Promoting Economic Growth through Social Security Reform

September 2019

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Committee for a Responsible Federal Budget

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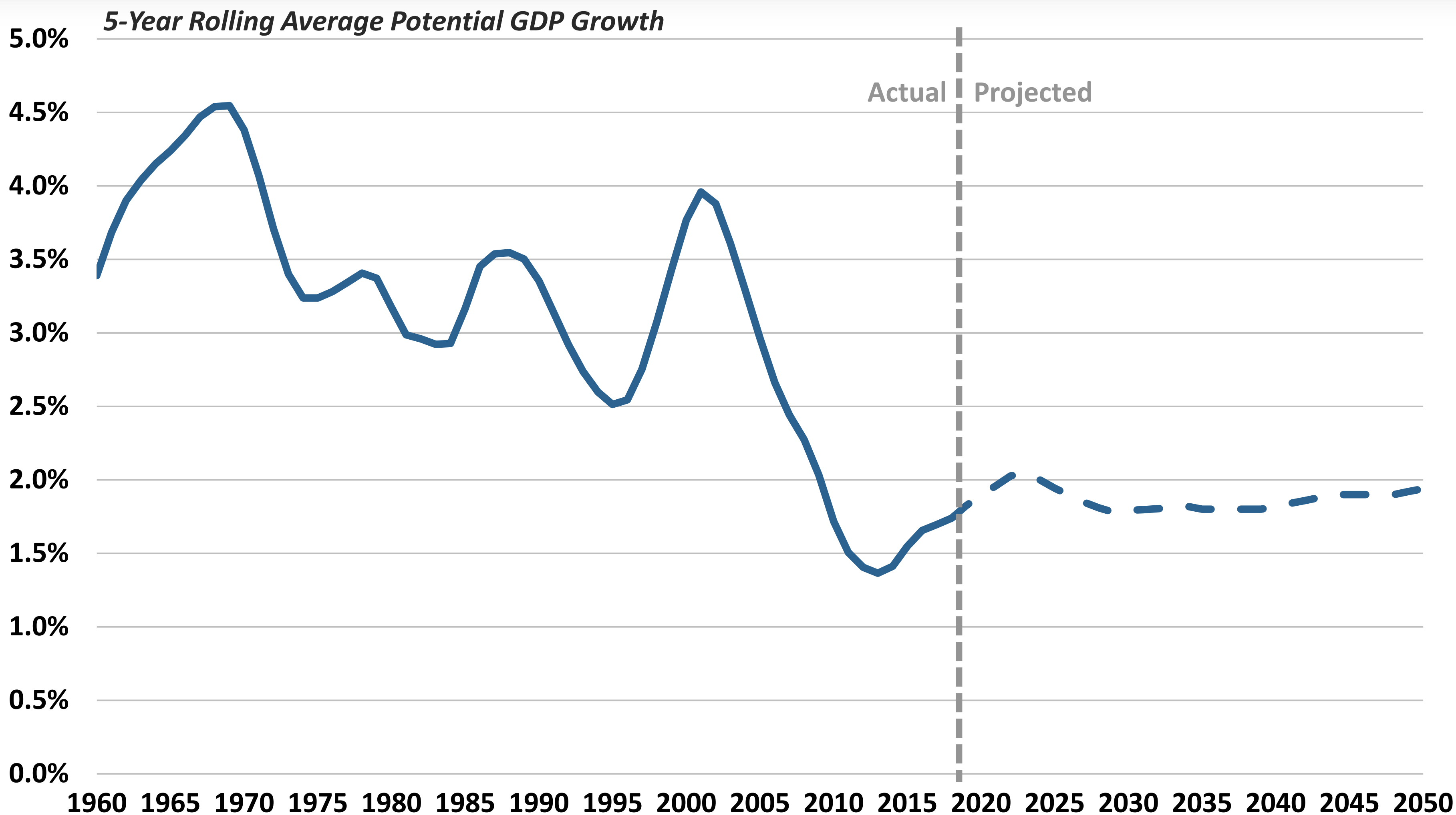
Economic Growth is Slowing



Source: Committee for a Responsible Federal Budget calculation based on CBO data.

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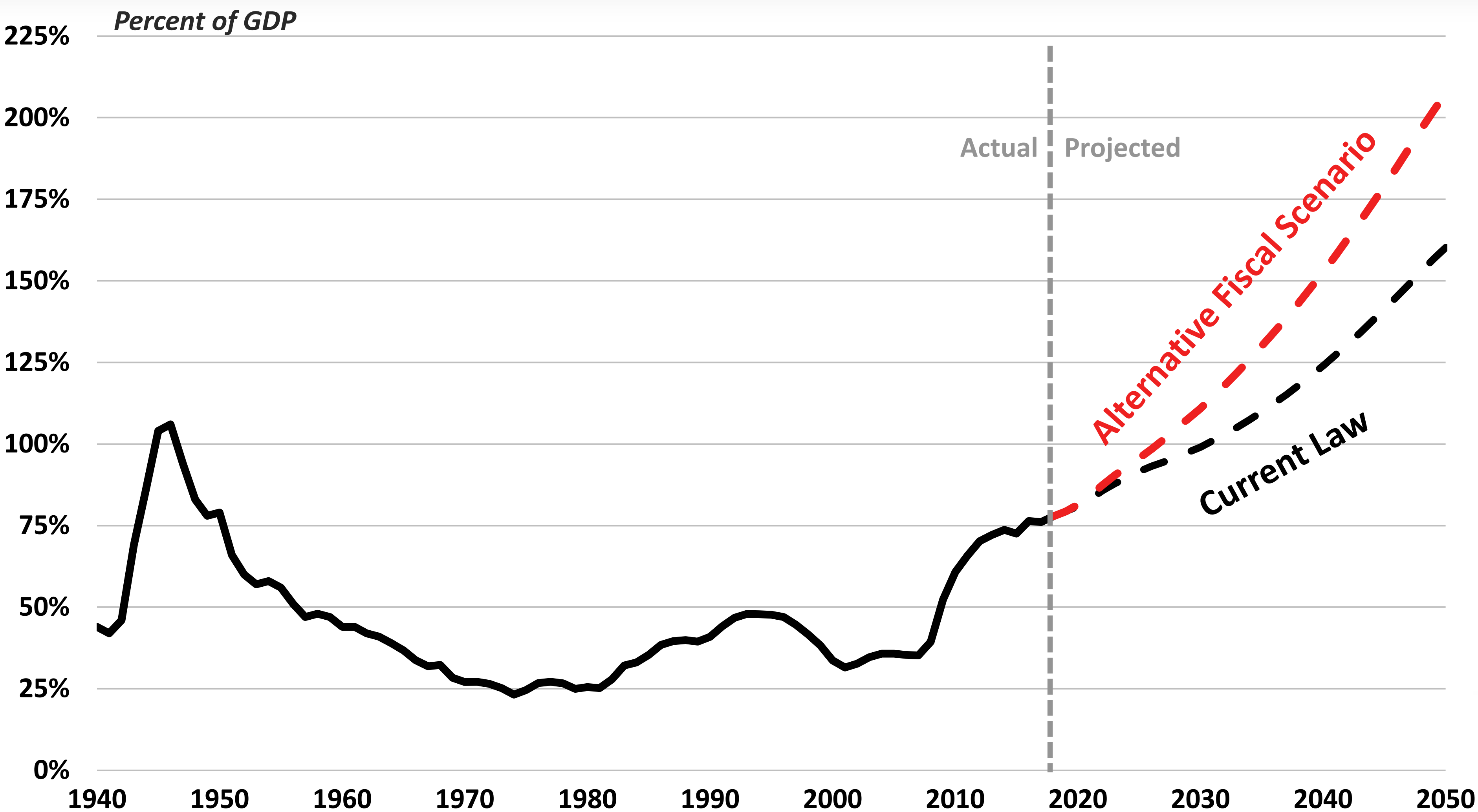
Debt is Rising



Source: Committee for a Responsible Federal Budget projections based on 2018 CBO Long-Term Budget Outlook.

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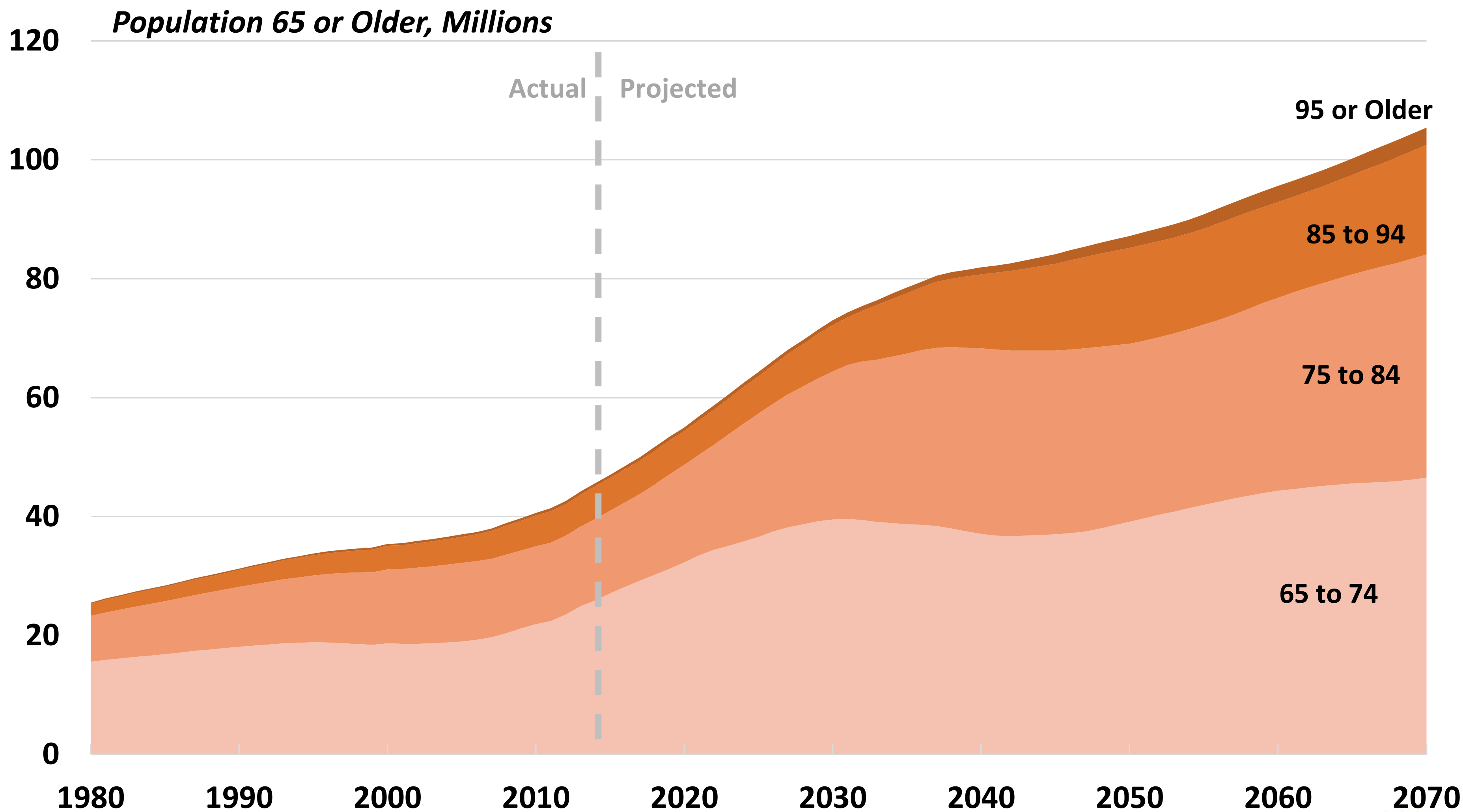
Population Aging is Largely Responsible for Both



Source: Committee for a Responsible Federal Budget estimates based on Congressional Budget Office and U.S. Census Bureau data..

