Session 1D: Updates on Proposed Changes and Financial Status of Social Security

Moderator: William B. Fornia, FSA, EA, FCA, MAAA

Presenters:
Stephen C. Goss, ASA, MAAA
Bruce D. Schobel, FSA, FCA, MAAA

October 26, 2020,
12:30 – 1:30 pm ET
SOCIETY OF ACTUARIES
Antitrust Compliance Guidelines

Active participation in the Society of Actuaries is an important aspect of membership. While the positive contributions of professional societies and associations are well-recognized and encouraged, association activities are vulnerable to close antitrust scrutiny. By their very nature, associations bring together industry competitors and other market participants.

The United States antitrust laws aim to protect consumers by preserving the free economy and prohibiting anti-competitive business practices; they promote competition. There are both state and federal antitrust laws, although state antitrust laws closely follow federal law. The Sherman Act, is the primary U.S. antitrust law pertaining to association activities. The Sherman Act prohibits every contract, combination or conspiracy that places an unreasonable restraint on trade. There are, however, some activities that are illegal under all circumstances, such as price fixing, market allocation and collusive bidding.

There is no safe harbor under the antitrust law for professional association activities. Therefore, association meeting participants should refrain from discussing any activity that could potentially be construed as having an anti-competitive effect. Discussions relating to product or service pricing, market allocations, membership restrictions, product standardization or other conditions on trade could arguably be perceived as a restraint on trade and may expose the SOA and its members to antitrust enforcement procedures.

While participating in all SOA in person meetings, webinars, teleconferences or side discussions, you should avoid discussing competitively sensitive information with competitors and follow these guidelines:

- **Do not** discuss prices for services or products or anything else that might affect prices
- **Do not** discuss what you or other entities plan to do in a particular geographic or product markets or with particular customers.
- **Do not** speak on behalf of the SOA or any of its committees unless specifically authorized to do so.
- **Do leave** a meeting where any anticompetitive pricing or market allocation discussion occurs.
- **Do alert** SOA staff and/or legal counsel to any concerning discussions
- **Do consult** with legal counsel before raising any matter or making a statement that may involve competitively sensitive information.

Adherence to these guidelines involves not only avoidance of antitrust violations, but avoidance of behavior which might be so construed. These guidelines only provide an overview of prohibited activities. SOA legal counsel reviews meeting agenda and materials as deemed appropriate and any discussion that departs from the formal agenda should be scrutinized carefully. Antitrust compliance is everyone’s responsibility; however, please seek legal counsel if you have any questions or concerns.
Presentations are intended for educational purposes only and do not replace independent professional judgment. Statements of fact and opinions expressed are those of the participants individually and, unless expressly stated to the contrary, are not the opinion or position of the Society of Actuaries, its cosponsors or its committees. The Society of Actuaries does not endorse or approve, and assumes no responsibility for, the content, accuracy or completeness of the information presented. Attendees should note that the sessions are audio-recorded and may be published in various media, including print, audio and video formats without further notice.
Session 1d: Updates on Proposed Changes and (Current) Financial Status of Social Security

STEPHEN C. GOSS, ASA, MAAA
CHIEF ACTUARY, US SOCIAL SECURITY ADMINISTRATION

OCTOBER 26, 2020

SOCIETY OF ACTUARIES VIRTUAL ANNUAL MEETING
Actuarial Status of the OASI and DI Trust Funds

Reported on April 22, 2020 by the Board of Trustees
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 This Year

First, an important caveat! The projections in the 2020 Trustees Report 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, to 2065!
   a) Applications and benefit awards remained at historically low levels in 2019
   b) Lower ultimate incidence rate
   c) Gradual increase to ultimate incidence rate

2. OASI reserve depletion is 2034 – the same as in last year’s report.

3. OASDI reserve depletion is 2035, the same as in last year’s report. Actuarial deficit increased by 0.43 percent of payroll versus expected increase of 0.05 percent from change in valuation period alone.
Solvency: OASDI

Trust Fund Reserve Depletion in 2035
(same as last year)

Reserve depletion date varied from 2029 to 2042 in reports over the past 30 years (1991-2020).

DI Trust Fund – reserve depletion in 2065, thirteen years later than last year.

Due largely to low recent and near-term disability applications and awards, and an assumed lower ultimate disability incidence rate.
OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll

Persistent negative annual 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.
Why Cost Rises Between 2008 and 2035 as Percent of Payroll and GDP: Aging - Change in Age Distribution

Mainly due to drop in birth rates
Applications for Disability Benefits Remain Historically Low

At the peak of the last economic cycle in 2007, applications were low, but increased rapidly in the recession from 1.5 million in 2007 to 1.9 million in 2010.

