Session 105: Updates on Proposed Changes and (Current) Financial Status of Social Security

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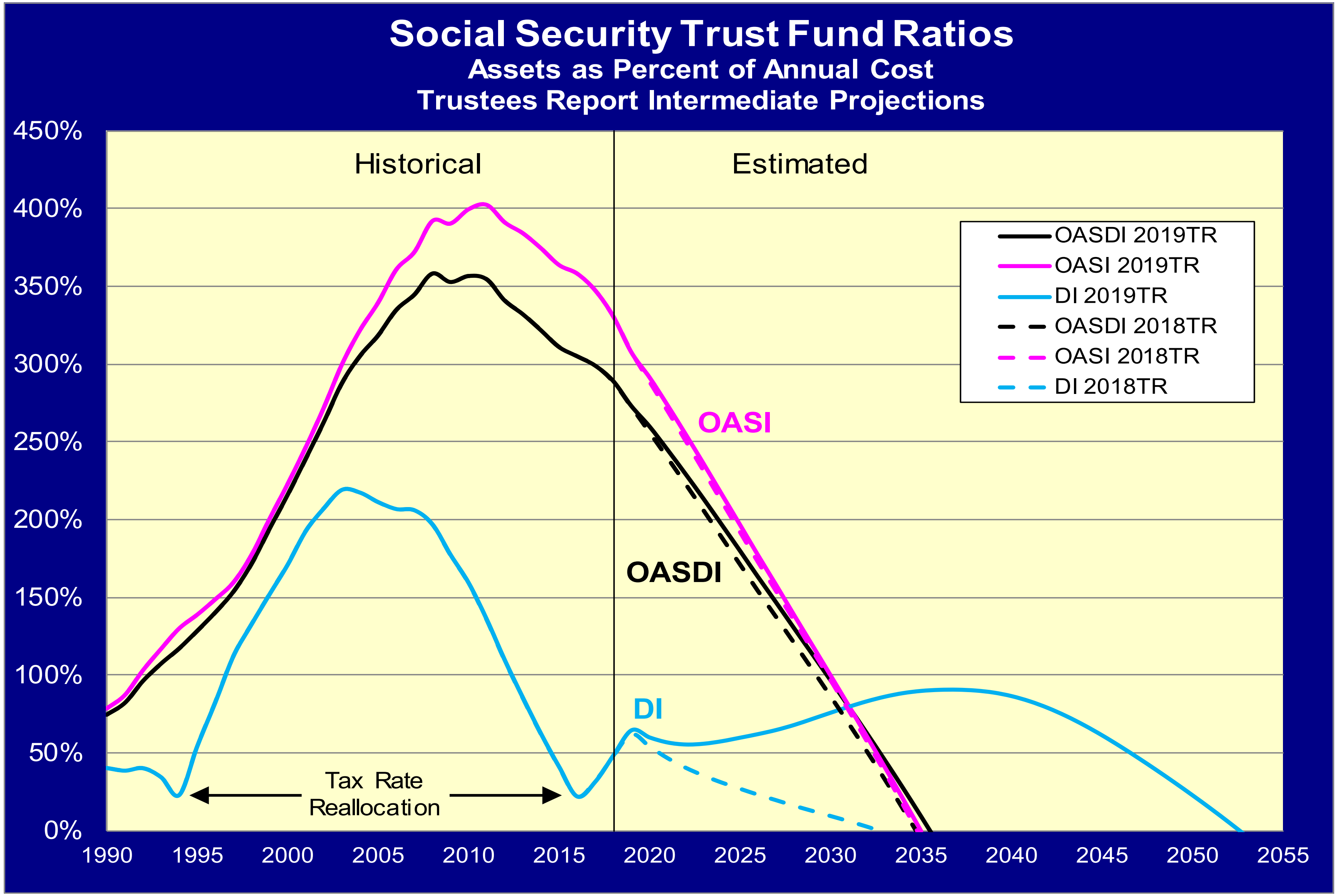
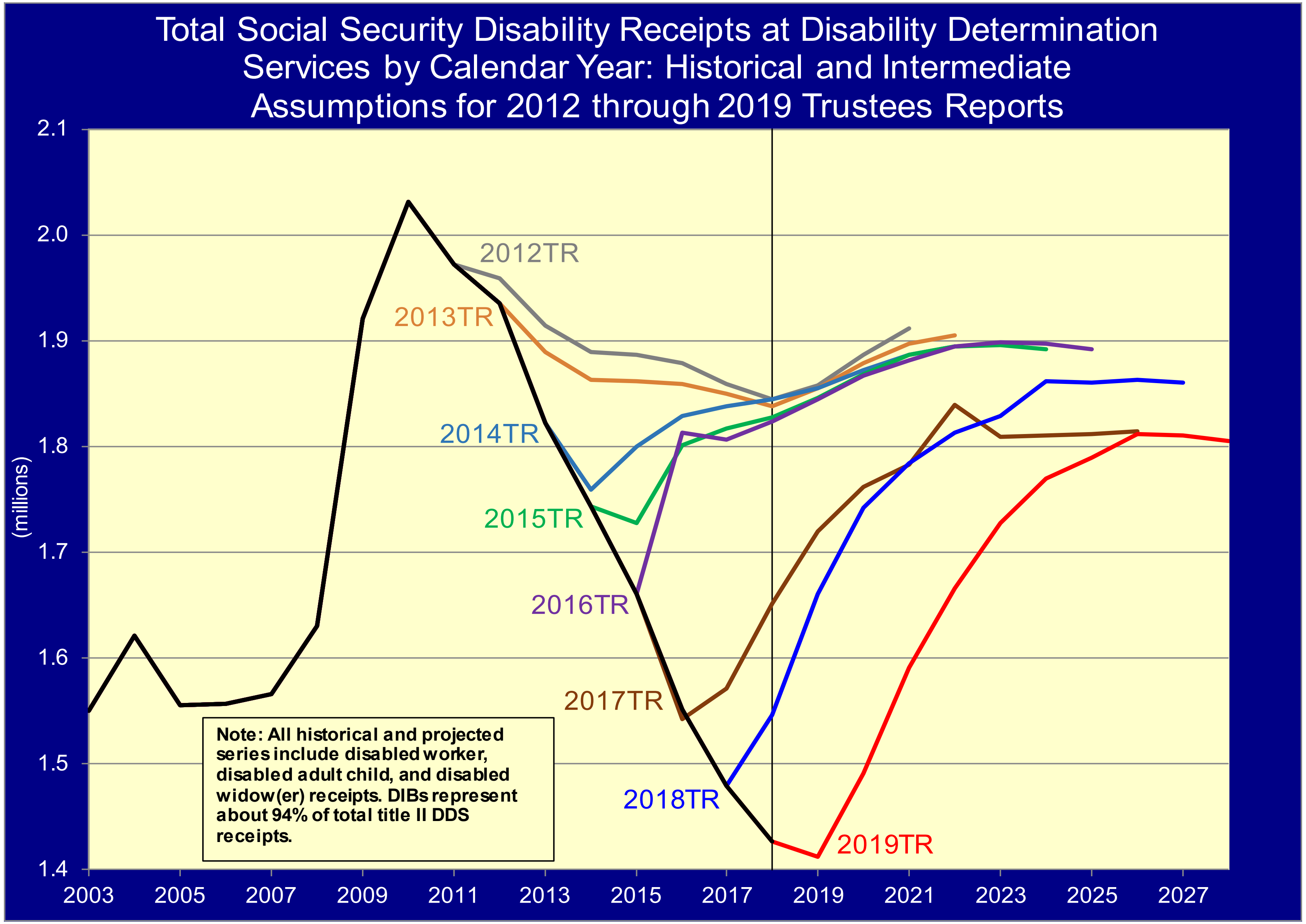
SOLVENCY: OASDI Trust Fund Reserve Depletion in 2035 (one year later than last year)



