Enhancing Social Security and Improving Retirement Security: Four Innovative Proposals

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Social Security Policy Innovations Challenge: Ensuring Adequacy for Workers

Overview

The National Academy of Social Insurance, in collaboration with AARP, conducted a Social Security Policy Innovations Challenge in 2019. The purpose of this Challenge is to surface and disseminate creative and practical policy proposals that might improve retirement security for older workers who must claim Social Security retirement benefits early, due to ill health, an inability to continue to perform physically demanding jobs, or other factors.[1] This report presents the results of the Challenge – a package of four proposals that address the issue from different angles.

Why this Challenge?

Older workers often face a variety of barriers to continue working until or after the full retirement age (Full Retirement Age) for claiming Social Security benefits. Some who have worked in physically demanding jobs may find that some of the tasks required are too arduous at their ages. Others experience declining health earlier or more severely than they had expected, but not to the threshold required by Social Security Disability Insurance (SSDI). Still others need to care for an ailing spouse, or to spend more time looking after older parents. And some workers, after losing a job due to a restructuring or late-career layoff, have a difficult time landing a new job despite their years of experience and skills.

For many of these older workers, retirement is not a suitable option. Many workers who have been in low-wage jobs have not saved enough to retire and, even if they have reached the age of 62 and can begin to claim Social Security benefits early, do so at the cost of reduced benefits for the rest of their lives. Given meager or non-existent retirement savings, many are at high risk of poverty. Many are unable to cover health-related costs that will likely grow as they age. For some older workers with jobs so difficult or health problems so severe, waiting until age 62 may be near impossible, yet they are not sufficiently disabled to qualify for SSDI. Yet others might retire but not want to – because they enjoy working and want to continue to be in the workforce – or do so at a substantially reduced quality of living.

While many Americans are living healthy lives well into their 70s and 80s, workers who do physically arduous work, or lack access to consistent health care, face a variety of health challenges as they age. Furthermore, the opioid crisis has taken a huge toll on large swaths of the country, with rural communities and less-educated workers hardest hit. (Of the estimated $1 trillion-plus that the opioid epidemic has cost the United States since 2001, the biggest factor is lost earnings and reduced job productivity. Data from a 2017 Brookings report shows rural counties across Appalachia and the Ozarks to be especially hard-hit.[2]) The Great Recession forced many out of work and they have found it difficult or even impossible to get back into the workforce. Continued changes in the structure of the economy itself are posing other challenges, not only to young workers entering the labor force, but also to older workers ill-equipped to navigate it.

More research is needed to determine if and how this vulnerable population of older workers is growing. The Academy will be conducting further research to get a better sense of who these older workers are and the types of problems facing them. We have some idea of the minimum number of such workers. One recent study, for example, reports that in 2012 there were 8.5 million older workers who retired earlier than expected due to health problems. We suspect that the total number is much larger. We understand that these vulnerable workers are concentrated in some particular regions – e.g., Appalachia is the epicenter of the opioid crisis, and the Rust Belt is home to many former blue-collar workers – but we lack the detail that we ideally wish to have. The Academy is developing a research agenda and an in-depth study to help us fully understand the target populations. The latter is critical to enabling the development of even better-designed policy options in the future.

Social Security Policy Innovations Challenge Process and Results

The 2019 Challenge process began with a full-day primer on Social Security to enable those who are less familiar with the program to participate. The Academy received over twenty three-page abstracts from applicants with a broad range of areas of expertise. Blind two-judge panels helped identify eleven of these submitted abstracts to move into the full proposal phase. These Challenge competitors were invited to submit ten-page structured proposals, with support from expert mentors if they requested it. A blue-ribbon judging panel consisting of six experts on retirement security policy from various perspectives selected the winning proposals.

As the judges assessed the policy proposals, they sought to balance ideas that will appeal to Members of Congress across the political spectrum. They also looked for proposals that refrained from offering options so ambitious as to be seen as unattainable, and for ideas that avoided adding to the current Social Security system's fiscal and/or administrative burdens.

