



An Update on the Impending Social Security Solvency Crisis

October 2022



An Update on the Impending Social Security Solvency Crisis

- What's the problem?
- How did the problem develop?
- What can be done about it?



But first, a quick review of some basics...

Where Social Security revenue comes from:

- 90% - Payroll tax (Federal Insurance Contributions Act)
- 6% - Interest on reserves (Treasury bonds)
- 4% - Federal income tax on benefits



Where Social Security Expenditures go:

- 99% - Benefits paid (retirement, disability, dependents, survivors, etc.)
- 1% - Administrative Expenses (program operation)

Annually, any differences (surpluses or deficits) are reflected in the Trust Fund balances (reserves)

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A Quick Look at How Social Security is Funded (\$\$ in billions)

From 2022 Trustees Report (2021 Operations)	From 2021 Trustees Report (2020 Operations)
\$ 980.6 – Payroll Taxes (FICA)	\$1,001.3 – Payroll Taxes (FICA)
70.1 – Interest on Trust Fund reserves	76.1 – Interest on Trust Fund reserves
37.6 – Federal income tax on benefits	40.7 – Federal income tax on benefits
\$1,088.3 – Total Program Income	\$ 1,118.1 – Total Program Income
\$ 1,138.1 – Benefits paid	\$ 1,100.9 – Benefits paid
\$ <u>6.5</u> – Administrative expenses	\$ <u>6.3</u> – Administrative expenses
\$ 56.3 – Net change in Trust Fund reserves	\$ 10.9 – Net change in Trust Fund reserves

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A Quick Look at How Social Security is Funded (\$\$ in billions)

From 2022 Trustees Report (2021 Operations)	2022 Projections from 2022 Trustees Report*
\$ 980.6 – Payroll Taxes (FICA)	\$1,084.0 – Payroll Taxes (FICA)
70.1 – Interest on Trust Fund reserves	64.6 – Interest on Trust Fund reserves
37.6 – Federal income tax on benefits	47.2 – Federal income tax on benefits
\$1,088.3 – Total Program Income	\$1,195.8 – Total Program Income
\$ 1,138.1 – Benefits paid	\$ 1,236.0 – Benefits paid
\$ <u>6.5</u> – Administrative expenses	\$ <u>6.7</u> – Administrative expenses
\$ 56.3 – Net change in Trust Fund reserves	\$ 46.8 – Net change in Trust Fund reserves

* Table IV.A.3 from 2022 Trustees Report Intermediate projections (page 49)

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From the **2021** Trustees Report:

“Under the intermediate assumptions, the projected hypothetical combined OASI and DI Trust Fund asset reserves become depleted and unable to pay scheduled benefits in full on a timely basis in 2034. At the time of depletion of these combined reserves, continuing income to the combined trust funds would be sufficient to pay 78 percent of scheduled benefits.”

<https://socialsecurityreport.org/wp-content/uploads/2021/09/tr2021.pdf> (Page 6)

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From the **2022** Trustees Report:

Under the intermediate assumptions, the projected hypothetical combined OASI and DI Trust Fund asset reserves become depleted and unable to pay scheduled benefits in full on a timely basis in **2035**. At the time of depletion of these combined reserves, continuing income to the combined trust funds would be sufficient to pay **80 percent** of scheduled benefits.

(<https://socialsecurityreport.org/wp-content/uploads/2022/06/Social-Security-2022-Trustees-Report.pdf>-page 6)

“Readers of this report should note that the data and projections presented include the Trustees’ best estimates of the effects of the COVID-19 pandemic. The pandemic is projected to have continuing significant effects on the OASI and DI programs in the near term, and the future course of the pandemic is uncertain. However, the economic recovery from the brief recession in 2020 has been stronger and faster than assumed in last year’s report.” (Social Security 2022 Trustees Report, page 2)

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TRACKING THE TRUST FUND PROJECTIONS

Source	Projected Depletion	Benefit Reduction	Trust Fund Balance
2021 Trustees Report	2034	22%	\$2,908.3
2022 Trustees Report	2035	20%	\$2,852.0
2023 Trustees Report (proj)	2035	20%	\$2,805.2

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From the 2022 CBO Long-Term Budget Outlook:

“CBO projects that the OASI trust fund would be exhausted in calendar year 2033 and that the DI trust fund would be exhausted in calendar year 2048. If their balances were combined, the Old-Age Survivors, and Disability Insurance (OASDI) trust funds would be exhausted in calendar year 2033.

