Testimony of Stephen C. Goss, Chief Actuary, Social Security Administration

June 9, 2022, Hearing of the US Senate Committee on the Budget: "Saving Social Security: Expanding Benefits and Demanding the Wealthy Pay Their Fair Share or Cutting Benefits and Increasing Retirement Anxiety"

Chairman Sanders, Ranking Member Graham, and members of the committee, thank you for the invitation to speak with you today on the current financial status and future prospects for the Old-Age and Survivors Insurance and Disability Insurance programs, commonly referred to as Social Security.

Results of the 2022 Trustees Report

The annual report to Congress on the Social Security program is required by law to include the trust fund operations of the prior year, the projected operations of the next 5 years, and the actuarial status of the funds.

The data and projections in this year's report include the Trustees' best estimates of the effects of the COVID-19 pandemic and the ensuing economic recession and recovery. Assumptions for the 2022 report were set by mid-February of 2022. The pandemic is projected to have continuing significant effects on the Social Security program in the near term, and relatively little net effect over the long run. As we have seen since February, the future course of the pandemic is still uncertain.

At the end of 2021, the Social Security program was providing monthly benefits to about 65 million people: 56 million from the OASI Trust Fund and 9 million from the DI Trust Fund. During 2021, an estimated 179 million people had earnings covered by Social Security and paid payroll taxes on those earnings.

The economic recovery from the brief recession in 2020 has been stronger and faster than assumed in last year's report. As a result, the assumed 1-percent reduction in the level of labor productivity and GDP that was incorporated in the 2021 report is eliminated for the 2022 report.

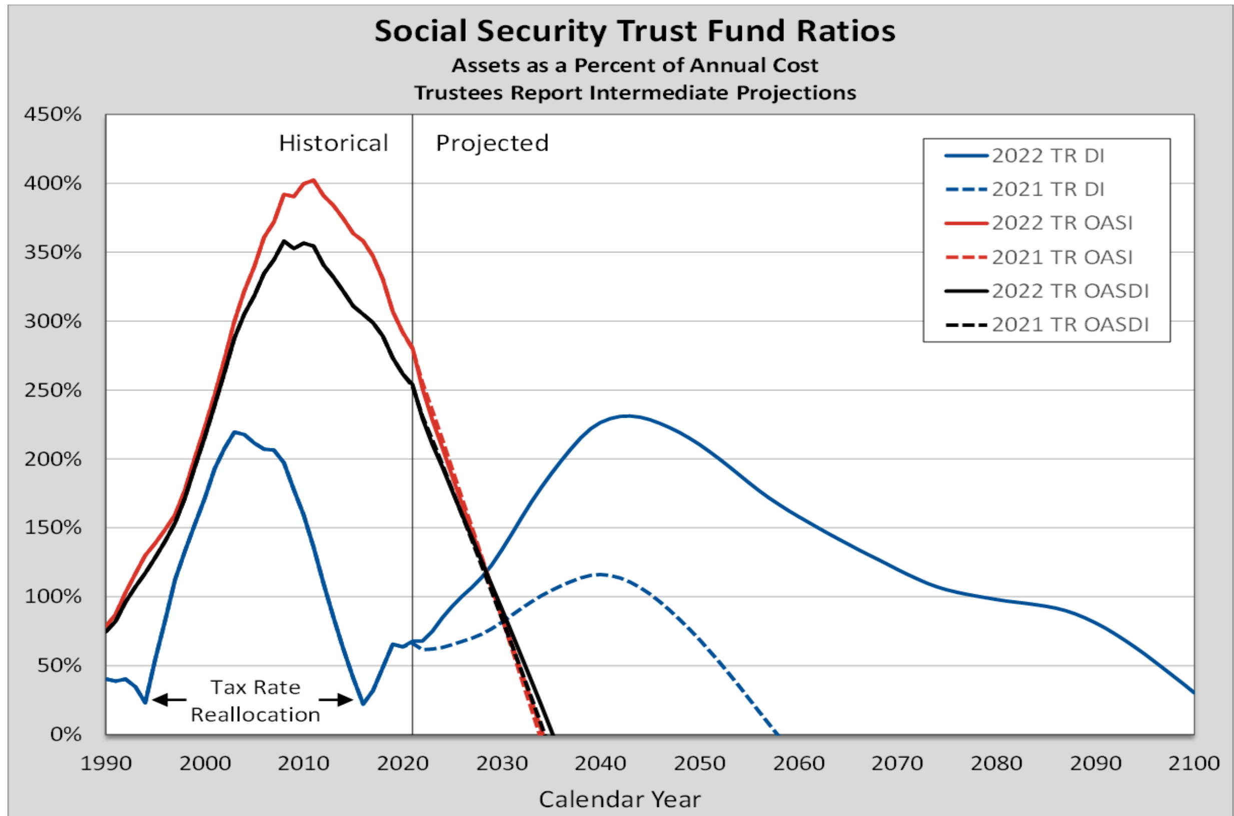
The December 2022 COLA is projected to be 3.8 percent for this year's report, down from 5.9 percent for the December 2021 COLA. However, recent increases in the CPI make it likely that the December 2022 COLA will be over 8 percent. We note that average earnings levels also appear to be increasing faster than had been assumed for this year's report. These two changes will tend to have offsetting effects on the financial status of the Social Security program.

Based on the intermediate assumptions, the long-range actuarial deficit for the combined OASI and DI Trust Funds over the next 75 years is now 3.42 percent of taxable payroll, 0.12 percent of payroll lower than the deficit of 3.54 percent of payroll shown in last year's report. This 75-year deficit equals 1.2 percent of the nation's economy, or GDP, over that period.

"Solvency" for the Social Security trust funds at any point in time means having sufficient asset reserves to allow for full, timely payment of all scheduled benefits that are due. Social Security does not have the ability to borrow under current law, and would be unable to pay scheduled benefits in full and on time if reserves become depleted, because continuing tax revenue would be less than monthly benefit obligations. As such, Social Security cannot contribute to the level of total federal

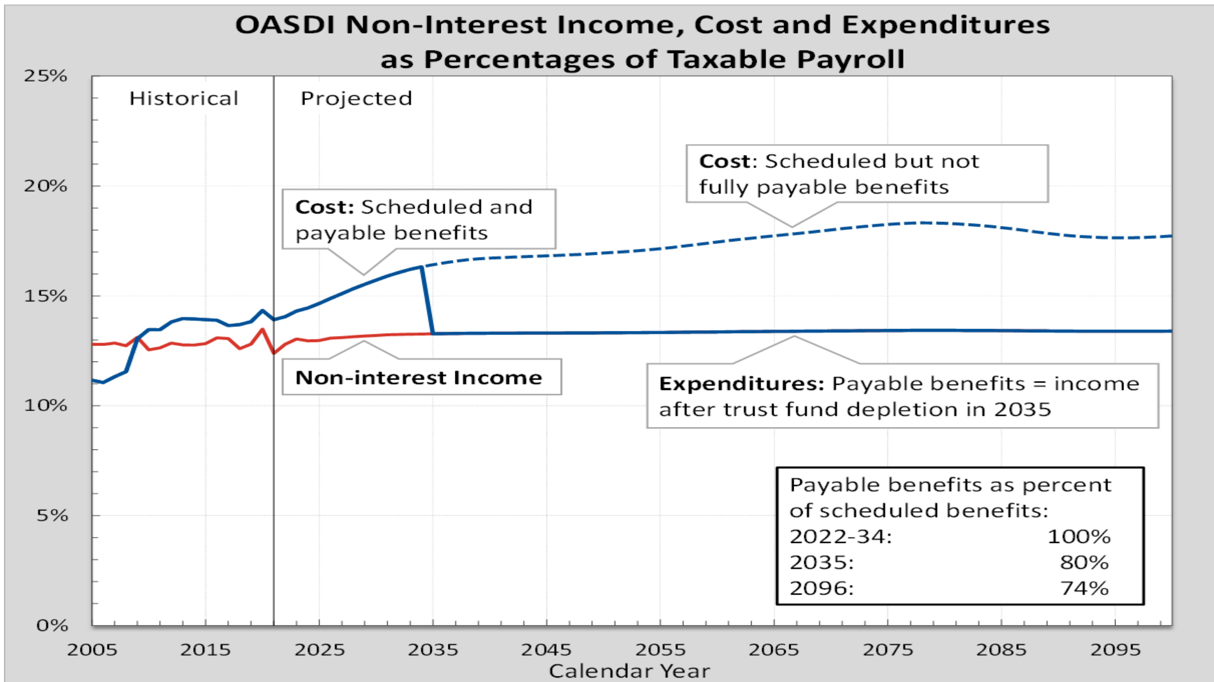
debt and can only diminish the mount of federal borrowing from the public to the degree the trust funds hold reserves in US Treasury securities.

