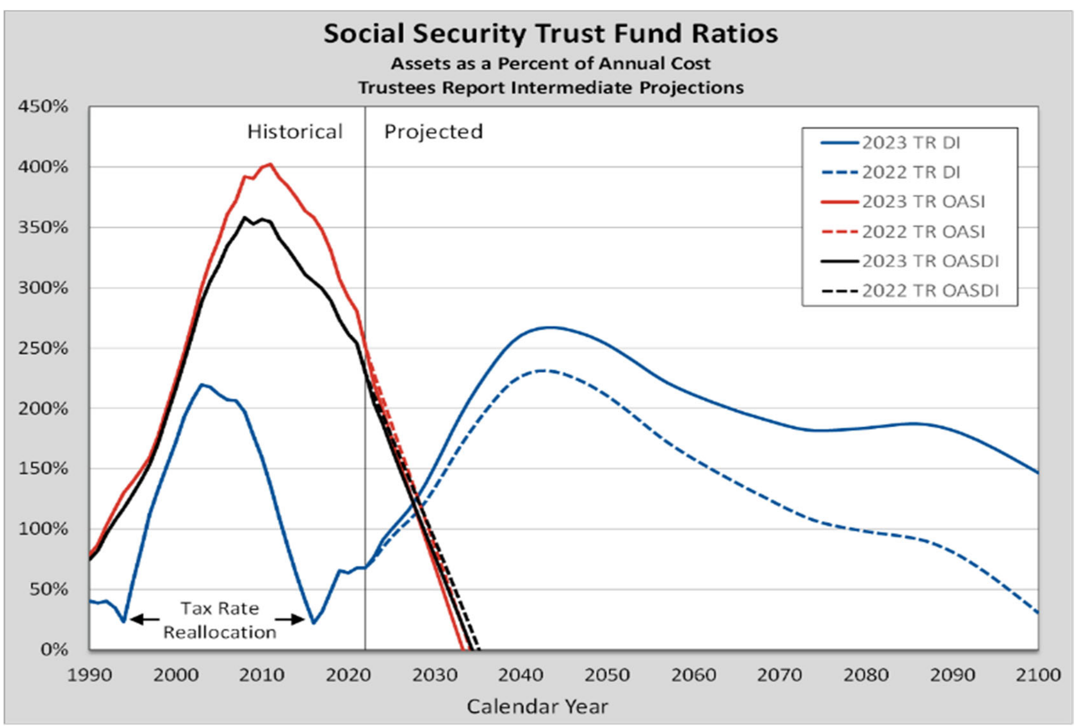
Social Security Fundamentals: A Fact-Based Foundation

Testimony by Stephen C. Goss, Chief Actuary, Social Security Administration
House Committee on Ways and Means, Subcommittee on Social Security
April 26, 2023

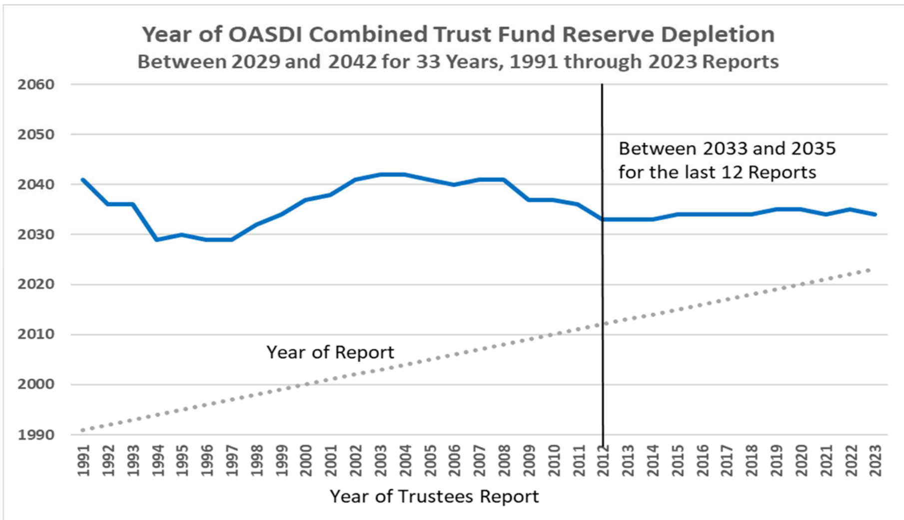
Chairman Ferguson, Ranking Member Larson, and members of the committee, thank you very much for the opportunity to speak to you today about the Social Security program, past, present, and future.

Social Security started paying monthly benefits to qualifying retired workers and their family members and survivors in 1940. Benefits for disabled workers and their families started in 1957. Over the 84 years through 2023, all scheduled benefits have been paid in full. In December 2022, nearly 66 million people received benefits from the OASDI program. Social Security provides this fundamental insurance against loss of earned income due to old-age, disability, and death for nearly all current and past workers and their families.

