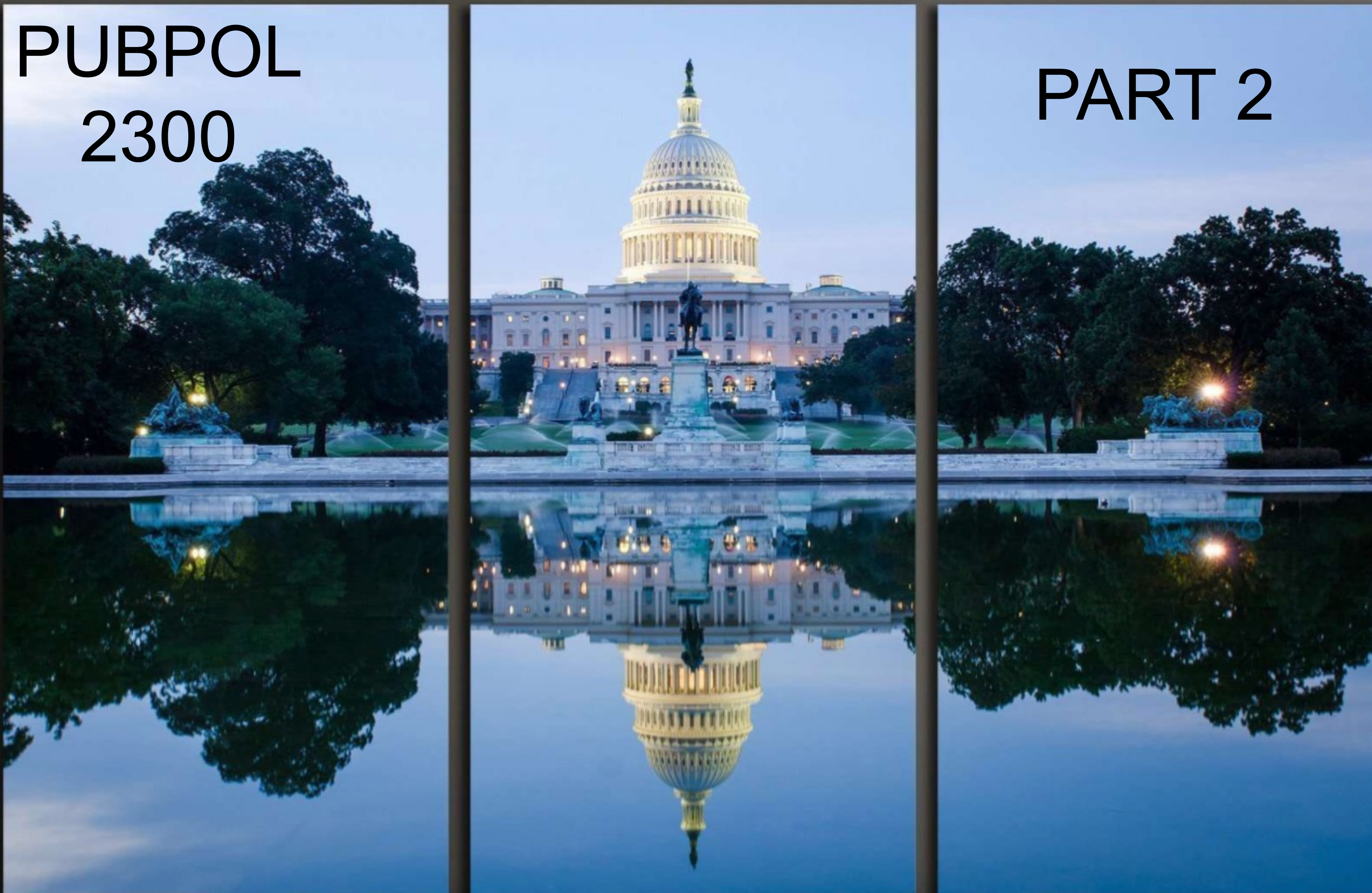
PUBPOL 2300

PART 2



Social Security

How did this program come about?

Social conditions in the United States in the 1930s

The birth of Social Security

- The Great Depression in the 1930s
- 25% unemployment rate
- Poverty and social collapse of labor markets
- No jobs for the young and healthy
- No pensions for those who wanted to retire
- Solutions proposed for solving the problem?
  - Re-distribute the wealth of the nation
  - National sales tax and pensions for the elderly
- Roosevelt's "New Deal" plan

Legislative History

President Franklin D. Roosevelt signing Social Security Act

August 14, 1935

Roosevelt's Goals

- Create a program that provides financial security against:
  - **Loss of a job**: unemployment compensation
  - **Poverty-stricken old age**: Social Security retirement income
  - **Poor health**: the poor aged, disabled, and blind

Social Security Act 1935

Legislative History

Social Security Act 1935

Social Security

- The Original Act contained two financial support programs for older people:
  - **Old Age Survivors Insurance (OASI)**
  - **Aid for the Aged (AFA)**

Social Security Trust Funds

- **1935 Social Security Act**
  - **Old Age & Survivors Insurance**
    - Social Security Trust Fund (OASI)
  - **Aid for the Aged**
    - Welfare program paid from the *General Funds of the US Treasury*, based on financial need
- **1965 Medicare (Health care insurance for those receiving Social Security benefits) was added to the program**

Financing Social Security

- **1965 Medicare**
  - Separate payroll taxes
  - Separate trust funds
- Hospital Insurance fund **(HI)**
  - **Pays for in-hospital stays and procedures**
- Supplemental Medical Insurance Fund **(SMI)**
  - **Partially pays for out-of-hospital expenses**

Legislative History

- 1972 Supplemental Security Disability Income **(SSI/SSDI)** replaced Aid for the Aged (AFA):
  - Aid for the Aged
  - Aid for the Disabled
  - Aid for the Blind

Program for Poor and Disabled

- A **means-tested** program, based on demonstration of financial need

Social Security

Social Security

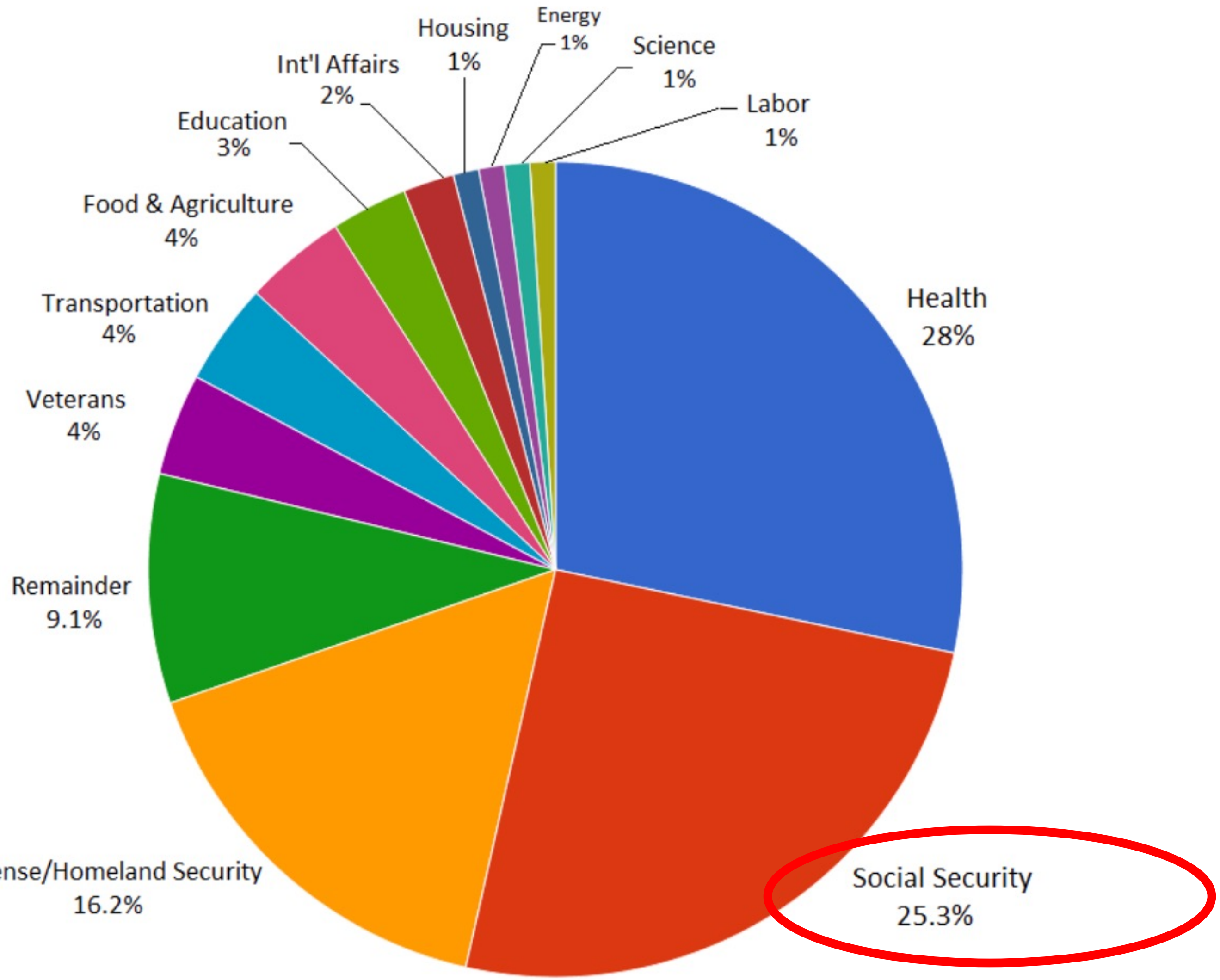
- About **94 percent** of the population aged 65+ receive Social Security benefits.
- In 2023, over **72** million Americans received approximately **$1 trillion** in Social Security benefits (Retirement and disability).
- By 2035, the number of older Americans receiving Social Security will increase to **78+ million** as the baby Boomers reach peak retirement

Social Security

- The largest and most comprehensive ***income maintenance program*** in the US
  - ***Federally funded*** through special taxes

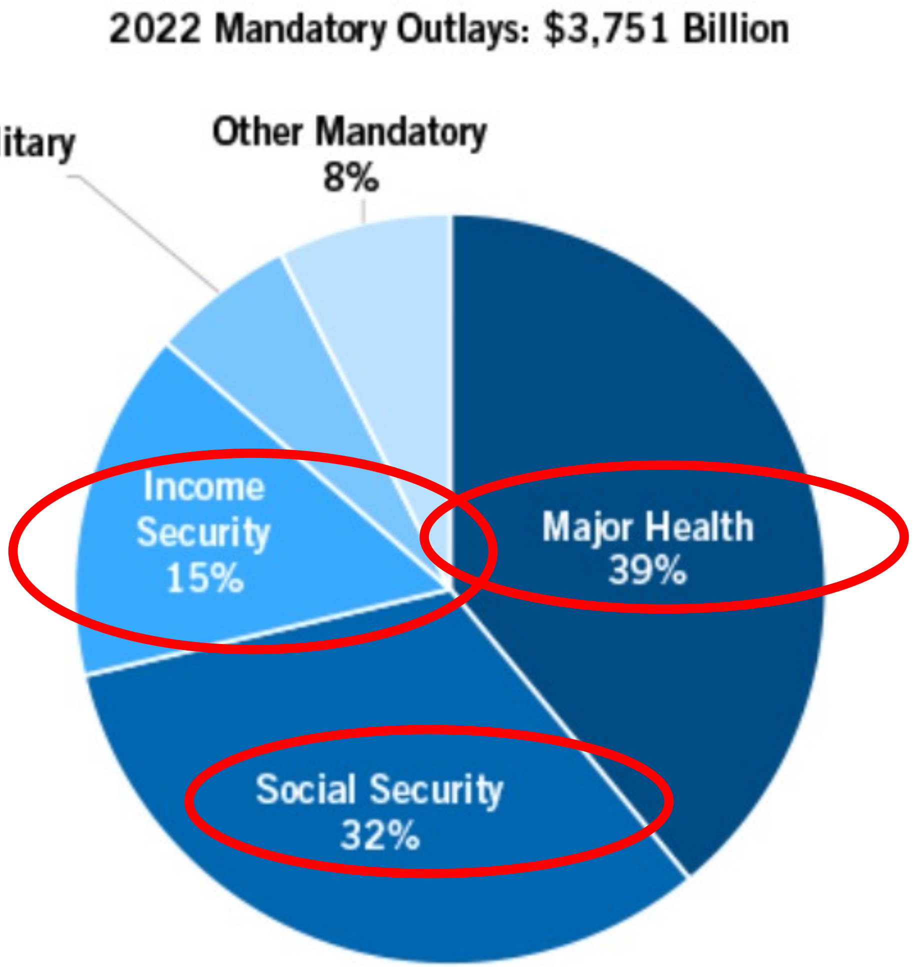
How does the **size of this program** compare to the size of other programs in the full **federal budget** (mandatory and discretionary) in 2023?

Percent of spending, including discretionary and mandatory



https://www.nationalpriorities.org/analysis/2021/president-bidens-fy-2022-budget-request/

Social Security and major health programs account for over 70 percent of mandatory spending



https://www.nationalpriorities.org/budget-basics/federal-budget-101/spending/

Who receives Social Security?

Table 1.
Number of people receiving Social Security, Supplemental Security Income (SSI), or both, June 2022 (in thousands)

Type of beneficiary	Total	Social Security only	SSI only	Both Social Security and SSI
All beneficiaries	70,287	62,681	5,074	2,532
Aged 65 or older	52,250	49,949	995	1,306
Disabled, under age 65 [a]	12,304	6,998	4,079	1,226
Other [b]	5,734	5,734	. . .	. . .

SOURCES: Social Security Administration, Master Beneficiary Record and Supplemental Security Record, 100 percent data.

NOTES: Social Security beneficiaries who are entitled to a primary and a secondary benefit (dual entitlement) are counted only once in this table. SSI counts include recipients of federal SSI, federally administered state supplementation, or both.

Maximum Social Security Benefit:

- The maximum benefit depends on **the age you retire**.
- if you retire at full retirement age (65/7)in 2023, your maximum benefit would be **$3,627**.
- If you retire at age 62 in 2023, your maximum benefit would be **$2,572**
- If you retire at age 70 in 2023, your maximum benefit would be **$4,555.**

- Note:
- Every year the Social Security Administration sets an annual **maximum earnings limit** on which taxes must be paid
- You are required to pay Social Security taxes on earnings up to a specified limit each year (**2023 = $160,200**)

Characteristics of the U.S. Social Security Program

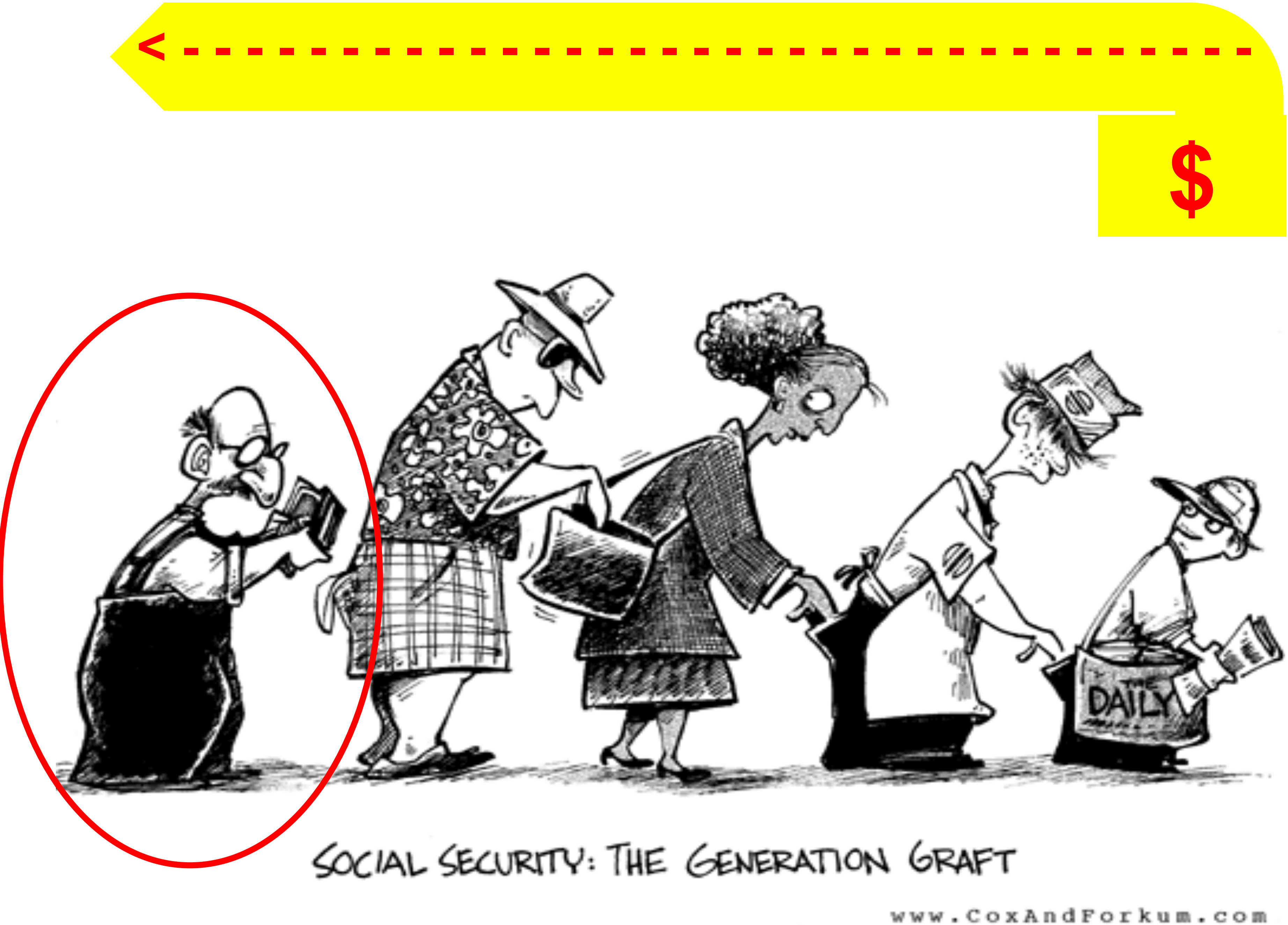
Characteristics of the program

- Social Security a ***risk protection program***:
  - Protects against risk of *poverty* & longevity
- Social Security is a:
  - Annuity program (***Social insurance program***)
  - Transfer program (***redistributive policy***)
    - Distributes income across your lifetime (***annuity – pay while working, receive benefits when retired)***
    - and among cohorts (***redistribution – from workers to non-workers)***

How Does the Program Work?

