



# Building it Up, Not Tearing It Down

A Progressive Approach to Strengthening Social Security

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Christian E. Weller December 2010

Center for American Progress



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# Introduction and summary

Social Security is arguably the greatest progressive achievement of the last century, embodying the values of shared responsibility and economic security for everyone, not just a select few. When President Franklin D. Roosevelt formed the Committee on Economic Security—the basis for Social Security—he said he wanted a program that would “provide at once security against several of the great disturbing factors in life—especially those which relate to unemployment and old age.” Those values continue to be the foundation of Social Security today. The program represents a shared responsibility to one another and from one generation to another. It underpins the retirement income of 36 million Americans, provides basic survivor benefits for another 6 million widows or widowers, and delivers critical disability insurance to another 10 million working families.<sup>1</sup>

Social Security protects almost all Americans who work or have worked for pay and their families. Currently, 156 million Americans are paying into Social Security in 2010 and 205 million people in 2009 had paid enough into Social Security or were dependent on somebody who had paid enough into Social Security to qualify for retirement and survivorship benefits.<sup>2</sup> Most of these current workers and their dependents will count on Social Security as their income insurance for decades to come.

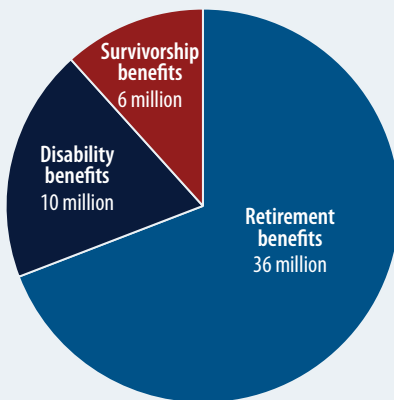
Social Security, in short, is our bedrock for basic income insurance for all Americans.

Yet the program and its founding progressive values face two significant challenges: one short term and the other longer term. The immediate challenge is defending Social Security from decades-long conservative charges that the program is too costly. What Republican Presidential Candidate Alf Landon said about Social Security in 1936—that it would encourage wasteful spending and deliver children nothing but “roll after roll of neatly executed IOU’s” from their fathers’ safe deposit boxes—isn’t very different from what conservatives of the present day continue to predict. They always see disaster just over the horizon, and propose diminishing and now privatizing Social Security.

## Social Security: fundamental facts in today's society and economy

Few modern public or private endeavors boast as successful a track record as Social Security. It provides a basic income guarantee to millions of families when their primary source of income disappears because of the retirement, disability, or death of the main bread winner. The nation's premier retirement, disability, and life insurance program for working families was created in 1935 and served 53 million people in 2009.<sup>3</sup>

### Social Security's three branches serve 53 million people



Retired workers made up the largest group of Social Security beneficiaries. Thirty-six million Americans received checks in 2009.<sup>4</sup> Those checks provided the majority of income for 63.9 percent of families 65 years old and older in 2008, the last year for which complete data are available.<sup>5</sup> An additional 10 million beneficiaries received disability benefits, and 6 million got benefits from the survivorship program

in 2008, the last year data on those programs were available. A total of 4.1 million children received Social Security benefits from Social Security's three parts—retirement, disability, and survivorship insurance—in 2008.<sup>6</sup>

Almost everybody is somehow insured by Social Security. Close to 90 percent of Americans either earned enough over the years to qualify for retirement or survivorship benefits or who at one time or another were dependent on somebody who did.<sup>7</sup> Social Security provides some means of income to ensure that families can at least cover the basics in retirement, when a worker becomes disabled, or when the primary bread winner dies.

The average retirement benefit in 2008 was \$1,105 per month, the average disability benefit amounted to \$914, and the average survivorship benefit totaled \$981 per month for each individual recipient.<sup>8</sup> Those workers who earn average or even high wages during their careers can expect to pay for basics with Social Security, but it won't afford them a lavish lifestyle.

In fact, Social Security's current benefits are not a universal guarantee against old-age poverty. Just under ten percent (9.7 percent) of families 65 years old and older lived in poverty in 2007. This was less than the poverty rate of 12.4 percent for the entire population, but it meant that 3.6 million people over 65 years of age were poor.<sup>9</sup>

Progressives should reach out to all sides of the political spectrum, but we cannot pretend to give “even handed” treatment to arguments that have been wrong for 75 years. Social Security today faces a conservative onslaught seeking to undermine and dismantle the program. Congressman Paul Ryan (R-WI), who will certainly enjoy an elevated position in the new 112th Congress that convenes in January next year with its Republican majority, released a budget roadmap that privatized Social Security similar to President Bush's unsuccessful privatization plan in 2005. This conservative plan, if enacted, would dismantle Social Security's founding progressive principles and replace it with an “on-your-own” philosophy that guts benefits for middle-class families, explodes the national debt even further, and is not supported by the majority of Americans.