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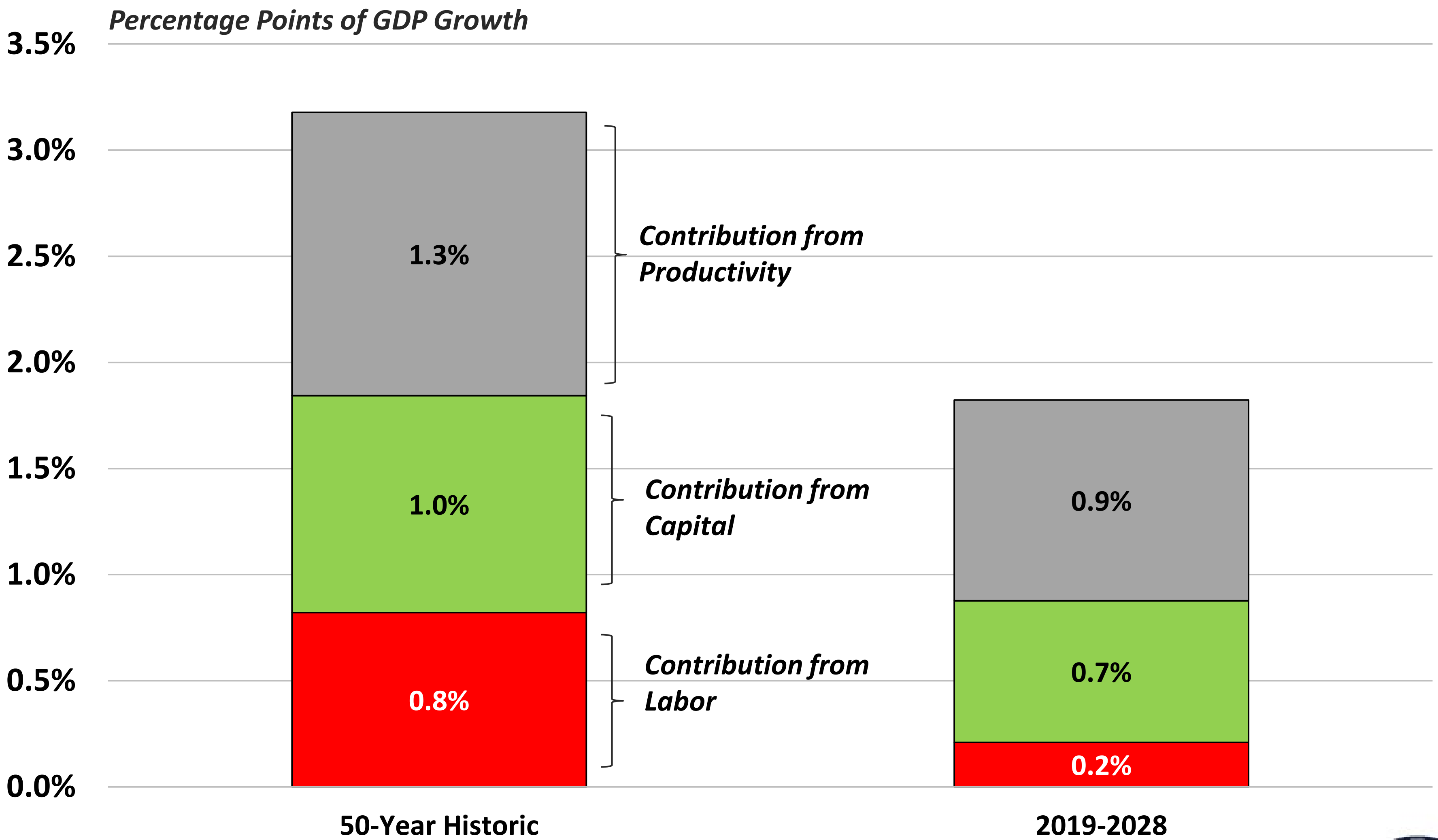
Population Aging is Largely Responsible for Both



Source: Committee for a Responsible Federal Budget estimates based on CBO data.

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The Symptom Can Be the Solution: Social Security Reform as a Growth Strategy

- Social Security is the largest federal program and the program most affected by population aging
- Social Security is the largest source of taxation and retirement income for most Americans
- Social Security sends powerful signals on how much to save, how much to work, and when and how to retire
- Social Security reform can increase economic growth by boosting labor, capital, and resource allocation

A Framework for Pro-Growth Social Security Reform

A Framework for Pro-Growth Social Security Reform

1. **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)

2. **Reward Work at All Ages**
   by counting *all* years of work toward benefits based on each year's earnings rather than average 35-year lifetime earnings ("mini-PIA")

3. **Increase Savings and Investment**
   by automatically enrolling workers in add-on "Supplemental Retirement Accounts" (SRAs) unless a worker opts out

4. **Improve Certainty and Sustainability**
   by making Social Security sustainably solvent through a mix of progressive revenue and benefit adjustments

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Impact of Our Social Security Reform Framework

- **Increase economic growth by ~0.25% per year**
  - We estimate a 3.5% to 13% boost in GNP in 2050
- **Increase average per-person income by ~$8,000 in 2050**
- **Restore solvency to Social Security**
  - We estimate our plan would close 115% -130% of the 75-year solvency gap
- **Increase progressivity and improve retirement security**
  - Most low- and middle-income workers would have more retirement income
- **Reduce projected debt growth by 25-45% of GDP**
  - We project debt of 115% to 135% of GDP in 2050 instead of 160%

Promote Delayed Retirement and Productive Aging

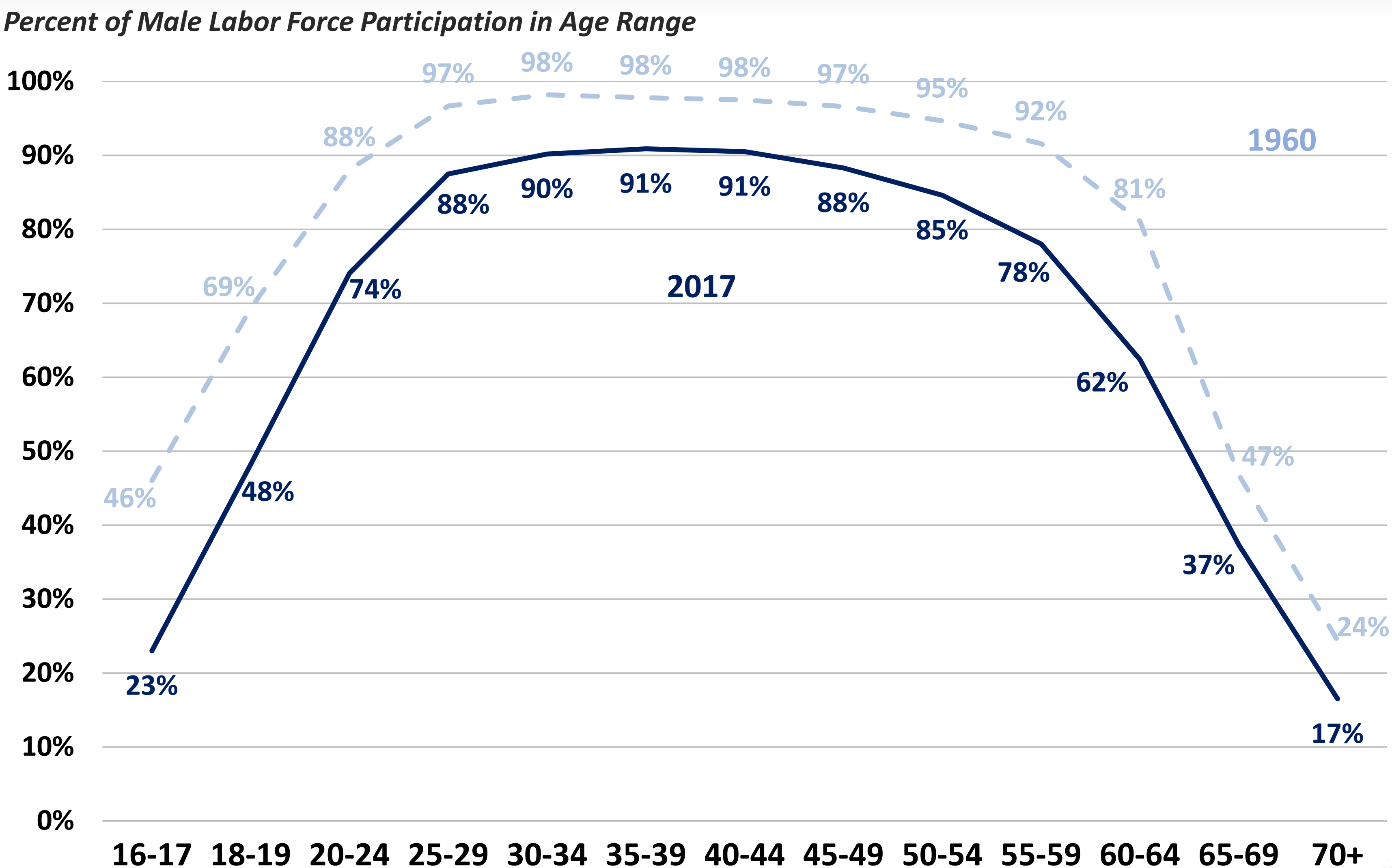
Recommendation #1:

- Raise the retirement ages (EEA & NRA) by one year and then index to longevity

- Establish an "Age 62 Poverty Protection Benefit" (62-PPB) at 100% of poverty to insulate and enhance benefits for vulnerable workers

Delayed retirement and productive aging will increase labor supply

Older Americans Are the "The Largest Underused Pool of Human Resources in the Economy"



Source: Bureau of Labor Statistics.

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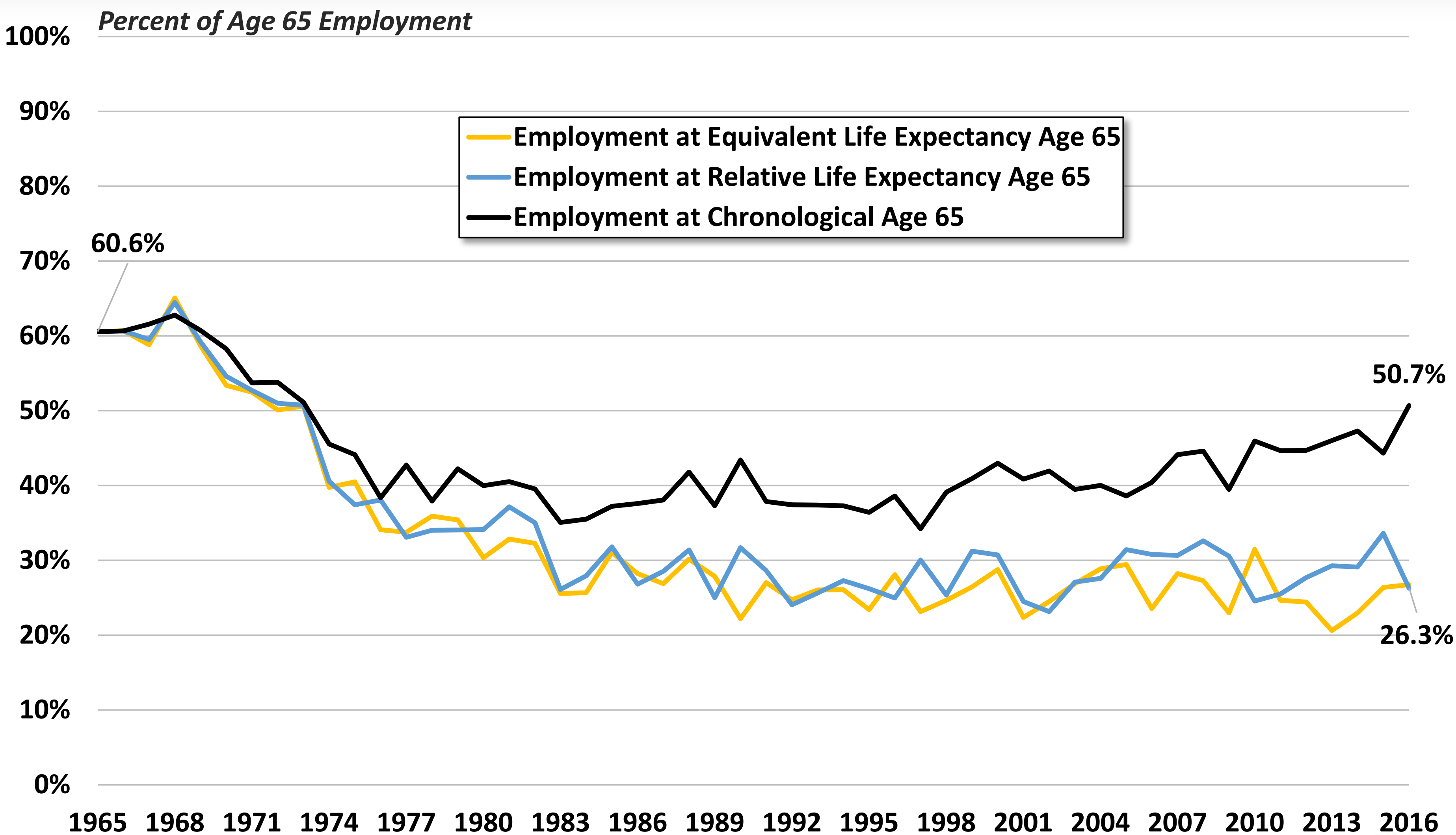
Fewer Older Americans Work than in the Past, When Life Expectancy Was Shorter and Jobs Much More Physical



Source: Cosic and Steuerle (2018).

