

**STATEMENT OF NANCY J. ALTMAN  
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*THE BATTLE FOR SOCIAL SECURITY:  
FROM FDR'S VISION TO BUSH'S GAMBLE*  
(JOHN WILEY & SONS, 2005)**

**HEARING ON SOCIAL SECURITY AT 75 YEARS:  
MORE NECESSARY NOW THAN EVER**

**SUBCOMMITTEE ON SOCIAL SECURITY  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES**

**JULY 15, 2010**

Chairman Pomeroy, Ranking Member Johnson, and Members of the Subcommittee:

On August 14, 1935 when President Franklin Delano Roosevelt signed the Social Security Act into law, he confidently predicted:

“If the Senate and the House of Representatives in this long and arduous session had done nothing more than pass this Bill, the session would be regarded as historic for all time.”

Those words were as visionary and far-sighted as the legislation he crafted. People today sometimes talk about the need to modernize Social Security, but its fundamental structure is already thoroughly modern.

**Social Security Provides Essential Wage Insurance**

As long as people are dependent on wages, they need insurance protection against the loss of those wages to be economically secure. To protect against the economic risk of being laid off, wage workers need unemployment insurance. To protect against lost wages due to disability, they need disability insurance. In case they die leaving dependents, they need life insurance. If they are fortunate enough to live to be very old, they need annuities that they cannot outlive. Because of the cost of health care, they need health insurance whether they have lost their wages or not.

Social Security insures workers' wages against loss as the result of disability, death, or old age. In the event of one of those three insured events, Social Security replaces a

portion of those insured wages, providing crucial economic protection to those workers and their families.

Wage insurance is as necessary today as it was in 1935, when Social Security was enacted, and, for that matter, well before that. Today, people sometimes refer to Social Security as social welfare or even a safety net, but these labels fail to recognize Social Security for the insurance that it is.

### **The Difference Between Insurance and Welfare**

Throughout history, humans have turned to collective means of protecting against insecurity. To protect against physical insecurity, they formed armies and police forces. To protect against economic insecurity, two very different forms of collective action - welfare and insurance - developed. These two approaches sprang from two historically-distinct roots.

The antecedents of modern welfare programs can be traced from Biblical prescriptions to care for the poor. In England, the practice of voluntary tithing to the Church to help the poor evolved into compulsory tithing, and then into the English poor laws, which were transplanted in the colonies and became America's welfare laws.

Welfare, by definition, provides a benefit based on need. The benefit is generally an amount designed to provide the recipient with just enough to get by, as judged by the provider. Eligibility is determined by an examination of the potential recipient's income and assets to ensure that he or she is really in need. Past earnings are irrelevant as long as the person has no accumulated assets. Obviously, if the potential recipient is earning income above the subsistence level, he or she is not in need of the community's help. Moreover, if the person has savings upon which to draw, he or she is again not in need of the assistance of others.

A second, equally rich, but fundamentally different tradition of providing economic security came in the form of the pooling of resources and risks among equals. As far back as the Middle Ages, in England and elsewhere in Europe, workers who shared a common trade or craft banded together into mutual aid societies or guilds which, in addition to regulating the craft, provided benefits to members who lost wages. Similarly, as early as the sixteenth century, miners in central Europe established customary funds which provided benefits in the event of sickness or accident. These private arrangements evolved into government-run programs, because insurance is most cost-efficient and reliable when the risks can be spread across as broad a population as possible and when no adverse selection occurs. The only entity that has the power and ability to establish a nationwide risk pool, one that avoids free riders by making the insurance mandatory, is a national government. Not surprisingly, more than 170 countries today have some form of social security.

Welfare is designed for people who are already poor. Wage insurance is designed to prevent workers from falling into poverty in the first place. Welfare is a moral

imperative as long as there is poverty, but it has unavoidable, inherent weaknesses. Inescapably, welfare discourages work and savings. People who earn no more than the community-determined subsistence level have no financial incentives to work. If potential recipients must exhaust their savings to become eligible to receive welfare, they are penalized for their thrift.

