

Saving Social Security

June 2019



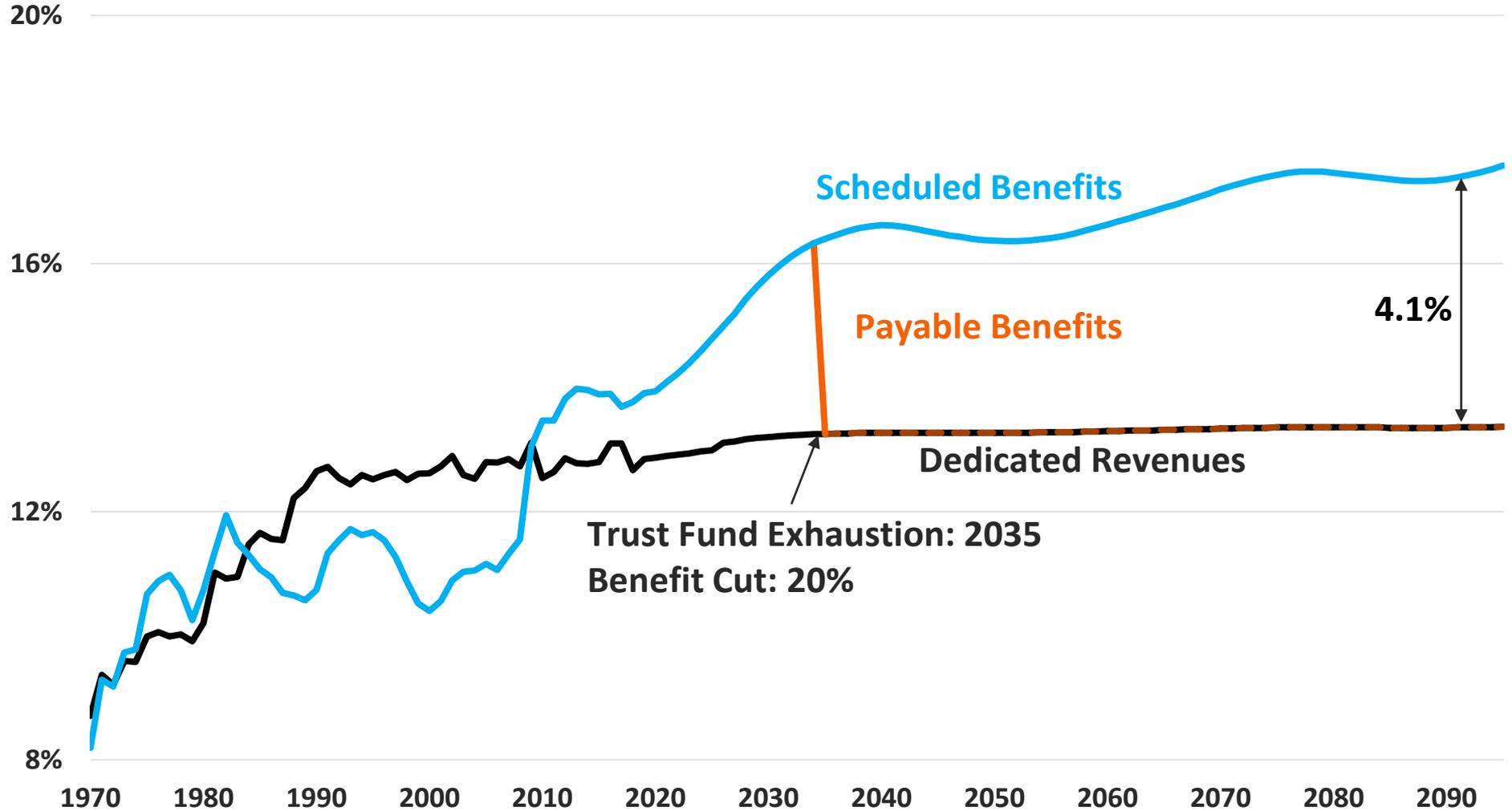
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Social Security's Finances

Social Security Spends More than It Raises

Percent of Payroll



Trust Fund Exhaustion: 2035
Benefit Cut: 20%

Dedicated Revenues

Scheduled Benefits

Payable Benefits

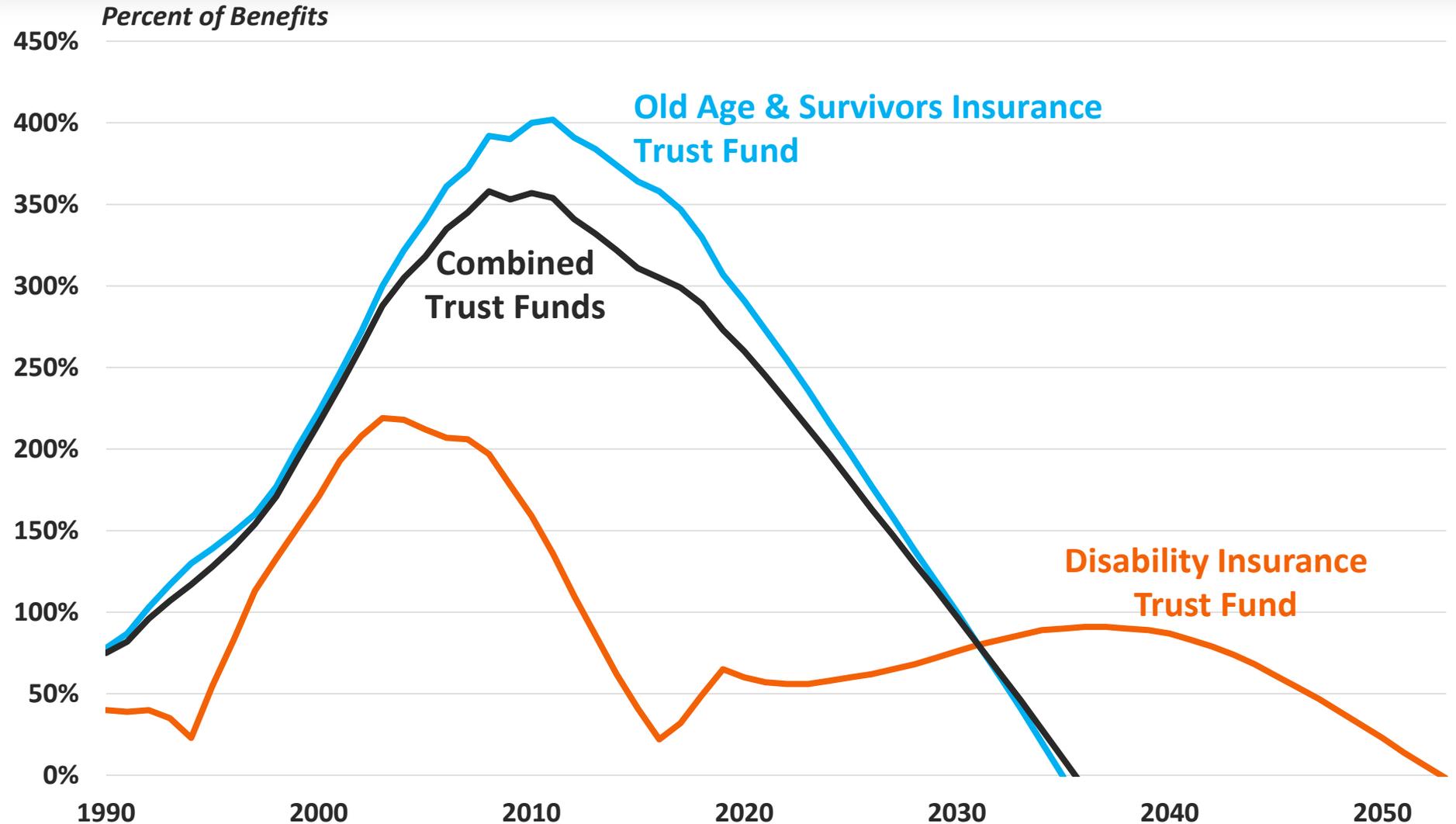
4.1%

Source: 2019 Social Security Trustees' report

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Social Security Will Be Insolvent in 16 Years



Source: 2019 Social Security Trustees' report

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What Does it Mean to Be 16 Years From Insolvency?



How Old Will You Be When Social Security's Funds Run Out?

Enter your year of birth:

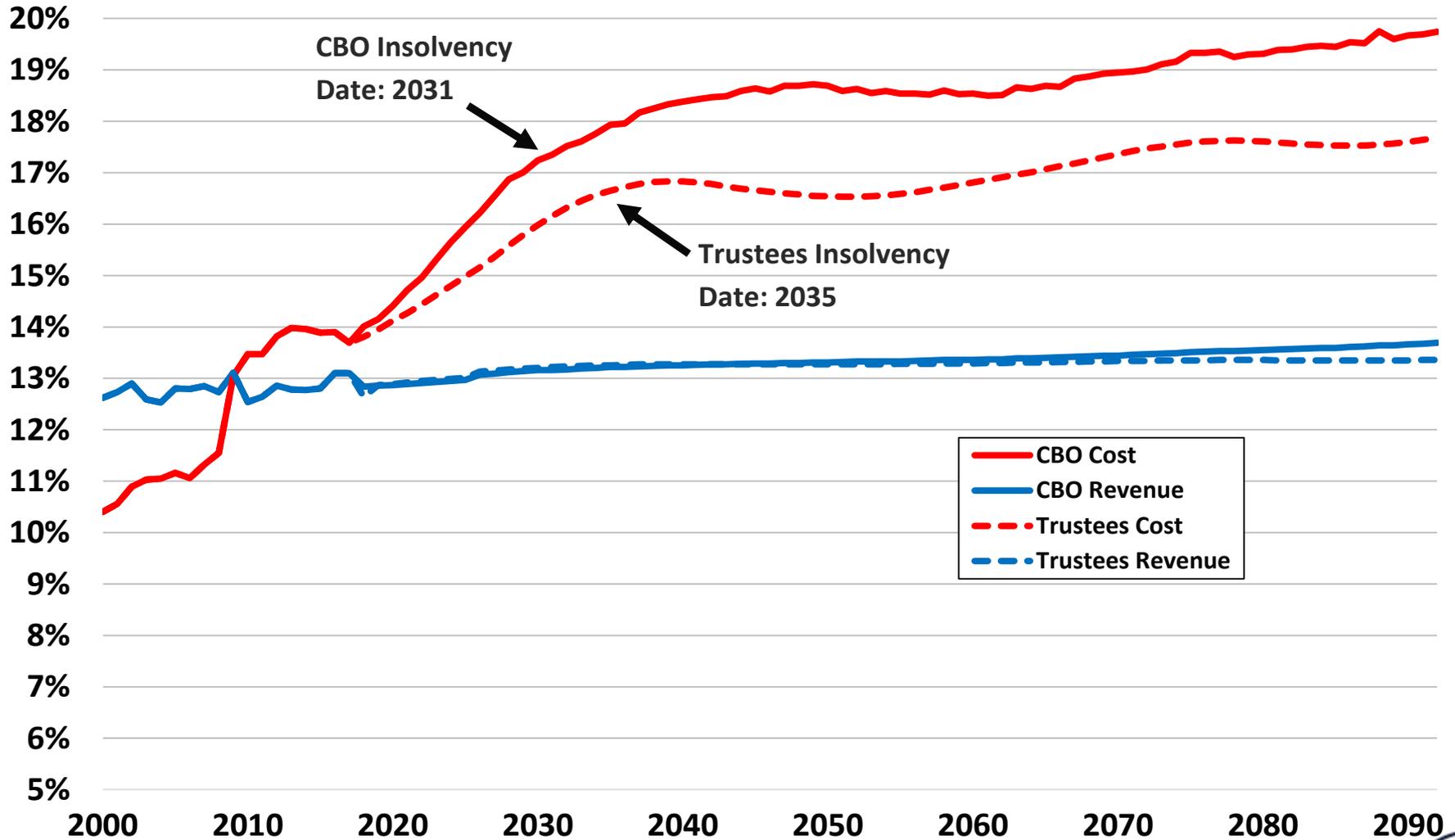
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www.crfb.org

<http://www.crfb.org/blogs/how-old-will-you-be-when-social-securitys-funds-run-out>

