

# **An Overview of Social Security**

By Ben Kaplan and Josh Shapiro

## Forward

The following information summarizes reports from a number of reputable, bi-partisan sources on the state of Social Security in the U.S.

Perhaps the most widely acclaimed report on Social Security was published in 1998 by the American Institute of Certified Public Accountants (AICPA). A remarkable amount of the information and proposed reforms outlined in the AICPA report are as accurate today as they were in 1998.

Because the AICPA report is so comprehensive and well-conceived – and because its general information is still extremely relevant – the NYSSCPA chose to use it as the primary resource in this document. The AICPA report is also valuable for purposes of comparison. We have therefore included *Exhibit 2* on page 15, which outlines some of the key differences between the numbers in 1998 and today.

It is important readers understand that the hard numbers at the beginning of this document – and in some of the exhibits – are from 1998. Since that time, some statistics have changed. Readers can assume that any information or statistical analysis which is not labeled as having come from the AICPA report is up-to-date, as of June, 2003.

The Moynihan Social Security reform (1998) and the Social Security Guarantee Plus Act of 2003 are proposals for reform and, as such, do not have statistics which need to be updated.

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## **The AICPA's Report on Social Security Reform**

Published November 1998

The consensus view from the Social Security Administration (SSA) and from private experts is that Social Security will not have sufficient resources to fund "promised" retirement benefits in the not-too-distant future.

According to official estimates, the Social Security system will start spending more than it collects in a little over two decades. A decade after that, all the trust fund's assets will be depleted. With no trust fund assets, taxes will be the only source of revenue for benefits. Social Security will then be able to fund only about three-quarters of its benefit obligations (see *Exhibit 1*).

Some analysts consider Social Security unfair because many workers will be getting below-market rates of return from their "investment" in Social Security. Even if the Social Security system were somehow able to meet all of its obligations, future Social Security beneficiaries will not receive as good a deal as did their parents.

### **The Financial Condition of Social Security**

According to best estimates of the SSA, the Social Security trust fund balance will peak in the year 2012. Thereafter, it will steadily decline until it is fully exhausted in 2032 (see *Exhibit 2*). This does not mean that no funds will be available to pay benefits. After the trust fund is depleted, payroll tax receipts would be able to support approximately three-quarters of all currently promised benefit payments.

### **Demographics**

The deteriorating financial condition of Social Security is due to a host of factors, but the main cause is related to demographics. Americans are living longer. Life expectancy at birth is fifteen years longer in 1995 than it was in 1935. Longer life expectancy means longer retirements, and that means that Social Security is obligated to pay more lifetime retirement benefits. At the same time, there has been a long-term decline in the birth rate. In 1957, at the height of the postwar baby boom, women on average had three and one-half children during their lifetime. Currently, the birthrate is approximately two children per woman. Fewer births mean there are fewer younger workers to contribute to the system.

The statistic that best summarizes the financial plight of Social Security is the decline in the ratio of beneficiaries to workers. In 1960, the worker-to-beneficiary ratio was 8.6. Currently, it is 3.3. It is projected to be 2.2 in 2025 (see *Exhibit 3*).

As the seventy-five-year projection period window moves forward in time, it includes fewer surplus years (at the beginning of the period) and more deficit years (at the end of the period). Consequently, the longer Congress and the president wait to reform Social Security, the more severe the benefit cuts, tax increases, or both will be in order to correct the problem. The sooner the action, the less painful the solution.

## **Social Security and Poverty**

For the vast majority of America's elderly, the Social Security system has become the central component of their retirement security. It is for low-income elderly that Social Security is particularly important. For almost one-third of America's elderly with the lowest incomes, Social Security accounts for 90 percent of their total income in retirement (see *Exhibit 4*).

The elderly poverty rate has declined dramatically since Social Security benefits have become more pervasive (see *Exhibit 5*). The elderly poverty rate in 1959 was 35.2 percent—more than double the 17.0 percent that applied to non-elderly adults. The poverty rate for the elderly has since declined by more than two-thirds. The elderly poverty rate in 1996 was 10.8 percent—actually lower than that for other adults. If Social Security benefits were not available, and there were no other changes in the economy or government programs, the poverty rate among the elderly would be 54 percent.

Despite the tremendous reduction in elderly poverty over time, serious pockets of poverty continue to exist for the elderly—particularly among widows, the very old, and minorities. Older women are twice as likely as men to be in poverty. For both African-Americans and Hispanic Americans, the elderly poverty hovers at approximately 25 percent—about two and a half times larger than that for white Americans.

