Social Security

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EXECUTIVE SUMMARY

Social Security, as the federal government's largest single nondefense program, provides benefits to approximately 56 million Americans. While it was never intended to guarantee income security on its own, Social Security has been expanded and changed numerous times over the years since its inception in 1935 to cover more than just individual workers. Nearly two-thirds of the elderly get at least half of their income from Social Security. One in five elderly Americans has no income other than Social Security.

Social Security benefits are paid to workers who meet requirements for the time they have worked in "covered employment," that is, jobs through which they have paid Social Security taxes. Contrary to popular belief, the payroll taxes paid by younger workers are not set aside for retirement. By law, all payroll taxes collected for the purpose of Social Security are required to be paid out in benefits.

To compensate for the effects of inflation, Social Security recipients receive a cost-of-living adjustment (COLA) in January of each year. The Social Security COLA is not increased, decreased or changed by way of a vote in Congress to do so, contrary to the belief of some. Social Security has two sources of dedicated tax revenues: revenues from the Federal Insurance Contributions Act (FICA) taxes and the Self Employment Contributions Act (SECA) taxes. FICA taxes are paid by both employers and employees, and SECA taxes are paid by self-employed individuals.

Though long foreseen, a "perfect storm" has emerged over the years that threatens the solvency of not only the Social Security system, but the federal government in general. According to the Government Accountability Office (GAO), about 47 cents of every federal dollar spent went to Social Security, Medicare, Medicaid and interest on the federal debt. Absent action, Social Security, Medicare and Medicaid will soon grow to consume every dollar of revenue that the government raises in taxes. At that point, policymakers would be left with no good options.

A growing senior population caused by the retirement of the "baby boom" generation, an increase in life expectancy and a declining number of workers paying into the system have left Social Security with a shaky financial future. In 1945, there were approximately 42 workers paying into the system for every retiree receiving benefits. Currently, there are only about three workers for every retiree and soon there will be only two workers for every beneficiary. Also, according to the GAO, the number of "baby boomers turning 65 is projected to grow in coming years – they averaged about 7,600 per day in 2011 and are projected to average about 11,400 per day by 2029. The result: a significantly larger share of the population will soon be drawing Social Security benefits for a longer period of time with a smaller share of the working population paying into the system to fund the promised benefits.

According to the Social Security Trustees most recent report, while the Disability Insurance (DI) Trust Fund is projected to be exhausted in 2016 (two years earlier than projected last year) and the Old-Age and Survivors Insurance (OASI) Trust Fund in 2035 (three years earlier than projected last year). While the combined trust funds (the OASI and DI trust funds) continue to fail the long-range test of close actuarial balance, it does satisfy the conditions for short-range financial adequacy. The DI program, however, satisfies neither the long-range nor short-range tests for financial adequacy. DI costs have exceeded non-interest income since 2005. In addition, Social Security expenditures exceeded the program's non-interest income in 2010 for the first time since 1983 (and exceeded non-interest income again in 2011).

Social Security has fallen into permanent deficit, meaning it will take in less payroll tax revenue than it will pay in benefits each year going forward. This means that the Social Security Trust Fund will begin to redeem the outstanding Treasury bonds, which is projected to allow the program to continue to pay benefits until 2033 – three years earlier than was previously projected. In 2033, when all of these outstanding assets are exhausted and the Social Security Trust Fund is depleted, Social Security will not be able to pay full benefits from its payroll and other tax revenues. Thereafter, tax income would be sufficient to pay only about three-quarters of scheduled benefits through 2086.

The bottom line is that the government is running out of money. Unless some reforms are made, Social Security will eventually go bankrupt. Previous adjustments to Social Security have only temporarily staved off bankruptcy.

THE HISTORY OF SOCIAL SECURITY

In brief, Social Security is the federal government's largest nondefense program. Originally created in 1935 under President Franklin D. Roosevelt by Title II of the original Social Security Act (P.L. 74-271) as a social insurance federal old-age pension program financed with employee-employer payroll taxes and designed to pay retired workers age 65 or older a continuing income, the program has expanded over the years to provide benefits to a worker's dependents, survivor and disability benefits and hospital and medical insurance. Congress has modified Social Security many times over the past seven decades and the program now consists of two major components: Old-Age and Survivors Insurance (OASI) trust fund, which pays benefits to retired workers and to their dependents and survivors; and Disability Insurance (DI) trust fund, which makes payments to disabled workers who are younger than the normal retirement age and to their dependents.

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"We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age."

~ Statement of President Franklin D. Roosevelt upon signing Social Security Act, Aug. 14, 1935

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Among the beneficiary population, approximately 69 percent are retired workers, their spouses and children, and another 12 percent are survivors of deceased workers. All of these beneficiaries receive payments through OASI. The other 19 percent are disabled workers or their spouses and children – they receive DI benefits. Approximately 56 million people will receive Social Security benefits this year. An estimated 159.7 million workers, or 94 percent of workers in paid employment or self employment, are covered by Social Security. The Congressional Budget Office (CBO) recently estimated that in fiscal year (FY) 2011, Social Security's outlays totaled $731 billion – one-fifth of the federal budget. CBO projects that Social Security spending will be $775 billion in 2012.