CBO Thinks We're In Even Worse Shape

Percent of payroll

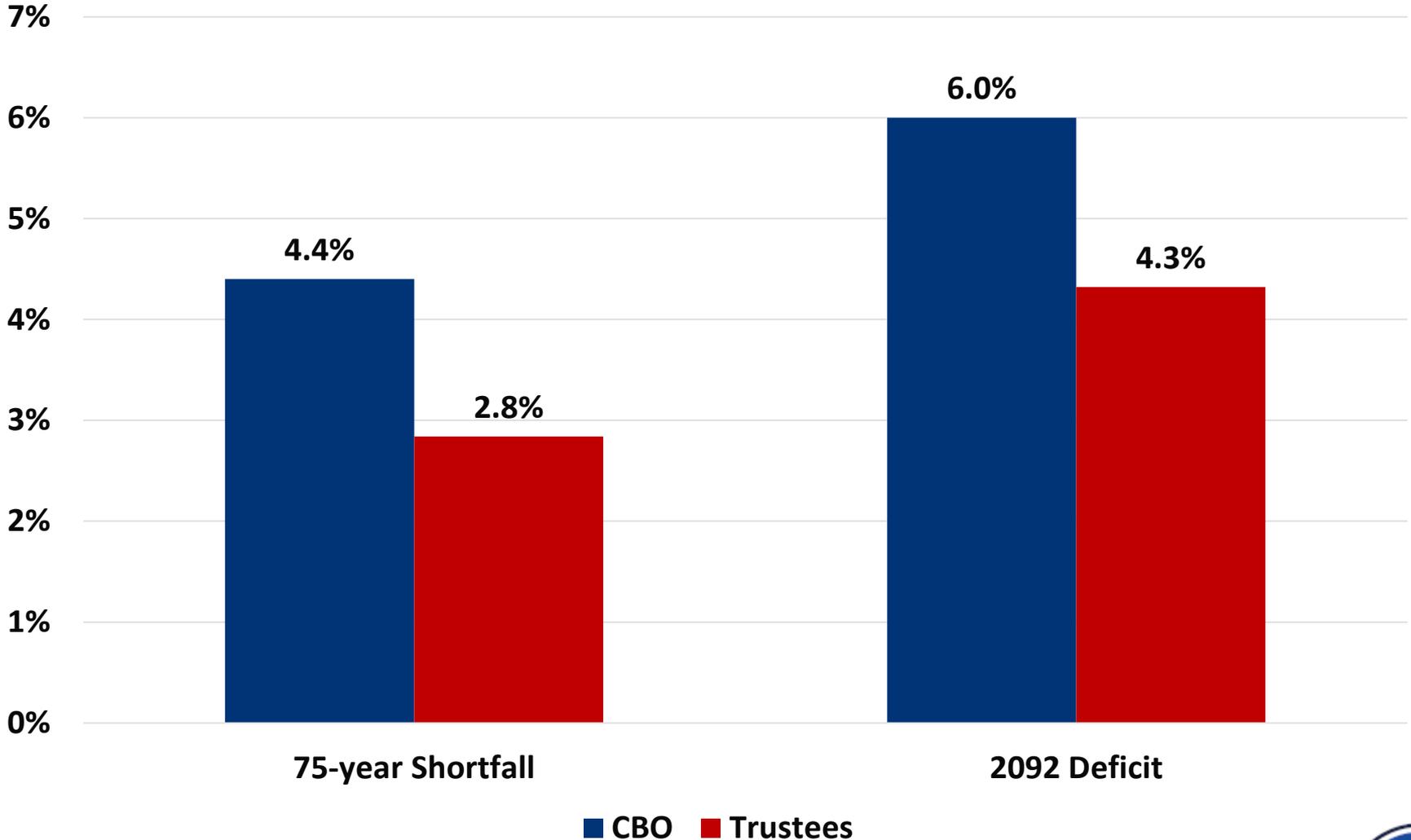


Source: Social Security Trustees, Congressional Budget Office.



The Program's Long-Term Shortfall is Large

Percent of payroll

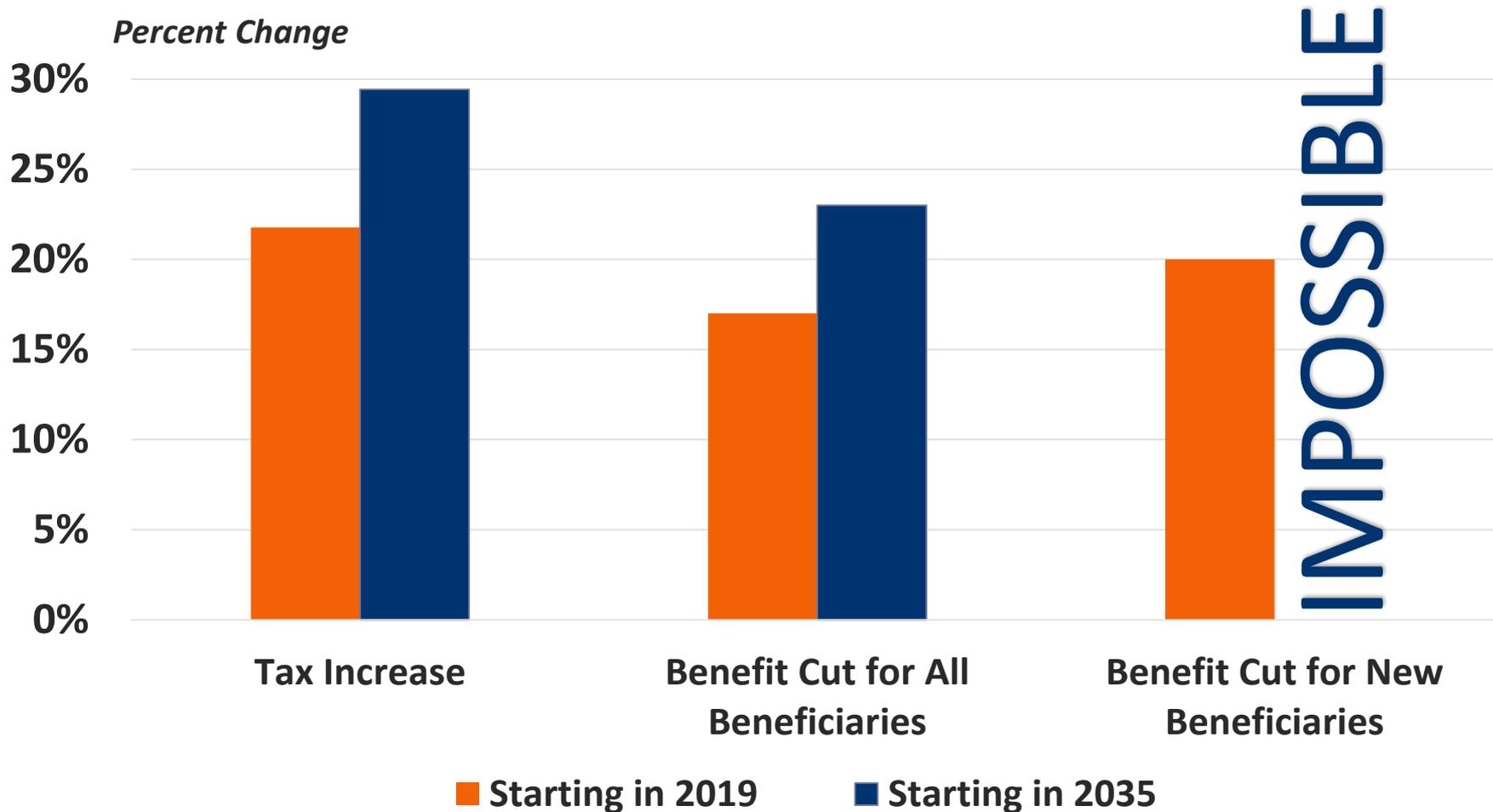


Source: Social Security Trustees, Congressional Budget Office.

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The Longer We Wait, the Harder It is to Save Social Security



Source: 2019 Social Security Trustees' report

Social Security Reform Options

Five Major Levers

- 1. Payroll Tax Rate**
- 2. Payroll Tax Base/Cap**
- 3. Benefit Formula**
- 4. Retirement Age**
- 5. Cost-of-Living Adjustments (COLA)**

Payroll Tax Rate, Base, and Cap

Raise the Payroll Tax Rate

- 12.4% rate could be increased for all workers

Raise the ‘Tax Max’

- Increase or eliminate \$132,900 cap (donut hole?)
- Increase could apply to employer, employee, or both
- Must decide whether to offer higher benefits

Broaden Payroll Tax Base

- Cover newly hired State & Local Gov’t workers
- Eliminate “cafeteria plan” deduction
- End other exemptions and close loopholes
- Expand payroll tax to cover more types of compensation or income



Change the Benefit Formula

Modify 90%-32%-15% 'PIA' Formula

- Move or create new 'bend points' and change PIA factors
 - Examples – change from 90%-32%-15% to 95%-30%-10%-5%
- Adopt 'progressive indexing' so benefits growth with prices instead of wages for very highest earners
- Benefits could be reduced only for top X% of earners, and increased for some

Change How Past Earnings Are Utilized

- Increase years used to calculate AIME (currently 35)
- Index past earnings with prices instead of wages
- Adopt 'mini-PIA' to apply PIA formula to each year of earnings rather than average lifetime earnings

Move to 'Flat' Benefit

Change Retirement Age or COLA

Increase Retirement Age(s)

- Increase normal retirement age (NRA) from 67
- Increase NRA from 67 and earliest eligibility age (EEA) from 62
- Ages could be raised, indexed to longevity, or both
- Age-protected minimum benefit could protect vulnerable workers
- Other ages (delayed age, widow age, etc) could also be adjusted

Modify Actuarial Reductions at Any Given Age

Modify Cost-of-Living Adjustments

- Adopt more accurate 'chained CPI'
- Reduce or freeze COLAs for all or for higher earners
- Cap COLAs at certain dollar amount
- Increase COLAs (CPI-E?)

Other Policy Options

Offer Targeted Expansions

- Minimum benefits
- Old Age Bump-Ups
- Caregiver credits/drop-out years
- Enhanced widow(er)s benefits
- Payroll tax relief for older workers

Reform Auxiliary Benefits

- Cap/reform spousal benefit
- Reform child benefits
 - (End 'Baron Trump' benefit?)
- Enact SSDI Solutions
 - Eligibility
 - Determination/adjudication
 - Remain-at/Return-to-work efforts

Other Benefit/Tax Changes

- Means Test Benefits
- WEP/GPO reforms
- Change taxation of benefits
- Dedicated inheritance tax
- Overlapping benefits...

Invest in the Market

- Invest the trust fund
- 'Add-on' retirement accounts
- 'Carve-out' retirement accounts
- Increase savings and reform pensions outside of Social Security



Designing Your Own Reform Plan



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• [RETURN TO MAIN SITE](#)

The Reformer *An Interactive Tool to Fix Social Security*

Social Security provides vital income security to millions of beneficiaries, but is on a road toward insolvency. The Social Security program currently pays more in benefits than it collects in revenue, and under the latest official projections its trust funds will run out in 2034. At that point, all beneficiaries regardless of age and income will face an immediate 21 percent benefit cut.

CRFB's "The Reformer" allows users to choose from a number of options to modify Social Security tax and benefit levels in order to close the program's 75-year shortfall and keep it sustainable for future generations.

See how your choices stack up!

[See our methodology for this calculator](#)

Related Resources



[Analysis of the 2018 Social Security Trustees' Report](#)
Read about the latest Social Security projections from the program's own trustees

[CRFB's Other Interactive Tools](#)



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<http://www.SocialSecurityReformer.org/>

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The Johnson Plan

Provision	% of Solvency Gap	% of Structural Gap
	Close	Closed
Change the benefit formula to increase progressivity and slow cost growth	32%	35%
Use an annualized "mini-PIA" to calculate benefits	13%	14%
Increase the normal retirement age to 69 by 2030	32%	31%
Adopt Chained CPI and eliminate COLA for high-income beneficiaries	47%	53%
Cap auxiliary benefits and require full-time school enrollment for child beneficiaries	3%	3%
Provide a new minimum benefit for low earners based on years in the workforce	-9%	-9%
Provide a 20 year benefit bump-up	-3%	-2%
Phase out taxation of Social Security benefits after surpluses emerge	-15%	-22%
Additional provisions and interactions	<1%	2%
TOTAL	100%	104%

Note: Numbers may not add due to rounding.

