



# US SOCIAL SECURITY ADMINISTRATION SELECTED GOVERNANCE AND FINANCE TOPICS

OFFICE OF THE CHIEF ACTUARY  
MEETING WITH MR. TAKAMITSU ISSE  
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# WHAT ARE THE CURRENT EMPLOYEE CONTRIBUTIONS, EMPLOYER CONTRIBUTIONS AND HOW ARE THESE DETERMINED?

- For individuals:
  - Employees and employers each pay **6.2%** of covered earnings for the combined Social Security (OASDI) program
  - The self-employed pay **12.4%** of covered earnings
  - On earnings up to **\$137,700** in 2020; this **taxable maximum** amount increases with the national average wage each year
- Currently, **5.3%** of the 6.2% goes to OASI (Old-Age and Survivors Insurance) and **0.9%** goes to DI (Disability Insurance)
- Separate taxes for the Medicare Hospital Insurance program

# WHAT IS THE ROLE OF THE BOARD OF TRUSTEES?

- Who are the Trustees?
  - Secretary of the Treasury (managing Trustee)
  - Secretary of Health and Human Services
  - Secretary of Labor
  - Commissioner of Social Security
  - 2 Public Trustees (although these positions have been vacant since July 2015)
- Responsibilities of the Board of Trustees
  - Manage the OASI and DI trust funds
  - Report to the Congress each year on the operations and actuarial status of the trust funds (annual **Trustees Reports**)
  - Indicate whether the reserves in either trust fund are expected to become too small (Section 709)

