

# Social Security



Social Security  
Celebrating  
7 Decades  
of  
Service

August 14, 1935-  
August 14, 2005

A program in trouble that needs fixing



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

**What sort of trouble?**

# Facts:

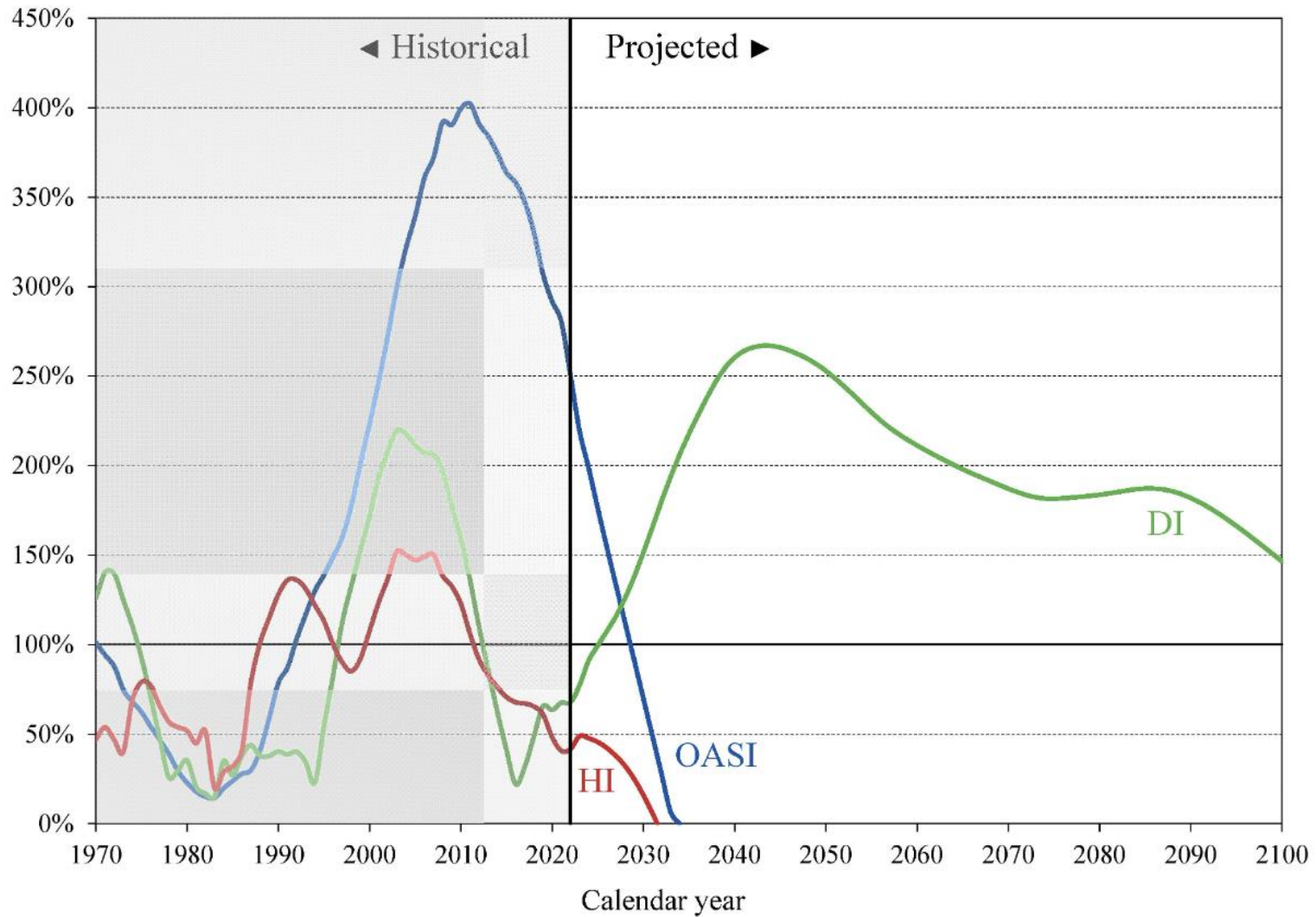
- The dollar level of the combined Social Security trust fund reserves is predicted to decline until reserves become **totally depleted** in **2033**.

