

SESSION 001

Social Security and Medicare: State of the Systems



Session Host

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Moderator

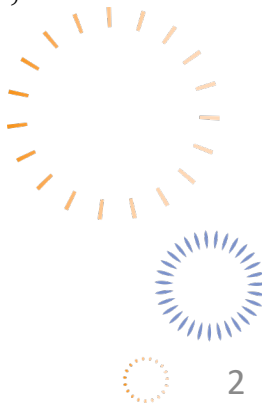
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Antitrust Policy

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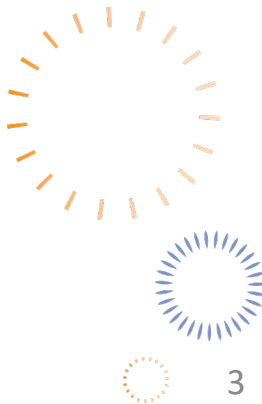
Purpose of Antitrust Laws

The antitrust laws prohibit any concerted activity or combination of competitors from interfering with free competition. In other words, the primary thrust of the law is to control private economic power by protecting competition. Persons and organizations are prohibited from engaging in any action which unreasonably restrains commerce or trade (i.e., competition). Per se violations (practices presumed to be inherently wrong regardless of the motivating factors) include: agreements to fix or stabilize prices, to divide markets, to allocate production, or to impose boycotts. In essence, this means any concerted action that significantly diminishes rivalry among competing firms.



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Speakers



Stephen C. Goss, ASA, MAAA
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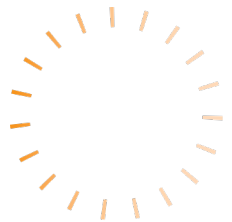
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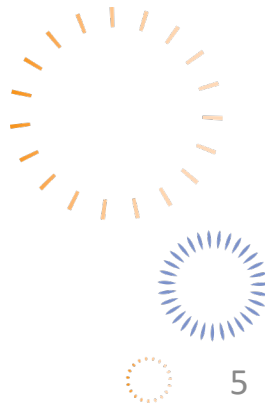
Dale Yamamoto, FCA, MAAA
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Current State of Social Security

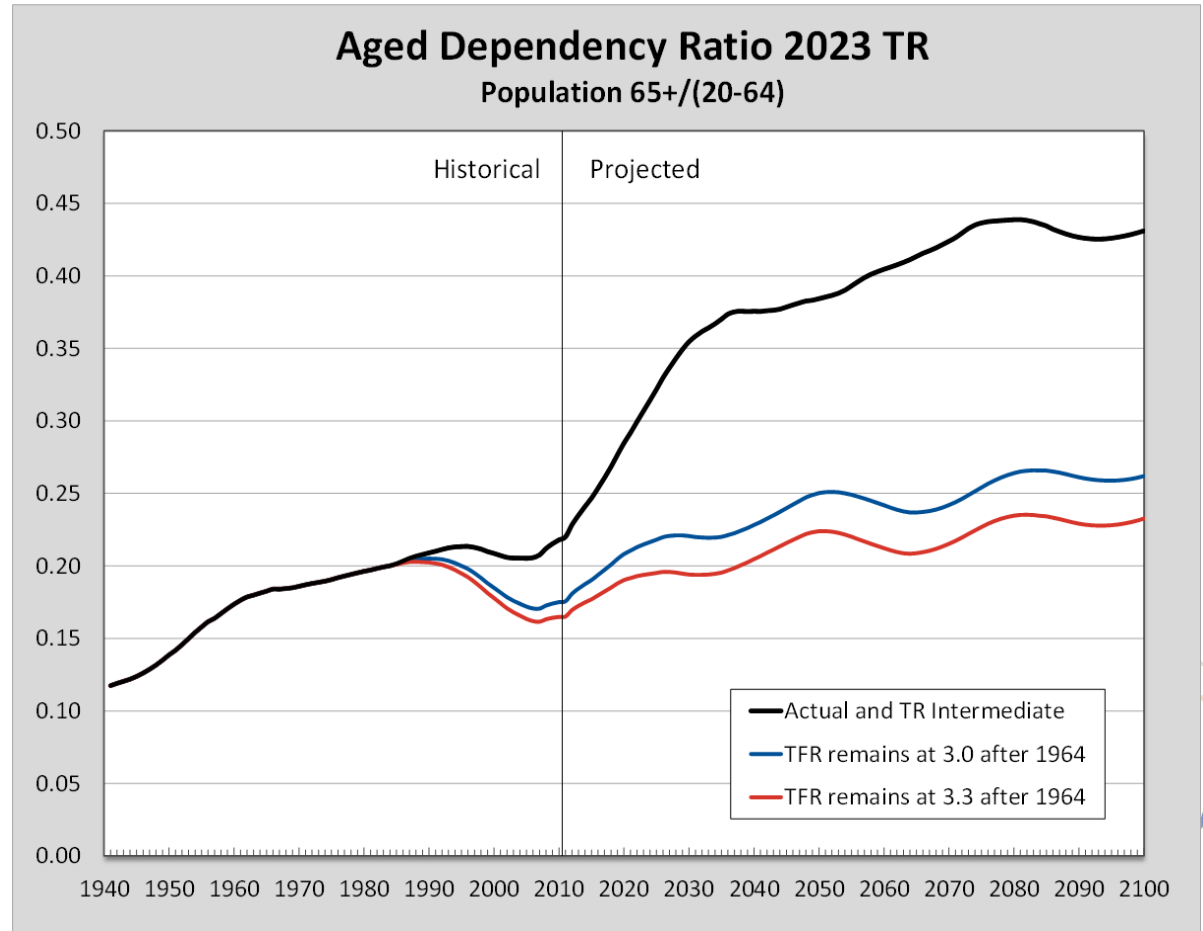
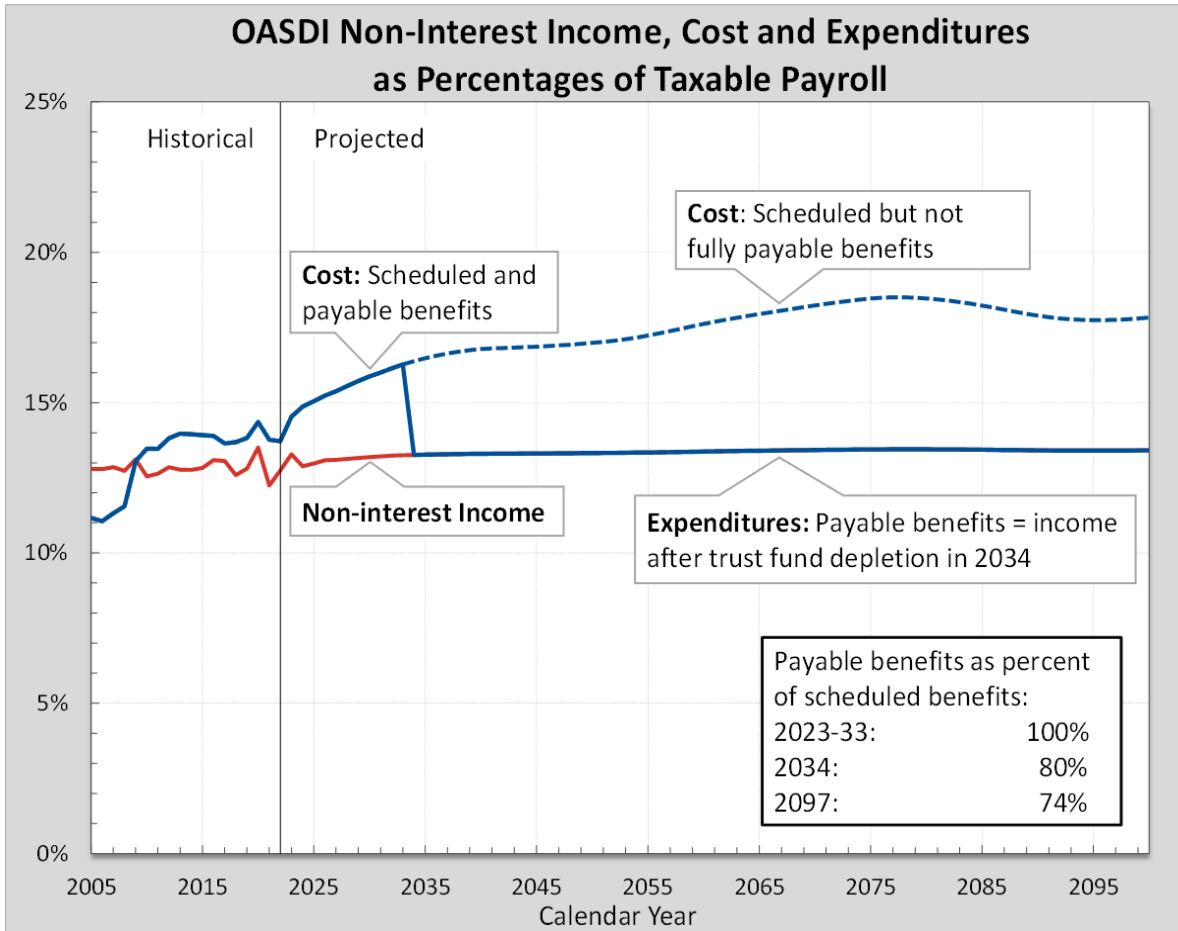


