American Academy of Actuaries
Essential Elements
Making complex public policy issues clear
MAY 2019

Securing Social Security

Social Security – which provides benefits to about 63 million retirees, survivors of deceased workers, disabled workers, and dependents – is the nation's largest social insurance program. Social Security currently receives more in payroll taxes and interest income than it pays out in benefits, but that will shift as more Americans retire and continue to live longer. The latest Social Security Trustees Report estimates that the surplus assets generated over the past 30 years will be depleted by 2035, at which point only 80 percent of the promised benefits can be paid without a change in the promised benefits or additional financing.

The program's long-term solvency challenge stems from a declining ratio of workers per Social Security beneficiary. Social Security benefits primarily are funded through payroll taxes of 12.4 percent, split evenly between workers and employers. Americans are having fewer children and living longer than in the past, and those trends will be coupled with baby boomers retiring in large numbers over the next 20 years. In short, the U.S. population is changing.

Social Security is supported by two trust funds – the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) funds. The DI trust fund is not projected to be exhausted until 2052, according to the latest trustees report. The OASI trust fund that pays benefits to retirees and their dependents will run out of surplus assets in 2034. The combined OASDI trust fund totaled $2.9 trillion at the end of 2018 and now faces large annual withdrawals until depleted in 2035.

Options to provide adequate long-term financing for Social Security involve revenue increases, benefit cuts, or some combination of both. Here are several approaches.

Raising payroll taxes or increasing/eliminating its cap

Today, workers and employers each contribute payroll taxes of 6.2 percent that fund Social Security. Some have called for raising that rate to 7.5 percent or some other level. Additionally, the payroll tax is capped at a maximum income amount – $132,900 in 2019 – and some have proposed lifting the maximum cap to $250,000 annually, other levels, or eliminating it entirely to raise additional revenues for Social Security.

Increasing Social Security income taxes

Social Security benefits are partially taxed on a sliding scale for singles with incomes currently above $25,000 annually and married couples with incomes above $32,000. The taxable per-

SOCIAL SECURITY AT A GLANCE IN 2018

Beneficiaries:
- 47 million retired workers and dependents
- 6 million survivors of deceased workers
- 10 million disabled workers and dependents

Payroll taxpayers:
176 million

Expenditures:
$1 trillion

Income:
- $920 billion from payroll taxes and other income
- $83 billion in interest earnings

Trust fund assets:
$2.9 trillion

Projected trust fund depletion date:
2035

Source: 2019 Social Security Trustees report

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centage on Social Security benefits is capped at 85 percent for the top-earning retirees.

Lowering COLAs

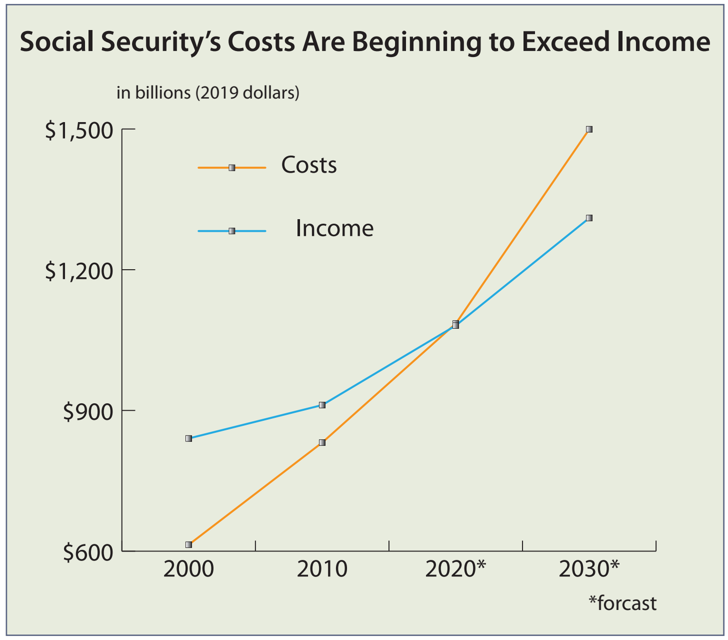
The cost-of-living adjustment (COLA) for Social Security beneficiaries is based on increases in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Switching to a different inflation benchmark could slow annual COLA increases to beneficiaries. Beneficiaries would receive slightly smaller benefit increases in their early retirement years but experience larger cuts in their benefits over many years as those reductions compounded.

