Reforming Social Security

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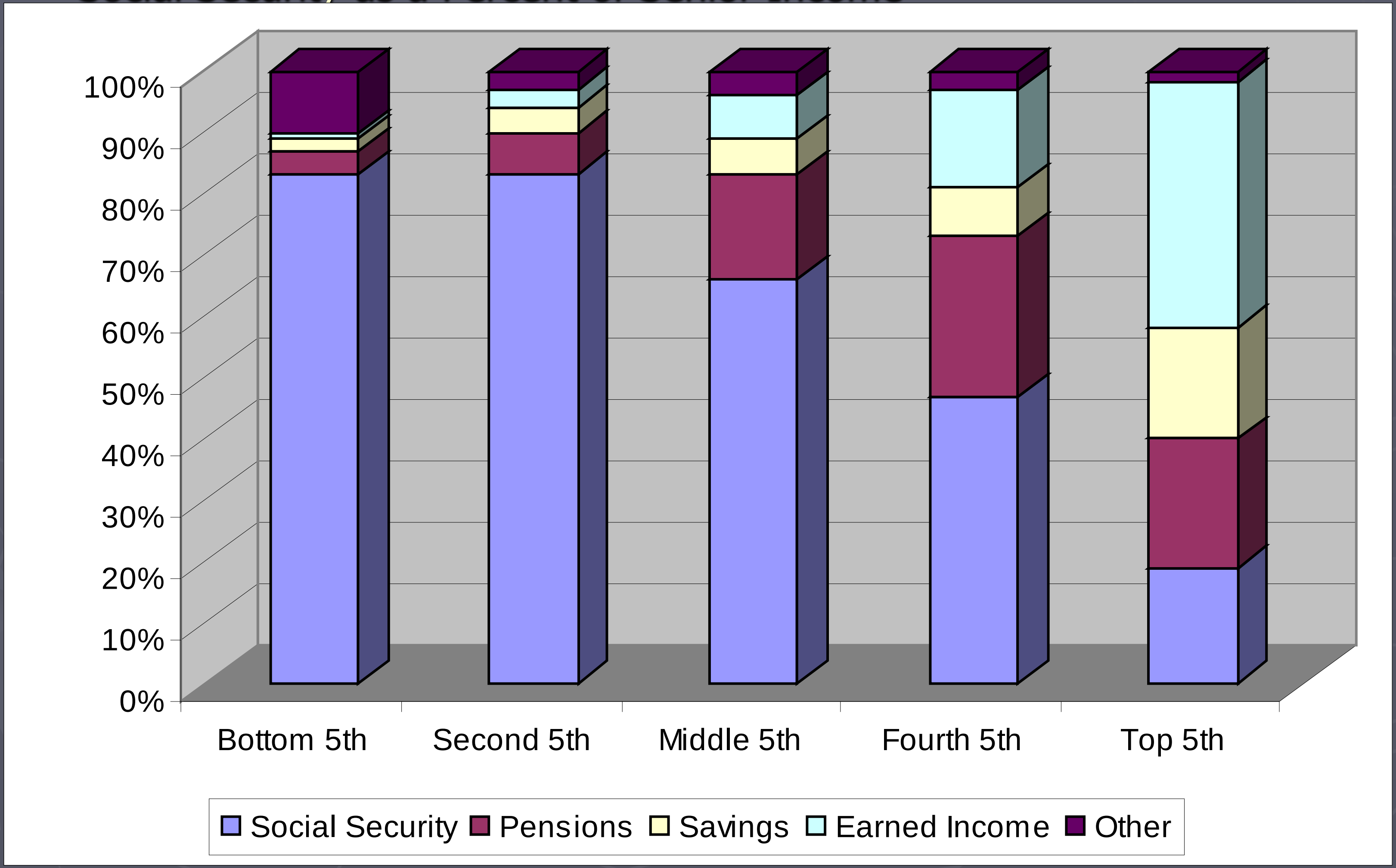
A Vital Program, Providing a Needed Source of Income

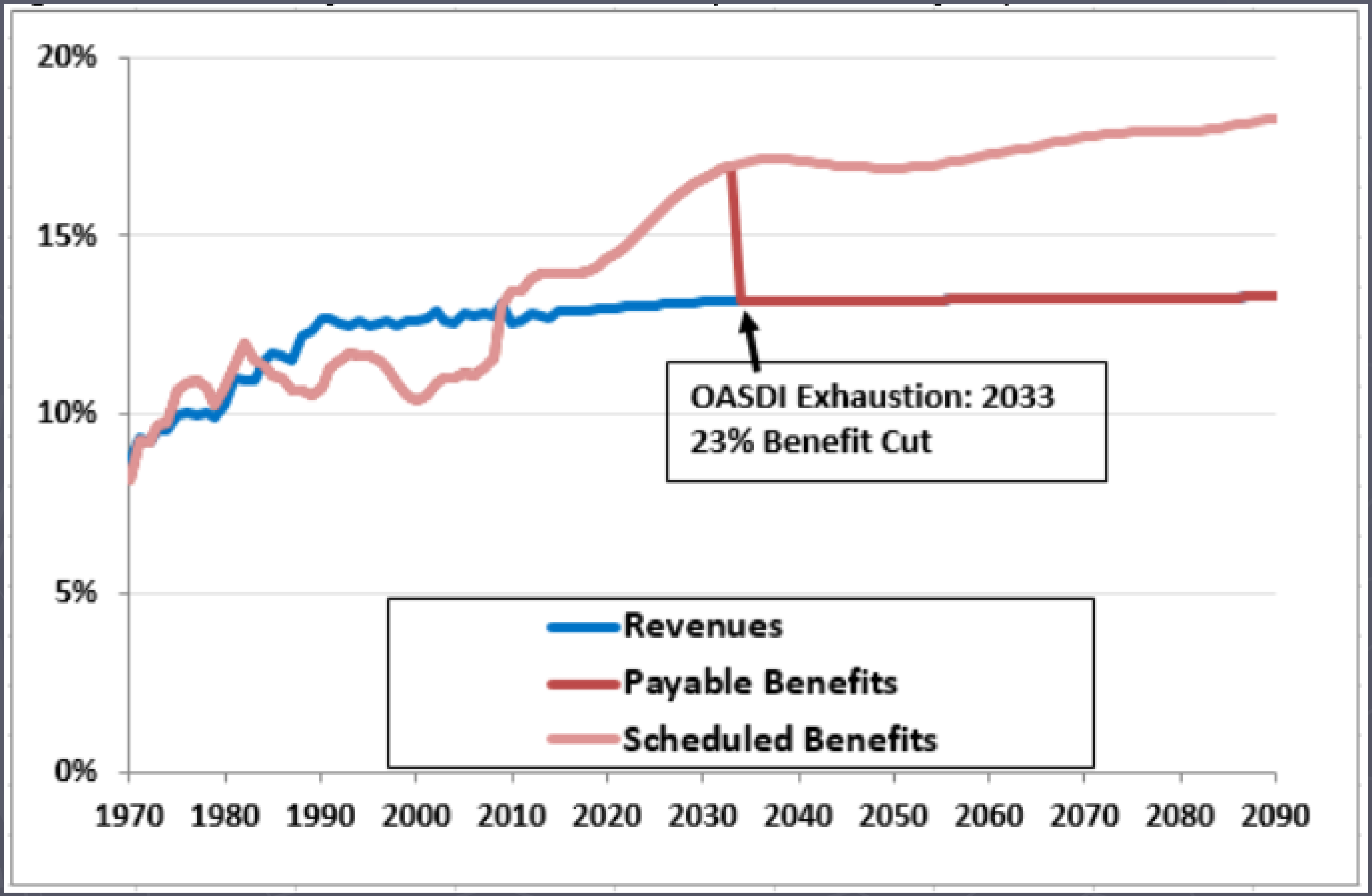
Social Security as a Percent of Senior Income



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

Permanent Deficits, Looming Insolvency

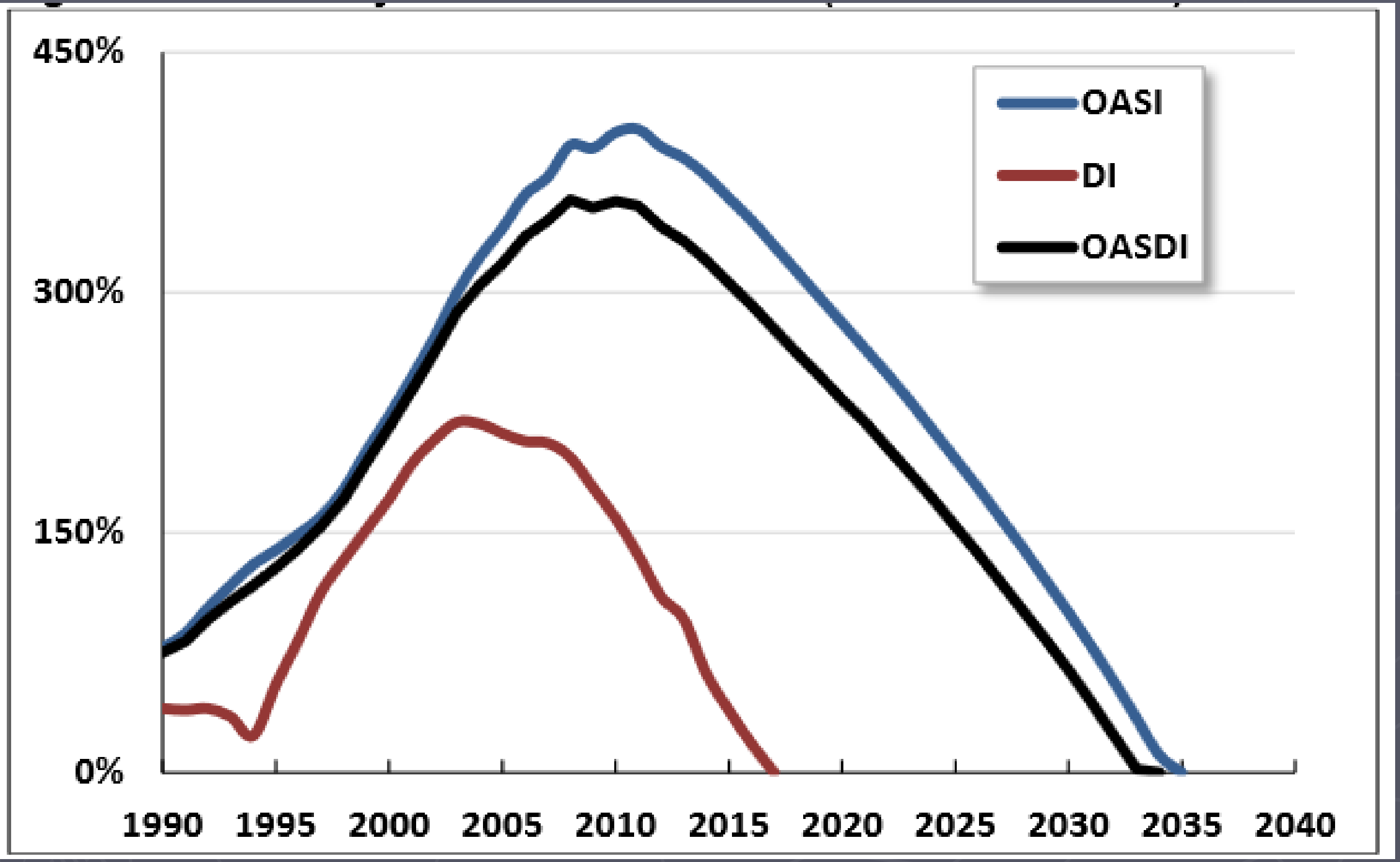
Social Security Revenues and Costs (percent of payroll)



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

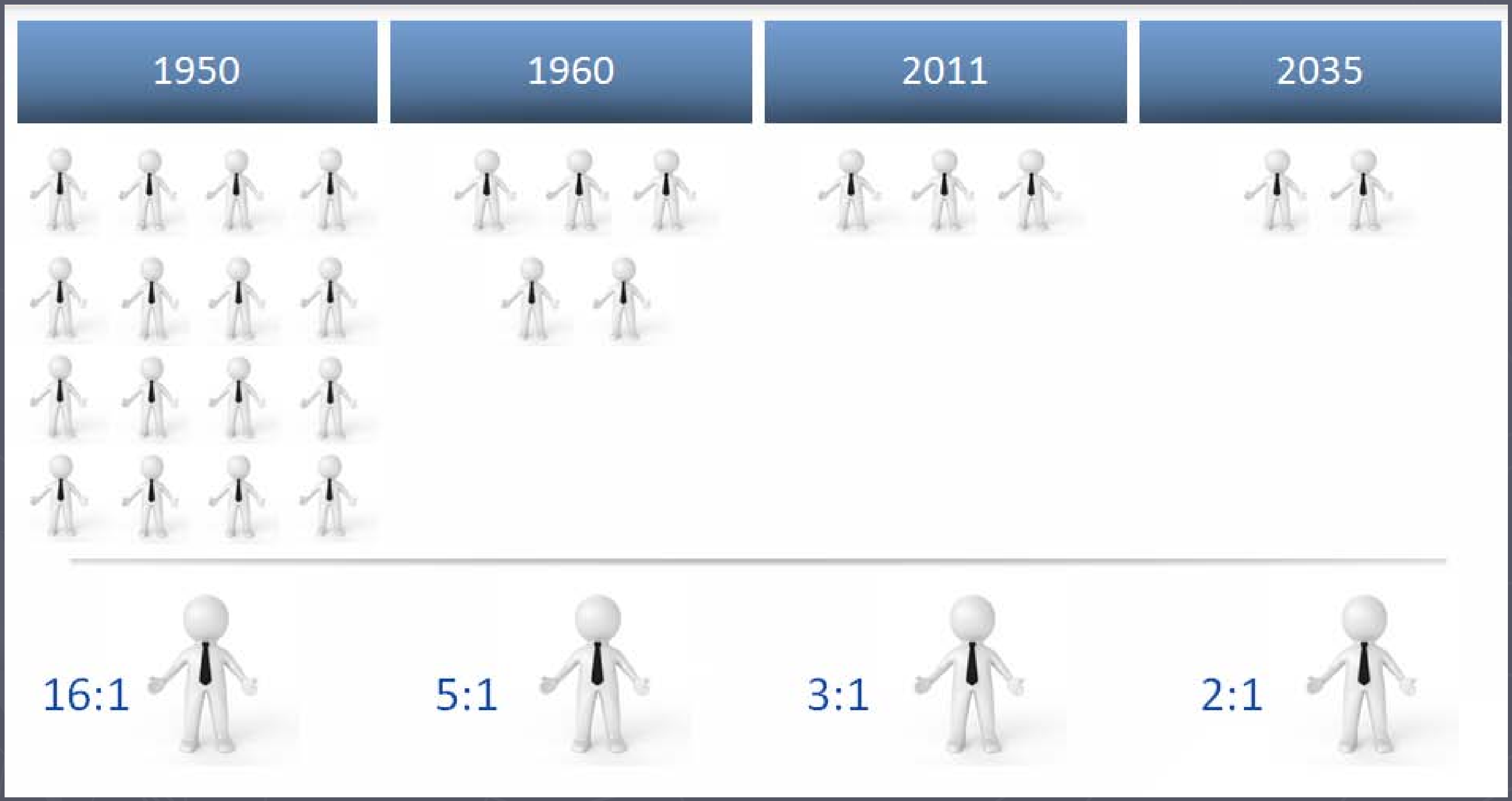
Social Security Trust Fund Assets as a Percent of Annual Benefits



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 Social Security, Medicare, & M’caid costs
  - 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 **~3% of payroll** actuarial imbalance
    3. Eventually closing **~5% of payroll** structural gap

