

Social Security: A Key Part of Policies to Strengthen Retirement Security

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(Prepared as a handout for AARP's "Retirement Security Working Group," June 29, 2012)

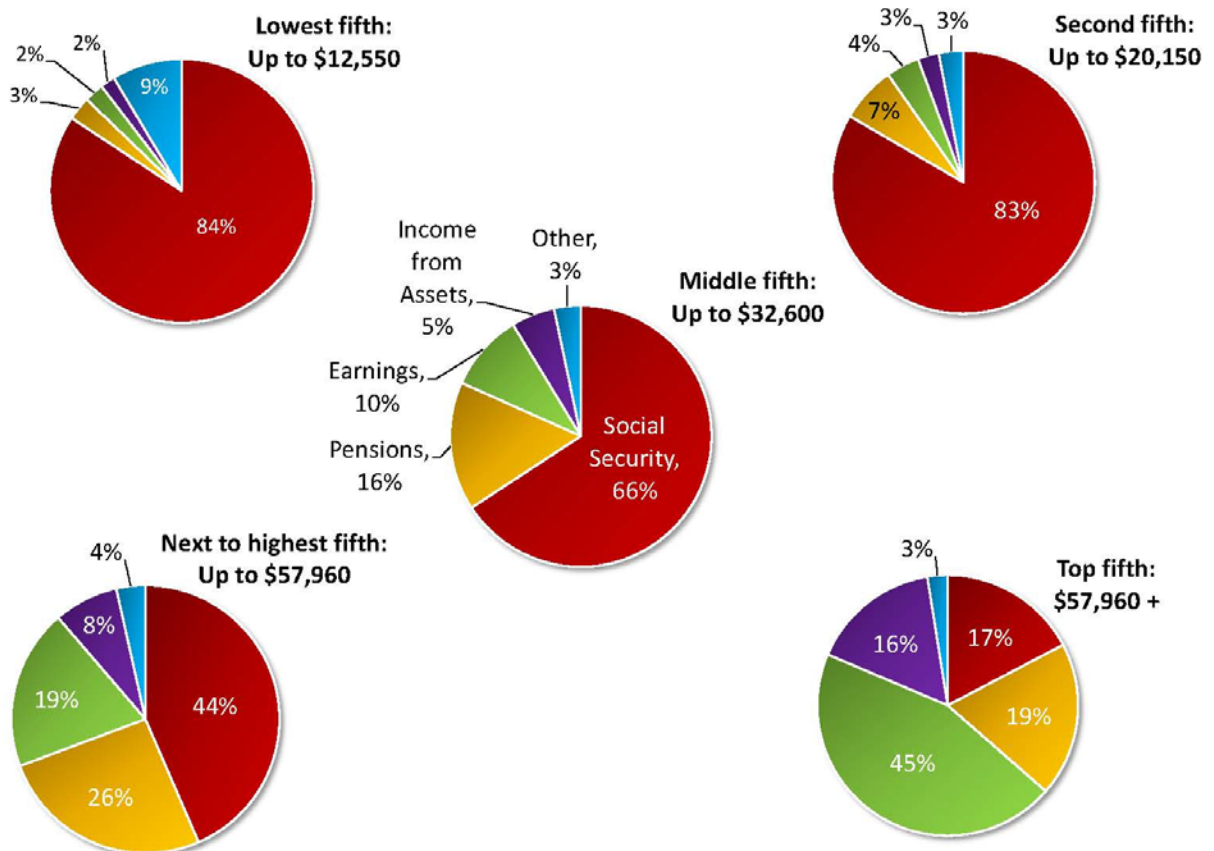
New data affirm that Social Security is the foundation of economic security for older Americans. The program is efficient and has features of an ideal retirement plan. Improving Social Security is a key part of strengthening retirement security. Three changes could fully finance Social Security *and* pay for much-needed benefit improvements.

Social Security is the bedrock of economic security for older Americans.

As the following set of pie charts shows:

- Seniors in the lowest two income quintiles – with less than about \$20,150 in total annual income – get more than **80%** of their income from Social Security.
- Seniors in the middle group, with incomes up to \$32,600, get **two thirds** of their income from Social Security.
- Seniors in the upper middle income group get **almost half (44%)** of their income from Social Security, while pensions and annuities take on a larger role.
- Only* in the top group (with total annual incomes over \$58,000) is Social Security not the largest single income source. Most seniors in this group are still working, and earnings are their largest single income source.

Shares of Income from Specified Sources by Income Level, 2010
Married Couples and Unmarried Persons Age 65 and Older



Source: Social Security Administration, *Income of the Population 55 or Older, 2010*. 2012.

Social Security has features of an ideal retirement plan.

1. It covers almost all workers.
2. It's fully portable between jobs.
3. It pays monthly benefits (annuities) that last for life.
4. It protects recipients against inflation.
5. It includes disability and family life insurance.
6. It is highly efficient: 99% of every dollar is for benefits, and less than 1% is administrative costs.
7. It doesn't allow leakage from early withdrawals.
8. Both employees and employers pay into it.
9. Employers bear no risk or fiduciary responsibility.
10. The benefits tilt toward lower earners, yet all workers are insured and receive earned benefits.

Improving Social Security is part of retirement security policy.

There are many policy options for changing Social Security. AARP's "You've Earned A Say" campaign, for example, discusses various of these options. A set of three changes could fully finance Social Security *and* provide funds for targeted or across-the-board benefit improvements.

- ***Gradually eliminate the tax cap:*** Gradually eliminating the taxable earnings cap over 10 years would make Social Security's financing more fair. Only the top 5 percent of workers earn more than the current cap of \$110,100. They would pay on all their earnings throughout the year, just as everyone else does, and would get a modest increase in benefits. This change would close 71% of Social Security's long-term financing gap.
- ***Gradually raise the contribution rate:*** Most Americans say they would rather pay more for Social Security than see benefits cut. Starting 5 years from now, when the economy is stronger, the contribution rate could be gradually increased from 6.2% to 7.2%, for both workers and employers, over 20 years — an increase of 1/20th of 1% per year for each. This change — which would mean an increase each year of just 50 cents a week for an average earner — would close 53% of the long-term financing gap.
- ***Tax salary reduction plans like 401(k)s:*** Congress could complete a reform it initiated in 1983 when it required workers' contributions to 401(k) plans to be treated as covered earnings to be taxed for Social Security and credited toward benefits. Treating all salary reduction plans the same way — exempt from income taxes but as covered earnings for Social Security purposes — would be consistent; would ensure workers that all of their earnings will count toward future Social Security benefits; and would close 8% of the long-term financing gap.

These three changes would more than eliminate Social Security's projected revenue shortfall. They would (1) make Social Security financially sound for the very long term, and (2) pay for benefit improvements — such as a benefit increase of \$100 per month for all beneficiaries or, alternatively, targeted increases for subsets of beneficiaries, such as lifetime low-wage workers, caregivers with intermittent earnings, and children of disabled or deceased workers up to age 22 when enrolled in college or vocational school.