2022 ImpACT
SOA ANNUAL CONFERENCE

SOCIETY OF ACTUARIES®

Session 15A: Updates on the Financial Status of Social Security and Proposals for Change

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What is the Legislative Mandate for the Annual Reports?

1. Trust fund operations of the past year and the next five years
2. Actuarial status of the trust funds
   - This means the ability to meet the cost of scheduled benefits with scheduled revenue and trust fund reserves
   - And the extent to which scheduled revenue would fall short under current law, indicating the size of legislative changes that will be needed

Why Do These Actuarial Projections Matter?

- Long-term projections provide information to assess solvency and changes needed to eliminate shortfalls
- If trust fund reserves were to become depleted:
  - Full scheduled benefits could not be paid timely under current law
  - 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

Timing of Setting Assumptions

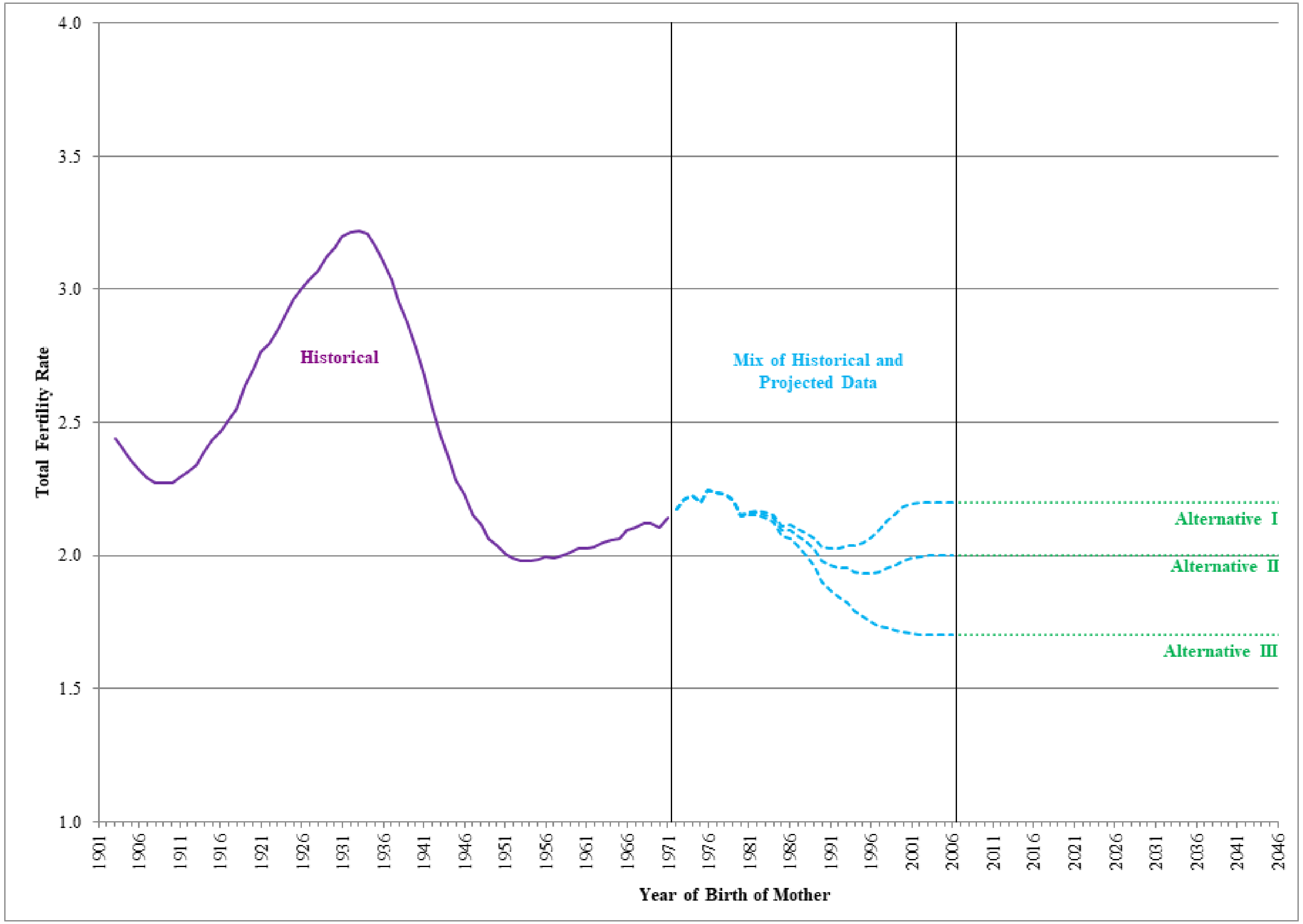
- Assumptions for the 2022 Trustees Reports were set in mid-February 2022
- Much has changed since then
- Inflation, instability in Europe, etc.
- COVID continues, with relatively high case counts and new variants

Birth Rates by Cohort

Have been rising for women born since 1951.

Total fertility rate (TFR) projected to dip below 2.0 for women born between 1990 and 2006, based on low rates since 2008.

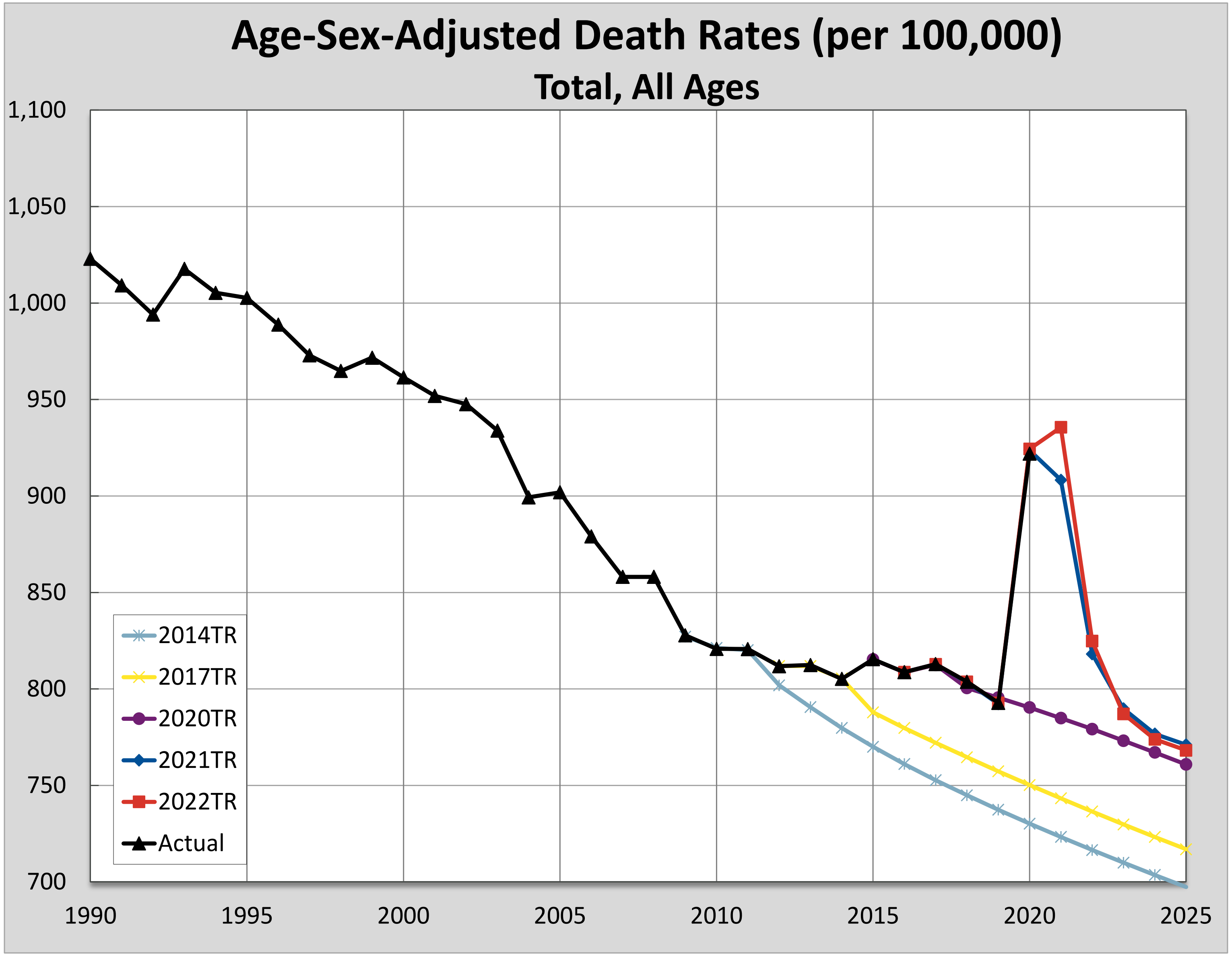
Chart 1.4: Historical and Projected Total Fertility Rates by Birth Cohort



https://www.ssa.gov/oact/TR/2022/2022_Long-Range_Demographic_Assumptions.pdf

Mortality Experience: All Ages

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



POLLING QUESTION #1

When do YOU expect death rates to decline to the levels expected prior to the pandemic?

