

Americans Make Hard Choices on Social Security: *Report Highlights*

Elisa A. Walker, Virginia P. Reno, and Thomas N. Bethell

October 2014

In brief:

The National Academy of Social Insurance conducted a multigenerational public opinion study to learn what Social Security changes participants favor *and* are willing to pay for.

Majorities of study participants report that they:

- Don't mind paying for Social Security because they value the security it provides.
- Are willing to pay more for Social Security, if necessary, to keep the program strong.
- Believe we should consider increasing Social Security benefits.

Using an innovative trade-off analysis technique, the study finds that the most favored package of changes would:

- Gradually eliminate the cap on earnings taxable for Social Security;
- Gradually raise the Social Security tax rate that workers and employers pay;
- Increase Social Security's cost-of-living adjustment (COLA) to reflect seniors' costs; and
- Increase Social Security's minimum benefit to protect lifetime low-wage workers against poverty.

Background:

Social Security provides the foundation of retirement income for almost all Americans. While monthly benefits are modest — about \$1,296 on average in January 2014¹ — they are the main source of income for most seniors. Nearly two-thirds of elderly beneficiaries count on Social Security for more than half of their income, including more than a third who rely on it for almost all (90% or more) of their income.² The program keeps more than 22 million Americans out of poverty.³

Social Security has sufficient funds to pay all scheduled benefits until 2033. If Congress does not act before 2033, the program's reserves would be depleted, and revenue continuing to come into the system from workers' and employers' Social Security taxes and from taxation of benefits would cover about three-quarters of scheduled benefits. The projected financing gap can be closed by raising revenues, reducing benefits, or some combination of both. Steps could also be taken to improve the adequacy of benefits.

To understand Americans' views of Social Security and their preferences regarding options to strengthen the program for the future, the National Academy of Social Insurance partnered with Greenwald & Associates to conduct a multigenerational study. The study included an online survey of 2,013 Americans ages 21 and older in June 2014 to explore their attitudes toward Social Security and their views about its future. A large majority of respondents (87%) reported that they are registered voters. The study included an innovative application of trade-off analysis — an interactive technique widely used in market research — to learn which packages of Social Security policy changes Americans prefer and are willing to pay for.

This study updates the results of a prior study that the Academy conducted in 2012.⁴

What This Study Found

Americans report they don't mind paying for Social Security

Americans say they don't mind paying for Social Security because they value it for themselves (73%), for their families (73%), and for the security and stability it provides to millions of retired Americans, disabled individuals, and children and widowed spouses of deceased workers (81%) (Table 1).

Across political parties, respondents agree they don't mind paying for Social Security:

- Those who don't mind paying Social Security taxes because they expect to receive it when they retire include 65% of Republicans, 79% of Democrats and 73% of independents.
- Those who don't mind paying Social Security taxes because they know that, without it, they would have to support their parents, grandparents or other relatives include 64% of Republicans, 79% of Democrats and 75% of independents.
- Those who don't mind paying Social Security taxes because it provides security and stability to millions of other people – retirees, disabled individuals, and children and widowed spouses of deceased workers – include 72% of Republicans, 87% of Democrats and 81% of independents.

Americans agree: Social Security benefits are critically important and could be improved

85% of respondents agree that “Social Security benefits now are more important than ever to ensure that retirees have a dependable income.”

86% believe current Social Security benefits do not provide enough income for retirees, and 72% believe we should consider increasing future Social Security benefits.

Americans are willing to pay more to preserve Social Security benefits

Social Security is financed mainly by taxes deducted from workers' paychecks and matched by their employers. Only earnings up to a cap (\$117,000 in 2014) are taxed and counted toward benefits. About 6% of all workers earn more than the cap; they and their employers stop paying into Social Security when they reach the cap in any year. Some proposals call for raising or eliminating the taxable earnings cap, which would affect

Table 1. Willingness to Pay for Social Security

<i>Questions</i>	<i>Percent Agree</i>	<i>Percent Strongly Agree</i>
I don't mind paying Social Security taxes because I know that I will be receiving benefits when I retire.	73%	39%
I don't mind paying Social Security taxes because I know I would have to help support my parents, grandparents or other family members if they did not receive Social Security.	73	32
I don't mind paying Social Security taxes because it provides security and stability to millions of retired Americans, disabled individuals, and the children and widowed spouses of deceased workers.	81	36

Source: National Academy of Social Insurance Survey, June 2014



the 6% of workers whose earnings exceed the cap. Other proposals would increase the 6.2% tax rate that workers and employers each pay, which would affect all workers who pay into Social Security.

