

Strengthening Social Security: Adequacy and Equity

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January 31, 2013



Overview

- NOT going to present a plan to restore 75-year balance
- WILL argue that greater consideration of adequacy, equity, work incentives in OASDI debate can improve plans
 - Research shows that we can improve adequacy, equity, incentives ***without worsening fiscal balance*** by adjusting current law

Key Points

- Social change, increased inequality should lead to OASDI policy change
 - Fairness and efficiency matter
 - Incremental or structural changes?
 - Across-the-board or targeted changes?
 - SSI better serves some vulnerable groups
- Options' distributional effects vary
 - Some better achieve goals than others

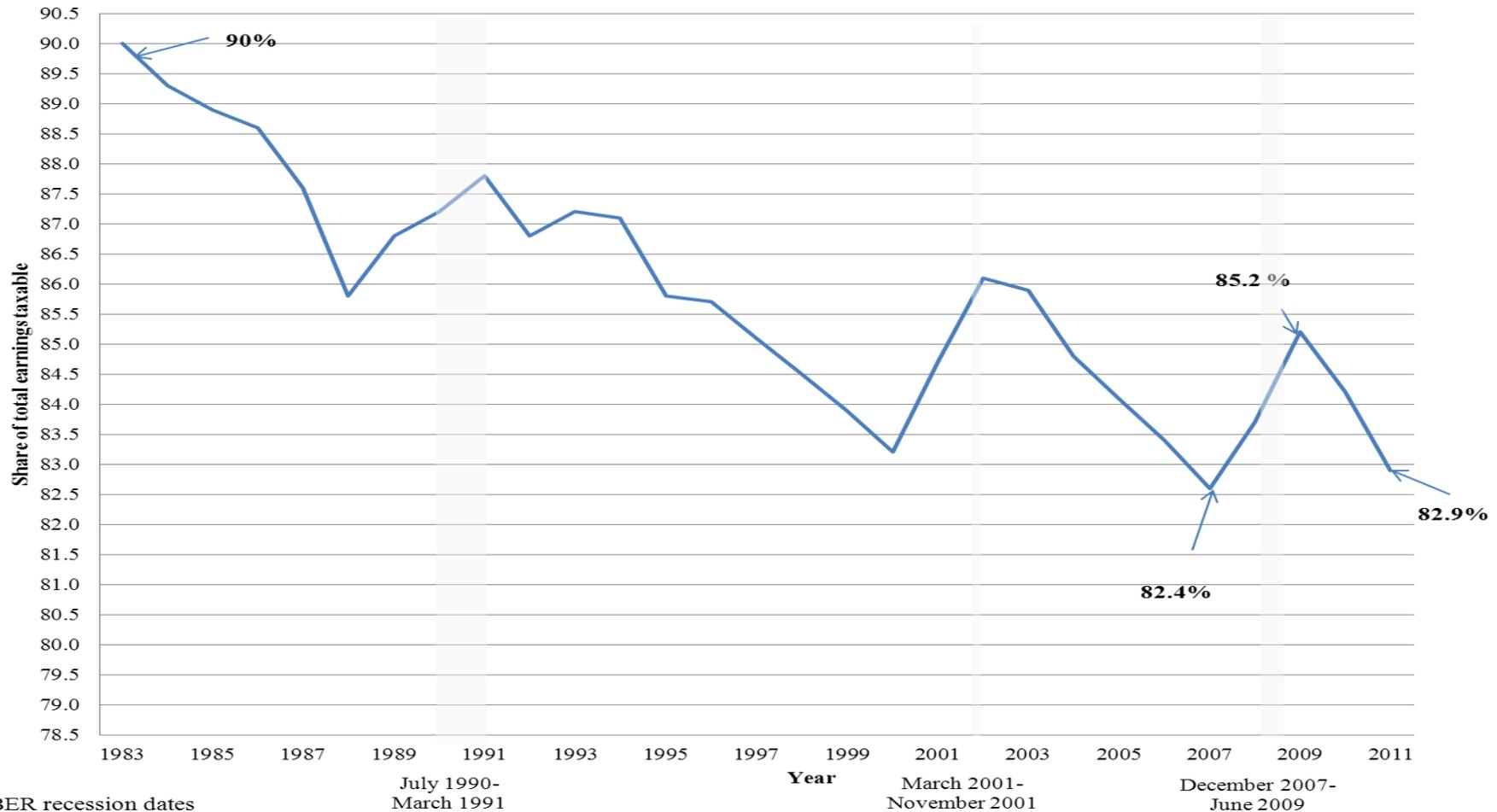
Single-Earner Married Couple Model Is Out-of-Date

