Preserving and Enhancing Social Security for All

Morning Keynote
2023 Harkin Retirement Security Symposium

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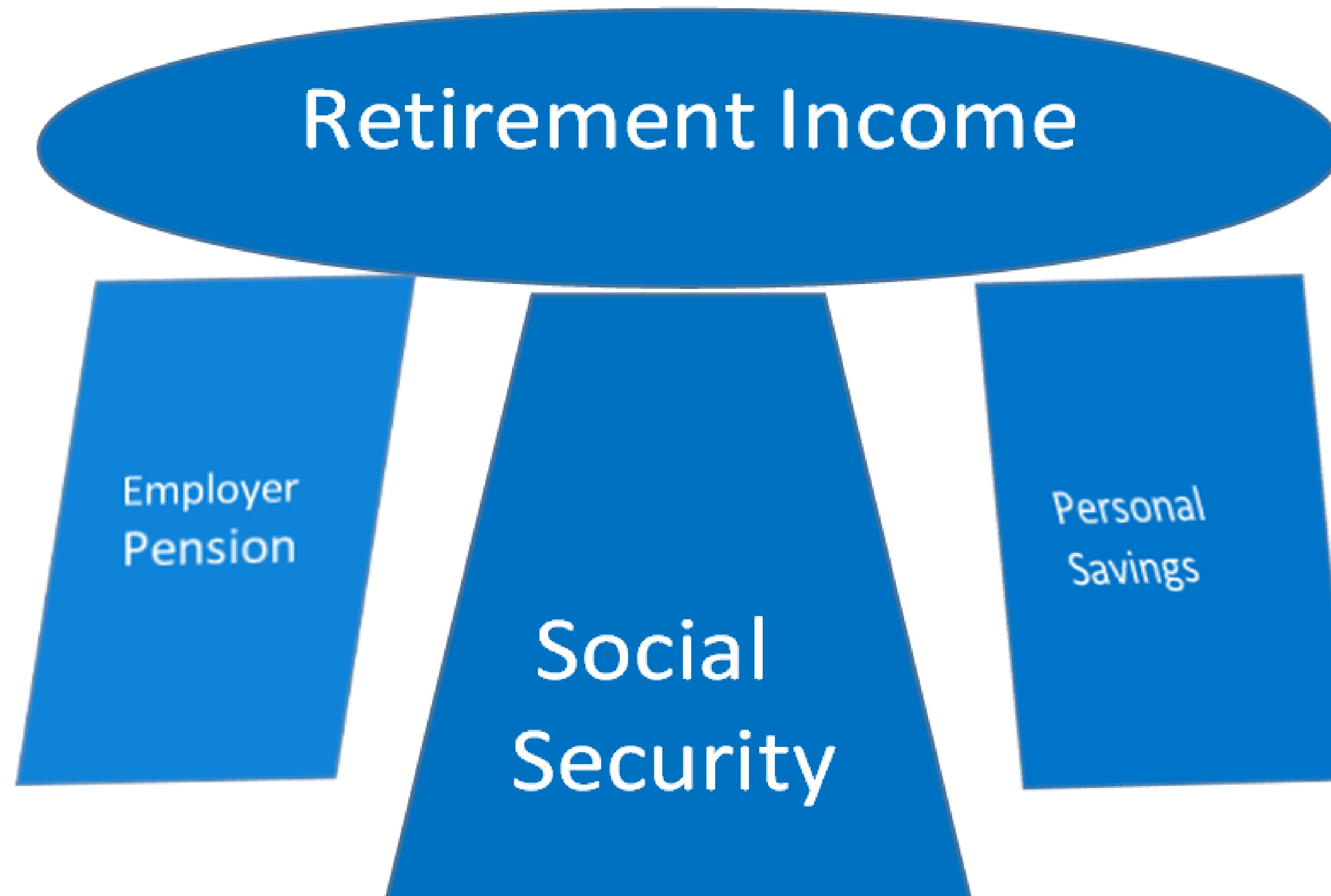
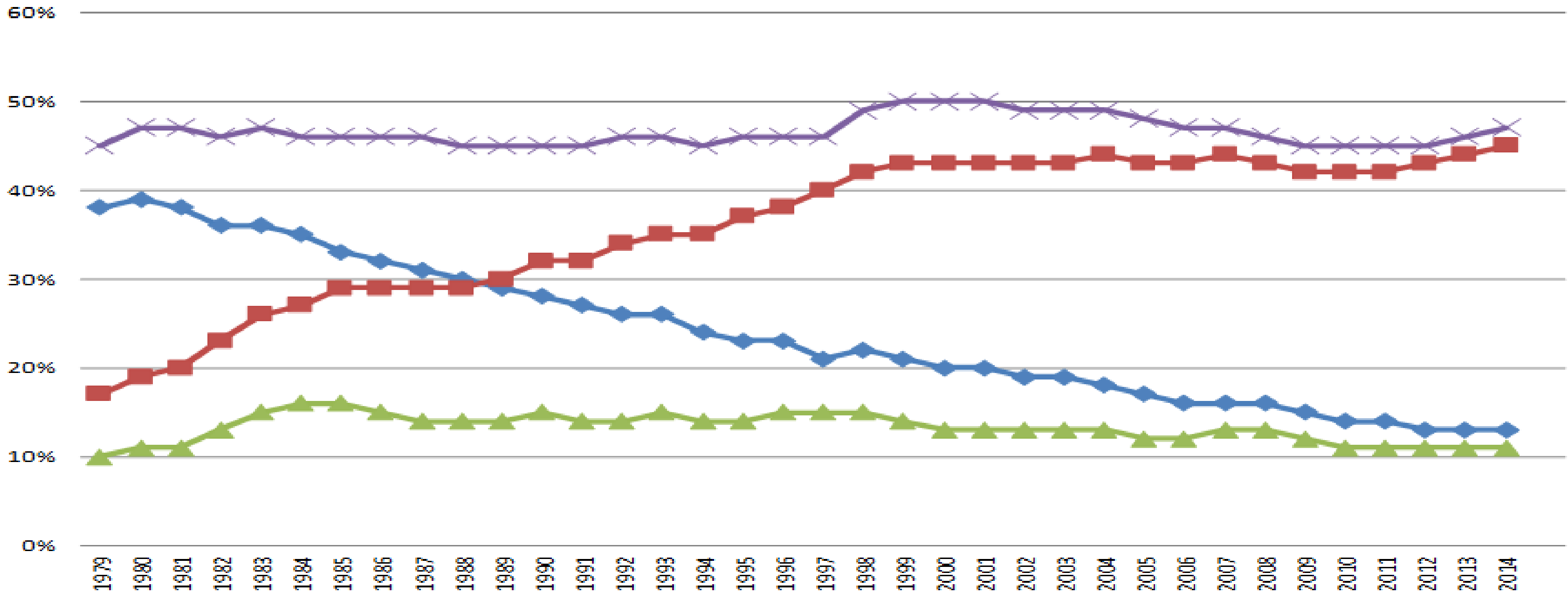
Why Do We Have Social Security?

