Social Security’s Finances
Social Security Spends More than It Raises

Source: 2019 Social Security Trustees’ report

Percent of Payroll

Scheduled Benefits

Payable Benefits

Dedicated Revenues

Trust Fund Exhaustion: 2035
Benefit Cut: 20%

Source: 2019 Social Security Trustees’ report

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Social Security Will Be Insolvent in 16 Years

Source: 2019 Social Security Trustees’ report

Percent of Benefits

- Old Age & Survivors Insurance Trust Fund
- Combined Trust Funds
- Disability Insurance Trust Fund

Source: 2019 Social Security Trustees’ report
What Does it Mean to Be 16 Years From Insolvency?

CBO Thinks We’re In Even Worse Shape

Percent of payroll

CBO Insolvency
Date: 2031

Trustees Insolvency
Date: 2035

Source: Social Security Trustees, Congressional Budget Office.
The Program’s Long-Term Shortfall is Large

Source: Social Security Trustees, Congressional Budget Office.
The Longer We Wait, the Harder It is to Save Social Security

<table>
<thead>
<tr>
<th>Percent Change</th>
<th>Tax Increase</th>
<th>Benefit Cut for All Beneficiaries</th>
<th>Benefit Cut for New Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>Starting in 2019</td>
<td>Starting in 2035</td>
<td>Impossible</td>
</tr>
<tr>
<td>5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: 2019 Social Security Trustees’ report

CRFB.org
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
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

The Reformer

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

http://www.SocialSecurityReformer.org/
## The Johnson Plan

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

Note: Numbers may not add due to rounding.
## The Larson Plan

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

Note: Numbers may not add due to rounding. * indicates effect is <1%.
## The Conrad-Lockhart Plan

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

Source: Social Security Trustees.
Three Different Paths to Sustainable Solvency

Percent of payroll

Larson Plan

Conrad-Lockhart Plan

Johnson Plan

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

- Retirees: 43.7 million
- Disabled Workers: 8.5 million
- Dependents: 4.7 million
- Survivors: 5.9 million

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)

- Actual
- Projected

- 95 or Older
- 85 to 94
- 75 to 84
- 65 to 74


CRFB.org
America is Living Longer

Average Life Expectancy at Selected Years

<table>
<thead>
<tr>
<th>Year</th>
<th>At Birth</th>
<th>At 65</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>47.7</td>
<td>76.7</td>
</tr>
<tr>
<td>1950</td>
<td>68.4</td>
<td>79.0</td>
</tr>
<tr>
<td>2015</td>
<td>79.2</td>
<td>84.5</td>
</tr>
<tr>
<td>2040 (Projected)</td>
<td>82.3</td>
<td>86.2</td>
</tr>
</tbody>
</table>

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

Social Security Act Passed

Early Retirement Age (62) Established

Medicare Established

Normal Retirement Age Raised

Male Life Expectancy At Birth

Average Male Retirement Age

Fertility is At Replacement

U.S. Total Fertility Rate

Note: Years 1875-2003 are adjusted to include only those children who survive to age 10.
The Number of Workers Per Retiree Is Falling

Social Security is Headed Towards Insolvency

Social Security Trust Fund Balance (in Trillions)

- $11.4 Trillion Unfunded Obligation
- $2.8 Trillion Trust Fund

Insolvency in 2034; Benefits cut 21%

Source: Social Security Administration
Economic Growth Is Slowing

3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%

50-Year Historic
2018
2019-2028

TFP
Capital
Labor

1.3%
1.2%
0.5%
0.8%
1.3%
1.0%

3.2%
3.0%
1.8%

0.9%
0.7%
0.2%
Economic Growth is Slowing

Average Annual Real GDP Growth (10-Year Rolling Average)

- Great Recession
- Aging Population
- Projected Growth
- Growth Assuming Historic Labor Force Growth
Health and Retirement Costs Are Rising Rapidly