The total reduction in annual benefits necessary for the trust funds’ outlays to match their revenues in each year after the two trust funds were exhausted would be about **25 percent** in 2033 and would rise to about 30 percent in 2051, in CBO’s estimation.”

<https://www.cbo.gov/system/files/2021-03/56977-LTBO-2021.pdf> (page 32)

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2022 Trustees Report	2035	20%	\$2,852.0
2023 Trustees Report (proj)	2035	20%	\$2,805.2
2021 CBO LTO	2033	25%	
2022 CBO LTO	2033	25%	

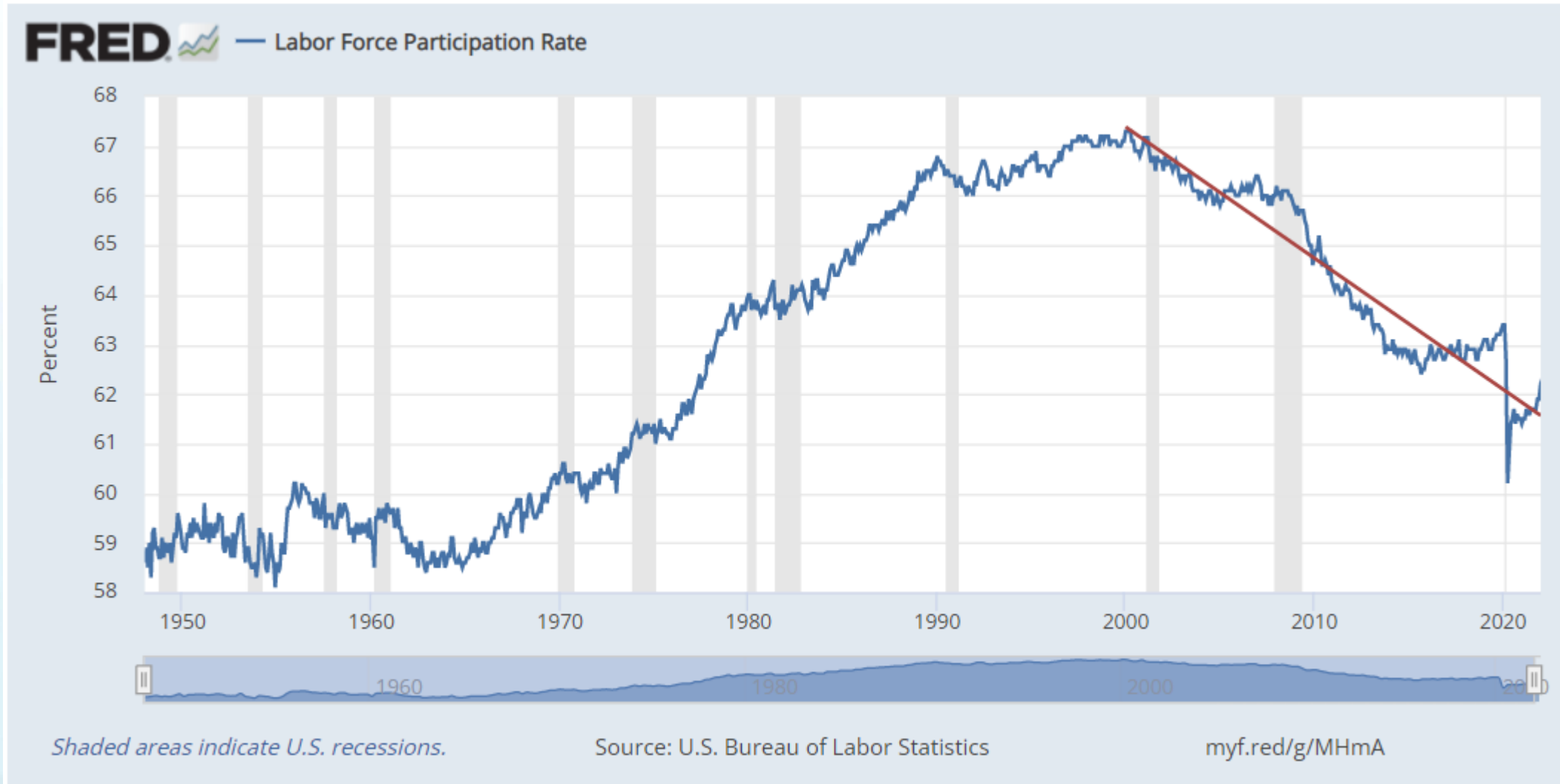
WHAT'S CAUSING THE PROBLEM?