There is a clear need for this kind of basic income insurance, as the Great Recession amply demonstrates. A financial market crisis and housing crisis can destroy a lot of savings in the blink of an eye. American families saw their personal wealth fall by a whopping \$19.3 trillion (in 2010 dollars) from June 2007, the last peak of personal wealth, to March 2009, its latest bottom.<sup>10</sup> The bursting housing and stock market bubbles dashed a lot of dreams of a secure retirement, even for many of those who had done the right thing and saved for retirement by paying down the mortgage on their home and by putting money into their personal retirement savings accounts.

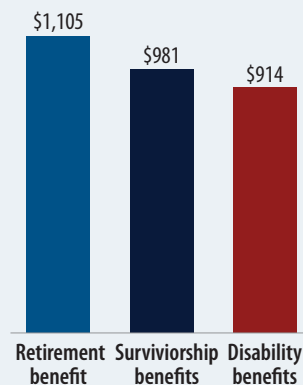
And working longer is not always an option. Many older workers today would like to work longer, but they simply cannot find a job, just like everybody else. The share of people over the age of 65 who are employed reached its highest level, more than 16 percent, since 1970, yet more older workers are looking for a job and cannot find one than at any time since 1948. The unemployment rate for people 65 years old and older was above previous record high unemployment rates throughout the second half of 2009 and into early 2010.<sup>11</sup>

Then there is Social Security coverage for premature death and disability, which are much less predictable and much harder to prepare for. An accident or illness can easily derail a once-productive career or leave a family without its primary source of income. Social Security estimates that one-quarter of those 20 years old today will become

disabled, and about 1-in-8 will die before reaching the full retirement age of 67.<sup>12</sup> No amount of planning and saving will adequately prepare America's families for these eventualities.

There is thus a clear need for a basic income insurance for all Americans when the primary source of household income disappears due to retirement, disability, or death. Social Security has successfully and efficiently provided this insurance for the past 75 years. Our comprehensive plan presented in this paper details how this can be achieved effectively, pragmatically, and progressively—protecting all Americans for generations to come.

### Average monthly benefits in 2009



Progressives must stand up to these attacks on Social Security but also tackle the long-term challenge of modernizing Social Security so that it can offer the best insurance benefits to those who need them the most. This means updates to address demographic and economic changes that have occurred over the past few decades as well as Social Security's long-term financial challenges so that we can provide these modernized benefits for generations to come. In 2037, all of those participating in the program will suddenly receive benefits one-quarter below what they were promised—if nothing changes. This would be an unprecedented break in the generational agreement in place since the 1930s to support everybody's retirement and those struck by disability or the death of a primary breadwinner. (See Box)

These challenges—both the conservative assault on Social Security and the need for modernization—cry out for progressive changes to Social Security to ensure the program’s long-term viability without jeopardizing the values on which it was built. Social Security is in no immediate danger of financial insolvency—the long-term financial challenge is being used by conservatives simply as an excuse to destroy the program. But Social Security does need to change in order to strengthen the program for the rest of this century.

Our nation must rise to meet these twin challenges today. Conservative plans to dismantle Social Security represent a clear and present danger, but another lesser danger is to reject any calls for updating the program. Progressive governance requires us to modernize this program to provide a strong and fiscally sustainable Social Security system to meet the economic challenges of our age. This is not the political fad of the moment, but an economic imperative for each and every generation of Americans.

In this paper, the Center for American Progress proposes a Social Security system worthy of meeting America’s challenges in the 21st century. Our approach to social insurance rewards work with secure retirement, attacks poverty, and responds in meaningful ways to the fundamental changes in how families work and live today. And our recommendations meet Social Security’s financial needs for the next 75 years. Specifically, our proposal will:

- Protect the basic income guarantees in the program
- Modernize benefits to improve economic security for those who need it most
- Strengthen the system’s financial viability without placing the burden on the backs of working Americans and their families and without drastic changes for all Americans, such as raising the retirement age

Our proposals to modernize Social Security are generally supported by the majority of Americans. What most Americans don’t want is to dismantle Social Security through privatization and drastic across-the-board cuts alongside an increase in the retirement age.

Indeed, in the finest tradition of progressivism, we propose to modernize and strengthen Social Security just as we have done since its enactment. Disability benefits were added in 1954, automatic cost-of-living adjustments were introduced in 1972, and federal employees became part of Social Security for the first time with a new law in 1983.<sup>13</sup> All these changes improved Social Security benefits for a larger share of our workforce.

