American Academy *of* Actuaries

Annual Meeting and Public Policy Forum 2020

November 5-6

Social Security—Reinforcing the Foundation of U.S. Retirement in a Time of Uncertainty

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Today's speakers:

Moderator

- **Ron Gebhardtsbauer**, MAAA, FSA
  Chairperson, Academy Social Security Committee

Presenters

- **Karen Glenn**, MAAA, FSA, EA
  Deputy Chief Actuary
  Social Security Administration
- **Tom Klouda**
  Senior Domestic Policy Advisor
  Committee on Finance, United States Senate
- **Amy Shuart**
  Republican Staff Director, Subcommittee on Social Security
  Committee on Ways & Means
  U.S. House of Representatives

Social Security Actuarial Status

The 2020 Annual Report of the Board of Trustees of the OASI and DI Trust Funds

…and Developments Since Then

Karen Glenn, Deputy Chief Actuary

Social Security Administration

November 6, 2020

Social Security Basics

Social Security Trust Funds

- Two legally distinct trust funds:
  - **OASI** = Old-Age and Survivors Insurance
  - **DI** = Disability Insurance
- Financial operations are overseen by the Social Security Board of Trustees
- The two funds are often looked at on a theoretical combined basis, and referred to as **OASDI**
  - As of September 30, 2020, the trust funds hold about **$2.91 trillion** in reserves

Social Security Trust Funds

- Why do we have trust funds?
  - The trust funds provide an essential reserve so benefits can be paid even when current income alone is not enough
  - Social Security (OASI and DI) cannot borrow; can only spend what has been collected

Social Security Trust Funds

- The combined funds have run surpluses since the early 1980s and through calendar year 2019 (and likely 2020)
- Beginning in 2021, we project that combined asset reserves will start to decline until they are depleted in **2035**
- The OASI fund alone is projected to be depleted in **2034**; the DI fund alone in **2065**
- Note that these latter two bullets are based on our pre-COVID projections!

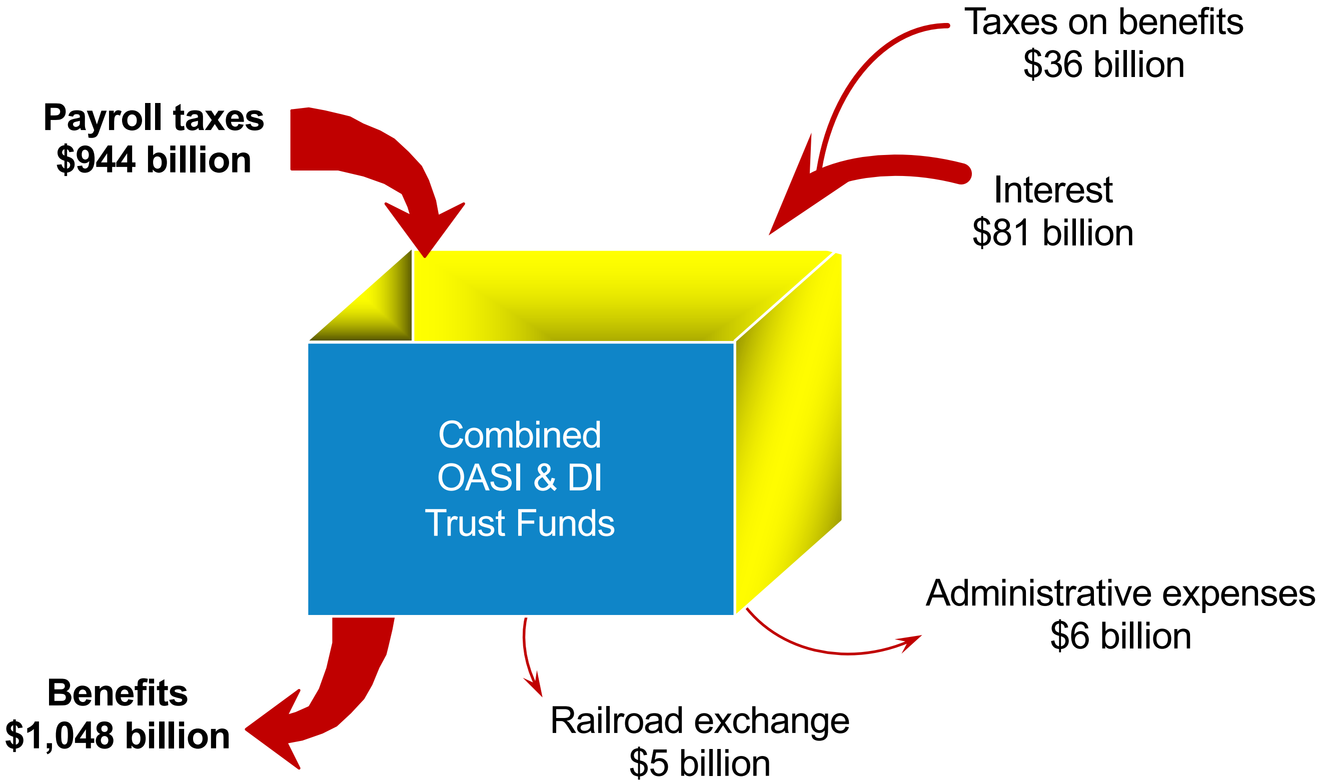
How Is Social Security Financed (Income)?

- Payroll taxes
  - Employees and employers each pay **6.2%** of covered earnings
  - The self-employed pay **12.4%** of covered earnings
  - On earnings up to **$137,700** in 2020 (**$142,800** in 2021)
- Taxes on Social Security benefits
  - Higher-income beneficiaries pay federal income tax on their benefits
- Interest on trust fund reserves
  - Invested in interest-bearing securities of the US government

Where Does the Money Go (Cost)?

- Benefit payments
  - About **64 million** people getting benefits as of December 2019:
    - **48 million** retired workers and dependents of retired workers
    - **6 million** survivors of deceased workers
    - **10 million** disabled workers and dependents of disabled workers
- Administrative expenses
  - Only about **0.6 percent** of total program cost in 2019

Income and Cost for Calendar Year 2019



2020 Trustees Report

What is the Legislative Mandate for the Annual Trustees 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

Primary Changes for the 2020 Trustees Report

First, an important caveat! The projections in the 2020 Trustees Report (released April 22, 2020) do NOT reflect the potential implications of the COVID-19 pandemic, due to (1) the timing of the development of assumptions for the report and (2) the timing of the recognition of the pandemic.

