

Social Security



August 14, 1935-
August 14, 2005

PUBPOL 2300 Graded SPPs

Graded Exams and SPPs
can be picked up from your
TA after class

Mean

84.3%

Median

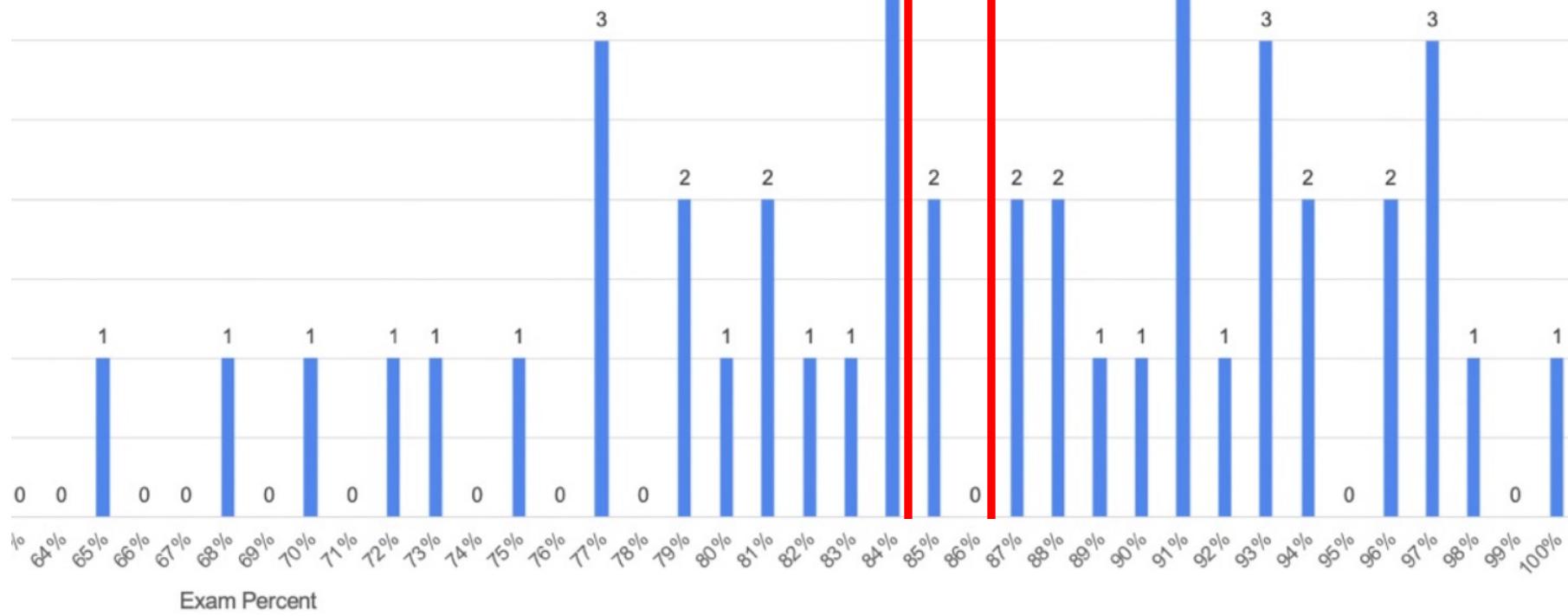
86.0%

High

100.0%

Low

15.2%

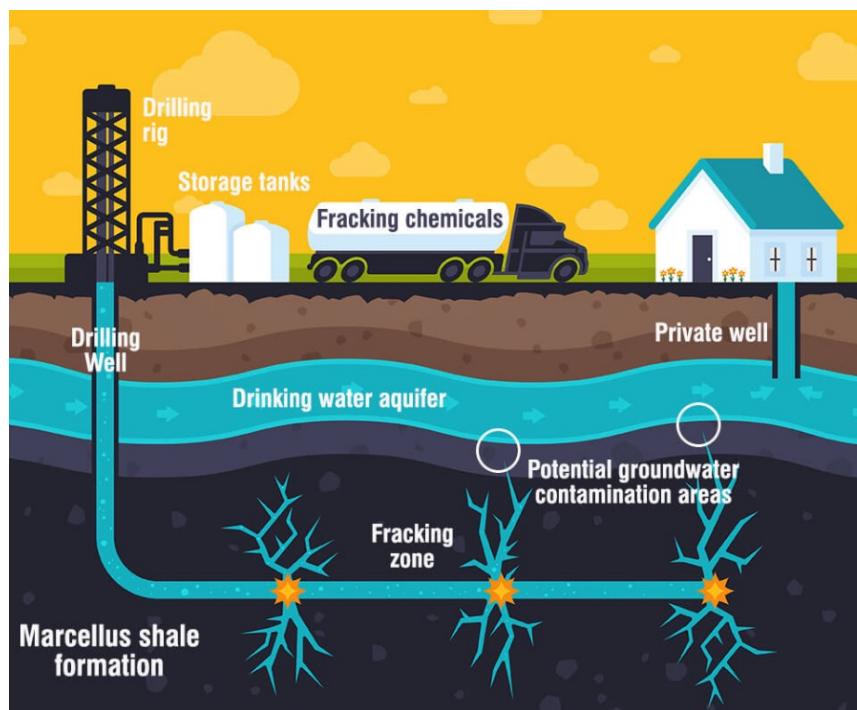


Group Policy Topics

Spring 2023

Hydraulic fracturing “Fracking”

Policy Problem: Currently, New Avery does not permit fracking. A senator of New Avery would like to know whether permitting fracking would be the most cost-effective and efficient way to *foster energy independence* and *limit environmental pollution*.



Language Immersion Programs

- **Policy Problem:** A New Avery senator would like to know whether the implementation of *a state-wide language immersion program* would be the most efficient and cost-effective way to *increase academic performance* and *improve immigrant integration* in New Avery.



Drug Courts

- **Policy Problem:** Governor of the state of New Avery has asked you to research a proposal for the **implementation of Drug Courts**. Specifically, she would like to know whether drug courts would be the most effective and efficient way *to reduce recidivism, reduce drug overdoses, and improve community climate.*



Electronic Medical Records

- **Policy Problem:** The Governor of New Avery would like to know whether requiring all health care systems to use **Electronic Medical Records** would be the most cost-effective and efficient way to *improve patient quality of care* and *streamline the administrative process of care*.



Social Security



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Social Security Trust Funds





- **1935 Social Security Act**
 - **Old Age & Survivors Insurance**
 - Social Security Trust Fund (**OASI**)
- 1972 Supplemental Security Disability Income (**SSI/SSDI**) - A means-tested program.
- **1965 Medicare** (Health care insurance for those receiving Social Security benefits)
 - Hospital Insurance fund (**HI**)
 - **Pays for in-hospital stays and procedures**
- Supplemental Medical Insurance Fund (**SMI**)
 - **Partially pays for out-of-hospital expenses**

How are the trust funds supported?



Social Security is funded by a

- “Pay-as-you-go” (Ponzi) intergenerational program
 - *Each generation contributes to the financial support of the generation older than them*



Program Implementation



- Social Security Trust Fund is maintained by **mandatory** contributions (**TAXES**)
 - FICA - ***Federal Insurance Contributions Act***

Federal Insurance Contributions Act = FICA Taxes (Social Security + Medicare)

	Employee pays	
Social Security tax (aka OASDI)	6.2% (only the first \$147,000 in 2022; \$160,200 in 2023).	Paid on income under \$160,200
Medicare tax	1.45%.	Paid on ALL income
Total	7.65%.	7.65%.

15.6% if self employed

Individual income of more than \$200,000 (\$250,000 for married couples filing jointly) pay **0.9 percent** more in Medicare taxes on all earned income. The tax rates shown above do not include this 0.9 percent:

Social Security Benefits

- Primary Insurance Amount (PIA)



Social Security: Primary Insurance Amount

- **Primary Insurance Amount (PIA)**
 - The PIA is calculated from:
 - **Average Indexed Monthly Earnings (AIME)** which is the average monthly earnings the person made over their working and earning lifetime (35 years).

Future Value Calculations

- **What does “Indexed” mean?**

- Your earnings over the past 35 years are “future valued” in each year, added up (they are all “apples” now and can be added together) and then averaged.

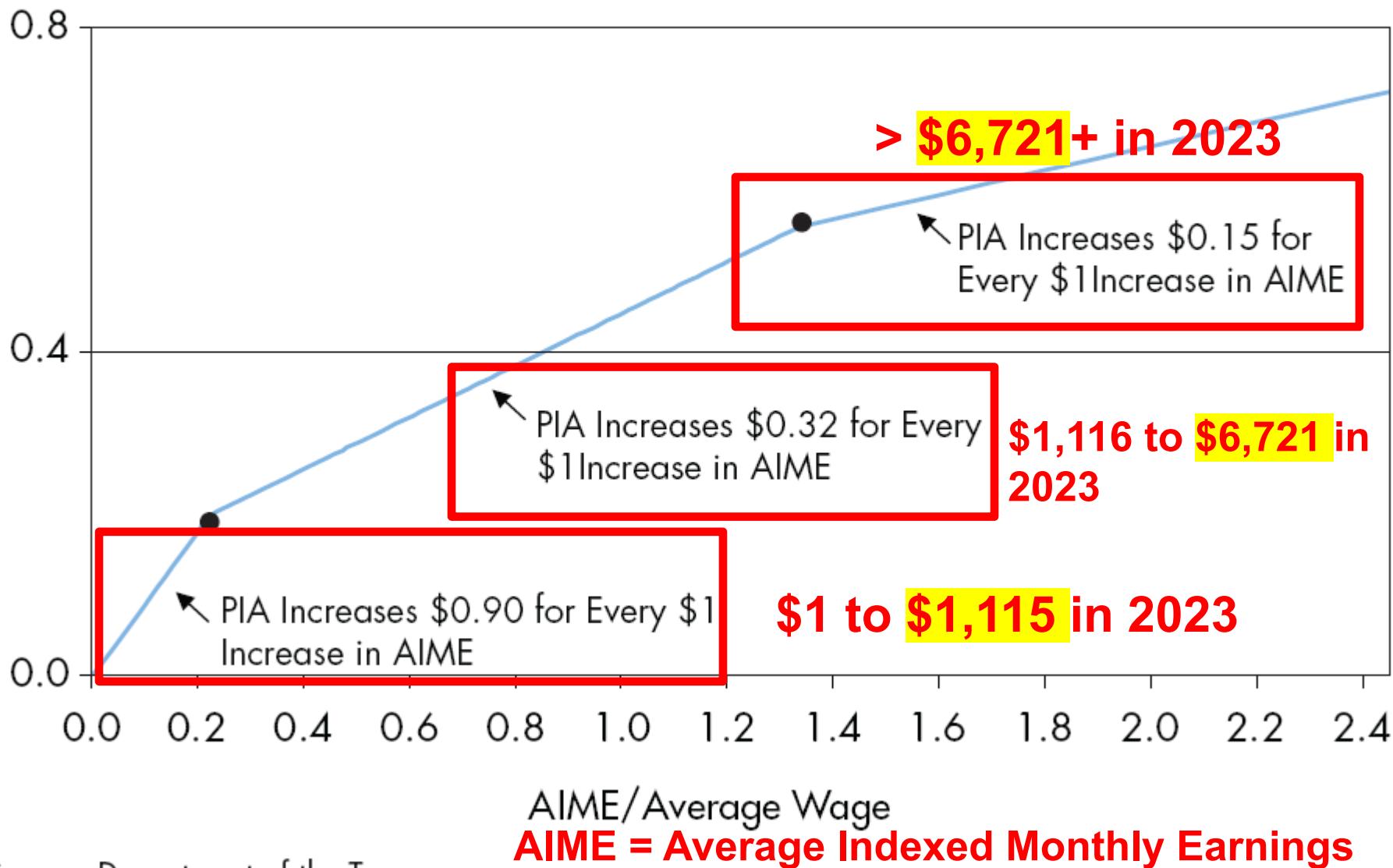
Calculation of PIA?

