CONFERENCE OF CONSULTING ACTUARIES

CCA Annual Meeting 2026

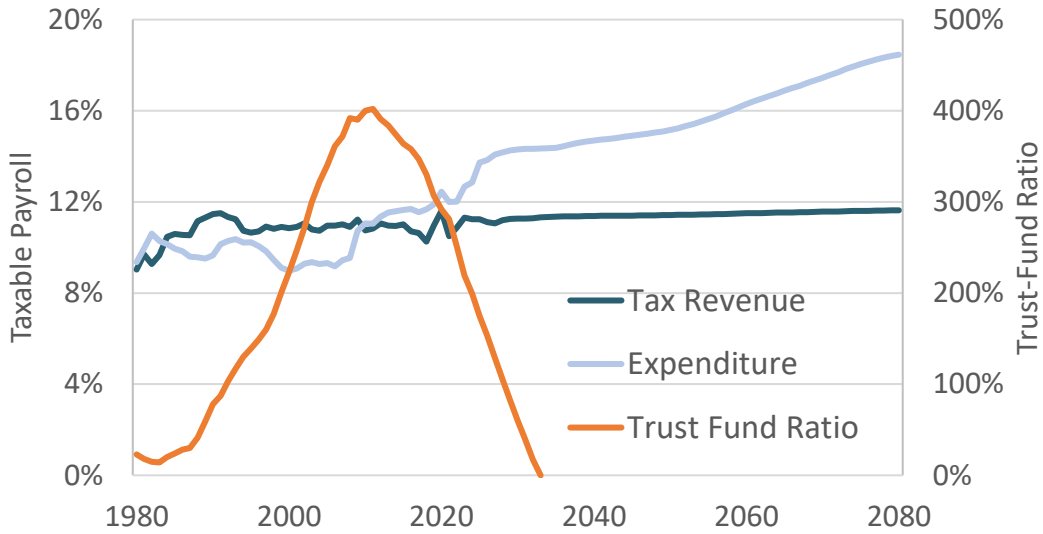
Perspectives on Social Security Reform

Richard Jackson
Global Aging Institute

A Widening Financial Imbalance

- Social Security OASI expenditures exceed earmarked tax revenues by a growing margin. The difference is currently covered by the OASI trust fund.
- Once the trust fund is depleted, which is currently projected to occur in 2032, annual OASI expenditures cannot, by law, exceed annual earmarked tax revenues.
- Absent reform, expenditures will have to be reduced by 22 percent, tax revenues increased by 28 percent, or some combination of the two. By 2100, the required benefit reduction would rise to 38 percent.

OASI Tax Revenue and Expenditure as a Percent of Taxable Payroll and Trust Fund Ratio,* History and Projection, 1980-2080



Source: SSA Office of the Actuary (2026)

* The trust fund ratio equals the trust fund balance as a percent of annual expenditures.

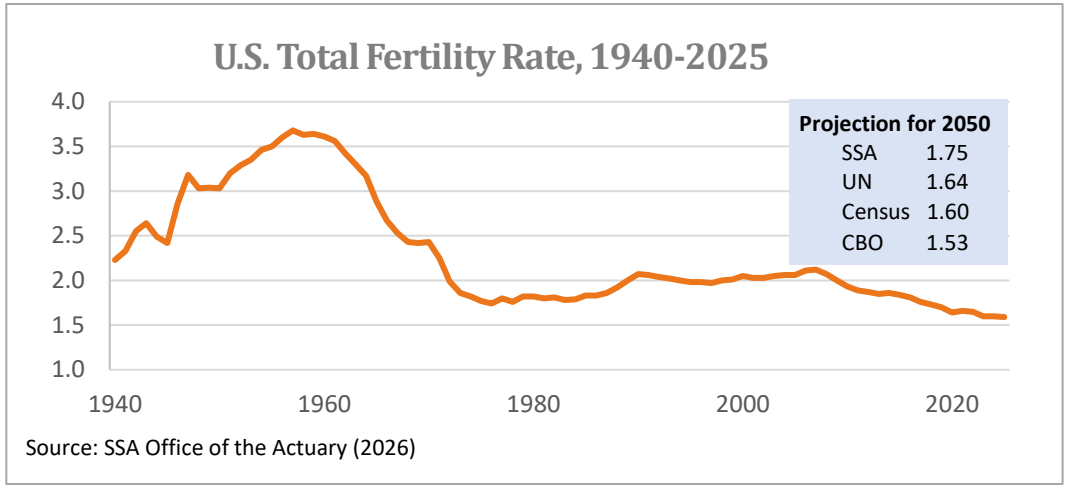
The End of Samuelson's Chain Letter

- In the early postwar decades most developed countries, including the United States, greatly expanded the generosity of their government retirement systems.
- At the time, rapid growth in both the workforce and wages made financing retirement benefits on a mainly PAYGO basis seem easily affordable.
- By the 1970s and 1980s, however, falling birthrates, rising life expectancy, and slowing economic growth began to throw into question the long-term sustainability of government retirement promises.
- At the same time, a vast improvement in the socioeconomic status of the elderly rendered what had originally been a strong social justification for subsidizing retirement less compelling.
- By now, most developed countries have shifted their focus from expanding the generosity of their government retirement systems to enacting reforms aimed at controlling their mounting cost.

