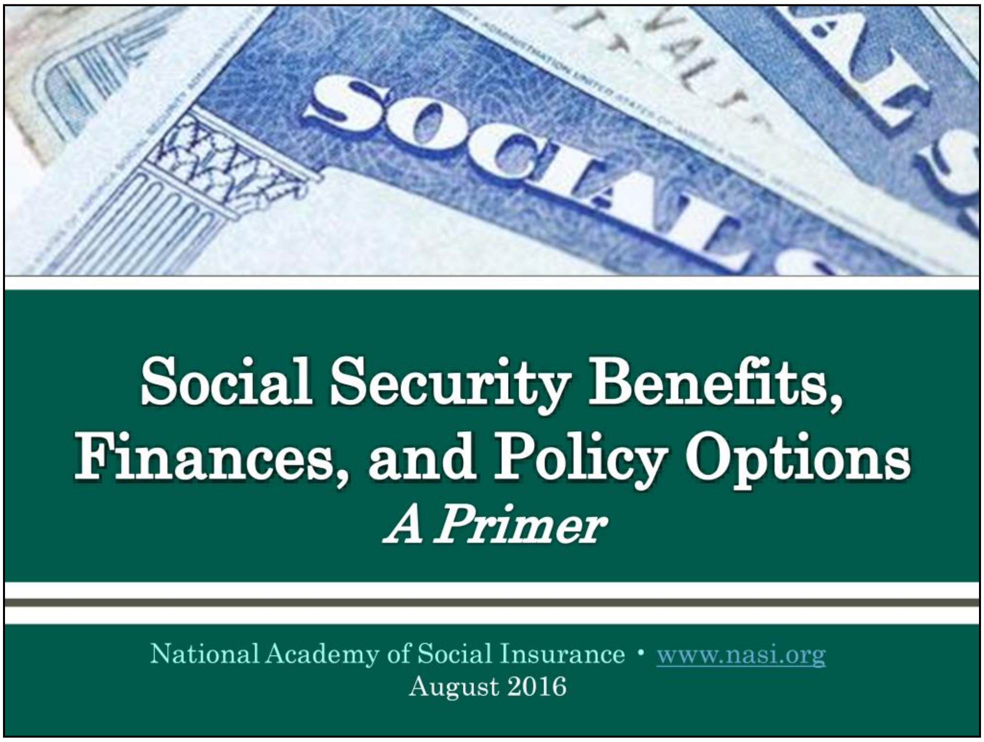
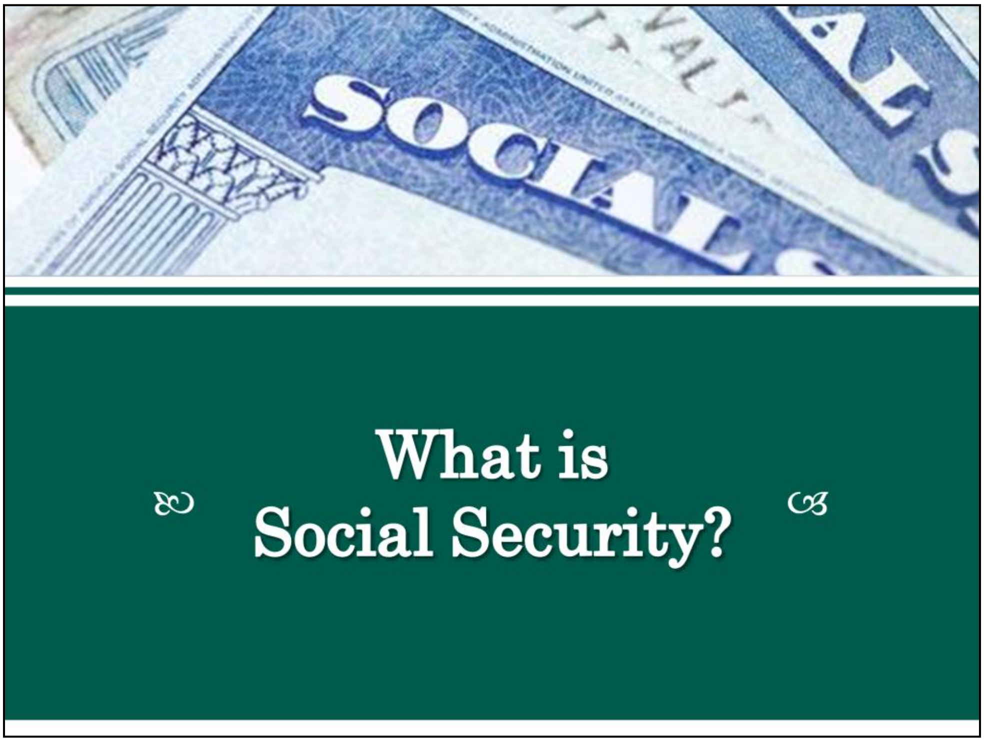



The purpose of this primer is to provide basic information and charts about Social Security: its benefits, financing, affordability, and policy options to strengthen it. The primer is formatted as a slide presentation with accompanying explanatory text. The Academy makes it available as an educational resources for use by teachers, journalists, students, community organizations, and others. Users are free to adapt it for their own presentations. It can be downloaded in PDF or PowerPoint format at www.nasi.org.

The primer is updated to reflect estimates from the 2016 Social Security Trustees Report.




What is the purpose of Social Security? What does it do?

Social Security is a social insurance program. Workers pay in while they are employed and employers pay matching contributions. Then Social Security's guaranteed benefits are available to support workers and their families in retirement, or when they lose their livelihood due to career-ending disability or the death of a family worker. By covering almost all workers and their families, Social Security pools risks broadly.

## How Many People Receive Social Security?

- More than 60 million people receive Social Security each month, in one of three categories:
  - Retirement insurance
  - Survivors insurance
  - Disability insurance
- Nearly 1 in 5 Americans gets Social Security benefits.
- About 1 in 4 families receives income from Social Security.

Social Security Administration (SSA), 2016a; National Academy of Social Insurance, 2016. 3

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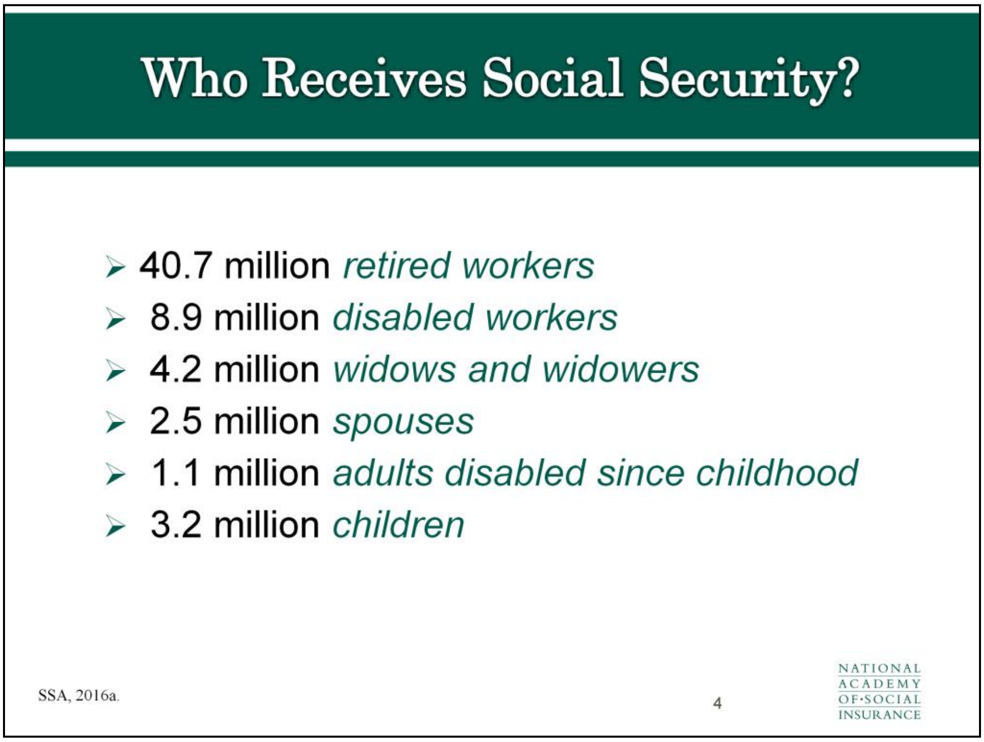
How many Americans receive Social Security? More than 60 million people – or about one in five Americans – get monthly benefits from Social Security. In one in four families, someone receives Social Security.

Social Security beneficiaries fall into three categories. They receive either *retirement benefits*, *survivor benefits*, or *disability benefits*.

The recipients could be a retired couple; a grandmother who looks after her grandchildren while her son and daughter-in-law are at work; a 55-year-old meatpacker disabled by severe arthritis; or a 5th grader and 3rd grader who became entitled to survivor benefits after their father died in military service.




In all, more than 40 million retired workers receive Social Security benefits, as do about 9 million disabled workers, 4 million widows, 2.5 million spouses, and 3.2 million children under age 18 (or under age 19 and still in high school). About 1 million adults disabled since childhood also receive regular benefits from Social Security when a parent has died, become disabled, or retired.

(Data as of June 2016.)

## How Much Does Social Security Pay?
(June 2016)

| By Beneficiary Type: | Average Monthly Benefit | Average Yearly Benefit |
|---|---|---|
| Retired workers | $1,348 | $16,176 |
| Disabled workers | $1,166 | $13,992 |
| Widows or widowers (60 or older) | $1,292 | $15,504 |
| **By Family Type:** | **Average Monthly Benefit for Family** | **Average Yearly Benefit for Family** |
| Retired worker and spouse (62 or older) | $2,233 | $26,796 |
| Widowed mother or father (under 60) and two children | $2,639 | $31,668 |
| Disabled worker and one or more children | $1,793 | $21,516 |

SSA, 2016a; SSA, 2016b; U.S. Department of Health and Human Services, 2016. 5

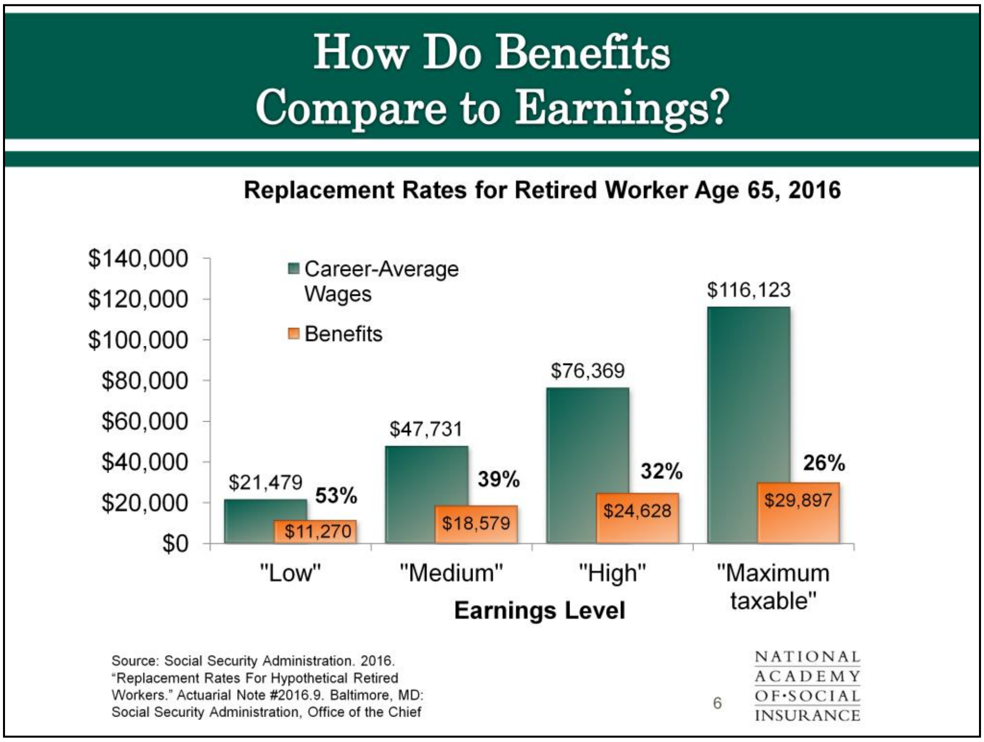
Social Security provides a foundation of retirement income that retirees supplement with pensions, savings, and earnings. Benefits alone do not provide a comfortable level of living. The average benefit for retired workers in June 2016 was $1,348 a month, or about $16,176 a year.

