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FIELD HEARING ON SECURING SOCIAL SECURITY: ACCESSING PAYMENTS AND PRESERVING THE PROGRAM FOR FUTURE GENERATIONS

United States Senate
Special Committee on Aging

October 16, 2023

Chairman Casey:

Our Social Security system is crucial to the nearly 67 million people who receive those earned benefits each month. It is also crucial to the 183 million American workers who are earning invaluable Social Security disability insurance, life insurance, as well as joint and survivor retirement annuities for themselves and their families.

Social Security is essential to all Americans – every demographic and every region. In Pennsylvania, alone, nearly 3 million Pennsylvanians, including over 160,000 children, received Social Security in 2022. Those benefits, which overwhelmingly are spent immediately in the local community, amounted to over $5 billion each and every month, creating jobs and fueling economic growth in Pennsylvania.

There and elsewhere, Social Security is the face of the federal government. Americans contact the Social Security Administration in times of transition, ones often involving sadness, vulnerability, and stress—when a loved one has died, when someone is confronting a serious disability, or when a worker is approaching retirement after a lifetime of labor.

Social Security is a highly valued institution with which Americans are in constant contact. Its network of more than 1,200 field offices, like our local post offices, are a part of our communities. In 2019, before the field offices had to be closed temporarily to protect public health, they averaged around 175,000 visitors each and every day – over 40 million visits, in 2019 alone. In addition, around 33 million people called Social Security's 800 number.

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[1] I have a nearly fifty-year background in the areas of Social Security and private pensions. I am president of Social Security Works. I also chair the Strengthen Social Security Coalition, comprised of over 350 national and state organizations representing 50 million Americans, including seniors, workers, women, people with disabilities, veterans, people of low income, people of color, communities of faith, and others. From 1983 to 1989, I was on the faculty of Harvard University's Kennedy School of Government and taught courses on private pensions and Social Security at the Harvard Law School. In 1982, I was Alan Greenspan's assistant in his position as chairman of the bipartisan commission that developed the 1983 Social Security amendments. From 1977 to 1981, I was a legislative assistant to Senator John C. Danforth (R-Mo.) and advised him regarding Social Security. From 1974 to 1977, I was a tax lawyer with Covington & Burling, where I handled a variety of private pension matters. I have authored or co-authored four books on Social Security as well as numerous articles.

Social Security has Transformed the Nation.

It is understandable why Americans support Social Security so strongly. Prior to its enactment, 88 years ago, older Americans routinely moved in with their adult children, if they were unable to continue to work. Those who had no children or whose children were unable or unwilling to support them inevitably wound up in the poorhouse.

When Social Security became law, Pennsylvania and every other state but New Mexico had poorhouses (sometimes called almshouses or poor farms). The vast majority of the residents were elderly. Most of the "inmates," as they were often labeled, entered the poorhouse late in life, having been independent wage earners until that point. A 1910 Massachusetts Commission report, for example, found that only one percent of the residents had entered the almshouse before the age of 40; 92 percent entered after age 60.

Social Security made independent retirement a reality. Prior to Social Security, the verb "retire" did not mean what it means today. It was generally used to refer to withdrawing temporarily, as, for example, to retire to the bedroom at the end of the evening. The first known usage of the noun "retiree" was in 1935, the year Social Security was debated in Congress and enacted into law. It was only in the 1940s, once Social Security started to pay monthly benefits, that the word "retiree" became commonly used.

Moreover, prior to Social Security, families were often split up, children removed, when a breadwinner became disabled or died. Today, those families have economic security, thanks to Social Security.