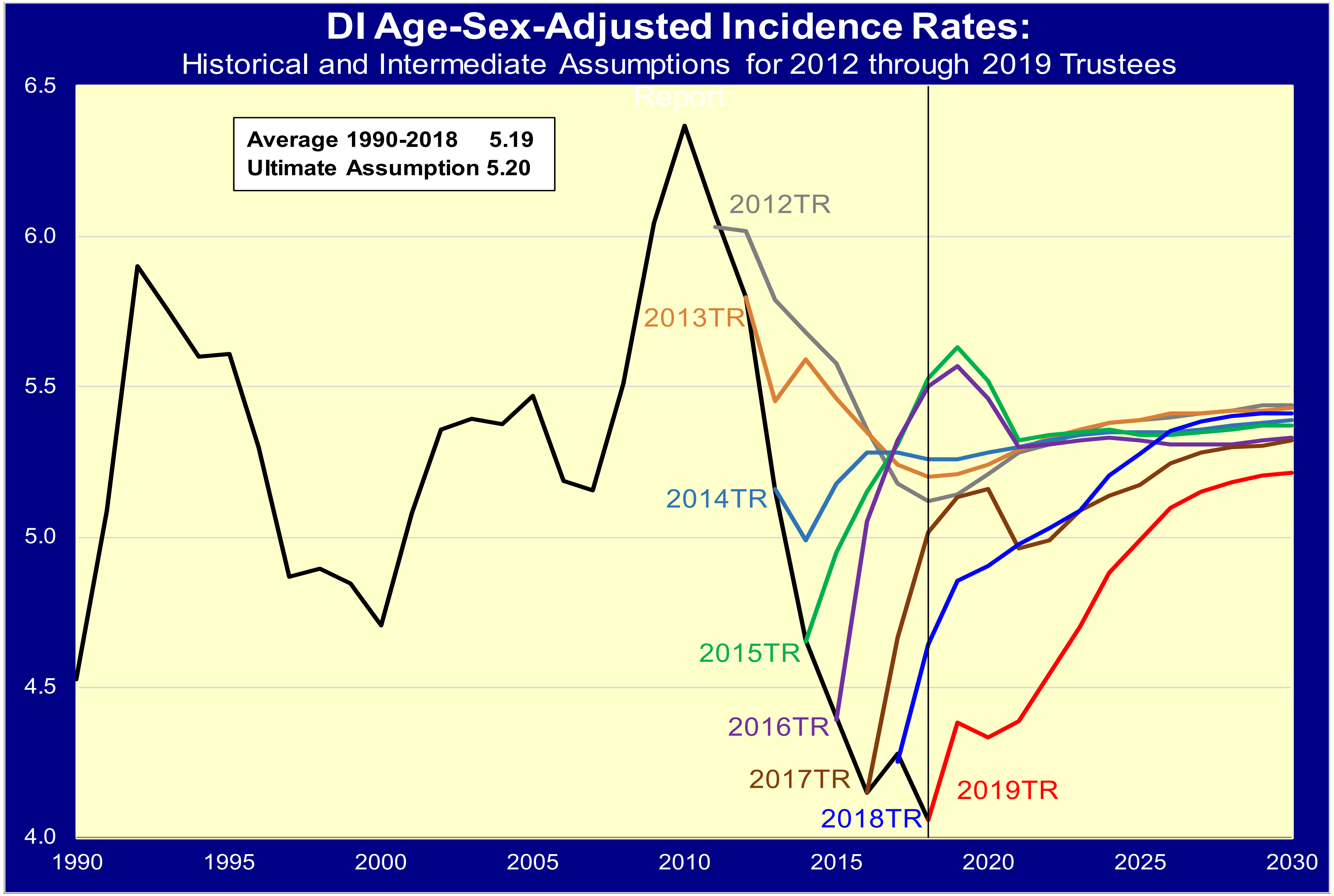
- OASDI reserve depletion date varied from 2029 to 2042 in reports over the past 29 years (1991-2019)
- DI Trust Fund: reserve depletion in 2052, twenty years later than last year
  - ➢ Due largely to lower recent and near-term disability applications and awards, plus lower ultimate incidence

