



AMERICAN ACADEMY *of* ACTUARIES

Social Security Reform: What Should the Reform Commission Do?

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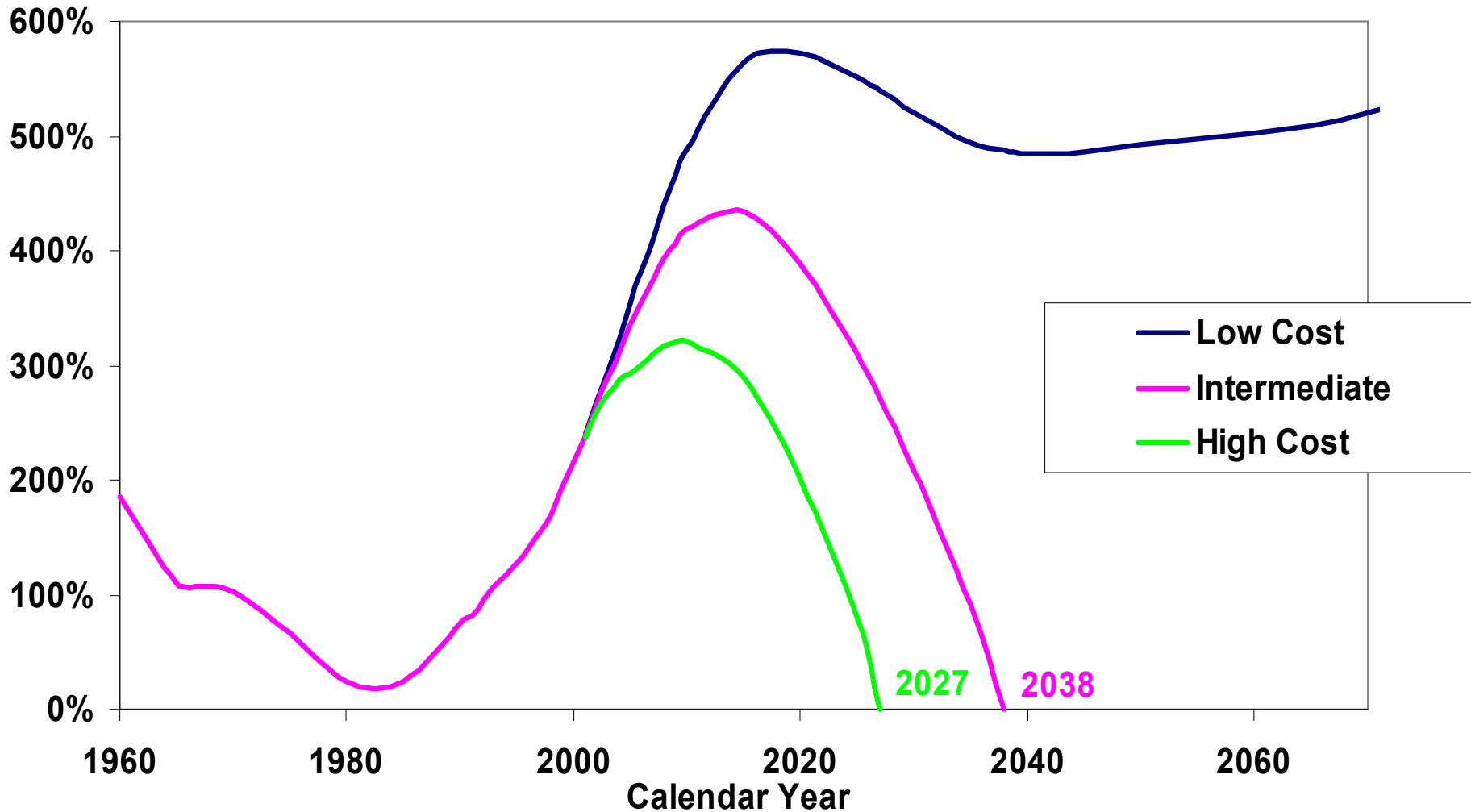
902 Hart Senate Office Building

Washington, DC

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Social Security Trust Fund

(Beginning of Year Assets as a % of Expenditures)

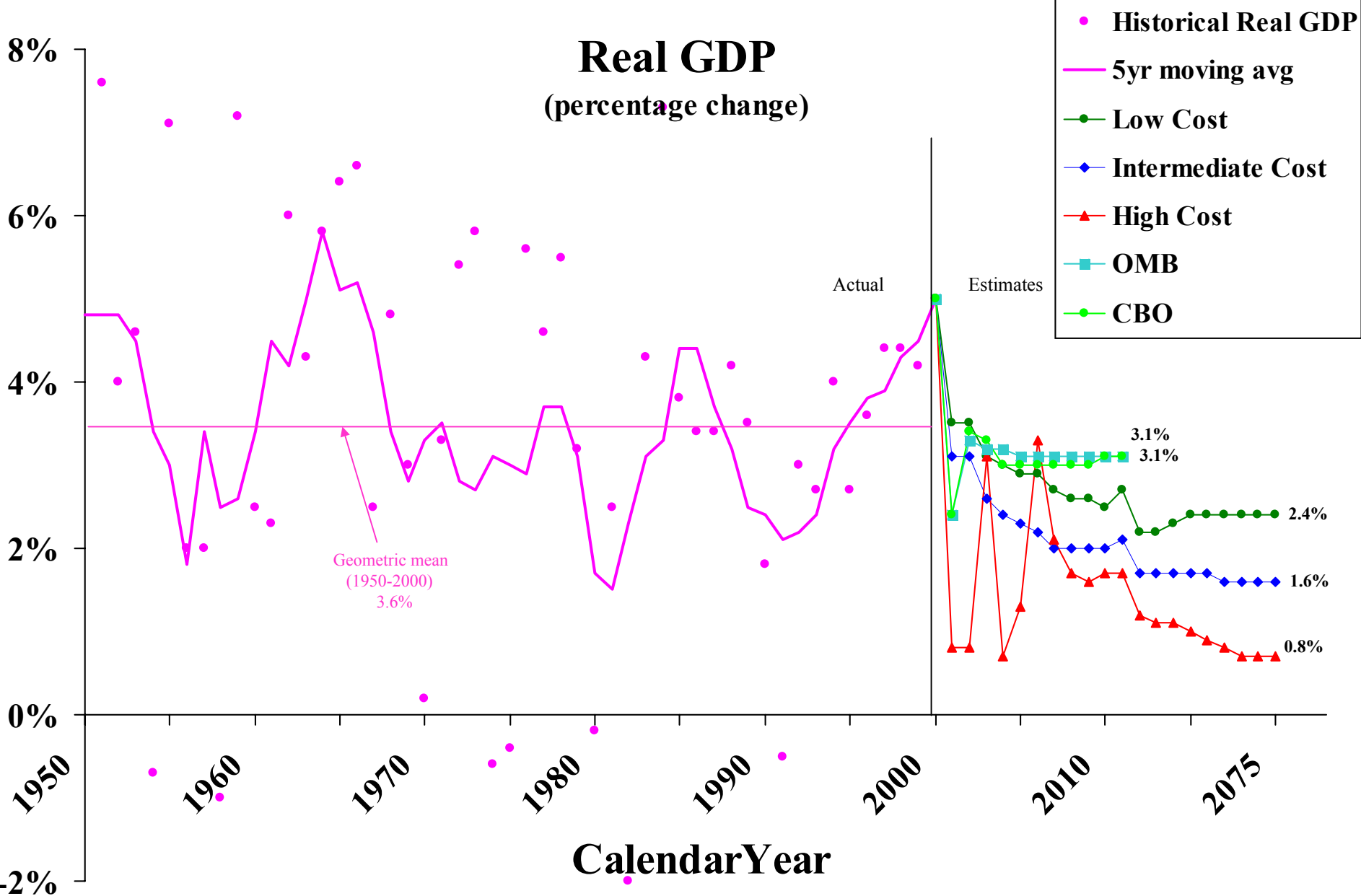


Social Security Trust Funds are projected to be exhausted in 2038 (Intermediate Assumptions).

