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STRENGTHENING SOCIAL SECURITY FOR ALL

2013 NASI Conference:

Medicare and Social Security in a Time of Budget Austerity

Panel: Strengthening Social Security—Adequacy and Equity

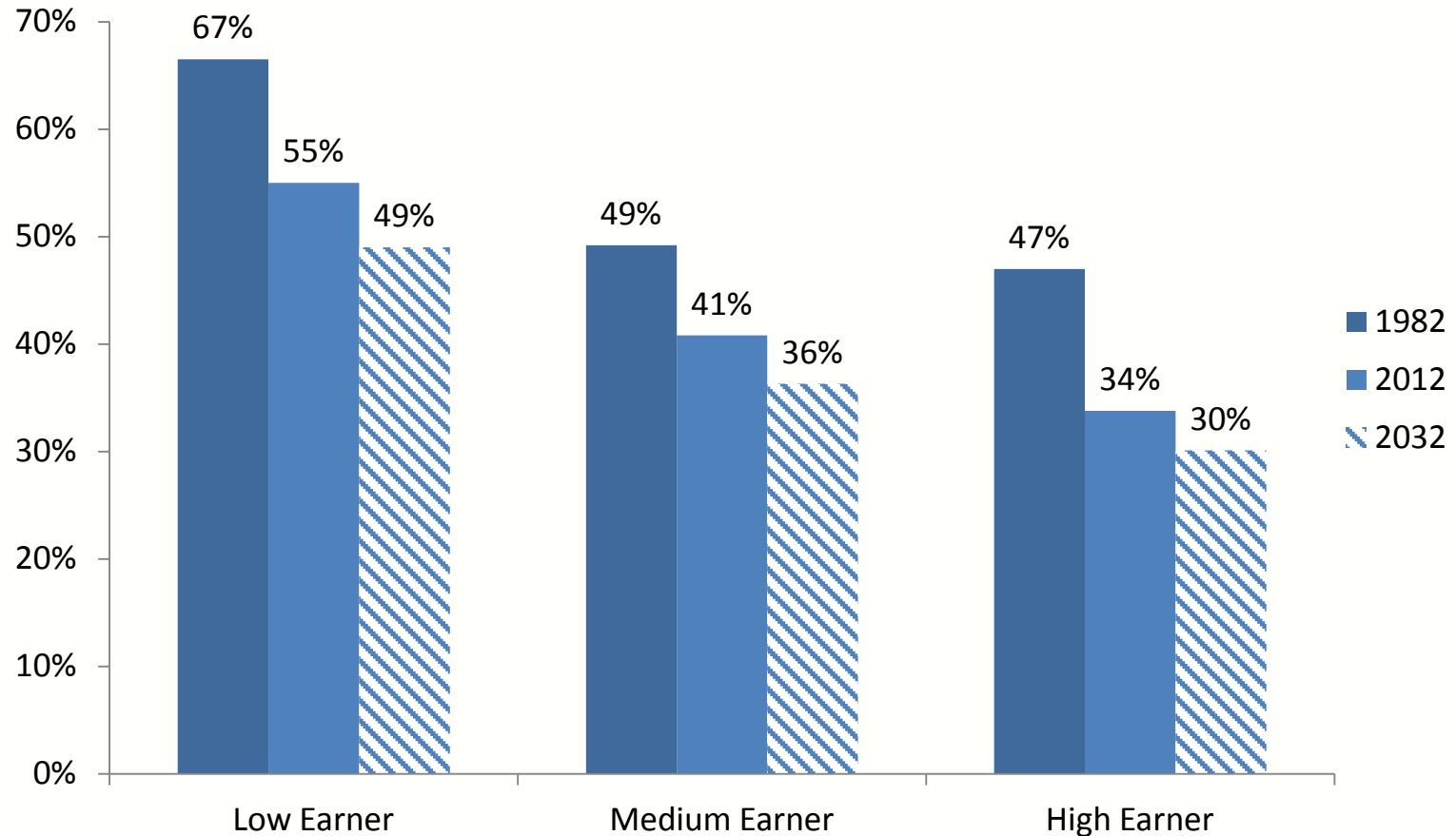
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Research and Ideas for Shared Prosperity

Social Security Replacement Rates



Source: Social Security Administration; assumes retirement at age 65.

