The Social Security Guarantee Act of 2017

Inspired by legislation introduced by Rep. Sam Johnson (R-TX) & Rep. John Larson (D-CT)

The promise to guarantee Social Security for all Americans must be kept. This plan is a combination of selected assumptions taken from legislation introduced by Representative Sam Johnson (R) of Texas and Representative John Larson (D) of Connecticut to achieve what is the best path to long-term Trust Fund solvency without raising taxes. It includes recommendations from the Social Security Advisory Board and AMAC.

AMAC's proposal has *four* Prime Directives:

1) Increase benefits for those with lower earnings
2) Achieve solvency and ensure benefits continue
3) Treat beneficiaries more equally
4) Provide a means for all earners to have more income available at retirement

We believe the proposal presented here succeeds in achieving all of these directives.

I. INCREASE BENEFITS FOR THOSE WITH LOWER EARNINGS

Implement a tiered approach to the calculation of Cost-of-Living Adjustments (COLA) as follows:

a) For Beneficiaries with a household income (AGI) level less than $20,000, set an annual COLA range of 3% minimum – 4% maximum.
b) For Beneficiaries with a household income (AGI) between $20,000 and $50,000 set an annual COLA range of 1.5% minimum – 3% maximum.
c) For Beneficiaries with a household income (AGI) of $50,001 or higher, set an annual COLA range of 1% minimum – 2% maximum.

Note: In 2009, 2010, and 2016, there was no Social Security COLA, and in 2017 it was only 0.3%, despite the fact that expenses most common to seniors (e.g., food, insurance, medical treatment, prescription drugs, etc.) continued to rise sharply. ***Under this plan, all retirees will be guaranteed an increase each year.***

II. ACHIEVE SOCIAL SECURITY TRUST FUND SOLVENCY

1. Implement a setback in the retirement age for new retirees:

- Early retirement age should remain at 62. The percentage of benefit reduction for early retirement would remain as determined by the Social Security Administration (e.g., a range of 20% to 30%, depending on normal retirement age).
- After the normal retirement age (NRA) reaches 67 for those attaining age 62 in 2022, increase the NRA by 2 months per year until the NRA reaches age 69 for those attaining age 62 in 2034. Thereafter, increase the NRA in a manner that will keep the ratio of (life expectancy at NRA)/(NRA-20) constant. This is likely to result in an expected increase in the NRA of 1 month every 2 years. Additionally, increase the age up to which delayed retirement credits may be earned, on the same schedule (3 years past the NRA).
(Source: 7/13/2016 Office of the Chief Actuary letter to Rep. Ribble, H.R. 5747 sponsor)

2. Change the level of payments for future retirees starting in 2022

- **Adjust the Primary Insurance Amount** (PIA), keeping lower income earners benefits the same and lowering benefits for higher income earners.

- **Progressive price indexing (50th percentile) of PIA factors beginning with individuals newly eligible for OASDI benefits in 2023:**
  - Maintain current-law benefits for earners at the 50th percentile and below. Create a new bend point at the 50th percentile of the AIME distribution of newly retired workers. Reduce the 32 and 15 percent factors above the 50th percentile such that the initial benefit for a worker with AIME equal to the taxable maximum grows by inflation rather than the growth in the SSA average wage index.
  (Source: Level of Monthly Benefits Summary [2016 Trustees Report intermediate assumptions], item B1.4)

- **For the OASI and DI computation of the PIA**, gradually reduce the maximum number of drop-out years from 5 to 0, phased in over the years 2018-2026.
(Source: Level of Monthly Benefits Summary [2016 Trustees Report intermediate assumptions], item B4.3)

- **Bipartisan Policy Center's Commission on Retirement Security and Personal Savings Plan**—Enhance Survivors Benefits: Beginning for newly eligible retired workers and spouses in 2022, all claimants who are married would receive a specified joint-and-survivor annuity benefit (i.e., surviving spouses would receive 75 percent of the decedents' benefits, in addition to their own) that would be payable if both were still alive. Initial benefits would be actuarially adjusted to keep the expected value of benefits equivalent to what would otherwise be current law (i.e., with the other provisions of this package incorporated).

  (***Note***: Under this calculation, surviving spouses would receive a significantly higher benefit)
  (Source: Office of the Chief Actuary letter to Messrs. Conrad and Lockhart, Co-Chairs)

The AMAC Social Security Guarantee prototype plan combines the provisions shown above, and includes the addition of a new benefit that we feel Social Security must include if it is to help and encourage workers to secure a sufficient retirement.

