

# Strengthening Social Security: Adequacy and Equity

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# Overview

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- NOT going to present a plan to restore 75-year balance
- WILL argue that greater consideration of adequacy, equity, work incentives in OASDI debate can improve plans
  - Research shows that we can improve adequacy, equity, incentives ***without worsening fiscal balance*** by adjusting current law

# Key Points

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- Social change, increased inequality should lead to OASDI policy change
  - Fairness and efficiency matter
  - Incremental or structural changes?
    - Across-the-board or targeted changes?
    - SSI better serves some vulnerable groups
- Options' distributional effects vary
  - Some better achieve goals than others

# Single-Earner Married Couple Model Is Out-of-Date

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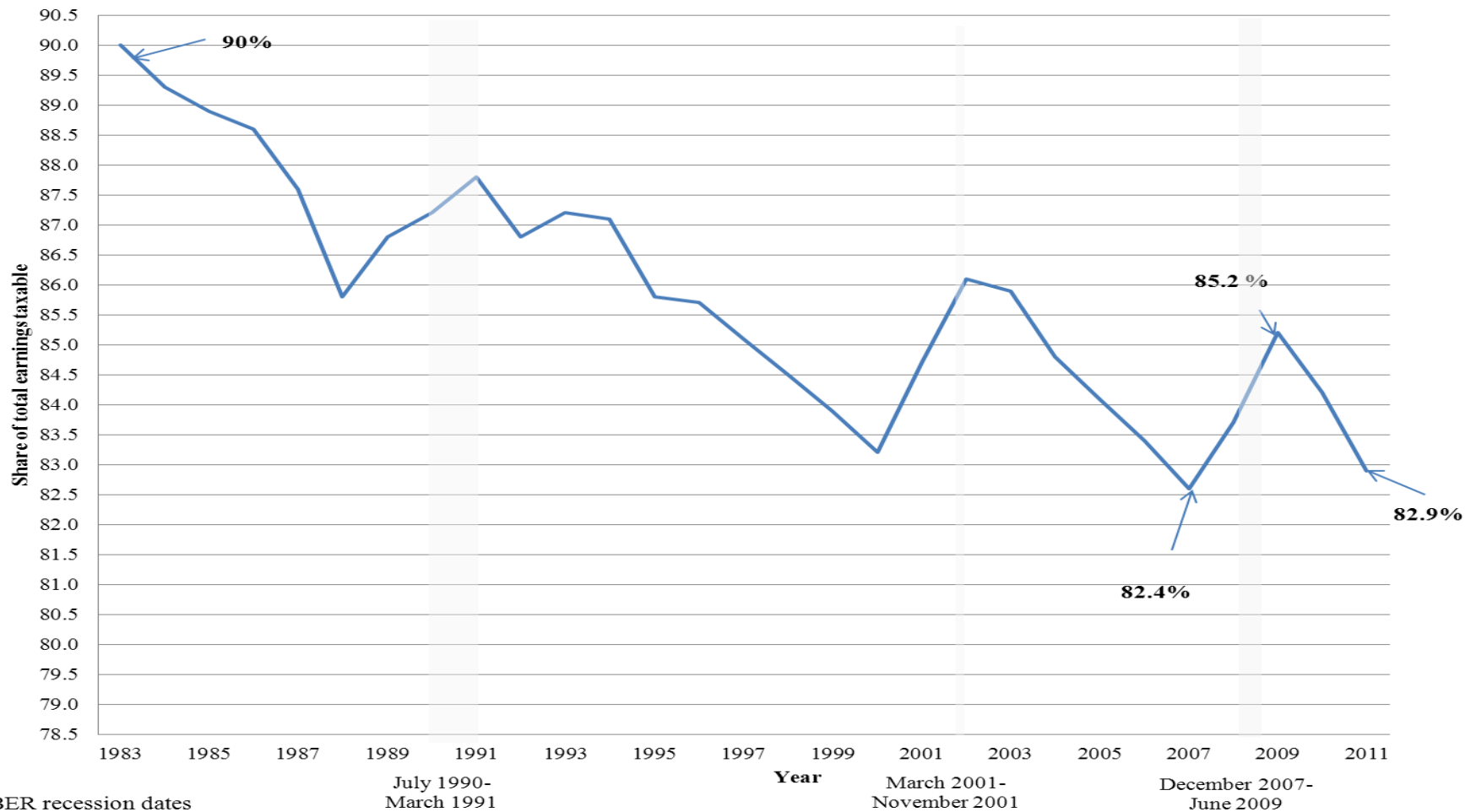
- Unmarried people will soon be the majority of adults (49.3% of people 15+)
- Single-earners are a minority for couples
- About 29% of wives in dual-earner families out-earn husbands (BLS)
  - Median woman earns 37% of family income
- Over 40% of children are born outside of marriage (more than doubled since 1980)
- About half of marriages end in divorce
  - More than half of those that end do so before the 10 year point (median of 7)

