Social Security Actuarial Status

The 2017 Annual Report of the Board of Trustees of the OASI and DI Trust Funds

Key Results under Intermediate Assumptions

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American Enterprise Institute

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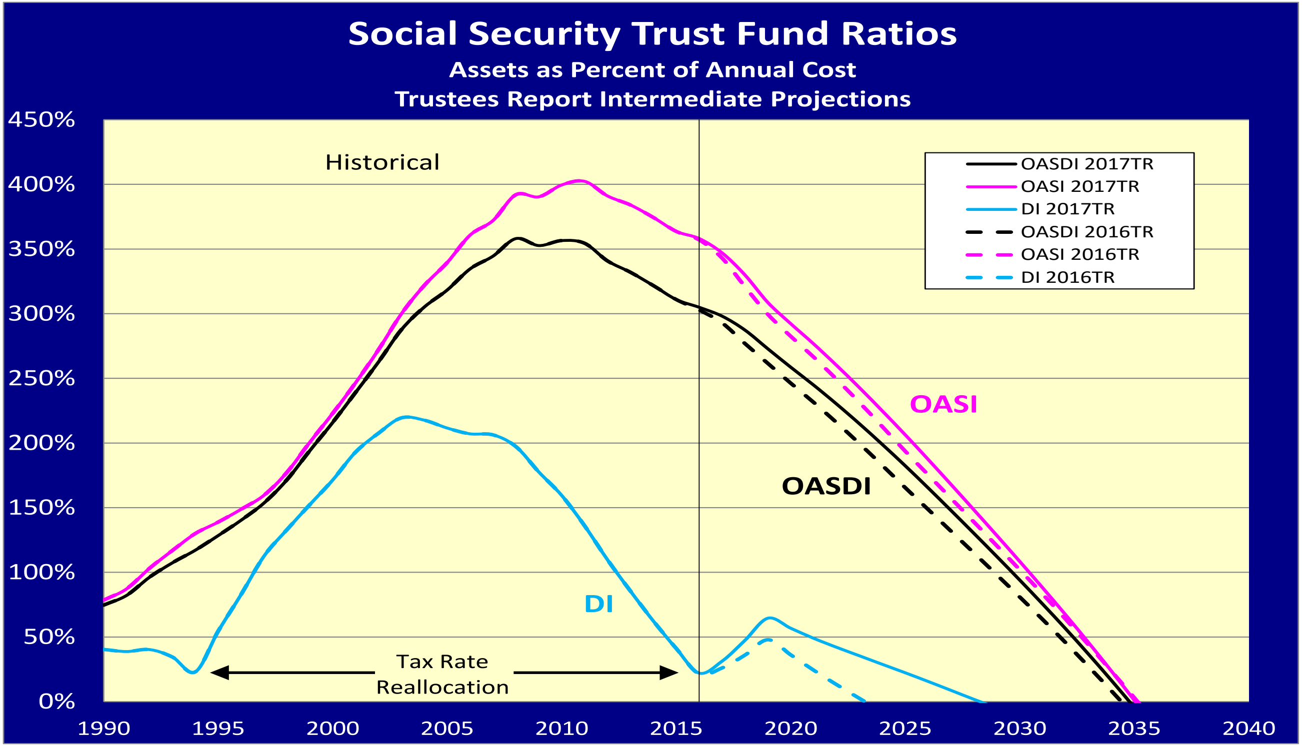
What Is the Legislative Mandate for the Annual Report?

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

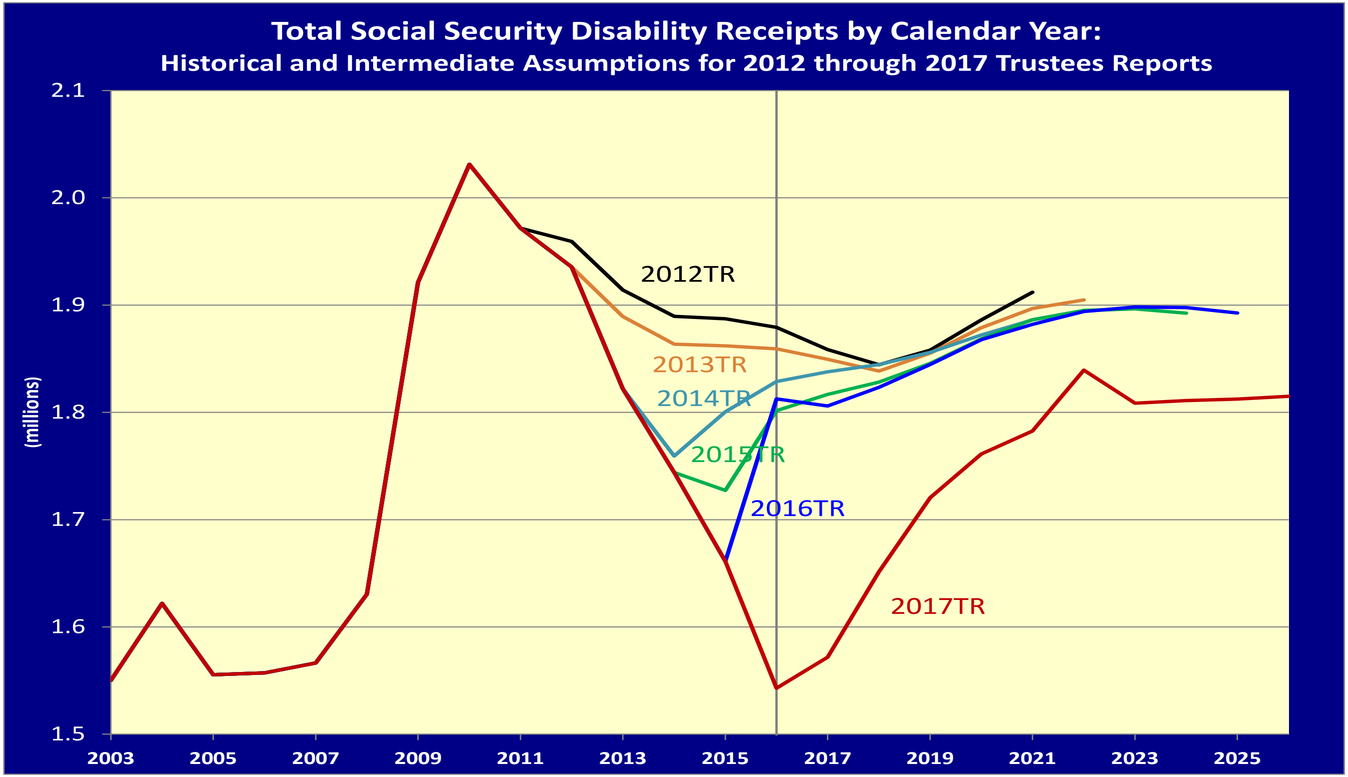
SOLVENCY: OASDI Trust Fund Reserve Depletion 2034 (same as last year)

- Reserve depletion date varied from 2029 to 2042 in reports over the past 25 years (1992-2017)
- ***DI Trust Fund — reserve depletion in 2028, five years later than last year***
  - Due largely to lower recent and near-term disability applications and incidence rate



