Average Total Fertility Rate falls from 3 to 2

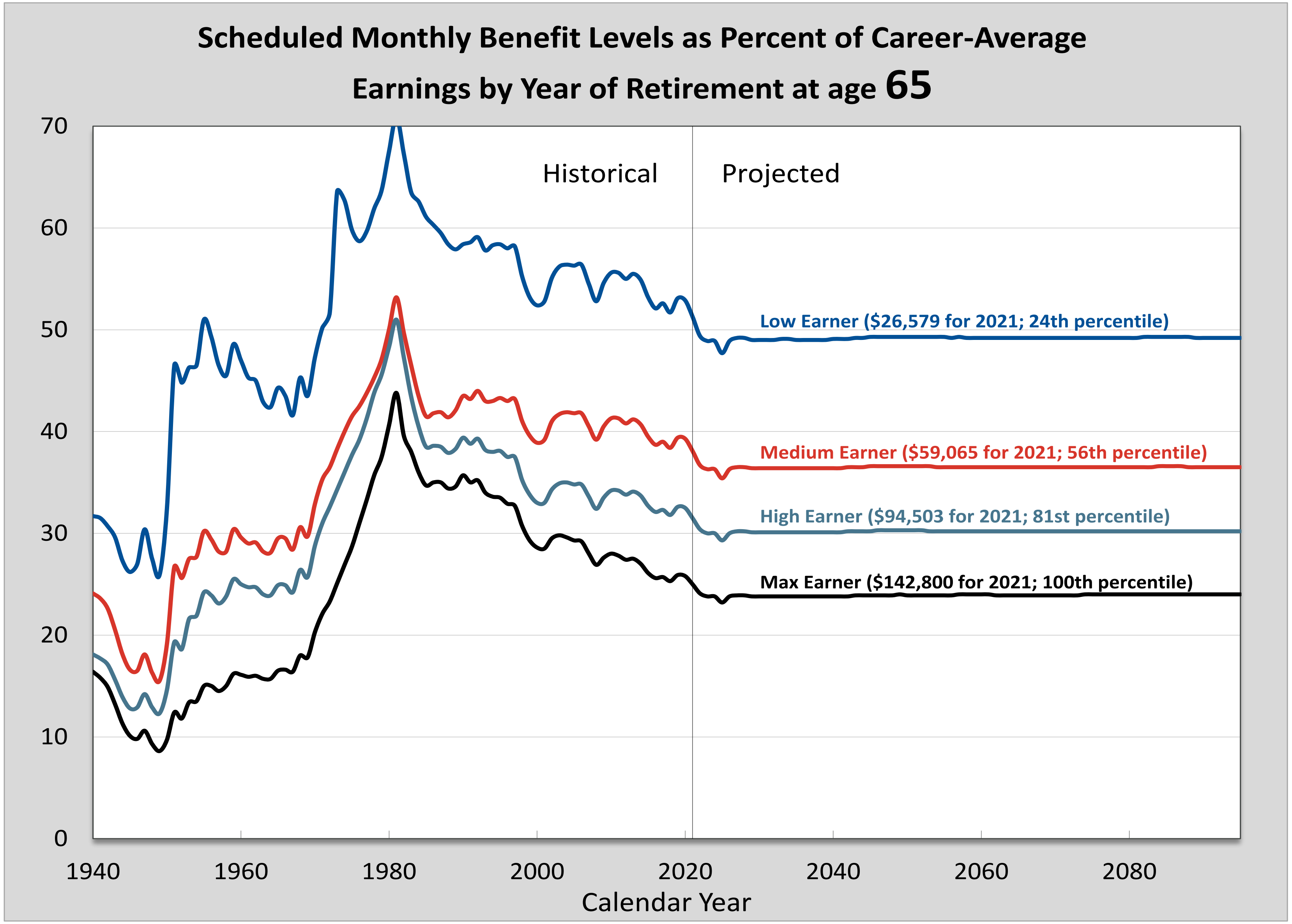


	Average TFR	Average Adjusted TFR
1865-1895	4.44	3.09
1896-1925	3.36	2.80
1926-1965	2.86	2.71
1966-1990	1.99	1.95
1991-2019	1.96	1.95

Notes: TFRs prior to 1917 are for whites only and survival rates prior to 1900 use Massachusetts data only.

Adequacy of Benefits

How Much of the Desired 75 Percent Replacement of earnings will OASDI provide?

