

Social Security: *Still* A Phony Crisis

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Center for Economic and Policy Research

at the NASI 2015 Summer Academy

July 8, 2015



Social Security

The Phony Crisis

Dean Baker and Mark Weisbrot



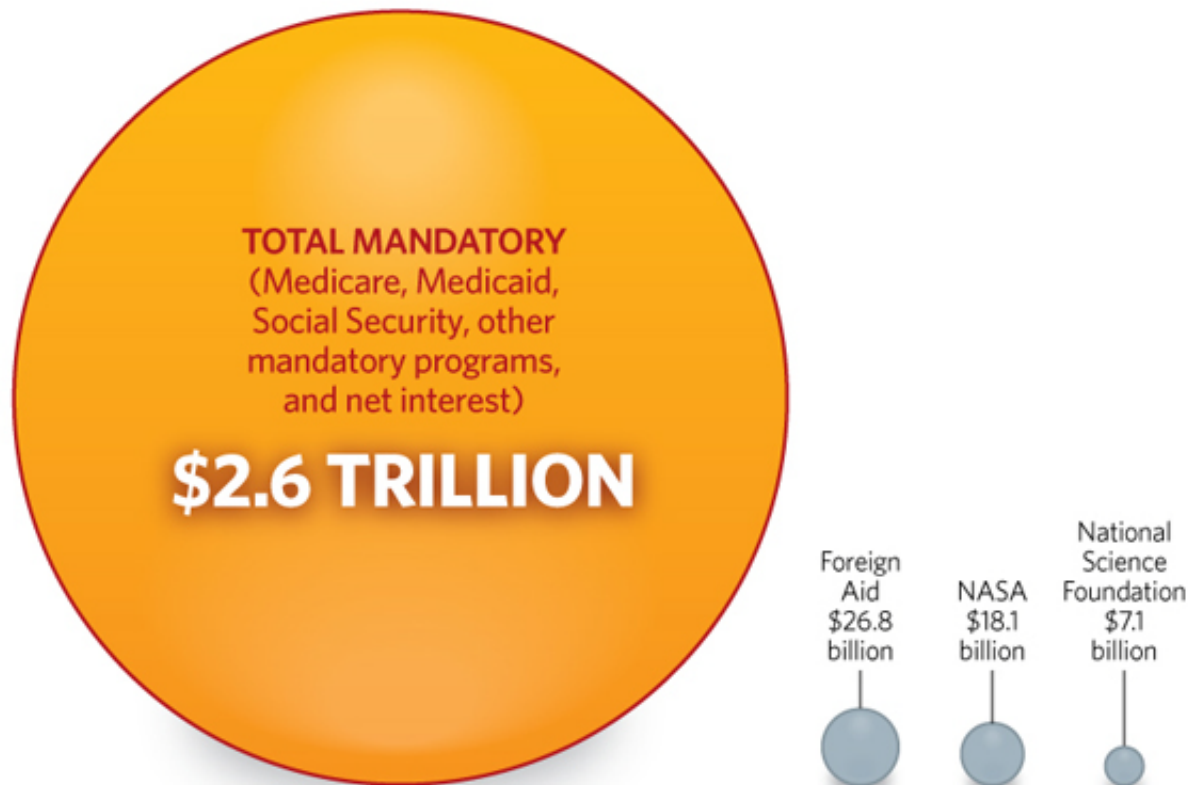
cepr

CENTER FOR ECONOMIC AND POLICY RESEARCH

Entitlement Reform Is Necessary to Rein in Spending and Debt

Annual spending on Medicare, Medicaid, Social Security, and other mandatory programs is massive compared to other federal spending priorities. While there is too much waste and inappropriate spending in the discretionary budget, Congress must also make entitlement reform a top priority.

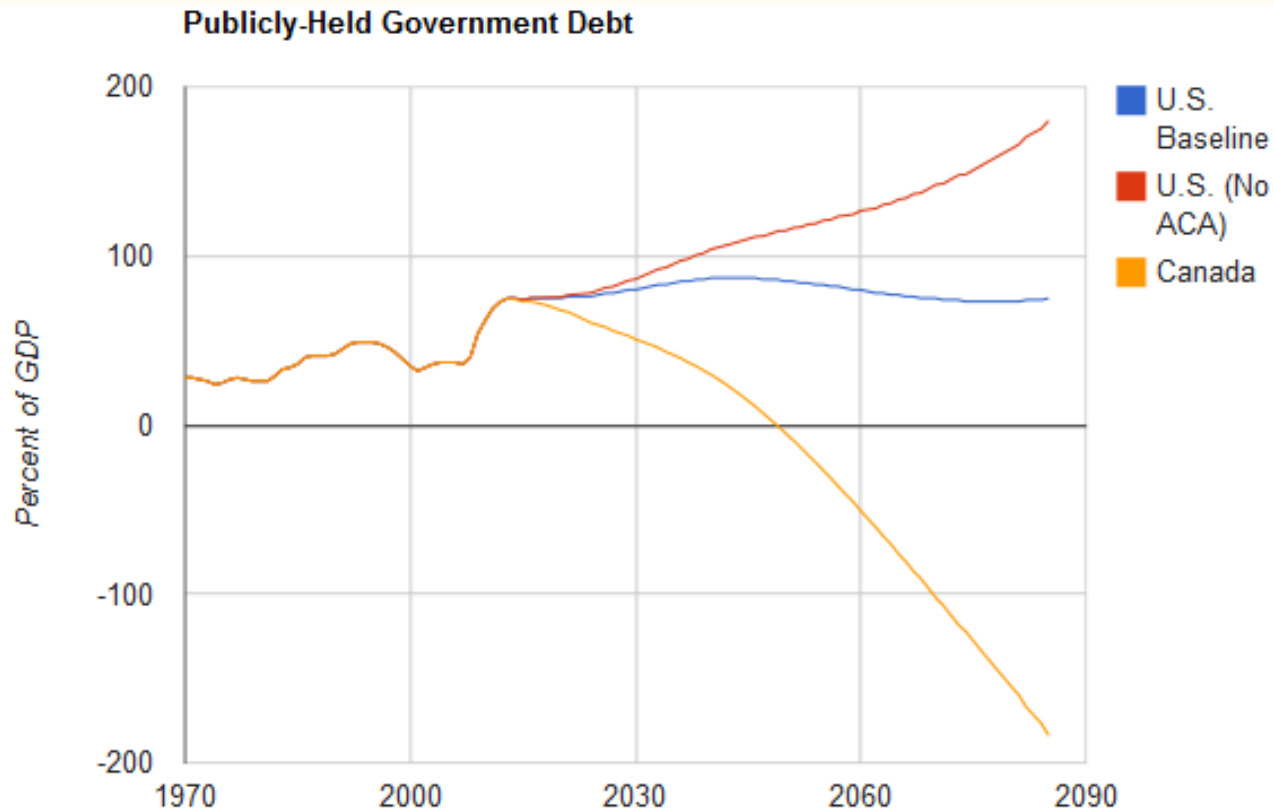
ESTIMATED ANNUAL SPENDING IN 2015



Source: Office of Management and Budget.

Our health care system is the root of projected federal budget deficits, not “entitlements.”

