Comprehensive Legislative Proposals to Enhance Social Security

Testimony by Stephen C. Goss, Chief Actuary, Social Security Administration
House Committee on Ways and Means, Subcommittee on Social Security
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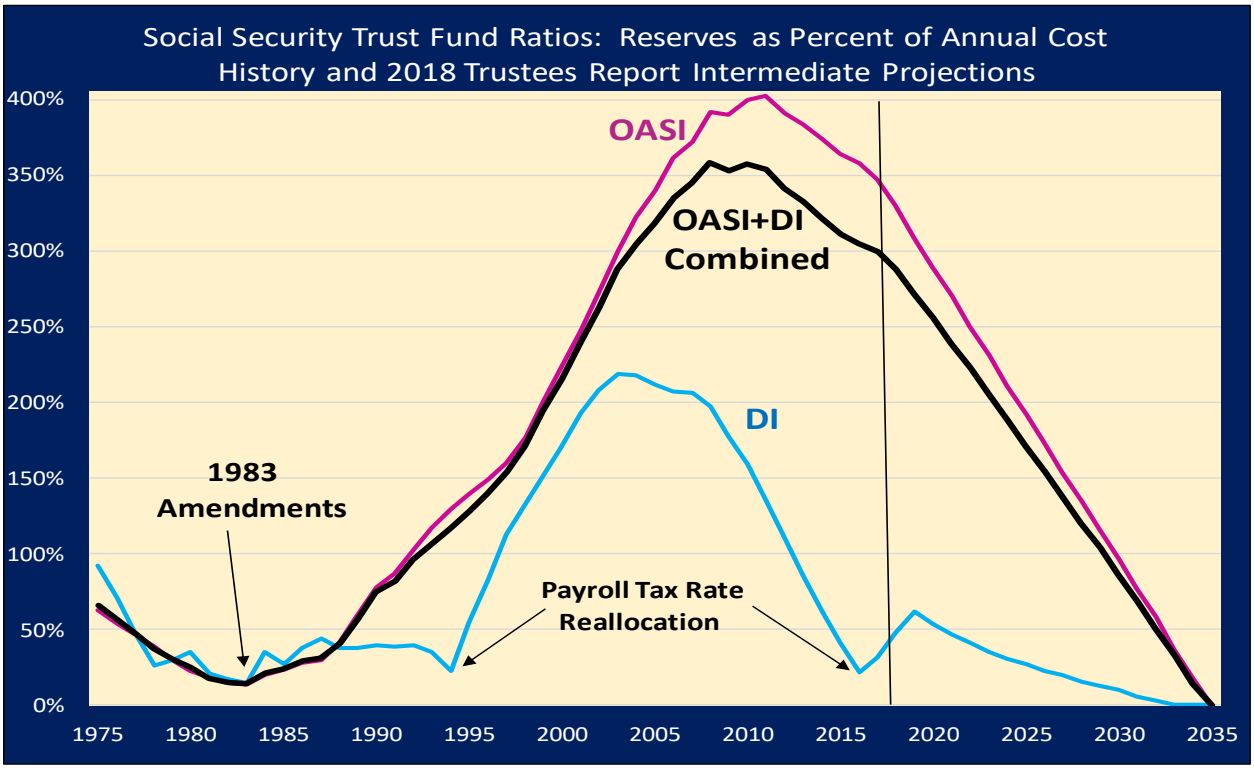
Chairman Larson, Ranking Member Reed, and members of the subcommittee, thank you very much for the opportunity to speak to you today about comprehensive legislative proposals that would enhance Social Security. As indicated in the 2018 Social Security Trustees Report, the accumulated reserves of the combined OASI and DI Trust Funds are projected to become depleted in 2034 under current law.