- Need for universal protection against loss of income for workers and their families—from “old-age,” disability, and death.
- Personal savings, assistance from family, and employer pensions are not adequate

So, a "Three Legged Stool" with Social Security as the "Floor of Protection"



Employer-Based Pension Participation by Less than Half of Workers; DB Plans with Life Annuities Have Been Almost Entirely Replaced by DC Plans



Question: How Much *Should* Social Security Provide? What Share of Pre-Retirement Earnings to "Replace"?

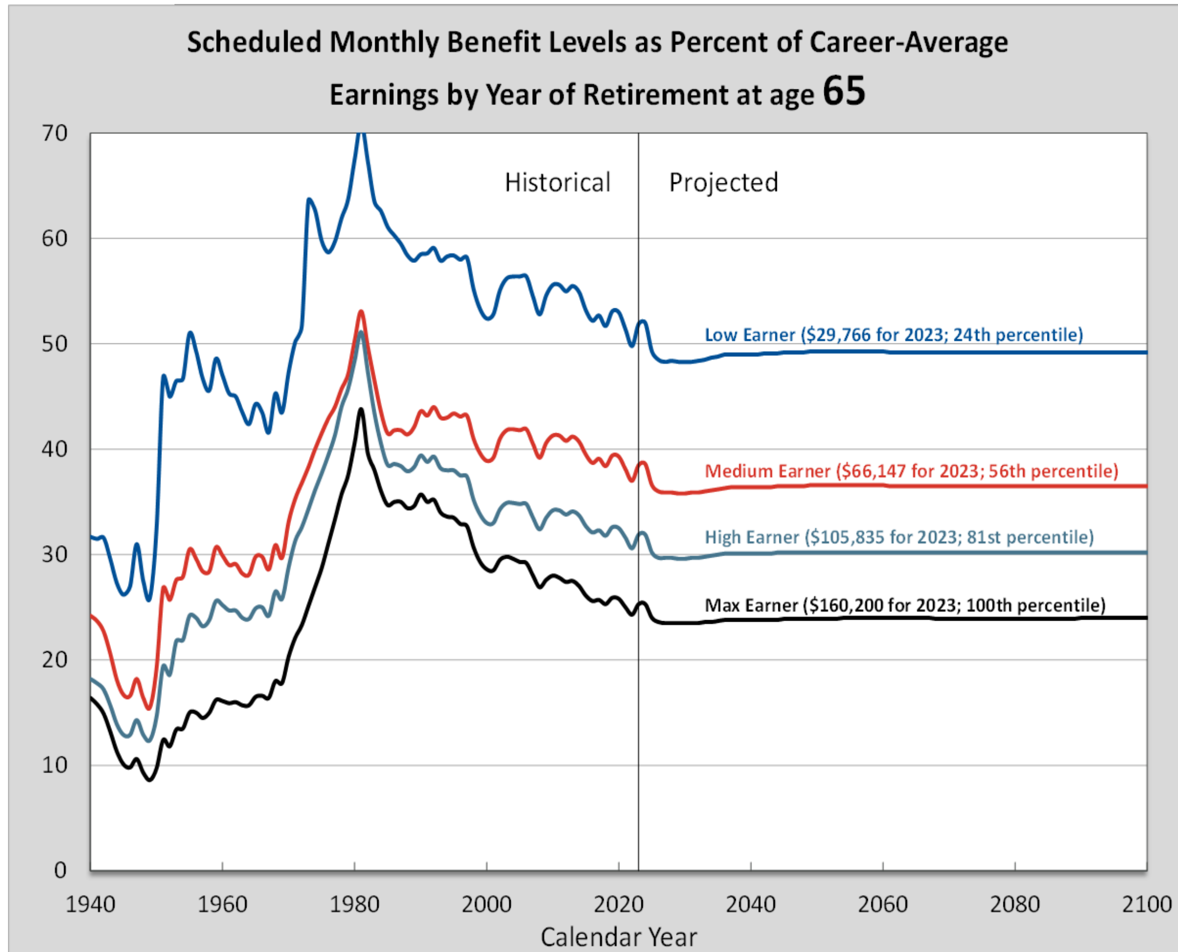
- Note, "career-average CPI-indexed earnings" are not the appropriate basis
  - The standard of living generally increases through time
  - Career-average wage-indexed earnings approximate late career earnings (Actuarial Note 155, 2014)
  - This is also the basis for actually determining Social Security benefit levels
- In total, financial planners suggest about 75% of late career earnings level

