CONFERENCE OF CONSULTING ACTUARIES

Cross Discipline Webinars

Financial Stability of U.S. Social Systems

Wednesday, September 9, 2020
12:30 – 1:45 pm Eastern Time

Moderator: Dale H. Yamamoto – Red Quill Consulting
Presenters: Stephen C. Goss – Social Security Administration
Paul I. Spitalnic – Centers for Medicare and Medicaid Services

Social Security

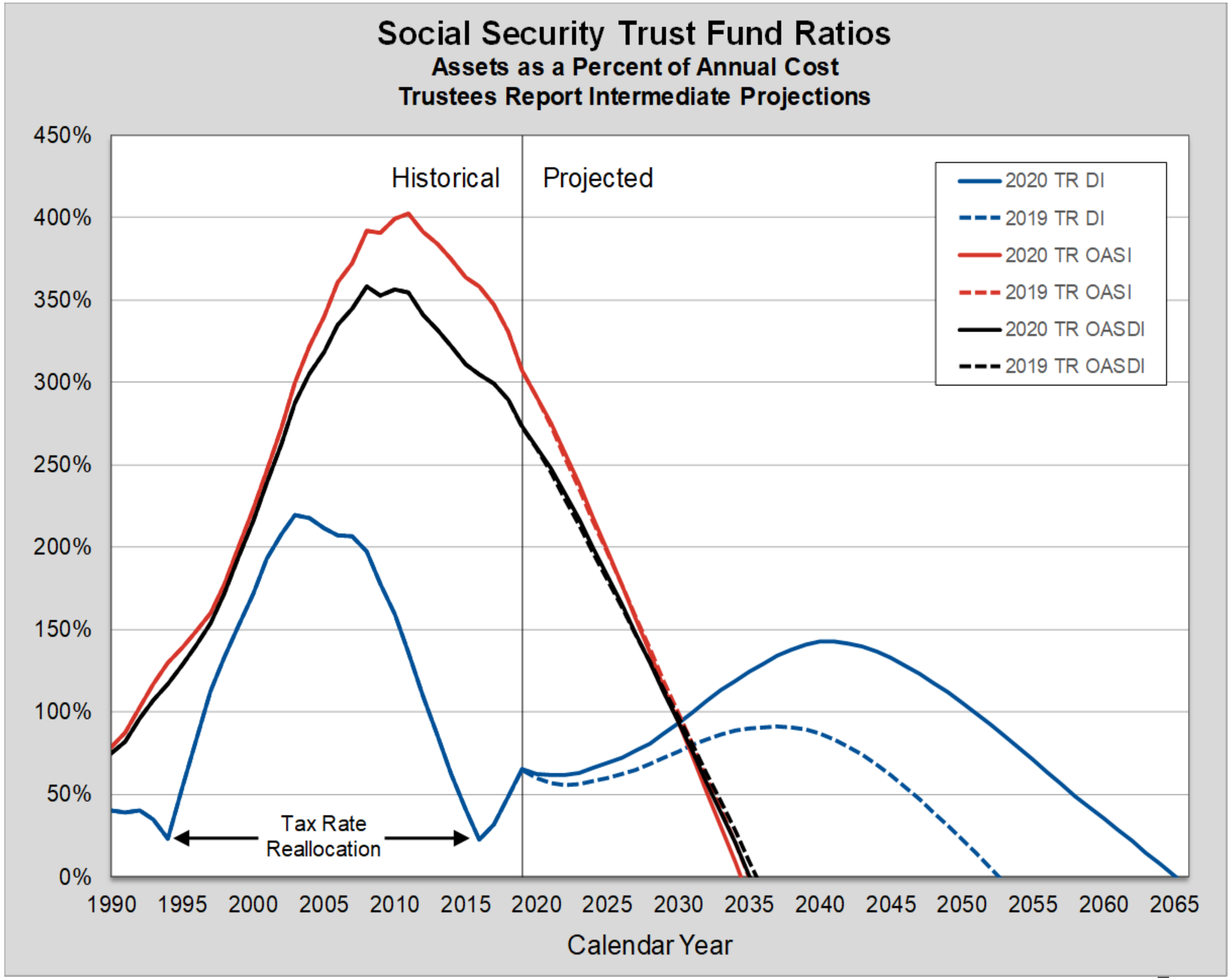
Stephen C. Goss

Financial Stability of U.S. Social Security Program

- Financial stability derives from flexibility and commitment
  - Benefit and revenue specifications can be altered by Congress
  - Congress has always been committed to maintaining benefits
    - Changes, when needed, have been gradual
- Benefit payments require Trust Fund reserves
  - No borrowing authority
  - So cannot accumulate debt or contribute to federal debt
  - Approaching Trust Fund reserve depletion requires action
  - The Congress has always made adjustments when needed
- Intent is to maintain a “contingency reserve” in the Trust Funds
  - Equal to at least annual cost, to provide time to make changes
  - Currently reserves are almost 3 times the annual cost