- Unmarried people will soon be the majority of adults (49.3% of people 15+)
- Single-earners are a minority for couples
- About 29% of wives in dual-earner families out-earn husbands (BLS)
 - Median woman earns 37% of family income
- Over 40% of children are born outside of marriage (more than doubled since 1980)
- About half of marriages end in divorce
 - More than half of those that end do so before the 10 year point (median of 7)

Inequality Is Growing

- Median wages are stagnating, but earnings are exploding at the top
- Other processes mirror earnings inequality
- Large difference by lifetime earnings and education in:
 - Mortality
 - Disability
 - Unemployment / employee benefits
 - Marriage / divorce

Share of Earnings Taxed by Social Security has Declined from 90% in 1983 to 83% in 2011



NBER recession dates

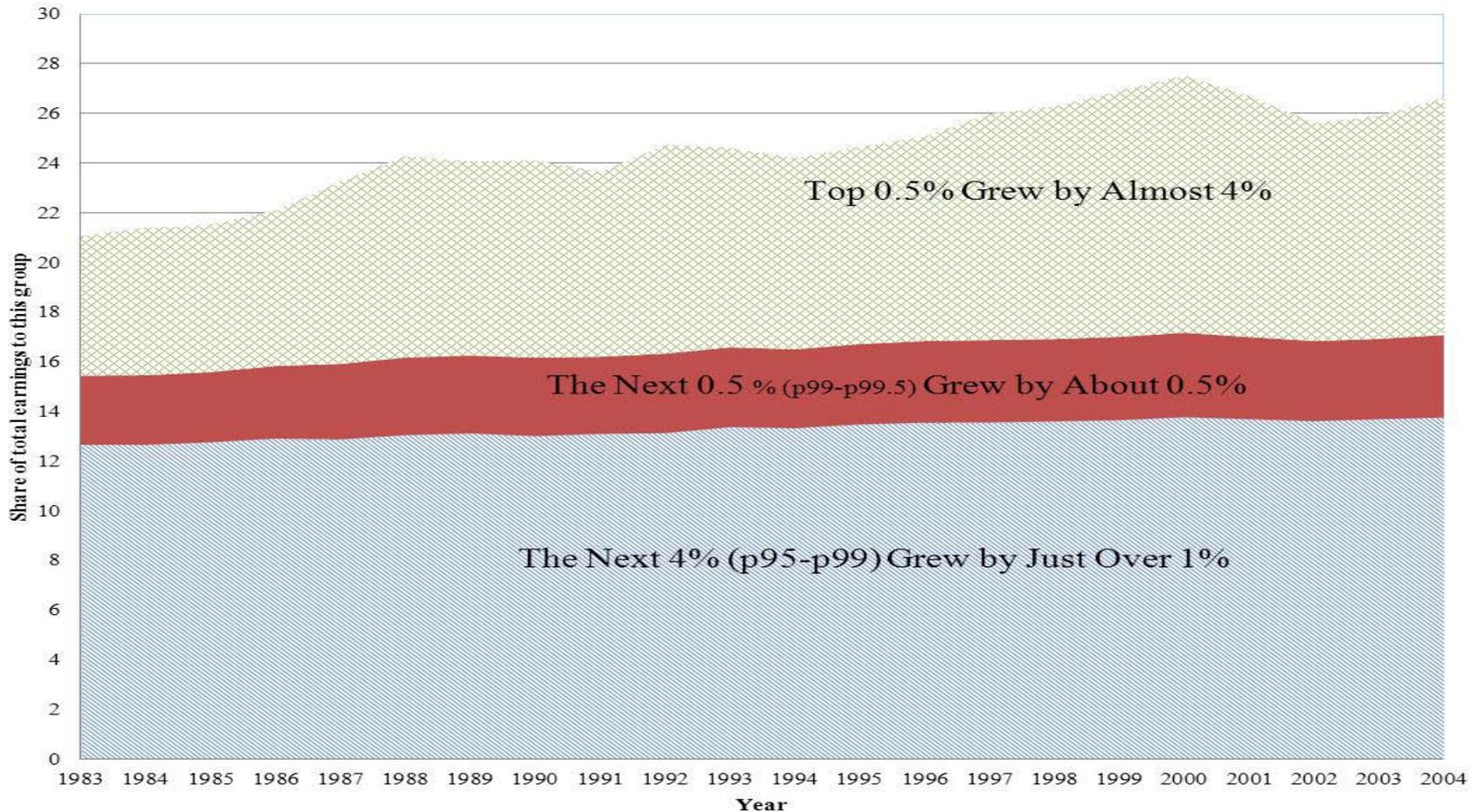
July 1990-
March 1991

Year

March 2001-
November 2001

December 2007-
June 2009

This is Due Largely to Growth in the Earnings of Top Half of One Percent