- As a society, we are living longer
 - Life expectancy is close to 80 – compared to low 60s when Social Security was created in the 1930s
 - Life expectancies have grown about 40% over the last six decades
 - Someone reaching Social Security eligibility now can expect to draw benefits for about 20 years—many more years than original projections
- These additional years of payments are compounded by the fact that less workers are paying into the system
 - U.S. Workforce Participation Rate is in a period of decline

WHAT'S CAUSING THE PROBLEM (CONT'D)?

- Many workers/taxpayers have been exiting early
- There are less than 3 workers per Social Security recipient – compared to the 16:1 ratio of the 1950s and the 42:1 ratio in the 1940s
- “Baby Boom” generation exiting the workforce and beginning benefits exacerbates the ratio problem
- Birth rates are substantially lower than previous generations
 - The U.S. Labor Force Participation Rate is in decline
- Interest rates continue at historic lows
- Social Security’s Trust Fund reserves are consuming themselves

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SOCIAL SECURITY TODAY – REVENUE VS. EXPENSE SNAPSHOT

\$2.897 trillion – 2019 Year-end Trust fund Reserves

+1.118 trillion – 2020 Income

-1.107 trillion – 2020 Expense

\$2.908 trillion – 2020 Year-end Trust Fund Reserves

+1.088 trillion – 2021 Program Income

-1.144 trillion – 2021 Program Expense

\$2.852 trillion – 2021 Year-end Trust Fund Reserves*



SUMMING IT ALL UP

- The Social Security Trustees projection of record shows insolvency by 2035, with a 20% reduction in benefits
- The Congressional Budget Office (CBO) suggests a 2033 insolvency, with a 25% benefit cut
- Social Security's total cost exceeded total income (including interest and income tax) in 2021 for the first time since 1982
- Social Security cannot be sustained under the current model
- *"Policymakers have not significantly altered Social Security's underlying structure since it was designed in 1935 for retirement, in 1939 for survivors' benefits, and in 1956 for disability. Since that time, the economy, the labor market, and American society in general have transformed in countless ways, rendering many of the underlying predicates of the program invalid."* Mark J. Warshawsky – American Enterprise Institute, Deputy Commissioner for Retirement and Disability Policy – SSA)

WHAT CAN/MUST BE DONE ABOUT IT?

- AMAC has aggressively addressed the issue
- AMAC's plan would guarantee Social Security for successive generations ***without raising taxes***
- AMAC members, via online polling, have voted on components of this plan
- AMAC leadership has been actively presenting this plan and holding meetings with members of Congress
- AMAC's plan – The Social Security Guarantee:
 - Achieves solvency and ensures higher benefits for lower earners, and
 - Creates a new savings vehicle for retirement

AMAC's SOCIAL SECURITY GUARANTEE (PRESERVING THE PROMISE)

“The promise to guarantee Social Security for all Americans must be kept. AMAC has examined the many proposed solutions presented in the Intermediate Assumptions portion of recent Trustees Reports and selected the alternatives we feel are best suited to save Social Security’s retirement trust fund. We have combined these selected assumptions with several other recommendations and our own research to achieve what is the best path to long-term trust fund solvency *without raising taxes.*”

View the Social Security Guarantee at [AMAC.us/social-security](https://amac.us/social-security)

- **Prime Directives**

1. Guarantee annual benefit increases for those with lower earnings
2. Guarantee achieving solvency and ensure benefits continue
3. Provide a means for all earners to have more income available at retirement through a complementary or supplemental Social Security Plus account

AMAC's SOCIAL SECURITY GUARANTEE



- Achieving Solvency
 - Gradually increase full retirement age from 66-67 to 70 and adding mechanism to keep pace with life expectancy
 - Retain Early Retirement age at 62
 - Make modest adjustments to the benefit calculations to keep lower earners' benefits whole, while slightly lowering benefits for higher earners
 - Modify the Annual Cost-of-Living Adjustment Process
 - Implement a guaranteed, tiered approach to calculating cost of living adjustments (COLA) linking Income to Federal Poverty Thresholds
- OR -
- Implement an across-the-board COLA using the average increase

