Social Security Reform Options:
How can we pay for what we want?

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Demystifying Social Security: Academy for Interns

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Social Security Finances Are Assessed Over 75 Years

Social Security does not need more money now. But policymakers could act now to ensure future benefits and solvency.

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The 75 year outlook
Trustees Report, 2011

- Social Security projected to run a <u>surplus</u> until 2022; revenue plus interest will exceed payouts.
- Reserves will grow to $3.7 trillion in 2022.
- Then reserves will begin to be used to pay benefits.
- If no changes are made, by 2036 reserves would be depleted. New revenue would then cover about ¾ of benefits.
- Average deficit over 75 years: 2.22% of taxable payroll

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Why consider Social Security adequacy?

- Beneficiaries depend on it.
- Growing risks in other retirement supports
  - losses in jobs, housing, pensions, and savings.
- Only Social Security has held its value.
- Yet benefits are modest, inadequate for some

  -- average benefit is 1/3 of the average wage;

  -- less than the annual minimum wage ($15,080).

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How could existing gaps in adequacy be mitigated?

- Targeted improvements for:
  - the oldest old
  - widowed spouses in old age
  - caregivers
  - long-service low-paid workers
  - children of deceased or disabled parents
- Across-the-board benefit increase
  - adopt CPI-E to better reflect basket of goods

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Sample adequacy package

Percent of taxable payroll

Improve benefits for widow(er)s	0.30
125% of poverty at full benefit age for 30-year worker	0.13
Student benefits to 22, if parent is deceased or disabled	0.07
Credit for up to five years of childcare	0.24
Total cost	0.74

How could Social Security's finances be strengthened?

Two sets of options:

1. Raise revenue
2. Cut benefits

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Options to raise revenue

- Increase the Social Security contribution rate
- Tax broader sources of income
- Raise the tax cap
- Extend coverage
- Treat all salary reduction plans like 401(k)s
- Use progressive taxes to cover legacy costs
- Maintain reserves and diversify investments

Options to cut benefits

- Reduce COLA
- Increase age for full retirement benefits
- Lengthen the career-earnings averaging period
- Reduce benefits for new beneficiaries

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Sample solvency options

Percent of Taxable Payroll

Option	% of payroll
1. Raise SS rate to 7.2% in 2022 and to 8.2% in 2052	2.06
2. Slowly raise rate 1/20 of 1% a year, 2015-2034	1.39
3. End the cap; don’t count higher earnings for benefits	2.09
4. Gradually raise the cap to cover 90% of earnings	0.57
5. Cover all salary reduction plans like 401(k)s	0.25

Sample Adequacy & Solvency Package

What Would It Cost?

	Percent of payroll	
Current deficit		2.22
Improve benefits for widow(er)s	0.30	
125% of poverty at full benefit age for 30-year worker	0.13	
Student benefits to 22, if parent is deceased or disabled	0.07	

Sample Adequacy & Solvency Package

How Might We Pay for It?

	% of Payroll	
Total adequacy choices plus deficit		-2.96
Slowly raise rate – 1/20 of 1% a year, 2015-2034	1.39	
Slowly lift the cap to cover 90% of earnings	0.57	
Cover salary reduction plans like 401(k)s	0.25	
3% surtax on AGI >$250k (couples) / $125k (indvls)	0.74	

Fixing Social Security: Adequate Benefits, Adequate Financing

- Many options exist to make Social Security benefits more adequate and to balance its future finances.
- Social Security does not need money now; but policymakers can act soon to make funds available when they are needed in the future.
- Asking the right questions is key: What kind of economic security do Americans want for retirees and working families? How will we decide to pay for it?

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