Insurance has none of these shortcomings. Insurance is a matter of right for those who are eligible. Eligibility is based on achieving insured status, irrespective of need. If the insurance is designed to replace wages, as Social Security is, work is encouraged. The higher one's earnings, the higher the benefit. Unlike welfare, savings and other assets do not disqualify those otherwise eligible from receipt of Social Security. If the insurance benefit simply provides a base on which to build, as Social Security does, savings are encouraged, because they provide an additional source of income from which to draw when one is no longer receiving a paycheck.

In brief, welfare discourages work; Social Security encourages work. Welfare discourages savings; Social Security encourages people to save. To qualify for welfare, recipients must prove something negative about themselves – that they do not have enough to get by on their own. In contrast, beneficiaries of Social Security must prove something positive – that they have worked and contributed enough to qualify for benefits.

President Franklin Roosevelt recognized that to alleviate the immediate suffering of the Depression, welfare was necessary, but he also understood that once the economy had recovered and for all time, people needed wage insurance to prevent them from becoming poor. Consequently, the Social Security Act of 1935 contained means-tested welfare, effective immediately, and Social Security, whose first monthly benefits were not scheduled to be paid until 1942, seven years after enactment, when the first workers would have earned sufficient numbers of quarters of coverage to be insured.

### **Workers Pay Insurance Contributions (Premiums) for Social Security Benefits**

To be insured for Social Security purposes, workers must have the requisite number of quarters of coverage, which they earn through their work and insurance contributions (i.e., premiums, in today's terminology). Today, those worker contributions, matched by their employers, are sometimes referred to as taxes (or even, payroll taxes, though workers do not have payrolls), but they are insurance contributions. This is precisely why the statute mandating these payments is entitled the Federal Insurance Contributions Act.

That title is no political spin. Congress enacted the Federal Insurance Contributions Act in 1939, well before the current fashion of Madison Avenue-styled legislative titles like No Child Left Behind, the Patriot Act, and the Defense of Marriage Act. In stark contrast, Franklin Roosevelt named his bills plainly and straightforwardly. His tax bills were labeled Revenue Acts, his legislation to protect the right of workers to unionize, the National Labor Relations Act, and his Federal Insurance Contributions Act specifies the

contributions workers must make in exchange for life insurance, disability insurance and old-age annuities.

When one understands Social Security as the insurance it is, the structure of the Federal Insurance Contributions Act (“FICA”) payments makes sense. If you see FICA as a payroll tax, you may wonder why a liberal Franklin Roosevelt would ever propose to pay for Social Security with a regressive tax on workers, where the highest-paid workers pay a lower effective tax rate than everyone else. But when you see FICA clearly as the insurance premium it is, the paradox of a liberal politician proposing a regressive tax disappears.

FICA premiums are based only on wages up to a maximum, because those wages and only those wages are the wages that are insured against loss. Those wages and only those wages form the base for calculating benefits. It makes perfect sense for a worker earning exactly the maximum amount on which FICA is imposed -- \$106,800 in 2010 -- to contribute the same dollar amount as her twin earning ten times more. After all, the twin earning \$106,800 and the twin earning \$1,068,000 are eligible for exactly the same dollar Social Security benefit; consequently, they are charged the same dollar amount for that protection. This is perfectly normal and routine. Just as with their Social Security premiums, the higher and lower-earning twins pay the same dollar amount if they buy the same food, same cars, same private life insurance coverage, or any other economic good or service. Like private insurance, Social Security premiums are based on cost, not ability to pay.

Contributions not needed for current benefits and related administrative costs are kept in reserve. All insurers keep reserves to ensure that they can cover the cost of future benefit payouts. In recognition that Social Security must be cautious and trustworthy with the contributions of American workers, the law has required, from the beginning, that those reserves be invested only in the safest, most secure investment on Earth -- interest-bearing obligations backed by the full faith and credit of the United States.

