Hearing on Examining Social Security's Solvency Challenge: The Status of Social Security's Trust Funds

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HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

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Hearing on Examining Social Security's Solvency Challenge:
The Status of Social Security's Trust Funds

U.S. House of Representatives,
Subcommittee on Human Resources,
Committee on Ways and Means,
Washington, D.C

WITNESSES

Stephen C. Goss
Chief Actuary, Social Security Administration
Testimony

WAYS AND MEANS
CHAIRMAN KEVIN BRADY

Chairman Johnson Announces Hearing on Examining Social Security's Solvency Challenge: The Status of Social Security's Trust Funds

House Ways and Means Social Security Subcommittee Chairman Sam Johnson (R-TX) announced today that the Subcommittee will hold a hearing entitled "Examining Social Security's Solvency Challenge: The Status of Social Security's Trust Funds." The hearing will focus on the findings of the 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds. **The hearing will take place on Thursday, June 7, 2018 in 1100 Longworth House Office Building, beginning at 11:00 AM.**

In view of the limited time to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Hearings." Select the hearing for which you would like to make a submission, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Thursday, June 21, 2018**. For questions, or if you encounter technical problems, please call (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days' notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available at http://www.waysandmeans.house.gov/

EXAMINING SOCIAL SECURITY'S SOLVENCY CHALLENGE:
THE STATUS OF SOCIAL SECURITY'S TRUST FUNDS
Thursday, June 7, 2018
House of Representatives,
Subcommittee on Social Security,
Committee on Ways and Means,
Washington, D.C.

The subcommittee met, pursuant to call, at 11:04 a.m., in Room 1100, Longworth House Office Building, Hon. Sam Johnson [chairman of the subcommittee] presiding.

Chairman Johnson. Good morning, and welcome to today's hearing on the status of Social Security's Trust Funds. Today we will hear from Social Security's Chief Actuary about the findings of this year's Trustee Report.

I first became Chairman of Social Security in 2011 and I have held this hearing many times. At every one I have said that Social Security is in trouble and its problems will only get worse.

Back in 2011, the Trustees told us that the Social Security Trust Funds would be exhausted in 2036. This year's report says the date is now 2034, 2 years earlier. If Congress doesn't act by 2034, Social Security will only be able to pay 79 percent of promised benefits.

Also back in 2011 the Trustees also told us that it would take $6.5 trillion to make Social Security solvent over the next 75 years. This year the Trustees tell us that it would take $13.2 trillion, more than double that amount.

And as you all know, Social Security has been paying out more in benefits than it receives in tax revenue. To make up the difference, Social Security would use the interest earned by the Trust Funds from the assets that they hold.

However, those days are now over. According to the Trustees, Social Security is now paying out more in benefits than it receives from all of its income for the first time since 1982. This means we must now tap into the Trust Funds' principal itself to pay benefits.

Colleagues, this is a big deal and an important signal that time is not on our side.

The Trustees Report is critical to providing Congress the information it needs to address Social Security's challenges. However, in 12 of the last 15 years it has been late. Further, this Subcommittee has looked into how the report is developed at past hearings.

In addition, I know many were surprised to see the report not reflect the benefits of pro-growth tax reform that we see every day -- more jobs, higher wages, and a booming economy.

While historically the Trustees have been more rosy than others in their outlook on these areas, it is important to understand how and when the Trustees make economic projections that are the key to the findings in the report.

It is clear that the Public Trustees play an important role in the development of the report, and these positions were created to make sure there weren't any concerns with the objectivity and integrity of the report. Yet, we haven't had the benefit of the Public Trustees' insight since July 2015, when their positions became vacant.

That is why I, along with my good friend Peter Roskam, Chairman of the Health Subcommittee, have asked GAO to look at how these reports are developed and why they are almost always late.

Since we do not have Public Trustees, GAO's work can bring much needed transparency and insights into what changes need to be made to improve the process. Congress must be able to count on these reports and have them available so it can do what it takes to fix Social Security.

Previously, I introduced my plan to fix Social Security permanently. My good friend from Connecticut, Mr. Larson, also has a plan that would fix Social Security permanently. Our plans are very different, but we both agree that we need to act, and act now, to fix Social Security for good. Workers and their families deserve the certainty that we have gotten Social Security on the right track.

I know that fixing Social Security will require more tough choices that will affect the lives of millions of Americans. Congress has a responsibility to the American people to make these choices, and the longer we wait, the harder it gets. If we wait until the Trust Funds are exhausted, some options won't even be available anymore.

We must take this responsibility seriously. Americans want, need, and deserve nothing less.

I will now recognize Mr. Larson for his opening statement.

Mr. Larson. Thank you, Mr. Chairman. And, indeed, we do both agree that we need to act now, and both have put forward solutions that I think the American public needs to hear.

Let me start with something that I think every member on the committee and every Member of Congress, if they don't know, should know: 10,000, 10,000 baby boomers a day become eligible for Social Security. You look across this country and you understand that issue in and of itself demands that we act now and responsibly.

Social Security is America's insurance program. It is something the public understands eminently. Why? Because every week, biweek, or monthly they look at their pay stub and see under FDIC, the Federal insurance contribution -- let me repeat that again -- Federal insurance contribution, that there is a deduction that has been made.

We often hear in the course of dialogue that government should run more like a business. In this case, it should run like an insurance business and be actuarially sound. And yet, the last time that we actually addressed this issue actuarially was in 1983. Ronald Reagan was President, Tip O'Neill was Speaker of the House, and they made the adjustments that were necessary that would extend the life of Social Security, but they didn't do it completely, and they did an index.

I ask anyone on the committee or in the audience, have any of your insurance policies gone up since 1983? There is no wonder why the system is in trouble, because it hasn't been actuarially adjusted since 1983. And had we -- or had they, back then -- made those adjustments, we wouldn't be having this conversation.

Because it is indeed America's most outstanding insurance program and something, as I said earlier, that everybody knows about because no one has ever missed a payment. The Social Security system has never missed a payment, both on the disability side, which is in more of a predicament than we are on the pension side, but nonetheless, both have to be addressed.

So how do we address them? Well, we can do two things. We can either tell those 10,000 people a day that what they have got to do is face cuts. Or we can say to them, you know what we have to do, we have to make a premium adjustment. We have to do what should have been done in 1983 and index this program.

So what we are proposing is that we do just that. And for somebody making $50,000 a year it would cost you 50 cents a week, not only to extend the life of Social Security beyond its 75-year requirement, but provide the enhancements and benefits that people deserve, especially women in this country and especially women of color, who more often than not find themselves retiring into poverty. All of these problems are fixable.

Usually at this point I have a Starbucks latte that I hold up anywhere that I go and I ask the elderly if they know how much that is, and they will go $4.50. Or if you are making $50,000 a year, that is 9 weeks of Social Security payments that would more than amply, as Mr. Goss has pointed out, pay for Social Security to make sure that we have enhancements in place for the 10,000 people a day that become eligible and for future generations into and beyond the 75-year requirement, while still making the programs, both on the disability side and the pension and survivors benefits, solvent.

This should be, as it was back in 1983, a bipartisan effort. And I think when you think about the fact, for 50 cents a week, if you are making $50,000 a year, we can solve this problem, I would love to have the American people -- welcome that debate with them, so that we can arrive at a conclusion that I think is in the best interest of everyone. Social Security neither Democrat nor Republican, it is American.

Chairman Johnson. Thank you.

You know, as is customary, any members are welcome to submit a statement for the record.

Before we move on to our testimony today, I want to remind our witness to please limit your oral statement to 5 minutes. However, without objection, all of the written testimony will be made a part of the hearing record.

We have one witness today. Seated at the table is Stephen C. Goss, Chief Actuary, Social Security Administration.

Mr. Goss, welcome back. Please proceed with your testimony.

STATEMENT OF STEPHEN C. GOSS, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION

Mr. Goss. Thank you very much, Chairman Johnson, Ranking Member Larson, and all members of the Committee. It is a pleasure to be here with you today to talk to you about the 2018 Trustees Report. And Congress, by the way, has received from the Trustees every single year, starting in 1941, this annual report as you have required under law.

I just want to, first of all, thank both of you in your oral statements for talking about the nature of the coming shortfalls that we have for Social Security, which we have for many years now discussed are really largely about the demographics, about the fact that our age distribution of our population is changing because of the drop in the birthrates back in the 1960s. It is like the tide, inevitable.

But let me speak to you briefly about three major changes in this year's Trustees Report compared to the last.

First, based primarily on continuing the lower-than-expected disability application and incidence rates through 2017 to levels that are now below the levels that we achieved at the peak of the last economic cycle in 2007, the projected reserve depletion date for the DI Trust Fund is extended once again by an additional 4 years, from 2028 in last year's Trustees Report out to 2032, which is very close to our reserve depletion date for the OASI Trust Fund.

The DI reserve depletion date has extended to this degree in spite of the fact that disability incidence rates assumed by the Trustees are now assumed to be rising more rapidly, to the same ultimate rate as assumed in last year's Trustees Report.

In addition, a bit of a technical point, average benefit levels for new disabled worker benefits are now in this Trustees Report projected to be somewhat lower due to changes in the mix of new benefit awards resulting from the progress that SSA has made in the last year on bringing down the administrative law judge hearing backlog.

Second, the reserve depletion date for the OASI trust fund, the retirement and survivor fund, is projected to be late in 2034. This is a few months, just a very few months earlier than last year's report, which projected reserve depletion to be very early, I believe January, in 2035.

The change is largely due to lower projected revenue for the OASI, DI, and HI trust funds in the form of the payroll taxes. And this is due to the lower-than-expected earnings as a share of gross domestic product in 2016 and 2017 based on the data we receive for actual receipts and what the Department of Commerce registers in their National Income Product Accounts.

Also, from assuming that a slightly larger share of the great shortfall we have had over the last 10 years in labor productivity, that is output (GDP) per hour worked by American workers, a slightly smaller portion of that will be written off as a permanent loss into the future. Even with this change however, I would note that projected economic growth over the next 10 years is still faster than most other forecasters.

Third, the actuarial status over the long-range 75-year period is very similar to last year, where the OASDI actuarial deficit -- that is the percent of payroll shortfall over the next 75 years -- less than expected and annual deficits in the later years lower than expected in last year's report. This is due largely to projected higher death rates, recent legislation, and improvements in projection methods.

The OASDI actuarial deficit was expected to rise from 2.8 3 percent of payroll last year to 2.88 percent of payroll over the next 75 years.

However, the combined effects of all new data changes and assumptions and methods reduce the expected actuarial deficits to only 2.84 percent of payroll.

If Congress were not to act, full scheduled benefits would not be payable at the point of trust fund reserve depletion, as we have discussed many times.

Because the program has no borrowing authority, however, continuing revenue to the OASDI program at reserve depletion in 2034 would still be, as Chairman Johnson mentioned, 79 percent of the cost of scheduled benefits. This is up from only 77 percent projected in last year's Trustees Report.

For the DI program alone continuing revenue would cover 96 percent of scheduled benefits at reserve depletion in 2032 if Congress were not to act. Not something we want to see, but just to give you a sense of what the magnitude of the shortfall would actually be.

These projections indicate that the shortfall that needs to be corrected -- with your help, thank you -- is slightly smaller actually than indicated in last year's report.

I look forward very, very much to any and all questions that you will put forth. And, again, appreciate very much the opportunity to come and talk to you again this year.

The 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds

Testimony by Stephen C. Goss, Chief Actuary, Social Security Administration House Committee on Ways and Means, Subcommittee on Social Security June 7, 2018

Chairman Johnson, Ranking Member Larson, and members of the subcommittee, thank you very much for the opportunity to speak to you today about the 2018 Social Security Trustees Report. This report has been produced and submitted to the Congress every year starting in 1941, the year after monthly benefits were first paid from a Social Security trust fund.

By law, the Trustees are required to report annually on the financial operations of the trust funds for the immediate past year, the projected operations of the trust funds over the next 5 years, and the actuarial status of the trust funds.

2018 Report

For the 2018 Trustees Report, we have three main changes from a year ago.

- First, based primarily on continuing lower-than-expected disability application and incidence rates through 2017, the projected reserve depletion date for the DI Trust Fund is extended once again, by an additional 4 years, from 2028 in last year's report to 2032 in this report. The DI reserve depletion date is extended in spite of the fact that disability incidence is assumed to rise more rapidly to the same ultimate rate as in last year's report.

- Second, the projected reserve depletion date for the OASI Trust Fund is projected to be late in 2034, a few months earlier than the date early in 2035 projected in last year's report. This change results largely from lower projected revenue to the OASI, DI, and HI Trust Funds in the near term, due to lower-than-expected earnings as a share of GDP for 2016 and 2017, and assuming that a greater share of the low productivity growth over the last decade will be a permanent loss resulting in less economic growth over the remainder of the economic recovery.

- Third, the actuarial status over the long range (75-year) period is similar to last year, with the OASDI actuarial deficit increasing less than expected and annual deficits in later years lower than expected in last year's report, due largely to higher projected death rates, recent legislation, and improvements in projection methods.

