

# Reforming Social Security

Marc Goldwein

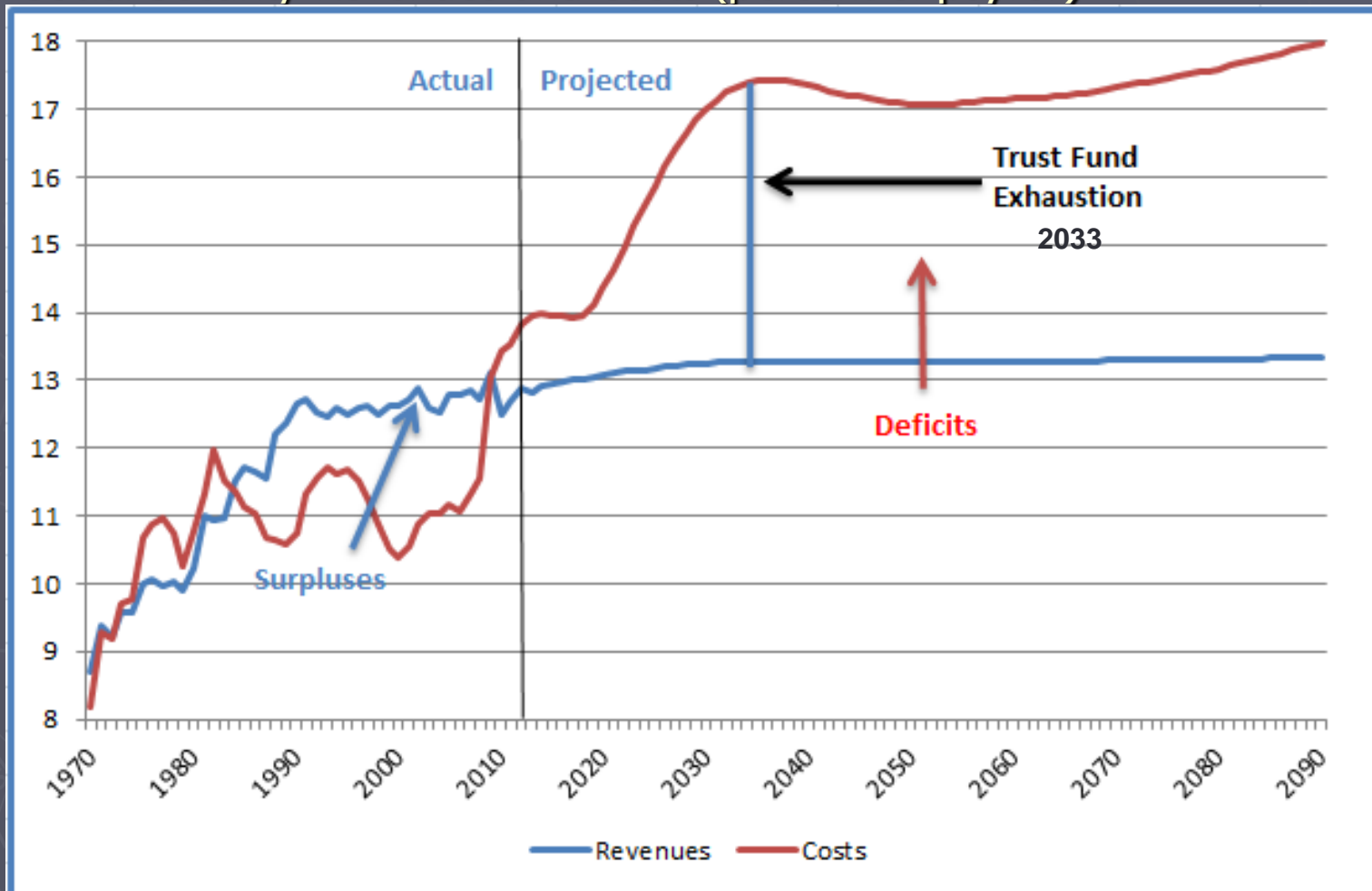
Policy Director, Committee for a Responsible Federal Budget

[goldwein@newamerica.net](mailto:goldwein@newamerica.net)