a) 2023

b) 2025

c) 2030

d) Never

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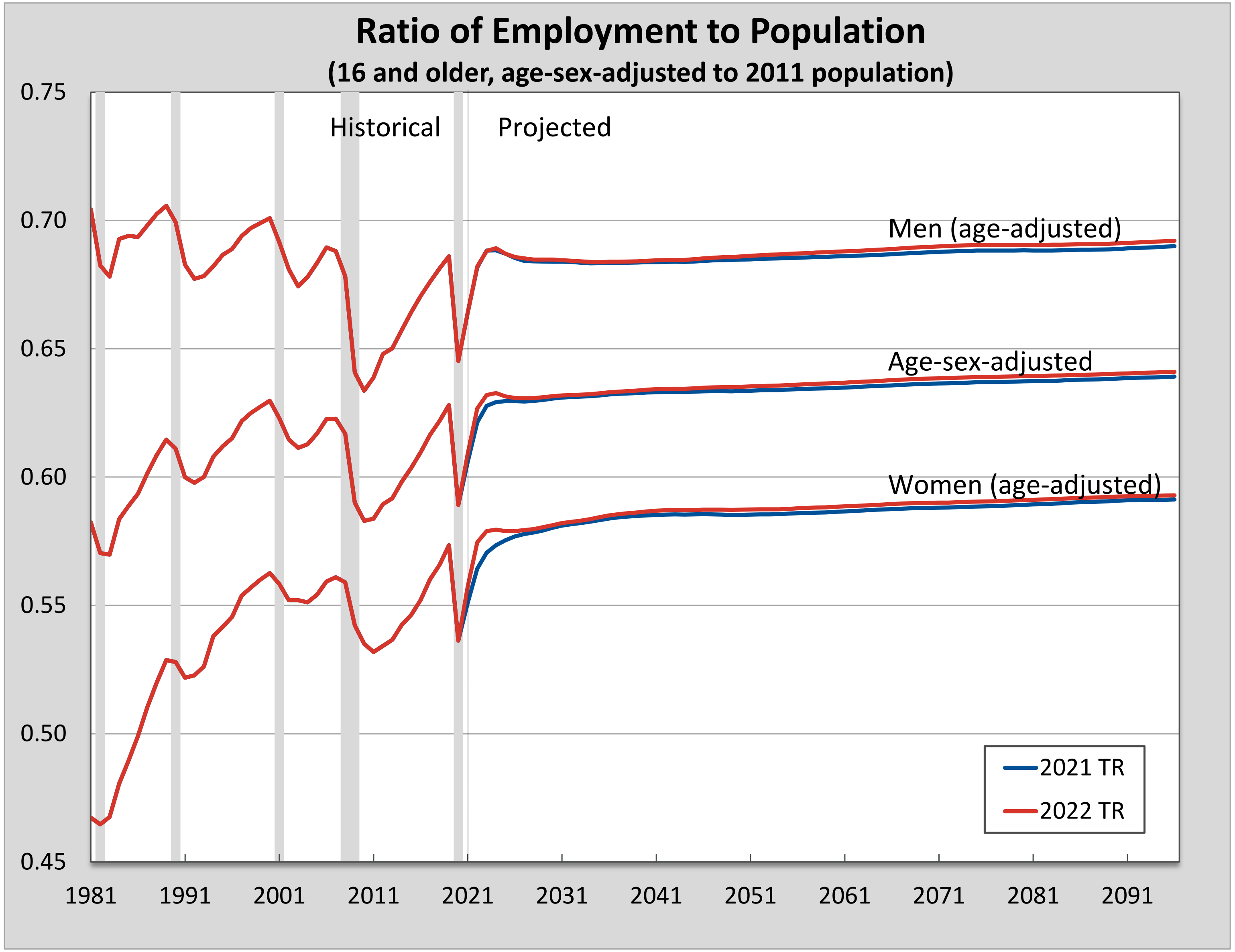
Poll: When do YOU expect death rates to decline to the levels expected prior to the pandemic?

Ratio of Employment to Population

Recovered more strongly from the brief but steep recession than did LFPRs.

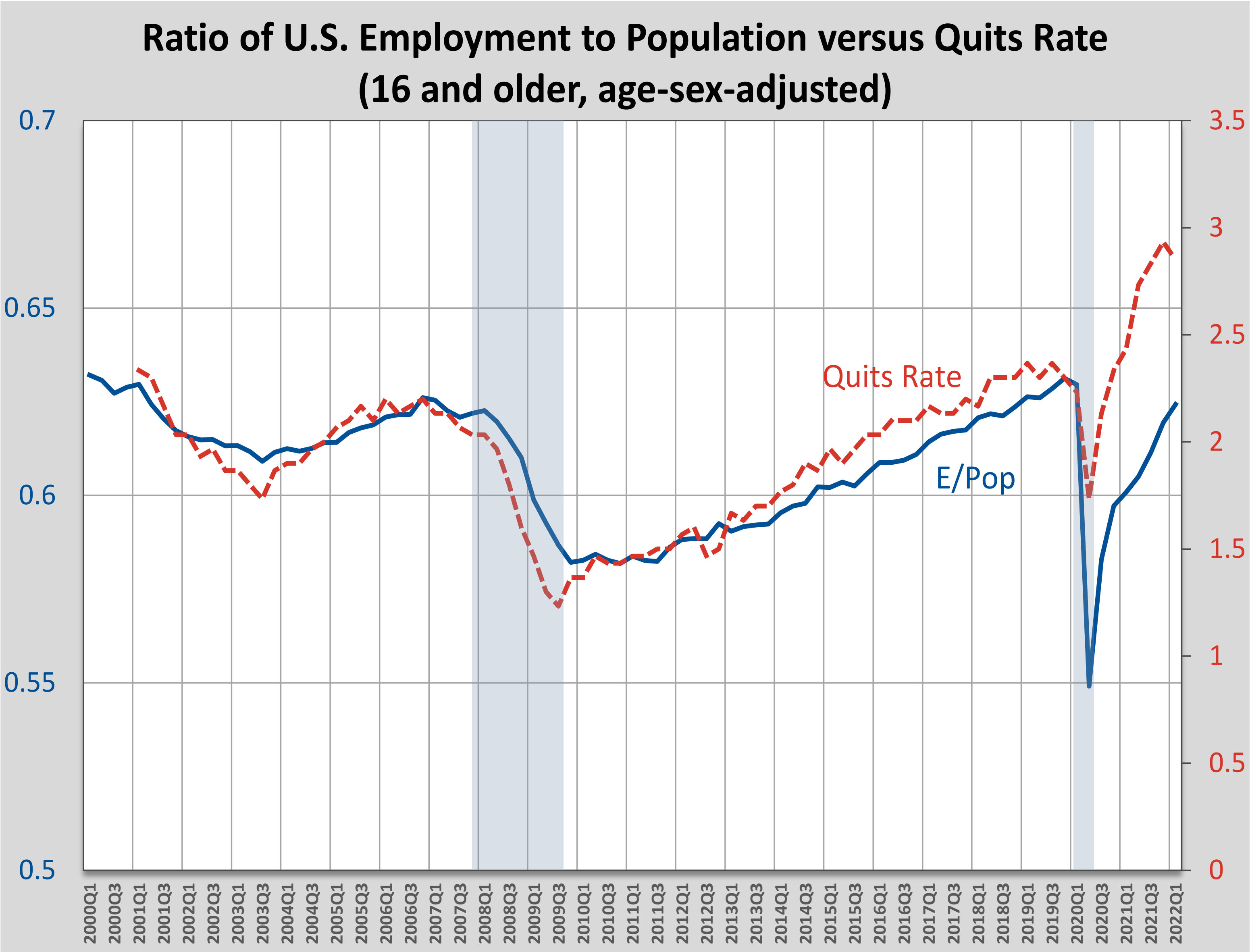
Projected to exceed the level seen at the peak of the last economic cycle by 2022 for women and by 2023 for men.



Ratio of Employment to Population vs. Quits Rate

Ratio of employment to population has recovered rapidly since the Trustees Report projections were developed.

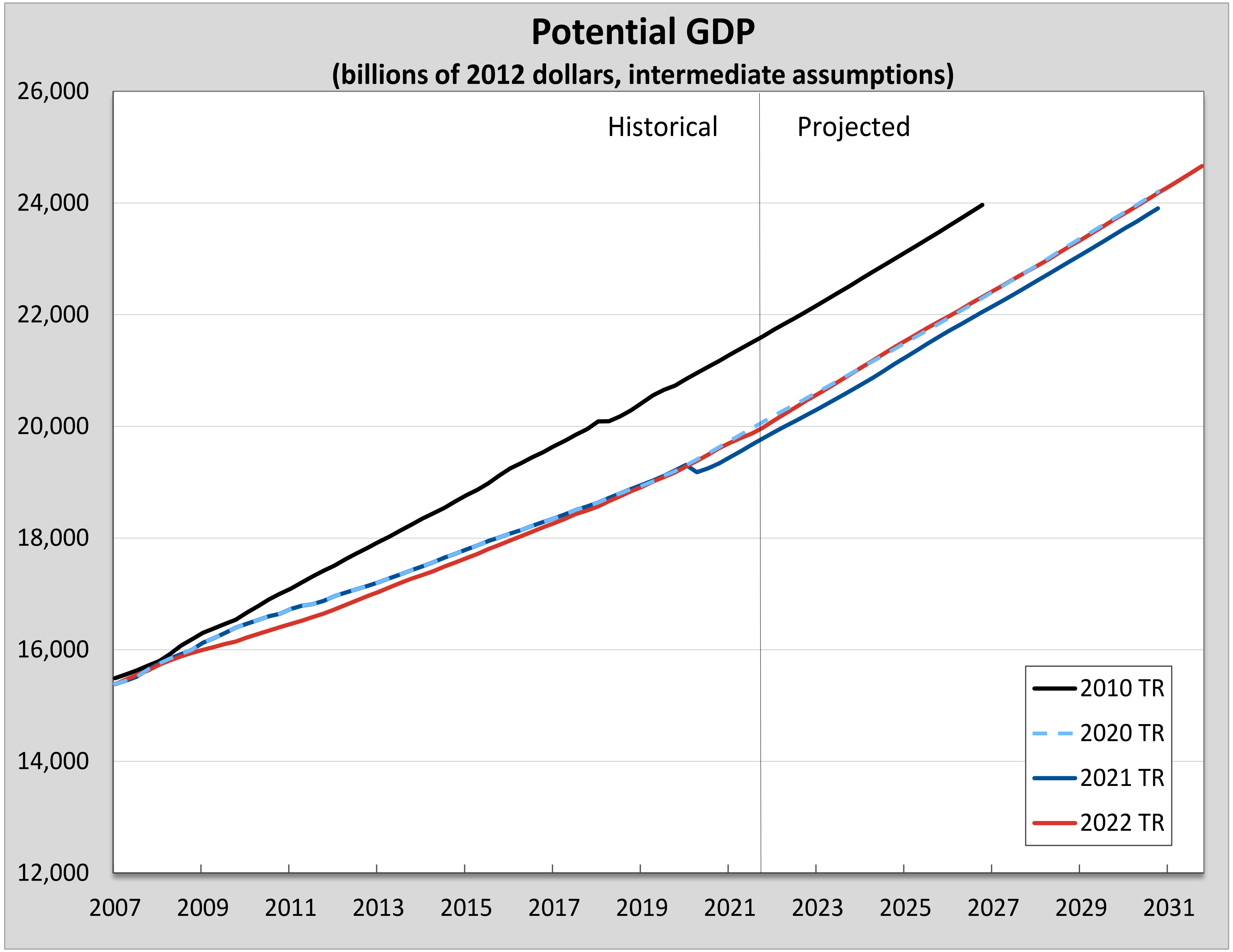
Quits rate indicates a “great job churn”, and not a “great resignation”.



