

Supplemental Transition Accounts for Retirement: **A Proposal To Increase Retirement Income Security and Reform Social Security**

Gary Koenig

AARP Public Policy Institute

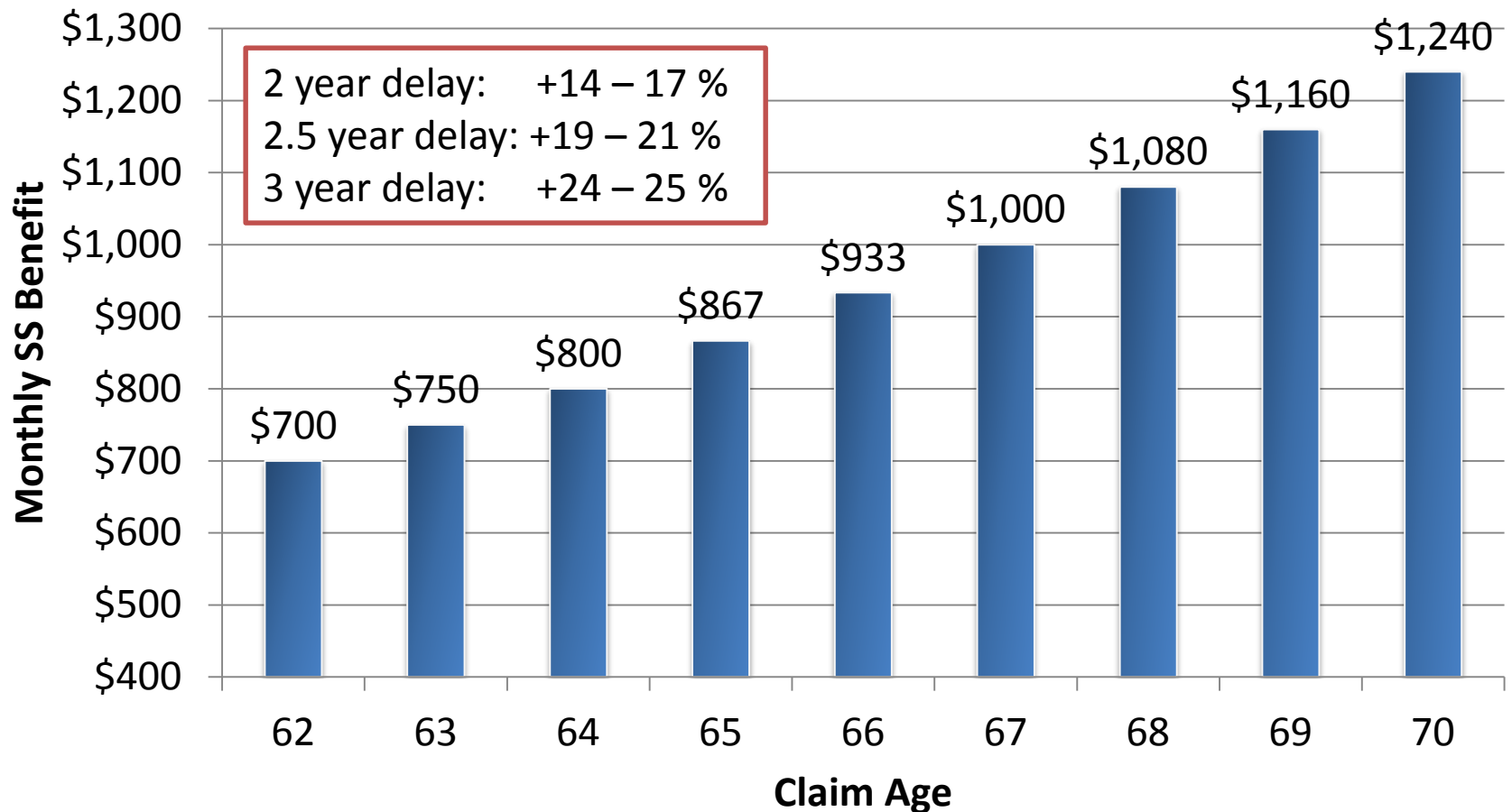
Jason J. Fichtner

Mercatus Center at George Mason University

William G. Gale

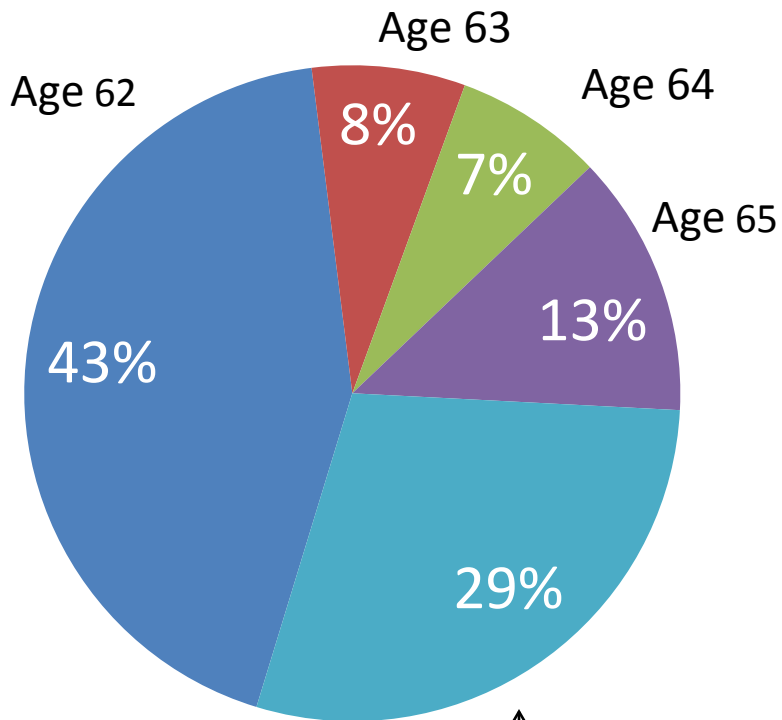
The Brookings Institution

Social Security Monthly Retirement Benefits Increase with Claim Age

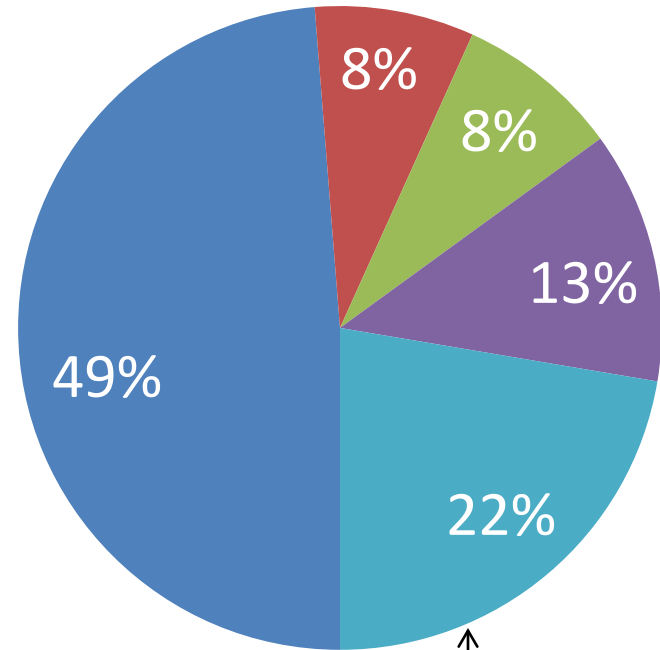


Most People Claim Social Security Benefits Early

Men 2014



Women 2014



FRA and after

Challenges to Delay Claiming Social Security

- **Can't afford** to delay getting benefits.
- Don't want to **give up income** today to get a “small” increase in their monthly benefit.
- May **not understand** how benefits increase (for themselves or their spouses) the longer they wait.

Goals and Criteria

- ✓ Facilitate **2-3 year** delay in claiming **without** limiting access to **essential income**.
- ✓ **Self-financing** — No negative effect on solvency.
- ✓ Encourage **longer working lives**.
- ✓ **Fully integrated** with Social Security program.

Supplemental Transition Accounts for Retirement

- STARTs are **mandatory** add-on **savings** accounts
 - Pre-tax employer (1%) + post-tax employee (1%)
 - Government contribution for low-income households (up to 1%).
 - SSA would enroll all SS-covered workers into START
 - STARTs would be professionally managed in a pooled account with an emphasis on keeping administrative fees as low as possible.
- **Individuals would be required to exhaust START assets before receiving Social Security benefits (up until FRA)**
- START distributions **can begin at EEA** and would equal the SS benefits that would have been paid under current-law claiming rules.

How Does it Work?