- **Primary Insurance Amount (PIA)**
 - Using the person's average indexed monthly earnings (**AIME**) you subject the AIME to a formula:
- Under current law, the **PIA factors** are
 - **90 percent** below the first bend point
 - **32 percent** between the two bend points
 - **15 percent** above the second bend point

Figure 1: Current-Law Primary Insurance Amount Formula

<https://www.ssa.gov/oact/cola/bendpoints.html>

PIA/Average Wage



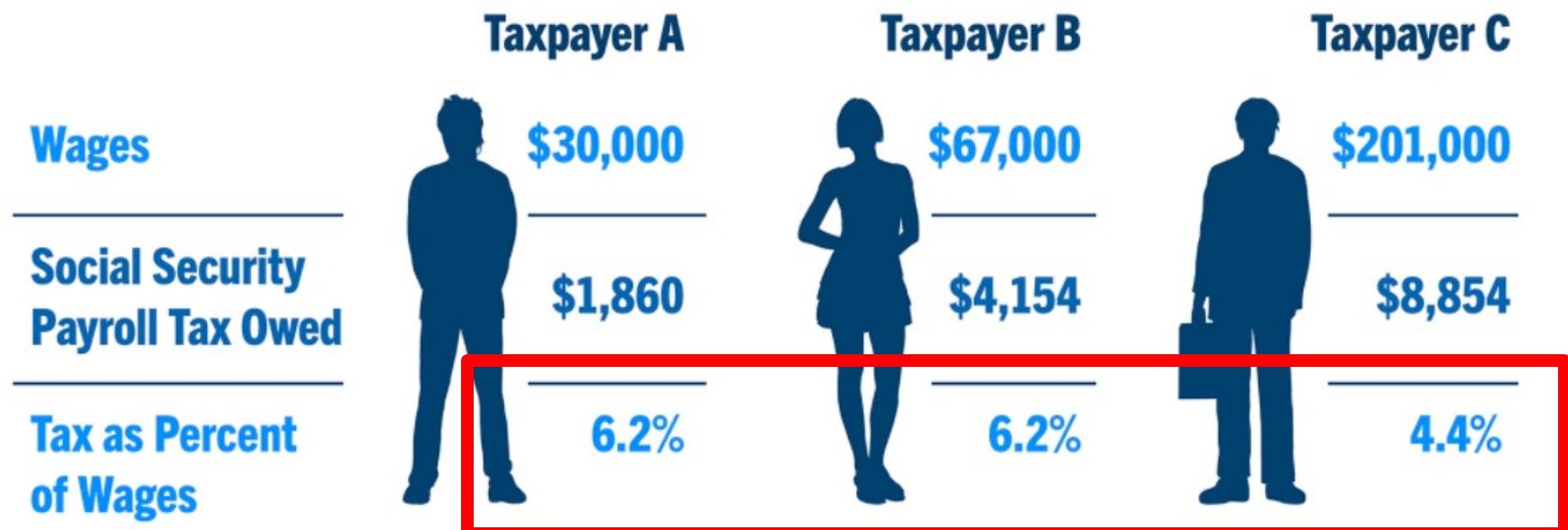
Source: Department of the Treasury

The Social Security Trust Fund

- Social Security Taxes are **REGRESSIVE**:
 - Lower income workers pay a larger % of their total earnings than higher income workers because of the annual **Social Security cap on earnings**
 - e.g., workers earning above the SS cap only pay SS taxes on their income below the cap, low-income earnings pay SS taxes on ALL their income.

Payroll Taxes are Regressive

The annual limit on wage earnings subject to Social Security taxes is set at \$142,800. Consequently, Taxpayer C pays a lower percent of their income in payroll taxes than workers who earn less.



Because of the Social Security Earnings Cap

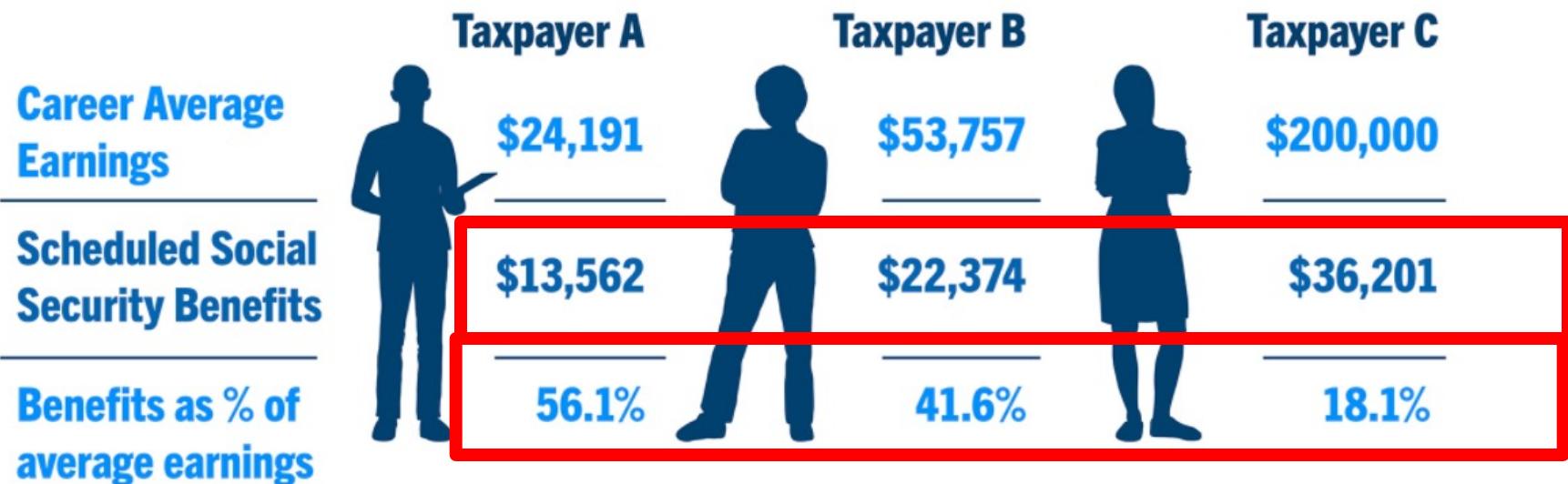
The Social Security Trust Fund

- Benefits levels are **PROGRESSIVE**
 - Higher income individuals get higher actual \$PIA benefit amount, but a lower “***pre-retirement wage replacement rate***” than lower income individuals

Social Security benefits are PROGRESSIVE

Social Security Benefits are Based in Part on Wages

Increasing or removing the taxable maximum (currently \$142,800) could weaken the link between the amount individuals pay in Social Security taxes and the amount they receive in benefits.



SOURCE: Social Security Administration, Office of the Chief Actuary, *Replacement Rates for the Hypothetical Retired Worker*, April 2020.

NOTES: Benefits are calculated for hypothetical retired workers who in 2020 would be in their first year of benefit receipt at normal retirement age. Estimates are based on intermediate assumptions of the 2020 OASDI Trustees Report.



Why? Because of the “bend point” formula!

Let's look at that trust fund

Social Security Trust Fund: Balance sheet

<https://www.ssa.gov/OACT/TR/2021/tr2021.pdf>

The Social Security Trust Funds

- **Social Security**

- **OASI** (Old age and survivor's insurance)
- **DI** (Disability insurance)

Revenues & Costs (\$ billions):

Table 4: TRUST FUND OPERATIONS, 2022

(in billions)

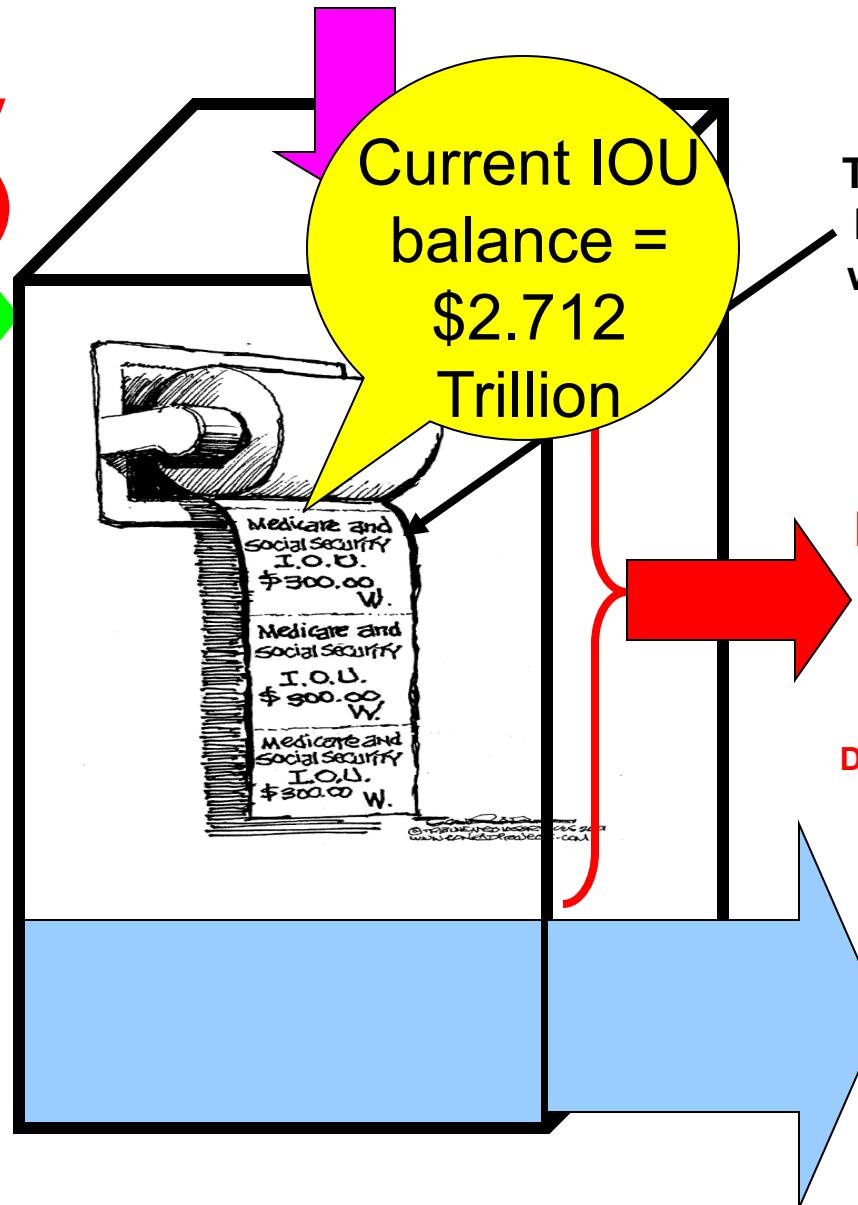
	OASI	DI	HI	SMI
Reserves (end of 2021)	\$2,752.6	\$99.4	\$142.7	\$183.0
+ Income during 2022	1,056.7	165.1	396.6	591.9
- Cost during 2022	1,097.5	146.5	342.7	562.4
Net change in Reserves	-40.7	18.6	53.9	29.5
Reserves (end of 2022)	2,711.9	118.0	196.6	212.6