# Inequality Is Growing

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- Median wages are stagnating, but earnings are exploding at the top
- Other processes mirror earnings inequality
- Large difference by lifetime earnings and education in:
  - Mortality
  - Disability
  - Unemployment / employee benefits
  - Marriage / divorce

# Share of Earnings Taxed by Social Security has Declined from 90% in 1983 to 83% in 2011



NBER recession dates

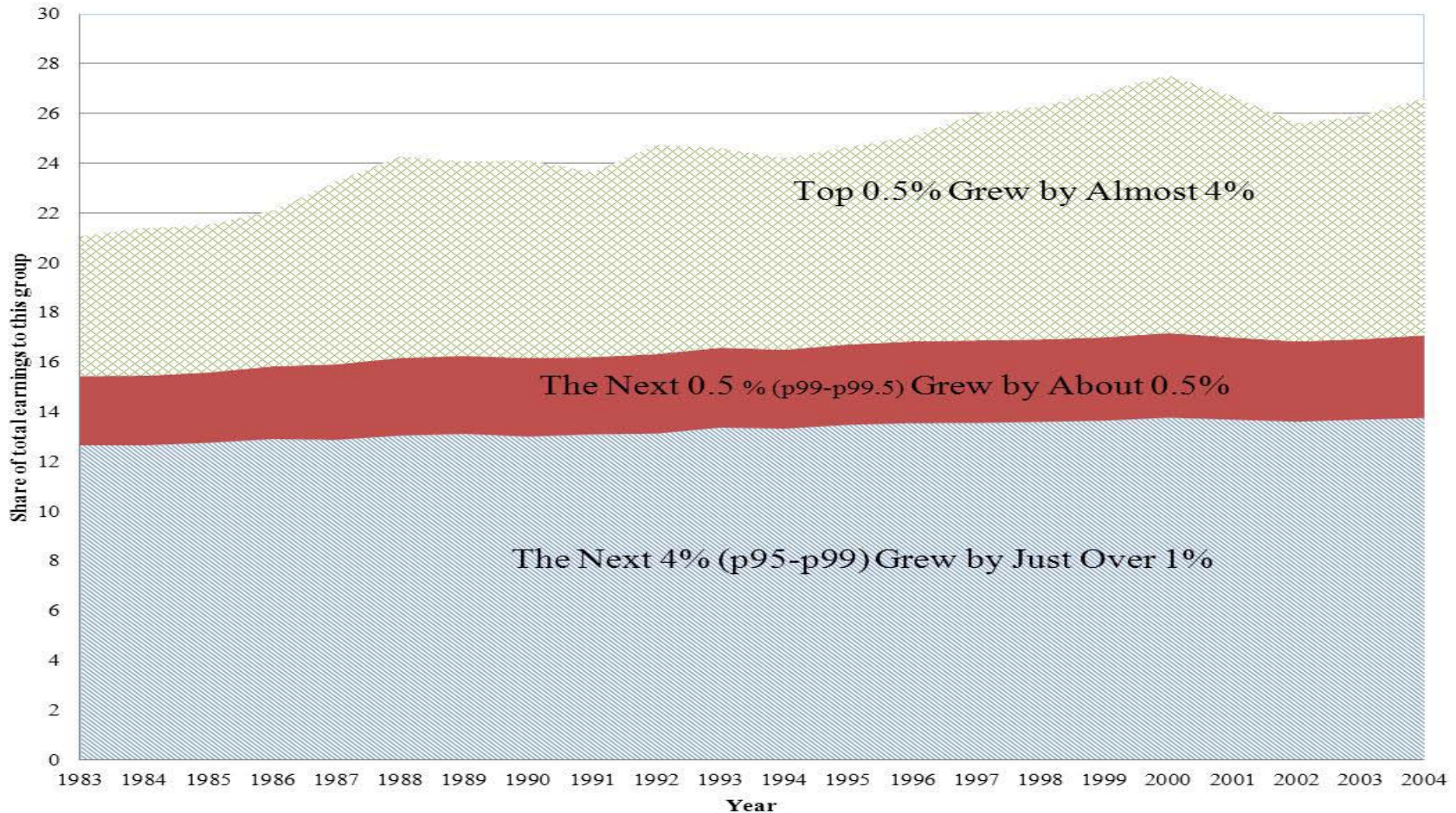
July 1990-  
March 1991

Year

March 2001-  
November 2001

December 2007-  
June 2009

# This is Due Largely to Growth in the Earnings of Top Half of One Percent



Source: Kopczuk, Saez, and Song (2007)