Large majorities of survey participants agree that all workers could contribute somewhat more to Social Security if necessary, and that better-off Americans could pay more because they have higher earnings:

- 77% of respondents — including 69% of Republicans, 84% of Democrats and 76% of independents — agree it is critical to preserve Social Security benefits for future generations, even if it means increasing Social Security taxes paid by working Americans.
- 83% of respondents — including 71% of Republicans, 92% of Democrats, and 84% of independents — agree it is critical to preserve Social Security benefits for future generations, even if it means increasing the Social Security taxes paid by top earners.

Social Security is now about 5% of the economy. As Boomers continue to retire, that share will rise to about 6.2% by 2035, and will then drop back and level off at about 6%. A majority (63%) of Americans agree that this means that as a nation we can afford Social Security.

Trade-off analysis: What is it?

This study went beyond asking participants their views on individual changes to Social Security. The trade-off exercise included 12 policy options (Table 2) that are or have been topics of active discussion among policymakers:

- 4 revenue increases: two that increase the Social Security tax rate and two that lift the taxable earnings cap;
- 4 benefit cuts: raising the full retirement age in two ways, reducing the cost-of-living adjustment (COLA), and means-testing benefits; and
- 4 benefit increases: increasing the COLA, increasing benefits across the board, increasing benefits for low-paid workers with long work records, and reinstating student benefits up to age 22 for children of disabled or deceased workers.

Each policy option included an estimate by Social Security actuaries of how much it would reduce (or increase) Social Security's long-term financing gap (Table 2).

Trade-off analysis is widely used in market research to learn which combinations of product features consumers prefer and are willing to pay for. This study used trade-off analysis to determine which package of Social Security policy changes respondents prefer and are willing to pay for. Findings from this trade-off analysis corroborate findings from the attitudinal questions in the survey that Americans have clear preferences about how to strengthen Social Security in the future.

In the interactive trade-off exercise, survey participants saw 10 different screens showing three sets of the above Social Security policy changes, including an estimate of how much each set would reduce or increase Social Security's financing gap, and a fourth set with no change to Social Security, which would maintain the status quo. On each of their 10 screens, participants chose the set of policy options they preferred.

Trade-off analysis: Americans' preferred package of policy changes

The preferred package of changes in the trade-off analysis would:

- Gradually, over 10 years, eliminate the cap on earnings that are taxed for Social Security. This would mean that the 6% of workers who earn more than the cap (\$117,000 in 2014) would pay into Social Security all year, as other workers do. In return, they would get somewhat higher benefits.



Table 2. Individual Policy Changes in Trade-Off Analysis and Impact of Each on Social Security’s Financing Gap

<i>Policy Option</i>	<i>Percent Change in Long-Term Financing Gap</i>
Social Security’s Taxable Earnings Cap	
• Eliminate the earnings cap over 10 years so that 100% of earnings are taxed	-74%
• Lift the earnings cap over 5 years to tax 90% of earnings	-29
• No change	0
Social Security Tax Rate	
• Raise the tax rate for both employees and employers to 7.2% in 2022 and to 8.2% in 2052	-76
• Over 20 years, raise the tax rate by 1/20th of 1% per year for employees and employers	-52
• No change	0
Social Security’s Full Retirement Age	
• Gradually raise the full retirement age to 68	-16
• Gradually raise the full retirement age to 70	-25
• No change	0
Means-Test Social Security	
• Require people to provide proof of eligibility based on income to receive benefits	-20
• No change	0
Social Security’s Cost-of-Living Adjustment (COLA)	
• Lower the Social Security COLA	-20
• Increase the Social Security COLA by basing it on inflation experienced by seniors	+14
• No change	0
Benefits for All Beneficiaries	
• Increase benefits by \$65 a month for all beneficiaries	+29
• No change	0
Benefits for Lifetime Low-Wage Workers	
• Raise Social Security’s basic minimum benefit so that someone who paid into Social Security for 30 years can retire at 62 or later and not be poor	+9
• No change	0
Children’s Benefits for Students	
• Restore the student benefit until age 22 for children whose working parents have died or become disabled	+3
• No change	0

Source: National Academy of Social Insurance, based on information in Appendix E of the full report available at www.nasi.org. Changes in financing gap are based on the projections of the 2013 Social Security Trustees Report.