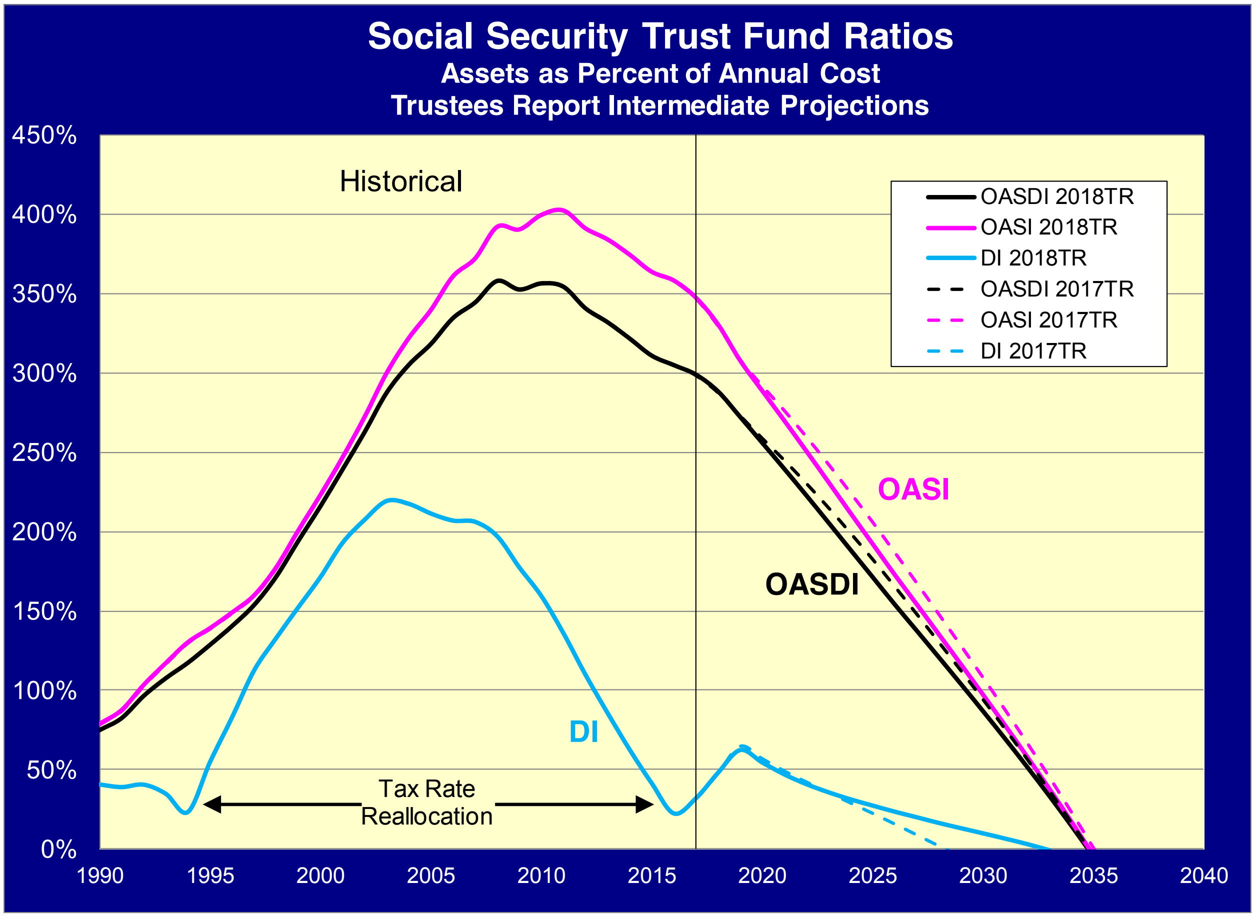
During calendar year 2017, the Old-Age and Survivors Insurance (OASI) Trust Fund reserves increased by $19 billion, nearly $14 billion less than projected in last year's report, due to lower-than-expected payroll tax revenue. The Disability Insurance (DI) Trust Fund reserves increased by $25 billion, about $1 billion less than projected in last year's report, because program cost was $2 billion less than expected while payroll tax revenue was $3 billion less than expected. At the beginning of 2018, the combined OASI and DI Trust Fund reserves were over $2.89 trillion, about three times the annual cost of the program.

Over the next 5 years, the combined reserves are projected to decline, reaching $2.79 trillion at the beginning of 2023, or just over two times annual program cost. The increase in combined reserves projected in last year's report between 2018 and 2022 is reversed this year largely due to the lowered payroll tax and other revenue in this year's report. The decline continues after 2022 as the baby-boom generations continue to move into retirement ages and are replaced at working ages by the lower-birth-rate generations born after 1965. The OASI and DI Trust Funds, individually and combined, are projected to be fully solvent through the next 10 years, thanks, in part, to the payroll tax rate reallocation included in Bipartisan Budget Act of 2015. At the time of enactment, we estimated that the date of trust fund reserve depletion for DI would be extended 6 years from 2016 to 2022. In the 2016 Trustees Report, we projected that DI reserves would not deplete until 2023, largely due to the lower-than-expected recent level of benefit expenditures. The projected reserve depletion date was further extended to 2028 for the 2017 Trustees Report, based on continued sharp declines in applications and incidence rates. For this year's report, we are projecting an additional 4-year extension of the DI reserve depletion date, to 2032. Applications for disability benefits have been declining steadily since 2010, and have continued to be below our prior projections. The total number of beneficiaries paid from the DI Trust Fund has now been falling since 2013. The projected reserve depletion date for the DI Trust Fund is now almost as far away as for the OASI Trust Fund. With further declines in disability applications since assumptions were established for the current Trustees Report, it is likely that next year's Trustees Report will further extend the date for DI reserve depletion.

Actuarial status of the trust funds is in part assessed on the basis of the projected ability of the trust funds to pay benefits scheduled in the law in full and on time. Under the law, all income is invested in trust fund reserves on a daily basis, and benefit obligations and administrative costs are paid on the basis of redeeming bonds held by the trust funds as needed. The law provides no ability for the trust funds to borrow or receive revenue from sources other than specified taxes and interest on the reserves. Thus, should reserves become depleted with continuing tax revenue less than needed to meet current obligations, benefits scheduled in the law would not be payable in full on a timely basis.

SOLVENCY: OASDI Trust Fund Reserve Depletion 2034 (same as last year)

- Reserve depletion date varied from 2029 to 2042 in reports over the past 26 years (1992-2018)
- ***DI Trust Fund — reserve depletion in 2032, four years later than last year***
  - Due largely to lower recent and near-term disability applications and average benefit levels.

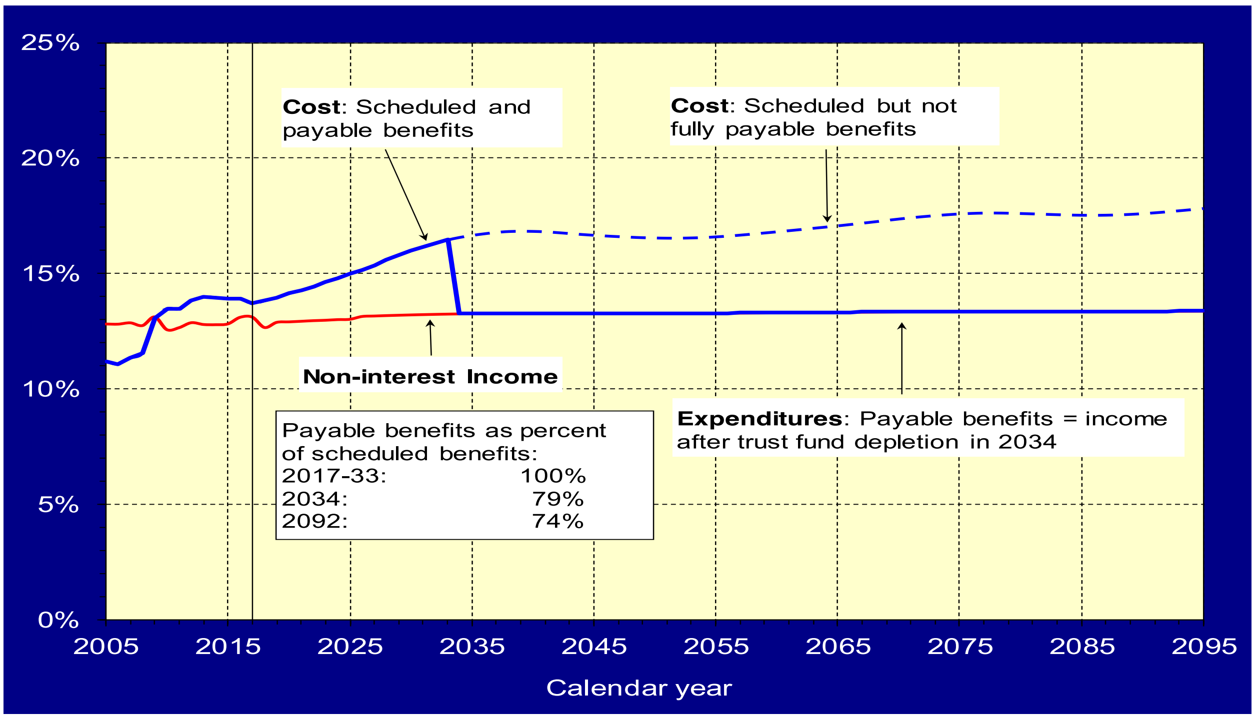


Fortunately, in the entire 82-year history of the program, the Congress has always made timely adjustments in the law to avoid reserve depletion and any sudden reduction in benefits paid. The real purpose of our reporting on the actuarial status of the trust funds is to illustrate to the Congress any expected shortfall in financing of scheduled benefits so that further adjustments to the law can be made on a timely basis.

Under the intermediate assumptions used for the 2018 report, we project that the combined reserves will be depleted in 2034, the same year as in the last report, with continuing income under current law equal to 79 percent of program cost at the time of depletion (increased from 77 percent in last year's report). By the end of the 75-year projection period, income under current law is projected to equal 74 percent of the cost of the program, slightly more than the projected 73 percent payable in last year's report. The projected revenue for the OASDI program for 2092 is now projected to fall short of scheduled revenue by 4.32 percent of taxable payroll, somewhat less than the 4.52 percent shortfall projected for 2092 last year.

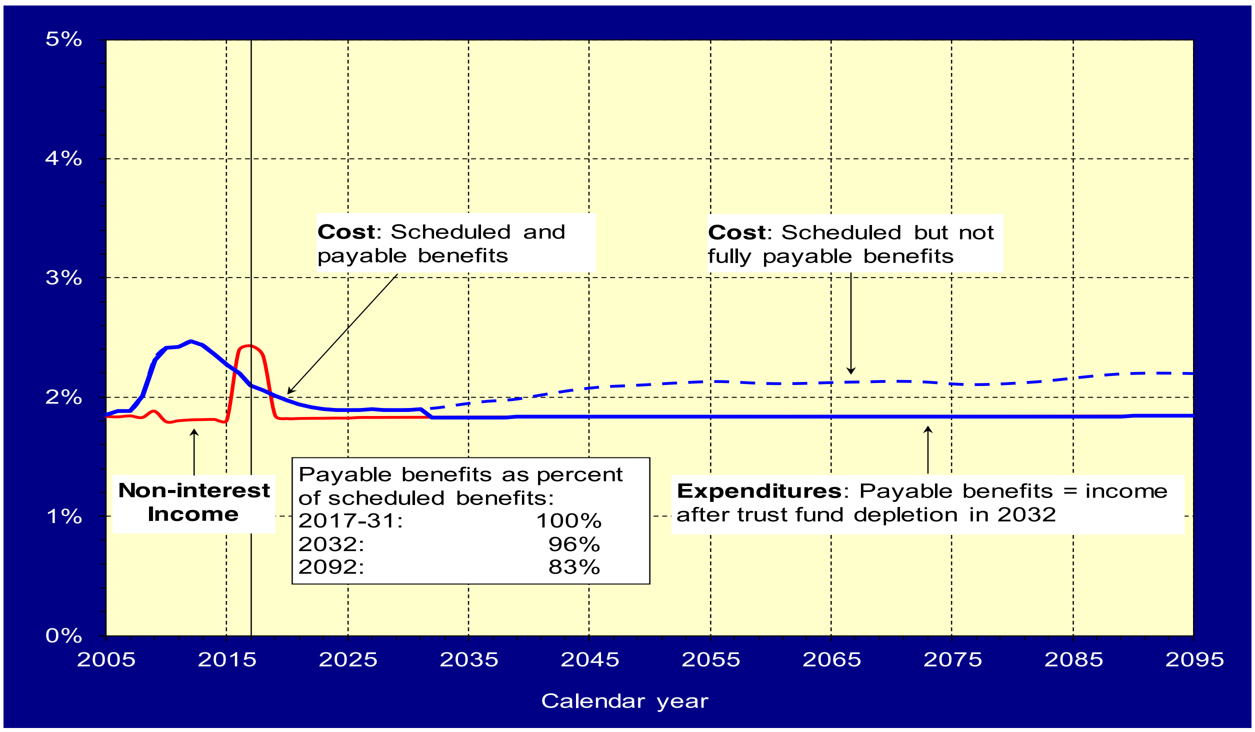
In essence, this means that by 2034 we will need adjustments in the law so that (1) the scheduled revenue for the OASDI program will be increased by about one-third (29 percent), (2) scheduled benefits will be reduced by about one-fourth (23 percent), or (3) some combination of these adjustments is enacted. Enacting changes well before reserve depletion, even if with delayed effective dates, will allow more options to be considered, more advance warning for those affected, and a more gradual phase-in of adjustments. Over the past 26 years, Trustees Reports have projected reserve depletion as early as 2029 and as late as 2042.

OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll



Considered alone, the separate DI Trust Fund may require some adjustment before 2034. Even with the changes in the BBA 2015 and the financially favorable recent experience, DI reserves are projected to become depleted in 2032, at which time continuing income would be equal to 96 percent of scheduled cost (up from 93 percent projected last year). By the end of the 75-year period, scheduled income is projected to be sufficient to cover 83 percent of scheduled cost (up from 82 percent projected last year).

