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Senators' Social Security Bill Trumps Empty Obama Rhetoric

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As an antidote to months of Obama Administration rhetoric that Social Security "isn't the problem,"[1] three Senators have produced legislation that both recognizes the program's financial realities and would fix it for the next 75 years. The Social Security Solvency and Sustainability Act, S. 804, introduced by Senators Lindsey Graham (R–SC), Rand Paul (R–KY), and Mike Lee (R–UT), would gradually increase the early and normal retirement ages and gradually reduce benefits for the highest-income retirees.

Rather than ducking a tough problem, the three Senators recognize that delaying Social Security reforms will cause deeper cuts in benefits or greater tax increases down the road. Doing nothing merely makes 22 percent across-the-board cuts in everyone's Social Security benefits all the more likely.[2] The question becomes even more urgent now that Social Security is projected to run permanent cash flow deficits for at least the next 75 years.[3]

Denying the Problem. Meanwhile, the Obama Administration continues its shortsighted denial of the problems that Social Security faces. In his State of the Union Address, the President called for a bipartisan solution, but then he effectively took everything except raising taxes off the table.[4] Unfortunately for the President, increasing taxes just delays major across-the-board benefit cuts—it does not prevent them.[5]

Then Obama's head of the Office of Management and Budget (OMB), Jack Lew, declared in an op-ed[6] that fixing Social Security should not be part of discussions about this country's deficit problems because "Social Security benefits are entirely self-financing." In discussing the diversion of federal tax money to repay the bonds in the Social Security trust fund, Lew asserted that, "Now that we are paying Social Security back, the problem is not with Social Security, but with the rest of the budget."

Lew's statement is in sharp contrast to OMB's 2000 description of the Social Security trust fund:

> These balances are available to finance future benefit payments…only in a bookkeeping sense. They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits, or other expenditures.[7]

This statement makes it clear that repaying trust fund bonds increases the federal deficit. The OMB director at the time of the 2000 statement on the trust fund was the same Jack Lew.

Courage to Face the Problem. In sharp contrast, the Graham–Paul–Lee bill takes a realistic view of Social Security's problems and proposes

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concrete solutions that would preserve its benefits for most Americans.[8]

First, S. 804 would gradually increase Social Security's full-benefit age starting in 2017, from today's age 66 to age 70 for Americans born on or after 1970. As with the earlier increase from 65 to 66, the full retirement age would increase by three months every calendar year until it reaches age 70. At the same time, the legislation would increase the early-benefit age starting in 2021, from today's age 62 to age 64 for taxpayers born on or after 1966. Once the new early-benefit and full-benefit ages have been reached, both ages would be indexed for changes in longevity, a move that is expected to add an additional month every two years. These changes reflect longevity improvements that have already taken place[9] and recognize that Social Security cannot afford to pay benefits for longer and longer time periods.

Second, their proposal would gradually change the benefit formula starting in 2017 so that upper-income Americans would start to receive smaller benefits while benefits for those with lower incomes would remain the same. Under this change, all who qualify for Social Security benefits would continue to receive a Social Security check, but scarce resources would be concentrated on those who need them the most.

The change would shift the benefit formula that divides a worker's career income over a 35-year period. Instead of dividing the career into three segments, it would create four segments. Today, retirees receive a benefit equal to 90 percent of their first $760 of monthly earnings, 32 percent of the amount between approximately $760 and $4,600, and 15 percent of the amount above about $4,600 a month. The new system after 2055 will pay a benefit equal to 90 percent of a worker's first $760 of indexed career earnings, 32 percent of the amount between about $760 and $2,500, 9.2 percent of the amount between about $2,500 and $4,600, and 4.3 percent of earnings above about $4,600.

A Modest Effect on Benefits. The practical effect of the Graham–Paul–Lee proposal would be to ensure that almost all Americans are protected against poverty in retirement. Beyond that, most would also have to take additional steps through employer-sponsored retirement savings plans to guarantee a comfortable retirement. If the plan is enacted, Americans with average annual lifetime earnings under $43,000 would be affected only by the change in retirement ages.

