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

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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's total annual expenditures are expected to be greater than the payroll taxes and interest income it receives in 2022, as was the case in 2021. The latest Social Security Trustees Report estimates that the combined trust fund reserves will be depleted by 2035, one year later than projected last year, at which point only 80% (declining to 74% by 2096) of the scheduled benefits can be paid without a change in these benefits or additional tax financing. The economic recovery from the 2020 recession was stronger and faster than assumed last year. While there is still uncertainty about the future, COVID-19 is projected to have no net effect on the long-range projections of Social Security solvency.

The program's long-term solvency challenge stems from a declining ratio of workers to Social Security beneficiaries. Social Security benefits primarily are funded through payroll taxes of 12.4%, split evenly between workers and employers. The ratio of workers to retirees receiving benefits has been declining since about 2000 and the retirement of the baby boom generation has accelerated the trend. This is one of several 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) trust funds. The OASI trust fund that pays benefits to retirees and their dependents will run out of reserves in 2034. Unlike last year's projection, the DI Trust Fund is no longer projected to be depleted within the 75-year projection period. The theoretical combined OASDI trust fund totaled $2,852 billion at the end of 2021, but now faces large annual withdrawals until the reserves are depleted in 2035.

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 percent that fund Social Security. Some have called for raising that rate. Additionally, the payroll tax is capped at a maximum annual income amount—$147,000 in 2022, up $4,200 from 2021—and some have proposed imposing the tax on earnings over a higher specified level such as $400,000, lifting the maximum cap to higher levels, or eliminating it entirely to raise additional revenues for Social Security.

SOCIAL SECURITY AT A GLANCE IN 2021

Beneficiaries:
- 50 million retired workers and dependents
- 6 million survivors of deceased workers
- 9 million disabled workers and dependents

Payroll tax payers:
179 million

Expenditures:
$1,145 billion

Income:
- $1,018 billion in non-interest income
- $70 billion in interest earnings

Trust fund asset reserves:
$2,852 billion

Projected combined trust fund depletion date:
2035

Source: 2022 Social Security Trustees Report

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Lowering COLAs

The cost-of-living adjustment (COLA) for Social Security beneficiaries is based on annual changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Switching to a different inflation benchmark could slow potential 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 of wealthier retirees

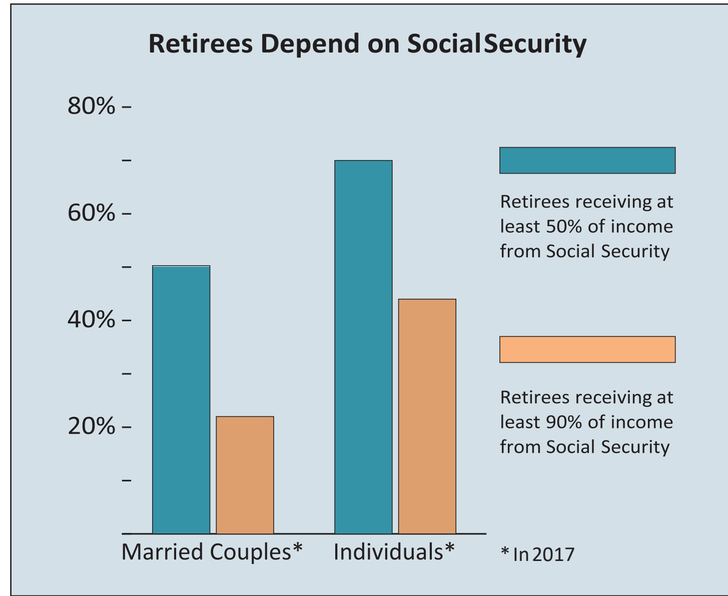
Some have proposed reducing Social Security benefits for higher-income beneficiaries. Supporters of such proposals say that this program should not be used to benefit those who are not in financial need, because Social Security faces long-term financial challenges. Opponents argue that eliminating or reducing 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 American Academy of Actuaries Social Security Committee believes that raising the retirement age is likely to be one of the key elements in any legislation enacted to restore Social Security's long-term financial health. However, expectations of future increases in longevity are not uniform across the socioeconomic spectrum. Policymakers may consider making a change in retirement age in conjunction with other changes such as changes in eligibility for disability benefits.

Conclusion

Social Security faces long-term financial viability challenges unless changes are made. Smaller or gradual adjustments in benefits and/or taxation 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: Social Security Administration

Additional Resources from the American Academy of Actuaries

American Academy of Actuaries - National Retirement Policy Issue Brief *(2022)* *https://www.actuary.org/sites/default/files/2022-03/RetirementPolicy.Series.pdf*

American Academy of Actuaries - Raising the Social Security Retirement Age Issue Brief *(2022)* *https://www.actuary.org/sites/default/files/2022-03/SocialSecurityRetirementAge.pdf*

American Academy of Actuaries - Social Security (2022) *https://www.actuary.org/category/site-section/public-policy/pension/pension-social-security*