Social Security Financing and Benefits: Myths vs. Facts

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September 28, 2023

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

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: 180 million in 2023
  - 12.4% of earnings up to $160,200 (6 percent of workers earn more)
  - 25% of state and local gov’t employees are not in Social Security

WHO BENEFITS?

- 67 million retirement, survivor, disability beneficiaries in 2023
  - 51 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

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) = $2.8 trillion
  - Available to augment tax income as needed
  - 2 times the annual cost of the program
- Reserves now projected to become depleted
  - In 2034 with continuing income covering 80%
  - ***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 80% of scheduled benefits in 2034
   - And 74% of scheduled benefits in 2097

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

   Scheduled benefits have always been paid in full

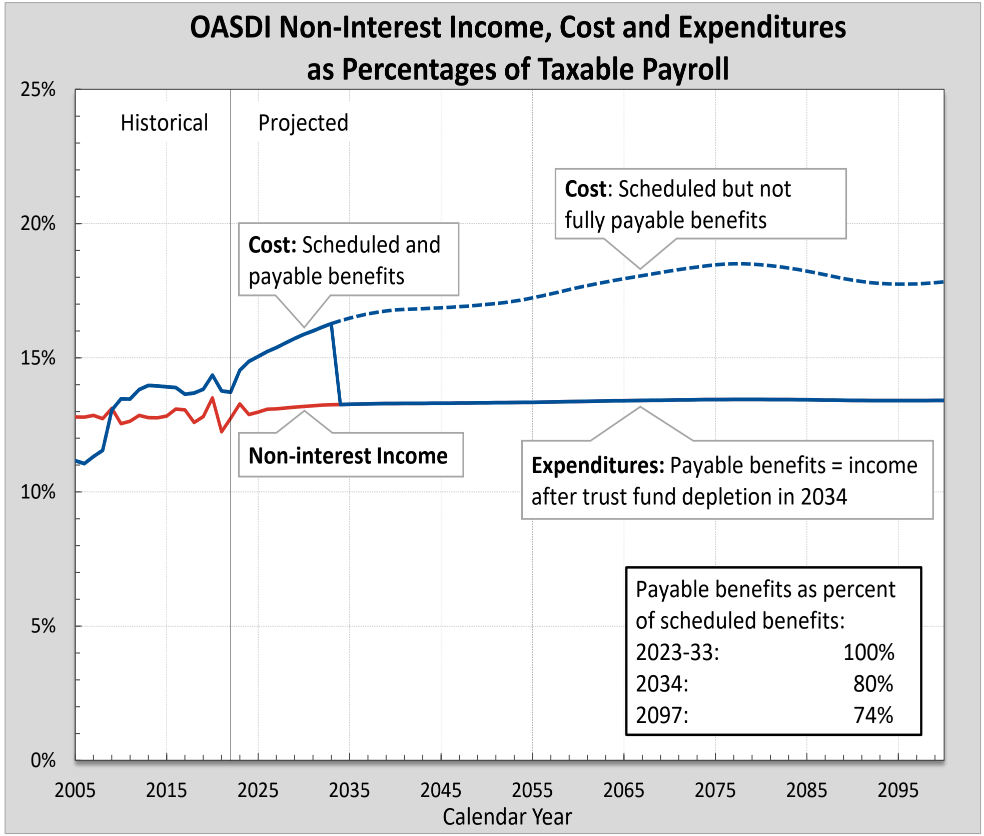
d) COVID being temporary has a modest effect

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.