The average is somewhat lower for widowed spouses age 60 and older: $1,292 a month or about $15,504 a year.

The average benefit for disabled workers is $1,166, or about $13,992 a year. A disabled worker along with one or more children received, on average, $1,793 a month or about $21,516 a year.

For comparison, the 2016 federal poverty guideline is $20,160 annually for a family of three, and $24,300 for a family of four.

Each year, Social Security benefits are adjusted to keep up with the cost of living; however, no cost-of-living adjustment (COLA) was made for checks paid in 2016.




A common way to measure income during retirement is to compare it to earned income *before* retirement. The resulting "replacement rate" shows what percentage of pre-retirement earnings is replaced by retirement benefits.

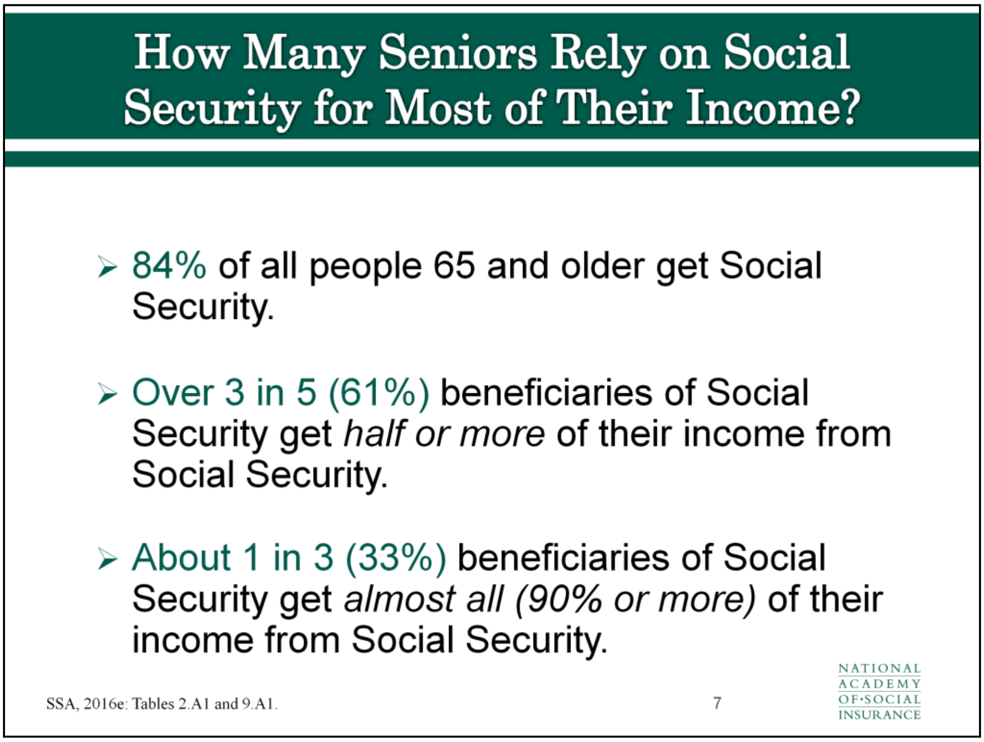
This chart shows how Social Security benefits compare to the retiree's career-average past earnings for a "low," "medium," "high," and "maximum taxable" earner. The short bars are the benefits that a retiree would receive at age 65. The tall bars represent the retiree's typical (career-average) lifetime earnings (expressed in prevailing wage levels near retirement). Social Security benefits replace a larger share of past earnings for lower earners. While higher earners receive larger benefit checks, those checks represent a smaller fraction of what they had been making.

For example, a 65-year-old who retired in 2016 with a lifetime of "medium" earnings (about $47,731 in 2015) would receive about $18,579 a year, which would replace about 39 percent of past earnings.

A "low" earner who made about $21,479 in 2015 would receive about $11,270, which would replace about 53 percent of prior earnings. A worker who always earned the "maximum" taxable amount (for a career-average taxable earnings of $116,123 in 2015) would get benefits that replace about 26 percent of prior earnings.

These benefits are for workers who claim Social Security at age 65. Workers who take benefits at 62 (the earliest eligibility age) would receive lower benefits because they began receiving benefits early. For example, for a "medium" earner, benefits would replace about 33 percent of prior earnings if claimed at age 62, compared to 39 percent if claimed at 65.

For more details on replacement rates, see page 12.




Social Security benefits are relatively modest both in dollar amounts and in relation to retirees' prior earnings. Yet the benefits are critically important to the individuals and families that receive them.

Nearly 84 percent of married couples and unmarried persons age 65 and older receive Social Security. It is the major source of income for most of those beneficiaries.

Over 3 in 5 of those beneficiaries (61 percent) rely on Social Security for half or more of their total income from all sources.

About one in three elderly beneficiaries get almost all (90 percent or more) of their income from Social Security.

# Reliance on Social Security By Race

| Race: | Percent of beneficiary households 65 or older whose Social Security benefits make up: *Half or more* of their income | *90% or more* of their income |
|---|---|---|
| White | 60% | 32% |
| Black | 69% | 45% |
| Asian | 62% | 41% |
| Hispanic | 73% | 52% |

SSA, 2016e: Table 9.A3.

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Social Security is particularly important to communities of color. Seniors in these groups often rely more heavily on their benefits. About 7 in 10 Hispanic and black Americans rely on Social Security for half or more of their income. More than 4 in 10 black, Asian, and Hispanic Americans rely on it for almost all (90 percent or more) of their income.

# Reliance on Social Security
# By Gender and Family Type

| By Gender: | **Percent of persons in beneficiary families 65 or older whose Social Security benefits make up:** ***Half or more*** **of their income** | ***90% or more*** **of their income** |
|---|---|---|
| Unmarried women | 61% | 34% |
| Unmarried men | 56% | 29% |
| **By Family Type:** | **Percent of beneficiary households 65 or older whose Social Security benefits make up:** | |
| Married couples | 48% | 21% |
| Unmarried people | 71% | 43% |

SSA, 2016e: Tables 9.A2 and 9.B3.

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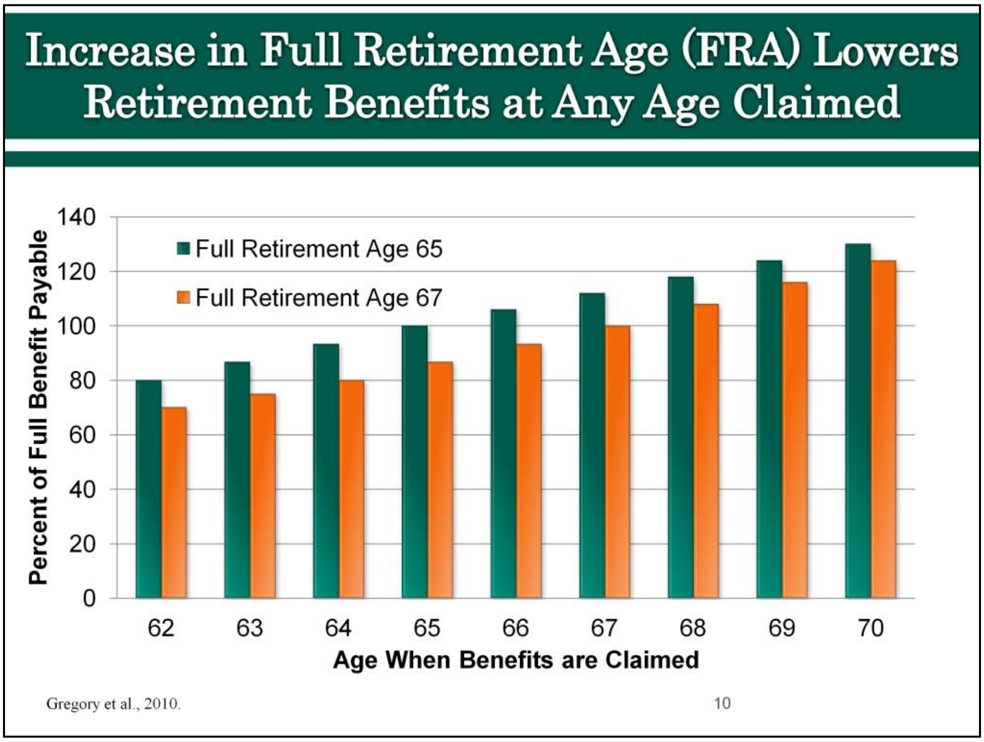
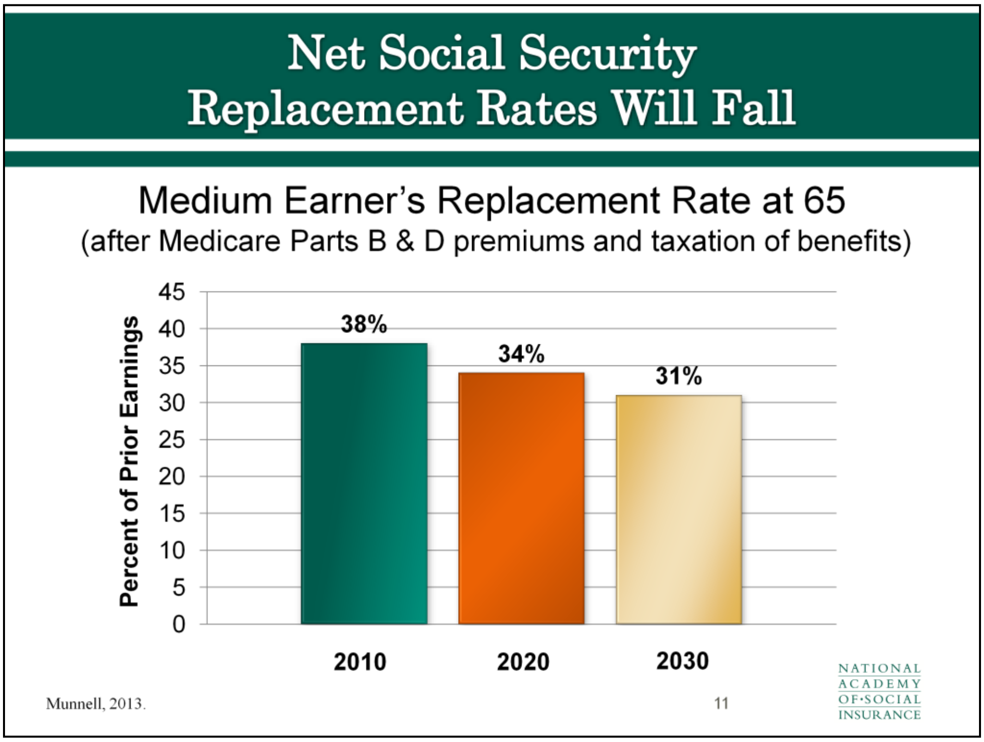
Social Security is especially important to unmarried people, who rely on Social Security benefits for a higher percentage of their income than married couples. Unmarried women in particular rely on Social Security more heavily than unmarried men.




