

Session 45: Social Security Financial Status and Proposed Changes

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Outline

- 1) What does Social Security do?
- 2) Update on financial/actuarial status
 - a) “Solvency” and “sustainability”: baseline
 - b) Demographic and economic challenges
 - c) What’s new?
- 3) Proposals to improve financial/actuarial status
 - a) Increase revenue
 - b) Lower cost
 - c) Fundamental/structural change
 - d) What’s new?

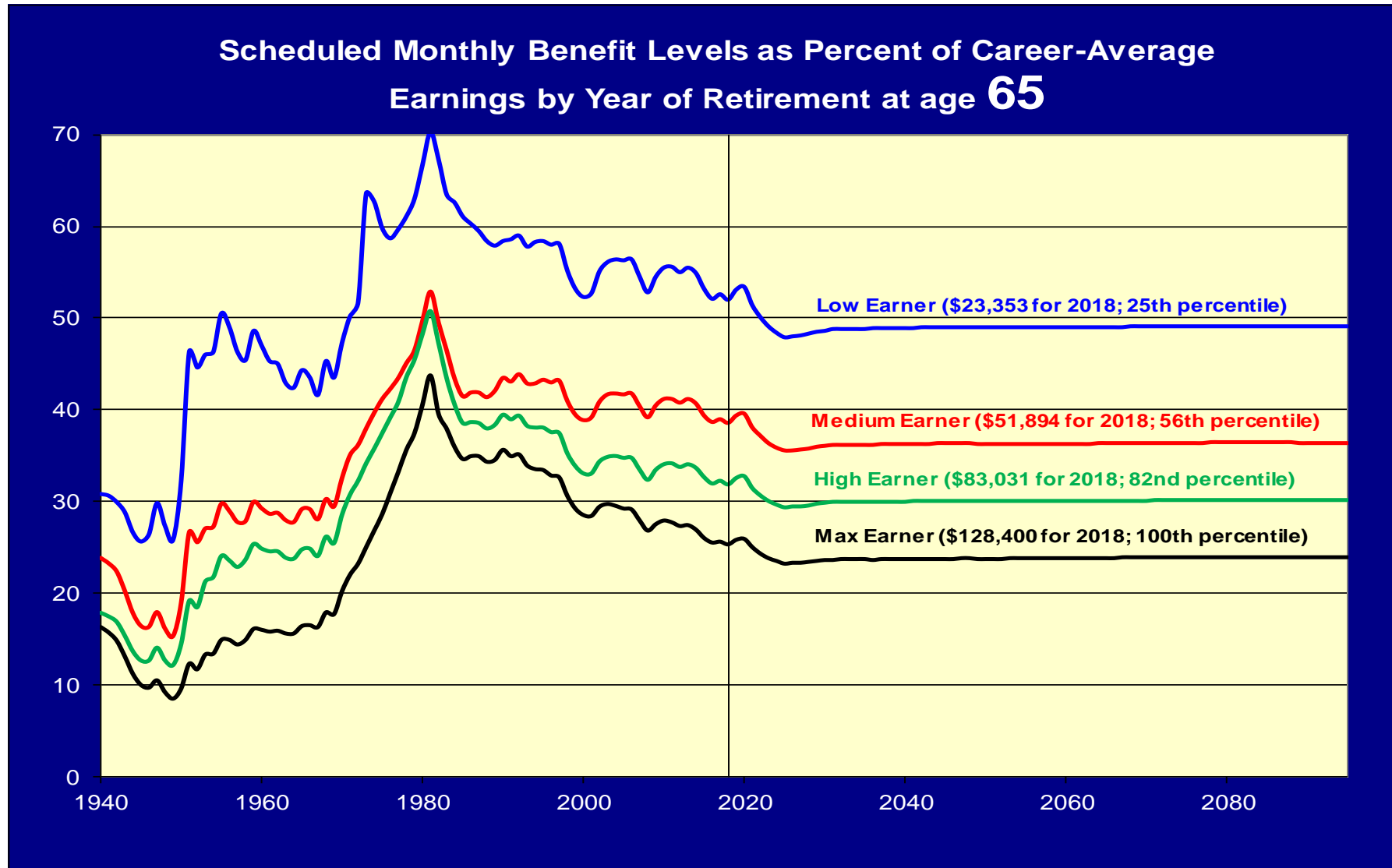
1) What Does Social Security Do?



Monthly Income for Insured Workers and Their Families

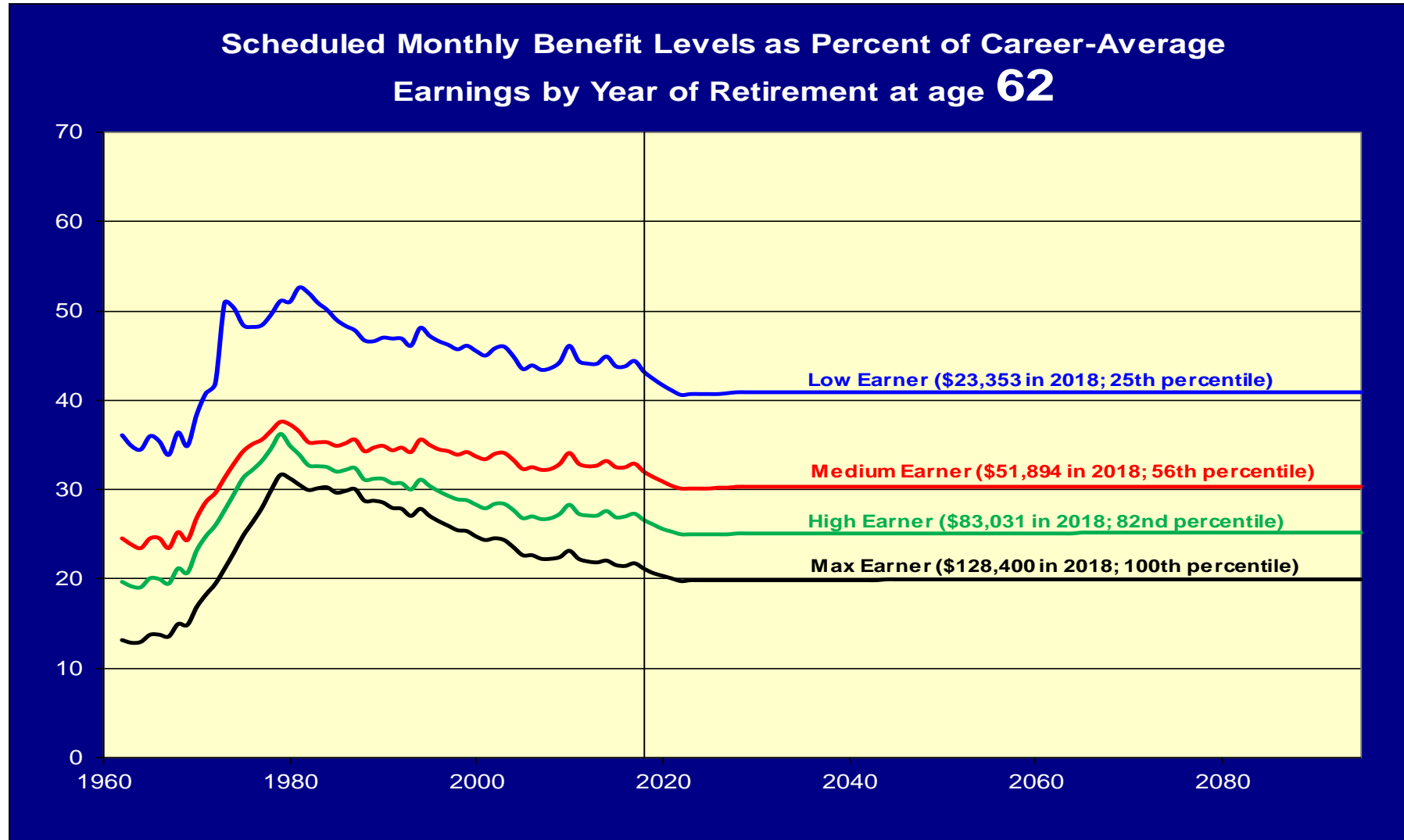
- Over 95 percent of Americans will be eligible at age 62 and above
- Vast majority of those under 62 are potential survivor or disability beneficiaries
- 61.9 million current beneficiaries at the end of 2017
 - About 19 percent of the total US population (about 327 million as of 12/31/2017)
 - 45.5 million retirees and dependents
 - 6 million survivor beneficiaries
 - 10.4 million disabled workers and dependents
- 173.6 million workers contributing payroll taxes in 2017
 - 10.5 million earn above the \$128,400 taxable maximum
- Benefits are “progressive,” replacing more for lower career earners

Scheduled Replacement Rates Based on the 2018 TR



Source: Annual Recurring Actuarial Note #9 at 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

Monthly Income for Insured Workers and Their Families

- **After becoming eligible, monthly Social Security benefits increase annually with price inflation (COLA)**
 - So they do not increase as fast as the average worker's standard of living
 - But they increase faster than most other forms of retirement income
 - So they become an increasing share of retirement income after retiring
- **Because benefits after eligibility increase slower than wages...**
 - Increase in cost from living longer is somewhat mitigated
 - But this effect is limited by greater longevity for higher earners—
don't miss *Session 121: Longevity Trends in the United States* tomorrow for much more on this!

