Social Security Actuarial Status:

A Summary of Results from the 2019 Annual Report of the Board of Trustees of the OASI and DI Trust Funds

Office of the Chief Actuary, SSA

May 10, 2019

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

Primary Changes this Year

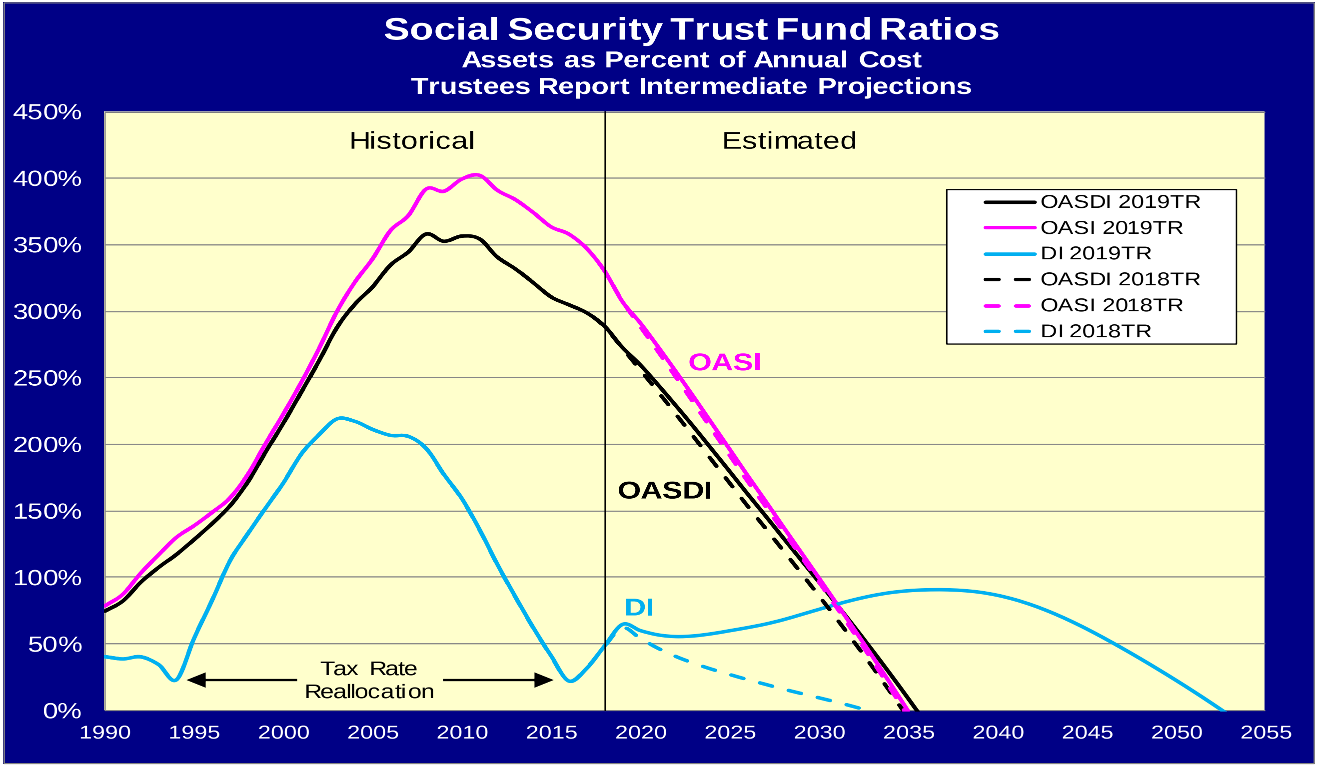
1) DI reserve depletion extended another 20 years, to 2052!
   a) Further drop in applications and benefit awards in 2018
   b) More gradual increase to ultimate incidence rate
   c) Lower ultimate incidence rate—back to 2008-11 TR assumption
   d) Restore reconsideration step in disability process in 10 states

2) OASI reserve depletion is 2034—the same as in last year's report.

3) OASDI reserve depletion is now 2035 versus 2034 in last year's report. Actuarial deficit decreased by 0.06 percent of payroll versus expected increase of 0.05 percent from change in valuation period alone. Annual deficits smaller throughout the 75-year projection period.

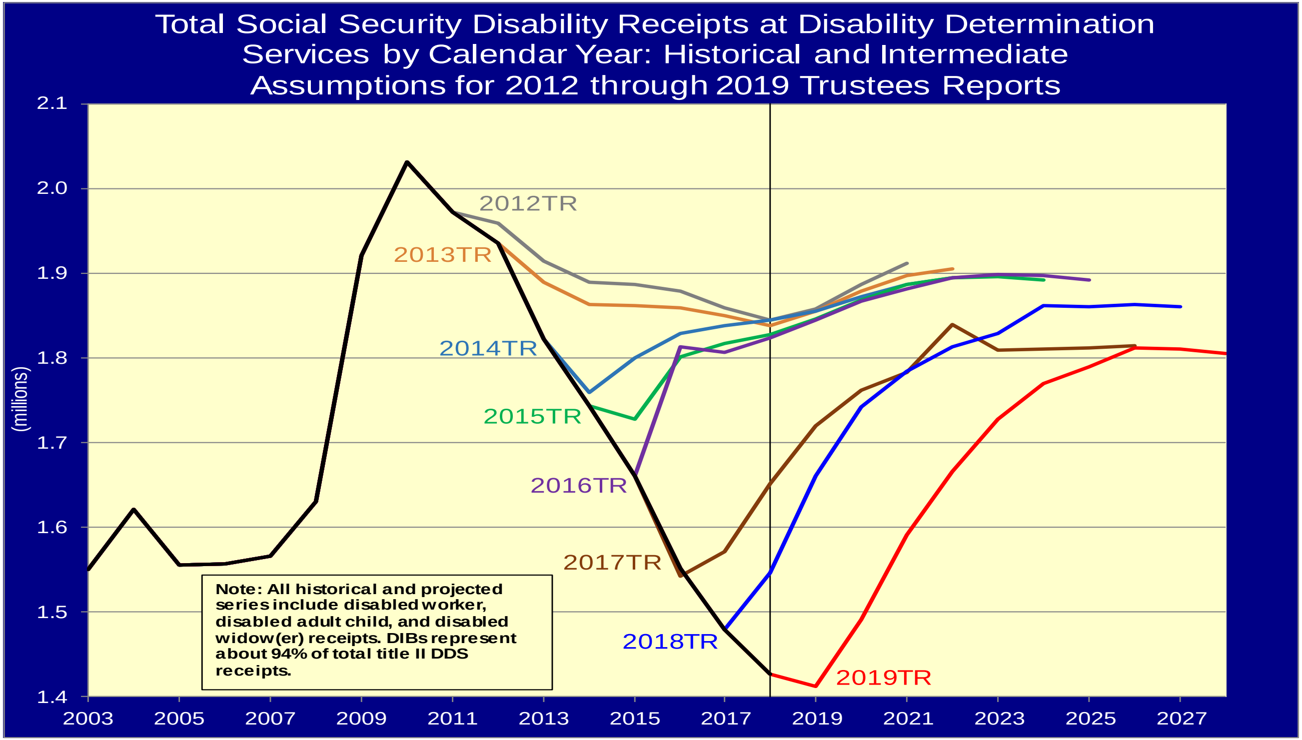
SOLVENCY: OASDI Trust Fund Reserve Depletion in 2035 (one year later than last year)