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1. Heidi Przybyla, "Obama Aides Say Social Security No Risk to U.S. Finances Amid Deficit Spat," *Bloomberg*, February 25, 2011, at *http://www.bloomberg.com/news/2011-02-25/obama-aides-say-social-security-no-risk-to-u-s-finances-amid-deficit-spat.html* (June 9, 2011).
2. David C. John, "Guaranteed 22 Percent Benefit Cuts If Social Security Is Taken off the Table," Heritage Foundation *WebMemo* No. 3026, September 27, 2010, at *http://www.heritage.org/Research/Reports/2010/09/Guaranteed-22-Percent-Benefit-Cuts-If-Social-Security-Is-Taken-off-the-Table*.
3. David C. John, "Social Security 2011 Trustees Report Shows Permanent Deficits," Heritage Foundation *WebMemo* No. 3256, May 16, 2011, at *http://www.heritage.org/Research/Reports/2011/05/Social-Security-2011-Trustees-Report-Shows-Permanent-Deficits*.
4. Conn Carroll, "Reaction Roundup: Heritage Responds to the State of the Union," Heritage Foundation *Foundry*, January 25, 2011, at *http://blog.heritage.org/2011/01/25/reaction-roundup-heritage-responds-to-the-state-of-the-union-2*.
5. U.S. Social Security Administration, "Financial Estimates for the OASDI Trust Fund Program," at *http://socialsecurity.gov/oact/solvency/provisions/tables/table_run273.html* (June 10, 2011).
6. Jacob Lew, "Opposing View: Social Security Isn't the Problem," *USA Today*, February 21, 2011, at *http://www.usatoday.com/news/opinion/editorials/2011-02-22-editorial22_ST1_N.htm* (June 9, 2011).
7. U.S. Office of Management and Budget, *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2000* (Washington, D.C.: U.S. Government Printing Office, 1999), p. 337.
8. U.S. Social Security Administration, Office of the Chief Actuary, "Estimated Financial Effects of 'The Social Security Solvency and Sustainability Act,'" April 13, 2011, at *http://www.socialsecurity.gov/oact/solvency/index.html* (June 9, 2011).
9. David C. John, "Time to Raise Social Security's Retirement Age," Heritage Foundation *Backgrounder* No. 2492, November 22, 2010, at *http://www.heritage.org/Research/Reports/2010/11/Time-to-Raise-Social-Securitys-Retirement-Age*.

The highest-income taxpayers would see the greatest reduction in their benefits from the portion of the proposal that changes the benefit formula.

- New Social Security recipients with average career earnings at or close to $106,000 would see an 11.2 percent reduction in benefits from the formula change in 2030, rising to a reduction of 36 percent for those retiring in 2080.
- Retirees with average annual career earnings of about $70,000 would see reductions of 8.8 percent for those retiring in 2030, rising to 28.4 percent reductions for those retiring in 2080.
- Those with annual average career earnings of more than $43,000 would see reductions of 4.5 percent for those retiring in 2030, rising to 14.5 percent for those retiring in 2080.
- Those with average annual career earnings below $43,000 would not be affected at all by the change in the benefit formula.

This additional reduction for upper-income taxpayers is only fair, as they are much more likely to have significant retirement savings. There is little reason why an average-income worker should have to pay taxes to help provide benefits to wealthier individuals who have the ability to provide for themselves.

A Responsible Approach—or Benefit Cuts for All. The Graham–Paul–Lee bill greatly improves Social Security's financial future without tax increases. If it became law, Social Security would still run deficits, but they would be much smaller in the near term and would end permanently after 2052. This is far more responsible than the results of what appears to be the Obama Administration's preferred scenario: perpetual deficits for at least the next 75 years and 22 percent benefit cuts for all after 2036.

Hiding your head in the sand, as the Administration has done so far, does not solve a problem. Fixing Social Security requires the kind of leadership that is willing to face facts and make difficult decisions.

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