The Larson Plan

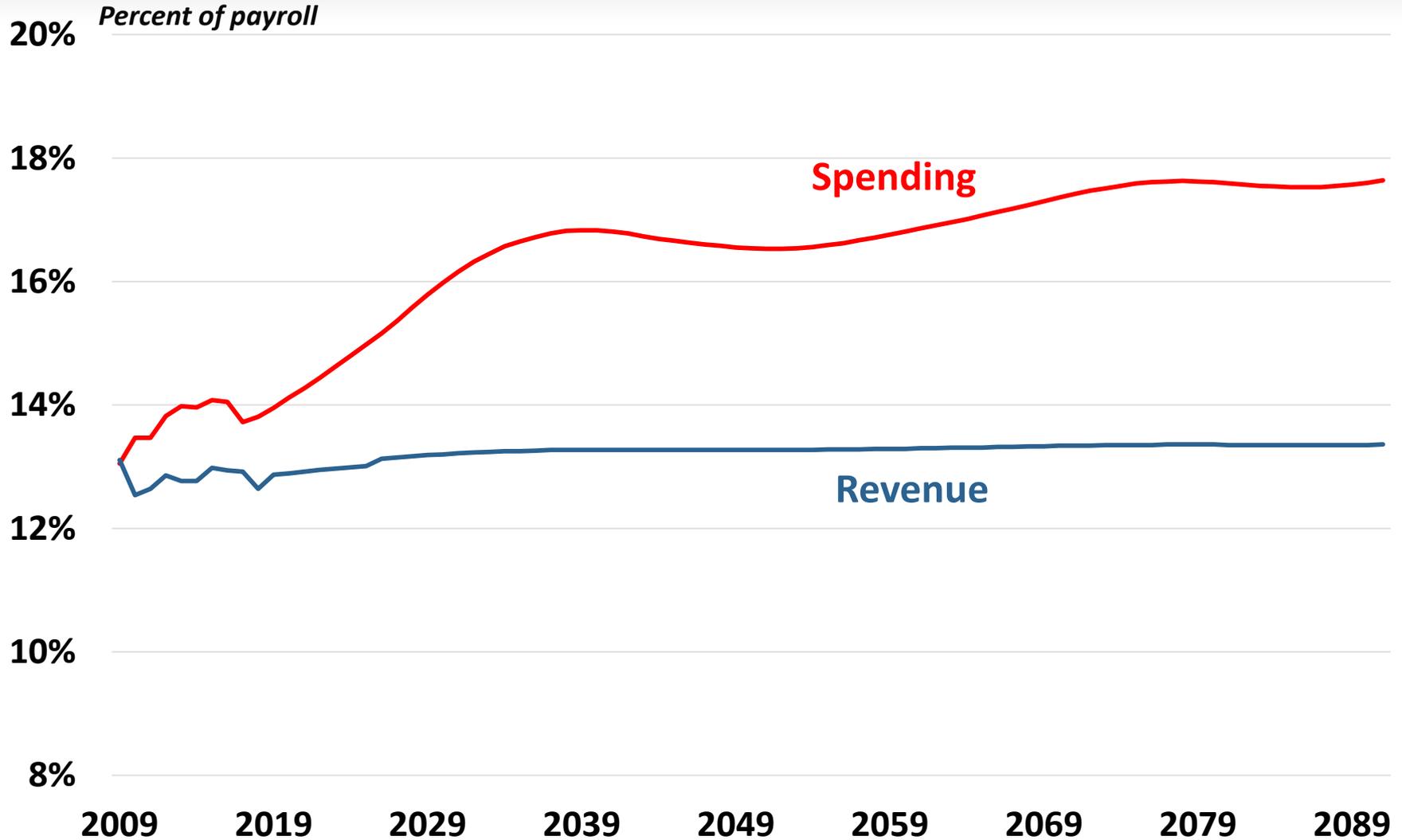
Provision	% of Solvency Gap	% of Structural Gap
	Close	Closed
Change the benefit formula to increase benefits across the board	-8%	-6%
Adopt CPI-E for Cost-of-Living Adjustments	-14%	-13%
Provide a new minimum benefit for low earners based on years in the workforce	-4%	-4%
Increase income threshold for taxation of Social Security benefits	-6%	*
Apply payroll tax to income over \$400,000 and credit benefits at lower rate	67%	54%
Increase the payroll tax by 0.1 percentage point per year until it reaches 14.8%	64%	55%
Combine OASI and DI Trust Funds into single trust fund	*	*
Interactions between proposals	11%	10%
TOTAL	110%	96%

Note: Numbers may not add due to rounding. * indicates effect is <1%.

The Conrad-Lockhart Plan

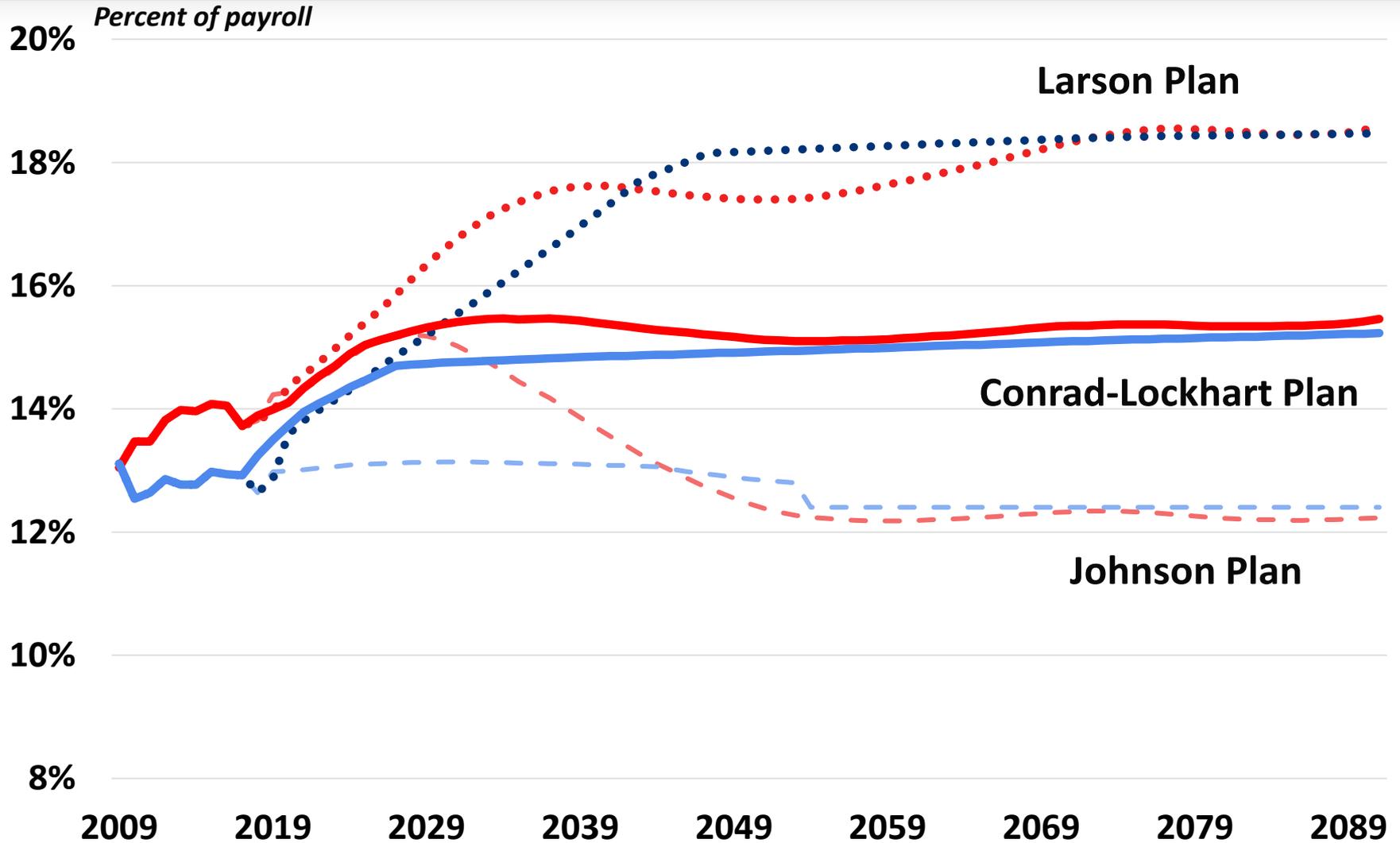
Proposal	% of Solvency Gap Closed*	% of 75th Year Shortfall*
Adopt the chained CPI for cost-of-living adjustments	17%	13%
Increase the number of years for calculating benefits and apply the benefit formula on an annual basis	11%	10%
Index the retirement age to longevity (review at age 69)	18%	29%
Make the benefit formula more progressive to enhance benefits for low- and middle-earners	2%	2%
Enhance widow(er)s benefits while capping spousal benefits	6%	2%
Increase the "tax max" to \$195,000, then index to AWI+0.5%	20%	13%
Increase the payroll tax by 1%	33%	22%
Institute a Basic Minimum Benefit	-7%	-5%
Interactions and other policies	6%	8%
TOTAL	106%	94%

All Three Plans Would Close This Gap:



Source: Social Security Trustees.

Three Different Paths to Sustainable Solvency



Source: Social Security Trustees.

Bonus Slides

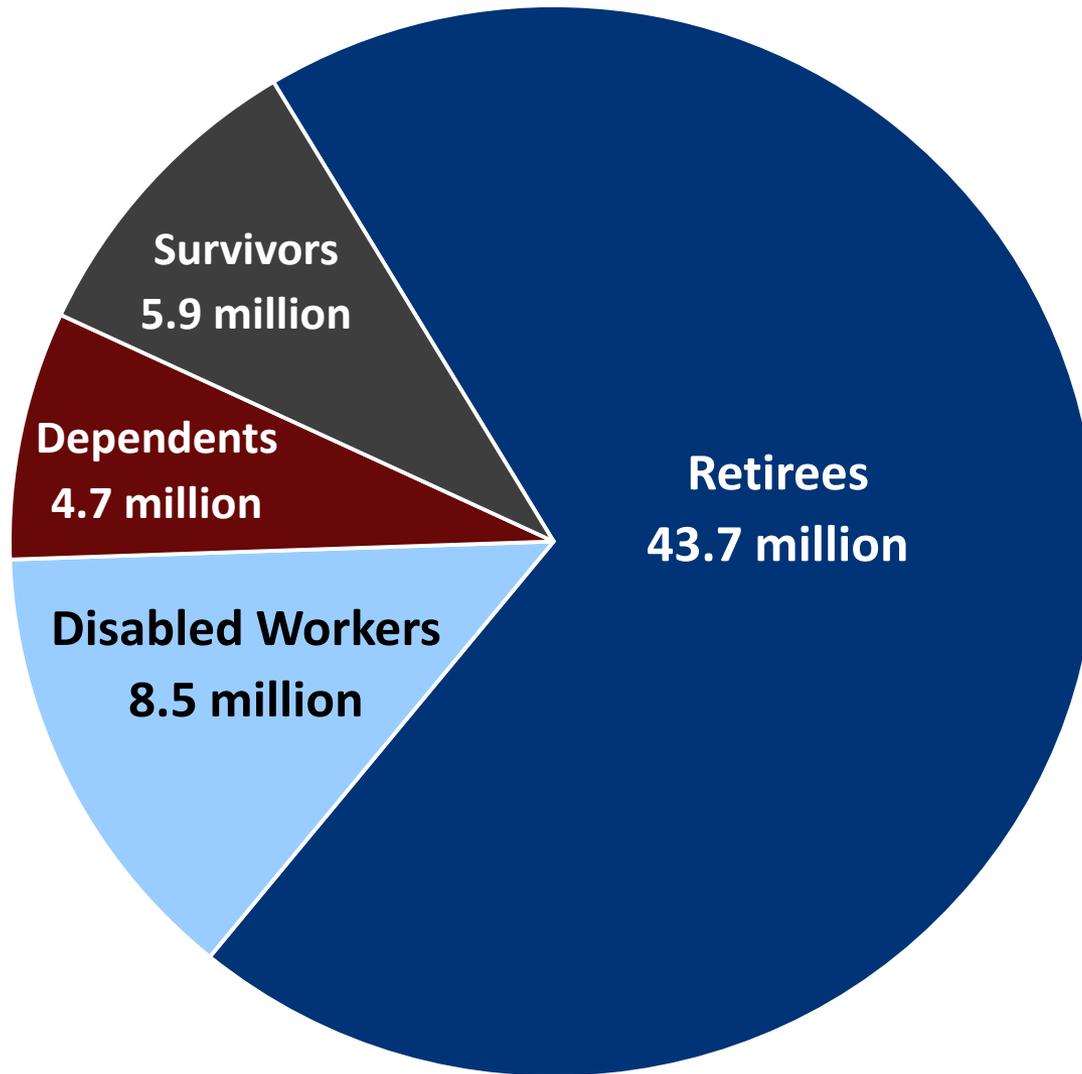
Social Security Basics

What is Social Security?