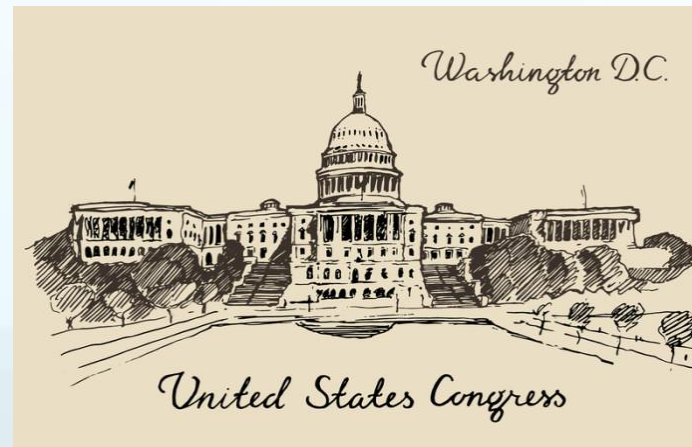
SOCIAL SECURITY GUARANTEE INCLUDES A SOCIAL SECURITY PLUS ACCOUNT



- Social Security PLUS is a voluntary companion benefit available to all workers, and it is portable over a career
- Enables workers to accumulate additional funds to supplement retirement income – similar in concept to an IRA
- Social Security PLUS differs from an IRA, Roth IRA, and 401k plans
- If beneficiary dies, it becomes a death benefit
- If beneficiary becomes disabled, balance becomes accessible

SITUATION SUMMARY

- Social Security cannot remain on an unstable fiscal path
- AMAC continues to press Congress to take action on Social Security, and the Social Security Guarantee is a viable solution
- We need your help to make Congress listen and to make Social Security a priority issue



AMAC's SOCIAL SECURITY GUARANTEE

- For more information on AMAC's Social Security Guarantee,
 - Visit our website: www.amac.us/social-security
 - or call **888-262-2006**
- For daily updates on Social Security and retirement issues in general, visit AMAC Foundation's Social Security Report website:
 - www.SocialSecurityReport.org

AMAC FOUNDATION SOCIAL SECURITY REPORT WEBSITE



SOCIAL SECURITY REPORT

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An Argument for Indexing Social Security's Full Retirement Age - Tampa Bay Times

Posted on January 21, 2022



Most of the rhetoric on Social Security's looming solvency problem focuses on the program's Trust Fund reserves and their systematic depletion, emphasizing the likely across-the-board reduction in benefits when the Trust Funds reach zero (most recently forecast to happen in 2033 (or, according to some analysts, 2032). The