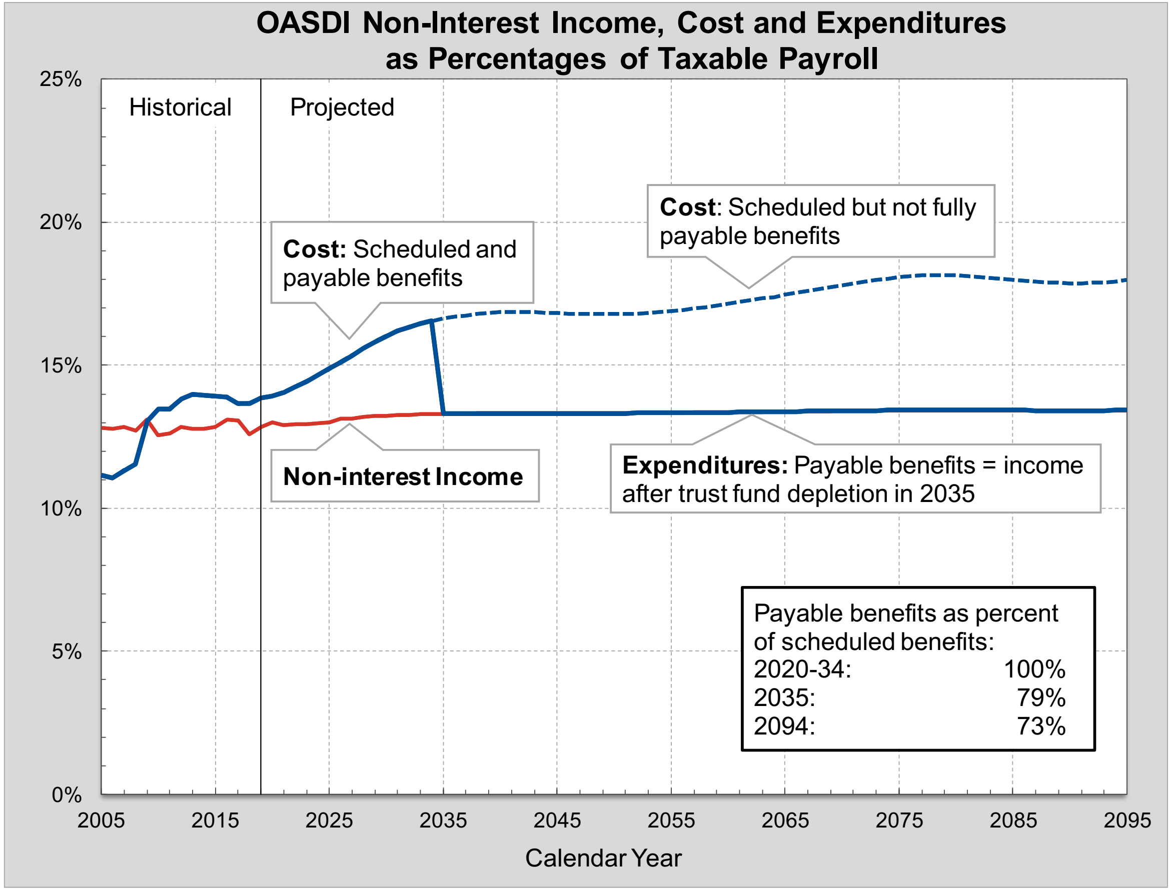
1. DI reserve depletion extended another 13 years, from 2052 to 2065
   a) Applications and benefit awards remained at historically low levels in 2019
   b) Lower ultimate assumed disability incidence rate
   c) Gradual increase to ultimate incidence rate
2. OASI reserve depletion is 2034, the same as in the 2019 report
3. OASDI reserve depletion is 2035, the same as in the 2019 report
4. 75-year actuarial deficit increased by 0.43 percent of payroll (versus expected increase of 0.05 percent from change in valuation period alone)

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

Persistent negative annual cash-flow balance starting in 2010.

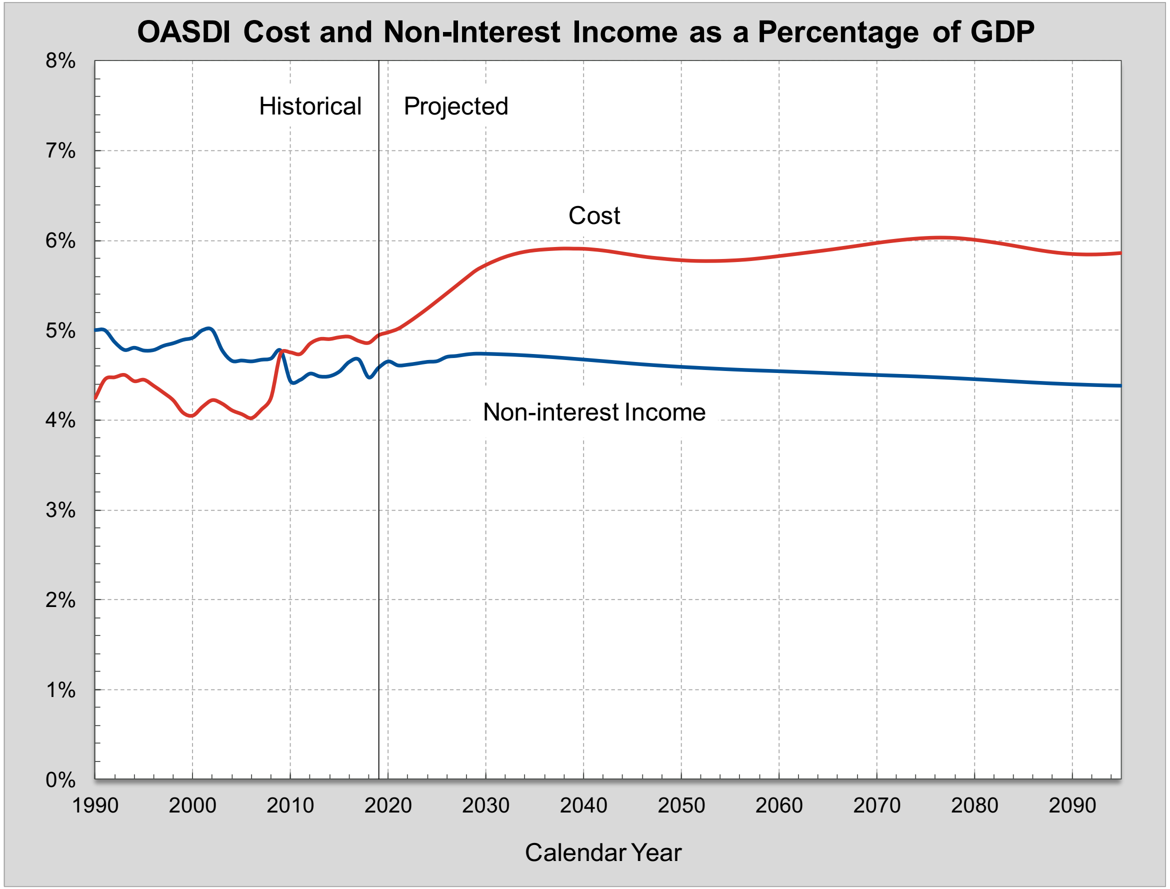
79 percent of scheduled benefits still payable at trust fund reserve depletion.

Annual Deficit in 2094: 4.51 percent of payroll – 0.36 percent larger than last year



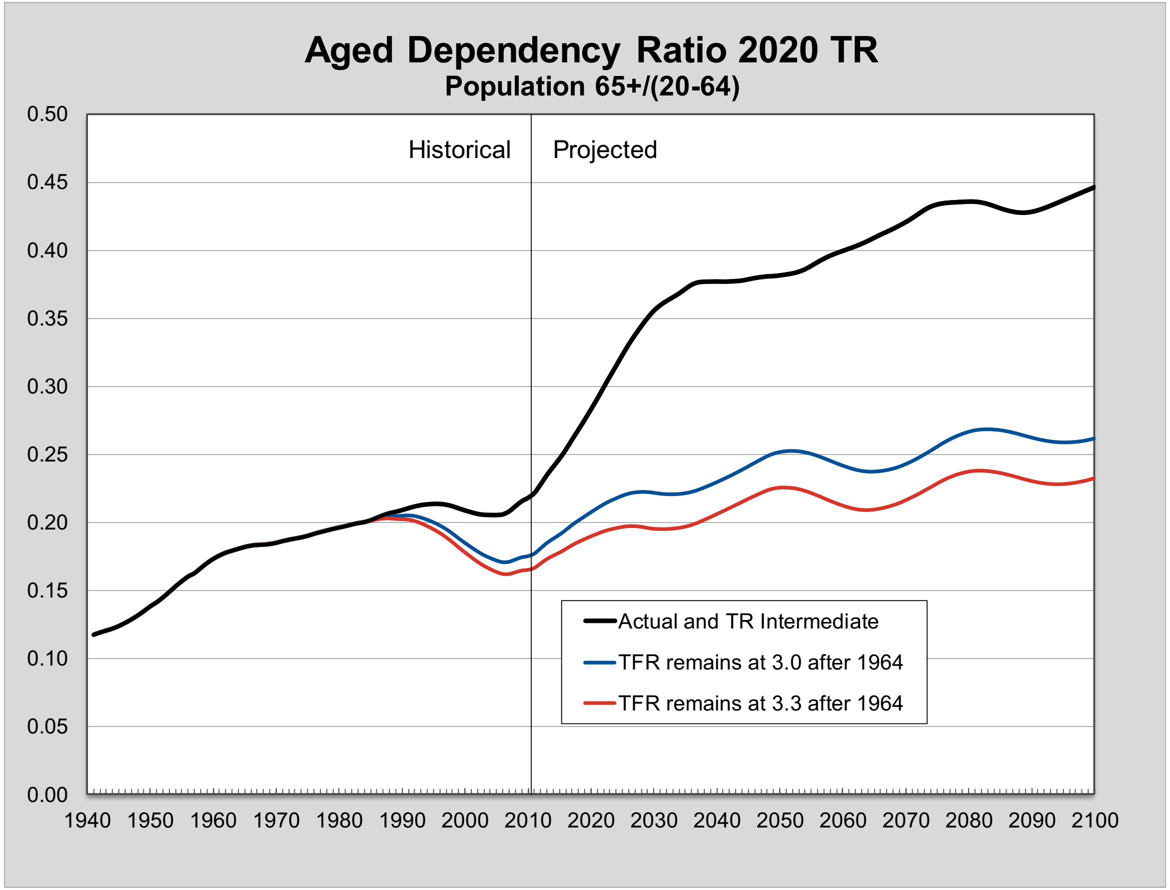
SUSTAINABILITY: Cost as percent of GDP

Rises from a 4.2 percent average in 1990-2008, to about 5.9 percent by 2038, then declines to 5.8 percent by 2053, and generally increases to 5.9 percent by 2094.