<http://www.crfb.org>

# Permanent Deficits, Looming Insolvency

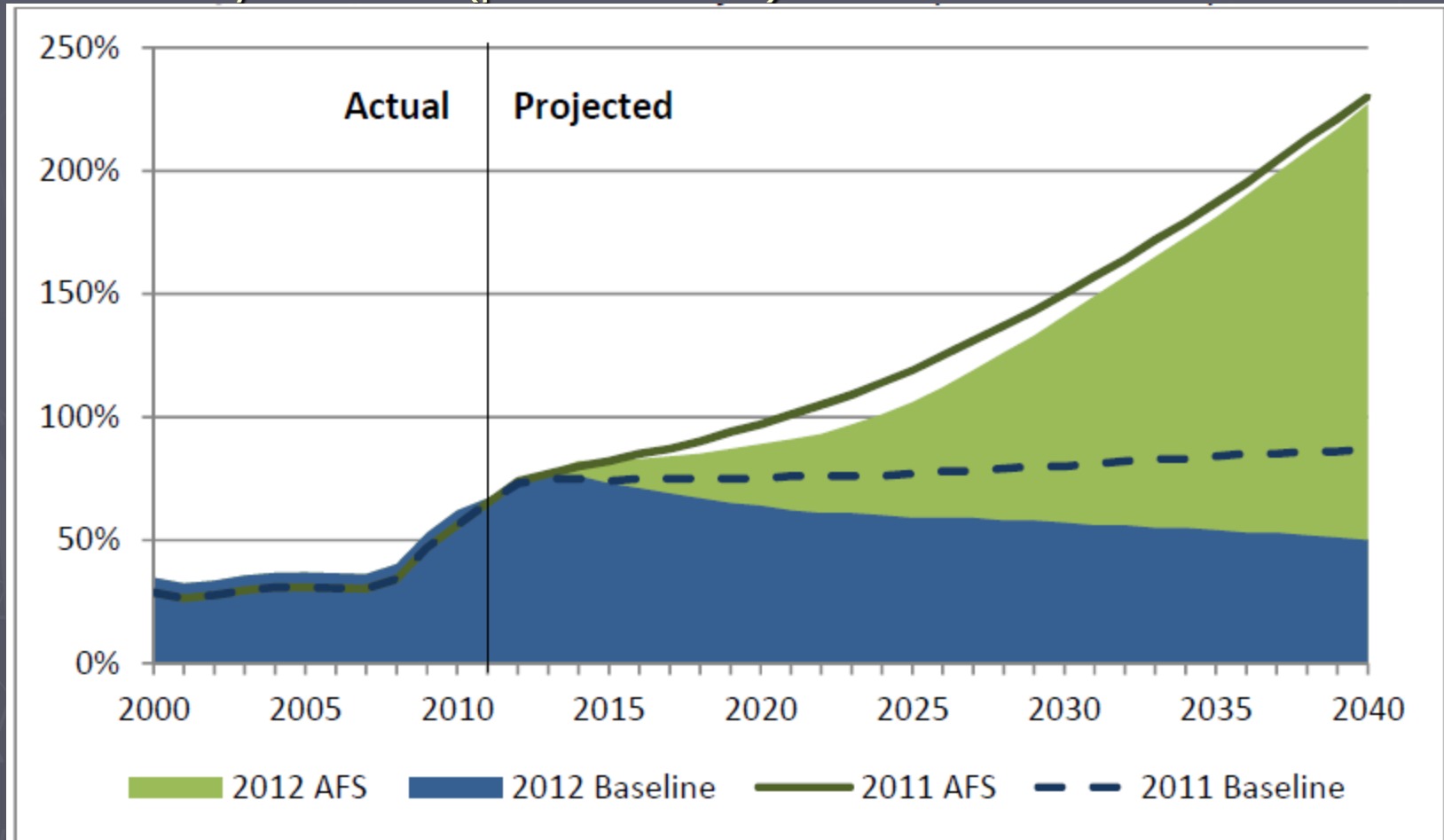
Social Security Revenues and Costs (percent of payroll)



Source: Committee for a Responsible Federal Budget and Social Security 2012 Trustees Report

# Rapidly Growing Federal Debt

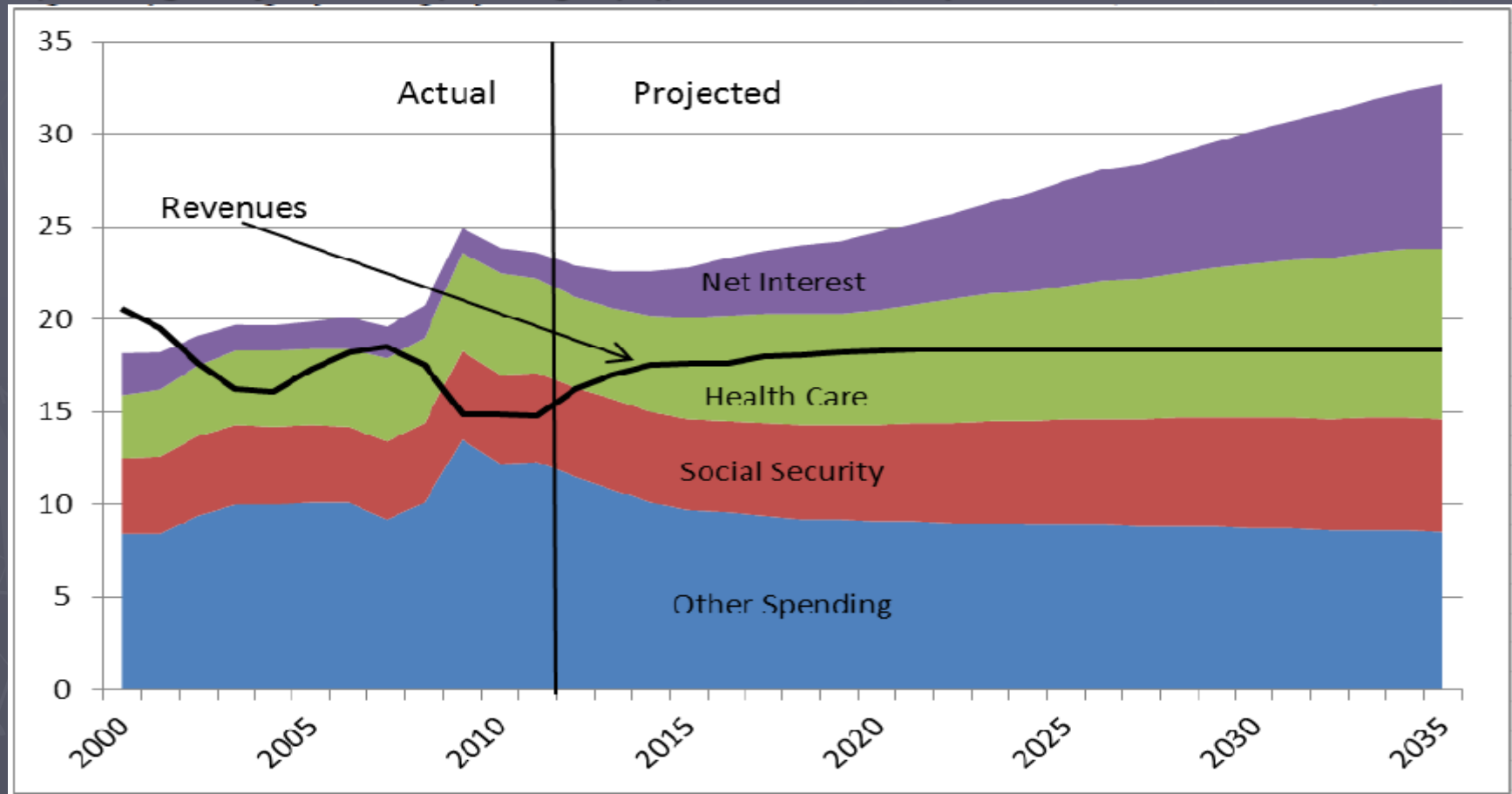
Debt Held by the Public (percent of GDP)