In 2016 through 2020, applications have dropped below the 2007 level.
Disability Incidence Rate Also Remains Historically Low

DI disabled worker incidence rate rose sharply in the recession, and has declined since the peak in 2010 to extraordinarily low levels in 2016 through 2020.
### Principal Reasons for Actuarial Balance Change in 2020 Report from -2.78 to -3.21 percent of payroll

<table>
<thead>
<tr>
<th>Reason</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation Period</td>
<td>-0.05 percent</td>
</tr>
<tr>
<td>Legislation (primarily repeal of the ACA excise tax)</td>
<td>-0.12 percent</td>
</tr>
<tr>
<td>Lower ultimate total fertility rate</td>
<td>-0.11 percent</td>
</tr>
<tr>
<td>Lower recent birth data and lower assumed near-term total fertility rate</td>
<td>-0.04 percent</td>
</tr>
<tr>
<td>Higher recent mortality</td>
<td>+0.04 percent</td>
</tr>
<tr>
<td>Immigration assumptions and other data updates</td>
<td>-0.02 percent</td>
</tr>
<tr>
<td>Lower ultimate rate of price inflation (CPI-W)</td>
<td>-0.05 percent</td>
</tr>
<tr>
<td>Higher long-term real-wage differential</td>
<td>-0.01 percent</td>
</tr>
<tr>
<td>Lower ultimate unemployment and labor force participation rates</td>
<td>0.00 percent</td>
</tr>
<tr>
<td>Lower ultimate real interest rate</td>
<td>-0.07 percent</td>
</tr>
<tr>
<td>Starting values and other near-term economic assumptions</td>
<td>-0.04 percent</td>
</tr>
<tr>
<td>Lower ultimate disability incidence rate</td>
<td>+0.04 percent</td>
</tr>
<tr>
<td>Lower recent and near-term disability applications and incidence rates</td>
<td>+0.01 percent</td>
</tr>
<tr>
<td>Other new data and methods improvements</td>
<td>0.00 percent</td>
</tr>
</tbody>
</table>

**Net Changes for All Reasons**  
-0.43 percent
How to Eliminate the Social Security 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
Updates on Proposed Changes and Financial Status of Social Security

Bruce D. Schobel, FSA, MAAA
October 26, 2020
2020 Social Security Trustees Report

• Issued April 22, 2020

• Long-range (75-year) actuarial deficit is 3.21 percent of taxable payroll, up from 2.78 percent in the 2019 report.

• Projected trust fund depletion date for combined OASDI funds is 2035, same as in the 2019 report.

• Starting in 2035, annual income is expected to be sufficient to cover about 79 percent of annual outgo, and that percentage declines slowly over time.
Effects of the pandemic

• The 2020 Trustees Report reflects actual experience through 2019, as usual.
• It was issued in April 2020, before the effects of the pandemic were very well understood.
• Many of the short- and long-range assumptions will need to be reexamined.
• Recent experience and revised assumptions will be reflected in next year’s Trustees Report.
Effects of the pandemic

• The effects of the pandemic cannot be anticipated very accurately while it is ongoing.
• Nobody knows how long it will continue.
• Under the circumstances, quantifying its effects is impossible.
• However, we can see many of its effects and their direction with regard to financial impact.
Effects of the pandemic

• We see three broad categories of effects:
  • Declining tax revenue
  • Complicated effects on benefit outgo, some increasing and some decreasing
  • Certain esoteric matters:
    • A somewhat surprising reduction in benefits for retired workers born in 1960 and people becoming disabled in 2020, and
    • Potential – but likely unrealized – effects of President Trump’s executive order to defer collection of employee payroll taxes.
Declining tax revenue

• This is almost certainly the largest effect.
• Millions of people have been unemployed for much of 2020, and many workers who still have jobs have seen reductions in their earnings.
• Some workers, notably in health care, are working more in 2020, but this group is dwarfed by the larger group working less.
• Lower earnings translate into payroll taxes 5-10 percent less than had been projected for the year.
Effects on benefit outgo

• We can see four categories of affected beneficiaries:
  • Elderly beneficiaries dying sooner than expected
  • Working-age people dying unexpectedly
  • Workers eligible for retirement benefits claiming them sooner than expected
  • Workers disabled by COVID-19 and claiming disability benefits
Elderly beneficiaries dying

• Obviously, every death has a great human cost, but from the financial perspective of the Social Security program, the premature death of a beneficiary has a positive impact.