Applications for Disability Benefits Continue to Fall



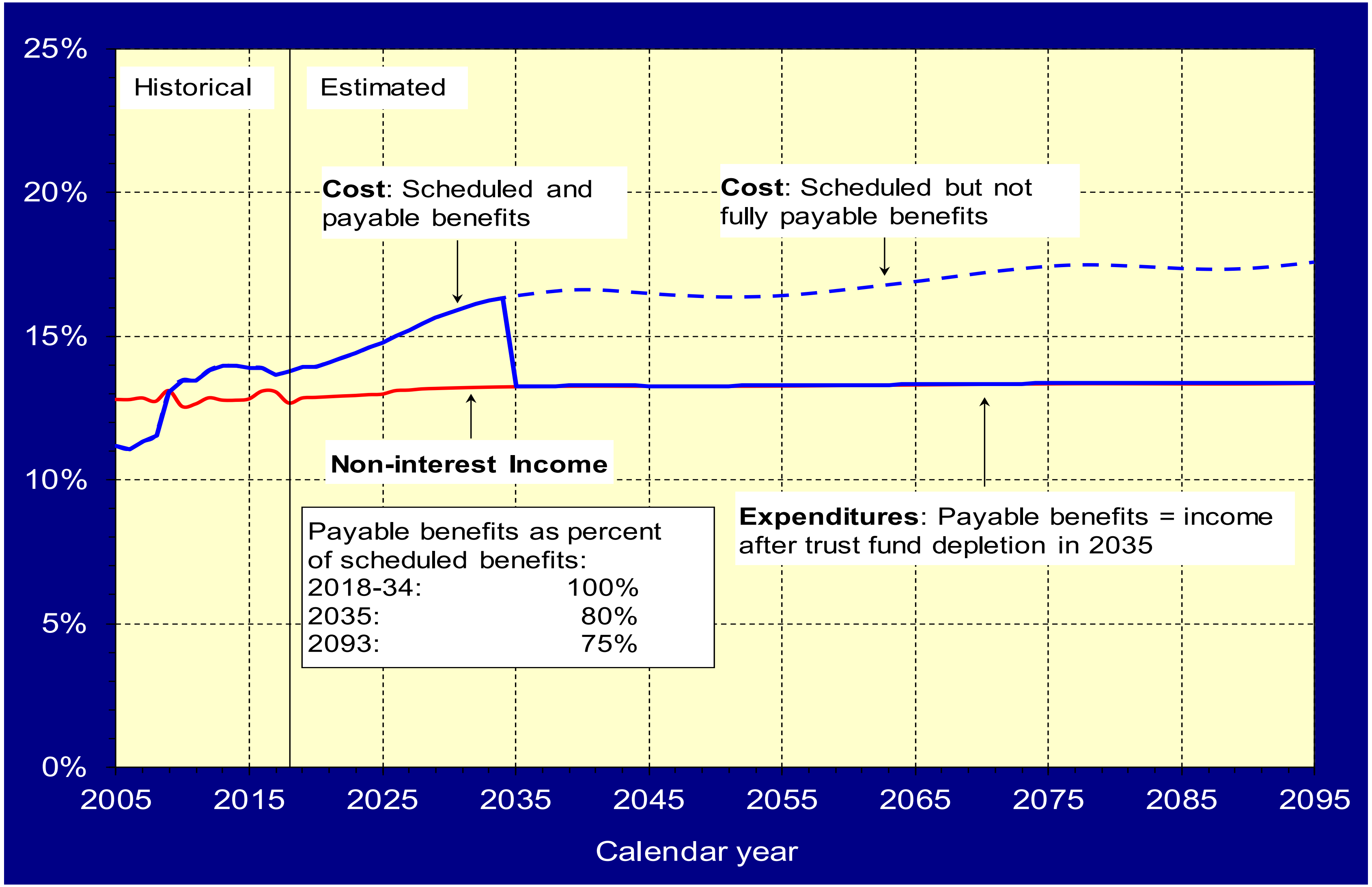
- At the peak of the last economic cycle in 2007, applications were low, but increased rapidly in the recession to over 2 million in 2010.
- In 2016, 2017, and 2018, with the economy still below the sustainable full-employment level, applications have dropped well below the 2007 level—and the decline continues in 2019

Disability Incidence Rate Falls to Historic Lows



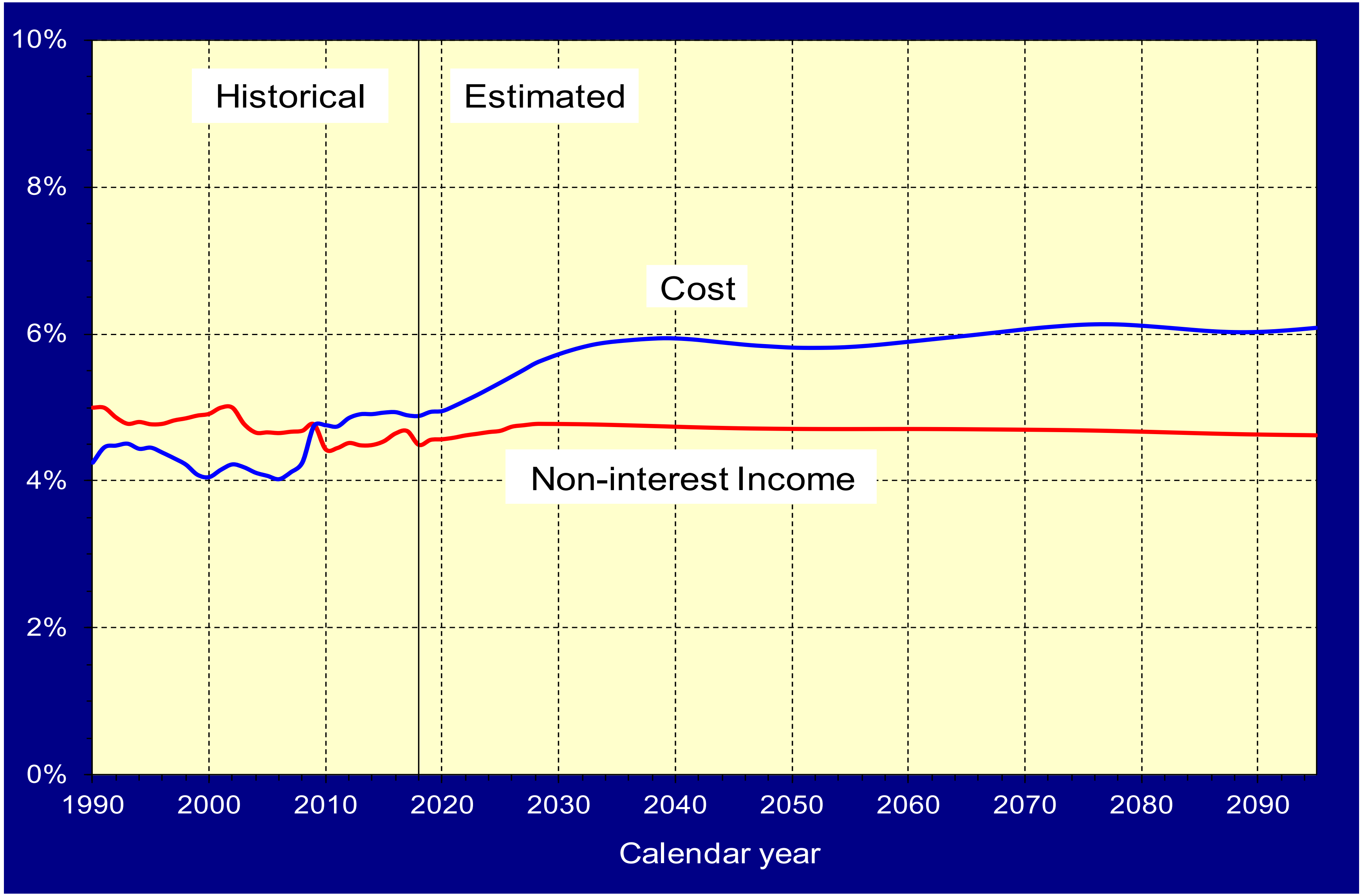
- DI disabled worker incidence rate rose sharply in the recession, and has declined since the peak in 2010 to extraordinarily low levels for 2016, 2017, and 2018
- The ultimate incidence rate was lowered to 5.2 for the 2019 report