Health Care Budget Deficit Calculator



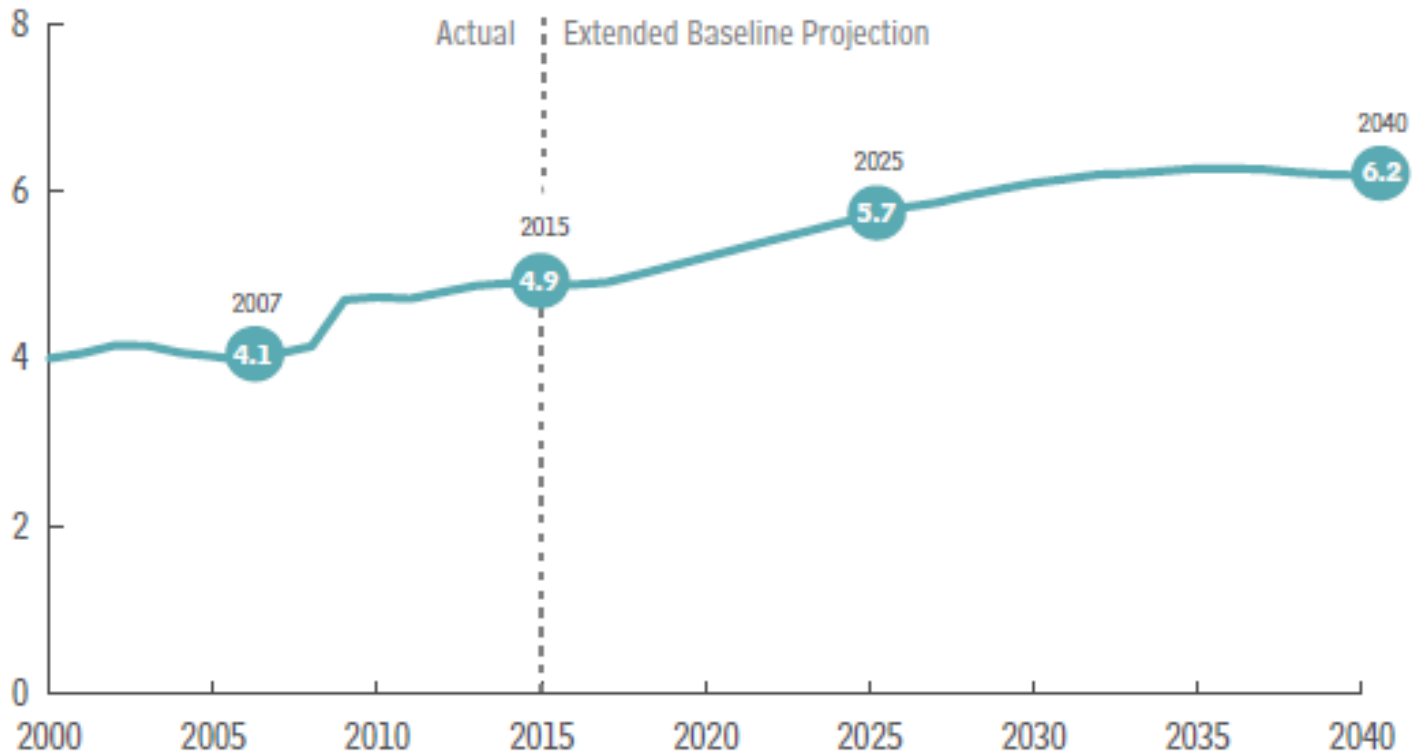
Source: CEPR.

See <http://www.cepr.net/research-tools/online-calculators/health-care-budget-deficit-calculator>

Social Security is not “going broke.”

Spending for Social Security

Percentage of Gross Domestic Product

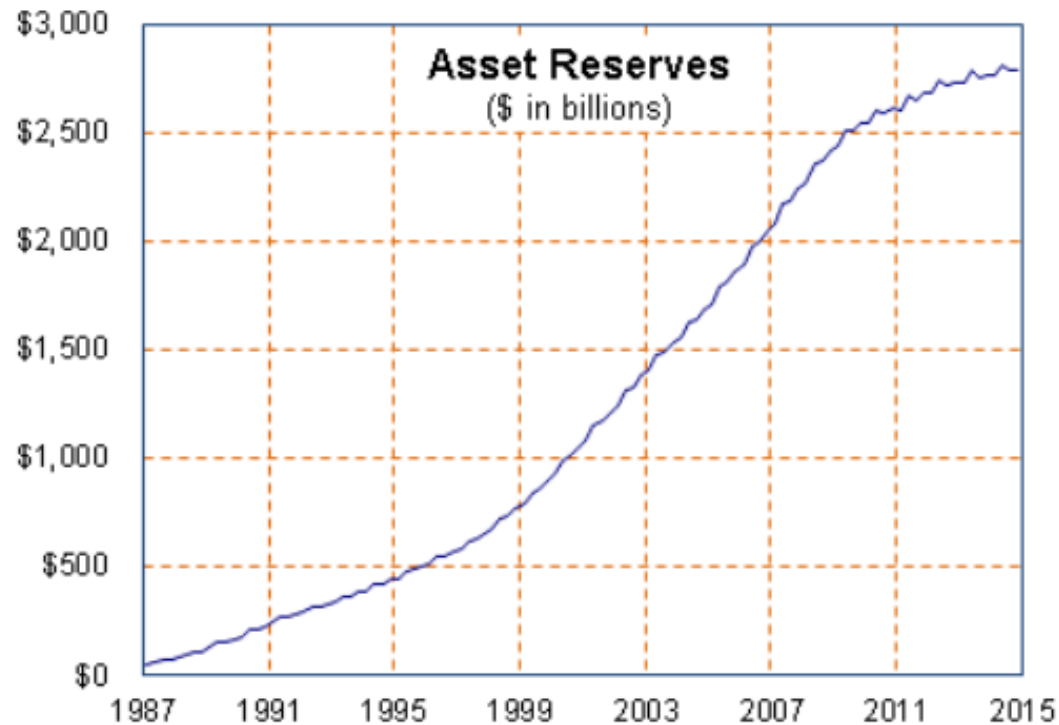


Source: Congressional Budget Office.

Source: The 2015 Long-Term Budget Outlook. CBO.
See <https://www.cbo.gov/publication/50250>

Social Security is not “going broke.”

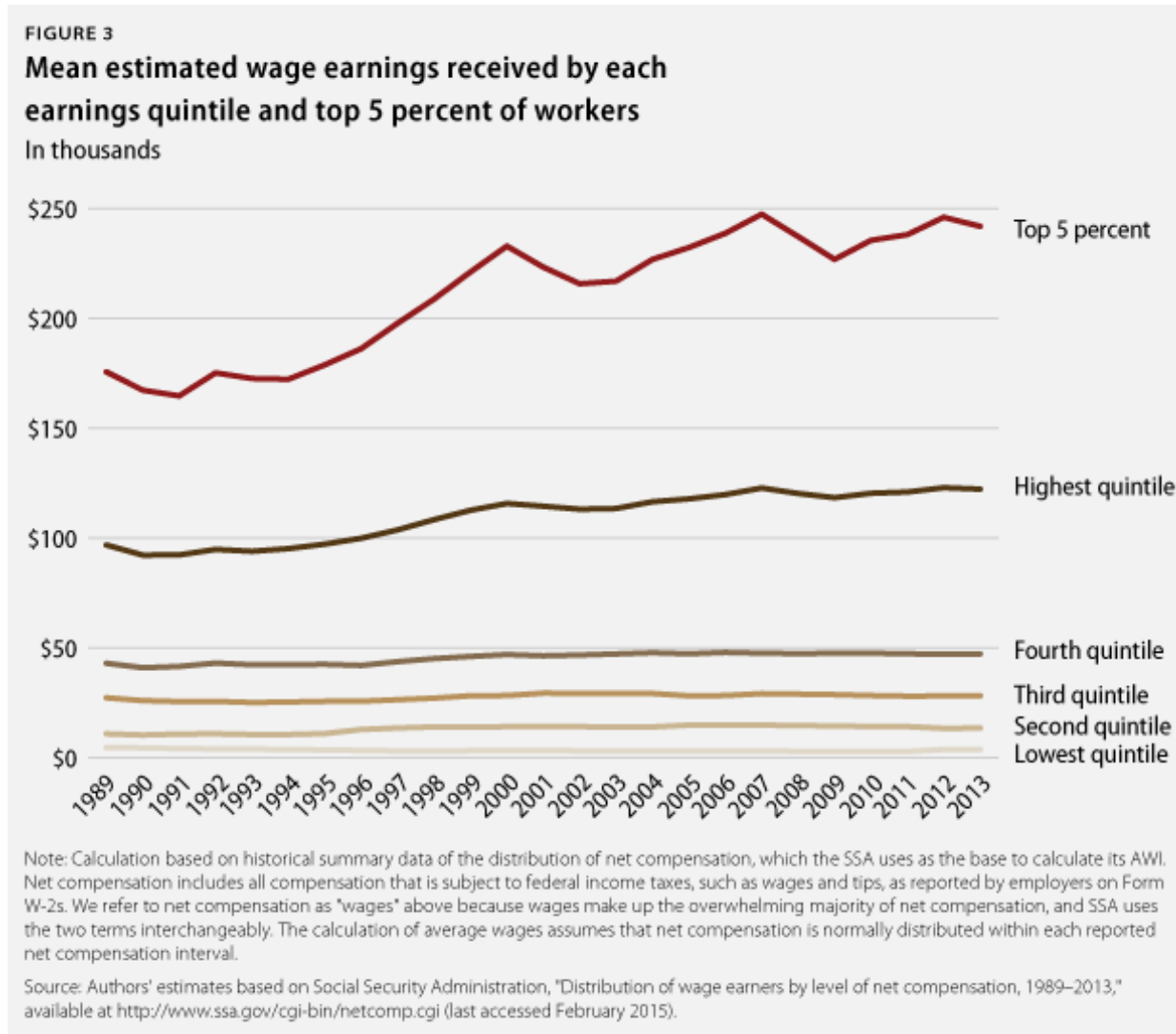
The asset reserves of the Old-Age, Survivors, and Disability Insurance Trust Funds represent the accumulation over time of the difference between income and outgo. The growth of the asset reserves from the end of December 1986 through the end of December 2014 is shown below by calendar quarter.



