

Reforming Social Security

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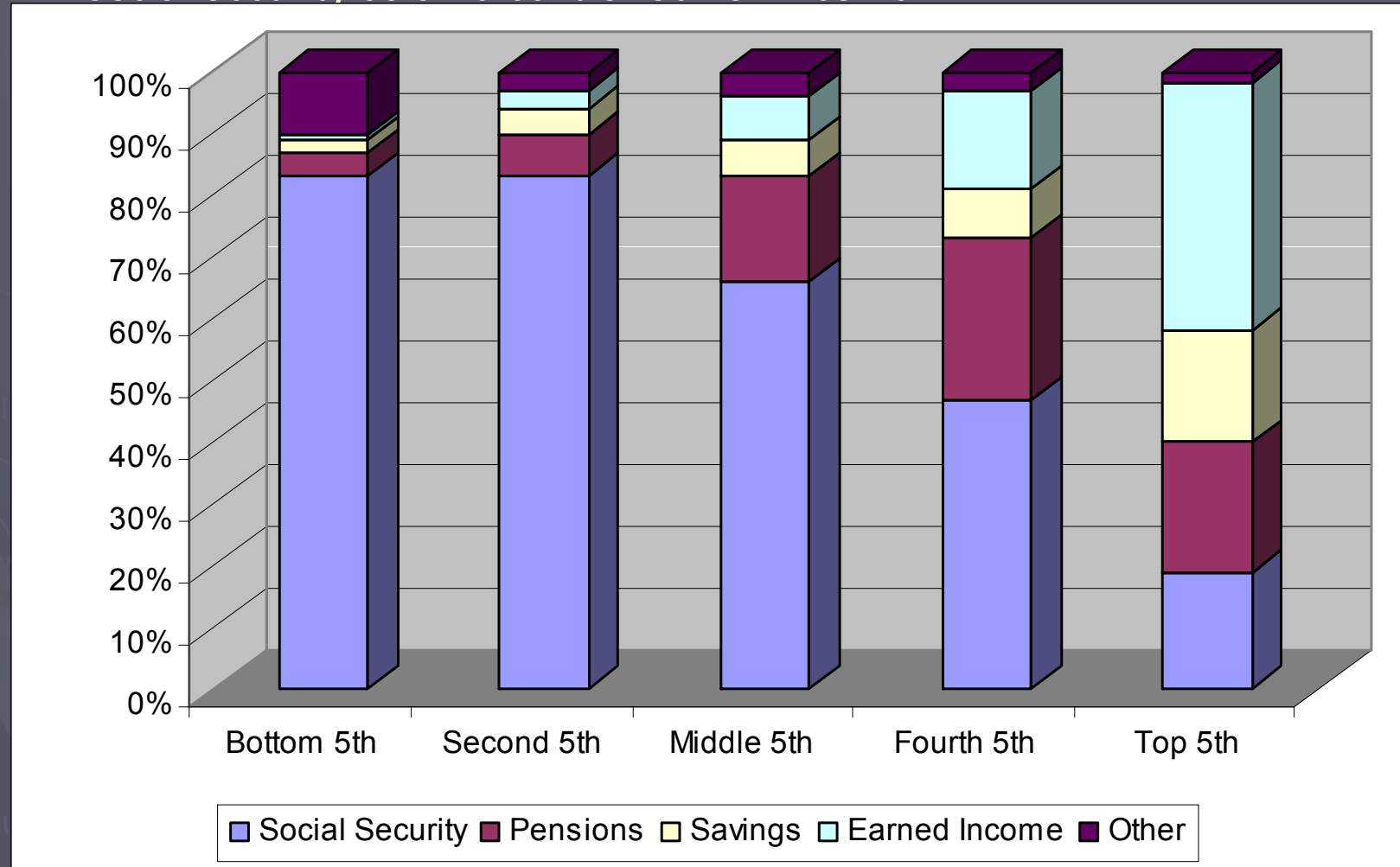
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<http://www.SocialSecurityReformer.org>

A Vital Program, Providing a Needed Source of Income

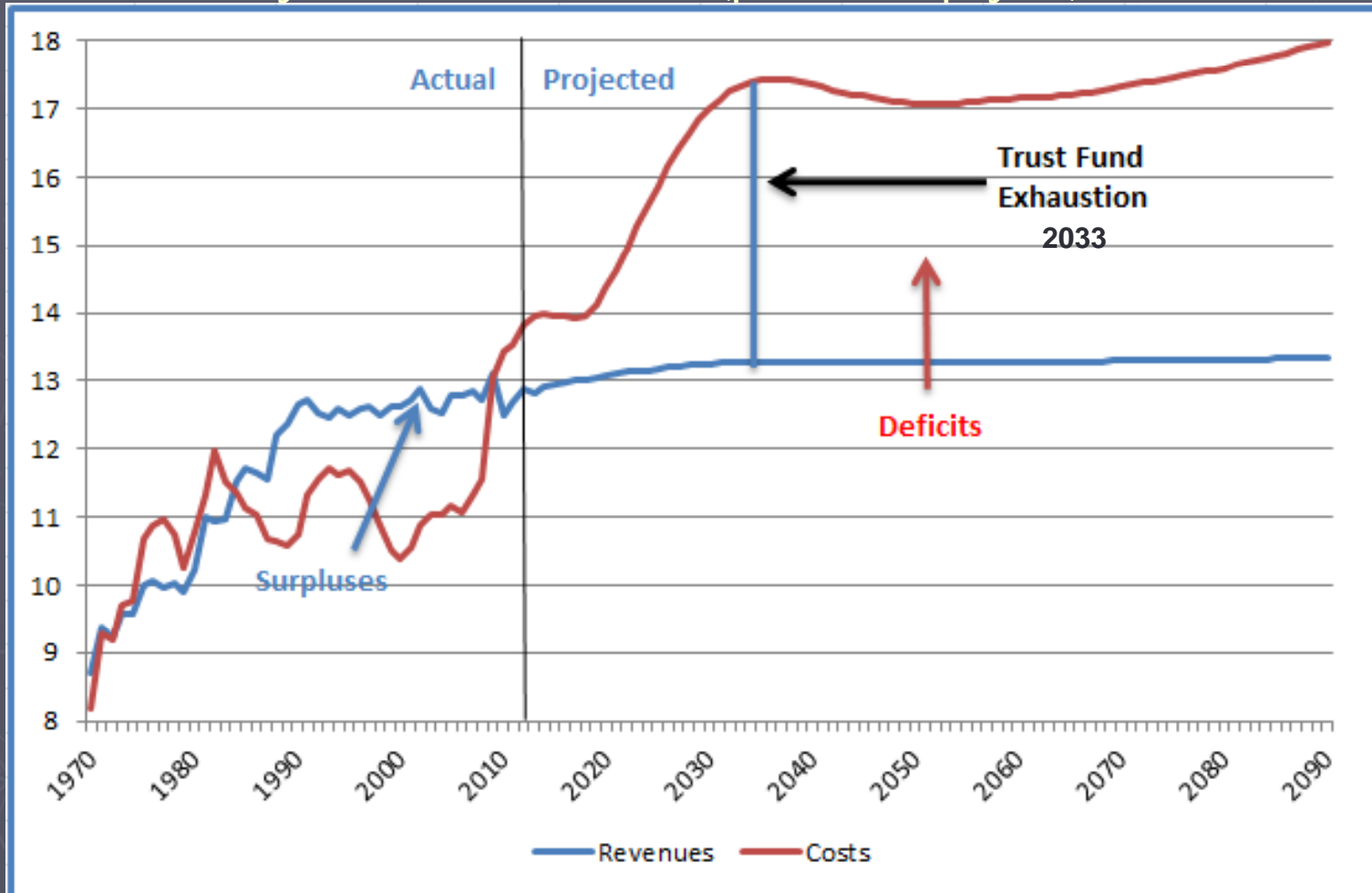
Social Security as a Percent of Senior Income



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

Permanent Deficits, Looming Insolvency

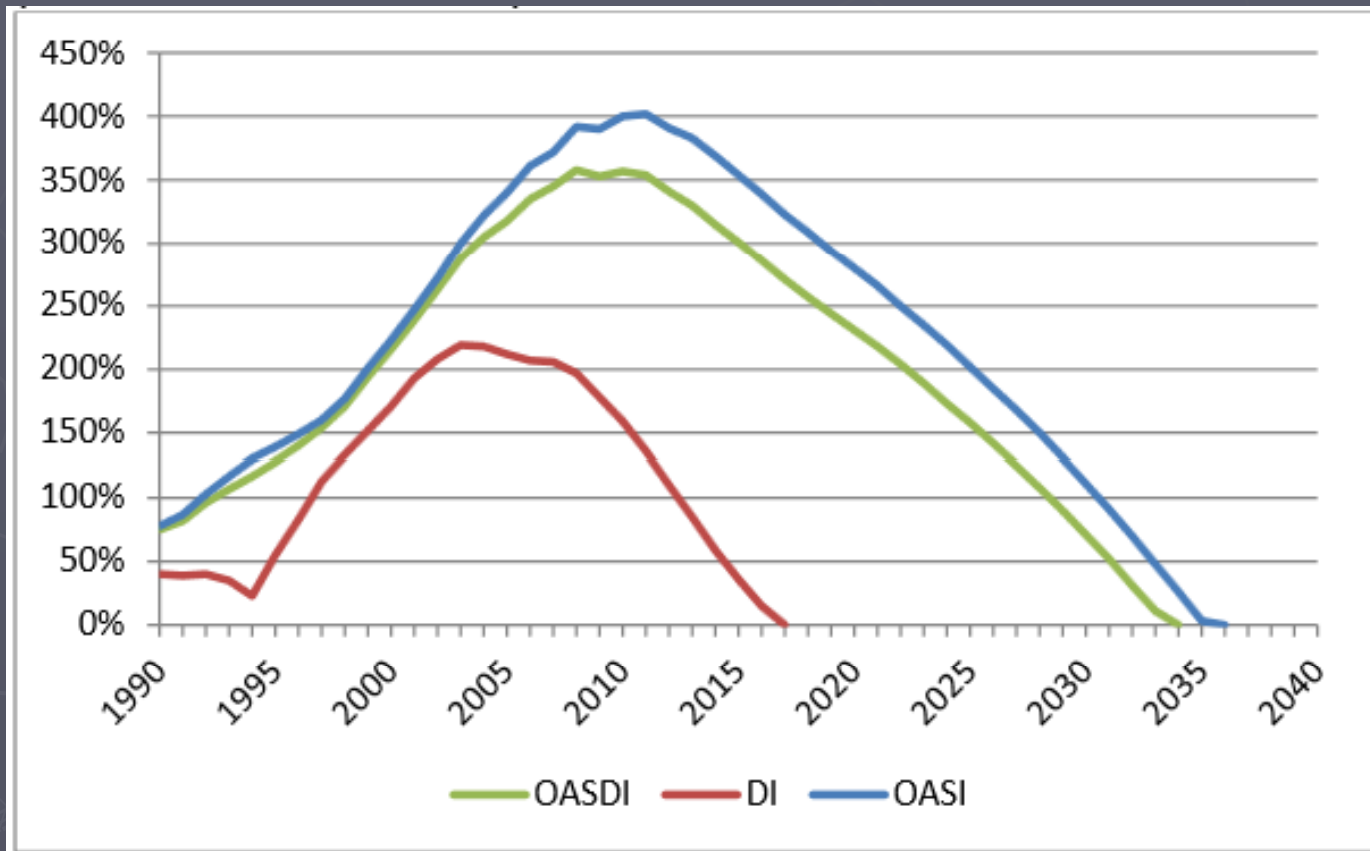
Social Security Revenues and Costs (percent of payroll)



