NRLN
NATIONAL RETIREE
LEGISLATIVE NETWORK

Saving Social Security and Retirees' Faith in America's Promise

There is a straight-forward solution to ensuring Social Security for current and future retirees, but from the outset elected officials must be clear that, first and foremost, Social Security is not a welfare program paid for by the U.S. Government. The current 55 million Social Security beneficiaries and their former employers have paid into the Social Security Trust that was created in 1937. In fact, beneficiaries paid in from 1937-42 and the first payout wasn't until 1942. Every year since 1983, the payroll tax for Social Security has generated tens of billions of dollars in surplus, every dollar of which was borrowed by Congress to cover other federal spending.

Our predecessors and current taxpayers have built up an enormous nest egg sufficient to cover 100% of promised benefits for at least another 25 years (to 2036). At the end of 2010, the Social Security, Old Age and Disability Income combined Trusts held $2.7trillion in government bonds. Although last year was the first year since 1983 that the fund paid out more than it received in tax revenue, it still continued to grow because of the interest accrued — and it is estimated to continue to grow through 2022.

While Social Security is fully funded for the next 25 years, its long-range funding gap should be closed—but not by cutting its modest benefits. The NRLN supports closing the funding gap through modest increases in the payroll tax rate and increasing the cap on maximum wages subject to the tax, which is currently $106,800 a year.

Social Security is funded by payroll taxes and cannot, by law, add a penny to the federal debt. Furthermore, by law, Social Security cannot pay benefits unless it has sufficient income to cover the cost, and it has no borrowing authority to make up any shortfall. Therefore, the NRLN believes the long-term funding of Social Security should be considered on its own and not become entangled in the deliberations of the 12-member Congressional Committee charged with establishing recommendations to reduce the deficit.

With America's retirees shouldering the burden of higher health care costs, reduced savings and declining home values, Social Security should be strengthened, not diminished.

The NRLN Opposes the Chained Consumer Price Index

There have been NO benefits added to the Social Security system, other than Cost of Living Adjustments (COLA), since 1961, and there has not been a COLA for the past two years. The NRLN opposes any changes in the way the annual Cost-Of-Living Adjustment (COLA) is calculated. One such proposal would shift the current accounting calculations to the less accurate and less-generous Chained Consumer Price Index (CPI) for the current CPI in calculating the COLA. This breaks a promise made by many politicians to not cut the benefits of anyone over age 55.

Over the next 10 years alone, the Chained CPI would take $112 billion directly out of the pockets of Social Security beneficiaries. Cuts would grow larger each year and push many of the oldest Americans into poverty. The COLA cut would reduce benefits by 3.7% after 10 years, 6.5% after 20 years and 9.2 percent after 30 years. For typical seniors who retire at age 65, their Social Security benefits would be $1,000 less by the time they are 85, based on a benefit of just $16,000 a year. That would constitute an enormous loss of income for most retirees and become a further drain on the federal budget as this population becomes increasingly more reliant on public assistance.

On the tax side, the Chained CPI would likely draw more revenue. Tax brackets would rise more slowly than incomes, so seniors would fall into higher brackets more quickly with more income subject to taxation.

The chained CPI is a deceptive way to cut benefits for Social Security beneficiaries, many of whom are already living on the poverty line. Adopting the Chained CPI goes in the wrong direction. Most people who depend on Social Security devote a much larger share of their income to health care, and these costs are increasing at a much higher rate than other living costs. The current CPI already understates the cost-of-living increases facing seniors because they spend more on medical care than the average American. In fact, the rate of inflation of health care has been more than double the total rate of inflation for several years and is projected to become much higher in coming years. The Chained CPI would present Social Security beneficiaries with a double hit—higher health care costs and deeper benefit cuts.

The NRLN Opposes Raising the Social Security Eligibility Age

The NRLN opposes the recommendations by Alan Simpson and Erskine Bowles in their December 2010 *"The Moment of Truth"* Deficit Commission report to raise Social Security's full and early retirement ages. Their proposal would reset the full retirement age to 68 by 2050 and 69 by 2075; the early retirement age would rise to 63 and 64 in those same years. This comes on the heels of the increases already made in 1983 by the Greenspan Commission which moved full retirement age to 67 by 2022, in essence spreading out benefits.

The 1983 change in retirement age cut benefits an average of 13 percent. A further extension to age 69 would cut benefits another 20 percent, according to the National Academy of Social Insurance. The 1983 increase in the eligibility age for Social Security didn't decrease the federal budget deficit then, nor will it do so now. Moreover, longevity gains that proponents cite for increasing the eligibility age have been concentrated among more affluent Americans. A higher retirement age will require Americans to attempt to remain employed when hiring trends in the private sector favor younger rather than older workers. Indeed, a projected longer life span does not translate to a longer employment career or a sustained guarantee for the same quality of life. Unless Congress intends to compel companies to retain older workers until they reach the age of Social Security eligibility, the proposal to increase the retirement age will fail, harming retirees as well as the U.S. economy at the same time.

Conclusion: Increase the Payroll Tax Until the Trust Is Actuarially Sound

The number of Social Security <u>beneficiaries will double to over 80 million</u> over the next 30 years, starting in 2010. By 2040, the number of beneficiaries stabilizes. Current and past Administrations and Congresses have known these facts and have done nothing to effectively prepare for them since the last round of changes in 1983.

The NRLN believes <u>a small increase in the combination of tax rate (possibly between 0.5% and 1.5%) and the maximum earnings subject to the payroll tax would maintain Social Security's solvency.</u> It is in the best interests of its more than 2,000,000 retiree members that Congress should raise the Social Security tax rate and increase the cap on maximum wages taxed, until such time as the Social Security Trust is again adequately funded actuarially. This commitment should also require that once the Trust is adequately funded, tax rates and maximum wages taxed should be lowered to maintain actuarial funding only. The NRLN maintains that this is the only practical and ethical solution, and one that keeps faith with the American public.

Social Security is a generational compact. Today's retirees helped to pay for their parents. Our children, as workers, help pay for us just as their children will for them, if necessary. Keep in mind that about 43% of single seniors and 22% of senior married couples rely on Social Security for more than 90 percent of their income. More than half of senior couples and 73% of single seniors draw more than half their income from Social Security. Older people who also have the misfortune of being poor are almost entirely dependent on the program.

Poll after poll shows that the vast majority of all Americans oppose cutting Social Security benefits and favor a solution such as the NRLN's proposal. The Social Security Trust in the future should be insulated from access by Congress and its funds should never again be loaned out (as a piggybank) to cover other government spending.

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