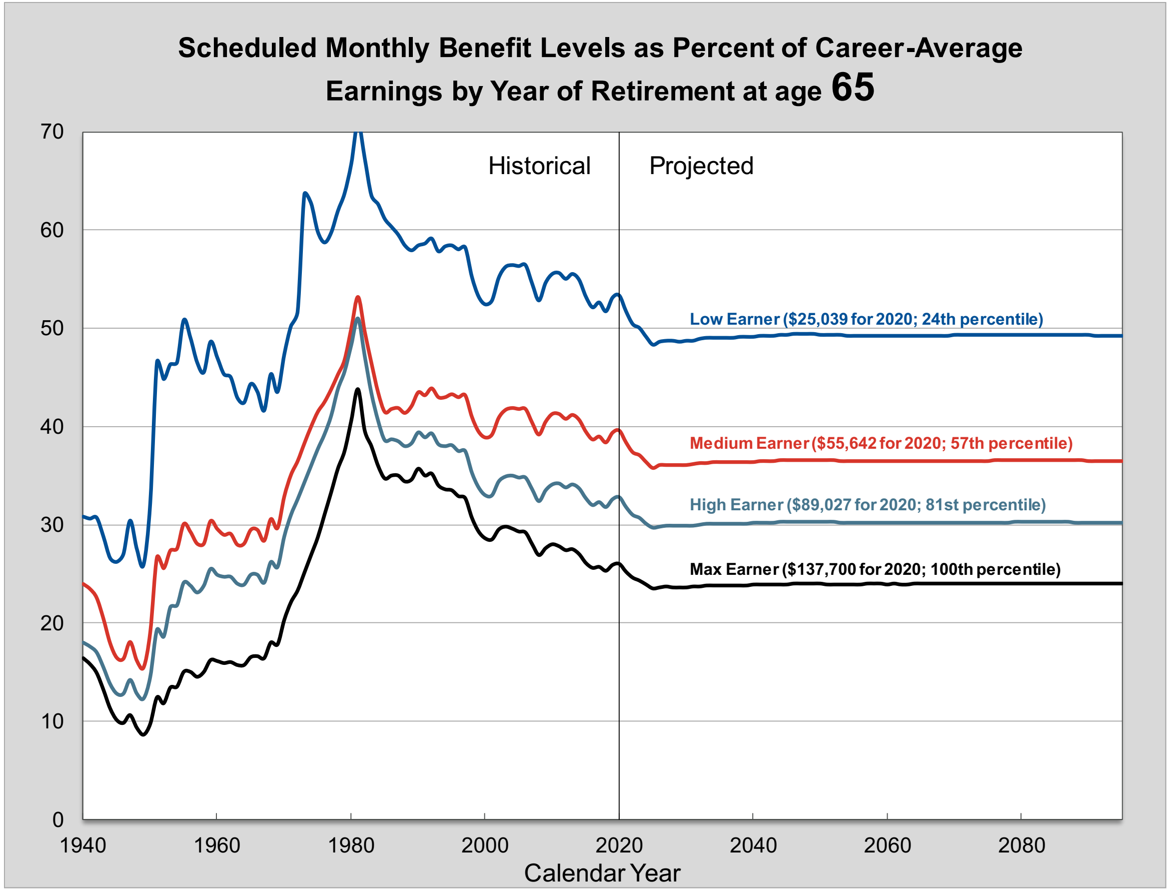


Aging: Change in Age Distribution

Mainly due to drop in birth rates

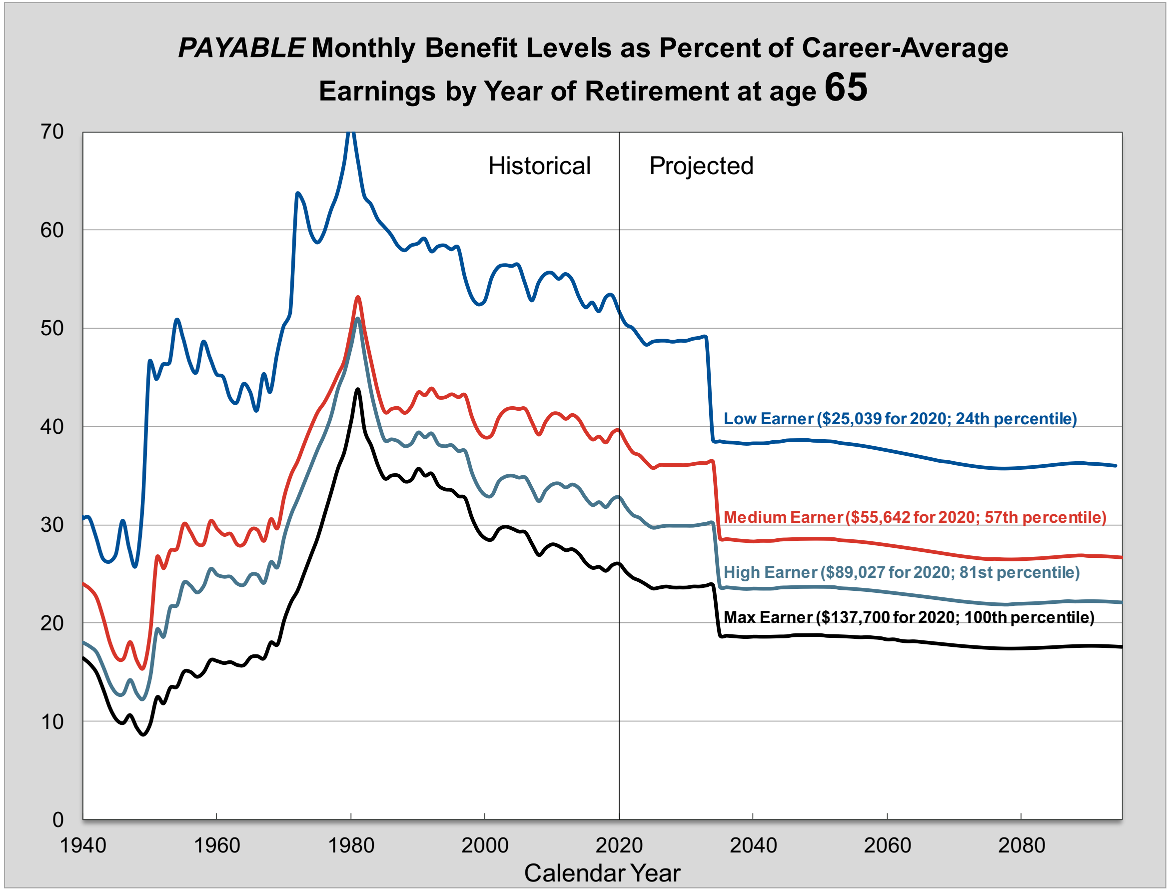


ADEQUACY: Replacement Rates Based on the 2020 TR



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



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

Effects of COVID-19

After the 2020 Trustees Report: COVID Effects

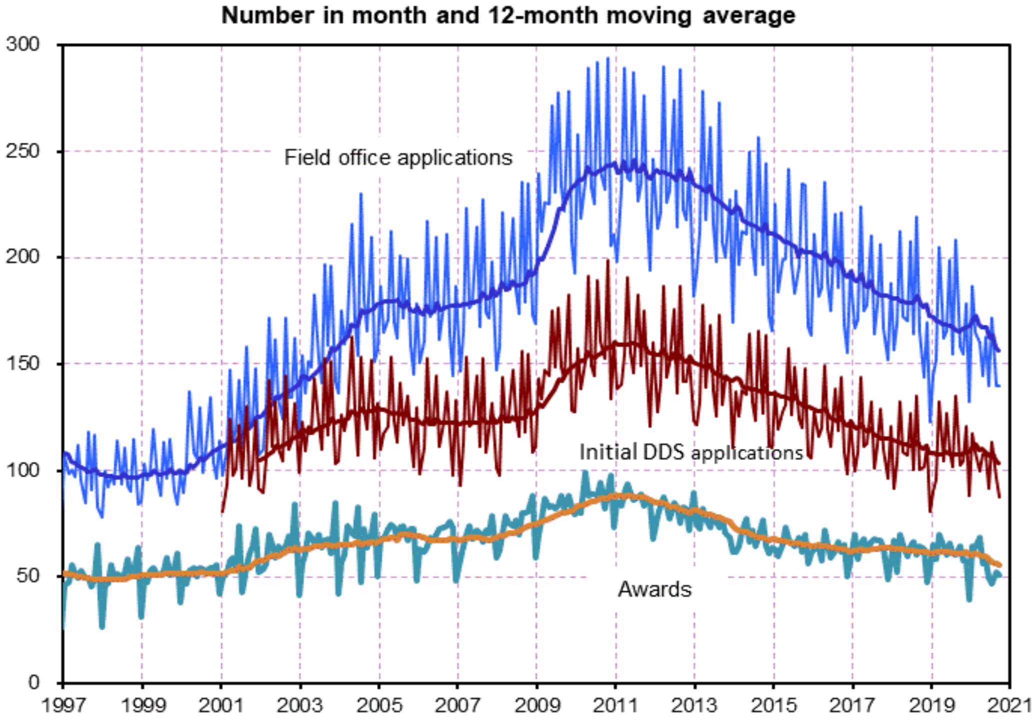
- Employment and labor force participation rates have declined along with the COVID-induced recession—will they remain low, or rebound soon?
- Will there be persistent and even cumulative effects on mortality (and morbidity) in the longer term?
  - Direct virus-related immediate deaths, whether diagnosed or not
  - Indirect deaths due to avoidance of medical treatment
  - Increased deaths of despair/violence—suicide, homicide, overdose?
  - Decreased life expectancy from compromise for COVID survivors; how much?
- Other economic and demographic effects? Fertility, immigration?
- So much depends on government and individual responses, along with the timing and efficacy of a vaccine

COVID Effects: GDP, Earnings, and Payroll Tax Revenue

- Social Security payroll tax revenue will certainly be lower than we projected for 2020 due to lower earnings—by between 5 and 10 percent
  - Technicality: due to the way tax revenues are transferred from Treasury to the Social Security trust funds, the trust funds won't be affected until 2021
- Neither the employer payroll tax deferral in COVID legislation nor the employee payroll tax deferral in the presidential memorandum affect revenue to the trust funds
- What will effects be beyond 2020? There has been a substantial economic recovery since the second quarter of 2020

COVID Effects: Timing of Benefit Applications

Disabled worker data through September 2020 (*numbers in thousands*)



Source: https://www.ssa.gov/oact/STATS/dibGraphs.html

- There has been speculation in the press and elsewhere that the COVID-induced recession will cause workers to apply for retirement benefits earlier than they would have otherwise
- We aren't seeing this in the data—yet
- Similarly, we aren't yet seeing evidence of increased DI or SSI applications
- Speculation is that folks have been relying on extended unemployment benefits, but might start applying earlier if the recession persists

Bottom Line: Effects of COVID on Trust Funds

- In April, we speculated a potential 15 percent reduction in earnings and payroll tax for one or two years, and then full recovery: Trust Fund reserve depletion advanced from early 2035 to mid- or early 2034
  - We now think this speculation was probably too pessimistic
- Now, consider an alternative scenario: assume total earnings in 2020 are reduced 5 to 10 percent below the 2020 TR intermediate projection, with recovery in 2021 and 2022