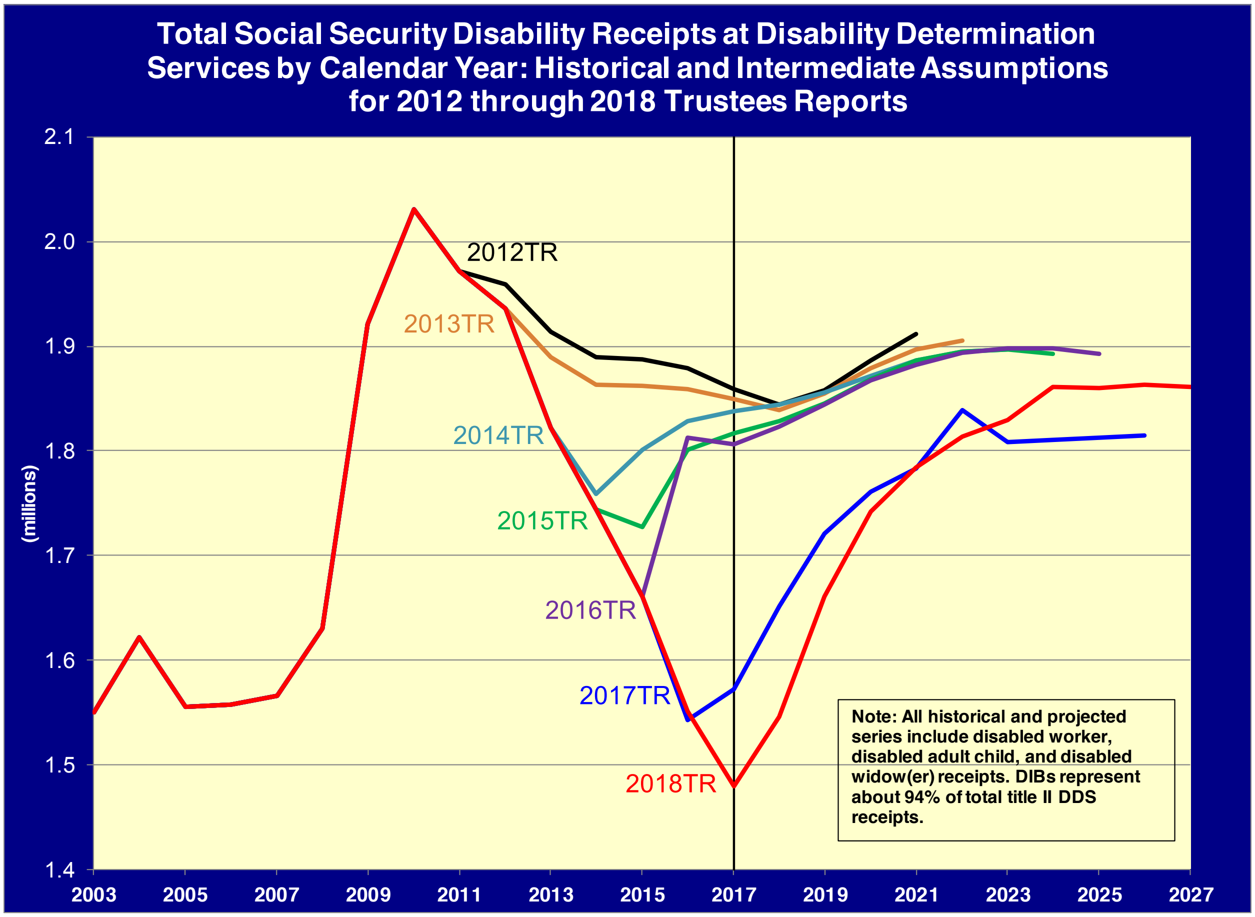
DI Annual Cost and Non-Interest Income as Percent of Taxable Payroll



The 4-year extension of the reserve depletion date for the DI Trust Fund in this year's report reflects:

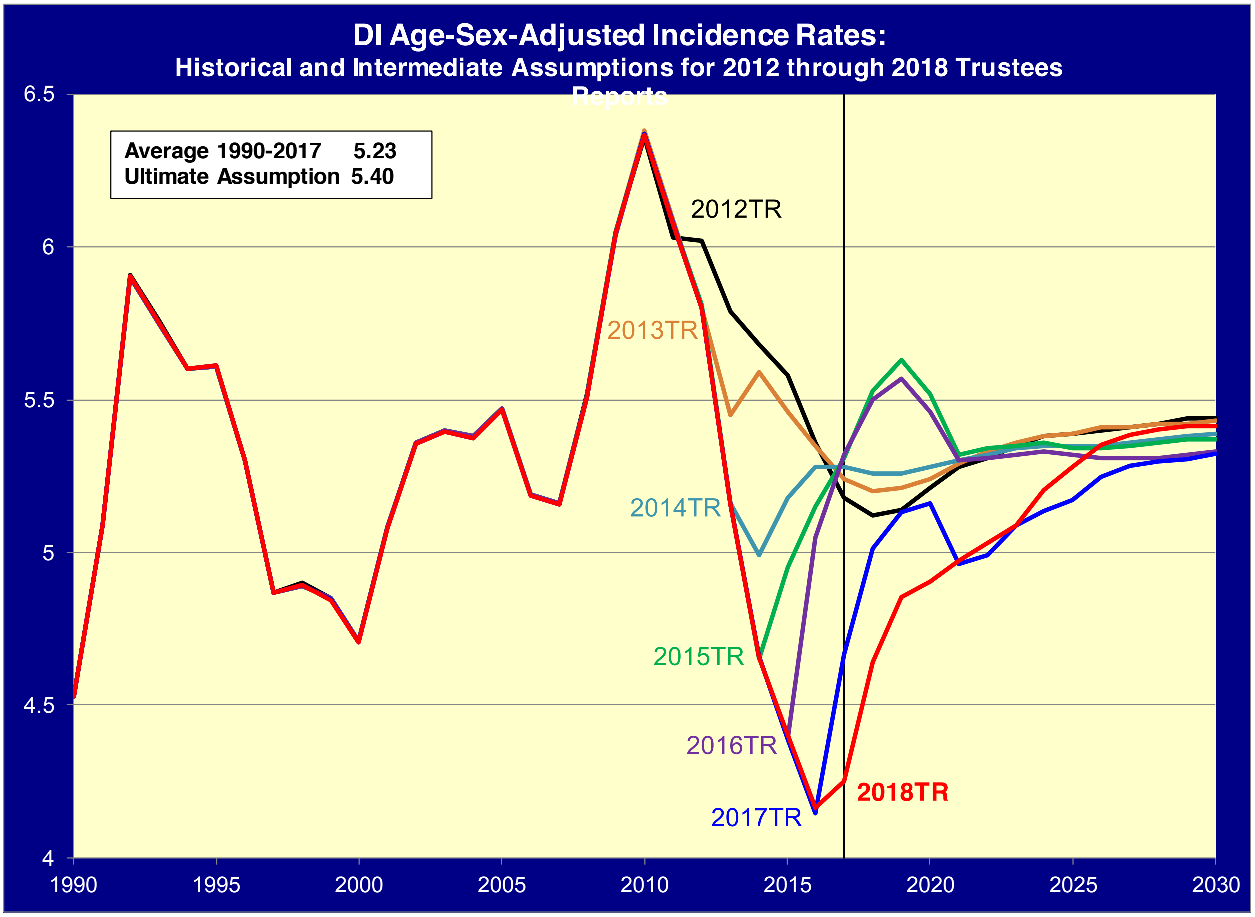
a) Another year, 2017, with disability applications and incidence rates well below our expectations. The number of applications for 2017, when the economy had not yet risen to the sustainable full employment level, was below the annual level at the peak of the last economic cycle (2007),
b) Lower overall average benefit levels for newly awarded disabled workers in 2017 and thereafter than expected last year, because of an increased proportion of awards by Administrative Law Judges (ALJs), where average benefit levels tend to be lower,
c) Partially offsetting effects from a faster path back up to the ultimate assumed disability incidence rates, increased awards by ALJs from efforts to more rapidly reduce the backlog, and the reduced near-term revenue noted earlier.

The next figure shows the continued decline in Social Security disability applications received at the state Disability Determination Services through 2017, falling well short of expectations for several years now.



Given the degree of decline in applications through 2017 in an economy that is still short of full recovery even to the sustainable full employment level, we are now projecting that applications will rise more rapidly than in recent past reports in order to reach the assumed ultimate disability incidence rate by 2027, several years sooner than in last year's report. As noted earlier, however, applications have continued to decline in 2018.

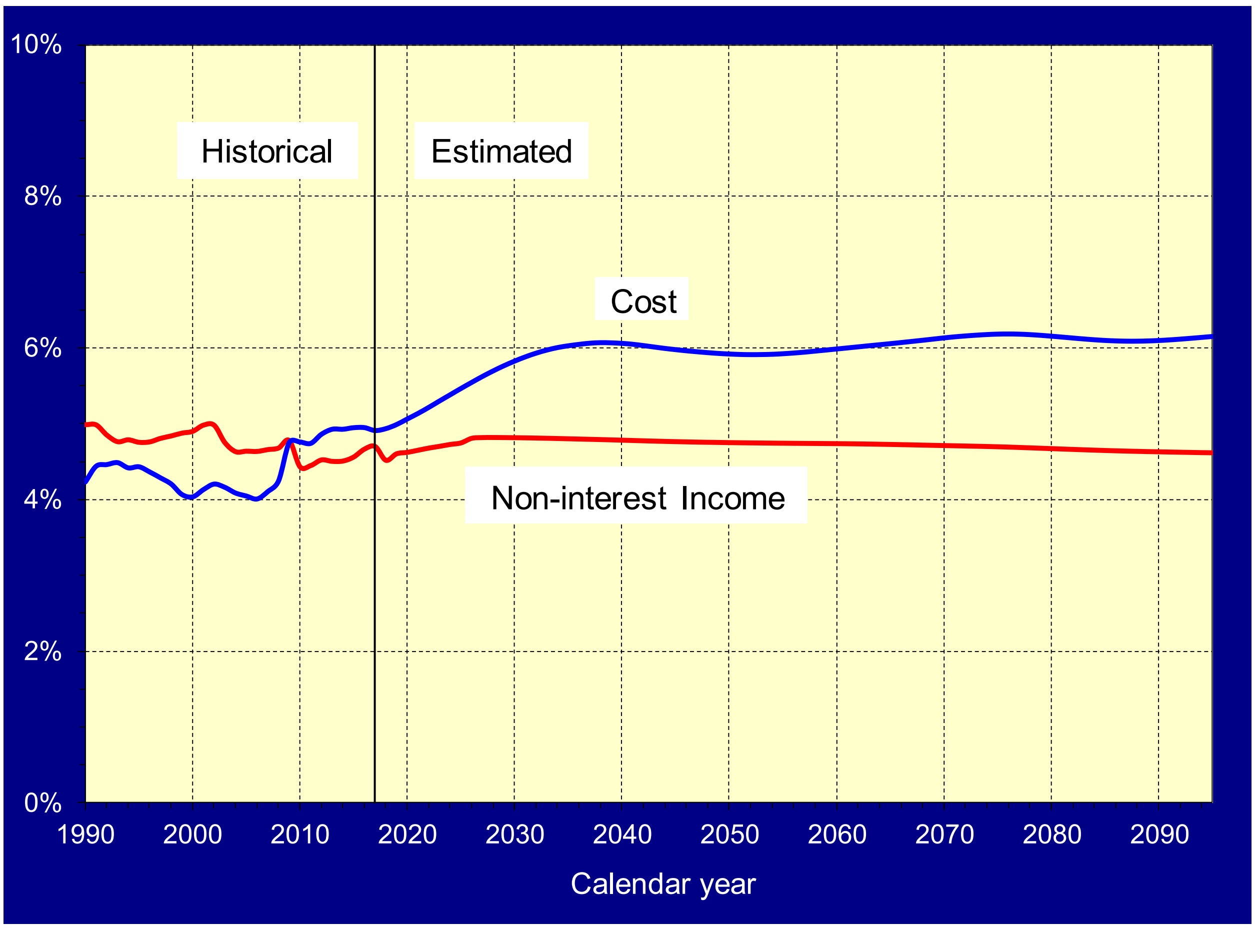
The next figure shows the assumed rise to the ultimate incidence rate assumed for this year's report compared to the assumptions for the last several reports.



For the last several reports, we have assumed that the age-sex-adjusted disability incidence rate would rise quickly back to the expected ultimate rate of 5.4 per thousand insured workers exposed to the risk of becoming disabled. For this year's report, the assumed incidence rate again rises rapidly, exceeding last year's rate by 2023, and reaches the ultimate assumed level in 2027, several years earlier than in last year's report. The temporary elevated levels of incidence rates in years 2017 through about 2020 in recent reports reflects the expectation that the backlog of disability cases awaiting a determination from an ALJ will be eliminated in the next 3 to 4 years.