Steve Goss
Social Security Administration



The Current Financial/Actuarial Status of the OASDI Trust Funds: Cost Is Rising as Percent of Payroll from 2010 to 2035; Birth Rates

Combined trust fund reserves projected to become depleted in 2034; 2033-35 for last 12 years



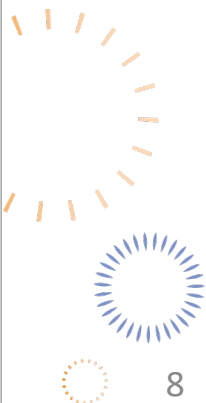
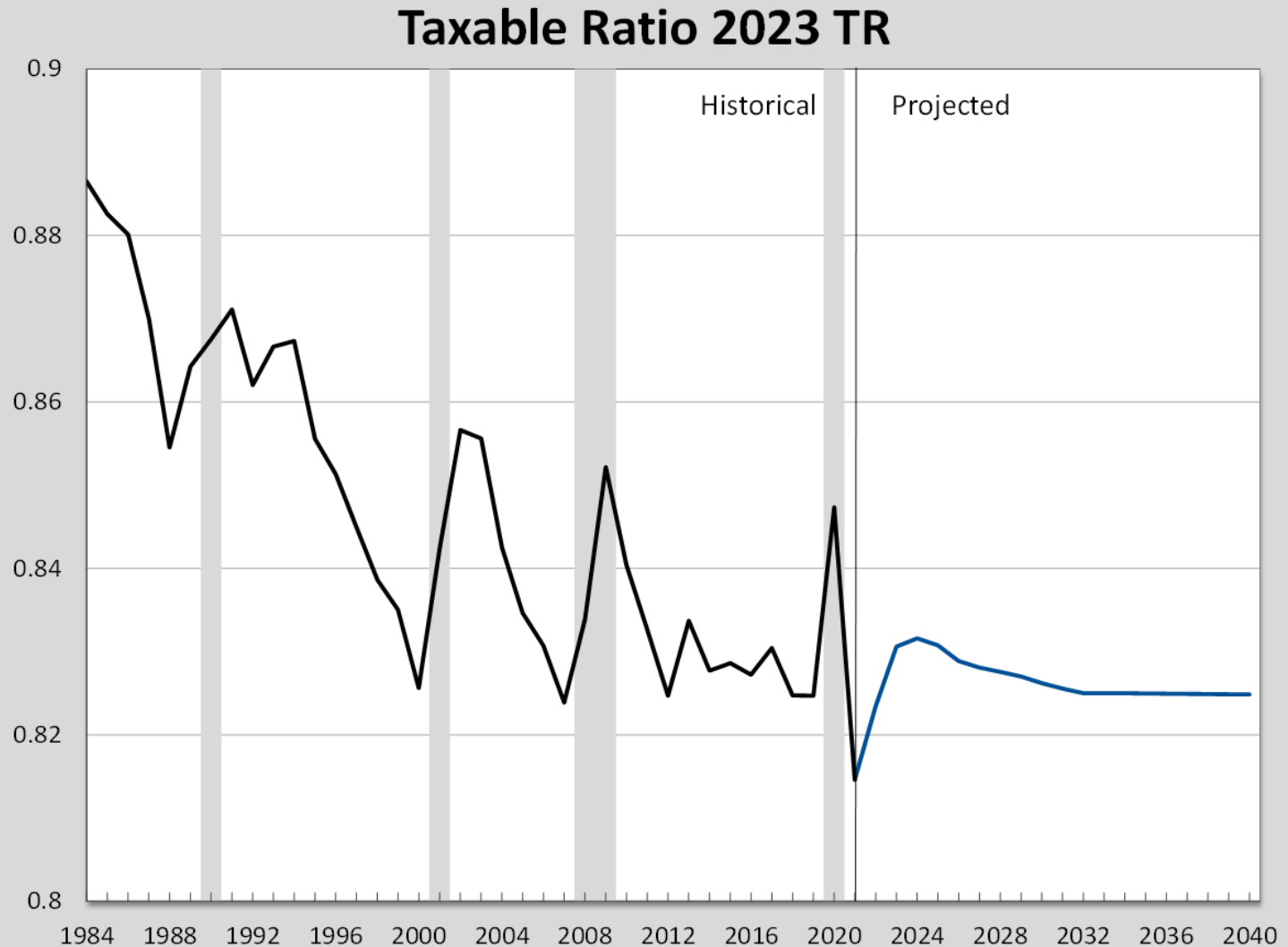
But Wait—After the 1983 Amendments, the 1983 Trustees Report Projected Reserve Depletion in the Mid-2050's...

- Lower birth rates were anticipated in 1983, and mortality projections were extremely accurate
- So over 80% of worsening in projections since 1983 TR was due to unanticipated economic experience
 - Redistribution of earnings from 1983 to 2000 reduced taxable payroll, and payroll tax revenue, by 8%
 - Depth of 2007-09 recession and slow recovery reduced employment and tax revenue

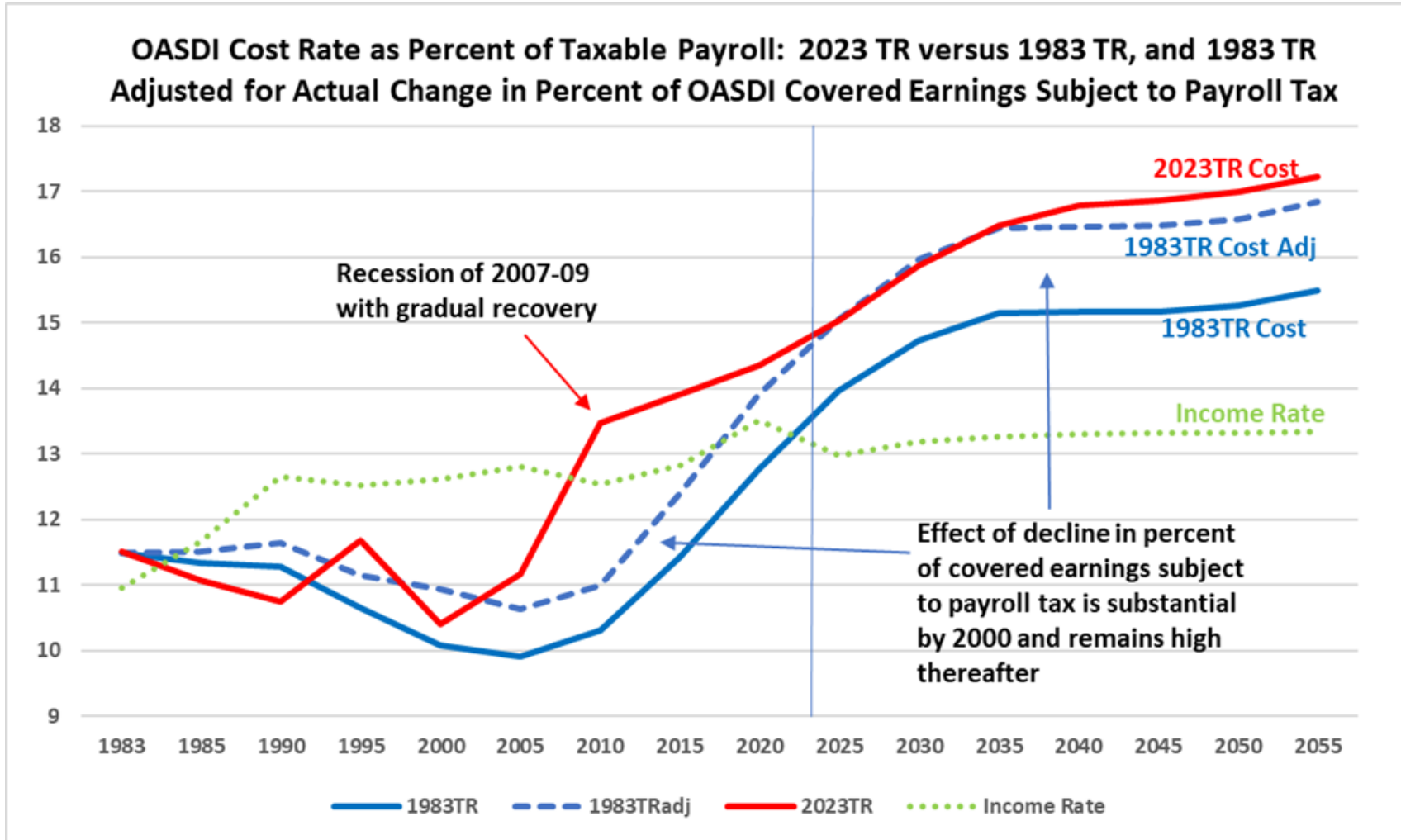


Earnings “Dispersion” Between 1983 and 2000 Lowered the Percent of Earnings Taxable from 90% to 82.5%

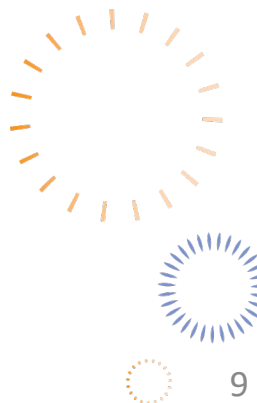
Overall, average earnings increased more than expected, but real growth was 62% for the top 6% of workers, while only 17% for lower 94% of workers.