  - This could happen if there is no substantial wave in the fall with resulting closure of the economy
  - The trust fund reserve depletion date for the combined OASI and DI Trust Funds would likely be sometime in 2034, all else equal
  - In September, CBO estimated that COVID would hasten trust fund depletion by one year

Bottom Line: Effects of COVID on Trust Funds

- If, instead, a fall/winter return to closure due to the pandemic extends through 2021, and possibly beyond, then negative effects on the actuarial status could be substantially larger
- Trust Fund reserve depletion could be earlier than 2034, and the percent of scheduled benefits payable after depletion could be reduced
- The Bipartisan Policy Center recently released several possible scenarios, with the most pessimistic leading to OASDI combined trust fund reserve depletion 7 years earlier (2028)

Bottom Line: Effects of COVID on Trust Funds

- The 2021 Trustees Report, scheduled to be released in April 2021, will reflect our best estimates of the impacts of COVID-19
- We have had, and will continue to have, many discussions about assumptions with the trustees and their staffs…
- And we will continue to monitor emerging experience and knowledge about the virus and vaccines/therapies

Legislative Changes

Why Do These Actuarial Projections Matter?

- 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

How to Eliminate the Long-Term Actuarial Deficit

- Make choices addressing OASDI deficits 2035–2094:
  - Raise scheduled revenue after 2034 by about one-third
  - Reduce scheduled benefits after 2034 by about one-fourth
  - Or some combination of the two

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
- 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
  - 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 ($142,800 in 2021)
  - Some tax on all earnings above the maximum
- Tax employer group health insurance premiums?
  - Affects only middle class if taxable maximum remains
- Tax investment income?
  - Or potentially a wealth tax?

For More Information, Go To https://www.ssa.gov/OACT/

- There you will find:
  - The 2020 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 about the trust funds and program beneficiaries
  - Congressional testimonies
  - Presentations by OCACT employees

Tom Klouda—Senior Domestic Policy Advisor
Committee on Finance—U.S. Senate
Senator Ron Wyden, Top Democrat

Senator Ron Wyden
Social Security & SSI Agenda

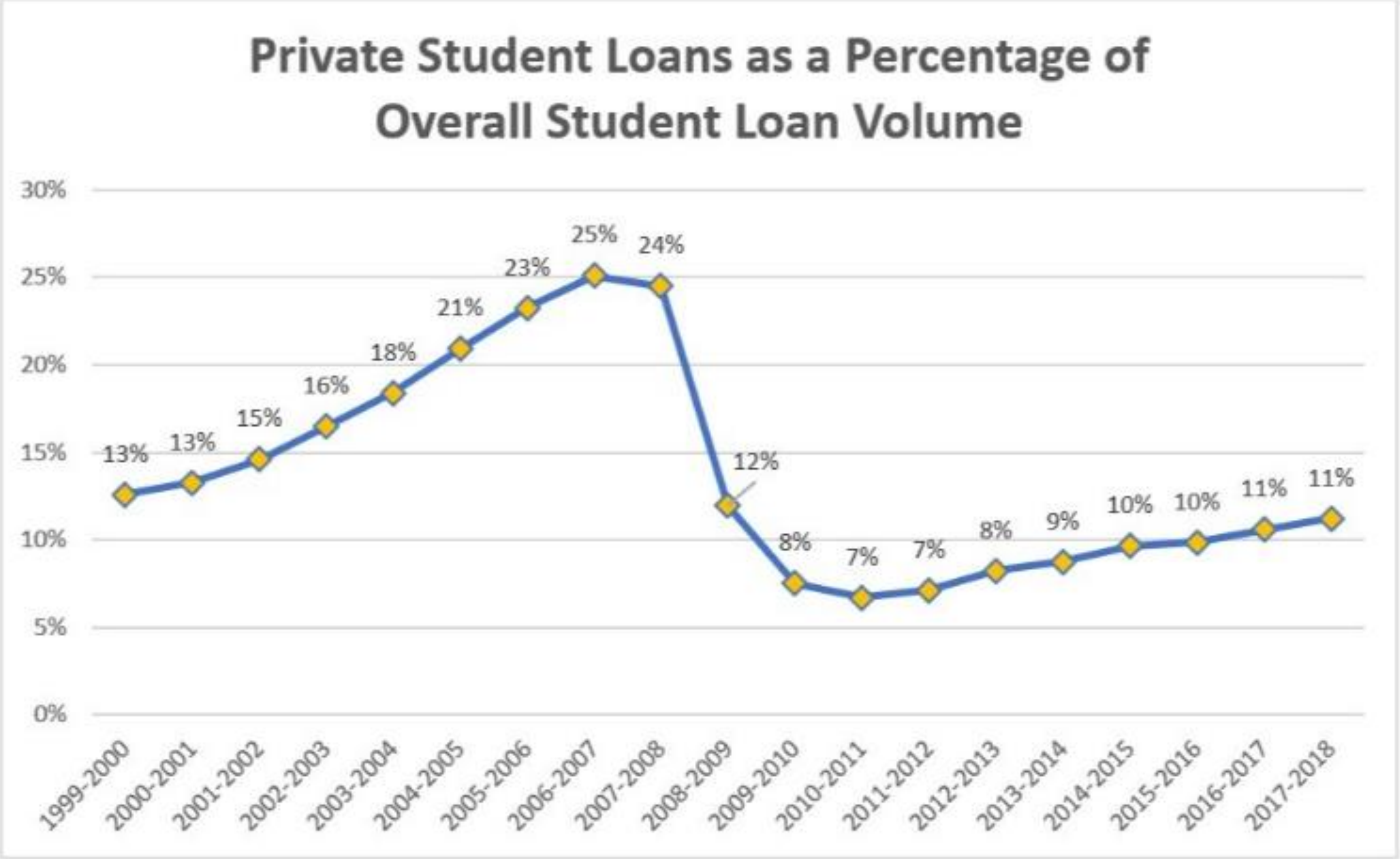
- Protection of Social Security Benefits Restoration Act
- Know Your Social Security Act
- Elder Poverty Relief Act
- Work Without Worry Act
- Treating Wealth like Work
- Nominations
- Oversight

