PRINCIPLES OF SOCIAL SECURITY

NATIONAL ACADEMY OF SOCIAL INSURANCE
POLICY ROADSHOW- ANN ARBOR, MICHIGAN

JANET BARR
AMERICAN ACADEMY OF ACTUARIES

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- The AAA assists public policymakers on all levels by providing thought leadership, objective expertise, and actuarial advice on risk and financial security issues
- The AAA also sets qualification, practice, and professionalism standards for actuaries in the U. S.
## Conflicting Principles

### 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
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

Individual Equity Metric - Preliminary Results
Social Security Money’s Worth Ratios (MWR)
MWR = Discounted Value of Benefits ÷ Accumulated Value of Taxes

Year of Birth: 2010 Claiming Age: 66

- 100% Equity
- Larson Proposal
- Current MWR
- Johnson Proposal
Example of Social Adequacy Metric
## Impact of Reforms vs. Current Law

### Henry Aaron Proposal - Revenue Increases

<table>
<thead>
<tr>
<th>Individual Equity (IE) v. Social Adequacy (SA)</th>
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<tbody>
<tr>
<td><strong>Increase payroll tax rates in 2060 and 2080</strong></td>
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<tr>
<td><strong>Gradually Increase the maximum taxable wage base to cover 90% of earnings for both contributions and benefits</strong></td>
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<tr>
<td><strong>Cover income currently exempt from FICA taxes such as 401(k) plan contributions and medical insurance premiums</strong></td>
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<tr>
<td><strong>Cover currently excluded state and local government employees</strong></td>
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<tr>
<td><strong>Dedicate estate and gift taxes at the 2017 levels to Social Security</strong></td>
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## Impact of Reforms vs. Current Law

### Henry Aaron Proposal – Benefit Reforms

| Change progressivity of benefit formula to raise replacement ratios at low earnings and lower replacement ratios above $100,000 | Individual Equity (IE) v. Social Adequacy (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.*