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Commentary

BUFFIN PARTNERS INC. ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

Social Security: New Topics for Consideration Children; Immigration; and Improved Solvency

Recently published reports from the National Academy of Social Insurance (NASI) and the Social Security Trustees have provided new insights and information on three topics that have now become the focus of increased attention. NASI has published an important Social Security Issue Brief *Children's Stake in Social Security* that presents the results of research showing the importance of Social Security to children. The Trustees have published their 2008 Social Security Report that contains significant results showing a dramatic improvement in the extent of the actuarial solvency of the program and discloses details of new methodology to quantify more accurately the effect of immigration on the financial condition of the system.

According to the NASI Issue Brief: "About 6.5 million children under age 18, (nearly 9 percent of all U.S. children), received part of their family income from Social Security in 2005. They include 3.1 million children who receive benefits as dependents of deceased, disabled, or retired workers and about 3.4 million children who do not themselves receive Social Security but live with relatives who do." NASI emphasizes that Social Security is the most widespread form of life insurance for American families; that about 96 percent of all U.S. jobs are covered by Social Security; about 97 percent of covered workers ages 20-49 have survivor protection; and about 91 percent of covered workers ages 21-64 are insured against disability. Social Security is particularly important to children in poor families with income below 125 percent of the poverty line and to minority families. Although the means-tested Temporary Assistance for Needy Families (TANF) program that replaced the Aid to Families with Dependent Children (AFDC) in 1996 is widely recognized for providing income security to needy families, the number of children receiving benefits has declined from 9.2 million under AFDC in 1995 to 3.8 million under TANF in 2005, representing a decline of 59 percent. The number of children who receive part of their family income from Social Security (6.5 million) is greater than the number of children receiving TANF by about 71 percent.

The 2008 Social Security Trustees' Report contains a vast amount of financial and actuarial information regarding the current and projected status of the program. The main projections are made for a period of 75 years and are based on a set of deterministic "intermediate" actuarial, demographic and economic assumptions. The projected 75-year actuarial deficit has fallen from 1.95% of taxable payroll last year to 1.70% this year based on the intermediate assumptions and the maintenance of a minimum amount for the trust fund sufficient to pay one year's scheduled benefits and expenses at the end of the projection period. However, although this deficit rate typically increases by about 0.06% simply due to the 76th-year-effect as it becomes part of the 75-year projection, this year we are witnessing an exceptional deficit reduction of 0.32% attributable to "methods and programmatic data" that is explained as being based mainly on improvements in the methodology used to project the effect of immigration. The report states: "This year's report results in a much larger other-immigrant population projected at working ages and a smaller number remaining in the Social Security area into old age. This change, along with the additional births due to the larger other-immigrant population at younger ages, results in a substantial increase in the number of working-age individuals contributing payroll taxes, but a relatively smaller increase in the number of retirement-age individuals receiving benefits in the latter half of the long-range period. This revision results in an improvement in the long-range actuarial balance of about 0.30 percent of taxable payroll." This means that previous years' deficits have been overstated due to underestimating the positive effect of immigration on the projection calculations.

The technical experts at the Social Security Administration are to be thanked and congratulated for their fine work and the development of continuous improvements in the methodology that is applied to the complex projection models that are used to quantify the likely future financial condition of Social Security, particularly as these projections and the various metrics that result from them are widely used to assess the financial soundness, actuarial solvency and indeed, the sustainability of the system in its present form. From time to time we have an opportunity to discuss these topics with our professional colleagues and we conclude this edition of *Commentary* with the following thought that we recently suggested to our colleagues: "The future financial position of Social Security needs constant monitoring to ensure that scheduled benefits are adequately financed and affordable in terms of the nation's financial priorities." We believe the system is sustainable in its present form and that the affordability of its future projected costs is simply a matter of assessing the nation's financial priorities.

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