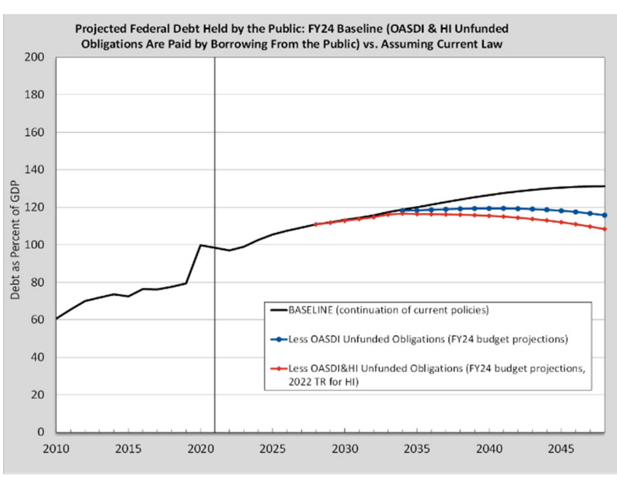
The current reserves in the combined OASI and DI Trust Funds total $2.8 trillion, more than double the amount of annual benefit payments. However, revenues to the combined OASI and DI Trust Funds are projected to be less than program cost in future years under the intermediate assumptions of the 2023 Trustees Report, so that combined OASI and DI reserves would become depleted in 2034, at which time 80 percent of scheduled benefits would still be payable. The OASI Trust Fund alone is projected to deplete reserves in 2033 if no action is taken, with 77 percent of scheduled benefits then payable. Both of these dates are 1 year earlier than projected in last year's report. The DI Trust Fund alone is projected to be fully financed and able to pay all scheduled benefits through 2100, and beyond.

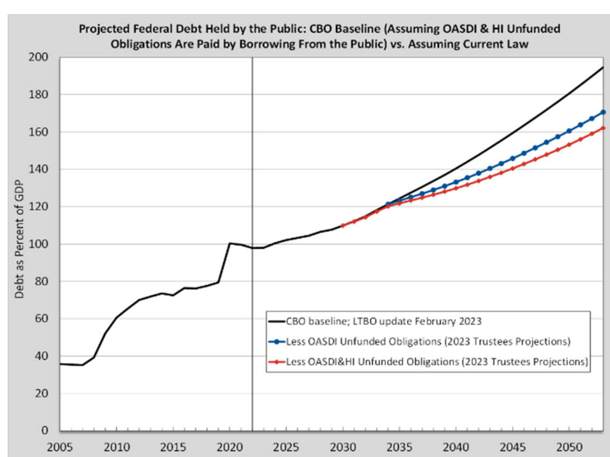


The assessment of the actuarial status of the combined OASI and DI Trust Funds provided in the annual Trustees Reports since 1941 tells us by when, and to what degree, changes in scheduled revenue and/or scheduled benefits will be needed. The Trustees' assessment has been remarkably consistent and stable over past decades. The year of projected combined OASI and DI Trust Fund reserve depletion has been in the range of 2029 to 2041 in the last 33 annual reports, and in the range of 2033 to 2035 in the last 12 reports.



The fundamental nature of these trust funds is important. These funds are credited all income to the OASDI program on a daily basis and provide the sole source for paying benefits and administrative expenses. If at any point reserves were to become depleted with program cost still exceeding continuing income, then scheduled benefits would not be fully payable on time. The OASDI program and the Trust Funds do not have any authority to borrow from the General Fund of the Treasury or the public and never have. It should be noted that projected federal debt in the President's Budget and by CBO make an assumption that current law will be changed in the future, requiring the General Fund to borrow sufficient amounts from the public to cover any shortfall for OASI, DI, and Medicare HI after theoretical reserve depletion. The graphs below show recent projections of publicly held debt as a percent of GDP with this assumed change in law, and in addition the debt levels that would actually occur under current law and policy.

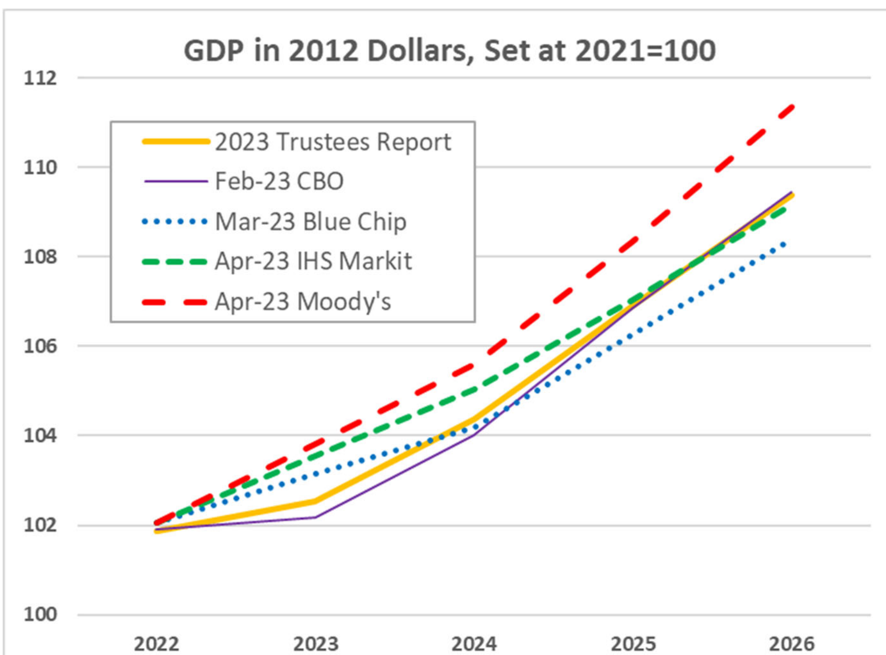




Under current law, Trust Fund reserves are invested only in Treasury Bonds, thus reducing the amount that must be borrowed from the public due to past deficits for all other federal programs. When trust fund reserves are drawn down in order to maintain full Social Security benefits, such redemption has no effect on the total federal debt subject to limit or on on-budget federal deficits. Such draws on reserves just require shifting some federal debt from debt owed to the trust funds to debt owed to the public. This shift in federal borrowing has been projected years in advance, so is no surprise to the financial markets. Moreover, it is understood that any unfunded obligation that exists when reserves might become depleted would almost certainly be met with Congressional action, in the form of legislation providing either additional tax revenue or a reduction in scheduled benefits, as has always been done in the past.