**Table 7: KEY DATES FOR THE TRUST FUNDS**

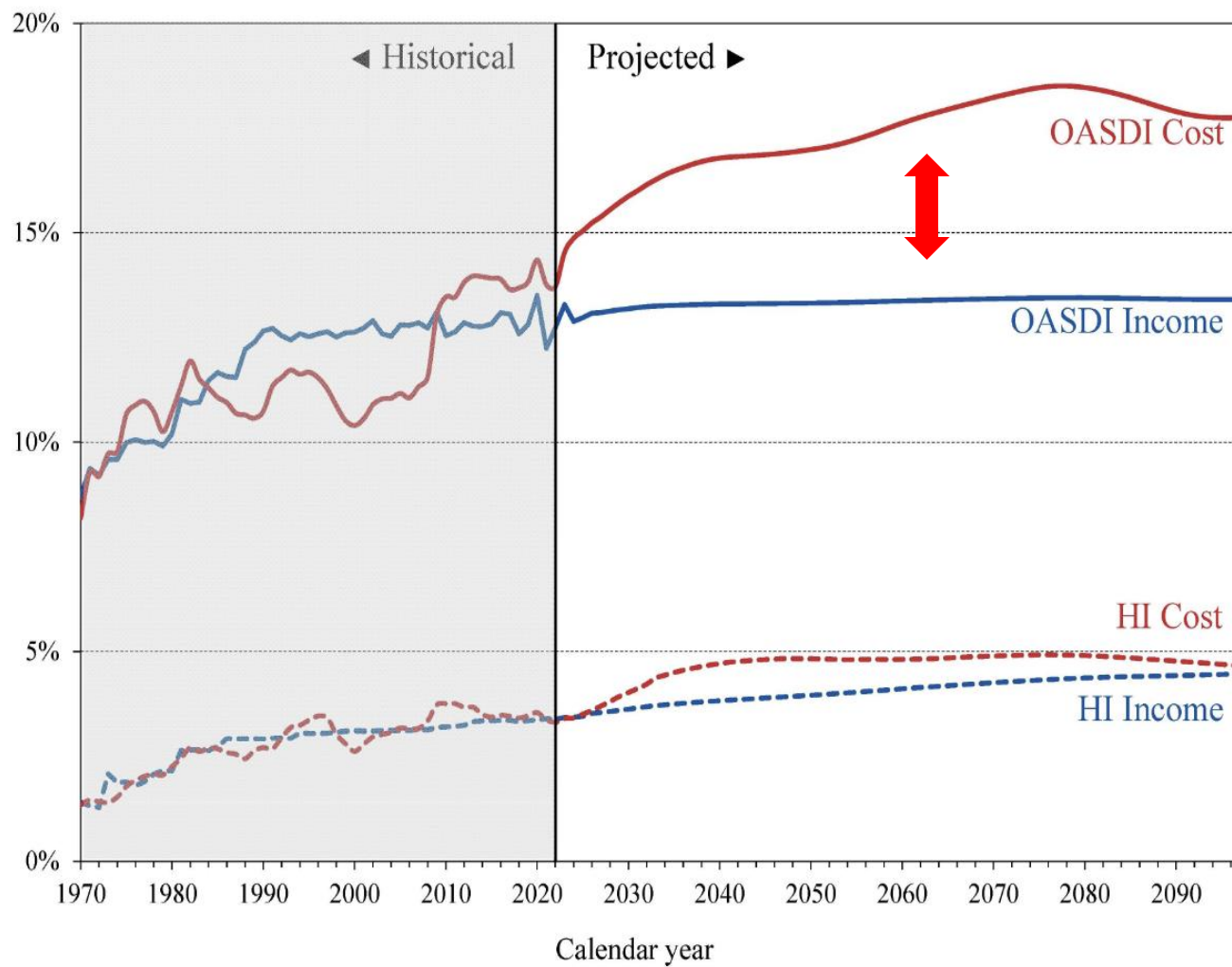
	OASI	DI	OASDI	HI
First year cost exceeds income excluding interest <sup>a</sup>	2010	2044	2010	2025
First year cost exceeds total income including interest <sup>a</sup>	2021	<sup>b</sup>	2021	2025
Year asset reserves are depleted	2033	<sup>c</sup>	<sup>d</sup> 2034	2031