When the full retirement age was 65, benefits claimed at age 62 were reduced to 80 percent of the full amount; when the full retirement age reaches 67, benefits claimed at 62 will be reduced to 70 percent, while benefits taken at age 65 will be reduced to 86.7 percent.

When the full retirement age is 67, benefits claimed at ages 62-66 will be about 12-14 percent lower than they would have been if the retirement age had remained at 65. Similarly, benefits claimed at older ages will also be lower than they would have been without the increase in the retirement age.

Simply put, increasing the full retirement age by one year represents a 5-7 percent benefit cut for all retired worker beneficiaries.




The increase in the full-benefit retirement age – together with rising out-of-pocket payments for Medicare premiums and a rising share of benefits subject to income taxes – will cause net replacement rates from Social Security to fall from about 38 percent in 2010 to 31 percent in 2030.

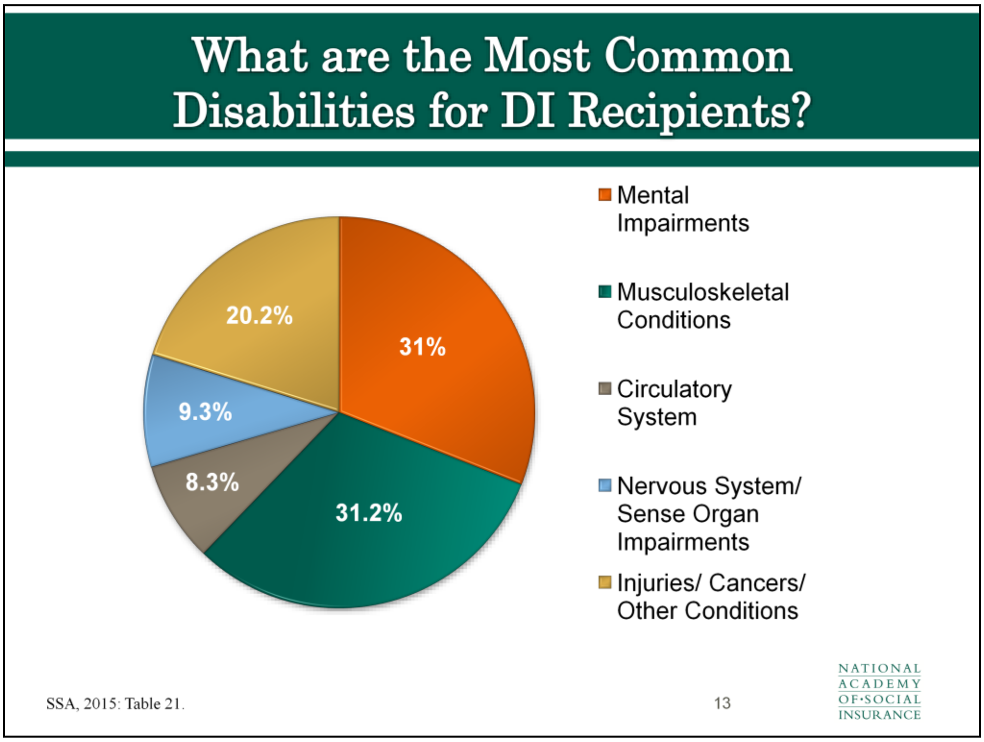
A medium earner who retired at age 65 in 2010 received a benefit equal to about 38 percent of prior career-average earnings after deducting the premiums for Medicare Parts B (the part of Medicare that pays for outpatient services) and D (the part that pays for prescription drugs). As health care costs continue to outpace wage growth, those premiums will eat further into future retirees' Social Security checks.

Higher earners currently pay income taxes on part of their Social Security benefits. Because those thresholds are not indexed for inflation, more people will pay income taxes on part of their benefits in the future. (See page 21 for more on the taxation of Social Security benefits.)

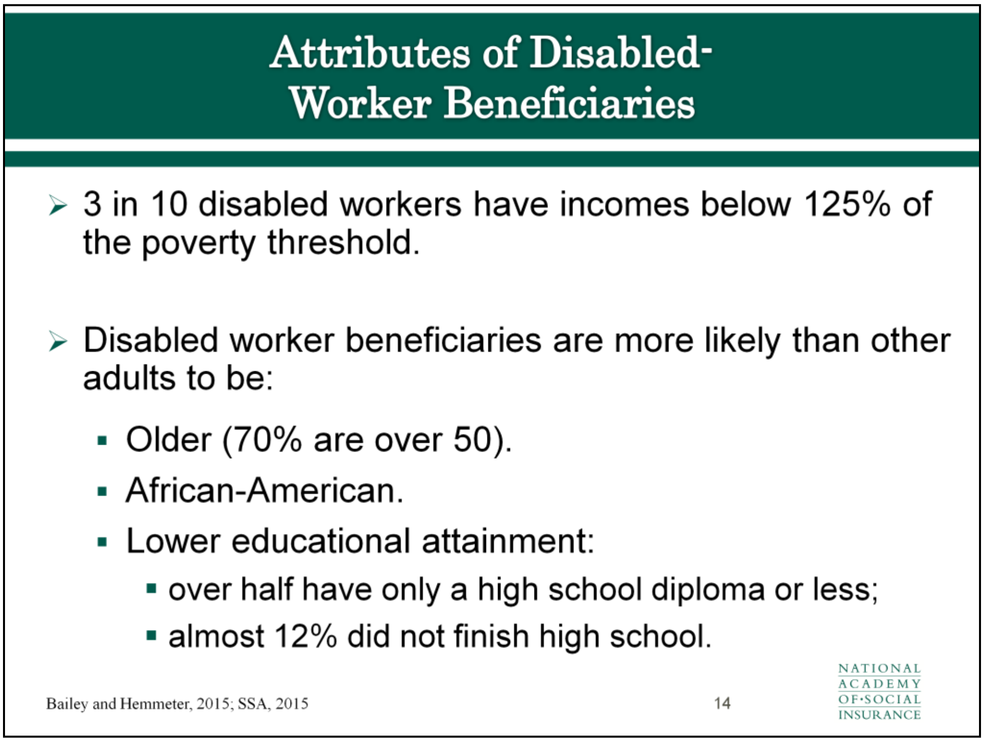
By 2020, the net replacement rate for a medium earner at 65 will be about 38 percent of prior earnings. By 2030, the net rate will have declined to about 31 percent – nearly one-fifth below the rate in 2010. This decline is the result of the scheduled increase in the Social Security full-benefit age to 67; steeper Medicare premiums as health care costs continue to climb; and higher income tax payments on benefits.


Since 1957, the Social Security program has provided cash benefits to people who have lost their capacity to earn a living because of severe disability. Social Security disability insurance (DI) pays monthly benefits to workers who are no longer able to work due to a significant illness or impairment that is expected to last at least a year or to result in death within a year. It is part of the Social Security program that pays retirement benefits to the vast majority of older Americans.

Benefits are based on the disabled worker's past earnings and are paid to the disabled worker and to his or her eligible family members. To be eligible, a disabled worker must have worked in jobs covered by Social Security. Individuals who are receiving Social Security DI benefits become eligible for Medicare after receiving DI for two years.




Many beneficiaries have multiple disabling conditions. Of the nearly 9 million individuals receiving disabled worker benefits at the end of 2014, 31 percent had mental impairments as the main disabling condition, or primary diagnosis. They include 4 percent with intellectual disabilities and 27 percent with other mental disorders. Musculoskeletal conditions – such as arthritis, back injuries and other disorders of the skeleton and connective tissues – were the main condition for 31 percent of the disabled workers. These conditions were more common among beneficiaries over the age of 50. About 8 percent had conditions of the circulatory system as their primary diagnosis. Another 9 percent had impairments of the nervous system and sense organs. The remaining 20 percent includes those with injuries, cancers, infectious diseases, metabolic and endocrine diseases, such as diabetes, diseases of the respiratory system, and diseases of other body systems.




A typical disabled worker might be a 55-year-old meatpacker disabled by severe arthritis.

Even with their Social Security disability benefits, nearly 3 in 10 disabled workers have family incomes below 125% of the federal poverty line.

# Who Pays for Social Security?

- Workers and their employers pay with Social Security contributions under the Federal Insurance Contributions Act (FICA).

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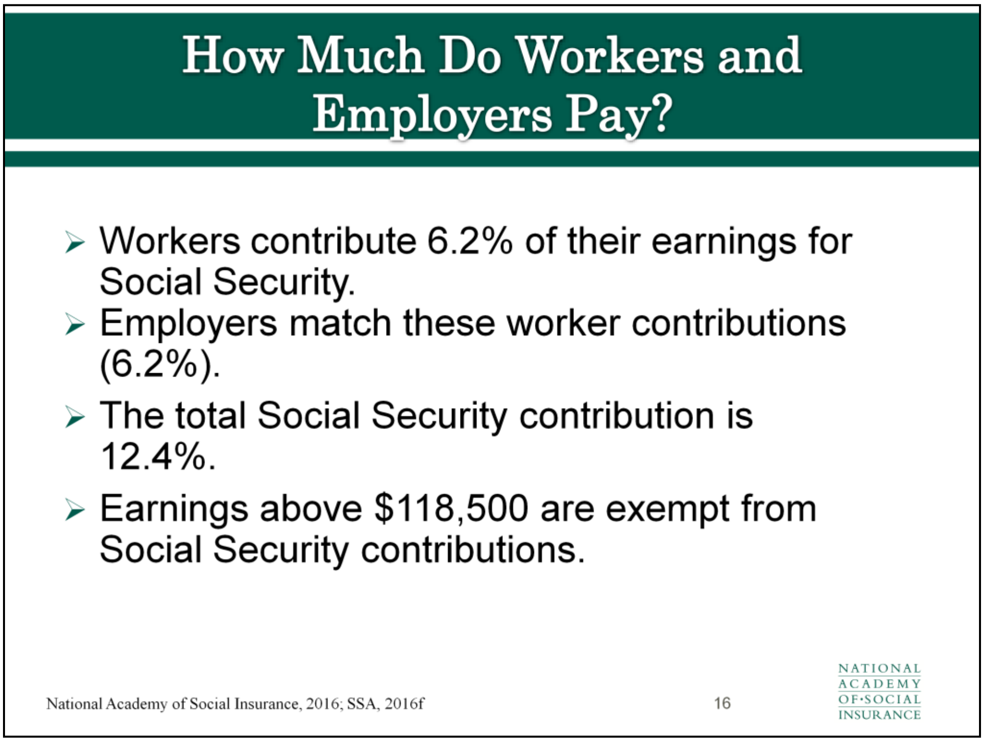
We’ve looked at who gets Social Security and how much they receive. Now we look at who pays.