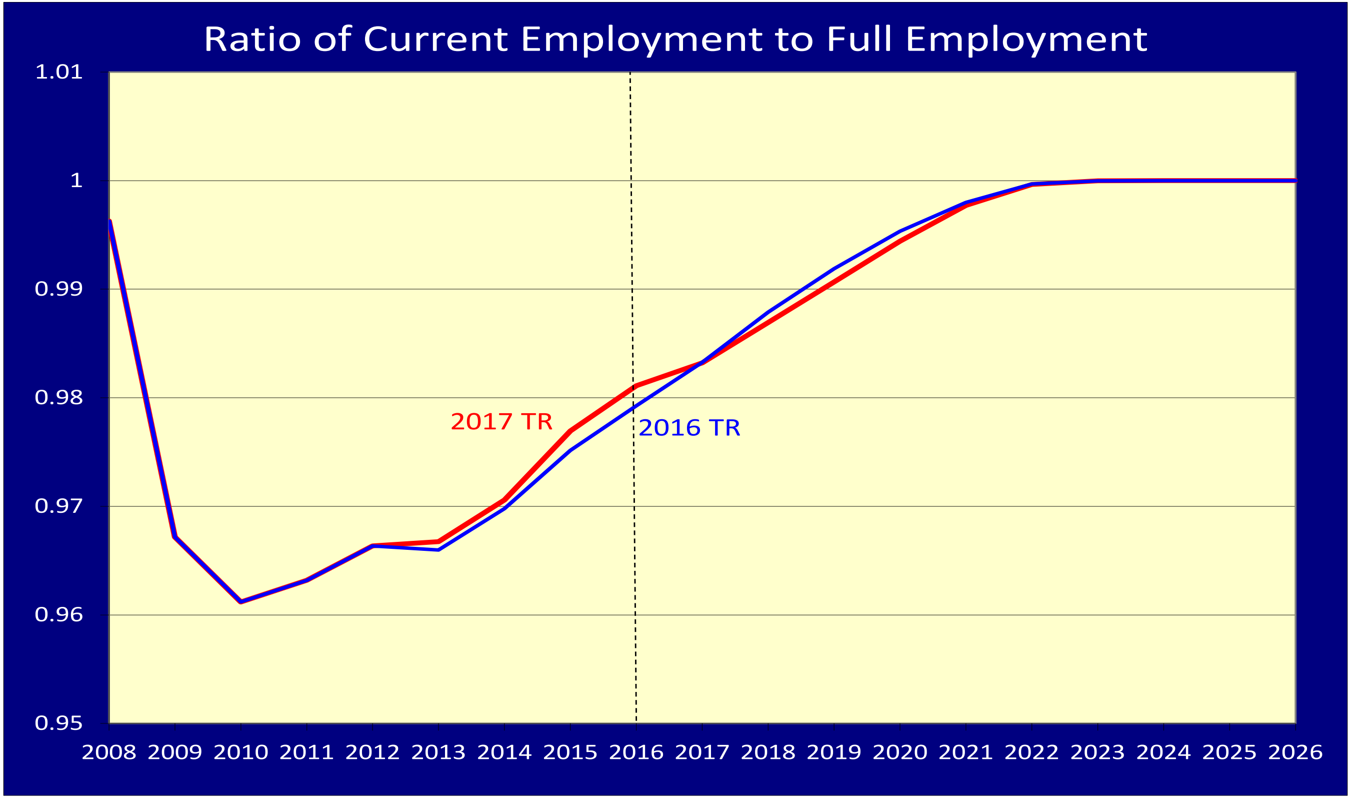
Applications for Disability Benefits Continue to Fall

At the peak of the last economic cycle in 2007, applications were low, but increased rapidly in the recession to over 2 million in 2010. In 2016, with the economy still below the sustainable full-employment level, applications have dropped below the 2007 level



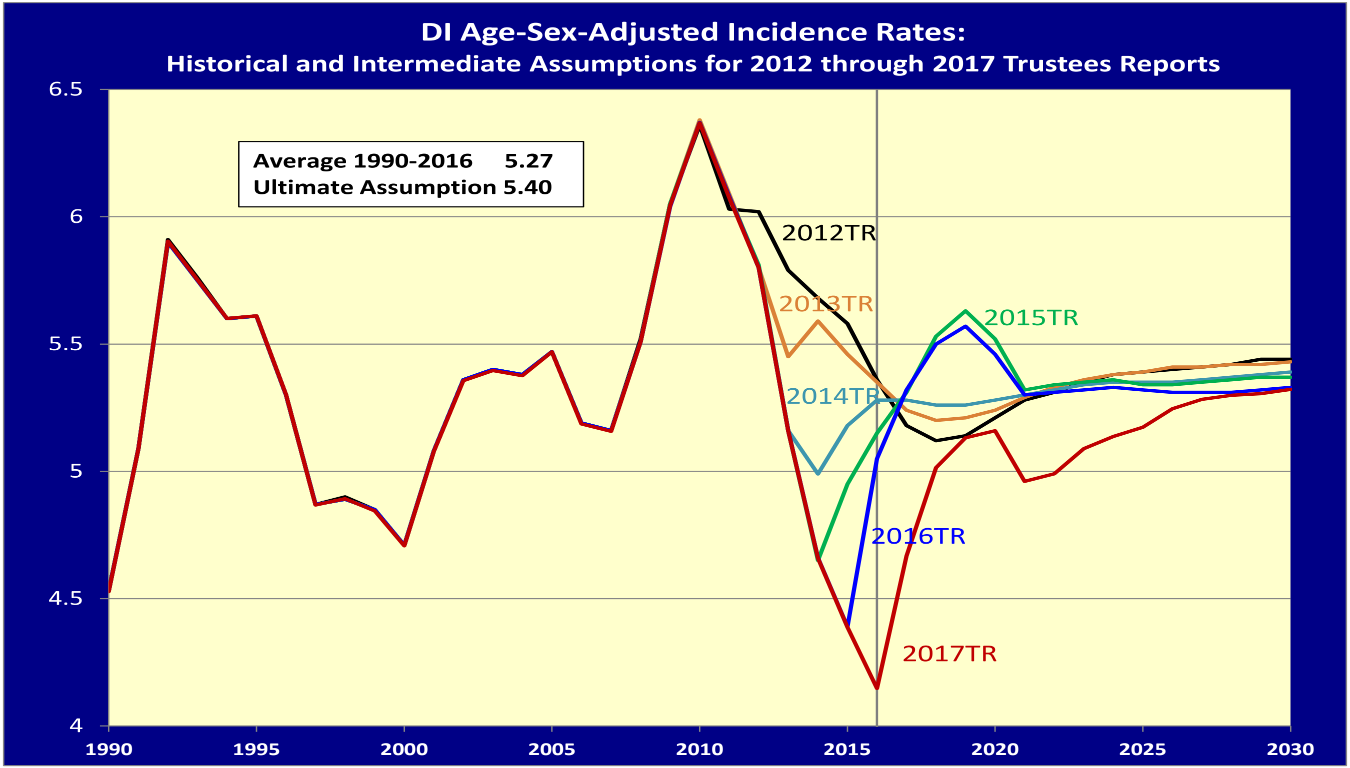
Employment Remains below Full Employment

Despite the low unemployment rate (4.8 percent in 2016),
employment is estimated to be about 2 percent below full employment level



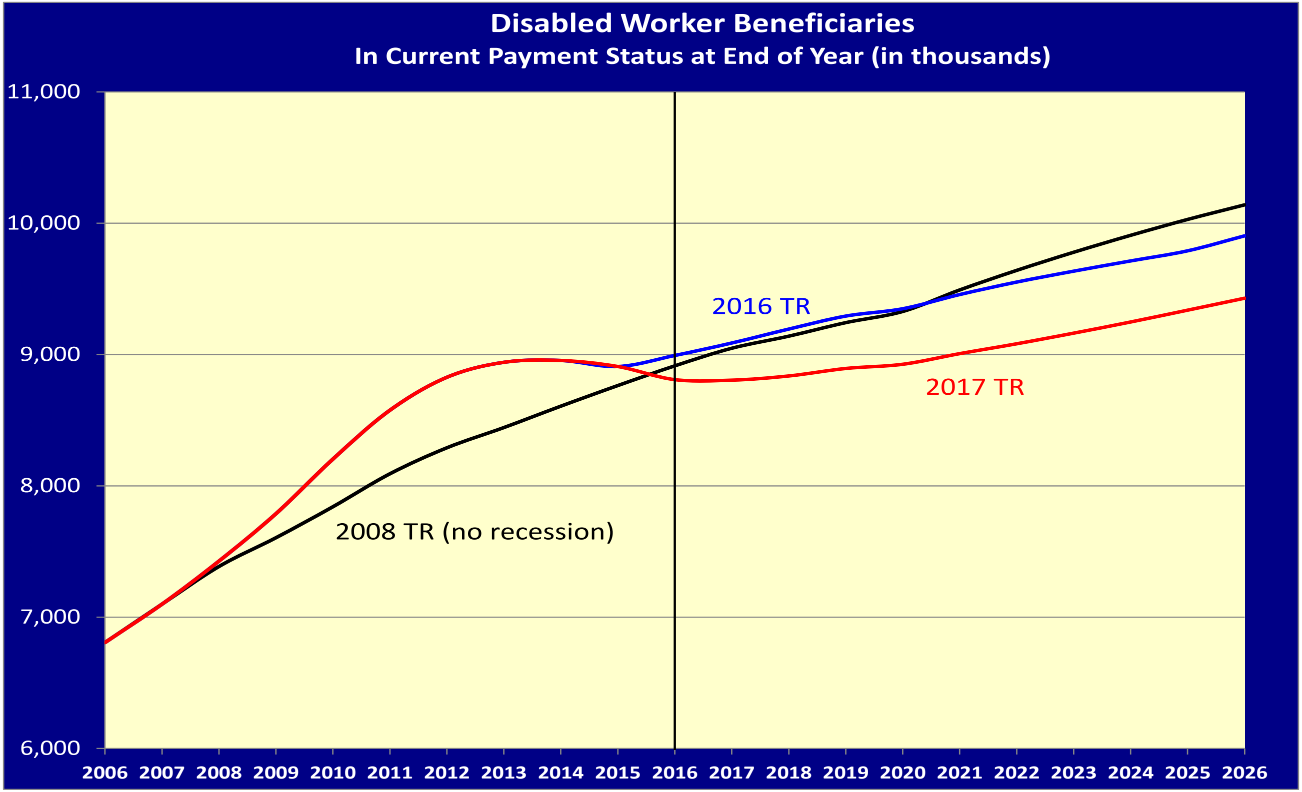
Disability Incidence Rate Falls to Historic Lows

