Social Security Actuarial Status

The 2024 Annual Report of the Board of Trustees of the OASI and DI Trust Funds

Key Changes and Results Under Intermediate Assumptions

AMERICAN ACADEMY OF ACTUARIES WEBINAR MAY 22, 2024

PREPARED BY THE OFFICE OF THE CHIEF ACTUARY, SSA

What is the Legislative Mandate for the Social Security 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 would fall short under current law, indicating the size of legislative changes that will be needed

The report has been produced every year starting in 1941!

Changes in the 2024 Trustees Report

Three Primary Changes This Year

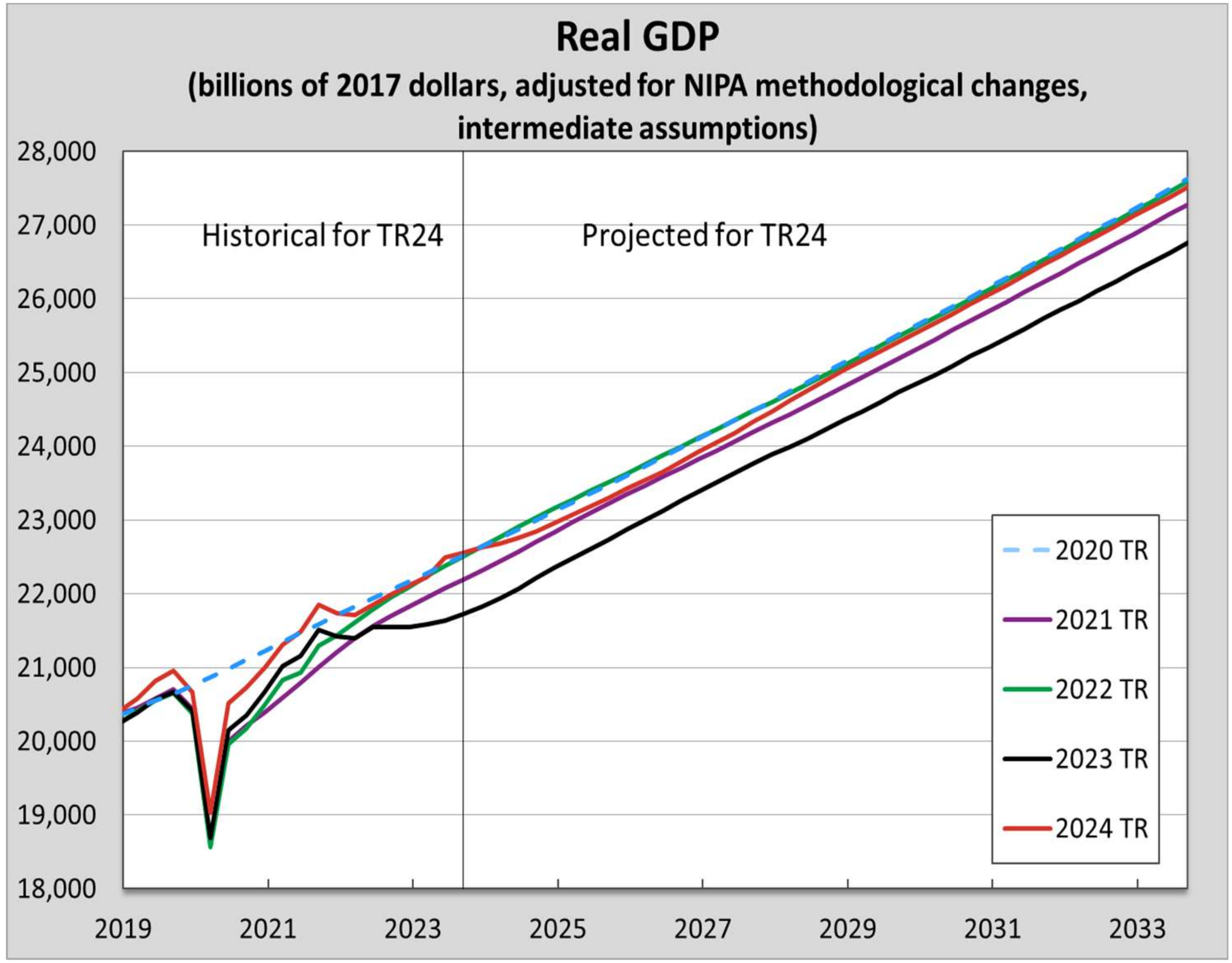
1. Economic: Given the unanticipated strength of the economy through 2023, the Trustees increased the level of labor productivity and the employment rate over the projection period. This offset the 3-percent permanent drop in the level of labor productivity and GDP assumed in last year's report.
2. Disability: The assumed ultimate disabled worker incidence rate was lowered from 4.8 to 4.5 per thousand, as applications for and awards of disability benefits have continued at low levels.
3. Demographic: The assumed ultimate total fertility rate (TFR) was lowered from 2.0 children per woman reached in 2056 to 1.9 children per woman reached in 2040, given continued low level of the TFR in recent years.

OASDI actuarial deficit now at 3.50 percent of payroll, down from 3.61 in 2023 report.

Primary Change 1: Higher GDP Level in 2024 TR Than in 2023 TR

As a result of recent economic developments, including strong growth in 2023, the assumed sustainable trend level of GDP for the 2024 TR is assessed to be about 3 percent higher than the level assumed in the 2023 TR.

The assumed ultimate trend growth rate of GDP is the same in both the 2023 and 2024 reports.

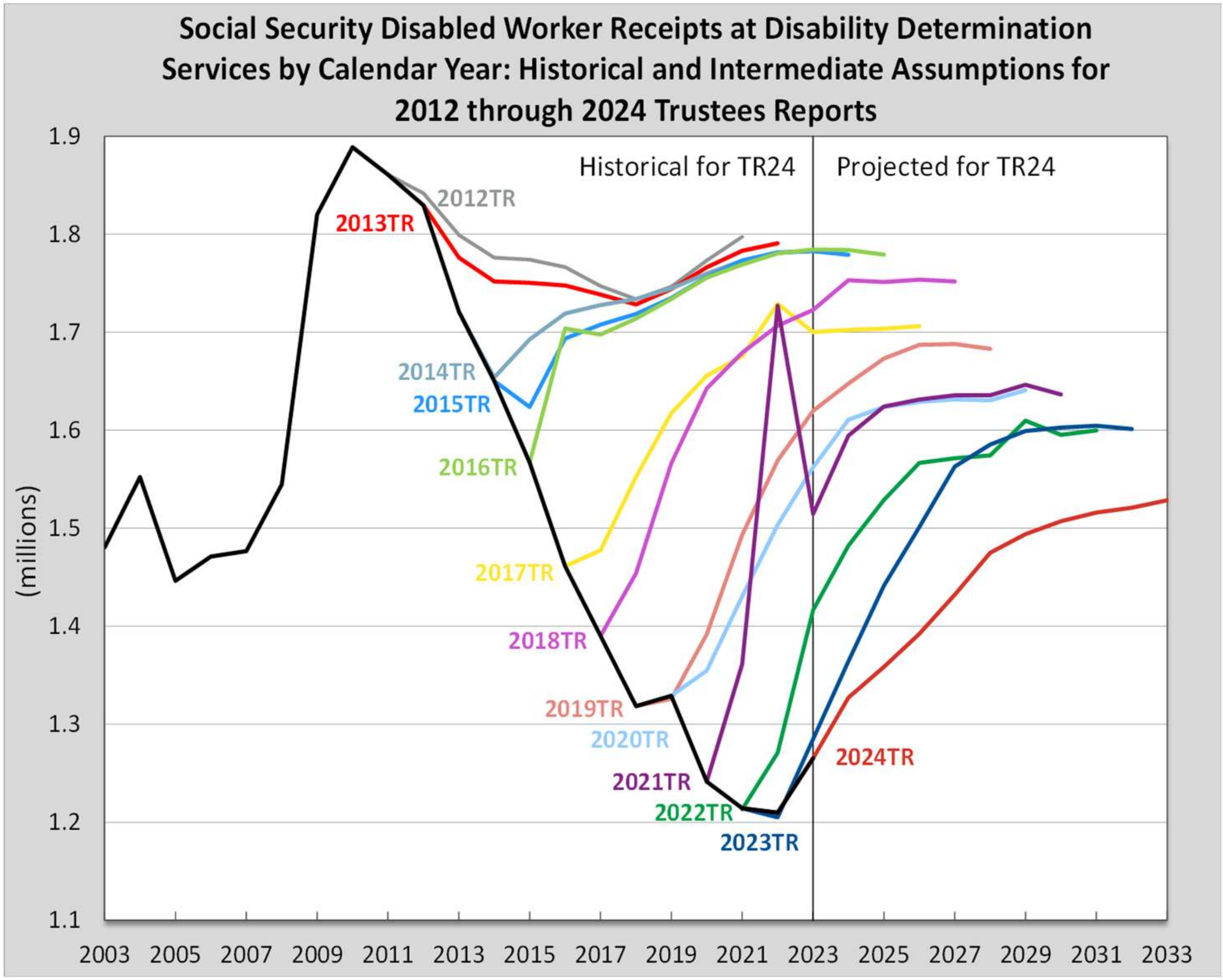


Primary Change 2: Applications for Disability Benefits Remain Near Historically Low Level

At the peak of the last economic cycle in 2007, applications were low, but increased rapidly in the 2008 recession from 1.5 million in 2007 to 1.9 million in 2010.

In 2017 through 2022, applications have dropped below the 2007 level.

Applications increased in 2023 but remain near historically low levels.

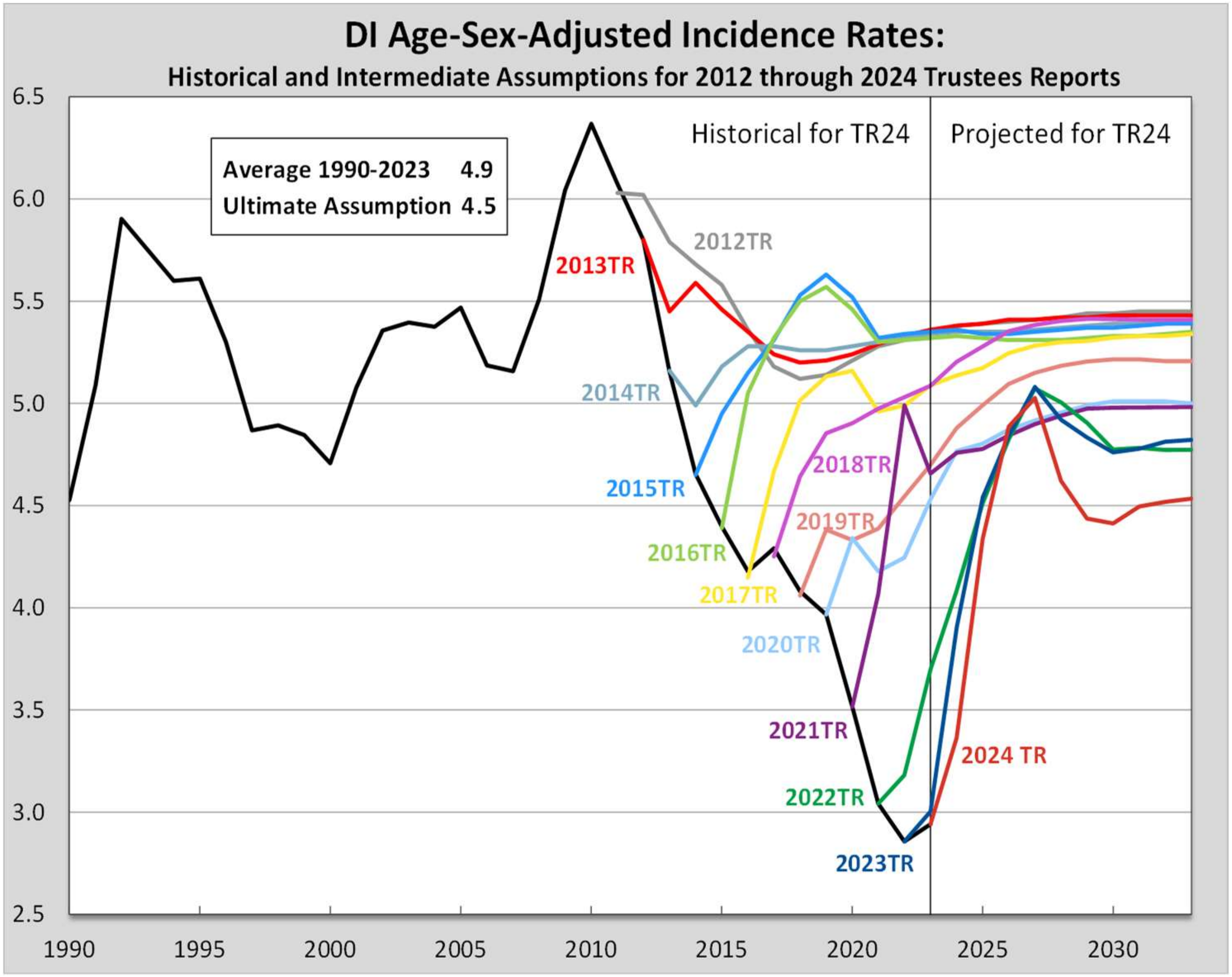


Primary Change 2: Disability Incidence Rate Also Remains At Historic Low Level

DI disabled worker incidence rate rose sharply in the 2008 recession and has declined since the peak in 2010 to extraordinarily low levels in 2016 through 2022.