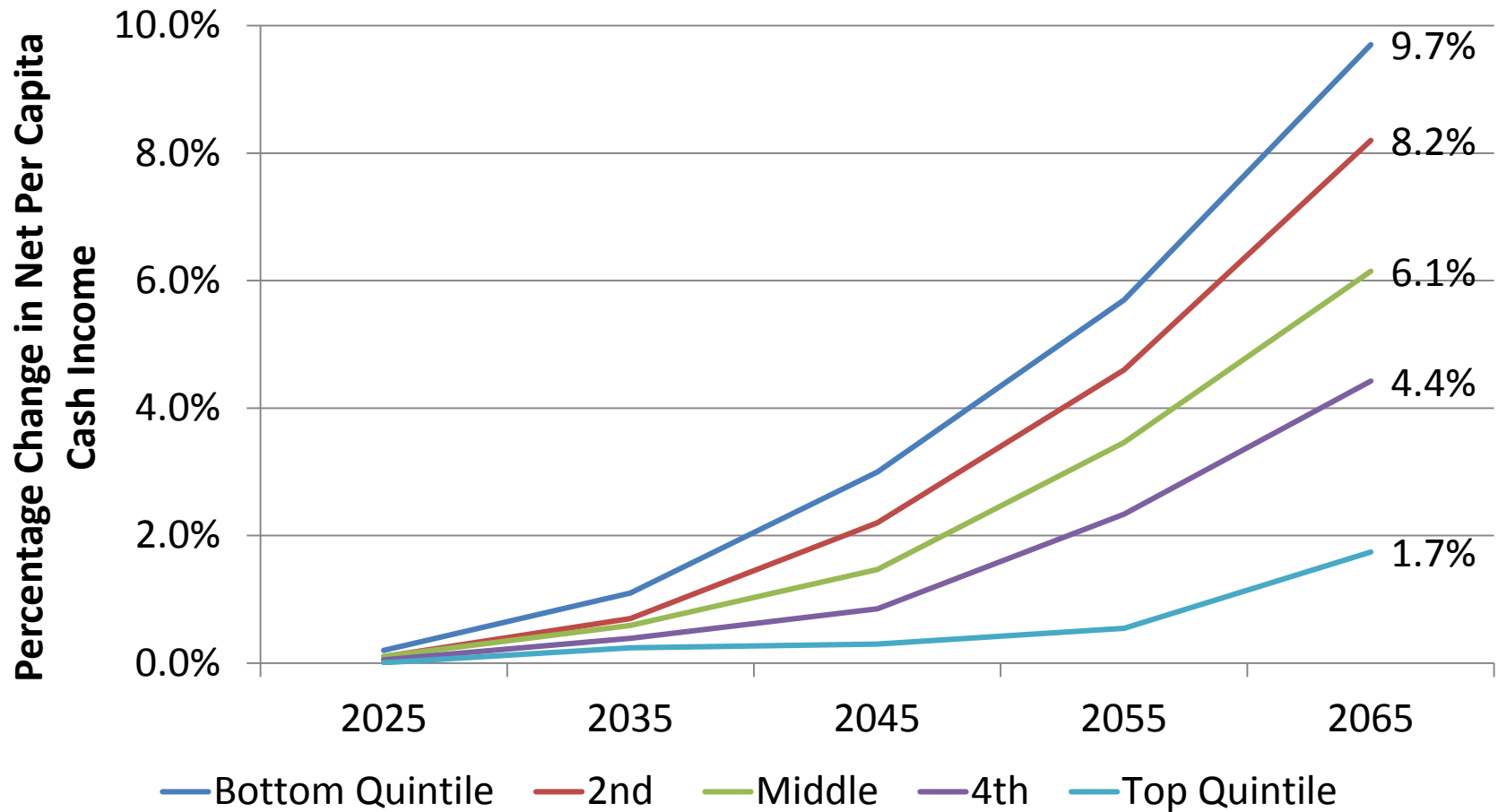
Example: Medium earner (career average ~ \$49,000)
35 years of work — Age 62 in 2022

- Current Law
 - **Social Security annual benefit at age 62 = \$16,000**
- START Proposal
 - START assets = \$34,300 → allow for 2 year 2 month delay
 - START Benefits = \$16,000 annual
 - **Social Security annual benefit beginning at age 64 and 2 months = \$18,540**
- Alt: Wait until age 67 (FRA):
 - Social Security Annual Benefit = \$22,860
 - **Lump Sum (START Assets) = \$34,300**

