

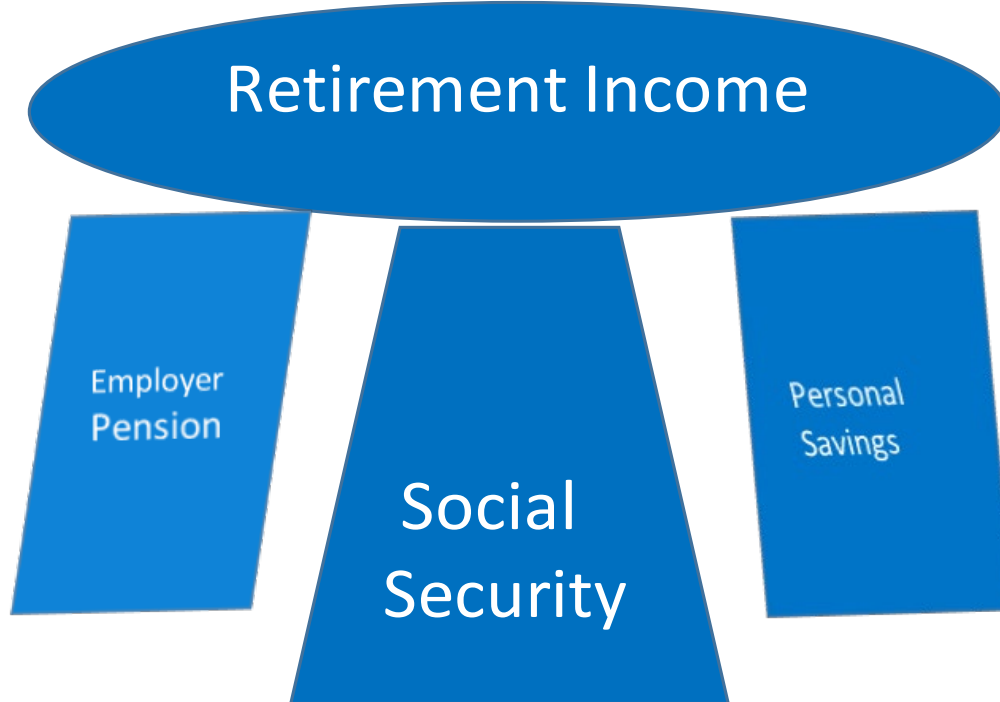
# **Social Security Actuarial Status**

## **Recent Experience and Prospects for the Future**

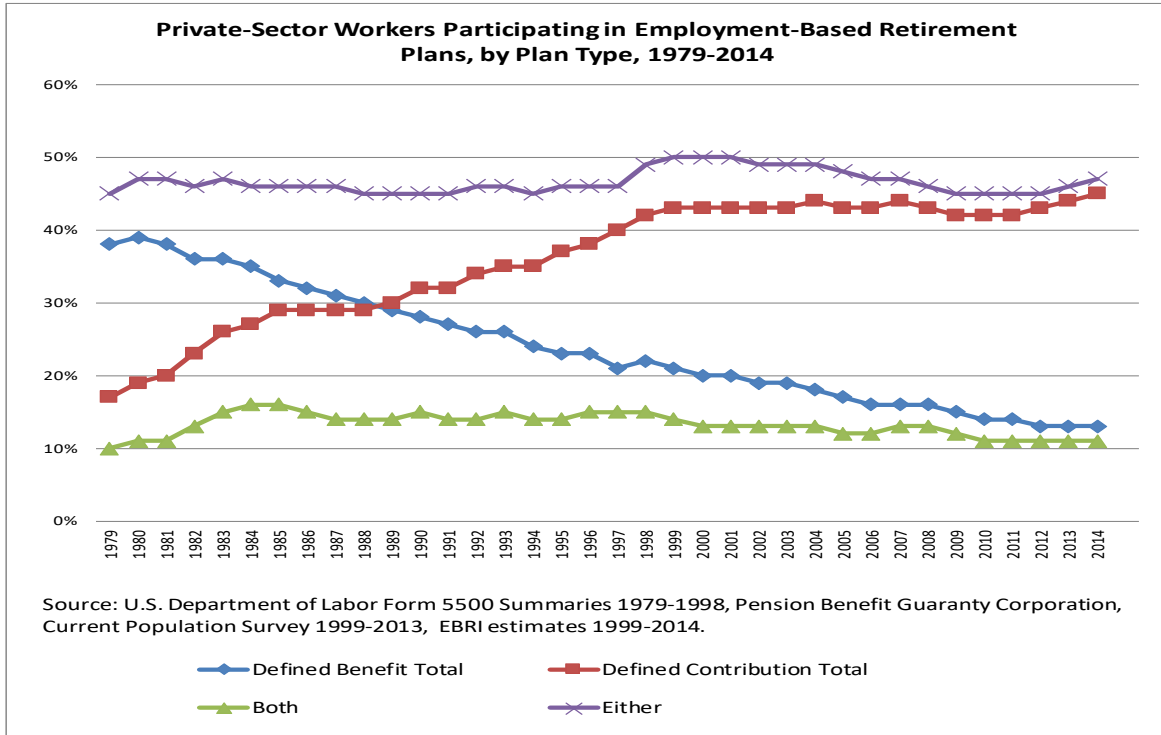
*Presented by Stephen C. Goss, Chief Actuary,  
and Kyle Burkhalter, Actuary, SSA  
Association of Government Accountants  
Baltimore Chapter  
April 17, 2019*

# Three Legged Stool: Basis for Retirement Planning

*Common Wisdom---Aim for 75-80 percent Replacement Rate*



# Defined Benefit Plans Replaced by DC Plans: *And Lump Sum options increasing for DB plans*



# Social Security: What does it provide?

- Retirement and survivor monthly benefits started 1940
  - ***Never Missed Payment!***
- Eligible age lowered from 65 to 62 in 1957F/1962M
  - 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 with CPI after eligibility**
- Payroll taxes roughly pay-as-you go
  - Rose from 2% to 12.4% as system matured

# Social Security Financing

- Basically “Pay-As-You-Go”

Current Workers provide for current beneficiaries

Trust Funds are “contingency reserve” because CANNOT borrow

Total spending to date cannot exceed income to date

- Current OASDI Reserves (excess income) \$2.9 trillion  
Available to augment tax income as needed
- Reserves projected to deplete in 2034 under current law

***Expect Congress to Act—as it always has.***

# What We Do—Office of the Chief Actuary

- 1) Baseline projections of OASDI cost and revenue under current law
  - a) For the Trustees Reports
  - b) For the President's Budget
  - c) SSA and Consolidated Financial Statements
- 2) Estimates for proposals to change law, regulations, and policy
  - For Congress, the Administration, and others
- 3) Actuarial Notes and Studies

## What We Do– Annual Trustees 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 will fall short, forcing cuts or delays in benefits in the absence of legislative change
- 3) Results used for SOSI in Financial Statements

# Full Scope Audit of the 75-year Projections

- 1) *Statement of Social Insurance and Statement of Changes in Social Insurance Amounts*, in the Agency Financial Statement and in the consolidated Financial Statement of the U.S. Government
- 2) Mandated by the FASAB
  - For the 2018 audit, GT and GAO actuaries, economists AND accountants!
  - We received a clean opinion—again! CEAR Award 21 !!
- 3) Audit starts after Trustees Report release through September
  - Huge learning experience for all



## **Full Scope Audit of the 75-year Projections**

- 1) Audit covers all aspects of the Financial Statement
- 2) We review all assumptions and methods, and all changes
- 3) Review more than replication due to complexities
- 4) Extensive review of internal controls
- 5) Reasonableness of assumptions—as per attestation of the Chief Actuary
- 6) Sensitivity analysis
- 7) Subsequent events—where applicable