# Concerns with Current Law: Adequacy

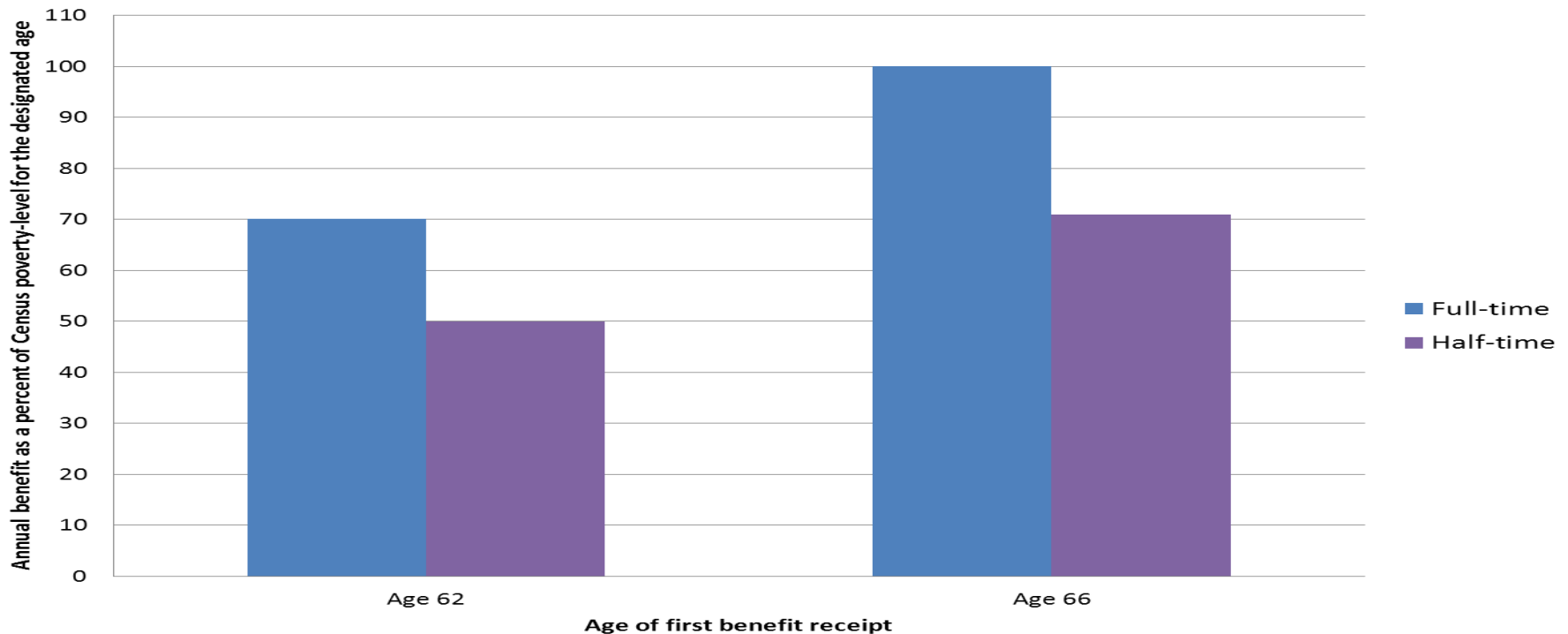
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- Some long-term, low-wage workers have sub-poverty benefits/incomes
- Substantial levels of aged poor, especially women (higher under SPM)
  - 11% poor / 17% near poor (vs. 7% / 12% for men)
  - Unmarried women especially vulnerable (16% poor vs. 4% among married)
- Spousal/survivor transfers depend on worker earnings, not need
- Poverty rates much higher for non-beneficiaries (implies SSI not OASDI needed)



# A Full Career of Low-Wage Work May not be Enough for Poverty-Level Benefits

**Social Security Benefit for Long-Term (40-Year) Lifetime Minimum-Wage Worker Born in 1950** (Reaching Age 62 in 2012)



**Source:** Author's calculations based on 2,080 and 1,040 work hours for full- and half-time work, respectively

**Notes:** Estimates are sensitive to specific years in career worked, poverty measure used (e.g., Census aged or non-aged level, HHS guideline). Beneficiaries with low assets, limited income may also qualify for SSI.

