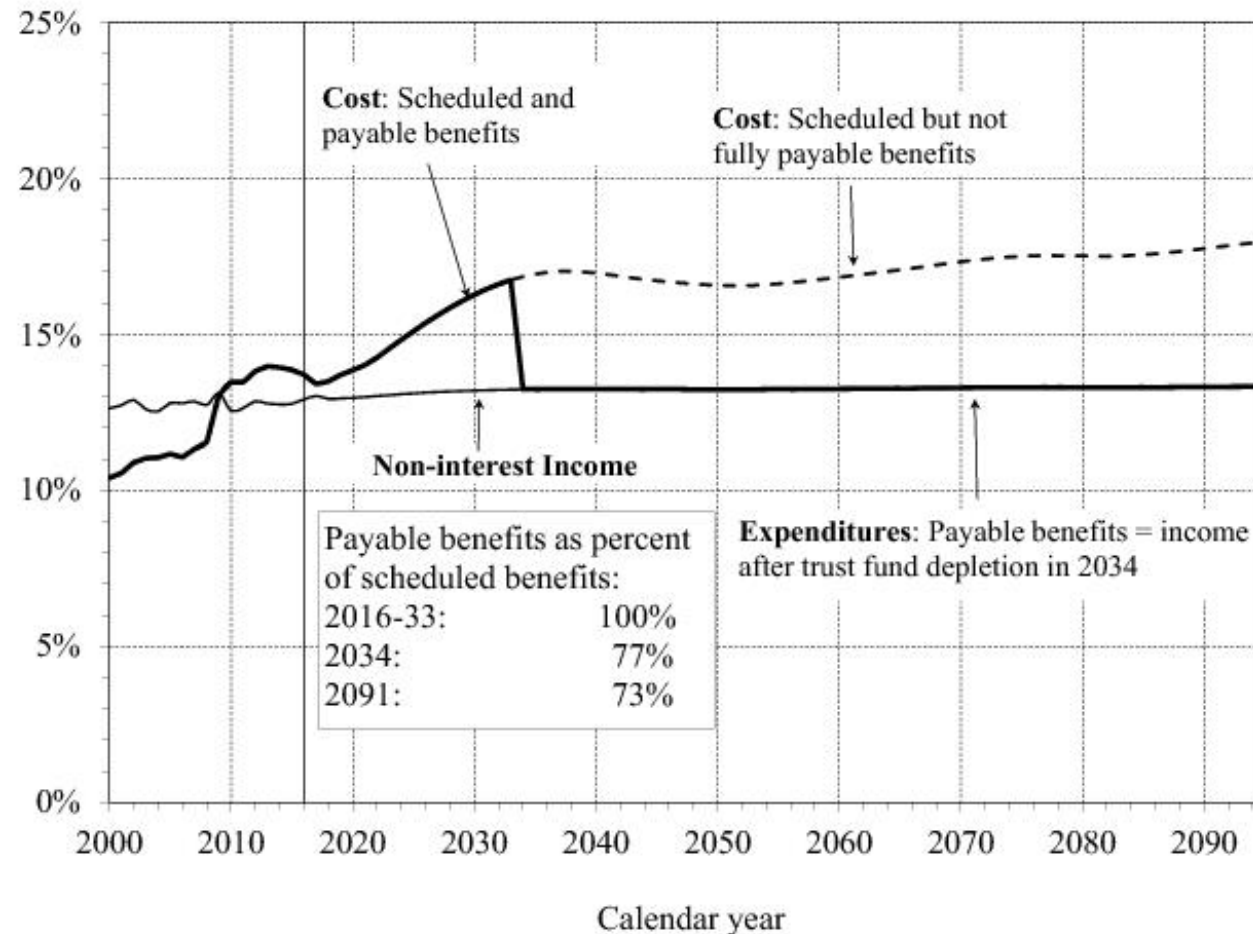


# The Future of Social Security

Peter Diamond  
NASI and AARP  
October 19, 2017

# OASDI Income, Cost, and Expenditures as Percentages of Taxable Payroll

[Under Intermediate Assumptions]



Source: Figure II.D2. *The 2017 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*. 2017. Social Security Administration.