3. Promote **economic growth** and **"bend the aging curve"**

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

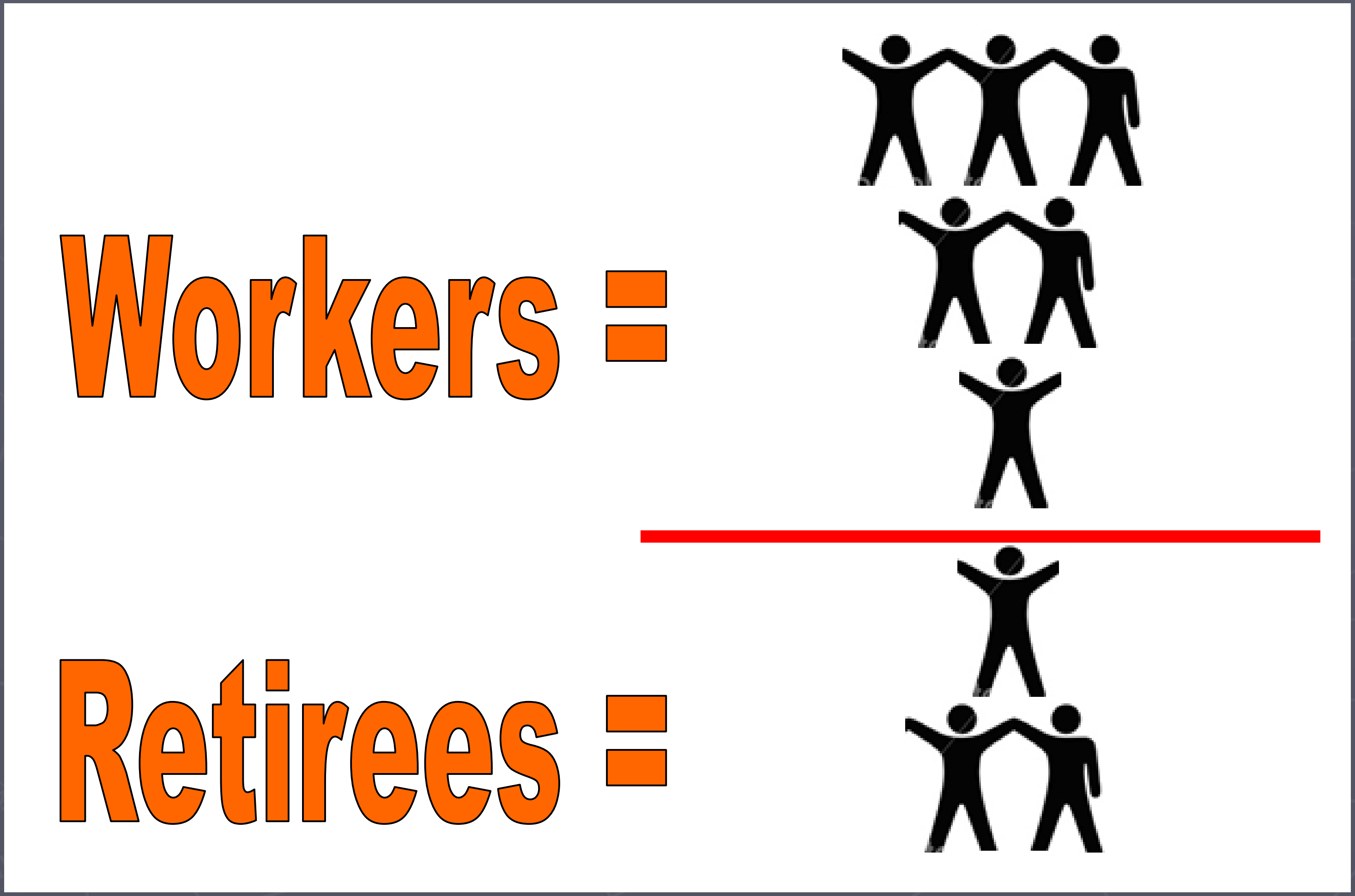
3. Include **targeted benefit increases** for low-income workers, the long-term disabled, and the old-old

Bending the Aging Curve?

The Dependency Ratio

Change the Demographics

Change the Equation



Bending the Aging Curve?

- Encourage longer and more productive working lives
- Enact immigration reform
- Increase retirement savings, investment, and economic growth

Achieving Solvency

VISIT **[SocialSecurityReformer.org]** TO TRY

Benefit-Heavy Reform

Benefit Formula | Other Benefits | Revenues | Summary

	% OF GAP CLOSED	INFO
Increase (+) / Reduce (-) Initial Benefits by: ___ %	0%	i
☑ **Slow Initial Benefit Growth**		
◉ Slow Benefit Growth for Top 70% of Earners	51%	i
○ Slow Benefit Growth for Top Half of Earners	37%	i
○ Slow Benefit Growth for Top 20% Of Earners	3%	i
☑ **Increase Retirement Age**		
○ Raise Age from 67 to 68	12%	i
○ Index Age to Longevity After it Reaches 67	17%	i
◉ Raise Age to 69 then index to Longevity	36%	i
☑ **Modify Cost of Living Adjustments (COLAs)**		
◉ Index COLAs to "Chained CPI"	20%	i
○ Index COLAs to CPI Minus 1%	59%	i
○ Index COLAs to "CPI-E"	-14%	i

Benefit-Heavy Reform

You closed the 75-year funding gap, but not quickly enough. Social Security will need to borrow to avoid a 14% across-the-board benefit reduction in 2037.

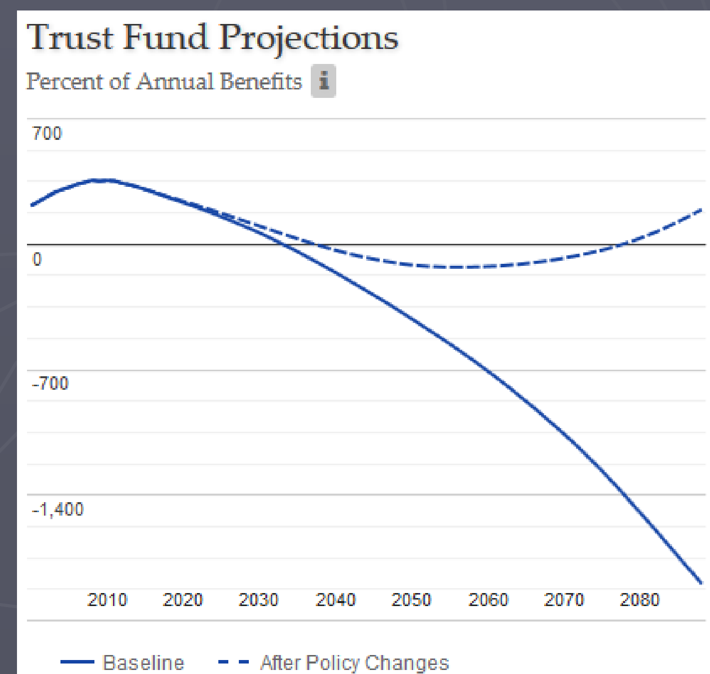
YOUR POLICY SELECTIONS	% OF GAP CLOSED
Slow Benefit Growth for Top 70% of Earners	51%
Raise Age to 69 then index to Longevity	36%
Index COLAs to "Chained CPI"	20%
TOTAL	**106%**

In 2050, your plan would reduce total scheduled benefits by 22% and reduce payable benefits by 1%. Your plan would decrease taxes by 1%.

106%

Percent of 75-year shortfall closed

(151% of shortfall closed in 75th year)



Revenue-Heavy Reform

Benefit Formula | **Other Benefits** | Revenues | Summary

	% OF GAP CLOSED	INFO
Reform Disability Benefits		
☐ Reduce Fraud and Overpayments	4%	i
☐ Tighten DI Eligibility Requirements	4%	i
☐ Prohibit Applications above the Early Retirement Age	4%	i
Enact Benefit Enhancements		
☑ Create Minimum Benefit at 125% of Poverty	-5%	i
☑ Offer "Bump-Up" for Very Old Beneficiaries	-5%	i
☑ Restore the College Benefit	-3%	i
Enact Other Benefit Changes		
☐ Calculate Benefits Based on Highest 38 Years	10%	i
☐ Means-Test Benefits for Higher Earners	8%	i
☐ Reduce and Reform Spousal Benefits	4%	i

Benefit Formula | Other Benefits | **Revenues** | Summary

	% OF GAP CLOSED	INFO
Increase (+) / Reduce (-) Payroll Tax Rate by: 1.0 %	36%	i
☑ **Increase Taxable Maximum**		
◉ Subject All Wages to Payroll Tax	71%	i
○ Subject 90% of Wages to Payroll Tax	30%	i
○ Apply 3% Surcharge Above Current Maximum	22%	i
Raise Additional Revenue		
☐ Cover Newly-Hired State & Local Workers	6%	i
☑ Apply the Payroll Tax to "Cafeteria Plans"	8%	i
☐ Increase Taxation of Benefits	8%	i
☐ **Invest in the Stock Market**		
○ Diversify the Trust Fund to Increase Returns	19%	i
○ Divert 2% of Payroll Tax to "Carve-Out" Accounts	-13%	i
○ Allow Contributions into "Add-on" Accounts	0%	i

Revenue-Heavy Reform

Social Security will be solvent over the next 75 years, but 55% of the gap between spending and revenue remains in the 75th year, meaning the program is not yet sustainable.

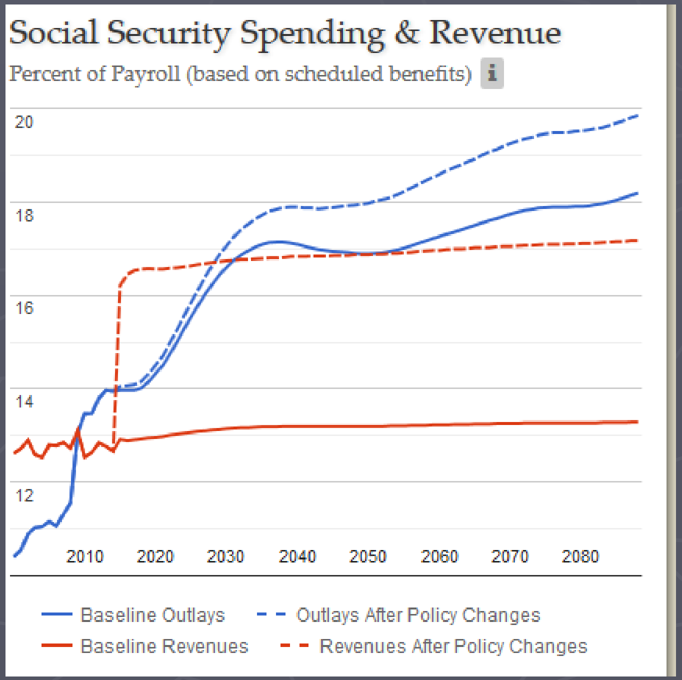
YOUR POLICY SELECTIONS	% OF GAP CLOSED
Create Minimum Benefit at 125% of Poverty	-5%
Offer "Bump-Up" for Very Old Beneficiaries	-5%
Restore the College Benefit	-3%
Increase Payroll Tax by 1%	36%
Subject All Wages to Payroll Tax	71%
Apply the Payroll Tax to "Cafeteria Plans"	8%
TOTAL	**102%**

In 2050, your plan would increase total scheduled benefits by 6% and increase payable benefits by 36%. Your plan would increase taxes by 28%.

102%

Percent of 75-year shortfall closed

(45% of shortfall closed in 75th year)



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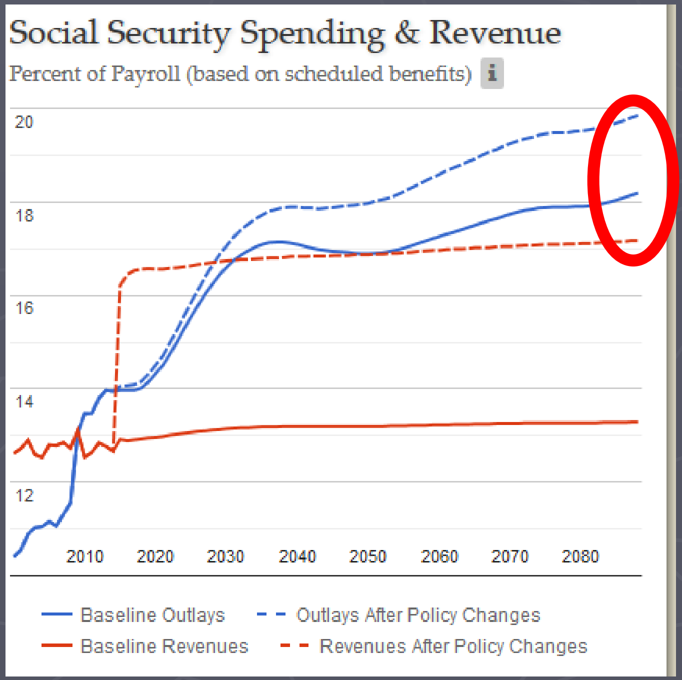

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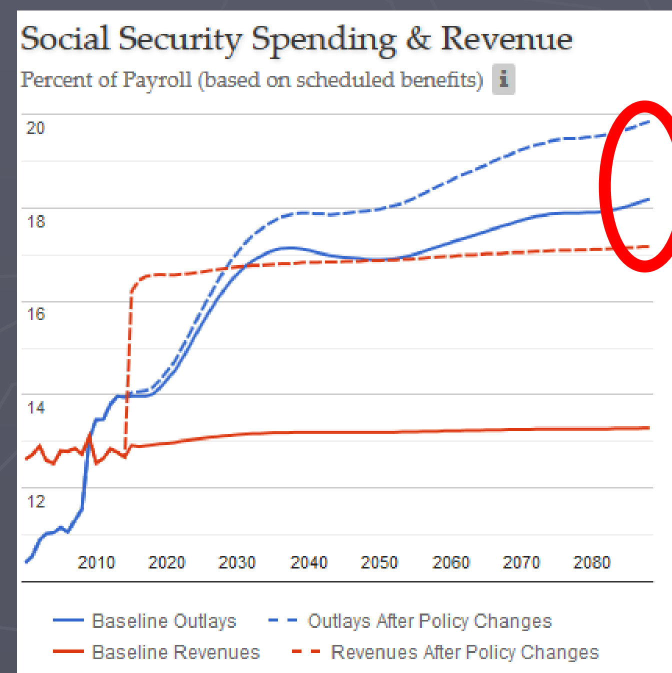
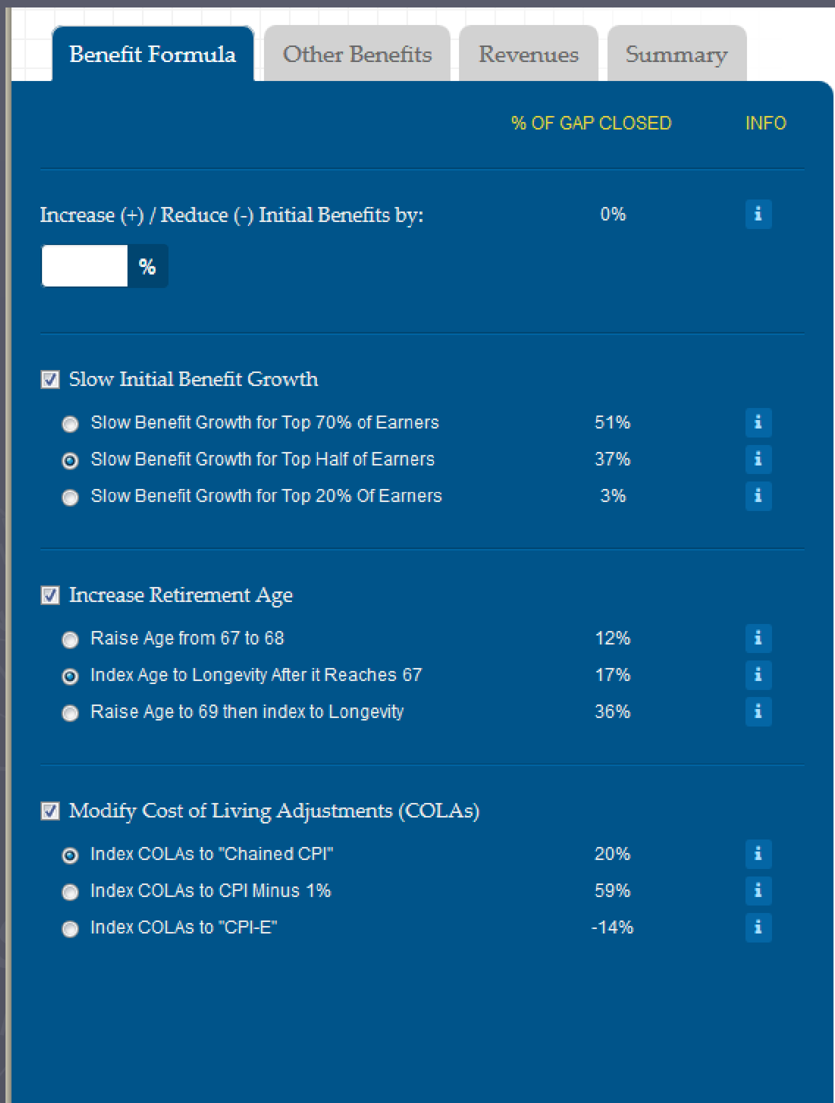
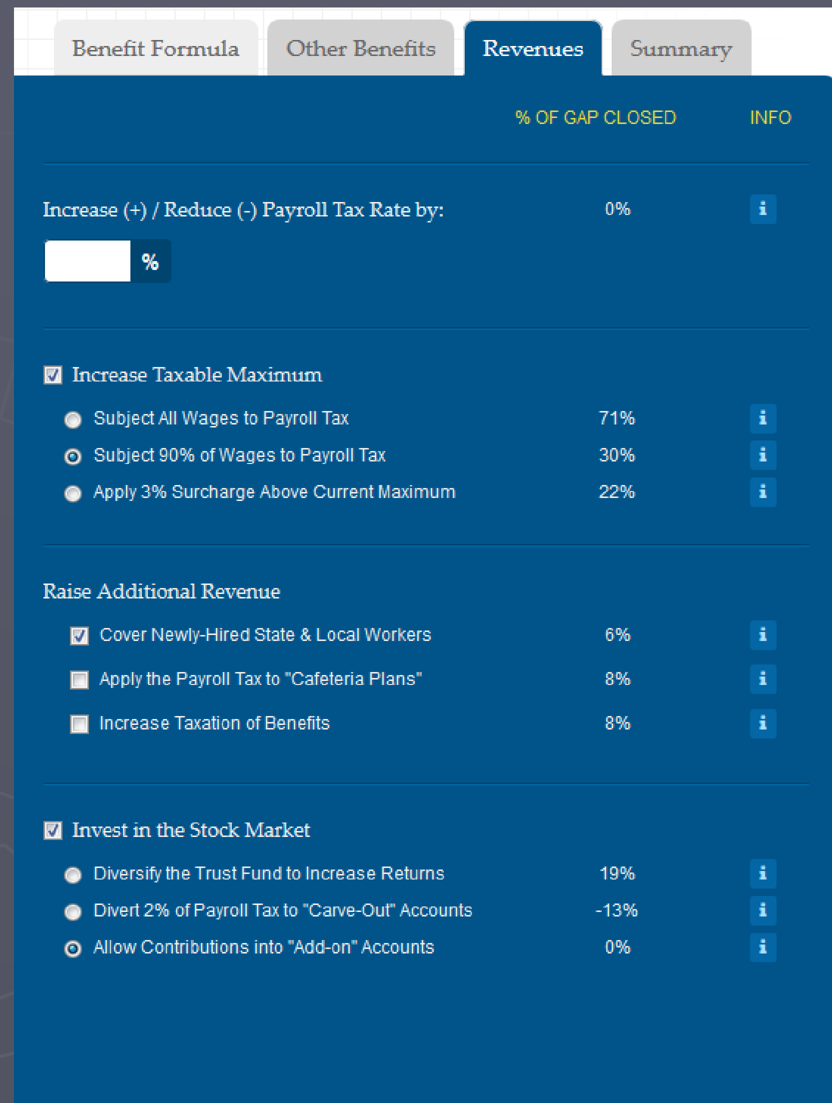