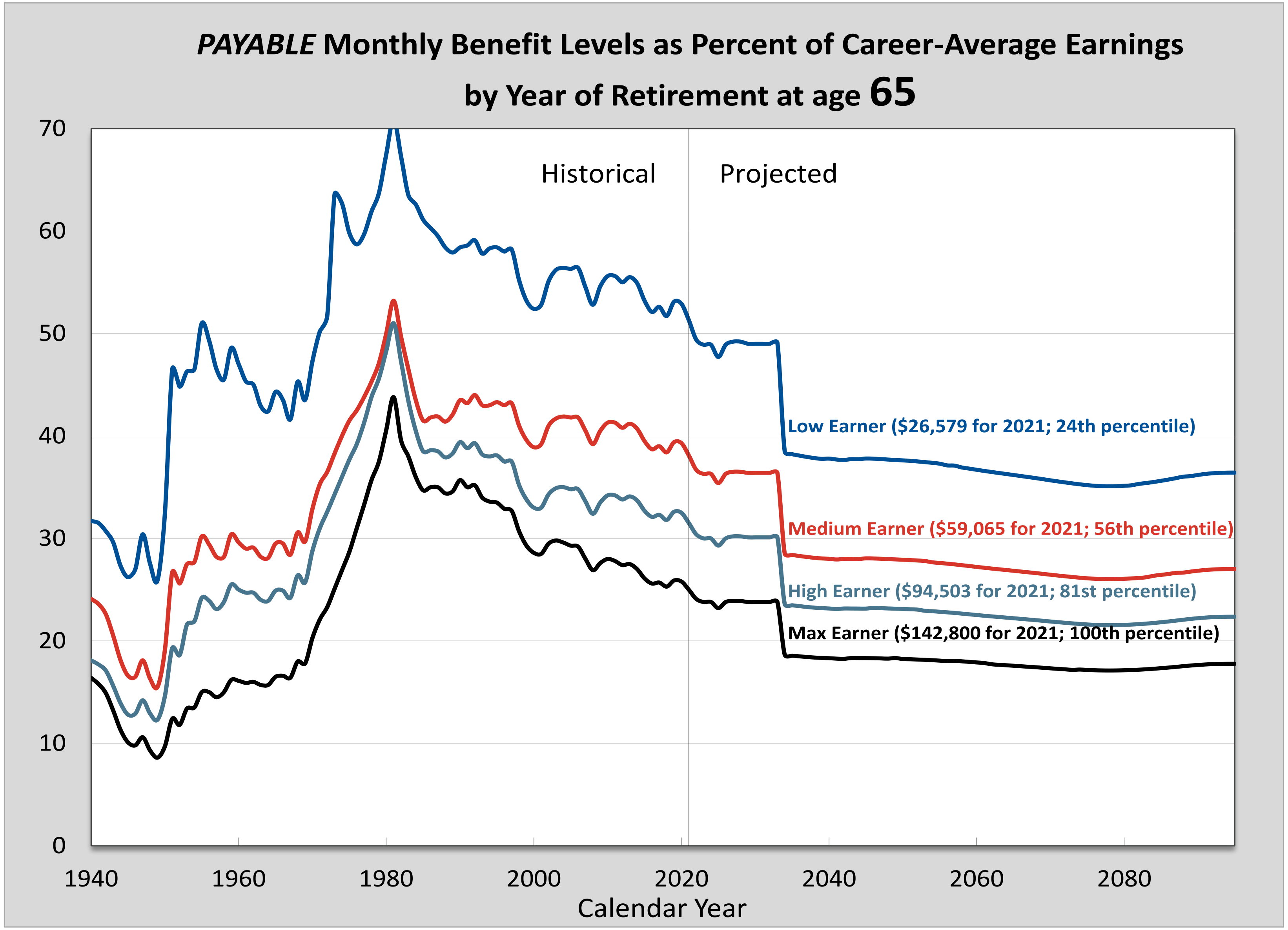


Source: Annual Recurring Actuarial Note #9
www.ssa.gov/oact/NOTES/ran9/index.html

But if Reserves are Depleted in 2034 . . .

. . . even the Currently Scheduled Benefit Levels Will Not Be Payable.

