

Social Security:

Part I. The System, Solvency, and Sustainability

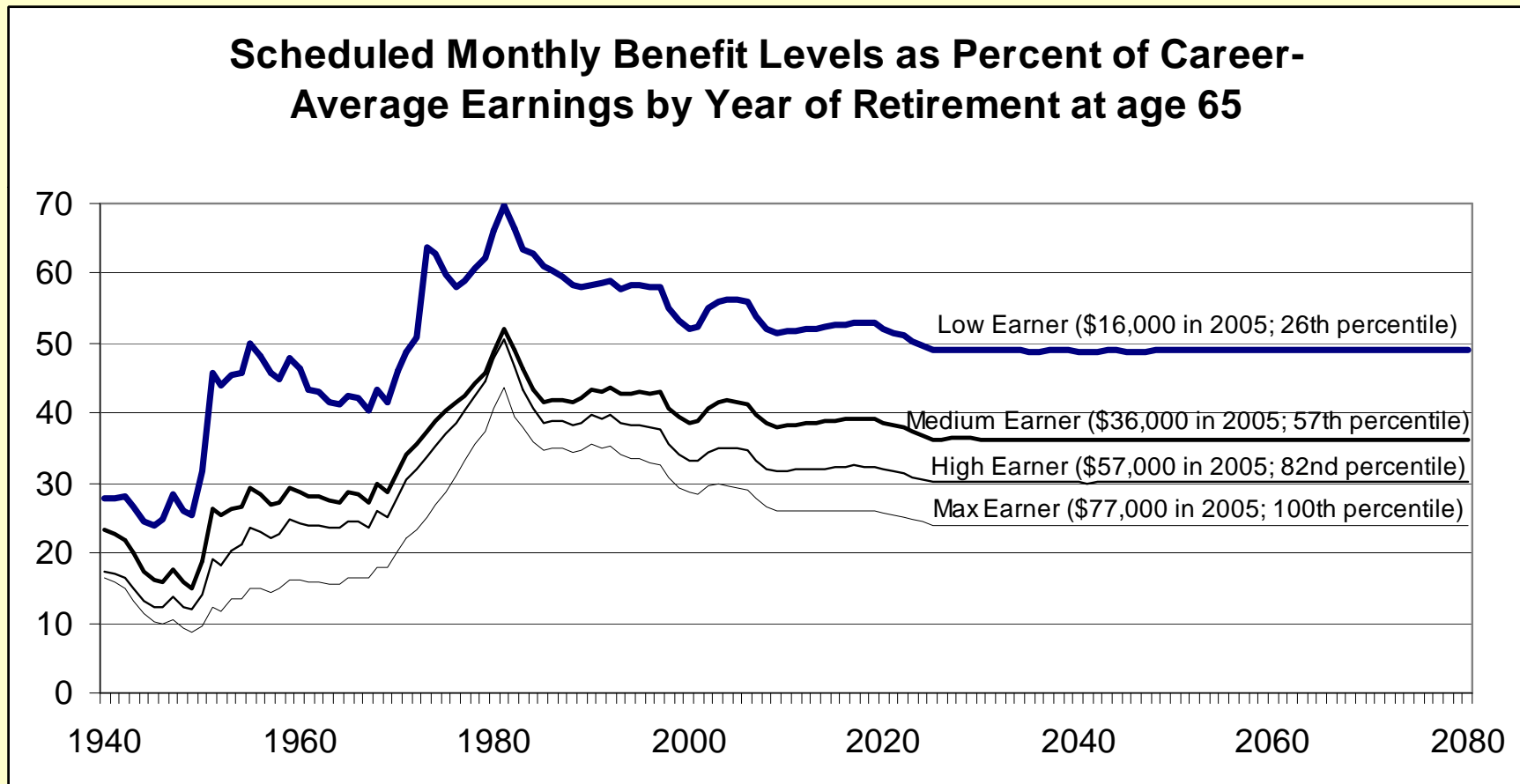
Presented by Stephen C. Goss, Chief Actuary
Social Security Administration, May 12, 2010

What We Need to Know

- ◆ (1) System
 - What it is, what it does, how it works
- ◆ (2) Solvency
 - Benefits payable in full on a timely basis
- ◆ (3) Sustainability
 - What Americans want---cost versus benefits
- ◆ (4) Solutions
 - Options to balance income and outgo

(1) System: What it is

Basic level of monthly benefits for aged, disabled, survivors



(1) System: What it is

- ◆ Retirement and survivor benefits start 1940
- ◆ Eligible age lowered 65 to 62 in 1957F/1962M
 - Full retirement age rises 65 to 67 by 2022
- ◆ Disability benefits started in 1957

- ◆ Benefits rise with average wage *across generations* --- but with CPI after eligible
- ◆ Payroll taxes roughly pay-as-you go
 - Rose from 2% to 12.4% as system matured