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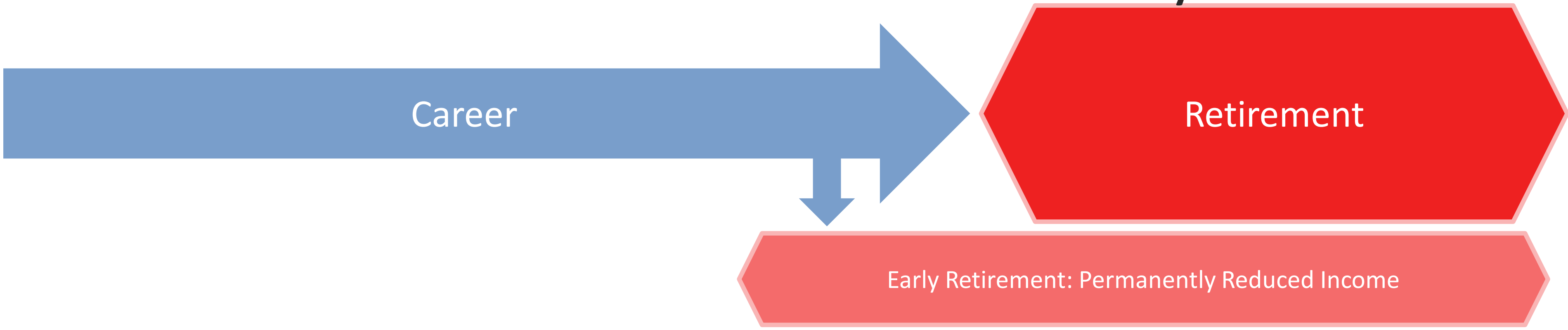
Working Longer is Good For Workers and the Economy

- **Wealth:** An additional year of work increases wealth by 5% and income by 9% (16% for lower-income)
- **Health:** Delaying retirement reduces mortality and a variety of adverse health outcomes and improves physical and brain health
- **Happiness:** Older workers have stronger social networks, more friends, lower divorce rates, and report being happier than their retired counterparts
- **Growth:** A one-year increase in the average retirement age would increase the size of the economy by 2 to 3 percent

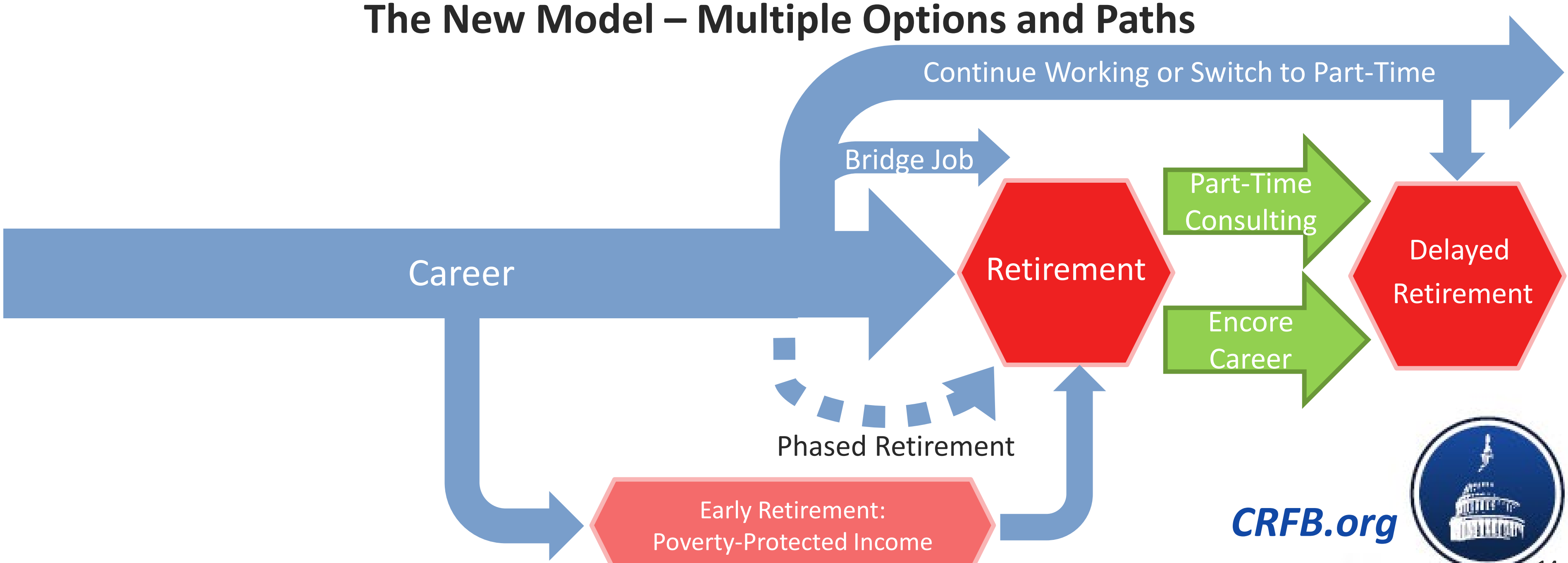
Sources: Butrica, Smith, and Steuerle (2006); Bronshtein, Scott, Shoven, and Slavov (2018); McKinsey Global Institute (2008); Center for Retirement Research at Boston College (2016, 2018); Dave, Rashad, and Spasojevic (2008); Congressional Budget Office (2012).

Rethink Retirement to Improve Wealth, Health, Happiness, and Economic Growth

The Old Model – One-Size-Fits-All and Binary



The New Model – Multiple Options and Paths



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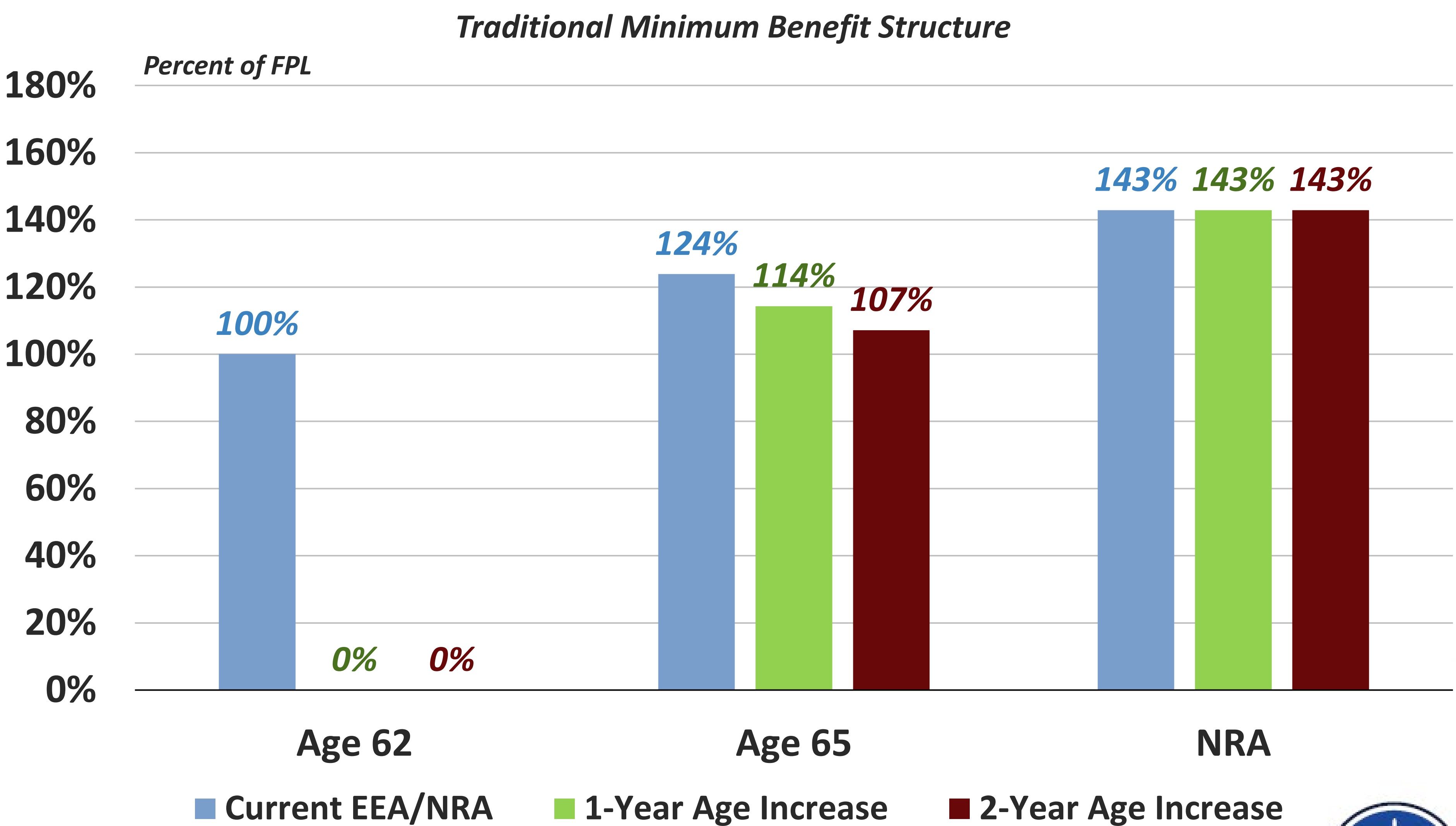
Helping Those Who Can't Delay Retirement

An Age 62 Poverty Protection Benefit (62-PPB)

- Offers minimum benefit at 100% of poverty for 62-year-old retiree
- Increases with collection age (143% at age 67)
- Does NOT erode as NRA rises, protecting workers from NRA hike
- Remains available at age 62 as EEA rises
  - Also available to those with higher potential benefits as an advance*
- Phases in rapidly for full-career worker, and grows with wages

*those with an expected benefit above the minimum benefit can collect the 62-PPB at age 62 in exchange for a reduced benefit based on formula similar to RET

Helping Those Who Can't Delay Retirement



Source: Authors' calculations.