Program Implementation

- "Pay-as-you-go" (Ponzi) intergenerational program
  - *Each generation contributes to the financial support of the generation older than them*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THE DAILY
SOCIAL SECURITY: THE GENERATION GRAFT
www.CoxAndForkum.com

Program Implementation

- Social Security Trust Fund is maintained by ***mandatory*** contributions (**TAXES**)
  - FICA - ***Federal Insurance Contributions Act***

Federal Insurance Contributions Act = FICA Taxes (Social Security + Medicare)

	Employee pays	Employer pays
Social Security tax (aka OASDI)	6.2% (only the first $147,000 in 2022; $160,200 in 2023).	6.2% (only the first $147,000 in 2022; $160,200 in 2023).
Medicare tax	1.45%.	1.45%.
Total	**7.65%.**	**7.65%.**
	0.9%	

15.6% if self employed

Individual income of more than $200,000 ($250,000 for married couples filing jointly) pay **0.9 percent** more in Medicare taxes on all earned income. The tax rates shown above do not include this 0.9 percent:

For 2023, you will pay Social Security taxes only on income below $160,200; Medicare paid on ALL income

Age at which SS benefits kick in

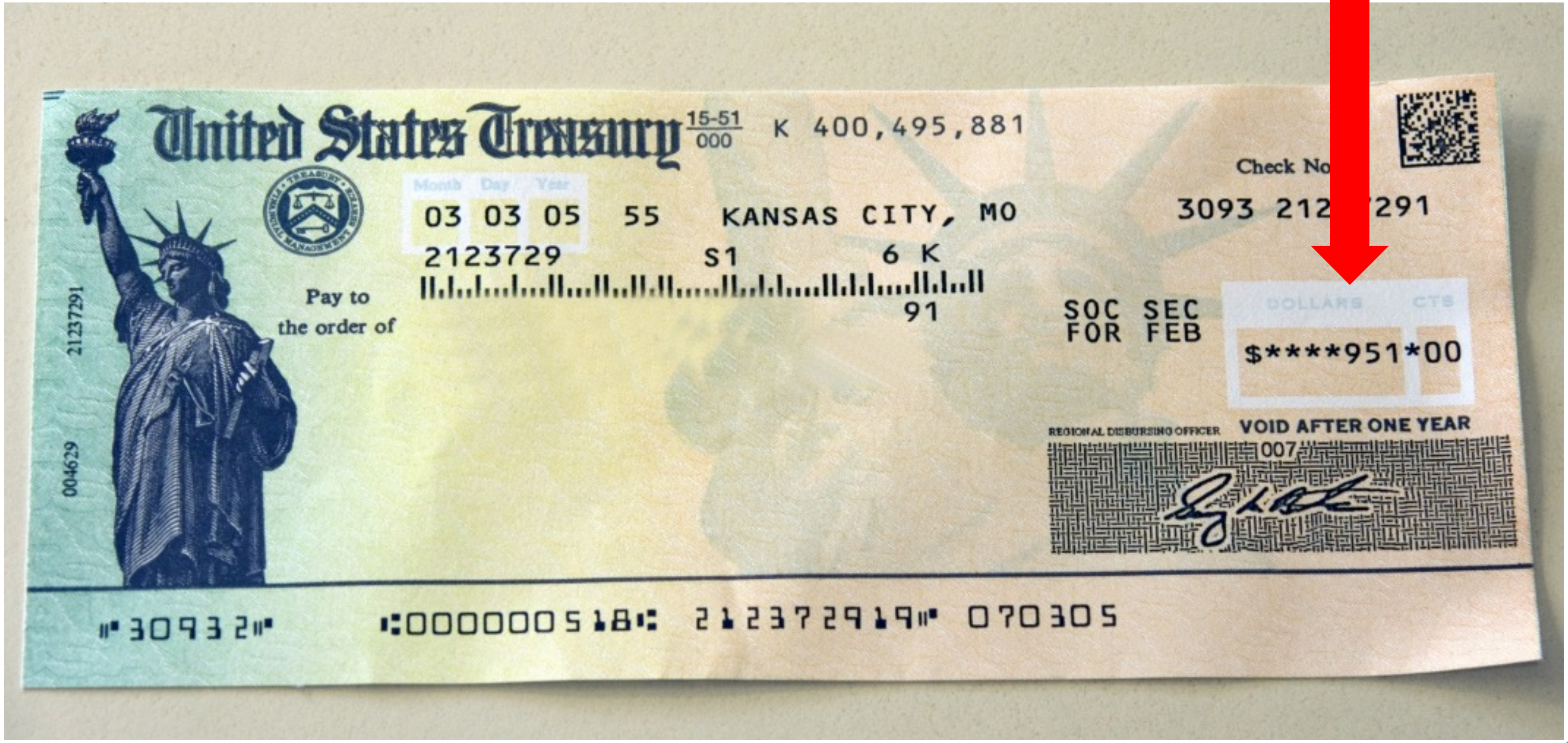
Social Security Benefits

- **Full benefits** at:
  - age ~65 (~67)
  - early retirement (**reduced**) benefits at age 62 (64)
  - Maximum benefits at age 70

Age to receive full Social Security benefits	
Year of birth	***Full retirement age***
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67
NOTE: *People born on January 1 of any year, refer to the previous year.*	

Social Security Benefits

- **Primary Insurance Amount (PIA)**



Social Security:
Primary Insurance Amount

- **Primary Insurance Amount (PIA)**
  - The PIA is calculated from:
  - **Average Indexed Monthly Earnings (AIME)** which is the average monthly earnings the person made over their working and earning lifetime (35 years).

Future Value Calculations

- **What does “Indexed” mean?**
  - Your earnings over the past 35 years are “future valued” in each year, added up (they are all “apples” now and can be added together) and then averaged.

Here is how it is calculated:

These are now "present value" dollars and can be added together

Year	A. Maximum earnings	B. Actual earnings	C. Index factor	D. Ind[illegible] ear[illegible]
1956	$4,200		13.62	
1957	$4,200		13.21	
1958	$4,200		13.09	
1959	$4,800		12.47	
1960	$4,800		12.00	
1961	$4,800		11.77	
1962	$4,800		11.21	
1963	$4,800		10.94	
1964	$4,800		10.51	
1965	$4,800		10.32	
1966	$6,600		9.74	
1967	$6,600		9.23	
1968	$7,800		8.63	
1969	$7,800		8.16	
1970	$7,800		7.78	
1971	$7,800		7.40	
1972	$9,000		[illegible]	
1973	$10,800		[illegible]	
1974	$13,200		[illegible]	
1975	$14,100		[illegible]	
1976	$15,300		[illegible]	
1977	$16,500		[illegible]	
1978	$17,700		4.56	
1979	$22,900		4.19	
1980	$25,900		3.84	
1981	$29,700		3.49	
1982	$32,400		3.31	
1983	$35,700		3.16	
1984	$37,800		2.98	
1985	$39,600		2.86	

Year	A.	B.	C.	D. [illegible]xed [illegible]ngs
1987	$43,800		2.61	
1988	$45,000		2.49	
1989	$48,000		2.39	
1990	$51,300		2.29	
1991	$53,400		2.21	
1992	$55,500		2.10	
1993	$57,600		2.08	
1994	$60,600		2.02	
1995	$61,200		1.95	
1996	$62,700		1.86	
[illegible]	[illegible]		1.75	
1998	$68,400		1.67	
1999	$72,600		1.58	
2000	$76,200		1.50	
2001	$80,400		1.46	
2008	$102,000		1.16	
2009	$106,800		1.18	
2010	$106,800		1.15	
2011	$106,800		1.12	
2012	$110,100		1.09	
2013	$113,700		1.07	
2014	$117,000		1.03	
2015	$118,500		1.00	
2016	$118,500		1.00	

Inflation factors

Annual indexed earnings are summed up and divided by the number of working years, then by 12 (months in the year)

Let’s use an example for you

Assume the year is 2061, you have worked for 35 years starting in 2026, and you have earned above the maximum Social Security earnings cap every year

Assuming you start earning in 2026
Assuming you earn above maximum earnings in each year

Year	Max Income	Index Factor	Indexed annual earnings	Indexed monthly earnings (inc/12)
2026	$160,000	13.26	$2,121,600	$176,800
2027	$164,800	13.21	$2,177,008	$181,417
2028	$169,744	13.09	$2,221,949	$185,162
2029	$174,836	12.47	$2,180,209	$181,684
2030	$180,081	12.05	$2,169,981	$180,832
.	.	.	.	.
.	.	.	.	.
.	.	.	.	.
2061	$350,000	1	$850,000	$70,833

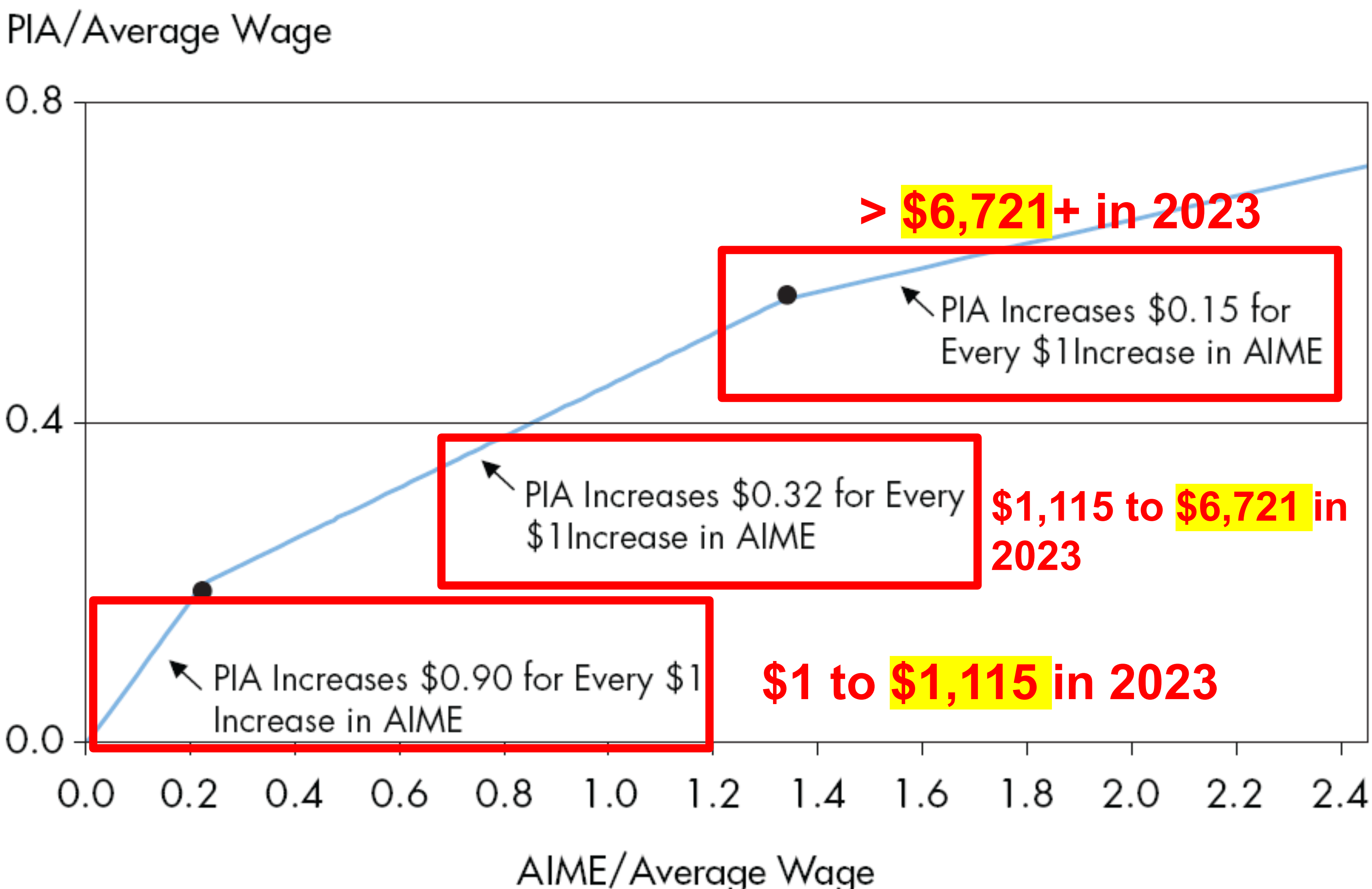
AIME = Sum of #s in Column 5 divided by 35 years

Calculation of PIA?

- **Primary Insurance Amount (PIA)**
  - Using the person's average indexed monthly earnings (AIME) you subject the AIME to a formula:
- Under current law, the **PIA factors** are
  - **90 percent** below the first bend point
  - **32 percent** between the two bend points
  - **15 percent** above the second bend point

Figure 1: Current-Law Primary Insurance Amount Formula

https://www.ssa.gov/oact/cola/bendpoints.html



AIME = Average Indexed Monthly Earnings

Source: Department of the Treasury

Social Security Benefits

- **Primary Insurance Amount (PIA)** Your PIA is indexed to the **Consumer Price Index (CPI) every year after they are received**
  - Value of PIA keeps up with inflation
  - Social Security and Supplemental Security Income (SSI) benefits will increase **8.7 percent** in 2023.

Social Security Trust Funds

- **1935 Social Security Act**
  - **Old Age & Survivors Insurance**
    - Social Security Trust Fund (OASI)
- 1972 Supplemental Security Disability Income (**SSI/SSDI**) **-** A **means-tested** program.
- **1965 Medicare (**Health care insurance for those receiving Social Security benefits)
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How are the trust funds supported?

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Paid on income under $160,200

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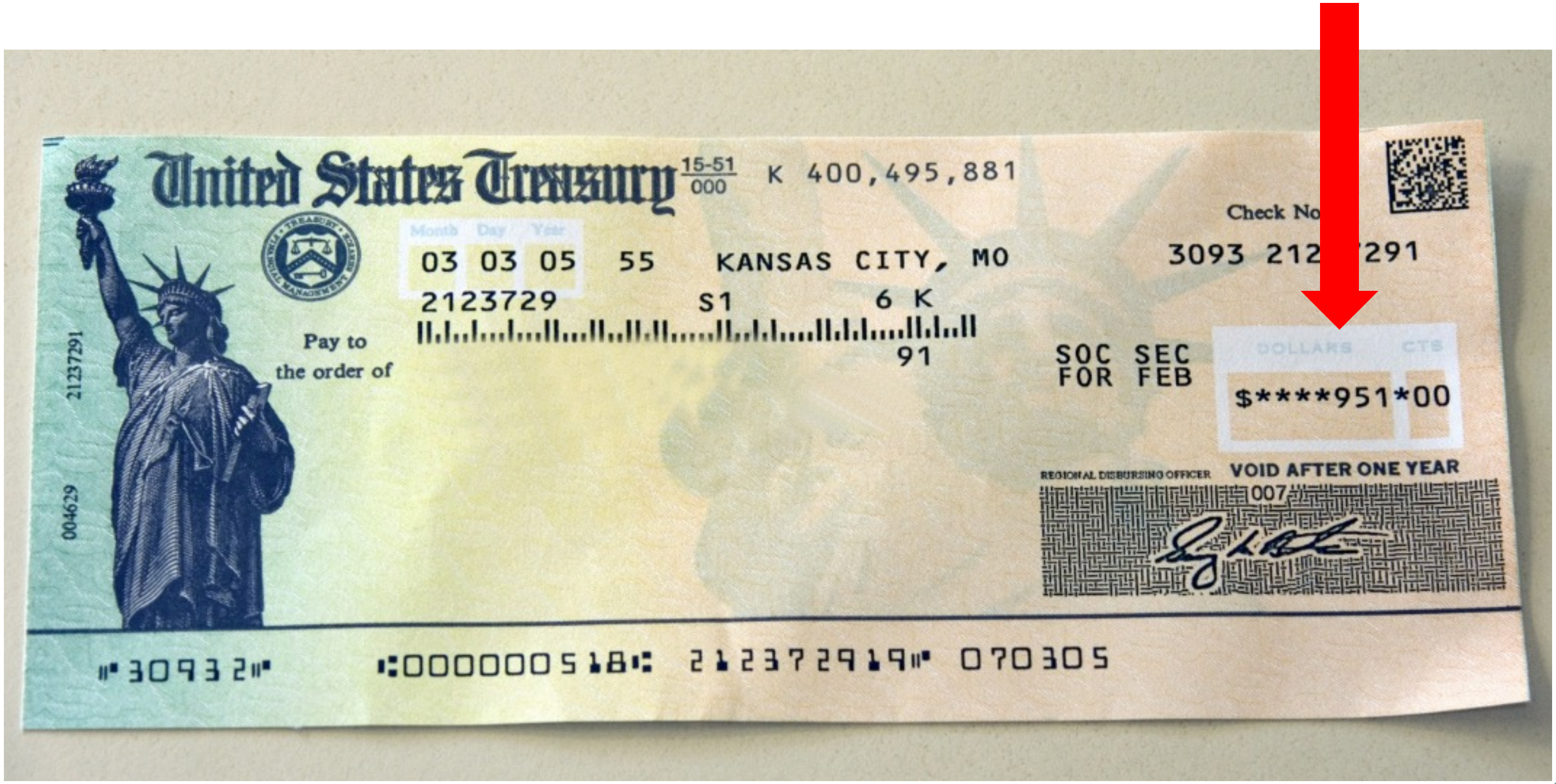

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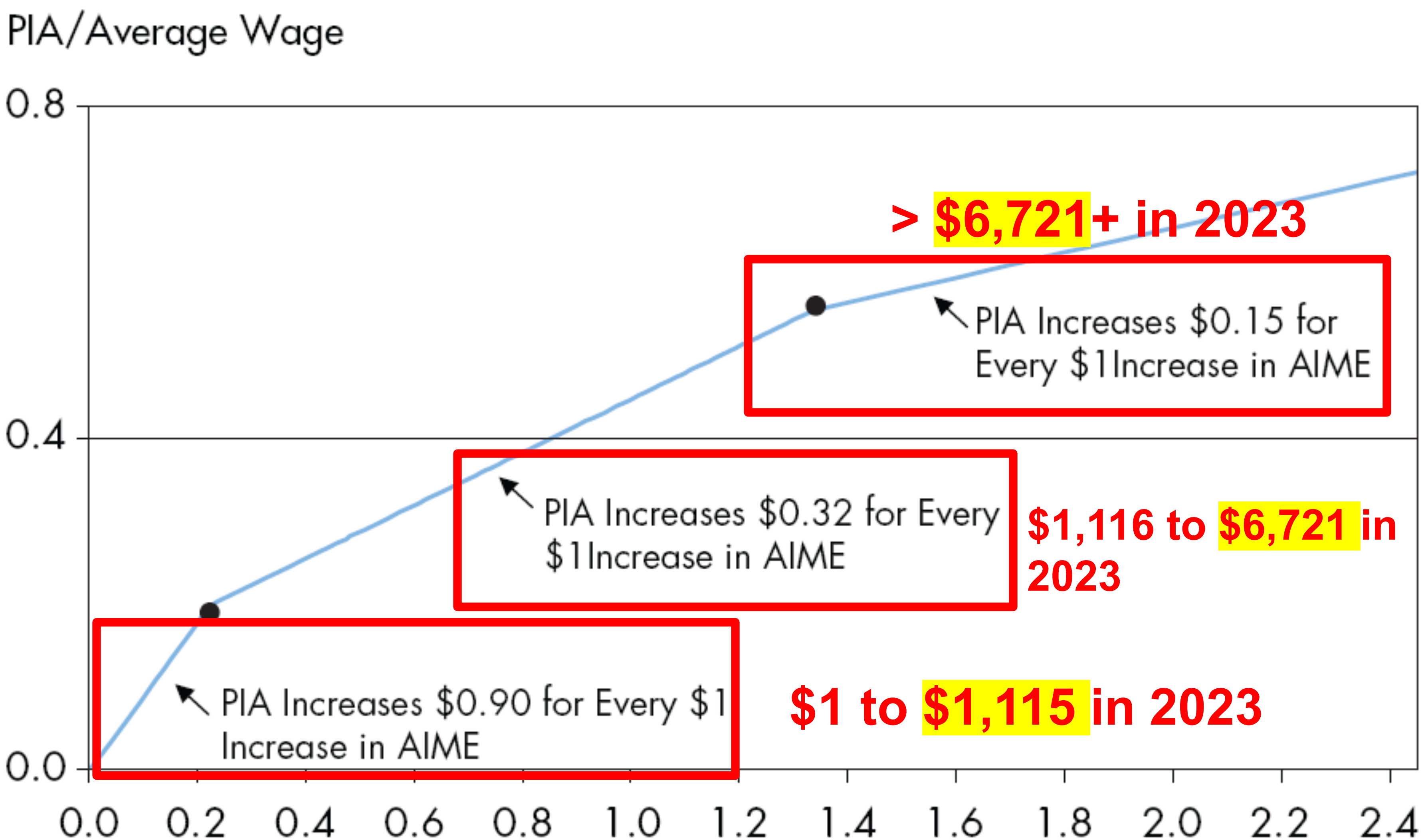


AIME = Average Indexed Monthly Earnings

Source: Department of the Treasury

The Social Security Trust Fund

- Social Security Taxes are **REGRESSIVE**:
  - Lower income workers pay a larger % of their total earnings than higher income workers because of the annual **Social Security cap on earnings**
    - e.g., workers earning above the SS cap only pay SS taxes on their income below the cap, low-income earnings pay SS taxes on ALL their income.

Payroll Taxes are Regressive

The annual limit on wage earnings subject to Social Security taxes is set at $142,800. Consequently, Taxpayer C pays a lower percent of their income in payroll taxes than workers who earn less.

	Taxpayer A	Taxpayer B	Taxpayer C
Wages	$30,000	$67,000	$201,000
Social Security Payroll Tax Owed	$1,860	$4,154	$8,854
Tax as Percent of Wages	6.2%	6.2%	4.4%

Because of the Social Security Earnings Cap

The Social Security Trust Fund

- Benefits levels are <u>**PROGRESSIVE**</u>
  - Higher income individuals get higher actual $PIA benefit amount, but a lower "***pre-retirement wage replacement rate***" than lower income individuals

Social Security benefits are PROGRESSIVE

Social Security Benefits are Based in Part on Wages

Increasing or removing the taxable maximum (currently $142,800) could weaken the link between the amount individuals pay in Social Security taxes and the amount they receive in benefits.

	Taxpayer A	Taxpayer B	Taxpayer C
Career Average Earnings	$24,191	$53,757	$200,000
Scheduled Social Security Benefits	$13,562	$22,374	$36,201
Benefits as % of average earnings	56.1%	41.6%	18.1%

SOURCE: Social Security Administration, Office of the Chief Actuary, *Replacement Rates for the Hypothetical Retired Worker*, April 2020.
NOTES: Benefits are calculated for hypothetical retired workers who in 2020 would be in their first year of benefit receipt at normal retirement age. Estimates are based on intermediate assumptions of the 2020 OASDI Trustees Report.