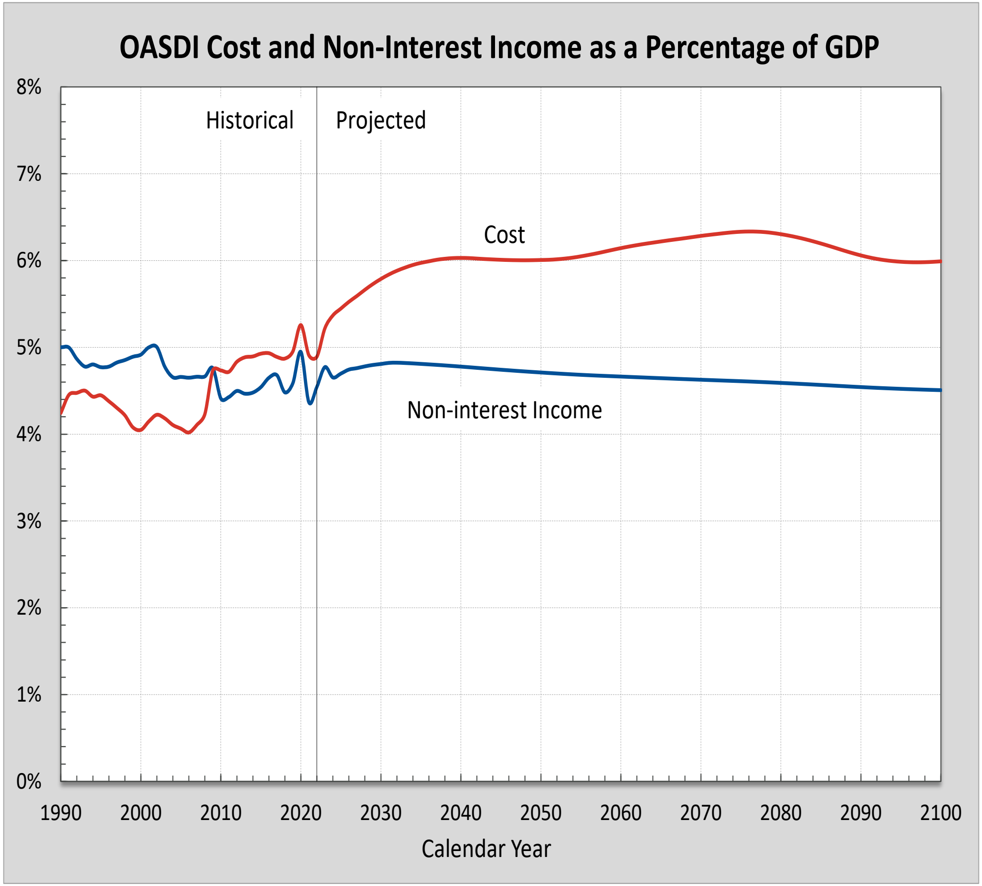
Annual deficit in 2097: 4.35 percent of payroll: 0.09 percent larger than last year.



SUSTAINABILITY: Cost as percent of GDP

Rises from a 4.2 percent average in 1990-2008, to a peak of about 6.3 percent for 2076, and then declines to 6.0 percent by 2097.

Future non-interest income is 4.5 percent of GDP.



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

Population "aging" through 2035 is mainly due to birth rates

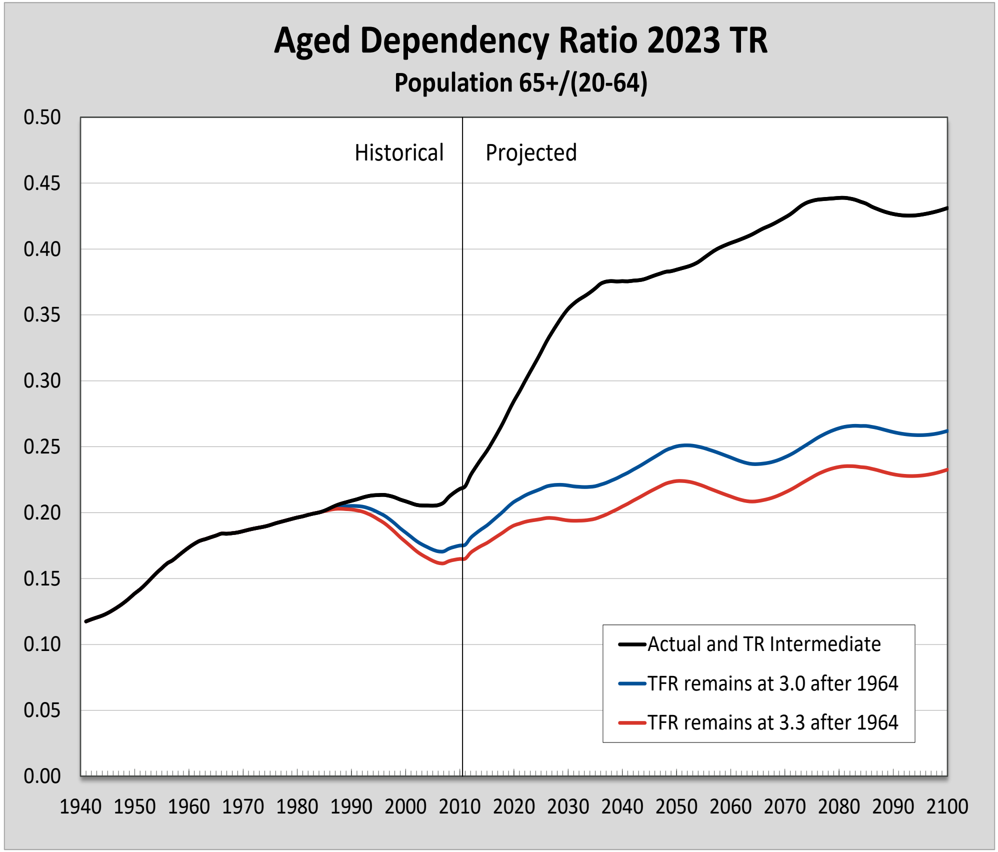
b) Shifting earnings levels have reduced income