As shown in the graph below, the level of the combined OASI and DI Trust Fund reserves is projected to decline until the combined reserves become depleted in 2035, one year later than projected in last year's report. Over the past 30 reports, the year of combined reserve depletion has ranged from 2029 to 2042. The OASI Trust Fund reserves are projected to become depleted in 2034, also one year later than in last year's report.

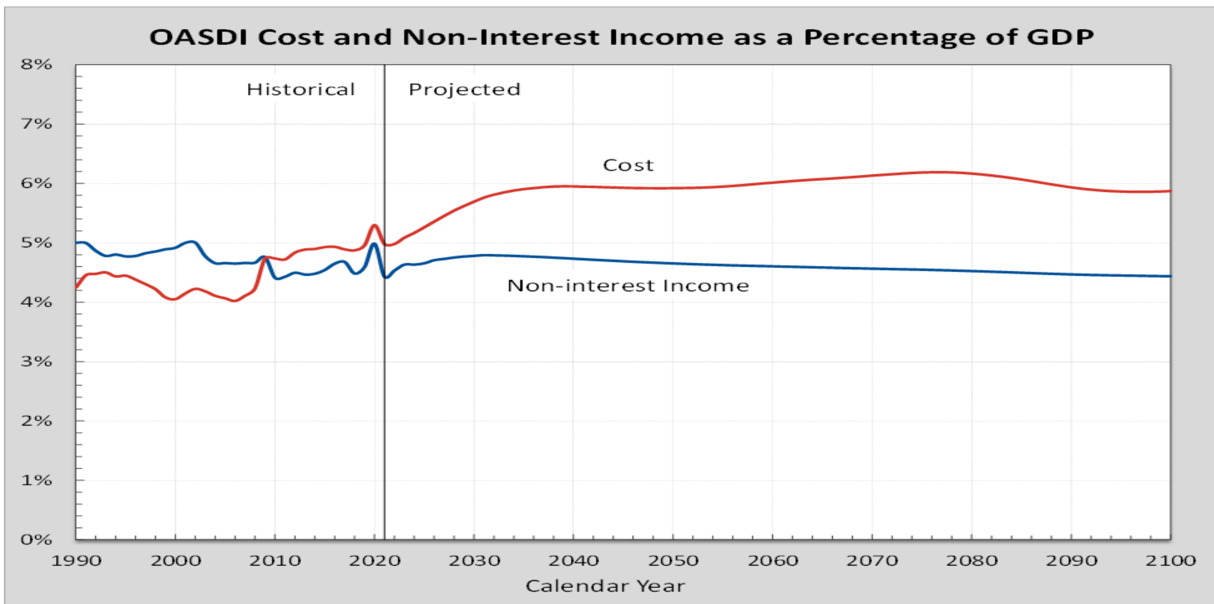


DI Trust Fund reserves are now projected to be positive through the end of the 75-year projection period. In last year's report, DI reserves were projected to become depleted in 2057. This change results largely from more favorable recent disability incidence rates and the reduction in the assumed ultimate disability incidence rate.

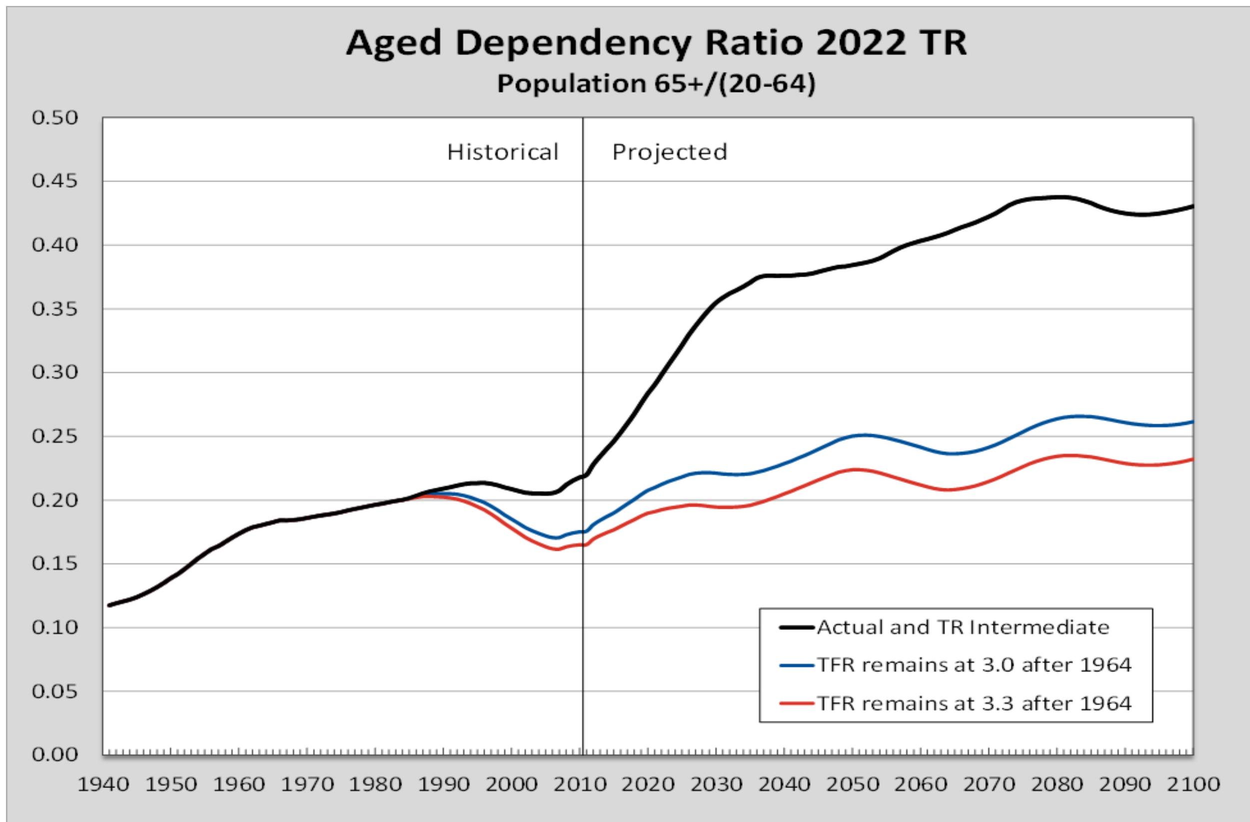
The graph below shows that Social Security program cost has been increasing more rapidly than non-interest income since 2008, and is projected to continue to do so through about 2040, after which time the difference between scheduled benefit cost and scheduled non-interest income will be fairly stable. Without legislative change, continuing revenue after reserve depletion in 2035 would be sufficient to finance 80 percent of scheduled cost, declining to 74 percent by 2096.



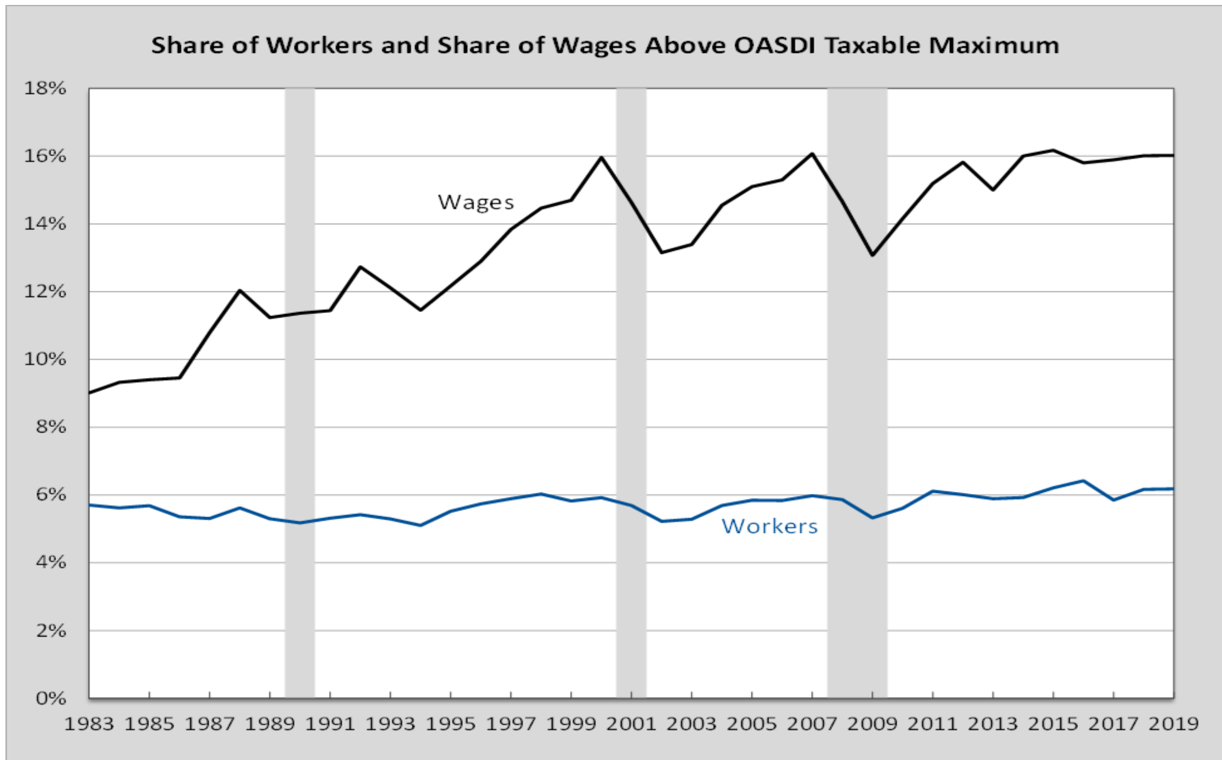
It is also useful to consider the scheduled cost and revenue for Social Security as a percent of GDP, the total value of goods and services produced in the country. For many years prior to 2008, the cost of benefits was about 4.2 percent of GDP, but it has been projected to rise to about 6 percent of GDP by 2040 and remain at that level thereafter. This imbalance needs to be addressed in order for the Social Security program to be fully solvent in the long run. Current-law scheduled benefits are sustainable, but an increase in revenue equivalent to 1.2 percent of GDP over the 75-year long range period would be required.