The Challenge process yielded a package of four policy ideas that, together, begin to address problems associated with retirement insecurity in complementary ways:

1. *A New Bridge Benefit under Social Security: the Help that Older Workers Who Can No Longer Really Work Really Need,* by Christian Weller, Rebecca Vallas, and Stephanie Lessing
2. *Social Security Early Commencement Benefits,* by Elizabeth Bauer
3. *Creating a Federal Auto IRA and Enhancing Social Security Longevity Data*, by Sarah Holmes Berk
4. *State Supplemental Social Security,* by John Burbank and Aaron Keating

[1] The Social Security Policy Innovations Challenge was launched in February 2019. Members of the public as well as Academy Member experts were invited to participate. Academy Members with specific expertise in Social Security also served as mentors or as judges. Learn more: https://secure.nasi.org/policy-innovation-challenge/

[2] Disa.com, Opioid Epidemic, https://disa.com/drug-alcohol-testing/opioid-epidemic. And a 2016 paper by Alan Krueger for the Brookings Institution suggests that between a quarter and a third of the decline in labor force participation over that period may be attributable to opioid misuse. https://www.brookings.edu/blog/brookings-now/2017/09/07/how-the-opioid-epidemic-has-affected-the-u-s-labor-force-county-by-county/

A New Bridge Benefit under Social Security: the help that older workers who can no longer really work really need

Christian Weller (University of Massachusetts Boston), **Rebecca Vallas** (Center for American Progress), and **Stephanie Lessing** (University of Massachusetts Boston)

A combination of income inequality, volatility in the labor market, stagnant wages, and declining benefits puts American workers at increased risk for retirement insecurity. The two major problems older workers face are chronic health problems or inability to find a job they can continue to do. Many have health problems bad enough to impede work but not sufficiently severe to qualify for SSDI, with physical and mental health issues interacting. Unemployment Insurance lasts just six months, SSI pays very little and is restricted to workers age 65 and older, and other public assistance programs, like SNAP and housing vouchers, are unavailable to many. These workers are likely to have saved little, to lack other options to supplement those savings, and to suffer reduced income and quality of life for the remainder of their lives if they claim Social Security benefits early.

The authors propose that workers aged 62-66 years old be offered a new form of Social Security benefits called a bridge benefit, which would be added on to their early retirement benefits. The benefit would pay half of the difference between the worker's full retirement benefit and the early retirement benefit at each age prior to the normal retirement age, starting at age 62 years through 67 years (this can be adjusted if/when FRA is further adjusted). This means that a worker who retires at age 62 and currently receives benefits permanently 30% below their full retirement benefit would instead receive benefits 15% below; a 63-year-old retiree would receive benefits 12.5% lower rather than 25% lower; a 64-year-old would see a 10%, rather than a 20%, reduction; and a 65-year-old would have benefits 7.5% lower instead of 15% lower. At full retirement age, currently 67, they would begin to receive full benefits as if they had not claimed early. This provides a meaningful boost for eligible workers; annual Social Security benefits would go up between a low of 3.5% for those retiring at age 66 and a high of 42.9% for those who retire at age 62.

This benefit is progressive, with relatively larger benefits for lower-lifetime earning workers, and would particularly benefit women, workers with less formal education, and workers of color, who struggle the most. The bridge benefit amount would be capped so that it does not exceed the amount that would be received by a worker

> This plan substantially boosts retirement security for a worker who cannot work past 62 because of deteriorating health but is not eligible for SSDI. Under the current system, s/he could either wait until s/he reaches age 67 and get $1,000/month or receive a permanently reduced benefit of $700. With our plan, s/he would receive $850 per month her/his first year in retirement, $875 her/his second year, $900 in the third year, $934 in the four year, $966 in the fifth year, and the full $1,000 after that.

of the same age whose primary insurance amount (PIA) was based on 35 years of earnings equal to the average wage index (AWI).

