The Combined Social Security Guarantee and Social Security Plus Initiative

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 recent Trustees Reports 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.

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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.***

I. GUARANTEE AN INCREASE IN BENEFITS FOR THOSE WITH LOWER EARNINGS

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

1. For beneficiaries with a household income (Modified Adjusted Gross Income) level less than 150 percent of the federal poverty threshold (fpt), set an annual COLA range of 3 percent minimum – 4 percent maximum.

(Note: For purpose of illustration, the 2020 fpt in the continental U.S. for one-person households is $12,760, with an additional $4,480 per household member. Thus, for a two-person household, the 150% fpt limit would be $25,860. In Hawaii and Alaska, the fpt differ (Hawaii +15%, Alaska +25%) as does the per family-member multiple (Alaska $5600, Hawaii $5150)

2. For beneficiaries with a household income (MAGI) between 150 percent and 300 percent of fpt ($25,860 - $51,720 for two-person households in the continental U.S.) set an annual COLA range of 1.5 percent minimum and 3 percent maximum.

3. For beneficiaries with a household income (MAGI) exceeding 300 percent of federal poverty threshold ($51,720 for two-person households in the continental U.S.), set an annual COLA range of .5 percent minimum and 1.5 percent maximum.

Note: The Chained CPI-U is to be used to determine where each individual COLA falls within the ranges set forth above. In 2009, 2010, and 2015, the COLA calculation did not yield a positive COLA adjustment for the following year, despite the fact that expenses most common to seniors (e.g., food, insurance, medical treatment, prescription drugs, etc.) continued to rise sharply. Under the AMAC Social Security Guarantee plan, all retirees will be guaranteed an increase each year, although any Medicare premium increase could offset the value of a guaranteed COLA.

II. GUARANTEE ACHIEVING SOCIAL SECURITY RETIREMENT TRUST FUND SOLVENCY

1. Adjust the full retirement age (FRA) as follows:

- 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., with the change in full retirement range noted below, a reduction of up to 45%, depending on actual retirement age).
- After the full retirement age (FRA) reaches 67 for those attaining age 62 in 2022, increase the FRA by 3 months per year until the FRA reaches age 70 for those attaining age 62 in 2034. With longevity norms in effect currently, age 70 is reflective of what is becoming the normal work life span.

- Thereafter, increase the FRA in a manner that will keep the ratio of (life expectancy at FRA)/(FRA-20) constant. This is likely to result in an expected increase in the FRA 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 FRA).

(Source: 7/13/2016 Office of the Chief Actuary letter to Rep. Ribble, H.R. 5747 sponsor)

2. Adjust the Delayed Retirement Credit benefit to match the penalty for early retirement.

- A **"delayed retirement credit"** (DRC) is an increase in the monthly benefit amount due a retirement beneficiary or his or her widow(er) for each month beginning with full retirement age (FRA) that a benefit is due but not paid. Adjusting the DRC calculation as addressed in the AMAC Social Security Guarantee creates alignment of the DRC with current economic reality.
- Under the AMAC Social Security Guarantee, the delayed retirement benefit is set to 5/9 of one percent for each month after full retirement age, up to 36 months. This change matches the formula for benefit reductions associated with retirement before FRA. Annualized, this will reduce the DRC value from its present 8% annually to 6.67%.
- The maximum age to collect delayed retirement benefit is moved back when the delay in full retirement age surpasses 67. The maximum age will equal the full retirement age plus 36 months.

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

- **Adjust the Primary Insurance Amount (PIA)**, keeping lower income earner 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:**
    - o 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.
    - o 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 2022-2030. (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**
  - Enhanced 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)

4. Divert already existing retirement penalty taxes from general funds to the Old-Age and Survivors Insurance (OASI) trust fund:

- All revenue from the following taxes will be deposited in the OASI trust fund:

  a. Early withdrawal from 401k or IRA penalty: 10%

  b. Over contribution to IRA: 6% of excess contribution for as long as it is in the IRA

5. Replace the Windfall Elimination Provision (WEP) with a new formula for government employees:

- The WEP reduces Social Security benefits for a worker who receives a public pension. This is problematic for public service employees who work another job on the side, or for individuals who want to transition into a public service profession such as teaching. Both would receive reduced benefits even though they have already contributed money into the system. Educators, police officers, and firefighters should not be in the position for weaker benefits after they have already contributed to the Social Security fund for many years.
- The AMAC Social Security Guarantee would implement the changes proposed in H.R. 3934, the Equal Treatment of Public Servants Act of 2019.

The AMAC Social Security Guarantee prototype plan combines the provisions shown above and includes the addition of a new benefit (described below) that we believe 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)

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- 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 3 ½ years after FRA
- 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
- The other 20% may be invested in any approved conservative 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 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%*

Age	Individual Contribution including Growth	Employer Contribution including Growth	Total
23	$1,300	$780	$2,080
30	$15,411	$9,247	$24,657
40	$61,285	$36,771	$98,056
50	$170,012	$102,007	$272,019
60	$415,088	$249,053	$664,141
62	$491,891	$295,135	$787,026
65	$632,016	$379,209	**$1,011,255**