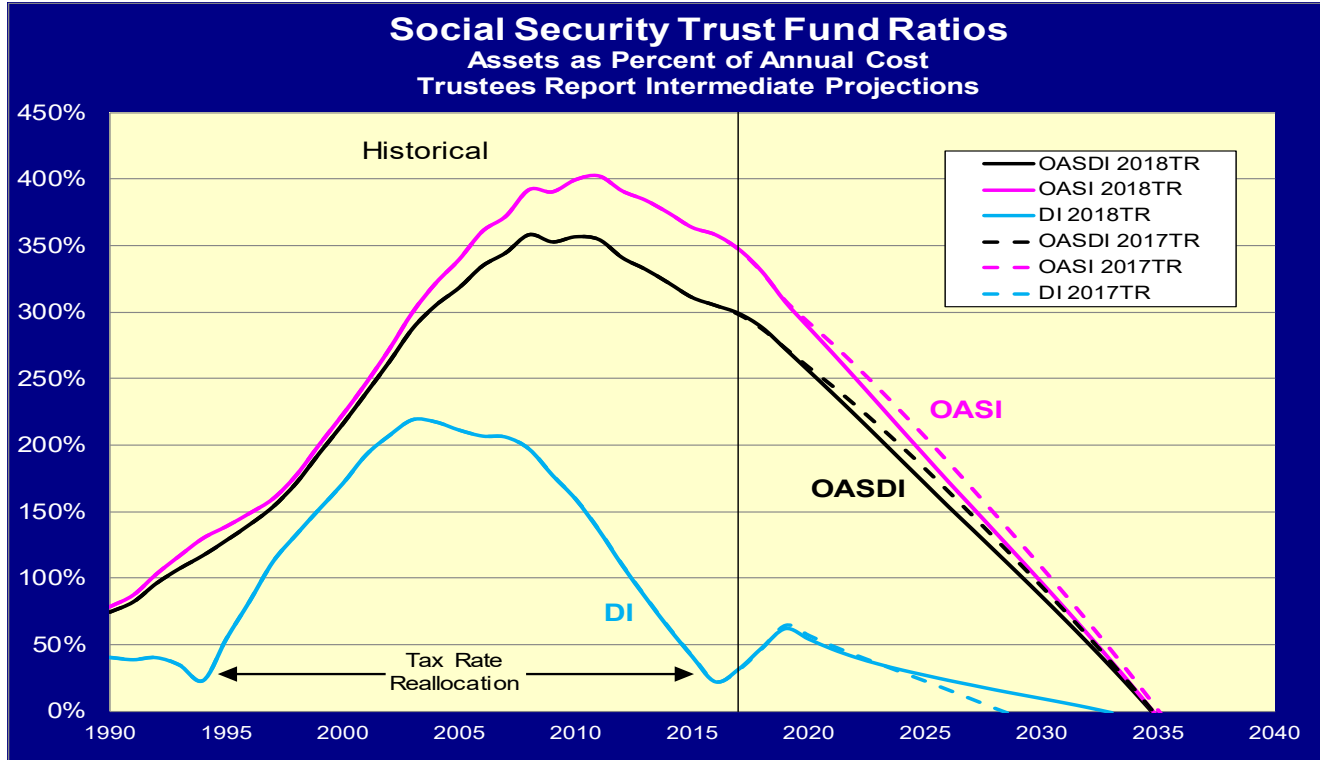
## Current Actuarial Status

# *Projections from the 2018 Trustees Report*

*2019 Trustees Report will be coming soon*

# SOLVENCY: OASDI Trust Fund Reserve Depletion 2034 (same as last year)

- Reserve depletion date varied from 2029 to 2042 in reports over the past 26 years (1992-2018)
- **DI Trust Fund — reserve depletion in 2032, four years later than last year**
  - Due largely to lower recent and near-term disability applications and average benefit levels.

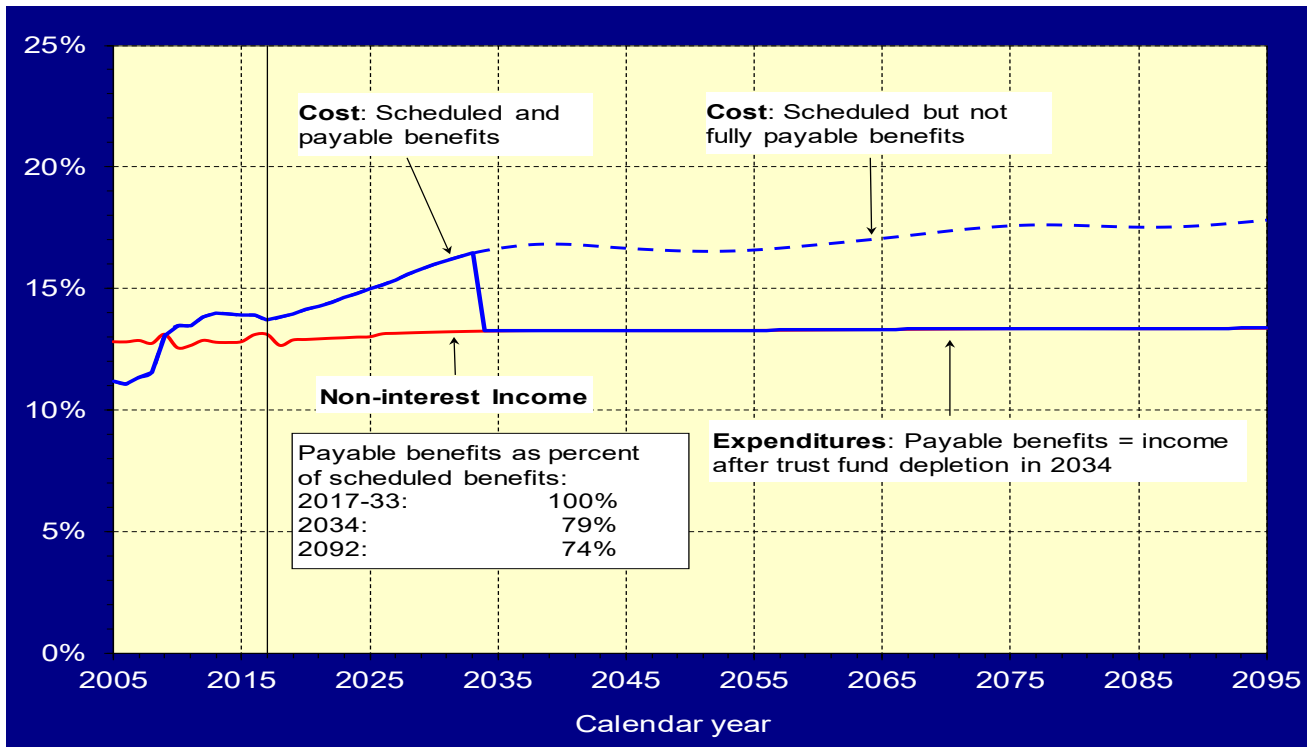


# OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

## Persistent Negative Annual Cash-Flow Balance Starting in 2010

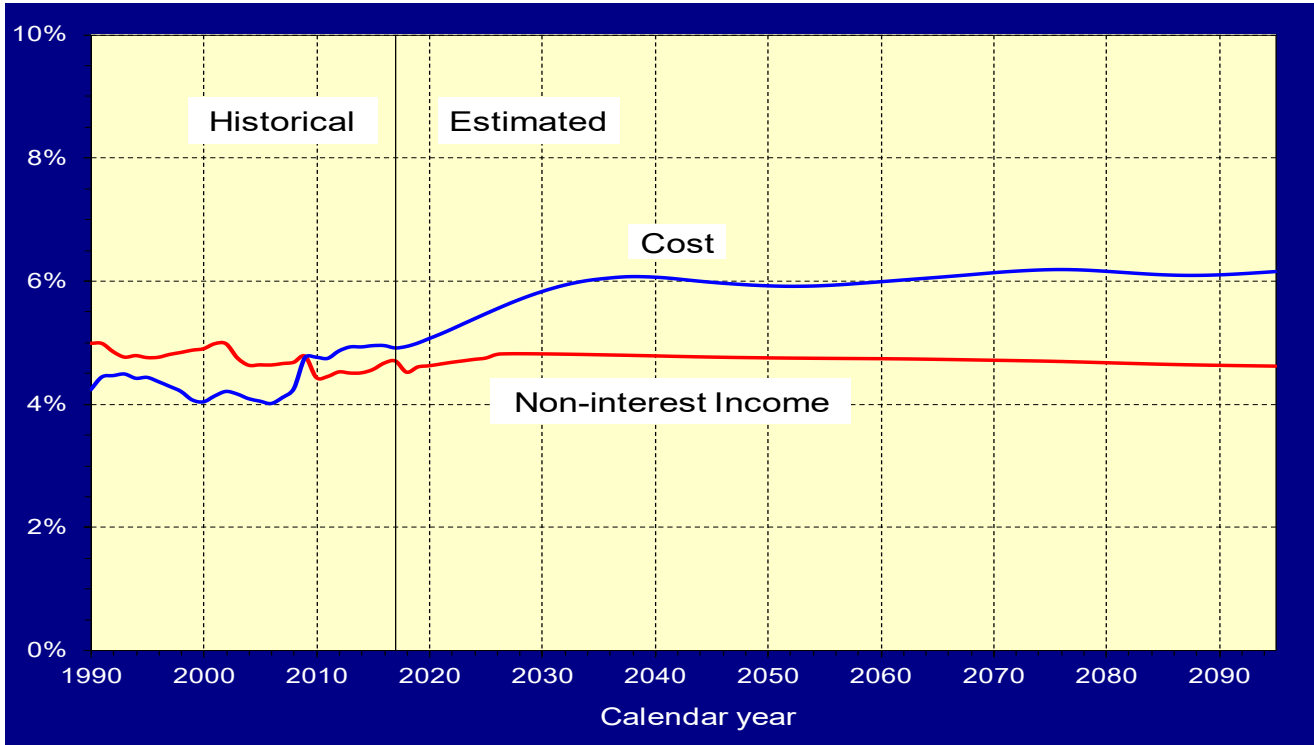
79% of scheduled benefits still payable at trust fund reserve depletion