2) Update on Financial/Actuarial Status

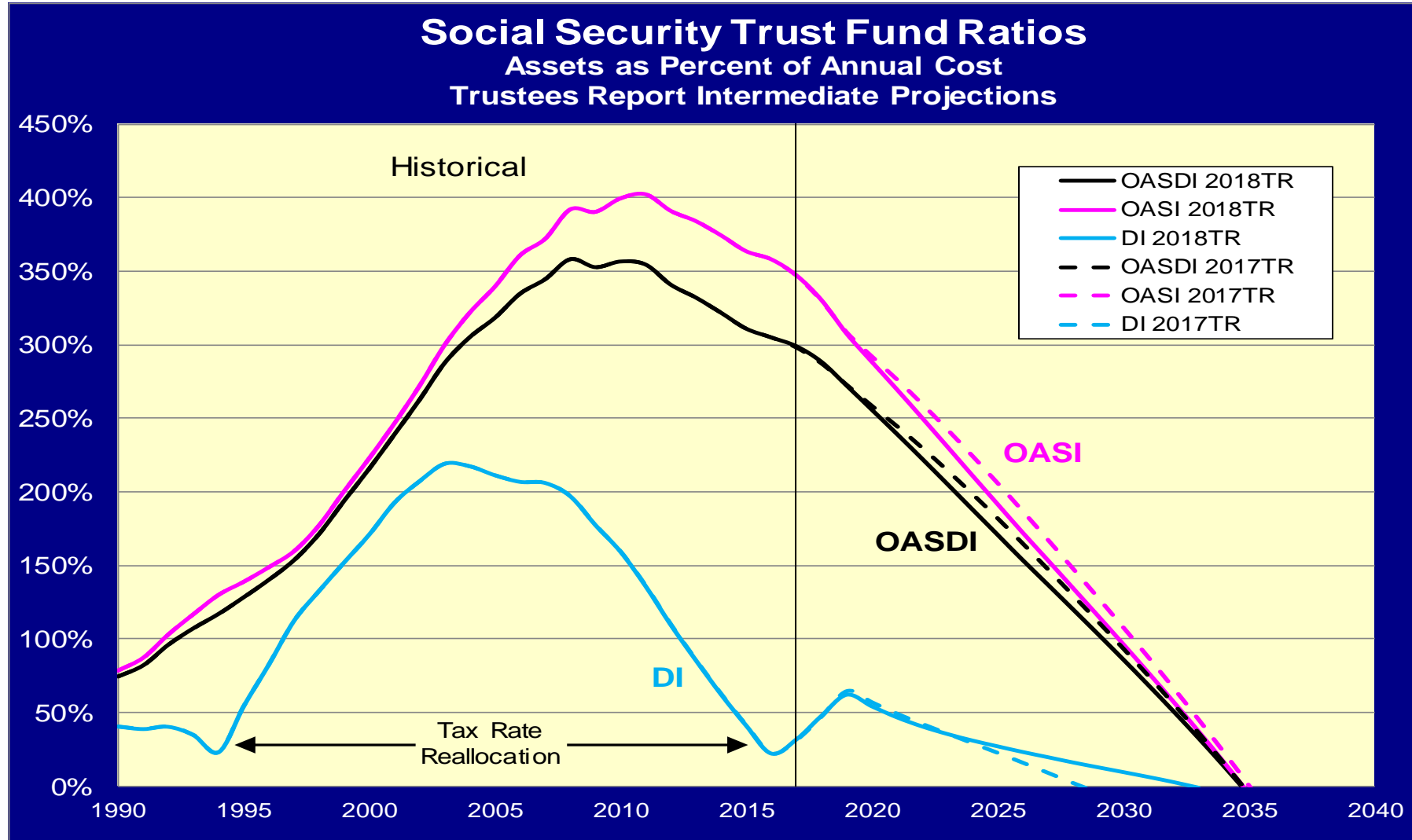


SOLVENCY: OASDI Trust Fund Reserve Depletion in 2034 (same as last year)

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

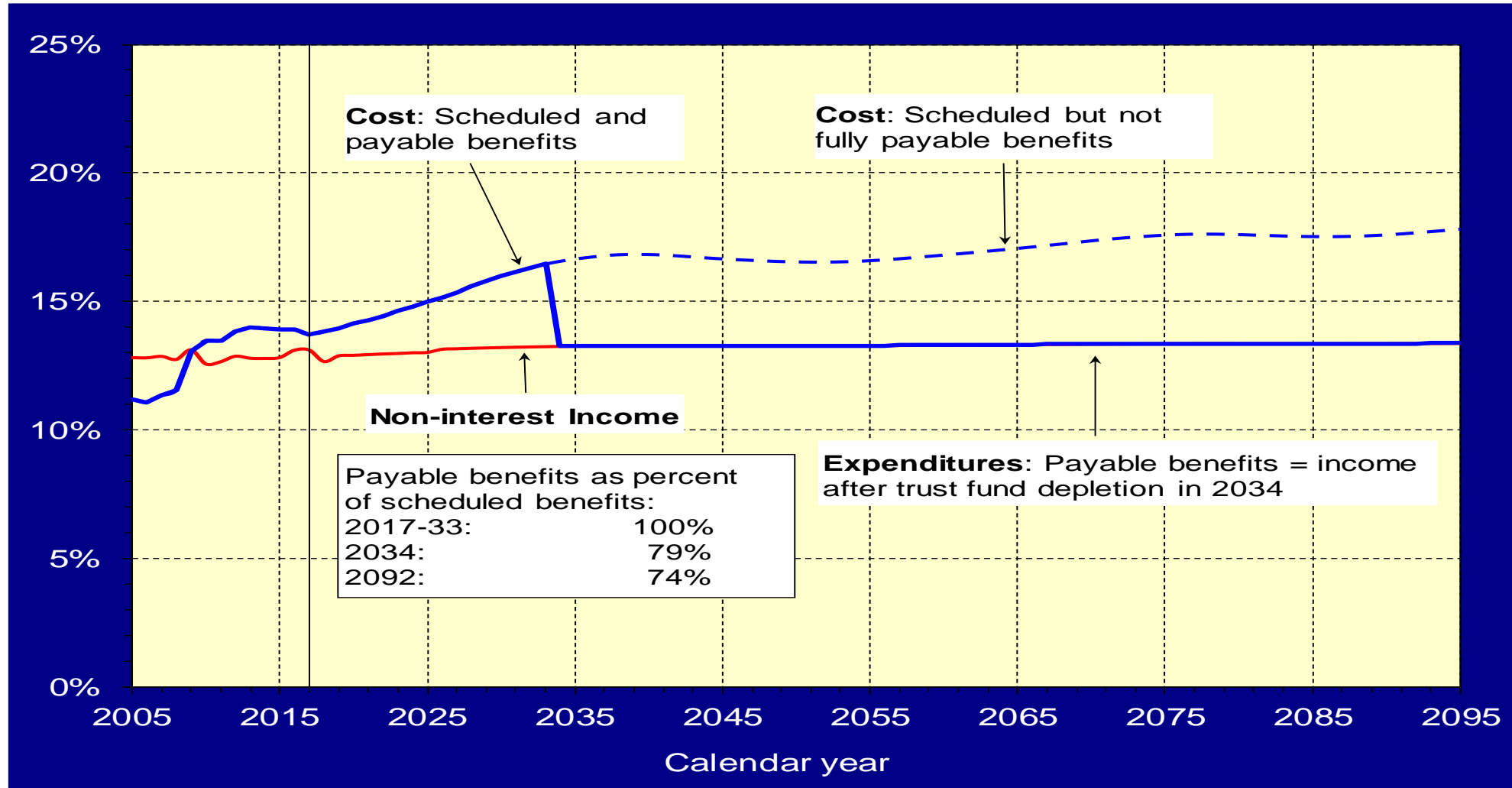


OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Persistent negative annual cash-flow balance starting in 2010

