Mr. Chairman, Ranking Member Becerra, and members of the subcommittee, I appreciate the invitation to appear before you today to discuss the recommendations in the final report of the National Commission on Fiscal Responsibility and Reform regarding the Social Security program, specifically the recommendations related to the benefit formula and eligibility age. I am the Executive Director of the Moment of Truth Project, a project of the Committee for a Responsible Federal Budget that was created to build on and continue the work of the National Commission on Fiscal Responsibility and Reform (also known as the Simpson-Bowles Commission) and which is co-chaired by Fiscal Commission Co-chairs Erskine Bowles and Alan Simpson. I was a staff member on the Fiscal Commission and was involved in development of all policies in the final report, including the Social Security reform recommendations.

The Executive Order establishing The National Commission on Fiscal Responsibility and Reform charged the Commission with “identifying policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run” and “proposing recommendations that meaningfully improve the long-run fiscal outlook.”

Commission members had differences of opinion regarding the role of Social Security in the medium term fiscal outlook, and the final report did not use savings from Social Security to meet the medium term goal set out in the executive order of achieving primary balance and stabilizing the debt. However, the overwhelming majority of Commission members agreed that reforming the Social Security system to make the program sustainably solvent was an essential part of meeting the mandate in the executive order of achieving fiscally sustainability over the long run.

The Commission proposed a balanced plan that would eliminate the 75-year Social Security shortfall and put the program on a sustainable path thereafter. The report outlined the overall approach the Commission took in developing the recommendations to make Social Security sustainably solvent this way:

“To save Social Security for the long haul, all of us must do our part. The most fortunate will have to contribute the most, by taking lower benefits than scheduled and paying more in payroll taxes. Middle-income earners who are able to work will need to do so a little longer. At the same time, Social Security must do more to reduce poverty among the very poor and very old who need help the most.”

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1 Executive Order 13531 -- National Commission on Fiscal Responsibility and Reform, February 18, 2010
2 National Commission on Fiscal Responsibility and Reform, (December 2010):
The Commission’s Social Security plan included a number of changes to benefits as well as taxes. Specifically, the Fiscal Commission plan would have modified the benefit formula to make it more progressive, established a new “minimum benefit” for low income workers, increased the taxable maximum, switch to the chained CPI for cost-of-living adjustments, provide a progressive benefit bump-up for beneficiaries who have been receiving benefits for twenty years, including all newly-hired state and local workers in the program and make other changes and improvements in the program.

**Figure 1 Fiscal Commission Social Security Plan**

<table>
<thead>
<tr>
<th>Change</th>
<th>75-Year</th>
<th>75th Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gradually phase in progressive changes to benefit formula, modifying PIA factors to 90%</td>
<td>30%</td>
<td>10%</td>
</tr>
<tr>
<td>Offer minimum benefit of 125% of poverty for an individual with 25 years of work; index minimum benefit level to wage growth</td>
<td>-5%</td>
<td>-6%</td>
</tr>
<tr>
<td>Index normal retirement age (NRA) and earliest eligibility age to longevity so that they grow about 1 month every two years; include a “hardship exemption”</td>
<td>18%</td>
<td>30%</td>
</tr>
<tr>
<td>Provide benefit enhancement of 5% of the average benefit (over 5 years) for individuals who have been eligible for benefits for 20 years</td>
<td>-8%</td>
<td>-6%</td>
</tr>
<tr>
<td>Gradually increase taxable maximum to cover 90% of earnings by 2050</td>
<td>35%</td>
<td>22%</td>
</tr>
<tr>
<td>Apply refined cost of living measure (chained-CPI) to COLA</td>
<td>26%</td>
<td>17%</td>
</tr>
<tr>
<td>Cover newly hired state and local workers after 2020</td>
<td>8%</td>
<td>0%</td>
</tr>
<tr>
<td>Share of Existing Shortfall Closed (2010 Trustees Projections)</td>
<td>112%</td>
<td>102%</td>
</tr>
</tbody>
</table>

As shown above, the plan relied on a mix of changes in benefits and revenues to restore solvency, with the net reduction in costs from benefit changes responsible for slightly over 60 percent (61.6%) of the savings over seventy five years and net increase in revenues responsible for just under 40 percent (38.4%) of the savings.