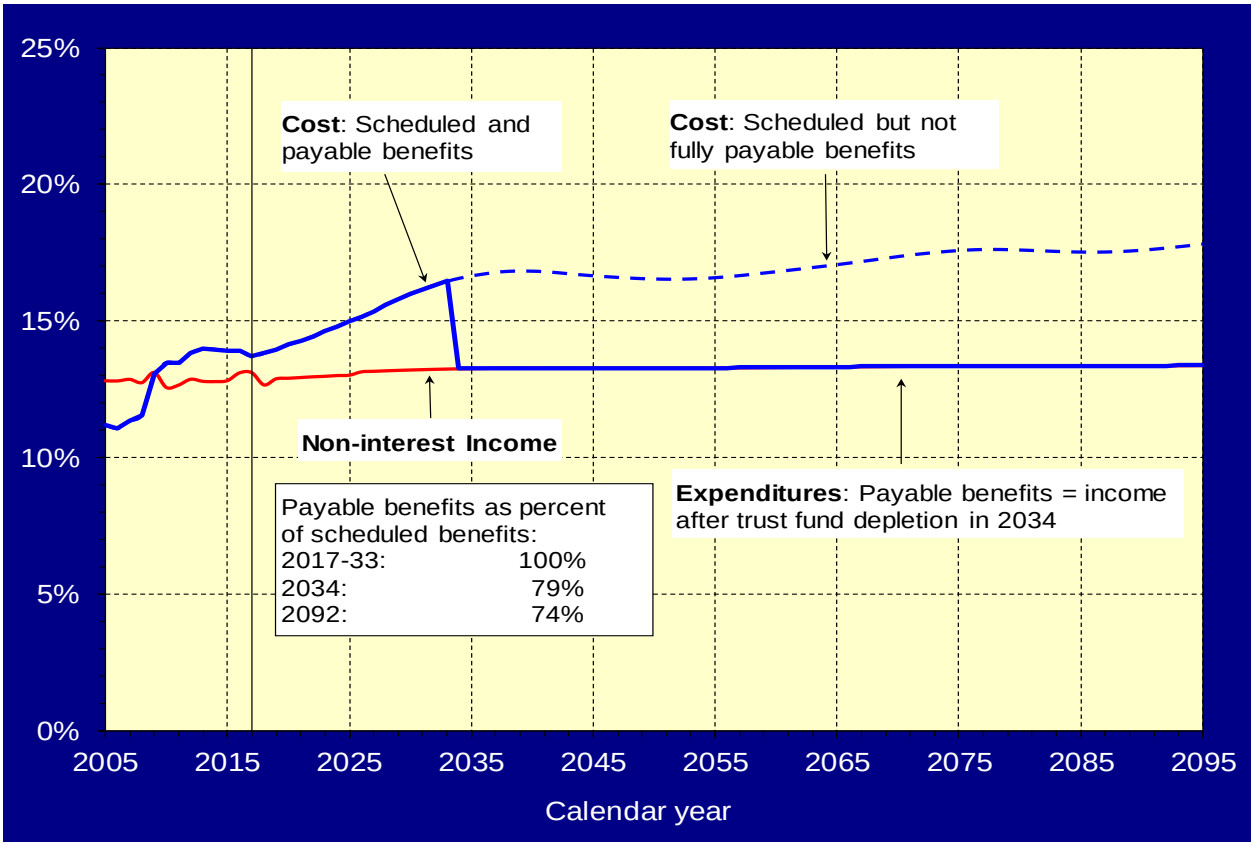
Trust fund reserve depletion is a critical prospect for Social Security, because there is no current authority in the law that would allow borrowing in order to continue paying scheduled benefits in full and on time. For this reason, Congress has always acted to avert reserve depletion, as shown in the figure below. The last comprehensive legislation for Social Security was enacted in 1983. Since 1983, the total payroll tax rate was reallocated in 1994 and again in 2015 to avert depletion of DI Trust Fund reserves. Further comprehensive legislation will be needed by 2034 in order to avoid combined OASI and DI reserve depletion.



Enacting changes well before reserve depletion, even 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 28 years, Trustees Reports have projected reserve depletion for the combined OASI and DI Trust Funds as early as 2029 and as late as 2042.

If reserve depletion is allowed to occur in 2034, continuing income to Social Security at that time would be sufficient to finance only 79 percent of the benefits scheduled in the law, with that percentage declining to 74 percent by 2092. The figure below shows the projected level of the cost for paying full scheduled benefits and the scheduled revenue for the program, both as a percentage of Social Security's payroll tax base. After reserve depletion, the cost of paying full benefits is shown in a dashed line, because under current law that cost could not and would not be met. In fact, after reserve depletion, the level of payable benefits would be reduced to the amount available from the continuing tax income for the program.