We Need a Goldilocks Plan

- Revenue-only plans are “too hot”
  - Could slow economic growth, divert revenue from other important needs
  - Politically impossible
- Benefit-only plans are “too cold”
  - Could hurt retirement security, force seniors to bear too much of the burden
  - Politically impossible
- A balanced approach may be “just right”

A Balanced Reform Plan





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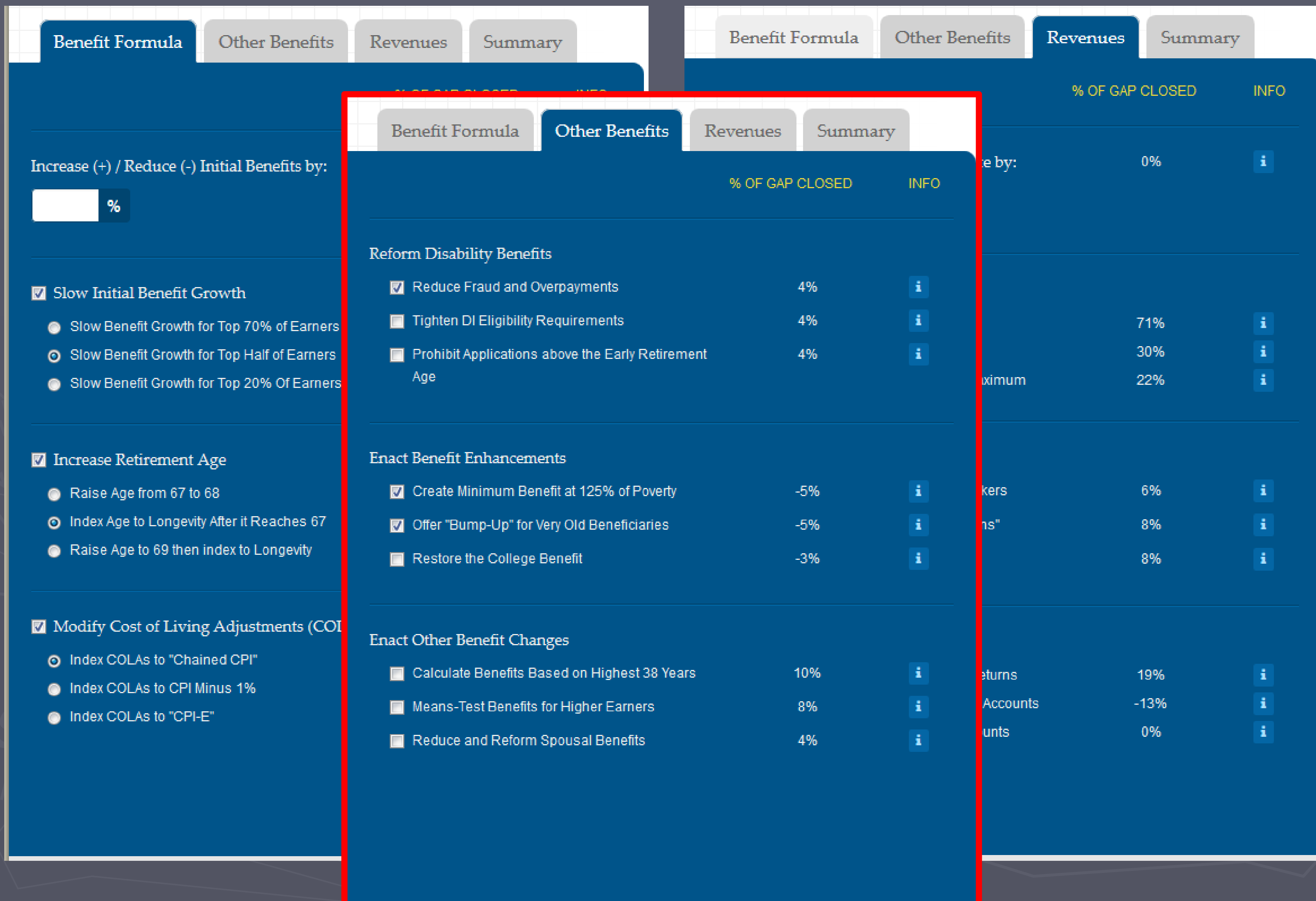


Congratulations! Under your plan Social Security will be sustainably solvent for the next 75 years and beyond.

104%

Percent of 75-year shortfall closed

(**101%** of shortfall closed in 75th year)

✖ Clear Selections

Benefit Formula | Other Benefits | Revenues | **Summary**

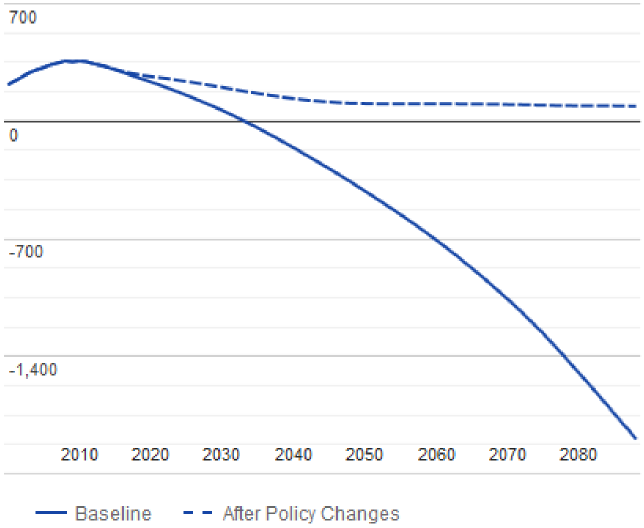
Congratulations! Under your plan Social Security will be sustainably solvent for the next 75 years and beyond.

YOUR POLICY SELECTIONS	% OF GAP CLOSED
Slow Benefit Growth for Top Half of Earners	37%
Index Age to Longevity After it Reaches 67	17%
Index COLAs to "Chained CPI"	20%
Reduce Fraud and Overpayments	4%
Create Minimum Benefit at 125% of Poverty	-5%
Offer "Bump-Up" for Very Old Beneficiaries	-5%
Subject 90% of Wages to Payroll Tax	30%
Cover Newly-Hired State & Local Workers	6%
Allow Contributions into "Add-on" Accounts	0%
TOTAL	**104%**

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

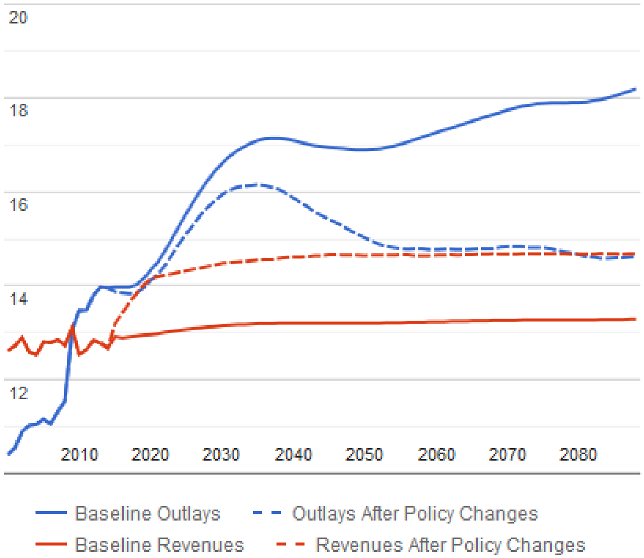
Trust Fund Projections

Percent of Annual Benefits

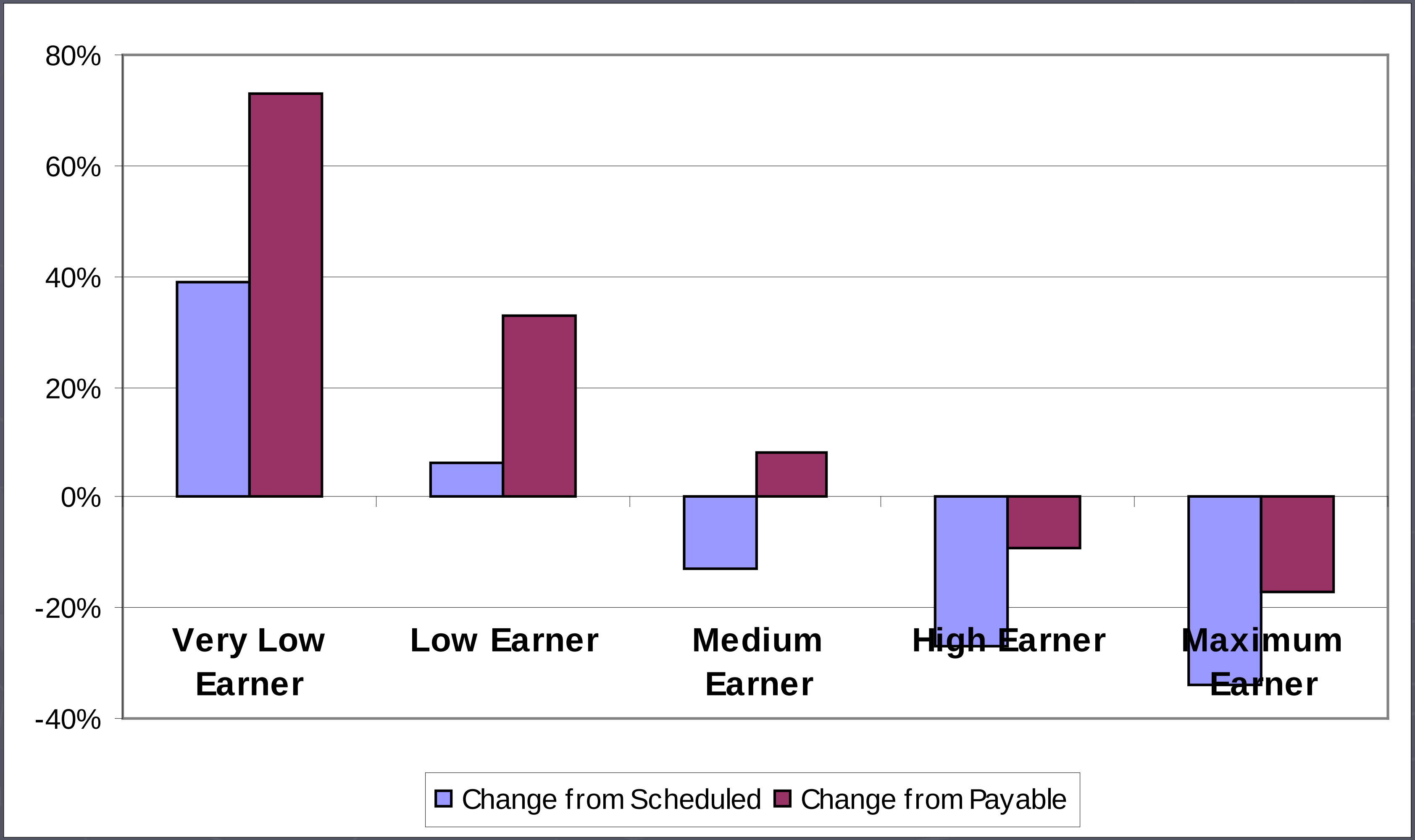


Social Security Spending & Revenue

Percent of Payroll (based on scheduled benefits)