What Is New in the 2023 OASDI Trustees Report

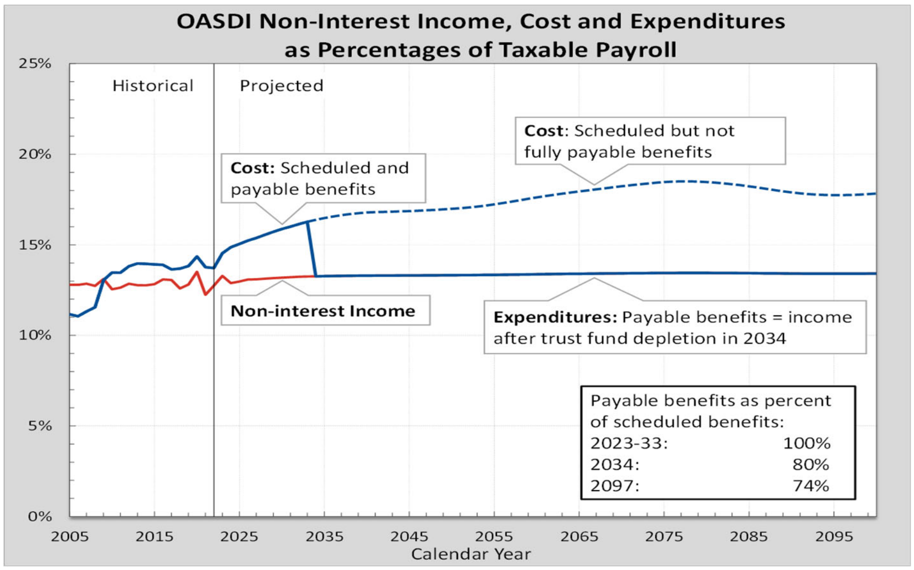
The primary change in the 2023 Trustees Report is that the Trustees have reassessed their expectations for the economy in light of recent developments, including updated data on inflation and output, and have therefore revised down the levels of GDP and labor productivity by about 3 percent over the projection period. This reassessment was made as of December 2022 and included an assumed slowdown in economic growth in 2023. The Trustees were not alone, as the February 2023 CBO estimates and private forecasters around that time also expected little or no growth in 2023. More recently, private forecasters are now expecting more growth in 2023, based on data now reported through the first quarter of 2023.



The change in the assumed levels of GDP, labor productivity, and real earnings growth explains why the projected OASI and OASDI combined Trust Fund reserve depletion years are now one year earlier than in last year's report. It also increased the OASDI actuarial deficit by 0.13 percent of payroll, most of the 0.19 percent of payroll total increase in the actuarial deficit. The remainder of the increase was largely due to changing the 75-year valuation period by adding a new year far in the future where annual deficits are projected to be large.

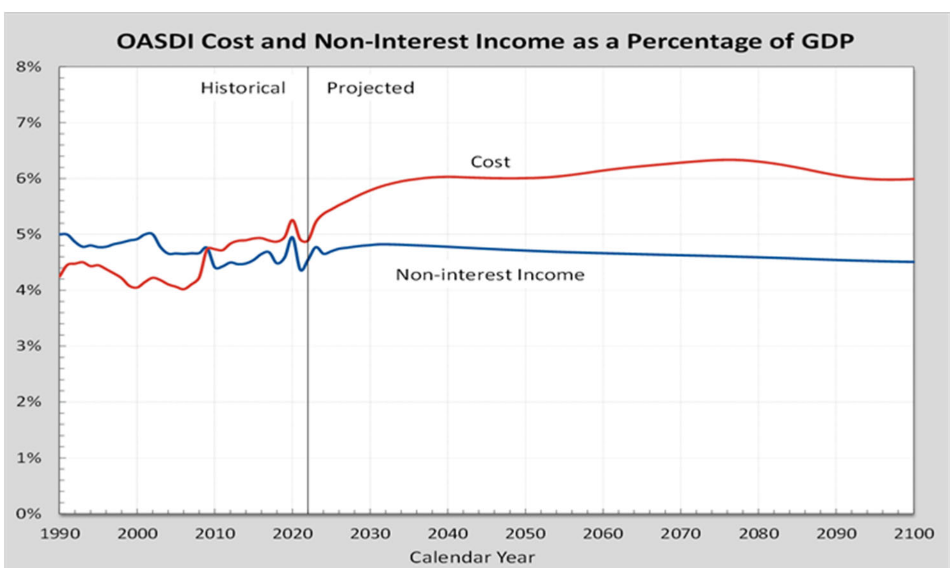
Actuarial Status in the 2023 OASDI Trustees Report

The cost of providing scheduled benefits under current law has been rising as a percent of taxable payroll (all covered earnings below the annual taxable maximum amount) since 2008, and it will continue to rise by 2040 to a relatively stable level above scheduled program income.