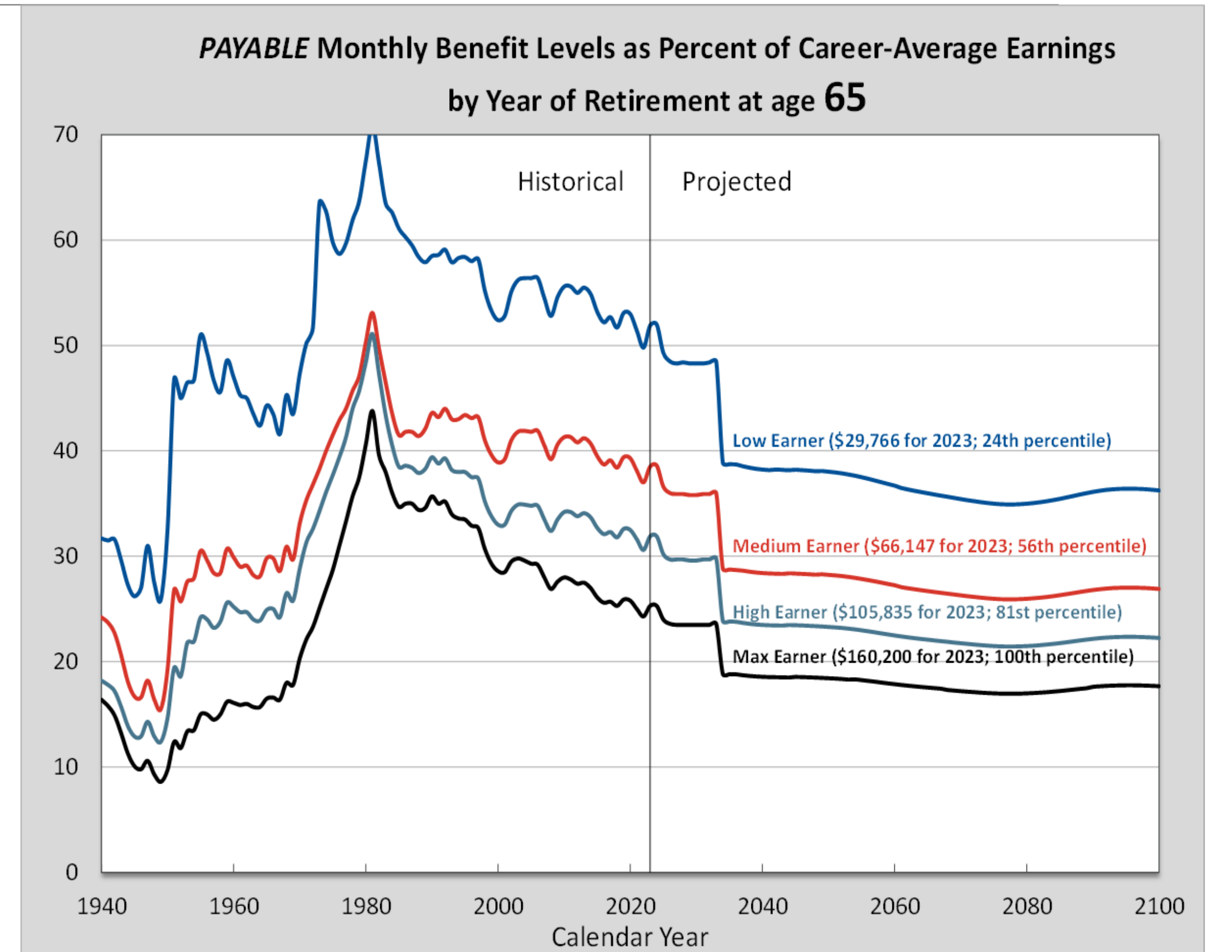
So How Much Do Social Security *Scheduled Benefits* "Replace" for Retirement at Age 65, the Average Age for Starting Benefits?

More for low paid workers: less ability to save and less likelihood of employer pension

- 68% for **Very Low** earners—at 25% of the national average wage (AWI) level, which is roughly minimum wage
- 49% for **Low** earners—at 45% of the AWI
- 37% for **Medium** earners—at the AWI (about $66,000 per year)
- 30% for **High** earners—at 160% of the AWI
- 24% for steady **"Maximum"** earners—at about 240% of the AWI

