ADVOCACY CHATS

EPISODE 3: SOCIAL SECURITY FINANCING

(Susan Prokop - PVA - She/her
00:04
Hello everyone, welcome to PVA's latest advocacy chat. I'm Susan Prokop.
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With PVA's Advocacy Program and I'm delighted to be joined today by Nancy Altman President of Social Security Works and Chair of the Strengthen Social Security Coalition.
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She's going to help us learn a bit about Social Security and how it is financed--how people's benefits are determined, and why it is important for those who benefit from the program to understand this.
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Ms. Altman has developed deep expertise in Social Security and private pensions over several decades as a tax lawyer in private practice,
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Congressional staff to former Senator John Danforth and as faculty at Harvard teaching courses on private pensions and Social Security.
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She authored numerous books about Social Security and served as an assistant to Alan Greenspan in his position as Chairman of the Bipartisan Commission that developed the
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Social Security amendments, the last major overhaul of the system. In 2017, she was appointed to a six year term on the Social Security Advisory Board.
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That's a bipartisan independent federal government agency established in 1994 to advise the President, Congress, and the Commissioner of Social Security.
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So Nancy let's start with just a little bit of background about Social Security when it was created and set up with insurance premiums to fund workers retirement.

Nancy Altman
01:52
Absolutely Social Security was signed into law on August 14, 1935.
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It was part of the Social Security Act of part of the New Deal. The concept behind it, the architects at that time thought of Social Security as synonymous with economic security.
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They understood that most of us-- continuing today--are dependent on wages. We use our salaries or wages to buy food to pay rent or mortgage.
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To clothes, our basic necessities, so that you needed insurance against the loss of those wages, so that you wouldn't be destitute.
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Now you can lose those wages, if you become unemployed and unemployment insurance--we don't think of that today as Social Security--but it was part of that Social Security Act.
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You can also become--and you also can lose your wages--if you become so disabled that you can no longer work--if you die leaving dependence and your family's dependent on your income or if you're fortunate to live to old age and retire. Now that was the first that was set up.
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In 1935 was the old age piece of Social Security and, like any insurance it's paid for with premiums. We call them today FICA for the statute that enacted them--the federal insurance contributions act.
Susan Prokop - PVA - She/her
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So the program was expanded in 1939 and again in 1956 to provide those letters OASDI that we often hear about. Tell us about those expansions.
user avatar
Nancy Altman
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Absolutely, so when President Roosevelt signed Social Security into law, as I said, August 14, 1935.
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He talked about it as a cornerstone in a structure--that it was by no means complete. He understood he talked about the need to start other--he had the grand vision, including universal health insurance and sick pay and all sorts of

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things we don't even have today. He had a very expansive vision of what we all need for economic security.
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But he didn't want to start all at once, this was a huge undertaking, even the old age piece, and he wanted to make sure it was successful.
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So he called it a cornerstone and expected us to expand it and sure enough, as you said, four years later--he was still President 1939--
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It was expanded to include family protection. When it was 1935 that was
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For the worker and for workers themselves--it was added for spouses, for widows, for dependent children, so if someone died
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prematurely--that was 1939. Then of course we had World War II, and so.
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There was not another expansion till 1956--well there were expansions to the number of workers and the level of benefits increased, but there are no new protections added.
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Until 1956 at which point long-term disability insurance was added, and that was the OASDI. Now in 1965, Medicare was added--in 1972, benefits were automatically indexed, so that they wouldn't erode over time, but there have been no new risks that have been added, since the.
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Since the increase in 1939, 1956 and 1965.
Susan Prokop - PVA - She/her
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How does one become eligible for Social Security? Don't you have to work a certain amount of time to qualify?
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And then that begs the question--what happens to people who are injured or a worker who dies at a young age who hasn't had much time in the workforce--can people qualify on someone else's Social Security earnings record.

Nancy Altman
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Excellent set of questions. The Social Security, as I say, it's insurance and, like any insurance, you have to pay premiums and then you have to have an insured event occur, so we there is what is called covered work--that work that gets credit for Social Security purposes and that you earned
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insurance coverage--it's called quarters of coverage. You can earn up to a maximum of four a year and, and you have to have earned enough to qualify. Now to be fully covered for most people who do not become disabled--do not
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die prematurely--live to old age and retire, you need about 40 quarters of coverage--so about 10 years of work in which you're contributing and paying Social Security premiums, obviously, if you
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If you become disabled at age 26-- there's no way you're going to get 40 quarters of coverage and so you have--essentially the number of quarters
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Between the time you were 21 and became disabled or died. But essentially--it makes sense--it's the concept is that you have to be insured
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And so no one gets Social Security without work. The one thing that--but it is a family protection program--ever since 1939--spouses, divorced spouses, dependent children, others have been able to receive benefits on a work record, so that a
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woman who works or a spouse who works at home.
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taking care of the family can get a spousal benefit on the the workers record. They say children who are at a young age when a worker dies can get
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dependent children--there is actually something called disabled adult children that sounds like an oxymoron adult children, but what it is, is children
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who become disabled at a young age, and so really are unable to earn their own Social Security, because they were unable to work and earn that living and they can continue to get money.