# History

1977 legislation

1983 Greenspan Commission and legislation

1994-6 Advisory Council report but no legislation

2001, 2010 Commissions but no legislation

# Issues

Legislation before 2034

Borrowing by Social Security

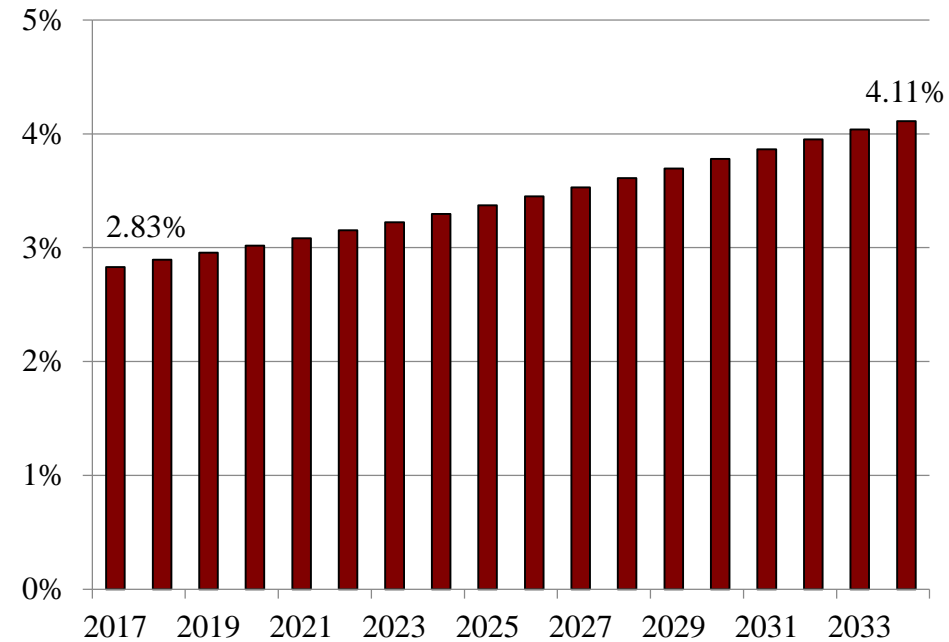
COLA for benefits in payment

# Actuarial balance in Trustees Reports after 1982 overindexing

• Report	TF ratio 4 years ahead	75-year actuarial balance
• 1973	.76	-0.32
• 1974	.51/.48*	-2.98
• 1975	.24	-5.32
• 1976	.21	-7.96
• 1977	.09	-8.20

\* two projections

# 75- year Actuarial Deficit 2017 – 2034 (projected from 2017 Trustees Report)



*Source:* Data from Social Security Administration OCACT; Social Security Administration Trustees Report (2017)

# After 1977 legislation introducing automatic wage indexing for initial benefits

75-year deficit reduced:

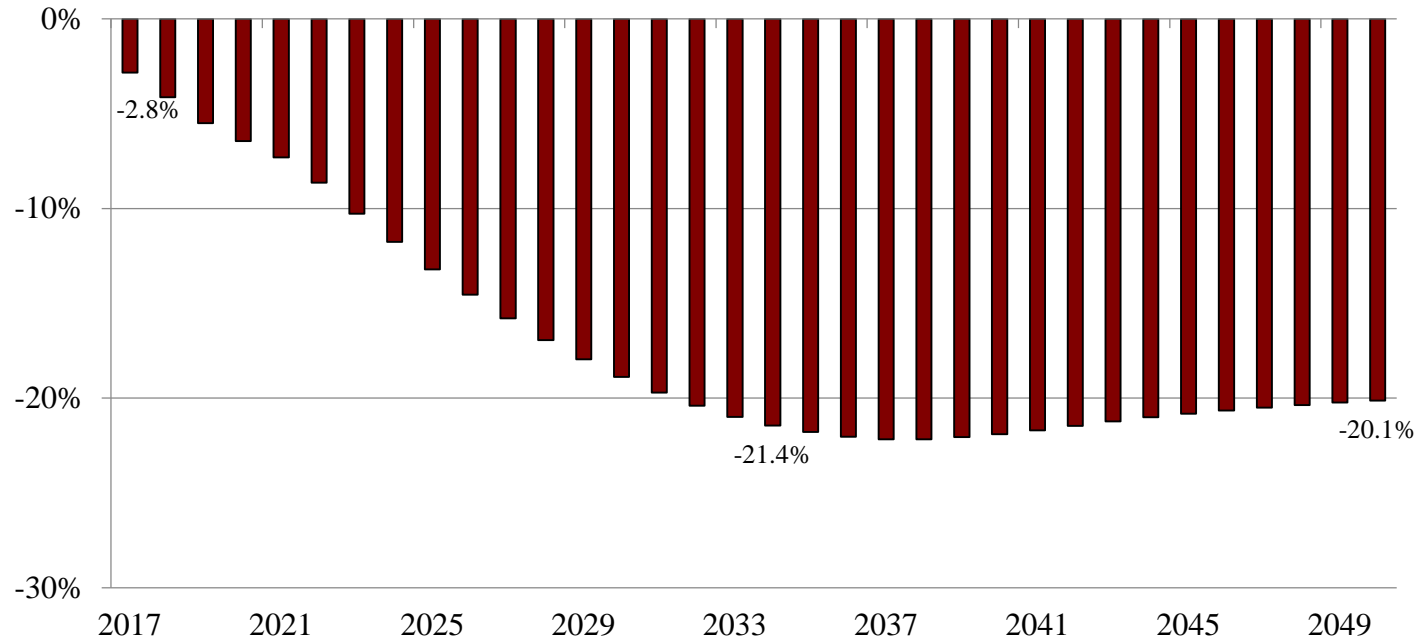
- 1977 Trustees Report: 8.20 percent of taxable payroll
- 1978 Trustees Report: 1.40 percent of taxable payroll

Short run as seen in 1978 Trustees Report:

- After 1980 it is estimated that income will exceed outgo in every year until after the turn of the century.

Source: Annual Reports of the Board of the Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds. Washington, DC.