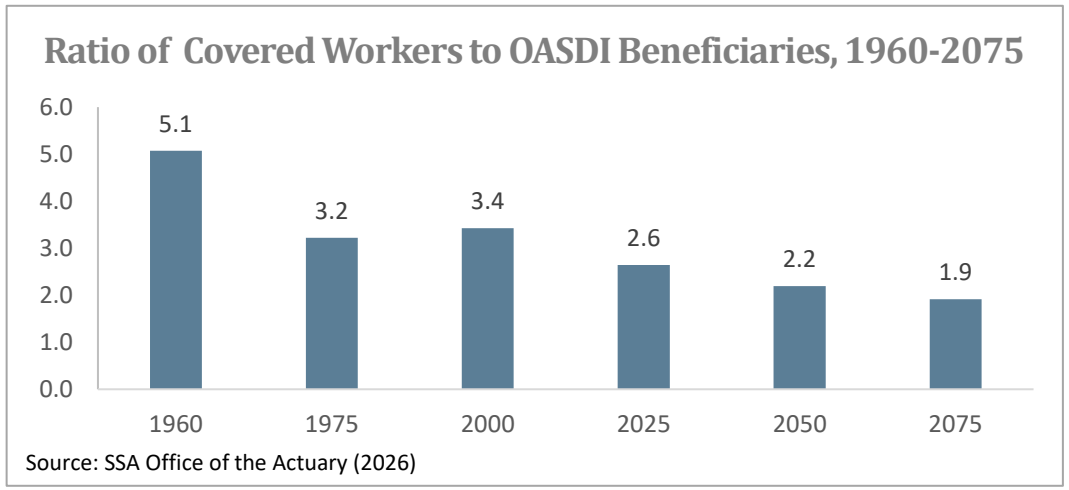
> "The beauty about social insurance is that it is *actuarially* unsound…Always there are more youths than old folks in a growing population. More important, with real incomes growing at 3 percent per year, the taxable base upon which benefits rest in any period is much greater than the taxes paid historically by the generation now retired… A growing nation is the greatest Ponzi game ever contrived."
>
> -- Paul A. Samuelson, *Newsweek* (February 13, 1967)

The New Demographic Realities

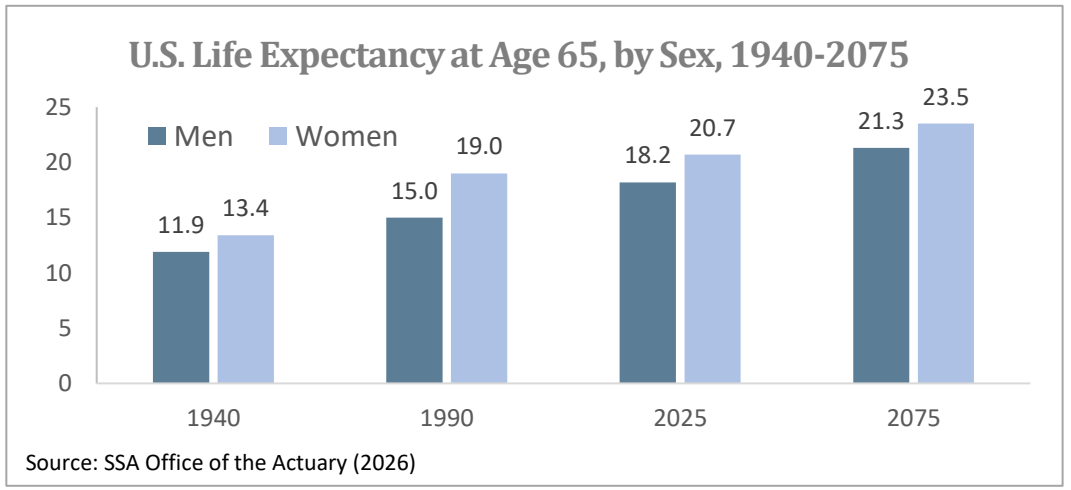
- Over time, falling fertility and rising life expectancy translate into a declining ratio of contributing workers to retired beneficiaries, and this in turn translates into a rising cost rate for PAYGO retirement systems like Social Security.



