

## **Cutting Benefits Doesn't Strengthen Social Security: Americans Prefer to Improve and Pay for It**

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I am pleased to respond to an open invitation from the House Ways and Means Committee to comment on proposals to cut future Social Security benefits further than they are already being cut under current law. Our research finds that a package of benefit cuts is neither necessary nor desirable. In fact, Americans report that they prefer to pay for and improve Social Security.

Cuts are neither necessary nor desirable because:

**1. Social Security's modest benefits are the main source of income for most seniors.** (See page 2)

**2. Social Security is efficient.** It spends less than 1% for administration. The rest is paid out in benefits.

**3. Social Security is affordable.** It levels out at 6% of the economy even as more people will rely on it. (See page 3)

**4. Benefits are already being cut more than many people realize.** Cuts that Congress enacted in 1983 and 1991 are phasing in slowly. By 2050, retirees will get 24% less in benefits due to the cuts. Congress has not yet scheduled a Social Security tax increase for employers and employees to help long-term solvency. (See pages 4-5)

**5. Americans are willing to pay more to preserve Social Security.** Republicans, Democrats, and independents agree that it is critical to preserve Social Security, even if it means that working Americans pay more. (See page 6)

**6. Americans favor a Social Security package that increases taxes in two ways, raises benefits in two ways, and does not cut benefits.** The package would:

- Gradually, over 10 years, eliminate the cap on earnings that are taxed for Social Security benefits;
- Gradually, over 20 years, raise the Social Security tax rate that workers and employers each pay from 6.2% to 7.2%;
- Increase the COLA to reflect inflation that seniors actually face; and
- Increase the special minimum benefit so that someone who paid into Social Security for 30 years could retire at 62 or later and not be poor. (See page 7)

## Social Security Benefits are Modest: Yet They Are the Main Income for Most Seniors

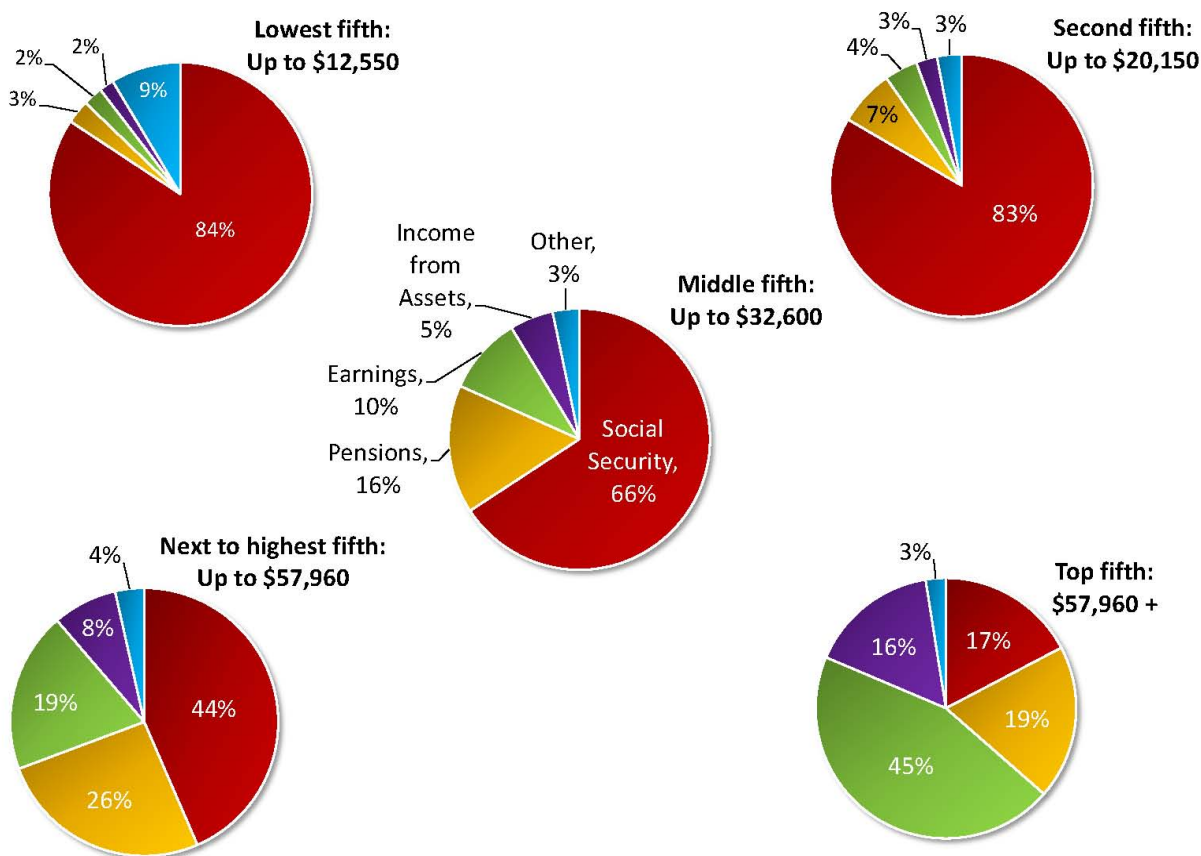
Monthly Social Security benefits are modest – an average of \$1,264 in January 2013. Yet they are the main income for most seniors. Social Security also provides life insurance and disability income protection to workers and their families. The benefits keep more than 21 million Americans out of poverty, including 1 million children, 6 million adults under age 65, and 14 million seniors.

