Statement before the House Committee on Ways and Means
Subcommittee on Social Security
On "The Fierce Urgency of Now – Social Security 2100: A Sacred Trust."

Social Security: The Fierce Urgency of Not Yet

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Chairman Larson, Ranking Member Reed, and Members of the Committee: Thank you for the opportunity to testify today on the future of Social Security. Social Security is the largest spending program of the federal government. Social Security is the largest tax most American workers pay. And Social Security makes up the largest component of income for most retirees.

The fact that Social Security today faces a nearly $20 trillion funding shortfall is due to changing demographics. The fact that we have known about Social Security's looming insolvency for the past 30 years and that Congress, year-in and year-out, has failed to act, is a stain on the federal government's stewardship of this important program. And so I agree with the "fierce urgency of now." The only thing better would have been the fierce urgency of 30 years ago, 20 years ago, or even yesterday.

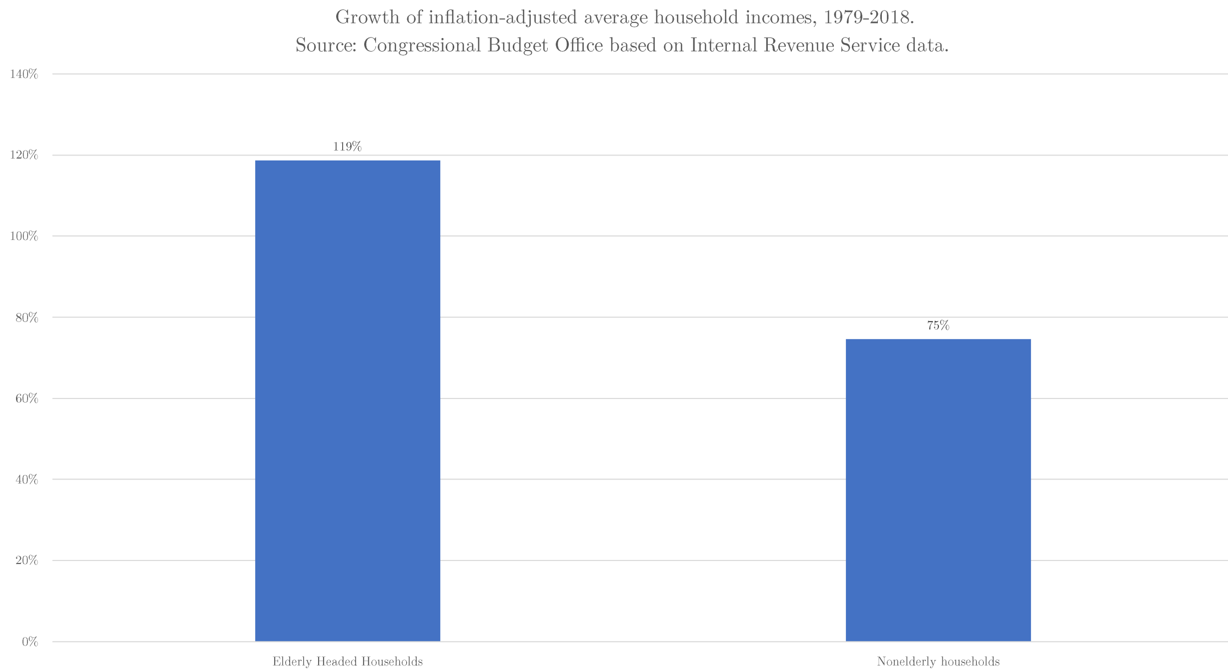
And I yet have news to deliver to this Committee: The Social Security 2100 Act will not become law. Just as President George W. Bush failed to pass a Social Security reform plan that represented just one side of America's political equation, a plan that represents the polar opposite view to fixing Social Security will not make it through a closely-divided Congress. I say this as someone who worked in the Bush White House during the 2005 Social Security reform effort. That effort involved the full commitment of the President along with Republican control of both the House and the Senate, yet it did not come close to passing. I don't favor Social Security 2100 as policy, but I have little fear that it will become law.