Social Insurance Benefits:

- **Retirement Benefits**
 - Normal age = 66 → 67, early age = 62
- **Spousal Benefits**
 - At least ½ of higher earning spouses' benefits
- **Survivors Benefits**
 - Mainly for widow(er)s, but also surviving children/dependents
- **Disability Insurance**
 - Available to 'insured' workers with a work-prohibitive disability expected to last for at least one year

Social Security's Beneficiaries, 2018



Source: Social Security Administration

What is Social Security?

Social Insurance Financing:

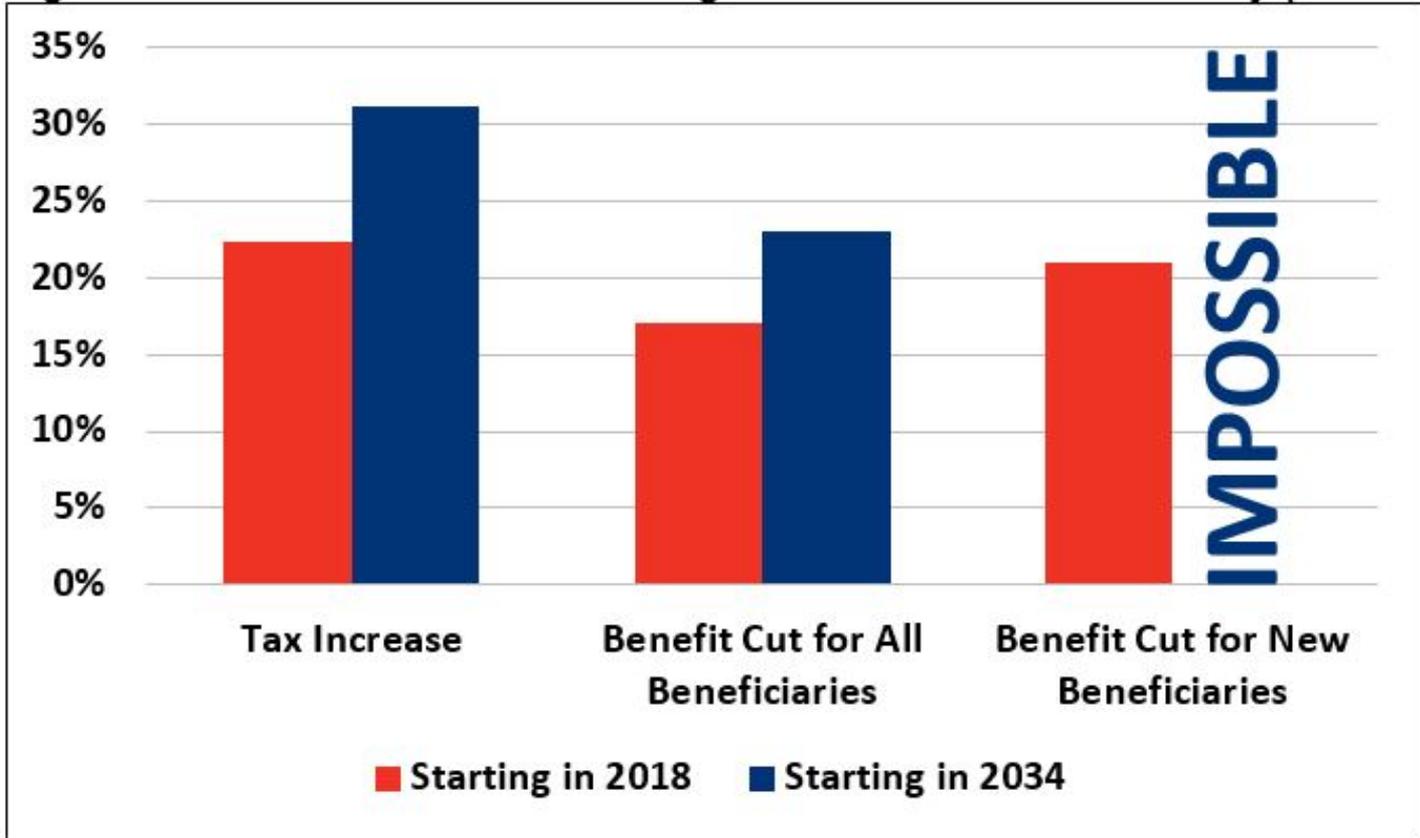
- **Trust Fund Accounting**
 - Total costs cannot exceed revenue + trust fund reserves
- **Pay-As-You-Go**
 - Current benefits are paid with current taxes (little pre-funding)
- **Funded Mainly By Payroll Taxes**
 - 12.4% wage tax, divided between worker and employer
 - Workers bear the full tax
 - Tax applies on first ~\$133,000 of annual wages
 - Additional revenue comes from taxation of benefits

How Are Retirement Benefits Calculated?

- 1. Calculate Average Indexed Monthly Earning (AIME)**
 - All past earnings are ‘wage indexed’ to present
 - Highest 35 years are averaged together
- 2. Apply PIA Formula to Generate ‘Primary Insurance Amount’**
 - Progressive formula returns 90% of first ~\$11,000, 32% of next ~\$56,000, and 15% of further income up to the tax max
- 3. Adjust Based on Collection Age**
 - Full benefit at Normal Retirement Age (66 → 67)
 - Reduced benefit as early as 62 – neutral over lifetime
 - Increased benefit as late as 70 – neutral over lifetime
- 4. Apply Cost of Living Adjustment (COLA) Annually**
 - Benefits increased using “consumer price index” (CPI)

The Cost of Waiting to Fix Social Security

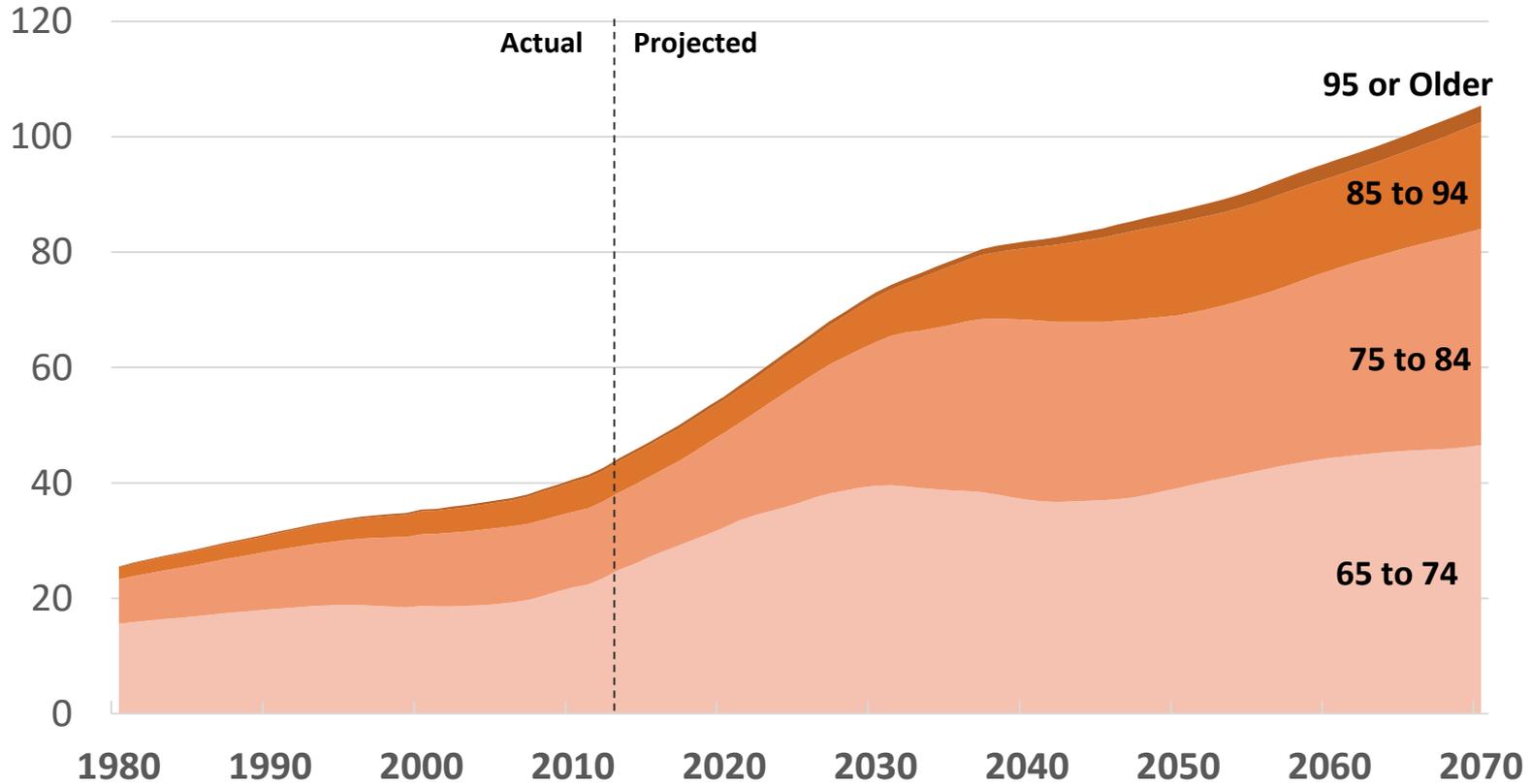
Fig. 5: Tax Increases or Benefit Changes Needed to Attain Solvency (Percent Change)



Source: Social Security Administration.

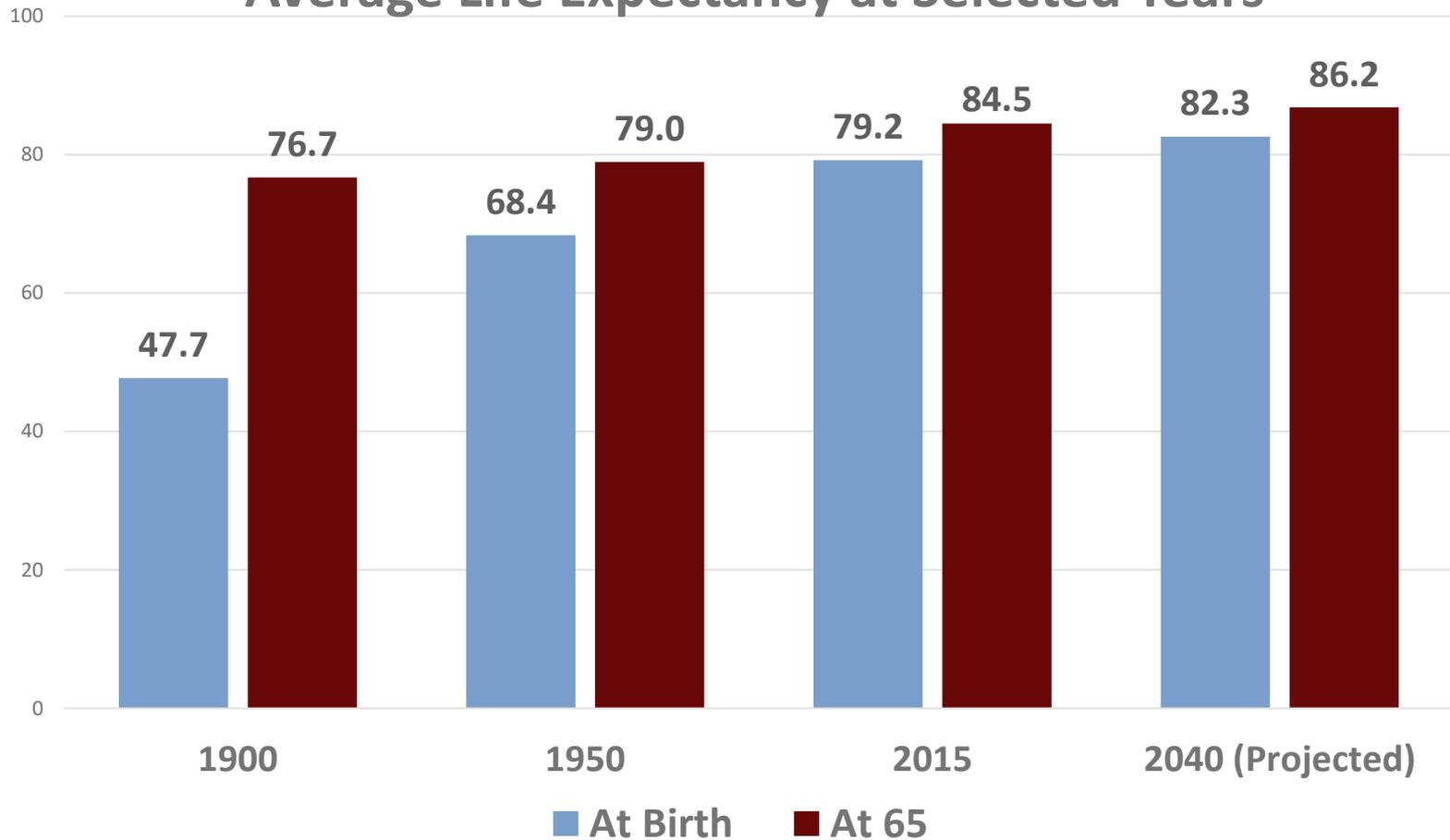
America is Getting Older

Population 65 or Older (in Millions)



