

# **Social Security: Good Policy Can Be Good Politics**

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Fiscal Responsibility and Reform**

By

Virginia P. Reno

Vice President for Income Security

National Academy of Social Insurance

202-452-8097

[vreno@nasi.org](mailto:vreno@nasi.org)

**NATIONAL  
ACADEMY  
OF SOCIAL  
INSURANCE**

[www.nasi.org](http://www.nasi.org)

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## Highlights

### **Social Security is affordable.**

- The best way to assess affordability is look at spending as a share of the economy.
- Social Security will rise from 4.9 percent to 6.2 percent of the economy by 2035 when all boomers will be over age 65. It will remain about 6 percent of the economy for the next 75 years.

### **Americans across the income spectrum rely on Social Security.**

- Benefits help many elders stay out of poverty.
- Benefits are critical to economic security for the middle class, not just the poor.
- Yet, benefits are modest.

### **Americans value Social Security. They would rather pay more than see benefits cut.**

- Poll after poll finds that Americans value it for themselves, their families, and the stability it provides to millions of other people.
- Democrats, Republicans, and Independents say they don't mind paying for Social Security for these reasons.
- Americans also say they support benefit improvements for vulnerable groups.

### **We can target improvements for vulnerable groups.**

- Steady workers at low pay: Enable full-time minimum-wage workers to retire at 62 and not be poor.
- Widowed spouses: More adequate survivor benefit for low-paid, dual-earner couples.
- Children of deceased and disabled workers: Pay benefits until age 22 while children are in college or vocational school.

### **What about Social Security's long-term finances?**

- Social Security is evaluated over 75 years. We need a 75-year revenue plan to match our 75-year commitments.
- Through most of its 75-year history Social Security has had revenue increases scheduled in the future. That ended in 1990.
- Social Security doesn't need more money now. But, policymakers could act now to schedule funds in the future when they are needed.

### **A three-part revenue plan:**

- Broaden the base: Gradually lift the cap (now \$106,800) to cover 90% of wages.
- Broaden the base: Treat all salary reduction plans like 401(k)s – exempt from personal income taxes but subject to FICA for workers and employers.
- Schedule Social Security FICA increases in the future: say from 6.2% to 7.2% for workers and employers each in 2022 and to 8.2% in 2052.

### **Good policy could be good politics**

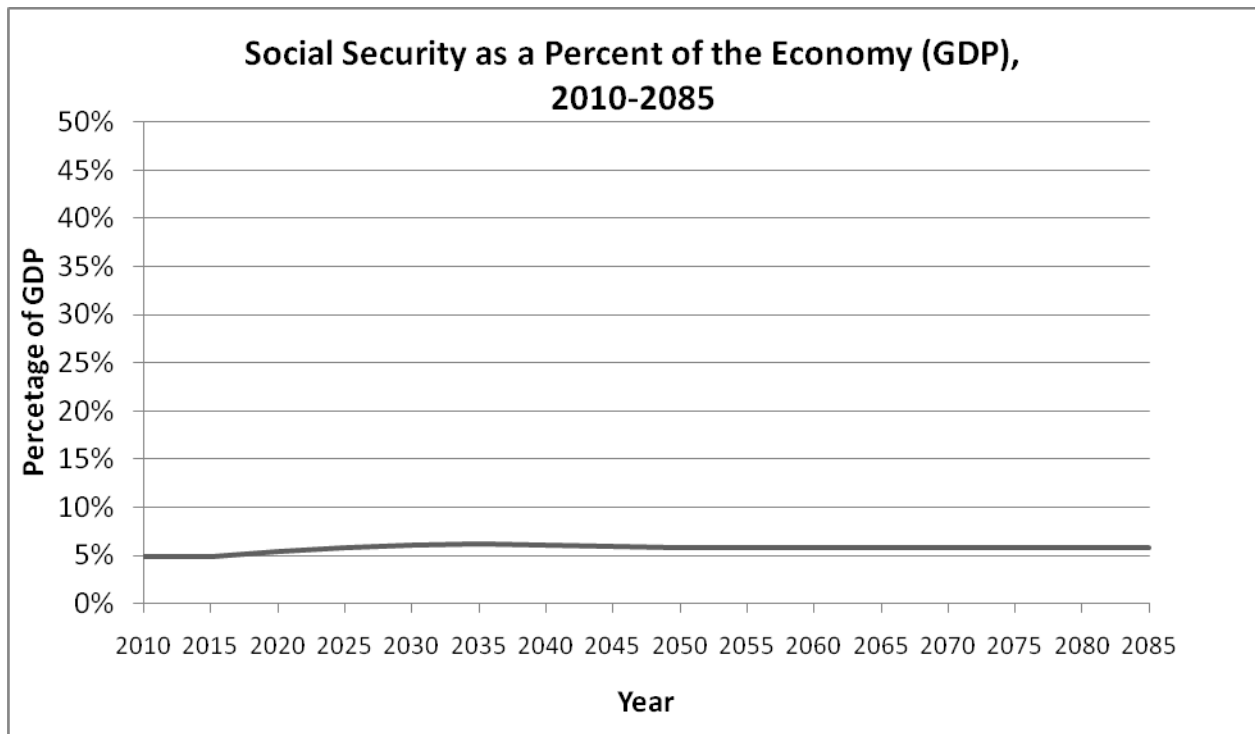
- The 75-year Social Security forecast would be in balance. A success for policymakers.
- Working Americans would have peace of mind that they can count on the benefits. If revenues end up being more than needed, future policymakers could reduce the rates.