**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**

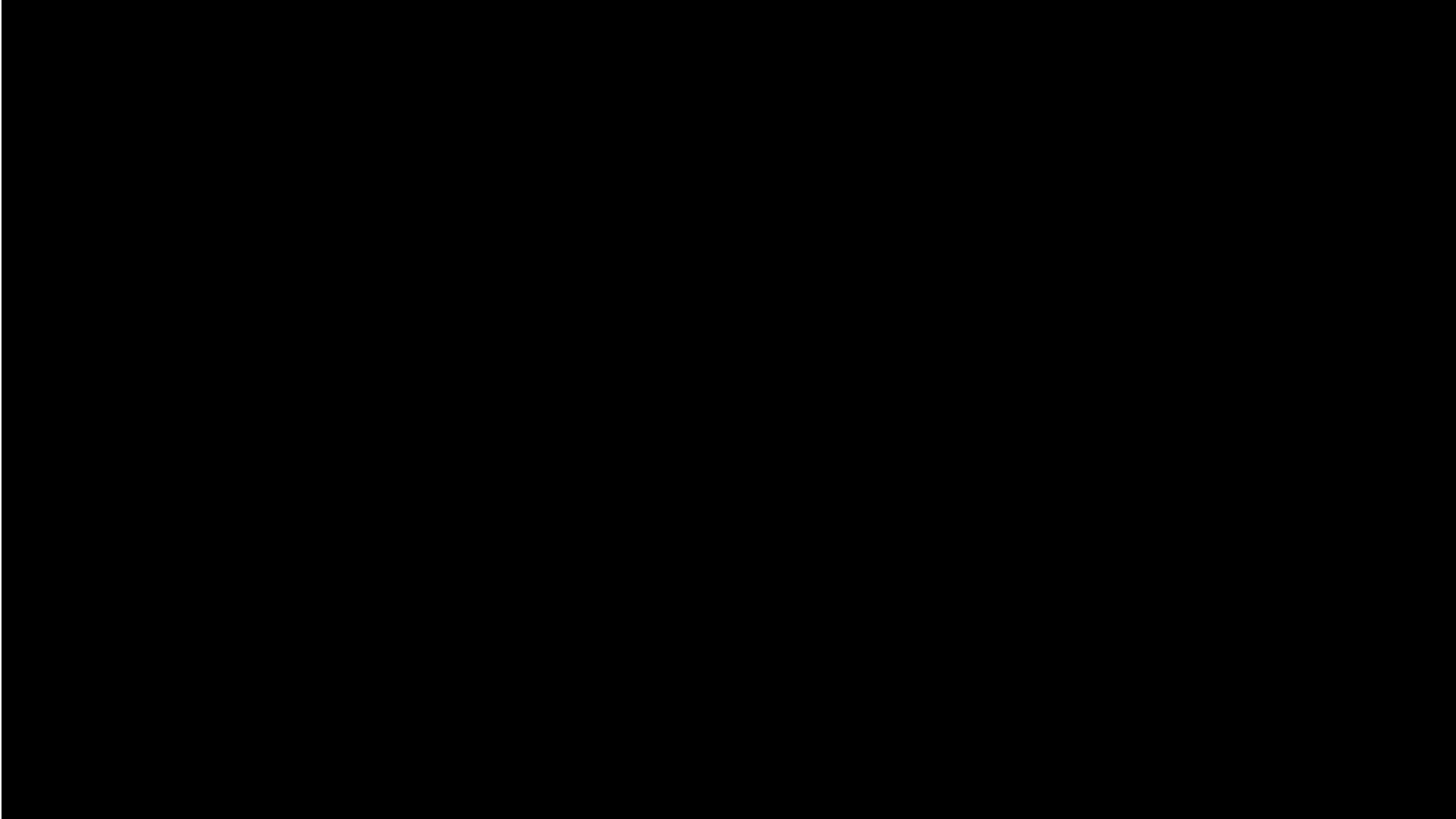
The Trump administration tried to make changes to Social Security funding, but this is a **very HOT political issue**

# SOCIAL SECURITY'S MONEY PROBLEM



 **MSNBC**

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.

