Social Security Financing & Options 101

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Social Security Trust Funds

- Two legally distinct trust funds:
  - **OASI** = Old-Age and Survivors Insurance
  - **DI** = Disability Insurance

- Financial operations are overseen by the Social Security Board of Trustees

- The two funds are often looked at on a theoretical combined basis
  - As of December 31, 2018, the trust funds hold about **$2.89 trillion** in asset reserves
Social Security Trust Funds

- The combined funds have run surpluses since the early 1980s and through 2018
- Beginning in 2020, combined asset reserves will start to decline until they are depleted in 2035
- The OASI fund alone is projected to be depleted in 2034; the DI fund alone in 2052
Social Security Trust Funds

Social Security Trust Fund Asset Reserves (end of year) as a Percent of GDP, 1970-2035

- Asset Reserves Build
- 1983 Amendments
- Reserves Decline until Depletion

Calendar Year

Percent of GDP

How Is Social Security Financed (Income)?

- **Payroll taxes**
  - Employees and employers each pay 6.2% of covered earnings
  - The self-employed pay 12.4% of covered earnings
  - On earnings up to $132,900 in 2019

- **Taxes on Social Security benefits**
  - High-income beneficiaries pay federal income tax on their benefits

- **Interest on trust fund reserves**
  - Invested in interest-bearing securities of the US government
Where Does the Money Go (Outgo)?

● Benefit payments
  - About 63 million people getting benefits as of December 2018:
    ● 47 million retired workers and dependents of retired workers
    ● 6 million survivors of deceased workers
    ● 10 million disabled workers and dependents of disabled workers

● Administrative expenses
  - Only about 0.7 percent of total expenditures in 2018
Income and Outgo
Calendar Year 2018

Payroll taxes
$885 billion

Benefits
$989 billion

Combined
OASI & DI
Trust Funds

Taxes on benefits
$35 billion

Interest
$83 billion

Administrative expenses
$7 billion

Railroad exchange
$5 billion
Social Security Trust Funds

Why do we have trust funds?
- The trust funds provide an essential reserve so benefits can be paid even when current income alone is not enough
- Social Security (OASI and DI) cannot borrow; can only spend what has been collected

Are the trust funds “real”?  
- If reserves deplete, full benefits cannot be paid
- The trust funds force Congress to act in order to maintain continuous benefit payments
Trust Fund Financing

- How is the future shortfall expressed?
- To make shortfalls comparable over years, they are often scaled as a percent of taxable payroll
  - The amount of earnings taxable by the program for a time period

- For example, in 2045:
  - Taxable payroll is expected to be about $23.3 trillion in nominal $$
  - Income to the program is expected to be about $3.1 trillion, or 13.27 percent of taxable payroll
  - The cost of the program is expected to be about $3.8 trillion, or 16.49 percent of taxable payroll
  - So the shortfall is 3.22 percent (16.49 – 13.27)
OASDI Annual Cost and Non-Interest Income as % of Taxable Payroll

Persistent negative annual cash-flow balance starting in 2010
80% of scheduled benefits still payable at trust fund reserve depletion

Cost: Scheduled and payable benefits

Historical

Non-interest Income

Cost: Scheduled but not fully payable benefits

Estimated

Payable benefits as percent of scheduled benefits:
2018-34: 100%
2035: 80%
2093: 75%

Expenditures: Payable benefits = income after trust fund depletion in 2035
SOLVENCY: OASDI Trust Fund Reserve Depletion in 2035

Reserve depletion date varied from 2029 to 2042 in reports over the past 27 years (1992-2019)

DI Trust Fund: reserve depletion in 2052, twenty years later than last year

Social Security Trust Fund Ratios
Assets as Percent of Annual Cost
Trustees Report Intermediate Projections

Historical

Estimated

OASDI 2019TR
OASI 2019TR
DI 2019TR
OASDI 2018TR
OASI 2018TR
DI 2018TR

Tax Rate Reallocation

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 extraordinarily low levels for 2016, 2017, and 2018*

**DI Age-Sex-Adjusted Incidence Rates:**
Historical and Intermediate Assumptions for 2012 through 2019 Trustees

- Average 1990-2018: 5.19
- Ultimate Assumption: 5.20
OASDI Beneficiaries per 100 Workers

Calendar year

Historical
Estimated
Aging (Change in Age Distribution)

Mainly due to drop in birth rates
Changing Age Distribution Over Last 20 and Next 20 Years Mainly Due to Macro Aging

Permanent level shifts

Age Distribution of the Population Age 25+, 1940 to 2100 (2019 TR)
Mortality Experience: All Ages

Reductions continue to fall short of expectations

Age-Sex-Adjusted Death Rates
(Total, All Ages)
Mortality Experience: Ages 65 and Older

Reductions since 2009 continue to fall short of expectations

Age-Sex-Adjusted Death Rates
(Ages 65 and Older)
Replacement Rates Based on the 2019 Trustees Report
Source: Annual Recurring Actuarial Note #9, www.ssa.gov/oact/NOTES/ran9/index.html

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

- Low Earner ($24,239 for 2019; 25th percentile)
- Medium Earner ($53,864 for 2019; 56th percentile)
- High Earner ($86,182 for 2019; 82nd percentile)
- Max Earner ($132,900 for 2019; 100th percentile)
How About at Age 62, When Many Start Benefits?
Payable Benefits Under the Law, After Trust Fund Reserves Are Depleted, Are Even Lower
How to Fix Social Security Long-Term

- How can the financing shortfalls from 2035-2093 be covered?
  - Lower cost (reduce benefits) after 2034 by about one-fourth
  - Increase revenues after 2034 by about one-third
  - Or some combination of approaches
  - Also consider benefit adequacy?
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
Ways to Lower Cost *(continued)*

- Lower benefits mainly for the oldest old
  - Reduce the COLA by using a *chained* version of the CPI
  - Some say instead raise the COLA by using the CPI-E (based on purchases of consumers over age 62)

- Increase the number of years used in calculation (currently 35)
  - Hurts those who haven’t been in the workforce for 35 years
Ways to Increase Revenue

- **Raise tax rate on all earners**
  - Increasing rate from current 12.4 percent to 15.1 percent is projected to eliminate the long-range shortfall

- **Raise tax on highest earners**
  - Increase taxable maximum amount
  - Some tax on all earnings above the maximum
Ways to Increase Revenue (continued)

- Tax employer group health insurance premiums
  - Affects only middle class if taxable maximum remains the same

- Tax certain investment income
  - Consistent with ACA approach?

- Maintain larger trust fund reserves
  - Added interest/yield can lower needed taxes
Your Solution?

- Soon, you will hear more details about these and other policy options
- Then you will come up with your own solution during the afternoon exercise
For More Information, Go To:
http://www.ssa.gov/OACT

There you will find:
• The 2019 Trustees Report and all prior reports
• Detailed single-year tables for recent reports
• Our estimates for comprehensive proposals
• Our estimates for individual policy provisions
• Actuarial notes, including replacement rates
• Actuarial studies
• Extensive databases
• Congressional testimonies
• Presentations by OCACT employees