



Statement before the House Committee on Ways and Means
Subcommittee on Social Security

Social Security: The Need for Evidence-Based Policymaking

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Summary Points

- Social Security is significantly underfunded. To pay full promised benefits over the next 75 years would demand a 21 to 32 percent increase in Social Security tax revenues. The need for reform is clear.
- There is a case for targeted benefit increases to improve social protections for groups such as widows or low-earning workers.
- However, the case for across-the-board benefit increases is remarkably weak. Retiree incomes are rising substantially faster than working-age households' earnings. Retirees at all income levels have "replacement rates" approaching 100 percent, far higher than financial planners deem necessary.
- Low-income retirees have benefited from increases in Social Security benefit levels over time. This has helped reduce over-65 poverty from 9.7% in 1990 to only 6.7% in 2012. Poverty in old age is substantially lower than at other ages.
- Middle- and upper-income retirees have supplemented Social Security with rising private retirement plan benefits: more retirees are collecting higher benefits from private retirement plans than ever before. There is no rationale for raising taxes to boost Social Security benefits for middle- and upper-income retirees.
- Raising Social Security benefits for very low-earning workers would provide them with Social Security benefits that exceed their pre-retirement earnings. This would eliminate any reason to save and would encourage early retirement.
- Expanding Social Security requires significant tax increases that will impact all Americans. Low-income households might take on additional debt to maintain their lifestyle. High-income Americans would be subject to one of the highest marginal tax rates in the OECD. Eliminating the payroll tax ceiling would increase Social Security tax revenues, but cause significant losses to federal income tax, Medicare tax and state income tax revenues.
- Despite claims of a "retirement crisis," Americans are world-class retirement savers. U.S. retirement plan assets as a percentage of GDP exceed all but a few countries worldwide. The median U.S. retiree has a disposable income on par with retirees in Switzerland.

All Americans Deserve a Secure Retirement

All Americans want a secure retirement for themselves and for their families, friends, and countrymen. To achieve that goal, America needs an evidence-based approach to retirement income policy: an approach based on facts rather than fears and data rather than anecdotes.

The U.S. retirement system seems fractured and it is far from perfect. But it also is flexible and innovative. Changes that are seen as harmful to retirement security, such as the shift from traditional pensions to 401(k)-type plans, have actually made retirement saving more widespread and boosted savings to levels far above those during the so-called “golden age” of defined benefit pensions. More Americans are saving more for retirement than ever before. Retirement incomes are rising rapidly for rich and poor retirees alike, even as poverty in old age has fallen to its lowest levels ever.

There is a threat to Americans’ retirement security, but it is not from households who haven’t saved enough in their 401(k)s. In fact, a 2017 World Economic Forum study concluded that only 15 percent of the total U.S., retirement savings gap was attributable to undersaving by households or underfunding of corporate pensions. The other 85 percent was from the government failing to fund the retirement benefits it has promised, from Social Security to public employee pensions at all levels of government.¹

Certain Social Security benefit increases are warranted and could improve the system. But middle and upper-income retirees do not need increased Social Security benefits. The more important task for Congress is to resolve Social Security’s long-term unfunded obligation, which has risen from \$3.7 trillion to \$12.2 trillion over the past decade.

In resolving Social Security’s funding shortfall, the policy debate is often between tax increases and benefit reductions. I generally favor the latter, as middle and upper-income households can and will increase their personal saving and delay retirement in order to make up for reductions to future benefits. Lower-income households are unlikely to respond as strongly, and I favor maintaining or even increasing benefits on the low end.

However, when we think about “benefit cuts” it is important to distinguish between reductions to benefits that have already been earned versus reductions to the rate at which employees earn future Social Security benefits. It is one thing to take away a benefit for which a worker has already paid payroll taxes, but another to recognize fiscal reality and change the terms of the deal going forward. We can afford to pay most of the benefits that have already accrued to Americans via their work and taxes. But we must be honest with Americans and tell them that, going forward, Social Security must adopt a more sustainable benefit formula.

America Needs Social Security Reform

Social Security is principally a “pay-as-you-go” program in which current taxes are immediately used to pay benefits for current retirees. As a result, Social Security’s funding is very sensitive

¹ World Economic Forum. “Global Pension Timebomb: Funding Gap Set to Dwarf World GDP.” 26 May 2017

to the number of workers paying in and the number of beneficiaries collecting money out. Currently, there are about three workers for each beneficiary. Due to low birth rates and rising longevity, in the future that worker-to-beneficiary ratio will fall to only two-to-one. This demographic math implies that, as a percentage of workers' wages, the cost of paying Social Security benefits will rise.

