

**Improving Financial Security
Through Longer Working Lives**

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Social Security Advisory Board
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Summary of Issues

- More work: not just a Soc Sec issue
 - Higher Social Security lifetime benefits
 - Greater protections in old age
 - Reduced deficits and higher general revenues
- Strategies
 - *Later normal and early retirement ages
 - *Use of triggers (partly dependent upon work) for reform
 - *Announcement effects of when we are “old”
 - *Transparency of gains from later retirement
 - *Backloading of benefits
 - Lowering of tax rate
 - *Medicare as secondary payer
 - *Lower Soc Sec tax after eligibility/higher actuarial adjustment
 - Reduce income taxation of benefits
 - Delayed benefits above some floor

COMING TO FENWAY PARK



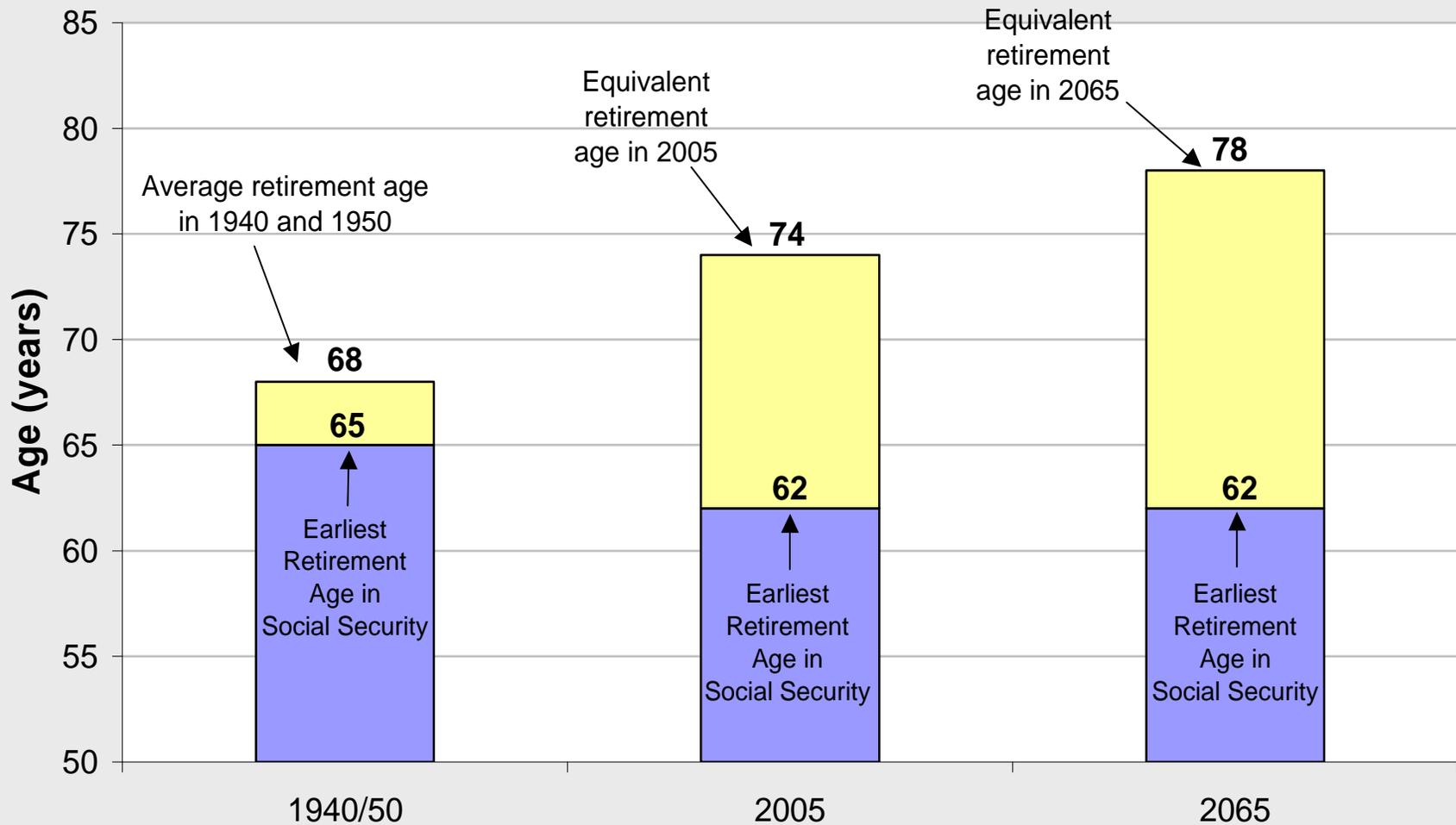
THE ROLLING STONES

HITCH
TELEGRAM
& GAZETTE

THAT REMINDS ME
— ANYTHING NEW ON
SOCIAL SECURITY
REFORM?



Program Retirement Age--Indexed for Life Expectancy



Source: The Urban Institute, 2005. Based on data from the Social Security Administration, Birth Cohort Tables, 2005.

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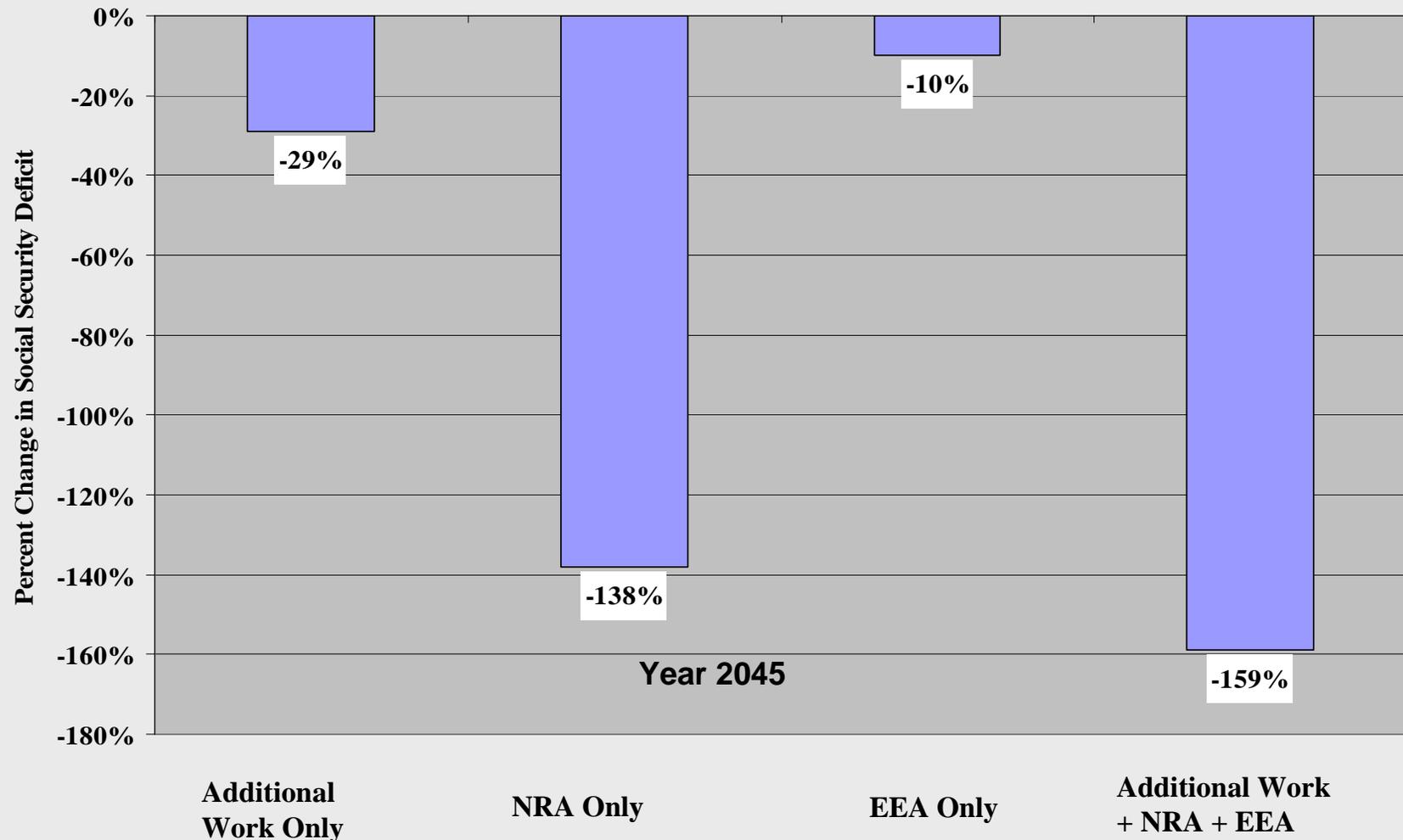