c) Disability costs have matured, and are dropping

Aging – Change in Age Distribution

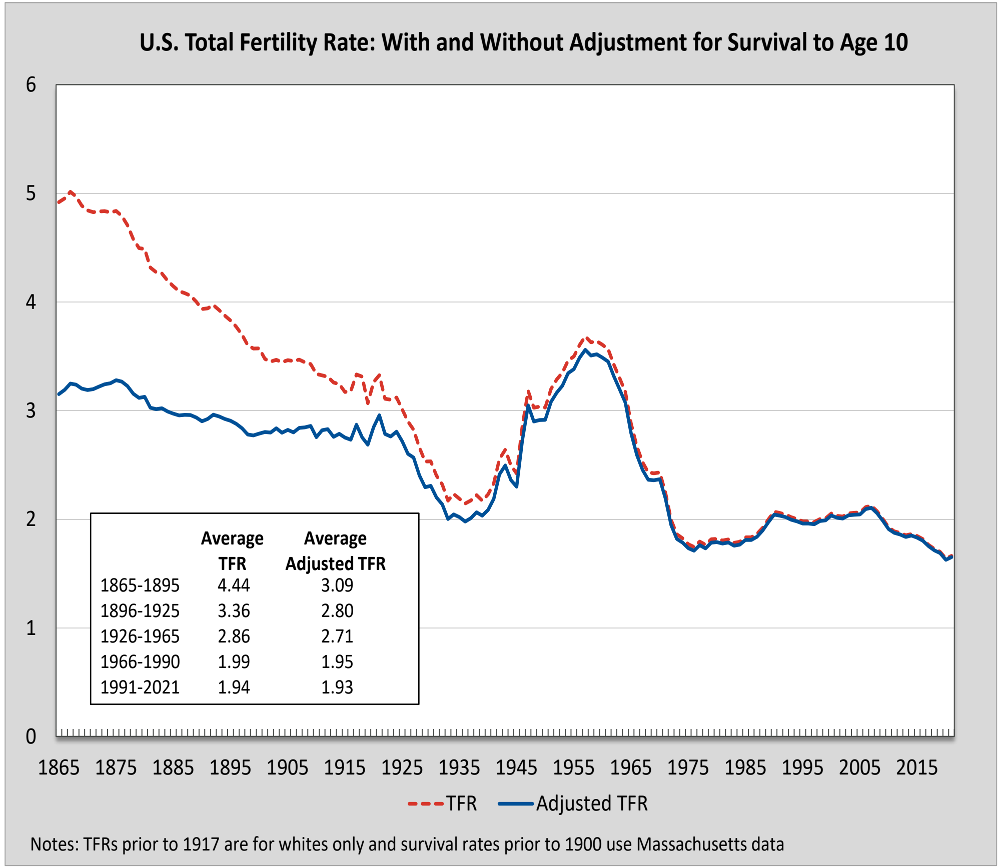
The primary reason for increasing cost relative to payroll and GDP.

Mainly due to drop in birth rates.