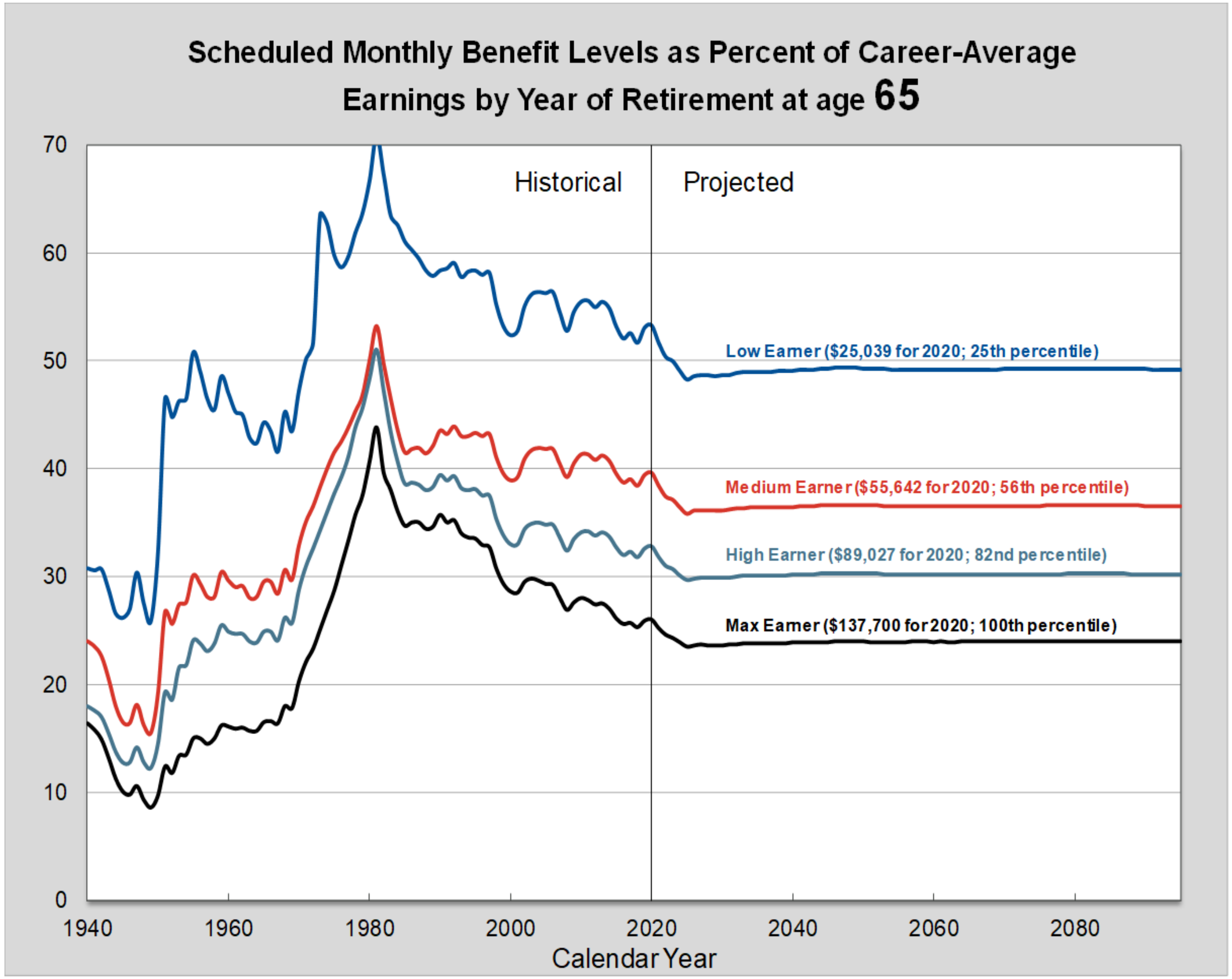
Financial Stability: Solvency Requires Positive TF Reserves