• Because more than half of COVID-related deaths are among the elderly, this effect *may* be greater than the other effects on benefits, but not nearly as great as the reduction in tax revenue.
Working-age people dying

• When working-age people die, the Social Security program loses future payroll-tax revenue and may receive benefit claims from surviving spouses and children (minors and disabled adult children).

• These unexpected benefit claims result in unanticipated benefit costs that continue for years.

• This effect is not very significant because the number of deaths among younger people has not been as large as among the elderly, and all young deaths do not result in benefit claims.
Workers claiming benefits early

- Eligible workers who become unemployed or underemployed may find that they must file for Social Security benefits because they need the income.
- If they file early, they have early-retirement reduction factors that are reasonably close to actuarial.
- Thus, the program tends to experience higher-than-expected short-term costs followed by lower-than-expected costs in later years.
Workers claiming disability benefits

• In addition to killing a relatively small percentage of infected people, COVID-19 does severe damage to many survivors who may as a result become eligible for disability benefits (for themselves and for eligible family members).

• These unexpected disability claims will be a great but currently unknown cost of the pandemic.

• This additional benefit expense, which can continue for decades, may exceed the reduction in benefits due to the deaths of elderly beneficiaries.

• We just don’t know yet.
Workers born in 1960 or disabled in 2022

• Social Security’s benefit formula indexes all earnings prior to age 60 (for retired workers) and 2 years prior to disability onset (for most disabled workers) for changes in the national average wage.

• In the retired-worker case, for all prior years, the actual earnings are multiplied by a fraction that has the age-60 national average wage as the numerator.

• Workers born in 1960 turn 60 in 2020, so the 2020 national average wage is a critical number in calculating their benefits.
Workers born in 1960 or disabled in 2022

• The national average wage for any year is the total amount of wages reported on W-2 forms divided by the total number of workers (not the number of W-2 forms):
  • The total amount of wages in 2020 will be substantially depressed due to the pandemic.
  • The total number of workers is much less affected because so many people worked during January and February.
  • Thus, the national average wage for 2020 will be substantially reduced, by 5-10 percent compared to 2019.
Workers born in 1960 or disabled in 2022

• The reduction in the national average wage results in a reduction in total indexed earnings for the affected group.

• As the reduced number moves through the various stages of Social Security’s benefit-computation procedure, the monthly benefit amounts are also reduced.

• This happened only once before, in 2009 (affecting those born in 1949), but the effect was only about 1.5 percent and went relatively unnoticed.

• The effect in 2020 will be 5-10 percent and will certainly be noticed.

• Whether anything will be done to address this remains to be seen.
President Trump’s executive order

• In August, President Trump ordered the Treasury Department to defer collecting the *employee* half of Social Security’s payroll tax for the last four months of 2020.

• Any deferred payroll taxes are due and payable during the first four months of 2021, unless the law is changed.

• While the Federal Government has stopped withholding taxes for its affected employees (those earning less than $4000 biweekly), most private-sector employers are apparently continuing to withhold this tax.

• As a result, the executive order may have only very minor financial effects, due to loss of interest income.

• It remains to be seen whether the law imposing the payroll tax will be changed.
Implications of COVID-19 on Actuarial Status

Stephen C. Goss, ASA, MAAA
Chief Actuary, US Social Security Administration

See also https://www.ssa.gov/oact/presentations/ocact_20200722.pdf
Characteristics of COVID-19

• Highly communicable
• Transmissible prior to symptoms
  ◦ Some never show symptoms
• Immunity after infection appears to be limited
  ◦ Less than 12 months; implications for “herd immunity”
  ◦ Potential for repeated reinfection
• Death rate overall 0.4% to 1%: proportionate increase across ages
• Compromise for survivors?
• Vaccine or therapy? How effective?
Potential Path Going Forward

1918: worst case scenario?

Will we do much better in 2020?

Will we avert a substantial second wave in the fall? If so, we may be able to return to “normal” next year

If not...

Mortality to this point has been significant both reported for COVID and otherwise.

Deaths are reported to CDC with a lag, Estimated complete are adjusted.

Excess deaths spiked in April, and again in July-August.

This Fall and Winter are to be determined.

