The Social Security Guarantee Act of 2019

The promise to guarantee Social Security for all Americans must be kept. AMAC has examined the many proposed solutions presented in the intermediate assumptions portion of the 2016 Trustees Report and selected the alternatives we feel are best-suited to save Social Security’s retirement trust fund. We have combined these selected assumptions with several other recommendations to achieve what is the best path to long-term trust fund solvency without raising taxes.
AMAC’s proposal has **three** Prime Directives:

1. Guarantee an increase in benefits for those with lower earnings
2. Guarantee achieving solvency and ensure benefits continue
3. Provide a means for all earners to have more income available at retirement through a complementary or supplemental Social Security Plus account.

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

**I. GUARANTEE AN INCREASE IN 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, 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.*[^1]

[^1]: Medicare increases could offset the guaranteed COLA.

**II. GUARANTEE ACHIEVING SOCIAL SECURITY RETIREMENT 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)/
The Social Security Guarantee Act of 2017  |  3

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.

- Adopt Progressive price indexing (50th percentile) of PIA factors beginning with individuals newly eligible for OASDI benefits in 2023:
  - Create a new bend point at the 50th percentile of the AIME distribution of newly retired workers. Maintain current-law benefits for earners at the 50th percentile and below. 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: Table A, 6/9/2016 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. PROVIDE A MEANS FOR ALL EARNERS TO HAVE MORE INCOME AVAILABLE AT RETIREMENT

The “Social Security Plus” account will be a supplemental voluntary companion benefit retirement account to provide access to additional funds for all workers at age 62.

- Voluntary account for both employee and employer
• The individual is the owner of this supplemental retirement savings account
• 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 Social Security Plus ("SSP") account becomes available, employer must offer to all employees (full and part-time)
• When new employees are hired, they must opt out of the SSP account 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’ SSP 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
• Portability, if wage earner changes jobs, new employer must add payroll access for the SSP
• 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
• SSP account benefits, including earnings, are tax-free
• Contribution is indexed for inflation at 4%

Investment options for the Social Security Plus savings account

• 80% of the funds must be invested in stock funds (i.e. S & P 500 index)
• The other 20% may be invested in any approved conservative investment (Guaranteed)
• 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 Social Security Plus early retirement savings 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.
Example: Turn $25/week into $1 million at age 65

**Assumptions:** A 23 year old employee contributing only $25/week in the first year and an employer contributing $15/week, with both adding 4% annually thereafter, in a mix of 80% stock funds and 20% conservative investments, would accumulate **over $1 million by age 65.**

*Historical average over last 90 years of the Standard & Poor’s 500 Index is 9.8%*

<table>
<thead>
<tr>
<th>Age</th>
<th>Individual Contribution including Growth</th>
<th>Employer Contribution including Growth</th>
<th>Total</th>
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<tbody>
<tr>
<td>23</td>
<td>$1,300</td>
<td>$780</td>
<td>$2,080</td>
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<tr>
<td>30</td>
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**Exhibit A**

<table>
<thead>
<tr>
<th>Long-Range Actuarial Balance</th>
<th>Annual Balance in 75th Year</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2.66</td>
<td>-2.66</td>
<td>Retirement Age Setback</td>
<td>From 2016 Trustees Report</td>
</tr>
<tr>
<td>+1.01</td>
<td>+1.01</td>
<td>Progressive Price Index for PIA (50th percentile)</td>
<td>H.R. 5747 Section 4</td>
</tr>
<tr>
<td>+1.00</td>
<td>+1.00</td>
<td>Reduction of drop-out years in PIA calculations for SSDI</td>
<td>Office of the Chief Actuary; 2016 Trustees Report intermediate assumptions</td>
</tr>
<tr>
<td>+0.60</td>
<td>+0.60</td>
<td>Enhanced Survivor benefits</td>
<td>Office of the Chief Actuary; 2016 Trustees Report intermediate assumptions</td>
</tr>
<tr>
<td>+0.06</td>
<td>+0.06</td>
<td></td>
<td>Bipartisan Policy Center Proposal, Table A</td>
</tr>
<tr>
<td>+0.01</td>
<td>+0.01</td>
<td>Net Changes in Balance assumptions</td>
<td></td>
</tr>
</tbody>
</table>

These changes will assure the continuation of Social Security benefits for future generations of Americans.
Exhibit B  
Logic associated with AMAC Proposals

