KEEPING OUR PROMISE TO AMERICA'S SENIORS: RETIREMENT SECURITY IN THE 21ST CENTURY

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTEENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, D.C., MAY 15, 2019

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KEEPING OUR PROMISE TO AMERICA'S SENIORS: RETIREMENT SECURITY IN THE 21ST CENTURY

WEDNESDAY, MAY 15, 2019

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The Committee met, pursuant to notice, at 10:05 a.m., in Room 210, Cannon House Office Building, Hon. John A. Yarmuth [Chairman of the Committee] presiding.

Present: Representatives Yarmuth, Moulton, Schakowsky, Morelle, Scott, Peters, Horsford, Omar, Jackson Lee, Jayapal; Womack, Flores, Stewart, Meuser, Hern, Timmons, Burchett, Johnson, Crenshaw, and Woodall.

Chairman YARMUTH. The hearing will come to order. Before we begin I know many of us in the Budget Community are mourning the loss of Alice Rivlin, the founding director of the Congressional Budget Office, whose groundbreaking career also included stints as the director of OMB and Vice Chair of the Federal Reserve Board, among many other roles. Alice was widely respected and revered by Democrats and Republicans alike for her work and vision, her warmth and compassion, and her contributions will continue to help frame our debates for years to come. I think I speak for everyone in this room when I say that Alice Rivlin will be deeply missed, and that we send our condolences to her family and loved ones.

But now good morning, and welcome to the Budget Committee's hearing on Keeping our Promise to America's Seniors: Retirement Security in the 21st Century. Today's hearing will include two panels. I would like to thank our great panelists for being here with us today.

On our first panel, we will be hearing brief remarks from our friend, the gentleman from Connecticut, Mr. Larson, Chairman of the Social Security Subcommittee for House Ways and Means, and for our second panel we will be hearing from Dr. Melissa Favreault, senior fellow at the Urban Institute; Mr. James Dale Hanner, secretary treasurer of the North Carolina Committee to Protect Pensions; Dr. Andrew Biggs, resident scholar at the American Enterprise Institute. And I would like to ask Mr. Morelle to note our final panelist, who I understand is joining us today from Mr. Morelle's district.

Mr. Morelle, I yield to you.

Mr. MORELLE. Yes. Thank you, Mr. Chairman. I am so pleased to welcome to this esteemed Committee my dear friend, Anne

Marie Cook. Anne Marie serves as the president and CEO of Lifespan of Greater Rochester, a local not-for-profit that provides critical support services for the aging population in my district and across New York State. For over two decades she has helped older residents and their caregivers to navigate long-term care options, help with health insurance options under Medicare, assist in elder abuse situations, and so much more.

I am truly grateful for her friendship, for her partnership, and her dedication to ensuring a high quality of life for those in their later years. Our Committee will, no doubt, benefit greatly from her knowledge and expertise in today's testimony.

And I want to thank you for giving me the opportunity to introduce Anne Marie to the Committee.

Chairman YARMUTH. Thank you, Mr. Morelle.

Once again I would like to welcome Chairman Larson and our witnesses. Thank you all for joining us. And now I yield myself five minutes for an opening statement.

As we know, keeping our promise of secure retirement to American workers while maintaining our nation's fiscal health is one of our greatest policy challenges. Social Security is facing a shortfall. Traditional employer-sponsored pensions are disappearing. And due to stagnant wages and income inequality, far too many Americans cannot afford to save for retirement. Americans are also living longer. Our birth rate is declining, and our population is skewing older.

This perfect storm of changing demographics and its inescapable mathematical reality threaten to upend the promise of a secure retirement for millions of Americans. And the problem grows more pressing by the day. By 2035, Americans aged 65 years and older will outnumber children under the age of 18 for the first time in history. More than 63 million Americans are already receiving Social Security benefits and every day an additional 10,000 baby boomers reach eligibility.

As a result, this bulwark program is facing serious long-term funding shortfalls, with promised benefits facing cuts as high as 20 percent as soon as 2035 if Congress does not act. Cuts of this level would be devastating for the individuals who rely on Social Security. Since its inception in 1935, the program has been a pillar of retirement security. But it was never meant to be seniors' primary source of income. However, today, half of seniors receive at least half of their income from Social Security, and one-fifth receive 90 percent or more of their income from the program.

But it is not just those who rely on Social Security who are in jeopardy. In today's unreliable retirement landscape, even those hard-working Americans who have a pension are now at risk of losing their hard-earned benefits. In my home state of Kentucky, pensions for teachers and other state employees are under attack by our governor, who believes the people who educate our children are "selfish" for wanting the retirement they earned. Multi-employer pension programs throughout the country are unable to pay out at their promised rates. I have met with truck drivers from my district whose pensions will be cut by 60 percent or more if Congress doesn't step in.

These are all American workers who planned for their retirement and contributed to their pensions instead of taking home more pay. Now, after working for decades, their planned retirements may vanish.

However, the causes of this problem go even deeper than changing demographics and retirement programs. According to Federal Reserve economists, on average, the bottom 90 percent of American households have been unable to recover the wealth they lost during the Great Recession. Wage gaps and systemic income inequality are unfairly capping lifetime earnings and savings opportunities for millions of American workers, particularly women and minorities. White retirees are almost twice as likely as black and Latino retirees to have private retirement savings, and are significantly more likely to have savings through an IRA or a 401(k) retirement account. Longer life expectancies and gender pay disparities make women more economically vulnerable than men, with women aged 65 and over being 80 percent more likely to be impoverished than their male counterparts.

Meeting this fiscal challenge will require a clear-eyed acceptance of the demographic realities and a willingness to responsibly raise more revenue over time. Immigration reform could make significant inroads in alleviating some of our demographic challenges. It is also likely the only realistic solution for addressing lower birth rates, which slow the growth of our labor force and economy and put even greater pressure on federal budgets.

I hope to discuss immigration today, but we will definitely review it in detail at an upcoming hearing on the issue.

It is also important to note that the Trump tax cuts enacted last year have made this situation more complicated. These tax cuts blew a massive $1.9 trillion hole in our deficits. As a result, our Republican colleagues have called for extreme cuts to insurance programs, including Social Security and Medicare. These proposed cuts and the entire Trump budget were dead on arrival to Congress, thankfully, but they highlight how far apart Democrats and Republicans are when it comes to protecting Social Security and earned benefits.

Congress has a responsibility to act and honor the promise of retirement security. We have a long way to go before we can enact the smart and multifaceted approaches that can close the retirement gap without sacrificing our nation's fiscal health, or harming current or future retirees. It is my hope that this hearing will help advance that process.

Once again I thank our witnesses for helping us with the discussion, and I look forward to their testimony.

[The prepared statement of Chairman Yarmuth follows:]

Chairman Yarmuth
House Committee on the Budget
Keeping our Promise to America's Seniors:
Retirement Security in the 21st Century
Opening Statement
May 15, 2019

This hearing will come to order. Before we begin, I know many of us in the budget community are mourning the loss of Alice Rivlin, the founding director of the Congressional Budget Office, whose groundbreaking career also included stints as the director of OMB and vice chair of the Federal Reserve Board, among many other roles. Alice was widely respected and revered by Democrats and Republicans alike for her work and vision, her warmth and compassion, and her contributions will continue to help frame our debates for years to come. I think I speak for everyone in this room when I say that Alice Rivlin will be deeply missed, and that we send our condolences to her family and loved ones.

Once again, I'd like to welcome Chairman Larson and our witnesses – thank you for joining us.

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Americans are also living longer, our birthrate is declining, and our population is skewing older. This perfect storm of changing demographics and its inescapable mathematical reality threatens to upend the promise of a secure retirement for millions of Americans. And the problem grows more pressing by the day.

By 2035, Americans aged 65 years and older will outnumber children under the age of 18 for the first time in history. More than 63 million Americans are already receiving Social Security benefits and every day an additional 10,000 baby boomers reach eligibility. As a result, this bulwark program is facing serious long-term funding shortfalls, with promised benefits facing cuts as high as 20 percent as soon as 2035 if Congress does not act.

Cuts of this level would be devastating for the individuals who rely on Social Security. Since its inception in 1935, the program has been a pillar of retirement security; but it was never meant to be seniors' primary source of income. However, today, half of seniors receive at least half of their income from Social Security, and one-fifth receive 90 percent or more of their income from the program.

But it's not just those who rely on Social Security who are in jeopardy. In today's unreliable retirement landscape, even those working Americans who have a pension are now at risk of losing their hard-earned benefits. In my home state of Kentucky, pensions for teachers and other state employees are under attack by our Governor who believes the people who educate our children are selfish for wanting the retirement they earned. Multiemployer pension programs throughout the country are unable to pay out at their promised rates. I've met with truck drivers from my district whose pensions will be cut by 60 percent or more if Congress doesn't step in. These are all American workers who planned for their retirement and contributed to their pensions instead of taking home more pay. Now, after working for decades, their planned retirements may vanish.

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It's also important to note that the Trump tax cuts enacted last year have made this situation more complicated. These tax cuts blew a massive $1.9 trillion hole in our deficits, and as a result, our Republican colleagues have called for extreme cuts to insurance programs, including Social Security and Medicare. These proposed cuts, and the entire Trump budget, were dead on arrival to Congress, thankfully – but highlight how far apart Democrats and Republicans are when it comes to protecting Social Security and other earned benefits.

Congress has a responsibility to act and honor the promise of retirement security. But we have a long way to go before we can enact the smart and multifaceted approaches that can close the retirement gap without sacrificing our nation's fiscal health or harming current or future retirees. It is my hope that this hearing will help advance that process.

I thank our witnesses for helping us with this discussion and look forward to your testimony.

Chairman YARMUTH. I now yield five minutes to the Ranking Member, Mr. Womack.

Mr. WOMACK. I thank the Chairman and appreciate the opportunity to be here today, and to hear from our witnesses.

Strengthening retirement security for today's seniors and families, as well as future generations, is a goal that I think we all share. The question is on how we get there, especially at a time, as the Chairman so appropriately stated, that we have got 10,000 people a day aging into these programs. And they are all living a lot longer, which, I think, is a good thing.

But let's start with Social Security. Not only is it one of the biggest parts of our federal budget, making up 24 percent of all federal spending, it is also a primary source of retirement income for millions of Americans. We have all seen the data, we have read the headlines. The program is in trouble.

As more Americans become eligible for Social Security benefits, and as Americans live longer, fewer Americans are entering the workforce and paying into the program. Over time that means the money Social Security spends on benefits will outpace the revenue it brings in through the collection of payroll taxes. At its current rate the program will only be able to pay three quarters of the benefits retirees were promised by the year 2035.

I agree with my friends across the aisle that is certainly unacceptable. It's our responsibility in Congress to prevent these across-the-board benefit cuts, and make sure this important program can continue and work better for workers and retirees today and for generations to come.

As America's demographics have evolved, lawmakers on both sides of the aisle have worked together on four separate occasions to pass structural reforms to improve the program. Most recently, in 1983, Congress passed legislation to gradually increase the retirement age from 65 to 67. That was a common-sense bipartisan idea to address the fact that Americans are living roughly 15 years longer today than they were when Social Security was first created in 1935. I am committed to working together to uphold a history of bipartisan Social Security reform.

One thing is certain: punishing today's workers and job creators with enormous tax hikes is not a solution. That approach would drag down our economy and penalize Americans for working hard, hurting Millennials and small business employees the most. When it comes to Social Security we should focus on rewarding work while targeting the benefits to help vulnerable Americans. We can also strengthen retirement security for all Americans by continuing to promote policies that fuel our economy.

While the Chairman took a stab at the Tax Cuts and Jobs Act, I think it is safe to say that we would disagree, that I do believe that the Tax Cuts and Jobs Act have inspired a lot of people to enter the workforce, and that can't be a problem for the collection of the payroll taxes that strengthen Social Security.

With more jobs, record low unemployment, record high wage gains, and a growing economy, workers and families are able to save and invest more for their future. That has not only led to record high contributions, it has also led to increased optimism. A recent CNBC poll found that a majority of Americans are feeling more confident about saving for retirement today than they felt three years ago. And in a survey conducted by the Federal Reserve, 75 percent of retirees believe they have enough retirement income to maintain their standard of living.

We should focus on solutions that build on this progress and help even more Americans save. For example, the Setting Every Community Up For Retirement Enhancement Act of 2019, known as SECURE, introduced by bipartisan leaders on the Ways and Means Committee, would strengthen retirement security by encouraging job creators of all sizes to offer full and part-time employees more retirement options.

I look forward to exploring more bipartisan solutions like this today.

Mr. WOMACK. And with that I thank you again for holding this hearing, Mr. Chairman, and I yield back my time.

[The prepared statement of Steve Womack follows:]

Ranking Member Steve Womack (R-AR) Opening Remarks at Hearing on Strengthening Retirement Security

Thank you, Chairman Yarmuth, and thank you to our witnesses for joining us today.

Strengthening retirement security for today's seniors and families as well as future generations is a goal we all share. The question is how we get there – especially at a time when roughly 10,000 more baby boomers reach retirement age every single day.

Let's start with Social Security. Not only is it one of the biggest parts of our federal budget, making up 24 percent of all federal spending, it is also a primary source of retirement income for millions of Americans.

We've all seen the data and read the headlines – this program is in trouble.

As more Americans become eligible for Social Security benefits, and as Americans live longer, fewer Americans are entering the workforce and paying into the program. Over time, that means the money Social Security spends on benefits will outpace the revenue it brings in through payroll taxes.

At its current rate, the program will only be able to pay three quarters of the benefits retirees were promised by the year 2035.

I agree with my friends across the aisle – <u>that's not right</u>.

It's our responsibility in Congress to prevent these across-the-board benefit cuts and make sure this important program can continue – and work better – for workers and retirees today and for generations to come.

As America's demographics have evolved, lawmakers on both sides of the aisle have worked together on four separate occasions to pass structural reforms to improve this program.

Most recently, in 1983, Congress passed legislation to gradually increase the retirement age from 65 to 67. That was a commonsense, bipartisan idea to address the fact that Americans are living roughly 15 years longer today than they were when Social Security was first created in 1935.

I am committed to working together to uphold the history of bipartisan Social Security reforms.

One thing is certain – punishing today's workers and job creators with enormous tax hikes is not a solution. That approach would drag down our economy and penalize Americans for working hard, hurting millennials and small business employees the most.

When it comes to Social Security, we should focus on rewarding work while targeting benefits to help vulnerable Americans.

We can also strengthen retirement security for all Americans by continuing to promote policies that fuel our economy.

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We should focus on solutions that build on this progress and help even more Americans save.

For example, the Setting Every Community Up for Retirement Enhancement Act of 2019, or the SECURE Act, introduced by bipartisan leaders on the Ways and Means Committee, would strengthen retirement security by encouraging job creators of all sizes to offer full- and part-time employees more retirement options.

I look forward to exploring more bipartisan solutions like this today.

With that, thank you again for holding this hearing, Mr. Chairman. I yield back.

Chairman YARMUTH. I thank the Ranking Member. And as you—as we usually do, if any other members have opening statements, you may submit those statements in writing for the record.

Welcome, Chairman Larson. The Committee has received your written statement, and it will be made part of the formal hearing record. You will have five minutes to deliver your oral remarks. You may begin when you are ready——

STATEMENT OF HON. JOHN B. LARSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Mr. LARSON. Well, thank you, Mr. Chairman. I want to thank Chairman Yarmuth and Ranking Member Womack for the opportunity to come before the distinguished Budget Committee.

As you indicated, we have written testimony. And what I would like to do is deviate from that because of—you know, in your both of your opening remarks you covered a lot of the ground that I would go over.

I would add, in fact, that while—and you are right to say that this is—keeping our promise to American seniors is first and foremost, the Ways and Means Committee has already unanimously adopted the SECURE Act that Mr. Womack alluded to, and legislation also that would require automatic enrollment for employees.

Bipartisanly, Rich Neal is heading up leading legislation addressing multiemployer pension crisis that we face with a number of pieces of legislation.

I would also add that we want to go through these things and address them in a bipartisan fashion. And we think we have legislation that is increasingly—because we haven't had hearings in eight years, we think that legislation here is drawing critical masses of the required individuals.

This is our responsibility at the end of the day. The last time that Congress truly looked at this program was 36 years ago. And when they did it, they did it bipartisanly with, at the time, a reluctant Republican president, but one who became a chief advocate. And Tip O'Neill and Ronald Reagan get a lot of credit for bringing people together. But I would point out also that the Republicans controlled the Senate at that time also, and Howard Baker was the United States Senator.

What's at stake here? What's at stake here is the nation's leading insurance program and the nation's leading anti-poverty program. Without this program and the direction that we are headed in, by 2035 we would find ourselves in a situation where people who have earned $50,000 in income throughout their lives would face a 20 percent across-the-board cut, and would be living below the poverty level. It's our responsibility. We're the actuaries.

It's an insurance program. The public knows this, because it says they look at their pay stub and it says FICA. What does that mean? Federal Insurance Contribution Act. Whose contribution? Theirs. And approximately every one of us has approximately 100,000 more in districts, depending on how it is, people who are currently on Social Security.

It is our responsibility to make sure that the program is actuarially sound. I don't know how any member can go back to their district, look people in the eyes, including your mothers, your sisters, your aunts, your uncles, and say, "With our responsibility, when— on our watch, knowing everything that we do, and knowing as both the Chairman and Ranking Member have outlined, what our responsibility is that we chose not to act."

This has also become the civil rights issue of the day. It has also become a woman's issue of the day, and an economic development issue of the day. I talk about that in my testimony, but I just want to briefly underscore how we see the disadvantages that take place for women of color, for black men who have—find themselves with mortality rates and the inability to collect on monies that they have put forward into this program, and why across-the-board cuts, or hikes by raising the age of individuals that just turned 66—it is hiked, it will go up to 67. Another hike beyond that for every year that we add is a 7 percent cut. And with so many individuals depending upon Social Security, it's paramount that this Congress, faced with our responsibility, takes the action that it needs.

We have legislation that is out there. We have introduced it with more than 200 cosponsors. What we need is now the bipartisan support. It will pass the House of Representatives, there is no question about that.

And I want to commend the President of the United States for first taking a bold stand in a presidential debate when it really mattered, and saying this isn't an entitlement, this is an earned benefit. Now it is time for us to all come together and work collaboratively, so that we save this program and enhance it the way it should be.

I am happy to take your questions.

[The prepared statement of John B. Larson follows:]

JOHN B. LARSON
First District, Connecticut

COMMITTEE ON WAYS AND MEANS
Subcommittee on Social Security
Chairman
Subcommittee on Select Revenue Measures

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Written Testimony

before the

House Committee on Budget

Hearing on

"Keeping Our Promise to America's Seniors – Retirement Security in the 21st Century"

May 15, 2019

Thank you, Mr. Chairman, for the opportunity to testify before the House Committee on Budget on "Keeping Our Promise to America's Seniors – Retirement Security in the 21st Century." As Chairman of the House Ways and Means Subcommittee on Social Security, I am honored to discuss ways to strengthen retirement security for working families so that all Americans have the chance to enjoy a financially secure retirement.

Every day, 10,000 Baby Boomers become eligible for Social Security. These Americans are facing a retirement income crisis, with too many people in danger of not having enough in retirement to maintain their standard of living and avoid sliding into poverty. For almost two-thirds of beneficiaries, Social Security provides a majority of their income.

As a former insurance agent, I learned in insurance school about the "three-legged stool" of retirement security – employer-sponsored pensions, personal savings, and Social Security. All three legs of the stool are important to ensure retirement security and Congress needs to address ways to improve all three. But our greatest responsibility here in Congress is to protect Social Security and ensure that it meets the needs of today's beneficiaries and future generations.

I met yesterday with the newly confirmed Inspector General of the Social Security Administration and we discussed the imminent danger Social Security is facing if Congress does not act. The Social Security Subcommittee, the full Ways and Means Committee, the House of Representatives and all the Congress bear the responsibility to act before benefits are reduced by 20% in 2035.

Democrats will continue – as we always have – to work for solutions that will protect the intergenerational guarantee that Social Security provides for American families. In addition to protecting and expanding Social Security, we need to do more to help workers build retirement savings on their own.

The House Ways and Means Committee, under the leadership of Chairman Richard E. Neal, is working hard to address these needs. The Chairman has shepherded a bipartisan bill, the Setting Every Community Up for Retirement Enhancement Act – or the SECURE Act – through our committee as one of his first priorities, where it passed unanimously. The SECURE Act goes a long way to help Americans save. For example, the legislation includes a small employer automatic enrollment credit and a new tax credit of up to $500 per year to employers to defray startup costs for new Section 401(k) plans that include automatic enrollment. And it makes it easier for small businesses to sponsor retirement plans by strengthening open multiple employer plans.

In addition, the Chairman has introduced legislation that would require all but the smallest employers to maintain a 401(k) plan for their employees that will be considered later this year. Lastly the Chairman has committed to addressing the multiemployer pension crisis this year, which has left too many retirees with failing pension plans in a devastating predicament.

In the Social Security Subcommittee, we have focused this year on ways to protect and enhance Social Security so that it meets the needs of all American workers.

Social Security is the nation's premiere insurance program. It provides retirement, disability, spousal and dependent benefits to all working Americans.

It is not an entitlement, it is insurance you've paid for! That's why the deduction on your payroll is called FICA, the Federal Insurance Contribution Act. Whose contribution? Yours!

More than 62 million Americans are already receiving Social Security benefits.

According to the Social Security Trustees 2019 report, if Congress does not act before 2035, there will be a 20% reduction in benefits. In other words, for the person who was making $50,000 a year throughout their working career, they would be living below poverty level if these cuts go into effect.

The choice is simple. We need to work bipartisanly and act.

The Social Security Subcommittee has held three hearings in the 116th Congress in addition to one in February held by the full Committee on retirement security and the need to protect and enhance Social Security.

Social Security is a civil rights issue too. People of color rely on Social Security more than their white counterparts due to their lower wages, lower life expectancy, higher disability rates and because they are less likely to work for an employer who offers retirement or disability benefits. Among seniors who received Social Security benefits in 2014, 45% of African Americans, 52% of Latinos, and 53% of Asian Americans relied on it for all or almost all of their income, compared to 32% of whites. Children of color are more likely to receive Social Security benefits as well.

Social Security is also a women's issue. Women accrue fewer Social Security benefits than men but need it more. Due to the wage gap, women earn 80 cents for every dollar earned by men (and its even lower for women of color -- 61 cents for African American women and 53 cents for Hispanic women), resulting in smaller Social Security benefits. While 74 percent of women are now in the workforce, women also typically bear most of the responsibility for caregiving, interrupting or reducing time in the workforce, reducing their Social Security benefits. The average benefit for women is around $14,000. Without these modest benefits, 90% of women would be in poverty.

Social Security is the nation's largest economic development program. In 2014, Social Security contributed $1.6 trillion nationally as benefits were spent. Social Security benefits go right back in to the economy, nobody is getting rich off them. It is a not only a safety net for small business owners, it is a boon to entrepreneurship and business formation in this country.

Social Security isn't just an issue for seniors, it's is a millennials issue. Millennials will rely more on Social Security for their retirement security than their parents or grandparents have due to wage stagnation, job instability, unprecedented levels of student debt, rising housing costs in addition to the risks posed by increased life expectancy, the 2008 Great Recession, decline in union jobs and expansion of the gig economy. Two-thirds of millennials have ZERO retirement savings, and its worse for millennials of color.

I have a bill, with 206 cosponsors, the Social Security 2100 Act, which will expand and enhance Social Security, making the program financially stable through this century and beyond. The Social Security 2100 Act is the only legislative proposal that expands benefits, is fully paid for, and achieves "sustainable solvency," as determined by the Chief Actuary of the Social Security Administration.

It offers current beneficiaries an across the board benefit increase of approximately $300 a year, and it changes the formula for the Cost-of-Living-Adjustment to reflect costs that seniors face day to day.

It ensures that no one who has worked their whole life can retire into poverty, by increasing the special minimum benefit to 125% above the poverty level. It also provides tax relief for almost 12 million Social Security beneficiaries.

In closing, I commend the Chairman for holding this hearing on what I believe is the most important social issue of our time. I look forward to working with you to ensure that all working Americans are able to retire with the peace of mind that they will not be a burden to the next generation.

Chairman YARMUTH. I don't—any member want to ask Chairman Larson a question?

Great. We thank the Chairman for his testimony and his insights, and we appreciate your being here today.

Mr. LARSON. Thank you, Mr. Chairman.

Chairman YARMUTH. Thank you very much.

Mr. LARSON. You didn't even give me a chance to go into my Starbucks.

[Laughter.]

Mr. LARSON. These are my stump speech props that I have. But I would point out—and like to submit for the record—the Chief Actuary of Social Security—we have the only bill that has been deemed by the actuary to be sufficiently solvent. That meets the requirement by law that is our responsibility to sustain the program beyond 75 years.

[The information follows:]

SOCIAL SECURITY

Office of the Chief Actuary

January 30, 2019

The Honorable John Larson
Subcommittee on Social Security
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20515

The Honorable Richard Blumenthal
United States Senate
Washington, D.C. 20510

The Honorable Chris Van Hollen
United States Senate
Washington, D.C. 20510

Dear Chairman Larson, Senator Blumenthal, and Senator Van Hollen:

I am writing in response to your request for estimates of the financial effects on Social Security of the *Social Security 2100 Act*, which you introduced today. The estimates provided here reflect the intermediate assumptions of the 2018 Trustees Report. This Bill (hereafter referred to as the proposal) includes eight provisions with direct effects on the Social Security Trust Funds. We have enjoyed working closely with Kathryn Olson, Scott Stephanou, Brian Steele, and Alyssa Penna of your staffs in developing this proposal to meet your goals. The estimates and analysis provided here reflect the combined effort of many in the Office of the Chief Actuary, but most particularly Karen Glenn, Christopher Chaplain, Daniel Nickerson, Kyle Burkhalter, Michael Clingman, Anna Kirjusina, Katie Sutton, and Tiffany Bosley.

The enclosed tables provide estimates of the effects of the eight provisions on the cost, income, and combined trust fund reserves for the Old Age, Survivors, and Disability Insurance (OASDI) program, as well as estimated effects on retired worker benefit levels for selected hypothetical workers and effects on payroll tax levels. In addition, tables 1b and 1b.n provide estimates of the federal budget implications of these eight provisions with direct effects on the OASDI program.

Assuming enactment of the proposal, we estimate that the combined Social Security Trust Fund would be fully solvent (able to pay all scheduled benefits in full on a timely basis) throughout the 75-year projection period, under the intermediate assumptions of the 2018 Trustees Report. (Note that section 204 of this proposal would combine the currently separate operations and reserves of the OASI and DI Trust Funds into a single Social Security Trust Fund.) In addition, under this proposal the OASDI program would meet the further conditions for sustainable solvency, because projected combined trust fund reserves would be growing as a percentage of the annual cost of the program at the end of the long-range period.

The proposal includes eight provisions with direct effects on the OASDI program. The following list briefly identifies each provision of the proposal:

Section 101. Increase the first PIA formula factor from 90 percent to 93 percent for all benefits payable for months of entitlement January 2020 and later, including benefits for those becoming newly eligible both before and after January 2020.

Section 102. Use the Consumer Price Index for the Elderly (CPI-E) increase rather than the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) increase to calculate the cost-of-living adjustment (COLA), effective for December 2019 and later COLAs. We assume this change would increase the COLA by an average of 0.2 percentage point per year.

Section 103. Increase the special minimum PIA, beginning for workers who become newly eligible for retirement or disability benefits or die in 2020 or later. For workers becoming newly eligible or dying in 2020, the minimum PIA for 2020 for workers with 30 or more years of coverage (YOCs) is 125 percent of the annual poverty guideline for a single individual published by the Department of Health and Human Services for 2019, divided by 12. For workers becoming newly eligible or dying after 2020, the minimum PIA for their initial year of eligibility is increased by the growth in the national average wage index (AWI). For all affected workers, the minimum PIA is increased after their year of initial eligibility by the COLA.

Section 104. Replace the current-law thresholds for federal income taxation of OASDI benefits with a single set of thresholds at $50,000 for single filers and $100,000 for joint filers for taxation of up to 85 percent of OASDI benefits, effective for tax year 2020. These thresholds would be fixed and not indexed to price inflation or average wage increase. The amount of revenue from taxation of OASDI benefits that would be allocated to the HI Trust Fund will be at the same level as if the current-law computation (in the absence of this provision) were applied. The net amount of revenue from taxing OASDI benefits, after the allocation to HI, would be allocated to the combined Social Security Trust Fund.

Section 201 and Section 202. Apply the combined OASDI payroll tax rate on covered earnings above $400,000 paid in 2020 and later. Tax all covered earnings once the current-law taxable maximum exceeds $400,000. Credit the additional earnings that are taxed for benefit purposes by: (a) calculating a second average indexed monthly earnings ("AIME+") reflecting only additional earnings taxed above the current-law taxable maximum, (b) applying a 2-percent factor on this newly computed "AIME+" to develop a second component of the PIA, and (c) adding this second component to the current-law PIA.

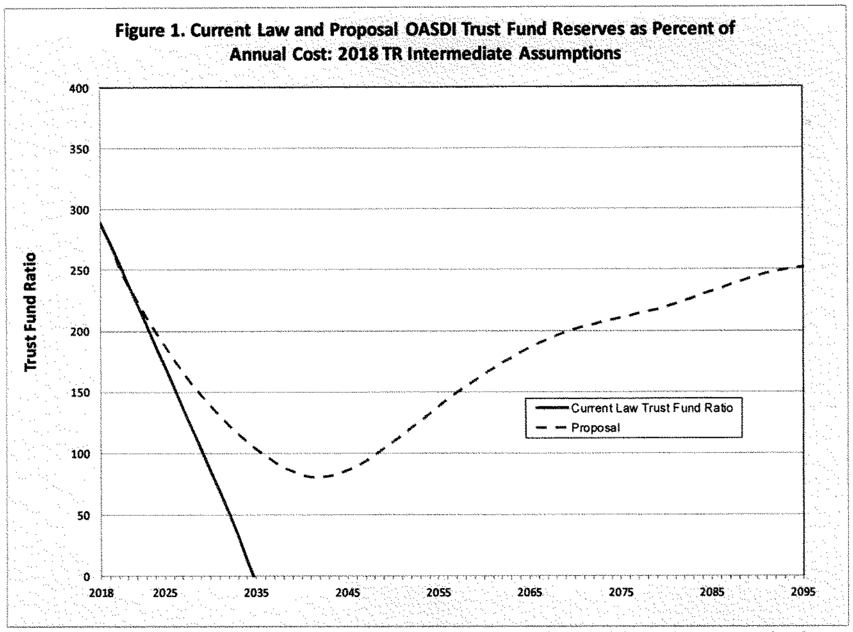
Section 203. Increase the combined OASDI payroll tax rate to 14.8 percent, fully effective for 2043 and later. The combined rate is increased by 0.1 percentage point each year starting in 2020, reaching the ultimate 14.8 percent rate for 2043 and later.

Section 204. Beginning in 2020, establish a new Social Security Trust Fund by combining the reserves of the separate OASI and DI Trust Funds and managing all future financial operations of the program on a combined basis.

The balance of this letter provides a summary of the effects of the eight provisions on the actuarial status of the OASDI program, our understanding of the specifications and intent of each of the eight provisions, and descriptions of our detailed financial estimates for trust fund operations, benefit levels, and implications for the federal budget. See the "Specification for Provisions of the Proposal" section of this letter for a more detailed description of these eight provisions.

Summary of Effects of the Proposal on OASDI Actuarial Status

Figure 1 illustrates the projected OASDI Trust Fund ratio through 2092 under current law and assuming enactment of the proposal. The trust fund ratio is defined as the combined Social Security Trust Fund reserves expressed as a percent of annual program cost. Assuming enactment of the proposal, the combined Social Security Trust Fund would be fully solvent throughout the 75-year projection period, under the intermediate assumptions of the 2018 Trustees Report. In addition, because the projected trust fund ratio is increasing at the end of the period, the proposal meets the conditions for sustainable solvency.

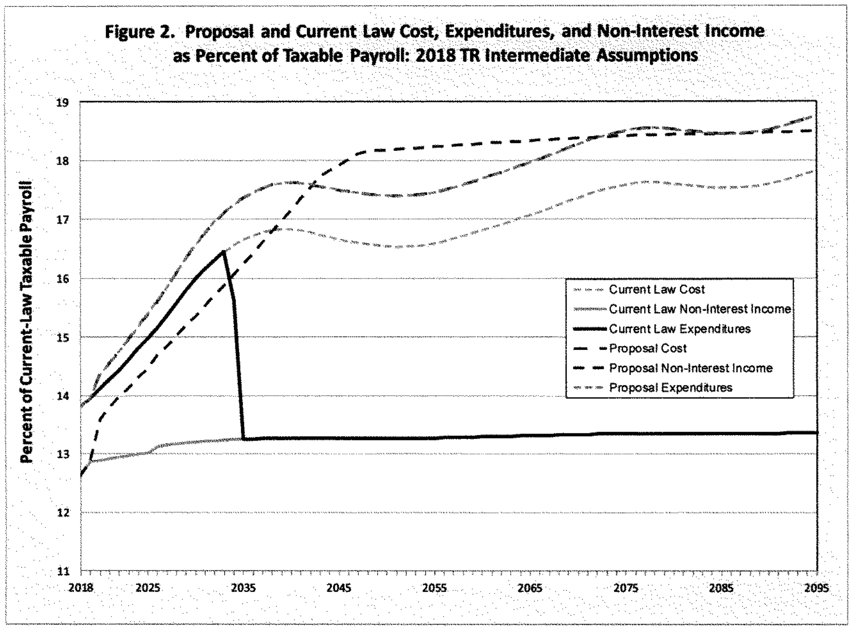


Note: *Trust Fund Ratio* for a given year is the ratio of reserves in the combined Social Security Trust Fund at the beginning of the year to the cost of the program for the year.

Under current law, 79 percent of scheduled benefits are projected to be payable on a timely basis in 2034 after depletion of the combined trust fund reserves, with the percentage payable declining to 74 percent for 2092. Under the proposal, the OASDI program would be solvent throughout the 75-year projection period, and would have the ability to pay 100 percent of scheduled benefits on a timely basis for the foreseeable future.

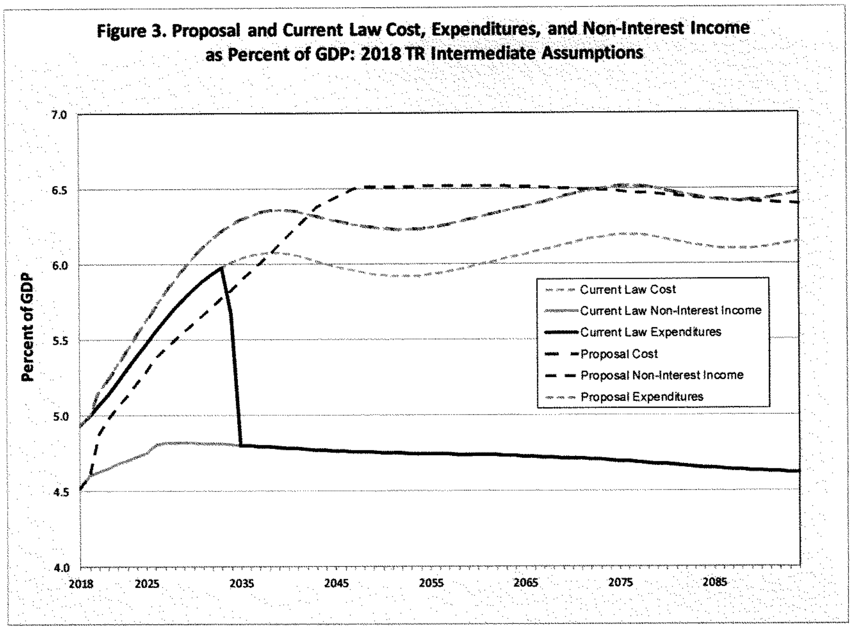
Enactment of the eight provisions of this proposal would change the long-range OASDI actuarial deficit from 2.84 percent of taxable payroll under current law to a positive actuarial balance of 0.25 percent of payroll under the proposal.

Figure 2 illustrates annual projected levels of cost, expenditures, and non-interest income as a percent of the current-law taxable payroll. The projected level of cost reflects the full cost of scheduled benefits under both current law and the proposal. Under the proposal, projected expenditures equal the full cost of scheduled benefits throughout the long-range period.



OASDI program annual cost under the proposal is higher than under current law, starting in 2020. This difference between proposal and current-law cost increases from 0.2 percent of current-law payroll for 2020 to 0.8 percent of current-law payroll for 2040, and thereafter increases more gradually, reaching 0.9 percent of current-law payroll for 2092. Beginning in 2020, non-interest income under the proposal is projected to be higher than under current law. This difference between proposal and current-law income increases from 0.7 percent of current-law payroll for 2020 to 4.9 percent of current-law payroll for 2050, and thereafter increases more gradually, reaching 5.1 percent of current-law payroll for 2092. For 2020 and later, the proposal improves the annual balance (non-interest income minus program cost).

It is also useful to consider the projected cost, expenditures, and income for the OASDI program expressed as a percentage of Gross Domestic Product (GDP). Figure 3 illustrates these levels under both current law and the proposal.



Specification for Provisions of the Proposal

Section 101. *Increase the first PIA factor to 93 percent for all beneficiaries beginning in 2020.*

This provision increases the first factor in the PIA formula from 90 to 93 percent for all benefits payable for months of eligibility January 2020 and later, including benefits for those becoming newly eligible both before and after January 2020.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.24 percent of taxable payroll and would *increase* the annual deficit for the 75th projection year (2092) by 0.26 percent of payroll.

Section 102. *Use the CPI-E increase rather than the CPI-W increase to calculate the COLA, effective for December 2019 and later COLAs.*

Under current law, the annual cost-of-living adjustment (COLA) applied to Social Security benefits is calculated using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). We estimate that using the Consumer Price Index for the Elderly (CPI-E) increase rather than the CPI-W increase in each year beginning with the December 2019 COLA would increase the effective COLA by 0.2 percentage points per year on average.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.40 percent of taxable payroll and would *increase* the annual deficit for the 75th projection year (2092) by 0.54 percent of payroll.

Section 103. *Increase the special minimum PIA for workers who become newly eligible for retirement or disability benefits or die in 2020 or later.*

Under this provision, the minimum initial PIA for workers becoming newly eligible or dying in 2020 with 30 or more years of coverage (YOCs) would be 125 percent of the annual poverty guideline for a single individual published by the Department of Health and Human Services for 2019, divided by 12. For those with less than 30 YOCs, the minimum PIA per YOC in excess of 10 YOCs is the minimum PIA for workers with 30 or more YOCs, divided by 20. Any year in which a worker earns 4 quarters of coverage is determined to be a YOC. For workers becoming newly eligible or dying after 2020, the initial PIA per YOC in excess of 10 YOCs is indexed by growth in the national average wage index (AWI) to determine the minimum PIA applicable for the year of initial eligibility. After the year of initial eligibility, the minimum benefit is increased by the COLA for each cohort. The 30 and 10 YOC levels apply for all workers, including those who die or become disabled under age 62.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.12 percent of taxable payroll and would *increase* the annual deficit for the 75th projection year (2092) by 0.17 percent of payroll.

Section 104. *Replace the current-law thresholds for federal income taxation of OASDI benefits with a single set of thresholds at $50,000 for single filers and $100,000 for joint filers, for taxation of up to 85 percent of OASDI benefits, effective for tax years 2020 and later.*

Under current law, single tax filers with combined "income" (approximately equal to adjusted gross income plus non-taxable interest income and one-half of their Social Security benefit) greater than $25,000 may have to pay income tax on up to 50 percent of their Social Security benefits. If combined "income" exceeds $34,000, up to 85 percent of benefits may be taxable. The income tax revenue for taxing up to 50 percent of Social Security benefits is credited to the OASI and DI Trust Funds. The additional income tax revenue derived from taxing benefits in excess of 50 percent, up to 85 percent, is credited to the Hospital Insurance (HI) Trust Fund. The process is similar for joint tax filers, with $32,000 and $44,000 thresholds applying for possible taxation of up to 50 percent or 85 percent of the Social Security benefits, respectively. All threshold levels are fixed amounts and not indexed to price inflation or average wage increase.

Under the proposal, both sets of the current-law thresholds would be replaced with a single set of thresholds, $50,000 and $100,000 for single and joint filers, respectively, for taxing up to 85 percent of OASDI benefits, beginning for tax year 2020. These new thresholds would be unchanged for tax years after 2020. The amount of revenue from taxation of OASDI benefits that would be allocated to the HI Trust Fund would be at the same level as if the current-law computation (in the absence of this provision) were applied. The net amount of revenue from taxing OASDI benefits, after the allocation to HI, would be allocated to the combined Social Security Trust Fund.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.16 percent of taxable payroll and would *increase* the annual deficit for the 75th projection year (2092) by 0.01 percent of payroll.

Section 201 and Section 202. *Apply OASDI payroll tax rate on covered earnings above $400,000 paid in 2020 and later. Reflect additional earnings subject to tax in computing the PIA.*

These provisions apply the OASDI payroll tax rate to covered earnings above $400,000 paid in 2020 and later. The $400,000 level is a fixed amount after 2020 and not indexed to price inflation or average wage increase. All covered earnings would be taxed once the current-law taxable maximum exceeds $400,000, which is projected to occur in 2048. Any covered earnings above the higher of $400,000 or the current-law taxable maximum in a given year would be counted as "excess wages" and would be credited for benefit purposes by:

a. Calculating a second average indexed monthly earnings ("AIME+") reflecting only additional earnings taxed under this provision,
b. Applying a 2-percent PIA factor to this newly computed "AIME+" to develop a second component of the PIA, and
c. Adding this second PIA component to the current-law PIA.

We estimate that enactment of these two provisions alone would reduce the long-range OASDI actuarial deficit by 1.90 percent of taxable payroll and would reduce the annual deficit for the 75th projection year (2092) by 2.35 percent of payroll.

Section 203. *Increase the OASDI payroll tax rate to 14.8 percent, fully effective for 2043 and later.*

The increase in the OASDI payroll tax rate is phased in by increasing the payroll tax rate by 0.05 percentage point for employers and 0.05 percentage point for employees (0.10 percentage point total), every year from 2020 through 2043. For years 2043 and later, the OASDI payroll tax rate is 7.4 percent for employers and 7.4 percent for employees (14.8 percent total), up from 6.2 percent each (12.4 percent total) under current law.

We estimate that enactment of this provision alone would reduce the long-range OASDI actuarial deficit by 1.81 percent of taxable payroll and would reduce the annual deficit for the 75th projection year (2092) by 2.38 percent of payroll.

Section 204. *Combine the separate OASI and DI Trust Funds effective in 2020.*

Beginning in 2020, establish a new Social Security Trust Fund by combining the reserves of the separate OASI and DI Trust Funds and managing all future financial operations of the program on a combined basis. This provision alone would not change scheduled benefits or income in the law.

Enactment of this provision alone would have a negligible effect (between -0.005 and 0.005 percent of taxable payroll) on the long-range OASDI annual balance and on the annual deficit for the 75th projection year (2092).

Detailed Financial Results for the Provisions of the Proposal

Summary Results by Provision

Table A provides estimates of the effects on the OASDI long-range actuarial balance of the eight provisions of the proposal separately and on a combined basis. The table also includes estimates of the effect of the provisions on the annual balance (the difference between income rate and the cost rate, expressed as a percent of current-law taxable payroll) for the 75th projection year, 2092. Interaction among individual provisions is reflected only in the total estimates for the combined provisions.

Benefit Illustrations

Tables B1 and B2 provide illustrative examples of the projected change in benefit levels under the provisions of the proposal for beneficiaries retiring and starting benefit receipt at age 65 in future years at six selected earnings levels, with selected numbers of years of work. The "Maximum-AIME Steady Earner" is assumed to have earnings at ages 22 through 64 that equal the current-law taxable maximum level (equivalent to $128,400 for 2018) and the "Twice Maximum-AIME Steady Earner" is assumed to have earnings at ages 22 through 64 that equal twice the current-law taxable maximum level (equivalent to $256,800 for 2018). As a result, the provision to tax and credit earnings above the current-law taxable maximum affects only the "Twice Maximum-AIME Steady Earner" benefit level. **Table B3** provides additional important information on characteristics of retired workers represented by these illustrations for the year 2007.

The first several columns of Table B1 compare the initial scheduled benefit levels, assuming retirement at age 65 under the provisions of the proposal, to scheduled current-law benefit levels. All scheduled benefit amounts under the proposal are higher than those scheduled in current law, with the largest increases for the very-low and low hypothetical earners with at least 30 years of earnings (due largely to the minimum benefit provision). The final three columns of this table show the level of scheduled benefits under the proposal as a percentage of current-law scheduled benefits, the level of scheduled benefits under the proposal as a percentage of current-law payable benefits, and the level of payable benefits under the proposal as a percentage of current-law payable benefits, respectively.

Table B2 compares the change in scheduled benefit levels at ages 65, 75, 85, and 95 under the proposal to scheduled benefits under current law, assuming retirement and start of benefit receipt at age 65. Table B2 shows that projected scheduled benefits under the provisions of the proposal increase in relation to current-law scheduled benefits between ages 65 and 95, because of the change in computing the COLA.

The hypothetical workers represented in these tables reflect average career-earnings patterns of workers who started receiving retirement benefits under the Social Security program in recent years. The tables subdivide workers with very-low, low, and medium career-average earnings levels by their numbers of years of non-zero earnings.

Table B3 provides information helpful in interpreting the benefit illustrations in Tables B1 and B2. Percentages in Table B3 are based on tabulations from a 10-percent sample of newly-entitled retired workers in 2007. Table B3 displays the percentages of these newly-entitled retired workers in 2007 that are closest to each of the illustrative examples and are:

1) "Dually Entitled", meaning they received a higher spouse or widow(er) benefit based on the career earnings of their husband or wife,
2) "WEP" (Windfall Elimination Provision), meaning that they received a reduced benefit due to having a pension based on earnings that were not covered under the OASDI program (primarily certain government workers), and they had less than 30 years of substantial earnings that were taxable under the OASDI program,
3) "Foreign Born", meaning that they entered the Social Security coverage area after birth (and generally after entering working ages), and
4) "All Others", meaning they had none of the three characteristics listed above.

The extent to which retired-worker beneficiaries represented by each of the illustrative examples have any of the characteristics listed above (dually entitled, WEP, foreign born) is important because such individuals are less dependent on the OASDI benefit that relates to their own career-average earnings level. It should be noted that the distributions shown in Table B3 for retirees in 2007 will be changing somewhat for beneficiaries becoming entitled as retired-worker beneficiaries in the future.

Payroll Tax Effects

Table T compares the scheduled payroll tax levels under the provisions of the proposal to scheduled current-law payroll tax levels. Under the proposal, the currently scheduled payroll tax rate of 12.4 percent would be gradually increased to 14.8 percent for 2043 and later. At that point, the amount of payroll tax paid by workers earning at the level of the current-law taxable maximum amount or below would be increased by 19.4 percent. Because the payroll tax would additionally apply to annual earnings in excess of $400,000 starting in 2020, payroll tax liability would increase by more than 19.4 percent for some workers earning over the higher of $400,000 and the current-law taxable maximum amount even before 2043. For example, Table T shows that the worker with earnings at twice the current-law taxable maximum in 2030 would have payroll tax liability increased by 17.7 percent. By 2050, workers with earnings at twice the current-law taxable maximum would have payroll tax liability increased by 138.7 percent.

Detailed Tables Containing Annual and Summary Projections

Enclosed with this letter are **tables 1, 1a, 1b, 1b.n, 1c, and 1d,** which provide annual and summary projections for the proposal.

Trust Fund Operations

Table 1 provides projections of the financial operations of the OASDI program under the proposal and shows that the combined Social Security Trust Fund would be fully solvent throughout the 75-year projection period. The OASDI program would also be solvent for the foreseeable future (sustainably solvent), because the trust fund ratio is projected to rise by the end of the period, 2093.

The table shows the annual cost and income rates, annual balances, and trust fund ratios (reserves as percent of annual program cost) for OASDI, as well as the change from current law in these cost rates, income rates, and annual balances. Included at the bottom of this table are summarized rates for the 75-year (long-range) period.

For 2020 and later, the proposal improves the annual balance (non-interest income minus program cost). The improvement in the annual balance increases from 0.5 percent of current-law payroll for 2020 to 4.1 percent for 2050, and thereafter increases slightly to 4.2 percent for 2092. Under the proposal, the annual deficit declines from 1.2 percent of current-law payroll for 2018 to 0.7 percent for 2021, generally increases to 1.2 percent for 2032, and then declines until the annual balance turns positive for 2043. The annual balance increases to 0.8 percent for 2052 and then declines steadily through 2073, at which point the annual balance becomes negative, ultimately reaching an annual deficit of 0.1 percent of current-law payroll for 2092. Under current law, the projected annual deficit for 2092 is 4.3 percent of payroll.

The actuarial balance for the OASDI program over the 75-year projection period is improved by 3.10 percent of taxable payroll, from an actuarial deficit of 2.84 percent of payroll under current law to a positive actuarial balance of 0.25 percent of taxable payroll under the proposal.

Program Transfers and Trust Fund Reserves

Column 4 of **Table 1a** provides a projection of the level of reserves for the combined Social Security Trust Fund, assuming enactment of the eight Social Security provisions of the proposal. These trust fund reserve amounts are expressed in present value dollars discounted to January 1, 2018. The table indicates that the provisions include no new specified transfers of general revenue to the combined Social Security Trust Fund. For purpose of comparison, the OASDI Trust Fund reserves, expressed in present value dollars, are also shown for the current-law Social Security program both without and with the added proposal general fund transfers (zero in this case) in columns 6 and 7.

Note that negative values in columns 6 and 7 represent the "unfunded obligation" for the program through the year. The unfunded obligation is the present value of the shortfall of revenue needed to pay full scheduled benefits on a timely basis from the date of trust fund reserve depletion through the end of the indicated year. Gross Domestic Product (GDP), expressed in present value dollars, is shown in column 5 for comparison with other values in the table.

Effect of the Social Security Provisions on the Federal Budget

Table 1b shows the projected effect, in present value discounted dollars, on the federal budget (unified-budget and on-budget) annual cash flows and balances, assuming enactment of the eight Social Security provisions of the proposal. We note that section 105 of the Bill provides for "holding SSI, Medicaid, and CHIP beneficiaries harmless" from potential implications of the other sections in the Bill. Our analysis provided in these tables does not reflect the effects on these programs under the on-budget operations of the federal government. Table **1b.n** provides the estimated nominal dollar effect of enactment of the proposal on annual budget balances for years 2018 through 2028. All values in these tables represent the amount of *change* from the level projected under current law. In addition, changes reflect the *budget scoring convention* that presumes benefits, not payable under the law after depletion of trust fund reserves, would still be paid using revenue provided from the General Fund of the Treasury. The reader should be cautioned that this presumption of payment of benefits beyond the resources of the trust funds is prohibited under current law and is also inconsistent with all past experience under the Social Security program.

Column 1 of Table 1b shows the added proposal general fund transfers (zero for this proposal). Column 2 shows the net changes in OASDI cash flow from all provisions of the proposal.

We project the net effect of the proposal on unified budget cash flow (column 3) to be positive in years 2020 and later, primarily due to the payroll tax rate increase in provision 6 and the payroll tax newly applied to earnings above $400,000 in provision 5.

Column 4 of Table 1b indicates that the effect of implementing the proposal is a reduction of the theoretical federal debt held by the public, reaching about $15.3 trillion in present value at the end of the 75-year projection period. Column 5 provides the projected effect of the proposal on the annual unified budget balances, including both the cash flow effect in column 3 and the additional interest on the accumulated debt in column 4. Columns 6 and 7 indicate that the provisions of this proposal would have no expected direct effects on the on-budget cash flow, or on the total federal debt, in the future.

It is important to note that we base these estimates on the intermediate assumptions of the 2018 Trustees Report, so these estimates are not consistent with estimates made by the Office of Management and Budget or the Congressional Budget Office based on their assumptions. In particular, all present values are discounted using trust fund yield assumptions under the intermediate assumptions of the 2018 Trustees Report.

Annual Trust Fund Operations as a Percent of GDP

Table 1c provides annual cost, annual expenditures (amount that would be payable), and annual tax income for the OASDI program expressed as a percentage of GDP for both current law and assuming enactment of the eight Social Security provisions of the proposal. Showing the annual trust fund cash flows as a percent of GDP provides an additional perspective on these trust fund operations in relation to the total value of goods and services produced in the United States. The relationship between income and cost is similar when expressed as a percent of GDP to that when expressed as a percent of taxable payroll (Table 1). Under this proposal, expenditures are estimated to equal total cost for all projection years because proposal income is estimated to be sufficient to pay full scheduled benefits throughout the period.

Effects on Trust Fund Reserves and Unfunded Obligations

Table 1d provides estimates of the changes in trust fund reserves and unfunded obligations on an annual basis. Values in this table are expressed in present value dollars discounted to January 1, 2018.

For the 75-year (long-range) period as a whole, the current-law unfunded obligation of $13.2 trillion is replaced by a positive trust fund reserve of $2.1 trillion in present value assuming enactment of the proposal. This change of $15.3 trillion results from:

- A $18.9 trillion net increase in revenue (column 2), primarily from additional payroll tax, *minus*
- A $3.7 trillion net increase in cost (column 3), primarily from the special minimum PIA provision, the change in computing the COLA, increases in current and future benefits from replacing the 90 percent factor in the PIA formula with 93 percent, and additional benefits from earnings taxed above the current-law taxable maximum.

We hope these estimates are helpful. Please let me know if we may provide further assistance.

Sincerely,

Stephen C. Goss

Stephen C. Goss, ASA, MAAA
Chief Actuary

Enclosures

Table A—Estimated Long-Range OASDI Financial Effects of the "Social Security 2100 Act" (116th Congress), Introduced by Chairman Larson, Senator Blumenthal, and Senator Van Hollen

Provision	Estimated Change in Long-Range OASDI Actuarial Balance [1] (as a percent of payroll)	Estimated Change in Annual Balance for 75th year [2] (as a percent of payroll)
Section 101) Increase the first PIA formula factor from 90 percent to 93 percent for all benefits payable for months of entitlement January 2020 and later, including benefits for those becoming newly eligible both before and after January 2020	-0.24	-0.26
Section 102) Use the increase in the Consumer Price Index for the Elderly (CPI-E) rather than the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) to calculate the cost-of-living adjustment (COLA), effective for December 2019 and later COLAs. We estimate this new computation would increase the annual COLA by about 0.2 percentage point, on average	-0.40	-0.54
Section 103) Beginning in 2020, reconfigure the special minimum PIA for workers becoming newly eligible or dying after 2019: (a) A year of coverage (YOC) is defined as a year in which 4 quarters of coverage are earned. (b) For those becoming newly eligible or dying in 2020 with 30 or more YOCs, set the minimum PIA equal to 125 percent of the 2019 Department of Health and Human Services (HHS) monthly poverty level. For those with under 30 YOCs, the PIA per YOC in excess of 10 YOCs is 125 percent of this poverty level calculation, divided by 20. (c) For workers becoming newly eligible or dying after 2020, index the initial PIA per YOC by growth in the national average wage index (AWI). The 30 and 10 YOC levels apply for all workers, including those who die or become disabled under age 62	-0.12	-0.17
Section 104) Increase the thresholds for taxation of up to 85 percent of OASDI benefits, to $50,000 for single filers and $100,000 for joint filers, effective for tax year 2020. These thresholds would be fixed and not indexed to price inflation or average wage increase. The amount of revenue from taxation of OASDI benefits that would be allocated to the HI Trust Fund would be the same as if the current-law computation (in the absence of this provision) applied. The net amount of revenue from taxing OASDI benefits, after the allocation to HI, would be allocated to the combined Social Security Trust Fund	-0.16	-0.01

Table A—Estimated Long-Range OASDI Financial Effects of the "Social Security 2100 Act" (116th Congress), Introduced by Chairman Larson, Senator Blumenthal, and Senator Van Hollen

Provision	Estimated Change in Long-Range OASDI Actuarial Balance [1] (as a percent of payroll)	Estimated Change in Annual Balance for 75th year [2] (as a percent of payroll)
Section 201 and Section 202) Apply the OASDI payroll tax rate on covered earnings above $400,000 paid in 2020 and later, and tax all covered earnings once the current-law taxable maximum exceeds $400,000. Credit the additional earnings taxed for benefit purposes by: (a) calculating a second average indexed monthly earnings ("AIME+") reflecting only earnings taxed above the current-law taxable maximum, (b) applying a 2 percent factor on this newly computed "AIME+" to develop a second component of the PIA, and (c) adding this second component to the current-law PIA	1.90	2.35
Section 203) Increase the combined OASDI payroll tax rate to 14.8 percent, fully effective for 2043 and later. The combined rate is increased by 0.1 percentage point each year starting in 2020, reaching the ultimate 14.8 percent rate for 2043 and later	1.81	2.38
Section 204) Beginning in 2020, establish a new Social Security Trust Fund by combining the reserves of the separate OASI and DI Trust Funds and managing all future operations of the program on a combined basis	[3]	[3]
Total for all provisions, including interaction...................	**3.10**	**4.19**

[1]Under current law, the estimated long-range OASDI actuarial balance is -2.84 percent of taxable payroll.
[2]Under current law, the estimated 75th year annual balance is -4.32 percent of taxable payroll.
[3]Negligible; that is, between -0.005 and 0.005 percent of taxable payroll.

Notes: All estimates are based on the intermediate assumptions of the 2018 OASDI Trustees Report.
Estimates of individual provisions appear on a stand-alone basis relative to current law, unless otherwise stated.

Social Security Administration
Office of the Chief Actuary
January 30, 2019

Table B1. Changes in Benefits for Hypothetical Workers Beginning Benefit Receipt at age 65

"Social Security 2100 Act," Introduced by Chairman Larson, Senator Blumenthal, and Senator Van Hollen

Year Attain Age 65	Current Law Scheduled Monthly Benefits[4] (Wage-Indexed 2018 Dollars)	Current Law Scheduled Monthly Benefits[4] (CPI-Indexed 2018 Dollars)	Scheduled Benefit Level Percent Change at age 65 (Percent change): COLA[5]	Benefit Formula[6]	Minimum Benefit[7]	Total[8]	Benefit Ratios (Percents): Proposal Scheduled to Current Law Scheduled	Proposal Scheduled to Current Law Payable	Proposal Payable to Current Law Payable
Very-Low-AIME ($12,974 for 2018[1]) 30-Year Scaled Earner (10.1% of Retirees[2])									
2018	744	744	0.0	0.0	0.0	0.0	100	100	100
2030	695	838	0.6	3.2	38.9	44.2	144	144	144
2050	700	1,074	0.6	3.2	38.9	44.2	144	182	182
2080	703	1,521	0.6	3.2	38.9	44.2	144	194	194
Very-Low-AIME ($12,974 for 2018[1]) 20-Year Scaled Earner (5.3% of Retirees[2])									
2018	744	744	0.0	0.0	0.0	0.0	100	100	100
2030	695	838	0.6	3.2	0.0	3.8	104	104	104
2050	700	1,074	0.6	3.2	0.0	3.8	104	131	131
2080	703	1,521	0.6	3.2	0.0	3.8	104	139	139
Very-Low-AIME ($12,974 for 2018[1]) 14-Year Scaled Earner (4.1% of Retirees[2])									
2018	744	744	0.0	0.0	0.0	0.0	100	100	100
2030	695	838	0.6	3.2	0.0	3.8	104	104	104
2050	700	1,074	0.6	3.2	0.0	3.8	104	131	131
2080	703	1,521	0.6	3.2	0.0	3.8	104	139	139
Low-AIME ($23,353 for 2018[1]) 44-Year Scaled Earner (17.1% of Retirees[2])									
2018	974	974	0.0	0.0	0.0	0.0	100	100	100
2030	910	1,098	0.6	2.4	6.9	10.1	110	110	110
2050	916	1,405	0.6	2.4	6.9	10.1	110	139	139
2080	920	1,990	0.6	2.4	6.9	10.2	110	148	148
Low-AIME ($23,353 for 2018[1]) 30-Year Scaled Earner (4.4% of Retirees[2])									
2018	974	974	0.0	0.0	0.0	0.0	100	100	100
2030	910	1,098	0.6	2.4	6.9	10.1	110	110	110
2050	916	1,405	0.6	2.4	6.9	10.1	110	139	139
2080	920	1,990	0.6	2.4	6.9	10.2	110	148	148
Low-AIME ($23,353 for 2018[1]) 20-Year Scaled Earner (1.7% of Retirees[2])									
2018	974	974	0.0	0.0	0.0	0.0	100	100	100
2030	910	1,098	0.6	2.4	0.0	3.0	103	103	103
2050	916	1,405	0.6	2.4	0.0	3.0	103	130	130
2080	920	1,990	0.6	2.4	0.0	3.0	103	138	138
Medium-AIME ($51,894 for 2018[1]) 44-Year Scaled Earner (28.6% of Retirees[2])									
2018	1,605	1,605	0.0	0.0	0.0	0.0	100	100	100
2030	1,500	1,810	0.6	1.5	0.0	2.1	102	102	102
2050	1,510	2,317	0.6	1.5	0.0	2.1	102	129	129
2080	1,517	3,281	0.6	1.5	0.0	2.1	102	137	137
Medium-AIME ($51,894 for 2018[1]) 30-Year Scaled Earner (2.2% of Retirees[2])									
2018	1,605	1,605	0.0	0.0	0.0	0.0	100	100	100
2030	1,500	1,810	0.6	1.5	0.0	2.1	102	102	102
2050	1,510	2,317	0.6	1.5	0.0	2.1	102	129	129
2080	1,517	3,281	0.6	1.5	0.0	2.1	102	137	137
High-AIME ($83,031 for 2018[1]) 44-Year Scaled Earner (19.1% of Retirees[2])									
2018	2,127	2,127	0.0	0.0	0.0	0.0	100	100	100
2030	1,986	2,396	0.6	1.1	0.0	1.7	102	102	102
2050	1,999	3,068	0.6	1.1	0.0	1.7	102	129	129
2080	2,009	4,345	0.6	1.1	0.0	1.7	102	137	137
Maximum-Current-Law-AIME ($128,400 for 2018[1]) 43-Year Steady Earner (7.1% of Retirees[2])									
2018	2,590	2,590	0.0	0.0	0.0	0.0	100	100	100
2030	2,430	2,932	0.6	0.9	0.0	1.5	102	102	102
2050	2,445	3,751	0.6	0.9	0.0	1.5	102	128	128
2080	2,449	5,296	0.6	0.9	0.0	1.5	102	136	136
Twice Maximum-Current-Law-AIME ($256,800 for 2018[1]) 43-Year Steady Earner[3]									
2018	2,590	2,590	0.0	0.0	0.0	0.0	100	100	100
2030	2,430	2,932	0.6	0.9	0.0	1.5	102	102	102
2050	2,445	3,751	0.6	3.4	0.0	4.0	104	132	132
2080	2,449	5,296	0.6	7.7	0.0	8.3	108	146	146

[1] Average of highest 35 years of taxable earnings wage indexed to 2018. For the Maximum and Twice Maximum-Current-Law-AIME workers, we show one times and two times the 2018 taxable maximum, respectively.