Spending for Social Security and the Major Health Care Programs

2018: 10.8

2048: 16.9

- 3.2 Because of Excess Cost Growth After 2018
- 3.3 Because of Aging After 2018
- 10.4 If Aging and Excess Cost Growth Did Not Occur After 2018
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)

<table>
<thead>
<tr>
<th>Retire at 62</th>
<th>Retire at 64</th>
<th>Retire at 66</th>
</tr>
</thead>
<tbody>
<tr>
<td>$26,500</td>
<td>$30,700</td>
<td>$35,400</td>
</tr>
</tbody>
</table>

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.
Male Labor Force Participation by Age Range (Percent)

- 2017
- 1960

16-17 18-19 20-24 25-29 30-34 35-39 40-44 45-49 50-54 55-59 60-64 65-69 70+

- 2017: 23%, 97%, 98%, 98%, 98%, 97%, 95%, 92%, 81%, 47%, 24%, 17%
- 1960: 69%, 88%, 90%, 91%, 91%, 88%, 85%, 78%, 62%, 37%, 24%, 10%

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Pro-Growth Social Security Reform

Male Employment at Age 65

- Employment at Equivalent Life Expectancy Age 65
- Employment at Relative Life Expectancy Age 65
- Employment at Chronological Age 65

Employment at Equivalent Life Expectancy Age 65:
- 60.6% in 1965

Employment at Relative Life Expectancy Age 65:
- 50.7% in 2013

Employment at Chronological Age 65:
- 26.3% in 2013
Pro-Growth Social Security Reform

Male Employment at Age 65

- Employment at Equivalent Life Expectancy Age 65
- Employment at Relative Life Expectancy Age 65
- Employment at Chronological Age 65

Employment at Equivalent Life Expectancy Age 65:
- 1965: 60.6%
- 2016: 50.7%

Employment at Relative Life Expectancy Age 65:
- 1965: 26.3%

Employment at Chronological Age 65:
- 1965: 0%
- 2016: 100%
Pro-Growth Social Security Reform

Determining Base Social Security Benefits

**Current Formula**

*STEP 1*
Index Past Earnings to Wage Growth

*STEP 2*
Identify 35 Highest Years

*STEP 3*
Sum and Divide by 35 For Average Earnings

*STEP 4*
Use Progressive Formula to Get “PIA” Used for Benefit

**Proposed Formula**

*STEP 1*
Index Past Earnings to Wage Growth

*STEP 2*
Identify All Years

*STEP 3*
Use Progressive Formula to Get Annual “Mini-PIAs”

*STEP 4*
Sum and Divide by 35 For Benefit

Current formula requires at least ten years of earnings. Proposed formula has no minimum years of earnings.
# Pro-Growth Social Security Reform

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

<table>
<thead>
<tr>
<th>Proposal Description</th>
<th>Low Estimate</th>
<th>High Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raise Retirement Ages with Age-62 Poverty Protection Benefit (62-PPB)</td>
<td>+1.0%</td>
<td>+3.0%</td>
</tr>
<tr>
<td>Apply Benefit Formula Annually (Mini-PIA), Counting All Years of Work</td>
<td>+0.5%</td>
<td>+1.5%</td>
</tr>
<tr>
<td>Establish Supplemental Retirement Accounts (SRAs)</td>
<td>+1.0%</td>
<td>+3.0%</td>
</tr>
<tr>
<td>Restore Social Security Solvency</td>
<td>+1.0%</td>
<td>+5.5%</td>
</tr>
<tr>
<td>Total Increase in GNP by 2050 (assuming no interactions)</td>
<td>+3.5%</td>
<td>+13%</td>
</tr>
</tbody>
</table>

**Memo:** Increase to Annual Growth Rate Through 2050

| Increase to Annual Growth Rate Through 2050                                          | +0.11%       | +0.40%        |
| Central Estimate for Increase in Growth Rate Through 2050                             |              | +0.25%        |