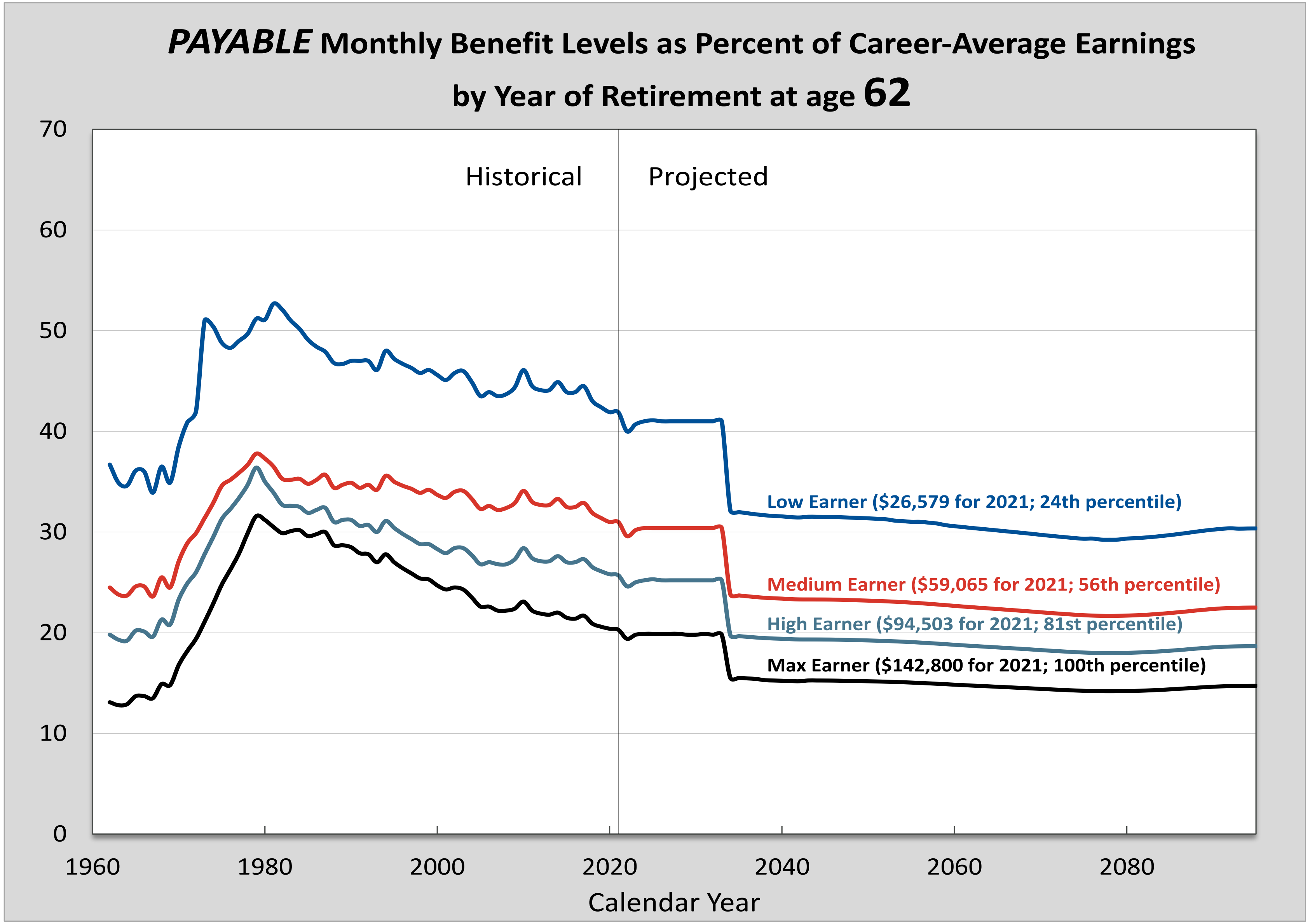
Congressional action is needed



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

For those who choose to start Retirement Benefit at Age 62 . . .

. . .the earliest option,
Benefits will be even lower,
both Scheduled and Payable.



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

Effects of COVID on the System

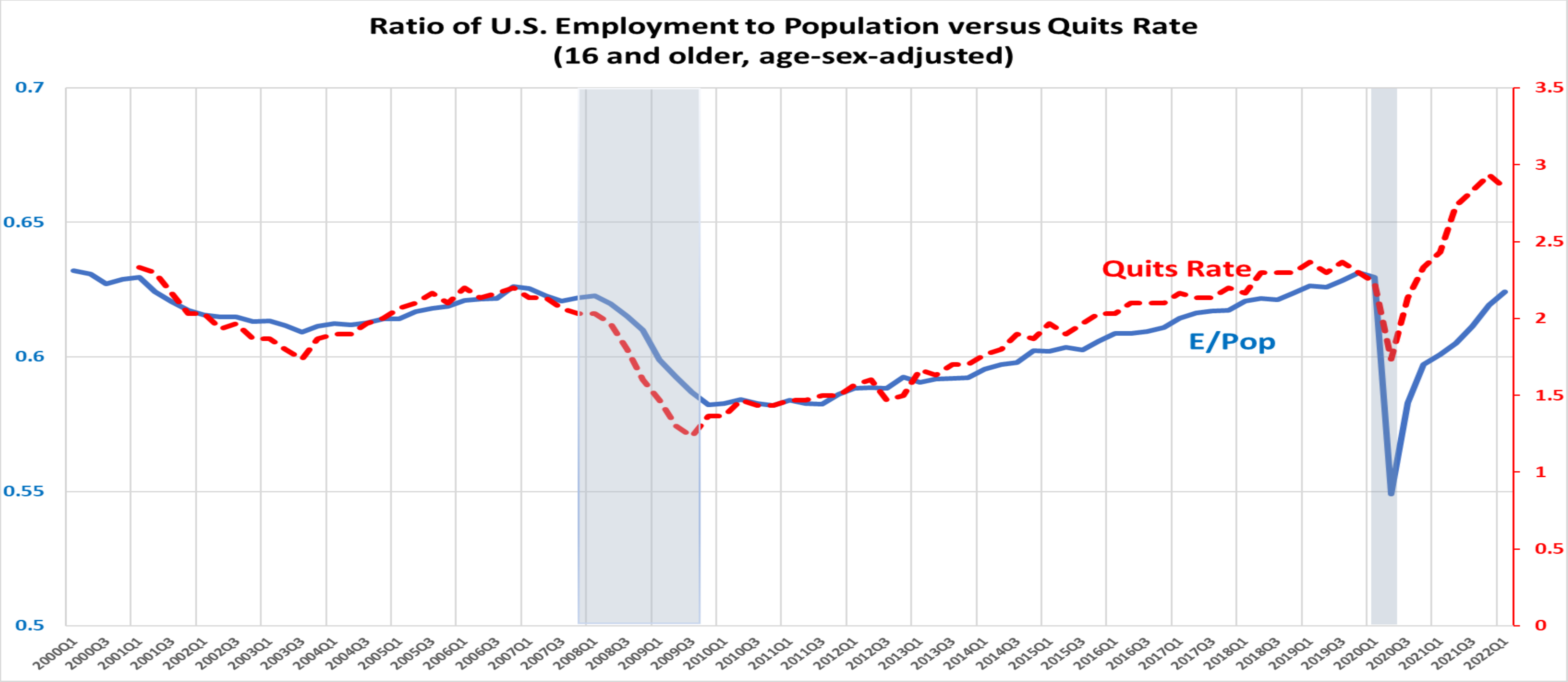
Changes this year due to pandemic/recession