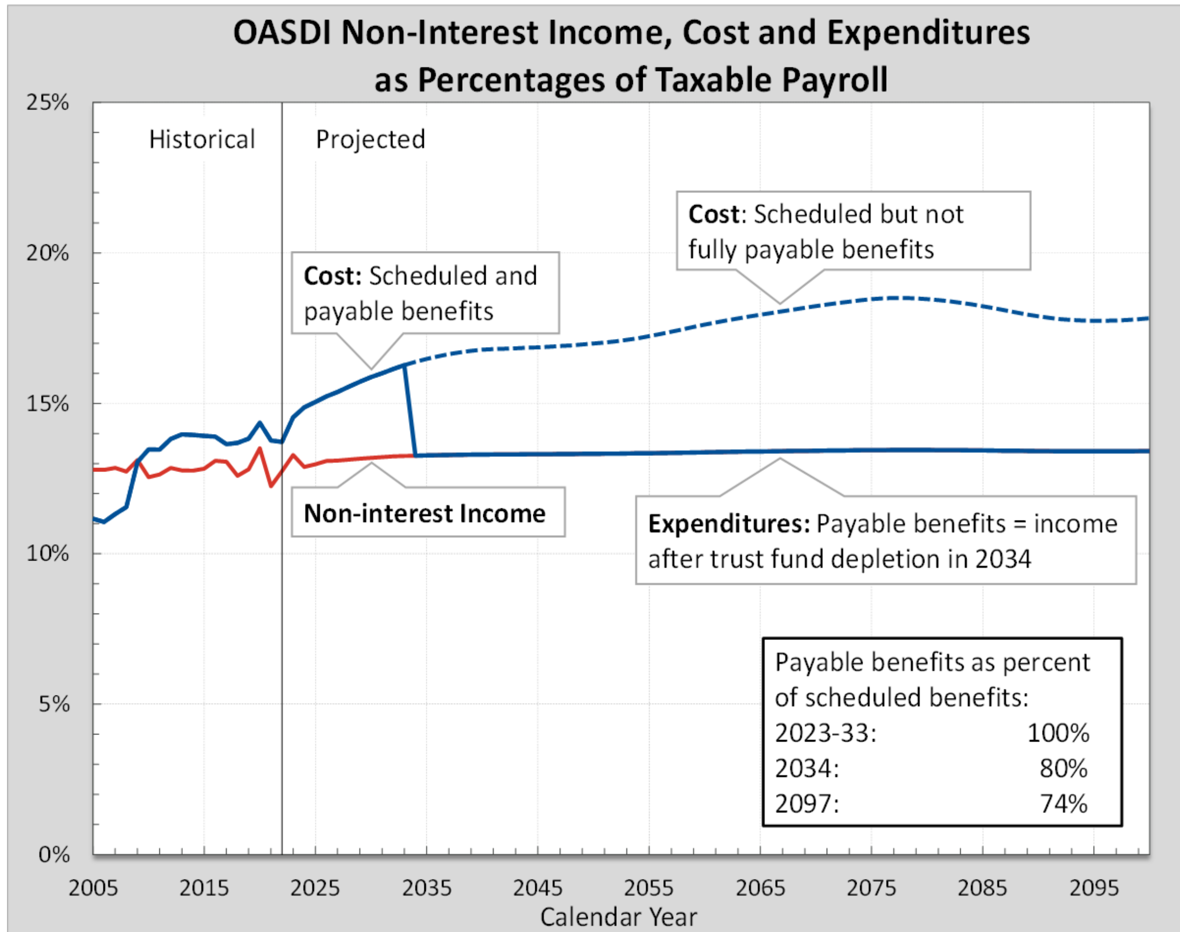
Note Under Current Law, Full Scheduled Benefits Will Not Be Payable in the Future

