

# **Social Security Actuarial Status**

**Long-Range Projections for the 2014 Trustees Report  
and the SSA Annual Audited Financial Statement**

**Where We Are Headed; What We Can Do**

***Association of Government Accountants DC Chapter***

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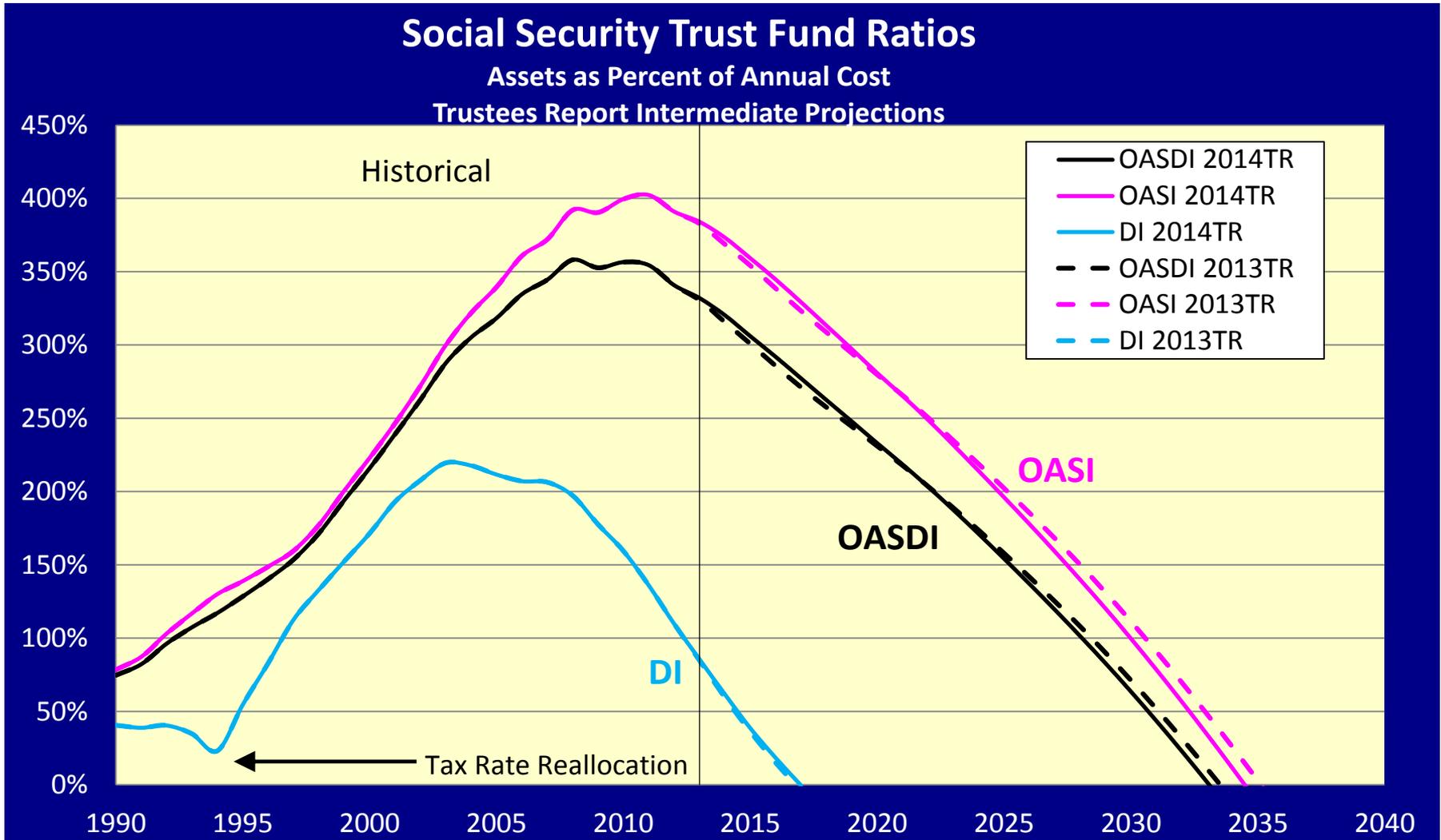
***March 11, 2015***

# Why make these projections?

- 1) Law requires annual report by the Trustees on actuarial status of OASDI
- 2) FASAB requires long-range projections of adequacy of funding in Agency and consolidated financial statements  
*Basic information; full-scope audit*
- 3) Purpose: to inform policymakers and the public

