

Reforming Social Security

Marc Goldwein

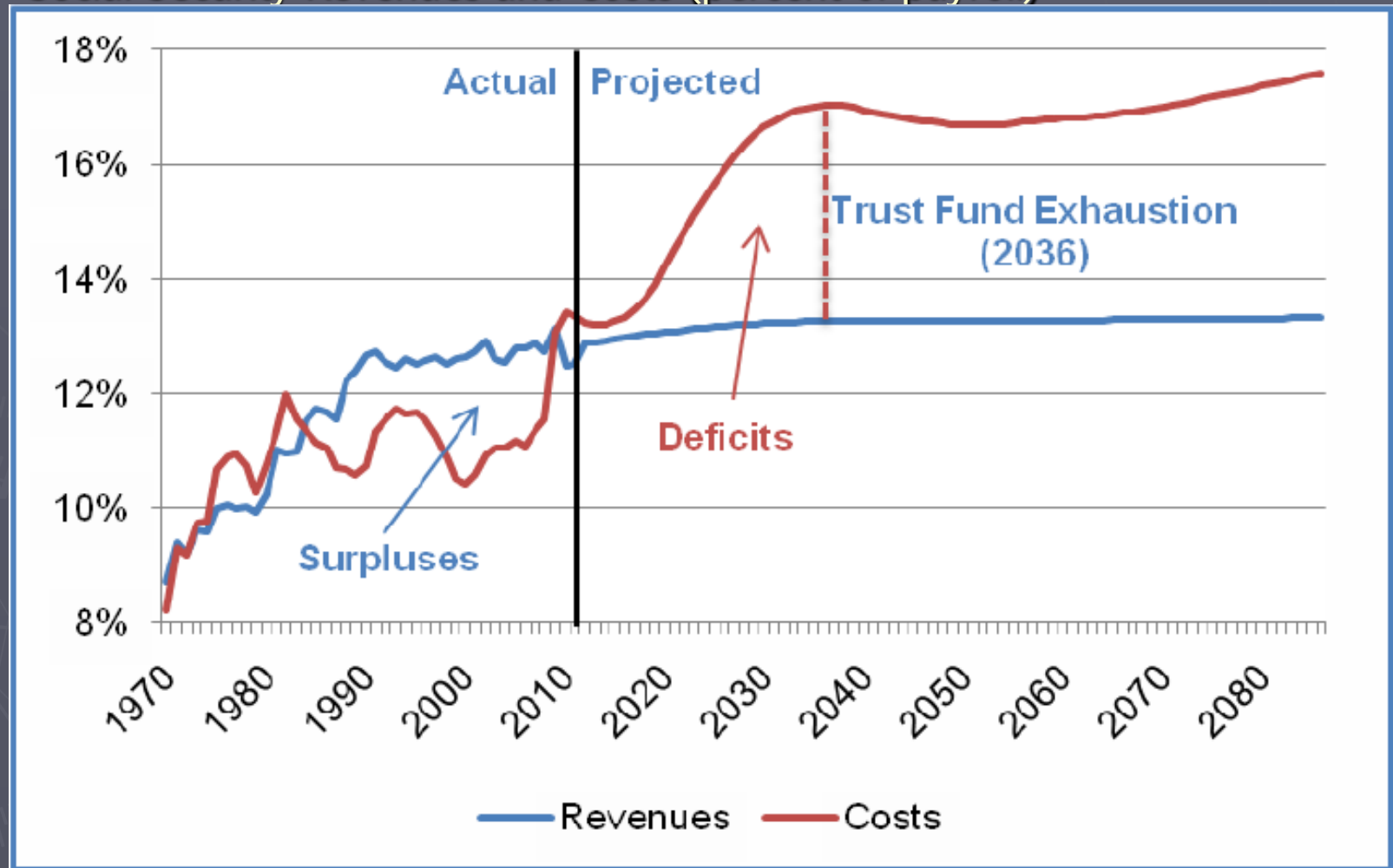
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Permanent Deficits, Looming Insolvency