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

# Growth Driven Largely by Aging

## Explaining Projected Growth in Federal Spending on Major Health Care Programs and Social Security by 2037

(Percent)

	Aging	Excess Cost Growth
<b>Extended Baseline Scenario</b>		
Major Health Care Programs and Social Security	75	25
Major Health Care Programs	60	40
<b>Extended Alternative Fiscal Scenario</b>		
Major Health Care Programs and Social Security	68	32
Major Health Care Programs	52	48

Source: 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

# Goals of Social Security Reform

1. Achieve **sustainable solvency** by:
  1. Eliminating **2.67% of payroll** actuarial imbalance
  2. Eventually closing **4.5% of payroll** structural gap
2. Retargeting benefits to protect those who rely on the program most
3. Mitigate the effects of population aging
4. Be politically palatable to both sides

# We Can Bend the Aging Curve





# The Dependency Ratio

**Workers =**



**Retirees =**



# Change the Demographics

Workers =



Retirees =

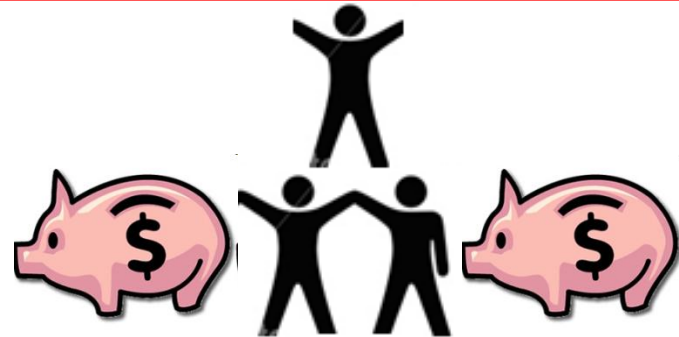


# Make Retirees Less Dependent

**Workers =**



**Retirees =**



# Make Workers Wealthier

**Workers =**



**Retirees =**



# Change the Equation

**Workers =**



**Retirees =**

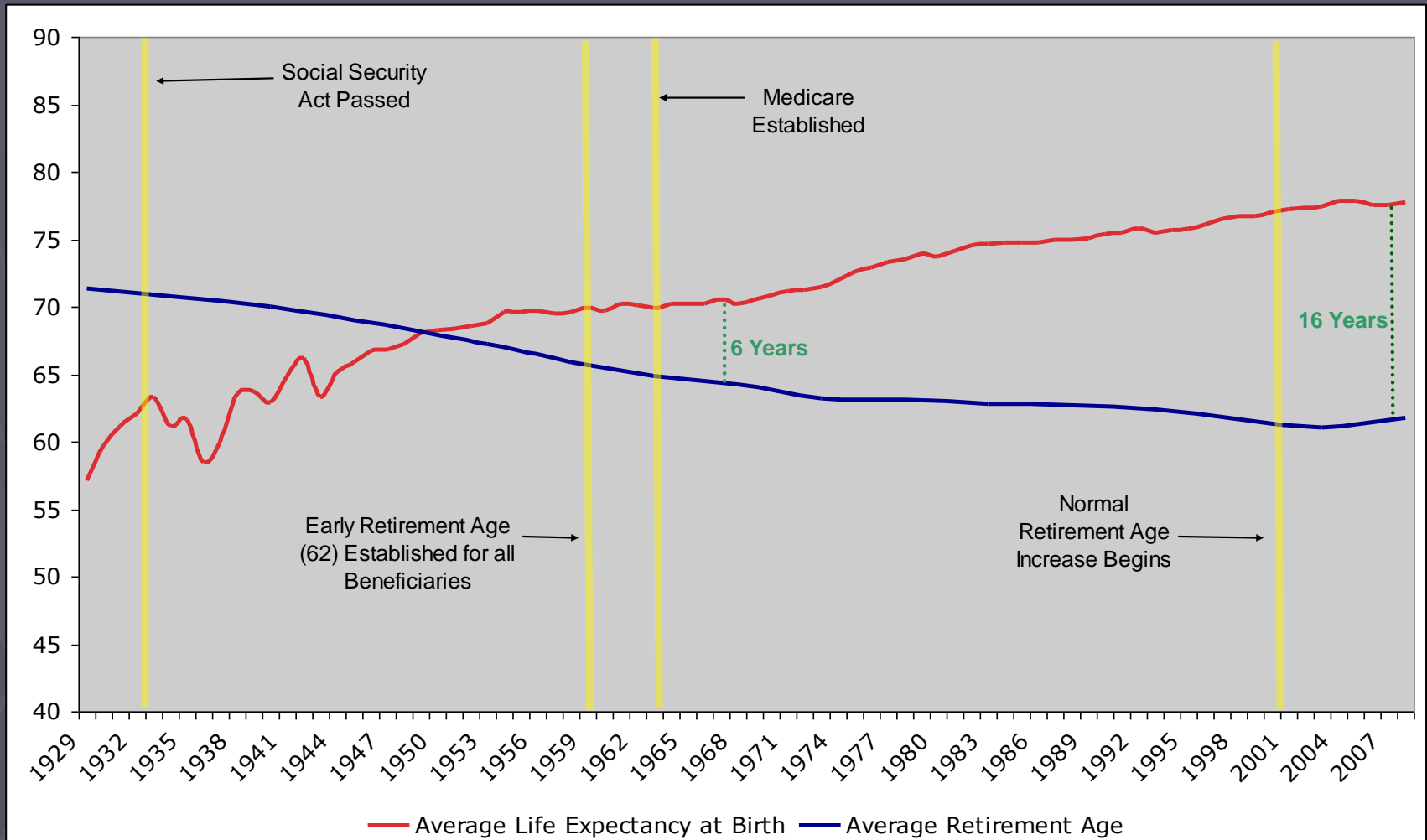


# Mitigating the Effects of Aging?

- ▶ ~~Increase mortality~~
- ▶ ~~Increase fertility~~
- ▶ ~~Increase immigration~~
- ▶ Encourage longer working lives
- ▶ Increase national (and personal) savings
- ▶ **Improve economic growth**