# Concerns with Current Law: Efficiency

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- Work incentives
  - Work not always well rewarded
    - 40 years at \$35k is less valuable than 35 years at \$40k
    - 75% of men, 36% of women not on DI worked  $\geq 35$  years ( $\geq 400$ ) by age 60 – differs by education
- Targeting
  - Adequacy benefits not related to need
  - “Free,” but not available to many singles
    - About 16% of adult benefits are auxiliary

# Concerns with Current Law: Equity

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- Couples with even earnings can receive far lower benefits than couples with dissimilar earnings paying the same payroll taxes
  - Can amount to over \$100,000 over a lifetime
  - Couples with similar earnings have steeper drops at widow(er)hood
- Marriage/divorce penalties/bonuses
  - Unmarried cannot access much of system

# Some Criteria for Change

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- *Equity*: Provide more equal lifetime benefits to those paying equal payroll tax
- *Good Incentives*: Ensure that increased earnings/taxes lead to increased benefits
- Minimize marriage penalties/divorce bonuses
- *Adequacy*: Reduce poverty/near poverty/relative poverty/poverty severity
- *Efficient Targeting*: Spend money effectively, given long-term fiscal squeeze

# Incremental Changes

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- Move toward marriage neutrality?
  - Care rather than legal marital status?
  - Higher worker or minimum benefits?
  - Cap or flatten benefit supplements?
- Cost-neutral parameter swaps
  - Caregiver credits for spousal reduction/cap
  - Survivor boost for spousal reduction/cap
  - Work years/replacement rates
  - Household size adjustments on benefit bump-ups
- Target through income tax system?

# More Structural Approaches

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- Earnings or benefit sharing
- Self-financing of auxiliary protection
  - Mandatory

# Across-the-Board or Targeted?

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- Across-the-board benefit increases would raise existing benefit inequities in absolute terms
- Worker versus auxiliary/subgroup
  - Worker benefits need to be protected and in some cases enhanced
    - Very long-term low-wage workers
  - But, increasing benefits a lot elsewhere without offsets may require financing from the middle
    - Could have unintended interactions

# Consider Interaction Effects

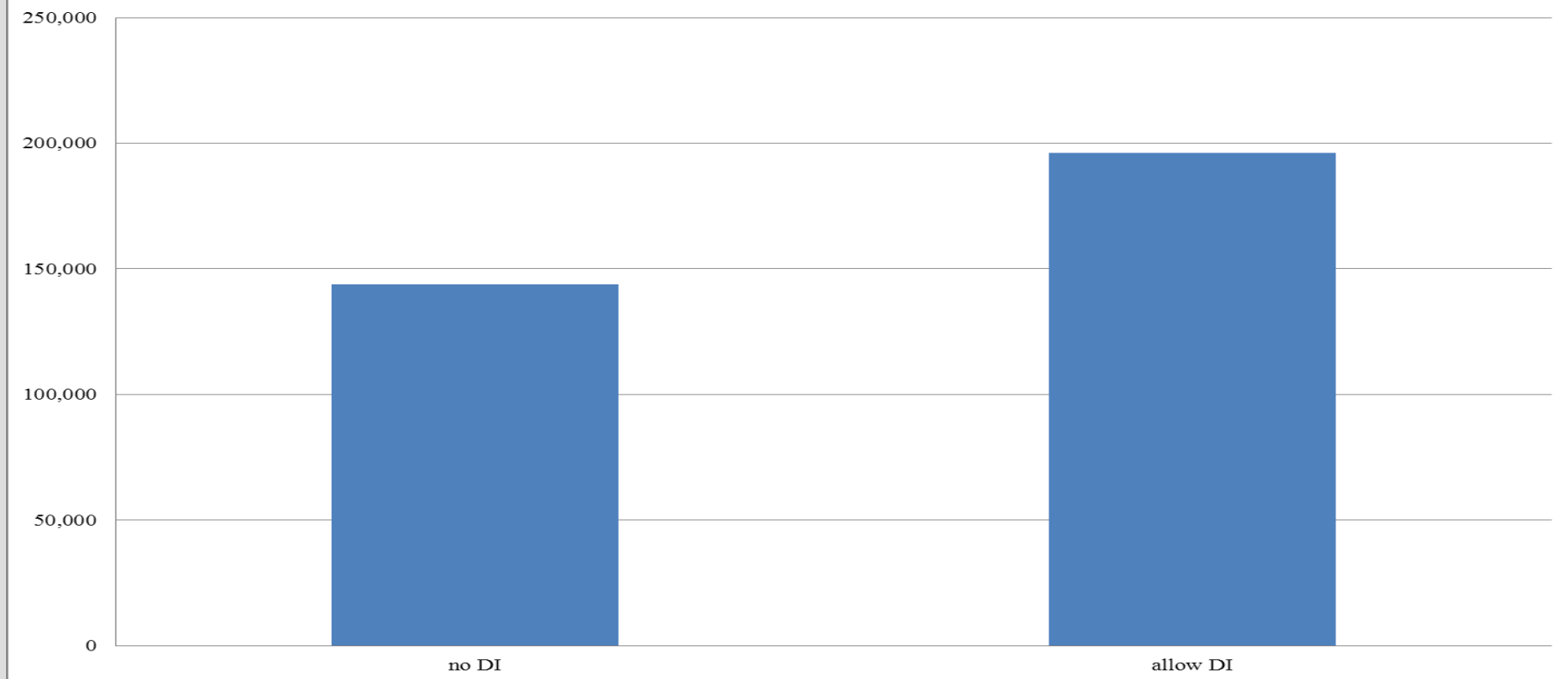
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- Are DI beneficiaries included?
  - About 1 in 8 men, 1 in 10 women
  - 16% of total adult benefits
- Parameters tied to average benefit (for example longevity supplements granting 5 percent of average benefit)
- Wage versus price-indexing
- Effects of skewed earnings growth
  - Lower payroll tax receipts
  - AWI increases could increase lower earners' benefits