The Reduced Share of Earnings Subject to Payroll Tax Explains Most of the Increase in Cost as Percent of Payroll, Compared to the Projection in 1983



But the depth of the 2007-09 recession and slow recovery further reduced expected trust fund accumulation through 2019

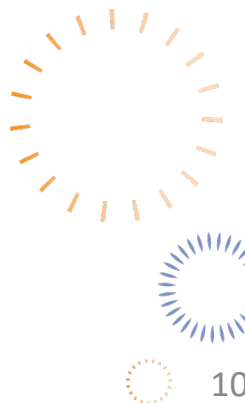
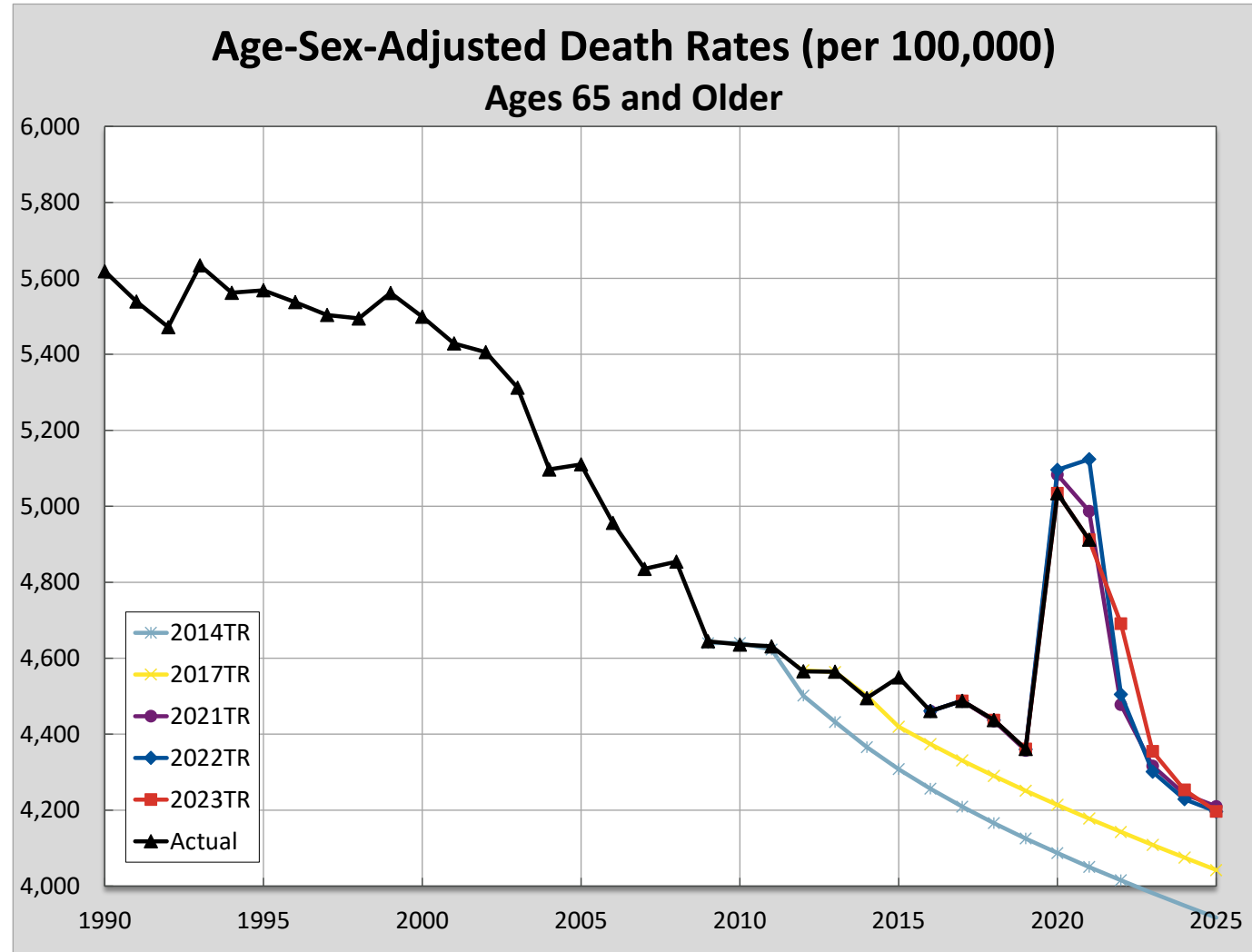


Mortality Experience: Ages 65 and Older:

Increased mortality in the near-term to reflect the effects of the COVID-19 pandemic.

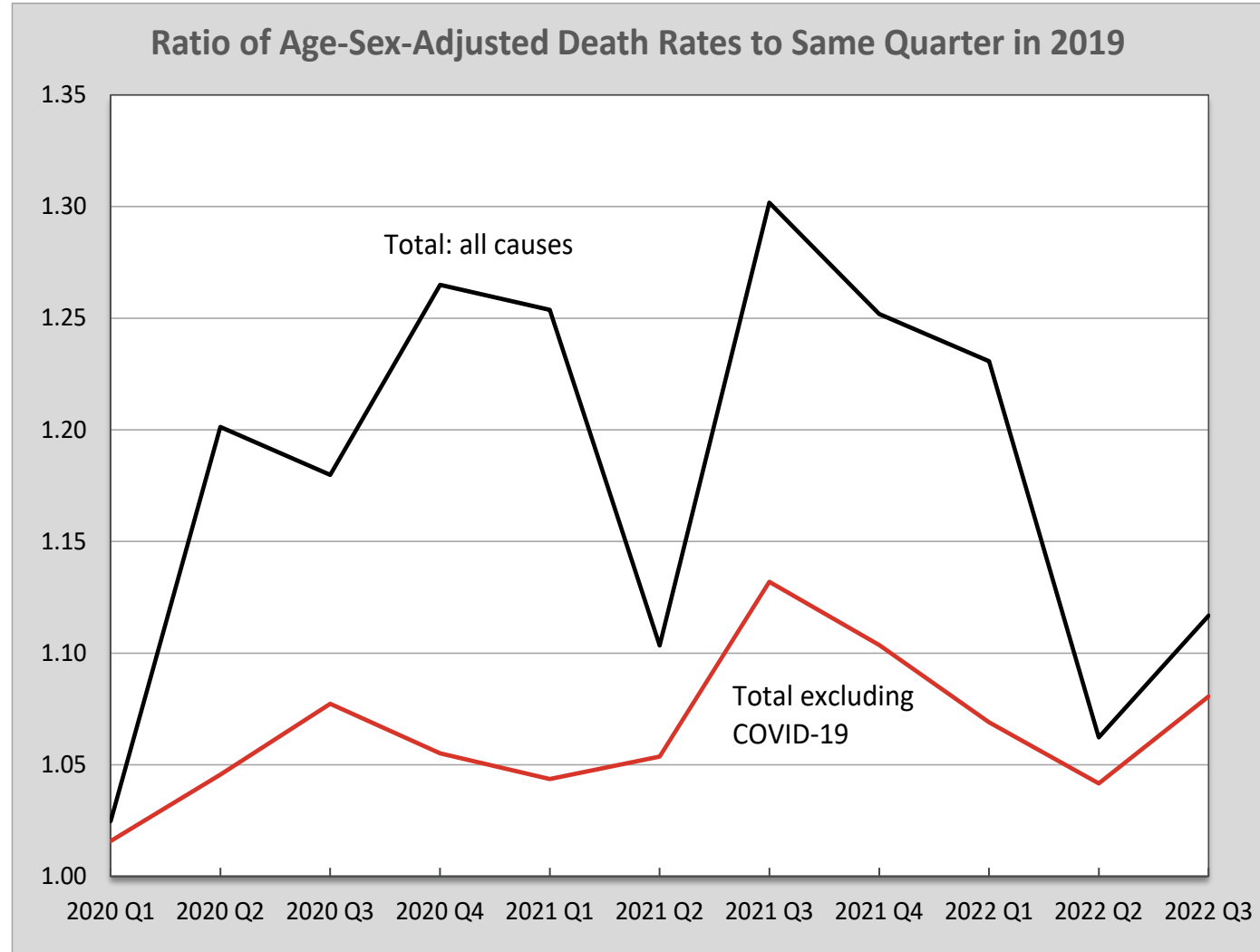
What will the net effect of the pandemic be on mortality in the future?

We assume offsetting effects for the residual population after the pandemic.