When seniors are divided into five groups based on their total income, the following charts show:

- 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

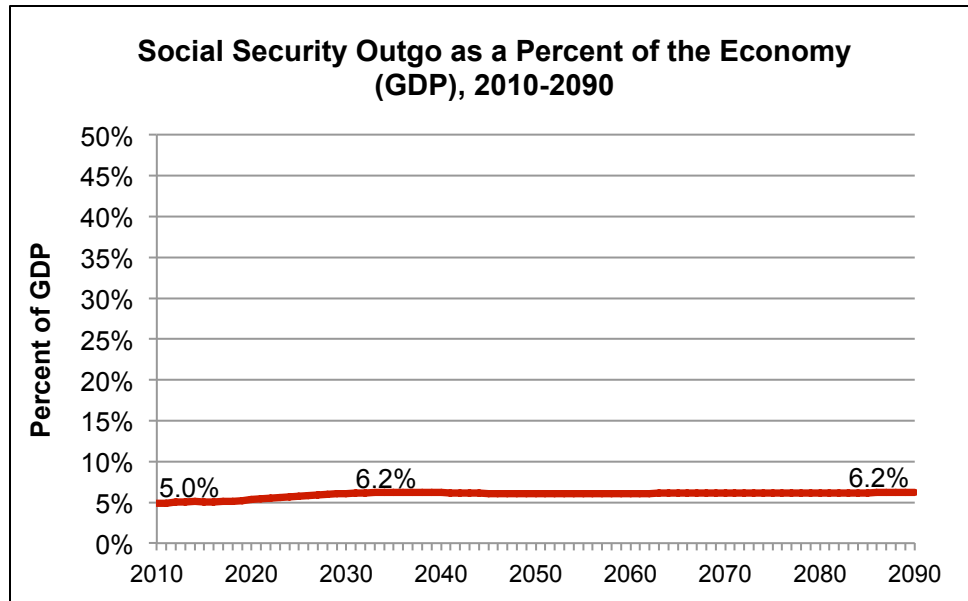
Married Couples and Unmarried Persons Age 65 and Older



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

## Social Security Is Affordable: It Levels Out at 6% of the Economy

The affordability of Social Security – or spending for other national needs, such as health care, education, or defense – is often evaluated relative to the size of the entire economy, or gross domestic product (GDP). Social Security was 5.0% of GDP in 2012 and is projected to rise to 6.2% of the economy by 2035 after all baby boomers are retired. It is projected to then flatten out at 6.0% to 6.2% of the economy for the rest of the next 75 years.



Source: 2013 Trustees Report, Table VI.F4.

Can we afford that increase in spending for Social Security as boomers retire? The 1.2 percentage point increase as baby boomers retire is considerably smaller than the increase in national spending for public education when boomers were children. In the 1950s and 1960s spending for public education rose rapidly with little or no advance warning. From 1950 to 1975 education spending grew by 2.8 percentage points (from 2.5% to 5.3% of GDP).<sup>1</sup> Local governments responded quickly to add classrooms and teachers as boomers showed up in record numbers to enroll in kindergarten. The retirement of the baby boom, in contrast, is not a surprise. It has long been reflected in Social Security projections.

While Social Security remains a stable share of the economy, more people will rely on it. Those over age 65 are projected to increase from about 14% to 21% of the population by 2035 and then gradually increase further to 23% by 2090. Beneficiaries (including those under age 65) are projected to increase from 18% of the population in 2012 to 26% by 2090.