Workers would qualify for this benefit in a fairly straightforward manner, making it logistically and administratively easy to manage. Those seeking the benefit would need to document either that they have unsuccessfully looked for work for the past six months or more, or provide documentation from an acceptable medical source confirming that they can no longer continue to work due to health problems. (As the authors note, these two issues are often overlapping, making a benefit that pays out for either a logical policy approach.) SSA will establish guidance for health eligibility criteria, with the range and severity of health issues less restrictive than what is required for SSDI eligibility.

This benefit, which would cost between 2% and 6% of total OASI costs (likely well below the latter), could be fully financed through reforms of existing inefficient and ineffective tax code savings incentives. Those incentives as currently structured cost the federal government $212 billion in foregone revenue in FY 2019, with the bulk of the benefits going to higher-income Americans who do not struggle to save and may not need the incentives to do so. In addition to paying for the new bridge benefit, reforming these credits by setting contribution limits above which savers would no longer receive a match would enable the government to provide a 20% match in the form of a refundable tax credit to workers who do need both the incentive and the added savings. This would help some of our target population workers accrue savings to further boost their bridge benefit income.

Providing a common benefit of a meaningful level for workers regardless of the reason they can no longer work simplifies their lives and the program and reduces their odds of living in poverty due to administrative or other hurdles. The authors estimate that 5.8% of new retirement beneficiaries annually would receive this new bridge benefit, which would bring Social Security benefits from about 75% of the poverty line for two people, which is $17,279 in 2020, to over 96%. Moreover, it would substantially reduce material hardship among the elderly, raising the annual Social Security benefit from about one-third to over 40% of the income threshold necessary to avoid material hardships, and it would increase to 49% of the income threshold once the recipient reaches full retirement age.

This benefit builds on Social Security's retirement benefit formula and streamlines its administration. Workers need to be at least 62 years old to qualify and to have sufficient earned credits to qualify for benefits. The new benefit reduces and eventually eliminates the current early retirement benefit reductions for qualifying workers; it will thus become part of the OASI program, fully financed by general revenue transfers with no adverse effect on existing revenue-sharing arrangements between the OASI and DI programs. (It could even have a modest positive effect on SSDI by diverting some applicants.)

This proposed benefit also gives workers flexibility to address their unique situations. Unemployment and health issues can vary with a wide range of factors often outside of a worker's control. These include local labor market conditions, a worker's skills and education, and age in the context of long-term unemployment. Workers experience health problems due to physically demanding and/or hazardous work conditions, lack of health insurance, the availability of sufficient health care providers, and individual health pre-dispositions.

Finally, the proposed bridge benefit minimizes unintended consequences. To avoid having a higher benefit for very low-income earners offset their concurrent receipt of SSI and other income support benefits, only the benefit amount that a worker would have received without the bridge benefit would count towards the calculation of SSI and other means-tested benefits like SNAP and housing assistance. That way, beneficiaries are always better off with the additional bridge benefit. And the potential of offering an extra benefit to a low-wage worker who is married to a higher-wage worker is limited by the fact that a worker needs to qualify for the benefit based on their own earnings record. Their own benefit needs to be greater than a spousal benefit, and it is also capped.

This bridge benefit could be also complemented by a new minimum SS benefit and/or caregiving credits, along with a stronger safety net, including improvements to the unemployment insurance, workers' compensation and other social insurance systems.

Social Security Early Commencement Benefits

Elizabeth Bauer (Actuary and Blogger as "Jane the Actuary" for *Forbes* and other outlets)

> By tweaking the current all-or-nothing system for claiming early benefits, older workers and employers could both benefit, without measurable added burden for the Social Security Administration.

One problem that many vulnerable older Americans face is the prospect of not being able to stay at the same job they have been doing, needing to cut back on hours due to physical strain, the need to take care of an older parent or ailing spouse, or lack of availability of sufficient hours at the type of job they are still able to undertake. As a result, with insufficient income to survive, these pre-full-retirement age workers have no choice but to claim Social Security benefits early, in many cases at the earliest possible age of 62, with substantial negative consequences for the rest of their lives. These forced choices also exert a negative effect on the labor market; many experienced workers with valuable skills to contribute are leaving before they want to or really need to.