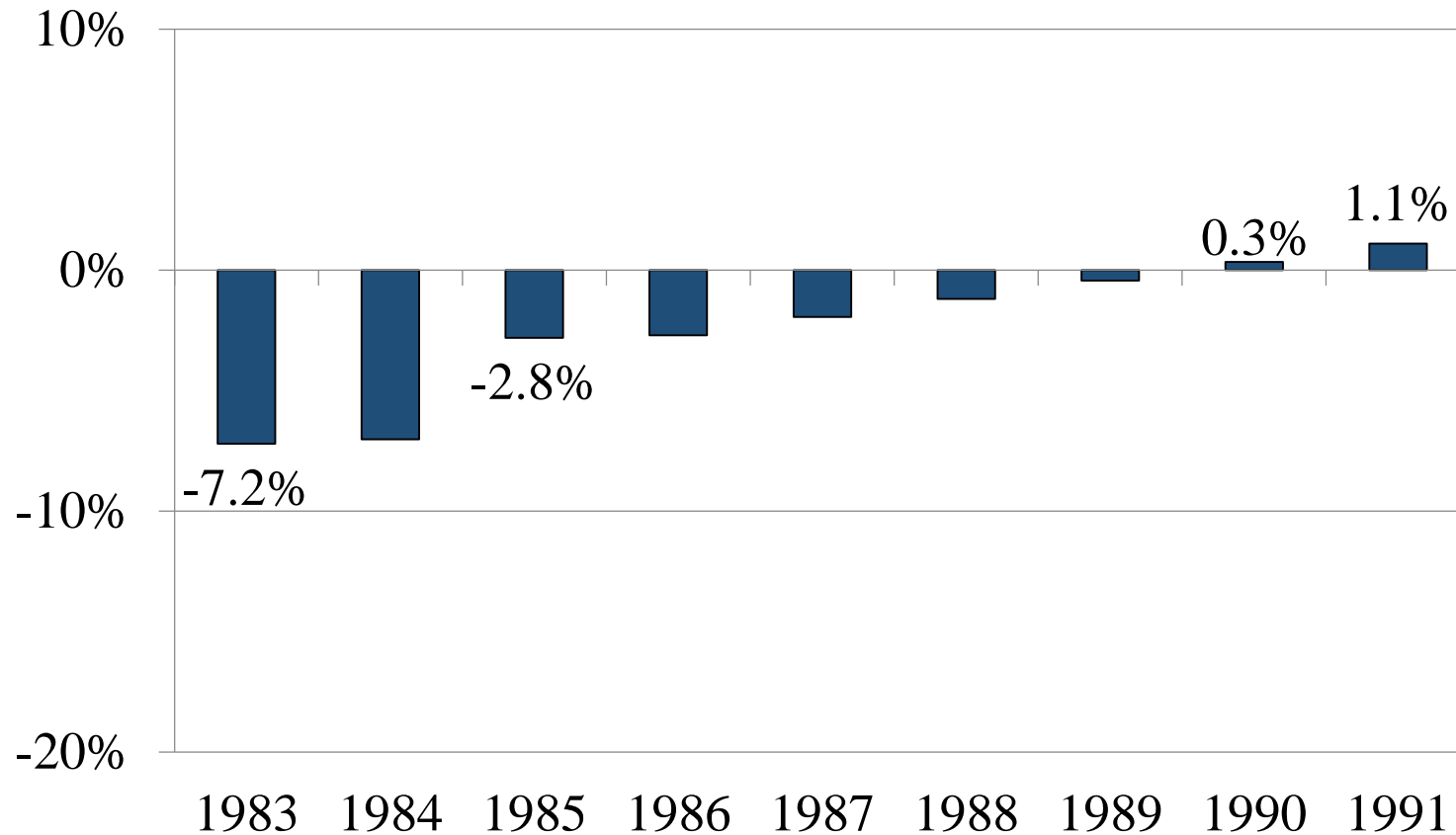
# Projected Deficits: Tax Revenue Gap as a Percentage of Total Cost 2017 – 2050 (2017 Trustees Report)



Source: Data from Social Security Administration OCACT; Social Security Administration Trustees Report (2017)

# Absent legislation, unable to pay July 1983 benefits on time.

Projected deficits: tax revenue gap as a percentage of total cost,  
1983-1991 (1982 Trustees Report)



Source: U.S. Social Security Administration. 1982. *The 1982 Annual Report of the Board of the Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds.*



# Greenspan Commission: short-run problem

Recommends that \$150-\$200 billion in either additional income or in decreased outgo (or a combination of both) should be provided for the OASDI Trust Funds in calendar years 1983-89.

# Greenspan Commission split on long-term solution (0.58 of the 1.80 deficit)

## 8 Republican appointees

- Increase the normal retirement age (NRA) from 65 to 66, starting with those age 62 in 2000.
- Then adjust the NRA to keep the ratio of retirement-life expectancy to potential working lifetime as it was in 1990.
- The minimum age for Medicare eligibility would be the NRA.

## 5 Democratic appointees

- Increase the payroll tax rate by 0.92 percent starting in 2010,
- with the employee's share of the increase offset by a refundable income-tax credit

# Proposed amendments

## J.J. Pickle (D-TX)

- Increase the age for full benefits to 66 by 2009 and to 67 by 2027.
- Early retirement stays at 62.

- Approved:

228 (152-R, 76-D)

to

202 (14-R, 188-D)

## C. Pepper (D-FL)

- Increase the tax rate from 12.40 percent to 13.46 in 2010.