Editor's Note: *An exhaustive history of the Social Security program can be accessed by visiting http://www.socialsecurity.gov/history/* .

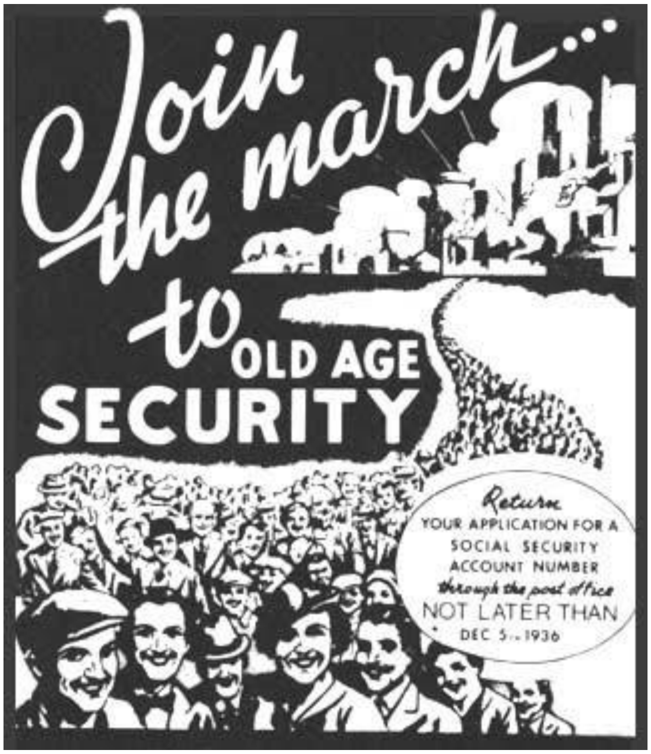
The Great Depression and Roosevelt's New Deal

The decade of the 1930s found American facing the worst economic crisis in its modern history in the Great Depression. Following the Crash of 1929, unemployment exceeded 25 percent, about 10,000 banks failed and the Gross National Product (GNP) declined from $105 billion in 1929 to only $55 billion in 1932. Compared to pre-Depression levels, net new business investment was a minus $5.8 billion in 1932. Wages paid to workers declined from $50 billion in 1929 to only $30 billion in 1932. The majority of the elderly in America lived in dependency.

Social insurance, conceived by President Roosevelt, would address the permanent problem of economic security for the elderly by creating a work-related, contributory system in which workers would provide for their own future economic security through taxes paid while employed.

On June 8, 1934, President Roosevelt, in a message to Congress, announced his intention to provide a program for Social Security as part of his "New Deal" response to the Great Depression. Subsequently, the president created the Committee on Economic Security, which was instructed to study the entire problem of economic security and to make recommendations that would serve as the starting point for legislation in

Congress. In early January 1935, the Committee made its report to the President and he introduced the report to both chambers of Congress for their consideration. Each chamber passed its own version, eventually the differences were resolved and the Social Security Act was signed into law on Aug. 14, 1935. In addition to several provisions for the general welfare, the new Act created a social insurance program designed to pay retired workers age 65 or older a continuing income.



Along with Social Security, several other New Deal programs remain active, with some still operating under their original names such as Federal Deposit Insurance Corporation (FDIC), the Federal Housing Administration (FHA) and the Tennessee Valley Authority (TVA).The largest New Deal programs still in existence today are Social Security and the Securities and Exchange Commission (SEC).

<u>Expansion and Modification of Social Security: 1930s to 1970s</u>

Over the next five decades, Social Security was expanded and modified through a series of legislative measures referred to as the Social Security Amendments. In 1939, payments to the spouse and minor children of a retired worker (called dependents benefits) and survivors benefits paid to the family in the event of the premature death of the worker, were added as categories to Social Security. In 1950, benefits were raised for the first time (a 77 percent increase). Subsequent benefit increases required an act of Congress until 1972 when the law was changed so that beginning in 1975, automatic annual cost of living adjustments (COLAs) based on the annual increase in consumer prices would be applied to benefits. This mitigated against inflation and no longer required a special act of Congress to increase benefits and the politically-loaded vote that went along with it.

