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The Retirement Crisis

Social Security is a Social Insurance program that pays cash benefits to workers, and dependents of workers, who suffer a loss of wages due to death, disability, or retirement. Almost all wage-earners are taxed to provide benefits. It is financed by payroll taxes on wages up to about $132,900, with one-half of the tax paid by workers and one-half paid by employers. Benefits are based on past earnings, with low-income workers receiving a higher percentage of their wages back than high-income workers receive. The Center on Budget and Policy Priorities said it well last August: "Eighty-three years after President Franklin Roosevelt signed the Social Security Act on August 14, 1935, Social Security remains one of the nation's most successful, effective, and popular programs."

Social Security provides income to survivors of deceased wage earners, to people with disabilities, and to people in retirement. The retirement part of Social Security was intended to be one "leg" of a so-called three-legged stool of retirement income. The other two legs are your own savings and the private pension you get from your employer. In theory. The problem is that now, in the year 2019, most non-wealthy workers have no pension, and no savings.

> ***The typical working American has no retirement savings.***

The National Institute on Retirement Security (NIRS) is a DC-based nonprofit that researches the various issues relating to what needs to be done in order to provide every worker with a secure and worry-free retirement. Last September they published an eye-opening report called *Retirement in America: Out of Reach for Working Americans?* In the Executive Summary of that report they tell us that

"[Retirement] Account ownership rates are closely correlated with income and wealth. Over 100 million working age individuals (59.3%) do not own any retirement account assets, whether in an employer-sponsored 401(k) type plan or an IRA nor are they covered by defined benefit (DB) pensions."

I was startled to read that "The typical working American has no retirement savings. When all working age individuals are included—not just individuals with retirement accounts—the median retirement account balance is $0 among all working individuals." It's true. Using data from 2014, nearly 60 percent of all workers had no retirement savings at all. Among workers who actually have some savings, the median balance is only $40,000. That won't get you too far in retirement.

"Even after counting an individual's entire net worth—a generous measure of retirement savings—three-fourths (76.7%) of Americans fall short of conservative retirement savings targets for their age and income based on working until age 67. Due to a long-term trend toward income and wealth inequality that only worsened during the recent economic recovery, a large majority of the bottom half of Americans cannot meet even a substantially reduced savings target."

NIRS concludes their Summary by saying that "Public policy can play a critical role in putting all Americans on a path toward a secure retirement by strengthening Social Security, expanding access to low-cost, high quality retirement plans, and helping low-income workers and families save. Social Security, the primary underpinning of retirement income security, could be strengthened to stabilize system financing and enhance benefits for vulnerable populations."

NIRS has some ideas about how to give more people access to retirement plans and helping poor people save. But I want to talk about Social Security, the Social Insurance program upon which so many of us rely. ◆

Greetings,

The lead essay this week is called "The Retirement Crisis." The dictionary tells us that a "crisis" is "A time of intense difficulty or danger." It's also "A time when a difficult or important decision must be made." Many people tend to think that a crisis comes on all of a sudden. Well, this crisis we've known about for a long time. But it's a sneaky one, for several reasons: it affects people one at a time; they're mostly people with little political clout; and the system failures that are impoverishing so many retirees—inequality, stagnant wages, disappearing pensions and savings—have evolved gradually.

So, a difficult and dangerous time it is, and thus a time for decisions. If we organize popular support effectively, we can make life a lot better by passing The Social Security 2100 Act—or something like it—in the near future. It's not the only bill that would expand Social Security, but the SS 2100 Act I think has the best chance of passing the House of Representatives. There's a companion bill in the Senate (S. 269) and Bernie Sanders has introduced a similar bill, S. 478 "The Social Security Expansion Act." But nothing good will come out of the Senate until at least the year 2021 (i.e. after the 2020 elections), so I choose to focus on the House for now.

I've been thinking and writing about Social Security since 1996. I'm more hopeful about the chances for significant reform right now than I have ever been. After reading this issue of Nygaard Notes, I am hopeful that you too will be hopeful. And that you will take action in whatever ways you can, to translate your hope into action.