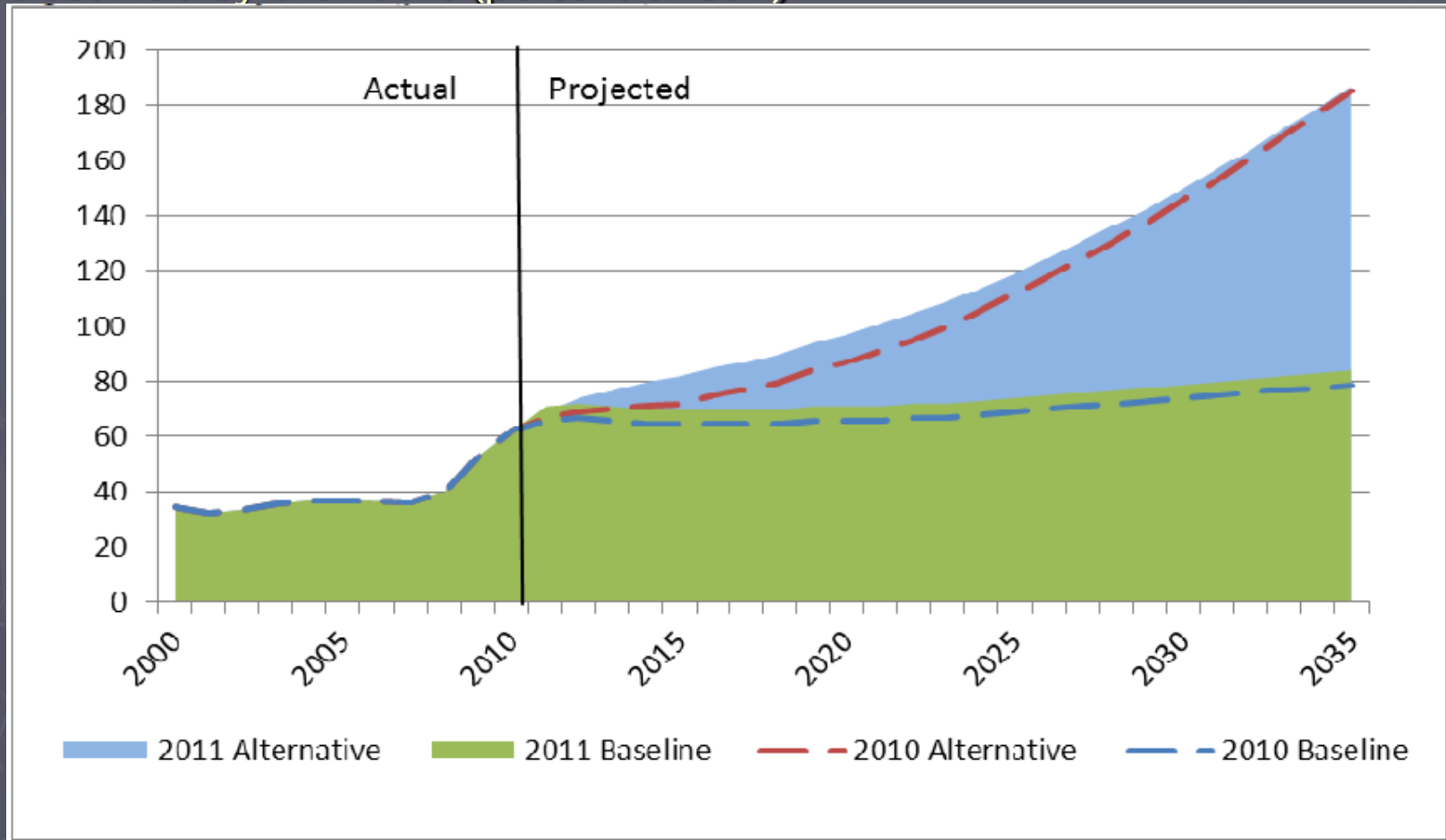
Social Security Revenues and Costs (percent of payroll)