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

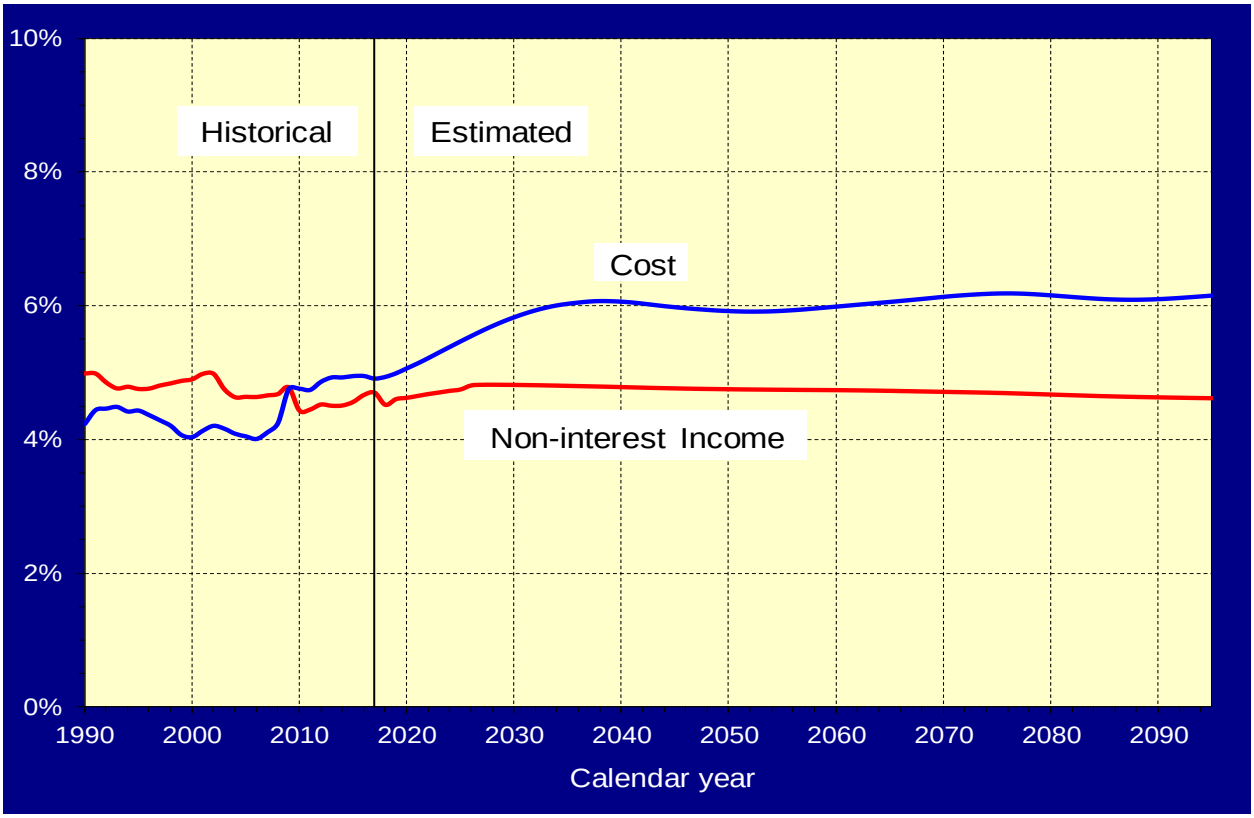


Therefore, under the intermediate projections in the 2018 Trustees Report, in order to avoid reserve depletion and a sudden reduction in the level of payable benefits, we will need to make adjustments in the law by 2034. These adjustments will need to: (1) increase scheduled revenue

for the OASDI program by about 29 percent, (2) reduce scheduled benefits by about 23 percent, or (3) provide some combination of these revenue increases and benefit reductions.

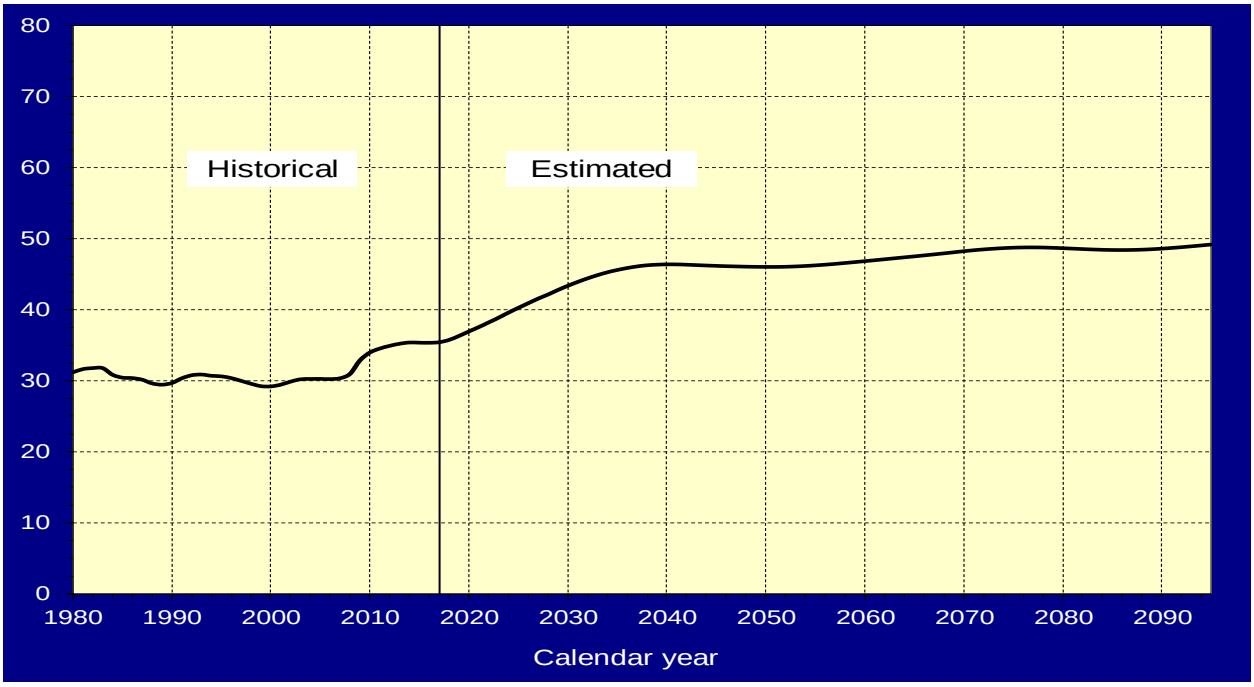
Another way of viewing the cost of providing currently scheduled Social Security benefits is to consider cost as a percent of Gross Domestic Product (GDP). The figure below shows that while the cost of Social Security benefits was about 4.5 percent of GDP for many years before around 2008, the cost of the program will rise to about 6 percent of GDP by 2034 and will remain essentially stable at that level thereafter. The currently scheduled non-interest income is projected to remain relatively level at about 4.6 percent of GDP. Thus, after 2034, there will be a stable gap of about 1.4 percent of GDP between scheduled income and the cost of scheduled benefits. This speaks to Social Security's financial sustainability for the future. The stability of the shortfall of income under current law relative to GDP suggests that the structure of the program is sustainable for the future, but that adjustments in the level of income or benefits will be needed.