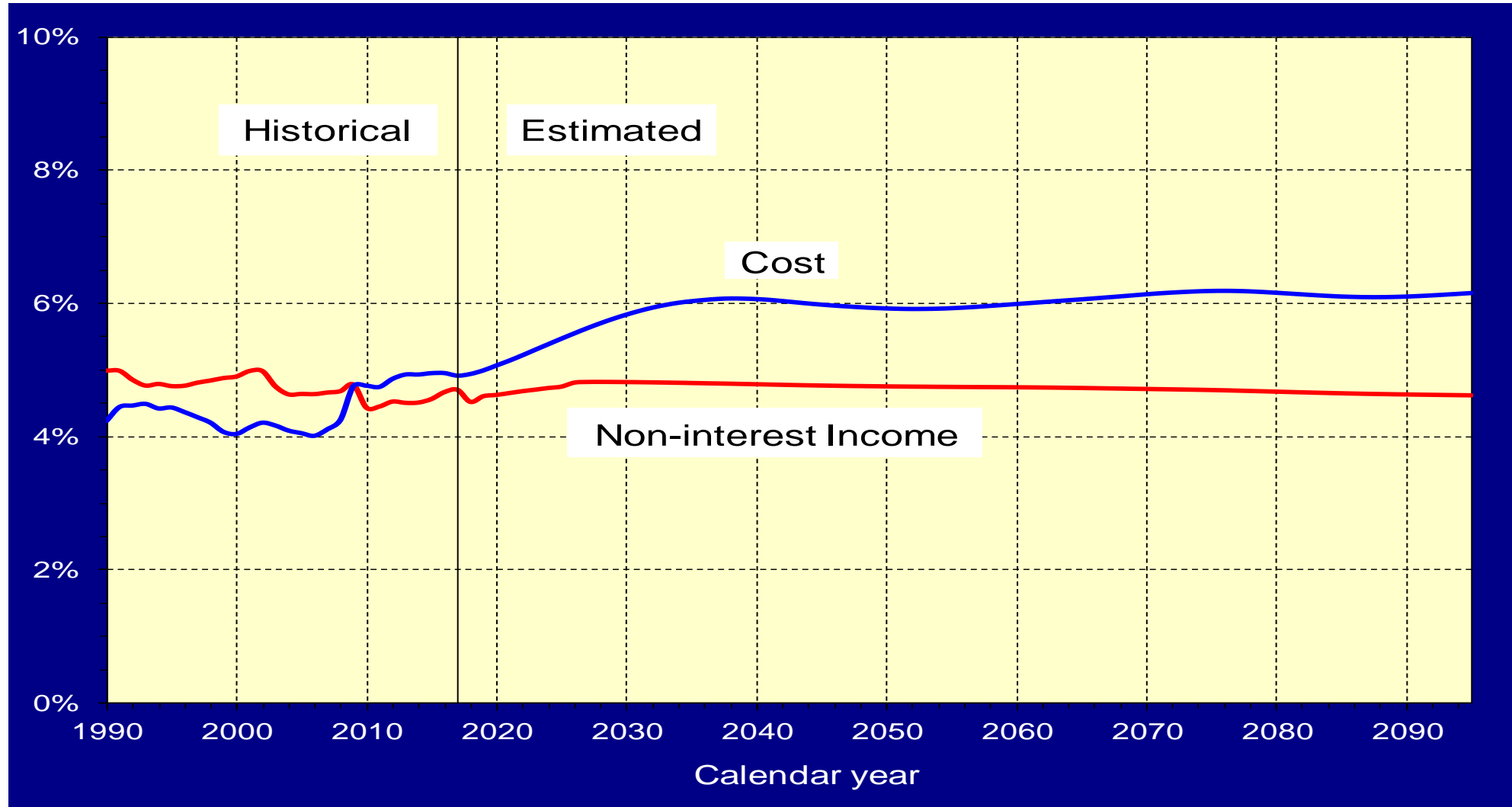
79% of scheduled benefits still payable at trust fund reserve depletion

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



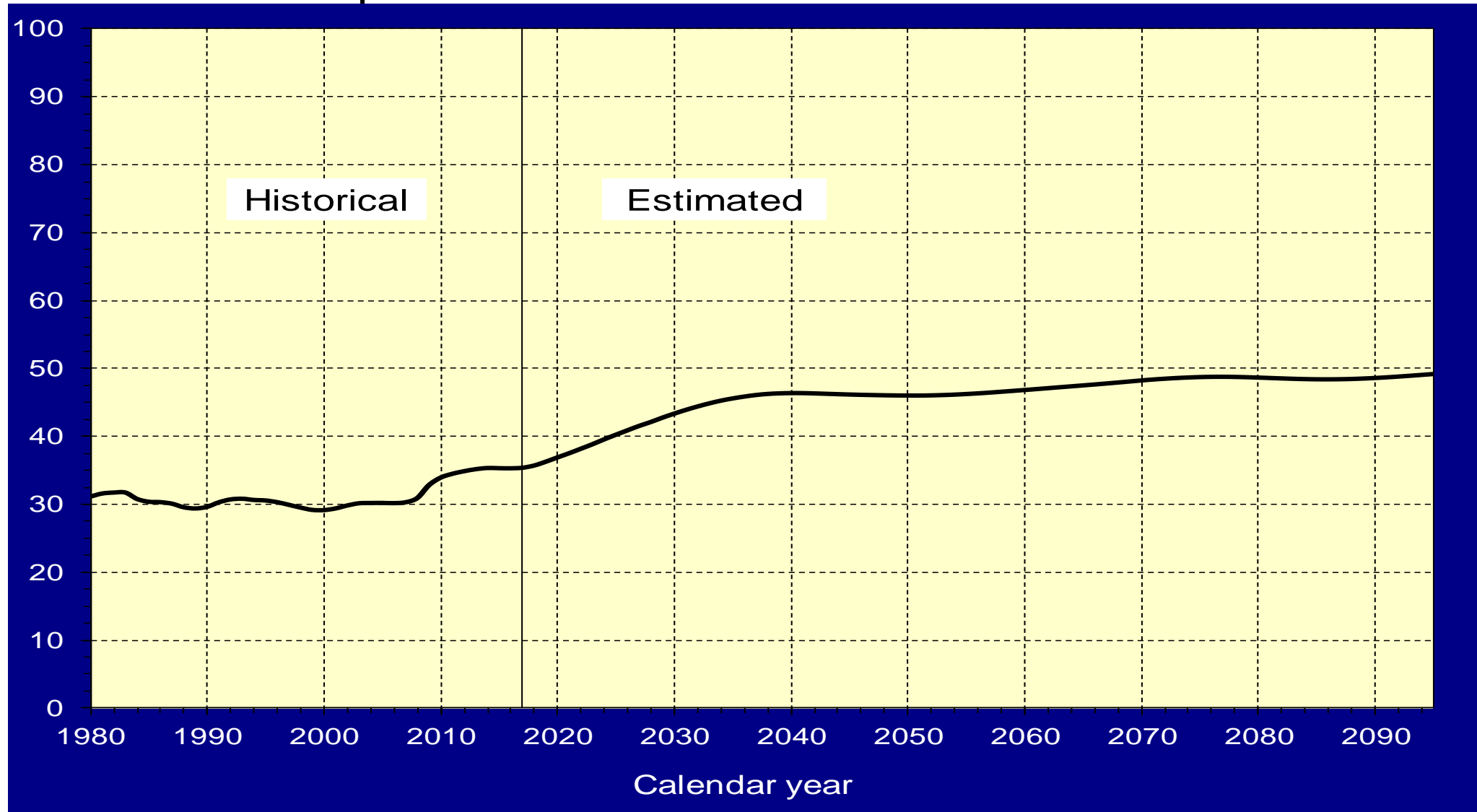
SUSTAINABILITY: Cost as Percent of GDP

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



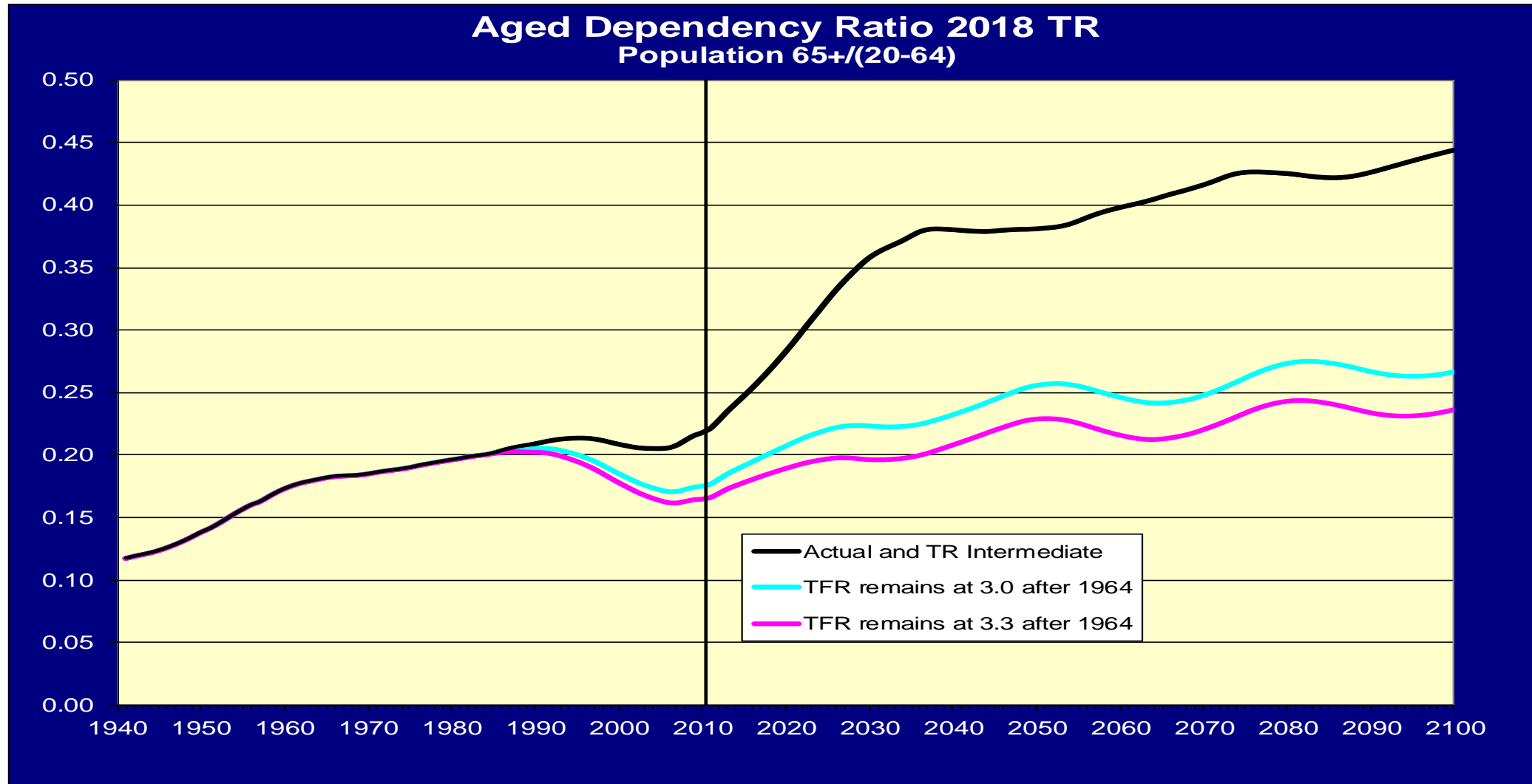
Demographic & Economic Challenge:

OASDI beneficiaries per 100 workers



Principal Challenge: Aging (Change in Age Distribution)

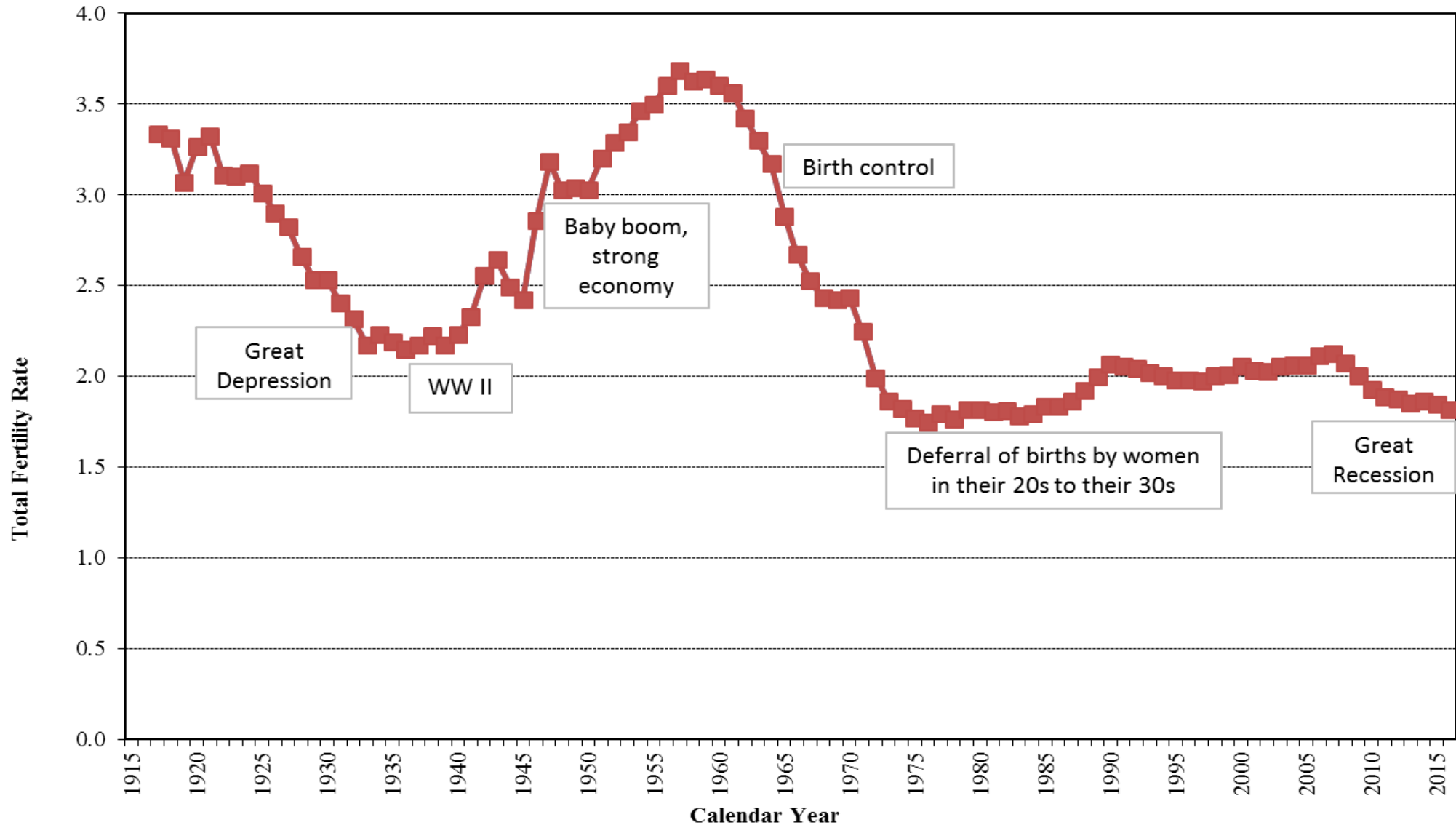
Mainly due to drop in birth rates



What's New This Year for Actuarial Status?

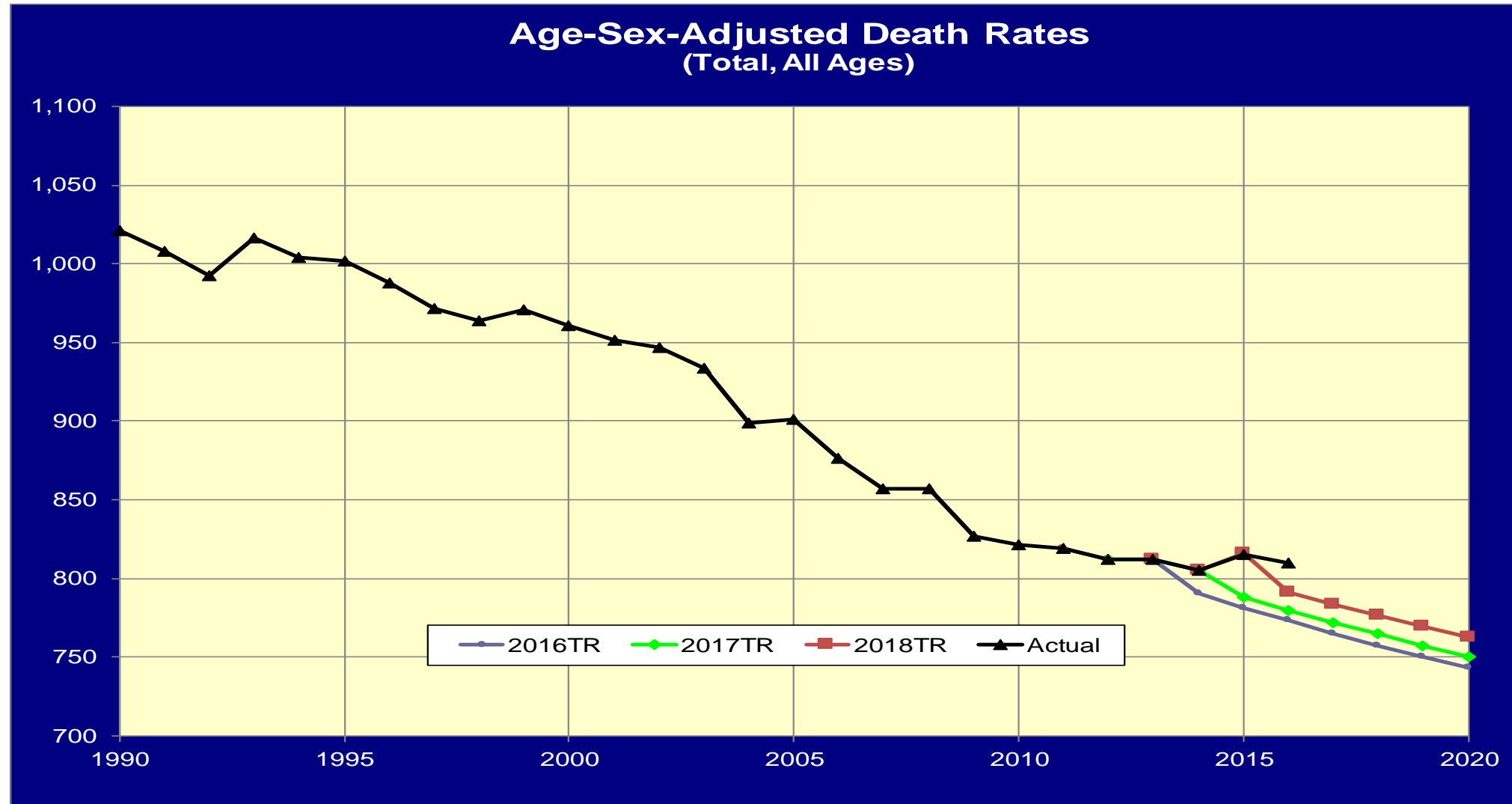
- Elimination of Deferred Action for Child Arrivals: DACA
 - Note: DACA is still being contested in the courts
- Tax legislation: lower income tax on benefits for 2018-25
- Continued low birth rates and slow mortality improvement
- Economy: recovery in employment, but reduction in “labor share” of GDP
- Disability: continuing drop in applications

Birth Rate Still Below 2.0: Slow Wage Growth? Tempo?