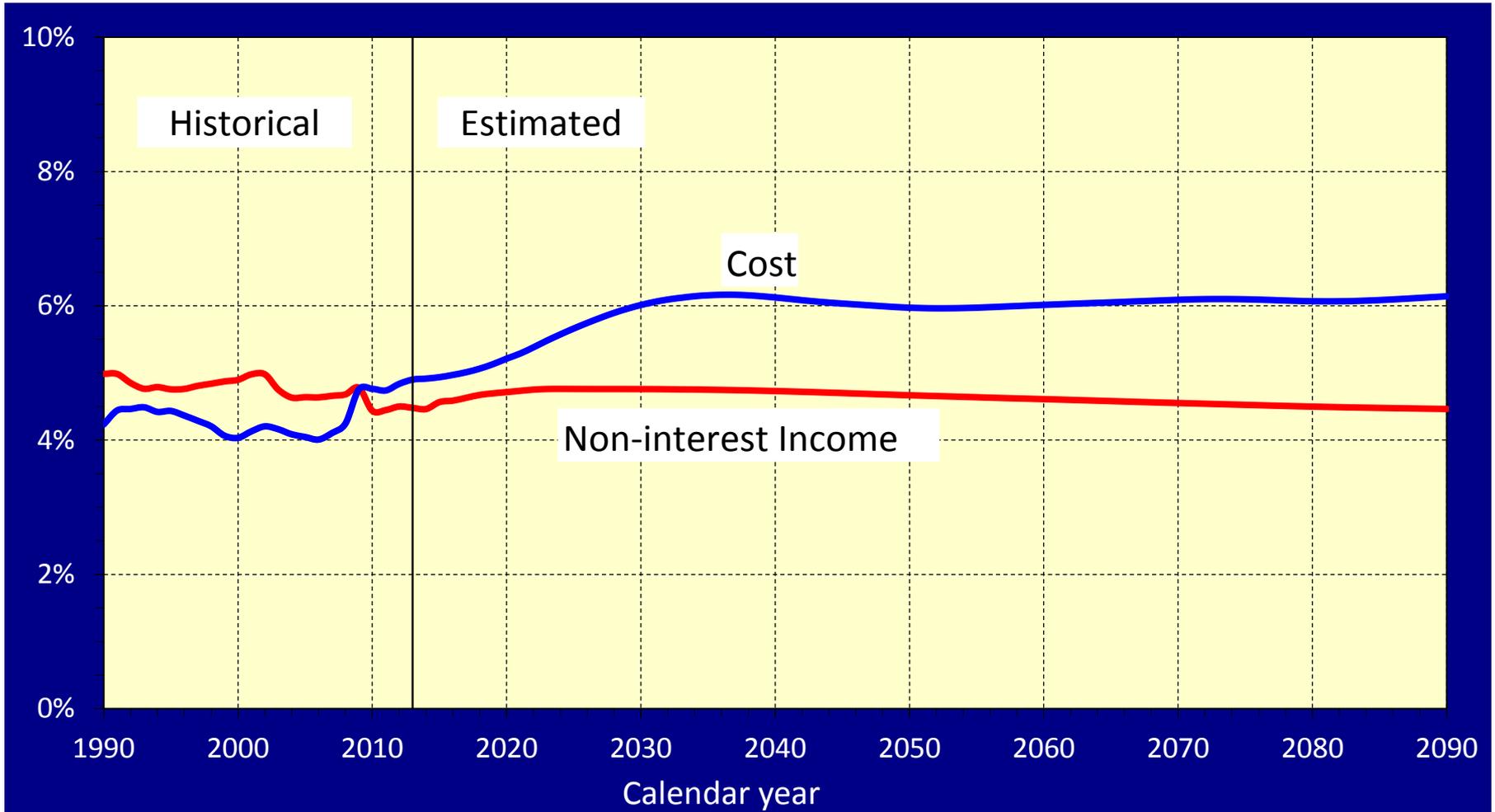
# SOLVENCY: OASDI Trust Fund Reserve Depletion 2033

- Reserve depletion date varied from 2029 to 2042 in last 20 reports (1995-2014)
- DI Trust Fund — reserve depletion in 2016
  - 2016 was projected in the 1995 Trustees Report after the 1994 tax-rate reallocation