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They get their benefit based on a parent's earnings record. The concept makes a lot of sense, which is that all of us are standing in the place of the parent or the workers.
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Parents want to take care of their children and generally do take care of their children, but if they died and not there to take care of them anymore.
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And, of course, if you have a child that becomes disabled you want to make sure that child is provided for their entire lives and that's what Social Security does.
user avatar
Susan Prokop - PVA - She/her
09:07
Okay well there's a lot to be said there.
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Can you explain how benefits are calculated? I believe you've often said that you think the way they crafted this is rather ingenious--so elaborate.
user avatar
Nancy Altman
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Absolutely, again, the idea is that this is replacing your pay. The idea of Social Security is to replace your wages, so you can maintain your standard of living, so that if you
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become.
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permanently
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disabled and no longer can work, you know you don't have to become destitute on the street, that you have your wages replaced, so in the formula, Social Security replaces a percentage of your
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work and wages. Of course people who are low income have less discretionary income--they have larger expenses, they need more of
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Their wages, so the higher your wages, the more you contribute to Social Security, the higher your dollar benefit.
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But the lower income you are--in recognition that people of lower income

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use more of their discretionary income for necessities--have a larger percentage, so none of the benefits--I think, are high enough but--for example, a middle-income worker may be earning about $50,000.
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would have about 40% of wages replaced. Someone who earned about half that amount might have 50% replaced and someone earning
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twice that might have more than 20% --those percentages aren't exactly right, but the concept is the same --that it's a graduated percentage-- so again
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The income is essentially a final earnings but it's done with this
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career average index--so you're getting a replacement of your wages --it's a percentage. The higher the dollar amount that you earned and contributed--the higher dollar amount of your benefit, but the lower your lifetime wages, the higher percentage.
user avatar
Susan Prokop - PVA - She/her
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Okay, maybe, let me just tease that out a little bit more so, in other words it's kind of a progressive formula to ensure that those
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On the lower end of the earnings scale get a larger replacement in benefits, whereas those who have earned a lot of money over the course of time--they get a percentage replacement as well, but they've also been able to save and.
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accumulate resources beyond
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Their earning capacity.
user avatar
Nancy Altman
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Exactly, and again I probably should have worked out some actual examples
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In anticipation, but to give you a rough sense, and this is very rough because I did not calculate it--but let's just assume--and these numbers aren't going to be right-- but it can be the idea that if you

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earn $20,000 you get 10 thousand in replacement--that's half
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Your money replaced. If you earn $30,000 and you get--
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And you might get
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$14,000--so it's not half but it's more than you got a at 20,000. So, in other words, the dollar amount is
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the higher the higher your
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earnings, the more you get but, if you're lower income, you get a larger benefit in proportion to what you got before
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What experts call replacement rate but it's the idea of you had a certain salary, you get a certain percentage of that.
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And that the percentage is a little bit higher if you're lower income, so it is considered progressive or weighted in that sense. Again, this may confuse people and not be helpful, but
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I sometimes think of it as the reverse of a graduated income tax, you know it's a marginal rate, the higher--the more you earn--the higher the taxes you pay--it's supposed to work that way
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Because it's graduating--it's a complicated concept--but the idea behind it is to both be fair to everyone
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And to provide benefits that are meaningful and really will help people. So it's balancing those interests--we don't want to get into the details of it--but the concept of it is to try to both be fair and adequate.
Susan Prokop - PVA - She/her
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Well, how much does Social Security pay out each year overall in benefits? Then, how are these benefits paid for? And does Social Security have more revenue coming in other than premiums?

1Nancy Altman
14:45
Yes, Social Security now is a huge program so that
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Two thirds of seniors receive half or more--two thirds of retirees receive half or more of their income from Social Security--one out of three received virtually all of their income
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That's true for people with disabilities. That's true for people who have life insurance. Social Security generally provides larger benefits so it's a very--the benefits themselves are modest--but together
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They're a huge amount.
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Social Security takes in and spends about a trillion dollars a year. It is what's called current funded, which is the monies that are its revenue for the most part matches the amount that goes in. It's not what something private pensions called advanced funded.
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Most of its revenue comes from the premiums, we pay--Federal Insurance Contributions Act--the 6.2% on wages up to a maximum and that
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Is match dollar for dollar by employers. So these are premiums paid half by employers and half by the workers.
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In addition, though, from the beginning, when the money came in, it wasn't stuck under a mattress when there was surplus--when there was more
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Income coming in, then outgoing-- and, of course, in the early years, that was true and in the last decades that's been true because
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We had the baby boom while working and the depression era babies and World War II was a low birth rate period, so we had more money coming in. And what was done with that money was it was invested and so there's investment income. Congress, because this is the workers, pension,
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Has always required that the money be invested as safely and conservatively as possible, so it's invested in treasury bonds, backed by the full faith and credit of the United States.