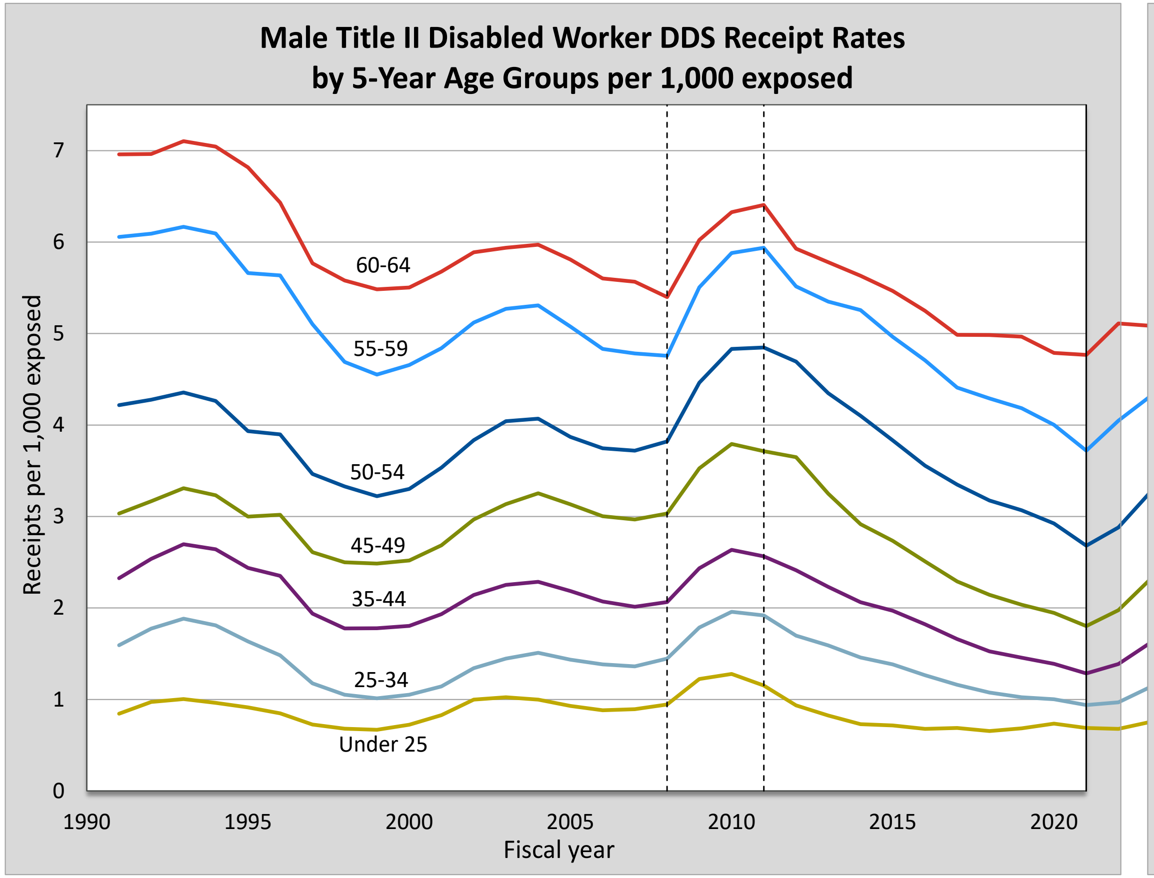
Higher Potential GDP Trajectory in 2022 TR Compared to 2021 TR

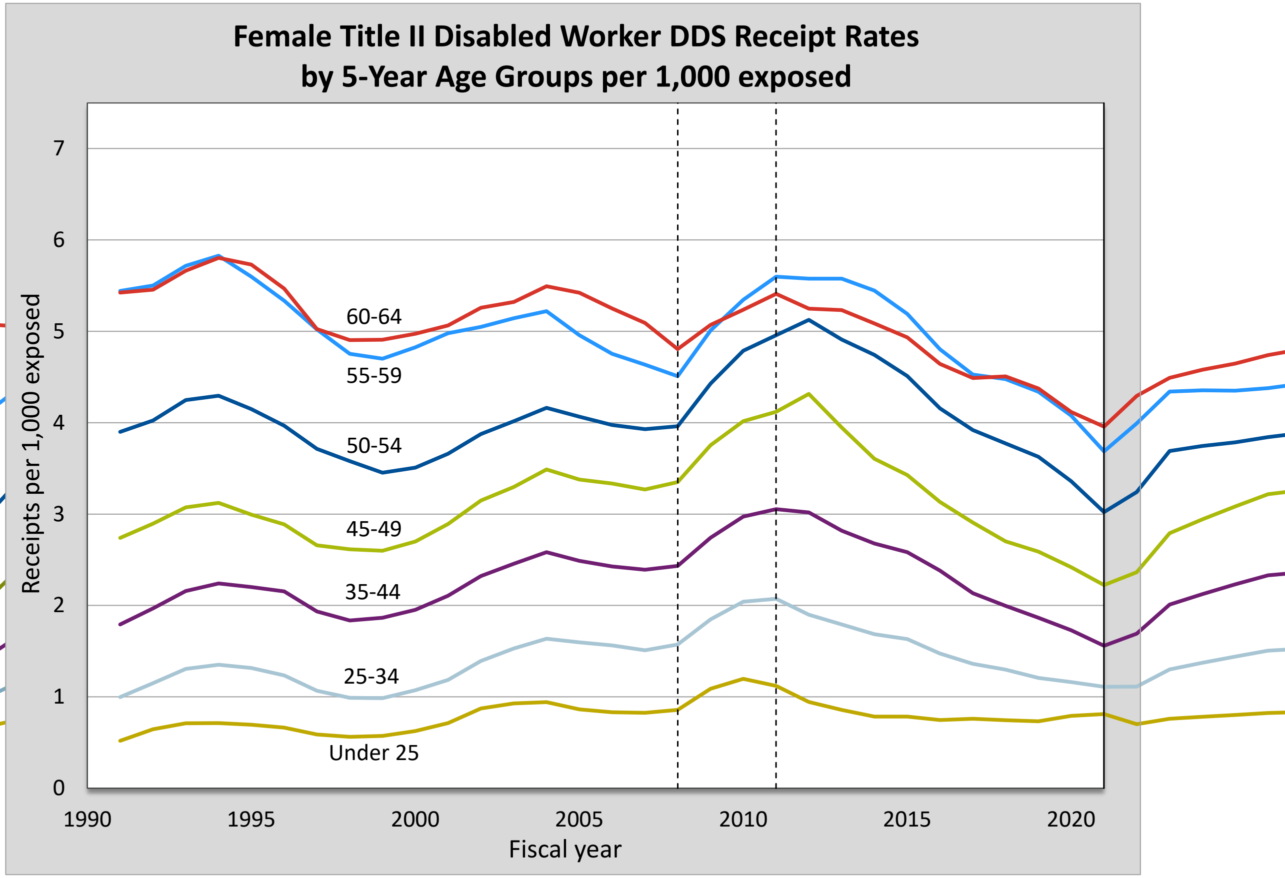
Stronger-than-expected recovery from the 2020 recession led us to reassess the likelihood of permanent scarring for potential GDP.

The trajectory of potential GDP for the 2022 TR is very close to the trajectory for the 2020 TR.



Disabled Worker Receipt (Application) Rates Have Been Dropping Since 1990 at Older Ages, and at All Ages Lately

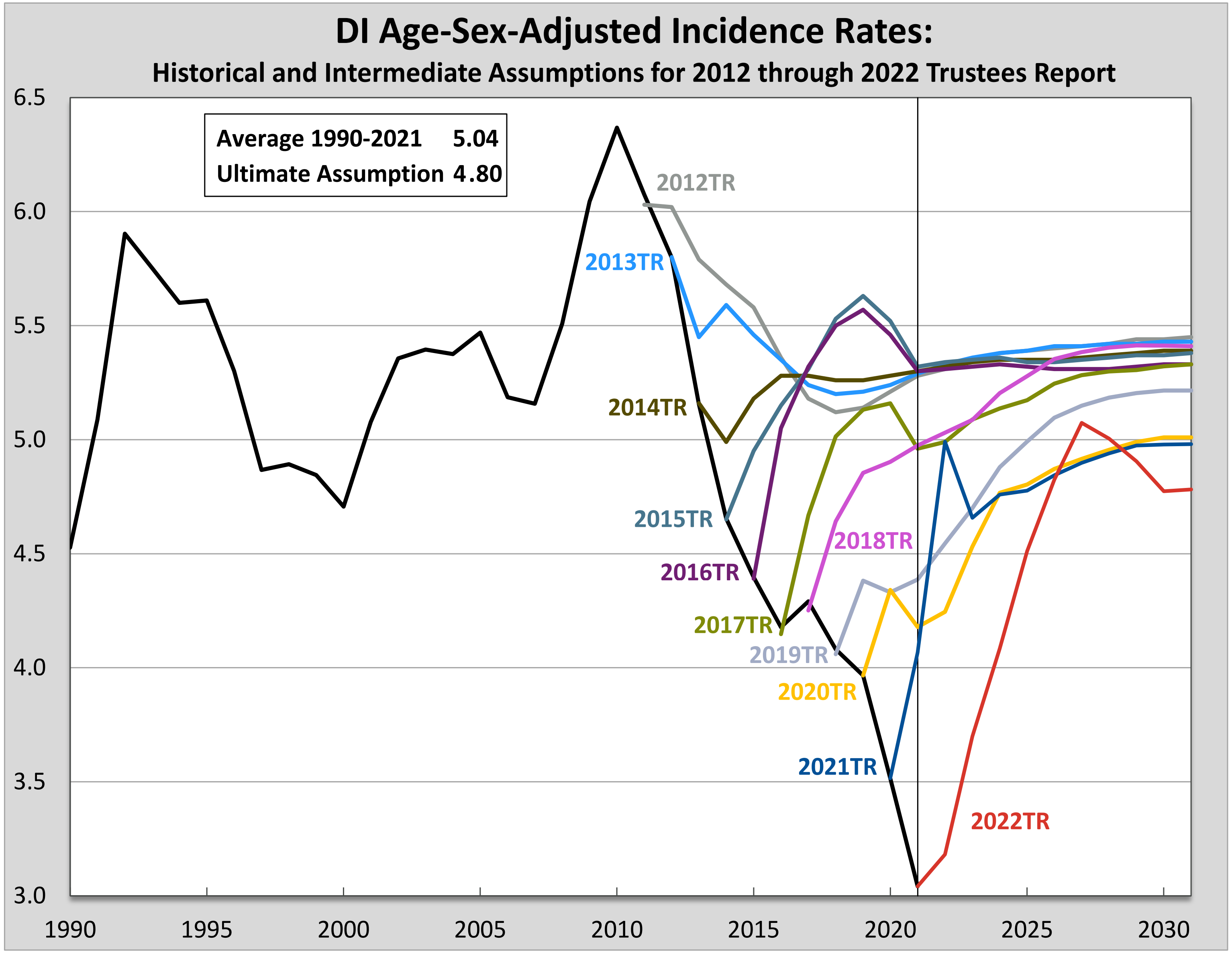




Disability Incidence Rate Remains Historically Low

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 2021.