[2] Projected percent of new retired worker awards in 2050 with current-law AIME levels and years of covered earnings closest to AIME levels and years of covered earnings shown.

[3] If all earnings were considered, unlimited by annual taxable maximums, then about 1.5 percent of all retirees would have an AIME closer to Twice Maximum-Current-Law than Maximum-Current-Law.

[4] After the trust fund reserves deplete under current law continuing taxes are expected to be enough to pay about three fourths of scheduled benefits.

[5] Starting Dec 2019, compute the COLA using a chained CPI-E, producing 0.2% higher annual COLAs on average.

[6] For benefits payable beginning in 2020, increase the 90 percent PIA factor to 93 percent. Starting in 2020, apply the OASDI payroll tax rate on earnings above $400,000, and tax all earnings once the current-law taxable maximum exceeds $400,000. Credit the additional earnings for benefit purposes by: (a) calculating a second average indexed monthly earnings ("AIME+") reflecting only earnings taxed above the current law taxable maximum, (b) applying a 2 percent factor on this newly computed "AIME+" to develop a second component of the PIA, and (c) adding this second component to the first PIA component.

[7] For beneficiaries newly eligible in 2020, establish a minimum PIA level such that a worker with 30/10 years of coverage would receive a minimum PIA for 2020 of at least 125%/0% of the monthly poverty level for 2019. For beneficiaries newly eligible after 2020, the minimum PIA level for their initial year of eligibility would be adjusted for average wage growth. The minimum PIA is increased after the year of initial eligibility by the COLA. The Minimum Benefit Percent change is calculated after all other provisions, so that the Proposed Benefit Amount is at least the Minimum Benefit, where applicable.

[8] This analysis reflects only the provisions of the proposal identified in the table and described in the footnotes above.

All estimates based on the intermediate assumptions of the 2018 Trustees Report.

Office of the Chief Actuary, Social Security Administration — January 30, 2019

Table B2. Changes in Benefits for Hypothetical Workers Beginning Benefit Receipt at age 65
"Social Security 2100 Act," Introduced by Chairman Larson, Senator Blumenthal, and Senator Van Hollen

Year Attain Age 65	Age 65	Age 75	Age 85	Age 95
	Proposal Scheduled Benefit as Percent of Current Law Scheduled (Percent)			
	Very-Low-AIME ($12,974 for 2018[1]) 30-Year Scaled Earner (10.1% of Retirees[2])			
2018	100.0	105.0	107.1	109.2
2030	144.2	147.0	149.9	152.8
2050	144.2	147.0	149.9	152.8
2080	144.2	147.0	149.9	152.8
	Very-Low-AIME ($12,974 for 2018[1]) 20-Year Scaled Earner (5.3% of Retirees[2])			
2018	100.0	105.0	107.1	109.2
2030	103.8	105.8	107.9	110.0
2050	103.8	105.8	107.9	110.0
2080	103.8	105.8	107.9	110.0
	Very-Low-AIME ($12,974 for 2018[1]) 14-Year Scaled Earner (4.1% of Retirees[2])			
2018	100.0	105.0	107.1	109.2
2030	103.8	105.8	107.9	110.0
2050	103.8	105.8	107.9	110.0
2080	103.8	105.8	107.9	110.0
	Low-AIME ($23,353 for 2018[1]) 44-Year Scaled Earner (17.1% of Retirees[2])			
2018	100.0	104.3	106.3	108.4
2030	110.1	112.3	114.5	116.8
2050	110.1	112.3	114.5	116.8
2080	110.2	112.3	114.5	116.8
	Low-AIME ($23,353 for 2018[1]) 30-Year Scaled Earner (4.4% of Retirees[2])			
2018	100.0	104.3	106.3	108.4
2030	110.1	112.3	114.5	116.8
2050	110.1	112.3	114.5	116.8
2080	110.2	112.3	114.5	116.8
	Low-AIME ($23,353 for 2018[1]) 20-Year Scaled Earner (1.7% of Retirees[2])			
2018	100.0	104.3	106.3	108.4
2030	103.0	105.1	107.1	109.2
2050	103.0	105.1	107.1	109.2
2080	103.0	105.1	107.1	109.2
	Medium-AIME ($51,894 for 2018[1]) 44-Year Scaled Earner (28.6% of Retirees[2])			
2018	100.0	103.3	105.3	107.4
2030	102.1	104.1	106.1	108.2
2050	102.1	104.1	106.1	108.2
2080	102.1	104.1	106.1	108.2
	Medium-AIME ($51,894 for 2018[1]) 30-Year Scaled Earner (2.2% of Retirees[2])			
2018	100.0	103.3	105.3	107.4
2030	102.1	104.1	106.1	108.2
2050	102.1	104.1	106.1	108.2
2080	102.1	104.1	106.1	108.2
	High-AIME ($83,031 for 2018[1]) 44-Year Scaled Earner (19.1% of Retirees[2])			
2018	100.0	102.9	104.9	107.0
2030	101.7	103.7	105.7	107.8
2050	101.7	103.7	105.7	107.8
2080	101.7	103.7	105.7	107.8
	Maximum-Current-Law-AIME ($128,400 for 2018[1]) 43-Year Steady Earner (7.1% of Retirees[2])			
2018	100.0	102.7	104.7	106.8
2030	101.5	103.5	105.5	107.6
2050	101.5	103.5	105.5	107.6
2080	101.5	103.5	105.5	107.6
	Twice Maximum-Current-Law-AIME ($256,800 for 2018[1]) 43-Year Steady Earner[3]			
2018	100.0	102.7	104.7	106.8
2030	101.5	103.5	105.5	107.6
2050	104.0	106.0	108.1	110.3
2080	108.3	110.5	112.6	114.9

[1] Average of highest 35 years of taxable earnings wage indexed to 2018. For the Maximum and Twice Maximum-Current-Law-AIME workers, we show one times and two times the 2018 taxable maximum, respectively.

[2] Projected percent of new retired worker awards in 2050 with current-law AIME levels and years of covered earnings closest to AIME levels and years of covered earnings shown.

[3] If all earnings were considered, unlimited by annual taxable maximums, then about 1.5 percent of all retirees would have an AIME closer to Twice Maximum-Current-Law than Maximum-Current-Law.

Note:
- Starting Dec 2019, compute the COLA using a chained CPI-E, producing 0.2% higher annual COLAs on average.
- For benefits payable beginning in 2020, increase the 90 percent PIA factor to 93 percent. Starting in 2020, apply the OASDI payroll tax rate on earnings above $400,000, and tax all earnings once the current-law taxable maximum exceeds $400,000. Credit the additional earnings for benefit purposes by: (a) calculating a second average indexed monthly earnings ("AIME+") reflecting only earnings taxed above the current law taxable maximum, (b) applying a 2 percent factor on this newly computed "AIME+" to develop a second component of the PIA, and (c) adding this second component to the first PIA component.
- For beneficiaries newly eligible in 2020, establish a minimum PIA level such that a worker with 30/10 years of coverage would receive a minimum PIA for 2020 of at least 125%/0% of the monthly poverty level for 2019. For beneficiaries newly eligible after 2020, the minimum PIA level for their initial year of eligibility would be adjusted for average wage growth. The minimum PIA is increased after the year of initial eligibility by the COLA.
- This analysis reflects only the provisions of the proposal identified in the table and described above.

All estimates based on the intermediate assumptions of the 2018 Trustees Report.

Office of the Chief Actuary, Social Security Administration — January 30, 2019

Table B3. Important Characteristics of Hypothetical Workers in 2007

	Percent of Beneficiaries Within Each Category That Are:			
Category	**Dually Entitled[2]**	**WEP[3]**	**Foreign Born**	**All Others[4]**
Very-Low-AIME ($10,101 for 2007[1]):				
30-Year Scaled Earner (9.3% of Retirees)	47	6	11	40
20-Year Scaled Earner (5.8% of Retirees)	38	16	21	31
14-Year Scaled Earner (5.3% of Retirees)	22	21	45	20
Low-AIME ($18,182 for 2007[1]):				
44-Year Scaled Earner (13.1% of Retirees)	15	2	6	78
30-Year Scaled Earner (5.9% of Retirees)	16	9	18	59
20-Year Scaled Earner (3.1% of Retirees)	10	23	35	37
Medium-AIME ($40,405 for 2007[1]):				
44-Year Scaled Earner (23.0% of Retirees)	1	1	5	93
30-Year Scaled Earner (4.4% of Retirees)	1	8	26	67
High-AIME ($64,649 for 2007[1]):				
44-Year Scaled Earner (20.5% of Retirees)	0	0	6	93
Maximum-Current-Law-AIME ($82,224 for 2007[1]):				
Steady Earner (9.4% of Retirees)	0	0	7	93

Note 1: Table B3 displays the percentages of these newly-entitled retired workers in 2007 that are closest to each of the illustrative examples.

Note 2: The percents in each category are based on tabulations of a 10-percent sample of newly entitled retired-worker beneficiaries in 2007 (169,725 records). We can be 95 percent confident that each of the values shown above is within 1.4 percentage points of the value we would find using 100 percent of the retirees in 2007.

Note 3: The sum of the percentages for each category (sum across rows) could be greater than 100 percent because some beneficiaries can be classified in more than one of the following groups: dually entitled, WEP, and foreign born.

[1] Average of highest 35 years of taxable earnings wage indexed to 2007.

[2] Under current law, entitled to an additional benefit based on someone else's account. The dually entitled percent is a minimum value. Some beneficiaries that are not currently dually entitled could become dually entitled in the future.

[3] Covered by pension from government employment and are subject to the windfall elimination provision (WEP).

[4] Neither foreign born, subject to WEP, or dually entitled.

Office of the Chief Actuary, Social Security Administration — March 21, 2017

Table T. Changes in Payroll Tax Contributions (Employee + Employer) for Workers with OASDI Covered Earnings in the Year "Social Security 2100 Act," Introduced by Chairman Larson, Senator Blumenthal, and Senator Van Hollen

Earnings in Year	Current Law Scheduled Monthly Total Payroll Taxes (Wage-Indexed 2018 Dollars)	Current Law Scheduled Monthly Total Payroll Taxes (CPI-Indexed 2018 Dollars)	Scheduled Payroll Taxes Percent Change: Payroll Tax Rate[2]	Scheduled Payroll Taxes Percent Change: Taxable Maximum[3] (Percent change)	Scheduled Payroll Taxes Percent Change: Total	Proposal Scheduled Payroll Taxes Percent of Current Law (Percents)
			26th Percentile Earner[1] in Year ($12,974 in 2018)			
2018	134	134	0.0	0.0	0.0	100
2030	134	162	8.9	0.0	8.9	109
2050	134	206	19.4	0.0	19.4	119
2080	134	290	19.4	0.0	19.4	119
			40th Percentile Earner[1] in Year ($23,353 in 2018)			
2018	241	241	0.0	0.0	0.0	100
2030	241	291	8.9	0.0	8.9	109
2050	241	370	19.4	0.0	19.4	119
2080	241	522	19.4	0.0	19.4	119
			69th Percentile Earner[1] in Year ($51,894 in 2018)			
2018	536	536	0.0	0.0	0.0	100
2030	536	647	8.9	0.0	8.9	109
2050	536	823	19.4	0.0	19.4	119
2080	536	1,160	19.4	0.0	19.4	119
			85th Percentile Earner[1] in Year ($83,031 in 2018)			
2018	858	858	0.0	0.0	0.0	100
2030	858	1,035	8.9	0.0	8.9	109
2050	858	1,316	19.4	0.0	19.4	119
2080	858	1,856	19.4	0.0	19.4	119
			94th Percentile Earner[1] in Year ($128,400 in 2018) Current-Law Maximum Earnings Level			
2018	1,327	1,327	0.0	0.0	0.0	100
2030	1,327	1,601	8.9	0.0	8.9	109
2050	1,327	2,036	19.4	0.0	19.4	119
2080	1,327	2,870	19.4	0.0	19.4	119
			99th Percentile Earner[1] in Year ($256,800 in 2018) Twice Current-Law Maximum Earnings Level			
2018	1,327	1,327	0.0	0.0	0.0	100
2030	1,327	1,601	8.9	8.2	17.7	118
2050	1,327	2,036	19.4	100.0	138.7	239
2080	1,327	2,870	19.4	100.0	138.7	239

[1] Percentile among all workers with any covered earnings in 2018 (including earnings both above and below the current-law maximum earnings level). We include those who will die or become disabled before reaching retirement age, and those who will not earn enough in their career to become fully insured for retired worker benefits. Thus, these percentiles are not directly comparable to the percentages in the B tables, which are based on lifetime earnings, and include only those who survive and become eligible for retirement benefits.

[2] Increase the payroll tax rate by 0.1% each year from 2020 until it reaches 14.8% in 2043.

[3] Apply the OASDI payroll tax rate on earnings above $400,000 starting in 2020, and tax all earnings once the current-law taxable maximum exceeds $400,000.

This analysis reflects only the provisions of the proposal identified in the table and described in the footnotes above.

All estimates based on the intermediate assumptions of the 2018 Trustees Report.

Office of the Chief Actuary, Social Security Administration — January 30, 2019

Table 1 - OASDI Cost Rate, Income Rate, Annual Balance, and Trust Fund Ratio
"Social Security 2100 Act," Introduced by Chairman Larson, Senator Blumenthal, and Senator Van Hollen

	Proposal (Expressed as a percentage of current-law taxable payroll)				Change from Current Law (Expressed as a percentage of current-law taxable payroll)		
Year	Cost Rate	Income Rate	Annual Balance	Trust Fund Ratio 1-1-year	Cost Rate	Income Rate	Annual Balance
2018	13.81	12.64	-1.17	288	0.00	0.00	0.00
2019	13.96	12.87	-1.08	272	0.00	0.00	0.00
2020	14.37	13.59	-0.78	252	0.25	0.70	0.45
2021	14.55	13.81	-0.74	238	0.28	0.89	0.61
2022	14.75	13.98	-0.77	225	0.31	1.03	0.72
2023	14.97	14.14	-0.83	212	0.35	1.17	0.83
2024	15.19	14.31	-0.87	200	0.38	1.32	0.94
2025	15.40	14.47	-0.93	188	0.42	1.46	1.04
2026	15.61	14.68	-0.93	177	0.45	1.55	1.10
2027	15.85	14.85	-1.00	167	0.48	1.69	1.21
2028	16.10	15.02	-1.08	157	0.52	1.85	1.33
2029	16.34	15.19	-1.15	147	0.55	2.01	1.46
2030	16.56	15.37	-1.20	139	0.58	2.16	1.58
2031	16.77	15.54	-1.23	131	0.61	2.32	1.71
2032	16.95	15.71	-1.24	123	0.64	2.49	1.85
2033	17.12	15.89	-1.23	116	0.66	2.65	1.99
2034	17.25	16.06	-1.19	110	0.69	2.82	2.13
2035	17.36	16.24	-1.12	104	0.71	2.99	2.28
2036	17.45	16.42	-1.03	98	0.73	3.16	2.43
2037	17.53	16.60	-0.93	93	0.75	3.34	2.59
2038	17.59	16.78	-0.81	89	0.77	3.51	2.75
2039	17.61	16.97	-0.65	85	0.78	3.70	2.91
2040	17.62	17.15	-0.47	83	0.80	3.88	3.08
2041	17.62	17.34	-0.28	81	0.81	4.07	3.26
2042	17.59	17.53	-0.06	80	0.82	4.26	3.44
2043	17.56	17.73	0.17	81	0.83	4.46	3.63
2044	17.53	17.82	0.29	83	0.83	4.55	3.72
2045	17.50	17.92	0.42	86	0.84	4.65	3.81
2046	17.47	18.02	0.54	89	0.85	4.75	3.90
2047	17.45	18.12	0.66	94	0.85	4.85	4.00
2048	17.43	18.16	0.73	98	0.85	4.89	4.03
2049	17.41	18.17	0.76	104	0.86	4.90	4.04
2050	17.40	18.18	0.78	109	0.86	4.91	4.05
2051	17.40	18.19	0.79	115	0.86	4.92	4.06
2052	17.40	18.20	0.80	121	0.87	4.93	4.06
2053	17.41	18.21	0.80	126	0.87	4.94	4.07
2054	17.43	18.22	0.79	132	0.87	4.95	4.08
2055	17.46	18.23	0.77	138	0.87	4.95	4.08
2056	17.50	18.24	0.74	143	0.87	4.96	4.09
2057	17.54	18.25	0.71	149	0.87	4.97	4.09
2058	17.59	18.26	0.67	154	0.88	4.98	4.10
2059	17.64	18.27	0.63	159	0.88	4.98	4.10
2060	17.69	18.28	0.59	164	0.88	4.99	4.11
2061	17.74	18.29	0.55	169	0.88	5.00	4.11
2062	17.80	18.31	0.51	173	0.89	5.00	4.11
2063	17.85	18.31	0.46	178	0.89	5.01	4.12
2064	17.91	18.32	0.42	182	0.89	5.01	4.12
2065	17.96	18.33	0.37	186	0.90	5.02	4.12
2066	18.02	18.34	0.32	189	0.90	5.02	4.12
2067	18.09	18.35	0.27	193	0.90	5.03	4.13
2068	18.15	18.36	0.21	196	0.91	5.03	4.13
2069	18.21	18.37	0.16	199	0.91	5.04	4.13
2070	18.28	18.38	0.10	201	0.91	5.04	4.13
2071	18.33	18.39	0.05	203	0.91	5.05	4.13
2072	18.39	18.40	0.01	205	0.92	5.05	4.14
2073	18.43	18.40	-0.03	207	0.92	5.06	4.14
2074	18.47	18.41	-0.06	209	0.92	5.06	4.14
2075	18.51	18.42	-0.09	211	0.92	5.07	4.14
2076	18.53	18.42	-0.11	212	0.92	5.07	4.15
2077	18.55	18.43	-0.12	214	0.93	5.07	4.15
2078	18.55	18.43	-0.12	216	0.93	5.08	4.15
2079	18.54	18.44	-0.11	218	0.93	5.08	4.16
2080	18.53	18.44	-0.09	220	0.93	5.09	4.16
2081	18.51	18.44	-0.07	222	0.93	5.09	4.16
2082	18.50	18.45	-0.05	224	0.93	5.09	4.17
2083	18.48	18.45	-0.03	227	0.93	5.10	4.17
2084	18.46	18.45	-0.01	229	0.92	5.10	4.17
2085	18.45	18.45	0.00	232	0.92	5.10	4.18
2086	18.45	18.46	0.00	234	0.92	5.11	4.18
2087	18.46	18.46	0.00	237	0.92	5.11	4.18
2088	18.47	18.46	-0.01	240	0.93	5.11	4.19
2089	18.49	18.47	-0.03	242	0.93	5.12	4.19
2090	18.53	18.47	-0.05	244	0.93	5.12	4.19
2091	18.56	18.48	-0.09	246	0.93	5.12	4.19
2092	18.61	18.49	-0.12	248	0.93	5.12	4.19
2093	18.66	18.49	-0.17	250	0.93	5.13	4.19

Summarized Rates: OASDI

	Cost Rate	Income Rate	Actuarial Balance	Year of reserve depletion[1]
2018 - 2092	17.44%	17.70%	0.25%	N/A

Summarized Rates: OASDI

Change in Cost rate	Change in Income Rate	Change in Actuarial Balance
0.76%	3.85%	3.10%

Based on Intermediate Assumptions of the 2018 Trustees Report.
[1]Under present law the year of combined Trust Fund reserve depletion is 2034.

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Table 1a - General Fund Transfers, OASDI Trust Fund Reserves, and Theoretical OASDI Reserves
"Social Security 2100 Act," Introduced by Chairman Larson, Senator Blumenthal, and Senator Van Hollen

	Proposal General Fund Transfers			*Present Value in Billions as of 1-1-2018*		Theoretical Social Security[1] with Borrowing Authority	
		Present Value in Billions as of 1-1- 2016		Proposal Total OASDI Trust Fund		Net OASDI Trust Fund Reserves at End of Year	
Calendar Year	Percentage of Payroll	Annual Amounts	Accumulated as of End of Year	Reserves at End of Year	Gross Domestic Product	Without General Fund Transfers	With Plan General Fund Transfers
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2018	0.0	0.0	0.0	2,808.6	20,018.8	2,808.6	2,808.6
2019	0.0	0.0	0.0	2,730.2	20,372.8	2,730.2	2,730.2
2020	0.0	0.0	0.0	2,672.4	20,761.3	2,639.0	2,639.0
2021	0.0	0.0	0.0	2,616.6	21,143.5	2,536.5	2,536.5
2022	0.0	0.0	0.0	2,557.1	21,520.6	2,421.0	2,421.0
2023	0.0	0.0	0.0	2,491.9	21,889.8	2,290.2	2,290.2
2024	0.0	0.0	0.0	2,421.7	22,247.7	2,144.3	2,144.3
2025	0.0	0.0	0.0	2,345.6	22,564.0	1,982.3	1,982.3
2026	0.0	0.0	0.0	2,268.7	22,843.8	1,813.8	1,813.8
2027	0.0	0.0	0.0	2,184.9	23,088.8	1,627.7	1,627.7
2028	0.0	0.0	0.0	2,094.1	23,261.7	1,423.5	1,423.5
2029	0.0	0.0	0.0	1,997.4	23,339.1	1,202.6	1,202.6
2030	0.0	0.0	0.0	1,896.7	23,329.3	967.1	967.1
2031	0.0	0.0	0.0	1,794.0	23,230.3	719.2	719.2
2032	0.0	0.0	0.0	1,691.5	23,048.1	461.5	461.5
2033	0.0	0.0	0.0	1,591.2	22,820.9	196.4	196.4
2034	0.0	0.0	0.0	1,495.4	22,590.1	-74.2	-74.2
2035	0.0	0.0	0.0	1,406.2	22,363.5	-348.2	-348.2
2036	0.0	0.0	0.0	1,325.0	22,135.9	-624.3	-624.3
2037	0.0	0.0	0.0	1,252.7	21,912.2	-901.6	-901.6
2038	0.0	0.0	0.0	1,191.2	21,693.9	-1,178.6	-1,178.6
2039	0.0	0.0	0.0	1,142.7	21,482.3	-1,453.2	-1,453.2
2040	0.0	0.0	0.0	1,108.1	21,271.2	-1,724.5	-1,724.5
2041	0.0	0.0	0.0	1,088.7	21,065.0	-1,991.5	-1,991.5
2042	0.0	0.0	0.0	1,085.6	20,868.9	-2,253.3	-2,253.3
2043	0.0	0.0	0.0	1,099.5	20,676.2	-2,509.6	-2,509.6
2044	0.0	0.0	0.0	1,122.7	20,486.7	-2,760.5	-2,760.5
2045	0.0	0.0	0.0	1,154.6	20,298.6	-3,006.5	-3,006.5
2046	0.0	0.0	0.0	1,195.2	20,110.8	-3,247.8	-3,247.8
2047	0.0	0.0	0.0	1,244.2	19,925.6	-3,484.9	-3,484.9
2048	0.0	0.0	0.0	1,297.2	19,744.9	-3,717.9	-3,717.9
2049	0.0	0.0	0.0	1,351.7	19,562.2	-3,947.2	-3,947.2
2050	0.0	0.0	0.0	1,407.1	19,380.3	-4,173.4	-4,173.4
2051	0.0	0.0	0.0	1,463.0	19,201.3	-4,396.7	-4,396.7
2052	0.0	0.0	0.0	1,519.0	19,022.2	-4,617.8	-4,617.8
2053	0.0	0.0	0.0	1,574.3	18,842.5	-4,837.3	-4,837.3
2054	0.0	0.0	0.0	1,628.5	18,661.7	-5,055.6	-5,055.6
2055	0.0	0.0	0.0	1,680.8	18,479.7	-5,273.3	-5,273.3
2056	0.0	0.0	0.0	1,730.9	18,298.9	-5,490.8	-5,490.8
2057	0.0	0.0	0.0	1,778.5	18,117.7	-5,708.5	-5,708.5
2058	0.0	0.0	0.0	1,823.1	17,935.7	-5,926.7	-5,926.7
2059	0.0	0.0	0.0	1,864.7	17,754.6	-6,145.3	-6,145.3
2060	0.0	0.0	0.0	1,903.3	17,574.0	-6,364.3	-6,364.3
2061	0.0	0.0	0.0	1,938.9	17,394.0	-6,583.8	-6,583.8
2062	0.0	0.0	0.0	1,971.4	17,215.1	-6,803.9	-6,803.9
2063	0.0	0.0	0.0	2,000.8	17,037.6	-7,024.4	-7,024.4
2064	0.0	0.0	0.0	2,027.1	16,861.5	-7,245.4	-7,245.4
2065	0.0	0.0	0.0	2,050.3	16,687.4	-7,466.8	-7,466.8
2066	0.0	0.0	0.0	2,070.3	16,515.3	-7,688.9	-7,688.9
2067	0.0	0.0	0.0	2,087.1	16,345.5	-7,911.6	-7,911.6
2068	0.0	0.0	0.0	2,100.6	16,178.3	-8,135.0	-8,135.0
2069	0.0	0.0	0.0	2,110.9	16,013.1	-8,359.1	-8,359.1
2070	0.0	0.0	0.0	2,118.0	15,850.3	-8,583.9	-8,583.9
2071	0.0	0.0	0.0	2,122.2	15,690.6	-8,809.1	-8,809.1
2072	0.0	0.0	0.0	2,124.1	15,534.1	-9,034.3	-9,034.3
2073	0.0	0.0	0.0	2,123.8	15,380.4	-9,259.4	-9,259.4
2074	0.0	0.0	0.0	2,121.6	15,229.4	-9,483.9	-9,483.9
2075	0.0	0.0	0.0	2,118.0	15,080.9	-9,707.7	-9,707.7
2076	0.0	0.0	0.0	2,113.4	14,934.6	-9,930.3	-9,930.3
2077	0.0	0.0	0.0	2,108.5	14,790.9	-10,151.0	-10,151.0
2078	0.0	0.0	0.0	2,103.6	14,649.3	-10,369.5	-10,369.5
2079	0.0	0.0	0.0	2,099.4	14,509.6	-10,585.3	-10,585.3
2080	0.0	0.0	0.0	2,096.0	14,371.5	-10,798.2	-10,798.2
2081	0.0	0.0	0.0	2,093.6	14,234.9	-11,008.1	-11,008.1
2082	0.0	0.0	0.0	2,092.2	14,099.1	-11,215.0	-11,215.0
2083	0.0	0.0	0.0	2,091.9	13,964.2	-11,418.8	-11,418.8
2084	0.0	0.0	0.0	2,092.3	13,830.0	-11,619.9	-11,619.9
2085	0.0	0.0	0.0	2,093.4	13,696.0	-11,818.5	-11,818.5
2086	0.0	0.0	0.0	2,094.7	13,562.2	-12,014.8	-12,014.8
2087	0.0	0.0	0.0	2,095.9	13,428.9	-12,209.2	-12,209.2
2088	0.0	0.0	0.0	2,096.6	13,295.7	-12,402.2	-12,402.2
2089	0.0	0.0	0.0	2,096.5	13,162.8	-12,594.0	-12,594.0
2090	0.0	0.0	0.0	2,095.2	13,030.4	-12,785.0	-12,785.0
2091	0.0	0.0	0.0	2,092.5	12,898.2	-12,975.4	-12,975.4
2092	0.0	0.0	0.0	2,088.0	12,766.5	-13,165.6	-13,165.6
2093	0.0	0.0	0.0	2,081.8	12,635.4	-13,355.5	-13,355.5
Total 2018-2092		0.0					

Based on the Intermediate Assumptions of the 2018 Trustees Report.
Ultimate Real Trust Fund Yield of 2.7%.

[1] Theoretical Social Security is the current Social Security program with the assumption that the law is modified to permit borrowing from the General Fund of the Treasury.

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Table 1b - OASDI Changes & Implications for Federal Budget and Debt of Specified Plan Provision Effects on OASDI[1] (Present Value Dollars)
"Social Security 2100 Act," Introduced by Chairman Larson, Senator Blumenthal, and Senator Van Hollen

Billions of Present Value Dollars as of 1-1-2016

Year	Specified General Fund Transfers (1)	Basic Changes in OASDI Cash Flow (2)	Change in Annual Unified Budget Cash Flow (3)	Change in Debt Held by Public at End of Year (4)	Change in Annual Unified Budget Balance (5)	Change in Total Federal Debt End Of Year (6)	Change in Annual On Budget Balance (7)
2018	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2019	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2020	0.0	33.5	33.5	-33.5	33.5	0.0	0.0
2021	0.0	46.7	46.7	-80.1	47.6	0.0	0.0
2022	0.0	55.9	55.9	-136.1	58.2	0.0	0.0
2023	0.0	65.6	65.6	-201.7	69.4	0.0	0.0
2024	0.0	75.7	75.7	-277.4	81.6	0.0	0.0
2025	0.0	85.9	85.9	-363.3	94.3	0.0	0.0
2026	0.0	91.7	91.7	-454.9	103.2	0.0	0.0
2027	0.0	102.3	102.3	-557.2	117.4	0.0	0.0
2028	0.0	113.4	113.4	-670.6	133.9	0.0	0.0
2029	0.0	124.3	124.3	-794.8	151.4	0.0	0.0
2030	0.0	134.8	134.8	-929.6	169.8	0.0	0.0
2031	0.0	145.2	145.2	-1,074.8	189.3	0.0	0.0
2032	0.0	155.2	155.2	-1,230.0	209.9	0.0	0.0
2033	0.0	164.9	164.9	-1,394.9	227.6	0.0	0.0
2034	0.0	174.7	174.7	-1,569.6	245.8	0.0	0.0
2035	0.0	184.8	184.8	-1,754.4	264.8	0.0	0.0
2036	0.0	194.9	194.9	-1,949.3	284.3	0.0	0.0
2037	0.0	205.1	205.1	-2,154.4	304.4	0.0	0.0
2038	0.0	215.4	215.4	-2,369.8	325.2	0.0	0.0
2039	0.0	226.1	226.1	-2,595.8	346.9	0.0	0.0
2040	0.0	236.7	236.7	-2,832.6	369.0	0.0	0.0
2041	0.0	247.6	247.6	-3,080.2	392.0	0.0	0.0
2042	0.0	258.8	258.8	-3,338.9	415.7	0.0	0.0
2043	0.0	270.1	270.1	-3,609.1	440.3	0.0	0.0
2044	0.0	274.1	274.1	-3,883.2	458.1	0.0	0.0
2045	0.0	277.9	277.9	-4,161.1	475.8	0.0	0.0
2046	0.0	281.9	281.9	-4,443.0	494.0	0.0	0.0
2047	0.0	286.1	286.1	-4,729.1	512.5	0.0	0.0
2048	0.0	286.0	286.0	-5,015.1	527.0	0.0	0.0
2049	0.0	283.8	283.8	-5,298.9	539.4	0.0	0.0
2050	0.0	281.5	281.5	-5,580.4	551.6	0.0	0.0
2051	0.0	279.3	279.3	-5,859.7	563.7	0.0	0.0
2052	0.0	277.1	277.1	-6,136.8	575.7	0.0	0.0
2053	0.0	274.8	274.8	-6,411.6	587.5	0.0	0.0
2054	0.0	272.5	272.5	-6,684.0	599.2	0.0	0.0
2055	0.0	270.1	270.1	-6,954.1	610.7	0.0	0.0
2056	0.0	267.7	267.7	-7,221.8	622.1	0.0	0.0
2057	0.0	265.2	265.2	-7,487.0	633.3	0.0	0.0
2058	0.0	262.7	262.7	-7,749.8	644.3	0.0	0.0
2059	0.0	260.2	260.2	-8,010.0	655.2	0.0	0.0
2060	0.0	257.7	257.7	-8,267.7	665.9	0.0	0.0
2061	0.0	255.1	255.1	-8,522.8	676.5	0.0	0.0
2062	0.0	252.5	252.5	-8,775.3	686.9	0.0	0.0
2063	0.0	249.9	249.9	-9,025.2	697.1	0.0	0.0
2064	0.0	247.3	247.3	-9,272.5	707.3	0.0	0.0
2065	0.0	244.7	244.7	-9,517.2	717.3	0.0	0.0
2066	0.0	242.1	242.1	-9,759.3	727.1	0.0	0.0
2067	0.0	239.5	239.5	-9,998.7	736.9	0.0	0.0
2068	0.0	236.9	236.9	-10,235.7	746.5	0.0	0.0
2069	0.0	234.4	234.4	-10,470.0	756.0	0.0	0.0
2070	0.0	231.9	231.9	-10,701.9	765.5	0.0	0.0
2071	0.0	229.4	229.4	-10,931.3	774.9	0.0	0.0
2072	0.0	227.1	227.1	-11,158.4	784.2	0.0	0.0
2073	0.0	224.7	224.7	-11,383.1	793.4	0.0	0.0
2074	0.0	222.4	222.4	-11,605.6	802.6	0.0	0.0
2075	0.0	220.2	220.2	-11,825.7	811.7	0.0	0.0
2076	0.0	218.0	218.0	-12,043.7	820.7	0.0	0.0
2077	0.0	215.8	215.8	-12,259.5	829.6	0.0	0.0
2078	0.0	213.6	213.6	-12,473.1	838.4	0.0	0.0
2079	0.0	211.6	211.6	-12,684.7	847.2	0.0	0.0
2080	0.0	209.5	209.5	-12,894.2	856.0	0.0	0.0
2081	0.0	207.5	207.5	-13,101.7	864.6	0.0	0.0
2082	0.0	205.5	205.5	-13,307.2	873.2	0.0	0.0
2083	0.0	203.5	203.5	-13,510.7	881.7	0.0	0.0
2084	0.0	201.5	201.5	-13,712.2	890.1	0.0	0.0
2085	0.0	199.6	199.6	-13,911.8	898.4	0.0	0.0
2086	0.0	197.6	197.6	-14,109.5	906.6	0.0	0.0
2087	0.0	195.7	195.7	-14,305.1	914.7	0.0	0.0
2088	0.0	193.7	193.7	-14,498.8	922.7	0.0	0.0
2089	0.0	191.7	191.7	-14,690.5	930.6	0.0	0.0
2090	0.0	189.7	189.7	-14,880.2	938.4	0.0	0.0
2091	0.0	187.7	187.7	-15,067.9	946.1	0.0	0.0
2092	0.0	185.7	185.7	-15,253.6	953.6	0.0	0.0
Total 2018-2092	0.0	15,253.6	15,253.6				

Based on Intermediate Assumptions of the 2018 Trustees Report.
Ultimate Real Trust Fund Yield of 2.7%.
Note: Changes reflect the budget scoring convention that presumes benefits not payable after reserve depletion would nonetheless be paid, based on transfers from the General Fund of the Treasury resulting in additional borrowing from the public.
[1] Effects of tax provisions on the On-Budget are not reflected in this table.

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Table 1b.n - OASDI Changes & Implications for Federal Budget and Debt of Specified Plan Provision Effects on OASDI[1] (Nominal Dollars)
"Social Security 2100 Act," Introduced by Chairman Larson, Senator Blumenthal, and Senator Van Hollen

	Billions of Nominal Dollars						
Year	Specified General Fund Transfers	Basic Changes in OASDI Cash Flow	Change in Annual Unified Budget Cash Flow	Change in Debt Held by Public at End of Year	Change in Annual Unified Budget Balance	Change in Total Federal Debt End of Year	Change in Annual On Budget Balance
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2018	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2019	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2020	0.0	36.0	36.0	-36.5	36.5	0.0	0.0
2021	0.0	51.6	51.6	-89.8	53.4	0.0	0.0
2022	0.0	63.6	63.6	-157.0	67.1	0.0	0.0
2023	0.0	76.7	76.7	-239.5	82.5	0.0	0.0
2024	0.0	91.1	91.1	-339.5	100.0	0.0	0.0
2025	0.0	106.5	106.5	-458.6	119.1	0.0	0.0
2026	0.0	117.3	117.3	-593.2	134.6	0.0	0.0
2027	0.0	135.2	135.2	-751.6	158.4	0.0	0.0
2028	0.0	155.4	155.4	-939.2	187.6	0.0	0.0

Based on Intermediate Assumptions of the 2018 Trustees Report.
Note: Changes reflect the budget scoring convention that presumes benefits not payable after reserve depletion would nonetheless be paid, based on transfers from the General Fund of the Treasury resulting in additional borrowing from the public.
[1] Effects of tax provisions on the On-Budget are not reflected in this table.

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Table 1c - Current Law and Proposal Cost, Expenditures, and Income: As Percent of Gross Domestic Product
"Social Security 2100 Act," Introduced by Chairman Larson, Senator Blumenthal, and Senator Van Hollen

	Current Law OASDI			Proposal OASDI		
Calendar Year	Cost (1)	Expenditures (Payable) (2)	Non-Interest Income (3)	Cost (4)	Expenditures (Payable) (5)	Non-Interest Income (6)
2018	4.94	4.94	4.52	4.94	4.94	4.52
2019	4.99	4.99	4.61	4.99	4.99	4.61
2020	5.07	5.07	4.62	5.16	5.16	4.87
2021	5.14	5.14	4.65	5.24	5.24	4.97
2022	5.22	5.22	4.68	5.33	5.33	5.05
2023	5.30	5.30	4.70	5.43	5.43	5.13
2024	5.39	5.39	4.73	5.53	5.53	5.21
2025	5.47	5.47	4.75	5.62	5.62	5.28
2026	5.55	5.55	4.81	5.71	5.71	5.37
2027	5.63	5.63	4.82	5.80	5.80	5.44
2028	5.70	5.70	4.82	5.89	5.89	5.50
2029	5.77	5.77	4.82	5.97	5.97	5.55
2030	5.83	5.83	4.82	6.04	6.04	5.61
2031	5.89	5.89	4.81	6.11	6.11	5.66
2032	5.94	5.94	4.81	6.17	6.17	5.72
2033	5.98	5.98	4.81	6.22	6.22	5.77
2034	6.01	5.67	4.81	6.26	6.26	5.83
2035	6.03	4.80	4.80	6.29	6.29	5.89
2036	6.05	4.80	4.80	6.32	6.32	5.94
2037	6.07	4.80	4.80	6.34	6.34	6.00
2038	6.07	4.79	4.79	6.35	6.35	6.06
2039	6.07	4.79	4.79	6.35	6.35	6.12
2040	6.07	4.78	4.78	6.35	6.35	6.18
2041	6.05	4.78	4.78	6.34	6.34	6.25
2042	6.04	4.78	4.78	6.33	6.33	6.31
2043	6.02	4.77	4.77	6.31	6.31	6.37
2044	6.00	4.77	4.77	6.30	6.30	6.40
2045	5.98	4.76	4.76	6.28	6.28	6.43
2046	5.97	4.76	4.76	6.27	6.27	6.47
2047	5.95	4.76	4.76	6.26	6.26	6.50
2048	5.94	4.76	4.76	6.25	6.25	6.51
2049	5.93	4.75	4.75	6.24	6.24	6.51
2050	5.93	4.75	4.75	6.23	6.23	6.51
2051	5.92	4.75	4.75	6.23	6.23	6.51
2052	5.92	4.75	4.75	6.23	6.23	6.51
2053	5.92	4.75	4.75	6.23	6.23	6.51
2054	5.92	4.75	4.75	6.23	6.23	6.51
2055	5.93	4.74	4.74	6.24	6.24	6.51
2056	5.94	4.74	4.74	6.25	6.25	6.52
2057	5.95	4.74	4.74	6.26	6.26	6.52
2058	5.96	4.74	4.74	6.28	6.28	6.52
2059	5.98	4.74	4.74	6.29	6.29	6.52
2060	5.99	4.74	4.74	6.31	6.31	6.52
2061	6.01	4.74	4.74	6.32	6.32	6.52
2062	6.02	4.74	4.74	6.34	6.34	6.52
2063	6.03	4.73	4.73	6.35	6.35	6.51
2064	6.05	4.73	4.73	6.37	6.37	6.51
2065	6.06	4.73	4.73	6.38	6.38	6.51
2066	6.08	4.73	4.73	6.40	6.40	6.51
2067	6.09	4.72	4.72	6.41	6.41	6.51
2068	6.11	4.72	4.72	6.43	6.43	6.50
2069	6.12	4.72	4.72	6.44	6.44	6.50
2070	6.14	4.71	4.71	6.46	6.46	6.50
2071	6.15	4.71	4.71	6.47	6.47	6.49
2072	6.16	4.71	4.71	6.49	6.49	6.49
2073	6.17	4.70	4.70	6.50	6.50	6.49
2074	6.18	4.70	4.70	6.51	6.51	6.48
2075	6.19	4.70	4.70	6.51	6.51	6.48
2076	6.19	4.69	4.69	6.51	6.51	6.48
2077	6.19	4.69	4.69	6.51	6.51	6.47
2078	6.18	4.68	4.68	6.51	6.51	6.46
2079	6.17	4.68	4.68	6.50	6.50	6.46
2080	6.16	4.67	4.67	6.48	6.48	6.45
2081	6.15	4.67	4.67	6.47	6.47	6.45
2082	6.14	4.66	4.66	6.46	6.46	6.44
2083	6.12	4.66	4.66	6.45	6.45	6.44
2084	6.11	4.65	4.65	6.44	6.44	6.43
2085	6.10	4.65	4.65	6.43	6.43	6.43
2086	6.10	4.64	4.64	6.42	6.42	6.42
2087	6.09	4.64	4.64	6.42	6.42	6.42
2088	6.09	4.64	4.64	6.42	6.42	6.41
2089	6.10	4.63	4.63	6.42	6.42	6.41
2090	6.10	4.63	4.63	6.42	6.42	6.41
2091	6.11	4.63	4.63	6.43	6.43	6.40
2092	6.12	4.63	4.63	6.44	6.44	6.40

Based on Intermediate Assumptions of the 2018 Trustees Report.

Office of the Chief Actuary
Social Security Administration
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Table 1d - Change in Long-Range Trust Fund Reserves / Unfunded Obligation
"Social Security 2100 Act," Introduced by Chairman Larson, Senator Blumenthal, and Senator Van Hollen

(Billions of Dollars, Present Value on 1-1-2016)

Year	Current Law OASDI Trust Fund Reserves / Unfunded Obligation Through End of Year (1)	Changes in OASDI Income (2)	Changes in OASDI Cost (3)	Basic Changes in OASDI Cash Flow (4) = (2)-(3)	Total Change Through End of Year (5) = cumulative sum(4)	Proposal OASDI Trust Fund Reserves / Unfunded Obligation Through End of Year (6) = (1)+(5)
2018	2,808.6	0.0	0.0	0.0	0.0	2,808.6
2019	2,730.2	0.0	0.0	0.0	0.0	2,730.2
2020	2,639.0	51.9	18.5	33.5	33.5	2,672.4
2021	2,536.5	68.0	21.4	46.7	80.1	2,616.6
2022	2,421.0	80.4	24.4	55.9	136.1	2,557.1
2023	2,290.2	93.2	27.6	65.6	201.7	2,491.9
2024	2,144.3	106.6	30.9	75.7	277.4	2,421.7
2025	1,982.3	120.1	34.2	85.9	363.3	2,345.6
2026	1,813.8	129.2	37.6	91.7	454.9	2,268.7
2027	1,627.7	143.1	40.9	102.3	557.2	2,184.9
2028	1,423.5	157.3	43.9	113.4	670.6	2,094.1
2029	1,202.6	171.0	46.8	124.3	794.8	1,997.4
2030	967.1	184.1	49.3	134.8	929.6	1,896.7
2031	719.2	196.7	51.5	145.2	1,074.8	1,794.0
2032	461.5	208.6	53.4	155.2	1,230.0	1,691.5
2033	196.4	219.9	55.0	164.9	1,394.9	1,591.2
2034	-74.2	231.1	56.3	174.7	1,569.6	1,495.4
2035	-348.2	242.3	57.5	184.8	1,754.4	1,406.2
2036	-624.3	253.4	58.5	194.9	1,949.3	1,325.0
2037	-901.6	264.5	59.4	205.1	2,154.4	1,252.7
2038	-1,178.6	275.5	60.1	215.4	2,369.8	1,191.2
2039	-1,453.2	286.7	60.6	226.1	2,595.8	1,142.7
2040	-1,724.5	297.8	61.0	236.7	2,832.6	1,108.1
2041	-1,991.5	308.9	61.3	247.6	3,080.2	1,088.7
2042	-2,253.3	320.2	61.4	258.8	3,338.9	1,085.6
2043	-2,509.6	331.6	61.5	270.1	3,609.1	1,099.5
2044	-2,760.5	335.5	61.4	274.1	3,883.2	1,122.7
2045	-3,006.5	339.2	61.3	277.9	4,161.1	1,154.6
2046	-3,247.8	343.0	61.1	281.9	4,443.0	1,195.2
2047	-3,484.9	346.9	60.8	286.1	4,729.1	1,244.2
2048	-3,717.9	346.5	60.5	286.0	5,015.1	1,297.2
2049	-3,947.2	344.0	60.2	283.8	5,298.9	1,351.7
2050	-4,173.4	341.3	59.8	281.5	5,580.4	1,407.1
2051	-4,396.7	338.6	59.3	279.3	5,859.7	1,463.0
2052	-4,617.8	336.0	58.9	277.1	6,136.8	1,519.0
2053	-4,837.3	333.2	58.5	274.8	6,411.6	1,574.3
2054	-5,055.6	330.5	58.0	272.5	6,684.0	1,628.5
2055	-5,273.3	327.6	57.5	270.1	6,954.1	1,680.8
2056	-5,490.8	324.7	57.1	267.7	7,221.8	1,730.9
2057	-5,708.5	321.8	56.6	265.2	7,487.0	1,778.5
2058	-5,926.7	318.9	56.2	262.7	7,749.8	1,823.1
2059	-6,145.3	315.9	55.7	260.2	8,010.0	1,864.7
2060	-6,364.3	312.9	55.3	257.7	8,267.7	1,903.3
2061	-6,583.8	309.9	54.8	255.1	8,522.8	1,938.9
2062	-6,803.9	306.9	54.4	252.5	8,775.3	1,971.4
2063	-7,024.4	303.9	54.0	249.9	9,025.2	2,000.8
2064	-7,245.4	300.9	53.5	247.3	9,272.5	2,027.1
2065	-7,466.8	297.8	53.1	244.7	9,517.2	2,050.3
2066	-7,688.9	294.8	52.7	242.1	9,759.3	2,070.3
2067	-7,911.6	291.8	52.3	239.5	9,998.7	2,087.1
2068	-8,135.0	288.8	51.9	236.9	10,235.7	2,100.6
2069	-8,359.1	285.9	51.5	234.4	10,470.0	2,110.9
2070	-8,583.9	283.0	51.1	231.9	10,701.9	2,118.0
2071	-8,809.1	280.1	50.7	229.4	10,931.3	2,122.2
2072	-9,034.3	277.3	50.3	227.1	11,158.4	2,124.1
2073	-9,259.4	274.6	49.8	224.7	11,383.1	2,123.8
2074	-9,483.9	271.8	49.4	222.4	11,605.6	2,121.6
2075	-9,707.7	269.1	49.0	220.2	11,825.7	2,118.0
2076	-9,930.3	266.5	48.5	218.0	12,043.7	2,113.4
2077	-10,151.0	263.8	48.0	215.8	12,259.5	2,108.5
2078	-10,369.5	261.2	47.6	213.6	12,473.1	2,103.6
2079	-10,585.3	258.6	47.1	211.6	12,684.7	2,099.4
2080	-10,798.2	256.1	46.6	209.5	12,894.2	2,096.0
2081	-11,008.1	253.6	46.1	207.5	13,101.7	2,093.6
2082	-11,215.0	251.1	45.6	205.5	13,307.2	2,092.2
2083	-11,418.8	248.6	45.1	203.5	13,510.7	2,091.9
2084	-11,619.9	246.1	44.6	201.5	13,712.2	2,092.3
2085	-11,818.5	243.7	44.1	199.6	13,911.8	2,093.4
2086	-12,014.8	241.3	43.6	197.6	14,109.5	2,094.7
2087	-12,209.2	238.8	43.2	195.7	14,305.1	2,095.9
2088	-12,402.2	236.4	42.7	193.7	14,498.8	2,096.6
2089	-12,594.0	234.0	42.3	191.7	14,690.5	2,096.5
2090	-12,785.0	231.6	41.9	189.7	14,880.2	2,095.2
2091	-12,975.4	229.2	41.5	187.7	15,067.9	2,092.5
2092	-13,165.6	226.8	41.2	185.7	15,253.6	2,088.0
Total 2018-2092		18922.9	3669.3	15253.6		

Based on Intermediate Assumptions of the 2018 Trustees Report.

Ultimate Real Trust Fund Yield of 2.7%.

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Chairman YARMUTH. Ranking Member has a question.

Mr. HERN. Mr. Chairman, just a point of clarity. You ask if anybody wanted to ask any questions. Well, in addition to our five minutes you are going to give us later?

Chairman YARMUTH. Just one question.

Mr. HERN. Well, the one question is that—just for a point of clarity for the record—the 21 percent that we are going to see in 2035 affects all people, not just——

Mr. LARSON. Exactly.

Mr. HERN. You had mentioned it was a civil rights issue and a woman's issue, but it is all people's issues.

Mr. LARSON. It is all people's issues, the 20 percent across the board. But currently, under current law, you have 5 million Americans, there are 62 million Americans who are on Social Security currently, 5 million of whom are living below the poverty level.

Part of what we hope to do is to make sure that we both create a new floor for Social Security, so that especially women who, because they are the primary caregivers, and today with 74 percent of them in the workforce find themselves—because they were earning $.80 for every dollar their male counterparts were, and because they spent less time because they were the caregivers, find themselves in poverty. In fact, close to 3 million women across this country who have paid in all their quarters, worked all their lives, are living in poverty in the wealthiest nation in the world.

And this is an actuarial problem that is easily resolved by Congress. I ask any member of this body, have any of your insurance premiums gone up since 1983? You have the responsibility—if you were a business, if you were an insurance company—I happen to be from an insurance capital of the nation, and had an insurance business, as well. You know, you would make those adjustments and raise those costs. Had they indexed it the way they should have in 1983, we wouldn't even be having this conversation.

And Social Security has never missed a payment.

But thank you for that question. It is a great point because this will impact all individuals. But when you look currently how this disproportionately impacts women and men of color because of their particular financial situation, it is time for us to act.

Mr. HERN. Thank you for the clarity.

Chairman YARMUTH. The gentleman from California, Mr. Peters, has a question.

Oh, did you have one?

Mr. PETERS. I think you are fishing for me to ask you about your Starbucks reference, Mr. Chairman. So I was going to give you the chance to do that.

Mr. LARSON. Well, everybody always asks, "Well, how you going to pay for this?" Well, we pay for it by making sure that we do what they should have done in 1983. We create—we have incremental funding. We increase it approximately by 1.2 percent, the contribution. And, as you know, the contribution is made by the employee and the employer.

The employer gets to write it off his taxes. The employee not only gets a pension benefit, but also—and we don't discuss this enough—a disability payment, spousal and dependent coverage. There is no place in the public market, as a former insurance agent, that you can go and buy this. It's the full faith and credit of the United States government.

We also lift the cap on people over $400,000, and that is where the Starbucks comes in. At every senior's center I go to I say, "How much does this Starbucks cost?"

And they all will say, "Is it a latte?"

And I go, "Yes."

They go, "Four dollars and fifty cents."

I go, "That's correct. Or, under our plan, if you are making $50,000 a year this is nine weeks of Social Security payments. And even if you are that poor person at $400,000, it will cost you more to buy a latte than it will to fix Social Security."

We can do this. Had they incrementally phased this in and indexed it back in 1983, we wouldn't be having this discussion. They didn't. We're the stewards of this program. It's our responsibility to do this, and we can fix a major problem.

Again, I credit the President for sticking his neck out on this one, as well.

Chairman YARMUTH. The Ranking Member has a question.

Mr. WOMACK. You know, one of the great frustrations I have as a Member of Congress is the fact that the varsity sport of Congress is a game called kicking the can down the road.

Mr. LARSON. Exactly.

Mr. WOMACK. And we're really good at it. I mean we don't have a rival in this notion that, when confronted with a problem like we have with Social Security—or even more urgent, in my view, is the problem with the Hospital Insurance Trust Fund, which is about 10 years ahead of Social Security, in terms of insolvency—that it seems as though we do not decide to take effective action until we're on the cliff. And need I remind anybody of the cliffhanger that we had in 2012 and 2013 on the Bush-era tax cuts that we waited until the very last minute—in fact, beyond the last minute?

But I digress. I think the people of America, while there is anecdotal evidence out there that they understand that we have a problem, but the problem is not tomorrow. The problem is 2035. And it seems as though Congress is okay with deciding we are going to deal with this when it becomes a real matter of urgency, like 2033 or 2034. And it seems to me that whenever you delay the eventual that long, that your options become fewer and further between, and they become much more draconian in their nature.

So I don't know if I have got so much of a question, as just a comment along those themes that I will throw back at you, Congressman Larson, for any response you would care to make.

Mr. LARSON. Well, I couldn't agree more with you. And also, I would point out—and I do so in my testimony—how it's also said, well, you know, this problem, you know, is—you know, we are going to be okay until 2035, and also that, well, this is just a shifting from one generation to another. No, it is not.

In fact, Millennials are going to need Social Security more than Baby Boomers will need Social Security. It's long overdue for Boomers and Millennials to unite and talk about something that's within our grasp, and something that we can solve, and do so pragmatically, in a common-sense manner, and address it in a businesslike manner, the same way any actuarial would do that.

Now, the unique feature here is that every single thing that we call for in these enhancements has been—the independent actuary said not only is it paid for, but it is sustainable beyond 75 years. Wouldn't it be great on our watch to take this off Congress's plate and to go home and be able to look everyone in the eye and say, "Not only did we fix this, we fixed it for—by law, as we were required, beyond 75 years, and we enhanced it. We won't allow for anyone who has paid their quarters in to retire into poverty. We won't see women of color have the—you know, to find themselves impoverished, even though they've worked all their lives and paid in their quarters?"

And so it just seems to me that there is ample opportunity—and again, it took President Reagan and Tip O'Neill coming together. And most people forget that Howard Baker was the Senate Chairman at that time. So it is the identical situation that we are confronted with here today. Tip had a few more Democrats at that time than we do today, but I think the situation warrants—especially with the with the President being predisposed to do this, and have talked and written in his book about this as being an earned benefit. Thank you.

Chairman YARMUTH. Thank you. The gentleman from Texas, Mr. Flores, has a question.

Mr. FLORES. Thank you, Chairman Yarmuth and Republican Leader Womack, for holding today's hearing.

Chairman Larson, I appreciate you being here. Mr. Womack talked about the blood sport of kicking—or the sport of kicking the can down the road that Congress has gotten pretty good at. The other thing that we have gotten really good at is the blood sport of condemning each other when either side tries to touch the third rail——

Mr. LARSON. Right.

Mr. FLORES.—of policy in this town. And Social Security is certainly one of those.

And I remember back in 2011, when I was a freshman member of the Budget Committee, we put up a plan to try to save Medicare for all generations. And within 36 hours there was an ad of somebody pushed a wheelchair that threw granny over the cliff, and that somebody was—that looked like—a lot like Paul Ryan, who was then the Budget Chair. So I agree with you that we are going to have to hold hands and do this in a bipartisan manner.

There are some things about your bill I like. There are some things about your bill that I think would—could benefit from some bipartisan support. And so I hope that that is something that we can do, moving forward.

You know, as we are all aware, the 2019 Social Security Trustee's report offered a grim outlook on the current path. Social Security will run deficits of nearly $1.8 trillion over the next 10 years, and benefits will face 20 percent reductions by 2035. That means today's 51-year-olds will face cuts when they reach retirement age. And today's newest retirees will face cuts when they turn 78. So it is important to note that the average new retiree lives to 85, age 85. And so, if we don't do anything, as you were pretty eloquent in saying, Social Security is going to become insolvent, and everyday Americans are going to hurt.

So again, I—we have got to grab hands and work on this, but it has got to be bipartisan. So I am hopeful that you are willing to do that.

I do have to add some additional context to some of the things that the Chairman said in his opening statements.

One, wage growth is not flat or stagnant now. The last quarter's wage growth was up 3.2 percent. And there were some comments about income inequality. The bottom 10 percent, income in the bottom 10 percent of Americans the last quarter, grew by 6.6 percent, over double of what the average population did. So the tax cuts, the economic reforms that we have proposed, are truly lifting all boats and reducing the age—the income inequality that exploded over the last several years before that.

So with that I yield back the balance of my time. Thank you.

Mr. LARSON. Well, I would just add that—well, thank you for the comments.

I would add also that Tom Reed has been outstanding. And I think—let's be blunt about it—I think what people don't like about the program is how we pay for it. And—but at the end of the day we are faced with two options: either you raise the age, which—again, let's be honest about it, that's a cut in benefits to people that we are finding—and both the Republican leader and the Chairman eloquently stated what the deal is here, in terms of these people and what they will receive.

And you know, for them to be looking at—for many of them, for almost 90 percent of people who haven't recovered from the 2008 recession then to find themselves in a situation where we are either going to hike the age where—they get another cut in the benefit that, for whatever the reason, their inability to save, their companies no longer—I mean there is no such thing anymore as defined benefit plans. We all know that. And we should be doing everything that we could to encourage all three legs of the stool.

But our primary responsibility is Social Security. And for the Millennials, especially, it is not just the wage differential or wage stagnation, but it is also enormous student loan debt, the gig economy, and everything that that is, the lack of high paying labor jobs, the fact that they will be a generation that will probably earn less than their parents earned, and are going to rely more on Social Security.

And even—and primarily again, because of the opioid epidemic, et cetera, actually, the tables—the death rate tables have dropped, and have come down. And so—but even as people are living longer, all the more reason that—actuarially, where we are responsible that we make the program solvent, and that it is able to accomplish its goals.

But Tom, Mark Meadows—I mean you would think that would be strange bedfellows, Mark Meadows and myself, but he talks about his mom and everything that she needed in order to make this program secure. Tom, Tom Price, who is—both who lost their dads, and were raised on Social Security. Rich Neal, the Chairman of the Committee, lost his mother and father. And so I think everybody understands the importance and significance.

The issue is can we look in the mirror and say, "Hey, listen, if we raise the age, and that is a 7 percent cut to somebody, how do they handle it?" This is the reality of what they will receive. That is—would be my point.

Chairman YARMUTH. All right. Once again, thank you, Chairman Larson. You can take your Starbucks cup and——

[Laughter.]

Chairman YARMUTH. I appreciate your testimony.

Mr. LARSON. Thank you, Mr. Chairman.

Chairman YARMUTH. Once again, absolutely.

Chairman YARMUTH. I would now like to ask our second panel to take their seats.

[Pause]

As I mentioned to Chairman Larson, your written statements will be made part of the formal hearing record. You will each have five minutes to deliver your oral remarks.

I first introduce Dr. Favreault. Begin when you are ready.

STATEMENT OF MELISSA M. FAVREAULT, PH.D., SENIOR FELLOW, URBAN INSTITUTE; ANNE MARIE COOK, PRESIDENT AND CEO, LIFESPAN OF GREATER ROCHESTER; JAMES DALE HANNER, SECRETARY–TREASURER, NORTH CAROLINA COMMITTEE TO PROTECT PENSIONS; AND ANDREW G. BIGGS, PH.D., RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE

STATEMENT OF MELISSA M. FAVREAULT, PH.D.

Dr. FAVREAULT. Chairman Yarmuth, Ranking Member Womack, and Members of the Committee, my name is Melissa Favreault and I am a senior fellow at the Urban Institute. The views I express today are my own, and not those of the Urban Institute, its board, or its funders.

Last month the Social Security and Medicare trustees released their annual reports repeating their warning that these programs have significant shortfalls. These need to be closed by either increased program revenues, reductions in the rate of growth of benefits, or some combination. They emphasized that earlier action will make it easier to spread the costs of change across more generations and to avoid sudden changes that could harm beneficiaries and workers.

Given these programs' broad reach into our economy and society, we need sustained discussions about how to meet these challenges. My contribution to today's discussion emphasizes five points.

First, our current social insurance programs work well providing powerful protection against risk for seniors and people with disabilities. They form the foundation of our social contract with America—with the working and middle-class Americans. Social Security benefit progressively reduces labor market risk, annuitization reduces the risk of long life and outliving one's assets, inflation protection reduces financial risk, disability and survivor's benefits reduce health and early mortality risk.

The program has been enormously successful. Meyer and Wu recently estimated that Social Security reduces the overall poverty rate by about a third, and age in poverty by three quarters, and two-thirds of the benefits go to people who were poor prior to transfers.

In seeking solutions to Social Security's long-run financing imbalance, we must bear in mind that economic inequality has eroded the program's wage base. Since the mid-1970s, typical workers' wages have not kept up with productivity, but wages at the very top have grown rapidly. Critically for Social Security, the share of total earnings the program taxes has fallen from 90 percent to close to 83 percent. Inequality thus contributes to Social Security's fiscal imbalance. Increasing the wage base should be part of the solution.

Large disparities in longevity pose challenges with equitable distribution of Social Security Medicare benefits. By more than one estimate workers in the highest income quartile of the earnings distribution in their early fifties can expect to live more than 10 years longer than those in the lowest.

Social Security's broad support stems from public perception that benefits are an earned right, with benefits linked to contribution. So long-range solutions must retain the society-wide investment by maintaining broad-based financing and strong income-related benefits.

Second, these core social insurance programs have a few gaps. Too many seniors, and especially long-term caregivers, women—especially if they are unmarried—African-Americans, Latinos, less educated workers, and people with health problems and disabilities, and the oldest old have incomes that hover below or near poverty. Many are vulnerable to very large health care bills.

In part to help account for the importance of health care costs, Census Bureau researchers compute supplemental poverty. According to this measure, roughly 14 percent of adults aged 65 or older, or approximately 7 million people, are estimated to be poor.

Some promising ideas for closing Social Security adequacy gaps include minimum benefits and caregiver credits. A full career of work at the minimum wage does not guarantee a poverty-level benefit from Social Security, and long caregiving spells are associated with higher risk of low benefits. So there is a strong case for bolstering benefits.