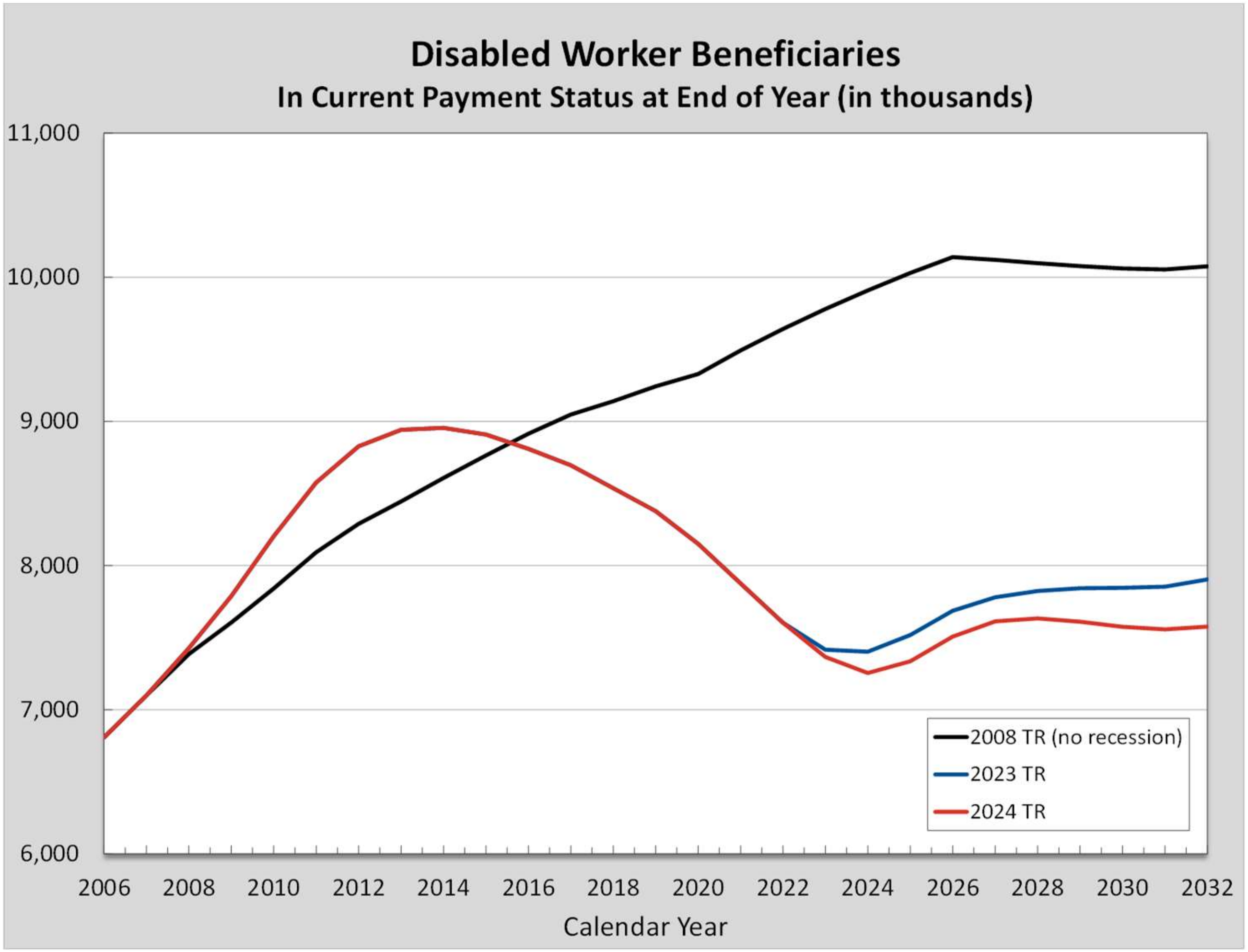
Incidence rates increased slightly in 2023 and are projected to surge in order to reduce pending claims (assuming increased staffing).

Note recent rise in pending claims due to limited staffing: see Actuarial Note 163.



Primary Change 2: Fewer Disabled Worker Beneficiaries

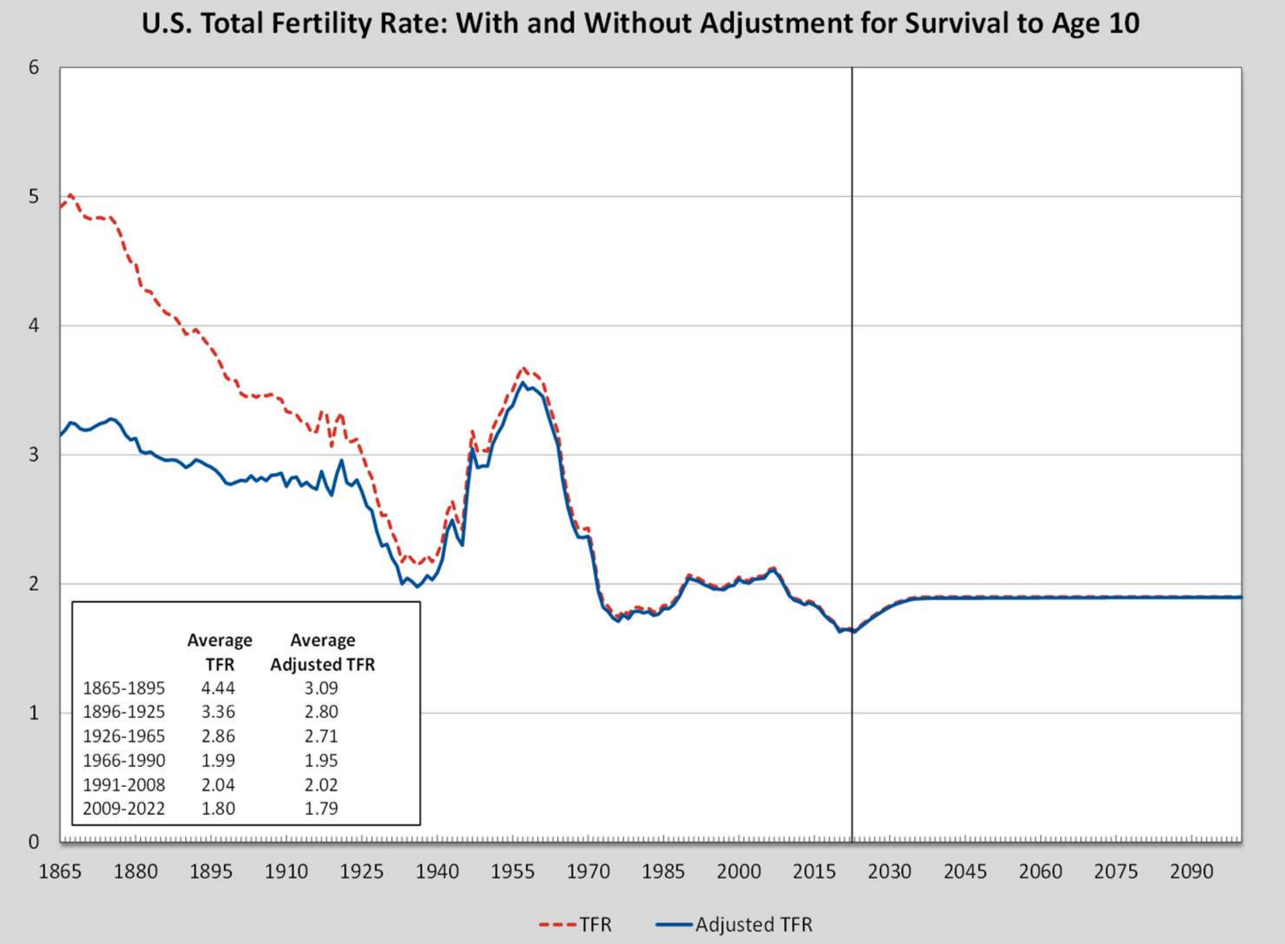
Fewer now and in near term based on recent applications and incidence rates.



Primary Change 3: Reduce Ultimate Total Fertility Rate from 2.0 to 1.9

Average "Adjusted" Total Fertility Rate falls from 3 to 2 after 1965.

Will birth rates rebound from recent historic low as in 1990-2008? If so, by how much? How about immigration?



	Average TFR	Average Adjusted TFR
1865-1895	4.44	3.09
1896-1925	3.36	2.80
1926-1965	2.86	2.71
1966-1990	1.99	1.95
1991-2008	2.04	2.02
2009-2022	1.80	1.79

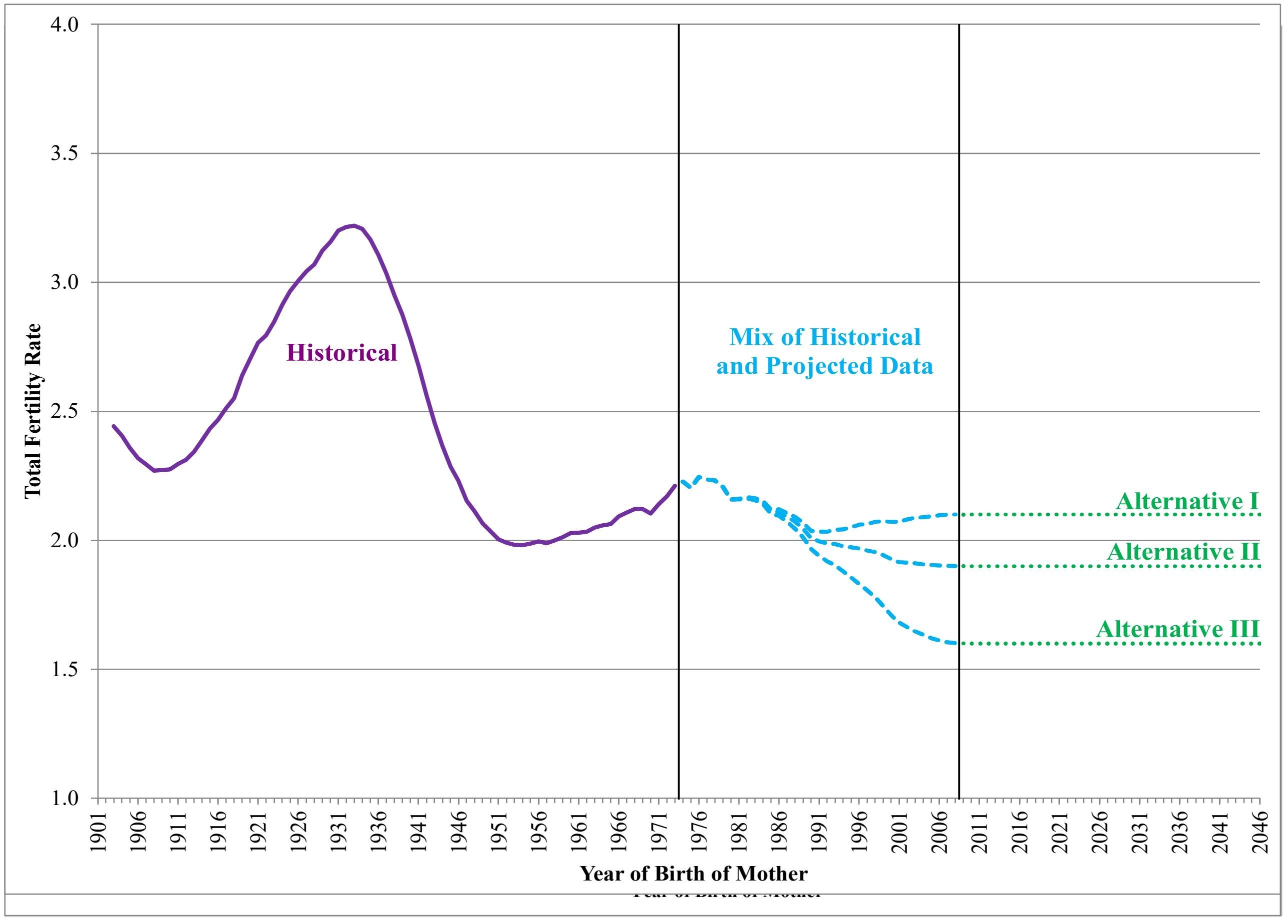
Notes: TFRs prior to 1917 are for whites only and survival rates prior to 1900 use Massachusetts data only.

Primary Change 3: Birth Rates by Cohort

Have been rising for women born since 1954.

Under intermediate assumptions, birth rates are projected to go below 2.0 for women born after 1990, reaching an assumed ultimate level of 1.9.