Source: SSA Office of the Actuary (2026)



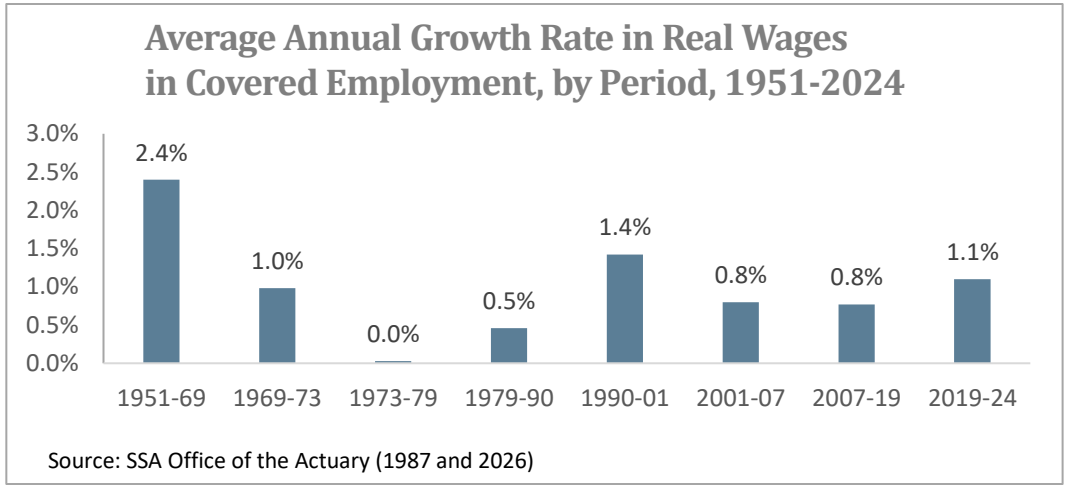
Source: SSA Office of the Actuary (2026)

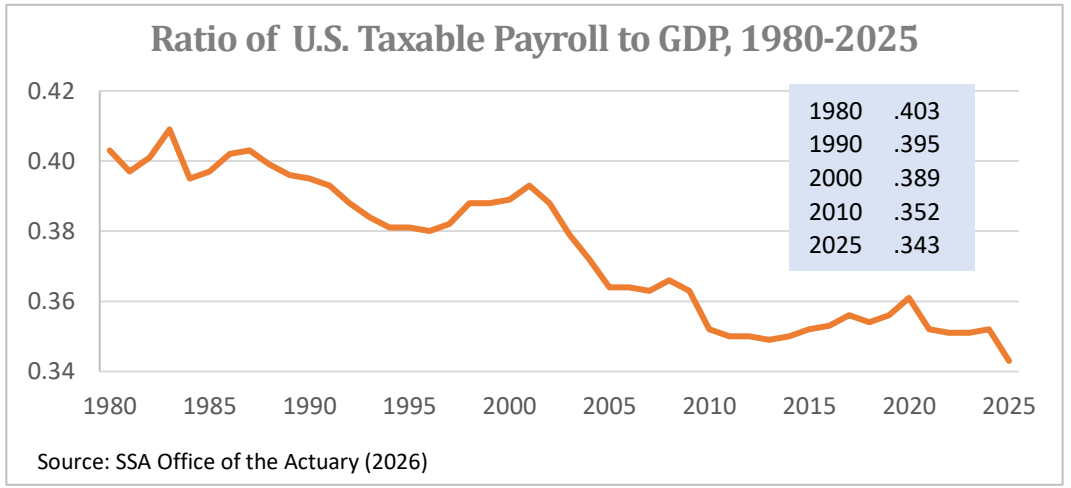


Source: SSA Office of the Actuary (2026)

The New Economic Realities

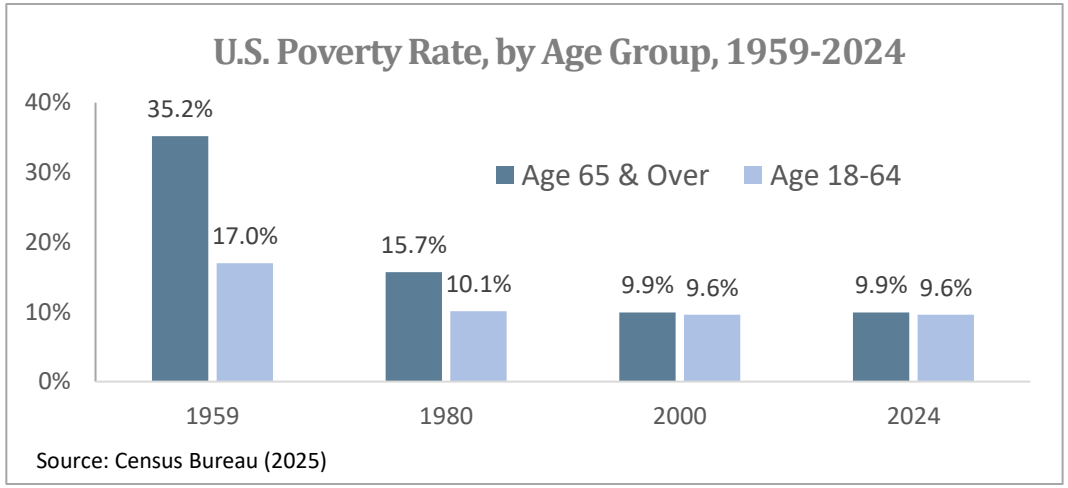
- Along with slower growth in the workforce, slower growth in wages has also contributed to slower growth in the payroll tax base on which benefits rest.
- Meanwhile, labor compensation has declined as a share of GDP, wages have declined as a share of compensation, and the share of wages subject to FICA taxes has declined as a share of total wages.