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But it pays the same--it's the equivalent to the bonds you can buy on the market and they pay equivalent levels of interest. So the second--so there's premiums as the substantial part of the revenue, there is an
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investment income when there are surpluses and currently Social Security has an accumulated reserve of $2.9 trillion. So that's quite a bit of cash coming into the way of investment income and, in addition, a third one that was put in place in 1983 was.
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That some benefits are subject to federal income tax. And generally money we pay for income tax goes to the general fund to be spent on defense or environment or whatever --roads or whatever--it is what Congress decides to spend the money on.
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But in the case of these particular dedicated revenues, it goes back into Social Security--so about 3% of Social Security's revenue comes from this taxation of benefits.
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All together it's balanced. It's got a $2.9 trillion surplus and it spends and contributes--it brings in and pays out about a trillion dollars a year.
user avatar
Susan Prokop - PVA - She/her
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And those funds are deposited in the Old Age Survivors and Disability Insurance Trust Fund.
user avatar
Nancy Altman
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Correct--there are two trust funds--Old Age Survivor's Insurance is one--Disability Insurance is another and actually
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The experts, as you say, tend to talk about it as OASDI as if it were one Trust Fund, and I think it would make sense for there to be one trust fund but
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Technically, it is the OASI and the DI and they're very conservatively managed. Unlike the federal government that
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Can borrow money in deficit--normally does deficit spend--Social Security can only pay benefits if it's got sufficient income to cover every penny of cost and that's true for the Old Age Survivors Insurance piece of the disability piece.

Susan Prokop - PVA - She/her
19:08
Well, what is this
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conventional wisdom or rumors or the truth behind claims that Social Security is going broke. What exactly is going to occur in 2034 and why is there a need for action now to shore up these trust funds and improve benefits?
user avatar
Nancy Altman
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Now I'm so glad you asked that because
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there's nothing--Social Security cannot go broke. There, the reason there is this conventional wisdom or rumors, as you say, is there has literally been a campaign.
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Of those who hate government to undermine confidence in our Social Security and to lead people to think that--oh my gosh--you know, we're going to pay and pay. I joke, you know I started.
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Working on Social Security in the 1970s, as a young
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Graduate of law school and was hearing at the time I was not going to see a penny of benefits. I was going to pay and pay and these greedy geezers, they were going to take all my money.
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Now I'm Social Security age, and now I guess I'm the greedy geezer, and all the young people are the ones hearing it's going broke and it won't be here.
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The reality is that Social Security is extremely prudently and conservatively financed. As they say, it cannot pay benefits
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Until it can cover not only every penny of cost of benefit, but all the associated administrative costs. To make sure that there is always enough income to pay benefits Congress requires, as we mentioned there's a--
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Social Security--

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Money goes into a trust and, like any other trust, there are trustees--there's a board of trustees--the trustees are required by law to issue a report to Congress every year.
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Looking at Social Security's income and outgo, not just for five years and 10 years, which is normal for budgets--not just 20 years, which is normal for
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Private pensions and what Germany uses for its Social Security--not 50 years, which is what
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The OECD--I think they require 45 years--but for three quarters of a century--75 years.
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Now, whenever you project out that far you're sometimes going to show unintended surpluses sometimes unexpected shortfalls and the trustees have been reporting
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An unexpected shortfall to take place around 2034. There's plenty of time for Congress to act, and the reason the trustees--
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The reason Congress requires these very long projections is so that it does have time to act. There are a number of bills that have been introduced in Congress to both expand benefits and restore Social Security to long range--
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Long range balance so that it can always pay benefits. The point is that there's no way Congress has ever in the past or ever will in the future
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Let benefits not be paid. If Congress did nothing, it could still--there would still be enough revenue coming in every pay period for Social Security to cover about three quarters
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Of every penny of benefits and administrative costs, but that, of course, is not good enough. We've contributed
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We're eligible for--we've earned 100% of our benefits and Congress-- I'm quite confident--will act before 2034 to make sure that there's no discontinuity--that benefits will continue to be paid as scheduled, and promised.
Susan Prokop - PVA - She/her
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So there are some and, as you alluded to, there are some proposals out there for not only shoring up the trust funds but also improving the benefit side of the system. Do you want to mention a few of those--briefly?