Two bodies make more detailed long term projections of Social Security's funding health: the Social Security Trustees and the Congressional Budget Office. The Social Security Trustees project that over the next 75 years Social Security is underfunded by an amount equal to 2.84 percent of taxable payroll. For simplicity, this figure implies that if the 12.4 percent Social Security payroll tax were immediately and permanently increased by 2.84 percentage points to 15.24 percent, the program's combined trust fund would remain solvent for 75 years, though not beyond. Put another way, Social Security is underfunded by about 17 percent over 75 years, which must be addressed by a combination of current or future revenue increases or benefit reductions.

The Congressional Budget Office projects a larger 75-year shortfall, measured at 4.4 percent of taxable payroll. This implies that Social Security is underfunded by 24% over the next 75 years.

The Social Security Advisory Board's 2015 Technical Panel on Assumptions and Methods gathered a group of experts to make recommendations to the SSA. The Technical Panel's recommended changes to the Trustees' assumptions would have produced a 75-year shortfall somewhere between the Trustees and the CBO in size. So while Social Security's future finances are inherently uncertain, we can be confident that a shortfall exists and that it is substantial in size.

There is no realistic chance that Social Security will "fix itself" via higher economic growth or other changes to the underlying factors that affect the program's finances. So America needs Social Security reform, and the sooner the better. Congress's failure to pass Social Security reform over the past thirty years has demonstrated poor stewardship of the federal government's largest program.

The question for today's hearing, however, is whether America needs Social Security benefit *increases*. While targeted benefit increases may be warranted, the evidence supporting across-the-board benefit increases is far weaker.

Targeted Benefit Increases May Be Warranted

While Americans may increase their retirement incomes by raising their retirement saving, there still is room for targeted Social Security benefit increases. Many of the benefit increases cited by today's other witnesses bear consideration. Among these are:

Increased widow's benefits: At the time a retiree becomes widowed, household Social Security benefits are reduced by between one-third and one-half, even though the widow(er)'s cost of living does not decline by that amount. Increasing the Social Security survivor's benefit to 75 percent of the couple's prior benefit could prevent hardship at a reasonable cost to the program.

Benefit increases for low-wage workers: A number of reform proposals from both Democrats and Republicans would boost benefits for low-earning workers with long working careers. These proposals have the advantage of focusing benefit increases on low earners without also boosting benefits for middle and high-income retirees. For instance, both the Social Security 2100 Act and former Rep. Sam Johnson’s “Social Security Reform Act of 2016” contained provisions to boost benefits for retirees who worked many years at low wages, although these provisions functioned in different ways.

At the same time, benefit increases for low-wage, long-career employees target a population that is very small. Fortunately, very few Americans are forced to work long careers at very low wages. However, a larger group that reaches retirement with low benefits and poor savings is workers with shorter working careers. These retirees would benefit little from long-career focused proposals. In assisting these shorter-career workers, who are likely at greater risk of poverty in old age, policymakers need to balance Social Security’s “earned benefit” and its social insurance components. There is no obvious answer, but the trade-off should be borne in mind.

Cost of Living Adjustments: A case can be made for raising Social Security COLAs. Just not the case that’s actually *being* made.

Social Security is a social insurance program, and insurance improves our well-being by making payments at times and to participants who need them the most. Thus, it would not be unreasonable for Social Security to focus more of its resources on the very old, who cannot work and whose other assets may have been drawn down, and less on younger beneficiaries who could continue to work if needed. Thus, reducing initial Social Security benefits and then applying a larger COLA to those benefits over time could make Social Security more effective in protecting retirees.

However, the case we most often hear is that the CPI-W used to set COLAs understates’ seniors’ cost of living and needs to be increased simply to maintain the purchasing power of those benefits. That argument is weak, for several reasons. First, the CPI-W is known to suffer from “upper-level substitution bias,” a technical weakness that causes it to overstate the true rate of inflation. For that reason, the Congressional Budget Office, the Federal Reserve and other agencies use different measures, such as the PCE deflator and the CPI-U-RS that tend to show lower rates of inflation than the CPI-W used to set COLAs. Second, while the CPI-W does not account for retirees’ higher spending on health care, the CPI-W’s treatment of housing costs can make retirees seem poorer when in fact they are growing richer. When housing prices rise, the CPI-W counts that as an increase in the cost of living and Social Security COLAs rise accordingly. However, 82 percent of retirees own their own homes. This means that they are beneficiaries of an increase in the price of an asset they own, not consumers who must pay higher prices for housing.² From 1998 to 2018, the CPI-W net of housing costs grew by an annual rate of 1.9 percent, an annual difference of 0.3 percentage points versus the overall CPI-W. I am in favor of a CPI that accurately tracks changes in the costs of the things that retirees

² See Biggs, Andrew. “Rising Home Prices Cause False Increase In Retirees’ Cost Of Living.” Forbes.com. Oct 18, 2018.

actually purchase. However, my best guess is that an accurate measure of inflation in retirement would likely produce lower COLAs, not higher ones.