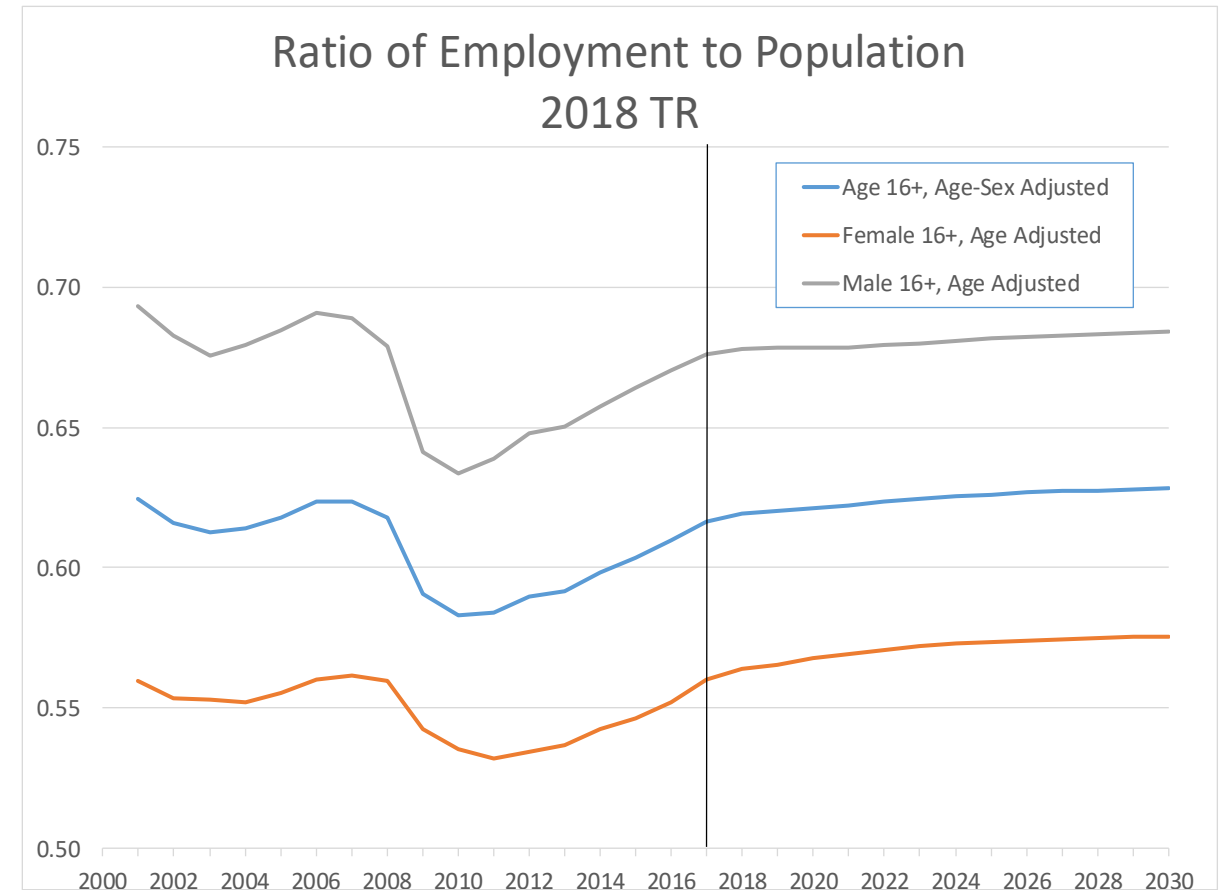
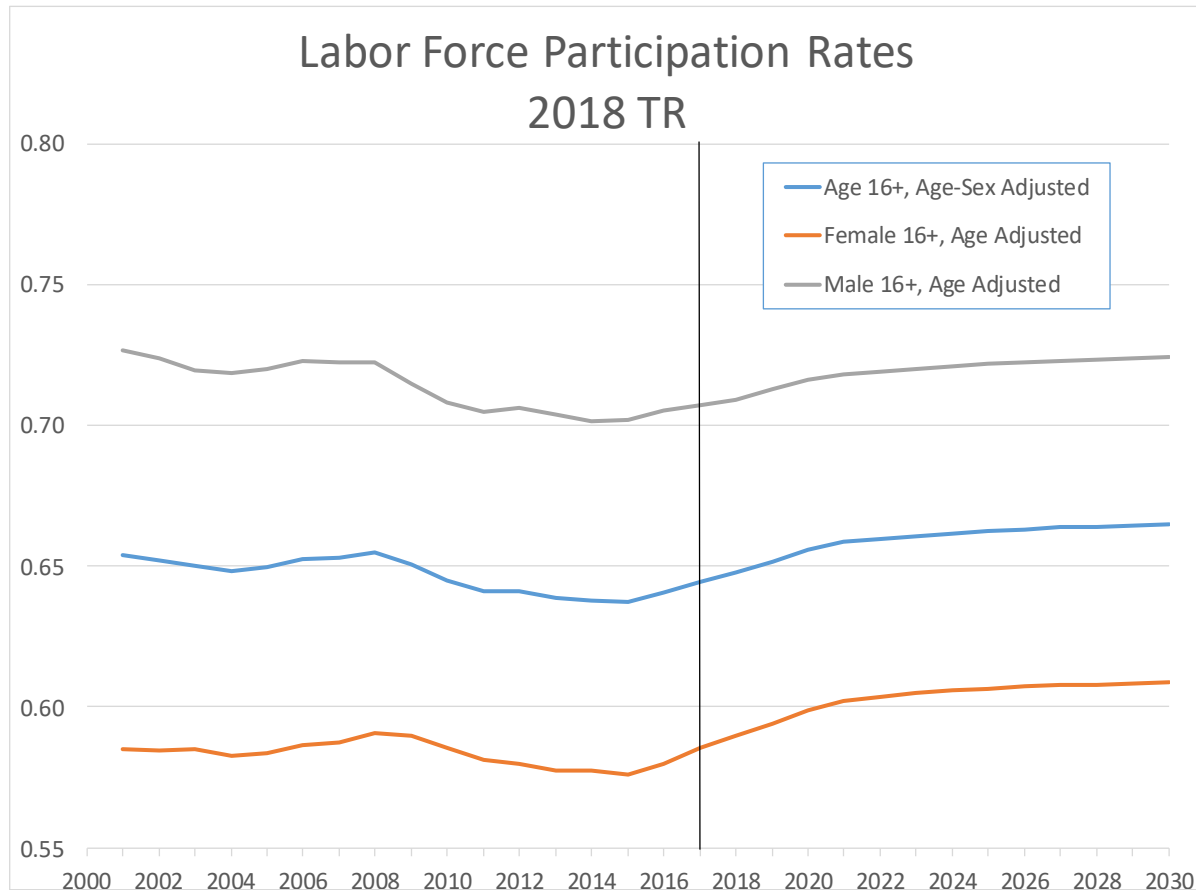
Mortality Experience: All Ages