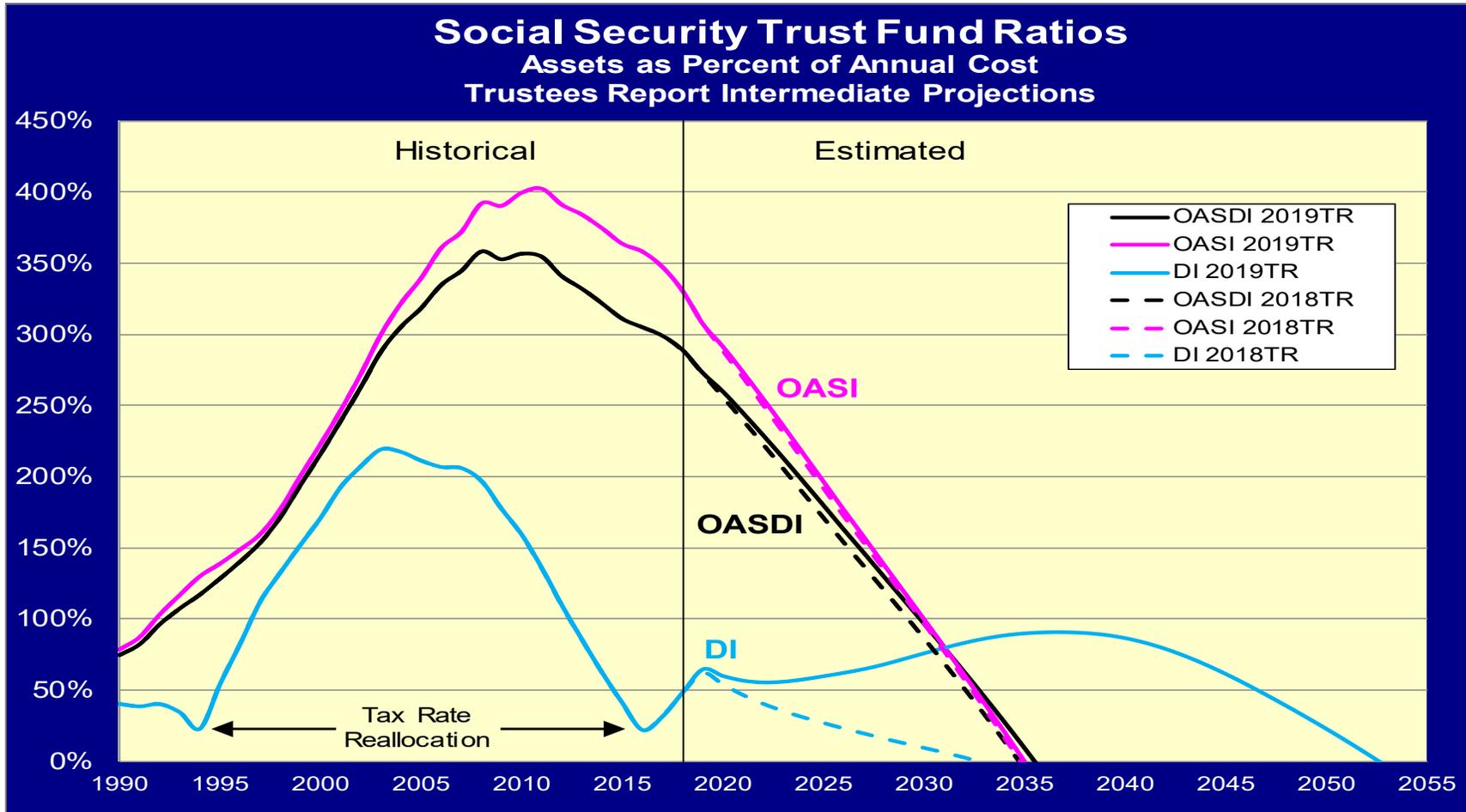
# A REVIEW OF RECENT ACTUARIAL STUDIES

- Many analyses of recent legislative proposals to change the program at <https://www.ssa.gov/OACT/solvency/index.html>
- Annual brief actuarial notes (<https://www.ssa.gov/OACT/NOTES/actnote.html>) on various topics, such as:
  - Unfunded Obligation and Transition Costs for the OASDI Program
  - Unisex Life Expectancies at Birth and Age 65
  - Internal Real Rates of Return Under the OASDI Program for Hypothetical Workers
  - Death and Disability Life Table for Insured Workers
  - Replacement Rates for Hypothetical Retired Workers
- More in-depth actuarial studies (<https://www.ssa.gov/OACT/NOTES/actstud.html>), such as:
  - #124, Mortality by Career-Average Earnings Level by Tiffany Bosley, Michael Morris, and Karen Glenn (April 2018)
  - #123, Social Security Disability Insurance Program Worker Experience by Tim Zayatz (August 2015)

# THE CURRENT AND PROJECTED ACTUARIAL STATUS OF THE OLD AGE AND SURVIVORS, AND DISABILITY TRUST FUNDS

- The Social Security (OASDI) program is made up of two legally separate trust funds:
  - **OASI** = Old-Age and Survivors Insurance
  - **DI** = Disability Insurance
- One measure of financial (actuarial) status is the **reserve depletion date** for each fund – if and when each trust fund is projected to deplete its reserves and be unable to pay full scheduled benefits on time, under current law
  - **The trust funds have no borrowing authority**
- In the most recent Trustees Report, the reserve depletion dates were:
  - OASDI: 2035
  - OASI: 2034
  - DI: 2052

# THE CURRENT AND PROJECTED ACTUARIAL STATUS OF THE OLD AGE AND SURVIVORS AND DISABILITY TRUST FUNDS (continued)



# WHAT ARE THE CURRENT ANNUAL EXPENDITURES FOR RETIREMENT BENEFITS AND ADMINISTRATIVE COSTS?

- The Office of Finance presentation covered this topic...