- 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***
  - Due largely to lower recent and near-term disability applications and awards.



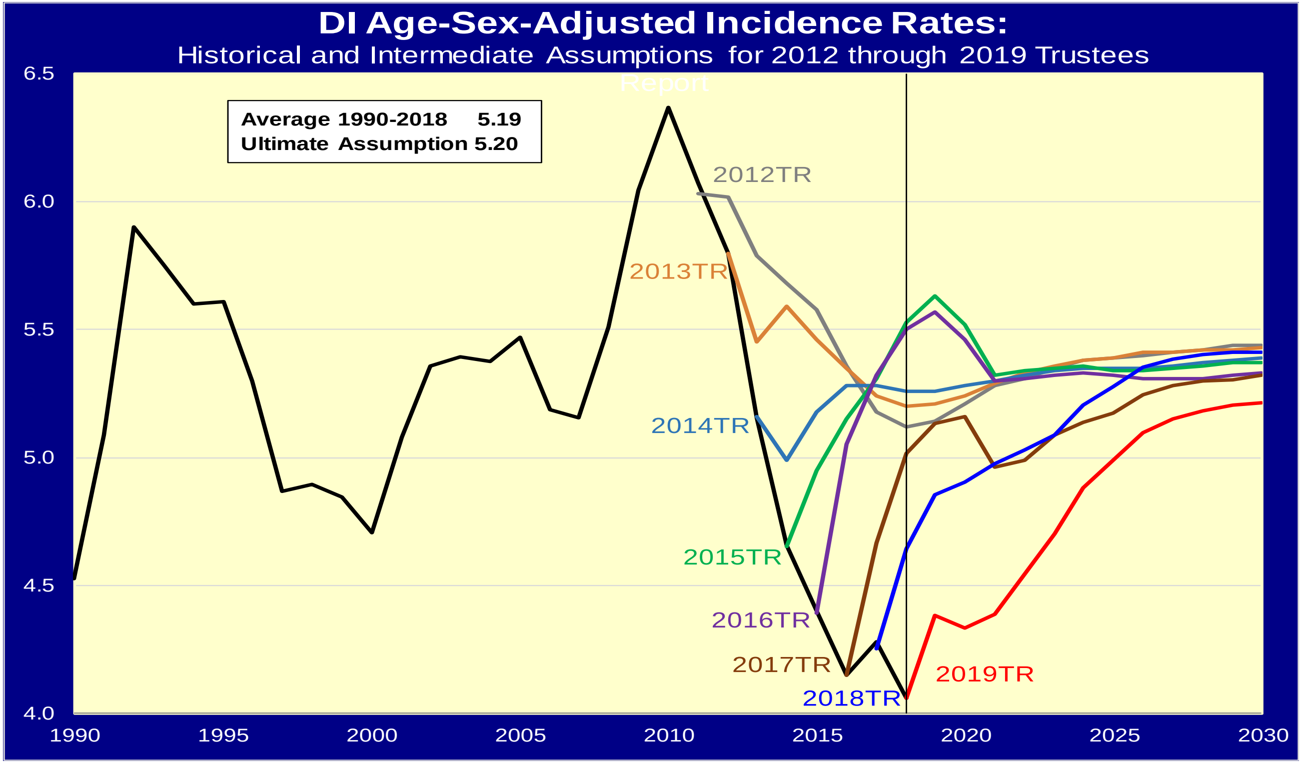
Applications for Disability Benefits Continue to Fall

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, 2017 and 2018, with the economy still below the sustainable full-employment level, applications have dropped below the 2007 level



