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American Academy of Actuaries

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Social Security Actuarial Status

The 2024 Annual Report of the Board of Trustees of the OASI and DI Trust Funds
Where We Are, How We Got Here, and Potential Changes

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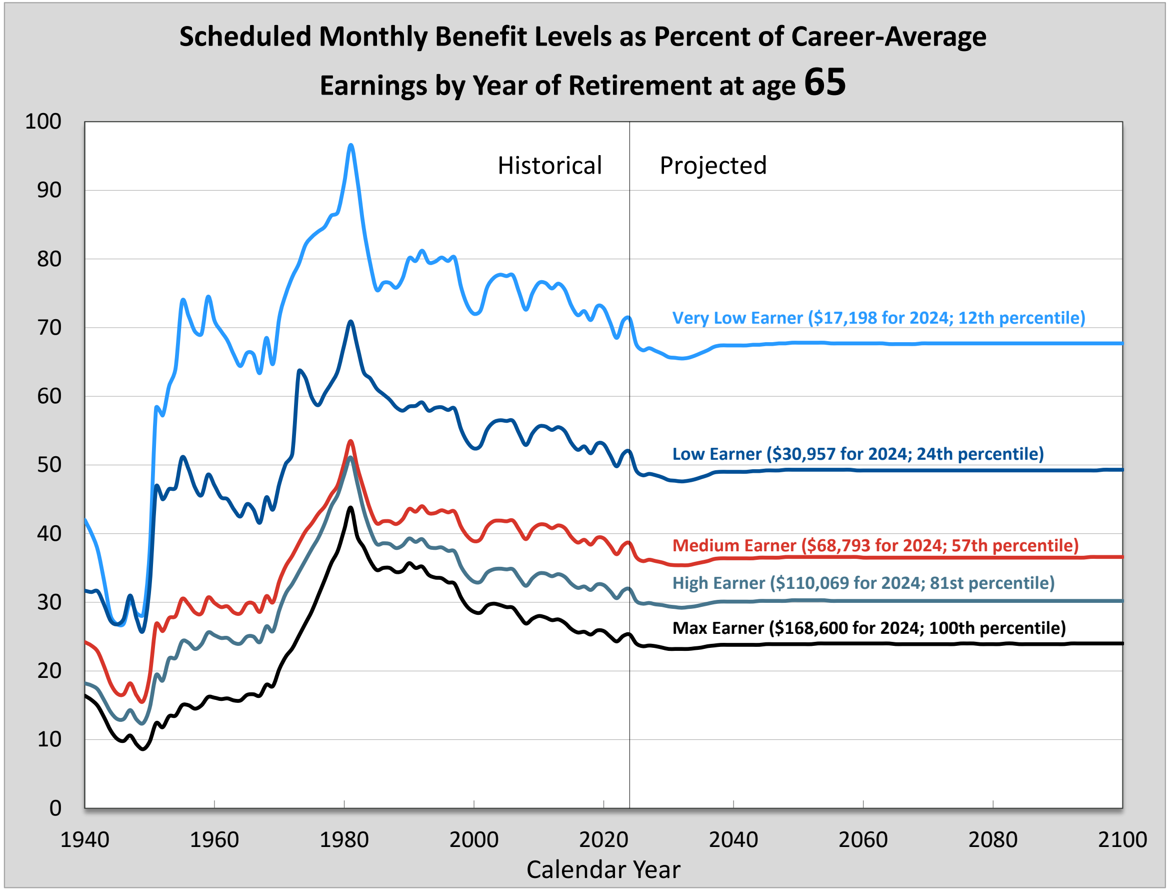
PREPARED BY THE OFFICE OF THE CHIEF ACTUARY, SSA

What Is Social Security Intended to Provide?

- Basic monthly income for insured workers after their retirement, after becoming disabled, and for their survivors after death
- Monthly benefits have been paid timely starting in 1940, without exception
- Note scheduled benefits are NOT “promises,” as they can be changed by the Congress at any time; the same is true for tax contributions
- Virtually all workers are now covered under Social Security