## **Social Security as an Investment**

About 90 percent of current retirees receive a monthly check from Social Security for an average amount of approximately \$750. (According to the Social Security Administration, this figure now stands at \$922.) Most of these beneficiaries are receiving more than their actuarially fair share of benefits.

The returns on investment from Social Security for future retirees will be much lower than now or in the past (see *Exhibit 6*). For example, a one-earner couple that retired in 1980 generated benefits equivalent to a 7.7 percent (inflation-adjusted) return. The same couple retiring in 2010 will earn a 3.6 percent return.

Furthermore, many future retirees will earn below-market returns—even assuming all promised benefits can be paid. It is not clear how the average rate of return on Social Security can significantly improve as long as the trust fund is restricted to investments in U.S. government securities.

Besides differences in returns across generations, there are substantial differences in returns within generations. Under Social Security, married couples generally do better than single individuals—primarily because of the availability of spousal and survivor benefits. Even as rates of return are expected to decline rapidly in the future, one-earner couples are expected to continue to receive a very “good deal” from Social Security.

Among single individuals, females in general generate larger returns than males because of their longer life expectancy. In general, Social Security provides much higher rates of return to low-income households than to high-income households because the formula for determining benefits gives greater weight for contributions at lower wages.

## **Social Security and the Economy**

**Effects on Labor Market.** Analysts do not believe that Social Security taxes have had much impact on the overall supply of labor in the U.S. economy. On the other hand, analysts do believe that Social Security has adversely affected certain portions of the labor market. In particular, it seems likely that Social Security benefit rules have resulted in earlier retirements and less work performed during retirement.

**Effects on Saving.** In prior years—when the Social Security system was rapidly increasing benefits without prefunding—it is likely that Social Security did have some negative impact on national savings. Because individuals believed they could depend on Social Security, they did not save as much. Because the government was depending on future taxes to pay these future benefits, the government did not save either.

It is less clear what the current effect of Social Security is on national savings. Individuals no longer believe they can depend on Social Security. Consequently, individuals are much less likely now, than in the past, to reduce saving because of the existence of Social Security.

Social Security could also improve saving if it prefunded benefits and if the federal government did not use the current Social Security surplus of collections over benefits to pay for current operating expenditures.

**Social Security and the Stock Market.** Current law requires that reserves of the Social Security trust fund be invested in interest-bearing obligations of the federal government. Historically, the rate of return on government securities, on average, is lower than the rate of return on private equities. Many reform proposals include some prefunding of retirement benefits with a portfolio of assets that includes private equities.

**Risk.** Social Security trust fund investment in the stock market generates many questions about riskiness of the underlying portfolio, reallocation of risk between government and beneficiaries, and risk management. Risks faced by individuals will be determined by whether there are also changes to benefits, whether the program shifts from a defined-benefit to a defined-contribution type plan, what the investment guidelines are, and what the form of the investment is (investment by the trust fund, publicly managed individual accounts, or privately managed individual accounts).

**Administrative Costs.** Social Security's administrative costs are currently one-quarter of those of private pensions. In proposed reform plans that have the Social Security trust fund investing in private equities or have individual accounts administered by the SSA, administrative costs generally remain comparable to those incurred under current law. Costs increase dramatically when individuals hold accounts with private funds that allow a wide range of investment options.

**Impact on the Economy.** Although investment in the stock market would improve the financial condition of the Social Security trust fund, it is not likely to have an appreciable impact on the overall economy. It would give a more accurate allocation of rate of return and saving throughout the economy. It would also, however, increase the government's cost to borrow funds as Social Security receipts invested in the stock market would no longer be available for below-market-rate borrowing by the government.

## Pathways to Reform

There are three general methods of improving the financial condition of Social Security: (1) reductions in benefits, (2) increases in revenues, and (3) increases to the rate of return on assets used to prefund Social Security benefits. Because it seems the least painful, the third set of options is attracting the most attention. Proposals to improve the return on Social Security assets fall into two categories: (3a) plans that would involve only minor restructuring but would allow the trust fund to invest in equities, and (3b) plans that would “privatize” the system through the creation of new mandatory individual accounts, each of which could invest in equities (see *Exhibit 7*).

### Reductions in Benefits.

**Benefit Cuts.** General cuts in benefits would improve the soundness of Social Security, but equal percentage cuts for all retirees would push many retirees below the poverty level. Also, benefit cuts would reduce individuals’ return on Social Security. For groups that currently enjoy above-average rates of return—like the current elderly, married couples with one earner, and low-income individuals—a benefit cut would bring Social Security down to levels comparable to other investments. However, for others with below-average returns—like future single retirees and future high-income retirees—any reduction in benefits would only exacerbate the problem of low returns.