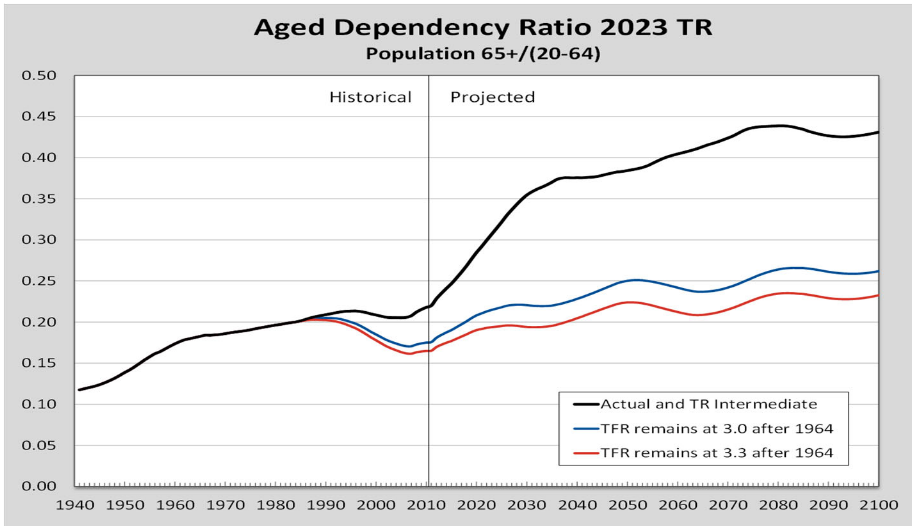


The financial shortfall over the next 75 years as a whole for the OASDI program, or unfunded obligation, amounts to $22.4 trillion in present value. However, this shortfall must be met with changes over this period of 75 years as a whole, and thus represents 3.42 percent of taxable payroll and 1.2 percent of GDP over the entire period.

Similar to the trend in the OASDI program cost as percent of taxable payroll is the trend as a percent of GDP. Cost rises to a relatively stable level of GDP due to the changing age distribution.

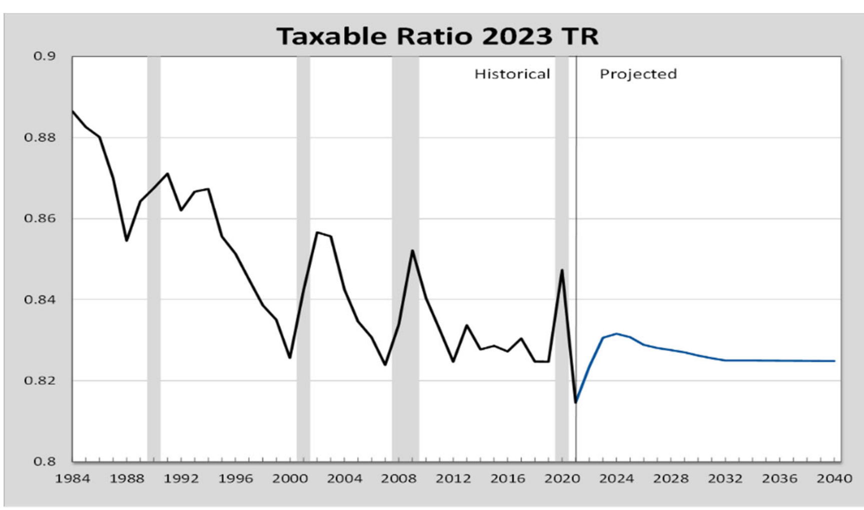


There are two primary reasons for this rise in cost as a percent of payroll. First, the age distribution of the adult population has been changing substantially.

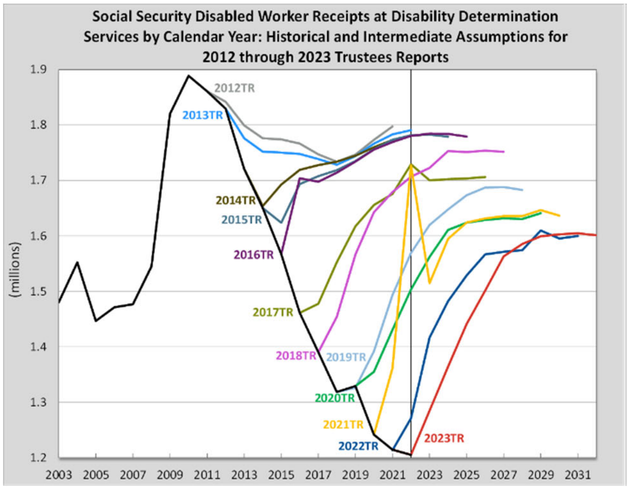


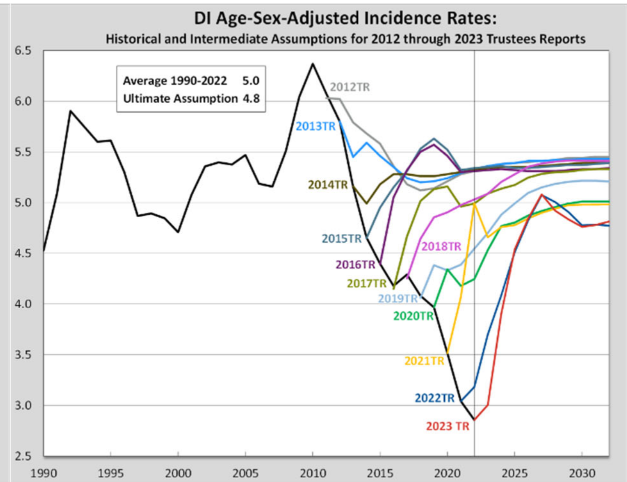
Social Security is financed primarily from payroll taxes paid by current workers, which pay benefits for current beneficiaries. Because of the drop in birth rates from 3.3 children per woman in the baby boom period (1946 through 1965) to closer to 2 children per woman since about 1970, the ratio of adults over 65 to those at "working ages" (between 20 and 64) will rise through about 2040, increasing OASDI cost as a percent of both taxable payroll and as a percent of GDP.