Why? Because of the “bend point” formular

Let’s look at that trust fund

Social Security Trust Fund: Balance sheet

https://www.ssa.gov/OACT/TR/2021/tr2021.pdf

The Social Security Trust Funds

- **Social Security**
  - OASI (Old age and survivor's insurance)
  - DI (Disability insurance)

Revenues & Costs ($ billions):

Table 4: TRUST FUND OPERATIONS, 2022

(in billions)

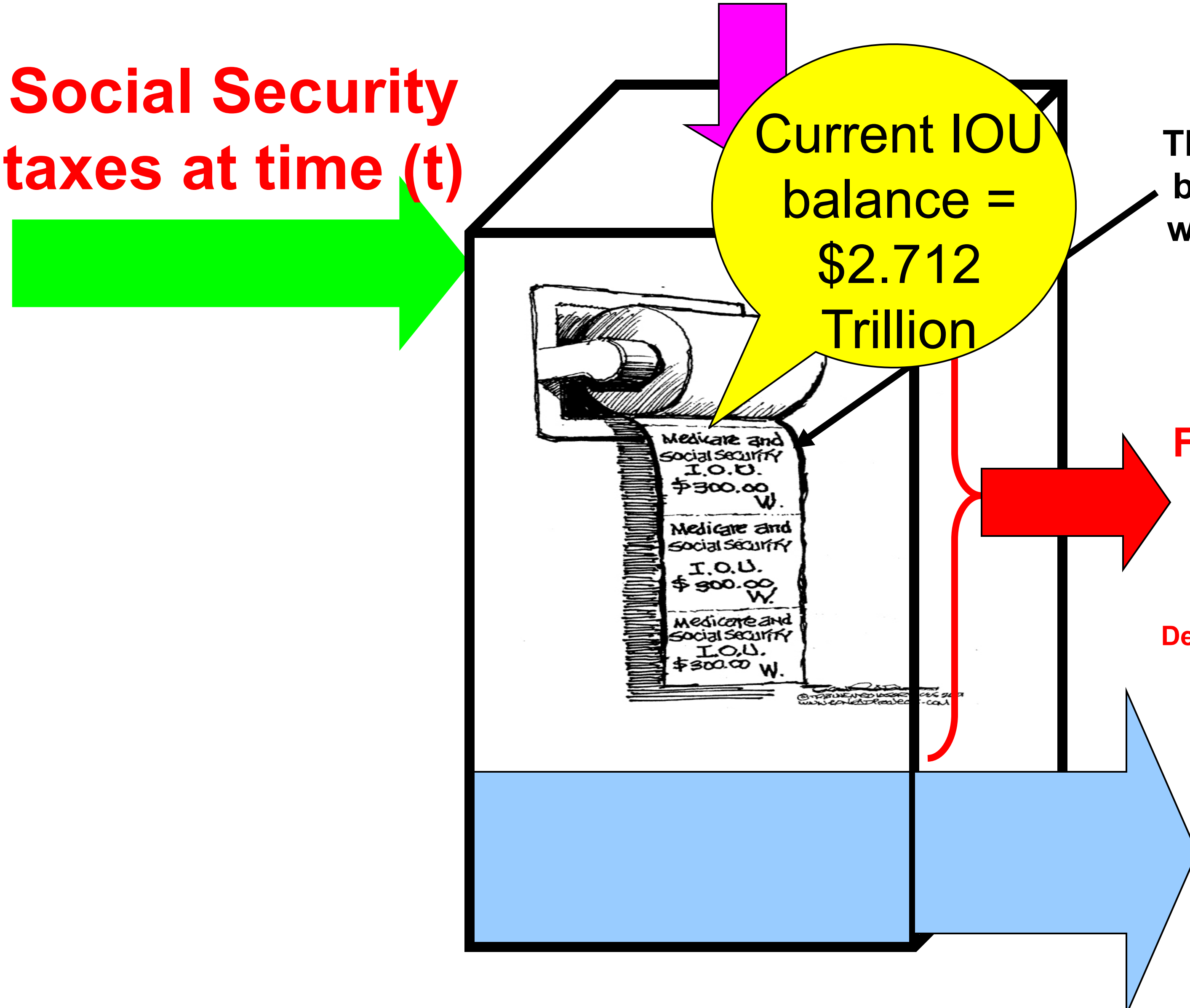
	OASI	DI	HI	SMI
Reserves (end of 2021)	$2,752.6	$99.4	$142.7	$183.0
+ Income during 2022	1,056.7	165.1	396.6	591.9
- Cost during 2022	1,097.5	146.5	342.7	562.4
Net change in Reserves	-40.7	18.6	53.9	29.5
Reserves (end of 2022)	2,711.9	118.0	196.6	212.6

DEFINITIONS:

- OASI = Social Security Trust Fund (Social Security)
- DI = Disability Trust Fund (Social Security)

Federal Bond IOUs

Social Security taxes at time (t)



The Federal IOUs held by the SS Trust Fund will always be a small portion of the total Federal debt

Funds to support other federal programs and federal deficit

Debt the government would have incurred anyway

Social Security current benefit payments at time(*t*)

When Social Security tax Revenue exceeds Social Security Payout

The Social Security Trust Fund

- Trust fund holds ***no*** **direct monetary assets**
- Surplus SS taxes (i.e., not needed to pay current beneficiaries) are ***"lent" to federal government*** to fund other federal programs
  - 1940s decision by congress – why?
- **Fund is "empty"** except for Federal Government IOUs (***promissory notes or bonds***) and surplus funds collected have already been spent by the government

When Social Security payments exceed revenue?

- The loss of payroll tax revenue due to the recession/COVID is made up by transfers from the **General Fund of the Treasury** and thus had no financial impact on recipient's retirement income.
- Future years? Where does that money come from?

- **How does the Federal government get the money to pay Social Security benefits when there is insufficient FICA tax revenue money coming into the fund?**
- **Borrow it**
- **Raise SS taxes**
- **Raise non-SS taxes (general funds)**
- **Reduce other government spending**
- **Reduce benefits**

Financing the Trust Fund

A closer look

Table 7: KEY DATES FOR THE TRUST FUNDS

	OASI	DI	OASDI	HI
First year cost exceeds income excluding interest[a]	2010	2044	2010	2025
First year cost exceeds total income including interest[a]	2021	[b]	2021	2025
Year asset reserves are depleted	2033	[c]	[d]2034	2031

Facts:

- Social Security's total cost is projected to be higher than its total income in 2025 and all later years thereafter.
- The trust fund reserves are projected to decrease from $2.712 trillion at the beginning of 2023 to $1.336 trillion at the end of 2030, meaning that trust fund reserves are being depleted rapidly

Facts:

- The dollar level of the combined Social Security trust fund reserves is predicted to decline until reserves become totally depleted in **2033**.

Benefits in jeopardy!!

- The OASI Trust Fund assets reserves become depleted and unable to pay scheduled benefits in **full** on a timely basis in **2033**.
- Tax income would be sufficient to pay only about **75%of scheduled benefits** through 2085 = **ACTUARIAL DEFICIT**

Table 9: LONG-RANGE ACTUARIAL BALANCE OF THE OASI, DI, OASDI, AND HI TRUST FUNDS
[Percent of taxable payroll]

	OASI	DI	OASDI	HI
Actuarial balance	-3.62	0.01	-3.61	-0.62

3.62 percent increase in SS taxes needed to fix the structural deficit

Actuarial Deficit: Tax increase

- The 75-year actuarial deficit for the combined trust funds is estimated to be an additional **3.62 percent increase in Social Security payroll taxes**
- **Revenue** would have to be increased by an amount equivalent to an *immediate* and permanent payroll Social Security tax rate increase.

Actuarial Deficit: Benefit decreases

- Scheduled benefits would have to be reduced by an amount equivalent to an immediate and permanent reduction of **about 21 percent applied to all current and future beneficiaries**
- Or, about **25 percent** if the reductions were applied only to those who become initially eligible for benefits in 2023 or later

Urgency and delay

- If actions are **<u>deferred for several years</u>**, the changes necessary to maintain Social Security solvency become concentrated on fewer years and fewer generations


SOCIAL SECURITY BASICS
Though it cost all you have,
get understanding.


Play (k)
0:00 / 3:07

Social Security Trust Fund

Graphs from the 2022 Trustees Report

Social Security Trust Fund Ratio

- Summary statistic comparing trust fund assets to trust fund projected costs for that time period:
  - Ratio: assets/expenditures
  - Ratio >100 = ***surplus***
  - Ratio <100 = ***deficit***

Chart D—OASI, DI and HI Trust Fund Ratios
[Asset reserves as a percentage of annual cost]

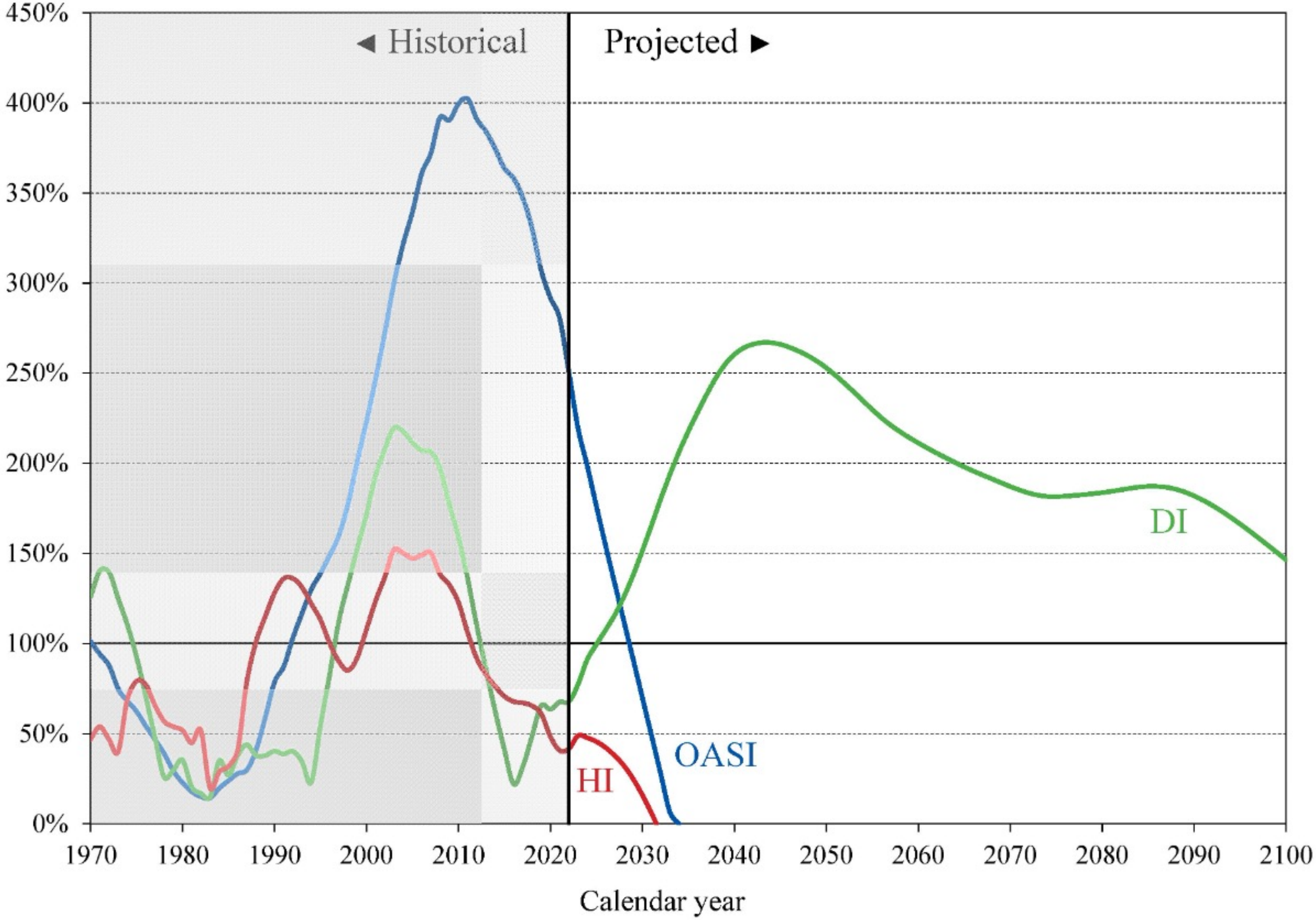
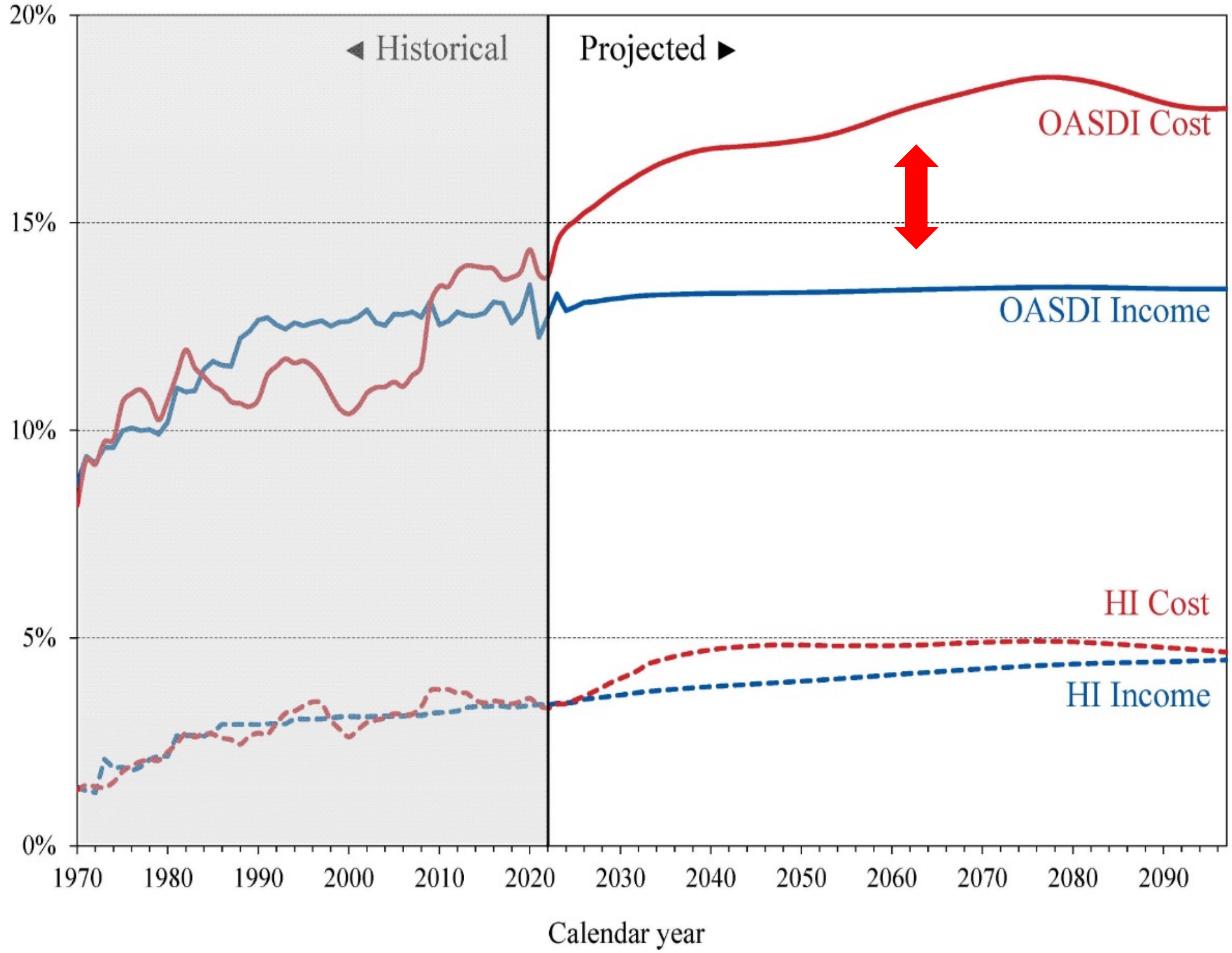


Chart A—OASDI and HI Income and Cost as Percentages of Their Respective Taxable Payrolls



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TERRORIST
The Social Security trust fund most Americans rely on for their retirement will run out of money...


MARKET
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TSMP
101.00
GBR/MXN = 22.23238 GBR/SGD =
TERRORIST
The Social Security trust fund most Americans rely on for their retirement will run out of money...
Play (k)
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So, what’s causing the problem?

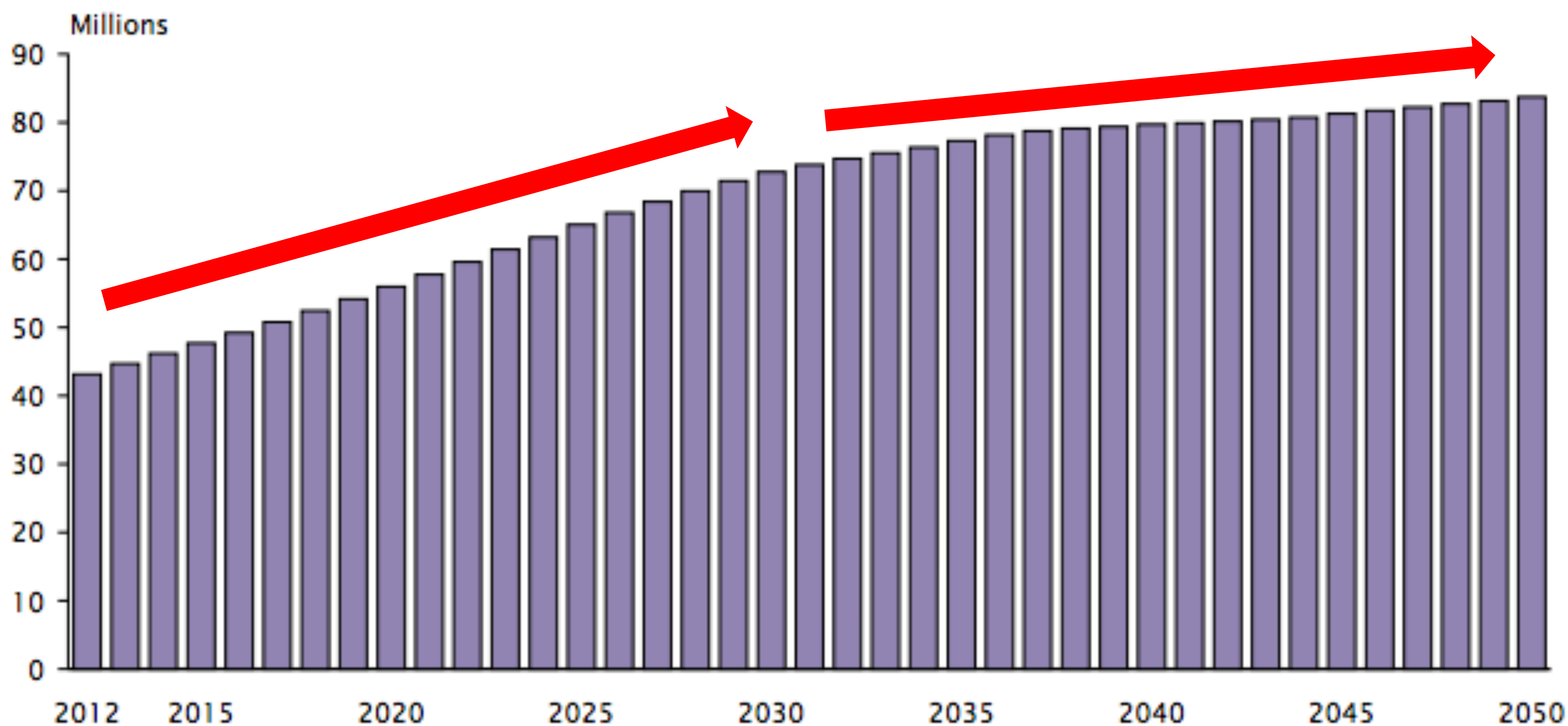
What is causing the problem?