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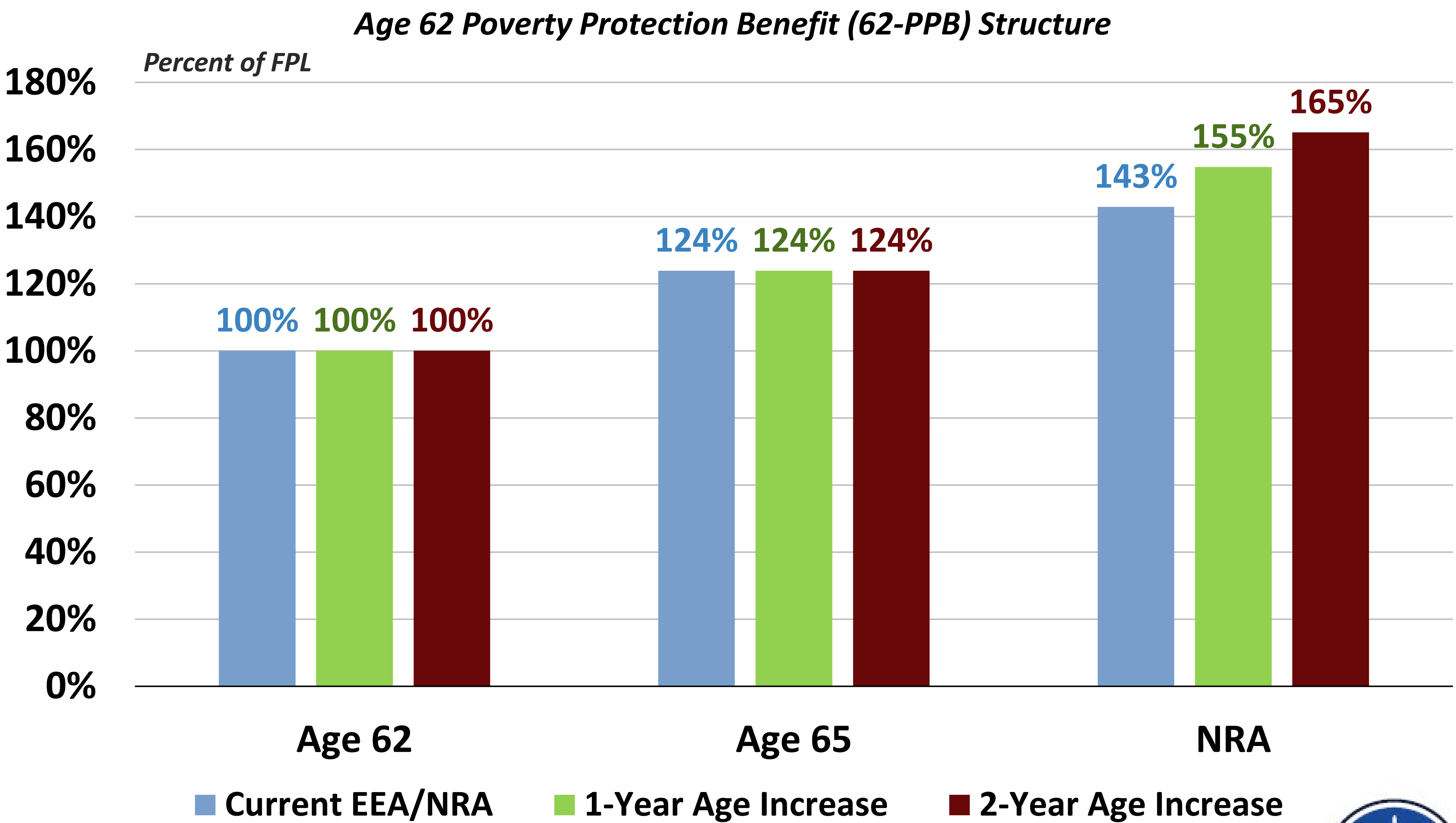
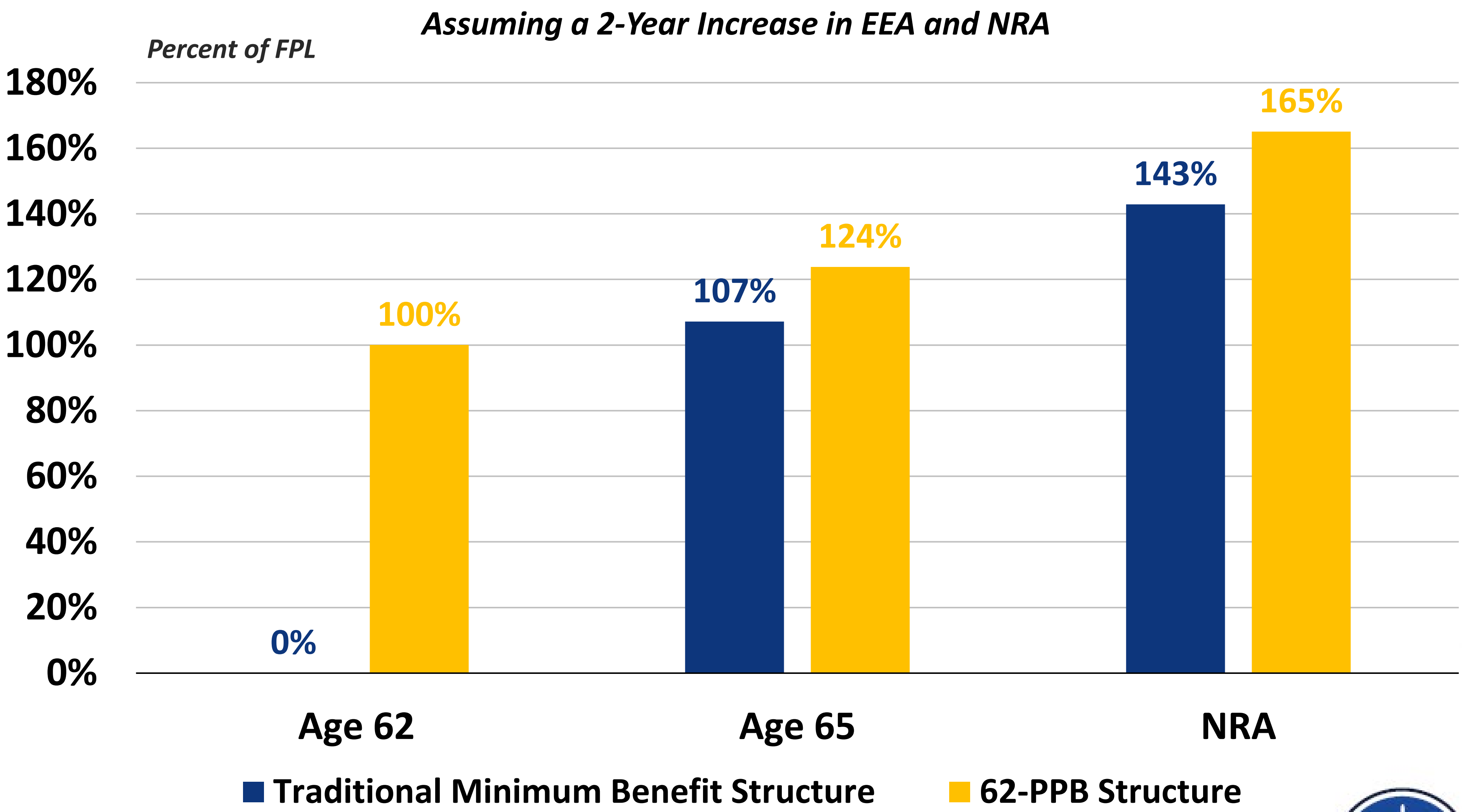
Helping Those Who Can't Delay Retirement



Source: Authors' calculations.

Comparing the 62-PPB to a Traditional Min. Benefit



Source: Authors' calculations.

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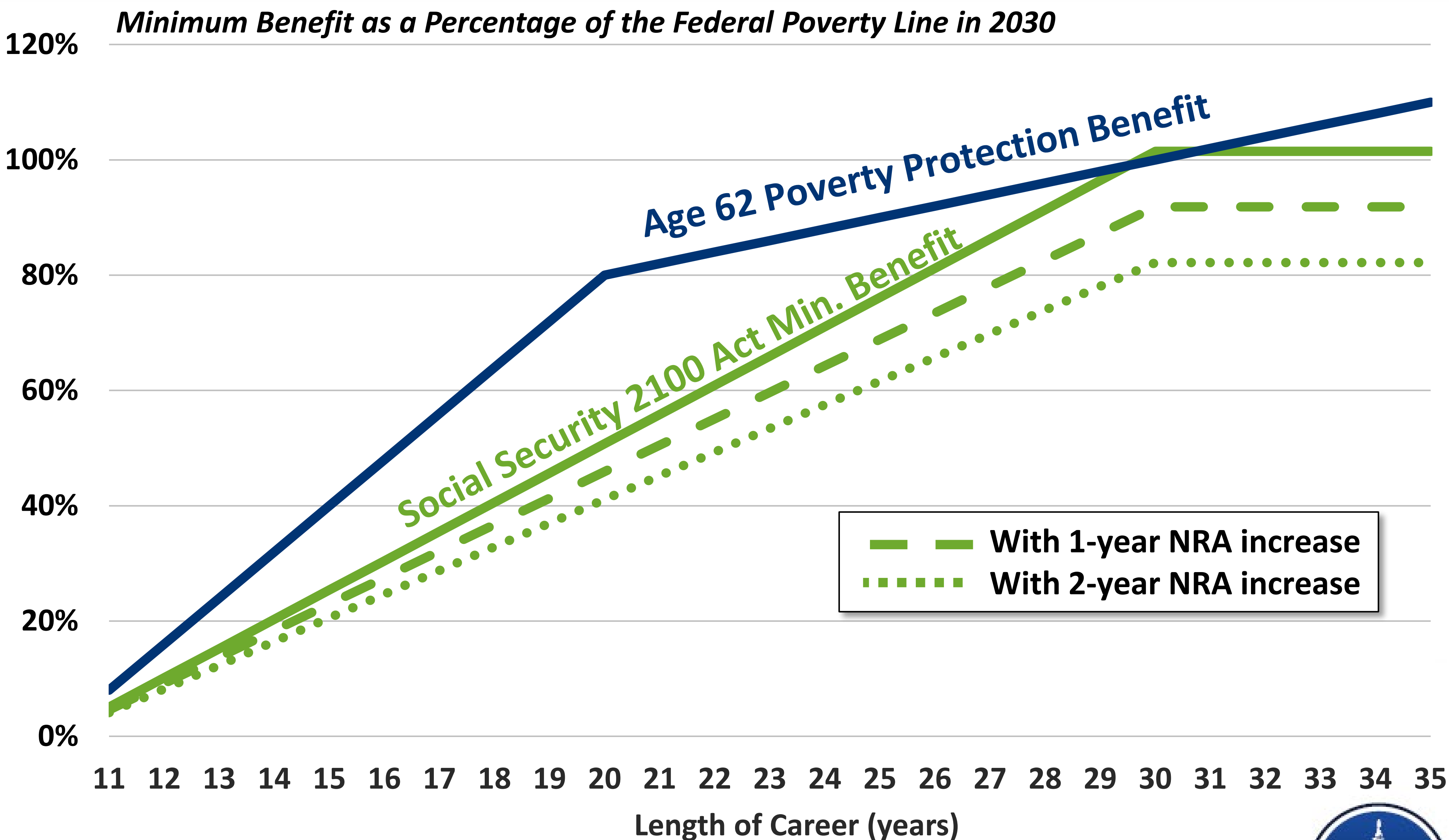
62-PPB and Other Minimum Benefits at Age 62



Source: SSA and Authors' calculations.

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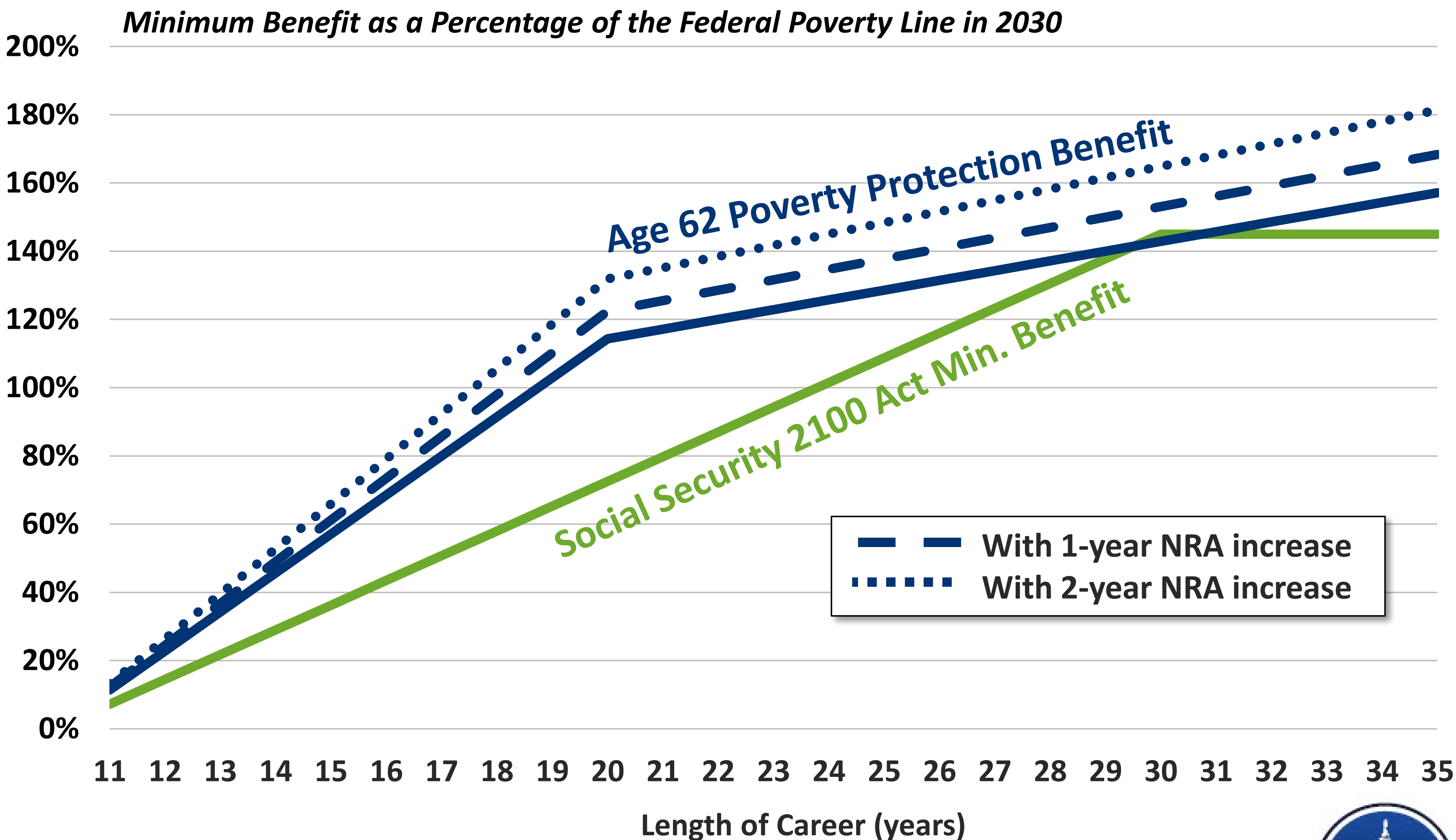
62-PPB and Other Minimum Benefits at NRA



Source: SSA and Authors' calculations.