The natural question is why the cost of providing scheduled Social Security benefits is rising so significantly in 2008 through 2040. The primary reason is the changing age distribution of the US population. Birth rates have declined from about 3.3 children per woman in a lifetime between 1946 and 1965 to about 2 children in a lifetime since about 1970. These reduced birth rates have fundamentally altered the ratio of the population over age 65 (a rough proxy for the beneficiary population) to the population at ages 20-64 (a rough proxy for the working age population). This "aged dependency ratio" almost doubles between 2008 and 2040. As seen in the graph below, the ratio would have risen far less if birth rates had remained close to the levels seen prior to 1970. The much more gradual increase seen in the blue and red lines is due to increasing longevity.

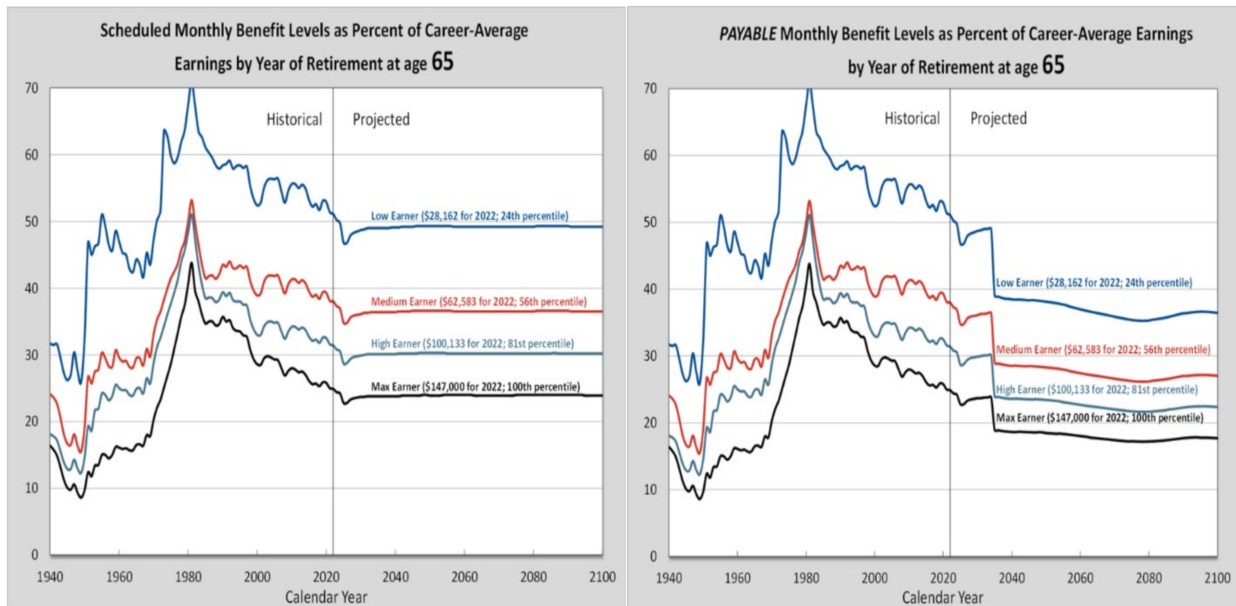


An additional factor that has affected Social Security financing is the fact that the share of total earnings subject to the payroll tax has declined since 1983, because of an increasing concentration of earnings among the highest earners. Earnings taxed by Social Security are limited to the taxable maximum level ($147,000 in 2022), which is indexed annually to the rise in the national average wage level. The graph below shows that consistently since 1983, about 6 percent of wage earners have had annual wages above the taxable maximum level. But between 1983 and 2000, the share of covered earnings received by that top 6 percent of workers has risen from about 9 percent to 16 percent, substantially lowering the tax base for financing the Social Security program.



With the increasing cost relative to GDP because of the changing age distribution of the adult population, and the declining share of workers' earnings subject to payroll tax, Social Security financing has been under increasing pressure. In the absence of legislative changes, the full scheduled level of benefits intended in current law will not be payable starting in 2035.

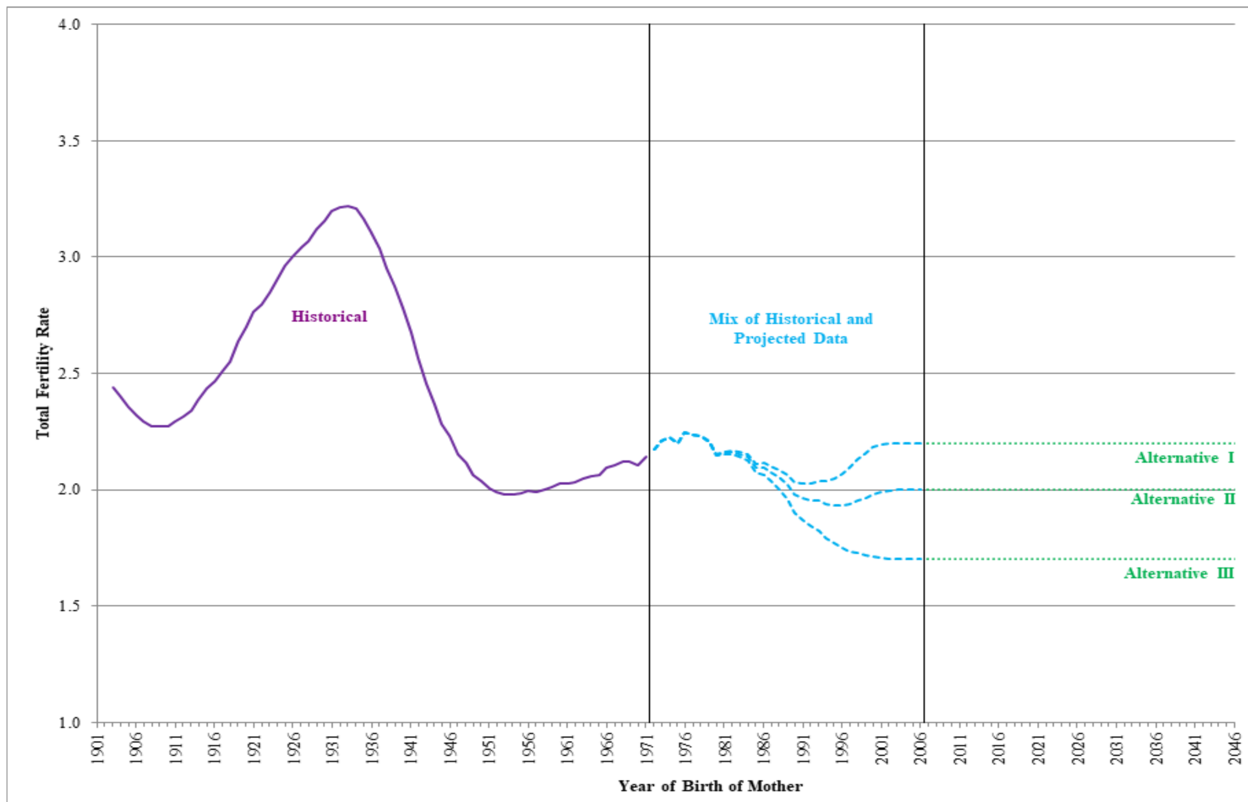
The adequacy of Social Security benefits is best understood by considering benefit replacement rates. The replacement rate is the ratio of the monthly benefit payable from Social Security to the average monthly career earnings level for a worker beneficiary. These replacement rates were included in Trustees Reports for many years prior to 2014, and are now available annually based on the latest Trustees Report assumptions at https://www.ssa.gov/OACT/NOTES/ran9/index.html. Replacement rates at age 65 are shown in the graphs below for retired worker beneficiaries starting receipt of benefits in different years, both on the basis of scheduled benefits and on the basis of payable benefits—what would be payable in the absence of legislation to eliminate reserve depletion in 2035 and the shortfalls thereafter.