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

An Automatic 20% Cut for the Disabled, and 25% Cut for the Elderly

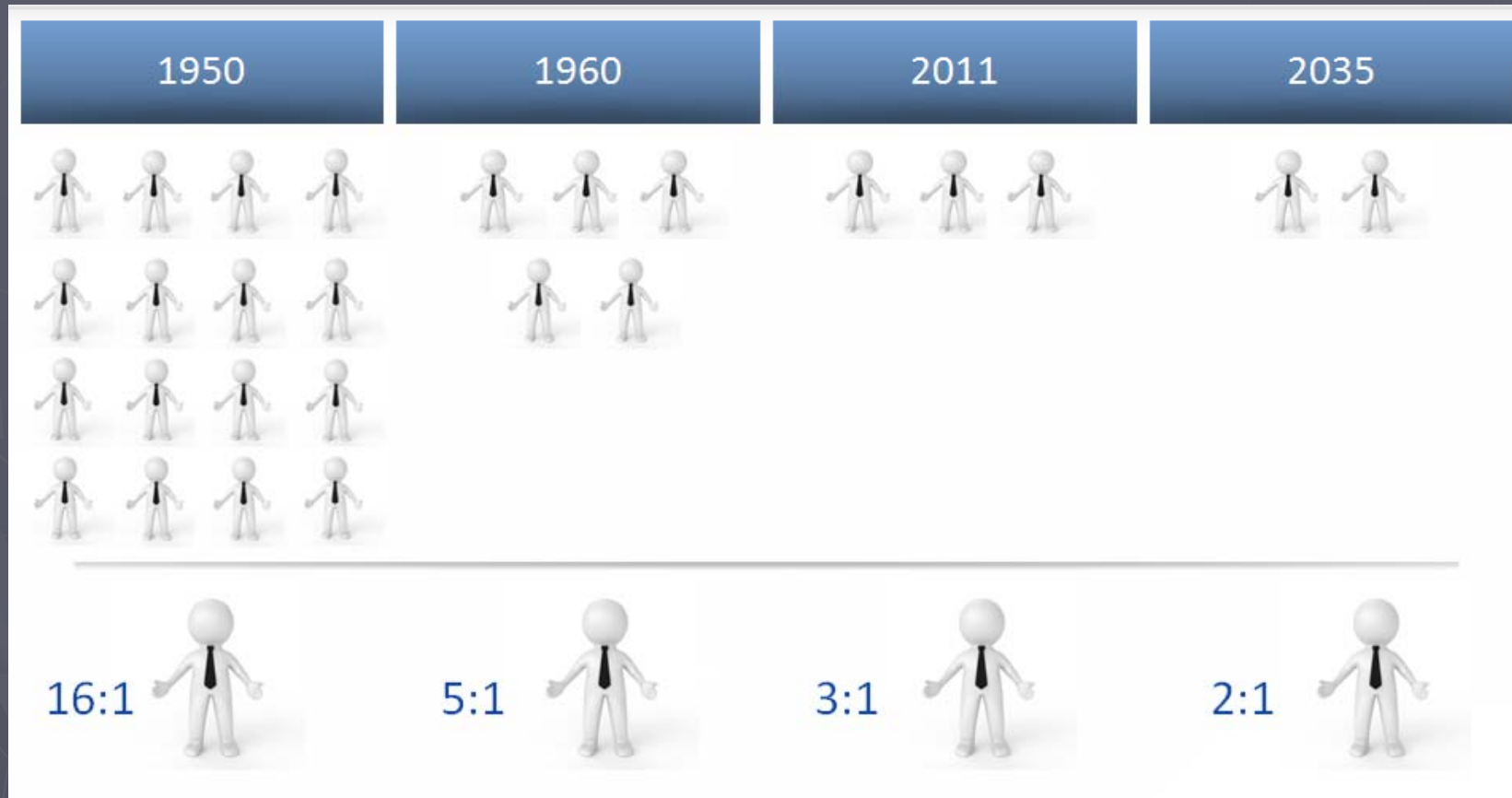
Social Security Trust Fund Assets as a Percent of Annual Benefits



Source: Committee for a Responsible Federal Budget, Social Security Trustees

An Aging Population

Worker to Retiree Ratio, Over Time



Source: Committee for a Responsible Federal Budget

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
- ▶ *Growing National Debt*
 - Higher cost of Social Security and Medicare
 - Less revenue collection

Goals of Social Security Reform

1. Continue to **provide adequate benefits** for those who rely on Social Security
2. Achieve **sustainable solvency** by:
 1. Avoiding the 2016 exhausting of the SSDI Trust Fund
 2. Eliminating **2.7% of payroll** actuarial imbalance
 3. Eventually closing **4.5% of payroll** structural gap
3. Promote **economic growth** and **mitigate the effects of population aging**
4. Be **politically palatable** to both sides

Maintaining Benefit Adequacy

1. Avoid the 23 percent immediate **across-the-board cut** to all beneficiaries
2. Make **progressive changes** - slow benefit growth, raise taxes mostly from higher earners
3. Include **targeted benefit increases** for low-income workers, the long-term disabled, and the old-old

Achieving Solvency

VISIT SocialSecurityReformer.org TO TRY

The Reformer *An Interactive Tool to Fix Social Security*

Congratulations! Under your plan Social Security will be sustainably solvent for the next 75 years and beyond.

109%

Percent of 75-year shortfall closed
(100% of shortfall closed in 75th year)

✕ Clear Selections

Benefit Formula

Other Benefits

Revenues

Summary

Congratulations! Under your plan Social Security will be sustainably solvent for the next 75 years and beyond.

YOUR POLICY SELECTIONS

% OF GAP CLOSED

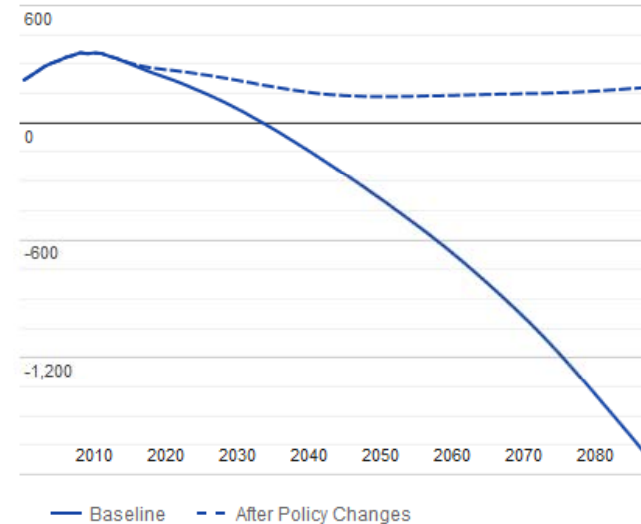
Slow Benefit Growth for Top Half of Earners	38%
Index Age to Longevity After it Reaches 67	18%
Index COLAs to "Chained CPI"	21%
Create Minimum Benefit at 125% of Poverty	-5%
Offer "Bump-Up" for Very Old Beneficiaries	-5%
Subject 90% of Wages to Payroll Tax	32%
Cover Newly-Hired State & Local Workers	9%

TOTAL 109%

In 2050, your plan would reduce total scheduled benefits by 10% and increase payable benefits by 14%. Your plan would increase taxes by 11%.

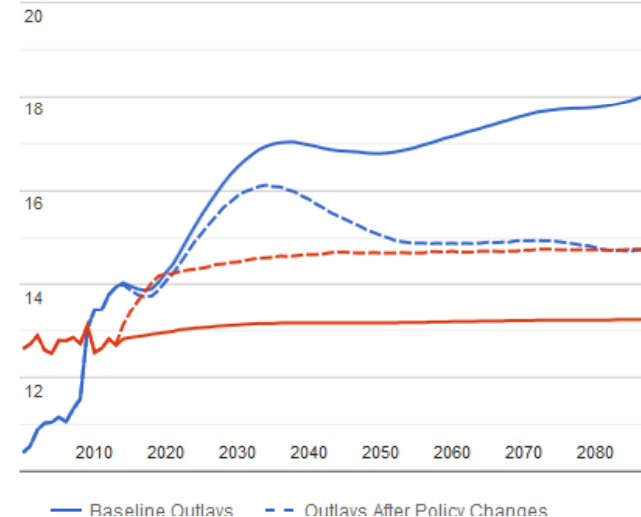
Trust Fund Projections

Percent of Annual Benefits ⓘ



Social Security Spending & Revenue

Percent of Payroll (based on scheduled benefits) ⓘ

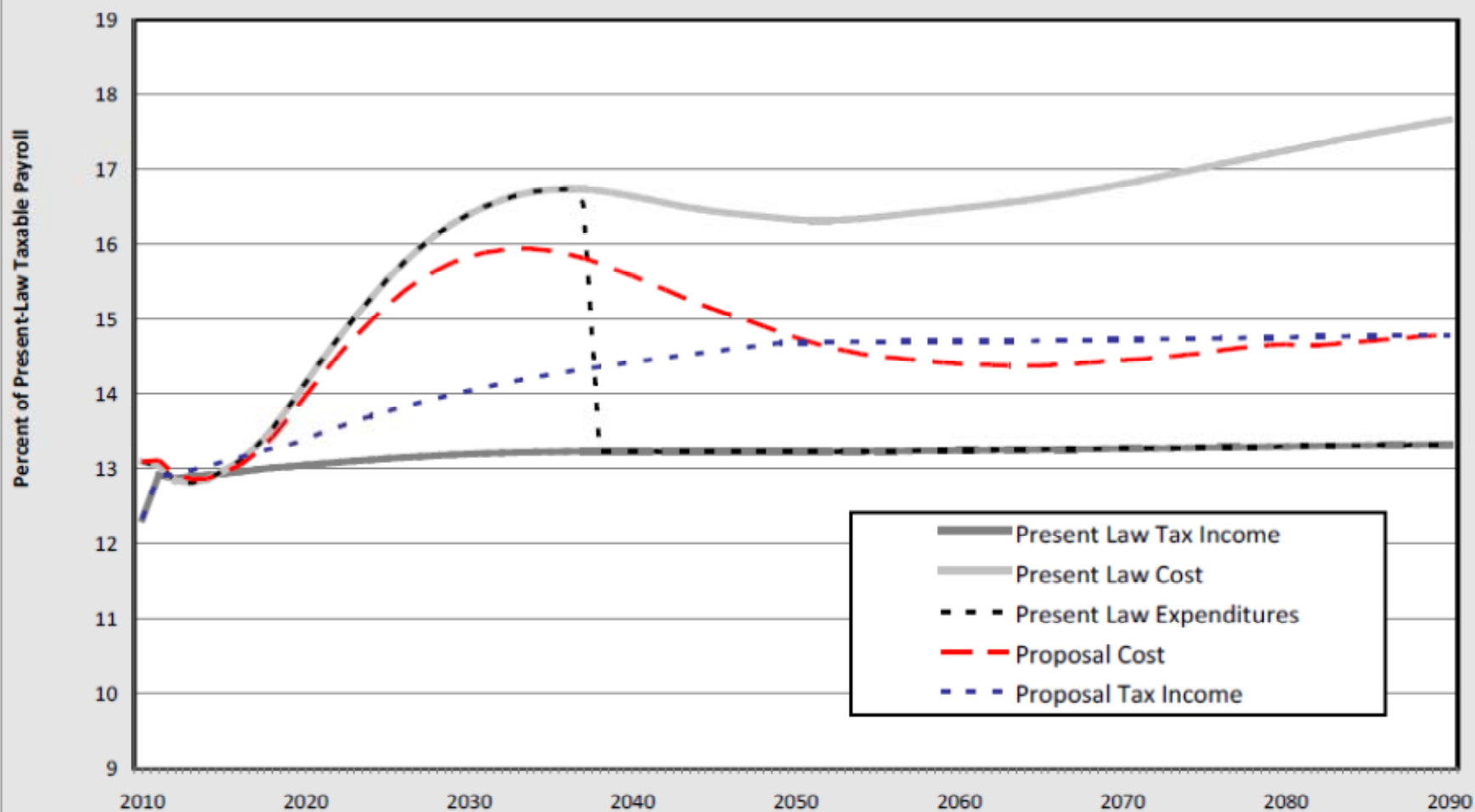


A Balanced Plan for Reform

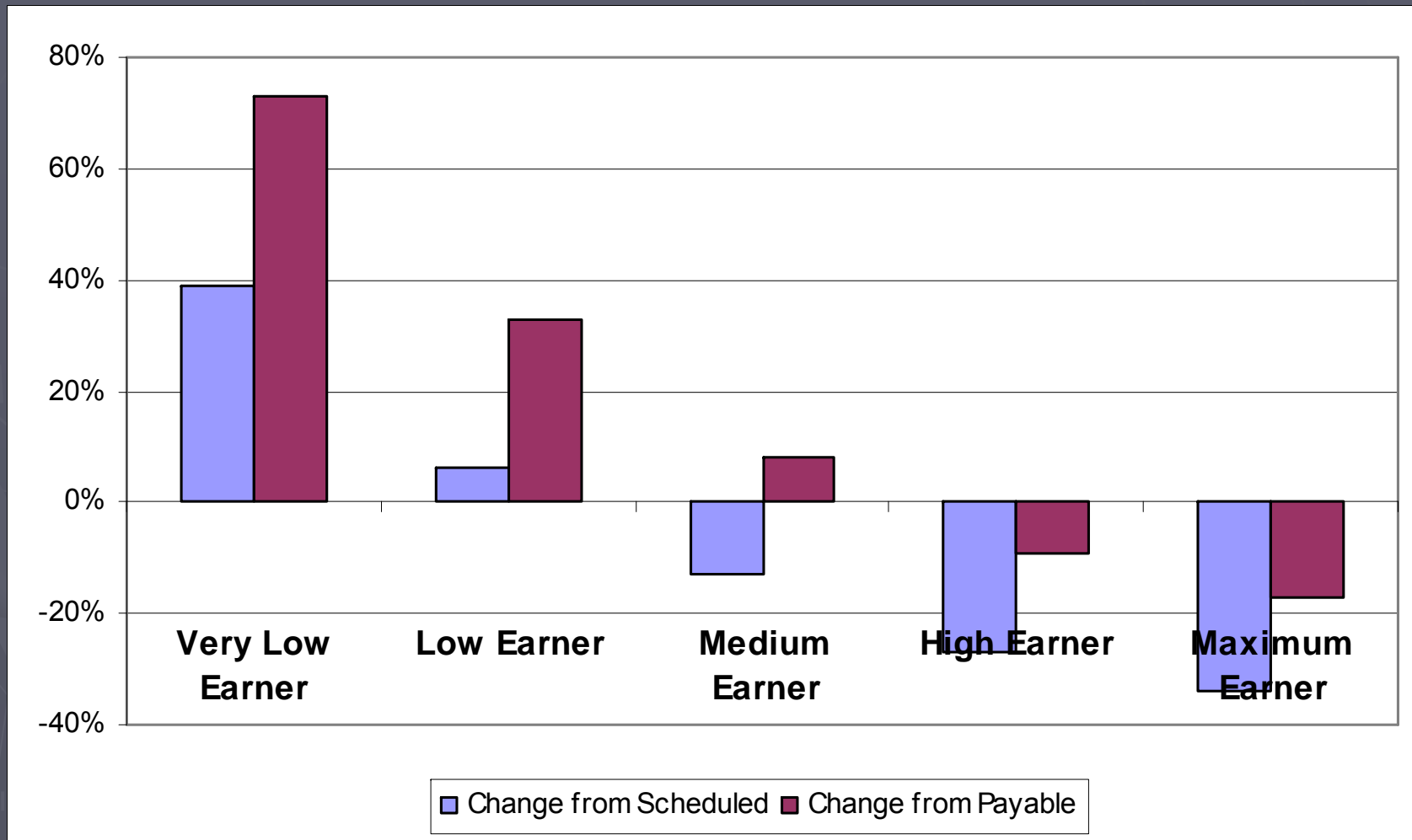
Social Security Plan of the Fiscal Commission (**NUMBERS OUT OF DATE**)