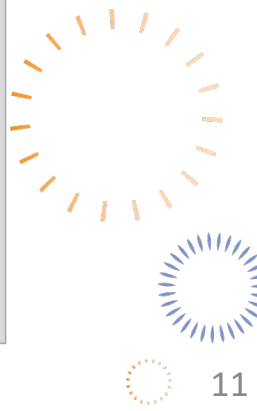


Ratio of Age-Sex Adjusted Death Rates to Same Quarter in 2019

Death rates for causes other than COVID have been about 5% higher in the pandemic period through 2022 than they were in 2019.



Source: NCHS Quarterly Provisional Estimates as of March 20, 2023



So, by 2034, We Need to Reduce Scheduled Benefits by One-Fourth or Increase Revenue by One-Third

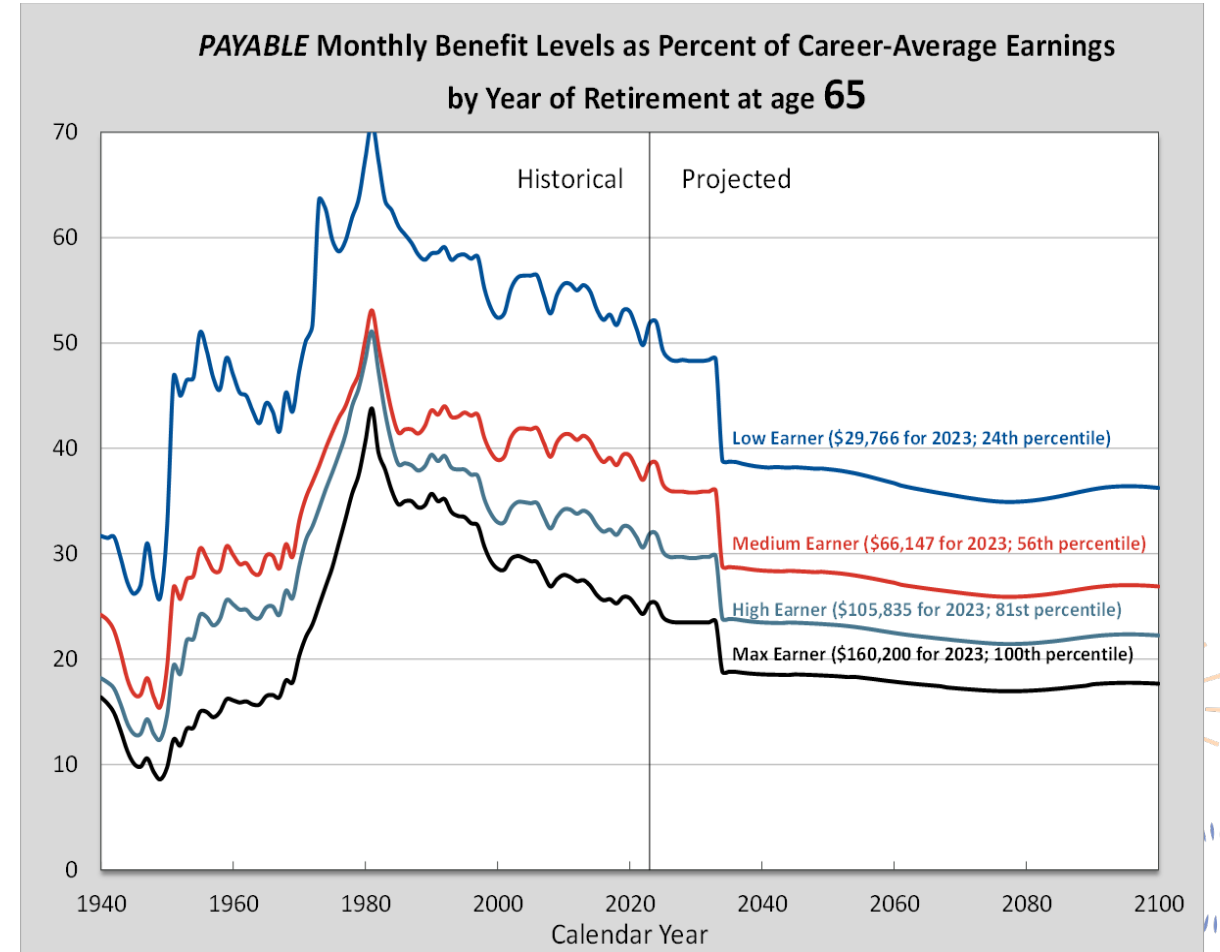
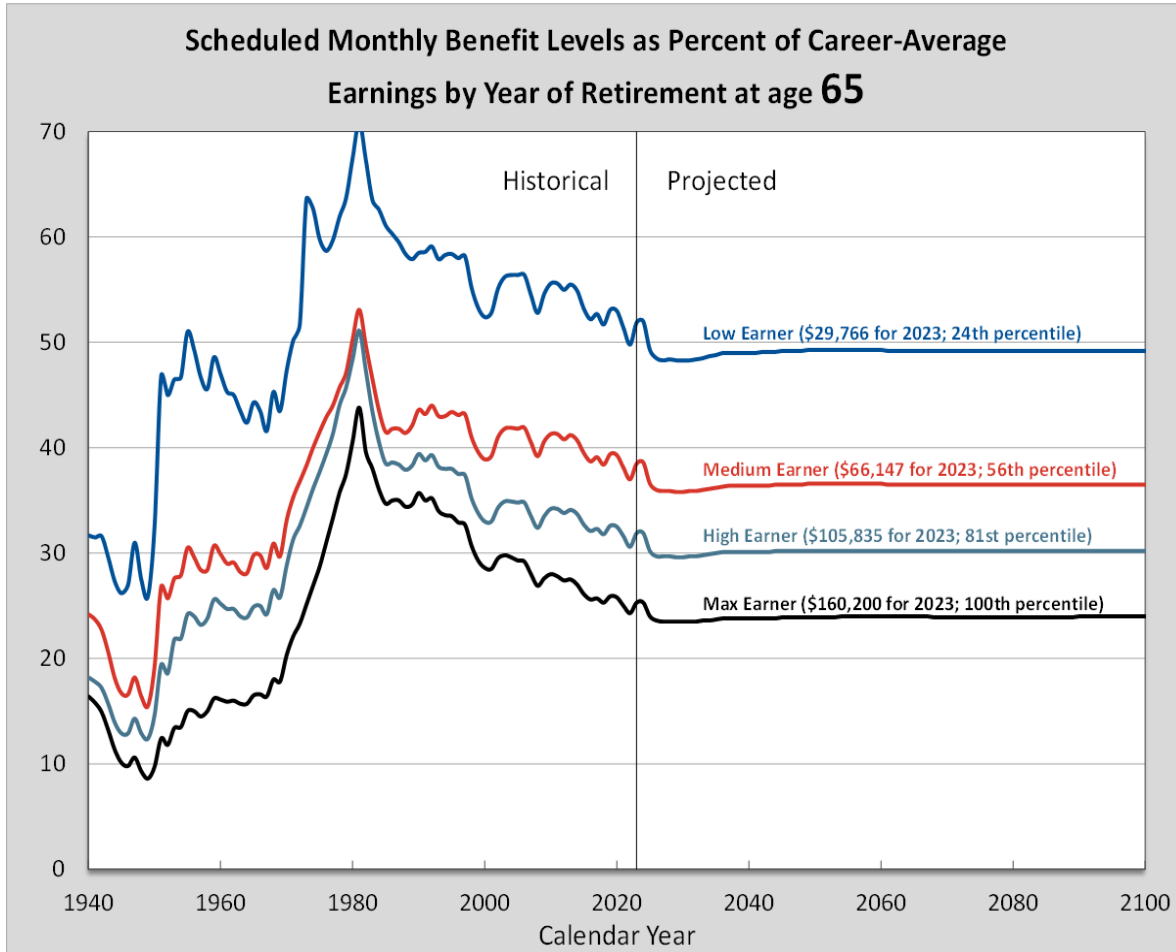
- **Lower scheduled benefits:**
 - **Increase NRA?** Lower for retirees but not disabled; consider less increase for long-career workers at low-pay levels, similar to Simpson/Bowles 2010
 - **Chain-weighted CPI for COLA?** Arguably “more accurate” for those with high income who shift consumption across non-substitutable goods and services
- **Increase scheduled revenue:**
 - **Raise the 12.4% tax rate** or apply to some or all earnings above the current taxable maximum
 - **Take advantage of returns on private-sector investments**—invest trust fund reserves, or tax investment income as in the 2010 ACA



Benefit Replacement Rates for Retirees at Age 65

Percent of late-career earnings (about the same as best 35 wage-indexed)

