WAAN Advocacy
Wisconsin Aging | Advocacy | Network

Social Security/ Retirement Security

Securing a financially-sound retirement for older adults today and for future generations

Core Member Organizations

- Aging and Disability Professionals Association of Wisconsin *(ADPAW)*
- Alzheimer's Association SE Wisconsin Chapter
- Wisconsin Adult Day Services Association *(WADSA)*
- Wisconsin Association of Area Agencies on Aging *(W4A)*
- Wisconsin Association of Benefit Specialists *(WABS)*
- Wisconsin Association of Nutrition Directors *(WAND)*
- Wisconsin Association of Senior Centers *(WASC)*
- Wisconsin Institute for Healthy Aging *(WIHA)*

The Wisconsin Aging Advocacy Network is a collaborative group of individuals and associations working with and for Wisconsin's older adults to shape public policy to improve their quality of life.

WAAN Federal Issue Brief
November 2016

WAAN's Position: Strengthen and support financial security in retirement by preserving and strengthening Social Security, protecting existing pension plans and expanding access to pension coverage, and improving the effectiveness of retirement planning services and protections.

Americans Face Numerous Challenges to Achieving Financial Security in Retirement

Financial security in retirement is vitally important for older Americans because it provides essential peace of mind. Providing financial security for older adults has traditionally been a shared responsibility—the three-legged stool of Social Security, employer-sponsored pensions, and individual savings or investments. That three-legged stool has become increasingly unstable.

Challenges to the Stability of the Three-Legged Stool

Social Security

For 80 years Social Security has helped many older adults live independently with dignity and kept them from falling into poverty. Among older adult beneficiaries, nearly half of married couples and almost three-fourths of unmarried persons receive at least half of their total income from Social Security.[1] Challenges to the long-term stability of Social Security include:

- **The depletion of trust fund** reserves: The 2016 Trustees Report (intermediate assumptions) projected old age, survivor, and disability insurance (OASDI) cost will exceed total income by increasing amounts starting in 2020—resulting in the dollar level of the **combined** trust fund reserves to decline until reserves become depleted in 2034. After trust fund reserve depletion, **continuing income is sufficient to support expenditures at a level of 79 percent of program cost for the rest of 2034, declining to 74 percent for 2090.** (Note: Under current law, the differences between scheduled and payable benefits would begin at different times for disability insurance program [2023] and old age, survivor insurance program [2025]).[2]

- The privatization of Social Security, which proposes taking payroll tax money now going into the Social Security trust funds and investing it in private investment accounts. That action subjects these safety net funds to the ups and downs of the market and goes against the program's main objective: provide a financial safety net for Americans in their retirement—as well as for those with disabilities who are unable to work.
- Privatization poses additional risks when individuals—many of whom lack the necessary financial literacy, including an understanding of fundamental investment concepts—are required to manage these funds.[3]
- Other efforts to *reform* Social Security to address funding shortfalls by cutting benefits or raising the retirement age which would affect all workers—including those who have not seen improvements in life expectancy (a number of studies have documented improvements in life expectancy are concentrated among people with higher levels of income and education—especially men).[4]

Employer-Sponsored Pensions

Nationwide, many retirees and near-retirees are seeing pension plans reduced or canceled as businesses eliminate pension plans or switch to 401(K) savings plans. Only about one-half of all U.S. private-sector workers participate in a retirement plan—despite tax incentives.[5]

Longer lives increase the risk individuals might outlive their assets.

Individual Savings and Investments

The Great Recession negatively impacted the personal savings and investments of all age groups; however, older adults—especially those nearing retirement—are less likely to have sufficient time to fully recover from that impact. The recession forced many older workers into early retirement or pushed workers into part-time and/or lower wage positions with fewer benefits. Rapid drops in financial markets and home equity required older adults to draw down their personal savings to meet daily living expenses.[6] That unplanned use of personal savings can eliminate the cushion needed for unexpected expenses—which in turn can plunge seniors into unmanageable debt—particularly for those experiencing poor health or economic insecurity.

While increased life expectancy is one of society's greatest achievements, longer lives also increase the risk individuals might outlive their assets.

Challenges for Individual Older Adults

All of this places a much greater responsibility on the individual for managing their retirement financial security and understanding key factors affecting their retirement income. Determining these key factors and calculating an appropriate income "replacement rate" can be complex and difficult.