Changes since 2021 TR assumptions were set

Factors increasing solvency	Factors decreasing solvency
• Increased deaths in 2020 through 2023 • Consistent for 2020 based on CDC. But actual deaths are higher than we projected for 2021	• Lower employment and earnings through 2023 • Consistent—so far. Except December 2021 COLA is expected to be closer to 6% than 3.1%.
• Lower applications for benefits, particularly disability • Continuing low so far, but we expect them to rise after the pandemic.	• Delays in births and immigration • Actual births and immigration look to be higher than we assumed for 2021
	• Permanent loss in level of worker productivity • Too soon to tell

How About Employment? Great ”Resignation” or *Opportunity*?

Job Quits Have Soared. As Employment Has Recovered Fast



Changes in timing of trust fund reserve depletion

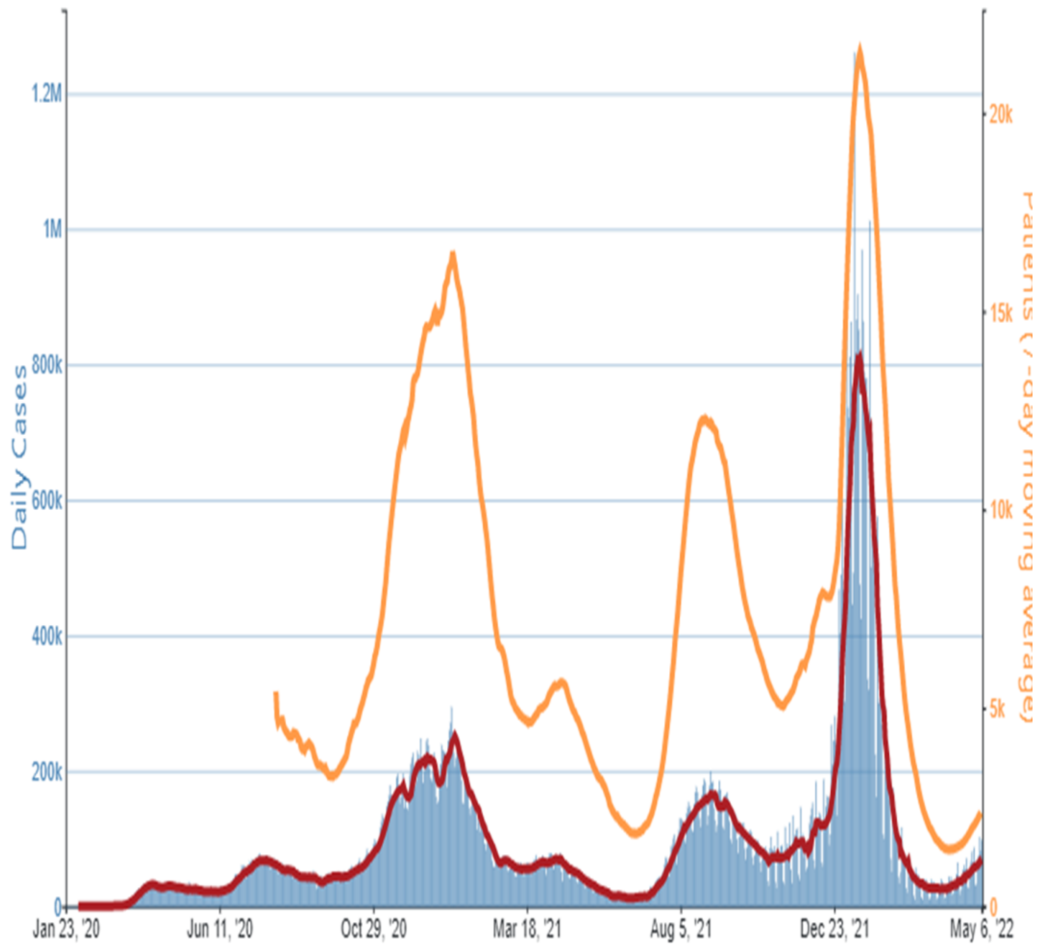
Reserve	Depletion year	Vs 2020 Report
OASDI	2034	1 year earlier
OASI	2033	1 year earlier
DI	2057	8 years earlier