Note using 35-year CPI-indexed ignores increasing standard of living

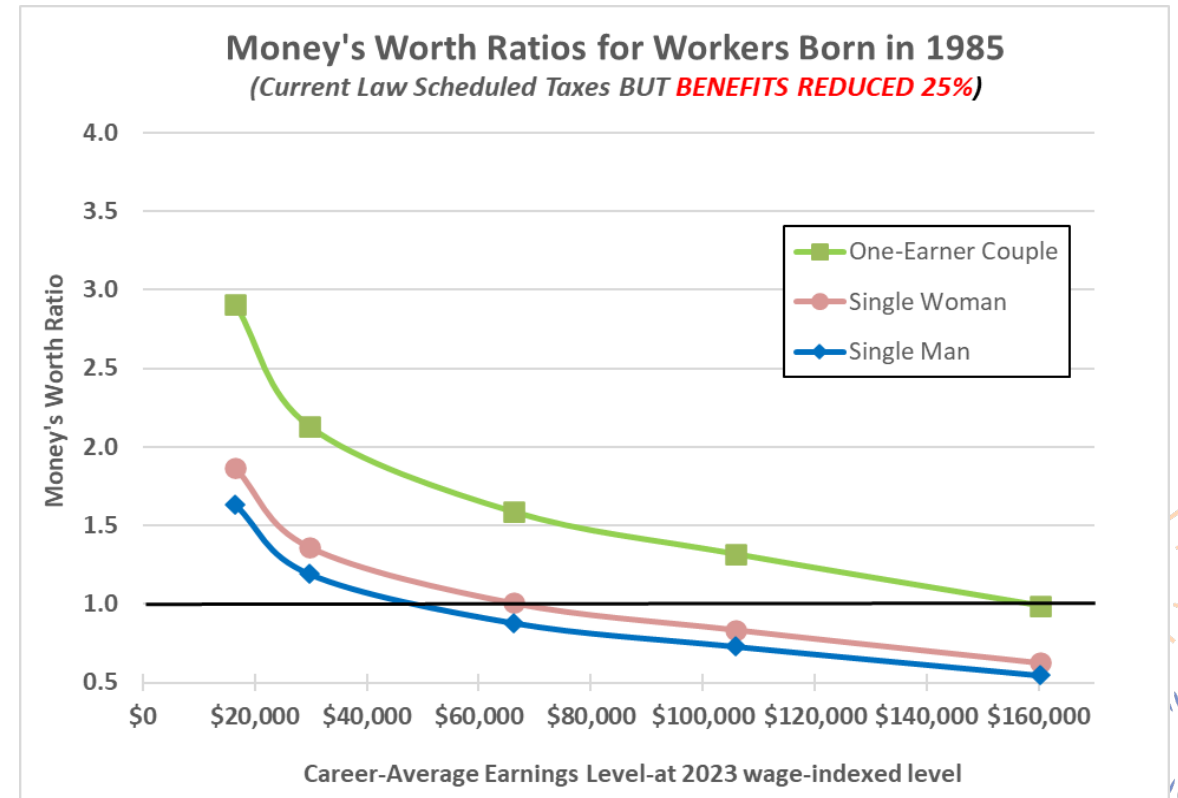
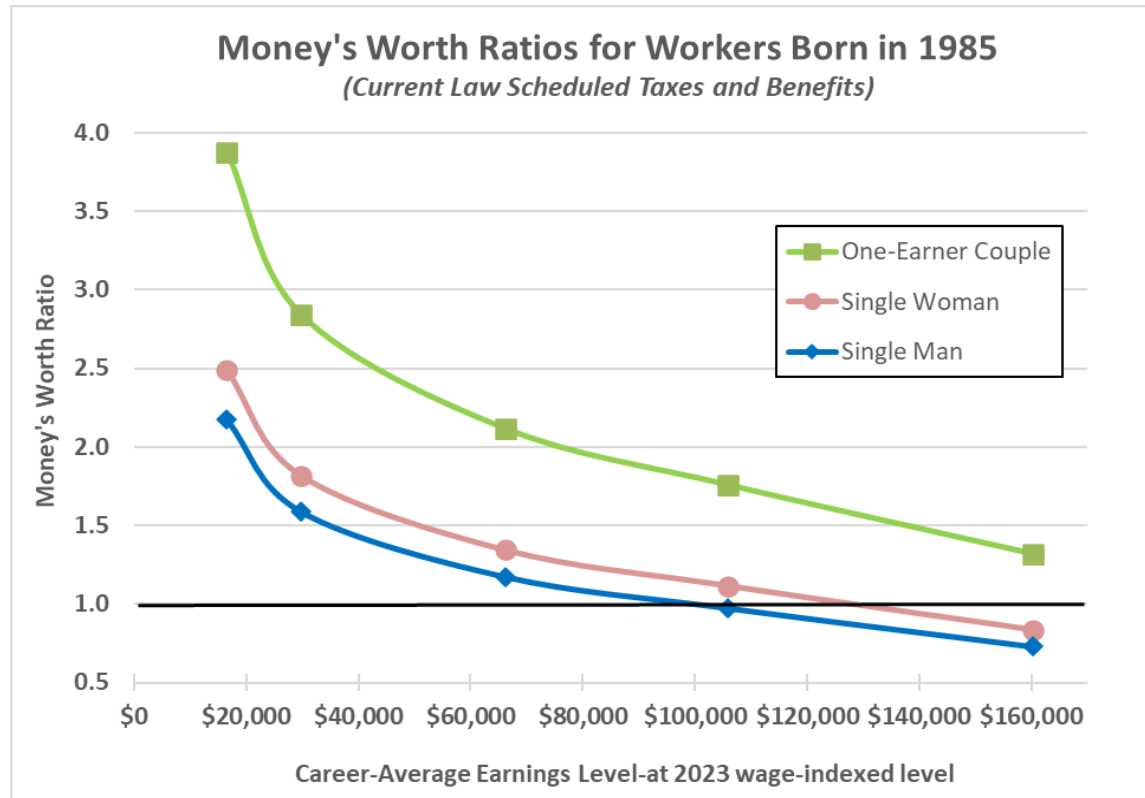


Money's Worth Ratios: Ratio of Present Value of Lifetime Benefits to Lifetime Payroll Tax