Workers and their employers pay for Social Security through dedicated Social Security contributions.




Workers pay 6.2 percent of their earnings for Social Security. Employers pay an equal amount. The total is 12.4 percent for Social Security. Social Security contributions are paid on earnings only up to a cap: $118,500 in 2016. The cap rises with increases in average wages.

About 6 percent of all workers earn more than the Social Security tax cap. They and their employers stop paying in when they reach the cap. For example, in 2015 a worker making $150,000 stopped paying taxes when his or her earnings reached $118,500 in October, while someone making $1 million stopped paying in February.

The self-employed pay both the employee and employer share of the contribution. They get a deduction in their personal income taxes for the "employer" half of the total amount. No future increases in the tax rate are scheduled.

Upper-income Social Security beneficiaries pay income taxes on part of their Social Security benefits. Some of this income-tax revenue goes back to the Social Security trust funds, and the rest goes to Medicare's Hospital Insurance trust fund.

## Where Does the Money Go?

- It is credited to the Social Security trust funds. Of the 6.2% tax rate:
  - 5.015% goes to the **retirement and survivor insurance fund**
  - 1.185% goes to the **disability insurance fund**
- Projections of income and outgo of the trust funds are made by the Social Security Administration actuaries.

Board of Trustees, 2016.

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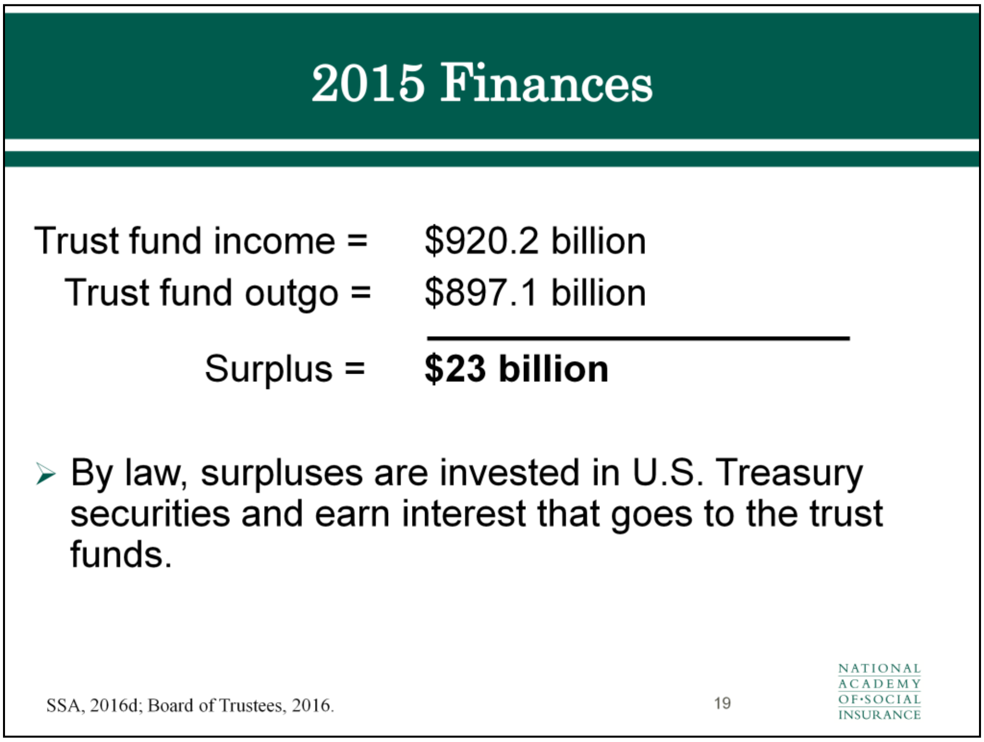
Where does the money go?

The Social Security contributions (taxes) that workers and employers pay are credited to the Social Security trust funds. Of the 6.2 percent tax rate that workers and employers each pay, 5.015 percent goes to the retirement and survivor insurance fund, and the remaining 1.185 percent goes to the disability insurance fund. (See page 21 for more on the two trust funds.)

A Board of Trustees oversees the trust funds. It is made up of the Secretary of the Treasury, who is the managing Trustee, the Secretaries of Labor and of Health and Human Services, and the Commissioner of Social Security. In addition, two public trustees who are experts in Social Security and come from different political parties serve on the Board.

The Office of the Chief Actuary of the Social Security Administration makes projections of Social Security finances that are used by the trustees in their annual report to Congress.


# The Financial Outlook

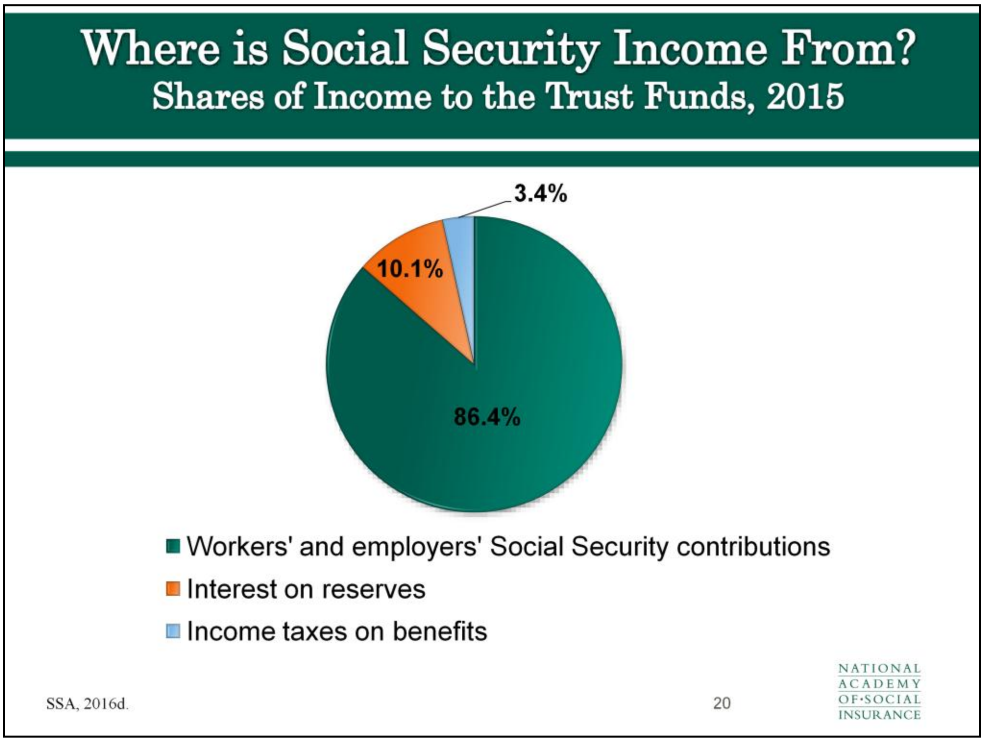



In the near term, Social Security is taking in more in revenues and interest than it is paying out in benefits.

In 2015, income to the trust funds was $920.1 billion, while outgo was $897.1 billion, leaving a surplus of $23 billion.

These surpluses, by law, are invested in U.S. Treasury securities and earn interest that goes to the trust funds.

The outgo from the Social Security trust funds covers administrative expenses of the Social Security program, as well as benefit payments. Administrative costs are less than 1 percent of total outgo.




Where does the Social Security trust fund money come from?

Social Security contributions from workers and employers made up about 86.4 percent of the trust funds' income in 2015.

About 10 percent of the program's income came from interest on Treasury securities held by the trust funds. Income taxes that some beneficiaries pay on their benefits accounted for the remaining 3.4 percent of income. (Part of Social Security benefit income is subject to federal income taxes for single beneficiaries with countable income over $25,000 and for couples with such income over $32,000. Countable income includes half of Social Security benefits plus all of most other sources of income.)

## What are Social Security Reserves, or Assets?

- Social Security income that is not used immediately to pay benefits and costs is invested in special-issue Treasury securities (or bonds).
- The bonds earn interest that is credited to the trust funds.
- The accumulated surpluses held in Treasury securities are called Social Security reserves, or trust fund assets.
- The Treasury securities are secure investments that are backed by the full faith and credit of the United States government.

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NATIONAL ACADEMY OF SOCIAL INSURANCE

Surpluses from the Social Security system are invested in special-issue Treasury securities, and are called Social Security reserves or trust fund assets. The securities also earn interest, which is credited back into the trust funds.

The Treasury securities that make up the trust funds are secure investments, backed by the full faith and credit of the United States.

## Disability Insurance Projections

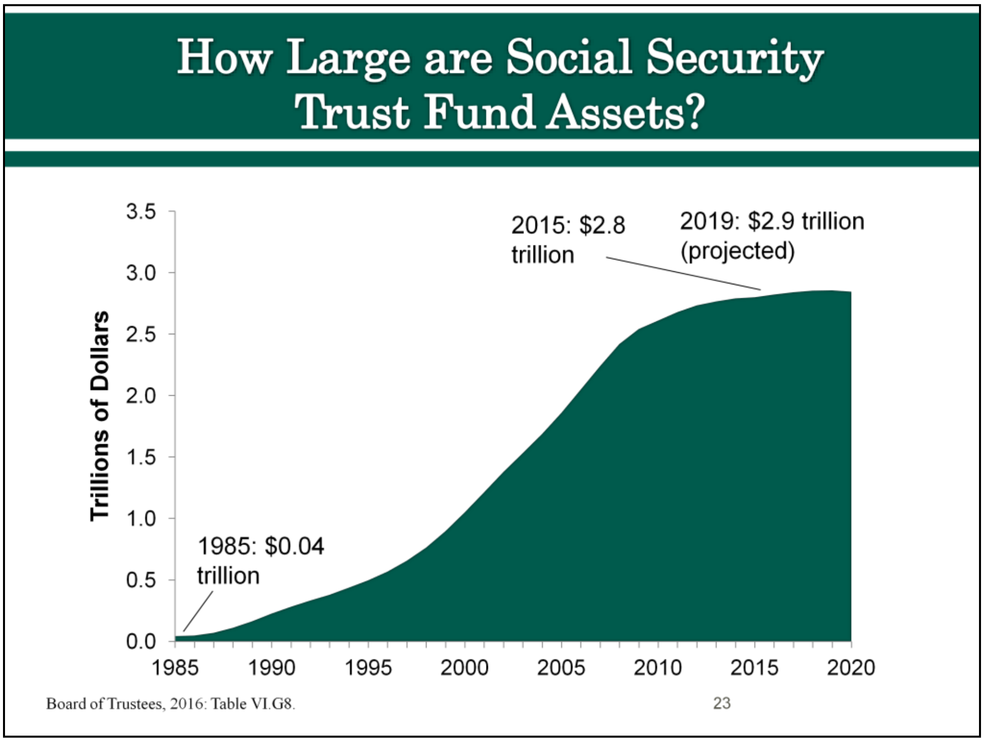
- By law, Social Security has two separate trust funds:
  - **Disability Insurance (DI)** trust fund
  - **Old-Age and Survivors Insurance (OASI)** trust fund
- With the Bipartisan Budget Act of 2015, Congress temporarily rebalanced the distribution of Social Security payroll contributions between OASI and DI, extending solvency of the DI trust fund through 2022.
- In the 2016 Social Security Trustees Report, the DI trust fund's projected solvency was extended to late 2023.