"I had another bad dream about Social Security."

Summary of New Research on More Work: (Social Security Too Narrow a Focus)

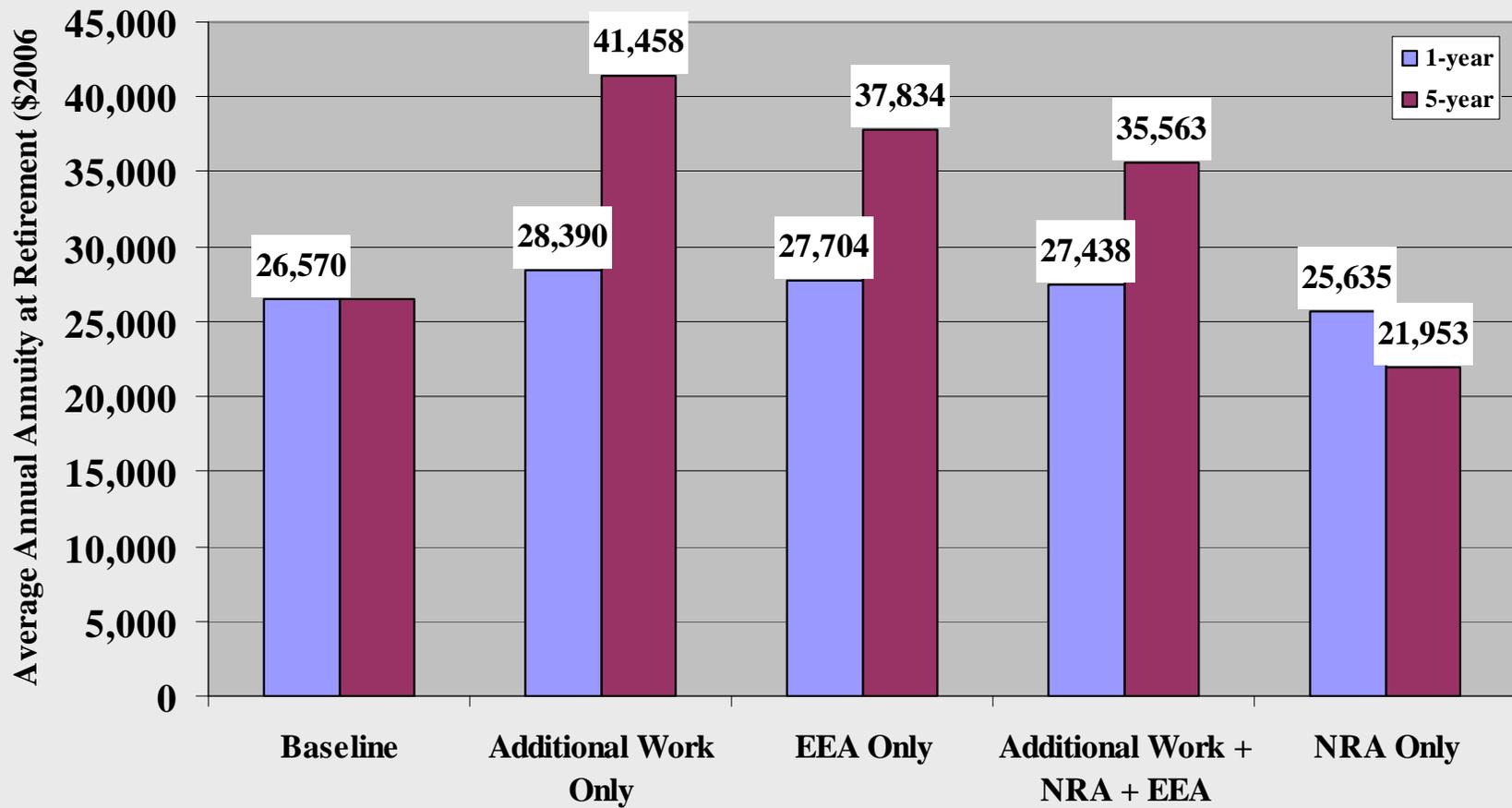
- Increases National Income
 - More to share, no matter how distributed
- Increases Personal Income
 - Social Security, employer benefits, and earnings themselves
- Increases Taxes (at any given tax rate)
 - Social Security and income taxes
- Reduces pressure on other workers
 - To support all government programs