Discounting at long-term US Treasury yields

Current Law Scheduled Taxes and Benefits

**But If Reduce Benefits 25%
(or Increase Taxes 33%) for All**

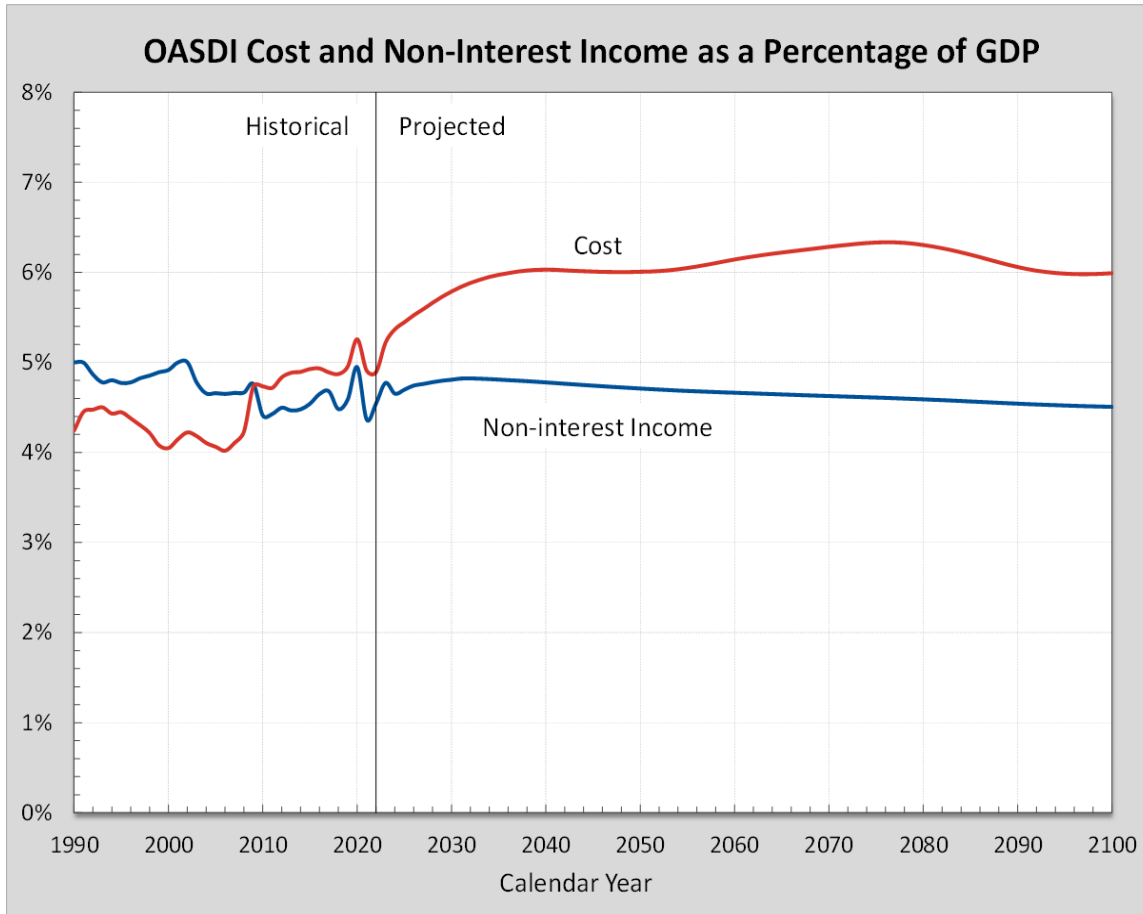


Based on: Recurring Actuarial Note #7: www.ssa.gov/OACT/NOTES/ran7/

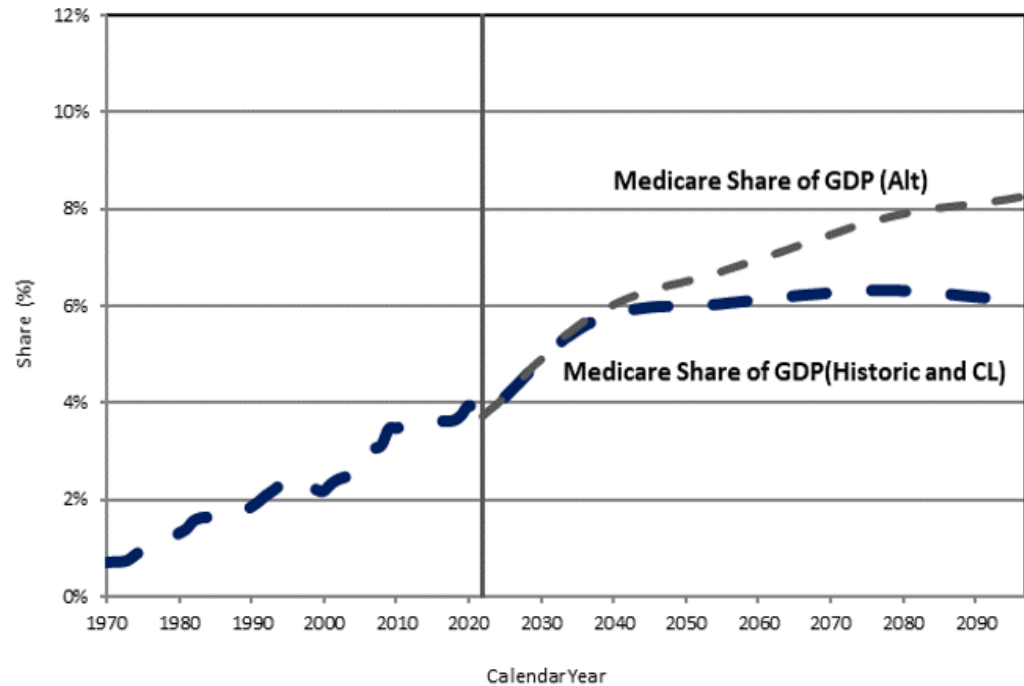
What Is The Projected Cost of OASDI and Medicare as A Share of GDP?

Under current law, both rise similarly to 6 percent of GDP

The Trustees also illustrate that Medicare would increase further without ACA



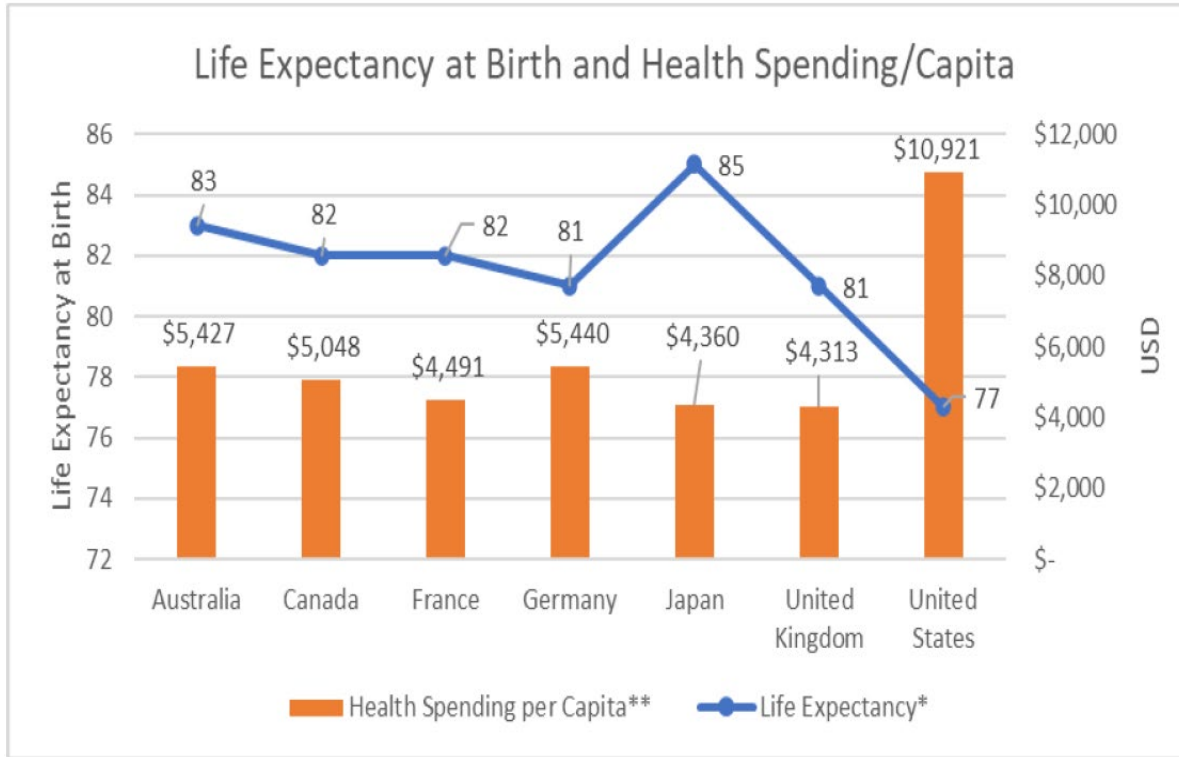
Long-Run Medicare Projections



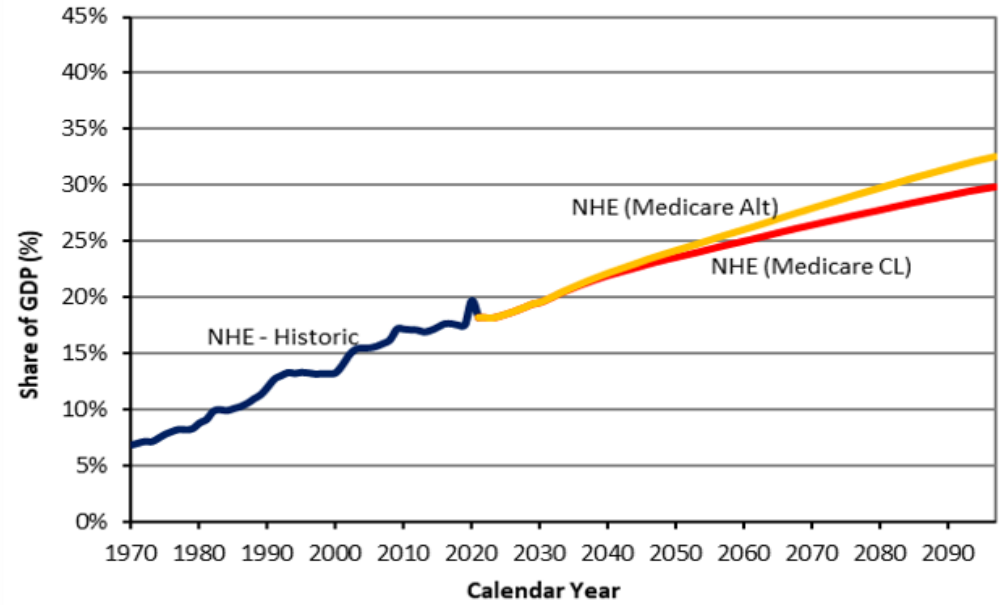
Based on 2023 Medicare Trustees Report

How About National Health Expenditures?