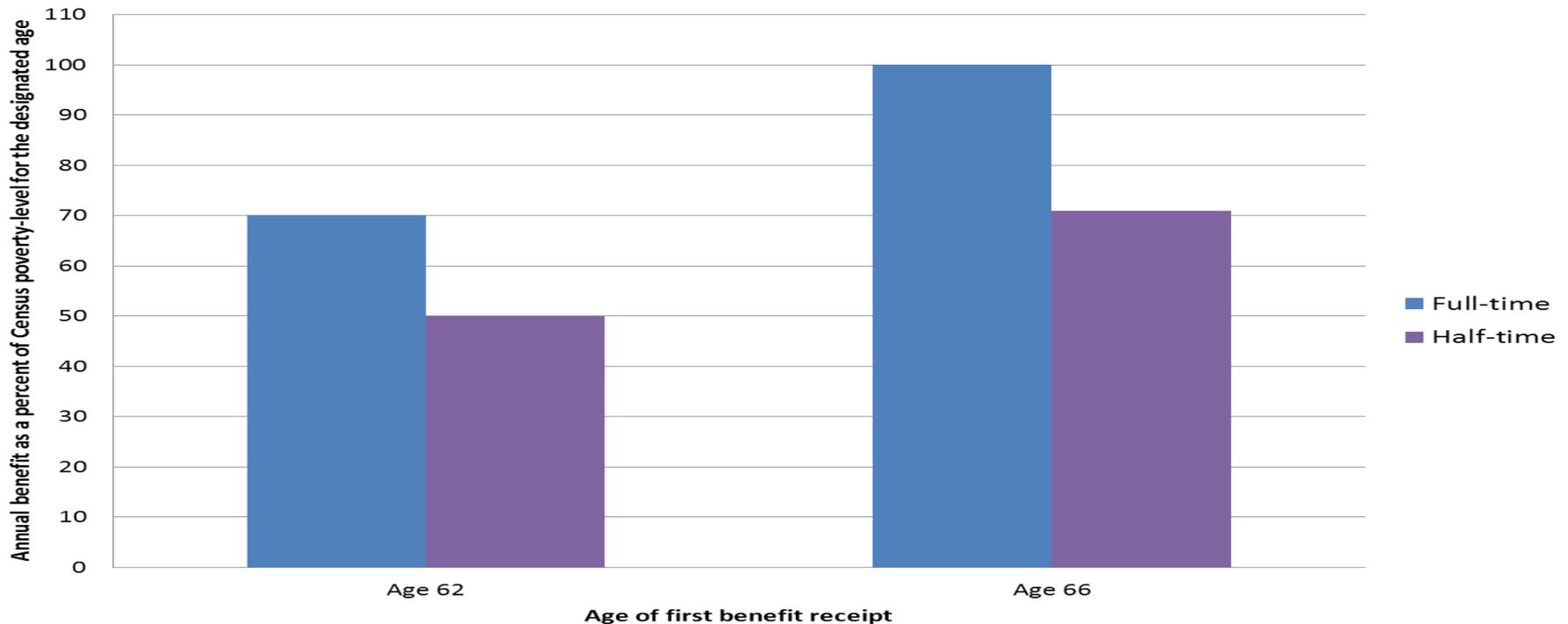
Source: Kopczuk, Saez, and Song (2007)

Concerns with Current Law: Adequacy

- Some long-term, low-wage workers have sub-poverty benefits/incomes
- Substantial levels of aged poor, especially women (higher under SPM)
 - 11% poor / 17% near poor (vs. 7% / 12% for men)
 - Unmarried women especially vulnerable (16% poor vs. 4% among married)
- Spousal/survivor transfers depend on worker earnings, not need
- Poverty rates much higher for non-beneficiaries (implies SSI not OASDI needed)

A Full Career of Low-Wage Work May not be Enough for Poverty-Level Benefits

Social Security Benefit for Long-Term (40-Year) Lifetime Minimum-Wage Worker Born in 1950 (Reaching Age 62 in 2012)



Source: Author's calculations based on 2,080 and 1,040 work hours for full- and half-time work, respectively

Notes: Estimates are sensitive to specific years in career worked, poverty measure used (e.g., Census aged or non-aged level, HHS guideline). Beneficiaries with low assets, limited income may also qualify for SSI.