Whether you consider this to be good news or bad news, it means that Congress will have to think of a way to fix Social Security that *can* pass. And that requires a bipartisan approach. Social Security reform is required urgently. But so long as the legislative options are one-sided plans that cannot pass, I say "Not yet."

Yet Republicans shouldn't kick back and enjoy themselves. The closer we get to the exhaustion of the Social Security trust funds, the more likely it is that Social Security's multi-trillion dollar funding shortfall will be fixed by raising taxes rather than by reducing benefits. If Republican elected officials aren't willing to propose benefit cuts today, how likely are they to embrace benefit cuts ten years from now when retirees will have little warning or time to prepare?

Instead of partisan fights, I will focus on what Congress might think about in crafting a reform that can help ensure retirement income security for all Americans without using up every tax dollar available to the federal government. In doing so, I will present a series of facts about how Americans are preparing for and faring in retirement. These facts – and I should emphasize that these are facts, not opinions or anecdotes – point toward more targeted solutions, not an across-the-board Social Security expansion.

Fact one: U.S. retirees have never had higher incomes than they do today. Since 1979, the average retiree household's income rose by 119% over inflation, versus only 75% growth in incomes for working-age households.[1] Retirement incomes have grown throughout the income distribution, not merely at the top. Poverty in old age is at record lows[2], and seniors face a lower risk of poverty than children or working-age adults.



Fact two: Most seniors will tell us they are doing well financially, if only we will listen. Eight in ten retirees state they have sufficient money, not merely to survive, but to "live comfortably."[3] Less than five percent of retirees state they are "finding it hard to get by."[4] Only five percent of U.S. retirees describe their own financial situation as a retirement crisis.[5] Seventy-six percent of Americans over 65 report that their retirement income is "At least enough to maintain your standard of living," versus only 61% in 1992. The share describing their retirement income as "totally inadequate"

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[1] Source: Congressional Budget Office, based upon Internal Revenue Service Data. See Congressional Budget Office. The Distribution of Household Income, 2018August 4, 2021. Supplemental data files.

[2] Bee, Adam, and Joshua Mitchell. "Do older Americans have more income than we think?." In Proceedings. Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association, vol. 110, pp. 1-85. National Tax Association, 2017.

[3] Gallup. "U.S. Retirees' Experience Differs from Nonretirees' Outlook." May 18, 2021.

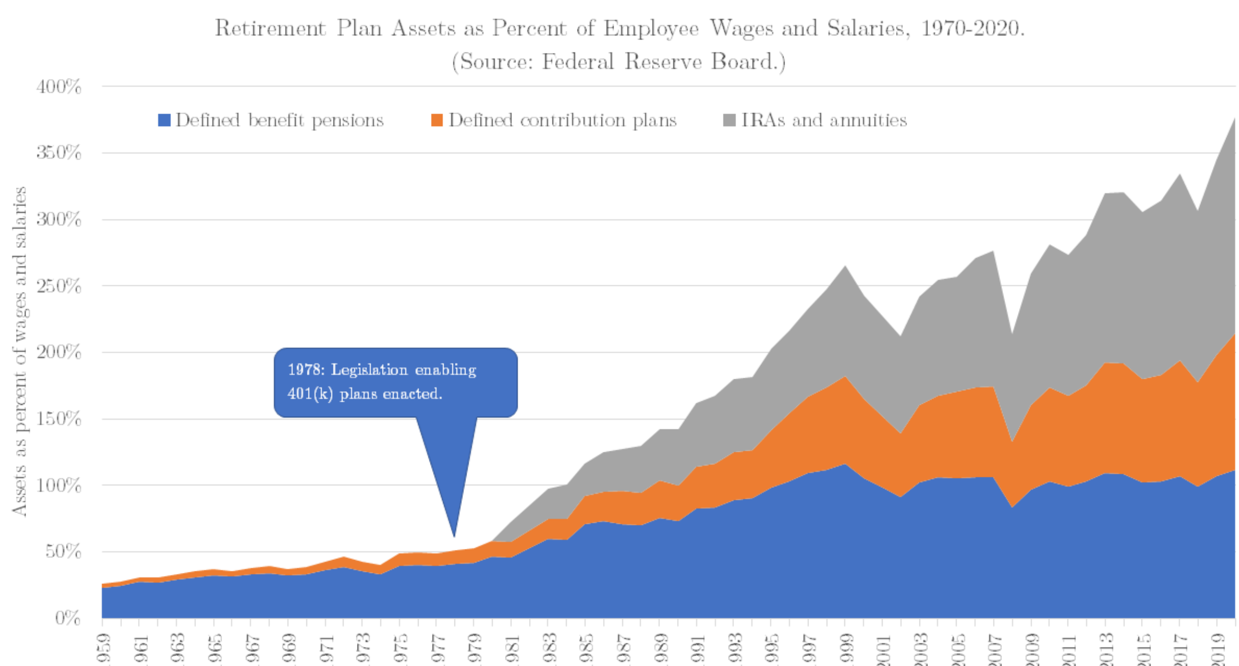
[4] Source: Federal Reserve's Survey of Household Economics and Decisionmaking