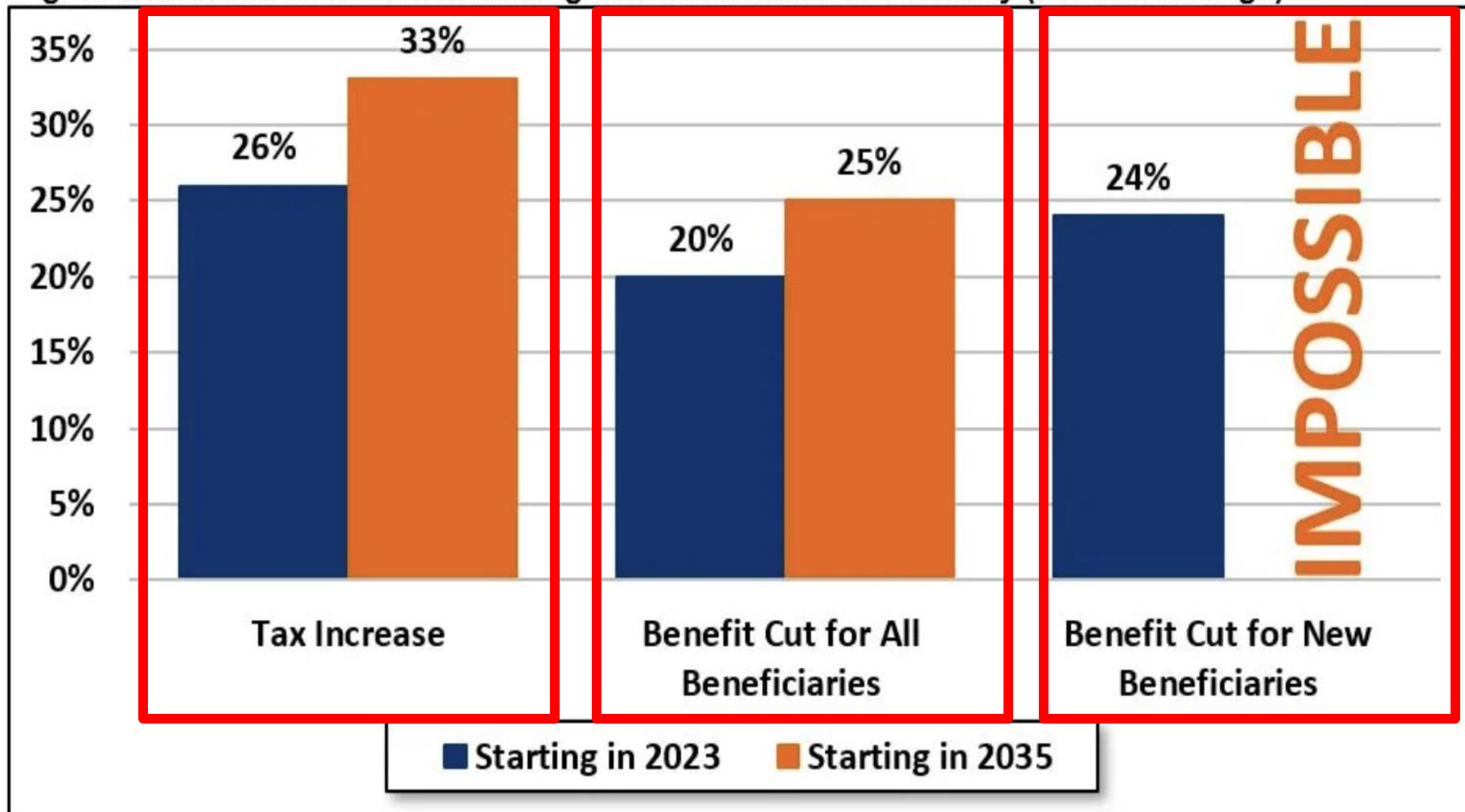
What are the parameters of the problem?

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.