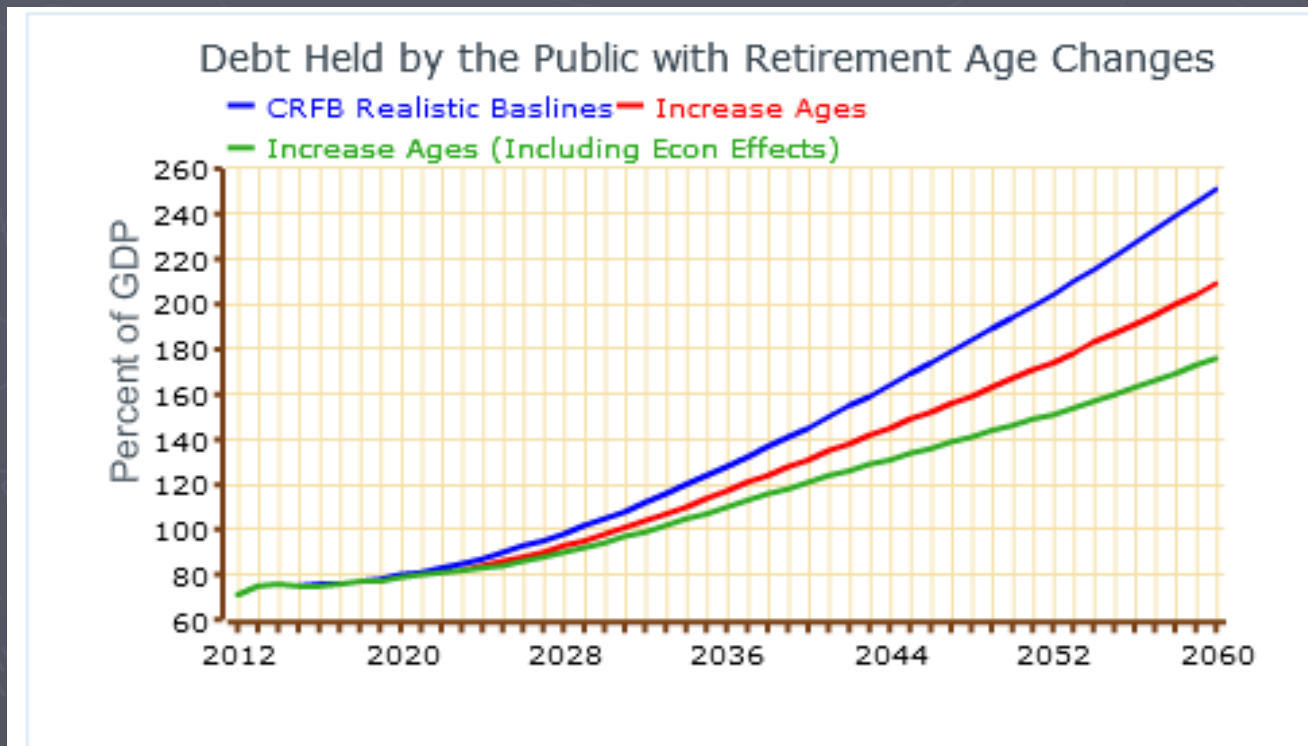


# We Can Do It



# Benefits of Later Retirement

- ▶ Lower social security costs
- ▶ Higher payroll tax revenues
- ▶ Higher income tax revenue
- ▶ Greater retiree wealth and less time relying on wealth
- ▶ Stronger economic growth