Social Security will remain affordable even as more Americans rely on it because benefit cuts already in law are phasing in now.

<sup>1</sup> Reno, Virginia P. (2008) "Building on Social Security's Success," EPI Briefing Paper #208, Economic Policy Institute, Washington, DC. Page 7.

## Social Security Benefits Are Already Being Cut More than Many People Realize

Reductions in Social Security benefits enacted in 1983 and 1991 are phasing in slowly. By 2050, net retirement benefits will be about 24% lower than they would have been in the absence of cuts already enacted that: (a) increase the full benefit retirement age; (b) tax a growing share of Social Security benefits; and (c) permanently delay the cost-of-living adjustment (COLA) from July to January.

**Increase Retirement Age:** The age of eligibility for full retirement benefits is gradually increasing from 65 to 67; it is 66 now and will be 67 for workers born after 1959. The increase reduces benefits at any age they are claimed. As shown in the figure on the following page, when the full retirement age (FRA) was 65, a retiree entitled to a monthly benefit of \$1,000 would receive that amount at 65. When the FRA is 67, a worker entitled to \$1,000 will receive \$867 a month at age 65. The reduction occurs at any age benefits are claimed.

**13.3% cut**

**Tax a Growing Share of Benefits and Send the Funds to Social Security and Medicare.** The Social Security amendments of 1983 called for taxing up to 50% of Social Security benefits for couples with more than \$32,000 in countable income and singles with more than \$25,000.<sup>2</sup> The tax revenues go to the Social Security fund. In 1991 Congress called for taxing up to 85% of Social Security benefits for couples with more than \$44,000 in countable income and singles with more than \$34,000. These additional revenues go to Medicare's hospital insurance fund. More people will pay taxes on their Social Security benefits in the future because the thresholds do not rise as incomes rise. The reduction in net Social Security income is projected to increase to 9.5% in 2050.

**9.5% cut**

**Percent Reduction in Net Social Security Income  
Due to Taxing Benefits**

Year	Total	To SS fund	To HI fund
2012	6.0	3.8	2.2
2020	8.3	5.0	3.3
2030	8.8	5.1	3.7
2040	9.2	5.2	4.0
2050	9.5	5.4	4.1

Source: Social Security and Medicare Trustees Reports, 2012

**Permanently Delay the COLA:** Prior to 1983, retirees received their first COLA in July of the year they reached age 62. After 1983, they receive their first COLA in January of the year after they turn 62. This is a permanent half-year delay. With future COLAs assumed to be 2.8% per year on average, this change lowers annual Social Security income by 1.4% per year for all current and future beneficiaries.

**1.4% cut**

**Three changes together:**

**24.2% total cut**

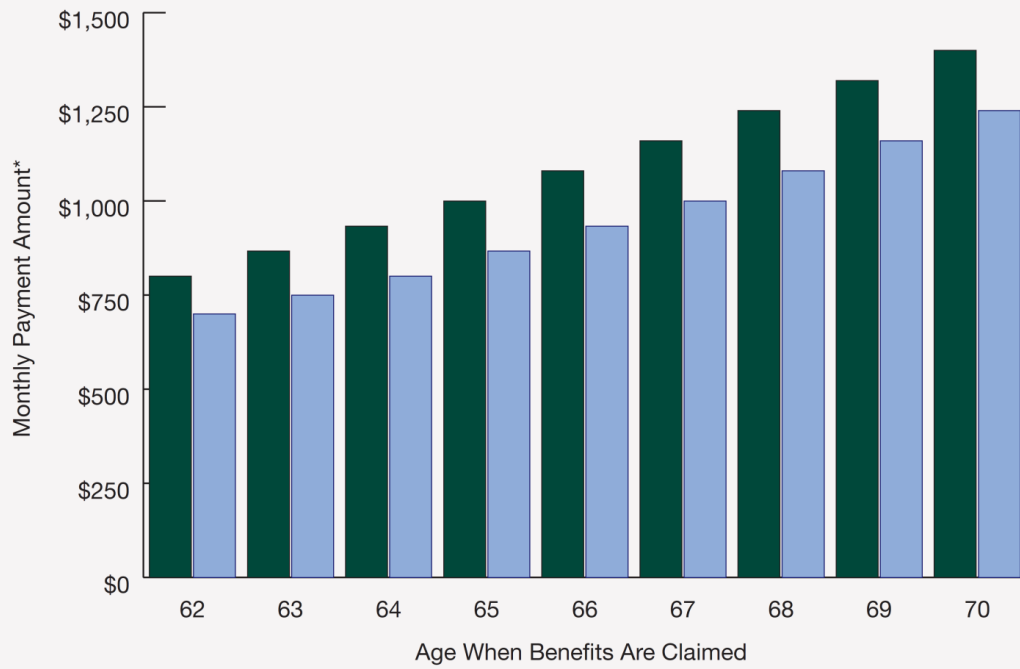
**No Social Security Tax Increase Balances These Cuts:** Congress has not balanced these long-term benefit cuts with any increase in payroll tax contributions from employees and employers. In 1977 the Social Security rate was set at 6.2% for employees and employers, each, to take effect in 1990, and has not been updated since.