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



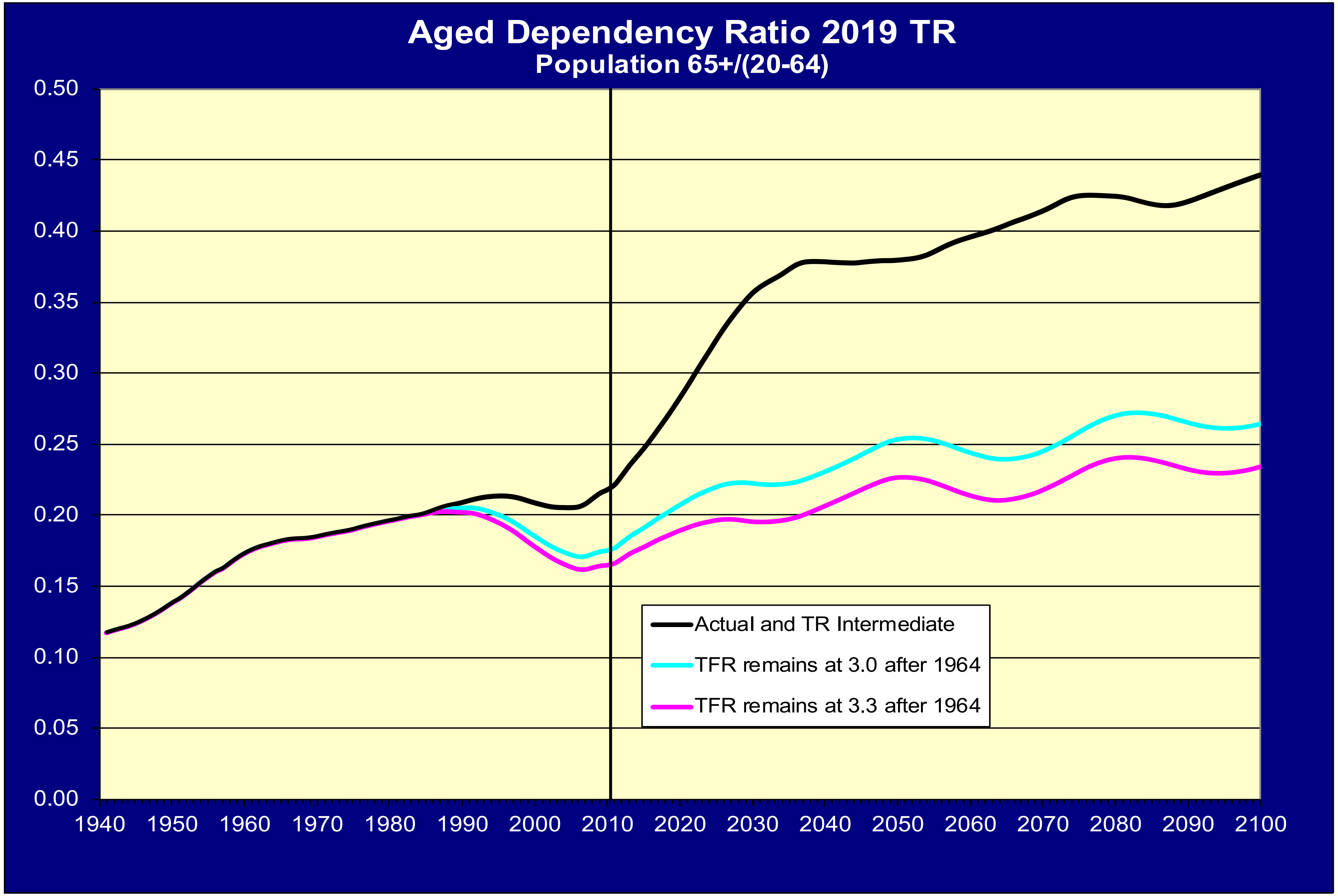
- 80% of scheduled benefits still payable at trust fund reserve depletion
- Annual deficit in 2093 is 4.11 percent of payroll — 0.25 percent smaller than last year