The Impact on Social Security Deficits of 5 Year Increases in NRA/EEA and/or More Work in 2045



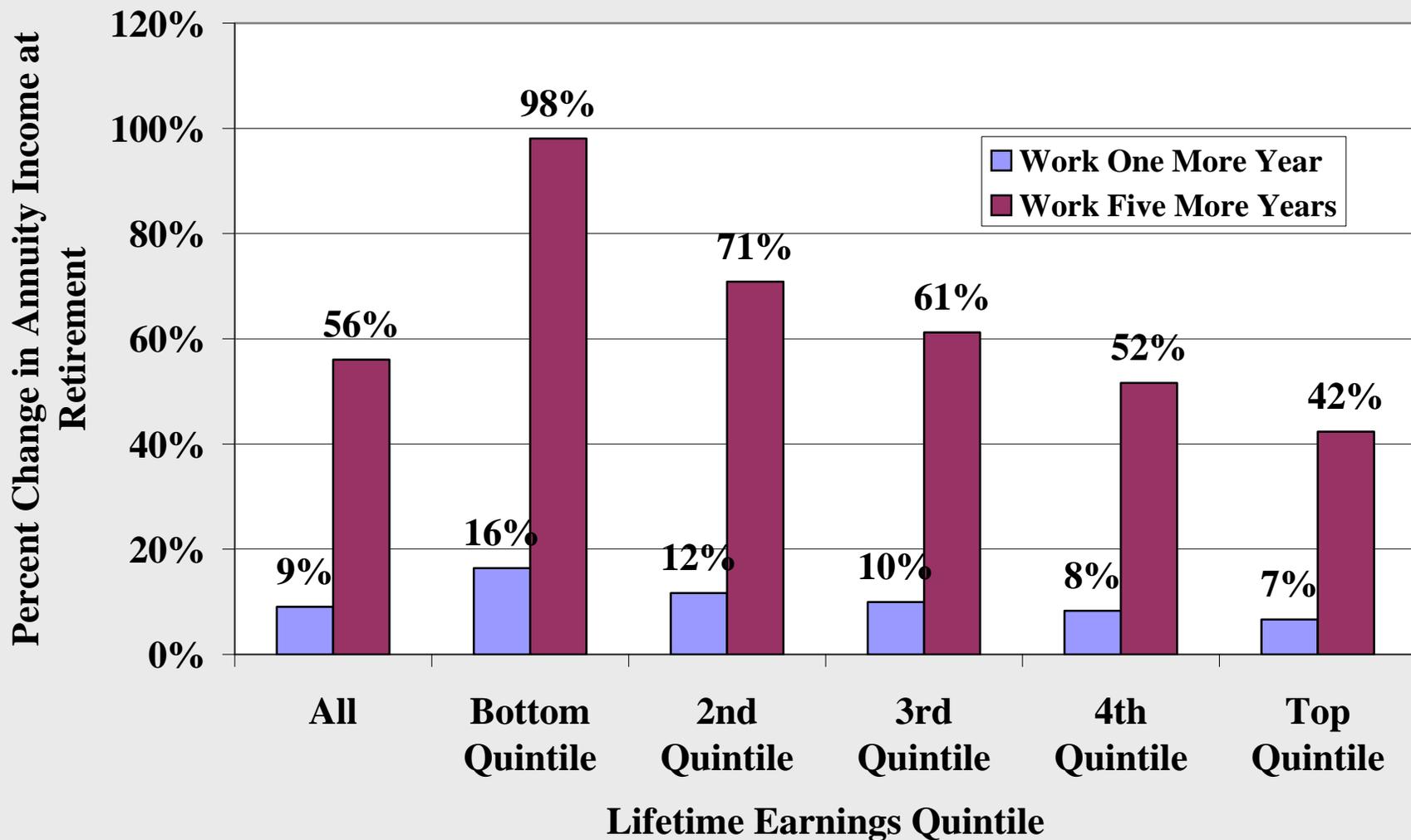
Average Annuity Income at Retirement in 2049

