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The Impact of Proposed Changes to Social Security On American Retirement Security

Presented at

"The President's and Other Bipartisan Entitlement Reform Proposals"

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Submitted by
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Thank you for inviting me to speak with you today. I am the Senior Policy Advisor for Economic Security Policy at the National Council of La Raza (NCLR), the largest national Hispanic civil rights and advocacy organization in the United States, an American institution recognized in the book Forces for Good as one of the best nonprofits in the nation. We represent some 300 Affiliates—local, community-based organizations in 41 states, the District of Columbia, and Puerto Rico—that provide education, health, housing, workforce development, and other services to millions of Americans and immigrants annually. NCLR is dedicated to improving opportunities for Hispanic Americans. NCLR has been providing policy analysis, advocacy, and public education on retirement security issues affecting Hispanic Americans for over a decade.

In addition to my position at NCLR, I am also a member of the Commission to Modernize Social Security, which produced a plan to improve Social Security in 2011.

The focus of today's hearing is to discuss options to strengthen Social Security. In my testimony, I will make three key points:

> 1) Social Security benefits are modest yet critical to the vast majority of seniors, especially in a time when pension coverage is falling;
>
> 2) Proposed benefit cuts will cause deep harm to the retirement security of almost all Americans; and
>
> 3) We need meaningful benefit enhancements that can improve the adequacy of benefits for the most vulnerable.

I will close my remarks with recommendations on how we can improve Social Security.

1. Quick Facts about Social Security Beneficiaries

Of the 56 million beneficiaries of Social Security, 70% are retirees, 11% are survivors of deceased workers and 19% are disabled workers or their family members.

Social Security benefits are modest. The average Social Security benefit of a typical retiree (medium worker) was $1,234 per month or $14,808 annually in 2012.[1] Differentiated by gender, the average Social Security benefit for women 65 and older is about $12,700 per year, compared to about $16,700 for men 65 and older.[2]

In 2011, the average annual Social Security income received by African American men 65 years and older was $13,458 and for women it was $12,173.[3] Average Social Security benefits for Hispanic men 65 and older were $12,921 and $10,438 for Hispanic women in 2011.[4]

These average benefits replace only 41% of previous earnings for the medium worker and are the 5th lowest in terms of earnings replacement ratios among all of the developed countries in the

Organization for Economic Co-operation and Development (OECD).[5] These benefits are indeed modest, yet very important to those who depend on them.

Social Security beneficiaries rely heavily on their benefits. For example, two-thirds (65.3%) of beneficiaries rely on Social Security for at least half of their income. Among all elderly beneficiaries, over one in three (36%) rely on Social Security for almost all (at least 90%) of their income. Among seniors of color, 55% of Hispanics, 49% of African Americans, and 42% of Asians relied on Social Security for almost all their income in 2010.[6] These figures are higher than those of the population as a whole.

Highly reliant low-income workers face inadequate benefits. For low-income earners, 75% rely on Social Security for all of their income. Yet, Social Security replaces only 40% of prior earnings for low-income workers who retire at age 62. For those retiring at 65, benefits replace 58% of prior earnings. Social Security benefits for these retirees are further reduced by deductions for Medicare premiums, which affect half of low-income earners.[7]

Social Security is an important source of income for the vast majority of seniors. In 2008, for example, the lower income seniors (those with incomes below $19,880) received more than 80% of their total income from Social Security. Middle income seniors rely on Social Security benefits as well: two-thirds of their income comes from Social Security. Median total income was only $20,000 for middle income seniors in 2008.[8] Those in the next-to-highest income group (those with income between $31,300 and $55,890) still depended on Social Security for nearly half their income (44%). Only the highest quintile of retirees had a lower reliance (18%) on Social Security, in part because almost half continued working past age 65.[9]

Higher income seniors tend to have more income from pensions, other assets, and earnings from work after age 65 in comparison to lower income seniors. Seniors with the lowest income are least likely to have a pension. Only 3% of seniors in this category receive retirement income from pensions and 2% receive income from assets. Middle-income seniors had 16% of their income from pensions, 10% from earnings, and 7% from assets. Upper middle-income seniors had 26% of income from pensions, 19% from earnings, and 8% from assets. The top one-fifth of seniors had 18% of their income from pensions, 44% from earnings, and 18% from assets.[10]

Stagnating wages harm workers' ability to save for retirement. Over the past 60 years, real hourly compensation for production non-supervisory workers has risen by 113%, while the productivity of these workers has risen by 254%. Most of the real wage increases for these workers occurred before 1970, with real wage growth flattening since then, despite continued increases in productivity.[11] Because Social Security benefits are tied to earnings, benefits will stagnate along with earnings. Moreover, workers today have relatively less income available to save than they would have had if wages had continued climbing in line with productivity.