Chart 1.4: Historical and Projected Total Fertility Rates by Birth Cohort



https://www.ssa.gov/oact/TR/2024/2024_Long-Range_Demographic_Assumptions.pdf

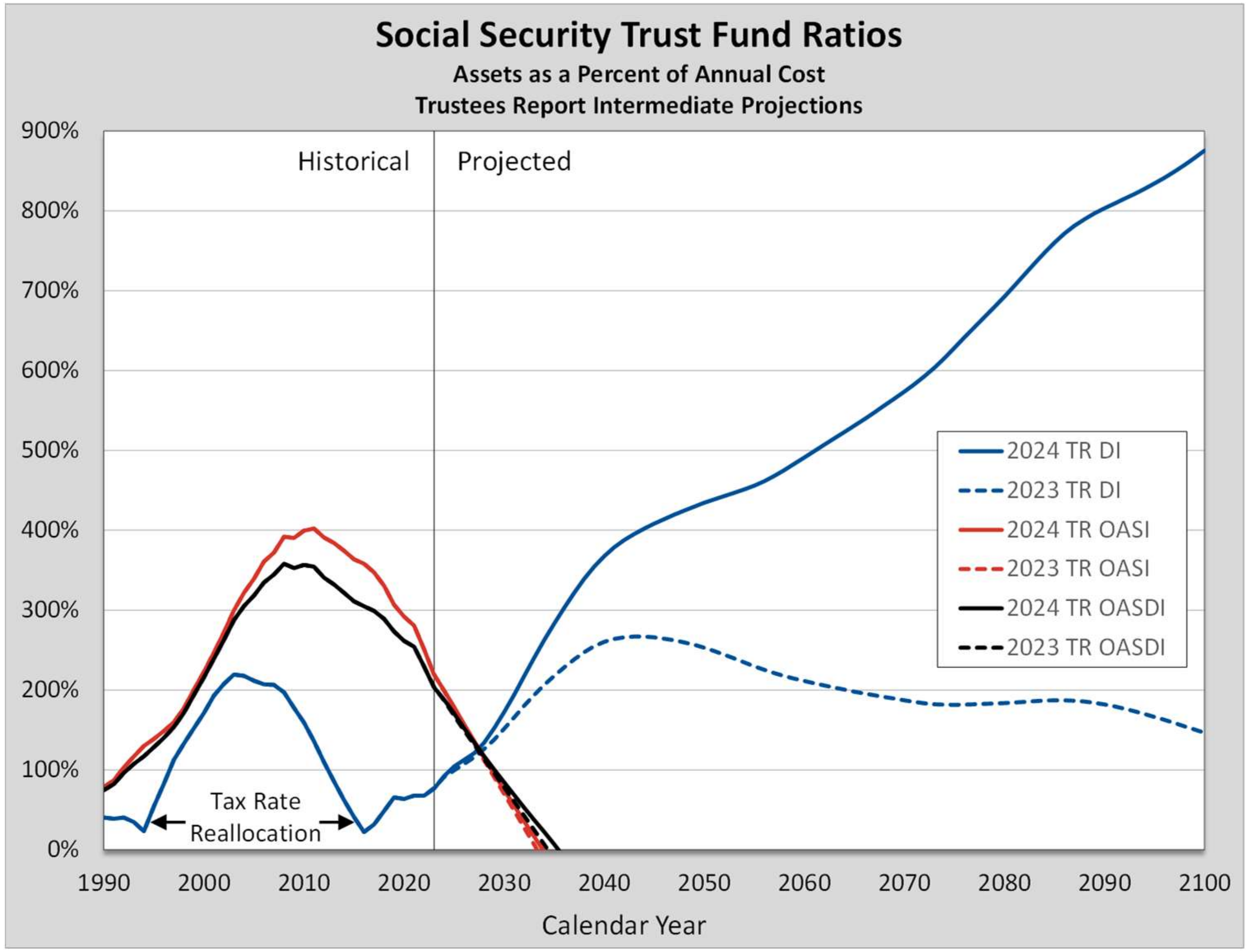
2024 Trustees Report Results

Solvency: OASI+DI Trust Fund Reserve Depletion in 2035
(one year later than last year)

OASDI reserve depletion date varied from 2033 to 2035 in reports over the last 13 years (2012-2024) and from 2029 to 2042 in reports over the last 34 years (1991-2024).

OASI reserve depletion date now November 2033 versus April 2033 in the 2023 report.

DI Trust Fund: reserves do not deplete, due largely to continued low applications and awards, and a lower assumed ultimate disability incidence rate.

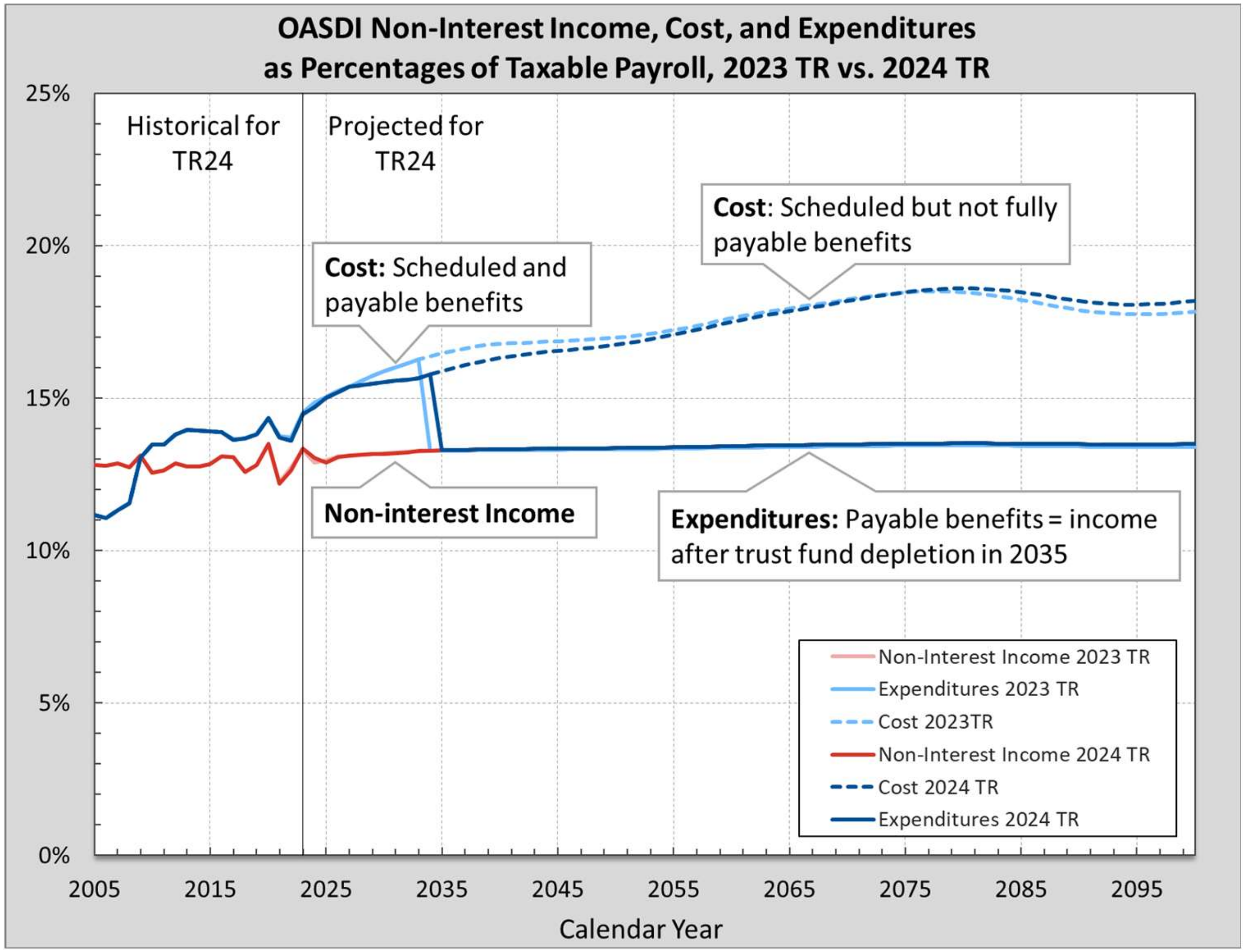


OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll, 2023 TR vs. 2024 TR

Persistent negative annual cash-flow balance starting in 2010.

83 percent of scheduled benefits still payable at trust fund reserve depletion: was 80 percent in last year's report.

73 percent payable for 2098: was 74 percent for 2097 in last year's report.

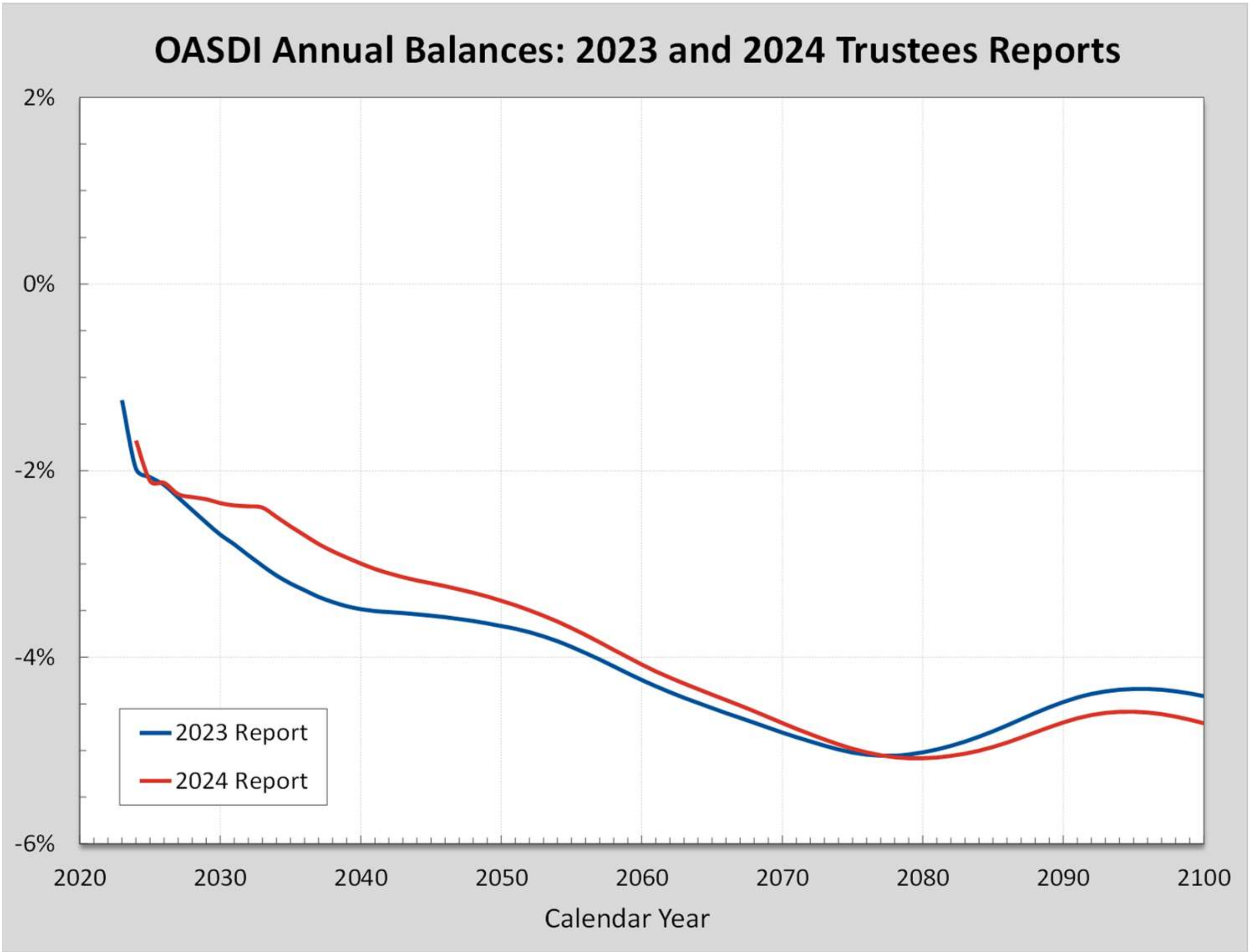


Changes in OASDI Annual Balance

Annual income rate minus annual cost rate.

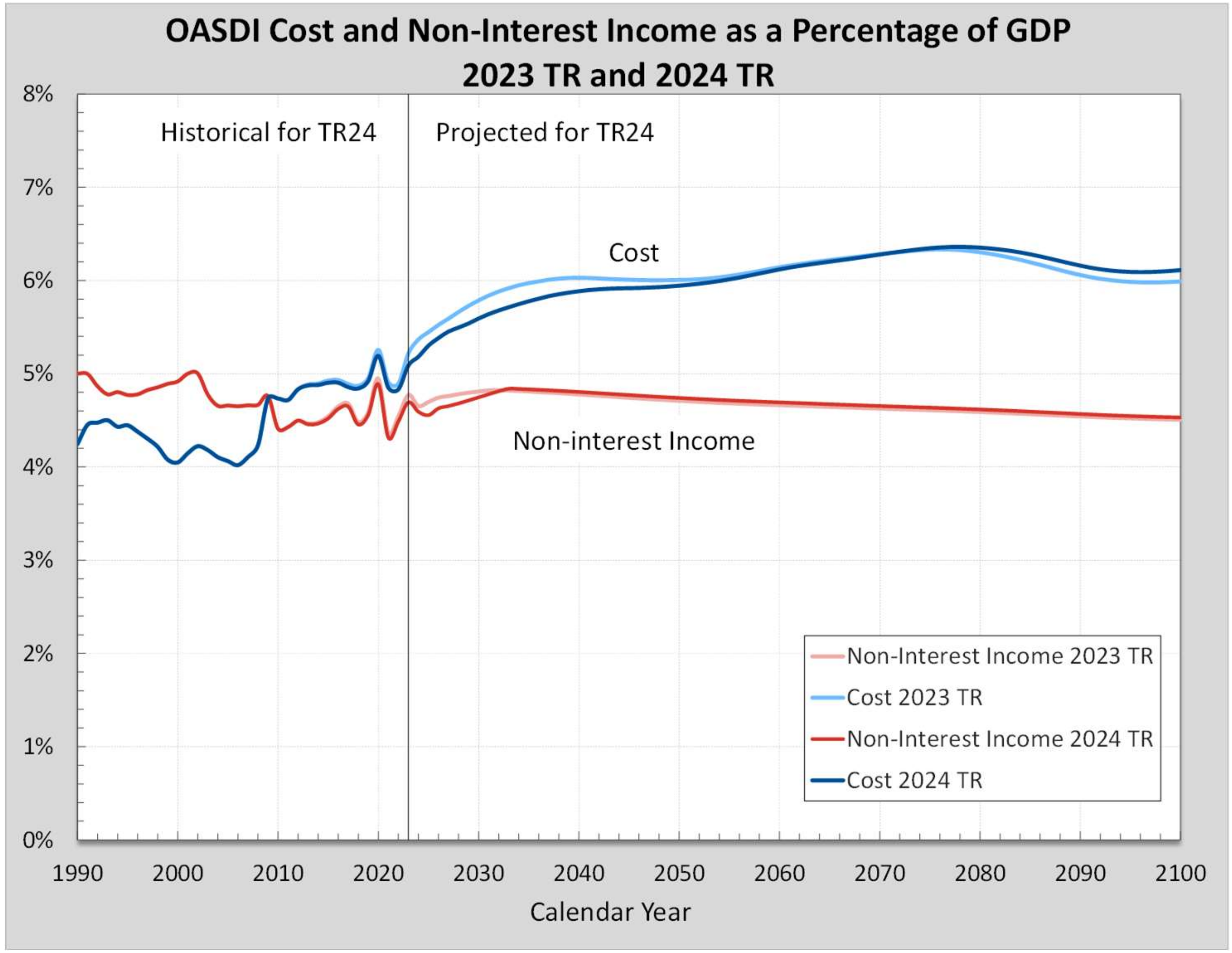
Annual deficits are lower through 2077 and higher thereafter.