<sup>2</sup> Countable income for the taxation of benefits is defined as adjusted gross income plus part of Social Security benefits and certain nontaxable interest. Social Security Administration, "Benefits Planner: Taxes and Your Social Security Benefit."

## Increase in Full Retirement Age (FRA) from 65 to 67 Lowers Benefits

Payment to a retiree entitled to \$1000 a month at FRA when:

■ FRA is 65   ■ FRA is 67

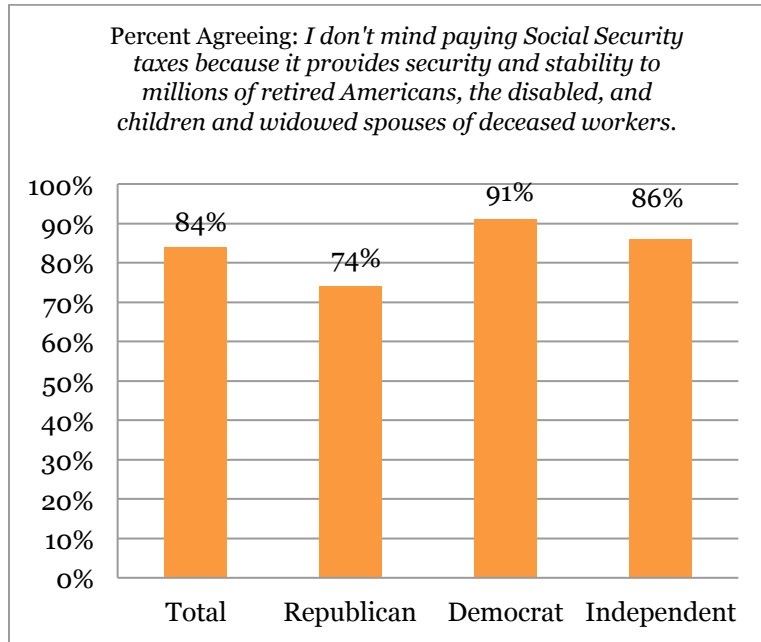


Source: Reno, Virginia P. and Elisa A. Walker. 2012. *Social Security Benefits, Finances, and Policy Options: A Primer*. Washington, DC: National Academy of Social Insurance.