Pension coverage is getting weaker, clouding the outlook for future retirement security. Pension coverage for all workers dropped from 58% in 1986 to 54% in 2011. Workers of color are much less likely to have access to a pension. Half of Black workers and one-third of Hispanic workers have access to a pension plan through their work, compared to 60% of White workers. Workers with lower levels of education, who are younger, who earn less, or who work for smaller firms, or certain industries are less likely to have access to a retirement savings plan at work.[12]

Pension coverage in the private sector is dropping fast. More than half of private sector workers age 25 to 64 now do not have access to any type of pension plan at work. Pension coverage among private sector workers declined markedly from 50% in 1979 to 42% in 2010. Loss of pension coverage has hit American men the hardest: pension coverage for American men fell from 60% in 1979 to 43% in 2010. Women had a modest increase in their pension coverage from 38% to 41% over the same time frame.[13]

In addition, the quality of the pension coverage has declined. In 1980, 39% of workers with pension plans had a defined benefit (DB) pension, while 8% participated in a defined contribution (DC) plan. By 2011, this had flipped so that 18% of workers were in a DB plan, and 31% were now in a DC plan.[14] The difference is that DB plans have defined benefits during retirement, have professionally managed accounts, and typically have annuitized payouts over a lifetime, whereas DC plans do not have these features.

Workers in DC plans have inadequate retirement savings. For households approaching retirement age and with positive 401K balances average retirement assets total approximately $120,000, which translates to only $575 in monthly income.[15] Median net worth for households, which includes the value of all assets including retirement savings and homes minus all debts, varies significantly by race and ethnicity with balances of $110,729 for Whites, $69,590 for Asians, $7,424 for Hispanics, and $4,955 for Blacks.[16]

With this backdrop—high dependence on modest Social Security benefits, stagnating wages, a faltering private pension system, a move away from more secure defined-benefit pension plans—our nation should not consider making Social Security benefits even lower. Cutting Social Security benefits will lead to even greater financial insecurity for future generations.

2. Impact of benefit cuts

A. Progressive Price Index Option: A Large Benefit Cut

The Progressive Price Indexing (PPI) option deeply cuts benefits for seniors with already modest incomes. Under current law, *initial* benefits for Social Security are tied to the growth of average wages. Wages typically increase faster than the prices of goods and services. The PPI option would instead tie initial Social Security benefit levels to the slower growing price inflation index, resulting in a sizeable benefit cut.[17]

For example, Representative Paul Ryan proposed a Progressive Price Index option in his 2010 budget entitled *Roadmap for America's Future*. This proposal would subject 70% of all workers to the PPI, including all workers with earnings above $22,000 in today's dollars. The medium earner (now earning $43,000 annually) in the future would see his or her benefits reduced by 28% due to the PPI. Thus, the average monthly benefit level of $1,249 would fall to $888 for future retirees. The Ryan PPI proposal exempted the bottom 30% of earners (those with average lifetime earnings below $22,000) from the PPI.[18] Yet, workers who are nearly poor, those with average lifetime earnings of $24,000, were not exempted. These nearly poor workers would be subject to a drastic PPI benefit cut.

A recent poll found that 84% of Americans say that Social Security does not provide enough income to retirees, and believe we should consider raising future Social Security benefits in order to provide a more secure retirement for working Americans.[19] Yet proposals like the PPI would reduce benefits by up to 28% for the average worker retiring in the future.

B. Retirement Age Increase: Another Benefit Cut

Increasing the retirement age is another way of cutting benefits for all workers, including vulnerable people. Currently, the full retirement age is 66, but will rise to age 67 for people born after 1959. Various proposals have been offered to raise the age still further to age 69 or 70. Each one-year increase is equivalent to a benefit cut of approximately 6.5% to 7%.[20] While these proposals typically still allow a person to retire at the earliest eligible age of 62, the retiree would have to accept a larger cut in benefits to retire at this earliest age.

Cuts would occur regardless of the age the retiree begins to collect benefits. Under current law with the full retirement age at 66, a worker who retires at age 62 would have to accept a 25% reduction in benefits: $750 instead of $1,000 in monthly benefits. If the retirement age were to increase to age 69, monthly benefits would drop further to $610 for this 62 year-old retiree. Similarly, with the full retirement age at 66, a person who begins collecting benefits at age 69 would receive $1,240; however, if the full retirement age were changed to 69, these benefits would drop to $1,000.[21]

The *Roadmap for America's Future* proposed combining the PPI option with increasing the retirement age by two years, for a 39% benefit cut in total for the medium wage earner. Thus, average Social Security benefits would be cut from $1,249 under current law to $759 for those retiring in 2080.[22]

Proposals to enact longevity indexing are also benefit cuts. The longevity index seeks to disguise a direct increase in the eligibility age by changing the benefit formula in a way that mimics the benefit-reduction caused by raising the age directly.

C. Consequences of Proposed Benefit Cuts

The main consequence of these proposed benefit cuts is that vulnerable people will be pushed into greater poverty and hunger. NCLR held six town halls with Latino seniors in 2011 to hear their views on possible cuts to Social Security. One senior in Los Angeles, who spoke from his wheelchair, shared that he lives alone on $750 per month; he cannot afford to buy food after paying his rent and other bills. While he is ashamed, he said he has no other choice than to rely on local food banks for survival. He stressed that the millions of others like him cannot afford any further reductions to already low benefits. If widespread benefit cuts take effect, regardless of their justification, more vulnerable people like this gentleman will face increasingly desperate circumstances. Basic living expenses do not decline simply because the overall population is living longer.