SUSTAINABILITY: Cost as Percent of GDP

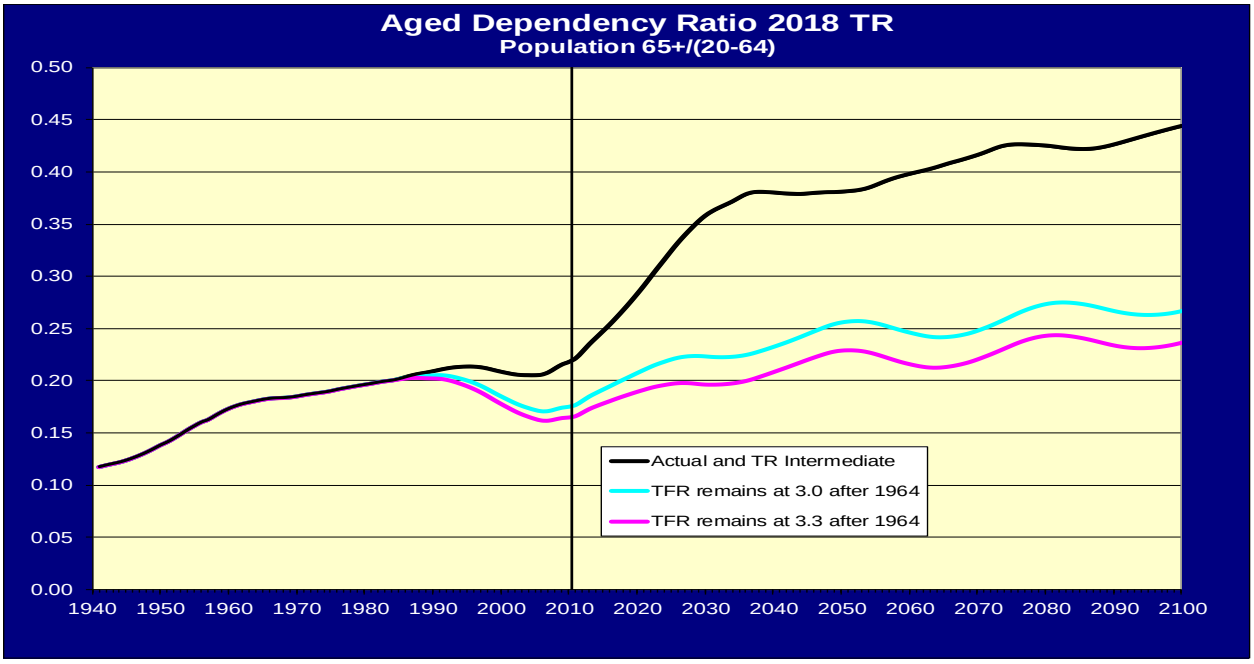


The cost of the Social Security program as a percent of GDP closely follows the ratio of Social Security beneficiaries to workers in covered employment, because the average monthly benefit under the program is designed to rise from one generation to the next at about the same rate as the average earnings for workers making payroll tax contributions.

