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The Need for Stabilizing Social Security

Why continued advocacy is critical for our collective future

In progressing toward retirement, one of the key factors in creating financial security is understanding what stable retirement income sources are available to provide for one's needs. For decades, retirees have relied on Social Security, defined benefit pension plans and/or some type of annuity payout as their primary income vehicles. Yet the latest annual report by the trustees of Social Security and Medicare indicates that Social Security benefits will start to exceed the program's costs in 2020, and the program will deplete its $2.9 trillion reserve fund in 2035. What does the instability of this "stable" retirement income mean for the country, and what can we do to protect the future of millions of Americans?

A Quick History

First, let's examine the program in more detail. Social Security celebrated its 84th birthday in August, long having been responsible for this program providing generations with a stable retirement income. The availability of these benefits has kept millions of Americans from living in poverty upon retirement, either voluntarily or involuntarily, due to a disability or unexpected forces like a job loss or the inability to earn an income after reaching age 62. Roughly 95% of Americans will qualify for Social Security payments upon meeting eligibility criteria, and currently, almost 63 million individuals receive a monthly Social Security check.

While the general actuarial outcome of the aforementioned report on the program's long-term viability has not significantly changed in nearly 10 years, this year's findings are a bit different, given that Trustees have now begun dipping into the Social Security Trust Fund reserves to satisfy the program's obligations.

How did it come to this? Back in 1983, Congress and President Reagan worked on a so-called "Grand Bargain." At that time, the Social Security system was on the brink of collapse. The bipartisan Greenspan Commission — named after former Federal Reserve Chairman Alan Greenspan — was formed and included notable figures from industry and labor, as well as Senators Bob Dole and Patrick Moynihan. This commission made recommendations to Congress and President Reagan signed the changes into law. There was a give-and-take on increasing revenue and eliminating some benefits. The wage base and taxes were increased and indexed, resulting in some Social Security income being subject to tax in specific cases, and the full retirement age was increased to 67 over time. The "Grand Bargain" created a $2.7 trillion-dollar surplus that was sustainable until 2018. The narrative at the time was that "Social Security was saved" and, while true for the Greatest Generation and Silent Generation, the issue at hand was simply pushed down the road to severely impact Baby Boomers and Gen X.

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Given that no modifications have been made in the interim, the $2.7 trillion "surplus" will basically be exhausted throughout the next 15 years just as the Baby Boomers are in the heart of their retirement years. This is occurring because our worker to retiree ratio has substantially changed and continues to do so. The country

has gone from approximately 3.3 workers for every retiree in 1975 to 2.8 workers for every retiree in 2013, and is expected to be just 2.1 workers in 2030. If this issue is not addressed soon, the once trillion-dollar surplus will be spent (likely in 2034), and there is only enough revenue from FICA payroll taxes to sustain 77% of benefits that have accrued.

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Expected Impacts

How does this stand to impact retirees? As highlighted below, Social Security represents a significant portion of total retirement income for many retirees. Most alarmingly, those hardest hit by a reduction or elimination of benefits would be lower-income Americans, where Social Security is more than half of their total income.

Social Security Benefits as Percent of Total Retirement Income, Measured Three Years after Claiming Social Security Benefits

Lowest quintile	Second quintile	Middle quintile	Fourth quintile	80th to 95th percentile	95th to 99th percentile	Top one percent	All
51%	47%	38%	34%	27%	15%	4%	33%

Source: Brady, Holland and Pierce (2017)

Notice that every tier utilizes Social Security for a portion of their retirement income. According to the Social Security Administration, among elderly retirees, 69% of unmarried persons receive 50% or more of their income from Social Security, as do 21% of married couples. Almost 44% of unmarried people rely on Social Security for 90% or more of their income. Interestingly, many of these existing retirees retired at a time when Americans received defined benefit pension payouts at a much higher level than today's 22%. The problem is compounded now as Social Security income alone is not enough to maintain a pre-retirement standard of living for the general population and replaces only one-third or less of income for higher-income workers.

A Proposed Response

Representative John B. Larson (D-Conn.) and 210 co-sponsors are working on the Social Security 2100 Bill that proposes to increase benefits for all current and future Social Security recipients, cut taxes for almost 12 million seniors and ensure the system remains solvent for the rest of the century. The legislation includes:

- **A benefit bump for current and new beneficiaries:** It would provide an increase for all beneficiaries that is equivalent to approximately 2% of the average benefit. As the U.S. faces a retirement crisis, a modest boost in benefits strengthens the one aspect of the retirement system that is universal and most reliable.
- **Protection against inflation:** It would improve the annual cost-of-living adjustment (COLA) formula to better reflect the costs incurred by seniors through adopting a CPI-E formula. This provision will help seniors who spend a greater portion of their income on health care and other necessities. Improved inflation protection will especially help older retirees and widows who are more likely to rely on Social Security benefits as they age.

- **Low-income worker protections:** No one who paid into the system throughout their lifetime should retire into poverty. The new minimum benefit will be set at 25% above the poverty line and would be tied to wage levels to ensure that the minimum benefit does not fall behind.
- **Tax cuts for beneficiaries:** Almost 12 million Social Security recipients would experience a tax cut. Presently, Social Security benefits are taxed if a person's non-Social Security income exceeds $25,000 for an individual or $32,000 for couples. This would raise that threshold to $50,000 and $100,000 respectively.
- **A Social Security Wage Base increase over time:** Presently, payroll taxes are not collected on wages over $132,900. This legislation would apply the payroll tax to wages above $400,000. This provision would only affect the top 0.4% of wage earners.
- **A worker contribution increases:** The legislation would gradually phase in an increase in the contribution rate beginning in 2020, so that by 2043 workers and employers would pay 7.4% instead of 6.2%. For the average worker, this equates to paying an additional 50 cents per week to keep the system solvent.
- **The establishment of one Social Security Trust Fund:** Social Security provides all-in-one retirement, survivor and disability benefits funded through the dedicated FICA contribution paid by workers. There are technically two trust funds: Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI). Collectively, they are commonly referred to as the Social Security Trust Fund. This provision actually combines the OASI and DI trust funds into one Social Security Trust Fund to ensure that all benefits will be paid.

In Summary

There is a growing demand for stabilizing the Social Security system with intent to create a national dialogue about how to ensure a viable structure is in place for the Baby Boomers and generations to come. The key takeaways are also relevant in understanding the significant retirement income problem facing the nation today. Clearly, we must additionally find alternative means for addressing many of the benefits Social Security provides with inherent flexibility for each individual's situation. The seven benefit components are:

1. **Longevity protection;**
2. **Stability of income;**
3. **Income maximization;**
4. **Liquidity;**
5. **Potential for asset growth;**
6. **Cost; and**
7. **Potential for legacy.**

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As we look forward to solving the Social Security problem, we must meet the needs of our current retirees and pre-retirees by continuing to advocate, educate and innovate. By making it a priority to help pre-retirees plan for the decumulation stage of their lives and create predictable, lifetime retirement income throughout their golden years, we can improve the financial future for our country as a whole.

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