	75-Year	75 th Year
Progressive Benefit Formula Changes	45%	51%
Raise Retirement Ages to 64 and 69 by 2075	21%	36%
Switch to Chained CPI for COLAs	26%	17%
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



Distribution of Commission Rec's



The background is a dark blue-grey color. On the left side, there is a faint, light-colored compass rose with a needle pointing towards the top-left. The compass has letters 'N', 'E', 'S', and 'W' and a dollar sign '\$'. To the right of the compass, there is a faint line graph with several jagged peaks and valleys, representing data trends. The main text is centered horizontally and reads "Can We 'Bend the Aging Curve'?" in a light yellow-green color.

Can We "Bend the Aging Curve"?

The Dependency Ratio

Workers =



Retirees =



Change the Demographics

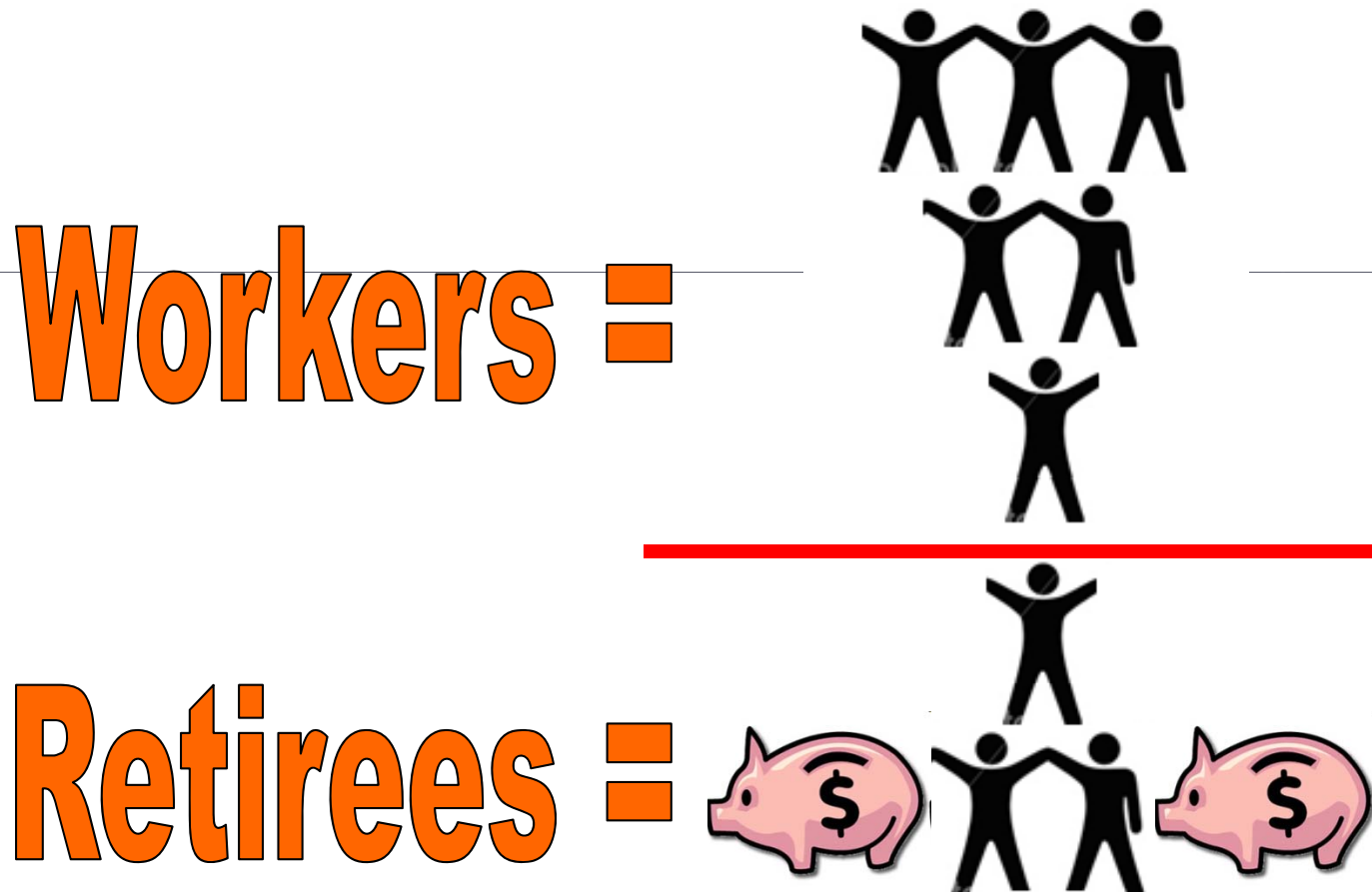
Workers =



Retirees =



Make Retirees Less Dependent



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

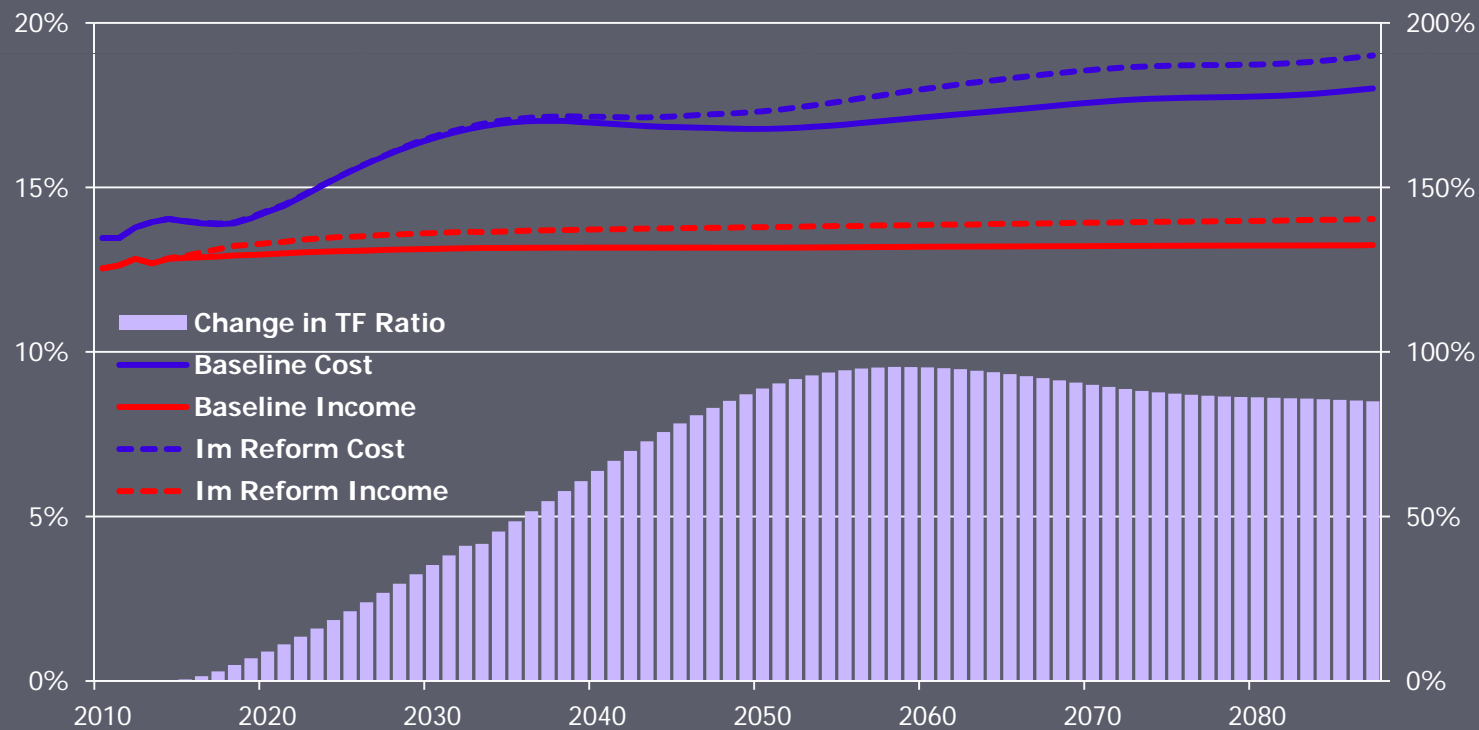
▶ Increase national (and personal) savings

Improve economic growth



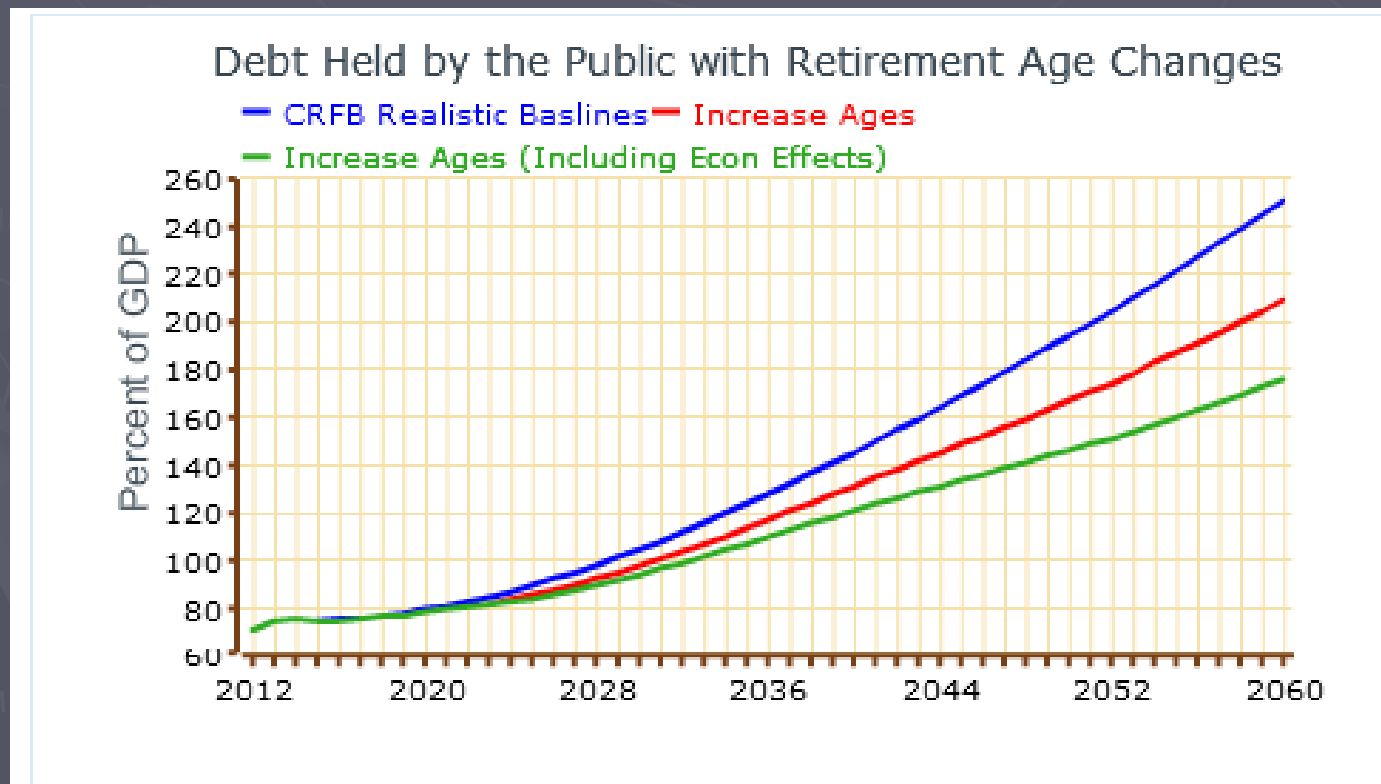
Benefits of Immigration Reform

- ▶ More workers → Higher payroll and income tax revenues
- ▶ Higher spending, but delayed
- ▶ Stronger economic growth
- ▶ Additional time to identify Social Security/MC solutions