SUSTAINABILITY: Cost as Percent of GDP



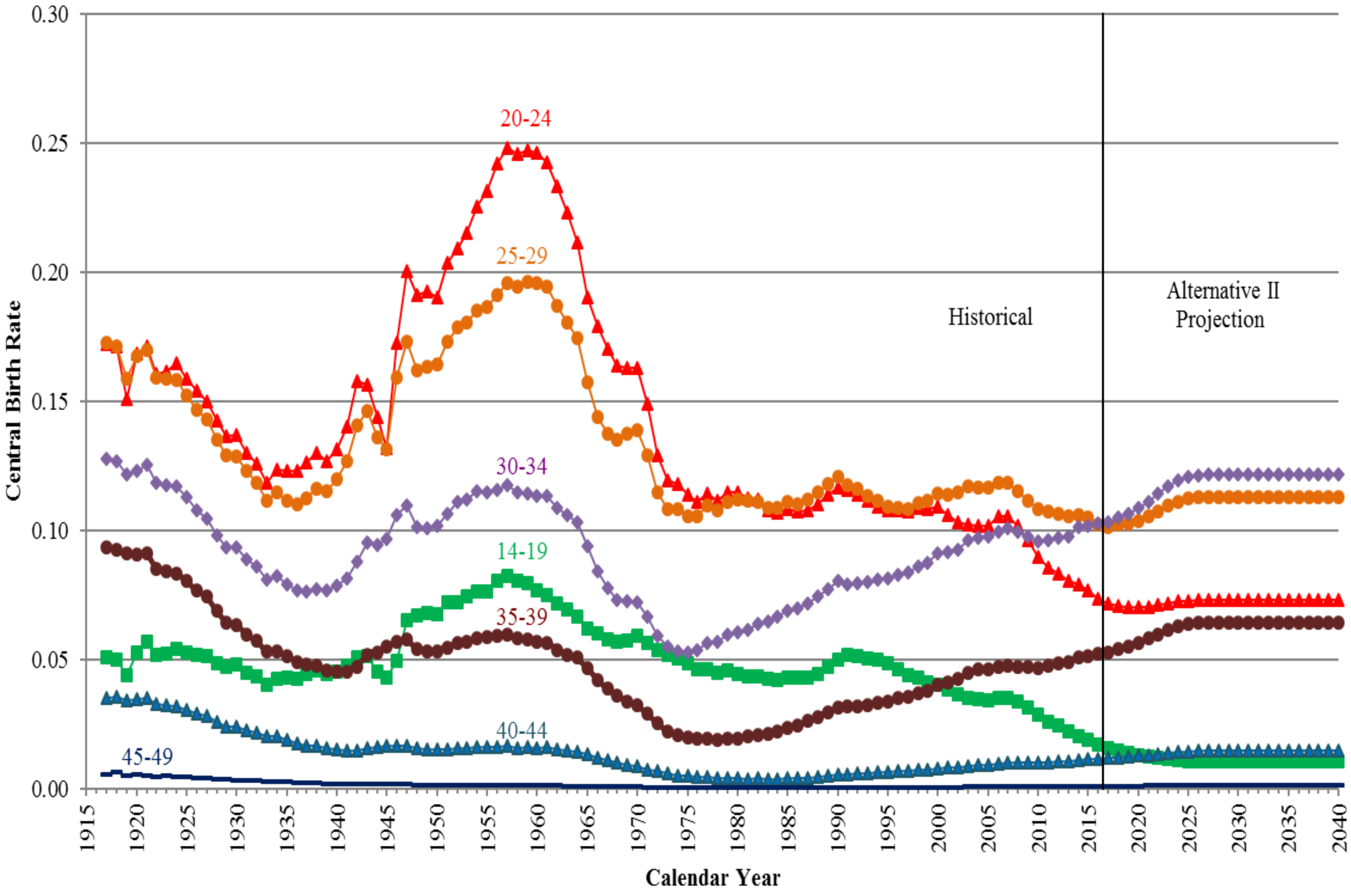
- Rises from a 4.2-percent average in 1990-2008 to about 5.9% by 2039
- Then declines to 5.8% by 2052, and generally increases to 6.0% by 2093
- Stable shortfall

Cost Increase Mainly Due to Aging (change in age distribution)



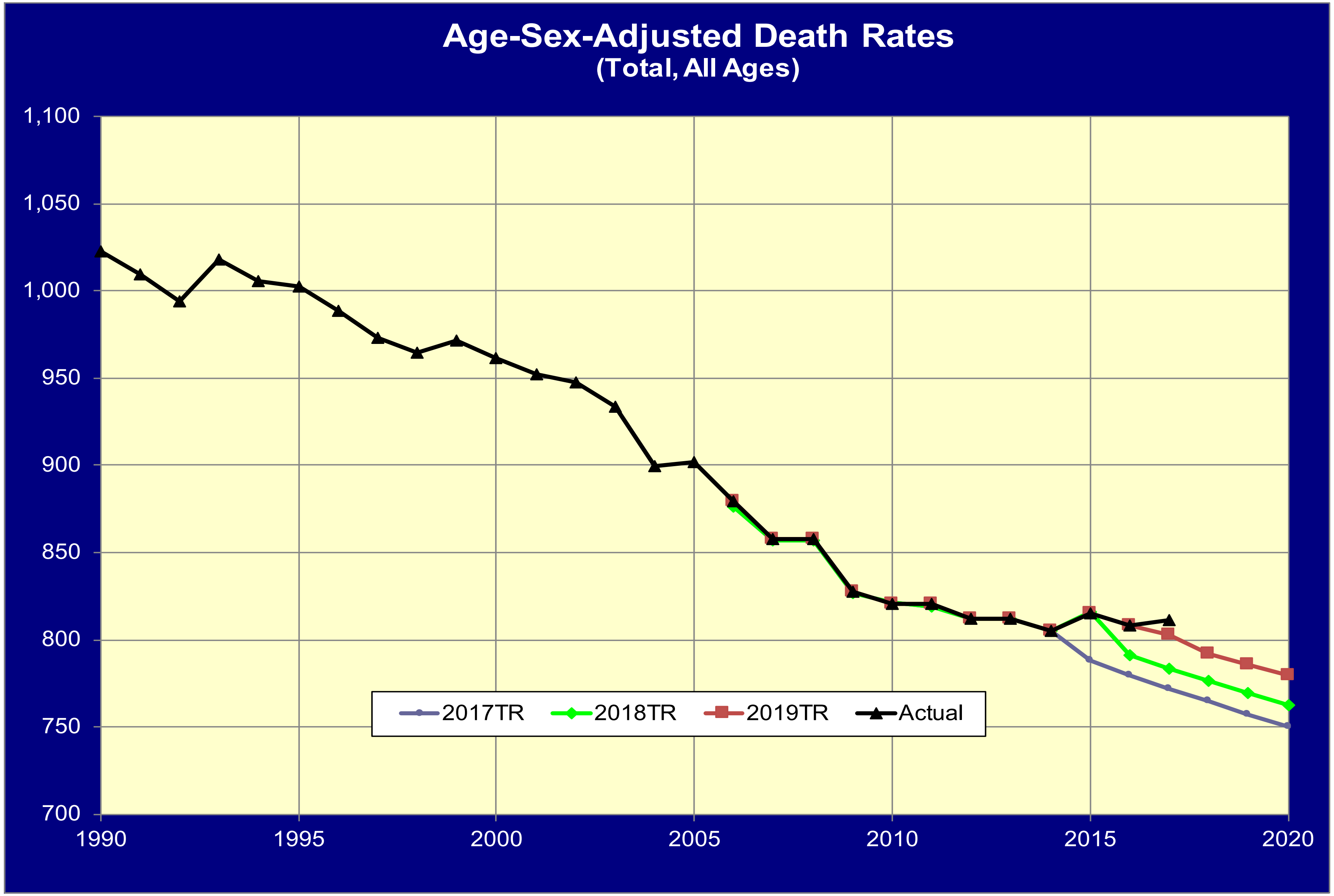
- Largely due to drop in birth rates
- If birth rates had stayed at boom levels, cost would have risen little relative to payroll and GDP
- But they haven't and could be lower in the future