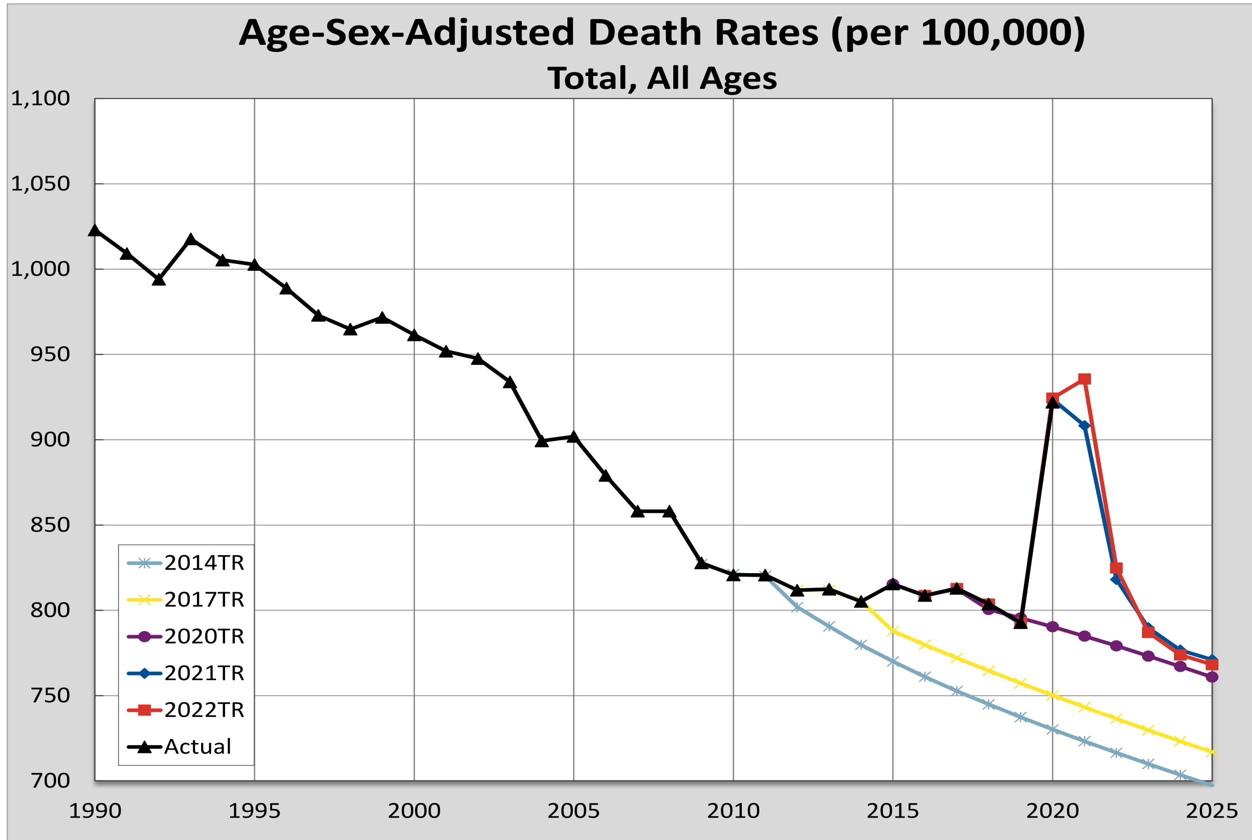
Because Social Security has no borrowing authority, the scheduled benefit levels will not be payable starting in 2035 in the absence of legislative change. In that case, only 80 percent of scheduled benefits would be payable after trust fund reserve depletion in 2035, declining somewhat to 74 percent payable in 2096.

Assumptions Underlying the Projected Actuarial Status of the Social Security Trust Funds

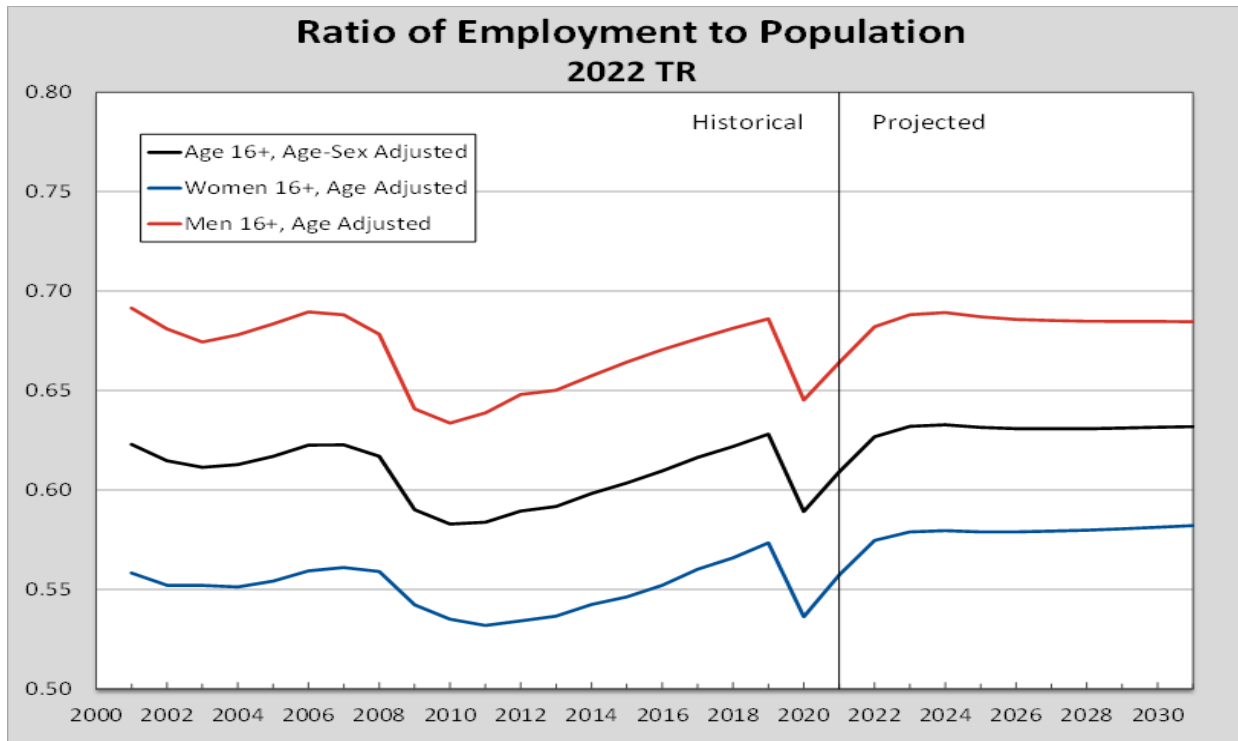
As indicated earlier, birth rates are the most consequential factor in determining the future cost of Social Security relative to the program's income. The drop in birth rates after 1965 is changing the age distribution of the population very substantially and will require an increase in the future contribution rate from current workers, a reduction in benefit levels from those in current law, or additional sources of revenue for the program. Birth rates for women over their lifetime on a generational basis (by birth year of mother) dropped substantially for women born through 1950, and then rose through cohorts of women born in the mid 1970's. But this trend has reversed again in more recent years, and fertility rates are expected to drop below 2 children per woman in a lifetime for women born in the mid-1990s, reflecting the diminished birth rates seen since the great recession of 2007-09. However, the birth rates reflected in the intermediate assumptions for the Trustees Report are assumed to ultimately rise to the levels suggested by birth expectations surveys, which indicate that women on average still intend to have around 2 children in a lifetime.