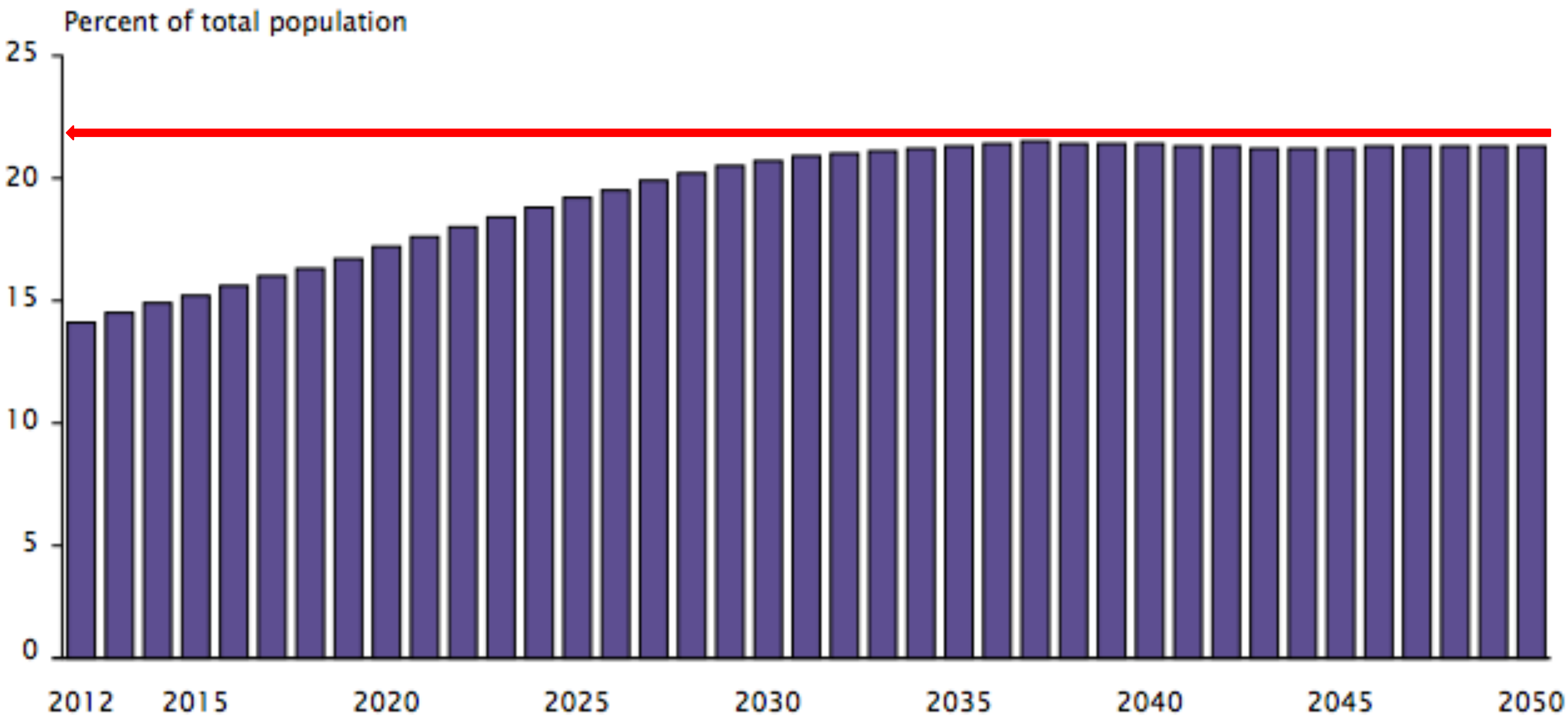
- Demographics?

300M
USA

Figure 1.

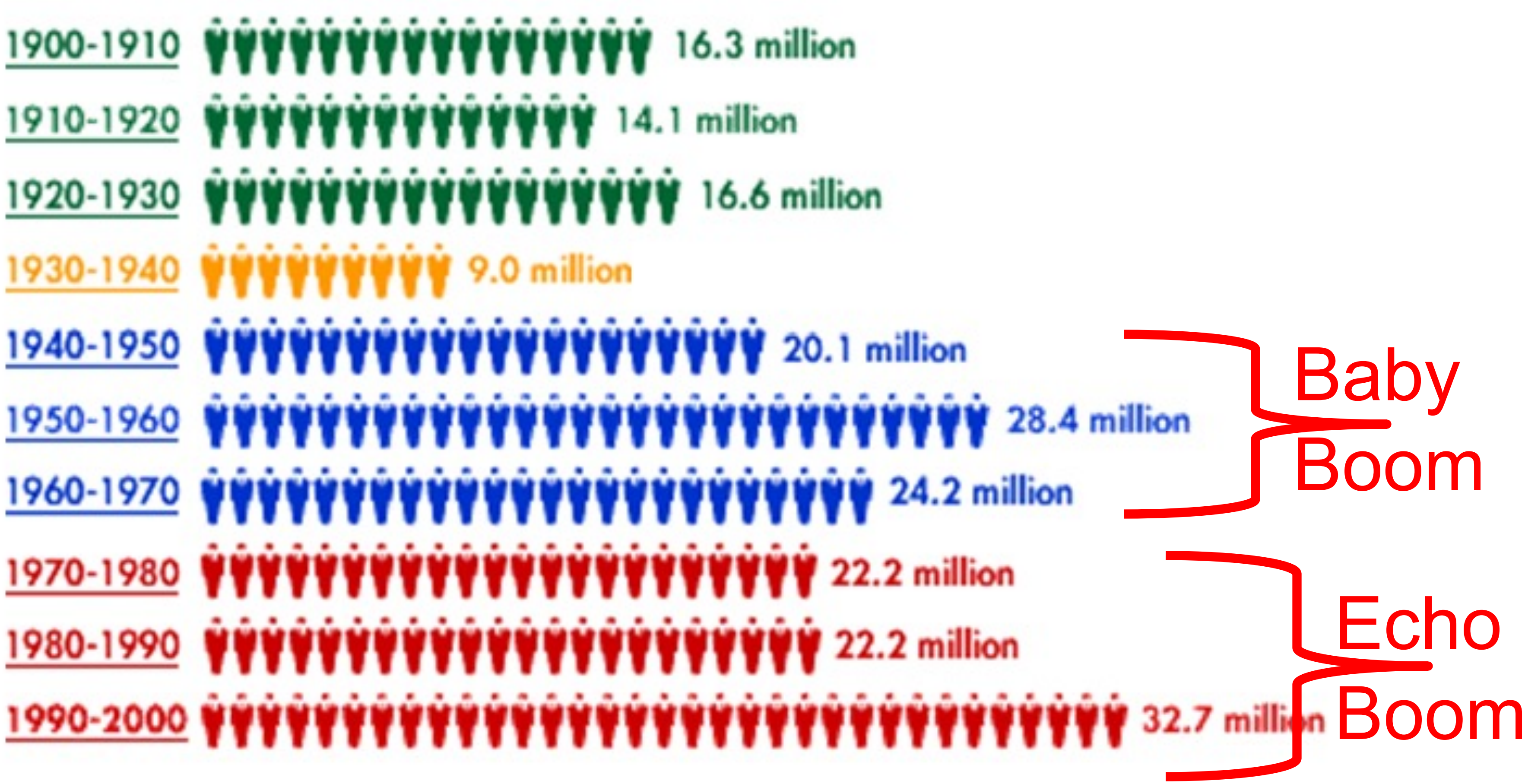
Population Aged 65 and Over for the United States: 2012 to 2050





Source: U.S. Census Bureau, 2012 Population Estimates and 2012 National Projections.

Comparisons of 20th Century U.S. Population Growth by Decade



http://www.numbersusa.com/overpopulation/decadegraph.html

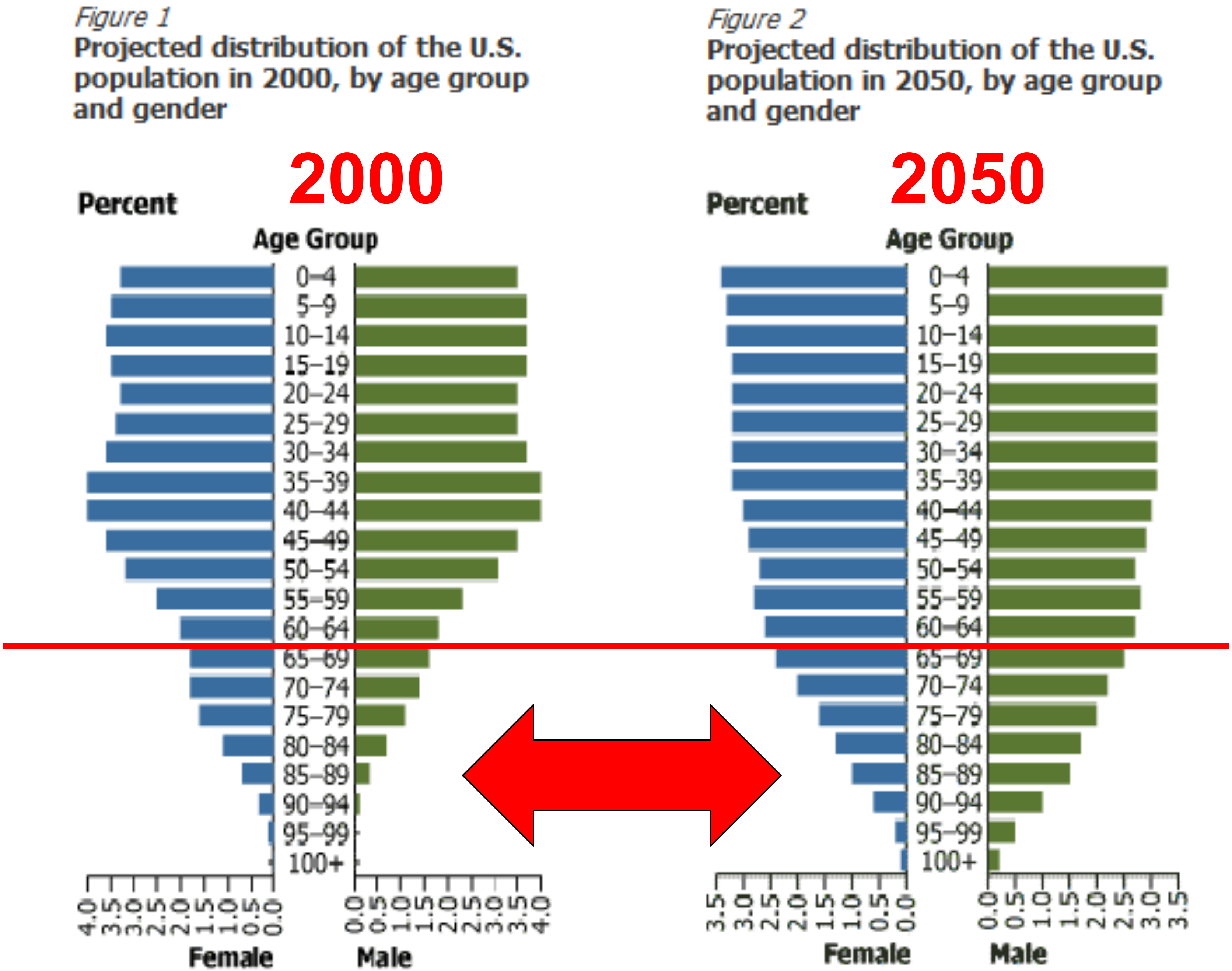
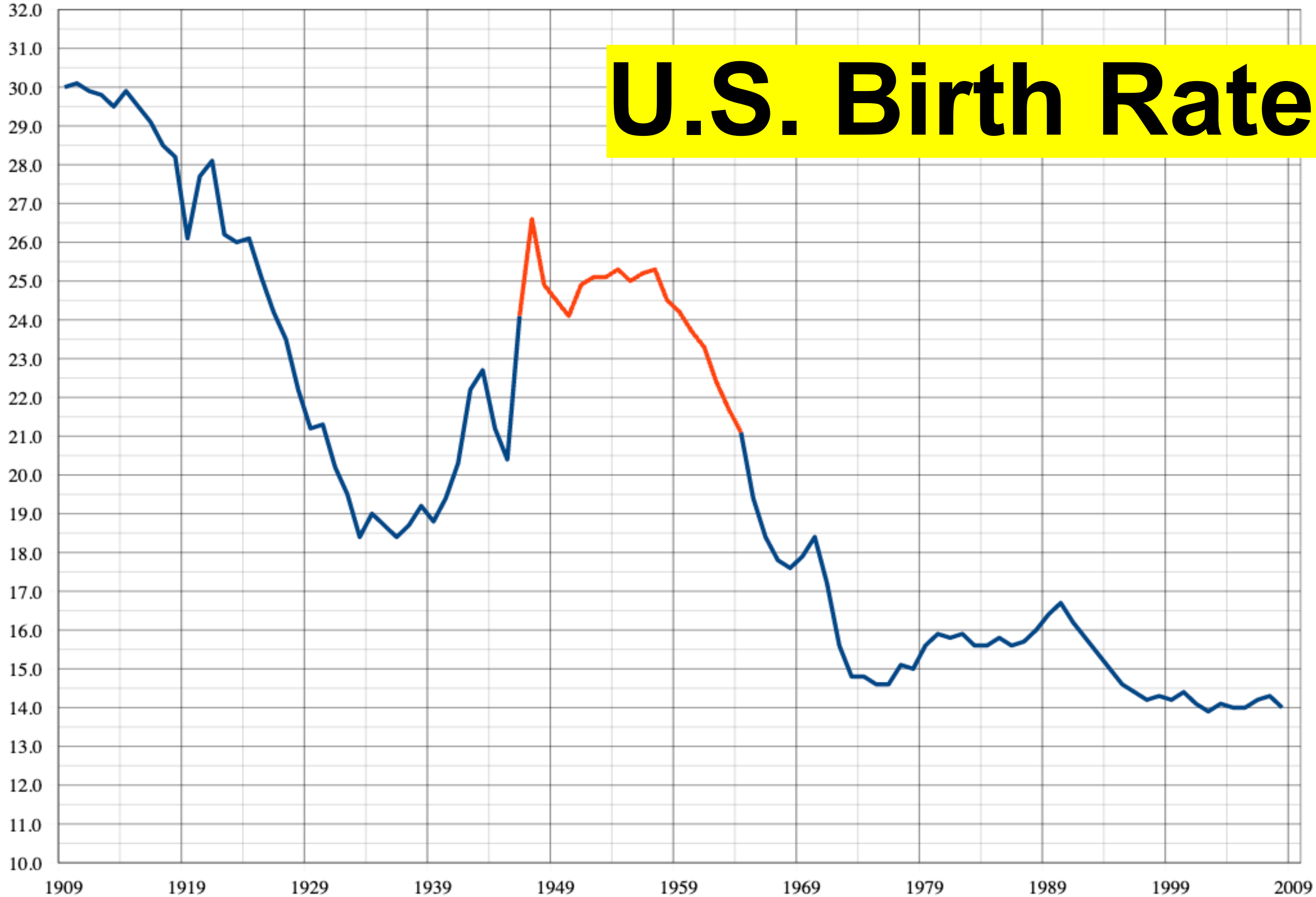


Figure 1
Projected distribution of the U.S. population in 2000, by age group and gender
2000
Percent
Age Group
0–4
5–9
10–14
15–19
20–24
25–29
30–34
35–39
40–44
45–49
50–54
55–59
60–64
65–69
70–74
75–79
80–84
85–89
90–94
95–99
100+
4.0 3.5 3.0 2.5 2.0 1.5 1.0 0.5 0.0
0.0 0.5 1.0 1.5 2.0 2.5 3.0 3.5 4.0
Female
Male
Figure 2
Projected distribution of the U.S. population in 2050, by age group and gender
2050
Percent
Age Group
3.5 3.0 2.5 2.0 1.5 1.0 0.5 0.0
0.0 0.5 1.0 1.5 2.0 2.5 3.0 3.5
Female
Male

U.S. Birth Rates



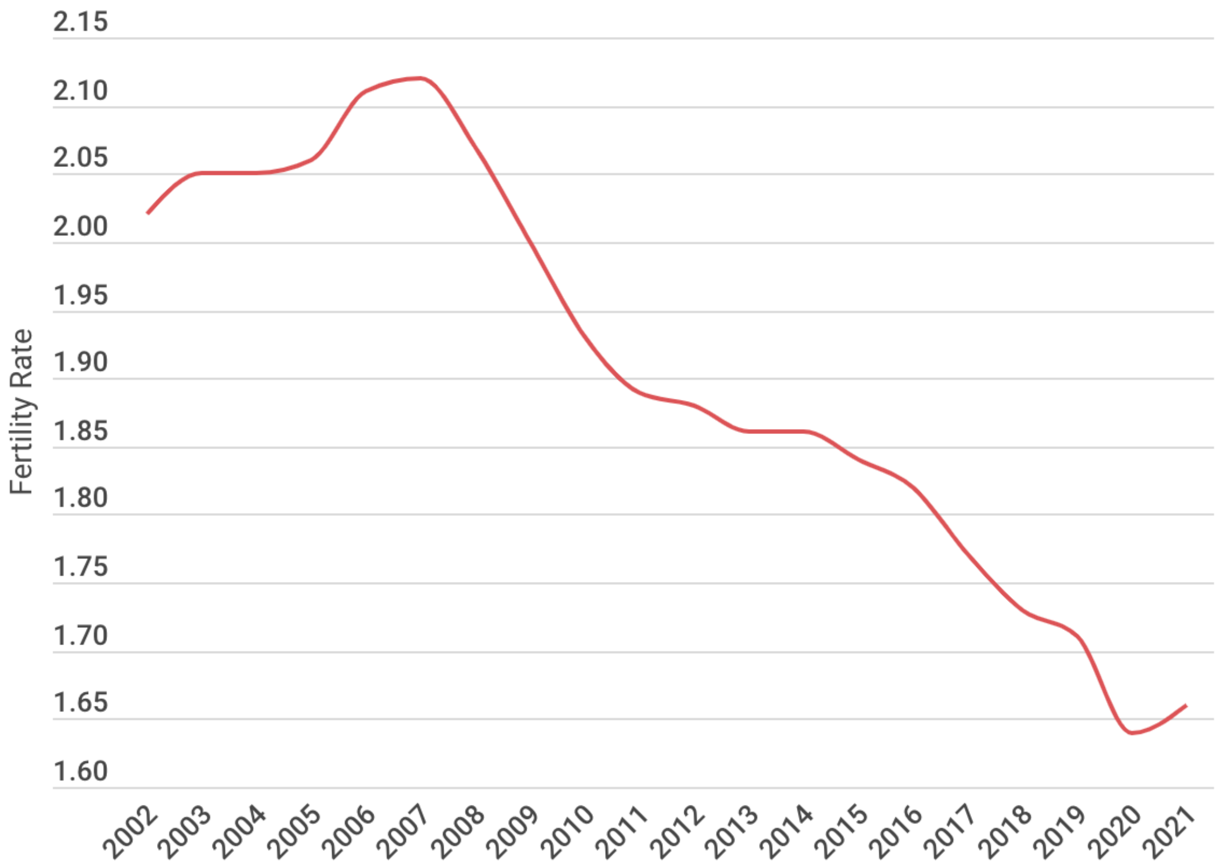
US crude birth rates from 1909 to 2009. The red portion of the line denotes the baby boom generation. The smaller bump between 1976 and 2001 shows the baby boom "echo." .

https://www.khanacademy.org/humanities/us-history/postwarera/postwar-era/a/the-baby-boom

Fertility rate dropping

1.782 births per woman

The current fertility rate for U.S. in 2022 is **1.782 births per woman**, a 0.06% increase from 2021. The fertility rate for U.S. in 2021 was 1.781 births per woman, a 0.11% increase from 2020. The fertility rate for U.S. in 2020 was 1.779 births per woman, a 0.06% increase from 2019.



Source: CDC

What is causing the problem?

- Demographics?
  - Demographics are only one aspect of the problem
  - If all retirees die within a short period after retirement the system would remain solvent into the next century
- What is it then?

Life Expectancy

- When the Social Security Act was signed into law in **1935**, life expectancy was only around **62 years** of age.
- This meant the typical retiree was likely to receive benefits for only a few years.
- However, in **2023** life expectancy is nearly **80 years**.

U.S. Life Expectancy

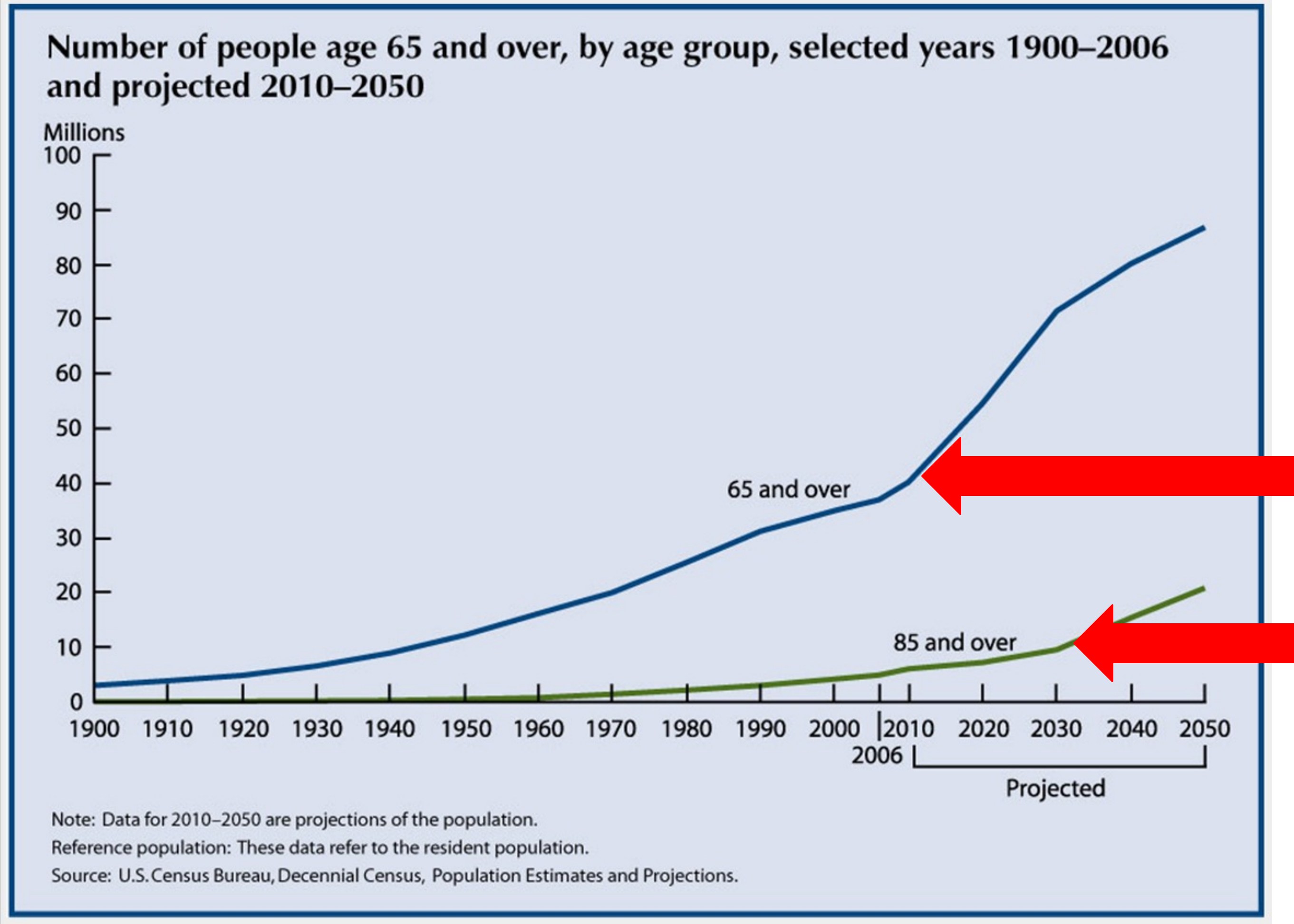
- The current life expectancy for U.S. in 2023 is **79.05** years, a **0.08%** **increase** from 2022
- The life expectancy for U.S. in 2022 was **78.99** years, a **0.08%** **increase** from 2021.
- The life expectancy for U.S. in 2021 was **78.93** years, a **0.08%** **increase** from 2020.
- The life expectancy for U.S. in 2020 was **78.87** years, a **0.08%** **increase** from 2019.