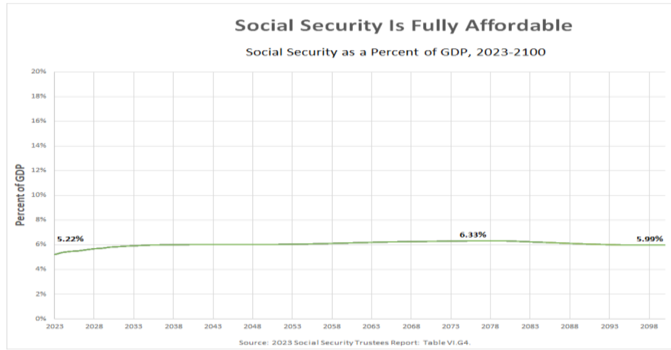
Social Security is Fully Affordable. Whether to Expand or Cut its Modest Benefits is a Matter of Values, Not Affordability.

Several dozen actuaries employed at the Social Security Administration have the job of constantly monitoring and projecting Social Security's income, outgo, and reserves. Every year, Social Security's Board of Trustees reports the actuaries' projections to Congress. The most recent report to Congress, transmitted last March 31, shows that Social Security is 100 percent funded for the next decade, 89 percent funded for the next quarter century, 83 percent funded for the next half century, and 80 percent funded for the next three-quarters of a century.

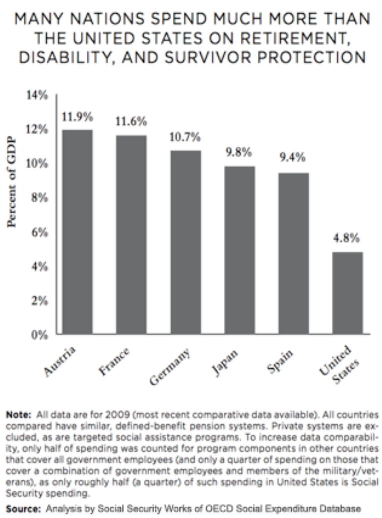
That manageable shortfall, still more than a decade away, is unsurprising. Unlike budgets, Social Security income and outgo are projected out three-quarters of a century and beyond. Given the uncertainty of such long valuation periods, there will sometimes appear unexpected surpluses and unexpected shortfalls. Of course, Congress must – and will – act to eliminate that projected shortfall before it occurs.

The question of how Congress addresses the shortfall and whether, more generally, policymakers expand benefits or cut them is a matter of values. As the wealthiest nation in the world at the wealthiest moment of our history, there is no question that the nation can afford an expanded Social Security.

As the adjacent chart illustrates, Social Security's [costs](), as a percentage of Gross Domestic Product (GDP), are essentially a straight horizontal line for the foreseeable future. Its benefits and associated administrative expenses amount to 5.22 percent of GDP this year. That percentage is projected to peak at 6.33 percent in 2075 and decline to just 5.99 percent in the year 2100.



That 6.33 percent in 2075 is a considerably lower percentage of GDP than is spent today by most other industrialized countries on their counterpart programs, as the following chart shows.



Moreover, our nation is projected to be much wealthier at the end of the 21st century, just as we are wealthier now than we were seventy-five years ago, before computers, smartphones, and other technological advances. That means that the six percent of GDP will be easier to afford in the future, just as an individual earning $100,000 can more easily afford a six percent expenditure (despite it being a larger dollar amount) than an individual earning $10,000. In one case, $94,000 remains; in the other, just $9,400.

As the proportion of our population aged 65 and over is projected to grow from 15 percent to nearly 24 percent, Social Security's costs, as a percentage of GDP, remain basically a level, horizontal line, as the first graph, above, shows. As the proportion of the population which is older increases, it makes sense that a larger proportion of our common wealth is spent on that segment.

Nor should the increase of around 1.11 percent of GDP be difficult to absorb. To put that projected increase in perspective, COVID-19 was first detected in the United States in 2020 and by November of 2021, the federal government had spent over 26 percent of GDP in response — and that was with almost no advance warning. Moreover, military spending after the 9/11 terrorist attack increased by 1.3 percent of GDP — and that increase was the result of a surprise attack, with no advance warning. Similarly, spending on public education nationwide increased by 2.8 percent of GDP between 1950 and 1975, when the baby boom generation showed up as schoolchildren, without much advance warning. In sharp contrast, the Social Security Administration's actuaries have known about the aging of the population ever since the birth of the Baby Boom population was followed by the so-called Baby Bust.