Source: Committee for a Responsible Federal Budget and Social Security 2009 Trustees Report

Rapidly Growing Federal Debt

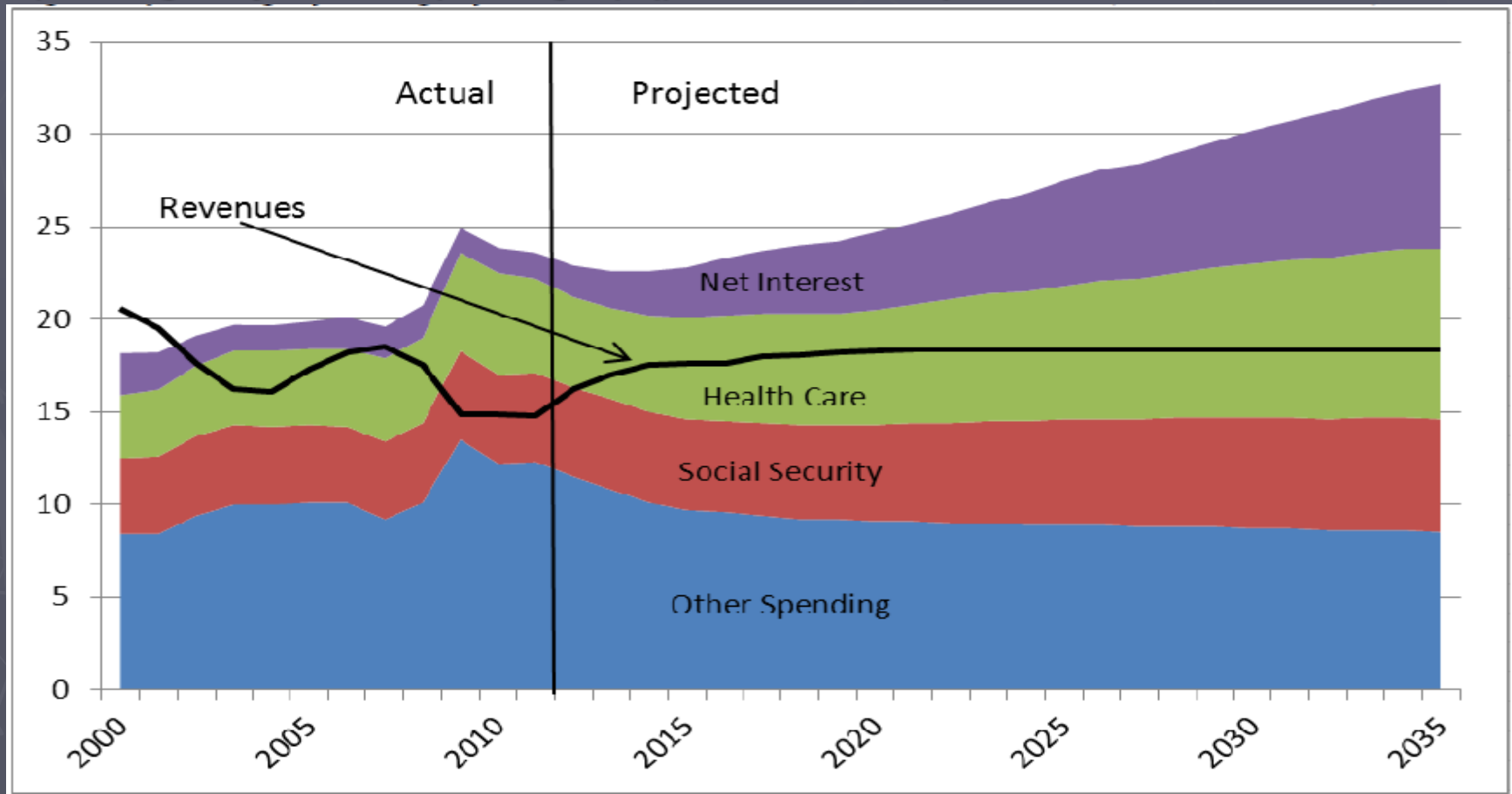
Debt Held by the Public (percent of GDP)