## Social Security is affordable.

The best way to assess the affordability of Social Security in the future is to compare benefits scheduled under current law with the size of the entire economy at the time benefits are due to be paid. According to 2009 projections of the Social Security Trustees:

- Social Security benefits are 4.9 percent of the economy, or gross domestic product (GDP), in 2010.
- Benefits are projected to rise to 6.2 percent of the economy in 2035, when all baby boomers will be over age 65.

After 2035, Social Security will remain between 6.1 and 5.8 percent of the economy for the rest of the next 75 years (See Figure below). This increase of 1.3 percent of the entire economy is affordable. In fact, it is smaller than the growth in spending for public education when boomers were children. The share of GDP spent on public schools rose by 2.8 percent between 1950 and 1975. Back then, school districts had to respond quickly because the crowds of five-year-olds showing up for kindergarten came as a surprise. Social Security for retiring boomers six decades later is not a surprise. It is expected. We can afford it.



Source: Table VI.F4 2009 Trustees Report, page 184.

## Americans across the Income Spectrum Depend on Social Security.

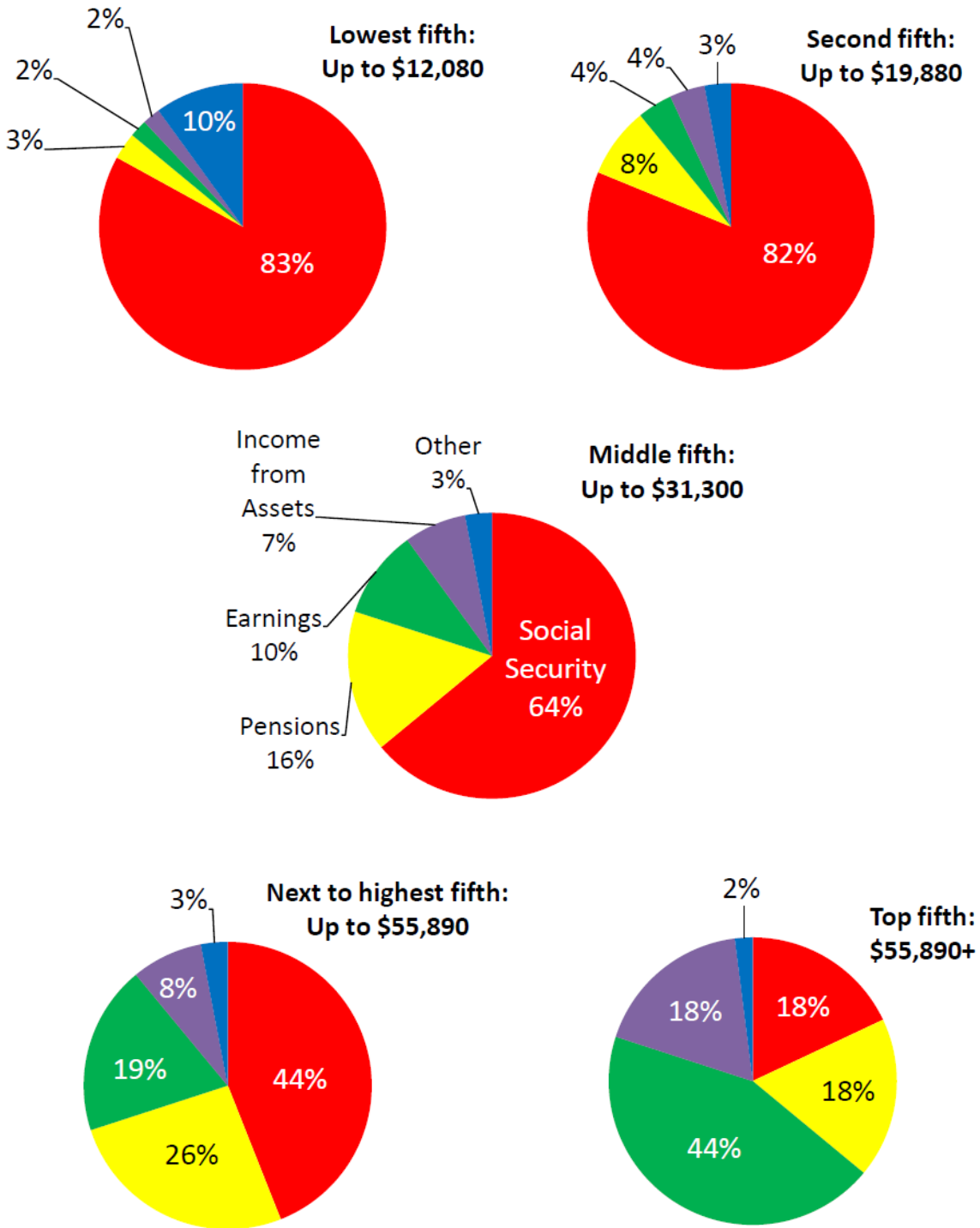
Benefits help many elders remain out of poverty.

