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National Committee to Preserve Social Security and Medicare
Before the Committee on Ways and Means
Subcommittee on Social Security
House of Representatives
Hearing on
Protecting and Improving Social Security: Benefit Enhancements

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Chairman Larson and Ranking Member Reed:

My name is Max Richtman, and I am the President and CEO of the National Committee to Preserve Security and Medicare. The National Committee is a grassroots advocacy and education organization dedicated to preserving and strengthening safety net programs, including Social Security and Medicare. On behalf of the millions of members and supporters of the National Committee, I want to thank you for holding this hearing on the importance of improving the benefits that Social Security provides.

Importance of Social Security

For 84 years the Social Security program has been protecting Americans against the loss of income due to retirement, death or disability. Over 175 million workers and their families are covered by their contributions to Social Security and over 62 million Americans currently receive Social Security benefits.

Social Security is an enormously successful program which is essential to the retirement security of the vast majority of Americans. While Social Security benefits are modest—averaging only about $17,000 annually—Social Security is still the single largest source of income for retired Americans. Two-thirds of Social Security beneficiaries receive over half of their income from Social Security. For nearly 1 in 5 retirees, Social Security is their only source of income. Without Social Security, nearly half of the elderly would live in poverty.

Social Security and Women

While Social Security is a program that is vitally important to all Americans, it is especially critical to the financial security of women. There are a number of reasons why this is so. First, women live longer than men. On average, women today who reach age 65 outlive men by about 2.5 years. These additional years of longevity increase the risk that women may outlive their savings or that their pensions will lose their purchasing power.

Women, and especially women of color, are less likely than men to have employer pensions. And when women do have pensions, they tend to be smaller on average than those earned by men. The picture is even more dismal for individuals from communities of color, where less than half of employed African Americans and less than one-third of employed Latinos are covered by employer-sponsored retirement plans.

Compounding these problems, women have a history of lower earnings during their working years, take more time out of the workforce to care for family members and live in more difficult economic circumstances. As a result, they enter retirement with little or no protection from private pensions, inadequate retirement savings, and smaller Social Security benefits than those received by men.

The effects of these disparities are magnified for women of color. They are disproportionally lower earners and are more likely to have worked in part-time positions. A substantial number of women of color approach retirement with little or no retirement savings. The absence of alternative financial support has the effect of leaving women of color primarily dependent upon what is usually a very modest Social Security retirement income. Further, families of color are more dependent than other families on survivor and disability benefits under Social Security.

Now is the Time to Improve Social Security Benefits

The National Committee believes that it is vitally important that Social Security benefits be improved to more effectively meet the needs of all Americans. We also believe that it is essential that proposals to strengthen the adequacy of Social Security benefits effectively address the needs of women, and especially women of color.

The proposals that we have endorsed pass this test. All of these proposals are intended to provide greater protection to all Americans, but with a special focus on the needs of women. By granting credits for child/elder care years, improving the adequacy of the special minimum benefit, increasing the amount of the widow's and widower's benefit when a spouse dies, and by using a consumer price index designed specifically to measure the effects of inflation on the elderly, the adequacy of Social Security will be enhanced for all Americans, but especially for women and people of color.

The National Committee's Recommendations to Improve Benefits

What follows is a description of the kinds of benefits individuals can receive from Social Security today followed by our recommendations for modernizing and strengthening the program so that all Americans will receive an adequate income in retirement or disability.

- **Improving Survivor Benefits.** Individuals living alone, especially women, are sometime forced into poverty because of benefit reductions stemming from the death of a spouse. Widows from low-earning or wealth-depleted households are particularly at risk of poverty from these benefit reductions, which can reduce family benefits by as much as 50 percent. Providing a widow, widower, or surviving divorced spouse with less than 75 percent of the couple's combined benefit treats one-earner and two-earner couples more fairly and reduces the likelihood of leaving the survivor in poverty. The new benefit guarantee would be capped at the monthly benefit level of a lifelong average earner (about $1,700 in 2018).

- **Providing Social Security Credits for Caregivers.** One of the principal reasons women have fewer assets and less income in retirement than men is that they often interrupt their participation in the labor force to provide services to family members. This service most often takes the form of providing care to children, and more and more to elderly or disabled parents and other family members. Because of the nature of the formula used in its calculation, these temporary interruptions can lead to a significant reduction in the amount of a caregiver's Social Security benefit. These interruptions occur for unmarried as well as married caregivers since many now care for family members in addition to children.

  Over the years a number of approaches have been advanced to remedy the effect of caregiving on Social Security benefits, but no action has been taken. We believe it is time to fix this long-recognized deficiency in the Social Security program's design. Accordingly, we recommend that the computation of the primary insurance amount, or PIA (the amount that a worker can receive if application for benefits is deferred until reaching the worker's normal retirement age) be changed to grant imputed earnings for up to five years during which a worker leaves the workforce to provide care to a child or family member.