Asset reserves grew from about \$47 billion at the end of December 1986 to about \$2,789 billion (\$2.8 trillion) by the end of December 2014.

Source: Social Security Office of the Chief Actuary.
See <http://www.socialsecurity.gov/OACT/ProgData/assets.html>

Inequality has caused much of Social Security's projected shortfall.

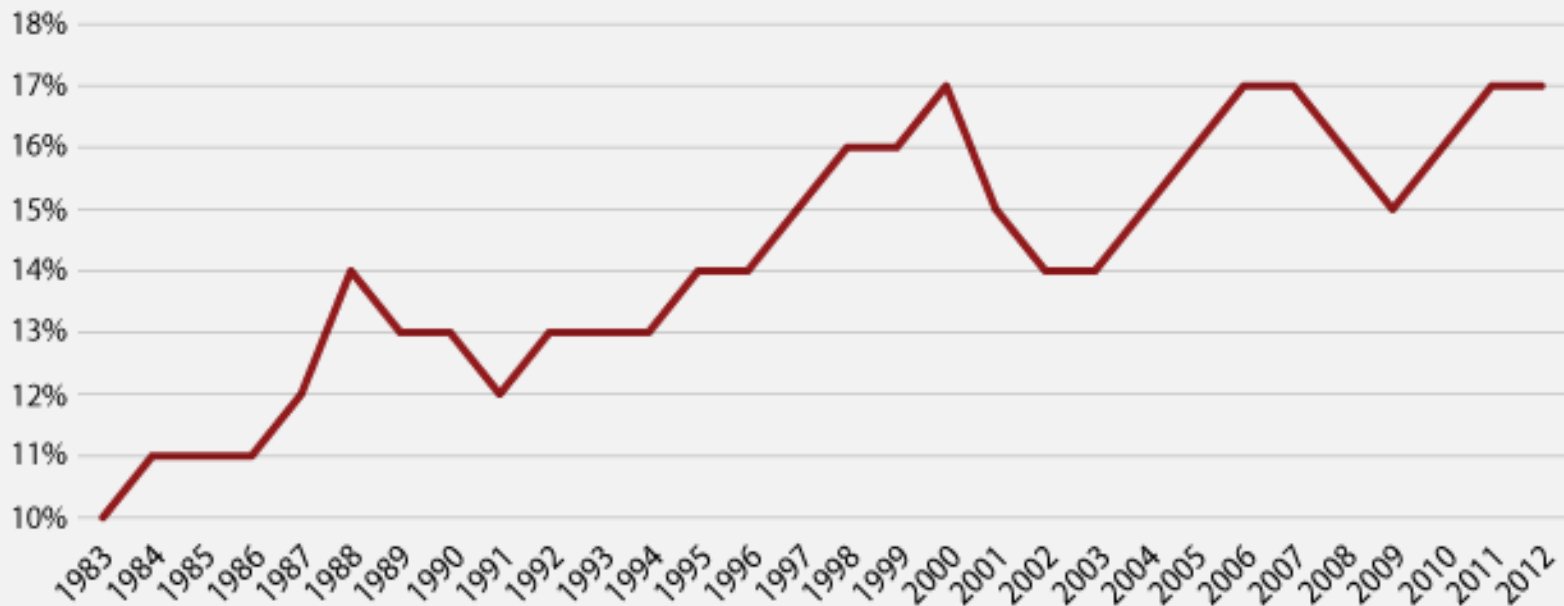


Inequality has caused much of Social Security's projected shortfall.

FIGURE 1

As inequality has risen, an increasing share of earnings has escaped Social Security taxation

Between 1983 and 2012, the share of earnings that escaped taxation rose 7 percentage points

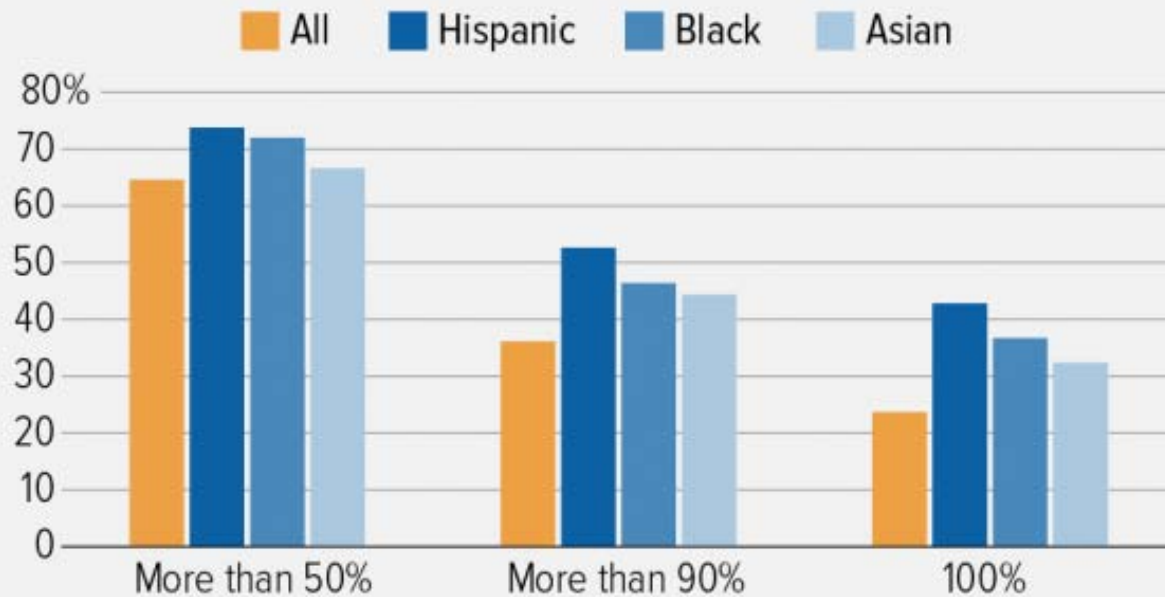


Source: Social Security Administration, "Annual Statistical Supplement: Table 4.B1—Number of workers with taxable earnings, amount of earnings, and Social Security numbers issued, selected years 1937–2012" (2013), available at <http://www.socialsecurity.gov/policy/docs/statcomps/supplement/2013/4b.pdf>.

Especially now, Social Security is vital.

Most Elderly Beneficiaries Rely on Social Security for the Majority of Their Income

Percentage of elderly beneficiaries



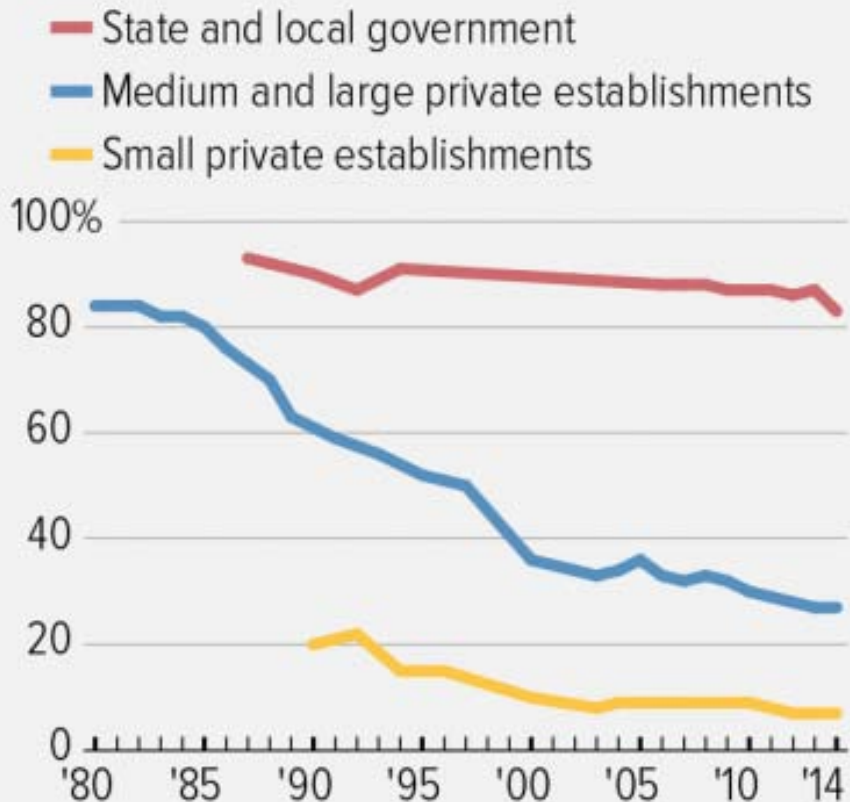
Social Security Benefits as a Percentage of Income

Note: Data are for beneficiaries age 65 or older. Income excludes noncash benefits such as SNAP (food stamps) or savings that might be available to supplement monthly income.