Replacement Rates Based on the 2024 TR

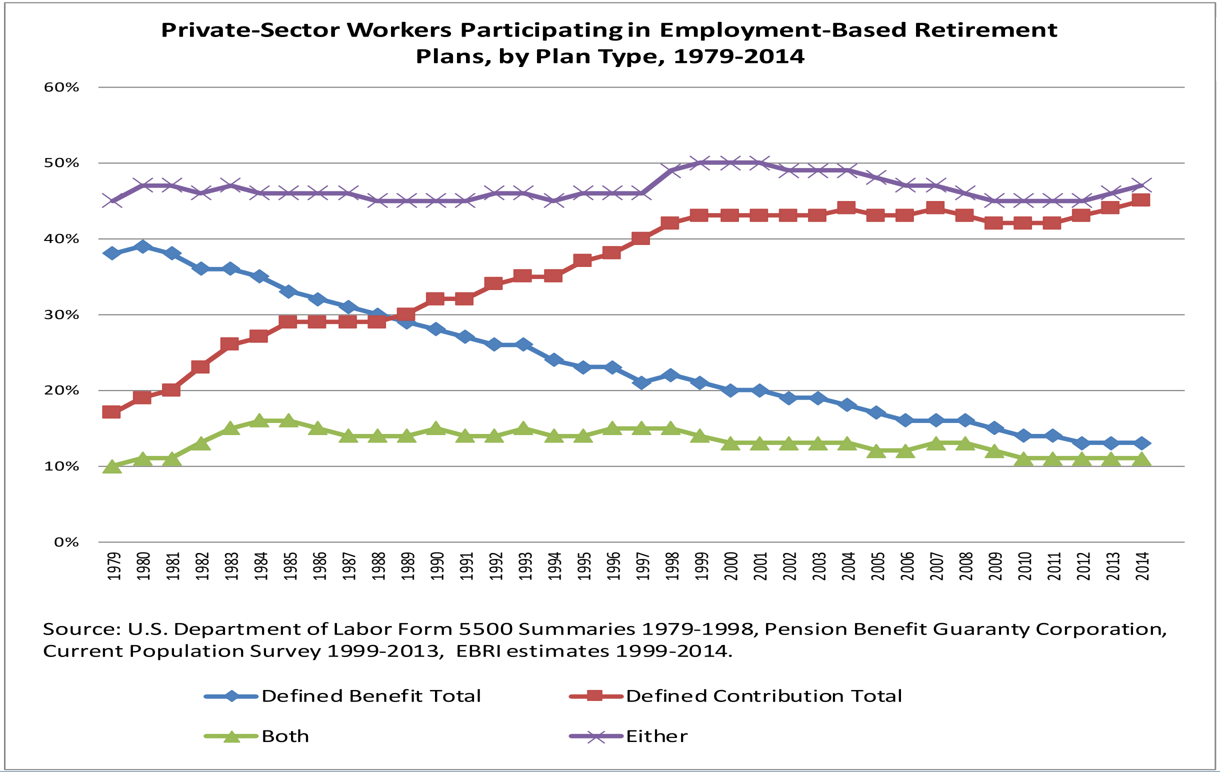
Scheduled in current law, reflecting progressive benefit formula.



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

Defined Benefit Plans Replaced by DC Plans

And lump sum options increasing for DB plans



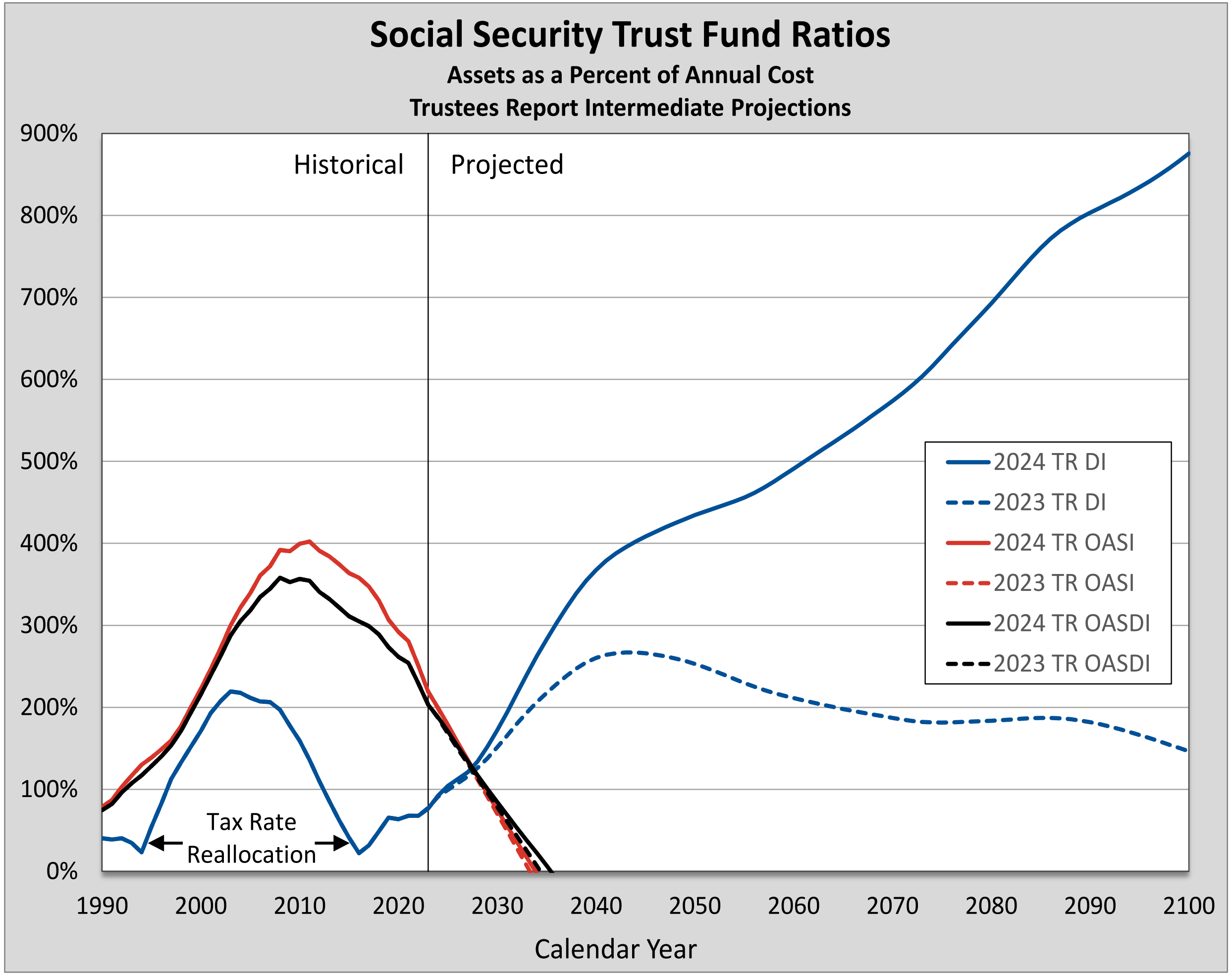
Solvency: OASI+DI Trust Fund Reserve Depletion in 2035

