

Strengthening Social Security for the Long Run

National Academy of Social
Insurance

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NATIONAL
ACADEMY
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INSURANCE

Why focus on revenues and benefit adequacy?

- Benefit cuts are being widely discussed
- 1983 reforms already cut long-term benefits and are still phasing in.
- With those cuts, Social Security is affordable in the future. But adequacy is a growing concern.
- Americans would rather pay more than see benefits cut further.

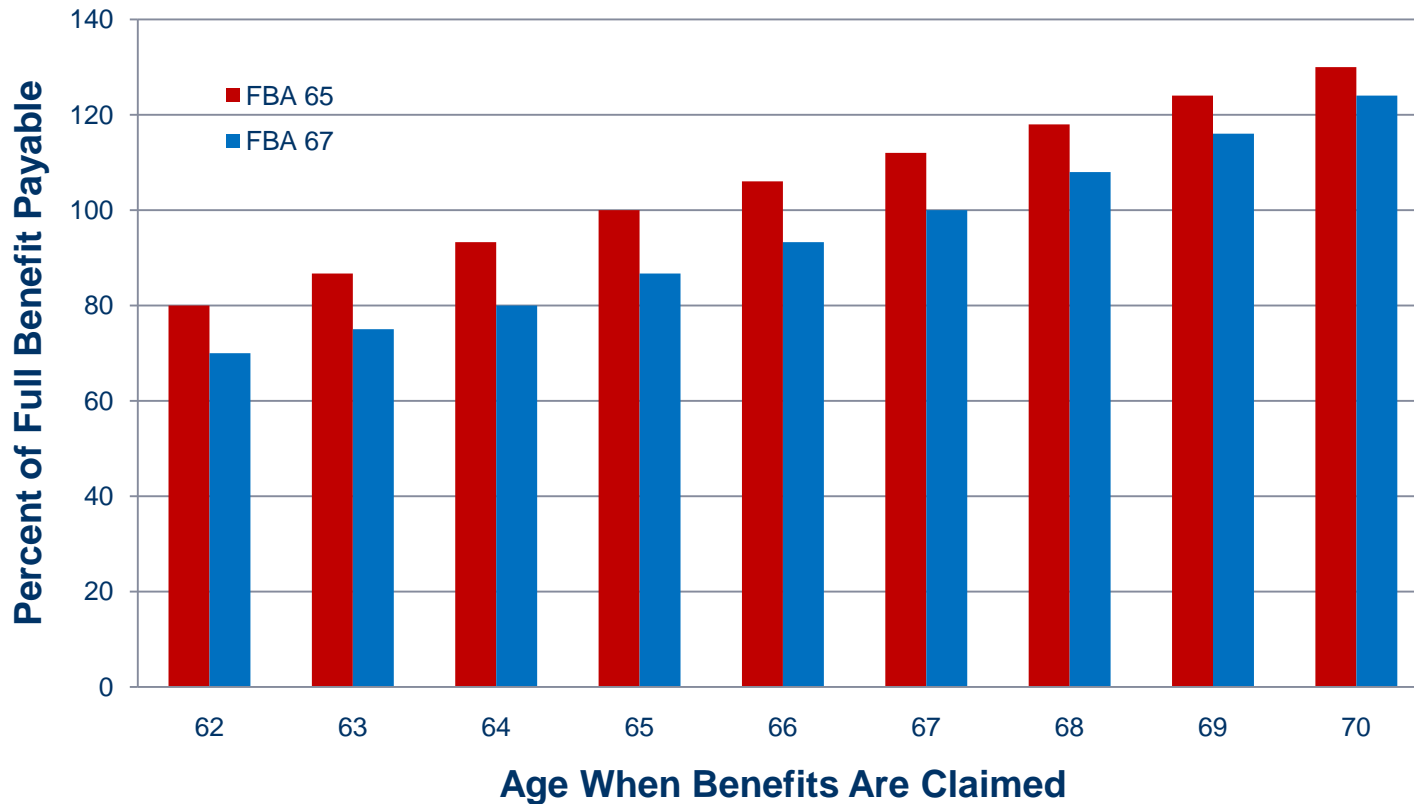
1983 reforms were in two parts. First, a short-term crisis