It does not have to be this way, however. If we tweaked the current all-or-nothing system for claiming early benefits, older workers and employers could both benefit, without measurable added burden for the Social Security Administration. Two small changes would be enacted: 1) enable participants to claim partial early benefits, deferring full benefit commencement to a later point; and 2) permit early benefits to be stopped and started as and when the recipient requests, without any additional penalty.

With respect to the first change, recipients' full benefit, when received, would still be reduced, but to a lesser degree than if they had begun full commencement, making this change actuarially equivalent, or neutral. With respect to the second, the author notes that strategies already exist to start, stop, and restart Social Security benefits, but these are not accessible to the average worker. This "hack" would extend this flexibility to all workers. Finally, both of these proposals would be paired with an elimination of earnings penalties currently applied to recipients between early retirement and full retirement age whose earnings exceed a given threshold.

A couple of examples demonstrate the power of this tweak. For a part-time worker wishing to claim half benefits at 62 whose full monthly benefit was $1,000, this option would provide him $350 in additional monthly income (half of the $700 he would have received), on top of the income he received. When beginning to receive his full benefit at age 67, he would then receive $850 per month ($350 for the continuing age-62-commenced portion and $500 for the half begun at age 67), rather than the $700 he would have gotten. This provides an additional $1,800 per year in benefits, on top of the added retirement savings he was able to accrue as a result of working for more years. If the worker were able to delay claiming benefits until age 70 as a result of continuing part-time work, the ultimate benefit would be $970, virtually equivalent to what he would have received had he not claimed early at all.

For a worker employing the stop-start option, if she were to stop benefit collection at age 64, then resume at age 67, the reset benefit reflective of two years of foregone benefit collection would be $913. If the individual delayed ultimate retirement to age 70, the ultimate benefit would be $1,151 (compared to $1,240 if the retiree had never commenced until age 70).

These cases both illustrate the potential for this small, administratively simple change to the current system to allow many more older workers to stay at their jobs at reduced hours, to shift to jobs that are less demanding and may pay less, or to remain in the labor market despite periods of unemployment, as they could now top off that lower income with partial Social Security benefits. They also show how this change makes it easier for lower-earners, in particular, to retire more securely, as they would forego much less in the way of lifelong benefits than the current all-or-nothing choices force them to do.

It would also enable other workers to delay claiming until age 70, giving them increased benefits for the rest of their lives. Moreover, given that many workers express a preference for continuing to work well into their 60s and beyond, and the evidence of physical and cognitive health and other benefits to doing so when it is possible, enabling more workers to make this choice seem like a smart policy move.

Given that 35% of new male recipients and 39% of new female recipients currently begin receiving benefits at age 62, and that just under half of male workers and just over half of female workers, respectively, claim before age 65, this change would positively affect a substantial number of workers. Moreover, given that early retirees tend to be less-educated and to work lower-wage and more physically demanding jobs, this tweak would disproportionately benefit the most vulnerable older workers, those about whom we are most concerned.

This proposal relies on the concept of "nudging" and the use of behavioral economics, which understand that defaulting people into a financially advantageous choice can be highly effective; it preserves their full range of choices, with the intention of providing greater long-term benefits for recipients as a result of their better choices. So rather than relying on early claiming recipients to save some of their benefits when they find part-time work, this plan would save it for them automatically. Making this default more useful, however, also requires making it widely available and understood, so rather than buried in the fine print, new commencement options should be placed front-and-center in communicating with workers and retirement applicants so that making the decision of "what percent of your benefit do you want to start with?" is a standard element of the process.

A small, administratively simple change to the current system could allow many more older workers to stay at their jobs at reduced hours, to shift to jobs that are less demanding and may pay less, or to remain in the labor market despite periods of unemployment. This change makes it easier for lower-earners, in particular, to retire more securely, as they would forego much less in the way of lifelong benefits than the current all-or-nothing choices force them to do.