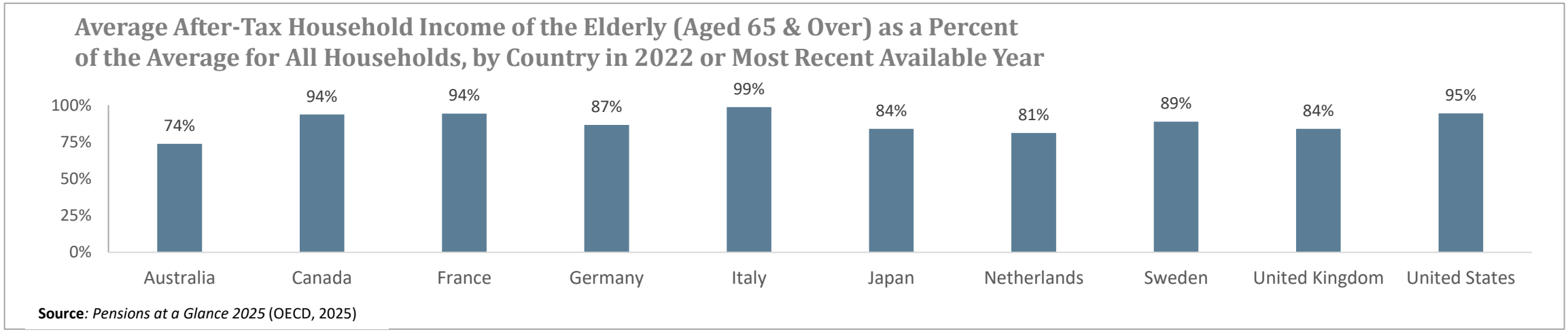




The Transformation of Old Age

- When today's government retirement systems were first put in place, the elderly not only had a much lower life expectancy and health expectancy than today, but also had much lower incomes and much higher poverty rates than younger adults.
- Today, elderly income approaches or equals the average for all households in most developed countries.





Three Reform Imperatives

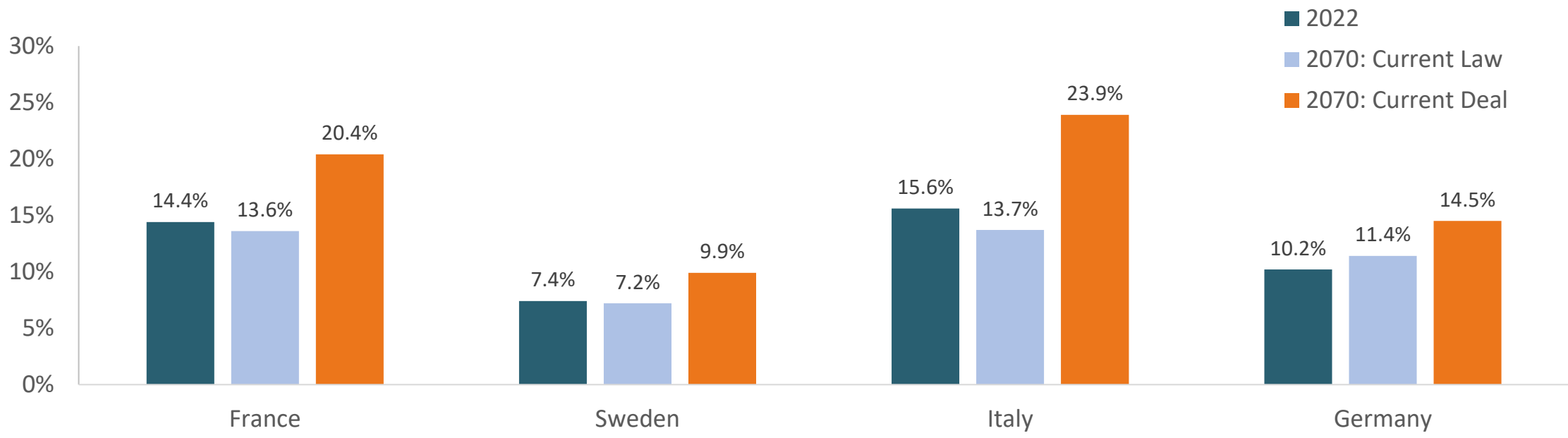
Ensure Social Security's Long-Term Sustainability

- Closing Social Security's financing gap will require some combination of increased revenues, higher eligibility ages, and reductions in benefit levels.
- Ensuring that the financing gap remains closed will also require adding automatic stabilizers to Social Security, something many developed countries have added to their government retirement systems:
  - Ten countries in the EU have indexed their full-benefit retirement ages to life expectancy.
  - A few countries, including Italy, Norway, and Sweden, are transitioning to NDC systems in which benefits are indexed to both life expectancy and the growth rate in taxable payroll, effectively stabilizing benefits as a share of GDP.
  - Germany and Japan have added stabilizers to their traditional DB systems that have much the same effect.