Birth Rates

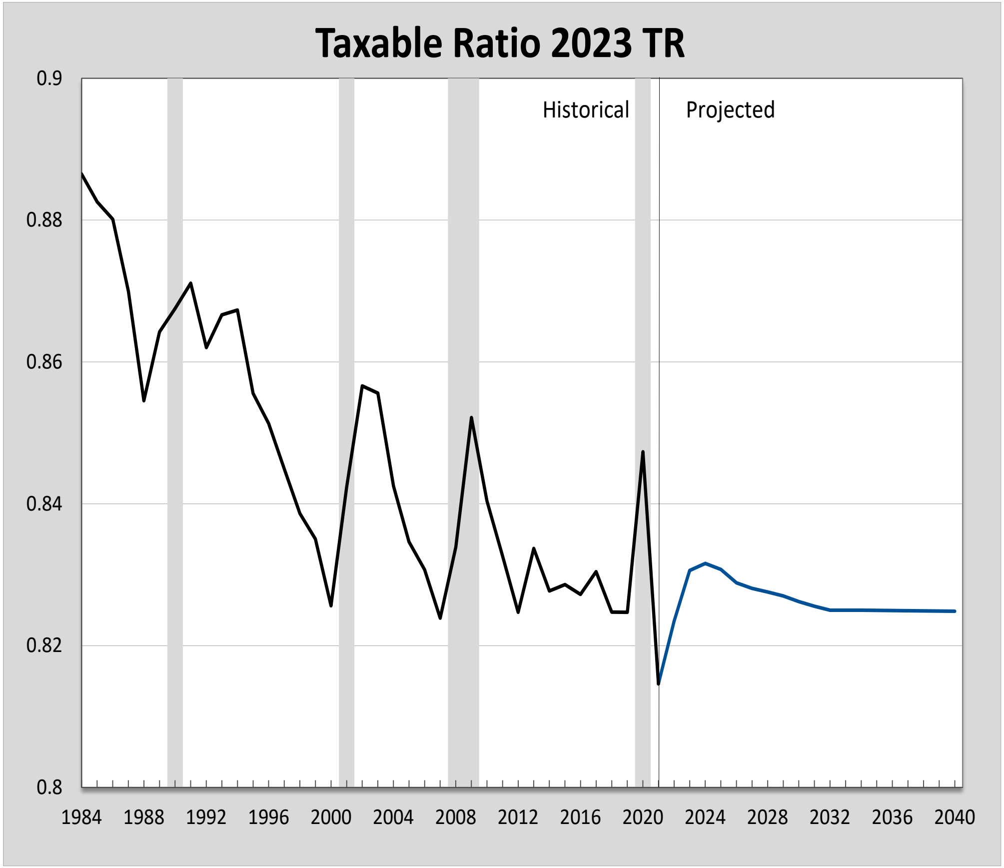
Average Total Fertility Rate falls from 3 to 2



Another Reason: Ratio of Taxable Earnings to All OASDI Covered Earnings

Declined since 1983 due to increasing concentration of earnings at the top of the distribution, particularly through 2000.

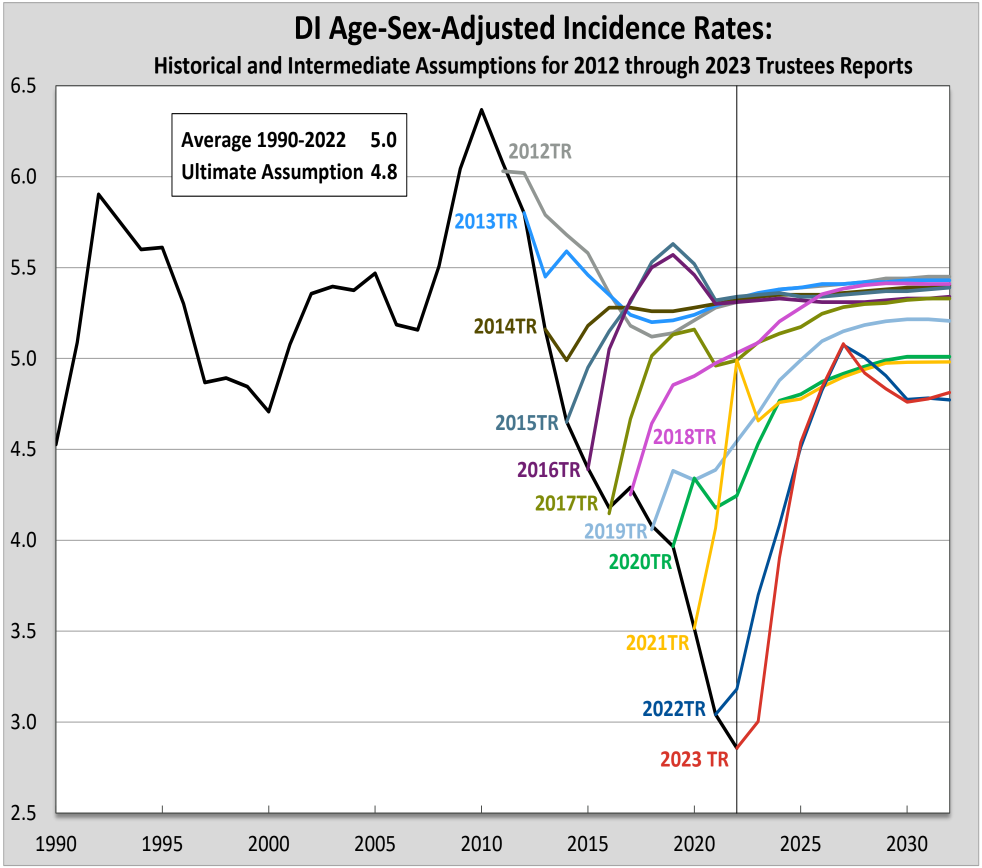
Between 1983 and 2000, the top 6% of earners increased annual real earnings by 62%. The rest of workers saw only a 17% increase