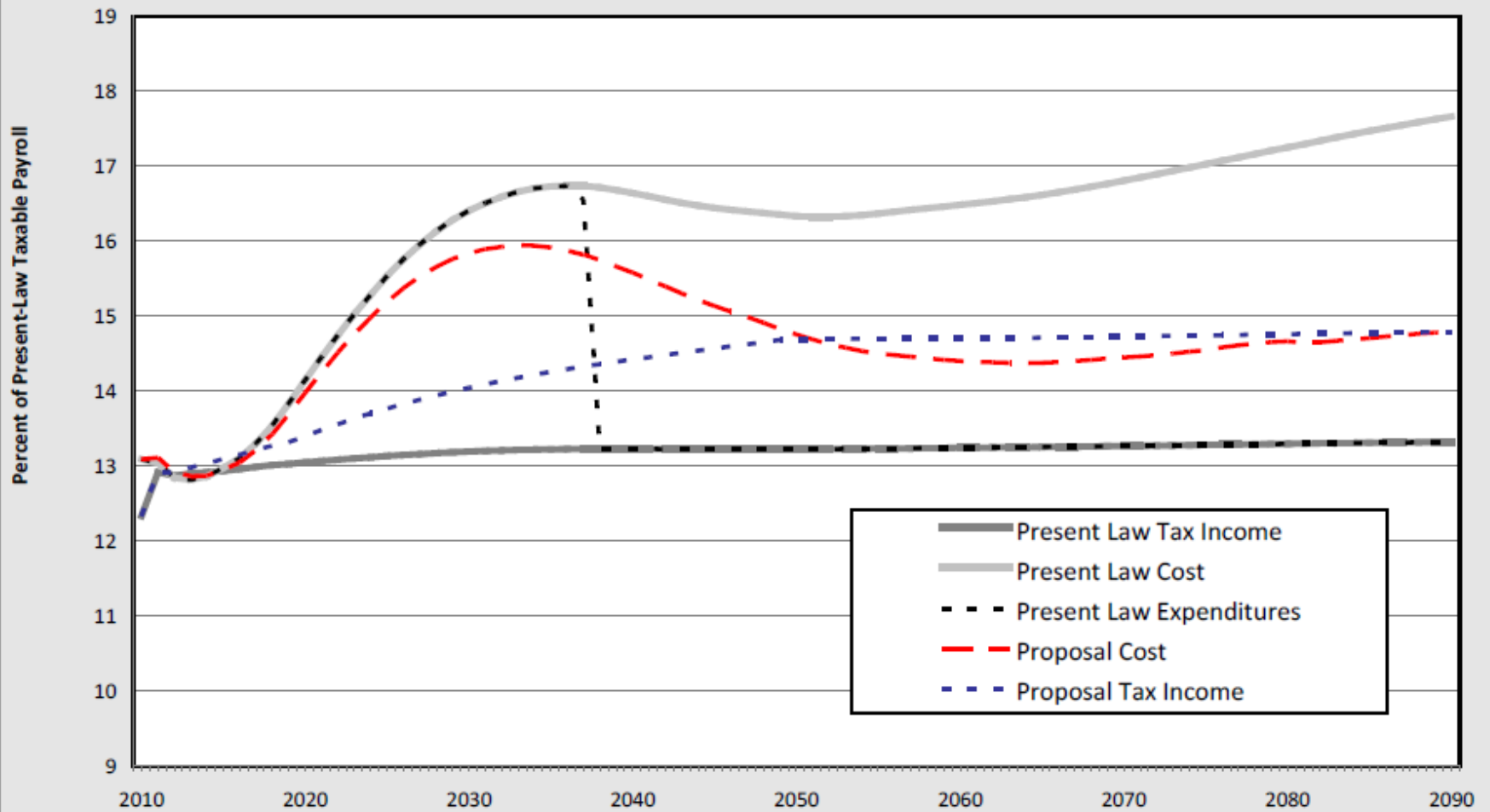


# A Balanced Plan for Reform

Social Security Plan of the Fiscal Commission (**NUMBERS OUT OF DATE**)

	75-Year	75 <sup>th</sup> 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 <b>Hardship Exemptions</b> and Benefit <b>Enhancements</b> for Low Earners and the Old-Old	-23%	-24%
<b>TOTAL</b>	<b>112%</b>	<b>102%</b>

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 changes to improve the solvency and effectiveness of Social Security Disability Insurance
- Include mandatory or automatic “add-on” retirement accounts
- Improve minimum benefit to better target workers with shorter careers
- 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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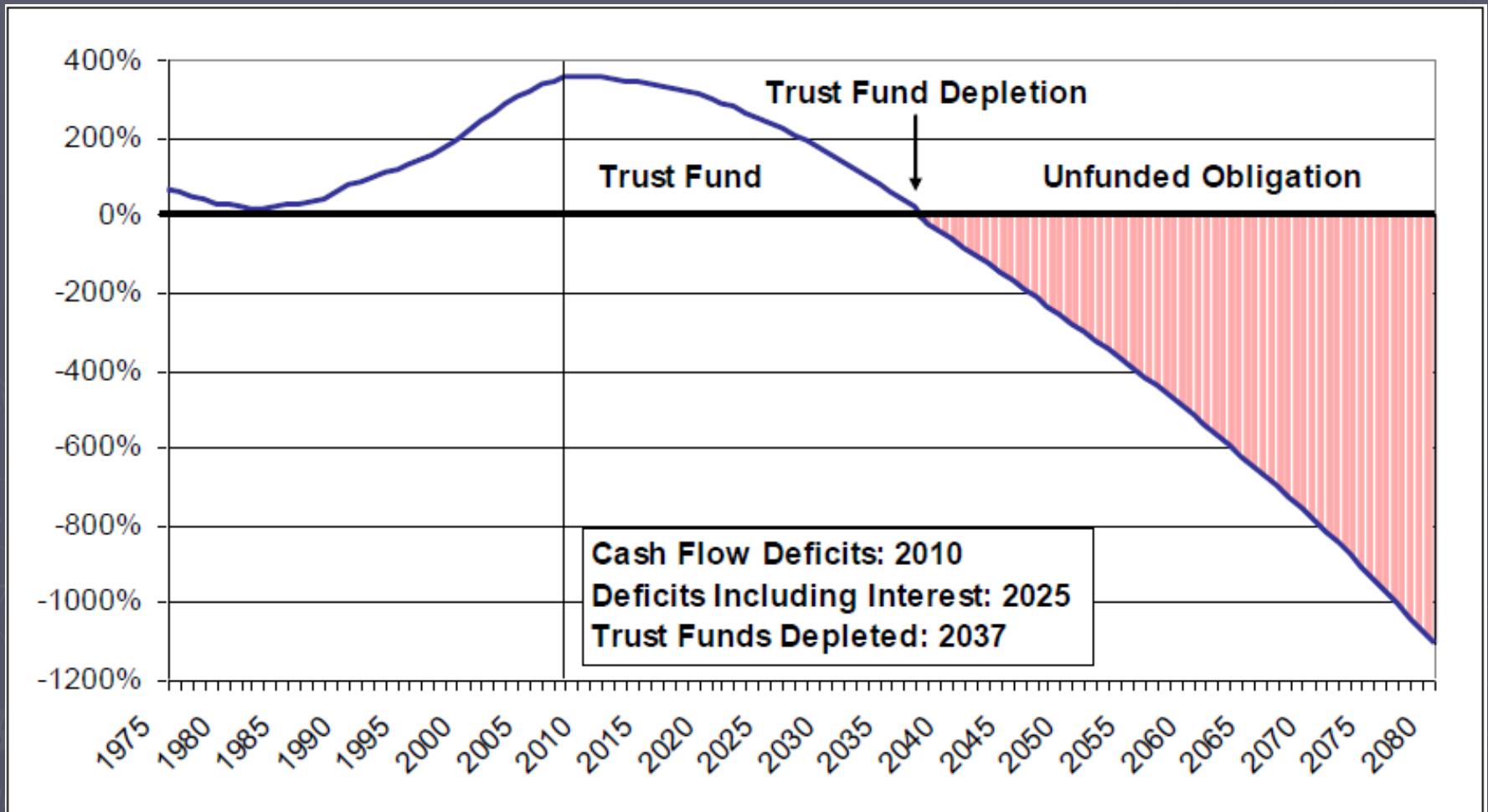
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# EXTRA SLIDES