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Reward Work at All Ages

Recommendation #2:

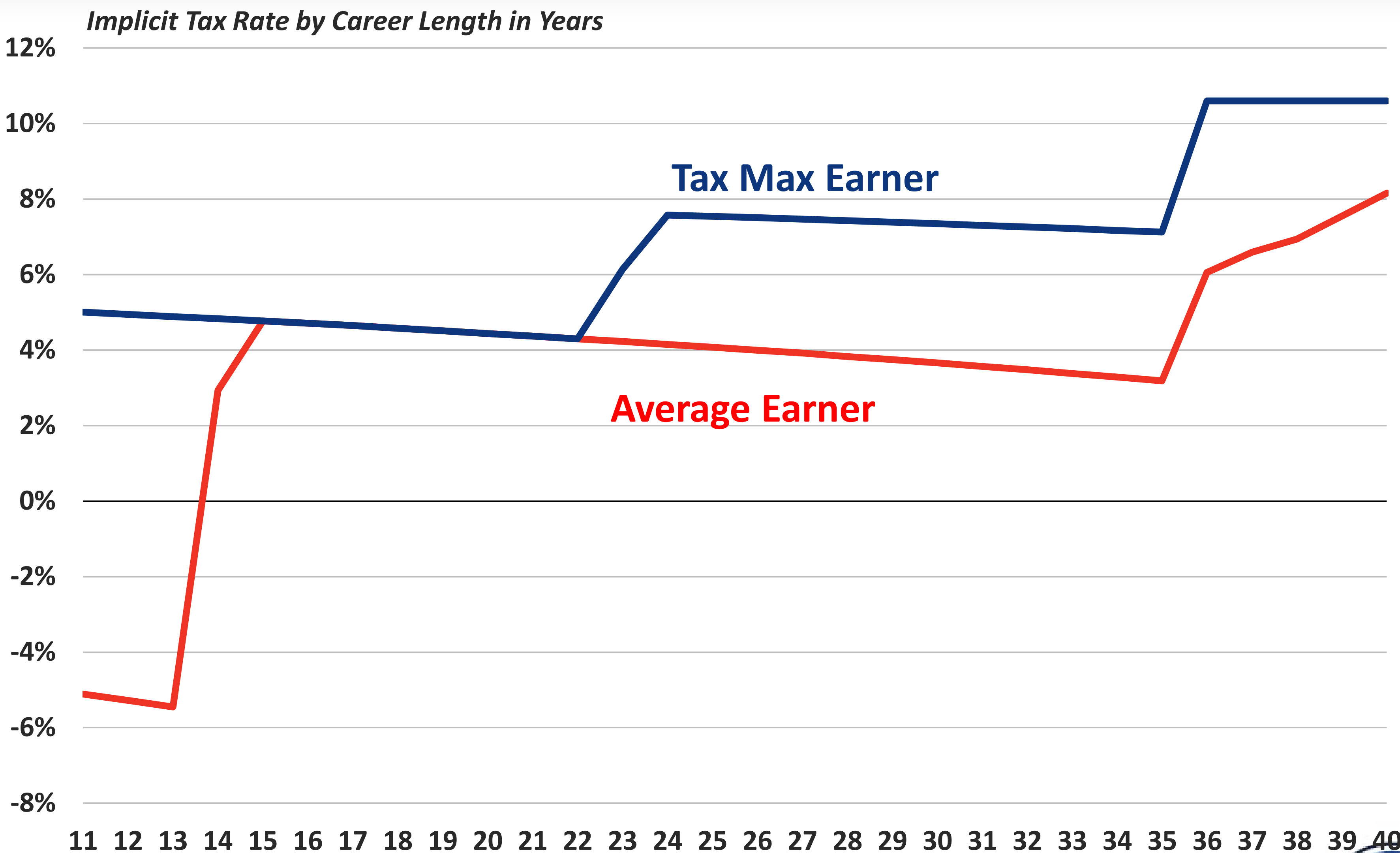
- Calculate benefits based on ALL years of earnings, including before the 10^{th} and after the 35^{th} year
- Apply the progressive benefit formula to each year of earnings – not average earnings – with the "mini-PIA"

Rewarding all years of work equally will increase labor supply

The Current PIA Formula Is Based On Lifetime Earnings, Which Punishes More Years of Work

- The PIA formula is supposed to replace 90% of the first ~$11,000 of average **annual** income, 32% of the next ~$56,000, and 15% of the rest
- It actually replaces 2.6% (90%/35 years) of the first ~$385,000 of **lifetime earnings**, 0.9% of the next ~$1.8 million, and 0.4% of the rest
- That means early years of work are 'high value' and later years of work are 'low value'
  - After 35 years of work, replacement rate trends toward 0% ('no value')
  - Raising the tax max or improving benefit progressivity makes this worse

Social Security Imposes Higher 'Taxes' On Later Years of Work



Source: Goda, Shoven, and Slavov (2009).

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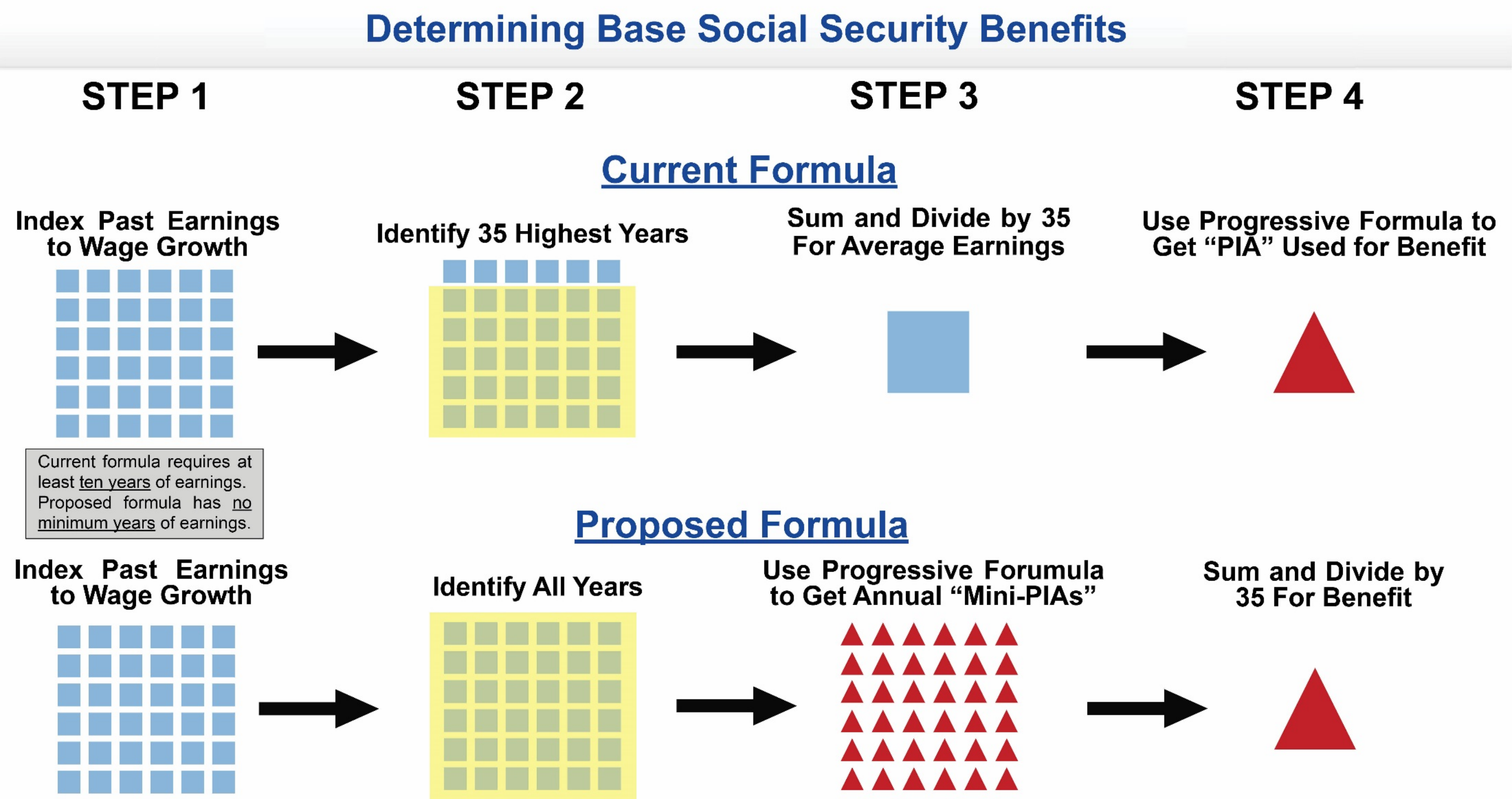
Instead, All Years of Work Should Matter Equally



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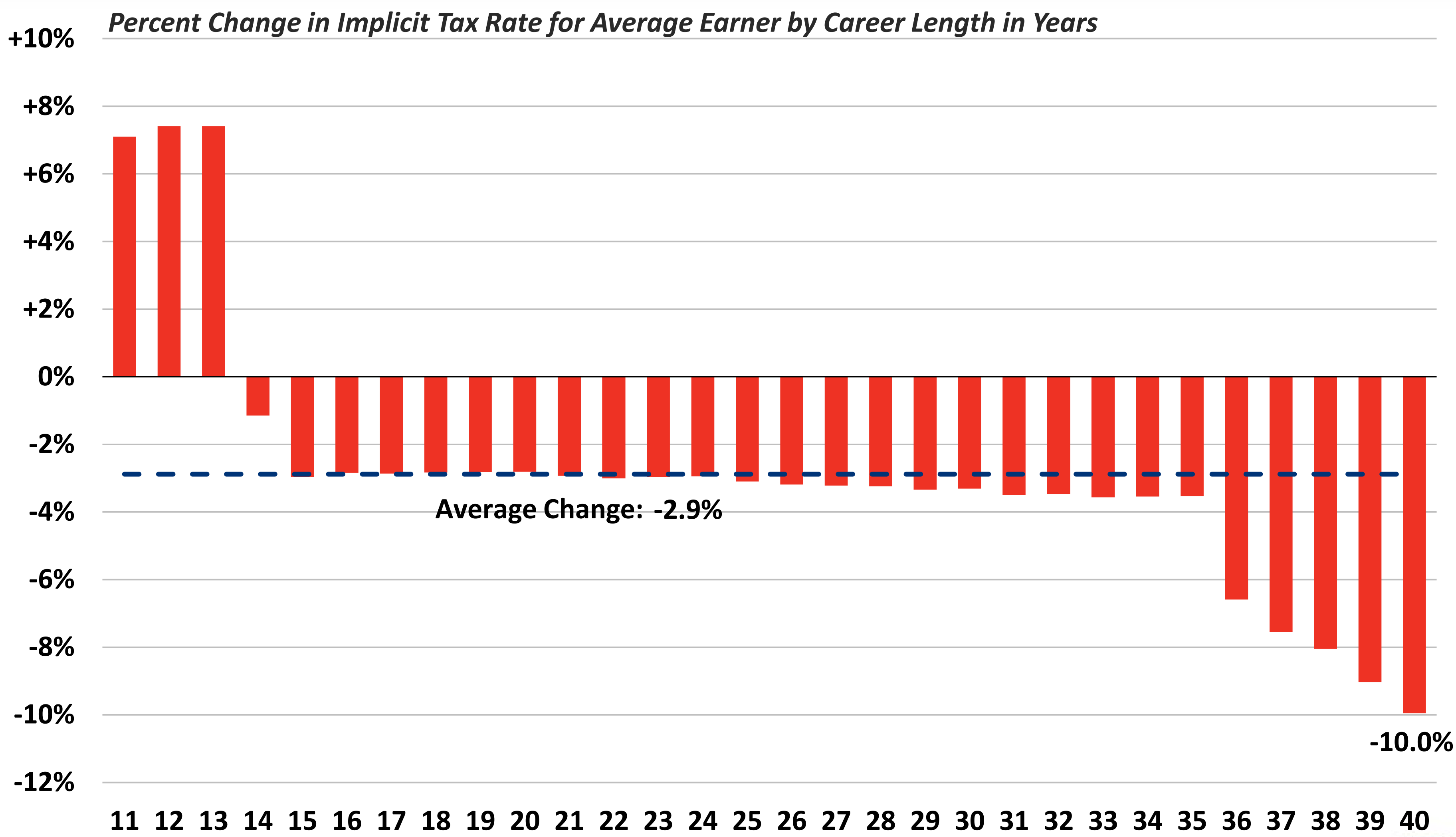
Our Plan Increases the Reward to Work



Source: Goda, Shoven, and Slavov (2009).
This models a similar, though not identical, policy that would smooth implicit tax rates for long-career workers.