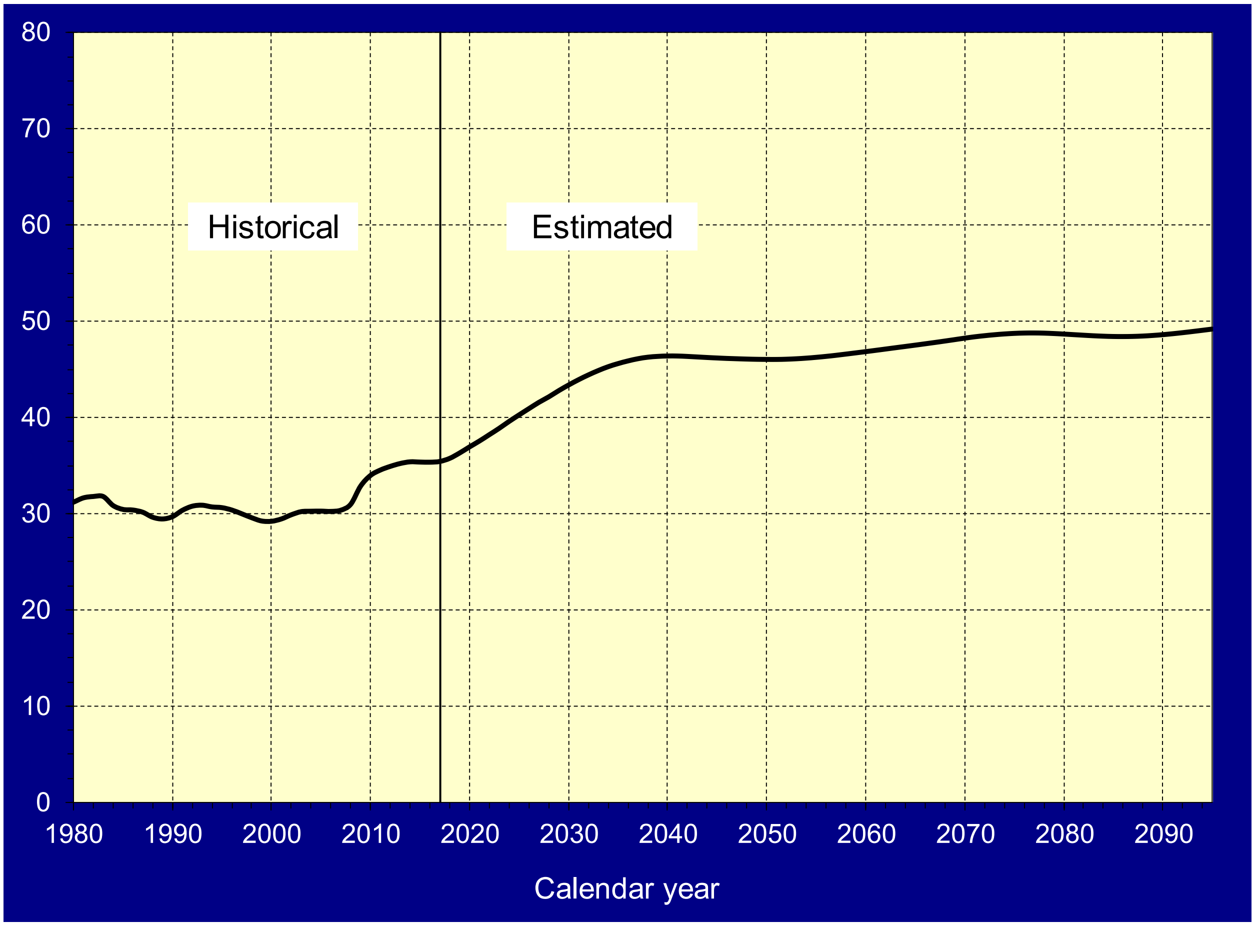
Expressed as a percent of the total Gross Domestic Product (GDP) of the United States, the scheduled cost of the OASDI program is projected to rise from 4.9 percent in 2018 to about 6 percent for 2035 and later. Projected scheduled revenue is lower over this period, between 4.6 and 4.8 percent of GDP. The fact that scheduled annual non-interest income, largely the 12.4 percent payroll taxes paid by employees and employers, is no longer sufficient to cover annual program cost is primarily due to the changing age distribution of the adult population. The fact that projected OASDI cost as a percent of GDP is basically stable after 2035 speaks to the sustainability of the program's benefit and revenue structure. The changing age distribution will simply require adjustments in scheduled income and/or cost.

SUSTAINABILITY: Cost as Percent of GDP

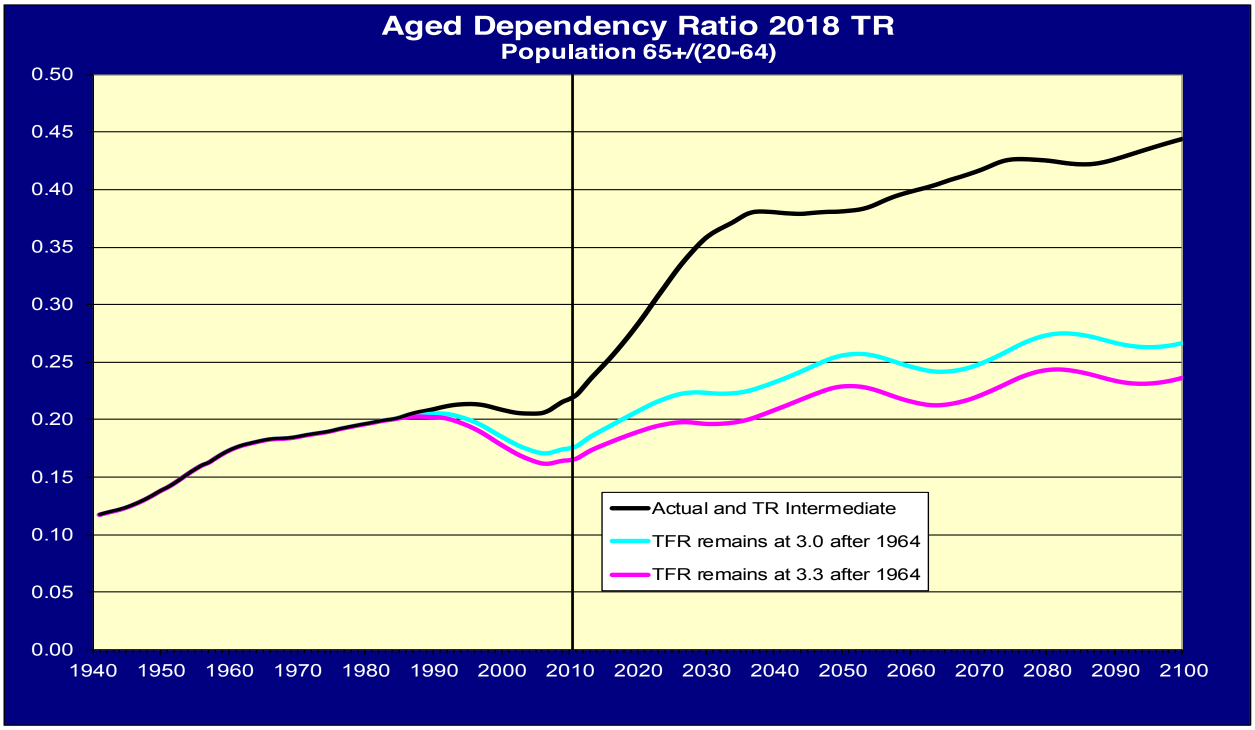


The cost as percent of GDP closely follows the ratio of beneficiaries to covered workers, because the average benefit under the program is designed to rise at about the same rate as average earnings.

Projected Number of OASDI Beneficiaries per 100 Covered Workers



The ratio of beneficiaries to covered workers in turn follows closely the "aged dependency ratio" (population age 65 and over as a percent of the working age population age 20 through 64). The next figure illustrates that the large increase in this ratio between 2010 and 2035 is due primarily to the drop in birth rates from about 3 children per woman historically (3.3 during the baby-boom years) to about 2 children per woman in recent years.



Changes in longevity through declines in death rates play a more gradual but steady role in the trend of the aged-dependency ratio. Changes in death rates over age 65 are important for the actuarial status of the OASDI program. Fortunately, mortality projections used in the Trustees Reports have provided a sound basis for evaluating the actuarial status of the program in the past. While some have suggested assuming dramatically faster mortality improvement, the track record for the Trustees Reports, plus the very substantial deceleration in mortality improvement since 2009, suggest that projections in the 2018 report represent a sound basis for evaluating prospects for the future.

Summary Measures of Actuarial Status

The Trustees Report uses several summary measures and tests to indicate the actuarial status of the trust funds from different perspectives. The actuarial deficit for the OASDI program as a whole increased from a 75-year shortfall of 2.83 percent of taxable payroll in last year's report to 2.84 percent of payroll in this report, a much smaller increase than had been expected a year ago. The actuarial deficit is the excess of the cost for full scheduled benefits over the next 75 years, including the cost of having a reserve at the end of the period equal to 100 percent of annual cost, over the scheduled income for the program over the next 75 years, including the starting trust fund reserve level, all expressed as a percent of payroll.

Overall, changes in legislation, assumptions, recent experience, and methods had a positive effect on the actuarial balance, and thus on the actuarial status of the OASDI program. The small net negative effect on the actuarial balance was only due to the effect of changing the valuation period for the new report. The following table highlights the main factors in the change in the actuarial balance for this year.

Principal Reasons for Change in 2018 OASDI Trustees Report

Actuarial Balance – percent of payroll

Valuation period	-0.06 percent
Legislation/Regulation/Executive Order	0.00 percent
Demographics *(lower recent fertility; higher recent mortality)*	-0.01 percent
Economics *(including lower level of labor productivity and potential GDP)*	-0.01 percent
Disability *(recent experience and assumptions)*	+0.01 percent
Other program data and methods improvements	+0.05 percent
Net Change for All Reasons	**-0.02 percent**

The change in the valuation period, effectively adding a year to the end of last year's 75-year period, reduces the actuarial balance because of the relatively large annual deficits at the end of the period.

For this report, we assumed that the Deferred Action for Childhood Arrivals (DACA) program would be phased out over the next two years based on the Department of Homeland Security's September 2017 rescission of the 2012 DACA policy. The net effect of this change, and the net effect of new legislation since the last report, on the OASDI actuarial balance are both negligible.

Lower recent experience and near-term expectations for birth rates contribute toward a reduction (worsening) in the actuarial balance. Continued higher-than-expected death rates nearly offset the effect of birth rates on the actuarial balance. During the recent recession and partial recovery, productivity (economic output per hour worked) has not increased as fast as previously expected. For the 2018 report, we have accepted that a portion of this loss in labor productivity will be permanent, resulting in less economic growth in the near term and a reduction in the actuarial balance. Lower-than-expected disability application and incidence rates increased (improved) the actuarial balance. Finally, several changes were made in projection methods and recent program experience that had a positive net effect on the actuarial balance.

Another long-range summary measure is the open group unfunded obligation of the program. This is the excess of projected program cost in the next 75 years over the projected revenue in the next 75 years (plus starting reserves). For the 2018 report, the open group unfunded obligation increased slightly in present value dollars and as a percent of GDP over the 75-year period, primarily due to the change in the valuation date.

Open Group Unfunded Obligation through 75-Year Projection Period

Estimate for 2017 Trustees Report	**\$12.5 trillion PV**	**0.95% of GDP**
Change valuation date only	**\$13.1 trillion PV**	**0.97% of GDP**
Estimate for 2018 Trustees Report	**\$13.2 trillion PV**	**0.96% of GDP**

The Trustees apply a short-range test of financial adequacy that requires that reserves remain at or grow to at least 100 percent of annual cost over the next 10 years. The OASI Trust Fund and the combined OASI and DI Trust Funds again satisfy this test. The DI Trust Fund once again does not.

Section 709 of the Social Security Act also requires that the Trustees report to Congress when a Trust Fund is projected to have reserves below 20 percent of annual cost in the future. In order to give Congress ample time to consider necessary adjustments, the Trustees make such reports when the reserve ratio is projected to be below 20 percent within the next 10 years. Again this year, the Trustees have submitted this notice to the Congress for the DI Trust Fund. The DI Trust Fund reserve ratio was 48 percent at the beginning of this year and will rise to 62 percent at the beginning of 2019, due in part to the tax rate reallocation enacted in 2015. The ratio will then decline and will fall below 20 percent by the beginning of 2027, and without Congressional action, reserves will become depleted in 2032.

The Trustees also report on the long-range test for close actuarial balance. This test requires that the program satisfy the short-range test of financial adequacy and, in addition, maintain a positive reserve throughout the remainder of the 75-year projection period, indicating the ability to pay all scheduled benefits in full on a timely basis. At this time, neither the OASI nor DI Trust Funds individually or combined meet this long-range test. While the financial and benefit structure of the OASDI program is sound, adjustments are needed to accommodate the changing age distribution of the population over the next 20 years that is largely the result of persistent lower birth rates after 1965.

Actuarial Opinion

The Social Security Act requires a statement of actuarial opinion from the Chief Actuary of the Social Security Administration regarding the reasonableness of assumptions and methods used in the report. I am happy to indicate that the actuarial opinion for the OASDI Trustees Report has never included a qualification of the assumptions and methods used to project the actual cost and operations of the trust funds under current law.

However, starting with the 2014 report, the actuarial opinion has included a caveat regarding a reference in the OASDI report to an appendix on federal budget accounting in the Medicare report. This appendix, first introduced in 2004, describes the implications of projected OASDI and Medicare Trust Fund operations under the customary budget scoring convention. This caveat warns the reader that discussion of the trust funds in relation to the overall federal budget and implications for federal debt held by the public are distorted and misleading because of use of this budget scoring convention. This convention presumes that OASDI obligations scheduled in the law that cannot be paid in full and on time after trust fund reserve depletion, will nonetheless be paid at the expense of the General Fund of the Treasury. The General Fund is presumed to borrow from the public as needed to pay full scheduled benefits after reserve depletion. The problems with this convention are: (1) the law does not permit such general fund transfers, either before or after trust fund reserve depletion; (2) there has never been a precedent for a change in the law providing such transfers; and (3) results presented in the budget scoring context do not provide clear disclosure that they are hypothetical projections presuming a change in law that would allow for the indicated general revenue transfers to the trust funds after reserve depletion.