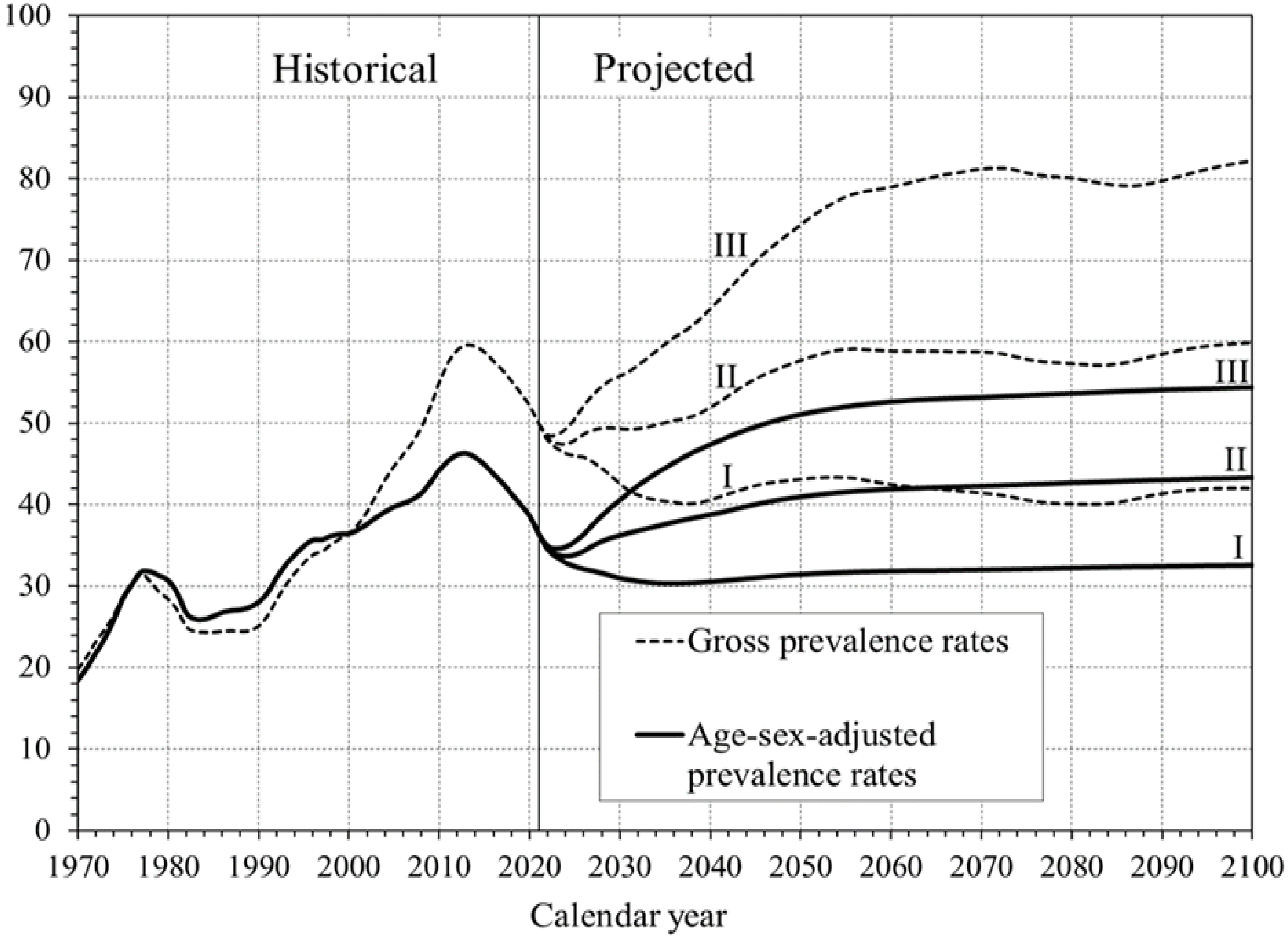
What will be the NET effect of COVID and post-COVID conditions?



Disabled Worker Prevalence Rates

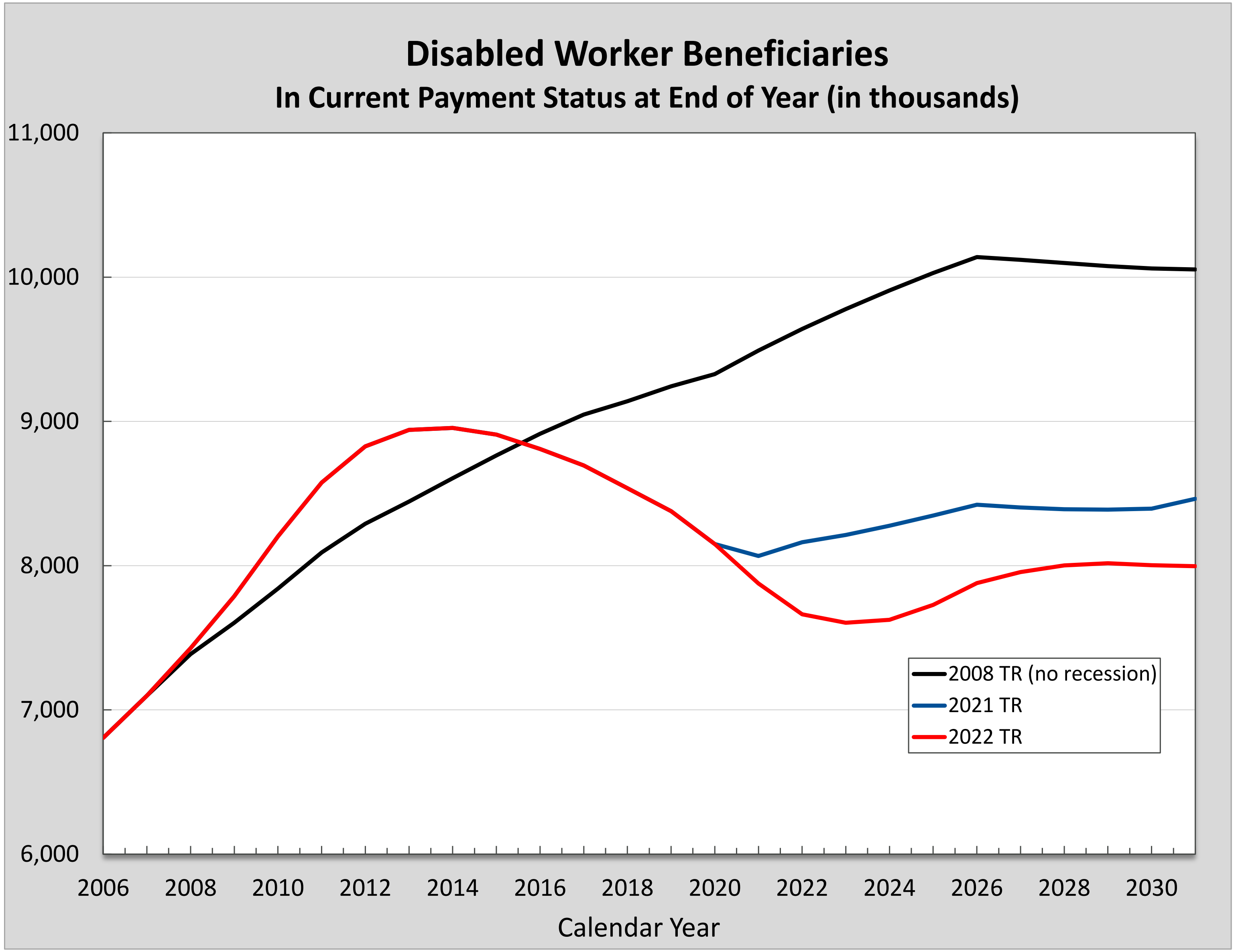
Cease declining, and rise to level above that before the 2007-09 recession?