Projected Number of OASDI Beneficiaries per 100 Covered Workers



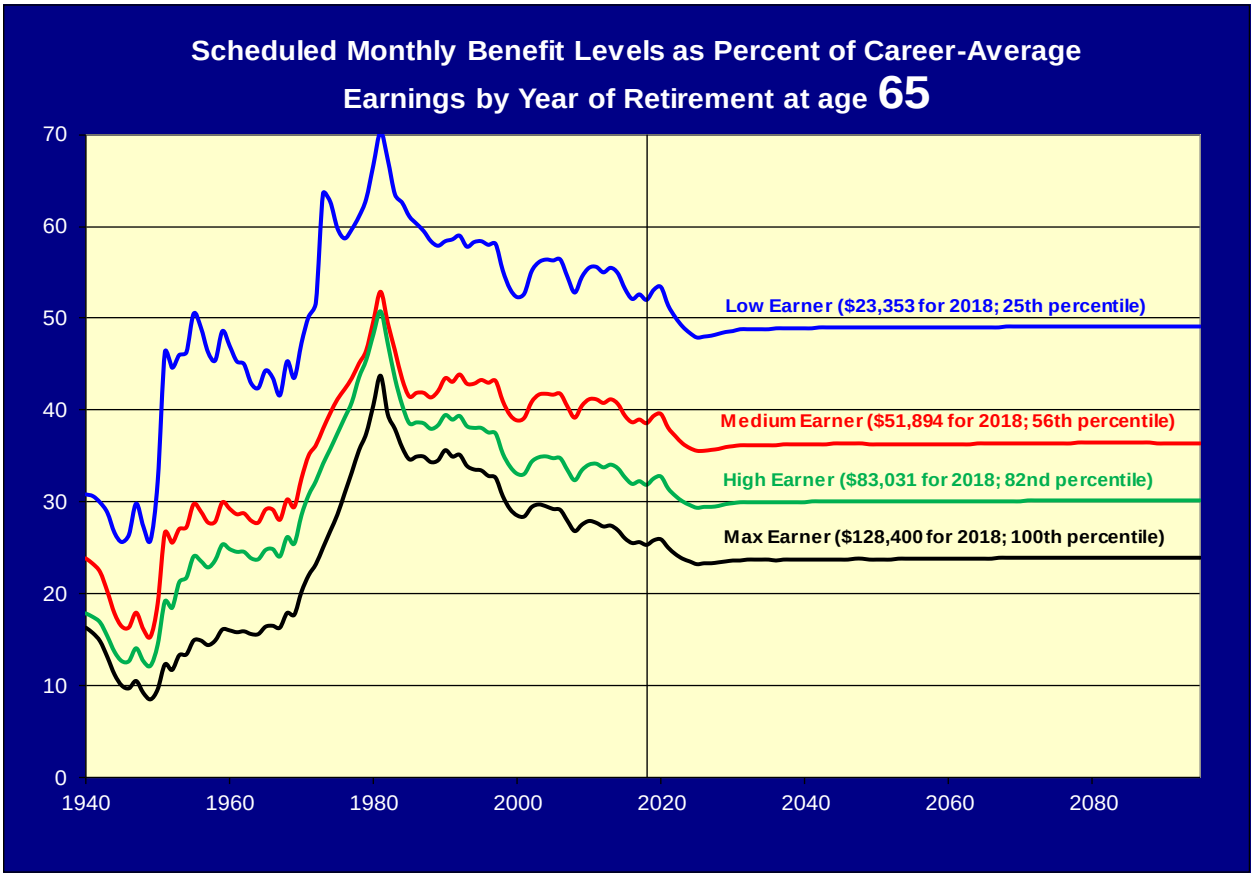
In turn, the ratio of beneficiaries to covered workers closely follows the "aged dependency ratio," which is the population age 65 and over as a percent of the working age population at ages 20 through 64. The next figure illustrates that the large increase in this ratio between 2010 and 2035 is due 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 more recent years.