- Most recent changes—1994 and 2015 for DI
- Previously, major changes in 1977 and 1983
- Reserve depletion has been projected over last 30 years (1991-2020) to be between 2029 and 2042
  - 2035 in 2020 TR, “pre-COVID”
- Current COVID recession will likely make changes necessary somewhat earlier



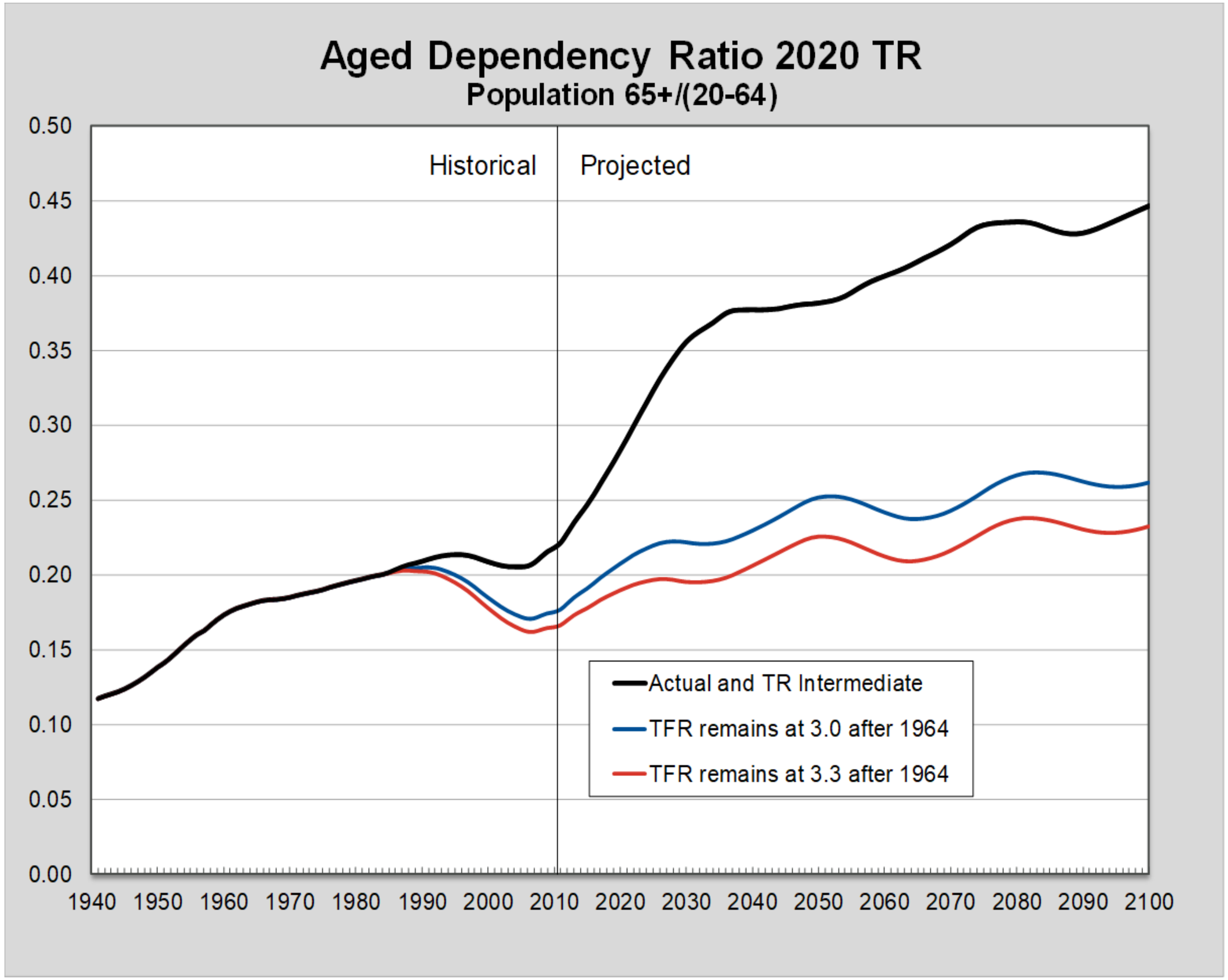
Financial Stability Is Inherent in Benefit Structure, But:

- Monthly benefit is indexed to average wage across generations—thus replacement rates are relatively stable
- Roughly stabilized by mid 1980's, due to 1977 Amendments
- Decline from 2000 to 2022 from increase in NRA: 1983 Amendments
- Stable thereafter by design
- But demographics matter