Next year?
GDP, Earnings, and Payroll Tax Revenue

• Social Security payroll tax revenue will certainly be lower than we projected for 2020—by between 5 and 10 percent

• Neither the employer payroll tax deferral in COVID legislation nor the employee payroll tax deferral in the executive order affect revenue to the trust funds

• What will effects be beyond 2020?
  ◦ Substantial economic recovery since the second quarter of 2020
  ◦ Main issue is path of pandemic and responses
OASDI Beneficiaries

• There will clearly be competing effects on the size of the beneficiary population in the near term

• Decrease in beneficiaries due to increased deaths

• Potential increase in beneficiaries due to additional applications—assuming recession persists, and recovery is not as abrupt as the recession
  ◦ However, to this point, retirement applications are not above prior expectations, and disability applications are substantially lower than prior expectations

• Implications for 2021 and beyond depend on the pandemic and responses
Bottom Line: Effects on Trust Funds Under COVID

• In April, we speculated potential 15% 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

• Now, consider an illustrative scenario: assume total earnings in 2020 are reduced to 5-10% below the 2020 TR intermediate projection, with recovery in 2021 and 2022
  ◦ This could happen if there is no substantial second 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 about 1 year earlier (CBO estimated 1 year earlier in July and September)
Bottom Line: Effects on Trust Funds Under COVID

• 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 speculated possible substantial reduction in GDP and earnings for 9 to 10 years, with OASDI combined trust fund reserve depletion 6 years earlier (2029)
  ◦ Even this is in the range of Trustees Report projections over the last 30 years
Update on Proposed Changes for Social Security

Implications of COVID-19
Available Options to Restore Actuarial Balance
Implications of COVID-19 for Changes in OASDI

• Over the long-range period, likely minor
  ◦ The pandemic-induced recession may be brief with little permanent effect
  ◦ Note that Trustees Reports have incorporated the likelihood of periodic negative events
    ◦ Specifically, Trustees Report ultimate mortality decline has been assumed to be at around 0.73 percent on average. Others have persistently assumed 1.0 percent or higher in the long term with no deceleration.
    ◦ The Trustees Reports have also assumed long-term unemployment rates will be higher than “forecasters”

• However, there are near-term considerations
Average Wage Index (AWI): “Notch” and “Boost”

• The AWI declined in 2009 by 1.5%, and may decline by more for 2020

• If the AWI declines for 2020 by say 5%, then ALL beneficiaries becoming newly eligible in 2022 (retirees, disabled, survivors) would have benefits permanently lower than those who became eligible a year earlier (notch)

• But for those becoming eligible after 2022 who had earnings in 2020, the indexed value of their 2020 earnings will be increased (boost)

• The net effect on actuarial status is small

• However, two bills have been introduced to address this possibility for the 2020 AWI, and for the possibility of declines in the future; see testimony at https://www.ssa.gov/oact/testimony/HouseWM_20200717.pdf
Currently-Proposed Comprehensive Changes for OASDI

• Currently, only the Social Security 2100 Act is introduced
  • Increase payroll tax rate and gradually eliminate the taxable maximum
  • Some benefit enhancements

• In addition, bipartisan support for changing the Windfall Elimination Provision

• Comprehensive changes proposed by Sam Johnson have not been reintroduced since he passed away
Some Ways to Lower Cost

• Lower benefits for retirees – not disabled?
  • Increase normal retirement age (lowers OASDI cost, but increases DI cost)
  • Can exempt long-career low earners (Simpson Bowles 2010)

• Lower benefits mainly for high earners?
  • Reduce PIA above some level
  • Noting that higher earners generally live longer

• Lower benefits mainly for the oldest old?
  • Reduce the COLA
  • Others say increase it with the CPI-E (based on purchases of consumers over age 62)
Some Ways to Increase Revenue

• Raise the 12.4 percent OASDI payroll tax rate?
• Raise tax on highest earners?
  • Increase taxable maximum amount
  • 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?
Finally, Timing for Changes

- Historically, Congress has waited until reserve depletion is imminent
  - Given uncertainties, difficult to lower benefits or raise taxes until necessary
- Enacting “sooner” allows more options, more gradual phase in, and more advance notice
  - Best example: 17-year delay in implementing NRA increase in 1983 amendments
- OASDI reserve depletion now projected for 2035
  - COVID-19 will make depletion sooner
  - The date has varied between 2029 and 2042 over the past 30 years
For More Information Go to http://www.ssa.gov/oact/

• There you will find:
  • This and all prior OASDI Trustees Reports
  • Detailed single-year tables for recent reports
  • Our estimates for comprehensive proposals
  • Actuarial notes; including replacement rates
  • Actuarial studies; including stochastic
  • Extensive databases
  • Congressional testimonies
  • Presentations by OCACT employees
2020 VIRTUAL ANNUAL MEETING & EXHIBIT