Finally, this reform would address growing demand for phased retirement. A recent Transamerica Center for Retirement Studies study found that 30% of surveyed workers wished to reduce their work hours, and 17% wished to work in a less demanding and/or more personally satisfying role, prior to fully retiring.[3] Similarly, 20% of employers reported offering a formal phased retirement program, and 19% planned to implement one in the future. At the same time, a 2017 GAO report found that, among 61-66 year-olds in 2014, 28% reported they planned to reduce work hours in order to transition to retirement.[4] However, only 11% of men and 6% of women actually succeeded in doing so; nearly 70% of respondents to a survey reported that they ended up fully retiring earlier than planned or desired.

[3] *Striking Similarities and Disconcerting Disconnects: Employers, Workers, and Retirement Security*, Transamerica Center for Retirement Studies, August 2018.
[4] *Phased Retirement Programs, Although Uncommon, Provide Flexibility for Workers and Employers*, United States Government Accountability Office, Report to the Special Committee on Aging, U.S. Senate, June 2017.

Creating a Federal Auto IRA and Enhancing Social Security Longevity Data

Sarah Holmes Berk (National Bureau of Economic Research)

Over half of Americans report feeling concerned that they will not be able to achieve a financially secure retirement, and forty percent of U.S. households with prime-working age heads of households may run out of money during retirement. Access to an employer-sponsored retirement savings plan dramatically reduces retirement insecurity, but half of American workers lack access to such a plan. While the vast majority of highly educated, high-wage workers have access to defined-contribution (DC) plans, they are available to only two-thirds of construction and maintenance workers, half of service workers, and one third of workers in the bottom wage decile. Workers in small firms and those doing part-time and non-unionized work are also much less likely to have access to a DC plan. Moreover, a 2016 Pew report finds that Hispanics and Millennials – who represent a large and growing share of future retirees – are less likely to have access (45% of Hispanics vs. 68% of whites, and 55% of Millennials vs. 70% of Boomers).[5] Low-wage workers also save, on average, a lower share of their earnings than their high-earning peers.

Creating a federal IRA with automatic enrollment (auto IRA) to help workers without access to a 401(k) or similar plan to save for retirement, coupled with the public dissemination of enhanced longevity data, could better meet late-life needs for these older workers, which vary substantially and are hard to predict.

In other words, the very workers at highest risk of having to retire early are least equipped to do so securely and to maintain their current, or at least a decent, standard of living, and the problem is growing larger. Despite most workers expecting to work at least until normal retirement age (65), as of 2018, three in four retired at or before age 64, with two-thirds of those retiring at age 62 or younger. Numerous forces drive these earlier-than-expected retirements. Members of disadvantaged groups with lower average lifespans may be employing a rational strategy to recoup money they paid into the Social Security system before it's too late, but it means substantially reduced benefits throughout those years.

Creating a federal IRA with automatic enrollment (auto IRA) to help workers without access to a 401(k) or similar plan to save for retirement, coupled with the public dissemination of enhanced longevity data, could better meet late-life needs for these older workers, which vary substantially and are hard to predict.[6] A federal auto IRA program for under-served workers and their households could be administered by either the Federal Retirement Thrift Investment Board (FRTIB) or a new, similar agency. Rolling out over the course of several years, the program would

[5] *Employer-Sponsored Retirement Plan Access, Uptake, and Savings*. Pew Charitable Trusts 2016.

[6] The original inspiration from this proposal came partly from the now-defunct myRA program that was enacted by President Barack Obama as part of his administration's "Opportunity for All" plan. Academy Distinguished Visiting Fellow Fay Lomax-Cook also notes its similarities with President Bill Clinton's proposed Universal Savings Accounts, https://www.brookings.edu/blog/brookings-now/2017/09/07/how-the-opioid-epidemic-has-affected-the-u-s-labor-force-county-by-county/.

eventually extend to every US employer, regardless of size, and offer complementary features designed to specifically address the unique situation that 1099 workers face. ***Core features of the program include:***