Overview

- Base broadening doesn't quite close shortfall
- Need to gradually raise payroll tax rate
- 1983 cuts are still taking effect
 - Increase in normal retirement age (NRA) to 67
- Broad-based improvements to restore benefits
 - Freeze NRA at 66
 - Across-the-board benefit increase
- Peg SSI to Social Security, wages

Challenge

- Social Security must operate in long-term balance
- 75-year shortfall = 2.67% of taxable payroll
 - Bigger hole to fill since Great Recession
- Freezing NRA at 66 \approx 0.53% of payroll
- Therefore need to raise revenue by 3.2% of payroll just to prevent further cuts

Base broadening doesn't quite close shortfall

- “Scrap the cap:” 1.90% - 2.32% of payroll
 - Lower amount assumes gradual increase, earnings counted toward benefits at 5% rate
- Taxing salary reduction plans: 0.25%

Also:

- Covering all new S&L govt. workers: 0.17%
 - But: bad timing, opposed by unions

We can't count on...

- Faster wage growth
- Immigration reform
 - Wage growth and immigration reform help, but won't be factored into projections
- Investing trust fund in risky assets
 - Cautionary tale: politicization of public pension shortfalls after market downturn

Need gradual payroll tax rate increase

- Rate increased 22 times, but not since 1990
- Easily accommodated by real wage growth
 - Real wages rose 103% over past 60 years
 - Real wages net of payroll tax rose 83%
- Going forward: increase rate by 0.1 percentage point every 5 years (from 6.2% to 7.7% in 75 yrs.)
 - Real wages projected to rise \approx 141% over 75 years
 - Net real wages proj. to rise \approx 134% w/ tax increase

Distributional considerations

- In current context, benefit improvements targeted at one group come at others' expense
 - Imply tax increase and/or benefit cut
- Exception: SSI benefits from general funds

Left and right propose progressive reforms

- Former weighted toward benefit increases, but allow scheduled increase in NRA to 67
- Latter weighted toward benefit cuts, but boost benefits for some low-income beneficiaries
 - Many propose shrinking Social Security while growing regressive 401(k)s and IRAs
 - Benefit cuts for “higher earners” meant to forestall tax increases for wealthy

Do we want a more progressive program?

- Social Security's enduring popularity due to universal, contributory nature
- Broad-based social insurance, not means-tested safety net program
 - “Programs for the poor become poor programs”

Principles

- Restore benefits with across-the-board fixes
 - Freeze NRA at 66 (\approx fixed percentage increase)
 - Increase first factor to 100% (\approx flat dollar increase)
- Address solvency, even if concerns exaggerated
 - Gradually increase tax rate to offset longevity
- Tie well-being of disadvantaged to that of general population
 - Link SSI to first OASDI bend point (\$8,376 to \$9,204)

Raising 1st factor to 100%

- Increases benefits by \$920/year for most, or...
 - 8.6% increase for low earner
 - 5.2% increase for medium earner
 - 4.0% increase for high earner

Other across-the-board proposals

- Raise 1st bend point by 15%
 - \$800/year for most
 - Sen. Harkin
- Increase benefit by 5% of avg. benefit
 - ≈\$700/year for all
 - Groups representing women, people of color

Benefits

	<u>% of payroll</u>
Freeze NRA at 66	-0.53
+ Raise first factor to 100%	-0.51
+ Set SSI equal to 1st bend point	<u>NA</u>
= TOTAL	-1.04

Revenues

	<u>% of payroll</u>
Gradually eliminate cap, add bend pt.	1.90
+ Raise tax rate by .1 ppt every 5 years	1.37
+ Interaction effect	0.28
+ Treat salary reduction plans like 401ks	<u>0.25</u>
= TOTAL	3.80