[5] Madamba, Anna, and Stephen B. Utkus. "Retirement Transitions in Four Countries." Vanguard Research, 2017.

had fallen by almost half, while the share of retirees calling their incomes "very satisfactory" nearly tripled.[6]

Members of this Committee may respond that this is not what they hear from their constituents. Perhaps, but people rarely attend town hall meetings to say they are doing fine. W*e need to acknowledge that not every retiree is in dire need of expanded Social Security benefits.*

Fact three: Americans' retirement savings have never been higher. Total retirement savings have increased seven-fold since the mid-1970s, when participation in traditional pensions was at its peak.[7] Federal Reserve data show that retirement savings have increased in every age, income, educational and racial or ethnic group.[8] The reasons are that 401(k)s, which began to take over from traditional pensions in the 1980s, are both more widespread than pensions ever were and, unlike traditional pensions, involve contributions from both employers and employees. *We need to acknowledge that America's retirement system – even if it is messy, and even if it can still be improved – has increased retirement savings significantly over time.*



[6] Author's calculations from Survey of Consumer Finances data.

[7] Source: Federal Reserve Board, Financial Accounts of the United States.

[8] Biggs, Andrew G. "Changes to household retirement savings since 1989." American Enterprise Institute. *AEI Economic Perspectives* (2020). Figures based upon Federal Reserve data.

Fact four: Participation in private retirement plans is at record levels. In 1975, at the peak of participation in traditional pensions, only 39% of private sector workers had defined benefit plan.[9] And due to strict vesting requirements, a Congressional study in the 1970s showed that 92% of traditional pensions participants never collected benefits. By contrast, analysis of IRS records published in 2015 by the Social Security Administration study finds 61% private sector workers participating; another 14% were offered a plan, but had not signed up. Retirement plan contributions have risen from 5.8% of total employee wages and salaries in 1975 to 8.6% in 2019, which is a 48% relative increase in the amounts Americans are putting aside for retirement. Rising retirement plan participation and contributions have led to more retirees receiving income from these plans. In 1990, only 45% of retirees received income from a private pension or retirement account. Today, 61% do, according to Census Bureau research.[10] *We need to acknowledge more Americans are saving more for retirement than ever before.*

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[9] Gotbaum, Joshua. "De-Risking: Plan Sponsor & Participant Perspectives & Actions." Presentation to ICPM/CRR conference, June 2016. Figures were provided by the Pension Benefit Guaranty Corporation.

[10] Bee, Adam, and Joshua Mitchell. "Do older Americans have more income than we think?" In *Proceedings. Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association*, vol. 110, pp. 1-85. National Tax Association, 2017.