  These imputed, or deemed, wages would help even out the gaps in a caregiver's earnings record and avoid the benefit reductions that often stem from them. Under our proposal, we would limit deemed caregiver wages to no more than 50 percent of a year's average annual wage ($25,160 in 2017).

- **Enhancing the Special Minimum PIA.** In addition to computing the PIA based on average lifetime earnings, Social Security also calculates a worker's monthly benefit based on an alternate computational method known as the Special Minimum PIA. If this method results in a higher benefit, then the worker's payment is based on this computation. The intent of this provision is to provide a more adequate benefit to those who have spent the preponderance of their working lives in low-wage employment.

  But because the Special Minimum Benefit has for many years been indexed to inflation rather than to growth in wages, it needs to be updated. Our proposal does this. First, we recommend adopting wage growth as the metric used to make future adjustments to this benefit. We also incorporate into the computation the concept of providing years of coverage to those who must leave the workforce in order to provide care to family members.

  Second, we recommend that the Special Minimum Benefit be increased so that it is equal to 150 percent of the poverty level for a single aged person, which would yield a maximum monthly benefit of about $1,400 for a person who has worked for at least 30 years in low-wage employment.

  Finally, we recommend that in calculating Supplemental Security Income (SSI) benefits for individuals who qualify for the Special Minimum Benefit, that only the benefit payable under the standard average indexed monthly earnings (AIME) PIA be used to determine SSI countable income. This will help protect beneficiaries from the loss of their SSI benefits and the possible loss of health care benefits from increases stemming from improvements made to the Special Minimum Benefit.

- **Equalizing Rules for Disabled Widows and Widowers.** Widows, widowers, and surviving divorced spouses can qualify for Social Security benefits based on disability beginning at age 50. They are the only disabled persons whose benefits are age-limited and subject to an actuarial reduction. The amount of this reduction can be as much as 28.5 percent depending on the age of the surviving spouse at the time he/she qualifies for benefits. In contrast, the benefits paid to disabled workers are not actuarially reduced. Instead, they receive 100 percent of their full retirement age benefit. We recommend this disparate treatment end. Disabled spouses should receive 100 percent of their benefit without any actuarial reduction, and they should be able to qualify for disabled spouse's benefits at any age. We also recommend elimination of the current-law 7-year application period for these benefits.

- **Benefit Equality for Working Widows and Widowers.** Under current law, the benefit for surviving spouses is generally capped at the amount the deceased spouse would receive if she/he were still alive. If a deceased spouse were to retire before reaching his/her normal retirement age, the surviving spouse inherits the resulting actuarial reduction. However, the amount of the reduction is limited to no more than 82.5 percent of the deceased spouse's full unreduced retirement benefit. Apart from this limited protection, a surviving spouse can neither cancel a spouse's early retirement decision nor enhance one's widow's benefit by delaying one's own retirement.

  We believe the surviving spouse's benefit should no longer be tethered to the reduction stemming from the deceased spouse's early retirement decision. We recommend that current law be amended to provide that the surviving spouse's age at the time of application be the only factor considered in determining the actuarial reduction of a surviving spouse's benefit.

- **Strengthening the COLA.** When automatic cost-of-living adjustments (COLAs) for Social Security and other federal benefits were enacted in the 1970's, there was only one consumer price index (CPI) available to use, the CPI-W, which reflects price increases based on the purchasing patterns of urban wage earners and clerical workers. The purpose of the COLA is to adjust the Social Security benefit so that inflation does not erode its purchasing power.

  Beginning in 1987, the Bureau of Labor Statistics (BLS) developed, and has since maintained an experimental CPI known as the CPI-E, which is specifically based on the purchasing patterns of America's seniors. Historically, the CPI-E has reflected a rate of inflation that has been between 0.2 and 0.3 percentage points higher than inflation as measured under the CPI-W. This is primarily attributable to the greater weight placed on health expenditures in the CPI-E, which reflects the fact that seniors spend a higher percentage of their monthly spending on health care than do younger consumers.

  The current CPI-W formula does not come close to staying in line with the rapidly-increasing cost of health care, which consumes a significant portion of every retiree's benefit. Although it is still an experimental index that needs more work to be fully developed, we believe the CPI-E is a more accurate measure of inflation for the purpose of protecting Social Security benefits from the ravages of inflation.

We urge Congress to direct the BLS to complete its development of this index and enact legislation that adopts it as the index to be used to adjust Social Security benefits for inflation.