Concerns with Current Law: Efficiency

- Work incentives
 - Work not always well rewarded
 - 40 years at \$35k is less valuable than 35 years at \$40k
 - 75% of men, 36% of women not on DI worked ≥ 35 years (≥ 400) by age 60 – differs by education
- Targeting
 - Adequacy benefits not related to need
 - “Free,” but not available to many singles
 - About 16% of adult benefits are auxiliary

Concerns with Current Law: Equity

- Couples with even earnings can receive far lower benefits than couples with dissimilar earnings paying the same payroll taxes
 - Can amount to over \$100,000 over a lifetime
 - Couples with similar earnings have steeper drops at widow(er)hood
- Marriage/divorce penalties/bonuses
 - Unmarried cannot access much of system

Some Criteria for Change

- *Equity*: Provide more equal lifetime benefits to those paying equal payroll tax
- *Good Incentives*: Ensure that increased earnings/taxes lead to increased benefits
- Minimize marriage penalties/divorce bonuses
- *Adequacy*: Reduce poverty/near poverty/relative poverty/poverty severity
- *Efficient Targeting*: Spend money effectively, given long-term fiscal squeeze

Incremental Changes

- Move toward marriage neutrality?
 - Care rather than legal marital status?
 - Higher worker or minimum benefits?
 - Cap or flatten benefit supplements?
- Cost-neutral parameter swaps
 - Caregiver credits for spousal reduction/cap
 - Survivor boost for spousal reduction/cap
 - Work years/replacement rates
 - Household size adjustments on benefit bump-ups
- Target through income tax system?

More Structural Approaches

- Earnings or benefit sharing
- Self-financing of auxiliary protection
 - Mandatory

Across-the-Board or Targeted?

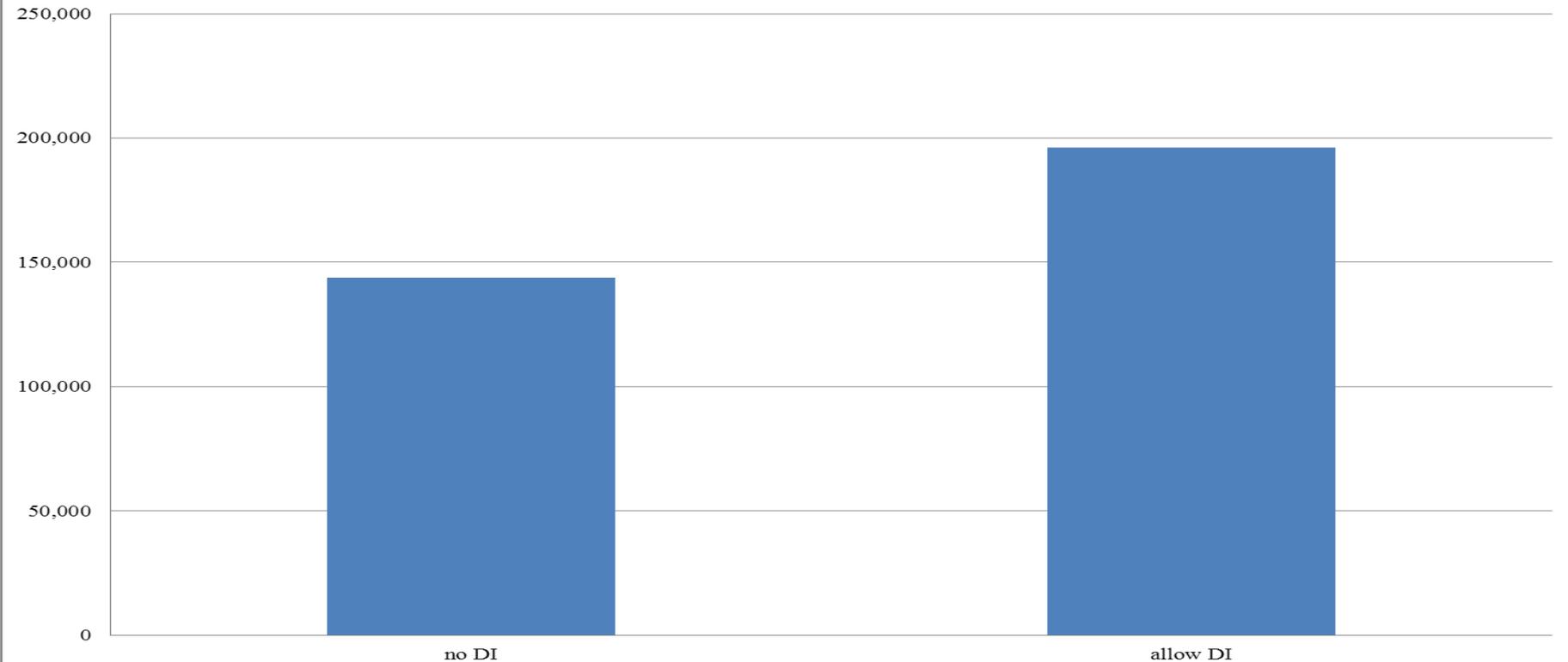
- Across-the-board benefit increases would raise existing benefit inequities in absolute terms
- Worker versus auxiliary/subgroup
 - Worker benefits need to be protected and in some cases enhanced
 - Very long-term low-wage workers
 - But, increasing benefits a lot elsewhere without offsets may require financing from the middle
 - Could have unintended interactions