Most Americans, including most low-earners, have adequate retirement incomes

Many policymakers from across the political spectrum have proposed *targeted* benefit increases over the years. I have argued myself for increased benefits for low earners to produce a *true* minimum benefit that guarantees *all* retirees – not just a select few – from falling into poverty in retirement.³

But do retirees need *across-the-board* Social Security benefit increases? The answer is almost certainly no.

Retirement Incomes as Percent of Pre-Retirement Earnings			
	Percentile of income distribution		
	25th	50th (median)	75th
Average of 15 years prior to retirement (inflation-adjusted)	\$28,402	\$45,209	\$66,949
Income five years following retirement	\$26,553	\$42,334	\$64,346
“Replacement rate”	93%	94%	96%
Target replacement rate (from Myers, 1993)	80% to 85%	70% to 75%	65% to 70%
Source: Bee and Mitchell (2017). Census Bureau research based on IRS income tax data.			

Typical retirees at all income levels meet or exceed “replacement rates” of pre-retirement earnings that are recommended by experts. Recent Census Bureau research shows that the median retiree in 2012 had an income equal to 94 percent of pre-retirement pay,⁴ well above the 70 to 75 percent replacement rate recommended in research by former SSA Chief Actuary Robert Myers.⁵ And low- and high-income retirees had high replacement rates as well. At the lowest 25th percentile of the income distribution the average replacement rate was 93%, and it was 96% at the 75th percentile.

Other recent research by economists at the Investment Company Institute and the Internal Revenue Services, which compares retirement incomes to incomes in the year prior to retirement, finds even higher replacement rates.⁶

These replacement rates based on IRS data are much higher than many might guess. What accounts for the health of Americans’ retirement incomes? First, Social Security replacement rates are more generous for low-earning workers than one might think. The table below analyzes Social Security replacement rates for stylized workers of different earnings levels created by the SSA Office of the Chief Actuary. I assumed these workers retired at the full retirement age of 66

³ Biggs, Andrew G. “A New Vision for Social Security.” *National Affairs* 16 (2013): 37-52.

⁴ Bee, Charles Adam, and Joshua Mitchell. “Do Older Americans Have More Income Than We Think?” (2017). U.S. Census Bureau working paper.

⁵ Myers, Robert Julius. *Social Security*. Univ of Pennsylvania Press, 1993.

⁶ Brady, P.J., Bass, S., Holland, J. and Pierce, K. (2017). ‘Using Panel Tax Data to Examine the Transition to Retirement.’ Presented at the 2016 NTA Annual Conference on November 12, 2016. Draft of April 7, 2017. <https://www.irs.gov/pub/irs-soi/17rptrtransitionretirement.pdf>

in 2015. Like the Census Bureau analysis above, I measure replacement rates relative to the 15 years of inflation-adjusted earnings prior to retirement.

Social Security Benefits and Replacement Rates for SSA Stylized Earners					
	SSA Stylized Earning Level, Retiring at 66 in 2015				
	Very low	Low	Medium	High	Maximum
Annual earnings (percent of national average wage)	25%	45%	100%	160%	242%
Earning group as percent of retirees	19.0%	22.5%	29.8%	20.1%	8.5%
Social Security Benefit at Age 66	\$8,868	\$11,602	\$19,115	\$25,342	\$30,834
Average Real Earnings, 15 Years Prior to Retirement	\$10,133	\$18,230	\$40,508	\$64,808	\$110,070
Pre-tax Social Security Replacement Rate	88%	64%	47%	39%	28%
Post payroll tax replacement rate (6.2% current law rate)	93%	68%	50%	42%	30%
Benefit Increases in Social Security 2100 Act (percent)	25%	10%	10%	2%	2%
Social Security 2100 Act: Post-Payroll Tax Replacement Rate (7.4% rate)	118%	75%	56%	43%	31%

“Very low” wage earners, who make up roughly the poorest fifth of retirees, receive Social Security benefits equal to 88% of their pre-retirement earnings. Moving up to SSA’s stylized “low” wage earners, who are roughly the second quintile of the earnings distribution, the Social Security replacement rate is 64%. These replacement rates are higher if we look at pre-retirement earnings net of the 6.2% Social Security employee payroll tax: in that case, net-of-taxes replacement rates rise to 93% and 68%, respectively.

Now consider how these workers would be treated under the Social Security 2100 Act, which would both increase their retirement benefits and raise their payroll taxes to finance them. For the “very low” worker, the net-of-taxes replacement rate would rise to 118%, meaning that they would have a higher income in retirement than while working.⁷ These individuals not only would rationally save nothing for retirement, they would claim benefits as soon as they were able. The “low” wage worker’s net-of-taxes replacement rate would rise to 75%; these workers would save less for retirement. These higher Social Security replacement rates would also probably encourage more low-wage workers to apply for Disability Insurance benefits.