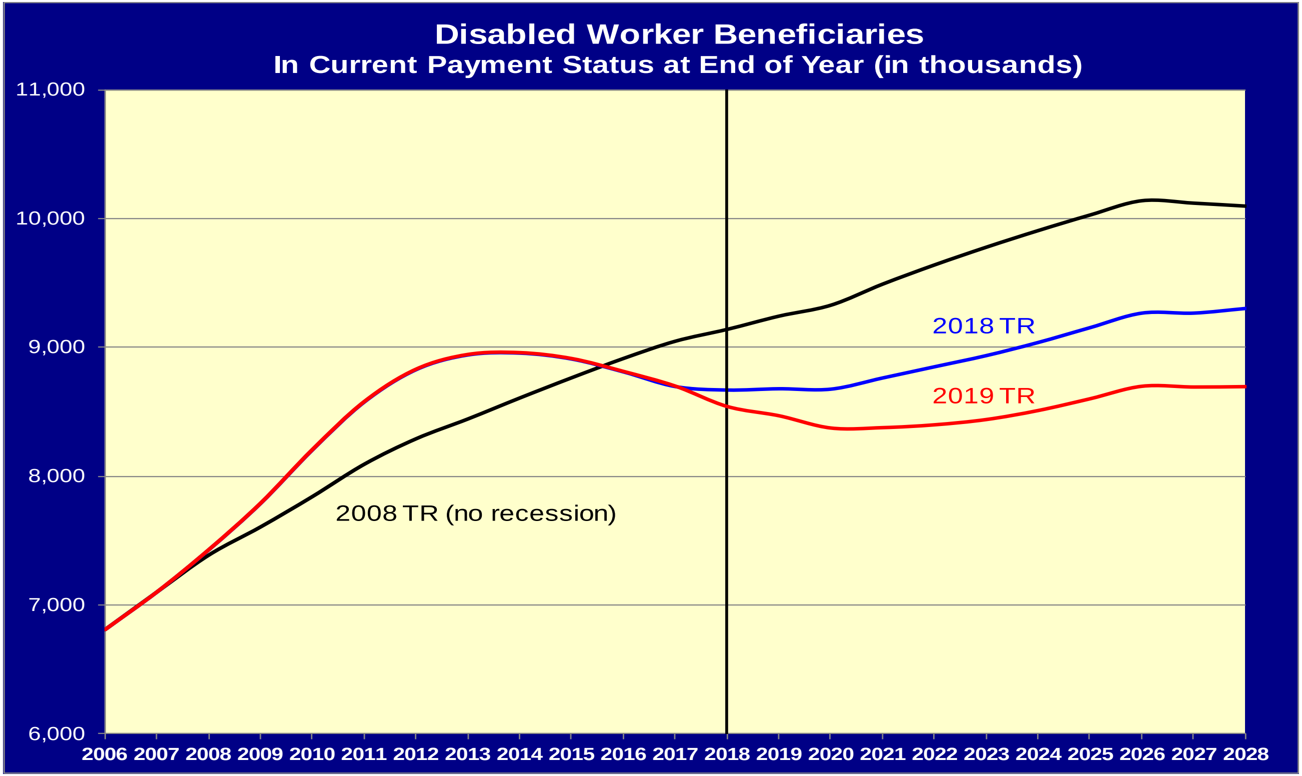
Disability Incidence Rate Falls to Historic Lows

DI disabled worker incidence rate rose sharply in the recession, and has declined since the peak in 2010 to extraordinarily low levels for 2016, 2017 and 2018