- Rejected:

296 (165-R, 131-D)

to

132 (1-R, 131-D)

## Projected Impact of 1983 Legislation on 1983-1989 Finances and 75-year Balance

Provision	Percent of Solution	
	Short-term	Long-term
Coverage extensions	16	20
Changes affecting beneficiaries	39	70
Changes affecting contributors	44	10
Other	1	0

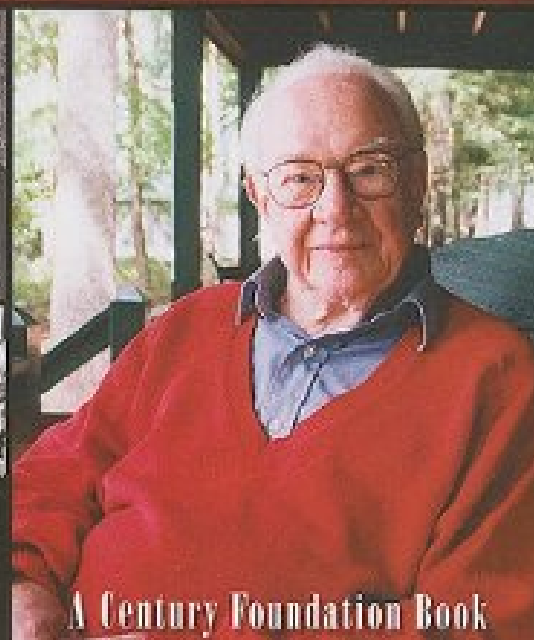
Source: Table 2, 3. Gregory, J., Bethell, T., Reno, V. and Veghte, B.W., 2010. Strengthening Social Security for the long run. Social Security Brief, 35, pp.1-15.