Reasonable in the aggregate, per Social Security Chief Actuary, 1999 Technical Panel, and GAO/PWC report.

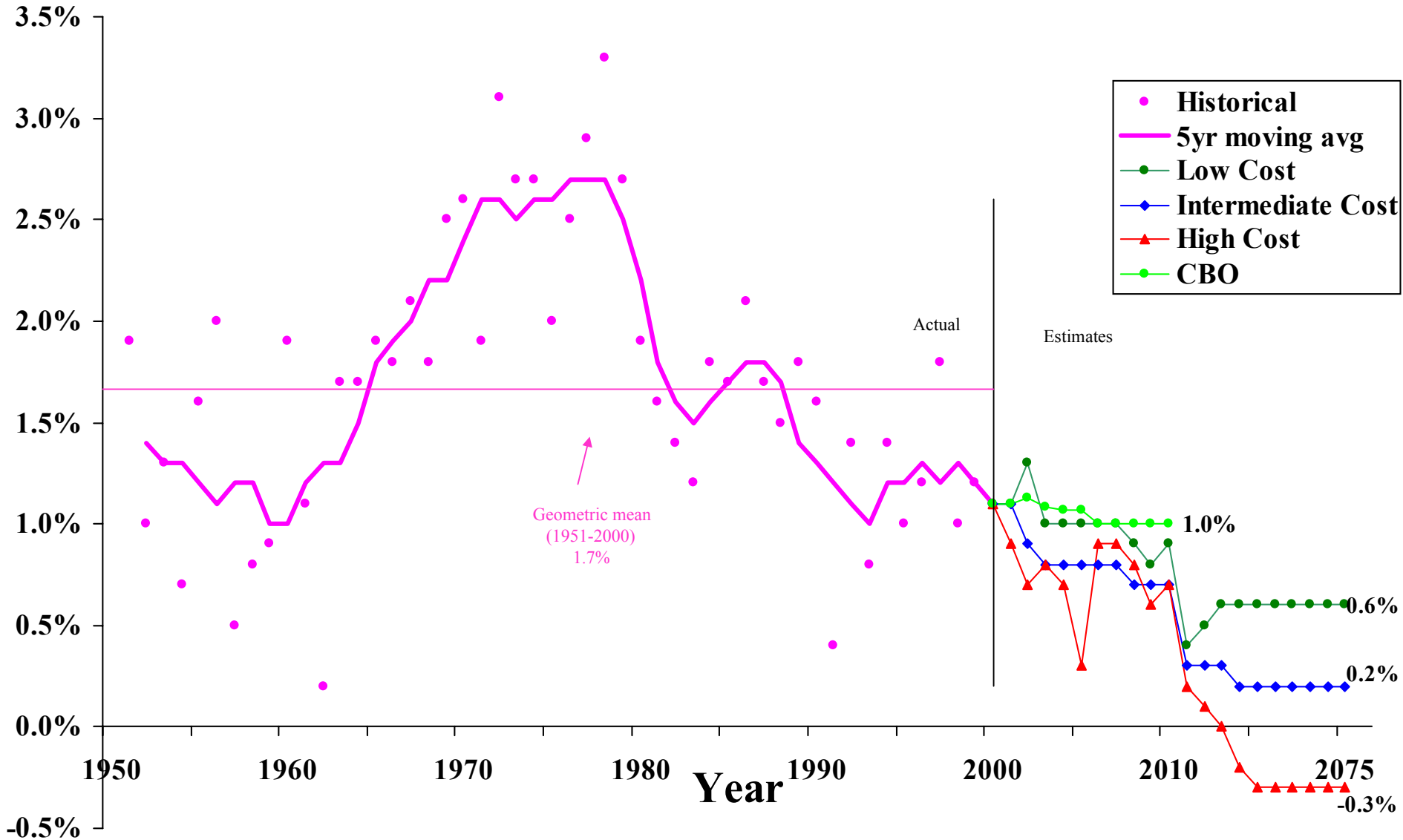
Source: 2001 SSA Trustees' Report: Table IV.B3. Historical Trust Fund Ratios are from VI.A4.

Real GDP (percentage change)



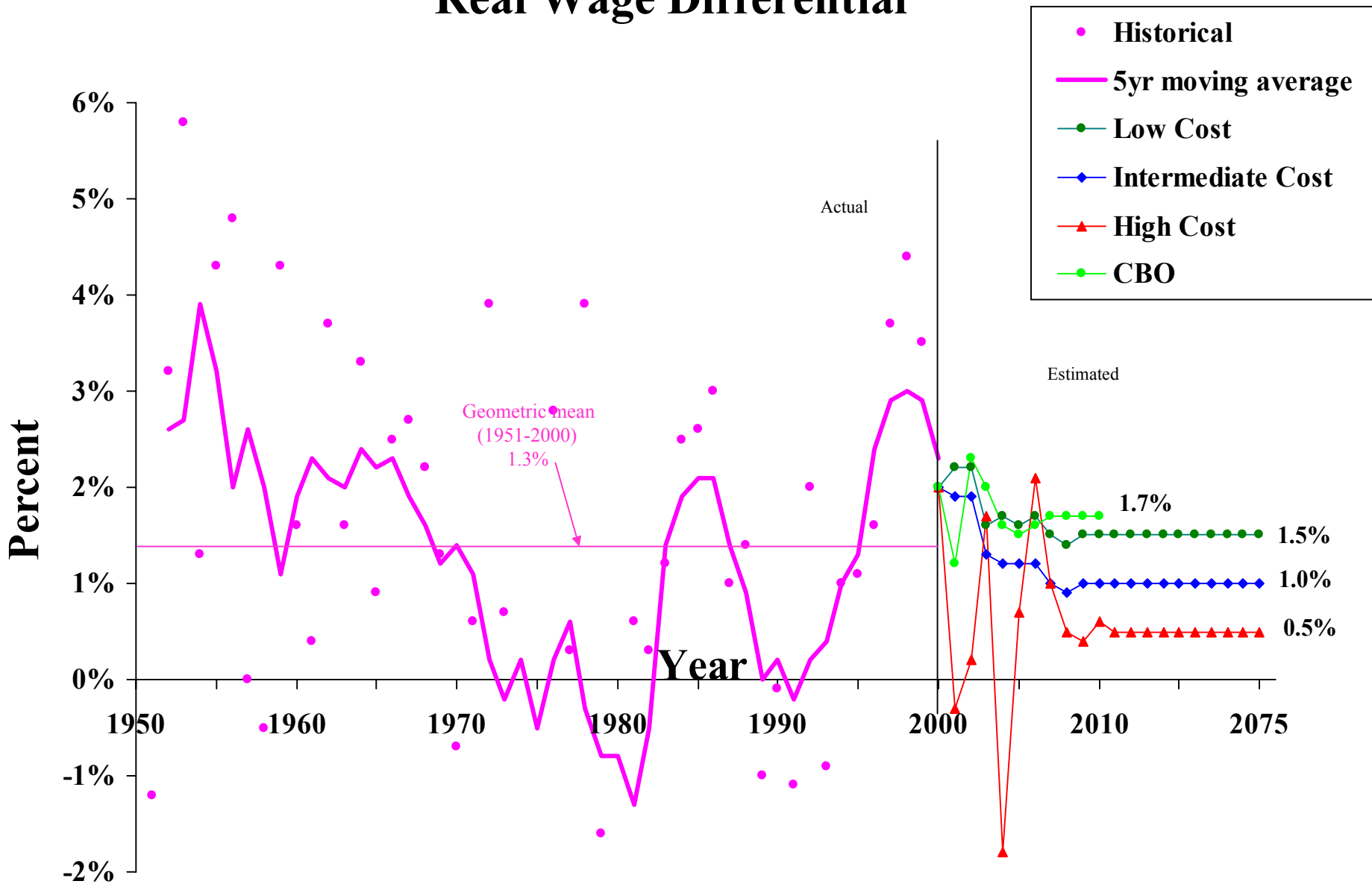
Sources: OASDI Trustees' Report 2001, Table V.B2 (1999 ultimate = 1.2%)
 Bush's 2001 OMB Budget & Jan 2001 CBO Budget and Economic Outlook