### **Social Security Should Never Be Entangled in Broad Deficit Reduction Efforts**

Past Congresses have appropriately worked very hard to keep the premiums of the American workers and the related income secure and clearly distinct and separate from the federal government’s general fund and related budget. Like private pension plans, those contributions are segregated in a trust, separate and apart from the general fund of the plan sponsor, which in the case of Social Security is the federal government. The law requires Social Security to be displayed off-budget. The Budget Act expressly prohibits changes to Social Security from being part of any budget reconciliation process. This is how it should be.

Policymakers have consistently kept Social Security’s income and assets separate from broad deficit-reduction efforts – with two notable exceptions. The first occurred in 1981, during President Reagan’s first year in office. Just like today, the federal government had an actual deficit, while Social Security was projecting a deficit. In those two deficits, the

Reagan administration saw an opportunity. Reagan's OMB director, David Stockman, who later referred to Social Security as "closet socialism," explained confidentially at the time to journalist William Greider that the deficits "will permit the politicians to look like they're doing something for the beneficiary population when they are doing something to it." The Reagan administration badly miscalculated. The conflation of the two deficits, together with a proposal which would have drastically reduced early retirement benefits, set off a firestorm. Seeking to quell the storm and get through the 1982 election, President Reagan established the Greenspan commission. Focused exclusively on Social Security, the Greenspan commission was ultimately able to reach agreement.

Today, the President, his National Commission on Fiscal Responsibility and Reform, and a number of key lawmakers are, for only the second time in history, conflating actual general fund deficits with projected Social Security deficits. Some policymakers have called for cutting Social Security by quoting the moral exemplar of Willie Sutton, a notorious bank robber, who, when asked why he robbed banks, replied, "because that's where the money is." The quip presents an unintended but revealing picture – bank robbers and politicians, all eager to grab the money that hardworking Americans trustingly hand over every payday to what they believe is a safe institution.

Diverting Social Security's dedicated income and assets from their intended purpose is legally and morally wrong. Indeed, the misleading rhetoric about an entitlements crisis and casual tone of some policymakers, calling obligations of the United States, "IOUs," is a serious disservice to the American people. With the notable exceptions of 1981 and today, policymakers have understood that, to avoid even the appearance of impropriety, they should keep deliberations over Social Security's future solvency completely separate from broad deficit-reduction efforts. This firewall between the general fund's actual and projected deficits, on the one hand, and Social Security's projected deficit, on the other, not only avoids the appearance of impropriety, but also leads to a clearer understanding of the causes of the actual and projected shortfalls, and therefore to solutions more likely to address those causes.

### **Social Security is Self-Financing and Legally Incapable of Running a Deficit**

The injection of Social Security into the broader deficit debate obscures the fact that by law Social Security cannot contribute to the deficit. It can only pay benefits, if it has sufficient revenue to cover the costs. Unlike many state governments, which also must balance their budgets, Social Security has no borrowing authority. Because of Social Security's conservative structure, it can project a future theoretical shortfall, but it can never actually run one.

As a responsible insurer, Social Security's Board of Trustees employs over 40 actuaries whose job it is to project the program's income and outgo for the next 75 years, a longer valuation period than employed by private pensions and, indeed, by most other governments with respect to their social security programs. The Social Security projections appear in a report that the Trustees present each year to the Congress. The most recent Trustees' Report, issued May 12, 2009, reports that Social Security ran a

surplus of \$180.2 billion in 2008 and had accumulated a reserve of \$2.4 trillion. Though the general fund must incur costs paying interest on Treasury bonds held in trust and must, if requested, redeem those bonds, this should not be considered contributing to the deficit, any more than I as an individual am contributing to the deficit if I seek repayment of Treasury bonds I hold as an individual.

**No Need For Haste Or Secrecy: Congress Should, As All Past Congresses Have, Use Regular Order In Addressing Social Security's Projected Shortfall**

The latest Trustees' Report projects that for the entire 75 year valuation period, Social Security faces a shortfall but it is of quite manageable proportions. Indeed, Social Security's actuaries project that Social Security can pay all benefits on time and in full until 2037, without any Congressional action whatsoever. While Social Security's projected deficit should be eliminated sooner rather than later, what is most important is that it be eliminated correctly.