(by Reform Scenario, \$2006)

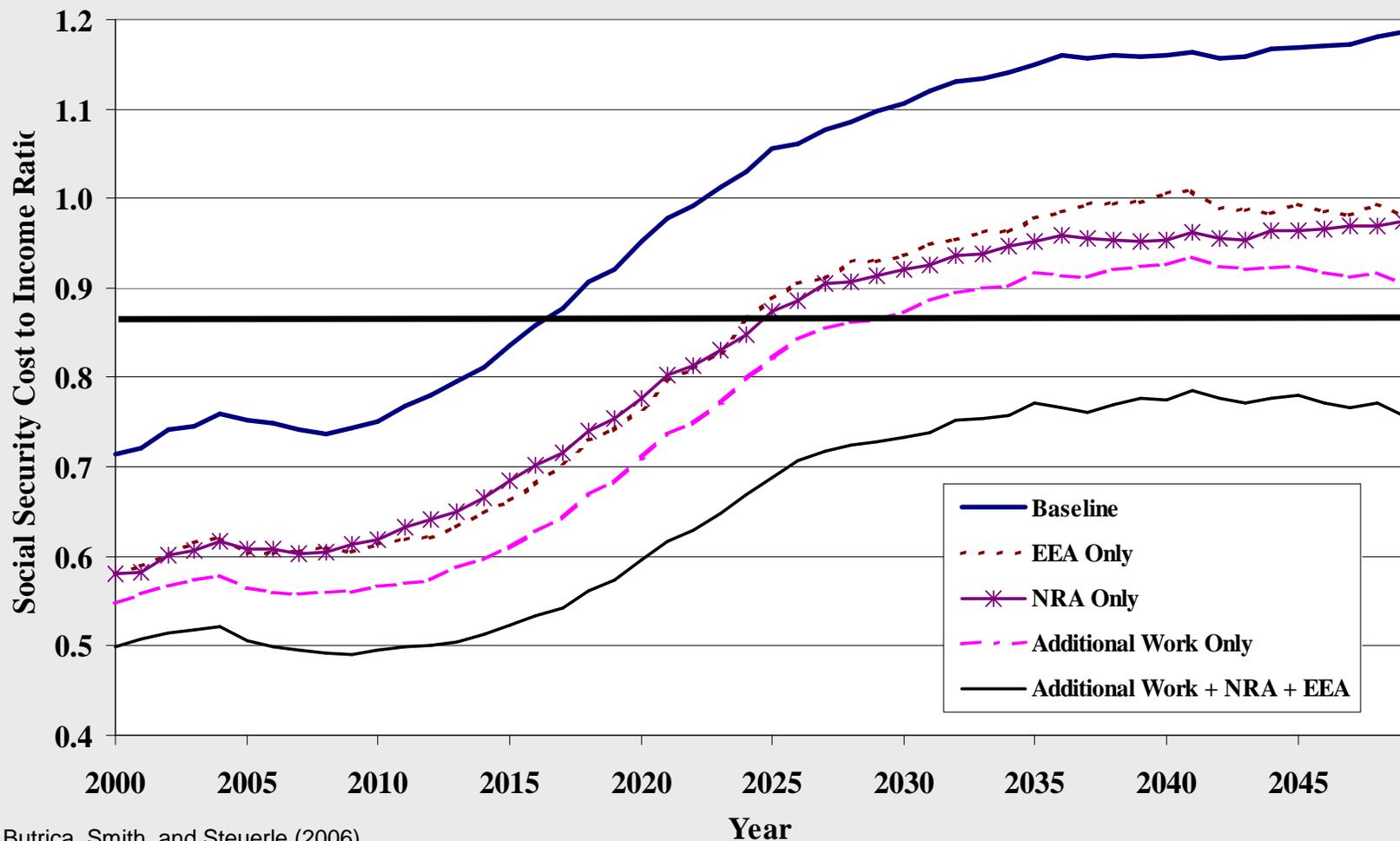


Lower income workers gain even more from additional work.