Central Birth Rates for Five-Year Age Groups

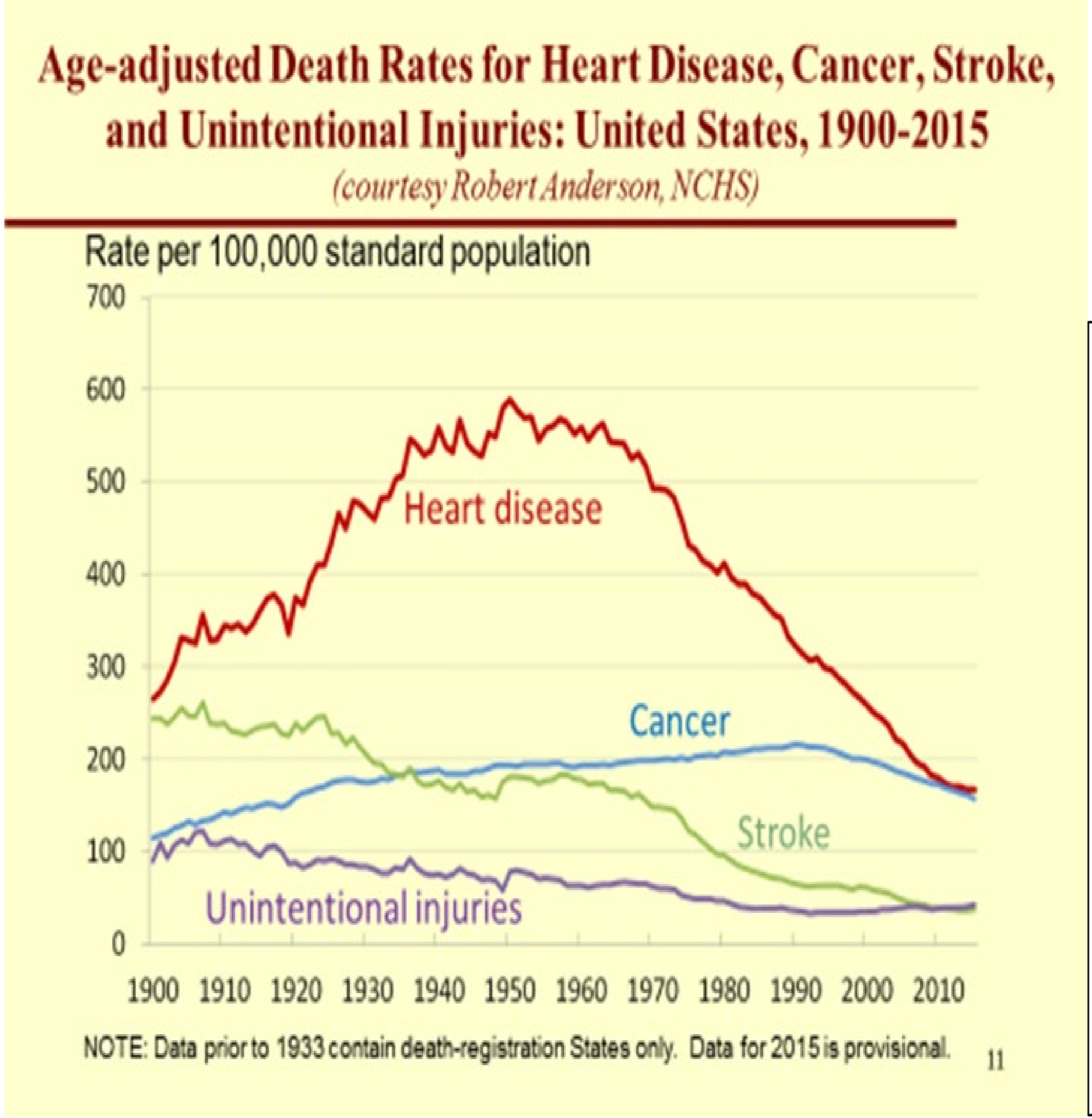


- How much of the decline since 2007 was recession versus more persistent effects?
- Will the tempo effects we have been assuming extend longer, as the recent Technical Panel suggested?