DI Disability Prevalence Rates, 1970-2100



Fewer Disabled Worker Beneficiaries

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



POLLING QUESTION #2

Why has disability experience been so good for Social Security over the past decade or so?

a) Changing nature of work
b) Good economy
c) People are just healthier
d) Some combination of the above factors

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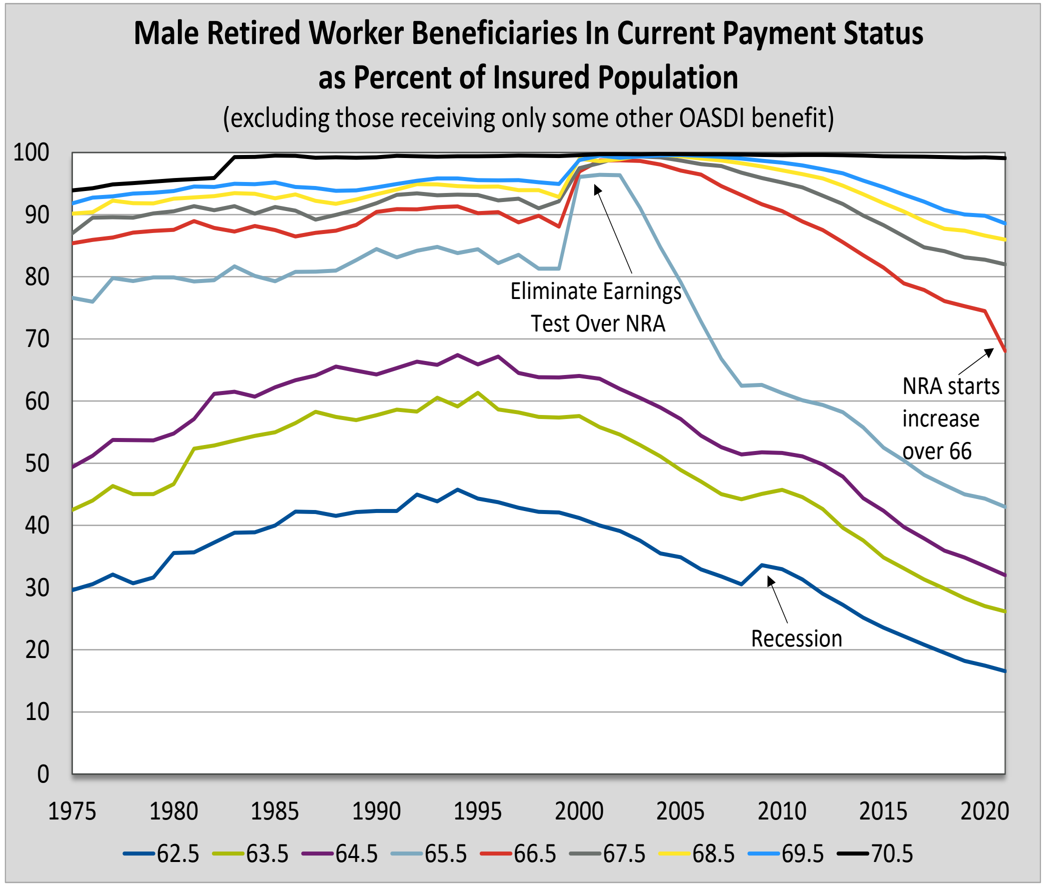
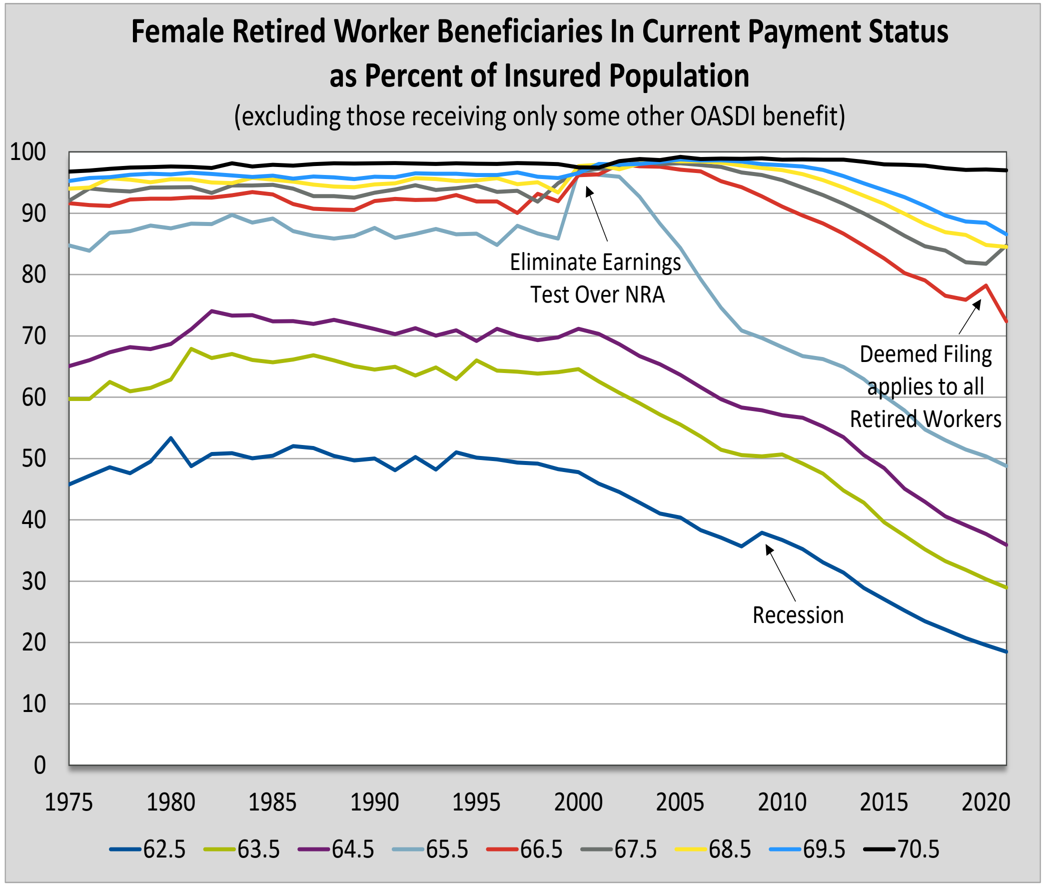
Poll: Why has disability experience been so good for Social Security over the past decade or so?

Age of Starting Social Security Retirement Benefits

Note significant shift in recent years



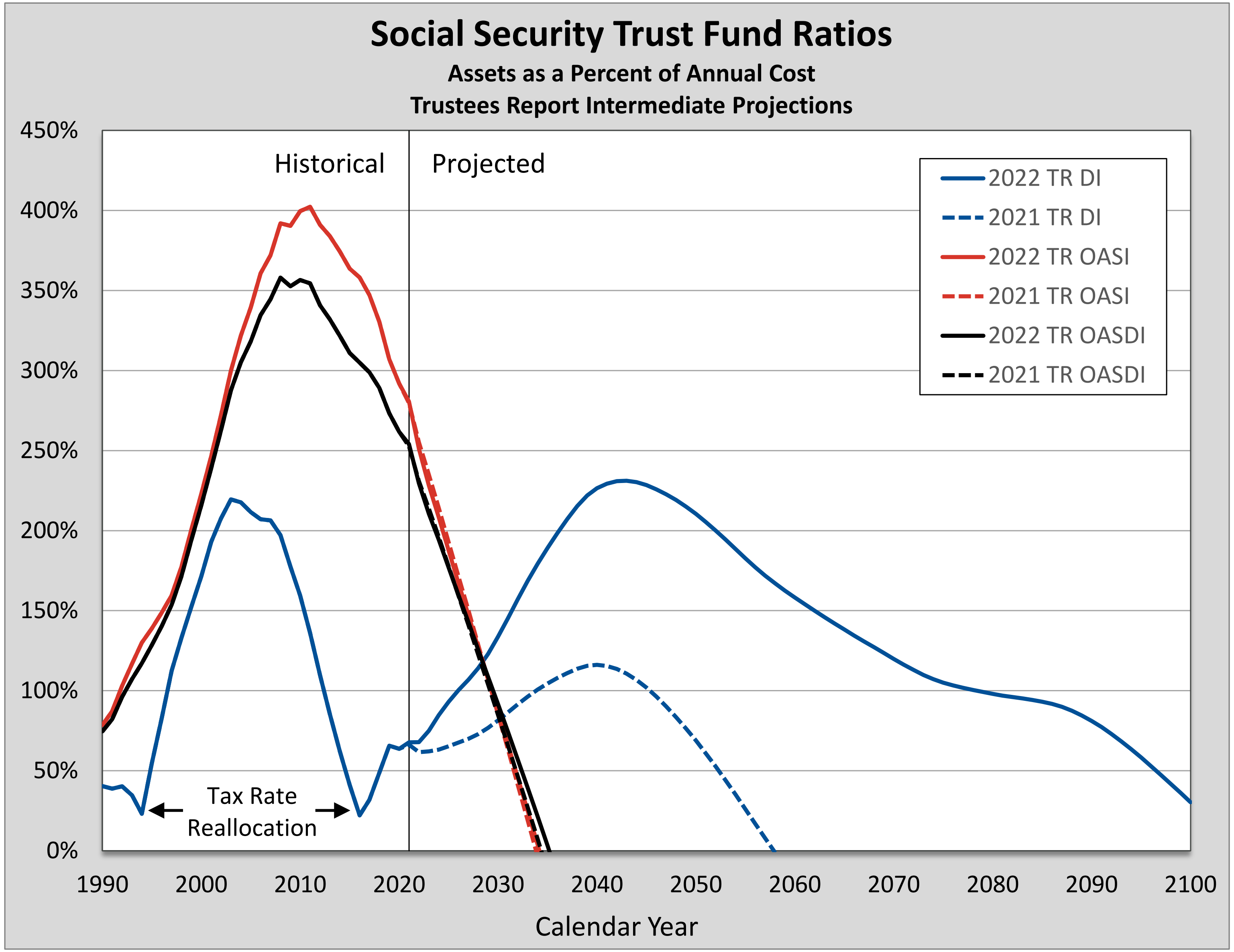


Solvency: OASI+DI Trust Fund Reserve Depletion in 2035 (one year later than last year)

Reserve depletion date varied from 2029 to 2042 in reports over the past 30 years (1993-2022).

DI Trust Fund: reserves do not deplete.

Due largely to continued low recent and near-term disability applications and awards, and a lower assumed ultimate disability incidence rate.