Annual deficit in 2092: 4.32 percent of payroll — 0.21 percent smaller than last year

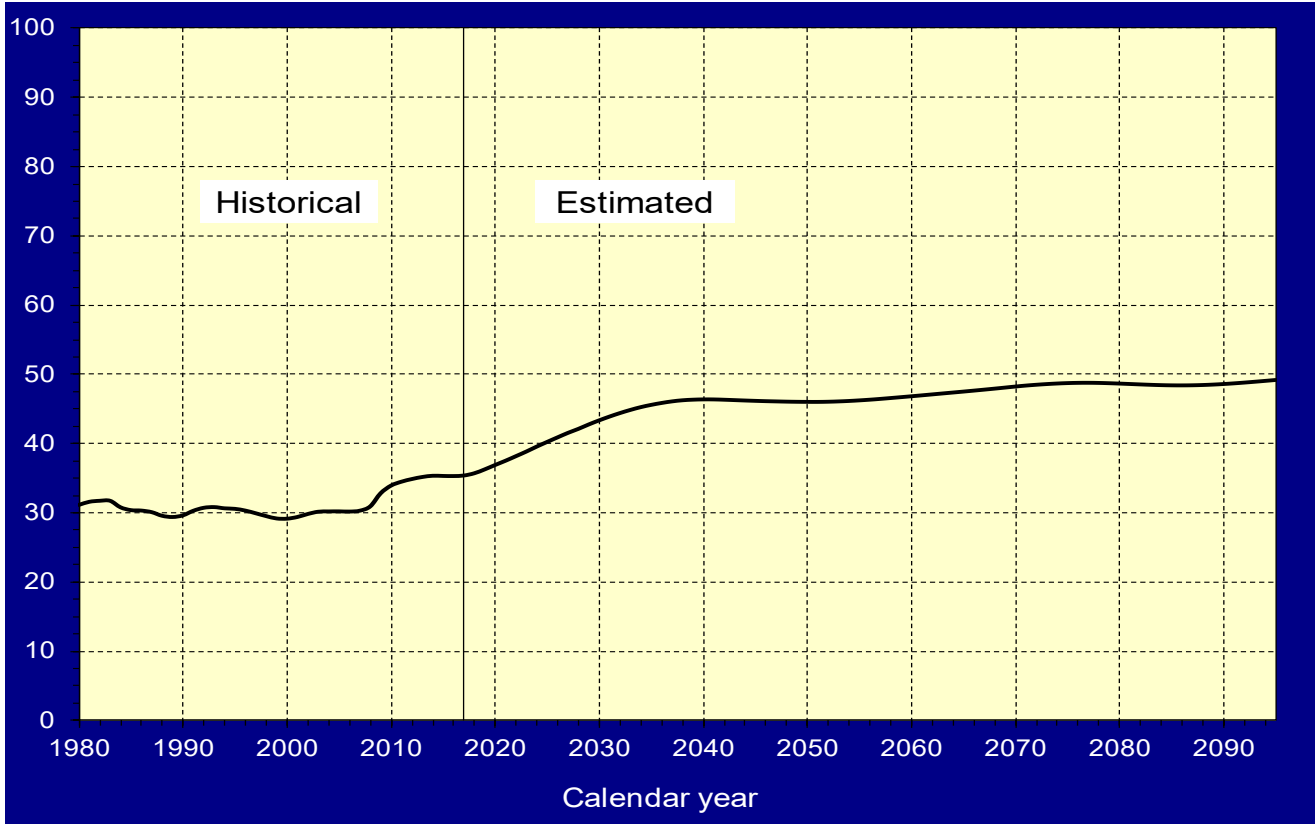


# SUSTAINABILITY: Cost as Percent of GDP

Rises from a 4.2-percent average in 1990-2008, to about 6.1% by 2038, then declines to 5.9% by 2052, and generally increases to 6.1% by 2092