(1) System: Trust Fund Financing

- ◆ OASI, DI and HI *cannot borrow*

 - Trust Funds enforce long-term budget neutrality

 - Total spending to date cannot exceed income to date

- ◆ Current OASDI Assets (excess income) \$2.5 trillion

 - Available to augment tax income when needed

 - Treasury swaps trust-fund debt for publicly-held debt

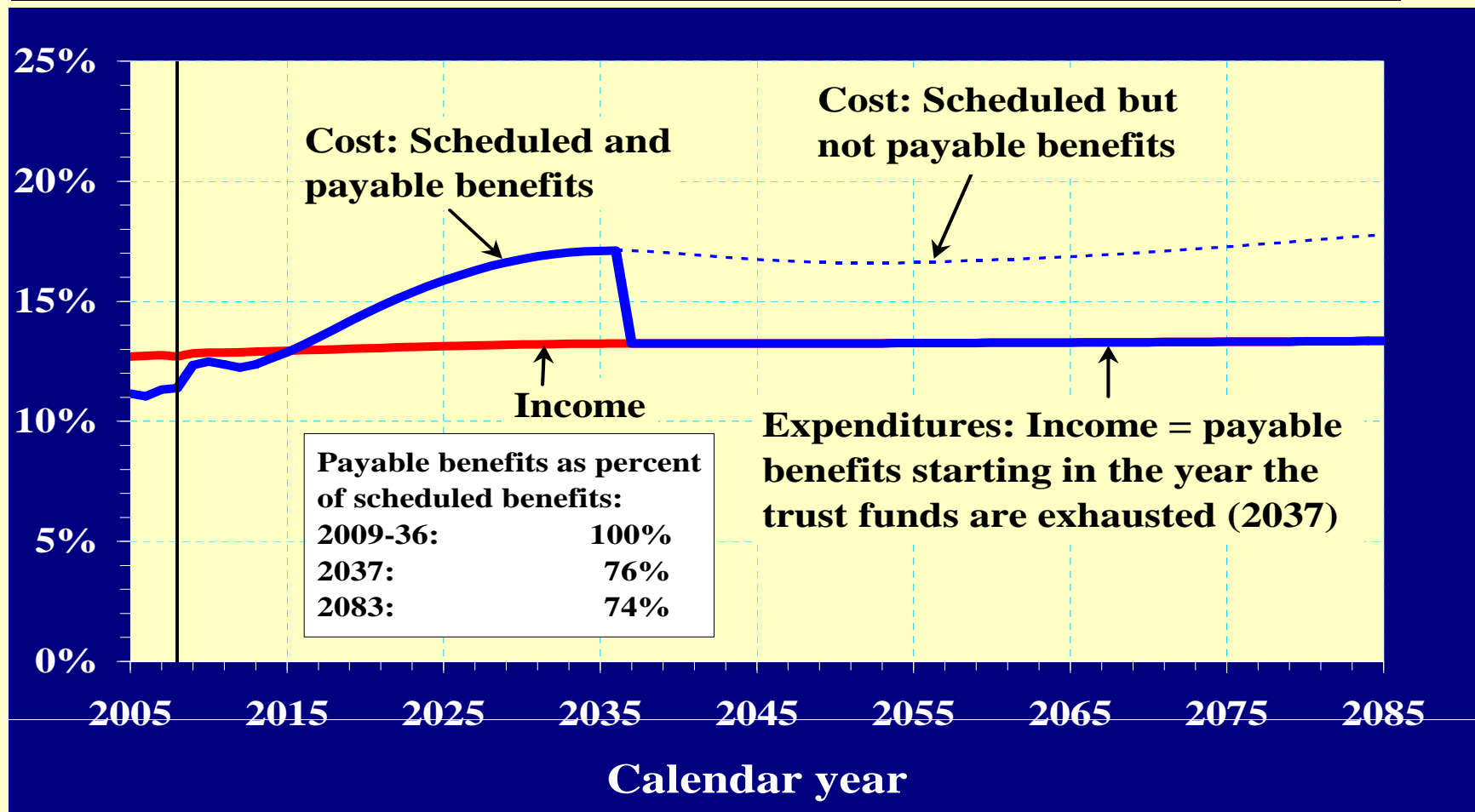
 - Total debt subject to limit not affected

- ◆ If Trust Funds Exhaust in 2037 under current law?