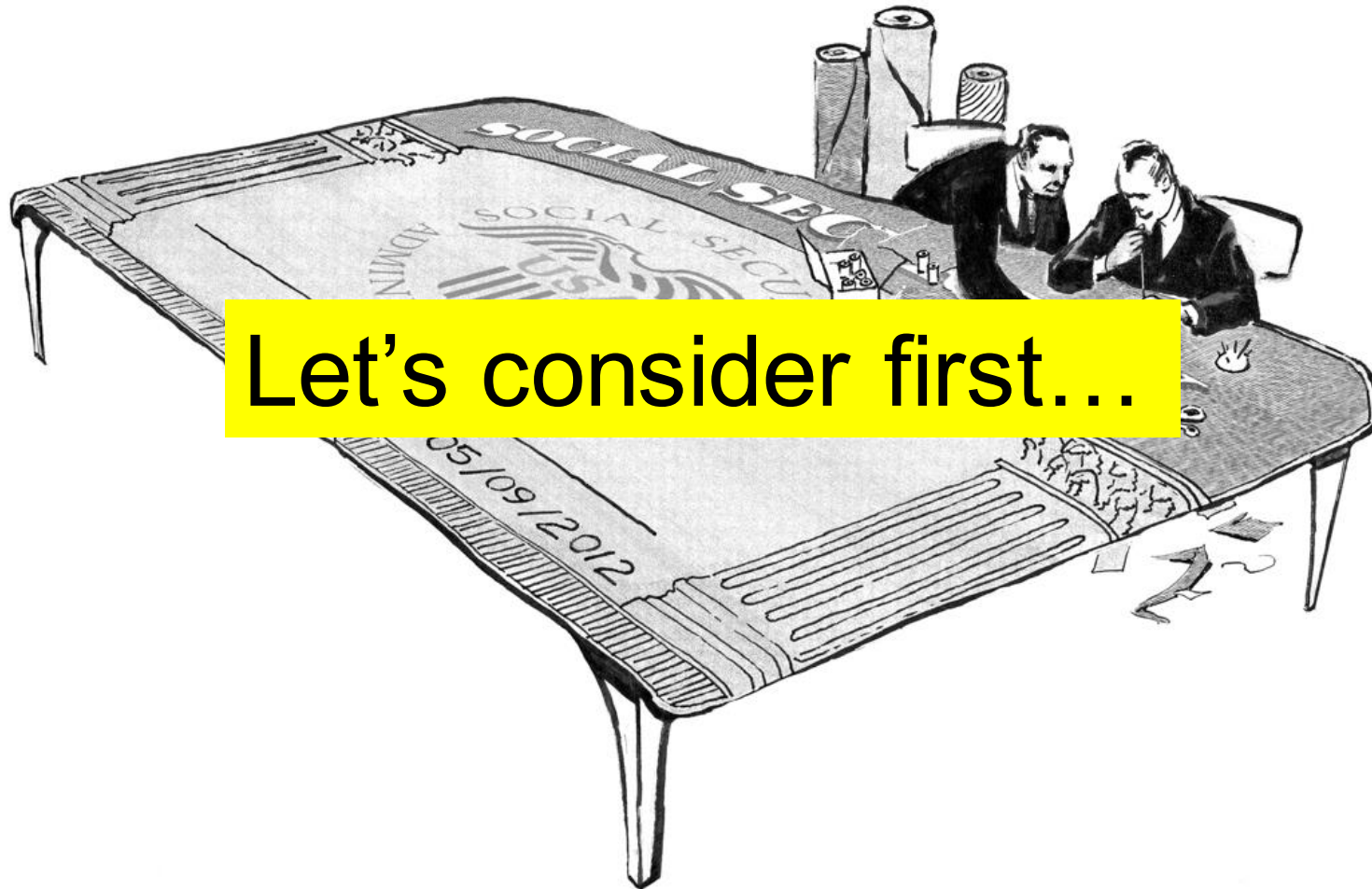
# Increase taxes?

- 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...

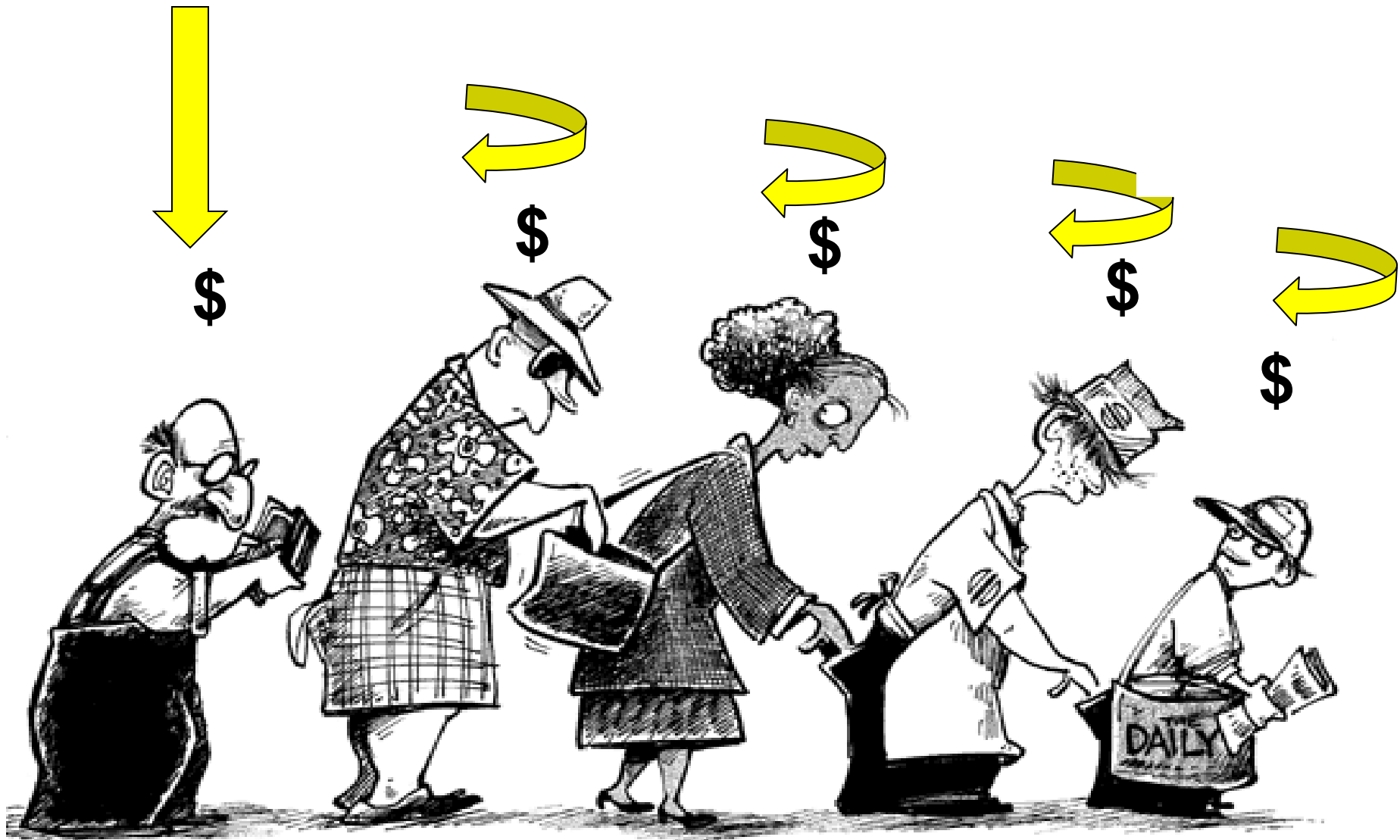
What were the **financial principles** on which Social Security was built?

