Social Security Reform

How The Program Can Become Real Insurance For Americans In Retirement

Saving the AMERICAN DREAM

THE HERITAGE PLAN TO FIX THE DEBT, CUT SPENDING, AND RESTORE PROSPERITY

Original Purpose

A guarantee that all Americans are protected from poverty in retirement.

Social Security in Crisis

- If no action is taken to improve the program’s solvency before 2033, benefits will be reduced across the board by 23 percent.
- Most vulnerable populations would be hurt the most.
- Social Security added $55 billion to deficits in 2012.
- Cash-flow deficits are permanent and growing.

What About the Trust Fund?

- Credited with $2.7 trillion in treasury securities
- Legitimate repayment and interest
- But…
- Bonds not backed by any real assets →Raise taxes or borrow to pay unfunded benefits

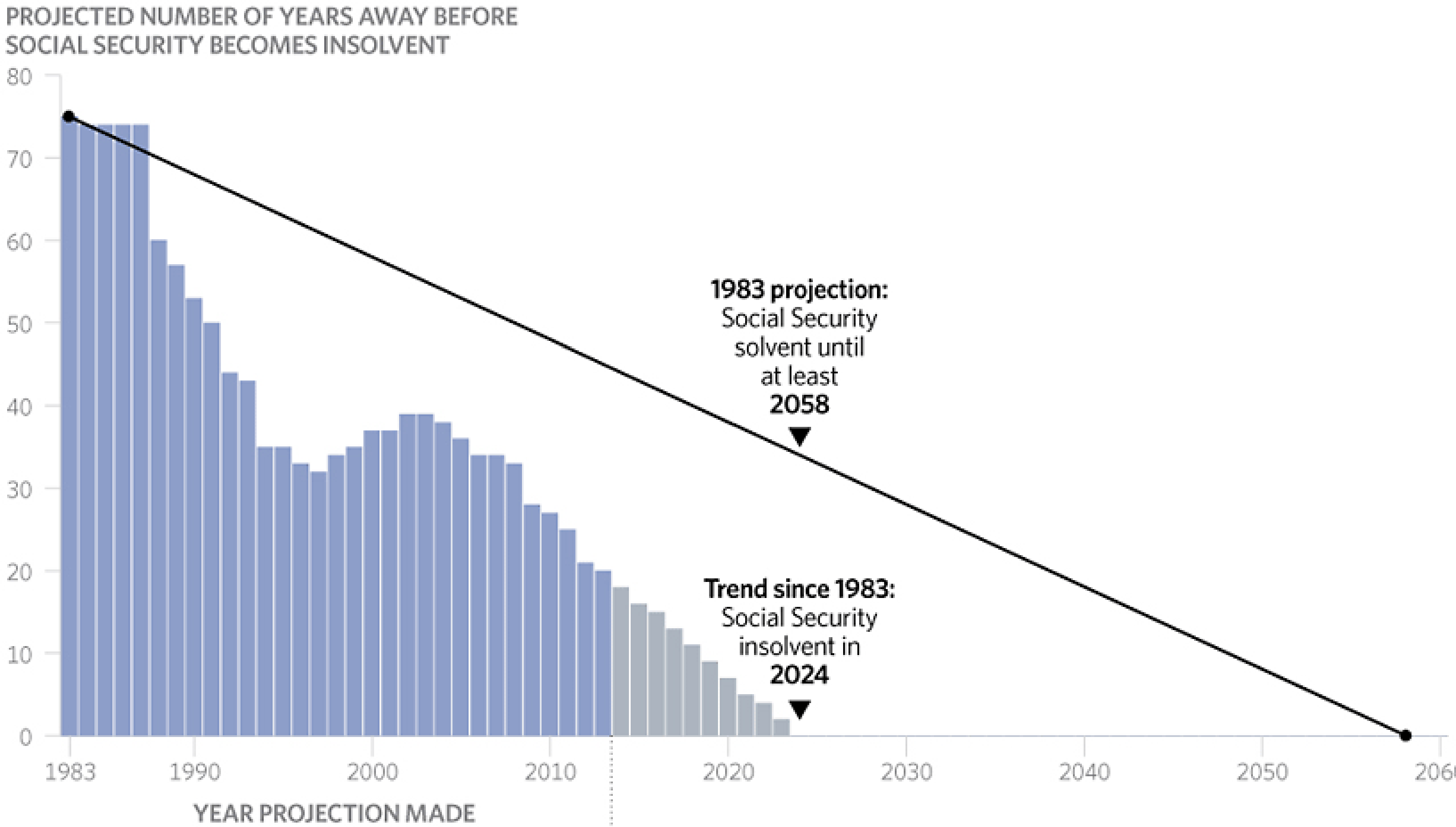
“These [Trust Fund] balances are available to finance future benefit payments and other trust fund expenditures-but ***only in a bookkeeping sense****. These funds are not set up to be pension funds, like the funds of private pension plans. They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury, that, when redeemed, will* ***have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures.*** *The existence of large trust fund balances, therefore, does not, by itself, make it easier for the government to pay benefits.”*

Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2000:Analytical Perspectives* (Wash-ington, D.C.: U.S. Government Printing Office, 1999), p. 337.

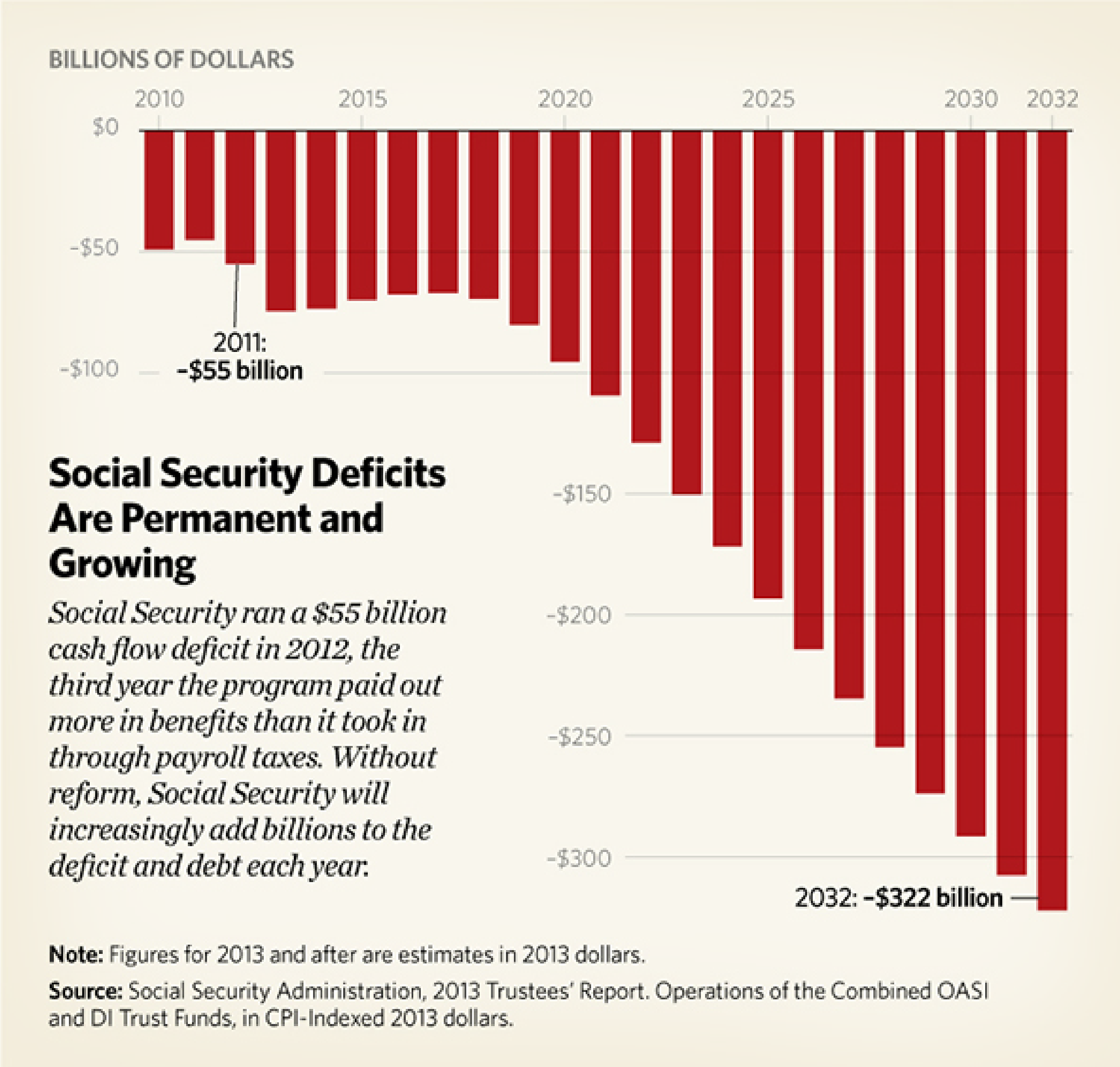
CHART 1

Social Security's Life Expectancy Keeps Getting Shorter

In 1983, Social Security's trustees projected that the recently enacted Social Security reforms would keep the program solvent for at least the next 75 years through 2058. However, over successive annual