But these Social Security figures do not explain why middle and higher-income retirees have such high replacement rates. The second factor is that more retirees are collecting higher benefits from private retirement plan benefits than ever before. As a result, retirees’ incomes have increased significantly faster than those of near-retirees.

⁷ Author’s calculations based on Office of the Chief Actuary, Social Security Administration analysis.

Increases in Real Incomes, 1990 to 2012			
	25th	50th	75th
Households aged 65 to 74	31%	32%	36%
Households aged 50 to 59	4%	11%	20%
Sources: Ages 65-74, Bee and Mitchell (2017); ages 50-59, Current Population Survey.			

Census Bureau analysis of IRS tax data finds that from 1990 to 2012, the inflation-adjusted income of the median retiree aged 65 to 74 increased by 32%. For the median near-retiree aged 50 to 59 the real increase in household incomes from 1990 to 2012 was

just 11%.⁸

In other words, retirees' incomes are growing much faster than the incomes of near-retirees, which is precisely the opposite of what you would expect if America had a severe retirement savings problem. The same goes for low- and high-income retirees. Almost certainly, the faster growth of incomes for retirees rather than for near-retirees implies increased retirement security, which is difficult to square with a pressing need for an across-the-board Social Security benefit increase.

IRS data also show that poverty in old age has fallen dramatically, from 9.7 percent in 1990 to just 6.7 percent in 2012.⁹ No other age group has such low poverty rates or such a significant decline in the risk of falling into poverty. Why would a low-income worker save more for retirement, and thus push his standard of living closer to poverty, when his risk of poverty is already much lower in retirement than during his working years?

This same pattern is shown when individuals' incomes are followed year-by-year as they shift from work into retirement. Five years prior to claiming Social Security benefits, 5.5 percent of Americans have incomes below the poverty threshold. Five years following retirement, only 3.6 percent of Americans have sub-poverty level incomes.¹⁰

Funding Benefit Enhancements: Tax Rates and Tax Revenues

To pay full scheduled Social Security benefits would require an increase in tax revenues of between 21 and 32 percent over levels already set in current law, depending upon whether we reference the Trustees or SSA projections. To expand Social Security requires higher taxes still. Good policymaking considers costs as well as benefits.

The Social Security 2100 Act, the most prominent benefit expansion bill in the House, increases taxes in two ways. First, the 12.4 percent Social Security payroll tax would gradually increase to 14.8 percent. Second, the ceiling on wages subject to payroll taxes would be phased out, by imposing Social Security taxes on earnings above \$400,000. Since that \$400,000 threshold is not indexed for inflation while the Social Security payroll tax ceiling (currently \$132,900) rises each year along with nominal wage growth, eventually the payroll tax would apply to all earnings. This means a nearly 15 percentage point effective marginal tax increase not merely on

⁸ Source: Author's calculations from the Current Population Survey.

⁹ Bee and Mitchell (2017).

¹⁰ Bee and Mitchell (2017).

millionaires and billionaires, but on upper middle-class households looking to pay off their mortgage, fund college for their kids or save for retirement.

Payroll taxes reduce take-home pay both directly and indirectly. The direct effect is via the employee share of the tax, which would gradually rise from 6.2 to 7.4 percent in the Social Security 2100 Act. The indirect effect is via the rising employer payroll tax. Most economists, as well as both the SSA actuaries and the CBO Social Security analysts, assume that employers fund payroll tax or other employee benefit increases by holding back on employee wages. Thus, employees would bear the full cost of higher Social Security taxes.

A payroll tax rate increase would affect all employees, including low and middle-income workers. Low-income workers are least prepared handle lower take-home pay, and there is recent research that suggests low-income workers might respond to higher payroll taxes by increasing household debt.¹¹