Protection of Social Security Benefits Restoration Act

- **Social Security is fundamental to workers' retirement security.**
  - The law protected benefits from most creditors.
  - Only exceptions: unpaid federal taxes, child support/alimony, and victim restitution.
  - Ensured that the Social Security benefits would be there for basic needs.

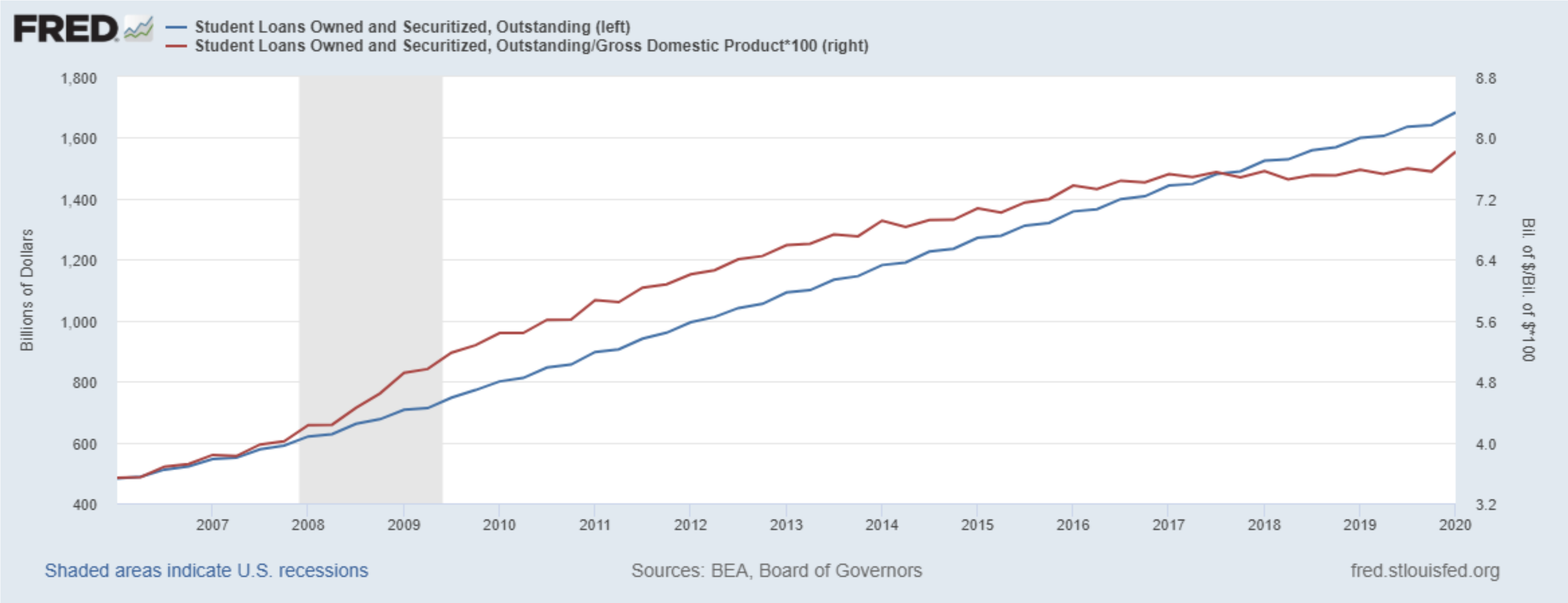
- **Social Security Act:**

  Section 207 ASSIGNMENT: The right of any person to any future payment under this title shall not be transferable or assignable…and none of the moneys paid or payable or rights existing under this title shall be subject to execution, levy, attachment, garnishment, or other legal process, or to the operation of any bankruptcy or insolvency law.



Source: SavingforCollege.com

Student Loan Growth 2006 - 2020



Protection of Social Security Benefits Restoration Act

- **Protections were weakened in 1996**
  - Social Security benefits could be offset to collect federal debts, including federal student loans.
  - Wall Street Journal article: "Over 60, and Crushed by Student Loan Debt."

- **Bill restores the protections in the law that protected earned benefits.**
  - Enactment would help ensure beneficiaries will be able to maintain a basic standard of living.

Know Your Social Security Act

- "A common-sense, low-cost change…that will help American workers help themselves when preparing for retirement."

  - Senator Ron Wyden

- In 2011, SSA stopped mailing annual *Statements* in order to fund other priorities.
  - Rationale: providing statements online met obligations under the law

- Bill ***clarifies*** that SSA ***must mail paper*** *Social Security Statements* annually to all workers ages 25 and older, who are not receiving Social Security benefits.
  - Workers can opt out or statement will not be mailed if viewed online

Elder Poverty Relief Act

- **Concern: Economic status of elderly single women**
  - struggling to make ends meet even with Social Security and other resources

- **Poverty rates for women 65+ are 4-5 percent higher than for men**

- **Women are vulnerable to poverty in old age:**
  - Employment breaks to care for children or parents
  - Earnings are lower
  - Live longer
  - More likely to be living alone

- **Elderly single women in extreme poverty (less than $5,500 income in 2012) increased 31 percent between 2011 and 2012.**
  - Extreme poverty rate for men over 65 and living alone was unchanged
  - About 750,000 women and likely receive Supplemental Security Income (SSI)