A second problem with increasing the retirement age relates to the variability of life expectancy among subgroups in the population. For example, men in the top half of the income distribution gained six years of life expectancy in the past 30 years, whereas men in the bottom half have gained only 1.3 years in this same timeframe.[23] African Americans and Native Americans tend to have significantly shorter life expectancies than other Americans, meaning they are more likely to claim benefits for a shorter time period or die before receiving any benefits at all.[24] Life expectancy among less educated Whites has actually fallen between 1990 and 2008; white women without a high school diploma lost five years of life, while White men also without a high school diploma lost three years.[25] Linking Social Security benefits to overall longevity wrongly assumes that life expectancy has risen equally for everyone.

A third consequence of increasing the retirement age is that this is an added burden on older workers in physically demanding jobs. Certain demographic groups are more likely to be engaged in jobs that have difficult working conditions than others. These groups include men, Hispanics, the least educated, immigrants and the lowest wage earners. For example, older workers with less than a high school education are much more likely (77%) to have a physically demanding job than those with an advanced degree (22%). Immigrant workers age 58 and older are more likely (48%) than non-immigrant workers to work in a physically demanding job. Finally, about 62% of older Latino men worked in physically demanding jobs.[26] Related to these trends, the Government Accounting Organization found that older Latino workers (48%) and African American workers (38%) were more likely than whites (20%) to report being in fair or poor health.[27] Delaying the full retirement age will place a great hardship on these workers.

Many of the proposals mentioned above which increase the retirement age, do so at the expense of younger Americans who are more racially diverse. We will be leaving our children with an increasingly inadequate future social insurance system.

D. Public Opinion Opposes Benefit Cuts and Supports Strengthening the System

Given all these negative consequences, it is no wonder that the majority of Americans do not support increasing the retirement age or benefit cuts in general as the way to address Social Security's long-term financing gap. When asked in a 2009 survey how they would prefer to protect Social Security's ability to continue paying out benefits only 10% of Americans supported cutting benefits and just 31% supported increasing the retirement age.[28] In a more recent survey, only 17% of Republicans and 3% of Democrats favored cuts to Social Security.[29] Another recent survey found that rather than maintain the status quo, 71% of Americans would prefer a package of changes that increases Social Security revenues, pays for benefit improvements, and eliminates more than 100% of the projected financing gap.[30]

3. Meaningful Social Security Benefit Improvements are Needed

Benefit increases that improve the adequacy of benefits for those with the lowest incomes are needed; but these benefit increases must be real and meaningful. Benefit increases that are only proposed to lessen the impact of a benefit cut do not constitute benefit improvements. For example, adding an increase in benefits to seniors at age 85 is an excellent proposal on its own; however, this proposal has been tied to a benefit cut known as the chained-CPI. Combining this benefit increase with the benefit cut seniors will feel from a chained CPI still results in a 2% average cut. Even lower income seniors would still experience a cut of about 1.5% through age 81.[31]

Structuring a benefit improvement so that few people will qualify is also not a valid benefit improvement. For example, the National Commission on Fiscal Responsibility and Reform proposed to enhance the Social Security minimum benefit so that long-time low-wage workers may have a benefit level that leaves them above the poverty line instead of below, as is currently the case. However, the Commission plan requires that a low-wage worker have 30 years in covered earnings in order to qualify for the full benefit enhancement, with a partial enhancement for those with fewer years in their work history. Yet, low-income workers and those with less education have the fewest years in covered earnings. According to an analysis conducted by the Urban Institute, this 30 year-requirement would disqualify almost all (80% to 95%) low-income workers from receiving the full benefit enhancement.[32]

4. Recommendations

The following recommendations are based on NCLR's Principles on Social Security.[33]

Strengthen Social Security. Social Security is critical to the well-being of the vast majority of seniors. Take steps to strengthen the Social Security system so that it is available and strong for future generations.

Include revenue options. Revenue should be a meaningful part of the solution to ensure long-term solvency of the program. Revenue increases can make harmful benefit cuts unnecessary.

Improve adequacy. Increase the adequacy of Social Security benefits so that low-income workers can retire with benefits that keep them out of poverty. Protect low- and moderate-income people from benefit cuts.

Increase access. Increase access to Social Security for workers who currently have difficulty accessing benefits and coverage, such as legal immigrant domestic workers and farm workers.

Maintain what works. Retain the progressive nature of Social Security, but do not make it a means-tested program. Keep the program as social insurance and maintain a guaranteed benefit. Keep it universal. Retain the value that those that pay into the system earn access to its benefits.

Ensure generational equity. Distribute the burden of achieving long-term solvency within Social Security equitably across generations. This means not making today's young people bear the entire burden of achieving solvency.

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