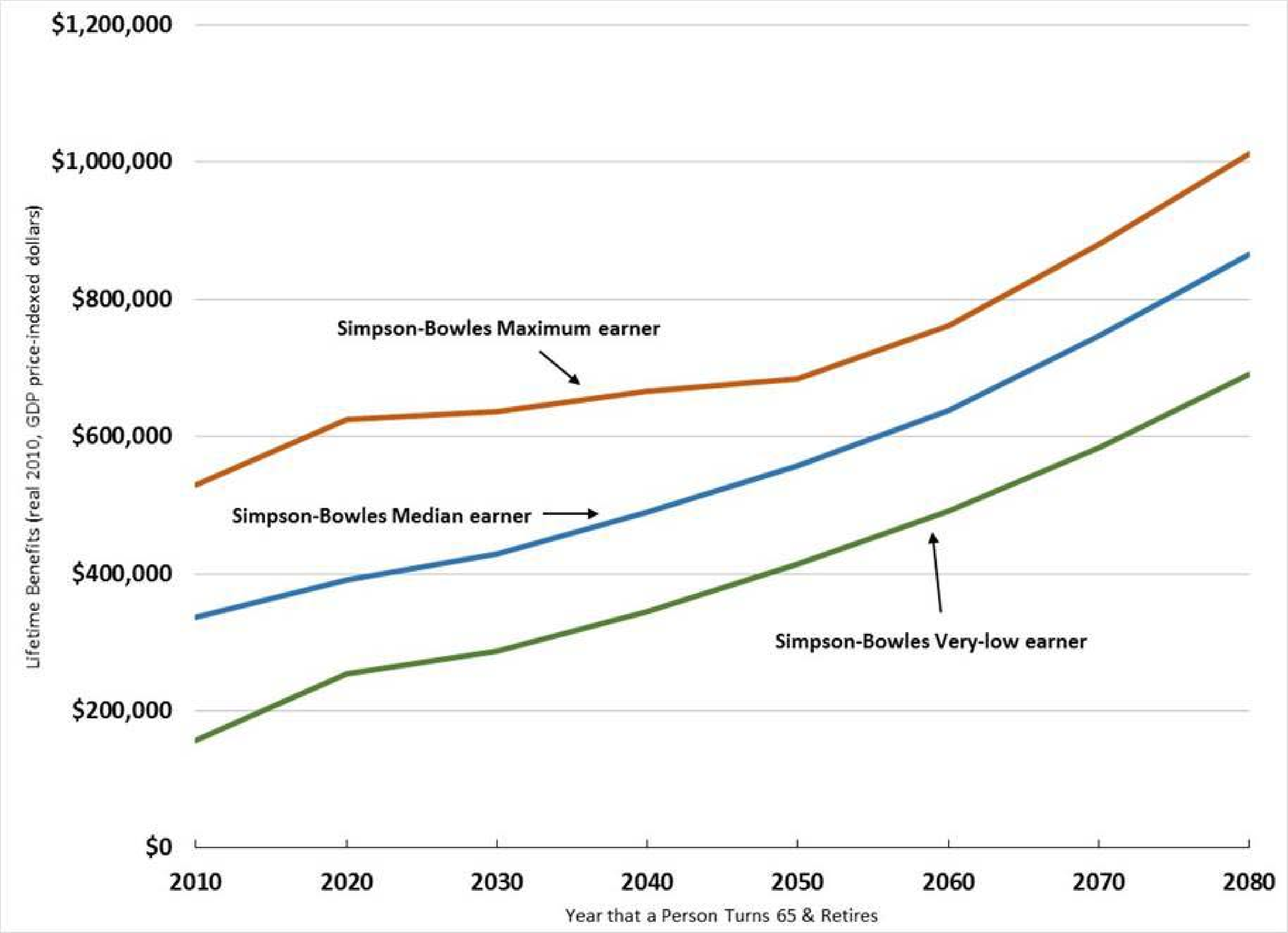
Fiscal Commission Plan is Progressive



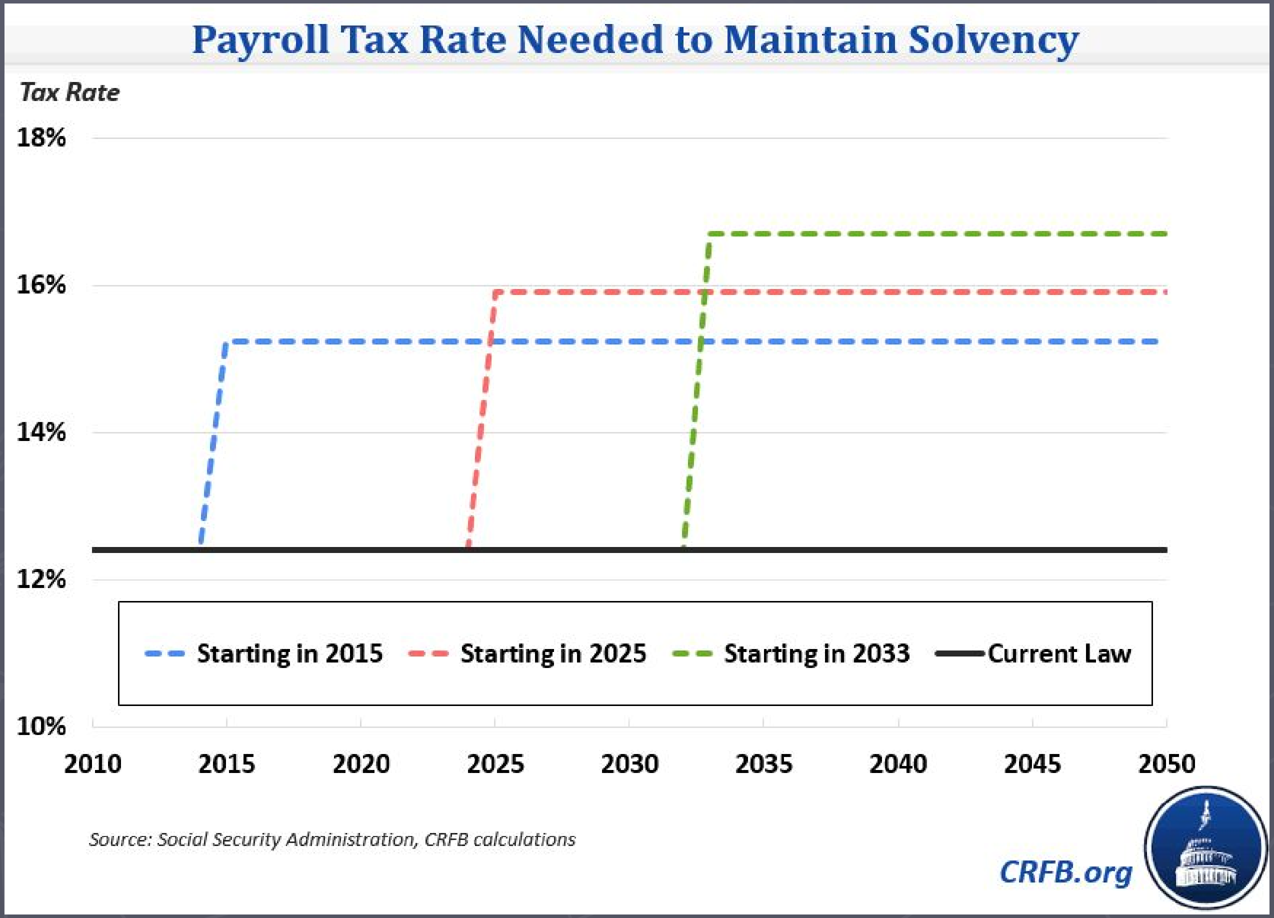
Fiscal Commission Plan Would Promote Economic Growth

- CBO finds Retirement Age changes would grow the economy by up to **3 percent**
- Plan could reduce nation's "fiscal gap" in half, generating additional growth (**~3%**)
- Tax increases would be significant but gradual and economically manageable

Under Fiscal Commission Plan, Benefits Will Continue to Grow



Inaction is the Worst Solution



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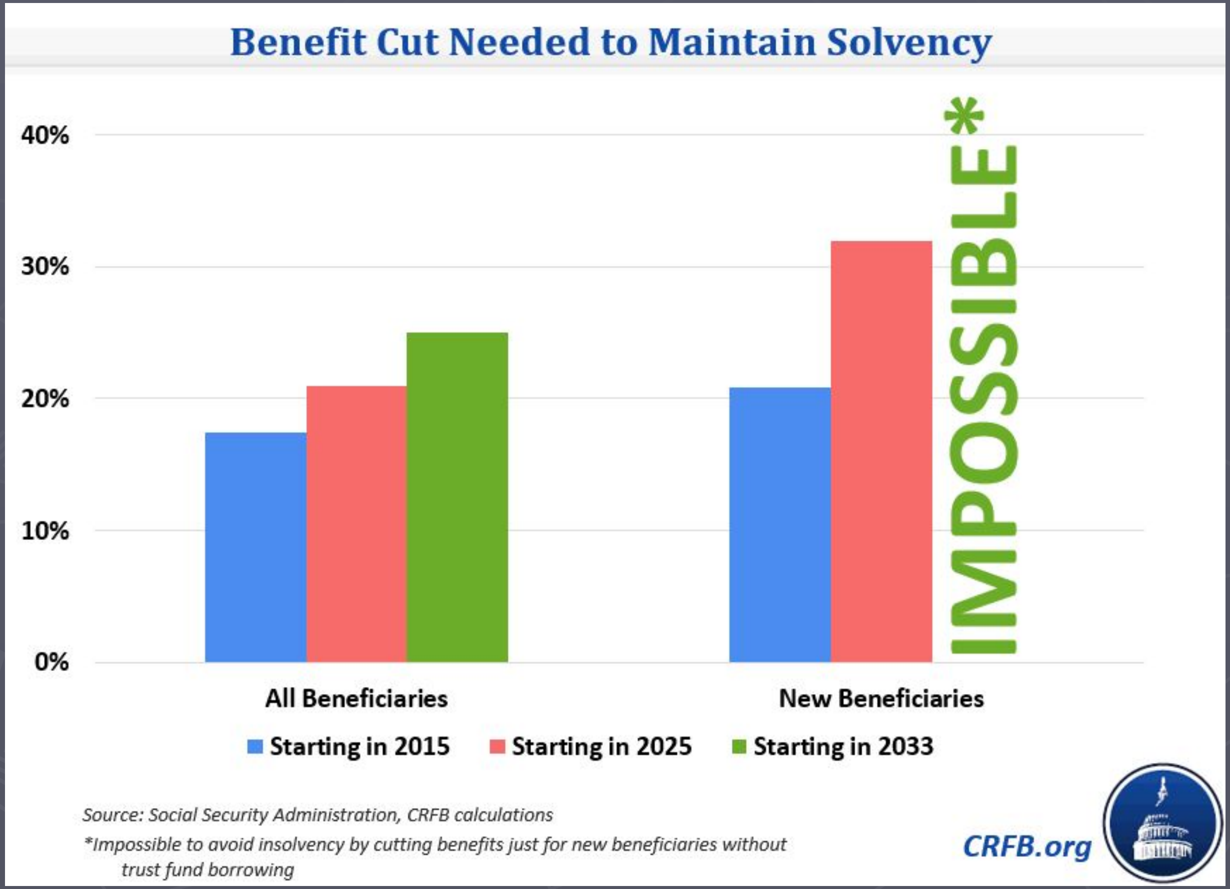