- ***Automatic enrollment into the program for workers without access to a 401(k)*** or similar tool, with contributions from their earned income made via payroll deductions. Research shows that making enrollment automatic increases savings, with participation 20-34% higher at three years of tenure relative to traditional opt-in enrollment.[7]
- ***The auto IRA is by default a Roth IRA***, which accepts post-tax rather than pre-tax contributions, but does not penalize early withdrawals, which lower-income households are more likely to need to do, as does a traditional IRA. While this could increase "leakage," it will also reduce opt-outs among those worried about covering emergency needs. Moreover, account holders can withdraw without penalty at age 59 ½, in most cases without paying income taxes, critical advantages for this group.
- ***All employers not offering a 401(k) or other qualified retirement plan are eventually included***, regardless of size, with smaller employers given the most time to implement the changes. With the option of, but no obligation to match contributions, costs to employers for electronically submitting workers' contributions and maintaining and updating lists of current employees would be minimal, but not negligible. Because workers in the smallest firms currently have the least access to DC plans, including those employers is critical, but they would have six years to do so, versus one year for the largest employers, in recognition of their likely higher costs. Small employers (those with less than 20 employees) could also be incentivized through a one-time tax credit to offset those costs. (Fines of $250-$500 per employee should also be exacted for non-compliant employers.)
- ***Default contribution rates begin at 2% and rise incrementally to 6%***. This low starting rate gives workers who are uneasy about the new program a way to ease into it and provides them added time to adapt to reduced take-home pay. An auto-escalation component could further increase the contribution rate from 6% to 10% over the first four years of a workers' participation.
- ***By default, contributions are invested in a TSP L Fund or comparable target date fund***. In order to ensure the soundness of these investments and reduce the burden of choice on less-than-savvy and unconfident investor workers, the first $1,000 in contributions should be put into the Thrift Savings Plan (TSP) G and the remainder a TSP L or comparable fund. Target date funds are designed with an intended retirement date in mind, shifting the mix of investment vehicles from higher-risk, higher-return earlier in a worker's life to lower-return vehicles like bonds as he/she approaches retirement. These sensible defaults allow workers to shift their mix of assets at age 50, when they may have a better sense of their retirement needs, without unduly burdening them with unreasonable choices. This also enables the program to keep fees well below

[7] "Saving for Retirement on the Path of Least Resistance." Choi et al. 2006. In *Behavioral Public Finance: Toward a New Agenda*, eds. McCarrfrey and Slemrod. New York: Russell Sage Foundation.

the 0.75%-1.0% of many current state plans, though likely not nearly as low as the 0.040% of the TSP, even if administered by the FRTIB.

- ***Balances are permitted to grow indefinitely, but rollovers into and out of are permitted***.
- ***Special features will be incorporated to better meet the needs of contingent and "gig" workers***. Because they are in the most precarious situation, often not contributing to Social Security and or having access to DC plans, this system should go further in encouraging such workers to save. Two amendments to Form 1040 could help: 1) amending Schedule SE so that, by default, a small share of any self-employment income is diverted to the auto IRA; and 2) amending Form 1040-ES so that filers paying quarterly estimated taxes by default divert a small percentage of their income to the auto IRA, in both cases choosing the percentage or being able to opt out if they so choose.
- ***The account follows the enrolled worker throughout his/her career, and this program would preempt state auto IRA programs***, easing the burden on employers and simplifying portability.

While the current system of early claiming, normal retirement age, and late claiming is actuarially fair for individuals of average longevity, large and growing disparities in lifespan by race and social class skew total benefits toward higher-income workers. (An individual born in 1980 must live to age 78 for Normal Claiming to surpass Earliest Possible Claiming in total; low-income white men and Black men and women thus lose out relative to white women and Hispanics). In order to help everyone, in particular short-lived individuals, better plan for retirement, Social Security statements and online tools should include race- and ethnicity-adjusted life expectancy information, and SSA should return to sending paper statements every five years starting at age 25 to boost the decision-making tools available to workers. Moreover, improved dissemination of information could also involve explicitly publicizing the auto IRA as a way to supplement Social Security benefits, especially for prospective early claimers.