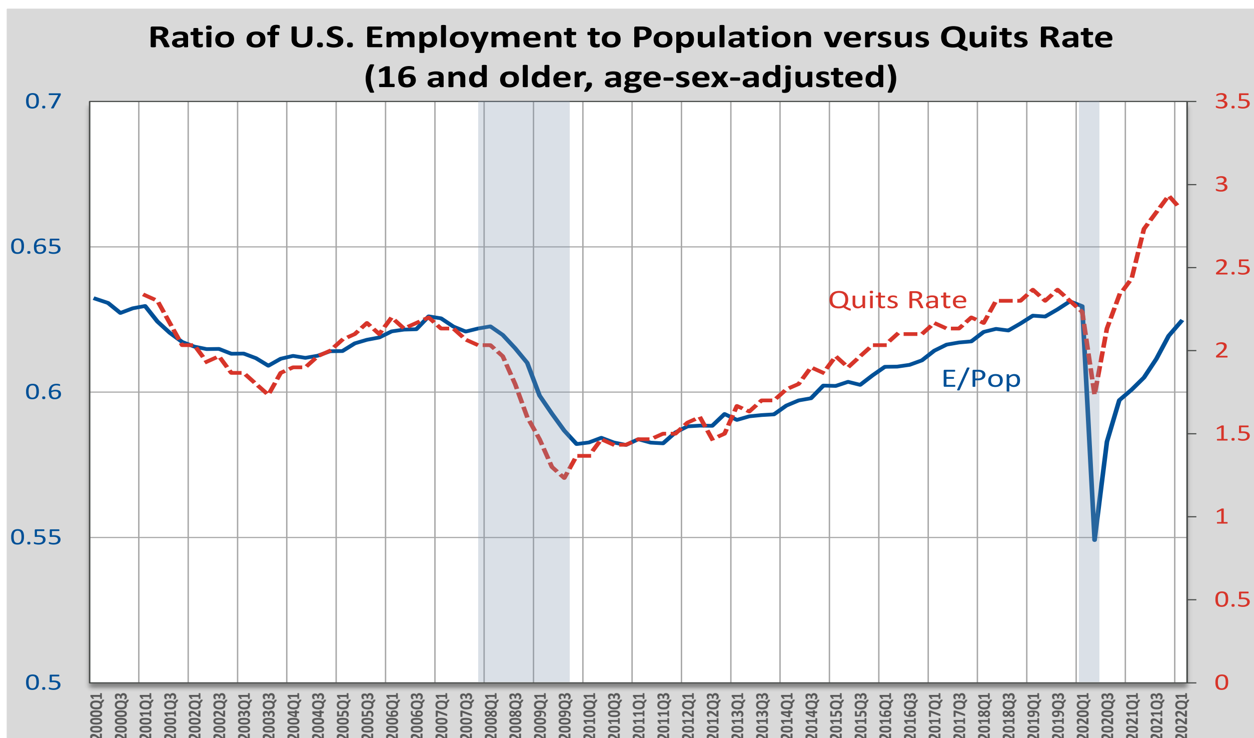
Death rates declined substantially in the latter half of the 20th century, with advances from antibiotics, health care from Medicare and Medicaid, and treatment in cardiovascular disease, in particular. However, since 2009, the decline in age-sex-adjusted mortality in the US has slowed very substantially. Compared to the Trustees' projections in 2014 and 2017, death rates through 2019 have remained much higher than expected. Note that the substantial elevation in death rates in the current pandemic is expected to dissipate in the next 2 to 3 years.



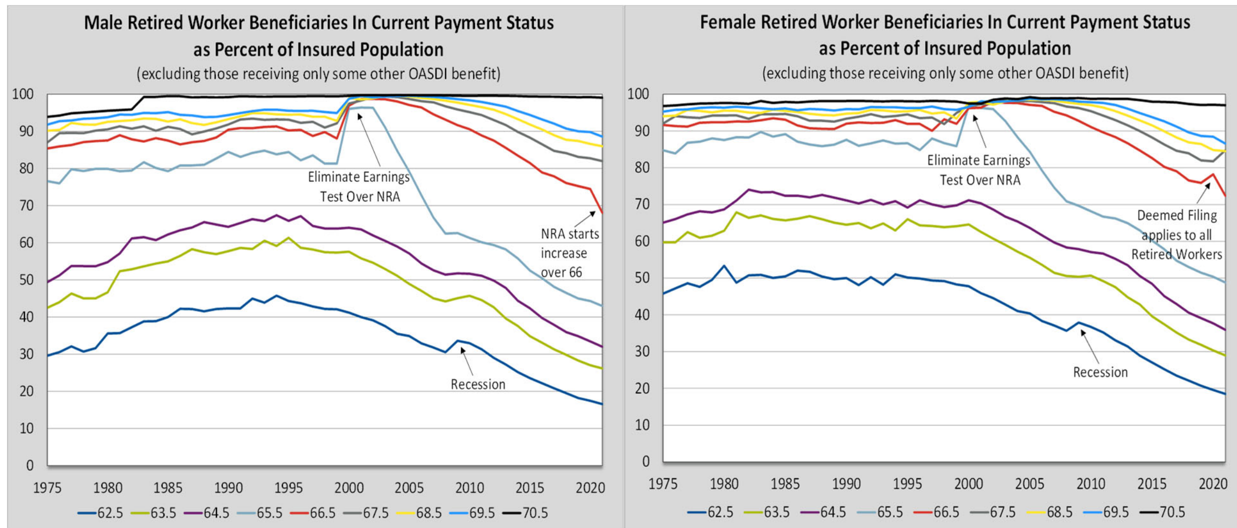
Employment has been a positive story in 2021 and 2022. While the drop in the ratio of employment to adult population recovered very slowly after the 2007-09 recession, taking almost 10 years to fully recover, employment rates since the 2020 recession have rebounded dramatically, contributing to the slightly improved actuarial status for Social Security seen in the 2022 Trustees Report.



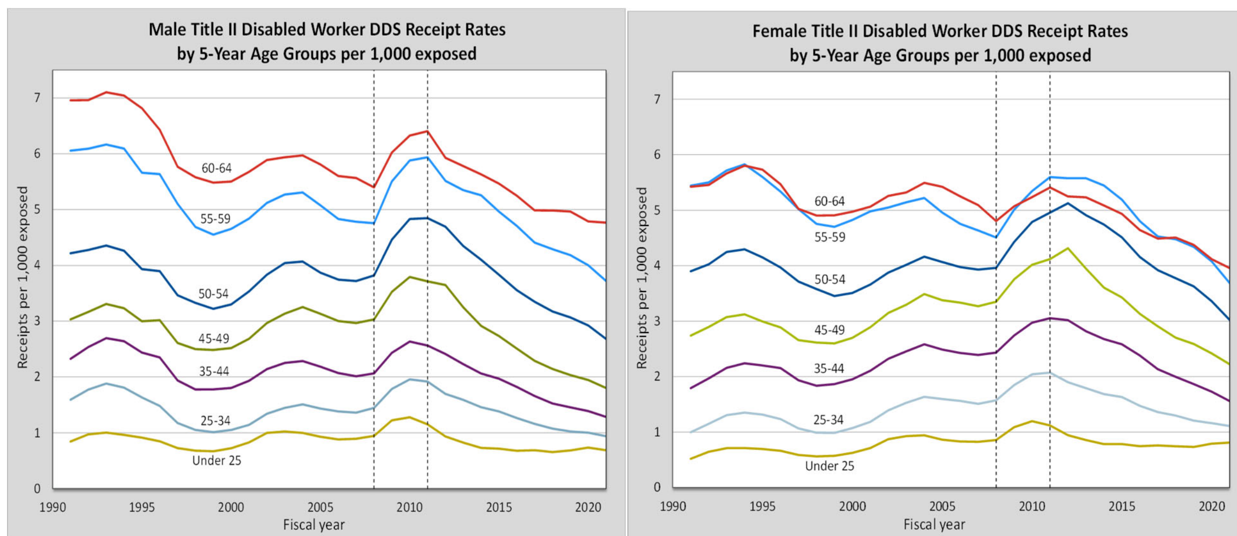
The graph below helps explain the rapid recovery in employment since 2020. The "quits rate," the percentage of workers who voluntarily leave a job, has risen in the recent recovery to an unusually high level, indicating the great demand for employees and the opportunity for job change.