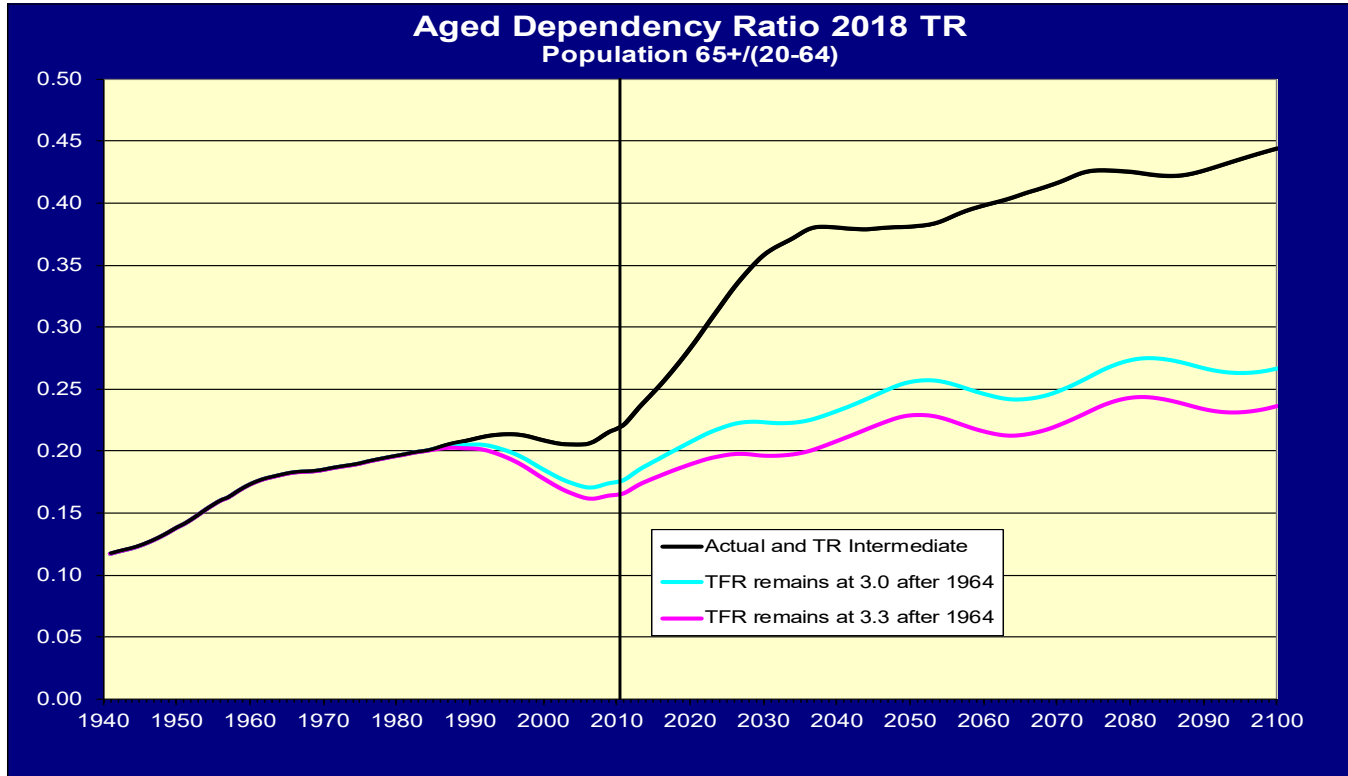


# OASDI Beneficiaries per 100 Workers



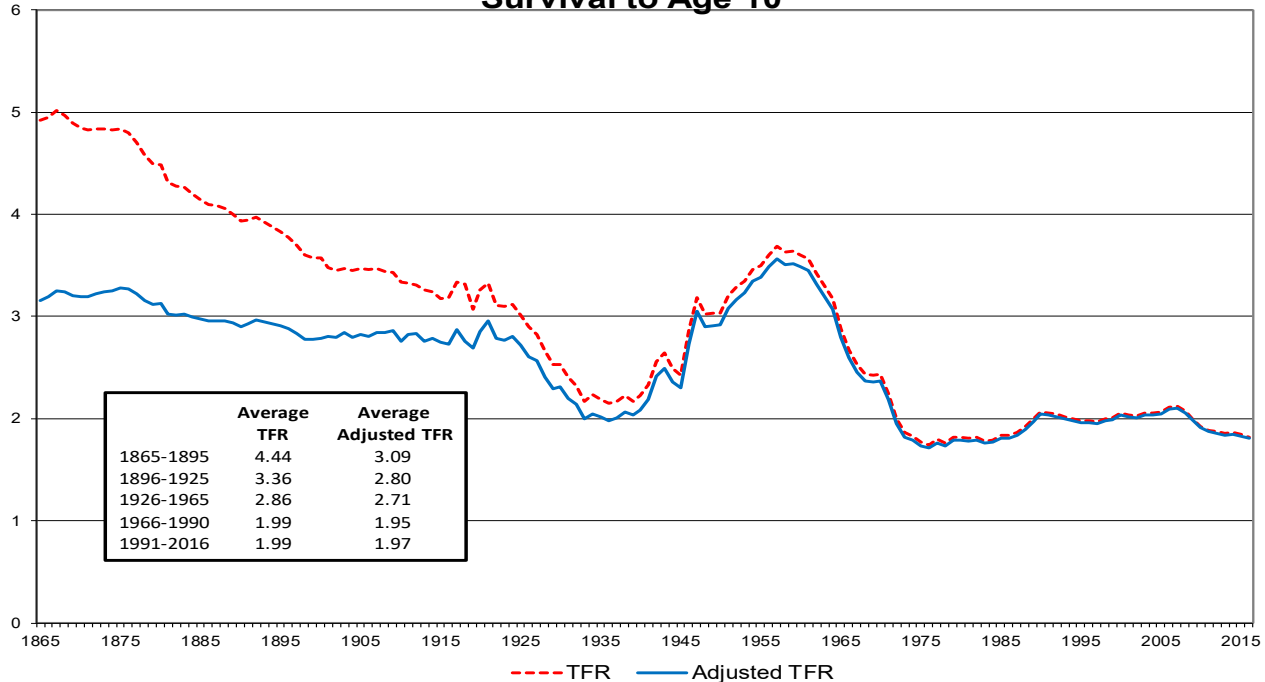
# Aging (change in age distribution)

mainly due to drop in birth rates



# Birth Rates—from 3 to 2

**U.S. Total Fertility Rate: With and Without Adjustment for Survival to Age 10**

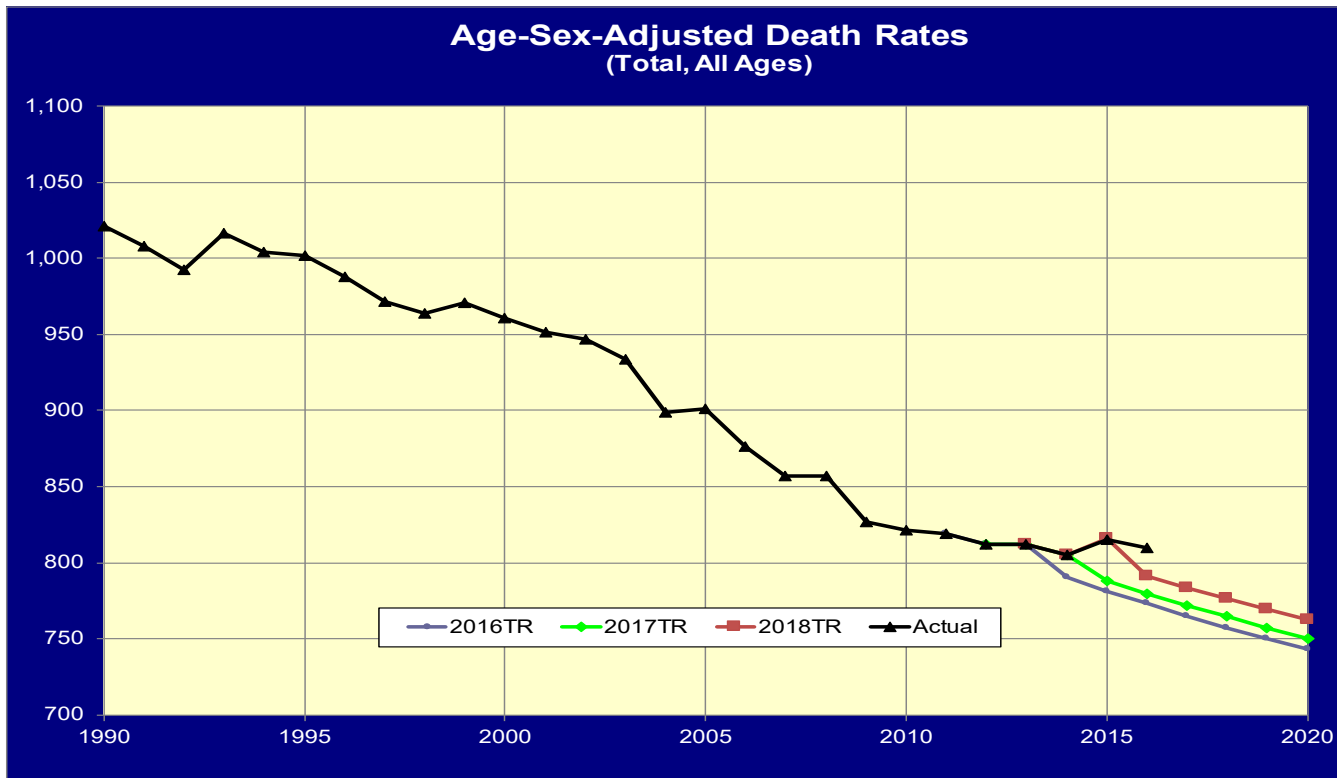


Notes: TFRs prior to 1917 are for whites only and survival rates prior to 1900 use Massachusetts data only.



