STRENGTHEN SOCIAL SECURITY
...don't cut it.

Reframing the Social Security Debate:
Social Security is the Solution to the Retirement Income Crisis

The current Washington debate over Social Security in the context of deficit reduction has a discordant ring for the vast majority of Americans, according to multiple polls. Having paid into Social Security throughout their working lives, workers know it is an earned benefit, not a government giveaway. They recognize that its benefits are modest but vital. And they also know from their own experience that America is facing a formidable retirement security crisis in the coming decades. What would resonate with voters is acknowledging the retirement income crisis and presenting Social Security as the solution that it in fact is. This paper briefly sketches the scope of the crisis and explains why increasing Social Security is the solution.

The Center for Retirement Research at Boston College has estimated that, prior to the so-called Great Recession, 43% of households will not be able to maintain their standards of living during their retirement years.[1] The percentage rises to 61% when the costs of health care and long-term care are taken into account.[2] Since the Great Recession, that 43% figure has increased to 53%.[3]

The Center also estimates that the country as a whole faces an aggregate "retirement income deficit" – the gap between what we have saved through Social Security, employer pensions, 401(k)s, home equity, and other forms of saving and what we will need to maintain our standard of living in retirement – of $6.6 trillion.[4] This deficit can be traced to four factors:

Employer-based solutions provide significant income to only a fraction of the elderly
In 2011, less than half (48.8%) of all private sector workers worked for an employer sponsoring a retirement plan, leaving 55.5 million workers without the option of even enrolling in one.[5] Among the minority of households who had a 401(k) plan in 2010, the median household headed by a person aged 55-64 had a combined 401(k)/IRA balance of only $120,000 – enough to purchase an inflation-indexed lifetime annuity of less than $600/month.[6]

Moreover, the distributional dynamics of these private sources of retirement income are extremely skewed towards the top quintile of the income spectrum. Even if we look at data from before the Great Recession, the average annual benefit (pension and 401[k] combined) for the highest income quintile (top 20%) was 150 times as large as that of the lowest quintile: those in the top quintile received about $16,000 per year, those in the lowest quintile about $100 per year.[7] Three-fifths of retirees across the income spectrum received less than $142/month in employer-based pension benefits.

With stagnating wages, many working Americans have been unable to save for retirement or even more pressing needs

Meager personal savings outside of employer-sponsored retirement plans are another reason why a majority of working Americans risk being unable to maintain their standard of living in retirement. Since the 1970s, real wages of all but the top 1% of U.S. households have stagnated, even as more and more women have joined the workforce.[8] From 1979 until the eve of the Great Recession in 2007, the top 1% received almost two-fifths of all gains in household income,[9] while men in the bottom 60% saw their real wages decline.[10] The Great Recession of 2008-09 and the high unemployment that has persisted ever since have further undermined workers' savings and net worth, through lost wages for the unemployed, declining home values, and the need to cash out or borrow from 401(k) plans. Today, about half of all workers have personal savings of less than $10,000.[11] For Americans as a whole, household wealth (from all sources) has dropped 12% since 2007, even after the rebound of 2010/11.[12]

Home equity is no longer as reliable of a source of savings for retirement as it once was

Homeownership is becoming less common**.** The official homeownership rate is now 65.5%, down from a peak of 69.2% in the last quarter of 2004.[13] When one excludes homes that are in foreclosure or delinquency, the homeownership rate drops to 62.1%, the lowest it's been since 1965.[14] Home values have sustained losses that will last well into the retirement of today's middle-aged workers. Moreover, over the last 30 years homeownership rates for 25-to-34 year olds and 35-to-44 year olds have declined 9.6 and 9 percentage points, respectively.[15] Hence independently of the Great Recession, home equity's role in retirement security can be expected to decline in the coming decades.

Social Security benefits will have declined 25% by 2030

Social Security benefits are modest, averaging just $14,900/year for retirees. The 1983 reforms cut Social Security benefits significantly by raising the retirement age to 67 by 2027, delaying the cost of living adjustment by 6 months, and taxing up to half of benefits for upper-income beneficiaries. Benefit checks will continue to shrink in the decades to come as the retirement age increase takes full effect, and Medicare Part B and Part D premiums continue to rise. By 2030, the share of pre-retirement earnings that Social Security checks replace at age 65 will be 25% less than in 1983.[16]

How can Congress best alleviate the retirement income crisis?

"Incentivizing" working longer is not a realistic solution for most workers

Some believe working longer is a solution to the retirement income crisis. But this overlooks several facts. Even with legal prohibitions on age discrimination, it is hard for older workers to find employment, once they lose jobs. Indeed, Social Security already incentivizes working longer, not only because its benefits are so modest but also because its benefit formula reduces benefits for early retirement and increases them by 8% for each year of work beyond the normal retirement age, up to age 70.[17] Even with these strong incentives and protections, the majority of workers retire at age 62. Working longer is not an option for many older low and middle-income workers. Forty-five percent of workers aged 62-65 and 46% of workers aged 66-69 work in physically demanding jobs or under difficult conditions – for example, as janitors, home health care workers, or cooks.[18] Workers in these jobs often have difficulty continuing to work into their late 60s. Furthermore, 20-30% of older workers have work-limiting health conditions, and 20% provide care to a family member.[19] In short, most of those who can work longer already do. While encouraging and supporting work at older ages is sensible policy, "incentivizing" it by reducing Social Security's already modest benefits is unlikely to achieve the desired result and would punish the many older Americans who are already struggling to juggle multiple challenges in their lives. For this reason, politicians who advocate raising the retirement age risk being perceived as out of touch by a large segment of the electorate.[20]

Expanding 401(k) and IRA plans is not cost-effective
Using scarce taxpayer dollars to further subsidize the highly unequally distributed benefits of 401(k)s and IRAs is not an efficient approach to the problem. Wealthier households can afford to contribute more and hence will continue to receive the bulk of 401(k) and IRA tax subsidies. Most middle class and poor households will not be able to afford to contribute enough to render them secure in retirement.

Expanding Social Security is the best solution
Social Security is more efficient, fair, universal and secure than its private sector alternatives are or could be, however constructed. Administrative fees are less than 1%, vs. the up to 30% creamed off 401(k) plans in profit and fees.[21] Workers cannot withdraw this money early or cash it out in a lump sum (which most workers do with 401[k]s) [22] at age 65 and spend it, leaving them without a secure income in their later years. And workers bear no risk of their investment tanking just as they need to retire. It also provides protection against disability or premature death.

The majority of Americans who will be retiring in the coming decades will have been treading water economically during much of their working lives, often struggling to pay off a mortgage (if fortunate enough to own a home), paying rising tuition costs for their children, paying off their own student loans, and paying down credit card debt accumulated in an attempt to maintain their tenuous standard of living. Voters expect politicians to acknowledge this crisis and propose solutions. The crisis can be addressed most effectively by expanding Social Security and addressing its projected shortfall, not by cutting benefits, which would only compound the crisis. There are numerous ways to pay for currently scheduled and increased benefits, without cutting anyone's benefits and without imposing large additional costs on anyone.

The first step is to reframe the debate to focus on retirement crisis. Once that is done, Social Security's obvious superiority is easy to demonstrate.

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