America is Living Longer

Average Life Expectancy at Selected Years

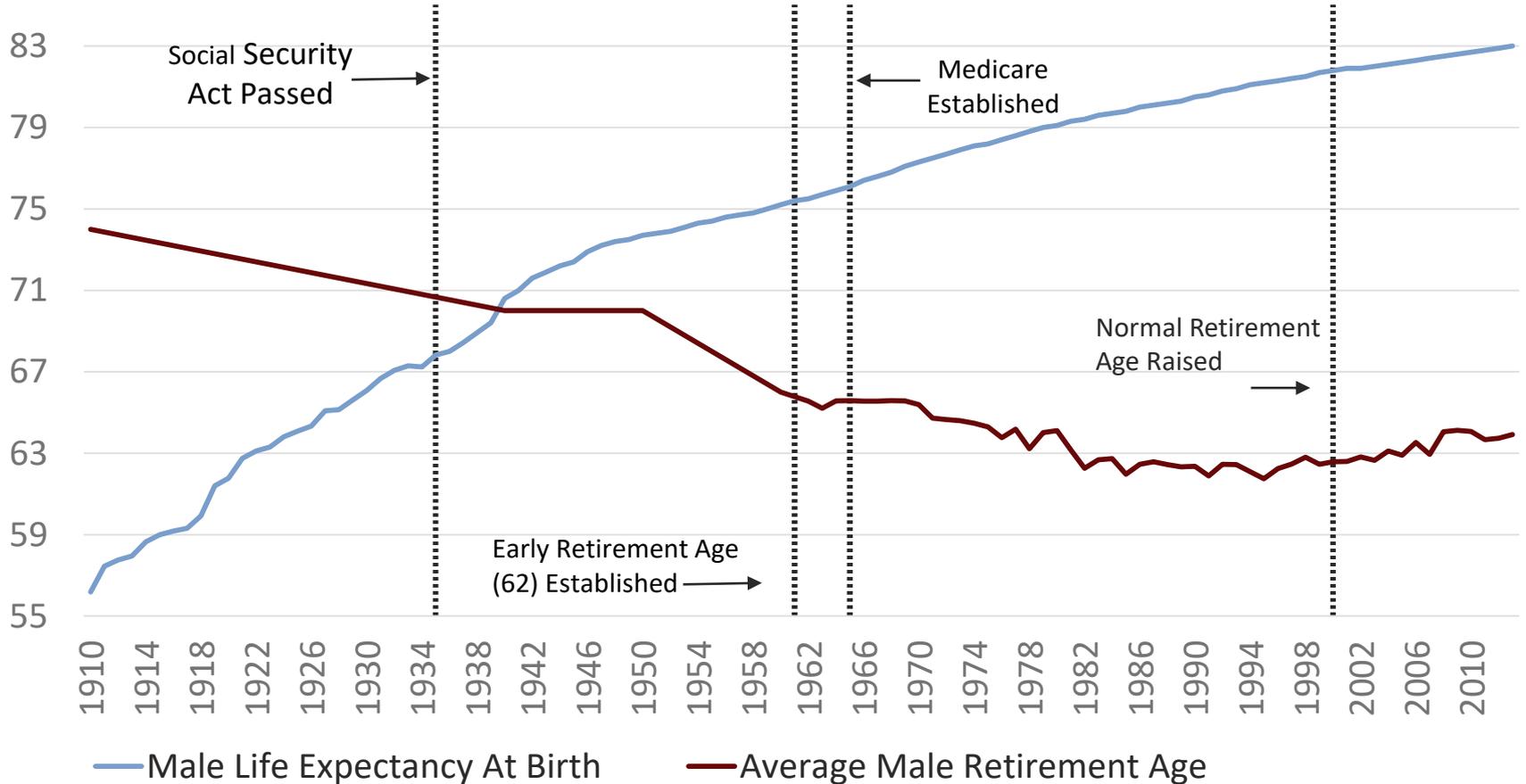


Sources: Felicite Bell and Michael L. Miller, "Life Tables for the United States Social Security Area 1900-2100," Social Security Administration; CBO, *2016 Long-Term Budget Outlook*



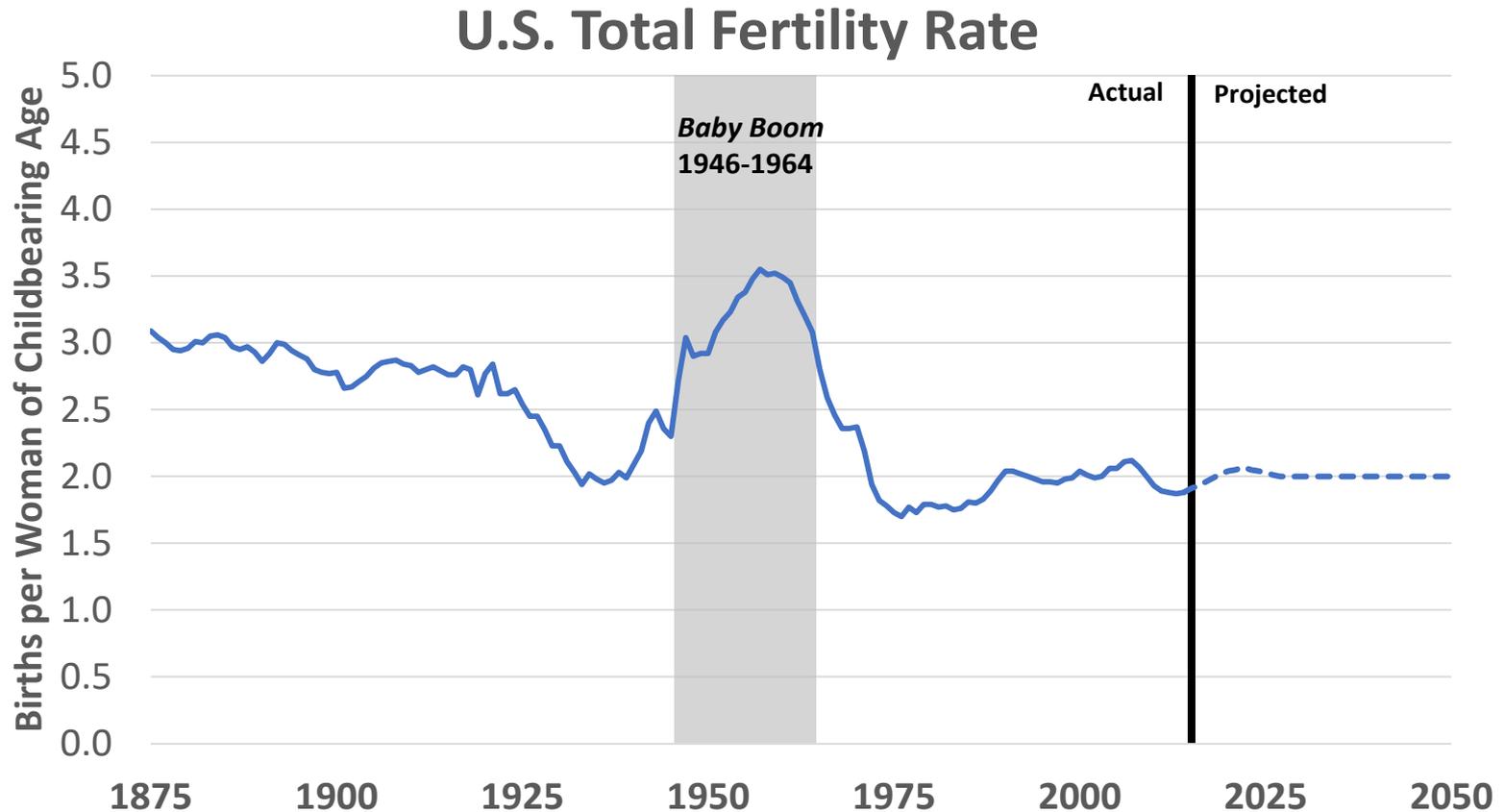
America is Retiring Earlier Than We Used To

Life Expectancy Versus and Average Retirement Age



Sources: Life Tables for the United States Social Security Area 1900-2100"; 2015 Trustees Report; Gary Burtless and Joseph Quinn, "Retirement Trends and Policies to Encourage Work Among Older Americans"; Alicia Munnell, "The Average Retirement Age--An Update."

Fertility is At Replacement



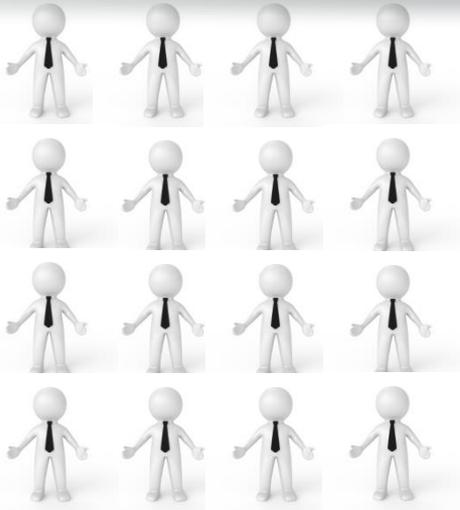
Note: Years 1875-2003 are adjusted to include only those children who survive to age 10.

Source: Years 1875-2003: Stephen C. Goss, "The Future Financial Status of the Social Security Program," *Social Security Bulletin* Vol. 70.

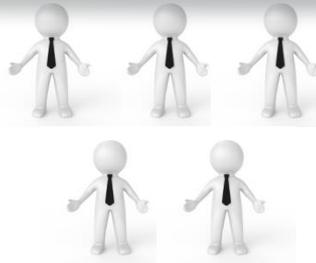
Years 2003-2050: 2015 Trustees Report, Table V.AI.