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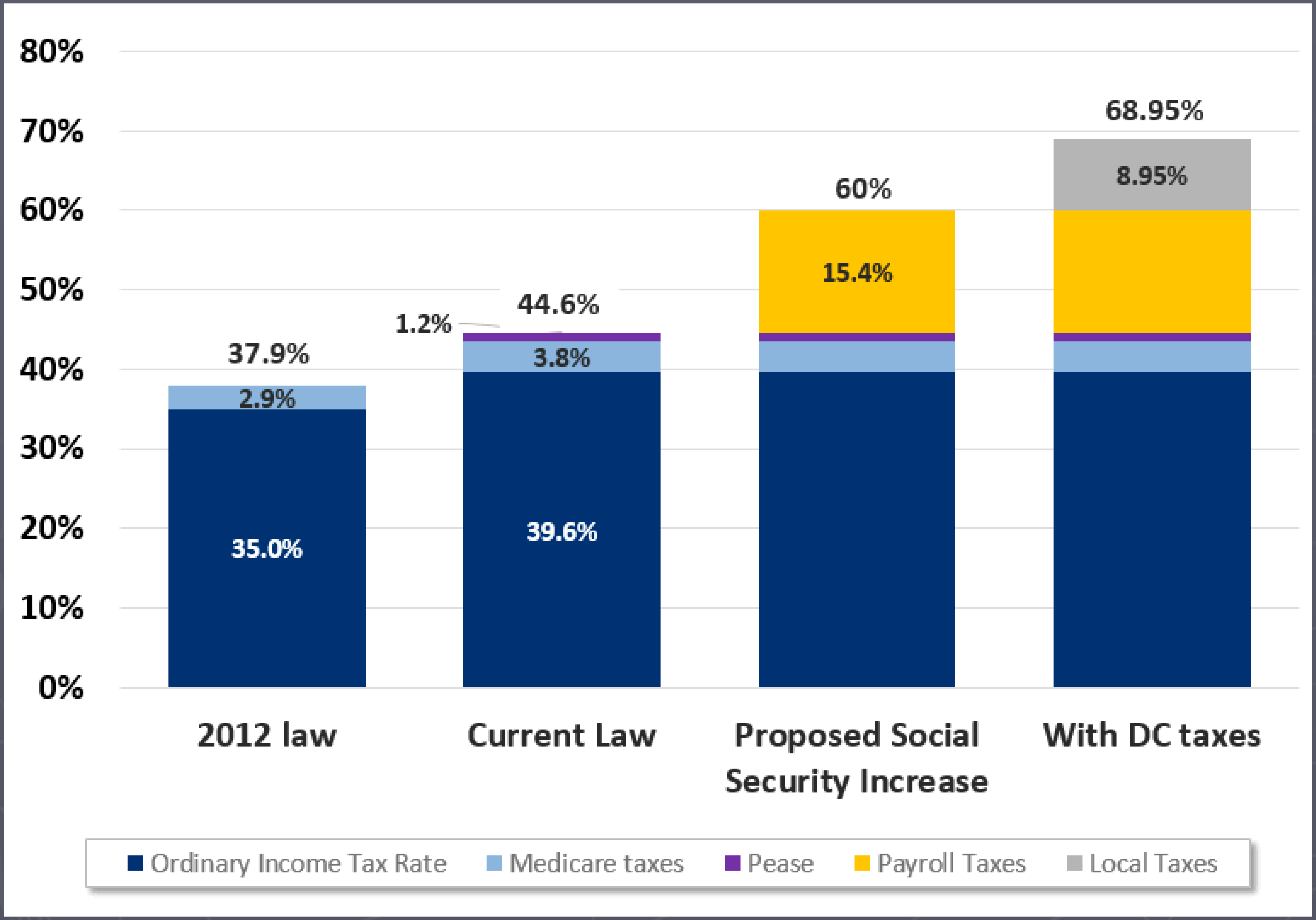
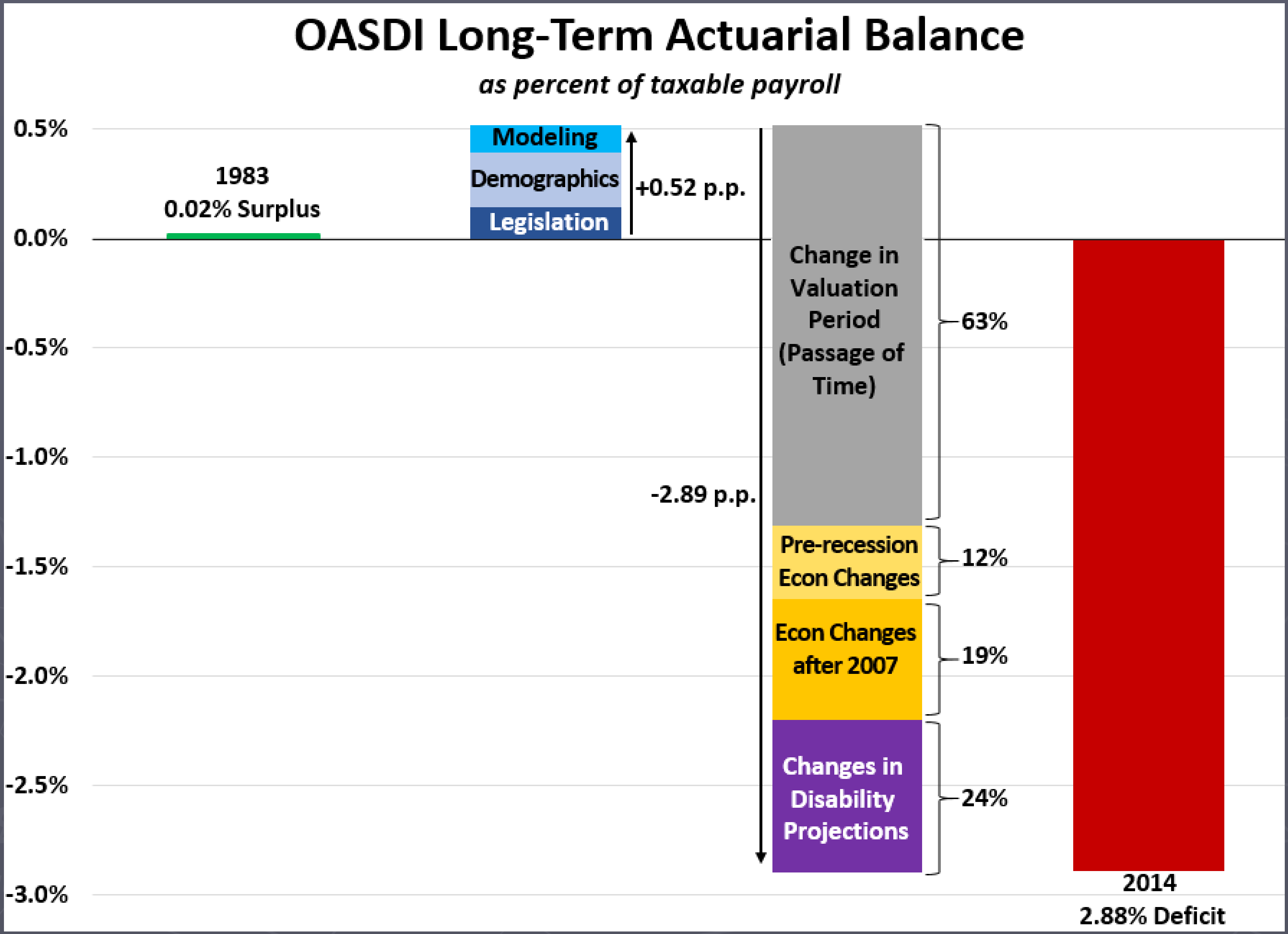
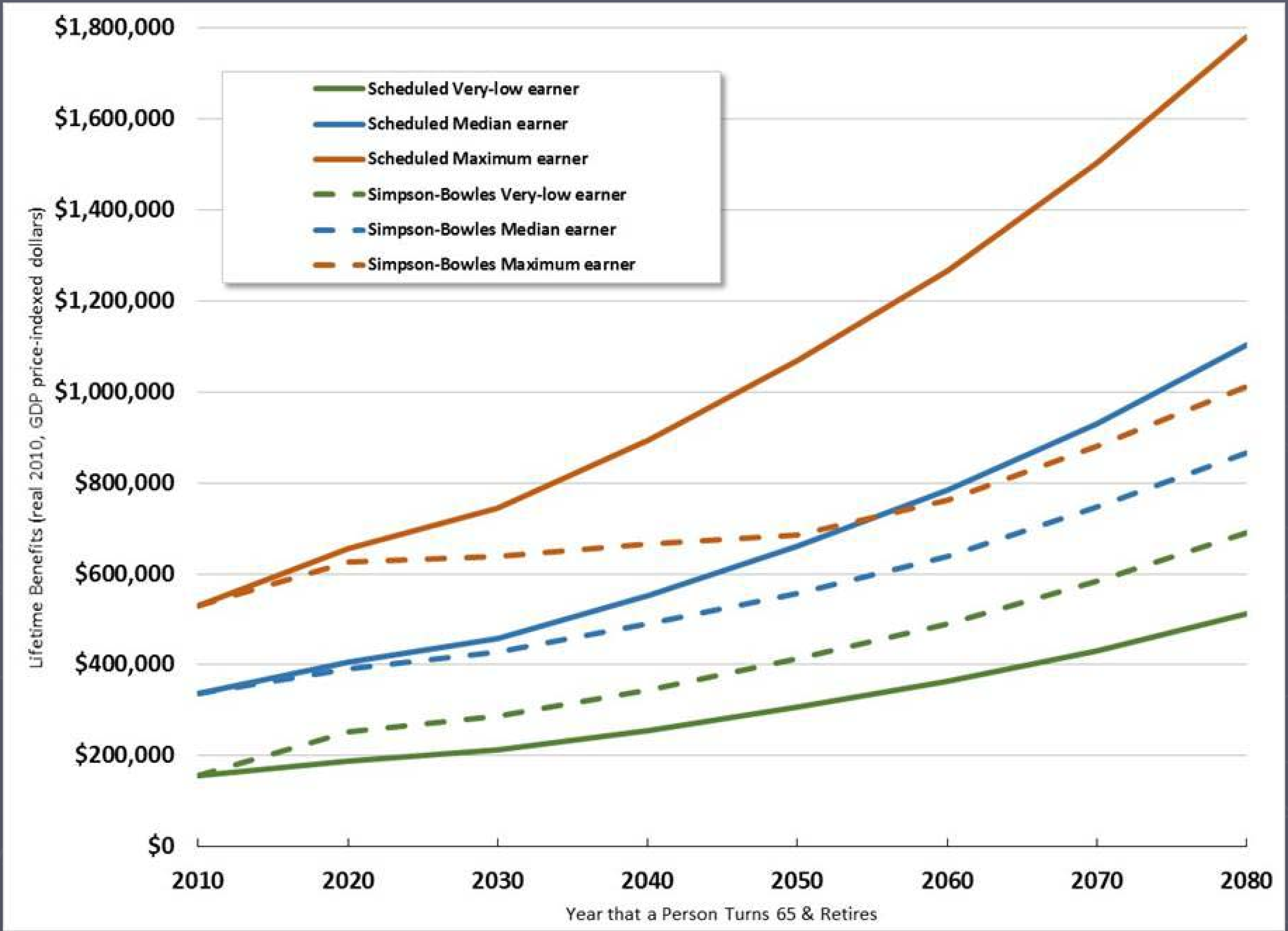
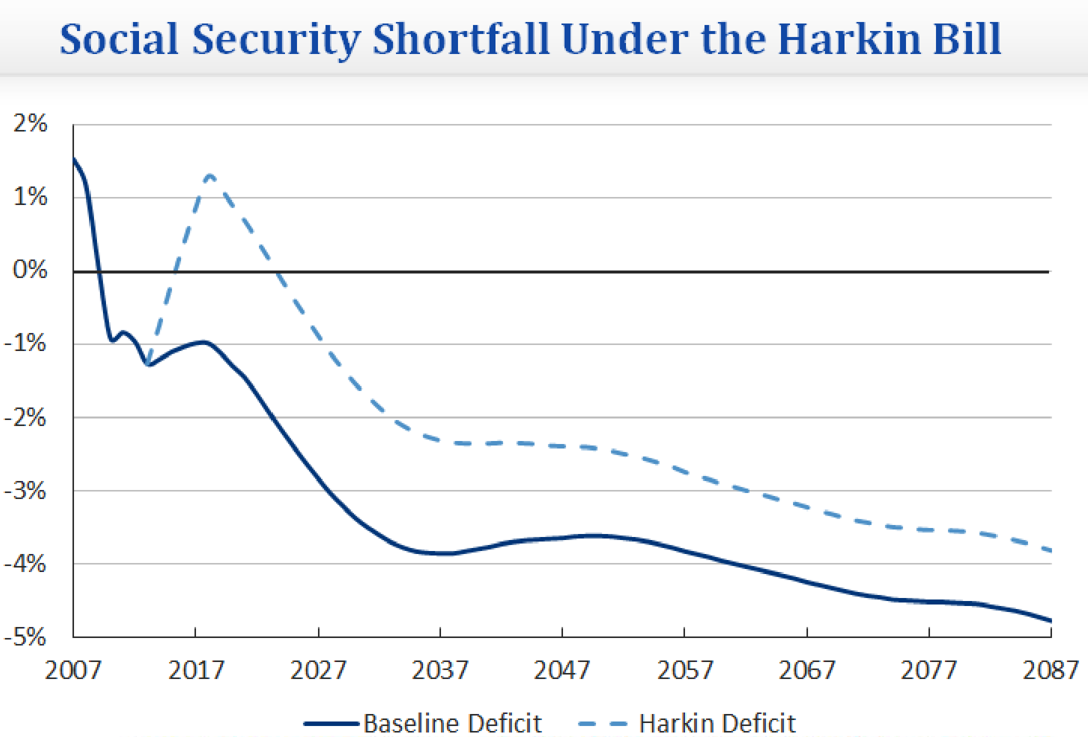
EXTRA SLIDES


80%
70%
60%
50%
40%
30%
20%
10%
0%
37.9%
2.9%
35.0%
1.2%
44.6%
3.8%
39.6%
60%
15.4%
68.95%
8.95%
2012 law
Current Law
Proposed Social Security Increase
With DC taxes
Ordinary Income Tax Rate
Medicare taxes
Pease
Payroll Taxes
Local Taxes


OASDI Long-Term Actuarial Balance
as percent of taxable payroll
0.5%
0.0%
-0.5%
-1.0%
-1.5%
-2.0%
-2.5%
-3.0%
1983
0.02% Surplus
Modeling
Demographics
Legislation
+0.52 p.p.
-2.89 p.p.
Change in Valuation Period (Passage of Time)
63%
Pre-recession Econ Changes
12%
Econ Changes after 2007
19%
Changes in Disability Projections
24%
2014
2.88% Deficit


Scheduled Very-low earner
Scheduled Median earner
Scheduled Maximum earner
Simpson-Bowles Very-low earner
Simpson-Bowles Median earner
Simpson-Bowles Maximum earner
Lifetime Benefits (real 2010, GDP price-indexed dollars)
$1,800,000
$1,600,000
$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
2010
2020
2030
2040
2050
2060
2070
2080
Year that a Person Turns 65 & Retires

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

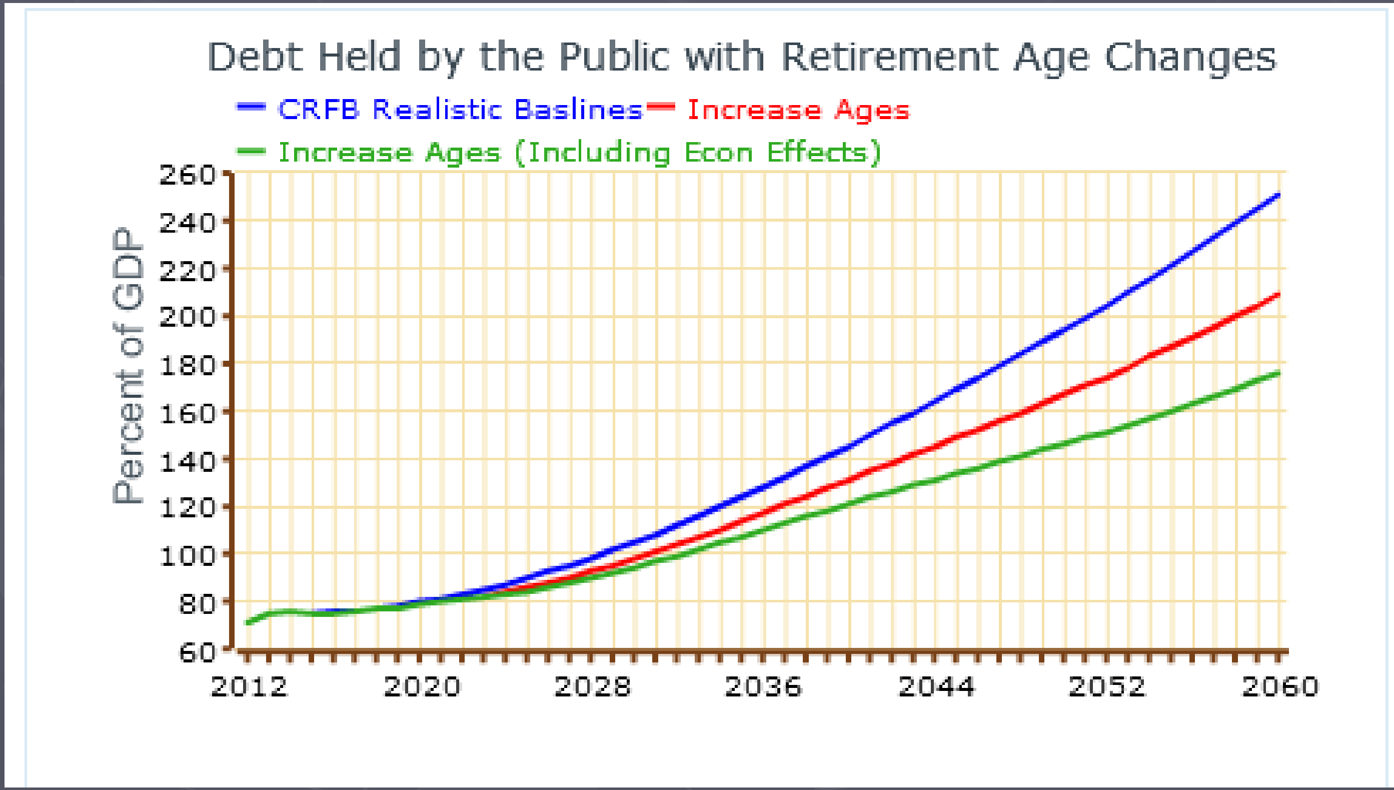
*Assuming benefits are collected from age 65 to 85

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

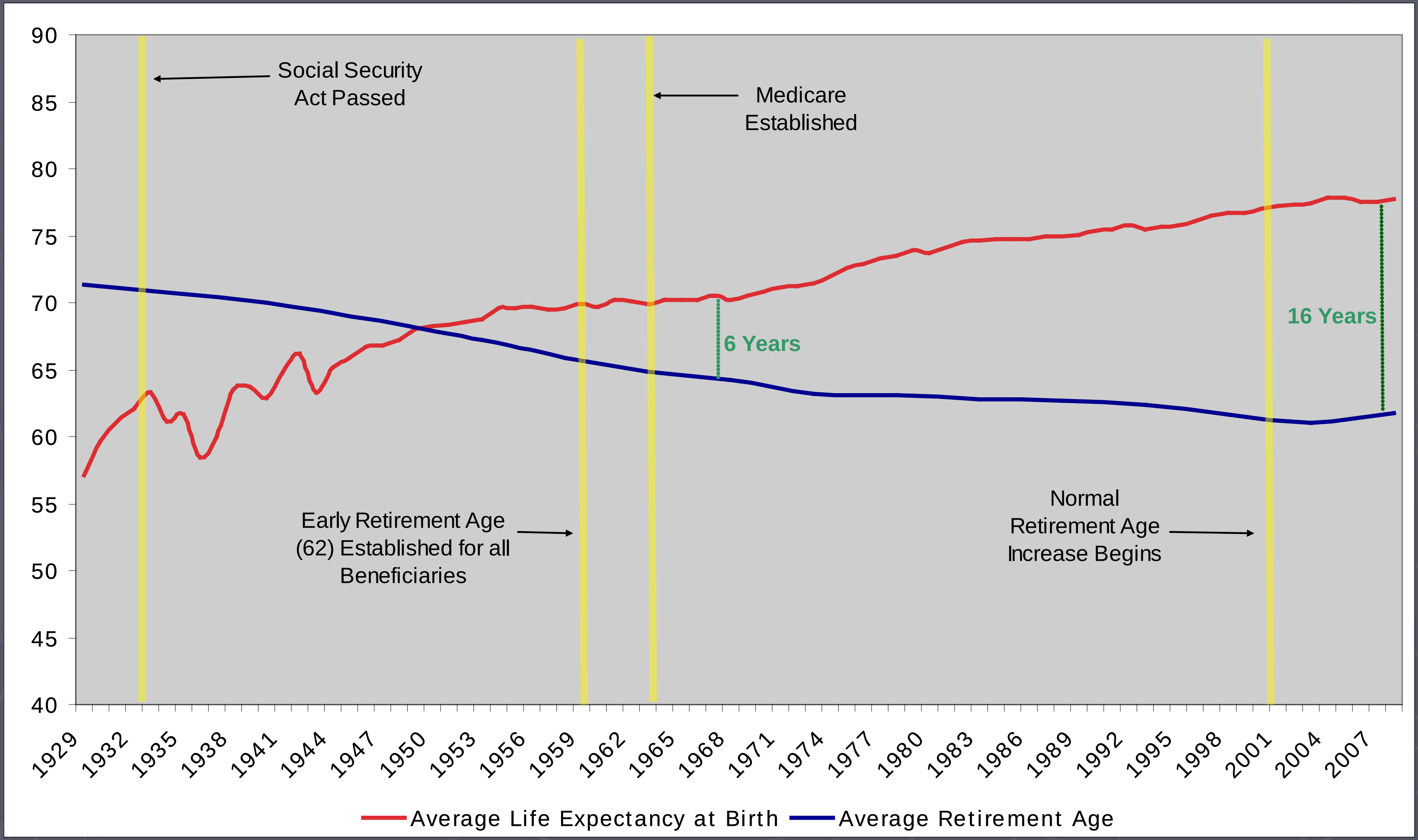
Numbers are rough and based on CRFB calculations using estimates from the Chief Actuary.