Please note that the 2018 and all prior years' Trustees Reports are available at https://www.ssa.gov/oact/pubs.html, along with a wide variety of additional actuarial analyses related to the reports and to changes policymakers have considered for making adjustments to the program.

Conclusion

Based on the experience of the past year and the intermediate assumptions of the 2018 Trustees Report, there are three main points I would like to make.

- First, the date of DI Trust Fund reserve depletion has been extended 4 years to 2032.

- Second, the reserve depletion date for OASI Trust Fund is projected for late in 2034 rather than early in 2035 from last year's report due to several factors that lower payroll tax revenue for OASI, DI, and HI, in the near term.

- Third, the actuarial status of the combined OASI and DI Trust Funds is similar to a year ago, with the long-range actuarial deficit rising from 2.83 percent of payroll to 2.84 percent, rather than to the level of 2.88 percent of payroll expected from changing the valuation period alone. In addition, the program's annual deficit toward the latter end of the projection period is significantly reduced.

The long-known and understood shift in the age distribution of the United States population will continue to increase the aged dependency ratio, and in turn increase the cost of the OASDI program as a percentage of taxable payroll and GDP. Once this shift, reflecting the drop in the birth rate after 1965, is complete around 2035, the cost of the program will be relatively stable at around 6 percent of GDP. We look forward to working with this Committee and others in developing the adjustments to the law that will be needed to keep the program in good financial order, providing retirement, disability, and survivor benefits for future generations.

Again, thank you for the opportunity to talk about the 2018 Trustees Report. I will be happy to answer any questions you may have.

Chairman Johnson. Thank you for your testimony.

We will now turn to questions. And as is customary for each round of questions, I will limit my time to 5 minutes and ask my colleagues to also do the same.

Mr. Goss, you reported that Social Security is now paying out more in benefits than it receives in revenue, including interest from the Social Security Trust Funds, for the first time since 1982. Previously you estimated this wouldn't happen until 2022. What changed?

Mr. Goss. Thank you very much. Excellent question.

What changed principally on this is not on the benefit estimates -- the benefit sides are very much as we projected last year -- but it is on the revenue side.

The actual revenue, as I indicated in the oral testimony, that we have gotten in 2016 and in 2017, these are on the books now, have turned out to be less than we anticipated last year, largely because employee compensation and earnings as a share of gross domestic product in the country has turned out to be less than the early estimates from the Bureau of Economic Analysis last year.

We have seen the same in our own numbers coming in for the amount of payroll taxes coming in, indicative of the amount of earnings that are subject to tax. There is just a smaller share by 2 or 3 percent of gross domestic product than had been anticipated in last year's Trustees Report.

Now, the good news is that while we have seen that dropoff in 2016 and 2017, we are assuming this is a temporary effect and over the course of the next 10 years we have our projections rising back up to the same share employee compensation of GDP that we have had in prior Trustees reports.

We are going it to watch this carefully, but this is one of the principal effects that has caused our payroll taxes to be lower over the next several years, which of course causes us to have less total income than program cost starting in 2018 rather than in 2022.

The other effect is that the Trustees have been very reluctant, as you know, to make changes in the long-term assumptions. And for many, many years now, growth in labor productivity, the amount of output per hour of worked, has fallen much below the growth rate expected. We expect it to be 1.7 percent, it has been only 1 percent over the last decade per year.

The Trustees have been reluctant to write off any of that in hopes it would be coming back. But with the economy moving ahead as well as it is, and we still do not see the labor productivity rising as much, the Trustees, as most other forecasters have done well before them, have taken one small portion of that lack of productivity growth out of our long-term expectation.

Out of our long-term expectation for GDP, that means that from where we are right now, the growth has to be a little bit slower going into the near term future. But as I mentioned before, our growth in GDP is, in fact, faster than virtually all other forecasters, even with this small mark-off.

Chairman Johnson. I would like to hear what you think we can do about it.

Due to the Tax Cuts and Jobs Act and all the good news that we are seeing with the economy, CBO and JCT have recently increased their projections of payroll tax revenue.

Can you help us understand why the Trustees Report is different from theirs? And when do you finalize the economic assumptions for each report? Was it before tax reform?

Mr. Goss. In fact it actually was. So let me just share with you, what is included in this year's Trustees Report reflects the rather lengthy process of developing the report we actually -- the tax bill happened very late last calendar year. We had already had agreement amongst the Trustees about what our short-range economic assumptions were at that time.

We did, however, make adjustments to the projections for the specific, what we would call first order effects, from various items in the tax bill.

I would note, however, that the Trustees were well aware of the possible macro effects, changes on economic growth, and the Trustees' plan on looking deeper into that for the purpose of the upcoming 2019 Trustees Report.

Part of the reason that there was a level of comfort in doing that is that the Trustees' projected growth in the economy, in GDP, is in fact much in excess of many others.

Just for example, even with the latest numbers from CBO, with them putting in effects from the tax bill, their average annual rate of growth in GDP between 2017 and 2027, over that 10-year period, in real terms is less than 2 percent, it is 1.95 percent.

The Trustees, even with the changes made this year, project the rate of growth in real GDP is 2.43 percent, about 0.5 percent per year faster than CBO.

So even though CBO added something for the tax bill, they are still one-half of 1 percent slower on the rate of growth in GDP over the next 10 years than the Trustees are. And of course with slower GDP growth, you will have slower growth in the amount of tax revenue coming in, not only for Social Security, but for other tax revenue.

Chairman Johnson. You know, Mr. Goss, last year's report showed a major change with respect to when the Disability Insurance Trust Fund would be exhausted. That report showed that the Trust Fund would be exhausted in 2028, 5 years later than the Trustees' previous estimate.

Now that date is just 2032. That is a big change. You told us last year that you were looking at what is causing the decrease in disability applications. What have you learned?

Mr. Goss. I wish we could report we have a full understanding of what is going on. It has been quite remarkable. We reached a peak in applications in 2010, at the height of the recession effect, and it is been dropping ever since.

We have been projecting for the last 6 or seven Trustees Reports in a row, as you have seen, that we would reach a bottom on the applications and it would start coming back up at a point.

That simply has not happened. Our applications have dropped steadily from 2010, where there were well over 2 million a year for Social Security disability applications, to well below 1.5 million a year now, in the year 2017.

And I would share with you something not even reflected in this Trustees Report: So far in 2018 we are seeing further declines in disability applications. So there is actually even more good news to come.

The level we are at now for our disability applications is actually even below the number of applications we had in 2007, which was the peak year of the last economic recovery. When the economy is operating at the level it was in 2007 we expect to have a big drop in the number of disability applications and we did. But at this point in 2017 we are even lower, and we are continuing to drop in 2018.

We have looked very carefully at characteristics that might be affecting this. We have looked geographically, we have looked rural versus urban, we have looked by age and sex, and the application rates and the disability incidence rates are down across the board. So it is a little bit surprising. It is a wonderful surprise.

And I would share, particularly for Ranking Member Larson's comments, we have done our best to get in touch with people in private industry where there is a lot of private long-term disability insurance sold in this country. And we have heard, although because of proprietary information they haven't been able to give us very specific data, over about the last 4 years they have been seeing drops in their disability claims rates as well.

So maybe it is just something is in the water and our society is feeling healthier these days. We are hopeful.

Chairman Johnson. Well, have you learned anything, have you figured out anything, or are you just babbling at us?

Mr. Goss. Well, what we have learned is that all of the things that we thought would perhaps be the explanation for this, the most obvious ones do not appear to be that.

There are a number of issues, and we seek your advice and counsel and those of your staff about what your thoughts are. One thing that had occurred to us was, there was a company named Binder & Binder, which had a lot of attorneys representing individuals for disability. They went out of business, as you know, a few years ago, and some people opined that there is a lack of national advertising, so maybe fewer people knew about applying for disability benefits.

Possibly. But we have come to understand that most of the attorneys working in that realm are still working in their local areas and perhaps doing local advertising. Some have suggested that might be even more effective than the national advertising Binder & Binder did.

Another possibility is that our administrative law judges have been allowing a smaller percentage of the cases that they see in their areas. As you will recall, probably 5, 6, 7 years ago it was close to two-thirds of all cases that they saw were allowed benefits. Now we are down to nearly one-half. That is a pretty big drop.

We are not sure that that information has fully gotten out to the public and that that, in effect, would cause people not to file for benefits if they felt they were really severely impaired and could not work. We suspect not.

So we are, I will have to be very honest with you, we are still looking very carefully and studying on this.

We are expecting, I am happy to tell you, for our Social Security Advisory Board to be putting forth a technical panel of actuaries, economists, and demographers to look at all of the assumptions that we work on, and certainly disability is going to be high on that list because of the surprising continued declines that we have been seeing.

Our big question is: Where will it turn? What will the year be in which it will turn? We have been projecting the turning point of applications going back up, what happened in each of the last 4 or 5 years, and it simply hasn't happened yet.

Now, part of it is clearly the economy. The economy has been strong and there have been jobs available and a lot of people are working. Unemployment rates are very, very low.

Actually the employment rate, the percentage of our population on an age and sex adjusted basis that is employed, is now back almost to the level it was at the peak of the last economic cycle. Not quite, but it is very, very close. We are close to full employment now and approaching it. So certainly that has an effect.

But as I mentioned before, the applications now are substantially below where they were at the peak of the last economic cycle. So clearly something very different is going on here and we will look much more closely at it, because when the applications will turn back up, assuming they will, is critical to this.

As I mentioned before, at the reserve depletion date in 2032, with our ability at that time projected to be that we could pay 96 percent of benefits under our current projections, if things get much better, DI may not in fact deplete until much later than 2032.

Chairman Johnson. Do you have questions to ask him?

Mr. Larson. Yes.

Chairman Johnson. Go ahead.

Mr. Larson. Thank you, Mr. Chairman.

First of all, Mr. Goss, thank you for your service. My grandfather used to quote Finley Peter Dunne all the time and say: Trust everyone, but cut the cards. We like to say: Trust everyone, but read the actuarial report.

And I thank you for your reports, and I thank you for the analysis that you have done on various bills. I know you have looked at our bill, Social Security 2100. And I would ask you, does that bill strengthen the Social Security trust fund so that it is financially sound throughout the 75-year projection period?

Mr. Goss. And indeed it does.

Mr. Larson. Thank you.

We also, I noted in my opening comments, that with 10,000 baby boomers becoming eligible a day, this is going to put additional stress on a system that hasn't been actuarially adjusted since 1983.

For given all the assumptions that you have to go through for a program to not be adjusted since 1983, I think any rational person listening to this anywhere says: Well, wait a minute, have any of my other insurances gone up since 1983? And the obvious answer is, yes, they have, of course, to adjust to the times, the changes, the economy, et al.

And so that is why we included in this the opportunity to first correct the cost of living so that it actually reflects what people who are 65 and older our experiencing. With that provision, does that better reflect the cost for seniors if we were to go to a CPI-E?

Mr. Goss. It would appear that we certainly could say that. The basic CPI that we use now looks at all urban wage earners of all ages. The CPI-E, I think BLS is still referring to it as experimental. It is actually based on the purchases that are made by people 62 and older, essentially our clientele, and looks at the patterns of what they buy.

Mr. Larson. And do you have the data for the number of people -- primarily women, I would add -- who retire into poverty?

Meaning that even though they have paid into the system, because they, A, can give birth to children and are absent from the workplace, and because for every dollar their male counterparts were earning they were earning on average 77 cents, we correct that program and create a new floor for Social Security that is 125 percent above the poverty level.

Can you tell the panel here how many people currently receive Social Security and remain impoverished?

Mr. Goss. I think I will have to get back to you on that. I don't recall the precise numbers off the top of my head.

I do know that one statistic that is often mentioned is the degree to which we would have people who are elderly in poverty in the absence of receipt of Social Security benefits.

But it is absolutely clear that given the level of Social Security benefits that are tied to your earnings levels throughout your career, if they were low, your benefit will be low. So we do have many people who are still working with total income under the poverty level.

Mr. Larson. We do, and it is tragic that so many of them are women, and even more tragic that so that many of them are women of color.

But what our proposal seeks to do is to both address that, to make sure that we enhance payments to people, the 10,000 a day that are becoming eligible, so that it helps them in their retirement, so that we actually have a COLA system that reflects the actual cost that the elderly incur, so that we also provide an opportunity for, especially for those who retire into poverty, that the new floor becomes 125 percent of poverty. And that also so that we can give seniors a tax break, because many of them continue to work after they have retired.

And in doing so, as you are aware, we tax people who are single who make over $24,000 and a married couple over $32,000, by indexing the fund and addressing that to $50,000 per individual and $100,000 per couple, 11 million Americans get a tax break.

So by providing a tax break by making sure that their COLA reflects what their actual costs are, making sure that nobody can retire into poverty, and still for the first time making Social Security solvent beyond the 75-year requirement, does this bill that we have asked to you review do that?

Mr. Goss. It does indeed. Both your and Chairman Johnson's bills would do that. And I am happy to tell you that with the nature of the changes we have in this year's Trustees Report, we expect that your bills will be similarly successful on the assumptions of the 2018 Trustees Report.