In 1956, the Social Security Act was amended to provide cash benefits to disabled workers aged 50 to 65 and disabled adult children. Over the next few years, Congress broadened the scope of the program, permitting the dependents of disabled workers to qualify for benefits and eventually disabled workers at any age could qualify. In 1961, the age at which men are first eligible for retirement benefits was lowered to 62 (women previously were given this option in 1956). The most significant change involved the passage and creation of Medicare. Under Medicare, health insurance coverage was extended to Social Security beneficiaries aged 65 or older (and eventually to those receiving disability benefits as well). Nearly 20 million beneficiaries enrolled in Medicare in the first three years of the program. Social Security would continue to have responsibility for the Medicare program until a 1977 reorganization created the Health Care Financing Administration (HCFA), which assumed administrative responsibility for Medicare at that time. (In 2001, HCFA was renamed the Centers for Medicare and Medicaid Services, or CMS.) In 1972, in addition to the automatic COLA, Congress also federalized the "adult categories" of welfare that were administered by state and local governments with partial federal funding into the Supplemental Security Income (SSI) program (a need-based program for elderly, blind and disabled individuals) and assigned responsibility for it to Social Security.

Greenspan Commission

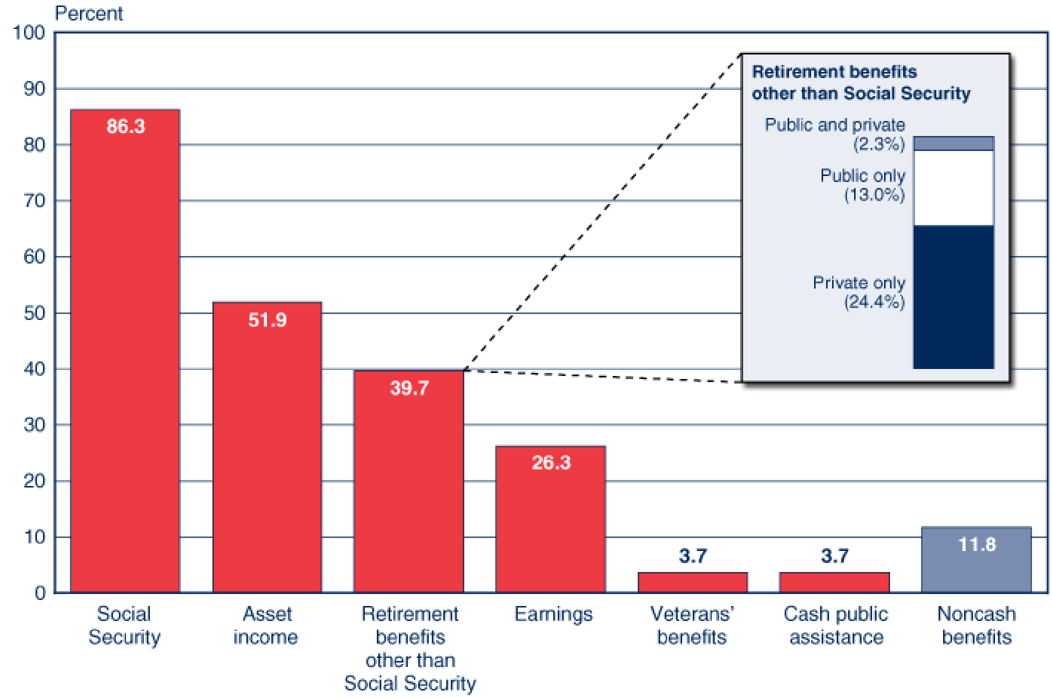
In the early 1980s, Social Security faced a serious short-term financing crisis. In 1977, changes were made that were supposed to keep the system solvent well into the 21st century. Yet after five turbulent years, Congress and President Ronald Reagan were forced to confront the issue again. At the time, estimates were that the OASI Trust Fund would run out of money as early as August 1983.

President Reagan appointed a blue-ribbon panel, the National Commission on Social Security Reform (informally known as the Greenspan Commission after its chairman, Alan Greenspan – who later went on to become the Federal Reserve Chairman in 1987), to study and make recommendations regarding the financing crisis. Today, this bipartisan commission is viewed as a model approach to addressing the current Social Security crisis.

The Commission was to make recommendations to Congress on how to solve the problems facing Social Security. The report, issued in January 1983, became the basis for the 1983 Social Security Amendments which made numerous changes in the Social Security program, including the partial taxation of Social Security benefits, the first coverage of federal employees including Members of Congress, raising the retirement age gradually starting in 2000 and increasing the reserves in the Social Security trust funds. The changes solved the short-term financing crisis for Social Security, but certainly not the long-term one.

HOW DOES SOCIAL SECURITY WORK?

Nearly two-thirds of the elderly get at least half of their income from Social Security. One in five elderly Americans has no income other than Social Security. Helping ensure adequate retirement income is a fundamental goal of Social Security. While it was never intended to guarantee an adequate income by itself, it provides an income base upon which to build. At the same time, Social Security is intended to reduce dependency on welfare, so the system is funded by workers' contributions that establish their eligibility to receive benefits. Both contributions and benefits are based on earnings.