To the extent to which we are concerned with health care affordability and health shocks, adjustments to Medicare cost sharing or Medicaid eligibility could help, as well.

Third, the risk of needing long-term services and supports, estimated to be as high as 70 percent at age 65 plus in recent years, poses enormous challenges for retirees. A year of paid home care can cost $40,000. A year in a nursing home can be more than double that. Because these costs are unaffordable for so many, we rely heavily on unpaid family caregivers. Many jeopardize their own retirement security to help their family members.

Fourth, since Social Security's inception it has been acknowledged that responsibility for retirement security does not fall solely on this program. Employers play a crucial role through offering retirement accounts. Behavioral economics can teach us how to better structure employee retirement accounts to boost participation in contributions. However, access issues remain. Nearly 30 percent of workers have no access on the job, and about 45 percent are not participating. In the lowest wage quartile more than half don't have access, and three quarters are not participating.

Current federal subsidies for retirement savings and defined contribution plans overwhelmingly reach those in the top fifth of the income distribution. A better approach would be to promote saving among those who most need to save, and for whom saving is most difficult. Tax credits, for example, would work better than deductions at reaching lower savers and vulnerable workers.

Finally, as we seek solutions to our fiscal challenges, we need to recognize that inequality in social and economic disparities today are deep. They often extend across multiple domains and, in some cases, may be growing. The same people who do not have good jobs and less access to retirement accounts are the same people who are more likely to become disabled. When we look at disparities in severe disability and dementia, for example, by education and race, the differences across groups are stunning.

These disparities constrain our financing options. Revenue increases need to provide a very large share of the solution over long-run investments in education, and younger workers must also be part of the solution. Thank you for this opportunity to testify. I look forward to questions.

[The prepared statement of Melissa M. Favreault follows:]

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PROMOTING MIDDLE-CLASS RETIREMENT SECURITY: THE IMPORTANCE OF ACCOUNTING FOR INEQUALITY IN RESOURCES, BURDENS, AND RISKS

Statement of
Melissa M. Favreault*
Senior Fellow, Urban Institute

before the
Budget Committee
United States House of Representatives

KEEPING OUR PROMISE TO AMERICA'S SENIORS: RETIREMENT SECURITY IN THE 21ST CENTURY

May 15, 2019

* The views expressed are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

I thank my Urban Institute colleagues Howard Gleckman, Richard Johnson, and Michael Marazzi for help in preparing this testimony.

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Chairman Yarmuth, Ranking Member Womack, and members of the committee, thank you for the opportunity to discuss the many challenges confronting the nation's current and future retirees. My name is Melissa Favreault, and I am a senior fellow at the Urban Institute, where I study US retirement and disability policy. The views I express today are my own and are not necessarily those of the Urban Institute, its board, or its funders.

Just over four weeks ago, the Social Security and Medicare Trustees released their annual reports on the programs' financial status (Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds 2019; Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds 2019). The trustees reported that both programs are underfunded. Although each report contained important new information, their conclusions echoed those of past reports: to put the programs on a sounder financial footing, Congress will need to increase program revenues, slow the growth in program costs, or combine these two approaches.

Because Social Security and Medicare are such large, fundamental parts of our economy and daily lives, such program changes must be carefully considered. For years, government and independent analysts have been examining reform proposals to help inform lawmakers and the public of various options and their fiscal and distributional consequences. The required trade-offs must be weighed and debated, with input from beneficiaries, service providers, and taxpayers. This hearing is a welcome step in this important process.

After I briefly describe the financial risks faced by today's workers and retirees, my testimony will emphasize five points about social insurance, retirement savings, and employment policies.

- Social Security is the bedrock of the US income security system. We must shore up its finances, and as we do this we must account for persistent disparities in retirement and disability and the effects of increasing inequality in earnings, wealth, and longevity in recent decades.
- For many, employer-sponsored retirement plans and Social Security complement one another, but access to such plans is not yet universal, and government subsidies to these plans now mostly go to those who need them least. They should be adjusted to better promote savings and retirement adequacy for less-advantaged workers. Employers and Congress should continue to consider evidence-based, innovative, progressive ways to encourage working-age people to save.
- Medicare is a vital support for older Americans. However, its protections are incomplete, so out-of-pocket health care spending can significantly burden many older adults. These burdens are expected to increase in coming decades. Adjustments to Medicare cost sharing could help.
- Americans face a significant, unpredictable risk of needing long-term services and supports (LTSS). For many, this is the largest financial risk in retirement. Millions of family caregivers step in to fill this gap each year, often putting their own retirement security at risk.
- Decades of income stagnation and high levels of inequality in health risks have compounded many of these challenges. Those with the highest risks are often those least able to save for their health and long-term care needs in old age. Working longer can help older adults who are

still able to work better manage their risk both by offering more opportunity to save and by reducing how long they need their savings to last.

Background

Before going into detail on these five points, I'll start with some brief background on risk, how risks differ for different segments of the population, and the motivation behind programs such as Social Security and Medicare. To guarantee a secure retirement, people need access to jobs with good wages and benefits that protect them when misfortune strikes (such as health insurance in case they need expensive medical treatment for an illness or injury) and help them to prepare for the future (such as a retirement plan). Along the way, they face a range of risks.

One risk is low lifetime earnings. Some people are never able to access good jobs either because they lack the skills employers in their communities need or because they have disabilities or extended care responsibilities that limit or prevent work. Figure 1 shows how lifetime earnings differed for a sample of older adults who were approaching age 62 early this decade (those who were born from 1950 to 1954). It compares men and women separately by education and race and compares women by the number of children they had. It reveals dramatically different lifetime earnings—and thus dramatically different capacities to save for retirement—across the groups. The large racial disparities reflect decades of discrimination in labor and housing markets (Favreault 2008), many of which persist to this day. Women's lower lifetime earnings often reflect that they spent time out of the labor force or worked part time in order to provide family care.

A second risk is being forced into an early retirement through job loss, health problems, or another reason. Some people may work for decades at the same employer and expect to retire from that company but then get laid off late in their careers. When these older workers reenter the job market, they may face diminished prospects and age discrimination (Neumark, Burn, and Button 2017). My colleague Richard Johnson and his coauthor Peter Gosselin found that as many as half of employed 50-year-olds in full-time, full-year jobs may face an involuntary job separation. When these workers are reemployed, Johnson and Gosselin (2018) find that their wages are on average lower than what they earned before the separation. Just 10 percent earn as much after the separation as they earned before. Others experience late-career health shocks and disabilities. Munnell, Rutledge, and Sanzenbacher (2019) report that 37 percent of workers retire earlier than planned and that health shocks are the largest factor in workers' choices to retire earlier than planned (followed by employment shocks and family changes—other risks).

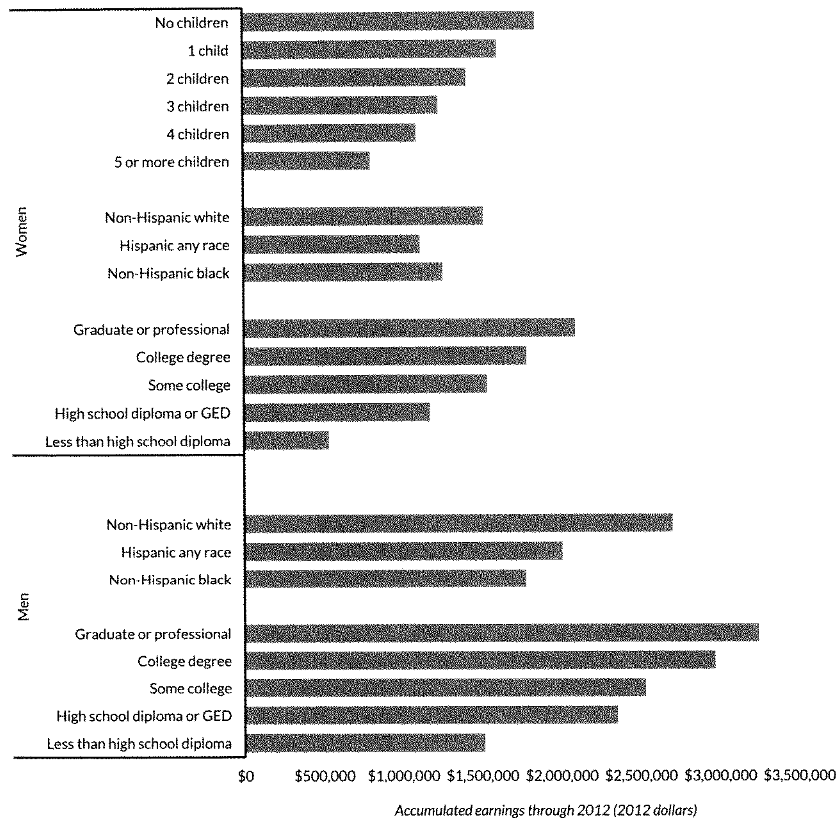
Workers also need to worry about investment risk. Some can see their retirement savings disappear because of an extended stock market bust just as they are approaching retirement. Other workers might find that their employer goes bankrupt, and the company stock they were counting on for retirement becomes worthless.

Others may face retirement in poor financial shape because of their own choices: they had a good job with a good salary but never made savings a priority.

FIGURE 1

Accumulated Lifetime Earnings by Gender and Race, for People Born 1950 to 1954 Who Survive until 2012

Men earn dramatically more than women over the course of a lifetime, and for both men and women, those with more education on average earn dramatically more than those with less education; disparities by race and ethnicity are also large



Source: Favreault (2018) based on 2008 Survey of Income and Program Participation matched to earnings records.
Notes: Accumulated values as of 2012 in 2012 dollars, without discounting.

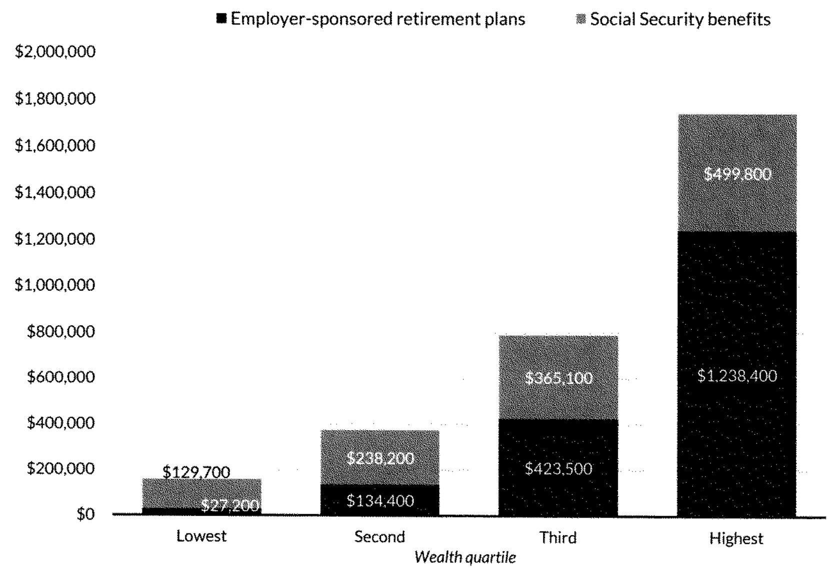
Once workers enter retirement, new challenges and risks can arise. Those who were fortunate and diligent enough to have saved need to a plan to spread their assets over their remaining lifetimes without knowing how long that will be. This means a longer life is not just a gift but also another risk to be managed. They also need to worry about inflation eating away at their resources. And one of the largest risks faced by those who live for a long time is the risk of becoming frail and needing full-time care, for example because of a debilitating disease such as Alzheimer's. The Society of Actuaries documents how workers plan for and cope with these risks after retirement.[1]

The government, employers, private insurance companies, and individuals all play different roles in managing these life-course risks. Individuals work and save to prepare for retirement and difficult times. Some employers provide workers with health insurance, disability insurance, and pension benefits. Insurance companies manage risks for health and disability insurance for employers and for workers who purchase health insurance or long-term care insurance directly.

FIGURE 2

Retirement Wealth for Working Families Approaching Retirement (Ages 50–59), by Wealth Quartile

Those in lower wealth quartiles hold comparatively little retirement plan wealth outside of Social Security



Source: Sabelhaus and Henriques Volz (2019) from Survey of Consumer Finances and Financial Accounts of the United States.
Notes: Reports averages of present values within groups.

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[1] See "Understanding and Managing Post-Retirement Risks," Society of Actuaries, February 2019, https://www.soa.org/resources/research-reports/2017/post-retirement-needs-decisions/.

The federal government steps in where markets do not work or do not work well. For example, people are much more likely to buy a type of insurance if they know they are likely to need the benefits (adverse selection), and they might make socially damaging choices if it is financially advantageous to them (moral hazard). A further rationale for government intervention is that too many people are myopic: they simply won't save for retirement or for disability unless they are forced to, or they fully intend to save at some future point, but they procrastinate so long they do not have enough time to accrue the savings they will need.

Figure 2 gives us a sense of where those coming up on retirement—working families who are ages 50 to 59—stand today. The figure shows that for those lower in the wealth distribution, future Social Security benefits constitute the majority of family wealth.

This brings me to my first policy point: Social Security is the bedrock of the US income security system, protecting tens of millions of Americans every year with guaranteed, progressive, inflation-protected benefits. To keep our promise to America's seniors and today's workers, we must shore up Social Security's finances. As we do this, we must account for the effects of increases in inequality in earnings and longevity in recent decades.

With its guaranteed, nearly universal, progressive retirement benefits offered in the form of an inflation-protected annuity, Social Security is the central component of a secure retirement for most Americans. It provides a large share of many retirees' total incomes.[2] In addition to worker retirement benefits, the program also provides benefits in time of disability, for dependent family members, and for survivors after a worker's death. It thus addresses or reduces most of the risks and challenges I've just enumerated: progressivity reduces low lifetime earnings risk; annuitization and inflation protection reduce the challenges of making savings last;[3] mandatory participation addresses the risk of failing to save; and disability, spouse, and survivors' benefits address the risks associated with disability or the death of a family's primary earner.

The program has had tremendous success helping workers prepare for retirement and disability. It has allowed generations to live independently, securely, and with dignity. Social Security played a significant role in reducing poverty among older adults.[4] Old-age poverty rates fell from 35.2 percent in 1959 to 9.2 percent in 2017.[5,6] Meyer and Wu (2018) find that in recent years, Social Security reduced the pretransfer poverty

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[2] Using high-quality household survey data matched to administrative records, Bee and Mitchell (2017) estimate that more than two-fifths (42.2 percent) of people ages 65 and older in 2012 depended on Social Security for at least half of their income, and one-tenth (10.2 percent) depended on Social Security for 90 percent of their income. Dushi, Iams, and Trenkamp (2017) present similar estimates for a later period comparing data sources.

[3] These two aspects of Social Security—annuitization and inflation protection—could make it easier for workers to navigate the spend-down phase in retirement if they can wait to claim Social Security benefits until after they reach the full retirement age (Mahaney and Carlson 2008). Deferring benefits raises their Social Security income and their stream of inflation-protected benefits that last a lifetime.

[4] Using a strategy geared at estimating causal effects, Engelhardt and Gruber (2006) estimate that historically (from 1968 to 2001) every $1,000 increase in Social Security benefits reduces elderly poverty by 2 to 3 percentage points.

[5] Using the Supplemental Poverty Measure, which better accounts for seniors' health care costs, aged poverty is estimated much higher—14.1 percent—in 2017 (Fox 2018).

[6] Bee and Mitchell (2017) find that the official poverty measure may overstate poverty because certain types of income are poorly reported.

rate overall by about one-third and reduced it for those age 65 and older by three-quarters.[7] They report further that roughly two-thirds of total benefits go to people who were poor before accounting for transfers and that these transfers reduce the poverty gap about 45 percent. These statistics illustrate that government can accomplish great things. And this retirement security has been delivered very economically: although the program's rules are complex, Social Security's administrative costs are low relative to private insurance programs.

As the Social Security trustees reported in April, the program now faces a modest long-term shortfall, estimated at 2.78 percent of taxable payroll. Our aging population, contributed to in part by low birth rates, accounts for much of the program's 75-year shortfall. Increased earnings inequality has also exacerbated the problem. Social Security caps the earnings it counts for both payroll taxes and benefits at $132,900, adjusted annually for inflation. As the highest earners have garnered a greater share of total earnings, this cap starves Social Security of needed revenue and worsens the program's fiscal position.[8] Legacy debt also contributes to underfunding (Diamond and Orszag 2004; Leimer 2016; Munnell, Hou, and Sanzenbacher 2017): Early program participants who contributed little to support their benefits earned much higher returns on their contributions than subsequent generations.

Bolstering Social Security's long-term finances as soon as possible will help workers plan for their retirement and reduce their uncertainty about the future. It also will allow the costs of change to be more broadly shared across generations. It is thus heartening to see that members of the Congress and this committee are developing legislation designed to put Social Security on better financial footing.

Increasing program revenue needs to be a critical component of restoring the program's long-term financial balance. At least part of this new revenue should come from high-income adults who can best afford to make higher contributions. Nobel Laureate Peter Diamond and Emmanuel Saez have suggested that very high earners should be subjected to high and increasing tax rates that are higher than under current policy (Diamond and Saez 2011). Increasing the cap on earnings included in Social Security's wage and benefit base, so that it covers at least the same share of earnings it did in the early 1980s (figure 3),[9] could improve the program's fiscal balance and simultaneously help the program better account for recent increases in earnings inequality. Such a change is also popular: in public opinion polls, Americans consistently report that they would prefer to pay more to keep Social Security on a solid footing rather than reducing program benefits,

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[7] Meyer and Wu use recent, high-quality data from the Survey of Income and Program Participation from 2008 to 2013 matched to administrative records and a careful accounting strategy. Such an approach does not integrate the potential for behavioral change that could occur if, say, Congress were to change Social Security or if Social Security never existed. It does, however, provide a powerful illustration of the effects of the program as it now exists. Romig (2018) provides similar estimates, including state-by-state estimates, using data from the Current Population Survey.

[8] My Urban Institute colleague Richard Johnson estimates that if the share of total earnings that were covered had remained roughly constant at the early 1980s levels, Social Security's 75-year actuarial deficit would be about a quarter smaller.

[9] According to estimates from Social Security's actuaries, if Congress raised the taxable maximum to $267,600 this year, 90 percent of total earnings would be covered, the same level as in the early 1980s. Such a change could extend the program's solvency by about five years and reduce the actuarial deficit about 28 percent (See option E3.1 in Social Security Administration, Office of the Chief Actuary 2018) if workers received additional credits toward benefits from the new taxes. If workers did not receive credit for the extra contributions, then the system would be fully solvent for about six more years and the actuarial deficit would fall about 35 percent (See option E3.2 in Social Security Administration, Office of the Chief Actuary 2018).

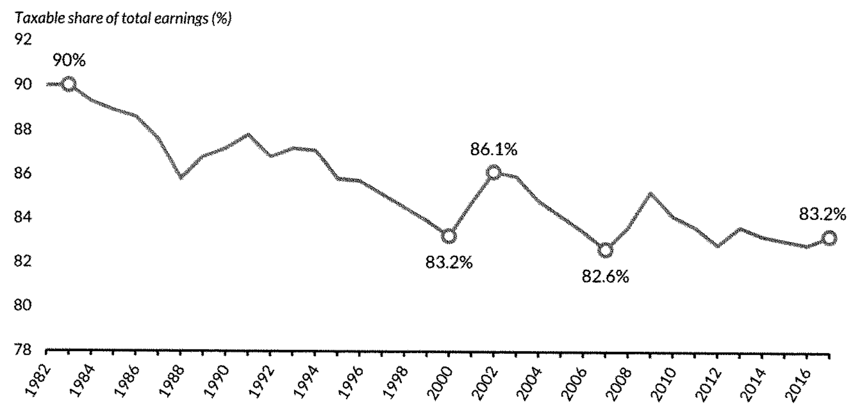
and they especially prefer when higher earners contribute the most (Tucker, Reno, Bethell 2013; Walker, Reno, and Bethell 2014).

Asking more from affluent workers could also help account for the fact that death rates are much lower, and so life expectancy is much longer, for higher lifetime earners than for lower lifetime earners (Bosley, Morris, and Glenn 2018; Bosworth, Burtless, and Zhang 2015; National Academies of Sciences, Engineering, and Medicine 2015; Waldron 2013). Estimates vary across these studies, but differences by education and lifetime earnings are often striking, in some cases over ten years difference in life expectancy at age 51 between the highest and lowest status groups. Death rates are also lower for women than men. Moreover, recent life expectancy gains have gone overwhelmingly to those with the most education and highest lifetime earnings (Bosworth, Burtless, and Zhang 2015; National Academies of Sciences, Engineering, and Medicine 2015; Olshansky et al. 2012; Waldron 2007) (figure 4). As a result, people with less education, especially less-educated men, are more likely to die before reaching Social Security's eligibility age or within a few years of beginning to collect benefits (figure 5). For men with less than a high school education, deaths are expected to be concentrated in their late 70s and throughout their 80s. Men with more than a college degree are expected to be more likely to die in their late 80s and throughout their 90s. For women, expected deaths for the most educated are largely concentrated in their 90s. These estimates also underscore how challenging it is for retirees to manage how long their retirement resources last, because their possible ages of death can vary greatly.

FIGURE 3

Share of Total Earnings Taxable by Social Security, 1982–2017

As earnings have increased more rapidly for the highest earners, the share of total earnings that Social Security taxes has fallen, reducing program revenues

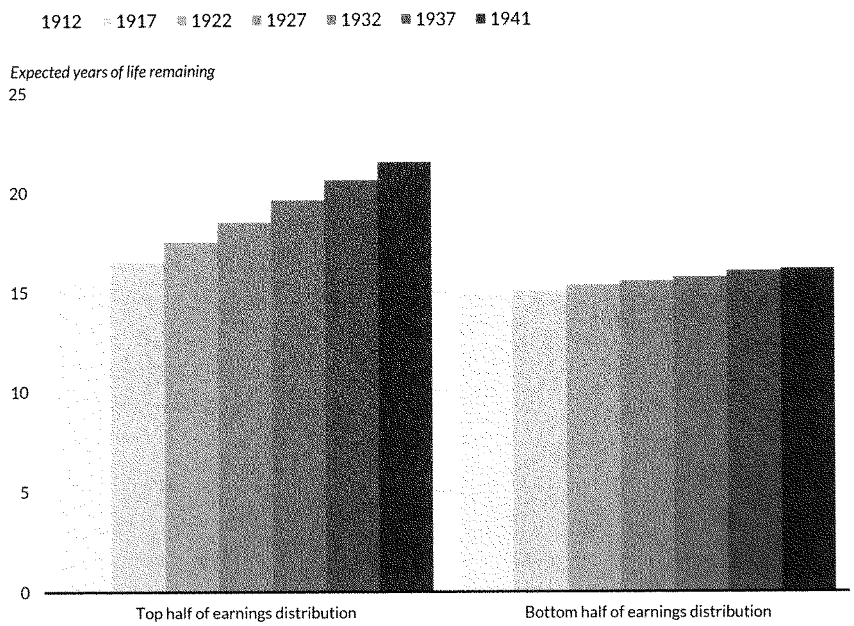


Source: Table 4.B1 *Annual Statistical Supplement to the Social Security Bulletin*.
Notes: Data for years 2013 through 2016 are preliminary; page 143 in the *2019 Trustees Report* reports a value of 83.2 percent for 2017. Vertical axis does not begin at zero.

FIGURE 4

Life Expectancy at Age 65 for Men by Birth Cohort and Lifetime Earnings

In recent decades, life expectancy grew for men in the top half of the distribution but stagnated for others



Source: Waldron (2007).

Social Security has enjoyed deep political support because workers participate over their lifetimes, first as contributors and later as beneficiaries; many workers thus consider it an earned right. Wilbur Cohen, who headed the Department of Health, Education, and Welfare in 1968 and was a strong Social Security supporter, opined that programs for the poor will end up being poor programs. Many Social Security analysts still echo that view today.

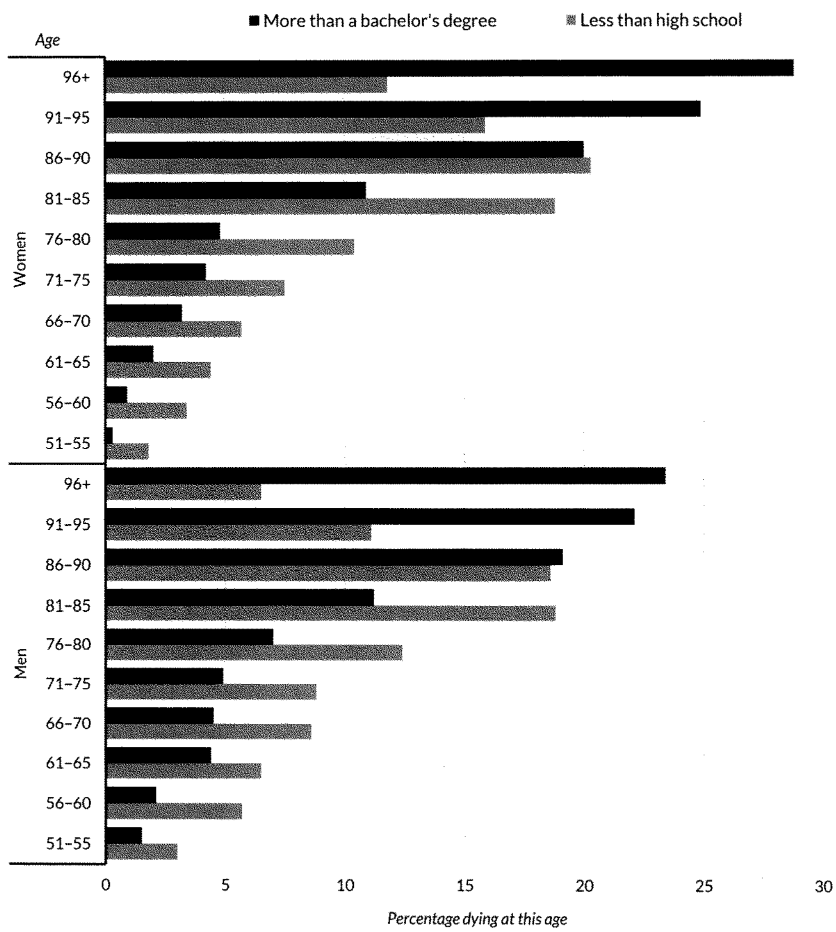
Raising the Social Security earnings cap alone and reducing higher-wage workers' returns on these contributions will probably not generate enough additional revenue to close the program's long-term shortfall. Even if doing so would raise enough revenue, many believe that solving the program's financing challenges solely through tax increases on the well-to-do would not be in its long-term best interests. Progressive policy sometimes requires choices that on some level appear regressive. Some other revenue-side options for improving Social Security solvency could include raising the payroll tax rate and expanding the contribution base, such as by including employee and employer contributions to employer-sponsored health insurance premiums or employee contributions to covered earnings.

Whatever the source, implementing revenue increases gradually—and particularly so that the new resources track the program's need for cash—could help limit potential work disincentives.

FIGURE 5

Projected Distribution of Age at Death by Education and Gender for People Born from 1965 to 1974 who Survive Until Age 51

Expected age of death differs greatly depending on education and gender



Source: Author' calculations from DYNASIM (runid 964, dated October 2018).

Too many older adults in the US are still poor or near poor. Recent studies estimate that between 3.0 and 7.2 million people age 65 and older live in poverty, depending on the data, time period, and measure used (Bee and Mitchell 2017; Fontenot, Semega, and Kollar 2018; Fox 2018). As we bolster the system's finances, we also should consider other program improvements, such as adding benefits targeted to the poor and near poor or adjusting rules to improve work incentives and increase fairness between different kinds of families.

Today, long-term low-wage workers are not guaranteed a Social Security benefit that can bring them out of poverty.[10] Women, especially those who are unmarried and long-term caregivers, are among those most likely to have low Social Security benefits (Favreault 2018), and their old-age poverty rates are nearly double those of men (Bee and Mitchell 2017). Poverty rates for older black and Hispanic Americans are estimated to be more than double those of the aged population as a whole (Bee and Mitchell 2017). Disabled workers, particularly those who become disabled at a young age, are also especially vulnerable, with much higher poverty rates and higher levels of material hardship (Brucker and Houtenville 2014; Favreault, Johnson, and Smith 2013; She and Livermore 2007, 2009; Wu and Hyde 2018), and high poverty rates of people with disabilities persist at age 65 and older, where they are more than double the rates of those without disabilities (Bee and Mitchell 2017).

Analysts and policymakers have proposed a wide range of Social Security adjustments that would narrow these gaps. In past work, colleagues and I have analyzed highly targeted minimum benefits that can be efficiently provided through the tax system, akin to an income tax credit for retirees (Herd et al. 2018). Congress should consider this type of adjustment.

Other ways to enhance the program for low-income retirees include redesigning and expanding minimum benefits and survivor benefits (sometimes financed through reductions in spousal benefits), granting earning credits to family caregivers who spend time outside of the paid workforce or working part time, adjusting the Social Security benefit formula to increase progressivity, and increasing benefits for the very old. Many such provisions have been integrated into past Congressional and commission proposals. Researchers at the Social Security Administration, Congressional Budget Office, and Urban Institute have documented the distributional effects of many alternative Social Security changes. In recent work, we have also tried to illustrate how different Social Security adjustments meet different goals (Favreault and Smith, forthcoming). Congress should ground in evidence policy adjustments aimed at increasing benefits for the most vulnerable. It should approach ideas to tap Social Security benefits to meet early life course needs with great caution.[11]

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[10] For example, a worker who earned the minimum wage for 40 hours per week and 52 weeks per year every year from age 20 to 59 and then claimed Social Security benefits at the early eligibility age of 62 would be eligible for a benefit of roughly 72 percent of the federal poverty level. If she deferred claiming until her full retirement age, she could receive a benefit of just about poverty. Part-time hours or fewer weeks in the year, common conditions for lower-wage workers, would yield lower benefits.

[11] Some policymakers and analysts have proposed allowing workers to borrow from their future Social Security retirement benefits to finance paid parental leave, pay off student loans, or meet other needs at younger ages. Although I applaud innovative solutions to address the needs of family caregivers and those with high student debt, Congress should recognize the downside of tapping Social Security benefits early in life. Diverting Social Security benefits for other purposes could undermine future retirement security (Johnson and Favreault 2018). Borrowing from future Social Security benefits would likely be most tempting to those with less education and lower lifetime

Our research has identified the risks of unintended consequences of certain changes in the program (Favreault 2018). For example, Congress needs to be aware of how raising benefits for lower lifetime earners interacts with eligibility for and benefits from Supplemental Security Income and Medicaid. The Supplemental Security Income program deserves attention in its own right. Its income and asset restrictions have not been updated in decades, so they are now about half what they were in inflation-adjusted dollars the last time Congress changed them.

Second, employer-sponsored retirement plans are a critical complement to Social Security. However, employees' access to these plans is uneven and many current-law federal retirement savings incentives to workers and employers—largely through the tax code—are regressive. Employers and Congress should continue to consider evidence-based, innovative, progressive ways to increase access to easy savings and encourage working age people to save. Congress should also redirect retirement savings subsidies so that they better stimulate savings among those for whom saving is most difficult.

Social Security was never intended to be workers' sole source of support in old age. In the 1940s, the analogy of a three-legged stool was famously applied to retirement security—with Social Security, employer pensions, and private savings and investment constituting the stool's three legs.[12]

The Bureau of Labor Statistics reports that in 2018, 55 percent of workers are covered by and participate in employer retirement plans (2018). The remaining 45 percent who are not offered a retirement plan by their employer or who are offered one but choose not to participate disproportionately hold low-wage or part-time jobs (figure 6). Less than half of those in jobs with wages in the lowest quarter are offered employer pensions, and only about a quarter of these workers participate. Participation and ultimate pension income in retirement also vary by race and ethnicity (Johnson, Mudrazija, and Wang 2016). Those with a retirement plan are now far more likely to be covered by a defined-contribution plan than by a more traditional defined-benefit pension. The US Department of Labor's Employee Benefit Security Administration estimated that in 2016, 85 percent of private-sector workers with retirement plan coverage were in defined-contribution plans compared with just under 15 percent in defined-benefit plans.[13] Public sector workers are more likely than private sector workers to be covered by defined-benefit plans.

Expanding access to low-cost savings vehicles for those not offered an employer retirement plan is a critical first step in boosting retirement adequacy. Several states have started to do this, and we should monitor these experiences and learn what works best from them.

The behavioral economics literature has emphasized the importance of features like automatic enrollment, compulsory choice, and automatic escalation in increasing participation and contributions

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earnings, who face above-average risks of ending up sick and poor in retirement. In the case of paid leave benefits that are designed to pay for themselves, those who claim them could effectively be choosing to pay interest for 50 years on a loan of just a few thousand dollars.

[12] Social Security's historian claims that this metaphor did not begin in the Roosevelt administration, but rather with an insurance company actuary. See "Research Note #1: Origins of the Three-Legged Stool Metaphor for Social Security," Social Security Administration, accessed May 13, 2019, https://www.ssa.gov/history/stool.html.

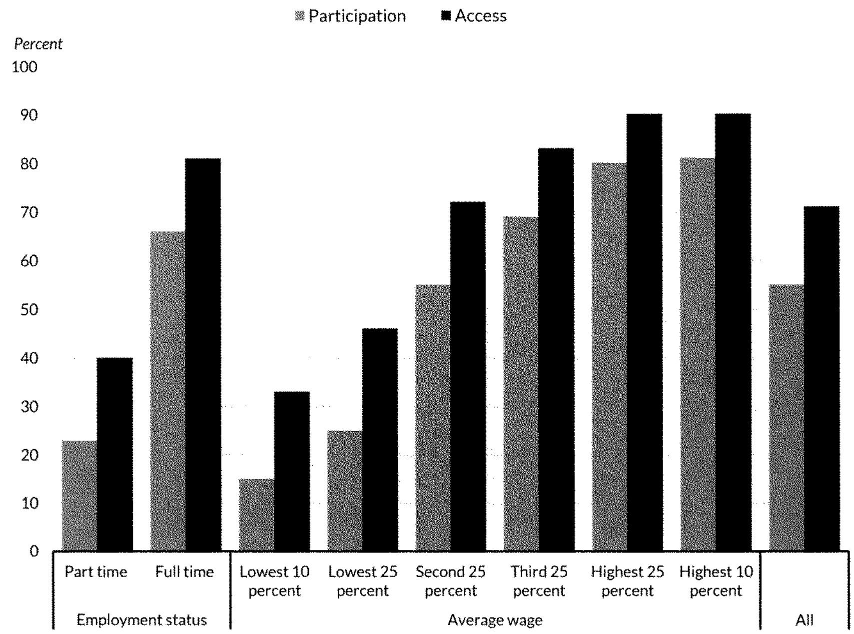
[13] Based on form 5500 filings for plan years ending in 2016. The population includes eligible nonparticipants. See table B7 of US Department of Labor, Employee Benefit Security Administration (2018).

in retirement savings vehicles (Carroll et al. 2009; Madrian and Shea 2001; Thaler and Benartzi 2004). The Pension Protection Act of 2006 made it easier for employers to offer automatic enrollment, and this has helped boost saving.

FIGURE 6

Access to and Participation in Retirement Benefits, by Average Wage Quantiles and Status, 2018

Higher-wage and full-time workers are most likely to be covered by and participate in pensions



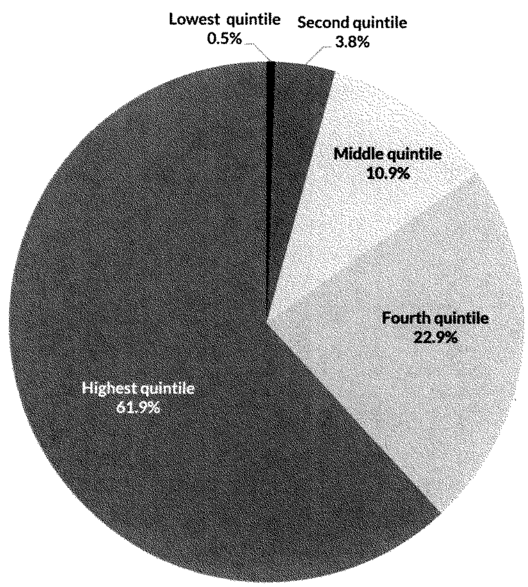
Source: Bureau of Labor Statistics (2018), table 2.
Notes: Population is civilian workers, March 2018.

The tax code subsidizes retirement savings by allowing people to deduct qualified savings from their taxable income. Because worker and employer contributions are generally larger for higher-income workers, and higher-income workers face higher marginal tax rates, it is more valuable for higher-income workers than lower-income workers to defer earnings. Federal tax incentives for retirement savings—and similar vehicles such as health savings accounts and college savings—are thus largest for those with the highest incomes (figure 7). My Tax Policy Center colleagues estimated that in 2017, more than three-fifths of these tax incentives for retirement went to those in the top one-fifth of the pretax income distribution; these incentives are thus directed to those who are most likely to save even absent large incentives. In 2017, these federal tax expenditures for retirement amounted to almost $230 billion. From 2018 to 2022, this is likely to reach nearly $1.4 trillion in lost revenue.[14]

FIGURE 7

Share of Tax Expenditures for Retirement Savings Incentives by Before-Tax Expanded Cash Income Quintile, 2017

Tax expenditures for retirement savings flow disproportionately to those with the highest incomes



Source: Urban Institute (2017), table T17-0130.
Notes: Estimates are for before the Tax Cuts and Jobs Act of 2017 was enacted.

Some analysts thus characterize retirement savings incentives in the tax code as "upside down" (Orszag 2004). Research by Chetty and colleagues (2012) suggests that savings incentives are most likely to generate new savings for lower-wage workers; at higher income levels, they are more likely to shift assets from taxable accounts into tax-preferred vehicles instead of increasing total saving

Retirement saving subsidies for defined contribution plans should better target those for whom saving is most difficult rather than rewarding those who often would have saved anyway. Several of my

[14] "How Large Are the Tax Expenditures for Retirement Saving?" Urban-Brookings Tax Policy Center Briefing Book, accessed May 13, 2019, https://www.taxpolicycenter.org/briefing-book/how-large-are-tax-expenditures-retirement-saving.

colleagues (Butrica et al. 2014; Gale 2011) have proposed and evaluated ideas about how to flip or flatten these upside-down incentives. These include, for example, replacing tax deductions with tax credits for retirement savings in defined contribution plans. Some suggest that directing such subsidies to Social Security instead of retirement plans might be prudent given how reliant most of the population is on the program (Sabelhaus and Henriques Volz 2019).

Third, like Social Security, Medicare is a vital support for older Americans. However, its protections are incomplete, so the risk of high health care spending is significant for many older adults. This risk is projected to increase dramatically in coming decades, especially for lower-middle- and middle-class families.

A discussion of future financing challenges for Medicare is beyond the scope of this hearing, so instead I focus narrowly on one important issue for middle class retirement security: cost sharing burdens.[15]

Although Medicare in total has a progressive financing system, premiums often eat up a significant share of Social Security benefits (Cubanski et al. 2018) and total income. Health care costs have typically grown faster than workers' incomes and retirees' Social Security benefits, pensions, and other retirement income. In coming decades, beneficiary premiums and cost shares are projected to increase faster than their incomes if current laws do not change, further increasing the already-significant share of retirees facing high health care spending burdens.

Medicare has some noteworthy coverage gaps that leave some beneficiaries responsible for substantial cost shares. Some services are not covered in traditional fee-for-service Medicare, most notably LTSS as well as vision, hearing, and dental care. Some Medicare Advantage plans cover some supplemental services.[16] Even for those services that Medicare does cover, the program's deductibles and copayments are organized by the type of service—such as hospital services, outpatient services, and prescriptions drugs—so that those using the same total amount of care but covered by different parts of the program can have higher cost-sharing requirements than those using services primarily from a single part of the program. Also, traditional Medicare has no cap on total out-of-pocket spending, though Medicare Advantage does have caps.

Beneficiaries in the middle class—and especially the lower middle class—are quite vulnerable. The ways that Medicare and Medicaid's cost-sharing provisions affect beneficiaries with the greatest health care needs deserve deeper consideration. As colleagues from Harvard Medical School and I showed in earlier work, the burden is likely to get much larger in coming decades (Hatfield et al. 2016) (figure 8). The share of retirees spending more than 20 percent of their income on premiums and cost shares for a

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[15] Many have argued that our nation's future fiscal health will depend critically on controlling health care cost growth, making this a fundamental challenge for government in coming decades. Although the Medicare program has contained costs per enrollee better than private insurers (Holahan and McMorrow 2019), careful analysis and monitoring, as by the Medicare Payment Advisory Commission, is required to pinpoint places where adjustments to service delivery and payment rates may be appropriate to improve and sustain this program

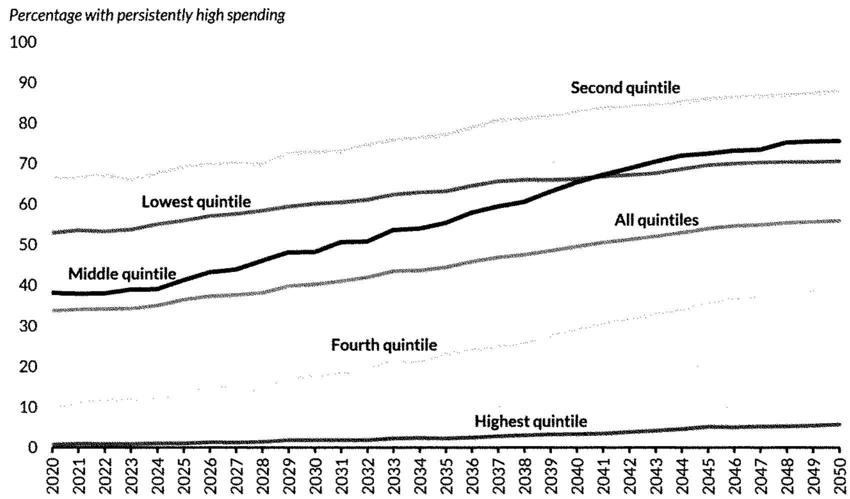
[16] For the first time, Medicare began allowing small LTSS benefits through the Medicare Advantage program in 2019. Any benefits must be primarily health related. Potential benefits include items such as in-home and caregiver support, palliative care, and adult day services. It will be worth monitoring this pilot year.

sustained period is expected to climb dramatically through 2050, especially for those in the second and middle income quintiles.

FIGURE 8

Percentage of Medicare Beneficiaries with Persistently High Out-of-Pocket Health Care Spending by Income Quintile, 2020–50

Medicare cost sharing burdens are expected to grow rapidly in coming decades, especially for those in the lower middle class and middle class



Source: Adapted from Hatfield et al. (2016), figure 3.
Notes: The lines show the percentage of people in the simulated population who spend at least 20 percent of per capita income on health care (in the index year plus or minus two years) in each year of the simulation. Results are shown separately for each income quintile and for the whole population.

The Medicare Payment Advisory Commission (2012) discusses and explores these issues, highlights the goal of balancing tradeoffs between protecting beneficiaries from high out-of-pocket costs and creating incentives for them to make good decisions about discretionary care, and makes recommendations about adjustments. My Urban Institute colleagues have documented how alternative Medicare policies—such as a unified annual deductible, alternative coinsurance rates, and a limit on out-of-pocket spending—could better protect high-need beneficiaries, sometimes without adding much to costs (Zuckerman, Shang, and Waidmann 2012). People who spend across different parts of the program would have cost-sharing requirements more comparable to those with spending in a single component of the program.

Changing eligibility for or increasing participation in, for example through targeted outreach, in Medicare Savings Programs,[17] which pay Medicare premiums for lower-income adults, and the Medicare Part D Low-Income Subsidy and other proposals could also help those who are spending large shares of their incomes on health care (Schoen, Buttorff, Andersen, and Davis 2015; Zuckerman, Shang, and Waidmann 2009, 2010, 2012).

Fourth, Americans face significant, unpredictable risk of needing long-term services and supports. For many, this is possibly the largest of all financial risks in retirement.

Between 50 and 70 percent of Americans face some long-term care risk from age 65 onward (Johnson 2019). However, awareness of this risk and potential costs is limited (Wiener et al. 2015; Associated Press-NORC Center for Public Affairs Research 2017). And these risks are felt very unevenly. Dementia, for example, one of the most feared diseases and biggest drivers of LTSS needs, affects women more than men. Those with less education are far more likely to succumb to dementia than those with a college degree or more (Choi et al. 2018; Crimmins et al. 2018; Freedman et al. 2018; Langa et al. 2016). And large disparities in dementia rates by race and ethnicity persist (Choi et al. 2018; Freedman et al. 2018; Matthews et al 2018; Mayeda et al. 2016). Dementia imposes large costs because of both the money and time required to provide care (Langa et al. 2001; Hurd et al. 2013, 2015). A long spell of dementia can lead to impoverishment.

Some people may require several years of care, and roughly 10 percent of those who survive to age 65 could require 10 or more years. A year of paid home care can run about $40,000 depending on the intensity of service provided; for those needing the most intensive services, the median cost for care in a semi-private room in a US nursing home is about $90,000 per year.[18] Costs this large fall far beyond the reach of the typical American retiree and could impoverish all but those at the very top of the wealth distribution. Many could be impoverished by a shorter-range disability spell. The LTSS system thus relies overwhelmingly on unpaid work from millions of family caregivers. My colleague Anne Tumlinson (2016) thus refers to the LTSS financing system as "about as underfinanced as any system can be."

LTSS generally are not covered by Medicare.[19] Currently, most spending for formal services is paid out of pocket by families or by Medicaid for those with low incomes. Access to Medicaid is uneven across the states because state eligibility requirements, generosity levels, and service delivery approaches vary widely (Houser, Fox-Grage, and Ujvari 2018; O'Malley Watts and Musumeci 2018).

A private long-term care insurance market serves a small set of mostly higher-income purchasers, and it has not reached deeply into the middle class. Moreover, the industry is clearly facing challenges. New policy sales are declining, and many carriers have exited the market after actual costs for the plans exceeded actuarial projections and premium increases were required (Schmitz and Giese 2019). These

[17] Estimates from the literature suggest that many who are eligible to participate in Medicare Savings Programs do not currently enroll (Caswell and Waidmann 2017; Haber et al. 2003).

[18] "Cost of Care Survey, 2018," Genworth, March 13, 2019, https://www.genworth.com/aging-and-you/finances/cost-of-care.html.

[19] In the words of the Medicare website "Medicare doesn't cover long-term care also called (custodial care), if that's the only care you need. Most nursing home care is custodial care." (See "Long-Term Care Coverage," Medicare.gov, accessed May 13, 2019, https://www.medicare.gov/coverage/long-term-care.)

well-publicized premium increases for existing private insurance plans have likely further posed challenges for courting consumers, some of whom were already skeptical.

A resurgence of interest in LTSS policy in recent years has been building on lessons from earlier congressional efforts (Commission on Long Term Care 2013). Several policy groups and commissions have convened in recent years to address this problem (Bipartisan Policy Center 2014, Long-Term Care Financing Collaborative 2016, LeadingAge Pathways 2013, O'Leary 2014), highlighting the challenges and proposing various solutions.

There is no easy solution to this problem, so policymakers are considering a range of alternatives. Incremental proposals—such as respite care and caregiver credits—could help ease caregivers' burdens and families' exposure to large out-of-pocket costs (Favreault and Spillman 2018).

Social insurance holds promise as a large-scale solution to this problem. But developing a social insurance program requires many difficult choices about eligibility criteria, the benefit package, and financing (Tumlinson 2016). Financing may pose particular challenges in the current fiscal environment given the need to bolster Social Security and Medicare because of their current shortfalls.

States have been exploring a variety of ways to promote long-term care coverage, including raising consumer awareness, expediting product approval, offering tax incentives for purchasing long-term care insurance, and, more recently, considering state-based social insurance programs (Tell and Cohen 2019).

State initiatives may suggest a way forward on broader coverage improvements for LTSS needs. Washington State recently passed legislation creating a public insurance benefit of up to $36,500 financed by a 0.58 percentage point payroll tax on workers. State-level developments like this should be monitored carefully.

Because LTSS risks tend to be skewed toward those with less education and lower lifetime earnings, policies to institute social insurance will often have progressive effects if eligibility requirements are not highly restrictive. Policies could also integrate progressive benefit eligibility criteria, as my colleagues Marc Cohen and Judy Feder (2018) have proposed.

Finally, we are confronting these funding challenges for government social insurance programs and underinsurance for LTSS risks in a context in which workers have very different prospects of prefunding their retirement needs because of decades of wage and income stagnation. Social Security has remained one of few large sources of middle-class support in this period of increased concentration of economic resources. Working longer can help some reduce their risks.

In recent decades, workers' wages have fallen behind productivity growth (figure 9). Since the mid-1970s, wage growth from nonsupervisory workers in the private sector, a group constituting about 80 percent of private sector workers, has been much slower than the growth in total output per hour worked (less depreciation), according to calculations from analysts at the Economic Policy Institute.[20]

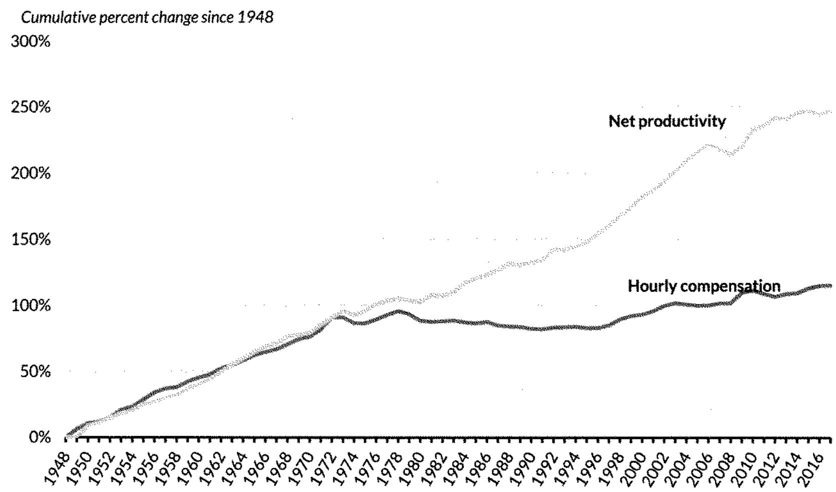
[20] See "The Productivity-Pay Gap," Economic Policy Institute, updated August 2018, https://www.epi.org/productivity-pay-gap/.

Workers and families at the top of the skills, earnings, and income distributions have done well over the past few decades. According to Congressional Budget Office estimates (2018), real (price-adjusted) incomes for those in the top fifth of the population have increased over 200 percent; incomes of those in the middle of the income distribution have increased just 26 percent (figure 10), reflecting the wage stagnation figure 9 reveals.[21]

FIGURE 9

Productivity Growth and Hourly Compensation Growth for Non-Supervisory/Production, Private-Sector Workers, 1948-2017

Since the mind-1970s typical workers' wages have lagged productivity gains



Source: "The Productivity-Pay Gap," Economic Policy Institute, updated August 2018, https://www.epi.org/productivity-pay-gap/, updated from Bivens et al. (2014), based on data from Bureau of Labor Statistics and Bureau of Economic Analysis.
Notes: Data are for compensation (wages and benefits) of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services less depreciation per hour worked.

This increased concentration holds true for both retirement and nonretirement wealth (figure 11).[22] In 1989, the highest-wealth quarter held 80 percent of all wealth. By 2016, the highest-quarter's share had increased to 86 percent. The lowest quarter holds virtually no wealth, and the second quarter's share has dropped to 3 percent. Nonretirement wealth is a bit more skewed than retirement wealth, but all forms of wealth are overwhelmingly held by the highest quarter.

[21] Growth rates for the top 10 percent, and especially the top 1 percent, have been even higher.
[22] See also Batty et al. (2019).

As a result, many at the top will be able to enjoy long and very comfortable retirements, where they live as well or even better than they did when they were working. Those at the bottom, in contrast, often have very limited resources. Their retirements will on average be significantly shorter, and they will spend more time on average with health problems (figure 12),[23] many of which will be costly. Those in the lower middle class, roughly the second fifth of the income distribution, are likely to be especially squeezed and deserve special attention from policymakers.

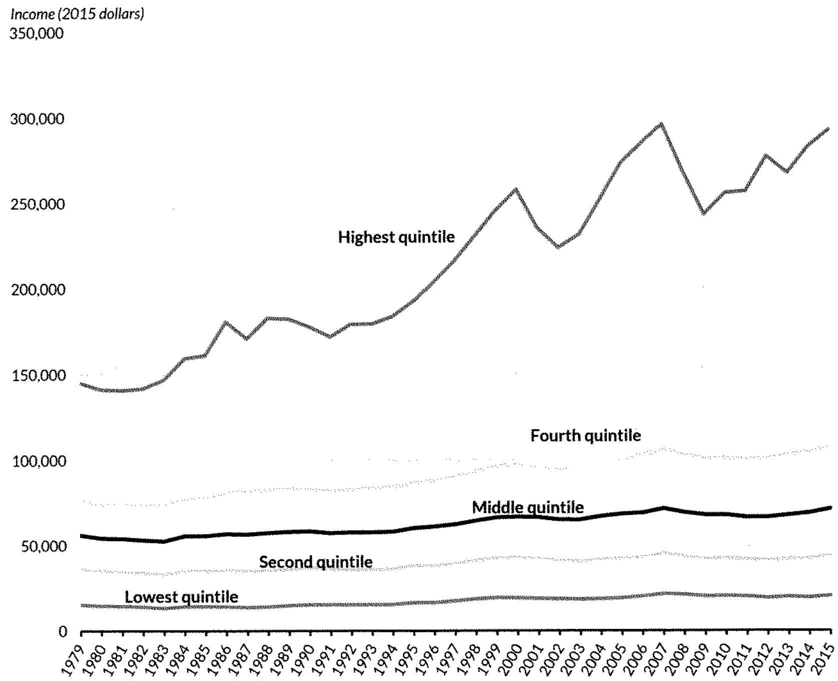
Longer, healthier lives bring with them the opportunity to contribute to our employers, our families, and our communities, and to improve our retirement prospects. Workers should be encouraged to stay on the job longer. For those who can work longer and defer claiming retirement benefits, a few extra years of work can provide powerful protection against the risk of outliving one's assets and provide additional cushion against unexpected health shocks (Butrica, Smith, and Steuerle 2006). Older adults also strengthen government balance sheets when they work longer and pay more taxes. In recent decades, both men and women have been working more at older ages, but some face late-career separations that may compromise their income security (Johnson and Gosselin 2018).

[23] Ghilarducci and Webb (2018) estimated the number of years workers can expect in retirement, including the number of years with limitations in activities of daily living, for those reaching retirement now. They report that the least educated women can expect to spend about 28 percent of retirement with disabilities; their counterparts with more education will spend 17 percent of a much longer retirement with disabilities. My own estimates of years collecting Social Security and Medicare benefits for later birth cohorts echo theirs (Favreault 2019).

FIGURE 10

Average Real Pre-Tax Incomes by Quintile, 1979–2015

Pre-tax incomes have stagnated except for the highest fifth of earners

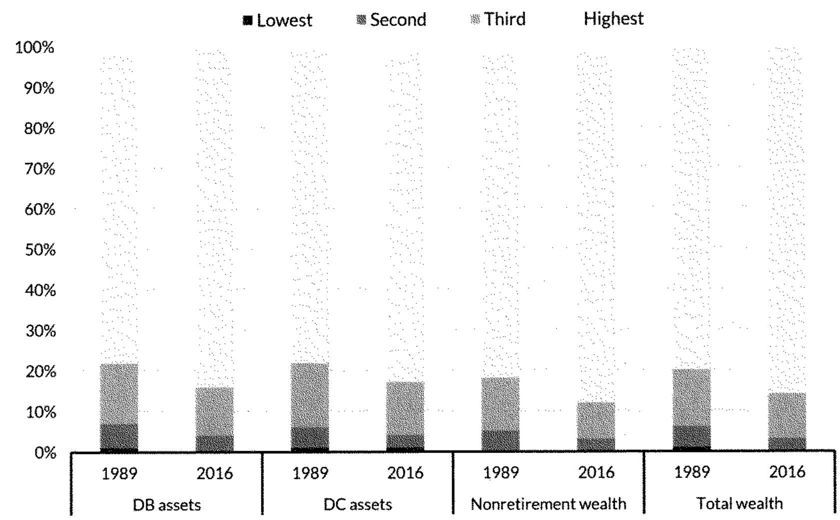


Source: Congressional Budget Office (2018).

FIGURE 11

Retirement, Nonretirement, and Total Wealth Concentration by Wealth Quartile, 1983 and 2016

Both retirement and nonretirement wealth became more concentrated from 1983 to 2016



Source: Sabelhaus and Henriques Volz (2019) from Survey of Consumer Finances and Financial Accounts of the United States.
Note: DB = defined-benefit; DC = defined-contribution.

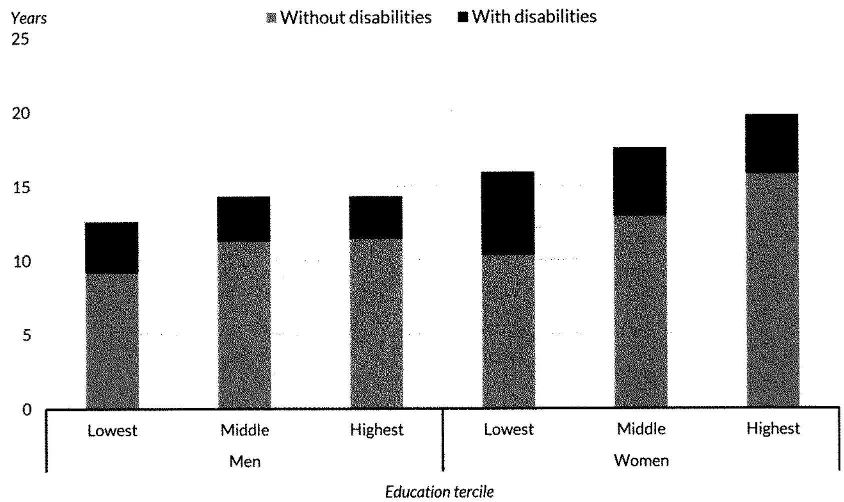
Policy changes need to recognize and account for these complex realities. Different people experience retirement very differently; studies of retirement risks show this. Although estimates of how many people are and are not prepared for retirement vary widely because of different assumptions across studies,[24] one robust finding from this literature is that certain groups are far more likely than others to be vulnerable, including unmarried people, especially unmarried women, people of color, people with less education, and people with low lifetime earnings. Policy needs to reflect this diversity, with incentives and supports tailored accordingly.

[24] Differences arise because analysts use different methods and include different risks. For example, those estimates that include the risk and potential costs of long-term services and supports tend to show much higher levels of risks than those that do not, and studies that use different replacement rate assumptions generate different results. For a discussion of how and why these studies differ, see Bajtelsmit and Rappaport (2018) and Munnell, Rutledge, and Webb (2014).

FIGURE 12

Average Years in Retirement with Disabilities, by Education and Gender

Those with less education will spend a longer share of their shorter retirement disabled



Source: Ghilarducci and Webb (2018).
Notes: Disability is defined based on reported limitations in activities of daily living.

Retirement Security Depends on More than Social Insurance and Retirement Savings Policies

Retirement preparedness is cumulative, reflecting choices made over a lifetime and the successes and setbacks experienced over a career. Many policies not traditionally associated with retirement indelibly shape it. As we reflect on ways to keep our promises to seniors, we should remember to recognize that today's children and young adults are the workers of tomorrow and will be the next generations of retirees. As figure 1 suggests, investments in education increase lifetime earnings. Those with more education will be more productive and thus better able to contribute more to Social Security and to securing their own retirements. The earlier we intervene to enable workers to have long, satisfying, productive careers, the more people will enter retirement on a solid footing in coming decades. Strong public policies can and should encourage people to save and work more when they can.

Similarly, immigrants are a vital part of our economic strength, accounting for much of our labor force growth (National Academies 2017) and a large share of scientists and business innovators (Brown et al 2019; Sana 2010).[25] They are also an important source of support to current and future Social

[25] See also Jeffery Passel and D'Vera Cohn, "Immigration Projected to Drive Growth in U.S. Working-Age Population through at Least 2035," *FactTank* (blog), March 8, 2017.

Security beneficiaries. Restrictive immigration policies could further compromise Social Security's economic health, as my Urban Institute colleagues have shown (Cosic and Johnson 2017).

Conclusions

The coming decades will require that we make many difficult choices. Here are a few suggestions of ways to keep our promises to America's seniors and improve retirement security in the 21st century:

- Restore Social Security's long-range fiscal balance, bearing in mind increased disparities in earnings and longevity. Tapping a combination of revenue sources, including increased contributions from higher earners, will be an integral component of this. Although it would be preferable to solve as much of Social Security's underfunding problem as quickly as possible, and ideal to achieve a 75-year solution, we should be open to interim alternatives. Increasing revenue to the program now would allow some from the generations now in their late careers to contribute to the solution; waiting to achieve a comprehensive agreement could limit our ability to take advantage of this opportunity.
- Social Security draws strength from its broad support as an earned right where all workers receive returns on their contributions.
- Address gaps in Social Security adequacy through targeted relief to those who most need it, using distributional analysis to confirm that the intended groups are reached and that program interactions are understood. Consider changes both to Social Security and Supplemental Security Income, and be mindful of program interactions.
- Convert our current regressive and inefficient tax expenditures for retirement savings in defined contribution plans into more targeted incentives. If tax deductions were replaced with credits, they would reach those more in need and generate more new retirement savings and reduce the preparedness gap.
- Learn from the best social science, including behavioral economics, about how to set retirement plan defaults so that they can cost-effectively increase saving and improve retirement outcomes (Benartzi et al. 2017).
- Adjust Medicare cost-sharing and eligibility for Medicare Savings Programs and the Medicare Low-Income Subsidy to reduce the share of moderate-income retirees with very high health care spending burdens.
- Carefully monitor new state efforts to bolster coverage for LTSS and consider federal solutions.
- Encourage work and savings.
- Recognize that Social Security and Medicare are two of the most important sources of middle-class support in a period of increased concentration of economic resources and power in the hands of a small share of the population. Maintaining their role in providing economic security is a critical task for the coming years.

Thank you again for giving me this opportunity to discuss retirement risks and policies that might reduce them.

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Chairman YARMUTH. Thank you for your testimony.
Mrs. Cook, you are now recognized for five minutes.

STATEMENT OF ANNE MARIE COOK

Mrs. COOK. Thank you very much, Chairman Yarmuth, Congressman Womack, and Committee Members. I am Anne Marie Cook, president and CEO of Lifespan of Greater Rochester, a nonprofit in New York State, solely focused on providing information, guidance, and services to older adults. In 2018 we served 38,000 older adults and family caregivers. Financial Management is one of our core services. My remarks today will address the state of current and future Social Security beneficiaries.