Consider Interaction Effects

- Are DI beneficiaries included?
 - About 1 in 8 men, 1 in 10 women
 - 16% of total adult benefits
- Parameters tied to average benefit (for example longevity supplements granting 5 percent of average benefit)
- Wage versus price-indexing
- Effects of skewed earnings growth
 - Lower payroll tax receipts
 - AWI increases could increase lower earners' benefits

The Treatment of DI Beneficiaries Critically Affects Antipoverty Effectiveness

Antipoverty Effectiveness Increases when DI Beneficiaries are Included in a Long-Term Beneficiary Supplement (Percent Removed from Poverty or Near Poverty, 2030 Projections)



Source: Author's calculations from DYNASIM

SSI Modernization

- SSI may better improve adequacy for some groups than Social Security
 - Highest risk if limited work history
- Program has languished
 - Asset test has not increased in 24 years
 - Income exclusions are at 1974 levels
- Increasing asset threshold would very efficiently reduce old age poverty (Rupp, Strand, and Davies 2003)
- But, be cognizant of interactions

For More Information, See:

www.urban.org

www.retirementpolicy.org

<http://taxpolicycenter.org/>

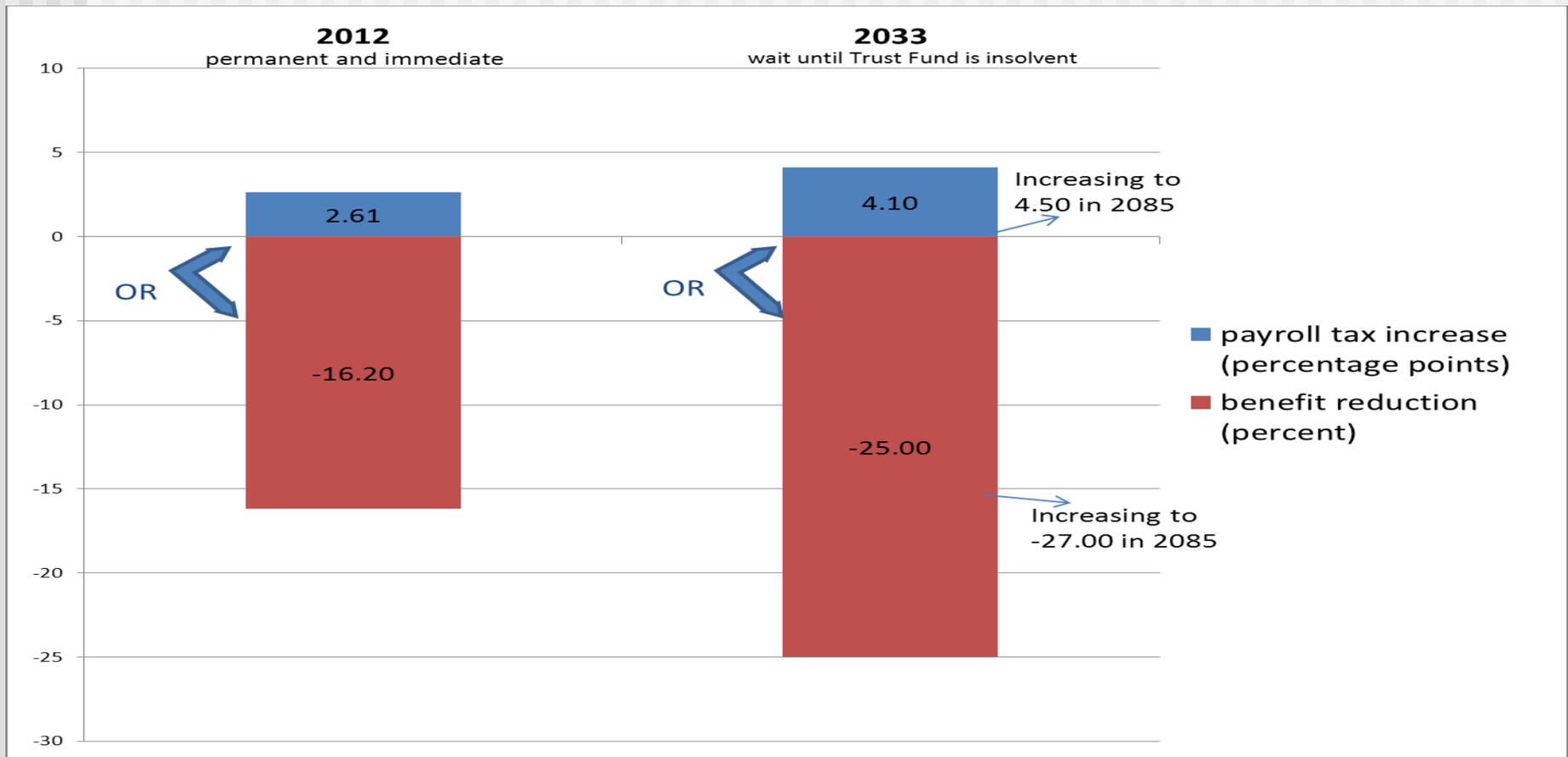
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Larger Budget Context