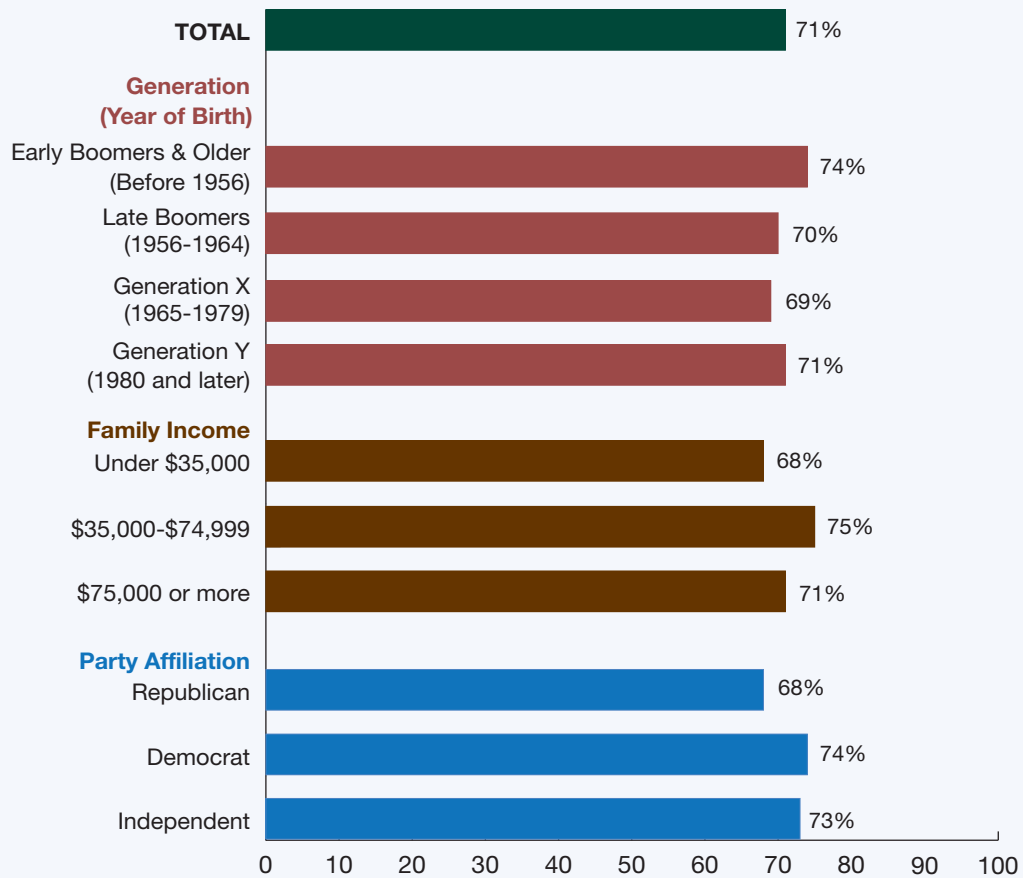
- Gradually, over 20 years, raise the Social Security tax rate that workers and employers each pay from 6.2% of earnings to 7.2%. The increase would be so gradual that a worker earning \$50,000 a year would pay about 50 cents a week more each year, matched by the employer.
- Increase Social Security’s cost-of-living adjustment (COLA) to reflect the higher inflation experienced by seniors.
- Raise Social Security’s basic minimum benefit so that someone who paid into Social Security for 30 years can retire at 62 or later and not be poor. (The poverty line is currently about \$11,670 a year for one person.) Currently, lifetime low-wage workers are at risk of living in poverty in retirement, even after paying Social Security taxes throughout their working lives. (For example, the current benefit for a life-long, full-time minimum wage worker retiring at age 62 is \$8,230 a year.)⁵

