The 'Save Our Social Security Act of 2016': A Major Step Toward Reform

By Eugene Steuerle *Thu, Jul 28, 2016*

These changes in the proposed bi-partisan proposal would bring the Social Security system close to long-term solvency, writes this Urban Institute economist and former Deputy Assistant Secretary of the Treasury.

Without fanfare, a bipartisan group of Representatives has introduced a bill that could bring Social Security's finances close to long-term balance. Labeled the "Save Our Social Security Act of 2016," the proposal also recognizes an important fact: that the longer we delay reform, the more it will cost post-babyboom generations.

Gen X and Y and Millennials are already scheduled to pay more for their benefits than boomers and older generations no matter what path we take to reform. Whether we raise payroll taxes, use more income taxes to pay off Social Security obligations, or cut benefits, someone must pay. Delaying reform only increases the burden on the young.

The "SOS Act," as it is called, was introduced by five Republican and one Democratic member of the House. Co-sponsors Reid Ribble (R–WI) and Dan Benishek (R–MI) were joined by Jim Cooper (D–TN), Cynthia Lummis (R–WY), Scott Rigell (R–VA), and Todd Rokita (R–IN). They pieced together the proposal using an interactive tool offered by the Committee for a Responsible Federal Budget. (Disclosure: I serve on the committee's board of directors).

The bill contains these primary features (listed in order of their ability to shrink Social Security deficits; the last two would raise deficits):

- Increase the "normal retirement age" (NRA) by two months per year until it reaches 69 for those turning 62 in 2034. Thereafter, it indexes the NRA to increases in longevity, so that the fraction of a lifetime spent in retirement stops growing.
- Levy the OASDI tax on 90% of covered earnings.
- Use a more accurate measure of inflation to determine Social Security's cost-of-living adjustment (COLA), so that benefits fall by about one-third of one percent per year.
- When calculating average Social Security earnings, count a few more years than the 35 top-earning years, thereby creating a more accurate (and usually lower) measure of

the share of a worker's average lifetime earnings that will be replaced under the Social Security benefit formula.

- Under Social Security's current design, the first dollars of average lifetime earnings are replaced at a 90% rate, the next dollars at a 32% rate, and the last dollars at a 15% rate; under the proposal, the 15% rate would drop to 5% for those in that top earnings bracket.
- Raise annual benefits by roughly $1,000 a year for those with more than 20 years of coverage, and let that amount grow at the average wage growth rate.
- Set a special minimum benefit so that, for instance, workers with 20 years of coverage would receive a benefit no lower than the poverty level, and increase the minimum benefit by the average wage growth rate instead of the inflation rate.

These changes would bring the Social Security system close to long-term solvency. Enough taxes would accrue to pay full benefits not only for 75 years, but also to roughly cover benefits in the 75th and later years. By contrast, the last major reform (in 1983) didn't close the long-term gap.

Almost as soon as that Reagan-era bill was passed and signed, its failure to cover the period after 75 years led Social Security actuaries to declare the system's finances out of balance. The solvency issue would pop up again under subsequent presidents. The SOS Act, however, would restore balance, and do so equitably: by closing one-third of the funding gap through tax increases, one-third through progressive rate changes, and one-third through adjustments in the retirement age.

The bill can still be improved. It could do more, at a fairly moderate cost, to help those with below-median lifetime incomes. (As a member of the bipartisan 1999 National Commission on Retirement Policy, I was among the first to propose higher minimum benefits as a way to address distributional issues and improve benefits for low and moderate-income elderly.) The bill could also address the structure of survivor and spousal benefits, which is built on the notion of a stereotypical mid-20th century household with a male breadwinner and a stay-at-home wife. It could also address the negative economic consequences of keeping the early retirement age at 62 no matter how long people live.

For those who are interested, Social Security's assessment of the bill's consequences is helpful to read but it can also be misleading. The assessment implies that future retirees' income replacement rates will fall relative to those of current retirees. That's true only if Americans keep retiring as early as they currently do. In fact, many people (except those with the highest incomes) could enjoy an *increase* in replacement rates simply by working an additional year for every year the average life expectancy improves.