However, the net increase in revenues would close a declining portion of the shortfall over time, closing just 22 percent of the shortfall in the 75th year, while the portion of the shortfall closed by benefit changes were greater over time. These numbers underscore why changes in the benefit formula and retirement age were essential to achieving the goal of making the program fiscally sustainable over the long term, as opposed to simply achieving actuarial balance over a seventy five year period while leaving the program on a path where costs will once again exceed revenues by ever larger amounts in the future. As you can see from the graph in Figure 2, the Commission plan would reduce the annual cash shortfalls facing the Social Security system substantially over the next four decades, bringing annual costs in line with revenues by 2050 and keeping costs and revenues roughly in line for the remainder of the evaluation period.
**Progressive Changes in Benefit Formula**

Because the costs of providing the benefit levels promised under current law will grow more rapidly than projected revenues, the Commission recommended gradually moving to a more progressive benefit formula that slows future benefit growth relative to current law, particularly for higher earners. Under the Commission recommendations, future retirees would receive higher initial benefits than can be provided under current law (since benefits are limited to payroll tax revenue) for most seniors, except the highest earning workers.

Under current law, initial benefits are calculated using a progressive three-bracket formula that offers individuals 90 percent of their first $9,000 of (wage-indexed) average lifetime income, 32 percent of their next $55,000, and 15 percent of their remaining income, up to the taxable maximum. Under the Commission proposal, the current formula would gradually transition to a four-bracket formula that would split the middle bracket in two at the median income level and beginning in 2017 very gradually change the replacement rates from 90 percent, 32 percent, and 15 percent to 90 percent, 30 percent, 10 percent, and 5 percent by 2050. By splitting the middle bracket at the median income level, the plan would limit the change in the benefit formula for workers with incomes below the median benefit level to the modest reduction in the 32 percent factor under current. Additionally, because the bend point factors would continue to be wage-indexed, full benefits would continue to grow faster than inflation for nearly all beneficiaries – growing nearly as fast as wages for those in the bottom 50 percent of the income distribution.
Enhanced Benefits for Low-Wage Workers

One of the Commission’s key principles was that Social Security reform must ensure the program will continue to meet its basic mission: to prevent people who can no longer work from falling into poverty. In order to more effectively achieve this goal, the Commission recommended creating a new special minimum benefit which would provide stronger poverty protections than current law, and reduce poverty among seniors relative both to current law scheduled benefits and payable benefits.

The minimum benefit recommended by the Commission would provide a full-career (30-year) minimum wage worker with a benefit equivalent to 125 percent of the poverty line in 2017 and wage-indexed thereafter. For workers with 10 to 30 years of earnings, the minimum benefit would be phased down. Additionally, the work requirement in the minimum benefit is scaled down for disabled workers, to account for their shorter work histories. Because the minimum benefit would be wage-indexed, it ensures the initial benefit levels for low-income workers will grow as fast as or faster than benefits for middle- and high-income workers. Meanwhile, it would provide substantially stronger poverty protection over time, since wages grow faster than the poverty level, which is indexed to price inflation. By 2050 (when reductions in the benefit formula are fully phased in) an individual with 30 years of work would be guaranteed a benefit closer to 200 percent of the poverty line, and someone with 20 years closer to 100 percent. By the end of the 75 year window, these guarantees would be approximately 300 percent and 150 percent of the poverty line, respectively.

While the Commission plan would improve the progressivity and equity of the Social Security system and provide greater protections for vulnerable populations than current law, particularly with the modifications outlined below, Congress should consider further reforms to advance these goals. In doing so, policymakers should give special consideration to individuals with an intermittent or limited work history, who are especially likely to receive an inadequate Social Security benefit under current law.