- If seniors had to count on only their income other than Social Security, almost one out of two would be living in poverty.
- With Social Security, about one in ten is officially counted as poor.

Social Security is the mainstay of retirement security for the middle class, not just the poor. The five pie charts on the next page show the shares of income that couples and unmarried individuals age 65 and older receive from five main sources: Social Security, pensions, earnings, asset income, and other sources. Each pie represents one fifth of the elderly population (quintile), ranked by their annual income in 2008:

- Elders in the bottom two fifths of the income distribution (with less than about \$20,000 a year) get more than 80 percent of their income from Social Security.
- Elders in the middle group (with incomes of about \$20,000 to \$31,000) get nearly two thirds of their income from Social Security. Pensions are the second largest source.
- Elders in the upper-middle income group (about \$31,000 to \$56,000) get nearly half their income from Social Security.
- Only in the top group (with incomes over \$56,000) is Social Security not the main source of income. Earnings are their largest source because most couples and unmarried elders in the top income group are not yet fully retired. When and if their earnings cease, remaining income might come in roughly equal shares from Social Security, pensions and income from assets.

**Shares of Income from Specified Sources by Income Level, 2008**  
 Married Couples and Unmarried Persons Age 65 and Older



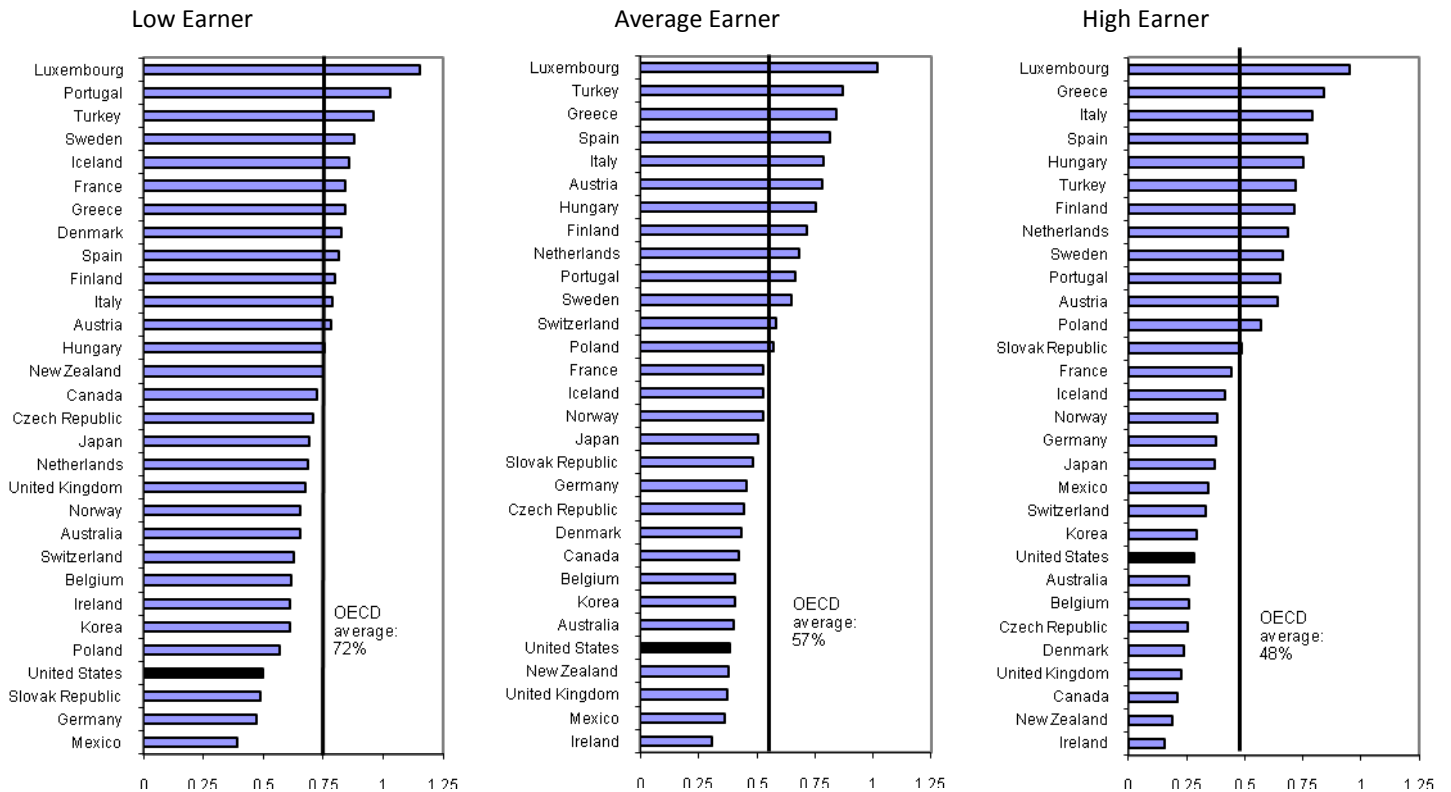
Source: Social Security Administration: *Income of the Population 55 and Over, 2008*

# Social Security Benefits are Modest.

The average benefit for retirees was \$1,166 in January 2010.