The Number of Workers Per Retiree Is Falling

1950



1960



2016



2035



16:1



5:1



3:1



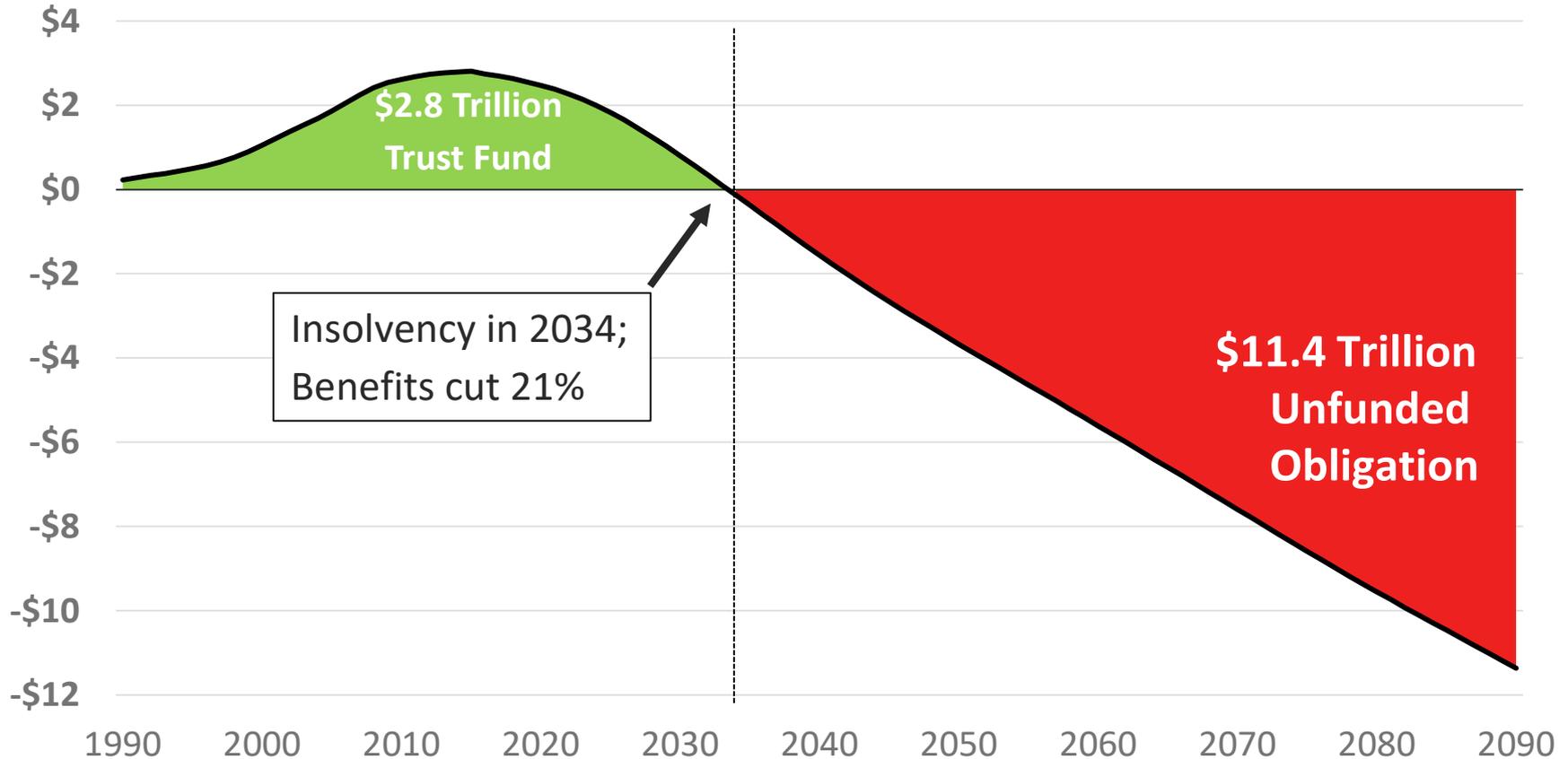
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Source: 2016 Social Security Trustees Report.

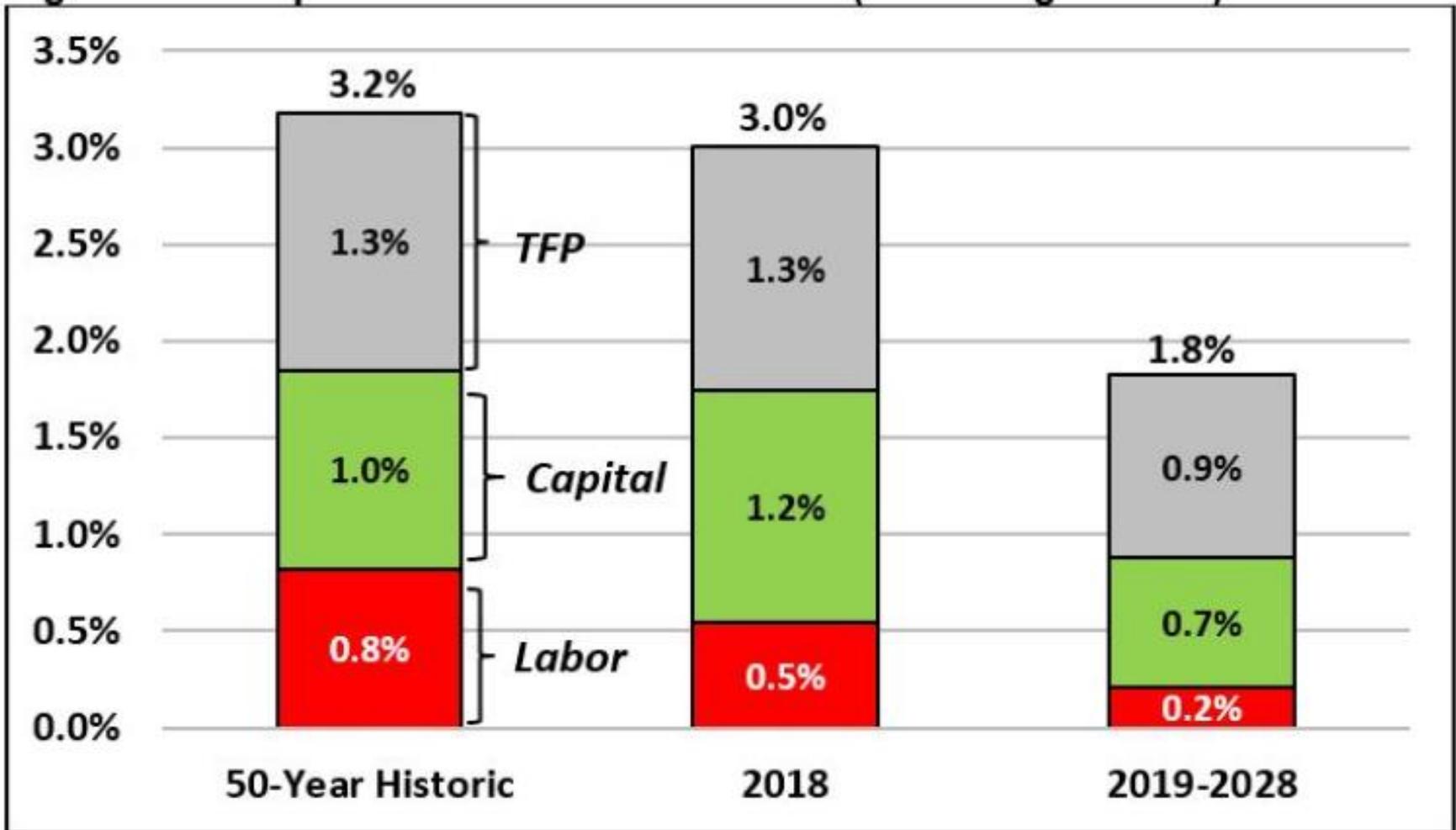
Social Security is Headed Towards Insolvency

Social Security Trust Fund Balance (in Trillions)