reports, that approach date has accelerated. If the trend since 1983 continues, the program will become insolvent in 2024—34 years earlier than originally projected.



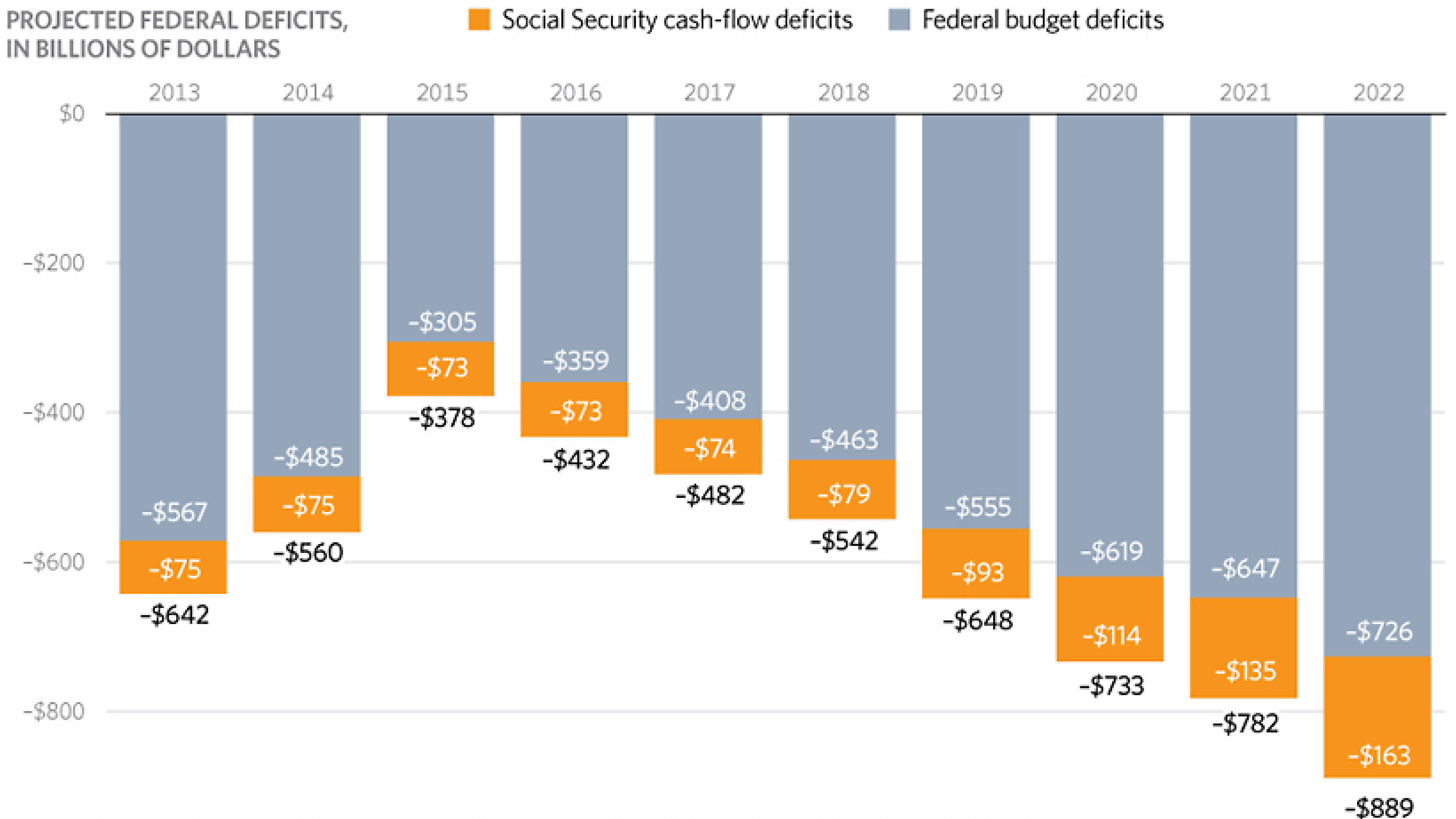
Source: Heritage Foundation calcluations based on data from Social Security Administration, *The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, May 31, 2013, http://www.socialsecurity.gov/OACT/TR/2013/index.html (accessed May 31, 2013).