DI disabled worker incidence rate rose sharply in the recession, and has declined since the peak in 2010 to an extraordinarily low level for 2016



Fewer Disabled Worker Beneficiaries

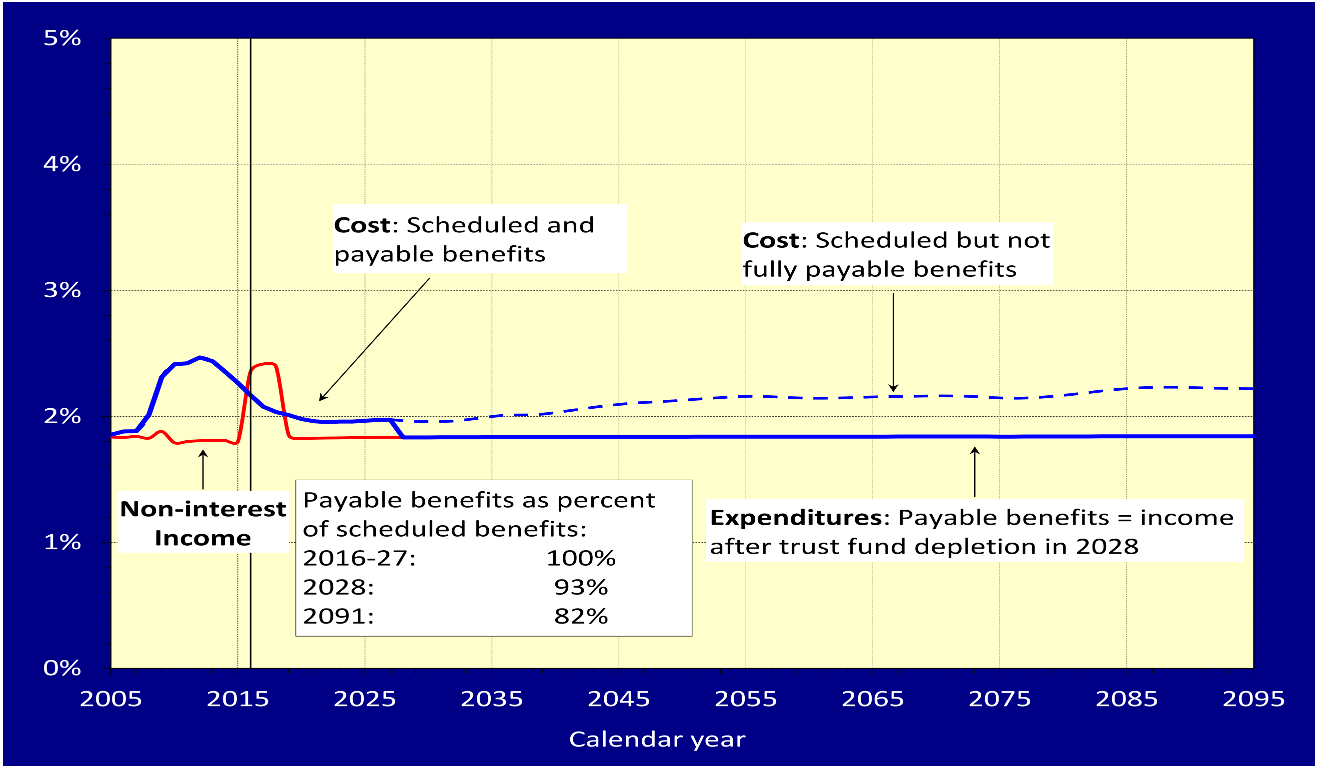
Fewer now and in near term based on recent applications and incidence rates



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

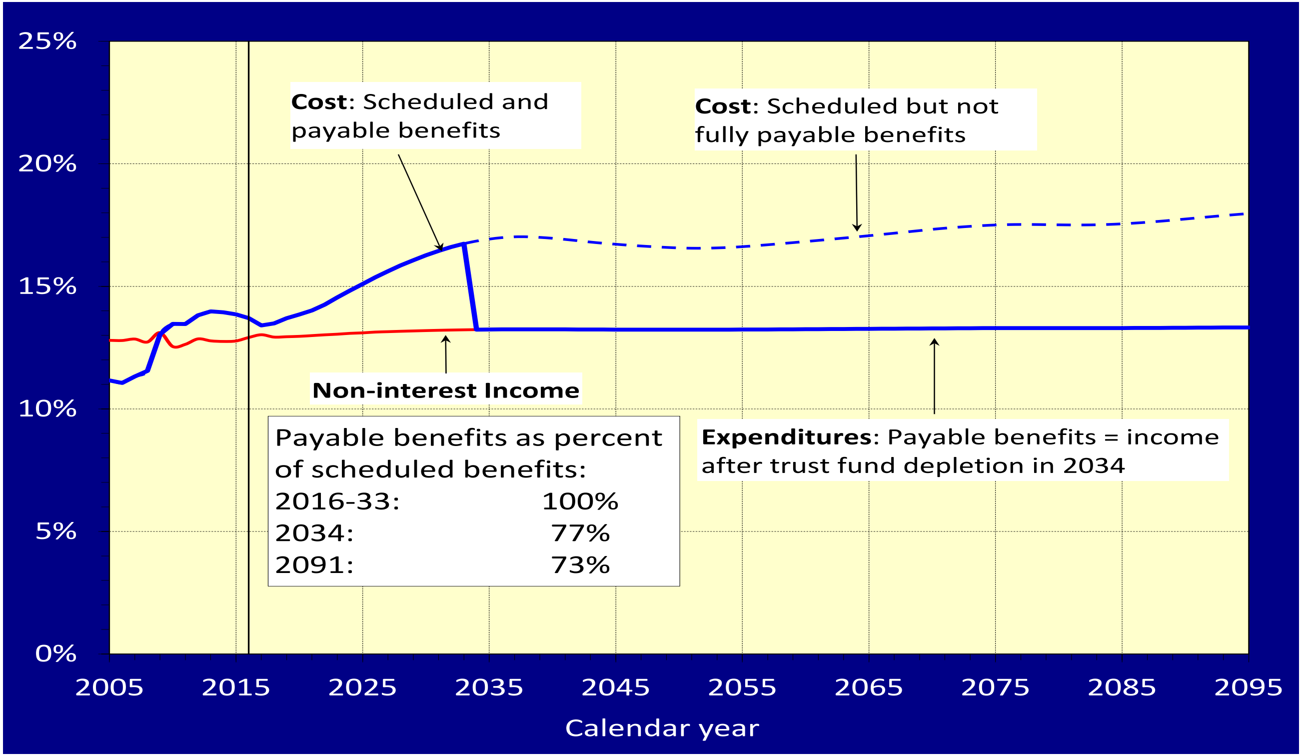
93% of scheduled benefits still payable at trust fund reserve depletion