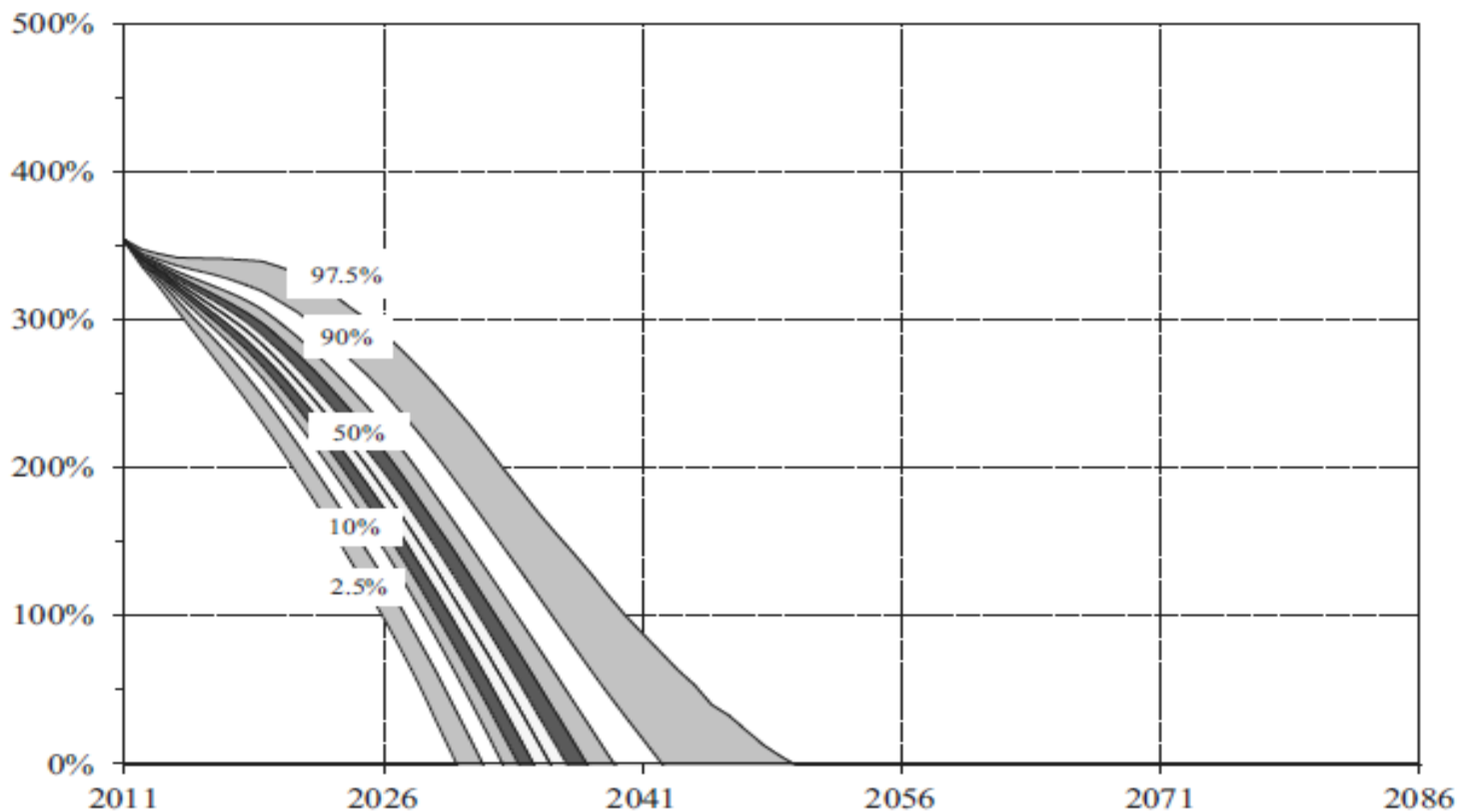
# Social Security' Shortfall



# Almost Certainly Unsustainable

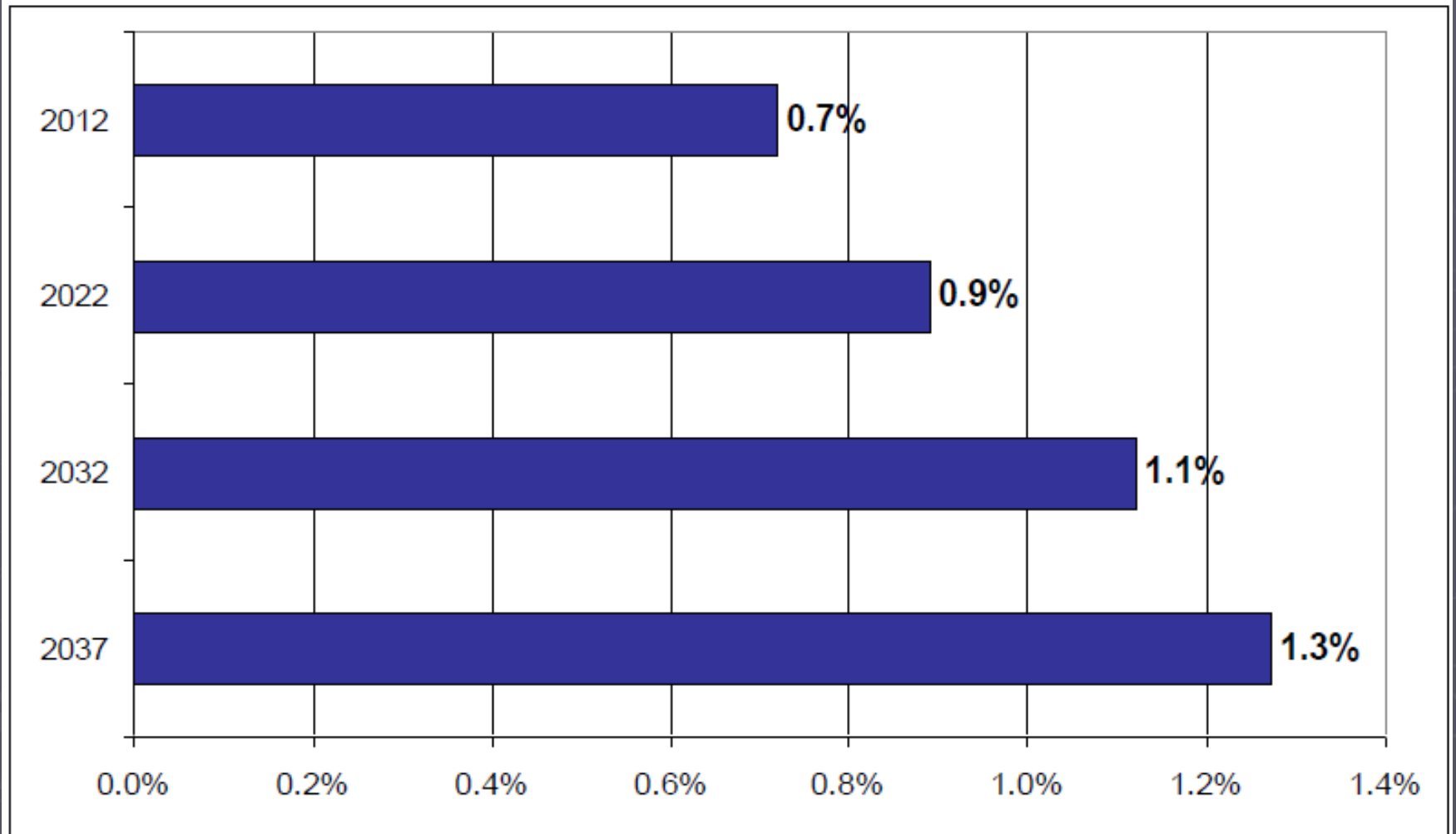
## Probability of Various Trust Fund