Disability Incidence Rate Also Remains Historically Low

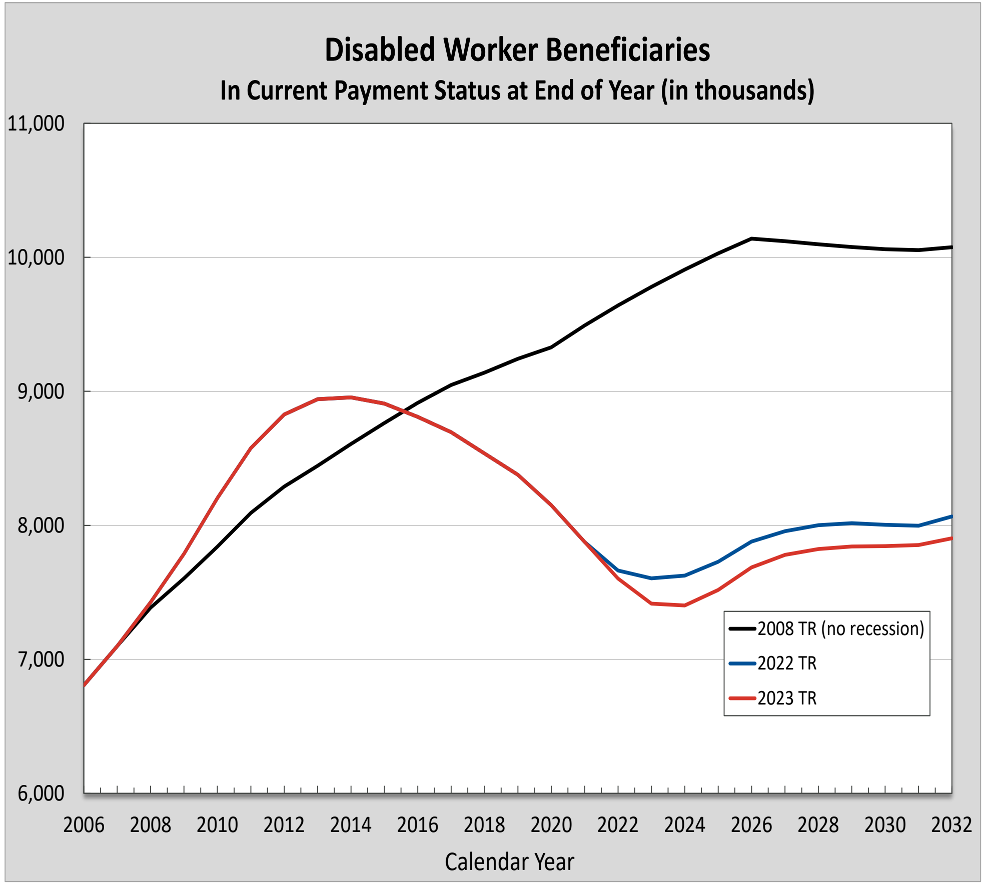
DI disabled worker incidence rate rose sharply in the 2008 recession, and has declined since the peak in 2010 to extraordinarily low levels in 2016 through 2022.

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



Fewer Disabled Worker Beneficiaries

Fewer now and in near term based on recent applications and incidence rates, with assumed increases deferred another year.



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

Facts:

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

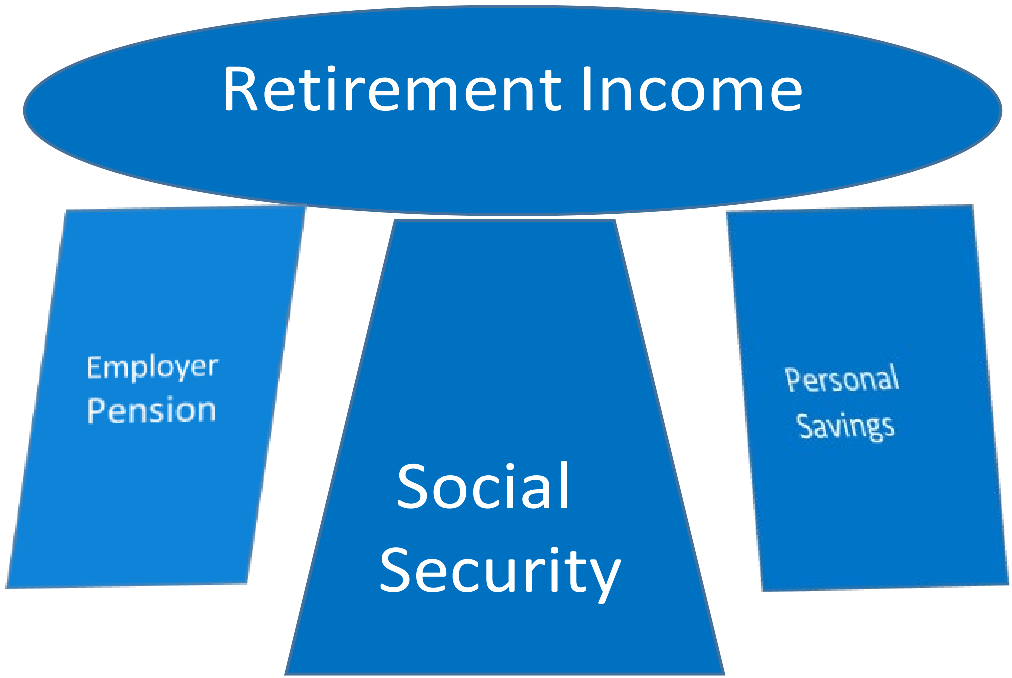
b) Social Security provides about 40% of career-average earnings (varies from 25% to over 80%)

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

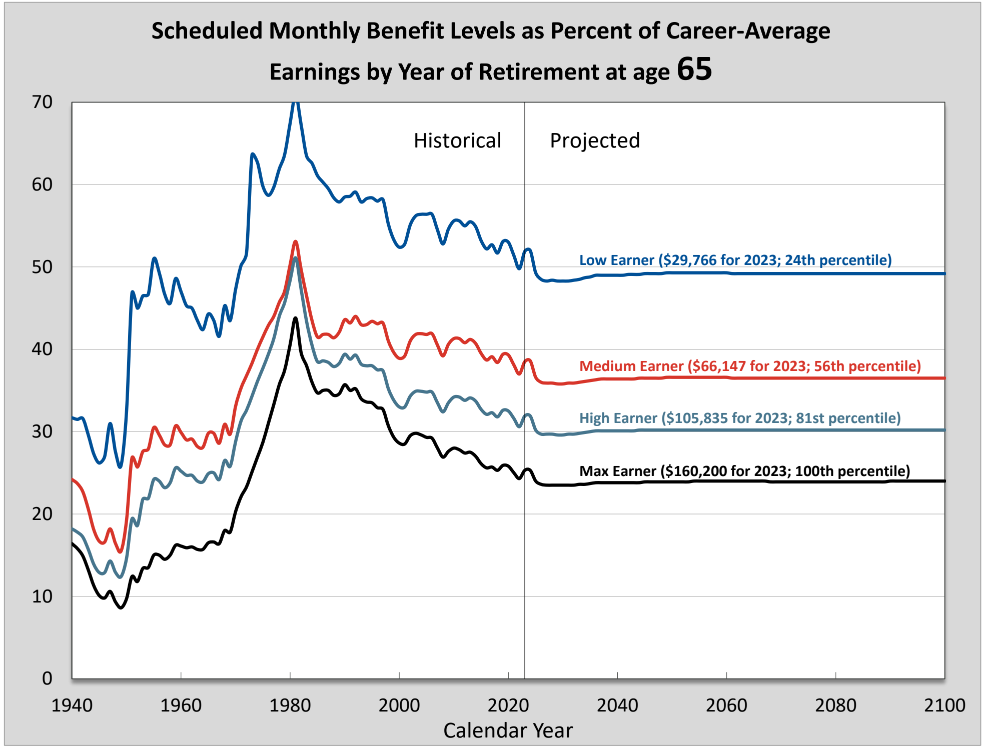
d) But increasingly, Social Security is the primary source of lifetime income