Average Annual % Increase in Labor Force



Sources: OASDI Trustees' Report 2001 Table V.B2 (1999 ultimate = 0.1%)
 January 2001 CBO Budget and Economic Outlook (p. 34)
 Some historical data from Bill Piet (410) 965-0168

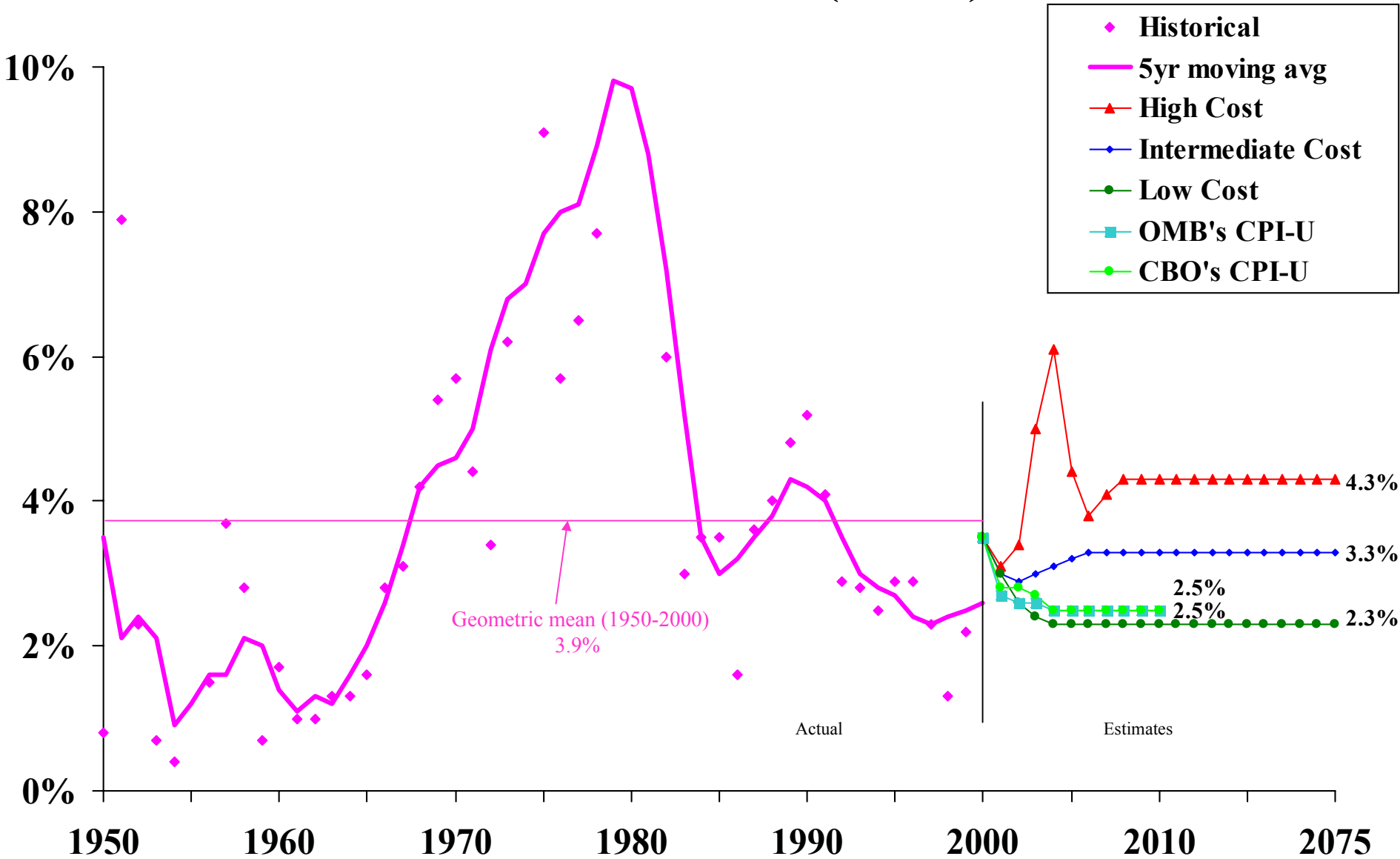
Real Wage Differential



Source: OASDI Trustees' Report 2000, Tables V.B1 (1999 ultimate = 0.9%)

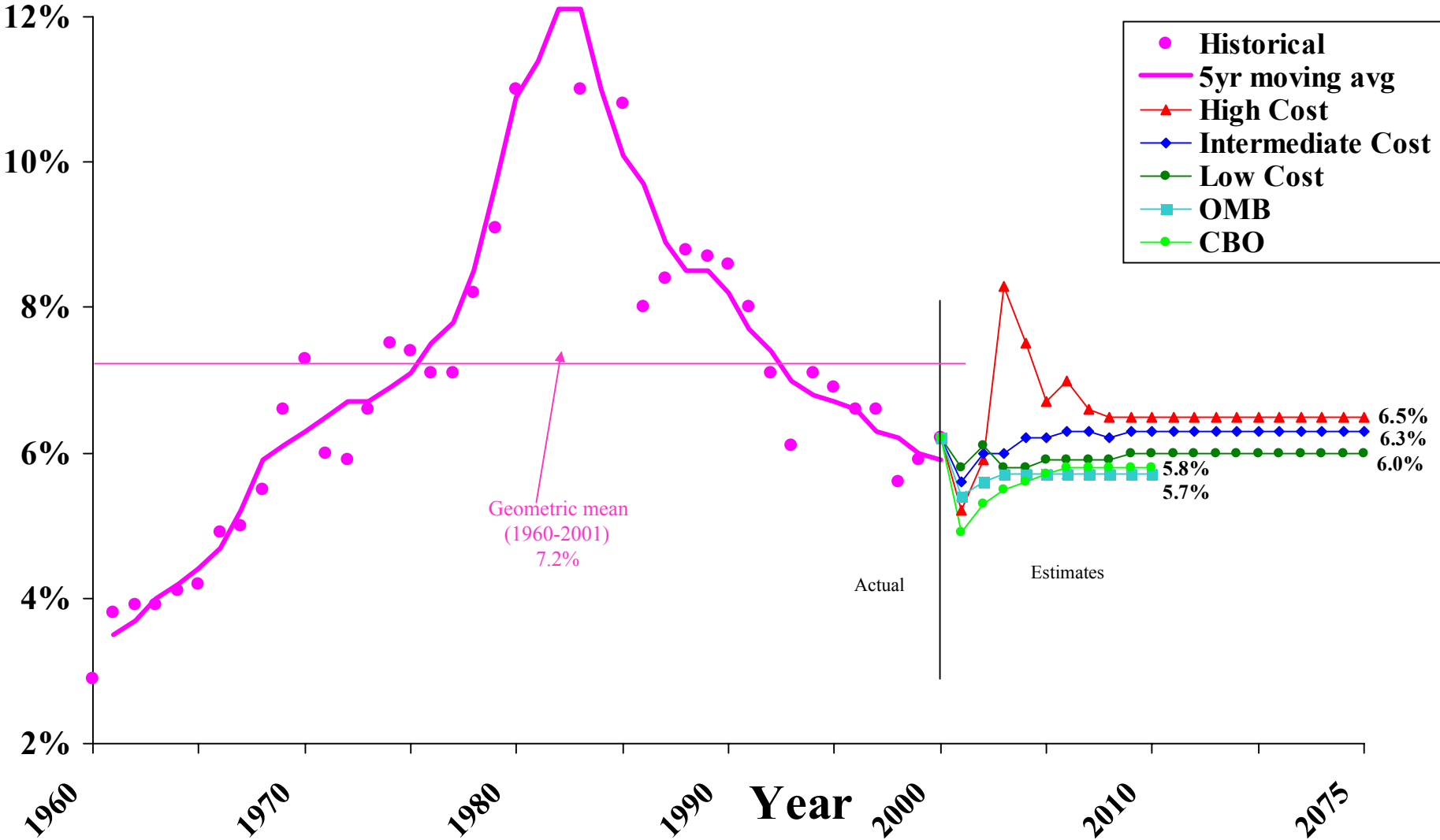
CBO Real Wage Differential = Increase in Real GDP - Increase in Labor Force - Increase in fringe benefits as % of wages