DEFINITIONS:

- OASI = Social Security Trust Fund (Social Security)
- DI = Disability Trust Fund (Social Security)

Federal Bond IOUs

Social Security taxes at time (t)



When Social Security tax Revenue exceeds Social Security Payout

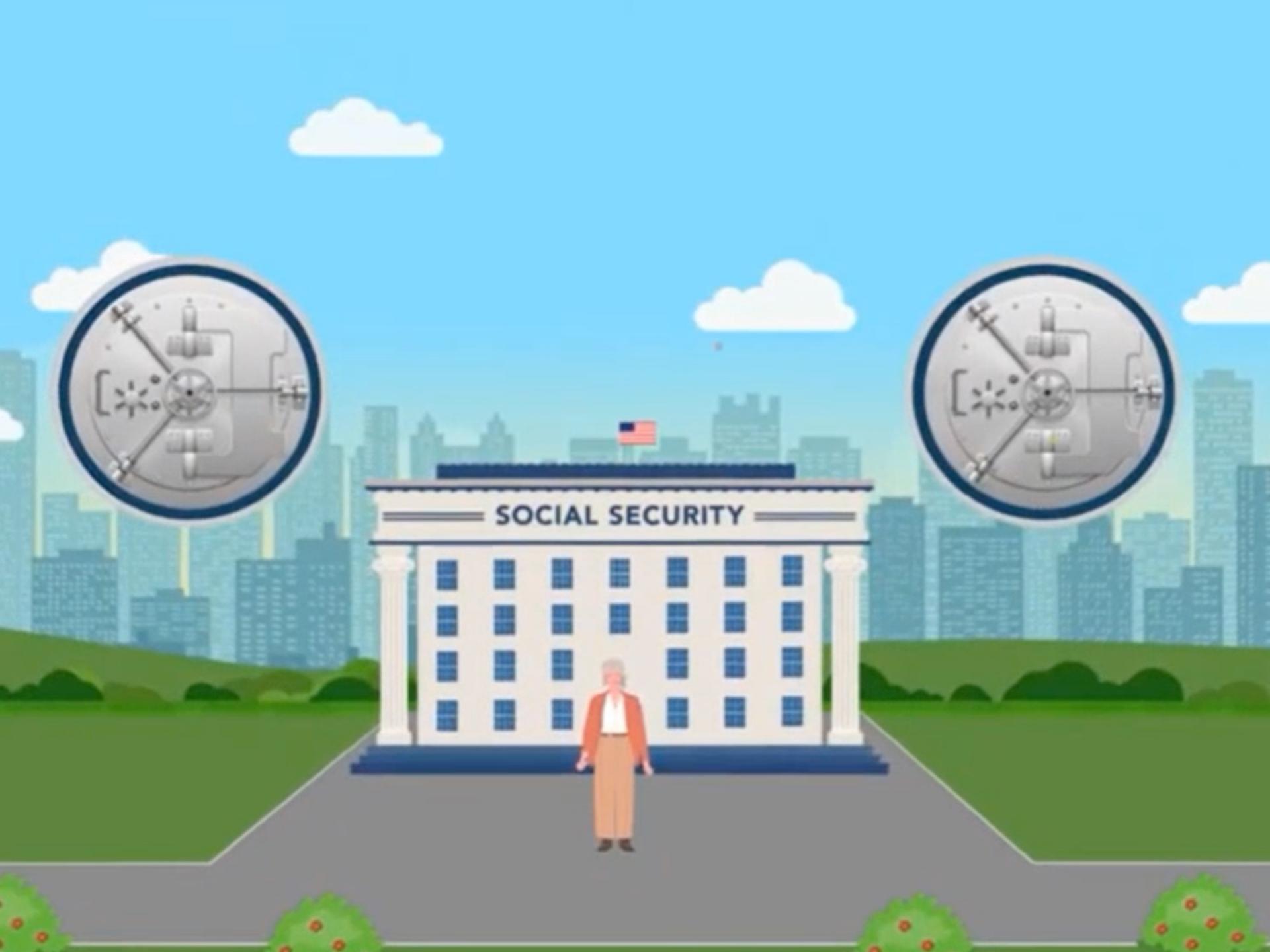
The Social Security Trust Fund

- Trust fund holds **no direct monetary assets**
- Surplus SS taxes (i.e., not needed to pay current beneficiaries) are ***“lent” to federal government*** to fund other federal programs
 - 1940s decision by congress – why?
- **Fund is “empty”** except for Federal Government IOUs (***promissory notes or bonds***) and surplus funds collected have already been spent by the government

When Social Security payments exceed revenue?

- The loss of payroll tax revenue due to the recession/COVID is made up by transfers from the General Fund of the Treasury and thus had no financial impact on recipient's retirement income.
- Future years? Where does that money come from?

- How does the Federal government get the money to pay Social Security benefits when there is insufficient FICA tax revenue money coming into the fund?
- Borrow it
- Raise SS taxes
- Raise non-SS taxes (general funds)
- Reduce other government spending
- Reduce benefits



SOCIAL SECURITY

Play (k)



0:00 / 1:27



Financing the Trust Fund

A closer look



Table 7: KEY DATES FOR THE TRUST FUNDS

	OASI	DI	OASDI	HI
First year cost exceeds income excluding interest ^a	2010	2044	2010	2025
First year cost exceeds total income including interest ^a	2021	b	2021	2025
Year asset reserves are depleted	2033	c	d2034	2031



Facts:

- Social Security's total cost is projected to be higher than its total income in **2025** and all later years thereafter.
- The trust fund reserves are projected to decrease from **\$2.712 trillion** at the beginning of **2023** to **\$1.336 trillion** at the end of **2030**, meaning that trust fund reserves are being depleted rapidly

Facts:

- The dollar level of the combined Social Security trust fund reserves is predicted to decline until reserves become totally **depleted** in **2033**.

Benefits in jeopardy!!

- The OASI Trust Fund assets reserves become depleted and unable to pay scheduled benefits in **full** on a timely basis in **2033**.
- Tax income would be sufficient to pay only about **75% of scheduled benefits** through 2085 = **ACTUARIAL DEFICIT**

Table 9: LONG-RANGE ACTUARIAL BALANCE OF THE OASI, DI, OASDI, AND HI TRUST FUNDS
[Percent of taxable payroll]

	OASI	DI	OASDI	HI
Actuarial balance	-3.62	0.01	-3.61	-0.62



**3.62 percent increase in SS taxes
needed to fix the structural deficit**

Actuarial Deficit: Tax increase

- The 75-year actuarial deficit for the combined trust funds is estimated to be an additional **3.62 percent increase in Social Security payroll taxes**
- **Revenue** would have to be increased by an amount equivalent to an *immediate* and permanent payroll Social Security tax rate increase.

Actuarial Deficit: Benefit decreases

- Scheduled benefits would have to be reduced by an amount equivalent to an immediate and permanent reduction of **about 21 percent applied to all current and future beneficiaries**
- Or, about **25 percent** if the reductions were applied **only to those who become initially eligible** for benefits in 2023 or later

Urgency and delay

- If actions are deferred for several years, the changes necessary to maintain Social Security solvency become concentrated on fewer years and fewer generations



Though it costs all you have,
get understanding.

Rewatch

SOCIAL
SECURITY
BASIC

Play (k)



0:00 / 3:07



Social Security Trust Fund

Graphs from the 2022 Trustees Report

Social Security Trust Fund Ratio

- Summary statistic comparing trust fund assets to trust fund projected costs for that time period:
 - Ratio: assets/expenditures
 - Ratio > 100 = ***surplus***
 - Ratio < 100 = ***deficit***

Chart D—OASI, DI and HI Trust Fund Ratios

[Asset reserves as a percentage of annual cost]