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



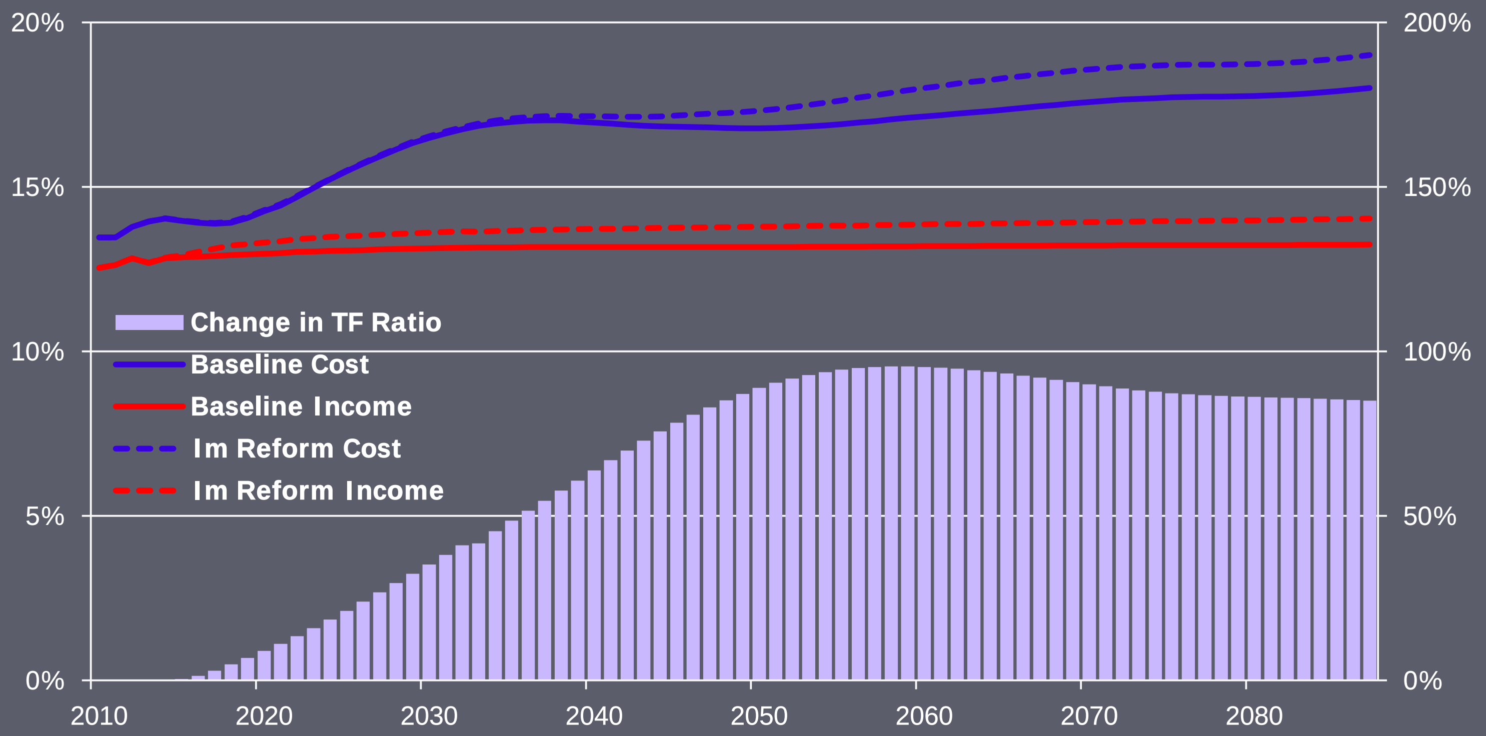
We Can Do It



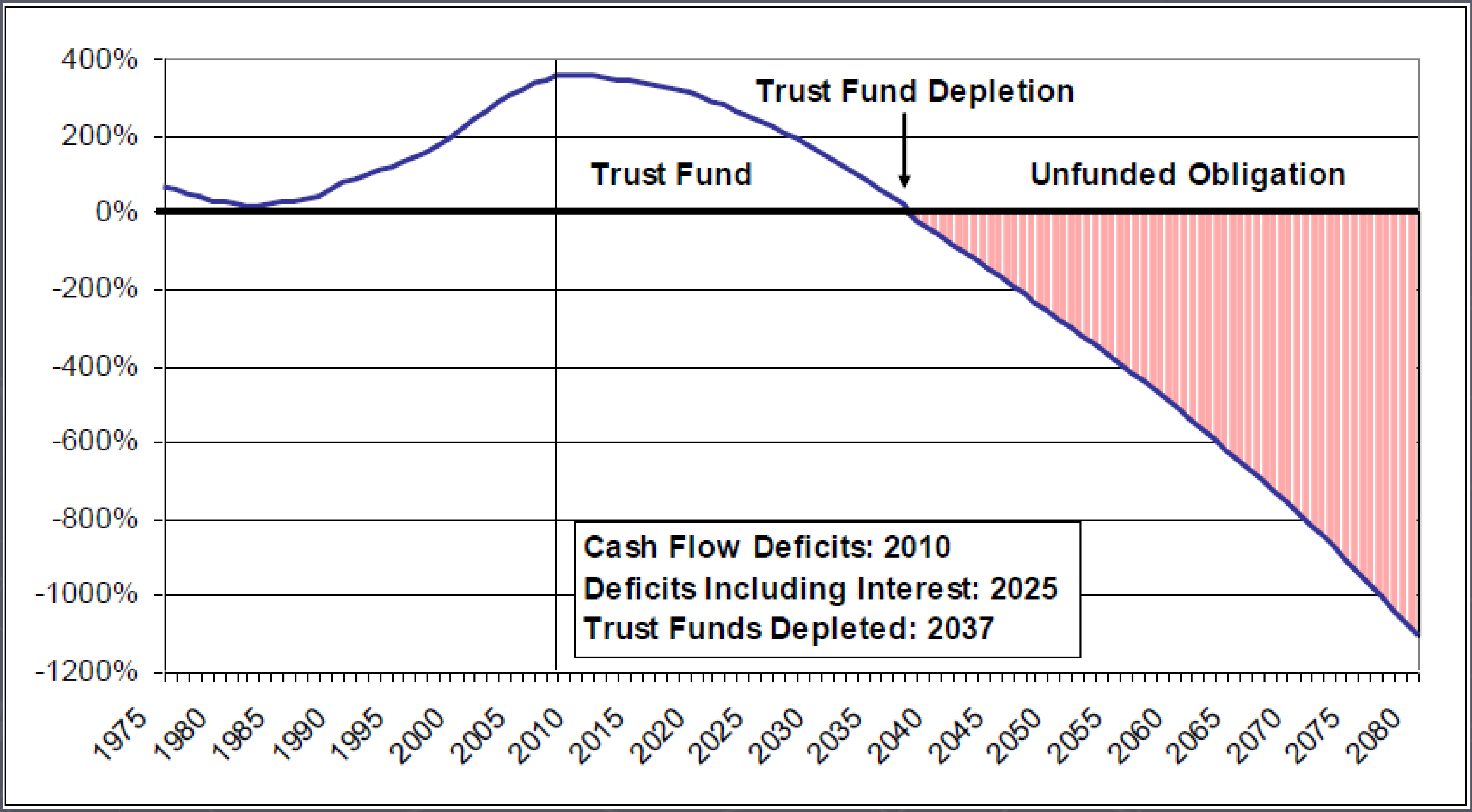
90
85
80
75
70
65
60
55
50
45
40
Social Security Act Passed
Medicare Established
6 Years
16 Years
Early Retirement Age (62) Established for all Beneficiaries
Normal Retirement Age Increase Begins
1929
1932
1935
1938
1941
1944
1947
1950
1953
1956
1959
1962
1965
1968
1971
1974
1977
1980
1983
1986
1989
1992
1995
1998
2001
2004
2007
Average Life Expectancy at Birth
Average Retirement Age

Benefits of Immigration Reform

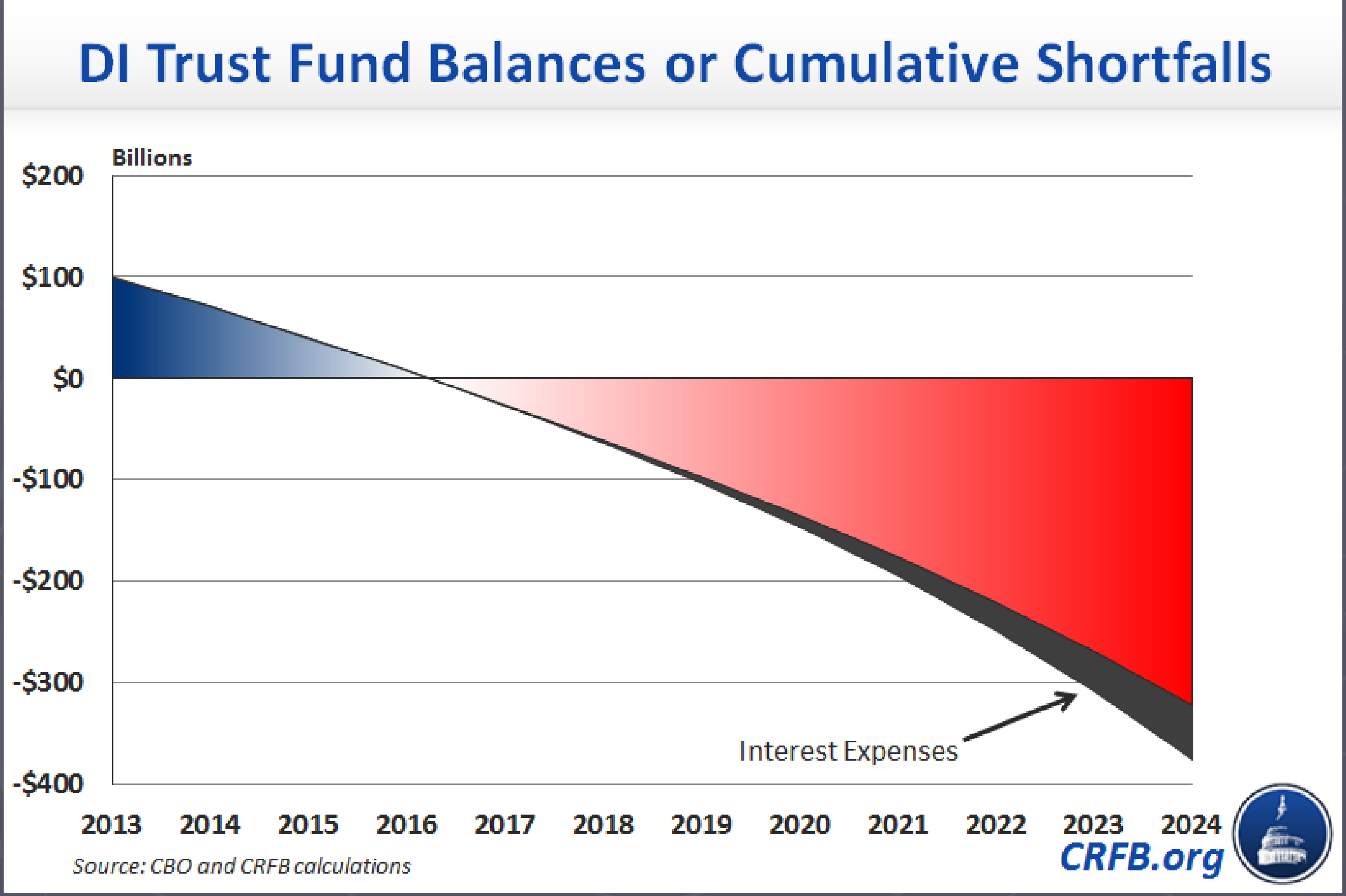
- More workers →Higher payroll and income tax revenues
- Higher spending, but delayed
- Stronger economic growth
- Additional time to identify Social Security/MC solutions