- Without action, benefits could not be paid in July 1983.
- Greenspan Commission produced a fairly balanced plan to get through the 1980s.
 - 16% from new coverage: contributors first, beneficiaries later
 - 39% from reductions for beneficiaries
 - 44% from increases from contributors
- Congress adopted the short term plan

Next, the long term in 1983

- Greenspan Commission was divided on how to fix Social Security for the 21st century
 - Most Democrats favored a future FICA increase (in 2010)
 - Most Republicans favored raising the full-benefit age
- Congress enacted only the age increase from 65 to 67: a 12-14% benefit reduction.
- No new revenues

Increase in full-benefit age (FBA) lowers benefits at any age they are claimed



With the age increase, the 1983 changes fell largely on future beneficiaries

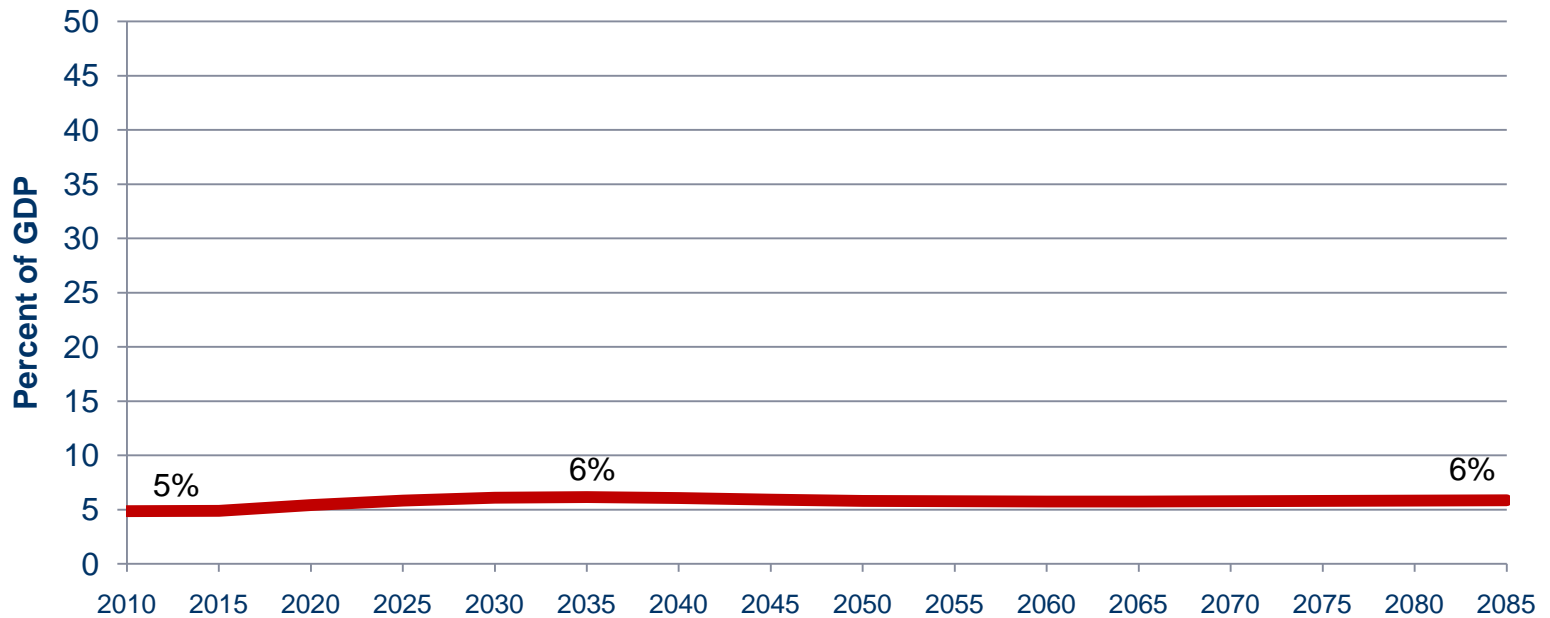
Of the law's long-term savings:

- 20% was from coverage extensions: contributors first, beneficiaries later
- 70% was from reductions for beneficiaries: delay COLAs; tax benefits; raise full benefit age
- 10% was from contributors

The impacts on beneficiaries are still phasing in.