**Raising the Retirement Age.** *Under current law, the normal retirement age is sixty-five and is scheduled to increase gradually to age sixty-seven by the year 2022. Early retirement can occur at sixty-two years of age. Perhaps the most commonly discussed methods of reducing benefits are an additional increase in the normal retirement age and an increase in the early retirement age.*

In many respects, increasing the retirement age has effects that are similar to benefit cuts: The financial soundness of the system would improve at the cost of higher rates of poverty and lower rates of return. There are some differences in the incidence of these burdens when benefits are cut by increasing retirement ages as opposed to across-the-board cuts: Those with shorter life expectancies bear a larger share of the burden.

**Reducing Cost-of-Living Adjustments.** There has been widespread criticism of the Consumer Price Index (CPI) used to adjust Social Security benefits for increases in prices. Many analysts believe the CPI overstates increases in the cost of living. If reductions were made to the CPI as it is used to compute Social Security benefits, this would be equivalent to a phased-in across-the-board reduction of benefits—with an increasingly negative impact on the returns of future Social Security beneficiaries.

**Reducing Benefits for Individuals Receiving High Benefits.** Perhaps the easiest method of cutting benefits to more affluent Americans is to reduce monthly benefits only for individuals receiving high benefits. The problem with reducing benefits in this manner is that some affluent Americans receive low benefits, and some with high benefits have no other income. In addition, the potential for adverse impacts on labor supply is proportionately greater under this approach.

**Means Testing of Benefits.** This is achieved by cutting benefits on the basis of family wealth or income—and not just benefit levels—when assessing need. Most analysts agree that wealth is

the best indicator of well-being—particularly among the elderly—but that measuring wealth presents enormous conceptual and compliance problems. Even means testing based on income would add substantial new compliance and administrative costs to the currently simple Social Security system. However, the economic problems caused by means testing are significant.

**Taxing Social Security Benefits.** Social Security benefits were not subject to tax until 1983. In 1993 their taxation was expanded. Economically, the taxation of Social Security benefits is equivalent to means testing by income. Given that high- and middle-income families are already taxed on their Social Security benefits, any expanded taxation of Social Security benefits is likely to have its most adverse impact on low- to moderate-income elderly.

## **Increase Revenues**

**Increase the Payroll Tax Rate.** A payroll tax rate increase improves the financial soundness of the Social Security system, but it also reduces the net benefits of Social Security for current workers vis-à-vis current beneficiaries. Low- and moderate-income workers may fall below the poverty line as a result of a payroll tax increase (particularly since payroll taxes have no personal exemptions or standard deductions).

**Increase the Limit on Taxable Earnings.** Currently, an individual's annual wages up to \$68,400 are subject to Social Security payroll tax. One way to increase Social Security revenue would be to eliminate this ceiling on taxable earnings. Such an increase focuses the burden of new taxes on high-income individuals. Unlike means-testing benefits, however, new taxes put the greatest burden on the youngest high-income workers and entirely exempts current, high-income retirees. Many would consider this particularly unfair given that future high-income beneficiaries—particularly single individuals and two-earner couples—are already slated to receive the lowest rates of return on contributions ever paid out by the Social Security system.

**Use General Tax Revenues.** Looking purely from within the Social Security system, use of general tax revenues to support Social Security would improve finances, increase rates of return, and prevent erosion in the popularity of the program. All these benefits are illusory, however, because they come at the expense of tax increases or cuts in government spending not typically factored into measures of Social Security's performance. Furthermore, many believe use of general tax revenues would erode political support for the program because the program would move away from being perceived as a retirement plan and move closer to being perceived as a welfare plan.

**Extend Social Security Coverage to State and Local Workers.** Currently, some employees of state and local governments are not required to participate in Social Security. Although the salaries paid by state and local governments are not subject to Social Security tax, these workers may still be eligible for substantial benefits because their spouses are participants. Requiring these workers to participate in the system would improve the Social Security system's finances.

## **Earn Higher Returns on Social Security Assets**

Most proposals for Social Security reform include prefunding retirement with a portfolio of assets that includes investment in the stock market. Some proposals would remove current restrictions

so that the trust fund could invest in the stock market. Other proposals would allow (or require) individuals to invest their own retirement accounts which could include investment in the stock market.

Over long periods of time, the return on investment in the stock market greatly outperforms the return on U.S. government securities. The difference in returns is enormous. Historically, the return on stocks on average has exceeded that of U.S. government securities by about five percentage points. Stocks are riskier than bonds. Even after adjusting for risk, higher returns are available on stocks than on bonds.