Consumer Price Index (CPI-W)



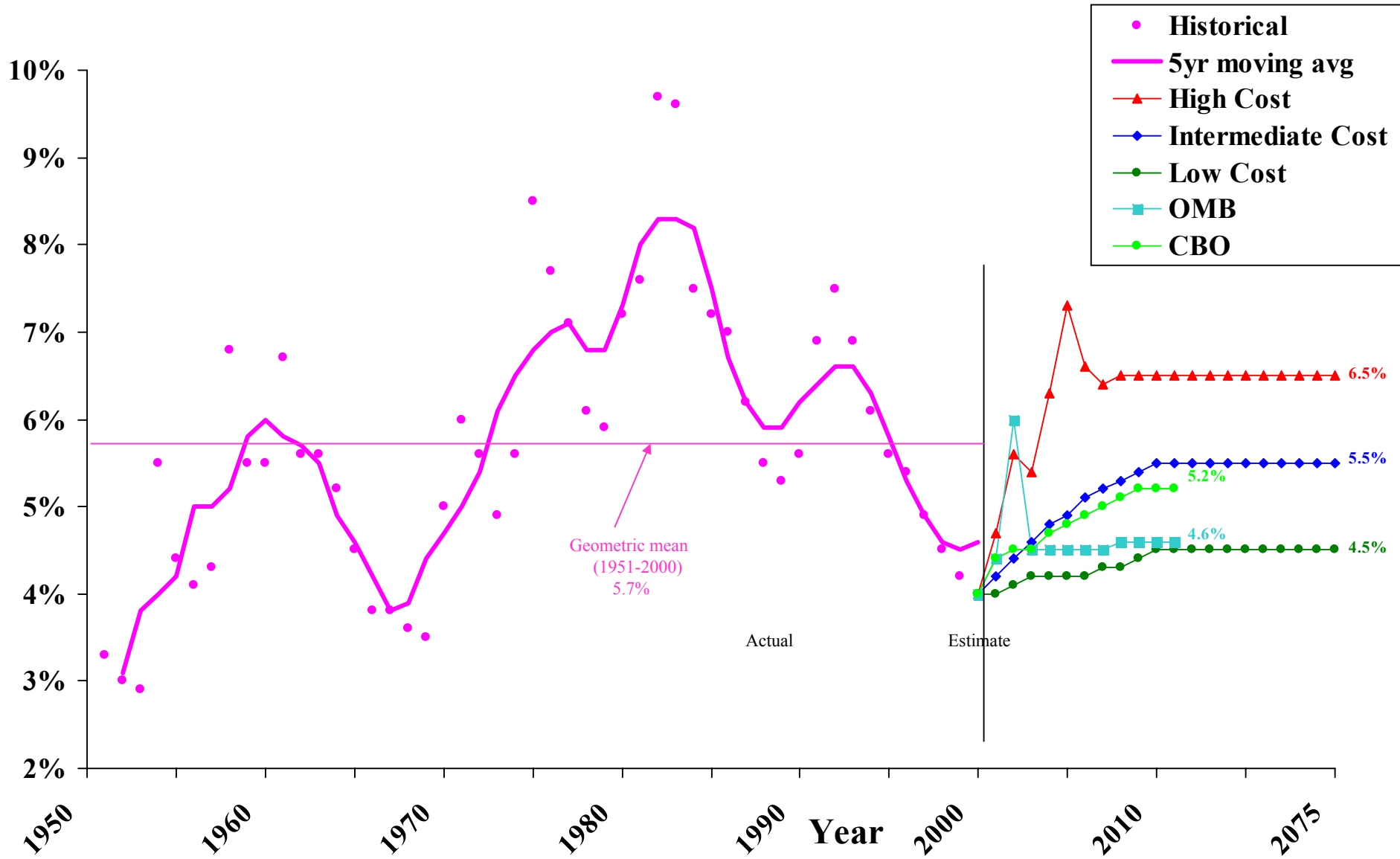
Sources: OASDI Trustees' Report 2001, Table V.B1 (1999 ultimate = 3.3%)
 Bush 2001 OMB Budget Report (p. 199) & CBO Budget and Economic Outlook (p.134)
 Historical CPI-W (Urban Wage Earners and Clerical Workers) can be found at <http://www.bls.gov/cpihome.htm>

Average Annual Interest Rate



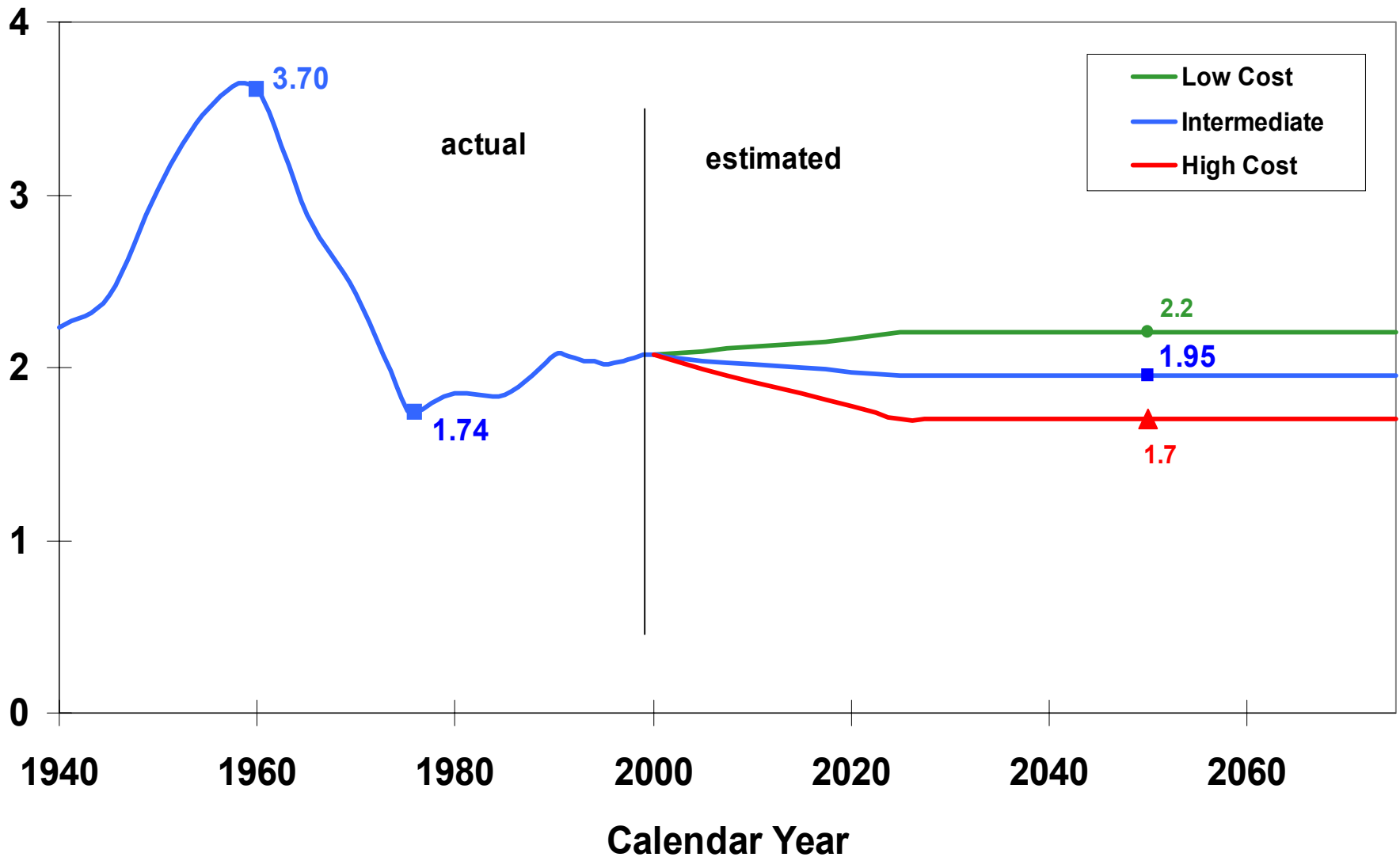
Sources: OASDI Trustees' Report 2001, Table V.B2 (1999 ultimate = 6.3%)
 Bush 2001 OMB Budget Report (p 199) & CBO Budget and Economic Outlook (p 134)

