American Academy of Actuaries
Essential Elements
Making complex public policy issues clear
SEPTEMBER 2021

Securing Social Security

Social Security—which provides benefits to about 65 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 change in 2021 as more Americans retire and continue to live longer. The latest Social Security Trustees Report estimates that the reserves will be depleted by 2034, one year earlier than projected last year, at which point only 78% (declining to 74% by 2095) of the promised benefits can be paid without a change in these benefits or additional financing. Social Security was impacted by the COVID-19 pandemic and recession of 2020, although those events are projected to have little long-term effect on Social Security solvency.

The program's long-term solvency challenge stems from a declining ratio of workers per Social Security beneficiaries. Social Security benefits primarily are funded through payroll taxes of 12.4%, split evenly between workers and employers. Americans are having fewer children and living longer than in the past, and those trends compounded by Baby Boomers retiring in large numbers over the next 15 years are several of the challenges posed by the changing U.S. population to the program's finances.

Social Security is supported by two trust funds—the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) funds. The OASI trust fund that pays benefits to retirees and their dependents will run out of reserves in 2033. The DI trust fund reserves are projected to be exhausted in 2057, according to the latest report, eight years earlier than the projection from last year's report. The theoretical combined OASDI trust fund totaled $2,908 billion at the end of 2020, but now faces large annual withdrawals until the reserves are depleted in 2034.

Options to provide adequate long-term financing for Social Security involve revenue increases, benefit reductions, 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% that fund Social Security. Some have called for raising that rate to 7.5% or some other level. Additionally, the payroll tax is capped at a maximum annual income amount—$142,800 in 2021, up $5,100 from 2020—and some have proposed imposing the tax on earnings over a specified level such as $400,000, lifting the maximum cap to higher 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 annual incomes currently above $25,000 annually and married couples above $32,000. The taxable percentage on Social Security benefits is capped at 85% 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). Switch-

SOCIAL SECURITY AT A GLANCE IN 2020

Beneficiaries:

- 49 million retired workers and dependents
- 6 million survivors of deceased workers
- 10 million disabled workers and dependents

Payroll taxpayers:
175 million

Expenditures:
$1,107 billion

Income:

- $1,042 billion in non-interest income
- $76 billion in interest earnings

Trust fund assets:
$2,908 billion

Projected trust fund depletion date:
2034

Source: 2021 Social Security Trustees Report

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ing 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 those reduced COLAs amount to net reductions as they are compounded over time.

Reducing benefits to wealthier retirees

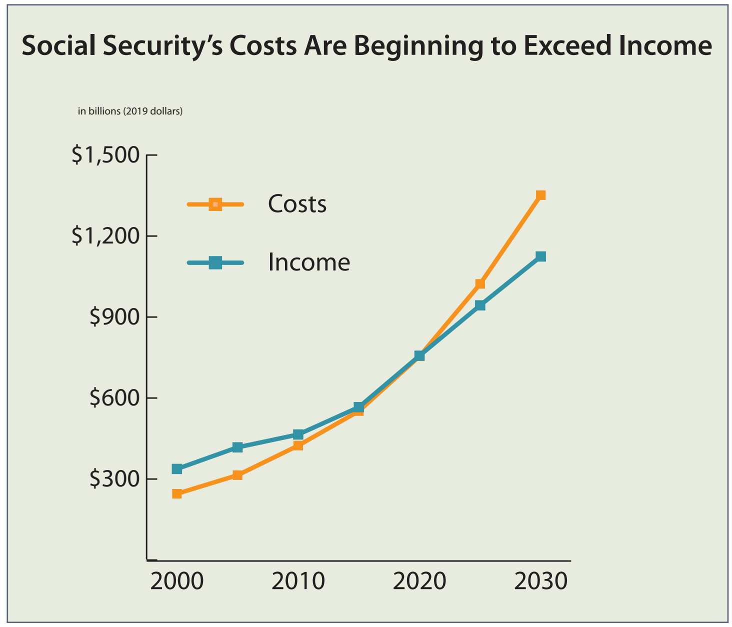
Some have proposed reducing Social Security benefits for higher-income beneficiaries. Supporters of such proposals say that this program should not be used to benefit those who are not in financial need, because Social Security faces long-term financial challenges. Opponents argue that eliminating benefits for wealthier individuals would be unfair because higher-income workers had contributed and been promised retirement benefits like everyone else.

Raising the full retirement age further

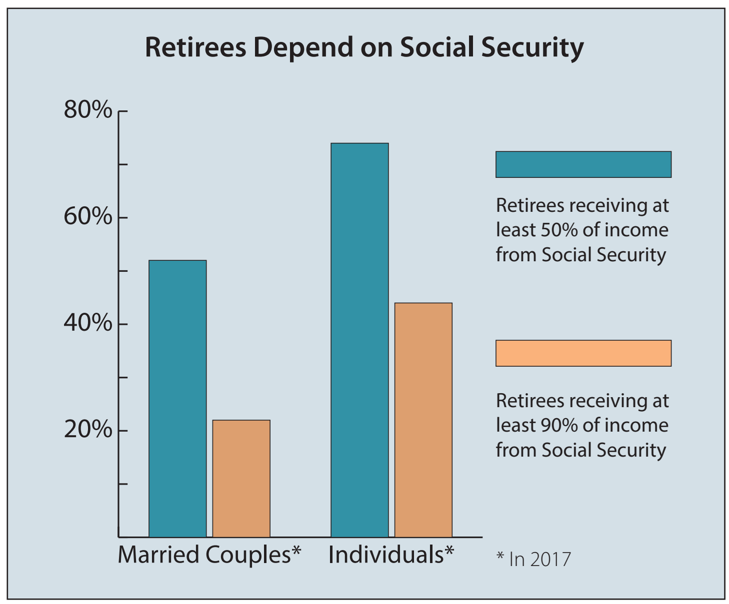
When Social Security began paying benefits in 1940, workers could receive full retirement benefits at age 65. The law was changed to raise gradually the full retirement age to 67 to address solvency concerns in 1983 and in recognition of the increase in Americans' lifespans. The American Academy of Actuaries supports raising the full retirement age further as one part of a solution to restore Social Security's long-term financial health, as it would decrease the benefit available at 62. It may make sense to make this change in conjunction with changes in eligibility for disability benefits.

Conclusion

While Social Security is not in imminent financial danger, the program does face long-term financial viability challenges unless changes are made. Smaller or gradual adjustments adopted sooner could help avoid the need for options that could have greater impact on taxpayers or beneficiaries 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.



Source: 2020 Social Security Trustees Report



Source: Social Security Administration

Additional Resources from the American Academy of Actuaries

American Academy of Actuaries—Social Security
https://www.actuary.org/category/site-section/public-policy/pension/pension-social-security