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Testimony of Maya MacGuineas
Committee for a Responsible Federal Budget
Hearing before the Senate Budget Committee

"Saving Social Security: Expanding Benefits and Demanding the Wealthy Pay Their Fair Share or Cutting Benefits and Increasing Retirement Anxiety?"

June 9, 2022

Chairman Sanders, Ranking Member Graham, Members of the Committee, thank you for inviting me here today to discuss the importance of making Social Security solvent and the various options to do so.

I am Maya MacGuineas, President of the Committee for a Responsible Federal Budget. The Committee for a Responsible Federal Budget is a non-partisan organization dedicated to educating the public and working with policymakers on fiscal policy issues. Our co-chairs are Purdue University President and former OMB Director Mitch Daniels, former Secretary of Defense and former OMB Director Leon Panetta, and former Congressman Tim Penny. Our board includes past directors and chairs of the Office of Management and Budget, the Congressional Budget Office, and the Budget Committees.

In my testimony, I will touch on four main things:

- Social Security's financial condition
- The cost of waiting to fix the program
- Objectives of reform
- Options to strengthen Social Security

Social Security's Financial Condition

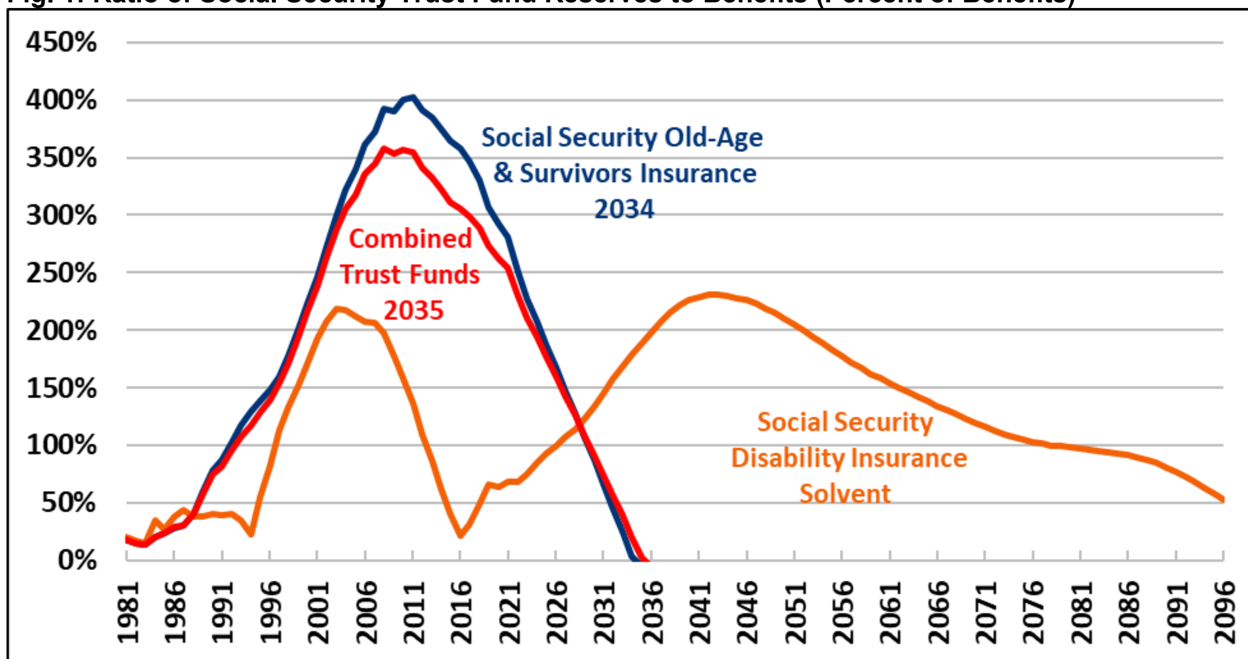
The most recent annual report on the financial health of Social Security finds that it is headed towards insolvency. Of course, this is not news: we have known this for more than 30 years.

