Concerned Actuaries

“Everyone is entitled to his own opinion, but not his own facts.”

CAN WE AGREE ON THESE FACTS THE PUBLIC SHOULD KNOW ABOUT SOCIAL SECURITY?

Basics

The United States government’s Old Age, Survivors and Disability Insurance (OASDI) program was created by the Social Security Act signed into law by President Franklin D. Roosevelt in 1935. Since then “Social Security,” as it is commonly referred to, has provided income for retirees, survivors and the disabled.

Eligibility

Normal retirement is presently at age 66, having been increased from age 65 over a number of past years based on adjustments agreed to in 1983. It is scheduled to rise gradually to age 67 in the future. Early retirement subject to actuarial adjustments is available at age 62.

Cost to Qualified Beneficiary

The Social Security tax rate for employed individuals and their employers is 6.2% each on income up to $118,500. The Social Security tax rate for self-employed individuals is 12.4% on up to $118,500.

Sustainability

According to the 2016 report of the Trustees of the Social Security system, the Social Security’s Old-Age, Survivors, and Disability Insurance (OASDI) Trust Fund reserves will become depleted in 2034 under the intermediate set of economic and demographic assumptions provided in their report. If no legislative change is enacted, scheduled tax revenues will be sufficient to pay only about eighty percent (80%) of the scheduled benefits after trust fund depletion. The 2016 Trustees Report states that Social Security’s total expenditures have exceeded payroll tax income since 2010 and the Trustees estimate that Social Security’s cost will exceed non-interest income throughout the 75-year projection period (i.e., the arbitrary period used by the system’s actuaries to test for sustainability). The Trustees project that this annual cash-flow deficit will average about $77 billion between 2014 and 2018. Thereafter, the deficit is expected to increase monotonically since the growth rate of benefits will exceed that of income.

Solvency and Debt

According to the 2016 OASDI Trustees Report, total income to the system in 2015 was $920 billion, consisting of $93 billion in interest income and $827 billion in contributions (i.e., payroll taxes). Payments out of the system totaled $897 billion. Book assets for the entire system totaled $2.8 trillion.

How Many Workers Support One Social Security Retiree?

In 1945 there were nearly 42 workers per beneficiary. Projections now suggest that by 2035 there will only be 2 workers per beneficiary.

Source: 2012 OASDI Trustee Report, Table IV B2
Is it consistent with actuarial standards to value a permanent program as though it will sunset in 75 years? Or 50 years? The 75-year valuation period was sired by Bob Myers, the second SSA Chief Actuary. But he accepted it as a compromise with those who wanted a shorter period, and he indicated that he would have preferred an infinite horizon for a supposedly permanent program. Should the actuary tell beneficiaries that the financial assumption is that at the end of the 75-years there will be no money beyond future taxes for any payouts regardless of prior “contributions”?

Is it true that the size of the workforce is an important variable and assumption in making Social Security financial projections? The Great Recession had a significant dampening effect on workforce projections made before 2008. Recent projections have been made assuming that the Great Recession effect will gradually trail off over a few years, but these projections reflect no impact (adverse selection) should government benefits increase, and net earned income decrease, until benefits exceed income (at least for some) – and still no adverse effect on the size of the workforce? Is the underlying assumption that people will be willing to give up some net income for the intangible benefits of working?

Are the current assumptions about Social Security optimistic or pessimistic? Recent trustees reports have indicated that Social Security’s reserves would become depleted between 2033 and 2036 under the intermediate set of economic assumptions provided in each report.” Are the intermediate projections optimistic? Pessimistic? [NOTE: We members of the Concerned Actuarial Group believe these assumptions should be characterized as optimistic.]