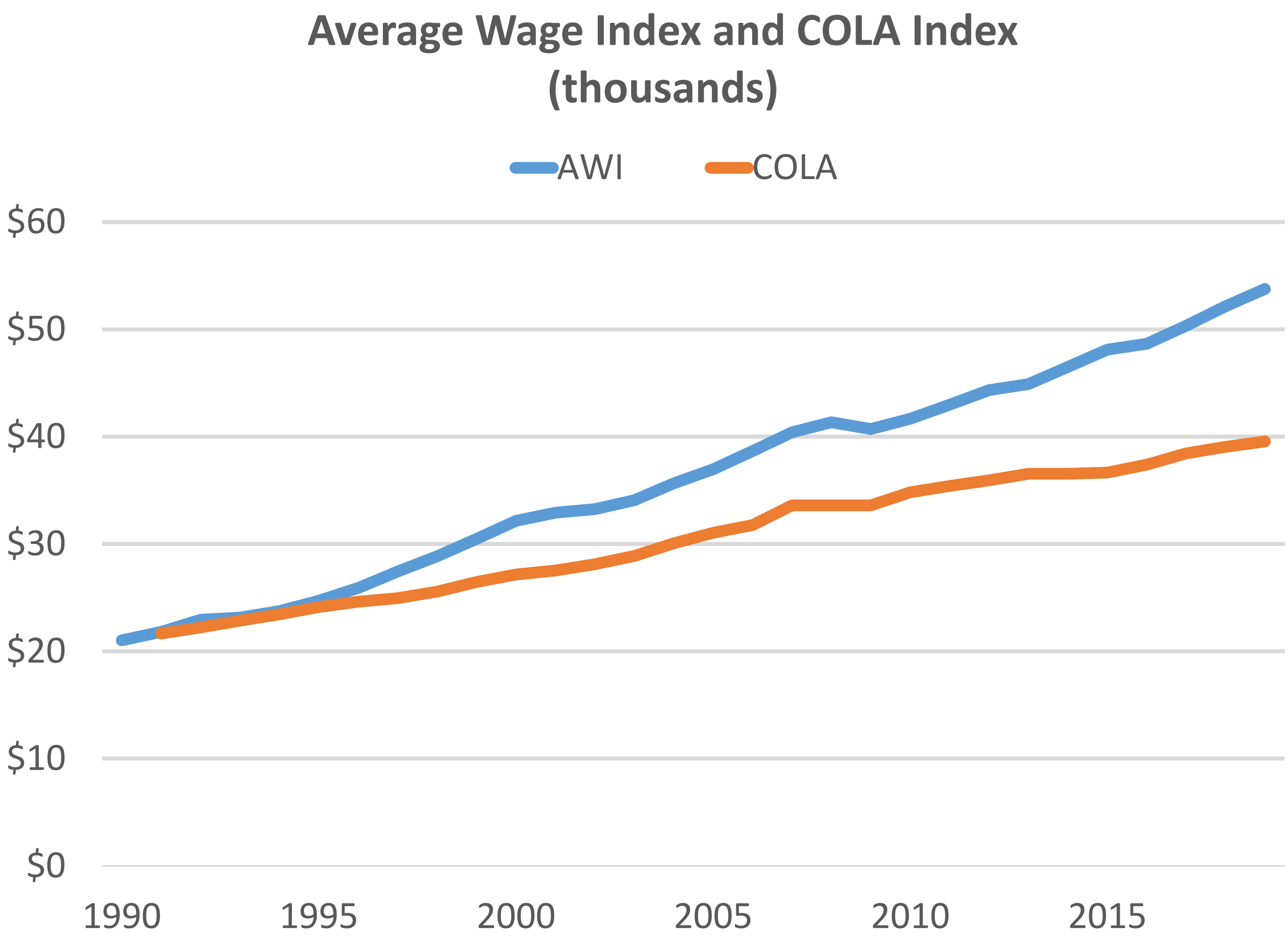
Elder Poverty Relief Act

- **Chairman Wyden called a hearing**

  Social Security: Is a Key Foundation of Economic Security Working for Women?

- **Witnesses**
  - Barbara Perrin, Beneficiary from Eugene, Oregon
  - Catherine J. Dodd, National Committee to Preserve Social Security and Medicare
  - Sita Nataraj Slavov, George Mason University
  - Janet M. Barr, American Academy of Actuaries

- **Policy Options**
  - Social Security survivors benefit increase
  - "Care-giver credits" in the Social Security benefit formula
  - Additional benefit after 20 years


Average Wage Index and COLA Index
(thousands)
AWI
COLA
$60
$50
$40
$30
$20
$10
$0
1990
1995
2000
2005
2010
2015

Elder Poverty Relief Act

- **Creates the "Poverty Relief Benefit"**

- **What is it**
  - $85 a month – or $1,020 a year
  - Increases with AWI or roughly 4 percent a year
  - Everyone receives the same amount and not treated as income for means tested programs

- **Who gets it**
  - Social Security beneficiaries age 82 or older and SSI recipients at the full retirement age
  - Social Security and SSI recipients who have received benefits for 20 years
  - Social Security beneficiaries at the full retirement age with low monthly benefits
    - $944 a month, adjusted annually

- **If enacted, 14 million people would receive the Poverty Relief Benefit.**

- **SSA's MINT: would reduce poverty by almost 25 percent in 2030**

Work Without Worry Act

- **Current law:** A person with a disability that began before age 22 may receive a Social Security benefit based on the work of a disabled, retired, or deceased parent.

- **Problem:** Work should not make a person worse off. Earnings by the person above SGA ($1,260/month) ends eligibility for benefit based on parent's work.
  - Instead, the person would receive a benefit based on their work.
  - The benefit based on the parent's work is often significantly higher than the person's own benefit.

Work Without Worry Act

- Bill ensures that any individual with a disability that began before age 22 receives the larger of:
  - the benefit from their parent's work or
  - the benefit from their own work.

- This change is estimated to increase Social Security benefits by a few hundred million dollars over 10 years and improve the lives of roughly 10,000 persons with disabilities.

Treating Wealth like Work

"There are two tax codes in the United States: one for workers who pay taxes out of every paycheck and the other for high fliers who use games and tricks to avoid their taxes. They pay what they want, when they want and sometimes nothing at all.

Two tax codes allow billionaires to use largely untaxed wealth to build more wealth while working families struggle to save after paying the mortgage, buying groceries or making their student loan payments."

Senator Ron Wyden—September 2019

Treating Wealth like Work

- **Equalizing tax rates for wage and capital income and minimizing the benefit of deferring taxes:**
  - Tax capital gains income at the same rates as wage income.
  - Require tax be paid each year on gains from tradable assets like stocks.
  - Minimize the benefit of deferring tax on gains from the sale or transfer of non-tradable assets like real estate investments.

- **Revenue generated—an estimated $1.5 trillion to $2 trillion over 10 years—would be dedicated to Social Security.**

- **Social Security represents the single greatest source of financial security for middle-class families without an army of accountants at their beck and call.**
  - An additional $1.85 trillion each decade starting in 2020 would allow Social Security to pay full benefits until 2095.

Treating Wealth like Work

- **Proposal to tax non-wage income to fund Social Security**
  - Departure from financing for Social Security, currently funded through payroll taxes.
  - Departure is appropriate to pay for the benefits received by early Social Security beneficiaries, who received far more in benefits over their lifetimes than they paid in payroll taxes.

- **Social Security History:** Ida May Fuller, the first monthly Social Security beneficiary, worked for about three years under Social Security and paid $24.75 in payroll taxes. Her first Social Security check in January 1940 was for $22.54, a benefit almost equal to her entire taxes. Fuller lived to be 100 years old and collected more than $22,000 in benefits.

Nominations

- **President nominates and the Senate considers**
  - Eight positions at SSA require Senate confirmation
- **Vacancies**
  - Public Trustees (PT) - 2 positions, one from each party
  - Social Security Advisory Board (SSAB) - 3 positions, no more than two from same party
- **Confirmed**
  - Commissioner – Andrew Saul; term expiring January 2025, confirmed 77-16
  - Deputy Commissioner – David Black, term expiring Jan 2025, confirmed 68-26
  - Inspector General – Gail Ennis, no expiration, confirmed by voice vote
- **Social Security history:** First Social Security-related nominee to have a vote on the Senate floor: Henry Aaron to the SSAB in 2014, 54-43

Nominations: Public Trustees

- Public Trustees - currently vacant, since 2015
- Of the 35 trustees reports since 1985, PTs have been vacant for nine reports
- Vacancies mostly related to precedent of PTs serving only one-term
- Both GWB and Obama renominated sitting Public Trustees
  - Congress did not confirm the renominations

- In 2016, Senator Wyden stated: Chairman Grassley and Ranking Member Baucus wrote to the President that, *"The position of public trustee was created in 1983 to bring new perspectives and provide greater public accountability to the annual Social Security and Medicare trustees' reports. No one has ever served more than one term as a public trustee. We believe this important precedent must be maintained."*

Oversight of SSA

- SSA's closed all 1,230 Field Offices in March
  - Most employees teleworking
  - Customer service conducted over the phone, email, or internet

- Is SSA able to meet all customer needs?
- Which individuals have been unable to interact with SSA as needed?
- How have virtual operations impacted claimants and beneficiaries?