State Supplemental Social Security

John Burbank and **Aaron Keating** (Economic Opportunity Institute)

While Social Security keeps the vast majority of senior citizens out of poverty, making it by far the most effective anti-poverty program the United States has ever enacted, by itself it is insufficient to provide for a dignified and decent retirement for many. In particular, as we live longer and accrue larger health costs at the very ends of our lives, Social Security is failing to keep pace. Among beneficiaries over age 65 (age of eligibility for full retirement benefits), nearly half of married couples and over two-thirds of unmarried people receive 50% or more of their income from the average $1,413 monthly benefit.

Social Security was never intended to be the sole, or even major, source of retirement income, but as pensions have become rarer offerings for workers, defined benefit (DB) workplace retirement accounts have been replaced by defined contribution (DC) ones, and the disparity between high-end, benefit-rich jobs and low-end, low-wage, benefit-lacking jobs has grown, an increasing share of Americans find themselves unable to save privately for retirement and lacking access to tax-beneficial and user-friendly plans in the workplace. According to the Federal Reserve's 2017 Survey of Consumer Finances, only 27 percent and 33 percent of households, respectively, have DB and DC plans at their workplaces, and just over half of all households have an employer-sponsored pension plan. Among households that lack them, only one in five use any kind of private account, and even among those that have accounts, most have saved almost nothing.[8] As such, we are a nation of increasingly retirement-insecure older workers. (The exception, as is increasingly true across issue areas, are the top 10% and top 1% of earners, who have saved substantial amounts that dwarf those of all other Americans/workers.)

> States are increasingly willing and eager to step into the holes left by lack of federal action on a variety of topics and there is good reason to believe that at least a handful might act on this issue as well. Supplemental State Social Security programs could complement existing federal benefits and provide a much-needed boost, especially for those who are most vulnerable.

Congress has shown little appetite for fixing this large and growing problem, and many of the fixes that have been proposed (and not adopted) combine some increase in benefits for a minority of workers with reductions or other ways to save money. In other words, the odds of the kind of comprehensive systemic reform that is needed to shore up retirement security for the majority of older Americans does not seem likely to happen. States, on the other hand, are increasingly willing and eager to step into the holes left by lack of federal action on a variety of topics – gun control, climate change, paid sick leave – and there is good reason to believe that at least a handful might act on this issue as well. The authors thus propose Supplemental State Social Security programs, which would complement existing

[8] St. Louis Federal Reserve, "Many Americans Still Lack Retirement Savings," March 2018.

federal benefits and provide a much-needed boost, especially for those who are most vulnerable.

Such a plan, structured much like the federal plan, but run by the state, would first benefit the many workers who lack access to, or do not currently participate in, a workplace-based retirement plan. Thirty-five percent of private-sector workers age 22 and older do not work for an employer that offers a defined contribution plan or a traditional defined benefit plan, and less than half of nongovernmental workers in the United States participated in an employer-sponsored retirement plan in 2012.[9]

Second, it would benefit the many millions of workers who have to retire earlier than they had planned or hoped to. More than four in ten retirees leave the workforce earlier than anticipated, most because of a health problem or disability, or changes at work, leading to substantially reduced life-long Social Security benefits. These earlier retirees are disproportionately low-wage workers with little savings.

Finally, it would benefit households with limited savings: the four in ten adults who report that, if faced with a $400 emergency expense, they would have to either borrow or sell something or would not be able to pay it; the more than one in six adults who cannot cover their current month's bills; or the one in four that skipped necessary medical care in the past month due to an inability to pay.[10]

Supplemental Society Security (SSS) benefits would vary by state according to the payroll premium level chosen. In Washington state, for example, a total payroll premium of 1.8% (0.9% paid by the employee and 0.9% paid by the employer) with no cap on taxable wages, would generate about $4.3 billion in 2021, enough to finance inflation-indexed lifetime benefits of either (or a combination of):

- 1.5% of a worker's federal Society Security benefit for each year that a worker pays State Social Security premiums (up to 30% of his/her federal benefit); or
- $1,000 per year for all currently retired workers, and an additional benefit of $400 per year for each year that a worker pays state premiums (up to $4,000 total).