INCREASE BENEFITS FOR THOSE WITH LOWER EARNINGS

Tiered COLA Approach

Based on IRS data, 149 million tax returns filed in 2015 (2014 tax year) included 27 million containing Social Security benefits. Using this data, we calculated average AGIs and Social Security benefits for the three AGI brackets addressed in the AMAC Guarantee’s COLA proposal. We then modeled these averages to show what the COLAs would be at the high, mid, and low levels (3%-3.5%-4% for low incomes; 1.5%,-2.25%-3% for middle incomes; and 1%-1.5%-2% for high incomes) and compared these two a hypothetical inflation rate of 2.7%. The results indicate that the AMAC proposal is sustainable using the low to mid percentages in the recommended COLA range. Using the high end of the AMAC exceeds the 2.7% inflation factor slightly.

ACHIEVE SOCIAL SECURITY TRUST FUND SOLVENCY

Retirement Age Setback

For those born before 1954, the normal retirement age (NRA) is 66, gradually advancing to age 67 for those born in 1960 or later. Increasing the NRA by 2 months per year until the NRA reaches age 69 for those attaining age 62 in 2034, and thereafter increasing the NRA in a manner that will keep the ratio of (life expectancy at NRA)/(NRA-20) constant, is expected to result in an increase in the NRA of one month every two years. The age up to which delayed retirement credits can be earned would likewise advance, but stay on the same schedule as currently in effect (3 years past the NRA). The effect of this change is a long-term reduction in the gap between promised benefits and required payroll revenue of roughly 2.21%.

Progressive Price Indexing for PIA (50th percentile)

Social Security uses average wage indexing (AWI) to adjust the bend points used in the Primary Insurance Amount (PIA) calculation each year. In 2014 and 2015, AWI produced increases of 3.55% and 3.48%, respectively. The recommendation calls for no change from this approach for workers with AIMEs at the 50th percentile and below, but calls for the upper two bend points for those above the 50th percentile to be adjusted using inflation rates, which tend to be lower (e.g., the CPI-W for 2015 was negative, but the AWI resulted in a positive 3.48% bend point change). Over the 75-year horizon, this change to the Social Security benefit calculation is expected to eliminate 38% of the shortfall by reducing the gap between promised benefits and required payroll tax revenue by 2.64%.

Reduction of drop-out years in PIA calculations

In calculating the SSDI benefit level, up to five years of a worker’s lowest years of earnings are eliminated or “dropped” to minimize the effect of lower years of earnings on monthly payments. An eligible worker who becomes disabled has one year of earnings dropped (via the disability dropout year provision) for every five years of earnings, known as the one-for-five rule. The proposal is to gradually reduce the maximum number of drop-
out years from 5 to 0, resulting in inclusion of the lower\(^2\) earnings years in the SSDI calculation. The net effect is that including the lower earning years will reduce the amount of the benefits to be paid, translating to a long range reduction in the actuarial deficit of 0.60 percent of taxable payroll, and the 75th year annual deficit by 0.92 percent of payroll.

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**Enhanced Survivor benefits**

Currently, surviving spouses receive the higher of their individual benefit or the deceased spouse’s benefit. Beginning for newly eligible retired workers and spouses in 2022, surviving spouses would receive 75 percent of the decedents’ benefits, in addition to their own. Under this calculation, surviving spouses would receive a significantly higher benefit. For example, a spouse receiving a $2,000 benefit and a dependent spouse receiving a $1,000 benefit together receive $3,000. Under current law, if spouse A dies, spouse B receives the larger of the two benefits (in this case, $2,000). Under the proposed calculation, spouse B would receive $2,500 (the original $1,000 plus 75% of Spouse A’s benefit ($1,500) for a total benefit of $2,500, a total increase of $500 or 25%. Interestingly, this tweak results in slight negative impact on the 75th year annual deficit projection, but the other tweaks still produce an improvement in the projection.

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

**The Social Security Plus account**

The Social Security Plus Account provides a means for all earners to have more income available at retirement through an individual, discretionary retirement savings plan structured as a “starter savings account.” The provision would offer greater benefits and incentives for users and would put control of their plans in the hands of a volunteer board of investment experts, with the cost of administration borne by the same providers who offer those plans, not the federal government. Conservative estimates are that future retirees could augment their financial plans by $250,000 to $500,000 with a modest investment approach, and by over $1 million with regular employer contributions.

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