In that time, Congress has done *close to nothing* to shore up the program. One thing we know increases anxiety is uncertainty, and the ongoing choice by members of Congress not to fix the program has certainly increased the anxiety of people who do or will depend on Social Security, since they have no idea what to expect.

The Trustees project the combined Social Security trust funds will deplete their reserves by 2035 (2034 for the retirement trust fund alone). Social Security is now a mere 13 years away from insolvency, so the program will no longer be able to pay full benefits when today's 54 year-olds reach the full retirement age or when today's youngest retirees turn 75. For perspective, the average new retiree will live to age 85, meaning Social Security cannot guarantee full benefits for many current beneficiaries, let alone future ones.

Upon insolvency, all beneficiaries will face a 20 percent across-the-board benefit cut, which will grow further over time. These cuts will hit well-off retirees and low-income elderly widows depending on the program for their livelihood equally. This strikes me as about the most reckless plan we could craft, and yet, by doing nothing it is the one we are headed towards.

Fig. 1: Ratio of Social Security Trust Fund Reserves to Benefits (Percent of Benefits)

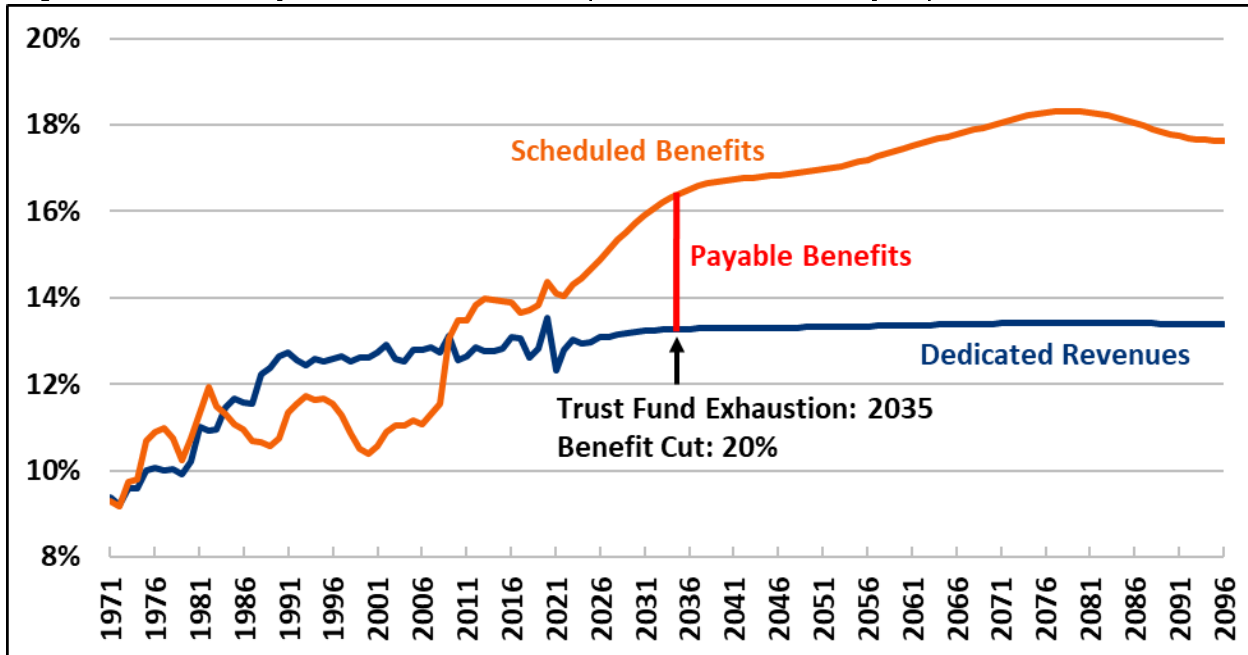


Source: Social Security Administration.

According to the Trustees, Social Security will run a cash-flow deficit of $112 billion this year and nearly $2.5 trillion over the next decade. That is effectively how much we will have to find in the rest of the budget to repay Social Security's trust fund holdings and interest. Social Security's 75-year actuarial imbalance is 3.4 percent of payroll, or over $20 trillion in present value terms.