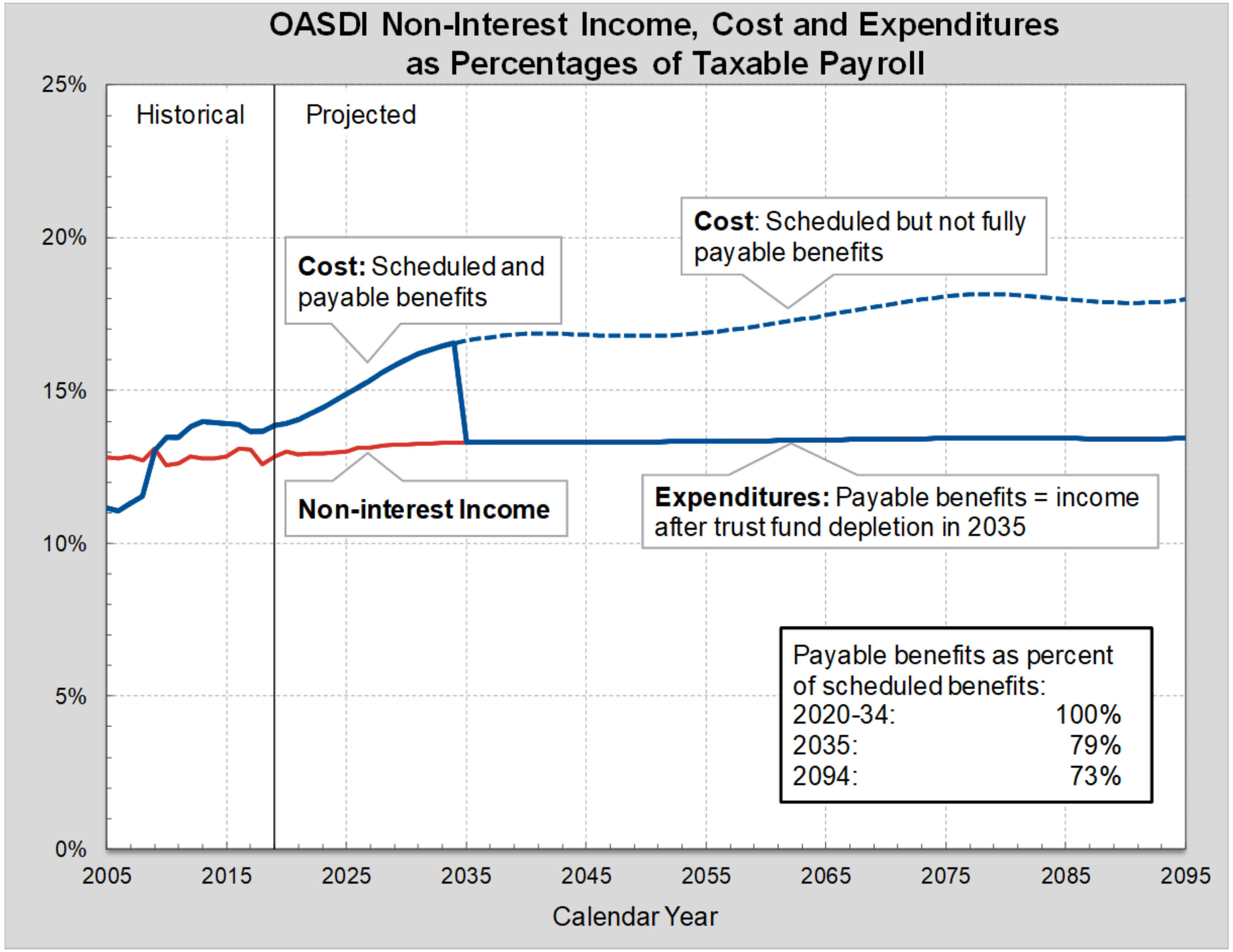
Financial Stability: The Demographic Challenge

- Given average monthly benefit rises with average wage, financing would be stable if the age distribution was stable
- This worked from 1983 to 2008
- But, drop in birth rate after 1965 caused dramatic shift in 65+ to 20-64 age population
- With no automatic adjustment, the program will need changes in the future