III. TREAT BENEFICIARIES MORE EQUALLY BY RECALCULATING WEP/GPO PROVISIONS, REDUCING INCOME TAXES, AND ELIMINATING THE "PENALTY" ON WORK

1. **Recalculate WEP -** Replace current-law Windfall Elimination Provision (WEP) with a new calculation for most benefits based on covered and non-covered earnings, phased in for beneficiaries becoming newly eligible in 2023 through 2032. NOTE: AMAC will support complete repeal of WEP & Government Pension Offset (GPO) provisions as part of a compromise that promises long-term solvency.

2. **Eliminate the "penalty" on work known as the Retirement Earnings Test -** In 2018 Social Security will withhold $1 in benefits for every $2 of earnings in excess of the $17,040 and $1 in benefits for every $3 of earnings in excess of $45,360 for those with earnings while collecting benefits before their full retirement age.

3. **Reduce "Double Taxation" of Benefits -** Raise the adjusted gross income exclusion threshold for paying income tax on benefits from current $25,000 for individuals and $32,000 joint to $50,000 and $100,000 respectively.

IV. PROVIDE A MEANS FOR ALL EARNERS TO HAVE MORE INCOME AVAILABLE AT RETIREMENT

1. **Early Retirement Account (ERA)** *a voluntary companion benefit*

    - Provide access to ERA funds at age 62
    - Provide additional funds for retirement for all workers

The Early Retirement Account (ERA)

- Voluntary account for both employee and employer
- Tax deduction for employer, after-tax for employee with income sheltered
- Employee not taxed on receiving funds (similar to a Roth IRA)
- Paid via payroll deduction, employer provides the contribution slot to employee
- After the ERA becomes available, employer must offer to all employees (full and part-time)
- When new employees are hired, they must opt out of the ERA or they will be enrolled at $10/week
- The weekly minimum is $5, the weekly maximum is $100 or $5,200/year
- Employer may elect to contribute to employees' Early Retirement Account in any amount or percentage of pay they choose up to $50 per week ($2,600 per year)
- The employer may start or stop their contribution at any time
- The individual is the owner of the Early Retirement Account
- Portability, if wage earner changes jobs, new employer must add payroll access for ERA
- Funds only available to wage earner at age 62 or because of death or total disability
- Wage earner may elect to start receiving payouts at any age between 62 and 70 ½
- Death benefit is the accrued value of account at time of death
- Early Retirement Account benefits, including earnings, are tax-free
- Contribution is indexed for inflation ($5 week raised to $5.15 week if 3% inflation, etc.)

Investment options for the Early Retirement Account

- 50% of the funds must be invested in guaranteed interest accounts or annuities
- The other 50% may be invested in any approved investment (i.e. S & P 500 index)
- A volunteer board of investment experts creates lists of approved investments to assure quality
- Investment choices would be similar to those used in 401k plans and IRAs and the cost of administration would be borne by the same providers who offer those plans, not the federal government

Why a new Early Retirement Account?

Fifty million Americans have no retirement plan, and the average person receiving retirement benefits collects slightly more than $16,000 per year. Accordingly, the *majority* of retired workers rely on Social Security as the largest portion of their retirement income. For many Americans, Social Security is their *only* source of income. There is an urgent need to help workers save more for retirement.

Examples of projected savings from the Early Retirement Account	
Assumptions:	50% of funds in a guaranteed account earning 3%* 50% of funds invested in S & P 500 index, average return of 7%* Modest employer contribution of $50/per month, $600/year * Historical average returns

- ***A 25 year old wage earner contributing only $15 per week, using the above assumptions, would have accumulated $165,407 by age 62.***
- ***A 25 year old wage earner contributing $45 per week, with the same assumptions, would have accumulated $352,389 by age 62.***

It is estimated the average wage earner will accumulate between **$250,000 and $500,000** at the time they claim the benefit because workers increase their contributions as they become older and as wage levels are likely to increase.

How The Social Security Guarantee Act achieves solvency

The projected shortfalls in the Trust Fund are shown in the Trustees annual report. There are two actuarial projections used: the Long-range balance and the Annual balance in the 75th year from the report.

Both balances are in the negative; specifically, the Long-range actuarial balance is expected to be -2.66 and the 75th year annual balance is projected at -4.35.

The AMAC proposal incorporates the provisions discussed above. Provisions I, II, and III have been scored by the Office of the Chief Actuary. Each improves one or both of the actuarial balances so that the total effect appears to meet the goal of achieving positive balances.

It must be understood that because of the interaction of the changes on each other, the office of the Chief Actuary will be asked to conduct the rigorous and detailed analysis required to determine if a true surplus in the Trust fund will result from these changes.

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