Entitlements heritage.org

CHART 1

Social Security Deficits Place Large and Growing Strain on Federal Budget



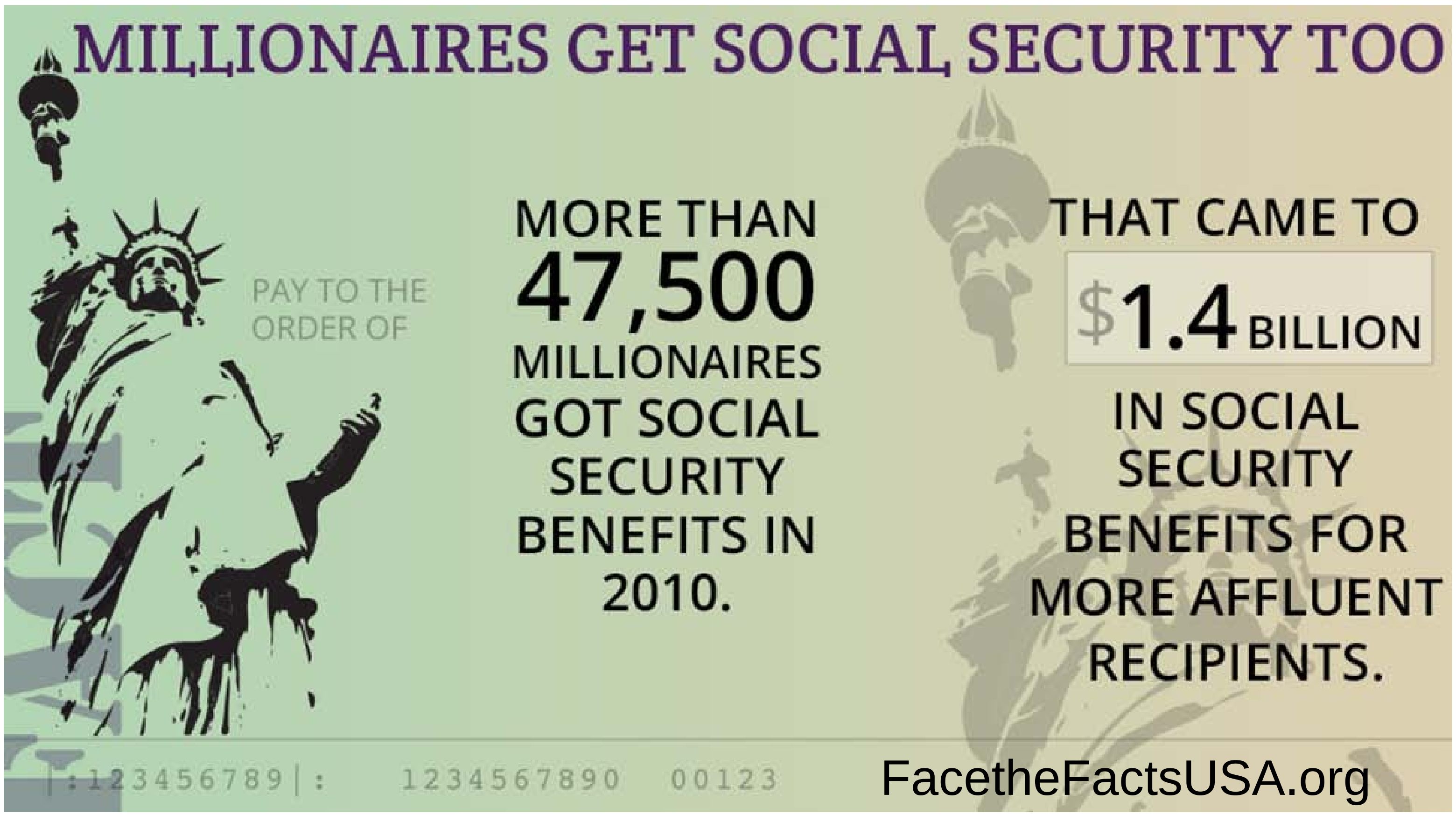
Sources: Congressional Budget Office, "Updated Budget Projections: Fiscal Years 2013 to 2023," May 2013, http://www.cbo.gov/sites/default/files/cbofiles/attachments/44172-Baseline2.pdf (accessed May 30, 2013); and Social Security Administration, "The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds," May 31, 2013, http://www.socialsecurity.gov/OACT/TR/2013/index.html (accessed May 31, 2013).