The decreased annual deficits are mainly due to changes in economic factors and the lower assumed ultimate disability incidence rate, which are gradually offset by the lower recent and assumed ultimate total fertility rate.



SUSTAINABILITY: Cost as percent of GDP 2023 TR vs. 2024 TR

Rises from a 4.2 percent average in 1990-2008, to a peak of about 6.4 percent for 2078, and then declines to 6.1 percent by 2098.

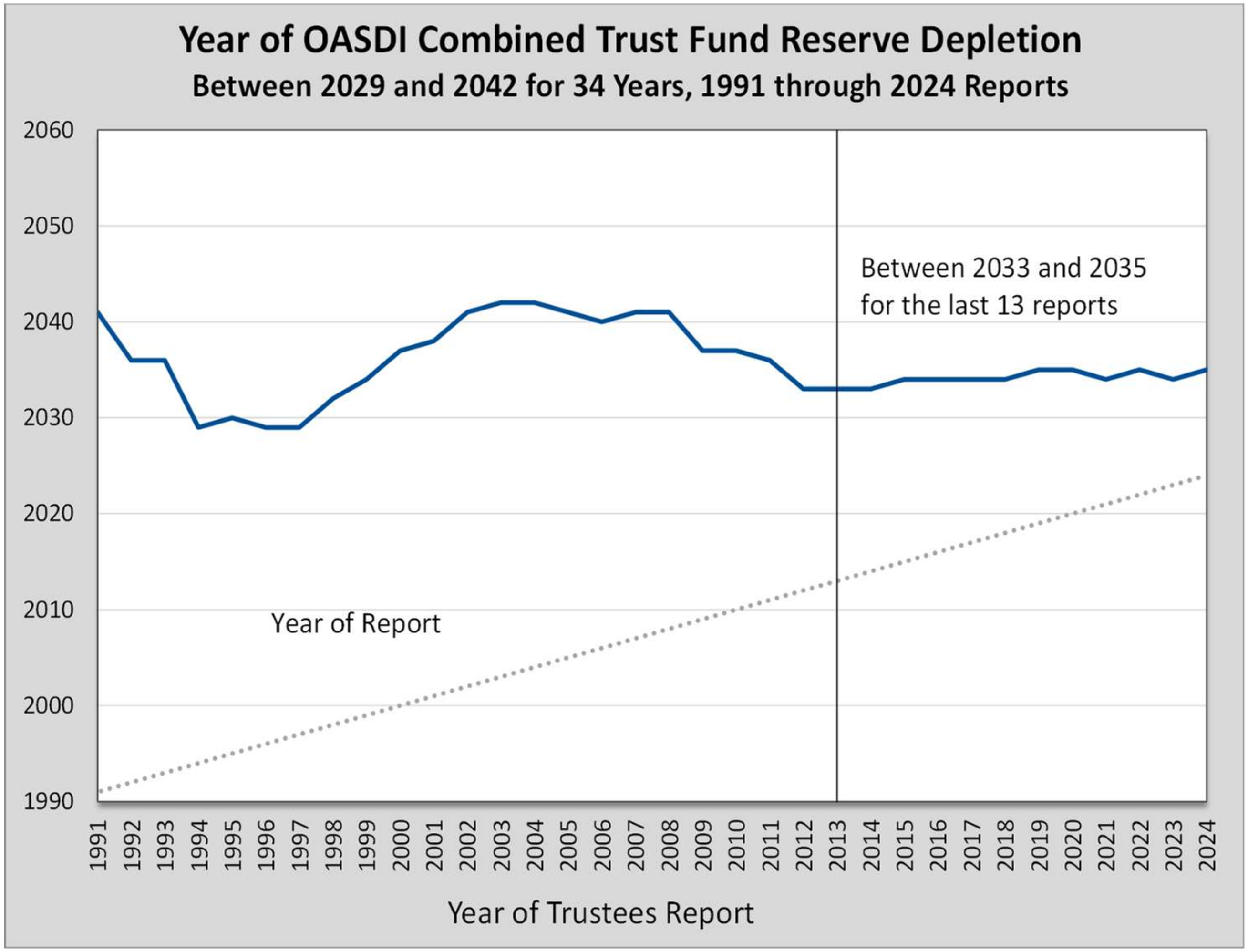


Changes in Timing of Trust Fund Reserve Depletion in 2024 Report

1. OASDI reserve depletion is 2035: 13 months later than last year's report
   a) Economic and disability changes are positive for the trust funds throughout the 75-year projection
   b) The change in the fertility rate assumption partially offsets the economic and disability changes in the long-term—but not until well after 2035
2. OASI reserve depletion is again 2033: but 7 months later than in last year's report
3. DI reserves do not become depleted over the 75-year long-range projection period: same as last year
   a) Applications and benefit awards are both near historically low levels in 2023
   b) Reduced ultimate incidence rate
   c) Gradual increase in initial applications to their ultimate level

Year of OASDI Combined Trust Fund Reserve Depletion

OASDI reserve depletion date varied from 2033 to 2035 in reports over the last 13 years (2012-2024) and from 2029 to 2042 in reports over the last 34 years (1991-2024).



Reasons for Change in Actuarial Balance in 2024 Trustees Report

Actuarial Balance: Net Change of +0.11 percent of payroll

Valuation Period - Changes the actuarial balance by	**-0.06 percent of payroll**
Legislation etc. – Changes the actuarial balance by	**0.00 percent of payroll**
• One-year delay in resuming approval of new DACA applications	
Demographic Data/Assumptions – Changes the actuarial balance by	**-0.16 percent of payroll**
• Lower ultimate total fertility rate with ultimate rate reached sooner	(-0.10 percent)
• Recent birth data and slightly lower assumed near-term total fertility rates	(-0.03 percent)
• Higher near-term mortality rates due to ongoing effects of COVID-19	(+0.01 percent)
• New data for mortality, immigration, marriage/divorce, and historical population	(-0.03 percent)
Economic Data/Assumptions – Changes the actuarial balance by	**+0.13 percent of payroll**
• New data for educational attainment	(+0.02 percent)
• New historical OASDI covered employment data	(+0.05 percent)
• New data and other near-term economic assumptions – increase in assumed level of labor productivity	(+0.06 percent)
Disability Data/Assumptions – Changes the actuarial balance by	**+0.12 percent of payroll**
• New disability data, near-term assumptions and lower ultimate disability incidence rates	(+0.08 percent)
• Disability incidence rate assumptions incorporated into labor force model	(+0.03 percent)
Methods and Programmatic Assumptions	**+0.08 percent of payroll**
• Methodological improvements, programmatic data and other improvements and updates	

Why are we now facing OASDI Trust Fund reserve depletion in 2035, almost 30 years earlier than projected in the 1983 report, after enactment of the 1983 Amendments?

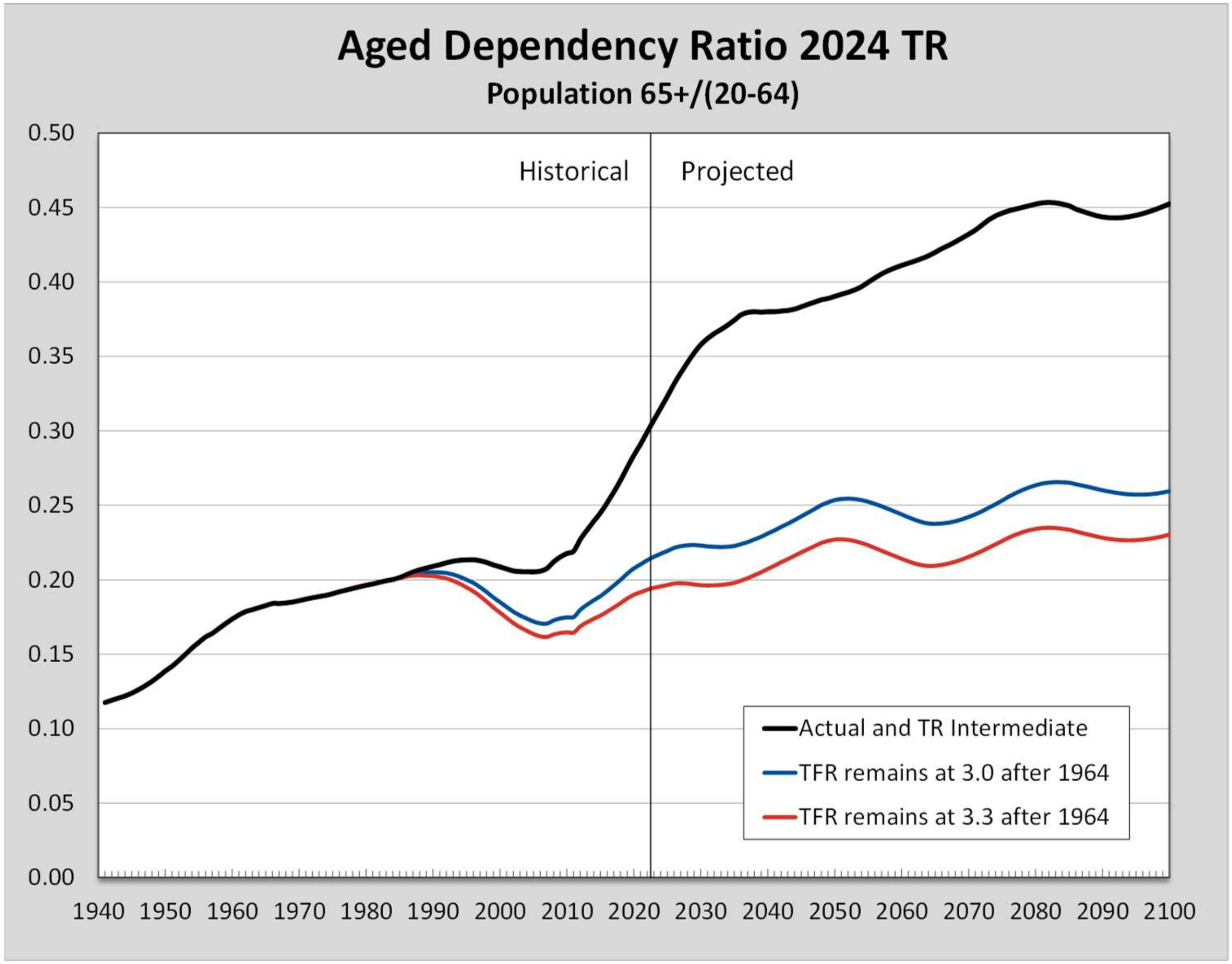
Not due to increased longevity—projected life expectancy at age 65 in the 1983 report was extremely accurate.

Aging – Change in Age Distribution

This is the primary reason for increasing cost relative to payroll and GDP.

Mainly due to drop in birth rates.

However, this was also known and anticipated in 1983.