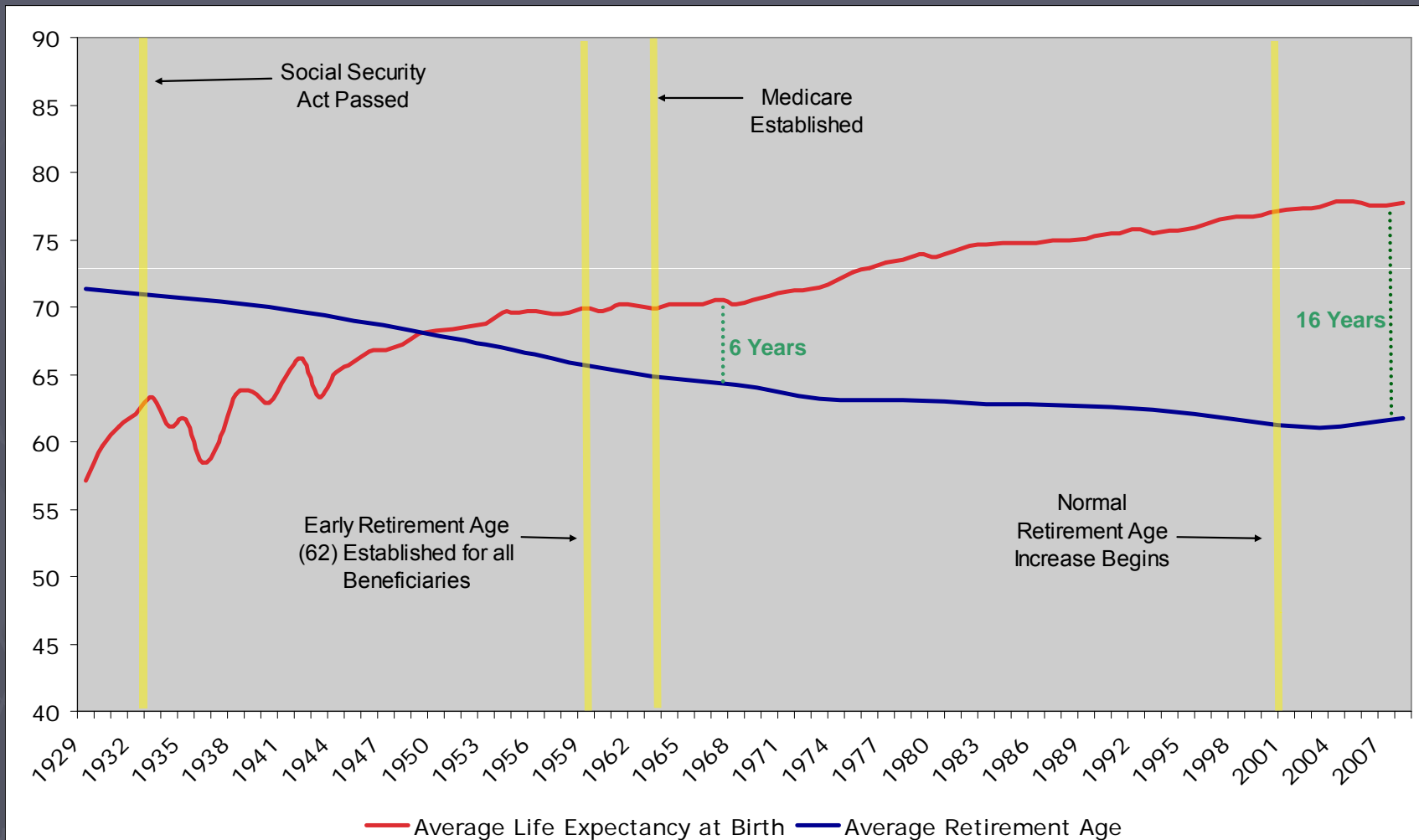


Benefits of Later Retirement

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

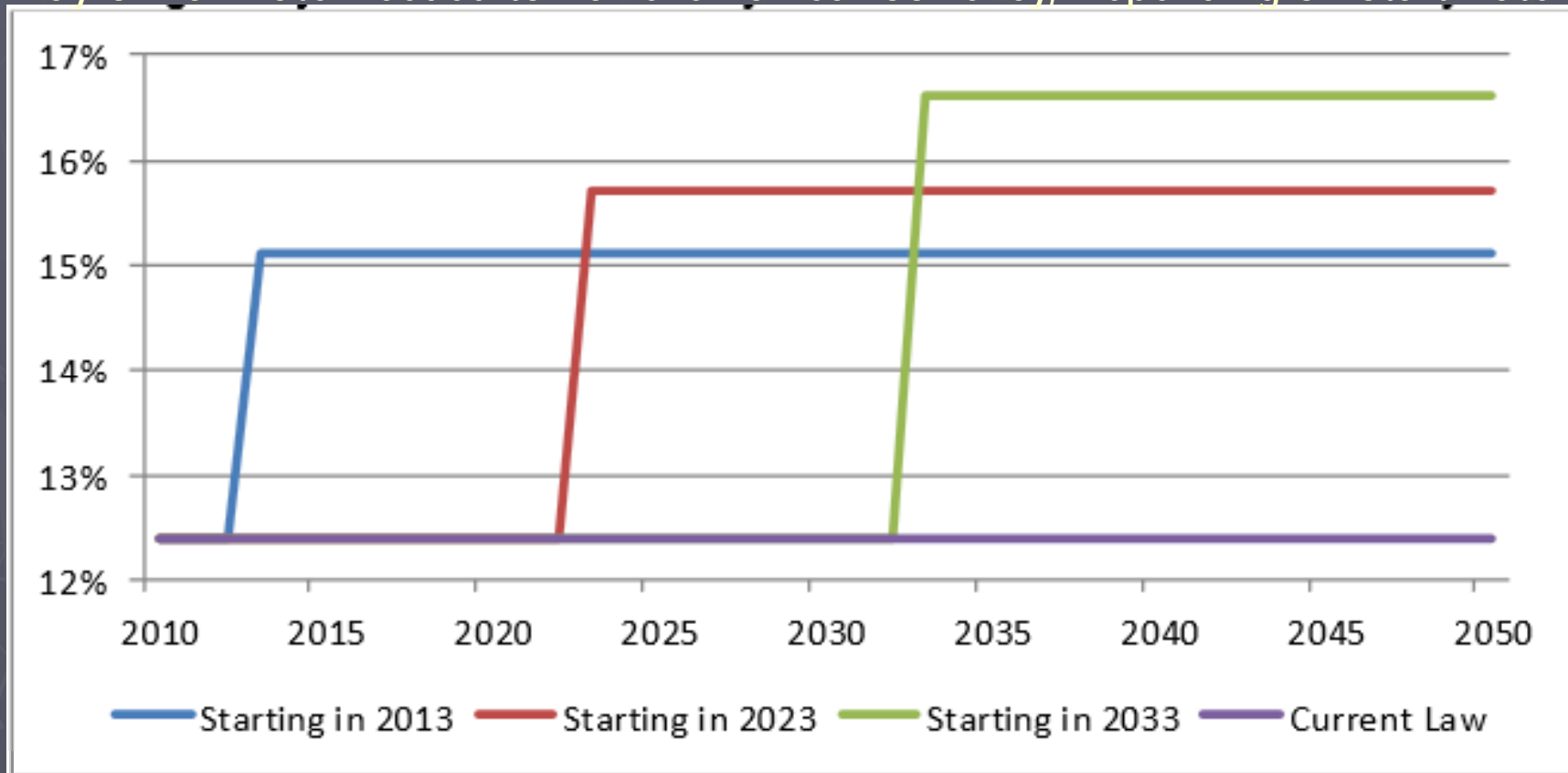


We Can Do It



No One will Get their Perfect Solution – but Waiting is Costly

Payroll Tax Rate Needed to Achieve 75-Year Solvency, Depending on Start Date



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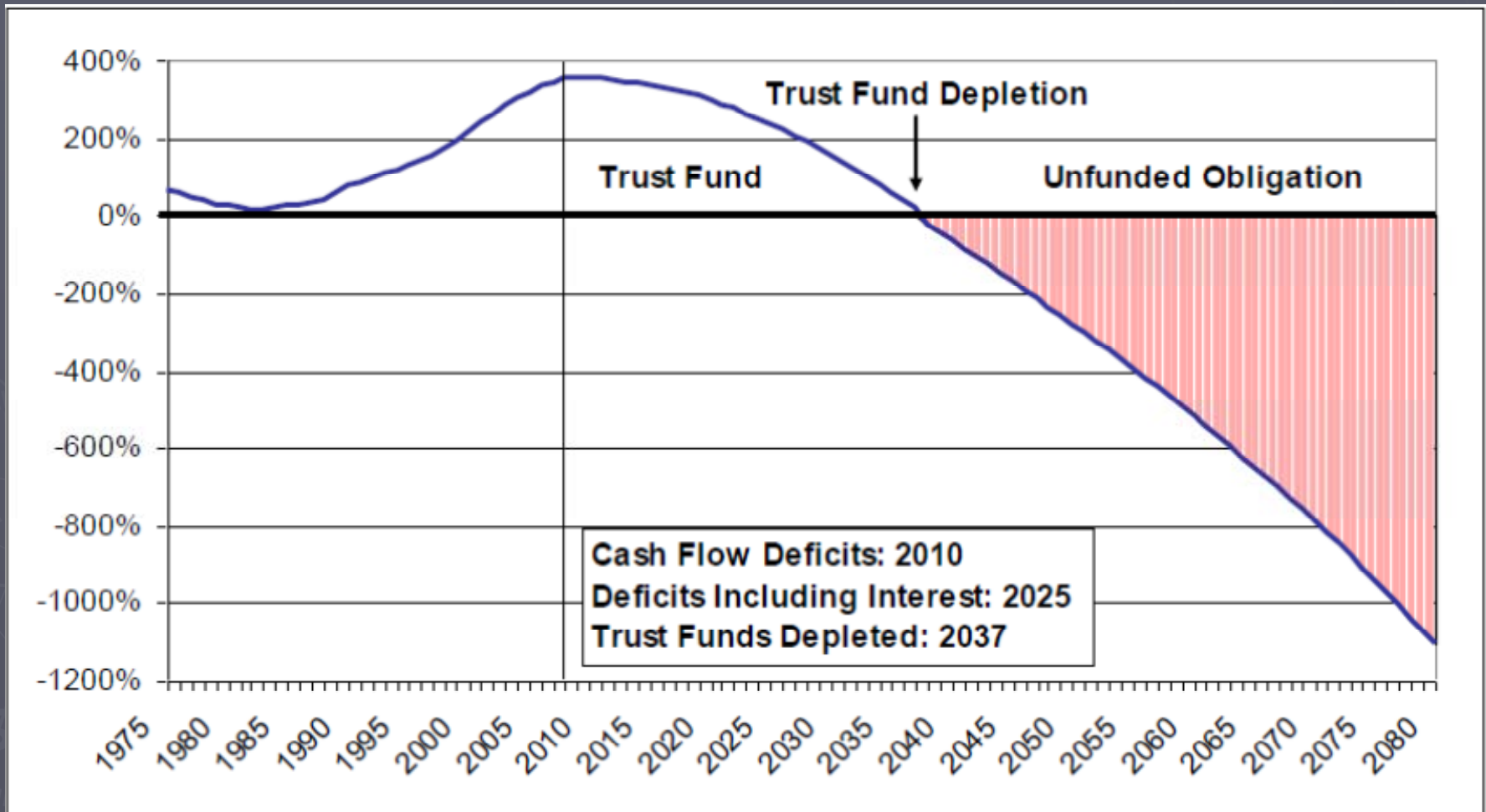
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EXTRA SLIDES