 - Spending is limited----NO annual budget deficit

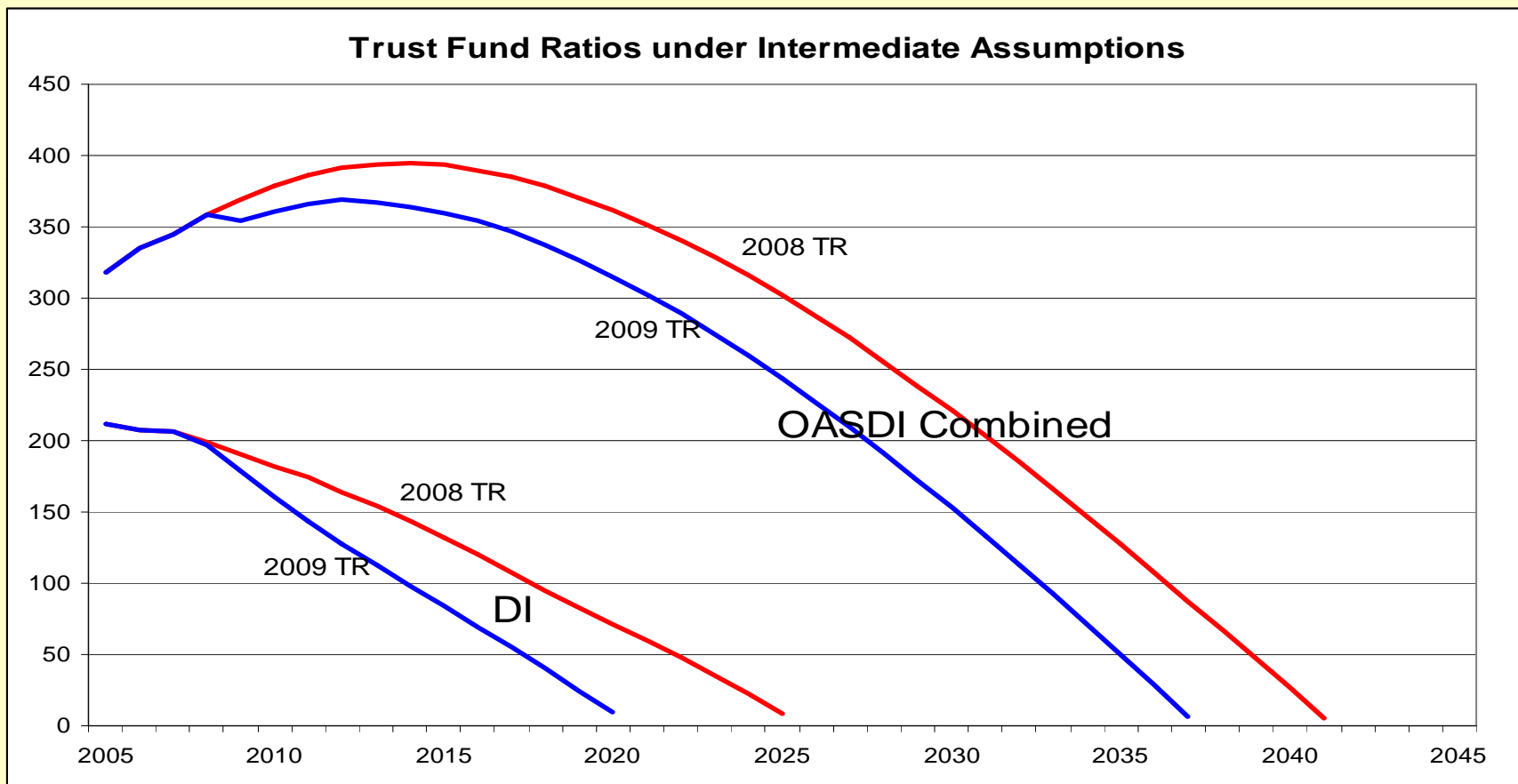
(1) System: Trust Fund Financing

Social Security Cost and Expenditures as Percent of Payroll



(2) Solvency: Ability to Pay Benefits

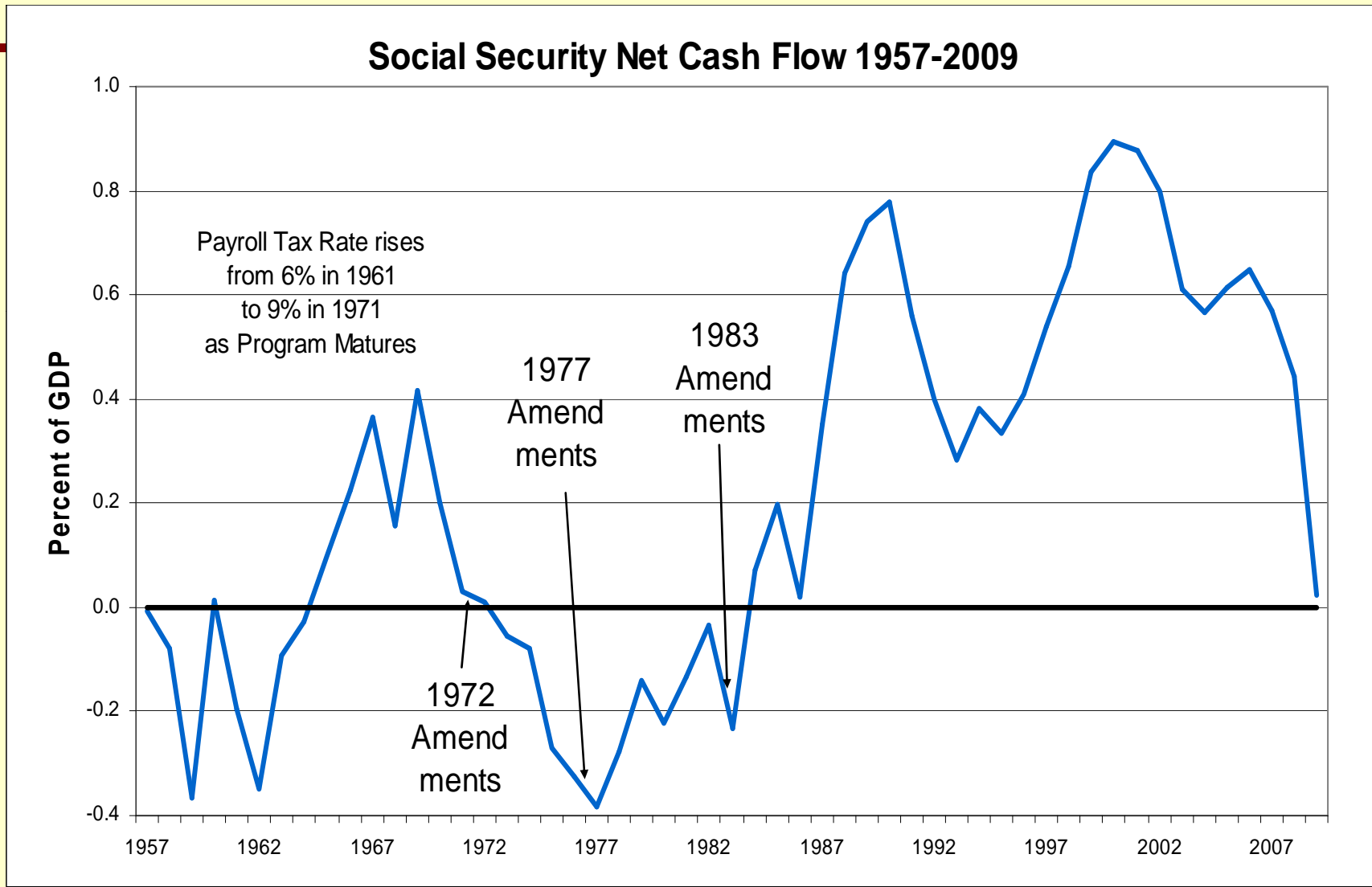
Solvent as long as Trust Funds have assets