The other reason for increase in cost as percent of taxable payroll since 1983 is that the percent of total covered earnings that is below the taxable maximum amount declined from about 90 percent in 1983 to about 82.5 percent in 2000. In 1983, the taxable maximum was scheduled to rise in the future with the average wage, with this indexing expected to maintain the taxable ratio at 90 percent. However, wage levels rose much faster than average for high earners. Since 2000, the ratio has stayed at about 82.5 percent, except for temporary spikes in economic recessions. As a result of this increased dispersion in wage levels, Social Security payroll tax income is about 8 percent less than it would have been if the taxable ratio had stayed at 90 percent.

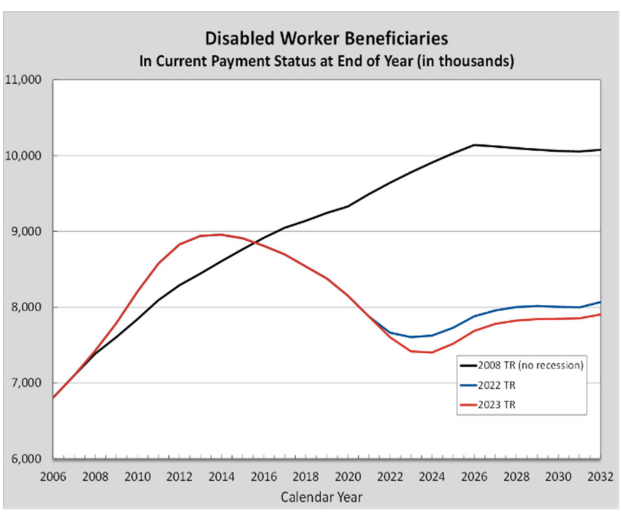


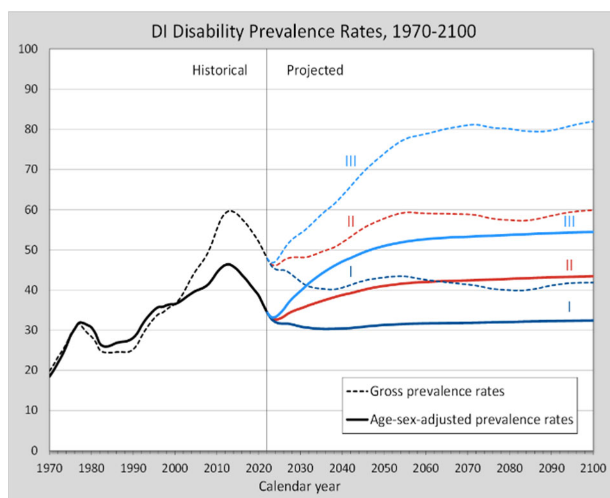
Applications for disability benefits and incidence rates have been declining steadily since 2010 and have continued to be below our prior projections. We and the Trustees continue to assess the reasons for these declines and the likelihood that rates will rise to levels not seen since the period immediately after the 2007-09 recession.





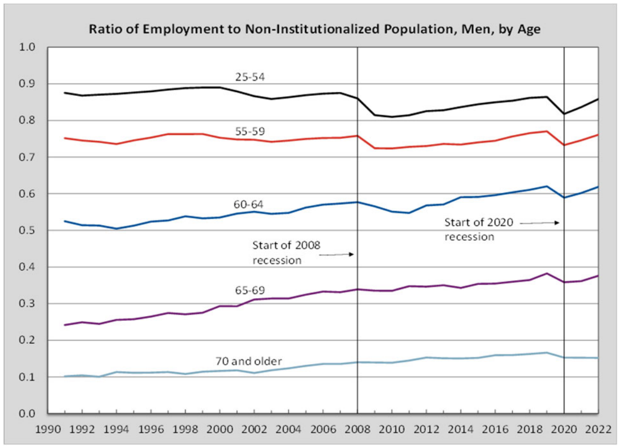
The total number of beneficiaries paid from the DI Trust Fund has now been falling since 2013. As a result, the disability prevalence rate (recipients in current payment status as a percent of the insured population), has also dropped to levels not seen for 20 years. Only with the assumed return of disability incidence rates back to much higher levels will the prevalence rate rise to the level seen before the 2007-09 recession.