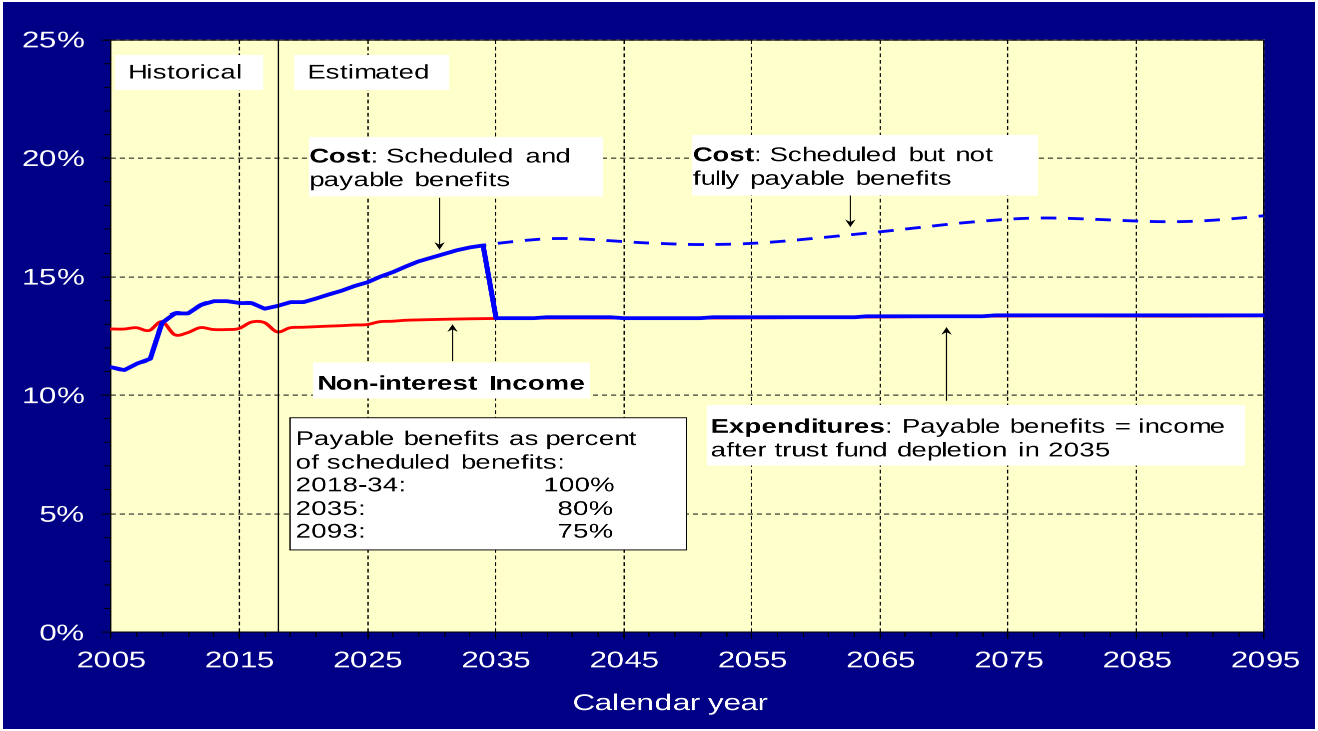
Fewer Disabled Worker Beneficiaries

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



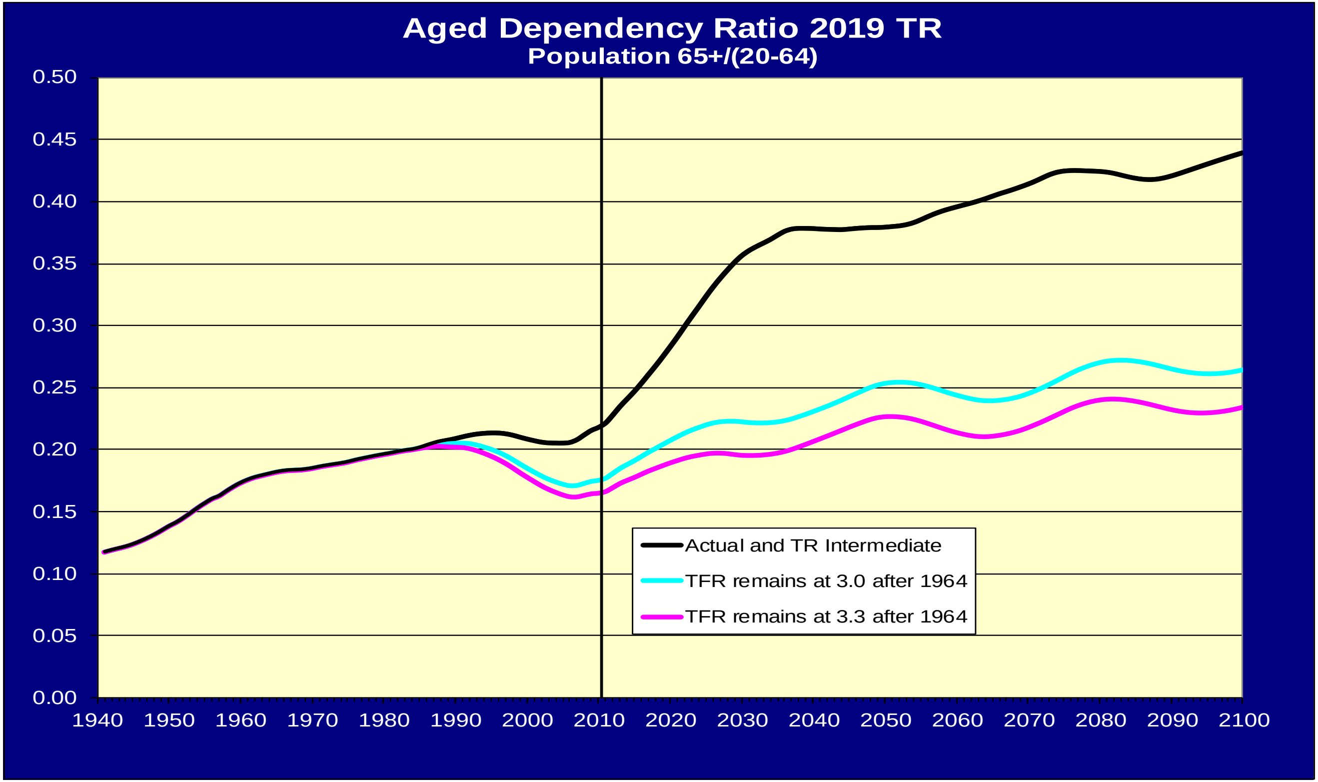
OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll
Persistent Negative Annual Cash-Flow Balance Starting in 2010

80% of scheduled benefits still payable at trust fund reserve depletion
Annual deficit in 2093: 4.11 percent of payroll — 0.25 percent smaller than last year



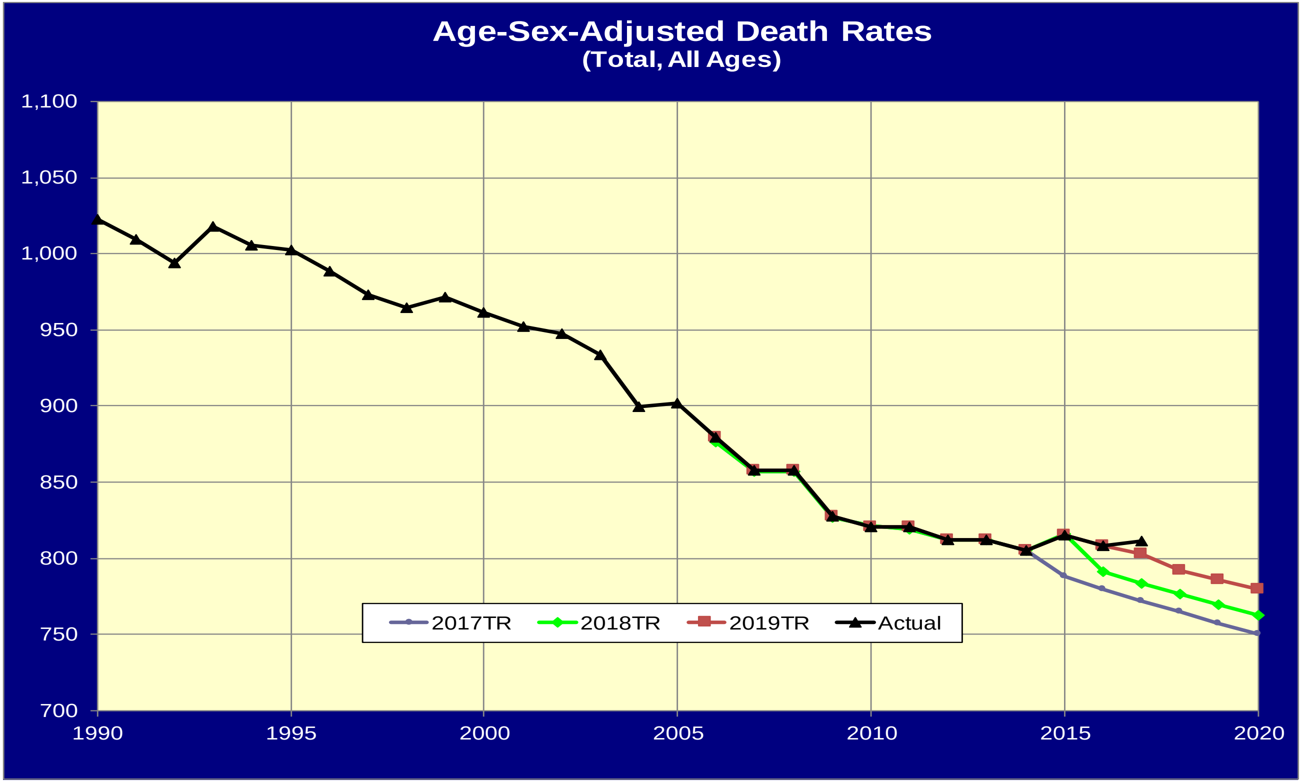
Aging (change in age distribution)