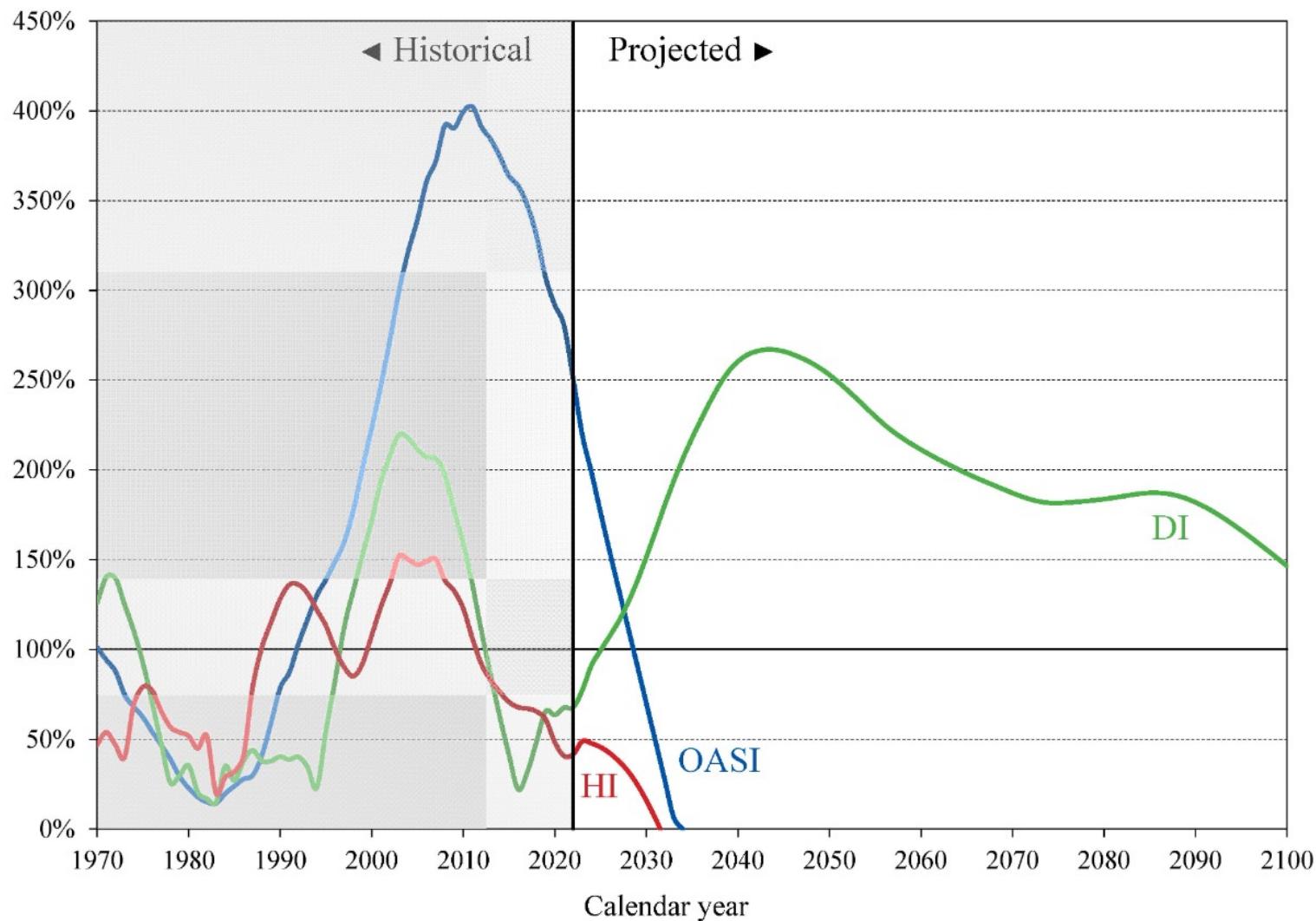
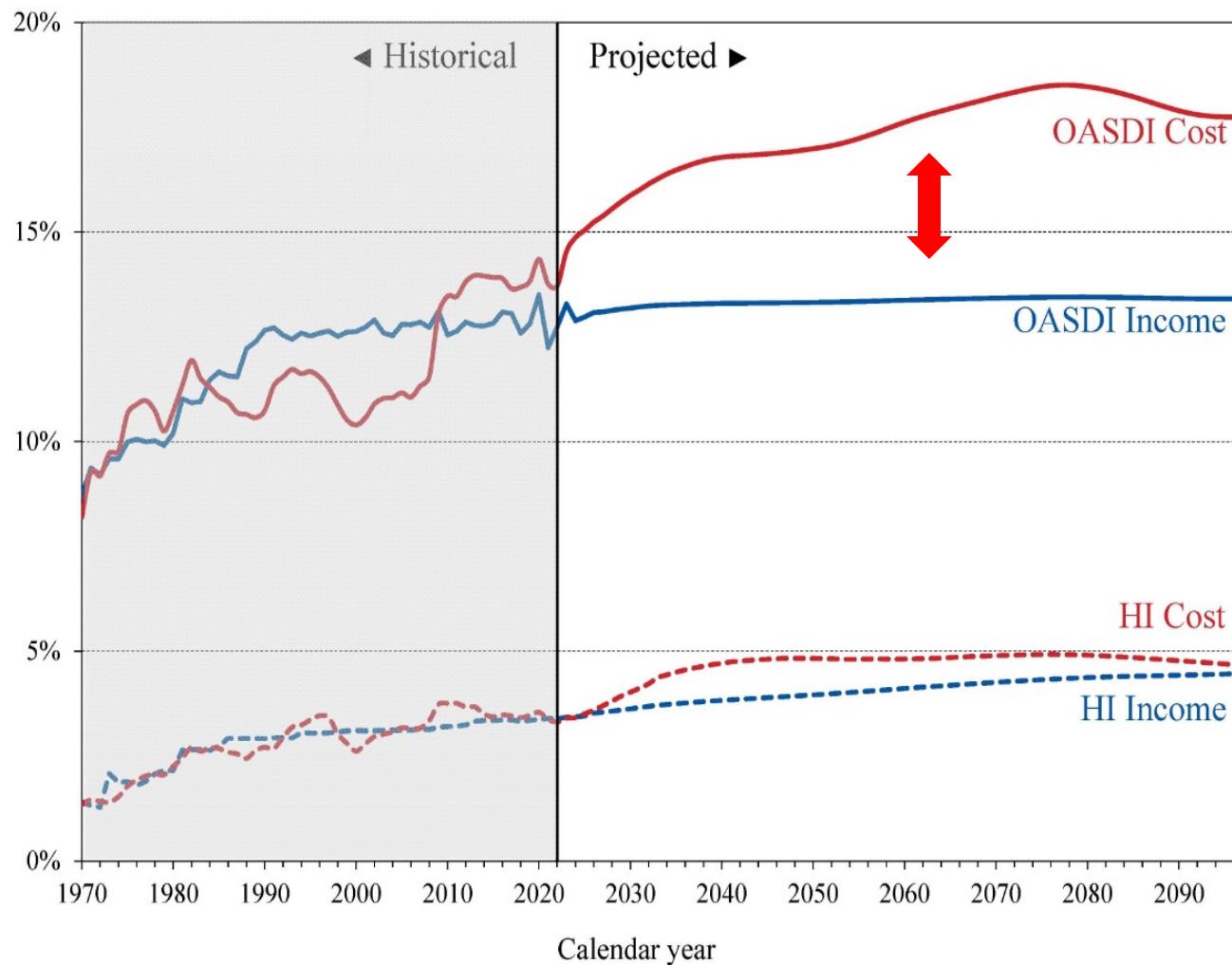


Chart A—OASDI and HI Income and Cost as Percentages of Their Respective Taxable Payrolls



LEI LPI 101,00 0
42% TPLF 800,00 0,00% TSM1P
TSM1P 101,00 0,00
1 = 22,23238 GBP/SGD =
TERRORIST 0

The Social Security trust fund most Americans rely
on for their retirement will run out of money.

MARKET UP!
00 7.91% TNB 5.221.96 0.42% TPLF 800.00 0.00% TSMP
0.00 0.00% TSMP 101.00 0.00
5352 GBR/MXN = 22.23238 GBR/SGD =

BLIVE A TERRORIST A

The Social Security trust fund most Americans rely
on for their retirement will run out of money...

Play (k)



0:00 / 2:57



So, what's causing the problem?



What is causing the problem?

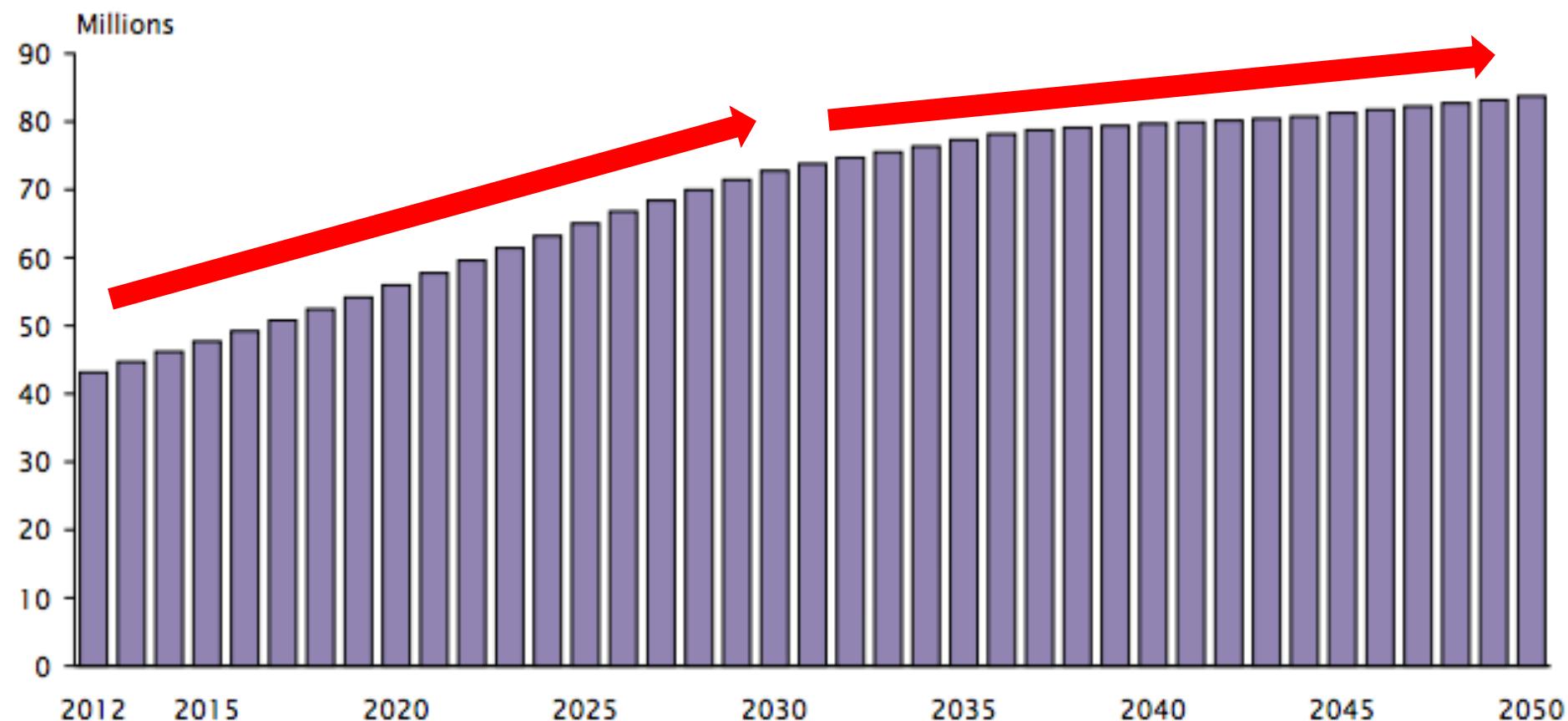
- Demographics?