# DO BENEFITS RISE WITH INFLATION, AND IF SO, WHAT STANDARD IS USED?

- Across generations, benefits are indexed by average wage growth; after eligibility for each generation by prices
- As Office of Finance mentioned, the Cost of Living Adjustment (COLA) is currently based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (**CPI-W**)
- However – some policymakers have proposed changing the inflation measure for the COLA
- One possibility would be to use the *chain-weighted* CPI (**C-CPI-U**)
  - Reflecting the degree to which consumers will buy more of goods and services with prices that are rising slower
  - OCACT estimates C-CPI-U would *reduce* the annual COLA by 0.3 percentage point, on average
  - By age 85, benefits would be about **6.5% lower**
- Another possibility would be to use the CPI for the elderly (**CPI-E**)
  - Basket of goods and services for those age 62+; medical care and housing are given greater weight
  - OCACT estimates CPI-E would *increase* the annual COLA by 0.2 percentage point, on average
  - By age 85, benefits would be about **4.6% higher**

# WHAT IS OR ARE THE PENSIONABLE AGES? IS THERE A RANGE OF PENSIONABLE AGES TIED TO BENEFITS?

- Workers may choose to begin receiving their retirement benefit as early as age 62, with an actuarial reduction
- The normal (sometimes called “full”) retirement age (**NRA**) is increasing from age 65 to 67
- For individuals age 62 in 2019, the NRA is 66 and 6 months; will be 67 for those age 62 in 2022 and later
- Workers may choose to begin receiving their benefit after NRA, with a delayed retirement credit up to age 70 (but no additional credit for delay beyond age 70)

Normal Retirement Age	
Year of birth	Age
1937 and prior	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-54	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

# WHAT IS OR ARE THE PENSIONABLE AGES? IS THERE A RANGE OF PENSIONABLE AGES TIED TO BENEFITS?

- In the case of *early retirement*, a benefit is reduced  $\frac{5}{9}$  of one percent for each month before normal retirement age, up to 36 months. If the number of months exceeds 36, then the benefit is further reduced  $\frac{5}{12}$  of one percent per month.
- Delayed retirement credits increase a retiree's benefits. The table shows the delayed retirement credit by year of birth.

Delayed retirement credit	
Year of birth	Credit per year
1917-24	3.00%
1925-26	3.50%
1927-28	4.00%
1929-30	4.50%
1931-32	5.00%
1933-34	5.50%
1935-36	6.00%
1937-38	6.50%
1939-40	7.00%
1941-42	7.50%
1943 and later	8.00%

# ARE BENEFITS UNDER SSA TAXED BY FEDERAL AND STATE GOVERNMENTS?

- OASDI benefits are subject to Federal income tax:
  - Up to 50% of benefits are taxable if Modified Adjusted Gross Income (MAGI) exceeds \$25,000 (individual tax filer) or \$32,000 (married filing jointly)
    - This revenue accrues to the OASI and DI Trust Funds
  - Up to 85% of benefits are taxable if MAGI exceeds \$34,000 (individual tax filer) or \$44,000 (married filing jointly)
    - This revenue for taxing beyond 50% of benefits accrues to Medicare Hospital Insurance Trust Fund
- 13 of 50 US states apply income tax for at least a portion of Social Security benefits

## WHAT MEASURES ARE TAKEN TO ADDRESS THE INCREASING LONGEVITY OF RETIREES UNDER THESE SYSTEMS?

- Normal Retirement Age (NRA) was 65 from 1940 through 1999, and will increase to 67 by 2022
- No further change in the NRA is scheduled in current law, but this might change
- Under current law, as beneficiaries live further beyond their initial eligibility age, their benefits rise only with price inflation, while average earnings levels (which provide the annual taxes to finance the program) rise with average earnings
- Average earnings tend to rise on the order of 1.2 percent per year faster than price inflation

## IS THE SSA EXPLORING OR USING ARTIFICIAL INTELLIGENCE?

- Administering the Social Security program (in general) is a matter of maintaining earnings records and applying benefit formulas under the law when workers or their dependents become eligible for benefits.
- However, determinations of disability are more complex and less structured, so there are opportunities for pattern recognition and association of information in assessing impairment levels. Ultimately, the determination criteria must be transparent and readily explainable.
- Similarly, for making projections of cost, income, and actuarial status, methods and assumptions must be transparent and readily explainable.
- Where AI might be useful in the future is in assessing possible changes in program requirements and projection methods. But in each case, the actual requirements and methods used at any time must be transparent and readily explainable.