Article from:

Pension Section News

September 2013 – Issue 81

2013 SOCIAL SECURITY TRUSTEES REPORT

By Bruce Schobel

Bruce Schobel, FSA, FCA, MAAA, is retired. He can be contacted at bdschobel@aol.com.

On May 31, Social Security's Board of Trustees issued the *2013 Annual Report* on the financial status of the Social Security (Old-Age, Survivors and Disability Insurance, or OASDI) program. The 2013 report looks remarkably similar to the 2012 report. The long-range, 75-year actuarial deficit grew slightly from 2.67 percent of taxable payroll to 2.72 percent of taxable payroll. (The effect of moving the 75-year valuation period forward one year, by itself, would have been 0.06 percent of taxable payroll, so all of the other effects netted almost to zero.) The projected year of trust-fund exhaustion remained unchanged at 2033. After the trust fund is exhausted, annual income is projected to be sufficient to cover roughly three-fourths of projected annual outgo.

Social Security's Board of Trustees has six members: the Secretary of the Treasury (who chairs the Board), the Secretary of Labor, the Secretary of Health and Human Services, the Commissioner of Social Security, and two members of the public (one Republican and one Democrat) appointed to 4-year terms. Between 2012 and 2013, three of the six Trustees left and were replaced: The Secretary of the Treasury is newly appointed, and two officials are "acting" in the positions of Secretary of Labor and Commissioner of Social Security. The two acting officials have not been nominated to fill their positions and thus may themselves be replaced before too long. These changes in the make-up of the Board led to the late issuance of the 2013 report, which by law was due on or before April 1. But interestingly, the changes did _not_ result in any significant changes to the long-range actuarial assumptions from 2012 to 2013. That's important to note.

There were, however, some changes to the actuarial assumptions. In the short range, starting values were updated to reflect the latest data, and transitions to the ultimate, long-range assumptions were necessarily adjusted. In both the short- and long-range, immigration assumptions were modified slightly. The legislation permanently lowering marginal tax rates for many taxpayers resulted in lower projected income from the taxation of Social Security benefits. (Much of that tax revenue is transferred into the Social Security trust funds.) All of these changes, taken together, increased the long-range actuarial deficit by 0.34 percent of taxable payroll. But they were slightly more than offset by methodological changes that reduced the long-range actuarial deficit by 0.35 percent of taxable payroll. The most significant methodological change (with an effect of +0.09 percent of taxable payroll) improved the projections of fully-insured population—those eligible for retired-worker benefits, in other words—as a percentage of total population. Other methodological changes are even more esoteric.

Other than the relatively minor changes noted above, the 2013 report and the financial projections contained therein look remarkably similar to the 2012 report. Social Security is a gigantic program that is critically important to the financial well-being of 57 million beneficiaries as of year-end 2012. About 163 million people (and their employers) are expected to pay Social Security payroll taxes in 2013, and all of them do so with a reasonable expectation of ultimately receiving benefits one day. The amount of those future benefits will depend on what Congress does to restore Social Security's long-range financial status. Under present law, the latest projections again show that timely benefits cannot be paid in full starting in 2033. As the 2013 report states so well:

"The Trustees recommend that lawmakers address the projected trust fund shortfalls in a timely way in order to phase in necessary changes and give workers and beneficiaries time to adjust to them. Implementing changes soon would allow more generations to share in the needed revenue increases or reductions in scheduled benefits. Social Security will play a critical role in the lives of 58 million beneficiaries and 163 million covered workers and their families in 2013. With informed discussion, creative thinking, and timely legislative action, Social Security can continue to protect future generations."

Acting sooner rather than later is critically important to finding a responsible solution to these financial problems, which are not going to go away by themselves. We can only hope that Congress gets the message.

You can find the entire 2013 Social Security Trustees Report at the following link:

http://www.ssa.gov/OACT/TR/2013/tr2013.pdf