Percentage receiving income from specified source, 2010
Source: Social Security Administration

Pay-As-You-Go Financing

Social Security benefits are paid to workers who meet requirements for the time they have worked in "covered employment," that is, jobs through which they have paid Social Security taxes. Contrary to popular belief, the payroll taxes paid by younger workers are not set aside for retirement. By law, all payroll taxes collected for the purpose of Social Security are required to be paid out in benefits. Considered pay-as-you-go financing, the benefits currently paid out to seniors are financed with the payroll taxes collected from younger workers.

A growing senior population caused by the retirement of the "baby boom" generation, an increase in life expectancy and a declining number of workers paying into the system have left Social Security with a shaky financial future. In 1945, there were approximately 42 workers paying into the system for every retiree receiving benefits. By 1950, there were 16 workers paying into the system per retiree. Currently, there are only about three workers for every retiree and soon there will be only two workers for every beneficiary. Also, according to the Government Accountability Office (GAO), the number of "baby boomers" turning 65 is projected to grow in coming years – they averaged about 7,600 per day in 2011 and are projected to average about 11,400 per day by 2029.

According to the Social Security Trustees most recent report, a non-partisan group that reports annually to Congress on the financial operations and actuarial status of the program, while the combined OASDI program (OASI and DI trust funds combined) continues to fail the long-range test of close actuarial balance, it does satisfy the conditions for short-range financial adequacy. Combined trust fund assets are projected to exceed one year's projected benefit payments for more than 10 years, through to 2033. The DI program, however, satisfies neither the long-range nor short-range tests for financial adequacy. DI costs have exceeded non-interest income since 2005 and trust fund exhaustion is projected for 2016. In addition, Social Security expenditures exceeded the program's non-interest income in 2010 for the first time since 1983 (and again in 2011).

Benefits

Over time, the law has been amended several times to increase the amount of monthly benefits, the amount of income taxed to pay for Social Security and the age at which a retiree can begin collecting benefits. In general, workers are eligible for early, reduced retirement benefits if they are age 62 or older and have paid sufficient Social Security taxes for at least 10 years. The age to collect full retirement benefits is gradually increasing (now at age 67 for those born 1960 or later).

According to the non-partisan Congressional Budget Office (CBO):

> "Workers whose employment has been limited because of a physical or mental disability can become eligible for DI benefits at an earlier age and, in many cases, with a shorter employment history. Various rules for determining eligibility and benefit amounts apply to family members of retired, disabled or deceased workers.
>
> "When retired or disabled workers first claim Social Security benefits, the initial payments they receive are based on their average lifetime earnings. The formula used to translate average earnings into benefits is progressive; that is, it replaces a larger share of preretirement earnings for people with lower average earnings than it does for people with higher earnings. The benefit formula and individuals' earnings histories are indexed to changes in average annual earnings for the labor force as a whole. Because average national earnings generally grow at a faster rate than does inflation, that indexation causes initial benefits for future recipients to grow in real (inflation-adjusted) terms.
>
> "Benefits are also subsequently adjusted to reflect annual changes in consumer prices. For retirement benefits, a final adjustment is made on the basis of the age at which a recipient chooses to start claiming benefits: The longer a person waits (up to age 70), the higher the benefits will be. That final adjustment is intended to be "actuarially fair," so that an individual's total lifetime benefits will have an approximately equal value regardless of when he or she begins collecting them."

Cost-of-living adjustment (COLA)

To compensate for the effects of inflation, Social Security recipients receive a cost-of-living adjustment (COLA) in January of each year. **The Social Security COLA is not increased, decreased or changed by way of a vote in Congress to do so, contrary to the belief of some.** One of the ideas behind the Social Security COLA is to keep Congress out of the process. The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), updated monthly by the Department of Labor's Bureau of Labor Statistics (BLS), is the measure that can trigger the change. The Social Security COLA is based on the percentage change in the index from the highest third calendar quarter average CPI-W recorded (most often, from the previous year) to the average CPI-W for the third calendar quarter of the current year. The COLA becomes effective in December of the current year and is payable in January of the following year (Social Security payments always reflect the benefits due for the preceding month). If there is no percentage increase in the CPI-W between the measuring periods, no COLA is payable.

Although beneficiaries had received COLA increases every year since 1975 (and the 5.8 percent increase paid in 2009 to beneficiaries was the largest since 1982), no adjustment was made in 2010 and 2011, but benefits did increase by 3.6 percent in 2012. The average CPI-W for the third quarter of 2009 did not increase from the average CPI-W for the third quarter of 2008, therefore, no COLA was payable in January 2010. And again, in 2011, no COLA was payable because the average CPI-W for the third quarter of 2010 remained below the average CPI-W for the third quarter of 2008. But, because the average CPI-W for the third quarter of 2011 exceeded that for 2008, a 3.6 percent COLA is payable in 2012.