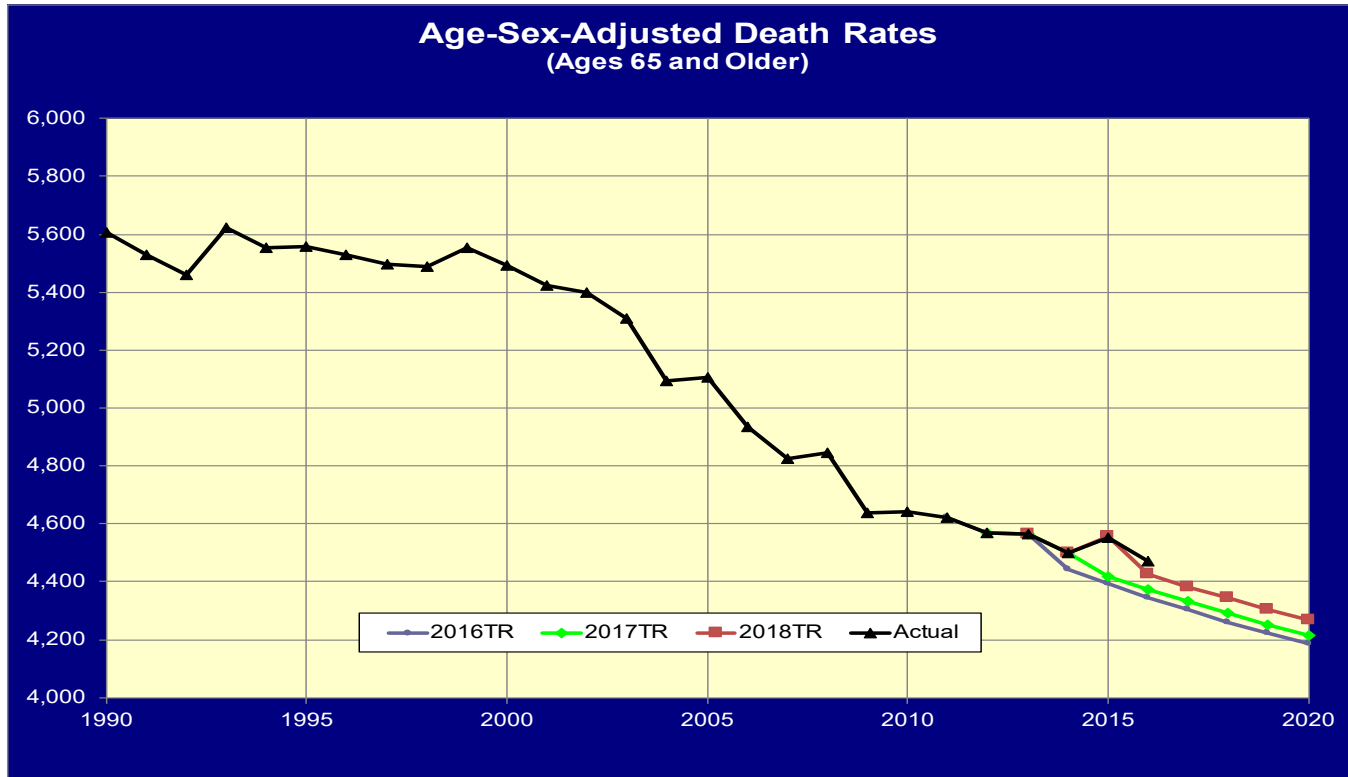
# Mortality Experience: All Ages

Reductions continue to fall short of expectations



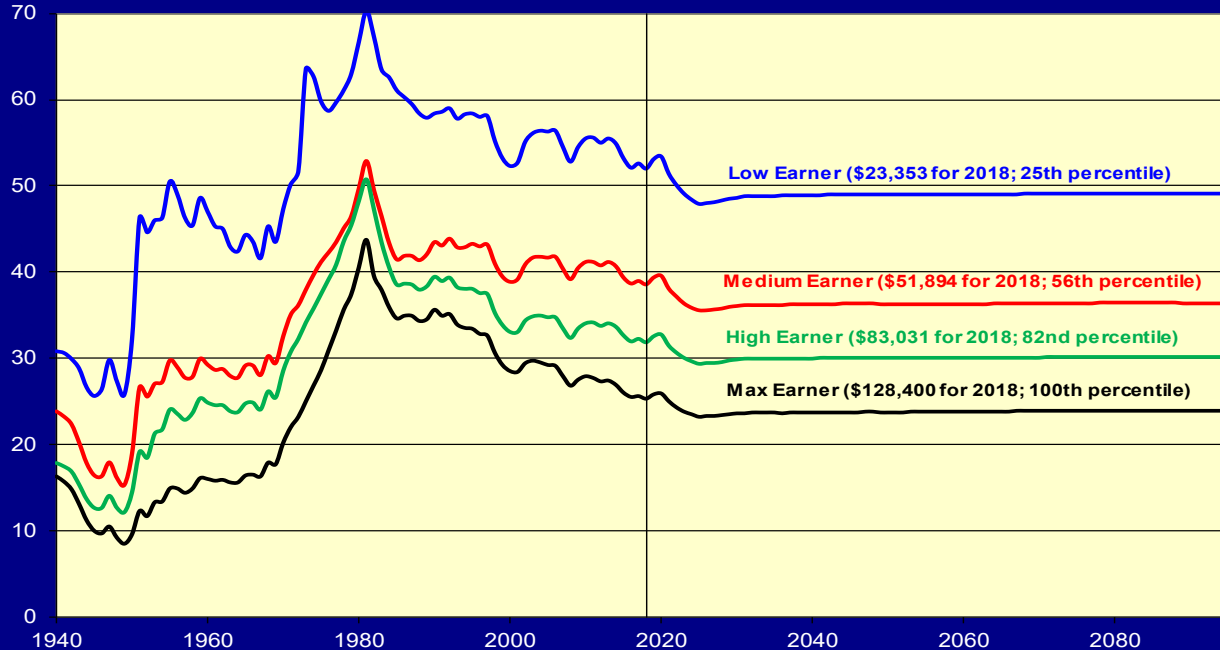
# Mortality Experience: Ages 65 and Older

Reductions since 2009 continue to fall short of expectations



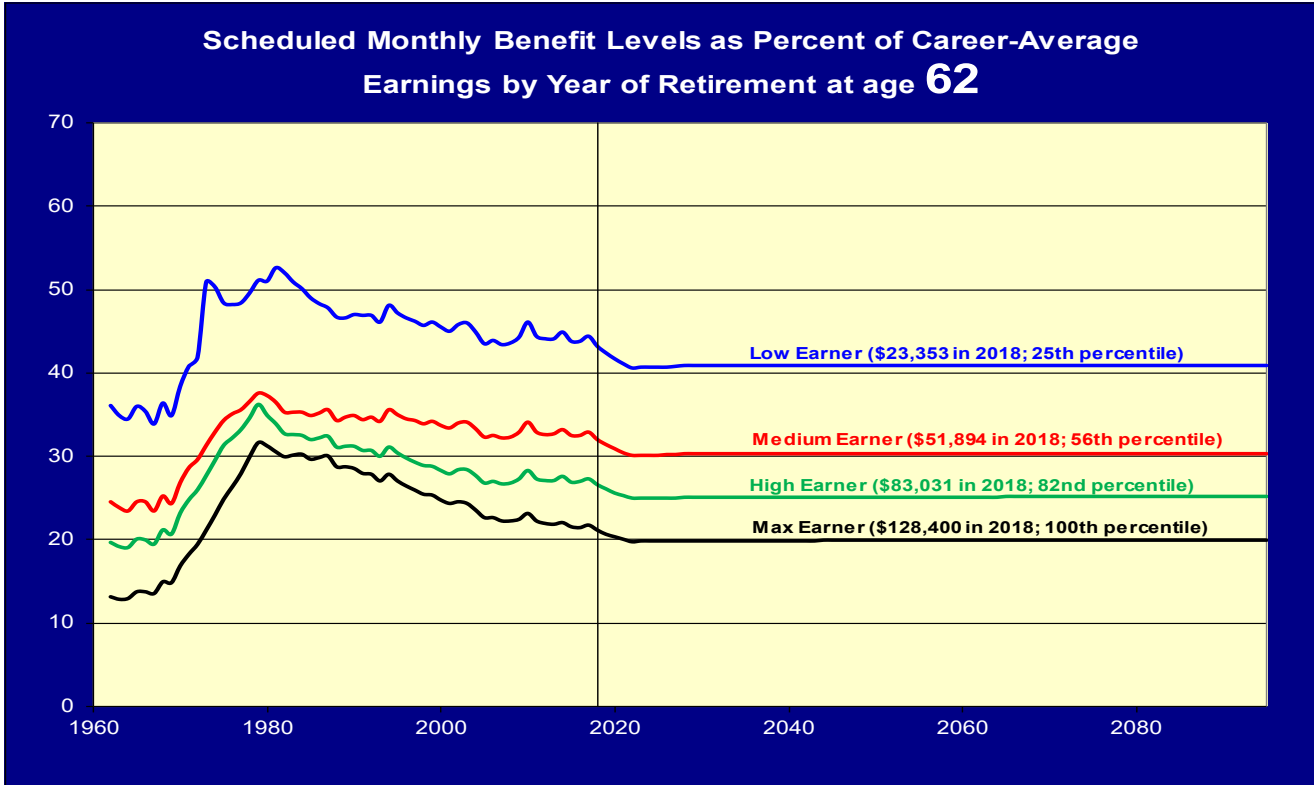
# Replacement Rates Based on the 2018TR

Scheduled Monthly Benefit Levels as Percent of Career-Average Earnings by Year of Retirement at age 65



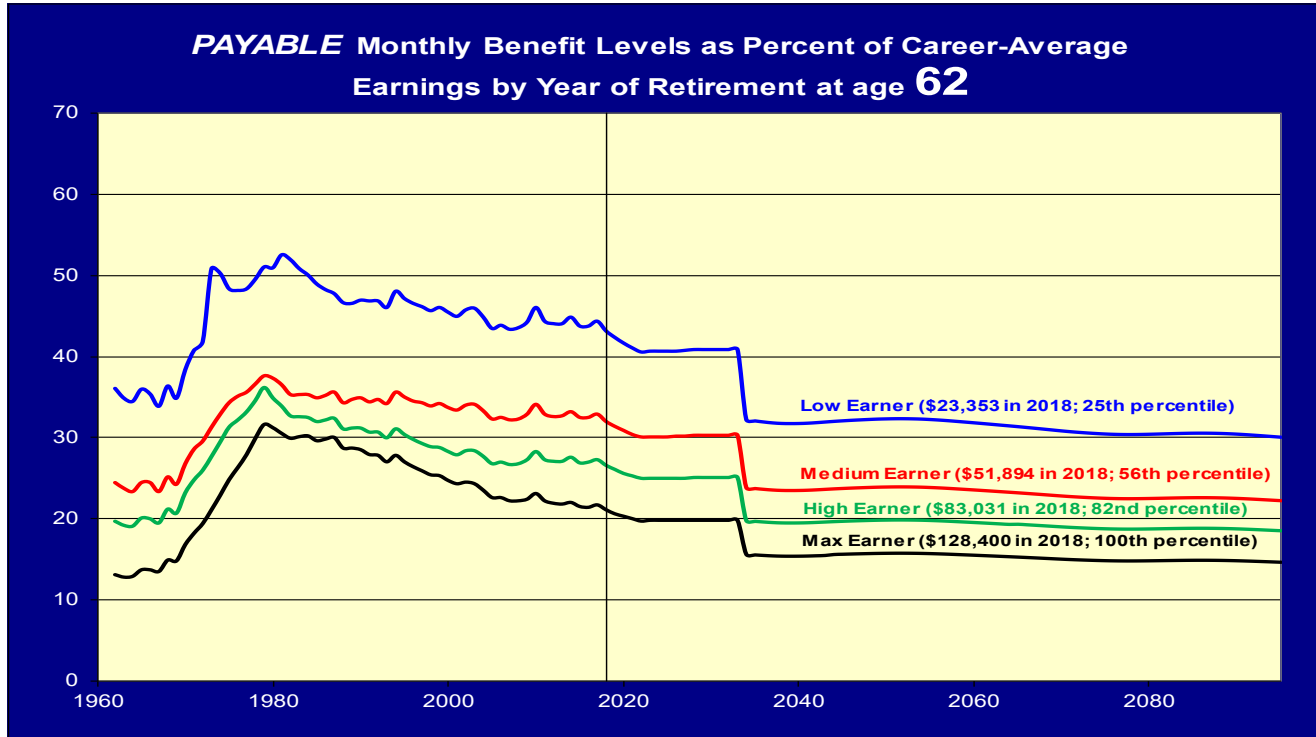
Source: Annual Recurring Actuarial Note #9 at [www.ssa.gov/oact/NOTES/ran9/index.html](http://www.ssa.gov/oact/NOTES/ran9/index.html)