We should act with a similar goal in mind today. Social Security is an unqualified success, but for it to remain so we must update it to reflect the needs of our 21st century workforce, not the workforce of the past century. There is a real need today to modernize the program to account for changes in employment patterns, including higher employment among those with caregiving responsibilities, differences in life expectancies by income, and social changes such as the growth in single households, greater acceptance of same-sex marriages, and increasing divorce rates. What's more, there are new economic insights that can make the system more efficient.

Instead of simply parrying away any attacks on this bedrock program, progressives must forcefully articulate a straightforward and progressive plan to modernize it. We should strengthen the program by making it more inclusive on the one hand and by addressing the long-term fiscal challenges on the other hand.

The American people embrace Social Security's progressive values. Our proposal builds on those values. But the longer we wait the more difficult it will be to fix the long-term financial deficit faced by Social Security and to modernize the system to meet the needs of our changing society and economy without extending the retirement age.

Indeed, the sooner we modernize the program the better. The reason: Updating Social Security sooner rather than later will ensure its role as basic income insurance for tens of millions of Americans throughout this century and enable policymakers to modernize the program to match social and economic changes since the advent of the program in the 1930s.

Modernizing in the near term will allow policymakers to phase in these changes so that knee-jerk, across-the board cuts that eventually would be necessary if changes do not occur. Unavoidable adjustments to Social Security can then be designed so that those who rely on Social Security's retirement, disability, and life insurance are helped, not hurt, by the reforms—today and well into the future.

Social Security's benefits and its revenues will grow apart over the long run if updates are not undertaken soon. Social Security has built up two trust funds and invested them in government bonds since 1983, which will allow it to cover the forecasted shortfalls through 2037.<sup>14</sup> After that, social security taxes would still allow the program to pay on average 76 percent to 80 percent of its promised benefits with its expected tax revenue.<sup>15</sup> This level of future benefits would be higher in inflation-adjusted terms than the benefits that current Social Security benefi-

ciaries can expect. The initial benefit for new retirees who retire at age 65 after a lifetime of medium earnings in 2038 will be equal to 111.2 percent of the initial benefits in 2010—even if there is an across-the-board benefit cut to scale future benefits to the expected future cash flow from payroll taxes.<sup>16</sup>

Doing nothing, however, means that all retirees will receive fully scheduled benefits until 2037 and all retirees thereafter will get only three-quarters of the scheduled benefits. And those who retire after 2037 will arbitrarily get a lot less per dollar paid into the system than those who will be retired before 2037. There is no justification for the arbitrary drop-off in retirement benefits in 2037. Such an abrupt change in retirement income from one year to the next also makes it hard for current workers and future retirees to adequately plan for their future, while a gradual reform will increase planning certainty.

This is why the federal government should modernize Social Security now so that updates can be introduced gradually to strengthen Social Security's basic income guarantee and achieve fiscal balance for the next 75 years. This would be fair to current and future generations of Americans and therefore in line with the Social Security's mandate as an intergenerational insurance program. Updating the program now means the costs of adjustment will be spread out over several generations, offering the maximum protection to everybody.

This report lays out in detail the main reasons why a comprehensive overhaul of Social Security will preserve the system's fiscal strength and update its progressive goals for a new century. Briefly, though, our proposal will:

- **Protect Social Security's insurance value.** The program's basic safety net protects those who need it and have paid into the system, which can only be achieved by maintaining the existing social insurance character of Social Security.
- **Balance revenue increases and benefit changes in a progressive way.** Revenue increases under our plan will cover a little more than half of the expected shortfall, while benefit changes will cover the rest. We also pay for additional benefit improvements that are necessary to modernize Social Security.
- **Protect the principle of generational equity.** Gradually introducing tax-and-benefit changes will ensure the burden of the necessary adjustments to Social Security is equitably shared across generations.



- **Modernize benefits to better meet the needs of the most vulnerable.** Those who rely on Social Security the most will see clear improvements in their expected benefits.
- **Strengthen Social Security’s insurance protections for women.** Women make up half of the labor force, but many women still lack basic economic security throughout their lives. We emphasize a range of common-sense updates to Social Security that would strengthen economic security for women.
- **Update the program in line with economic insights.** New ways of measuring inflation more accurately and gauging investment risks will make it easier to deliver reliable benefits over time.
- **Achieve fiscal balance for the next 75 years.** Our proposal is a responsible balance between benefit updates and tax changes, enabling the program to return to fiscal balance without impeding efforts to put the rest of the federal budget in more fiscally responsible territory.