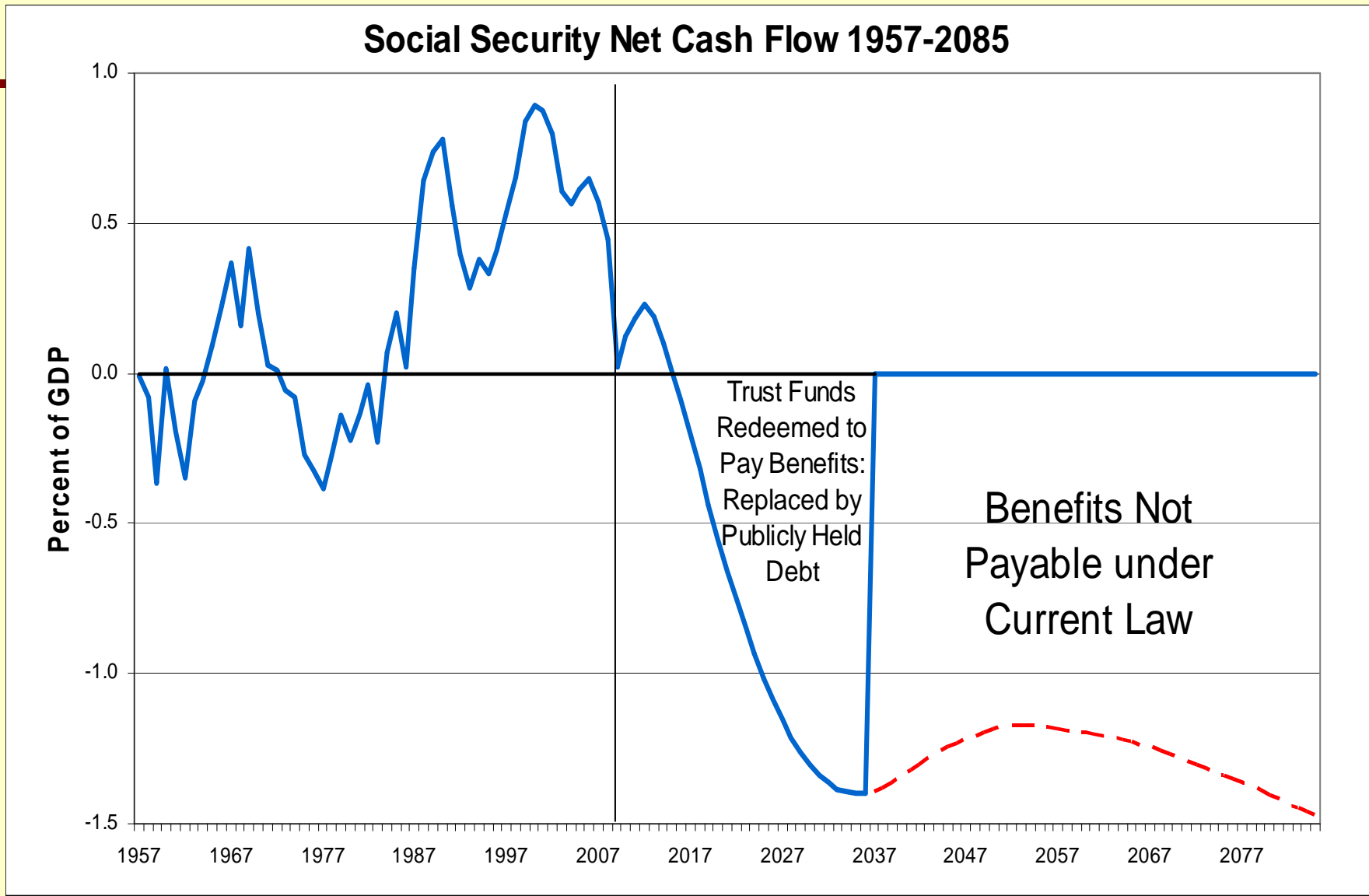
(2) Solvency: Ability to Pay Benefits

- ◆ If Assets exhaust in 2037, then by Law---
 - only 75% of scheduled benefits are payable
- ◆ Has this ever happened?????
 - NO. Trust Fund exhaustion forces action
 - » 1977 and 1983 Social Security Amendments
- ◆ Does “negative cash flow” force action?
 - Consider History

