Context for News from the Social Security Trustees Report

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Dirksen Senate Office Building
Room 608
Overview

- Benefits are modest, yet essential
- Social Security is efficient, affordable
- Benefits are already being cut more than most realize
- Disability insurance needs attention by 2023
- Retirement security crisis looming for many workers
- Inequality is hurting Social Security’s finances
- Social Security contribution structure could be updated
- Americans willing to pay more, if needed
Benefits are modest, yet essential

- Average retiree received $1,344 in January, 2016
- Benefits lifted 21.4 million out of poverty in 2014:
  - 14.5 million seniors
- Main source of income for most seniors
Shares of Income from Specified Sources by Income Level, 2014
Married Couples and Unmarried Persons Age 65 and Older

- **Lowest fifth:** Up to $13,500
  - Social Security, 61%
  - Pensions, 18%
  - Earnings, 13%
  - Other, 4%

- **Second fifth:** Up to $23,590
  - Social Security, 81%

- **Middle fifth:** Up to $39,300
  - Social Security, 61%
  - Pensions, 18%
  - Earnings, 13%

- **Next to highest fifth:** Up to $72,130
  - Social Security, 39%
  - Pensions, 26%
  - Earnings, 24%

- **Top fifth:** $72,130 +
  - Social Security, 45%
  - Pensions, 22%

Social Security is efficient

- Less than 1 penny of every dollar spent is for administration
- The rest goes to beneficiaries
- No leakage
- Optimal decumulation
- Pools risk so benefits grow with need
Social Security remains affordable

Social Security Outgo as a Percent of the Economy (GDP), 2010-2090

Source: Board of Trustees, 2016: Table VI.G4.
Benefits are already being cut by laws enacted in 1983 and 1993

<table>
<thead>
<tr>
<th>Measure</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Increase retirement age from 65 to 67</td>
<td>-13.3%</td>
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<td>Tax a growing share of benefits (with funds to Social Security and Medicare)</td>
<td>-9.5%</td>
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<td>Delay the cost-of-living adjustment by 1/2 year</td>
<td>-1.4%</td>
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<td><strong>Total Benefit Reduction:</strong></td>
<td><strong>-24.2%</strong></td>
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(Change in net retirement benefits by 2050)
Disability Insurance (DI) is essential protection

- Insures workers and families for wage loss due to career-ending disability
- Average disabled worker benefit is $1,166 a month (Jan. 2016)
- Workers and families rely heavily on it
- Action needed by 2023 to preserve benefits
- DI contribution rate recently adjusted by Bipartisan Budget Act of 2015
  - 2000-2015: 0.9% to DI; 5.3% to OASI
  - 2016-2018: 1.185% to DI; 5.015% to OASI
  - 2019 onward: reverts to 0.9% to DI; 5.3% to OASI
Retirement security crisis looming for many workers

- Defined benefit pensions disappearing
- 401(k)-style plans serving only top third well
- Decades of slow and unequal wage growth make it hard for most workers to save
- Median African-American HH 47-64 has $10,300 in pension/IRA wealth; Median Latino HH has zero
- Achieving retirement income adequacy for low- and middle-income workers may require Social Security benefit expansion
Inequality hurting Social Security’s finances

- As wage inequality has risen, an increasing share of earnings has escaped Social Security taxation:

- If wages had grown at the long-term rate of productivity, the increase in net assets would have reduced the trust funds’ projected shortfall by about 6.8% (Vallas/Weller/West/Odum, 2015)
Social Security contribution structure could be updated

- Had 90% of covered wages been taxed since 1983, as the 1977 Amendments intended, the OASDI trust funds would have been $1.1 trillion larger by 2013, shrinking 75-year shortfall by 10.1%
- Social Security’s contribution structure could be updated to reflect changes in wage structure since 1970s
- Eliminating the tax cap today, and crediting earnings above current cap toward benefits with new 3% formula factor, would eliminate about 81% of projected 75-year shortfall
Percent agreeing to have workers pay more, if needed

Percent Agreeing: *It is critical that we preserve Social Security for future generations, even if it means increasing working Americans’ contributions to Social Security taxes.*

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<thead>
<tr>
<th></th>
<th>Total</th>
<th>Republican</th>
<th>Democrat</th>
<th>Independent</th>
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<tbody>
<tr>
<td>Percent</td>
<td>82%</td>
<td>74%</td>
<td>88%</td>
<td>83%</td>
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<tr>
<td>Source</td>
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For further information:

National Academy of Social Insurance

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