

PRINCIPLES OF SOCIAL SECURITY

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AMERICAN ACADEMY OF ACTUARIES

November 7, 2018

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Conflicting Principles

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Individual Equity

- ❑ Basing benefit on a worker's earning history and contributions
- ❑ Equal contributions as a percent of covered earnings
- ❑ Universality – nearly everyone contributes and nearly everyone receives benefits
- ❑ Earned Right – entitled to a benefit based on work history

Social Adequacy

- ❑ Basing benefit on a worker's deemed financial need
- ❑ Benefits favor lower wage earners as a percentage of covered earnings
- ❑ Provides additional benefits such as disability, spouse and survivor benefits

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Measuring Individual Equity

- Compared ***Money's Worth Ratios*** under current law to those under a proposal
 - A ***Money's Worth Ratio*** is calculated as the discounted value of benefits at commencement age divided by the accumulated value of payroll taxes at commencement age
 - A value of one means that the value of benefits is equal to the value of taxes at commencement age



Measuring Social Adequacy

- Social Adequacy – Compared Social Security benefits under both current law and proposals to certain measures of income and poverty

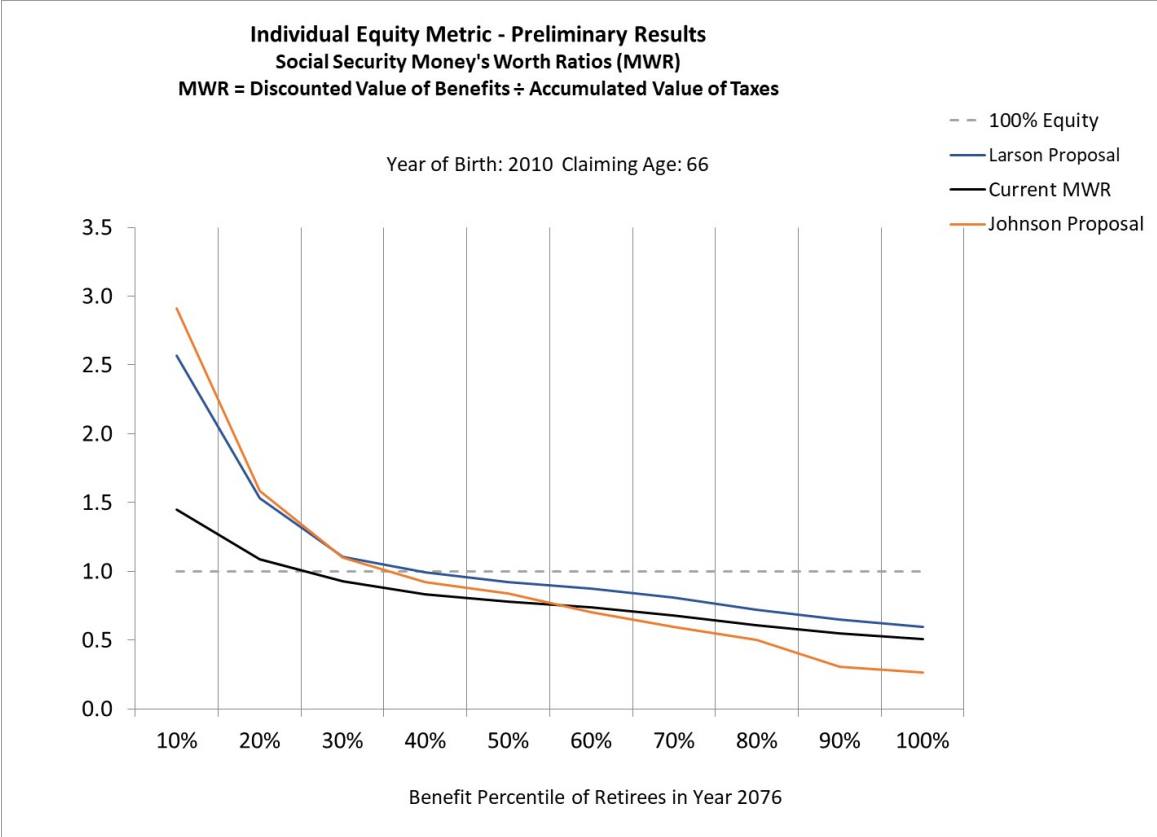


Proposals Measured

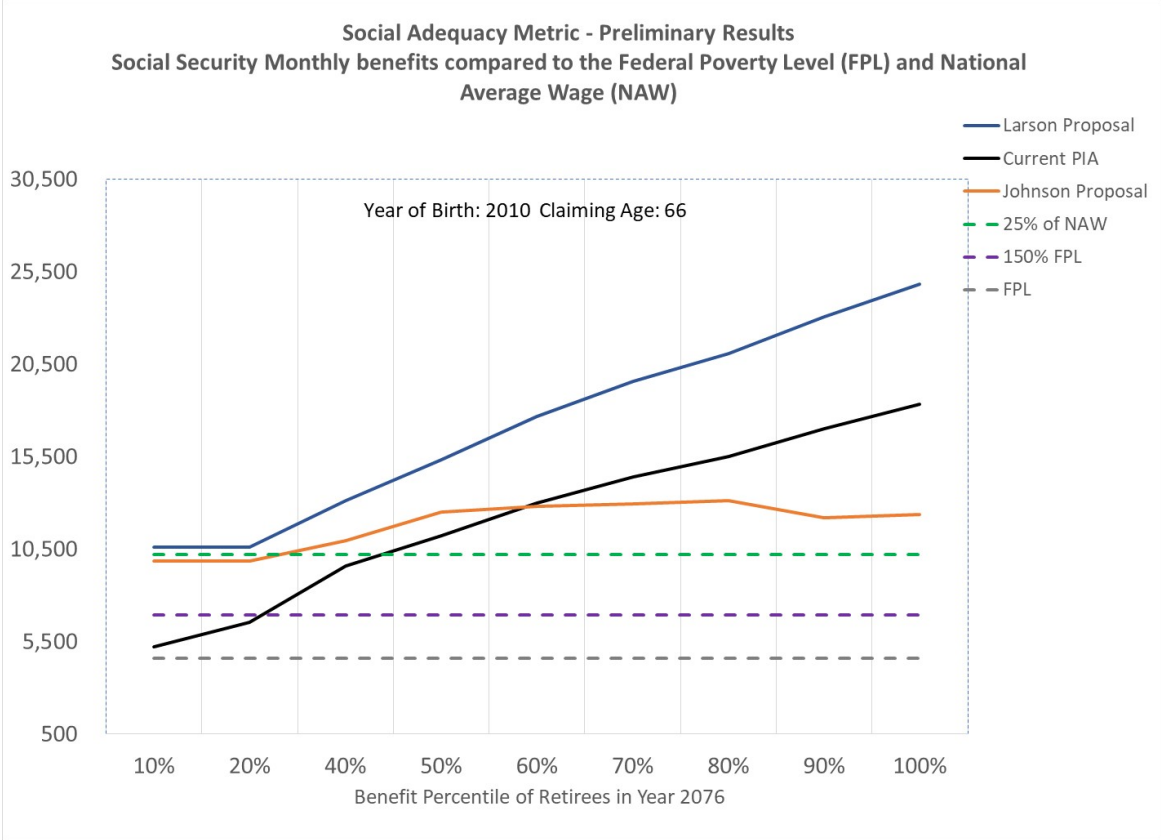
- Republican Sam Johnson Proposal – December 2016 – reforms weighted toward reductions in benefits
- Democrat John Larson – April 2017 - reforms weighted toward increases in revenue to the Trust Fund



