

Context for News from the Social Security Trustees Report

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June 23, 2016

Dirksen Senate Office Building
Room 608

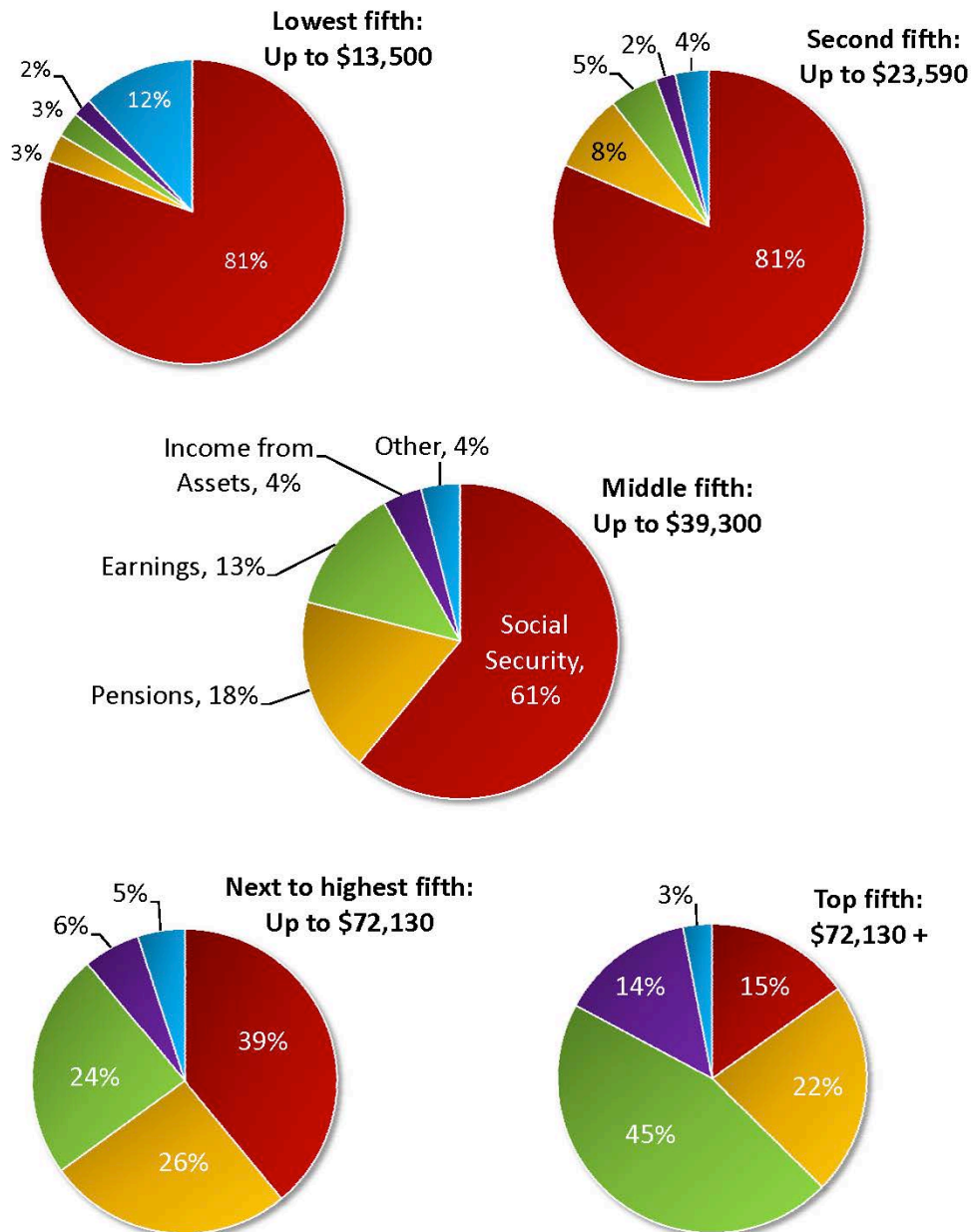
Overview

- 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



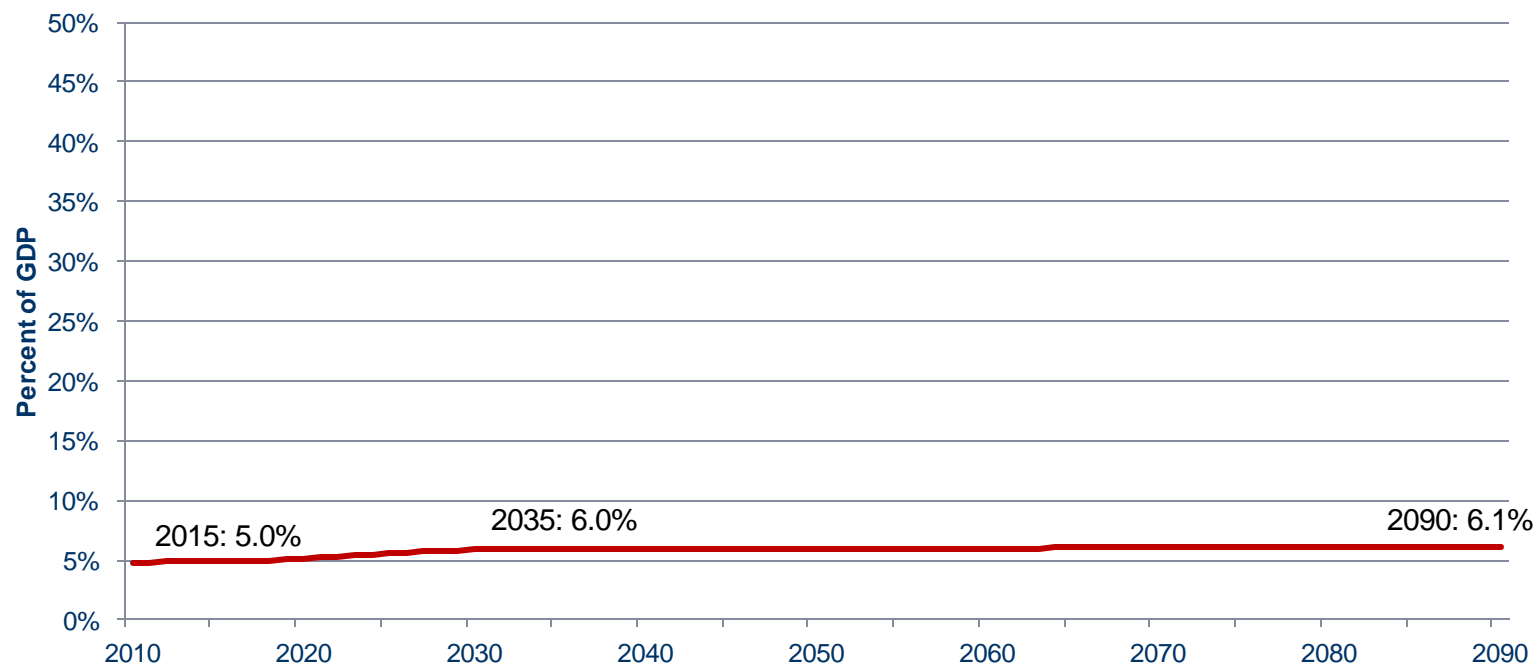
Source: Social Security Administration, *Income of the Population 55 or Older, 2014*. 2016.

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

| | |
|---|---------------|
| Increase retirement age from 65 to 67 | -13.3% |
| Tax a growing share of benefits (with funds to Social Security and Medicare) | - 9.5% |