Average Annual Unemployment Rate



Sources: OASDI Trustees' Report 2001 Table V.B2 (1999 ultimate =5.5%)
 Bush 2001 OMB Budget Report (p 199) & CBO Budget and Economic Outlook (p 134)
 Some historical data from Bill Piet at SSA

Fertility Rate



Fertility Rate = avg # of kids born to a woman using data from specified year only (2001 SSA Trustees' Report, Table V.A1).

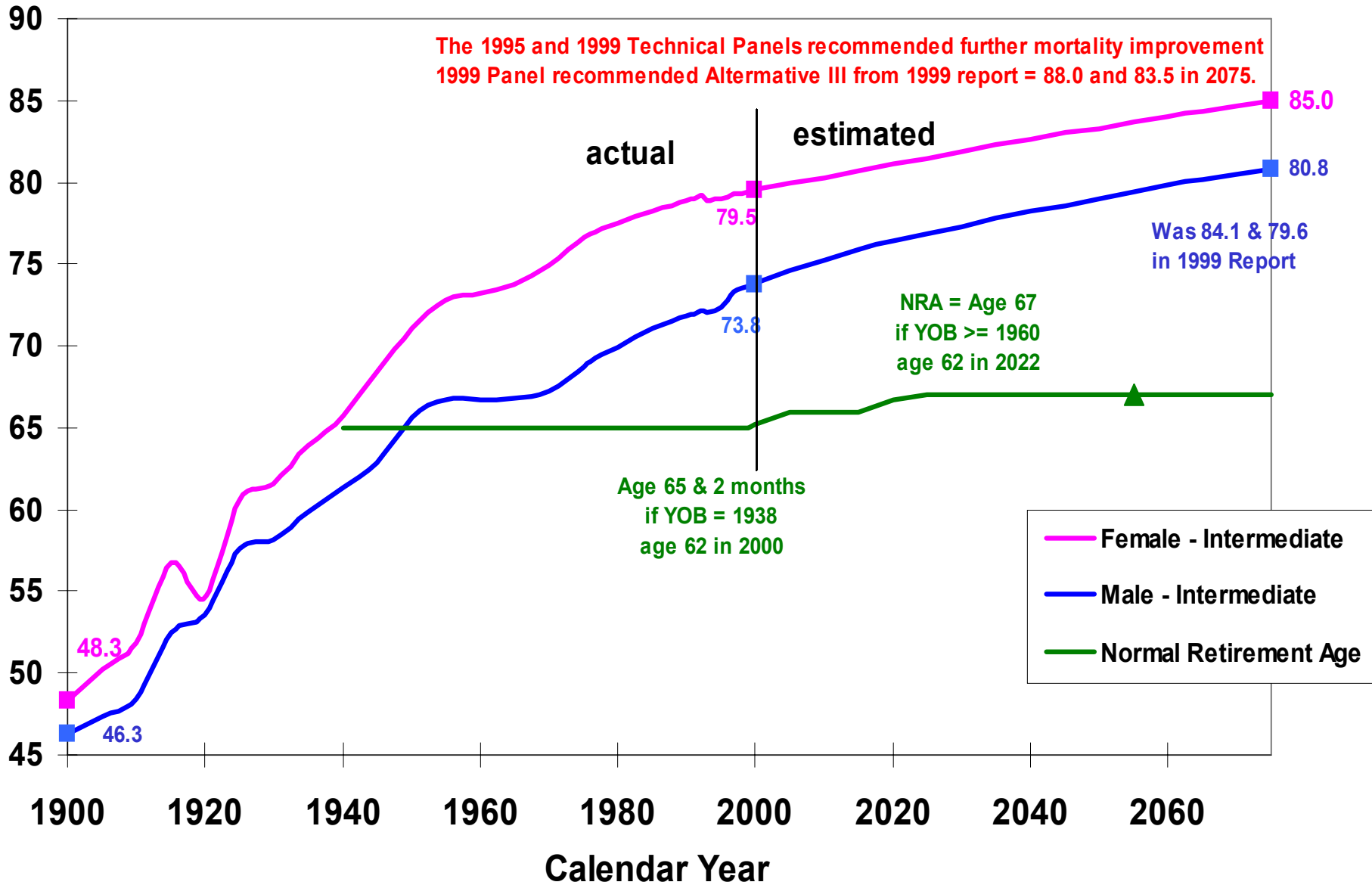
The 1999 Technical Panel said stay with 1.9, while 1995 Panel suggested 1.95 (which offset effects of their mortality improvement suggestion).

Rates for Canada, Europe, OECD countries, are 1.8, 1.6, and 1.8 respectively (World Population Profile).

Rates for Hispanic- and African-Americans are 3.0 and 2.2 respectively (Census Bureau).

