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Concerned Actuaries of the U.S.

A Dialogue on the Cost of Delayed Action

The Issue: The reports produced each year by the Trustees of the OASDI (Social Security) on the operations and financial condition of the Social Security system in the US make clear that the system is not currently on a financially sustainable long-term path.

The Proposition: Information in the Trustees' report also underscores the fact that the cost and challenges related to fixing the system increase significantly if our elected officials continue to delay addressing the problem.

The problem – defined using the assumptions principally applied by the Trustees (the so-called intermediate assumptions), - is that projected OASDI cost[1] will exceed total income by increasing amounts starting in 2020, and the dollar level of the combined trust fund reserves declines until reserves are fully depleted in 2034. In fact, costs already exceed participant contributions and have since the year 2010.

Addressing the problem requires Presidential leadership and Congressional action, and every day that our elected leaders do not act the price for fixing the problem goes up. Consider, for example:

- The actuaries' **solvency test** in 2016 **concludes** that the current combined **tax rate** of 12.40% of taxable payroll **needs an immediate increase** of 2.58% to 14.98% in order to maintain solvency throughout the measurement period. This change represents an increase **of 20.8%**. **If,** however, any **increase is postponed until** the **trust fund is depleted** (projected to be 2034), **then the needed increase would be** 3.58% of payroll, **an increase of 28.9%** (an increase **nearly 40% more)**.

- If our elected leaders were instead to seek benefits **to create a solvency balance by reducing benefits**, the **today's reduction would need to be 16% for all beneficiaries** including current retirees. The **equivalent figure at reserve exhaustion in 2034 would be 21%.** If current retirees and those nearing retirement were to continue to receive benefits at current level, then future retirees would necessarily receive even larger benefit cuts.

- As noted above, beneficiary payments currently exceed income from payroll taxes and taxation of benefit payments. That difference is currently about $70 billion for 2016 on a

[1] The Social Security actuaries measure benefit costs in several ways. For purposes of this note we will use their definition of "solvency" which anticipates some employee or employer behavioral changes in response to changes in tax rates and which assume there will be no reserves left at the end of the measurement period. For the measurement period for solvency, the actuaries use a 75-year period ending in 2090 in the 2016 report.

Gross Domestic Product (GDP) of roughly $19 trillion. If no changes are made, that shortfall is projected to balloon to roughly $500 billion in 2034 based on an estimated GDP of $44 trillion.

- All figures included here, as noted, use the OASDI actuaries "intermediate assumptions". They make no claim that these are "best estimates". Worse results obtain with the actuaries' "high cost" assumptions, and better follow from their "low cost" assumptions. A review by us of the assumption sets leads us to believe that the intermediate set likely understates costs.

Questions for the actuarial community: No attempt is made here to propose solutions other than a clear call for action sooner rather than later. The range of possibilities is broad but not limitless: some combination of higher taxes, higher normal retirement age, expanded taxable wage base, means testing, reduced inflation indexing, and outright benefit reductions, shared or not with current retirees, are changes most frequently mentioned.[2] That said, in an effort to encourage dialogue about this important – and expensive – issue, we offer the following questions:

1. Are we, as actuaries with responsibilities to the voting public, prepared to let our elected officials continue to "kick the can down the road" when the facts and the need for action seem so clearly apparent today?
2. What combination of changes (and it will take more than a single change) are seen to be both fair and politically feasible?
3. As part of a corrective update to the program, should there be included some type of self-correcting mechanism, so that the system's integrity in the future does not depend on law makers and legislation?

[2] Cost estimates for many of these options are provided by the OASDI system actuaries on their website at www.ssa.gov/OACT?solvency/provisions. Any and all such changes are clearly politically super charged, but delay is no solution!