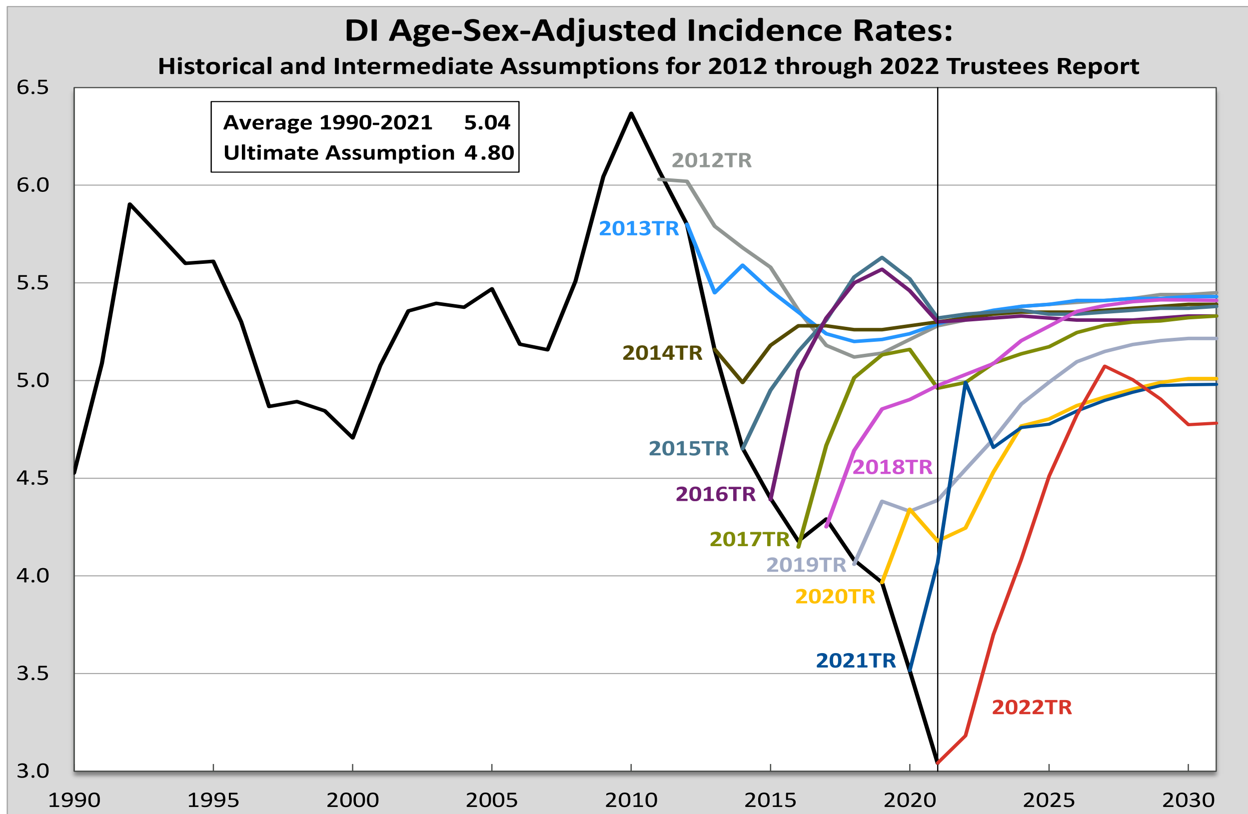
A further notable trend has been the increasing age at which individuals are retiring and starting their Social Security retirement benefits. The percentage of insured workers who start receiving their benefits at ages below the normal retirement age (age 65 until 2000, and now age 67) has declined substantially since the mid 1990's, and more and more individuals are waiting until well after normal retirement age to start their benefits in more recent years. Consistent with the increased demand for workers with the changing age distribution of the population, many workers have been working longer.



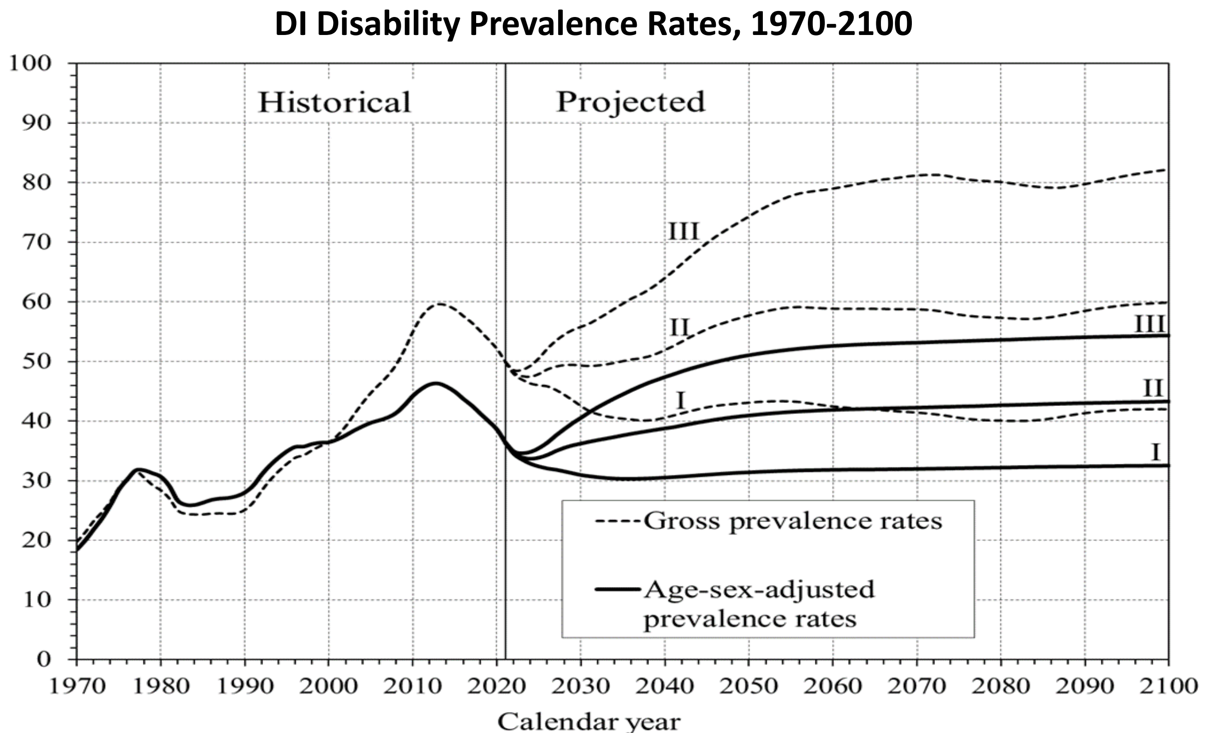
The rate of application for Social Security disability benefits has also dropped substantially since 2010 to very low levels in 2016 through 2019, prior to the pandemic.



The level of disability applications and thus the disability incidence rate has been far below expectations since the projections in the 2012 Trustees Report. This experience has led to several incremental reductions in the ultimate assumed disability incidence rate, including a further reduction to 4.8 per thousand exposed workers for the 2022 Trustees Report. This experience and incremental change in the ultimate incidence rate is the primary reason for the current projection that the Social Security Disability Insurance program will now be adequately financed through the next 75 years.



However, disability incidence rates are still assumed to rise to a level substantially above the levels seen in the years before the pandemic. As a result, disability prevalence, the share of insured workers receiving benefits, is projected to rise to levels near the historical peak seen immediately following the 2007-09 recession.



Conclusion

Legislation will be needed before 2035 in order to sustain the ability to pay all Social Security benefits in full and on time. The retirement of the baby-boom generation is increasing the number of beneficiaries much faster than the increase in the number of covered workers, as subsequent lower-birth-rate generations replace the baby-boom generation at working ages. After 2040, this increased ratio of beneficiaries to workers will persist indefinitely due to the lower level of birth rates compared to the birth rates before 1970. This fundamental change in the age distribution of the population will require the Congress to modify scheduled benefit levels, scheduled payroll tax levels, or add additional sources of revenue for the Social Security program.

By 2035, the Congress will need to reduce scheduled benefits by about 25 percent, increase scheduled revenue by about 33 percent, or make some combination of these changes. The sooner changes are enacted, the more options can be considered, the more gradually changes can be phased in, and the more advance notice will be possible for those who will be affected.

Thank you again for the opportunity to talk to you today. I look forward to answering any questions you may have.

Questions for the Record from Senator Lindsey Graham for Mr. Stephen C. Goss
United States Senate Committee on the Budget
Hearing on "Saving Social Security: Expanding Benefits and Demanding the Wealthy Pay Their Fair Share or Cutting Benefits and Increasing Retirement Anxiety"
Thursday, June 9, 2022

1. Does Senator Sanders' newly introduced Social Security Expansion Act meet the conditions of "sustainable solvency"—a concept you note "has been addressed by virtually every comprehensive reform proposal developed by all policymakers"? Has your office ever determined that a Social Security reform proposal would meet the conditions of "sustainable solvency" without either reducing the program's projected costs or raising taxes on those making less than $400,000 a year?

   Answer: The Social Security Expansion Act does not meet the requirements for sustainable solvency, as the ratio of combined Social Security Trust Fund reserves to annual program cost is declining slowly at the end of the 75 year period. Reserve depletion would not be expected until well after 2100, and likely fully 100 years from now. The quote you indicate was in my Social Security Bulletin article in 2010 (https://www.ssa.gov/policy/docs/ssb/v70n3/v70n3p111.html), reflecting Trustees Reports and proposals considered through 2009. In the 10-year period from 2000 through 2009, we provided estimates for 24 comprehensive proposals intended to improve Social Security actuarial status, and 21 of these were estimated to meet the requirements for sustainable solvency. All proposals for which we have developed estimates since 2000 that have been estimated to meet the requirements for sustainable solvency have increased taxes on earnings below $400,000, have reduced scheduled benefits, or have introduced personal accounts partially replacing Social Security benefits.