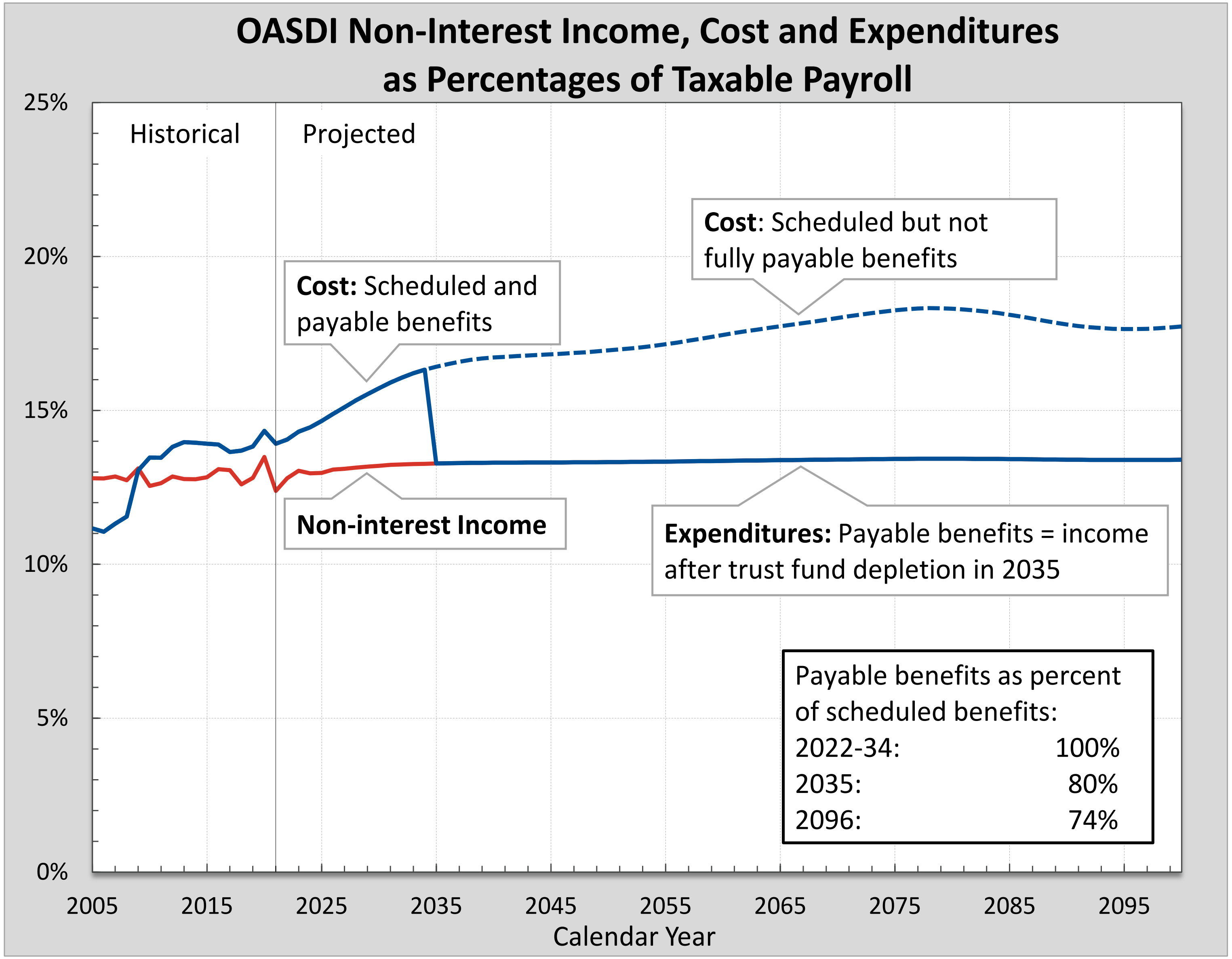


OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Persistent negative annual cash-flow balance starting in 2010.

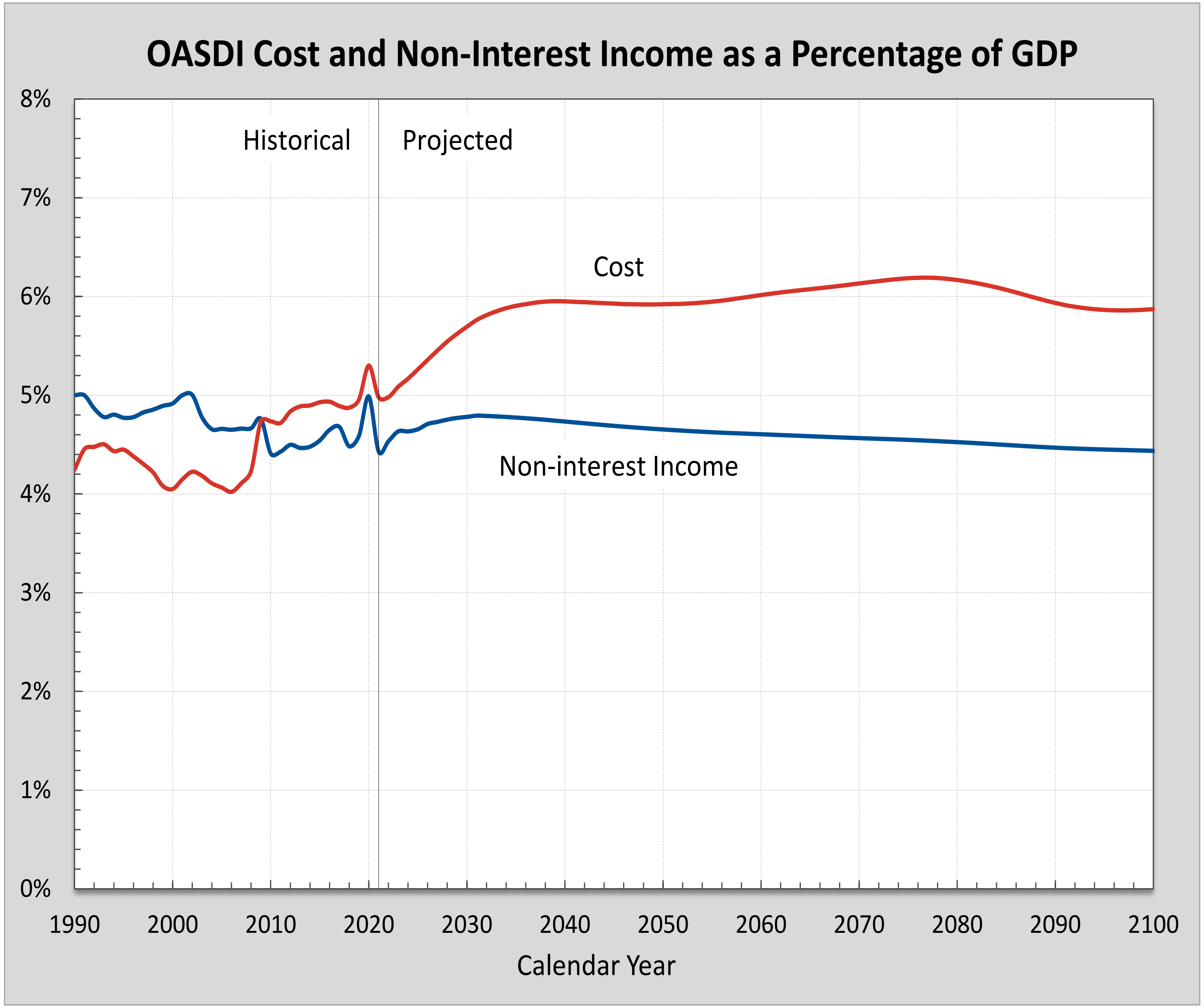
80 percent of scheduled benefits still payable at trust fund reserve depletion.

Annual deficit in 2096: 4.25 percent of payroll: 0.09 percent smaller than last year