Changes in OASDI actuarial balance in 2021 report

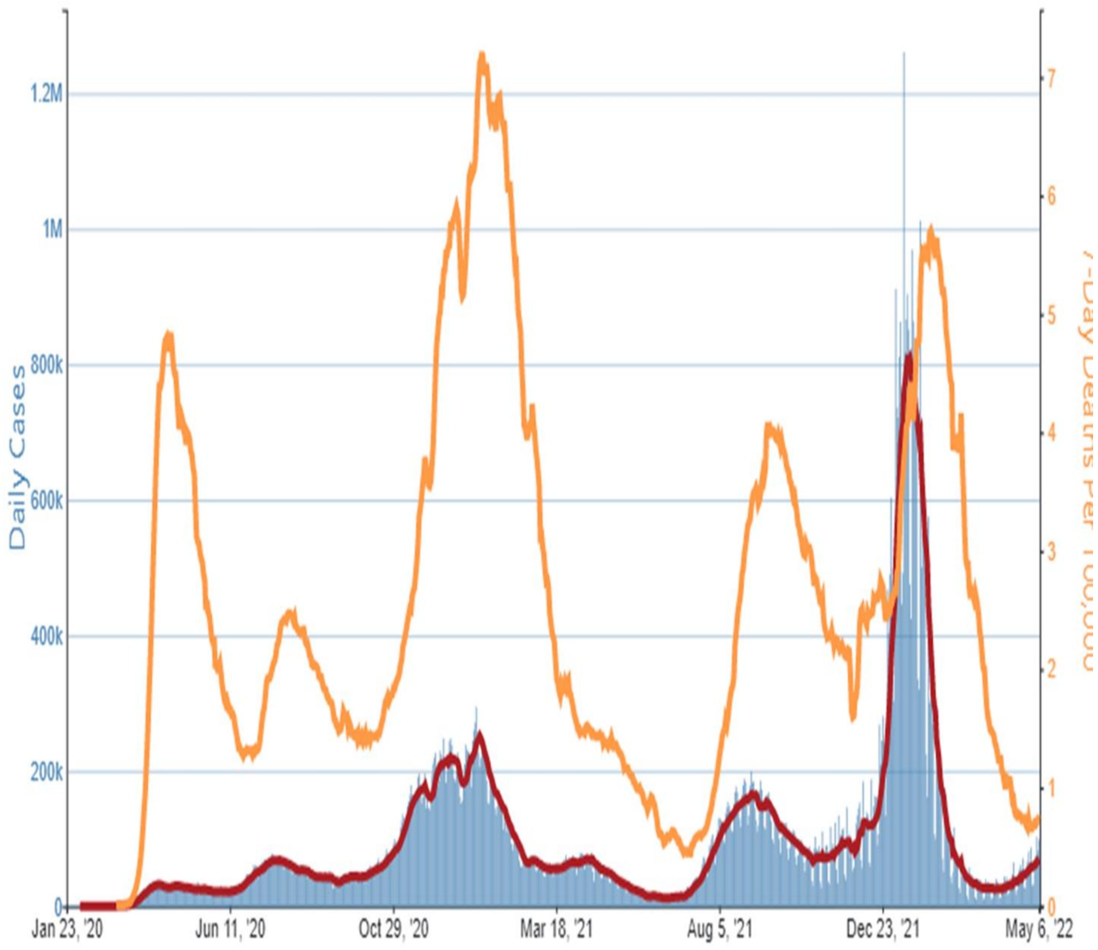
Overall Change	(0.32)%
Valuation Period	**(0.06)%**
Legislation • restore and maintain DACA	**(0.01)%**
Demographic data, assumptions & methods • New cohort fertility method and higher ultimate fertility rate (roughly offsetting cost effects) • New dementia cause of death category • Higher recent & projected near-term mortality due to COVID-19	**(0.01)%**
Economic data, assumptions & methods • Updated labor force projection model and lower ultimate unemployment rate • Slightly faster real growth in average wage levels • Lower near-term real interest rates • Level of productivity and GDP permanently lowered by 1% due to recession • Reduced level of revenue from taxation of benefits	**(0.09)%**
Other new data and methods improvements	**(0.16)%**