Example:

- SSA requires original ID documents in order to process claims.
- Now asking for ID documents to be put into the mail.
- SSA is working to authenticate ID credentials virtually

Social Security—Reinforcing the Foundation of U.S. Retirement in a Time of Uncertainty

Amy Shuart, Republican Social Security Subcommittee Staff Director

Committee on Ways and Means

November 6, 2020

Successful Social Security Reform Has Always Been Bipartisan

	House Votes	Senate Votes
1935 Social Security Act (WH:D, H:D, S:D)	372 (77-R, 288-D, 7-I) to 33 (18-R, 13-D, 2-I) Conference report: voice vote	77 (15-R, 60-D, 2-I) to 6 (5-R, 1-D) Conference report: voice vote
1939 Amendments (WH:D, H:D, S:D)	364 (142-R, 222-D) to 2 (2-R) Conference report: voice vote	57 (8-R, 45-D, 4-I) to 8 (6-R, 2-D). Conference report: 59 (14-R, 42-D, 3-I) to 4 (4-D)
1956 Amendments (WH: R, H:D, S:D)	372 (169-R, 203-D) to 31 (23-R, 8-D) Conference report: voice vote	90 (45-R, 45-D) to 0 Conference report: voice vote
1977 Amendments (WH:D, H:D, S:D)	275 (40-R, 235-D) to 146 (100-R, 46-D) Conference report: 189 (15-R, 174-D) to 163 (109-R, 54-D)	42 (9-R, 33-D) to 25 (15-R, 10-D) Conference report: 56 (17-R, 39-D) to 21 (14-R, 7-D)
1983 Amendments (WH:R, H:D, S:R)	282 (97-R, 185-D) to 148 (69-R, 79-D) Conference report: 243 (80-R, 163-D) to 102 (48-R, 54-D)	88 (47-R, 41-D) to 9 (6-R, 3-D) Conference report: 58 (32-R, 26-D) to 14 (8-R, 6-D)

Ways and Means Republicans Reform Principles

- Ways and Means Republicans have Social Security reform principles:
  - **L**ong-term economic growth by rewarding work not penalizing it,
  - **E**qual treatment for public servants,
  - **A**ct now to protect future generations' benefits, and
  - **P**rotect the most vulnerable people through focused reforms.

Equal Treatment for Public Servants—Current Law

- Windfall Elimination Provision (WEP) was created during the 1983 Amendments to maintain the progressivity of Social Security benefits by offsetting zeroes from non-covered work in the benefit formula.
  - Since years of non-covered earnings are counted as zeros for the purposes of the AIME, workers with both covered and non-covered earnings appear to be lower average lifetime earners than they actually are.
  - To adjust for the zeros in the AIME, the WEP uses a different benefit formula. For workers with 10 to 20 years of coverage (YOCs), the 2020 benefit formula is:
    - 40 percent of the first $960 of AIME,
    - 32 percent of AIME between $960 and $5,785, and
    - 15 percent of AIME above $5,785.
- The WEP is a one-size-fits all approach that does not reflect a worker’s earnings history.

Equal Treatment for Public Servants—Proportional Approach

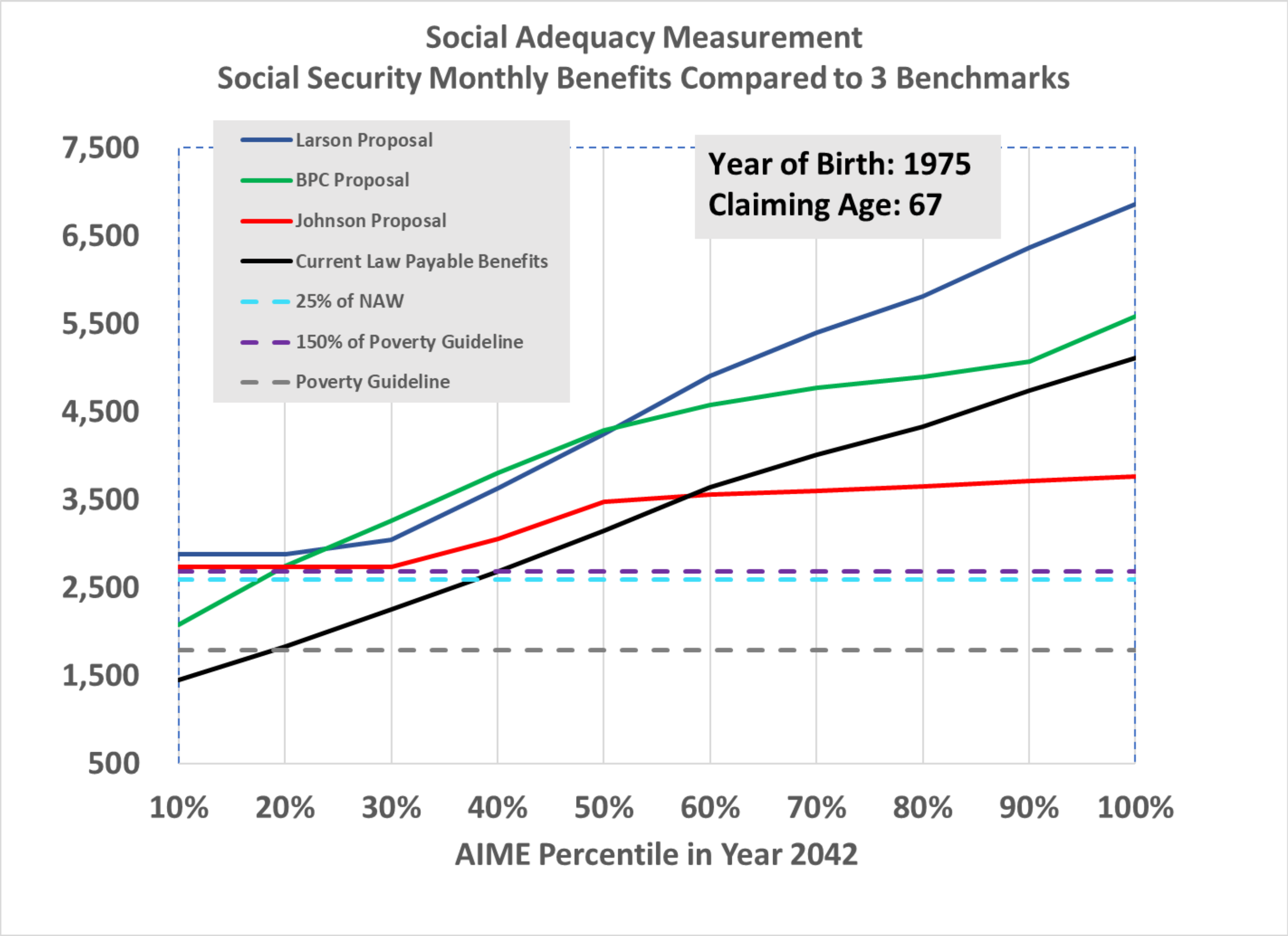
- Unlike the WEP, the proportional approach bases a worker's AIME on his or her highest 35 years of earnings from both covered and non-covered work ("total AIME").
- The Social Security benefit formula is applied to this total AIME and the resulting amount is adjusted to account for the worker's actual earnings from covered employment.
  - This adjustment is done by multiplying by the ratio of the worker's AIME based on covered earnings ("covered AIME") to the worker's total AIME:

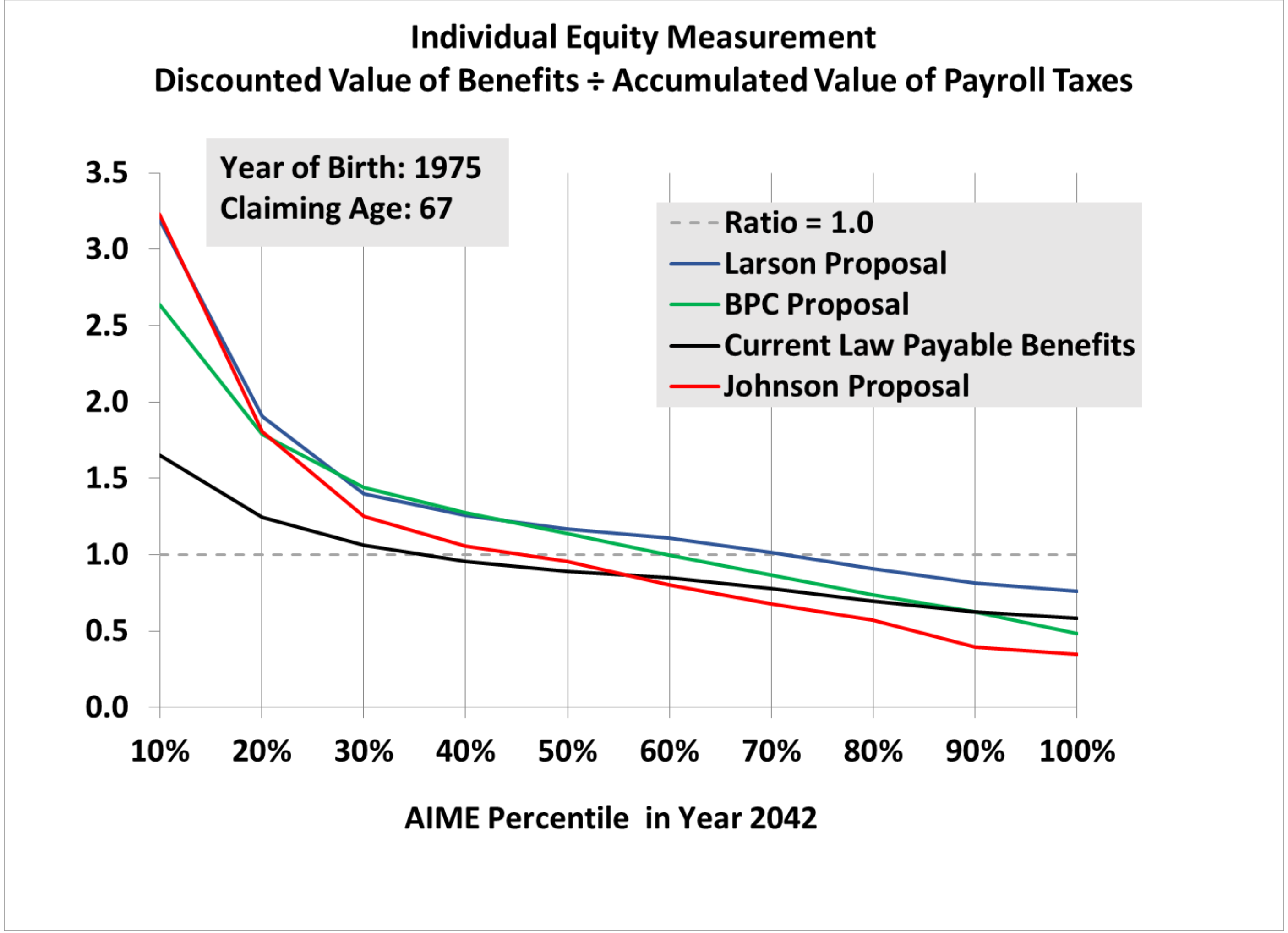
$$\text{Proportional benefit amount} = \text{benefit based on total AIME} * \frac{\text{Covered AIME}}{\text{Total AIME}}$$

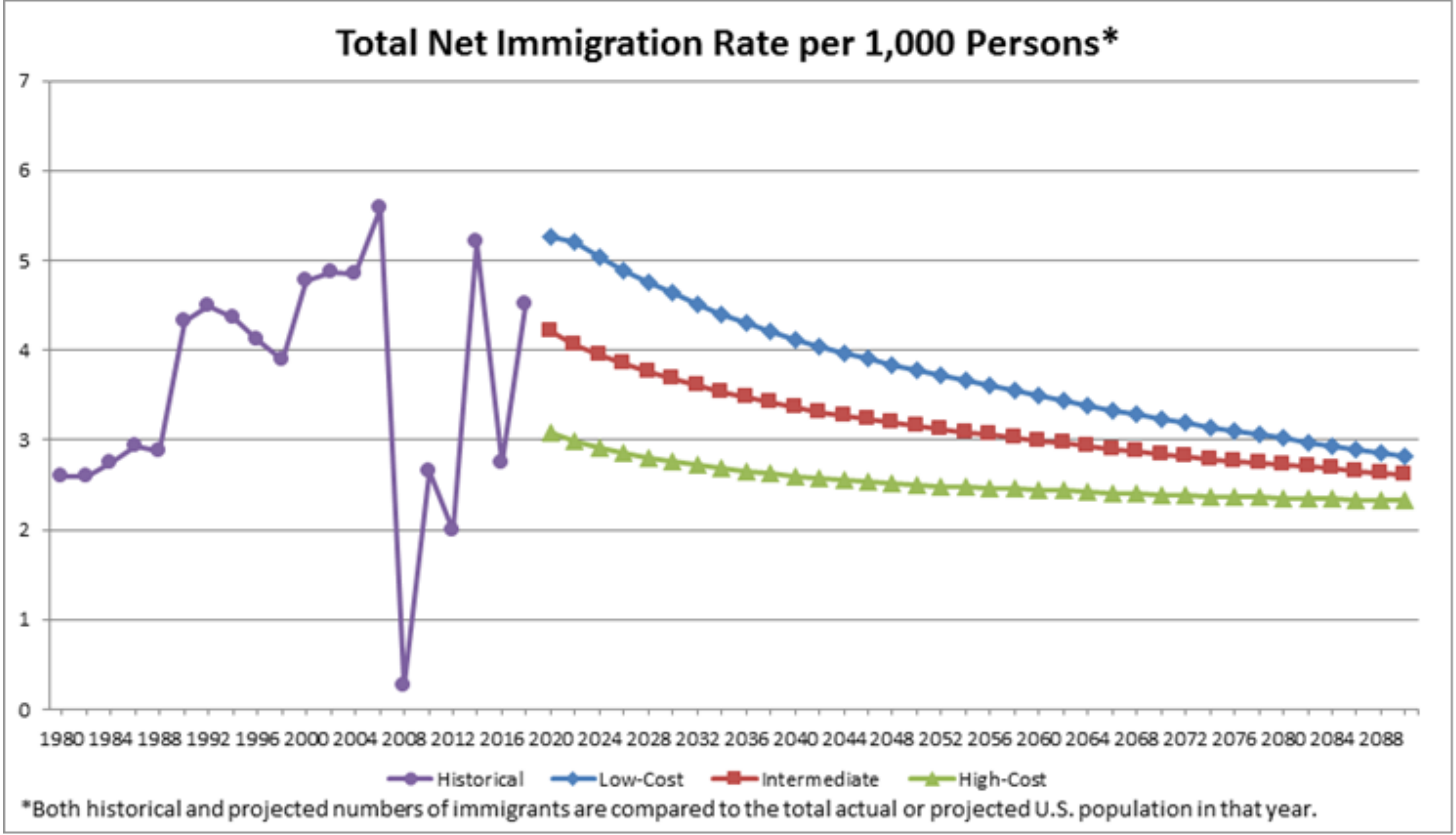
Illustrative example

	Low Lifetime Earner	High Lifetime Earner	High Lifetime Earner with Covered and Non-Covered Earnings (no WEP)	(WEP)	(Proportional)
Total AIME	$1,662	$5,817	$5,817	$5,817	$5,817
Covered AIME	$1,662	$5,817	$1,662	$1,662	$1,662
Monthly Social Security benefit	$1,089	$2,413	$1,089	$609	$689
Percent of covered earnings replaced	66%	41%	66%	37%	41%

Moderator **Ron Gebhardtsbauer**, MAAA, FSA
Chairperson, Academy Social Security Committee


Social Adequacy Measurement
Social Security Monthly Benefits Compared to 3 Benchmarks
Larson Proposal
BPC Proposal
Johnson Proposal
Current Law Payable Benefits
25% of NAW
150% of Poverty Guideline
Poverty Guideline
Year of Birth: 1975
Claiming Age: 67
7,500
6,500
5,500
4,500
3,500
2,500
1,500
500
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
AIME Percentile in Year 2042


Individual Equity Measurement
Discounted Value of Benefits ÷ Accumulated Value of Payroll Taxes
Year of Birth: 1975
Claiming Age: 67
Ratio = 1.0
Larson Proposal
BPC Proposal
Current Law Payable Benefits
Johnson Proposal
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
AIME Percentile in Year 2042


Total Net Immigration Rate per 1,000 Persons*
7
6
5
4
3
2
1
0
1980 1984 1988 1992 1996 2000 2004 2008 2012 2016 2020 2024 2028 2032 2036 2040 2044 2048 2052 2056 2060 2064 2068 2072 2076 2080 2084 2088
Historical
Low-Cost
Intermediate
High-Cost
*Both historical and projected numbers of immigrants are compared to the total actual or projected U.S. population in that year.

Stocks in:

- **Individual Accounts**: better returns, but risky
  - Add On: voluntary or mandatory? Funded by?
  - Carve Out
  - Implementation issues; transition costs
- **Trust Funds**
  - Volatility
  - Governance issues
  - Solution: give smoothed return of diversified portfolio
    - E.G., add 3% to Treasury yield

Q&A