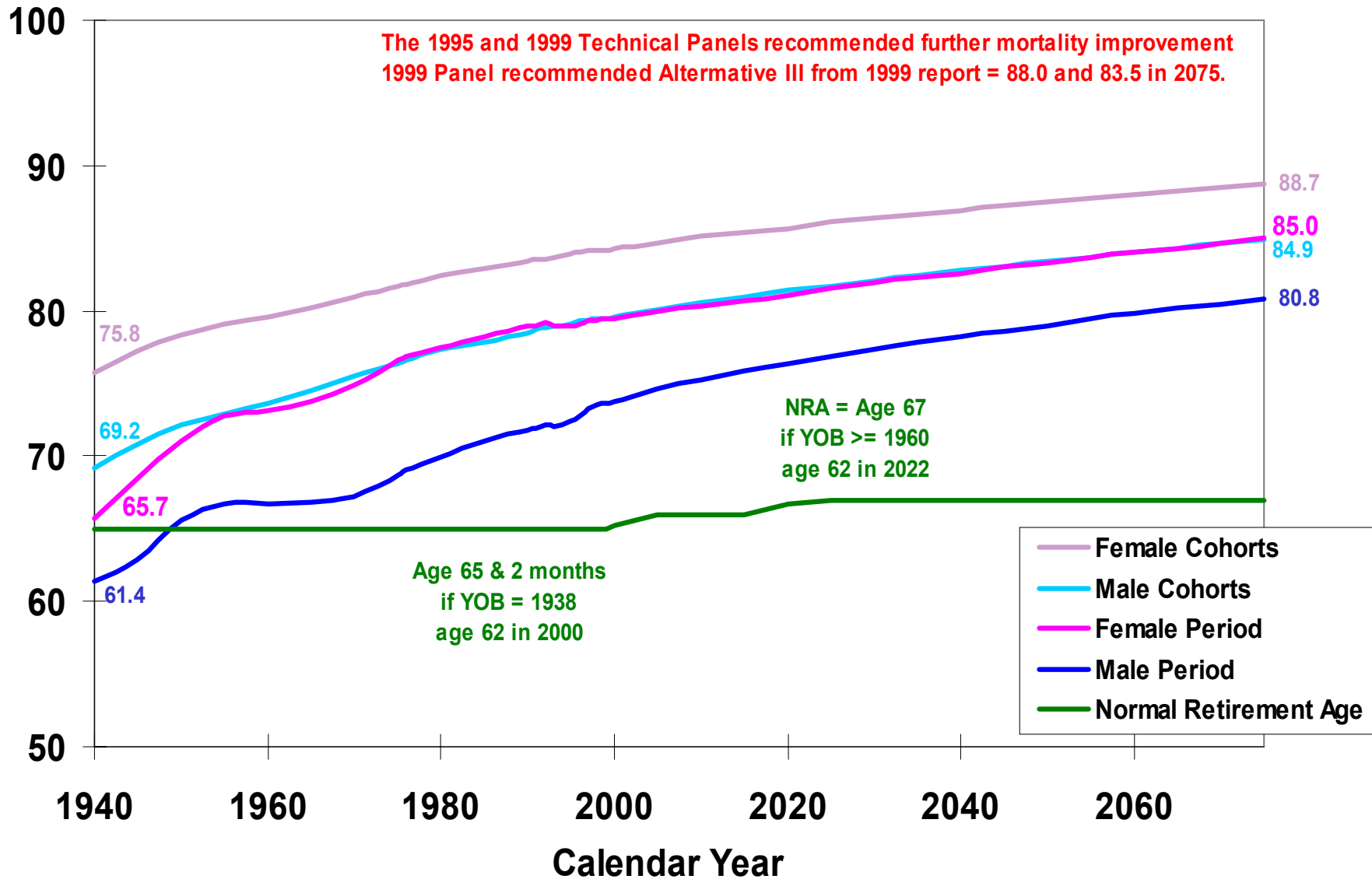
The Trustees assume immigration of 600,000 per year (and 300,000 other than legal).

Period Life Expectancies at Birth



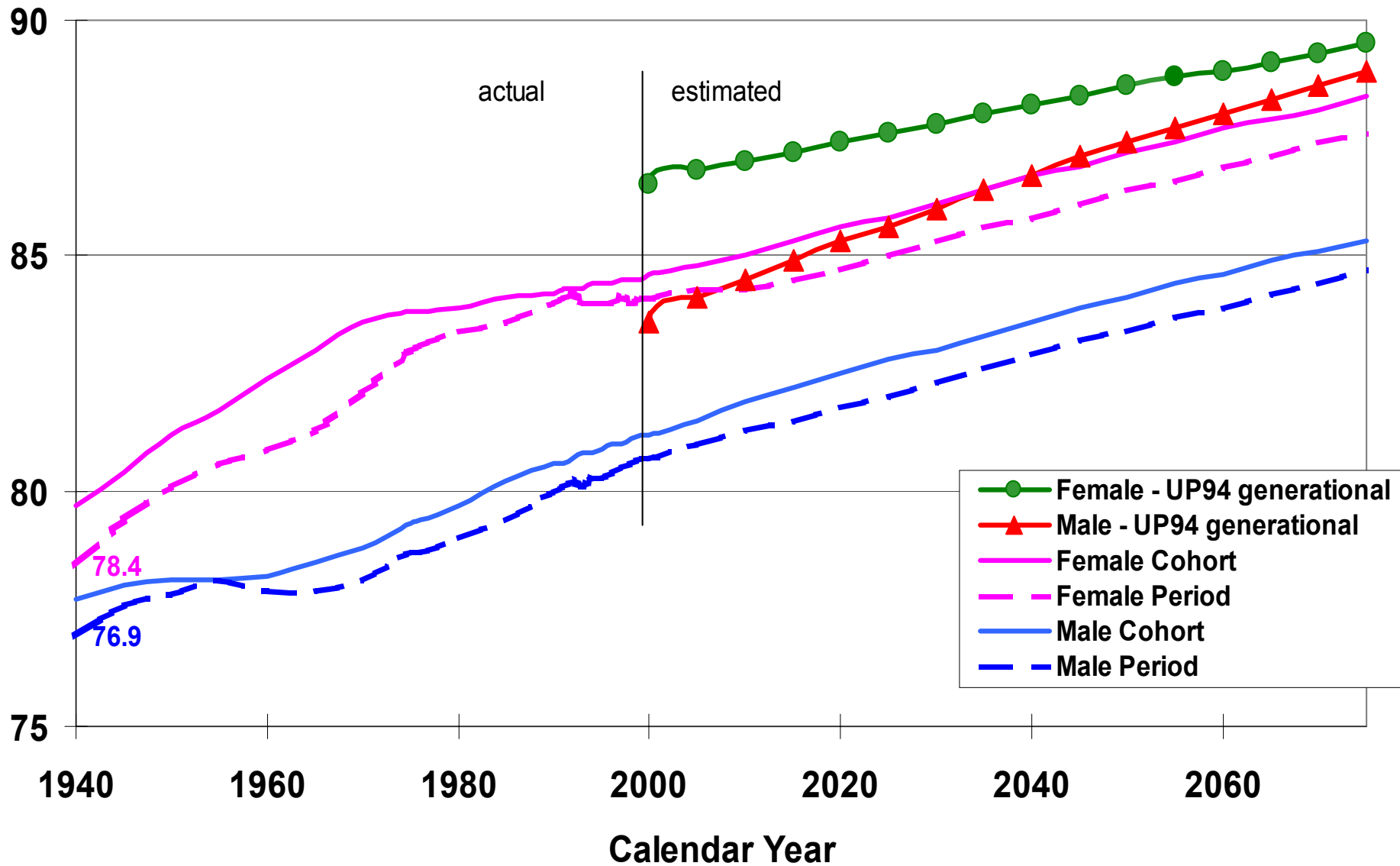
These are period life expectancies, calculated as if the person experienced death rates all from the specified year.¹⁰
 Sources: 2001 SSA Trustees' Report, Table V.A3 and Historical Statistics of the US (pg. 55) from Census Bureau