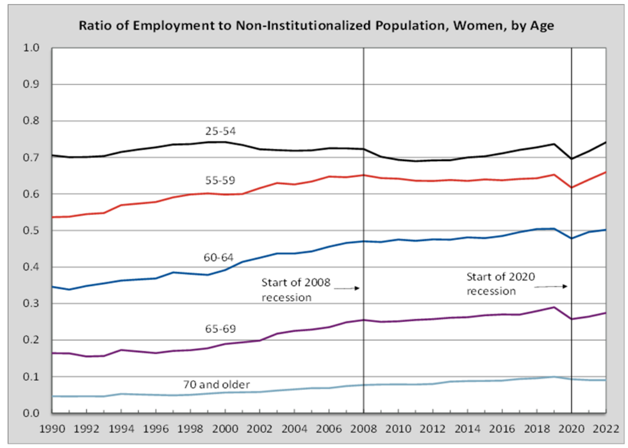




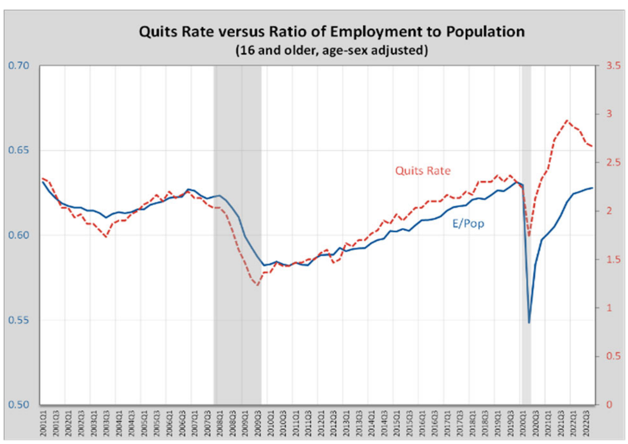
Many factors have played a role in the lower disability incidence rates and prevalence rates. Among these are the changing nature of work and the increasing accommodation of workers with some limitations, given the changing age distribution of the adult population.

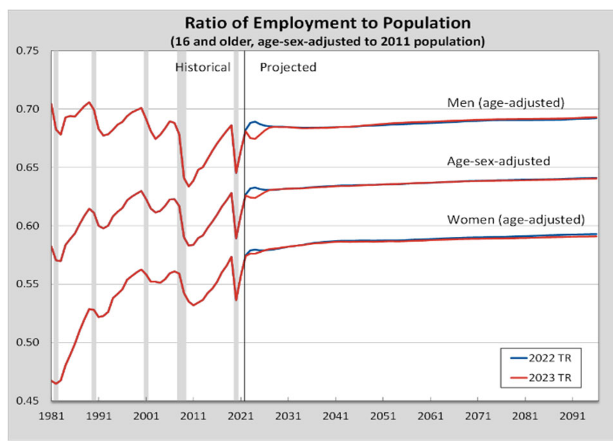
Additional evidence of the effect of the changing age distribution is the increased employment of those over age 60 since 1990.



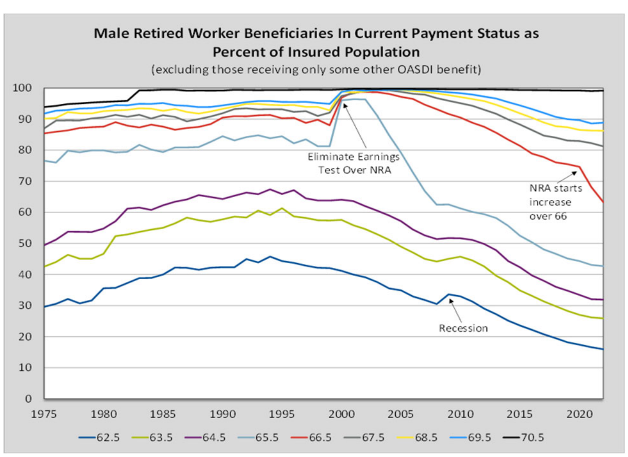


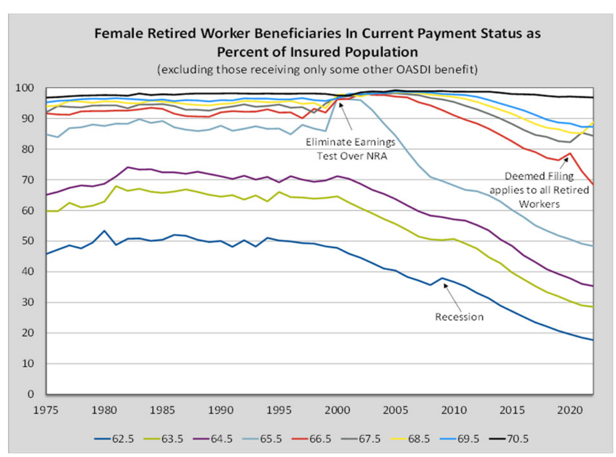
The pandemic has had significant effects on employment, but the drop in the 2020 recession was brief with an extraordinarily fast recovery. The “quits rate” indicates the rate of voluntarily leaving a job, often due to the opportunity for a higher paying job in a high labor demand environment. After a brief drop in the employment rate in the assumed economic slowdown in 2023, we project the future employment rate to remain at about recent peak levels.