Reno, Walker, and Bethell, 2013.

The Social Security system is made up of two trust funds. The two funds are often considered together as the OASDI, or Social Security, trust funds. But by law, they are separate and cannot borrow from each other without approval from Congress.

Of the 6.2 percent of earnings that workers and employers each pay for Social Security, 5.015 percent is for the Old-Age and Survivors Insurance (OASI) trust fund, and the remaining 1.185 percent goes to the Disability Insurance (DI) trust fund. This allocation of Social Security contributions was implemented pursuant to the Bipartisan Budget Act of 2015, which set these rates effective for the period January 1, 2016 through December 31, 2018. Including last year's adjustment, Congress has reallocated the tax rate 12 times since DI was created. Viewed separately, the OASI fund can cover scheduled benefits until 2035, but the DI fund can do so only until 2023. Combined, the two funds could pay full benefits until 2034.

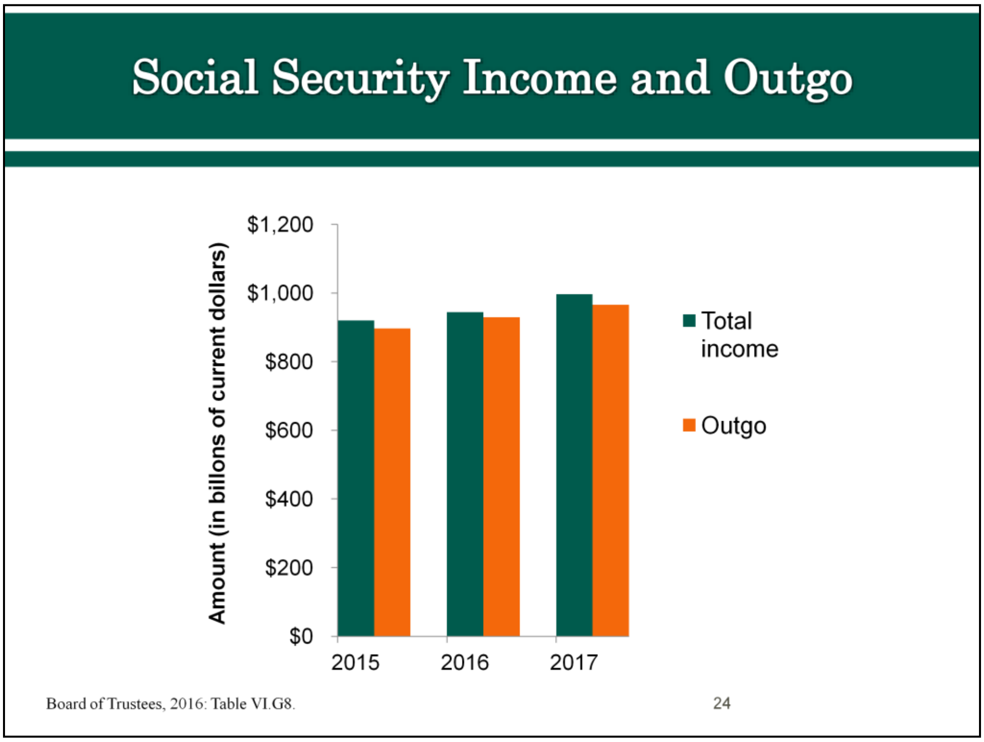
All subsequent references to the Social Security trust funds in this primer refer to the combined OASDI trust fund. For more information on the DI trust fund and options to keep it solvent, see NASI's brief "Social Security Disability Insurance: Action Needed to Address Finances" (Reno, Walker, and Bethell, 2013).




Social Security's trust fund assets were $2.8 trillion at the end of 2015. They are projected to grow to $2.9 trillion by 2019.

Some people say the special-issue Treasury securities held by the trust funds are "worthless IOUs." Is that true?

Not at all. The investments held by the trust funds are backed by the full faith and credit of the U.S. government. The government has always repaid Social Security, with interest. The special-issue securities are just as safe as U.S. savings bonds or other financial instruments of the federal government. In financial markets, U.S. Treasury securities are considered one of the safest and most secure investments.




There are two common views of Social Security's trust funds, relative to the federal budget. By law, Social Security is separate from the rest of the federal budget. But for accounting purposes – or to measure the total activity of the federal government – Social Security is frequently included in the "unified budget."

The "cash-flow" balance for Social Security – which is based on the unified federal budget perspective – reports the program's annual income and outgo without counting interest income. For example, media reports may state that "Social Security paid out more than it took in in 2015." In fact, the program had a $23 billion surplus for 2015 (as shown on slide 18). The "cash-flow" discussion ignores interest, which is an important part of Social Security's income.

The chart above shows projected total income to the Social Security system (in green) and outgo (in orange). If interest is ignored, then other income was less than outgo in 2015. Interest income is a firm commitment of the Treasury to pay the interest due to the Social Security trust fund. It is just as firm as the nation's obligation to pay interest to any other holder of U.S. Treasury bonds, whether a Wall Street firm, China, or an individual citizen bondholder. Projected income to Social Security including interest will continue to exceed outgo through 2019.

## How Do Actuaries Estimate the Future?

1) Review the past: birth rates, death rates, immigration, employment, wages, inflation, productivity, interest rates.
2) Make assumptions for the next 75 years (longer than the rest of the government).
3) Three scenarios:
   - Low cost;
   - High cost;
   - Intermediate (best estimate).

Board of Trustees, 2016.



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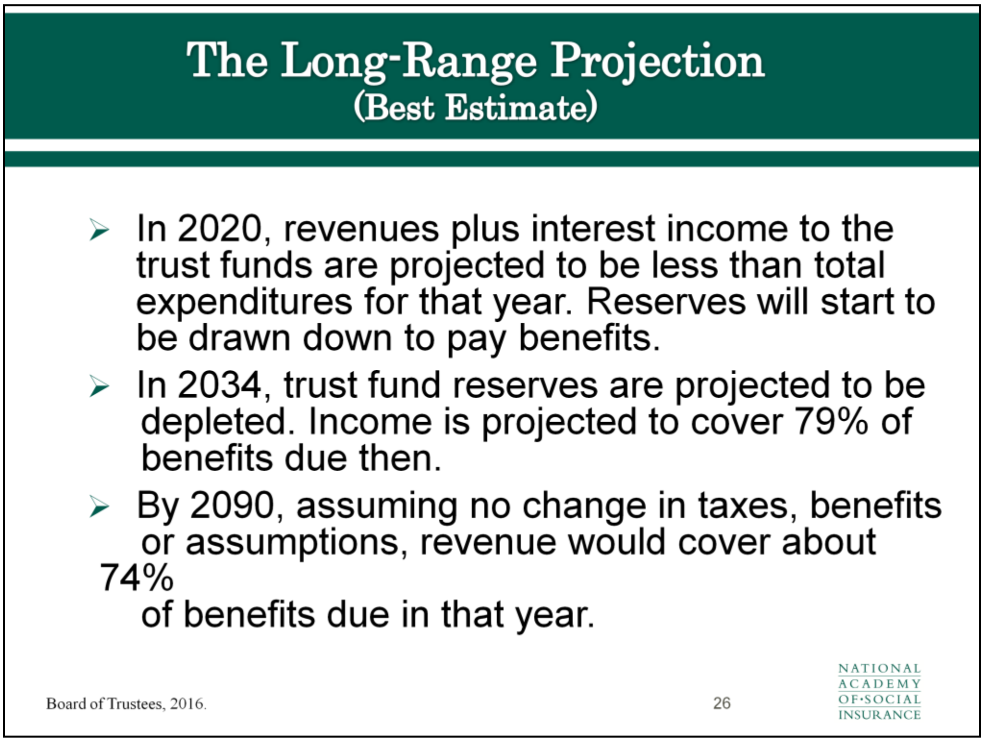
How do actuaries project the future?

The actuaries project the Social Security system 75 years into the future. They update their forecast every year. The purpose is to help policymakers anticipate whether Social Security is likely to face financing problems in the future. The actuaries make three forecasts: low cost, high cost, and intermediate (or best estimate).

For each, they use assumptions that have been reviewed and agreed to by the trustees. The assumptions are about future trends in aspects of the population and the economy that would affect the income and outgo of the trust funds.




Under the "best estimate" set of assumptions, the 2016 Trustees Report finds:

In 2020, revenues plus interest income to the trust funds are projected to be less than total expenditures for that year. Reserves will start to be drawn down to pay benefits.

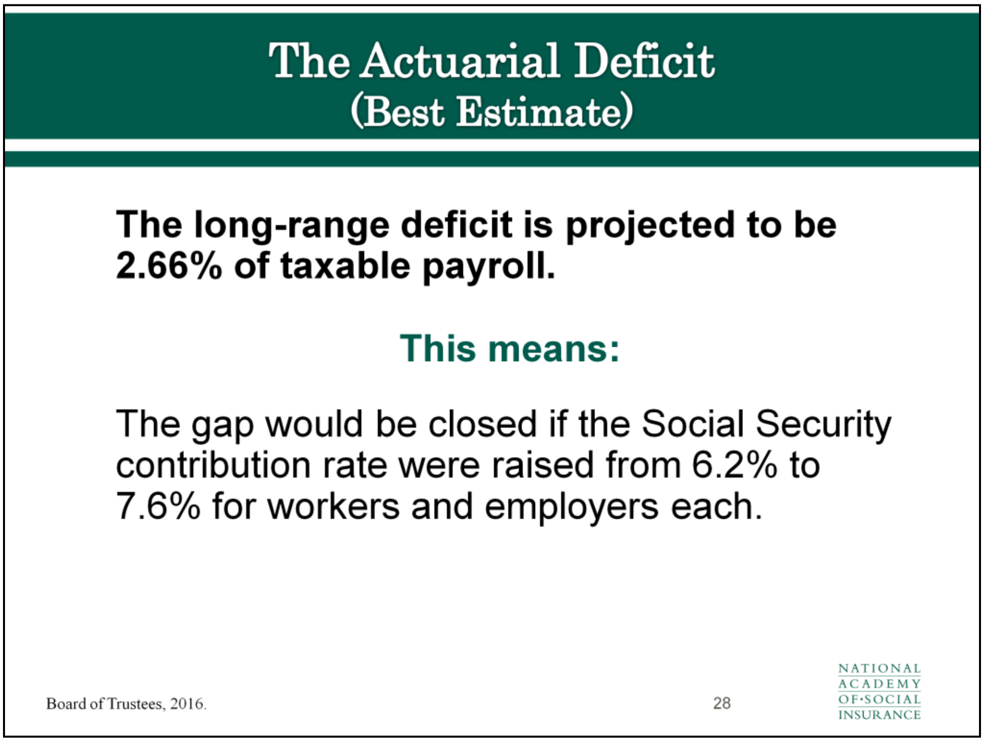
In 2034, reserves are projected to be depleted (assuming no change in benefits or contributions). Income is projected to cover 79 percent of benefits due then. The system will be far from "bankrupt" because Social Security contributions will keep coming in, but if this projection does not improve, policymakers will need to make some changes before 2034 to ensure that all scheduled benefits can be paid.

In short, lawmakers have not yet scheduled enough revenue to fully cover the cost of all future benefits. But they have already done most of the job. Social Security is fully financed until 2034, and after that it is about four-fifths of the way to full financing.