Mr. Larson. I see my time is up, but I will be back for a second round if we have it.

Thank you, Mr. Chairman.

Chairman Johnson. Thank you.

Mr. Bishop, you are recognized.

Mr. Bishop. Thank you, Mr. Chairman.

Thank you, Mr. Goss, for testimony today.

Mr. Chairman, I applaud you for holding this important hearing. I am pleased to have recently joined this committee. And I look forward to working with you and Ranking Member Larson, as well as the rest of my colleagues, regarding Social Security for all Americans.

We have a responsibility to preserve Social Security for retirees, those who are approaching retirement, and for children and grandchildren so that they can count on Social Security.

Millions of Americans rely on this important program to cover their expenses in retirement. Seniors and retirees have worked very hard for decades so that they can enjoy their retirement and receive the benefits they have earned.

We must honor the promises we have made to those who have done so much to build or economy and who have earned a peaceful retirement.

I have read the report, Mr. Goss. I find it as troubling an as the rest of the committee does and I am sure the rest of the folks that we represent.

I am wondering, there is good news in this report as well, and I know you have covered it already, but in Tuesday's report, which showed that the Disability Insurance Trust Fund had gained 4 additional years of solvency when compared to last year's projections, it is nice to see some good news in this and positive news in the Trustees Report.

And I would like to get your perspective on this, particularly as our economy is growing and unemployment is at a record low. Historically speaking, I know you have had speculation on as to why this is, but do applications for disability insurance go up when it is more difficult to find a job?

Mr. Goss. They do indeed. Applications historically, when we have a time of high unemployment, of a weak economy, we have an increase in applications. But interestingly, not only do we have an increase in applications, but the percentage of the applications that are found to be disabled and begin receiving benefits drops.

So the increase in the number of people starting to receive benefits does not rise as much as the number of applications as you would expect.

And of course the counterpart of that is true. When the economy gets very strong and jobs become more plentiful we tend to see fewer applications coming in.

And we had anticipated that in the recovery that we have had since the Great Recession. What is so fascinating, though, is that the drop in the applications has been so much more than anticipated, even given the strength of the economy.

Mr. Bishop. Thank you for the answer.

After last year, the Tax Cuts and Jobs Act was signed into law, our economy continues to grow. Americans are taking home higher paychecks. New jobs are being created. In fact, the CBO has estimated that the Tax Cuts and Jobs Act will create approximately 900,000 jobs for the next decade. That is certainly great news for our country.

In this context, it seems to me that getting more Americans into the workforce would provide an improvement to Social Security's finances. Can you describe to me the significance of all of the new jobs relative to Social Security's solvency and their bottom line?

Mr. Goss. New jobs, the more people employed are absolutely critical because, because we are a pay-as-you-go system, all the benefits that are scheduled to be paid out derive basically from the payroll tax contributions that are made by the workers of the day, jobs are absolutely critical.

I would share with you that, it is interesting, you are correct that CBO is projecting a higher number of workers across the end of the -- through the next 10-year period.

Mr. Goss. The Trustees also, compared to last year's Trustees Report, are projecting about 400,000 more people employed in 2027 than had been projected in last year's. But to put that really in a proper frame of reference, CBO is projecting between now and 2027 about a 5 percent increase in total employment where the Trustees are projecting a 7 percent increase in employment.

So we are glad to see that CBO has upped their expectation for workers, but the Trustees actually in this year's Trustees Report have a higher growth rate in employment over the next 10 years.

Mr. Bishop. What causes that deviation in conclusions?

Mr. Goss. We had a hearing a while back with Keith Hall and myself comparing the assumptions. The projections that CBO is making versus ours, and the Trustees have simply had, a little bit more optimistic view on the recovery of labor force participation and employment over the next 10 years and into the long-term than CBO and some other entities have had.

Mr. Bishop. Okay. Thank you sir. Thank you for your testimony.

Thank you, Mr. Chairman. I yield back.

Mr. Johnson. Thank you.

Mr. Pascrell.

Mr. Pascrell. Mr. Goss, the Republican tax bill incentivized the growth of passthrough businesses and moved the top tax rate on income earned from 39.6 to 15 percent. What impact will this have on the solvency of the Social Security trust fund, Mr. Goss?

Mr. Goss. There were actually a number of factors in the recent tax bill. As Chairman Johnson already alluded to, the Trustees have not at this point taken into account the macro or the dynamic scoring effects, and we will be looking at that.

The other factors that were built into the tax bill, which are the income tax changes, the passthrough, and the removal of the individual mandate, have on balance had relatively small net effects.

Some of them would create a little bit more revenue, some a little bit less revenue. In fact, we project over the long-term that the direct or first order effects of the tax bill would be negligible for the Social Security trust fund.

Mr. Pascrell. Well, then, Mr. Goss, you have different information than I have, and that is why I asked the question. Passthrough businesses, the growth of those businesses now with the incentive that I just mentioned, would contribute to the erosion of the payroll tax base, would it not?

Mr. Goss. I believe that is true.

Mr. Pascrell. Let me ask you this question then.

Mr. Goss. And let me just answer that.

Mr. Pascrell. I am sorry?

Mr. Goss. The information we built into this Trustees Report, the effect that we actually got from the Joint Committee on Taxation.

Mr. Pascrell. The information you built into it?

Mr. Goss. Yes.

Mr. Pascrell. Very good. Okay.

Let me ask you this question. Can you explain why the Social Security trust fund has reserves?

Mr. Goss. Thank you. We have reserves largely because in the law the Social Security trust funds do not have the ability, the capacity, the legal right to borrow. Therefore, it is essential in order to be able to pay benefits from one month to the next that we have some reserves to draw on.

Just in case, heaven forbid, we ever have another recession or any other reason by which we begin to have more money paid out than we receive, we need to have a cushion. Usually the target that is desired is to have at least one year's worth of outgo, as a reserve.

The reason for that is, just in case things turn bad for a while, we will have enough time to come and talk to you all, tell you of this, and we will have enough time to work out appropriate legislation to fix those shortfalls.

Mr. Pascrell. Mr. Goss, has Social Security ever failed to pay anyone's earned benefits, ever?

Mr. Goss. No, it has not.

Mr. Pascrell. Thank you.

Let me say this Mr. Chairman. I like what Brother Larson put together in the Social Security 2100 Act for a number of reasons, H.R. 1902. It would solve the very problem that the Trustees approached and which we will be trying to figure out, hopefully with some good hearings down the road. It would raise benefits. And I can't support any program that would instead cut benefits in order to solve the problem. So from the get-go, that is where I am coming from.

Your new report shows that Social Security will use all of its current income -- tax revenues, plus annual interest earnings on its reserves, and the reserves themselves -- to pay benefits for the next 16 years. The report notes that Social Security will have to start drawing on the accumulated $2.9 trillion in reserves to supplement current income and to pay benefits this year.

I don't think, in my own opinion, that this is a cause for alarm, knowing the history, rather than this was Congress' intent as part of the last major set of changes, financial changes, that were made to Social Security in 1983.

Drawing on these reserves has occurred periodically throughout Social Security's history, correct?

Mr. Goss. That is absolutely true.

Mr. Pascrell. So still we should heed the advice of the Trustees and look at policy options that would reduce or eliminate the long-term financing as soon as possible.

To that end, the threshold at which Social Security taxes phase out to me is too low. And Social Security is mostly funded by a tax on income from labor, a hard day's work, Mr. Goss, but not other forms of income, like the passive income from investments. And I intend, and many others intend, to do something about it.

I yield back. And I thank you, Mr. Chairman.

Mr. Johnson. Thank you for your questions.

Mr. Buchanan, you are recognized.

Mr. Buchanan. Thank you, Mr. Chairman.

Mr. Goss, good to see you back. Been seeing you over the years. We appreciate your expertise and your leadership on a very critical issue.

I represent southwest Florida, Sarasota, Manatee County, part of Hillsborough County, Tampa Bay region, 229,000 people are in the program. I know how important it is to protect the viability of this long term. In fact, I heard a statistic that a third of seniors that start drawing their benefits have nothing but their Social Security and their Medicare. So it is critically, I can tell you, important. I have done a lot of townhalls. That is the realities.

Let me just ask you from a political standpoint, I don't see -- I want to compliment my friend, Mr. Larson. We have got to find a way, I think, politically to work together to resolve the viability of the program sooner than later. Is that your sense of it, too?

Mr. Goss. I think we certainly agree with that, as do our Trustees. Enacting something to make changes that will be necessary sooner rather than later would be wonderful. It would give the American people an advance warning of what is happening. It will allow you more options to consider and it will allow you to phase in the changes more gradually. Three big pluses.

Mr. Buchanan. Now, we have talked. I talked to you a little bit earlier. You said last time we made a change we had to have our back against the wall. Unfortunately, that happens a lot here in Washington.

Where is that timeframe where you have your back against the wall? It seems like the sooner we deal with it, get something on a bipartisan basis, the better it is going to be, less onerous it is going to be. Some of those tweaks and adjustments they made during Reagan's years made a big difference to the viability long term. Is that your thought on that as well?

Mr. Goss. Absolutely. And we much look forward to working with any and all of you. We have much enjoyed working with Chairman Johnson and Ranking Member Larson and their staff on developing plans. And if there are more plans to come, we are ready.

Mr. Buchanan. I don't know where I read this, but I want to just see. I mean, this was put together in the mid-1930s or so, Social Security. It is a great program, probably the best, that and Medicare. But let me mention, someone said if you don't die early, so to speak, before 65, if you reach 65, that the average person in America lives to be 85. Is that true? On what basis are you making that?

Because it seems to me -- my mother-in-law was just in town. She is 99, lives on her own. She had a sister 101, 103. But just from the actual numbers, actuarially standpoint, how do you look at this? What are the numbers?

Mr. Goss. I think 20 years is very close. It is a little bit longer for women than for men. Women still have the advantage on life expectancy. And for our projections in mortality, we do this with great care. As mentioned on some of the other assumptions, we make changes very carefully and only incrementally.

Many people, you will probably recall, back just 4, 5, 6 years ago were arguing that our death rates that we were projecting were not projecting improvement fast enough. As it turns out, since 2009 mortality rates overall have been improving very, very slowly, not --

Mr. Buchanan. Let me ask you a couple more quick questions. My time is running out.

COLA this year, they are projecting, might be as high -- 2.7. Do you think there is any sense it could go to 3 percent, I know that is an estimate, for 2019?

Mr. Goss. Well, it is certainly possible. What we have in the Trustees Report here is we are expecting a 2.4 COLA this year. We think that is probably likely to be pretty good. We are going to have to pay attention to prices at the pump.

Mr. Buchanan. And then the other thought is, as Mr. Larson mentioned, it is true, I hear 10,000 to 12,000 people turn 65 every day. In terms of the funding of it, with the growth if we -- we had a 4 percent growth, they mentioned the other day. But let's say we have gone from maybe 1.5 to 3, pick a number, that growth, lower unemployment. What impact -- and one of my colleagues asked the question -- but what impact is that having in terms of making the trust fund more viable going forward?

Mr. Goss. Well, absolutely, as mentioned earlier, the rate of growth and gross domestic product at nearly 2.5 percent in real terms over the next decade that the Trustees are assuming, faster really than any of the private forecasters that we saw at the time we set the assumptions and faster than CBO, definitely contributes toward the ability for our trust funds to retain their ability to pay full benefits timely.

Mr. Buchanan. That is why I am kind of surprised when I hear they are going it to spend more than they take in this year. I would like to think that with the growth and more jobs it would offset that.

Mr. Goss. Well, the date at which we would reach that point has varied over time, just as the reserve depletion date. Over the last 26 years, the reserve depletion date has varied anywhere from 2029 out to 2042. Now we are looking at 2034. Really because the economic cycles come and go.

And so we are at a point -- but it is not, as I think was mentioned before, the fact that we are now at the point of spending more than we are taking in --

Mr. Buchanan. Thank you. My time is up.

I yield back, Mr. Chairman.

Mr. Johnson. Thank you.

Mr. Larson.

Mr. Larson. Thank you, Mr. Chairman. I would just like to submit for the record the Social Security Administration statistics on women, which is that almost 49 percent of all elderly unmarried females receiving Social Security benefits rely on Social Security for 90 percent of their income.

Thank you, Mr. Chairman.

Mr. Johnson. You are welcome.

Fact Sheet

SOCIAL SECURITY

Social Security Is Important to Women

Social Security is neutral with respect to gender – individuals with identical earnings histories are treated the same in terms of benefits. This Fact Sheet is provided by the Social Security Administration to highlight how women benefit from the Social Security program and how certain demographic characteristics of women compare with the entire population.