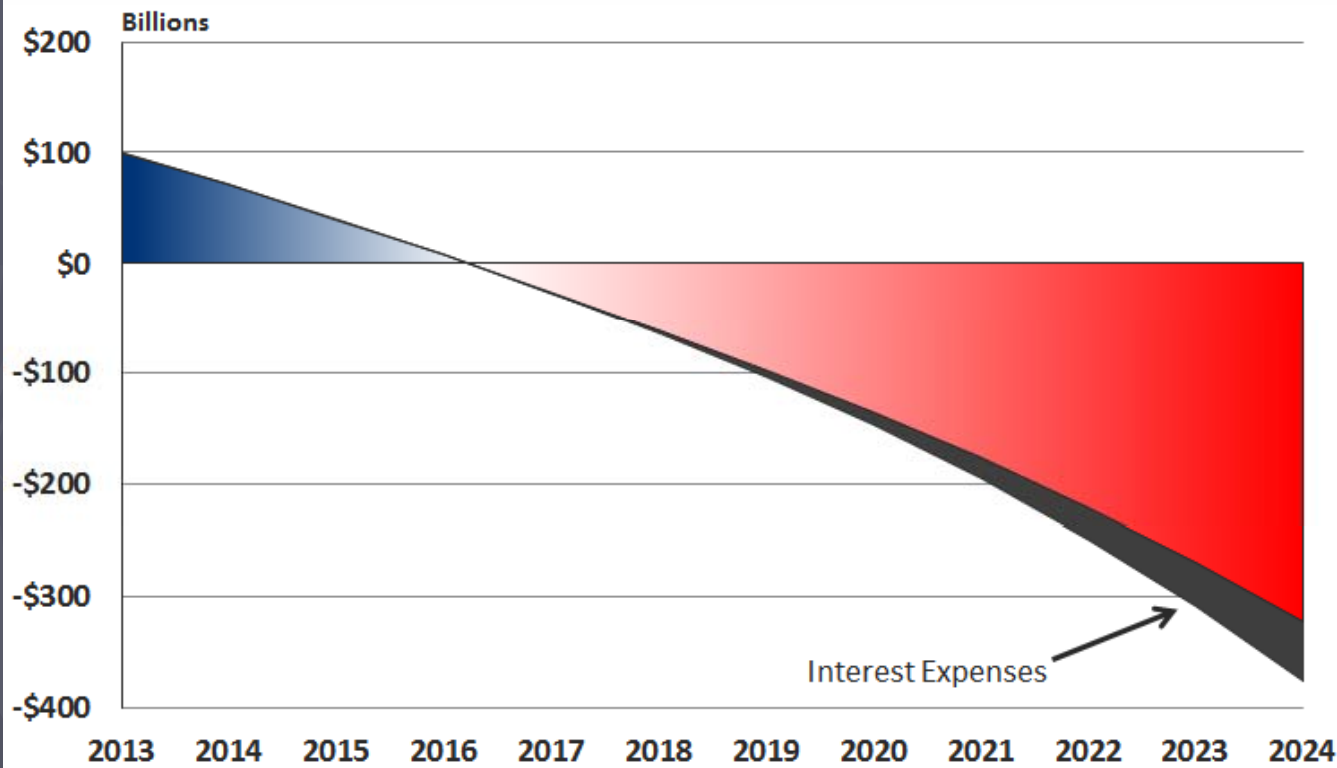


Social Security's Shortfall



SSDI's Shortfall

DI Trust Fund Balances or Cumulative Shortfalls



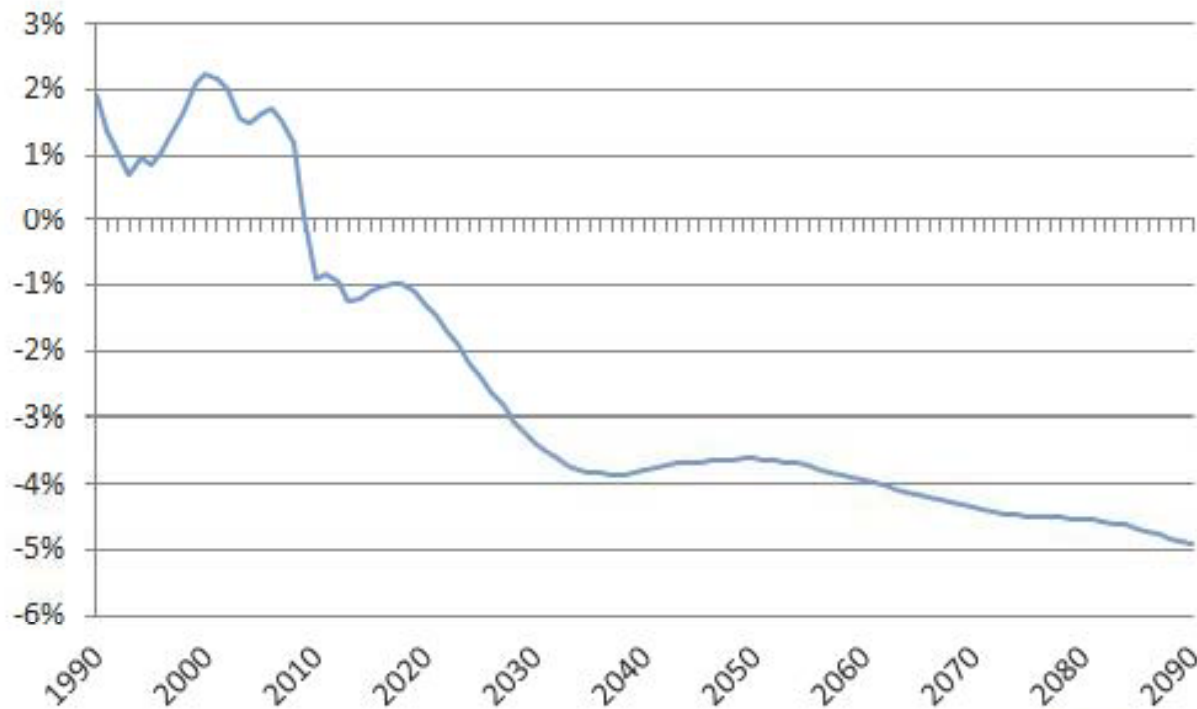
Source: CBO and CRFB calculations

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Growing Annual Deficits

Social Security Surplus/Deficit as a Percent of Payroll

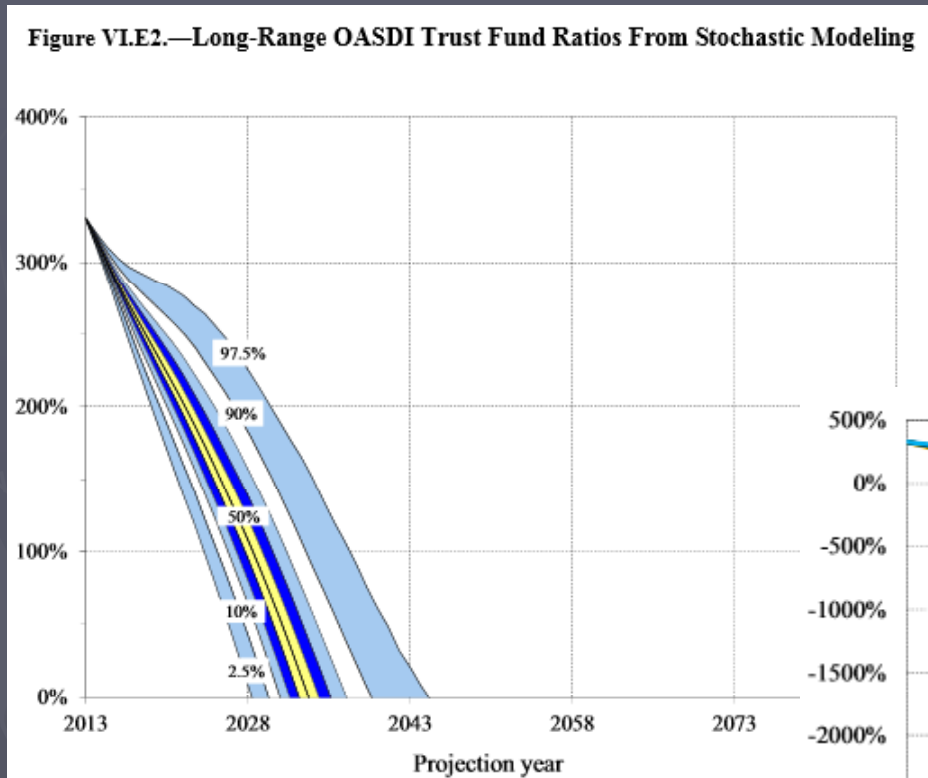


Source: Social Security Trustees Report

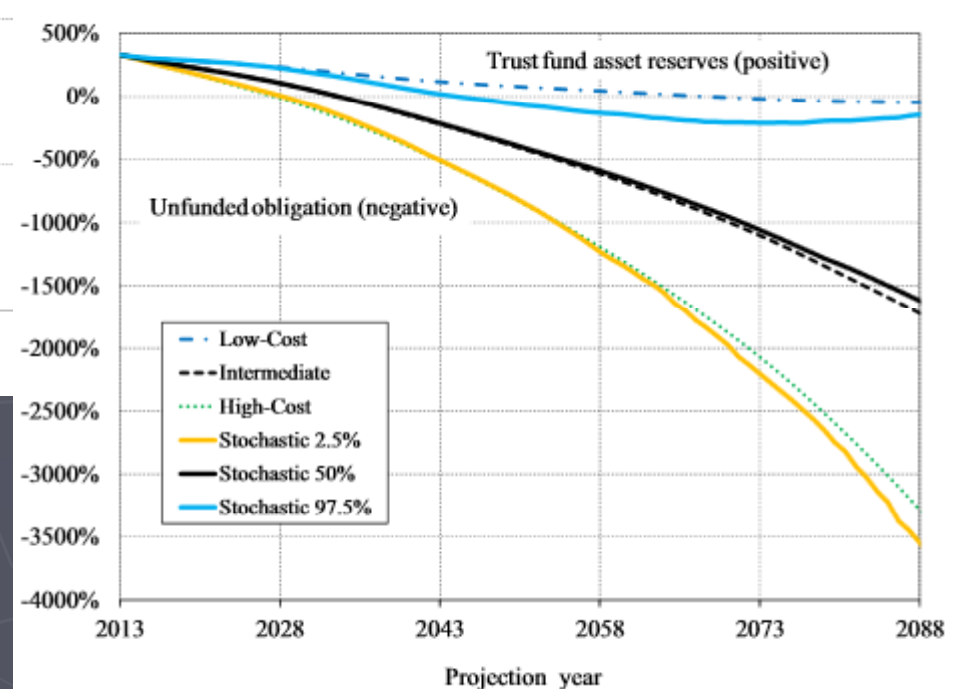


Almost Certainly Unsustainable

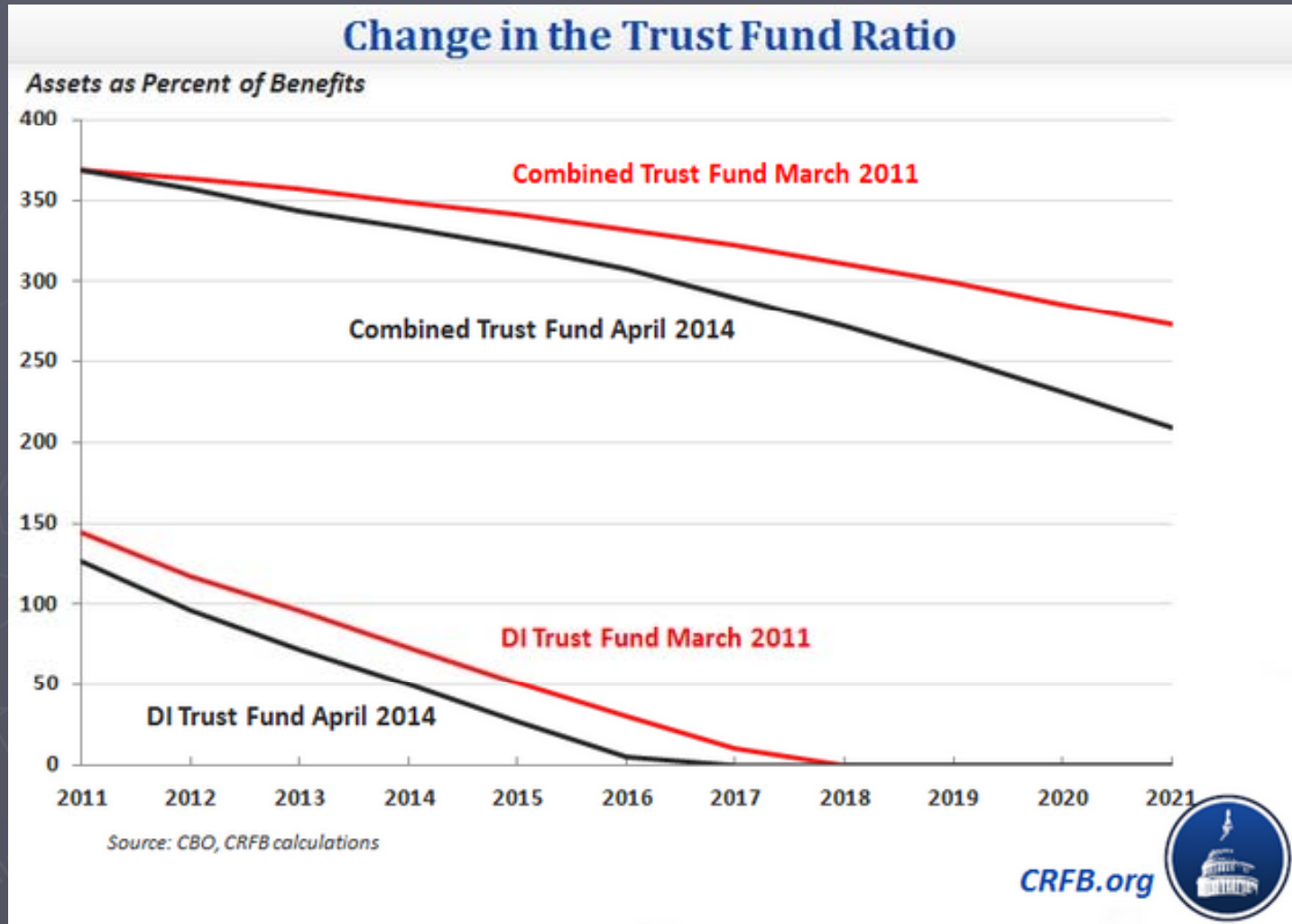
Probability of Various Trust Fund Exhaustion Dates