These four changes together would eliminate 113% of Social Security’s projected long-term financing gap, providing a margin of safety. This package is preferred over the status quo by 7 in 10 participants across generations, income levels, and party affiliations (Figure 1).⁶

The trade-off analysis shows that the following specific changes strongly increase the appeal of a package of policy options – that is, they increase the likelihood that a survey participant would choose a particular package:

- Gradually, over 10 years, eliminate the cap on earnings that are taxed for Social Security.

Figure 1. Support for the Preferred Package of Policy Options in Trade-Off Analysis



Source: National Academy of Social Insurance Survey, June 2014



- Gradually, over 20 years, raise the Social Security tax rate that workers and employers each pay from 6.2% of earnings to 7.2%.
- Keep Social Security's full retirement age at 67 rather than raising it.
- Increase the COLA by basing it on inflation experienced by seniors.

In contrast, the trade-off analysis shows that options that strongly decrease a package's appeal would:

- Not lift the taxable earnings cap for Social Security.
- Not increase the Social Security tax rate.
- Raise Social Security's full retirement age to 70.
- Lower the COLA by using a new measure of inflation.

Americans are counting on Social Security — but are not confident about its future

Of study participants currently receiving Social Security, 95% say it is important to their monthly income; of those not currently receiving Social Security, 85% say it will be important to their income when they begin receiving benefits. Two in three respondents (67%) say that without Social Security they would have to make significant sacrifices or would not be able to afford the basics such as food, clothing, or housing in retirement.

Six in 10 respondents (62%) say they are not confident about the future of the program. Among those not yet receiving Social Security benefits, 68% lack confidence that they will receive all their earned benefits when they retire.

Americans' views change when they have accurate information

Official projections show that Social Security has sufficient funds to pay all benefits until 2033. Just 24% of participants know that Social Security would still be able to pay about 75% of scheduled benefits after 2033. Most of the rest think Social Security's finances would be in far worse shape; nearly 3 in 10 (28%) think Social Security would be unable to pay any benefits at all.

After learning that raising the Social Security tax rate from 6.2% to 7.7% for both workers and employers would ensure that the program could pay full benefits for 75 years, those who consider Social Security financing to be a crisis or a significant problem drop from 70% to 33%, while those who think it is a manageable problem or not a problem at all rise from 30% to 67% (Figure 2).

More than a third of Americans are not aware of Social Security's disability insurance and survivors insurance protections (33% and 41%, respectively). After learning the average benefit amounts for those programs — \$1,146 for a disabled worker and \$815 for the child of a worker who died — many respondents (55% and 43%, respectively) say they think those amounts are too low.

Implications of the study

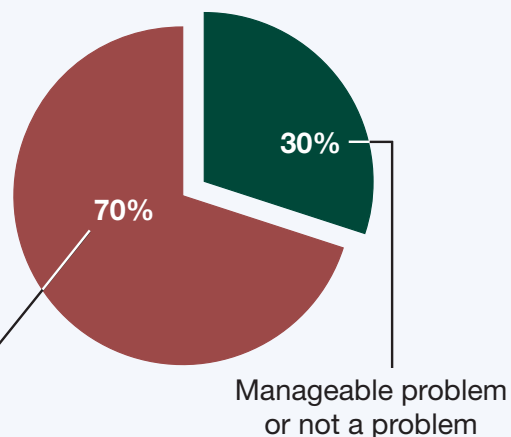
The findings from this study are consistent with those of the Academy's study conducted in 2012. Both studies find that large majorities of Americans want to strengthen Social Security's finances and are willing to contribute more to the program if necessary. They clearly want to close the system's projected financing gap. But rather than doing so in part by reducing benefits, they prefer a package of changes that closes the gap without benefit cuts — and pays for benefit improvements.