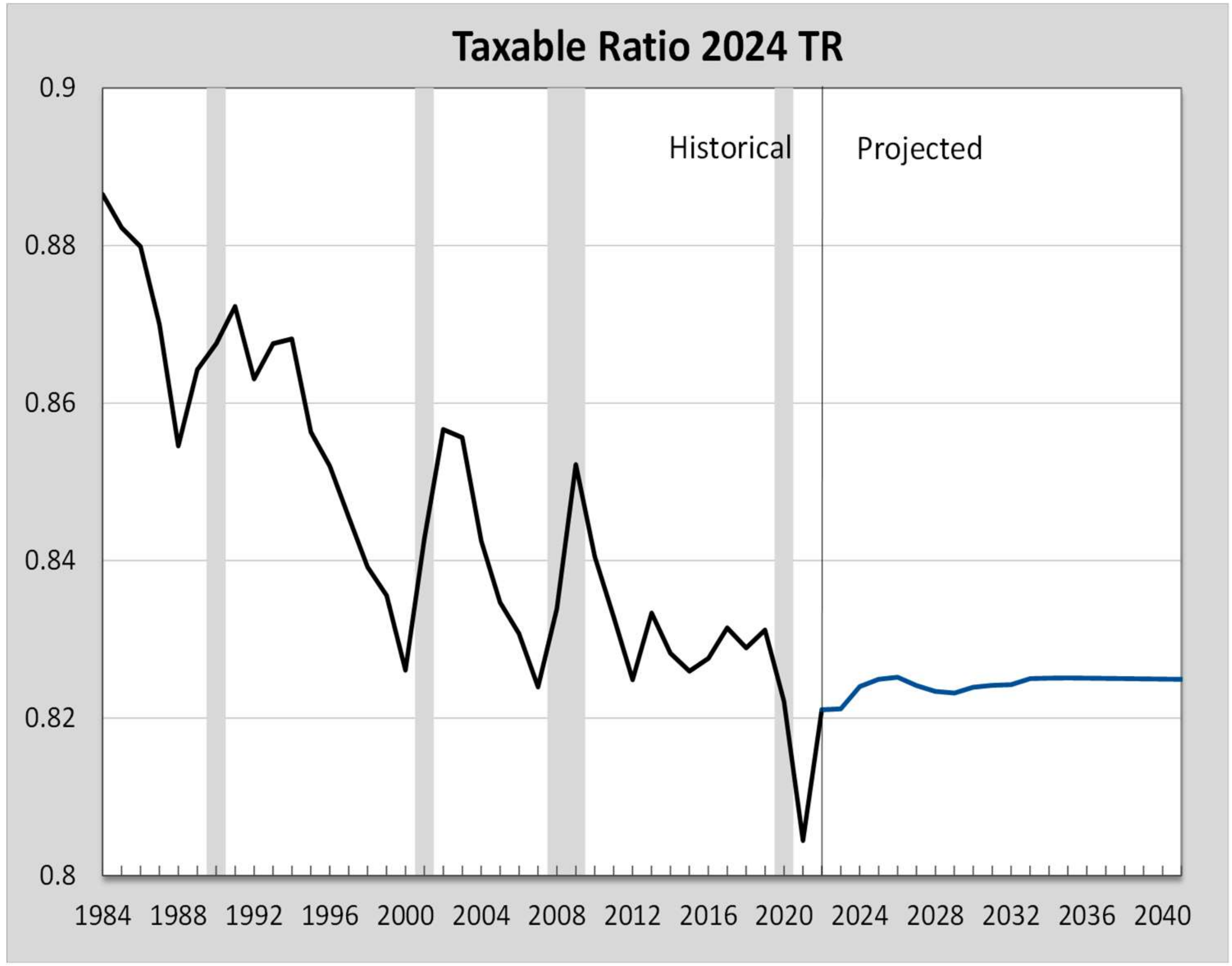


The Main Issue: Drop in Ratio of Taxable Earnings to All OASDI Covered Earnings

Declined since 1983 due to increasing concentration of earnings at the top of the distribution. Between 1983 and 2000, the average annual earnings for the top 6 percent of earners rose 62 percent more than CPI, but only 17 percent more for the other 94 percent of earners.

The ratio dropped to 82.5 percent by 2000 and has remained there except for cyclic effects.

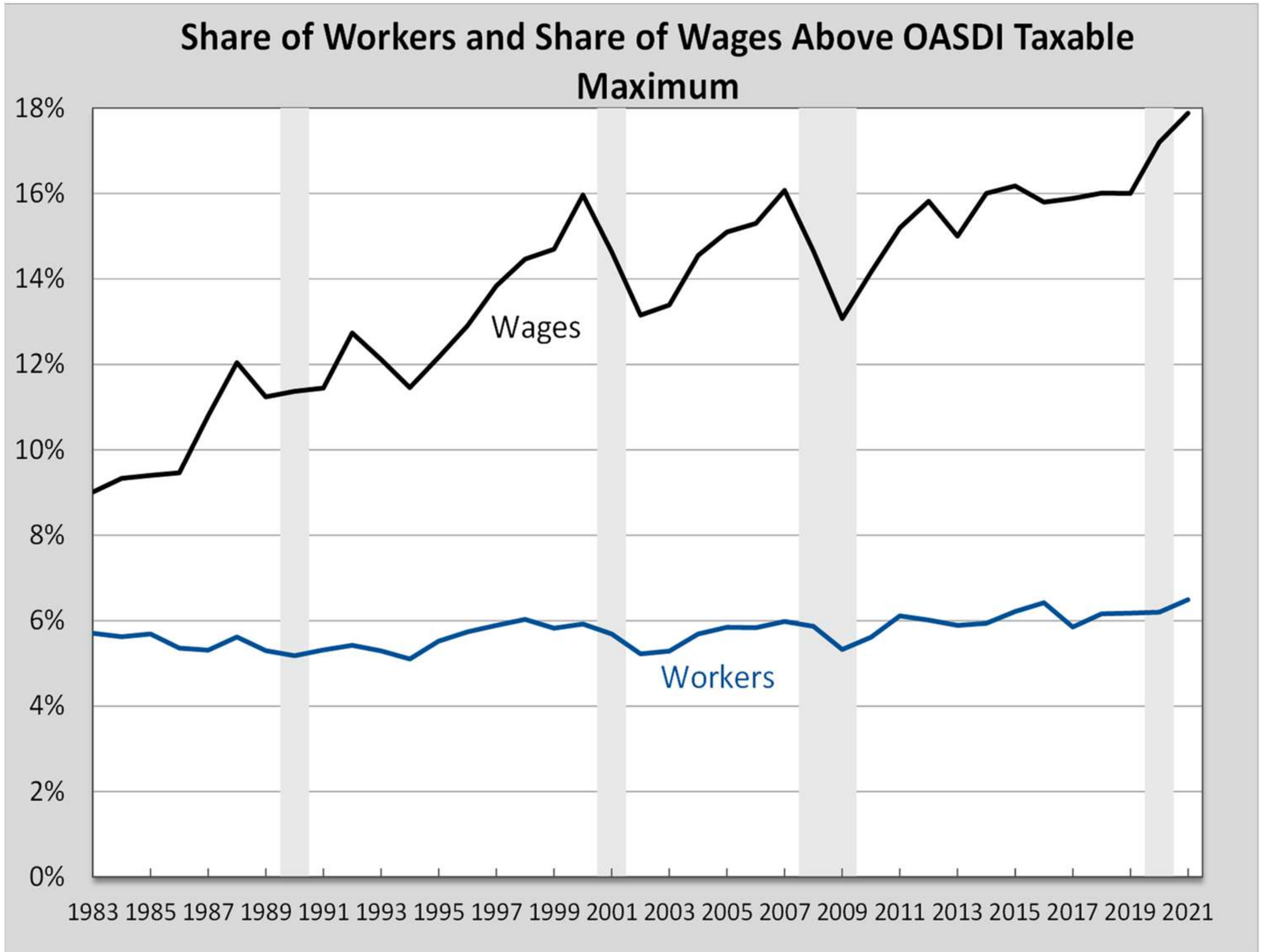
This drop was NOT anticipated in 1983.



OASDI-Covered Wages in Excess of the Taxable Maximum

The share of *workers* with wages exceeding the OASDI taxable maximum remained fairly stable around 6 percent.

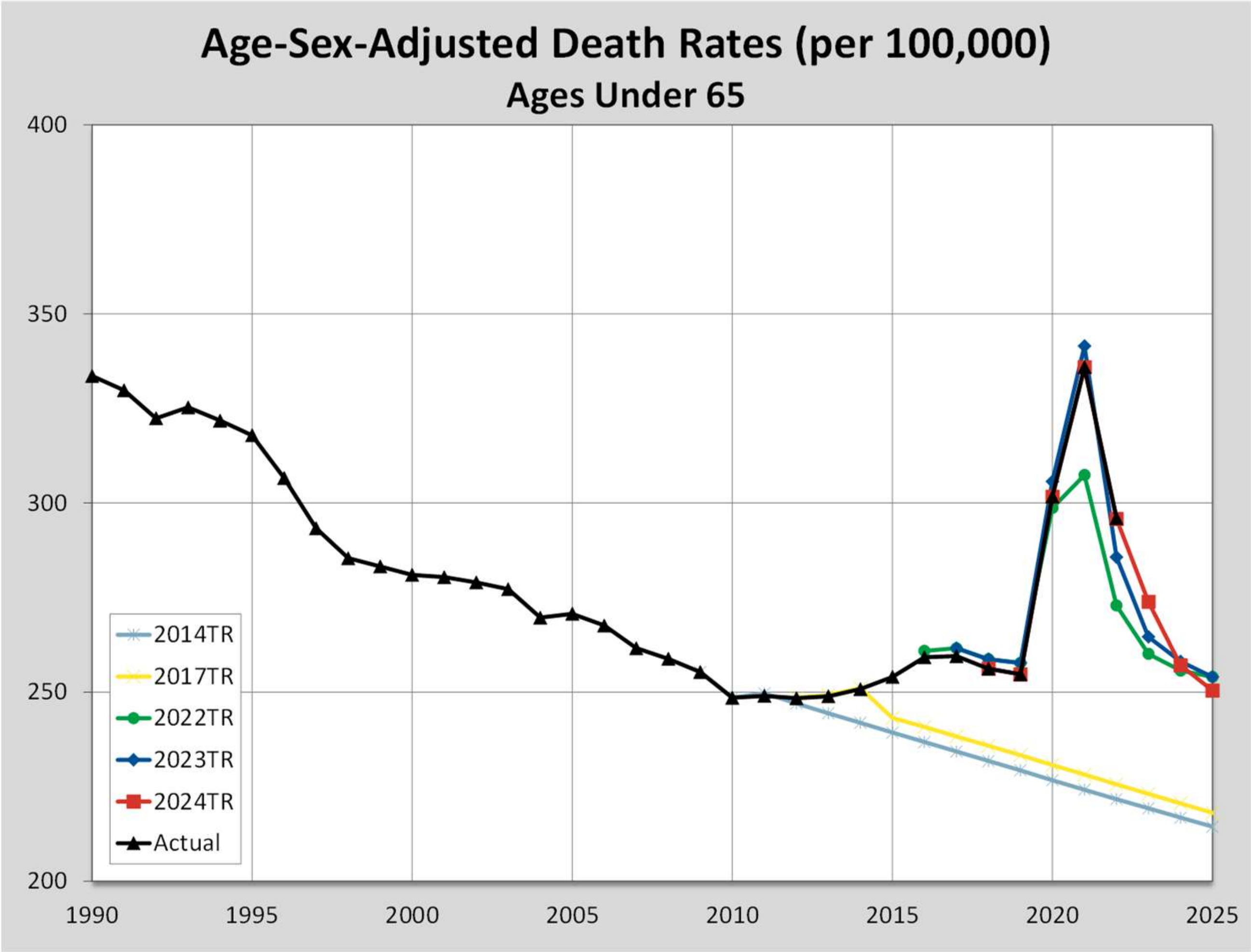
The share of *wages* in excess of the OASDI taxable maximum has generally risen since 1983 and it stood at 17.9 percent in 2021 (the latest historical data available).



Selected Other Assumptions of Interest to Actuaries…

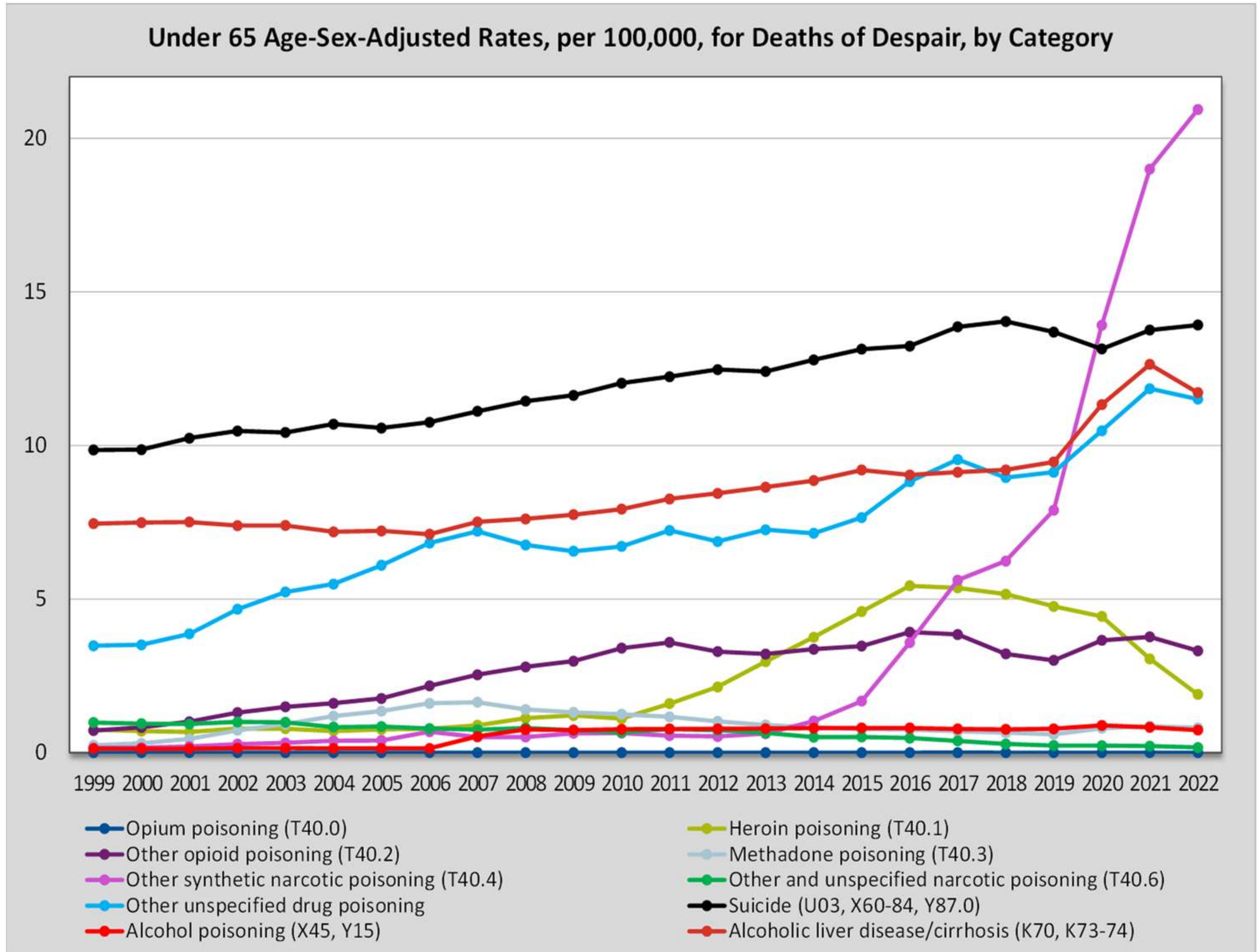
Mortality Experience: Ages Under 65

Increased mortality in 2020-24 to reflect the effects of the COVID-19 pandemic.