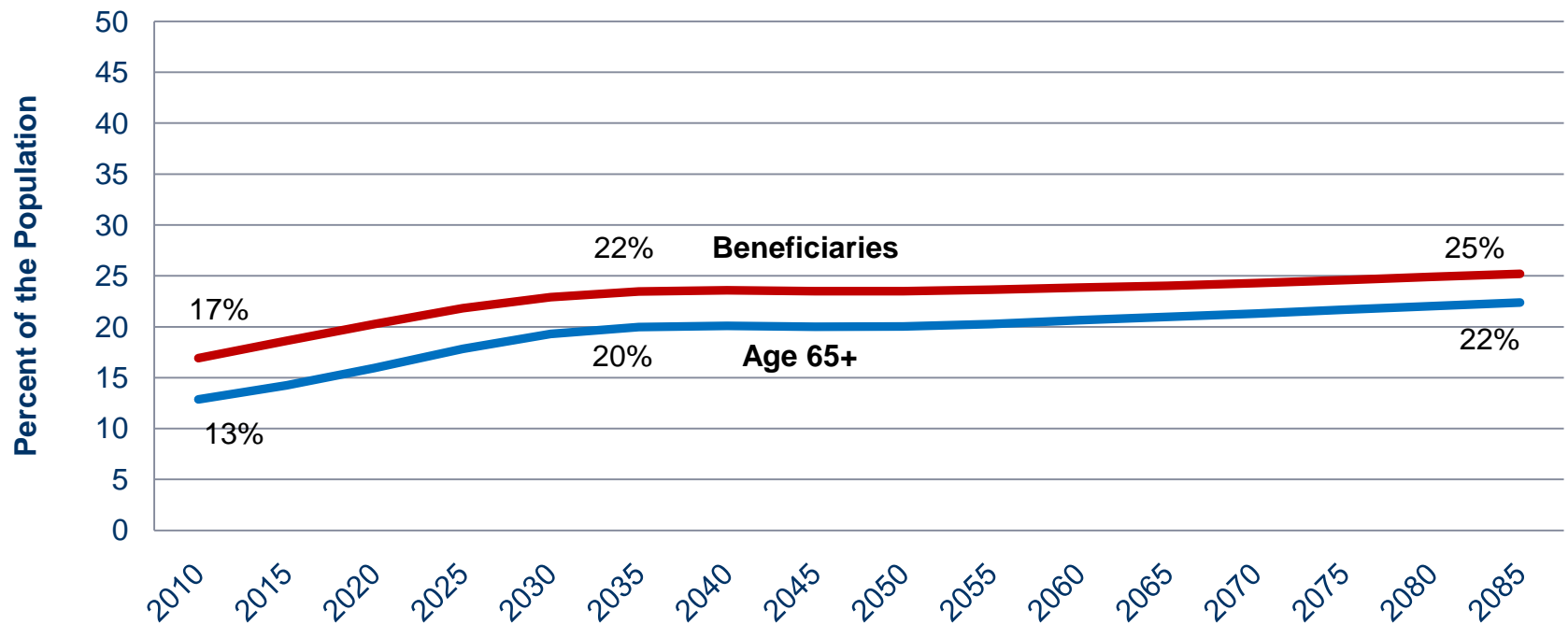
With the 1983 Cuts, Social Security Is Clearly Affordable

Social Security as a Percent of the Economy (GDP), 2010-2085



Even as more of us will be over 65 and more will depend on it

Percent of the Population Receiving Social Security and Percent Age 65+, 2010-2085