Reductions continue to fall short of expectations



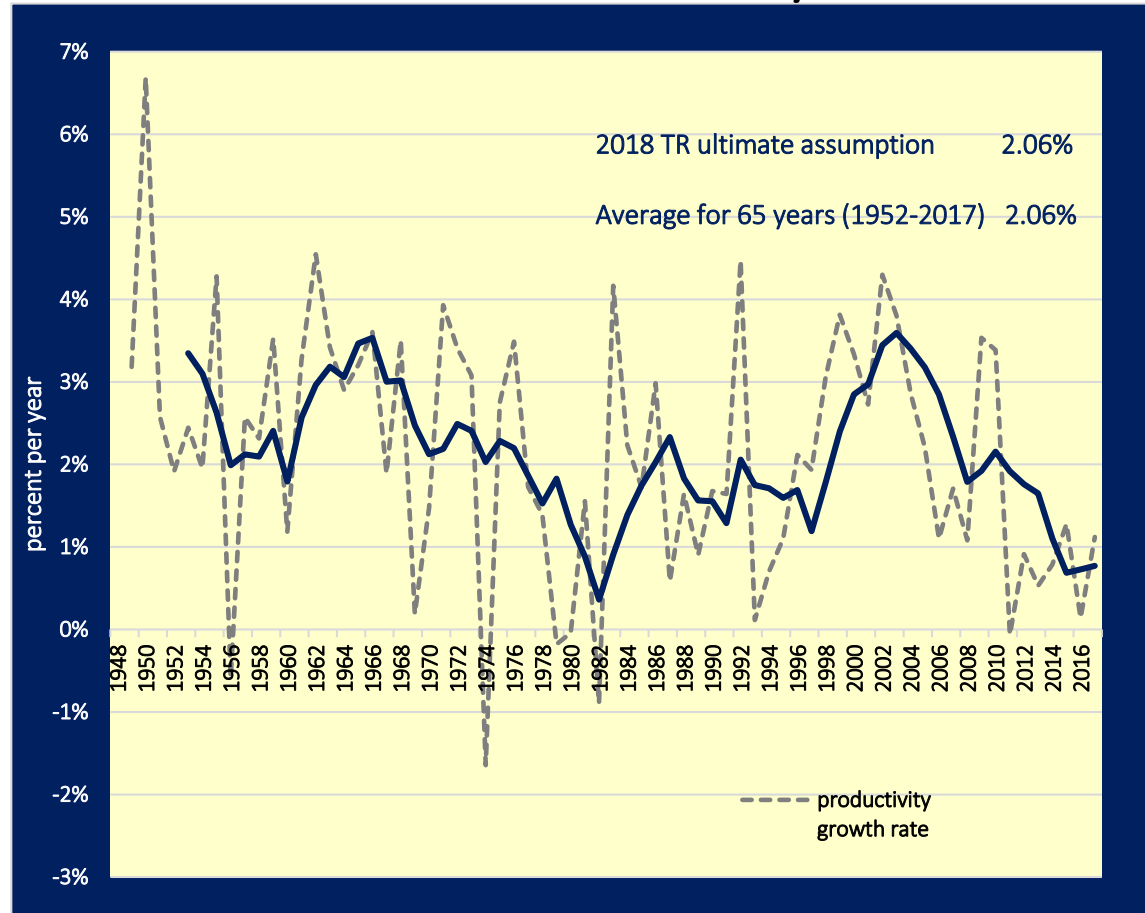
Labor Force and Employment

Employment has recovered: note disparity with measured labor force

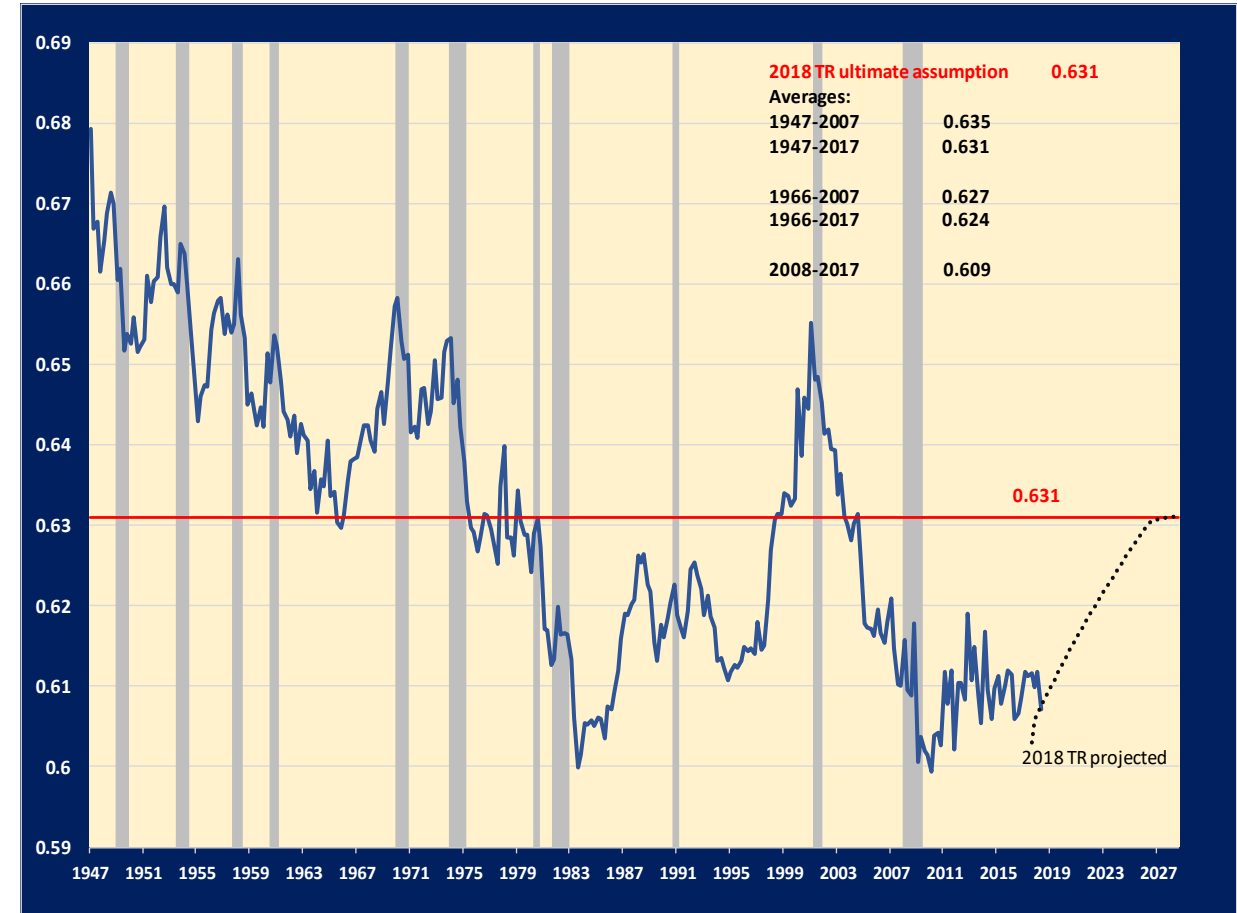


But Labor Productivity Has Lagged, and Labor Share of GDP Has Dipped, Slowing Recent Average Wage Growth