Additional public benefits of such a plan include enhancing the equity impacts of benefits, especially for low-wage and manual workers who have, or will soon be, forced into early retirement; and the development of a significant state trust fund that could be invested in state and local bonds for much-needed infrastructure projects and capital construction. (In year 15, the authors estimate the surplus to be roughly $125 billion, and as much as $463 billion at the 30-year mark.) The added economic activity generated would also enhance the federal Social Security program through new FICA contributions.

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[9] This is the most recent year for which detailed data were available. The Pew Charitable Trusts, analysis of 2012 Census Bureau Survey of Income and Program Participation data, February 2017, and "Employer-Sponsored Retirement Plan Access, Uptake, and Savings," September 2016.

[10] Board of Governors of the Federal Reserve System, "Report on the Economic Well-Being of U.S. Households in 2018," May 2019. https://www.federalreserve.gov/publications/files/2018-report-economic-well-being-us-households-201905.pdf.

Moreover, it would help compensate for shortcoming of other state programs, like auto-IRAs, that have been found not to produce sufficient retirement savings due in part to many workers' inability to contribute much and that fail to reach some of the most vulnerable workers. It also compares favorably to those programs, with lower fees, minimal-to-no-risk exposure versus risks for IRAs, much better portability across states and, of course, much greater social equity, since it is designed to reach and benefit all workers, with progressive benefits especially boosting lower-income workers who are less able to save privately.

This would be easy to implement, since employers already have a mechanism in place to collect revenue for UI, temporary disability, etc. Pooled assets would be invested through the state's investment board, which manages state retirement and public funds. Start-up costs could be financed either by the state or via a federal grant. The federal Social Security Administration (SSA) could provide technical assistance to states in preparing and reviewing projected finances for their programs, and states could also partner with SSA for benefits disbursement as they do for many state-based supplements to federal SSI benefits. Other recently-enacted state programs like paid family and medical leave insurance and long-term care programs provide a foundation for implementing SSS in Washington, which would in turn enable other states to explore similar programs through an interstate network being advanced by Economic Opportunity Institute.[11]

Also, State Supplemental Social Security, like the 28 state old-age pension programs that helped spur the 1935 enactment of the federal Social Security program, could, if found to be successful in pilot states, advance a federal-level supplement that many older workers need. (Individual states might also enact specific benefits that the federal government has reduced or eliminated, such as survivor benefits for full-time students through age 22.)

[11] Massachusetts, Connecticut, and Oregon have passed iterations of paid family and medical leave based on WA.

Conclusion

As major Social Security legislation is being considered by the House of Representatives to improve the program's long-range financial condition and effectiveness, these proposed reforms are timely. Policymakers need to take into account the impact of economic, demographic, and labor-market shifts and opportunities for enhanced protection of the older workers that these proposals address.

These four proposals are presented as a package with features that complement each other. It is important to balance suggestions to raise the full retirement age, which might make sense for healthy and highly-educated older Americans who are willing and able to work longer and retire later, with modifications like those proposed by Weller, Vallas, and Lessing, and by Bauer. Likewise, we include proposals to enhance other aspects of our national retirement security infrastructure, like private workplace savings accounts, by Holmes-Berk. Finally, state policymakers and other leaders might consider state options to boost retirement security, like that put forth by Burbank and Keating.

Additional research will help us better understand the specific challenges facing vulnerable older workers. Future innovations may involve boosting support for less healthy and less educated workers, who are disproportionately likely to be working in physically challenging jobs and to have insufficient funds to support them in retirement. We look forward to further examining this target population's scope, scale, regional distribution, and specific challenges to their retirement security, and surfacing more targeted policy solutions in future Policy Innovations Challenges.

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