Cases, hospitalizations, and deaths reported daily to CDC: reports lag

Daily Trends in Number of Cases and 7-day Average of New Patients Admitted to Hospital with Confirmed COVID-19 in The United States Reported to CDC

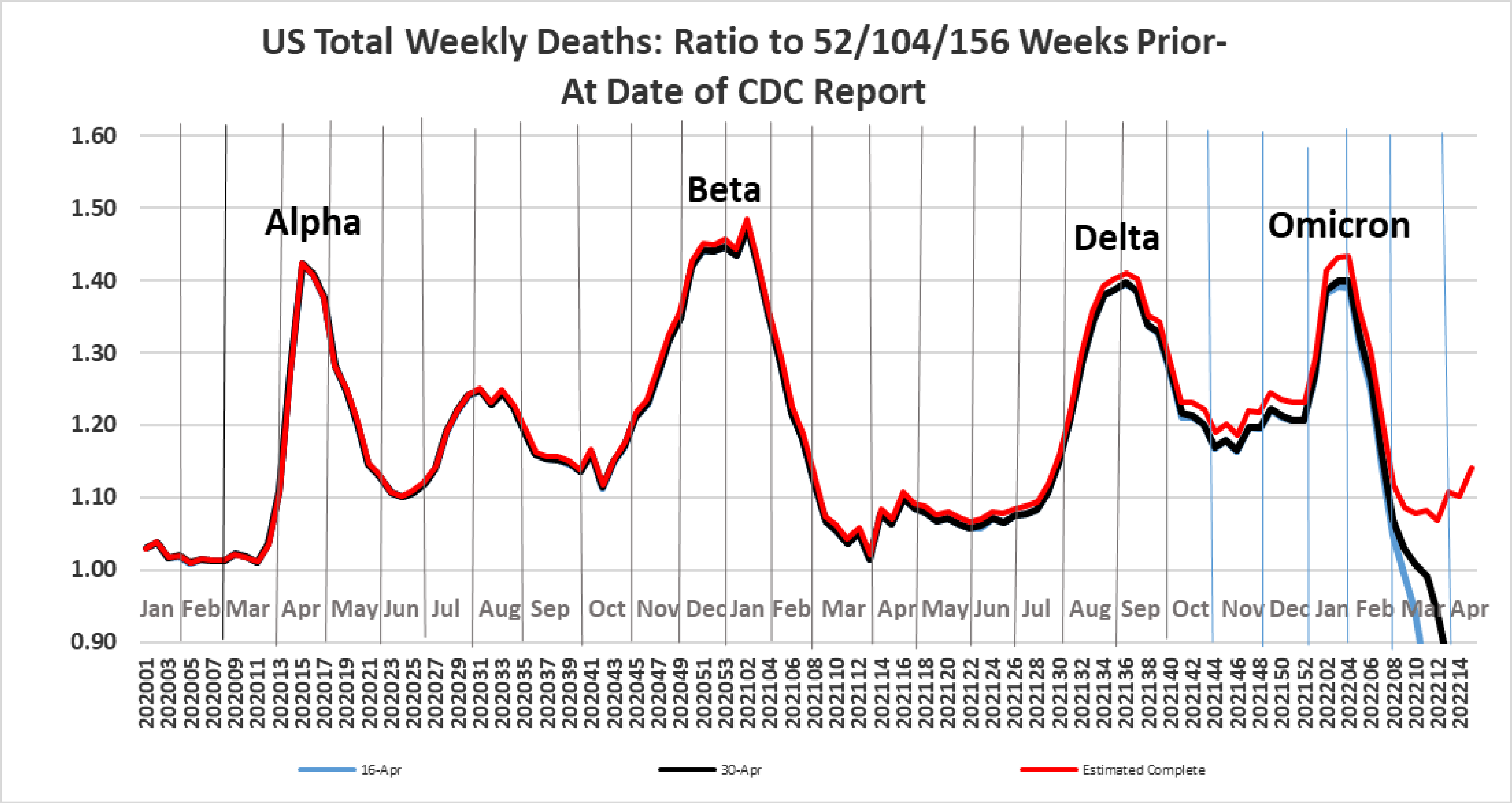


Daily Trends in Number of Cases and 7-Day Cumulative Incidence Rate of COVID-19 Deaths in The United States Reported to CDC, per 100,000 population.