Source: Social Security Administration, 2012 data.

Defined-Benefit Pension Plans Are On the Wane

Percentage of full-time workers covered by defined-benefit pension plans

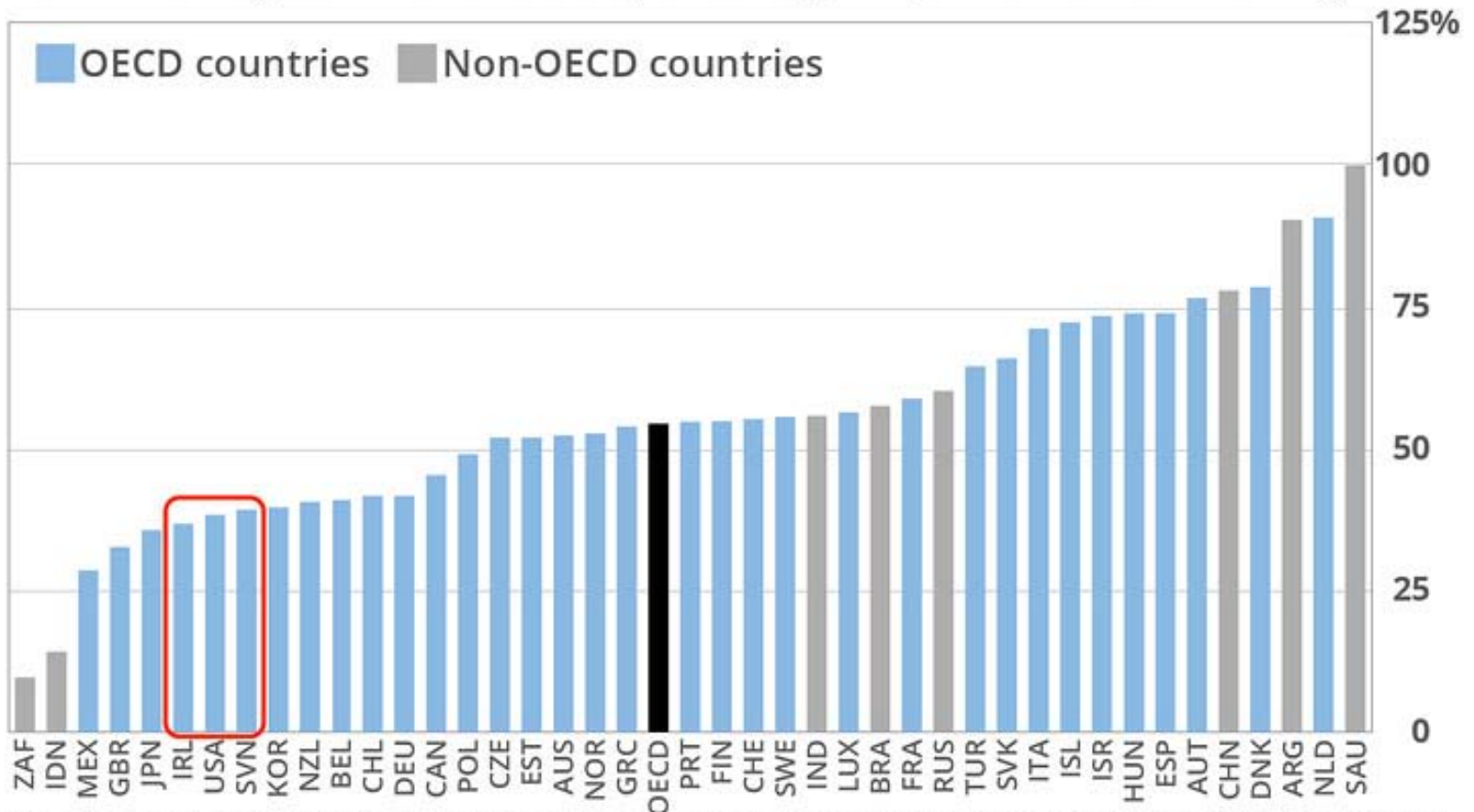


Source: Employee Benefit Research Institute, EBRI Databook on Employee Benefits, Chapter 10 (www.ebri.org); Bureau of Labor Statistics.

Especially now,
Social Security
is vital.

Social Security: Not so generous

Retirement-system benefits as a percentage of pre-retirement earnings



Note: For a single worker earning the average wage in each country Source: OECD pension-model data

Raising the retirement age is a benefit cut.



Cuts in Retirement Benefits Resulting from Raising the Retirement Age to 69

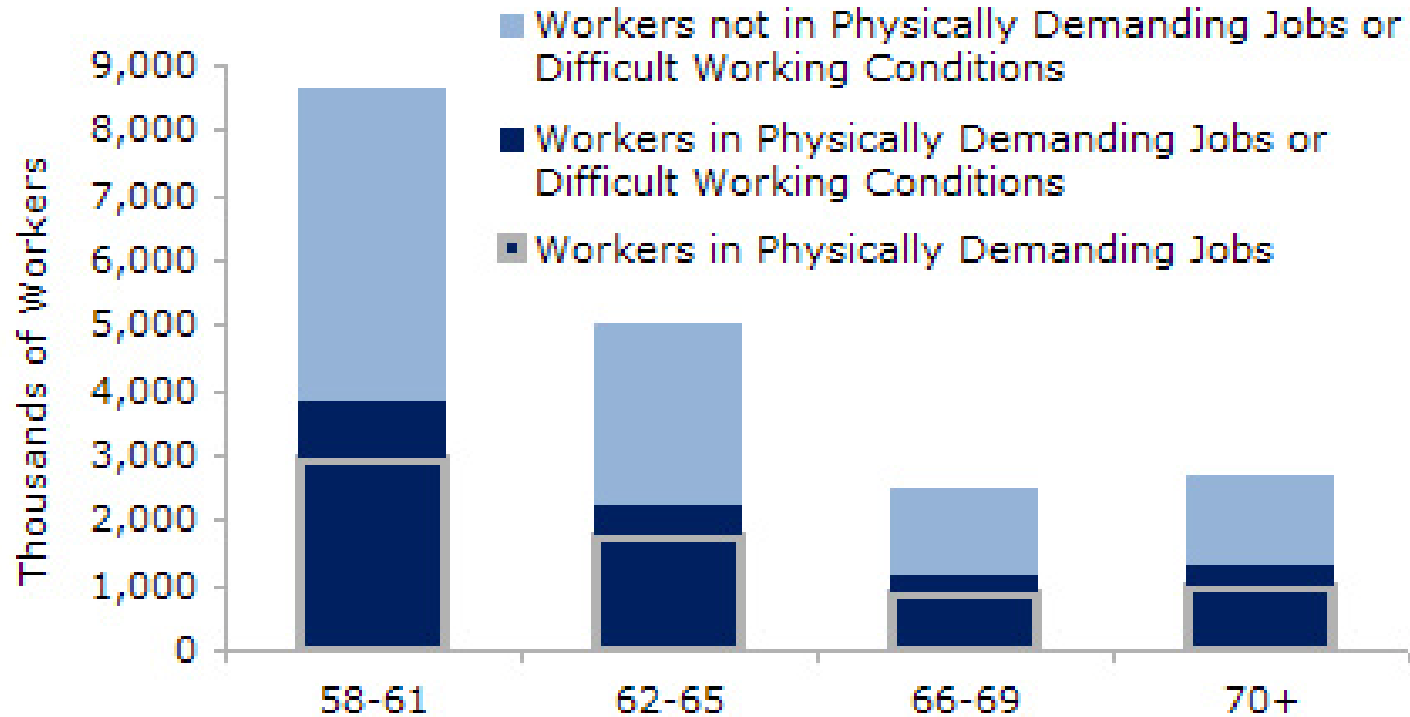


Age at which worker starts receiving benefits	Statutory "Retirement Age" of 65	Statutory "Retirement Age" of 67	Statutory "Retirement Age" of 69	Percent decrease by changing from age 65 to 67	Percent decrease by changing from age 67 to 69	Percent decrease by changing from age 65 to 69
62	\$800	\$700	\$610	12.5%	12.9%	23.8%
63	\$867	\$750	\$655	13.5%	12.7%	24.5%
64	\$933	\$800	\$700	14.3%	12.5%	25.0%
65	\$1,000	\$867	\$750	13.3%	13.5%	25.0%
66	\$1,080	\$933	\$800	13.6%	14.3%	25.9%
67	\$1,160	\$1,000	\$867	13.8%	13.3%	25.3%
68	\$1,240	\$1,080	\$933	12.9%	13.6%	24.8%
69	\$1,320	\$1,160	\$1,000	12.1%	13.8%	24.2%
70	\$1,400	\$1,240	\$1,080	11.4%	12.9%	22.9%

Explanatory Note: This chart illustrates the impact on monthly benefits that results from changing Social Security's statutory "Retirement Age." It is based on a hypothetical worker whose wage record entitles him or her to \$1,000/month at the statutory "Retirement Age." The dollar amounts will vary with a worker's particular wage record, but the percentage reductions shown are the actual reductions for all workers. They do not vary with earnings. The dollar amount shown is the benefit paid monthly for the rest of the worker's life, adjusted only for inflation once it has begun to be received.