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.....

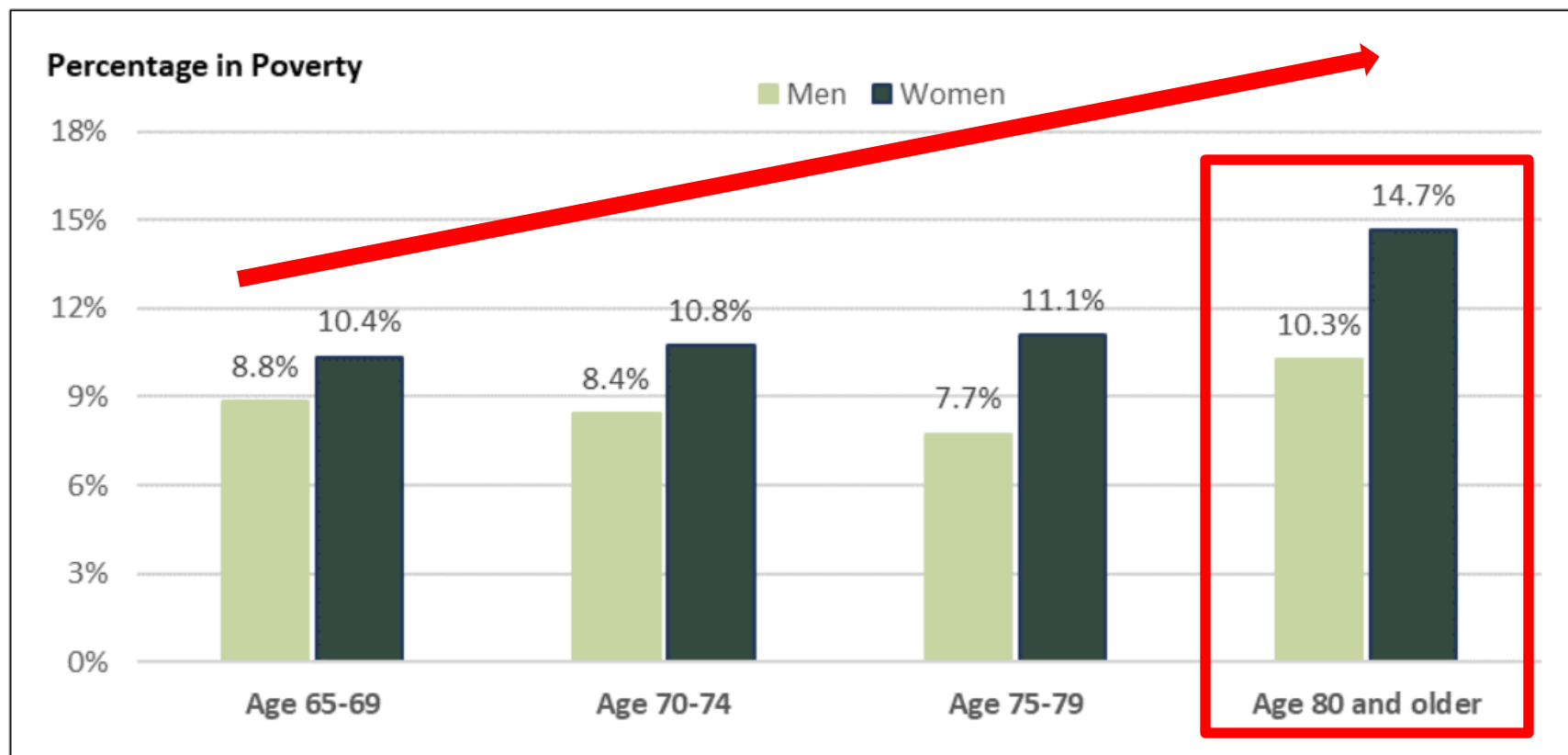
### Percentage of adults ages 65 and older who live below the poverty level