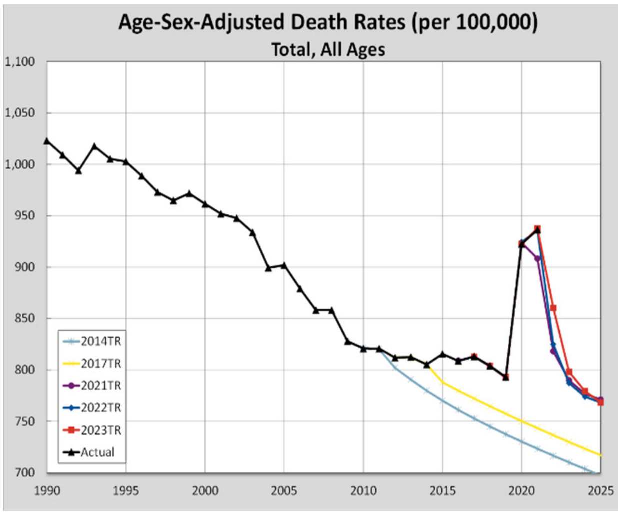


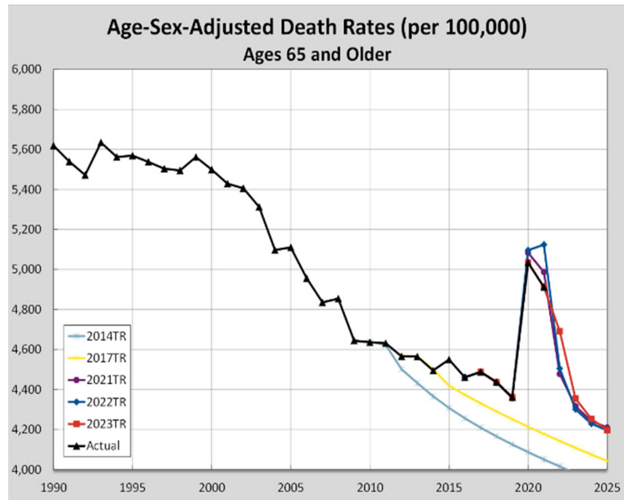
With the changing age distribution and demand for workers, age at retirement continues to rise.





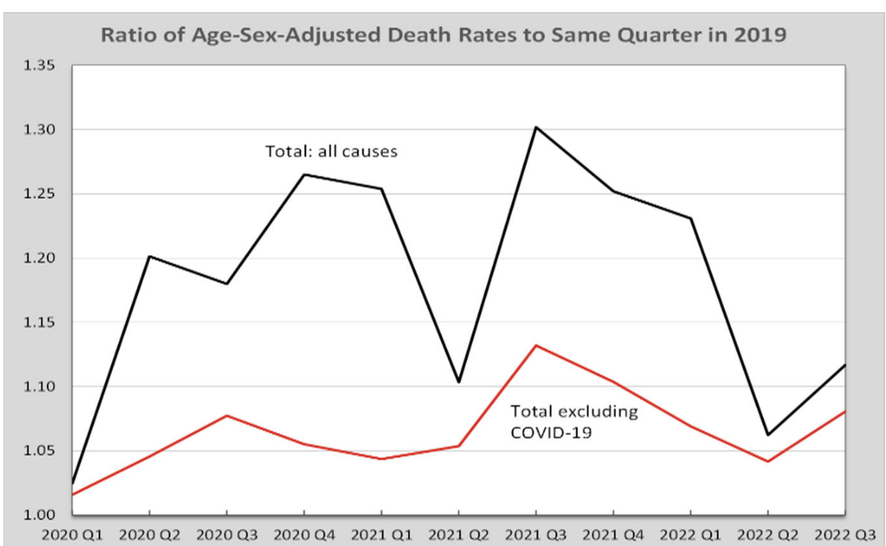
Mortality is also an important factor in the cost of the Social Security program. Declines in death rates slowed considerably after 2009, not only in the US but also in the United Kingdom and Canada.



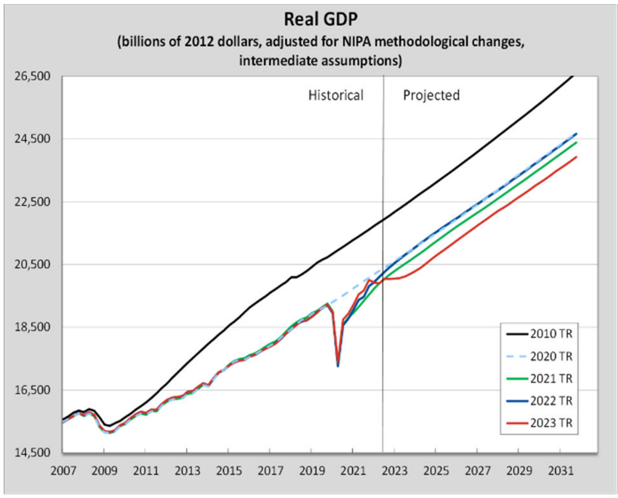


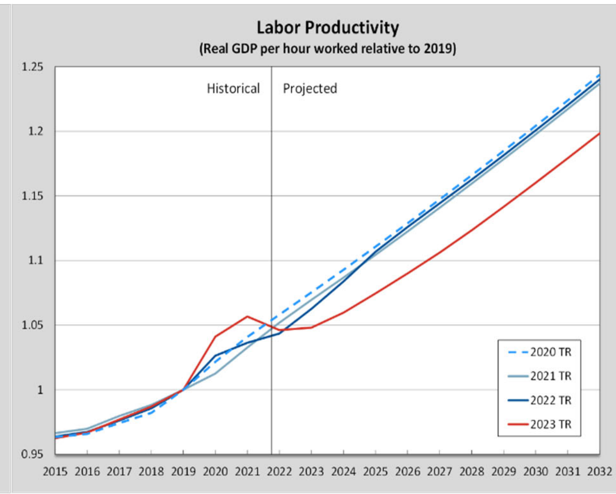
The effect of the COVID-19 pandemic dramatically elevated death rates. Since the beginning of the pandemic, we have been assuming that in the long term, two factors would roughly balance out: (1) individuals with preexisting health conditions are more likely to die from acute COVID, meaning that the surviving population might be healthier, and (2) the surviving population who lived through the pandemic have potentially suffered negative effects from having been infected, including post-COVID conditions. As a result, we project that age-sex adjusted death rates will return to the path seen between 2009 and 2019.