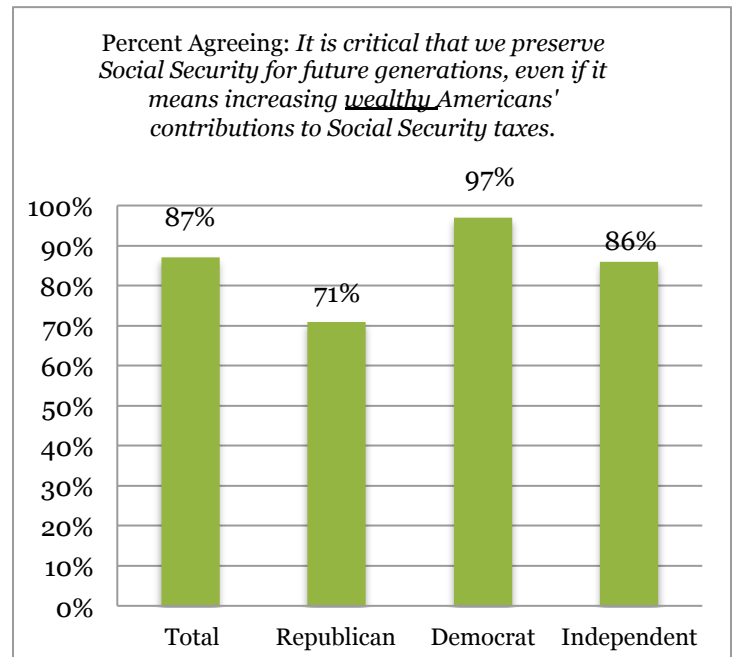
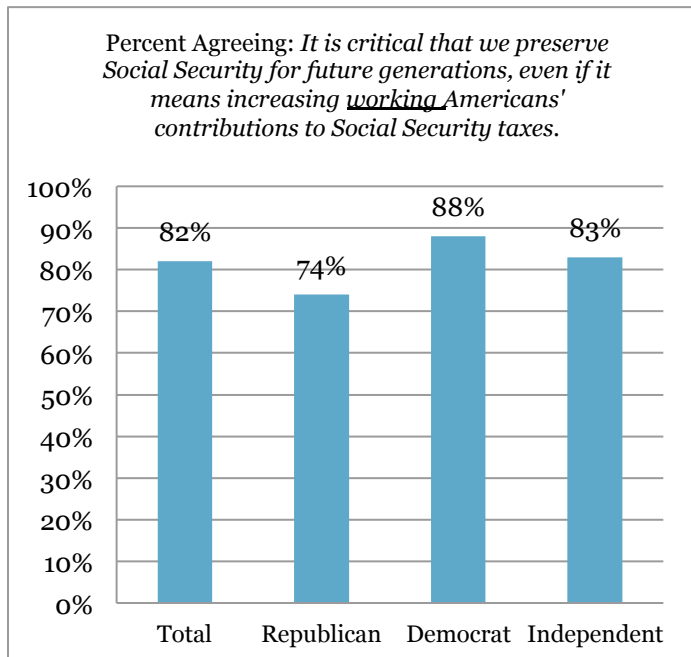
\*Monthly payment reflects 8% delayed retirement credit after FRA

## Americans Are Willing to Pay More to Preserve Social Security: Republicans, Democrats and Independents Agree

NASI's recent survey, *Strengthening Social Security: What Do Americans Want?*, finds that Americans don't mind paying for Social Security because they value it for themselves, for their families and for the security and stability it provides to millions of retirees, disabled persons, and children and widowed spouses of deceased workers.



Large majorities of Republicans, Democrats and independents agree that it is important to preserve Social Security for future generations even if it means increasing working Americans' contributions to Social Security. Majorities also agree that it is important to preserve Social Security for future generations even if it means increasing wealthy Americans' Social Security contributions.



## **Americans Favor a Social Security Package that Increases Revenues in Two Ways, Raises Benefits in Two Ways, and Does Not Cut Benefits**

The same NASI survey used a new approach to measuring public opinion about Social Security. In addition to asking participants whether they would favor a particular change, the survey allowed participants to craft a preferred package of changes, much as lawmakers might do. Participants considered various combinations of 12 possible changes, including four ways to raise taxes; four ways to lower benefits (by raising the retirement age in two ways, reducing the COLA, or means-testing benefits); and four ways to increase benefits.

The most favored package of changes would:

- Gradually, over 10 years, eliminate the cap on earnings taxed for Social Security. The 5% of workers who earn more than the cap would then pay into Social Security all year, as other workers do.
- Gradually, over 20 years, raise the Social Security tax that workers and employers each pay from 6.2% of earnings to 7.2%. The change would be so gradual that someone making \$50,000 a year would pay 50 cents a week more each year, and their employers would too.
- Increase the COLA to more accurately reflect the inflation experienced by seniors, who typically spend more out-of-pocket for medical care than other Americans.
- Raise Social Security's minimum benefit so that a worker who pays into Social Security for 30 years can retire at 62 or later with benefits above the federal poverty line (\$10,788 in 2011). Lifetime low-wage workers are now at risk of falling into poverty in their old age, even after paying Social Security taxes throughout their work lives.

Seven in ten Americans, across age and income groups, favored this package.

Over the next 75 years, Social Security's average cost is about 6% of GDP (as shown on page 3), while taxes Congress has thus far scheduled to pay for Social Security amount to about 5% of GDP, leaving a shortfall of 1% of GDP. The package favored by 7 in 10 Americans would eliminate the entire shortfall, pay for the two modest benefit increases, and leave a small surplus, according to estimates available from the website of the Social Security actuaries.<sup>3</sup>

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<sup>3</sup> Tucker et al., Appendix E.