According to the National Institute on Retirement Security, a nonprofit, nonpartisan organization, three-fourths of Americans say the nation faces a retirement crisis. Seventy percent say the average worker cannot save enough to guarantee a secure retirement. And 79 percent say they don't know enough about investing to ensure savings last through retirement.

There may be economists who tell you that America does not face a retirement crisis. We and many others disagree with that assessment because I see people in crisis every day. As president of Lifespan I can tell you that the one quarter of current beneficiaries who are relying on Social Security for 90 percent of their income are not, in fact, living comfortably. Neither are the 43 percent in non-married beneficiaries who rely on Social Security for 90 percent of their income. And neither are the 33 percent of African-Americans who receive at least 90 percent of their income from Social Security.

According to the Government Accountability Office Social Security provides most of the income for about half of the households 65 and older. And, despite Social Security, 4.6 million Americans 65 and older, almost 10 percent, lived below the poverty line in 2016. That is just $11,800 a year.

And using a newer supplemental poverty measure, 15 percent of older Americans are living below the poverty level. These are older Americans who worked low-income jobs without pension benefits. These are older Americans who lived paycheck to paycheck, who couldn't save. These are older Americans who did not plan to live to 80, 90, or even older. Lifespan routinely assists older adults who are living on Social Security alone. Many are women without a substantial work history who rely on survivor benefits.

Currently we are helping Mary, an 84-year-old widow who just has $1,400 dollars a month on Social Security and can't pay all her bills. When her husband died in 2018 she lost his pension.

We also know about Sam and Angelica. We are working with them, both in their early eighties. Sam's former employer folded, taking his pension with him. They counted on the three-legged stool. But with Angelica's illness, most of their savings are now gone. I received a call from their daughter from Columbus, Ohio. She told me the father said, "I hope we just die. This is too stressful."

Lifespan is also home to the Upstate New York Elder Abuse Center. Older adults who are financially abused all too often lose everything but Social Security.

We are helping Jim. Jim is a 62-year-old contract employee who suffered a brain injury. While recovering, his son drained his accounts. His only remaining income is Social Security. And I wish this was an isolated story, but in New York State alone 260,000 older adults will be a victim of elder abuse or financial exploitation this year.

The outlook for future retirees is wobbly, at best. The three-legged stool of retirement, pensions, personal savings, and Social Security is, for many, history. Only 38 percent of Baby Boomers expect to have a pension. A 2016 GOA report says 48 percent of Americans are approaching retirement who have nothing saved in a 401(k) or other retirement accounts.

Profound changes in retirement funding have occurred over the last two decades, yet our knowledge of financial literacy is woeful. As one retiree recently told me, "When you had a pension, they took care of it. Now they tell you you have to take care of it. Then the stock market goes up and down. It is very hard to understand, and it is very hard to be sure of anything."

And finally, of course, I must address the age wave. Today about 52 million Americans are 65 or older. In 10 years, 72 million. And by 2040, 82 million Americans will be 65 or older. As president of an organization assisting older adults I can emphatically tell you that Social Security is critical. To survive is the bedrock of retirement security for older Americans. Change must occur. But this change cannot include a benefits cut. The retirement crisis is real, both at the federal and at a very personal level for older Americans.

Thank you very much.

[The prepared statement of Anne Marie Cook follows:]

May 14, 2019

Testimony of Ann Marie Cook, President/CEO of Lifespan of Greater Rochester Inc.,
a nonprofit in New York State solely focused on providing information,
guidance and services for older adults,
to the House of Representatives Committee on the Budget.

My remarks today will address the state of current, and more critically, the state of future Social Security beneficiaries.

According to a February 2019 publication from The National Institute on Retirement Security[1], a non-profit, non-partisan organization established to contribute to informed policymaking:

- Three-fourths of Americans say the nation faces a retirement crisis.
- The majority of Americans believe they cannot achieve financial security in retirement.
- 70% say the average worker cannot save enough on his or her own to guarantee a secure retirement.
- 65% say it's likely they will have to work past retirement age to have enough money to retire.
- 79% say retirees don't know enough about investing to ensure retirement savings last through retirement.
- 80% say the government should make it easier for employers to offer traditional pensions - which two-thirds of Americans prefer to 401(k) accounts.
- 80% of Americans agree that those with pensions are more likely to have a secure retirement.
- Americans ARE united in their sentiment about retirement issues. 84% of Americans agree that leaders in Washington don't understand how hard it is to prepare for retirement.

[1] Retirement Insecurity 2019: Americans' Views of the Retirement Crisis

Some might say that America does not face a retirement crisis. We, and many others, disagree with that assessment.

We agree with a preponderance of economists and experts such as the National Institute on Retirement Security, the Federal Reserve Bank of St. Louis, Fidelity Investments, Teresa Ghilarducci, trustee for the $53 billion Medical Health Care Trust for GM and Ford, and Nobel Prize winner Richard Thaler who maintain that Americans are not adequately planning for or saving for a retirement that could last 30 years.

Let's first talk about current beneficiaries.

As president of Lifespan of Greater Rochester, an independent nonprofit providing services for older adults in upstate New York, I can tell you that the one-quarter of current retiree beneficiaries who are relying on Social Security for 90% of their income – are NOT in fact, living comfortably.

Neither are the 43% of non-married beneficiaries who rely on Social Security for 90% of their income.[2] Neither are the 33% of African-Americans who receive at least 90 percent of their income from Social Security, nor the 41% of those who did not complete high school who rely on Social Security benefits for at least 90 percent of their family income.[3]

Reliance on Social Security varies tremendously by socioeconomic characteristics. Women rely on Social Security benefits more than men. Nonmarried beneficiaries rely on Social Security substantially more than married respondents. And minority populations rely on it more than white beneficiaries.[4]

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[2] ACL Profile of Older Americans, 2017
[3] Ibid
[4] The Importance of Social Security Benefits to the Income of the Aged Population by Irena Dushi, Howard M. Iams, and Brad Trenkamp, Social Security Bulletin, Vol. 77 No. 2, 2017

Despite the existence of Social Security, over 4.6 million American 65 and older, 9.3%, lived below the poverty level in 2016. 100% of the poverty level for one person in 2016 was $11,880. Using a newer Census Bureau measure, the Supplemental Poverty Measure, which considers regional cost of living variations and out-of-pocket medical expenditures, 14.5% of older Americans are living in poverty.[5]

Most often, these are older Americans who worked low-income jobs without defined pension benefits. These are older Americans who did not plan to live to 80, 90 or even older. If someone reaches age 65, they are likely to live another 20 years. Not planning for longer life is a factor I did not often see mentioned in articles and research about Social Security and retirement. Yet, with healthcare advances, older adults ARE living longer – and many are living longer with chronic illnesses. Three in four Americans age 65 and older have multiple chronic conditions including heart disease, cancer, emphysema, diabetes, stroke or dementia.[6] These are diseases that, even a decade ago, would have resulted in earlier death.

Each month, nearly 63 million people receive a Social Security payment. 43.7 million are retired workers whose average monthly benefit is $1,461. Could you live comfortably on $1,461 a month?

According to the Government Accountability Office (GAO), 29% of older Americans have neither a pension nor a defined contribution plan.[7] Additionally, the GAO notes, "Social Security provides most of the income for about half of households age 65 and older."[8]
For those 29% of Americans without retirement savings: They are not doing okay. They were among the working poor in 2001, and they were among the retired poor in 2016. These are older adults who are now trying to live on $20,901 or $1660 a month – the equivalent of living on $10/hour. It is incredibly hard to live on Social Security."

[5] ACL Profile of Older Americans, 2017
[6] Healthy People.gov
[7] The Nation's Retirement System: A Comprehensive Re-evaluation Is Needed to Better Promote Future Retirement Security GAO-18-111SP: Published: Oct 18, 2017. Publicly Released: Oct 18, 2017.
[8] https://www.bloomberg.com/news/articles/2019-03-26/almost-half-of-older-americans-have-zero-in-retirement-savings

In many instances, the benefit amount is much less. Lifespan routinely assists older adults whose Social Security ranges from $800 to $1,00 a month – and that's it. That's their income for the month. Many are women without a substantial work history who rely on survivor benefits -- which is significant as almost half of older women (45%) age 75 and older live alone.[9]

We know an 84-year-old woman who lives on $1440 a month in Social Security. When her husband died in 2018, she lost both his pension and Social Security income. We also know Sam and Angelica, both in their early 80s. Sam's former employer folded – taking his pension with it. They counted on the three-legged stool, but with Angelica's dementia illness, most of their savings are gone. Sam told his daughter that it would be better if both just died.

I grant you that another segment of current retirees is living the proverbial "golden years." The legs of their retirement stools are hardened with a defined pension benefit, savings, housing equity, Social Security or other income sources. At the upper end, they can even self-insure against long-term care or health care expenses. At the upper end, they can sell homes and afford independent living communities, assisted living or skilled care.

Even those older Americans in a middle tier who can rely on the three legs of the stool are fine – fine, that is, until care is needed in the home or in a nursing home. What happens then is that $60,000 in annual income and $400,000 in savings can be depleted in as little as three years.

Lifespan is home to the Upstate New York Elder Abuse Center.[10] Older adults who are financially abused by family, friends, advisors all too often lose everything but Social Security. Financial exploitation is the most common form of elder abuse. In Rochester, a Kodak retiree fell and suffered a brain injury. While he was recovering, his son used power of attorney to completely drain the account. The retiree was 62 at the time. His only source of income after his account was depleted was Social Security. Another victim lost $150,000 and then also had to solely rely solely on Social Security. These are not isolated stories. The 2011 New York State Elder Abuse Prevalence

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[9] ACL Profile of Older Americans, 2017]

[10] https://www.lifespan-roch.org/upstate-elder-abuse-center

Study[11] found that in any one-year period 260,000 older New Yorkers become victims of abuse/financial exploitation. This prevalence most likely holds true throughout the country.

Future Retirees

The outlook for future retirees is wobbly at best. The traditional "three-legged stool" of retirement, pensions, personal savings and Social Security is mostly history. Only 38% of baby boomers have or expect a pension. In 2019, the youngest boomers are 55, the oldest are 73.

The bad news, according to a 2016 Government Accounting Office (GAO) report is that 48% of Americans approaching retirement have nothing saved in a 401(k) or other individual account. Two in five of such households did have access to a traditional pension, However, 29 percent had neither a pension nor any assets in a 401(k) or IRA account.[12]

The Northwestern Mutual 2018 Planning & Progress Study[13] published in March 2019 found that:

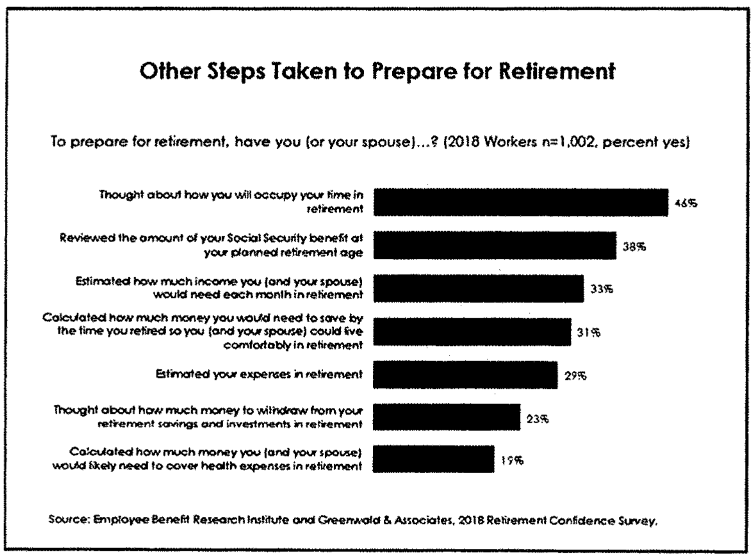
- One in three baby boomers (33%) have between $0-$25,000 in retirement savings.
- Three quarters of Americans believe it is "not at all likely" or only "somewhat likely" that Social Security will be available when they retire.
- Nearly half (46%) of adults have taken no steps to prepare for the likelihood that they could outlive their savings

According to a study of 3,000 Gen X'ers by Allianz Life.Median,[14] their median retirement savings for is only $35,000, the same median amount as millennials, despite Gen Xers being much closer to retirement." It is estimated that 34% of Gen X has no retirement savings at all.[15] In 2019, the Gen X cohort is age 40 to 54.

[11] https://www.nyselderabuse.org/training-materials/
[12] Estimate from the GAO is a brief update to a more comprehensive 2015 report on retirement savings in the U.S. Both are based on the Federal Reserve's Survey of Consumer Finances.
[13] https://news.northwesternmutual.com/planning-and-progress-2018
[14] https://www.allianzlife.com/about/news-and-events/news-releases/Generations
[15] [Personal Capital Study https://www.personalcapital.com/assets/press-releases/src/Personal-Capital-Survey-Finds-Americans-Unprepared-For-Retirement.pdf

The outlook for millennials is even more treacherous – nearly 60% have no retirement savings whatsoever, and today just 23% of employers even offer a defined pension benefit.[16] In 2019, the youngest millennials are 23. The oldest are 38.

Jack VanDerhei, Director of Research at the Employee Benefit Research Institute (EBRI)[17] says, "There's an incredible amount of overconfidence out there, based on erroneous assumptions about what life will be like after retirement. Many people may be in for an unexpectedly rough ride when the reality of retirement sets in." As the chart below shows, EBRI found that the majority of workers haven't taken even the most basic steps to prepare for retirement, such as calculating savings, estimating expenses or reviewing Social Security benefits.



In a March 2019 Forbes article titled, "Americans Do Not Have Enough Retirement Savings, Really,"[18] Teresa Ghilarducci, an economics professor focusing on retirement security and

[16] The Street, March 2019
[17] https://www.ebri.org/
[18] https://www.forbes.com/sites/teresaghilarducci/2019/03/28/no-americans-really-do-not-have-enough-retirement-savings/#1d7ba1912b21

jobs, maintains that even the Government Accountability Office (GAO), "...understates the magnitude of the retirement savings crisis. For workers 55 -64, the average defined contribution was $92,000—enough to provide an income of just $300 a month over the course of retirement." More troubling, she notes the number of poor or near-poor people over the age of 62 is set to increase by 25% between 2018 and 2045, from 17.5 million to 21.8 million.

The data below from the Federal Reserve's Survey of Consumer Finances[19] shows the mean and median retirement accounts for people who have one. This data does not factor in figures for accounts that don't exist.

• Under age 35:

Average retirement account: $32,500

Median retirement account: $12,300

• Age 35 - 44:

Average retirement account: $100,000

Median retirement account: $37,000

• Age 45 - 55:

Average retirement account: $215,800

Median retirement account: $82,600

• Age 55 - 64:

Average retirement account: $374,000

Median retirement account: $120,000

• Age 65 - 74:

Average retirement account: $358,000

Median retirement account: $126,000

Pre-retirees also are underestimating health care costs. We know from experience and national surveys that a majority of Americans believe that Medicare pays for both care in your home and nursing home care. Most do not factor in out-of-pocket health care expenses for co-pays and premiums. The EBRI estimated in 2018 that a couple retiring today needs $273,000 to have a 90%

[19] https://www.federalreserve.gov/publications/files/scf17.pdf

chance of covering their health care costs in retirement, including Medicare, Medigap supplemental insurance coverage, and out-of-pocket spending. Fidelity estimated the cost at $280,000. These estimates are just for medical expenses for ongoing health care and exclude potential costs for long-term care.

Profound changes in retirement funding have occurred over the last two decades. Yet, our knowledge of financial literacy is woeful. Most Americans have not been taught to manage investments. Because a majority of Americans do not feel competent to manage their retirement investments to a great extent those investments are ignored. Americans also are fearful of market investments – they've seen recessions nearly wipe out savings. And, they have regrets. Among those not confident they did a good job preparing for retirement, the top two things they wish they had done differently were to have saved more (63%) and to have started saving earlier. (58%) As one retiree said to me, "When you had a pension, they took care of it. Now they tell you that you have to take care of it. Then the stock market goes up and down. It's very hard to be sure of anything."

I must also address the age wave. Today about 52 million Americans are 65 or older. In just ten years, by 2030, that number jumps to 72 million. A decade after that 82 million Americans will be 65 or older. As president of an organization assisting older adults, I tell you emphatically that Social Security is critical. Yet without changes, the trustees warn us benefits will be cut by 2034. To survive as the bedrock of retirement security for older Americans, change must occur, but that change cannot include benefit cuts. The retirement crisis is real – at both the federal and personal levels.

Chairman YARMUTH. Thank you for your testimony.
I now recognize Mr. Hanner for five minutes.

STATEMENT OF JAMES DALE HANNER

Mr. HANNER. Chairman Yarmuth, Ranking Member Womack, Members of the Committee, I want to thank you for inviting me to speak at today's hearing on retirement security on the 21st century. Hello. I am Dale Hanner, retiree and secretary-treasurer of the North Carolina Committee to Protect Pensions. I am retired with 36 years of service with four different companies and a Central States Pension plan, a multiemployer pension plan is—which is facing insolvency within six years. This multi-employer plan has allowed me to build and retain years of service that would have been lost in a single employer plan.

The purpose of the North Carolina Committee is to educate and advocate for the more than 12,000 Central States' members retired and active in our state. NCCPP is a member of the National United Committee to Protect Pensions.

I would like to tell you about a few of our survivor members and their situation. In their generation Central States offered a survivor benefit package requiring retirees to forfeit 15 percent of their pension in order to leave 50 percent of their pension to their surviving spouse.

One member's husband pension was $1,375 per month. After his death her survivor benefit is now $750 a month. She has had to forgo two medicines because of high cost. She pays her hospital bills and those of her late husband in monthly payments.

Another member's husband's pension was $700 per month. After his death her pension is $385 dollars a month. She is diabetic and pays $600 for a 90-day supply of insulin. This is an out-of-pocket expense for her.

One 78 years young surviving member draws $318 of her husband's $630 pension. She works at least three days a week to supplement.

As you can see, these are not large, hefty pensions that are being collected. In fact, the average monthly pension payment to a Central States retiree is $1,200. So any potential cut in retiree benefits would be devastating.

In addition to food, property tax, and housing maintenance, the North Carolina public utilities and property insurance companies intend to petition the state for rate increases this year due to damage to the State of North Carolina from two hurricanes. Gas has increased 25 percent—$.25 in the last two months. The cost of living keeps going up. Once we retire there is no cost of living in our pensions.

Stories have circulated on Capitol Hill that one of the conditions for a pension fix is that retirees must have some skin in the game. Truthfully, some retirees are being skinned alive. Approximately 1,200 Central States retirees die each year. A close working colleague of mine has just finished his first week of hospice. He is a Vietnam veteran, has 28 years of service in Central States. The average age of a Central States retiree is 72 years old, with a life expectancy of 81, according to Central States.

My friend is 70 years old, same age of his wife. In 2018 he spent 2,200 days in and out of the hospital and rehabilitation center after contracting a blood infection he picked up in the hospital resulting from a procedure to remove a nerve stimulator in his back. Could you imagine dying, not knowing if the financial security you planned would be provided for your surviving spouse?

Representative King's bill, H.R. 397, is the best and the only real solution to help retirees and protect their hard-earned pensions. It will avoid retiree benefit cuts and provide improved retirement security for retirees and workers. It will not only enable plans to secure the pensions promised to retirees and their families, but also direct remaining assets and all future contributions to fully protect benefits for active workers.

H.R. 397's legislation would create non-taxpayer loans. Our pension fund has decreased from $16 billion to $13 billion within 2.5 years, and Central States is only 27 percent funded. Very soon Central States will not have enough money to qualify for a loan. Our fund will go insolvent, and we will be turned over to the PBGC. After paying to ensure our pensions since 1974, we've been told that the PBGC payout will only be pennies on the dollar because the PBGC is broke.

Please let us work together to find a solution. Time is running out for us. Thank you.

[The prepared statement of James Dale Hanner follows:]

Statement of James Dale Hanner
"Keeping Our Promise to America's Seniors: Retirement Security in the 21st Century"
Before the Committee on the Budget, U. S. House of Representatives

May 15, 2019

Chairman Yarmuth, Ranking Member Womack, Members of the Committee, I want to thank you for inviting me to speak at today's hearing on Retirement Security in the 21st Century.

I am Dale Hanner. I am a Teamster retiree and the Secretary-Treasurer of the North Carolina Committee to Protect Pensions, NCCPP. I am retired with 36-years of service with four different companies that participate in the Central States Pension Fund (CSPF) a multi-employer pension plan which is facing insolvency within six years.

The multiemployer pension system, of which the Central States and Southeast and Southwest Pension is a part, has for many decades been an essential foundation for providing financial security in retirement for millions of Americans and their families.

Now, through no fault of their own, the hard earned pension benefits of millions of retirees are being threatened due to the pending insolvency of a number of these multiemployer plans. The biggest of these financially troubled pension funds is the Central States, Southeast and Southwest Areas Pension Plan which covers approximately 400,000 active and retired truckers.

The Central States multi-employer pension plan has allowed me to build & retain years of service that would have been lost in a single employer plan. It had allowed me to plan for and build a secure and stable retirement for me and my wife.

My fellow retirees and I gave up wages, vacation pay, and other benefits in exchange for the pension benefit we've earned, been promised, and have been counting on. Our financial security for our retirement years is now in jeopardy. This is why I became involved in the NCCPP.

The purpose of the North Carolina Committee is to educate and advocate for our state's more than 12,000 CSPF retired and active working members. The NCCPP is a member of the National United Committee to Protect Pensions, NUCPP.

I would like to tell you about a few of our survivor members and their situations.

In their generation, CSPF offered a survivor benefit package requiring retirees to forfeit or give up 15 percent of their pension in order to leave 50 percent of their pension to their surviving spouse.

One member's husband's pension was $1,375 per month. After his death, her survivor benefit is now $750 a month. In this financial situation, she has had to forgo two medicines because of cost. She pays her hospital bills and those for her late husband on monthly payments.

The pension benefit of another member was $700 per month. After her husband's death, her pension is $385 per month. She is a diabetic and pays $600 for a 90-day supply of insulin. This is an out-of-pocket expense for her.

One 78-years young surviving member draws $318.75 of her late husband's $630 pension. She works at least 3 days a week to supplement her income.

As you can see, these are not large/hefty pensions that are being collected. In fact, the average monthly pension payment to a CS retiree is $1,200. So any potential cut in retiree benefits would be devastating.

In addition to food, property tax and housing maintenance expenses, the NC Public Utilities and the property insurance companies intend to petition the state for rate increases this coming year due to damage from hurricanes that hit North Carolina. Gas has increased $0.25 in the last two months.

Every year the cost of living expenses increase. Once we retire, there is no cost of living income increase. Stories have circulated on Capitol Hill that one of the conditions for a pension fix is the retirees must have some skin in the game. Truthfully, some retirees are being skinned alive as it is.

Approximately 1,200 CSPF retirees die each year. A close working colleague of mine has just finished his first week of hospice. He is a Vietnam Veteran and has 28 years of service in CSPF. The average age of a CSPF retiree is 72 years old with a life expectancy of 81 years, according to CSPF.

My friend is 70 years old. His wife is about the same age. In 2018 he spent 200-days in and out of the hospital and rehabilitation centers, after contracting a blood infection he picked up in the hospital resulting from a procedure to remove a nerve stimulator in his back. Can you imagine dying not knowing if the financial security you planned will be provided for your surviving spouse?

A term CSPF assigned to us is "orphans". Their definition of an "orphan" is a retiree whose company is no longer in business paying into the fund. CSPF has stated the "orphans" are draining the fund.

A colleague of mine, an "orphan," has accumulated 30 years of service while enduring 4-back surgeries. His doctor told him he can no longer work as a truck driver. He was 2-years shy of retirement age. He has applied for Social Security Disability, which is mandatory to qualify him for a CSPF disability benefit. Currently, he is home with no income and burning through his 401K. This man has paid over $275,000 into CSPF in his working 30-years and has never collected a dime of his retirement. How is this orphan draining the system?

We despise the term "orphans". We were abandoned by the very companies we built. These companies left without paying their withdrawal liabilities. Bankruptcy judges dismissed their withdrawal liability debts so these obligations could not be collected. The retirees are victims in this situation and this crisis.

H.R. 397 is the best and the only real solution to help retirees and protect their hard earned pensions. It will avoid retiree benefit cuts. It will provide improved retirement security for retirees and workers. The loans will not only enable plans to secure the pensions promised to retirees and their families, but also direct remaining assets and all future contributions to fully protect benefits for active workers.

H.R. 397 aims at financially supporting pension plans so they don't fail. It would do this through what many of us call a public-private partnership. Capital for the 30 year loan program proposed by the bill would come from the private sector through Treasury issued bonds in the open market. These bonds will be fully backed by the Treasury. It will be administered through the Pension Rehabilitation Administration established within the Treasury Department.

For some plans the PRA loan will not be sufficient. Some will need additional help from the government. The bill proposes that the PBGC provide that assistance. This PBGC assistance will cost significantly less than the cost of PBGC and plans failing and the cost to the U.S. economy.

People have asked if there is oversight. The answer is yes. Pension plans applying for loans must submit detailed financial projections. The loans will have to be approved by the PRA/Treasury. Pensions that have borrowed money will have to submit reports every three years to show that the loans are working. They will have to take steps if their financial condition begins to deteriorate. PBGC and ERISA protections remain in place.

Some have said this is a bailout. It is not. It is backstopping the loans. This is common for many loan programs. And, the legislation includes mechanisms to greatly reduce the likelihood of loan defaults such as strengthening plan solvency through defeasing retiree liability and tightening withdrawal liability provisions.

Our pension fund has decreased from 16 billion to 13 billion within 2.5 years and Central States is only 27 percent funded. Very soon CSPF will not qualify for a loan. Our fund will go insolvent and we will be turned over to the PBGC. After paying to insure our pensions since 1974, we have been told our PBGC payout of pension will only be pennies on the dollar because the PBGC is broke.

In closing, I also want to express my gratitude to the bill's sponsors, Chairman Richard Neal and Congressman Peter King, and to the Members of the Committee and Congress who support H.R. 397, the Rehabilitation for Multiemployer Pensions Act.

Please let us work together to find a solution. Time is running out on us.

Chairman YARMUTH. Thank you, Mr. Hanner.
I now recognize Dr. Biggs for five minutes.

STATEMENT OF ANDREW G. BIGGS, PH.D.

Dr. BIGGS. Thank you very much, Chairman Yarmuth, Ranking Member Womack, and Members of the Committee. Thank you for inviting me to speak on retirement security in the 21st century.

Retirement savings is an exceedingly important topic for households, for policymakers, and for the U.S. economy. Unfortunately, there is a great deal of ignorance with regard to the adequacy of Americans' retirement savings. And I mean ignorance, literally. There are a great many facts in U.S. retirement savings and retirement incomes of which many elected officials are simply unaware, in part because the news media prefer to run the stories on a supposedly looming retirement crisis than articles acknowledging that, in fact, things are going fairly well.

For instance, few readers of a national newspaper would know that more Americans are saving for retirement today than ever before, or that retirement plan contributions are up by nearly one-third, compared to the era of traditional pensions, or that retirees' incomes are rising significantly faster than incomes for working-age households. Most retirees today have incomes well above the 70 percent replacement rate that financial advisers say is enough to allow a retiree to maintain their pre-retirement standard of living.

This doesn't mean Americans aren't worried. Yet these fears are rarely realized. Vanguard recently polled retirees whether they thought the nation as a whole faced a "retirement crisis." A majority of them said yes. When asked if they would describe their own financial situation in those terms, only 4 percent did. This isn't being Pollyannaish. Compared to other developed countries, Americans have substantially higher retirement savings, and U.S. retirees are much more likely to say they are able to maintain their pre-retirement standard of living.

There are also things policymakers may believe that aren't facts at all. For instance, we hear that more Americans will retire into poverty in coming years. In fact, recent Census Bureau research has shown that the share of retirees living in poverty has dropped by nearly one-third over the past two decades. And the Social Security Administration projects that poverty will continue to fall through at least the 2030s.

We also hear that Americans have no retirement savings. In fact, total retirement plan assets are six times higher today than when traditional defined benefit pensions roamed the earth. And recent Federal Reserve research has shown that the shift from traditional pensions to 401(k)s has not caused greater inequality in retirement savings.

I point these things out because, unless we come to a common base of understanding with what is happening with retirement savings, we can't form policies to build on the successes of the U.S. retirement system. And that is what we need to do, build on our successes.

401(k)s are already more widespread than traditional pensions ever were. And because both employers and employees contribute, total retirement savings are higher. 401(k)s have introduced automatic enrollment to increase employee participation, target date funds to automatically rebalance portfolios, and low-cost index funds to reduce fees. As a result, no longer do traditional pensions have either a management cost or rate-of-return advantage over 401(k)s.

But we need to spread these successes. I favor making automatic enrollment universal, at least for employees earning above the poverty line. I also favor legislation like the SECURE Act, which would make it easier for smaller employers to offer retirement plans. The retirement plan coverage gap is smaller than many believe. Nevertheless, smaller employers still remain much less likely to offer 401(k)s, which are the most effective way to save for retirement.

We also need to address the risk of high health costs in retirement. Note that I focus on risk. Out-of-pocket health costs have barely risen as a percentage of retirees' incomes over the past three decades, mostly because retiree incomes are rising so rapidly. But health costs can vary significantly from person to person. While government bears most of that risk through Medicare and Medicaid, I would favor having retirees bear a larger share of everyday costs in return for greater protection against the worst health cost outcomes.

Finally, government at all levels need to get their retirement funding in order. The best research on retirement savings, the studies that are published in peer-reviewed journals rather than activist groups' websites, show only a modest retirement savings shortfall. But underfunding in Social Security, federal employee and military pensions, and state and local government pensions is estimated at between $14 and $26 trillion. This is, by far, the biggest threat to retirement security, and should be addressed as promptly as possible, as fully as possible, recognizing the tough choices that are involved, and avoiding gimmicks. Thank you very much.

[The prepared statement of Andrew G. Biggs follows:]

AMERICAN ENTERPRISE INSTITUTE

Statement before the House Committee on the Budget
On "Keeping Our Promise to America's Seniors: Retirement Security in the 21st Century"

13 Things You (Probably) Didn't Know About Retirement Savings

Andrew G. Biggs, Ph.D.
Resident Scholar

May 15, 2019

Chairman Yarmuth, Ranking Member Womack, and Members of the Committee. Thank you for inviting me to speak on retirement security in the 21st Century.

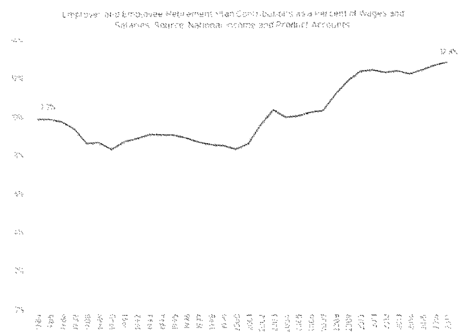
Retirement saving is an exceeding important topic for households, for policymakers and for the U.S. economy. Unfortunately, there is a great deal of ignorance with regard to the adequacy of Americans' retirement savings. I mean ignorance literally: there are a great many facts and datapoints on U.S. retirement savings and retirement incomes of which many elected officials are unaware, in part because the news media receive a higher click count for stories on a supposedly looming "retirement crisis" than for articles acknowledging that, in fact, things are going fairly well.

For that reason, my testimony will consists of facts, figure and ideas with which Members of Congress may not be familiar. Some of these will be surprising and contrary to what you believe or have read. I assure you that the claims I make herein are well-backed by data and evidence. Even then, I welcome questions and further discussions. Until elected officials build a common baseline of understanding regarding retirement saving and retirement programs, it will be difficult to form policies to ensure that Americans enjoy retirement security in the 21st Century.

Thirteen things you (probably) didn't know about retirement savings.

1. We're saving more for retirement than ever.
2. Total retirement savings have never been higher.
3. Just ask them: Retirees will tell you they're doing okay.
4. Retirement incomes are rising; poverty in old age is falling.
5. The golden age of traditional pensions really wasn't that hot.
6. Social Security benefits are more adequate than you think.
7. Financial planners recommend a 70 percent "replacement rate." The typical retiree does far better than that.
8. U.S. retirement plan assets dwarf other countries.
9. How we fix Social Security can have a big effect on the economy.
10. Out-of-pocket health spending has barely grown as a percent of seniors' incomes.
11. Most traditional pensions aren't going away.
12. The shift from traditional pensions to 401(k)s hasn't increased retirement inequality.
13. The real "retirement savings gap" is in government.

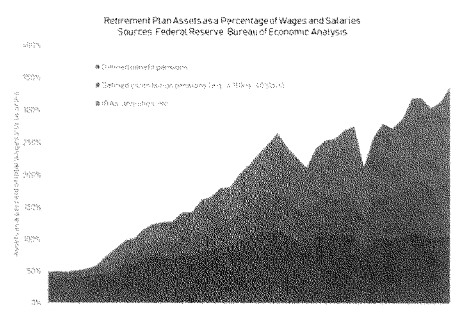
1. **We're saving more for retirement than ever.**



The news media rarely mention it, but Americans today are putting aside a substantially larger share of their paychecks toward retirement than ever before. Data from the National Income and Product Accounts show that combined employer and employee contributions to workplace retirement plans have risen from 9.9 percent of employee wages and salaries in 1984 to 12.8 percent in 2017, a nearly one-third increase in retirement plan contributions.[1]

There are two main reasons Americans are saving more for retirement. First, 401(k)s are more widespread than traditional pensions ever were. Second, while traditional pensions were funded only by employers, who often failed to fully fund these plans, both employers and employees contribute to 401(k)s. More plans and more contributors equals more money set aside for retirement.

2. **Total retirement savings have never been higher.**



In 1975, at the peak of worker coverage in traditional pension plans, total retirement savings were equal to 48 percent of total employee wages, according to Federal Reserve Board data. In 2017, retirement assets topped 337 percent of employee wages, a seven-fold increase from the supposed "Golden Age" of retirement when traditional pensions were dominant.

3. **Just ask them: Retirees will tell you they're doing okay.**

Multiple surveys show that retirees are the most financially secure segment of the U.S. population. According to Gallup, nearly 8-in-10 retirees say they have enough money, not merely to survive, but to "live comfortably." Barely over 6-in-10 working age households say the same. In the Federal Reserve's Survey of Household Economics and Decisionmaking, only 6 percent of current retirees rate their retirement in the lowest of four categories, denoting "Finding

[1] While the NIPA data run only through 1984, a separate dataset on private sector plans from the Department of Labor shows a roughly constant rate of retirement plan contributions from 1975 through 1984.

it hard to get by." Even among retirees who never finished high school, only 14 percent say they are having difficulty getting by.

In the Health and Retirement Study, 78 percent of retirees describe their retirement as either the same or better than their pre-retirement years, up from only 65 percent in 1992. Likewise, in the Federal Reserve's Survey of Consumer Finances, 75 percent of age 65+ Americans in 2016 reported having an income sufficient to at least enough to maintain their standard of living, versus only 61 percent of retirees in 1992.

In a 2017 Vanguard survey, 54 percent of retirees said they thought America as a whole faced a "retirement crisis." But only 4 percent of retirees described their own financial situation as a "crisis."[2] Americans fear a retirement savings shortfall, but most judge their own retirement situation positively.

4. Retirement incomes are rising; poverty in old age is falling.

Federal Reserve data show that from 1988 to 2016, the median household income for Americans aged 65 to 74 grew by 62 percent above inflation. Over that same period, the median income for near-retirees aged 55 to 64 grew by only 25 percent.[3]

And it is not merely the very rich whose incomes have increased. A 2017 Census Bureau analysis of IRS tax data found that from 1990 to 2012, the share of retirees with incomes below the poverty threshold fell from 9.7 to just 6.7 percent.[4]

Moreover, the Social Security Administration's sophisticated Model of Income in the Near Term projects that poverty in old age will continue to decline. Between the later Baby Boomers retiring today and Gen-X Americans retiring in the 2030s, SSA projects that poverty in retirement will decline by nearly one-fifth.[5]

5. The "Golden Age" of traditional pensions really wasn't that hot.

Traditional pensions had two main problems. Starting with the fact that most workers didn't have more. Participation in traditional pension peaked at only 39 percent of private sector workers in 1973.[6] To make matters worse, strict vesting rules often required up to 15 years in a job before qualifying for any benefits. A 1972 study by the Senate Labor Subcommittee found that between 70 and 92 percent of traditional pension participants failed to qualify for a benefit.[7] That explains why a 1980 Social Security Administration survey of new retirees found that only 9 percent of

[2] Vanguard. "Retirement transitions in four countries." February 7, 2017.
[3] Source: Survey of Consumer Finances.
[4] Bee, Charles Adam, and Joshua Mitchell. "Do Older Americans Have More Income Than We Think?" U.S. Census Bureau Working Paper. 2017.
[5] Butrica, Barbara A., Karen E. Smith, and Howard M. Iams. "This is not your parents' retirement: comparing retirement income across generations." Soc. Sec. Bull. 72 (2012): 37.
[6] Source: Joshua Gotbaum, former PBGC director.
[7] Senate Labor Subcommittee. "Statistical Analysis of Major Characteristics of Private Pension Plans." 1972.

retirees in the bottom half of the income distribution received *any* benefit from a private pension plan. Even among the richest quarter of retirees, barely half received a private pension benefit.[8]

6. Social Security benefits are more adequate than you think.

Financial advisors believe a retirement income equal to 70 percent of pre-retirement earnings is sufficient for typical retirees to maintain their pre-retirement standard of living. Social Security, many believe, replaces only 40 percent of pre-retirement earnings. But this 40 percent Social Security replacement rate is artificially low, because it effectively compares the average benefit paid to a new retiree today to the average wages of *workers today*, not to the generally lower wages that today's retirees earned over their past careers.

The Congressional Budget Office publishes figures comparing Social Security benefits to retirees' *own* career-average earnings, adjusted for inflation.[9] For middle-income retirees, Social Security replaces between 54 and 60 percent of career-average earnings, depending upon the birth cohort. For the poorest fifth of retirees, Social Security replaces between 84 and 96 percent of pre-retirement earnings.

CBO Measurement of Social Security Replacement Rates, Compared to Career-Average Earnings Adjusted for Inflation

	Lifetime Income Quintile				
Year of Birth	Lowest	Second	Middle	Fourth	Highest
1940s	94%	70%	60%	52%	39%
1950s	84%	63%	54%	46%	34%
1960s	83%	64%	54%	46%	33%
1970s	89%	67%	56%	47%	33%
1980s	94%	71%	58%	49%	36%
1990s	96%	72%	60%	50%	36%
2000s	94%	70%	58%	49%	36%

Source: Congressional Budget Office. "CBO's 2017 Long-Term Projections for Social Security: Additional Information October 27, 2017."

7. Financial planners recommend a 70 percent "replacement rate." The typical retiree does far better than that.

Recent research using IRS data has shown that today's retirees typically have incomes equal to 90 percent of their average pre-retirement earnings, far above the 70 percent replacement rate that financial planners believe allows retirees to maintain their pre-retirement standard of living. 2017 research co-authored by economists at the Internal Revenue Service and the Investment Company Institute found that the average middle income retiree household had an income equal to 113 percent of its spendable income just prior to retirement income. The poorest-fifth of households had an average total replacement rate of 112 percent.[10]

In other 2017 research, two Census Bureau economists compared retirees' incomes five years following retirement to their earnings in various periods leading up to retirement. The median (or typical) household had a replacement rate of 94 percent of earnings in the 15 years prior to

Retirement Income Replacement Rates by Income Level, 2012. Income five years following retirement as percent of real earnings in the 15 years prior to retirement.

Income Percentile	25th	Median	75th
Replacement Rate	93%	94%	96%

Source: Bee and Mitchell (2017), using IRS adminitrative data.

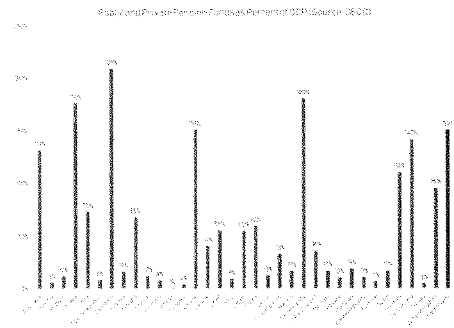
[8] Irick, Christine. "Income of New Retired Workers by Social Security Benefit Levels: Findings From the New Beneficiary Survey." Soc. Sec. Bull. 48 (1985): 7

[9] Source: Congressional Budget Office. "CBO's 2017 Long-Term Projections for Social Security: Additional Information October 27, 2017."

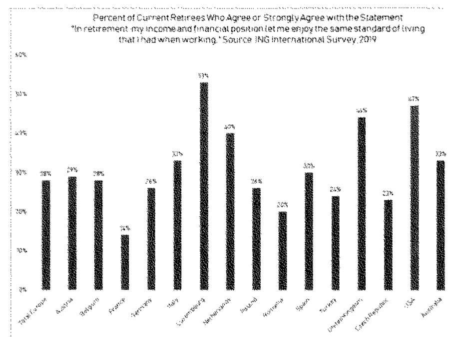
[10] Brady, Peter J., Steven Bass, Jessica Holland, and Kevin Pierce. "Using Panel Tax Data to Examine the Transition to Retirement." (2017).

retirement, versus replacement rates of 93 percent for lower-income households and 96 percent for upper-middle class households.

8. **U.S. retirement plan assets dwarf other countries.**



According to OECD data, the median developed country has total public and private retirement funds equal to 19 percent of gross domestic product. In the U.S., savings in public pensions, employer sponsored retirement plans and IRAs totals 150 percent of Gross Domestic Product, a level over seven times the typical OECD country and exceeded by only four of 35 OECD countries.[11] The U.S. also have more favorable demographics for Social Security than other countries have for their pay-as-you-go retirement plans.



U.S. retirees are also far more financially secure than elsewhere. A 2019 ING International survey found that in only two countries – the United Kingdom and Luxembourg – did retirees report a better ability to maintain their pre-retirement standard of living and a lower chance of experiencing severe shortfalls. Countries such as France and Germany fell far short of U.S. levels of reported retirement income adequacy.

9. **How we fix Social Security can have a big effect on the economy.**

Social Security is *big*: the biggest federal program, the biggest tax most workers pay, and the biggest source of income for most retirees. And since Social Security's trust funds will run out in 2035, triggering automatic across-the-board benefits, Social Security reform is inevitable. Given its size, it's not surprising that changes to Social Security can affect the economy. In general, proposals to expand Social Security will encourage middle- and higher-income households to work less (due to higher taxes) and save less (due to the higher benefits those households will receive once they retire).[12] Plans that would fix Social Security by reducing the growth of benefits for middle- and high-earning workers would encourage both work and saving.

[11] These include Canada, Denmark, Iceland and the Netherlands.
[12] Most research finds that lower-income workers are less responsive to these incentives.

The University of Pennsylvania Wharton School's Penn Wharton Budget Model projects that the Social Security 2100 Act, the most prominent Social Security expansion plan, would reduce gross domestic product in 2049 by 2.0 percent relative to a baseline in which the federal government simply borrowed to pay Social Security benefit after the trust fund ran out in 2035. By contrast, a plan that raised the retirement age, reduced benefits progressively and used the chain-weighted CPI to calculate COLAs would increase GDP by 5.3 percent. The 7.3 percent of GDP difference in 2049 between a Social Security benefits expansion plan and a benefits restraint plan would be worth $2.6 trillion in today's terms. Annual federal revenues would be over $500 billion lower (in 2019 dollars) due to lower GDP. Thus, how we fix Social Security can have a dramatic effect on Americans' future incomes and the resource available to the federal government to address healthcare, debt and other priorities.

10. Out-of-pocket health spending has barely grown as a percent of seniors' incomes

Everyone knows that out-of-pocket health spending has grown, for seniors and for younger Americans. On average, each retiree spent an average of $2,740 out of pocket in 2010, equal to 9.7 percent of their incomes.[13] But retirees have a key advantage: their incomes have grown more rapidly than those of working-age households, and so data from the Consumer Expenditure Survey show that out-of-pocket health spending as a share of retirees' incomes exhibit only a very modest upward trend over time. This doesn't mean that retirees have no problems funding health care expenses: health costs can be highly variable, meaning that simple averages don't tell the whole story. But the fact that average incomes have risen as quickly as the average retiree's health expenses says that the retirement saving system is doing its job well. The second step – helping retirees insure against the risk of very high health costs – depends upon financial planners and government.

11. Most traditional pensions aren't going away

When it is pointed out that current retirees have high incomes and low levels of poverty, a common response is that the true retirement crisis will kick in once traditional defined benefit pensions truly disappear. The data show that is unlikely. Currently, about two-thirds of total defined benefit pension benefits are paid out of public sector plans: retired federal employees and members of the military and retired state and local government employees. Those benefits aren't going away anytime soon. Only one-third of traditional pension benefits being received by America's seniors are paid from private sector plans.[14]

And those disappearing private pension benefits won't be difficult to replace. Assets in private sector defined benefit plans have never exceeded 20 percent of gross domestic product. By contrast, assets in 401(k) plans today are equal to 29 percent of GDP. And IRA account balances,

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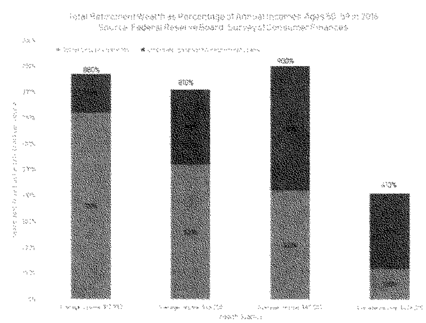
[13] De Nardi, Mariacristina, Eric French, John Bailey Jones, and Jeremy McCauley. "Medical spending of the US elderly." *Fiscal Studies* 37, no. 3-4 (2016): 717-747. These figures include retiree spending on long-term care.

[14] As an aside, this shows how small private sector defined benefit pensions were and are relative to the public sector, where coverage is nearly universal and employee longevity is generally long enough to vest in benefit. The public sector generally employees about one-fifth of the population while the private (and non-profit) sectors employ the other four-fifths. The fact that public sector pensions pay out two-thirds of total benefits implies that, per employee, public sector pensions pay out eight times as much benefits as private sector pensions.

much of which were rolled over from 401(k)s, are equal to 47 percent of GDP. Private sector DB pension benefits are much smaller than people supposed and private sector 401(k)/IRA savings are much larger.

12. The shift from traditional pensions to 401(k)s hasn't increased retirement inequality

It's sometimes claimed that the shift from defined benefit pensions to 401(k)s has made retirement savings more unequal. However, Federal Reserve research published in 2019 show that the distribution of retirement plan savings are very similar today to when traditional pensions were predominant.[15]



Moreover, that same Federal Reserve study showed that total retirement preparation is remarkably equal across income levels once Social Security is included. The Fed economists calculated the sum of a household's expected Social Security benefits and personal retirement savings, then expressed this amount as a percentage of the household's annual income. Average total retirement savings were very similar between the bottom three wealth quartiles, even if lower income household depended more on Social Security and higher income households more on personal retirement savings. The ratio of total retirement savings to incomes was lower in the richest wealth quartile. This is due to the Social Security taxable maximum, which limits the accrual of future Social Security benefits, and limits on tax-preferences contribution to private retirement plans, which apply mostly to high-income households.

The shift from traditional pensions to 401(k)s increased the *level* of retirement savings, but didn't markedly change the *distribution* of retirement savings. *This implies that 401(k)s have resulted in greater retirement savings for low- and middle-income Americans than the previous system of defined benefit pensions.*

13. The real "retirement savings gap" is in government

The news media love to write about a supposed "retirement savings gap," even though the best academic studies find that most Americans are saving adequately and, for those who are not, shortfalls tend to be modest.[16] And yet, there is a massive retirement savings gap in government plans, from Social Security to federal employee and military pensions to state and local

[15] Sabelhaus, John and Alice Henriques Volz. "Are Disappearing Employer Pensions Contributing to Rising Wealth Inequality?" FEDS Notes. February 01, 2019.

[16] For instance, see Gale, William, John Karl Scholz, and Ananth Seshadri. "Are all Americans saving 'optimally' for retirement?." Michigan Retirement Research Center Working Paper wp189 (2009); and Hurd, Michael D., and Susann Rohwedder. "Economic preparation for retirement." In Investigations in the Economics of Aging, pp. 77-113. University of Chicago Press, 2011.

government plans. In fact, while peer-reviewed studies of household retirement savings find a household saving gap of about $1 trillion, out of over $90 trillion in total retirement plan assets and accrued Social Security benefits, estimates of government plan underfunding range from $14 trillion to $26 trillion. In a separate study, the World Economic Forum found that 83 percent of retirement underfunding in the U.S. is in government plans, a pattern that is consistent across countries.[17]

[17] World Economic Forum. "Global Pension Timebomb: Funding Gap Set to Dwarf World GDP." 26 May 2017

Chairman YARMUTH. I thank all the witnesses for their testimony. Now we will start our questioning period.

And first, the Ranking Member and I will defer our questions to the end, so I now recognize the gentlelady from Illinois, Ms. Schakowsky, for five minutes.

Ms. SCHAKOWSKY. Well, we could have a war of statistics. I don't really want to get into it, although there are some data. I know that more than half of Americans can't withstand easily, without some sort of financial crisis, even a $500 hit on their income. And I have got some data here from—is that Motley Fool—that says that the amount of their investment analyst—the average amount of money that older Americans have when they retire, or something like—was it $7,000?

You know, you can shake your head, and, you know, you are smart, and you have got a lot of statistics. But the real world that I deal with too, and my constituents, is a very different world than is projected here. Even averages, I think, are really skewing toward the wealthiest Americans, because we have such a vast income inequality that if you start averaging out (sic).

I just—I want to say that I volunteer at a food bank, and at the end of the month who do you see lining up? It's the seniors, because they have run out of their Social Security. And I think most Americans are wondering, can I retire? And in fact, the woman that was bagging my groceries not long ago, I am telling you, I definitely want to help her bag my groceries. She was clearly working beyond the age that she should be working, but not beyond the age that she needed to be working.

I am the founder and co-chair of the Congressional Task Force on Aging and Families—used to be called the Seniors Task Force. We have had report after report from organizations, including the AARP and the retirement security groups, that talk about the challenges that older Americans face. And so I am glad that we have a piece of legislation that would deal with the issue right now and not try to hide it, I think, in some numbers that don't reflect what ordinary Americans—and in terms of women, by the way, you know, they are—they carry this income—this wage inequality with them into retirement. So many of the people—probably, I am sure, most of the people—that are living near poverty and relying just on their Social Security are women.

I also wanted to say to the Ranking Member that, you know, "everyone is living longer" is not true. There is a big disparity there, too. We've even seen an increase in white working class men, whose longevity has taken a bit of a dive. African-Americans, especially African-American men, aren't necessarily living longer, or living to see—and that is why raising the age of Social Security would be a significant problem.

So, you know, our task force is going to be addressing this issue, and hopefully coming up in a bipartisan way with a solution.

I wanted to ask you Mrs. Cook, what are the most common financial problems that you are seeing in Rochester seniors? What are the expenses that are most crippling to some of the people you serve?

Mrs. COOK. Very clearly, it is health care costs, prescription drugs, out-of-pocket costs for copayments. And as a result of that, they can't pay the rest of their bills. They are making decisions on whether or not to pay their health care costs, or buy food, or pay for their utilities. And it is a terrible decision that older adults have to make.

And in fact, we are seeing that really about a third of our clients—rather, our clients, about a third of their income is going to those health care costs that are rising, that we are seeing are rising.

Ms. SCHAKOWSKY. And hopefully we are going to be dealing with the cost of prescription drugs also in this session of Congress.

So again, Mrs. Cook, do the seniors' lifespan that you work with generally have savings that they are able to rely on? What has been your experience in the amount of money that they have been able to put away?

Mrs. COOK. They have tried to save.

I am going to go back to my story about Sam and Angelica, because I recently met with this couple. They put three kids through college. They saved $30,000, which was difficult for them going into retirement. But Angelica has dementia, and she requires home health care aides, and they have gone through that money. Their small pension and Social Security isn't making it any more. And they honestly do feel that death is their only option.

And so that is what folks are dealing with today, that kind of anxiety, that kind of pressure, and all based—because they just don't have enough money to survive.

Ms. SCHAKOWSKY. Thank you. I yield back.

Chairman YARMUTH. Thank you. The gentlelady's time has expired. I now recognize Mr. Stewart of Utah for five minutes.

Mr. STEWART. Thank you, Chairman and Ranking Member, and members of the—sitting at the witness table.

And, you know, I am honored to serve on this Committee. I actually asked and pressed for this. I sit on two other Committees, Intelligence and Appropriations; they are very busy. But I wanted to sit on this Committee because I am interested in these topics. It is the reason I ran for Congress six or seven years ago, because I thought we are committing national suicide with some of our spending and our debt, and some of the fiscal policies and decisions that we were making. It's the reason that, again, why I ran, and why I wanted to be here.

And my background lends me to sympathy on these. My father was an Air Force pilot, a farmer, and a schoolteacher. My mother raised 10 kids, if you can imagine. And they were not wealthy. They were a family of modest means. But they paid into Social Security, and they expected that that would be there for them in their retirement. And I think everyone in this room wants—and we want to facilitate that same expectation to save this program for those people who most need it and are relying on it. We want to protect Social Security.

But I read something recently—and this is well quoted, I am sure you all are aware of it—where young people were asked if they—what they believed was more likely, UFOs or that they would have Social Security when they retired. And more of them believed in UFOs than that they would have Social Security. And, you know what? They are right. That is not a bad bet, because there might actually be UFOs. I don't think there are, but it's a possibility. But if we don't fix this, then it is a mathematical reality that they won't have the other.

And so, as absurd as it sounds, it is not foolish for them to take what might be at least possible, and taking that over something that is mathematically impossible if we don't fix it. And that is why these hearings are very important.

The good news is—and there is good news—and that is we can we can fix this. It is not impossible. There is still time to fix it. And we can do it without impacting retirees now, without those who are relying on it now, which is something that I think all of us are committing to do it. But it needs to be done on a bipartisan basis.

And one last thought on this. We have been told this is the third rail, as a politician you are foolish to touch it. I think that's nuts. That has not been my experience at all. When I talk about this with my constituents and others, they are begging us to fix it. They are not stupid. The American people aren't stupid. And you tell them, "This is what it is going to take to fix it." In a bipartisan manner, people like me are going to have to consider that we have to look at the tax side of it. I am willing to concede that, and accept that. And it is hard for me to do. I didn't come to Congress to raise taxes, but I recognize that is part of the equation.

I think we also have to consider raising the retirement age, looking at COLA adjustments, looking at means testing. But if someone is not willing to consider all of those options, then they are not serious about fixing this. And they are, frankly, part of the problem now. And it is going to take all of those to do that.

So Dr. Biggs, I could ask you—this is a yes-no question, and then I want to get to something that really matters. Do you believe that the best and first option and only option is raising taxes? Or is it going to take more than that?

Dr. BIGGS. No. It will take both sides.

Mr. STEWART. Clearly, it is going to take more than that. And I want to emphasize something—and this will sound dramatic—but I want you to give meat on this bone. What does it mean if by—the projections are by the 2030s or so—that we actually bankrupt this system, that we are not able to make the payments, what does that mean to someone? Help people understand. Because I think people generally think, well, you know, that is going to affect someone else, or it won't affect me. What will that mean to someone who is relying on Social Security at that point?

Dr. BIGGS. Well, the kids who think it is more likely they will see a UFO are not correct. They will see Social Security. If we do see UFOs, I hope they bring money with them that we can use. But Social Security, as long as it is collecting payroll taxes, can continue to pay benefits. It will not become bankrupt in the sense of paying nothing. But once the trust fund runs out in 2035, Social Security has no legal authority to pay the full promised benefits. It can only pay with the money it has on hand. That implies a 20 percent-plus reduction in benefits, not just for new retirees, but for all retirees, not just for retirees themselves, but for disabled, for survivors.

So this is sort of the worst-case outcome you are trying to avoid. You know, we can fix this. But to leave it to last minute means the choices get bigger and get more difficult. And so it is always better to do it sooner than later.

Mr. STEWART. Well, then in the 15 seconds I have, would that required 20 percent—would that be across the board, or would there be—the government have discretion on who that—those cuts would be applied to?

Dr. BIGGS. It would probably not have discretion. You would need—to do that you would need new legislation.

Mr. STEWART. So those on the very lowest, as well as those on higher income, they would also be impacted with the 20 percent——

Dr. BIGGS. When I was at the Social Security Administration, that was our interpretation.

Mr. STEWART. All right, thank you. Chairman, I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from New York, Mr. Morelle, for five minutes.

Mr. MORELLE. Thank you, Mr. Chairman, first of all, for hosting this hearing, which is critically important, as I think all of our witnesses have testified to.

A promise made, in my view, should always be a promise kept. However, for too many Americans the promise and assurance that Social Security represents is quickly fading away, as we have learned this morning. After a lifetime of hard work and paying into the system, every person deserves to enter their later years in life with the peace of mind and the knowledge that Social Security will be there for them. Yet fewer dollars are going into Social Security than are being paid out, and the program is in danger of being insolvent, as we have heard mentioned several times this morning.

In my view, this is simply unacceptable. It is critical we strengthen resources available to older community members, protect essential programs like Social Security, and address the multiemployer pension crisis which has been talked about this morning, so that current and future generations could depend on the benefits they have received.

I am encouraged by our friend and colleague, Representative Larson, who is taking meaningful steps to safeguard access to Social Security and ensure the long-term viability of the essential program for years to come through the Social Security 2100 Act, which I am proud to cosponsor and support, and I hope it comes before the House soon for consideration.

I did want to go to one of the—what I think I heard. My understanding of Representative Larson and those who have looked at it actuarially, that a modest increase in the Social Security tax for those individuals earning $400,000 or more would actually make it not only solvent, but sustainable. And that does not involve benefit cuts.

Dr. Biggs, have you seen that analysis? And do you disagree with the actuaries who have looked at that?

Mr. BIGGS. I have read the actuarial memo on the Social Security 2100 Act. What it would do would be phase out the taxable maximum wage for Social Security beginning at $400,000. But eventually all wages would be subject to the tax. That implies a 12.4 percent effective marginal tax increase on high earners, which means that your top tax rate goes up by 12.4 percentage points, so then we are in, you know, Scandinavian territory.

So it becomes a question of modesty on that. The—more recently, the Penn—University of Pennsylvania Wharton School used an economic model to simulate the Social Security 2100 Act. And they found when you took into account the changes in benefits, the benefit increases, and the changes in taxes, it would shrink GDP by 2050 by about 7 percentage points, relative to a solvency plan that relied on benefit cuts. That's about $2.6 trillion in these terms. So the economic effects of raising those taxes and increasing benefits are pretty significant.

Mr. MORELLE. The benefit——

Dr. BIGGS. And the actuaries don't account for any of that.

Mr. MORELLE. And the benefits you are talking about are the benefits that would accrue to people earning more than 400,000 who would be paying an additional amount in? Those are the increased benefits? Or are you are talking about——

Dr. BIGGS. Because the Social Security 2100 Act increases benefits across the board, relative to promised levels.

Mr. MORELLE. I want to go back to something, Ms. Cook, that you talked about your testimony, which is—dealt with financial literacy. And do you have a sense—I ask two things. One is, first of all, the relative awareness that people have, financial literacy for people who are in the retirement years, and then also for younger people.

And I don't know how much your organization talks to organizations that represent schools and universities and others that would, hopefully, be in a position to start talking about financial literacy to younger people, because, obviously, the sooner you start—can you just tell me your sense of financial literacy among the retirees that you have, how prepared they were for what they now face?

Mrs. COOK. Congressman, what we see is they are not prepared at all, and that they struggle when they have to make decisions about investing their own 401(k)s or other accounts. They just have not had that kind of training. We are trying to figure that out, and help them along the way to give them that kind of information.

In terms of younger people, I don't know, but I think right now we are woefully lacking education in financial literacy so people can prepare for retirement.

Mr. MORELLE. Well it seems to me strengthening Social Security is obviously an imperative here. But to the point that you just made, I would argue—I say this to my children all the time—I know you are in your early—late twenties, early thirties. You should start thinking about this, because it will come much sooner than you think it will. Because I feel like I am 30 still, and it has come much faster than I would have expected.

But I think this is really important, particularly with people entering the workforce, to give serious thought to what they are going to do in the out years. So strengthening Social Security and making sure they have financial literacy, it seems to me, are critical objectives that we ought to achieve.

So thank you all for your testimony.

Chairman YARMUTH. The gentleman yields back. I now recognize the gentleman from Pennsylvania, Mr. Meuser, for five minutes.

Mr. MEUSER. Thank you, Mr. Chairman. Thank you all very much for being here with us.

Dr. Biggs, I would like to first ask you, please, what do you think of the Social Security 2100 Act, in broad terms or specific terms?

Dr. BIGGS. Well, if you go back—it is worth—Congressman Larson talked about the 1983 reforms, where President Reagan and the Democratic House and the Republican Senate came together to produce a package to fix Social Security. That was roughly 50 percent tax increase, 50 percent benefit cuts. I mean, you know, you can qualify things that you want, but it was roughly half and half.

The Social Security 2100 Act—and I agree you need to have bipartisan cooperation on this, that's how it's going to happen. The Social Security 2100 Act is more than 100 percent tax increases. It raises taxes to fully pay for promised benefits. And then it raises taxes by a greater amount in order to increase benefits, to expand Social Security.

Realistically, that is not going to happen. So people need to come together and—as you were talking about, Congressman Stewart—say what things you are willing to give on. If your starting point is more than a 100 percent tax increase, I think that is going to be a difficult bipartisan lift.

Mr. MEUSER. Okay. When you mentioned Scandinavian levels, so basically we are talking about 37.5 plus 12.4?

Dr. BIGGS. Plus Medicare taxes. In some states, state income tax rates are as——

Mr. MEUSER. Before state income tax——

Dr. BIGGS.—are as high as 10. California is 13 percent. It gets to the point where, if you think you are ever going to afford Medicare for all or something like that by taxing the rich, you will never do it because your top tax rates—you will be tapped out on——

Mr. MEUSER. Over 50 percent.

Dr. BIGGS. Well over——

Mr. MEUSER. Scandinavian levels.

Dr. BIGGS. Well over 50 percent.

Mr. MEUSER. So my next question, then. What recommendations can you make that would improve the long-term solvency of Social Security?

Dr. BIGGS. Well, there is a lot of research that shows that middle and high-income folks, the folks who have 401(k)s, are financially literate, they trade their personal savings off against Social Security. If you raise your Social Security benefits, they will, in fact, save less. If you lower their Social Security benefits, at least on a kind of long-term basis, they will save more and they will work longer. So for those folks it is acceptable to slow the growth of benefits because they will make it up on their own.