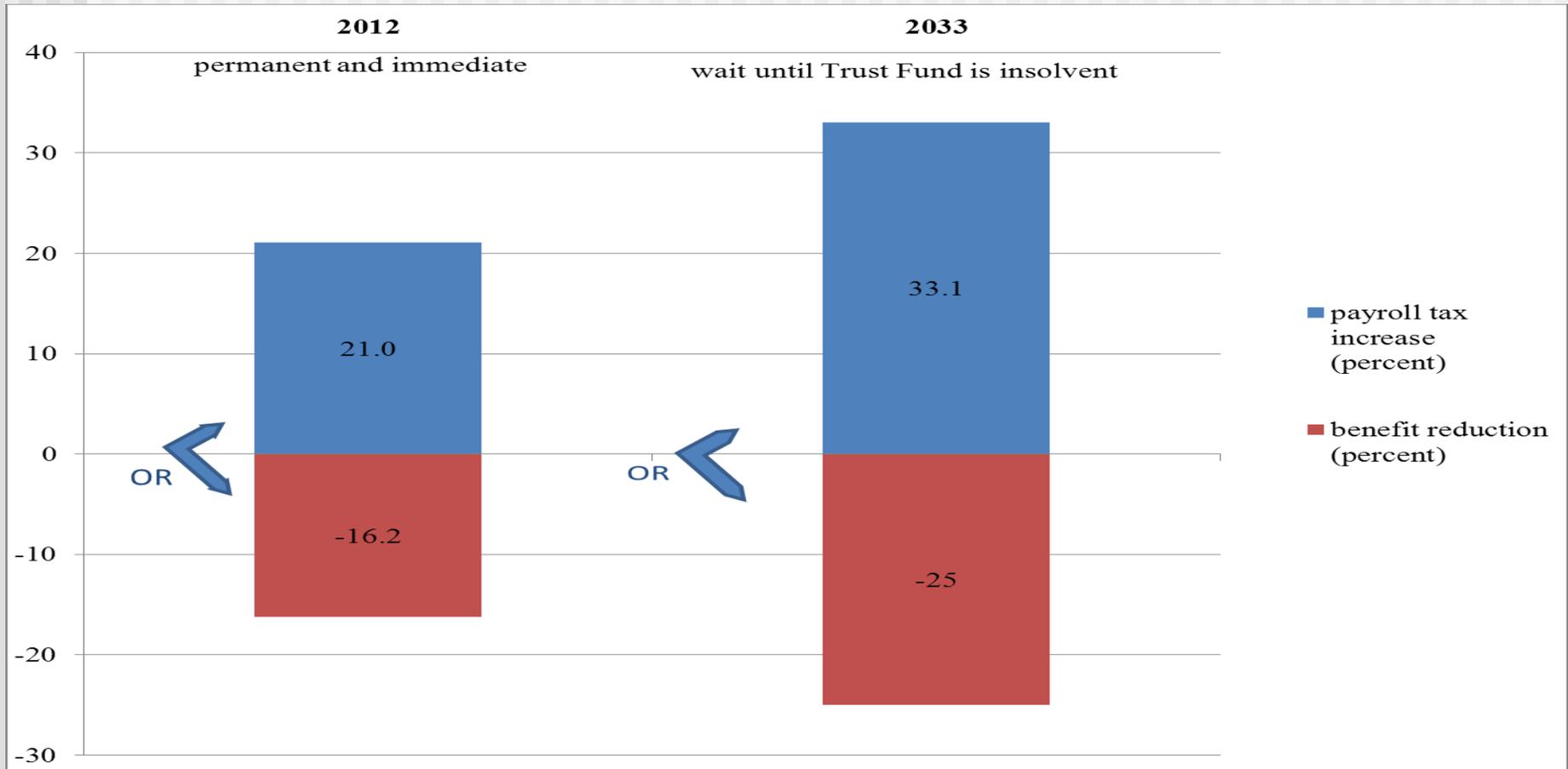
- OASDI long-range deficit is relatively modest now and could in theory be dealt with exclusively with revenues
- However, it is not trivial and it is growing
- Must consider other fiscal problems
 - These limit OASDI options

OASDI Underfunding is Now Manageable, but Solutions Are More Difficult in the Future



Source: OASDI Trustees Report, 2012 (intermediate assumptions)

In Percentage Terms, Payroll Tax Increases (Assuming Current Base) Would Be Somewhat Larger



