

# Commentary

THE BUFFIN FOUNDATION

SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

## The Case for Expanding Social Security

The March 2011 edition of *Commentary* described the inadequacies of the system of providing retirement income in the United States. The current arrangements for the provision of retirement income in the United States are not expected to be adequate for today's working population. Significant increases in financial resources will be necessary if reasonable standards of living are to be maintained after retirement. The main sources of retirement income are: Social Security; employer-sponsored defined benefit plans; employer-sponsored defined contribution 401(k) plans; Individual Retirement Accounts; and personal savings and investments. Many individuals do not plan ahead to ensure adequate levels of retirement income. Some workers are not covered by an employer-sponsored retirement plan. Longevity, inflation, and investment risks all impact retirement income. Social Security provides a foundation for retirement income; it protects beneficiaries against these types of risk. There has been a significant decrease in the number of defined benefit plans in recent years as employers terminate or freeze plans and switch to defined contribution arrangements. Employer-sponsored defined contribution plans transfer all longevity, inflation and investment risks to individual participants. Individual Retirement Accounts have certain tax advantages, but do not protect against these risks. The adequacy of funding arrangements for defined benefit plans has become controversial as employers seek to reduce their financial obligations for maintaining expected benefits; plans have been terminated with inadequate assets resulting in the transfer of unfunded obligations to the Pension Benefit Guaranty Corporation (PBGC); this often leads to reductions in participants' expected benefits due to limits imposed by PBGC regulations. Pension fund governance and investment management practices need to be improved; financial turmoil and equity market declines have created significant risks for pension funds. The major

issues to be addressed are: adequacy and shortfalls in existing arrangements; financial resources required to provide adequate old-age income security; affordability of adequate retirement income relative to other national priorities; roles of government, employers, and individuals; viability of employer-financed retirement plans; tax treatment of various retirement income sources; rationalization of tax policy; regulatory framework for pension arrangements; strengthening the funding of defined benefit plans; reducing the potential exposure of the PBGC for under-funded pension obligations; expansion of the Social Security system to offset the decline in employer-sponsored defined benefit pension plans; protecting solvency and sustainability of Social Security; and the government's responsibility for the ongoing timely payment of principal and interest on its holdings of special-issue Treasury bonds that are held in the Social Security Trust Fund. There are many important challenges in developing a rational, affordable and integrated national retirement income policy. These critical issues require attention from a broad social and economic perspective.

The August 2014 edition of *Commentary* discussed a specific set of recommendations for expanding Social Security based on the proposed Social Security Act 2100 as presented by Congressman Larson. These included: (i) invest up to 25 percent of the trust fund reserves in equities; (ii) increase the combined OASDI payroll tax rate to 14.4 percent; (iii) apply the combined payroll tax rate on earnings above \$400,000; (iv) increase the threshold for taxation of benefits to \$50,000 for single filers and \$100,000 for joint filers; (v) use the Consumer Price Index for the Elderly (CPI-E) to calculate cost-of-living adjustments; (vi) increase the first primary insurance formula factor amount (PIA) to 93%; (vii) increase the special minimum PIA.

Another powerful reason for expanding Social Security is the failure of defined contribution plans. A comprehensive study

was undertaken in 2016 by the Economic Policy Institute with the title *The State of American Retirement: How 401(k)s have failed most American Workers*. The major findings of this study paint a picture of increasingly inadequate savings and retirement income for successive generations of Americans and growing disparities by income, race, ethnicity, education, and marital status. Women remain much more vulnerable in retirement due to lower lifetime earnings and longer life expectancies. Decades after the number of active participants in 401(k) plans edged out those in traditional pensions, they are not delivering substantial income in retirement, and that income is not equally distributed. Retirement security has also been affected by broader income and wealth trends, including growing earnings inequality and the effects of the stock and housing markets collapse and by trends in out-of-pocket medical costs. As the value of employer-based retirement plans has declined and retirement savings are growing more unequal, retirement security is declining and becoming more unequal. The shift from pensions to savings accounts plans has been ineffective for lower-income, black, Hispanic, non-college-educated, and single workers, who together are a majority of the American population. Even among upper-income white college-educated married couples, many do not have adequate retirement savings. The evidence presented in the EPI report that the retirement system does not work for most workers underscores the importance of preserving and expanding Social Security.

### The Buffin Foundation

2200 Pennsylvania Avenue, N.W.  
4th Floor East  
Washington, DC 20037-1701

Email: [info@buffinfoundation.org](mailto:info@buffinfoundation.org)  
[www.buffinfoundation.org](http://www.buffinfoundation.org)