The same research tends to show that lower-income folks aren't as responsive to those incentives. For those folks I favor not just maintaining promised Social Security benefits, but expanding them, making the safety net stronger. That is a way we can make the make the program work for the people who need it the most, while letting people who can afford to save more and work longer do so. That is the most sustainable route to fixing Social Security, but also leaving a little room in the budget for the—all the other things the government does.

Mr. MEUSER. The taxable maximum on Social Security increases—and that is the question—every year?

Dr. BIGGS. Along with the rate of wage growth. So wages grow faster, the taxable maximum grows——

Mr. MEUSER. So how much each year?

Dr. BIGGS. It is—right now it is 132.7, so roughly 4 percent per year.

Mr. MEUSER. Four percent per year?

Dr. BIGGS. That is the projected nominal rate of wage growth.

Mr. MEUSER. Okay. So over a 10-year period, clearly, we are going to be 40 percent higher, which is in the neighborhood of $165,000 or——

Dr. BIGGS. Sure.

Mr. MEUSER.—where we are today. Okay. So it is increasing every year. So all of those at that level, more or less, are going to be at a 42 to 43 percent tax range already, with—when you add the income tax plus the FICA, the——

Dr. BIGGS. Exactly. So for those folks, eliminating the taxable maximum, or phasing it out, as Social Security 2100 would do, those people are not millionaires and billionaires. They are somebody making $150,000, which is a good standard of living.

Mr. MEUSER. Right.

Dr. BIGGS. But it is not necessarily who you think you are hitting.

Mr. MEUSER. And with state tax, it is near 50 percent. So their take-home income is in the neighborhood of $90,000. They are paying nearly $70,000 year in federal and——

Dr. BIGGS. Sure.

Mr. MEUSER.——state taxes. What about the age question? What are your thoughts on that?

Dr. BIGGS. It is true that Americans are, on average, living longer. But there is a wide disparity. The richest Americans, as a guess, would live about eight or nine years longer past retirement than the poorest ones. The poorest ones are much more dependent on Social Security.

I am not against raising the retirement age as a signal to people to work longer. They will. The research shows they will accept that signal, and they will work longer. But I would also make other changes within Social Security to protect the people who are on the bottom, who are the poorest people, who don't live as long, to make them whole.

So raising the retirement age isn't the only thing you do. There is other parts of the package, and we can fix it so it will not hurt the people on the bottom.

Mr. MEUSER. Thank you. Thank you, Mr. Chairman. I yield.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Virginia, Mr. Scott, for five minutes.

Mr. SCOTT. Thank you, Mr. Chairman.

Dr. Biggs, you mentioned the fact that when Social Security so-called goes broke they can still make payments. You know what percentage payments they can make?

Dr. BIGGS. I think around 80 percent.

Mr. SCOTT. And the inflation adjustment, as we go forward, is the wage growth. You know what that 80 percent would be, compared to just regular inflation?

Dr. BIGGS. The wage growth adjustment is made to the taxable maximum. I am not sure I am 100 percent understanding the question.

Mr. SCOTT. The benefits? The benefits go up, too?

Dr. BIGGS. Yes. Oh, that is correct, yes. Benefits—scheduled benefits under Social Security rise roughly with wages each year, so about a percentage point faster than inflation. So some people say even after that 20 percent cut they would be higher than today. I am not 100 percent sure, but——

Mr. SCOTT. Okay. But you indicated the sooner the better. Why is it better to do some—fix it sooner than later?

Dr. BIGGS. Well, it gives people more time to respond. If you think about the current increase in the retirement age, it was passed in 1983. It didn't even begin phasing in until 2000. It is not fully implemented until age 67 until, I think, 2022. You don't hear anybody, you know, yelling and screaming about the retirement age today because they have had so much warning. If we leave it till 2035, then we have to pull the rug out from underneath people, and that is very, very hard.

Mr. SCOTT. Thank you. Mr. Hanner, you talked about the multiemployer pensions and the problems with the failure of the multiemployer pensions. What would happen—what effects to the federal budget would occur if these pensions failed?

Mr. HANNER. To the federal government you would have the revenue off of, I think it is, 1.5 million workers. You would lose that revenue right off the bat.

Mr. SCOTT. The taxes they would be paying.

Mr. HANNER. The taxes they would also lose.

Mr. SCOTT. And the increased utilization of food stamps and Medicaid?

Mr. HANNER. They would have to turn somewhere. To eliminate your pensions I think you change from a retirement—maybe a comfortable retirement—to a survival mode. And there is a big difference between a comfortable retirement and a survival mode. Like the congressman said, you know, you run out of food at the end of the month.

Mr. SCOTT. What are your proposals to fix it?

Mr. HANNER. The Neal bill, H.R. 397. It seems to be the best approach to it whatsoever. It seems to be the cheapest approach to it whatsoever.

Mr. SCOTT. Thank you. Mrs. Cook, there are a lot of students with significant student loans. What effect does a student loan have on your ability to save for retirement?

Mrs. COOK. Well, it makes it almost impossible. And, you know, I was talking to someone the other day. They had student loans until they started helping their children go to college. So, I mean, you take all of those earning years in which they are paying back their own student loans, and then trying to help their children, it makes savings very difficult.

Mr. SCOTT. And the fact that you have to start 10 or 20 years later saving up for your retirement, because you had to pay the student loans, what does that have (sic) on the ultimate size of the nest egg?

Mrs. COOK. Well, it makes it almost impossible to have that third-legged stool of savings, and anything significant. And what we have seen is, even when people have saved, once they have a health issue of any kind that savings they go through very quickly.

Mr. SCOTT. Do you know the effect of immigration reform, what that would have on Social Security?

Mrs. COOK. Sir, I don't know.

Mr. SCOTT. Dr. Favreault, do you know?

Dr. FAVREAULT. Yes. We can think of immigration as akin to adding births to the population, in the sense that—except they are a little bit older. So you are going to have more workers per beneficiary, and that is an excellent thing for Social Security's health.

The Social Security Trustee's report has some information in the appendix about immigrants adding, say, roughly 300 or 330,000, on average. That could have an effect of about nine—reduce about 9 percent of the shortfall. So definitely a strong labor force is an integral part of——

Mr. SCOTT. Essentially, because they would be coming and paying, and nobody coming in would be receiving.

Can you say a word about the effect of the gig economy on people's ability to save?

Dr. FAVREAULT. Yeah. I think it is a really important question. Obviously, there are a great diversity in gig workers. We see that those who are gig-only often have very, very little retirement savings. Very few are participating. Those who are both gig and also have an additional full-time job are a little bit more likely to be prepared. But those were gig-only, again, extremely vulnerable.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Oklahoma, Mr. Hern, for five minutes.

Mr. HERN. Thank you, Mr. Chairman and Ranking Member Womack. And thanks to all of you today for being here to testify on this.

You know, as a taxpayer and a person who believes that our country's greatest threat is our—I guess it is our 3D problem: our deficit, our debt, and our demographics issue.

And, you know, I appreciate we are having this conversation about mandatory spending. I say it is not an entitlement, and we have talked about that. You know, a lot of people get that wrong. I think it is us taking the good faith and credit of the United States, and believing in that promise.

And you know, according to the Board of Trustees for Social Security and Medicare, if Congress does nothing both will be insolvent within the next 25 years. Insolvency, as we have been describing, is—you know, we can debate that all day long. And this is a grim reality for the working-class Americans who have spent their entire lives paying into the system with the promise that money will be there when they need it.

I have got to confess I grew up extraordinarily poor: food stamps, no running water. I have heard my entire life that Social Security would never be there for me. I have never counted on it. I think most Americans, truthfully, when they are younger and they are working, they don't count on it. They work as if it is not going to be there, and some money shows up at the end of their lives, and they are appreciative for that.

My questions today, I have got a multitude of questions, but just as sort of a fact-finding mission—and Dr. Biggs, I appreciate your outlining here the 13 things you didn't know about, or probably wish you knew, or whatever. But let me just ask some questions, and maybe just simple yeses or noes. Or if you want to expand on them, that would be great. But wage growth helps close the gap on Social Security deficits, does it not?

Dr. BIGGS. Yes, it does.

Mr. HERN. Lower unemployment helps close that gap.

Dr. BIGGS. Yes, it does.

Mr. HERN. And we have, like, the lowest unemployment in recorded history, at least in the history that I have read about.

Dr. BIGGS. Since the late 1960s. yes.

Mr. HERN. Legal immigration to replace a scarce resource-available workforce would be very beneficial—legal workforce—to close this gap.

Dr. BIGGS. Yes.

Mr. HERN. We have 7.6 million jobs unfilled. If we had those filled we would also help replace this need. And we could talk about why we also need legal immigration. We have a workforce that has been depleted, if you will. And let's talk about some facts on that.

We can talk about our pro-choice conversations that we have had, hundreds of thousands of abortions. We could also talk about our low birth rate, just described today in The Wall Street Journal as the lowest in 40-something years, and not getting any better.

We also could talk about again our aging population, as we described, as the Chairman described in his opening comments.

Could you also help me understand? Because I have heard a lot of numbers. What has been the average rate, or ROI or return on the investment of Social Security invested dollars in the United States?

Dr. BIGGS. There is two ways of thinking about it. One is the rate of return on the Social Security trust fund, and that is invested in special-issue government bonds. Right now 5 percent, I would think. Then there is the rate of return that the individual gets from the program. They pay money in and they get money out.

Mr. HERN. That is really all that matters to me——

Dr. BIGGS. And you can calculate an interest rate from that. That started out extraordinarily high. The early generations of Social Security couldn't have done better in Vegas. They made a lot of money on it, because the benefits were relatively generous. They had a short career of paying low taxes. But that's a seesaw, and they gained a lot of money. Future generations' Social Security, one way or the other, no matter how you fix it, will be a money loser for future generations, simply because the early generation got such a good deal.

Mr. HERN. So the argument——

Dr. BIGGS. So whether you raise tax or cut benefits, it is going to——

Mr. HERN. So there might be a viable argument in there, as we have heard about since the 1990s certainly, about some self-directed ability, if you had the ability to self-direct some of that. That is for open debate. We could spend a day talking about that.

Does a growing economy and robust markets help close the funding gap?

Dr. BIGGS. It will, but it will not close it by itself.

Mr. HERN. Would it also—and I am sorry I can't see your name there, sir, next to you there, but—we are talking about pensions. Would that also—a growing marketplace, robust economy, does that help close the pension gap?

Mr. HANNER. It would seem to be, there would be more people hired.

Mr. HERN. So an investment of your funds into certain investments that gets a better return, if there is a return as opposed to a loss, if you are—from the investment side of your—those dollars you have taken.

Mr. HANNER. If we were able to invest in the market. Since we have gotten so low, dipped so low, our money has been put into guaranteed interest. We can't afford a drop in the market.

Mr. HERN. Perfect conversation. Our national debt and our annual deficit are keeping those interest rates really low. The day of getting 5 percent returns are gone, because we know for every 1 percent we add, that is $200 billion in additional deficit every year. And so we know that that is a problem. So our deficits and our debts are having problems across the board. And having the fallacies of us promising something with pensions, defined benefit programs, or our Social Security is going to be problematic if we can't figure out how to get a—control our deficits, debts.

And I would just like to say one thing—and I know I am over, Mr. Chairman—but in reference to the student loans, I think it is safe to say that if anybody in here that had a student loan would raise their hand would also not like to have ever paid it back or pay it back. So—but that is an obligation that you promised and signed upon to take to go get a four-year education. And I think we have got to be really careful about forgiving student loans because that is an investment in your future. And so you should invest wisely. Thank you. I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from California, Mr. Peters, for five minutes.

Mr. PETERS. Thank you, Mr. Chairman. I was a little frustrated by the discussion we had. I felt like people were talking past each other. It is pretty obvious that, from Dr. Biggs, a lot of people are doing fine, the economy is good for a lot of people, people have saved. That is terrific. They didn't—that didn't really address the distributional effect of people who aren't doing well. We really need Social Security to keep them out of poverty.

And I think what really occurred to me is that, you know, we call it an insurance plan, but really, Social Security is more like a retirement plan because we pay it out to people even if they don't need it. Insurance you call on. You pay a premium every year. You call on it when you need it. And we don't—that is really not what Social Security is, because people who don't need it, like Mr. Biggs or Dr. Biggs described, are still getting the payment. And they could adjust for that. And to me, that is—that strikes me as an opportunity for some discussion.

We talked a lot about a lot of other issues that we put on Social Security that we should be dealing with separately. The cost of health care is a separate issue. If the cost of health care was cheaper, that would certainly be good for the people that I think you are concerned about.

We talked a little bit about tax policy and deficits. I mean, I have got to tell you that I think that one of the saddest things we did was the tax cuts we did last year for people who didn't need them. They didn't need tax cuts. We overshot the corporate tax cut by a good 4 or 5 percent from even what Mitt Romney and the Business Roundtable had been asking for, and then we talk about deficits here. I opposed that, I think that was unwise policy.

And I do think that student loans is still a burden on folks. I think they should be—I don't believe in free college, but I also don't believe in gouging people with 6 or 8 percent loans, when the cost of money to the federal government is something around 3 percent. So we talked a lot, at least obliquely, about a lot of issues here.

But one thing I wanted to raise was that I think we ought to have a more direct approach to retirement.

We have a minimum wage in this country. It is actually—when I was working for the minimum wage it was, I think, $2.65 an hour. I don't think anyone suggests the minimum wage should not have been—should not have risen. Even Dr. Biggs probably think there is some role for raising that. Now it is at $7.25. I think we are due for another increase.

One part of that increase might be suggested by the Saving for the Future Act, which I have introduced in the House with Representatives McBath and Blunt Rochester—it has been addressed in the Senate by Senator Coons and Klobuchar—which would—since we have a minimum wage we don't have a minimum contribution to retirement, and this would make a $.50 minimum retirement contribution, so that when—over the course of your career, if you work the whole time, and just with that minimum, it would generate over $600,000 worth of savings for people.

That could be combined with a minimum wage increase, so that if you didn't want to go all the way up to $15, you could say, well, $14.50 plus $.50 for retirement, that would be a good compromise. Or some other area. I mean, I think there is a lot of approaches to addressing the minimum wage, but a minimum retirement contribution would make a lot of sense. And it would take a lot of the pressure off of Social Security, because employers would be paying into it over time.

Dr. Biggs, does that strike you as a constructive way to deal with some of these issues, in terms of making sure that everyone has a decent retirement?

Dr. BIGGS. Well, I think I—when I hear the minimum wage, the research on the minimum wage, I think, is more nuanced than many people today think it—it won't destroy jobs, but if you go—I live in southern Oregon, right on the northern California border. A $15 minimum wage in those areas would be difficult.

Mr. PETERS. And just so—just to be clear, I favor the—Terri Sewell's approach, which is a regional minimum wage. So California, $15 is fine for us, but maybe it is different in—but as a way to get up to $50?

Dr. BIGGS. My—part of—I think about the Save For the Future Act. Part of me says, oh, I don't want to have a mandate on businesses to do these certain things. And I understand that. On the other hand, though, I would personally much rather increase retirement savings for those who need it through a personal account-type program that you are talking about than trying to do it on the Social Security side, which is—I think it is just much more difficult on the tax——

Mr. PETERS. Well, I didn't suggest the Social Security side, but three out of 10 workers lack access to a retirement plan today. Forty five percent don't participate. That is not good for the country.

Dr. BIGGS. Sure. The coverage gap is some—two things I point out: close the coverage gap, make auto enrollment universal. That solves so many problems, and it does it in a very easy.

Mr. PETERS. And finally, I don't want to—I think that the response, Mr. Hanner, was a little bit cavalier. My father also had his clergy pension cut. He was so careful with his money. He depended on that pension. He had every right to depend on that pension. And I think speaking in generalities doesn't really address the pain that happens in those families, and I want to acknowledge that. And I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Texas, Mr. Crenshaw.

Mr. CRENSHAW. Thank you, Mr. Chairman. Thank you for holding this very important hearing.

I am going to talk for a minute to the Millennials in the room, and to the many Millennials glued to C–SPAN right now, watching this—I say sarcastically—watching this extremely important discussion on Social Security. This is going to affect my generation. I am a Millennial, albeit an elder Millennial. And Social Security is one of the most important issues that my generation faces. We all agree it is on a path to insolvency. Americans aren't saving enough. We aren't secure enough in our retirement. The question is then, what do we do? And we have to frame the options, I think, very clearly.

First of all, let's come up with the realization that Social Security is not a retirement program, it is a program meant to keep seniors out of poverty—originally its intention.

And another thing we should point out is that we actually generally agree on progressive solutions to fix it. But there is two ways to add money into the program in a progressive way: one is through taxation and one is through benefits.

So, let's look at the Social Security 2100 Act. This represents the extreme end of using tax increases to achieve solvency. Millennials watching C–SPAN should not be very fond of this idea. What we are effectively doing is we are transferring wealth from the young to the old. It is also the least efficient way to redistribute wealth if our goal is, indeed, that. And I actually think it is. You are taking money out of people's paychecks when they need it most, when they are trying to start a family, start a business, buy a home, or save for retirement, which I think we all agree is a problem—Americans are not saving enough. And according to the 2100 Act, this money would be transferred mostly to wealthy retirees.

I hope Millennials are listening to this. This is deeply unfair, and it is bad for economic growth. In fact, according to that Wharton study, it decreases economic growth by a whole 2 percent by 2049. That seems like a small number. But in reality, that is an enormous absolute number.

The other way that we can look to make Social Security solvent is, of course, through benefits. How do we do that? We have to question does it make sense for the wealthiest among us to have an increase in benefits after they have had their entire lives to save, their entire lives to create the businesses they want to do, and create wealth? Does that make sense, or does it make sense to focus on the true purpose of Social Security, which is to keep senior citizens out of poverty and focus on benefit increases for them?

If we are going to be progressive about this, it should be in the latter parts of life. We should not tax the very people who need their money the most, my generation, to transfer that to the wealthy.

Okay. Don't worry, Millennials, we are going to put that on YouTube. I know you are not watching C–SPAN.

[Laughter.]

Mr. CRENSHAW. All right, Dr. Biggs, will you talk for a second about the economic differences between the benefit and taxation debates?

Dr. BIGGS. Sure. If I could just touch on the generational differences first, I think you hit on something very important. And this applies to the Social Security 2100 Act. Benefits are increased immediately under that proposal. The tax increases are phased in. You know, it is—you can say, well, today it is only a cup of latte or something. Once those tax increases are fully phased in, for an average wage worker it is an extra $50, a week or $50 a month they have to pay.

So it is—when you are increasing benefits immediately but phasing in the tax increases, it means that future generations of workers, they have to pay for not only their own benefit increase, but for the benefit increase that came to today's retirees who didn't pay for it. So generationally, this is shifting more of the costs to future generations.

On the economic side it is—you know, people disagree about the effect of taxes on, you know, work incentives and economic growth. But there is agreement that, in general, if you raise taxes people are going to work less. You know, we don't know the size, but we know they are going to work less.

There also is a lot of research finding for middle and upper-income folks that if you raise Social Security benefits they will save less.

Now, in a simple textbook economic model, if people work less because of higher taxes and they save less because of higher benefits, you will in fact have a smaller economy in the future. The Penn Morton model projects a 7 percentage point of GDP difference come 2049 from the Social Security 2100 Act versus kind of a benefit-cuts-only act. That is an enormous amount of money that we are we are giving away, essentially, which we could avoid. We can protect the poor, but middle and upper income folks should, you know, work more, save more, work a little bit longer.

Mr. CRENSHAW. I am out of time. Thank you, Mr. Chairman.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from Massachusetts, Mr. Moulton, for five minutes.

Mr. MOULTON. Thank you very much Mr. Chairman. I want to follow up on what my colleague from Texas was saying. He was talking about how there are two ways to address the Social Security crisis. And he said specifically we can make Social Security solvent through tax increases or we can make Social Security solvent through benefits. It seems to me that what he meant to say was cutting benefits. Is that right, Mr. Biggs, Dr. Biggs?

Dr. BIGGS. You are—you would be cutting benefits certainly relative to promised levels. You would not necessarily be cutting them relative to the benefits that today's retirees get, because Social Security promises ever-increasing real levels of benefits. So it is just a distinction. It does not mean future retirees would have lower benefits than today. It is one of these Washington things: slowing the growth equals a cut.

Mr. MOULTON. Right. So it is a cut. It is not increasing benefits. What sorts of benefits do you think that we should be cutting to achieve solvency through this method?

Dr. BIGGS. Okay. Well, for middle and upper-income retirees I would slow the rate at which benefits increase. And the idea there is they should make up that difference, and the evidence suggests they will make up that difference by saving more in their 401(k)s, delaying retirement a little bit.

Mr. MOULTON. Saving more in their 401(k)s?

Dr. BIGGS. Correct.

Mr. MOULTON. What percentage of Americans have 401(k)s?

Dr. BIGGS. Right now, among——

Mr. MOULTON. What percentage of Americans have 401(k)s?

Dr. BIGGS. About 55 percent——

Mr. MOULTON. About 55 percent. And would you say those are the poorest Americans, who have 401(k)s?

Dr. BIGGS. No, those are the middle and upper-income folks who are——

Mr. MOULTON. Those are the upper-income folks, the middle and upper-income folks. Okay, but I thought Mr. Crenshaw said that Social Security was designed to keep people out of poverty. Are upper-income folks in danger of going into poverty?

Dr. BIGGS. No, which is why you would slow the growth of benefits for them.

Mr. MOULTON. But—so the point is that—you said that, by slowing the growth of benefits, you would encourage people to put more money into their 401(k)s.

Dr. BIGGS. Exactly.

Mr. MOULTON. But those aren't the people who need Social Security. The people who need Social Security——

Dr. BIGGS. I think you are——

Mr. MOULTON.—are the people who are at the lower income—is that not right, Dr. Biggs?

Dr. BIGGS. Sure. You are making my case for me.

Mr. MOULTON. So——

Dr. BIGGS. We should retain benefits for the lower end, but slow them for middle and upper-income folks.

Mr. MOULTON. So the—so your colleague from—my colleague from Oklahoma stated that most Americans aren't counting on Social Security right now. Would you say that that is true?

Dr. BIGGS. It is a little hard to say.

It—I wish——

Mr. MOULTON. It is a little hard to say?

Dr. BIGGS. I wish they were saving as if they were not going to get Social Security.

Mr. MOULTON. That is a nice wish. But are they counting on it? Would you like to tell my parents that they are not counting on Social Security?

Mr. BIGGS. I think he was referring to younger folks who say, "I am more likely to see a UFO"——

Mr. MOULTON. Oh, did he specify younger folks?

Dr. BIGGS. Well, we had a previous reference to a poll of younger folks who said they are more likely to see a UFO than get Social Security, so I think he was referencing that. Yes, sir.

Mr. MOULTON. Okay. So we should just assume that Social Security won't be there.

Dr. BIGGS. No.

Mr. MOULTON. Then why don't we just eliminate it?

Dr. BIGGS. I just—in a response to a previous question I said that as long as Social Security is collecting 12.4 percent of payroll, it can continue paying benefits equal to 12.4 percent of payroll from now until infinity. It will not run out of money, and it is mistaken for younger folks to think they will get zero. That is an error on their part.

Mr. MOULTON. That is an error. All right.

Dr. BIGGS. Sure.

Mr. MOULTON. How do you suggest that we deal with the gig economy vis a vis Social Security?

Dr. BIGGS. Dr. Favreault touched on this earlier. There is a question of people who are gig-only, who—they might work for Uber as their only job. And then——

Mr. MOULTON. And, by the way, if they work for Uber—I mean we talked about how low employment is—unemployment is right now. It seems to me I have met an awful lot of Americans who are working two or three jobs, who are just barely struggling to make ends meet, teachers who are driving Uber in the evenings to put food on the table.

We just had a court ruling that Uber employees aren't even considered employees.

Dr. BIGGS. If you follow the IRS's standards for who is a contractor and who is an employee, I mean—you know, this is neither here nor there for me——

Mr. MOULTON. Well, neither here nor there for you? It is here or there for an awful lot of Americans who are counting——

Dr. BIGGS. What I am saying is——

Mr. MOULTON.—on Social Security because they are struggling to make ends meet, Dr. Biggs.

Dr. BIGGS. The status of Uber employees is neither here nor there for me. It is not the subject of my testimony, sir.

Mr. MOULTON. Well, maybe it should be.

Dr. BIGGS. Well——

Mr. MOULTON.—because we have got to figure out how to make Social Security—well, I am glad you think this is a laughing matter, Dr. Biggs.

Dr. BIGGS. I was asked to testify on retirement, not on the status of Uber——

Mr. MOULTON. I am not sure it is a laughing matter for an awful lot of Americans. I am not sure it is a laughing matter for that teacher who doesn't have a pension anymore, who has to drive Uber in the evening to put food on the table. I don't think that is a laughing matter at all. And I don't think the idea that a lot of Americans aren't counting on Social Security is something that we should count on here in Congress.

Thank you, and I yield back.

Chairman YARMUTH. The gentleman's time has expired. I now recognize the gentleman from South Carolina, Mr. Timmons, for five minutes.

Mr. TIMMONS. Thank you, Mr. Chairman. I am going to yield the first 60 seconds of my time to Mr. Crenshaw.

Mr. CRENSHAW. Thank you, Mr. Timmons.

Mr. Moulton, I will help answer your question since you didn't want to direct it at me. I don't think this is as helpful to your presidential run as you might think, trying to twist words and mix up the numbers here.

What we are saying is a basic notion of fairness. If you have to solve the problem of Social Security in a progressive way, which I think we actually agree on, what is the fairest way to do it? Do you want to increase benefits for millionaires? That is the essential question. And your answer to that is yes, you do. Some progressive. It doesn't make sense, and it is bad for the economy.

That is the answer. But I know you were looking for sound bites for your failing presidential run. Good luck with that.

Mr. TIMMONS. Thank you, Mr. Chairman.

Dr. Biggs, so I want to begin with 1935. So the average life expectancy was around 60 years old, 16 people were paying in for every one person taking out, and the retirement age at that point was 65. We were coming of the Great Depression, and America did what America does, and that is help people that needed to be helped.

Would you say that there was a retirement crisis in 1935?

Dr. BIGGS. There were very, very few retirement plans, either in the public or the private sector. At that point most retirees, those who lived to retirement age, would depend on families. So by today's standards there certainly would have been.

Mr. TIMMONS. Okay, so let's fast forward to 2019. The retirement age is 67, average life expectancy is 80. You have three people paying in for every one person taking out. Unemployment is at a 50-year low. The economy is doing great.

Would you say that there is a retirement crisis today?

Dr. BIGGS. There is undoubtedly not a retirement crisis today. Retiree incomes are the highest they have been, retiree wealth is the highest it has been, retiree poverty is the lowest it has been. You can look at surveys. You know, retirees will tell you they have enough money not simply to survive, but to live comfortably.

It doesn't mean that we don't have cases where retirees are in poverty, or they have health cost problems, or other financial problems. But it means that, relative to the past, retirees today are doing very, very well. We should acknowledge that success and celebrate it, while still preparing for the challenges ahead.

Mr. TIMMONS. So would you say that Social Security is not doing what it was designed to do in 2019?

Dr. BIGGS. Well, Social Security—if you think about the decline in the poverty rate among retirees, which we have seen, Social Security is playing a role in that, in the sense you are boosting benefits for folks at the low end.

The question is, you know, is it sustainable over the long term? Is it focused where it should be? The issue is not that Social Security isn't helping prevent poverty. Is it spending a lot of money on a lot of higher-income people who are at no risk of poverty? And I think that is the question of should we be raising taxes to increase those benefits, or should we use that money elsewhere?

Mr. TIMMONS. If nothing is done to change Social Security as it is now, will I receive benefits like my father does today?

Dr. BIGGS. You will receive benefits. You will not—they may, depending on your earnings, or as your dad—they may be a higher in sort of inflation-adjusted terms. You will not receive the benefits you have been promised. You would receive roughly 20 percent less than you have been promised.

So could you survive? Probably. Is that a good system to have? No, it's not. And so we need to get on top of this problem, rather than leaving it to the night before the system goes broke.

Mr. TIMMONS. And again, what year is—will the 20 percent cuts take effect?

Dr. BIGGS. It is currently projected by the Social Security Administration for 2035. I think the CBO projects it a little bit earlier than that, a year or so earlier.

Mr. TIMMONS. I think we can all agree that if we send people 20 percent less than they received the previous year, in 2035 it will be very bad for everyone.

Dr. BIGGS. That will be a crisis.

Mr. TIMMONS. And that would indeed be a crisis. So the question then becomes what are we going to do that is responsible to fix it. And it is—will we change the plan that I will have, that I can expect, begin the education process to make sure that people in my generation understand how to appropriately plan for retirement, and also potentially find a way to increase the amount of money that is going into the system? So the answer is likely going to be somewhere between both of those approaches. Would you agree with that?

Dr. BIGGS. Sure. Americans, workers and retirees, have earned benefits under Social Security. We can afford to pay the benefits people have already earned. We can fix Social Security without cutting benefits you have already accrued.

But going forward, the terms of the deal have to change. We have to tell people going forward, "You are going to have to pay a little bit more, or get a little bit less." We can pay what people have already earned. We cannot continue an unsustainable deal going forward, though.

Mr. TIMMONS. Thank you. Mr. Chairman, I really appreciate you holding this hearing today, and I look forward to working with you to try to fix Social Security for the next generation.

Chairman YARMUTH. Thank you. The gentleman's time has expired. I now recognize the gentlelady from Minnesota, Ms. Omar.

Ms. OMAR. Thank you, Chairman. I would like to yield some time to Mr. Moulton.

Mr. MOULTON. Thank you, Ms. Omar. I just wanted to follow up on Dr.—Mr. Crenshaw's comments. After saying that we could solve the Social Security deficit through benefits, while conveniently leaving out the word "cutting benefits," he then said that what I want to do is raise benefits for millionaires. And I assume he is referring to the fact that I support—I am a cosponsor of the Social Security 2100 Act that does increase benefits for Social Security recipients. So I just have one simple question.

Dr. Favreault, are most Social Security recipients millionaires?

Dr. FAVREAULT. They certainly are not.

Mr. CRENSHAW. Thank you. And I yield back.

Ms. OMAR. Thank you. Let's continue on that thought. Social Security was designed to alleviate seniors—to alleviate seniors from poverty. Half of our nation's seniors were in poverty in 1935, when this happened. And right now, yes, so we can celebrate some wins. This is about 8.8 percent. But that isn't really the case for women. Do you know what the percentage of women is?

Dr. FAVREAULT. It depends which particular statistic you use, but usually women's poverty is substantially higher than men's, somewhere between 80 percent and 100 percent higher, depending on which statistics you use.

Ms. OMAR. Yeah, and I suppose this is twice as high as men. Also, women of color have higher. And what is that due to?

Dr. FAVREAULT. So predominantly, if you look at the statistics—and I cited some in my testimony—it is low lifetime earnings, right? We know that women face—first of all, African-American women, or women of color, by and large, will often face discrimination in the labor market.

So, in addition to often times working less because they are providing care, they may be facing discrimination in labor markets. So that compounds over the course of a lifetime, and so that one can end up with lower lifetime earnings, and that would, in turn, lead to lower lifetime benefits. So it is a combination of, often times, caregiving—it can be poor labor market experiences. So a wide range of phenomena.

Ms. OMAR. So, I mean, we can focus on trying to fix Social Security. But I believe that we also can do some work in trying to support other policies that will get rid of this, the kind of disparities that exist for many of our seniors in our communities. So things like the Family Paid Leave Act would certainly be helpful.

Are there any other policies that you think would be able to help fill the gap?

Dr. FAVREAULT. So one policy that I think is important to look at—and this is for people very low on the income spectrum—is to look at the Supplemental Security Income program, which I think is often referred to as the forgotten safety net. That is the backstop to Social Security for those folks who have very low incomes and very low assets. That program has not been updated in decades, with respect to its asset test.

So that is definitely one area I would look. I think it is a forgotten component of our safety net, and it needs some modernization. So that is one idea, but certainly——

Ms. OMAR. So Dr. Biggs, I just wanted to get a clear understanding on the testimony, the answers you were giving to the questions my colleague was asking from Texas.

You are proposing that we have the wealthiest seniors get less in Social Security than those that are in the lower income brackets?

Dr. BIGGS. Not necessarily less in dollar terms, but less than they are currently promised.

Ms. OMAR. Okay.

Dr. BIGGS. So they are promised some level, and I would have them get less.

Ms. OMAR. Right, because—what is the thought process around that? They have money, they shouldn't be supplemented more?

Dr. BIGGS. The idea is that they—if you reduce their future benefits, they will respond by working and saving more. Lower-income folks, it is much harder to do that. And so you should focus the benefit reductions on the folks who can most bear it.

Ms. OMAR. I mean that is quite progressive, I would say, and it is fascinating to me, because there is often hypocrisy from my colleague when it comes to taxation.

I seem to think that you should tax people with higher income brackets, the millionaires, the billionaires higher, and make sure that you are putting more money back in the pockets of people who are struggling with poverty, or are in the lower income brackets.

I also believe that we should be helping house people who are homeless and are struggling in our communities, that we should care for our children and make sure that we are providing for education and the such.

And it's fascinating to me, because none of those things he agrees with. But when it comes to retirement and talking about Millennials, that is where he goes when you yourself have said, as Millennials, can still count on getting Social Security benefits. We are paying into it. We will be promised that.

But what we are not promised is that when we take on student debt we will not—we are not promised to have a job that will be able to pay us enough to be able to pay off those student loans.

We are not promised the kind of future we want in buying a home and starting a family and having children, having the kind of security and dignity that we deserve.

We are not promised the kind of health care that is going to care for us when we get things like diabetes or cancer. Those are the kind of promises that we don't get, and those are the kind of promises that people cannot have the income or the ability to fill the gap for.

Chairman YARMUTH. The gentlelady's time has expired.

Ms. OMAR. We cannot show up for ourselves in a different way. And so I just, you know——

Mr. WOMACK. Mr. Chairman, her time has expired.

Chairman YARMUTH. The——

Ms. OMAR.——we love to see that kind of hypocrisy.

Chairman YARMUTH. The gentlelady's time has expired.

Mr. WOMACK. Her time has expired.

Ms. OMAR. Thank you. I yield back.

Chairman YARMUTH. The gentlelady's time has expired. I now recognize the gentleman from Georgia, Mr. Woodall, for five minutes.

Mr. WOODALL. Thank you, Mr. Chairman. I have missed the testimony. But candidly, Mrs. Cook, I came for you. I know where I stand on Social Security, it is the easiest and most predictable crisis we face. Candidly, I would pick any of the solutions you all proffered, rather than none of the solutions that you all proffered. It is a great frustration to me that we are here.

I appreciate the distinction you make, Dr. Biggs, between providing folks with more benefits that they don't need versus taking more money away from them that they might need. I consider that a substantially different use of the federal power, to give people less as opposed to take more from them.

The biggest disappointment I have had in Congress was the supercommittee back in 2011 that failed to make any substantial movement on these issues, Ms. Cook, but the second biggest disappointment was the pension Committee last year, a bipartisan, bicameral Committee. It had a real shot at being able to put folks who are dealing with Central States in a place of certainty, going forward.

What I hear from my pensioners back home is, "Rob, maybe I am going to take a haircut. Maybe it is a big haircut, maybe it is a little haircut. But I would rather know today so I can take my wife on that vacation before we get too old to do it, instead of not knowing."

I have served with these two gentlemen on the budget bicameral bipartisan Committee, an amazing understanding and productive conversation in that way. I didn't hear any of that coming out of the pension Committee.

Tell me what your expectation is. If we can't agree to be candid with a small group like folks trusting Central States, how do you see us going to even a larger group, like all senior citizens, and being candid with them about our Social Security challenges going forward?

Mrs. COOK. Congressman, do you mind if I—it was actually my colleague over here that talked about the Central States pensions.

Mr. WOODALL. I came all this way for you, Ms. Cook, and you are pointing me to Mr. Hanner, instead?

Mrs. COOK. I would be happy to answer another question.

Mr. WOODALL. I was prepared to trust Ms. Cook's answer. I am a little more skeptical now, Mr. Hanner. Go—please.

Mr. HANNER. Well, when you talk about dealing with them, and the small haircut you are talking about, you are talking about over 60 percent of that pension. That is not a haircut.

Mr. WOODALL. You have misunderstood what I have said. Today there is no certainty, except——

Mr. HANNER. There is no certainty, you are right.

Mr. WOODALL. Except that folks cannot have the benefits that they have been promised.

Mr. HANNER. Right.

Mr. WOODALL. You and I and the Chairman and the Ranking Member, we could create certainty.

Mr. HANNER. Yes.

Mr. WOODALL. Now, that certainty is not going to be that you get everything that was promised, certainly not for the next generation of retirees. It is not going to be you got everything that the previous generation got. But what we can do is promise you that you are going to get something, 90 percent, 70 percent, 60 percent, whatever it is. We can solve the uncertainty if we come together on that issue.

My question, as someone who is facing that uncertainty, is do you value certainty at a cost more than the uncertainty, which, while it may not have a cost today, is certainly going to have an associated cost tomorrow?

Mr. HANNER. Yes, we value certainty. We would have to look at the cost.

Mr. WOODALL. And that is the conversation I have with all my colleagues about Social Security. We should fix it. We just have to look and see what that ought to look like.

And candidly, Mr. Chairman, you are the first one to take a serious look at what we can do to come together. It might not have been the look I would have taken first, but I will take a look over no look at all.

Mr. Hanner?

Mr. HANNER. But you also got to remember certainty means a lot to us. We paid to insure these pensions. And now you are telling us that is broke, too.

Mr. WOODALL. Well, to be fair, the insurance was never a full insurance, right? I can sign you—I can connect you with the folks in my district who are on pensions that were insured. They are not satisfied with the quality of that insurance.

Mr. HANNER. Exactly, they are not.

Mr. WOODALL. But——

Mr. HANNER. We were never brought into that. That was that was between the company and Congress.

Mr. WOODALL. They—let me ask you a different question. A big group in my district, UPS, as you know, paid big, big dollars to buy their teamsters out of Central States many years ago. Now folks want to come back and say, “Well, we know you paid what you owed, but other folks didn’t pay what they owed, and so now we want to come back and get some more from UPS.” I think that is a fair concern on the Social Security perspective, as well.

I want to solve the problem, whether it means I pay more or I get less, however it is, those the only levers I can pull. Let’s pull those levers. But I want the certainty that we are going to do it once, we are going to agree on what that solution is, and now we are going to be actuarially satisfied for the next three generations.

Knowing that everyone here is in favor of solutions, is there any upside to a temporary fix instead of a multi-generational solve? No benefit for a short-term solution. I just share that with you, Mr. Chairman. Not that you advocate for short-term solutions, but this Congress does have a penchant for solving something for another 60 or 90 days. Zero interest across the ideological spectrum for doing something that is not going to be enduring. I look forward to working with you on an enduring solution. Thank you, Mr. Chairman.

Chairman YARMUTH. Thank you. The gentleman's time has expired. I now recognize the gentleman from Nevada, Mr. Horsford, for five minutes.

Mr. HORSFORD. Thank you very much, Mr. Chairman, for giving us the opportunity to address this very critical issue which affects millions of seniors and retirees, and one that will affect all of us one day.

Before I go any further, I want to thank our primary witness this morning, Congressman Larson, Chairman of the Subcommittee on Social Security from the Ways and Means Committee. He recently joined me for a Social Security town hall in my district to speak to our constituents about the urgent need for Congress to act to preserve, protect, and improve Social Security in the future, and to strengthen all retirement security.

Social Security has and continues to be a safety net for families across southern Nevada and across the country. Social Security provides benefits to 400,000 Nevada retired workers, of which nearly 100,000 are in Nevada's 4th congressional district, which I represent.

One of the things that my constituents relate to me is they have serious concerns about the future of Social Security. Many of them expressed that they fear any cuts to their benefits, which they rely on to survive each and every month. And this is one of the reasons why I support the Social Security 2100 Act, which was introduced by Congressman John Larson.

To quote Maria Dent, the state director in Nevada for AARP, "Nevadans earn their benefits through a lifetime of hard work. As a result, it ensures families against the loss of income caused by retirement, disability, or death. Without Social Security benefits about four in 10 Americans age 65 and older would have incomes below the poverty line, all else being equal, according to official estimates based on the 2017 Current Population Survey."

Let me be clear. Social Security is not an entitlement. It is a trust fund that people have paid into their entire working life. It is a false choice, in my opinion, to have a discussion about cutting benefits for current or future beneficiaries. And it is time for Congress to take the responsible steps necessary to shore up Social Security now for current and future beneficiaries.

Now, the President's proposed budget would drastically cut programs that benefit America's oldest, including many vulnerable citizens. The President's spending plan calls for deep reductions to Social Security disability insurance, breaking his promise not to touch Social Security. It also includes cuts in Medicare, another program he promised not to cut.

According to the Federal Reserve Board, Social Security accounts for a greater share of retirement income for African-American, Latino-American, and Asian-Americans than it does for the general population. And African-American and Latino retirees are about half as likely to have private retirement plans, and are significantly less likely to have savings through an IRA or a 401(k), which I suppose is the only solution my colleagues on the other side are willing to support.

Mrs. Cook, Ms. Favreault—Dr. Favreault, and Mr. Hanner, can you confirm that retirement and financial security is a stressor for many seniors today? Yes or no?

Dr. FAVREAULT. Yes, absolutely.

Mrs. COOK. Yes.

Mr. HANNER. Yes.

Mr. HORSFORD. Mrs. Cook, can you please discuss the impacts that any cuts to Social Security would have on the more than 15 million elderly Americans and 130,000 Nevada residents aged 65 and older? What would happen to benefits if trust fund reserves are depleted?

Mrs. COOK. It would have a devastating effect, and we already see older adults in poverty. From where I—I come from Rochester, New York, and we have the highest percentage of older adults in poverty in New York state, and I have to say you touched upon a group of individuals who are most affected: women, people of color, and certainly women of color. And we see them barely getting by each day.

So any cut to Social Security would throw millions, I believe, of older adults into poverty.

Mr. HORSFORD. Yes, so disproportionately those who live on the brink of poverty, with nearly half of all older black and Latino retirees at or below the 200 percent poverty threshold.

Mrs. COOK. That is correct.

Mr. HORSFORD. These are the people we are talking about. We will not allow those cuts to happen, not on our watch. And it is time for this Congress to take the action necessary to pass the Social Security 2100 Act so that we can shore up Social Security for current and future beneficiaries.

Thank you, Mr. Chairman. I yield back.

Chairman YARMUTH. The gentleman's time has expired, and I now recognize the gentlelady from Texas, Ms. Jackson Lee, for five minutes.

Ms. JACKSON LEE. I thank the gentleman for yielding, and I thank you for holding this hearing. It is an important hearing, and it is a hearing that we should be committed to doing something about.

One thing is certain—is that we cannot improve our fiscal outlook by gutting Americans' retirement security. It heretofore has been Social Security, savings, and pension. It would be immoral to try to solve our long-term budget challenges on the backs of retirees. Our commitment to building a new infrastructure—whatever the bells and whistles that we would like to do to make America the greatest country that it is, nothing should cause us to do it on the back of retirees, pensioners, their savings, or Social Security.

But we have seen in this Administration a constant effort, a long and unbroken history of calling for cuts to Social Security, along with our friends, the other side of the aisle, and other programs vital to seniors' economic well-being.

I have been here in the Congress when there was a rage to do privatization, privatization in the midst of the greatest financial collapse, probably worse because of the wealth in this country in the Great Depression—though I know that there will be stories to try to overcome that. What would have happened if we had yielded to the investment of our Social Security into private entities?

I am very pleased to be one of the cosponsors of the H.R. 2100 (sic), early cosponsor of Mr. Larson's legislation, that really focuses on strengthening Social Security, and also a sponsor of my own Social Security Dividend Safety Act that indicates where there is no COLA it should be a dividend given to senior citizens. But we hope that the legislation that Mr. Larson has put forward will move in this Congress, both the House and the Senate.

Mrs. Cook, what would an immediate 20 percent cut to Social Security benefits mean to retirees? What tradeoffs and choices would they be forced to make?

Mrs. COOK. Well, what I see every single day, because I work with older adults, they would have the devastating choice of paying for prescription drugs, paying for the utilities, or, what we see, paying for food. And earlier, one of the congressmen mentioned—and we see this, too—that by the end of the month we have to direct older adults to food kitchens and pantries because they can't make it right now. So I can't imagine they could even survive with a 20 percent cut.

Ms. JACKSON LEE. Like me, you have seen choices of cat and dog food being supplanted for real food. You have seen parceling out of medicine, not taking the right amount, which, obviously, we know is like not taking any at all.

Mrs. COOK. That is right. That is right. And, you know, what ended up happening is many of those older adults end up in the hospital, paying more in just a different pocket, because they are not taking their adequate prescription drugs.

Ms. JACKSON LEE. Let me ask you both—all of you a question, starting with Mr. Hanner—about pension. My union friends who have worked and invested and have these pensions that they thought and—thought, prayed, and supported that would keep them through their later stages, many of them worked with their hands, as well as their minds, and—but they worked for 30, 40 years, and they worked hard.

So, Mr. Hanner, what kinds of choices do families at risk of losing their pension have to face? Are people worried about losing their homes, or not being able to pay for their medicine they need, or, as many who are young pensioners worrying about what to do about their college-age children wanting to go to college, and they thought they had a nest egg and enough to protect themselves, could you please tell us more about how the widows of pensioners are hurting, as well, and how crucial it is to shore up pensions?

Mr. HANNER. That is really—the key thing you have talked about is the worrying part. People are very worried about losing their homes. Their homes are probably the biggest assets they have. And this is their sanctuary. And when you lose your home, you are homeless.

And this is probably the final straw for most people. This is probably the one that they couldn't take. That, yeah, they worry about the medical bills, the taxes, being able to look after the children and, you know, the stuff that they have been promised. You work for 35 years, and they put their part in, and they are expecting a return on what they have done. They have paid in. These are deferred wages that they are not getting back. And there is a big feeling that you are being stolen from.

Ms. JACKSON LEE. That is a good equation, if you will. You are equating the right kind of feeling that I would have for my constituents, that they are being stolen from. And they have no way of catching the thief.

Mr. HANNER. And what you said about the widows, this is our most vulnerable section in Central States, is the widows, because they only get, you know, half of a pension. If together they had made that decision—before you retire you make that decision together, that whether you want survivor benefits or not. And you give up 15 percent of your pension if you want survivor benefits. And there is a lot of cases where together they have made the decision to forego the survivor benefits. So, upon death, the pension stops.

Chairman YARMUTH. The gentlelady's time has expired. Thank you.

Ms. JACKSON LEE. I thank the witnesses.

Chairman YARMUTH. I now recognize the gentlelady from Washington, Ms. Jayapal, for five minutes.

Ms. JAYAPAL. Thank you so much, Mr. Chairman, and thank you all for being here on such an important topic.

Just to your point, I always think that, you know, Social Security is often called an entitlement. It really should be called an earned benefit program, because that is what it is. It is not an entitlement. So thank you for that powerful testimony.

In my state we know that Social Security is crucial for older people, as it is across the country. Without Social Security benefits in Washington state, an estimated 317,000 more Washington state seniors would fall below the poverty line. And across the country more than 15 million older adults stay out of poverty because of Social Security.

[Slide]

Ms. JAYAPAL. I have a graph there that sort of shows all of the states—it might have come from one of you, actually—thank you, if someone prepared that. And Social Security benefits are especially important for black and Latino seniors, and for women, as we heard you testify, Mrs. Cook.

We also know that Social Security would work even better if people with high incomes paid their fair share. And that is kind of what I want to focus on today. Everyone who works pays a percentage of their income into Social Security, but only up to the point of $132,900. So people who earn over $132,900 get special treatment. Everything that they earn over that amount isn't taxed anymore. They get, in my words, a special cap.

[Slide]

Ms. JAYAPAL. And so I thought about two hypothetical people: Dana and Donald. And I have got Dana's information here. And for those of you can't see the slide, I will just show you right here.

So Dana lives in Seattle. And when she started working, she earns the Seattle per capita income, which is $51,872. Then she unionizes her workplace, her income goes up to the Seattle median, which is $79,565. And then she gets promoted, and she eventually earns $132,000. We are so proud of Dana. Does Dana pay into Social Security at the same percentage, even as her income changes, Dr. Favreault?

Dr. FAVREAULT. Yes, because she is below the cap.

Ms. JAYAPAL. Correct. So she pays that same 6.2 percent every step of the way. All right.

Now let's go to Donald. So now we have Donald. Donald earns $150,000. He works at his dad's company. Then he moves over to work for a for-profit university, and he—his salary goes up to $400,000. And then he works at a company that makes ties and stakes, where his pay is about $1 million a year. And again, this is just hypothetical. Does Donald have to pay 6.2 percent of his income on all of these earnings, the way that Dana does, Dr. Favreault?

Dr. FAVREAULT. No, he only pays to the cap. He only pays to the $132,000. So what that means—and you can see it on the slide—is that Donald is not paying—when he is earning $150,000, he is only—he is not paying taxes on 11 percent of that income. As he goes up to $1 million, he is not paying on 86 percent of his income. Correct?

Correct, okay. My hypothetical situation is right so far. So what that means is that Donald is paying actually .0829 percent of his total income, versus Dana, who is paying the 6.2 percent of her total income. Is that correct, Dr. Favreault?

Dr. FAVREAULT. Can't do the math on the fly, but I am going to trust your numbers.

Ms. JAYAPAL. And anybody disagree with that characterization?

Okay. So if we were to hypothetically raise the cap, or scrap the cap, then people would actually be paying the same percentage on their entirety of their income, correct?

Okay. So, as a national expert on the economic security of aging adults, Dr. Favreault, how would our Social Security system improve if all of Donald's pay was actually taxed at the same rate as Dana? Donald and Dana earn money, they both do well, but they get taxed the same way, they pay their fair share. How would that change our Social Security system?

Dr. FAVREAULT. So if you were—if we were to immediately and permanently lift the cap entirely, the relative savings for the Social Security program, in terms of the reduction in the actuarial imbalance, would be between 68 and roughly 83 percent, depending on whether you paid benefits or didn't pay benefits on those additional contributions.

Ms. JAYAPAL. So it would have a substantial effect if you scrapped it entirely. But you could also raise it slightly. And because it is such a big system with so many people, even a small increase in the cap would make an enormous difference.

So I would like to—and would women and black and Latino seniors who experience disproportionate poverty benefit from scrapping that cap?

Dr. FAVREAULT. So I think, in general, it is important that we definitely look at raising the cap for the very reason that then folks, particularly more vulnerable retirees, would be less vulnerable to benefit reductions subsequently. So yes, I think it is an important part of a solution.

Ms. JAYAPAL. Thank you, Mr. Chairman. That is why I support legislation like Representative Larson's Social Security 2100 Act.

And I would like to ask unanimous consent to enter into the record this excellent report by Dr. Favreault and Owen G. Haaga on validating the longitudinal earnings and dynamic micro-simulation models.

Chairman YARMUTH. Without objection, so ordered.

[The information follows:]

CENTER *for* RETIREMENT RESEARCH *at* BOSTON COLLEGE

VALIDATING LONGITUDINAL EARNINGS IN DYNAMIC MICROSIMULATION MODELS: THE ROLE OF OUTLIERS

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Abstract

Rapid growth in the earnings of the highest earners over the past two and a half decades has contributed to strains on Social Security's finances and made projecting lifetime earnings on a year-by-year basis – already a complicated technical problem – even more challenging. This project uses various descriptive techniques and high-quality administrative earnings data matched to household surveys to explore related questions about the changing wage distribution. We first describe the characteristics of high earners, both at a point in time and over longer periods (from 1983 through 2010). We then evaluate how well SSA's MINT7 dynamic microsimulation model projects inequality in the earnings distribution and the long-term characteristics of earnings paths.

Acronyms

AIME	Average Indexed Month Earnings
AR-1	Autoregressive (First-order)
AWI	Average Wage Index
DER	Detailed Earnings Record
DI	Disability Insurance
CAPI	Computer-Assisted Personal Interviewing
CATI	Computer-Assisted Telephone Interviewing
CBO	Congressional Budget Office
CBOLT	Congressional Budget Office Long-Term dynamic microsimulation
COLA	Cost-of-Living Adjustment
CQ	Covered quarter (for OASDI)
DC	Defined Contribution
DI	Disability Insurance
DYNASIM	Dynamic Simulation of Income Model
FICA	Federal Insurance Contributions Act
FT/PT	Full-time/Part-time
GDP	Gross Domestic Product
GED	General Equivalency Diploma
HI	Hospital Insurance (Medicare)
HRS	*Health and Retirement Study*
LDC	Less-(Economically) Developed Country (based on per capita GDP in 2010)
MBR	Master Beneficiary Record
MDC	More-(Economically) Developed Country (based on per capita GDP in 2010)
MINT	Modeling Income in the Near Term
NBER	National Bureau of Economic Research
OASDI	Old-Age, Survivors, and Disability Insurance
OASI	Old-Age and Survivors Insurance
PIA	Primary Insurance Amount
SECA	Self-Employment Contributions Act
SER	Summary Earnings Record
SIPP	*Survey of Income and Program Participation*
SSA	Social Security Administration
SSI	Supplemental Security Income Program

Introduction

The distribution of Social Security payroll taxes and benefits has changed dramatically over the past three decades, largely because of increasing dispersion in earnings. Earnings have increased particularly rapidly for the very highest earners (e.g., Bakija, Cole, and Heim 2010; Kopczuk, Saez, and Song 2007, 2010; Piketty and Saez 2003, 2010). This dispersion affects financing and distributions for the Old-Age, Survivors, and Disability Insurance program (OASDI, as Social Security is formally known) through the contribution and benefit base (the taxable maximum), the progressive benefit formula, and the average wage index (AWI), which determines overall benefit levels (for discussion, see for example, Favreault 2009).[1] Some research hypothesizes that dispersion also increases benefit take-up for Social Security's Disability Insurance (DI) component by raising benefit replacement rates for the lowest lifetime earners (Autor and Duggan 2006), though the size of the effect is the subject of debate (Muller 2008).

This paper characterizes high earnings and then high-earnings spells, identifying the degree to which they are transitory or tend to persist throughout a career. Our analyses rely on data from the Survey of Income and Program Participation (SIPP) matched to Social Security Administration (SSA) and other government records on earnings, benefit receipt, mortality, and nativity. We examine both earnings over the taxable maximum and over higher earnings levels.[2] We also look more broadly at earnings dynamics over the life course, considering, for example, transitions across quintiles.

We find that individuals whose earnings are high enough that they exceed the Social Security earnings cap tend to remain over the cap for much of their careers. Earnings transitions in the economy more broadly retain a similar stickiness. Projection models that use regression equations and splicing techniques to capture this continuity tend to produce reasonable results along these longitudinal dimensions, but there is room for improvement. We suggest areas for future testing and sensitivity analysis.

[1] Throughout our report, we use the terms Social Security and OASDI interchangeably. When we wish to discuss a specific OASDI component, like survivors insurance, rather than the program as a whole, we do this explicitly.

[2] We define these higher earnings as those that exceed 4.5 times the average wage—about $209,200 using the projected AWI for this year, well above 2013's current law taxable maximum of $113,700. Aggregate data from SSA's Office of the Actuary suggest that in recent years the share of workers who earned over this threshold ranged from about 1.0 to 1.5 percent. This is also a convenient level, as it is falls just about $20,000 below the estimated level where 90 percent of earnings would be taxable in 2013 (SSA 2012c), and several OASDI solvency plans incorporate a provision to return the taxable maximum to the level where it would achieve this ratio.

We organize our paper as follows: we begin by describing how OASDI treats high earnings. We then discuss past literature on growth in earnings dispersion. We address two separate strands of the literature: those studies that attempt to explain trends and those that provide guidance on generating forecasts of lifetime earnings. We then discuss our data and methods. Our results follow. We begin with descriptive data on historical patterns in high and low earnings over the life course and their implications for Social Security benefits. We then turn to comparisons of the forecasts from one prominent model, SSA's Modeling Income in the Near Term (MINT), to the historical patterns.[3] We conclude with some summary comments and suggestions for future research.

Background on Social Security's Payroll Tax Contribution Base

Under current law, workers pay Social Security payroll tax only on their first $113,700 in OASDI-covered earnings in 2013.[4] This value grows annually as average wages rise. Workers similarly only accrue benefits through this earnings level. Social Security thus refers to this amount as the contribution and benefit base, but it is known more colloquially as the taxable maximum (sometimes inverted to "maximum taxable earnings" or shortened to "taxmax").[5] The *Social Security Handbook* (section 1300) details the types of compensation subject to OASDI payroll taxation. These include not just wages and salaries in the form of cash, but also the cash value for compensation paid in another form, like bonuses, commissions, fees, vacation pay, cash tips of $20 or more per month, and severance pay. They also can include profit-sharing and stock bonus plans under certain conditions. Social Security exempts from taxation in-kind meals, lodging, and gym facilities, but not cash payments in place of these amenities. Workers

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[3] The version of the model that we examine, MINT7, is still under development, so all estimates in this paper are preliminary based on an intermediate release (dated July, 2013). SSA has heavily invested in dynamic microsimulation models that analysts now routinely use to provide policymakers with distributional analyses of proposed changes to Social Security. A particularly challenging aspect of developing these models is properly modeling earnings dispersion. Examining fine measures, including year-to-year earnings variance, helps to validate these models. Correction of any observed deficiencies could strengthen the models' ability to analyze many prominent proposals, including removing the taxable maximum or surtaxes beyond certain earnings thresholds.

[4] About 6.4 percent of the labor force is not covered by Social Security (United States Senate 2010, Table 1). These workers predominantly hold state and local jobs covered by a separate pension. Others uncovered workers include railroad workers, some students, and federal workers hired before 1984. One interesting anomaly under current law is that the taxable maximum does not increase in years in which a Cost-of-Living Adjustment (COLA) is not applied to benefits due to low price inflation, even in cases when there was significant wage inflation.

[5] For convenience, we also refer to the taxable maximum as the "cap."

currently do not need to pay payroll tax on certain income deferrals, like contributions to medical and dependent care spending accounts[6] or the value of employer-sponsored health insurance.

Over the past several decades the share of total earnings below the cap has declined markedly, from around 90 percent in 1983 to around 84 percent in 2010 (figure 1). At the same time, the share of working individuals earning over the cap has remained roughly constant at about 6 percent, with the share of women over the cap increasing at the same time that the share of men has declined (figure 2). These two trends (declining share of covered earnings yet a constant share of workers earning over the taxable maximum) occur simultaneously because the amount earned by those over the cap has increased. Figure 3, derived from data from Kopczuk et al. (2007), shows that the earnings share of the top 5 percent of the earnings distribution grew by about 5.5 percentage points from 1983 to 2004, with roughly 4 percentage points of the growth coming from the top half of one percent of earners. Social Security actuaries estimate that for the share of earnings taxed by the program to reach 90 percent, the taxable maximum would increase to about $239,400 in 2013 from its current level of $113,700 (SSA 2012c).

Previous Research on Longitudinal Earnings and High Earnings

High Earnings and Earnings Dispersion: Estimates and Causes

While the earnings inequality literature has proliferated in recent years, studies that focus specifically on this declining taxable share, rather than more broadly on upper percentiles of the earnings distribution, are relatively rare. In its 2007 report, the Social Security Advisory Board's Technical Panel on Assumptions and Methods described a pressing need for better research on trends in the taxable share and how they affect Social Security financing (Technical Panel on Assumptions and Methods 2007). The 2011 Technical Panel similarly suggests that this remains a central unresolved issue for projecting OASDI costs (Technical Panel on Assumptions and Methods 2011).

The literature on increased earnings dispersion, and thus implicitly the declining taxable share, suggests a wide array of explanations for the recent trends. Consistent with Figure 3, rapid growth in the earnings of extreme outliers seems to be a highly promising explanation (e.g., Atkinson, Piketty, and Saez 2011; Bebchuk and Grinstein 2005; Frydman and Jenter 2010;

[6] This exclusion does not apply to earnings that are deferred into 401(k)-type plans, on which working individuals must pay Federal Insurance Contribution Act (FICA) tax or, if self-employed, Self-Employment Contributions Act (SECA), as Social Security payroll taxes are formally known.

Frydman and Saks 2010; Gordon and Dew-Becker 2007; Piketty and Saez 2003, 2010). However, what has caused this high earnings explosion is less clear. While some point to changing labor force composition (education, gender, nativity, and age), these effects appear to be relatively modest (e.g., Cheng 2011; Favreault 2011). Analysts point to the especially high returns that the truly exceptional can garner (e.g., Rosen 1981), growing importance of fringe benefits in employee compensation (e.g., Pierce 2010, Burtless and Milusheva 2013), skill-biased technological change (e.g., Autor, Katz, and Kearney 2006, Autor and Dorn 2013), changing institutions --particularly the decline of unions and worker bargaining power (e.g., DiNardo, Fortin, and Lemieux 1996; Levy and Temin 2007) -- geographic concentration of higher wage workers (e.g., Gordon 2009; Moretti 2013), responses to government tax policies, more globalized labor markets (which can lead to downward pressure on wages, especially at certain points in the wage distribution) (Autor, Dorn, and Hanson 2013), and cyclical effects.

Longitudinal Earnings

Favreault and Steuerle (2008) describe how lifetime earnings have varied across cohorts and educational groups, separately for men and women. One of the more striking features of the distribution is the rapid change in women's histories. Their estimates suggest that women's work histories, particularly total years worked, should continue to increase through about the 1959 birth cohort, with women's work histories stabilizing for subsequent cohorts in terms of number of years worked (work intensity and earnings still increase, but change in work years is more limited). They also find that by late career, less-educated workers have worked fewer years than more educated workers, and that this gap may be growing, perhaps due to increased selectivity of less-educated workers. These career-length differentials are greater for women than men, and there is a good deal of heterogeneity within groups. Nonetheless, this pattern persists even after one accounts for immigration status and experience with the DI program.

Leonesio and Del Bene (2011) compare earnings dispersion at points in time with long-run (12-year) dispersion in earnings using a wide variety of measures using high quality administrative data. They find that from 1981 through 2005, men's earnings grew increasingly dispersed. Women's earnings dispersion grew less than men's earnings dispersion, with estimates of the magnitude of growth for women ranging widely and depending importantly on how one treats women with intermittent work histories.