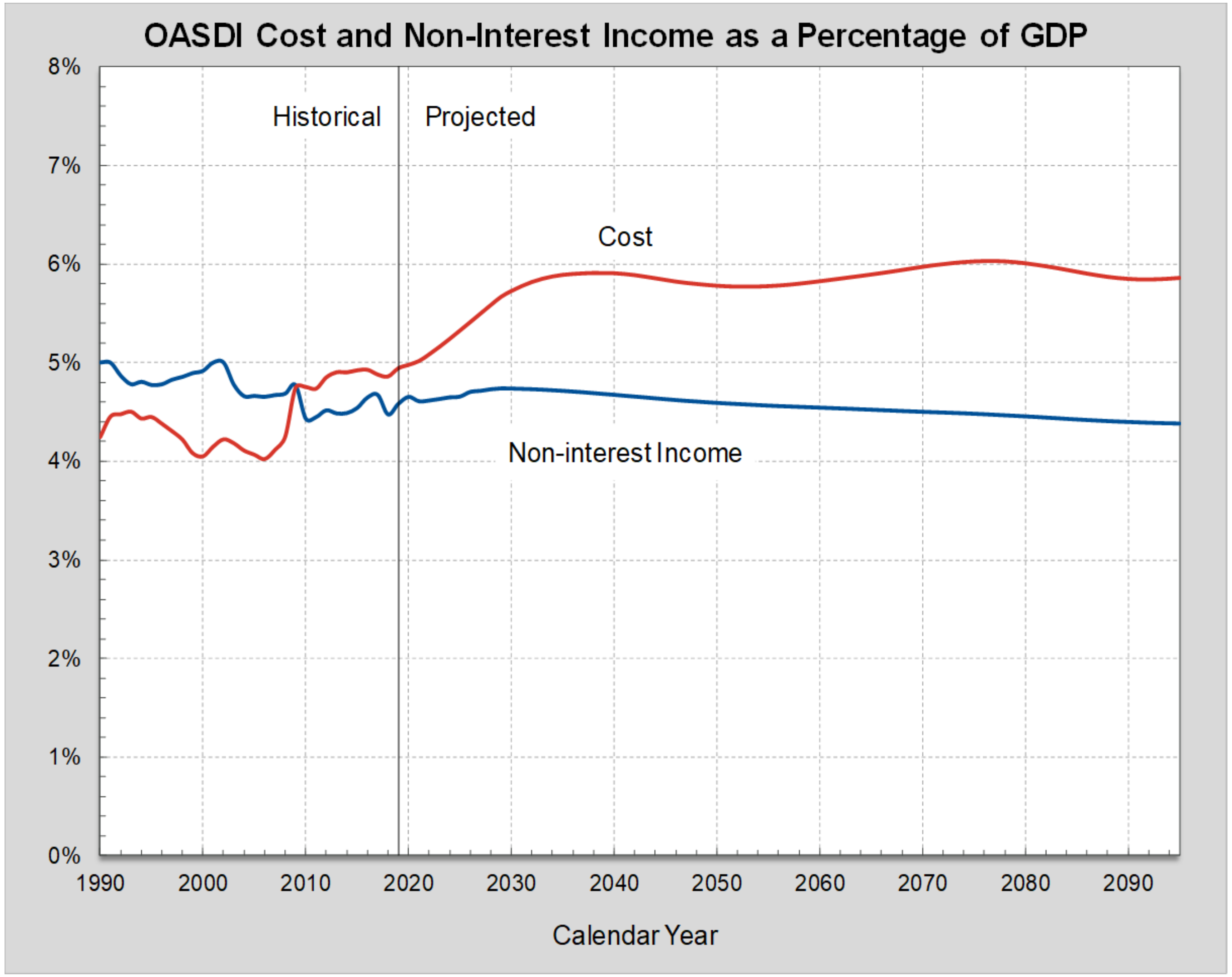
Financial Stability: The Demographic Challenge

- Benefit cost as percent of taxable earnings rises per the changing age distribution
- After TF reserve depletion, revenue will cover only about 79% of cost, 73% by 2094
- How about COVID recession? Estimates of earlier reserve depletion range from just 1 year earlier (2034) to as many as 6 years earlier (2029)
- But annual shortfalls after depletion likely little changed



Financial Sustainability: What Do We Want To Pay For?