Example of Individual Equity Metric



Example of Social Adequacy Metric



Impact of Reforms vs. Current Law

Henry Aaron Proposal - Revenue Increases	Individual Equity (IE) v. Social Adequacy (SA)
Increase payroll tax rates in 2060 and 2080	⬆️ SA
Gradually Increase the maximum taxable wage base to cover 90% of earnings for both contributions and benefits	⬆️ IE ⬆️ SA
Cover income currently exempt from FICA taxes such as 401(k) plan contributions and medical insurance premiums	⬆️ SA
Cover currently excluded state and local government employees	⬆️ IE ⬆️ SA
Dedicate estate and gift taxes at the 2017 levels to Social Security	⬇️ IE ⬆️ SA

Impact of Reforms vs. Current Law

Henry Aaron Proposal – Benefit Reforms	Individual Equity (IE) v. Social Adequacy (SA)
Change progressivity of benefit formula to raise replacement ratios at low earnings and lower replacement ratios above \$100,000	↓ IE ↑ SA
Increase benefits to long-term low-income beneficiaries	↓ IE ↑ SA
Increase the special minimum benefit	↓ IE ↑ SA
Provide childcare drop-out years	↓ IE ↑ SA
Cap and price-index spouse benefits	↑ IE ↓ SA
Lift age limit on child dependents who are in school	↑ SA

Projected Impact of Delay

Actuarial Balance could be achieved:

- In **2018**, by:
 - increasing payroll tax from 12.40% to 15.18%; or
 - decreasing benefits, across the board by 17%
- In **2034**, by:
 - increasing payroll tax from 12.40% to 16.27%; or
 - decreasing benefits by 23%

If raising FICA tax rates or cutting benefits were the only possible reform options, it's clear that delaying action results in greater impact.



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