- **Restoring Student Benefits.** Social Security generally pays benefits to children until age 18, or 19 if they are still attending high school, if a working parent has died, become disabled or retired. In the past, those benefits continued until age 22 if the child was a full-time student in college or a vocational school. Congress ended post-secondary student's benefits in 1981. Research (National Academy of Social Insurance, 2010) has shown that recipients of this benefit were disproportionately children of parents in blue-collar jobs, African Americans, and with lower incomes than other college students. The National Committee urges Congress to reinstate these benefits under the same terms they were paid prior to 1981.

- **Improving the Basic Benefit for All Beneficiaries.** After years of operating under a COLA which does not reflect the higher inflation attributable to health expenditures and the fact that seniors devote a higher percentage of their monthly spending to health care costs, seniors should have their increased costs offset by an across-the-board benefit increase. This increase would also compensate seniors for the losses they have suffered due to recent economic turmoil. Women, especially, who have worked a lifetime with low pay are financially vulnerable in retirement because they are less likely to have private pensions or discretionary income that would allow for saving. We recommend the basic benefit of all current and future beneficiaries be increased by five percent of the average benefit (approximately $70 per month). We also recommend that benefits be increased for seniors who have received Social Security for a long period of time. Seniors who live beyond age 85 are more likely to be financially vulnerable, even with Social Security. That is why we support increasing benefits for all beneficiaries 20 years after retirement by a uniform amount equal to five percent of the average retired worker benefit in the prior year.

- **Improve Benefits for Disabled Adult Children.** One of the categories of childhood benefits that is payable on a worker's record is benefits to an adult child who becomes disabled before reaching age 22. In addition to being disabled, the child must never have been married at the time the application is filed. Eligibility continues as long as the child remains disabled and unmarried. Benefits may also be affected if the child becomes employed. Marriage at any time ends entitlement to this type of benefit, unless the child's husband or wife is also receiving benefits either as a disabled adult child or disabled widow or widower. Marriage to anyone else permanently ends a disabled adult child's eligibility unless the marriage is annulled.

  When a disabled adult child qualifies on a parent's record, benefits for the child and for other family members may be adjusted due to the family maximum. If all eligible family members live in the same household, expenses and income are usually shared. However, people with disabilities are increasingly deciding to live independently. A consequence of doing so is a substantial reduction in a family's income from Social Security. A remedy is to compute the benefit for a disabled adult child without regard to the family maximum, as is already done when calculating the benefit for divorced spouses.

We urge Congress to improve benefits for disabled adult children by allowing beneficiaries to reestablish entitlement to benefits after divorce and by computing the benefit for these individuals without regard to the provisions of the family maximum.

Options for Strengthening Social Security's Financing

While some assert that the Social Security program is in a deep funding crisis, such characterizations are simply not true. Social Security is not bankrupt or in crisis, and it can pay all benefits in full through 2034. After that, the program will still be able to pay 79 percent of all benefits that are owed to Social Security beneficiaries in subsequent years.

According to the Social Security Trustees' 2018 report, the program's funding shortfall, known as an actuarial deficit, is 2.84 percent of taxable payroll. In our view, this shortfall is manageable and resolvable. There are a number of straightforward reforms that, if adopted, would increase Social Security's funding by an amount sufficient to both close the actuarial deficit and pay for the costs associated with the program improvements the National Committee has proposed. Following are financing options that the National Committee supports.

- **Eliminate the Cap on Social Security Payroll Contributions.** Currently, there is a cap of $132,900 on the amount of a worker's wages that are subject to Social Security contributions. We recommend this cap be eliminated gradually while the benefit formula is modestly adjusted for the purpose of determining benefits for high-wage earners.

- **Gradually Increase the Social Security Contribution Rate.** Scheduling a gradual increase in the Social Security tax rate by a very small percentage phased in over a number of years would significantly strengthen Social Security's financial condition, both now and well into the future. We envision an increase, when fully phased in, of about 1.0 to 1.2 percent of payroll, applicable to both employers and employees.

Conclusion

We believe there is a consensus supported by an overwhelming majority of Americans to close Social Security's modest funding gap and improve Social Security benefits. It is also important that any plan strike the right balance between the overall financial needs of the program and the specific needs that still exist for strengthening the protections that Social Security provides.

We believe that the policy options that I have recommended today strike that balance. Despite the dramatic increase in women's participation in the national economy, the benefits derived from that participation have fallen short. Women continue to have fewer assets and income in retirement and depend more heavily than do men on Social Security as the primary source of their financial well-being in retirement. These facts make it imperative that options such as those we recommend today be incorporated into the Social Security program. The well-being of the nation and the well-being of the women of America demand nothing less.

Thank you for the opportunity to testify today on these important issues. I would be happy to answer any questions.