IB 3952 heritage.org

Paying Scheduled Benefits Requires Massive Tax Increases

- U.S. taxpayer unfunded obligation: $12.3 trillion (net-present value) to pay scheduled benefits over the 75-year horizon.
- That’s $98,517 for every American household today.

Who Should Receive Social Security?



Protecting Seniors from Poverty

- Make Social Security a properly financed, true insurance program.
- Limit benefits to those who actually need them.
- Avert massive benefit cuts which would especially hurt poor seniors.
- Strengthen benefits for the most vulnerable without burdening younger generations with massive tax increases.

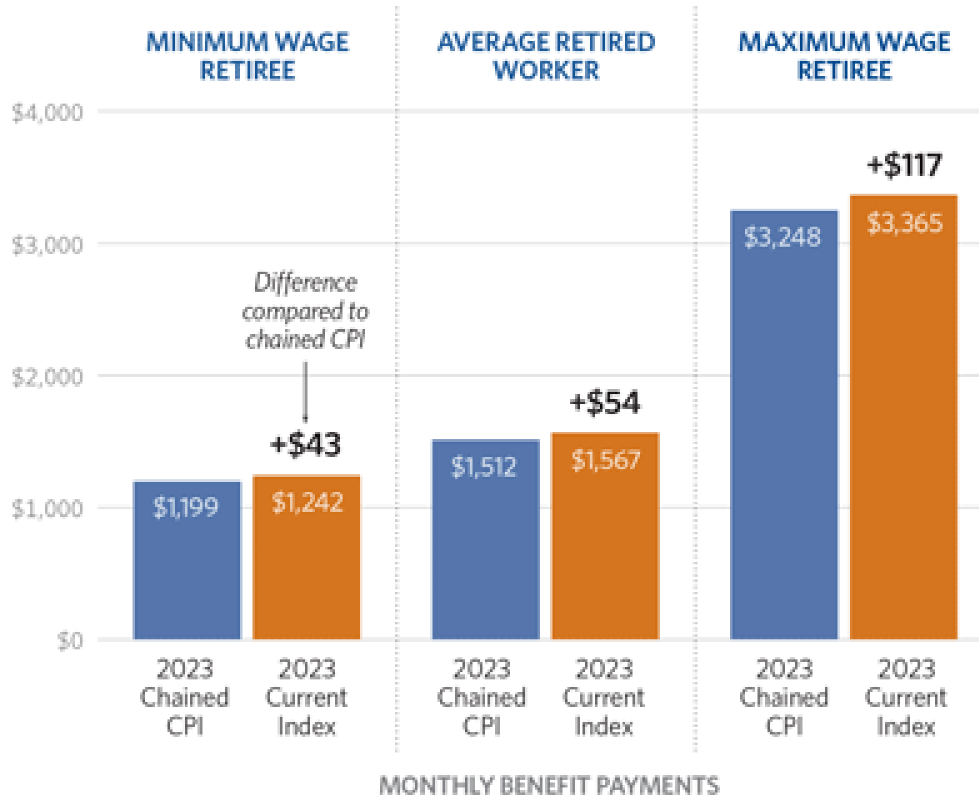
Six Reforms

- Fix Social Security’s cost-of-living adjustment.
- Increase the early and full retirement ages and index both to longevity.
- Focus Social Security benefits on those who need them most and end benefit taxation.
- Introduce a predictable benefit that provides economic security.
- Create incentives to work longer
- Facilitate supplemental retirement savings for all workers with an Auto-IRA.

CHART 2

Current Cost-of-Living Adjustments Overcompensate Retirees

The current cost-of-living adjustment used to calculate Social Security benefits is a less accurate method of adjusting for inflation than the chained CPI. As a result, Social Security spending rises unnecessarily, which benefits maximum earners more than twice as much as the average retired worker.