(Replacement rate equals the percentage of pre-retirement income needed to maintain the desired standard of living.)

What Are the Next Steps?

Social Security

Congress must take action to preserve and enhance Social Security. Social Security does need some adjustments to address long-term solvency, but **the system is not broken**. In 2013 the National Academy of Social Insurance released their study report "Strengthening Social Security: What Do Americans Want?" This report concluded the majority of Americans support a package of changes containing four options that would **reduce the long-term funding gap and strengthen the program** for future generations. Using a "trade-off analysis," they conducted a survey of customers in October 2012 to learn which combinations of policy options consumers prefer and are willing to pay for. The results—which were supported by 71% of the respondents—include the following four options:

1. Gradually over 10 years, eliminate the cap on earnings that are taxed for Social Security (this would mean the 5% of workers who earn more than the cap would pay into Social Security throughout the year as other workers do and would receive somewhat higher benefits). This would decrease the long-term (75 years) financing gap by 74%.

2. Gradually over 20 years, raise the Social Security tax rate on employees and employers from 6.2% of earnings to 7.2%. This change would decrease the financing gap by 62%.

3. Raise Social Security's basic minimum benefit so someone who paid into Social Security for 30 years can retire at age 62 or over and not have income below the poverty line. This would increase the financing gap by 9%.

4. Increase Social Security's cost-of-living adjustment (COLA) to more accurately reflect the higher level of inflation experienced by older people. This would increase the financing gap by 14%.

The Social Security system is not broken or going broke.

These four changes to Social Security would result in a net decrease in the financing gap of 115%, meaning Social Security would be more than able to pay full benefits for the next 75 years.[7] **We urge Congress to give serious consideration to implementing these four options.**

Pensions

Take steps to raise rates of retirement saving throughout the economy and ensure that worker pensions are fully-funded and they can count on what was promised. Consider how to best encourage expanded pension coverage, adequate and secure pension benefits, and more effective use of tax preferences and initiatives such as automatic enrollment and automatic IRAs.

At the federal level, legislation like the Retirement Security Act of 2015 introduced by Rep. Buchanan (R-FL) would provide wider access to pension plans and provide tax incentives for employers. Most states have not taken action due to lack of clarity regarding the Employee Retirement Income

Security Act of 1974. In November of 2015 however, the Department of Labor issued a statement clarifying how States can move ahead and enroll employees and employers.

Continue to address this issue at the federal and state levels and examine how Wisconsin can provide better pension coverage for its citizens.

Provide wider access to pension plans and provide tax incentives for employers.

Personal Savings and Investments

Improve the effectiveness of retirement planning services and protections provided to older individuals:

- Implement the Government Accountability Office (GAO) recommendations regarding the Department of Labor's Employee Benefit Security Administration's (EBSA) Website providing information and tools for retirement planning. The GAO found the Website too limited to assist most workers. They recommended that the Department of Labor (DOL) provide additional examples and guidance on how to use "replacement rates" for estimating retirement needs and modify the tools so rates can be adjusted. The EBSA Website needs to be modified to better assist retirees in determining their retirement needs.
- Through the DOL, identify strategies to address the unique needs of older job seekers in light of economic and technological changes. Enhance services provided to older workers with an update to DOL's "Protocol for Serving Older Workers" and take steps to widely disseminate the information.

[1] 2016 Social Security Fact Sheet, https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf, Social Security Administration.

[2] The 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, https://www.ssa.gov/OACT/TR/2016/tr2016.pdf, The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, June 2016.

[3] Social Security Privatization and Women, http://www.aauw.org/files/2013/02/position-on-social-security-privatization-112.pdf, American Association of University Women (AAUW) Public Policy and Government Relations Department, October 2011.

[4] Social Security and the Federal Deficit: Not cause and effect, http://www.epi.org/publication/social_security_and_the_federal_deficit/, Economic Policy Institute, August 2010.

[5] http://www.pewtrusts.org/en/research-and-analysis/reports/2016/01/a-look-at-access-to-employer-based-retirement-plans-and-participation-in-the-states.

[6] The Recession's Impact on Baby Boom Retirement, http://money.usnews.com/money/retirement/articles/2011/10/31/the-recessions-impact-on-baby-boomer-retirement, U.S. News & World Report, October 31, 2011.

[7] https://www.nasi.org/research/2014/report-americans-make-hard-choices-social-security-survey-tr.

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