Social Security's rising long-term shortfall is largely the result of rising costs, mainly due to the aging of the population. Total Social Security costs have already risen from 10.9 percent of taxable payroll in 2002 to 14.1 percent in 2022 and are projected to rise further to 16.1 percent of payroll by 2032, 16.8 percent by 2042, and 17.6 percent by 2096. Revenue will also be rising from 12.8 percent of payroll today to 13.4 percent by 2096, though not be nearly enough to cover expanding spending.

Fig. 2: Social Security Revenue and Benefits (Percent of Taxable Payroll)



Source: Social Security Administration.

At the same time, Social Security has grown as a share of the overall federal budget. Prior to the global financial crisis, Social Security already made-up 22 percent of the non-interest budget; prior to the COVID crisis, it cost 26 percent of the budget. It's projected to rise further to 28 percent of the budget and would consume an even larger share if Medicare weren't growing even more quickly than Social Security. The growth of these two programs is putting immense pressure on many other important investment-focused areas of the budget. Because the growth is automatic, I don't think we spend enough time considering whether this shift in resources is the best use of investment. Some may think it is, but we rarely even consider the question because we don't budget holistically.

A plan to restore sustainable solvency over the next 75 years would require increasing payroll taxes immediately by 26 percent, reducing spending by 20 percent for all current and future beneficiaries, reducing spending on new beneficiaries by 24 percent, or some combination. Actual reforms could and should be better targeted, rather than across-the-board, and phased in gradually. Any benefit expansions would require more in terms of other benefit cuts and/or revenue increases.

The Cost of Waiting to Fix the Program

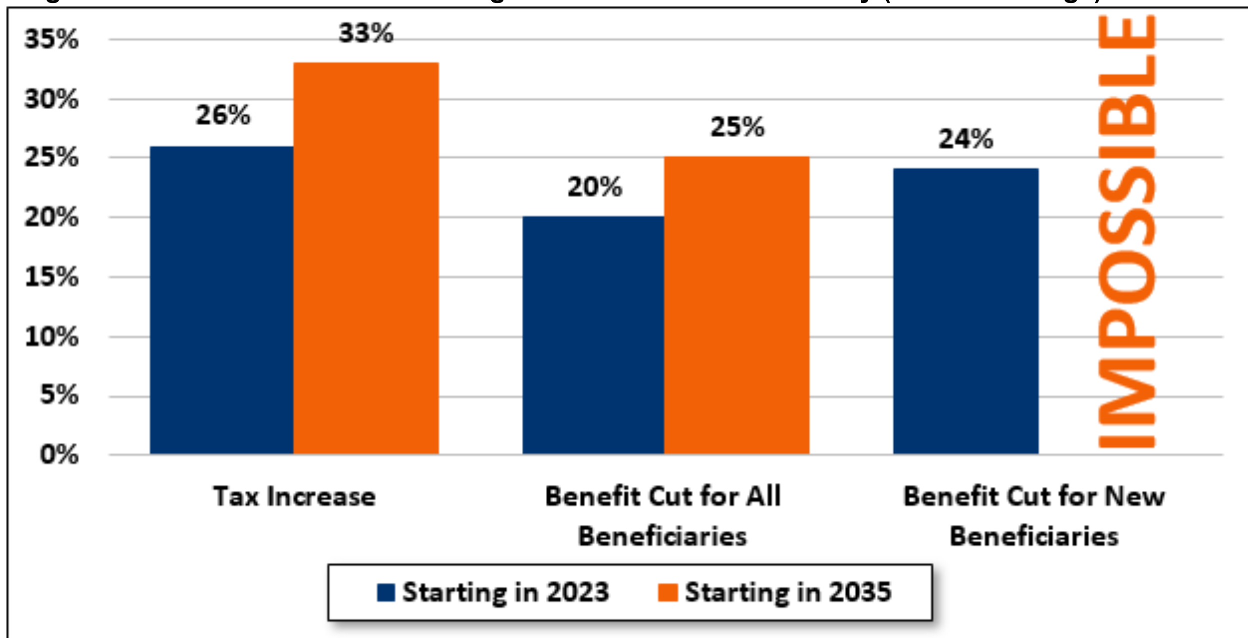
It is reckless that Congress has failed to act to make needed changes to improve the finances of the Social Security system. Every year we have waited and continuing to wait has made those changes more difficult and painful, denying us the chance to spread them more fairly and equitably. Participants need to know what to expect and have time to plan accordingly, and they have now been denied that.

