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Commentary

THE BUFFIN FOUNDATION SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

US Social Security System: Effects of Pandemic and Recession

The Office of the Chief Actuary for the US Social Security system has released an information note that provides an updated baseline for the actuarial status of the OASDI trust funds, reflecting the estimated effects of the covid-19 pandemic and the ensuing precipitous recession. The 2020 Trustees Report that was prepared and released early in the year did not reflect the pandemic or the recession that were newly emerging at the time. On November 24, the Social Security Administration released publicly in the Agency Financial Report what is effectively an updated actuarial valuation by the Office of the Chief Actuary. This updated actuarial valuation is a well-developed and coherent updated baseline projection that is intended to serve as an appropriate and reasonable basis for evaluating the effects of any proposals that impact the OASDI trust funds, particularly proposals intended to improve or extend the period of projected solvency.

The methodology adopted by the Office of the Chief Actuary involves making adjustments to each element comprising the set of intermediate actuarial, economic and demographic assumptions applicable to each of the ten years 2020 to 2029; no changes were made to the applicable assumptions for the years after 2029. The specific measures that were modified for this purpose are: mortality; fertility; immigration; disability; economic productivity; average covered wages; average wage index; consumer price index; real-wage differential; unemployment; total employment; real gross domestic product; and the new issue real interest rate for the trust fund. The results of the modified actuarial valuation of the OASDI system as compared to the original 2020 trustees' report indicate an increase in the 75-year projected cost rate from 17.06% to 17.13% of taxable payroll together with no change in the projected income rate of 13.85%, thus producing an increase in the projected actuarial balance/deficit from 3.21% to 3.28%. The revised projections also indicate a change in the expected year of the trust fund reserve depletion from 2035 to 2034. Although the overall change in the cost rate for the 75-year projection amounts to only 0.07%, it is noteworthy that the changes in the cost rate for the years 2020, 2021 and 2022 amount to 0.88%, 0.53% and 0.28% respectively. Also of particular significance are the changes in the projected income rates for 2020, 2021 and 2022 from 13.00% to 13.91%, from 12.90% to 12.09% and from 12.93 to 12.91% respectively.

The actuaries at the Social Security Administration are to be highly commended for their technical expertise in producing a plausible financial projection model to reflect the likely effect of the covid-19 pandemic and recession. The revised 2020 projection model incorporates not only traditional demographic and economic assumptions but also quantitative epidemiological assessments. Best estimates made in 2020 on the basis of currently available information will be reevaluated at the time of the preparation of the 2021 trustees report as further insight is gained into the extent of the pandemic and the effect of the introduction of mass vaccination programs. The brief note accompanying the November 24 release of the updated baseline for the actuarial status of the OASDI trust funds was limited to two short paragraphs and so did not cover the full range of analytics typically covered in the annual trustees report.

Several issues and questions arise from a review of the revised baseline projections that may be resolved when the 2021 trustees report is published. A detailed attribution analysis for the changes in the cost rates for 2020, 2021 and 2022 would be helpful in understanding the effects of the various key demographic and economic assumptions. A review of the projection results for the next 25 years and next 50 years would provide meaningful supplemental information to the published 75-year projection results. Also consideration of the projected financial outcomes on both low-cost and high-cost scenario projections would provide a more complete representation of the range of plausible likely outcomes as a result of the pandemic and recession. For each of these supplemental results, valid metrics for the extent of solvency and sustainability could be developed to indicate the extent to which expected cash flows from income and trust fund proceeds are adequate to meet projected scheduled benefits and administration costs as well as determining the hypothetical level for the FICA contribution rate (payroll tax rate) necessary to restore equilibrium between the actuarial values of projected costs and income. Finally, it is of interest to examine how the revised 75-year financial projections compare with the original 2020 statistical array of likely outcomes at the 50th, 90th and 97.5th percentiles; some observers might expect that the results would be somewhere close to the stochastic projection at the outer limits of the 80 percent and 95 percent confidence intervals; however the revised 75-year intermediate projection results for the actuarial balance at 3.28% show only a minimal deviation from the 50th percentile value of 3.27% .

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