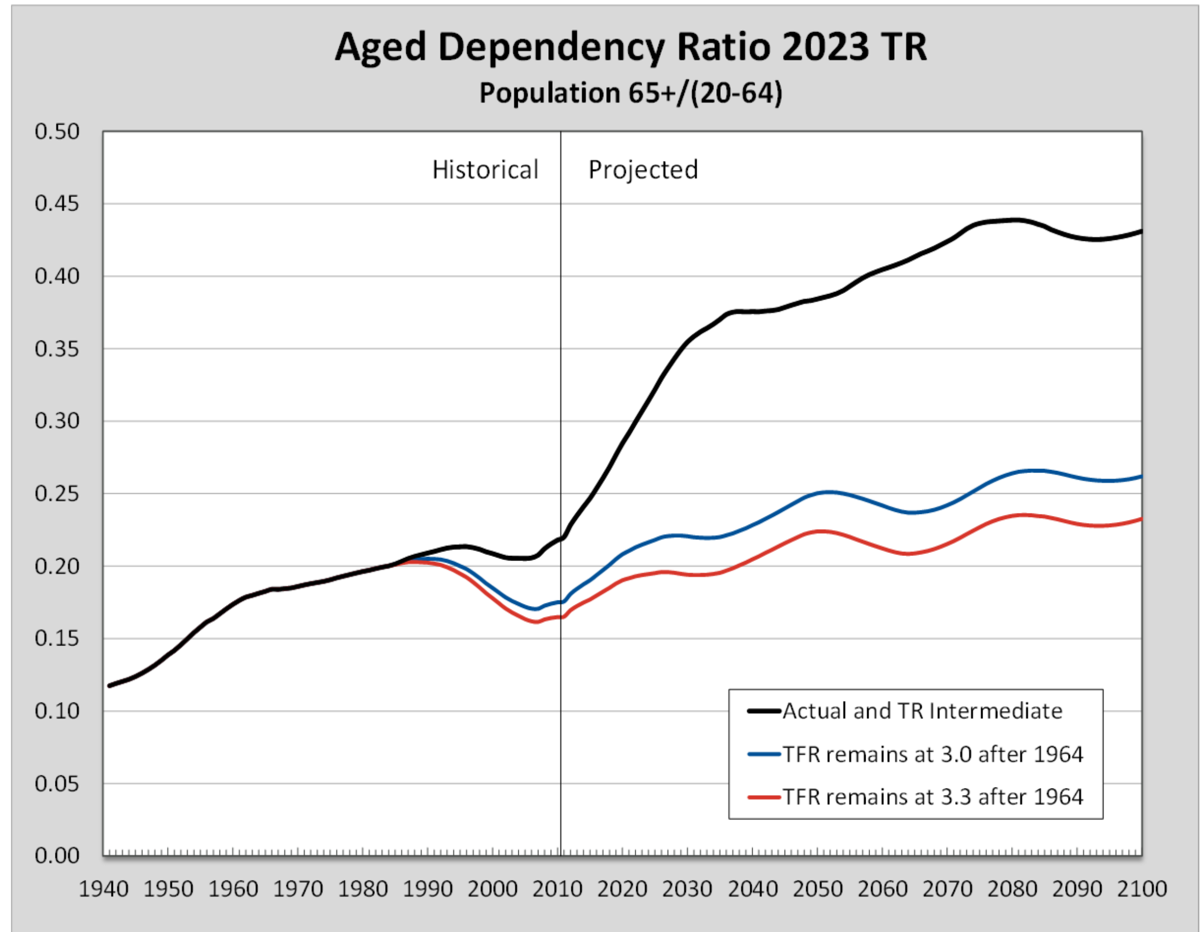




The Current Financial/Actuarial Status of the OASDI Trust Funds: Cost Is Rising as Percent of Payroll from 2010 to 2035; Birth Rates

Combined trust fund reserves projected to become depleted in 2034; 2033-35 for last 12 years