However, when considering additional protections for individuals classified as low-earners for purposes of Social Security with limited work histories, Congress should take care to target assistance to individuals who truly are indeed low income – a difficult task considering that...
current measures identify some relatively affluent individuals (such as those who spent much of their lives in non-covered employment, as spouses of high earners, or who receive substantial earnings from investment income).

The Commission also advised that as lawmakers design the details of the new special minimum benefit, special consideration should be given to individuals with intermittent work histories and workers with low lifetime earnings who have limited work histories. To ensure that individuals are not made worse off overall by losing eligibility for other benefits, the Commission recommended the new minimum benefit be accompanied by changes in eligibility rules for Medicaid and Supplemental Security Income (SSI).

**Modifications to Achieve Commission Goal of Protecting Bottom Quintile**

While the minimum benefit and other provisions would provide improvements in poverty, although the plan outlined in the final report would increase benefits for many low-income workers and reduce poverty among seniors, some tweaks of the minimum benefit and benefit formula outlined in the Commission’s report will be necessary in order to fully achieve the intent of Commission members who supported the final recommendations regarding protecting benefits for workers in the bottom quintile.

Subsequent analysis of the original plan found that the plan would result in a slight reduction in scheduled benefits for the median retiree in the bottom quintile, primarily because a number of future retirees with short or intermittent work histories would not be adequately protected by the new minimum benefit which was targeted toward full-career workers. Upon learning of this unintended consequence, the Commission co-chairs reiterated their commitment to the members of the commission and asked staff to eliminate the benefit reduction in the bottom quintile.

In order to fulfill this commitment, Moment of Truth Project staff worked with the Urban Institute to identify two modifications which together would achieve the goal of avoiding a reduction for the median retiree in the bottom quintile. The first modification would make the formula change even more progressive by increasing the bottom replacement factor from 90 percent to 95 percent and establishing the 10 percent bend point at the 40th percentile (the Commission’s 2010 report put it at the 50th percentile). The second modification would phase-up the minimum benefit more rapidly for retirees with less work history—from 0 to 110 percent of poverty between 10 and 20 years of work history, then to 125 percent for 30 years and 140 percent for 40 years—and credit workers for quarters of coverage toward the minimum benefits in years with less than four quarters of coverage. In addition, several anti-abuse measures would be added to the minimum benefit to prevent certain wealthier individuals with substantial retirement income from outside Social Security from over-collecting.

With the appropriate design details, these two changes would be roughly cost-neutral, but would offer far more robust benefits for those in the bottom quintile and far better poverty protections than was provided either in the original Commission plan or under the current system.  

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3 In this particular formulation, the minimum benefit would be phased in between 2017 and 2023 to avoid benefit notches and would be calculated based on the poverty line through 2023, after which it would be indexed to wage growth.
Indexing the Social Security Normal Retirement Age (NRA) and Earliest Eligibility Age to Increases in Longevity

Since Social Security was established, there have been tremendous gains in life expectancy at birth – yet the average retirement age has continued to fall. Today, the average retirement age is about 61 -- (not so) coincidentally the almost the same time that Social Security begins offering benefits – with the Earliest Eligibility Age (EEA) currently at age 62. Meanwhile, life expectancy at age 65 has increased by 5 years since 1940, and continues to rise annually.

Figure 4: Life Expectancy and Retirement Ages over Time

Moreover, there is no reason to believe that the trend toward retiring at an early age and spending more years in retirement is due to physical hardships that would be exacerbated by an increase in the retirement age. As Social Security Trustee Charles Blahous explains, “physical inability to work is not the sole or even the primary determinant of workforce participation rates for those in their 60s. In 1955, 57% of American males aged 65-69 were in paid employment. By 1975, this had declined to 32%. This wasn't because American workers in 1975 were suddenly breaking down where those in 1955 had been leading comfortable, sedentary lives.”