Source: Committee for a Responsible Federal Budget and Congressional Budget Office

Sources of Spending Growth

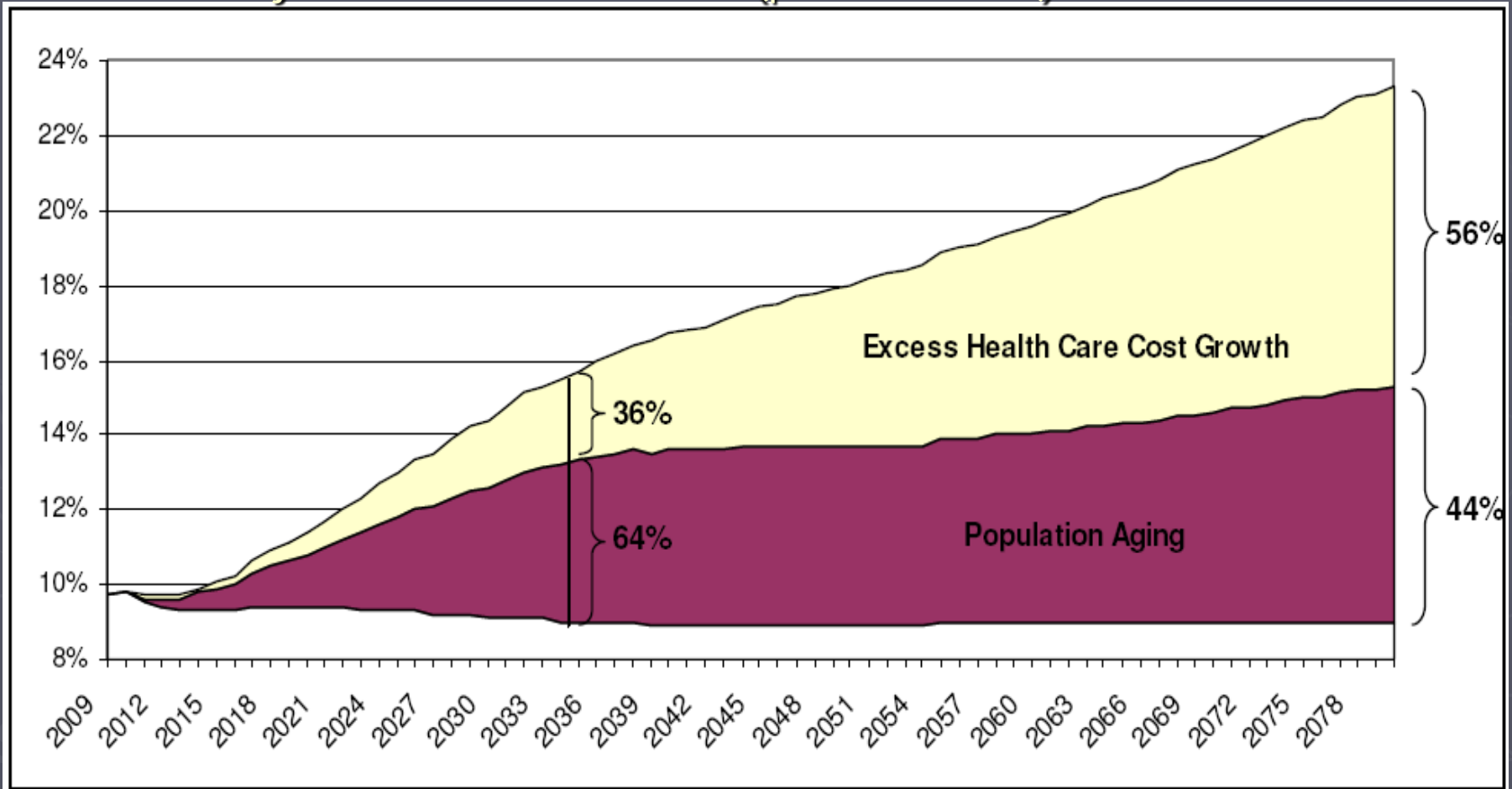
Spending Projections by Category (percent of GDP)