Period & Cohort Life Expectancies at Birth



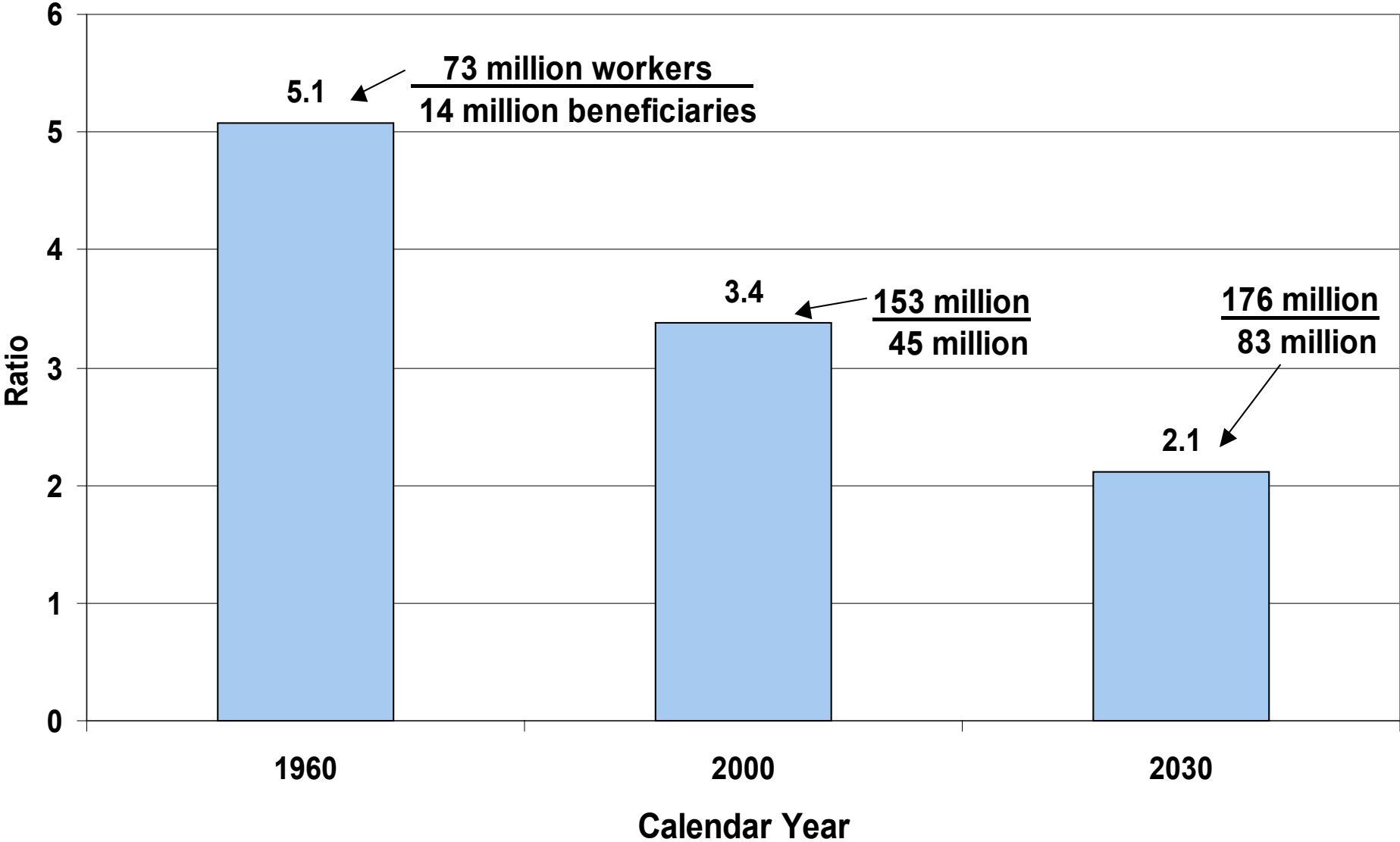
Period life expectancies are calculated as if the person experienced death rates all from the specified year. Cohort life expectancies are based on the actual experience of a cohort of people born in the specified year (with projection using intermeditate assumptions after 2000). Sources: 2001 SSA Trustees' Report, Table V.A3 & 4

Period & Cohort Life Expectancies at Age 65



Source: 2001 SSA Trustees' Report, Table V.A3 (intermediate assumptions)
 UP94 generational life expectancies are based on mortality of employees with pensions

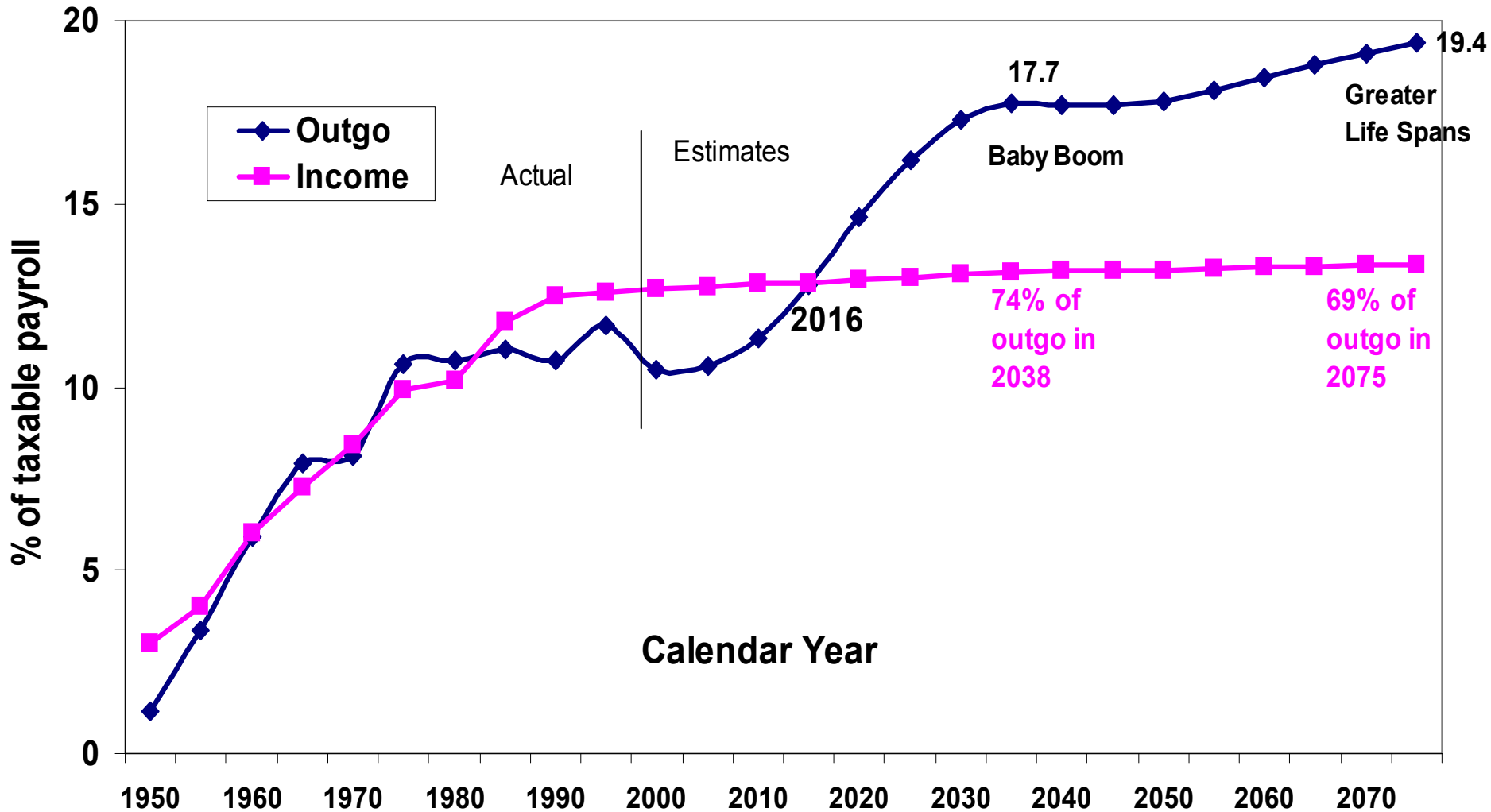
Workers per Beneficiary



The number of workers supporting beneficiaries decreases dramatically due to baby boomers & longer lifespans.
Source: 2001 SSA Trustees' Report, Table IV.B2

Social Security Income & Outgo

Intermediate Assumptions



Source: 2001 SSA trustees report Table IV.B1.