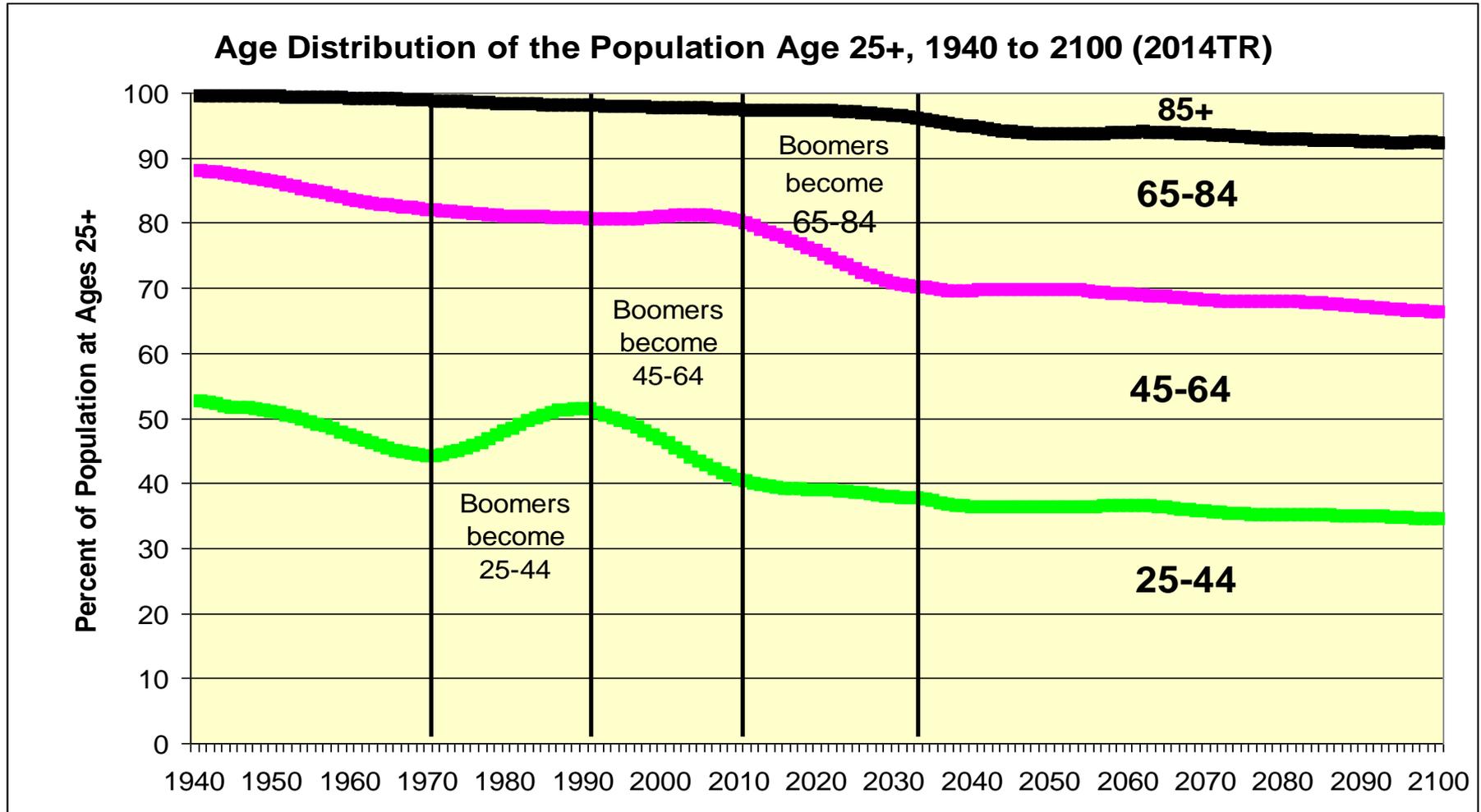
# SUSTAINABILITY: Cost as percent of GDP

Rises from a 4.2% average for 1990-2008, to peak of 6.2% in 2037, then drops to 6.0% for 2050, back to 6.1% by 2087