# The Treatment of DI Beneficiaries Critically Affects Antipoverty Effectiveness

**Antipoverty Effectiveness Increases when DI Beneficiaries are Included in a Long-Term Beneficiary Supplement (Percent Removed from Poverty or Near Poverty, 2030 Projections)**



Source: Author's calculations from DYNASIM

# SSI Modernization

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- SSI may better improve adequacy for some groups than Social Security
  - Highest risk if limited work history
- Program has languished
  - Asset test has not increased in 24 years
  - Income exclusions are at 1974 levels
- Increasing asset threshold would very efficiently reduce old age poverty (Rupp, Strand, and Davies 2003)
- But, be cognizant of interactions

# For More Information, See:

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

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

<http://taxpolicycenter.org/>

Disclaimer:

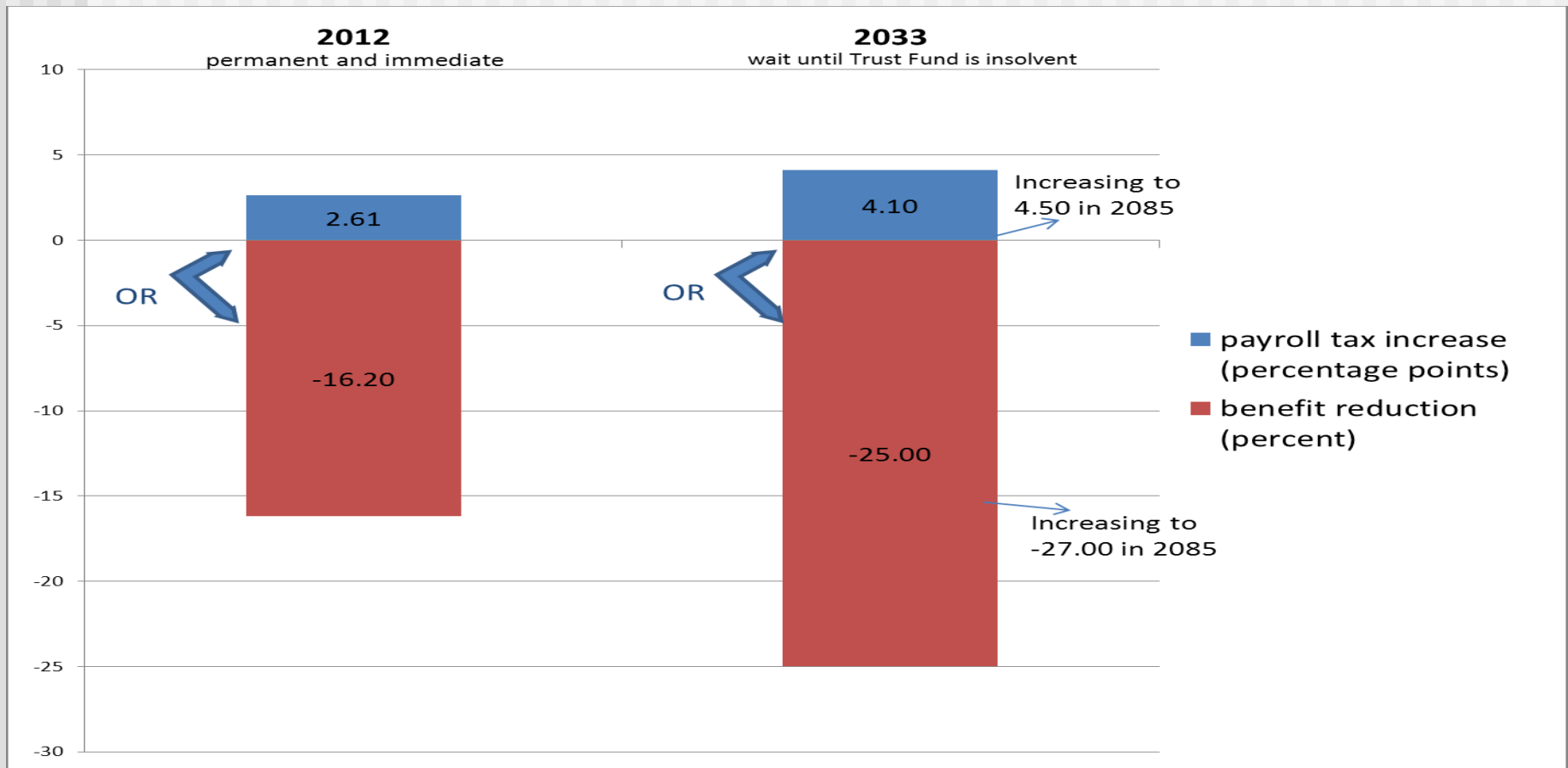
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# Larger Budget Context