Nygaard

Social Security's Problems: Inequality, Low Wages, Tax Avoidance

I've written a lot about the decades-long propaganda campaign that has convinced many people that Social Security is failing. "Social Security is going broke," "There's no Trust Fund," "It's a Ponzi scheme," "It won't be there when I retire," etc. None of those statements are true. Nevertheless, there IS a bit of a panic in the air about the future of Social Security, and it's not all misguided. There are financing issues that have to be addressed. But those financing issues are not due to some flaw in the Social Security system itself. Rather, they reveal some problems in the larger economy, such as rising inequality, inadequate wages, and tax-exempt wealth.

The Center for American Progress (CAP) published an analysis a couple of weeks ago of the effect of **rising inequality** on the financing of Social Security. Back in the 1980s, when Social Security was last reformed, 90 percent of all wages paid in the U.S. were taxed to pay for Social Security. Now, because income above a certain level (currently about $133,000 a year) is exempt from paying SS taxes, only 83 percent or so of wages paid are taxed for Social Security. That may not seem like a big deal, but it is. As CAP explains, "if policymakers had maintained Social Security's payroll tax after 1983 so that it continued to cover 90 percent of earnings—instead of letting its coverage shrink to less than 83 percent as inequality has risen—the combined retirement and disability trust funds would have been larger by more than $1.3 trillion by the end of 2016."

And remember that **a lot of income is not taxed for Social Security** at all. Wealthy people get much of their income from investments, capital gains, and inheritances, which are not considered wages by Social Security, and thus are not taxed. We won't even talk about taxes on wealth (that is, the money one already has, as opposed to the money coming in as wages). OK, I will talk about them for a second: Economist Emmanuel Saez says that a wealth tax of less than 0.1 percent on U.S. households would raise $2.75 trillion over 10 years. I know that a trillion is a number that most of us can't understand, but suffice it to say that a wealth tax much *smaller* than that would fully fund Social Security for the next 75 years. That's not too hard to understand. ↗↗↗

➔➔ Another reason why Social Security needs to improve its finances is that **the paychecks of most workers have stagnated** over the last 45 years or so. That is, workers have become much more productive, but their wages do not reflect that. And since wages are low, the Social Security taxes on those wages are also low. If workers' wages had kept up with productivity growth over the years... Well, CAP gives us the numbers: "[I]f growth in workers' wages had kept pace with productivity growth from 1983 to 2016, the combined trust funds would have had an additional $375.6 billion in assets at the end of 2016."

To put it another way, U.S. workers have produced more than enough wealth over the years to fully fund a significant retirement income for all, but that wealth is not under their control, because the U.S. economy concentrates most of that wealth in the hands of the wealthy. And the wealthy apparently don't care too much about the retirement income of the 99 percent.

Beyond financial reform, Social Security needs to be adjusted in ways that will make it better able to do what many of us have been calling on it to do for years. And that is to provide a meaningful degree of financial security for USAmerican workers by increasing funding and increasing benefits. But are USAmericans willing to pay more taxes in order to make Social Security better for all of us? Is there a sufficient sense of solidarity in the individualistic culture of the USA to make this politically possible? Why, yes, as a matter of fact. Read on... ◆

Popular Support for Expanding Social Security

Social Security has long been one of the most popular federal programs. The National Academy of Social Insurance, or NASI, conducted a survey in 2014 and reported "Favorable views of Social Security are reported by large majorities of Americans in all family income groups. Moreover, in contrast to their disagreements on many other issues, majorities of Republicans (59%), Democrats (78%), and independents (65%) share a favorable view of the Social Security program." A 2018 poll found that "66% of voters are more likely to back candidates who support expanding and increasing Social Security benefits, vs. 18% who are less likely."

A year earlier, in 2013, NASI had conducted a poll which found that "Large majorities of Americans agree that all workers could pay somewhat more for Social Security if necessary. Fully 82% of Americans agree it is critical to preserve Social Security for future generations even if it means increasing the Social Security taxes paid by working Americans; those agreeing include 90% of African Americans, 84% of Hispanics, and 81% of whites."

The 2014 NASI poll was called "Americans Make Hard Choices on Social Security: A Survey with Trade-Off Analysis." And it's that "trade-off analysis" that made this survey more interesting than most. Developed by market researchers to help them figure out what consumers want *and are willing to pay for*, trade-off analysis allows survey participants to make choices among various options that are presented to them. In the case of the NASI poll, respondents were asked to "choose among different packages of Social Security changes. As lawmakers would do, they weighed how each policy change would affect workers, retirees, and the program's future financing gap, and then chose among different packages of reforms."