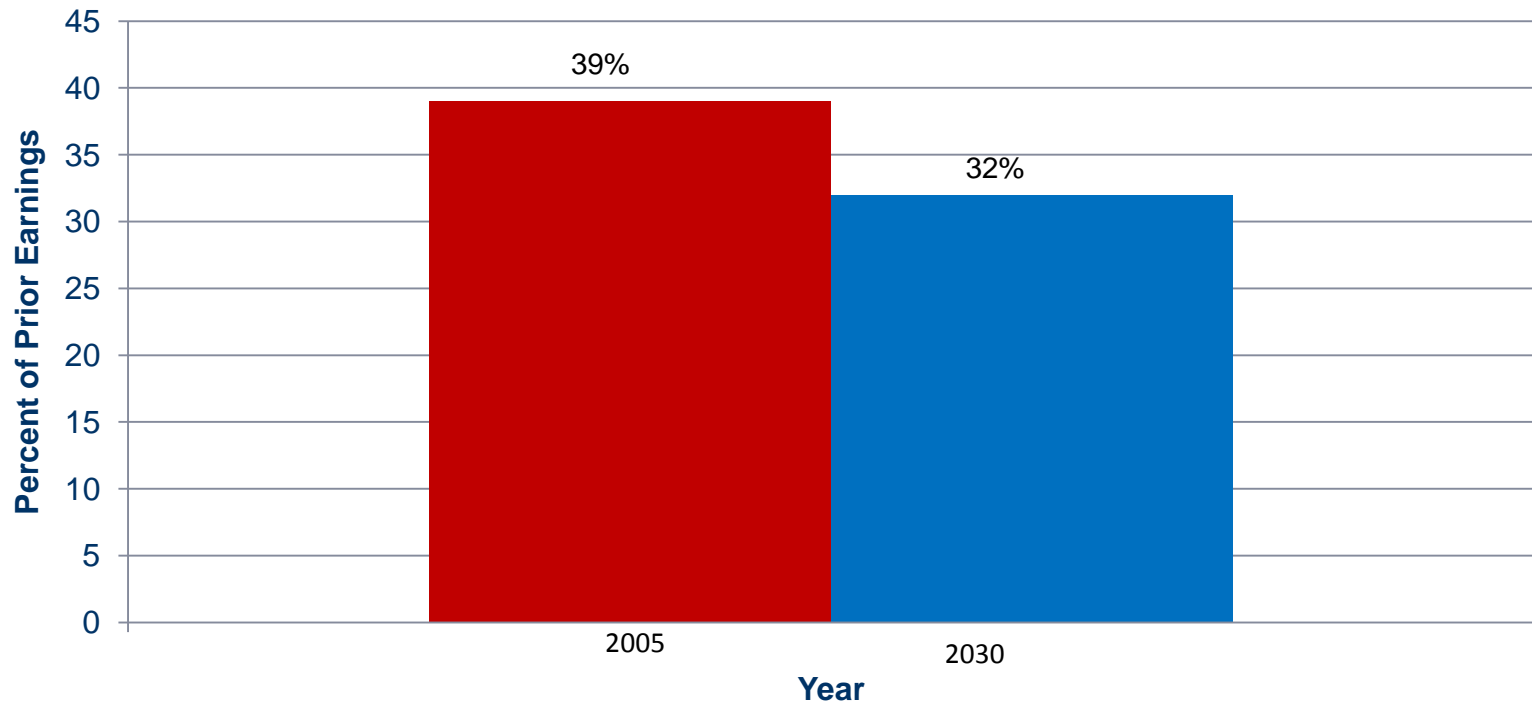


Why be concerned about inadequate benefits in the future?

- Benefits are modest, yet are the main income of most beneficiaries
- Replacement rates will decline in the future
- Other resources – pensions, savings, home values, jobs – are less secure

Social Security replacement rates are declining

Social Security Replacement Rate, 2005 and 2030
Average Earner at Age 65 After Medicare Part B Premium





Two Modest Options to Improve Adequacy:

One for families; One for elders

Families: College access for children of disabled or deceased workers

- Continue benefits until age 22 if child is in college or vocational school
 - Eliminating these benefits in 1981 reduced college enrollment and completion among low-income and minority students
 - Critical to life chances for young adults in today's economy
 - Replacing lost parental support is a role for SS
 - Modest cost: 0.07% of payroll
 - Cost could be offset by higher future earning power (and Social Security contributions) of recipients.