Already, we have lost precious years. In 2010, you could have achieved 75-year solvency by eliminating the taxable maximum or price indexing benefits. Today, eliminating the taxable maximum would buy you just twenty years (and close about 60 percent of the gap), while price indexing would only buy you a year (and close roughly 75 percent of the gap). In 2010, the Simpson-Bowles plan phased in all of its policies over forty years – by 2050. A similar plan enacted today would have to phase in changes over 5 to 10 years. We have waited so long that in fact the entire Baby Boomer generation is unlikely to be part of the solution since they are now in or near retirement, unlike when we first knew about the problem. And yet, even now, there are few signs of serious cooperative efforts to make needed changes.

Further delaying action would be even more problematic, making the needed adjustments larger and eliminating our ability to phase them in over time or give workers and beneficiaries warning. As mentioned above, 75-year solvency could be achieved with a 26 percent (3.2 percentage point) payroll tax increase today but would require a 33 percent (4.1 percentage point) increase in 2035. Similarly, Social Security solvency could be achieved with a 20 percent across-the-board benefit cut today, which would rise to 25 percent by 2035. Benefit cuts for new beneficiaries would need to be 24 percent if imposed today, but even eliminating benefits for new beneficiaries in 2035 wouldn't be enough to prevent insolvency.

If there is one major point of this testimony, it is that we should stop delaying solutions.

Fig. 3: Tax Increases or Benefit Changes Need to Achieve Solvency (Percent Change)



Source: Social Security Administration.

Objectives of Reform

So what should the goals be in reforming the system? There is no right or wrong answer to this question but continuing to delay solutions is indefensible. There are many different legitimate objectives, which is why there should be compromise. The objectives that are most important are:

- **Make the program solvent** before benefit expansions
- Make changes that **protect those who depend on the program** the most
- Make changes that are **pro-economic growth** and provide the right incentives when sensible
- Think about the issue **comprehensively**; recognize that Social Security is one of the many priorities in our nation and **acknowledge that there are trade-offs** between funding for Social Security versus other priorities such as investments in children, climate, national security, etc.

There are plans out there that would expand benefits and fail to make Social Security solvent. This is akin to saying to seniors: I will promise you even more, while knowing that we cannot even pay you what we have already promised. That is shockingly disingenuous, and I can only imagine that if some private sector company did that, the same people who support these unfunded expansion plans would rightly go after this kind of abuse.

I think it makes sense to make the changes progressively. Options to do this include progressive revenue increases like lifting the tax cap, means-testing, progressive price indexing or other progressive benefit formula adjustments, and/or adding a minimum benefit along with other changes to achieve solvency and protect those at the lower end.

It is hard to understand those who advocate for more taxes on the rich while ruling out slowing the growth of benefits for the same people. Changes will have to be made: if wealthy beneficiaries are held harmless, others will have to face more in benefit reductions or pay more in payroll taxes. Many plans go further and actually *increase* benefits for the rich. This seems particularly hard to justify.

Even if we could make Social Security solvent entirely from taxes on the rich – and so far I've never seen a plan which successfully did so -- more revenues for Social Security will leave less money available for any other progressive programs, which just doesn't seem sensible.

And for those who worry progressive benefit structures don't garner widespread support, it is worth noting that Social Security is *already* progressive and that Medicaid and the EITC—both means-tested programs—are two programs that have received the most programmatic expansions in the past decades.