Percentage of Companies	Outlook Range
12.5%	≤ 8.5%
25.0%	8.6% - 9.3%
25.0%	9.4% - 9.8%
25.0%	9.9% - 11.1%
12.5%	≥ 11.2%

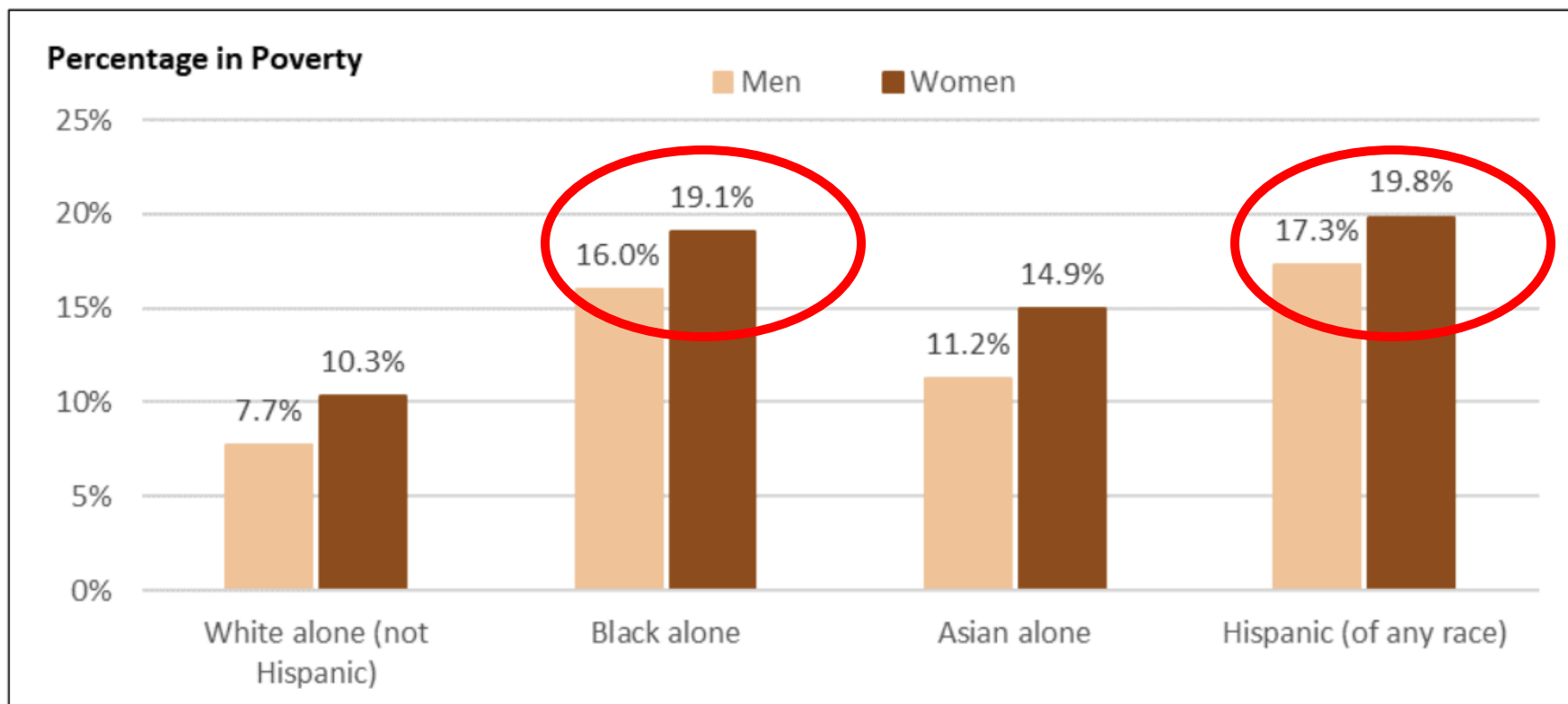


**Figure 4. Poverty Status of Individuals Aged 65 and Older in 2021, by Age Groups and Sex**



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

**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.

# Social Security Benefit Levels

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

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

	<b>Below 100% of the Poverty Threshold<sup>a</sup></b>	<b>Below 125% of the Poverty Threshold<sup>b</sup></b>
<b>Total Percentage</b>	100.0%	100.0%
<b>Percentage of Income from—</b>		
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%
<b>Number of Observations<sup>c</sup></b>	2,745	4,016