mainly due to drop in birth rates



Mortality Experience: All Ages

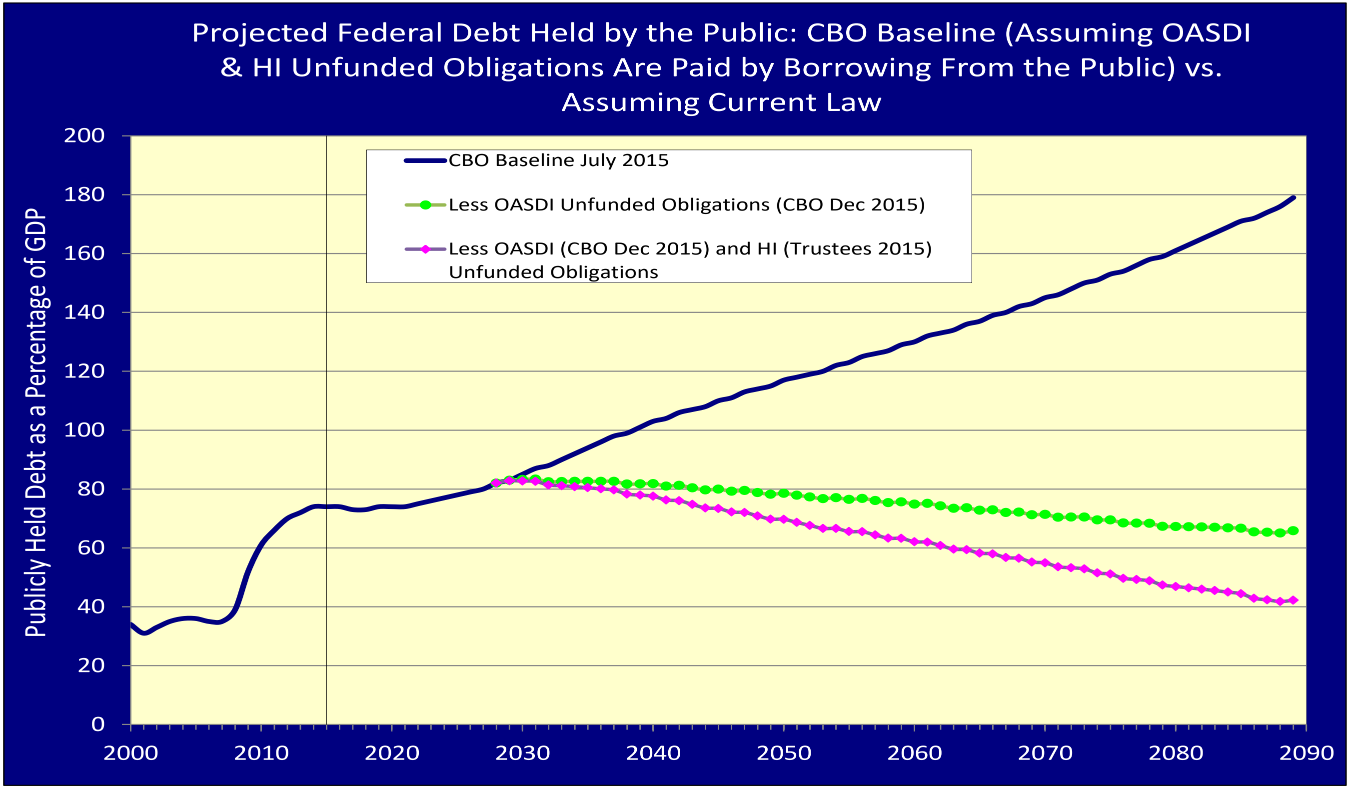
Reductions continue to fall short of expectations



Principal Reasons for Actuarial Balance Change in 2019 Report

• Valuation Period	- 0.05 percent
• Legislation etc.	0.00 percent
• Lower recent birth data and lower assumed near-term total fertility rate	- 0.02 percent
• Higher recent mortality	+0.09 percent
• Immigration assumptions and other data updates	- 0.01 percent
• Lower ultimate annual rate of change in labor productivity	- 0.09 percent
• Lower assumed price differential	+0.09 percent
• Higher long-term real-wage differential	+0.03 percent
• Lower ultimate real interest rate	- 0.08 percent
• Starting values and other near-term economic assumptions	+0.01 percent
• Lower recent and near-term disability applications and incidence rates	+0.03 percent
• Lower ultimate disability incidence rate	+0.04 percent
• Other new data and methods improvements	+0.01 percent
Net Change for All Reasons	+0.06 percent

Do Entitlements Really Raise Federal Debt? Not Under Current Law!



How to Eliminate the Social Security Long-Term Actuarial Deficit

Make choices addressing OASDI deficits 2035-2093:

- Raise scheduled revenue after 2034 by about one-third
- Reduce scheduled benefits after 2034 by about one-fourth
- Or some combination of the two