# How About at Age 62, Where Many Start Benefits?



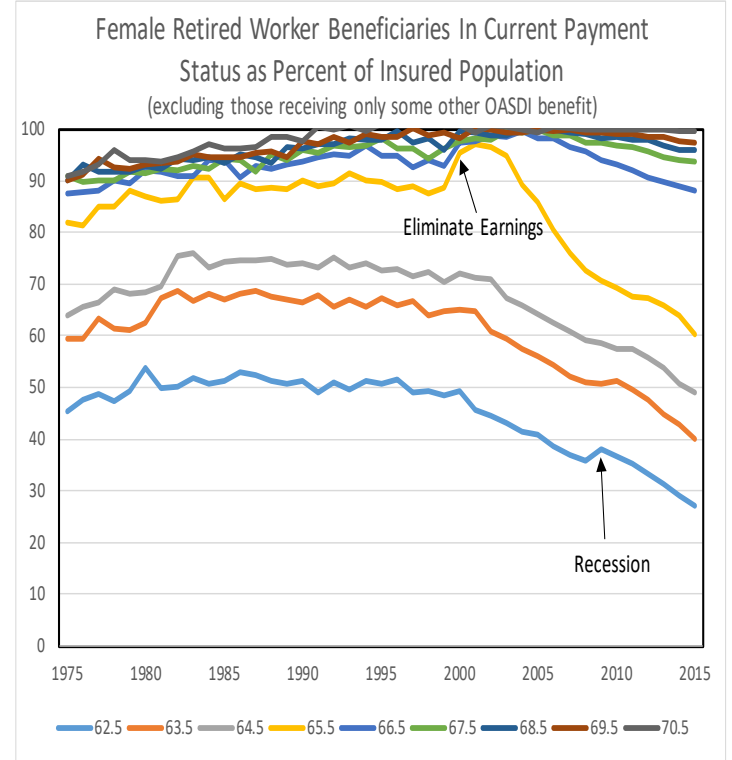
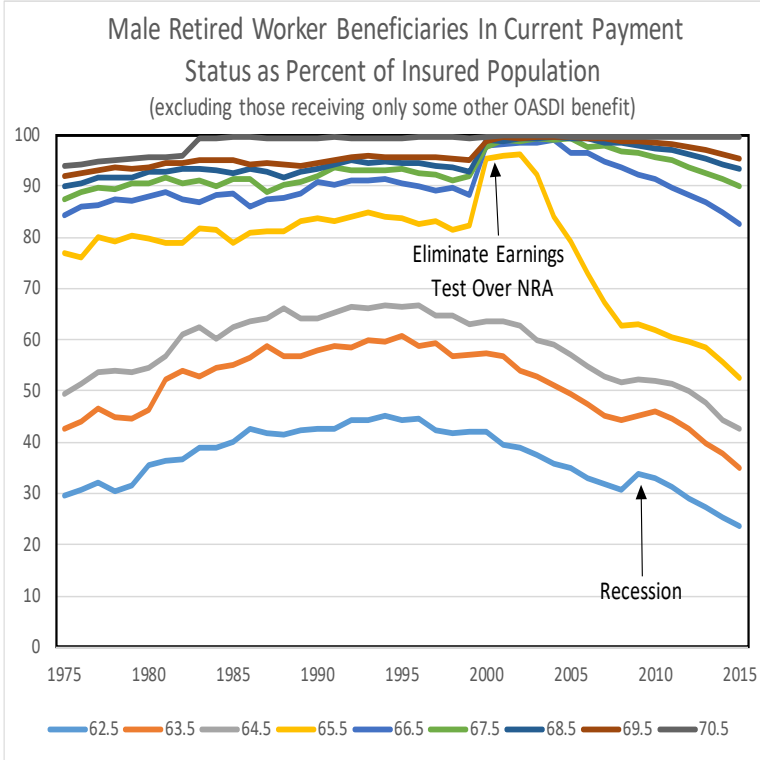
Source: Annual Recurring Actuarial Note #9 at [www.ssa.gov/oact/NOTES/ran9/index.html](http://www.ssa.gov/oact/NOTES/ran9/index.html)