A lot of people can't just work longer.

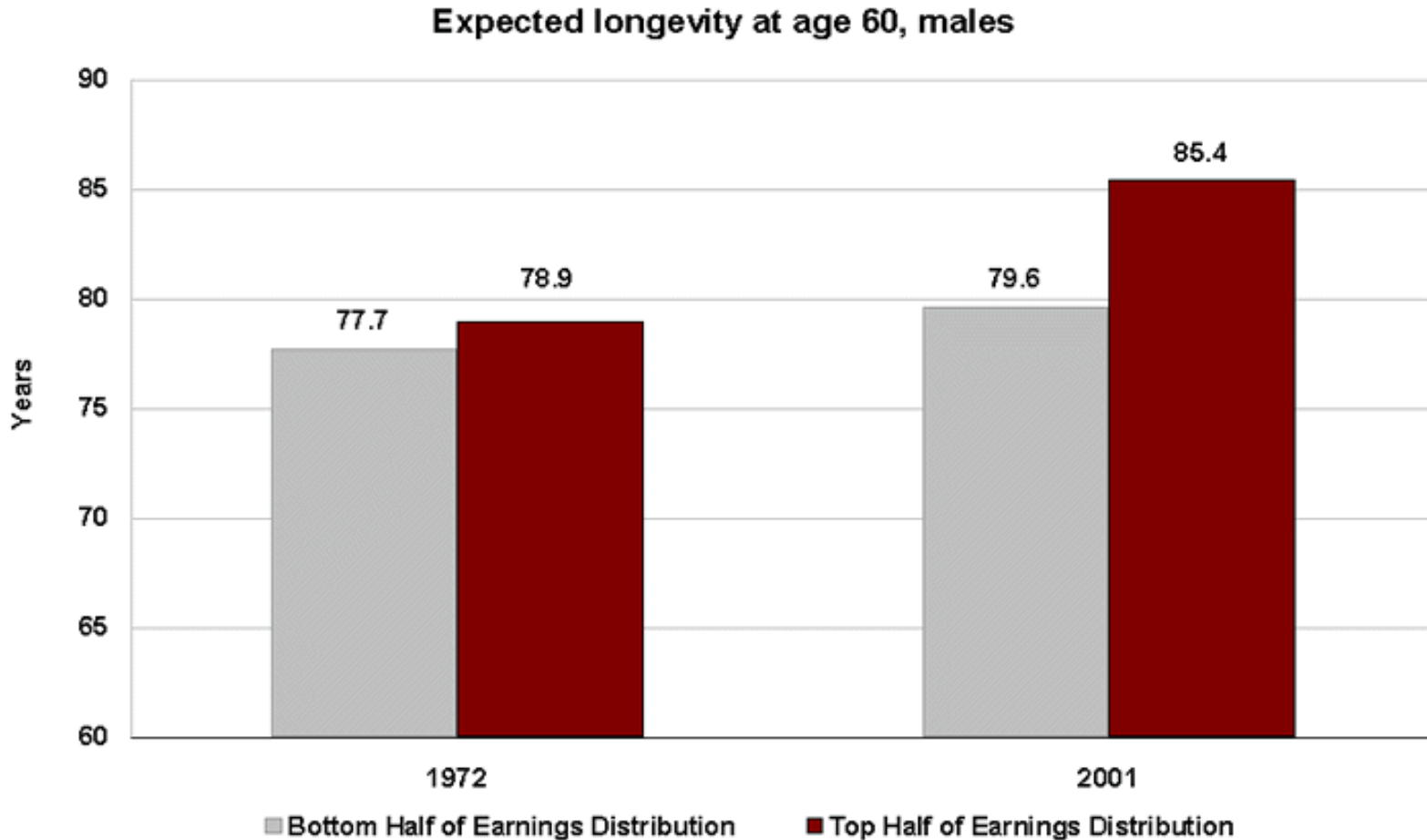
Workers in Physically Demanding Jobs or Difficult Working Conditions in 2009, Ages 58+



Sources: CEPR analysis of O*NET 14.0 and CEPR extract of 2009 CPS ORG data.

Source: Hard Work? Patterns in Physically Demanding Labor Among Older Workers. CEPR.
<http://www.cepr.net/publications/reports/patterns-in-physically-demanding-labor-among-older-workers>

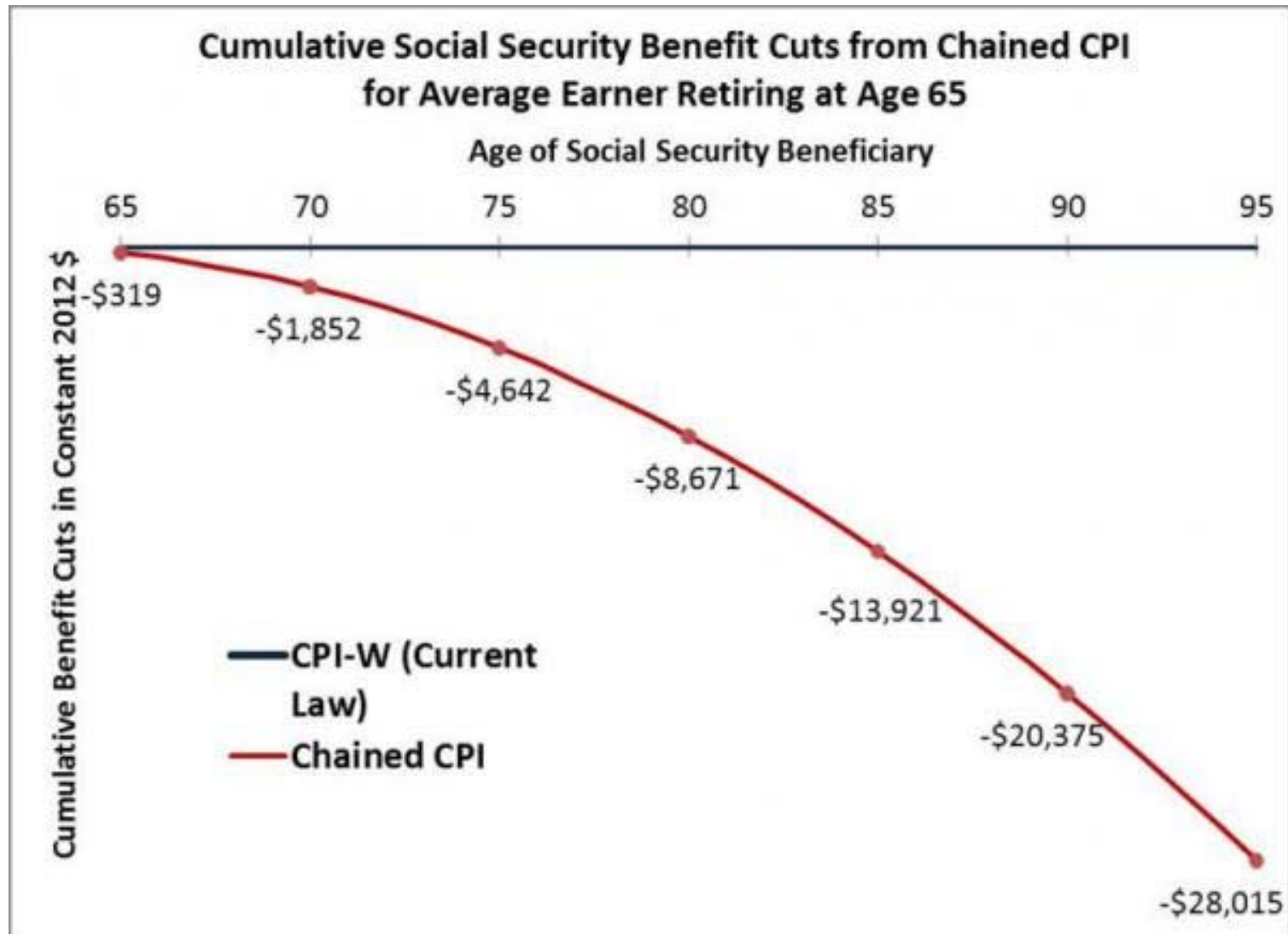
Life expectancies haven't increased equally.