<u>Congress Should Expand, Not Cut, Social Security.</u>

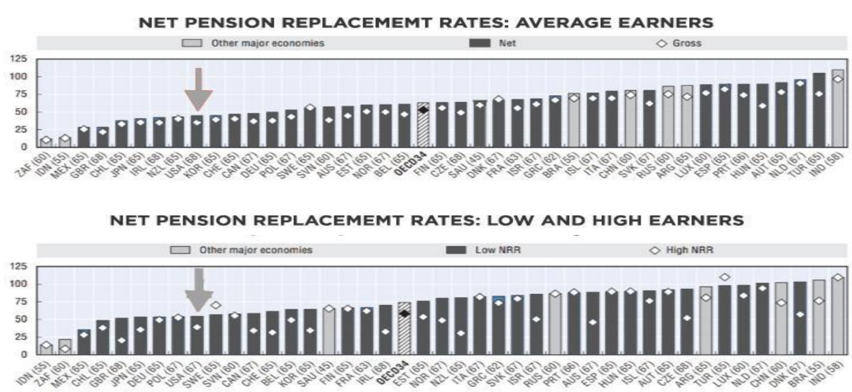
It is essential that Congress does not approach the issue of Social Security as simply an arithmetic problem or worse an exercise in splitting the baby. As important as eliminating the shortfall is, it is, after all, simply a means to an end. The goal is to permit working families to maintain their standards of living when wages are lost in the event of old age, disability or death.

Social Security is strikingly superior to other forms of retirement income, including tax-favored employer-sponsored defined benefit and defined contribution plans. It is much more efficient: Less than a penny of every dollar spent is on administration. More than 99 cents are returned in benefits. It is more secure. After all, its plan sponsor – the federal government – will never go out of business and has the power to tax. It is nearly universal. Unlike other defined benefit plans, it is completely portable, making it excellent not just for long-term workers, but for mobile workers as well.

Its one shortcoming is its benefits are too low. In absolute terms, the average monthly Social Security benefit in August was just [$1,705.79]() ($20,469.48 on an annualized basis). That is just above [the 2023 official federal poverty level]() for a two-person household, and [less than half]() of what an older couple who lives in Phoenixville, Pennsylvania needs to get by, according to the Elder Economic Security Standard Index, a sophisticated measure of the income necessary to meet bare necessities.

Social Security's benefits are also extremely low compared to the retirement benefits of other industrialized nations, as the following chart reveals. (The bars designating U.S. benefits are identified with arrows.)

Social Security Replacement Rates in OECD Countries by Earnings Level



Social Security's absolute benefit levels and its levels compared to other nations' benefits are informative, but the most important measure of the inadequacy of Social Security's benefits is what proportion of pay is replaced. After all, replacing lost wages is the goal of retirement income.

Experts estimate that workers and their families need to replace about 70 to 80 percent of pre-retirement pay to maintain their standards of living. Those with lower incomes need higher percentages; those more affluent, with more discretionary income and other assets, need somewhat less.

While Social Security appropriately replaces a larger proportion of preretirement pay of workers who have lower wages, it does not come close to providing sufficient income to meet the goal of maintaining standards of living in retirement. Workers earning around $63,000, who retire at age 62 this year, receive only 30 percent of their pay or $18,900 a year. Lower-income workers, earning around $28,000, receive 40.6 percent of their pay, but that is only about $11,400 a year.

Expanding Social Security's Modest Benefits is a Solution.

The nation is facing a retirement income crisis. Too many workers fear that they must work until they die, that they will never be able to retire without drastic reductions in their standards of living. Numerous polls and surveys over recent years reveal that not having enough money in retirement leads the list of Americans' top financial concerns.