(2) Solvency: OASDI Net Cash Flow Past



(2) Solvency: OASDI Net Cash Flow Future



(3) Sustainability: Two Meanings

◆ First:

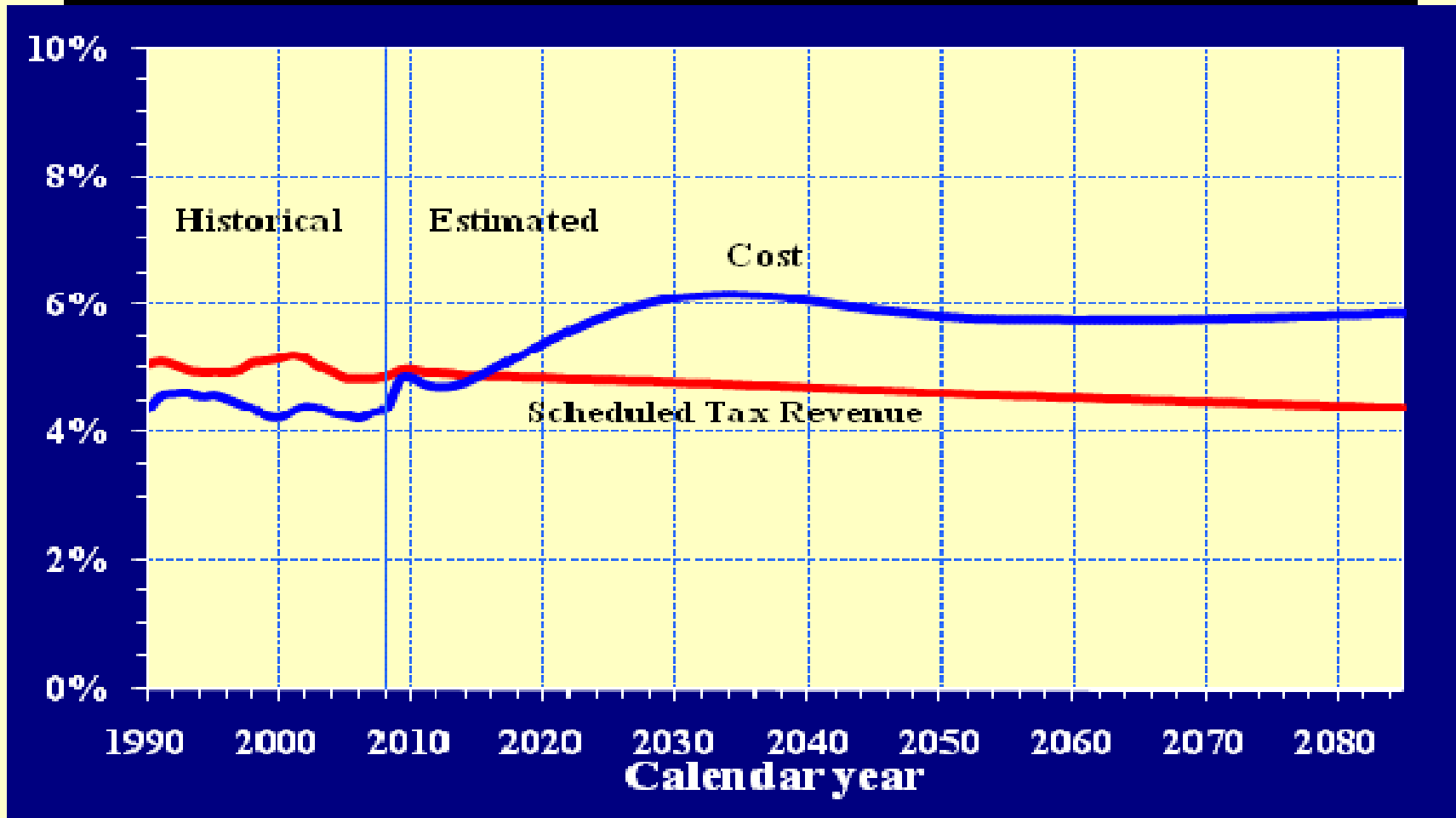
- Clearly *scheduled* benefits NOT sustainable with *scheduled* income

◆ Second:

- Current program *structure* IS sustainable with adjustments
- Or structure can be modified
- Sustainable is what Americans want and are willing to pay for