Although investment in the stock market would probably improve the financial condition of the Social Security system, this change in policy would likely have little impact on the overall economy.

### **Invest Trust Fund Assets in Private Capital Markets**

Currently, the types of proposals that are receiving the most attention are those that would “privatize” Social Security. Under these plans, workers would be required to contribute to retirement accounts that the worker would own and control. The worker would have some discretion about investment options and perhaps even payout options. This distinctly new approach raises several questions:

- *To what degree, and over what period, would benefits under the existing system have to remain in place?* Some privatization plans leave much of the current system in place and then tack on a relatively small additional contribution to fund new additional accounts. Some privatization plans bifurcate the current system: While current benefits are honored, all new contributions are used to fund new individual defined-contribution accounts.
- *Will there be any safety net for low-income beneficiaries?* The current system redistributes benefits from high-income to low-income individuals. Individual accounts—by their nature—do not allow redistribution.
- *How much discretion will individuals have?* Must individuals annuitize benefits, as occurs currently, or can benefits be received in a lump sum or under some other method? With respect to investment options, will individuals be able to select from a choice of index funds (as under the Federal Employees Retirement System) or will individuals be able to direct investments more specifically (as they would with a private investment account)? This last question is particularly important because administrative costs are much higher for any plans in which indexed funds are not used.

In general, any movement toward a plan including individual accounts will improve investment returns on Social Security because of additional prefunding and the higher returns available from private securities. Because individual accounts make Social Security contributions less like a tax, such a privatized system has more potential than other reform plans to increase economic growth. In short, the move from the current system to a privatized system brings to the forefront the age-old trade-off between economic growth and social welfare.

## The Moynihan Proposal

**Cut the payroll tax from 12.4 percent (half paid by employer and employee) to 10.4 percent** – a reduction of \$800 billion in taxes over 10 years. "There is a matter of fairness here," he said at Harvard. "Of families that have payroll tax liability, 80 percent pay more payroll taxes than income taxes."

**Keep benefits the same**, except for cutting one percentage point off the annual adjustment in the consumer price index, which, 15 studies confirm, overstates inflation. Moynihan would also hike the retirement age slightly, raise the cap for earnings subject to the payroll tax and tax benefits the way that private pensions are taxed.

**Allow voluntary tax-deferred personal retirement accounts**, which each American could finance from the 2 percent tax cut. Through the magic of compounding, a \$30,000-a-year worker, putting just 2 percent of pay into an account that earns a modest after-inflation return of 4 percent, would accumulate \$350,000 over 45 years.

**Put Social Security on a pay-as-you-go basis.** In 1997, for example, the government took in \$446 billion in Social Security taxes and paid out only \$365 billion in benefits. The extra \$81 billion went into a trust fund (valued at about \$631 billion) and was lent out to finance other federal programs. Moynihan has long wanted to end this nonsense. We're extracting tax dollars from those who can least afford it – and from everyone who might have better uses for it. Paring back, or even abolishing, the payroll tax is an idea that liberals, social conservatives and libertarians can love.

### The Social Security Act of 2003 H.R. 75

Referred to the House Ways and Means Committee on January 7, 2003

By E. Clay Shaw, Chair of the Social Security Subcommittee

**Give a refundable tax credit** equaling 4% up to \$1000 (indexed to the annual increase in wage growth) for those workers that pay Social Security payroll tax. This refund will go into a private account that can not be accessed until retirement when they get a 5% lump sum payment.

**The private account is controlled by the workers**, in that they can choose from 3 different investment options, and will be able to see how it is doing. The money in this account is then used to help pay their monthly Social Security. If the account does well they get more money in their monthly check, if it does poorly they will not receive less than what they were promised. Workers who die before the account has been depleted can leave it to their heirs' tax free. Similarly, if the workers account gets completely depleted they will still receive their full Social Security benefits.

#### Benefit Improvements include:

- Increased benefits for widow(er)s
- Increased benefit qualification for disabled widow(er)s
- Divorced spouses would be eligible for benefits immediately after their ex spouse marries someone else
- Child care credit equaling 25% of the homemakers previous wages for up to 5 years for working women with children under 6
- Reduces the Government Pension Offset of spousal benefits from 2/3 to 1/3 of the pension from non-covered work.

## **Additional Facts**

### **Social Security Association and Congressional Budget Office: 2004 Reports**

According to SSA, the recently enacted prescription drug benefit is expected to hurt the financial outlook of the Social Security fund. Social Security benefits currently represent 4.3 percent of GDP. Assuming no changes are made in the plan, that percentage is expected to rise to 6.6 in 2078.