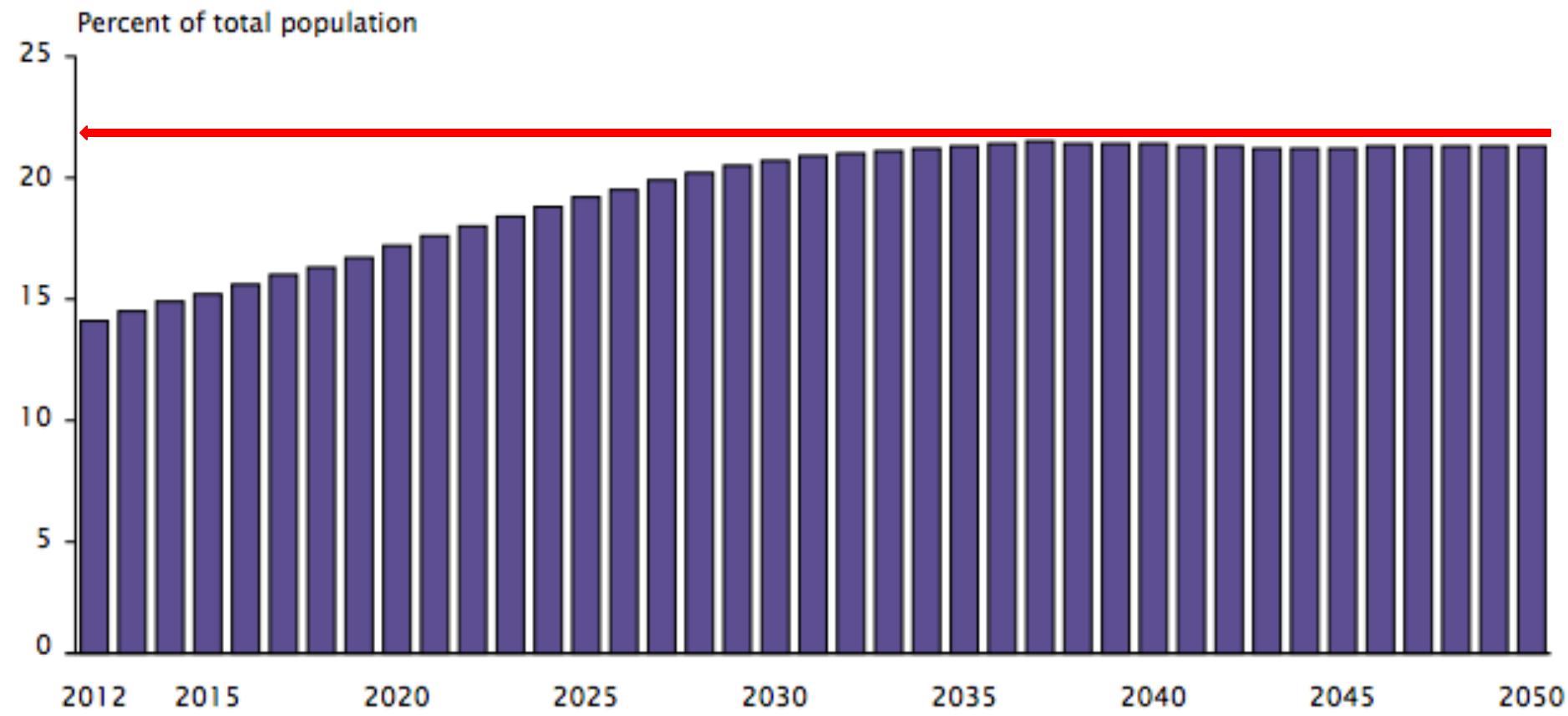


300M
USA

Figure 1.

Population Aged 65 and Over for the United States: 2012 to 2050





Source: U.S. Census Bureau, 2012 Population Estimates and 2012 National Projections.