--No Reforms: One and Five Year Work Effects Only--

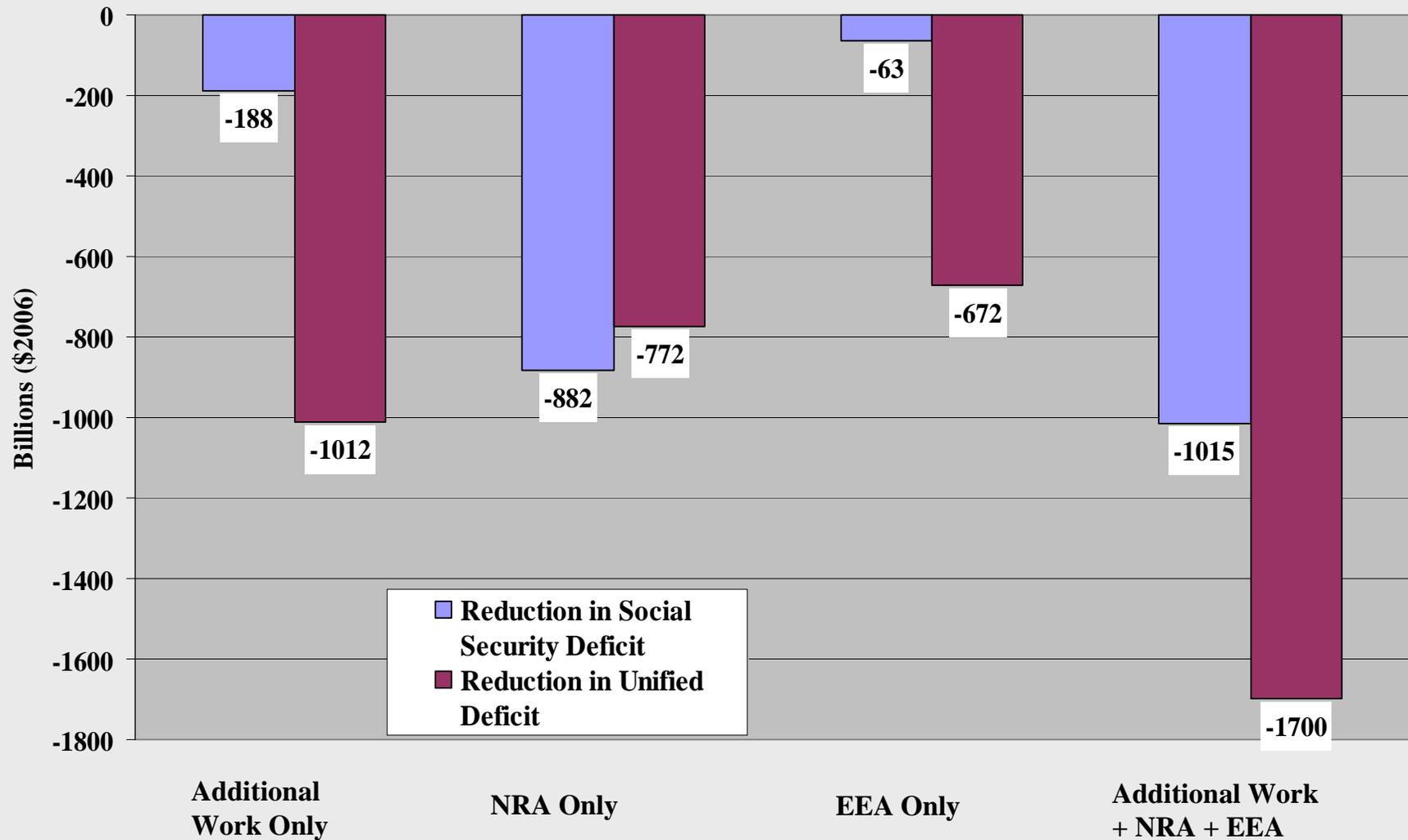


Considering the additional income taxes generated, it restores solvency.