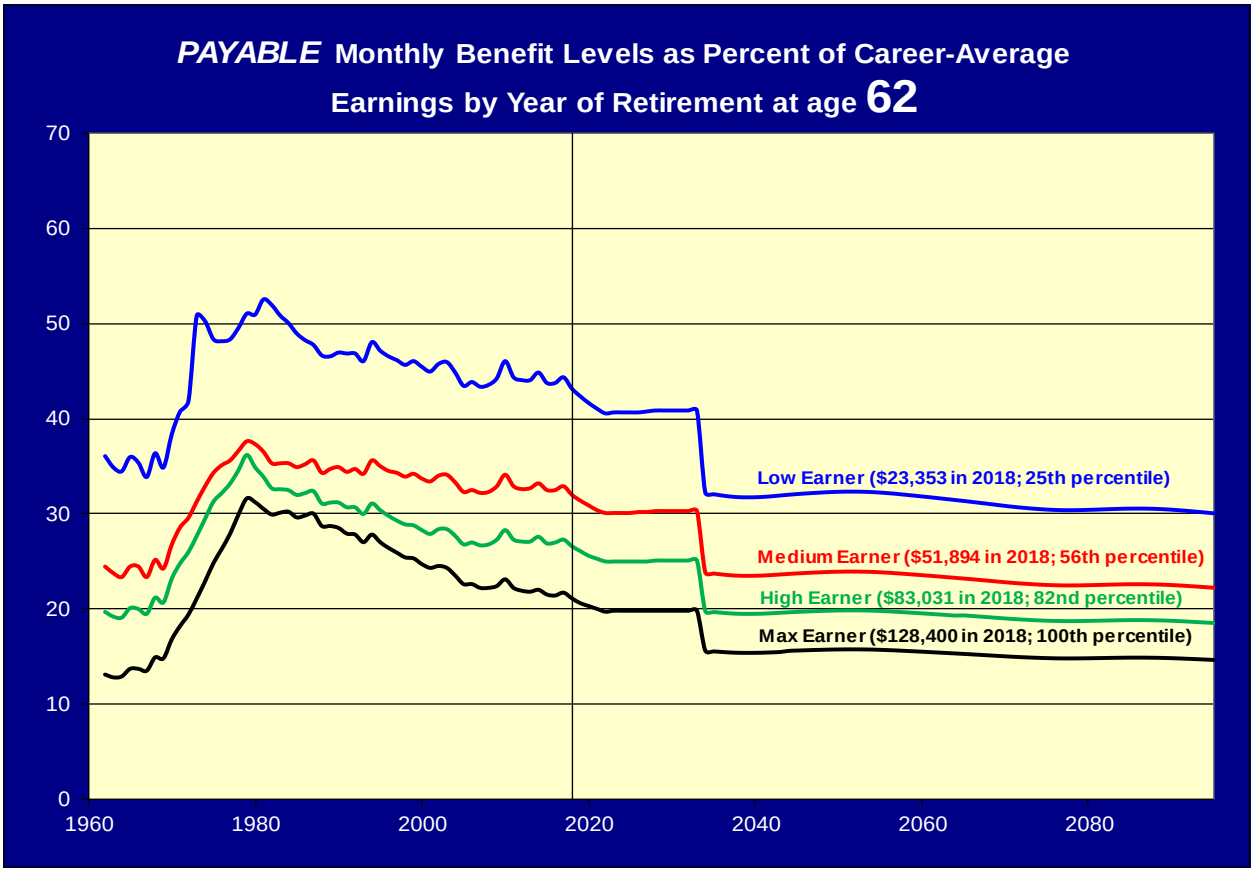
Changes in longevity due to declines in death rates play a more gradual but steady role in the trend of the aged dependency ratio. Fortunately, the mortality projections used in the Trustees Reports have provided a sound basis for evaluating the actuarial status of Social Security in the past. While 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.