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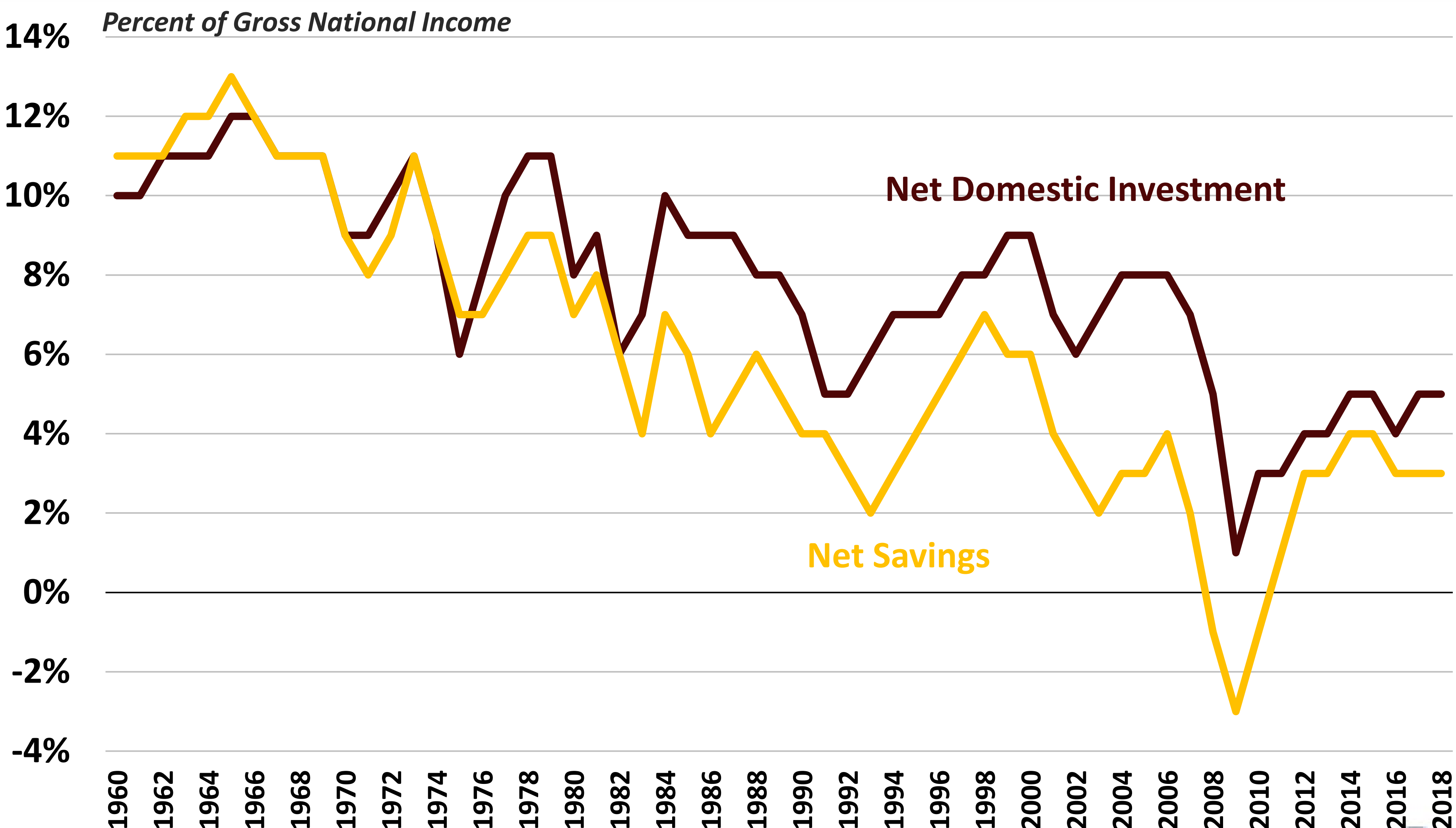
Increase Savings and Investment

Recommendation #3:

- Automatically enroll all workers in Supplemental Retirement Accounts (SRAs), deducting 2%-3% of wages
- Allow workers to 'opt out' of SRAs at any time, but automatically re-enroll them every few years

Automatic enrollment in retirement accounts will increase overall savings, expanding investment and boosting capital stock

More Savings Means More Investment



Source: FRED.

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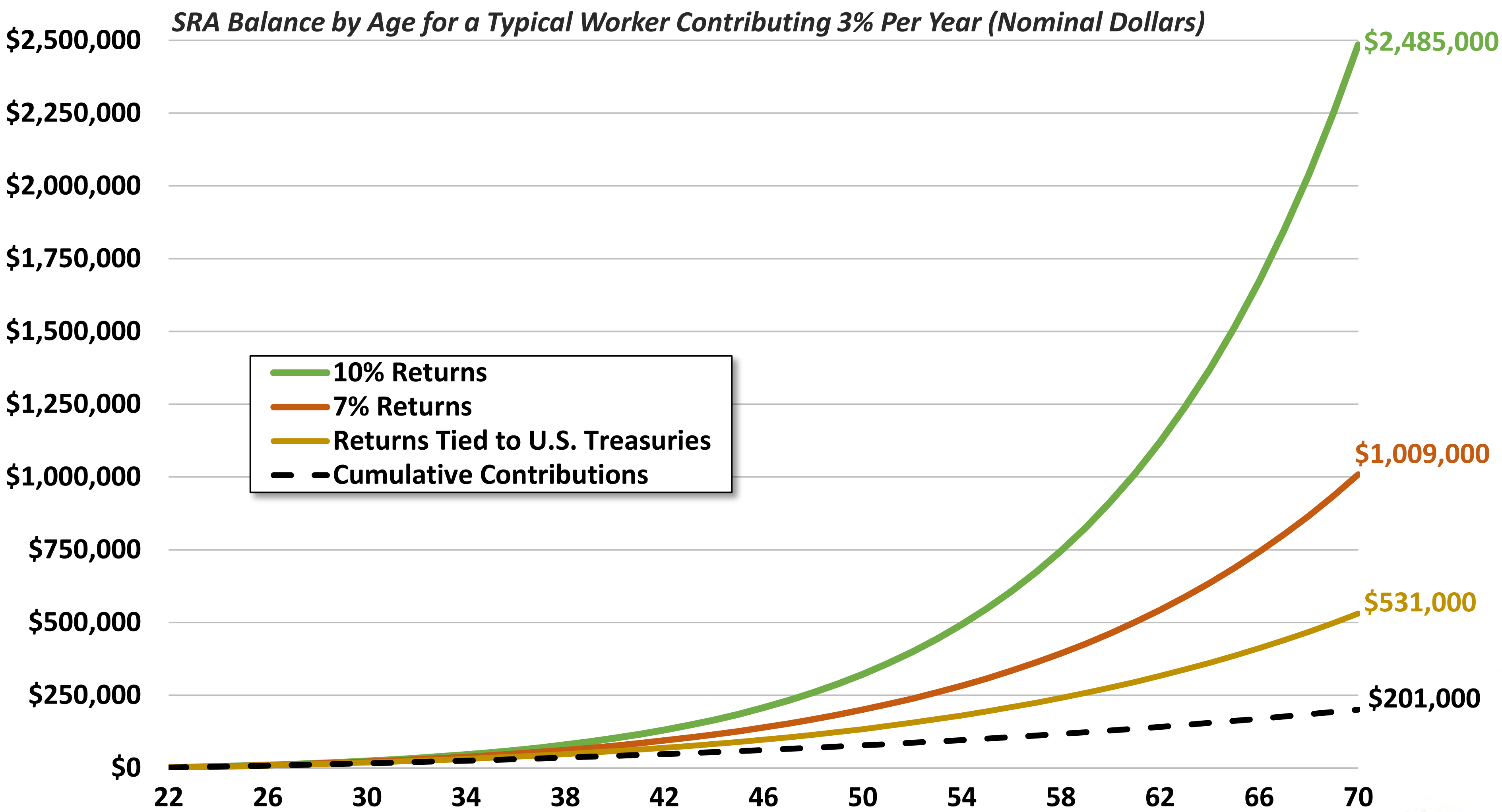
SRAs Could Generate Substantial Wealth



Source: Authors' calculations based on CBO data.

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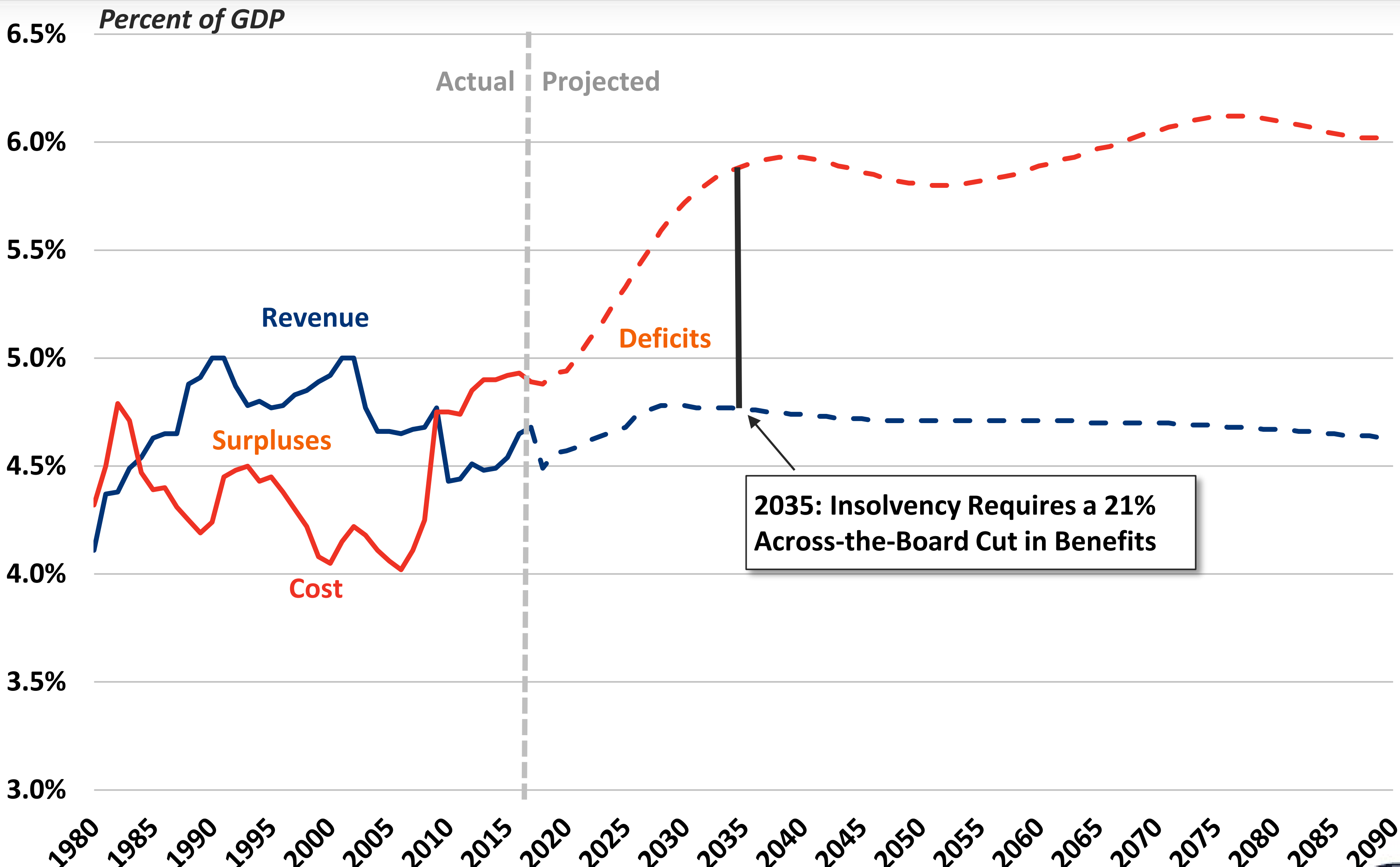
Improve Certainty and Sustainability

Recommendation #4:

- Make Social Security sustainably solvent through a combination of progressive tax and benefit changes
- Plan should achieve sustainable solvency, improve progressivity, phase in changes gradually, and re-enforce pro-growth nature of the plan

Social Security solvency will reduce projected debt and improve predictability, expanding productive investment and capital stock

Social Security is 16 Years from Trust Fund Insolvency



Source: Social Security Administration.