Remaining Life Expectancy

Life Expectancy Tables

Age	Life Expectancy-Male	Life Expectancy-Female
72	**13.07**	**15.09**
73	12.43	14.37
74	11.80	13.66
75	11.18	12.97

Life Expectancy for Social Security

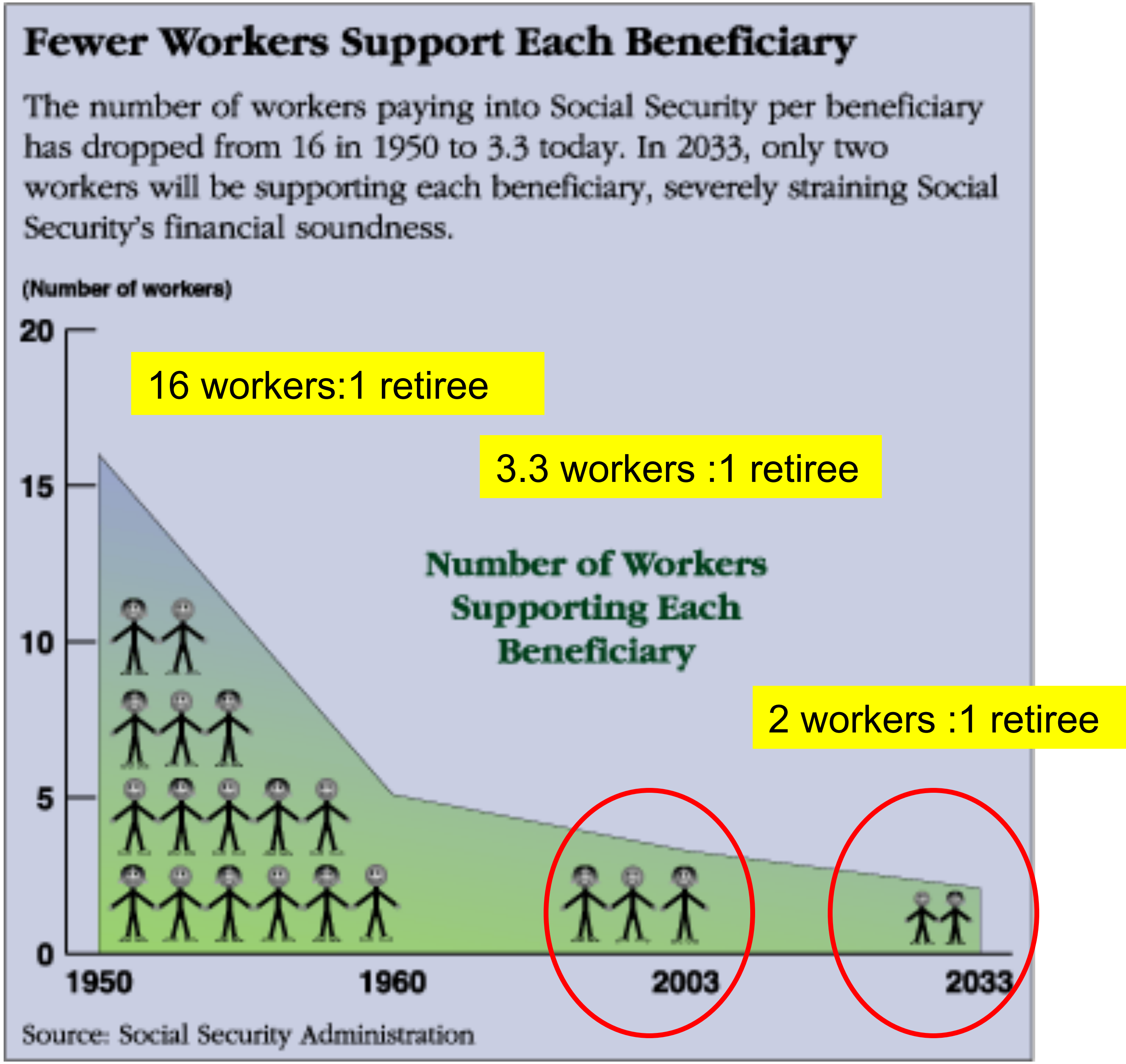


http://www.aoa.gov/agingstatsdotnet/Main_Site/Data/2008_Documents/Population.aspx

So, the real problem is…….

What is causing the problem?

- The Dependency ratio:
  - Divide the *non-working* elderly over age 65 by the total number of tax paying workers in the labor force = ***dependency ratio***



Fewer Workers Support Each Beneficiary
The number of workers paying into Social Security per beneficiary has dropped from 16 in 1950 to 3.3 today. In 2033, only two workers will be supporting each beneficiary, severely straining Social Security's financial soundness.
(Number of workers)
20
15
10
5
0
16 workers:1 retiree
3.3 workers :1 retiree
Number of Workers Supporting Each Beneficiary
2 workers :1 retiree
1950
1960
2003
2033
Source: Social Security Administration

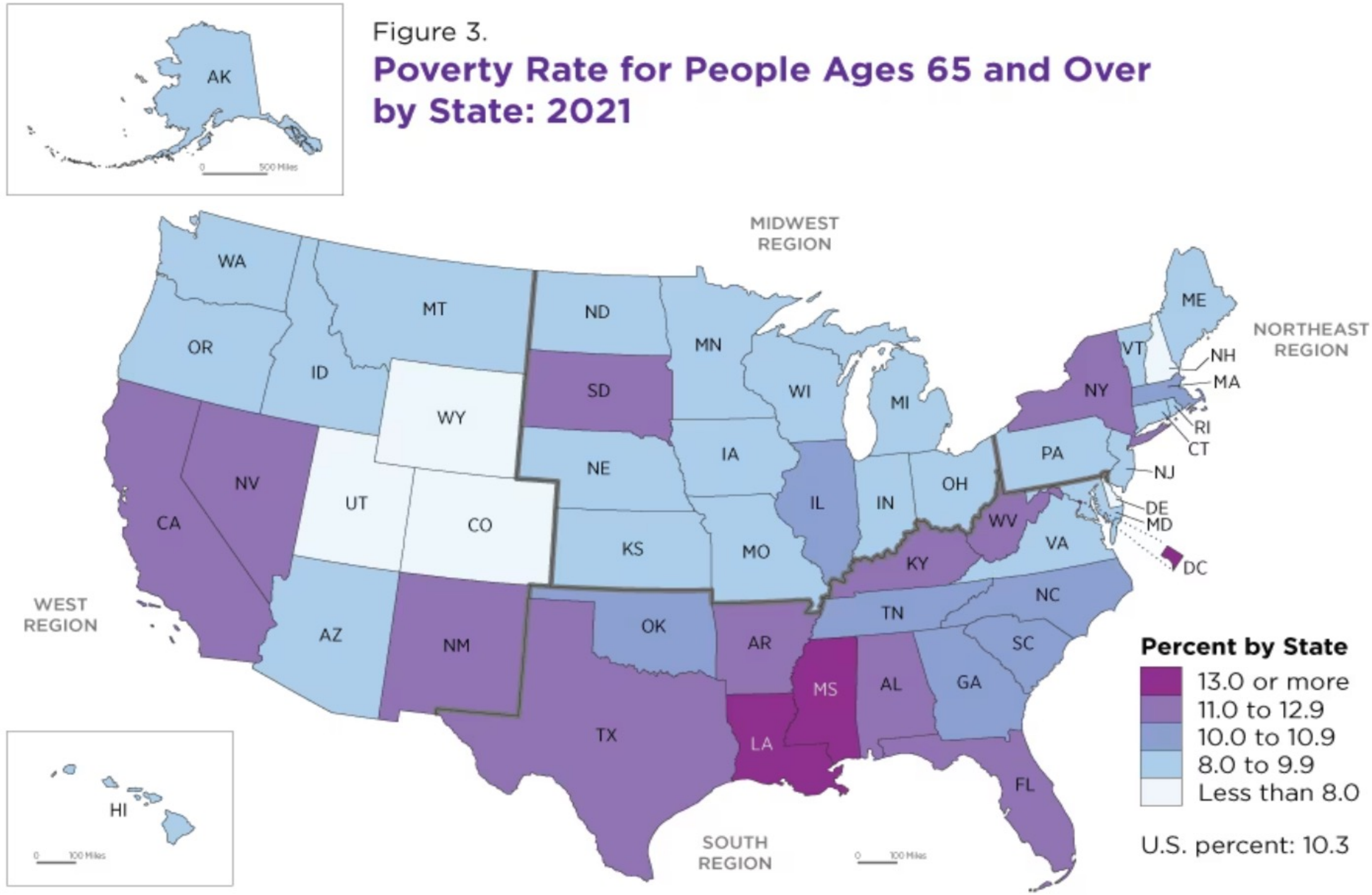
So, the real problem is…….

- People are living longer (**longevity**)
- People are still retiring at the same age (**retirement age**)
- There are too few workers being taxed to support them in terms of current contributions (**dependency ratio**)
- Current SS contributions and US Treasury promissory notes will not be enough to cover demand (**trust fund deficit/US Deficit**)
- And, people have **not saved enough** for their own retirement……………………………

Poverty Among the Elderly

Figure 3.

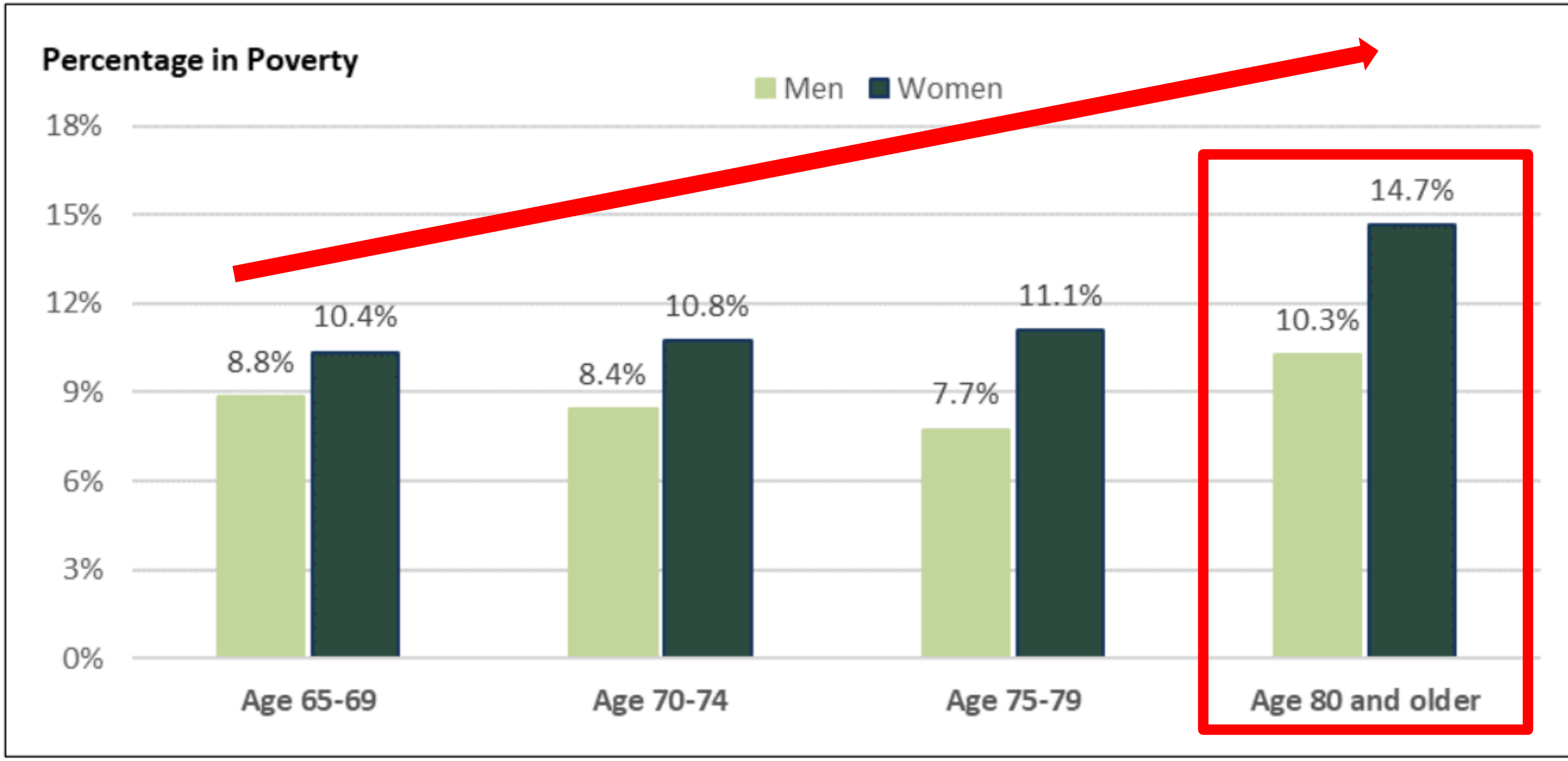
Poverty Rate for People Ages 65 and Over by State: 2021



Note: For more information, visit <www.census.gov/acs>.
Source: U.S. Census Bureau, 2021 American Community Survey, 1-year estimates.

https://www.census.gov/library/stories/2022/10/poverty-rate-varies-by-age-groups.html

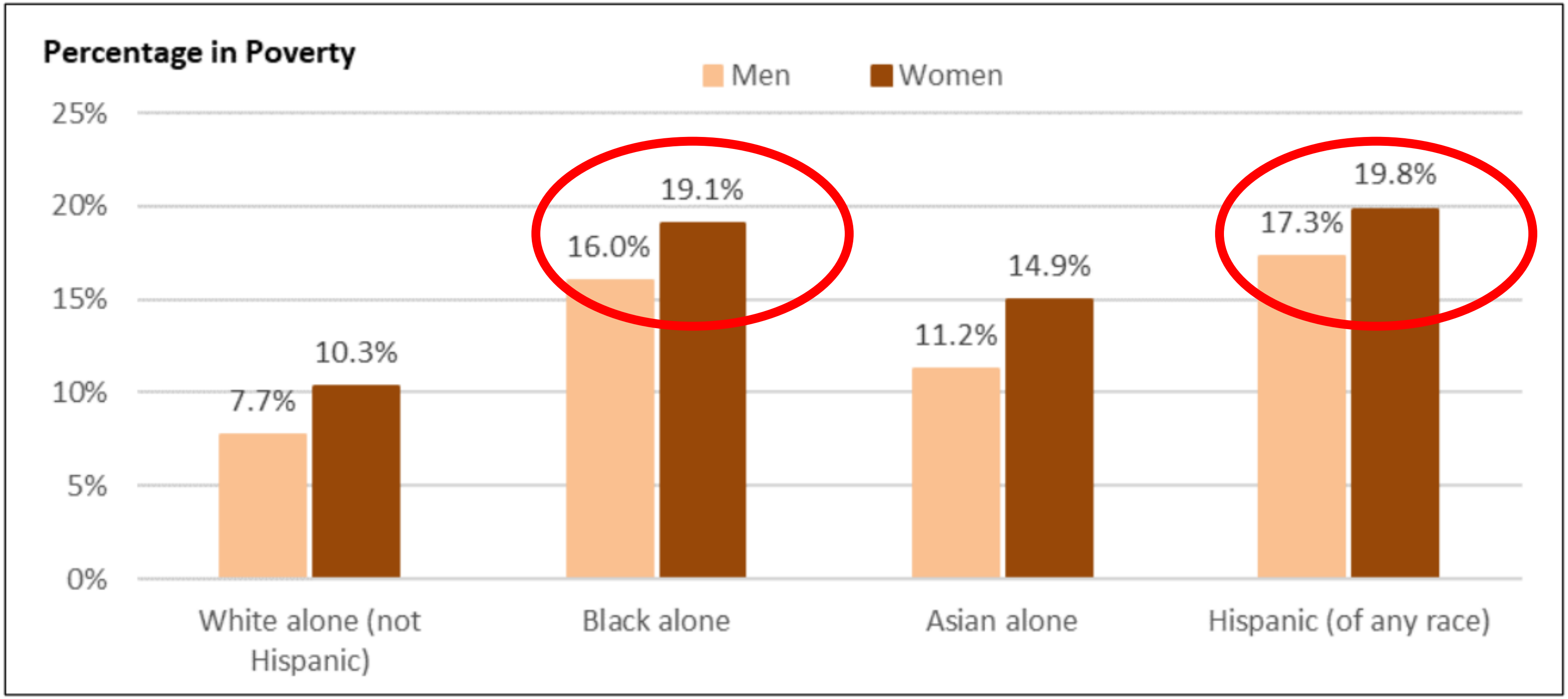
Figure 4. Poverty Status of Individuals Aged 65 and Older in 2021, by Age Groups and Sex



Source: CRS analysis of data from the 2022 CPS ASEC.

https://sgp.fas.org/crs/misc/R45791.pdf

Figure 10. Poverty Status of Individuals Aged 65 and Older in 2021, by Race, Hispanic Origin, and Sex



Source: CRS analysis of data from the 2022 CPS ASEC.

https://sgp.fas.org/crs/misc/R45791.pdf

And it gets worse as the elderly age…………..

Table 1. Share of Total Money Income from Specified Sources for Poor Individuals Aged 65 and Older, 2021

	Below 100% of the Poverty Threshold[a]	Below 125% of the Poverty Threshold[b]
Total Percentage	100.0%	100.0%
Percentage of Income from—		
Earnings	4.1%	3.7%
Social Security	74.3%	80.1%
Pensions	3.9%	3.4%
Asset Income	3.4%	2.4%
SSI and Other Public Assistance	9.9%	6.8%
Other Income	4.4%	3.7%
Number of Observations[c]	2,745	4,016
Population (thousands)	5,804	8,500

Source: CRS analysis of data from the 2022 CPS ASEC.

Baby Boomers Facing Retirement Crisis 3:30

Social Security

A program in trouble that needs fixing

https://www.youtube.com/watch?v=LoKQpt0qpM0

The Social Security program is in trouble and needs fixing………..

What sort of trouble?

Facts:

- The dollar level of the combined Social Security trust fund reserves is predicted to decline until reserves become totally depleted in **2033**.