**The Greenspan Commission**

What **Really** Happened

Robert M. Ball



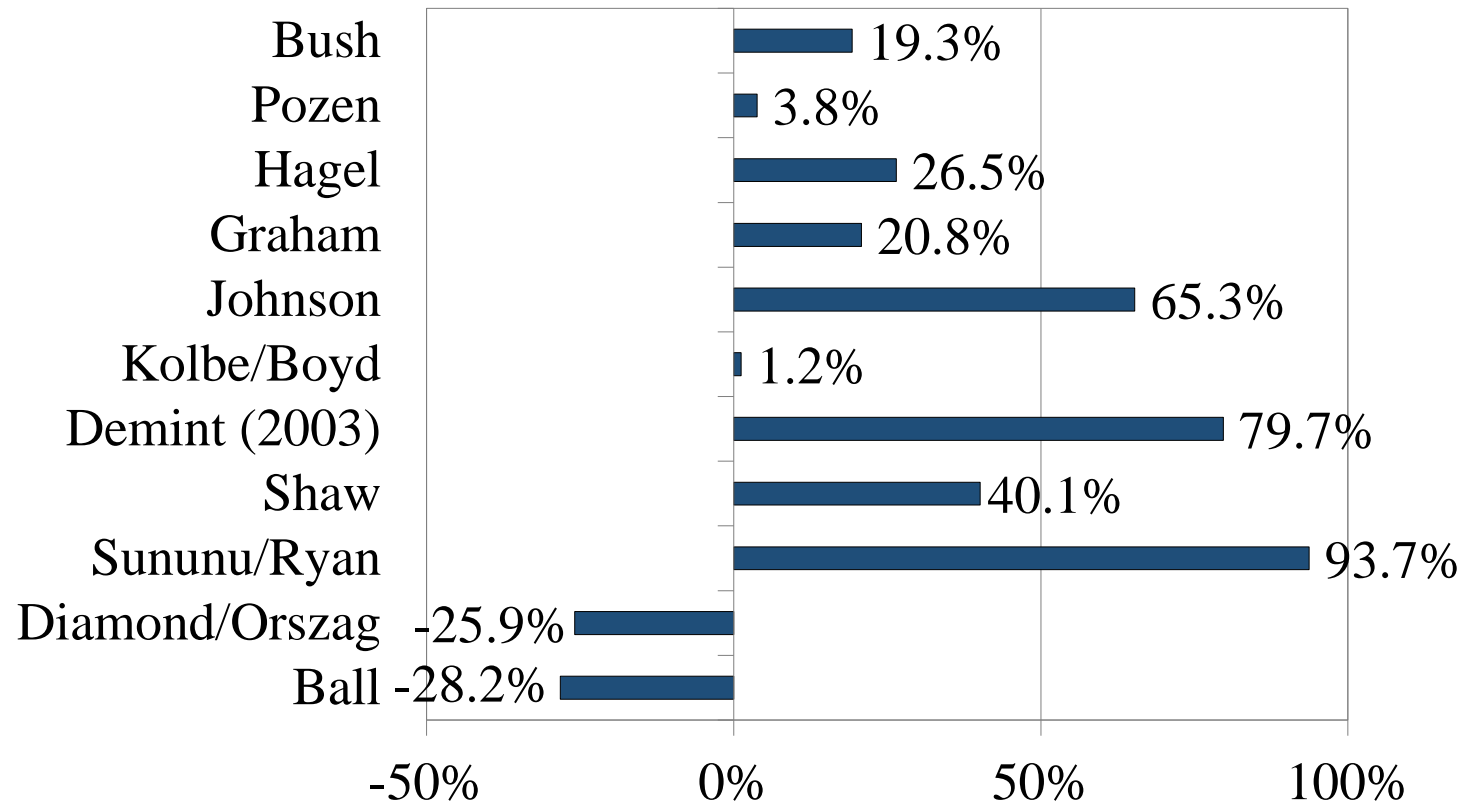
A Century Foundation Book

# Proposals including borrowing from the Treasury

- PSA proposal from Advisory Council, 1994-96 (Clinton)
  - **Issue bonds to the public for the next 40 years to be fully repaid.**
- President's Commission to Strengthen Social Security, 2001 (Bush)
  - **Temporary transfers from general revenue would be needed to keep the Trust Fund solvent between 2025 and 2054.**

In the early 2000s, all of the GOP plans for Social Security would have borrowed to cover the transition costs of setting up individual accounts.

Increase / reduction of federal debt in 2050 (as percent of GDP)  
resulting from proposed Social Security plans



Source: James Horney and Richard Kogan. 2005. "Private Accounts Would Substantially Increase Federal Debt and Interest Payments." Washington, DC: Center on Budget and Policy Priorities.

# Comparison of two bills: tax revenue

## *Social Security Reform Act of 2016*

**Sam Johnson**

- No change in payroll tax rate
  
- No change in payroll tax base

## *Social Security 2100 Act*

**John Larson**

- Increase the payroll tax rate, reaching 14.8% in 2042 +1.78
  
- Apply OASDI tax rate to earnings above \$400k, with an increase in benefits +1.88



# Comparison of two bills: benefits

## *Social Security Reform Act of 2016*

**Sam Johnson**

- Change benefit formula +1.19
- Increase age for full benefits +0.84
- End taxation of benefits -0.40
  
- Decrease COLA +1.25
  
- Change special minimum -0.23
- Other +0.12

## *Social Security 2100 Act*

**John Larson**

- Increase benefit formula -0.24
  
- Change taxation of benefits -0.19
  
- Increase COLA -0.39
  
- Change special minimum -0.13

# Cost-Of-Living Adjustment and the Consumer Price Index

- Current law: CPI-W:
  - Consumer Price Index for Urban Wage Earners and Clerical Workers.
- Johnson: Chained CPI (C-CPI-U):
  - OACT estimates a decrease of 0.3 percentage point per year.
  - Increase benefits for all beneficiaries who have been eligible for at least 20 years.
- Larson: CPI-E:
  - OACT estimates an increase of 0.2 percentage point per year.

# At What Price? Conceptualizing and Measuring Cost-of-Living and Price Indexes

- A cost-of-goods index (COGI):
  - measures the change in expenditures required by a household to purchase a fixed weight basket of goods and services
- A cost-of-living index (COLI):
  - measures the change in expenditures a household would have to make in order to maintain a given standard of living.