Comparisons of 20th Century U.S. Population Growth by Decade

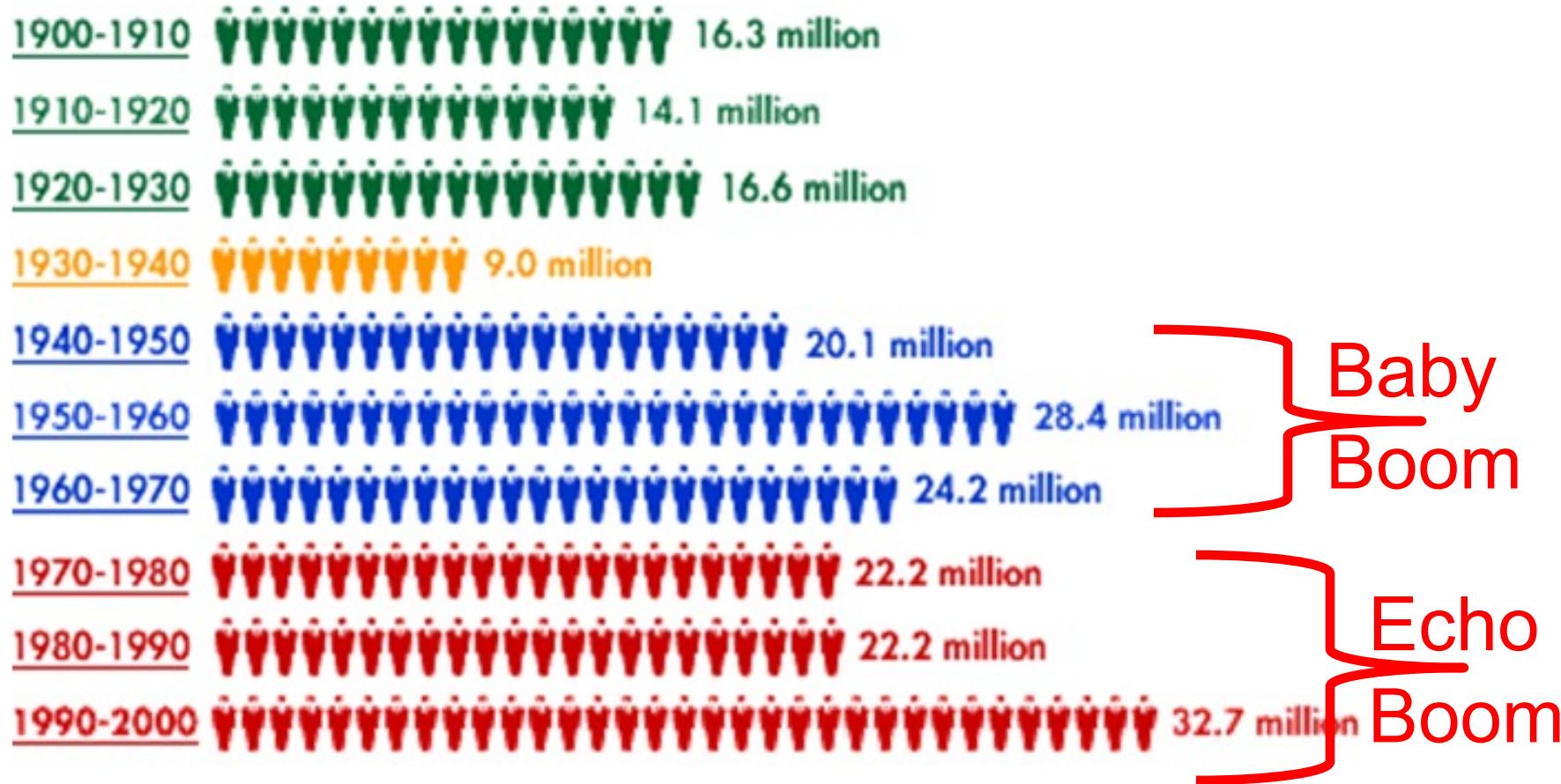


Figure 1

Projected distribution of the U.S. population in 2000, by age group and gender

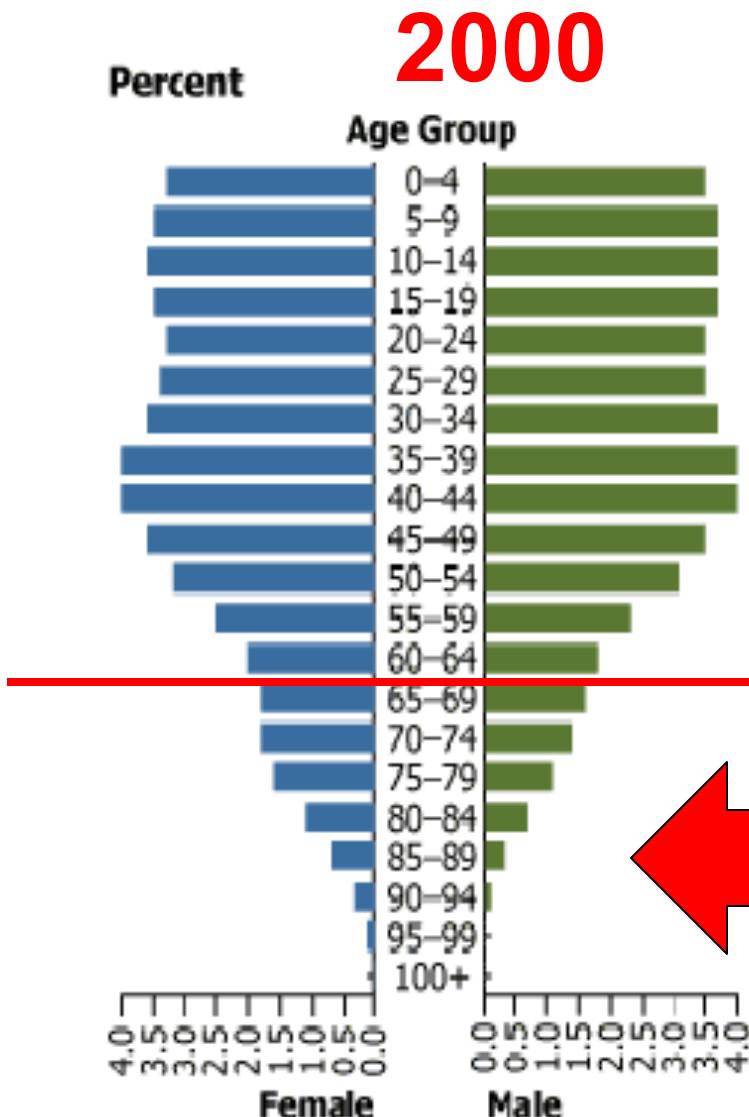
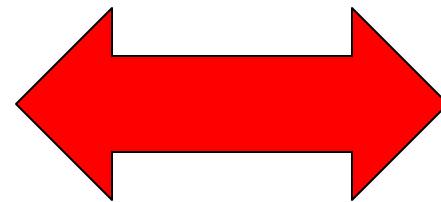
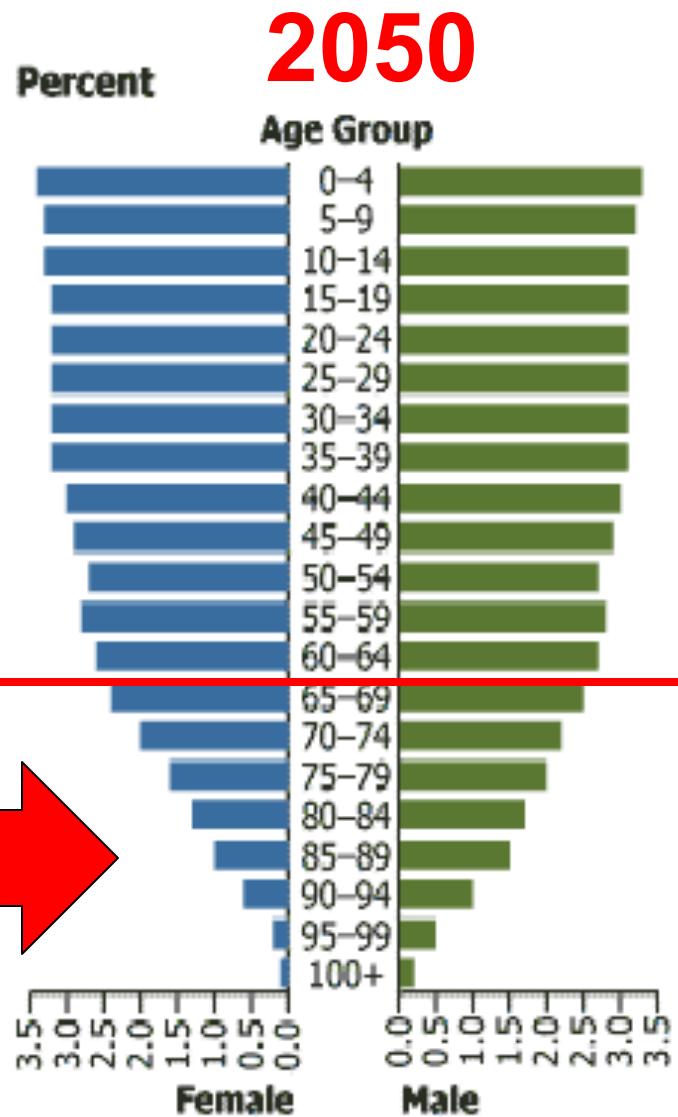
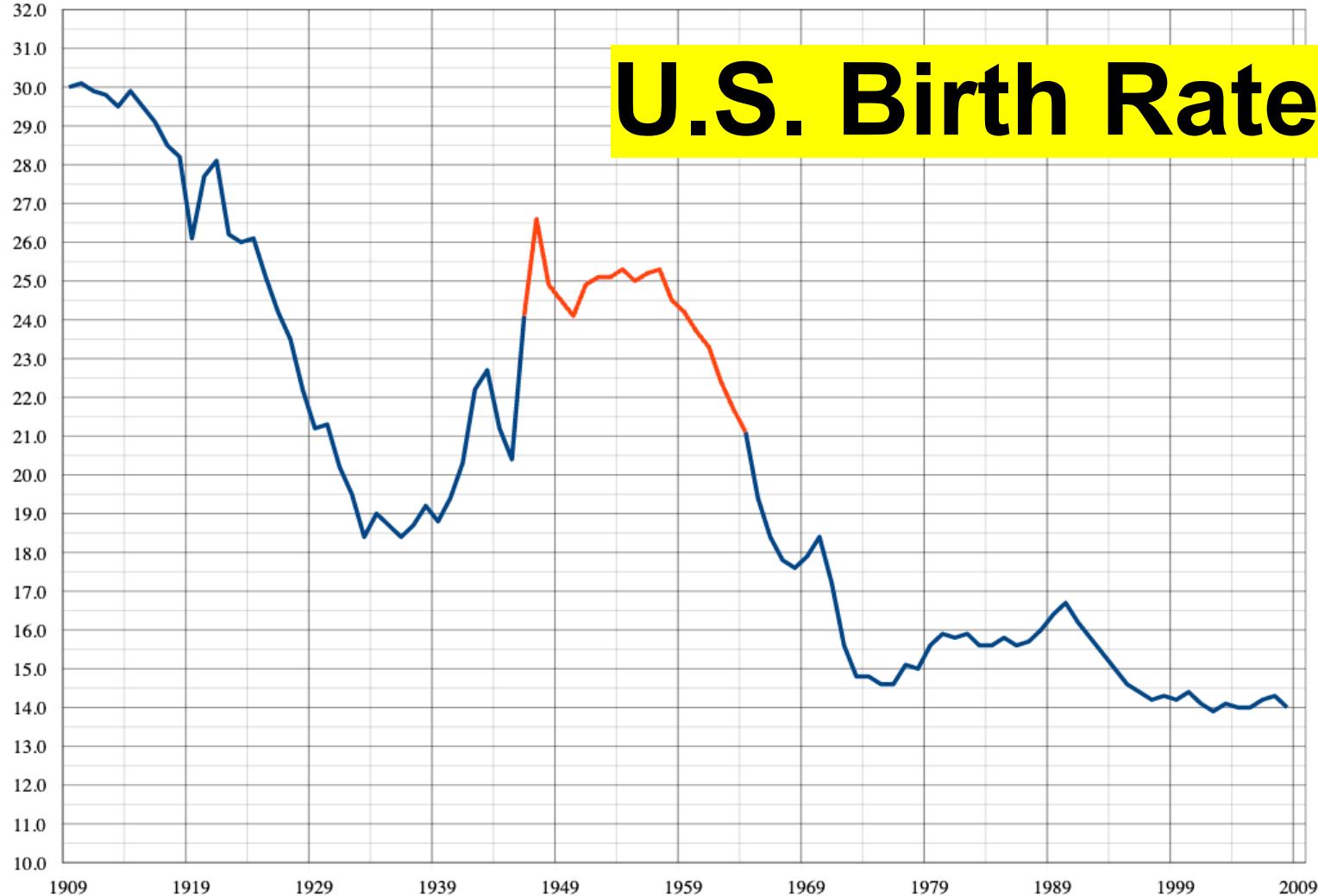


Figure 2

Projected distribution of the U.S. population in 2050, by age group and gender



U.S. Birth Rates

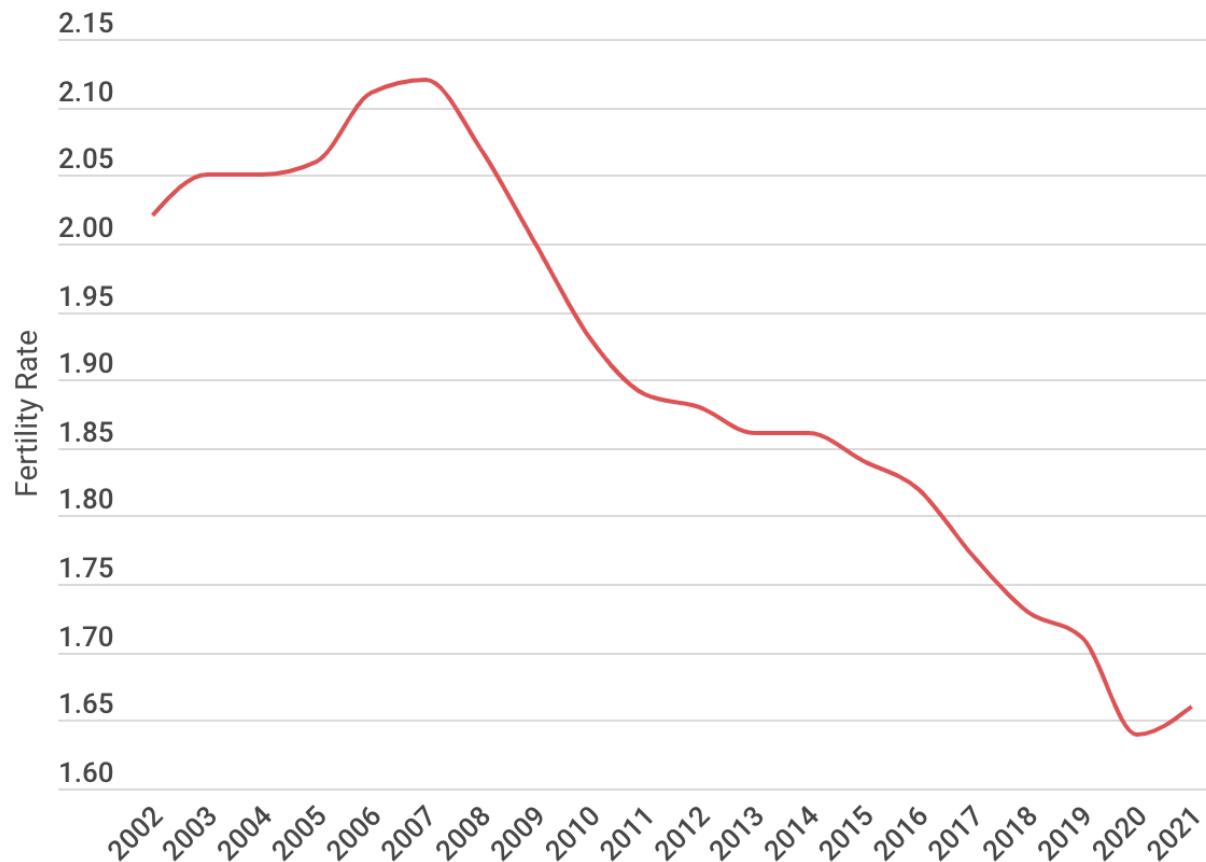


US crude birth rates from 1909 to 2009. The red portion of the line denotes the baby boom generation. The smaller bump between 1976 and 2001 shows the baby boom "echo."

Fertility rate dropping

1.782 births per woman

The current fertility rate for U.S. in 2022 is **1.782 births per woman**, a 0.06% increase from 2021. The fertility rate for U.S. in 2021 was 1.781 births per woman, a 0.11% increase from 2020. The fertility rate for U.S. in 2020 was 1.779 births per woman, a 0.06% increase from 2019.



What is causing the problem?

- Demographics?
 - Demographics are only one aspect of the problem
 - If all retirees die within a short period after retirement the system would remain solvent into the next century
- What is it then?

Life Expectancy

- When the Social Security Act was signed into law in **1935**, life expectancy was only around **62 years** of age.
- This meant the typical retiree was likely to receive benefits for only a few years.
- However, in **2023** life expectancy is nearly **80 years**.

U.S. Life Expectancy

- The current life expectancy for U.S. in 2023 is **79.05** years, a **0.08% increase** from 2022
- The life expectancy for U.S. in 2022 was **78.99** years, a **0.08% increase** from 2021.
- The life expectancy for U.S. in 2021 was **78.93** years, a **0.08% increase** from 2020.
- The life expectancy for U.S. in 2020 was **78.87** years, a **0.08% increase** from 2019.