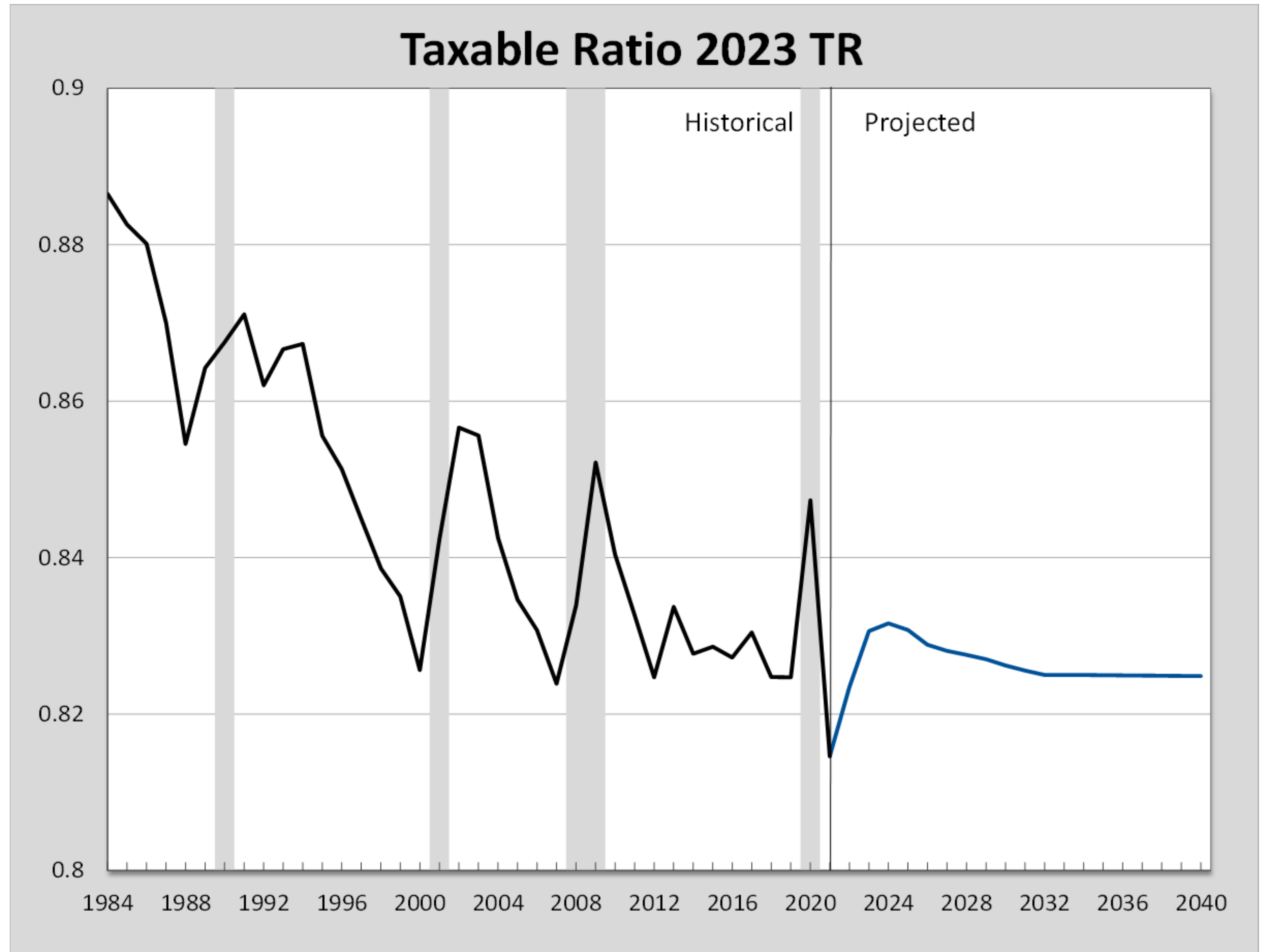


But Wait—After the 1983 Amendments, the 1983 Trustees Report Projected Reserve Depletion in the Mid-2050's…