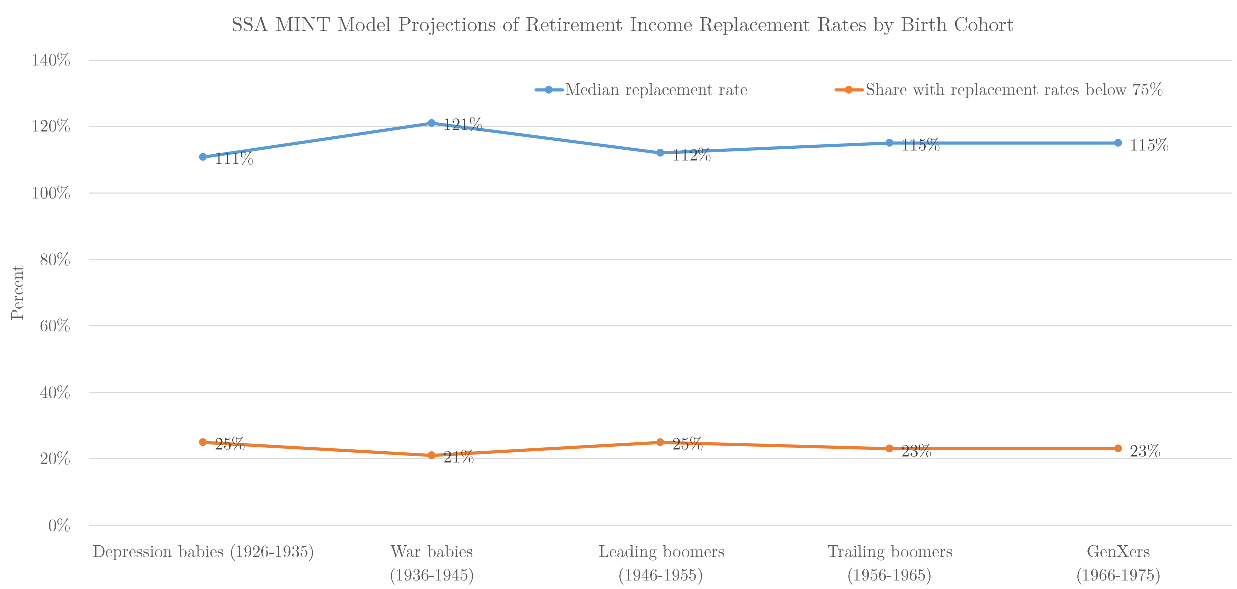
Fact five: Social Security has already expanded. Thanks to rising earnings and extended work lives, the average Social Security benefit received by a new retiree in 2020 was 32% higher after inflation than the average benefit received by a new retiree in 2000. *Americans are receiving higher Social Security benefits than ever before.* And, however Social Security is fixed, it is nearly certain that the real value of benefits will continue to increase.

Average Social Security Benefit Awarded to New Retirees, by Year.

Year	Monthly Benefit
2000	$1,241
2020	$1,636
Increase	32%

Source: Social Security Statistical Supplement, 2001 and 2021. Year 2000 benefits adjusted for inflation using PCE deflator.

Fact six: The federal government projects nothing approaching a "retirement crisis." The Social Security Administration's most sophisticated computer model projects that old-age poverty will continue to fall and typical retirees will have very similar "replacement rates" – that is, retirement incomes as a percentage of their pre-retirement earnings – as today's retirees. Moreover, the share of retirees with replacement rates below 75% – a common benchmark used by financial planners and policy analysts – is not projected to increase.[11] Yes, our retirement system faces challenges. But with today's retirees doing well financially, *across-the-board benefit increases are simply not necessary.*



The replacement rate is measured as income at age 70 as a percentage of career-average pre-retirement earnings adjusted for inflation. Income is the sum of Social Security benefits; defined benefit and defined contribution pensions; wage income; SSI benefits; and the annuitized value of 80% of financial assets. Implicit rent via home equity is not included as income.