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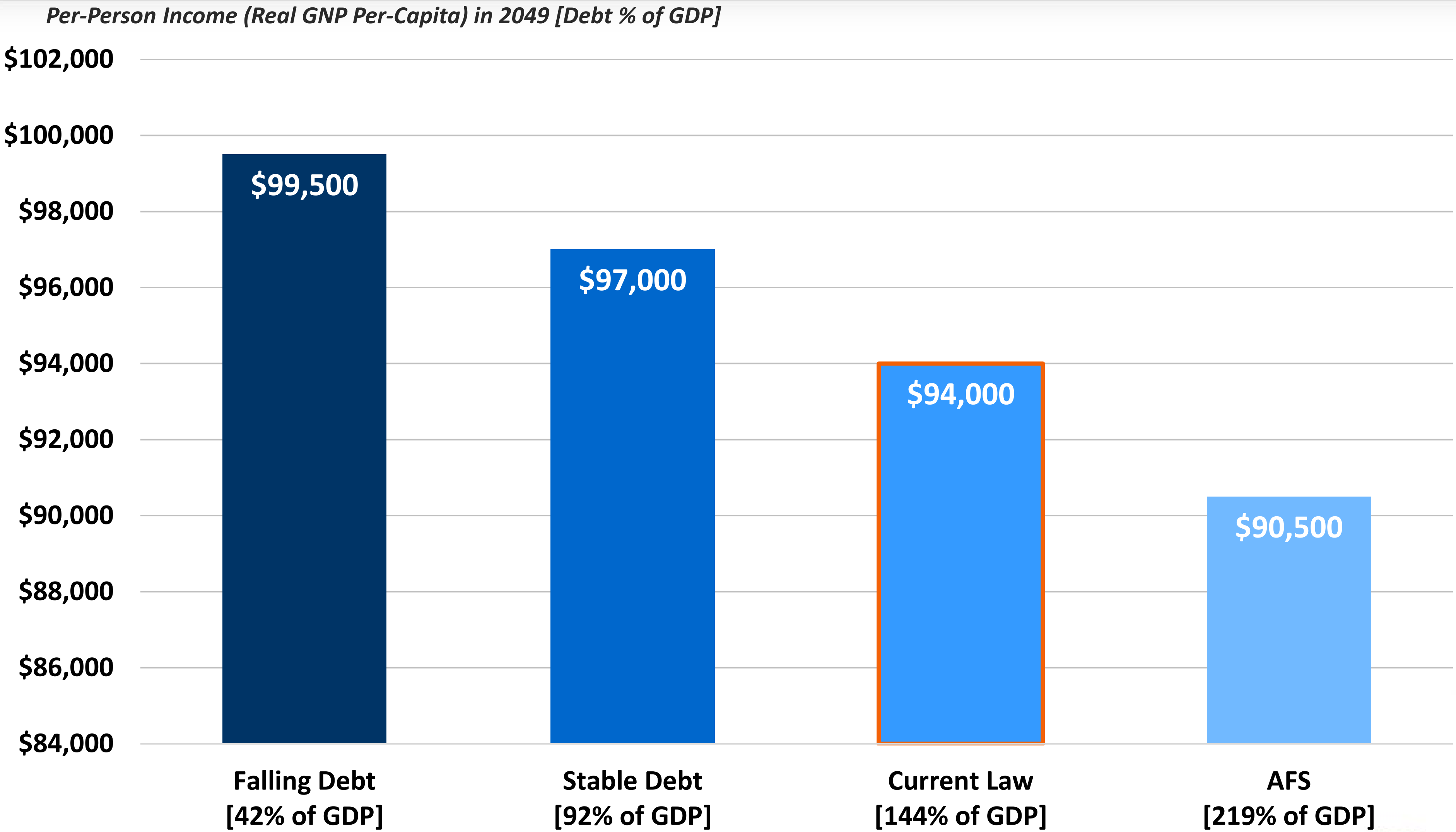
Achieving Sustainable Solvency Would:

- Reduce CBO's debt projections by 25 percent of GDP in 2050 and over 100 percent by 2090
- Prevent a 21% across-the-board benefit cut scheduled to occur under current law *(though not in CBO's baseline)*
- Improve certainty and predictability over benefit levels
  - Certainty itself improves economic welfare by about 0.5 percent of GDP, based on several studies
  - Predictability will result in better savings, investment, and work decisions

Lower Debt Means Higher Income



Source: Congressional Budget Office June 2019 Long Term Budget Outlook.

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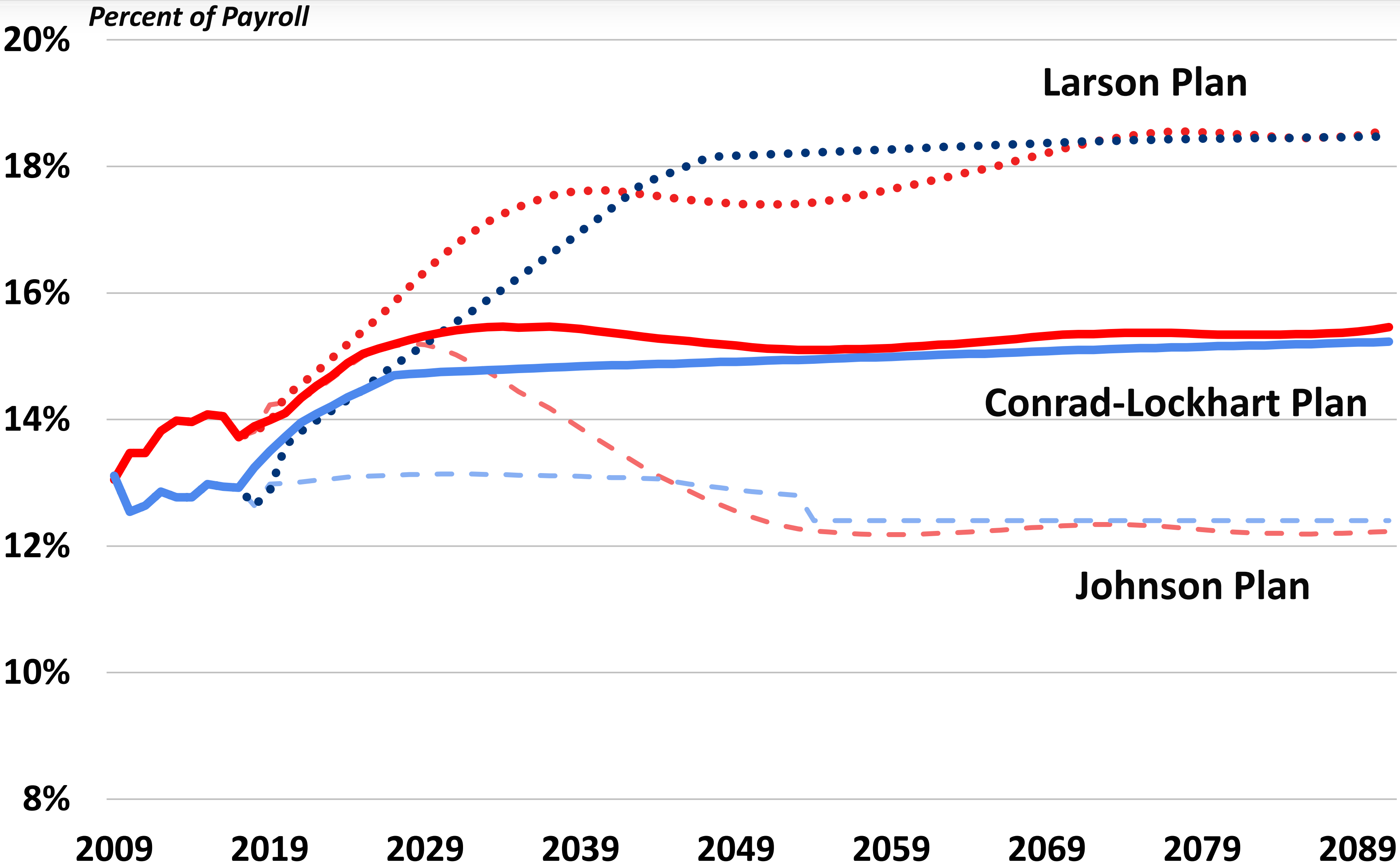
There's No One Way to Fix the Program's Finances



Source: Social Security Trustees.

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Our Illustrative Plan Balances Tax and Benefit Changes

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

Note: estimates are rough and rounded.

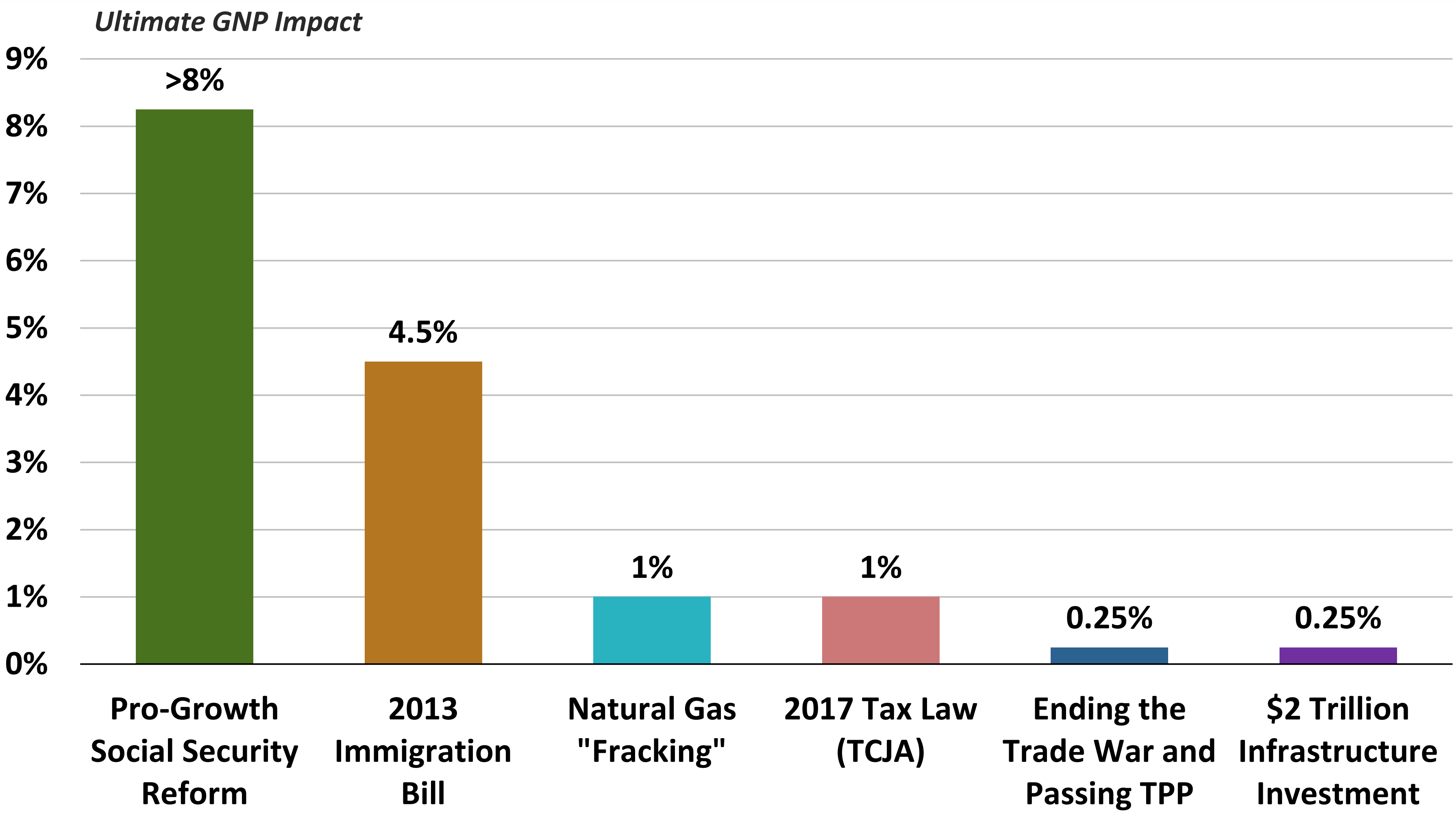
Impact of Pro-Growth Social Security Reform Framework

Pro-Growth Social Security Reform Could Accelerate Economic Growth by a Quarter Percent Per Year

	Low Estimate	High Estimate
Raise Retirement Ages w/ Age-62 Poverty Protection Benefit (62-PPB)	+1.0%	+3.0%
Apply Benefit Formula Annually (Mini-PIA), Counting All Years of Work	+0.5%	+1.5%
Establish Supplemental Retirement Accounts (SRAs)	+1.0%	+3.0%
Restore Social Security Solvency	+1.0%	+5.5%
Total Increase in GNP by 2050 *(assuming no interactions)*	**+3.5%**	**+13%**
Memo: Increase to Annual Growth Rate Through 2050	+0.11%	+0.40%
Central Estimate for Increase in Growth Rate Through 2050	**+0.25%**	

Note: estimates are rough and rounded.

Pro-Growth Social Security Reform Would Significantly Boost Output



Sources: Authors' estimates, CBO, JCT, U.S. International Trade Commission, and Penn Wharton Budget Model.