Table 7: KEY DATES FOR THE TRUST FUNDS

	OASI	DI	OASDI	HI
First year cost exceeds income excluding interest[a]	2010	2044	2010	2025
First year cost exceeds total income including interest[a]	2021	[b]	2021	2025
Year asset reserves are depleted	2033	[c]	[d]2034	2031

Chart D—OASI, DI and HI Trust Fund Ratios
[Asset reserves as a percentage of annual cost]

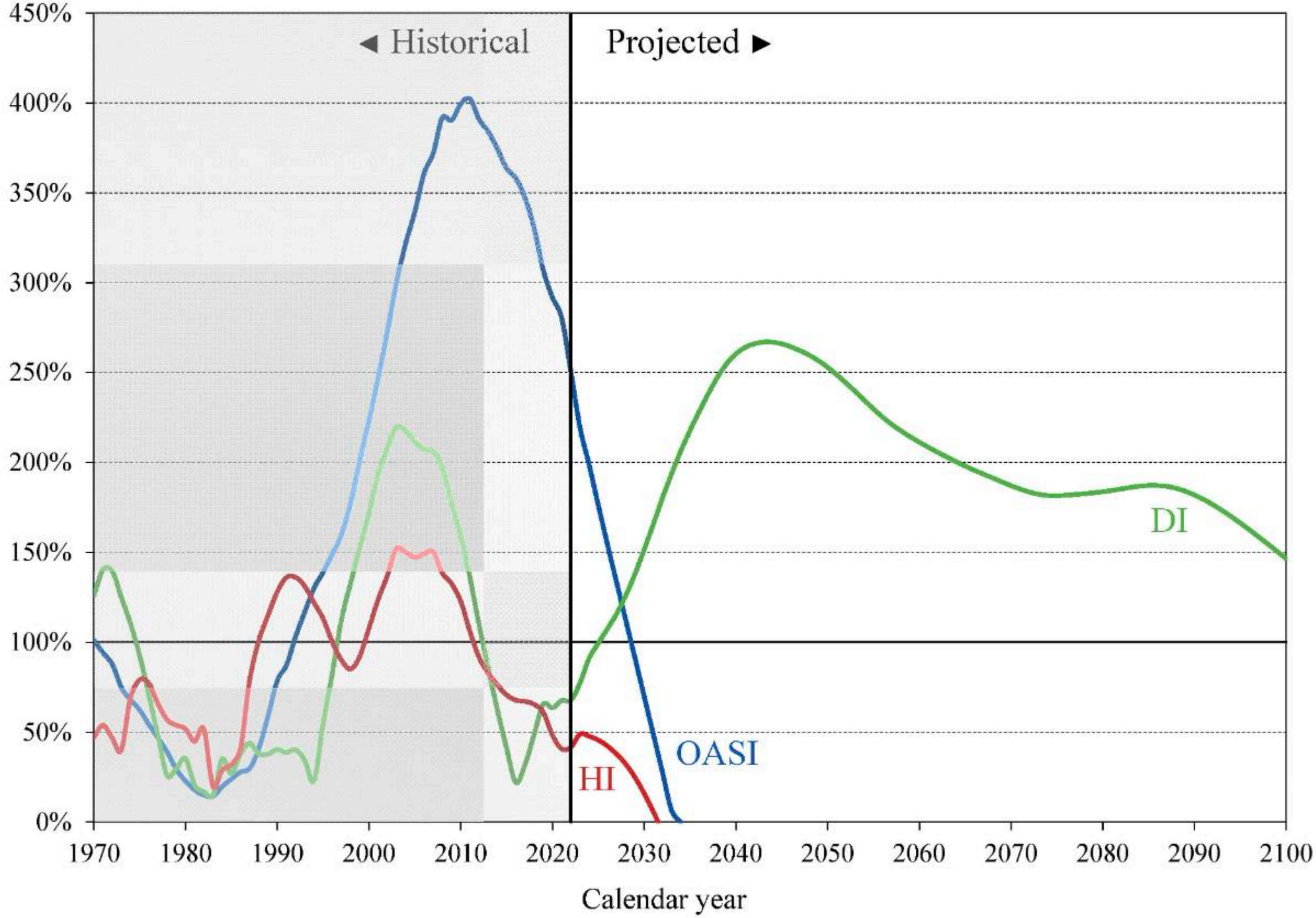
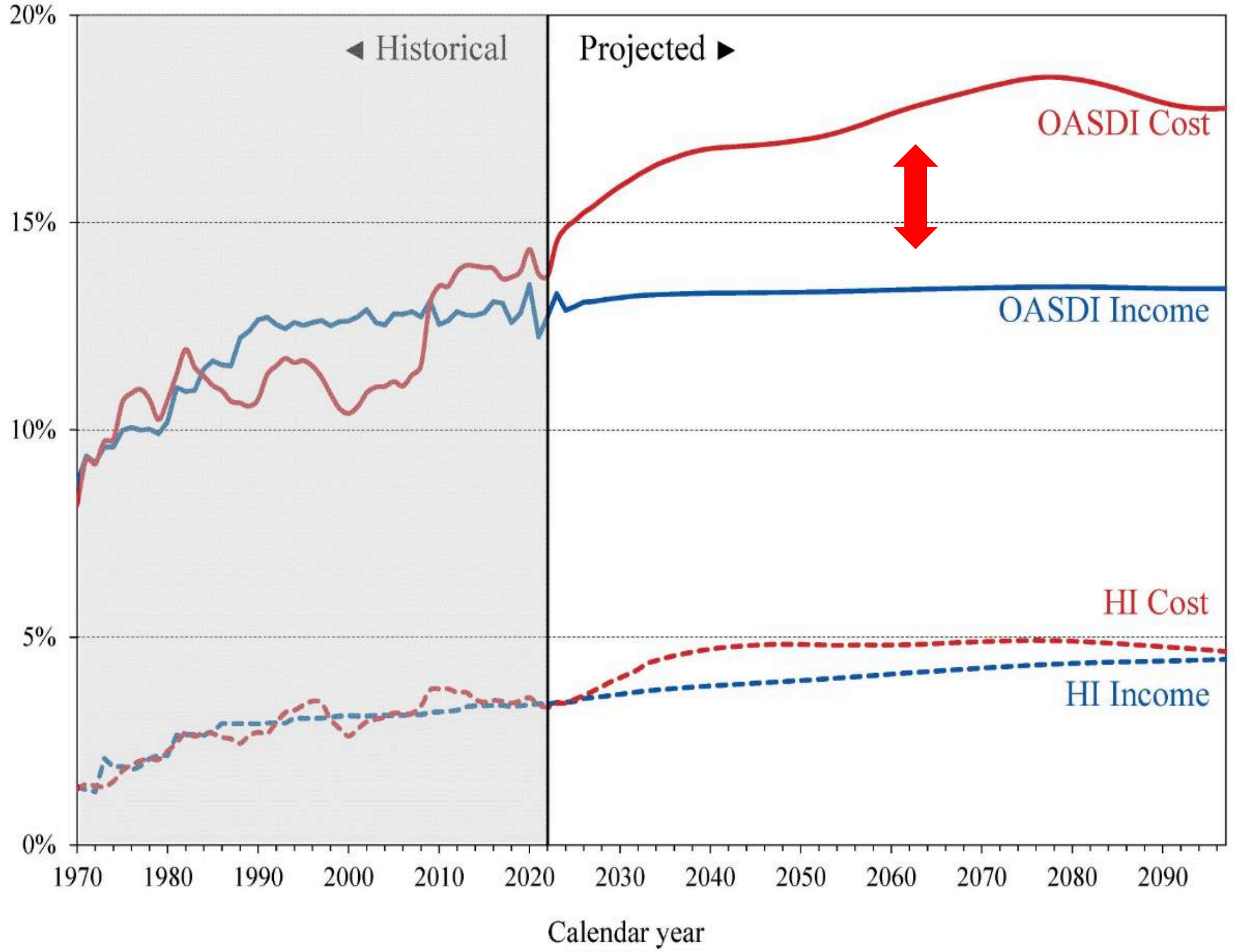


Chart A—OASDI and HI Income and Cost as Percentages of Their Respective Taxable Payrolls



Benefits in jeopardy!!

- The OASI and DI Trust Fund assets reserves become depleted and unable to pay scheduled benefits in **full** on a timely basis in **2033**.
- Tax income would be sufficient to pay only about **75% of scheduled benefits** through 2085 = **ACTUARIAL DEFICIT**

Table 9: LONG-RANGE ACTUARIAL BALANCE OF THE OASI, DI, OASDI, AND HI TRUST FUNDS
[Percent of taxable payroll]

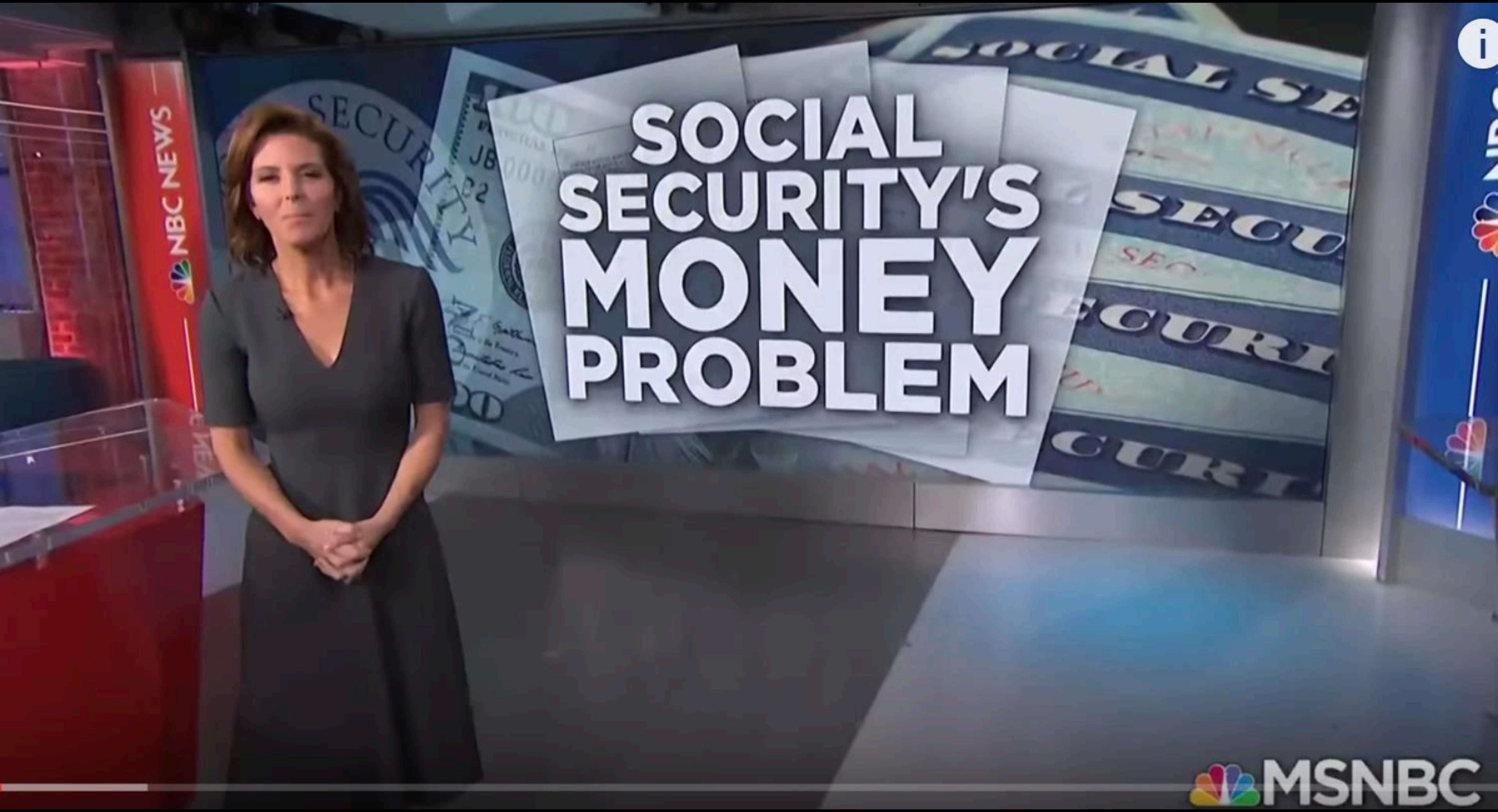
	OASI	DI	OASDI	HI
Actuarial balance	-3.62	0.01	-3.61	-0.62

3.62 percent increase in SS taxes needed to fix the structural deficit

The urgency for Fixing Social Security

We have known about this looming problem in 2033 for a decade or more

The Trump administration tried to make changes to Social Security funding, but this is a **very HOT political issue**



6:00)

Here are the facts regarding….

Making changes to the Social Security Program

The need for Legislative Changes

- *Congress needs to act:*
- ***Legislative changes are necessary*** to avoid disruptive consequences for beneficiaries and taxpayers.

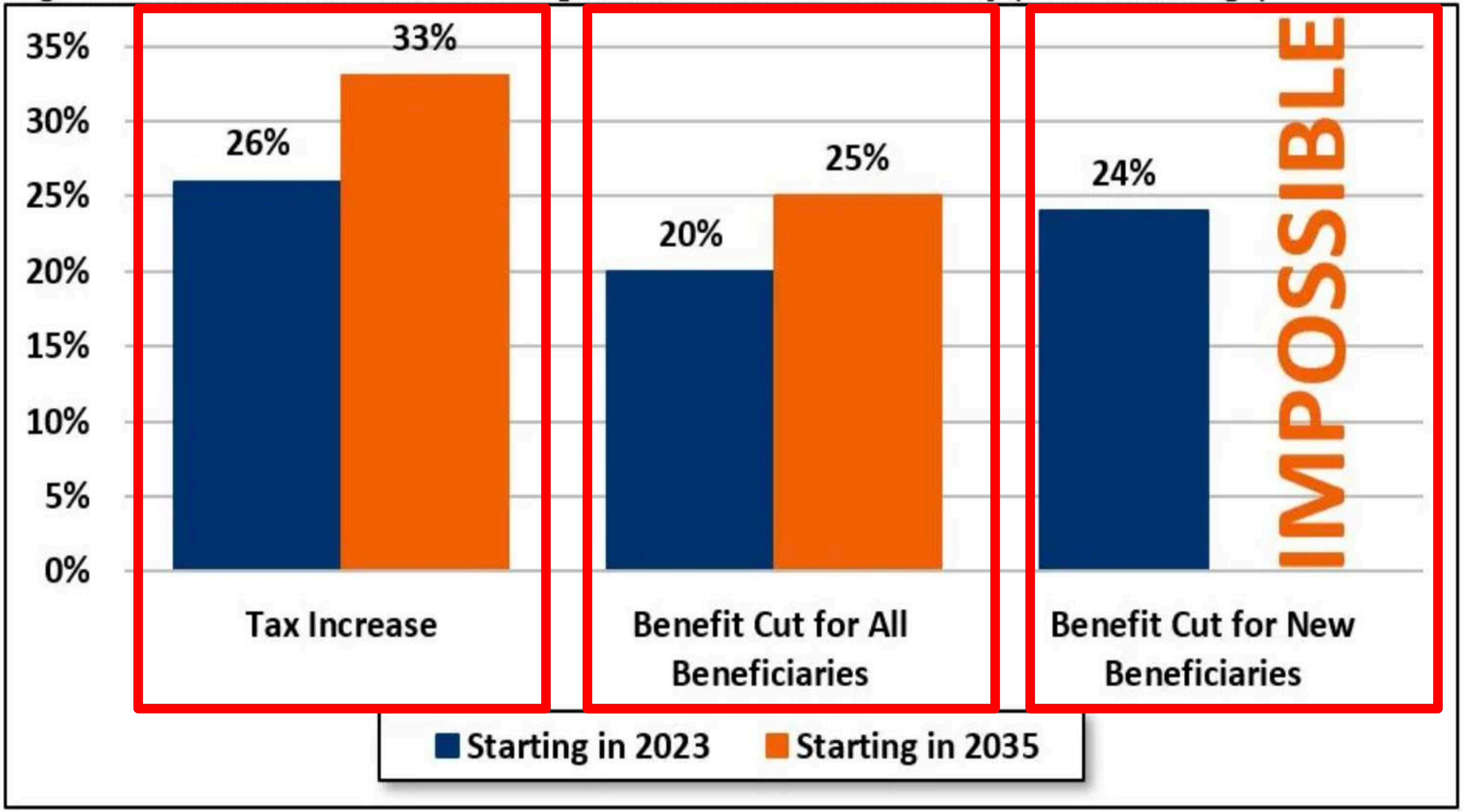
What are the parameters of the problem?

Taxes and Benefit Cuts:

BY HOW MUCH?

Center for Responsible Federal Budget

Fig. 5: Tax Increases or Benefit Changes Need to Achieve Solvency (Percent Change)



Source: Social Security Administration.

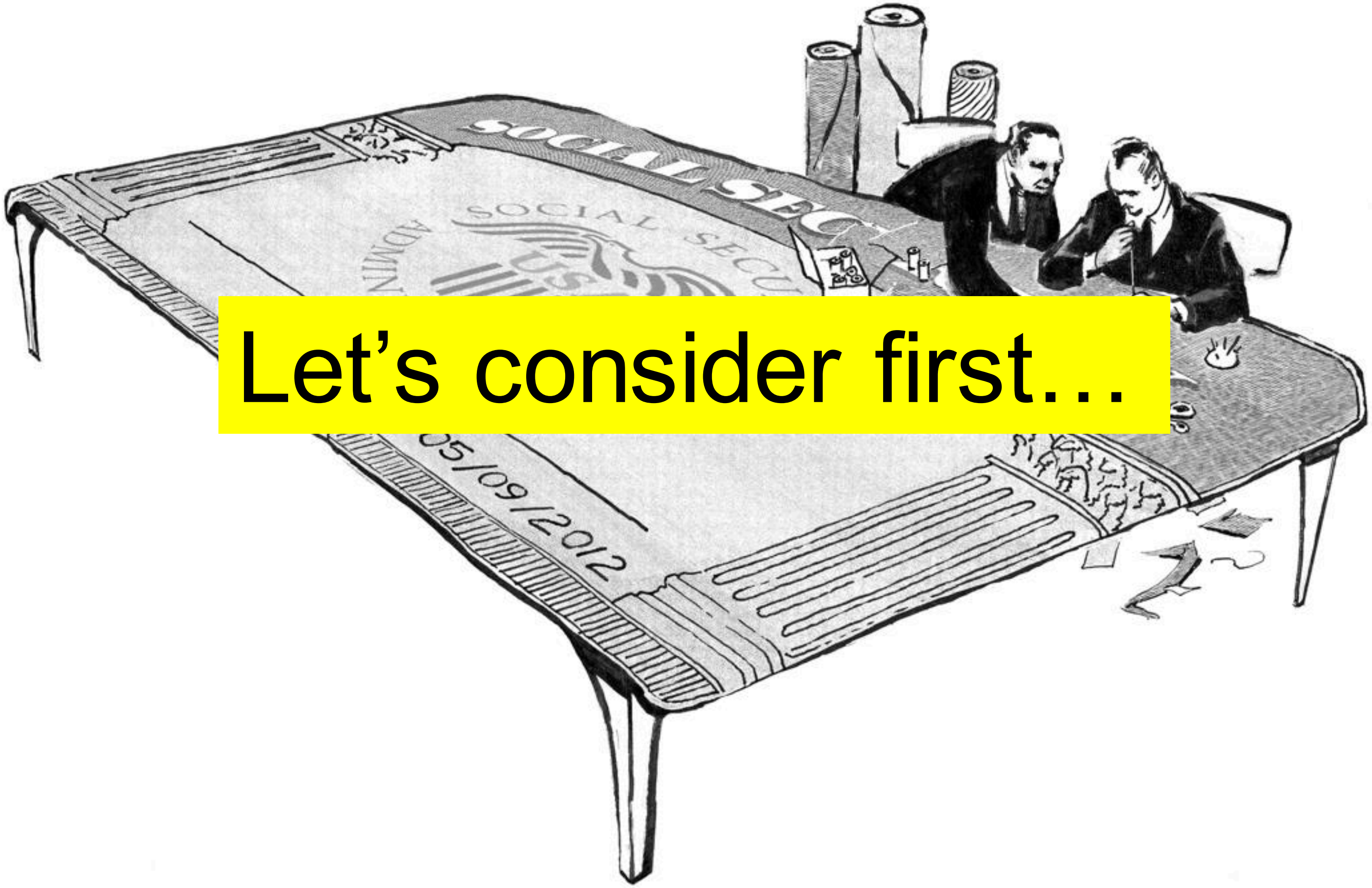
Increase taxes?

- Based on projections from the Trustees, the **payroll tax would need to rise 26 percent today to make Social Security solvent,** but by **33 percent if lawmakers wait until 2033 to act**.

Decrease benefits?

- The size of the necessary **across-the-board** benefit cut would need to be **20 percent today, and 25 percent if we wait until 2033**.
- If lawmakers **exempted existing beneficiaries from these benefit cuts, that cut would need to be 24 percent today, and literally could not solve the problem thereafter**.