Remaining Life Expectancy

Life Expectancy Tables

Age

72

Life Expectancy-Male

13.07

73

12.43

74

11.80

75

11.18

Life Expectancy-Female

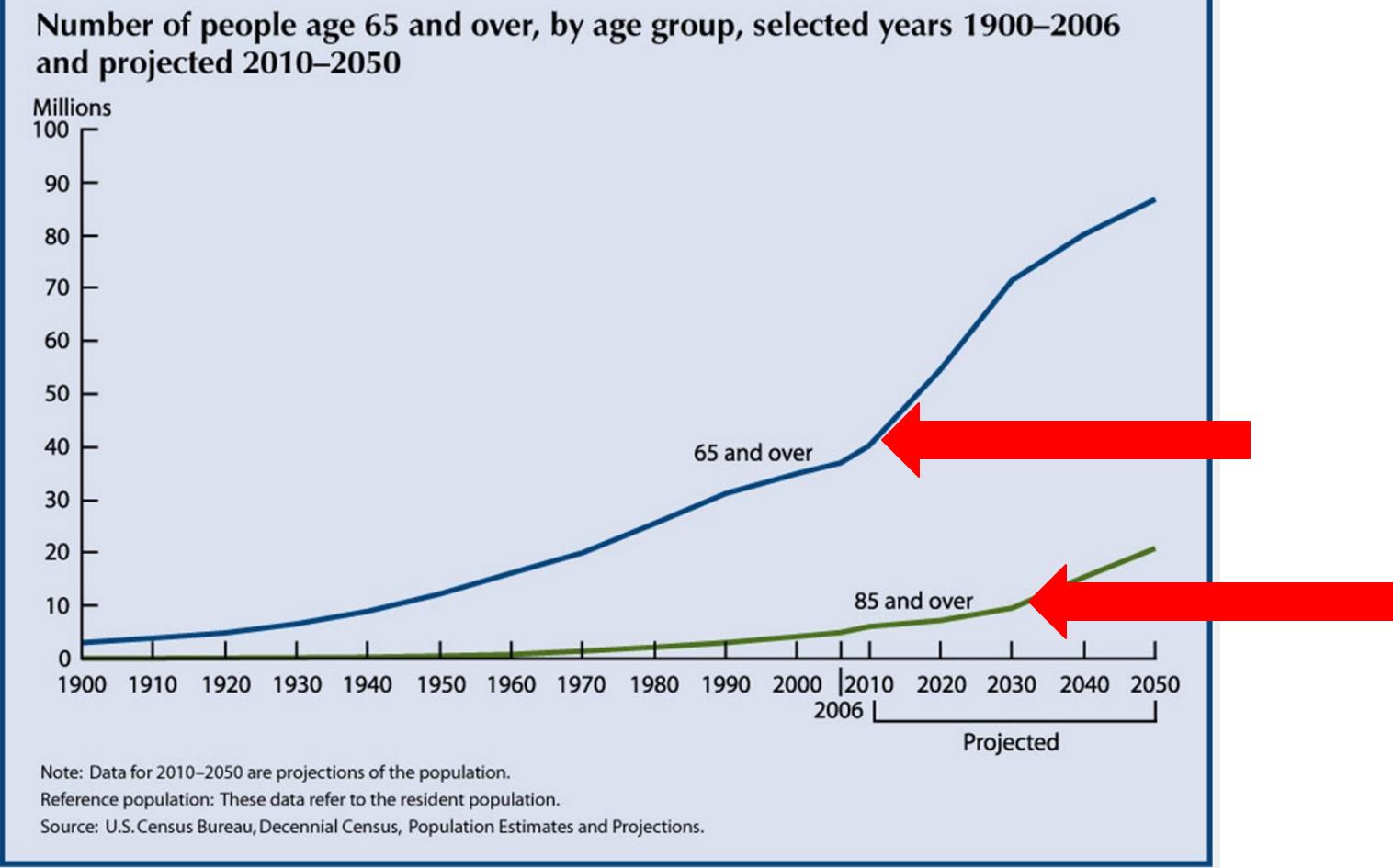
15.09

14.37

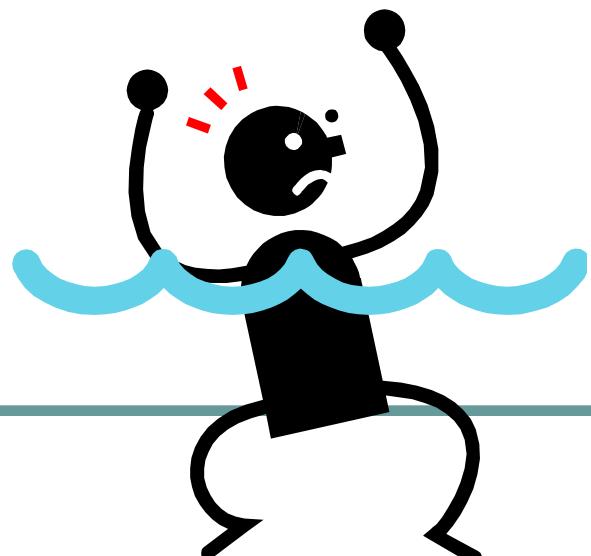
13.66

12.97

Life Expectancy for Social Security



So, the real problem is.....

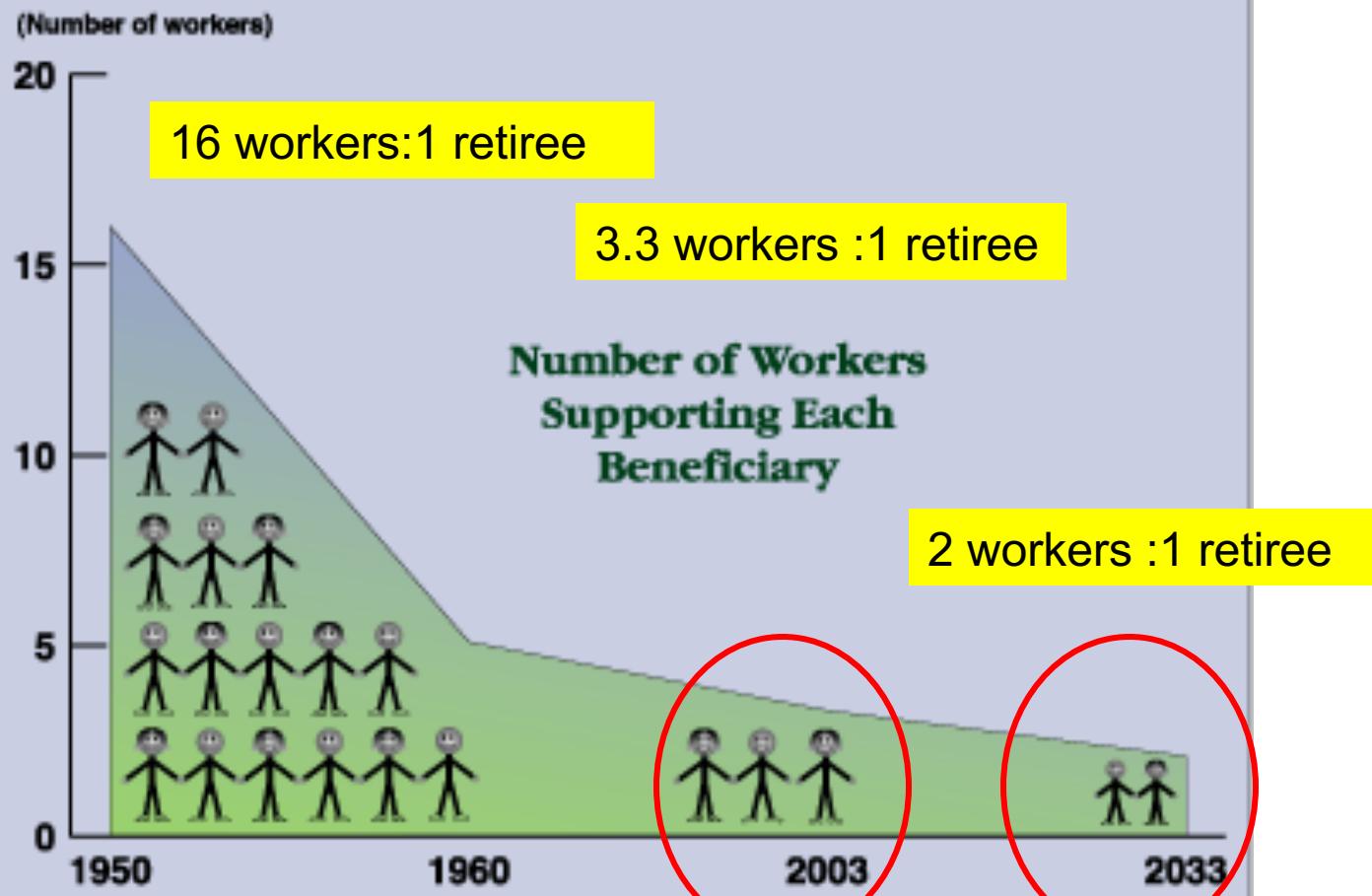


What is causing the problem?

- The Dependency ratio:
 - Divide the non-working elderly over age 65 by the total number of tax paying workers in the labor force =
dependency ratio

Fewer Workers Support Each Beneficiary

The number of workers paying into Social Security per beneficiary has dropped from 16 in 1950 to 3.3 today. In 2033, only two workers will be supporting each beneficiary, severely straining Social Security's financial soundness.



So, the real problem is.....