2. What do you estimate the top marginal effective tax rates on labor and capital income would be under the Sanders proposal?

   Answer: For wages and self-employment income in excess of the higher of $250,000 and the current-law OASDI taxable maximum amount, the Social Security payroll tax rate would be increased from zero to 12.4 percent for calendar years 2029 and later, in addition to the personal income tax rate and the Medicare payroll tax rate. The total would thus depend on the marginal tax rate for income tax. For investment income covered under the Social Security Expansion Act, the total applicable tax above specified income limits would be increased by 12.4 percent dedicated to the Social Security Trust Funds, in addition to all other taxes applied and dedicated to the General Fund of the Treasury. The Joint Committee on Taxation would be best to ask for the expected top rate.

3. As you know, increasing the "taxable maximum" on the employer side reduces wages subject to the income tax. Additionally, increasing taxes on capital gains reduces realizations. Given these and other interactions, what share of the OASDI tax revenue raised under the Social Security Expansion Act do you estimate would be lost through lower income tax and Medicare payroll tax collections?

   Answer: We estimate that when fully implemented in 2029 and later, the application of a 12.4 percent payroll tax above the current-law taxable maximum amount will result in a

reduction in wages and other compensation for earnings above the current-law taxable maximum sufficient to offset the added payroll tax liability for the employer. This will reduce total wages and the Social Security payroll tax base by about 0.7 to 0.8 percent. However, this behavioral response will reduce the national average wage index (AWI) to the same degree, reducing Social Security benefit levels in about the same amount as the slippage in payroll tax revenue. The reduction in wages paid over the current-law taxable maximum will also reduce income tax receipts to the General Fund of the Treasury and payroll tax receipts to Medicare, but these reductions would be expected to be more than offset with the 3.8 percent tax on investment income for active participants in S-corporations and limited partnerships.

4. Do your models account for the economic impacts of Social Security reforms? How would the higher wage and investment taxes in the Sanders proposal affect output?

   Answer: The reduction in after-tax income and demand for goods and services due to higher taxes would be offset in whole or in part by the increase in benefits payable to Social Security beneficiaries who, under current law, would receive only 80 percent of scheduled benefits beginning late in 2035, declining to 74 percent for 2096. We assume no net effect on GDP as a result.

5. How would an 8 percent COLA next year affect the projected exhaustion date of the OASI trust fund, holding all other variables constant?

   Answer: This would depend on the implications for price levels and growth after 2022. If benefits were higher by 4 percent for one year than projected in the 2022 Trustees Report, with no other change, reserve depletion for the OASI Trust Fund under current law would occur late in 2033 rather than in February or March of 2034. However, we know at this time that the average wage level also rose significantly more in 2021 than had been assumed in the 2022 Trustees Report. Because similar changes in prices and wages tend to offset each other in the long run, it is not clear there will be a significant effect on OASI Trust Fund reserve depletion from this unexpected price and wage inflation.

6. The 2022 Trustees Report now projects that the DI trust fund will remain solvent for at least the next 75 years. But does the program's return to annual cash flow deficits and declining trust fund ratio in the later years of your projection mean that action will eventually need to be taken to prevent the DI trust fund from exhausting?

   Answer: That is correct. Under the intermediate assumptions of the 2022 Trustees Report, DI Trust Fund reserves would be projected to become depleted around the year 2105, with change needed by that time.

7. The Trustees Report includes stochastic projections of the hypothetical OASDI trust fund's potential financial operations that help illustrate the uncertainty of your estimates. Does the Office of the Chief Actuary prepare stochastic projections of the DI trust fund's possible actuarial status? If so, what do these projections show?

   Answer: We develop the stochastic projections on a combined OASI and DI Trust Fund basis. However, the spread in trust fund ratios around the intermediate projections are similar for the high-cost and low-cost alternatives compared to the 95-percent range in the

stochastic projections, particularly in the early years of the projection period. Under the high-cost alternative, the DI Trust Fund reserves are projected to become depleted in 2032.

8. The two Public Trustee positions have been vacant since 2015. What contributions do Public Trustees make to the development of the annual Trustees Reports?

   Answer: The Public Trustees are co-equal members of the Boards along with the four ex-officio members; they participate in all aspects of the development of the reports. Public Trustees have historically been most heavily involved in the summary document for the two reports.

9. The annual summary of the Social Security and Medicare Trustees Reports has historically featured an extensive discussion of how these programs interact with the larger federal budget. The summary of the 2016 reports, for example, stated:

   > *Social Security and Medicare together accounted for 41 percent of Federal program expenditures in fiscal year 2015. The unified budget reflects current trust fund operations. Consequently, even when there are positive trust fund balances, any drawdown of those balances, as well as general fund transfers into Medicare's Supplementary Medical Insurance (SMI) fund and interest payments to the trust funds that are used to pay benefits, increase pressure on the unified budget.*

   The summaries of the 2021 and 2022 reports, however, have included no discussion of the unified budget whatsoever. While the Medicare Trustees Report continues to include an explanation of the interrelationship between trust fund operations and the overall federal budget, the Social Security Trustees Report does not even direct readers to where they can find such information. Why was any mention of the budgetary implications of Social Security and Medicare removed from the public summary of the report? How can the public have confidence in the reports when Social Security's potential impact on the budget is not discussed in a transparent fashion?

   Answer: Because the OASI, DI, and Medicare HI Trust Funds have no ability to borrow, they have no effect on the total federal debt subject to limit, and serve only to reduce the amount of debt that would be held by the public in their absence. Moreover, these programs are financed with dedicated taxes that can pay current expenses or are saved in reserves invested in federal securities. When these trust funds draw down reserves, this only means that the reduction in publicly held debt due to the trust fund holdings is gradually diminished. The Medicare SMI Trust Fund is different in that it is largely financed from revenue provided from the General Fund of the Treasury. Finally, note that the statutory requirement for the Trustees Reports is to report on the actuarial status, solvency, and financial operations of the trust funds.

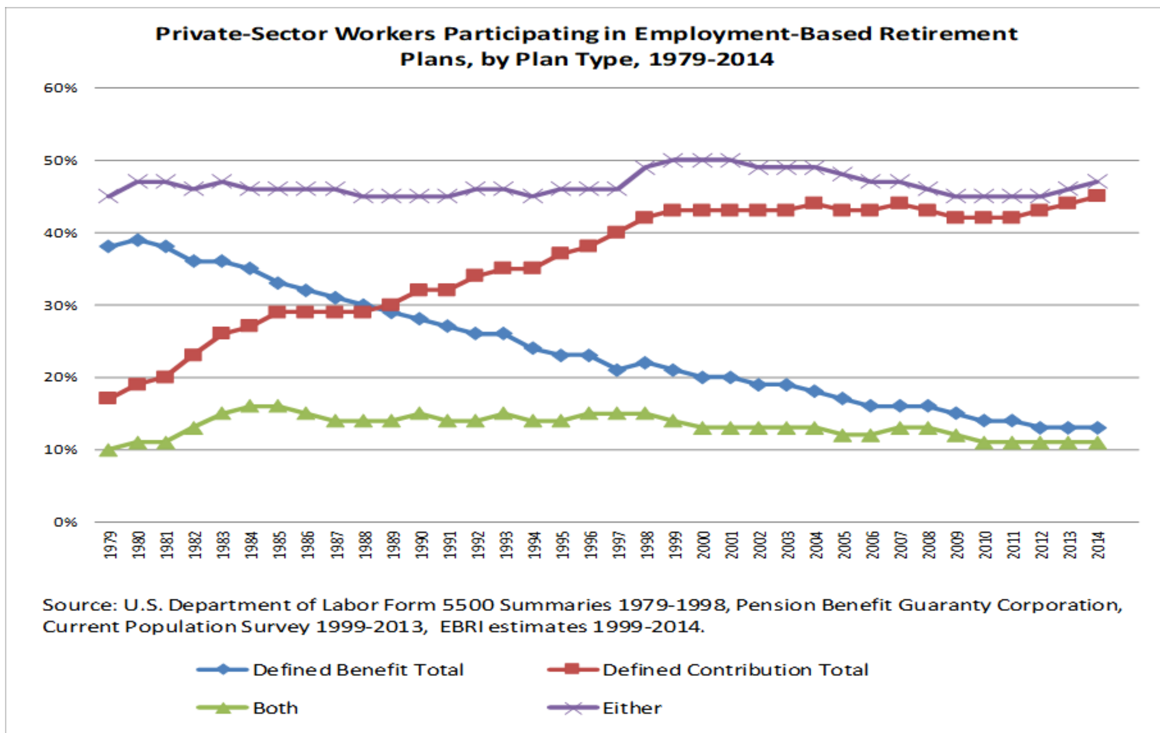
Questions for the Record from Senator Patty Murray for Mr. Stephen C. Goss
United States Senate Committee on the Budget
Hearing on "Saving Social Security: Expanding Benefits and Demanding the Wealthy Pay Their Fair Share or Cutting Benefits and Increasing Retirement Anxiety"
Thursday, June 9, 2022