[11] Unpublished data from the Social Security Administration's Model of Income in the Near Term, produced at the request of the author. Available upon request.

Fact seven: You can't spend the same tax dollars twice. The Social Security 2100 Act raises taxes substantially by phasing out the current $147,000 "cap" on wages subject to the 12.4% payroll tax. Over time, this will increase the effective marginal tax rate – that is, the tax rate paid on an extra dollar of earnings – by approximately 12 percentage points for everyone in the upper middle class and upward. For context, today a high school principal in East Hartford, Connecticut earns about $147,000 per year.[12] While Social Security 2100's tax increases would be phased in, that future school principal will face sharply higher taxes on each extra dollar he earns.

However, Social Security 2100's tax increases on higher earners only buy about five extra years of solvency for Social Security. To extend that, prior versions of Social Security 2100 have gradually increased the Social Security payroll tax rate from 12.4% to 14.8%. That is a 19% increase in the biggest tax payment most workers make.

Enacting this level of tax increases is highly unlikely. The Build Back Better legislation contains a major tax cut for high earners living in high tax states. Social Security 2100 would reverse that tax cut and then hit high income Americans with even more. And the reason the current 2021 version of Social Security 2100 omits the payroll tax rate increase contained in earlier iterations is to avoid violating President Biden's pledge not to raise taxes on Americans earning less than $400,000. This pledge is an acknowledgment that low- and middle-income Americans don't want to pay higher taxes.

But even if Social Security 2100's tax increases were enacted, that would use up funds that might otherwise be available for other items on the progressive agenda. It is almost impossible to imagine that, after installing substantial tax increases to fund Social Security 2100, Congress would then turn enact additional substantial tax increases to fund Medicare for All, the Green New Deal, or other items progressives favor. *So even progressives should ask whether significant tax increases to fund higher Social Security benefits for Americans whose incomes are already at record levels is the best use of that money.*

Once we understand these facts, we can craft Social Security reforms that fix solvency and enhance the safety net at a more affordable cost. In what follows, I present some ideas.

There is a middle ground between raising taxes and cutting benefits: Saving more. Progressives fear that fixing Social Security solely by cutting benefits

[12] See www.easthartford.org/departments_/human_resources/salaries/administrator_salary_schedule

would leave retires with insufficient incomes. And in some cases, they would be right. Conservatives fear that relying too heavily on taxes would stunt economic growth. And they're also right. An analysis by the nonpartisan Penn Wharton Budget Modeling center projected that passage of the Social Security 2100 Act would reduce GDP by 1.1% by 2050.[13] My own proposal, which achieves solvency through benefit reductions, was found by the Penn Wharton model to increase GDP by about 0.6 percentage points[14], leading to a roughly 1.7% difference in GDP between Social Security 2100 and a benefit-reduction path to solvency. In today's terms, that comes out to about a $350 billion-dollar annual difference in the size of the economy and the incomes Americans receive from it.

A middle ground is to fix Social Security's solvency more heavily by reducing benefits, but then require that every worker save more for retirement on their own. While increased personal saving boosts retirement benefits just as tax increases do, they have important economics differences.[15]

Back in the late 1990s the middle ground of Social Security reform often incorporated so-called "add on" accounts that were built on top of Social Security rather than funded out of the existing payroll tax. Members of Congress hoping for forge a bipartisan solution might wish to revisit these proposals.

One fascinating idea comes from a bipartisan team of authors, who propose that add-on accounts be established to fund benefits for a set period at the beginning of retirement, after which individuals revert to traditional Social Security benefits.[16] These so-called Supplemental Transition Accounts for Retirement (STAR) would address the risk that a retiree would outlive the savings in their account, while keeping Social Security's life-long benefits for when they are needed the most. If funded appropriately, STAR accounts could allow for increasing Social Security's normal retirement age, which would contribute to closing the long-term solvency gap.