Automatic Stabilizers in the Swedish System

- The notional return on account balances equals average wage growth.
- Annuities are calculated based on cohort life expectancy at retirement.
- An "automatic balancing mechanism" adjusts indexation of annuities if the system drifts out of long-term actuarial balance.

Current Law vs. "Current Deal" in Four Developed Countries

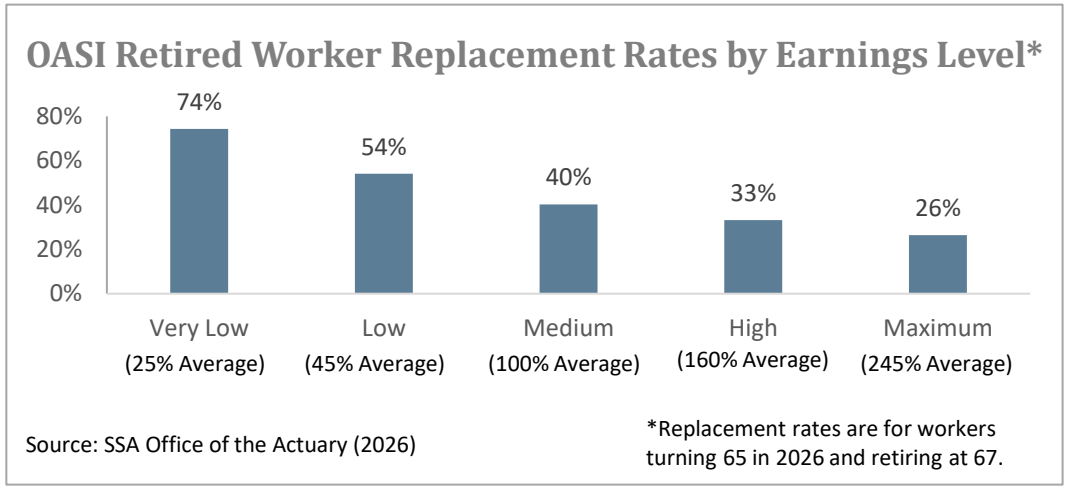


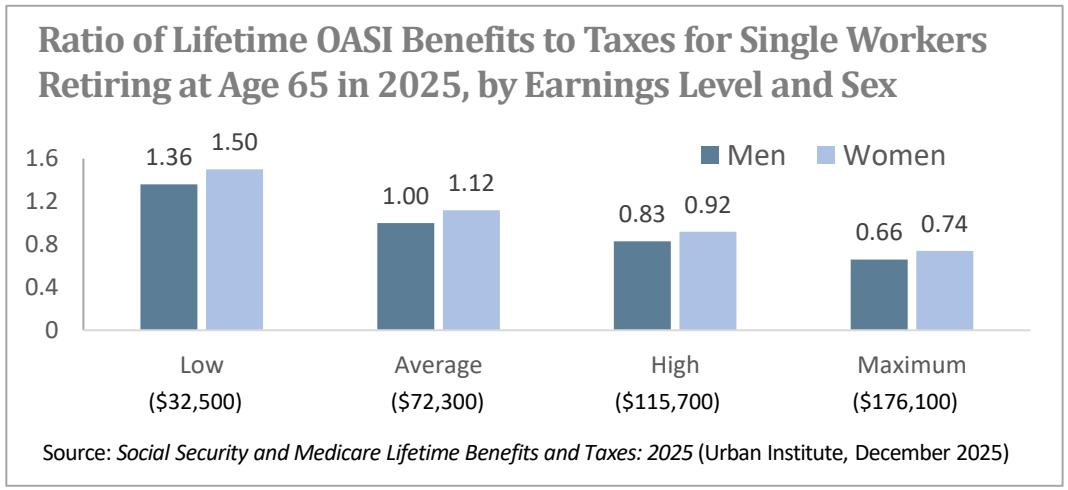
Source: *2024 Ageing Report* (EC, 2024)

* The "Current Deal" projection assumes no change in relative benefit levels, retirement ages, or labor-force participation rates.