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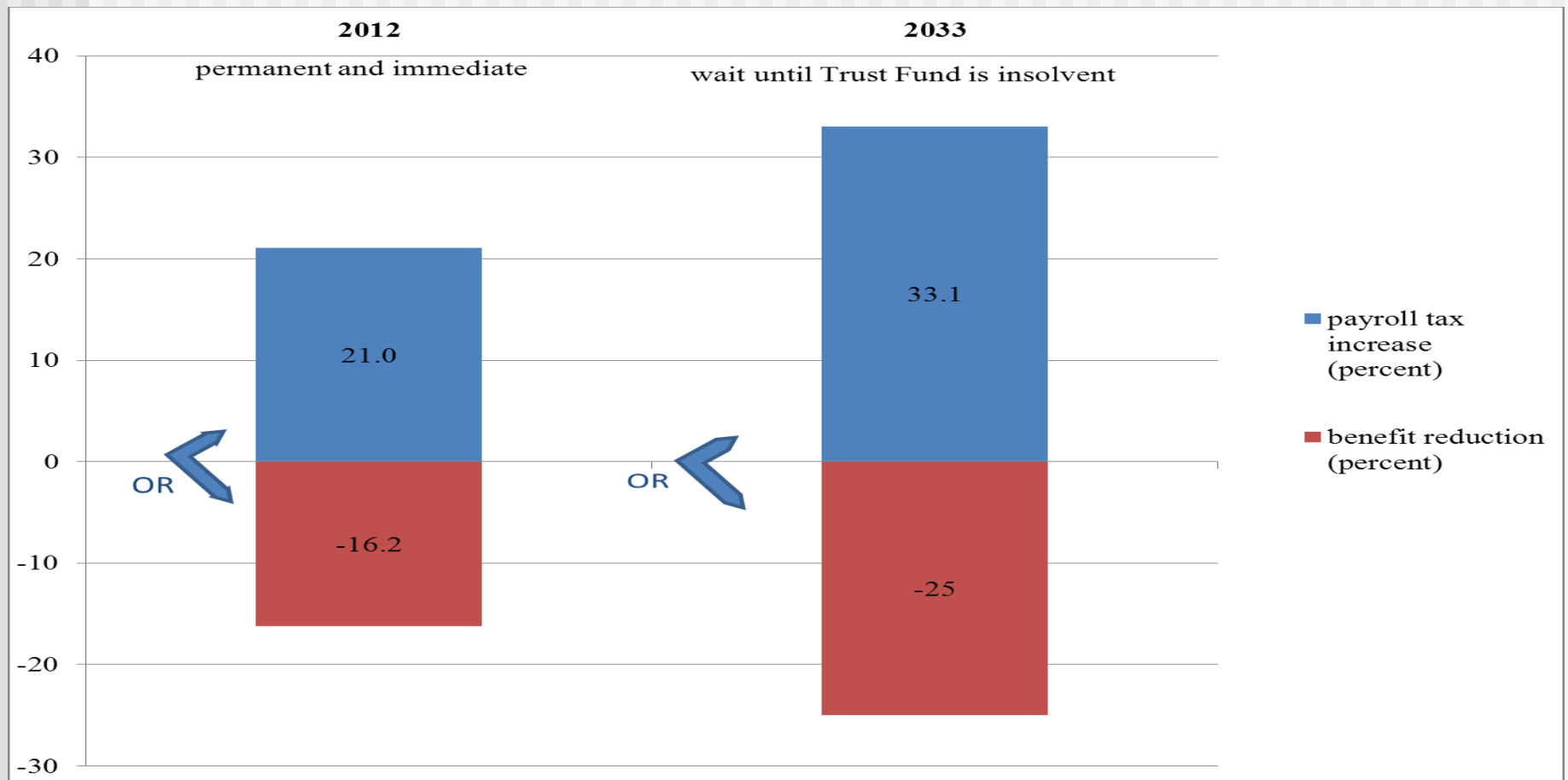
- OASDI long-range deficit is relatively modest now and could in theory be dealt with exclusively with revenues
- However, it is not trivial and it is growing
- Must consider other fiscal problems
  - These limit OASDI options

# OASDI Underfunding is Now Manageable, but Solutions Are More Difficult in the Future



Source: OASDI Trustees Report, 2012 (intermediate assumptions)