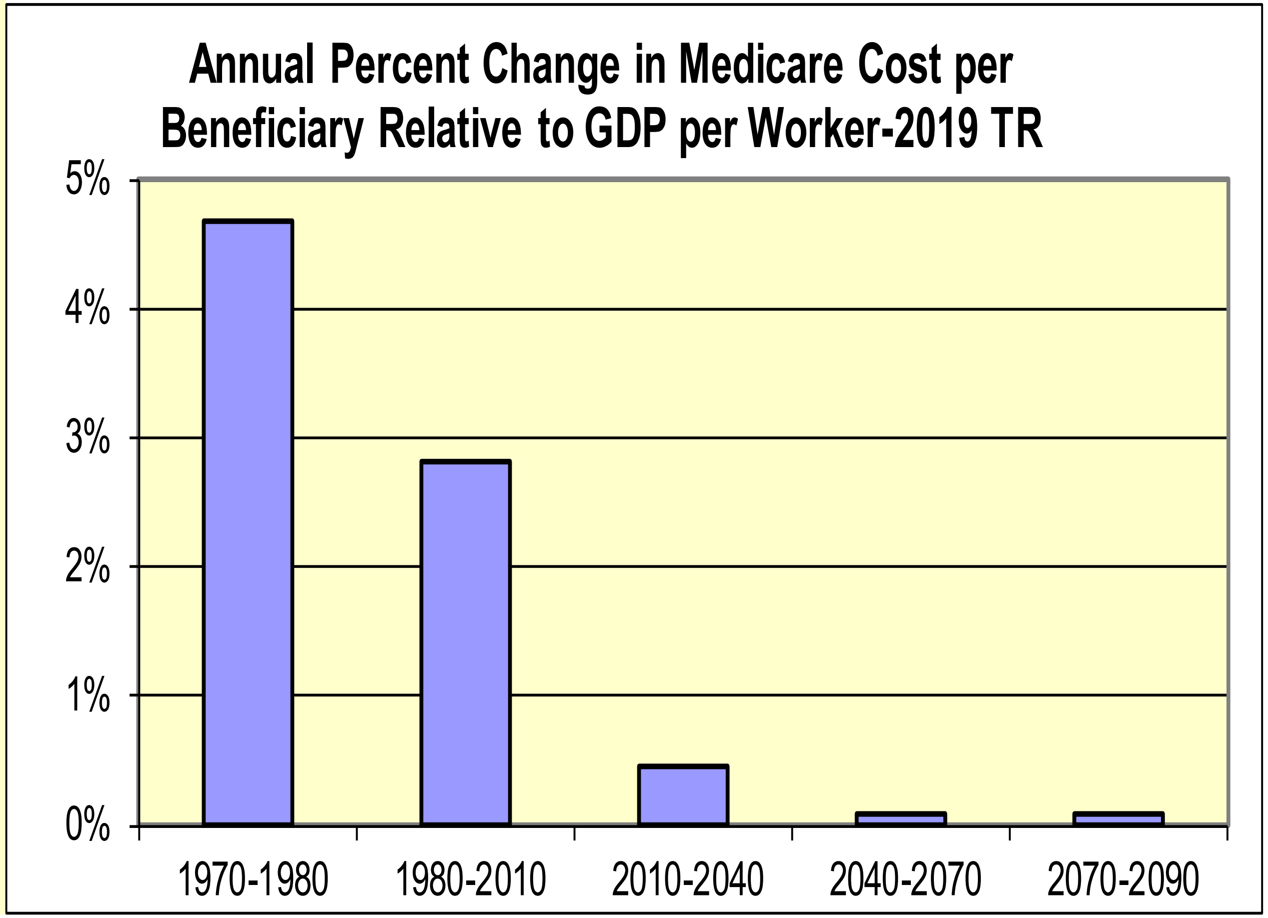
Mortality Experience: All Ages—Age-Sex Adjusted



- Reductions continue to fall short of expectations
- We need to accept that gains from reduction in heart disease and growth in medical spending are in the past