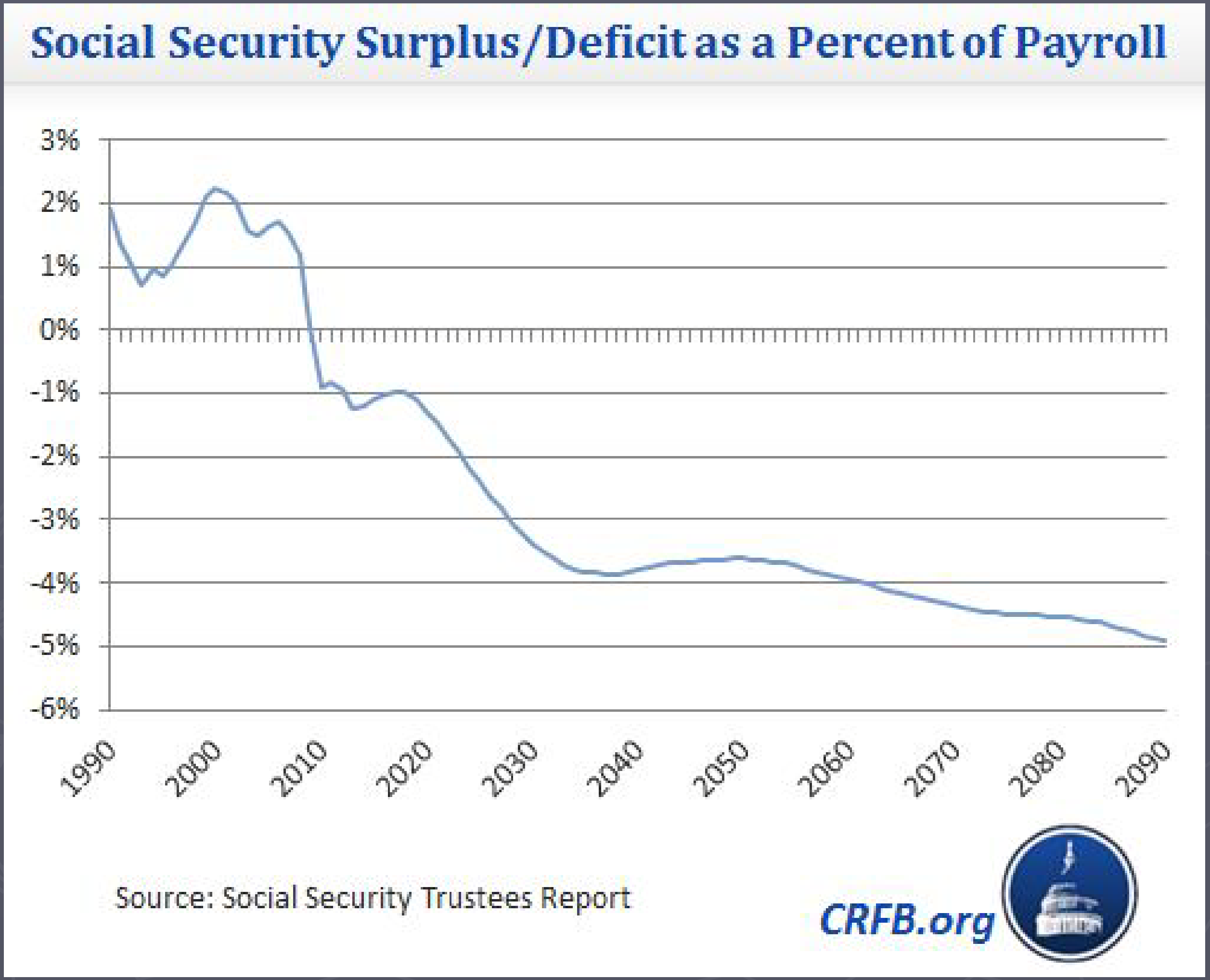
Social Security's Shortfall



SSDI's Shortfall

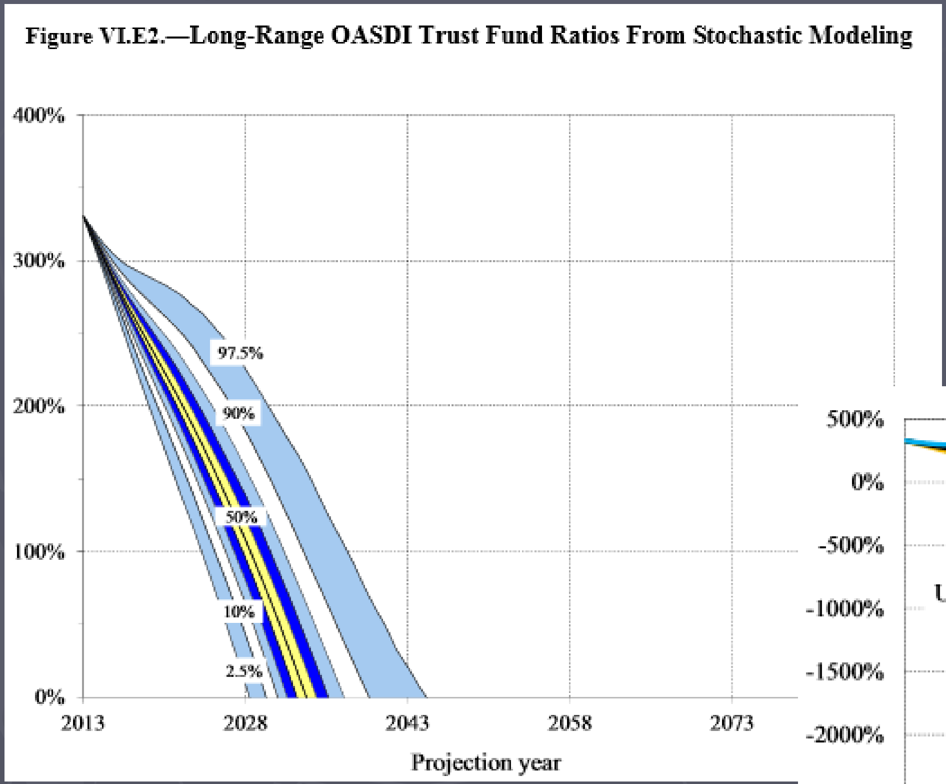


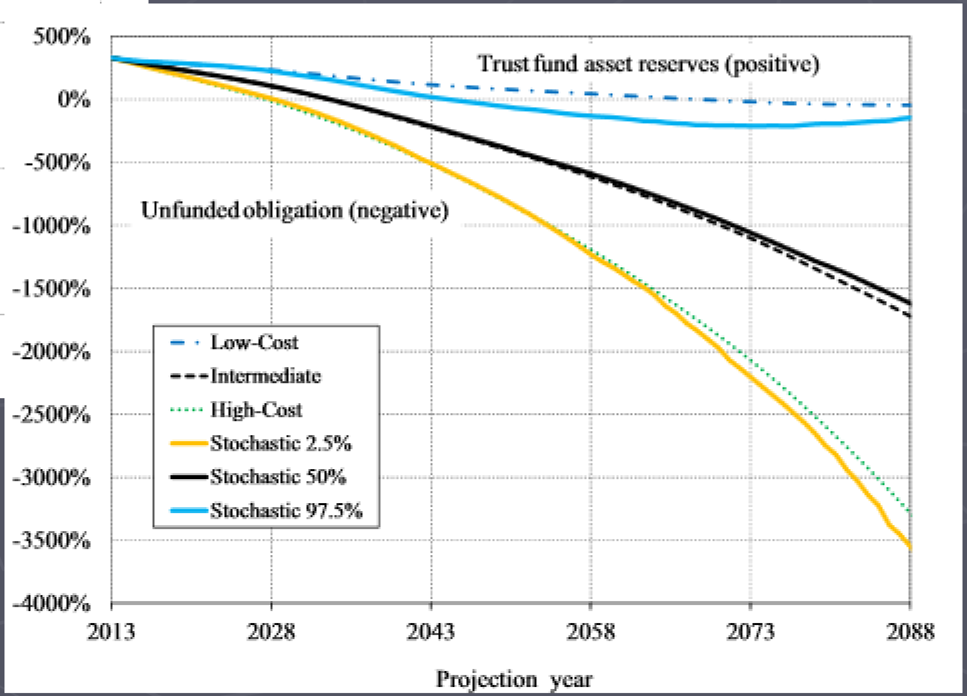
Growing Annual Deficits



Almost Certainly Unsustainable

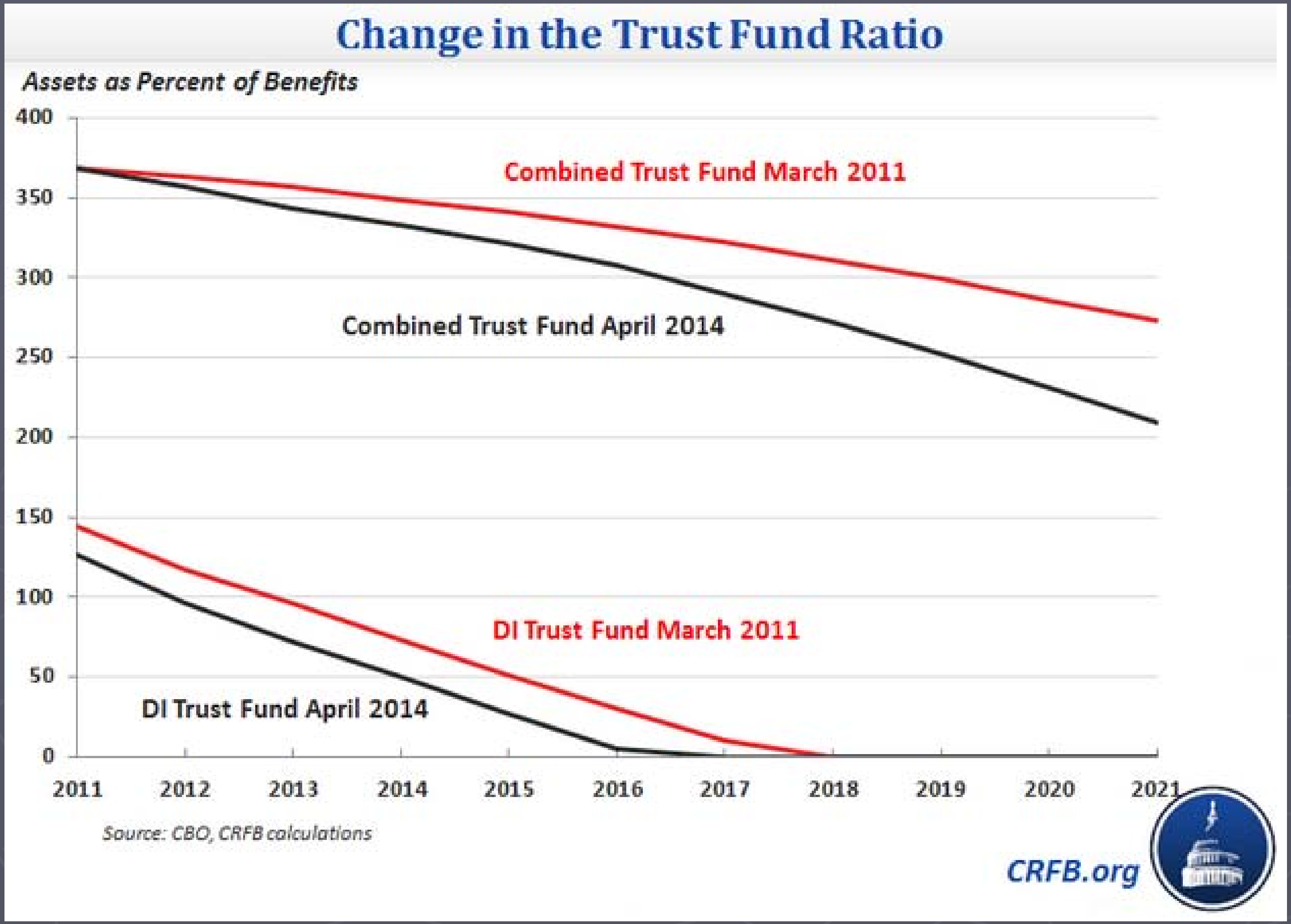
Probability of Various Trust Fund Exhaustion Dates