Annual deficit in 2091: 0.38 percent of payroll — 0.01 percent smaller than last year



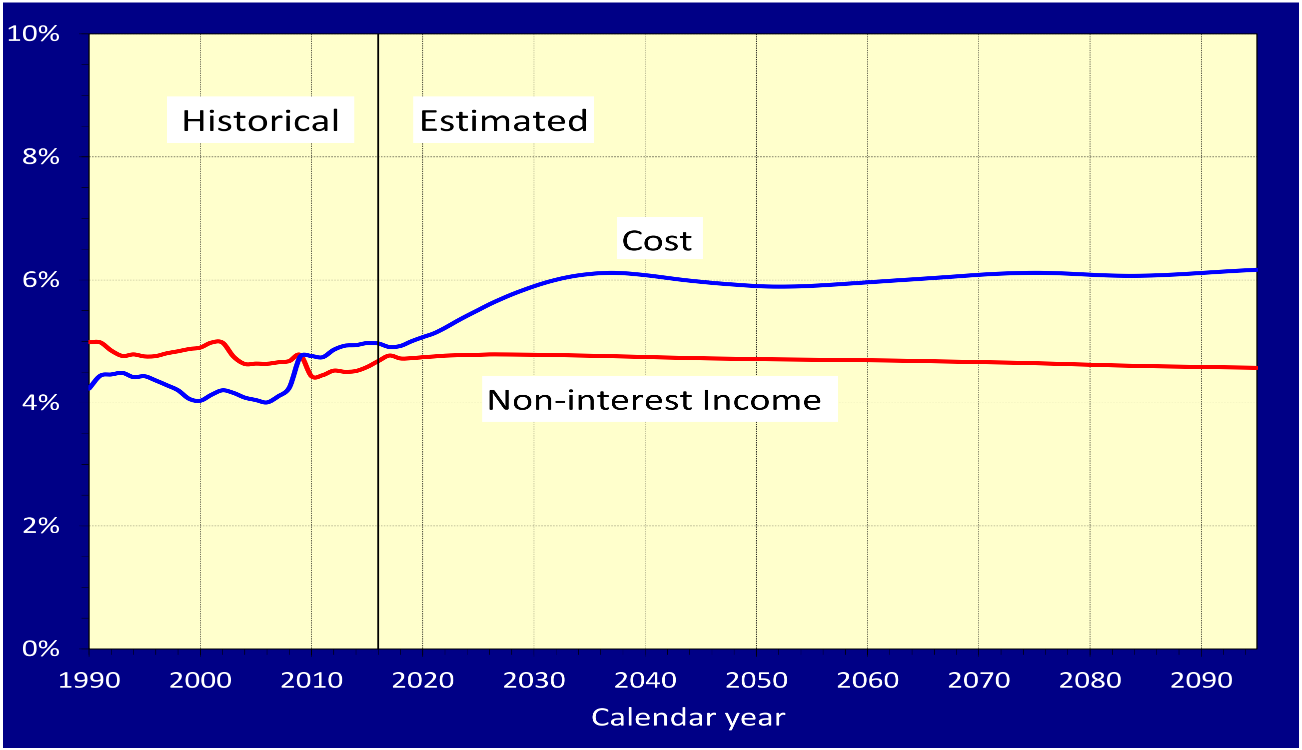
OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll
Persistent Negative Annual Cash-Flow Balance Starting in 2010

77% of scheduled benefits still payable at trust fund reserve depletion
Annual deficit in 2091: 4.48 percent of payroll — 0.13 percent larger than last year

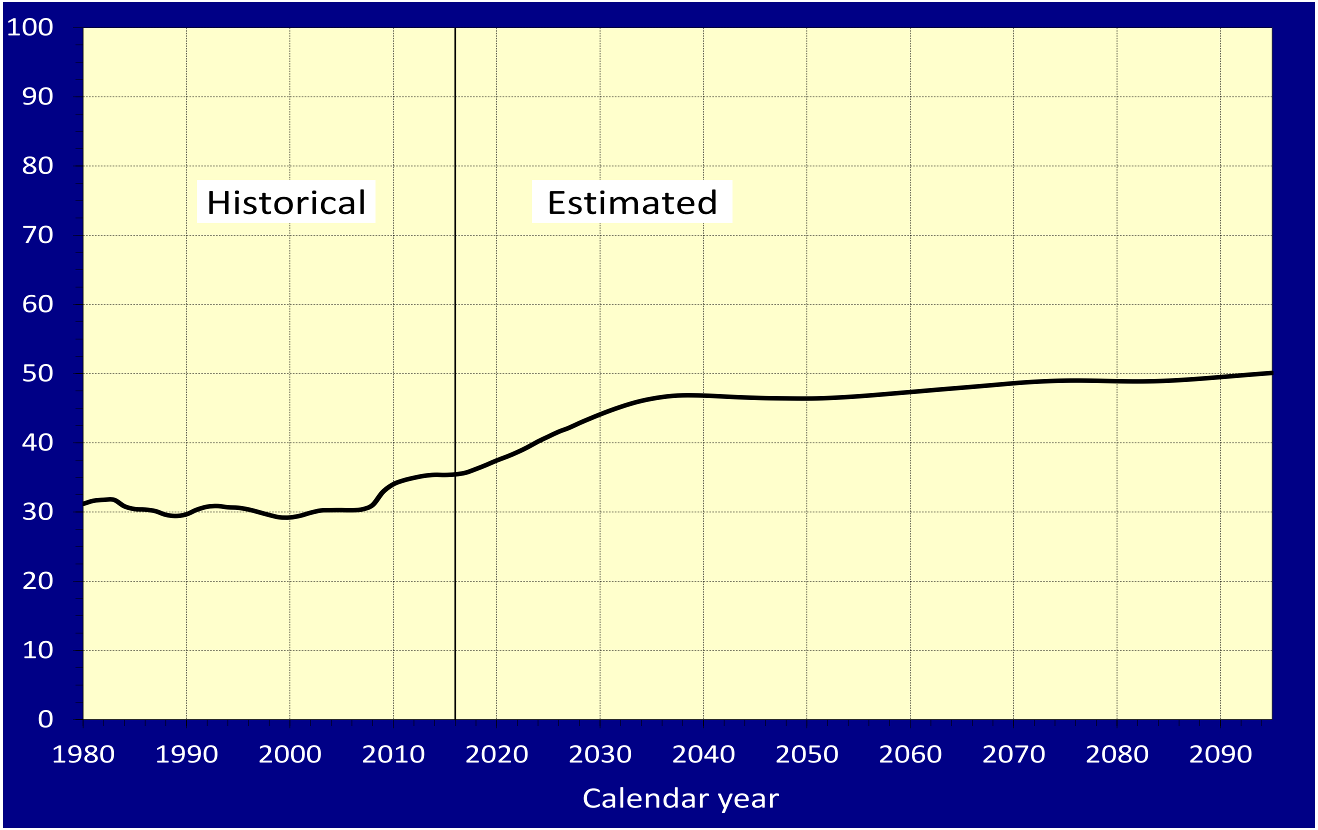


SUSTAINABILITY: OASDI Cost as Percent of GDP

Rises from a 4.2-percent average in 1990-2008, to about 6.1% by 2037, then declines to under 5.9% by 2050, and generally increases to 6.1% by 2091