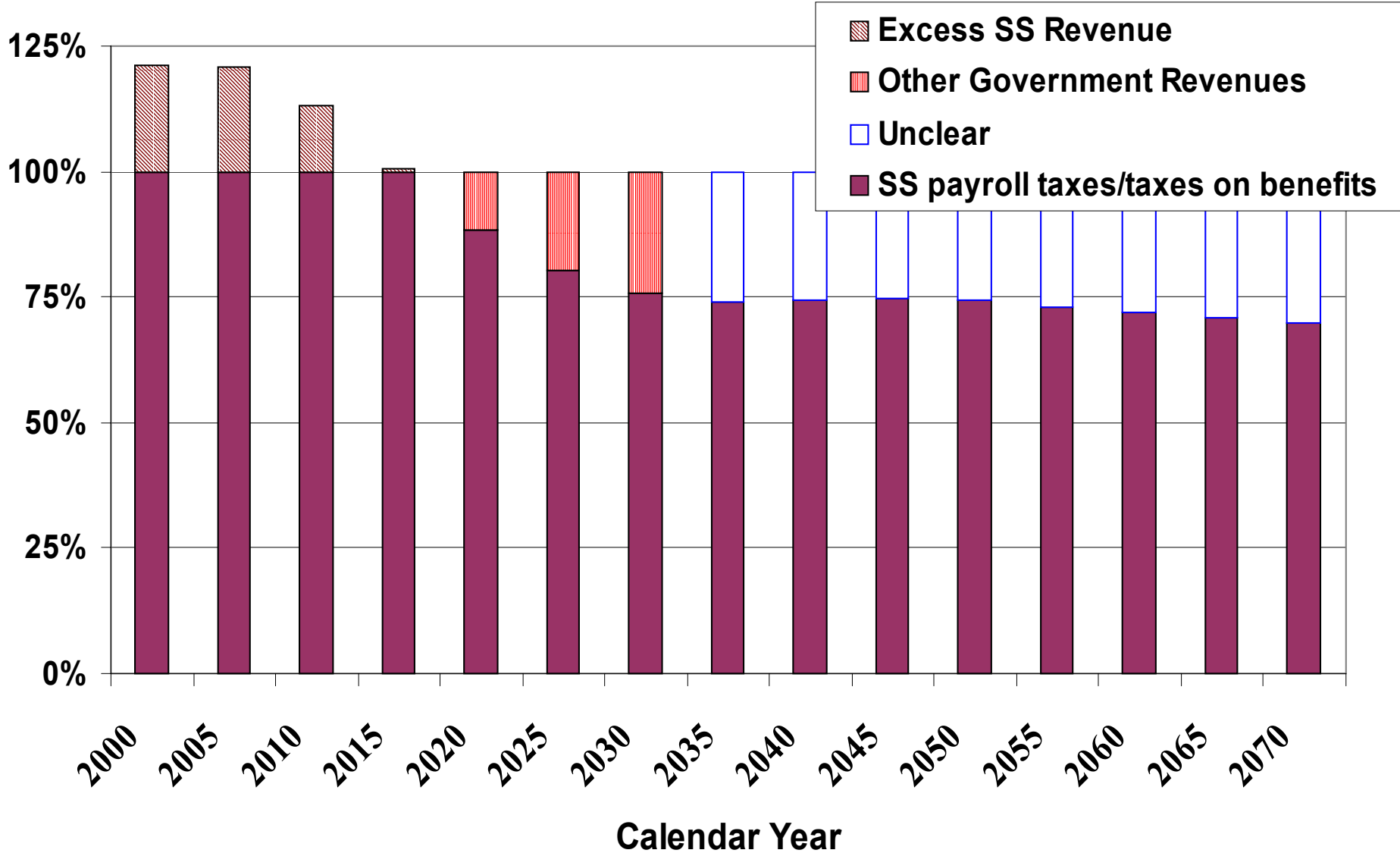
The ultimate outgo under low and high cost assumptions are 14% & 28%.

The 2016 date is 2012 and 2020 under the high and low cost assumptions.

75 yr actuarial balance = -1.86, -4.95, & 0.43 for the intermediate, high, & low cost assumptions, Table IV.B5.

1999 Tech Panel's assumptions increased intermediate 75 yr deficit by 0.5%, a 3% change in total costs.

How Are Social Security Benefits Paid?

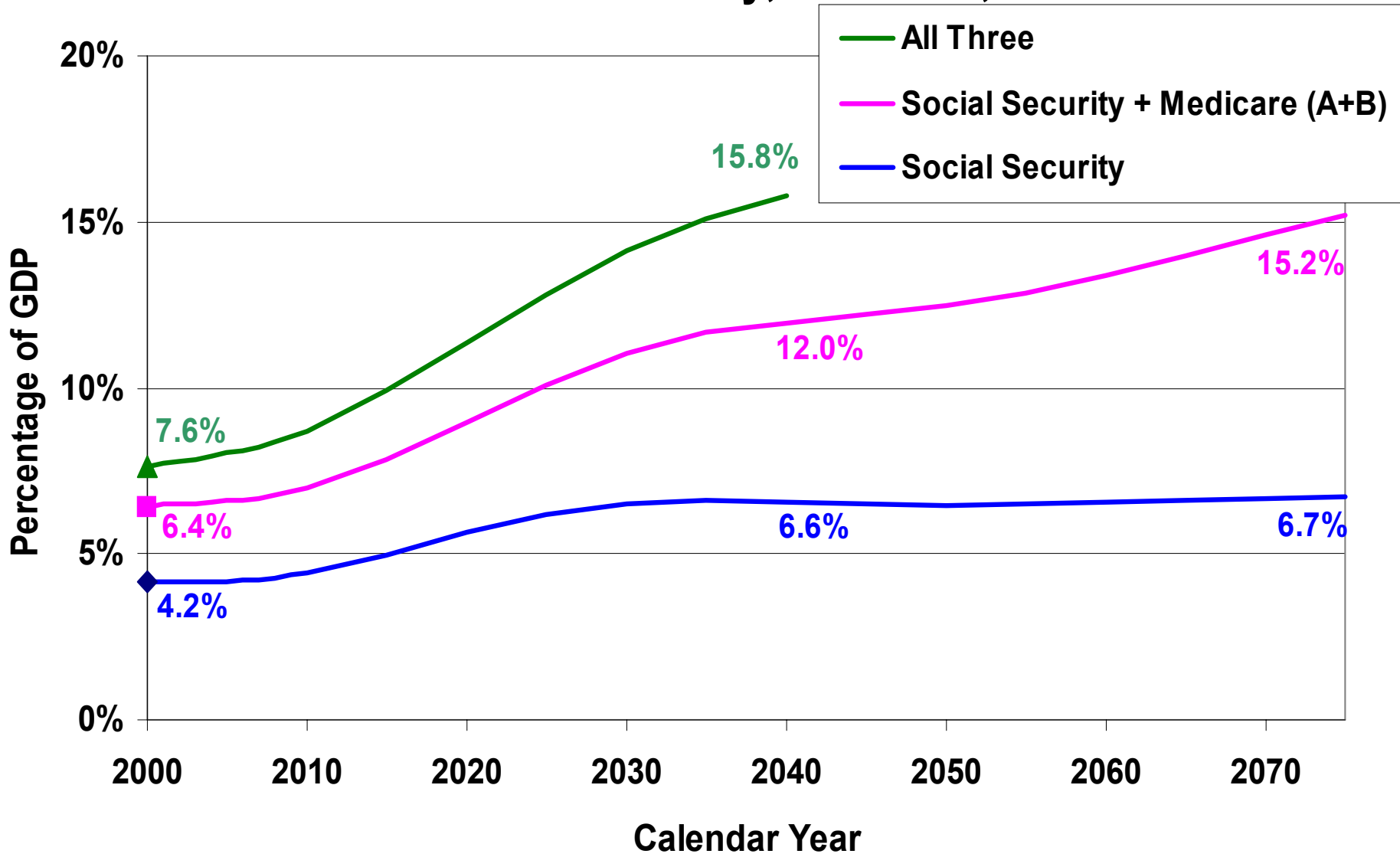


Redeeming SSA's Treasury Bonds requires General Revenue (surplus income taxes or more Deficits)

Future surpluses determined assuming no debt repayment, no tax cuts, no increased gov't programs, and good economy 15

Increased deficits or stock redemption increases borrowing costs

Total Costs of Social Security, Medicare, & Medicaid



Source: 2001 OASDI Table VI.E5, Medicare Table III.B1; Medicaid from CBO 10/2000 long range report. Note that costs more than double (Medicare quadruples).

If Federal Taxes are to remain around 20% of GDP, then other government programs will have to shrink.

Reasons to Reform SS Soon

- Do it while economy is healthy
- More people included in reform
- Reforms are less drastic
- We can phase reforms in
- We can plan ahead for the changes
- We can restore faith in SS and government