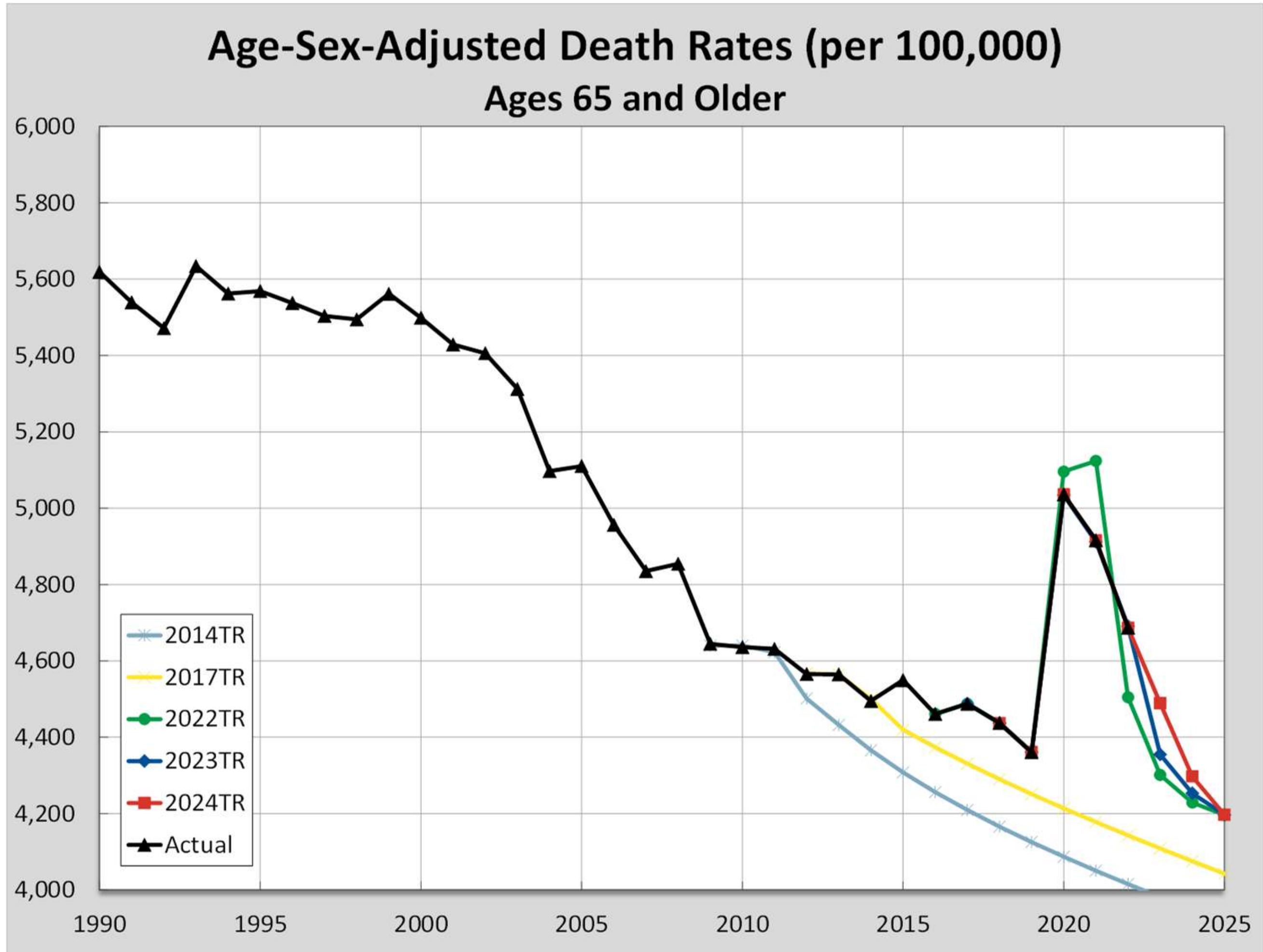
"Deaths of Despair" by Cause of Death Category

Age-Sex-Adjusted Death Rates Under Age 65



Mortality Experience: Ages 65 and Older

Increased mortality in 2020-24 to reflect the effects of the COVID-19 pandemic.

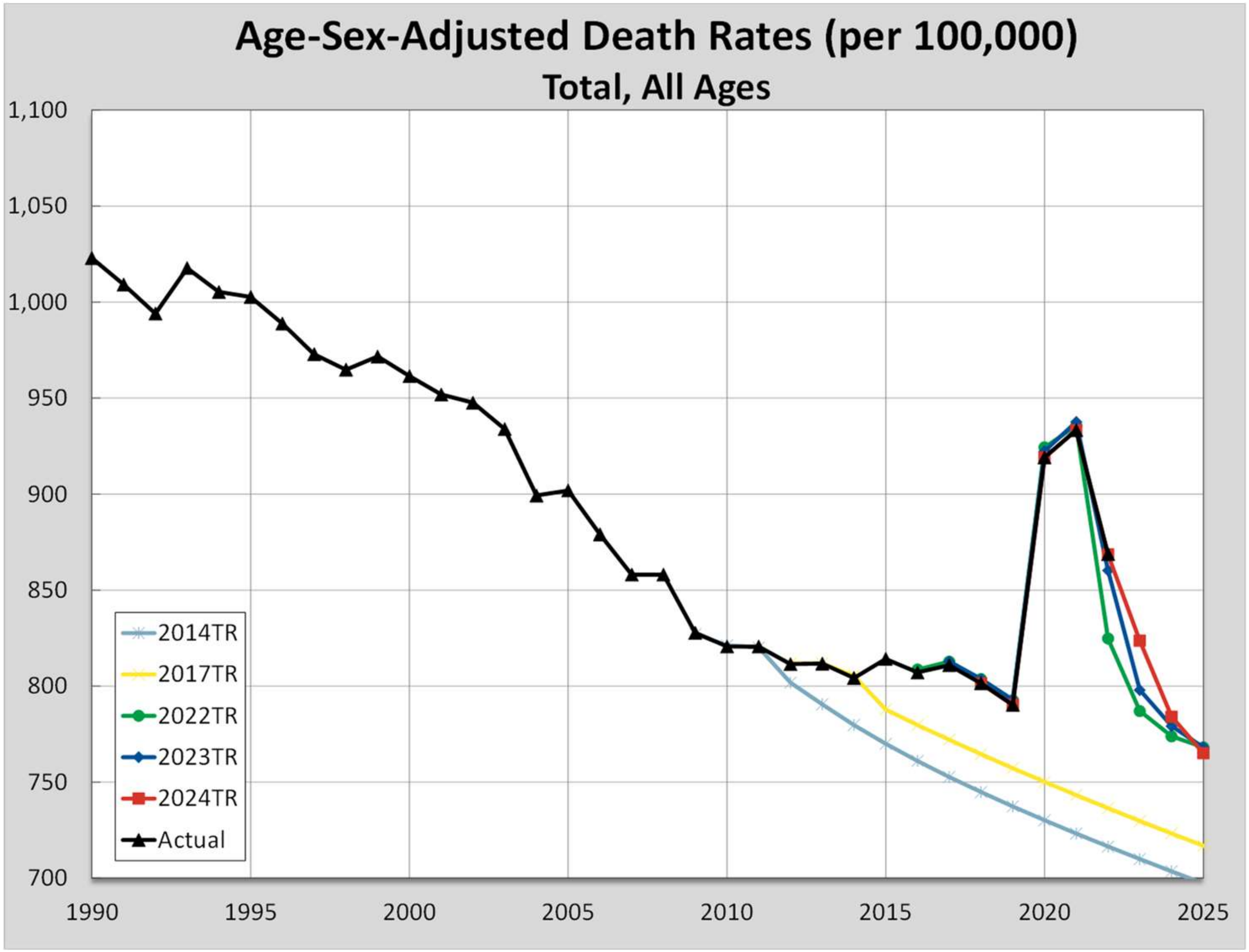


Mortality Experience: All Ages

Increased mortality in 2020-24 to reflect the effects of the COVID-19 pandemic.

What will the net effect of the pandemic be on mortality in the future?

We assume offsetting effects for the residual population after the pandemic.

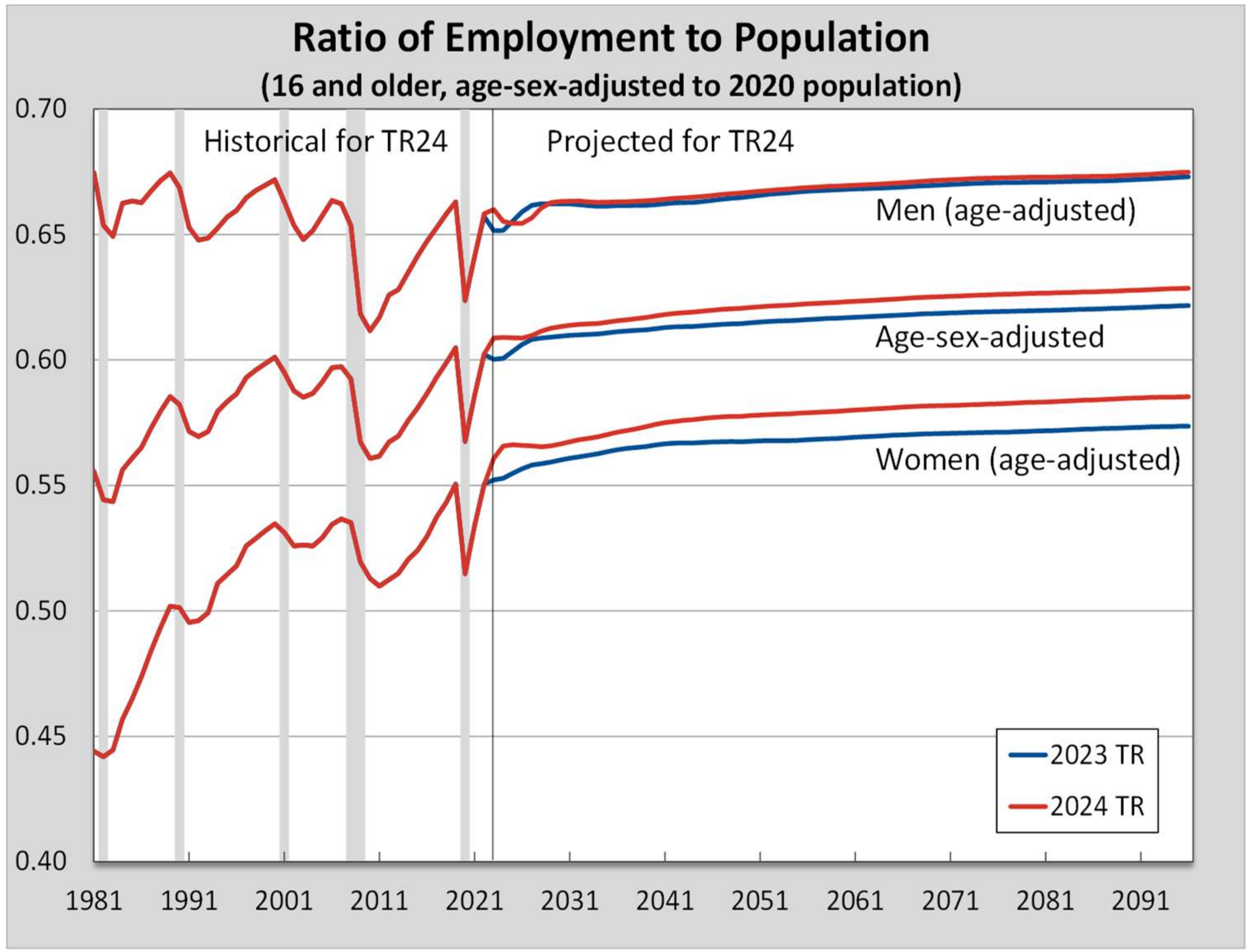


Ratio of Employment to Population

Recovered strongly from the brief but steep 2020 recession.