# Payable Benefits Under the Law, Should Trust Fund Reserves Become Depleted, Somewhat Lower

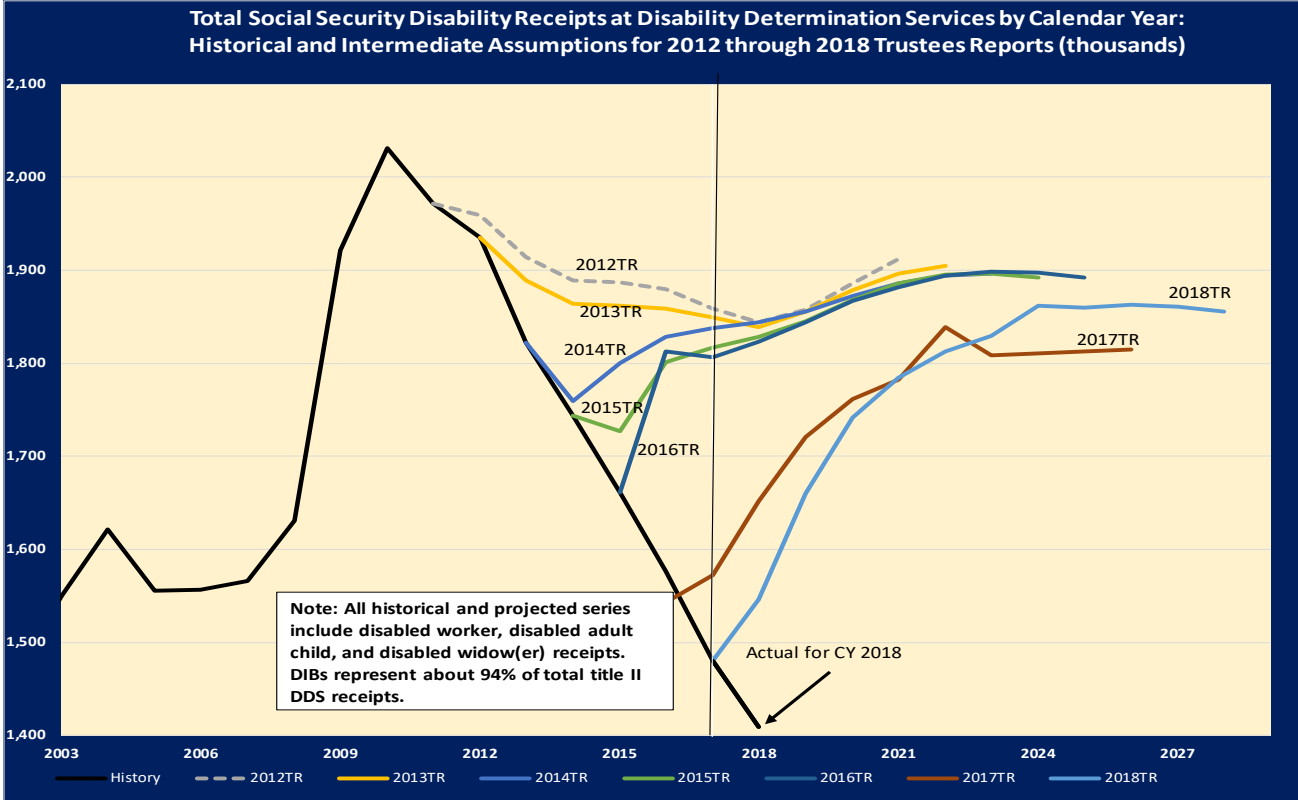


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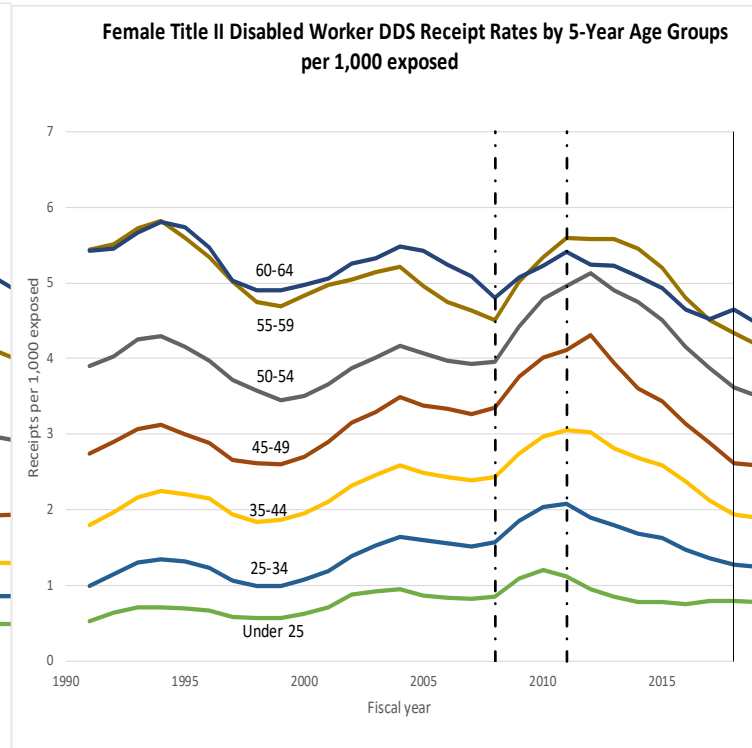
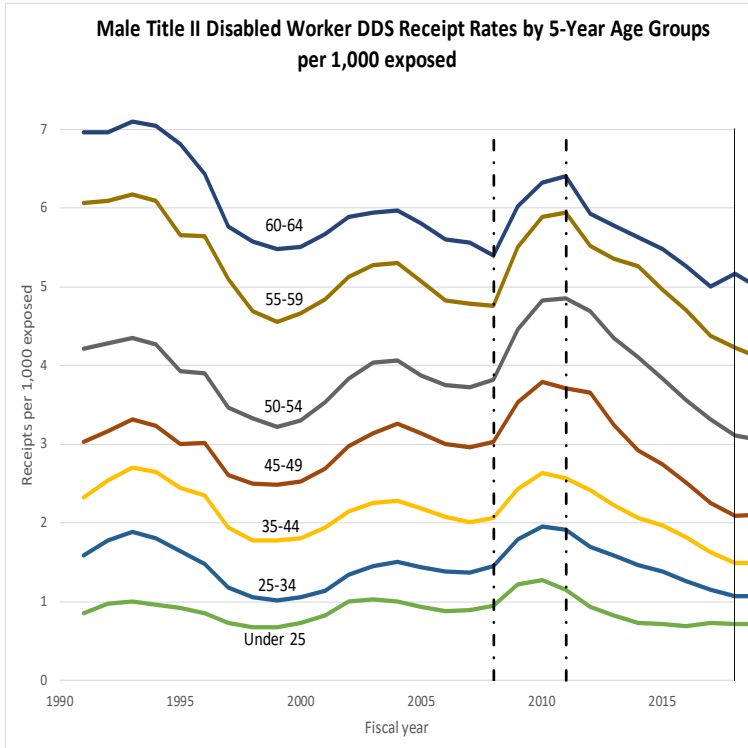
# Age of Starting Social Security Retirement Benefits



# Disability-----Applications Continued Dropping in 2018!



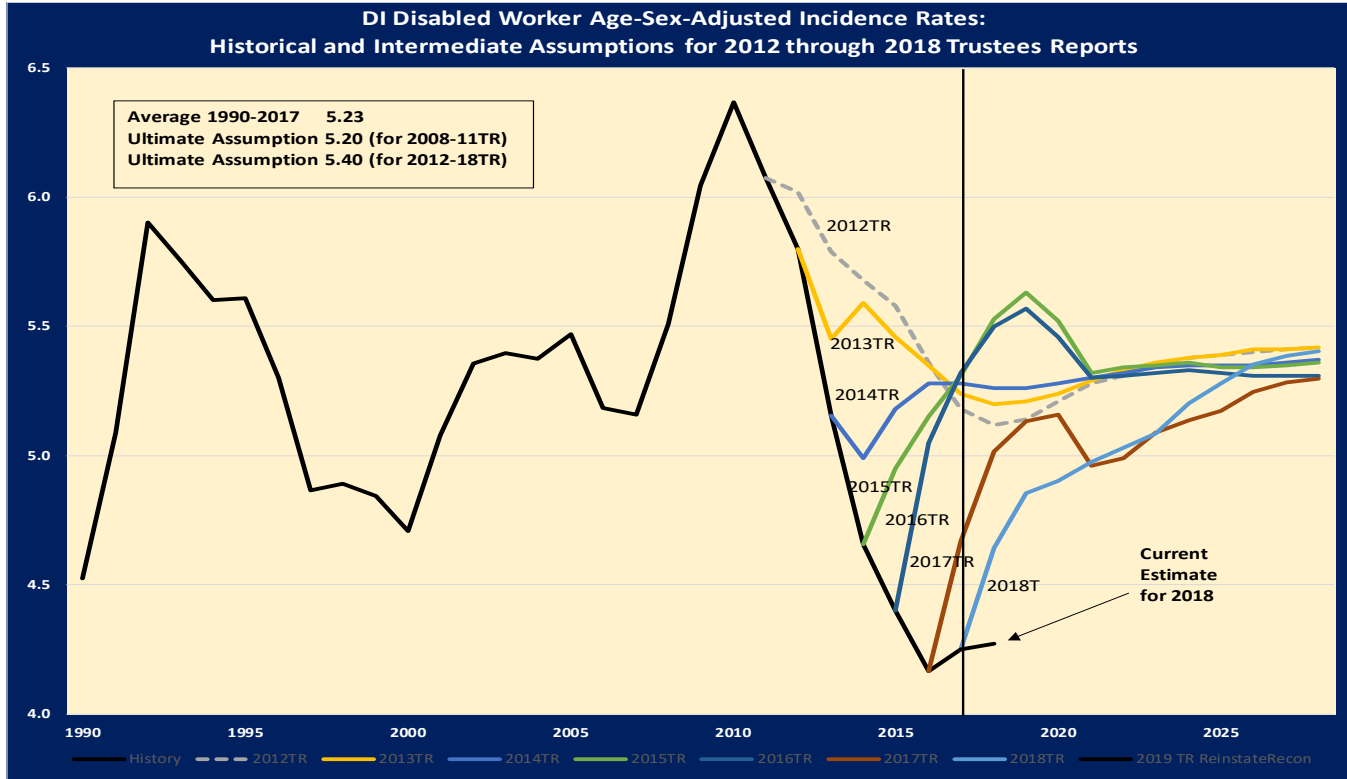
# DDS Disabled Worker Receipt Rates have Been Dropping Since 1990 at Higher Ages, and at all Ages Lately



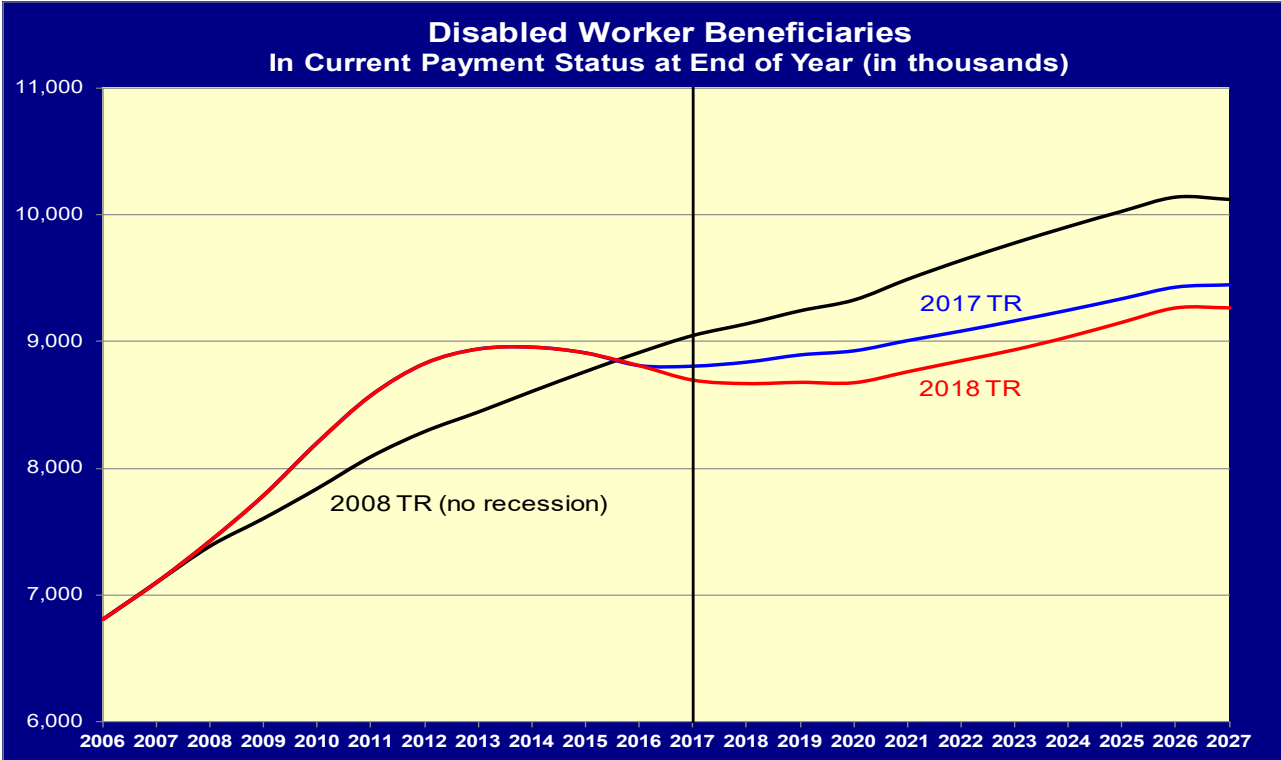


# Disability Incidence Rate Falls to Historic Lows

DI disabled worker incidence rate has declined to extraordinarily low levels since 2015