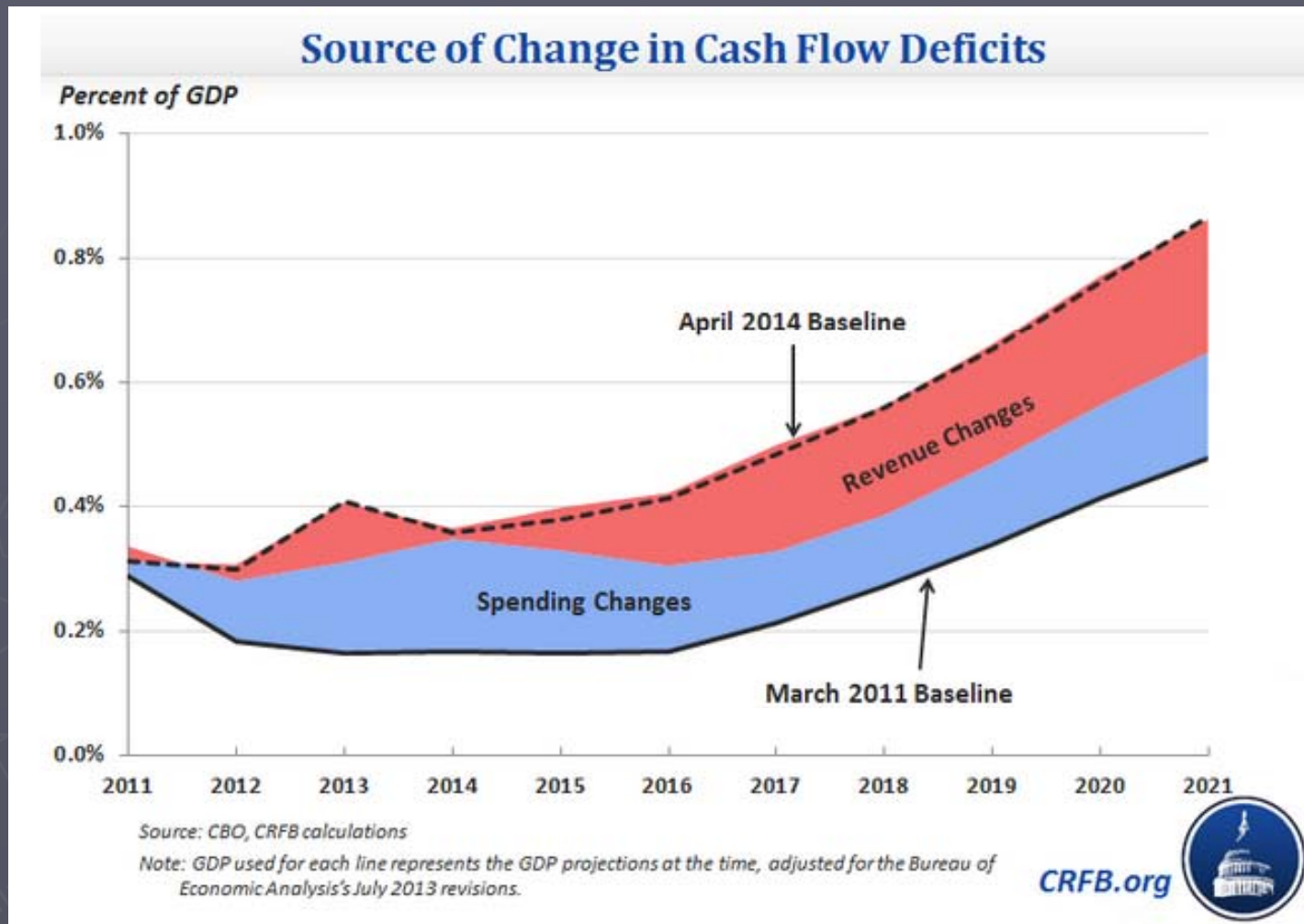
Source: Social Security 2013 Trustees Report



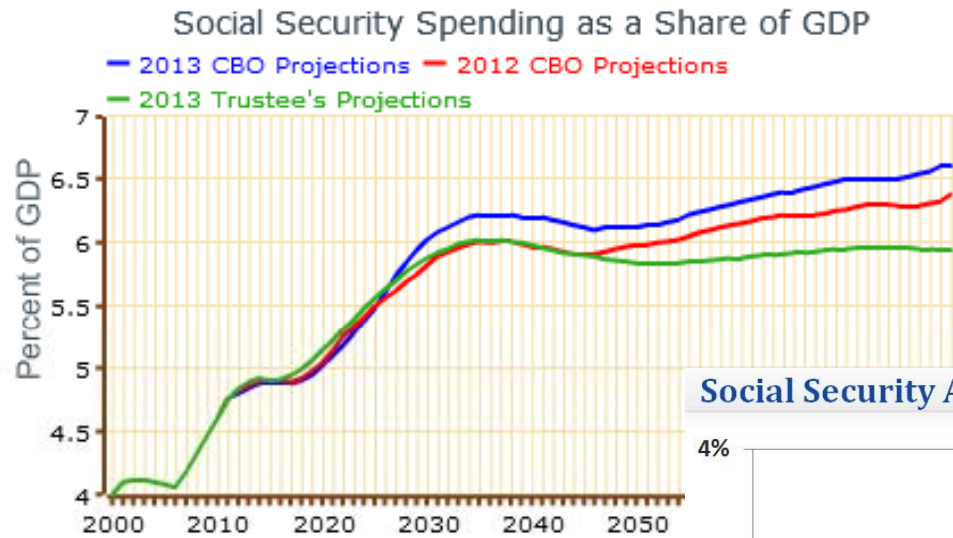
Worse Than We Thought



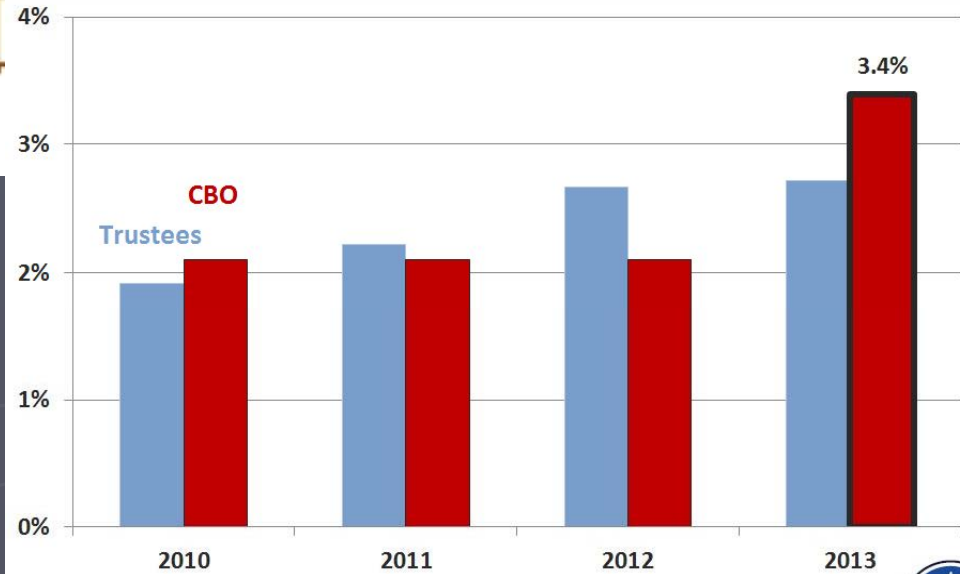
Worse Than We Thought



Worse Than We Thought



Social Security Actuarial Deficit as a Percent of Payroll



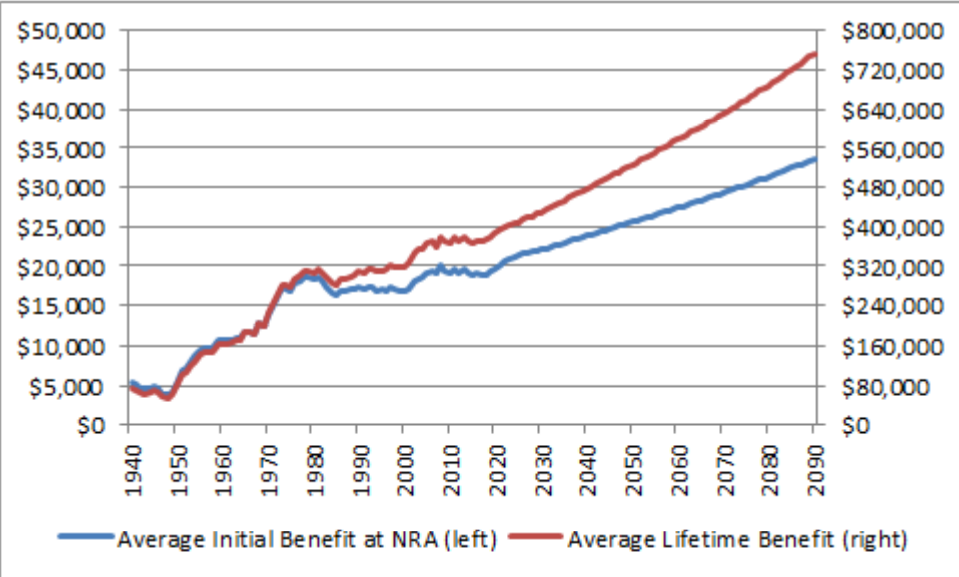
Source: CBO, Trustees Report

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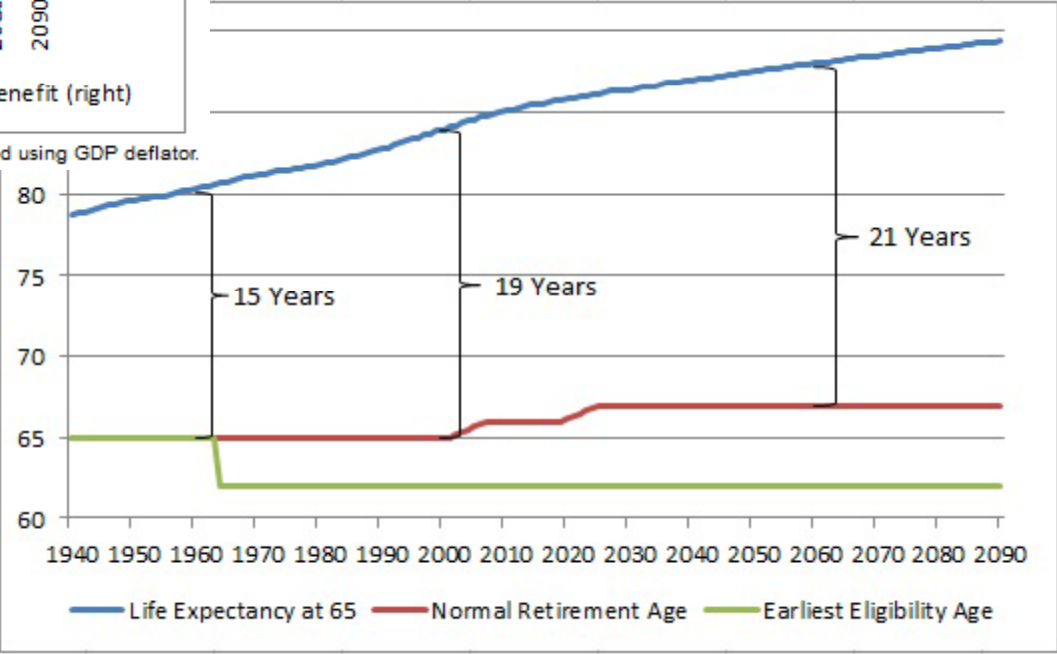