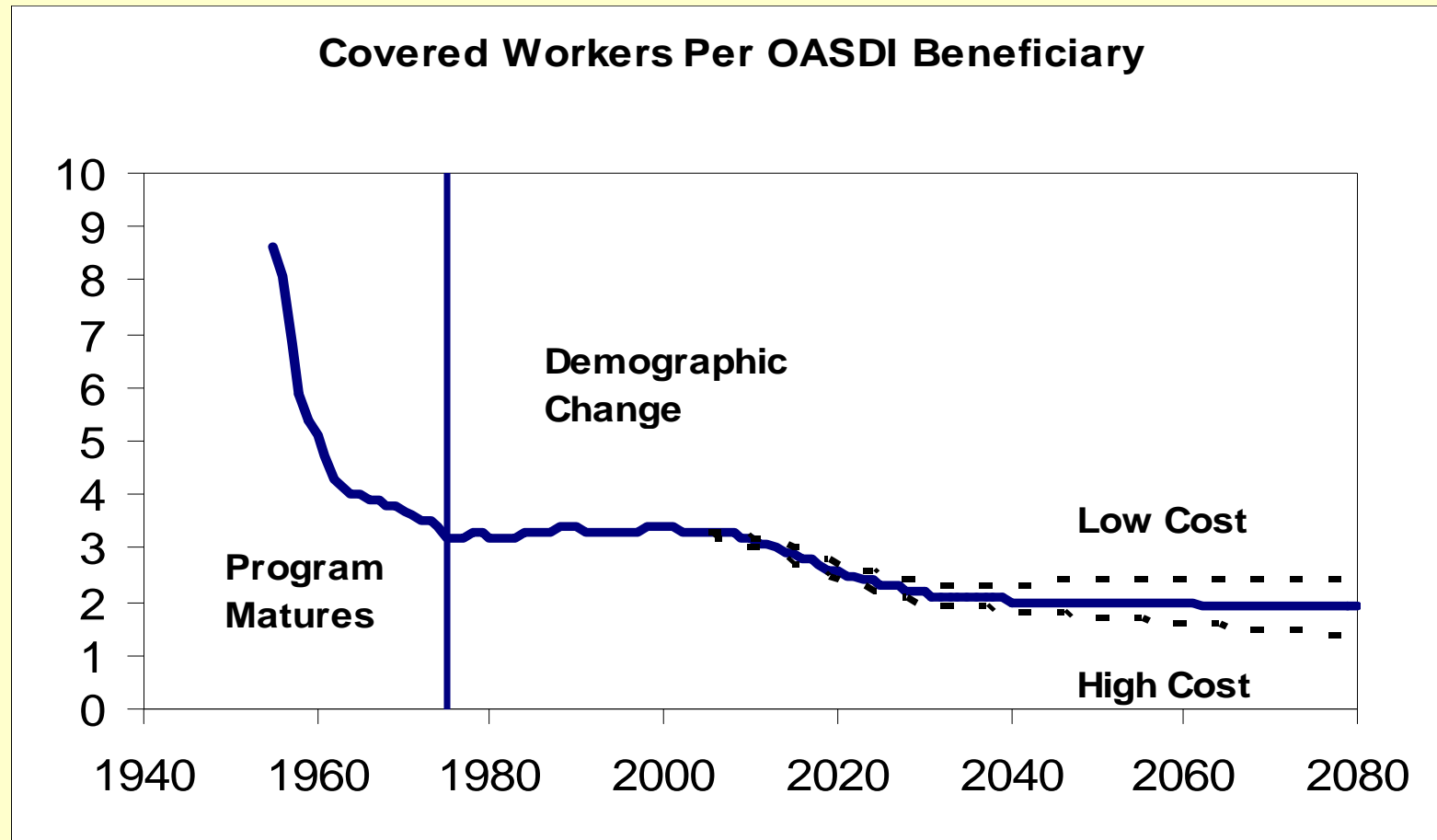
(3) Sustainability: Cost for Scheduled Benefits

Social Security Scheduled Cost as Percent of GDP



(3) Sustainability: Why has cost gone up

3.3 workers per beneficiary since 1975; just 2 after 2030



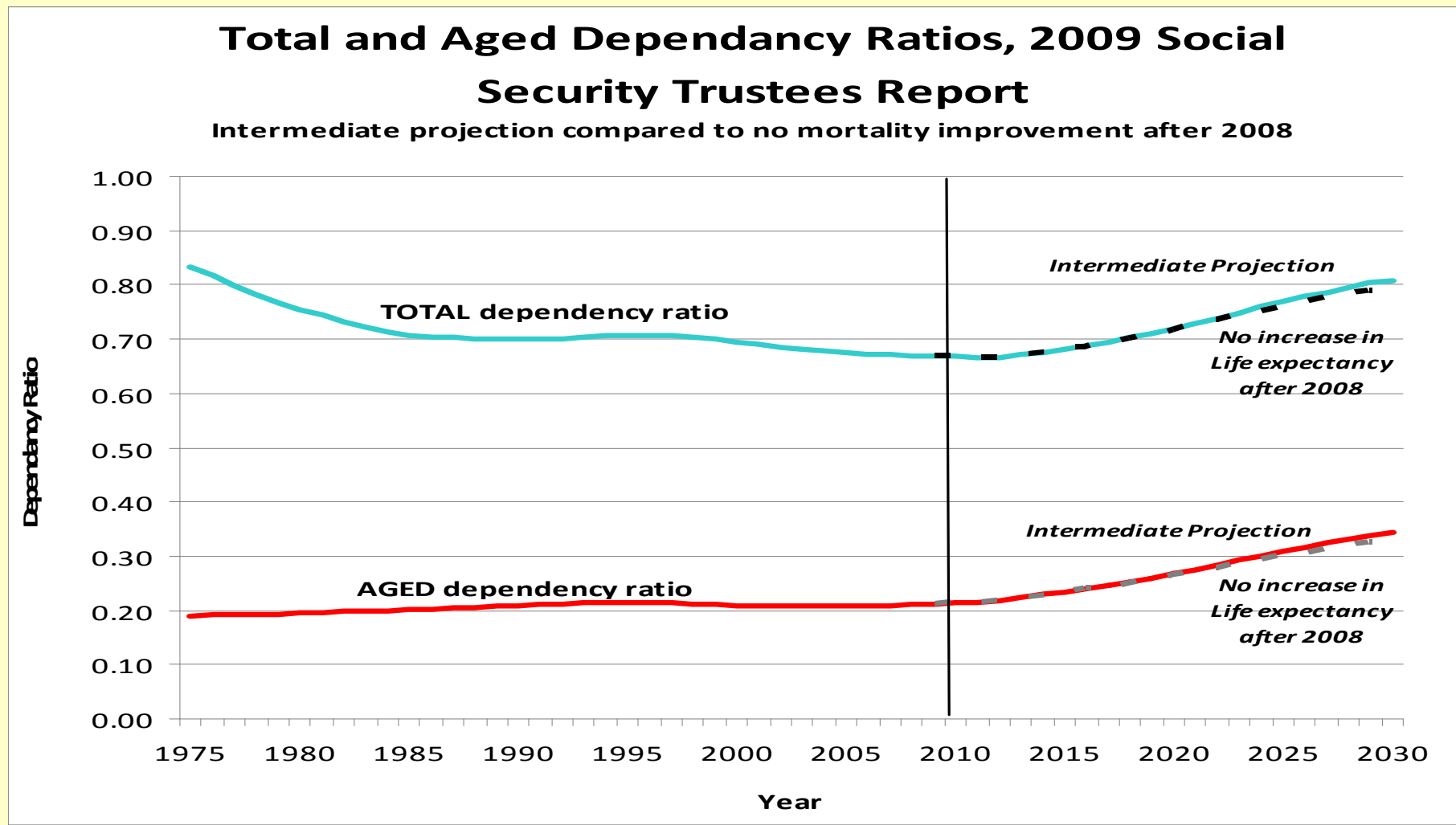
(3) Sustainability: Effect of fewer workers per beneficiary