Source: Committee for a Responsible Federal Budget and Congressional Budget Office

Aging Matters

Drivers of Projected Entitlement Growth (percent of GDP)



Source: Committee for a Responsible Federal Budget and Congressional Budget Office

Consequences of Aging

- ▶ Slower Economic Growth
 - Fewer Workers
 - Fewer Investors
- ▶ Greater Risk of Poverty in Old-Age
 - More years in retirement
 - Higher chance of outliving savings
- ▶ *Fiscal Insolvency*
 - More Entitlement Costs
 - Less Revenue

Principles for Social Security Reform

1. Achieve **Sustainable Solvency** by:
 1. Eliminating **2.22% of payroll** actuarial imbalance
 2. eventually closing **4%+ of payroll** structural gap
2. Protect Those Who Rely on the Program Most
3. Be Politically Palatable to Both Sides
4. Mitigate the Effects of Population Aging

We Can Bend the Aging Curve



The Dependency Ratio

Workers =



Retirees =



Change the Demographics

Workers =



Retirees =

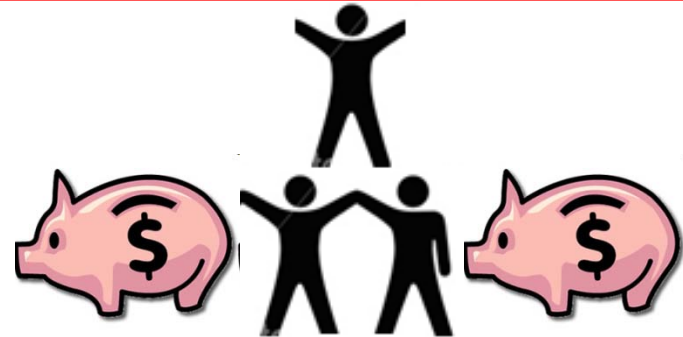


Make Retirees Less Dependent

Workers =



Retirees =



Make Workers Wealthier

Workers =



Retirees =



Change the Equation


Workers =



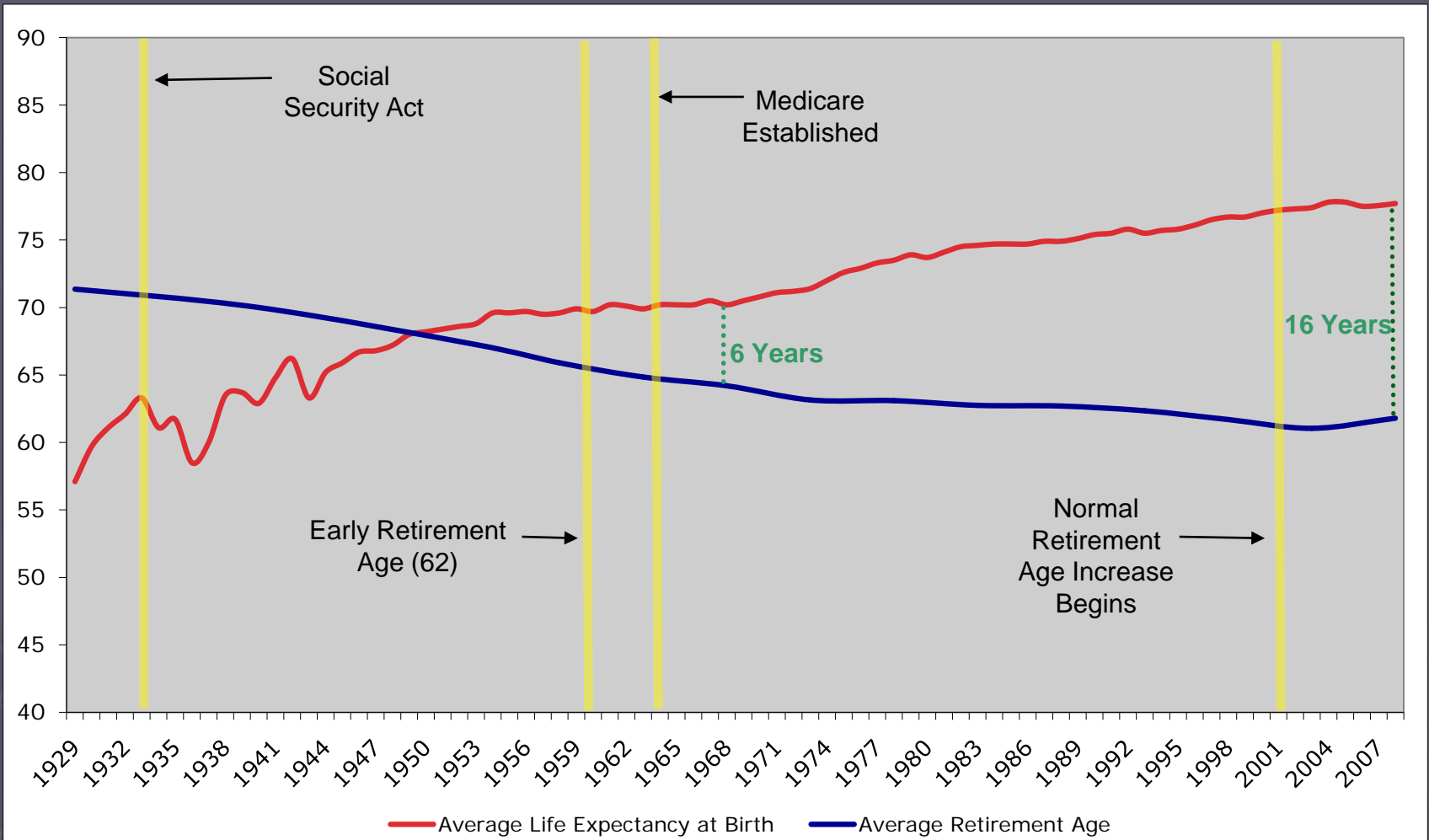
Retirees =



Mitigating the Effects of Aging?

- ~~▶ Increase Mortality~~
 - ~~▶ Increase Fertility~~
 - ~~▶ Increase Immigration~~
 - ▶ Increase National (and Personal) Savings
 - ▶ Encourage Longer Working Lives
 - ▶ Improve Economic Growth
- 