Kopczuk et al. (2007, 2010) examine transitions among various percentiles in the earnings distribution, also using Social Security earnings data. They consider such transitions as movements between quintiles over 11-year periods (from early to mid career, from mid to late career, and from early career to late career) and how mobility varies over 10-, 15-, and 20-year periods. They document that mobility is greater the longer the intervals one considers, but that there is comparatively less mobility into the top 1 percent. They examine issues such as where individuals in the top 1 percent were earlier in their careers. They find that the vast majority were in the top 5 percent 10 years earlier. In recent years, only about 10 percent of the top 1 percent occupied a position in the bottom 80 percent of the distribution 10 years earlier (so 90 percent were in the top 20 percent 10 years earlier).

As part of their validation analysis for a forecasting model, researchers from the Congressional Budget Office (2006) describe how lifetime earnings deciles compare to annual earnings deciles. Consistent with prior research, they find significant persistence in earnings (i.e., there is clustering on the diagonals of the transition matrices) and qualitative similarities between men's and women's transition matrices.

Previous Research on Modeling Lifetime Earnings at the Micro-Level

Dynamic microsimulation models generally rely predominantly on two separate strategies to forecast earnings, including those of the highest earners. The most common approach is to use a series of regression equations. These regression models typically use very complex error structures, with permanent and transitory components and close attention to heterogeneity in these components (for example, Congressional Budget Office 2006; Moffitt and Gottschalk 2008; O'Donoghue, Leach, and Hynes 2009; Schwabish and Topoleski 2012). An alternative to regression is statistical matching or splicing together segments of observed earnings histories, sometimes including other characteristics (Burtless, Sahm, and Berk 2002). Each approach has advantages and limitations. For example, some developers prefer to use regression methods as they allow more explicit control of key assumptions in the projection period. They also tend to have more detail and decision points (for example, hours of work, full-time/part-time) which the developer can alter in future simulations. Matching methods, in contrast, more directly insure simultaneity and correlations among outcomes across the life history. Both approaches depend on the quality of the underlying data and the developer's selection of explanatory variables.

Splicing and regression methods handle outlier earnings in different ways. A splicing method replicates (i.e., resamples or "clones") individuals from the high and low tails in the proportions that they exist in the original sample (i.e., the "donors") to the extent that individuals with similar characteristics populate the pool of individuals who will receive an earnings segment in the projection period (i.e., the "recipients"). Developers using regression models, by contrast, need to make explicit decisions about whether and how to include high (or very low) earners. Common approaches include modeling wages or earnings after transforming them into their natural logarithm and employing complex error structures to at least partially address outliers' effects. But even beyond these two tactics, developers sometimes use other measures to explicitly address the extreme upper end of the distribution. If one includes extreme outliers in certain types of regression models, such cases can distort the estimate of the variance, generating excess variability in projected outcomes. Beyond these specification issues, measurement can be another problem. Topcoding may remove outliers in many estimation samples. Even when one has the benefit of administrative data, one cannot be entirely sure that very high (and similarly very low) earnings values do not reflect measurement error,[7] and one wants to use care not to correct measurement error asymmetrically (e.g., for high values but not low ones or the reverse).

Appendix 1 presents summary information on the specification of earnings projections in three prominent dynamic microsimulation models in the U.S.[8] Table A1-1 identifies some key features of each model's approach to modeling lifetime earnings, for example whether it primarily relies on regression or matching techniques. Table A1-2 describes earnings projection in MINT, the model that we evaluate in these analyses, in greater detail.

Data and Methods

This study uses data from five panels of the SIPP—1984, 1996, 2001, 2004, and 2008—matched to administrative earnings records, including the Summary Earnings Record (SER) and Detailed Earnings Record (DER), Numident data on mortality, nativity, and legal status, and

[7] For example, a value of 9,999,999 may indicate missing data, rather than earnings of nearly $10 million.
[8] Other microsimulation literature that focuses on modeling earnings includes Nakamura and Nakamura (1985) and O'Donoghue, Leach, and Hynes (2009). Other dynamic models recently used for policy analysis include Gokhale (2010)'s Demsim and Policy Simulation Group's GEMINI and SSASIM (see, for example, U.S. GAO 2001, 2004).

Master Beneficiary Record (MBR) data on program participation, to trace how various factors have contributed to payroll tax and benefit dispersion over the past three decades (through 2010). Most of our analyses focus on the 2004 and 2008 panels, as we are most interested in understanding the most recent patterns in high (and very low) earnings prevalence.[9] However, in order to describe changes over time and ensure reliable sample sizes in certain analyses, we make additional comparisons to data from the earlier SIPP panels. In a few cases where recency of data is paramount (for example, because of cohort effects among women) and we mainly care about fixed variables like birth cohort and gender, we use administrative data from as far as 2010 and screen for survival. Any sample choice has strengths and weaknesses. For example, the fact that much of 2009 was a recessionary year, with important effects on earnings and employment, complicates the focus on calendar years 2004 and 2009.

SIPP is a nationally representative survey of the noninstitutional population, with oversamples of individuals in lower-income households likely to participate in transfer programs (Westat 2001). The Census Bureau follows individuals in SIPP and re-interviews them every four months for a period of about three to four years, depending on the panel.[10]

Our data have a number of important limitations, posing challenges for our research, so we point out a few caveats. First, uncapped earnings (i.e., including earnings above the taxable maximum) are only available from the early 1980s, and the earnings cap was quite low in the 1950s through the mid-1970s.[11] Second, even administrative records contain reporting errors, and these may disproportionately affect high earners (see, for example, the discussion in Leonesio and Del Bene 2011). Third, when combining the household survey data with the administrative data, many cases do not match to the administrative records, and non-match rates differ by many important characteristics, including nativity and work history (see, for example,

[9] In most analyses, we use single cross-sections of SIPP data—for example cross-sections in 2004 and 2009. As a general rule we use a single observation to avoid double counting individuals and to facilitate disclosure review.
[10] The 1996 panel followed individuals for up to four years, while the 1984, 2001, and 2004 panels followed respondents for up to three years. Twelve waves (equal to three years) of 2008 SIPP data have been released as of July 2013. The 2008 panel starts by asking about mid-year (May through August, depending on rotation group) characteristics, while the others start near the beginning of the year (September through January again depending on rotation group). For this reason, data from the 2008 SIPP sometimes refer to calendar year 2009, rather than calendar year 2008, and we label them accordingly.
[11] OASDI law did not determine the taxable maximum in the same way prior to 1994. In 1965, for example, nearly half of men (49 percent) earned over the cap.

Appendix table 2 in Favreault and Nichols 2011). Undocumented workers pose particular challenges. Fourth, the survey may underrepresent the very highest earners.[12]

To compensate for this third point, lack of representativeness of the cases matched to administrative records, we reweight the sample in most descriptive analyses. Specifically, we increase the SIPP person weights in proportion to the probability that an individual would be an unmatched case.[13] In most tables, we also exclude immigrants whose legal status we impute to be "other-than-legal", on the rationale that this group is not of primary interest for Social Security policy surrounding the taxable maximum and their earnings reports are not reliable. Researchers estimate that these individuals are about 3.5 percent of the U.S. population (authors' calculations from Passel and Cohn 2011). We estimate that they are a disproportionate share, likely between a fifth and a quarter, of the non-matched cases and we likewise exclude them when computing the weight adjustment.

To compensate for likely missing data on the highest of high earners, we minimize use of aggregate statistics that are very sensitive to extreme cases (like the share of total earnings over the cap for certain types of workers) and focus instead on high earnings' distributional incidence.

Longitudinal description of high-earners' experiences: To characterize the trajectories of the highest earners, we focus on individual-level patterns. We consider several continuous metrics, like the total number and share of years above certain thresholds and transition probabilities given the length of one's current spells.[14] We also construct earnings transition matrices, following Leonesio and Del Bene (2011) and Kopczuk et al. (2007).

Validation of MINT7 earnings skewness: For the portion of the project where we evaluate earnings trajectories in MINT, we focus on outliers, as they present challenges for microsimulation model developers forecasting earnings, to determine whether MINT techniques have been adequate. Using tabulations from matched SIPP earnings data, we evaluate whether

[12] SIPP oversamples low-income households likely to participate in transfer programs, in contrast to a survey like the Federal Reserve's Survey of Consumer Finances (SCF), which makes special efforts to get sufficient samples of high wealth households (see, for example, Kennickell 2009 on the challenges of reaching high wealth holders). The SIPP weights account for oversamples, but may not adequately deal with the missing high earners.
[13] We compute these probabilities using SIPP panel-specific logistic regressions that include key economic and demographic covariates associated with the probability of matching to the SER. This approach assumes that the earnings of non-matched cases resemble their matched counterparts. While this assumption is strong, we believe our approach is preferable to ignoring the non-match bias (for example by excluding such cases).
[14] Our previous analyses suggested that patterns in total years of earnings and Average Indexed Month Earnings (AIME) in MINT were satisfactory, so we focus here on more subtle aspects of lifetime earnings.

projected longitudinal patterns among relatively high earners are consistent with past patterns and evolve in a reasonable, consistent manner.

Historical Results

Who earns over the taxable maximum annually and over longer periods? How much do they earn?

We begin our discussion of the SIPP estimates by discussing the characteristics associated with earning above the taxable maximum. Table 1 first provides a simple description of the age-gender pattern in prevalence of earnings over the cap in 2004 and 2009. This table uses two separate definitions of who qualifies as an earner: any reported earnings and earnings of at least one covered quarter, set at $1,160 in 2013.[15] This latter threshold reflects the minimum earnings required to accrue entitlement toward Social Security benefits. The share with earnings above the cap increases through about age 40. Between the ages of 40 and 59, the share who earn over the cap is relatively flat. Around age 60, the share then begins to fall. At all ages, men are far more likely than women to earn above the cap, consistent with the historical data in Figure 2. The age-sex pattern is consistent using both measures, but the level is about a percentage point higher with the lower bound of one quarter, reflecting both the significance of low earners to any measurement of labor force rates and the difficulty of measuring earnings through self reports.

Given so few old and young workers earn over the taxable maximum, we restrict our sample in our next analyses to individuals ages 30 to 67. Here, we consider earnings over the cap at a point in time, separately for men and women. We also examine earnings over the past 20 years, in this case restricting age further to just those ages 45 through 67.[16] This restriction may work better for describing patterns for men than for women, who are experiencing rapid cohort shifts in earnings. Our objective is to provide a broad overview of who in the labor force today earns over the taxable maximum or has experience over the cap. (Our subsequent longitudinal and regression analyses address some of the confounding factors, like age.)

[15] Workers no longer need to accrue earnings in distinct calendar quarters to earn further OASDI covered quarters.
[16] As footnote 10 discusses, we chose the 20-year threshold because the maximum was much lower in real terms in many years, so more workers exceeded the cap even if their earnings were not relatively high. Also DER earnings amounts are not reliable until about 1983, so we can only tabulate as far back as about 28 years from the present.

Table 2 reveals that characteristics of individuals earning over the taxable maximum differ from those of their counterparts earning below the cap. For example, earning over the cap is, not surprisingly, associated closely with educational attainment. Among men, about half (53 percent) of those with a professional degree earn above the cap at a point in time, while over 70 percent earned over the taxable maximum at least once in the past 20 years. In comparison, only about one half of a percent of women with a high school degree or less earn over the maximum at a point in time, and less than two percent exceeded it cap over a twenty-year period.

Differences by race and ethnicity are statistically significant. Those who report their race as Asian or Pacific Islander are most likely to earn over the taxable maximum, with self-reported whites next most likely. Those who are African-American or Native American are far less likely to earn over the cap, usually a third to half less likely than whites, with a larger gap among men than among women. Hispanics of any race are least likely to earn above the cap, though the Latino population is younger than the population at large, so that partially explains the difference. (We address this type of confounding later in some multivariate analyses.)

Patterns in high earnings by nativity vary by the level of economic development of one's country of origin (table 3). Those who are foreign born from countries with higher levels of economic development, defined by per capita Gross Domestic Product (GDP)[17], are the most likely to earn over the cap, followed by native-born adults and then immigrants from countries with lower levels of economic development. Married men are far more likely to exceed the taxable maximum than their non-married counterparts, but marital status is less closely associated with high earnings for women. Men who have had more children are more likely to exceed the cap, but women with more children are less likely.

One's current place of residence also appears to be an important correlate of having relatively high wages. Metropolitan status is closely associated with high earning for both men and women, as is being from a higher-wage state.[18] These patterns hold at a point in time and over the 20-year period, during which some in our sample may have moved. Because the SIPP is not designed to provide representative estimates on a state-by-state basis, Table A2-1 displays

[17] We use a cutoff of 15,000 in international dollars for GDP per capita, based on based on World Bank (2010) rankings. This dividing line falls between Russia and Mexico, with Russia considered more developed and Mexico less developed. See Favreault and Nichols (2011) for detail.

[18] For the state earnings quintiles, we rank California, District of Columbia, Illinois, Maryland, Massachusetts, New Jersey, New York, Virginia, and Washington state in the top quintile. The bottom quintile includes Arkansas, Idaho, Iowa, Kentucky, Maine, Mississippi, Montana, South Carolina, South Dakota, and Vermont. We base these rankings on 2012 Bureau of Labor Statistics data on median wages and 2010 SSA earnings data.

further data on the share of earnings OASDI taxes by state from SSA records (SSA 2012b).These estimates cannot give a definitive picture, as they mix two separate issues: coverage of earnings, especially state and local employee earnings, but also federal and railroad earnings, and earnings over the taxable maximum.[19] Nonetheless, the estimates suggest patterns in the geographic distribution of aggregate earnings over the taxable maximum.[20] Woo et al. (2011, 2012) use self-reported data to describe prevalence of earnings above the taxable maximum by state.

Table 4 provides this same information by current job characteristics, including occupation, industry, and firm size. Individuals who earn over the cap are concentrated in certain occupations (managerial, professional, sales).[21] Those with missing data are often partial year workers who earn above the maximum at low rates. They are also disproportionately represented in some industries (professional, financial, information). At a point in time, they are more likely to be working at larger firms, but current firm size generally appears less closely related to history of earning over the thresholds than do factors like occupation and industry, which may reflect more permanent attributes.

Table 5 examines work experience, including current work hours, tenure on the current job, and OASDI covered work history (i.e., years of covered earnings from 1951 to present).[22] The rationale for looking at time on the current job and total experience separately is that firm-specific experience may have additional effects beyond labor force experience more broadly. Individuals earning more than the taxable maximum report working greater than full time, and especially working 50 or more hours per week, at much higher rates than their counterparts who earn below the taxable maximum. Interestingly, prevalence of high earnings among some

[19] Approximately 13.3 percent of the labor force is employed by state and local governments. Just over three-quarters of these workers are covered by OASDI (U.S. Senate Special Committee on Aging 2010). Certain states and jurisdictions, for example the District of Columbia, Maryland, and Virginia, have disproportionate shares of uncovered federal workers. So considering shares of state workers in isolation is imperfect.
[20] For example, New York state's share of uncovered state and local workers--3 percent--is below the national average of 6.4 percent and the average share of earnings that OASDI covers is also below average, suggesting relatively high shares of total earnings in the state fall above the cap. Similarly, New Jersey has close to the average share of uncovered workers but well below the average share of earnings covered. In contrast, Alabama and Mississippi have about average shares of uncovered workers but above average shares of earnings that OASDI covers, suggesting relatively low shares of earnings above the taxable maximum. Similarly, Nebraska's share of state and local workers who are uncovered equals the national rate, but the state's share of total earnings covered is above average, suggesting low shares of earnings over the cap.
[21] Occupation and industry are difficult to measure, as individuals may have multiple jobs in a year. We use occupation/industry in the first month of the calendar year where possible. If unavailable, we examine later months in the year. We consider both jobs and businesses (for the self-employed).
[22] Again, these outcomes pose measurement difficulties. For tenure and hours we look across multiple waves of the SIPP where possible to get the most accurate measure possible.

groups reporting fewer than 40 hours exceeds that for some full-time groups. This may reflect that some workers with high earnings capability can arrange more flexible work situations. It may also be the result of measurement difficulties, including measurement of part-year and self-employment (Robinson et al. 2011) and norms about reporting working long hours among high earners. Prevalence of high earnings increases with current job tenure at a point in time, but levels off more quickly with the longitudinal measure of any experience over the taxable maximum. Total work experience increases high earnings prevalence, especially for women. For a few cells in this table (for example, among workers with few OASDI work years), the anomaly occurs that the rate for a group ever exceeding the maximum is lower than the group's current rate of exceeding the maximum. Recall that the two computations use different samples, with the latter group restricted to the older members of the sample, so this outcome is theoretically possible if quite rare in practice.

Tables A2-3 through A2-5 repeat these same comparisons, but using a higher earnings threshold, namely 4.5 times the AWI, or approximately $209,200 today (2013). The results are broadly similar, with the differentials among groups generally growing larger. For example, men with a professional degree are about 1.5 times more likely to earn over the taxable maximum than their counterparts with just a bachelor's degree, but they are 5.75 times more like to earn over 4.5 times the average wage. Education gaps for exceeding the taxable maximum are larger among women, but still increase from 5.3 to 6.7 times higher for the more educated when using the higher threshold of 4.5 times the AWI.

Because of confounding between all these characteristics, the appendix also presents some simple descriptive regression analyses.[23] We first present regressions for our standard sample, those workers ages 30 to 67 in the 2004 and 2008 SIPP. We start by using logistic regression to examine whether one's current earnings exceed the cap or the higher threshold of 4.5 times the average wage (table A2-6). These analyses further exclude workers who report fewer than 5 hours of work in their usual work week to reduce marginal workers' influence.[24]

[23] We recognize that many of the variables in these regressions are correlated with one another and that many may be endogenous (e.g., people with high unobserved earnings capacity may select into high-earning occupations or move to certain regions). But the regressions can still provide some valuable descriptive information about the extent to which differentials across key groups remain after controlling for as many observables as possible (i.e., we can consider whether the effects for Hispanicity remain after we account for differential age structure and nativity or whether the effect for having children for women persists after we control for their experience and work hours).
[24] We use hours rather than earnings level because it can be viewed as somewhat exogenous. This restriction leads us to exclude about 8 percent of earners and about 3 percent of cases with earnings above the taxable maximum.

These regressions reveal a number of interesting patterns. For example, adding job characteristics to the models of whether one earns over these thresholds reduces the effects of most demographic variables, as at a point in time labor force experience is an extremely important correlate of having high earnings. Nativity is one noteworthy exception—the effects of being foreign born tend to increase rather than decline with the addition of job characteristics in the model. One dominant finding from the regression analyses is that effectively all of the differentials that we see in our simple descriptive tables remain statistically significant even after we take into account age and other key characteristics like education, geography, and so forth.

We then use linear regression to examine the natural logarithm of the amount one earned over each of the thresholds (table A2-7). Interestingly, these regression results reveal that demographic and job characteristics better explain these amounts in our model for earners over the taxable maximum than for our model of very high earners. Several variables in the model for earning over taxable maximum have statistically significant effects, compared to just a few in the model for earnings over 4.5 times AWI. Correspondingly, R-squared is much lower for this latter model. These patterns are in part a function of the modest sample size for the higher earners. In both cases, skill level, as measured by education, and industry appear to be the strongest predictors of earnings level among this subset of high earners.

We also estimate a pooled model that adds observations from a much earlier sample, the 1984 SIPP, and includes interaction terms for being in this earlier panel (table A2-8). We only consider status over the taxable maximum in these regression analyses, given relatively small numbers of cases with earnings over the threshold of 4.5 times the average wage in the 1984 panel in many of the subgroups of interest. These analyses suggest race and gender decline in importance as explanatory factors over time, but education's importance increases between the earlier (1984) and later (2004, 2008) periods (see the interaction terms for the 1984 period). Evidence is also suggestive that location's importance may have increased over time, with metropolitan status more closely tied to probability of earning over the cap, net of other characteristics, in the two later panels. Industry also appears to be more important in the later period than in 1984, as evidenced by the negative coefficients for the 1984 interaction terms for the financial and professional/scientific industries. We suggest cautious interpretation of these results, however, given important changes in the SIPP over this period.[25]

Table 6 presents SIPP estimates of the distribution of earners over the taxable maximum, separately for men and women.[26] For comparability across the SIPP panels, we display the amounts in wage-indexed terms, so each of the lower categories represents an increment of about \$2,145 over the cap using the latest values. Figure 4 displays this same information, but cumulatively and using wider categories.

An appendix figure (figure A2-1) similarly shows the distribution of earnings over the taxable maximum in 2011, the latest year for which complete earnings are available, using a more complete sample from SSA data. Figure A2-1 uses absolute rather than wage-indexed dollars but for the full population, as differences for men and women are not available.

The pictures are broadly comparable. Most earners over the taxable maximum earn less than \$40,000 over the cap (so their earnings fall below about \$150,000 in today's dollars), but a substantial tail of individuals earns very high amounts.[27] Figure 4 shows that men are better represented than women at these very high wage levels, nearly twice as likely to earn 7 or more times the average wage (conditional on earning over the cap), while women are better represented just above the cap.

While we focus on high earnings prevalence because these earnings comprise such a large share of the total, very low earnings also pose important challenges when it comes to the technical matter of projecting lifetime earnings. SSA data reveal that very significant shares of the labor force have very low earnings. For example, Social Security statistics reveal that in 2011 about 15.6 percent of earners received less than \$5,000 in net compensation (SSA undated). Sabelhaus and Song (2009) further highlight that how one treats minimal earnings has first-order effects on the conclusions that one draws about recent trends in earnings volatility. Table 7 therefore provides estimates of who earns low amounts to inform modeling efforts. Our threshold for being a low earner is again a single OASDI-covered quarter. It is clear that these

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[25] For example, early years of the SIPP used traditional in-person interviews and paper surveys. SIPP, including the 2004 and 2008 panels, now uses computer-assisted personal interviewing (CAPI) for the first two interview waves and computer-assisted telephone interviewing (CATI). See Citro and Scholz (2009) for discussion.
[26] Liebman and Saez (2006) present similar distributions in order to explore the question of whether there is significant clustering at the taxable maximum because of the discontinuity in tax rates that occurs there. They find little evidence of such clustering.
[27] Figure A2-2 shows that while many earners who earn over the cap are clustered over the cap, total earnings over the cap accrue disproportionately to high earners, consistent with figure 3.

low earners are overwhelmingly young and old. In prime age, around one percent of men with earnings and two to three percent of women earners earn below one quarter of coverage.

Longitudinal earnings, including earnings transitions

We turn now to total experience in the labor force, first examining total years in adulthood worked and then specifically considering high earnings years. We use earnings since 1951 for the analyses of total years of covered work over low thresholds, as these are available reliably. Detailed earnings data are only reliable starting around 1982, so we therefore use just the last 20 years for our analyses of longitudinal continuity among high earners. Table 8 examines cohorts just entering retirement, separately for men and women. In these first analyses, we consider individuals turning ages 60 to 63 in 2010 (the 1947 to 50 birth cohorts).[28] We contrast three separate samples: 1.) the full population and then individuals most likely to accumulate a full career's worth of covered earnings--namely, 2.) those who were born in the United States or have been in the country since childhood and are not receiving DI benefits, and 3.) sample 2, but also excluding those who have worked in uncovered employment for at least one quarter in at least ten years. We also use four separate definitions of what constitutes a work year--any earnings (top panel), earnings sufficient to earn at least four quarters of coverage from Social Security (the second panel), earnings equivalent to at least half-time, half-year work (520 hours) at the minimum wage (the third panel), and 20 percent of the old-law taxable maximum, equal to about $15,840 in 2011 (the bottom panel).

As table 8 indicates, the majority of men are highly attached to the labor force, with nearly half in these birth cohorts working 40 or more years of at least 4 covered quarters by age 60. In these cohorts, women are significantly less attached, but still well over a third exceed 35 years of work (the number of years counted toward Social Security benefits in the program's benefit formula) by age 60 using the 4 covered quarter definition of a work year. The estimates in the samples with the two less stringent work years definitions are quite sensitive to whether one includes disabled workers, immigrants, and uncovered workers, with shifts of four to six percentage points for women and eight to eleven percentages points for men in the overall share earning 40 or more years. For example, over 59 percent of men have worked 40 or more years

[28] This is a departure from our earlier analyses, where we use earnings in 2004 or 2009 to be consistent with the dates when we measure time-varying characteristics.

using the four covered quarters definition and excluding DI beneficiaries, immigrants, and uncovered workers, compared to 48 percent when we do not make these exclusions.

Table 9A describes how earnings levels, defined here as the average of the two highest earnings years in one's work history, relate to total work years.[29] These relationships are important given that a number of proposals to modify Social Security that target certain benefit adjustments and exemptions on the basis of work years. The table reveals that while most relatively high earners (for example, those earnings more than 1.5 times the AWI) have worked 40 or more years by age 60, lower earners are not as closely bunched at the bottom of the work years distribution. Significant shares of low-maximum earnings workers, especially men, do work 40 years by age 60. Other research shows the characteristics of long-service, low-wage workers (e.g., Favreault 2010).

Table 9B similarly looks at how permanent earnings and work years relate to one another. This time, our earnings measure covers a longer period, the 35 years in Social Security's Average Indexed Month Earnings (AIME) calculation. In computing AIME, we assume that all workers would claim benefits at age 62. We then divide the AIME estimate by poverty, specifically the non-aged poverty level for a single person from Census.[30] We use this metric because prior proposals have referenced it, for example, as a way for defining eligibility for exemption from retirement age increases as part of the National Commission on Fiscal Responsibility and Reform (NCFRR) (2010) proposal, better known as the "Simpson-Bowles" Commission proposal. Because we focus on earnings through age 62, we look at slightly older cohorts than in table 9A (1945 to 1948 compared to 1947 to 1950). Once more, we exclude DI beneficiaries and those immigrating to the U.S. as adults from the table to get a better sense of these patterns for retired workers at risk of a full career of earnings.

Men are concentrated in the cells with at least 25 work years and high earnings (at least 250 percent of poverty). Women are concentrated in the cells with comparatively lower earnings, but more evenly distributed by work years. For both men and women, having high earnings and fewer than 25 work years is exceedingly rare. Of policy significance, we see that in recent cohorts women workers would be more likely to qualify for a hardship exemption under

[29] Here, we choose the 4 covered quarters threshold, as we wish to indicate more significant attachment and because it appears commonly in various policy proposals.
[30] Estimates are sensitive to these two assumptions.

the NCFRR plan than men. In total, around 10 percent of men and 23 percent of women would have been potentially eligible for the full exemption in recent cohorts.

Table 10A describes 20-year experiences with the taxable maximum, separately by gender and age to better isolate duration at risk of being over the cap. While most never exceed the taxable maximum and many of those who do exceed it earn over the cap just one or two years, a substantial minority, especially among men, earns over the cap at least half the time. For example, among men age 50 to 59, nearly half (47 percent) earned over the taxable maximum for at least ten years and nearly one third (31 percent) earned over the maximum for at least 15 years). Close to a third (32 percent) of the women in that same age range exceeded the taxable maximum for at least ten years. Table A2-9 provides this same information, but again using the higher threshold of 4.5 times the AWI. While the share of individuals crossing the threshold is much lower at this higher earnings level, the dynamic is somewhat similar, with the mode crossing the threshold just once, but about a quarter crossing it for at least 8 years.

Table 10B presents similar data from another perspective. We examine this same distribution, but in 2010. Instead of looking at the last 20 years, we consider the last 28 years, the longest interval our data permit. This longer look back has significant advantages, allowing us to further disaggregate individuals with many years of experience over the taxable maximum into a group with 20 or more years.

There are some disadvantages as well. First, the data may be somewhat less representative, especially at younger ages, because they do not capture immigrants after the SIPP follow-up period. Also, the last several years we examine are recessionary ones, so the point in the business cycle may overly influence patterns at younger ages. Our main conclusion from this table is that the results are strikingly similar to the prior table. Strong concentrations of workers earn over the maximum for a small number of years, and then a second concentration spends extended parts of the career over the maximum.

An examination of the longitudinal characteristics of low earnings (not shown) for prime age workers revealed far less persistence. Most ages 35 to 55 never earned a very low amount (greater than zero but less than one covered quarter).[31] The small share that did usually did this just once or twice over a twenty-year period.

[31] This level is more symmetrical with our higher earnings threshold of 4.5 times the average wage than with the threshold of the taxable maximum, given the low prevalence.

Table 11 further illustrates the dynamics for these high earners. It shows entry and exit rates for those earning above the taxable maximum and describes spell lengths for those with multiple spells.[32] At a point in time, only about one percent of workers who were earning below the taxable maximum last year exceed it this year, while about 84 percent of workers who did earn above the taxable maximum last year earned above it this year. The odds of remaining above the cap vary directly with the amount of time one has been earning over the cap, with over 90 percent of those over the maximum for 6 or more years remaining there, compared to 60 percent for those who have only been over the maximum for one year. Education also appears closely tied to the chances of moving over the maximum and staying there. For example, those with a professional degree are more than twice as likely to enter and only about half as likely to exit when compared to their counterparts with only a bachelor's degree.

An important challenge of modeling lifetime earnings is that while developers need to accurately reproduce the cross sections and total number of earnings years, they must also consider how earnings evolve over time. The OASDI benefit formula is sensitive to the order in which one accrues earnings and other factors, like the age at which one earns a given amount. We therefore next report transition matrices to better understand how earnings evolve. This approach is consistent with analyses by CBO (2006), which consider how earnings in a given year relate to lifetime earnings for those ages 50 to 60.

We begin with relatively short-run transitions. Table 12 displays earnings quintile transitions from the average of the past five years to this year separately for men and women in prime age (namely, 35 to 59).[33] We display row percentages (i.e., each row adds to one hundred percent). These analyses include data from more SIPP panels than the prior estimates to ensure reliable estimates of the cells where transitions are relatively rare (e.g., movements from the lowest to the highest quintile or the reverse). Consistent with prior estimates, these matrices reveal a tendency for individual earnings to remain relatively stable. For example, about 83 percent of men in the top quintile stay there, and about 65 percent in the bottom remain. Interestingly, the men's and women's matrices are similar, though the quintile breaks differ (they are much broader for men than for women).

[32] Although we would like to supplement these tables with survival analyses, data limitations (specifically, left censoring for earlier cohorts) prevented us from constructing survival curves.
[33] While we would prefer to use earnings deciles and smaller earnings breaks, the sample sizes in our data sets for some of the thin transitions (for example, from very low earnings to very high earnings) are too small to be reliable and meet privacy standards developed by the Census Bureau and SSA.

Tables 13 show transitions to current earnings from earnings over a longer period, a ten-year average of prior earnings. The conditions that we impose to be included in this sample are different than for the five-year transitions, where we only require that one had earned at least one dollar in three of the last five years. Here we similarly require one to have been an earner in more than a majority of years (so six years in the case of these ten-year transitions). We also expand the age range further, from 30 to 64. These matrices suggest more mobility between quintiles over longer horizons, especially for women.

Implications of Earnings Patterns for Benefit Levels under Current Law and Alternatives

We next try to understand how these patterns of lifetime earnings mobility shape OASDI benefit accruals under current law and how this might change with changes to the payroll tax along the lines proposed by various policymakers. Our first step is to compute Primary Insurance Amounts (PIAs) accrued to late career under current law.[34] We then compute earnings that would be taxed and resulting PIAs if the earnings and benefit base were raised to various levels or uncapped altogether. This reveals where along the benefit formula the earnings lie. We compute these measures on an individual basis for those married at the time of the survey, ignoring spouse and survivor entitlements for simplicity's sake.

Figure 5 displays how Social Security's benefit formula works under current law, with Average Indexed Earnings displayed on the left vertical axis, PIA along the horizontal axis, and replacement rate (the ratio of PIA to AIME) along the right vertical axis. Examining the figure, we can see that the marginal rate that individuals receive on their additional payroll tax contributions is distinct from their replacement rate. For example, those who had earned just shy of the taxable maximum for the highest 34 years of their career would be earning 15 percent on their new earnings in the 35th year, but receiving a replacement rate of closer to 30 percent, as some of their lifetime earnings fall in the 90 and 32 percent brackets under the current formula.

Tables 14a and 14b start with analogous worker replacement rates for men and women, respectively, from cohorts entering retirement today, specifically, those born between 1941 and 1947, so reaching ages 63 through 69 by 2010. This replacement rate calculation accounts for

[34] The PIA is the benefit payable to a retired worker at the full retirement age.

neither heterogeneity in actuarial reductions nor income taxes paid on OASDI benefits.[35] We compare these replacement rates under three alternative sets of assumptions: 1.) current law scheduled; 2.) assuming that the taxable maximum is removed retrospectively in 1983, and workers earn benefits under the current formula on the additional earnings; and 3.) assuming that the taxable maximum is removed retrospectively in 1983, and workers do **not** earn benefits under the current formula on the additional earnings.[36] These estimates provide a lower bound of the effects of removable of the taxable maximum in the future because of censoring of earnings over the taxable maximum until 1983 in our data. But they can provide an important illustration of some of the longitudinal properties of high earnings and how they would play out under proposals to remove or increase OASDI's contribution and benefit base.[37] We would expect that future cohorts, and especially future cohorts of women, would have different experiences (see, for example, Wu et al. 2013).

We specifically show deciles of the replacement rate distribution, and look separately at those workers who have and have not earned over the taxable maximum over the course of their careers. For those workers earning over the taxable maximum, we differentiate those with more years of experience from those with limited experience, using different classifiers for men and women (10 and 5, respectively) given relatively few women with many years over the maximum.

Bear in mind that the *low* replacement rate deciles generally correspond to *high* lifetime earners and the *high* deciles to *low* lifetime earners because of the benefit formula's progressivity.[38] We see that the median male worker in these cohorts can expect a replacement rate of around 43 percent under current law scheduled, not accounting for actuarial reductions for early claiming. The median woman worker, some of whom will receive benefits as spouses or survivors (here we focus on potential returns to their own work), can expect a rate of 57 percent, again before actuarial reductions. Workers with experience over the taxable maximum have

[35] The rationale for the former choice is that the extra payments one receives make up for the reduced benefits, so one faces a tradeoff between having lower benefits for a longer period compared to higher benefits for a shorter period. The rationale for focusing on gross- rather than net- benefits is that it allows us to better understand where along the PIA formula earners lie. Extending these analyses to include taxes paid on benefits would be valuable for helping to better understand changes in well-being. Some experiencing reductions in replacement rates would experience corresponding reductions in personal income tax liability.

[36] Many proposals would pay partial benefits on these earnings, so our polar extremes (100 percent and zero) can serve to bracket options.

[37] Proposals that would raise the taxable maximum so that approximately 90 percent of earnings are covered include NCFRR (2010). Senator Tom Harkin introduced legislation in 2012 that would remove the maximum by 2022.

[38] These computations do not account for mortality differences. Everyone in our sample survived until at least age 62.

median rates that are about 8 percentage points lower for men (35 percent) and 17 percentage points lower for women (40 percent). The median for men with ten of more years over the maximum is about 2 percentage points lower than for all men who ever earn over the cap, so 33 percent. For women with five or more years of experience the rate is about 3 percentage points lower than for all women ever over the cap, so 37 percent.

When we remove the cap retrospectively starting in 1983 but allow benefits to be paid on all the additional earnings, the replacement rate for the median man earning over the maximum drops about one percentage point (from 35 percent to 34 percent). However, the rate for the man in the lowest decile with any experience over the maximum will drop by 7 percentage points (from 32 percent to 25 percent). For those with ten or more years of experience over the maximum, the drop is 10 percentage points (from 32 to 22). When we remove the cap and do not allow benefits to be paid, we find that the lowest decile of those earning over the maximum at least once declines by 13 percentage points relative to current law scheduled (from 32 to 19). For those over the cap for ten or more years, the drop in the bottom decile is 19 percentage points (from 32 to 13). The median for those men earning over the cap, in contrast, drops just two percentage points under this option.

An important overall conclusion from these simple calculations is that the skewed distribution of experiences over the taxable maximum which we described earlier has important implications for returns from OASDI under alternative proposals. Many who would be affected by policies that would raise or remove the taxable would experience relatively modest changes in their replacement rates because they earned over the maximum in just a few years or their earnings over the maximum were only modest. A minority, presumably those with many years over the maximum and earnings that more substantially exceeded the maximum, could experience fairly deep reductions in their replacement rates depending on how the newly covered earnings counted toward benefits. However, these analyses are just a preliminary look. More complete distributional analyses must also figure in effects on spouse and survivor benefits and consider the possibility of behavioral response by workers.

Projection Results

Comparing projected MINT Earnings with Historical Earnings

To evaluate the MINT projections, we focus on the projections of future earnings rather than past earnings. The MINT starting sample closely reflects the matched data, which we use for evaluation, so the historical comparisons are extremely close and thus not informative.[39] For our analyses of aggregate measure, we use a broad time series. For more detailed individual level characteristics, we focus on the earnings distribution at several points in time: 2020, 2040, and 2060.

An important objective is to determine whether the projections significantly deviate from historical patterns and whether these differences might indicate specification problems. Some deviations are to be expected, of course. When dealing with relatively small subsets of the population at a single point in time, sampling variation alone will result in some differences. Further, some changes to patterns might make sense given other trends. For example, women's increasing education suggests that in the future they may be more likely to earn over the taxable maximum than they are at present and men's declining relative education may suggest future declines in their share. Increased inequality in earnings could have important implications for the share of people who ever earn over the maximum in a career and for the number years over the maximum for those who exceed it at least once.

Starting at the top of the distribution, we examine first the share of covered workers earning over the taxable maximum, by gender (figure 6). The forecast suggests something of a continuation of the trend in the cross-sectional pattern revealed in figure 2. Women become more likely to earn over the taxable maximum and men less likely, leading to a relatively stable prevalence of earners over the maximum.

Looking more comprehensively at the earnings distribution, figures 7a through 7e shows deciles of wage-indexed earnings in MINT from 2007 through 2050 for men (7a and 7b), women (7c and 7d), and all workers (7e and f). For each group, the first graph shows all deciles plus the 5^{th}, 95^{th}, and 99^{th} percentiles. The second graph looks more narrowly at the bottom half of the distribution using a smaller scale so patterns will be more readily visible. As 2010 is the last year of historical data, all other values are projected.

[39] The main difference between MINT and the SIPP matched data is that MINT imputes earnings records to those cases without a match to the administrative earnings records.

Generally, these figures suggest a relatively stable earnings distribution in wage-indexed terms, which implies growth in real terms. Consistent with the pattern for earnings over the taxable maximum, the men's earnings tend to decline somewhat at some of the percentiles, while women's tend to increase. At the median, we do see a net decline in overall wage-indexed earnings when taking into account these offsetting factors.

We also look again at the distribution of years over the taxable maximum over the last twenty years, both the share of individuals who do not exceed the cap over the period (table 15) and the distribution of total years above the cap for those who do exceed the cap at least once (table 16). We see that from age 45 onward, in 2020, 2040, and 2060, relative to the past women are less likely to have zero years over the taxable maximum, while men are more likely (table 15). The women's decline, however, does not offset the men's increase. As in the historical period, numbers of spells over the taxable maximum tend to be somewhat bimodal at the point when workers reach later career (for example, ages 60 to 67). Significant shares of people earning over the cap just once (around 17 to 20 percent for men and 21 to 22 percent for women in their late 60s), and nearly 40 to 45 percent of men and 28 percent increasing to over a third of women earning over the cap for at least ten of the twenty years (table 16). This suggests declining concentration at higher numbers of years for men and increasing concentration for women, a pattern worthy of deeper investigation.

We next evaluate the transition matrices for the model population as a whole, again considering outcomes in 2020, 2040, and 2060. Tables 17 and18 compare five-year and ten-year transitions, respectively. We focus once more on prime age and examine transitions separately for men and women. The matrices reveal striking persistence. Once more, the shares of individuals who stay in the quintile they occupied last year (i.e., the "diagonals") are quite high, especially the cells that represent transitions from high earnings to high earnings. For both men and women, typically about 80 to 81 percent of those in the highest earnings quintile over the past five years are high earners again in the next. (This is a bit lower than our estimate for staying above the higher threshold of the taxable maximum, where close to 83 percent remained above the threshold in the historic period.[40]) Looking back ten years, this falls to closer to 75 percent, but is still persistent. Across the projection years, the matrices are quite stable, and differences between the men's and women's matrices are generally quite small, except in the ten-

[40] Recall that about six percent of workers earn over the taxable maximum, compared to twenty percent in a quintile.

year transition matrices, where women exhibit significantly more mobility out of the bottom quintile than men do in earlier years (2020 especially), again consistent with the historical experience. When comparing these projected MINT matrices to the historical estimates from SIPP, MINT appears to line up quite well over both the five- and ten-year periods.

Conclusions

Our descriptive analyses of the SIPP data reveal a U.S. labor force that is highly stratified on the basis of demographic and job characteristics. The data also suggest that individual rankings in the earnings distribution are persistent over the life course. We find that a large group has earnings that exceed the taxable maximum just once over the last twenty years, and most workers earning over the taxable maximum earn less than $40,000 above the cap. Nonetheless, a substantial minority of higher earners exceeds the cap for more than ten years, and aggregate data from other sources reveal that very high earners are garnering an increased share of earnings over the cap. Further, earnings stability is quite strong in the highest quintile over two accounting periods.

Preliminary results suggest that Modeling Income in the Near Term captures these patterns reasonably well in future periods. The model does project a decline in median wage-indexed earnings, a change that may be driven by the influence of the recent, deep recession on long-range outcome. These patterns are worthy of monitoring and further exploration given great uncertainty about labor conditions for the future.

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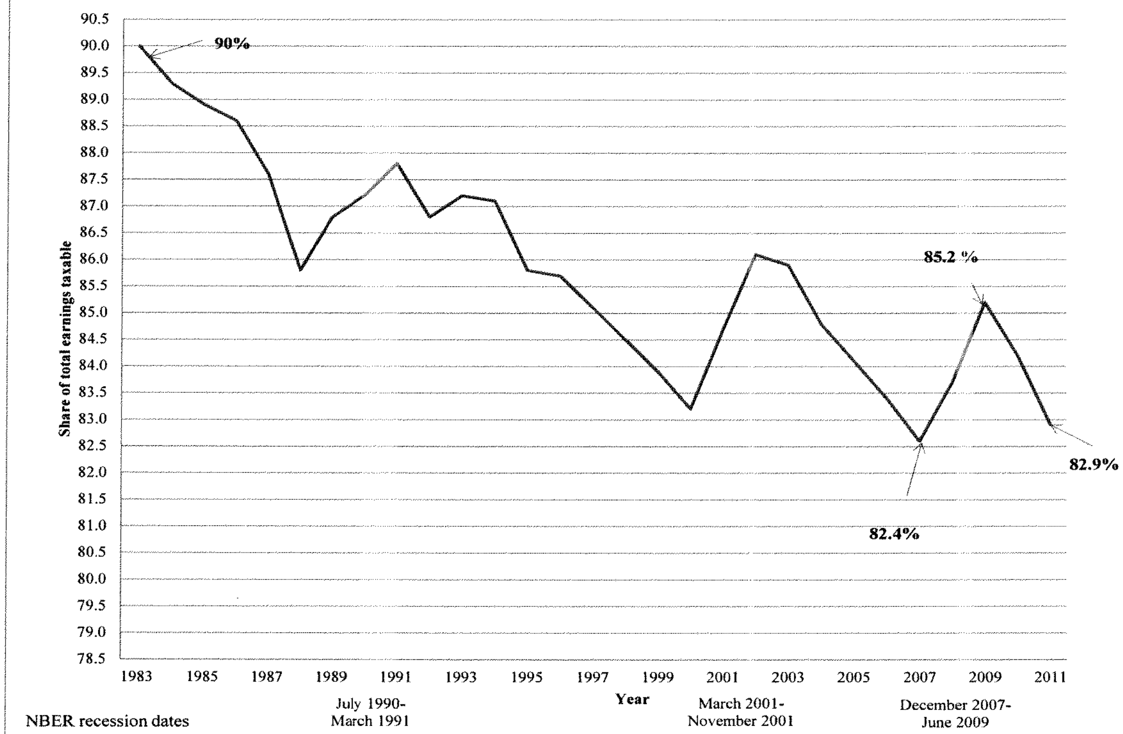
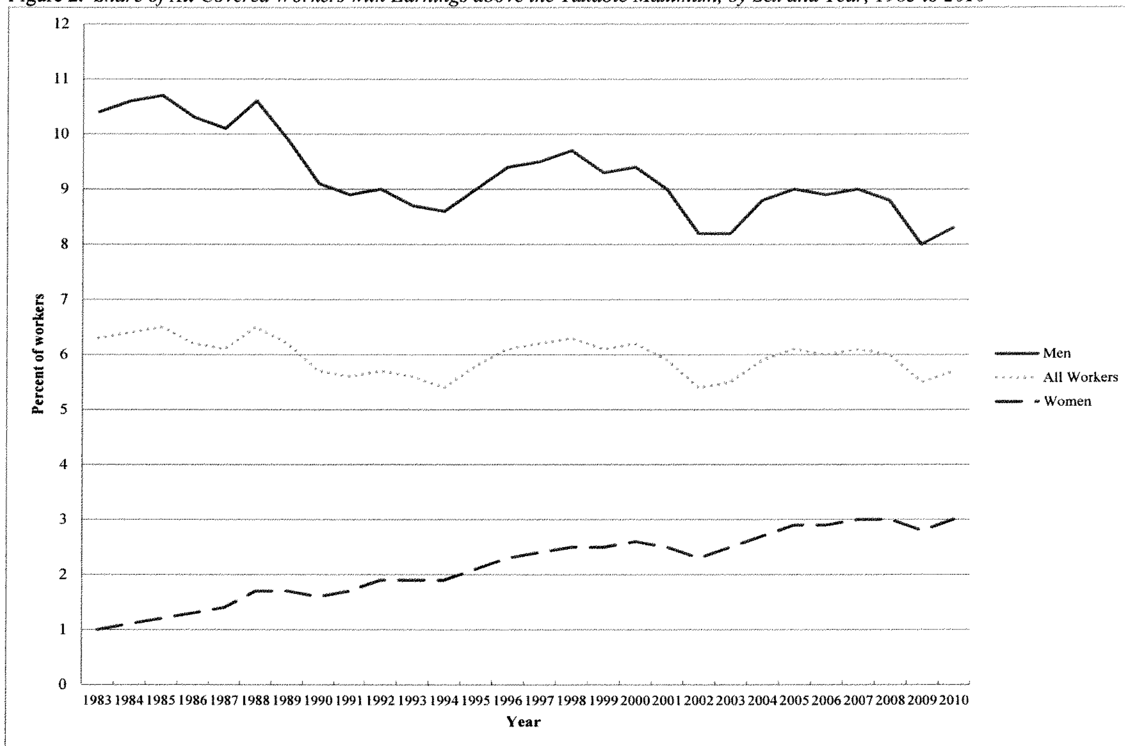
Figure 1. *Historical Values of the Taxable Share, 1983 to 2011*



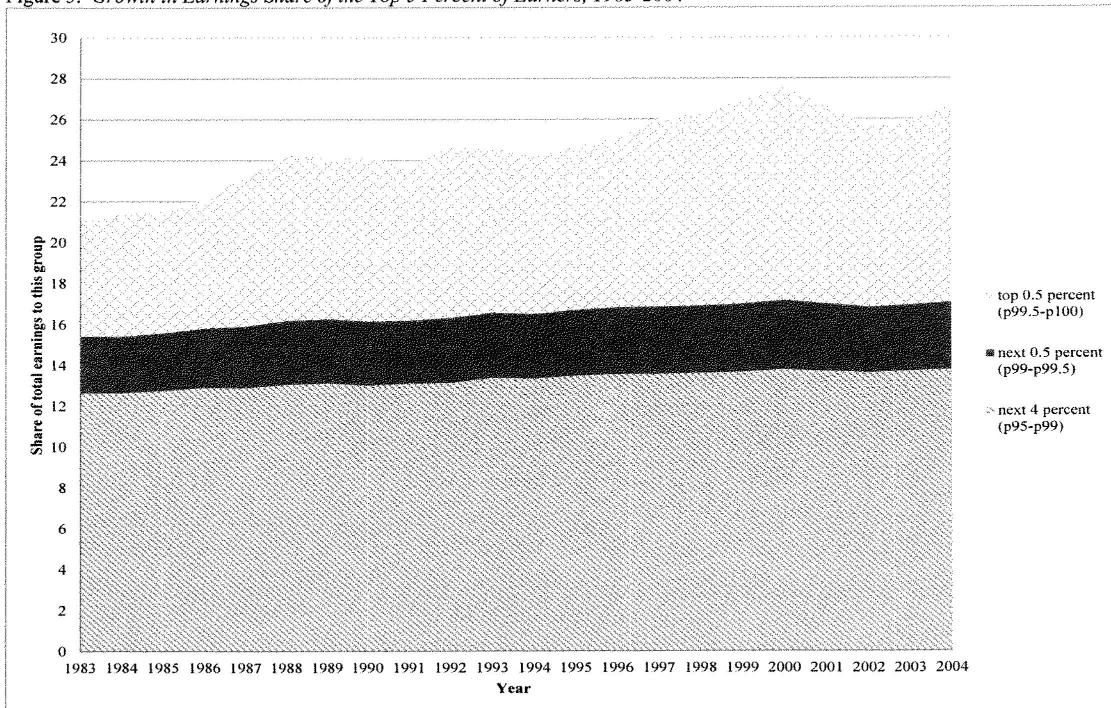
Notes: Data for years 2008 through 2011 are preliminary. NBER=National Bureau of Economic Research.
Source: Table 4.B1 *Annual Statistical Supplement to the Social Security Bulletin*.

Figure 2. *Share of All Covered Workers with Earnings above the Taxable Maximum, by Sex and Year, 1983 to 2010*



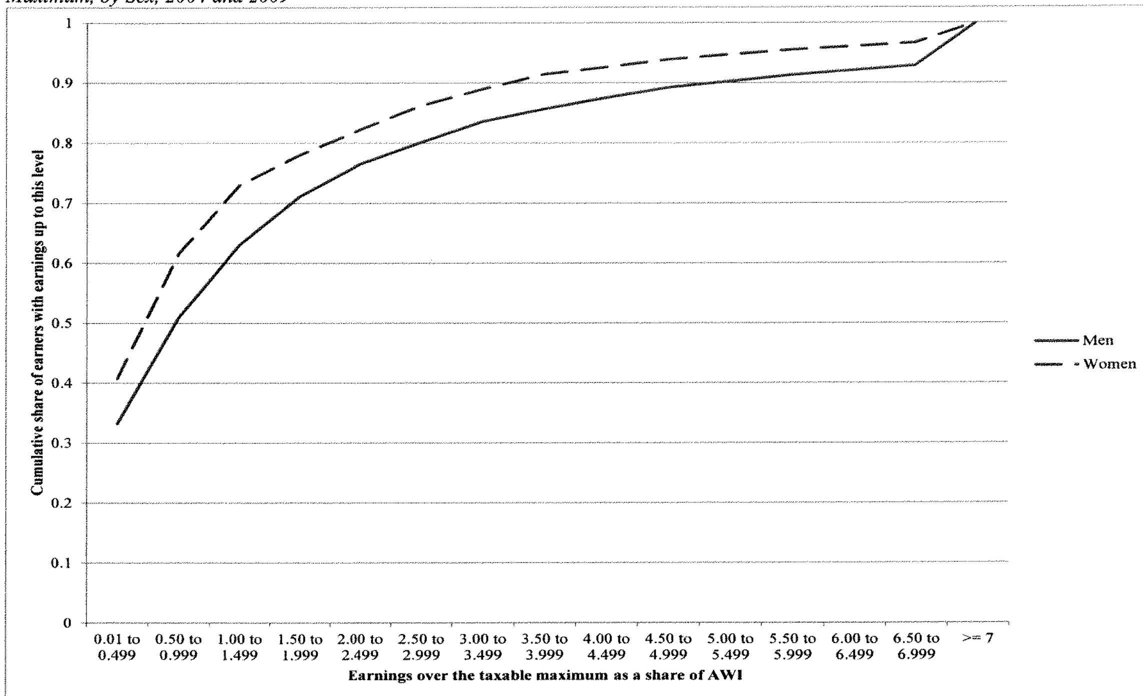
Notes: Data for years 2008 through 2010 are preliminary.
Source: Table 4.B4 *Annual Statistical Supplement to the Social Security Bulletin*.

Figure 3. *Growth in Earnings Share of the Top 5 Percent of Earners, 1983-2004*



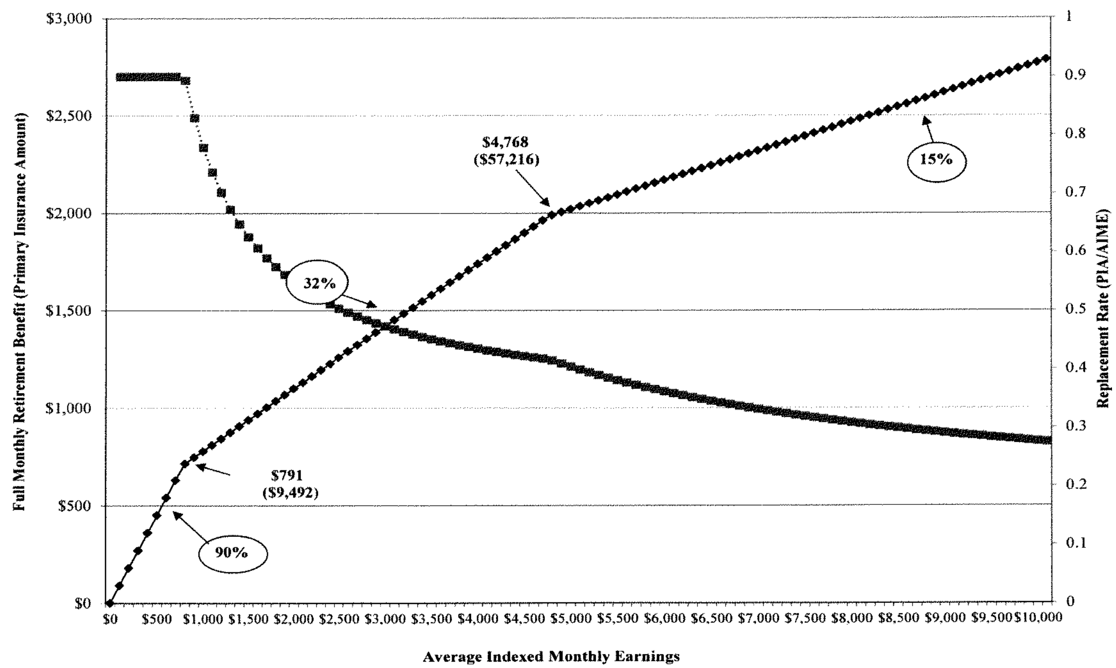
Source: Table A3 from Kopczuk et al. (2007).

Figure 4. *Cumulative Distribution of Earners at All Ages with Earnings over the Taxable Maximum by Amount of Earnings over the Maximum, by Sex, 2004 and 2009*



Notes: Values for 5.0 to 5.49 and 6.0 to 6.49 are linearly interpolated from neighboring points to maintain adequate sample sizes.
Source: Authors' calculations from SIPP matched to DER, SER and Numident (table 6). Sample weights account for relative probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Figure 5. *Social Security Benefit Formula, 2013 with Replacement Percentages (in circles) and Bend Points (Annualized Values in Parentheses) and Corresponding Replacement Rates (PIA/AIME) (Axis on Right)*

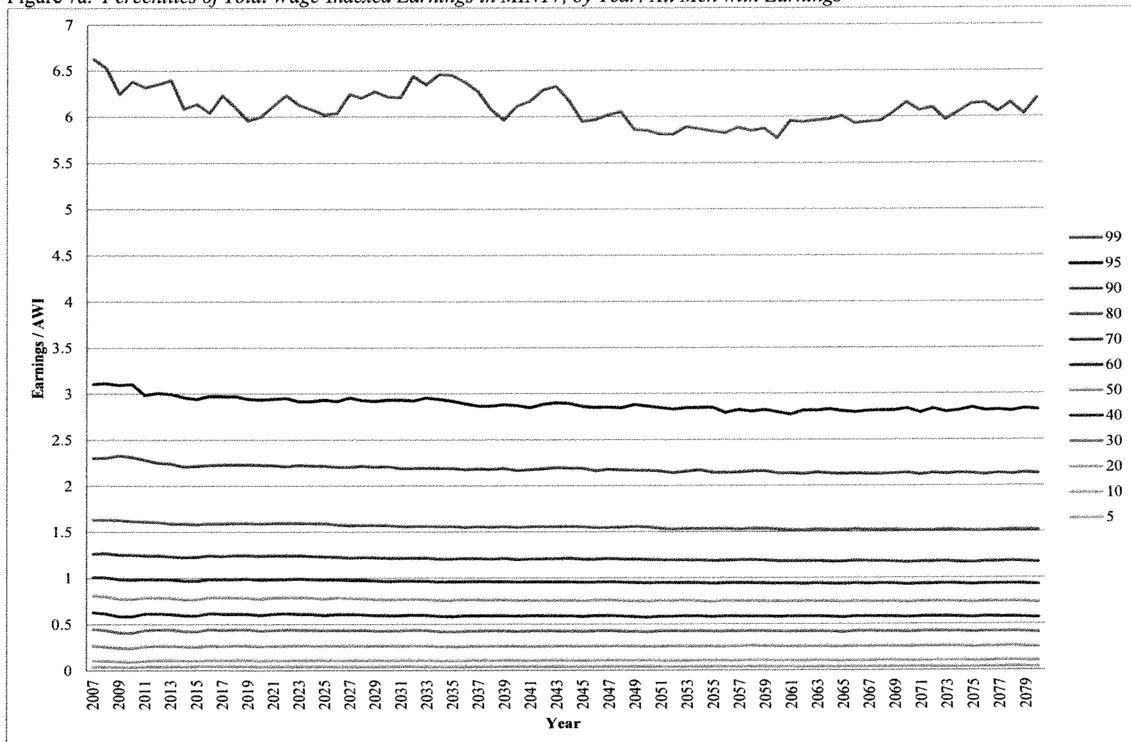


Notes: Monthly value of taxable maximum for 2013 is $9,475.
Source: Social Security law.

Figure 6. *Percentage of Covered Workers with Earnings over Maximum Taxable: MINT Compared to Historical by Year*

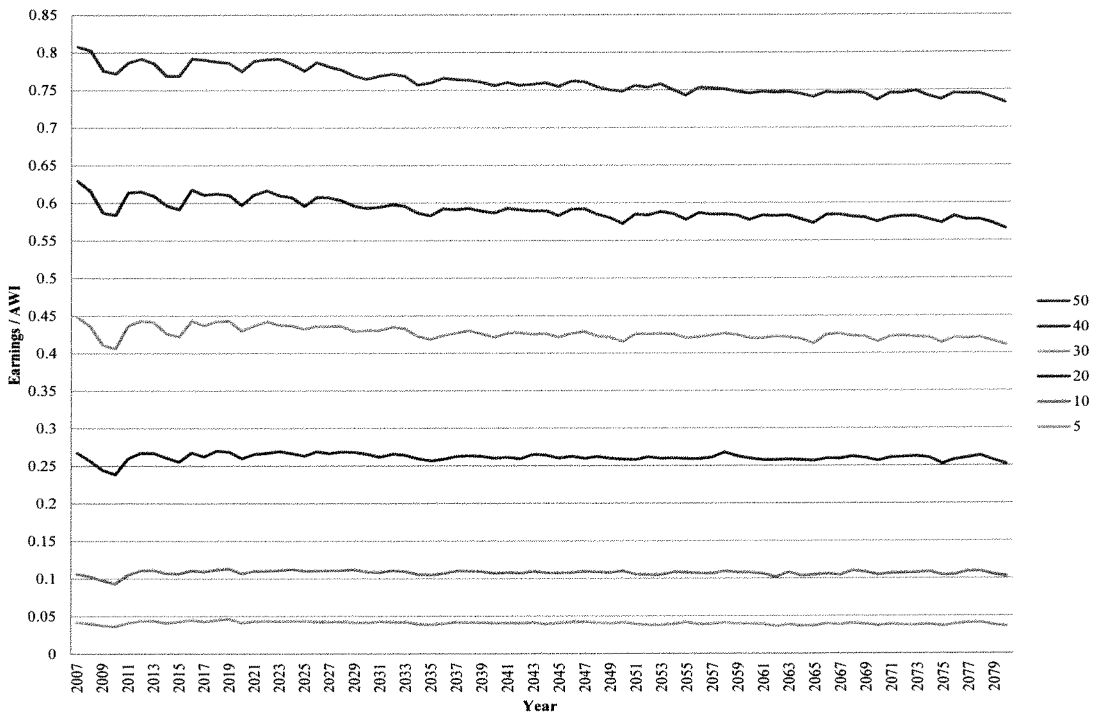
Note: MINT sample does not include individuals born prior to 1926, so early years of this figure are missing a small number of earners ages 75 and older.
Sources: Table 4.B4 in *Annual Statistical Supplement* (Social Security Administration 2012a) and authors' computations from MINT7 (dated July, 2013).

Figure 7a. *Percentiles of Total Wage-Indexed Earnings in MINT7, by Year: All Men with Earnings*



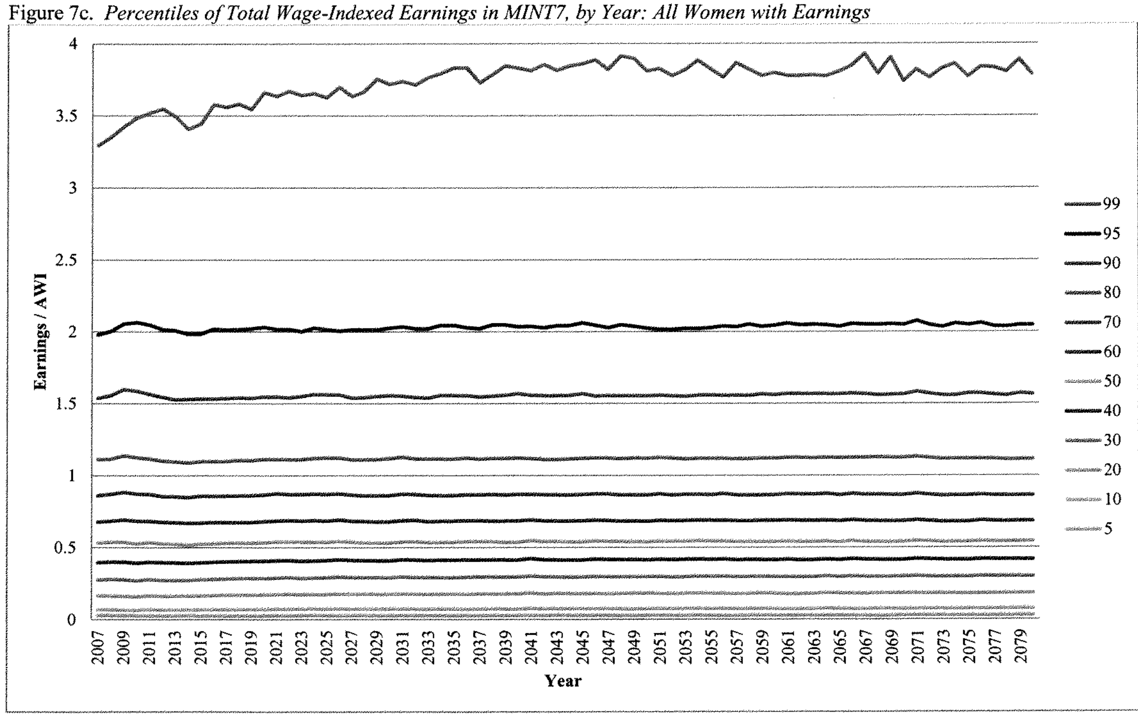
Note: MINT sample does not include individuals born prior to 1926, so early years of this figure are missing a small number of earners ages 75 and older.
Sources: Authors' computations from MINT7 (dated July, 2013).