# In Percentage Terms, Payroll Tax Increases (Assuming Current Base) Would Be Somewhat Larger



Source: OASDI Trustees Report, 2012 (intermediate assumptions)

# Larger Budget Context

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- Immediate, draconian action is not required
  - Economic growth and reduction of LT unemployment more important goals
  - No immediate interest rate pressure
  - Evidence austerity is counterproductive
- However, earlier action allows for planning, sharing across generations
- Significant benefit expansions a challenge in this context (75<sup>th</sup> year)

# Our Budget Challenges Require More than Tax Hikes on Highest Incomes

- If we address OASDI underfunding mainly through upper income payroll tax hikes, revenue options for dealing with other budget issues will be fewer
  - OASDI redistributes **from myself** early in life **to myself** later in life
  - This linkage fosters political support
    - Want to use care about weakening this link
  - Restoring 90% level vs. subjecting all earnings vs. surtaxes?



# How do we deal with health care programs and general budget deficit?

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- Is the case stronger for addressing general budget deficit through the more progressive vehicles?
  - If you own more, you benefit more from many of the things government does (educate workers, develop and maintain infrastructure, enforce property rights, protect borders)
- Health risks more skewed than retirement risks?

# Budget Solutions Elsewhere Will Interact and Have Spillover Effects

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- Personal income taxes
  - OASDI benefits are taxed, so useful to think in terms of *net* benefits
- Limitations on / elimination of tax expenditures
- Value Added Tax (for example for health)
  - Deficit Reduction Task Force plan (Rivlin-Domenici Commission)
- These policies affect workers and retirees differently, should shape thinking on OASDI change

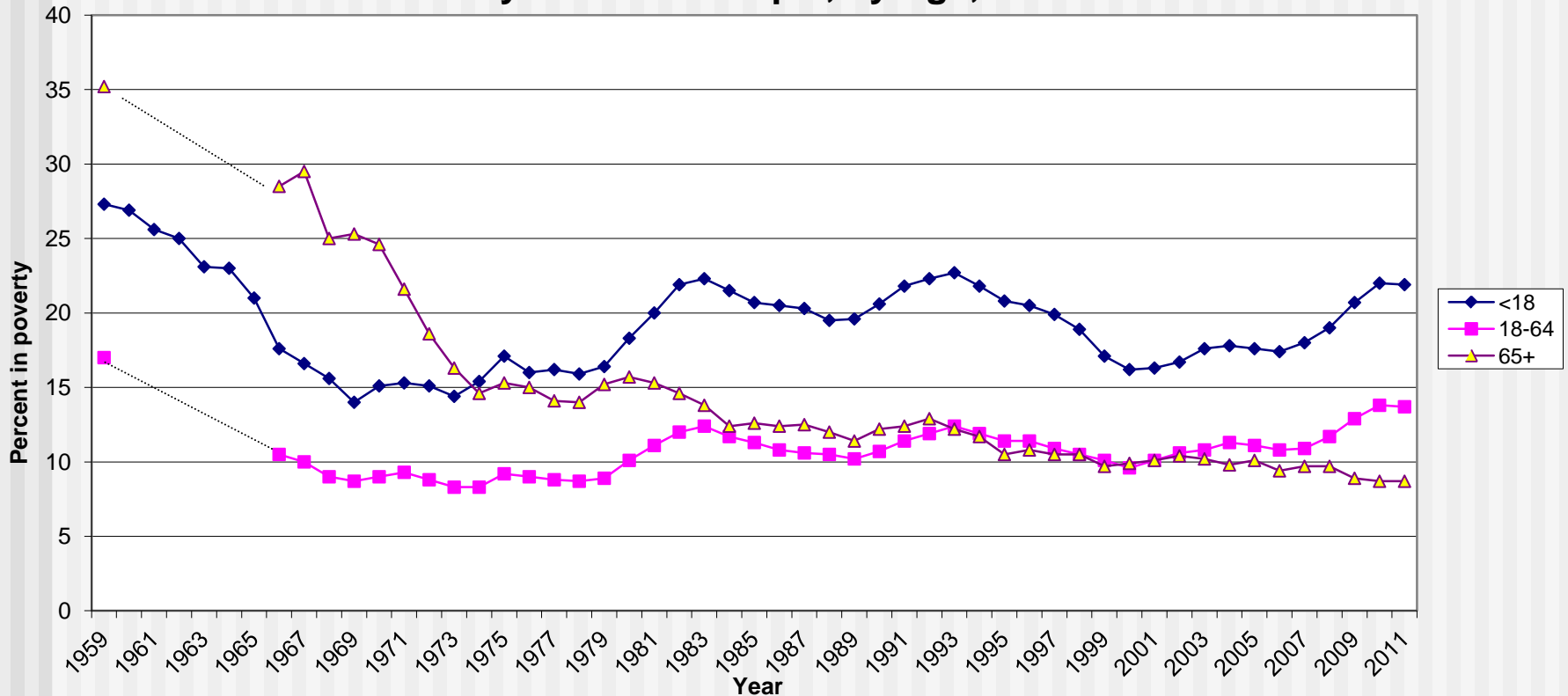
# Savings Incentives Another Place to Look for Boosting Retirement Security