General

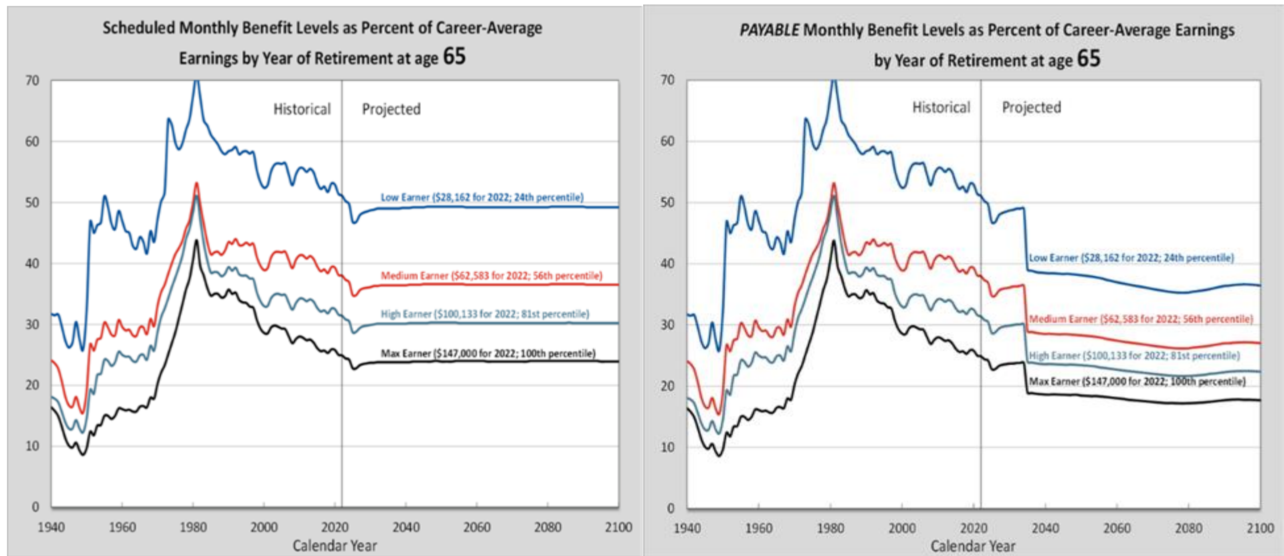
Social Security is one part of the so-called "three-legged stool" of retirement security. Private savings and employer-sponsored retirements plans – like 401(k)s and 403(b)s – also play an important role in how people think about and plan for their retirement. As Chair of the Health, Education, Labor and Pensions (HELP) Committee, I am working to advance solutions to strengthen the employer-sponsored leg of the retirement stool. The HELP Committee is set to vote on the Retirement Improvement and Savings Enhancement to Supplement Healthy Investments for the Nest Egg (RISE & SHINE) Act, which creates additional protections for workers and retirement savers at all stages of their retirement timelines.

Question: How can Congress work to ensure that federal policies being debated in other Senate Committees support solutions to the Social Security program that were discussed at today's hearing?

Answer: Financial advisers have long recommended that individuals should plan to have lifetime income in retirement of around 75 to 80 percent of the average income they earned late in their career, in order to maintain their standard of living after retirement. It has always been anticipated that a combination of Social Security benefits, personal savings, and pensions provided by employers would be needed to meet this target "replacement rate" for retirement income. Since 1979, the percentage of workers with employer-based defined benefit pension plans that typically offer life annuities has dropped very substantially, as seen in the graph below.



Because Social Security benefit levels scheduled in current law provide significantly less than 75 percent of career average earnings for the vast majority of workers, as shown in the graphs below from my testimony, it is important to assure that workers understand the additional amount of lifetime income they will need after retirement. Workers who have only a defined contribution plan and/or personal savings must understand the level of monthly income that these savings vehicles will be able to provide to augment Social Security benefits, and not just the lump sum value.



In addition, it will be important to clarify for workers whether the currently-scheduled benefits from Social Security will be maintained through future legislation (as shown in the left graph above), or whether benefits will be reduced after trust fund reserve depletion (as shown in the right graph). Only with this knowledge can workers reasonably plan for their retirement income in the future.

Cost-of-Living Adjustment

Spending patterns differ between older Americans and the rest of the general population. Seniors spend more of their income on health care and prescription drugs than younger Americans, and this should be reflected in the formula for calculating Social Security's cost-of-living adjustment (COLA).

Question: How would adopting the Consumer Price Index for the Elderly (CPI-E) more accurately measure the spending patterns of seniors?

Answer: The CPI-E provides price increases for the mix of goods and services typically purchased by urban consumers at ages 62 and above, who are largely retired individuals. The mix of purchases for this group is more heavily weighted toward medical costs and housing costs than the mix of purchases reflected in the CPI-W (urban wage and clerical workers) currently used for the Social Security COLA. Historically, the CPI-E has risen faster than the CPI-W, indicating that price increases for retirees are generally faster than is indicated by the CPI-W. We estimate that in the future the CPI-E will rise by an average of about 0.2 percentage point per year faster than the CPI-W. With the Trustees' assumed average increase of 2.4 percent per year in the CPI-W, this means that beneficiaries at age 82 (after 20 years of COLAs based on the CPI-W) will have their initial eligible benefit at age 62 increased to a level that is 3.8 percent below the estimated increased cost of items purchased by individuals age 62 and over as measured by the CPI-E.

Questions for the Record from Senator Sheldon Whitehouse for Mr. Stephen C. Goss
United States Senate Committee on the Budget
Hearing on "Saving Social Security: Expanding Benefits and Demanding the Wealthy Pay Their Fair Share or Cutting Benefits and Increasing Retirement Anxiety"
Thursday, June 9, 2022

Question #1:

Supplemental Security Income (SSI) is a federal assistance program that provides vital income assistance to nearly 8 million seniors and persons with disabilities with very low-incomes and limited resources. The asset limits have not increased since the 1980s. I am concerned that the current asset limits—$2,000 for individuals or $3,000 for a married couple—punish individuals for working, getting married, and saving for emergencies—much less the significant amounts needed for retirement security.
I am a proud cosponsor of Senator Brown's Supplemental Security Income Restoration Act, which (among other provisions) would lift the SSI asset limit to $10,000 for individuals and $20,000 for couples, and indexes these limits to inflation moving forward.

Senators Brown and Portman recently introduced the bipartisan SSI Savings Penalty Elimination Act (S.4102), to similarly lift the SSI asset limit to $10,000 and $20,000, respectively, and index it to inflation.

What is the median lifetime SSI benefit for individuals that receive SSI under current law?

Answer: We estimate that the median number of years of SSI payment receipt for recipients as adults (at age 18 or over) is about 8 years. This is a very preliminary estimate, and we would need to do more analysis to refine this. The SSI Federal benefit rate (FBR) for 2022 is $841 per month for individuals. Due to reductions for receipt of Social Security benefits by those who qualify and for other income, and the marriage reduction, all recipients (individuals and members of couples) on average receive approximately 72 percent of the full FBR. Thus, on a very approximate basis, we estimate that the median lifetime SSI payment amount is approximately $60,000 in 2022 CPI-indexed dollars.

Question #2:

What would the median lifetime SSI benefit be for existing SSI recipients if S.4102 were to become law?

Answer: Only about one percent of SSI recipients have payments suspended each year due to having their assets exceed the current-law limits. We would need to do additional analysis to determine the effect of raising the resource limits on the median lifetime payments. Because most recipients do not have periods of suspension due to the asset limits, it is very possible that median lifetime payments for recipients eligible under current law would be little affected, even though average lifetime payments would be increased somewhat. For individuals expected to become newly eligible for SSI payments due to a change in the resource limits, we assume their median lifetime SSI payment amount would be less than for current-law recipients, because these additional recipients would be significantly older on average and more likely to have other sources of income such as Social Security benefits.

Question #3:

Would enacting S.4102 result in increased savings for existing SSI recipients?

Answer: We assume that assets for many SSI recipients would increase over time, because most recipients who would be suspended due to current limits would continue to receive SSI payments longer, allowing them to spend down their assets less. In addition, individuals who would be newly eligible for SSI payments solely due to the change in resource limits would have more assets, on average, than current SSI recipients.

Question #4:

If so, by how much would median savings increase for existing SSI recipients if S.4102 became law?

Answer: Because such a small percentage of current recipients have periods of suspended payments due to the current resource limits, the median level of assets would likely not change significantly, although the average would change slightly. Developing an estimate of the increase in average assets (accumulated savings) would require more analysis.