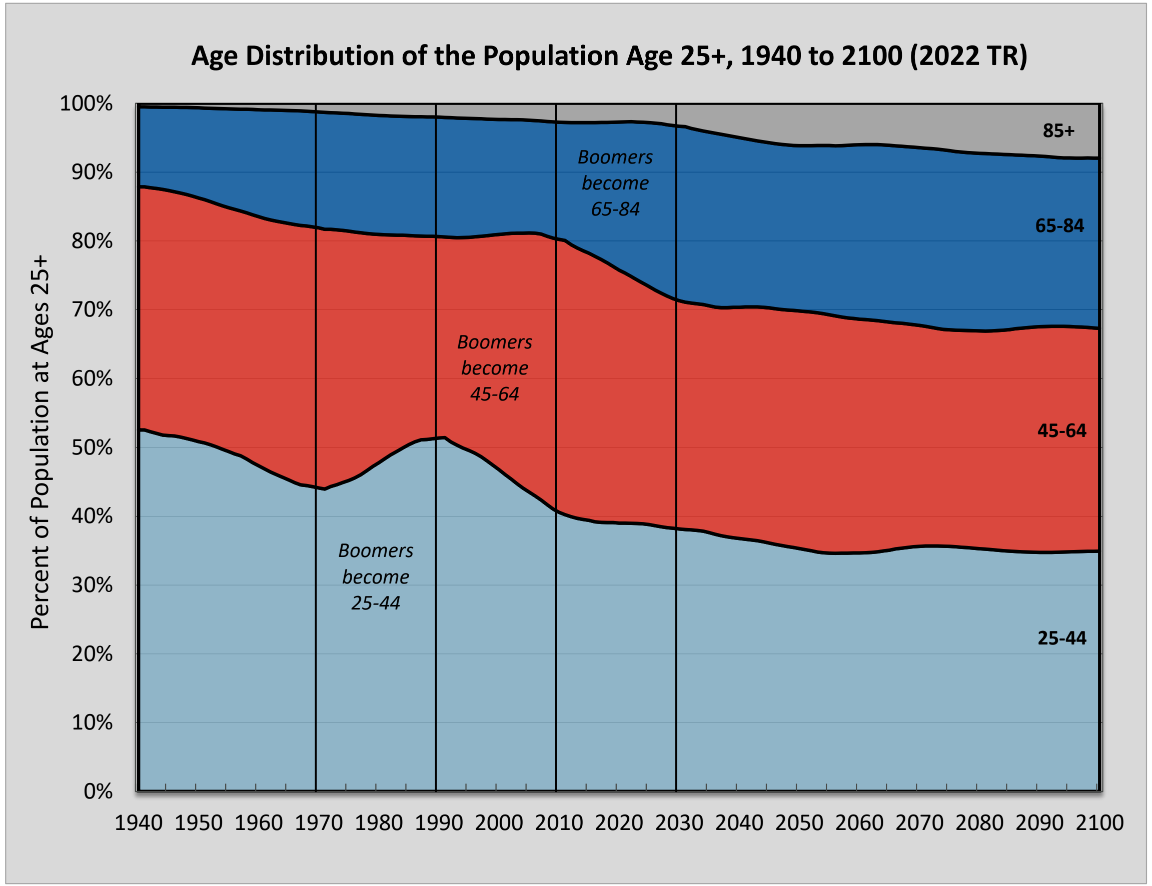
SUSTAINABILITY: Cost as percent of GDP

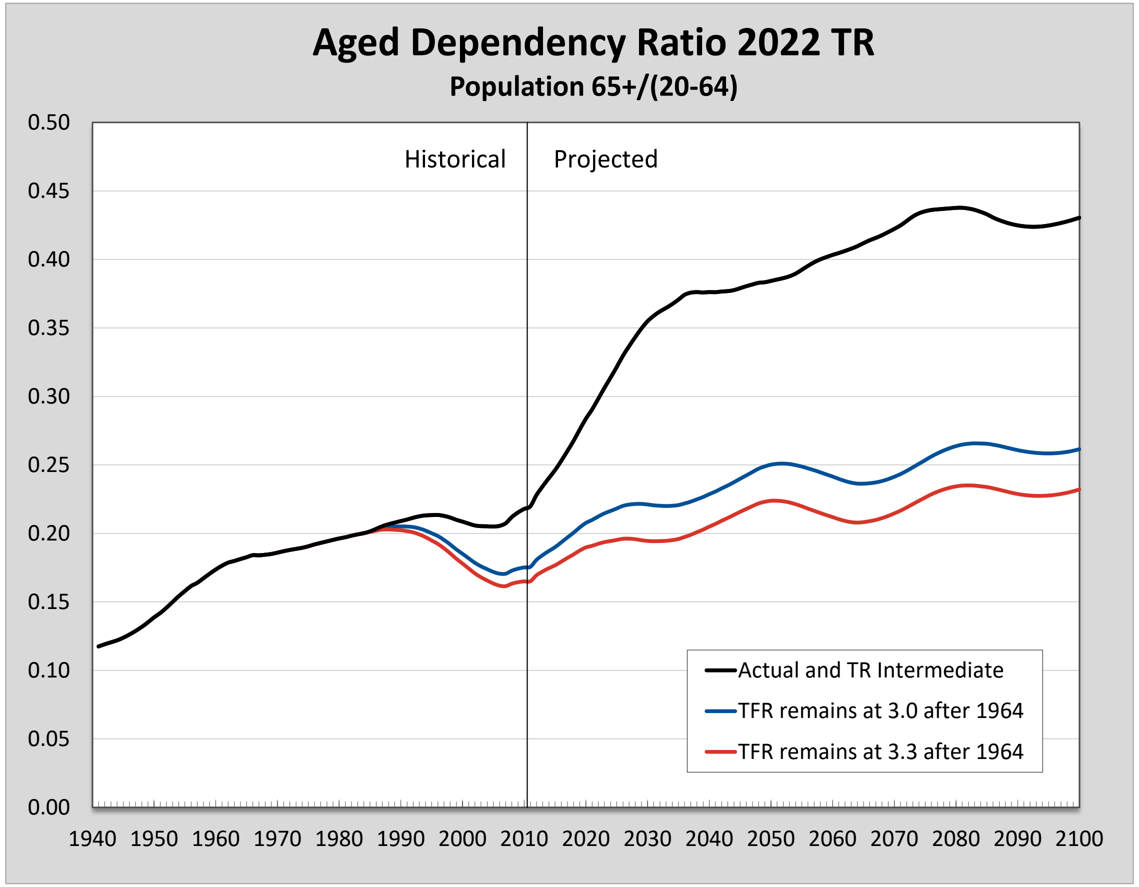
Rises from a 4.2 percent average in 1990-2008, to a peak of about 6.2 percent for 2077, and then declines to 5.9 percent by 2096.



The Common Driving Force Is Aging:

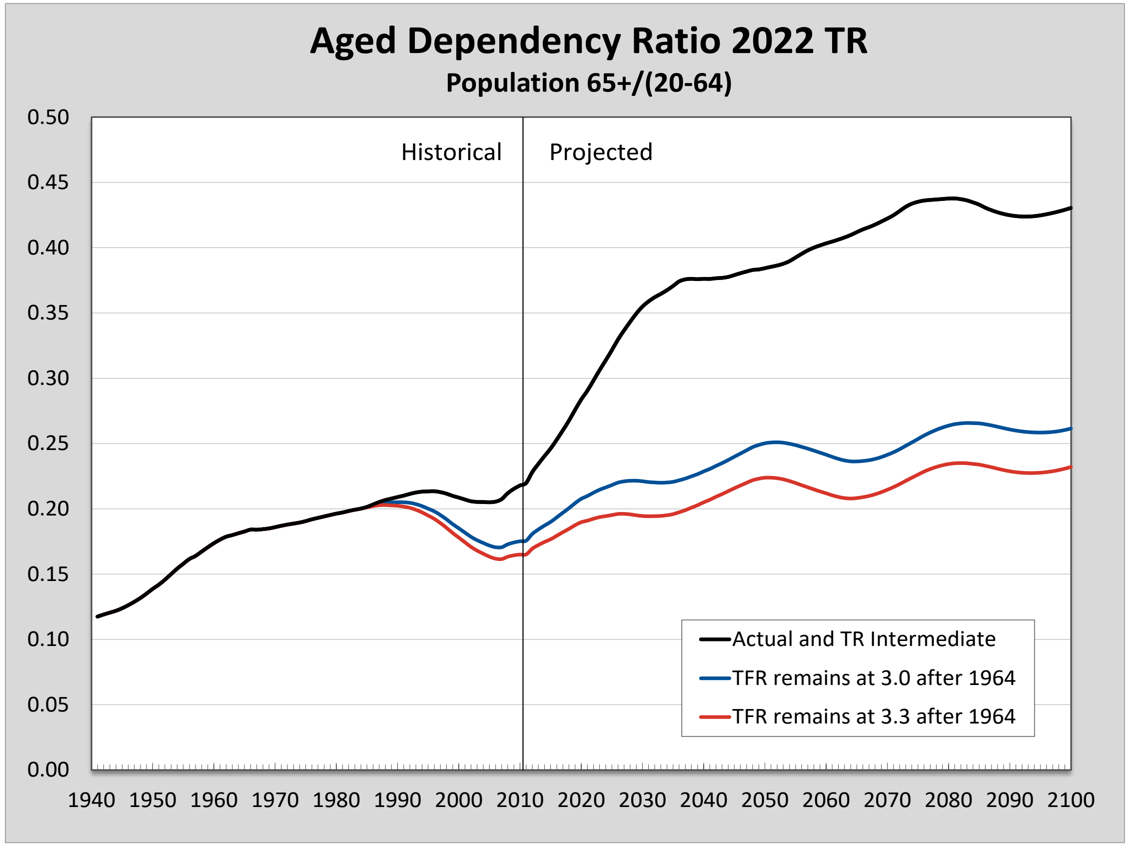
Change in Age Distribution Mainly due to Drop in Birth Rates

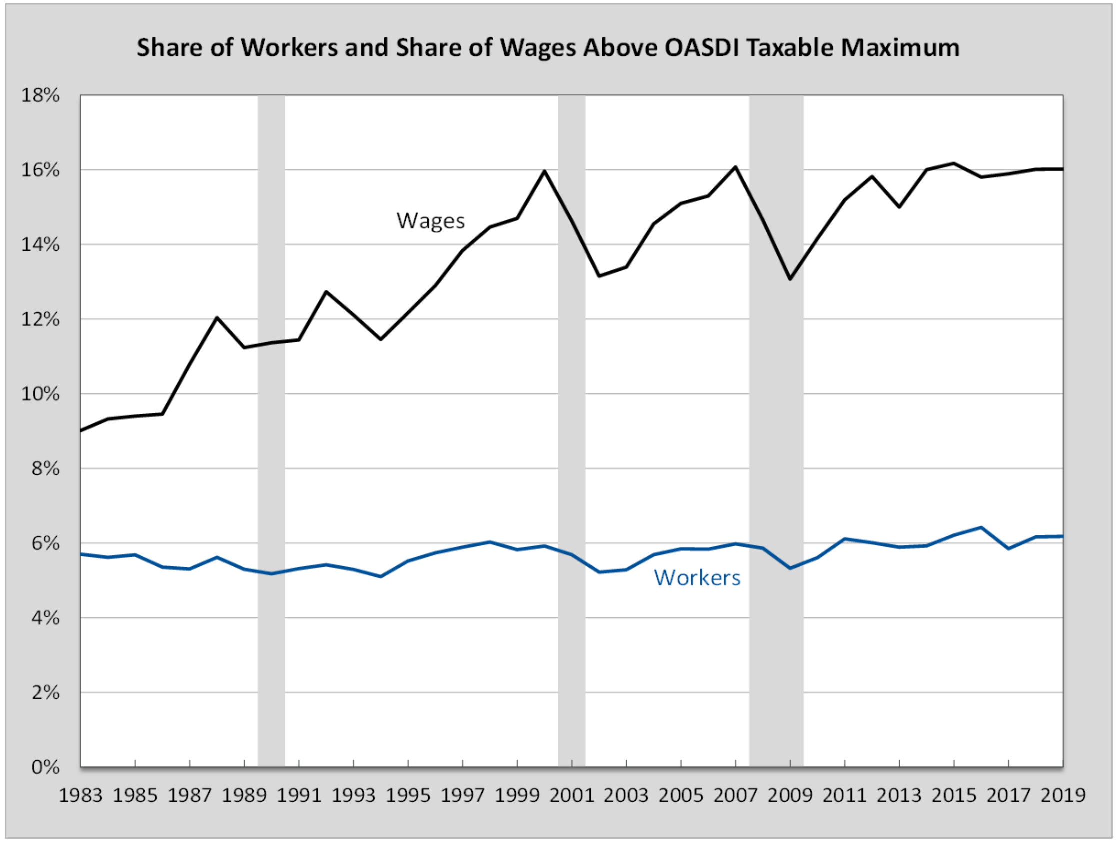




Primary Reasons for OASDI Cost Rising Faster than Revenue

Change in age distribution; drop in birth rates and dispersion of earnings





POLLING QUESTION #3

Assuming the law related to the taxable maximum doesn't change, what do you expect the share of earnings above the maximum to do over the next 10 years?

a) Increase (more disparity—the rich get richer)
b) Stay about the same
c) Decrease (less disparity)

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Poll: Assuming the law related to the taxable maximum doesn't change, what do you expect the share of earnings above the maximum to do over the next 10 years?