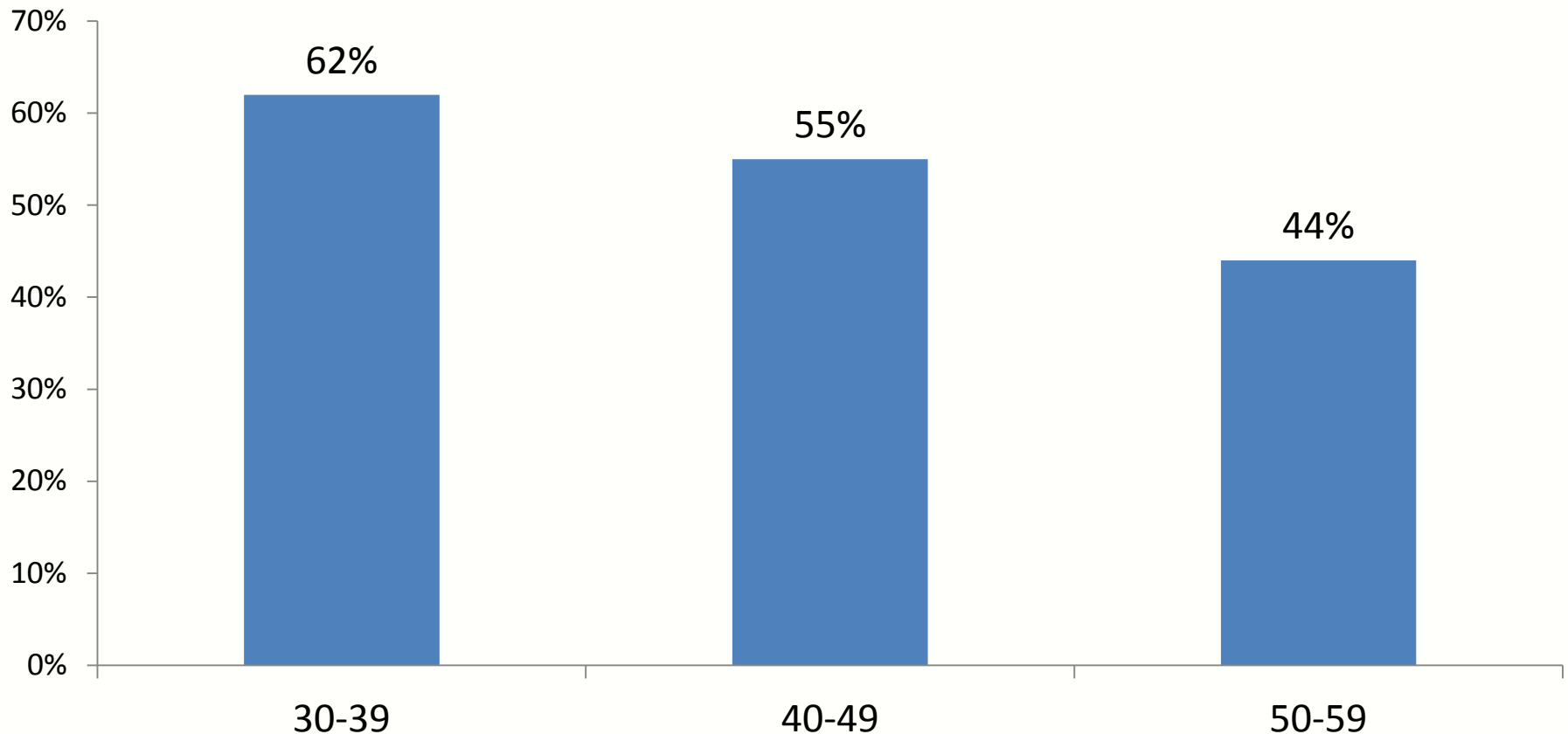
It all adds up

	<u>% of payroll</u>
Actuarial balance	-2.67
+ Benefit options	-1.04
+ Revenue options	<u>3.80</u>
= TOTAL	.09

Alternatives

- To pay for more targeted, progressive benefits
 - Allow scheduled increase in NRA to 67, and/or...
 - Opt for a lower across-the-board increase...
 - Increase payroll tax faster...
 - Don't count earnings above cap toward benefits...

Need is greater than ever: Households “at risk” by age, 2010



Source: Boston College Center for Retirement Research, 2012

Obstacles are political, not economic

- Social Security projected to grow from 5% to 6% of GDP before leveling off
- More cost-effective than alternatives
- Helpful macro properties, esp. in demand-constrained economy
 - Pay-as-you-go, progressive redistribution, auto stabilizer
- Even payroll tax increase not a “necessary evil” if it instills confidence