Expert analyses make clear that Americans' concerns about retirement are well-founded. The Center for Retirement Research at Boston College reports that one out of two working-age households will be unable to maintain their standards of living in retirement even if they work until age 65, take out reverse mortgages on their homes, and annuitize all of their other assets. Moreover, the number of working-age households unable to retire and maintain their standards of living increases to over 60 percent when health care costs are taken into account.

Expanding Social Security is a solution to this looming retirement income crisis. It is a solution to other challenges, as well. Recent decades have seen a dramatic increase in the share of all income going to the top one percent of America's households, rivaling the period of extraordinary inequality in the 1920s, before the enactment of Social Security.

The nation's large and growing income and wealth inequality is deeply destabilizing. Former President Barack Obama called it "the defining challenge of our time." Expanding Social Security's modest benefits for current and future beneficiaries while requiring the wealthiest to pay more will help to slow or even reverse this dangerous inequality.

Moreover, expanding Social Security will ameliorate racial disparities in wealth and incomes. People of color have lower incomes, less secure employment, and fewer savings, on average, than European-Americans. Social Security replaces a higher proportion of earnings of workers with lower wages and more intermittent employment. Furthermore, Social Security's disability and life insurance benefits are disproportionately claimed by families of color. Expanding Social Security's disability and survivor, as well as retirement, benefits, while requiring the wealthiest to pay more will help to reduce the nation's racial wealth gap.

Furthermore, too many workers find themselves squeezed between their responsibilities to their children and their aged parents. Expanding Social Security is also a solution to that economic challenge.

How Social Security Should Be Expanded

To begin to address these challenges, Social Security benefits should be increased for all current and future beneficiaries. In addition, Social Security should be increased in targeted ways, where there is a disproportionate amount of poverty and where its provisions need to be updated and modernized. But benefits are only theoretical if it is impossible to claim them. Consequently, Congress should allow the Social Security Administration to spend more of its accumulated surplus to restore the world-class service it once provided and the American people deserve and have paid for.

- **Across-the-Board Benefit Increases**

Across-the-board increases are vitally important. Some argue that, if benefits are increased, the increases should go only to those at or near poverty. But this view reveals a fundamental misunderstanding of what Social Security is.

Social Security is insurance, not welfare. It is unsurprising that some confuse Social Security and welfare because it is among the nation's most effective anti-poverty programs, but that is a byproduct. Welfare programs are designed to alleviate poverty. Social Security and other insurance programs are designed to prevent beneficiaries from falling into poverty in the first place.

Social Security is part of workers' compensation. It is a benefit that workers earn. Its goal is to insure wages so that if and when wages are lost, workers and their families can maintain their standards of living. It is designed to replace wages, not simply provide everyone with a subsistence-level benefit. The nation already has means-tested welfare for seniors and people with disabilities: The Supplemental Security Income ("SSI") program, financed from general revenue. SSI has eroded and should be updated and expanded, but Congress must not turn Social Security from insurance for working families into SSI, welfare for the poor.

Though the wealthiest among us may not recognize Social Security's importance to them, they might gain insight from the cautionary tale of Neil Friedman, a millionaire who invested his entire fortune with Bernie Madoff. When Madoff's Ponzi scheme was revealed, Friedman and his wife found themselves forced to survive on only their Social Security and money they could earn selling note cards emblazoned with photos of their former lavish vacations. Moreover, the Friedmans were not the only Madoff victims left destitute.

Though those who are high-income and from privileged backgrounds may feel financially invincible, any of us can be hit with a disabling illness or accident making further work impossible. We may die prematurely, leaving young children. Moreover, none of us are immune from scam artists and other nefarious actors who seek to steal the resources we have. Social

Security is there to provide basic economic security for all of us – rich, poor, and those in between.

It is noteworthy that Social Security has a single benefit formula generating retirement, survivor, and disability benefits. Consequently, across-the-board Social Security expansions increase the benefits not just of those receiving retirement benefits, but those receiving disability and survivor benefits, as well. Beneficiaries include Gold Star families, who have lost loved ones fighting for our country. They also include those who are struck by national or personal tragedy, such as the thousands of children who lost parents in the terrorist attacks of 9/11 as well as the first responders, severely disabled as a result of those attacks, and their families. Across-the-board increases appropriately protect those tragically injured or killed in the prime of life, as well as those fortunate to live to very old age.