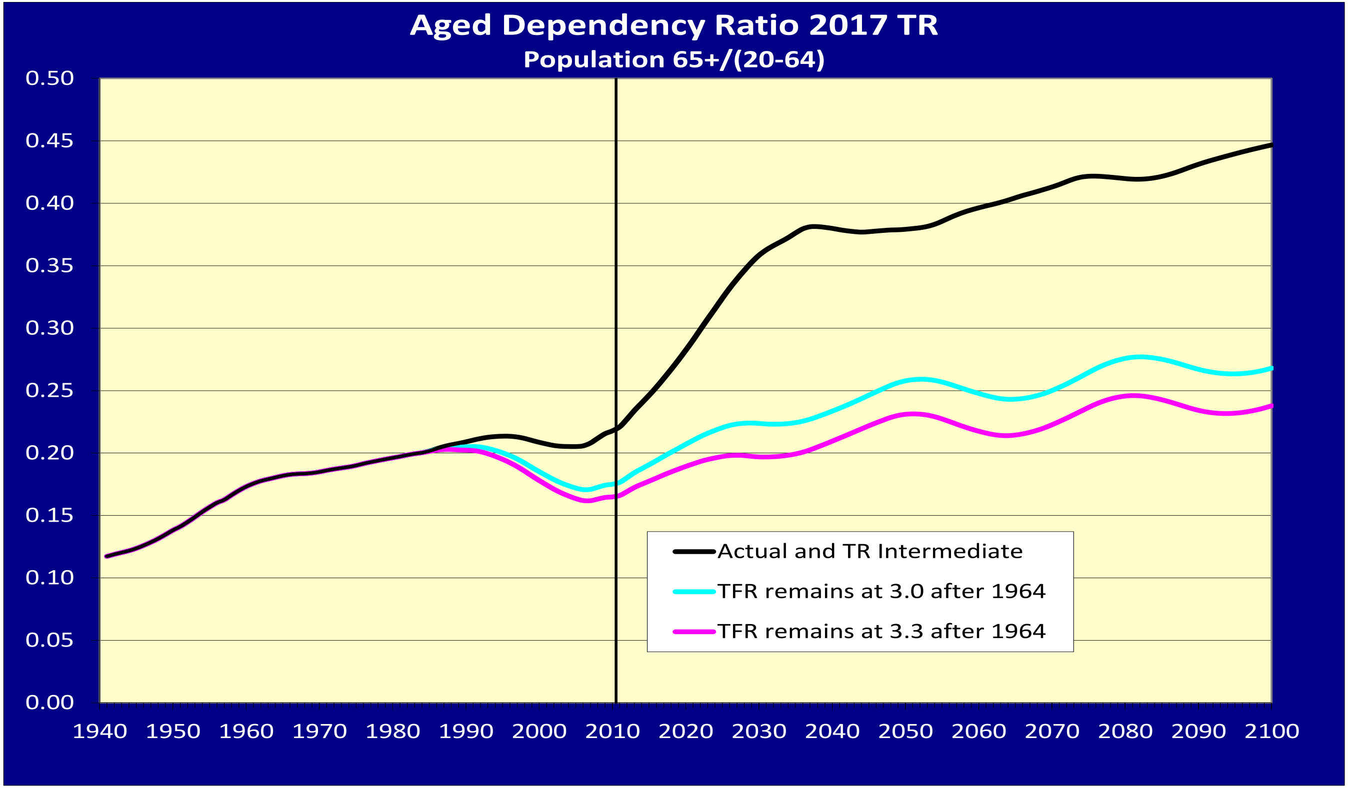


OASDI Beneficiaries per 100 Workers

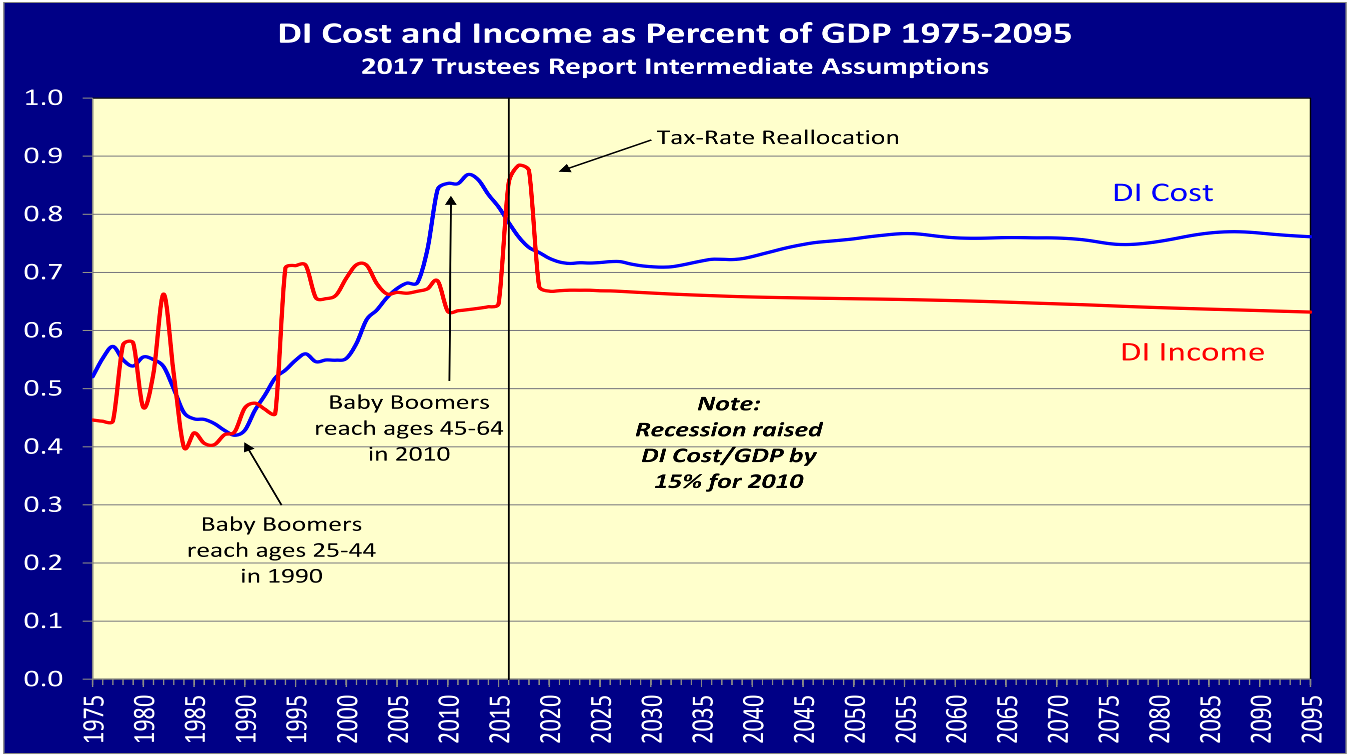


Aging (change in age distribution)