◆ An Example

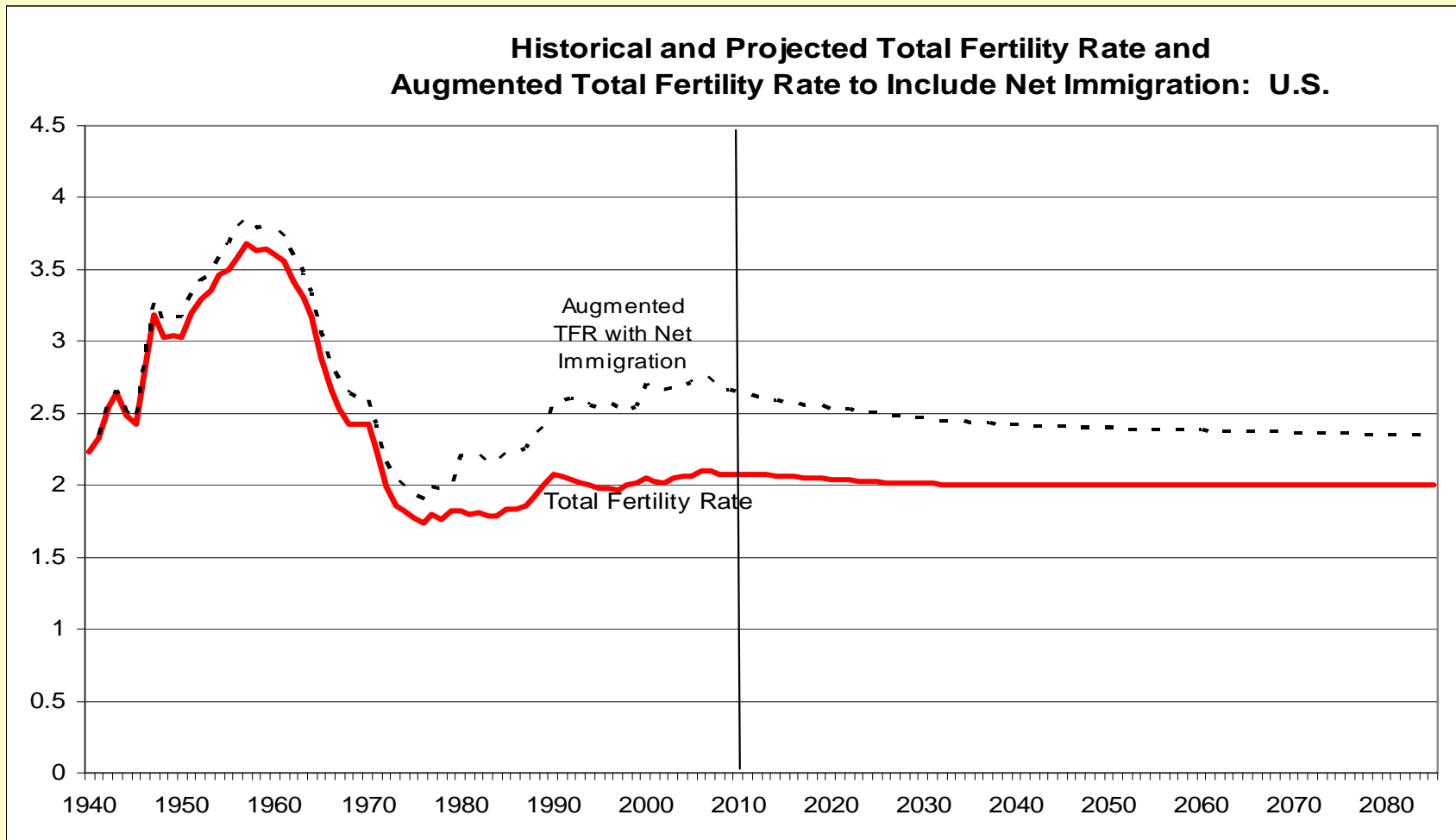
- Average Retiree benefit is about \$1,000/month
- 3.3 workers sharing pay \$300 each