Figure 7b. *Percentiles of Total Wage-Indexed Earnings in MINT7, by Year: Men with Earnings in the Bottom Half of the Distribution*



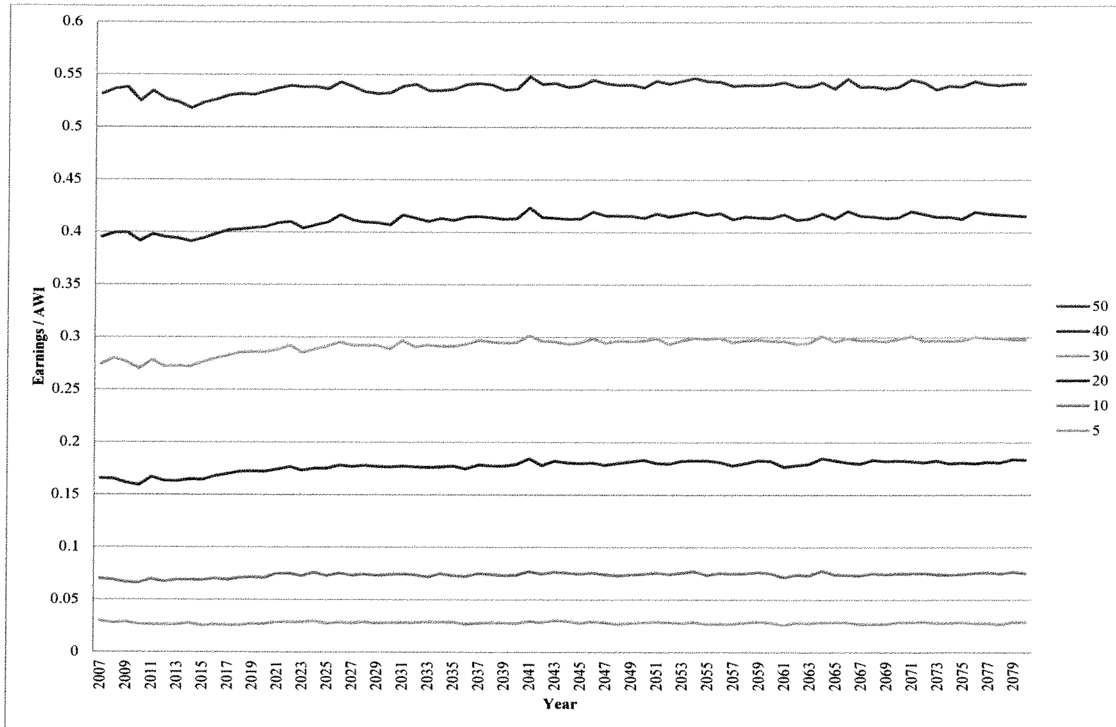
Note: MINT sample does not include individuals born prior to 1926, so early years of this figure are missing a small number of earners ages 75 and older.
Sources: Authors' computations from MINT7 (dated July, 2013).

Figure 7c. *Percentiles of Total Wage-Indexed Earnings in MINT7, by Year: All Women with Earnings*



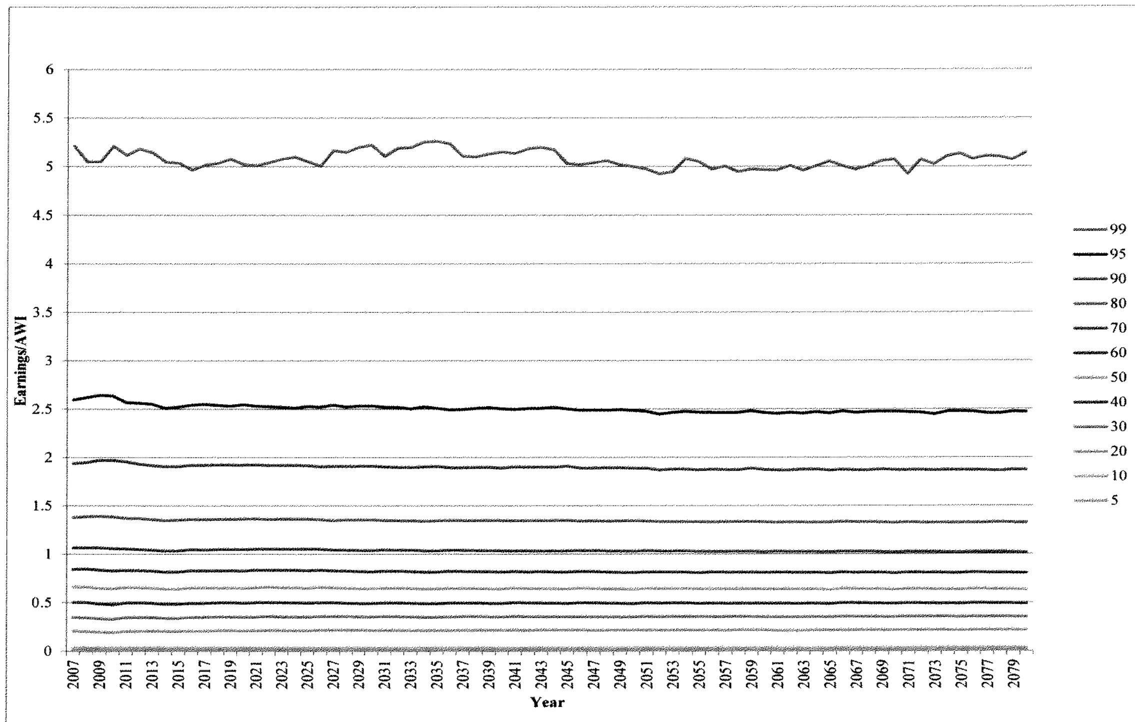
Note: MINT sample does not include individuals born prior to 1926, so early years of this figure are missing a small number of earners ages 75 and older.
Sources: Authors' computations from MINT7 (dated July, 2013).

Figure 7d. *Percentiles of Total Wage-Indexed Earnings in MINT7, by Year: Women with Earnings in the Bottom Half of the Distribution*



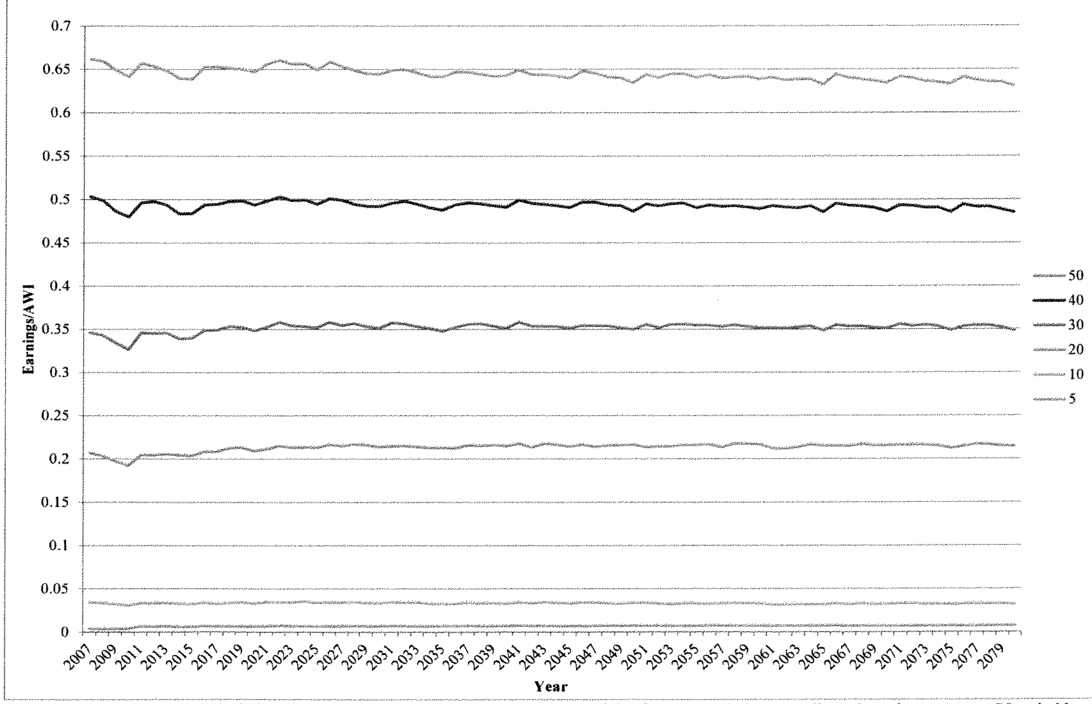
Note: MINT sample does not include individuals born prior to 1926, so early years of this figure are missing a small number of earners ages 75 and older.
Sources: Authors' computations from MINT7 (dated July, 2013).

Figure 7e. *Percentiles of Total Wage-Indexed Earnings in MINT7, by Year: All Workers with Earnings*



Note: MINT sample does not include individuals born prior to 1926, so early years of this figure are missing a small number of earners ages 75 and older.
Sources: Authors' computations from MINT7 (dated July, 2013).

Figure 7f. *Percentiles of Total Wage-Indexed Earnings in MINT7, by Year: Workers with Earnings in the Bottom Half of the Distribution*



Note: MINT sample does not include individuals born prior to 1926, so early years of this figure are missing a small number of earners ages 75 and older.
Sources: Authors' computations from MINT7 (dated July, 2013).

Table 1. *Shares of Individuals with Earnings (Using Two Definitions of Earners) over Taxable Maximum in 2004, 2009 by Age and Sex*

Age	Men		Women		All	
	Any	>=1CQ	Any	>=1CQ	Any	>=1CQ
0-29	0.008	0.010	0.004	0.004	0.006	0.007
30-34	0.063	0.072	0.028	0.031	0.046	0.053
35-39	0.104	0.120	0.033	0.037	0.071	0.081
40-44	0.121	0.133	0.036	0.040	0.080	0.088
45-59	0.124	0.139	0.040	0.045	0.083	0.093
50-54	0.127	0.140	0.040	0.043	0.084	0.092
55-59	0.124	0.136	0.036	0.038	0.082	0.088
60-64	0.106	0.118	0.022	0.025	0.066	0.074
65	0.050	0.063	0.011	0.014	0.033	0.041
All	0.079	0.093	0.025	0.029	0.053	0.062
N	54,685	44,367	52,603	43,826	107,288	88,193

Source: Authors' calculations from SIPP. "Any" column uses matched SER data where available and SIPP self-reports where not. "Greater than 1 CQ" column describes individuals who match to SER and DER, using SER data to determine whether one's earnings crossed the one covered quarter threshold.

Table 2. *Shares of Individuals Earning over the Taxable Maximum, by Demographic Characteristics: Workers Ages 30 to 67 at a Point in Time (2004, 2009) and All Individuals Ages 45 to 67 over the Last 20 Years*

Characteristic	Shares over taxable maximum					
	Men		Women		All	
	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)
All	0.114	0.271	0.035	0.073	0.076	0.168
Age						
30-34	0.068*	n/a	0.029*	n/a	0.049*	n/a
35-39	0.113*	n/a	0.034*	n/a	0.076*	n/a
40-44	0.125	n/a	0.038	n/a	0.083	n/a
45-49 (REF)	0.131	0.230	0.042	0.076	0.087	0.151
50-54	0.131	0.266*	0.040	0.082	0.087	0.171*
55-59	0.125	0.285*	0.036	0.076	0.082*	0.176*
60-64	0.105*	0.314*	0.022*	0.066	0.066*	0.185*
65-67	0.074*	0.296*	0.015*	0.047	0.047*	0.163*
Education						
Less than high school	+	0.051*	+	0.005*	+	0.027*
High school grad/GED or less	0.022*	0.136*	0.005*	0.022*	0.014*	0.074*
Some college	0.055*	0.221*	0.013*	0.052*	0.034*	0.131*
College graduate (REF)	0.209	0.455	0.063	0.144	0.139	0.298*
Master's degree	0.287*	0.529*	0.084*	0.188*	0.183*	0.350*
Professional degree	0.532*	0.764*	0.334*	0.436*	0.462*	0.654*
Doctoral degree	0.409*	0.673*	0.251*	0.402*	0.352*	0.582*
Race/ethnicity						
Non-Hispanic white (REF)	0.134	0.311	0.039	0.081	0.089	0.193
Non-Hispanic black	0.036*	0.122*	0.020*	0.051*	0.027*	0.082*
Non-Hispanic Asian/Pacif Islander	0.179*	0.273*	0.088*	0.126*	0.134*	0.194
Non-Hispanic Native American	0.056*	0.146*	0.016*	0.037*	0.037*	0.088*
Hispanic	0.037*	0.099*	0.011*	0.024*	0.025*	0.060*
N	34,403	23,645	33,771	26,852	68,174	50,497

Notes: "+" indicates combined with the row below for this analysis to maintain adequate sample sizes.
"*" indicates prevalence statistically differs from the reference group (denoted by "REF") for this row and column at $p<0.05$ level.
Source: Authors' calculations from SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Table 3. *Shares of Individuals Earning over the Taxable Maximum, by Nativity, Family Demographic Characteristics, and Geography: Workers Ages 30 to 67 at a Point in Time (2004, 2009) and All Individuals Ages 45 to 67 over the Last 20 Years*

Characteristic	Shares over taxable maximum					
	Men		Women		All	
	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)
Nativity						
Native-born (REF)	0.116	0.281	0.034	0.075	0.076	0.174
Foreign born, MDC	0.189*	0.336*	0.062*	0.080	0.126*	0.200*
Foreign born, LDC	0.074*	0.144*	0.034	0.054	0.056*	0.097*
Marital status (current)						
Married spouse present	0.137	0.315	0.036	0.073	0.091	0.195
Married spouse absent	0.113*	0.254	0.039	0.064	0.078*	0.161
Widowed	0.058*	0.166*	0.021*	0.044*	0.029*	0.069*
Divorced or separated	0.059*	0.177*	0.030*	0.077*	0.043*	0.120*
Never married	0.056*	0.121*	0.040	0.095	0.048*	0.108*
Number of children ever born						
None	0.084*	0.201*	0.060*	0.131*	0.074*	0.168*
One	0.101*	0.243*	0.038*	0.080*	0.071*	0.157*
Two (REF)	0.134	0.320	0.032	0.070	0.082	0.188
Three or more	0.122*	0.277*	0.020*	0.042*	0.071*	0.151*
Missing	0.137	0.273*	0.045*	0.104*	0.093	0.187
Metropolitan status						
Lives in metro area	0.126	0.294	0.040	0.083	0.084	0.183
Lives outside metro area	0.049*	0.165*	0.010*	0.026*	0.030*	0.093*
Unknown	0.135*	0.279	0.043	0.084	0.091*	0.179
State earnings/wages						
Lowest quintile	0.064*	0.183*	0.012*	0.032*	0.039*	0.104*
Middle 3 quintiles (REF)	0.099	0.255	0.027	0.061	0.064	0.155
Highest quintile	0.151*	0.318*	0.055*	0.103*	0.104*	0.205*
N	34,403	23,645	33,771	26,852	68,174	50,497

Notes: MDC=Country of origin has higher per capita GDP; LDC=country of origin has lower per capita GDP. See footnote 17 for information on state earnings rankings.
"*" indicates prevalence statistically differs from the reference group (denoted by "REF") for this row and column at $p<0.05$ level.
Source: Authors' calculations from SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Table 4. *Shares of Individuals Earning over the Taxable Maximum, by Current Job Characteristics: Workers Ages 30 to 67 at a Point in Time (2004, 2009) and All Individuals Ages 45 to 67 over the Last 20 Years*

Characteristic	Shares over taxable maximum					
	Men		Women		All	
	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)
Occupation in current year						
Managerial	0.275*	0.526*	0.111*	0.220*	0.204*	0.399*
Professional	0.221*	0.454*	0.051*	0.121*	0.122*	0.258*
Sales	0.153*	0.428*	0.046*	0.144*	0.109*	0.308*
Clerical / administrative	0.076*	0.252*	0.011*	0.048*	0.021*	0.078*
Service	0.021	0.099*	0.005	0.027*	0.010*	0.051*
Other (mostly blue collar)	0.023	0.129	0.004	0.018	0.017	0.095
Occupation missing	0.012*	0.194*	c	0.035*	0.007*	0.096*
Industry in current year						
Agriculture, Mining, Transport, Warehouses, Utilities	0.084*	0.209*	0.024	0.068	0.070*	0.175*
Construction	0.050*	0.204*	0.045*	0.121*	0.049*	0.195*
Manufacturing	0.134	0.320	0.071*	0.122	0.115*	0.260*
Wholesale trade	0.131	0.350*	0.067*	0.151*	0.110*	0.285*
Retail trade	0.075	0.225*	0.024	0.057*	0.050*	0.141*
Information	0.199*	0.458*	0.071*	0.169*	0.146*	0.325*
Finance/insurance/real estate	0.245*	0.512*	0.063*	0.169*	0.142*	0.321*
Professional/scientific	0.199*	0.459*	0.063*	0.160*	0.138*	0.326*
Education/health/social service	0.140	0.294	0.027	0.071	0.054	0.124
Arts/entertainment	0.032*	0.148	0.005	0.034*	0.017	0.087*
Other services	0.030*	0.168*	0.011*	0.041	0.020*	0.101
Public admin/active duty	0.088*	0.212	0.029*	0.076	0.062	0.147*
Industry missing	0.012*	0.194*	c	0.035*	0.007*	0.096*
Firm size						
Missing	0.010*	0.192*	c	0.036	0.007*	0.096
<25	0.071*	0.293	0.020*	0.087	0.048*	0.202*
25-99	0.115*	0.281	0.024*	0.073*	0.072*	0.180
100 or more (REF)	0.141	0.297	0.045	0.097	0.094	0.196
N	34,403	23,645	33,771	26,852	68,174	50,497

Notes: "*" indicates prevalence statistically differs from the reference group (denoted by "REF") for this row and column at $p<0.05$ level. "+" indicates combined with row below for this analysis to maintain adequate sample sizes. "c" indicates cell sizes too small to be reliable.
"Other" occupation category is comprised of jobs in production, farm/forestry/fisheries, repair, construction, extraction, and operators.
Source: Authors' calculations from SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Table 5. *Shares of Individuals Earning over the Taxable Maximum, by Work Experience: Workers Ages 30 to 67 at a Point in Time (2004, 2009) and All Individuals Ages 45 to 67 over the Last 20 Years*

Characteristic	Shares over taxable maximum					
	Men		Women		All	
	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)
Usual hours on current job						
<20	0.049*	0.210*	0.009*	0.044	0.027*	0.112*
20-29	0.066	0.251*	0.014*	0.071	0.035*	0.149
30-34	0.077	0.275*	0.027	0.071	0.050	0.162*
35-39	0.068	0.226*	0.023*	0.063	0.040*	0.126
40 (REF)	0.071	0.200	0.029	0.061	0.051	0.133
41-44	0.131*	0.317*	0.059*	0.134*	0.103*	0.243*
45-49	0.185*	0.409*	0.080*	0.161*	0.148*	0.318*
50 or more	0.222*	0.448*	0.115*	0.225*	0.188*	0.372*
Tenure on current job (in years)						
0 or missing	0.027*	0.195	0.006*	0.039*	0.016*	0.101
< 5	0.096*	0.286	0.029*	0.088	0.062*	0.184
5-9 (REF)	0.114	0.286	0.037	0.090	0.076	0.184
10-14	0.131*	0.271	0.038	0.084	0.088*	0.178
15-24	0.155*	0.302	0.056*	0.096*	0.111*	0.205*
25 or more	0.157*	0.337*	0.057*	0.110*	0.119*	0.249*
OASDI-covered work years						
<15	0.066*	0.039*	0.017*	0.007*	0.038*	0.016*
15-19	0.068*	0.079*	0.023*	0.017*	0.045*	0.038*
20-29 (REF)	0.117	0.159	0.038	0.051	0.077	0.090
30-34	0.145*	0.259*	0.049*	0.100*	0.099*	0.179*
35 or more	0.140*	0.369*	0.048*	0.136*	0.106*	0.283*
N	34,403	23,645	33,771	26,852	68,174	50,497

Notes: "*" indicates prevalence statistically differs from the reference group for this row and column (denoted by "REF") at $p<0.05$ level. Sample excludes imputed other-than-legal immigrants.
Source: Authors' calculations from SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data.

Table 6. *Distribution of All Earners over the Taxable Maximum, by Amount Earned over the Maximum and Gender, 2004 and 2009*

Amount over maximum/AWI	Men	Women	All
0.01 to 0.049	0.045	0.054	0.047
0.05 to 0.099	0.033	0.056	0.038
0.10 to 0.149	0.039	0.038	0.039
0.15 to 0.199	0.035	0.046	0.038
0.20 to 0.249	0.034	0.040	0.036
0.25 to 0.299	0.030	0.039	0.032
0.30 to 0.349	0.031	0.048	0.035
0.35 to 0.399	0.031	0.032	0.031
0.40 to 0.449	0.029	0.027	0.028
0.45 to 0.499	0.025	0.029	0.026
0.50 to 0.549	0.018	0.014	0.017
0.55 to 0.599	0.026	0.030	0.027
0.60 to 0.649	0.020	0.024	0.021
0.65 to 0.699	0.017	0.013	0.016
0.70 to 0.749	0.015	0.027	0.017
0.75 to 0.799	0.018	0.023	0.019
0.80 to 0.849	0.017	0.019	0.017
0.85 to 0.899	0.016	0.023	0.018
0.90 to 0.949	0.015	0.019	0.016
0.95 to 0.999	0.017	0.017	0.017
1.00 to 1.499	0.121	0.114	0.119
1.50 to 1.999	0.080	0.050	0.074
2.00 to 2.499	0.053	0.042	0.051
2.50 to 2.999	0.036	0.040	0.037
3.00 to 3.499	0.035	0.027	0.033
3.50 to 3.999	0.021	0.025	0.022
4.00 to 4.499	0.019	0.011	0.017
4.50 to 4.999	0.017	0.013	0.016
5.00 to 5.999	0.021	0.016	0.020

6.00 to 6.999	0.016	0.011	0.015
>=7	0.071	0.034	0.063
N	4,088	1,180	5,268

Source: Authors' calculations from SIPP matched to DER, SER, and Numident. Sample weights account for relative probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Table 7. *Prevalence of Very Low Annual Earnings (Defined as Earnings of Less than One Social Security Covered Quarter) Among Workers, by Age and Sex, 2004 and 2009*

	Men	Women	All
0-16	0.303	0.307	0.305
17-19	0.129	0.129	0.129
20-24	0.049	0.059	0.054
25-29	0.022	0.034	0.028
30-34	0.015	0.026	0.021
35-39	0.010	0.031	0.020
40-44	0.012	0.024	0.018
45-49	0.013	0.022	0.017
50-54	0.016	0.024	0.020
55-59	0.027	0.030	0.029
60-64	0.059	0.058	0.058
65-69	0.109	0.082	0.097
70-74	0.141	0.163	0.150
75 plus	0.223	0.261	0.239
All	0.039	0.048	0.044
N	46,050	45,898	91,948

Source: Authors' calculations from SIPP matched to SER and DER. Restricted to workers with OASDI earnings during the year. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Table 8. *Distribution of Covered Work Years through Age 60 for 1947 through 1950 Birth Cohorts Using Four Definitions of Work Years: All Individuals and Those at Greatest Risk of Working a Full Covered Career (Non-Immigrants without DI Experience or Significant Uncovered Work)*

	Share								
	Men			Women			All		
Number of work years	A: All	B: Non-DI, non-immig	C: B + no 10+ uncov	A: All	B: Non-DI, non-immig	C: B+ no 10+ uncov	A: All	B: Non-DI, non-immig	C: B+ no 10+ uncov
Any earnings									
<10	0.03	0.03	0.02	0.09	0.07	0.06	0.06	0.05	0.04
10-14	0.03	0.02	0.01	0.06	0.05	0.04	0.05	0.04	0.03
15-19	0.04	0.03	0.02	0.07	0.06	0.05	0.06	0.04	0.04
20-24	0.05	0.03	0.02	0.09	0.08	0.08	0.07	0.06	0.05
25-29	0.05	0.04	0.04	0.12	0.11	0.11	0.09	0.08	0.08
30-34	0.08	0.06	0.06	0.13	0.13	0.13	0.10	0.10	0.10
35-39	0.15	0.15	0.15	0.17	0.19	0.19	0.16	0.17	0.17
40 or more	0.56	0.65	0.67	0.27	0.32	0.33	0.41	0.47	0.49
At least 4 covered quarters									
<10	0.05	0.04	0.02	0.13	0.11	0.09	0.09	0.08	0.06
10-14	0.04	0.03	0.02	0.08	0.07	0.06	0.06	0.05	0.04
15-19	0.05	0.03	0.03	0.09	0.08	0.07	0.07	0.06	0.05
20-24	0.05	0.03	0.03	0.10	0.09	0.09	0.08	0.06	0.06
25-29	0.06	0.04	0.04	0.11	0.11	0.11	0.09	0.08	0.08
30-34	0.09	0.08	0.07	0.13	0.14	0.14	0.11	0.11	0.11
35-39	0.18	0.18	0.19	0.17	0.18	0.19	0.17	0.18	0.19
40 or more	0.48	0.57	0.59	0.20	0.23	0.24	0.33	0.39	0.40
At least half time, half year at minimum wage									
<10	0.06	0.05	0.03	0.15	0.13	0.11	0.10	0.09	0.07
10-14	0.04	0.03	0.03	0.08	0.07	0.06	0.07	0.05	0.05
15-19	0.05	0.03	0.03	0.09	0.08	0.08	0.07	0.06	0.05
20-24	0.05	0.03	0.03	0.10	0.09	0.09	0.08	0.07	0.06
25-29	0.07	0.05	0.05	0.12	0.12	0.12	0.10	0.09	0.09
30-34	0.11	0.09	0.10	0.14	0.14	0.15	0.12	0.12	0.12
35-39	0.22	0.22	0.22	0.18	0.20	0.21	0.20	0.21	0.22
40 or more	0.49	0.49	0.51	0.14	0.16	0.17	0.27	0.32	0.33

At least 15 percent of old law taxable maximum ($15,840 in 2011)									
<10	0.08	0.07	0.05	0.23	0.21	0.18	0.16	0.14	0.12
10-14	0.05	0.04	0.03	0.10	0.09	0.09	0.08	0.06	0.06
15-19	0.05	0.03	0.03	0.08	0.08	0.08	0.07	0.06	0.06
20-24	0.06	0.05	0.05	0.11	0.10	0.10	0.09	0.08	0.08
25-29	0.08	0.07	0.07	0.12	0.12	0.12	0.10	0.09	0.10
30-34	0.12	0.12	0.12	0.13	0.14	0.14	0.13	0.13	0.13
35-39	0.23	0.24	0.25	0.15	0.17	0.18	0.19	0.21	0.21
40 or more	0.32	0.38	0.40	0.09	0.10	0.11	0.20	0.23	0.24
N	3,214	2,625	2,536	3,645	3,028	2,916	6,589	5,653	5,452

Notes: "Non-DI, non-immig" indicates person did not immigrate to U.S. after childhood, has no DI worker experience. "No 10+ uncov" indicates person did not have at least ten years of uncovered earnings exceeding one quarter. Entries may not sum to one because of rounding.
Source: Authors' calculations from SIPP matched to SER, DER, and Numident.

Table 9A. *Distribution of Covered Work Years through Age 60 for 1947 through 1950 Cohorts by "Maximum Earnings" (2-Year Average), Excludes Adult Immigrants and DI Beneficiaries, By Sex*

Sex and work years	Average earnings over two highest career years <1*AWI	1.00-1.49	1.50-1.99	2.00-high
All men				
<20	0.43	0.10	0.10	0.14
20-24	0.12	0.05	0.04	0.02
25-34	0.22	0.24	0.16	0.10
35-39	0.09	0.20	0.18	0.19
40 or more	0.13	0.40	0.53	0.61
Total	1.00	1.00	1.00	1.00
N	576	898	981	1810
Men not on DI, not immigrating as adults, and not long term uncovered				
<20	0.29	0.04	0.05	0.04
20-24	0.10	0.03	0.02	0.01
25-34	0.23	0.22	0.11	0.07
35-39	0.15	0.21	0.19	0.18
40 or more	0.23	0.51	0.62	0.69
Total	1.00	1.00	1.00	1.00
N	327	658	784	1532
All women				
<20	0.46	0.13	0.16	0.12
20-24	0.13	0.09	0.06	0.03
25-34	0.25	0.30	0.19	0.18
35-39	0.10	0.22	0.24	0.28
40 or more	0.06	0.24	0.35	0.39
Total	1.00	1.00	1.00	1.00
N	2,473	1,205	638	552
Women, not immigrating as adults, and not long term uncovered				
<20	0.40	0.10	0.09	0.07
20-24	0.13	0.08	0.05	0.03
25-34	0.29	0.30	0.19	0.17

35-39	0.11	0.24	0.26	0.29
40 or more	0.08	0.29	0.41	0.44
Total	1.00	1.00	1.00	1.00
N	1,877	1,016	533	465

Notes: Entries may not sum to one because of rounding. AWI=Average Wage Index.
Source: Authors' calculations from SIPP matched to DER, SER, and Numident.

Table 9B. *Joint Distribution of Covered Work Years and AIME/Poverty at Age 62 for 1945 through 1948 Cohorts, Excludes Adult Immigrants and DI Beneficiaries*

	AIME/Poverty			
Sex and work years	**<250% poverty**	**250-399%**	**400% or higher**	**All**
Men				
<25	0.169	0.007	0.002	0.180
>=25	0.096	0.204	0.521	0.821
All	0.265	0.212	0.533	1.000
N	1,548	1,282	3,585	6,415
	<250% poverty	**250-349%**	**350% or higher**	**All**
Women				
<25	0.404	0.008	0.003	0.415
>=25	0.231	0.153	0.202	0.586
All	0.634	0.161	0.204	1.000
N	4,842	1,172	1,448	7,462

Notes: Entries may not sum to one because of rounding. Poverty level used is Census non-aged level.
Source: Authors' calculations from SIPP matched to DER, SER, and Numident.

Table 10A. *Distribution of Total Years over the Last 20 Years over the Taxable Maximum for Individuals Ages 30 to 67, by Age and Sex, 2004 and 2008*

		Share with this number of earnings years								
		Distribution among those earning over taxable maximum at least once								
	None	1	2	3	4-5	6-7	8-9	10 or more		
								all	10-14	15+
Men										
30-39	0.86	0.25	0.14	0.12	0.18	0.13	0.09	0.08	c	c
40-44	0.80	0.19	0.09	0.07	0.14	0.10	0.09	0.32	0.24	0.08
45-49	0.77	0.13	0.09	0.08	0.10	0.09	0.08	0.41	0.18	0.23
50-59	0.73	0.15	0.07	0.06	0.10	0.08	0.06	0.47	0.17	0.31
60-67	0.69	0.16	0.08	0.06	0.09	0.08	0.08	0.45	0.19	0.25
N				40,384						
Women										
30-39	0.95	0.29	0.16	0.13	0.20	0.12	0.06	0.03	c	c
40-44	0.93	0.25	0.13	0.11	0.11	0.13	0.09	0.18	0.14	0.04
45-49	0.94	0.23	0.11	0.09	0.16	0.10	0.05	0.26	0.15	0.10
50-59	0.92	0.23	0.12	0.08	0.09	0.08	0.08	0.32	0.15	0.16
60-67	0.94	0.29	0.12	0.07	0.09	0.11	0.08	0.22	0.12	0.10
N				45,352						
All										
30-39	0.91	0.26	0.14	0.12	0.19	0.13	0.08	0.07	c	c
40-44	0.86	0.20	0.10	0.08	0.13	0.11	0.09	0.28	0.21	0.07
45-49	0.85	0.16	0.10	0.08	0.12	0.10	0.08	0.37	0.17	0.20
50-59	0.83	0.17	0.08	0.07	0.10	0.08	0.07	0.44	0.16	0.27
60-67	0.82	0.18	0.09	0.07	0.09	0.09	0.08	0.41	0.18	0.23
N				85,736						

Notes: "c" indicates cell sizes too small to be reliable. Entries may not sum to 100 percent because of rounding.
Source: Authors' calculations from 2004 and 2008 SIPP matched to SER and DER. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Table 10B. *Distribution of Total Years over the Last 28 Years over the Taxable Maximum for Individuals Ages 30 to 67 in 2010, by Age and Sex*

	Share with this number of earnings years										
		Distribution among those earning over taxable maximum at least once									
	None	1	2	3	4-5	6-7	8-9	10 or more			
								All	10-14	15-19	20+
Men											
30-39	0.91	0.29	0.14	0.11	0.19	0.13	0.07	0.07	c	c	c
40-44	0.82	0.19	0.11	0.08	0.13	0.12	0.10	0.27	c	c	c
45-49	0.80	0.17	0.07	0.07	0.13	0.09	0.09	0.39	0.21	0.15	0.03
50-59	0.73	0.17	0.08	0.06	0.09	0.08	0.06	0.47	0.14	0.14	0.20
60-67	0.65	0.17	0.08	0.06	0.08	0.06	0.05	0.49	0.13	0.12	0.24
N					47,278						
Women											
30-39	0.96	0.30	0.16	0.15	0.21	0.10	0.05	0.02	c	c	c
40-44	0.94	0.26	0.11	0.09	0.18	0.13	0.07	0.17	c	c	c
45-49	0.92	0.24	0.12	0.09	0.13	0.13	0.08	0.22	0.13	0.07	0.02
50-59	0.91	0.25	0.09	0.10	0.11	0.08	0.07	0.30	0.13	0.09	0.09
60-67	0.91	0.31	0.12	0.05	0.08	0.08	0.07	0.29	0.12	0.08	0.07
N					52,338						
All											
30-39	0.93	0.29	0.14	0.13	0.20	0.12	0.07	0.05	c	c	c
40-44	0.88	0.21	0.11	0.09	0.14	0.12	0.09	0.24	c	c	c
45-49	0.86	0.19	0.08	0.07	0.13	0.11	0.09	0.34	0.19	0.12	0.03
50-59	0.82	0.19	0.08	0.07	0.09	0.08	0.06	0.43	0.13	0.12	0.17
60-67	0.78	0.20	0.09	0.06	0.08	0.07	0.06	0.45	0.13	0.11	0.21
N					99,616						

Notes: "c" indicates cell sizes too small to be reliable. Entries may not sum to 100 percent because of rounding.
Source: Authors' calculations from 2004 and 2008 SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Table 11. *Entries into and Exits from Earnings over the Taxable Maximum at Ages 30 to 67 in 2004 and 2009, by Gender, Education, and History of Earning over the Taxable Maximum*

	Not earning over taxable maximum in year-1		Earning over taxable maximum in year-1	
	Share earning over taxable maximum in year	Share remaining below taxable maximum in year	Share continuing to earn over taxable maximum in year	Share no longer earning over taxable maximum in year
All	0.01	0.99	0.83	0.17
Gender				
Men	0.02	0.98	0.84	0.16
Women	0.01	0.99	0.80	0.20
History of earning over the taxable maximum				
Earned over cap at least once in last 10 years	0.12	0.88	n/a	n/a
Did not earn over cap in last 10 years	0.01	0.99	n/a	n/a
Current spell is 1 year	n/a	n/a	0.59	0.41
Current spell is 2-3 years	n/a	n/a	0.78	0.22
Current spell is 4-5 years	n/a	n/a	0.84	0.16
Current spell is 6 or more years	n/a	n/a	0.91	0.09
Completed education				
< College degree	0.01	0.99	0.71	0.29
Bachelor's degree	0.03	0.97	0.85	0.15
Master's degree	0.03	0.97	0.86	0.14
Professional degree	0.08	0.92	0.93	0.07
Doctoral degree	0.07	0.93	0.89	0.11
N (all)	56,381		5,160	

Note: Sample only includes workers (defined as earnings over zero) in both periods. Sample weights account for relative probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.
Source: Authors' calculations from 2004 and 2008 SIPP matched to DER, SER, and Numident.

Table 12A. *Five-Year Earnings Transition Matrices at Ages 35 to 59 in Ending Period by Earnings Quintile, 1996, 2001, 2004 and 2009 SIPP. Men Using Lower Earnings Bound of Zero in Both Periods and at Least Three Positive Earnings Years over the Past Five*

		This year's earnings quintile					
		Bottom	Second	Middle	Fourth	Top	All
	Bottom	65.0	30.7	3.4	0.7	0.2	100.0
Average of	Second	17.9	52.4	26.3	3.1	0.4	100.0
previous	Middle	8.7	11.7	57.2	20.7	1.8	100.0
5 years	Fourth	5.2	3.9	11.1	64.9	14.9	100.0
earnings	Top	3.2	1.4	2.0	10.5	82.8	100.0
	N			42,335			

Table 12B. *Women Using Lower Earnings Bound of Zero in Current Periods and at Least Three Positive Earnings Years over the Past Five*

		This year's earnings quintile					
		Bottom	Second	Middle	Fourth	Top	All
	Bottom	62.0	32.5	4.4	0.9	0.2	100.0
Average of	Second	19.4	50.0	26.4	3.6	0.6	100.0
previous	Middle	9.2	11.9	55.9	21.0	2.0	100.0
5 years	Fourth	5.5	4.1	11.2	64.7	14.5	100.0
earnings	Top	3.8	1.5	2.1	9.7	82.8	100.0
	N			40,635			

Notes: Entries may not sum to 100 percent because of rounding.
Source: Authors' calculations from 1996, 2001, 2004, and 2008 SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Table 13A. *Ten-Year Earnings Transition Matrices at Ages 30 to 64 in Ending Period by Earnings Quintile, 1996, 2001, 2004, and 2009 SIPP. Men Using Lower Earnings Bound of Zero in Current Period and at Least Six Positive Earnings Years over the Past Ten*

		This year's earnings quintile					
		Bottom	Second	Middle	Fourth	Top	All
	Bottom	53.3	38.5	6.8	1.1	0.3	100.0
Average of	Second	19.7	39.9	32.7	6.9	0.8	100.0
previous	Middle	12.4	13.6	44.9	25.0	4.0	100.0
10 years	Fourth	8.7	5.4	12.8	54.5	18.5	100.0
earnings	Top	5.9	2.5	2.7	12.5	76.3	100.0
	N			58,167			

Table 13B. *Women Using Lower Earnings Bound of Zero in Current Period and at Least Six Positive Earnings Years over the Past Ten*

		This year's earnings quintile					
		Bottom	Second	Middle	Fourth	Top	All
	Bottom	48.0	41.5	9.0	1.4	0.1	100.0
Average of	Second	23.2	35.6	32.3	7.8	1.1	100.0
previous	Middle	13.6	13.5	43.4	25.7	3.8	100.0
10 years	Fourth	8.9	6.4	12.4	53.4	18.9	100.0
earnings	Top	6.3	2.9	2.8	11.8	76.1	100.0
	N			56,289			

Notes: Entries may not sum to 100 percent because of rounding.
Source: Authors' calculations from 1996, 2001, 2004, and 2008 SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Table 14A. *Deciles of Worker Benefit Replacement Rate (PIA/AIMEs) for Men under Current Law and Alternative Assumptions about Taxable Maximum: 1941-1947 Birth Cohorts as of 2010*

Decile	Current law					Remove taxable maximum starting in 1983, pay benefits				Remove taxable maximum starting in 1983, do not pay benefits			
	All	Never earned over cap	Earned over taxable maximum at least once				Earned over taxable maximum at least once				Earned over taxable maximum at least once		
			All	1-9 years	10+ years	All	All	1-9 years	10+ years	All	All	1-9 years	10+ years
Lowest	0.34	0.39	0.32	0.34	0.32	0.30	0.25	0.33	0.22	0.28	0.19	0.33	0.13
2	0.36	0.42	0.33	0.35	0.32	0.34	0.29	0.34	0.25	0.34	0.25	0.34	0.19
3	0.38	0.43	0.34	0.36	0.33	0.38	0.31	0.35	0.27	0.37	0.28	0.35	0.23
4	0.41	0.44	0.34	0.37	0.33	0.41	0.32	0.36	0.29	0.41	0.31	0.36	0.25
5	0.43	0.46	0.35	0.38	0.33	0.43	0.34	0.37	0.30	0.43	0.33	0.37	0.27
6	0.45	0.49	0.36	0.39	0.34	0.45	0.35	0.38	0.31	0.44	0.34	0.38	0.28
7	0.47	0.53	0.37	0.41	0.34	0.47	0.36	0.40	0.32	0.47	0.36	0.39	0.30
8	0.53	0.61	0.40	0.42	0.35	0.53	0.39	0.42	0.32	0.53	0.38	0.41	0.31
9	0.68	0.79	0.42	0.45	0.37	0.68	0.42	0.44	0.34	0.67	0.41	0.44	0.33
Highes	0.90	0.90	0.88	0.88	0.49	0.90	0.75	0.75	0.44	0.90	0.74	0.74	0.40
N	5,909	3,922	1,987	1,016	971								

Notes: Does not account for actuarial reductions, which will apply to the majority of beneficiaries, or spouse and survivor benefits. AIME and PIA computed as of age 62.
Source: Authors' calculations from SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants and individuals with AIME of zero.

Table 14b. *Deciles of Worker Benefit Replacement Rate (PIA/AIMEs) for Women under Current Law and Alternative Assumptions about Taxable Maximum: 1941-1947 Birth Cohorts as of 2010*

Decile	Current law					Remove taxable maximum starting in 1983, pay benefits				Remove taxable maximum starting in 1983, do not pay benefits			
	All	Never earned over cap	Earned over taxable maximum at least once				Earned over taxable maximum at least once				Earned over taxable maximum at least once		
			All	1-4 years	5+ years	All	All	1-4 years	5+ years	All	All	1-4 years	5+ years
Lowest	0.43	0.44	0.34	0.36	0.33	0.42	0.30	0.36	0.28	0.42	0.27	0.36	0.23
2	0.46	0.48	0.35	0.38	0.34	0.46	0.34	0.38	0.31	0.46	0.32	0.37	0.27
3	0.49	0.50	0.37	0.40	0.35	0.49	0.35	0.40	0.32	0.49	0.35	0.39	0.30
4	0.52	0.54	0.38	0.42	0.36	0.52	0.37	0.42	0.34	0.52	0.36	0.41	0.32
5	0.57	0.59	0.40	0.43	0.37	0.56	0.38	0.43	0.35	0.56	0.38	0.42	0.33
6	0.63	0.65	0.42	0.44	0.38	0.63	0.41	0.43	0.36	0.63	0.39	0.43	0.35
7	0.72	0.75	0.43	0.45	0.40	0.72	0.43	0.45	0.38	0.72	0.42	0.44	0.36
8	0.87	0.90	0.45	0.47	0.42	0.87	0.55	0.47	0.40	0.87	0.43	0.46	0.38
9	0.90	0.90	0.48	0.52	0.44	0.90	0.47	0.52	0.42	0.90	0.47	0.50	0.40
Highes	0.90	0.90	0.85	0.85	0.56	0.90	0.81	0.75	0.48	0.90	0.80	0.80	0.48
N	5,941	5,479	462	229	233								

Notes: Does not account for actuarial reductions, which will apply to the majority of beneficiaries, or spouse and survivor benefits. AIME and PIA computed as of age 62.
Source: Authors' calculations from SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants and individuals with AIME of zero.

Table 15. *MINT Projections of the Share Not Once Earning over the Taxable Maximum over the Last 20 Years, by Age and Sex, 2020, 2040, and 2060*

	2020		2040		2060	
Age	Men	Women	Men	Women	Men	Women
30-39	0.89	0.96	0.90	0.96	0.91	0.96
40-44	0.82	0.93	0.84	0.93	0.84	0.93
45-49	0.77	0.92	0.81	0.92	0.83	0.93
50-59	0.75	0.90	0.78	0.91	0.79	0.91
60-67	0.74	0.92	0.75	0.90	0.80	0.91
N	42,079	36,276	37,780	39,922	42,695	42,216

Notes: Sample excludes imputed other-than-legal immigrants.
Source: Authors' computations from MINT7 (dated July, 2013).

Table 16. *Projected Distribution of Total Years over the Last 20 Years over the Taxable Maximum for those Exceeding the Cap at Least Once, by Age and Sex, 2020, 2040, and 2060*

	Distribution among those earning over taxable maximum at least once																				
				2020							2040							2060			
	1	2	3	4-5	6-7	8-9	10 or more	1	2	3	4-5	6-7	8-9	10 or more	1	2	3	4-5	6-7	8-9	10 or more
Men																					
30-	0.3	0.1	0.1	0.2	0.0	0.0	0.0	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.3	0.1	0.1	0.1	0.0	0.0	0.05
39	1	6	2	0	9	7	5	8	9	3	9	9	7	5	1	6	4	8	9	7	
40-	0.2	0.1	0.0	0.1	0.1	0.1	0.2	0.2	0.1	0.0	0.1	0.1	0.1	0.2	0.2	0.1	0.0	0.1	0.0	0.0	0.24
44	1	0	8	5	0	1	4	4	3	7	3	1	0	2	4	2	8	3	9	9	
45-	0.2	0.0	0.0	0.1	0.1	0.0	0.4	0.2	0.1	0.0	0.0	0.0	0.0	0.3	0.2	0.1	0.0	0.1	0.0	0.0	0.32
49	0	7	5	0	0	8	0	1	1	9	9	6	7	7	1	0	8	1	9	8	
50-	0.1	0.0	0.0	0.1	0.0	0.0	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.4	0.2	0.1	0.0	0.0	0.0	0.0	0.41
59	6	9	6	0	7	7	4	1	9	6	9	7	6	2	0	0	6	9	6	7	
60-	0.1	0.1	0.0	0.0	0.0	0.0	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.4	0.2	0.1	0.0	0.0	0.0	0.0	0.40
67	7	0	6	9	7	7	5	9	9	5	9	8	7	2	0	0	6	9	8	7	
N				6,616							6,666							7,042			
Women																					
30-	0.3	0.1	0.1	0.2	0.0	0.0	0.0	0.3	0.1	0.1	0.1	0.1	0.0	0.0	0.3	0.1	0.1	0.2	0.0	0.0	0.06
39	0	4	5	2	7	7	5	2	8	4	6	0	6	5	3	5	1	0	8	7	
40-	0.2	0.1	0.1	0.1	0.0	0.0	0.1	0.2	0.1	0.0	0.1	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.0	0.0	0.21
44	5	4	3	8	7	8	7	4	2	7	8	9	0	9	1	4	0	6	9	9	
45-	0.1	0.1	0.1	0.1	0.0	0.0	0.2	0.1	0.1	0.0	0.1	0.1	0.0	0.3	0.2	0.1	0.0	0.1	0.0	0.1	0.23
49	9	0	2	5	6	8	8	8	3	8	4	0	7	0	1	5	9	4	8	0	
50-	0.2	0.1	0.1	0.1	0.0	0.0	0.3	0.2	0.1	0.0	0.1	0.1	0.0	0.3	0.2	0.1	0.0	0.0	0.1	0.0	0.34
59	1	1	0	2	6	9	1	2	0	8	0	0	7	3	1	0	8	9	0	8	
60-	0.2	0.1	0.0	0.1	0.1	0.0	0.2	0.2	0.1	0.0	0.1	0.0	0.0	0.3	0.2	0.1	0.0	0.1	0.0	0.0	0.34

67	2	2	8	1	2	6	8	2	0	9	3	9	6	4	1	3	8	0	8	8
N				3,039							2,816							3,117		

Notes: Entries may not sum to 100 percent because of rounding. Sample excludes imputed other-than-legal immigrants.
Source: Authors' computations from MINT7 (dated July, 2013).

Table 17. *Projected Five-Year Earnings Quintile Transition Matrices at Ages 35 to 59 by Sex, 2020, 2040, and 2060*

5-year average earnings	This year's earnings														
	2020					2040					2060				
Men	Bottom	Second	Middle	Fourth	Top	Bottom	Second	Middle	Fourth	Top	Bottom	Second	Middle	Fourth	Top
Bottom	67.5	25.3	5.1	1.5	0.6	65.2	26.7	5.6	2.1	0.4	64.9	27.5	5.5	1.6	0.5
Second	19.3	51.8	23.3	4.7	1.0	20.0	49.9	24.2	4.9	1.1	19.9	48.8	25.5	4.8	0.9
Middle	8.1	16.5	53.5	19.1	2.7	9.0	16.2	52.2	20.4	2.1	8.9	16.5	51.3	21.0	2.4
Fourth	3.6	4.4	15.0	62.8	14.3	4.0	5.1	15.1	60.3	15.5	4.9	4.7	14.4	59.8	16.2
Top	2.6	1.5	2.9	11.7	81.3	2.7	1.8	2.7	12.1	80.7	2.4	2.0	3.0	12.6	80.0
N			18,989					22,847					24,868		
Women	Bottom	Second	Middle	Fourth	Top	Bottom	Second	Middle	Fourth	Top	Bottom	Second	Middle	Fourth	Top
Bottom	61.5	29.7	6.2	1.8	0.8	61.1	29.8	6.2	2.3	0.6	61.7	29.3	6.3	2.1	0.7
Second	20.3	47.6	24.8	6.2	1.1	21.3	48.4	23.8	5.4	1.1	19.9	49.2	23.8	6.0	1.1
Middle	9.9	15.2	52.0	19.3	3.5	9.8	14.7	53.6	19.1	2.9	10.2	14.9	52.7	19.5	2.8
Fourth	5.3	4.7	14.1	60.8	15.2	5.6	5.0	13.7	60.9	14.9	5.8	4.5	14.5	60.3	15.0
Top	3.8	2.4	2.7	11.8	79.3	3.1	1.8	2.6	12.2	80.3	3.2	1.8	2.6	12.0	80.4
N			18,648					20,440					22,411		

Notes: To be included in the sample, individuals need to have worked at least three of the past five years. Sample excludes imputed other-than-legal immigrants. Entries may not sum to 100 percent because of rounding.
Source: Authors' computations from MINT7 (dated July, 2013).

Table 18. *Projected Ten-Year Earnings Quintile Transition Matrices at Ages 35 to 59 by Sex, 2020, 2040, and 2060*

5-year average earnings	This year's earnings														
	2020					2040					2060				
Men															
	Bottom	Second	Middle	Fourth	Top	Bottom	Second	Middle	Fourth	Top	Bottom	Second	Middle	Fourth	Top
Bottom	58.3	31.7	7.5	1.9	0.7	57.7	32.5	7.1	2.1	0.5	56.4	32.8	8.1	2.1	0.6
Second	22.2	40.2	29.3	7.1	1.3	22.0	41.0	28.1	7.8	1.1	22.5	39.3	29.0	7.9	1.3
Middle	11.3	18.8	42.2	23.6	4.1	11.4	16.9	43.7	24.1	3.9	12.3	17.9	41.7	24.1	4.0
Fourth	6.4	6.6	17.2	52.0	17.8	6.2	6.6	17.1	51.4	18.8	6.5	6.6	17.3	50.7	18.9
Top	3.5	2.0	3.5	15.2	75.9	3.8	2.5	3.8	14.4	75.6	3.7	2.8	3.5	15.1	75.0
N			26,749					30,606					34,109		
Women															
	Bottom	Second	Middle	Fourth	Top	Bottom	Second	Middle	Fourth	Top	Bottom	Second	Middle	Fourth	Top
Bottom	48.6	38.9	9.3	2.4	0.8	50.5	37.3	9.1	2.4	0.8	49.9	38.1	9.2	2.3	0.5
Second	23.5	36.4	30.2	7.9	2.1	22.9	38.6	29.2	8.0	1.3	23.1	38.0	29.5	7.9	1.6
Middle	14.2	14.9	41.8	24.9	4.4	13.8	15.0	43.0	24.2	4.0	13.6	14.3	42.4	25.6	4.0
Fourth	9.4	6.0	14.3	51.3	19.0	8.9	5.8	14.9	51.0	19.4	9.0	6.2	14.8	50.9	19.2
Top	5.4	3.3	4.2	13.5	73.7	5.1	2.9	3.6	14.2	74.4	5.5	2.9	3.9	13.2	74.5
N			25,979					27,398					30,338		

Notes: To be included in the sample, individuals need to have worked at least six of the past ten years. Sample excludes imputed other-than-legal immigrants. Entries may not sum to 100 percent because of rounding.
Source: Authors' computations from MINT7 (dated July, 2013).

Appendix 1. Earnings in Dynamic Microsimulation Models

The Congressional Budget Office developed the CBOLT model (2006) for estimating costs and distributional effects of Social Security changes (for example, Congressional Budget Office 2010; 2012). CBOLT uses age-centered regression technique described by Sabelhaus and Walker (2009) as the foundation for its earnings projections (see also Schwabish and Topoleski 2013). This approach assumes that the effects of most key characteristics vary by age. Age-centered regression also uses data from neighboring ages to smooth across equations. Relying on insights from Carroll, Hall, and Zeldes (1992), the model error structure and bootstrapping techniques serve to preserve the distribution of earnings over time.

MINT7 is the Social Security Administration's SIPP-based work horse model for distributional analysis.[41] SSA developed the model with assistance from researchers from the Urban Institute, Brookings Institution, and RAND. To project its earnings trajectories, MINT7 relies on three distinct sets of algorithms that include both parametric and non-parametric methods (Smith et al. 2010). Table A1-2 provides additional details about how this process works. Through age 55, earnings, along with disability and mortality, are "spliced" in 5-year segments, a method that developers chose to ensure internal consistency in these three outcomes. From age 55 onward, MINT uses a regression-based, education-specific trajectory method for the non-retired (i.e., those without a sustained drop in earnings) and a regression method closely tied to beneficiary status for workers who have retired. (MINT defines retirement based on a significant drop in usual hours worked.)[42] Over the projection horizon, about one tenth of one percent of outlier earnings are adjusted. This corresponds to earnings over $720,000 annually at present.

The Urban Institute's Dynamic Simulation of Income Model (DYNASIM), another model based on the SIPP, uses regression models to project earnings. The model employs separate equations for participation, hours, and the natural log of wages. These equations all include complex error structures, with permanent and transitory components. To capture the very highest earners, the model uses a separate process for approximately one-tenth of one

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[41] Examples of policy analyses with MINT include Social Security Administration (2011), Iams, Reznik, and Tamborini (2009, 2010), Sarney (2008, 2010), Tamborini and Whitman (2010), and (Reno and Walker 2011).
[42] Within MINT, developers smooth across the seam between the splicing method and the regression method. In the age-education trajectory regression, developers use caps and then added noise back into the capped cases.

percent of male earners who earn more than 200 times the average wage index (over $8 million today).

Table A1-1. *Specification of Employment and Earnings Processes in Selected U.S. Microsimulation Models*

	CBOLT	**DYNASIM**	**MINT**
Regression or match/splice?	Regression	Regression	Combination: Splice through age 54, regression thereafter for non-disabled
Key stratifying dimensions?	Single year of age and gender	Gender, race, broad age group	OASI/DI beneficiary status, age, gender, education
Employment	Unemployment spell durations explicitly modeled	Just employed, nonemployed	Just employed, nonemployed
Hours (FT/PT)	Hours and FT/PT	Hours	None (implicit only)
Wage/Earnings		Log wage is used along with hours to derive earnings; separate process for high earners	
Alignment?		Yes to AWI and for very high earners	Yes, but only for very high earners
Wage growth?	CBO's longer term projections	Board of Trustees (2012)	Board of Trustees (2012)
Error structures	Bootstrapping	AR-1	

Sources: Congressional Budget Office (2006); Schwabish and Topoleski (2013); Smith et al. (2010).

Table A1-2. *Details on the Specification of Employment/Earnings in MINT7*

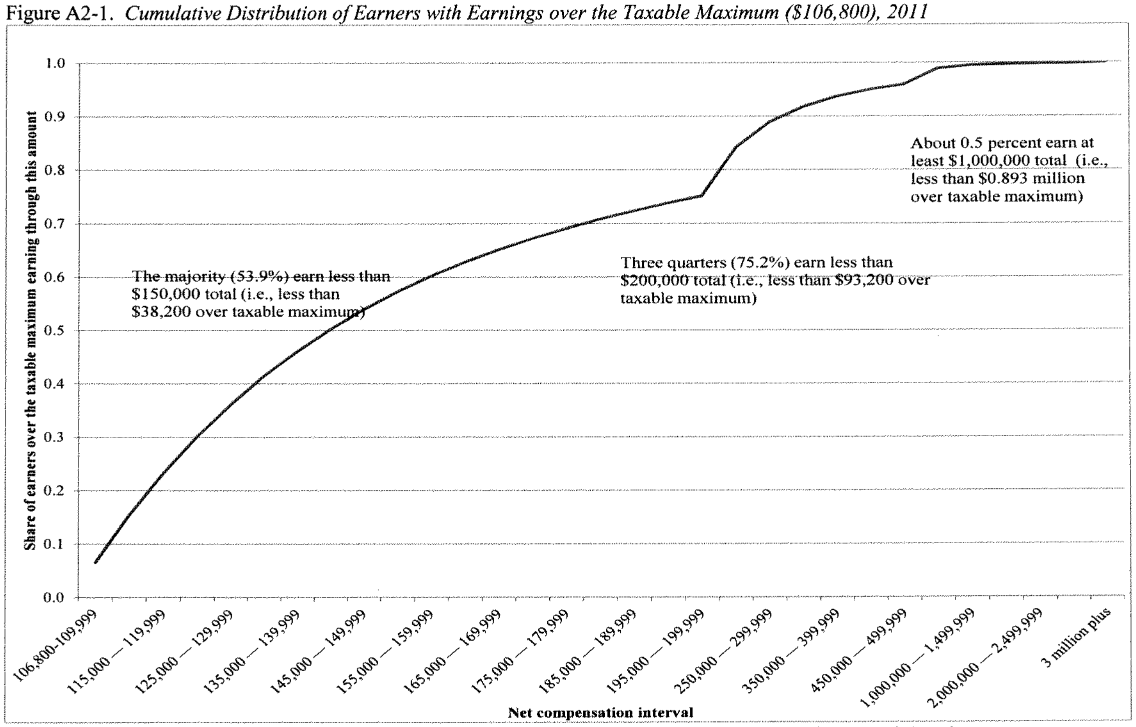
Year and age range	Specification	Key explanatory/ matching variables	Estimation data source
1951-2010, All ages	Observed from matched earnings records	N/A	N/A
2011+, Ages 16-54 and all workers ever receiving DI benefits	Five year segments of joint earnings/mortality/ DI participation trajectories are "spliced" using a statistical matching algorithm (minimum distance)	SIPP panel, age, gender, death indicator, disability indicator, SSI receipt, report making DC contribution on SIPP, mean monthly earnings group (7 categories), nativity, immigration age and source region if foreign born, earnings status, education, race/ethnicity, class of worker (private or nonprofit, government, other, nonworker)	SIPP matched data
2011+, Ages 55-69 non-disabled, decision to "retire"	Separate models by marital status	Replacement rate from Social Security, pension accruals, permanent earnings, age, education, health/work limitations status, nativity, self-employment, spouse characteristics (age, permanent income, pension characteristics) for married people, financial assets	HRS matched data
2011+, Ages 55-69, non-disabled, "nonretired"	Age-earnings profiles, separately by gender and education, with fixed effects	Age, cohort for women; 0.3 percent of observations are capped due to high earnings (with different caps by education group)	SIPP matched data
2011+, Ages 55-first aged OASI claiming,"retire d"	Separate entry and exit models	Age, education, gender, lifetime earnings, work limitations, ethnicity/race, wealth (housing and financial)	HRS matched data
2011+, Ages 60-69, Social Security claimants	4 separate regression for participation (separate entry and exit models for claiming age and subsequent ages) and 5 separate regression models for	Age, education, gender, health status, marital status, lagged employment/ employment duration, lifetime earnings, recent earnings, pension indicators, Social Security incentives (non-contributory, dual entitlement)	SIPP matched data

	earnings for similar groups		
2011+, Ages 70 and older	Employment modeled using separate equations based on work status last period	Age, education, gender, health status, wealth, lagged employment/ employment duration, recent earnings, lifetime earnings	SIPP matched data

Notes: SIPP matched data refers to SIPP matched to SER, DER, MBR, and Numident.
Sources: Smith et al. (2010), Smith and Favreault (2013), unpublished MINT7 documentation.

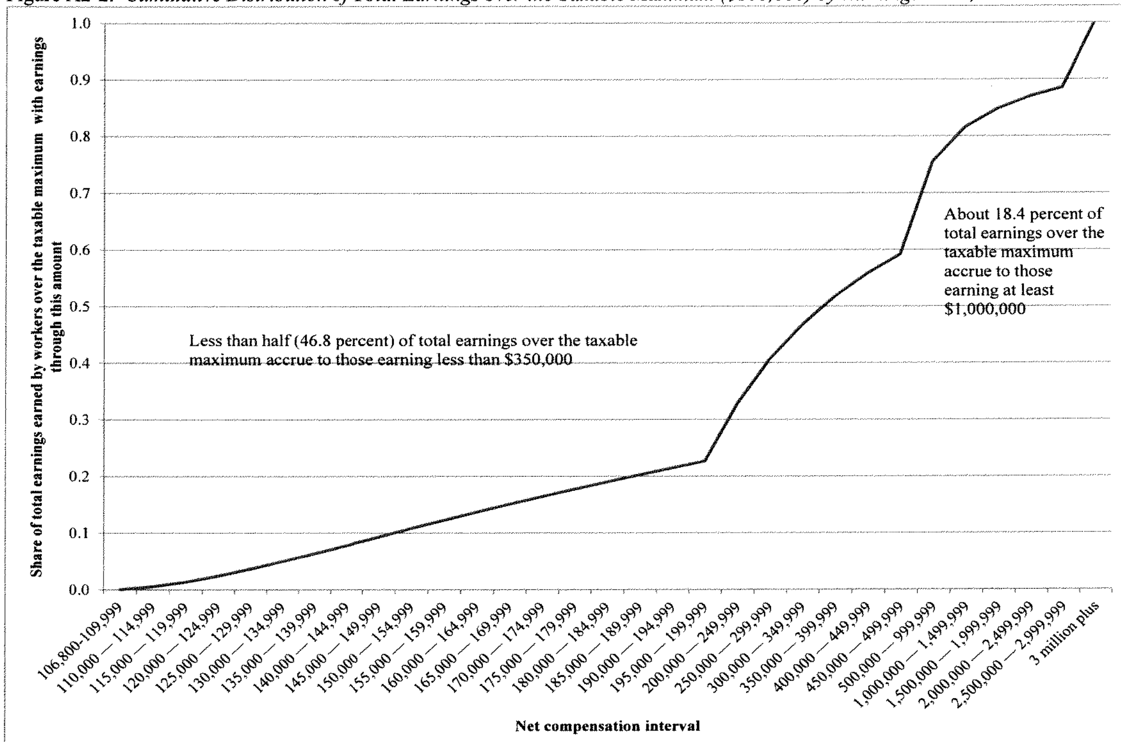
Appendix 2. Supplemental Tables and Figures

Figure A2-1. *Cumulative Distribution of Earners with Earnings over the Taxable Maximum ($106,800), 2011*



Notes: Assumes that individuals are uniformly distributed in the interval $105,000-109,999. Discontinuities arise when interval sizes change.
Source: Authors' calculations using administrative data from SSA website (http://www.ssa.gov/cgi-bin/netcomp.cgi?year=2011).