There is no reason for hasty action or closed-door deliberations. Social Security affects virtually every American. Social Security today provides an economic lifeline more crucial than ever to the millions who receive its benefits and the millions more who are insured in the event they, or workers on whom they depend, lose wages as a result of disability, premature death, or old-age. In 2009, more than 52 million people received monthly benefits, including many millions of children, people with disabilities, widows, widowers, and seniors.

Our brave soldiers wounded in Iraq and Afghanistan receive Social Security benefits, as do their spouses and children, and so do the families of soldiers who have given their lives in defense of the nation. Though little noted, Social Security continues to provide benefits to the families of those who lost their lives in the 9/11 attacks. Social Security's benefits are crucial to the vast majority of its beneficiaries and the communities in which they live and spend.

Because Americans in the last few years have lost trillions of dollars in home equity and retirement savings, it is more important than ever that Social Security reform be addressed deliberately, thoughtfully, and in the sunshine. The importance of Social Security to virtually the entire population demands that proposals for change receive thorough consideration, with public participation through its representative groups, so that the implications of all changes are closely examined and clearly understood. Any kind of expedited procedure would be a disservice to the American people.

Throughout Social Security's long history, Congress has always relied on regular order when considering Social Security. Since its enactment in 1935, Social Security legislation has always had the benefit of (1) full hearings before the House Ways and Means Committee and the Senate Finance Committee; (2) executive sessions which provided all members the opportunity to offer amendments; (3) unlimited debate and opportunity for amendments in the Senate; and (4) debate and amendment in the House of Representatives, consistent with its rules.

This was the procedure that was followed in the enactment of the Social Security Amendments of 1983, which, largely following the recommendations of the so-called Greenspan commission, eliminated the then-projected Social Security deficit. The normal legislative process was followed in 1977, when, like 1983, Social Security faced a larger and more immediate projected deficit than it does now. Then-President Jimmy Carter introduced legislation that was considered carefully, with the benefit of full hearings before both the House Ways and Means Committee and the Senate Finance Committee. An issue as important as Social Security demands that it be addressed only after careful consideration by these two committees, where the expertise resides.

I recognize that on July 1, 2010, the rule on H.R. 4899, the FY 2010 war supplemental bill, included language that committed the House to vote on any Senate-passed recommendations of the National Commission on Fiscal Responsibility and Reform. Notwithstanding that, I strongly recommend that this subcommittee insist that any major reforms of Social Security be referred to it for full hearings and consideration. The deficit commission lacks even a single commissioner or staff member whose area of expertise is exclusively Social Security or retirement income, more generally. Consequently, its recommendations with respect to Social Security should be given no special deference, and certainly not guaranteed votes in a lane-duck session of Congress.

**In Addressing Social Security's Projected Shortfall, Congress Should Retain Social Security's Fundamental Features Which Have Stood The Test Of Time**

Social Security has often been called the nation's most successful domestic program. Its ingenious structure explains the success. Social Security has always embodied basic American values: reward for work, shared responsibility, prudent conservative management, compassion, focus on the family, and the recognition that after a lifetime of hard work, Americans have earned an old age of independence and dignity.

From the beginning, Social Security has carefully balanced the twin concerns of equity and adequacy. From the start, Social Security's benefits sought to provide a fair benefit for contributions. The higher a worker's wages and contributions, the higher the dollar benefit. Simultaneously, from the beginning, the benefit structure has provided larger proportionate benefits to those whose lifetime earnings are lower, in recognition that they have less discretionary income and so need more of their wages replaced. It has provided benefits as a matter of right. In recognition that we are one people, it treats everyone the same. No matter one's economic status, everyone who contributes to Social Security for the requisite number of quarters receives, as a matter of right, a fair benefit in the event that insured wages are lost as a result of disability, death with family left behind, or old age.