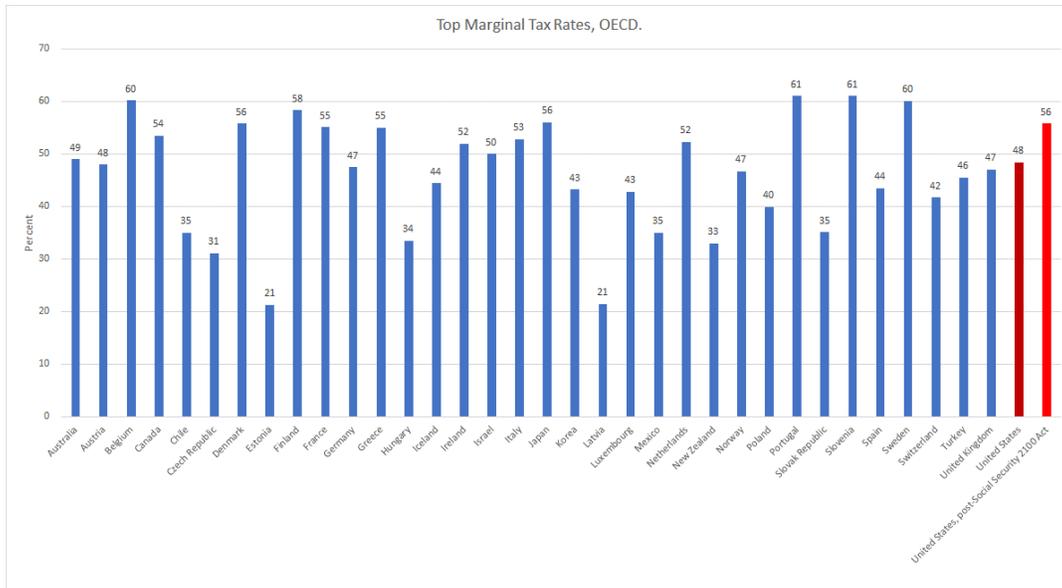
Phasing out the payroll tax ceiling would likely have larger economic effects, because the tax increase on affected employees would be much larger and those employees already pay much higher income tax rates. Currently, the top marginal federal income tax rate is 37 percent. On top of that, high earners pay an additional 2.35 percent Medicare payroll tax. Income tax rates differ from state to state, but in high earning states like New York, California, New Jersey and Connecticut top income tax rates range from 7.0 percent to 13.3 percent. Assuming an average top state tax rate of 9.0 percent, the top “all-in” U.S. marginal tax rate in 2019 is 48.35 percent.

By imposing Social Security payroll taxes on earnings above \$400,000, the Social Security 2100 Act would immediately increase the top all-in tax rate on earned income from approximately 48.35 percent to 54.55 percent. As the 6.2 percent employee payroll tax rate increased to 7.4%, the top marginal tax rate would increase to 55.75 percent.

However, the *effective* top tax rate would increase even further, because employers would immediately pay an additional 6.2% on employee earnings above \$400,000, gradually increasing to 7.4 percent. These new employer costs would be passed on to employees via lower employee wages. This reduction in employee wages acts as an additional additive increase in the marginal tax rate as it reduces employees’ take-home pay in exchange for an additional unit of work. In this sense, the effective top marginal tax rate in terms of economic incentives would rise to 63.15 percent.

The chart below compares the U.S. top marginal tax rate to that of other OECD countries. At present, the U.S. top marginal tax rate is ranked 16th out of the 35 OECD countries. With only the employee-side tax increase included in the Social Security 2100 Act, the U.S. top marginal tax rate would be ranked the sixth-highest out of 35 OECD countries.

¹¹ Beshears et al. found that when less-educated federal employees were automatically enrolled in the Thrift Savings Plan, they reacted by increasing their mortgage, auto loan and credit card debt. See Beshears, John, James J. Choi, David Laibson, Brigitte C. Madrian, and William L. Skimmyhorn. “Does Borrowing Undo Automatic Enrollment’s Effect on Savings?” Working paper, 2016.



Despite these higher tax rates, the additional revenues collected under the Social Security 2100 Act could end up far lower than expected. This occurs for two reasons, as shown by progressive-leaning economists Emmanuel Saez and Jeffrey Liebman.¹² First, when employers are required to pay higher payroll taxes they reduce the wages paid to employees, and those lost employee wages are then no longer subject to federal incomes, Medicare payroll taxes and state income taxes. This effect is well-understood and non-controversial. Second, employees respond to higher tax rates by working less or shifting incomes to avoid taxes. This effect also is widely understood, but there is no agreement on the degree to which it takes place. But Saez and Liebman conclude that using assumptions they consider to be mainstream, lost tax revenues due to employer and employee responses would offset half the gross revenue increases from eliminating the Social Security payroll tax ceiling. Assuming a more aggressive employee behavior response, which is supported by some research, the net revenue increase would be zero: reductions in federal payroll and income taxes and state income taxes would offset all of the revenue increases from eliminating the Social Security taxable maximum.