# Rising cost as percent of GDP and Payroll

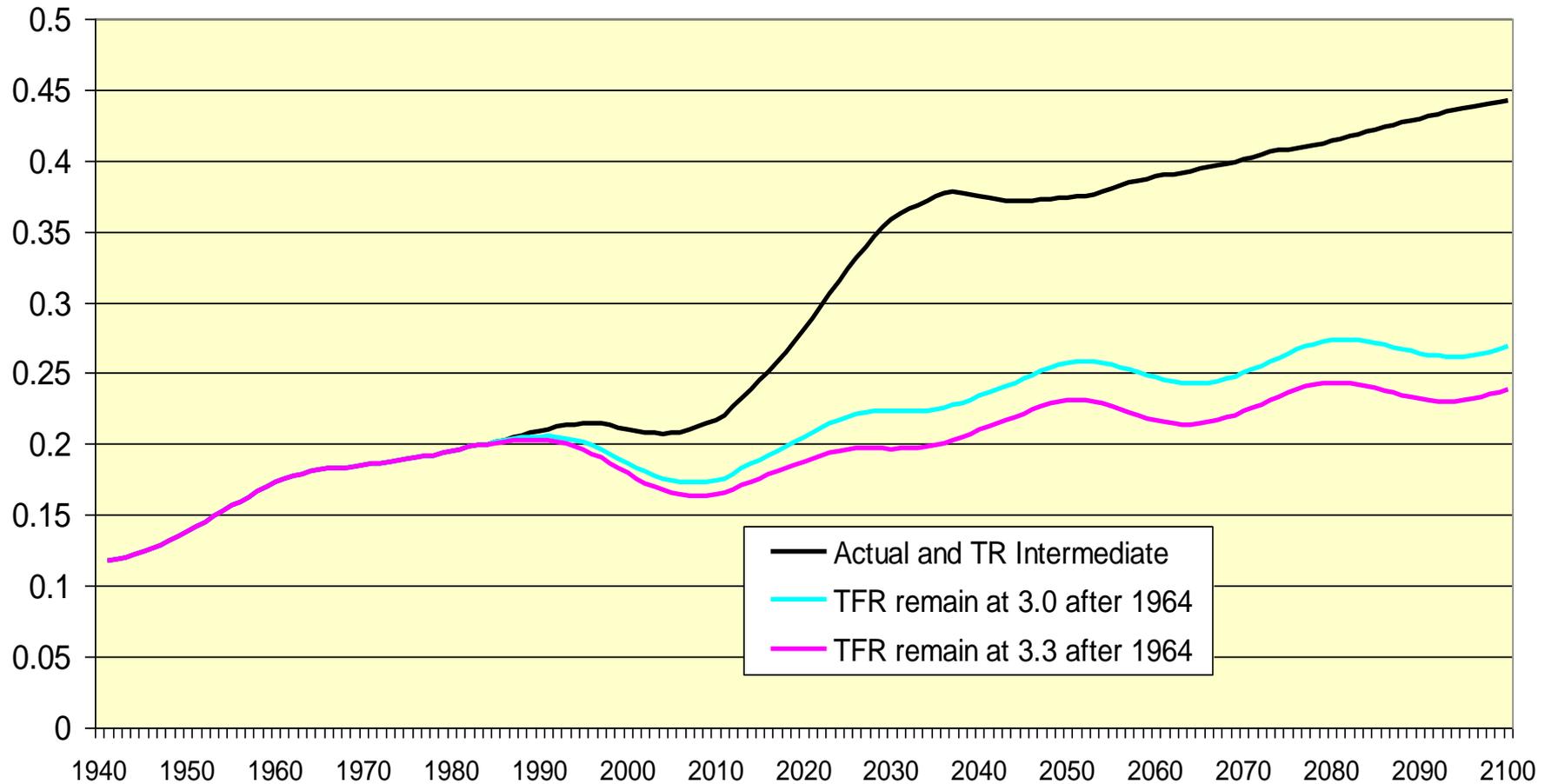
Aging population—increased DI cost 1990-2010, increasing retirement cost now through 2030-35