(13 months later than last year)

OASDI reserve depletion date has varied from 2033 to 2035 in reports over the past 13 years (2012–2024) and from 2029 to 2042 in reports over the past 30 years (1995–2024).

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.

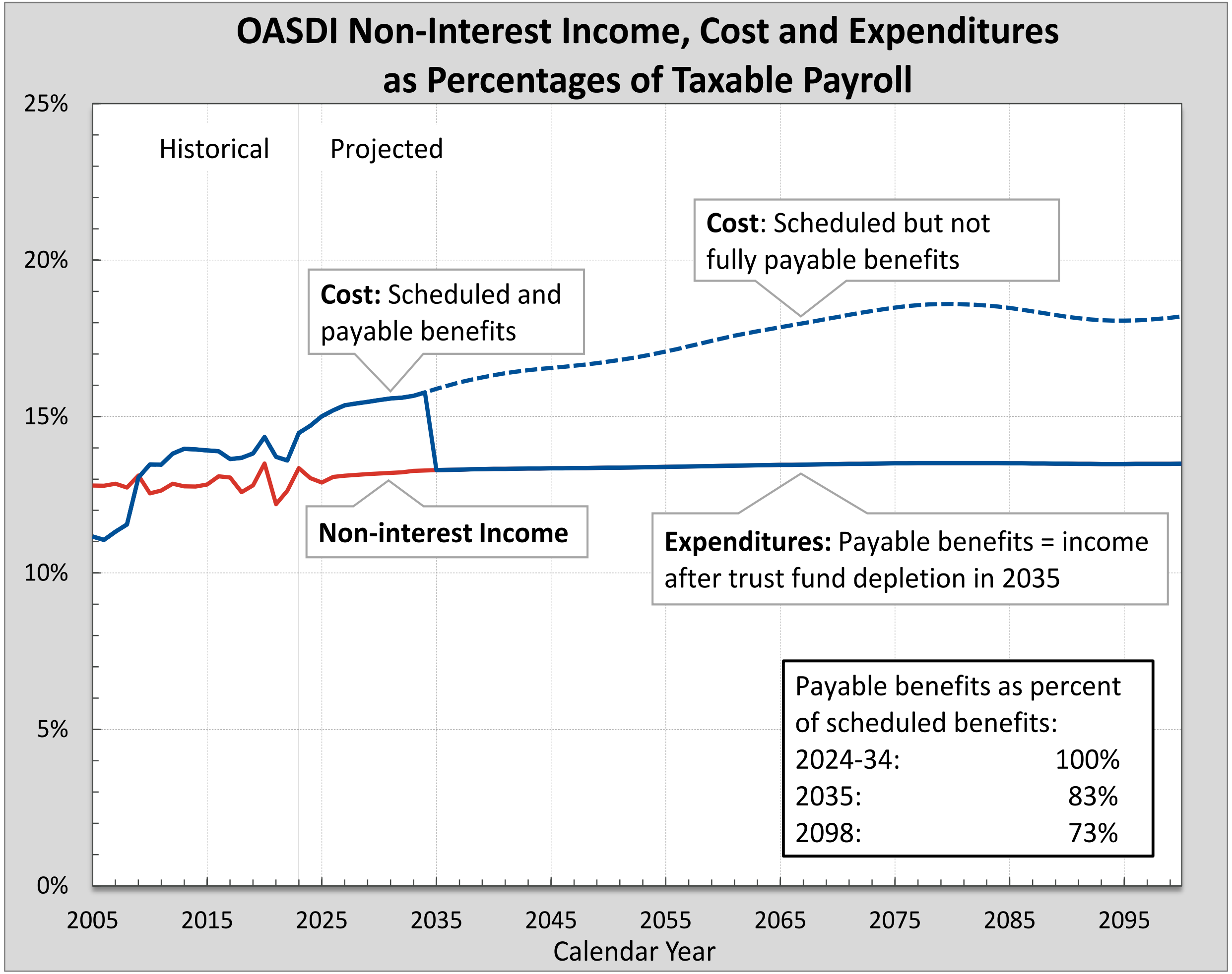


OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Persistent negative annual cash-flow balance starting in 2010.

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

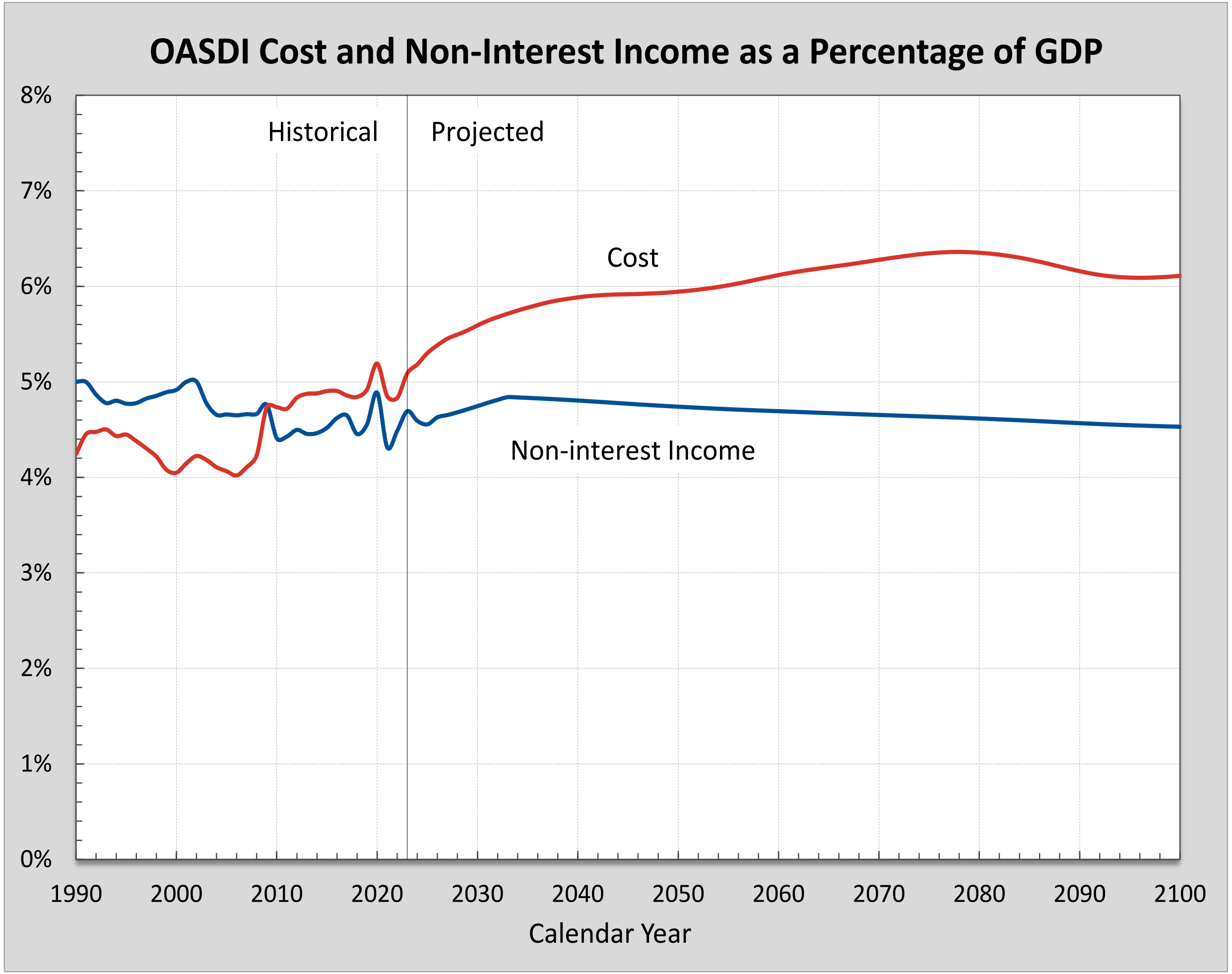
73% payable for 2098: was 74% for 2097 in last year's report.