However, there are concerns about the magnitude of effects on the residual population. Provisional data from the National Center for Health Statistics show that during 2020, 2021, and 2022, death rates for causes other than COVID have been elevated above the level seen in 2019.

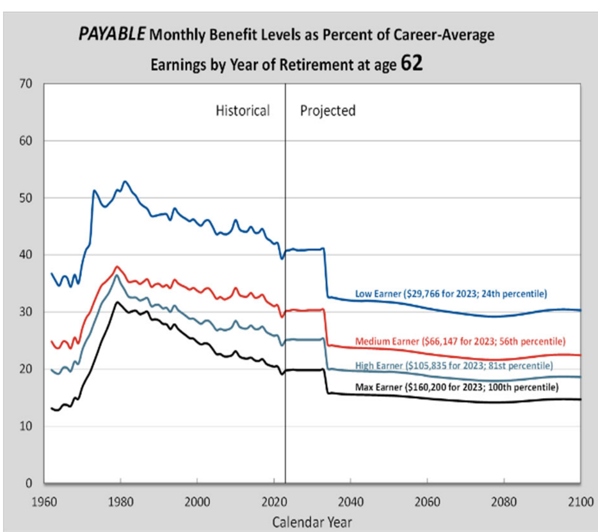


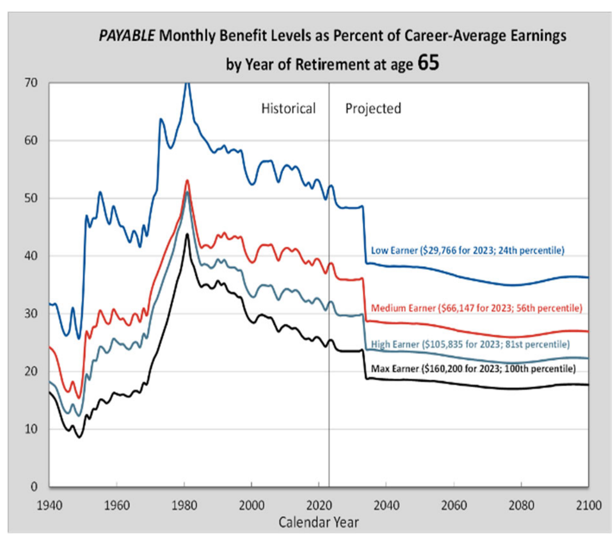
As indicated earlier, the Trustees' December 2022 reassessment led to a drop in the levels of GDP and labor productivity from the levels assumed for the 2022 and 2020 Trustees Reports. These drops reflect many factors that have evolved since before the start of the pandemic. It is worth noting that the Trustees made an even larger cumulative drop in the assumed level of GDP, from the level assumed prior to the 2007-09 to the level assumed for the 2019 report.





Benefit levels scheduled in current law vary by workers' career average earnings levels. Monthly benefits are designed to replace a larger percentage of career average earnings for lower earners. The "replacement rates" shown below for benefits as a percent of career average earnings at selected levels indicate the impact that trust fund reserve depletion could have in the absence of a future change in law, assuming that benefits would be reduced for all by the same percent if reserves were allowed to become depleted. Benefit levels are shown for retirees at the earliest eligibility age (62) and the average age of starting retired worker benefits (65). All benefits in 2034 would be reduced by 20 percent if there is no change in law, even if the allocation of payroll tax rates between OASI and DI were adjusted as was done to maintain DI benefits in 1995 and 2015.





Conclusion

Based on the experience of the past year and the intermediate assumptions of the 2023 Trustees Report, there are three main points I would like to make.

- First, the DI Trust Fund status is strong and even improved from last year's report, reflecting the continued lower-than-expected applications and incidence rates.

- Second, the reserve depletion date for OASI Trust Fund is projected for 2033, a year earlier than in last year's report, due largely to the Trustees' reassessment of the future level of GDP, labor productivity, and real earnings. The reserve depletion date for the combined OASI and DI Trust Funds is projected for 2034, also one year earlier than projected in last year's report, for the same reason.

- Third, the actuarial status of the combined OASI and DI Trust Funds is similar to the assessment of reports over the last 33 years, and even more consistent with the assessment of the last 12 reports. As the Trustees have indicated consistently, legislative change will be needed prior to reserve depletion, requiring about a one-third increase in scheduled revenue, a one-fourth reduction in scheduled benefits, or a combination the two.

The long-known and understood shift in the age distribution of the United States population will continue to increase the aged dependency ratio until about 2040, and in turn increase the cost of the OASDI program as a percentage of taxable payroll and GDP. Once this shift, which reflects the drop in the birth rate after 1965, is complete, the cost of the program will be relatively stable at around 6 percent of GDP. The unfunded obligation for the OASDI program over the next 75 years represents 1.2 percent of GDP over the period as a whole.

We look forward to working with this Committee and others in developing the adjustments to the law that will be needed to keep the Social Security program in good financial order, providing retirement, disability, and survivor benefits for future generations.

Again, thank you for the opportunity to talk about the fundamental aspects of the Social Security program. I will be happy to answer any questions you may have.