Revenue

The Social Security program has two sources of dedicated tax revenues: revenues from the Federal Insurance Contributions Act (FICA) taxes and the Self Employment Contributions Act (SECA) taxes. FICA taxes are paid by both employers and employees, but it is employees who remit the taxes to the Treasury. The FICA tax rate of 7.65 percent each for employers and employees has two components: 6.2 percent for Social Security and 1.45 percent for Medicare Hospital Insurance (HI). Under current law at the time of this writing and for the year 2012, under a temporary legislative two percentage point reduction in the payroll tax rate for workers currently in effect at the time of this writing, workers pay 4.2 percent and employers pay 6.2 percent only on earnings up to a maximum annual amount ($110,100 for 2012) in Social Security payroll taxes.

The SECA tax rate is 15.3 percent for self-employed individuals, with 12.4 percent for Social Security and 2.9 percent for Medicare HI. The self-employed pay 12.4 percent of their net self-employment income, up to the taxable wage base, in Social Security payroll taxes (again, noting the exception for 2012).

The other, smaller tax revenue source comes from certain Social Security recipients who must include a portion of Social Security benefits in taxable income for the federal income tax, and the Social Security program receives part of those taxes. Additionally, the Social Security program also receives interest from the U.S. Treasury on its investments in U.S. obligations (more on this later). The revenues to the trust fund each year are used to pay Social Security benefits and program costs. If in any year revenues are greater than costs, the Secretary of the Treasury, as Managing Trustee of the trust funds, is **required** to invest this positive annual balance (or cash flow surplus) in securities backed by the U.S. government.

In calendar year 2010, for the first time since 1983, annual outlays for Social Security exceeded annual revenues excluding interest credited to the trust funds.

The Social Security Trust Fund

The Social Security Trust Fund was established in 1939 to receive monies collected for Social Security through payroll taxes and to distribute benefits. The monies in this fund are managed by the Treasury Department. They are not, nor have they ever been, put directly into the "general fund."

However, this is merely semantics. The Treasury Department has for decades borrowed money from the Social Security Trust Fund to finance general government operations. Here is how it works:

By law, any positive annual balance (or cash flow surplus) in the Social Security Trust Fund must "be invested in securities backed by the full faith and credit of the federal government," such as Treasury bills, Treasury notes and Treasury bonds, as well as special issue bonds. So, essentially, the government "invests" Social Security funds by lending them to itself, then spending that money on programs not related to Social Security (e.g. defense, foreign aid, education, etc.). The government "pays back" this money when the Social Security program redeems the bonds.

Members of Congress and Social Security

Is it true that Members of Congress do not pay into Social Security? No, it is not true, although it is a common misconception…mostly based on information that has been outdated for more than two decades. All Members of Congress, the President and Vice President, federal judges and most political appointees were covered under the Social Security program starting in January 1984. They pay into the system just like everyone else – they do pay Social Security payroll taxes. Thus, all Members of Congress, no matter how long they have been in office, have been paying into the Social Security system since January 1984.

Prior to 1984, neither federal service employees nor Members of Congress paid Social Security taxes, nor were they eligible for Social Security benefits. Members of Congress and other federal employees were instead covered by a separate pension plan called the Civil Service Retirement System (CSRS) which came into being in 1920 – 15 years before the Social Security system was formed. For this reason, historically, federal employees were not participants in the Social Security system. Employees of the three branches of the federal government – executive, judicial and legislative – were also covered starting in January 1984, under the 1983 law, but with some special transition rules:

- Executive and judicial branch employees hired before Jan. 1, 1984, were given a one-time irrevocable choice of whether to switch to Social Security or stay under the old CSRS. (Rehired employees – other than rehired annuitants – are treated like new employees if their break-in service was more than a year.).

- Employees of the legislative branch who were not participating in the CSRS system were mandatorily covered, regardless of when their service began. Those who were in the CSRS system were given the same one-time choice as employees in the executive and judicial branches.

- All federal employees hired on or after Jan. 1, 1984, are mandatorily covered under Social Security – the CSRS system is not an option for them.