SUSTAINABILITY: Cost as Percent of GDP

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

Need to close the gap: raise revenue by about 33%, lower cost by about 25%, or some combination.



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?

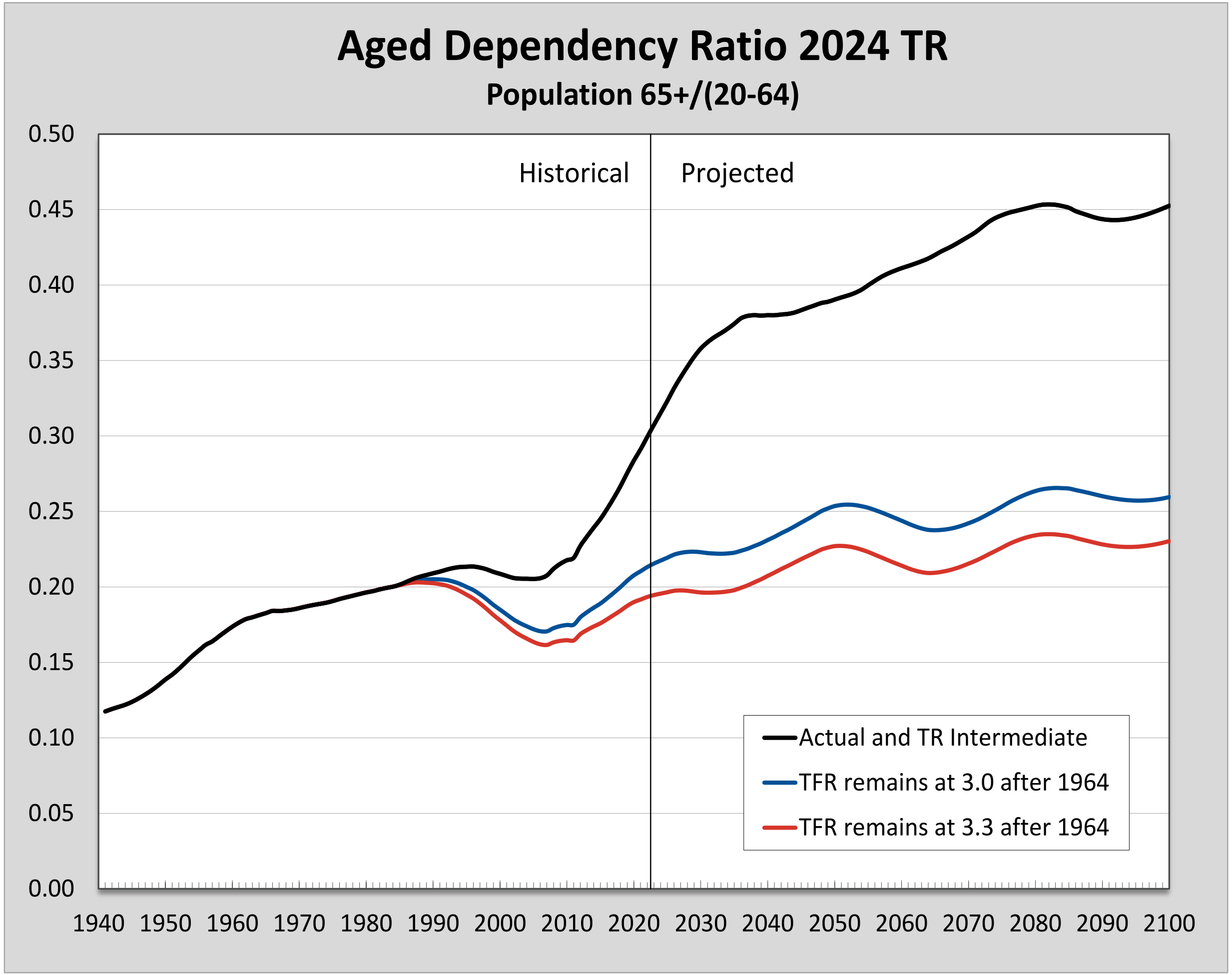
Not due to increased longevity—projected life expectancy at age 65 in the 1983 report was extremely accurate.