*How do we compare to other countries? Currently double per capita
Will NHE really continue rising from 18% to 30% or more of GDP?*



Long-Run NHE Projection



Based on 2023 Medicare Trustees Report

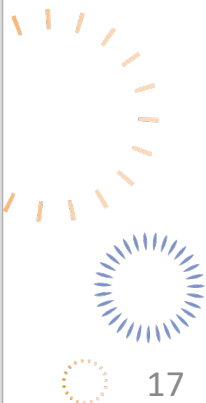
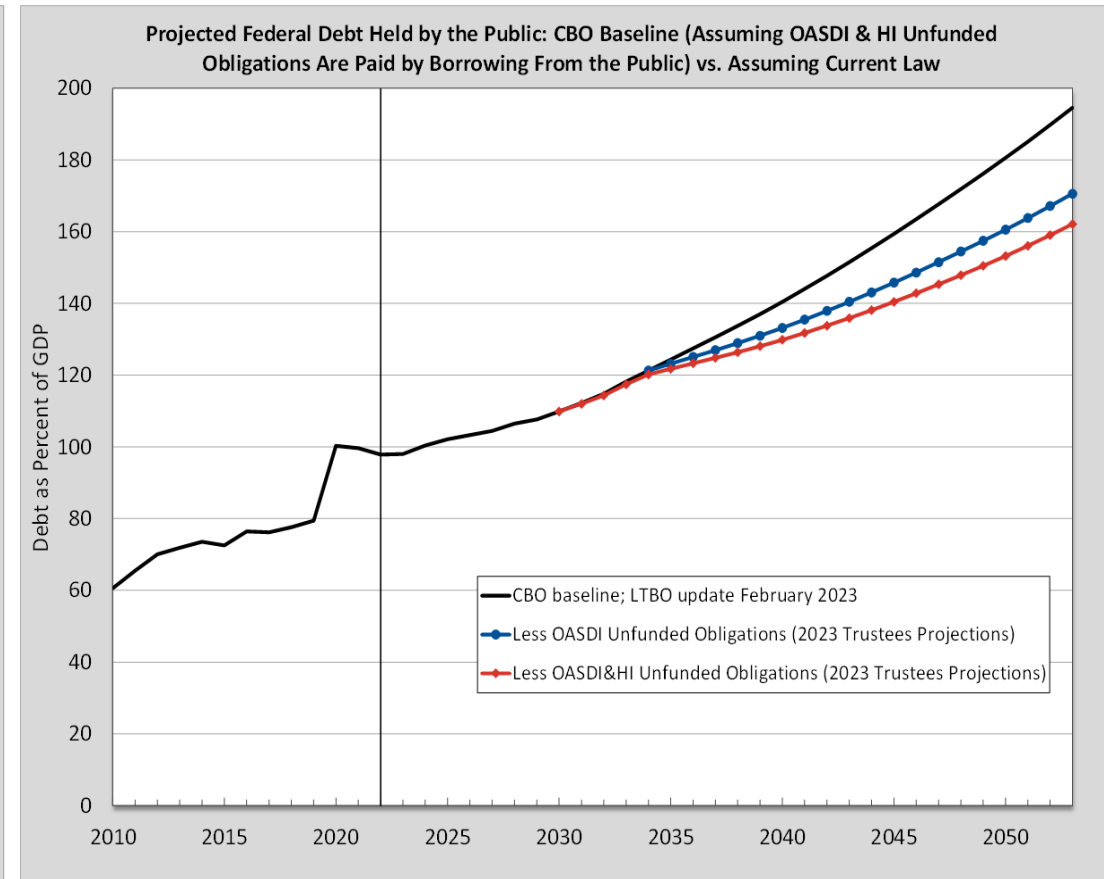
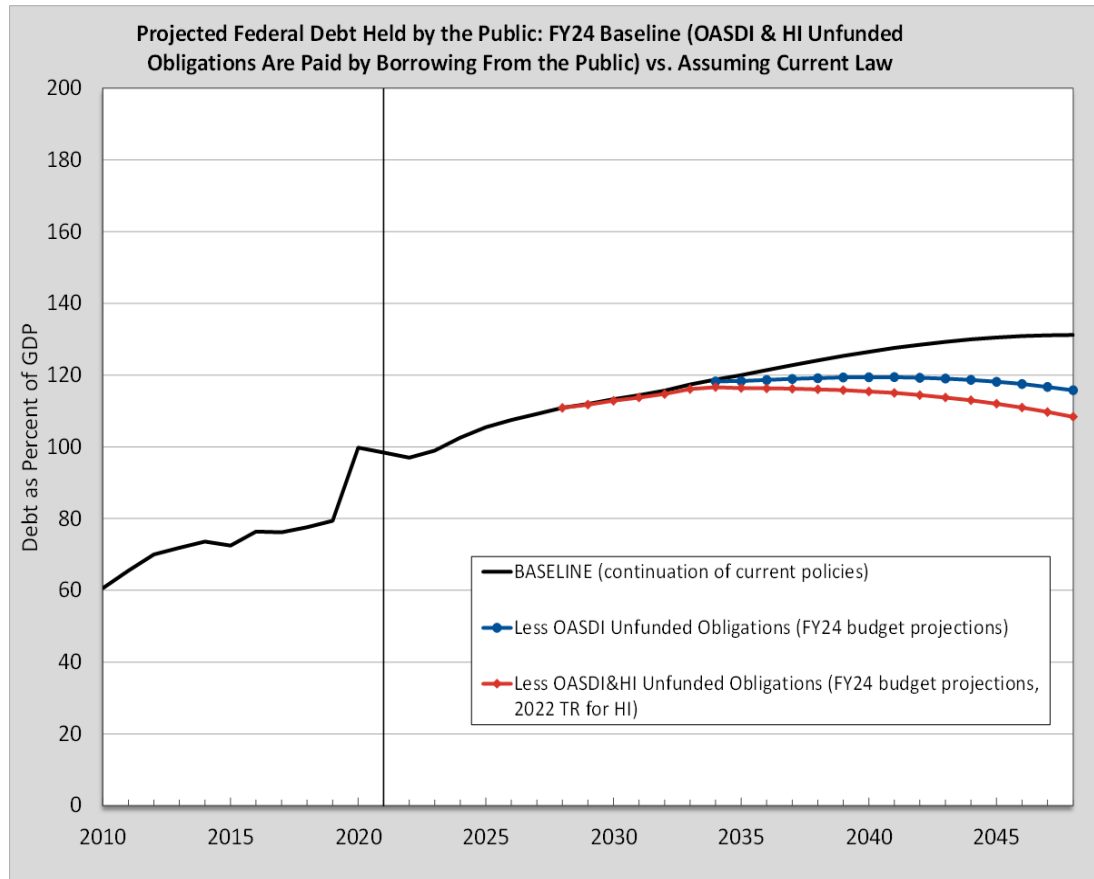
*At 2020. **At 2019.
Source: Health spending/Capita - https://data.worldbank.org/indicator/SH.XPD.CHEX.PC.CD?most_recent_value_desc=false
Life Expectancy - <https://data.worldbank.org/indicator/SP.DYN.LE00.IN>

From Living to 100 Conference January 2023,
by Assia Billig, Chief Actuary, OSIF Canada

From AEI Roundtable September 22, 2023,
By Paul Spitalnic, Chief Actuary CMS

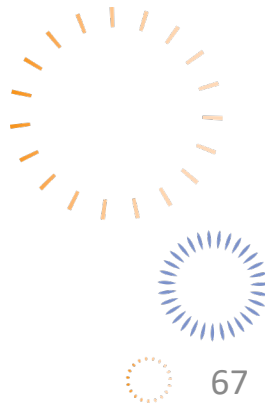
A Note on Projected Federal Debt Held by the Public

Administration and CBO projections are VERY different—but both assume change in law to fully finance OASDI by borrowing from the public after trust fund reserve depletion
In fact, trust funds cannot borrow and reserves even REDUCE borrowing from the public



Appendix: Demographic Trends Affecting the Systems

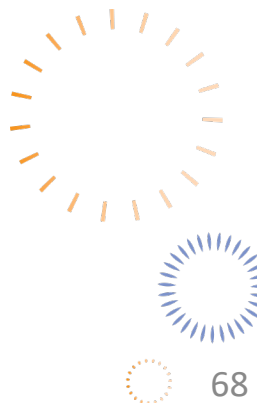
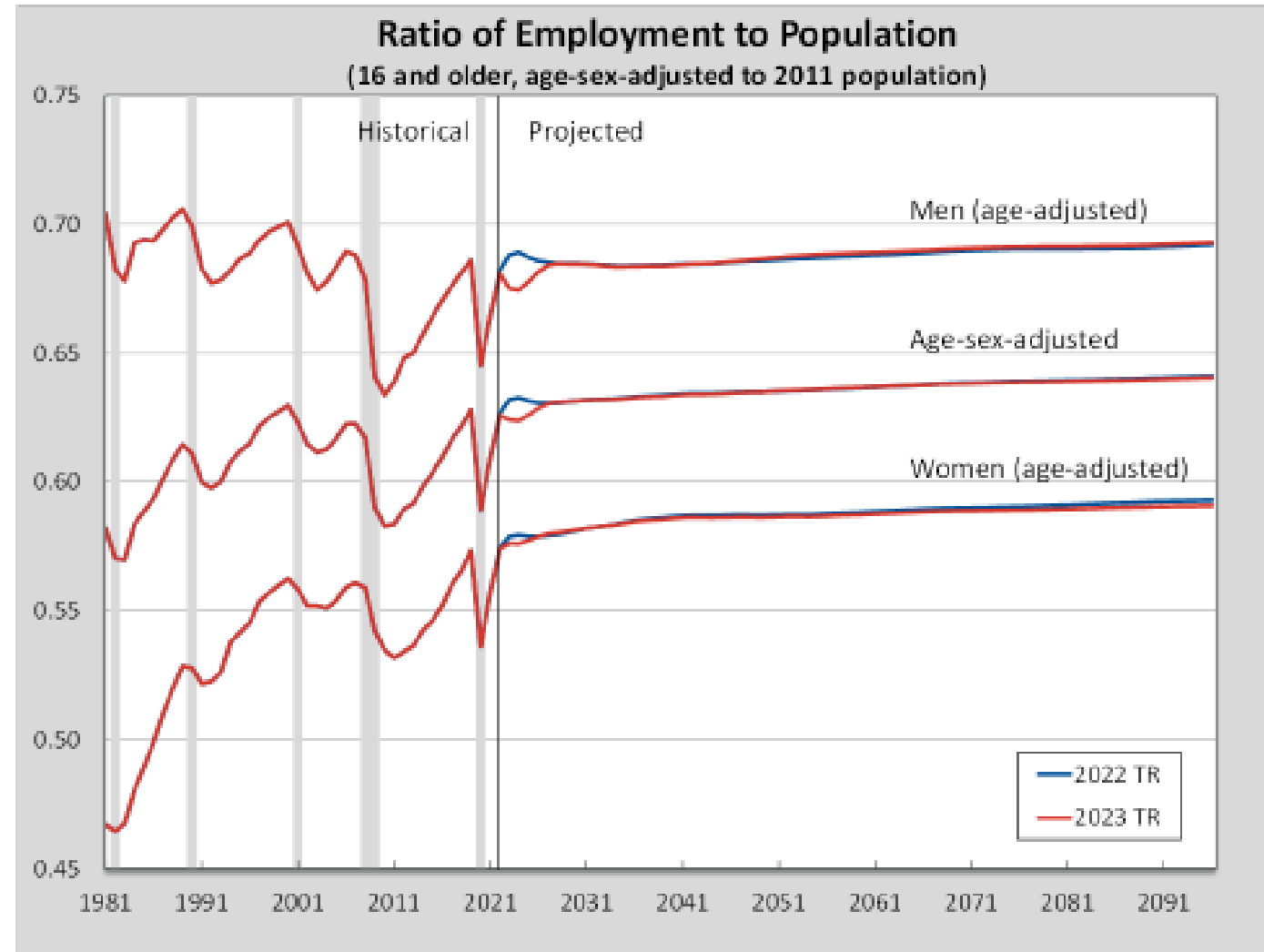
- Employment
- Social Security retirement/commencement age
- Disability