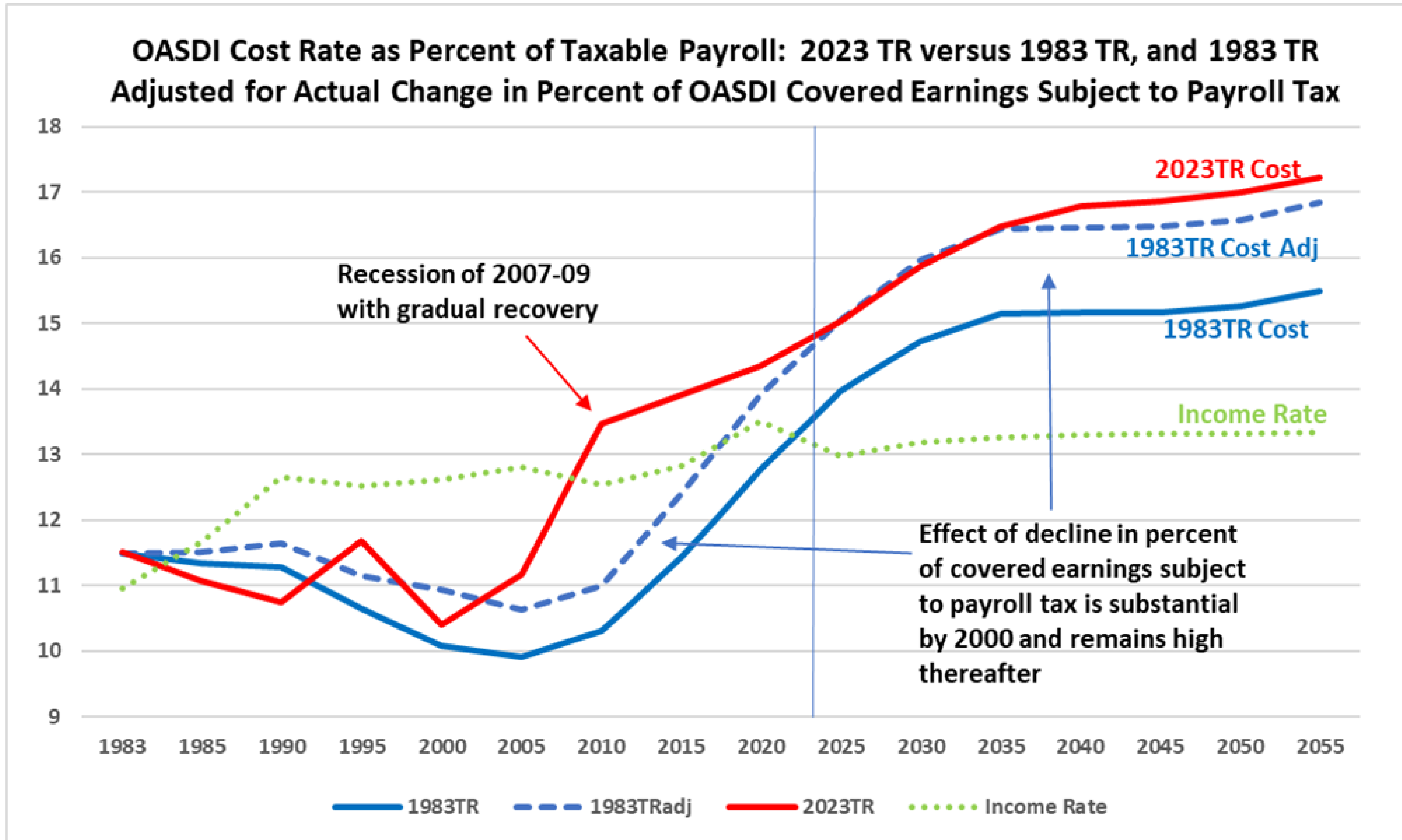
- Lower birth rates were anticipated, and mortality projections were extremely accurate
- But over 80% of worsening since 1983 was unanticipated economic experience

Earnings "Dispersion" Between 1983 and 2000 Lowered the Percent of Earnings Taxable from 90% to 82.5%

Overall, average earnings increased more than expected, butut real growth was 62% for the top 6% of workers, while only 17% for lower 94% of workers



The Reduced Share of Earnings Subject to Payroll Tax Explains Most of the Increase in Cost as Percent of Payroll, Compared to the Projection in 1983



But the depth of the 2007-09 recession and slow recovery reduced expected trust fund accumulation through 2019

So by 2034, We Need to Increase Revenue by One-Third or Reduce Scheduled Benefits by One-Fourth

- Lower scheduled benefits—reduce future cost to less than 6% of GDP
  - **Increase NRA?** Consider less increase for long-career workers at low-pay levels, similar to Simpson/Bowles 2010
  - **Chain-weighted CPI for COLA?** Arguably "more accurate" for those with discretion to shift consumption across goods and services that are not substitutes for one another

So by 2034, We Need to Increase Revenue by One-Third or Reduce Scheduled Benefits by One-Fourth

- Increase scheduled revenue—increase future revenue to more than 4.5% of GDP
  - **Raise or eliminate the taxable maximum** on income from employment, or **raise the 12.4% tax rate**
    - Could provide some exemption for workers with dependent children
    - Help defray cost of child care and even increase birth rate
  - Take advantage of **returns on investments**
    - Invest trust fund reserves as suggested by Kerrey/Simpson 1995 proposal and Ball in 1994-96 Advisory Council
    - Or tax investment returns as in the 2010 ACA and in many proposals since

A Final Note on Federal Debt

- OASDI and HI trust funds have no borrowing authority and so cannot contribute to debt
- Because all reserves are invested in Treasury securities, trust fund investments can only lower the amount Treasury needs to borrow from the public, even if just temporarily
- In addition, under current law there is no provision for the General Fund to make up any shortfall
  - And there never has been!
- Thus, be careful about the budget-scoring convention that presumes this change in law
  - Social Security cannot both be forced to reduce benefits at reserve depletion, and at the same time, increase federal debt with Treasury borrowing to cover shortfall

Thank You!!