Future Social Security Benefit Levels and Tax Levels

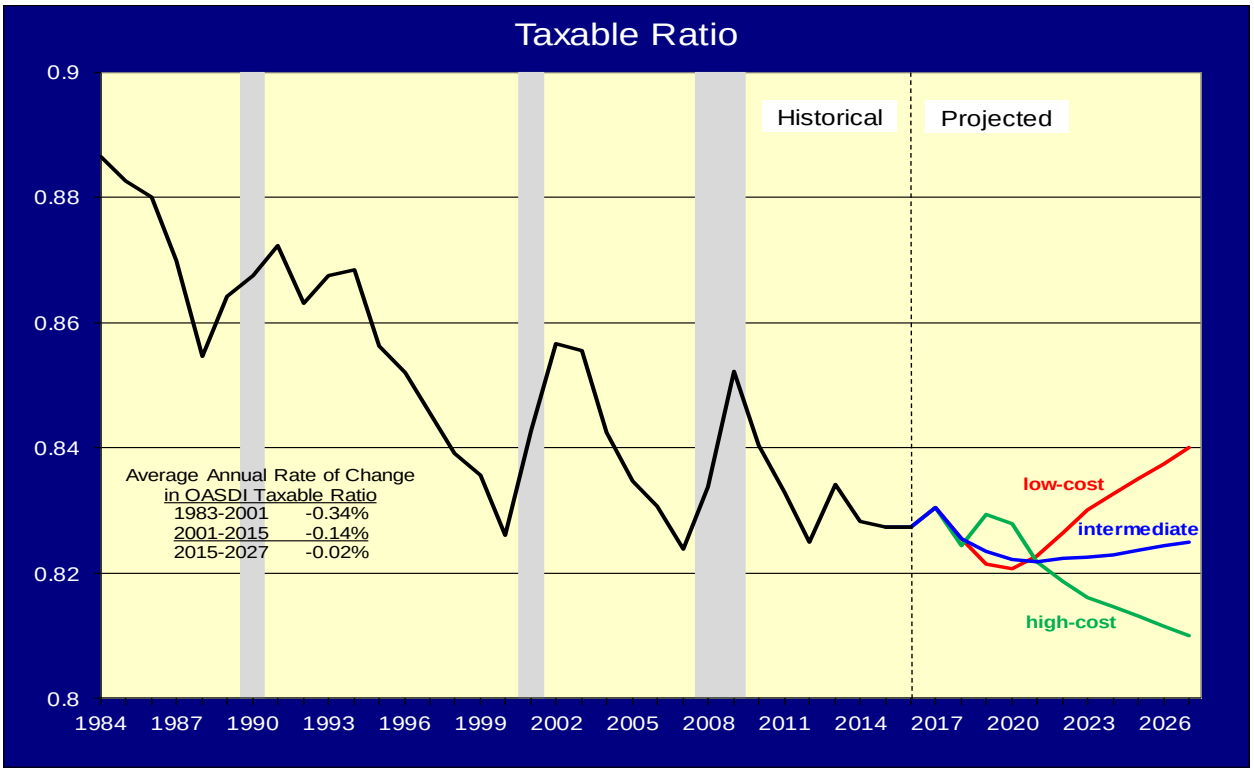
Financial planners generally recommend that workers plan to have retirement income at a level of about 75 to 80 percent of their income during their working career. Social Security has been designed to provide a portion of that retirement income, with the expectation that employer-provided pensions and personal savings will contribute as well. Because lower-paid workers are generally less able to save, and often have little non-Social Security pension income, the Social Security benefit formula is designed to provide a higher percentage of career-average income for lower earners than for higher earners. The figure below illustrates this benefit "replacement rate" for workers at a range of career earnings levels, assuming they start receipt of Social Security retired worker benefits at age 65.



The figure below illustrates that when workers start retired worker benefits at the earliest allowable age, 62, the benefit replacement rate is about 20 percent lower than if they wait until 65. In addition, this figure shows the drop in replacement rate that would occur in the future if benefits are paid after trust fund reserve depletion at the level payable with continued revenue.



Under current law, payroll tax levels for Social Security covered employment are scheduled to remain at 6.2 percent for employees, 6.2 percent for employers, and 12.4 percent for self-employment earnings, up to a total annual earnings level of $132,900 in 2019. This "taxable maximum" is indexed by the growth in the average wage in the economy. Historically and projected into the future, about 94 percent of workers have annual earnings below the taxable maximum, and so pay the payroll tax on all of their earnings. The earnings above the taxable maximum for the remaining 6 percent of workers accounted for about 11 percent of covered earnings in 1984, but have increased to about 17 percent of earnings today, as a result of increasing dispersion in earnings levels between 1984 and 2000. This dispersion in earnings levels has largely stabilized since 2000.



Comprehensive Legislative Proposals to Enhance Social Security Actuarial Status

Many comprehensive legislative proposals have been introduced in Congress since the enactment of the landmark 1983 Social Security Amendments. At the time of the enactment of the 1983 Amendments, combined OASI and DI Trust Fund reserve depletion was projected to occur just beyond the end of the long-range 75-year projection period. However, the projected annual cost and income of the program showed that the reserves, after building up substantially for many years, would thereafter decline steeply to the point of depletion. To avoid this undesirable pattern, since the mid-1990's, comprehensive legislative proposals that aim to avoid reserve depletion over the next 75 years have generally been designed to meet the requirements of "sustainable solvency." These requirements are (1) avoiding reserve depletion throughout the period, and (2) having the trust fund ratio (reserves as a percent of annual program cost) stable or rising at the end of the 75-year projection period. When these requirements are met, Social Security is expected to be adequately financed for the foreseeable future, under the intermediate assumptions for the Trustees Report.

On the Office of the Chief Actuary's website, we provide analyses of all comprehensive proposals that we have provided estimates for since 1995, including many that have been introduced as legislation in Congress; see https://www.ssa.gov/oact/solvency/index.html. These proposals cover a wide range of approaches for modifying the revenue and benefits specified in the law. In recent years, our proposal analyses have included tables illustrating the effects of

comprehensive proposals on the benefit and tax levels for workers with a range of career-average earnings levels. These tables provide insight into the differential effects proposals would have for beneficiaries and workers in future years, as the provisions of the proposal are implemented.