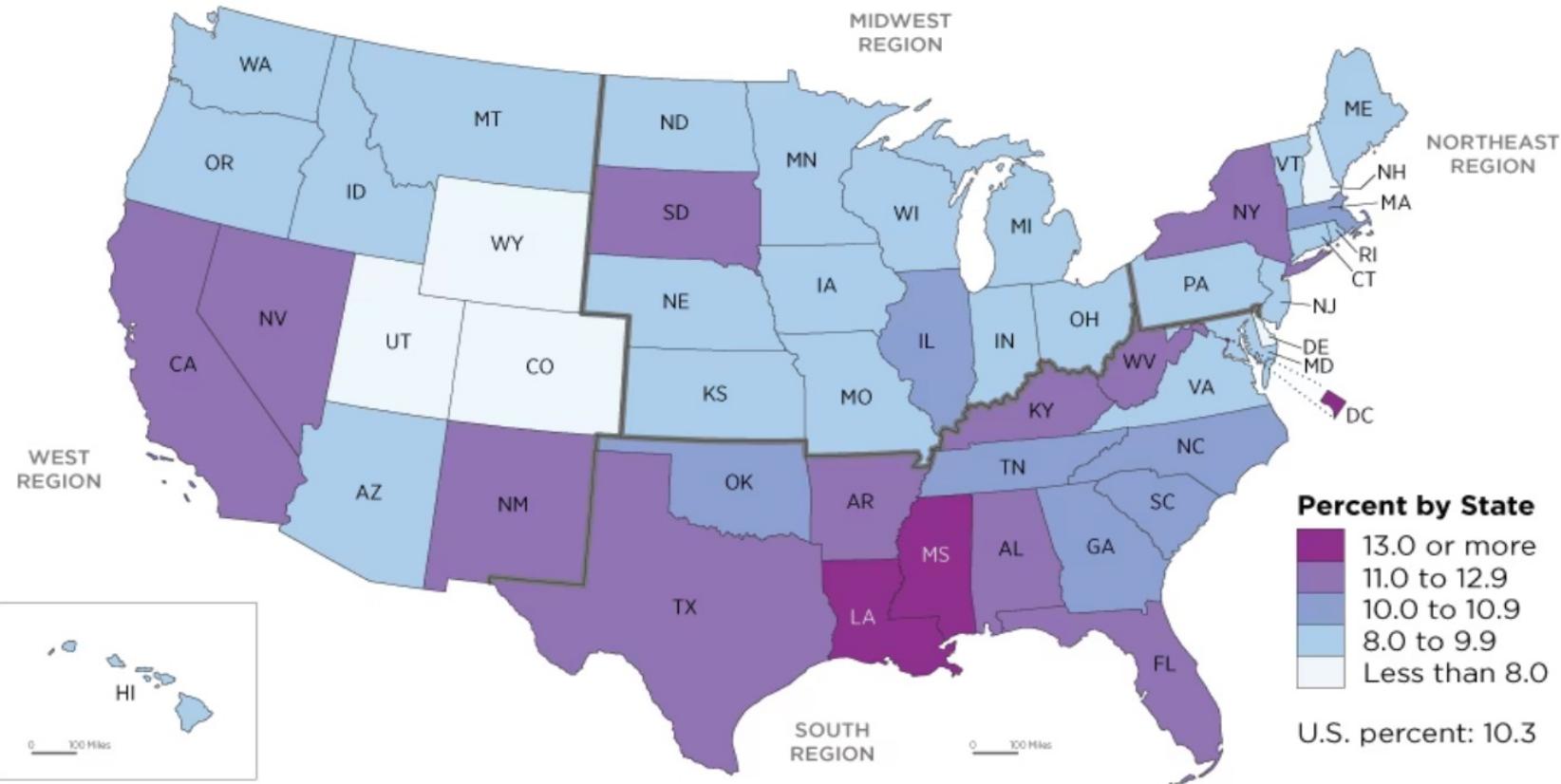
- People are living longer (**longevity**)
- People are still retiring at the same age (**retirement age**)
- There are too few workers being taxed to support them in terms of current contributions (**dependency ratio**)
- Current SS contributions and US Treasury promissory notes will not be enough to cover demand (**trust fund deficit/US Deficit**)
- And, people have **not saved enough** for their own retirement.....

Poverty Among the Elderly



Figure 3.

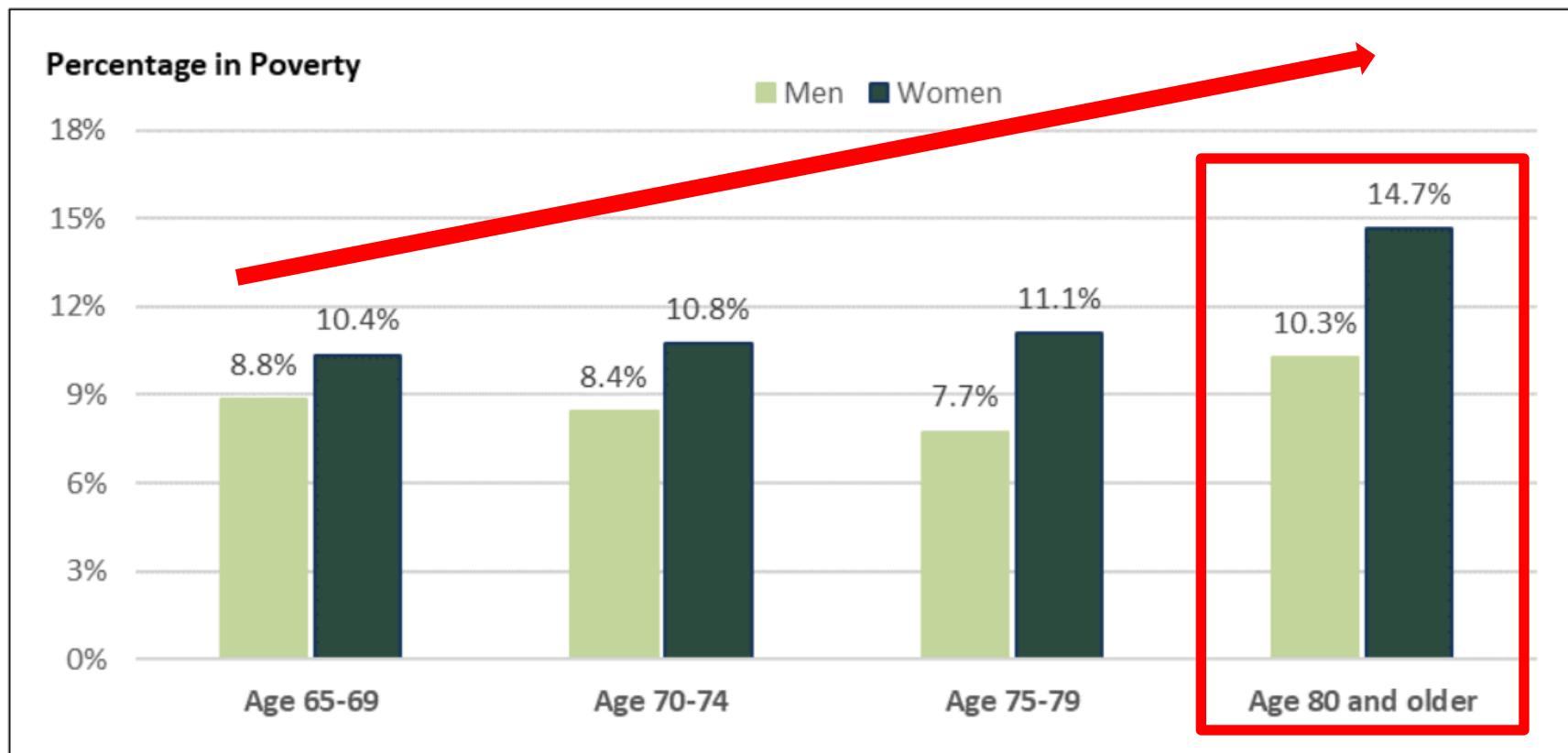
Poverty Rate for People Ages 65 and Over by State: 2021



Note: For more information, visit <www.census.gov/acs>.

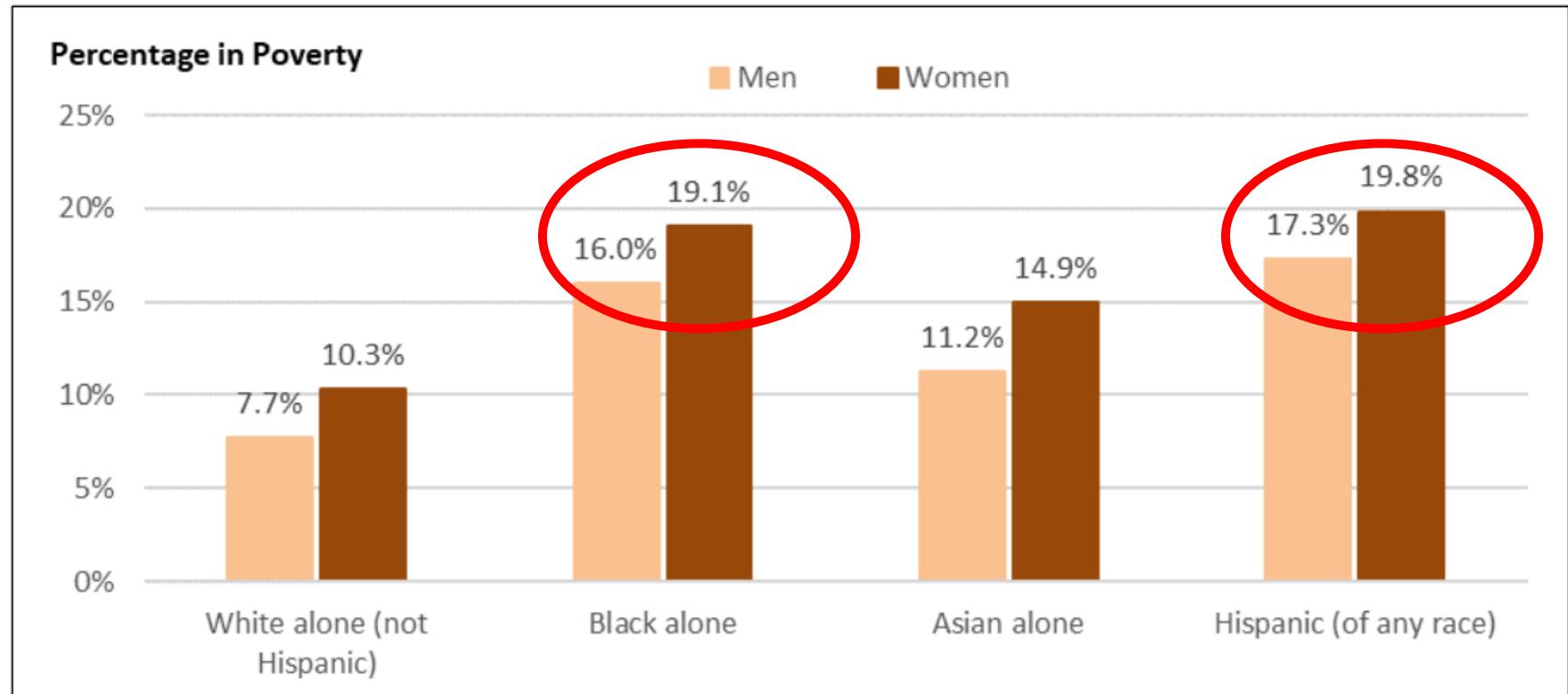
Source: U.S. Census Bureau, 2021 American Community Survey, 1-year estimates.

Figure 4. Poverty Status of Individuals Aged 65 and Older in 2021, by Age Groups and Sex



Source: CRS analysis of data from the 2022 CPS ASEC.

Figure 10. Poverty Status of Individuals Aged 65 and Older in 2021, by Race, Hispanic Origin, and Sex



Source: CRS analysis of data from the 2022 CPS ASEC.

And it gets worse as the
elderly age.....

Table I. Share of Total Money Income from Specified Sources for Poor Individuals Aged 65 and Older, 2021

	Below 100% of the Poverty Threshold^a	Below 125% of the Poverty Threshold^b
Total Percentage	100.0%	100.0%
Percentage of Income from—		
Earnings	4.1%	3.7%
Social Security	74.3%	80.1%
Pensions	3.9%	3.4%
Asset Income	3.4%	2.4%
SSI and Other Public Assistance	9.9%	6.8%
Other Income	4.4%	3.7%
Number of Observations^c	2,745	4,016
Population (thousands)	5,804	8,500

Source: CRS analysis of data from the 2022 CPS ASEC.



Baby Boomers Facing Retirement Crisis 3:30