Changes in OASDI Actuarial Balance in 2022 Report

• Valuation Period	- 0.06 percent
• Legislation (1-year delay in resuming approval of new DACA applications)	0.00 percent
• Demographic data, assumptions and methods	- 0.04 percent
• Lower recent birth data and lower assumed near-term total fertility rate	
• Immigration and other data updates	
• Economic data, assumptions and methods	+0.13 percent
• Higher near-term real interest rates	
• Higher level of productivity and GDP	
• Disability data, assumptions and methods	+0.07 percent
• New data, near-term disability assumptions and lower ultimate disability incidence rate	
• Disability incidence rate assumptions incorporated into labor force/employment model	
• Other new data and methods improvements	+0.01 percent
• Higher level of revenue from taxation of benefits	
Net Changes for All Reasons	**+0.12 percent**

Economic Changes Since February 2022, When Assumptions Were Set for the 2022 TR

- Inflation: December 2022 COLA will likely be around 9 percent, versus 3.8 percent assumed
- But average wage increase in 2021 is also well above the assumed level, at 8.9 percent
- Employment has remained strong
- Likely little net effect on program financial condition unless there is a recession
- Note that Social Security benefits increase by average wages across generations, but only by COLA (CPI) after eligibility

POLLING QUESTION #4

Do you think there will be a recession starting within the next year?

a) No

b) Yes—a small one

c) Yes—a big one

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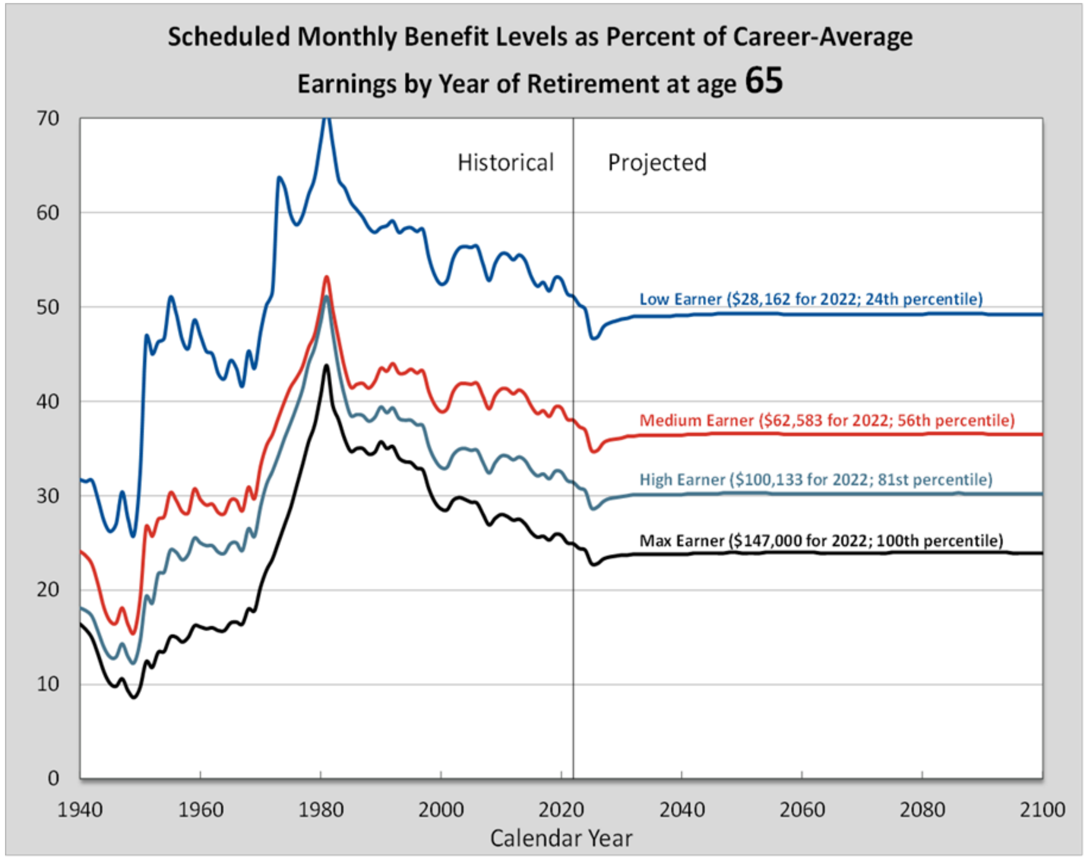
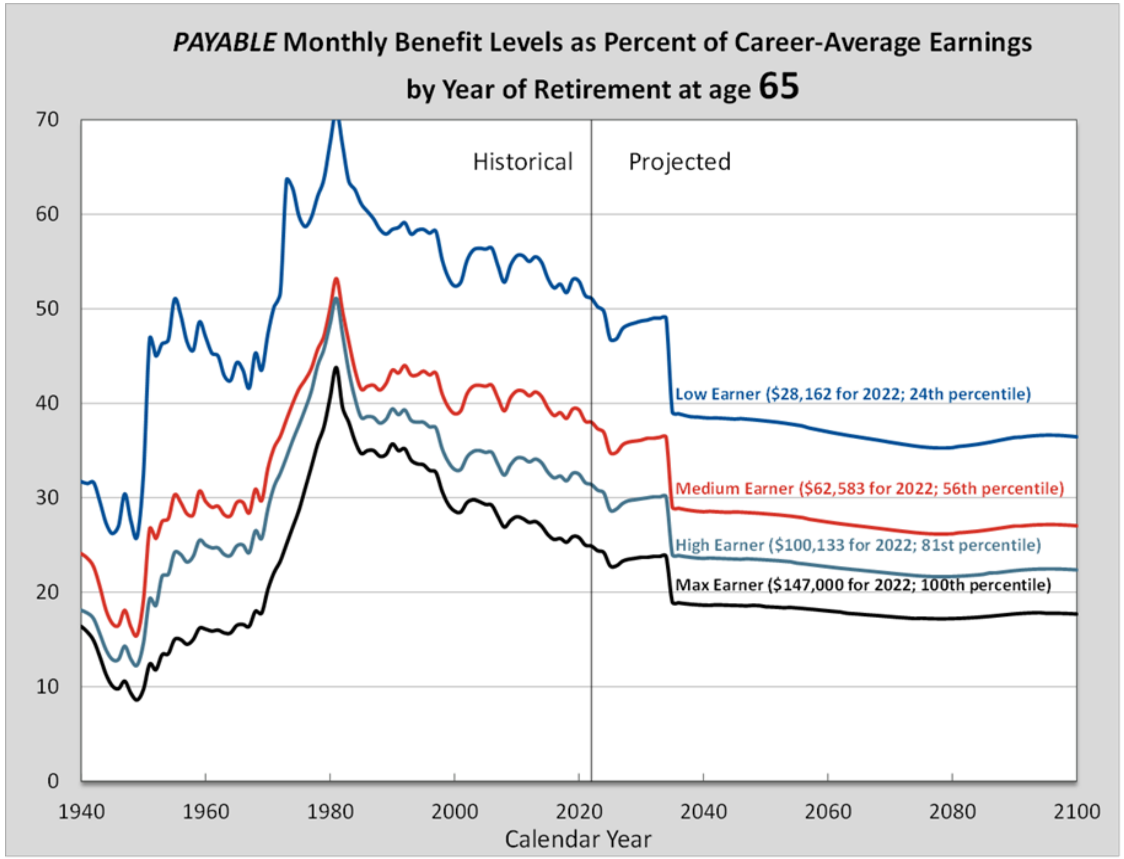
Poll: Do you think there will be a recession starting within the next year?

ADEQUACY: Retired Worker Benefit Replacement Rates, Scheduled and Payable under Current Law





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 2035
  - One year sooner due to COVID-19
  - The date has varied between 2029 and 2042 over the past 30 years

How to Eliminate the Social Security Long-Term Actuarial Deficit

- Make choices addressing OASDI shortfall 2035-2096:
  - Raise scheduled revenue after 2034 by about one-third
  - Reduce scheduled benefits after 2034 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 the chain-weighted CPI-U
  - Some say instead increase the COLA by using the CPI-E (based on purchase of consumers over age 62)
- Increase the number of years used in the 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 **15.7** 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

POLLING QUESTION #5

What’s your favorite option to improve Social Security’s solvency?

a) Reduce the COLA
b) Raise the normal retirement age
c) Raise the taxable maximum amount
d) Increase the payroll tax rate for high earners
e) None of these—I just want to improve benefit adequacy

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Poll: What's your favorite option to improve Social Security's solvency?

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Recent Notable Proposals Scored

Senator Bernie Sanders, Rep. Peter DeFazio—June 9, 2022

- Significant provisions:
  - Increase benefits for everyone; improve the minimum benefit
  - Use the CPI-E rather than the CPI-W
  - Increase taxes on those earning above $250,000, with no benefit credit
  - Add taxes on investment income
- Making these changes would lead to 75-year solvency
- See https://www.ssa.gov/OACT/solvency/SandersDeFazio_20220609.pdf

Recent Notable Proposals Scored

Rep. John Larson and others—October 26, 2021

- Significant benefit provisions are all temporary—only apply for years 2022-26:
  - Increase benefits for everyone; improve the minimum benefit
  - Use the CPI-E rather than the CPI-W
  - Add credits for caregiving years
- The revenue provision is permanent—increase taxes on those earning above $400,000, with small benefit credit
- Making these changes would extend solvency about 4 years
- See https://www.ssa.gov/OACT/solvency/JLarson_20211026.pdf

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

There you will find:

- The 2022 and all prior OASDI Trustees Reports
- Detailed single-year tables for recent reports
- Our estimates for comprehensive proposals and individual provisions
- Actuarial notes; including replacement rates
- Actuarial studies; including stochastic
- Extensive databases
- Congressional testimonies
- Presentations by OCACT employees

Questions?