What do the trustees’ other scenarios show?

•Under the “High Cost” scenario, the Social Security trust fund reserves would be depleted in 2029, instead of 2034.
•Under the “Low Cost” scenario, the program would be solvent for 75 years and beyond.

The difference among estimates shows that there is great uncertainty about predicting the distant future.




What is the "actuarial deficit"? It is a way to measure the status of Social Security over the next 75 years in a single number.

Under the intermediate (best estimate) scenario, the Social Security trustees anticipate an actuarial deficit of 2.66 percent of taxable wages. This means that the gap in Social Security finances would be closed if the contribution rate were raised from 6.2 percent to 7.5 percent for workers and employers each. This combined increase is slightly higher than the actuarial deficit of 2.66 percent due to the assumed response of employees and employers to an increase in the contribution rate.

## Why Will Social Security Cost More in the Future?

- The number of Americans over age 65 will grow because:
  - **Boomers are reaching age 65**
  - **People are living longer after age 65**
- Birth rates are projected to remain at replacement levels.
- People 65 and older will increase from 15% to 23% of all Americans by 2090.

Board of Trustees, 2016: Tables V.A1 and V.A3.

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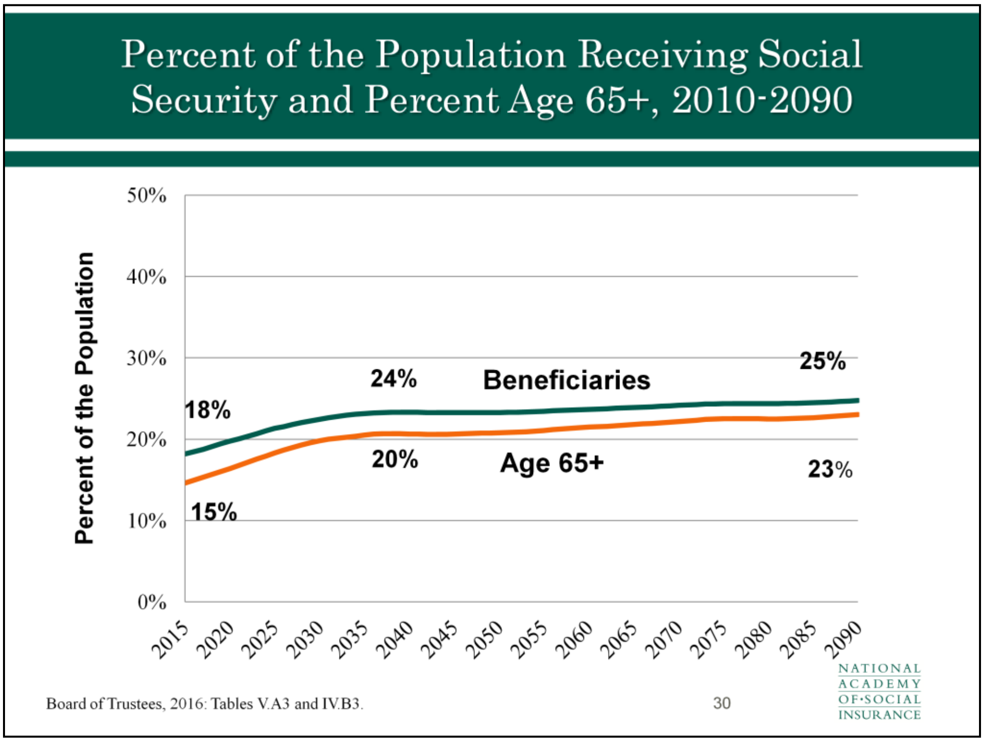
Why will Social Security cost more in the future?

The number of Americans over age 65 will grow because:
• Boomers are reaching age 65.
• People are living longer after age 65. However, the longevity increases are not evenly spread across the population, with certain demographic groups enjoying significantly longer lifespans than others.

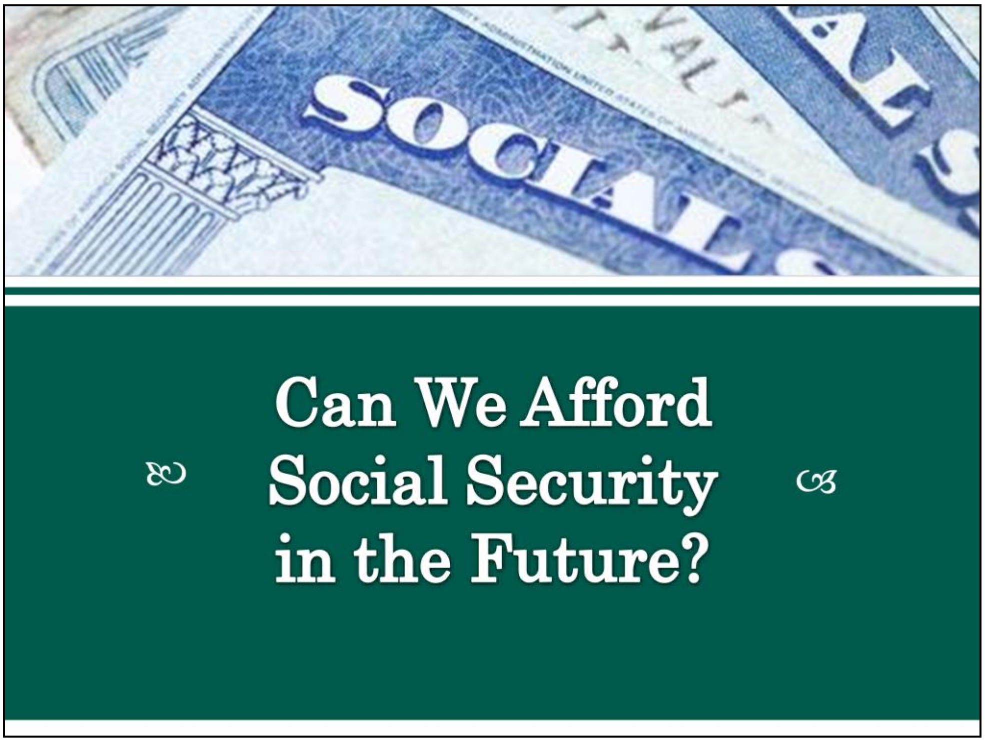
People age 65 and older will increase from approximately 15 to 23 percent of all Americans by 2090.

While the number of people eligible for Social Security will increase, lawmakers have not yet scheduled any increases in the Social Security contribution rate. In the past, increases in the contribution rate were often scheduled for the distant future when they would be needed to keep the program strong.



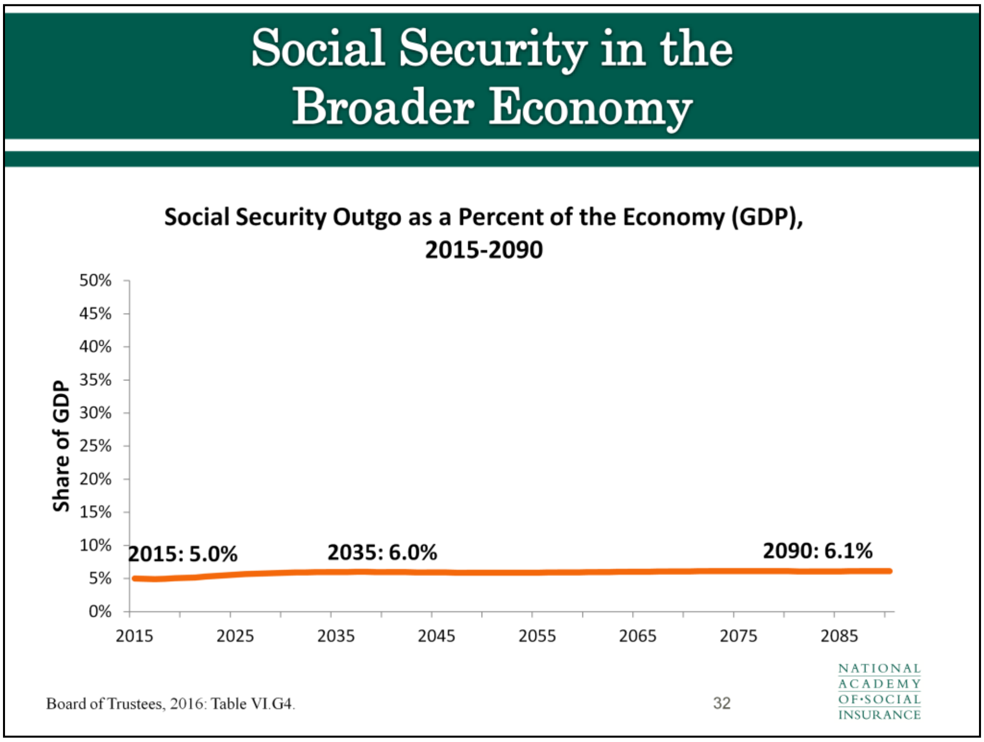

The share of the population that is over age 65 will increase from about 15 percent today to 20.5 percent in 2035 and then will gradually increase to about 23 percent by 2090. The beneficiary share of the population is a bit larger than the age 65+ population because some people under age 65 receive disability, survivor, or early retirement benefits. Beneficiaries as a portion of the U.S. population will increase from about one in six Americans today to about one in four 75 years from now.

Does the growing share of older Americans mean that we can't afford Social Security? That is the next question.



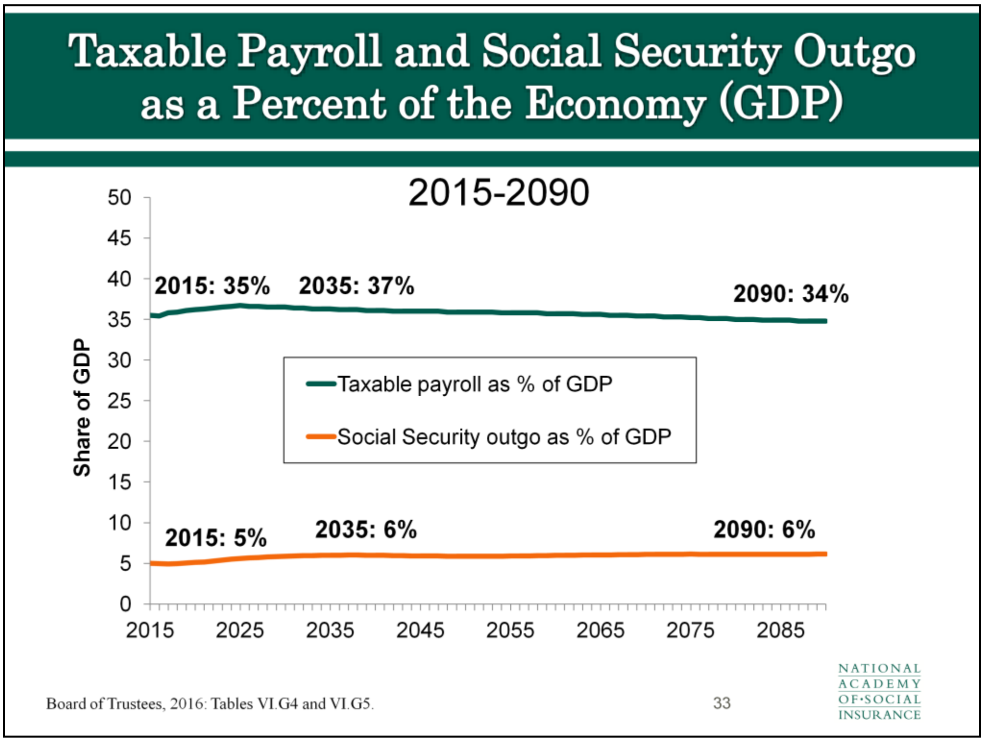

Can we afford Social Security in the future?