Panel on Conceptual, Measurement, and Other Statistical Issues in Developing Cost-of-Living Indexes, Charles Schultze and Christopher Mackie, Editors, National Academies Press (2002), p. 1-2.

# At What Price? Conceptualizing and Measuring Cost-of-Living and Price Indexes

it is important that public policy makers and private users understand the relationships between the ways in which price indexes are designed and how they serve—or fail to serve—the various purposes for which they are employed.

Panel on Conceptual, Measurement, and Other Statistical Issues in Developing Cost-of-Living Indexes, Charles Schultze and Christopher Mackie, Editors, National Academies Press (2002), p. 191.

# Shortcomings of a COLI

- Assumes the same indifference curve in two years.  
But preferences change with aging, with consumption history, and with the consumption choices of others.
- Uses a "representative consumer" with the average consumption of the entire economy.  
But consumption patterns vary greatly.
- Medical costs reflect both changes in health and a changing commodity with special social concern.
- Products change and enter and exit the market, making some comparisons difficult.

# At What Price?

- the price data used to produce the CPI are collected from retail stores and not directly from households,
- as a consequence, it is impossible to investigate satisfactorily the two major aggregation issues:
  - To what extent does inflation or changes in living costs differ among the various economic and demographic groups?
  - And to what extent would a democratic index behave differently from a plutocratic one?

## Purposes for indexed changes of benefits in payment

- Intertemporal patterns of benefits in payment retirees would want subject to a budgetary lifetime PDV constraint.
- Suitable relationship between incomes of retirees and earnings of contemporaneous workers.
- Suitable relationships between incomes of retirees and their earlier earnings.
- Reflects overall resources available.

# Indexed adjustments of defined benefits in payment

- Price changes:
  - Canada, France, USA.
- Wage changes minus a constant:
  - Norway, Sweden
- Mix of price and wage changes:
  - Finland, Switzerland
- Includes adjustment for financial balance:
  - Germany, Spain, Sweden
- Source: OECD, Pensions at a Glance 2015: OECD and G20 indicators.



# Reform legislation questions

- Last minute is inevitable?
- Waiting for last minute legislation favors tax increases relative to benefit cuts?
- Last minute is OK, just form a commission?  
(see 1983?)
- What type of commission?
- Role of public views

*We [the American colonists fighting in the War of Independence] have shed our blood in the glorious cause in which we are engaged; we are ready to shed the last drop in its defense. Nothing is above our courage, except only (with shame I speak it) the courage to TAX ourselves.*

*Source:* James Madison (1751-1836) American statesman, political theorist, US President (1809-17), Letter, Philadelphia (9 Jun 1782) <http://wist.info/madison-james/7899/>

# Larson Introduces Social Security Proposal to Cut Taxes for Seniors, Increase Benefits, and Strengthen Program

**Press Release, April 5, 2017**

**Meaning**

- Ensure Social Security remains strong well into the future
- Tax increases



*"Forget about me—save Social Security."*

# Sam Johnson Unveils Plan to Permanently Save Social Security

**Press Release**, December 8, 2016

- Modernizing how benefits are calculated
- Gradually updating the full retirement age
- Ensures benefits keep up with changes in the economy
- Targeting benefits for those most in need

**Meaning**

- Mostly benefit decreases
- Benefit decreases
- COLA decreases
- Spouse and child benefit decreases

# Bipartisan Policy Center Commission on Retirement Security and Personal Savings (Conrad-Lockhart) 2016

In the interest of encouraging compromise and informing the public debate, the commissioners operated under the restriction of a roughly 50-50 balance between increased revenues and changes to benefits in future years.

THE TEST OF OUR PROGRESS  
IS NOT WHETHER WE ADD MORE  
TO THE ABUNDANCE OF THOSE  
WHO HAVE MUCH; IT IS WHETHER  
WE PROVIDE ENOUGH FOR  
THOSE WHO HAVE TOO LITTLE.