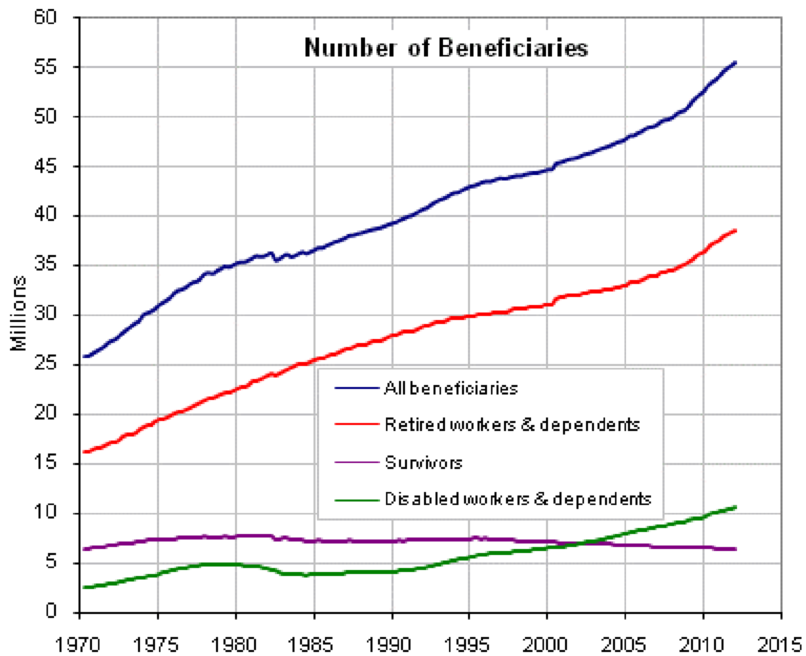
So, there are still some federal employees, those first hired prior to Jan. 1, 1984, who are potentially not participants in the Social Security system. All other federal government employees participate in Social Security like everyone else.

THE UNSUSTAINABLE PATH

Though long foreseen, a "perfect storm" has emerged over the years that threatens the solvency of not only the Social Security system, but the federal government in general. According to the [Government Accountability Office (GAO)](), about 47 cents of every federal dollar spent went to Social Security, Medicare, Medicaid and interest on the federal debt. Absent action, Social Security, Medicare and Medicaid will soon grow to consume every dollar of revenue that the government raises in taxes. At that point, policymakers would be left with no good options.

The risk to Social Security, driven by demographic changes, is nearer at hand than most acknowledge. These changes in the demographic composition of the U.S. population have been accompanied by the enactment of large expansions in eligibility for benefits and of taxes to finance those benefits. In 1950, there were 2.9 million beneficiaries. Currently, there are more than 55 million beneficiaries – an eighteen-fold increase. When the program was created, workers and their employers each paid a one percent payroll tax. Today, they each pay a 6.2 percent payroll tax (obviously, with the temporary reduction for 2012, which was also in place for 2011, each pays 4.2 percent).

As millions of baby boomers approach retirement and the nation suffers through a significant economic downturn, the program's annual cash surplus is shrinking and will soon disappear. The baby boom retirements as well as other changes in the nation's demographics, such as decreasing mortality rates and longer life spans due to medical innovation, as well as lower birth rates (relative to the baby boom generation) are leading to a larger senior population that will be retired longer. According to the Government Accountability Office (GAO), the number of "baby boomers" turning 65 is projected to grow in coming years – they averaged about 7,600 per day in 2011 and are projected to average about 11,400 per day by 2029. At the same time, thanks to innovations in medical technology and health care, life expectancies have lengthened to an average 75.9 years for men and 80.6 years for women, and are expected to grow further. Not only is the nation aging, but there has also been a demographic shift to a lower retirement age. In 1945, the average age of retirement was 69.6 years. In 2009, it was 63.8 years. To put this in perspective: when Social Security was first enacted in 1935, each worker, on average, was contributing less than 2.5 percent of one retiree's benefits. By 2030, each wage earner will be paying for nearly half of each retired person's full benefits.



Source: Social Security Administration

The result: a significantly larger share of the population will soon be drawing Social Security benefits for a longer period of time with a smaller share of the working population paying into the system to fund the promised benefits.

In addition, due to the still-struggling economy and the resulting higher-than-it-should-be unemployment, the payroll tax revenue that finances Social Security benefits is falling dramatically. As a result, the Trust Fund's annual surplus was lost in 2010 and Social Security expenditures exceeded the program's non-interest income in 2010 for the first time since 1983 – almost a decade ahead of schedule.

According to the Social Security Trustees most recent report, a non-partisan group that reports annually to Congress on the financial operations and actuarial status of the program, the DI Trust Fund is projected to be exhausted in 2016 (two years earlier than projected last year) and the OASI Trust Fund in 2035 (three years earlier than projected last year). While the combined OASDI program (OASI and DI trust funds combined) continues to fail the long-range test of close actuarial balance, it does satisfy the conditions for short-range financial adequacy. Combined trust fund assets are projected to exceed one year's projected benefit payments for more than 10 years, becoming exhausted in 2033. The DI program, however, satisfies neither the long-range nor short-range tests for financial adequacy.

Social Security has fallen into permanent deficit, meaning it will take in less payroll tax revenue than it will pay in benefits each year going forward. This means that the Social Security Trust Fund will begin to redeem the outstanding Treasury bonds, which is projected to allow the program to continue to pay benefits until 2033 – three years earlier than was previously projected. **In 2033, when all of these outstanding assets are exhausted and the Social Security Trust Fund is depleted, Social Security will not be able to pay full benefits from its payroll and other tax revenues.** Tax income would be sufficient to pay only about three-quarters of scheduled benefits through 2086.