Three-Legged Stool: Basis for Retirement Planning

Common wisdom—aim for 75-80 percent replacement rate

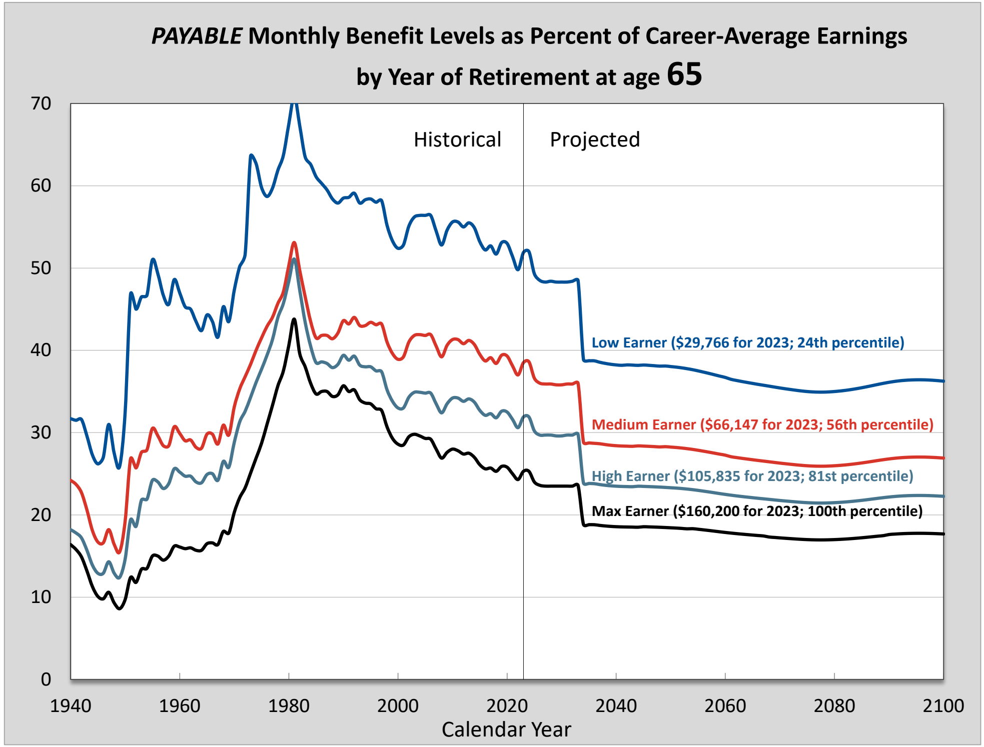


Replacement Rates Based on the 2023 TR



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

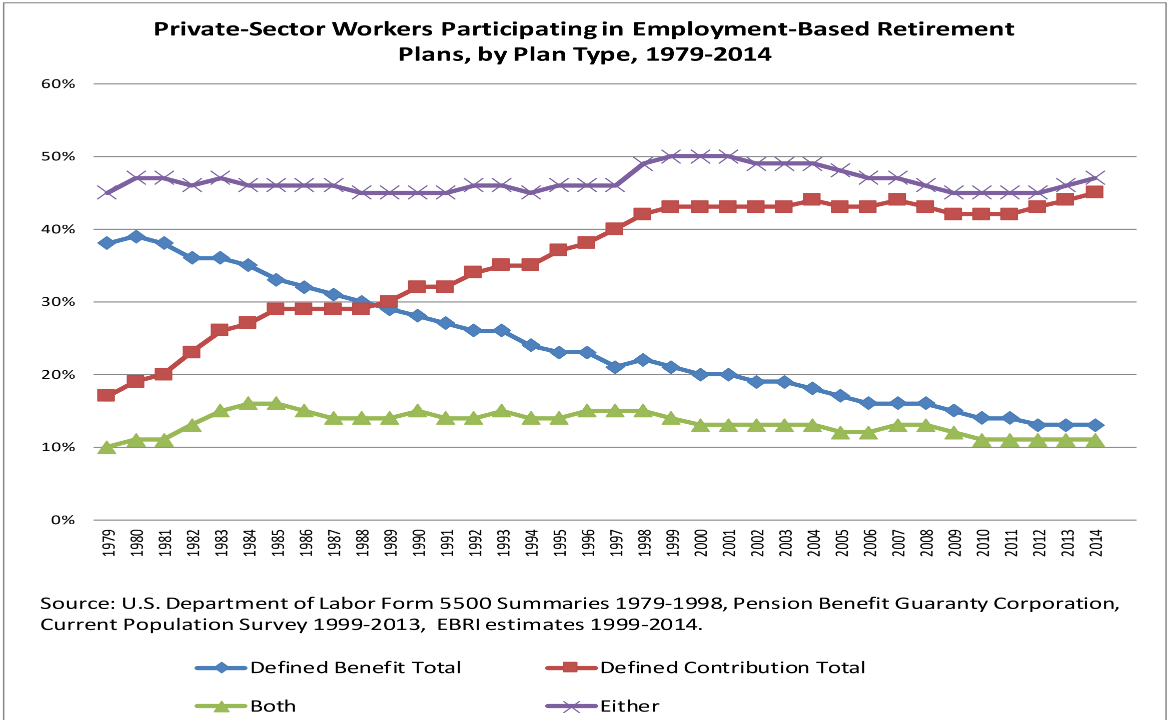
Payable Benefits Under the Law, After Trust Fund Reserves Are Depleted, Are Even Lower