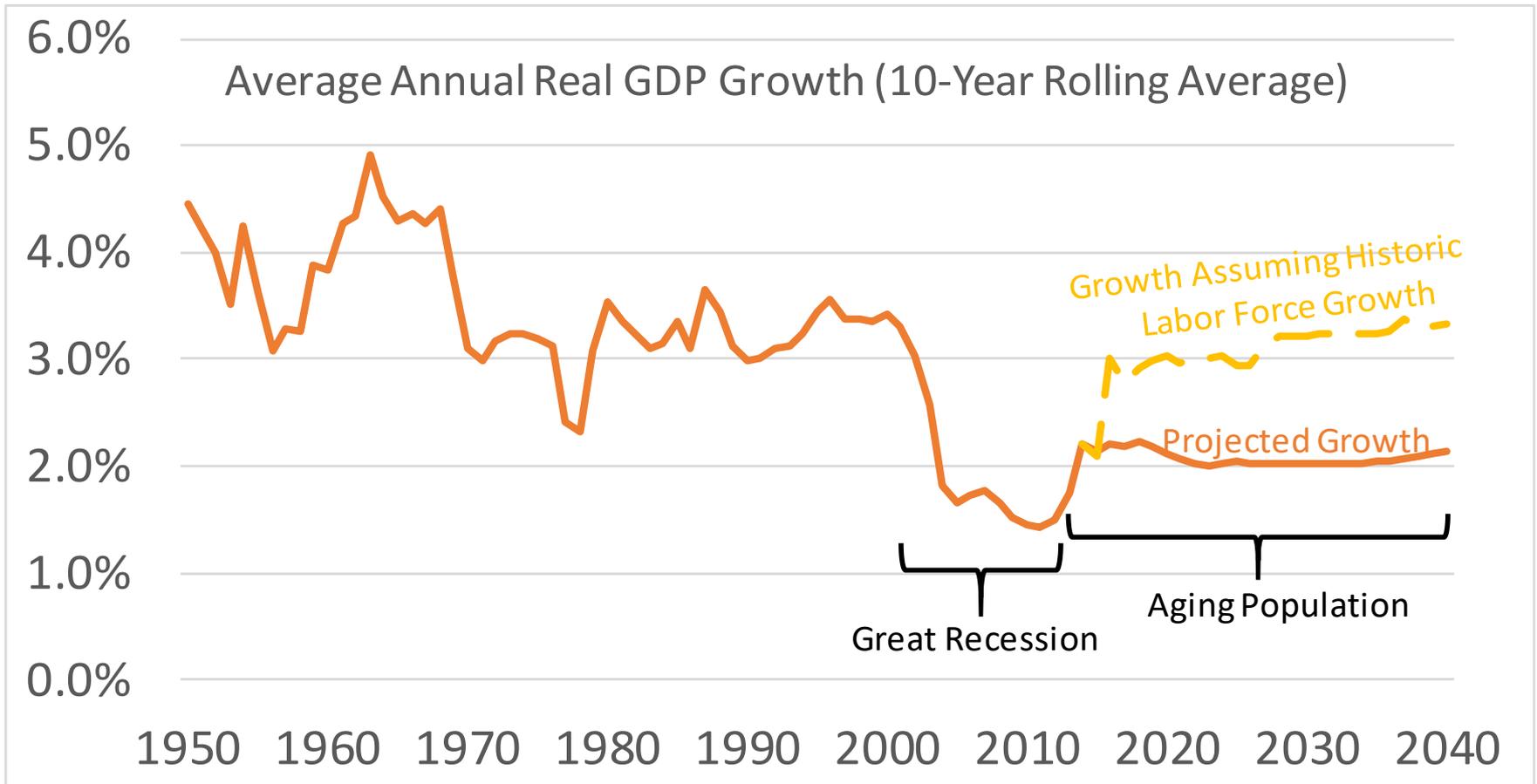


Source: Social Security Administration

Economic Growth Is Slowing

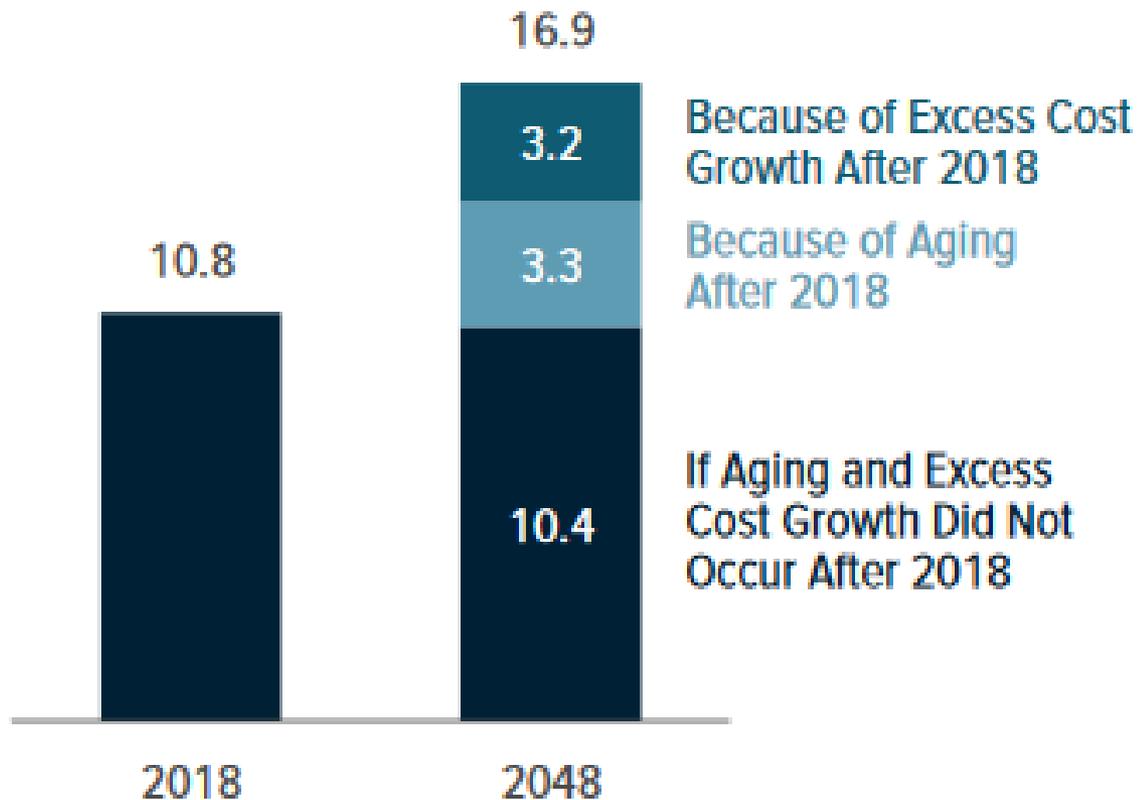


Economic Growth is Slowing



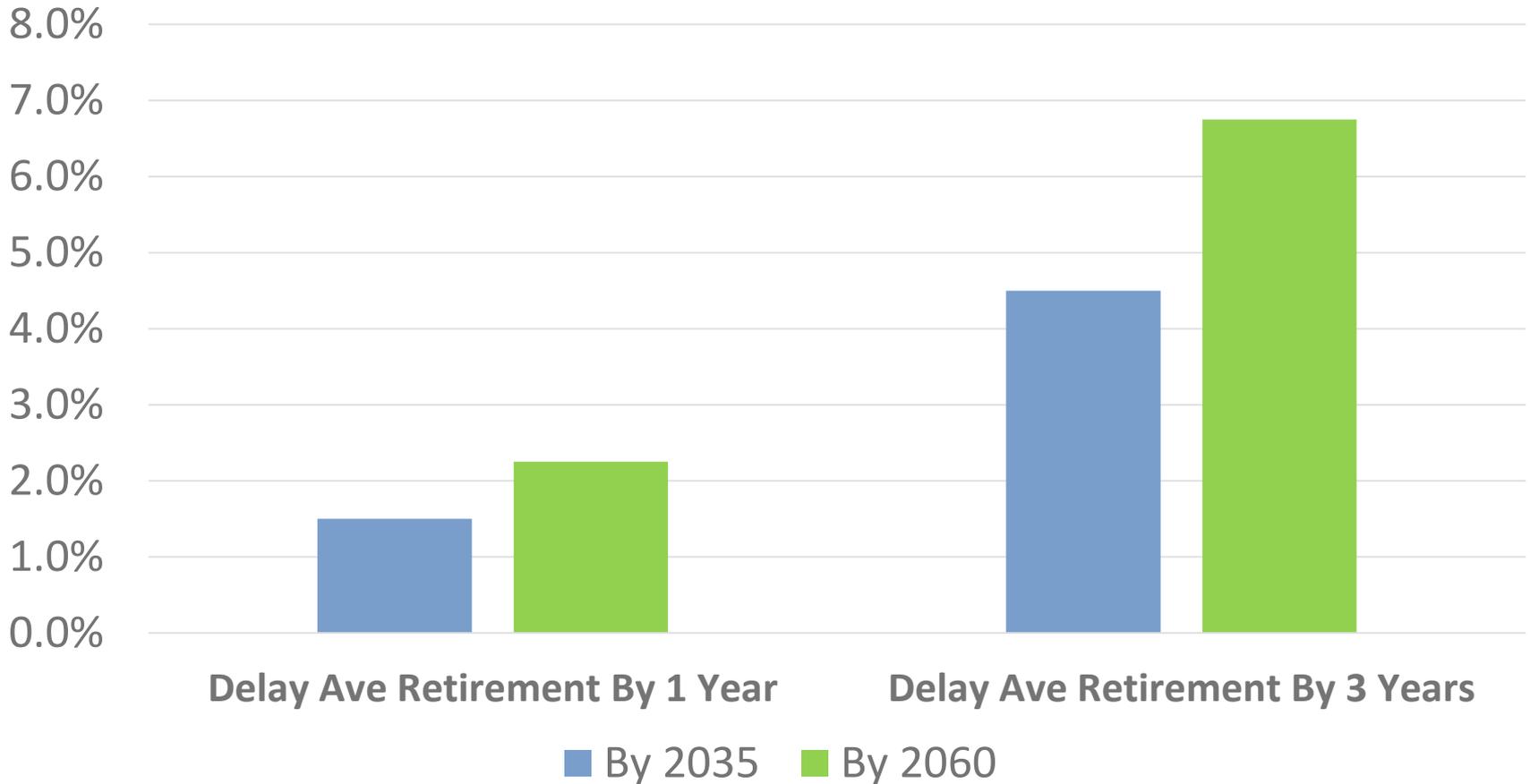
Health and Retirement Costs Are Rising Rapidly

Spending for Social Security and the Major Health Care Programs



Working Longer Promotes Economic Growth

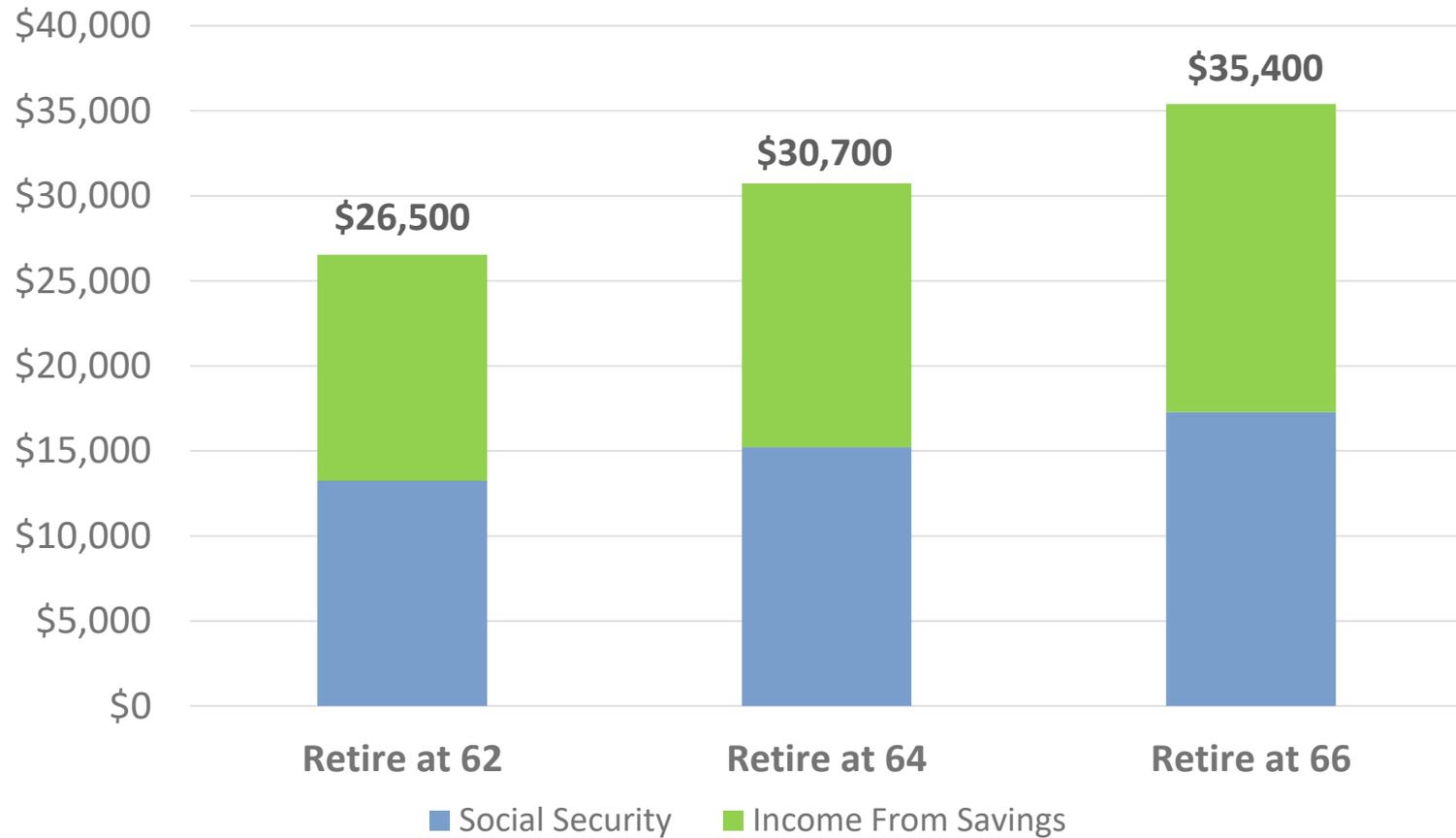
GDP Increase from Delayed Retirement



Source: Congressional Budget Office, authors calculations

Working Longer Increases Retirement Income

Annual Retirement Income for Illustrative Worker
(Real, Inflation-Adjusted Dollars)



Illustrative worker with \$50,000 of real annual income and roughly \$5,000 of annual 401k contributions, annuitized upon retirement.



Working Longer Promotes Wealth, Health, and Happiness

- **Wealth:** One more year of work allows an average retiree to consume 9% more and a low-income retiree to consume 16% more (Urban Institute)
- **Health:** One more year of work reduces mortality risk among healthy retirees by 11% (Journal of Epidemiology and Community Health)
- **Happiness:** *“Workers who remain in the labor force after retirement age are more satisfied with their health and are happier than their retired counterparts.”* (Gallup)

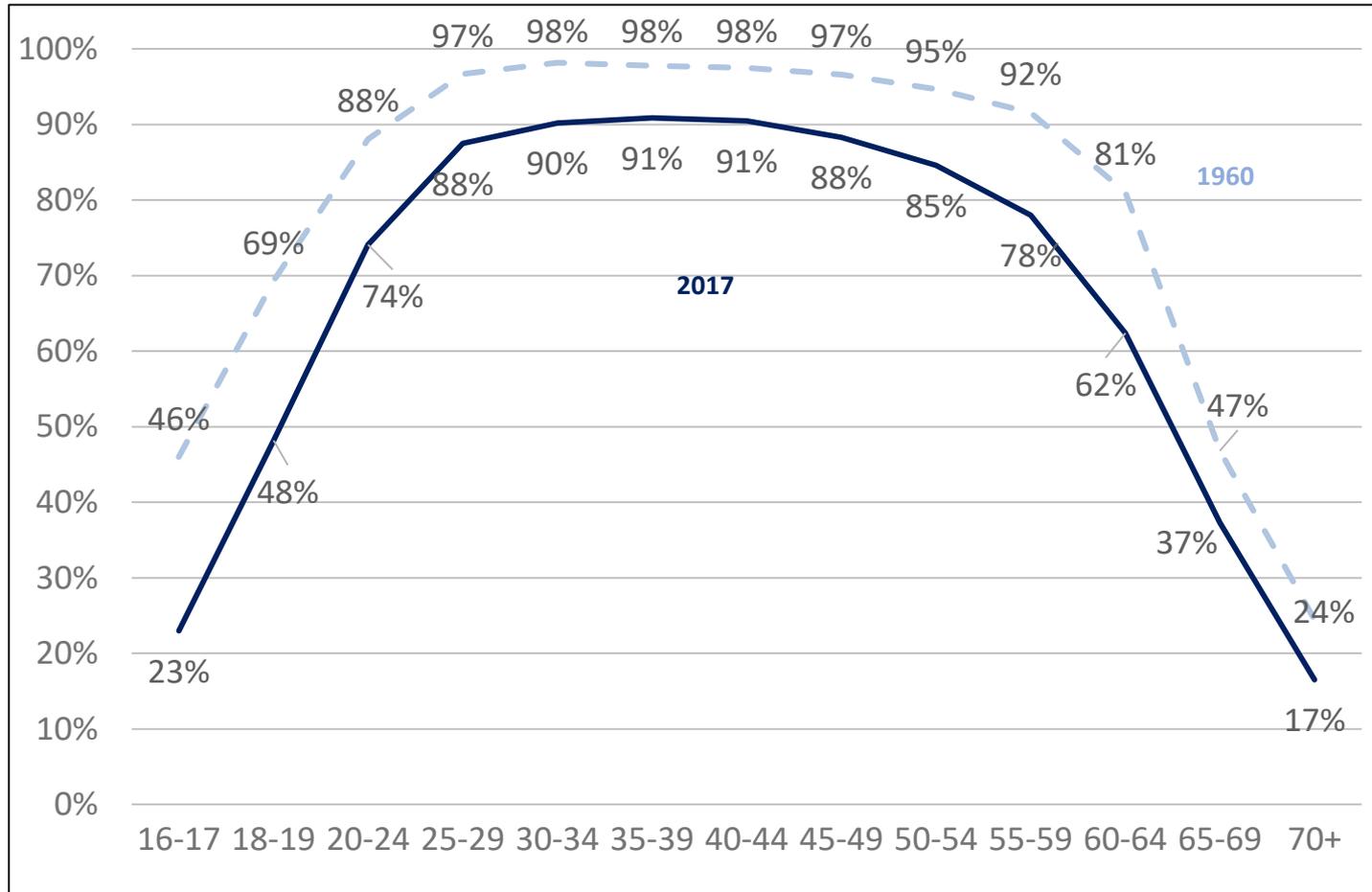
Pro-Growth Social Security Reform

- ✓ **Promote delayed retirement and productive aging** by increasing Social Security's retirement ages while insulating vulnerable workers with an Age 62 Poverty Protection Benefit (62-PPB) to boost benefits for low-income workers.
- ✓ **Reward work at all ages** by counting *all* years of work toward benefits and by calculating benefits based on each year's earnings rather than average 35-year lifetime earnings (sometimes called "mini-PIA").
- ✓ **Increase savings and investment** by automatically enrolling workers in add-on "Supplemental Retirement Accounts" (SRAs) and placing a share of wages, on top of the payroll tax, in those SRAs unless a worker chooses to opt out.
- ✓ **Improve certainty and sustainability** by making Social Security sustainably solvent through a mix of progressive revenue and benefit adjustments.