Source: Author's calculations, based on Hilary Waldron, *Trends in Mortality Differentials and Life Expectancy for Male Social Security-Covered Workers, by Average Relative Earnings*, Social Security Office of Research, Evaluation and Statistics, ORES Working Paper Series, Number 108, October 2007.

Source: Monique Morrissey, Economic Policy Institute

The chained CPI is a benefit cut.



Expanding Social Security Benefits for Financially Vulnerable Populations

OCTOBER 2013

A WHITE PAPER BY CENTER FOR COMMUNITY CHANGE & OLDER WOMEN'S ECONOMIC SECURITY TASK FORCE



SOCIAL SECURITY WORKS ALL GENERATIONS PLAN



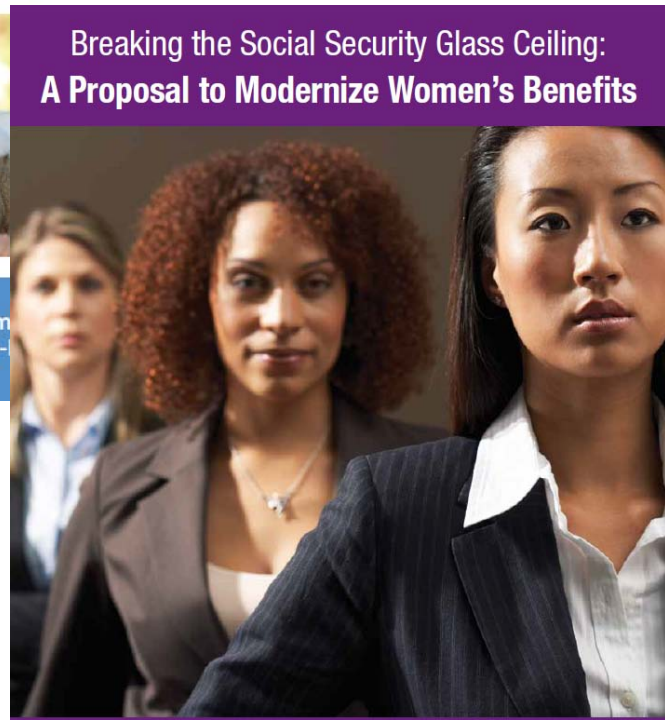
PLAN FOR A NEW FUTURE: THE IMPACT OF SOCIAL SECURITY REFORM ON PEOPLE OF COLOR

A Report of the Commission to Modernize Social Security

October 2011



Nancy J. Altman
Founding Co-



Breaking the Social Security Glass Ceiling: A Proposal to Modernize Women's Benefits

SOCIAL SECURITY WORKS ALL GENERATIONS PLAN*

Current Projected 75 year shortfall as a percent of taxable payroll	-2.72
Addressing the Retirement Income Crisis	Cost/Savings as per- cent of taxable payroll
Increase benefits for all current and future beneficiaries by 10%, up to a maximum of \$150 a month (ad-justed for inflation after 2014)	-1.20
Ensure that benefits do not erode over time by enacting the more accurate CPI-E	-.37
Provide a minimum benefit, at full benefit age, of 125 percent of poverty for covered workers, who have 30 years of work	-.19
Strengthening Family Protections for All Generations	
Provide up to 12 weeks of paid family leave upon the birth or adoption of a child, the illness of a covered worker or family member	-.40
In recognition of the value of care-giving, give credits towards future Social Security benefits for up to five years of caring for a child under age 6.	-.25
Facilitate higher education by restoring student benefits for children up to age 22 whose covered parents have died or become disabled	-.07
Provide \$1,000 new child benefit at birth or adoption of a child	-.07
Encourage work and support family caregiving by not applying the Family Maximum when Disabled Adult Children do not live at home	-.01
Provide equity for disabled widow(er)s by eliminating both the age 50 requirement and 7-year rule, and by providing unreduced benefits	-.04
Securing Social Security's Financing for Generations to Come	
Starting in 2016, gradually eliminate the maximum taxable wage base, giving credit for these contribu-tions, up to a maximum benefit	+1.95
Enact a new dedicated 10% marginal income tax rate on yearly incomes in excess of \$1 million (No ad-ditional tax on the first \$1 million of yearly income)	+1.50
Treat all salary reduction plans the same as 401(k) plans with respect to the definition of wages under Social Security	+.25
Increase Social Security contribution rate by 1/20th of a percentage point per year, on employers and employees each, from 2020-2039, until rate reaches 7.2 percent on both employers and employees	+1.41
Invest 40% of Trust Funds in equities, phased in from 2014-2028	+.59
Combine the OASI Trust Fund with DI Trust Fund	0
LONG-RANGE SURPLUS	+0.38

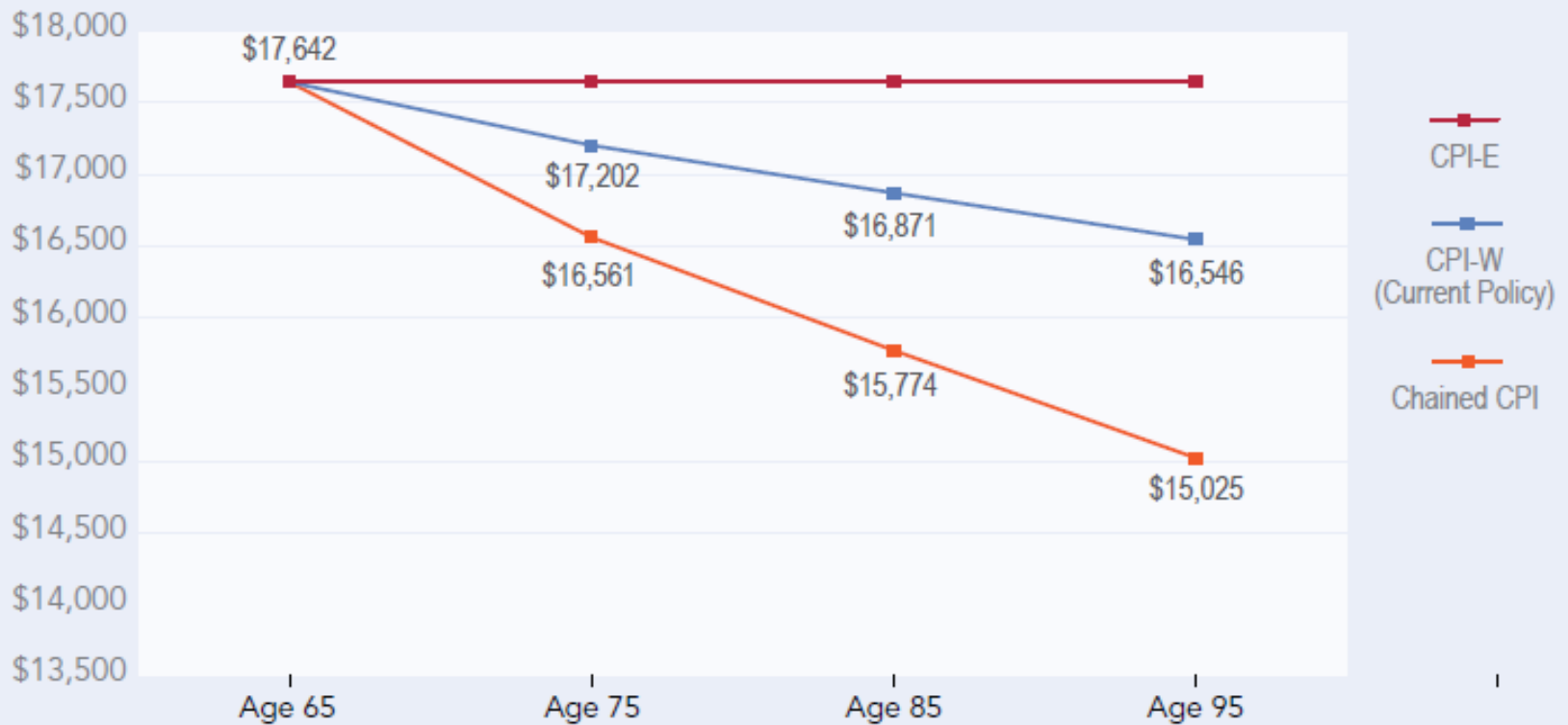
Figure 9 (updated) | **Commission to Modernize Social Security Plan**