mainly due to drop in birth rates

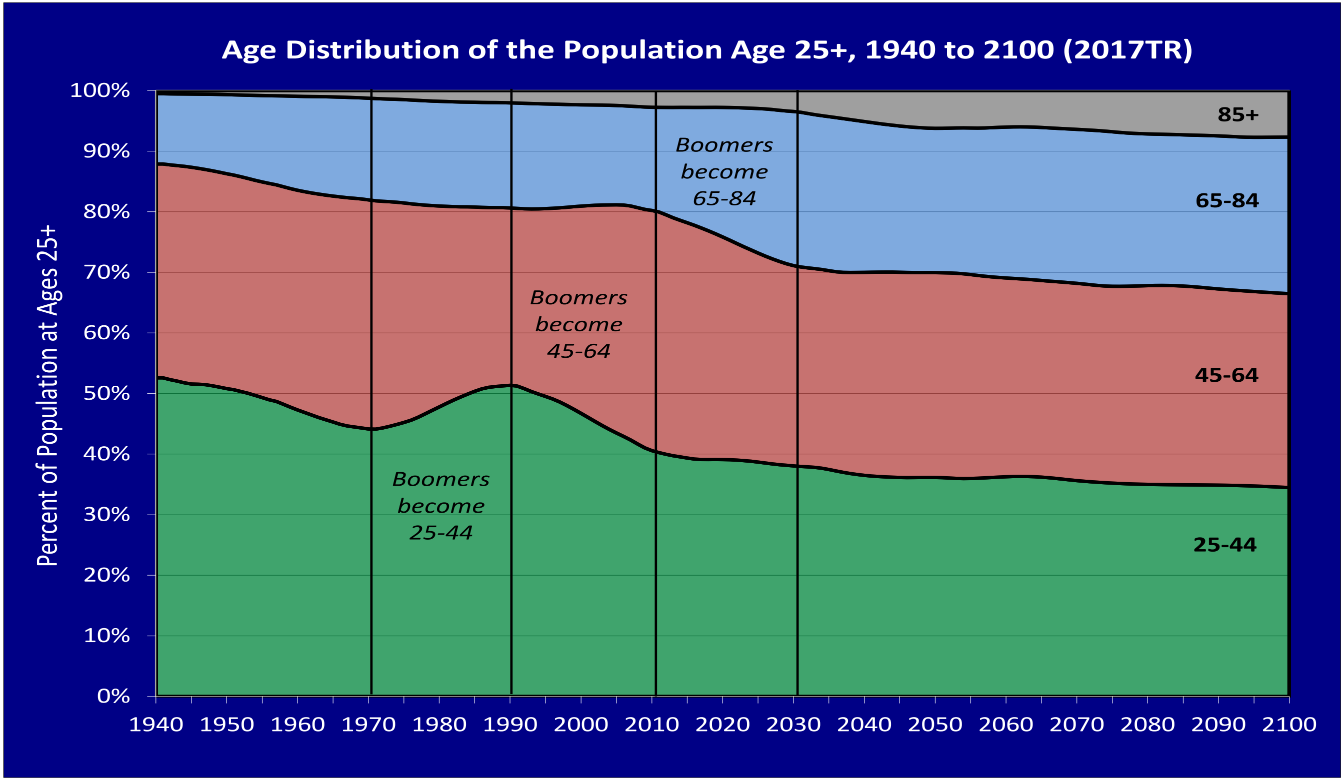


DI Cost as Percent of GDP Has Peaked, but Scheduled Income Is Too Low



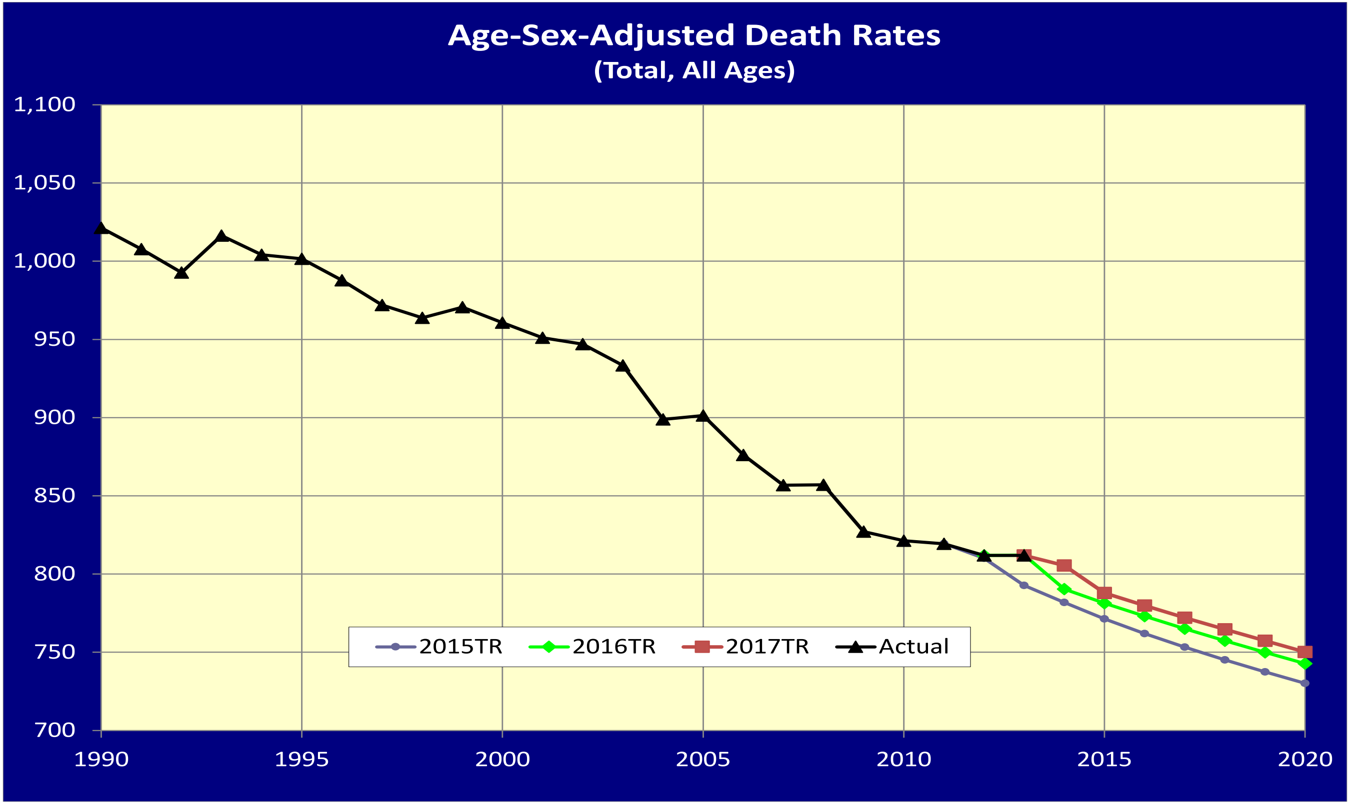
Changing Adult Age Distribution:

From 1990-2010, boomers increase share at prime disability ages (45-64)
From 2010-2030, boomers will increase share at retirement ages (65+) as they are replaced at working ages