Change in Social Security and Unified Deficit in 2045 by Source

(billions \$2006)



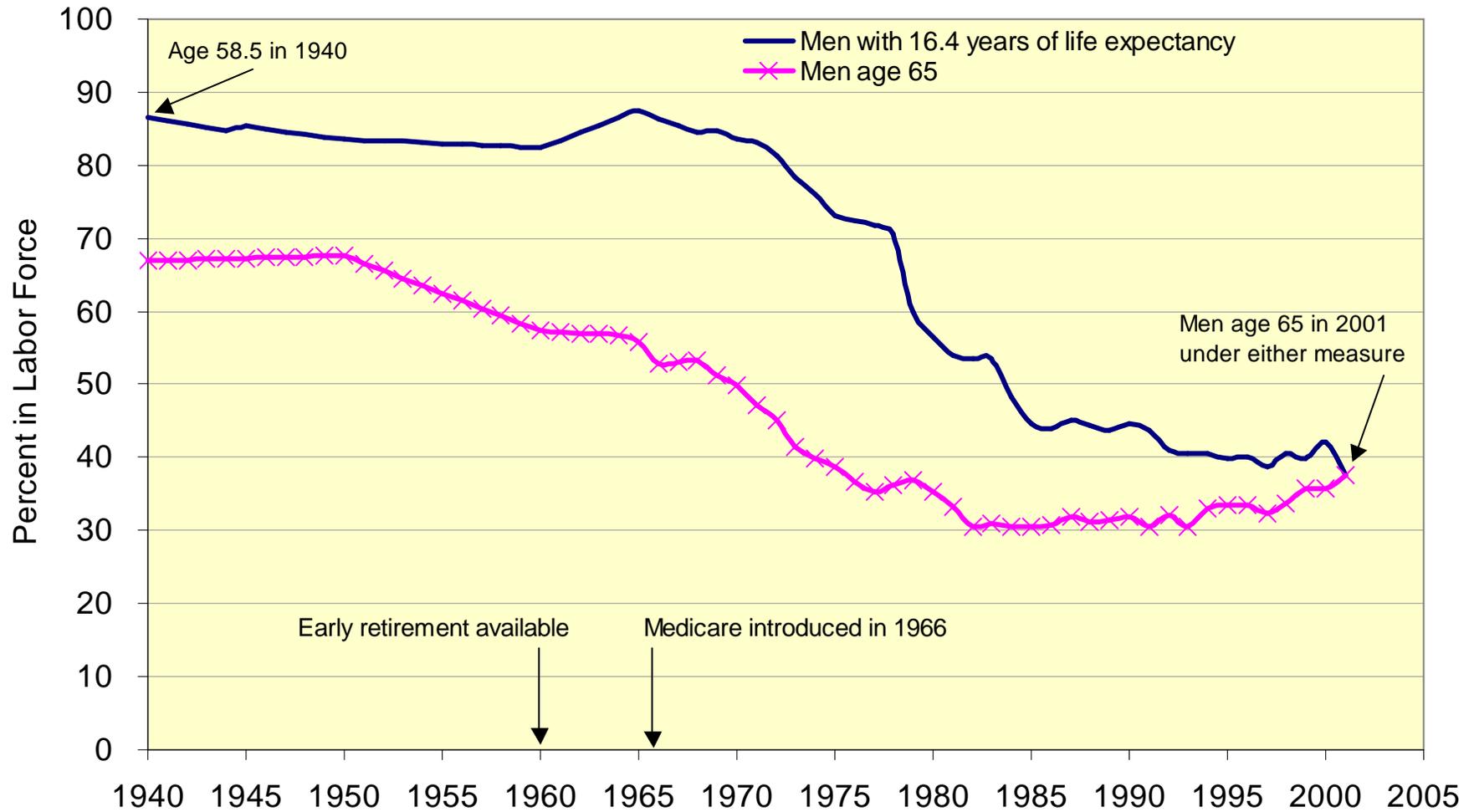
Base reform on “triggers,” not just projections

