

## Statement on the President's Fiscal Commission Plan

On January 17<sup>th</sup>, 1934, a presidential commission began work on a plan to create a comprehensive insurance program for America's workers. In less than six months, the Committee on Economic Security, chaired by Secretary of Labor Frances Perkins, presented its recommendations to Congress. A mere seven months later those recommendations were signed into law as the Social Security Act. Since then, Social Security has provided most American workers with a life insurance policy (support for spouse and dependents upon a worker's death), long-term disability insurance, and something akin to a retirement annuity--retirement benefits that last the worker's entire life in retirement.

This week, another presidential commission, this one known as President Obama's Fiscal Commission, released its report.<sup>1</sup> A portion of the report deals with changes to Social Security, even though Social Security has no connection to the deficit. By law the Social Security program must be self-sustaining.

### A false sense of urgency

Although the title of the report is "The Moment of Truth," it begins the section on Social Security with a misleading statement: "When Franklin Roosevelt signed Social Security into law, average life expectancy was 64." In 1935, once someone was past the perilous period of childhood diseases, life expectancy was basically the same as today. The infant mortality rate was much higher in 1935: it has dropped from 55.7 deaths per 1000 in 1935 to 6.14 deaths per 1000 in 2010. This misinformation creates an unwarranted sense of urgency.

The Frances Perkins Center believes that it is possible to make adjustments to the Social Security system to ensure its long-term solvency without resorting to raising the retirement age or cutting benefits. We suggest that the discussion of possible adjustments should take place in the public eye with input from voters, along with the help of policy and actuarial experts, over a length of time sufficient to consider all possibilities—and their ramifications—in depth.

### Four of the ten are constructive recommendations

"The Moment of Truth" makes ten recommendations regarding Social Security. Some of the suggestions would improve the program, others would cause serious harm. The Frances Perkins Center endorses the following recommendations, with noted caveats:

- **Create an enhanced minimum benefit for low-income workers.** Recognition of the inadequacy of benefits for longtime minimum wage workers is admirable. In general, Social Security benefits are very low. The average monthly benefit today is \$1,072.50. *In*

*addition to raising the minimum benefit for low-income workers, we believe there should be discussion of benefit increases across the board.*

- **Enhance benefits for the very old and the long-time disabled.** “To better insure against the risk of outliving one’s own retirement resources, the Commission proposes a new ‘20-year benefit bump-up’ that offers a benefit enhancement, equal to 5 percent of the average benefit, 20 years after eligibility.” *If benefits were adequate to begin with, this wouldn’t be necessary. It is, however, a gesture acknowledging the economic reality facing the majority of elderly beneficiaries.*
- **Gradually increase the taxable maximum to cover 90 percent of wages by 2050.** The Social Security system was initially set up to cover 90 percent of all wages paid, but in recent decades it has fallen to around 85 percent. Bringing the cap back to 90 percent will create additional revenue in the system. *Removing the cap altogether would be even more beneficial, creating the opportunity to offer a more robust benefit schedule.*
- **Cover newly hired state and local workers after 2020.** This would increase the Social Security “pool” and relieve states of the economic pressure of their failing pension systems.

### **Two of the recommendations seem out of place**

We don’t understand why a directive to the Social Security Administration to “better inform future beneficiaries on retirement options” and a general recommendation to “begin a broad dialogue on the importance of personal retirement savings” are included in a plan to reduce the federal deficit.

### **Three of the recommendations will hurt beneficiaries, one as early as next year**

Frances Perkins Center strongly opposes two of the report’s recommendations:

- **Make retirement benefit formula more progressive.** “Modify the current three-bracket formula to a more progressive four-bracket formula, with changes phased in slowly.” This is a complicated way of greatly reducing the basis on which monthly benefits are calculated. Starting in 2017, it gradually lowers the factor from 32 percent to 10 percent for people earning between \$63,000 and \$102,000 per year (in today’s dollars), and from 15 percent to 5 percent for annual incomes of \$102,000 to \$173,000.<sup>ii</sup> The estimated effect on middle-income and lower-income retirees is significant.
- **Gradually increase early and full retirement ages, based on increases in life expectancy.** As mentioned earlier, the report exaggerates increases in life expectancy. In addition, we simply can’t predict the life expectancy of future generations. Gradually raising the Normal Retirement Age (NRA) to 69 and the Early Eligibility Age (EEA) to 64 by 2075 is a serious benefit cut to our nation’s children and grandchildren. According to the Social Security Administration, raising the NRA to 69 would result in a 13 percent benefit cut. This comes on top of the 13 percent cut made when the retirement age was

increased to 67 from 65. In addition, today the majority of Americans claim Social Security benefits before age 64, even though their benefits are reduced by as much as 25 percent. Their reasons for taking EEA vary: they may work in physically demanding jobs, have health problems, or can't find work. Although the report recommends giving workers more flexibility about how and when they claim their benefits and creating an exemption process for workers who physically must leave work at age 62, it is not clear how this would be accomplished or administered.

- **Adopt improved measure of cpi (Cost Price Index).** This change in the Cost of Living Adjustment (COLA) calculation would affect all beneficiaries, not only retirees, starting in just one year—December of 2011. It will reduce the purchasing power of benefits by 3.7 percent after 10 years of receiving benefits and by 6.5 percent after 20 years, according to the Social Security Chief Actuary. Disabled beneficiaries and retirees have higher expenses in the health care sector, which are already under-represented in the COLA.

On one hand, the report acknowledges the inadequacy of Social Security benefits; on the other hand, it proposes substantially cutting them. These two positions cannot be reconciled.

### Our conclusion

Drastic cuts, along with the raising of the salary cap to cover 90 percent of all wages paid, are the way the report proposes to “renew the promise of Social Security for the century ahead.” On one hand, the report acknowledges the inadequacy of Social Security benefits; on the other hand, it proposes substantially cutting them. These two positions cannot be reconciled.

Social Security was originally intended as a promise to all generations. Recent Election Day polling<sup>iii</sup> found that 8 out of 10 Americans—of all political persuasions—oppose cutting benefits. Where would these voters prefer to see the money come from? Two out of three support lifting the payroll tax cap so that all earnings are subject to the tax. The revenue from this change would not only solve the budget gap that comes in 2037 but would make it possible to increase benefits.

The Frances Perkins Center believes that it is possible to make adjustments to the Social Security system that ensure its long-term solvency without resorting to raising the retirement age or cutting benefits. We suggest that the discussion of possible adjustments should take place in the public eye with input from voters, along with the help of policy and actuarial experts, over a length of time sufficient to consider all possibilities—and their ramification—in depth.

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<sup>i</sup> *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform*, December 1, 2010. <http://www.fiscalcommission.gov/news/moment-truth-report-national-commission-fiscal-responsibility-and-reform>

<sup>ii</sup> National Academy of Social Insurance report: “What does the Report of the Fiscal Commission's Co-Chairs Mean for Social Security?” by Ben Veghte, December 2, 2010. <http://www.nasi.org/discuss/2010/12/what-does-report-fiscal-commissions-co-chairs-mean-social-se>

<sup>iii</sup> “Findings from an Election Eve/Night Survey of 1,200 Likely Voters Nationwide,” Lake Research Partners. (Link to a PDF can be found here: <http://strengthensocialsecurity.org/polling>)