Medicare is in even worse shape than social security. The Medicare Trust Fund will reach deficit in 2012 and become exhausted in 2019, primarily because of increased medical technologies and longer average life expectancy. Medicare benefits currently represent 2.7 percent of GDP. Assuming no changes are made in the plan, that percentage is expected to rise to 14 in 2078. Similar to Social Security, the longer we wait to enact changes, the more we will have to reduce benefits or raise taxes to keep the program viable.

According to the CBO, the current social security system currently contributes to reducing the total U.S. budget deficit. But within the next several years, that contribution will start to decline, and beginning in 2019, the Social Security system will either increase the size of the total deficit or reduce the size of the total surplus.

The CBO makes an important distinction about the social security "trust funds." These trust funds are, in fact, mainly accounting mechanisms and contain no economic resources. But they are important from a policy perspective, because Social Security's legal spending authority each year is limited to the total balance of the trust funds.

The CBO does claim, however, that "the nation's ability to support Social Security beneficiaries will depend on the size of the economy."

## **The Political Environment**

The House Ways and Means Committee has jurisdiction over old-age survivors and disability insurance (OASDI), Medicare, supplemental security income (SSI), temporary assistance for needy families (TANF), child support enforcement, child welfare, foster care and adoption assistance, unemployment compensation programs, and social services.

William H. Thomas, a republican from California, chairs the Ways and Means Committee. The committee's Social Security Subcommittee is chaired by E. Clay Shaw Jr., a republican from Florida. Both Thomas and Shaw support the privatization of Social Security. Shaw, however, is more of an activist on the issue. On January 7, 2003, Shaw referred his amendment – the Social Securities Guarantee Plus Act of 2003 (HR 75) – to the Ways and Means Committee. The Act was subsequently moved to the Social Security Subcommittee on February 3, 2003, where it remains today.

## **Social Security Advisory Board**

The Social Security Advisory Board, chaired by Haul Daub, was established in 1994 as a bipartisan institution to advise the president, Congress, and commissioner of Social Security on matters related to the Social Security and SSI programs. The members of the Board are appointed by the president, the speaker of the House and the president pro tempore of the Senate. Presidential appointees are subject to Senate confirmation.

The Board was created primarily to study and analyze Social Security issues and make informed and relevant recommendations to administrators and government bodies. The other function of the Board is to increase public understanding of Social Security.

## **Commissioner of Social Security**

Jo Anne B. Barnhart is currently serving a 6-year term of office that will run through January 19, 2007. She was appointed by President George W. Bush on July 17, 2001 and confirmed by Congress approximately four months later.

The role of the commissioner is to administer the Social Security and SSI programs and run the 65,000-person federal agency.

## Fast Facts

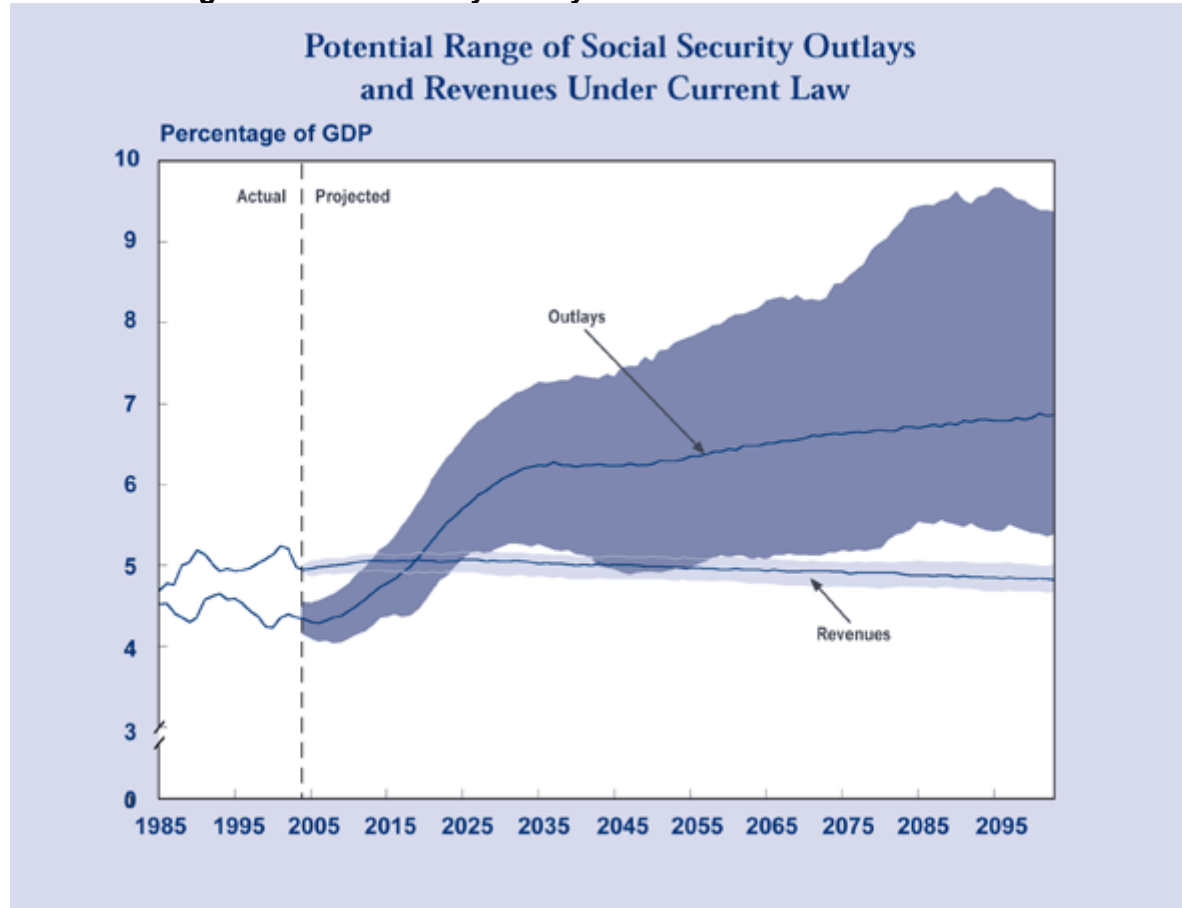
These facts are based on facts and figures put out by the Social Security Administration in June 2003.