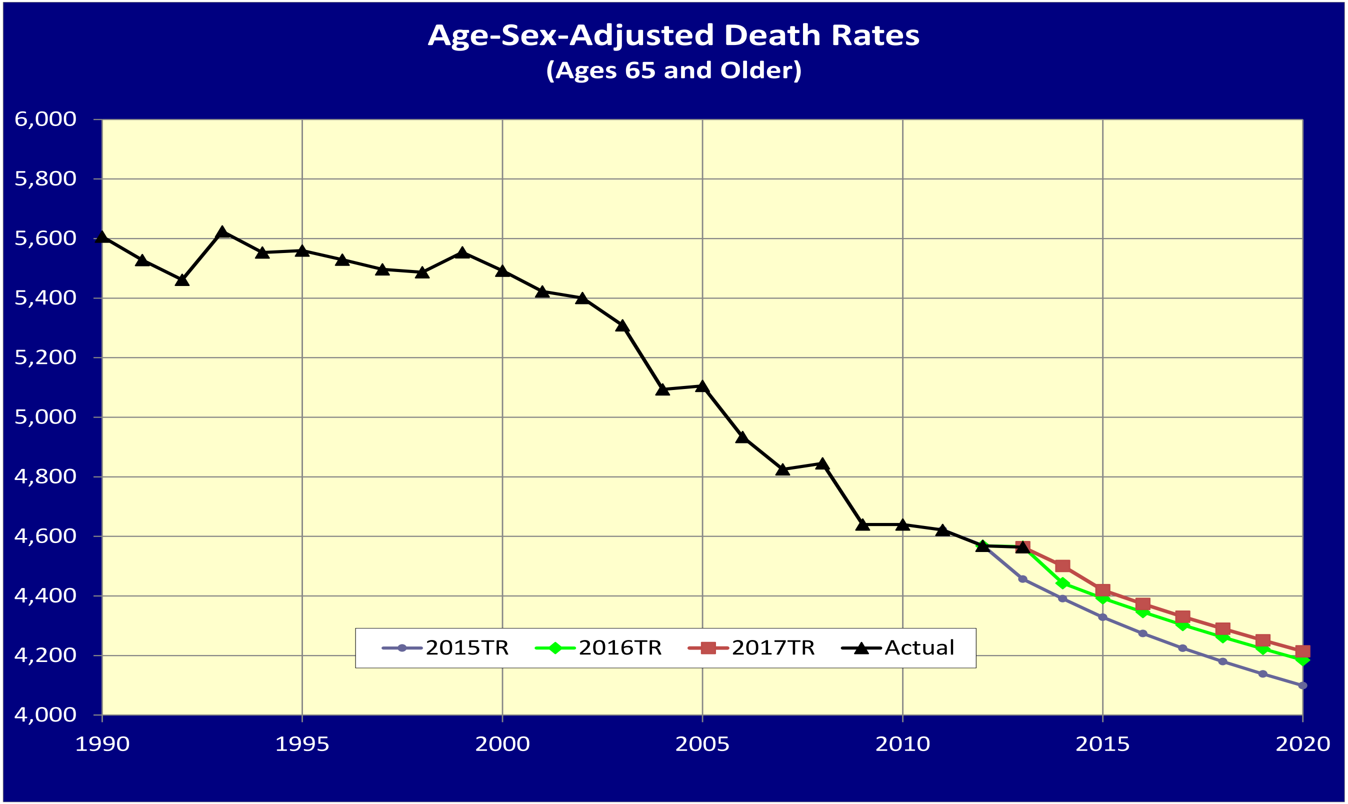
Mortality Experience: All Ages

Reductions continue to fall short of expectations



Mortality Experience: Ages 65 and Older

Reductions since 2009 continue to fall short of expectations



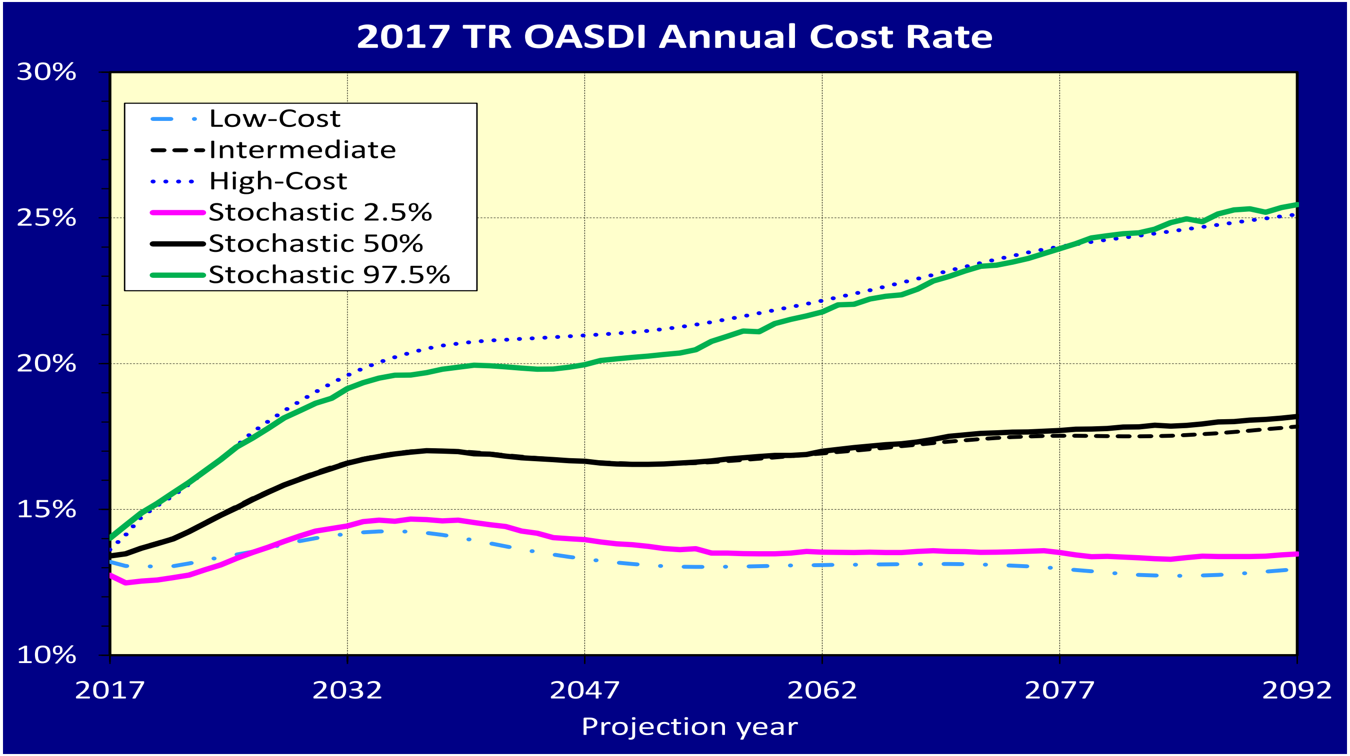
Principal Reasons for Change in 2017 Report

Actuarial Balance—Net Change of -0.17 percent of payroll

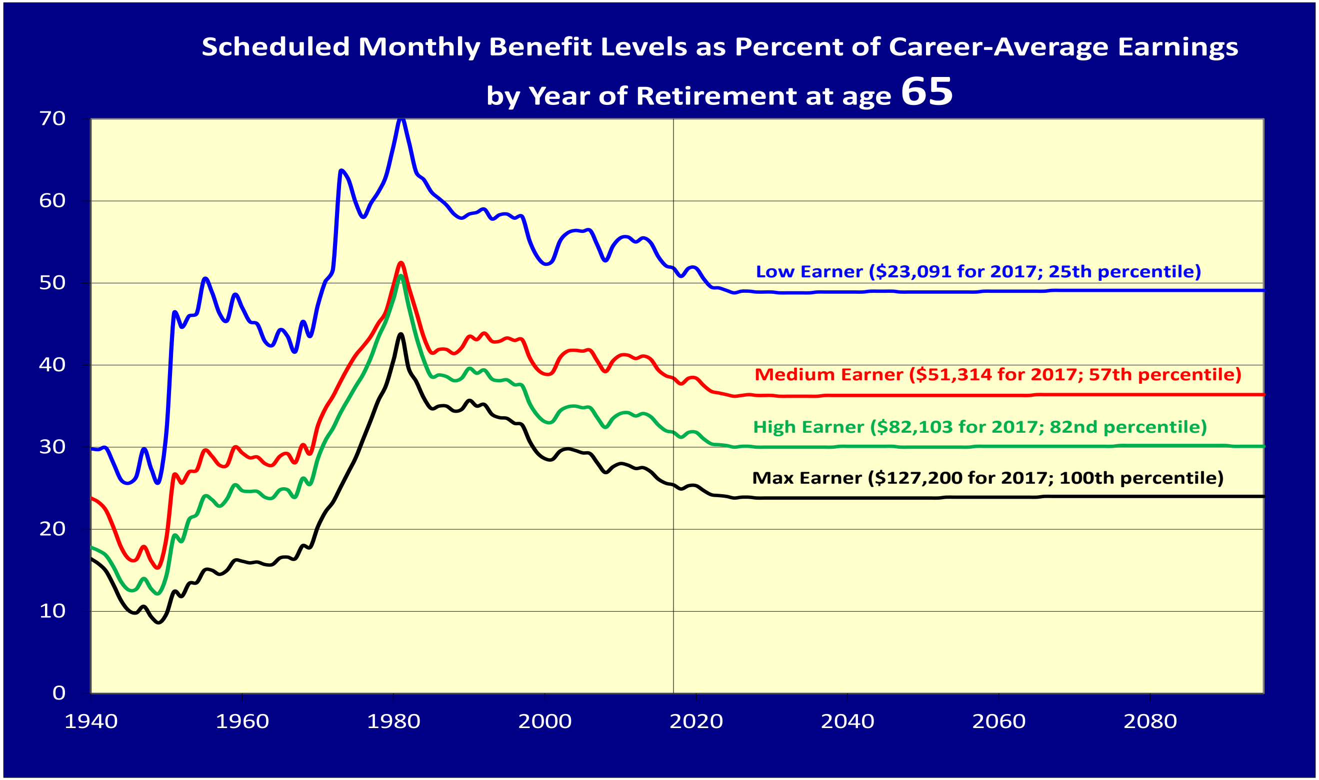
• Valuation Period	-0.05 percent
• Higher recent mortality	+0.04 percent
• Lower recent fertility, immigration and other data updates	-0.07 percent
• Lower level of productivity & GDP (down by about 1 percent)	-0.02 percent
• Lower avg real wage differential in near- and long-term	-0.03 percent
• Starting values and other near-term economic assumptions	-0.03 percent
• Lower recent and near-term disability applications and incidence rate	+0.03 percent
• Other new data and methods improvements	-0.04 percent