I urge the members of this subcommittee, in evaluating proposals for change, to be especially alert to proposals which would change this fundamental structure that has stood the test of time. An affluence or means test would end the universality of Social Security. Lifting the maximum amount on earnings for purposes of larger FICA

contributions but not providing higher benefits for those contributions, or providing only minimally more, would break a linkage that has been part of the program since 1935. Scaling back on benefits for better-off workers would undercut the fairness of the system. As discussed below, the soundest way to strengthen Social Security is to build on the foundation that has been constructed over the last three-quarters of a century.

**Robert M. Ball: “I see it as the essence of responsibility to insist on no benefit cuts.”**

When Congress does enact legislation restoring Social Security to long-range actuarial balance, it should follow the advice of the late Robert M. Ball who, at the time of his death in 2008, was the world’s foremost expert on the U.S. Social Security system. He devoted seven decades of his life to the protection and improvement of Social Security. His words and recommendations are still highly relevant today.

In an Op Ed in the Washington Post shortly before his death, Ball stated unequivocally that in today’s world, it is “the essence of responsibility to insist on no benefit cuts.” He explained that:

”Social Security benefits are modest by any measure and are already being cut – by raising the age of eligibility for full benefits and by deducting ever-rising Medicare premiums from benefit checks. So the benefits provided for under present law will replace, on average, a lower percentage of prior earnings than in the past. To cut them further would undermine all that Social Security has achieved – exposing millions of vulnerable people, both elderly and disabled, to needless economic hardship.”

The increase in the statutory “Retirement Age” from age 65 to age 67, by itself, amounts to about a 13 percent cut in monthly benefits. A worker aged 62 who would be eligible for \$800 a month, if the “Retirement Age” were age 65, will receive only \$700 a month, once the “Retirement Age” is age 67. That same worker who waited until age 70 would receive \$1400 a month if the “Retirement Age” were age 65, but only \$1240 a month, once the “Retirement Age” is age 67.

If the statutory “Retirement Age” were increased to age 70, as Minority Leader John Boehner and others have proposed, that change would constitute another 19 percent cut in benefits, for a total of around 30 percent. That same worker who would have received \$800 a month, if the “Retirement Age” were age 65, would receive only \$565 a month, if the “Retirement Age” were age 70. If that same worker chose to wait until age 70, he or she would receive \$1400 a month if the “Retirement Age” were age 65, but only \$1000 a month, if the “Retirement Age” were age 70. I have appended a chart which shows the percentage reduction from changes in the statutory “Retirement Age,” with respect to monthly benefits at every age. The chart also shows the dollar impact on a worker who would be eligible for \$1000 a month at the statutory “Retirement Age.”

Workers in physically demanding jobs who do not qualify for disability benefits may have no alternative to claiming Social Security at age 62. Those workers will receive

those permanently lower benefits, adjusted only for inflation. The spouses and widows of those workers will have their benefits based on that same permanently reduced benefit amount, for the remainder of their lives

Older workers who are laid off and unable to find new employment may have no alternative to claiming Social Security at age 62. The latest Bureau of Labor Statistics data revealed that during April 2010, the job market for Americans 55 and older had never been worse. There has been a 17 percent increase in age discrimination cases since 2007, according to the Equal Employment Opportunity Commission

**Robert M. Ball: “There’s no way to make up for the loss” to Americans’ economic security if Social Security’s already-modest benefits are cut further.**

Though Ball was writing before the recent economic collapse and the loss by Americans of trillions of dollars of wealth in the form of home equity and 401(k) balances, he nevertheless recognized:

“Social Security has never been more important to more Americans than it is now. Private pension plans continue to dwindle – currently covering only about 20 percent of private sector employees – and the national rate of savings hovers around zero. We just can’t afford to cut Social Security benefits further. There’s no way to make up for the loss.”

He understood clearly that what workers need for economic security in the event of lost wages as the result of disability, death, or old age, is insurance, not savings. Savings are important for short-term needs and emergencies -- but insurance is what is needed for uncertain but potentially devastating losses like disability or premature death, and for somewhat more predictable but distant needs, such as retirement. Moreover, none of us know how long we are going to live. While you can outlive savings, you and your spouse cannot outlive a joint and survivor annuity.