Source: OASDI Trustees Report, 2012 (intermediate assumptions)

Larger Budget Context

- Immediate, draconian action is not required
 - Economic growth and reduction of LT unemployment more important goals
 - No immediate interest rate pressure
 - Evidence austerity is counterproductive
- However, earlier action allows for planning, sharing across generations
- Significant benefit expansions a challenge in this context (75th year)

Our Budget Challenges Require More than Tax Hikes on Highest Incomes

- If we address OASDI underfunding mainly through upper income payroll tax hikes, revenue options for dealing with other budget issues will be fewer
 - OASDI redistributes **from myself** early in life **to myself** later in life
 - This linkage fosters political support
 - Want to use care about weakening this link
 - Restoring 90% level vs. subjecting all earnings vs. surtaxes?

How do we deal with health care programs and general budget deficit?

- Is the case stronger for addressing general budget deficit through the more progressive vehicles?
 - If you own more, you benefit more from many of the things government does (educate workers, develop and maintain infrastructure, enforce property rights, protect borders)
- Health risks more skewed than retirement risks?

Budget Solutions Elsewhere Will Interact and Have Spillover Effects

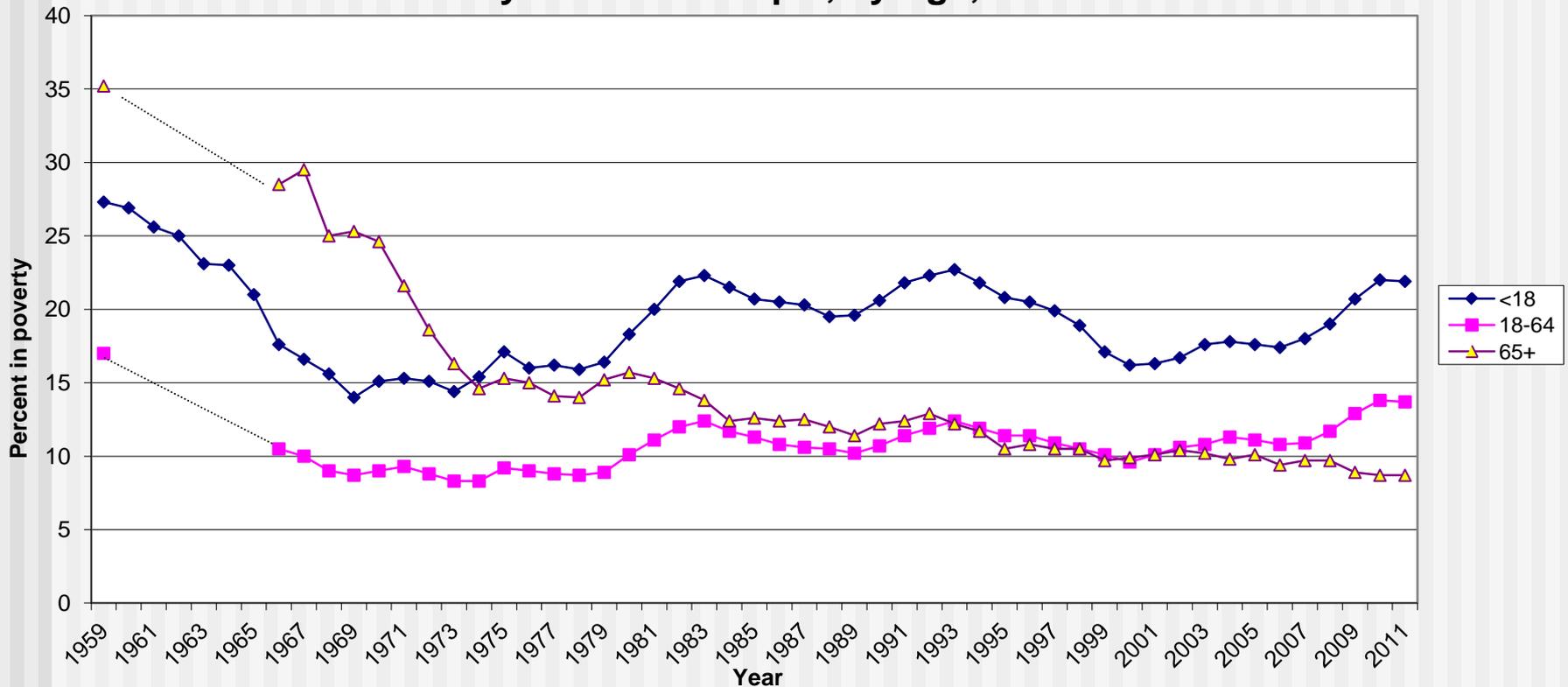
- Personal income taxes
 - OASDI benefits are taxed, so useful to think in terms of *net* benefits
- Limitations on / elimination of tax expenditures
- Value Added Tax (for example for health)
 - Deficit Reduction Task Force plan (Rivlin-Domenici Commission)
- These policies affect workers and retirees differently, should shape thinking on OASDI change