To account for increasing life expectancy, the Commission recommended indexing the retirement age to gains in longevity. Under the Social Security Trustees current longevity assumptions, this would result in to increasing the retirement ages by one month every two years after the NRA reaches age 67 under current law. At this pace, the NRA would reach 68 around

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5 Social Security Administration: [http://www.ssa.gov/history/lifeexpect.html](http://www.ssa.gov/history/lifeexpect.html)
2050 and 69 by around 2075. The EEA would increase at the same rate, reaching 63 around 2050 and 64 by 2075. The exact rate of increase in the retirement age would depend on future increases in longevity. The slow phase-in of the benefit formula reduction and retirement age increase were specifically designed to minimize the effect on those in or near retirement while giving time for younger generations to better plan for their retirement.

Indexing the retirement age to longevity as opposed to setting a fixed schedule for increasing the retirement age provides additional robustness to ensure that the program remains on a fiscally sustainable course even if actual outcomes differ from projections. If medical breakthroughs or other factors cause life expectancy to increase faster than currently projected, the increase in the retirement age would be accelerated by a corresponding amount to offset most, but not all, of the increased costs from beneficiaries spending more years in retirement. At the same time, if current projections overstate the growth in beneficiaries from increasing life expectancy (which is one of the primary differences between the Trustees “low cost” projections which show a smaller shortfall and the “intermediate” projections that are commonly used), the increases in the retirement age would be smaller.

The Commission’s approach would maintain a constant ratio of years in retirement to years in adulthood. As life expectancy grows by one year, individuals will still be able to spend an additional 4 months in retirement, as compared to today. The American Academy of Actuaries noted in a letter sent to the Commission that for all the years that the retirement age remained fixed (and even after adjustments included in 1983 legislation), retirees have been getting a de facto benefit increase, since they will spend more years collecting benefits in the system than previous generations. Moreover, the Academy argued this increase comes on top of the fact that initial benefits grow with wage inflation and retirees have (for the most part) received annual cost-of-living adjustments. In other words, just as the changes in the benefit formula in the Commission plan would still result in initial benefits for future retirees that are higher than the initial benefits for current retirees for all but the highest income workers, the increase in the retirement age recommended in the plan would still allow future retirees to receive benefits for more years than current retirees.

**Hardship Exemptions**

The Commission recognized that increasing the retirement age could pose a hardship for those who may not qualify for disability benefits, but are physically unable to work beyond the current EEA. To protect this population, the Commission recommended that the Social Security Commissioner design a hardship exemption to allow up to 20 percent of retirees to claim benefits at age 62 as the EEA and NRA increase, and be held them harmless from additional actuarial reduction resulting from increased NRA. The decision to set aside resources for a hardship exemption for up to 20 percent of retirees was based on an analysis conducted by the RAND Corporation for AARP, which found that that 19 percent of early retirees reported a work-limiting health condition that would have prevented them from participating in the labor force.

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7 American Academy of Actuaries, (October, 2010):
The Commission recommended charging the Social Security Administration with designing a policy over the next ten years that best targets this population, and directing the Commission to consider relevant factors such as the physical demands of labor and lifetime earnings in developing eligibility criteria, instead of specifying the criteria for the hardship exemption. There is limited data about the reasons workers retire early and analysis about which workers who retire before Normal Retirement Age do so for reasons of convenience as opposed to those for whom delaying retirement would pose a hardship. The Commission decided that further research and analysis is necessary to accurately identify the workers for whom an increase in age would pose a hardship and develop appropriate criteria for determining hardship. In addition, there would be time for SSA to conduct research and properly design a hardship exemption before the increases in retirement age began.