- More than 150 million workers are protected by Social Security, and more than 45 million people receive retirement, survivors, and disability benefits from Social Security.
- More than 9 in 10 retirees now get Social Security benefit payments each month.
- People with high earnings receive higher benefits than people with low earnings do, but have a lower return on investment than people with lower earnings
- Under current law, future generations are to receive higher benefits than current beneficiaries do, even after adjustment for inflation.
- Social Security is the major source of income for two-thirds of the elderly, and is virtually the only source of income for one-third.
- Since 1956, after adjusting for inflation, median income has risen 93% for married couples and 96% for nonmarried persons
- In 2002 6% of workers had earnings that equaled or exceeded the maximum amount subject to payroll taxes, compared to 3% when the program began.
- About 85% of earnings in covered employment were taxable in 2002, compared with 92% in 1937
- About 1 in 3 Social Security beneficiaries is not a retiree: seven million people get monthly survivors benefits, and more than seven million workers and family members get disability benefits (see *Exhibit 8*).
- The average age of Disability Insurance beneficiaries has fallen from just over 57 in 1960 to 51 in 2003
- There will be nearly twice as many retired workers as there are today in about 30 years,
- The number of workers paying into Social Security per beneficiary will drop from 3.3 today to about 2 in 2030.

## Charts and Graphs

### EXHIBIT 1 (CBO, 2004)

#### Potential Range of Social Security Outlays and Revenues Under Current Law



Source: Congressional Budget Office.

Note: The dark lines indicate CBO's projections of expected outcomes. In those projections, annual Social Security outlays exceed revenues starting in 2019, and scheduled benefits cannot be paid beginning in 2053. Shaded areas indicate the 80 percent range of uncertainty around each projection. (In other words, there is a 10 percent chance that actual values will be above that range, a 10 percent chance that they will be below it, and an 80 percent chance that they will fall within the range. Those uncertainty ranges are based on a distribution of 500 simulations from CBO's long-term model.)

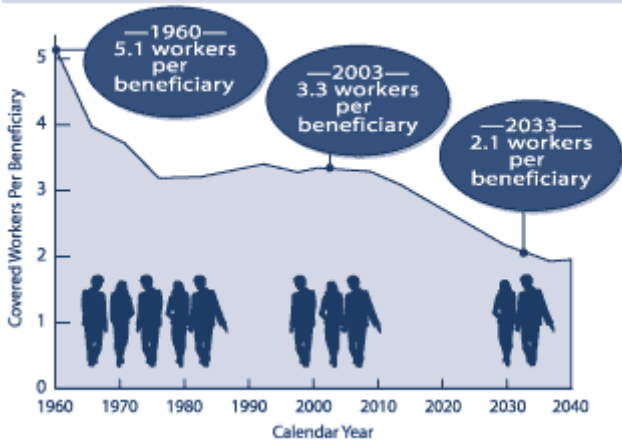
- a. Scheduled benefits and administrative costs.
- b. Payroll taxes and revenues from the taxation of benefits.