So that's where I would start: reducing benefits for the well-off who don't need them. It won't get you close to fully fixing the program but it can get you a lot. For example, progressive price

indexing for the top half of beneficiaries (so the very highest earners see their benefits grow with prices) would close about a third of the solvency gap and two-thirds of the structural gap. You could complement this with progressive revenue changes. To me, this type of policy is a sensible start that will make the system more progressive, avoid undue hardship, and retain much of a revenue base that will be available for other pressing needs.

I think another useful objective is to include changes that create incentives for work, savings, and other things that promote economic growth whenever it is sensible to do so. In the current environment some of these changes may assist in fighting inflation as well. Such changes can include increasing the retirement age while protecting those who are unable to work longer, counting all years of work with a benefit formula that rewards each additional year, repealing the confusing and antiquated retirement earnings test, and encouraging additional supplemental savings. Additionally, you should consider options that make the payroll tax more equitable and efficient like broadening the base, while raising additional revenue for the program. Growing the economy and national income is a particularly important objective right now when we have the aging of the population putting significant downward pressure on economic growth. My colleagues Marc Goldwein and Chris Towner have written a paper, *Promoting Economic Growth Through Social Security Reform*, on the topic, including estimates of the growth effects.

Finally, it is important to think about Social Security in the context of the full budget as well as an independent program. One of the most important tasks of the federal government is allocating resources. Already, the federal government spends $6 per senior for every $1 per child. We need to think holistically about whether we want to widen or narrow that gap.

This is clearly why producing a real budget every year is such an important national priority, and why failing to do so should be unacceptable.

If all programs are contemplated only in isolation, it becomes easier to bypass consideration of various trade-offs. We hear a lot about taxing millionaires and billionaires these days, something I agree with, but there's only so much taxing that can be done. It is a crucial exercise to determine whether those new revenues should go to reducing our existing debt – we are on track to borrow more than $15 trillion over the next decade – or new priorities, whether they are consumption for seniors, investments in workers and children, social safety net reforms, or a number of other urgent priorities. We must be realistic in recognizing that there are both financial and political budget constraint.

Options to Strengthen Social Security

Below is a list of reforms that could be used to make Social Security solvent. We also have an interactive tool, the Social Security Reformer, that has in the past been used by members of Congress to develop reform proposals, as well as to engage the public.

Importantly, there is no one right way to make Social Security solvent. Previously, there have been responsible revenue-only proposals (such as the original *Social Security 2100 bill*, before revenue was removed and gimmicks were added**)**, responsible benefit-only proposals (such as the Social Security Reform Act), and a variety of proposals that included both revenue and benefit changes (such as the Goldwein-Towner plan, the Conrad-Lockhardt plan, and former Rep. Ribble's Save Our Social Security plan).

The only unacceptable plan is doing nothing, which would mean an across-the-board 20 percent cut or else a massive general revenue transfer at a time our debt will be hitting new records every year.

One approach to spur action is the bi-partisan bi-cameral TRUST Act, which would create a rescue committee for each of the major at-risk trust funds. Whatever you choose, I encourage you to act quickly. Time is running out.

Fig. 4: Options to Make Social Security Solvent

Policy	75-Year Shortfall Reduction	75th Year Deficit Reduction
Revenue Options		
Increase payroll tax rate by 1 percentage point	30%	25%
Increase taxable maximum to cover 90% of wages	25%	15%
Eliminate the taxable maximum, without paying new benefits	75%	65%
Subject cafeteria plans to the payroll tax	10%	5%
Cover newly hired state and local employees	10%*	0%*
Replace the employer payroll tax with a flat compensation tax	75%	60%
Benefit Options		
Adopt price indexing to grow initial benefits	80%	175%
Use "progressive indexing" for top half of wage earners	30%	55%
Adopt a more progressive PIA formula	30%	40%
Calculate benefits based on top 40 years, instead of 35	15%	15%
Apply progressive benefit formula to annual wages (mini-PIA)	10%	25%
Use chained CPI to calculate COLAs	20%	20%
Raise retirement age to 69 and then index for life expectancy	35%	55%

Sources: Social Security Administration, Committee for a Responsible Federal Budget.
All figures rounded to nearest 5%.
*Assumes enactment as part of a solvency plan