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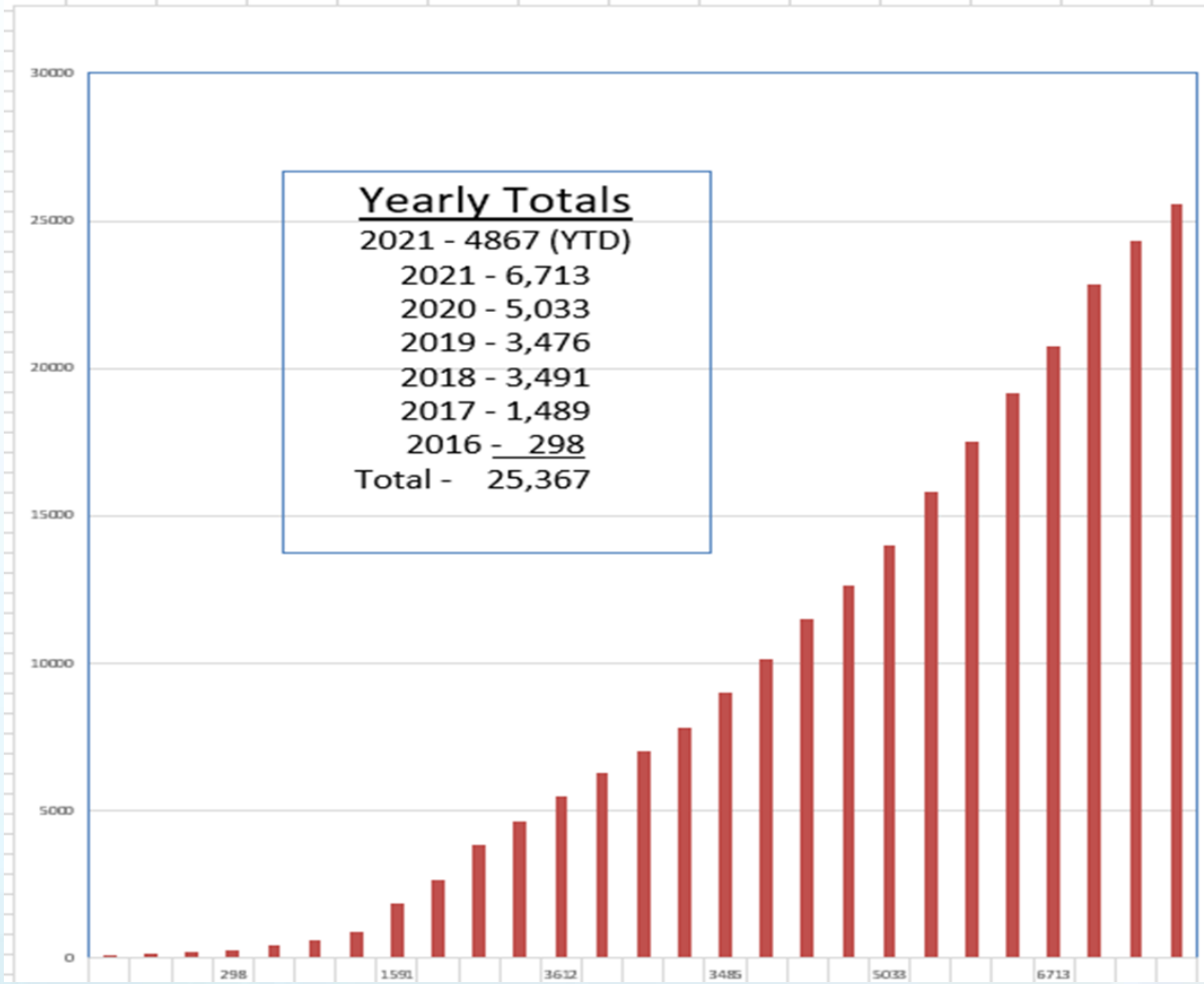
AMAC's SOCIAL SECURITY GUARANTEE

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 - Visit our website: www.amac.us/social-security
 - or call **888-262-2006**
- For daily updates on Social Security and retirement issues in general, visit AMAC Foundation's Social Security Report website:
 - www.SocialSecurityReport.org
- For specific questions about Social Security, contact the AMAC Foundation's Social Security Advisory Service
 - Via email – SSAdvisor@AmacFoundation.org
 - Via telephone – **888-750-2622**

The AMAC Foundation’s Social Security Advisory Service



Social Security Advisory Service 2016 – 2022 (Q3)





Social Security Advisory Service

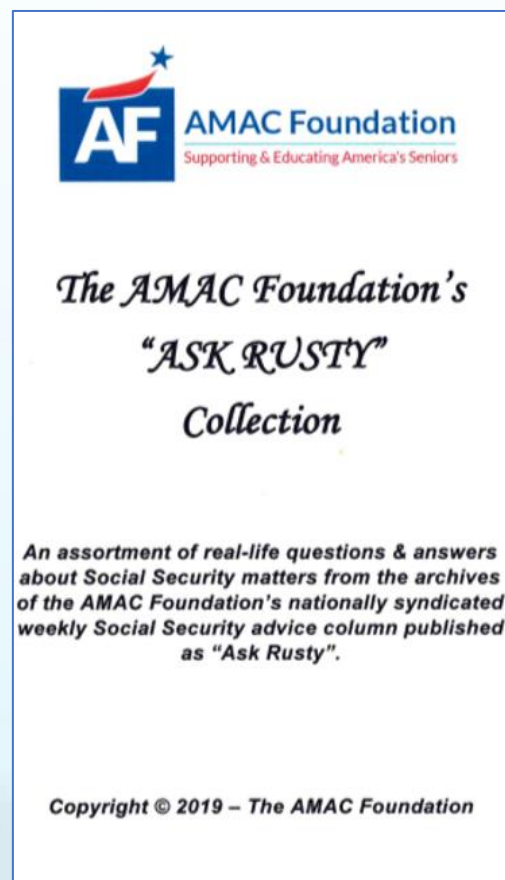
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- Launched in Early 2017
- Issued Weekly to 7000+ Media Outlets
- Hundreds of Editions Published
- Posted on Social Security Report Site
- Weekly Audio Version on our Website
- Compendium Published in Early 2019
- Second Edition Published in Late 2020