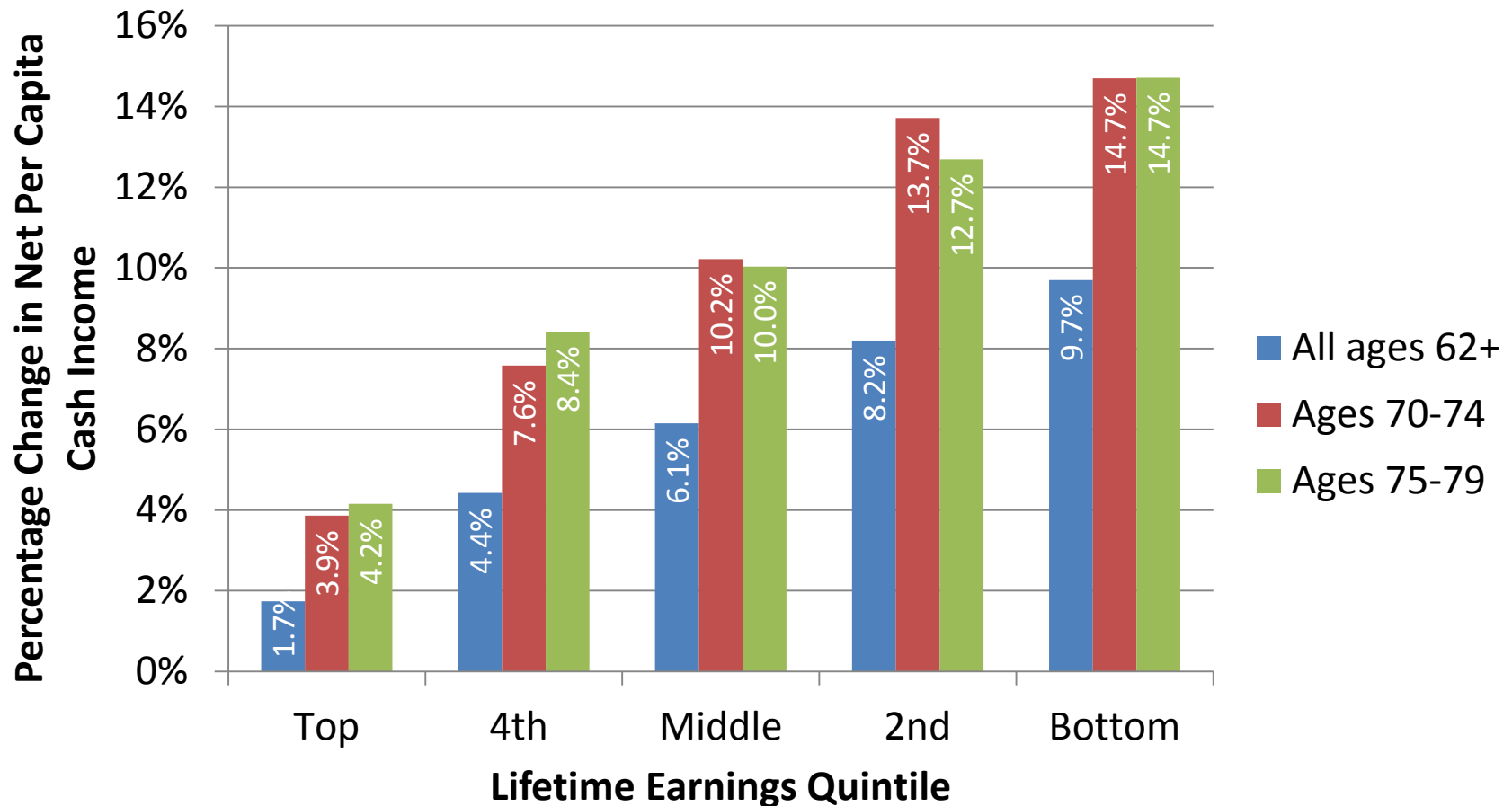
How Does it Work?

- Similar rules for workers with disability
 - Beneficiaries who apply for and receive DI benefits between 62 and FRA would be required to exhaust their START assets before receiving Social Security Disability Insurance payments.
 - **Actuarially Fair Credit Would Apply.**
- Two Exceptions:
 - Beneficiary who has a condition on the **Compassionate Allowance list** will have unrestricted access to his START assets regardless of age.
 - DI beneficiary in pay status when they turn 62 can elect to use their START assets to “purchase” additional Social Security annuity income, but would not be required to do so.

Lowest Lifetime Earners Benefit the Most



Cohort/Transition Effects Mask the Full Impact of START 2065 by Age Group



Final Thoughts

- START achieves **meaningful increases** in retirement **income** without limiting access to essential income.
- START has good distributional properties
- START **reduces** Social Security's 75-year solvency gap by **12 percent**.
- START provides financial assets to those most in need due to a serious health condition or the death of a working parent or spouse.

Thank you!

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