He anticipated and rejected current notions of scaling back benefits for those of relatively higher income, whether it would be done by means-testing, so-called “progressive” price indexing, altering the bend points of the formula, or in some other way. He pointed out:

“Furthermore, the notion that benefits could be cut selectively – that is, only for the relatively well-off, through a means test – and that doing so would not be broadly harmful does not withstand scrutiny. First, cutting benefits for the better-off would erode support for the program. Second, Social Security benefits are important to nearly all recipients and, as Social Security Administration data show, will be just as vital for the great majority of workers approaching retirement in the future.”

The stereotype of Lexus-driving seniors living in gated communities notwithstanding, any scaling back of benefits which had any impact on the long-run solvency of the

projections would have to cut benefits for those of modest means. Ball sought to put the incomes of the beneficiaries in perspective:

“About a third of the elderly rely on Social Security for 90 percent or more of their income; two-thirds count on it to supply at least half of their income. The program lifts 13 million elderly beneficiaries above poverty. Without Social Security, 55 percent of the disabled – and a million children – would live in poverty. The program is particularly important to women and minorities. It provides 90 percent or more of the incomes of almost half of all unmarried women age 65 and older (including those who are widowed, are divorced or never married), and it is the sole source of income for 40 percent of elderly African Americans and Hispanic Americans.”

As Ball points out, Social Security is more than a program for seniors. One out of three beneficiaries is not a senior. It is the nation’s largest children’s program: In addition to lifting 1.3 million children out of poverty, it reduces the depth of poverty for millions more. It is also the nation’s largest disability program. Its benefits are modest by any measure. Indeed, average benefits are less than what is paid for full-time minimum-wage work. A single benefit formula generates the disability benefits and survivors’ benefits, as well as the retirement benefits. Consequently, it would be technically challenging, if not impossible, to cut the benefits of just one category of beneficiaries.

Ball ended his Op Ed with both a caution and a hope.

“Social Security is the nation’s most effective anti-poverty program. But it’s much more than that. For every worker it provides a solid base on which to try to build an adequate level of retirement income. To weaken that foundation would be grossly irresponsible.

“The good news is that there’s no need to weaken it. We can shore up Social Security for the future without cutting benefits – or raising contribution rates.”

### **The Responsible Way To Eliminate Social Security’s Projected Shortfall**

Ball’s belief was that the best approach was to enact changes to Social Security that were good policy in and of themselves, and had the felicitous byproduct of bringing in additional revenue. Prior to his death, he proposed a plan, which he generously permitted me to co-sponsor. The Ball-Altman plan consists of three parts, all of which are good policy in and of themselves and which together leave Social Security in “close actuarial balance” for the 75 year valuation period. (“Close actuarial balance,” a test the trustees have used since 1957 to determine whether to recommend legislative changes in Social Security’s financing, recognizes the inherent uncertainty in projections extending out three-quarters of a century.)

The first part of the plan involves increasing the maximum amount of earnings insured by Social Security and subject to FICA. Rather than breaking the linkage between benefits

and contributions and rather than an arbitrary increase that can increase costs substantially for those earning just above the maximum, the Ball-Altman proposal simply restores the maximum to where Congress intended it and does so extremely gradually so no worker experiences a sharp increase.

The maximum amount, insured under Social Security and subject to FICA, automatically increases annually with the increase in average wages. The average has been distorted over the last 30 years, however, because of the unequal growth in wages between those at the top and everyone else. As a result, an increasingly larger proportion of the wages of the highest income employees have escaped the Social Security maximum. Where 90 percent of total wages paid nationwide in 1983 were under the maximum, today only around 84 percent of cash earnings are. That seemingly small slippage, from 90 percent to 84 percent, has cost Social Security billions of dollars of lost revenue every year.

The maximum should once again cover 90 percent of wages, but the 90 percent mark should be phased in gradually. As Bob Ball and I have proposed, the impact would be simply one additional week of withholding each year for those earning over the maximum – about \$130 in 2010 for those earning about \$106,800, if this proposal were current law. Those workers subject to that one additional week of withholding would receive higher benefits in the event of death, disability, or old age, and one-third of Social Security's projected shortfall would disappear.