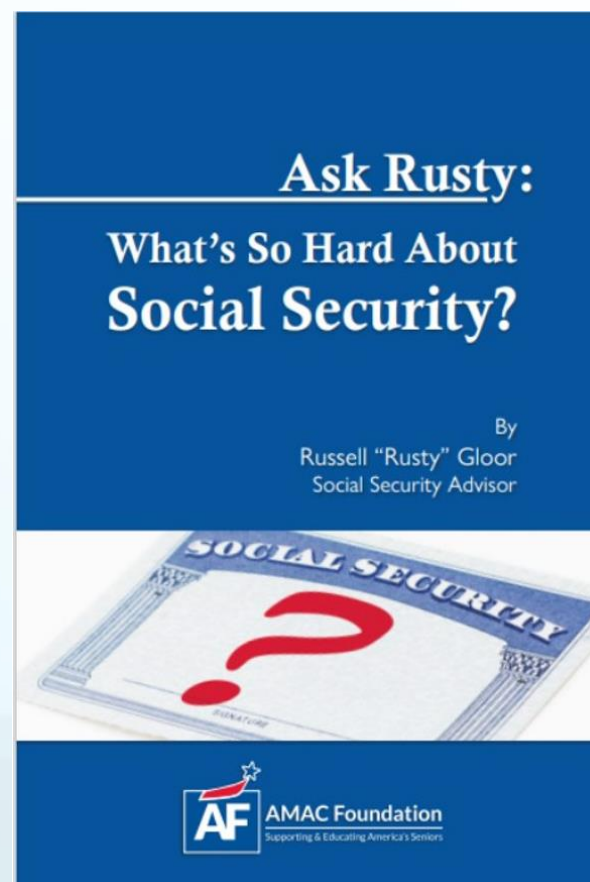


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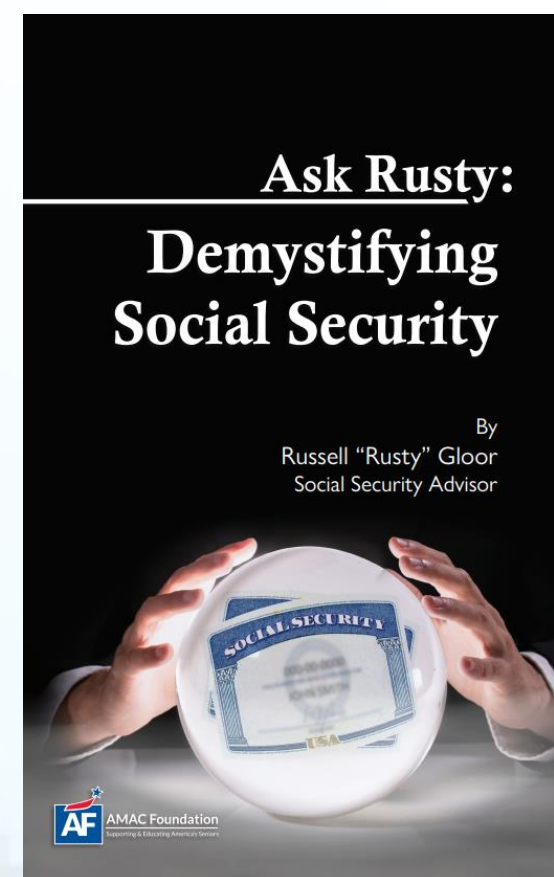
2019



2020



2022





Social Security Advisory Service

Our “Instant Academy” Series

- Launched in March 2022
- Bi-weekly releases
- 2-3 minute or less recaps of Social Security concepts
- Posted on Foundation Facebook page and stored on Foundation website
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