Benefits are Growing

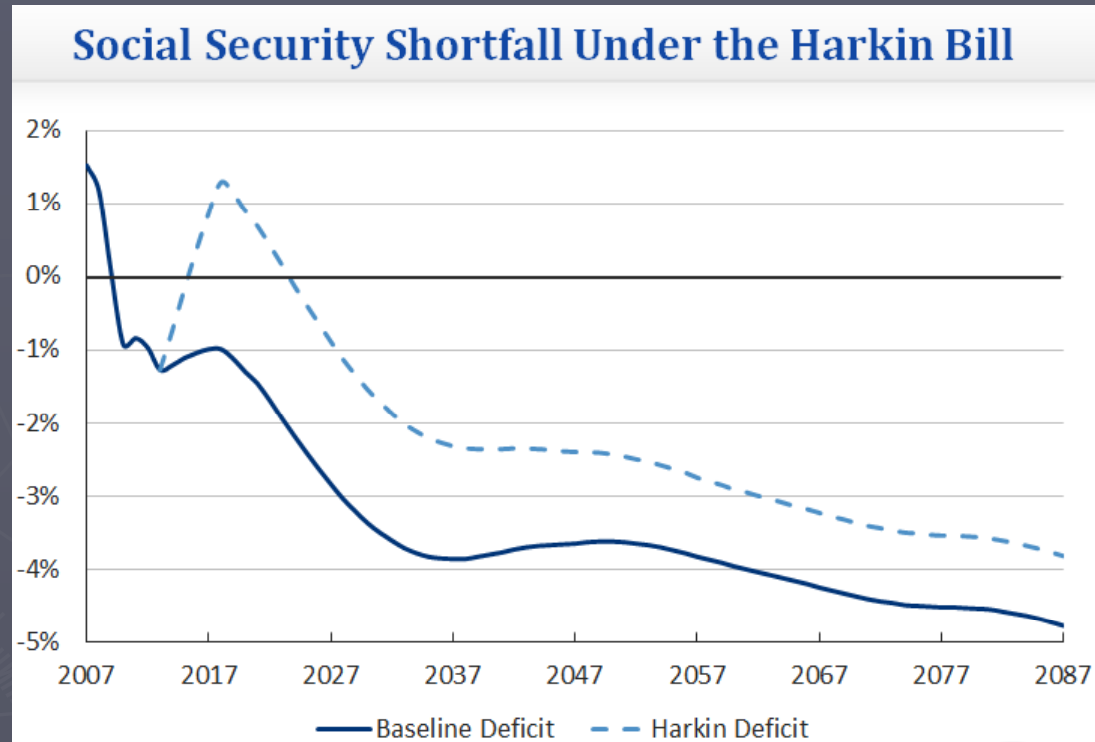
Average Initial and Lifetime Benefits (2013 GDP Price Index-Adjusted Dollars)



Source: Authors calculations based on SSA, BLS, and OMB. Real benefits calculated using GDP deflator.



An Unbalanced Plan (Harkin Bill)



Benefit Increase Under the Harkin Bill in 2050 (2012 dollars)

	Age 65	Age 75	Age 85	Lifetime
Very Low Earner	\$1,100	\$1,300	\$1,600	\$27,700
Low Earner	\$1,200	\$1,500	\$1,900	\$32,000
Medium Earner	\$1,300	\$1,800	\$2,300	\$37,200
High Earner	\$1,300	\$2,000	\$2,700	\$41,800
Very High Earner	\$1,300	\$2,200	\$3,000	\$45,900
Super High Earner	~\$75,000	~\$77,000	~\$80,000	~\$1,624,000

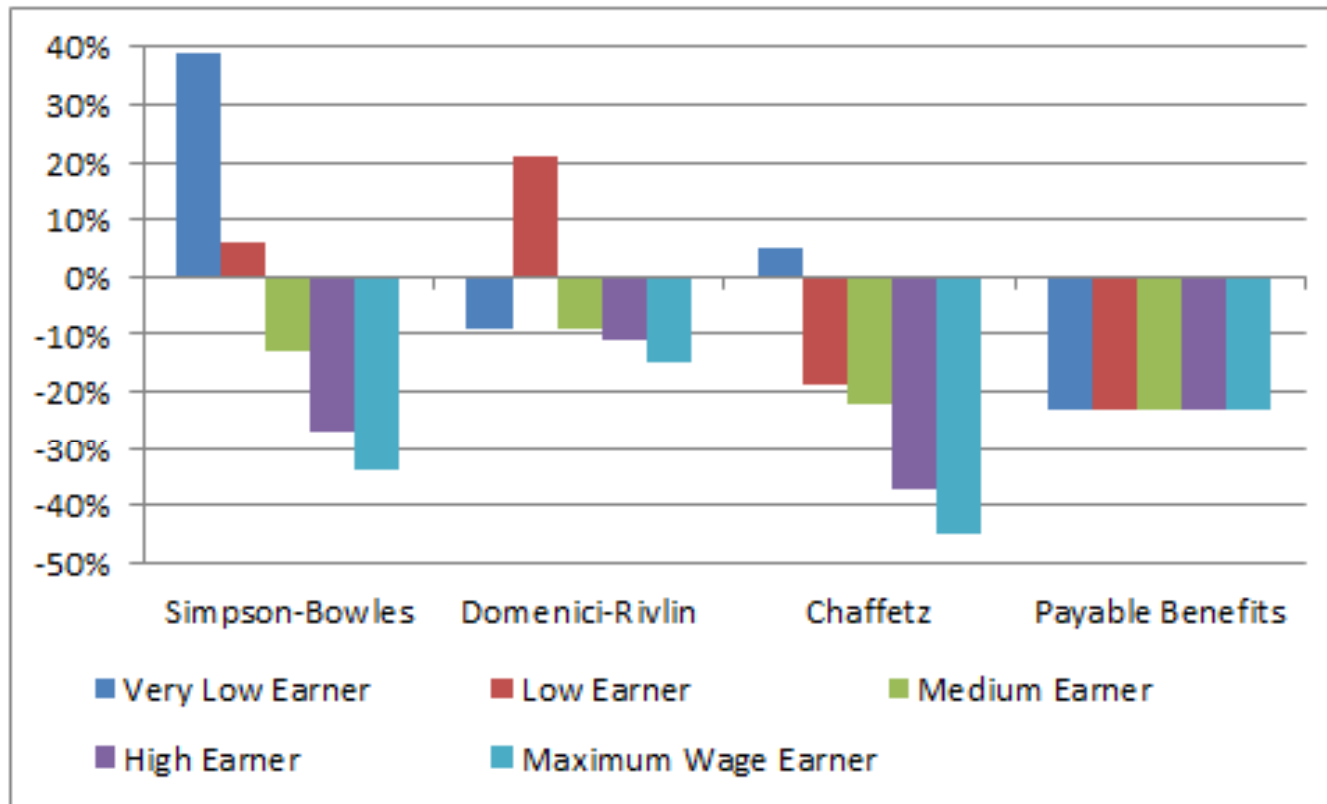
*Assuming benefits are collected from age 65 to 85

Note: 2012 Wages for earners are as follows: Very Low Earner - \$11,161; Low Earner - \$20,090; Medium Earner - \$44,644; High Earner - \$71,430; Very High Earner - \$110,100; Super High Earner - \$1,000,000

Numbers are rough and based on CRFB calculations using estimates from the Chief Actuary.

Distribution of Various Recs

Percent Change in Scheduled Benefits in 2050



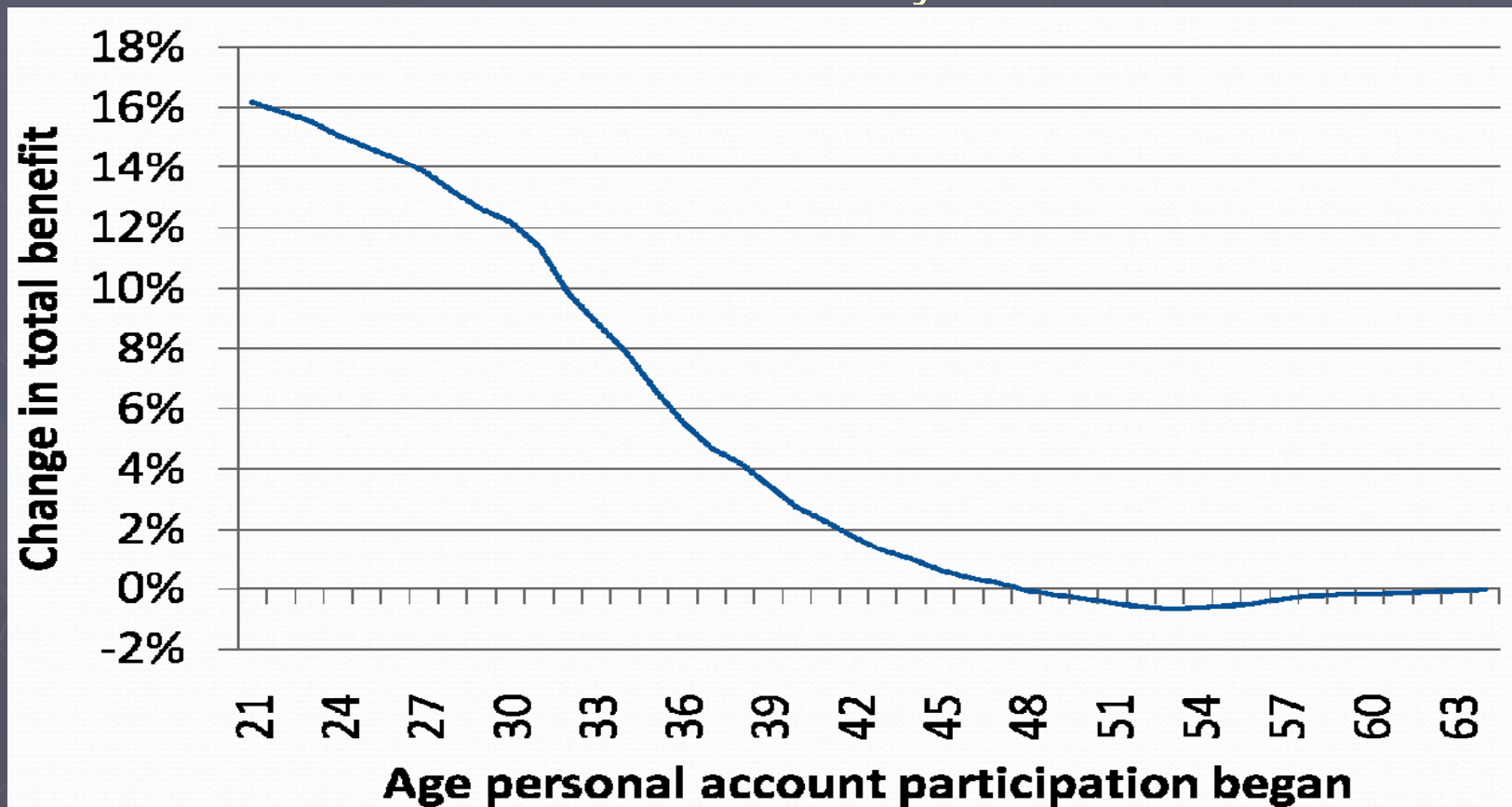
Source: SSA

Social Security Viewed from Two Approaches

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

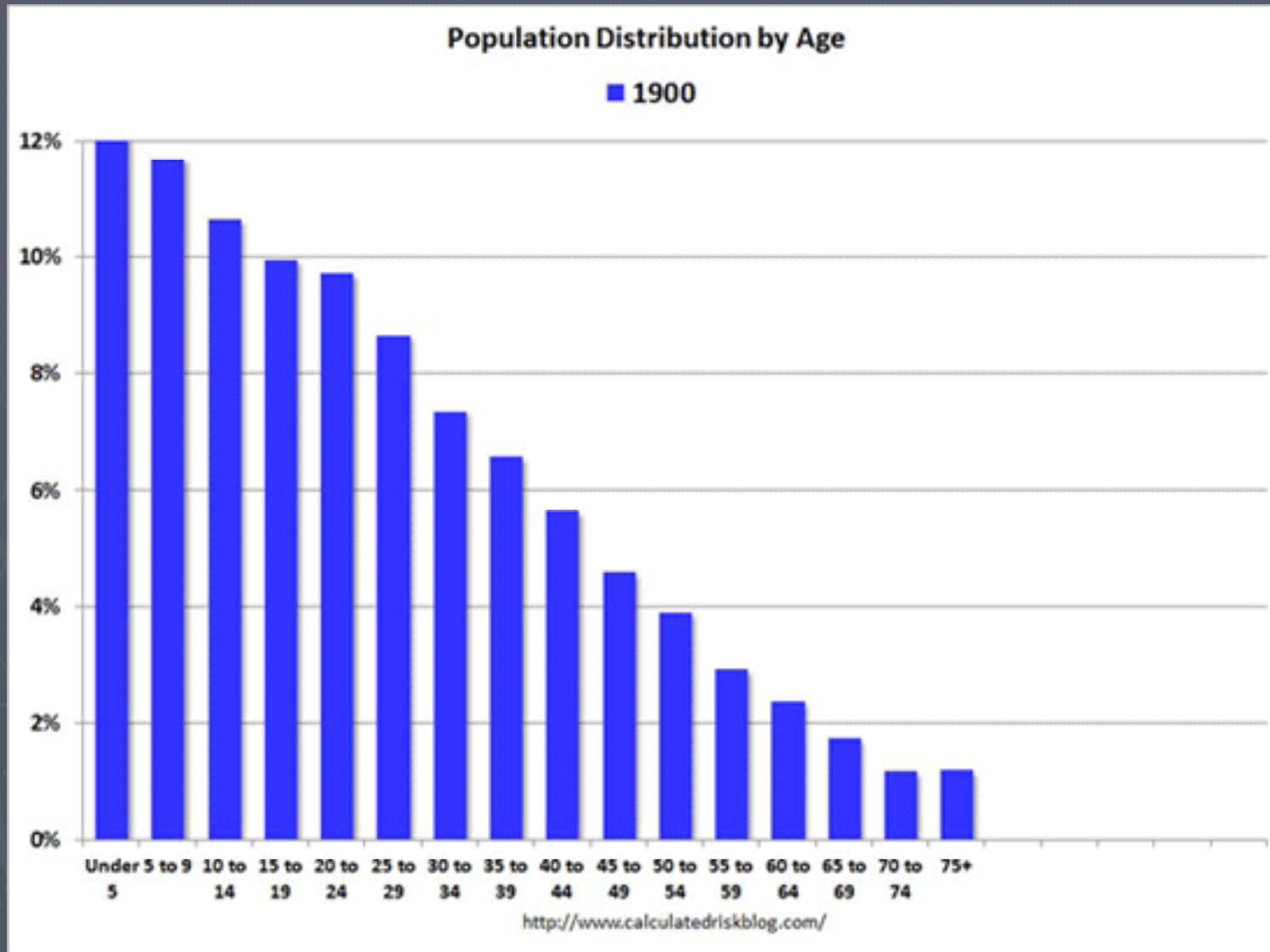
Returns to Accounts After a Market Crash