Solutions for Fixing Social Security



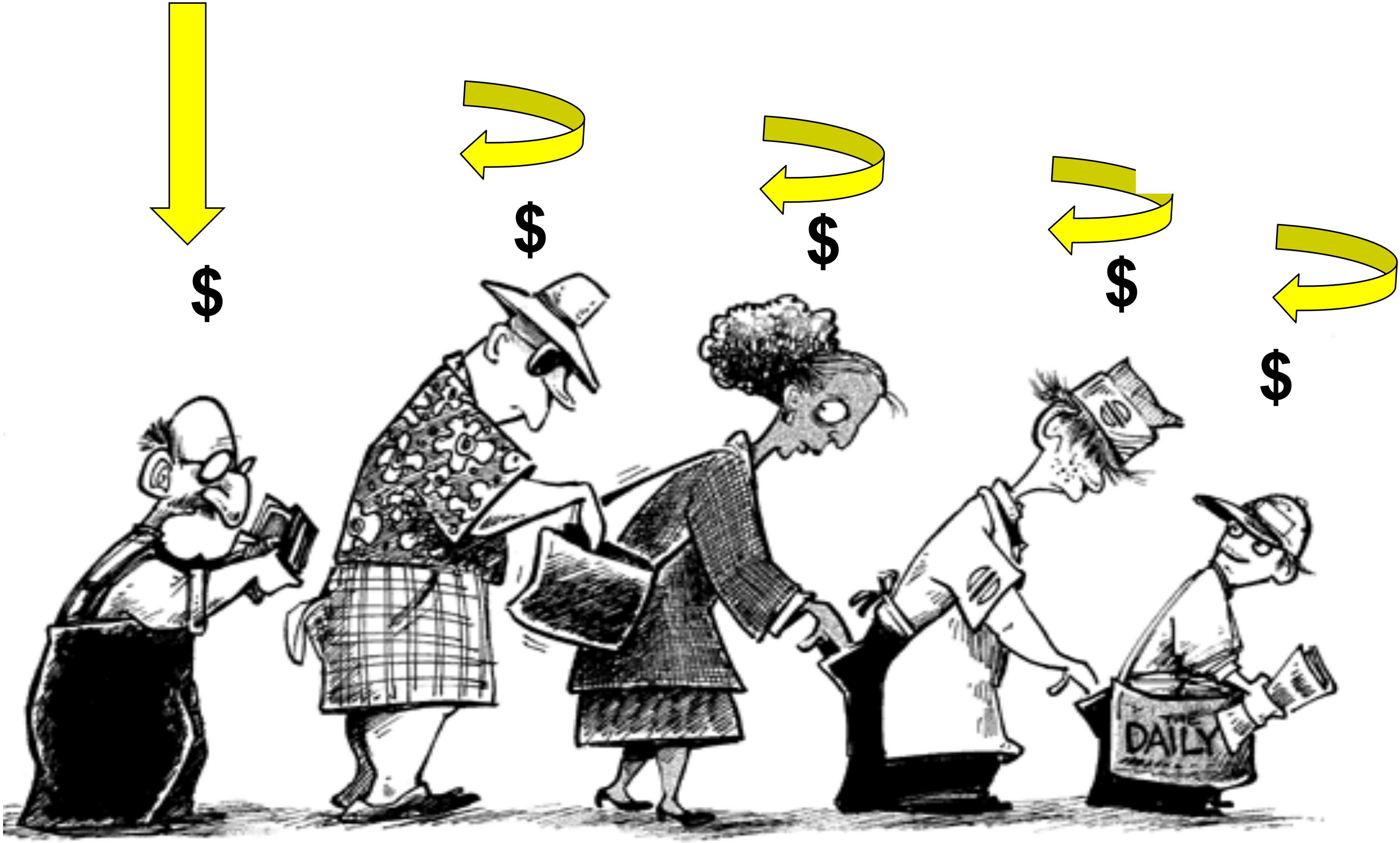
Let’s consider first…

What were the financial principles on which Social Security was built?

Social Security was sold on the principles of "***Social Insurance***" (i.e., dignity and self respect), not on the concepts of redistribution and welfare

But, remember, Social Security was set up as a **Ponzi scheme**

with with strong intergenerational and redistribution effects



There is NO MONEY in the trust fund!!!
Current workers pay current retirees

Redistribution and Intergenerational Effects

- Social Security redistributes income
  - ***between generations***
    - Pay-as-you-go system, present workers pay for current retirees
    - If benefits received in retirement > taxes paid during their work life, then there is redistribution between generations
  - ***within a cohort***
    - Benefits are ***progressive***, poorer retirees get higher pre-wage replacement rates than richer retirees due to the “bend point” formula

Let's first consider a framework for thinking about Social Security reform

What were the original goals and ***finance principles*** on which the Social Security program was designed?

Principles of Public Finance

- Four principles on which Social Security was established:
  - **Progressivity** (Redistribution)
  - **Fair return** (Individual Equity)
  - **Equal treatment** (Horizontal Equity)
  - **Economic efficiency** (Economic growth)

Principle 1

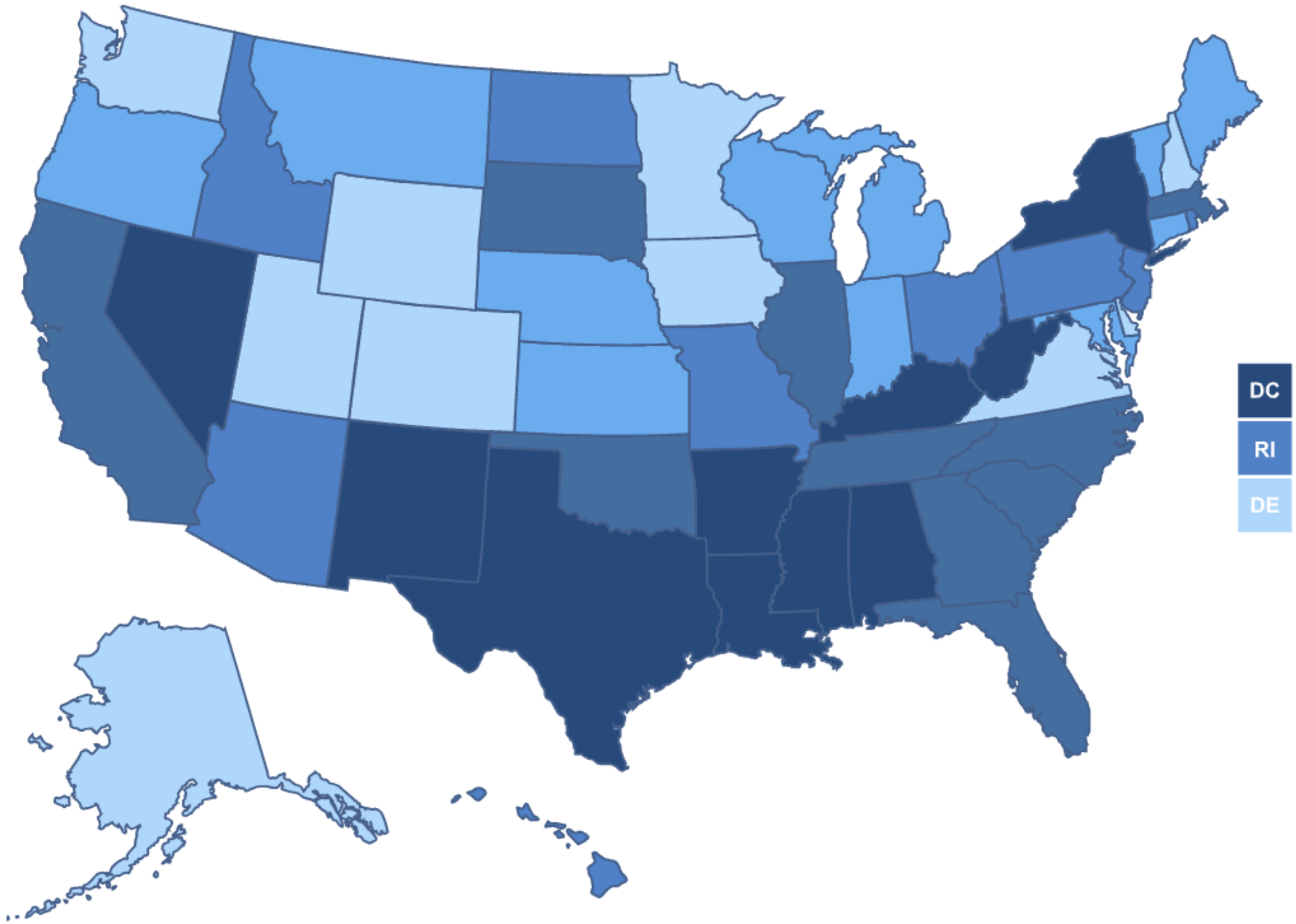
- **“Progressivity” (Redistribution)**
  - Redistribution of resources from the rich to the less rich to reduce income inequality, destitution, and dependency in retirement
  - How did they do that?
    - Progressive benefit structure (*bend points*)

- **How is progressivity working?**
  - Income replacement level in retirement still too low for the poor/near poor to keep them out of poverty.

And it gets worse as the elderly age…………..

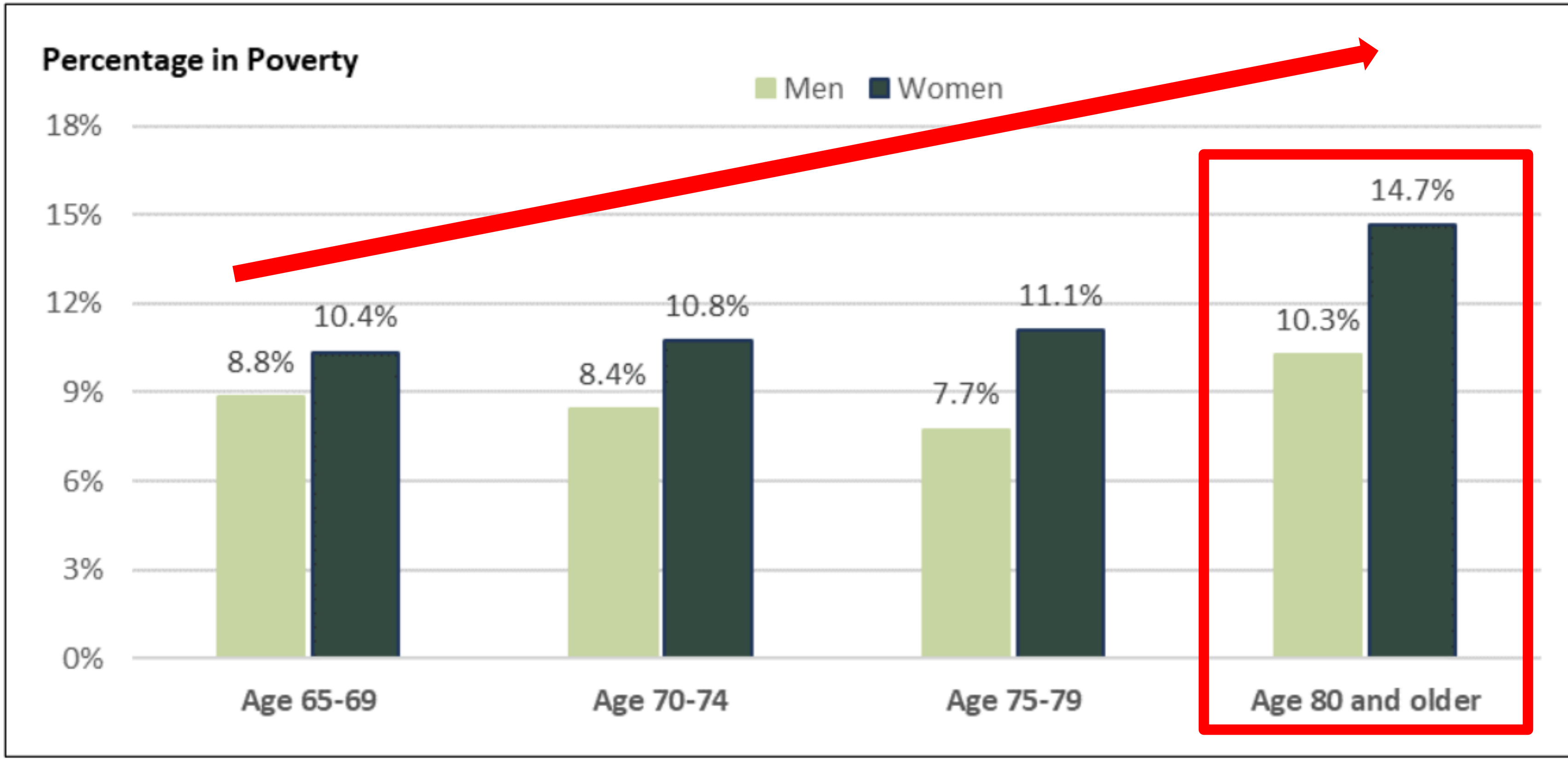
Poverty - Ages 65+

Percentage of adults ages 65 and older who live below the poverty level



Data from U.S. Census Bureau, American Community Survey, 2021

Figure 4. Poverty Status of Individuals Aged 65 and Older in 2021, by Age Groups and Sex



Source: CRS analysis of data from the 2022 CPS ASEC.

https://sgp.fas.org/crs/misc/R45791.pdf

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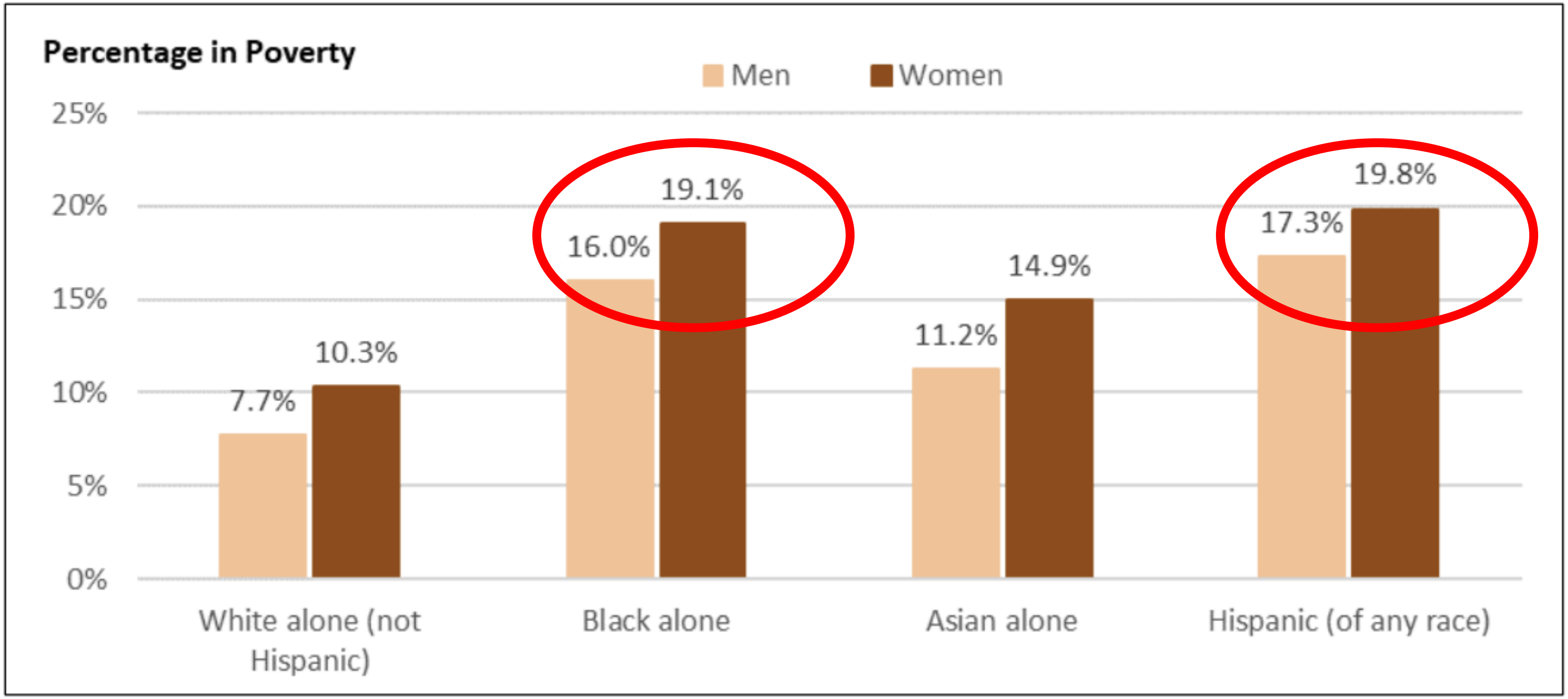

Source: CRS analysis of data from the 2022 CPS ASEC.

https://sgp.fas.org/crs/misc/R45791.pdf

Social Security Benefit Levels

Social Security is the **primary source of income** for the vast majority of poor and near poor individuals in retirement

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Total Percentage	100.0%	100.0%
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Number of Observations[c]	2,745	4,016
Population (thousands)	5,804	8,500

Source: CRS analysis of data from the 2022 CPS ASEC.

Principle 2

- **"Fair return on Contributions" (Individual Equity)**
  - Benefits in retirement related to contributions
    - Earnings and taxes over working life
  - Contributions render a fair (albeit low) rate of return over time (**U.S. Treasury Bill rate**)

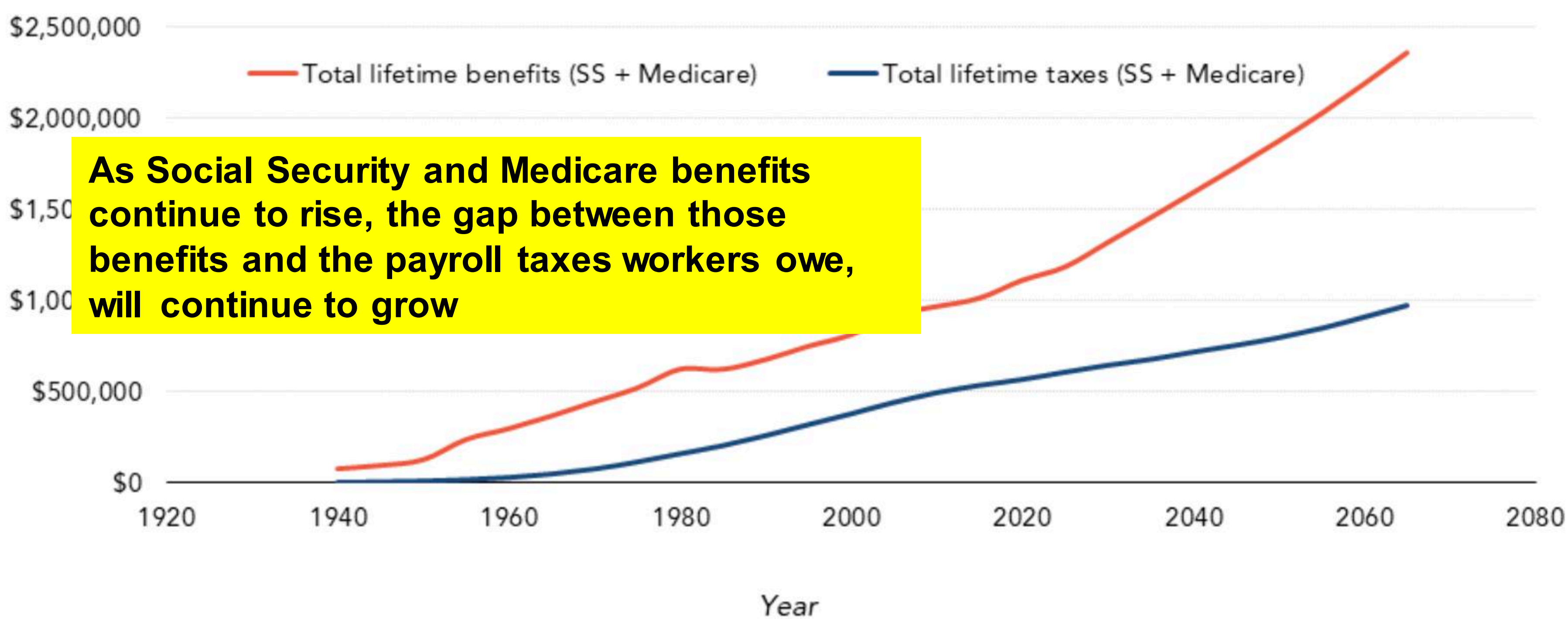
But……………………

- People take ***far more benefits*** out of the Social Security (& Medicare) system than they put in over their working life due to longevity
- **How is individual equity working**?

Lifetime Social Security and Medicare Benefits and Taxes

Lifetime Social Security and Medicare Benefits and Taxes

Married couple with one average earner and one low earner (by year cohort turns 65)



As Social Security and Medicare benefits continue to rise, the gap between those benefits and the payroll taxes workers owe, will continue to grow

Note: Because many workers do not work every year, the lifetime benefits for this couple reflects better lifetime benefits for a median income couple, though it overstates taxes that would be paid.

Principle 3

- **“Equal Treatment of Equals” (Horizontal Equity)**
  - Equal assessment of payroll taxes on those with equal earnings
  - Payment of equal benefits to those born in the same year with equal earnings history
- Horizontal Equity has been maintained in the program’s history

Principle 4

- **"Economic Efficiency"**
  - To ensure economic growth
  - ***Capital market efficiencies*****:** Social Security tax rates should be kept low so that they do not have a detrimental effect on the economy
  - ***Labor market efficiencies***: tying higher benefits to employment/covered earnings to prevent ***offsetting behavior*** (early retirement)

SUMMARY

How are these principles working to achieve their goals?

How are these principles working?