A widely accepted way to assess the Social Security program's affordability is to compare benefits scheduled under current law with the size of the entire economy at the time when benefits are to be paid.




Social Security benefits in 2015 made up 5 percent of the economy, or gross domestic product, and are projected to rise to 6 percent in 2035 and then increase slightly, remaining between about 5.9 and 6.1 percent thereafter. This modest increase between now and 2035 is smaller than the growth in spending for public education that occurred when the boomers were children.

A key reason why Social Security remains a relatively stable share of the economy even as more people rely on the benefits is that the change in the full-benefit age to 67 will gradually lower benefits for more and more older Americans over the next 45 years. By 2055 all beneficiaries under the age of 95 will have experienced the benefit reduction associated with changing the full-benefit age to 67. This aspect of the 1983 amendments is only beginning to be felt.




To put Social Security's financing in a broader perspective relative to the entire economy, consider taxable payroll – or the total wages subject to Social Security (FICA) contributions – as a percentage of the national economy. In 2015, 35.5 percent of GDP was subject to Social Security contributions; the rest of the national income was not. This share is projected to decline to 34.8 percent of GDP by 2090.

Sources of income that are *not* subject to Social Security taxes include:

• Earnings above the tax cap (about 17 percent of aggregate earnings);

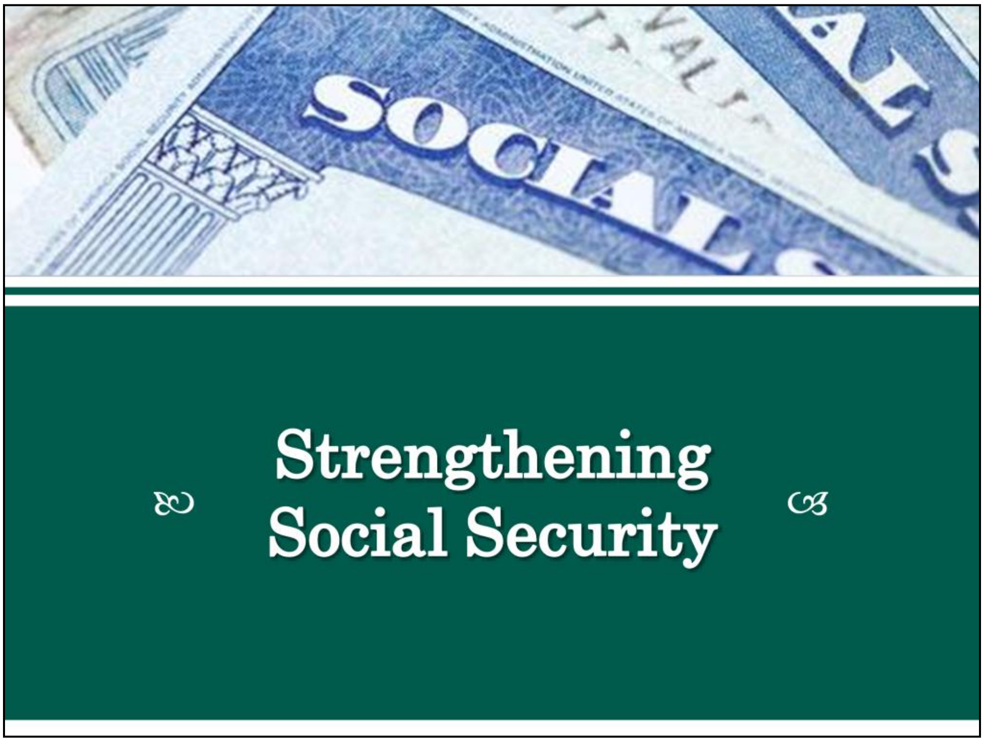
• Earnings of workers not covered by Social Security (about 25 percent of state and local government employees do not participate in Social Security);

• Non-taxable fringe benefits paid by employers, such as health insurance premiums, pension and 401(k) contributions, and most other employee benefits;

• Employees' tax-favored contributions to "salary reduction" plans for purposes other than retirement (such as out-of-pocket spending for health care, child care, or work expenses);

• Income from capital, such as interest on investments, stock dividends, and rental income from real estate; and

• Realized increases in the value of property (capital gains) and transfers of property (through gifts and inheritance).




There are many proposals to change or improve Social Security. They include options to:

• Increase benefit adequacy, often for a specific vulnerable group;
• Increase revenues to balance future finances; and
• Reduce benefits to balance future finances.

NASI's report, *Fixing Social Security: Adequate Benefits, Adequate Financing* (Reno and Lavery, 2009), illustrates nearly a dozen policy options to improve the adequacy of Social Security benefits for selected groups and improve the status of the program's finances over the next 75 years. The report includes official estimates from Social Security actuaries of the financial impacts of those changes on Social Security's long-term balance.

NASI's public opinion study, *Strengthening Social Security: What Do Americans Want?*, examined Americans' opinions on many of these options.

# Options to Improve Adequacy

Options that would improve the adequacy of benefits include:

1) Updating the special minimum benefit to ensure that long-serving, low-paid workers can remain out of poverty when they retire.
2) Reinstating student benefits until age 22 for children of disabled or deceased workers (currently, benefits for these children stop at age 18-19).
3) Allowing up to 5 childcare years to count toward benefits.
4) Increasing benefits for widowed spouses in low-earning couples.
5) Modestly increasing benefits for all by changing the benefit formula (to increase the first PIA bend point by 15 percent)



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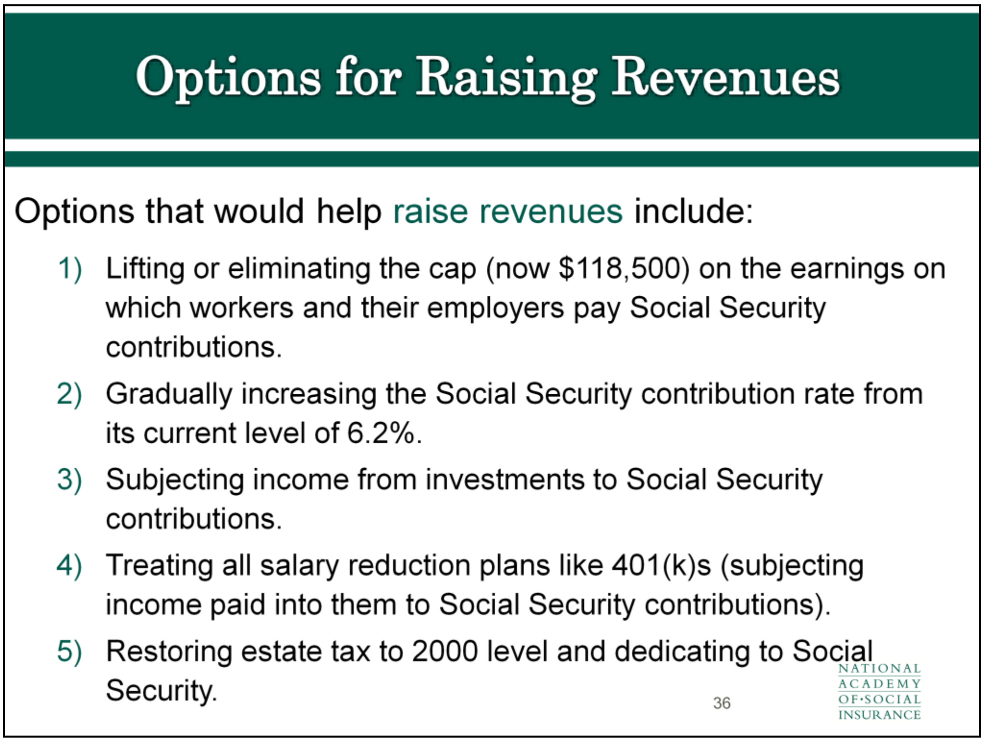
Each of these policy options targets an economically vulnerable group that would receive more adequate benefits under that option.

For more information on these options and their costs, see NASI’s report *Fixing Social Security: Adequate Benefits, Adequate Financing*.




The report includes many options for improving Social Security revenues in the future. For example:

• Lift the cap on earnings subject to Social Security contributions (now $118,500). Many variations on this option exist, including eliminating the cap entirely or lifting it so it once again includes 90% of covered earnings.

• Schedule an increase in the 6.2 percent contribution rate out in the future when funds would be needed. Such a change could avoid drawing down Social Security reserves so that interest income will remain a permanent source of income to Social Security.

• Subject income from investments to payroll contributions. To help Social Security's finances keep pace with economic growth and to push back against rising economic inequality, income that higher earners get from investments can be incorporated into the Social Security system and subjected to payroll contributions like any other earnings.

• Cover all salary reduction plans, just like 401(k)s – that is, treat contributions into the plans as covered earnings for Social Security. In 1983, Congress decided that worker contributions into 401(k)s should be covered by Social Security. That rationale could apply to other salary reduction plans.

•Dedicate progressive taxes to pay part of the future cost of Social Security. Examples of progressive taxes (which fall more on higher-income individuals than lower-income ones) include an estate tax and a financial transactions tax.

## Other Options for Solvency

Some proposals would reduce benefits for some or all beneficiaries in order to extend solvency.

- For example, raising the retirement age amounts to an across-the-board cut in benefits, and hence reduces the program's cost.
- Switching to the chained CPI as the basis for Social Security's cost-of-living adjustments (COLAs) would reduce benefits and hence program cost as well.

Reno and Lavery, 2009.

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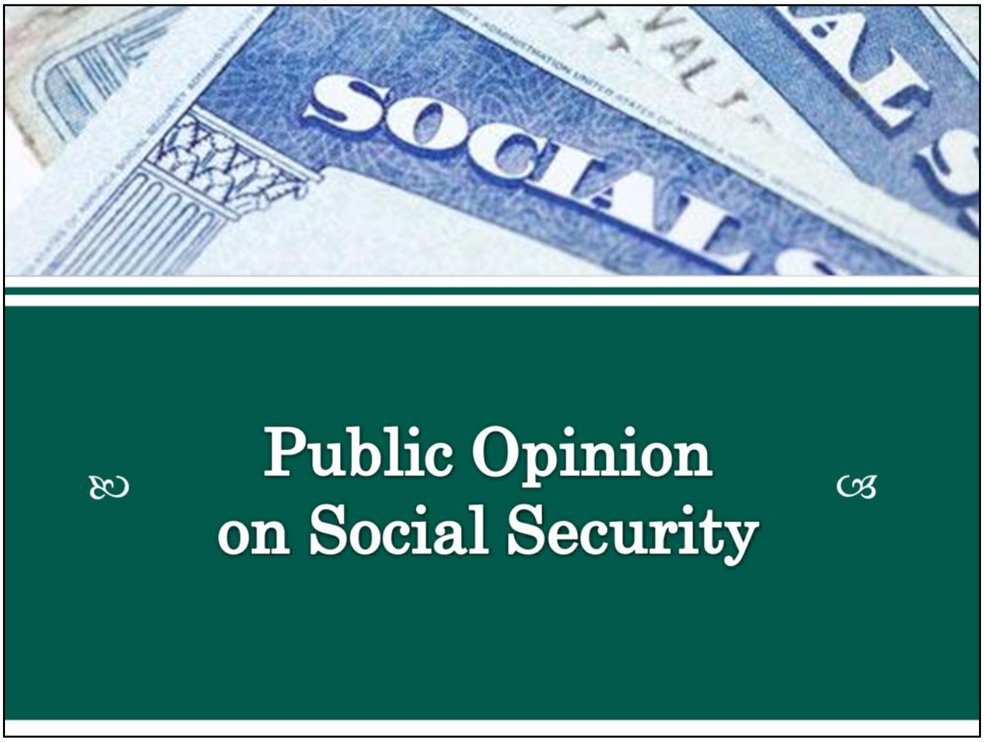
Raising the retirement age and switching to the chained CPI would each lower future benefits and costs.

