Report to the New Leadership and the American People on Social Insurance and Inequality

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Restoring Social Security to Long-term Balance
Background

- Leading source of income for most retired workers and surviving spouses
  - 61% of beneficiaries rely on Social Security for more than half of income
  - 33% rely on it for nearly all income (over 90%)

- Reforms are needed to provide adequate benefits long-term
  - Shortfall staring in 2034
  - 79% of benefits thereafter, declining to 74%
  - Social Security finances are 85% sufficient over 75 years
The Gap in Retirement Wealth
Economists typically overlook Social Security as component of wealth, but SS’s insurance protections often ≈ largest asset

Social insurance is particularly valuable to low-income households and people of color

- Provides universal coverage
  - 18% of AA, 14% of Latino HHs 45-64 unbanked

Mandatory contributions build assets

- Given incentive structure, low-income workers don’t build ret wealth voluntarily
- Employer match of 6.2 critical to asset building among low-income HHs
Background (2/2)

• Pays out more when need is greater
  • Longevity, disability, inflation, survivorship

• Predictable and secure

• More redistributive than other vehicles for retirement wealth
  • higher monthly benefits for lower earners (vs. reverse for 401(k)/IRA incentives)
  • Gini for SSW 0.31, vs. 0.76 for pension/IRA wealth (2010 SCF)
  • As long as income in=ty persists, inequality in ret. wealth building will persist, but SSW mitigates it

• No leakage or fees, and optimal decumulation
Policy Challenges (1/3)

• Wage stagnation and inequality harm retirement preparedness
• Retirement risk shift toward individuals
• As a result, low and middle income households and households of color have little retirement wealth other than Social Security (graphs on following slides)
Policy Challenges (2/3)

- Low and middle income households have little retirement wealth other than Social Security

Social Security and Pension/IRA wealth for households aged 47-64 by income, 2013

Source: Edward N. Wolff’s unpublished estimates from 2013 Survey of Consumer Finances.
Policy Challenges (3/3)

- Households of color have little retirement wealth other than Social Security

Social Security and Pension/IRA Wealth for Median Households Aged 47-64, by Race/Ethnicity, 2013

Source: Edward N. Wolff’s unpublished estimates from 2013 Survey of Consumer Finances.
Policy Options – Revenue options

• Eliminate Social Security tax cap and credit contributions toward benefits

• Incorporate high earners’ investment income into Social Security
Policy Options – Benefit options

• Strengthen the minimum benefit
• Strengthen benefits for low- and moderate-income workers
• Grant caregivers partial Social Security earnings credits
• Reinstate student benefits for children of deceased or disabled worker (through age 22, as before 1983)
• Update survivors benefits to account for dual-earners
  • Provide surviving spouses 75% of sum of surviving spouse’s and deceased worker’s benefits, rather than as low as 50% of that sum today, up to a cap
Women’s Retirement Security
Background

• Despite decades of economic gains, achieving financial security in retirement remains a challenge for many women
  • Median IRA balance for men is 42% higher than median balance for women
• Women are more reliant than men on income from Social Security
  • 27% of women over 65 compared to 21% of men over 65 rely on Social Security for 90% of income
• Several features of Social Security are especially valuable for women
  • Benefits go to spouses, surviving spouses, and divorced spouses
  • Benefits last for duration of life
  • Adjusted annually for inflation
  • Covers low-paid, part-time, self-employed, and temporary workers
Policy Challenges

• The gender wage gap
  • Avg. Social Security benefit for women is 77% of the average for men

• Caregiving responsibilities
  • Mothers are sole or primary breadwinner in 41% of families with children

• More likely to be single and heads of households
  • Between 1970 and 2015, proportion of families headed by single mothers increased from 12% to 26%

• Longer life expectancies
  • Life expectancy at age 65: 20.3 years for women, 17.8 years for men
Policy Options

• Improve benefits for low lifetime earners
• Provide Social Security earnings credits for caregiving
• Reduce the marriage duration required for divorced spouse benefits
• Improve benefits for surviving spouses
• Increase benefits and maintain their purchasing power for vulnerable older seniors
Social Security Disability
Background

• DI is insurance against loss of earnings due to a severe medical impairment that results in a significant work incapacity
  • Must have work history to qualify
  • Cause of disability does not have to be work-related
  • No limit on duration of benefits

• Almost 9 million workers receive disabled worker benefits

• Benefits are modest but essential to disabled beneficiaries
Policy Challenges

• Solvency
  • Depletion of reserves in 2023; 89% of benefits payable thereafter

• Understaffing and case backlog
  • SSA’s admin budget down 10%, staff down 5% since 2010
  • Avg. wait time for a hearing up from 360 to 540 days from 2011 to 2016

• Supporting work
  • DI is designed to pay benefits due to work incapacity
  • But some recipients may be able to do some work
  • Vocational rehabilitation services and trial work periods in place
  • More needs to be done
Reform Principles

• Seek to achieve long-term actuarial balance and avoid sudden benefit cuts
• Further strengthen program integrity
• Provide adequate resources to administer the program
• Improve DI administrative and adjudicative processes
• Emphasize early intervention for job retention
• Do more to encourage and support return to work
Strengthening Medicare’s Finances
Medicare Background

• Medicare covers over 57 million people across the U.S.