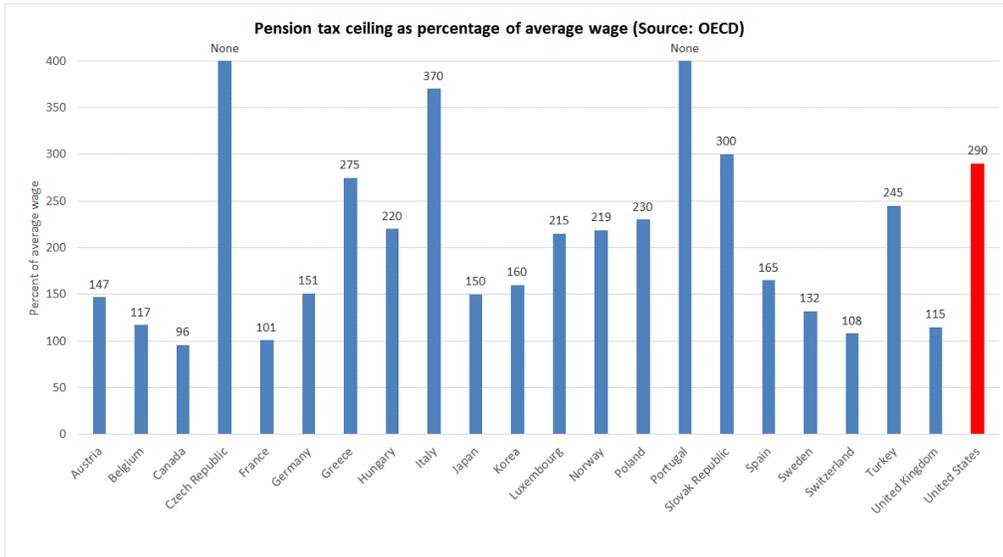
It is *absolutely essential* that a full unified budget analysis of a Social Security expansion act be conducted by the CBO and Joint Committee on Taxation before Congress consider passing such legislation.

It is worth noting that, despite some favoring a repeal of the Social Security payroll tax ceiling, uncapped payroll taxes are unusual in other developed countries. As the OECD states, “Most countries set a limit on the earnings used to calculate both contribution liabilities and pension benefits. The average ceiling on public pensions for 20 countries is 191 percent of average worker earnings, excluding four countries with no ceiling on public pensions.”¹³ U.S. Social

¹² Liebman, Jeffrey, and Emmanuel Saez. “Earning responses to increases in payroll taxes.” National Bureau of Economic Research, 2006.

¹³ OECD. “Pensions at a Glance 2013 OECD and G20 Indicators: OECD and G20 Indicators.” 2013.

Security taxes are levied up to 264 percent of the average wage, meaning that the U.S. already imposes payroll taxes further up the income distribution than the typical OECD country.



If Retirees Need Higher Incomes, Most Would Prefer to Save More on Their Own

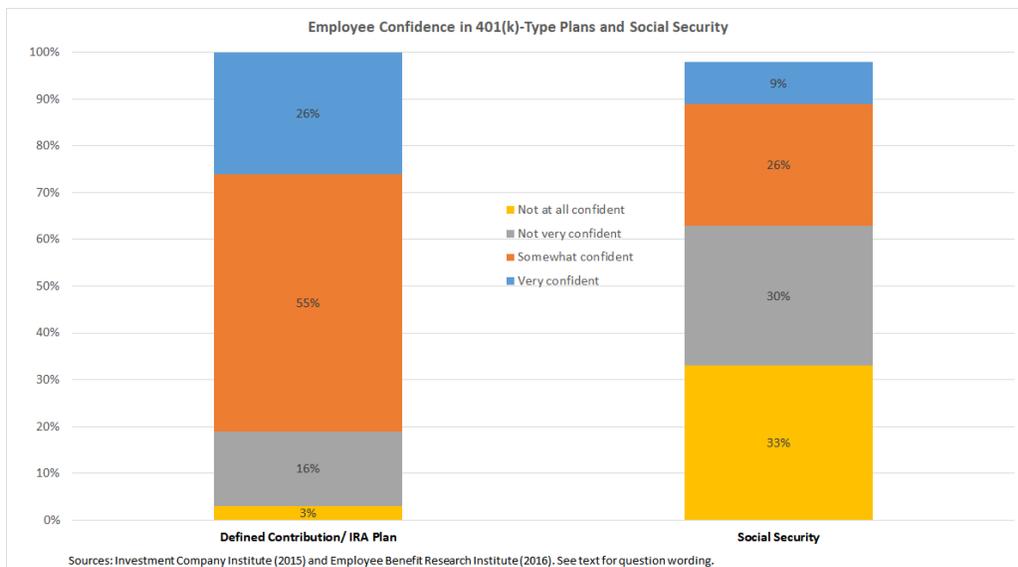
If Americans desire higher retirement incomes, higher Social Security benefits financed via higher taxes are not the only approach. A second way to increase retirement incomes is through higher savings in private retirement plans such as IRAs or 401(k)s.

From an economic standpoint, private savings are indisputably the better way to raise retirement incomes. Why? Higher savings increase economic growth by providing more money for equipment and research. Higher taxes reduce economic growth by causing employees to work less. Experts differ on how much savings increase or taxes decrease economic growth, but there is little disagreement on the direction of the two effects.