**Economic Benefits of Increasing the National Retirement Age**

Over the next several decades, population aging will not only drive up entitlement costs by creating new retirees, but it will crowd out other important investments. A study from the Third Way found that in 1962, about 32 cents of every federal dollar, excluding interest payments, was spent on investments, while only 14 percent was spent on entitlements. Today, we spend less than 15 cents on investment and roughly 46 cents on entitlements. By 2030, when the last of the baby boomers have surged onto the Social Security rolls, entitlements will consume 61 cents of every federal dollar, starving our already neglected investment and leaving us, in the words of the study, with “a less-skilled work force, lower rates of job creation and an infrastructure unfit for a 21st-century economy.”

Population aging will also undermine the revenue base by decreasing the relative number of tax-paying workers. An older society is also a slower growing society, as there are fewer workers and less net savers in the economy. But it is possible to change the dependency ratio by getting people to work longer. In this way, we could turn would-be retirees into workers, improving income tax revenue, labor supply, savings and investments (and therefore capital stock), and individual retirement security.

The Social Security Normal Retirement Age serves as a powerful signal for retirement, and gradually increasing it would likely encourage those who can to work longer, thereby helping to reduce Social Security's shortfalls. Even more powerful is the Earliest Eligibility Age. Raising this age would not only encourage longer working lives, it would protect retirees from receiving permanently lower benefits by accepting the full downward actuarial adjustment that comes with retiring early. (Of course policymakers would need to think through how to protect those who truly cannot work beyond 62 – perhaps by strengthening the disability system.)

According to a report issued by the Congressional Budget Office last year, raising the normal retirement age by 3 years would increase the size of the economy by 1 percent by 2035 as a result of people working longer. Raising the early retirement age by 2 years would have a similar effect. And this is before accounting for any potential growth from increased savings or from smaller deficits.

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**Distributional Impact of Increasing the National Retirement Age**

Some have argued that raising the retirement age is regressive because wealthier recipients tend to live longer. That fact alone does not make raising the NRA regressive, it makes the Social Security program regressive as is. However, this is offset by the progressive benefit formula. Increases in the retirement age would result in a roughly equal reduction in lifetime benefits for all beneficiaries who first collect through the retirement program. As a technical matter, raising the NRA leads to a reduction in benefits at any given age. For example, someone retiring at age 62 might see their benefits reduced to 25 percent lower than if they retired at 65, rather than 20 percent. As a result, raising the normal retirement age affects people of all income roughly equally and is in fact slightly progressive. The actual effects of an increase in the retirement ages are slightly progressive because it is a benefit cut that *exempts* those who first collect through the disability system – who tend to be lower income.

**Figure 5: Projected Adult Social Security Benefit Changes Relative to Current Law Scheduled in 2030, 2050, and 2070, by Lifetime Earnings Quintile**

![Graph showing projected benefit changes relative to current law.]

Source: Urban Institute Retirement Policy Program, based on DYNASIM3 (run 810).

Notes: Shared lifetime earnings are defined as the average of indexed earnings from ages 22 through 62 (or year of disability, whichever is first). (The index used is Social Security’s Average Wage Index.) Quintiles are defined for the Social Security beneficiary population in the selected year by cohort, not the overall population.

**Options for Phased Retirement**

In recognition of the diverse retirement experiences and needs, the Commission’s proposal introduced significant new flexibilities and protections in addition to an indexed retirement age. They suggested the option of allowing beneficiaries to collect up to half of their benefits as early as age 62, with applicable actuarial reduction, and the other half at a later age (therefore incurring a smaller actuarial reduction).
While designing such an option presents challenges, policymakers should consider options such as this to provide increased flexibility for a smoother transition for those interested in phased retirement, or for households where one member has retired and another continues to work.

**Impact of the Simpson-Bowles Plan on Benefits**

Under the Fiscal Commission plan, initial benefits would continue to grow faster than inflation for all income groups – meaning workers today will receive higher benefits than current retirees. By making the program sustainably solvent, Simpson-Bowles prevents a 25 percent across-the-board benefit reduction in 2033. As a result, all but the highest earning workers would receive higher benefits under Simpson-Bowles than under current law. Importantly, benefits for the lowest earning workers would be greater than they would be under both current law scheduled benefits and payable benefits, resulting in a reduction in elderly poverty of more than ten percent relative to a baseline which assumes current law scheduled benefits and by fifty percent relative to a baseline which assumes the reduction in benefits under current law when the trust fund is exhausted.