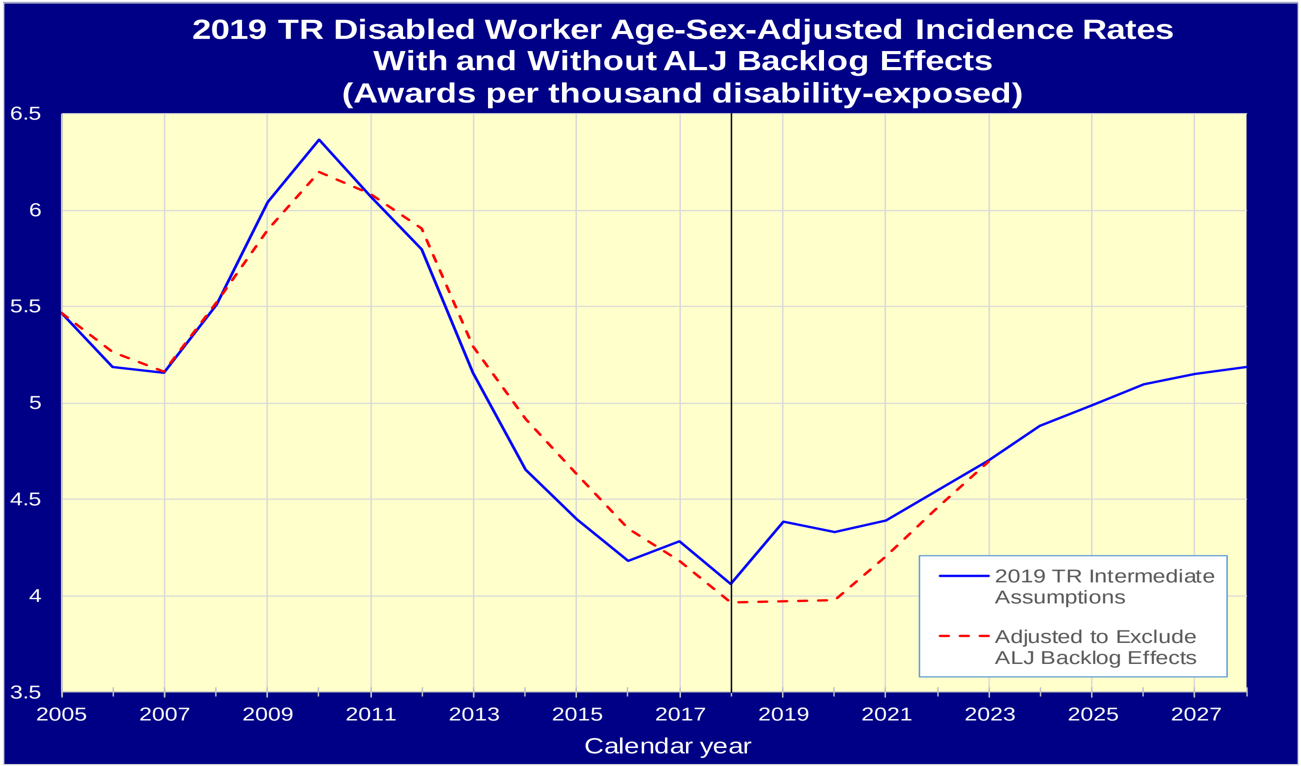
For More Information Go To http://www.ssa.gov/oact/

- 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
  - Presentations by OCACT employees

Additional Information

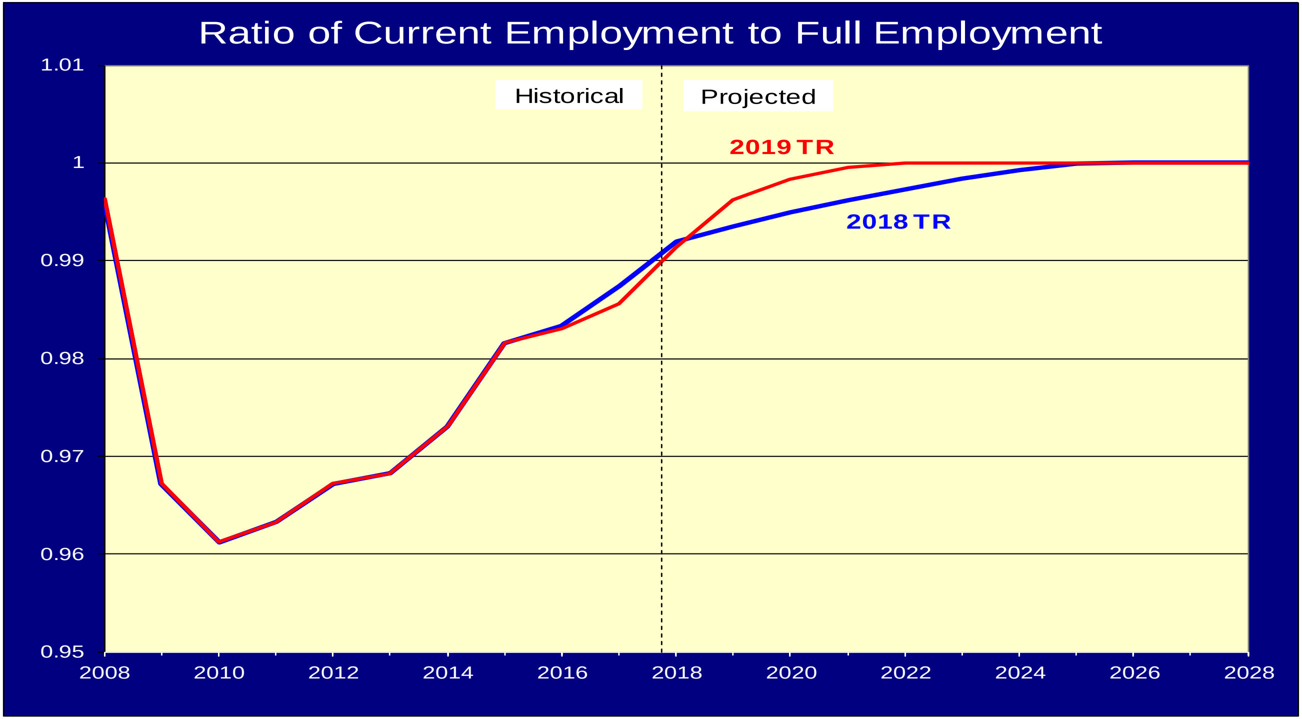
Disability Incidence Rate Projected to Rise to Ultimate Level by 2028

Sharp increase in the projected disability incidence rate in 2019 due in part to the reduction of the ALJ backlog.