Out of 37.8 million beneficiaries aged 65 and older in 2014, 21.1 million (or 56 percent) were Women.[1]

- With longer life expectancies than men, elderly women tend to live more years in retirement and have a greater chance of exhausting other sources of income. They benefit from Social Security's cost-of-living protections because benefits are annually adjusted for inflation.
    - According to SSA's Office of the Chief Actuary, women reaching age 65 in 2015 are expected to live, on average, an additional 21.5 years compared with 19.1 years for men.[2]
    - Women represent 56 percent of all Social Security beneficiaries age 62 and older and approximately 66 percent of beneficiaries age 85 and older.[3]
- The Social Security system is progressive in that lower-wage earners receive a higher percentage benefit than higher-wage earners do. The system returns a greater percentage of pre-retirement earnings to a lower-wage worker than to a higher-wage worker. Women who are low-wage workers receive back more benefits in relation to past earnings than do high-wage earners.
    - In 2014, the median earnings of working-age women who worked full-time, year-round were $39,000, compared to $50,000 for men.[4]
- In 2014, the average annual Social Security income received by women 65 years and older was $13,150, compared to $17,106 for men. Social Security provides dependent benefits to spouses, divorced spouses, elderly widows, and widows with young children.
- In 2014, for unmarried women – including widows – age 65 and older, Social Security comprises 47 percent of their total income. In contrast, Social Security benefits comprise only 34 percent of unmarried elderly men's income and only 29 percent of elderly couples' income.[5]

- In 2014, 46 percent of all elderly unmarried females receiving Social Security benefits relied on Social Security for 90 percent or more of their income.[6]
- Elderly women are less likely than elderly men to have significant family income from pensions other than Social Security. In 2014, 31.6 percent of unmarried women aged 65 or older were receiving their own private pensions (either as a retired worker or survivor), compared to 34.3 percent of unmarried men.[7]
    - Men and women in today's workforce have comparable participation rates, at almost half (or 49 percent each), in employer-sponsored retirement plans.[8]
    - Women generally receive lower pension benefits due to their relatively lower earnings and the higher share of employed women who work part-time, around twice the rate for men.[9]

Our website at www.socialsecurity.gov/women contains more information of interest to women.

This fact sheet is designed to provide general information and does not apply to all individuals within the female population.

[1]Calculations are based on the U.S. Census Bureau, public-use March 2015 Current Population Survey (CPS) (income year 2014), and are subject to nonsampling error (such as respondent error in reporting characteristics and amount and type of income). These are all Social Security beneficiaries aged 65 or older in March 2015.

[2] 2016 Trustees Report, Access at: Table V.A5, Cohort Life Expectancies based on Intermediate Projections for 2015. Access at: https://www.ssa.gov/OACT/TR/2016/V_A_demo.html#221776

[3] Social Security Bulletin, Annual Statistical Supplement, 2015 Social Security Administration, Research, Statistics, & Policy Analysis, Table 5.A10, Number and average monthly benefit for beneficiaries aged 60 or older, by type of benefit, age, and sex. December 2014, Released April 2016. Access at: https://www.ssa.gov/policy/docs/statcomps/supplement/2015/5a.pdf

[4] Calculations are based on the U.S. Census Bureau, public-use March 2015 Current Population Survey (CPS) (income year 2014), and are subject to nonsampling error (such as respondent error in reporting characteristics and amount and type of income).

[5] Ibid.

[6] Ibid.

[7] SSA, Income of the Population 55 or Older, 2014. Released April 2016. Table 2.B1, Percentage with family income from specified source, by sex, marital status, and age, 2014. Access at: https://www.ssa.gov/policy/docs/statcomps/income_pop55/

[8] Pew Charitable Trusts, January 2016. *"Who's In, Who's Out,"* A Look at access to employer-based retirement plans and participation in the states. Project Team: John Scott, Andrew Blevins, Theron Guzoto, and Kevin Whitman. Note: The figures in this report are based on a pooled version of the 2010-14 Minnesota Population Center's Integrated Public Use Microdata Series (IPUMS) Current Population Survey (CPS), Annual Social and Economic (ASEC) Supplement or pooled 5-year data. Worker means full-time, full-year, private sector wage and salary worker ages 18-64. This demographic group matches previous data used in this Fact Sheet. Methodological differences, such as the make-up of the underlying sample or the phrasing of the survey questions, contribute to some of the variation. Furthermore, previous research by SSA researchers suggests that the respondents tend to underreport retirement plan access and participation compared with W-2 tax data. There is no single, definitive benchmark figure for retirement plan access and participation. Pew uses CPS (versus CPS matched to W-2 data, etc.) because of geographical detail it allows. Previous Fact Sheets have been based on Employee Benefit Research Institute (EBRI) and Congressional Research Service (CRS) data, no longer available.

[9] U.S. Bureau of Labor Statistics, "Women in the Labor Force: A Databook," Report 1040, 2013. Access at: http://www.bls.gov/cps/wlf-databook-2012.pdf Note: Per Pew's IPUMS CPS 5-year data file, about 29 percent of employed women reported working part-time, while 15 percent of employed men reported working part-time. Per BLS, Table 20, year 2011, published February 2013, about 26.5 percent of employed women reported working part-time, while 13.4 percent of employed men reported working part-time.

Mr. Kelly, you are recognized.

Mr. Kelly. Thank you, Chairman.

Thank you, Mr. Goss, for being here. We appreciate it.

Looking through all this -- and, again, I think sometimes we forget where the revenue for Social Security comes from. And it is of course from wage taxes or if we want to call it Federal Insurance Contributions Act, whatever you want to call it. So it does become a math problem or a consideration.

When I was looking at the total of dollars that come in, payroll taxes make up for 87 percent of the revenue that comes in to Social Security, another 3 percent comes from taxes on benefits, and then another 9 percent on interest on that money.

But what I am getting down to is, so when Social Security was started, if you look at mortality rates, retirement versus the end of benefits being paid to somebody because they passed, what was the average mortality rate at that time when we were judging people and we looking at that window? Do we know what that is?

Mr. Goss. Well, the average mortality rate, especially for people who have --

Mr. Kelly. We are at about 79 years old now, right? That is about where it is today?

Mr. Goss. Oh, you are talking about the life expectancy, the age up to which people would live?

Mr. Kelly. Yes.

Mr. Goss. At the very beginning of the program life expectancy at birth was much less than that, I believe probably even less than 65. Remember a big part of that was because infant mortality was so high.

Mr. Kelly. Right, right.

Mr. Goss. So what we usually focus on is life expectancy at 65.

Mr. Kelly. Yeah. And I was looking at the mortality rates and there has been a decrease in white males especially. There is an increase in the death rate there. And a lot of people are saying that is due to drug overdoses, suicide, Alzheimer's, et cetera.

I think a lot of that comes from the fact when we had an economy that was so slow. There is just something about the roles we play in life for men and women. And you look at it and men have this idea that, you know what, I am the husband, I am the father, I am the provider. When that is not available I think it puts a tremendous weight on who they think they are and they become very fragile in those types of things because they don't seem to have any hope.

Now, the reason I bring that up is that if the real revenue comes from participation in the labor force, with the Tax Cuts and Jobs bill we are seeing more people get back to work, more people with more income, and more people contributing, that 6.2 percent by the person getting paid and the 6.2 percent match by the person paying, 12.4 percent out of every paycheck up to $128,400.

The more people we get into that, the more revenue we get. And so theoretically I am just trying to imagine, so if we have people -- and I don't want this happen -- if people are dying at an earlier age, so that equation starts to bounce back and forth. And I know you can't tell me right now, but I would like to see going forward where we are going with that.

Listen, I think Social Security is wonderful program, but I also know where revenue comes from. It does not -- unfortunately, people think it comes from the government. Not one penny of it comes from the government. It comes from people who are working and the people who employ them. And if you are self-employed, as I am, or have been most of my life, you pay both sides of that. You pay 12.4 percent of everything.

So I am looking at this, just the raw numbers and just talking about numbers and going forward, how do we continue these marvelous benefits to people when they reach retirement age? And they have put in all their working lives. And for some people this is the sole source of their income because they don't have much in savings, that is just the way it works.

So I would appreciate it, if you can, and I watch this stuff. And there is an answer article that I would like to submit for the record, without objection.

Mr. Johnson. Without objection.

JUN 5, 2018 @ 10:33 PM

Trustees Report That Social Security Benefits Are At Risk In 16 Years

Kelly Phillips Erb, FORBES STAFF
FULL BIO

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Each year, the Trustees for Social Security release an annual report on the financial outlook for Social Security's Old-Age, Survivors and Disability Insurance (OASDI) Trust Funds. The report outlines the current and projected financial status of the programs serviced by the funds. The key takeaway this year: Both Social Security and Medicare face long-term financing shortfalls.

(You can read the report for 2018, which downloads as a pdf, here.)

Here's how the programs are funded. Wages and self-employment income are subject to Social Security and Medicare taxes. Together, Social Security and Medicare taxes are known as FICA (Federal Insurance Contributions Act) taxes and are taken right out of your paycheck. Taxes on self-employment income are separately referred to as SECA (Self-Employment Contributions Act) taxes since self-employed persons pay both the employee and employer contributions.

If you're employed, you pay Social Security tax (6.2%) as the employee, and your employer also pays the same rate of tax (6.2%); again, if you're self-employed, you pay both portions.

Unlike Medicare, Social Security taxes are subject to a wage cap. In other words, you pay Social Security taxes on your earnings until you hit a magic number. After that, your wages are no longer subject to Social Security taxes. For 2018, that magic number is $128,400. That means that whether you made $1,000 or $100,000, you will pay Social Security taxes on that income. But if you earn $128,401? You'll pay Social Security taxes on $128,400, but not on the extra dollar. And if you earn $1,128,400? You'll pay Social Security taxes on $128,400 but not on the extra million.

In contrast, all wages are subject to Medicare taxes. If you're employed, you pay Medicare tax (1.45%) as the employee, and your employer kicks in tax at the same rate (1.45%). As before, if you're self-employed, you'll pay both portions. And, thanks to a change in the law which took effect in 2014, high-income taxpayers are also subject to a Medicare surtax (0.9%) tacked on to wages which exceed $200,000, or $250,000 for married taxpayers.

Your employer collects those Social Security and Medicare payments and remits them to the government on your behalf (or you pay them directly if you're self-employed). These taxes are sometimes referred to as "trust fund" taxes and are credited towards your retirement benefits.

The number of credits you need to get retirement benefits depends on when you were born: If you were born in or after 1929, you need 40 credits, or 10 years of work, to collect retirement benefits. The amount of your benefits depends on how much you earned during your lifetime. Remember, while you're working, you are paying a percentage of your earnings in Social Security taxes, which means that more money (and thus, more tax) should mean more benefits. If you are out of work for some time, or if you earn less money, your benefits should be lower. Overall, benefits typically work out to about 40% of preretirement income. As of last quarter, the average monthly check for retired workers, excluding spouses and dependents, totaled $1,411.07 (or $16,932.84 per year).

(For more on your retirement benefits, including how to figure them, you can read the Social Security Administration booklet, which downloads as a pdf, here.)

Some funding for those benefits also comes from income taxes. Once you reach retirement age, you may have to pay income tax on your Social Security benefits depending on your filing status and how much other income you receive. If you pay tax on your benefits, it's added to the pot to be used for other taxpayers.

(For more on whether your Social Security benefits are taxable, click here.)

Even though Social Security focuses on taxes, your benefits are administered not by the Internal Revenue Service (IRS) but by the Social Security Administration (SSA). The SSA was created in 1935, and the following year, John D. Sweeney, Jr. of New Rochelle, New York, received SSN 055-09-0001, the first Social Security record established in the country (interestingly, Sweeney never received any Social Security benefits). Over the program's 83-year history, it has taken in roughly $20.9 trillion and paid out $18 trillion, leaving asset reserves of $2.9 trillion at the end of 2017 in its trust funds.

Benefits are generally paid out of trust fund collections. Sort of like a bank deposit, your actual contributions don't sit in a vault somewhere waiting for you to claim them. Instead, your money is used to pay benefits for other taxpayers, and future collections will be used to pay your benefits.

Here's where it gets tricky. The folks who are entering retirement, and thus collecting Social Security now—the Boomers—represent a large segment of the population. In contrast, the working population is pretty small, and getting smaller: The birth rate in 2017 was the lowest in 30 years. That means that we're now paying out more than we're taking in—and it's going to get worse.

The Trustees report shows that Social Security's total costs will exceed its total income, including interest, in 2018 for the first time since 1982. The Trustees expect to finance costs using a combination of non-interest income, interest income and net redemptions of trust fund asset reserves from the General Fund of the Treasury through 2034. That's when the trust fund reserves will run out.

So what happens then? Without further actions, tax income will only be sufficient to pay about three-quarters of scheduled benefits through 2092. Or put another way, the cost of Social Security benefits expressed as a share of workers' taxable earnings was 13.7% in 2017, or just a bit over the 12.4% we're currently collecting. Those costs will increase to roughly 16.8% of earnings in 2039 and will decline slightly before slowly edging up again after 2051. However, the percentage of workers' taxable earnings isn't slated to change, so you do the math.

There's a similar problem with Medicare: Expenses per beneficiary will exceed receipts. Medicare is actually made up of two funds, but most taxpayers think of it in parts:

- Medicare Part A helps cover inpatient care in hospitals, skilled nursing facility, hospice and home health care. For most taxpayers, Medicare Part A is considered "premium free" since you or your spouse paid into the system while working.
- Medicare Part B is medical insurance and covers services like lab tests, surgeries, and doctor visits and supplies like wheelchairs and walkers that are considered medically necessary to treat a disease or condition. It's optional coverage, and you have to pay for it if you want it.
- Medicare Part C is sometimes called the Medicare Advantage Plan. It's not a separate benefit but is the part of the policy that allows private health insurance companies to provide Medicare benefits.
- Medicare Part D is prescription drug coverage.

(You can read more about Medicare Part A, B, C, and D here.)

The Trustees project that both Part B and Part D will be more or less adequately financed for the indefinite future because taxpayers pay as they go. However, as the population gets older and health care costs go up, total Medicare costs will increase from 3.7% of GDP in 2017 to 5.8% of GDP by 2038, eventually reaching 6.2% of GDP by 2092. The result? The Trustees anticipate that Medicare will face a substantial financial shortfall.