- **Targeted Benefit Increases**

In addition to an across-the-board benefit increase, Congress should enact targeted benefit increases. Chairman Casey, you are to be applauded for proposing important targeted increases. Your Surviving Widow(er) Income Fair Treatment or “SWIFT” Act is essential to improve the economic security of those devastated by the death of a spouse, a group that suffers disproportionate levels of poverty.

Those who are widowed, disproportionately women, generally suffer a large drop in income and economic security, in addition to the emotional loss. The SWIFT Act softens the economic blow in important ways. It provides those widowed the ability to increase their monthly benefit through delaying receipt, restores the benefit widow(er)s receive when their children are age 16 or older teenagers, and improves the benefits that widow(er)s with serious, permanent disabilities receive.

Another important targeted expansion is, Chairman Casey, your Stop the Wait Act. By definition, those who qualify for Social Security disability insurance are unable to support themselves through work. Yet the law does not provide benefits for the first five months after the date they become disabled. Not only does this waiting period make no sense, it is cruel. Every year, tens of thousands of people become bankrupt, homeless, or even die while waiting for the benefits they have earned. The Stop the Wait Act wisely repeals the five-month waiting period, as President Biden has also promised to do.

Moreover, current law requires those workers with disabilities to wait an additional 24 months before they can receive Medicare. The people forced to wait not only are unable to work but have disproportionately high medical needs and expenses. The Stop the Wait Act addresses this cruel provision by providing immediate access to Medicare for those found to be disabled and without health insurance.

Other important targeted expansions that have been proposed include credits for family caregivers, an improved cost-of-living adjustment, an increase in benefits for the very old, and repeal of the so-called WEP/GPO provisions. These and other essential improvements should be enacted either on their own or as part of a comprehensive package of expansions with no cuts.

- **Allowing the Social Security Administration ("SSA") to spend just a few percentage points more of Social Security's accumulated surplus on administration**

Congress does not appropriate a penny for the administration of our Social Security system. Rather, it imposes annual limitations on its administrative expenses ("LAE"). Despite SSA administering Social Security much more efficiently than Social Security's private sector counterparts and despite there being an accumulated surplus of $2.8 trillion, largely-Republican controlled Congresses have slashed SSA's budget by 17 percent since 2010 — even as the number of beneficiaries grew by 22 percent. This has forced the agency to lay off thousands of workers, close field offices, and reduce hours. Moreover, the inadequate budgets have prevented SSA from keeping its phone and computer systems up to date.

The public servants who work for SSA are extremely hard working and dedicated. But with staffing levels at the lowest in 25 years and with huge unavoidable backlogs, morale is low. SSA historically ranked as the best place to work; it now ranks at the bottom. Relatedly, Americans find themselves waiting on the phone line or, worse, hearing busy signals, unable to receive timely appointments, and waiting for hours at crowded field offices.

Importantly, the funds spent on administering Social Security do not add even a penny to the deficit. It all comes from Social Security's dedicated revenue. By law, Social Security cannot pay benefits or related administrative costs unless it can cover every penny from its dedicated revenue. It has no borrowing authority. As stated above, it currently has an accumulated surplus of $2.8 trillion. Congress should allow SSA to spend just a few percentage points more of that surplus, so that it can open field offices, hire workers, and adequately train them.

In addition to adequate funding, SSA also needs strong Senate-confirmed leadership. It is noteworthy that every Senate-confirmed commissioner since 2001 has been a Republican. Indeed, in only eight of the last forty years has SSA had Senate-confirmed Democratic leadership.

President Biden has recently announced his intent to nominate former Maryland Governor Martin O'Malley to serve as SSA Commissioner. The president has also requested a ten percent increase in funding for SSA. Congress should swiftly confirm O'Malley and provide, at a minimum, Biden's funding request.