Balance Adequacy and Equity

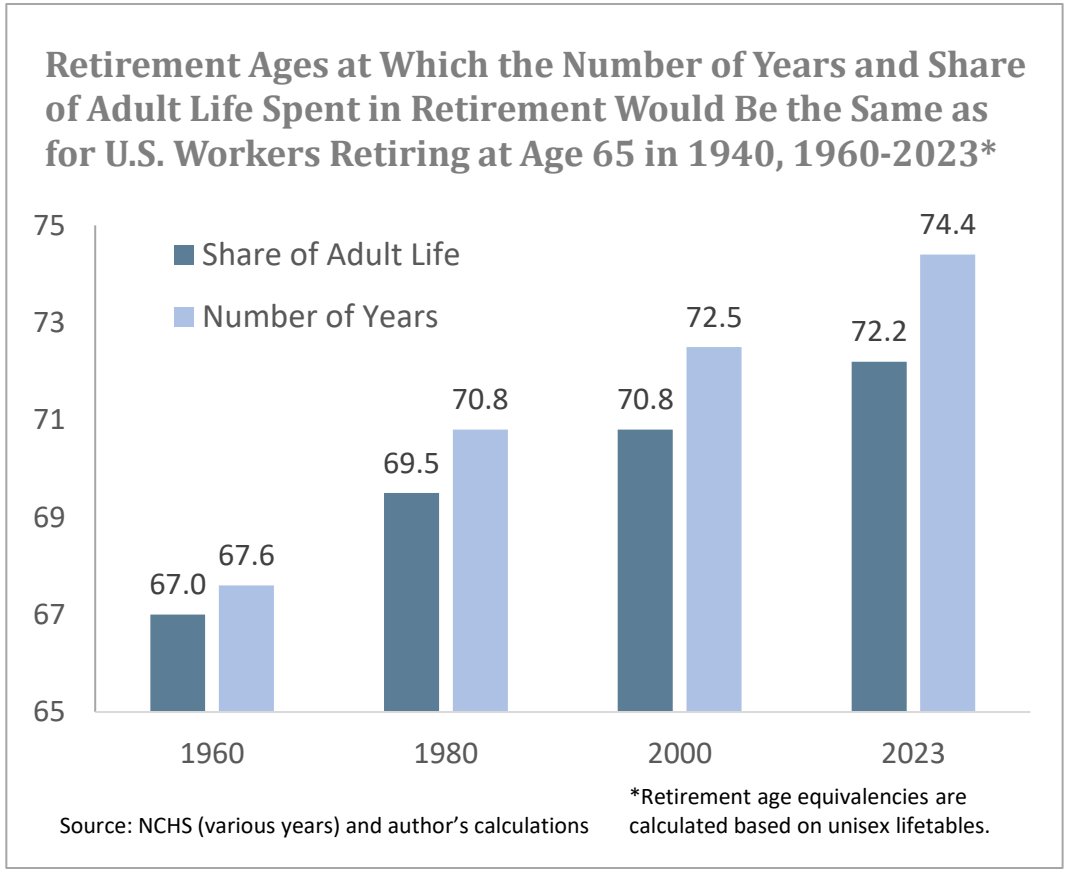
- While many developed countries handle the income replacement and poverty protection functions of the retirement system through separate programs, Social Security combines them both in a single program.
- Reform will need to maintain a balance between social adequacy and individual equity or risk undermining the widespread support that Social Security enjoys as a contributory program in which benefits received bear at least some relationship to contributions paid.