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- Consider progressivity of savings incentives in the tax code
  - Under current law, many argue these incentives are “upside down” and lead to little increase in aggregate savings
  - But, the context includes the DB / DC shift
  - Next panel

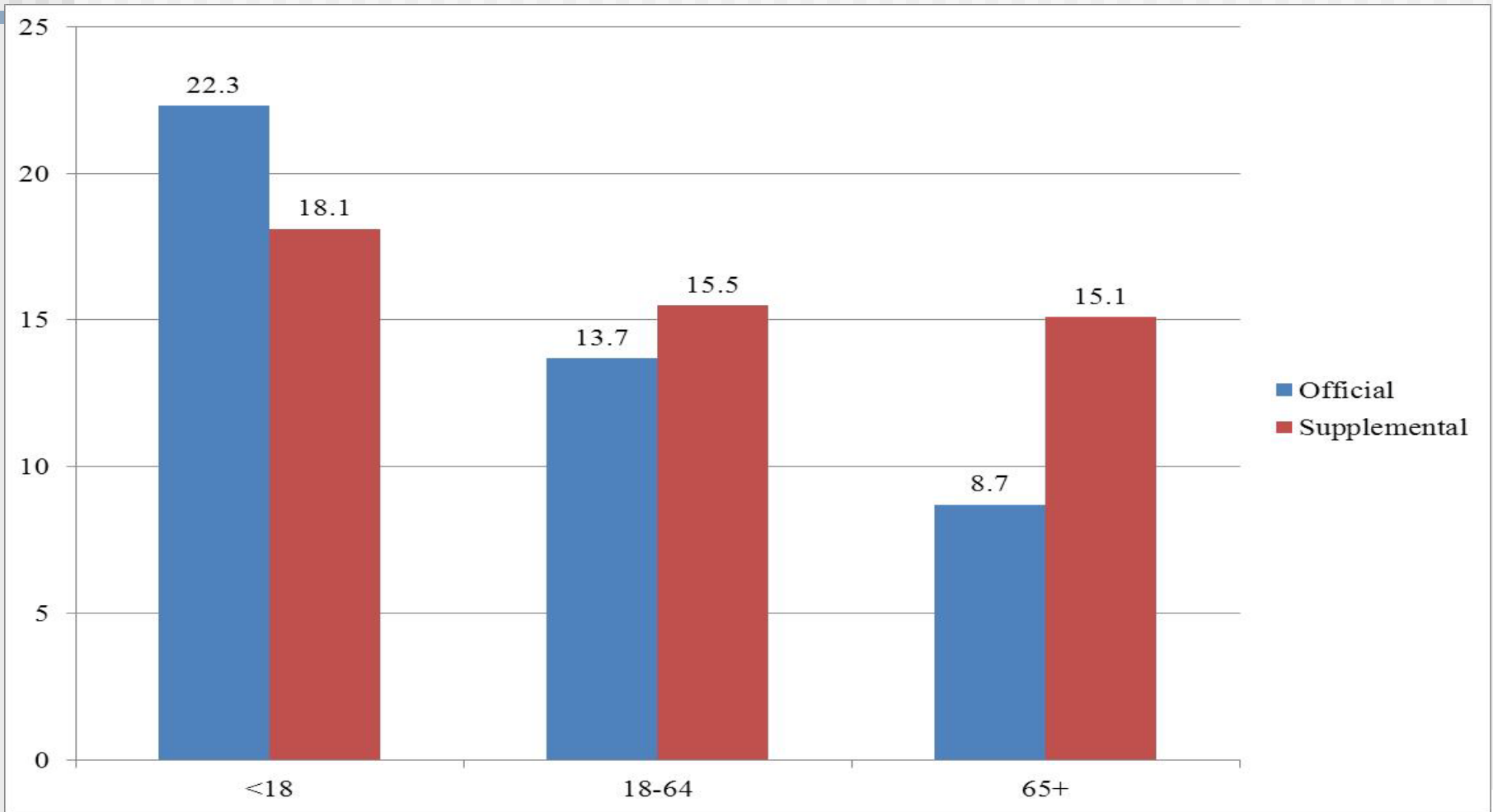
# Social Security Has Contributed to Aged Poverty Reduction

## Poverty Status of People, by Age, 1959-2011



Source: U.S. Census Bureau

# Supplemental Poverty Measure Suggests a Less Striking Poverty-Age Relationship



Source: Short (2012), U.S. Census Bureau