Estimates of the financial effects of most of the individual provisions included in these comprehensive proposals can be found at https://www.ssa.gov/oact/solvency/provisions/index.html. These estimates are updated based on the baseline projections and assumptions of each annual Trustees Report.

An Example of a Comprehensive Legislative Proposal

The Social Security 2100 Act, introduced by Chairman Larson in the House on January 19 of this year (and by Senators Blumenthal and Van Hollen in the Senate on the same day) provides a recently introduced example of a comprehensive legislative proposal. The Social Security 2100 Act would enhance Social Security by: (1) meeting the requirements of sustainable solvency; (2) fully financing the benefits scheduled in current law; and (3) providing selected increases in benefits, which are also financed under the legislation. Our description of the provisions of this Bill and our estimates of the effects on the actuarial status of the trust funds, benefit levels, tax levels, and budget measures are available at https://www.ssa.gov/oact/solvency/LarsonBlumenthalVanHollen_20190130.pdf.

Under current law, scheduled financing falls short of the cost of scheduled OASDI benefits by about 2.84 percent of taxable payroll over the next 75 years, which amounts to about 1 percent of GDP over the period. The increases in scheduled revenue included in the Social Security 2100 Act would:

- Provide the extra 1 percent of GDP needed to fully finance currently scheduled benefits;
- Generate an additional 0.3 percent of GDP over the next 75 years, which would finance increases in currently scheduled benefits (benefit levels in the Bill are about 4.6 percent above the levels scheduled in current law); and
- Generate a further 0.1 percent of GDP over the next 75 years, leading to a significant and rising level of trust fund reserves at the end of the period (250 percent of annual program cost at the end of 2092), providing some extra measure of certainty that Social Security would be adequately financed over the 75-year projection period and beyond.

At the end of the 75-year projection period, annual income and annual cost for the program would both be about 6.4 percent of GDP, whereas under current law, cost is projected to be 6.1 percent of GDP and income is projected to be only 4.6 percent of GDP.

Section 204 of the Bill would combine the OASI and DI Trust Funds into a single fund starting in 2020. Additional provisions would either increase scheduled benefits or increase scheduled revenue.

Provisions that provide increased levels of scheduled benefits under the proposal include:

- Section 101—increases the first "PIA factor" from 90 to 93, thus increasing benefits by about 3 percent for the 10 percent of beneficiaries with the lowest PIA, with smaller increases for all other beneficiaries.
- Section 102—computes the annual Social Security COLA using the CPI-E (based on purchase patterns by the elderly) rather than the CPI-W (based on purchase patterns for urban workers). This would increase scheduled retiree benefits by about 2 percent at age 72, and by about 4 percent at age 82.
- Section 103—updates the special minimum benefit provision (which under current law, provides virtually no additional benefit). The updated special minimum provision would assure a minimum PIA at 125 percent of the poverty level for long-career workers becoming eligible in 2020, with that minimum increased by the average wage growth for individuals becoming eligible after 2020, so the effectiveness of the minimum provision would persist into the future.
- Section 104—increases the threshold at which Social Security benefits become subject to income tax, but still allocates as much revenue to the Medicare HI Trust Fund as if this change had not been made.
- Section 202—provides a 2 percent PIA factor for earnings subject to the increase in the payroll tax base above the current-law maximum (see section 201).

Provisions in the Bill that provide additional revenue include:

- Section 201—applies the current payroll tax to earnings in excess of $400,000, starting in 2020. This threshold would not be indexed and would eventually meet the current-law maximum amount, so that all covered earnings would be subject to the payroll tax.
- Section 203—increases the combined Social Security payroll tax rate by 0.1 percentage point each year from 12.4 percent for 2019, reaching 14.8 percent for 2043 and later.

The Social Security 2100 Act is one of many Bills introduced in the House and the Senate that would modify benefit and income provisions for Social Security, and one of several that would meet the requirements for sustainable solvency.

Conclusion

Annual actuarial valuations of the OASI and DI Trust Funds show that the program faces financial shortfalls in the future under the current law provisions. Social Security's financing has not yet been adequately adjusted to accommodate the changing age distribution of our population, which has been well understood and anticipated for many years. The shift to a higher but stable level of cost as a percent of GDP, as a result of the aging population, must be addressed in the next 10 to 15 years, before either trust fund reaches reserve depletion.

All of us in the Office of the Chief Actuary look forward to continuing to work with the members of this subcommittee, and all other members of the House and the Senate, in developing comprehensive legislation to maintain Social Security solvency for the foreseeable future.

Thank you again for the opportunity to talk to you today. I look forward to answering any questions you may have.