November 2018 Update

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

Social Security benefits are crucial to the economic security of more than 1.3 million Washington residents and their families, and contribute significantly to the economic stability of every region of the state. Yet some members of Congress are threatening once again to cut Social Security to pay for tax cuts for wealthy individuals and corporations. Raising the retirement age or making other cuts to Social Security is the wrong approach. Rather, federal lawmakers should act now to "scrap the cap" on taxable earnings, raise benefits and make other improvements to ensure the program meets the needs all workers, families and retirees for decades to come.

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

Over 1.3 million Washington residents receive Social Security benefits, representing 18 percent of the state's population and providing income for 29 percent of the state's households.[1] Of people receiving benefits, 76 percent (over 1 million) are age 65 or older, 18 percent (238,439) are age 18-64 and 6 percent (75,086) are under 18. Nine in 10 residents age 65 or older receive benefits; 55 percent of those (549,458) are women.[2]

Social Security dramatically reduces poverty among the elderly in Washington, from 35.1 percent to 7.4 percent.[3] Retirement benefits average a modest $1,447/month ($17,370/year) – but without them, an estimated 301,000 more Washingtonians age 65 or older would have lived in poverty in 2015.[4]

In the event a parent or spouse dies or is disabled, Social Security is the primary insurance protection for 95% of Washington's 1.5+ million children and families.[5] Nationwide, more than twice as many child beneficiaries nationwide would be living below the poverty level without Social Security benefits.[6] In 2017, nearly 109,000 widow(er)s and children in Washington received an average $1,291/month ($15,489/year); over 207,000 disabled workers and their families received an average $1,174/month ($14,085/year).[7]

Social Security significantly boosts Washington's economy. In 2017, benefits were equivalent to 5 percent of state total personal income, generating an estimated $39.7 billion in economic activity, more than 251,000 jobs and $2 billion in state and local tax revenue.[8,9] In December of 2017 alone, nearly $1.8 billion in Social Security benefits went directly to local economies across the state – from populous King County ($426 million to 292,000 people) to rural Garfield County ($845,000 to 670 people).[10]

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

The Social Security cuts proposed by Republican leaders of Congress are both needless and harmful to America's families, seniors and communities.[11] 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.[12]

Social Security is the nation's most secure and conservatively invested public trust.[13] 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.[14] The latest Trust Fund report projects Social Security can pay all benefits in full and on time until 2034, and three-fourths of scheduled benefits thereafter – even if policymakers took no steps to strengthen the program.[15]

Lawmakers should build on that strong foundation by making Social Security payroll taxes more equitable to expand the program. While 94 percent of workers 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.[16]

That's because workers and employers each pay 6.2 percent of wages toward Social Security, but there's a cap on taxable earnings ($128,400 in 2018) – so workers earning more than the cap pay a lower effective tax rate than those who make less. Congress set the cap in 1977 and indexed it to average wage growth, intending it to cover 90 percent of all wages.[17] But over the past several decades, wage growth for lower- and middle-income Americans has slowed, while wages at the top have grown dramatically.

As a result, the cap now covers just 83 percent of aggregate wages.[18] This rising inequality in earnings accounts for 43.5 percent of the projected 75-year shortfall in Social Security funding.[19] If the taxable income cap had covered 90 percent of total earnings since 1983, the Trust Fund would have at least an additional $1.1 trillion.[20]

Scrapping the cap (with no benefits changes) would extend the Trust Fund's surplus until 2067 – certainly far enough in the future for policymakers to make other adjustments as needed.[21] Only the richest 6.1 percent of workers (less than 1 in 15) would pay more.[22] 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).[23]

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, federal lawmakers should scrap the cap, and expand and improve Social Security for today's workers and families by:

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 these vulnerable people.

Reducing gender and racial inequities: Caring for children or aging family members can cause many people, especially women, to reduce time in the workforce, greatly affecting their retirement benefits. Reducing the number of years' earnings used to calculate benefits from 35 to 28 can eliminate the caregiving penalty. It would also help those with reduced access to employment due to recessions, discrimination, local economic conditions or disasters, and other barriers.

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 decade, the cost of living adjustment (COLA) formula has led to average increases of just over 1 percent.[24] Simultaneous increases in Medicare premiums have often meant many seniors see no additional income from COLAs. Adopting the consumer price index for the elderly, or CPI-E, would be a more accurate means of calculating adequate 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, the SSA's operating budget shrank 11 percent from 2010 to 2017 (adjusted for inflation).[25] This has resulted in the closure of one field office and the loss of 776 employees in Washington.[26] 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

[1] American Community Survey, Table DP03 – Selected Economic Characteristics, 2017 1-year estimates, http://factfinder.census.gov and U.S. Social Security Administration, Office of Retirement and Disability Policy, Office of Research, Evaluation and Statistics, "OASDI Beneficiaries by State and County, 2017", https://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2017/.

[2] U.S. Social Security Administration, "OASDI Beneficiaries by State and County, 2017", https://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2017/.

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[5] About 95 percent of persons aged 20-49 who worked in covered employment in 2017 have acquired survivorship protection for their children under age 18 (and surviving spouses caring for children under age 16) – see: https://www.ssa.gov/OACT/FACTS/. Number of Washington households with children: see American Community Survey, Table DP03 – Selected Economic Characteristics, 2017 1-year estimates, http://factfinder.census.gov.

[6] Social Security Administration Office of Retirement Policy, "Child Beneficiaries and Poverty," March 2015, https://www.ssa.gov/retirementpolicy/fact-sheets/children-poverty.html.

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[8] Percent of total personal income calculations based on: 1) Personal Income Data from Bureau of Economic Analysis, Table SA1, Personal income summary, https://www.bea.gov/ and 2) U.S. Social Security Administration, "OASDI Beneficiaries by State and County, 2017", https://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2017/.

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[10] U.S. Social Security Administration, "OASDI Beneficiaries by State and County, 2017", https://www.ssa.gov/policy/docs/statcomps/oasdi_sc/2017/.

[11] Bloomberg, "McConnell Blames Entitlements, Not GOP, for Rising Deficits," October 2018, https://www.bloomberg.com/news/articles/2018-10-16/mcconnell-blames-entitlements-not-gop-for-rising-deficits; Washington Post, "House GOP plan would cut Medicare, Medicaid to balance budget," June 2018, https://www.washingtonpost.com/news/business/wp/2018/06/19/house-gop-plan-would-cut-medicare-social-security-to-balance-budget/.

[12] Center on Budget and Policy Priorities, "Raising Social Security's Retirement Age Cuts Benefits for All Retirees", January 2016, http://www.cbpp.org/blog/raising-social-securitys-retirement-age-cuts-benefits-for-all-retirees.

[13] 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.

[14] 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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