<b>Population (thousands)</b>	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**)

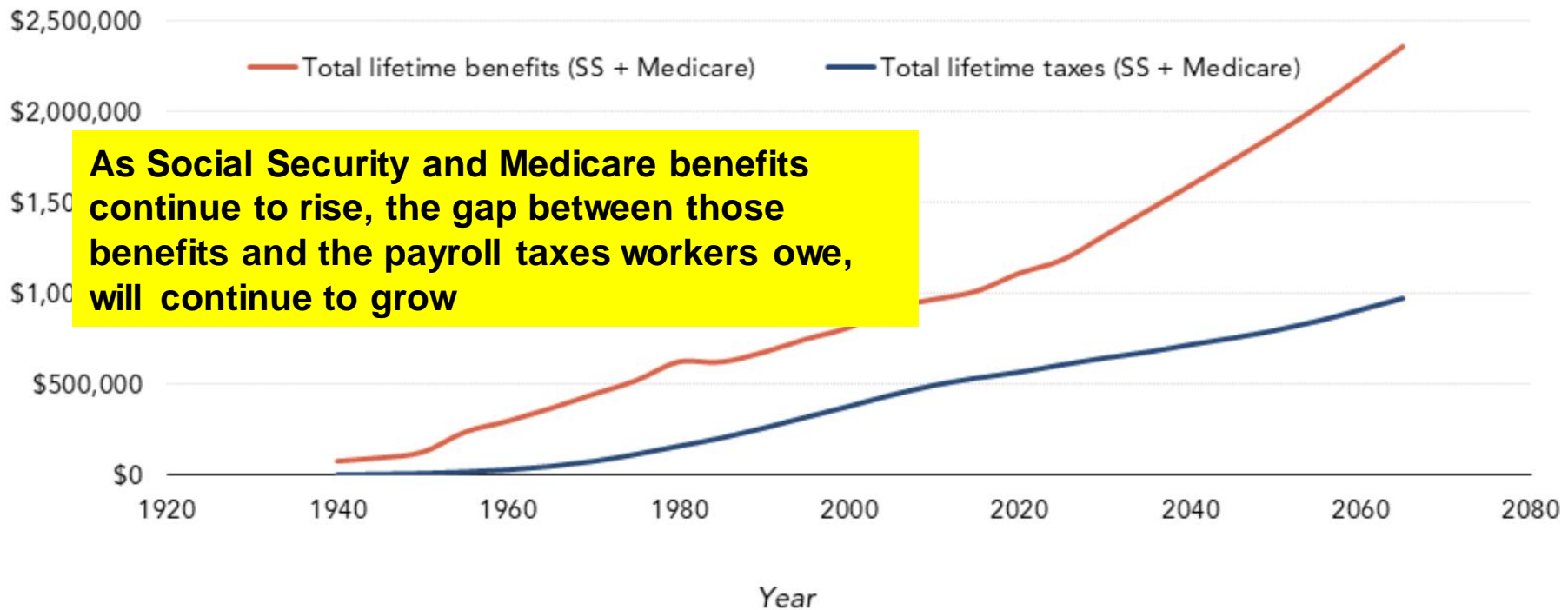
# But.....

- 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)



**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

2021 is unfortunately a critically  
different year for social security







Play (k)



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# 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...





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**

**SOCIAL SECURITY**

**SOCIAL SECURITY**

**SOCIAL SECURITY BENEFITS EXPECTED TO INCREASE BY 3%  
IN 2024**

**MORNING  
NEWS**



**HEADLINES**

in fight over Hollywood's future

ktla.com

12-year-old boys hand ruptured

64°

5:35A

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