What SSA most assuredly does not need, indeed what will harm not just SSA but everyone who contributes to or receives Social Security, is a government shutdown. This would be harmful anytime, but especially outrageous if it comes right before Thanksgiving. That is a real possibility, because the just-enacted continuing resolution only provides funding until November 17. Indeed, even the threat of a government shutdown, even when averted at the eleventh hour, as was done on September 30, is deeply destructive.

All federal agencies have to prepare well in advance for a government shutdown. The time spent planning for the shutdown is time not spent on service to the public. Perhaps the biggest cost, though, is the emotional one.

In 2023, the starting salary of a GS-5 employee is just $32,357. Even higher-paid federal workers, if they are like most Americans, live paycheck to paycheck without much savings. It is bad enough for them to receive no pay; it is even worse to force them to work for no pay – something that cannot be required of private sector workers.

Workers who are compelled to work without pay must incur child care costs and other expenses, with no time to find other ways to earn money. I have been told stories of workers crying at their desks, trying to figure out how to juggle their bills without losing their electricity or even their homes. While creditors may be sympathetic, they have their own bills to pay, of course.

SSA is facing a crisis of low morale. The uncertainty of a shutdown is making that worse. SSA is in danger of losing its most talented, knowledgeable employees. This will have long-lasting effects. Service will deteriorate even more. The public will have longer wait times. Congressional offices will be flooded with calls. These are all outcomes that can and should be avoided by ensuring that the government doesn't even come close to a shutdown.

How Benefits and Associated Administrative Costs Should Be Financed

Social Security has three forms of revenue. From the beginning, the predominant source of Social Security's revenue has always been premiums (also known as insurance contributions, under the Federal Insurance Contributions Act or FICA), paid by workers and matched dollar-for-dollar by their employers.

Since the beginning, all excess revenue has been held in reserve, in trust, where it is invested until it is needed to pay claims and associated costs. At the end of 2022, Social Security had an accumulated reserve of $2.8 trillion and investment income for the year of $66.4 billion. Those investment earnings on the accumulated reserve form the second source of income.

Social Security insurance contributions or premiums, the predominant source of revenue, are proportionate up to the maximum wage base of $160,200 in 2023, and regressive beyond that. The investment earnings, the second source, are neither progressive nor regressive, but simply defray the collective costs. The third source, added by the Social Security Amendments of 1983, is the only progressive source of Social Security's revenue.

Those amendments provided that a portion of benefits be counted as income for purposes of calculating a beneficiary's federal income tax liability. Normally, that extra tax revenue would go into the general fund of the federal government, to be used for a range of goods and services provided by the government. Instead, this particular revenue is not paid to the general fund but rather is dedicated to Social Security just as the two other sources of revenue are.

This one progressive source of revenue accounted for less than four percent of Social Security's total revenue in all of 2022. The percentage should be increased. As described above, the last few decades have seen a dramatic increase in the share of all income going to the top one percent of America's households. Not only is it highly destabilizing, it has cost Social Security billions of dollars each year. Indeed, income inequality is an important contributor to Social Security's projected funding shortfall.

The Social Security earnings cap is indexed to average wages. Since the earnings of high-income workers have increased much more rapidly than the average in the last several decades, an increasing amount of their earned income falls above Social Security's maximum earnings contribution cap. In 2022 alone, those at the top paid $100 billion less to Social Security, only because the cap has slipped from covering 90 percent of wages, as Congress intended, to 82 percent today. Disturbingly, over the last decade, income inequality has cost Social Security an estimated $1.4 trillion and continues to cost it billions of dollars every year. Those are billions and trillions of dollars that should have gone to Social Security but instead stayed in the pockets of the wealthiest among us. Unquestionably, the richest are not paying their fair share into Social Security.