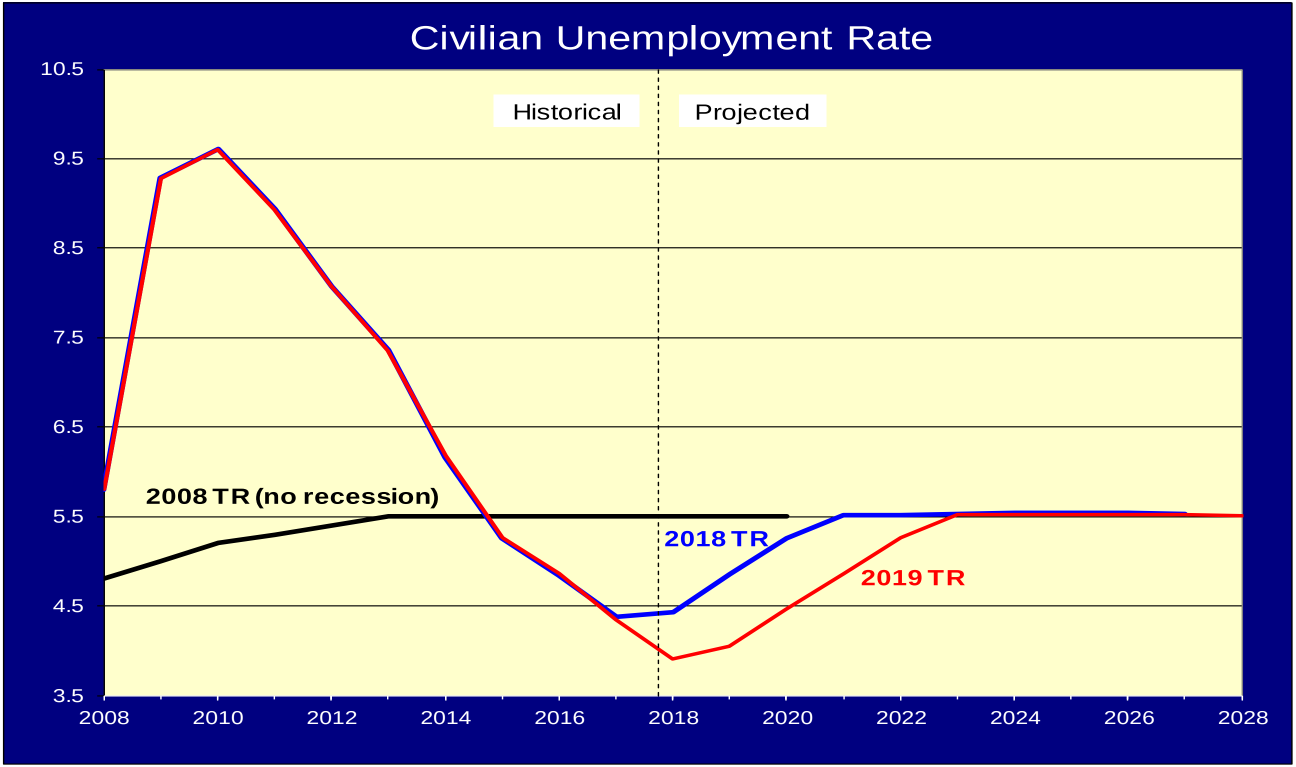
Employment is Closer to Full Employment

- With revised and new data, the 2019 TR full employment level is estimated to be higher in 2017 and 2018 than was the case in 2018 TR.
- In 2019 TR, employment is estimated to reach full employment in 2022, three years sooner than in 2018 TR.



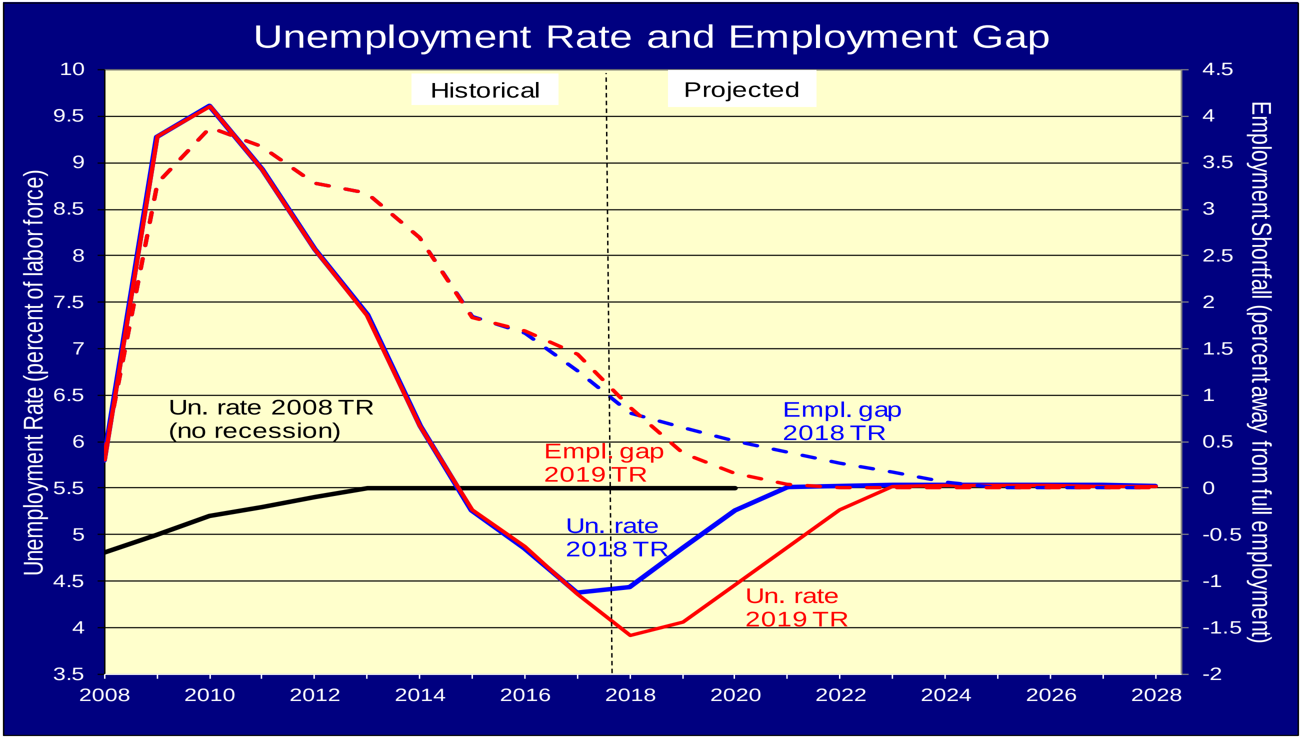
Lower Unemployment Rate in the Near Term

The unemployment rate dropped to 3.7 percent in Sep. 2018, is projected to rise to around 4 percent in 2019, and increase gradually to the ultimate value of 5.5 percent in 2023 and thereafter.