Uncertainty Illustrations

Unrealistically narrow stochastic results due to lack of central tendency variation

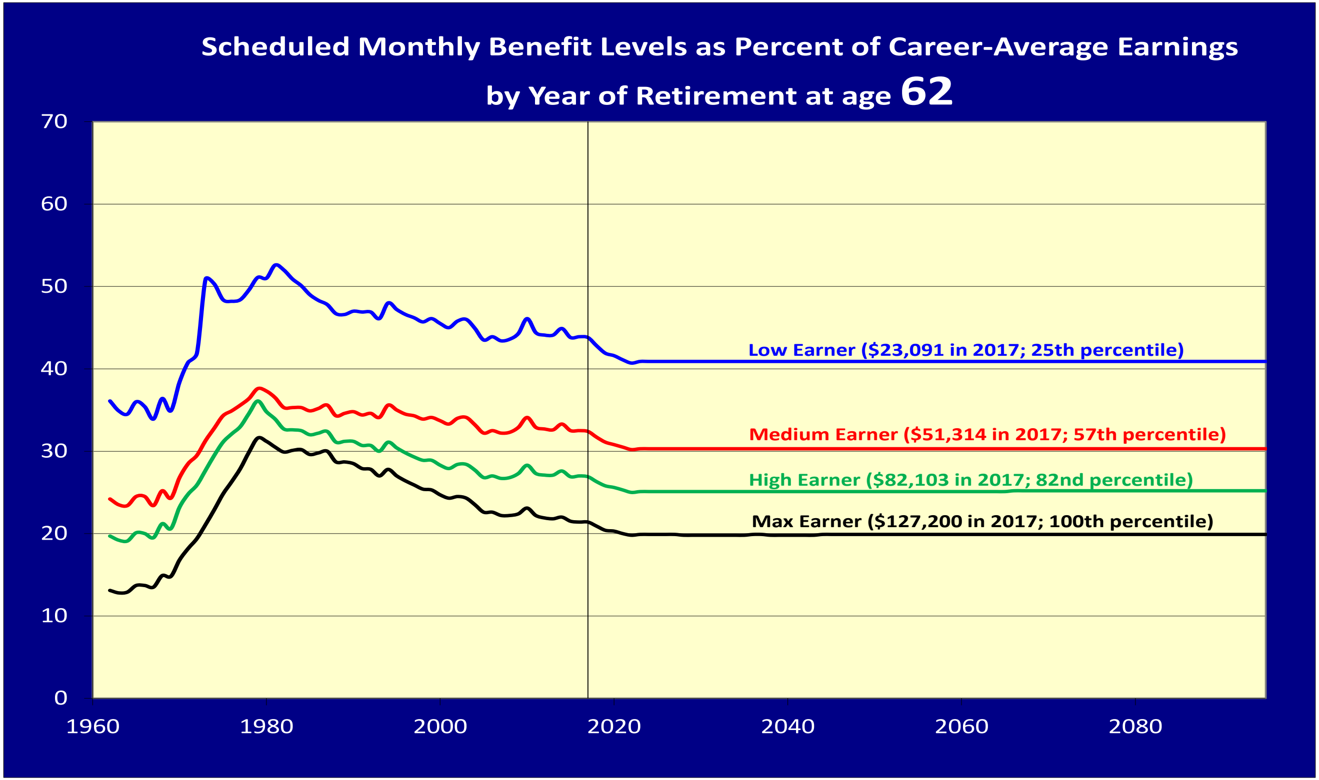


Replacement Rates Based on the 2017TR



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

How About at Age 62, Where Most Start Benefits?



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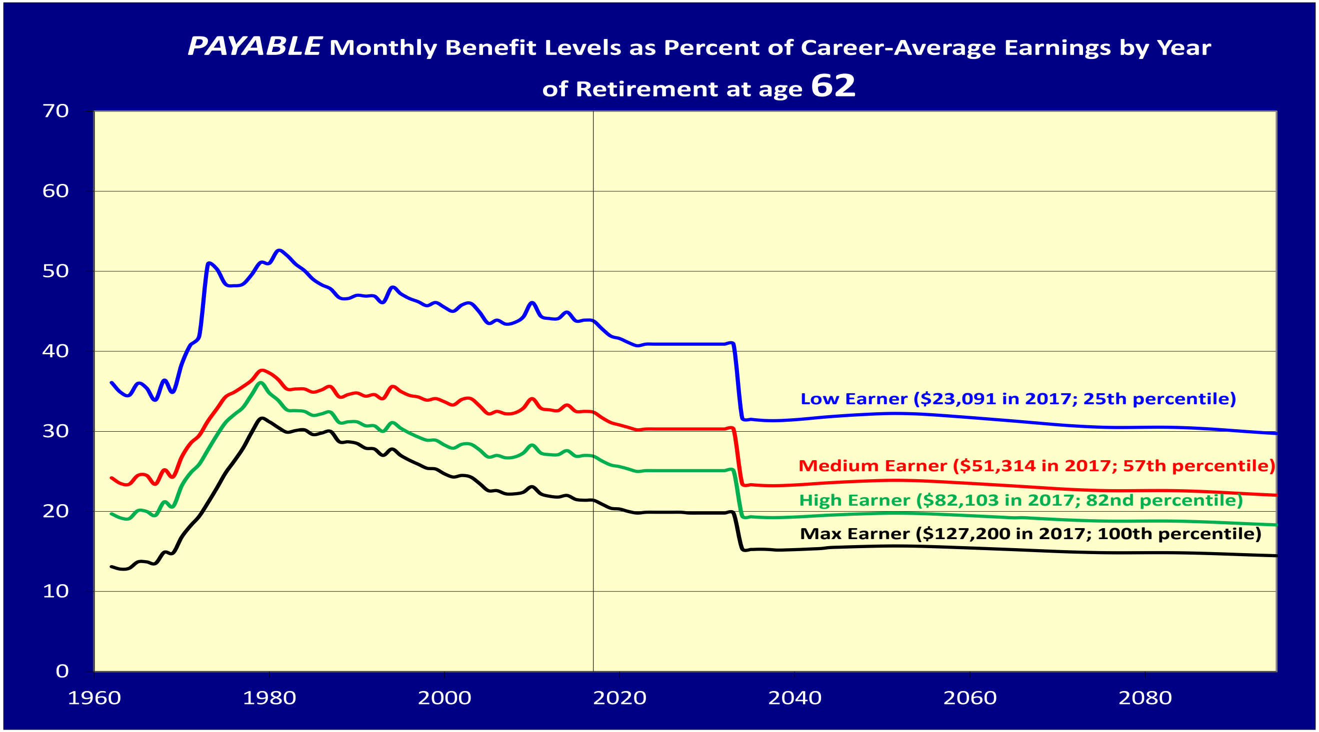
Payable Benefits Under the Law, After Trust Fund Reserves Are Depleted, Are Even Lower



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How About Interaction Between Social Security Trust Funds and the Federal Budget?

- *See Actuarial Opinion in the 2017 TR (also 2014, 2015, and 2016 TR)*

  1) After reserves deplete, \$12.5 trillion unfunded obligation through 2091 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***

The Bottom Line

- Long-term projections provide information to assess solvency and changes needed to eliminate shortfalls
- If trust fund reserves were to deplete:
  - Full benefits cannot be paid timely
  - NO pressure on the Budget or Federal Debt
  - So Congress must and WILL act, as always
- Straightforward solutions:
  - Add revenue and/or lower cost for OASDI
    - Comprehensive changes ***implemented*** by 2034

How to Fix Social Security Long-Term

Make choices addressing OASDI deficits 2034-2091:

- Raise scheduled revenue after 2033 by about 33%: increase revenue from 4.6 to 6.1% of GDP
- Reduce scheduled benefits after 2033 by about 25%: lower benefits from 6.1 to 4.6% of GDP
- Or some combination of the two
- Invest trust funds for higher return?
  - Limited help—it is a PAYGO world
  - So invest in coming generations of workers

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

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