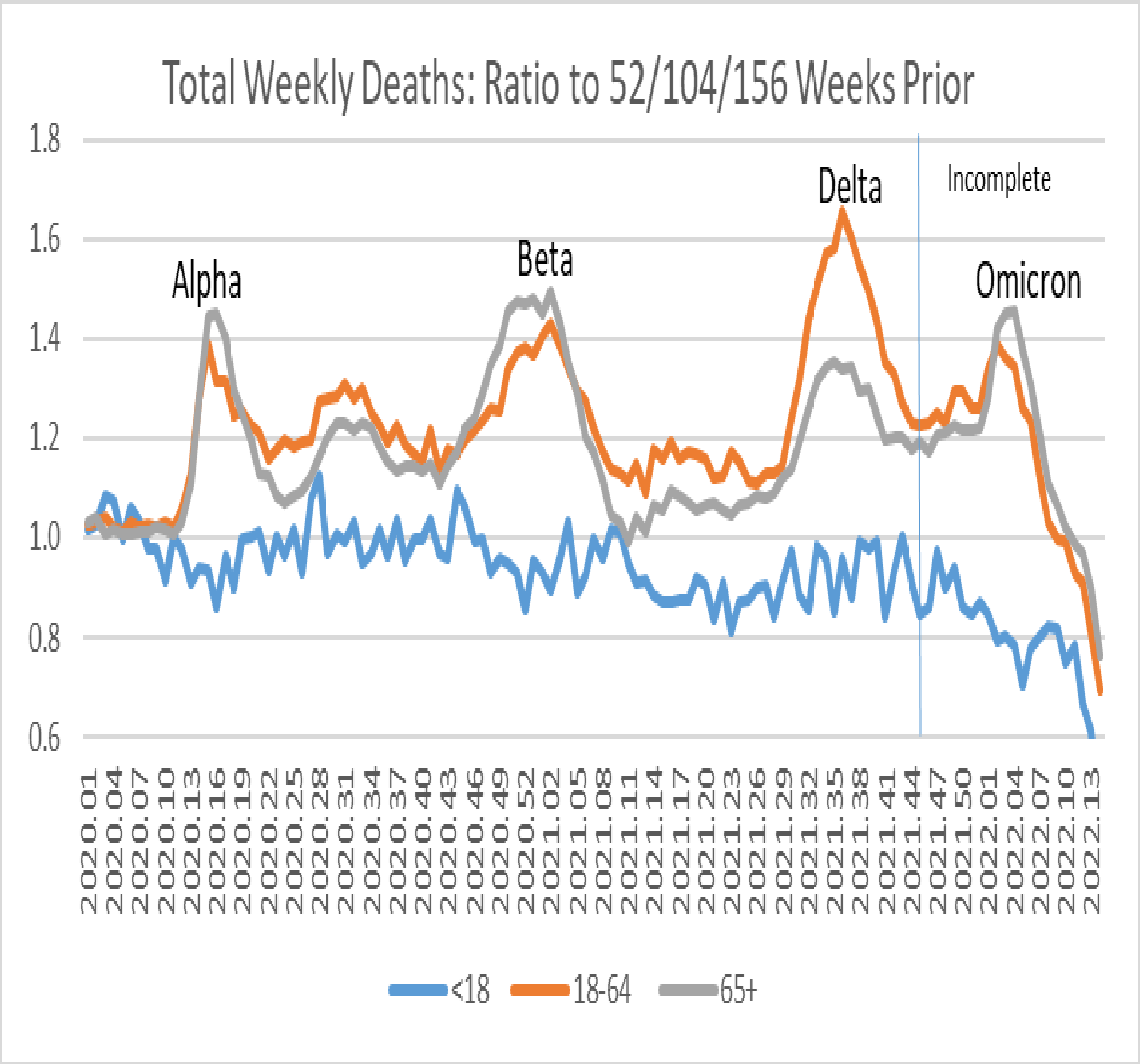


Source: https://covid.cdc.gov/covid-data-tracker

Death reporting lags date of death   Estimated complete suggests Rising

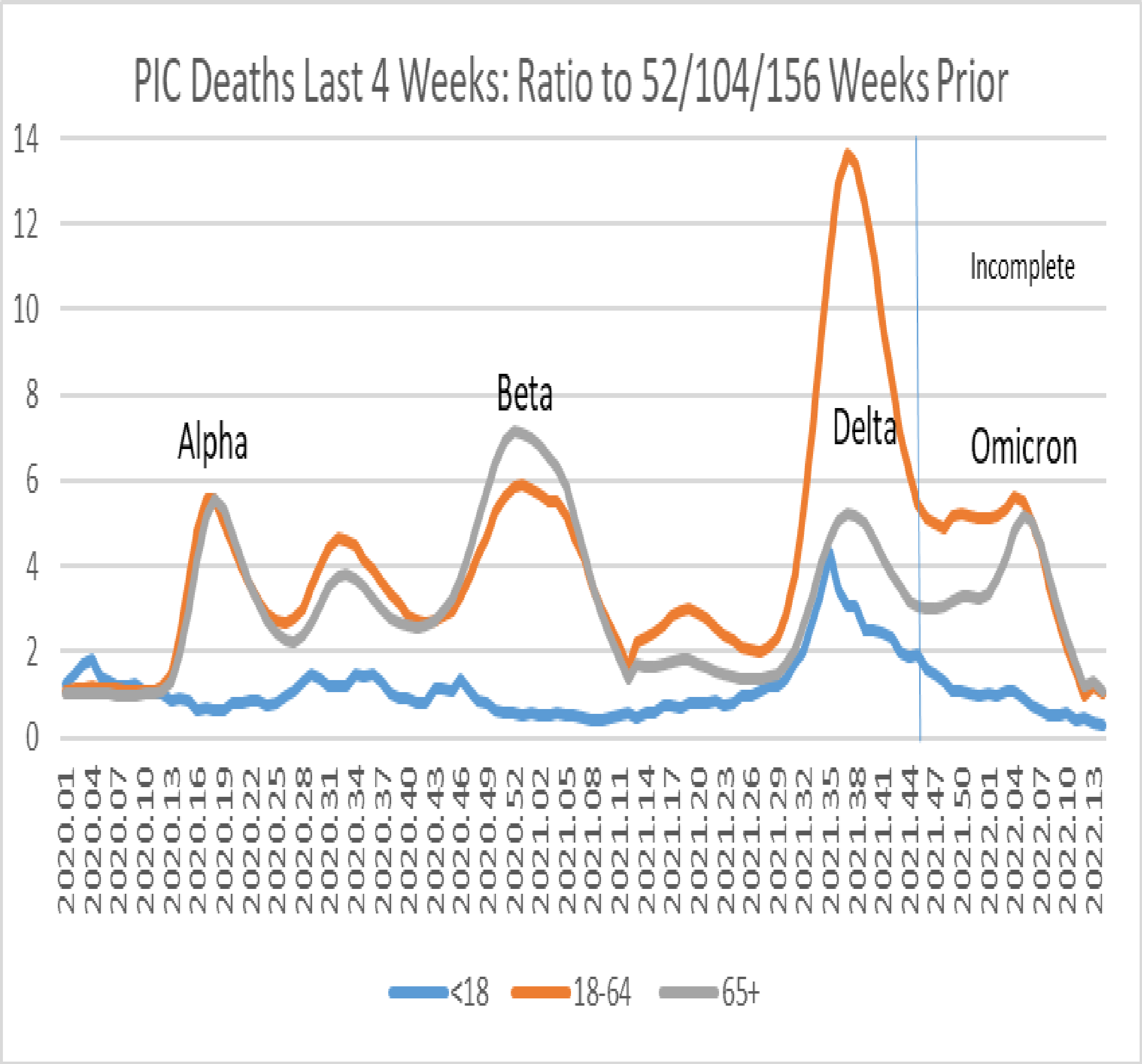


Reported total deaths by age group



Reported PIC deaths by age group

Earlier vaccinations for 65+ apparent by April 2021



A Few Common Myths

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

<u>Facts:</u>

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

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

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

<u>Facts:</u>

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

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

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

Proposals for Strengthening the System

How to eliminate the Social Security long-term actuarial deficit

Make choices addressing OASDI shortfall 2034-2095:

- Raise scheduled revenue after 2033 by about one-third
- Reduce scheduled benefits after 2033 by about one-fourth
- Or some combination of the two

Ways to lower cost

Lower benefits for retirees—not disabled

- Increase normal retirement age (lowers OASI 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)

- Especially hurts those who haven't been in the workforce for more than 35 years

Ways to increase revenue

Raise tax rate on all earners

- Increasing rate immediately from current 12.4 percent to about 15.6 percent is projected to eliminate the long-range shortfall