# Aging (change in age distribution)

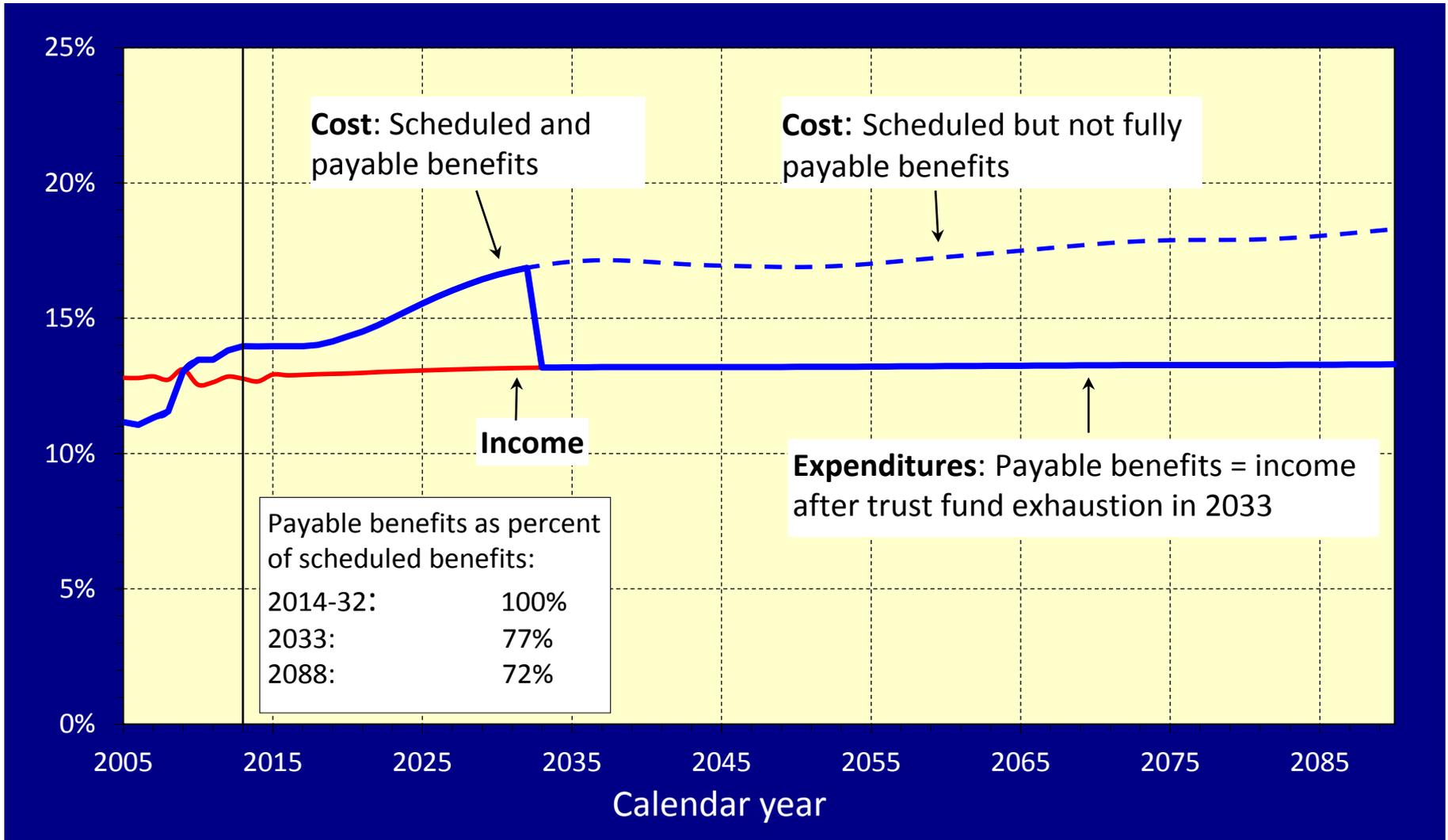
*mainly due to drop in birth rates*

## Aged Dependency Ratio (Population 65+/20-64) 2012 TR



# However, scheduled benefits NOT payable after 2033

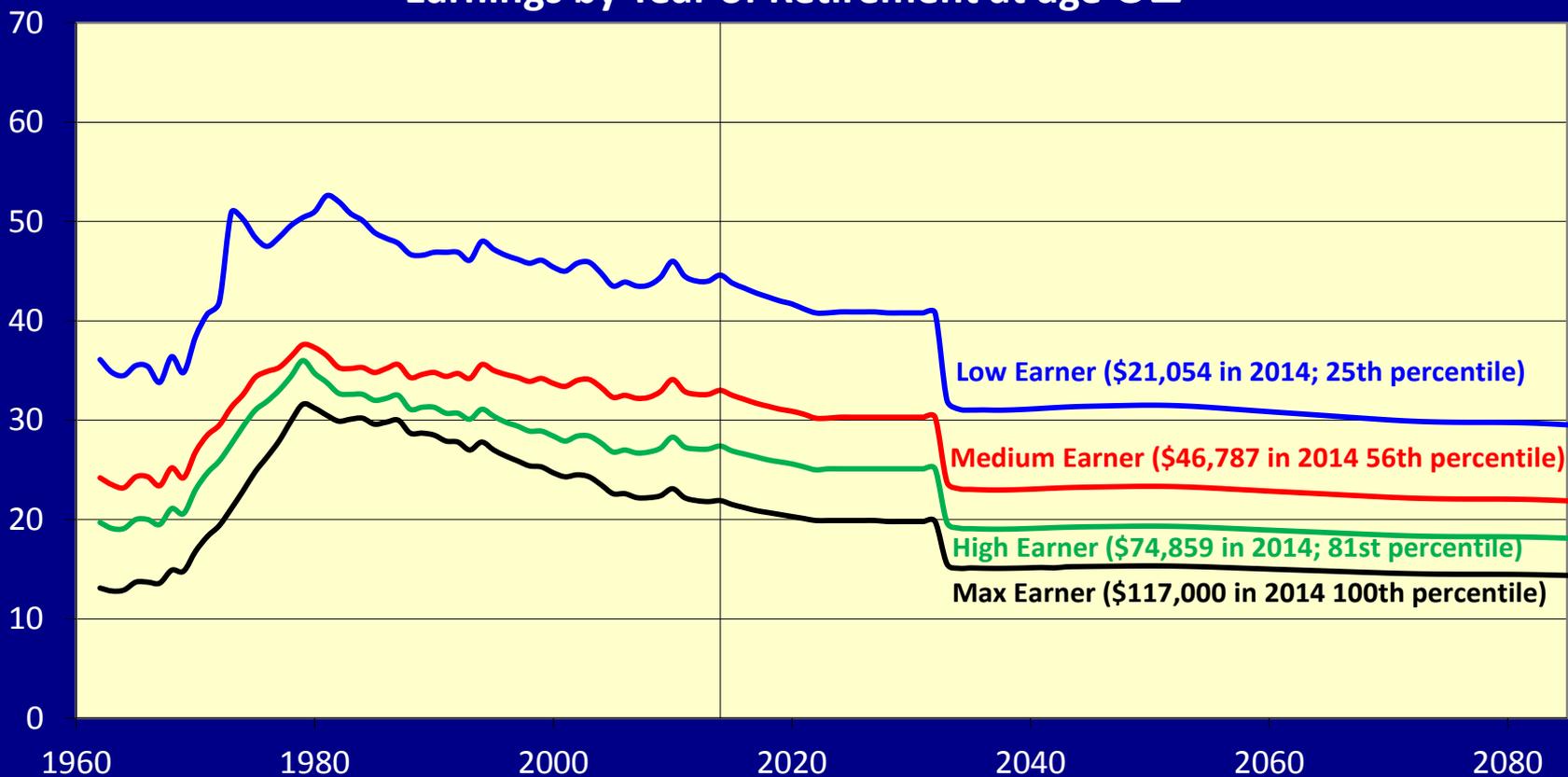
At reserve depletion, ONLY continuing income is available---no borrowing authority