Align Social Security with the Needs of Our Aging Society

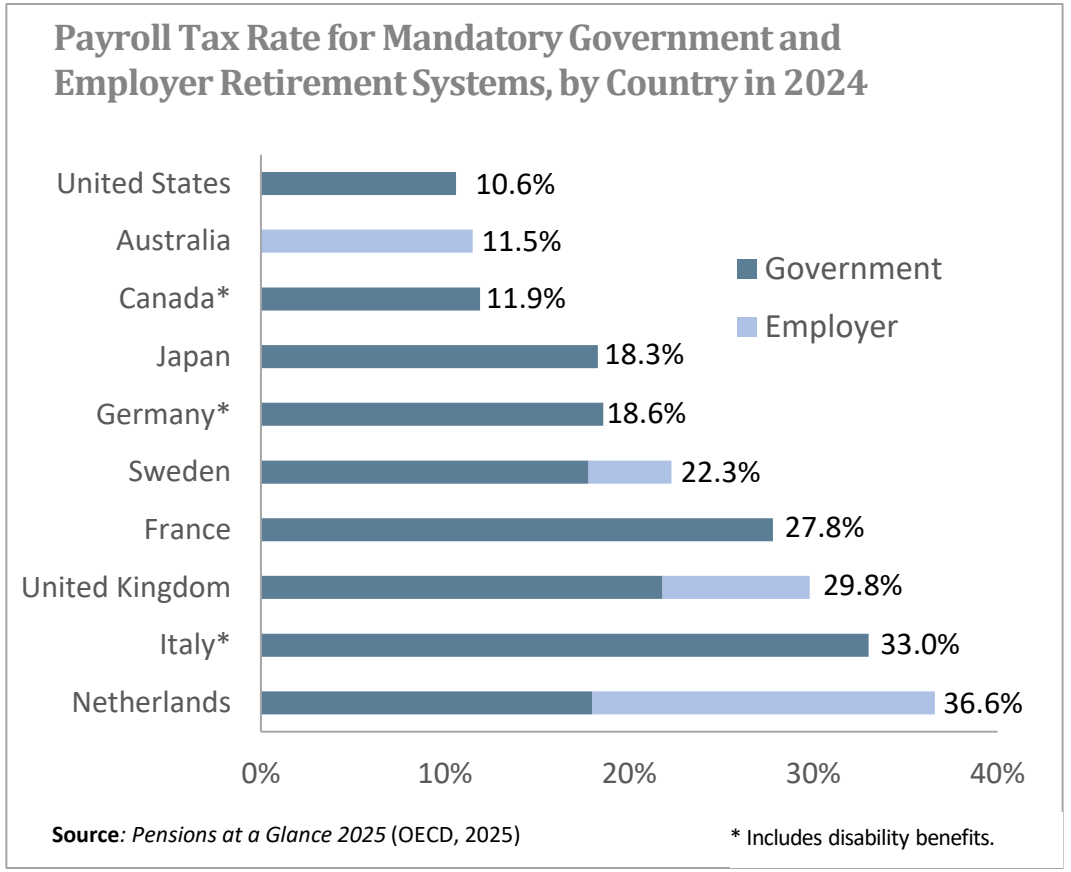
- Social Security's early retirement age of 62 has not been raised since it was introduced. And though its full-benefit retirement age has been raised from 65 to 67, it sill leaves retirees receiving many more years of benefits than originally envisioned.
- Whether or not retirement ages are raised, incentives to work at older ages should be strengthened. Possible steps include increasing the number of years of earnings counted in Social Security's initial benefit formula, continuing to pay delayed retirement credits past age 70, and reducing FICA tax rates for workers who have reached the full-benefit retirement age.



U.S. Advantages and Disadvantages

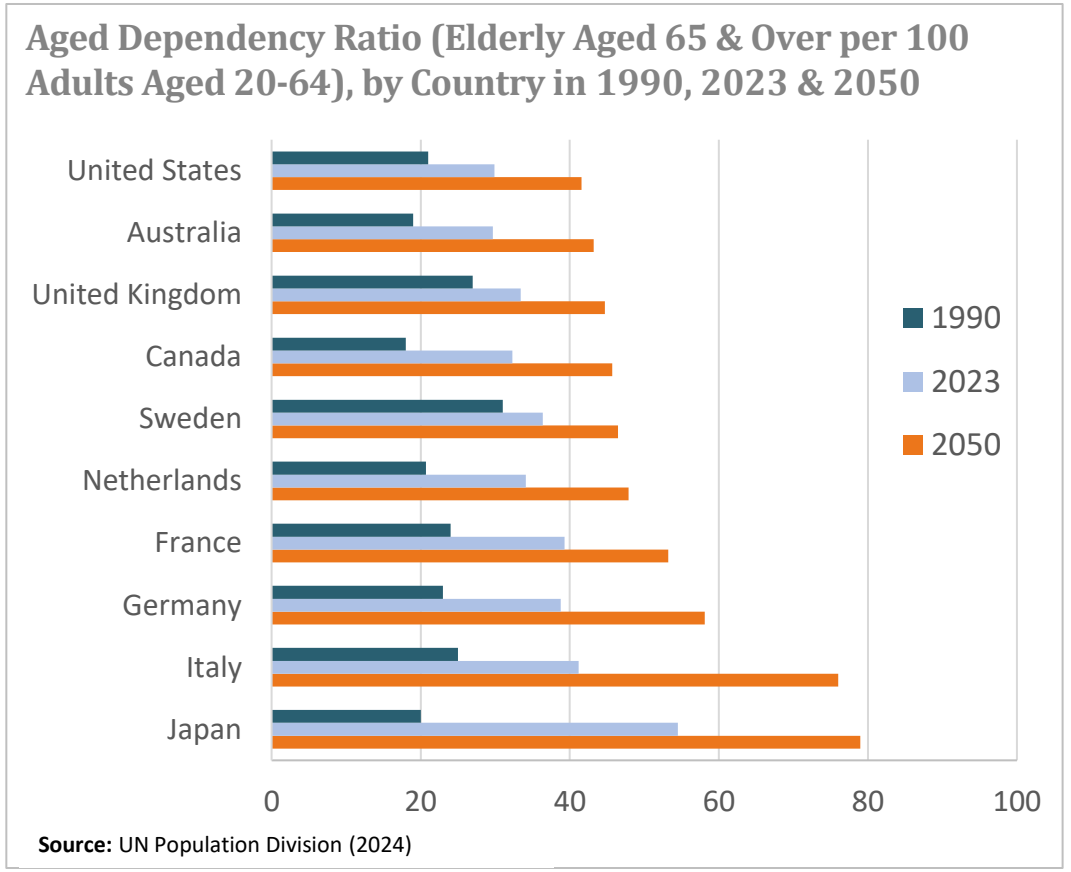
U.S. Advantage: A Less Costly Retirement System

- Although Social Security faces a serious financing shortfall, it is less costly than government retirement systems in most developed countries.
- As a result, the United States still has room to increase payroll tax rates. Most developed countries do not, which means that the entire adjustment to population aging must come through higher eligibility ages or lower benefit levels.



