

Social Security Technical Panel Concludes Trustees Assumption Reasonable

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Panel's specific recommendations would raise costs by 0.7 percent of payroll.

Every four years the Social Security Advisory Board – a bipartisan government *board* that advises Congress and the President on challenges facing the Social Security program – appoints a Technical Panel to assess the reasonableness of the methods and assumptions underlying the Trustees' long-term cost projections. I had the privilege to chair **the 2015 Technical Panel** over the past year. Each member of the Panel was a star, so the discussion was lively and the Panel produced tons of recommendations.

The recommendations, however, should not overshadow the Panel's primary response to its charge. The Panel concluded unequivocally that the methods and assumptions used by the Social Security actuaries and Trustees are reasonable.

Moreover, in the area of Social Security disability insurance (SSDI) – a program scheduled to exhaust its trust fund in 2016 – the Panel agrees with the actuaries that the factors that led to the secular rise in SSDI prevalence over the past three decades are not likely to recur. The secular rise has been

driven by increasing incidence (following the broader definition of disability introduced in the 1984 Congressional reforms), the aging of the large Baby Boom generation, and female insurance and incidence rates catching up to those of males. At this point, women have now nearly caught up to men, the Baby Boom is moving into retirement, and the percent of DI claims allowed has been declining since 2001. Indeed, in 2015 the SSDI program appears poised to notch its first year-over-year decline in the stock of beneficiaries in more than 30 years. This is important news.

That said, the Panel differed with the Trustees in a few key areas.

1. Mortality. While supporting the actuaries' approach to projecting mortality improvements based on age and cause of death, this Panel – like previous Technical Panels – concluded that the Trustees assumed too little improvement in mortality. The Panel's recommendation would result in a projected unisex life expectancy at age 65 in 2090 of 25.3 years, compared to 23.6 years in **the 2015 Trustees Report**. More rapid mortality improvement means that people are going to live longer and receive benefits over a longer period of time.
- Fertility. The Panel's intermediate fertility rate assumption is very close to the Trustees' – 1.9 rather than 2.0, but lowering this assumption has a noticeable impact. Lower fertility rates change the age distribution of the population, reducing the population at working ages relative to the elderly population.
- Immigration. The Panel would like to see the Social Security Administration and the Census Bureau work together to develop a more consistent set of immigration projections. The Trustees' current intermediate projections assume declining net immigration over time,

but the Panel believes that net immigration is more likely to rise. Immigration tends to occur at relatively young ages, so higher immigration levels increase the number of covered workers under Social Security and reduce the 75-year deficit.

- Interest rates and Inflation. The Panel recommended lowering the intermediate assumption for inflation (from 2.7 percent to 2.5 percent) and for the real interest rate (from 2.9 percent to 2.5 percent). A lower nominal interest rate, as a result of the reduction in inflation and the real interest rate, has a large impact on the 75-year deficit because future revenues and benefits would be discounted by a lower number.

On balance, the 75-year deficit would increase from 2.68 percent of taxable payroll in the 2015 Trustees Report to 3.42 percent if the Trustees adopted the Panel's assumptions. Is that a big deal? Think of it this way: the Panel pulled no punches, ignored the cost implications when making its recommendations, and the worst that it could do is to increase the long-run deficit by 0.7 percentage point. Which brings me back to my original comment. The actuaries' methods and assumptions are reasonable, and the Panel's recommendations are reasonable. Only time will tell which of us comes closer.