**EXHIBIT 2 (NYSSCPA, 2004)**  
**Changes in the Numbers: AICPA Report to Today**

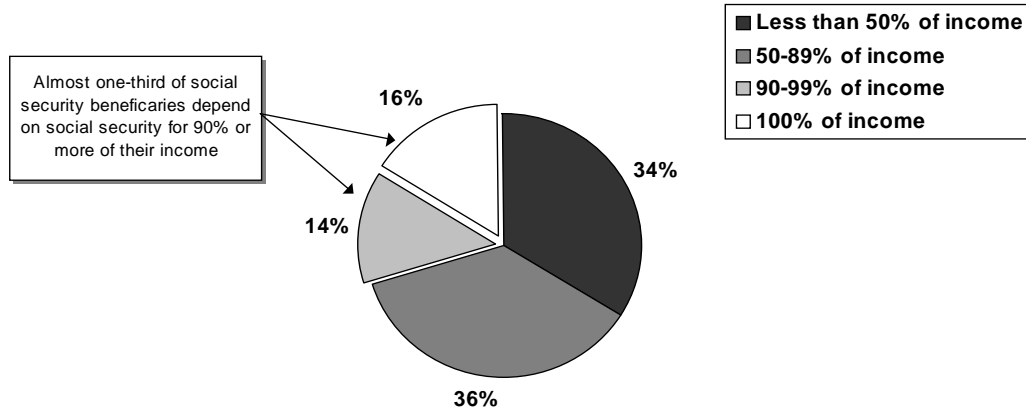
	<b>AICPA 1998</b>	<b>2003-2004</b>
SS Fund Deficit	2012	2018
SS Fund Exhaustion	2032	2042
Life Expectancy From Birth	76.7	77.2 (in 2001)
Children Born per Woman	2	2.07
Elderly Poverty Rate	10.80%	10.20%
Elderly African American Poverty Rate	24.4%	22%
Average Social Security Wage	750	922
Taxable Earnings Ceiling	68,400	87,900