The adequacy of retirement income is often measured by replacement rates – the percent of prior earnings that benefits replace. By international standards, U.S. Social Security replacement rates are modest. A study by the Organization for Economic Cooperation and Development (OECD) found that U.S. replacement rates rank near the bottom among its member countries. Of 30 countries, U.S. replacement rates ranked 4<sup>th</sup> from the bottom for low-earning workers (at 50 percent), 5<sup>th</sup> from the bottom for average earners (at 39 percent), and 9<sup>th</sup> lowest for high earners (at 28 percent).

## Social Security Replacement Rates\* in OECD Countries by Earnings Level



\*Illustrative workers are assumed to draw benefits from each country's mandatory pension program at the normal retirement age. Low earners earn half of the average wage, while high earners earn twice the average wage.

Source: Organization for Economic Cooperation and Development (OECD). (2005). Pensions at a Glance: Public Policies across OECD Countries. Paris: OECD.

## Americans would rather pay more than see benefits cut.

When it gets down to the wire, Americans’ support for Social Security often transcends partisan divides. Opinion polls over the years have found that working Americans would rather pay somewhat more for Social Security than see benefits cut. A recent survey by the National Academy of Social Insurance and the Rockefeller Foundation found that Americans are willing to pay for Social Security because they value it for themselves (72%), for their families (75%) and for the security and stability it provides to millions of retired Americans, disabled individuals, and children and widowed spouses of deceased workers (87%). Large majorities of Democrats, Republicans, and Independents voiced willingness to pay for Social Security for each of these reasons, as shown below.