The second part of the proposal is to allow Social Security higher returns on its reserve by diversifying its portfolio and investing in broad-based stock funds as well as Treasury bonds, just as virtually every other pension plan does. There is ample precedent for responsible investment in equities by today's public pension plans. Assets of the Railroad Retirement Plan, the Federal Reserve Board Plan, and Canada's Social Security pension plan, to name just a few, are invested in equities. And proper investment of our nation's Social Security assets can offset investment lost by the termination of private sector defined benefit plans or assets invested too conservatively by participants in 401(k) plans. Gradually investing a relatively small portion of those reserves in broad-based, indexed stock funds would eliminate about one-quarter of the projected shortfall.

The third element of the proposal is to reinstate the federal estate tax at its 2009 level and dedicate the proceeds to Social Security. As the estate tax was structured in 2009, the estates of the top five percent of all Americans paid 99.6 percent of the tax; the top one percent paid 97.4 percent of the tax. The accumulation of large estates is dependent, in part, on the general productivity of the American economy and its infrastructure, including, for example, roads, police, and education. Thus, requiring the very wealthiest estates to contribute a portion of their fortune to the common good, while still passing more than half of their assets to heirs, seems the minimum that is reasonable to ask of those who have benefited from the commonwealth (i.e., common wealth) so greatly. Maintaining it at its 2009 level and earmarking its proceeds for Social Security would provide a progressive way of paying down a portion of the costs incurred at the inception of the program. During the start up of Social Security, policy makers decided that the then-current generation of retirees should receive a meaningful benefit from Social

Security, even though they did not have enough years under the system to contribute the amount those benefits were worth. This is analogous to the practice of many private pensions, which grandfather in older employees by granting them past service credits. Social Security's startup costs have never been amortized, and continue to be, in effect, a drag on the system. These costs should be paid, at least in part, from a progressive tax, which includes capital as well as labor, rather than being met solely by the contributions of future workers and their employers.

The Ball-Altman plan is simply one of many responsible ways to eliminate the shortfall through increased revenue. Since the 1970's, the United Kingdom has imposed a modest tax of 0.5 percent on stock transfers. If the United States imposed the identical tax, it would fall mainly on large banks that engage in proprietary, speculative trading, and serve the public goal of reducing stock market speculation by large Wall Street banks. If the proceeds of the tax were dedicated to Social Security, the program would be so flush that not only would it be in surplus for the next 75 years and beyond, but benefits could be raised by about 5 percent across-the-board.

Many other options exist. The important point from Bob Ball's perspective, and many of us who learned from him, is that benefits should not be cut and the retirement age should not be increased more than it is under current law.

### **Follow The Will Of The People**

There is much polarization in the country today, but Social Security is an issue where the people are united. Poll after poll indicates that the American people by overwhelming percentages support Social Security, believe its benefits, if anything, are too low, and want its projected deficit closed by increasing taxes, ideally progressively, not by cutting benefits. And they do not want Social Security mixed in with overall deficit discussions. These are the views held by Democrats, Independents, Republicans, Union households, Tea partiers, the young, the old, and every other age and demographic. The polarization comes between the people on the one hand and the policy and media elites, on the other hand, who have somehow been convinced by a select group of experts that Social Security is unaffordable in its current form. Nothing could be further from the truth. The gap between Social Security's projected benefits over the next 75 years and its projected income is just 0.7 percent of GDP.