Vulnerable elders: Raise the floor

- An updated special minimum benefit would target benefit improvements to long-service low-paid workers
 - For those with 30 years of low-paid work, a benefit above poverty at 62
 - The most effective way to raise floor for long-service, low paid workers
 - Cost: 0.13% of payroll
- See: *Fixing Social Security* report for more options.



A 75-Year Financing Plan: A three-part approach

Broaden the FICA base in two ways: Both reflect past intent of Congress

- Lift the earnings cap to cover 90% of wages
 - 1977 law set the cap to cover 90% and indexed it to wages
 - 6% of workers make more than the cap
 - Their wages grew faster than wages of workers below the cap
 - 10-year phase in will reduce shortfall by 39%
- Treat all salary reduction plans like 401(k)s
 - 1983 law made worker 401(k) contributions subject to FICA
 - Doing this for medical-spending, dependent-care and commuting-cost plans would reduce 75-year shortfall by 13%.

Enact a 75-year FICA schedule

- Schedule modest rate increases over 75 years
 - Through most of its history, Social Security has had rate increases in law for the long-term future
 - Set future revenues so that Social Security is soundly financed for 75 years and beyond
 - Avoid drawing down reserves; continue interest income
 - Adjust EITC to offset FICA increase for low-paid workers

Americans say they don't mind paying for Social Security

Table 4. Reason Why I Don't Mind Paying Social Security Taxes

*Please tell me if you agree or disagree with the statement:
I don't mind paying Social Security taxes because:*

Reason why I don't mind paying Social Security taxes	Total	Democrats	Independents	Republicans
Percent who strongly or somewhat agree				
I know that I will be receiving the benefits when I retire.	72	84	69	63
I know that if my parents, grandparents, or other family members did not receive Social Security, I would have to support them in their retirement.	75	82	76	68
It provides security and stability to millions of retired Americans, the disabled, and children and widowed spouses of deceased workers.	87	93	85	81

Source: Social Security Survey sponsored by the National Academy of Social Insurance and the Rockefeller Foundation, July-August 2009. N=1488.

In a weak economy, Americans want to strengthen Social Security

Table 5. Two Views on the Economy and Social Security

Which statement comes closest to your view?	Total	Democrats	Independents	Republicans
Total percent	100	100	100	100
Some people say that with our economy in crisis and our national deficit reaching \$2 trillion, we should focus on ways to cut taxes and government spending, including things like Social Security.	28	15	29	45
Others say that with the economic crisis and the stock market crash, it's more important than ever to strengthen Social Security to make sure that retirees and the disabled can count on secure benefits for generations to come.	66	82	64	47
Both, neither, don't know	5	3	7	8

Source: Social Security survey sponsored by the National Academy of Social Insurance and the Rockefeller Foundation, July-August 2009.

Americans want to preserve Social Security even if we have to pay more

Table 6. Preserve Social Security Even If We Have to Pay More

<i>It is critical that we preserve Social Security for future generations ...</i>	Total	Democrats	Independents	Republicans
	Percent who strongly or somewhat agree			
... even if it means increasing working Americans' contributions to Social Security taxes.	77	87	75	67
... even if it means raising wealthy Americans' contributions to Social Security.	74	94	71	56

Source: Social Security survey sponsored by the National Academy of Social Insurance and the Rockefeller Foundation, July-August 2009.

America Speaks, AARP findings

- *America Speaks* town hall meetings June 26, 2010, yielded similar findings:
 - No benefit cut had majority support
 - 50% supported raising Social Security tax rates
 - 60% favored lifting the cap
- AARP survey (August 2010)
 - 85% oppose cutting Social Security to reduce the deficit
 - Most adults under 50 would rather pay more today to preserve future benefits rather than pay the same today and get less in future benefits.

Recap: Revenues and Adequacy

- Social Security is affordable
- As 1983 cuts phase in, inadequate benefits are a growing problem
- Targeted improvements and a 75-year revenue plan reflect what Americans say they want.

A Time of Opportunity

As 75-year revenue plan and targeted improvements would:

- Secure Social Security for the future
- Provide workers of all ages security and peace of mind that they can count on it.
- Demonstrate that Washington is listening.