- We can't predict well changes in work behavior
- I believe we seriously underestimate the extent to which those in late middle age will work longer
- More work greatly reduces size of benefit cut/tax increase required
- Argues for reform adjustments based on what happens, not just what is predicted to happen

Change “Announcement” Effects

- Stop saying we are old (get “old age” insurance) at 62
- Give better advice in the field as to life expectancy/risks of retiring earlier

Male Labor Force Participation Rates, 1940-2001



Source: C. Eugene Steuerle, Adam Carasso and Meghan Bishop, The Urban Institute, 2002. Based on data from the U.S. Social Security Administration, the Bureau of Labor Statistics, and the U.S. Census of Population.

Improve Transparency

- Change confusing presentation of actuarial adjustments
- Remove an earnings test interpreted as a tax
- Reveal “wage replacement” (the extent to which one’s relative income is replaced) for age 90, not just age 62.

Increase retirement age only for those better off

■ How?

- Can provide only a minimum benefit at age 62
- Benefits above a minimum only available at a later age

■ Consequences

- Greater inequality in incomes
- Low income:
 - more partial disabilities...
 - But most annual income gain from later retirement

Reduce “Tax Rate Options”

- Remove “Medicare as secondary payer” provision
- Eliminate payroll tax after retirement age
- Reduce income taxation of benefits

Implicit Tax on Work at Older Ages, Under Alternative Policy Reform Options (%)

Age	Current Law	Elimination of Income Tax on Social Security Benefits	Elimination of Payroll Tax After Normal Retirement Age	Designate Medicare as Primary Payer Regardless of Work Status
62	24.7	22	24.7	24.7
63	20.8	16.7	20.8	20.8
64	23.9	20.8	23.9	23.9
65	39.4	35.2	39.4	30
66	37.4	32.9	27.2	27.1
67	40.9	37.1	31.1	29.6
68	44.2	41	34.7	31.9
69	47.5	44.8	38.3	34
70	49.5	36.5	40.6	35

Source: Author's Estimates

Note: Estimates are for our base-case worker, defined as an unmarried man in good health who takes up Social Security benefits at age 62 or when he stops work (whichever comes later, but no later than age 70). He earns moderate wages and has a DC pension plan and employer-sponsored health insurance, but no retiree health insurance. Computations for any given age assume that workers retire at the end of the year.

“Backload” Benefits

- Provide lower benefit at earlier ages, say 62-70, higher benefits after age 70 (age indexed)
- Similarly, wage index after retirement (with the same lifetime benefit package)

Conclusions

- Don't look narrowly at "Social Security"
 - View what additional income yields for:
 - Individual
 - Government revenues and budget, as well as:
 - Social Security revenues and annual benefit rate
- Announcement and transparency effects are powerful
 - Many options to improve them
 - But probably impossible to fully change as long as 62 is defined as "old"
- Other possible options
 - Remove Medicare as secondary payer rule
 - Lower Soc Sec tax/increase actuarial adjustment
 - Backload benefits

Conclusions

- Do the research on options
- Many Social Security options don't go beyond seat-of-the pants analysis