• Covers seniors and individuals with disabilities receiving SSDI

• Greater control over cost growth compared to private insurance plans

  • Between 1989-2014, annual per enrollee spending growth was 5.5% for Medicare, but 6.3% for private insurance
Medicare Finances

• Part A: Hospital Insurance
  • Primarily financed through payroll tax on employees and their employers
  • Fully solvent until 2028
  • After 2028, revenue will cover 87% of costs

• Part B: Medical Insurance / Part D: Prescription Drugs
  • Funding mostly from general revenues, additional from beneficiary premiums

• Part C: Medicare Advantage
  • Covered by funds from Parts A, B, and D, as well as beneficiary premiums
Policy Challenges

- Long-term revenue shortfall, but not a crisis (87% solvent after 2028)
- Growth of prescription drug and other health care spending
  - Projected annual Part D (prescription drug) spending growth: 5.8%
  - Projected annual Part A spending growth: 3.2%
  - Projected annual Part B spending growth: 4.6%
- Aging of Boomer generation
- High and rising out-of-pocket costs
  - Oldest and poorest Medicare beneficiaries spend nearly 1/4 of their income on health care
Policy Options (1/2)

• Increase payroll tax

• Premium support
  • Would shift risk of cost growth to seniors and people with disabilities

• Control health care spending growth
  • Reduce financial incentives to deliver unnecessary costly services
  • Eliminate/reduce differences in payment across sites of service
  • Increase competition among health care providers
Policy Options (2/2)

• Limit out-of-pocket spending
  • Out-of-pocket spending cap
  • Tax credits to subsidize spending over certain threshold
  • Extend premium and cost-sharing assistance through Medicare Savings Program and low-income drug subsidy

• Restore adequate administrative funding
  • Administrative demands rising with aging of Boomer generation, but funding has not kept pace
Unemployment Insurance

BENEFITS
Background

• Almost all wage and salary employees work in employment covered by UI

• Monetary and non-monetary requirements for receipt

• Average weekly benefit is about $300

• Additional weeks of benefits are sometimes provided to workers during economic downturns
Policy Challenges: UI Benefits

• Ensuring eligibility for UI benefits among today’s workforce
  • Nonstandard work, part-time work, older-worker participation in the labor force, growth of low-wage service industries present areas for reform

• Ineffective Extended Benefit thresholds
  • State must cross thresholds for eligibility in federal cost-sharing of extended benefits in downturns
  • Thresholds:
    1. High rate of unemployment overall
    2. High rate of unemployment compared to the immediately preceding period
  • States may not qualify during sustained unemployment because of 2nd threshold
Policy Options: UI Benefits

• Ensure appropriate coverage of workers in today’s workforce
  • Alternative base periods
  • Eligibility for benefits by part-time workers searching for part-time work

• Improve design of Extended Benefit thresholds
  • Design system to allow for cost-sharing in states with high unemployment and long duration
Unemployment Insurance
FINANCING
Background

• UI funded by:
  • Federal tax paid by employers under the Federal Unemployment Tax Act
  • Employers’ state contributions

• Federal taxable wage base ($7,000) has been in place since nearly the beginning of the UI program
Policy Challenges: UI Financing

• Imbalance between revenues and costs
• Insufficient forward funding undermines countercyclical role of UI
Policy Options: UI Financing

- Address imbalance between revenue and costs
  - Increase FUTA tax base
  - Implement employee taxes
- Incentivize Forward Funding
Unemployment Insurance

REEMPLOYMENT SERVICES
Background

• Employment Service (ES) and unemployment insurance are partner programs

• A significant body of research finds that reemployment services can help UI beneficiaries get back to work quickly
Policy Challenges: Reemployment Services

• Inadequate funding for reemployment services
  • Erosion of UI Taxable Wage Base
  • Federal appropriations for Employment Service are inadequate

• Two goals of speeding return to work and automating UI Administration are difficult to reconcile
  • Generally, services are more effective when delivered in person, rather than remotely by phone or internet
  • Reemployment services should be coordinated with UI benefit administration
Policy Options: Reemployment Services

• Address funding inadequacy to improve availability of in-person services for UI claimants
  • Increase funding for the Employment Service
  • Increase funding for Reemployment Eligibility Assessments and Reemployment Services

• Expand programs that speed return to work
  • Require states to establish Short-Time Compensation as an option for employers
  • Require states to offer the option of Self-Employment Assistance
  • Allow states to offer targeted reemployment bonuses
  • Coordinate additional reemployment services with Extended Benefits
Nonstandard Work
Background

• Workers’ traditional relationships with their employers have been fracturing over the past four decades

• Trend away from traditional employment leaves workers increasingly exposed to economic risks
Policy Challenges

• Nonstandard workforce is growing

• Nonstandard workers face unprotected risks
  • Income risk
  • Health risk
  • Retirement risk
  • Unemployment risk
  • Injury risk
  • Tax-compliance risk
Policy Options

• Leverage the portability and universality of social insurance
• Establish “independent worker” status
• Enact a system of portable “safety net” benefit accounts for some benefits
• Reform eligibility criteria for benefits
• Better enforce laws regulating employee classification
• Enact statutory employer laws