

# Restoring America's Middle Class Starts with Keeping Social Security's Promise



BY MARILYN WATKINS, PH.D.

Social Security is one of the great achievements of American democracy. It provides stable income to fully one quarter of American households – in good economic times and bad. For most seniors, Social Security is the biggest source of income. Millions of children and younger adults who are no longer able to work because of a disability also receive income and have access to far greater opportunities because of Social Security.

This recession would have been far more devastating without the steady flow of Social Security dollars into every community. Seniors, children, working-age adults, and main street businesses are all doing better because of Social Security. With traditional pensions in sharp decline, job security evaporating, and savings and home values fluctuating wildly, Social Security will be even more important for most Americans in coming decades.

Despite its importance to all Americans, and the fact that Social Security is more solidly financed than any federal program, some members of Congress are pushing proposals to cut benefits. And many younger Americans wonder if Social Security will be there for them after the baby boomers' retirement.

With Tea Party activism and deficit-hawk mania dominating the headlines, the political threat to Social Security is real. We could lose the program that has done more than any other to build up economic security and a platform for opportunity for Americans from all walks of life – just at the point when America's fading middle class, working families, and seniors need it most.

**It's time to take the offense. With these modest updates, Social Security will work even better for Americans of all ages through the 21<sup>st</sup> century:**

- 1. Let the 2% payroll tax holiday expire after 2011 and eliminate the cap on taxable payroll.** Hedge fund managers, corporate CEOs, and plastic surgeons should pay their fair share for supporting their family members and the community that has made them wealthy.<sup>1</sup>
- 2. Raise benefits.** Good as Social Security is, people who earn low or middle wages end up with benefits that are too low. Childcare teachers, restaurant workers, grocery clerks, and others deserve basic dignity in old age.<sup>2</sup>
- 3. Recognize modern family structures.** Family care credits, higher benefits for elderly widows and widowers, and recognition of same sex partners will make the system more fair – and boost benefits for those who rely most heavily on Social Security.

JANUARY 2011

## Social Security's finances are strong – and have prevented deeper deficits

\$0

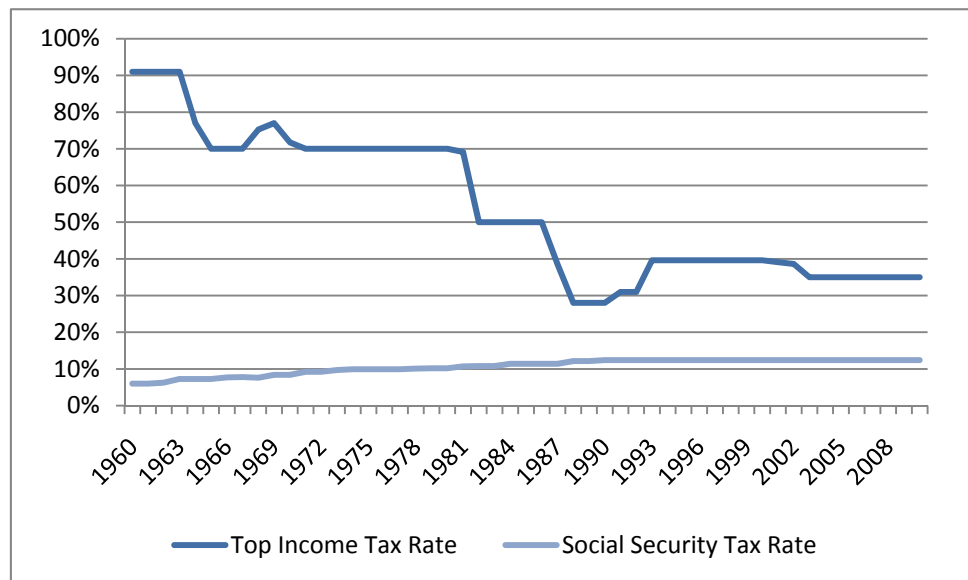
THE AMOUNT  
SOCIAL SECURITY  
HAS ADDED TO  
THE FEDERAL  
DEFICIT

Working Americans and their employers each pay a payroll tax of 6.2% on the first \$106,800 of earnings into Social Security. That dedicated revenue, along with interest from the Social Security Trust Fund, finances benefits for retirees, disabled adults, dependent family members, and the children of deceased workers.