Social Security will need to consume ever-growing amounts of general revenue dollars to meet its obligations – money that now pays for everything from environmental programs to highway construction to defense. Eventually, either benefits will have to be slashed or the rest of the government will have to shrink to accommodate Social Security. That is the best-case scenario.

However, because all of this happens at the same time we are experiencing $1 trillion plus annual federal deficits, it is only part of the story. The disappearing Social Security surplus, while obviously detrimental to current and future beneficiaries, could also have considerable implications for the federal budget's already grim financial situation. As discussed earlier, the federal government has borrowed significantly from the Social Security Trust Fund to finance general government operations. If Social Security can no longer "lend" from the surpluses of the Trust Fund to the federal government, the government must find other means of financing its operations.

What is concerning to many economists and budgetary experts is the fear that the Treasury will not have the necessary cash on hand to redeem the bonds and pay back the funds it has borrowed from Social Security over the years. Essentially, the bonds are not real economic assets but rather are claims on the Treasury. These claims will have to be paid and they will have to be paid either by raising taxes, driving the nation further into debt (borrowing from the public and foreign investors) or reducing benefits or other government spending to a significant degree.

SOLUTIONS AND REFORM PROPOSALS

The bottom line is that the government is running out of money. Unless some reforms are made, Social Security will eventually go bankrupt. Previous adjustments to Social Security have only temporarily staved off bankruptcy. These quick fixes have not resolved the problem for the long-term. For example, the DI Trust Fund came close to exhaustion in 1994, but that outcome was prevented by legislation that redirected revenues from the OASI Trust Fund to the DI Trust Fund. The Congressional Budget Office (CBO) projects that, if legislation to shift resources from the OASI Trust Fund to the DI Trust Fund is enacted, the combined OASDI Trust Fund would still be exhausted in 2038.

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"Should any political party attempt to abolish Social Security, unemployment insurance and eliminate labor laws and farm programs, you would not hear of that party again in our political history."

~ President Dwight D. Eisenhower

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However, there are no easy answers.

Many have argued that the only available solutions to address the problem are raising taxes (either the payroll tax rate or the income threshold at which income is taxed), taking on enormous new debt and borrowing more to pay benefits (which may not be possible), reducing benefits, raising the retirement age significantly, or some form of personal accounts reform. **Without question, these are politically tough positions for candidates.**

Frustrating for those concerned with the long-term viability of the program, Social Security, along with other entitlements, has become the ultimate political football used by political professionals to gain extra yardage during campaigns. **Regardless of party, those who advocate for changes, reform or fixes to the Social Security problem are attacked relentlessly by their opponents and run the risk of derailing their campaign entirely.** These attacks are done because they work. Political ads, mail, speeches and the like that center on attacking an opponent's position on reforming Social Security generally yield positive results in the polls for the other side, and **we have seen that the Democrats have no intention of holding back in this current election cycle.**

Given the impending crisis in Social Security, this is an unfortunate reality. Until Republicans and Democrats are able to come to a consensus that the long- and short-term viability of Social Security must be addressed in a bipartisan manner, the issue will remain the "third rail" of American politics.

Interestingly, the man who coined that phrase (the "third rail"), Kirk O'Donnell, a former aide to former House Speaker Tip O'Neill, had another more encouraging quote, "…the third rail is not like the one in the subway: if a Republican foot and a Democratic foot touch it simultaneously, nothing happens." What he of course is alluding to is the need for opposite sides of the issue to lay down their arms and come together to address the issue.

It is important to note that previous Republican attempts, such as President George W. Bush's 2005 effort, to address problems with Social Security have **NOT** been efforts to "privatize" the system. These attempts have centered on the establishment of Personal Retirement Accounts (PRAs) within Social Security. As proposed, these voluntary accounts would have allowed for more personal control of retirement savings while providing a "safety net" of minimum retirement benefits for retirees, therefore leaving promised Social Security benefits intact for current and future generations.

These reform efforts, however, were quickly demonized and became an issue in subsequent campaigns. **Candidates should not, under any circumstances, advocate for "privatization" of Social Security, and should be wary of the word "reform," as both terms are political hot buttons that generate negative response from seniors.**

Social Security reform has been an area of interest to policymakers for many, many years. The belief of some Members of Congress that some type of action should be taken sooner rather than later is also shared by the Social Security Trustees and other panels and commissions that have examined the issue. Some Republicans not only view Social Security reform as necessary to save it for current and future beneficiaries, but also as a way to reduce federal entitlement spending and federal budget deficits. Those who support these efforts to constrain the growth in our major entitlement programs (Social Security, Medicare and Medicaid) are concerned that, without changes in current policy, federal spending for these programs would eventually cause budget deficits to reach levels that would be unsustainable and that could have a negative impact on the economy.