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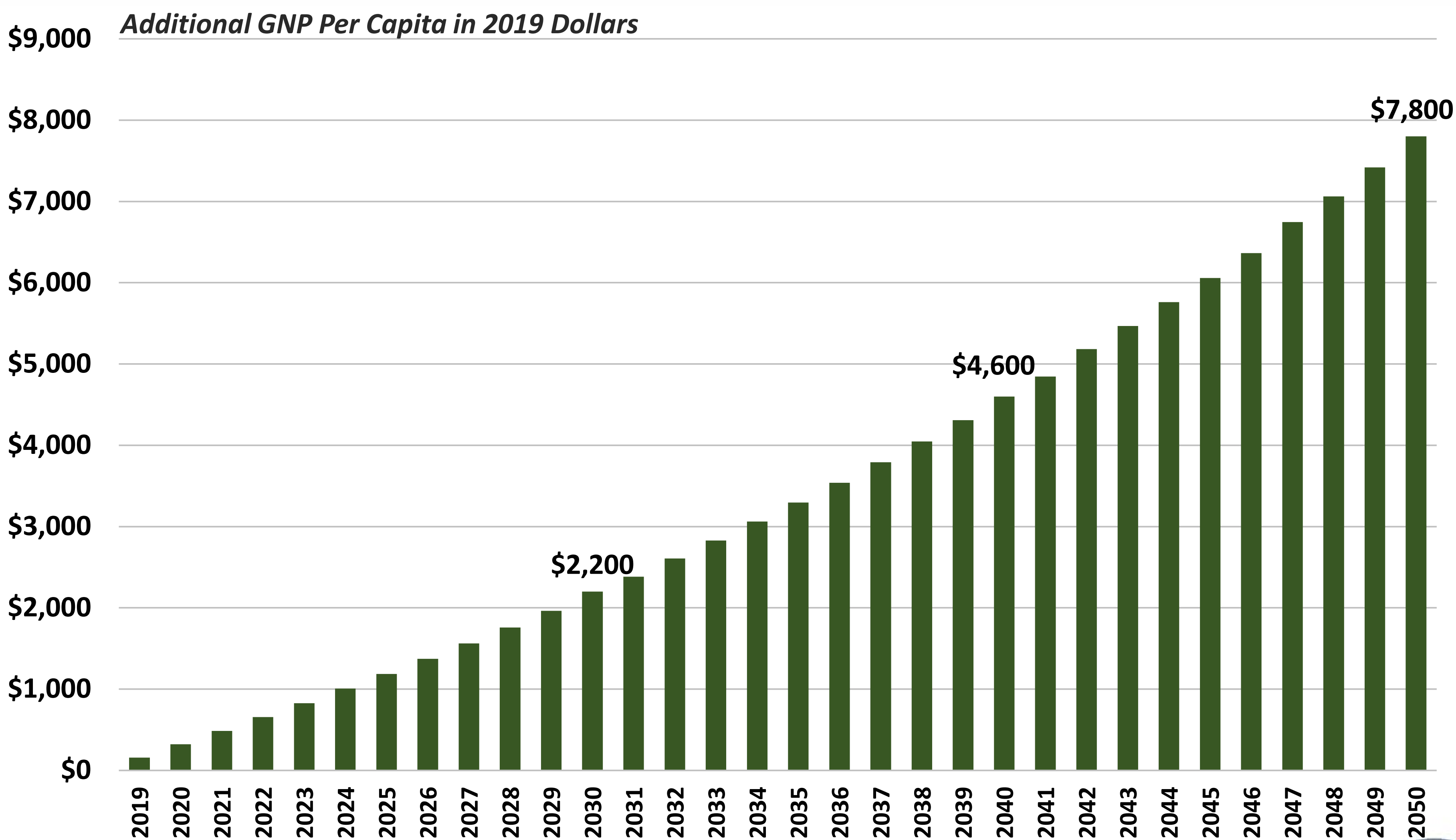
Pro-Growth Social Security Reform Would Raise Per-Person Income



Source: Authors' calculations based on CBO data.

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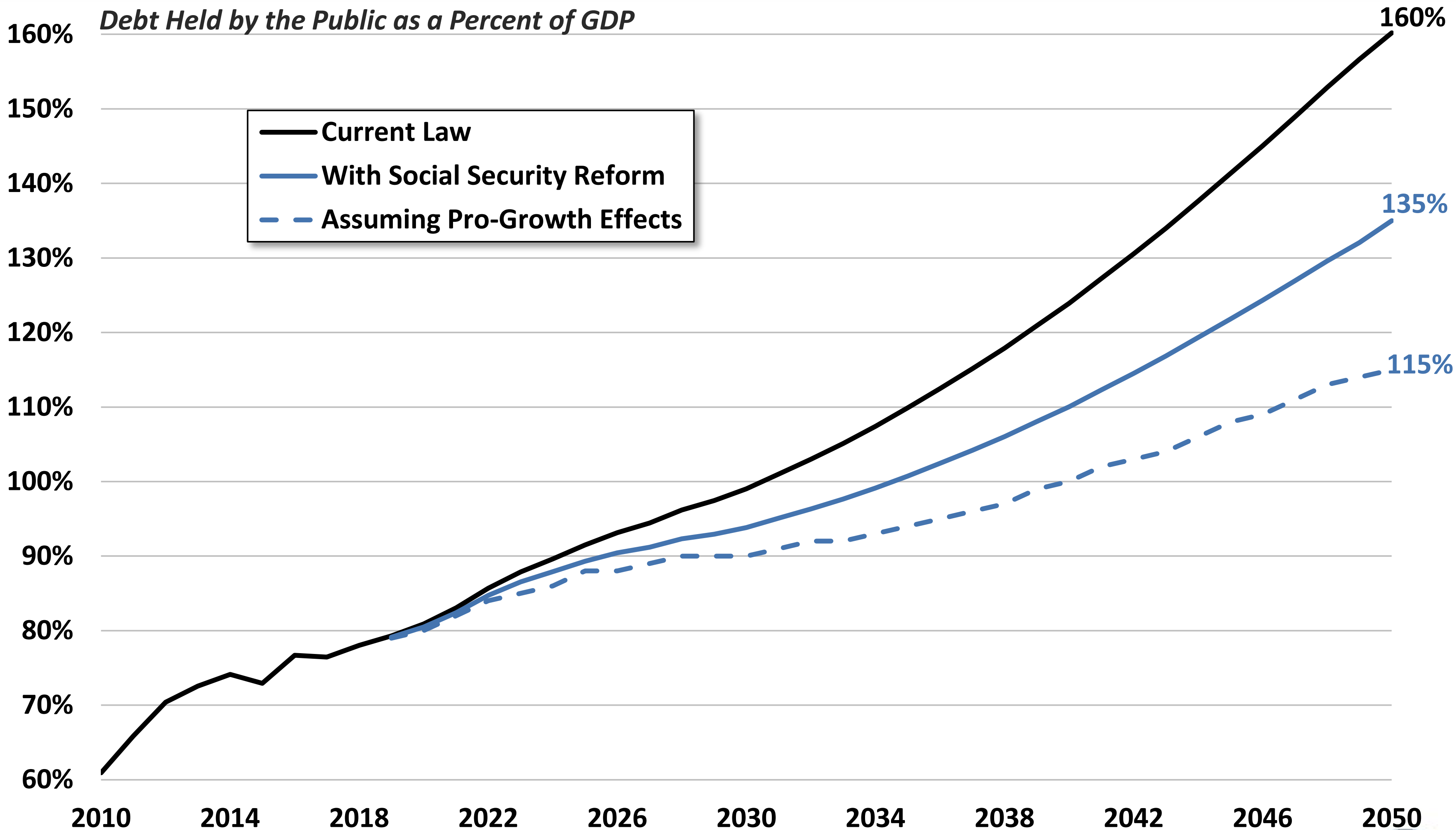
Pro-Growth Social Security Reform Would Slow the Growth of the National Debt



Source: Authors' calculations based on CBO and SSA data.

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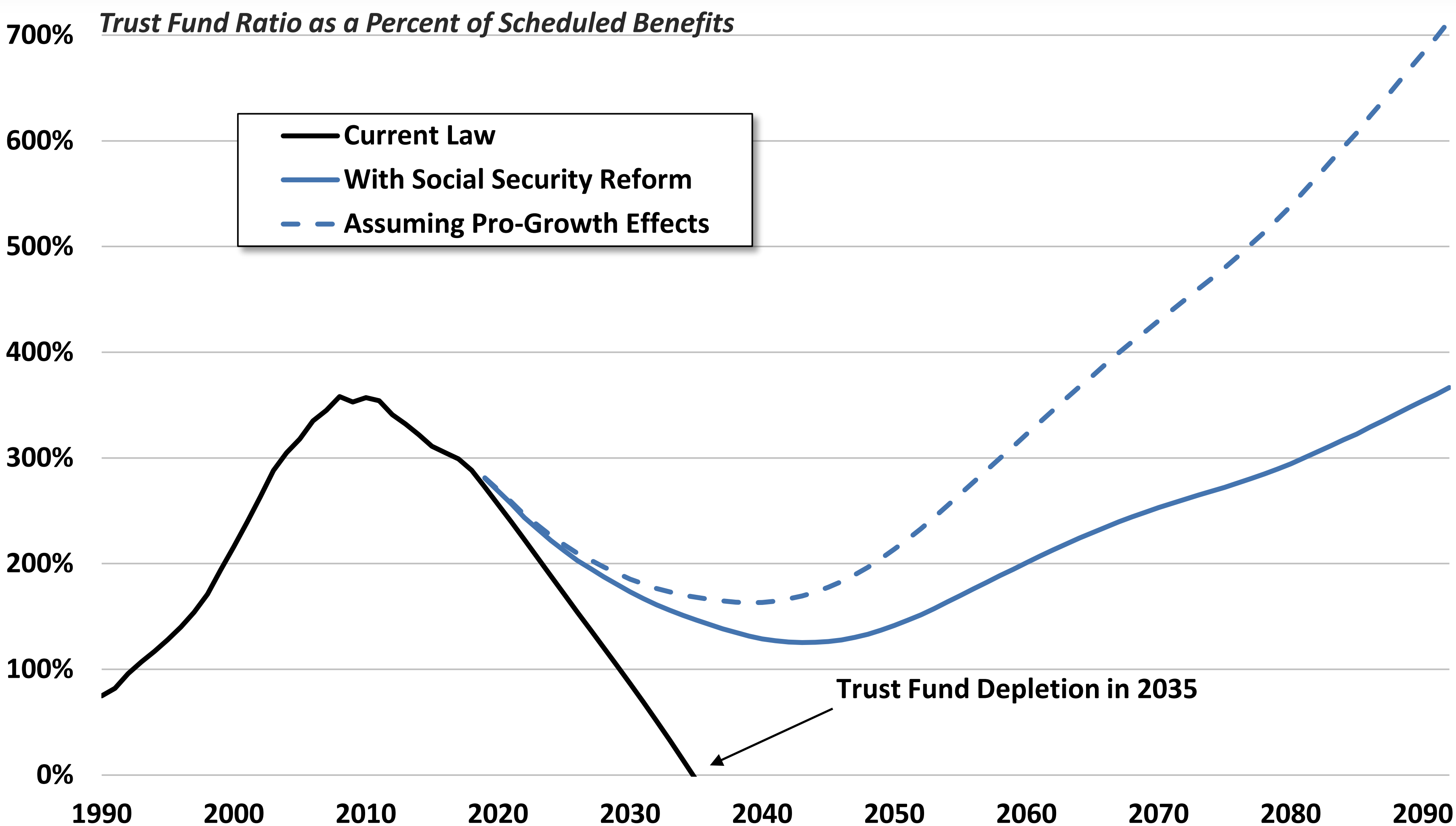
Pro-Growth Social Security Reform Would Attain Sustainable Solvency



Source: SSA and Authors' calculations.

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Pro-Growth Social Security Reform Would Improve Retirement Security

Policy Change	Low Income	Middle Income	High Income
Avoid 21% Benefit Cut from Insolvency	↑	↑	↑
Increase Retirement Ages and Offer 62-PPB	↑	↓	↓
Count All Years of Earnings and Calculate Benefits Annually	↓	*	*
Adopt More Progressive Benefit Formula	↑	↓	↓
Adopt Chained CPI to Calculate COLAs	↓	↓	↓
Broaden the Payroll Tax Base and Increase the Taxable Maximum	*	↑	↑
Offer Supplemental Retirement Accounts (SRAs)	↑	↑	↑
Returns to Delayed Retirement	↑	↑	↑

Note: arrows are in the direction of estimated change in progressivity; size is a rough estimation of magnitude.
** denotes estimate of marginal change or unclear change.*

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Additional Policies Could Further Boost Growth and Improve Social Security

- ❑Reform Immigration Laws
- ❑Repeal the Social Security Earnings Test
- ❑Modify Actuarial Reductions for Early Retirement
- ❑Improve Auxiliary Benefits to Reward Work
- ❑Enact Disability Solutions to Promote Return to and Remain at Work
- ❑Adopt a More Pro-Growth Payroll Tax
- ❑Reassess Retirement Ages Government-Wide

For More Information

- "Promoting Economic Growth through Social Security Reform": http://www.crfb.org/progrowthSSreform
- The Social Security Reformer: http://www.socialsecurityreformer.org/
- How Old Will You Be When Social Security's Funds Run Out?: http://www.crfb.org/blogs/how-old-will-you-be-when-social-securitys-funds-run-out