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

Defined Benefit Plans Replaced by DC Plans

And lump sum options increasing for DB plans



Source: U.S. Department of Labor Form 5500 Summaries 1979-1998, Pension Benefit Guaranty Corporation, Current Population Survey 1999-2013, EBRI estimates 1999-2014.

Myth 7: Social Security Is Responsible for the Federal Debt

<u>Facts:</u>

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

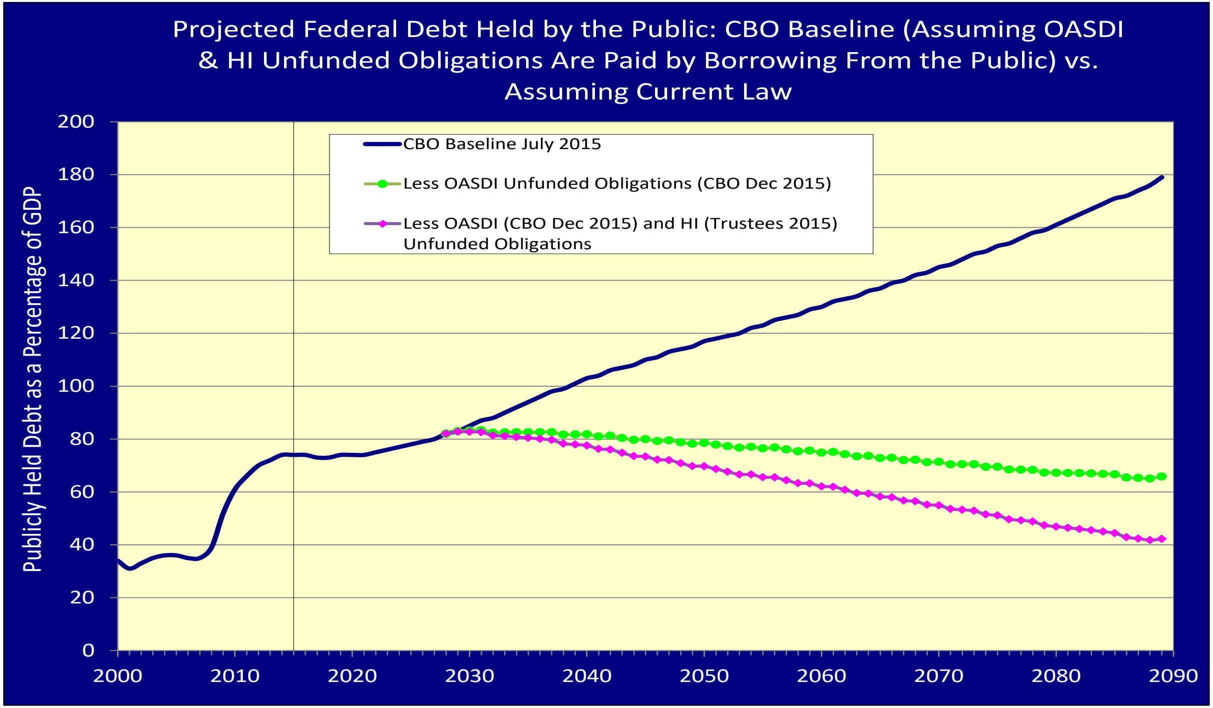
b) In fact, these trust funds finance part of the debt

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

Now CBO only projects debt 30 years (to 2053)



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 *(Simpson Bowles 2010)*
- 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, using the "chain-weighted C-CPI-U
  - 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, to tax 90% of earnings?
  - Or tax on all earnings above the current maximum

- Take advantage of **returns on investments**
  - Invest trust fund reserves as suggested by Kerrey/Simpson 1995 proposal and Ball in 1994-96 Advisory Council
  - Or tax investment returns as in the 2010 ACA and in many proposals since

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