Our comprehensive Social Security plan will ensure a modernized, fiscally sustainable program that can serve today’s American working families as it has for past generations by continuing to provide a basic income guarantee to all working Americans. But achieving these goals will require changes to benefits, taxes, and other features of Social Security. We detail the reforms necessary to achieve these goals as well in this paper, but briefly our proposals will:

- **Create a minimum benefit level.** This improved benefit level will allow a full-time career worker to receive benefits that will exceed at least the poverty line, which is necessary to make sure workers who have paid into the system for decades are able to live at least at the poverty line in retirement.
- **Raise benefits for the oldest of the old.** America’s seniors exhaust their savings, pay ever larger shares of their benefits for health insurance, and rely heavily on Social Security to meet their consumption needs after the age of 85, which is why their benefits would increase by a fixed dollar amount equal to an average benefit of 5 percent.
- **Improve survivorship benefits.** Surviving spouses will receive at least 75 percent of a couple’s combined benefit, thus limiting the benefit reduction that a widow or widower can experience upon the death of a spouse, especially dual-earner couples who now face larger benefit cuts upon death of one spouse.

- **Strengthen divorce benefits.** Phase in benefits for divorced spouses over time, ending the current system in which divorced spouses currently must be married for a minimum of 10 years before a divorced spouse becomes eligible for divorcee benefits.
- **Introduce family caregiving benefits.** Workers with caregiving responsibilities can access Social Security benefits temporarily during their career years so they can take care of an infant or newly adopted child, family members who are elderly, or seriously ill, or recover from a serious illness.
- **Expand spousal benefits to married same-sex couples.** All legally married couples regardless of their sexual orientation should be entitled to the same insurance benefits under Social Security
- **Gradually phase in progressive changes to benefit the formula.** The benefit amount for the bottom 67 percent of income earners will not change under this proposal. The initial benefit amount for the top one-third of income earners will grow more slowly than is currently the case. These changes in the benefit formula will be gradually phased.
- **Eliminate the cap on the employer share of the payroll tax.** Earnings are currently subject to Social Security payroll taxes only if they fall below a certain cap, currently \$106,800, yet over time the share of total earnings above the cap has risen while the share of taxpayers with earnings above the cap has fallen. Eliminating the cap on the employer portion of the payroll cap counters the growing earnings inequality in our country among retirees and future retirees.
- **Treat cafeteria benefit plans like 401(k) plans to calculate the employer share of the payroll tax.** The contributions to flexible spending plans or cafeteria plans will be treated like contributions to 401(k) plans, which are already subject to Social Security taxation. Under our proposal, only the employer share of the payroll tax will apply to the relevant contributions to cafeteria plans.
- **Use a more accurate inflation measure.** Social Security benefits will be tied to a more consistent and more accurate measure of inflation over time, better reflecting the price changes that people actually experience.

- **Allow Social Security to invest some trust fund assets in the stock market.** This will allow the trust funds to improve its risk-return profile and thus extend the life expectancy of the trust funds.

Together, these updates will protect the fundamental insurance function of Social Security, modernize benefits in line with demographic and economic changes over time, and sustain Social Security's finances for the next 75 years. In the pages that follow, we will detail these changes alongside the reasons why we need to embark on this modernization today. By acting now, we will have a more sustainable Social Security system that will improve the economic security of future generations of beneficiaries.

## No need to raise the retirement age

Raising the retirement age is often offered up as a way to achieve “actuarial balance” in the Social Security system, the rationale being that delaying the age at which people can collect their full retirement benefits makes sense because people now live longer. But that’s not an accurate picture of all retiring Americans, which is why we have deliberately chosen not to increase the retirement age in our proposal to modernize Social Security.

There are two reasons for this. First, there is a great deal of variation in how long people can expect to live. In particular, lower-income workers don’t live as long as higher-income workers, and minorities not as long as whites, as I detailed in a 2005 report for the Center for American Progress, “Raising the Retirement Age for Social Security: Implications for Low Wage, Minority, and Female Workers.” The life expectancy for wealthy men, for instance, once they reach age 65, rose by six years between 1997 and the end of 2006, but the increase rose only 1.3 years among men with lower incomes once they reached 65 over the same period.

Indeed, Hillary Waldron of the Social Security Administration discovered that low-income men registered only about one-fifth of the gain in life expectancy at age 65 compared to higher-income men over this period, according to her 2007 working paper titled “Trends in Mortality Differentials and Life Expectancy for Male Social Security-covered Workers by Average Relative Earnings.” Raising the retirement age would likely hurt those who rely the most on Social Security.

Second, the American public strongly opposes raising the retirement age. (See page 49 about public attitudes toward Social Security.) What’s more, the retirement age is already scheduled to reach 67 years of age in 2025. Beginning that year, Americans will have to wait until they are 67 before they can collect full retirement benefits. They can still retire early at age 62, as they can today, but their retirement benefits will be permanently reduced if they do, and the reduction will be larger than for previous generations.

As we demonstrate in the main pages of this report, there are other ways to strengthen the Social Security system without raising the retirement age, which would be inequitable and deeply unpopular.

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