What the survey found was, to me, somewhat surprising given the length and power of the anti-Social Security propaganda campaign over the years. Here, in NASI's words, is what surprised me:

"Seven out of 10 participants prefer **a package that would eliminate Social Security's long-term financing gap without cutting benefits.** The preferred package would:

1. Gradually, over 10 years, eliminate the cap on earnings taxed for Social Security. With this change, the 6% of workers who earn more than the cap would pay into Social Security all year, as other workers do. In return, they would get somewhat higher benefits.

2. Gradually, over 20 years, raise the Social Security tax rate that workers and employers each pay from 6.2% of earnings to 7.2%. A worker earning $50,000 a year would pay about 50 cents a week more each year, matched by the employer.

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3. Increase Social Security's cost-of-living adjustment to reflect the inflation experienced by seniors.

4. Raise Social Security's minimum benefit so that a worker who pays into Social Security for 30 years or more can retire at 62 or later and have benefits above the federal poverty line."

What this survey indicates is that people realize that there is a need to increase benefits in light of the decreasing levels among workers of savings and pension income (points 3 and 4), and that we all need to chip in to pay for the benefits that we need (points 1 and 2). This is solidarity in action, which is the core value of social insurance.

Wanting change is one thing. But has anybody actually put forward a proposal to carry out any of these reforms? Why, yes, as a matter of fact. Read on... ◆

The Social Security 2100 Act

Representative John Larson of Connecticut is taking the lead on the movement to expand and improve Social Security in the U.S. House of Representatives. On January 30 (not coincidentally, the birthday of Franklin Delano Roosevelt), Larson introduced the "Social Security 2100 Act," H.R. 860. The bill, with more than 200 co-sponsors, rather closely resembles the package of changes that I just talked about. You remember: The one that is most popular among the public. That is, H.R. 860 has some provisions that increase benefits and some provisions that shore up the system's finances. I'll very briefly summarize the main points, so when you contact your representative in Washington you'll know what you're asking them to support!

On the BENEFITS side, H.R. 860 would:

1. INCREASE SOCIAL SECURITY BENEFITS FOR ALL OF US.

It's a small increase—about two percent for the average worker—but that extra 30 or 40 bucks a month is important to those low on the income scale. Most importantly, it is not a *cut* in benefits, which no one can afford at a time when pensions are disappearing and retirement savings are shrinking. See this issue's "Quote" of the Week.

2. BETTER PROTECT AGAINST INFLATION

Since 1975, Social Security benefit payments have been adjusted every year to account for inflation. These adjustments—called COLAs for Cost Of Living Adjustments—are necessary "to protect beneficiaries from the loss of purchasing power implied by inflation," says the Social Security Administration, or SSA. The tool that SSA uses, and has always used, to calculate the COLAs is the Consumer Price Index for Urban Wage Earners and Clerical Workers from the Bureau of Labor Statistics, usually shortened to "CPI." But that's not the best tool to use for retired people, as it turns out.

Writing in the Washington newsletter THE HILL back in 2015, CA Representative Mike Honda and Alliance for Retired Americans director Richard Fiesta explain: "The truth is that the consumption patterns of seniors are very different from those of younger people. The CPI does not adequately take into account the expenditures of retirees, most glaringly healthcare and housing costs." For example, using the current CPI, "33 percent of the average senior's Social Security check will be consumed by Medicare out-of-pocket costs by 2091, compared with 25 percent today." That's according to The National Committee to Preserve Social Security and Medicare.

The Bureau of Labor Statistics, or BLS, has a better inflation tool that's almost ready to use. Since 1987 the BLS, in addition to the standard CPI, has calculated what it calls the "Experimental CPI for Americans 62 Years of ➚➚➚

➔➔ Age and Older", or CPI-E. It's "experimental" for some technical reasons, but could become official without too much more work. The SS 2100 Act would get us going on this important change.