| Delay the cost-of-living adjustment by ½ year | - 1.4% |
| Total Benefit Reduction: | -24.2% |

(Change in net retirement benefits by 2050)

Disability Insurance (DI) is essential protection

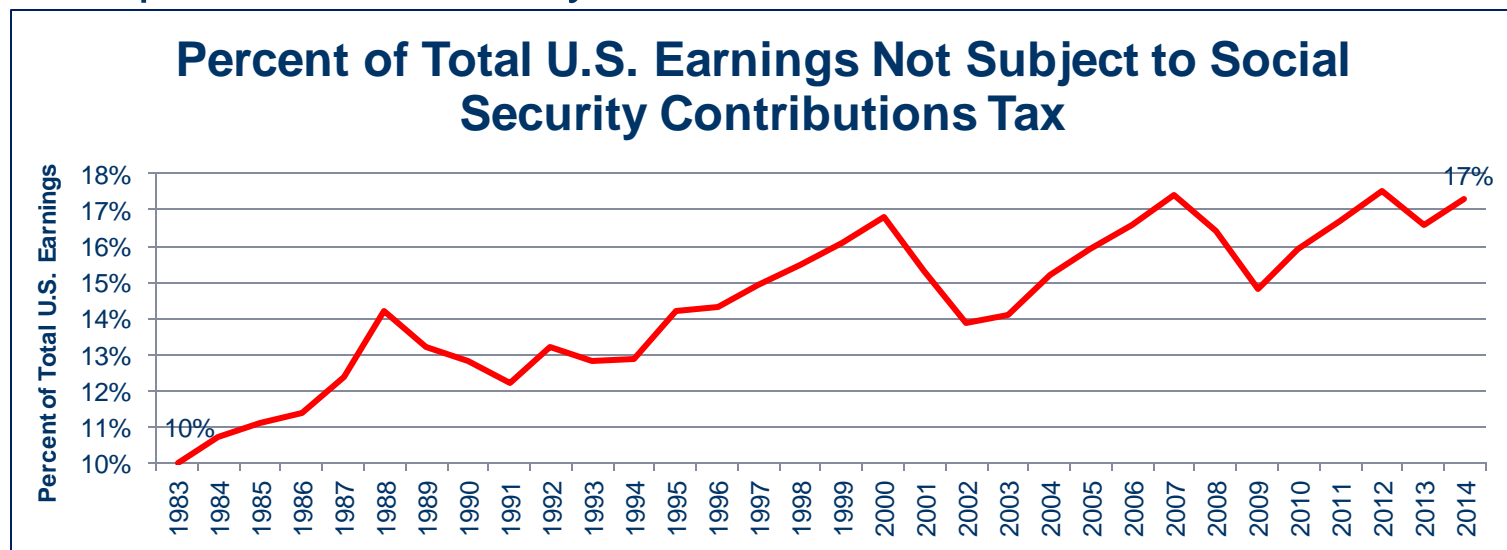
- Insures workers and families for wage loss due to career-ending disability
- Average disabled worker benefit is \$1,166 a month (Jan. 2016)
- Workers and families rely heavily on it
- Action needed by 2023 to preserve benefits
- DI contribution rate recently adjusted by Bipartisan Budget Act of 2015
- New allocation through 2018
 - 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:



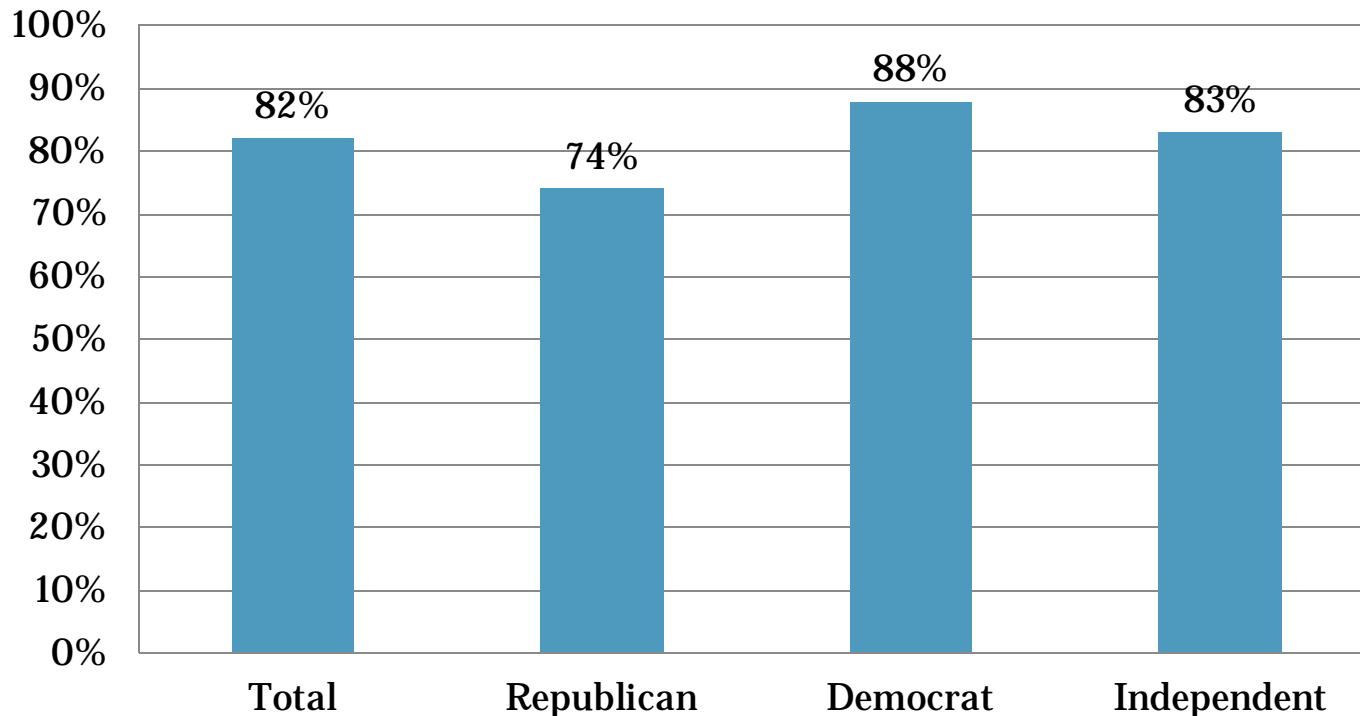
- If wages had grown at the long-term rate of productivity, the increase in net assets would have reduced the trust funds' projected shortfall by about 6.8% (Vallas/Weller/West/Odum, 2015)

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.*



For further information:

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