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.

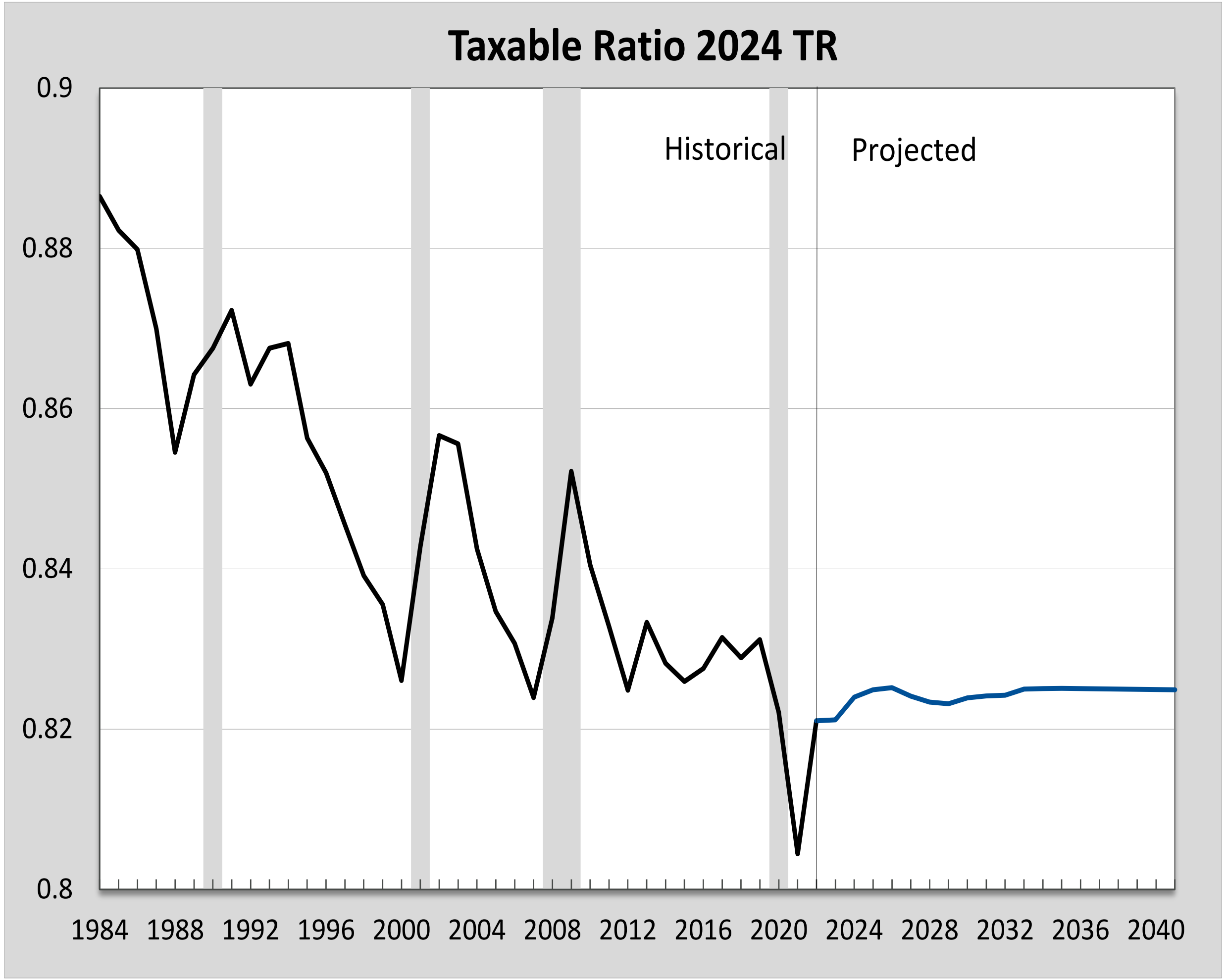


The Main Issue: Drop in Ratio of Taxable Earnings to All OASDI Covered Earnings

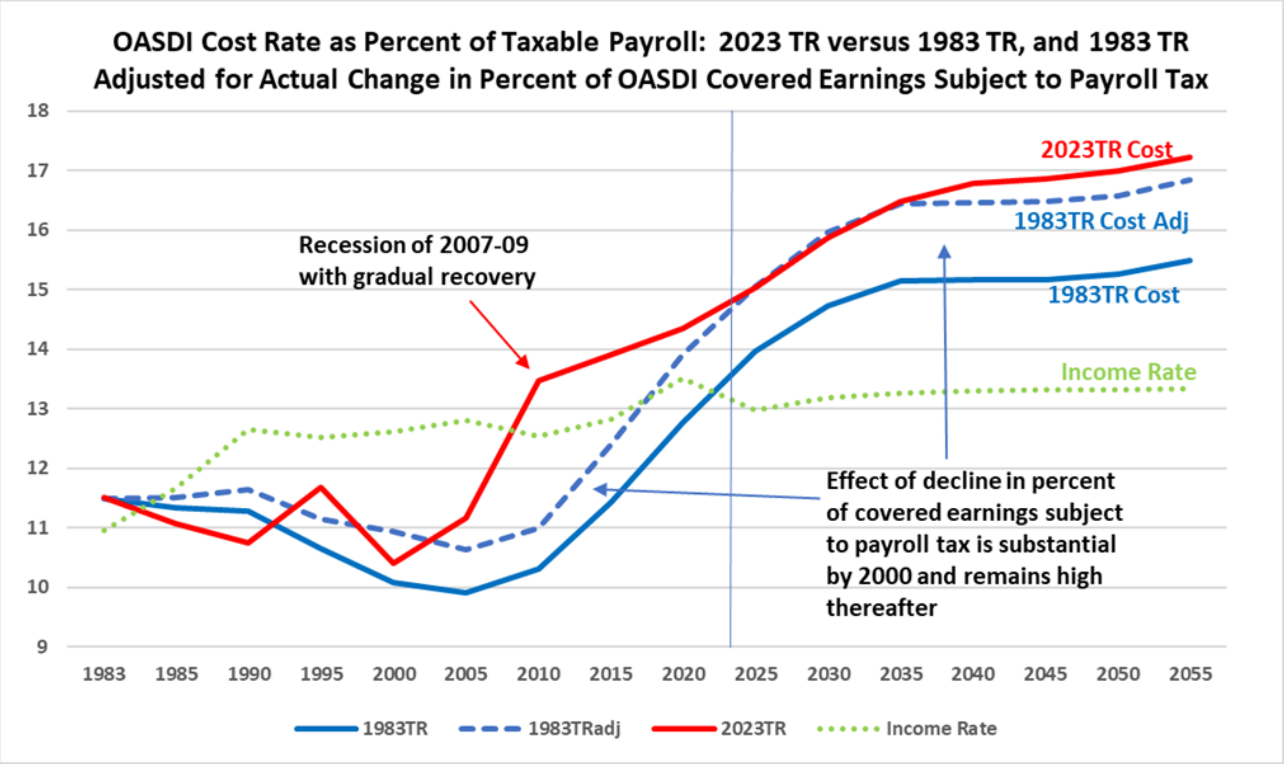
Declined since 1983 due to increasing concentration of earnings at the top of the distribution. Between 1983 and 2000, the average annual earnings for the top 6% of earners rose 62% more than CPI, but only 17% more for the other 94% of earners.

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

This drop was NOT anticipated in 1983.



The Reduced Share of Earnings Subject to Payroll Tax Explains Most of the Increase in Cost as Percent of Payroll, Compared to the 1983 Projection



But the depth of the 2007–09 recession and slow recovery further reduced expected trust fund accumulation through 2019.

“Fixing” the Social Security Financing Shortfall: What Course?

<u>**Facts:**</u>

a) Need to adjust the benefits or revenue given the shift in the age distribution (*note that immigration helps)*

b) By 2035, lower scheduled benefits by 1/4, or raise revenue by 1/3, or some combination

c) Question: What do the American people want?

d) Many options are already under consideration

Some Ways to Lower Cost

- Lower benefits for retirees—not disabled?
  - Increase normal retirement age (lowers OASDI cost, but increases DI cost)
  - Can exempt long-career low earners *(Simpson Bowles 2010)*
- Lower benefits mainly for high earners?
  - Reduce PIA above some level
  - Often combined with increasing PIA below some level, subject to work year requirements
- Lower benefits mainly for the oldest old?
  - Reduce the COLA, using the chain-weighted C-CPI-U
  - But some say increase it with the CPI-E (based on purchases of consumers over age 62)

Some Ways to Increase Revenue

- Raise the 12.4% OASDI payroll tax rate?
- Raise tax on highest earners?
  - Increase taxable maximum amount, to tax 90% of earnings?
  - Or tax earnings above some level, like $400,000
- Take advantage of **returns on investments**
  - Invest trust fund reserves as suggested by Kerrey/Simpson 1995 proposal and Ball in 1994–96 Advisory Council
  - Or tax investment returns as in the 2010 ACA and in many proposals since