3. PROTECT LOW INCOME WORKERS

As it stands now, a worker can retire at the full retirement age and find themselves living in poverty. The sponsors of the SS 2100 Act state that "No one who paid into the system over a lifetime should retire into poverty. The new minimum benefit will be set at 25% above the poverty line and would be tied to wage levels to ensure that the minimum benefit does not fall behind."

To STRENGTHEN THE TRUST FUND, H.R. 860 would:

1. TAX MORE OF THE INCOME OF THE WEALTHY

The sponsors say "Presently, payroll taxes are not collected on wages over $132,900. This legislation would apply the payroll tax to wages above $400,000. This provision would only affect the top 0.4% of wage earners."

2. ASK EVERYONE TO CHIP IN BY PAYING HIGHER TAXES

The SS 2100 Act would "Gradually phase in an increase in the contribution rate beginning in 2020, so that by 2043 workers and employers would pay 7.4 percent (of wages) instead of 6.2 percent. For the average worker this means paying an additional 50 cents per week every year to keep the system solvent." Interestingly, what to call this 7.4 percent chunk of our wages is not obvious. Many people, including those who oppose expanding the program, call it a tax. As you can see, the sponsors (and others) call it a contribution. I call it a premium, since it is the funding we all chip in to fund what is, after all, a giant insurance program.

As you just read, H.R. 860 proposes a 1.2 percentage-point increase in the payroll tax for both workers and employers, from 6.2 percent to 7.4 percent. Those of you who were reading Nygaard Notes back in the year 2000 (!) may recall an article I wrote in May of that year called "The Debate That Could Dominate the Presidential Campaign: Social Security Reform 2000". It didn't end up dominating that campaign, but in that article I said that "if we wanted to fully fund the Social Security program for the entire 75 years by doing nothing but raising the tax rates, we could simply raise the payroll tax by 1.89 percentage points, from 12.4 percent to 14.29 percent." That is, from 6.2 percent each for workers and employers, to 7.145 percent each.

I mention this partly because I'm such a Social Security geek that I love tossing around the numbers on this stuff. But the real reason is to point out two things. One is that lots of people have been talking about addressing Social Security's long-term fiscal problems for 20 years and more (it wasn't just me, for heaven's sake!). And the second point is that I want people to notice that, had we acted on this projected shortfall 20 years ago it would have been even easier than it is now. We could have raised the payroll tax by a smaller amount than is now being proposed, and we wouldn't even have had to ask the rich to pay more than they were already paying.

But here we are in 2019, with a real proposal before the Congress that has massive support among the people of this country. It won't go anywhere this year due to the degree of power held at the moment by the far right. But, even in what seems to many to be the bleakest of times, a proposal that would have seemed radical not that long ago may be just an election or two away from becoming law. Lesson: It's not all about Trump. It's all about us, and the power of organizing. It's time to expand Social Security to better meet the needs of 21st-Century workers. Make your voices heard, Nygaard Notes readers! ◆

"Quote" of the Week: *"A Vital Role in Reducing Poverty"*

This week's QOTW comes from a November 5 2018 paper by the Center on Budget and Policy Priorities:

Social Security benefits play a vital role in reducing poverty in every state, and they lift more Americans above the poverty line than any other program. Without Social Security, 22.1 million more Americans would be poor...

Although most of those whom Social Security keeps out of poverty are elderly, 6.7 million are under age 65, including 1.1 million children.

Social Security is particularly important for elderly women and people of color, who have fewer retirement resources outside of Social Security. Depending on their design, reductions in Social Security benefits could significantly increase poverty, particularly among the elderly.

If you want to read the whole 12-page paper, titled simply "Social Security Lifts More Americans Above Poverty Than Any Other Program", go to the CBPP website: ***https://www.cbpp.org/***

Take Action to Expand Social Security!

More than 150 Democratic lawmakers on September 13 2018 launched a group aimed at protecting and expanding social security benefits. Known as the the Expand Social Security Caucus, they could use all the support they can get. The advocacy group *Social Security Works* has a petition you can sign to show your support, and where they invite you to "Become an early citizen-member of the Expand Social Security Caucus and strengthen our movement for progressive change." Find the petition and invitation here: ***https://actionnetwork.org/petitions/join-the-expand-social-security-caucus?nowrapper=true&referrer=group-social-security-works&source=direct_link***

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