Exhaustion Dates

Figure II.D7.—Long-Range OASDI Trust Fund Ratios From Stochastic Modeling



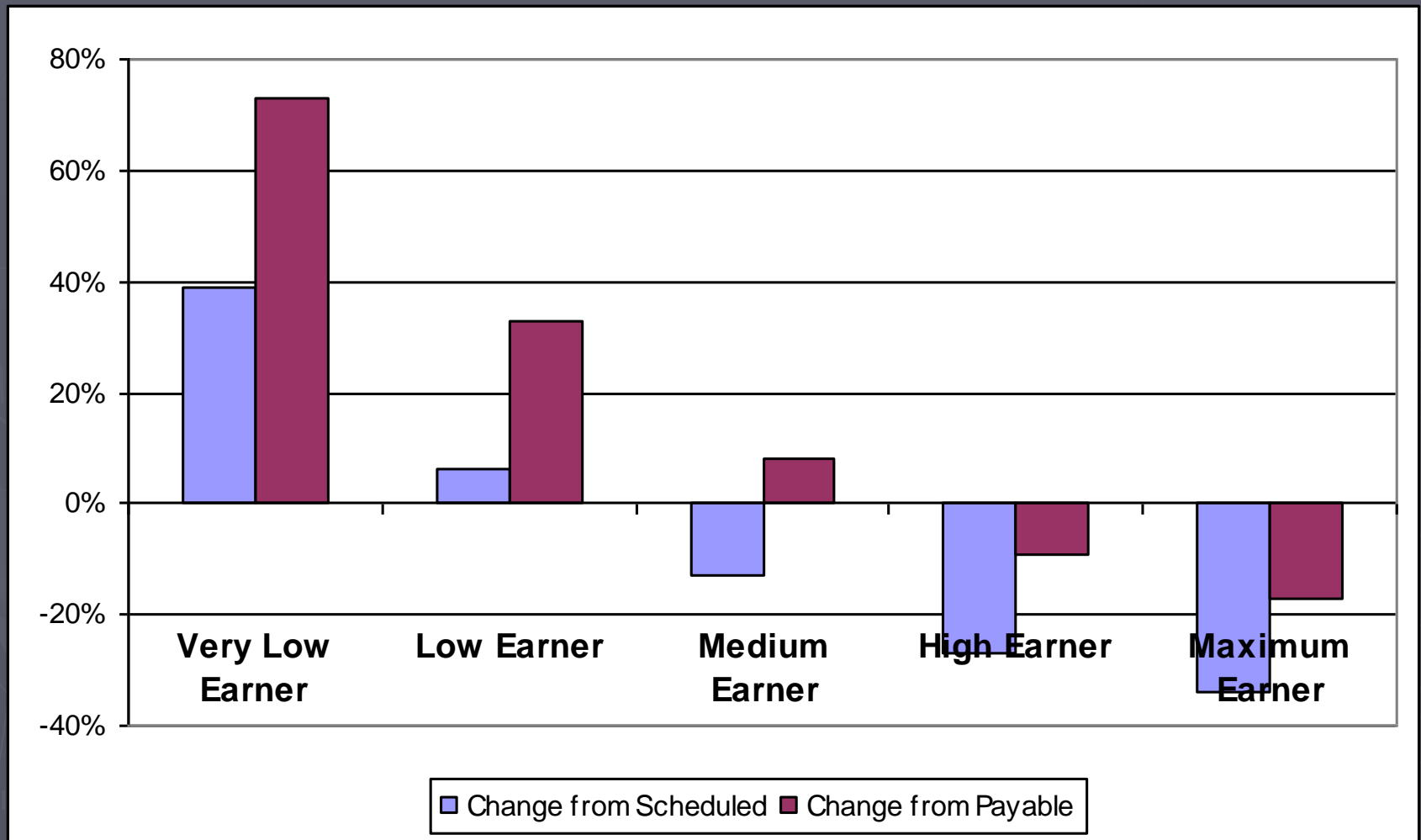
Source: Social Security 2009 Trustees Report