Adding to the cost to Social Security of today's income inequality, the vast majority of workers contribute to Social Security with every paycheck, but when their wages are stagnant, so are their Social Security contributions. The percentage of wages paid as current cash compensation has also declined sharply as health insurance has accounted for a bigger and bigger portion of employee compensation.

Expanded Social Security benefits for average Americans, financed through a progressive revenue source, would help slow the nation's income and wealth inequality. Any number of sources are available. They include dedicating revenue from investment income; a surtax on those with incomes over $1 million; the estate tax; and a financial transactions tax; among many others.

In addition, the cap on wages assessed for Social Security should be eliminated so that contributions are proportional. Those earning millions of dollars each year should not pay a smaller proportion of those earnings than minimum wage workers.

Expanding and Not Cutting Social Security, While Requiring the Wealthiest to Pay More, Has Strong Bipartisan Support.

Support for Social Security benefit expansions and opposition to benefit reductions cut across ideological divides. Poll after poll finds that an overwhelming majority of Republicans, independents, and Democrats share these views. All ages, genders, income levels, races, and ethnicities hold these views. While polling reveals that Americans are willing to pay more for Social Security, even larger majorities believe the wealthy should pay more.

A poll conducted by the AARP, for example, on the occasion of Social Security's 85th birthday, found that 71 percent of Democrats, 55 percent of Republicans and 71 percent of independents believe that Social Security benefits are too low. Consistent with that finding, 74 percent of all respondents, including 78 percent of Democrats and 67 percent of Republicans, are concerned that their Social Security will not be enough for them to make ends meet.

And this is a voting issue. A Public Policy Polling survey conducted in 2018 found that 56 percent of those who voted for Donald Trump and 55 percent of those who identify as Republican would be more likely to vote for a candidate who "supported expanding and increasing Social Security."

Furthermore, a survey conducted for the nonpartisan National Academy of Social Insurance in 2014 by Greenwald & Associates found that 81 percent of respondents – including 87 percent of Democrats, 72 percent of Republicans, and 81 percent of independents – responded that they "don't/didn't mind paying Social Security taxes." Indeed, 77 percent of respondents, including 84 percent of Democrats, 69 percent of Republicans, and 76 percent of independents, supported "increasing the Social Security taxes paid by working Americans," if needed to "preserve Social Security benefits for future generations." Those percentages increased to 83 percent of all respondents – including 92 percent of Democrats, 71 percent of Republicans, and 84 percent of independents – when the question was whether "top earners" should pay more.

As this polling reveals, as polarized as the nation is, we are united over Social Security. The overwhelming preference is for expansion, with no cuts, while requiring the wealthiest to pay for the projected shortfall and those expansions. This is also the wisest policy. If we define bipartisanship as those matters where Republican, independent and Democratic voters agree – as opposed to the Washington definition of getting a handful of Republican politicians to vote with Democrats or vice versa – this is the overwhelming bipartisan position.

Conclusion

It is well past time that Congress expand Social Security to address the retirement income crisis, reverse the growing income and wealth inequality and reduce the squeeze on working families, caught between aging parents and children.

Fortunately, President Biden and the Democratic Party are aligned with the will of the people on this issue. Several comprehensive bills have been introduced in Congress along these lines — including the Social Security Expansion Act sponsored by Senators Bernie Sanders (I-VT) and Elizabeth Warren (D-MA), with eight cosponsors, and the Social Security 2100 Act, sponsored by Representative John Larson (D-CT) and cosponsored by 179 of his Democratic colleagues — as well as proposals with targeted increases including the SWIFT Act and the Stop the Wait Act.

Congress should bring these measures to a vote. What it should not do is establish a fast-tracked commission, as Republicans are urging. The Biden administration has accurately labeled such a commission a "death panel" for Social Security. Our Social Security system is too important to be acted upon in secret, behind closed doors. Rather, all amendments should go through regular order, with hearings, open mark ups and ability to amend. Social Security must be addressed in the sunshine. Fortunately, when Congress does what the American people overwhelmingly want (as the Democrats are proposing), action can occur in the open without political backlash.

Thank you.