Notes: Some figures have been rounded. A maximum wage retiree is a worker who earned the Social Security taxable maximum income or higher in each of his or her working years. In 2011, the taxable maximum income was $106,800.

Source: Heritage Foundation calculations based on data from the Social Security Administration; U.S. Department of Labor, Bureau of Labor Statistics; and Congressional Budget Office forecasts.

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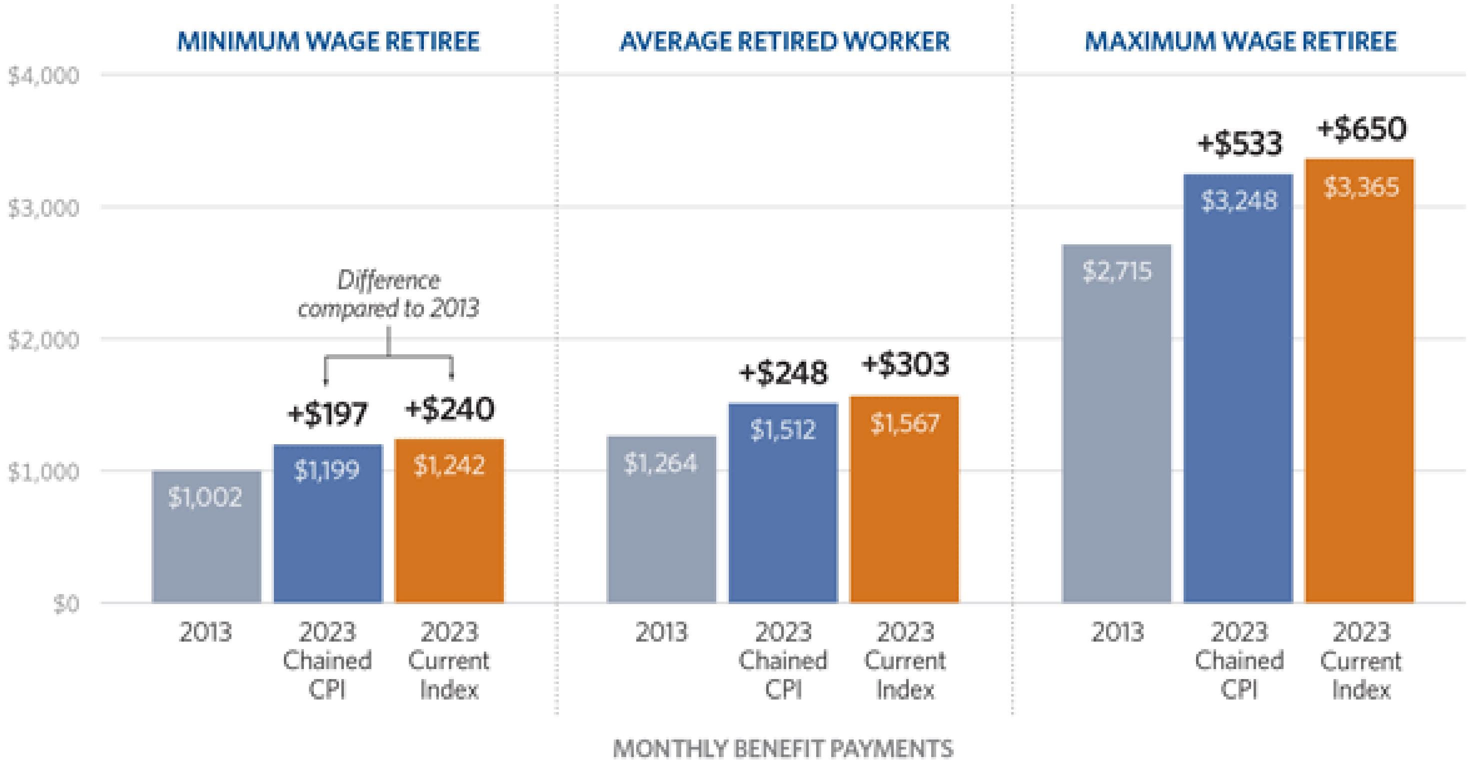
CHART 1

Social Security Benefits to Still Rise Significantly Under Chained CPI



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Social Security: Protection Against Poverty in Retirement

Thank you!

Email your feedback and questions to:
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