Conventional political wisdom seems to be that anything done to reduce Social Security's projected deficit is political suicide and so, must be done with as little political accountability as possible, with bipartisan cover, under the guise of a commission, in the lame-duck session. A review of Social Security's history proves this wrong. The late Speaker of the House, Tip O'Neill, coined the phrase, "Social Security is the third rail of American politics; touch it and you die," but he did not mean, as it is now interpreted that even those who are Social Security's strongest advocates should shy away from touching it to strengthen it. He aimed his remarks toward the Reagan administration and others who did not seem to value the program or understand its vital importance. The American people, I believe, are hungry for a leader like O'Neill, who is willing to advocate strongly

for Social Security, speak clearly about its importance, embrace the basic American values that underlie it, oppose benefits cuts, and confidently reassure people that it will be there not just for today's beneficiaries, but for those in 75 years and beyond. That leader could champion the reform that poll after poll suggests the American people want – additional progressive revenue, without benefit cuts, without increasing the retirement age, and without fundamental change in a program that has stood the test of time. Such a leader could champion targeted improvements now for those who are most disadvantaged, and begin to sow the field for future improvements in the economic security of all Americans, just as champions of the past have done for us.

## Reductions in Monthly Old Age Benefits Resulting From Increasing Social Security’s “Retirement Age”

| Age at which worker starts receiving benefits | Statutory “Retirement Age” of 65 | Statutory “Retirement Age” of 67 | Statutory “Retirement Age” of 70 | Percent decrease by changing from age 65 to 67 | Percent decrease by changing from age 67 to 70 | Percent decrease by changing from age 65 to 70 |
|---|----------------------------------|----------------------------------|----------------------------------|--|--|--|
| 62  | \$800                            | \$700                            | \$565                            | 12.5%  | 19.3%  | 29.4%  |
| 63  | \$867                            | \$750                            | \$610                            | 13.5%  | 18.7%  | 29.6%  |
| 64  | \$933                            | \$800                            | \$655                            | 14.3%  | 18.1%  | 29.8%  |
| 65  | \$1,000                          | \$867                            | \$700                            | 13.3%  | 19.3%  | 30.0%  |
| 66  | \$1,080                          | \$933                            | \$750                            | 13.6%  | 19.6%  | 30.6%  |
| 67  | \$1,160                          | \$1,000                          | \$800                            | 13.8%  | 20.0%  | 31.0%  |
| 68  | \$1,240                          | \$1,080                          | \$867                            | 12.9%  | 19.7%  | 30.1%  |
| 69  | \$1,320                          | \$1,160                          | \$933                            | 12.1%  | 19.6%  | 29.3%  |
| 70  | \$1,400                          | \$1,240                          | \$1,000                          | 11.4%  | 19.4%  | 28.6%  |

Explanatory Note: This chart illustrates the impact on monthly benefits that results from changing Social Security’s statutory “Retirement Age.” It is based on a hypothetical worker whose wage record entitles him or her to \$1,000/month at the statutory “Retirement Age.” The dollar amounts will vary with a worker’s particular wage record, but the percentage reductions shown are the actual reductions for all workers. They do not vary with earnings. The dollar amount shown is the benefit paid monthly for the rest of the worker's life, adjusted only for inflation once it has begun to be received.

Age 65 is the statutory “Retirement Age” for beneficiaries born prior to 1938; age 67 is the statutory “Retirement Age” for beneficiaries born 1960 or later. 42 U.S.C. §416(l) The earliest age a worker can claim Social Security old age benefits is age 62. 42 U.S.C. §402 House Minority Leader John Boehner (R-OH), among others, has proposed increasing the statutory “Retirement Age” to age 70. This chart assumes that the earliest age at which benefits can be claimed will remain age 62 even if the statutory “Retirement Age” is raised to age 70.

42 U.S.C. §402(q) and §402(w) specify the actuarial adjustments when benefits are claimed before or after the statutory “Retirement Age.” §402(w)(6)(D) provides that for each year of work, up to age 70, after the statutory “Retirement Age,” and that is the adjustment factor used in the chart. As a matter of historical fact, the transition to a larger adjustment factor and to a higher statutory “Retirement Age,” meant that when the statutory “Retirement Age” was 65, the adjustment factors varied with year of birth, in accordance with §§402(w)(6)(A), (B), and (C).

Source: The benefit amounts in the chart were calculated by Nancy J. Altman, Co-Director, Social Security Works. They have been reviewed for accuracy by the Chief Actuary, Social Security Administration.