# Payable benefits under law, after Trust Fund reserves are depleted, suddenly drop

**PAYABLE** Monthly Benefit Levels as Percent of Career-Average

Earnings by Year of Retirement at age **62**



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

# So--How to fix Social Security long-term?

- First: OASI help DI soon---*reallocate*
- Second: make choices for 2033-2088
  - Raise scheduled revenue by about 33%:  
increase revenue from 4.6 to 6.0% of GDP
  - Reduce scheduled benefits by about 25%:  
lower benefits to what 4.6% of GDP will buy
  - 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
  - Can exempt long-career low earners
- Lower benefits mainly for high earners?
  - Reduce PIA above some level
  - Like progressive indexing
- Lower benefits mainly for the oldest old?
  - Reduce the COLA (chained CPI)
    - Some say increase it with the CPI-E (based on purchases of consumers over age 62)

# Ways to Increase Revenue

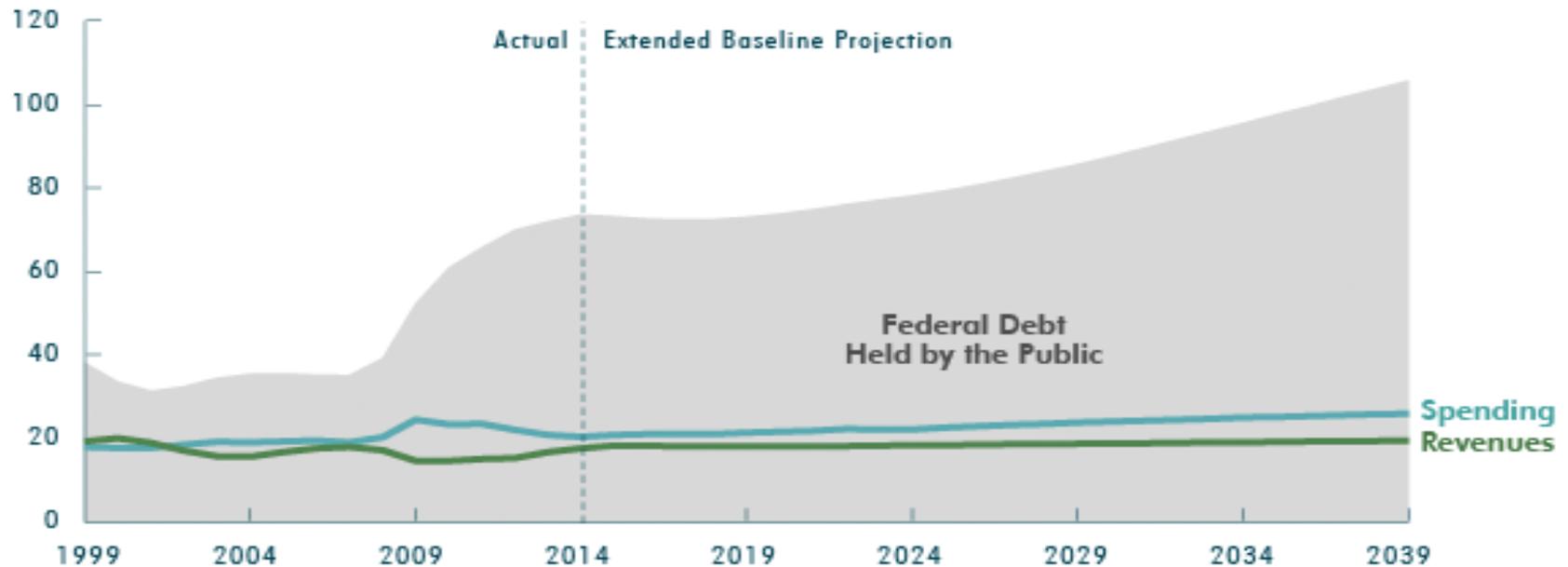
- Raise tax on highest earners?
  - Increase taxable maximum amount
  - Some tax on all earnings above the maximum
- Tax employer group health insurance premiums?
  - Affects only middle class if taxable maximum remains
- Maintain larger trust fund reserves?
  - Added interest can lower needed taxes

