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Delivering on the promise of America's pension plan: Social Security

Social Security is crucial to Washingtonians' economic security and our state's economy

Nearly 1.3 million Washington residents receive Social Security benefits, representing 18% of the state's population, who in turn provide income for 30% of the state's households.[1] Seventy-five percent of benefit recipients (969,835 people) are age 65 or older, 19% (245,536) are age 18-64 and 6% (75,827) are under 18. Nine in 10 residents age 65 or older receive benefits; 55% of those (530,276) are women.[2]

Social Security dramatically reduces poverty among the elderly in Washington, from 35.1% to 7.4%.[3] Retirement benefits average a modest $1,379/month ($16,549/year) – but without them, an additional 301,000 Washingtonians age 65 or older would have lived in poverty in 2015.[4]

For 98% of Washington's 1.6+ million children and families, Social Security is the primary insurance protection in the event a parent or spouse dies or is disabled.[5] In 2016, over 109,000 widow(er)s and children in Washington received an average $1,219/month ($14,631/year); over 211,000 disabled workers and their families received an average $1,061/month ($12,737/year).[6]

Social Security significantly boosts Washington's economy. In 2016, benefits were equivalent to 5.2% of state total personal income, generating more than $31 billion in economic activity, 192,000 jobs and $1.5 billion in state and local tax revenue.[7,8] In December of that year, nearly $1.7 billion in Social Security benefits went directly to local economies across the state, from King County (288,000 people, $406 million) to Garfield County (660 people, $808,000).[9]

It's time to "Scrap the Cap" to build on Social Security's strong foundation

The Social Security cuts proposed by the Trump administration and Republican leaders of Congress are both needless and harmful to America's families, seniors and communities.[10] Reducing benefits, limiting COLAs and/or increasing the retirement age will diminish economic security for nearly every American. It will disproportionately affect low- and middle-income families, women and all workers of color who, unlike wealthy individuals, often do not have significant retirement savings and must work further into old age in more difficult and physically demanding jobs.[11]

Social Security is the nation's most secure and conservatively invested public trust.[12] In anticipation of the "baby-boomer" generation's retirement, Congress increased payroll taxes and reduced future benefits for millions of Americans in the early 1980's, building a large surplus in the Social Security Trust Fund.[13] The latest Trust Fund report projects Social Security can pay all benefits in full and on time until 2034, and 75% of benefits thereafter.[14]

Lawmakers should build on that strong foundation by making Social Security payroll taxes more equitable, to strengthen and expand the program. While 94% of American workers (151 million people) pay Social Security tax on every paycheck, most of the earnings of the top 1 percent – and especially the top 0.1 percent – escape Social Security taxes.[15]

That's because workers and their employers each pay 6.2% of wages toward Social Security – but there's a cap on taxable earnings. As a result, workers earning less than the cap ($127,200 in 2017) pay a higher Social Security payroll tax rate than those who make more.

Congress set the cap in 1977 and indexed it to average wage growth, intending it to cover 90% of all wages.[16] But over the past several decades, wage growth among lower- and middle-income Americans has slowed, while wages at the top have grown dramatically. As a result, the cap now covers just 82% of aggregate wages.[17]

This rising inequality in earnings accounts for 43.5% of the projected 75-year shortfall in Social Security funding.[18] Put another way: if the cap on taxable income had continued to cover 90% of total earnings since 1983, the Trust Fund would have at least an additional $1.1 trillion today.[19]

Scrapping the cap now would extend the Trust Fund's surplus until 2087 – certainly far enough in the future for policymakers to make additional adjustments if necessary.[20] Only the richest 6.1% of workers (less than 1 in 15) would pay more.[21] It's a popular idea: two-thirds of Americans support requiring high-income workers to pay Social Security taxes on all of their wages (as is already the case with Medicare taxes).[22]

Expand and improve Social Security to create a more equitable and secure future for all

To ensure Social Security continues to protect the economic security of working Americans, lawmakers should enact policies that expand and improve Social Security for today's workers and families, including:

Raising benefits overall: Adjusting the benefit formula to raise benefits for those who have had careers in low-wage occupations – such as childcare, restaurant service, or home health care – would better protect the financial security of people just scraping by, particularly older women and people of color.

Protecting the very elderly: Living to extreme old age, or outliving (or not having) a spouse greatly increases the risk of poverty. "Bump-ups" in benefits for seniors living past a certain age and increasing benefits for elderly widows and widowers would reduce financial insecurity among the most vulnerable people in our communities.

Honoring time caring for family: Caring for children or aging family members can cause many people, especially women, to reduce their hours or stop working, greatly affecting their retirement benefits. Reducing the number of years' earnings used to calculate retirement benefits from 35 to 30 or 28 can eliminate this caregiving penalty. It would also help Millennials and others who had reduced access to employment due to economic downturns.

Restoring student survivor benefits: Before 1981, children of retired, deceased, or disabled workers continued receiving benefits through age 22 if they attended college. Now benefits end once a young person turns 18 and finishes high school. Reinstating college benefits could help children and their families achieve their dreams, as well as reduce socioeconomic barriers to education and lifetime opportunities.

Adopting the CPI-E inflation index: Over the past eight years, the current COLA formula has led to average monthly benefit increases of just over 1% and no increase at all in three of those years.[23] The 2016 COLA was just 0.3%, or about $4.00/month for the average senior – barely the average cost of one Lipitor pill. Adopting the consumer price index for the elderly, or CPI-E, would be a more accurate means of calculating adequate Social Security COLAs.

Restoring office access & services: The Social Security Administration's (SSA) expenses are self-funded and account for less than one penny of every dollar spent. While demand for SSA services (and staff workloads) have risen to record highs, over the past six years, the SSA's operating budget has shrunk by 10% (after adjusting for inflation) due to Congressional budget cuts. This has resulted in the closure of one field office and the loss of 776 employees in Washington.[24] Restoring full funding would help ensure people have dependable and easily accessible in-person service at Social Security offices, often at critical moments in their lives.

Endnotes

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[5] In this case "children" refers to individuals under 18 and includes neither disabled adult children, nor individuals age 18-19. Social Security Works, "Social Security Works for Washington," August 2016, http://www.socialsecurityworks.org/wp-content/uploads/2016/08/WA2016.pdf.

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[10] The Atlantic, "House GOP Budget Plan Cuts Medicare and Social Security," July 2017, http://www.theatlantic.com/politics/archive/2017/07/house-gop-budget-plan-puts-medicare-and-social-security-on-the-line/533991/; The Hill, "The Trump budget cuts Social Security, plain and simple," May 2017, http://thehill.com/blogs/pundits-blog/economy-budget/335618-the-trump-budget-cuts-social-security-plain-and-simple.

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[12] Social Security can only spend money collected from the designated payroll tax or from the investment of past surpluses and is legally barred from deficit spending or borrowing from the general budget. Surplus contributions held in the Social Security Trust Fund are invested in special issues of U.S. government bonds, redeemable at any time at face value. Center on Budget and Policy Priorities, "Policy Basics: Understanding the Social Security Trust Funds," September 2017, http://www.cbpp.org/research/social-security/policy-basics-understanding-the-social-security-trust-funds.

[13] National Academy of Social Insurance, "Strengthening Social Security for the Long Run," November 2010, http://www.nasi.org/sites/default/files/research/SS_Brief_035.pdf.

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