### Reason Don’t Mind Paying Social Security Taxes by Party Affiliation

<p><i>I’m going to read a list of statements and after each one, please tell me if you agree, or disagree with the statement. “I don’t mind paying Social Security taxes because:</i></p> <p><i>Q. 30: I know that I will be receiving the benefits when I retire.”</i></p> <p><i>Q. 31: I know that if my parents, grandparents, or other family members did not receive Social Security, I would have to support them in their retirement.”</i></p> <p><i>Q. 29: It provides security and stability to millions of retired Americans, the disabled, and the children and widowed spouses of deceased workers.”</i></p>				
Reason don’t mind paying Social Security taxes	Total	Democrats	Independents	Republican
Total (number of interviews)	1488	497	601	390
<b>Total percent</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
	Percent who strongly or somewhat agree			
I will be receiving it when I retire	72	84	69	63
If they did not receive it, I would need to support parents, grandparents, or other relatives	75	82	76	68
It provides security and stability to millions of retired Americans, the disabled, and children and widowed spouses of deceased workers	87	93	85	81

Source: Social Security Survey sponsored by the National Academy of Social Insurance and the Rockefeller Foundation, July-August 2009. *Economic Crisis Fuels Support for Social Security: Americans Views on Social Security*, August 2009, National Academy of Social Insurance.

Americans assert a commitment to Social Security's future even in the face of federal deficits and short-term economic hardship. In response to a forced choice question about how Social Security policy should respond to the economic downturn, Americans favor strengthening Social Security (66 percent) over cutting taxes and spending (28 percent) by more than a two-to-one margin (See *Economic Crisis Fuels Support for Social Security: Americans' Views on Social Security*, August 2009).

### **Americans Support Benefit Improvements**

The survey found that Americans support improving Social Security benefits for particularly vulnerable groups. For example:

- 78 percent support extending benefits to “children whose working parents have died or become disabled from the current cutoff of 19 years to 22 years old if the child is in college or vocational school.”
- 76% support “increasing benefits by \$50 a month for recipients over the age of 85 because they generally depend more heavily on Social Security.”
- 76% support “improving benefits for widowed spouses of low income working couples who generally have inadequate benefits from life-long low-paid work.”
- 69% support “guaranteeing that Social Security benefits for steady workers exceed the poverty line, even if workers receive early benefits at the age of 62.”
- 64% support “counting time that working parents take off to care for children toward workers' future benefits so they do not receive lower benefits because of this gap in paid work?”



## We can create a 75-year revenue plan to match the 75-year benefit projections.

A shortfall in Social Security funds occurs a quarter of a century from now because we lack a 75-year revenue plan to match the increase in outgo that will occur as baby boomers retire and Americans live longer after age 65. Through most of its 75-year history, Social Security has had a tax rate increase scheduled out in the future to keep it balance. But that ended in 1990.

Social Security doesn't need more money now. But we can act now to schedule funds in the future when the money is needed. One such plan is shown here.

### A 75-year Revenue Plan in Three Parts

Option #	Policy Options	% of taxable payroll (2.00% deficit)
8d	Gradually restore the taxable earnings cap (now \$106,800) to cover 90 percent of wages	0.57
10	Treat all salary reduction plans like 401(k)s – i.e., employee contributions would remain exempt from income taxes but would be subject to FICA from workers and employers	0.25
7b	Schedule future FICA rate increases for Social Security out in the future: from 6.2% to 7.2% in 2022 and to 8.2% for workers and employers each in 2052	2.06

Source: *Fixing Social Security: Adequate Benefits, Adequate Financing*, pages 13-19 and page 29, National Academy of Social Insurance

The first two changes reflect the intent of Congress the last time it addressed Social Security finances. FICA rate increases could be enacted now to take effect in the future. Policymakers could adjust the earned income tax credit (EITC) to offset the FICA increase for low-paid workers. If it turns out that the funds are not needed, future Congresses could reduce the FICA rates. In the meantime, scheduling future changes in law now would:

- Put Social Security's 75-year forecast in balance.
- Assure working Americans that that future benefits will be paid in full and on time as they have been over the past 70 years;
- Bolster confidence in our capacity to deal with other challenges of budget deficits outside of Social Security.
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GOOD SOCIAL SECURITY POLICY CAN MATCH WHAT AMERICANS SAY THEY WANT.