You already know where this is going. The Trustees suggest that "[l]awmakers have many policy options that would reduce or eliminate the long-term financing shortfalls in Social Security and Medicare" which they should address "as soon as possible." Those options, though unpopular, would include reducing benefits, increasing the age at which folks could qualify for benefits or boosting the cap for payments to Social Security. Less popular options include means testing to receive benefits, increasing the percentages withheld on wages during employment or increasing the taxable portion of benefits.

And here’s the scariest part: The Trustees have emphasized the need to make changes now. To make the numbers work, Congress needs to make changes. Considering the recent contentious battles over health care and taxes, that doesn't seem likely. Unfortunately, the longer that Congress waits to act, the more drastic those changes will likely have to be to keep Social Security and Medicare healthy.

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Mr. Kelly. "Trustees Predict That Social Security Will Be Insolvent in 16 Years." This is a marvelous read for people just to look at so they get a more realistic understanding of what Social Security is, how Social Security works, who funds Social Security, and going forward, how does that model work, because I think it is incredibly important for us right now. And we all agree this is something we have to make sure stays solvent.

I want to thank you for the work that you do and your staff does. It is incredible work. And I just know that so many of our fellow citizens rely so much on Social Security.

I think the Tax Cuts and Jobs Act, man, incredible, we are growing that economy really fast right now and it is happening at a fast pace. Net revenue is going to continue to come in and that is going to help out to pay these benefits.

So thank you so much. And I yield back.

Mr. Johnson. Thank you. I appreciate your comments.

Mr. Rice, you are recognized.

Mr. Rice. Thank you, Mr. Chairman.

Mr. Goss, I have looked at your report and I look at it as really kind of good news. I mean, the part about the old age and survivors benefits is really not unexpected. It is the same thing as it was last year, just adjusted by a year, right? And then Disability Insurance is far better than we thought, right? I mean, we thought it was going to expire in -- what were the dates now?

Mr. Goss. 2028, yes. In fact, just a few years ago we were expecting 2016 until you all enacted a little payroll tax reallocation.

Mr. Rice. But the recent change, the recent extension this year of 4 more years of life in the disability portion wasn't the result of legislation, was it? I mean, it was just the actuarial factors were wrong, correct?

Mr. Goss. It is just the experience we are seeing in the program.

Mr. Rice. I am looking at here a graph of the disability applications and then the number of people in payment status, and it looks like the number of people -- the applications actually peaked, as you said, about 2010, but the number -- the payment -- the people in payment status has been dropping since 2014.

Mr. Goss. Exactly.

Mr. Rice. So you had 9 million people in 2014 and now you are down around 8.5 million. If it that continues to drop, this disability program is going to be able to continue on out further and further, correct?

Mr. Goss. Exactly.

Mr. Rice. And a lot of this is driven by the labor participation rate. And it looks like to me the labor participation rate actually peaked at about the year 2002, and then it dropped a little bit, but obviously precipitously in 2008, until about 2014 it leveled off. It is actually starting to get a little bit better now, isn't it?

Mr. Goss. It is indeed. In fact the employment levels are rising. They started rising even before the labor force participation rates did.

Mr. Rice. And so that wouldn't just help the disability. I mean, that would get people off of disability and provide additional revenue to pay their claims. But it also helps the survivor portion as well, doesn't it?

Mr. Goss. And the retirement portion and Medicare. It helps them all.

Mr. Rice. You said you assumed a 2.4 percent growth in GDP over 10 years.

Mr. Goss. 2.43, yes, a little less than 2.5. That is in real terms.

Mr. Rice. And CBO is assuming 3.2 this year, I think.

Mr. Goss. But on average over the next 10 years they are at 1.95 percent, about a half percent slower than the Trustees.

Mr. Rice. All right. So I know that at the time I got to Congress I think CBO was projecting about 2.9, but every year it went down in its projections to the point that it got down I think to 1.9 about 2 years ago. And since Mr. Trump has been elected, which way are those projections going now?

Mr. Goss. I think the projections have been coming up in the near term.

Mr. Rice. They have been coming up and increasing. Not just, I mean, not just in the near term. I mean their projections over 10 years have been increasing as well, right?

Mr. Goss. They have.

Mr. Rice. And have the economic numbers that -- those are projections, but let's talk about experience. The economic numbers in the last 2 years, have they been better or worse in experience than was projected?

Mr. Goss. I can't really speak to how they have done relative to CBO, but I think our projections have actually been right about on target for the amount of growth we have been seeing in the economy.

Mr. Rice. I think CBO continues to rise dramatically.

Now, this projection that you did didn't really take the tax reform bill into account, did it?

Mr. Goss. Well, it took into account the direct effects. It doesn't have any sort of boosting the economic growth effects. But as I mentioned, our projection for economic growth is substantially faster as it is than CBO's and most private forecasts.

Mr. Rice. I understand. But you didn't really take into account any increase in growth from the tax bill.

Mr. Goss. We didn't put any additional growth on top of what we have for the macro effects of the tax bill.

Mr. Rice. Let me ask you, do you think the macro effects of the tax bill are stimulative.

Mr. Goss. Indeed. Yes.

Mr. Rice. So if that is not taken into account, then your projections could actually be a little on the low side; and if they are, that will extend the life of both the disability and the retirement programs. Is that correct.

Mr. Goss. That could well be. And we will see in the next Trustees Report.

The one further thing we have to look at is the great slowdown we have had in labor productivity over the past 10 years, where the trustees feel they should take more out of future growth.

Mr. Rice. And if we can make further progress on our economic growth agenda in terms of merit-based immigration, infrastructure, trade agreements, all those things matter, don't they?

Mr. Goss. Immigration is a huge factor for the program and for economic growth, no question.

Mr. Rice. Thank you, sir.

I yield back.

Chairman Johnson. Thank you.

Mr. LaHood, you are recognized.

Mr. LaHood. Thank you, Mr. Chairman. And I am honored to be part of the subcommittee. This is my first subcommittee hearing.

And, Mr. Goss, thank you for being here today. I was hoping you could walk me through your process of creating the report and the average time it typically takes to do that.

Mr. Goss. Well, in working with our trustees and their teams, we will start working in the next 2 weeks toward the next Trustees Report. We actually formulate our recommended assumptions to the trustees in October through December of this year. They will be looked at and ultimately agreed upon.

It then takes a fair amount of time for us to work through with all the assumptions we have to develop complete population projections for the country, complete economic projections for the country, and then all aspects of the Social Security beneficiaries and benefit levels.

Our target date always is April 1, which we are required to target by statute for the Trustees Report to come out by that time, and we will do everything we can to get there, as we have in some years in the past. But as Chairman Johnson indicated, we have not met that every year, and not recently.

Mr. LaHood. Well, clearly this data that we get each year is extremely important. And from the oversight perspective, building off the chairman's request to GAO to bring more transparency to the process, I am interested in your thoughts as to why this delay in submitting the report persists and how we can change that.

Mr. Goss. One thing that I would point to is that we do have a Board of Trustees, which includes four ex officio members of the Cabinet, in addition to public trustees when we have them. We haven't had for a while. So we have a little bit more complicated process in developing our projections than does, for example, the Congressional Budget Office, which works unto themselves without specific guidance.

So we have to work with Secretary of Treasury, Labor, HHS, and the Commissioner of Social Security to work through the assumptions and methodologies we will be using to get their approval and their acquiescence.

But I would add, thanks to you all in Congress, you have required for many years now, I think since 1994, an actuarial opinion at the end of the Trustees Report. So I will just promise you one thing. If ever we are instructed to put something in the Trustees Report that we think is inappropriate, we will tell you in that opinion.

Mr. LaHood. And beyond what you said there, are there any other barriers that you see that relate to this delay?

Mr. Goss. You know, from time to time, as you all can imagine, getting a group of people together at a particular point in time in a particular place can sometimes be challenging by way of scheduling.

One thing that has contributed in the past to some delays in the issuance of Trustees Reports has been getting all of the members of the board together. We have quorum requirements.

We always, for the year in which we have a report and we are signing it. We have all of the actual members of the Board of Trustees there. Sometimes there are some delays due to getting the folks at Main Treasury on the particular day to have everybody sign.

Mr. LaHood. Thank you.

I yield back the balance of my time.

Chairman Johnson. Thank you.

Mr. Schweikert, you are recognized.

Mr. Schweikert. Thank you, Mr. Chairman.

Hey, this is actually one of those moments I find joyful, because I have found many of the conversations we have had fascinating.

Just also for our own conversation, making sure I have it right in my head, and also understanding of everyone else, the report, as I look at it the last few years and skim through it, you actually are very disciplined -- and when I say you, as the report -- in almost, I don't want to use the term slow-walk, but you create a very -- it is a perpetual horizon you are sort of designing to. I know we always say 75 years, but we will explain the difference later.

So, okay, we are in this Goldilocks economy right now, but some of that isn't in the report, because do we do something here to screw it up, but also demographics. You seem to actually smooth out some of the charts.

Is my simplified explanation of what you are doing correct?

Mr. Goss. Absolutely. We really try to. Because our sense is that for you all who are going to make the decisions, the policymakers, if we were to react to every up and down in the economy and give you dramatically different numbers from one year to the next, that would not be a good basis. So what we try to do is hit the midline on everything.

Mr. Schweikert. So in that same framework, particularly as we are all working on policy, there are things happening in our society that do have long-term cascade effects almost immediately. You have seen our recent birthrate calculations. We as a Nation are down to what, 1.76, if that? And what is fascinating is that number seems to have fallen even during times of economic expansion, so we have to sort of believe that is our new normal.

Can you give me about 30 seconds of birthrates, because my little two-and-a-half-year-old is functionally an annuity to pay my Social Security. We were thinking of calling her Annuity, but Olivia was what we went with.

Mr. Goss. Okay.

Mr. Schweikert. Attempt at humor, but am I being fair?

Mr. Goss. You absolutely are, especially because we are a pay-as-you-go system, as several have mentioned. It is the workers of the day that will pay the benefits for the beneficiaries of the day.

We shift from where in the baby boom period -- many of us were born then -- where people, on average, had three kids, and now they are having more like two kids, maybe even fewer in the future, then where we used to have three kids in the economy paying in for every pair of elders, in the future we are going to have two, maybe even less. That means we have a greater challenge.

Mr. Schweikert. Now, my math is about a year old, but I was coming up with we were like 11 years or so from two workers for every one retiree. Sound plausible?

Mr. Goss. By about 2035, we will be there. And that is simply the outgrowth of the drop in the birthrates that occurred back in the mid-1960s. So this has been totally foreseen.

Mr. Schweikert. So for a lot of us, we get giddy. We are in sort of this economic spike right now. But we also have to deal with other realities. Our birthrates have effect. Immigration, as we were all having discussion, has effect. The nature of that immigration. Is it a talent base? Does it lean younger? Does it lean older? Apparently, the demographics of what immigration is has huge effects on the stability of Social Security and Medicare.

Our ability to, as those of us on this committee, to bring you a series of these things, saying, what if, as we are working on a stabilization legislation for the future, you know, the chairman, the ranking member all have bills.

I have had a fixation of sort of taking parts of their bills and seeing could I ever design triggers. Hey, where 15 years from now birthrates go up, you could actually do certain adjustments. Birthrates go down.

We have blended payroll tax revenues because, you know, GDP is not always exactly linked to payroll tax, because some things in the economy can expand, but salaries and wages, our number of workers, labor force participation numbers sometimes are getting decoupled because of technology and other things.

Is there a rational way for policymakers here, if we wanted to design that future stability, that you cure Alzheimer's tomorrow and all of a sudden we live 6 years longer, that is a huge stress in the system. Should we have a discussion of if we are going to build that legislation that makes it so we never see that cliff again.

How do you design slow on-ramps, the same way you do your smoothing on your calculation, saying, we are going to have to move the retirement age up? We might have to adjust what is taxed. Those things. Do you have the capacity for us to bring you those types of ideas and stress them?

Mr. Goss. Absolutely. We would welcome all your ideas. We have many up on the web now. We have about 150, 130 to 150 different provisions that we have scored for people in this room today and for people over on the other side of the Capitol. So we have lots of possibilities.

In terms of raising the retirement age, there are several different mechanisms for indexing the retirement age, based on increasing longevity in the future.

But thank you so much for mentioning birthrates, which is really the much stronger driver on the cost of the program. And we don't really have a direct mechanism for changing the program to reflect changes in the birthrate.

Mr. Schweikert. But that could give you a much longer on-ramp, because my little girl isn't going to be in the labor force for years.

Mr. Goss. For another 10 years maybe.

Mr. Schweikert. Yeah. Well, we will see.

Mr. Chairman, thank you. Part of, obviously, the last question was for all of us to think about using their good auspices to help us in the design. Thank you, Mr. Chairman.

Chairman Johnson. Thank you, sir.

You know, the news from the Trustees Report is clear: Time is not on our side when it comes to fixing Social Security.

As I have said before, I believe that any Social Security solvency plan should meet the following principles.

First, it ought to fix Social Security permanently, not just push out the Trust Funds' exhaustion date by a few years. Second, it ought to modernize Social Security to reflect today's workers and their families. Third, it ought to reward hard work. And fourth, it should protect the most vulnerable. And finally, it should improve retirement security.

And with those things in mind, I think we can fix it, and it is up to the Congress to make tough choices needed to ensure that Social Security is here for our children and our grandchildren, just like it is for seniors and individuals with disabilities today. The American people expect and deserve nothing less.

Thank you to our witness for your testimony.

And thank you also to our members for being here.

With that, the Subcommittee stands adjourned.

[Whereupon, at 12:14 p.m., the hearing was adjourned.]