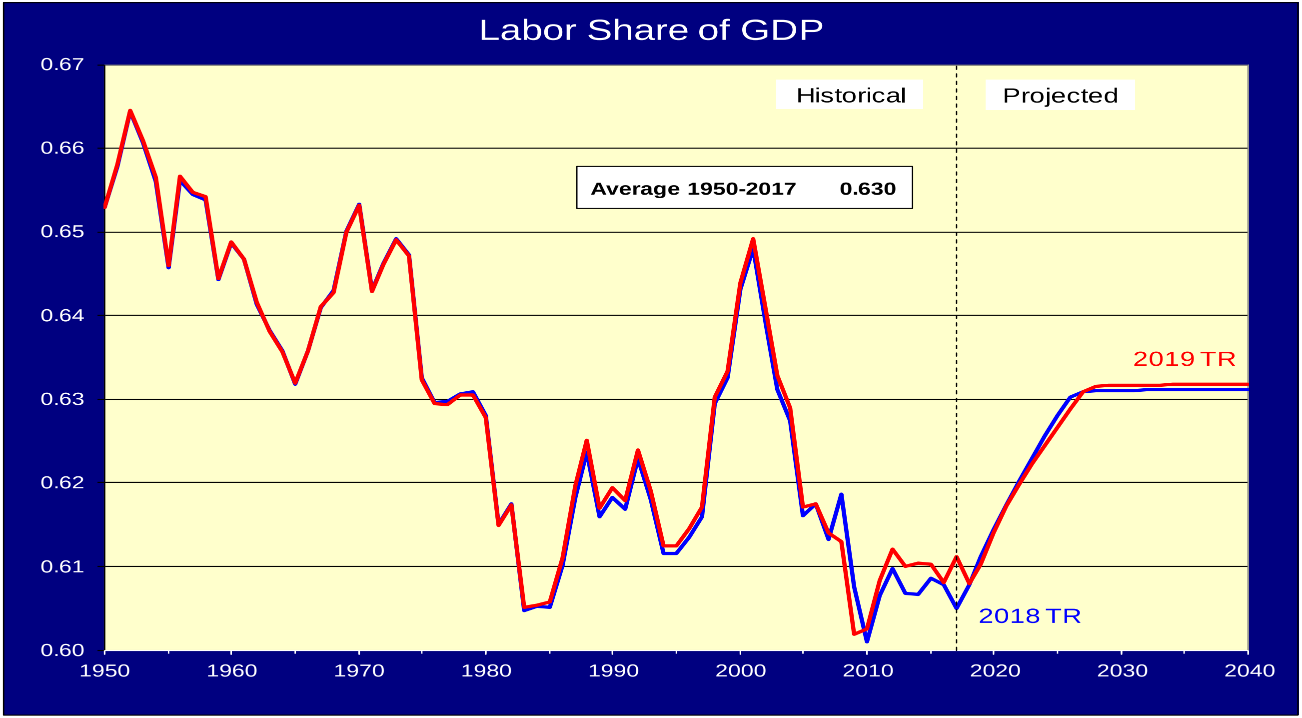
Employment Remains Below Full Employment

- In the 2019 TR, the employment gap is projected to close sooner than in the 2018 TR.
- Unemployment rate fell below the 2018 TR projections, but is projected to rise as labor force participation rises.



Ratio of Labor Compensation to GDP (Labor Share)

- Recent revisions to BEA data suggest slightly higher labor share since 2012.
- In the 2019 TR, the labor share of GDP is projected to reach approximately 63.2 percent in the long-range period, about the same as in the 2018 TR.



Reasons for Change in 2019 Trustees Report

Actuarial Balance—Net Change of +0.06 percent of payroll

Valuation Period—Changes the actuarial balance by **-0.05 percent of payroll**

Legislation etc.—Changes the actuarial balance by **0.00 percent of payroll**

- Reinstatement of reconsideration step in disability appeals process

Demographic Data/Assumptions—Changes the actuarial balance by **+0.06 percent of payroll**

- Lower than expected birth rate in 2017 and near-term assumptions (- 0.02 percent)
- Higher than expected death rates in 2016 and preliminary 2017 data (+0.09 percent)
- Lower recent immigration, near-term assumptions, and other data updates (- 0.01 percent)

Economic Data/Assumptions—Changes the actuarial balance by **-0.04 percent of payroll**

- Lower ultimate rate of change in labor productivity (- 0.09 percent)
- Lower assumed price differential (difference between ultimate growth rates for CPI-W and GDP price deflator) (+0.09 percent)
- Higher long-term real-wage differential (+0.03 percent)
- Lower ultimate real interest rate (- 0.08 percent)
- Starting values and other near-term economic assumptions (+0.01 percent)

Disability Data/Assumptions—Changes the actuarial balance by **+0.07 percent of payroll**

- Lower recent and near-term disability applications, awards and incidence rates (+0.03 percent)
- Lower ultimate disability incidence rate (+0.04 percent)

Methods and Programmatic Assumptions **+0.01 percent of payroll**

- Methodological improvements in projected benefit levels, programmatic data, and other improvements and updates

Detailed Methods Improvements/New Program Data in 2019 Trustees Report

Changes the actuarial balance by +0.01 percent of payroll

1) **Better incorporate provisional birth rate data from NCHS into fertility model** *(-0.02 percent)*
2) **Use more comprehensive mortality data from CMS** *(+0.01 percent)*
3) **Incorporation of current year's disability prevalence projections into labor force participation model** *(+0.02 percent)*
4) **Improve average benefits model to better reflect "dispersion" in historical taxable earnings levels** *(+0.04 percent)*
5) **Improve projection of benefit levels for those awarded benefits two or more years after date of initial benefit entitlement** *(+0.03 percent)*
6) **Update post-entitlement adjustment factors and the Windfall Elimination Provision reduction factors** *(-0.02 percent)*
7) **Other data updates and method improvements** *(-0.05 percent)*