Americans' willingness to pay more for Social Security indicates that they view it as a vital program that provides an essential measure of economic security for themselves, their families and their communities. This

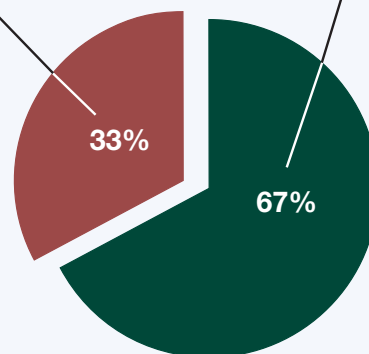


**Figure 2. Perception of Social Security Shortfall:
Effect of New Information**

Would you say that funding for Social Security in the future is a crisis, a significant problem, a manageable problem, or not a problem?



If you knew that increasing Social Security taxes from 6.2% to 7.7% for both workers and employers would ensure that Social Security could pay full benefits for the next 75 years, would you say that funding for Social Security in the future is a crisis, a significant problem, a manageable problem, or not a problem?



Source: National Academy of Social Insurance Survey, June 2014

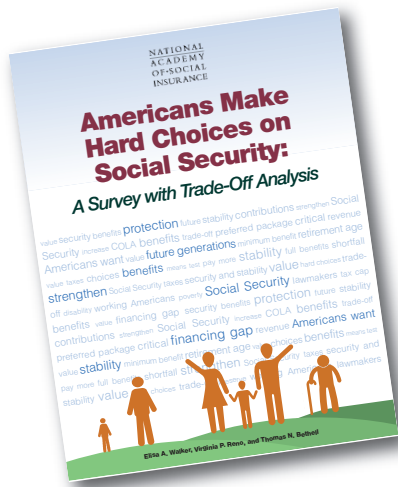
view is held by majorities across generations, income levels, and political party affiliations. At a time when the nation seems deeply divided about the appropriate size and role of government, it is striking that Americans across political and generational lines not only support Social Security but also agree on specific changes to strengthen it for the future.

Endnotes

- 1 Social Security Administration. 2014a. "Beneficiary Data: Number of Social Security recipients at the end of Jan 2014." Baltimore, MD: Social Security Administration, Office of the Chief Actuary. <http://www.socialsecurity.gov/cgi-bin/currentpay.cgi>.
- 2 Social Security Administration. 2014b. *Income of the Population 55 or Older, 2012*: Table 9.A1. http://www.ssa.gov/policy/docs/statcomps/income_pop55/index.html.
- 3 National Academy of Social Insurance calculations based on U.S. Census Bureau, 2013. Current Population Survey, Annual Social and Economic Supplement (using CPS Table Creator II). <http://www.census.gov/cps/data/cpstablecreator.html>.



- 4 Tucker, Jasmine V., Virginia P. Reno, and Thomas N. Bethell. 2013. *Strengthening Social Security: What Do Americans Want?*. Washington, DC: National Academy of Social Insurance. http://www.nasi.org/sites/default/files/research/What_Do_Americans_Want.pdf
- 5 Social Security Administration. 2014c. *Annual Statistical Supplement to the Social Security Bulletin, 2013*. Washington, DC: Social Security Administration, Office of Research, Evaluation, and Statistics. Table 2.A26.
- 6 Estimates are based on the 2013 Social Security Trustees Report, which was the latest available projection at the time the survey fielded. Using the projections of the 2014 Trustees Report, released in July 2014, the preferred package closes 107% of the projected long-term shortfall.



The full report,
Americans Make Hard Choices on Social Security: A Survey with Trade-Off Analysis,
 is available at www.nasi.org

NATIONAL
ACADEMY
OF • SOCIAL
INSURANCE

Founded in 1986, the National Academy of Social Insurance is a nonprofit, nonpartisan organization made up of the nation's leading experts on social insurance. Social insurance encompasses broad-based systems that help workers and their families pool risks to insure against loss of income due to retirement, death, disability, or unemployment, and to ensure access to health care. The Academy's mission is to advance solutions to challenges facing the nation by increasing public understanding of how social insurance contributes to economic security. For more information, visit: www.nasi.org.

1776 Massachusetts Avenue, NW, Suite 400 / Washington, DC 20036-1904
 Telephone: 202-452-8097 / Facsimile: 202-452-8111
nasi@nasi.org / www.nasi.org / Twitter: @socialinsurance