Non-Farm Business Productivity Growth Rate



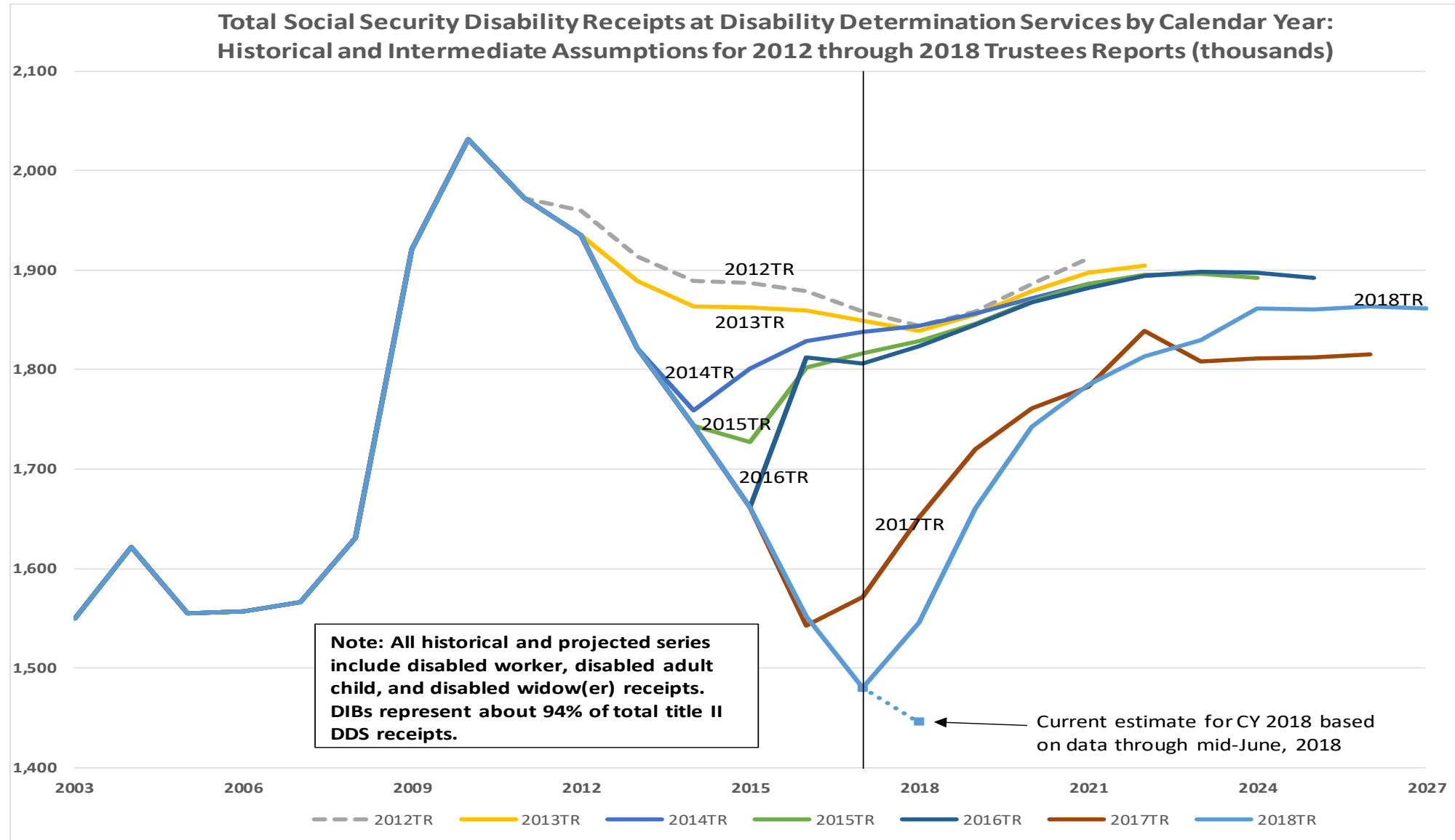
Labor Share of GDP



Recent Favorable Disability Experience Continues

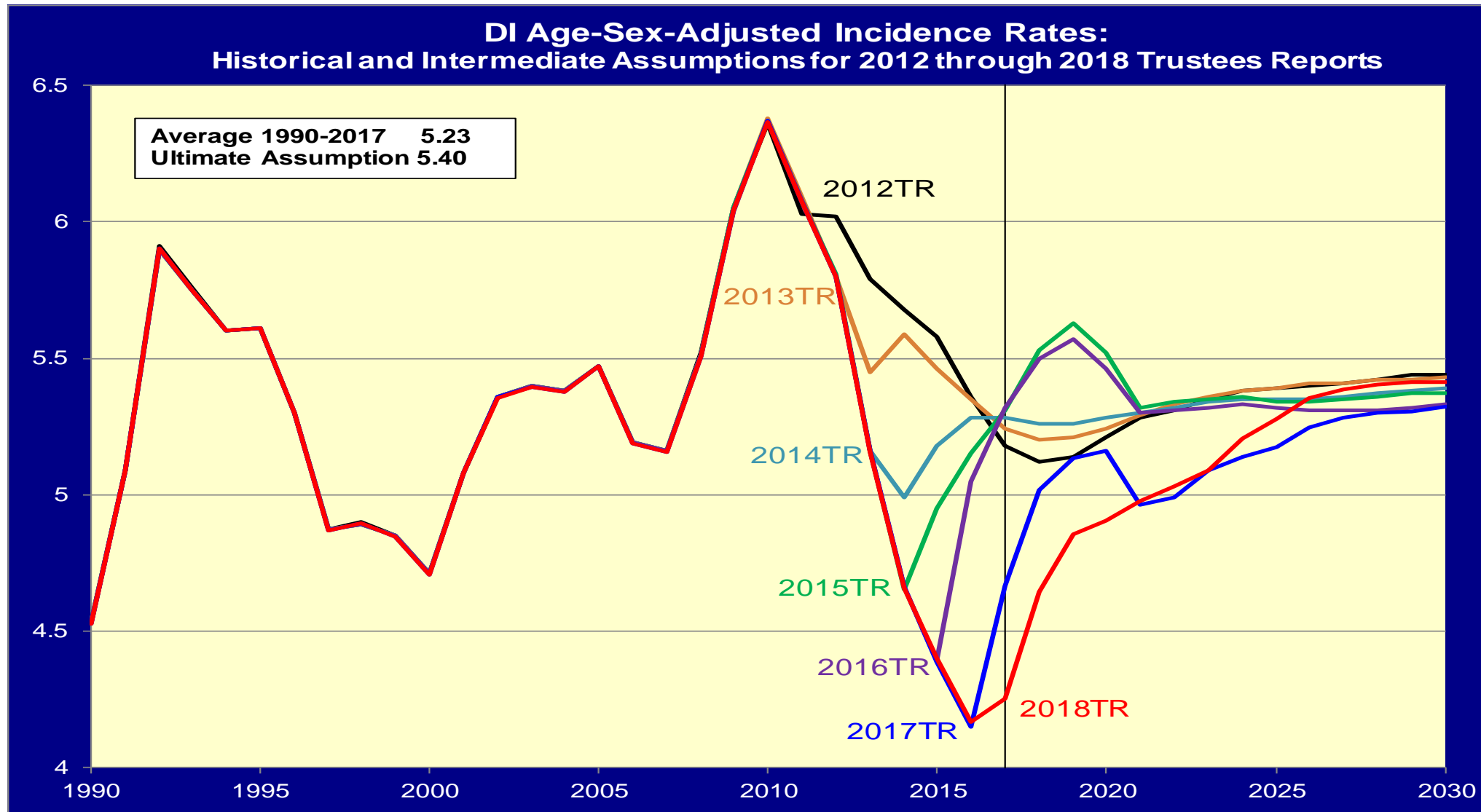
- Applications and incidence are at historic low levels
- Numbers of beneficiaries have been declining since 2013
- Prevalence rates have peaked and are dropping
- What about the future?
 - Are declines temporary, or the new state?
 - Possibilities:
 - Economy and jobs—*temporary*?
 - Drop in hearings allowance rates—*temporary*?
 - Increased health care (ACA)
 - Field office consolidations
 - Attorney representation
 - Something more fundamental?

Disability Applications Still Dropping Into 2018

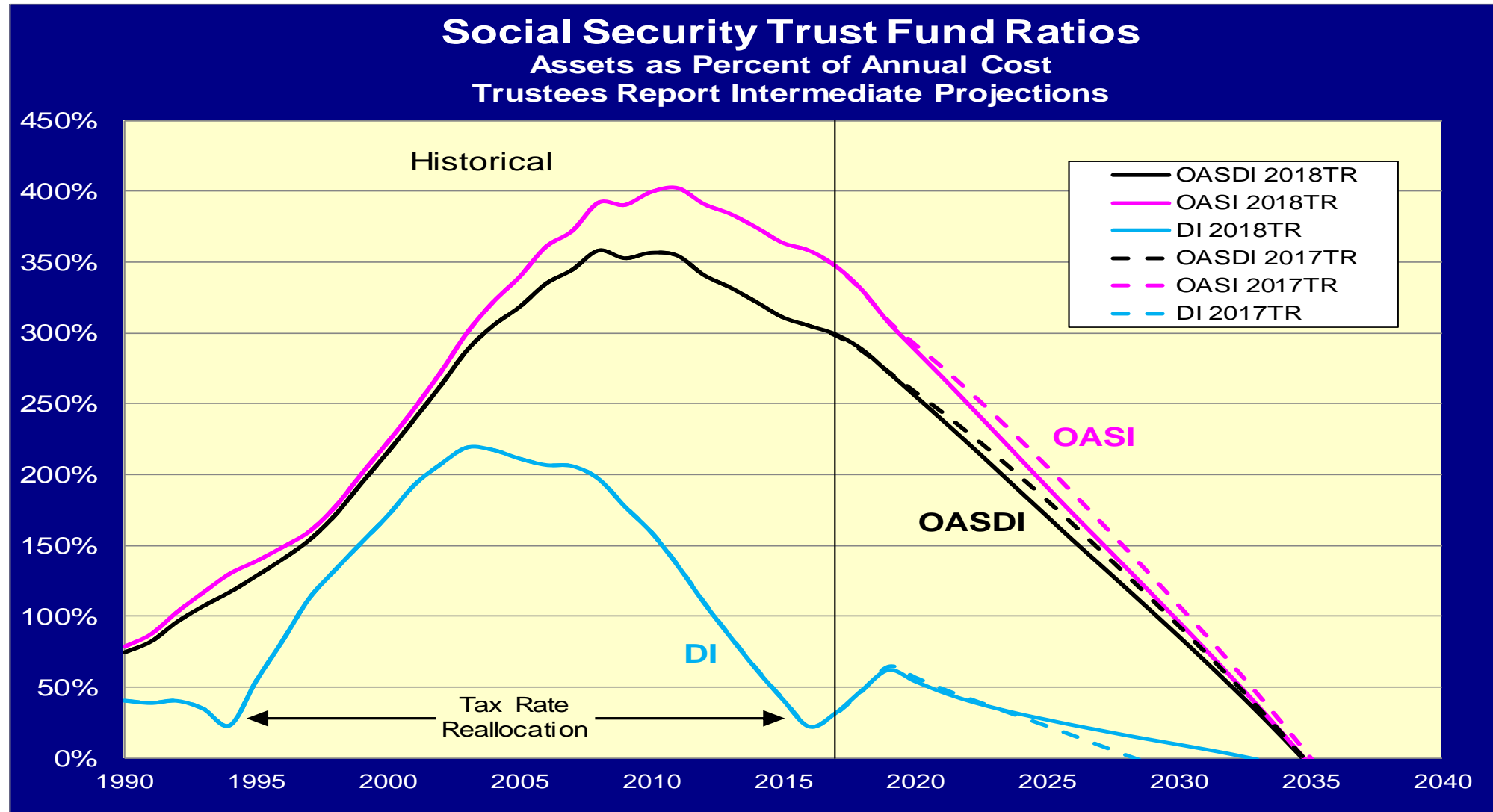


Disability Incidence Rate Has Fallen to Historic Low

Note the small increase in 2017 is from reversal of the increase in ALJ pending through 2016