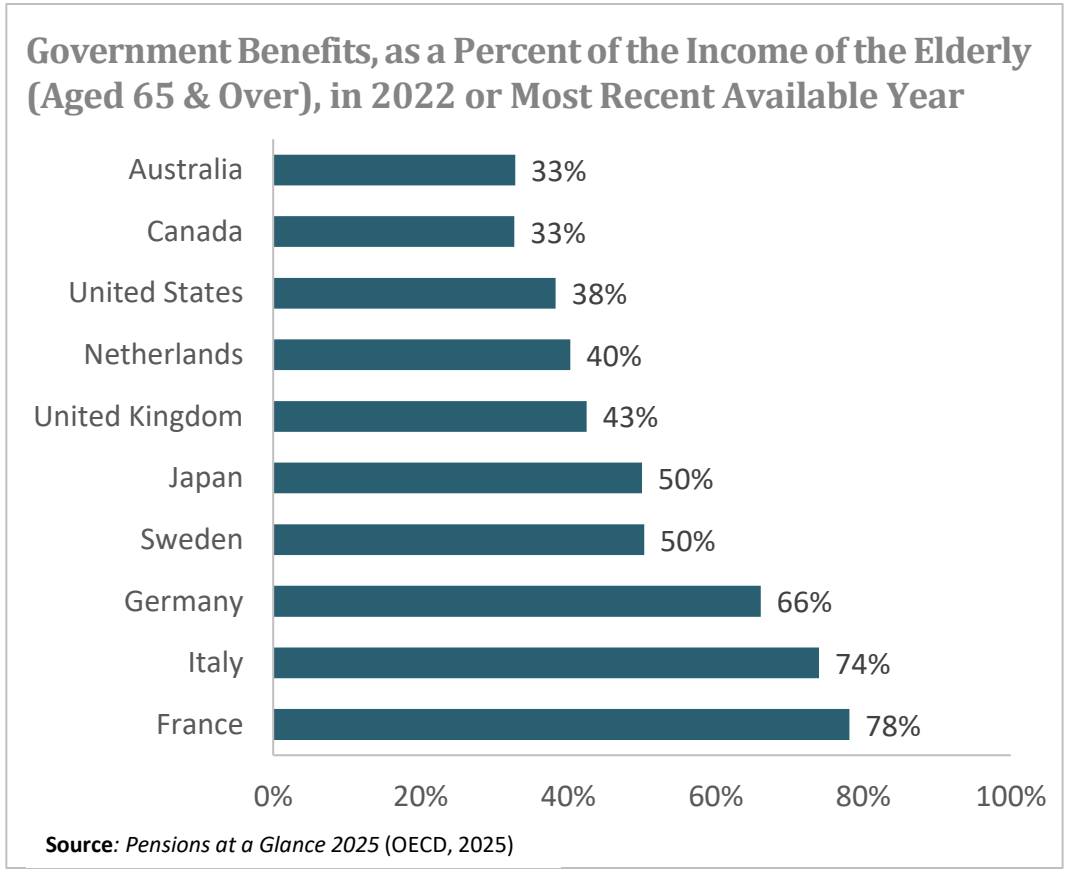
U.S. Advantage: A Slower Aging Population

- Social Security is not only less costly than government retirement systems in most developed countries, the U.S. population is projected to age considerably less than populations in many of them.



U.S. Advantage: A Lower Level of Benefit Dependence

- Given the high level of elderly dependence on government benefits in many developed countries, scheduled reductions in benefit levels could result in deep reductions in the relative living standard of the elderly.
- The relatively low level of benefit dependence in the United States means that any given percentage reduction in Social Security benefits will have a smaller effect on elderly living standards than an equivalent reduction in a Germany, Italy, or France.



Paradoxes of Social Security Reform

- Despite the many advantages the United States enjoys, Social Security reform faces formidable obstacles.
- Although the Social Security trust fund is meant to enforce fiscal discipline, it invites accounting gimmickry that can substitute for meaningful reform.
- Reforms to government retirement systems (like Social Security) that are dressed up in the contractual language of "entitlements" and "earned rights" may face more political resistance than reforms to systems (like most European ones) that are based on "social contracts."
- The United States may spend less on its government retirement system than most developed countries, but it spends much more on health care for the elderly—and what matters fiscally and economically is the total resource transfer from young to old.