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[13] Penn Wharton Budget Model. "The Social Security 2100 Act: Updated Analysis of Effects on Social Security Finances and The Economy." September 24, 2019.

[14] Penn Wharton Budget Model. "PWBM Budget Contest: A Flat Benefit for Social Security." January 26, 2021.

[15] Tax increases reduce both labor supply (because the perceived reward to work is lower) and personal saving (because the higher Social Security benefits funded by those taxes would substitute for personal savings, at least for middle and higher-income households), while contributions to one's own retirement account are not seen as taxes and would increase personal saving, thereby contributing to productivity and economic growth.

[16] See Koenig, Gary, Jason J. Fichtner, and William G. Gale. "Supplemental transition accounts for retirement: A proposal to increase retirement income security and reform social security." *Public Policy & Aging Report 28*, no. suppl_1 (2018): S22-S34.

Americans prefer boosting savings over tax increases. To gauge Americans' preferences, I commissioned a question in the RAND Corporation's American Life Panel, an ongoing survey of a representative sample of U.S. households. The survey was fielded in March and April 2020. The question I asked was straightforward and intentionally devoid of framing or spin:

"Some Americans are concerned about not having enough income once they retire. If you wished to increase your future retirement income, would you prefer to: Pay higher Social Security taxes while working and receive a higher Social Security benefit when you retire? Or make higher contributions to a private retirement account such as an IRA or 401(k) and receive higher income from that account when you retire?"

The RAND survey results show Americans' preferences are clear: 74% of Americans preferred saving more on their own versus paying more into Social Security. Those results held by gender, race, education, income, or geography.

"Some Americans are concerned about not having enough income once they retire. If you wished to increase your future retirement income, would you prefer to…"

	Pay more into Social Security	Save more on my own
Gender, Male	28%	72%
Gender, Female	25%	75%
Age, 21-34	20%	85%
Age,35-64	29%	71%
Age, 65+	28%	72%
Race, White	26%	74%
Race, Black	28%	72%
Race, Asian	27%	73%
Ethnicity, Hispanic	28%	73%
Education, HS Grad	31%	69%
Education, BA or more	21%	79%
Urban	27%	73%
Rural	18%	82%
Family income less than $35,000	36%	64%
Family income $35,000-$99,999	26%	74%
Family income $100,000 or more	18%	82%

Source: American Life Panel Survey, RAND Corporation. March-April, 2020.

Increase the retirement age, but protect low-income workers. Increasing Social Security's normal retirement age is nothing other than a benefit cut. Raising the retirement age doesn't restrict when Americans can claim Social Security benefits. It simply dictates that their benefits will be lower, by about seven percent for each year we raise the retirement age, regardless of when individuals claim benefits.

The argument for raising the Social Security retirement age is simple: Americans are living long. And we are. But not *all* Americans are living longer. For lower-income Americans life spans have stagnated. Increasing the retirement age across the board, without any accounting for differential longevity by income, makes low earners pay for a problem they didn't cause.

But raising the retirement age also has an important benefit: it serves as a signal to work longer, and working longer is a powerful way to boost retirement incomes. A solution is to raise the retirement age to promote longer work lives, but increase benefits for low earners to hold them harmless. This provides the psychological incentive to delay retirement, without imposing a financial penalty for low-earners unable to do so.

Conclusions. We can only fix Social Security working together. In Washington, D.C., the two political parties take pleasure in each other's defeats. But in the rest of America, we take pleasure in our government's victories over large problems. Social Security is one of those problems. Instead of repeating the pattern of one party attacking the other over a reform that cannot possibly pass, I believe Congress should pause – but then immediately engage each other in search of a solution. Thus, the "fierce urgency of not yet." The two political parties should sit down together and talk about what a bipartisan Social Security reform package might look like. *If our leaders focus on the real challenges facing Americans in retirement, a Social Security may be closer than they think.*