Revenue Options	Income as % of Taxable Payroll	Adequacy Options	Cost as % of Taxable Payroll
Gradually increase payroll tax by 1.15 percentage points for employers and employees each, over 20 years	1.62	Increase benefits by a uniform amount at age 85	0.10
Eliminate cap but count earnings toward benefits with flatter formula	2.18	Pay widowed spouse 75% benefit with "average earner" benefit cap	0.06
Cover all new state and local workers	0.17	Provide 5 years of dependent care credits at half of average wage	0.24
Treat salary reduction plans like 401(k)s	0.22	Update special minimum benefit to 125% of poverty at full benefit age, wage index	0.19
		Reinstate student benefit	0.07
		Increase benefit by uniform amount equal to 5% of average benefit	0.75
		Administrative fixes	0.08
Total Revenue Raised	4.19	TOTAL COST OF BENEFIT IMPROVEMENTS	1.49
Actuarial Deficit	-2.67		
Amount Remaining	1.52	Amount remaining	0.03

Source: Global Policy Solutions

See <http://globalpolicysolutions.com/portfolio-items/the-national-academy-of-social-insurance/>

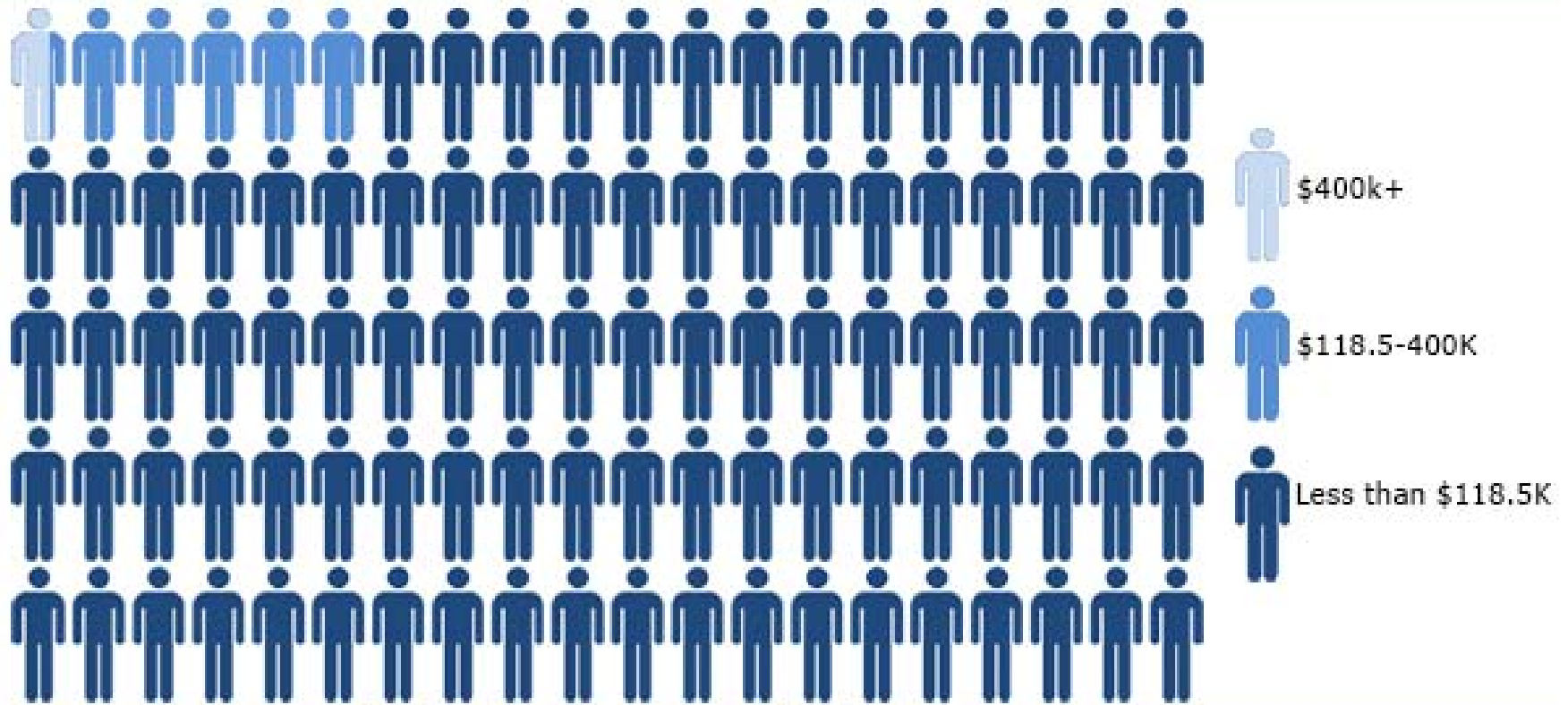
Figure 9. Social Security Benefit Levels Under Various CPI Measures
(For Average Earner Retiring at Age 65, in wage-indexed 2012 Dollars)



Source: SSW calculations based on Social Security OCACT, Memorandum to Rep. Becerra, June 21, 2011;
SSA, *Annual Statistical Supplement, 2012*, Table 2.A26, 2012.

Workers Affected if the Social Security Payroll Tax Cap Were Raised to \$400k or Phased Out

Workers Earning Less than \$118.5K, \$118.5-400K, and \$400K



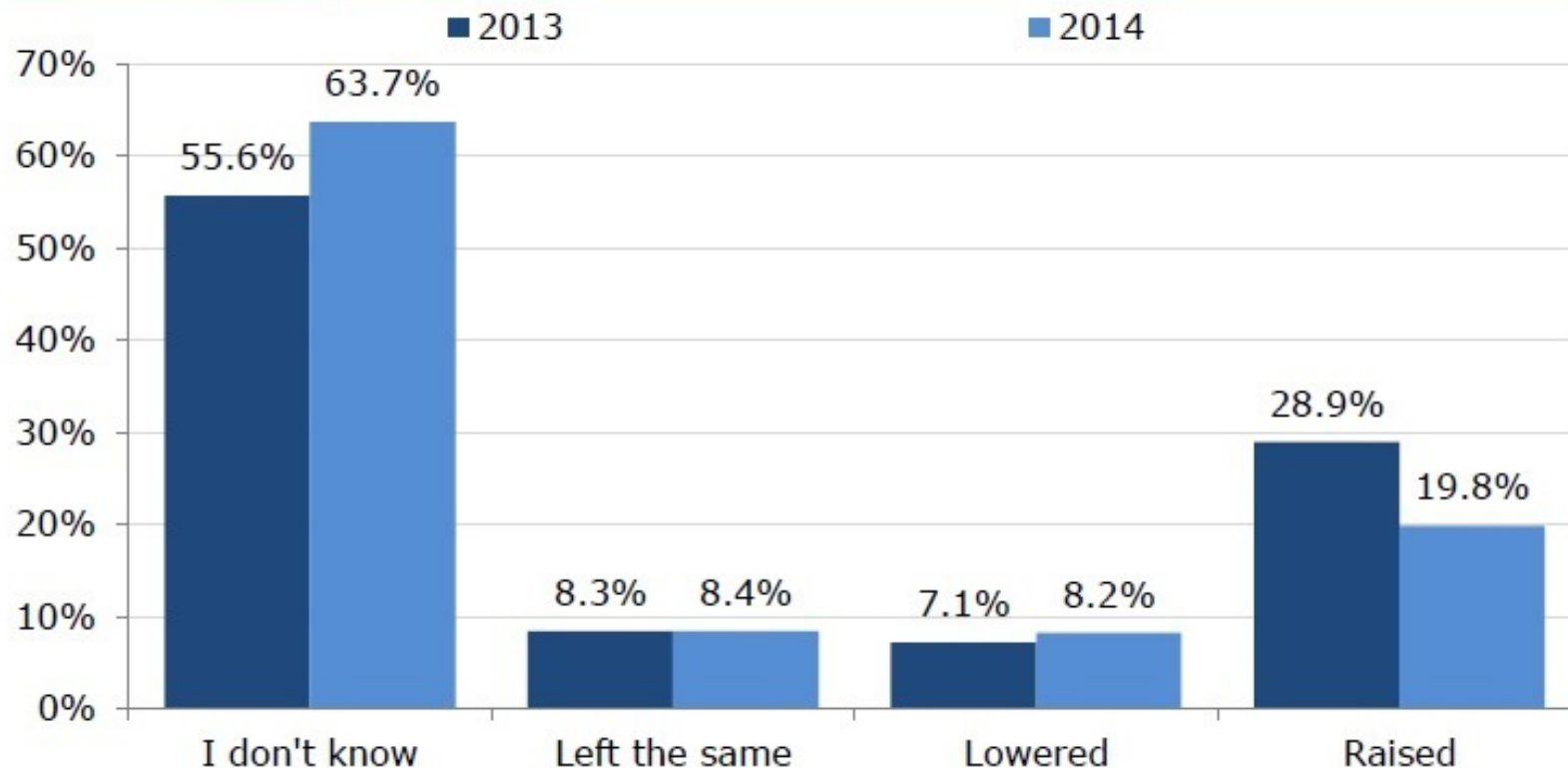
<http://cepr.net>

Source: Authors' analysis of American Community Survey (ACS), 2013.