Raise tax on highest earners

- Increase taxable maximum amount (**$147,000** in 2022) or remove it completely
- 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?
- Or potentially a wealth tax?

Maintain larger trust fund reserves

- Could do this by investing some portion of reserves in equities
- Added interest/yield can lower needed taxes

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 due to COVID-19
- The date has varied between 2029 and 2042 over the past 30 years

Thank You!
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- PBGC – June 8, 2022 (Retirement)
- Care Management for Actuaries – June 22, 2022 (Health)
- Consulting Skills: Enhancing Your Effectiveness – July 13, 2022 (Cross Discipline)
- Professionalism, Practices & Pitfalls for Health Actuaries – August 3, 2022 (Health)
- ARPA: Special Financial Assistance for Multiemployer Plans – August 17, 2022 (Retirement)
- Recent, New and Proposed ASOPs Affecting General Actuarial Practice – September 7, 2022 (Cross Discipline)
- New Healthcare Price Transparency Regulations: Crystal Clear or Clear as Mud? – September 14, 2022 (Health)
- Measuring COVID Severity: What are the Odds and Ends? – November 9, 2022 (Cross Discipline)
- Ethics - 100 minutes (EA Core/Ethics - 2.00) – November 16, 2022 (Retirement)
- ASOP Update for Retirement Actuaries – December 7, 2022 (Retirement)
- Financial Reporting and Reserving in a Changing Healthcare Environment – December 14, 2022 (Health)

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