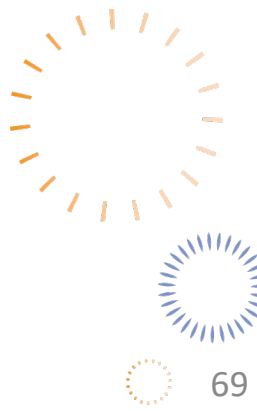
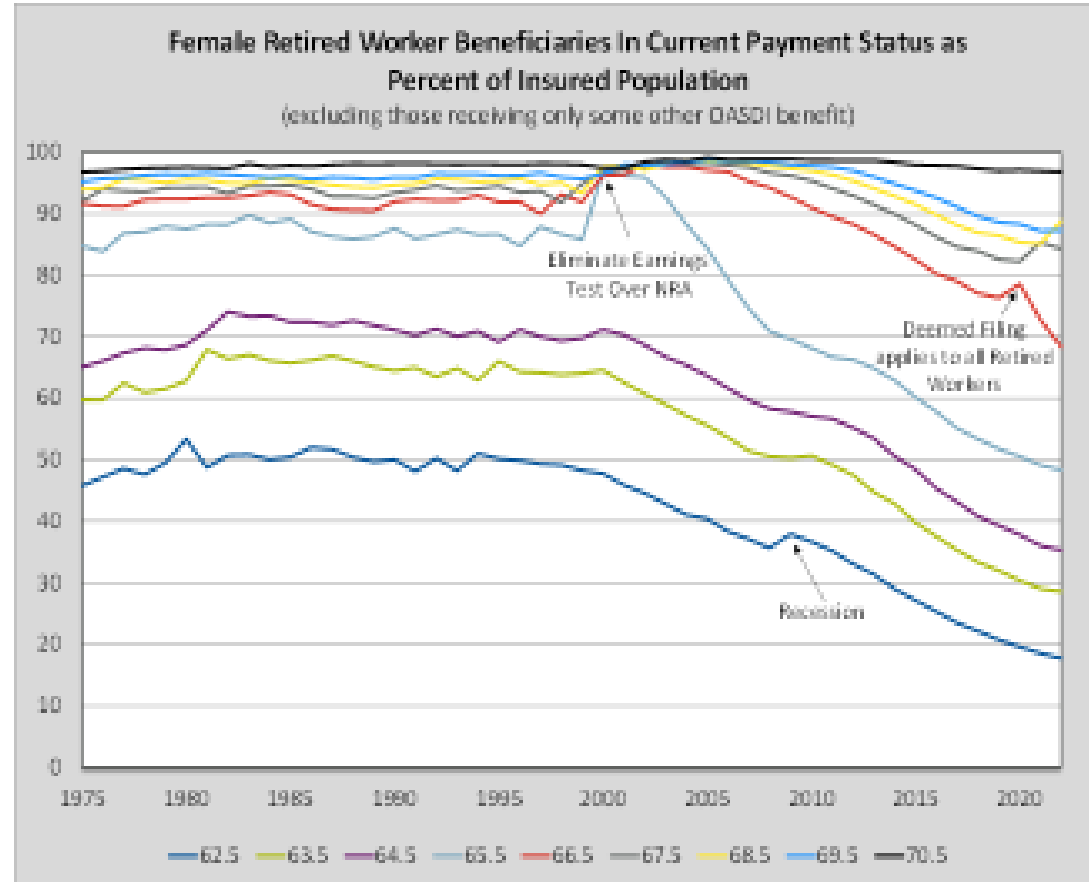
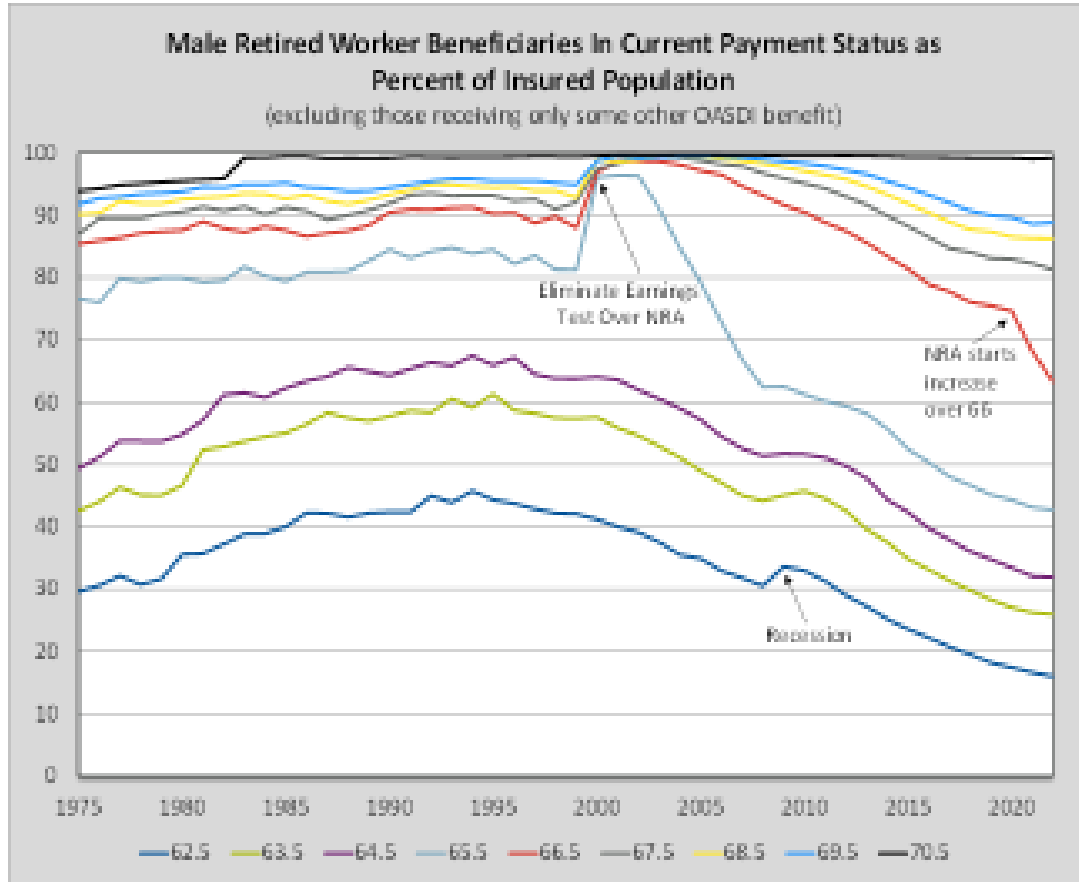
Ratio of Employment to Population

Recovered strongly from the brief but steep 2020 recession.

After the assumed slowdown in growth in 2023, the ratio is projected to return to about the peak level in 2019.



Age of Starting Social Security Retirement Benefits



Disability Incidence Rate Also Remains Historically Low

DI disabled worker incidence rate rose sharply in the 2008 recession, and has declined since the peak in 2010 to extraordinarily low levels in 2016 through 2022.

What will be the NET effect of COVID and post-COVID conditions?