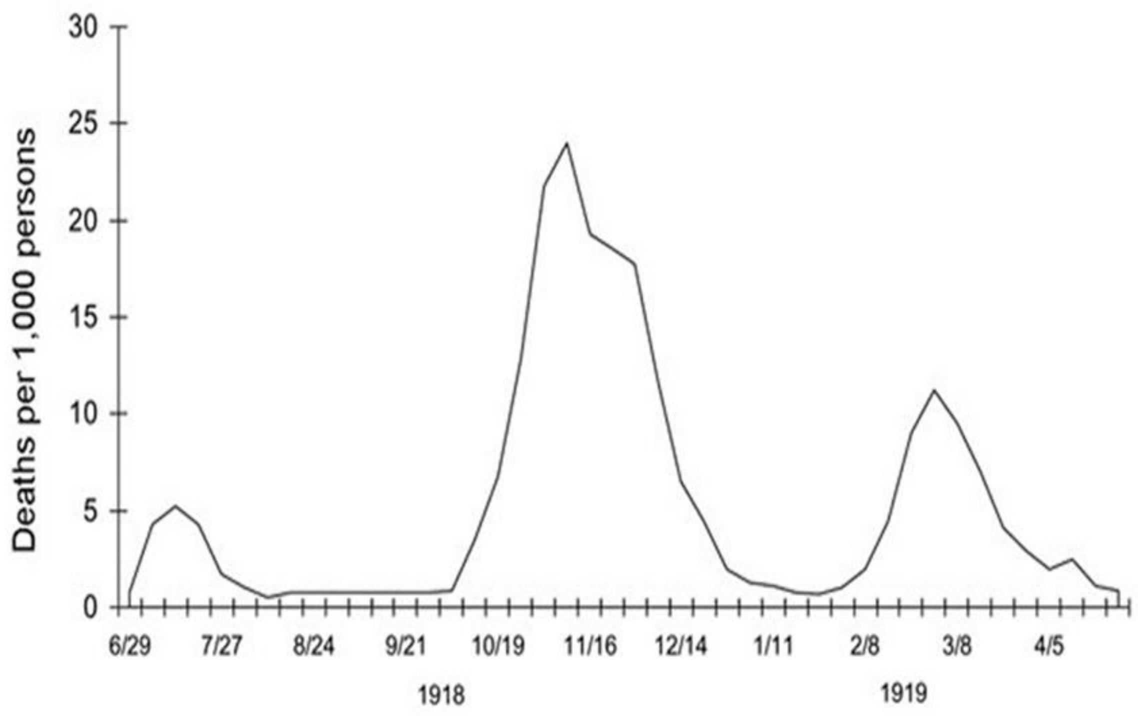
- For 1990 through 2008, OASDI cost had been about 4.5% of GDP, but it will rise to 6% of GDP due to the changing population age distribution
- So Congress and the American people will have a choice:
  - Cut scheduled benefits by 1/4
  - Raise scheduled revenue by 1/3
  - Or some combination
- There are many options—Congress will act, as always



Financial Sustainability: What Will COVID-19 Do?

- The 1918 pandemic might be a worst case scenario—
  - Will there be a fall second wave?
- Will a vaccine next year eliminate the virus, or limit its effects?
- Will there be significant lasting effects for many who survive infection?
- Will this effect shorten life in old age, and possibly increase disability at younger ages?

Figure 1. Death Rates of the Spanish Flu, June 1918 to May 1919



Source: The Spanish Flu and the Stock Market: The Pandemic of 1919 by Bryan Taylor | Feb 27, 2020 | Economics, Historical, Insights

Financial Sustainability: What Will COVID-19 Do?

Illustrative scenario:

- If earnings and tax revenue are reduced by about 10 percent from the 2020 TR projection for 1 or 2 years, with full recovery thereafter, then OASDI TR reserve depletion might be just 1 year earlier (2034)
- But if tax revenue is reduced by 10-15 percent for much longer (9-10 years), then reserve depletion could be as early as 2029 (Bipartisan Policy Center)
- Depends on the virus, plus personal, government, and business response

Up to this point, we are not seeing increases in benefit applications

- But this could change, with a year or two lag as in the great recession

As with most recessions, the primary effect will likely be reduced revenue

Financial Sustainability: What Changes Might Be Made?

Ways to Lower Cost

- Lower benefits for retirees – not for disabled?
  - Increase normal retirement age (lowers OASI cost, 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, or minimum benefit subject to work year requirements
- Lower benefits mainly for the oldest old?
  - Reduce the COLA using chain-weighted CPI
  - But, some say increase it with the CPI-E

Financial Sustainability: What Changes Might Be Made?

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

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

There you will find:

- The 2020 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