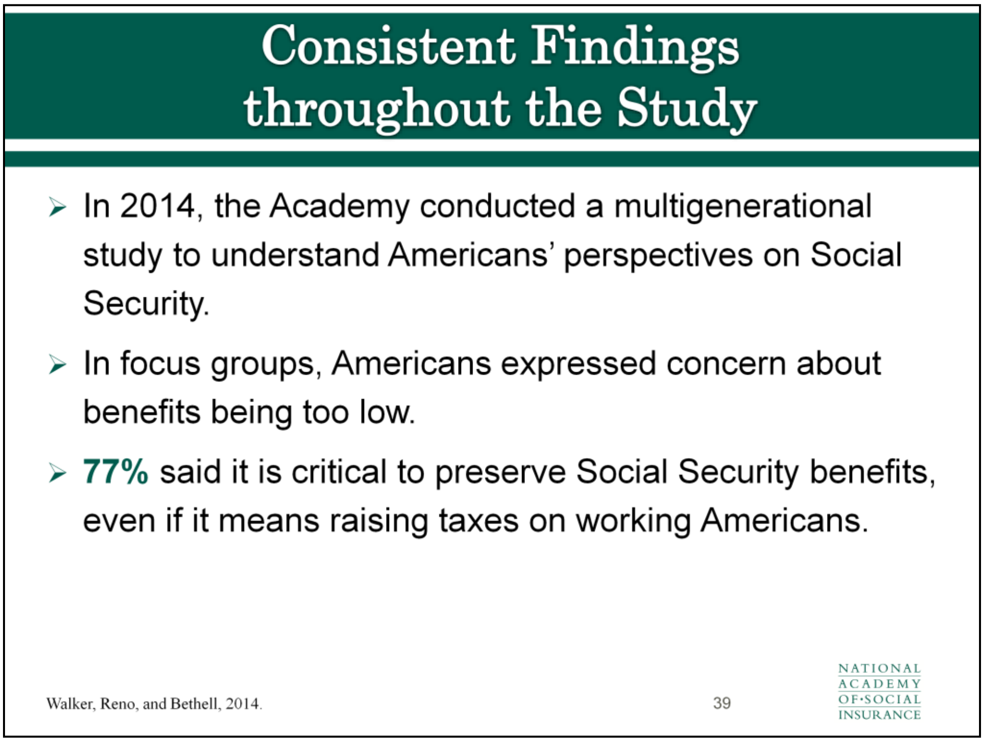
For more information on these options and their costs, see NASI's report *Fixing Social Security: Adequate Benefits, Adequate Financing*.




Public opinion polls consistently show that Americans support Social Security and are willing to pay for it. In fact, polls show that Americans would rather pay more than see future benefits cut more than is already scheduled in current law.

In 2014, NASI conducted a national survey of Americans' perspectives on Social Security and their preferences regarding options to strengthen the program for the future. The study found strong support for Social Security across income, generation, race and ethnicity, and party lines.

For full results of the study, see NASI's report *Americans Make Hard Choices on Social Security: A Survey with Trade-Off Analysis* (Walker, Reno, and Bethell, 2014).




The survey found evidence that Americans value Social Security, don't mind paying for it, and would rather pay more than see benefits cut.

The survey also used an innovative method called "trade-off analysis" that asked participants to chose among different packages of policy options. The favorite package included two revenue increases and two benefit increases.

The following charts show more detail about the survey results.

## Consistent Findings throughout the Study

- In the trade-off analysis, the package preferred by **71% of respondents** would:
  - Gradually **increase taxes** in two ways:
    - for high earners by eliminating the taxable earnings cap;
    - For all workers by raising the tax rate by 1/20 of 1% per year.
  - **Increase benefits** in two ways:
    - For low earners by increasing the special minimum benefit;
    - For all beneficiaries by basing COLAs on the inflation experienced by the elderly.

Walker, Reno, and Bethell, 2014.

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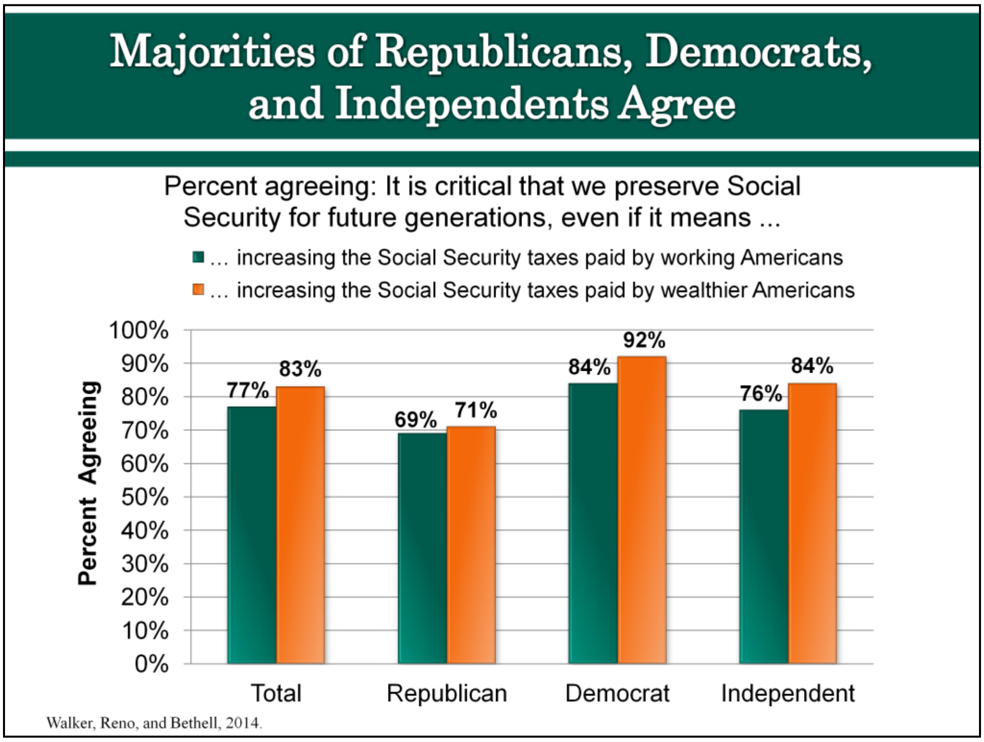
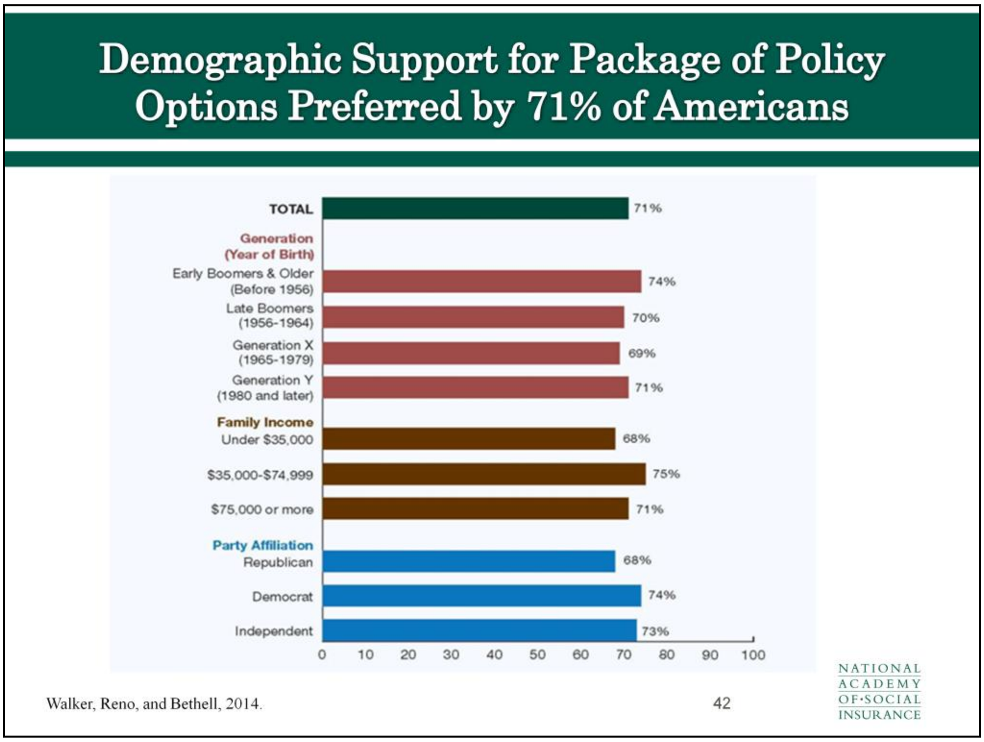



The study found that large majorities of Americans agree it is critical to preserve Social Security for future generations even if it means increasing Social Security taxes. Republicans, Democrats, and Independents agree on this point.

• 77% of Americans agree it is critical to preserve Social Security for future generations even if it means increasing the taxes paid by *working* Americans. Those agreeing include 69% of Republicans, 84% of Democrats and 76% of independents.

• 83% of Americans agree it is critical to preserve Social Security for future generations even if it means increasing the taxes paid by *wealthier* Americans. Those agreeing include 71% of Republicans, 92% of Democrats and 84% of independents.




Trade-off analysis examined which packages of Social Security policy changes respondents prefer and are willing to pay for.

The respondents' favorite package of policy options would:

• Gradually, over 10 years, eliminate the taxable earnings cap (then $117,000 in 2014).

• Gradually, over 20 years, raise the payroll tax from 6.2% to 7.2%.

• Increase the cost-of-living adjustment (COLA) to more accurately reflect the inflation actually experienced by seniors.

• Raise the minimum benefit so that a lifetime low-wage worker can retire at 62 or later and have benefits above the federal poverty line.

This package more than eliminates the 75-year financing gap and leaves a small surplus.

Seven in 10 Americans, across generations and income levels, supported this package over the status quo.

# Recap

- Benefits are modest (dollars and replacement rates). Yet they are **most beneficiaries' main source of income.**
- Social Security benefits will replace a smaller share of earnings in the future than they do today **(replacement rates are declining because of the increase in the retirement age)**.
- **Revenue increases or benefit cuts will be needed** to balance Social Security's future finances.
- Lawmakers **have many options** to raise revenues, lower future benefits, or increase benefits to improve adequacy.
- **Americans value Social Security** and are willing to pay for it.
- **Americans report they would rather pay more** than see future benefits reduced.



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