We cannot logically expect mortality declines to return to 20th century rates…

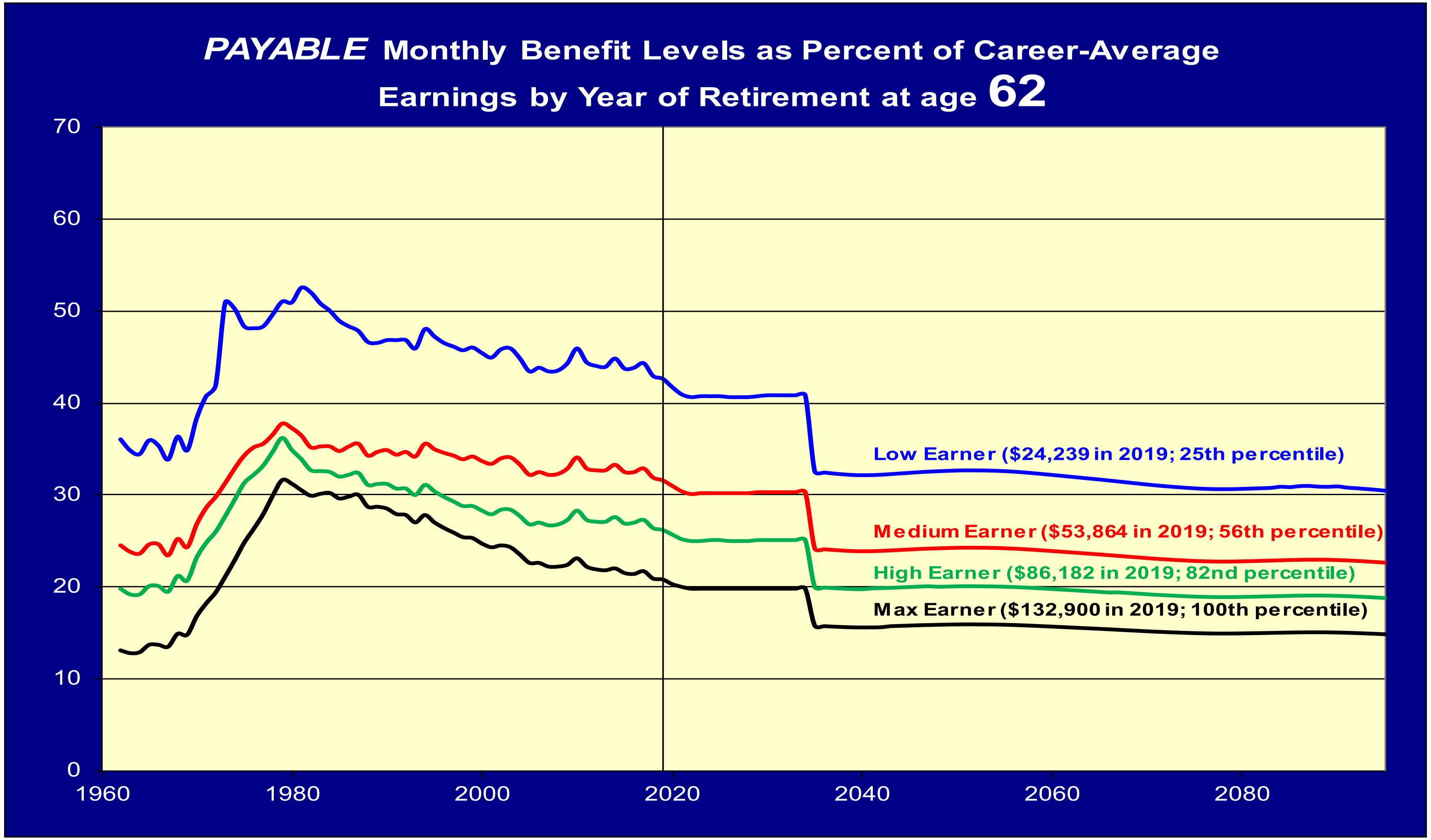


What Does Congress Need To Do To Eliminate Social Security's Long-Term Underfinancing?

By 2035 (preferably sooner), Congress will need to:

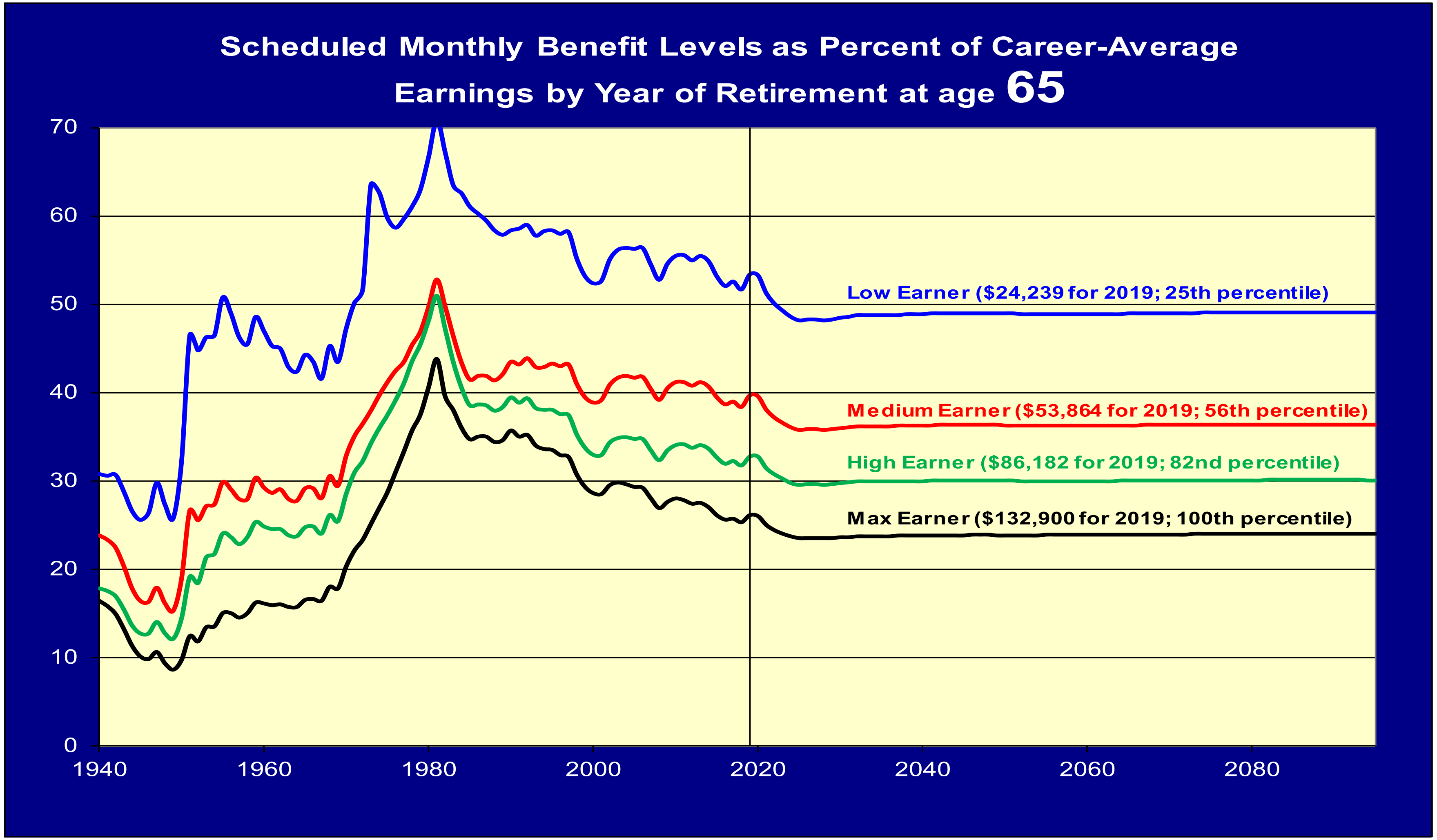
- Lower cost (reduce benefits) by about one-fourth
- Increase revenues by about one-third
- Or some combination of these approaches
- Also consider benefit adequacy?

If the Law is NOT Changed: Full Benefits Will Not Be Payable on a Timely Basis Starting in 2035



- Congress has never allowed a sudden drop like this to happen
- Highly doubtful it ever will

Even if Scheduled Benefits are Fully Financed, and Retirees Wait Until 65, Will Benefits be Adequate ?



- DC plans have all but replaced DB plans, transferring longevity risk to individuals
- Annuities have become rare

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%)
    - ➢But 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 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)
  - Wealth

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 2035
    - The date has varied between 2029 and 2042 over the past 29 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 2019 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