Source: *Who Would Pay More if the Social Security Payroll Tax Cap Were Raised or Scrapped?* CEPR. See <http://www.cepr.net/publications/reports/who-would-pay-more-if-the-social-security-payroll-tax-cap-were-raised-or-scrapped>

FIGURE 1

Answer to Question About the Change in the Social Security Payroll Tax at Start of Year 2013 and 2014 Survey Results

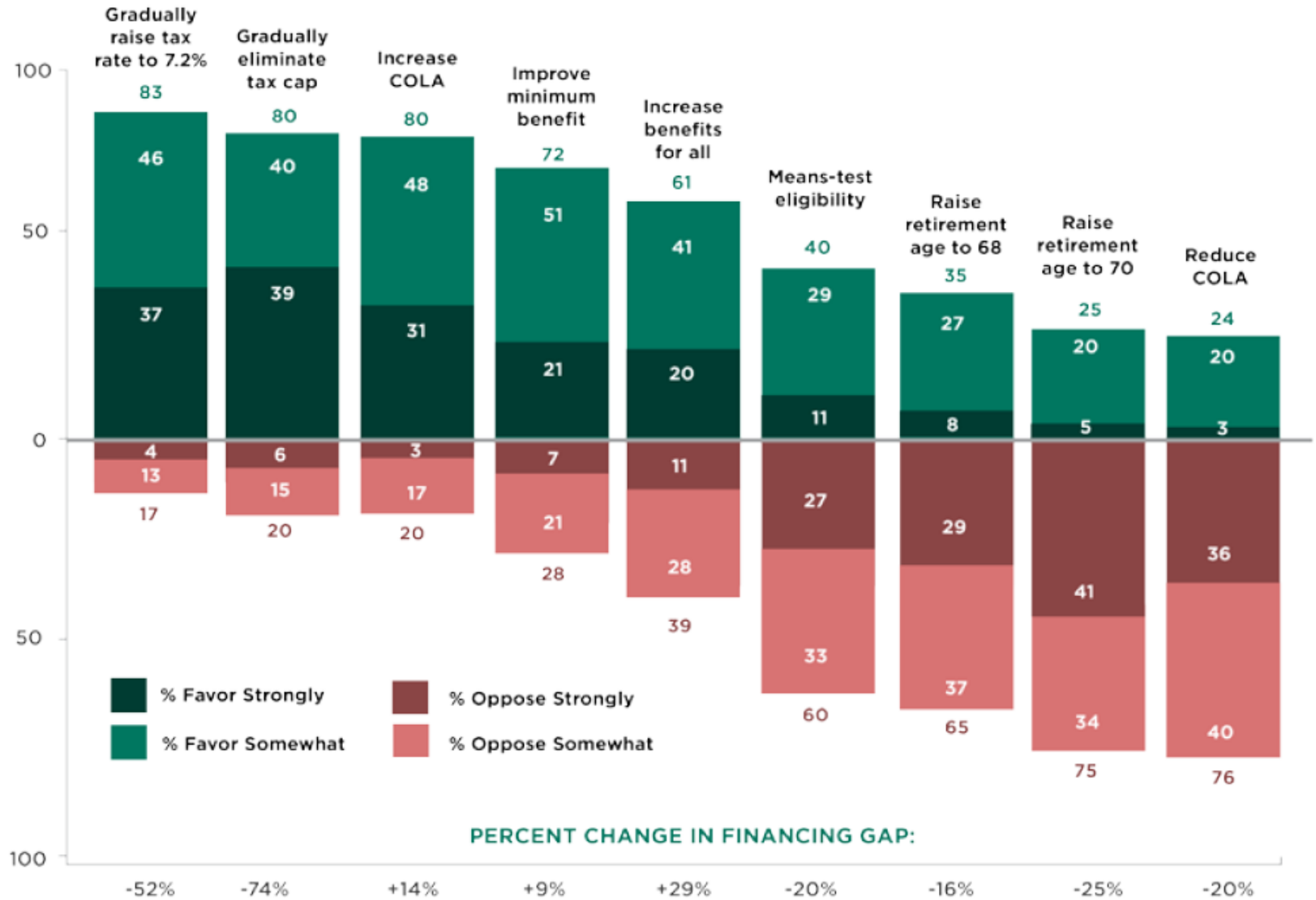


Source: Google Consumer Surveys conducted for CEPR

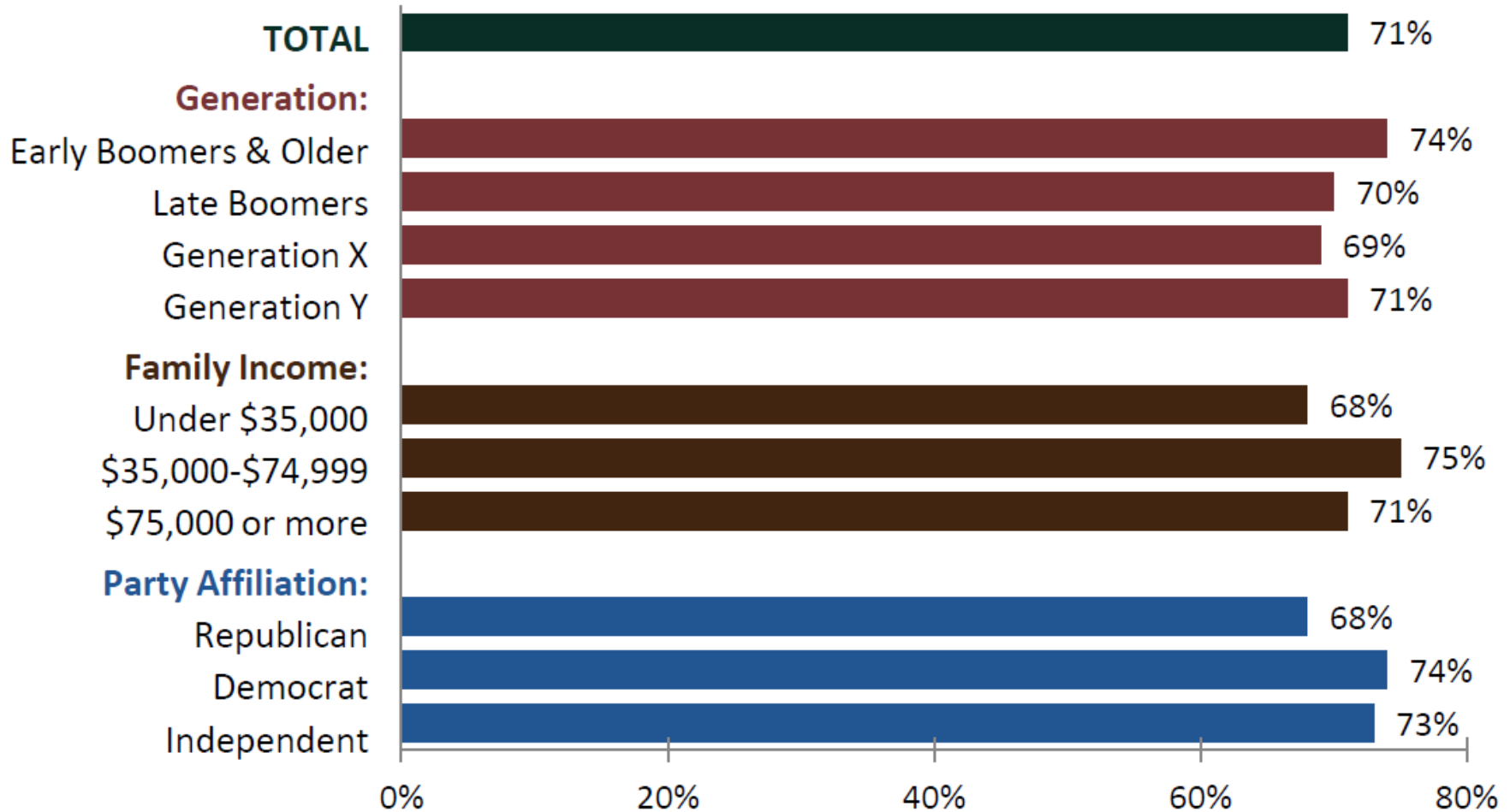
<http://cepr.net>

Source: **The Big Tax Increase Nobody Noticed**. CEPR.
cepr.net/publications/reports/the-big-tax-increase-nobody-noticed

Social Security Policy Options



Who supports the preferred package?



Source: NASI. See <http://bit.ly/SSchoices>

Thank you!

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