# The Cost of Delay





# Distribution of Commission Rec's

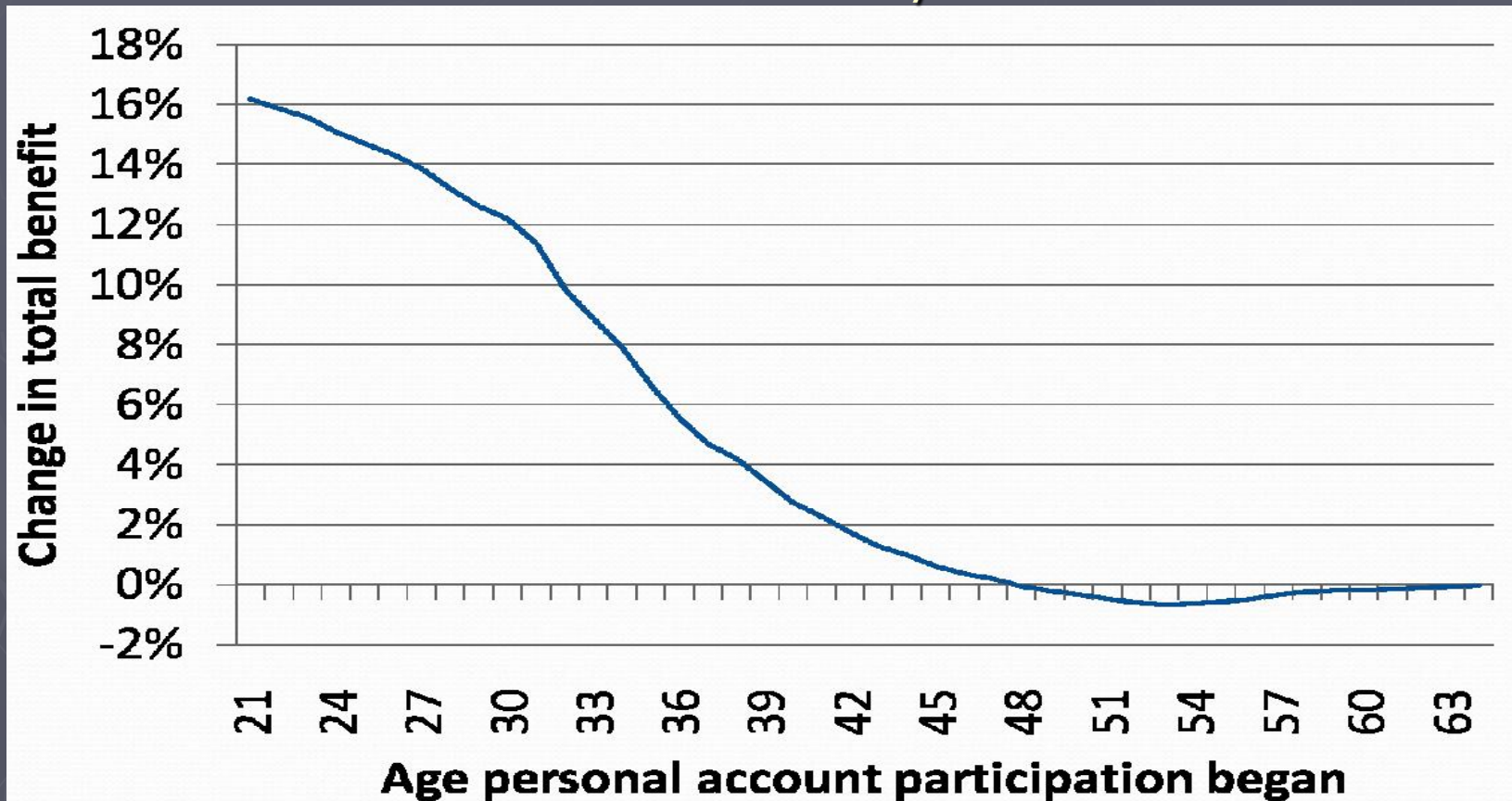


# Social Security Viewed from Two Approaches

	<b>View 1: Off-Budget Approach</b>	<b>View 2: Unified Budget Approach</b>
<b>Federal Debt</b>	\$13.5 trillion 93% of GDP <i>(gross debt)</i>	\$9.0 trillion 62% of GDP <i>(debt held by the public)</i>
<b>Budget Deficit</b>	\$1.4 trillion 9.4% of GDP <i>(on-budget deficit)</i>	\$1.3 trillion 8.9% of GDP <i>(unified deficit)</i>
<b>Social Security Balance</b>	\$82 billion <u>surplus</u> <i>(surplus including interest)</i>	\$37 billion <u>deficit</u> <i>(primary deficit)</i>
<b>First Year of Social Security Deficits</b>	2025 <i>(deficit including interest)</i>	2010 <i>(primary deficit)</i>
<b>Insolvency Date</b>	2037	N/A

# Returns to Accounts After a Market Crash

Average Benefit Increase/Decrease for 2008 Retirees with Hypothetical Private Retirement Accounts and Social Security Clawback



Source: Andrew Biggs, American Enterprise Institute