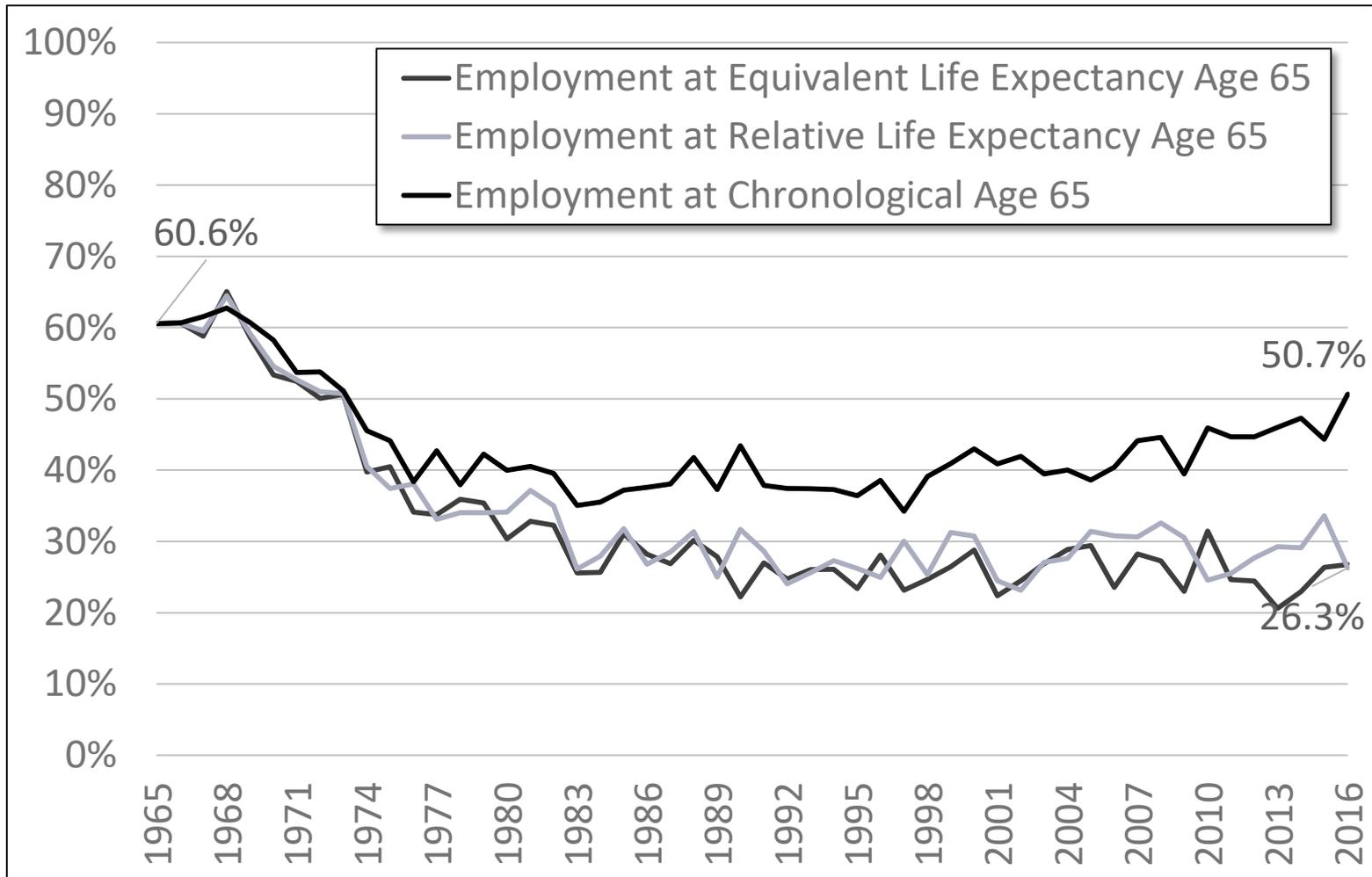
Pro-Growth Social Security Reform

Male Labor Force Participation by Age Range (Percent)



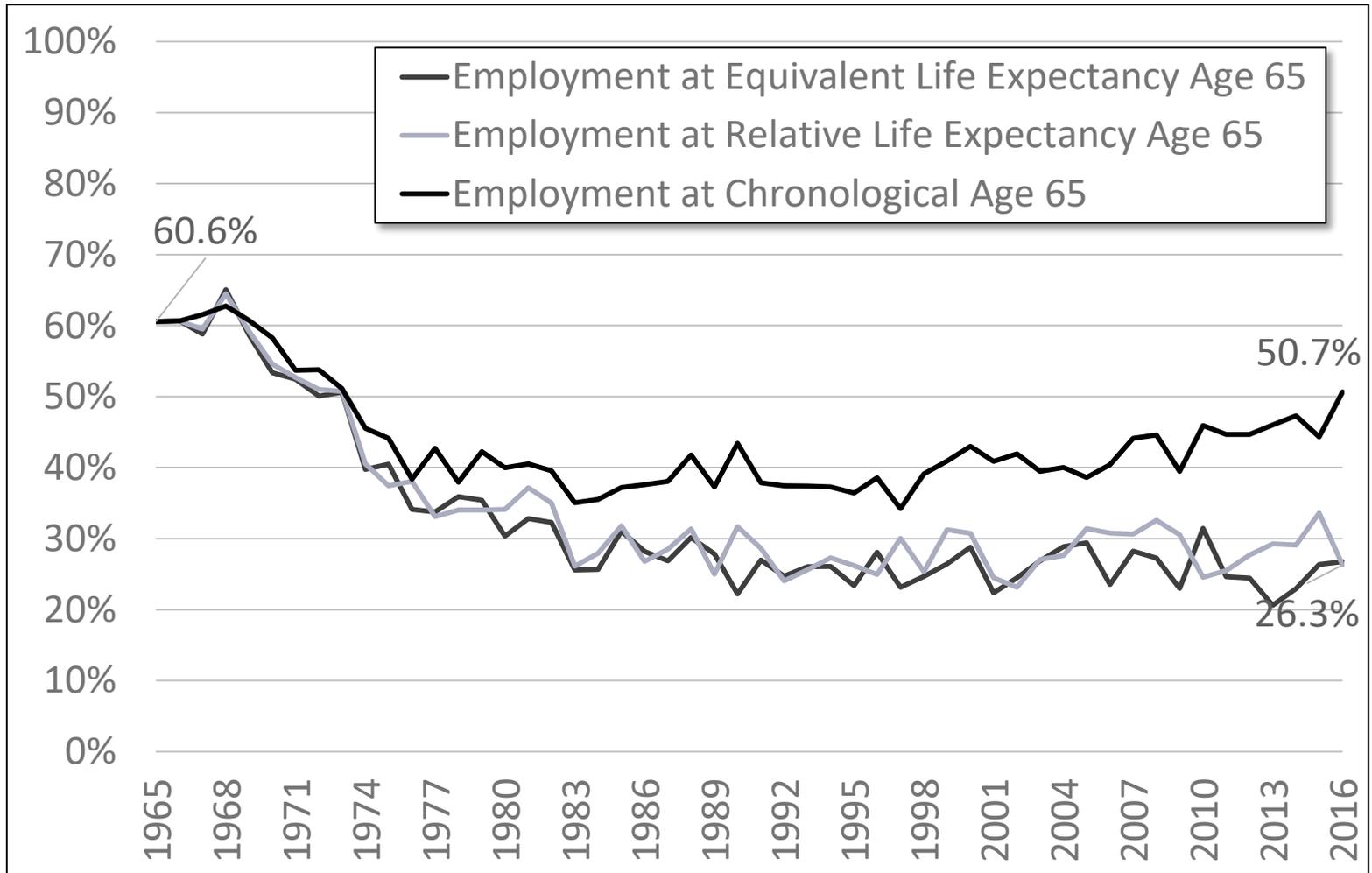
Pro-Growth Social Security Reform

Male Employment at Age 65



Pro-Growth Social Security Reform

Male Employment at Age 65



Pro-Growth Social Security Reform

Determining Base Social Security Benefits

STEP 1

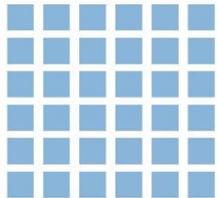
STEP 2

STEP 3

STEP 4

Current Formula

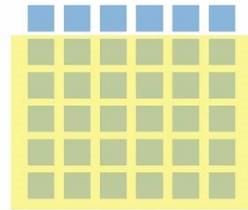
Index Past Earnings to Wage Growth



Current formula requires at least ten years of earnings. Proposed formula has no minimum years of earnings.



Identify 35 Highest Years



Sum and Divide by 35 For Average Earnings

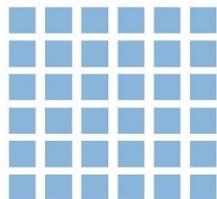


Use Progressive Formula to Get "PIA" Used for Benefit

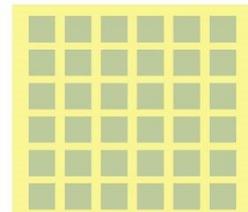


Proposed Formula

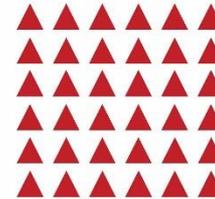
Index Past Earnings to Wage Growth



Identify All Years



Use Progressive Formula to Get Annual "Mini-PIAs"



Sum and Divide by 35 For Benefit



Pro-Growth Social Security Reform

	75-Year Solvency Gap Closed	Shortfall Closed in 75 th Year
Enact Retirement Age, 62-PPB, Mini-PIA, and Computation Years Policies from Pro-Growth Social Security Reform Framework	15%	25%
Increase the Taxable Maximum as in Conrad-Lockhart Commission	30%	25%
Adopt Progressive Benefit Formula from Social Security Reform Act	30%	35%
Broaden the Payroll Tax Base to Include Cafeteria Plan Income, New State & Local Government Workers, and Other Exempt Income	20%	5%
Adopt Chained CPI to Calculate COLAs	20%	20%
Total Improvement in Social Security Finances	115%	110%
Memo: Improvement Assuming 0.25% Increase in Wage Growth	130%	135%

Pro-Growth Social Security Reform

	Low Estimate	High Estimate
Raise Retirement Ages w/ Age-62 Poverty Protection Benefit (62-PPB)	+1.0%	+3.0%
Apply Benefit Formula Annually (Mini-PIA), Counting All Years of Work	+0.5%	+1.5%
Establish Supplemental Retirement Accounts (SRAs)	+1.0%	+3.0%
Restore Social Security Solvency	+1.0%	+5.5%
Total Increase in GNP by 2050 (assuming no interactions)	+3.5%	+13%
Memo: Increase to Annual Growth Rate Through 2050	+0.11%	+0.40%
Central Estimate for Increase in Growth Rate Through 2050	+0.25%	