**EXHIBIT 3 (SSA, 2004)**  
**Workers Per Beneficiary**

**WORKERS PER BENEFICIARY DECLINING**

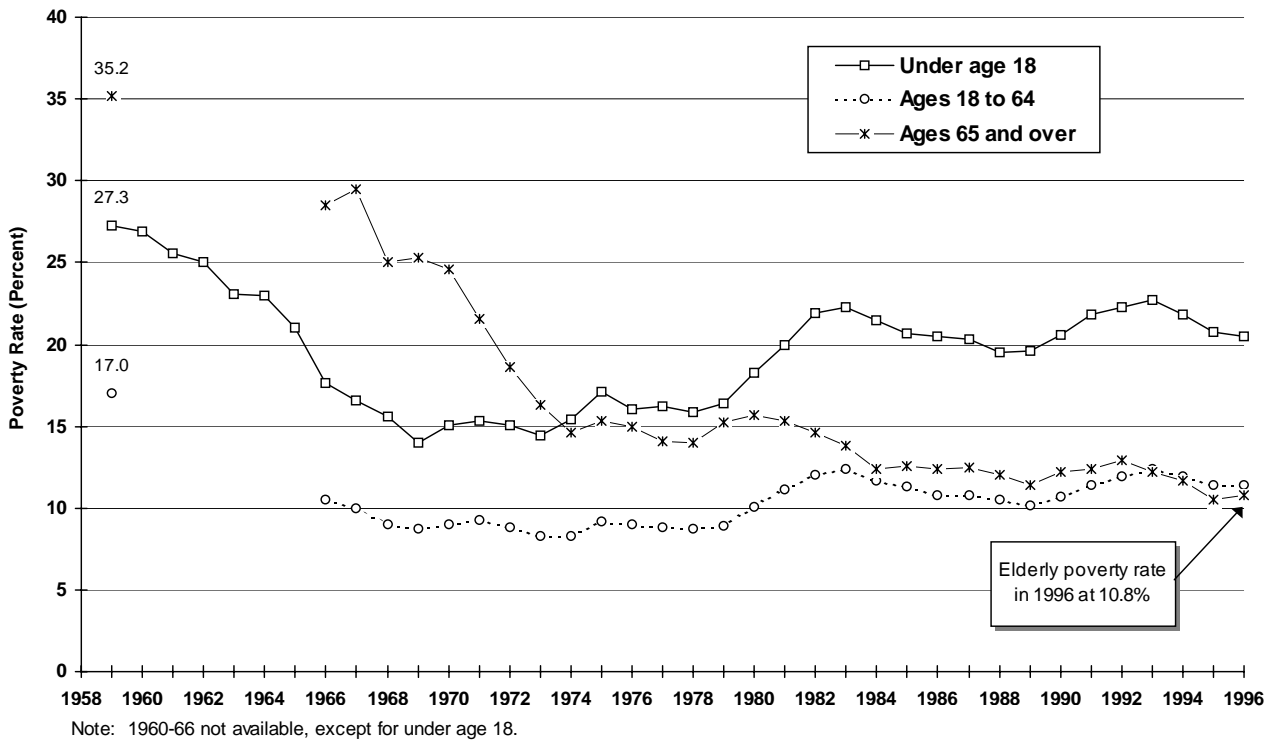


**Exhibit 4 (AICPA, 1998)**  
**Social Security Benefits as a Share of Total Income for Retirees**



Source: Social Security Administration.

**Exhibit 5 (AICPA, 1998)**  
**U.S. Poverty Rates by Major Age Groups, 1959-1996**



Source: Lamison-White, U.S. Department of the Census (1997).

**Exhibit 6 (AICPA, 1998)****Impact of Net Social Security on Wealth, Selected Years****A. Real Rate of Return**

Type of Beneficiary	Year of Retirement				
	1960 (%)	1980 (%)	1995 (%)	2010 (%)	2030 (%)
Single male	10.97	4.24	1.82	1.16	1.00
Single female	12.63	5.54	2.89	2.09	1.90
One-earner couple	14.64	7.66	4.79	3.64	3.37
Two-earner couple	13.00	6.16	3.54	2.52	2.29

**B. Net Social Security Transfers**

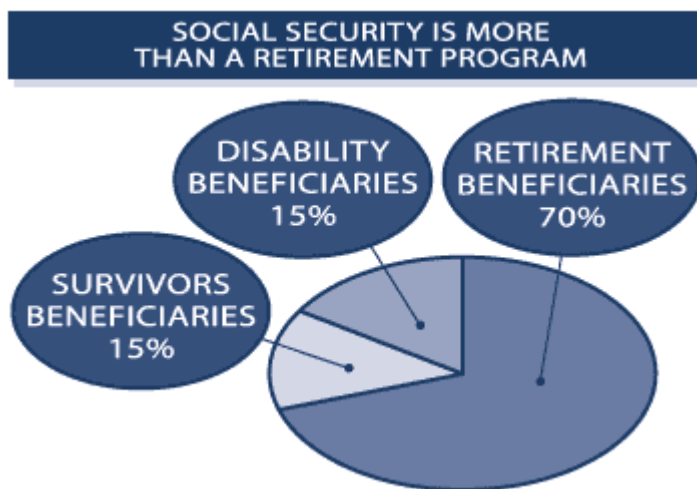
Type of Beneficiary	Year of Retirement				
	1960 (\$000)	1980 (\$000)	1995 (\$000)	2010 (\$000)	2030 (\$000)
Single male	36.5	39.3	-5.1	-36.3	-56.2
Single female	59.4	80.5	28.1	-0.4	-13.8
One-earner couple	89.9	158.9	122.5	107.3	117.0
Two-earner couple	88.7	133.3	78.6	39.8	29.4

Source: Eugene C. Steuerle and Jon M. Bakija, *Retooling Social Security for the 21<sup>st</sup> Century: Right and Wrong Answers to Reform* (Washington, D.C.: The Urban Institute Press), Table

**Exhibit 7 (AICPA, 1998)**  
**Summary Evaluation of Options for Reform**

	<b>Soundness: Improves Condition of Fund?</b>	<b>Money's Worth: Impact on Average Rate of Return?</b>	<b>Poverty: Degree of Redistribution to Low Incomes?</b>	<b>Growth: Probable Impact on Saving?</b>	<b>Growth: Probable Impact on Labor Supply?</b>
<b>I. Reduce benefits</b>					
A. Across the board	Yes	Reduces	Less	More	More
B. Only for high-wage workers	Yes	Reduces	More	More	More
C. Increase retirement age	Yes	Reduces	Depends	More	More
<b>II. Increase revenue</b>					
A. Raise payroll tax rate	Yes	Reduces	Depends	More	Less
B. Raise ceiling on taxable earnings	Yes	Reduces	More	More	Less
<b>III. Improve return on assets</b>					
A. Invest trust fund in equities	Yes	Increases	No effect	No effect	No effect
B. Individual accounts	No effect	Increases	Less	Increases	More

**EXHIBIT 8 (SSA, 2004)**  
**Fund Distribution**



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