The 1980s set the stage for much of the current debate over the deficit and Social Security. First, Congress raised the Social Security payroll tax higher than needed to cover current expenses, in order to build a surplus to help cover the future costs of the baby boomer's retirement.

Second, Congress lowered income tax rates paid by the very wealthy to the lowest level since 1931. Clinton raised rates, and the economy boomed. Then came the Bush tax cuts of 2001 and 2003.<sup>3</sup> These low tax rates on the wealthiest were sustained despite nearly a decade of war. Together with high medical inflation, they account for much of the current and projected federal deficit. The effects of the deep recession make the situation worse.

TOP FEDERAL INDIVIDUAL INCOME TAX AND  
SOCIAL SECURITY PAYROLL TAX RATES, 1960-2010



Sources: Internal Revenue Service and Social Security Administration

\$2.6  
TRILLION

TOTAL SIZE OF THE  
SOCIAL SECURITY  
TRUST FUND

Meanwhile, the Social Security Trust Fund has accumulated over \$2.6 trillion. Social Security is in no way responsible for the federal deficit. The rush to link Social Security and the deficit is driven by some who are determined to keep tax rates on the wealthy artificially low, by special interests who want control of Social Security's assets, and by others who despise Social Security's very premise – that all work has dignity and that we are all in this together.

## Social Security will be there for today's young workers

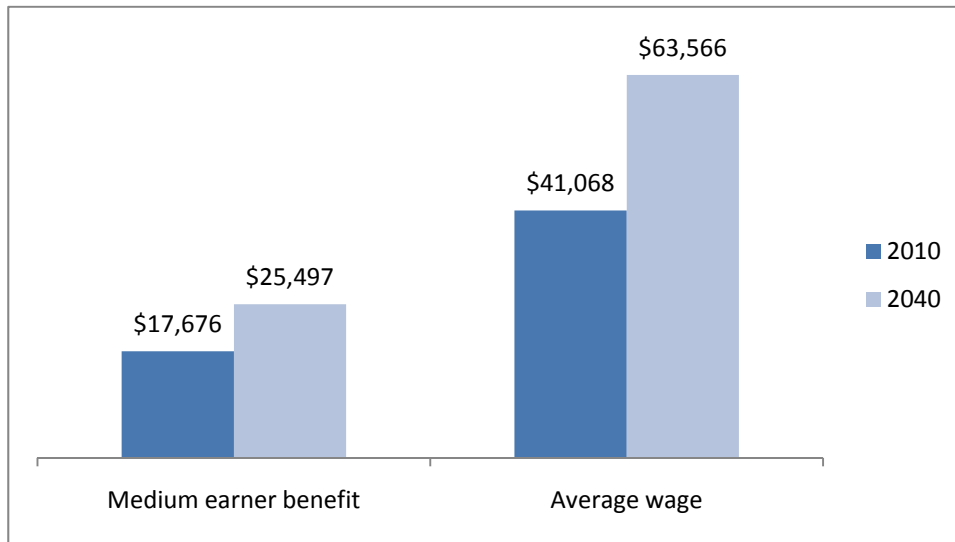
Much ado is made over the projection that in addition to the payroll tax, Social Security will begin spending Trust Fund interest later this decade, drawing on the principal of the Trust Fund in the mid-2020s, and in the late 2030s will have spent down the Trust Fund leaving the program to rely on payroll taxes alone. At that point, payroll taxes will cover 78% of benefits promised under the current formula.<sup>4</sup>

Never mentioned by most who profess to be concerned about Social Security's future is the fact that full benefits in 2040 are projected to provide the typical retiree with \$8,000 more in income after inflation than today's middle-income senior receives. Therefore, 78% of promised benefits in 2040 would still provide retirees over \$2,000 more in buying power.