# Number of Disabled Workers Dropping

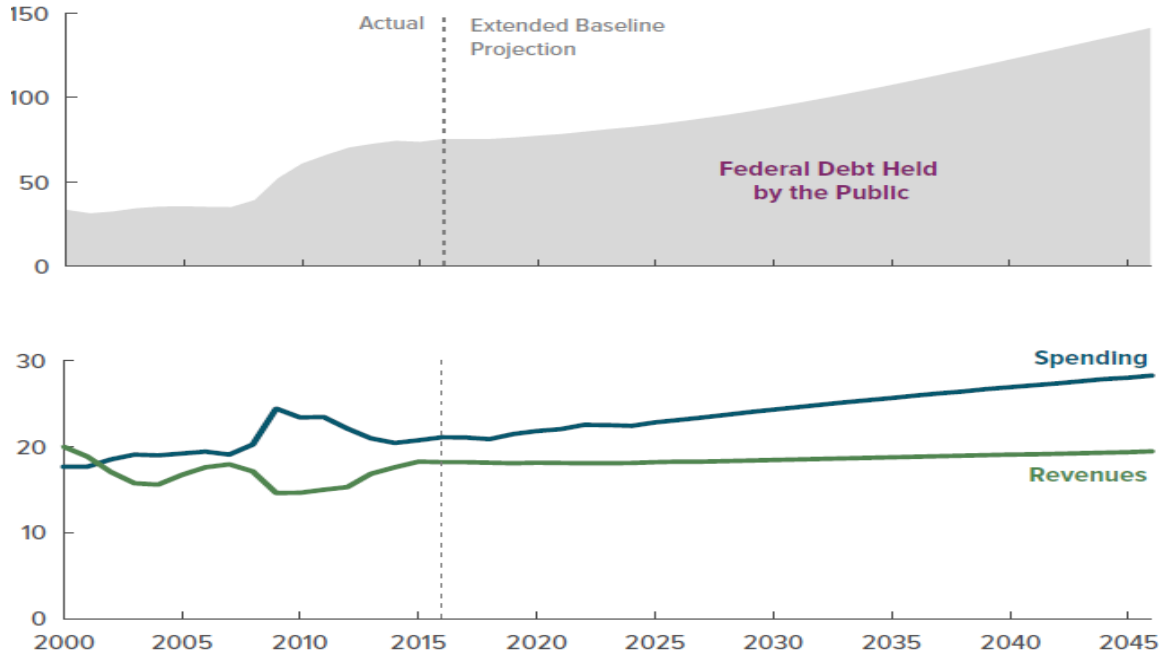


# But, Wait—How About Budget Scoring?

## Do entitlements really borrow?

### Federal Debt, Spending, and Revenues

Percentage of Gross Domestic Product

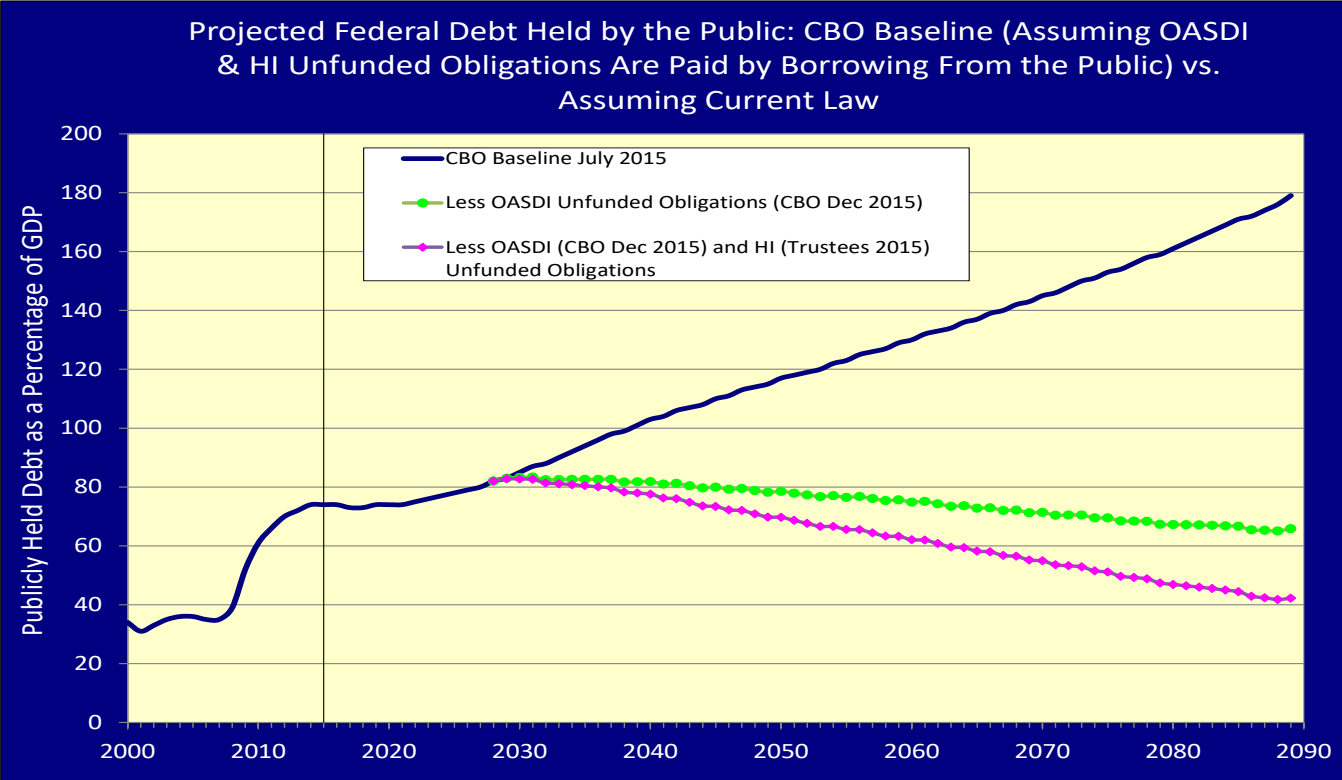


Source: Congressional Budget Office, June 2016

# Actually, NO. Budget Scoring Is Inconsistent With the Law, and All Past Experience.

- See Actuarial Opinion in the 2018 TR (also 2014—2017 TRs)
  - 1) After reserves deplete, full scheduled benefits cannot be paid under the law.
    - *Budget deems these “expenditures” creating publicly held debt*
  - 2) Reserve redemptions spend excess “earmarked” revenues invested in an earlier year.
    - *Budget deems these “a draw on other Federal resources”*
  - 3) Trust Fund operations have NO direct effect on total Federal debt subject to ceiling in any year—and no *net* effect on publicly held debt.
    - *Budget says redemptions increase Federal debt held by the public and often gives no credit for reserve accumulation*

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



# The Bottom Line

- Long-term projections provide information to assess solvency and changes needed to eliminate shortfalls
- Adjustments needed:
  - Lower scheduled benefits by about 23 percent
  - Increase scheduled revenue by about 29 percent
  - Or some combination
  - So Congress must and WILL act, as always
- Straightforward solutions:
  - Comprehensive changes *needed* by 2034

# 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
  - Some say increase it with the CPI-E (based on purchases of consumers over age 62)

# Some Ways to Increase Revenue

- 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
- Maintain larger trust fund reserves?
  - Added interest can lower needed taxes



# For More Information Go To

## <http://www.ssa.gov/oact/>

- There you will find:
  - This and all prior OASDI Trustees Reports
  - 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; including stochastic
  - Extensive databases
  - Congressional testimonies