A Note on Social Security and the Federal Debt

<u>Facts:</u>

a) OASI, DI, HI Trust Funds do ***not*** add to the debt

b) In fact, these trust funds finance part of the total federal debt

c) These programs ***cannot*** borrow under current law

d) The "budget scoring convention" is inconsistent with the law

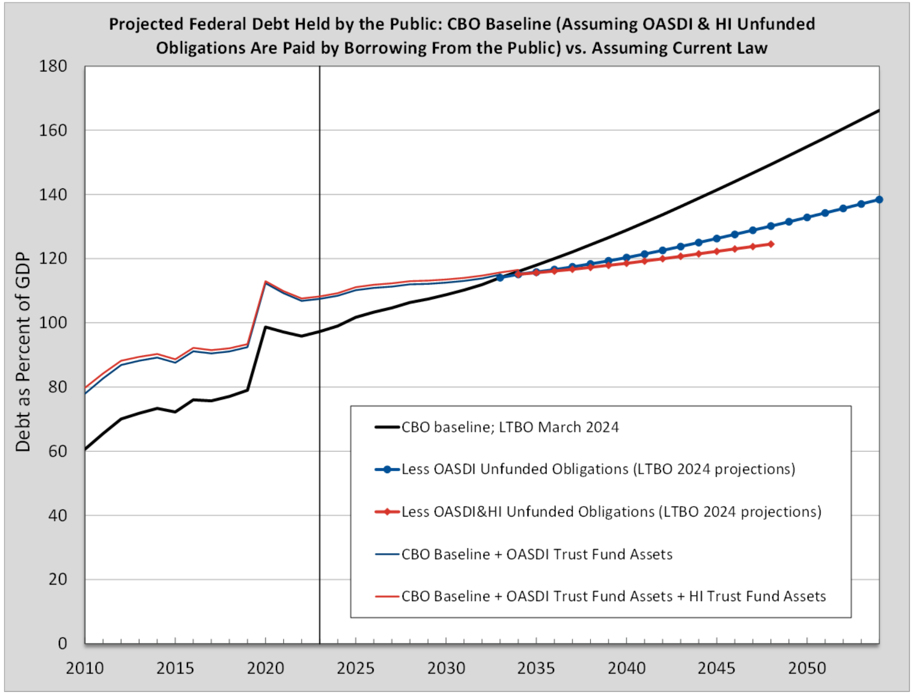
Sec. 257(b)(1) of the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177:

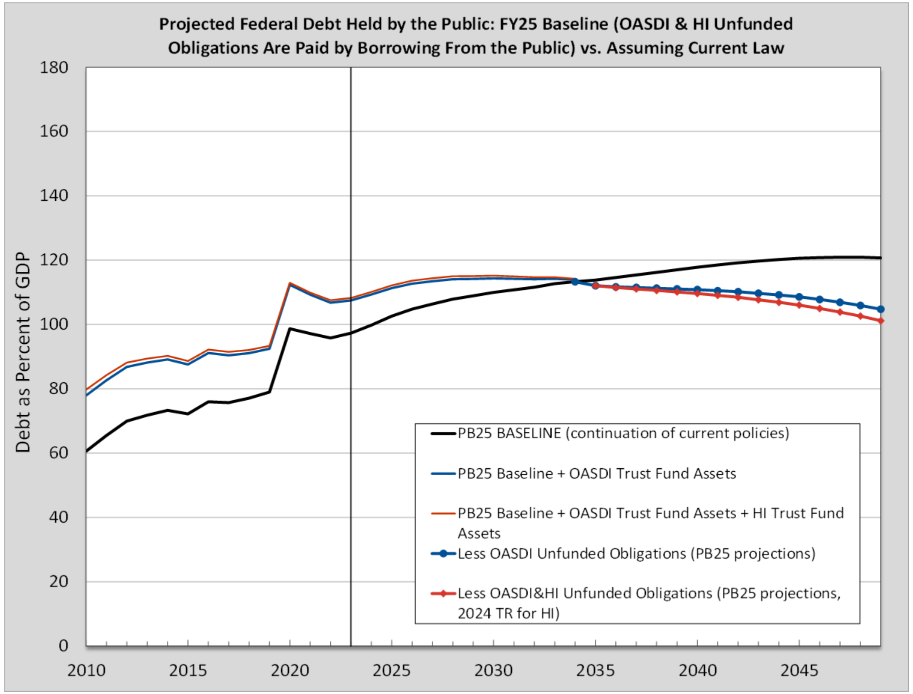
"Laws providing or creating direct spending and receipts are assumed to operate in the manner specified in those laws for each such year and funding for entitlement authority is assumed to be adequate to make all payments required by those laws."

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

What If We Project Federal Debt Consistent With the Law?

CBO and OMB budget baselines assume borrowing Trust Fund from the public versus 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





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

There you will find:

- All OASDI Trustees Reports: 1941–2024
- 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
- Congressional testimonies
- Presentations by OCACT employees