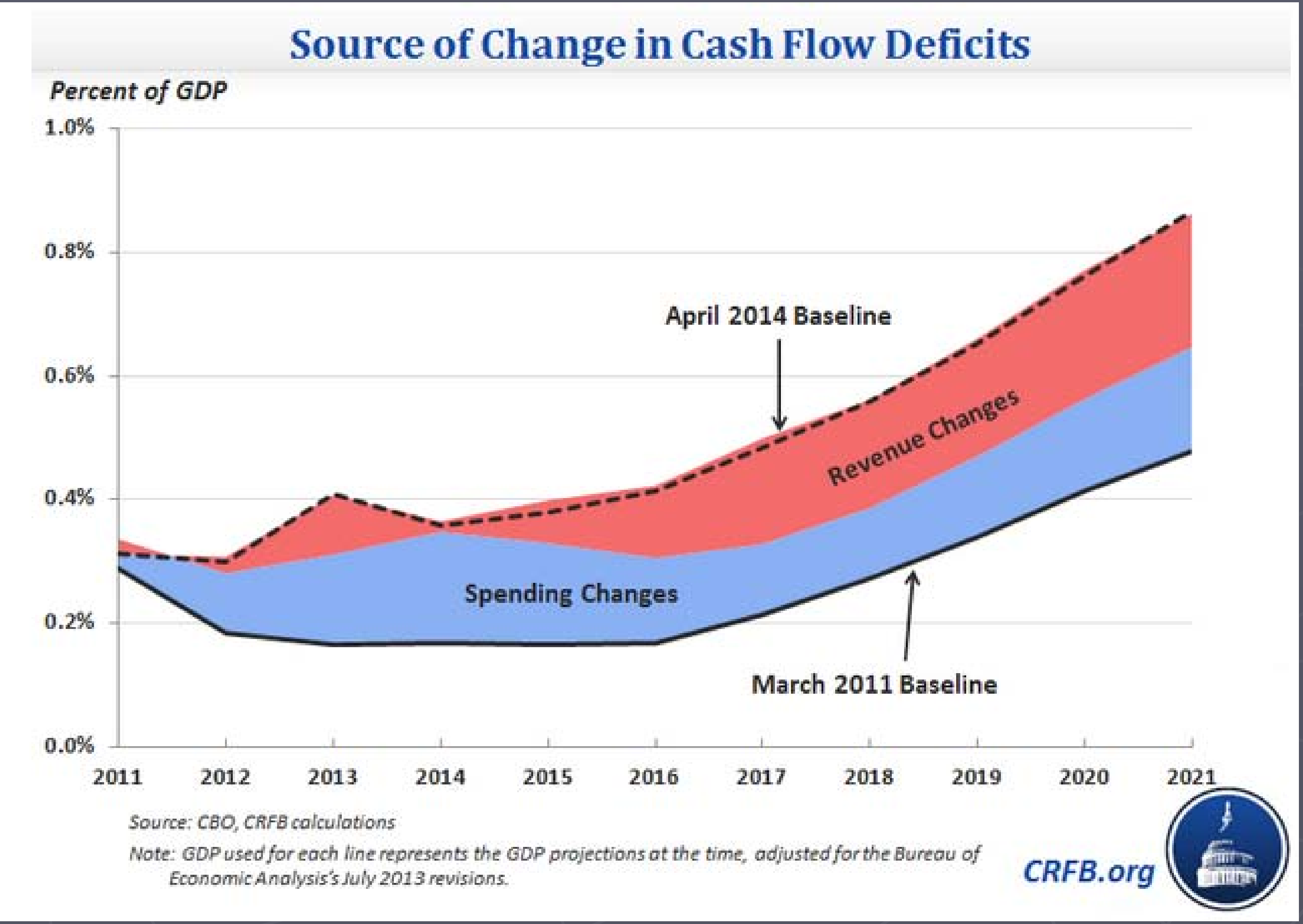


Source: Social Security 2013 Trustees Report

Worse Than We Thought



Worse Than We Thought



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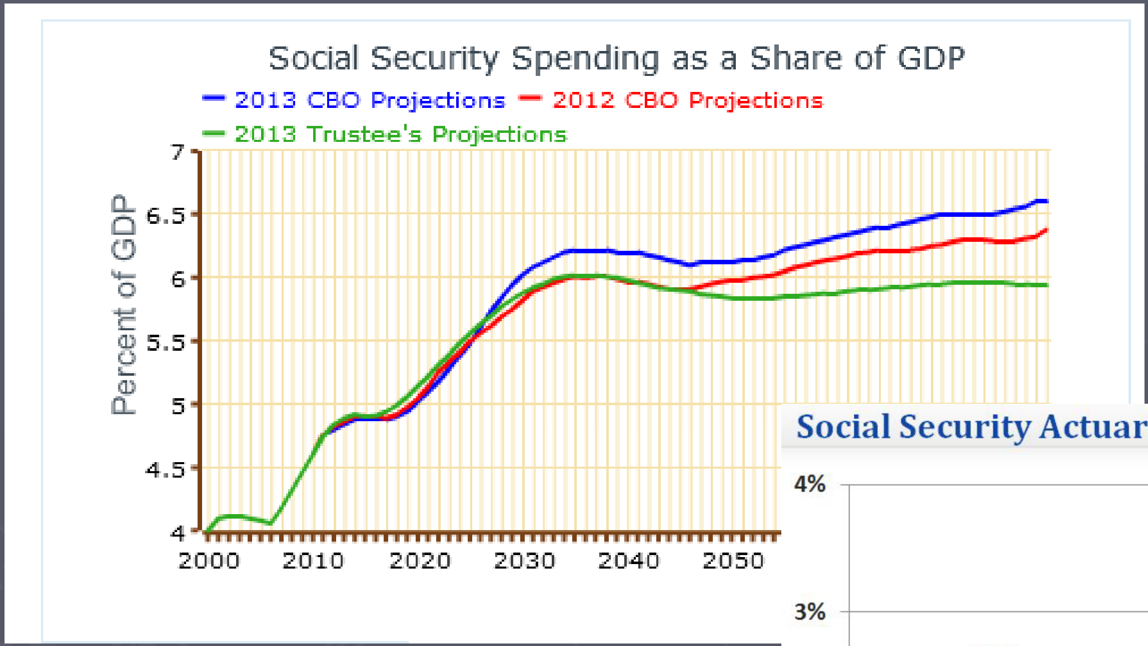
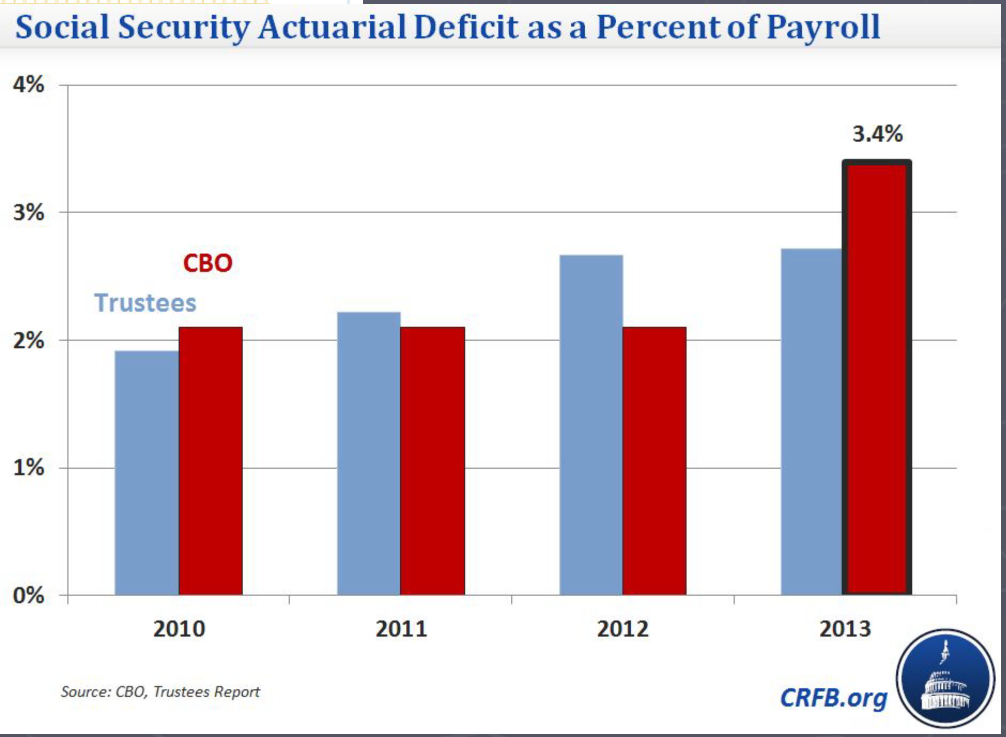
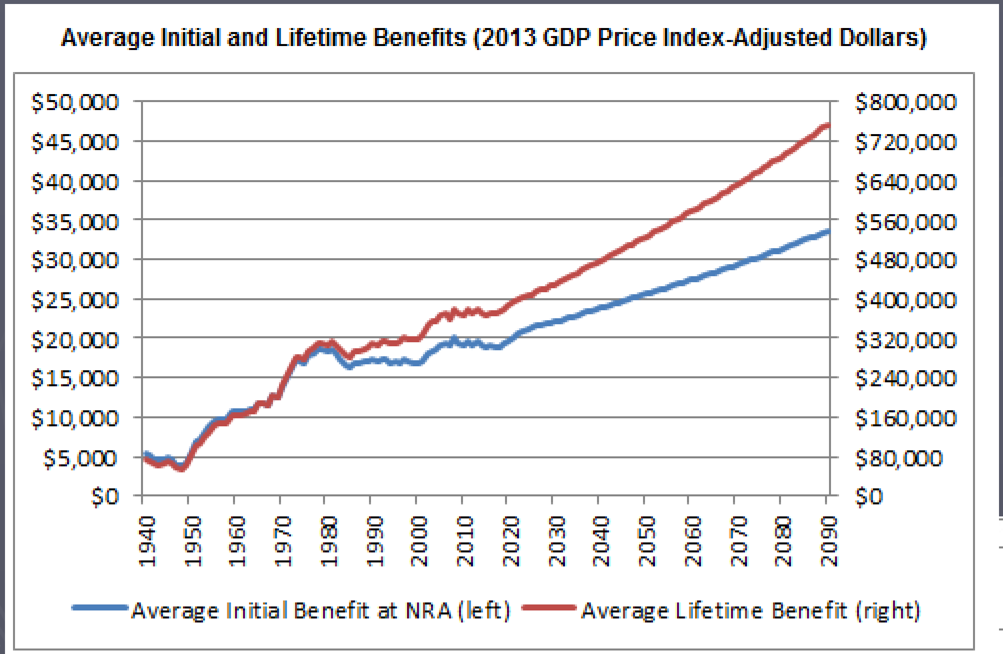
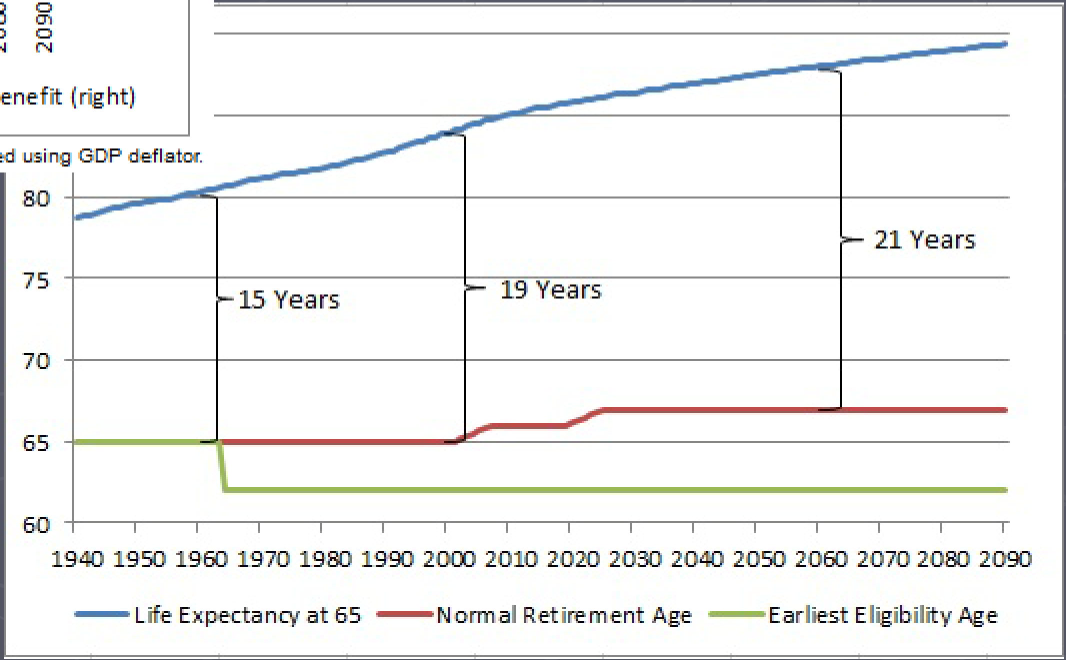




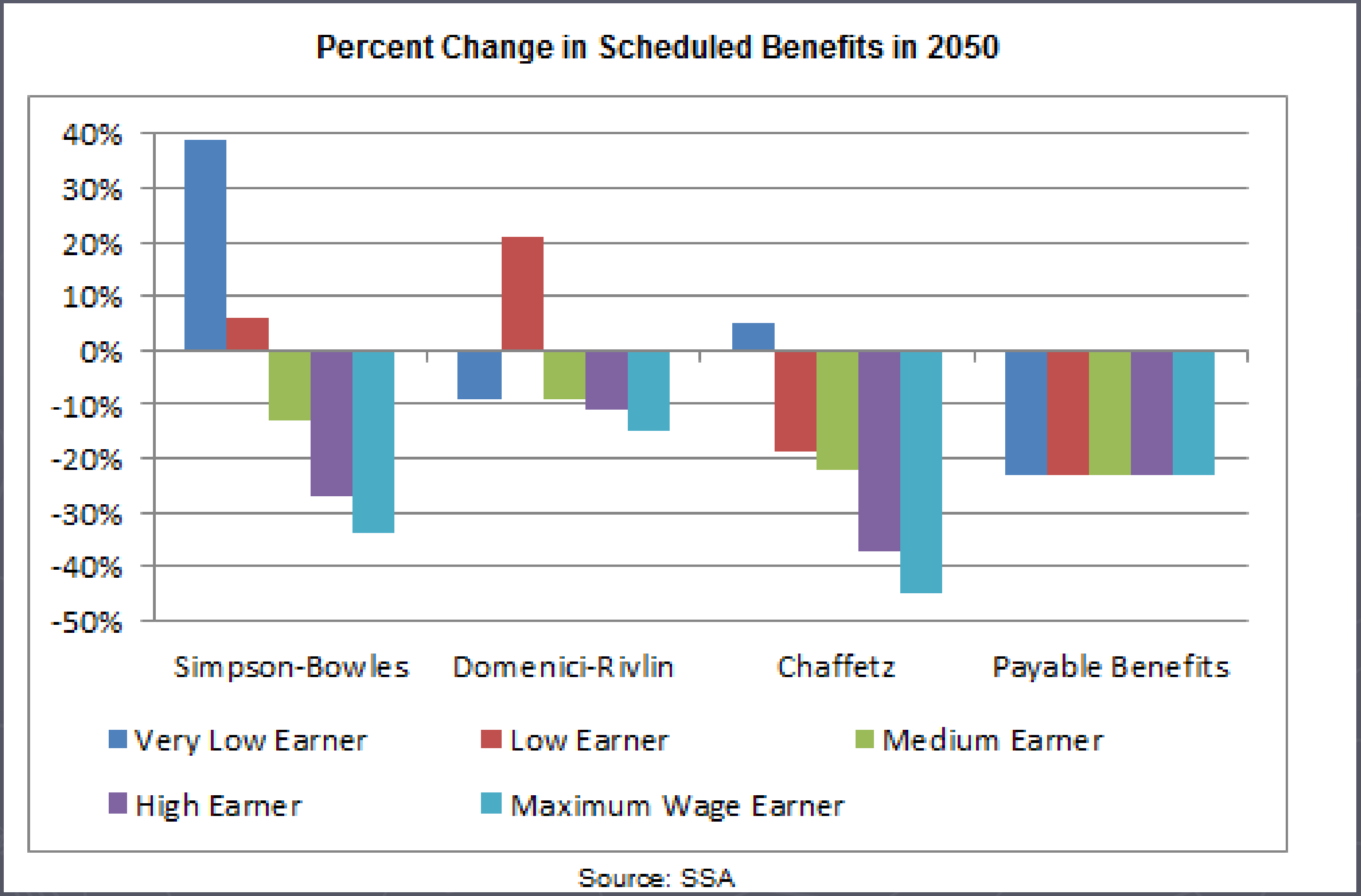
Benefits are Growing



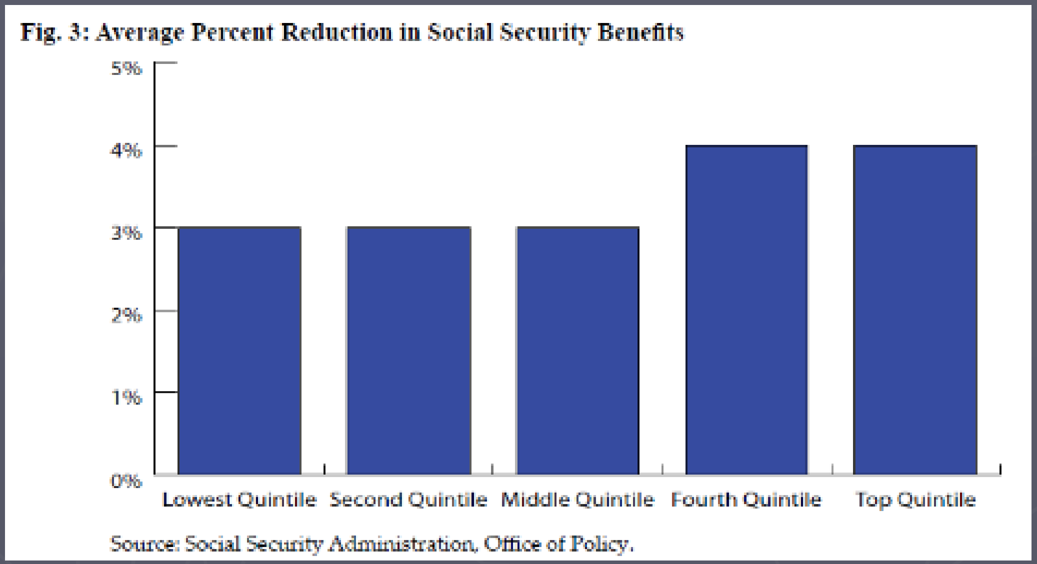
Source: Authors calculations based on SSA, BLS, and OMB. Real benefits calculated using GDP deflator.

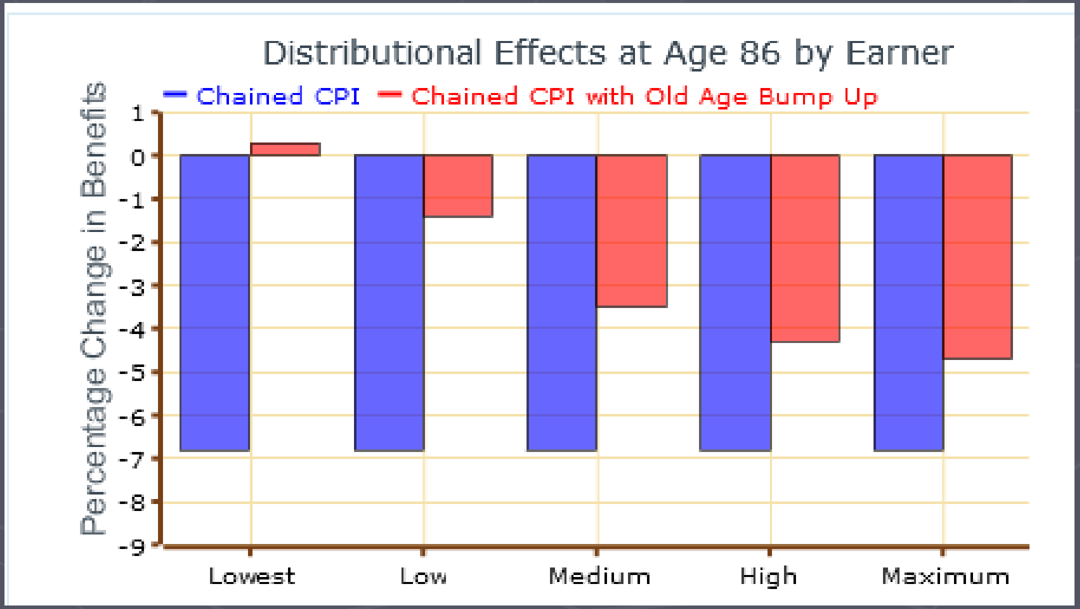


Distribution of Various Recs



Chained CPI is Not Regressive

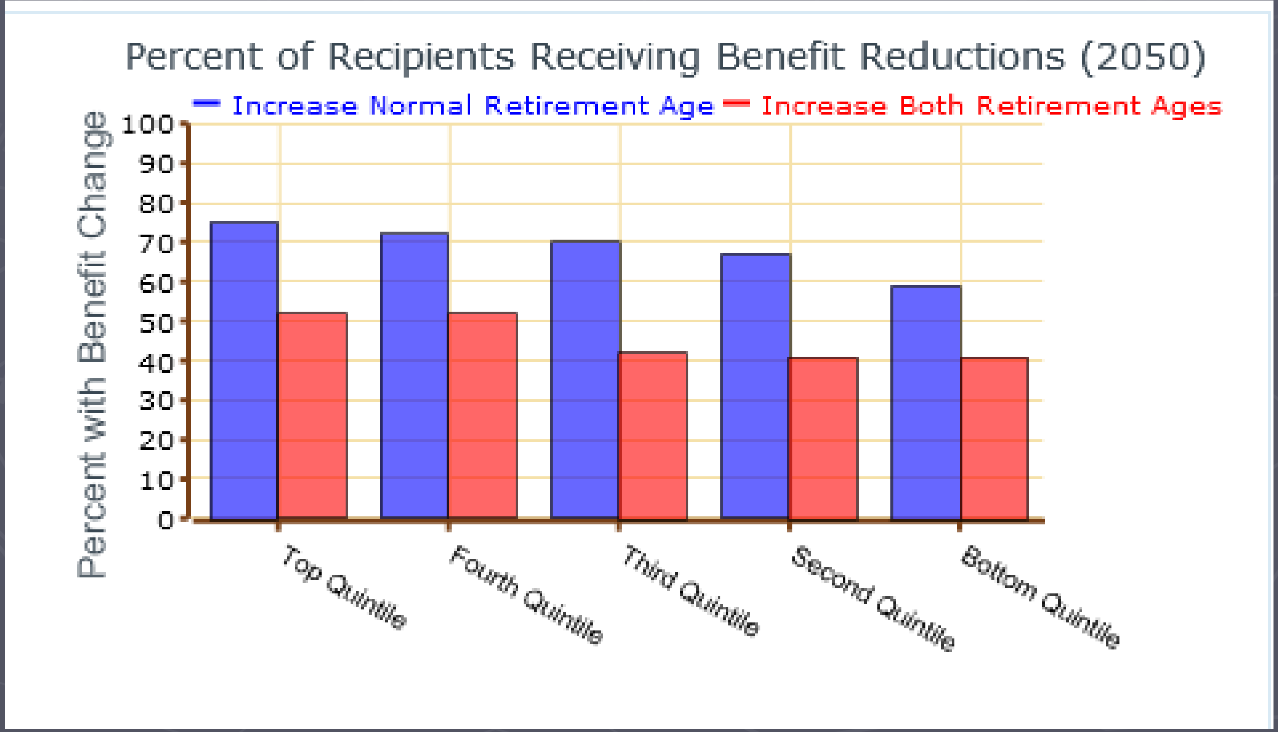




Raising the NRA is Not Regressive

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