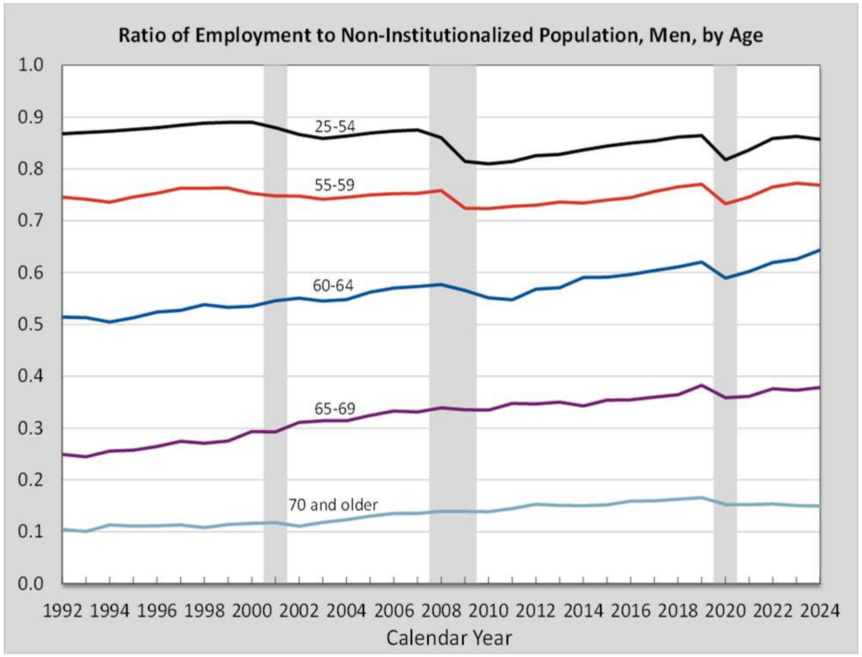
Projected to exceed the level seen at the peak of the last economic cycle.

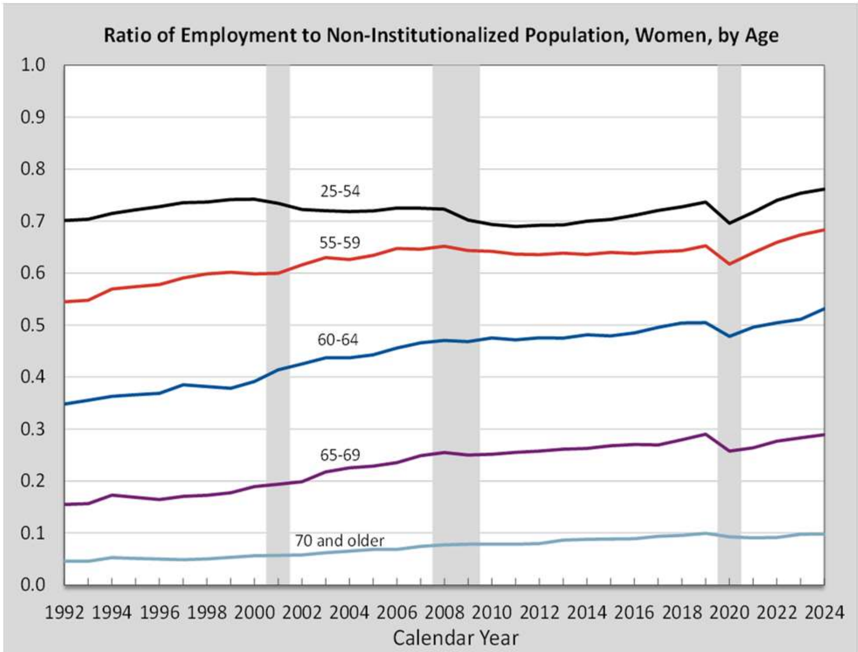
Projected to be higher than in the 2023 TR in part due to the lower assumed disability incidence rate and higher projected educational attainment.



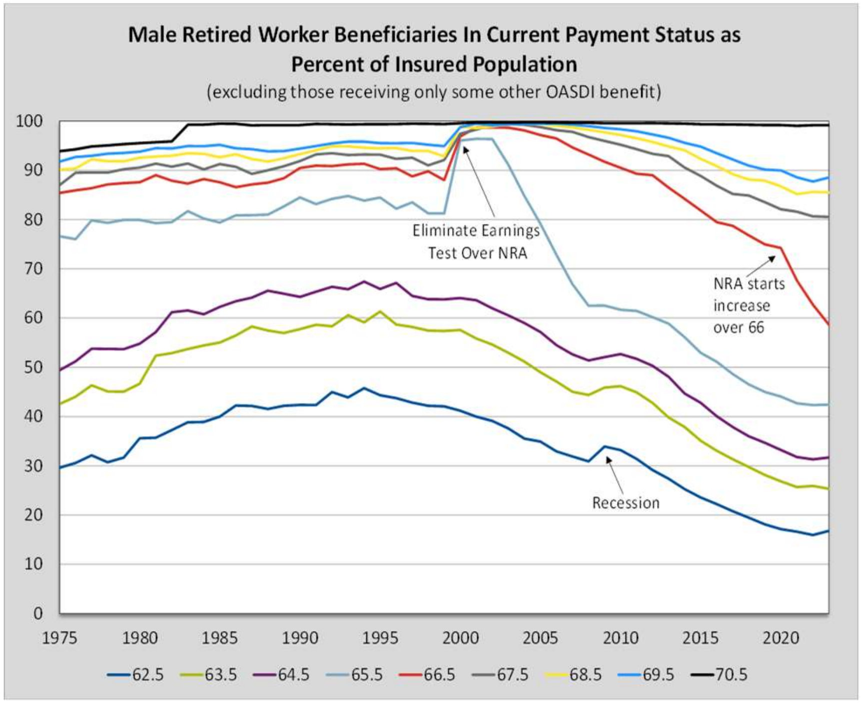
Employment Over Age 65…

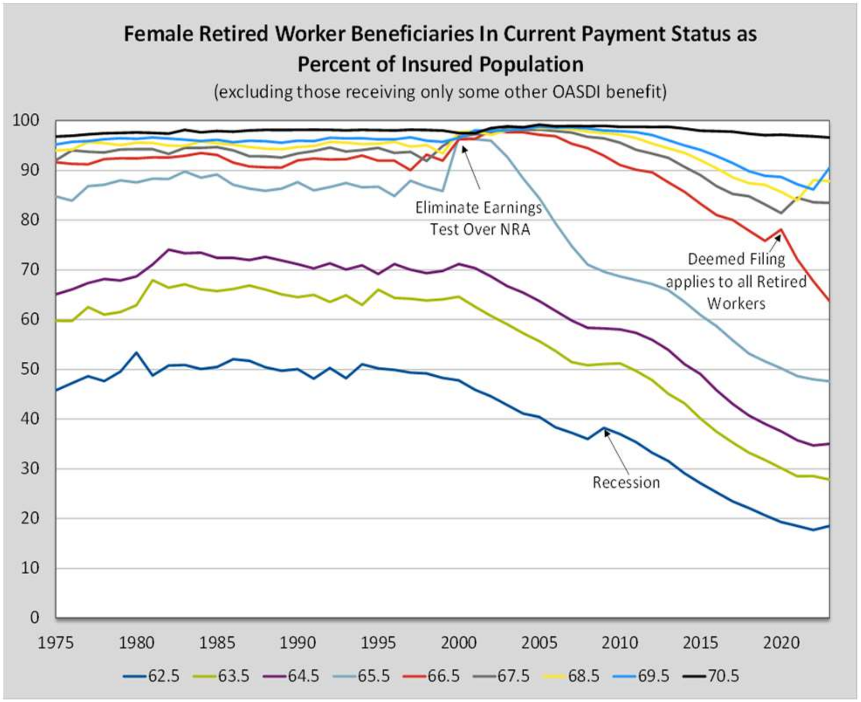
declined briefly with the 2020 recession, but is projected to continue rising. How much of this is from changing the NRA and earnings test? *Is the best retirement approach a job (Paul Samuelson)?*





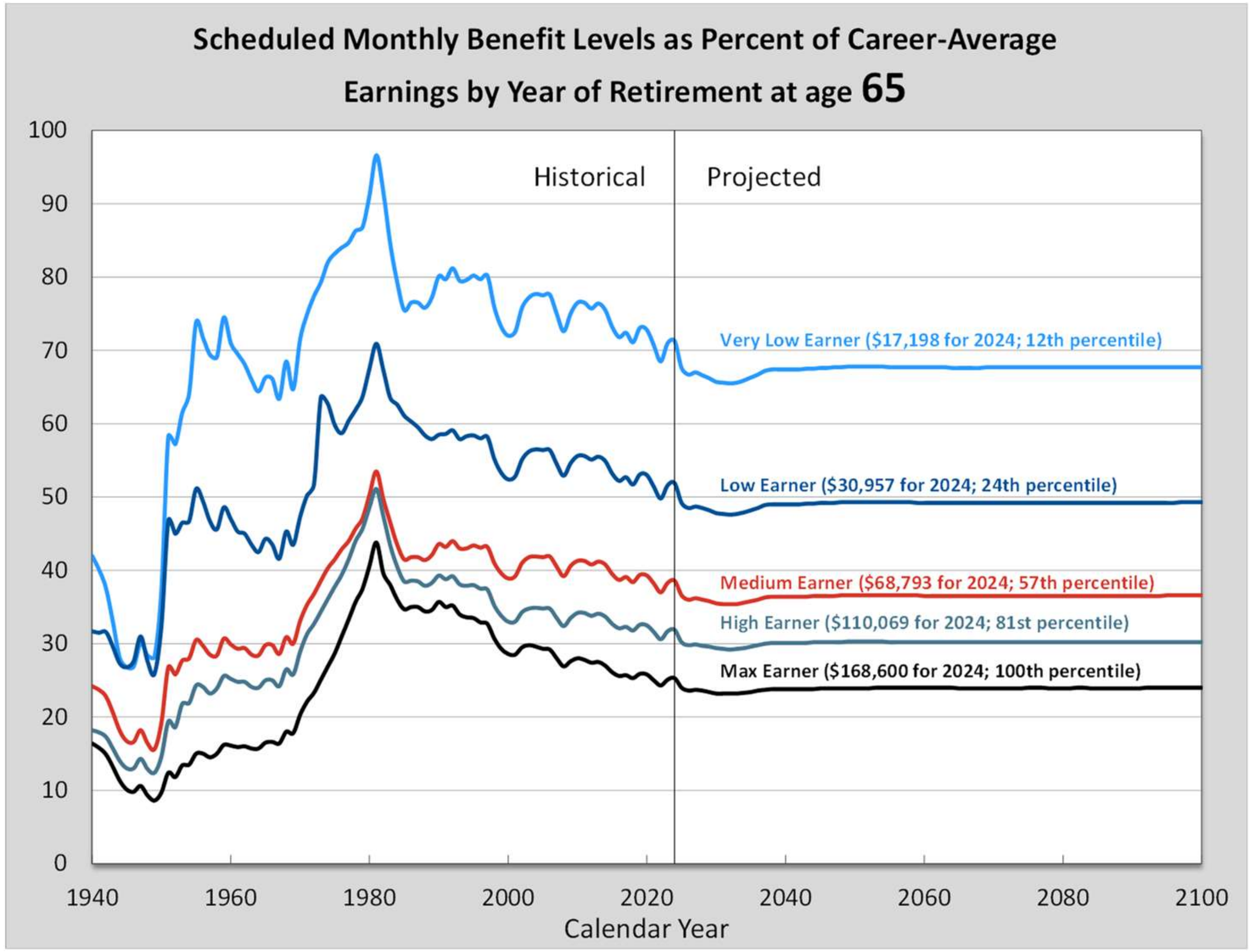
Age of Starting Social Security Retirement Benefits