Savings Incentives Another Place to Look for Boosting Retirement Security

- Consider progressivity of savings incentives in the tax code
 - Under current law, many argue these incentives are “upside down” and lead to little increase in aggregate savings
 - But, the context includes the DB / DC shift
 - Next panel

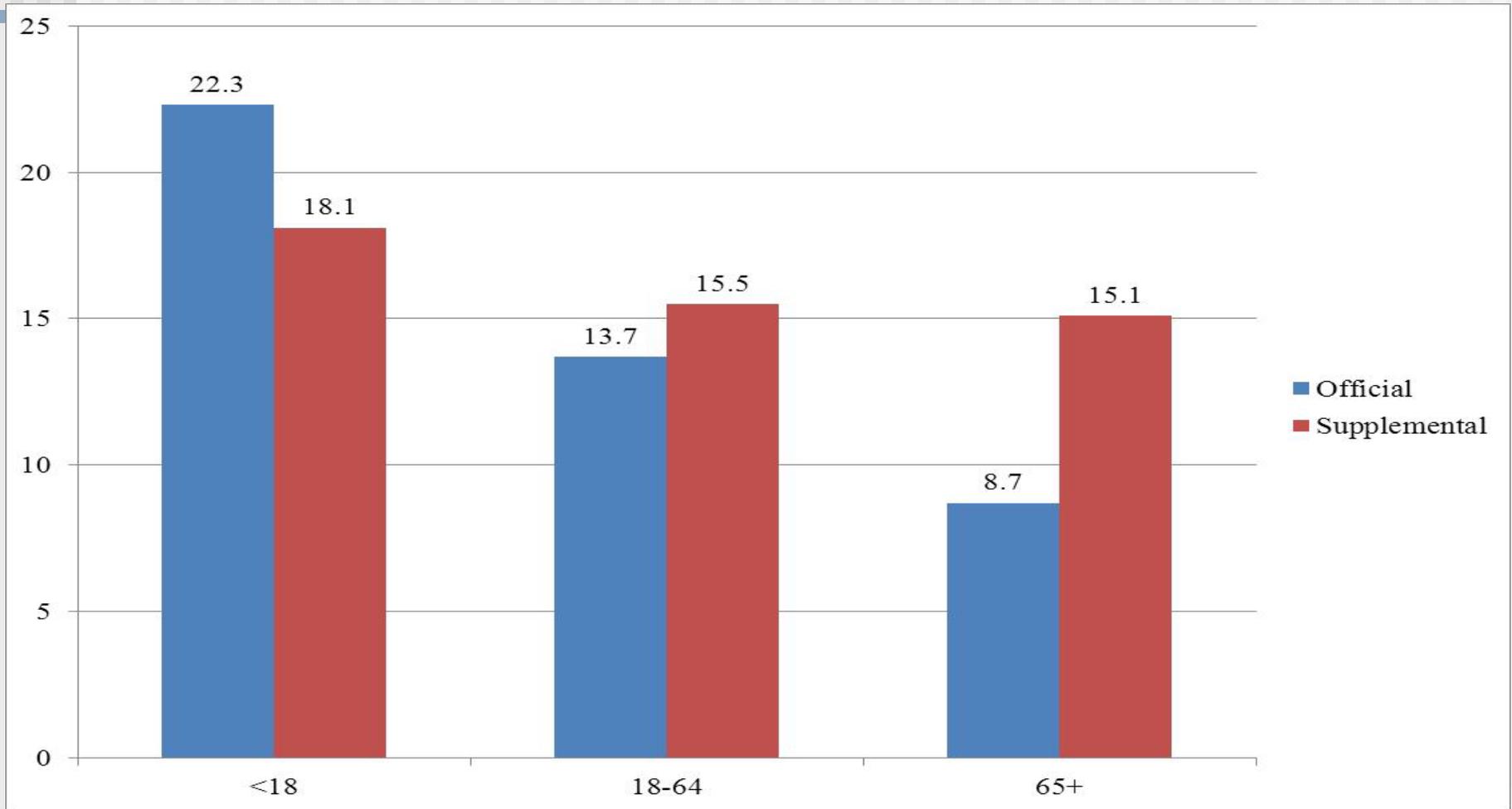
Social Security Has Contributed to Aged Poverty Reduction

Poverty Status of People, by Age, 1959-2011



Source: U.S. Census Bureau

Supplemental Poverty Measure Suggests a Less Striking Poverty-Age Relationship



Source: Short (2012), U.S. Census Bureau