But what would Americans themselves prefer? Either higher saving or higher Social Security taxes would reduce households’ current take-home pay. But if households themselves prefer one approach to the other, we should give it stronger consideration.

Opinion surveys show that Americans are far more confident in their own savings than they are in the Social Security benefits they have been promised. Eighty-one percent of Americans with 401(k)s or IRAs are “very confident” or “somewhat confident” that their plans will help them attain retirement security. By contrast, only 35 percent of Americans are very or somewhat confident they will receive the Social Security benefits they have been promised. Sixty-three percent of Americans are “not very” or “not at all” confident in Social Security.¹⁴

¹⁴ Sources: The Investment Company Institute and the Employee Benefit Research Institute.



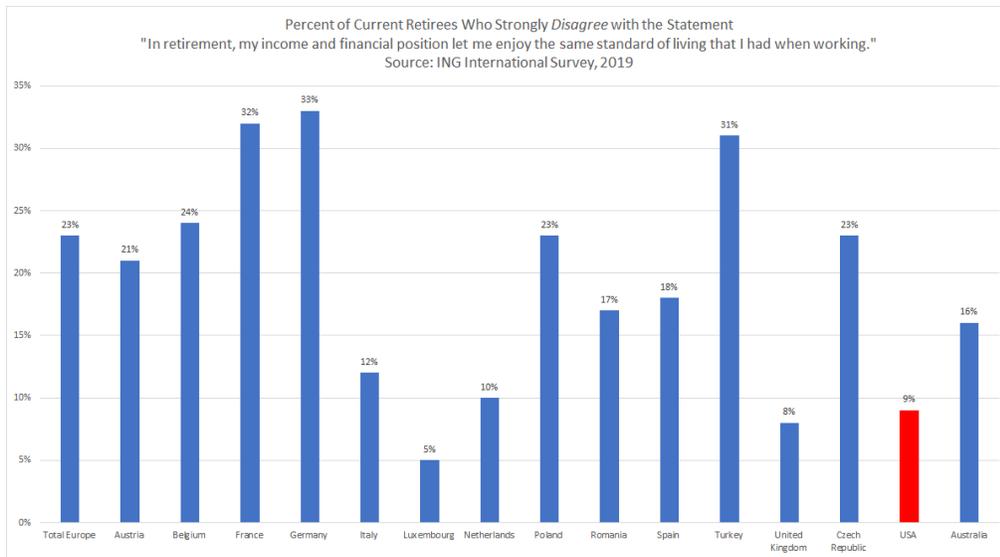
There is good reason for these differences. While 401(k)s have been improved in important ways in recent years, such as via the introduction of auto-enrollment and target date funds and reductions in account fees – Congress has gone three decades since Sen. Daniel Patrick Moynihan (D-NY) warned of the need to reform Social Security, yet has failed to act. Some Members of Congress have served entire careers in the House or Senate without even sponsoring, much less passing, Social Security reform legislation.

This survey results have a tangible policy implication: if Americans need to save more for retirement, it is difficult to believe they would not prefer to do so via their own IRA or 401(k) rather than paying more money into Social Security in hopes of receiving higher benefits once they retire.

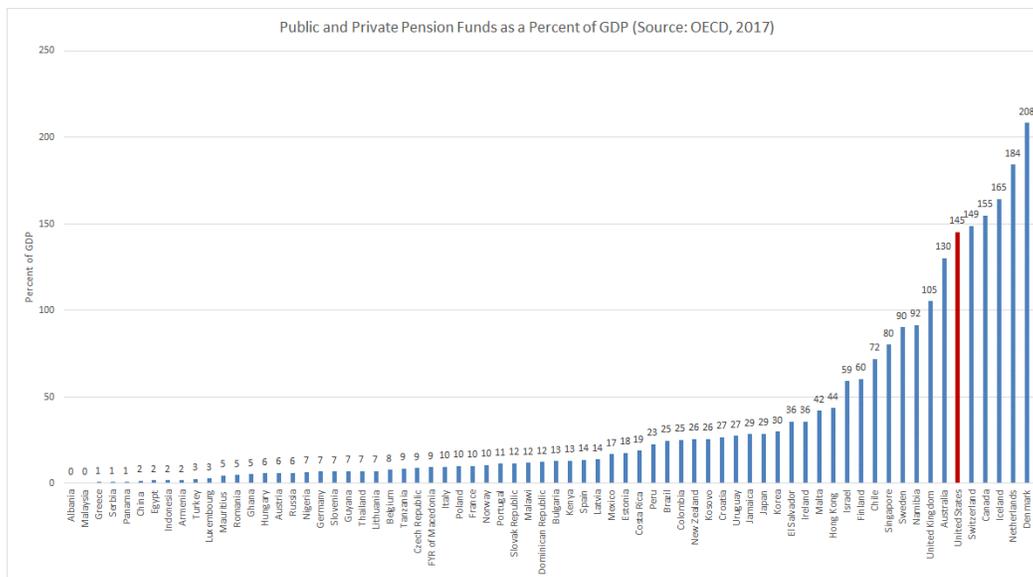
America: World-Leading Retirement Savers