Nancy Altman
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Absolutely.
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One important point is that our current President Joe Biden ran on a platform of protecting and expanding Social Security. He
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Has a number of benefits [proposed] --a minimum benefit to make sure that people do not retire into poverty, a better cost of living adjustment
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To make sure that benefits don't erode over time and others--and has some revenue proposals to make sure the benefits can continue to be paid. It's not fully fleshed out but it's the outlines of a proposal--it's very similar to a leading proposal
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That's been introduced by the chairman of the Social Security Subcommittee--so it's the House Ways and Means Committee--so that's a very important one
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Because it's an important person who has introduced it--the Chairman of the Subcommittee. It's called the Social Security 2100 Act which he named because it ensures that benefits can be paid
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Up to and through the year 2100--all through the entire rest of the century and beyond. It has an across the board benefit increase. It also has a special minimum. It also has a better
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Cost of living adjustment--more accurate cost of living adjustment. He does combine the two trust funds, which I think makes a lot of sense, and he has two major pay-fors--the first one is--he requires the very wealthiest who don't pay on their highest in earnings
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To continue to pay at the same rate that everyone else pays. Most people don't realize this, because 96% or 94% of workers
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Pay every pay period 6.2% contribution to Social Security, all year long. But they don't realize if your Bill Gates you may stop paying
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On January 1 because it's earnings up to--I believe it's around $140,000--it goes up every year--so that once you hit that level you don't pay more.

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What President Biden would like to do and what Chairman Larson has proposed is that everyone should pay this all year long and
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At the same rate as everyone else. He also increases the rate very gradually and very slowly. As he often says, the rate hasn't been increased since 1990 and
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Has had any of your other insurance--have the rates stayed the same, since 1990? And, of course, you know our car insurance, our fire insurance
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Or health insurance certainly does go up every year, so he does those sorts of things. The point is that this is, you know--it's those who want to undermine confidence
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Make it--oh it's a crisis--it's going broke--we can't afford it. The reality is that we not only can afford it, we really should be increasing
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The benefits, because we are facing a retirement income crisis where too many workers do not have private sector insurance, do not have savings and are
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Not going to be able to retire and maintain their standards living just on Social Security. So the Democrats are saying and I'm hoping the Republicans will come around, but at this point, the Democratic Party is clearly on record for expanding not cutting Social Security.
Susan Prokop - PVA - She/her
26:58
Well, I think that I think there's some ongoing--PVA is waiting for reintroduction of some type of Social Security 2100 Act which we've
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Endorsed in the past and we understand there are negotiations going on to try to
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Figure out the parameters between Congress and the White House. So we're waiting with baited breath for that introduction and we'll look for more educational opportunities in light of that, when that happens.
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You've provided an incredible amount of information today--very informative. Is there anything we may have left unaddressed that is important for our listeners to remember.

Nancy Altman
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I think the main thing--as the name suggests--Social Security is to provide a sense of security, not just the cash benefits, but the intangible benefit of peace of mind of security.
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And there has been so much fear mongering and misinformation--I think it's important for everyone to realize that Social Security is going to be there, and in fact I'm confident that, just as
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President Roosevelt said when he signed it into law, that it's a cornerstone, which we should continue to build and I'm confident
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The Congress will not only make sure that benefits will continue to be paid, but will expand them. These are benefits we have all earned--we're all in it together--we've all contributed.
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This is insurance, and we should claim our benefits with pride, having earned them and really urge Congress to do the right thing and expand them.
user avatar
Susan Prokop - PVA - She/her
28:44
Great okay well if.
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If someone wants to learn more about Social Security Works and its efforts to educate Americans about Social Security and the push to improve and strengthen the system where should they go?
Nancy Altman
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We have a website called social security works.org and we love the name, because Social Security works, so, if you remember, social security works.org.
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If you want, we've got lots of information online--lots of fact sheets. If you want, you can sign up and we will
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Send you emails that are telling you what's going on in Congress--new bills that have been introduced, if there are any threats to the program and so forth, so
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I urge people to go to that website social security works.org as well as PVA's website, which also has lots of important information.

Susan Prokop - PVA - She/her
29:42
Well, I want to thank you
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Nancy, again, for joining us today. I have to share with you and our listeners there was a
29:53
Folk singer named Joe Glaser many years ago, who wrote a song about Social Security and I won't sing it, but the refrain was
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About the first recipient of Social Security, back in the 1930s. Her name was Ida Mae and he sang "Ida Mae, Ida Mae--she got her pension check today. She did a little dance. She yelled Whoopee--God bless Social Security.
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So I will leave our listeners with that and again our gratitude to you for spending this time with us to go over these very important details about an important program and look forward to hearing more from Social Security Works, thank you.
user avatar
Nancy Altman
30:38
Thank you so much, thank you for all you at PVA do.