We Can Do It

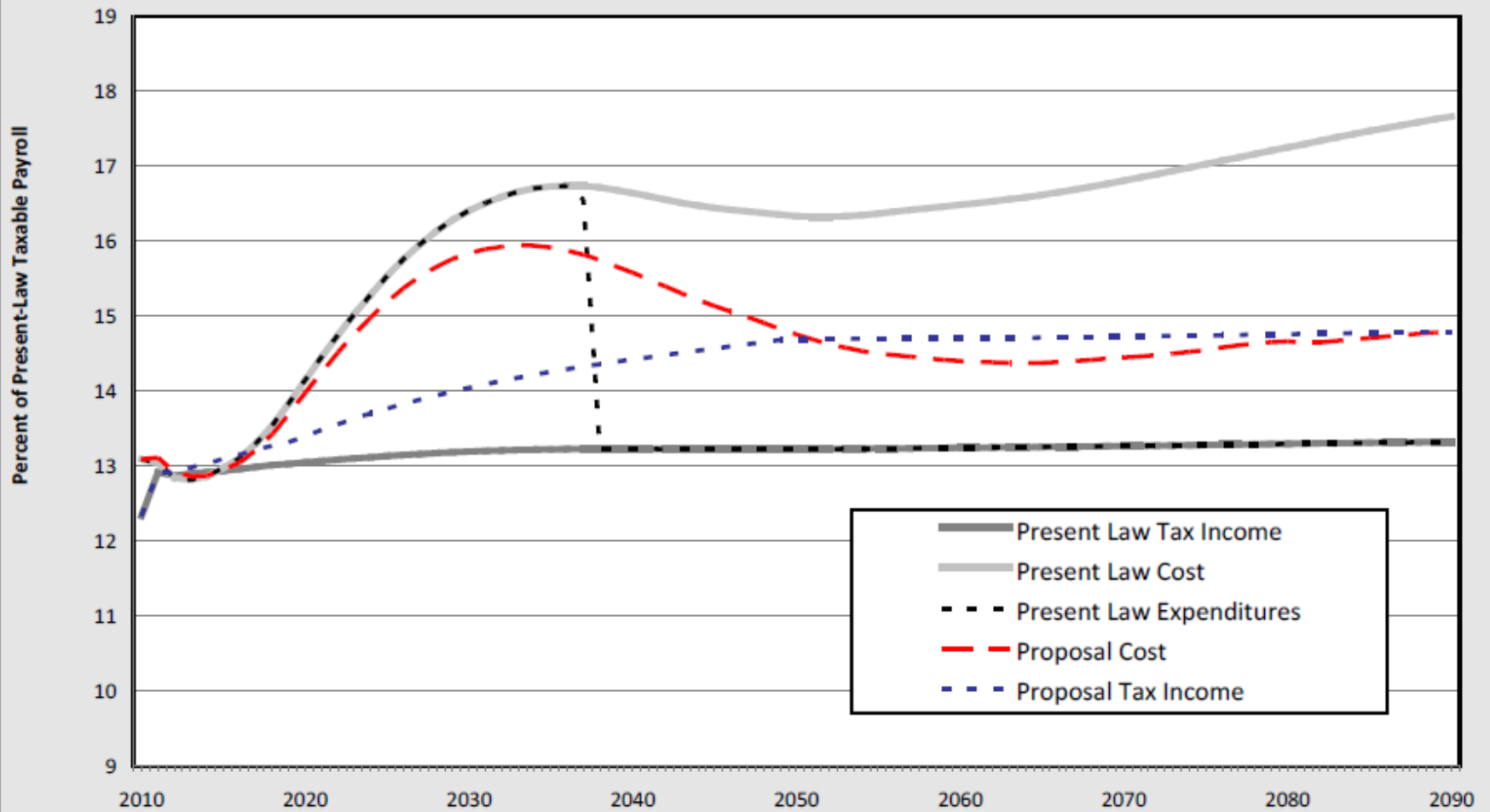


A Balanced Plan for Reform

Social Security Plan of the Fiscal Commission

	75-Year	75 th Year
Raise Retirement Ages to 64 and 69 by 2075	21%	36%
Switch to Chained CPI for COLAs	26%	17%
Progressive Benefit Formula Changes	45%	51%
Increase Taxable Maximum	35%	22%
Cover State & Local Workers	8%	0%
Enact Various Hardship Exemptions and Benefit Enhancements for Low Earners and the Old-Old	-23%	-24%
TOTAL	112%	102%

Figure 2. Commission Plan (Basic Social Security Provisions Only) and Present Law Cost and Tax Income as Percent of Taxable Payroll: 2010 TR Intermediate Assumptions



Possible Improvements?

- Include mandatory or automatic "add-on" retirement accounts
- Raise retirement ages faster and use money to further enhance benefits for low and moderate earners
- Improve retirement signals elsewhere in government (Medicare age, federal retirement, pension/401(k)/IRA rules, etc)

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