- Social Security is **failing as an "anti-poverty"** program.
- Social Security perpetuates **inter-generational inequities** (workers paying for retirees)
- Social Security perpetuates **intra-generational inequities** (redistribution)
  - Everyone receives benefits no matter how many resources you have in retirement

Criteria for Fixing Social Security

Criteria for reforming Social Security

- Maintain the "**savings**" component of program
  - Allocates income across your lifetime
- Maintain the "**social insurance**" component of the program
  - Adequate benefits until death
- Maintain the "**redistributive**" aspects of the program
  - Progressive benefits structure
  - Regressive tax structure
- Do not impact "**economic growth**"
  - Keep taxes low; encourage people to work longer

Fixing Social Security

Discussion of strategies


Instagram
2021 is unfortunately a critically
different year for social security


Play (k)
0:00 / 3:41 • Starting
SUBSCRIBE

Strategies for Fixing the Social Security program

Evaluating the pros and cons of each strategy

Strategies for fixing Social Security

- Reducing benefits
- Reducing the cost-of-living adjustment
- Increasing payroll taxes
- Raising the retirement age
- Universal Social Security benefits

Solution:
Cut benefits for retirees

Solution: Cut benefits for retirees

- **Ways to cut benefits for future retirees**
  - Use the highest 40 (rather than highest 35) years of income to set benefits (lower the AIME and result in lower PIA)
  - Adjust the “bend points” to force lower PIAs
- **But: Promises would have to be broken**
  - **Lower standard of living for seniors**
  - **Higher poverty level among seniors**
- **But: Political fallout?**

BOOMER BETRAYAL...
SORRY...YOU'LL HAVE TO MAKE OTHER ARRANGEMENTS...
SOCIAL SECURITY
REDUCED BENEFITS
www.caglecartoons.com
©2004 MONTE WOLVERTON

Solution:
Reduce the cost-of-living adjustment to PIA

Note: Social Security COL has been rising overtime. Why?

Solution: Reduce the cost-of-living adjustment

- Note: the current system automatically provides even greater average benefits to beneficiaries than in the past, i.e., **someone in 2023 gets higher *real* benefits than someone who retired in 2000.** Why?
  - Benefits grew with nominal wage rates, and wages grew faster than inflation
  - COL increase over the past 20 years has been higher than inflation
- But: Reduced standard of living for retirees if inflation runs rampant

COL in 2023 was 8.7%
Are there likely to be high COL adjustments like this in the future?

Remember, that there is never going to be a **negative COL adjustment**, and that large base adjustments to benefits accumulate over time

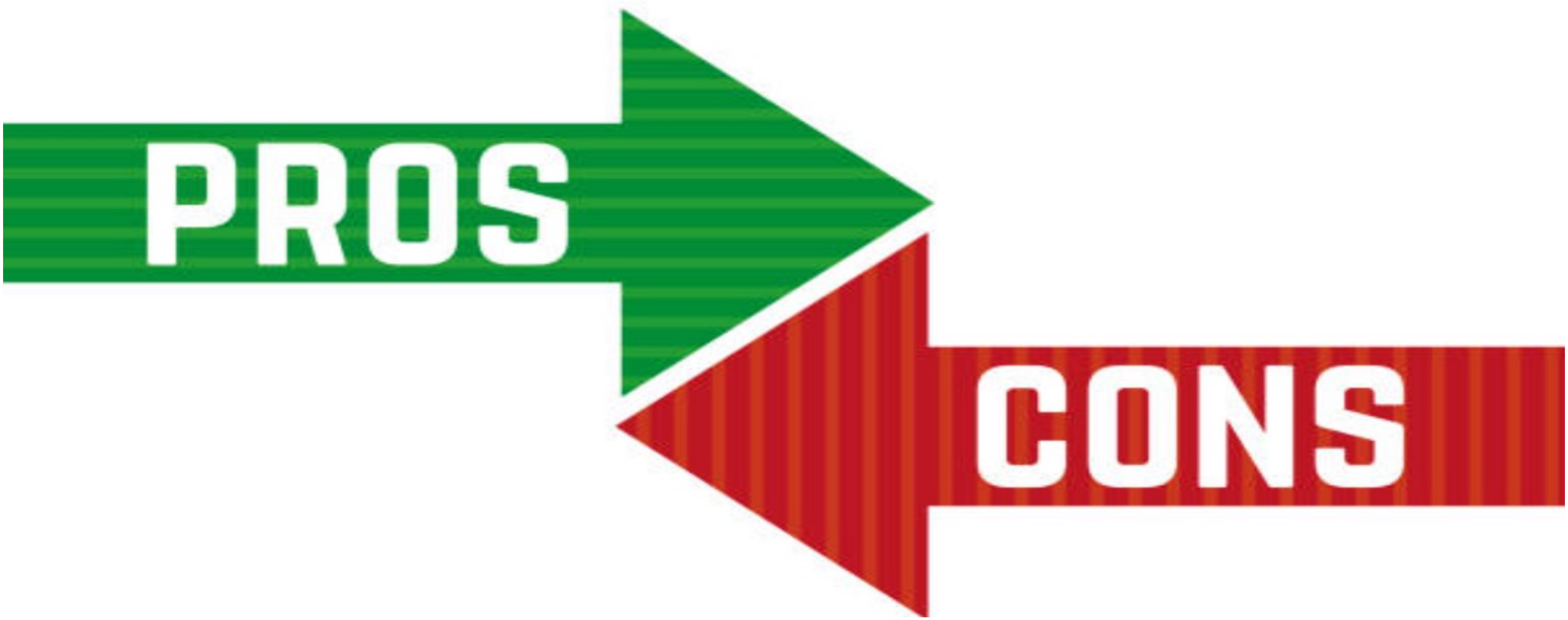

THE
2024
COLA

Solution:
Reduce the cost-of-living adjustment to PIA

Predicted 2024 Cost-of-Living Adjustment to Social Security Benefits

https://www.youtube.com/watch?v=uG1c9g9cK9U

Strategies for Fixing the Social Security program



Options we considered Monday:

1. Cut benefits for retirees
2. Reducing the cost-of-living adjustment

Solution: Cut benefits for retirees

- **Ways to cut benefits for future retirees**
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  - **Higher poverty level among seniors**
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Solution: Reduce the cost-of-living adjustment

- Remember: **someone in 2023 gets higher *real* benefits than someone who retired in 2000.** Why?
  - Benefits grew with nominal wage rates, and wages grew faster than inflation
  - COL increase over the past 20 years has been higher than inflation
- But: Reduced standard of living for retirees if inflation runs rampant

Solution:
Increase payroll taxes

1. Raise the SS tax rate on earning above 6.2% (12.4%)
2. Raise the cap on SS taxable earnings

https://www.youtube.com/watch?v=_URf3WB_V78

Predicted impact of raising taxes

1. Impact on the economy
2. Disincentive to work in the economy

1.3 min

Very strong political opinions FOR raising taxes

1.3 min


BERNIE
SANDERS
SHI
SOCIAL SECURITY REFORM
fund will not be fully funded
by 2033,
MSNBC
FOOTAGE: MSNBC

Solution:
Increase payroll taxes

How?

Proposals

- Raise "earnings cap" to $300k on income subject to the 6.2% tax
- Eliminate the "earnings cap" on income subject to the 6.2% tax, making <u>All EARNED INCOME</u> subject to the tax
  - More money coming into the trust fund
  - Higher-income individuals "paying their fair share"

Is Bernie Sanders right?

Would eliminating the SS income cap completely solve the structural deficit in the SS program?

But, CBO analysis

- Raising the income cap to $300k would only solve about **34%** of the structural deficit
- Raising the income cap to $500k would only solve about **54%** of the structural deficit
- Eliminating the cap altogether would only solve **72%** of the structural deficit

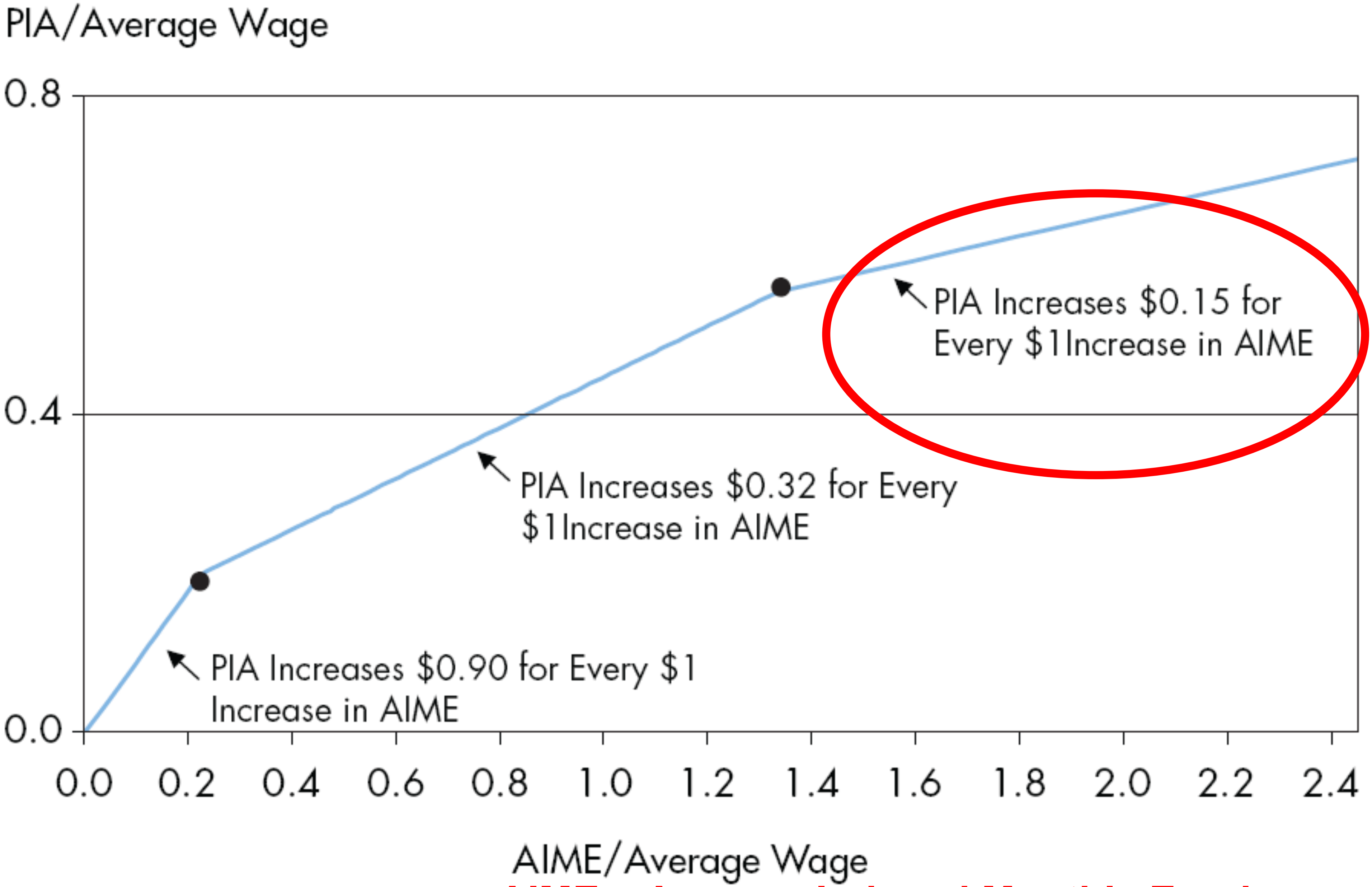
Conclusion: raising taxes alone will not solve the structural deficit

And, raising taxes, presents us with another problem = VERY large AIMEs

How would those additional taxes be credited into the PIA?

Figure 1: Current-Law Primary Insurance Amount Formula

https://www.ssa.gov/oact/cola/bendpoints.html



AIME = Average Indexed Monthly Earnings

Source: Department of the Treasury

Credits for those additional taxes in the PIA

- How does one “credit” those earnings into the PIA formula?
  - 0.15 past the top bend point?
  - 0.03 past the top bend point?
  - 0% credit for those extra taxes?
- Is 0% <u>fair</u> to the higher earners?
- If positively credited at all, we would see <u>VERY high PIA</u> checks going to wealthy individuals

Credits for those additional taxes in the PIA

- If not credited at all?
  - How does that impact the SS financial principle of INDIVIDUAL EQUITY

How many people would be impacted by eliminating the earnings cap?

- Fact is that approximately **~81.4%** of all workers earn annual incomes BELOW the social security "earnings cap"
  - but tax was originally meant to apply to **90%** of earnings
  - Approximately 9% of earners would be impacted
- **Increase taxes?**
  - But: Political acceptability?
  - But: Impact on economic growth?

Solution:
Raise the normal retirement age

Solution: Raising the normal retirement age

- **Raise retirement age?**
  - "Normal Retirement Age" (NRA) 68
  - "Early Retirement Age" (ERA) 62
  - Let both increase over time:
    - ***Motivation*** = encourage longer work life and reduce length of time over which retirement benefits are paid

Raising Normal Retirement Age from 65/7 to 70: Effects on PIA

Year of retirement	62	65	66	67	70
Current benefits as a percentage of OIA	**80**	**100**	**106**	**112**	**130**
New benefits as a percentage of PIA	**61.5**	**76.9**	**81.6**	**86.2**	**100**
Percentage loss in benefits	**23.1**	**23.1**	**23.1**	**23.1**	**23.1**

- ***<u>Arguments for raising NRA</u>:***
  - Government should not be encouraging people to retire earlier than needed given increasing ***life expectancy***

- ***Argument against raising the NRA:***
  - Some people have no choice about when to retire
    - **Physically demanding jobs** - cannot work longer
  - Post-retirement **jobs** for elderly are scarce
  - Unfair to people with **reduced life expectancy** (gender, race, health status)
  - AND - could have zero-sum savings (***offsetting effect***) if early retirees apply for other federal programs like **SSDI** to support themselves during the time from retirement to eligibility for SS

Effectiveness of Raising the NRA

- Will they work?:
  - The Social Security actuaries estimate that increasing the full retirement age to **69** for those turning 62 in 2023 or later would eliminate **only 29** percent of the 75-year funding gap.
- ***Conclusion?***
  - Just raising the retirement age will not be sufficient to close the Social Security structural deficit

Strategy:
Universal FLAT benefit for Retirees

- All retirees pay into the system
- All retirees get the same flat benefit
- This benefit would be enough to keep income above the poverty line

https://www.youtube.com/watch?v=WulsqjB7Rdc

What strategies can we piece together to save Social Security for Future Generations?

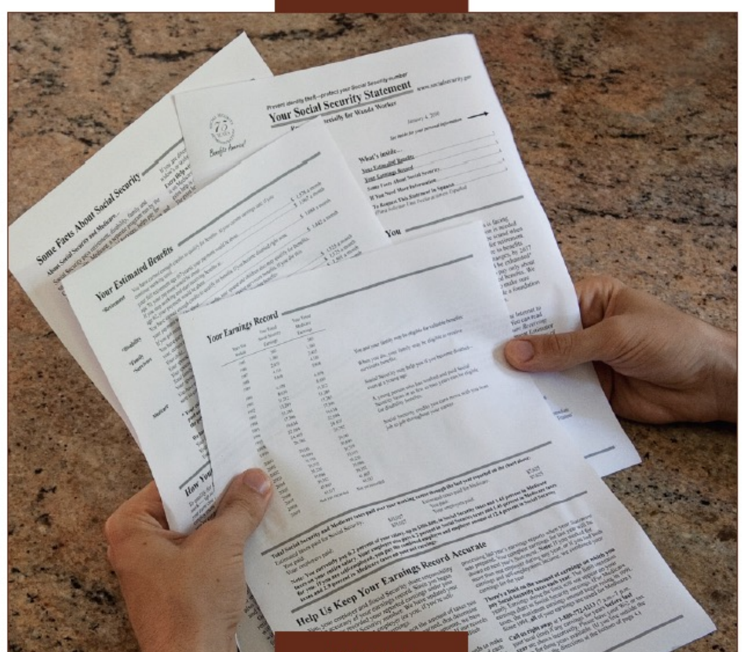
Congressional Budget Office

Federal agency

CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE

CBO

Social Security Policy Options



JULY 2010

So, what does the CBO say will work to fix the Social Security Program?

Which of these proposals would solve the Social Security structural deficit?

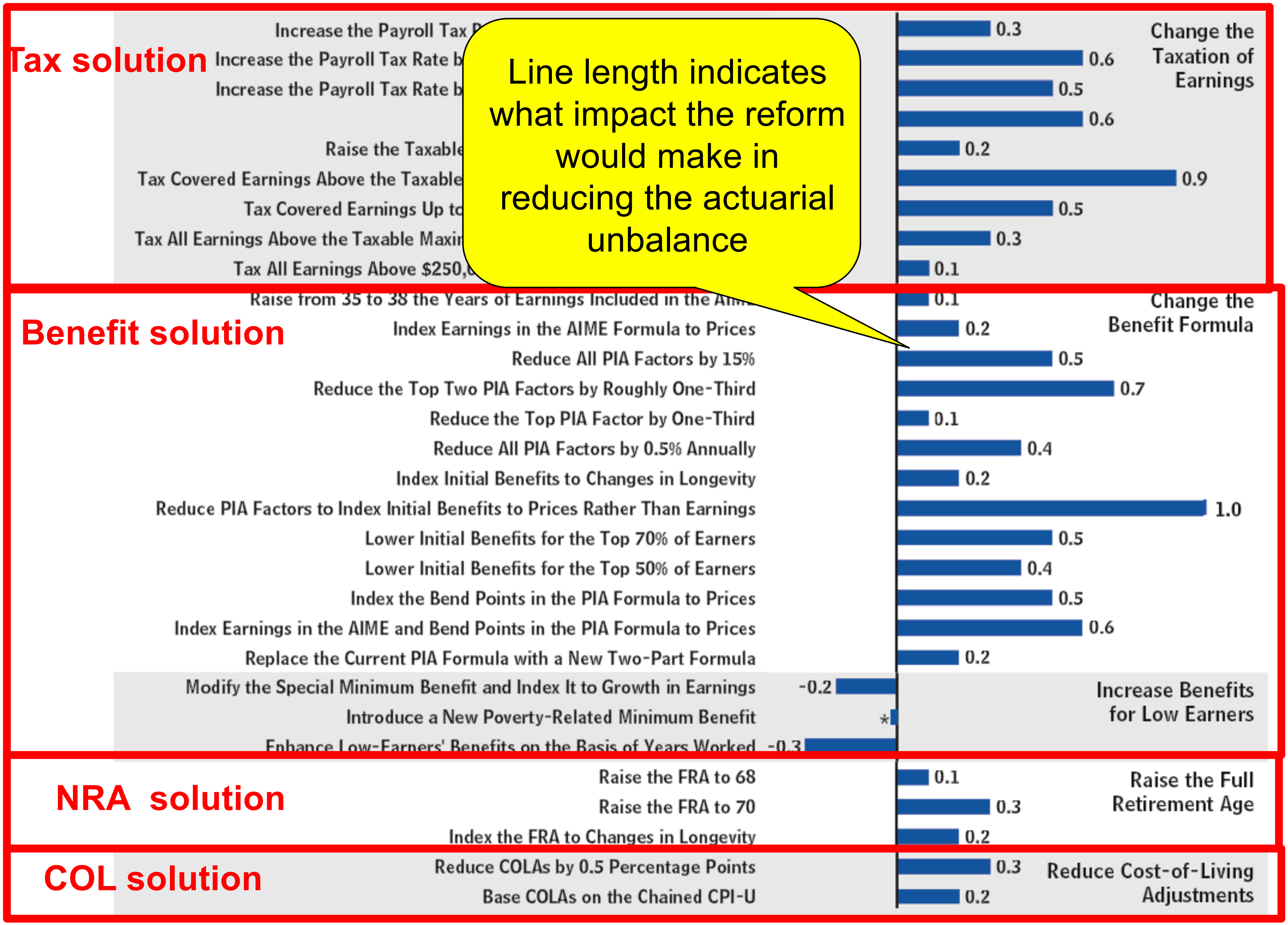
CBO Analysis of reform options

- Tax solutions
- Benefit solutions
- Cost of living adjustment solutions
- Retirement age eligibility solutions

Graphic representation of reform solution impact

Summary Figure 1.

Effects of the Policy Options on the OASDI Trust Fund Actuarial Balance



Source: Congressional Budget Office.

What combinations of decisions will close that 75-year actuarial gap?

Let’s see what you think……

Social Security Game

- http://socialsecuritygame.actuary.org/
- Choose the SMALLEST combination of solutions that would solve the long-term social security structural deficit.
- Paying particular attention to the **political viability** of the solution

THE

SOCIAL SECURITY

GAME

Revenue Increases

- Raise Payroll Tax Rate
- Subject Higher Wages to Social Security Payroll Tax
- Subject Benefits to Higher Taxes
- Apply Payroll Tax to Health Care Premiums

THE SOCIAL SECURITY GAME

Benefit Reductions

- Gradually Increase Full Retirement Age
- Reduce Cost-of-Living Adjustments (COLA)
- Reduce Benefits for Future Retirees
- Lower Benefits for future High-Income Retirees

THE SOCIAL SECURITY GAME

Put your own set of SMALL solutions together to solve the actuarial balance problem, remembering the **political feasibility** of the solutions you suggest.

Optional ASSIGNMENT

- Maximum one typed page
- Identify specific set of solutions that solves the 75-year structural deficit
- One paragraph commenting on the political feasibility of the solution you propose