- But if 2 workers share they pay \$500 each
- Or if 2 workers pay \$300 each
 - » Then average retiree gets \$600 per month

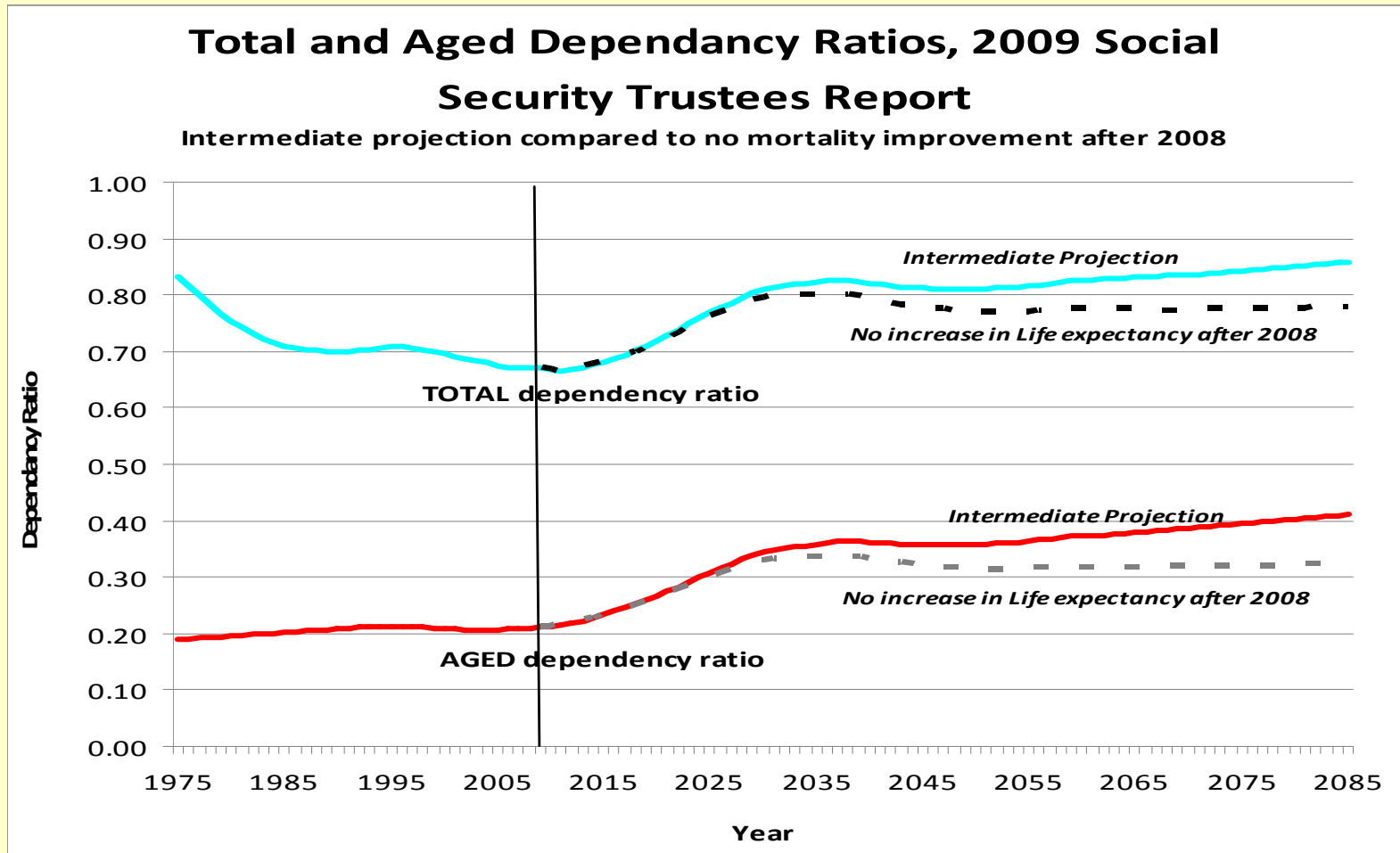
(3) Why the Shift?: We are an “Aging” society; Not from living longer, but fewer Births



(3) Sustainability: Permanently fewer Births, helped somewhat by Immigration



(3) Sustainability: We are an “Aging” society; Longer life---gradual effect after 2030



(4) Solutions: Get Sustainable Solvency, or at least make progress

- ◆ Eliminate 2.00% Actuarial Deficit
- ◆ Eliminate *unfunded obligation*
 - 0.7% of GDP or \$5.3 trillion over next 75 years
- ◆ BUT, Sustainability is about *timing* and *trend*
 - Meet or reduce obligations when shortfalls occur
- ◆ Enact soon with changes implemented later
 - Gradual changes with time for planning

(4) Solutions: No Need to “Bend” the Cost Curve (% of GDP) for Social Security