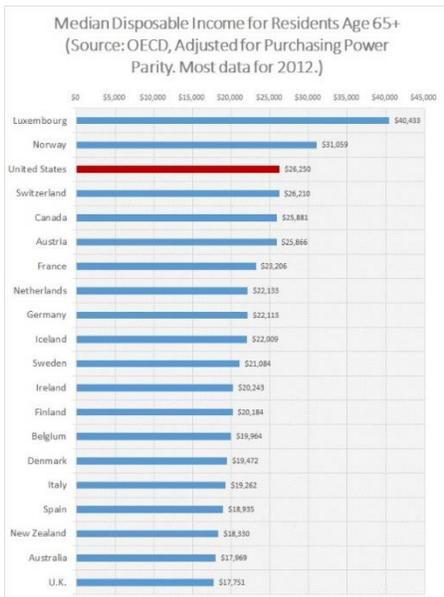
Proponents of Social Security expansion argue that without it, America faces a crisis of inadequate retirement savings. But other countries face the same retirement issues as the US. How are they faring?

In a recent ING survey of 15 countries, in only two – the United Kingdom and Luxembourg – were retirees less likely to say they were unable to maintain their pre-retirement standard of living. Only nine percent of U.S. retirees in 2018 strongly disagreed with the statement “In retirement, my income and financial position let me enjoy the same standard of living that had when working.” In Europe, 23 percent of retirees – 2.5 times the U.S. rate – said they couldn’t maintain their previous standard of living. In France and Germany, which spend roughly twice as much more on government retirement benefits than the U.S., 3.5 times more retirees faced a “retirement crisis.” U.S. retirees also are much more likely to “agree” or “strongly agree” that they can maintain their pre-retirement standard of living, doing so at nearly twice the rate of European retirees.



The reason? Americans save far more for retirement than residents of other countries. Of 70 countries for which the OECD gathered data on retirement funds as a percentage of GDP, only five had higher levels of retirement savings than the U.S. And the OECD data for the U.S. don't include the \$10 trillion in retirement savings held by households in IRAs, insurance contracts or other non-employer-based savings plans. On top of higher savings, the United States also has more favorable demographics than most other countries for its pay-as-you-go pension plan, Social Security.





The typical (or “median”) U.S. retiree has a higher disposable income than in all but two OECD countries for which data are available.¹⁵ The typical American retiree has a disposable income on par with retirees in Switzerland and higher than retirees in Canada, France, the United Kingdom and other high-income countries.

Comparing the U.S. to other countries leads to an inescapable conclusion: either America’s retirement system works a lot better than its critics give it credit for or other countries are in a *lot* of trouble.

Americans Fear a “Retirement Crisis”...But Mostly for Other People

Advocates often cite opinion polls in which Americans express fears over retirement savings as if those fears were proof that a retirement crisis were truly in the making. Social Security benefit enhancements are a response to those fears.

In reality, while many Americans fear a “retirement crisis” for others, very few see one happening to themselves. A 2017 study by Vanguard found that 59% of pre-retirees and 44% of retirees agreed with the statement “I believe there is a national retirement crisis.” And yet only 10% of pre-retirees and 4% of retirees agreed with the statement “I would describe my own retirement situation as a crisis.” Vanguard found a nearly-identical pattern in three other countries: people are nervous about retirement, but those fears are mostly resolved once people retire themselves.¹⁶

Other data produce the same conclusions. For instance, while working age Americans have for many years feared they will not have a secure retirement, eight-in-10 U.S. retirees tell Gallup they have enough money, not merely to survive, but “to live comfortably.” That’s significantly higher than the roughly six-in-10 working-age households who say they can live comfortably.

Public policy should be governed by facts and data, not public opinion polls. At the very least, if we believe retirement incomes are too low we should first ask actual retirees how they are faring.

Summary

A Social Security solvency plan coupled with targeted benefit increases for vulnerable retirees makes sense and Congress should pursue such a plan promptly. Historically, the only Social Security reform plans that have succeeded have done so on a bipartisan basis. Those that were

¹⁵ Disposable incomes include household incomes, then net out taxes while adding the value of social transfers such as government-provided health care.

¹⁶ Madamba, Anna and Utkus, Steven. “Retirement Transitions in Four Countries.” Vanguard Research, 2017.

attempted on party-line terms have failed. So elected officials from both parties should seek each other out to build understanding of mutual concerns and areas in which they differ. A Social Security solution is within our grasp, but only if representatives of both parties choose to reach out.