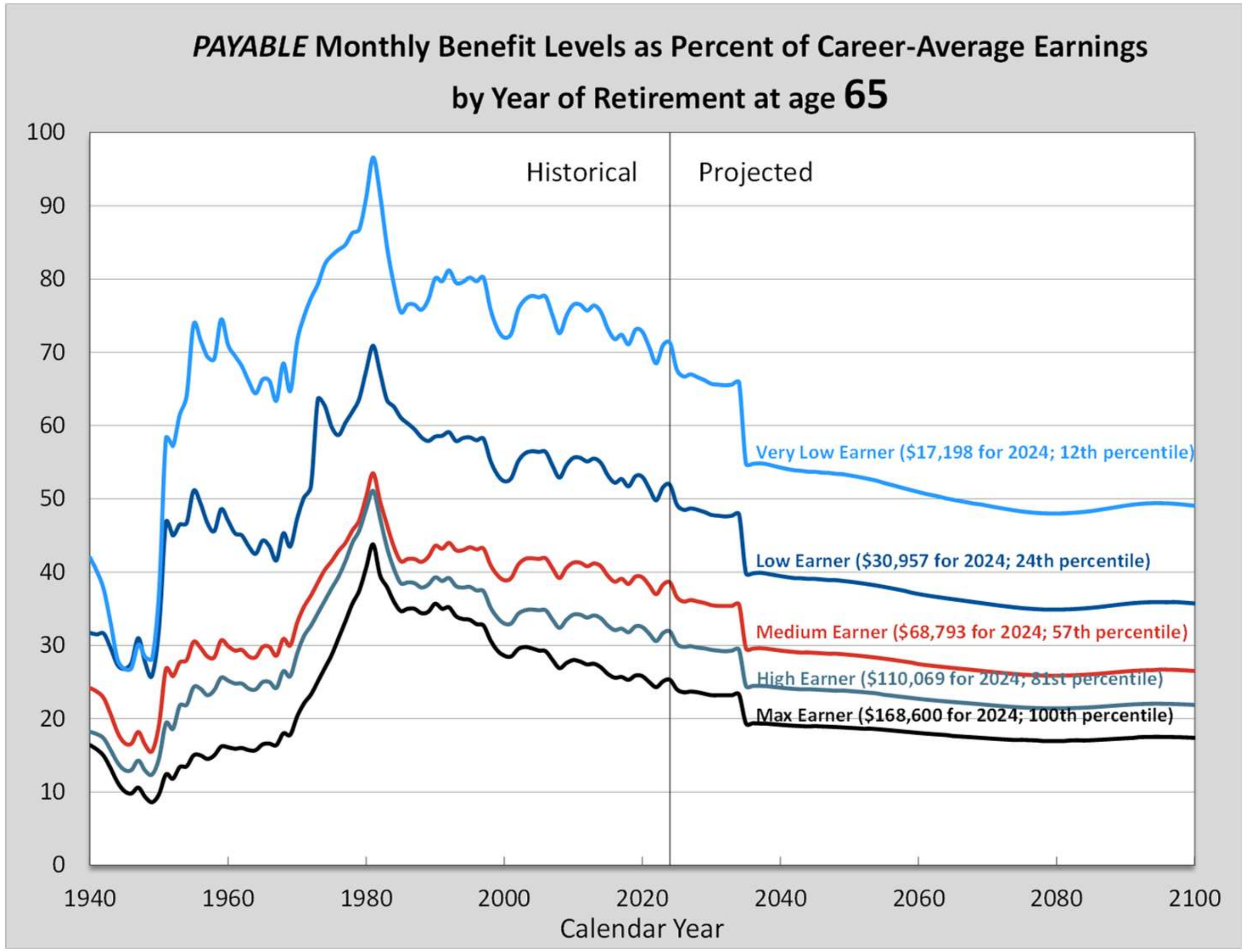
The Broader Retirement Landscape and Effects on Federal Debt

Replacement Rates Based on the 2024 TR



Source: Annual Recurring Actuarial Note #9 at www.ssa.gov/oact/NOTES/ran9/index.html

Payable Benefits Under the Law, After Trust Fund Reserves Are Depleted, Are Even Lower



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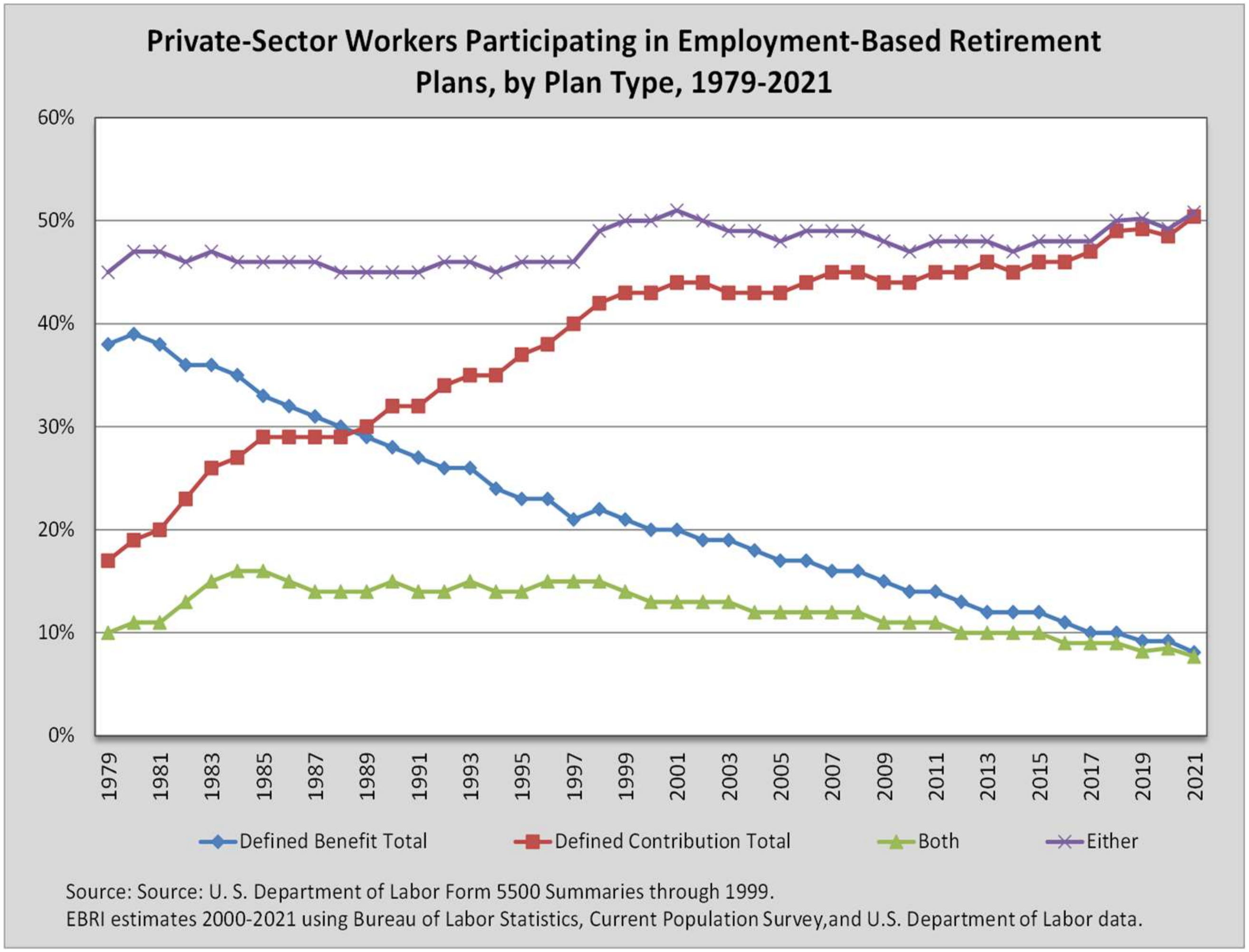
Defined Benefit Plans Replaced by DC Plans

Lump sum options increasing for DB plans



Social Security Is *Not* Responsible for the Federal Debt

1) OASI, DI, HI Trust Funds do ***not*** add to the debt
2) In fact, these trust funds finance part of the total federal debt
3) These programs ***cannot*** borrow under current law
4) The "budget scoring convention" is inconsistent with the law

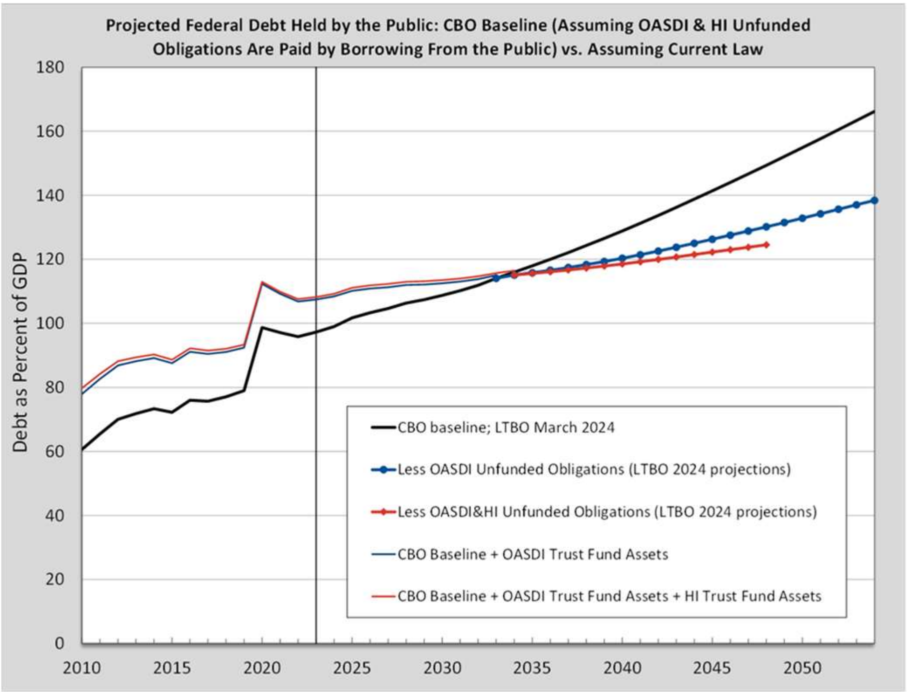
Sec. 257(b)(1) of the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177:

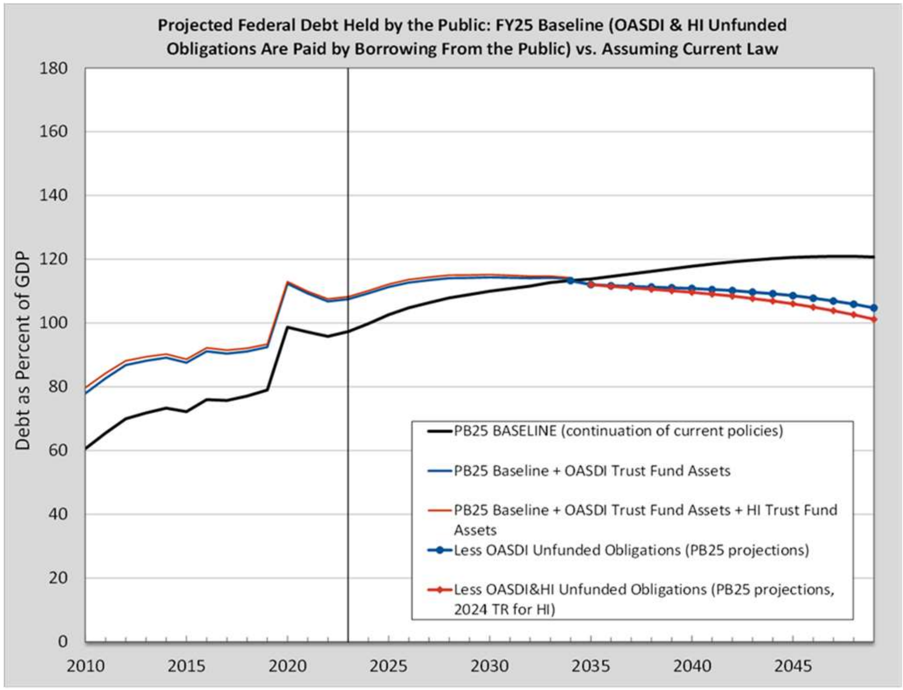
> "Laws providing or creating direct spending and receipts are assumed to operate in the manner specified in those laws for each such year and funding for entitlement authority is assumed to be adequate to make all payments required by those laws."

Full scheduled payments are not required after trust fund reserve depletion; in fact, they are not even allowed.

What If We Project Federal Debt Consistent With the Law?

CBO and OMB Budget baselines assume borrowing Trust Funds from the public vs. projections consistent with current law, where OASDHI shortfalls must be met with added revenue or reduced cost; note Trust Fund reserves are part of total federal debt





How to Eliminate the Social Security Long-Term Actuarial Deficit

The Bottom Line

- Long-term projections provide information to assess solvency and changes needed to eliminate shortfalls.
- If trust fund reserves were to become depleted:
  - Full benefits could not be paid timely
  - NO pressure on the Budget or Federal Debt
  - So Congress must act, as it always has
- Straightforward solutions:
  - Add revenue and/or lower cost for OASDI
  - Comprehensive changes ***implemented*** by 2035

Ways to Lower Cost

- Lower benefits for retirees – not disabled?
  - Increase normal retirement age (lowers OASI cost, but increases DI cost)
  - Can exempt long-career low earners (e.g. Simpson Bowles 2010)
- Lower benefits mainly for high earners?
  - Reduce PIA above some level, noting that higher earners generally live longer
  - Often combined with increasing PIA below some level, subject to work year requirements
- Lower benefits mainly for the oldest old?
  - Reduce the COLA by using the chain-weighted CPI-U
  - But some say increase it with the CPI-E (based on purchase of consumers over age 62)

Ways to Increase Revenue

- Raise the 12.4 percent OASDI payroll tax rate?
- Raise tax on highest earners?
  - Increase taxable maximum amount
  - Some tax on all earnings above the maximum
  - Provide additional benefit credit?
- Tax employer group health insurance premiums?
  - Affects only middle class if taxable maximum remains
- Tax investment income?
  - Or potentially a wealth tax?

Timing for Changes

- Historically, Congress has waited until reserve depletion is imminent
  - Given uncertainties, difficult to lower benefits or raise taxes until necessary
- 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
  - As shown earlier, the date has varied between 2029 and 2042 over the past 34 years

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

- There you will find:
  - The 2024 and all prior OASDI Trustees Reports
  - Detailed single-year tables for recent reports
  - Our estimates for comprehensive proposals and individual provisions
  - Actuarial notes; including replacement rates
  - Actuarial studies
  - Extensive databases
  - Congressional testimonies
  - Presentations by OCACT employees