National Commission on Fiscal Responsibility and Reform (Simpson-Bowles)

On Feb. 18, 2010, President Obama established the National Commission on Fiscal Responsibility and Reform (often called Simpson-Bowles or Bowles-Simpson for the names of its co-chairs Alan Simpson and Erskine Bowles). Along with several other aggressive proposals such as cutting spending, tax reform and targeting the rising cost of health care, the Commission also proposed an overhaul of Social Security. A *Washington Post* article explains some of the details surrounding the Commission's Social Security reform proposal:

> "Step five is an overhaul of Social Security, though Bowles and Simpson took pains to make clear that any savings would be dedicated to the solvency of the program – not to reducing deficits in the government's general fund. The retirement age would go up, while benefits for the wealthiest 50 percent of retirees would go down from currently projected levels.
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> "The plan proposes a hardship exemption for those unable to work beyond age 62. And it would institute other reforms aimed at ensuring that the oldest and the poorest retirees receive adequate support.
>
> "In addition to reducing benefits, the plan proposes to ensure Social Security's solvency by raising the payroll taxes that finance the program. The rate would be unchanged, but the amount of income subject to the tax would gradually rise from $106,800 this year to about $190,000 in 2020.
>
> "'We have harpooned every whale in the ocean – and some minnows,' Simpson told reporters, joking that he and Bowles will 'be on the witness-protection list when this is over.'"

This proposal suggested a more progressive benefit structure with benefits for higher-income workers growing more slowly than those of workers with lower incomes who are more vulnerable to economic shocks in retirement. While a majority of the Commission members (11 out of 18) expressed support for the recommendations in the final report as a whole, they were still three short of the super-majority necessary to require Congressional action on the recommendations. Certain details of the Commission's

Social Security proposals are of debatable merit, but the Commission undoubtedly made positive steps forward on bipartisan solutions to strengthen Social Security.

Fiscal Year (FY) 2013 House Budget Resolution

During the previous 111th Congress, there were several legislative proposals to reform Social Security, but none were brought to the Floor for a vote. Most recently in the current 112th Congress, no legislative proposals spelling out specific reforms of or changes to Social Security have been brought up for a vote. The fiscal year (FY) 2013 House Republican Budget Resolution, H. Con. Res. 112, however, did call on the President and both chambers of Congress to put forth specific legislation "…to ensure the sustainable solvency of this critical program." It established a requirement that in the event that the Social Security program is not sustainable, the President, in conjunction with the Board of Trustees, must submit a plan for restoring balance to the fund. Specifically, the Committee Report on H. Con. Res. 112 contained specific instructions to start this process:

> "This budget calls for setting in motion the process of reforming Social Security by altering a current-law trigger that, in the event that the Social Security program is not sustainable, requires the President, in conjunction with the Social Security Board of Trustees, to submit a plan for restoring balance to the fund. This option would then require congressional leaders to put forward their best ideas as well. Although the Committee on Ways and Means would make the final determination, this option would require that:
>
> - If in any year the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, in its annual Trustees' Report, determines that the 75-year actuarial balance of the Social Security Trust Funds is in deficit, and the annual balance of the Social Security Trust Funds in the 75th year is in deficit, the Board of Trustees should, no later than the 30th of September of the same calendar year, submit to the President recommendations for statutory reforms necessary to achieve a positive 75-year actuarial balance and a positive annual balance in the 75th year.
> - No later than the 1st of December of the same calendar year in which the Board of Trustees submits its recommendations, the President shall promptly submit implementing legislation to both Houses of Congress including recommendations necessary to achieve a positive 75-year actuarial balance and a positive annual balance in the 75th year;
> - Within 60 days of the President submitting legislation, the committees of jurisdiction to which the legislation has been referred shall report the bill which shall be considered by the full House or Senate under expedited procedures.
>
> Again, the aim of this option is to force recognition of the need to save Social Security. This procedure offers a first step in that direction."

The Committee Report on H. Con. Res. 112 can be found here.

- ***Editor's Note:*** *For more information regarding the FY 2013 House Republican Budget Resolution, please refer to the Budget and Federal Spending chapter of the 2012 NRCC Issues Book.*

SOCIAL SECURITY TALKING POINTS

- Our first priority should be to keep our commitment to seniors. I will only support a plan that ensures there will be no cuts in benefits for current or near retirees or for people with disabilities.

- Democrats are jeopardizing seniors' quality and access to care.

- **Solutions to Social Security must meet core principles:**

    - **The system should not be 'privatized.'**
    - Benefits should be protected.
    - The retirement age should not be raised.
    - Taxes should not be increased.

ADDITIONAL INFORMATION AND RESOURCES

- Social Security Administration (SSA) – http://www.ssa.gov
- Congressional Statistics: December 2010, Social Security Administration - http://www.ssa.gov/policy/docs/factsheets/cong_stats/2010/index.html
- Research, Statistics, & Policy Analysis, Social Security Administration – http://www.ssa.gov/policy/
- Trustees Reports, Social Security – http://www.ssa.gov/oact/tr/index.html