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



Source: Andrew Biggs, American Enterprise Institute

An Aging Population



Fiscal Cost of Aging

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

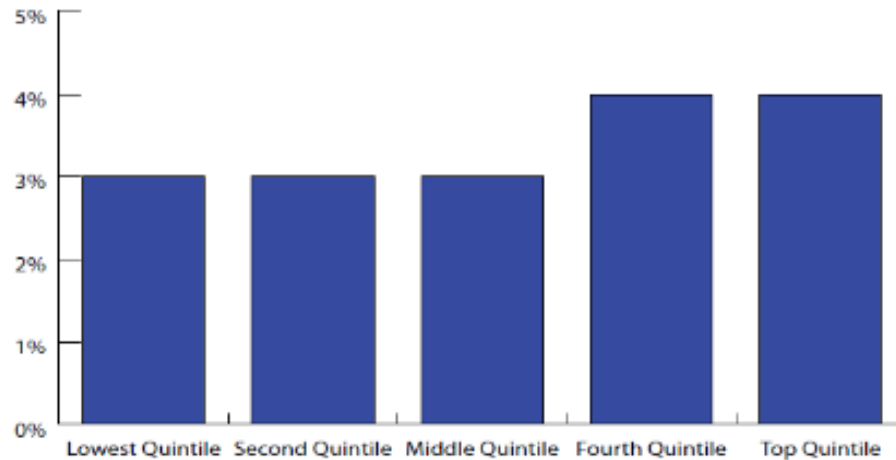
(Percent)

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

Source: Congressional Budget Office.

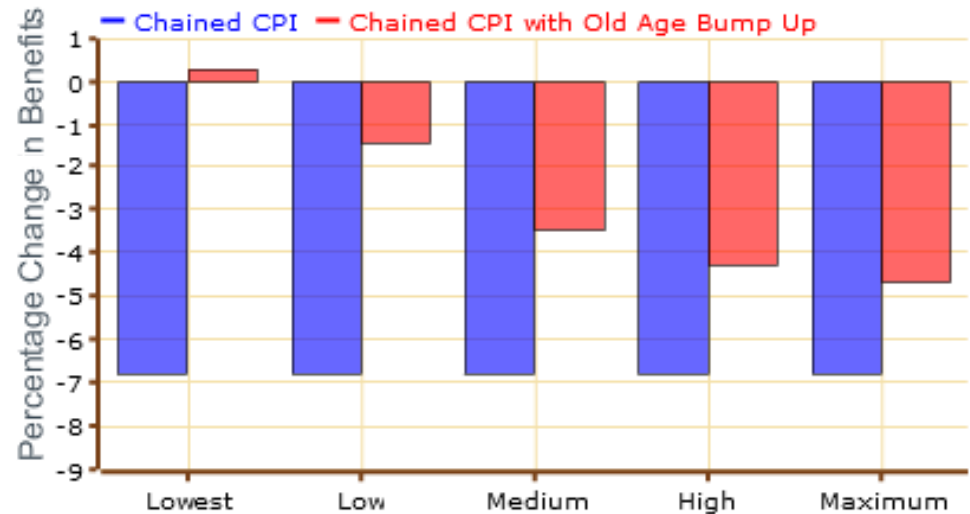
Chained CPI is Not Regressive

Fig. 3: Average Percent Reduction in Social Security Benefits



Source: Social Security Administration, Office of Policy.

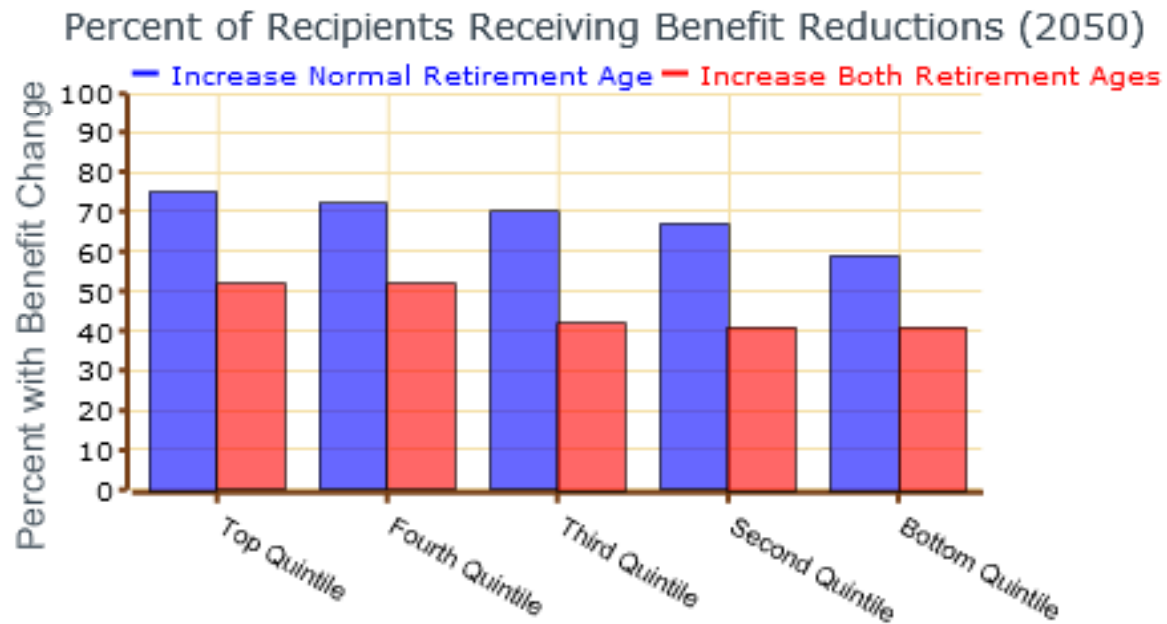
Distributional Effects at Age 86 by Earner



Raising the NRA is Not Regressive

Benefit Change from Raising the Normal Retirement Age (2050)		
Shared Earnings Quintile	Median Percent Change Compared to Schedule Benefits	Median Percent Change Compared to Payable Benefits
\$106,162+	-3%	23%
\$74,636 - \$106,162	-3%	23%
\$52,919 - \$74,636	-3%	23%
\$32,782 - \$52,919	-3%	23%
\$0-\$32,782	-2%	24%

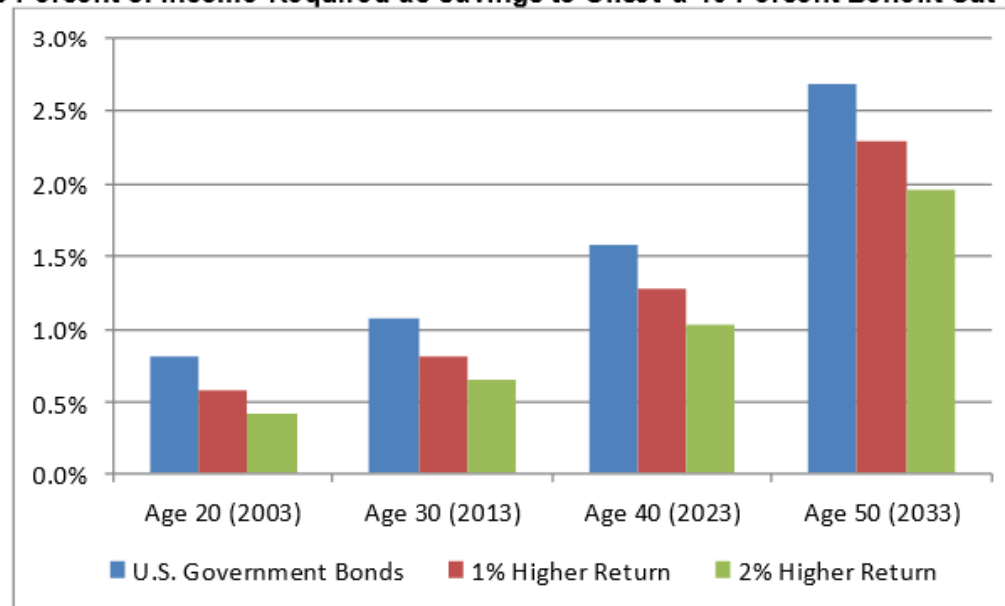
Source: Social Security Office of Retirement Policy



The Cost of Waiting is Real

1. **Per person benefit cuts and tax increases will be larger** as fewer cohorts of taxpayers and beneficiaries are able to share the cost of restoring solvency. As a result, achieving solvency would require a 23 percent across-the-board benefit cut in 2033, compared to 16.5 percent if enacted today.
2. **Less time will be available for interest to accumulate** within the trust fund to lengthen its life. As a result, achieving solvency would require 4.2 point payroll tax hike in 20 years, compared to 2.7 points if enacted today.
3. **Real cuts in benefits**, as opposed to the slowing of benefit growth, will become increasingly inevitable. As a result, price indexing benefits alone is likely no longer sufficient to ensure the program remains solvent.
4. Workers will have **less time to plan or adjust** for programmatic changes. As a result, a 30 year old would have to set aside 2 to 2.7 percent of income to replace a 10 percent benefit cut in 20 years, compared to 0.7 to 1.1 percent today.

Fig. 3 Percent of Income Required as Savings to Offset a 10 Percent Benefit Cut in 2050



The Cost of Waiting is Real

Fig 1. Percent Benefit Cut Needed to Close 75-Year Shortfall by Start Date

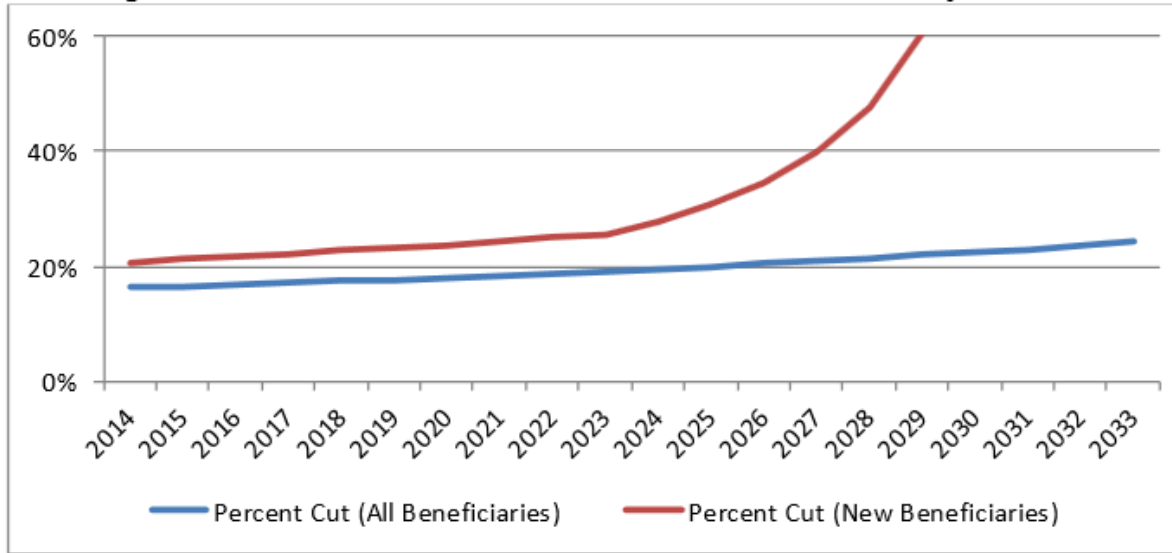


Fig 2. Payroll Tax Rate Necessary in Select Years for 75-Year Solvency