Reducing benefits to wealthier retirees

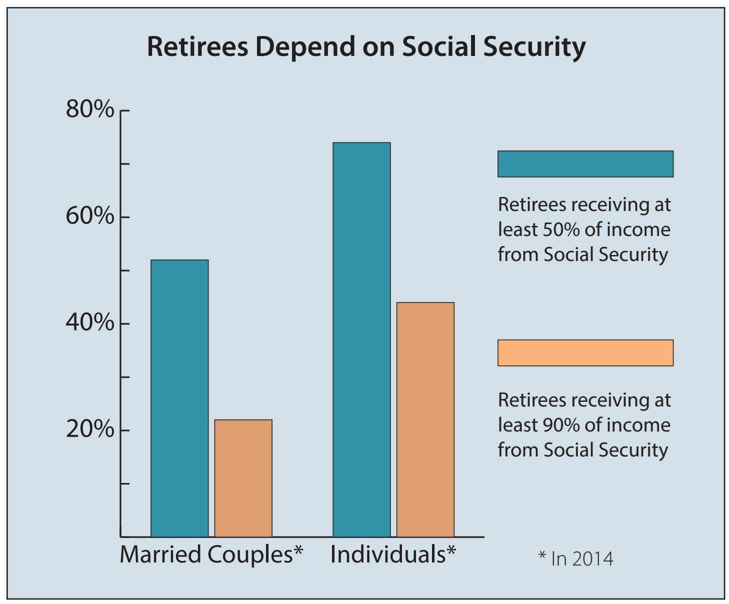
Some have proposed cutting or eliminating altogether Social Security benefits for higher-income beneficiaries. Supporters say that this program should not be used to aid those who are not in financial need, since Social Security faces long-term financial challenges. Opponents argue that eliminating benefits for wealthier individuals would be unfair since they contributed and had been promised retirement benefits like everyone else.

Raising the full retirement age further

When Social Security began paying benefits in 1940, workers could receive full retirement benefits at age 65. The law was changed in 1983 to raise gradually the full retirement age to 67 to recognize the increase in Americans' lifespans. The American Academy of Actuaries supports raising the full retirement age further as one part of a solution to restore Social Security's long-term financial health. Additionally, the early-retirement age of 62 could be increased.



Source: 2019 Social Security Trustees Report



Source: Social Security Administration

Conclusion

While Social Security is not in imminent financial danger, the program does face long-term financial viability challenges unless changes are made. Smaller adjustments adopted soon could help avoid more drastic options required later to maintain the program's fiscal integrity. The Academy believes that the time has come for the United States to address Social Security's long-term financial soundness.

Additional Resources from the American Academy of Actuaries

Making Issues Count: Social Security (2018)
https://www.election2018.actuary.org/social-security

Social Security — Automatic Adjustments (2018)
http://www.actuary.org/files/publications/SS_Automat_Adj_IB_05042018.pdf

An Actuarial Perspective on the 2017 Social Security Trustees Report (2018)
https://www.actuary.org/sites/default/files/files/publications/IB.SocSecTrustees.2018.pdf

Social Security Reform Options issue brief (March 2014)
http://www.actuary.org/files/Soc-Sec-Reform-Options_Monograph_03-03-2014.pdf

Raising the Retirement Age for Social Security issue brief (October 2010)
http://www.actuary.org/files/Social_Sec_Retirement_Age_IB_October-2010.pdf