Reserve Depletion Date for DI May Move Beyond OASI in the Next Trustees Report



3) Proposals to Improve Financial/ Actuarial Status

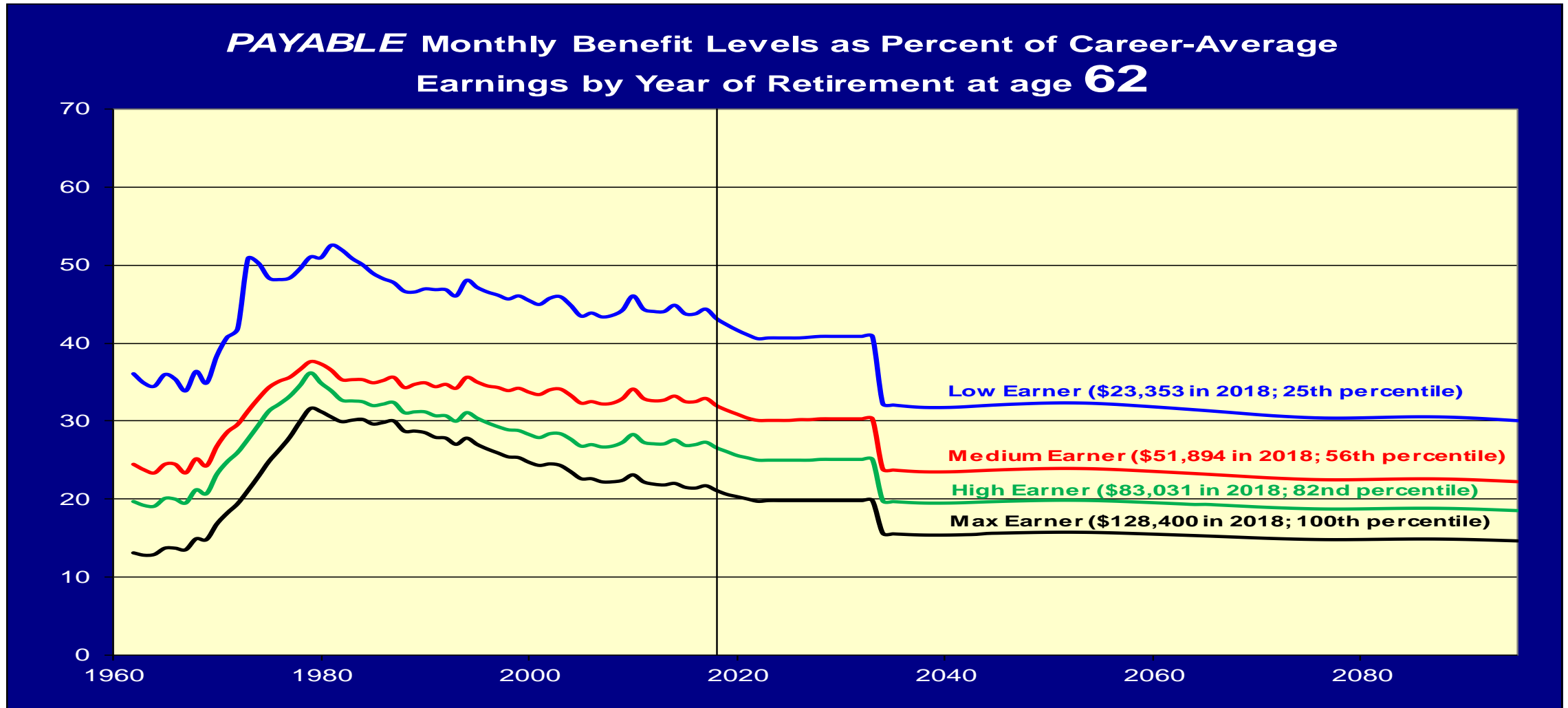


What Does Congress Need To Do To Eliminate Social Security's Long-Term Underfinancing?

By 2034 (preferably sooner), Congress will need to:

- Lower cost (reduce benefits) by about 25%
- Increase revenues by about 33%
- Or some combination of these approaches
- Also consider benefit adequacy?

If the Law is NOT Changed: Full Benefits Will Not Be Payable on a Timely Basis Starting in 2034



Ways to Lower Cost

- Lower benefits for retirees—not disabled
 - Increase normal retirement age (lowers OASDI cost, but increases DI cost)
 - Can increase gradually, maintaining balance between work and retirement years, which would reduce long-range shortfall by about 20 percent
 - Can exempt long-career low earners
- Lower benefits mainly for high earners
 - Reduce PIA above some level
 - Flatten the “benefit” level, making monthly benefits more progressive
 - Note higher earners live longer, but become disabled somewhat less frequently
 - 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 *chain-weighted* CPI (reduces shortfall by 20%)
 - Lessens the ability of Social Security to offset declines in other income
 - Some say instead raise the COLA by using the CPI-E (based on purchases of consumers over age 62) (increases the long-range shortfall by 14%)
- Increase the number of years used in benefit calculation (currently 35)
 - In conjunction with increasing NRA, assuming people work longer
 - But hurts those who have gaps in work, or who cannot work to older ages

Ways to Increase Revenue

- Raise tax rate on all earners
 - Increasing rate from current 12.4 percent to about 15.3 percent is projected to completely eliminate the long-range shortfall
- Raise tax on highest earners
 - Increase taxable maximum amount
 - 83% of earnings below the max now, was 90% back in 1982-3
 - Raising max to 90% again would eliminate over 1/4 of the long-range shortfall
 - Eliminating the max (as for HI) would eliminate over 2/3 of the shortfall
 - Some tax on all earnings above the maximum (even if not the full 12.4 percent)?
 - For each option, extra benefit credit? Or not?

Ways to Increase Revenue (continued)

- Tax employer-sponsored group health insurance premiums (eliminates 1/3 of shortfall)
 - The main form of employee compensation not now taxed
 - Affects only middle class if taxable maximum is not increased
- Maintain larger trust fund reserves, and invest for higher return
 - Could do this by investing some portion of reserves in equities
 - Added interest/yield can lower needed taxes

More Fundamental Changes

- “Privatize”: Partially or fully replace Social Security retirement benefits with personal accounts
- Means-test Social Security benefits
 - Reduce benefits based on assets and/or total income
- Tax additional forms of income
 - Investment income: like ACA approach
 - Inheritance tax
 - Value-added tax (VAT)

Many Comprehensive Proposals Scored

Example 1: Representative Sam Johnson (R-TX), December 2016

- Make PIA formula less generous but more “progressive” (shortfall ↓32%)
- Change to mini-PIA approach (↓13%)
- Raise the Normal Retirement Age gradually (↓32%)
- Lower the COLA (↓47%)
 - Based on chain-weighted CPI for most beneficiaries; 0.3pp lower on average
 - No COLA if prior year’s MAGI is above certain thresholds
- Add a new minimum benefit (↑9%)
- Eliminate taxation of OASDI benefits in 2054 and later (↑15%)
- Would produce “*sustainable solvency*” (shortfall ↓100%)

Go to: https://www.ssa.gov/OACT/solvency/SJohnson_20161208.pdf

Many Comprehensive Proposals Scored

Example 2: Representative John Larson (D-CT), April 2017

- Make PIA formula slightly more generous, more “progressive” (shortfall ↑9%)
- Increase the COLA (↑15%)
 - Based on CPI-E for all beneficiaries; 0.2pp higher on average
 - Index designed to better reflect the purchases of the elderly
- Improve the minimum benefit (↑5%)
- Lower taxation of OASDI benefits slightly (↑7%)
- Tax earnings above \$400K (not indexed) with small benefit credit (↓71%)
- Increase payroll tax rate gradually from 12.4 percent to 14.8 percent (↓67%)
- Would produce “*sustainable solvency*” (shortfall ↓112%)

Go to: https://www.ssa.gov/OACT/solvency/JLarson_20170405.pdf

What's New for Social Security Proposals?

- Paid Family Leave Benefits
 - Sen. Gillibrand proposal—Benefit for new parents, financed with payroll tax
 - Sen. Rubio proposal—Benefit for new parents at their PIA level, for 2020-2023 only
 - Financed initially from the General Fund of the Treasury
 - Parents later have 2 months delay in NRA per 1 month of parental leave benefit; savings to the General Fund
 - Independent Women's Forum proposal—similar to Rubio
- Possibly more coming...

What's New for Social Security Proposals?

- Rep. Garrett—Student loan forgiveness
 - Forgiveness financed by General Fund
 - Requires increase in NRA that helps the Trust Funds
- Sen. Wyden—Additional “poverty relief” benefit amount for older or low career earner OASDI beneficiaries (and SSI recipients)
- Sen. Sanders—Eliminate disability 5-month waiting period, and subsequent 24-month Medicare waiting period
- Rep. Casey
 - Expand and increase disabled widow benefits
 - Expand spouse with child-in-care benefits
 - Increase benefits for widow(er) beneficiaries who delay or suspend benefits when eligible

Finally, Timing for Change

- Historically, Congress has waited until reserve depletion is imminent
- Given uncertainties, difficult to lower benefits or raise taxes until you must
- Enacting “sooner” allows more options, more gradual phase in, and more advance notice
 - Best example: 17-year delay in implementing NRA increase in 1983 amendments
- OASDI reserve depletion now projected for 2034
 - The date has varied between 2029 and 2042 over the past 26 years
 - So we may still have some time for study and careful consideration

For More Information Go To

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

There you will find:

- The 2018 and all prior OASDI Trustees Reports, back to 1941
- 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
- Extensive databases
- Presentations, like this one
- Congressional testimonies



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