Figure five shows the Social Security Administration's Chief Actuary's estimates of benefit levels under the Commission plan and current benefit projections various scenarios in 2050 – when today's 30 year olds would be reaching the normal retirement age under Simpson-Bowles.10  It is important to note that these estimates look at initial benefits at the normal retirement age – meaning they separately account for the fact that individuals would need to work a year longer under the Commission’s plan (first row)

| Figure 6: Simpson-Bowles Impact on Initial Benefits at Normal Retirement Age |
| Initial Benefits at Normal Retirement Age (2012 Dollars) |
|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                  | 1990  | 2010  | 2050 Scheduled | 2050 Payable | 2050 S.B. | S.B. as % of Payable |
| **Normal Retirement Age** |       |       |                |                |                |                  |
| Very Low Earner   | $7,100 | $8,500 | $13,700        | $10,400        | $19,200        | 184%             |
| Low Earner        | $9,300 | $11,100 | $18,000        | $13,600        | $19,200        | 141%             |
| Medium Earner     | $15,300 | $18,400 | $29,600        | $22,500        | $27,700        | 123%             |
| High Earner       | $19,000 | $24,400 | $39,200        | $29,900        | $32,000        | 107%             |
| Maximum Earner    | $20,600 | $29,000 | $48,300        | $37,000        | $36,000        | 98%              |

Source: SSA

For most beneficiaries retiring in 2050, the Commission’s plan would be more beneficial than the status quo, and in some cases much better. Those classified as "very low earners" would receive annual benefits of $19,200 per year if they retired at the normal age – compared to the $10,400 they would receive (retiring a year earlier) under current law and the $8,500 they receive today. Even those classified as "high earners" would still receive more than is payable at the normal retirement age and almost as much as payable at age 65.

While most earners would receive far more under the Commission’s proposal than under current law, the very highest earners would not only receive less in benefits, but would also pay more in taxes than what is currently scheduled. This highlights one of the Commission’s key principles – to make the benefit formula more progressive. At the same time, most workers would be asked to work modestly longer under – about one year more under scheduled by 2050 and two years more by 2075 (though about 20 percent would receive a "hardship exemption").

**Conclusion**

Arthur Altmeyer, one of the architects of the original Social Security Act, famously said: “Social security will always be a goal, never a finished thing, because human aspirations are infinitely expansible--just as human nature is infinitely perfectible.”

The Commission’s recommendations would strengthen Social Security and would have made it financially sound for the next seventy five years and beyond, but further reforms beyond those recommended in the commission report should be considered. Unfortunately, since the Fiscal Commission proposal was released, the 75-year actuarial shortfall has increased substantially – from 1.92 percent of taxable payroll back in 2010 to 2.67 percent today.

In addition, as more sophisticated analysis by the Social Security Administration and others becomes available, policymakers are able to identify inequities in the system and better refine policy changes to achieve the desired results. I would strongly encourage Congress to continue to support the important ongoing research and analysis being conducted by the Social Security Administration.

The Social Security proposal included in the Fiscal Commission report is certainly not a free lunch, nor is it by any means the only approach to fixing Social Security. Numerous options exist to fix Social Security. In fact, the Committee for a Responsible Federal Budget is currently developing an interactive tool called “The Reformer” to enable policymakers and the public to estimate the effects of a range of Social Security reforms on the solvency of the program. Still, the Commission’s plan is sensible, one which balances the needs of current and future generations. There is no question that it is better to schedule modest, gradual, and targeted changes today than to allow a sudden 25 percent cut hit all current and future workers tomorrow.