# But, wait—how about Budget Scoring?

## Don't entitlements just keep borrowing?

### Debt Held by the Public, Total Spending, and Total Revenues

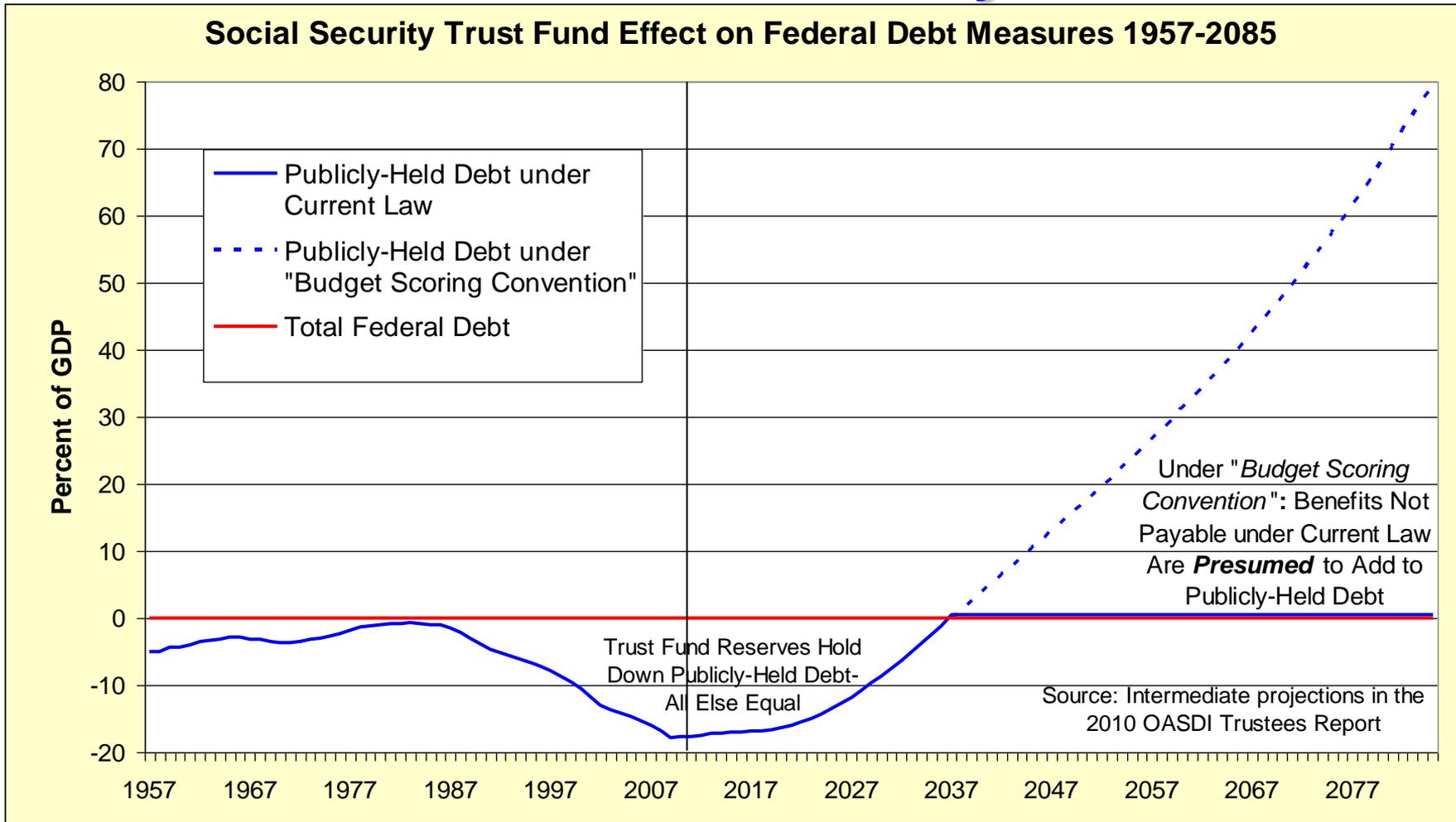
Percentage of Gross Domestic Product



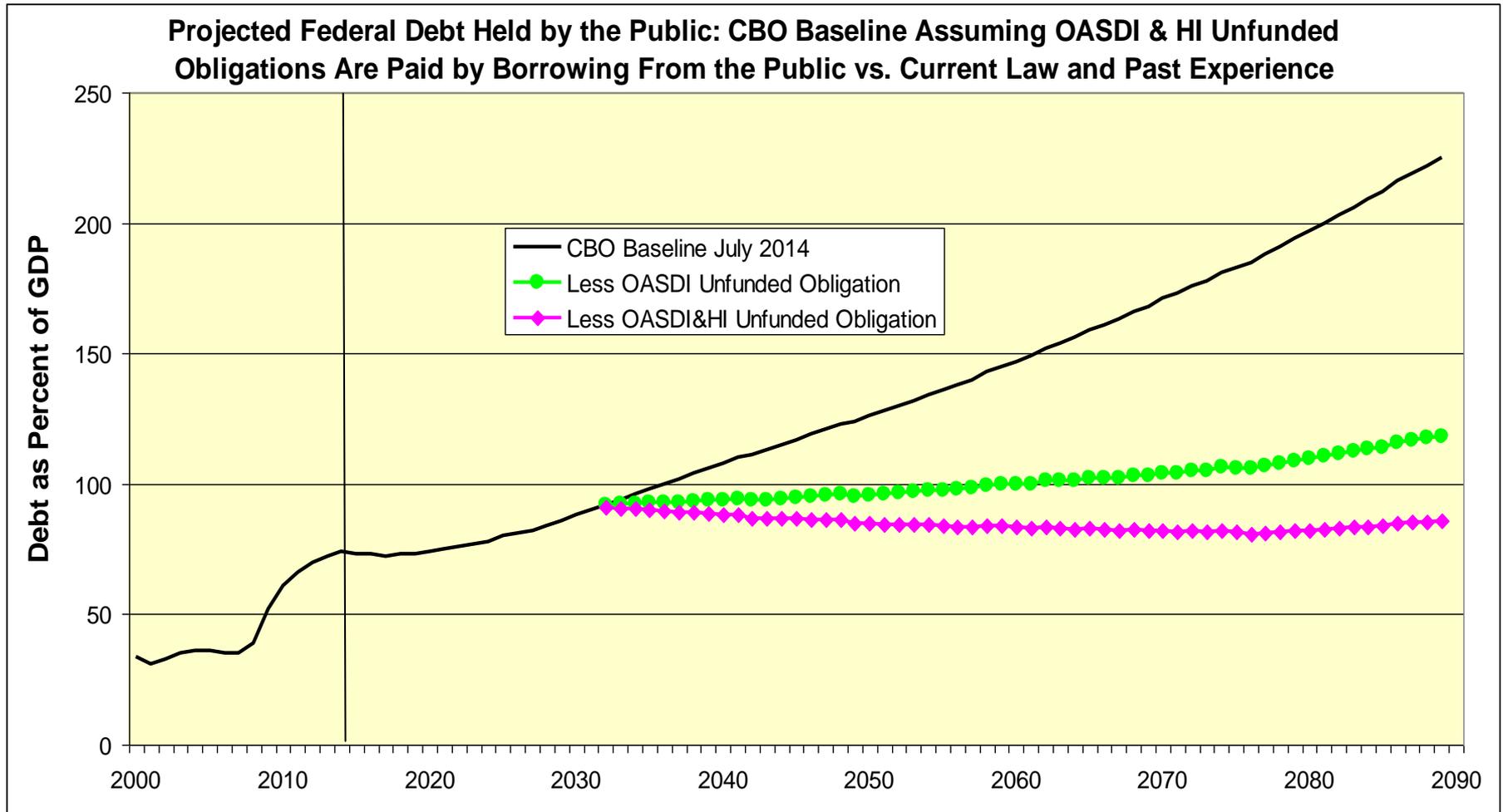
# Actually, NO. Budget Scoring is inconsistent with the law, and all past experience.

- See Actuarial Opinion in the 2014 TR
  - 1) After reserves deplete, \$10.6 trillion unfunded obligation cannot be paid under the law.
    - *Budget deems these “expenditures” creating public 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*

# Actual Trust Fund Operations Have No Effect on Total Federal Debt, and No Net Effect on Publicly-Held Debt



# So—what if we project Federal debt consistent with the law?



# The Bottom Line----

- Long-Term projections inform on Solvency
- If TF 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-----
  - Added revenue soon for DI (before 2017)
  - Added revenue and/or lower cost for OASDI
    - Comprehensive changes *implemented* by 2033

For more information, go to  
<http://www.ssa.gov/oact/pubs.html>

- 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 data bases
  - Past Congressional testimonies