Figure A2-2. *Cumulative Distribution of Total Earnings over the Taxable Maximum ($106,800) by Earnings Level, 2011*



Notes: Assumes that individuals are uniformly distributed in the interval $105,000-109,999.
Source: Authors' calculations using administrative data from SSA website (http://www.ssa.gov/cgi-bin/netcomp.cgi?year=2011).

Table A2-1. *Ratio of Earnings Taxable by Social Security to Earnings Taxable by Medicare, 2009, and Share of State and Local Workers in Covered Employment, 2007*

State	Ratio of earnings taxable by OASDI to earnings taxable by HI (2009) All	Men	Women	State and local covered share (2007)
All areas	0.822	0.781	0.889	0.936*
Alabama	0.905	0.869	0.963	0.926
Alaska	0.784	0.783	0.786	0.655
Arizona	0.891	0.847	0.961	0.914
Arkansas	0.906	0.871	0.960	0.898
California	0.749	0.713	0.809	0.438
Colorado	0.769	0.745	0.812	0.304
Connecticut	0.685	0.611	0.837	0.716
Delaware	0.881	0.841	0.939	0.944
District of Columbia	0.749	0.701	0.809	0.777
Florida	0.865	0.809	0.951	0.888
Georgia	0.839	0.799	0.902	0.742
Hawaii	0.887	0.847	0.947	0.703
Idaho	0.924	0.895	0.974	0.944
Illinois	0.772	0.737	0.831	0.547
Indiana	0.908	0.876	0.963	0.901
Iowa	0.926	0.894	0.975	0.906
Kansas	0.895	0.860	0.953	0.922
Kentucky	0.884	0.875	0.899	0.747
Louisiana	0.795	0.808	0.773	0.281
Maine	0.843	0.834	0.857	0.542
Maryland	0.831	0.781	0.899	0.907
Massachusetts	0.737	0.698	0.801	0.043
Michigan	0.879	0.831	0.955	0.886
Minnesota	0.879	0.834	0.950	0.939
Mississippi	0.925	0.896	0.969	0.921
Missouri	0.860	0.839	0.892	0.737
Montana	0.922	0.898	0.960	0.873
Nebraska	0.894	0.860	0.948	0.936
Nevada	0.757	0.735	0.795	0.185
New Hampshire	0.867	0.822	0.946	0.883
New Jersey	0.783	0.709	0.911	0.929

Table A2-1. (Continued)

State	Ratio of earnings taxable by OASDI to earnings taxable by HI (2009)			State and local covered share (2007)
	All	**Men**	**Women**	
New Mexico	0.890	0.842	0.967	0.899
New York	0.767	0.697	0.878	0.970
North Carolina	0.891	0.850	0.954	0.925
North Dakota	0.906	0.880	0.956	0.872
Ohio	0.774	0.760	0.796	0.026
Oklahoma	0.902	0.864	0.965	0.908
Oregon	0.907	0.875	0.957	0.922
Pennsylvania	0.860	0.812	0.941	0.927
Rhode Island	0.850	0.818	0.898	0.848
South Carolina	0.899	0.858	0.963	0.939
South Dakota	0.901	0.852	0.970	0.932
Tennessee	0.845	0.785	0.944	0.910
Texas	0.798	0.781	0.830	0.477
Utah	0.855	0.807	0.967	0.914
Vermont	0.921	0.885	0.972	0.977
Virginia	0.843	0.797	0.918	0.947
Washington	0.875	0.837	0.939	0.887
West Virginia	0.883	0.848	0.947	0.932
Wisconsin	0.898	0.856	0.965	0.887
Wyoming	0.780	0.706	0.966	0.882
Puerto Rico	0.900	0.898	0.902	0.864
Other	0.937	0.927	0.958	0.203

* Overall covered share estimate is for 2008, while state-by-state estimates are for 2007.Source for Medicare and Social Security earnings by state: U.S. Social Security Administration (2012, Tables 1 and 4)
Source for state and local covered share: United States Senate (2010, Tables 1 and 2, pages 12-13).

Table A2-2. *Shares of Individuals Earning over 4.5 Times the Average Wage Index, by Demographic Characteristics: Workers Ages 30 to 67 at a Point in Time (2004, 2009) and All Individuals Ages 45 to 67 over the Last 20 Years*

Characteristic	Shares over 4.5*AWI					
	Men		Women		All	
	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)
All	0.035	0.097	0.008	0.017	0.022	0.055
Age						
30-34	0.014*	n/a	0.004*	n/a	0.010*	n/a
35-39	0.033*	n/a	0.008	n/a	0.021*	n/a
40-44	0.038	n/a	0.008	n/a	0.024	n/a
45-49 (REF)	0.041	0.085	0.011	0.018	0.026	0.051
50-54	0.039	0.092	0.009	0.018	0.024	0.054
55-59	0.042	0.104*	0.008	0.018	0.025	0.059*
60-67	0.034*	0.107*	0.005*	0.014	0.020*	0.058*
Education						
High school graduate or	+	0.021*	+	0.003*	+	0.011*
Some college	0.007*	0.046*	0.001*	0.009*	0.004*	0.026*
College graduate	0.055	0.182	0.013	0.032	0.035	0.107
Master's degree	0.087*	0.239*	0.017	0.042	0.051*	0.136*
Professional degree	0.315*	0.570*	0.138*	0.228*	0.252*	0.455*
Doctoral degree	0.166*	0.342*	0.067*	0.146*	0.131*	0.276*
Race/ethnicity						
White (REF)	0.042	0.113	0.009	0.019	0.026	0.065
Non Hispanic Black, Native American, or Hispanic	0.009*	0.029*	0.003*	0.008*	0.006*	0.017*
Asian/Pacific Islander	0.051*	0.122	0.021*	0.031*	0.037*	0.074*
N	34,403	23,645	33,771	26,852	68,174	50,497

Notes: "*" indicates prevalence statistically differs from the reference group (denoted by "REF") for the row and column at p<0.05 level.
"+" indicates this row is combined with the row below for this analysis to maintain adequate sample sizes.
Source: Authors' calculations from SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Table A2-3. *Shares of Individuals Earning over 4.5 Times the Average Wage Index, by Nativity and Family Demographic Characteristics: Workers Ages 30 to 67 at a Point in Time (2004, 2009) and All Individuals Ages 45 to 67 over the Last 20 Years*

Characteristic	Shares over 4.5*AWI					
	Men		Women		All	
	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)
Nativity						
Native-born (REF)	0.035	0.098	0.008	0.017	0.022	0.056
Foreign born						
MDC	0.071*	0.158*	0.020*	0.033*	0.046*	0.091*
LDC	0.022*	0.056*	0.007	0.014	0.015*	0.034*
Marital status						
Married (REF)	0.043	0.116	0.009	0.017	0.027	0.067
Widowed/Divorced/ Separated	0.013*	0.049*	0.005*	0.014	0.008*	0.027*
Never married	0.015*	0.036*	0.008	0.028*	0.011*	0.032*
Number of children ever born						
None	0.019*	0.059*	0.012*	0.034*	0.016*	0.047*
One	0.024*	0.084*	0.008	0.017	0.016*	0.048*
Two (REF)	0.043	0.119	0.007	0.016	0.025	0.064
Three or more	0.044	0.103*	0.006	0.009*	0.025	0.053*
Missing	0.048	0.108	0.010	0.028*	0.030	0.067
Metropolitan status						
Lives in metro area (REF)	0.038	0.107	0.009	0.020	0.024	0.061
Lives outside metro area or unknown	0.019*	0.059*	0.003*	0.007*	0.011*	0.055*
State earnings/wages						
Lowest quintile	0.019*	0.056*	0.003	0.009	0.011*	0.031*
Middle 3 quintiles (REF)	0.030	0.091	0.006	0.014	0.018	0.051
Highest quintile	0.046*	0.116*	0.013*	0.025*	0.030*	0.068*
N	34,403	23,645	33,771	26,852	68,174	50,497

Notes: "*" indicates prevalence statistically differs from the reference group (denoted by "REF") for the row and column at $p<0.05$ level. See footnote 17 for information on state earnings rankings.
Source: Authors' calculations from SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Table A2-4. *Shares over 4.5 Times the Average Wage Index, by Current Job Characteristics: Workers Ages 30 to 67 at a Point in Time (2004, 2009) and All Individuals Ages 45 to 67 over the Last 20 Years*

Characteristic	Shares over 4.5*AWI					
	Men		Women		All	
	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)
Occupation in current year						
Managerial	0.095*	0.247*	0.025*	0.057*	0.065*	0.168*
Professional	0.066*	0.189*	0.012*	0.028*	0.035*	0.094*
Sales	0.051*	0.176*	0.009*	0.027*	0.034*	0.113*
Clerical /	+	0.087*	+	0.011*	+	0.022
Service / other (REF)	0.004	0.018	0.001	0.003	0.003	0.013
Missing	c	0.054*	c	0.010*	c	0.026*
Industry in current						
Agriculture/forest/ fishery/mining/utility/ construction/transportation/warehouse/	0.015*	0.060*	0.008	0.017	0.014	0.052*
Manufacturing	0.029	0.096	0.016	0.032	0.025	0.077
Wholesale or retail	0.026	0.092*	0.005	0.013	0.017*	0.056*
Information	0.060*	0.129	0.018*	0.045*	0.042*	0.090*
Finance/insurance/real	0.098*	0.252*	0.017*	0.035*	0.052*	0.131*
Prof/scientif/mangmnt/ admin srvc	0.064*	0.219*	0.019*	0.049*	0.044*	0.144*
Other (see notes)	0.032	0.086	0.004	0.013	0.014	0.038
Missing	c	0.054*	c	0.010*	c	0.026*
Firm size						
<25	0.030*	0.129*	0.006*	0.025*	0.020*	0.083*
25-99	0.038	0.122*	0.005*	0.016	0.023	0.071*
100 or more (REF)	0.039	0.100	0.010	0.020	0.025	0.059
Missing	c	0.053	c	0.010*	c	0.027*
N	34,403	23,645	33,771	26,852	68,174	50,497

Notes: "*" indicates prevalence statistically differs from the reference group (denoted by "REF") for the row and column at p<0.05 level,"+" indicates this row is combined with the row below for this analysis to maintain adequate sample sizes, "c" indicates cell sizes too small to be reliable. "Other" occupation category is comprised of jobs in production, farm/forestry/fisheries, repair, construction, extraction, and operators. "Other" industry category is comprised of jobs in education, health, social services, arts, entertainment, other services, public administration and active duty military.

Source: Authors' calculations from SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Table A2-5. *Shares over 4.5 Times the Average Wage Index, by Work Experience: Workers Ages 30 to 67 at a Point in Time (2004, 2009) and All Individuals Ages 45 to 67 over the Last 20 Years*

Characteristic	Shares over 4.5*AWI					
	Men		Women		All	
	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)	Current (Ages 30-67)	Past 20 (Ages 45-67)
Usual hours on current job						
<20	0.020*	0.068*	0.002	0.011*	0.010	0.034*
20-29	0.020*	0.088*	0.003	0.015*	0.010	0.047*
30-34	0.023*	0.099*	0.011*	0.016*	0.016*	0.055*
35-39	0.021*	0.079*	0.006*	0.014*	0.012*	0.039*
40 (REF)	0.013	0.049	0.003	0.008	0.008	0.029
41-49	0.036*	0.124*	0.012*	0.030*	0.027*	0.087*
50 or more	0.085*	0.214*	0.035*	0.069*	0.069*	0.165*
Tenure on current job						
< 5 (including 0)	0.024*	0.080	0.005*	0.015	0.014*	0.043
5-9 (REF)	0.033	0.111	0.009	0.021	0.021	0.063
10-14	0.044*	0.102	0.010	0.018	0.028*	0.060
15-24	0.048*	0.112	0.013*	0.021	0.032*	0.069
25 or more	0.048*	0.115	0.010	0.020	0.034*	0.078
OASDI-covered work						
<15	0.023*	0.037*	0.003*	0.005	0.012*	0.014
15-19	0.019*	0.044	0.005*	0.007	0.012*	0.019
20-29 (REF)	0.033	0.062	0.009	0.012	0.021	0.030
30-34	0.045*	0.096*	0.013*	0.026*	0.030*	0.060
35 or more	0.044*	0.123*	0.009	0.027*	0.031*	0.087
N	34,403	23,645	33,771	26,852	68,174	50,497

Notes: "*" indicates prevalence statistically differs from the reference group (denoted by "REF") for the row and column at $p<0.05$ level,"+" indicates combined with the row below for this analysis to maintain adequate sample sizes.
Source: Authors' calculations from SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

Table A2-6. *Logistic Regression Models for Whether Workers' Earnings are Greater than Given Thresholds (the Taxable Maximum or 4.5 Times the Average Wage Index) at Ages 30 to 67, Pooled 2004 and 2008 SIPP Panels*

	Earnings over taxable maximum						Earnings over 4.5 times Average Wage Index					
	Just demographic characteristics			Include job characteristics			Just demographic characteristics			Include job characteristics		
	coefficient		SE	coefficient		SE	coefficient		SE	coefficient		SE
Intercept	-9.089	***	0.423	-10.454	***	0.465	-12.325	***	0.795	-14.977	***	0.859
Demographic characteristics												
Age	0.261	***	0.018	0.153	***	0.020	0.307	***	0.034	0.224	***	0.035
Age squared	-0.003	***	0.000	-0.002	***	0.000	-0.003	***	0.000	-0.003	***	0.000
Foreign born indicator (ref=native born)	0.189	*	0.076	0.881	***	0.088	0.281	*	0.118	0.762	***	0.134
Foreign born indicator * country of origin is less developed	-0.302	**	0.097	-0.286	**	0.104	-0.444	**	0.159	-0.431	**	0.165
Female indicator (ref=male)	-0.932	***	0.088	-0.851	***	0.094	-0.836	***	0.179	-0.646	***	0.184
Indicator education < high school (ref=high school graduate)	-1.320	***	0.185	-0.672	***	0.190	-0.917	*	0.364	-0.107		0.370
Indicator education college graduate	1.812	***	0.042	1.291	***	0.047	1.960	***	0.090	1.277	***	0.095
Indicator education more than college graduate	2.544	***	0.043	2.054	***	0.051	3.001	***	0.086	2.330	***	0.095
Unmarried indicator	-0.632	***	0.060	-0.534	***	0.064	-0.667	***	0.116	-0.545	***	0.120
Unmarried female indicator	0.593	***	0.094	0.407	***	0.099	0.520	**	0.190	0.302		0.195
Indicator has one or two children (ref=no children)	0.286	***	0.057	0.261	***	0.062	0.554	***	0.110	0.507	***	0.114
Indicator has three or more children	0.482	***	0.063	0.501	***	0.069	0.942	***	0.117	0.914	***	0.122
Indicator data on number of children is missing	0.669	***	0.111	0.510	***	0.121	1.199	***	0.178	0.992	***	0.187
Female * indicator has one or two children (ref=no children)	-0.612	***	0.096	-0.420	***	0.102	-0.803	***	0.196	-0.619	**	0.201
Female * indicator has three or more children	-1.000	***	0.118	-0.640	***	0.126	-0.984	***	0.225	-0.642	**	0.231
Female * indicator data on number of children is missing	-0.573	**	0.202	-0.374		0.215	-0.934	*	0.377	-0.800	*	0.388
Indicator race is black (ref=non-black)	-0.877	***	0.085	-0.839	***	0.089	-1.040	***	0.181	-0.885	***	0.185
Indicator ethnicity is Hispanic (ref=non-Hispanic)	-0.629	***	0.103	-0.575	***	0.108	-0.936	***	0.228	-0.848	***	0.236
Job characteristics												
Best estimate of annual hours		—		0.030	***	0.001		—		0.030	***	0.002
Total years in the OASDI-covered labor force		—		0.079	***	0.004		—		0.045	***	0.006
Tenure on current job (in years)				0.031	***	0.002		—		0.027	***	0.003
Indicator tenure is missing				-1.065	***	0.290		—		-0.381		0.434
Indicator current occupation is managerial (ref=production or repair in taxable maximum regression, production, repair, operator, forest/farm/fish in higher earner regression)		—		1.703	***	0.072		—		2.580	***	0.205
Indicator current occupation is professional		—		1.146	***	0.073		—		1.982	***	0.207
Indicator current occupation is sales		—		1.328	***	0.082		—		2.290	***	0.216
Indicator current occupation is clerical		—		0.387	***	0.111		—		1.402	***	0.266
Indicator current occupation is service		—		-0.481	**	0.180		—		0.545		0.408
Indicator current occupation is operator		—		-0.713	*	0.288		—			—	
Indicator current occupation is farm/forest/fisheries		—		-0.203		0.306		—			—	
Indicator current occupation is construction		—		0.452	**	0.151		—		1.398	***	0.342
Indicator current industry is finance (ref=all others)		—		0.607	***	0.061		—		0.796	***	0.093
Indicator current industry is professional/scientific		—		0.655	***	0.049		—		0.573	***	0.079
Indicator current industry is information		—		0.597	***	0.089		—		0.732	***	0.145
Indicator individual lives in a metropolitan area		—		0.696	***	0.064		—		0.831	***	0.128
Indicator metropolitan status is missing		—		0.587	***	0.097		—		0.796	***	0.174
Indicator individual lives in state in highest wage/earnings quintile		—		0.511	***	0.037		—		0.257	***	0.063
Indicator individual lives in state in lowest wage/earnings quintile		—		-0.357	***	0.079		—		-0.255		0.136
Indicator firm size is small (<25 employees) (ref=100+ employees)		—		-0.807	***	0.050		—		-0.228	**	0.077
Indicator firm size is medium (25-99 employees)		—		-0.247	***	0.059		—		0.015		0.097
Indicator firm size is missing		—		-1.800	***	0.540		—		-0.905		0.742
-2 * log likelihood		26,601.54			22,778.26			10,262.78			9,126.87	
Share earning over threshold		0.081			0.081			0.023			0.023	
N		60,896			60,896			60,896			60,896	

Notes: Sample is restricted to individuals who report an average of at least 5 hours per week of work. See footnote 18 for information on state earnings rankings.
*** indicates $p<.001$; ** indicates $p<.01$; * indicates $p<.05$.
Source: Authors' calculations from SIPP matched to DER, SER, and Numident.

Table A2-7. *OLS Regression Models for Natural Logarithm of Amount Earned Over Given Thresholds (Taxable Maximum or 4.5 Times the Average Wage Index) for Workers Ages 30 to 67 Earning over These Thresholds, Pooled 2004 and 2008 SIPP Panels*

	Earnings over taxable maximum						Earnings over 4.5 times Average Wage Index					
	Just demographic characteristics			Include job characteristics			Just demographic characteristics			Include job characteristics		
	coefficient		SE	coefficient		SE	coefficient		SE	coefficient		SE
Intercept	7.081	***	0.559	5.636	***	0.567	-1.738		1.143	-2.469	*	1.181
Demographic characteristics												
Age	0.107	***	0.024	0.121	***	0.024	0.081		0.048	0.073		0.049
Age squared	-0.001	***	0.000	-0.001	***	0.000	-0.001		0.001	-0.001		0.001
Foreign born indicator (ref=native born)	0.085		0.092	0.028		0.103	0.059		0.160	0.265		0.185
Foreign born indicator * country of origin is less developed	-0.080		0.119	-0.018		0.117	-0.392		0.219	-0.477	*	0.220
Female indicator (ref=male)	-0.163		0.119	-0.172		0.117	-0.404		0.275	-0.188		0.249
Indicator education < high school (ref=high school graduate)	0.294		0.262	0.394		0.260		--			--	
Indicator education college graduate	0.406	***	0.057	0.312	***	0.059	0.264	*	0.129	0.214		0.131
Indicator education more than college graduate	0.832	***	0.057	0.784	***	0.061	0.449	***	0.120	0.440	***	0.133
Unmarried indicator	-0.100		0.080	-0.109		0.079	0.048		0.174	0.099		0.172
Unmarried female indicator	0.129		0.129	0.101		0.126	-0.373		0.289	-0.503		0.285
Indicator has one or two children (ref=no children)	0.179	*	0.075	0.157	*	0.074	-0.211		0.170	-0.152		0.164
Indicator has three or more children	0.386	***	0.082	0.382	***	0.080	-0.011		0.176	0.036		0.170
Indicator data on number of children is missing	0.477	***	0.134	0.422	**	0.132	0.248		0.250	0.411		0.223
Female * indicator has one or two children (ref=no children)	-0.168		0.130	-0.151		0.128	0.259		0.298	0.059		0.277
Female * indicator has three or more children	-0.275		0.162	-0.254		0.160	0.463		0.335	0.309		0.315
Female * indicator data on number of children is missing	-0.327		0.263	-0.345		0.258	0.810		0.550		--	
Indicator race is black	-0.458	***	0.118	-0.353	**	0.116	-0.189		0.259	-0.215		0.259
Indicator ethnicity is Hispanic (ref=non-Hispanic)	-0.433	***	0.140	-0.414	**	0.138	-0.079		0.324	-0.049		0.323
Job characteristics												
Best estimate of annual hours		--		0.007	***	0.001		--		0.004		0.002
Total years in the OASDI-covered labor force		--		-0.005		0.005		--		0.017	*	0.009
Tenure on current jobs (in years)		--		0.006	*	0.002		--		0.013	**	0.005
Indicator tenure is missing				0.237		0.378		--		0.509		0.408
Indicator current occupation is managerial (ref=production or repair in taxable maximum regression, production, repair, operator, forest/farm/fish, construction in higher earner regression)		--		0.731	***	0.092		--		0.268		0.215
Indicator current occupation is professional		--		0.493	***	0.093		--		0.305		0.222
Indicator current occupation is sales		--		0.807	***	0.104		--		0.180		0.236
Indicator current occupation is clerical		--		0.492	***	0.146		--		0.249		0.323
Indicator current occupation is service		--		0.427		0.243		--			--	
Indicator current occupation is construction		--		0.602	**	0.203		--			--	
Indicator current industry is finance (ref=all others)		--		0.325	***	0.068		--		0.338	**	0.124
Indicator current industry is professional/scientific				0.138	*	0.054				-0.044		0.101
Indicator current industry is information				0.184		0.101				0.083		0.196
Indicator individual lives in a metropolitan area		--		0.143		0.081		--		0.183		0.176
Indicator metropolitan status is missing		--		0.046		0.116		--		0.240		0.237
Indicator individual lives in state in highest wage/earnings quintile		--		0.045		0.043		--		0.035		0.084
Indicator individual lives in state in lowest wage/earnings quintile		--		-0.191		0.098		--		-0.311		0.186
Indicator firm size is small (<25 employees) (ref=100+ employees)		--		0.234	***	0.058		--			--	
Indicator firm size is medium (25-99 employees)		--		0.151	*	0.069		--			--	
Indicator firm size is missing		--		1.593	***	0.472		--			--	
R-squared		0.071			0.111			0.034			0.054	
N		5,059			5,059			1,457			1,457	

Notes: See footnote 18 for information on state earnings rankings. *** indicates p<.001; ** indicates p<.01;* indicates p<.05.
Source: Authors' calculations from SIPP matched to DER, SER, and Numident.

Table A2-8. *Logistic Regression Models for Whether Workers' Earnings are Greater than Taxable Maximum at Ages 30 to 67, Pooled 1984, 2004, and 2008 SIPP Panels*

	Just demographic characteristics			Include job characteristics		
	coefficient		SE	coefficient		SE
Intercept	-9.041	***	0.419	-10.849	***	0.451
Demographic characteristics						
Age	0.253	***	0.018	0.171	***	0.019
Age squared	-0.003	***	0.000	-0.002	***	0.000
Foreign born indicator (ref=native born)	0.287	***	0.072	0.959	***	0.083
Foreign born indicator * country of origin is less developed	-0.470	***	0.089	-0.383	***	0.094
Female indicator (ref=male)	-0.884	***	0.087	-0.776	***	0.091
Indicator education < high school (ref=high school graduate)	-1.438	***	0.184	-0.849	***	0.188
Indicator education college graduate or more	2.144	***	0.038	1.573	***	0.042
Unmarried indicator	-0.647	***	0.059	-0.576	***	0.062
Unmarried female indicator	0.595	***	0.093	0.425	***	0.097
Indicator has one or two children (ref=no children)	0.282	***	0.057	0.247	***	0.060
Indicator has three or more children	0.472	***	0.063	0.454	***	0.067
Indicator data on number of children is missing	0.655	***	0.110	0.490	***	0.117
Female * indicator has one or two children (ref=no children)	-0.645	***	0.095	-0.463	***	0.099
Female * indicator has three or more children	-1.068	***	0.117	-0.760	***	0.122
Female * indicator data on number of children is missing	-0.588	**	0.200	-0.367		0.209
Indicator race is black	-0.850	***	0.085	-0.731	***	0.088
Job characteristics						
Best estimate of annual hours		--		0.029	***	0.001
Total years in the OASDI-covered labor force		--		0.074	***	0.004
Indicator current occupation is managerial (ref=production or repair)		--		1.738	***	0.071
Indicator current occupation is professional		--		1.349	***	0.071
Indicator current occupation is sales		--		1.132	***	0.081
Indicator current occupation is clerical		--		0.362	***	0.109
Indicator current occupation is service		--		-0.449	*	0.178
Indicator current occupation is operator		--		-0.719	*	0.287
Indicator current occupation is farm/forest/fisheries		--		-0.563		0.305
Indicator current occupation is construction		--		0.205		0.150
Indicator current industry is finance (ref=all others)		--		0.510	***	0.059
Indicator current industry is professional/scientific				0.399	***	0.046
Indicator individual lives in a metropolitan area		--		0.816	***	0.063
Indicator metropolitan status is missing		--		0.900	***	0.093
Interaction terms for 1984 panel: demographic						
1984 panel indicator variable	-2.237	**	0.847	2.258	*	0.963
Age	0.124	***	0.037	-0.073		0.043
Age squared	-0.001	**	0.000	0.001	*	0.000
Foreign born indicator (ref=native born)	-0.208		0.129	-0.371	*	0.149
Female indicator (ref=male)	-1.381	***	0.335	-0.885	*	0.348
Indicator education < high school (ref=high school graduate)	0.541	*	0.230	0.177		0.237
Indicator education college graduate or more	-0.785	***	0.082	-0.683	***	0.093
Unmarried indicator	0.124		0.115	0.194		0.123
Unmarried female indicator	0.438		0.247	0.177		0.255
Indicator has one or two children (ref=no children)	-0.029		0.154	0.062		0.164
Indicator has three or more children	-0.258		0.160	-0.206		0.171
Indicator data on number of children is missing	-0.567	**	0.175	-0.323		0.187
Female * indicator has one or two children (ref=no children)	-0.042		0.392	-0.030		0.402
Female * indicator has three or more children	0.018		0.439	0.374		0.452
Female * indicator data on number of children is missing	0.347		0.382	0.398		0.395
Indicator race is black	-0.688	**	0.233	-0.449		0.240
Interaction terms for 1984 panel: job characteristics						
Best estimate of annual hours		--		-0.001		0.003
Total years in the OASDI-covered labor force		--		0.028	**	0.009
Indicator current occupation is managerial (ref=production or repair)		--		-0.106		0.124
Indicator current occupation is professional		--		0.084		0.133
Indicator current occupation is sales		--		-0.257		0.142
Indicator current occupation is clerical		--		-0.313		0.243
Indicator current occupation is service		--		-0.357		0.359
Indicator current occupation is operator		--		0.497		0.357
Indicator current occupation is farm/forest/fisheries		--		-0.087		0.470
Indicator current occupation is construction		--		0.352		0.218
Indicator current industry is finance (ref=all others)		--		-0.342	*	0.135
Indicator current industry is professional/scientific		--		-0.846	***	0.106
Indicator individual lives in a metropolitan area		--		-0.189		0.105
Indicator metropolitan status is missing		--		-0.141		0.187
-2 * log likelihood		34,750.63			32,527.89	
Share earning over threshold		0.086			0.086	
N		75,649			75,649	

Note: *** indicates p<.001; ** indicates p<.01;* indicates p<.05. Sample is restricted to individuals who report an average of at least 5 hours per week of work.

Source: Authors' calculations from SIPP matched to DER, SER, and Numident.

Table A2-9. *Distribution of Total Years over the Last 20 Years over 4.5 Times the Average Wage Index for Individuals Ages 30 to 67, by Age and Sex, 2004 and 2008*

	None	Distribution among those earning above 4.5 times the average wage at least once 1-3	4-7	8 or more
Men				
30-44	0.948	0.58	0.25	0.17
45-49	0.914	0.47	0.22	0.32
50-54	0.906	0.40	0.19	0.41
55-59	0.895	0.44	0.17	0.39
60-67	0.892	0.42	0.20	0.38
N	40,4963		3,100	
Women				
30-44	0.988	0.66	0.24	0.10
45-49	0.981	0.42	0.33	0.25
50-54	0.981	0.58	0.20	0.22
55-59	0.982	0.55	0.17	0.28
60-67	0.986	0.62	0.14	0.24
N	45,402		650	
All				
30-44	0.969	0.60	0.25	0.16
45-49	0.949	0.46	0.24	0.30
50-54	0.946	0.43	0.20	0.37
55-59	0.941	0.46	0.17	0.37
60-67	0.942	0.44	0.19	0.36
N	82,148		3,750	

Source: Authors' calculations from 2004 and 2008 SIPP matched to DER, SER, and Numident. Sample weights account for probability of matching to the administrative data. Sample excludes imputed other-than-legal immigrants.

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Ms. JAYAPAL. Thank you, Mr. Chairman. I yield back.

Chairman YARMUTH. The gentlelady's time has expired. I now yield 10 minutes to the Ranking Member.

Mr. WOMACK. I thank the Chairman. You know, we have had a great hearing. I am sorry that occasionally things get a little acrimonious in here. But, you know, this is a very important subject, and it has been centric on Social Security today, as I anticipated it would.

But before I get into my questions I want to go to Dr. Biggs here for just a minute. Ms. Jayapal, my distinguished colleague from Washington, just threw out some hypotheticals, Dana and Donald. She kind of left out some important features of the purpose of Social Security, what it is designed to do, and the relationship between the percentage that is being paid on the income, and the benefits that accrue to the recipient at some point in time—62, 65, 67, whatever that timeframe is. Did I miss something?

Dr. BIGGS. When Franklin Roosevelt and his team during the Depression—when they built the Social Security program, they were very well aware of this kind of math. And the reason they put a cap on the Social Security taxes, 132,000 today, was to distinguish Social Security from what they then called relief, or what we would today call welfare. We talk about Social Security as an earned benefit. If you eliminate the cap, to be frank, whether you are paying additional benefits or you are not, the financing of the system becomes so redistributive—you have people on top paying so much more in than they could possibly expect to get back—that it violates what Roosevelt thought as people having a reasonable balance between what they pay and what they receive. That, in turn—people would start calling it welfare.

Now me, I am personally not against the idea of a highly redistributive pension program to focus on the people in need. What we need to be aware of is that is, in fact, what you are doing. And Social Security—when Roosevelt's Administration first looked at Social Security, their original proposal, people with earnings above that cap wouldn't even participate in the program. There would be no redistribution. Their compromise was, well, they will be in, but they will only pay up to a certain amount, and they will only earn benefits on earnings above that amount.

So somebody making $1 million gets no more Social Security benefits than somebody making one $132,000. So it is not just a tax. It would be—think about the program and what it is intended to look at on both the tax and the benefit side.

Mr. WOMACK. So in Ms. Jayapal's analysis the fact that they pay the same amount up to 132.7, whatever that that number is, the proportionate amount that they would accrue in terms of benefits is basically tied to the amount that they are paying in.

Dr. BIGGS. Exactly.

Mr. WOMACK. And that—so under her scenario, if we were to lift that cap, then what would happen to the accrued benefit of the high-income earner? And what would that do to the concept of Social Security? I think you have kind of answered that, but I want to give you another chance.

Dr. BIGGS. Well, this gets the idea we had earlier of are we favoring paying higher benefits to, you know, millionaires and billionaires. And if you want to keep Social Security as an earned benefit, an earnings-related system, if you eliminate that cap you have to pay additional benefits. You will be paying higher benefits to those folks.

The question is how do they view it. Do they think it becomes welfare, or do they—does it weaken support for the system? And one of the things Roosevelt thought, and which most people, I think—still continues to be true is because it is not seen as a welfare program, it is seen as an earned benefit. Social Security has survived and had political resiliency in ways that other programs that are seen as welfare don't.

So I think it is important to keep that balance. I mean we can adjust it, but it is to be—to recognize that it is not just a no-brainer that people should pay 12.4 percent of all their earnings. Roosevelt was a smart guy, and he didn't think you should do that.

Ms. JAYAPAL. Would the Ranking Member——

Mr. WOMACK. I would be happy to yield, yes, ma'am.

Ms. JAYAPAL. This is a good line of questioning, and I appreciate it. I was just curious whether, when the program was established, whether you think there is any merit to the question of what that cap should be. And in those days I don't think we had a lot of millionaires and billionaires in the same extent that we do today. The wealth inequality today is—hasn't been the same since 1920.

So I just am curious for—I mean, if the Ranking Member permits, for anybody's thoughts on this, because we are in a vastly different economy today, where you could argue that our taxation system and many other factors have created this tremendous inequality.

And so I appreciate the Ranking Member's questioning. I am just curious whether there are other factors that you might want to consider as you look at this cap, given the dramatic difference between today and when it was established.

Dr. BIGGS. When Social Security began, I believe the payroll tax ceiling was set so that around—Melissa may know; correct me if I am wrong, but—sorry, Dr. Favreault—I think around 90 percent of total earnings were subject to Social Security payroll taxes. It is now—today it is about 84, 85 percent. So a common proposal is let's lift the cap to cover 90 percent again. That might take it to, I don't know, 185, maybe $200,000. But they understood. I mean in the 1920s, 1930s there was a lot of income inequality, and they got it.

But it is just thinking about, you know, how you want to balance this, and how it is perceived. But it is also—if you think there are other uses for federal money, you know, if you want to do Medicare for all, if you want to have more money for infrastructure, once you eliminate that Social Security tax cap—as I joked earlier, but it is, in fact, true—you would be at Scandinavian levels of taxation. Top tax rates, my guess, including state taxes, would come in around 62 percent.

Ms. JAYAPAL. But it is important to understand——

Dr. BIGGS. You are not going to get much——

Ms. JAYAPAL.—who is paying that increase.

Dr. BIGGS. Sure.

Ms. JAYAPAL. The increase goes to a——

Dr. BIGGS. Yes.

Ms. JAYAPAL.——very tiny, tiny, tiny portion, depending on how you structure it.

Mr. WOMACK. I have been very generous with my time.

Ms. JAYAPAL. You have, and I thank you, Mr. Ranking Member.

Mr. WOMACK. I am going to reclaim my time, and I know the Ranking Member, him being the great guy from the Commonwealth of Kentucky that he is, will give me another minute if I need it.

Look, I want to carry this conversation back to the idea of Social Security and its origin, and what it was designed to do, and how far away from that, particularly with a lot of very vulnerable seniors today that we have gotten from that, that it is the only source of income for a large number of people.

Dr. Favreault, why is that? Why do so many people have only Social Security as their income?

Dr. FAVREAULT. So I think a big component of this is low lifetime earnings, right? There are a lot of people who just aren't able to accrue a lot of earnings over the course of their lifetime. It can be for a variety of reasons.

Mr. WOMACK. And I am a big fan of asking the question why. In fact, when I talk to young people today I challenge them to ask why. So why have people been destined to a lifetime of low earnings?

Dr. FAVREAULT. So often it can be a lack of investment in education. But often there is just, you know, a distribution of skills across the population. So I think the more we invest in education, certainly, the more likely people will have higher lifetime earnings.

Also, you know, things happen to people, of course. Disability happens, caregiving happens. And we know partly women's low lifetime earnings tend to be much lower than men's lifetime earnings, by and large, because they are taking care of kids, they are taking care of the grandparents when they get sick. So there is definitely a lot of reasons why we understand low lifetime earnings.

As I mentioned earlier there is the issues of discrimination in the labor market, and those are things that I think are really important that we need to consider, as well.

Mr. WOMACK. And some of those things we have been able to address over time, and so we have been able to fix some issues. But we still have an alarming number of people, I think, that are relying only on Social Security as their primary source of income when they hit retirement age. And I believe that that is contributing to the problem. And you are right, some bad things happen to good people, you know, health-related issues and those kinds of things.

But we also have a lot of people that are making some very poor decisions with their lives, be it things like drugs and alcohol or, you know, matters, you know, that involve criminal conduct. We have people that are making terrible health-related decisions that are contributing to a higher cost to living later on in life. And so, I mean, I just think there is a cacophony of reasons why we have people that are reliant on Social Security.

I want to go back to Dr. Biggs, because earlier in the hearing—and a number of my colleagues were not here to hear this—you made a—you discussed how you would be handling this issue with regard to the higher-income people and the lower-income people, and you were specific about wanting to do a better job of handling the people on the low economic spectrum, as opposed to the distribution of benefits throughout.

Dr. BIGGS. If I could generalize, the difference between sort of conservative Social Security reform plans and progressive reform plans isn't in how they treat low-income people. Some of the provisions to boost benefits for low earners that are contained in Social Security 2100 Act came from conservative plans authored by Republicans. The issue isn't how you treat the poor.

The issue is do we want to raise taxes on middle and higher-income people in order to pay higher benefits to middle and higher-income people, or do we want to hold the line on their taxes and tell them, "You are going to save more on your own and work longer." I would bet my life, if you were to put this question to people and say, "Would you rather pay more money into Social Security to get higher benefits, or would you rather pay more money into your 401(k) or IRA to get more money from that," vast majorities would rather save that money on their own.

So the point here is not do we betray the people at the bottom. We have an obligation for them. That is what Social Security was created for. But it was not created to be paying $40,000 a year to somebody who made 130 every year of his life. It is just—it is—we need to refocus our resources.

Mr. WOMACK. Yes. And as I conclude, Mr. Chairman, I would just say this. So much of what we have facing our country involves the education of people. And I believe we are not doing as good a job as we could, particularly in some of our educational institutions, of helping young people understand that they are not going to be 18 or 19 years of age forever. There is going to be a day that their hair is going to be the color of mine, or maybe even gone.

The fact is if we all expect to live a long life, and we want to live a long life, but at some point in time we are not going to be work-eligible any more, and we are going to have to retire. And so to think that they would be able to hit those ages and only have Social Security and be able to live a comfortable lifestyle, I think, is—would be a misrepresentation of reality.

So I appreciate the hearing. We got a lot of work to do, and there is some things that we can do on a—and it is going to have to be bipartisan if it is going to be successful. And I hope to be engaged in those conversations. I thank you, and I yield back.

Chairman YARMUTH. I thank the Ranking Member. I now yield myself 10 minutes for questions.

You know, I am—this relates a little bit to what the Ranking Member was just saying. But several years ago my pollster was telling me that when she polled voters as to their top issue, the issues that they were most concerned about, most pollsters, she said, don't put retirement security in the poll. They put jobs and the economy, they put so forth and so on—health care. But she said, "When I put retirement security in the poll, it always polls number one."

And she said, interestingly, it polls most strongly with younger voters. And it is not because they don't think that they are ever going to get the benefits, it is because they don't want their parents moving in with them, which was, I thought, quite an interesting perspective.

But this clearly is an extremely important topic, not just because I am now well into past 65, but because we—it is a national challenge, and it is an ongoing challenge for our fiscal health, as I said earlier.

We have had some difference of opinion, I think, between Dr. Biggs and others about how much retirement security there is in the country, and that—as Dr. Biggs contended, there is—assets and contributions are higher than ever, and he cited that as evidence that most people are secure.

But total and average assets and contributions can grow, even if most Americans are not well prepared for retirement. The wealthiest Americans may be skewing those distributions.

Do you think that the income inequality that we have been talking about is playing a role in skewing these statistics, and having disparities in retirement security, Dr. Favreault?

Dr. FAVREAULT. Yes, I think it is absolutely critical when we look at these sort of statistics that we look not just at the mean, but also at the full distribution. Because—and this goes back to the issue of the cap, and why less earnings are now being covered by Social Security, is the fact that we have had so much explosion at the very top of the earnings distribution, and I think it is really important, and we need to take a look at that. That does skew the statistics. So it is really valuable to look at medians, quintiles, the whole distribution.

Chairman YARMUTH. Thank you.

Dr. Biggs, several years ago we did something very important with Social Security. We corrected what I considered to have been a terrible mistake in Social Security, and that was that it allowed beneficiaries to defer their retirement, or their—taking their benefits to age 70, and they got an 8 percent a year bonus for that. And it occurred to me—and I am not benefiting from that, by the way—it occurred to me that that was exactly the wrong incentive, because the only people who can afford to do that are the people who don't need the bonus, the only people who could afford to retire and not take their benefits for four more years.

We have a system now that allows you to retire earlier. Are there—I mean to take your benefits before you are actually eligible for retirement. Do you think that causes problems in any respect? I haven't thought through that, but I would like to know.

Dr. BIGGS. Thanks. If I could first just touch on the issue of, you know, using averages, and whether that skews things. I know that came up earlier in the hearing.

I cited recent Federal Reserve research, which came out a couple months ago, finding that the shift from defined benefit pensions to traditional pensions to 401(k)s has not appreciably changed the distribution of retirement wealth or retirement savings. It has increased retirement savings. The level of savings has increased. The distribution of it hasn't really changed very much.

So this is a case where I am not trying to skew with averages. I mean, the rich always do save more, partly because they are rich, but partly because they get a lower replacement rate from Social

Security. But if you have got a higher level of savings today, which we do, with a similar distribution of savings to what we had in the past, that in fact means the low and middle-class people are better off in terms of their savings than they were under traditional pensions.

Similarly, when I cited the Census Bureau research showing a significant decline in poverty among over-65 Americans over the last 20 years—about one-third, almost one-third decline in the share—in poverty—that is not from millionaires and billionaires getting richer. That is from poor people having higher incomes.

So it is—I would really encourage people to look at the numbers and the data in my testimony. I am not saying there are not problems, but it is—those problems are much, much more isolated than people think. We are doing a lot of things right.

Thinking on the retirement age, I am not against the delayed retirement credit for older—you know, people who work past 65 or 67. I mean, you may be right, in terms of some present value sense it compensates them. Where I think we may have made an error in the past was lowering the Social Security retirement age from 65 to 62.

If you go back to the 1940s, 1950s, when we had people working on farms, factories, mines, the average person didn't claim benefits to past 65. If you go back to 1950, I think the average Social Security retirement age was 68. So the idea that we can't work longer is belied by the fact that we, in fact, did work longer. Once we lowered that 65 to 62, so many people claimed it. There is research that came out last year showing because so many more people claimed those early reduced benefits, that increased poverty in retirement by a significant amount.

So I know it is hard to say to people, "You have to work a little bit longer," but giving them early benefits with that big cut, I think, has been harmful to a lot of folks. So it is a tough choice, but I think, on balance, it didn't work out.

Chairman YARMUTH. Does anybody—any of the other witnesses have a perspective on that?

Yes, Dr. Favreault?

Dr. FAVREAULT. I would just add, though, I think with respect to Dr. Biggs's point on the EEA, that we do see that there are significant numbers of people who lose their jobs in their fifties. A lot of shocks happen in your fifties, in your sixties. So there are a lot of people who are extremely vulnerable when they are approaching the cap.

My colleague, Richard Johnson, recently did a study and he saw something on the order of roughly 50 percent of people can—are likely to experience a layoff in their fifties. And the overwhelming majority of them, when they are re-employed, they are re-employed at lower wages. So a lot of things happen late career, and not—you know, I think it is important to keep the early eligibility age as a safety valve.

Chairman YARMUTH. Is there any data that anyone is aware of about what percentage of people who elect to take benefits at 62 are doing it because they are out of work or because they chose to?

Dr. BIGGS. I can't think of data off the top of my head, but there has been a lot of research looking at what causes people to retire early, things like job loss, things like health problems are the most predominant ones. Even amidst that group, though, I don't think that job loss and health issues—I don't think that explains the majority of people who retire early.

If you look at early retirees in Census data, the Current Population Survey, most of them, even people like aged 60 years old, before the early retirement age who consider themselves retired, they were asked, "Do you want—would you take a job if it were available?" The vast majority say no.

And so I think you do have probably a lot of retired public employees, but still it is trying to figure out that end of things, it is not just job loss and health. There are a lot of people who are voluntarily just choosing to retire early.

Chairman YARMUTH. Right. They have a sufficient——

Dr. BIGGS. Yes.

Chairman YARMUTH. They either have a generous enough pension, they have the savings, they have the opportunity——

Dr. BIGGS. In their judgment, they do, yes.

Chairman YARMUTH. Right. Well, I am not going to belabor the hearing. You all have been very patient with your time and with the questions. And it has been over, well, two hours 20—40 minutes, so I am going to conclude now, and just advise all the members that they can submit written questions to be answered later in writing.

Those questions and your answers will be made part of the formal hearing record. Any members who wish to submit questions for the record may do so within seven days.

Once again, I thank all of the witnesses. And without objection, this hearing is adjourned.

[Whereupon, at 12:41 p.m., the Committee was adjourned.]

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CONGRESSWOMAN SHEILA JACKSON LEE OF TEXAS

STATEMENT
HEARING:
"KEEPING OUR PROMISE TO SENIORS:
RETIREMENT SECURITY IN THE 21ST CENTURY"

COMMITTEE ON THE BUDGET
210 CANNON
MAY 15, 2019
10:00 A.M.

- Thank you Chairman Yarmuth and Ranking Member Womack for convening this hearing to stress the critical importance for this Congress to keep its promise to seniors to ensure that their retirement is security and dignified in the 21st Century.

- Let me welcome our witnesses:

  Congressman John Larson
  Connecticut, 1st District

Ann Marie Cook
President and CEO
Lifespan of Greater Rochester

Melissa M. Favreault, Ph.D.
Senior Fellow
Urban Institute

James Dale Hanner
Secretary-Treasurer
North Carolina Committee to Protect Pensions

Andrew G. Biggs, Ph.D.
Resident Scholar
American Enterprise Institute

- Thank you for being here and sharing your expertise with this Committee.

- And let me extend a special appreciation to Congressman Larson, who has long been one of this body's fiercest defenders of Social Security and the principal sponsor of the "Social Security 2100 Act," which I am proud to be an original cosponsor.

- Mr. Chairman, by 2035, Americans aged 65 years and older will outnumber children under the age of 18 for the first time in U.S. history.

- With Americans living longer and our population aging rapidly, ensuring that current and future generations of seniors are able to enjoy a financially secure retirement is one of our greatest policy challenges.

- While previous generations relied on three legs of retirement income – employer-sponsored pensions, personal savings, and

Social Security – that model is no longer a source of stability for today's workers and retirees.

- "Three-legged stool" of retirement security is broken.

- The decline of traditional defined benefit plans over the last 40 years has left Americans at higher risk of retiring with inadequate savings.

- Decades of wage stagnation, coupled with the worst recession in a generation, have also made it more difficult for workers to set money aside for their future.

- These shifts have spurred greater retirement insecurity among American workers, at a time when rising health care costs and longer lifespans are increasing the amount of resources they will need to sustain themselves through retirement.

- Mr. Chairman, Social Security is the foundation of American retirement security.

- As the only reliable leg left standing, Social Security plays an increasingly crucial role in seniors' economic security and single-handedly keeps millions of seniors out of poverty each year.

- While it was not designed to serve as retirees' primary income source, half of seniors today receive at least 50 percent of their income from Social Security, and one-fifth receive 90 percent or more of their income from the program.

- But Social Security faces a long-term funding shortfall, endangering the program's ability to guarantee the full amount of earned and expected benefits workers are due.

- Improving retirement security will thus depend on strengthening Social Security to protect the program's long-term viability and expand benefits for hard-working families.

- The second leg of the tradition retirement model – pensions and annuities - have limited coverage and are insufficient for a 21st century workforce.

- Nearly 30 percent of workers do not have access to any kind of employer-sponsored retirement plan, depriving millions of Americans of a critical tool for achieving retirement security.

- Beyond their failure to reach a broader group of Americans, workplace plans risk becoming obsolete in our 21st century economy.

- As more workers eschew full-time employment in favor of gig work and other alternative arrangements, retirement plans must evolve to provide portable coverage to our independent workforce.

- Modernizing and broadening access to employer-based plans can help ensure that all workers are able to plan for retirement in the new economy.

- We must also address the real-world threat that millions of workers are in danger of losing their hard-earned pensions.

- About 10 million Americans participate in multiemployer defined benefit plans that allow middle-income workers to earn secure lifetime pensions.

- But many of these plans now face insolvency within the next decade following years of underfunding.

- If Congress fails to act, more than 1.5 million Americans risk seeing their monthly benefits slashed and their retirement incomes wiped away.

- Women and communities of color are especially at risk of retirement insecurity.

- For workers with lower lifetime earnings, wealth, and rates of pension coverage, retirement security may be even further out of reach.

- White retirees are almost twice as likely as black and Hispanic retirees to have private retirement savings and are significantly more likely to have savings through an IRA or 401(k) retirement account.

- Women also remain more economically vulnerable than men given their longer life expectancies and lower lifetime incomes – in part because they are more likely to leave the workforce for periods of time to have children.

- Indeed, women aged 65 and over are 80 percent more likely to be impoverished than their male counterparts.

- Mr. Chairman, it is an undeniable fact that keeping our promise to current and future retirees will require more revenue.

- Providing workers with a decent standard of living upon their retirement is one of the most sacred promises we make to the American people.

- As our population ages, the federal budget will need to support more seniors over longer periods of time, requiring more federal spending in the years ahead.
- At the same time – absent increased immigration – lower birth rates will slow the growth of the labor force and the economy, putting even greater pressure on federal budgets.
- Meeting this fiscal challenge will require a clear-eyed acceptance of the demographic realities and a willingness to raise more revenue over the long run in a fair and responsible manner.
- But Mr. Chairman, one thing is certain: we cannot improve our fiscal outlook by gutting Americans' retirement security.
- It would be immoral to try to solve our long-term budget challenges on the backs of retirees.
- But our friends across the aisle have a long and unbroken history of calling for cuts to Social Security and other programs vital to seniors' economic well-being in the name of taming deficits made worse by their own unpaid-for tax cuts, including their 2017 tax law.
- We must firmly and definitively these efforts if we are to close retirement gaps and ensure that all Americans can find financial stability and dignity after a lifetime of hard work.
- Thank you.

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COMMITTEE ON OVERSIGHT & REFORM
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COMMITTEE ON THE BUDGET

Congress of the United States
House of Representatives
Washington, DC 20515–4321

Keeping our Promise to America's Seniors: Retirement Security in the 21st Century
Questions
Rep. Chip Roy

Questions for Andrew G. Biggs, Ph.D. - AEI

Social Security:

The 2019 Old Age Survivors and Disability Insurance (OASDI) Trustees Report reported that the combined OASDI Trust Fund Reserves will become depleted by 2035.

- Is this true? Can you speak a little to this?

According to this same report, Social Security will play a critical role in the lives of 64 million beneficiaries and 178 million covered workers and their families during 2019.

- What does this mean for individuals that have been paying into social security and will plan to retire after 2035?

By FY 2028, there will be almost $200 Billion more paid out in benefits than revenues raised.

- In your expertise, if we did no other reforms, just how much would we have to raise taxes on the employer and individual to keep Social Security solvent?
- Would you suggest that we need to do more to reform this massive government program to ensure the government fills its promise to working americans, and that raising taxes on hard working Americans is not necessarily the best way of ensuring solvency, but that we need to focus on making smart bipartisan reforms?

In 1983, legislation was enacted to gradually raise the full retirement age to 66 in 2009 and 67 in 2027.

- In 2009, how did this reform aid in prolonging solvency?
- What would raising the age of Social Security benefits by just a few more years do for the solvency of the program?
- To build on this, what other reforms could and/or should Congress focus on that would be beneficial to the taxpayer, hardworking Americans, and our seniors?

Medicare:

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Congress of the United States
House of Representatives
Washington, DC 20515–4321

Keeping our Promise to America's Seniors: Retirement Security in the 21st Century
Questions
Rep. Chip Roy

Medicare spending will nearly double in the next decade, from $768 billion in FY19 to $1.5 trillion in FY29 - this is a 97% increase over the next decade.

- Why is Medicare part A tied to receiving Social Security Benefits? Can seniors opt out of Medicare part A and receive Social Security?

There is currently a bill, H.R. 2108, the Retirement Freedom Act authored by my friend, Representative Gary Palmer that would allow seniors to opt out of Medicare part A without losing their Social Security benefits.

- Do you think this simple change could help bring down the amount of spending we currently do on this massive program? Could it help to prolong the life of the program?
- Would you agree that we need to take a serious look at reforming the use of these massive government programs instead of forcing people into them?

Pensions:

The Pension Benefit Guaranty Corporation's (PBGC) single employer program has been on the GAO's list of high-risk government programs since 2003, and the multiemployer program was added to the list in 2009. **Background - When a company's defined benefit retirement plan is so underfunded that it terminates, PBGC insures the plan and assumes the liability for making payments to beneficiaries - no taxpayer dollars are used.

- Can you speak as to what has lead these programs to be included on the list?

In FY18, PBGC's net accumulated financial deficit was over $51 billion which is a 45% increase since 2013 - it is nearly certain that the multiemployer program does not have the needed resources to satisfy the agency's long-term obligations and will be insolvent by 2025.

- Can you talk about some of the funding rules for single-employer pensions that would be useful for multiemployer pensions?

Andrew G. Biggs, American Enterprise Institute
Questions for the Record From Rep. Chip Roy
Hearing: "Keeping Our Promise to America's Seniors: Retirement Security in the 21st Century."

Social Security:

The 2019 Old Age Survivors and Disability Insurance (OASDI) Trustees Report reported that the combined OASDI Trust Fund Reserves will become depleted by 2035. Is this true? Can you speak a little to this?

> Legally, Social Security cannot continue making full benefit payments once the program's trust funds are exhausted. Instead, it can pay benefits only up to the level affordable via current tax receipts, which would imply a roughly one-fifth reduction in benefits for all retirees, disabled and survivors.
>
> However, it is almost impossible to imagine that Congress would allow this to take place. Recent events support this view: the Disability Insurance trust fund was projected to run dry in late 2016. Instead, Congress simply reallocated money from the retirement to the disability program. For this reason, one cannot assume that the pending exhaustion of the Social Security trust funds will prompt Congress to action. Instead, Members of Congress from both parties need to exert leadership on this difficult issue.

According to this same report, Social Security will play a critical role in the lives of 64 million beneficiaries and 178 million covered workers and their families during 2019. What does this mean for individuals that have been paying into social security and will plan to retire after 2035?

> I am of the view that Americans' retirement income security is generally strong: we are saving more and working longer than ever before. However, a one-fifth cut in Social Security benefits – if it occurred – would cause a true retirement crisis, in particular for low-income Americans who rely on Social Security the most. Millions of retirees would be unable to maintain their pre-retirement standard of living; many would fall into poverty.

By FY 2028, there will be almost $200 Billion more paid out in benefits than revenues raised. In your expertise, if we did no other reforms, just how much would we have to raise taxes on the employer and individual to keep Social Security solvent?

> By 2035, Social Security benefits will cost an amount equal to 16.65% of taxable wages, according to Social Security's Trustee. In that same year, Social Security will collect payroll taxes and income taxes on benefit payments equal to only 13.25% of wages, leaving a gap of 3.45% of payroll. Assuming this gap was split evenly between workers and employers, each side's tax would need to rise by half of that mount, or 1.725% of wages. In future years, the payroll tax required to fund scheduled benefits would continue to increase as the population aged.

Would you suggest that we need to do more to reform this massive government program to ensure the government fills its promise to working Americans, and that raising taxes on hard working Americans is not necessarily the best way of ensuring solvency, but that we need to focus on making smart bipartisan reforms?

> Congress has done precisely nothing to reform Social Security since 1983, even though Congress was aware by the early 1990s that Social Security faced continuing funding shortfalls. So yes, Congress indeed needs to do more. My own view, which I believe is backed by significant amounts of research conducted in both the U.S. and abroad, is that Social Security solvency is best achieved by reducing the *growth* of benefits for *middle and upper-income* households. Benefits need not shrink in real terms, but the growth of benefits needs to be curtailed. Likewise, benefits for low earners who depend on Social Security the most need not be reduced, but benefits for middle and higher earners should. The reason is that research finds that middle and high-income households will respond to lower future benefits by saving more and working longer, while they will respond to higher benefits and higher taxes by saving less and working less. Projections from the Penn Wharton Budget Model find that the Social Security 2100 Act, which would increase benefits for all retirees while raising taxes on all workers, would reduce GDP in 2049 by about seven percent relative to a plan that achieved solvency by reducing the growth of benefits rather than raising taxes.

In 1983, legislation was enacted to gradually raise the full retirement age to 66 in 2009 and 67 in 2027. In 2009, how did this reform aid in prolonging solvency? What would raising the age of Social Security benefits by just a few more years do for the solvency of the program?

> An increase in the Social Security retirement age does not require participants to work longer before collecting benefits. Rather, it reduces benefits – by about seven percent for each year the retirement age is increased – at any time at which benefits are claimed. The 1983 increase in the retirement age was how Social Security policy should be done: with plenty of warning so that workers can respond by saving more or planning to work longer. Unfortunately, due to

Congress's neglect of Social Security reform, we no longer have the luxury of waiting decades to implement reform policies.

However, further increases in the Social Security retirement age could, if coupled with other reforms, help restore Social Security's long-term funding health. For instance, Social Security's actuaries project that raising the normal retirement age to 69 by 2029 and indexing it to longevity thereafter would address 41% of Social Security's 75-year deficit.

To build on this, what other reforms could and/or should Congress focus on that would be beneficial to the taxpayer, hardworking Americans, and our seniors?

I outlined my views on Social Security reform in a 2013 article for the journal National Affairs.[1] In that article, I argued for moving Social Security to a model similar to that used in New Zealand and the United Kingdom, where the government provides a flat dollar benefit to all retirees, designed to virtually eliminate poverty in old age. To supplement that flat benefit, all workers would automatically be enrolled in defined contribution retirement accounts. The combination of the two income sources would mimic the level of benefits and the progressivity of current-law Social Security, but with much lower tax costs and higher levels of real saving. The proposal also would eliminate the 12.4% Social Security payroll tax beginning at age 62, in order to encourage Americans to remain in the workforce longer.

Medicare:

Medicare spending will nearly double in the next decade, from $768 billion in F Y 19 to $1.5 trillion in FY29 - this is a 97% increase over the next decade. Why is Medicare pan A tied to receiving Social Security Benefits? Can seniors opt out of Medicare part A and receive Social Security? There is currently a bill, H.R. 2108, the Retirement Freedom Act authored by my friend, Representative Gary Palmer that would allow seniors to opt out of Medicare part A without losing their Social Security benefits. Do you think this simple change could help bring down the amount of spending we currently do on this massive program? Could it help to prolong

[1] Biggs, Andrew G.. "A New Vision for Social Security." National Affairs. Summer 2013

the life of the program? Would you agree that we need to take a serious look at reforming the use of these massive government programs instead of forcing people into them?

> Under current law, at least as interpreted by the Courts, seniors cannot opt out of Medicare Part while also receiving Social Security benefits. Some seniors wish to do so, if they are covered by a different health plan that provides superior benefits. H.R. 2108 would separate Part A enrollment from Social Security claiming, allowing seniors to collect Social Security without also enrolling in Part A. This presumably would have some positive effect on Part A financing, though I suspect it would be modest due to the small number of retirees holding health plans that might prompt them to drop Part A coverage.

Pensions:

The Pension Benefit Guaranty Corporation's (PBGC) single employer program has been on the GAO's list of high-risk government programs since 2003, and the multiemployer program was added to the list in 2009. Can you speak as to what has lead these programs to be included on the list?

> Since 2013, the PBGC's funding shortfall has risen by $51 billion, according to the Government Accountability Office, an increase of 45%. All of this increase took place in PBGC's multiemployer program: in fact, the single employer program ran a surplus of over $2 billion over that period. The GAO projects that insolvency of the multiemployer program is highly likely within six years. While the PBGC's problems are multifaceted, the key driver of the agency's shortfalls is Congress's long-term focus on keeping employer premiums low rather than setting them at the appropriate values given the funding status and risk posed by the pensions the PBGC insures. In other words, the PBGC was not run as an insurance program should be run, and as a result pension participants and taxpayers are put at risk.

In FY 18, PBGC's net accumulated financial deficit was over $51 billion which is a 45% increase since 2013 - it is nearly certain that the multiemployer program does not have the needed resources to satisfy the agency's long-term obligations and will be insolvent by 2025. Can you talk about some of the funding rules for single-employer pensions that would be useful for multiemployer pensions?

> Multiemployer pensions operate under much less strict funding rules than single employer plans: they are required to contribute less; to address unfunded liabilities over a

much longer period of time; and to pay much lower premiums to the PBGC. These looser funding rules resulted in multiemployer plans being much less well-funded than single-employer pensions, and thus more likely to require PBGC assistances; and with the PBGC multiemployer plan having far fewer resources with which to insure multiemployer benefits. These looser funding requirements are the main reason multiemployer pensions are in financial trouble. Today, many in Congress wish to bail out multiemployer pensions, paying full benefits to participants in underfunded plans while requiring no reforms on the part of those pensions.