Productivity growth means that over time, employees produce more with each hour of work. Both earnings and living standards gradually rise as a result. By 2040, the typical American worker will be earning 55% more than in 2010, after adjusting for inflation. That is why promised benefits will also be considerably higher – and each worker will be able to support more retirees.<sup>5</sup>

Moreover, under just slightly different assumptions, Social Security is projected to have resources sufficient to cover full benefits through the end of this century.

### PROJECTED RETIREMENT BENEFITS FOR MEDIUM EARNERS AND AVERAGE WAGE, 2010 AND 2040, IN 2010 DOLLARS



Source: Social Security Trustees 2010 Report, Appendix F.

Rather than debating cuts to Social Security, we should focus on ways to increase benefits, especially for women and people who have low earnings throughout their careers. Even with Social Security, far too many people struggle to make ends meet. About 23% of all households over age 65 and nearly 30% of those over 80 have incomes below 150% of the federal poverty level.<sup>6</sup>

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# 55%

INCREASE IN  
AMOUNT EARNED  
BY TYPICAL  
WORKERS  
BETWEEN 2010  
AND 2040

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# \$2,000+

# DOLLARS

INCREASE IN  
RETIREE BUYING  
POWER BETWEEN  
TODAY AND 2040,  
WITH 78% OF  
BENEFITS

## Making a Good System Better

# 100%

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AMERICANS  
WHOSE LIVES ARE  
BETTER BECAUSE  
OF SOCIAL  
SECURITY

Social Security is more important now than ever. Half of the workforce has no retirement plan other than Social Security. Traditional pensions have all but disappeared in the private sector. Americans have watched their assets evaporate, whether in 401(k) plans, savings or home equity. And no job is really secure. The majority of Americans have fewer safeguards if anything goes wrong.

The various proposals being floated to raise the retirement age, mean-test benefits, and cut benefits all serve to undermine Social Security's universality – and in the long run, diminish popular support for the program.

Meanwhile, low tax rates have helped the richest Americans grow ever more wealthy while incomes of the middle class have stagnated and opportunities for younger Americans are constricting. It's time for the wealthy to step up and pay their fair share – both for Social Security, by eliminating the cap on taxable earnings, and for all the benefits of American citizenry.

Social Security is there for the lucky and the unlucky, the childcare teacher and university professor, waitress and software designer, truck driver and surgeon, stay-at-home parent and working parent. It is there for all of us. But it will continue to be only if we fight to protect it.

## Notes

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<sup>1</sup> In 1983, 91% of earnings were subject to Social Security payroll taxes. Since then, the wages of top earners have grown more rapidly than the wages of the majority. In 2009, only 83% of earnings were taxed. All earnings are already subject to Medicare taxes. CBO estimates that by eliminating the cap without increasing benefits for top earnings, the Trust Fund would continue to hold assets for the entire 75 year window projected. CBO, *Social Security Policy Options*, p. 18-19.

<sup>2</sup> For example, the benefit formula could be adjusted to replace 100% below the first “bend point” (\$749 of monthly earnings in 2011), remain at 32% up to the next (\$4,517), be slightly lowered on higher incomes, and set at a very low level or 0 above the current cap.

<sup>3</sup> Tax Foundation, “Federal Individual Income Tax Rates History, 1913-2011,” <http://www.taxfoundation.org/publications/show/151.html>.

<sup>4</sup> The Social Security actuaries make three different long-term projections of Social Security finances annually, each based on slightly different assumptions about economic growth, productivity increase, average wages, birth and death rates, immigration, and so forth. According to the most widely used intermediate projection in the 2010 Trustees' report, program expenses will exceed payroll taxes in 2015, taxes and trust fund interest will fully cover expenses into the 2020s, and the Trust Fund will be spent down by 2037. See <http://www.ssa.gov/OACT/TR/2010/index.html>.

<sup>5</sup> Based on estimates in the 2010 Social Security Trustees Report.

<sup>6</sup> Source: Congressional Research Service, *Income and Poverty Among Older Americans in 2008*, Oct 2009, [http://benefitslink.com/articles/guests/RL32697\\_Oct\\_2009.pdf](http://benefitslink.com/articles/guests/RL32697_Oct_2009.pdf). The poverty level for a family of two in 2010 was \$14,570.