POTENTIAL RETIREMENT CRISIS

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Commonly used term to refer to the federal Old Age, Survivors, and Disability Insurance program (OASDI)

Consists of two government run trust funds: Old Age and Survivors Insurance Trust Fund (OASI) and Disability Insurance Trust Fund (DI)

First signed into law by President Franklin Roosevelt in 1935

Funded primarily by a payroll tax imposed on employers and employees

Pays out retirement benefits to eligible retirees who have contributed to the program for at least 40 quarters of credit
- Can retire beginning at age 62
- Full retirement age is 65, 66, or 67 based on birth date
<table>
<thead>
<tr>
<th></th>
<th>OASI</th>
<th>DI</th>
<th>HI</th>
<th>SMI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserves (end of 2015)</td>
<td>$2,780.3</td>
<td>$32.3</td>
<td>$193.8</td>
<td>$69.5</td>
</tr>
<tr>
<td>Income during 2016</td>
<td>797.5</td>
<td>160.0</td>
<td>290.8</td>
<td>419.4</td>
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<tr>
<td>Cost during 2016</td>
<td>776.4</td>
<td>145.9</td>
<td>285.4</td>
<td>393.3</td>
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<tr>
<td>Net change in Reserves</td>
<td>21.1</td>
<td>14.1</td>
<td>5.4</td>
<td>26.1</td>
</tr>
<tr>
<td>Reserves (end of 2016)</td>
<td>2,801.3</td>
<td>46.3</td>
<td>199.1</td>
<td>95.6</td>
</tr>
</tbody>
</table>
WHAT IS HAPPENING?

- At the rate of contributions and the rate of retirement, Social Security will be depleted in the foreseeable future.

- There is a large number of American retirees suffering a drop in their standards of living:
  - Low interest rates
  - Stagnated wages
In the 82 years of operation, Social Security has collected roughly $19.9 trillion and has paid out roughly $17.1 trillion
- $2.8 trillion left in the two combined trust funds
- Surplus is invested into special, non-marketable U.S. government bonds
- Trustees have projected for assets in the trust funds to exceed the costs until 2022
- Both funds are projected to be depleted by 2034
- Without the interest income, Social Security has been in deficit since 2010
- After 2034, projected income will only cover about 75% of scheduled benefits through 2091
Number of retirees continues to grow substantially faster than the number of covered workers
- Lower birth rates have caused lower rates of growth in labor force
- Ratio of workers to retirees went from 35:1 in 1935 to less than 3:1 today
- About 10,000 of the baby boomer generation is retiring everyday

Income growth is slowing to a sustainable trend as the economic recovery is finishing

People are living longer past their retirement age, receiving more benefits
- Average life expectancy was 61 in 1935; 75 today
AMENDMENTS IN 1977 AND 1983

- In 1972, legislatures enacted a one-time 20% increase in benefits
- High inflation in the 1970s caused benefits to exceed contributions
  - Benefits were automatically adjusted for inflation starting in 1972
- Cost of living adjustments were recalculated to return to sustainable levels
- Increased tax withholdings from 2% to 6.15%
- Continued problems for Social Security due to stagflation
- Introduced income tax on Social Security benefits
Net Cash Flows of OASDI

**Percentage of GDP**

Payroll tax rate rises from 6 percent in 1961 to 9 percent in 1971 as program matures.

1972 amendments

1983 amendments

1977 amendments

Trust fund assets build, holding down publicly held debt.
POTENTIAL FIXES

- Increase payroll tax
- Reduce benefits
- Increase retirement age
- Increase the payroll ceiling
- Increase percentage of covered workers
- Taking money from other parts of the budget
NEW ZEALAND

- Universal, flat dollar benefit
- Benefit is set by poverty line
- Simpler than the U.S. public pension system
  - Universal retirement age at 65
- Purpose is only to prevent people from becoming poor and destitute
- Further savings must be done privately
- Difficult to implement in the U.S.
LAURENCE KOTLIKOFF

- Economics Professor at Boston University
- Focus and expertise in public finance
- Auerbach-Kotlikoff Model
  - First large scale computable general equilibrium life cycle model
  - Tracks behavior of economies with large numbers of overlapping generations
  - Used to study future fiscal and demographic transitions
- Author of various columns and essays focusing on Social Security
Takeaways from Kotlikoff

- Trustees should focus on the infinite horizon rather than the 75 year projection
  - The 75 year projection only captures 42% of total system’s shortcomings
- $23 trillion fiscal gap measured over the infinite horizon
- Social Security is underfinanced by 32%
  - There needs to be an immediate and permanent 32% increase in payroll taxes
  - OR, an immediate and permanent 22% cut from benefits
- Social Security cannot be financed by other departments of government
  - Overall fiscal system is underfinanced by 58% ($210 trillion fiscal gap)
CASE STUDY: PUERTO RICO

- Disability Insurance Fraud

- Close to 40% of residents in Puerto Rico are on Disability Insurance
  - Rates are even higher when the residents’ parents have also been on Disability Insurance

- The Social Security Department has overpaid benefits to thousands of claims that has resulted in losses of millions of dollars
  - Man was receiving benefits for a mood disorder that prevented him from working ($108,233 received)
  - Doctors charged a $150-500 "patient" fee to falsely create documents for patients to receive disability benefits

- In 2011, 40 individuals were prosecuted, finding over $4 million in overpayments
WORKS CITED

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