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Testimony before the Senate Finance Committee
Hearing on the Final Report Produced by
The President's Commission to Strengthen Social Security
October 3, 2002

Mr. Chairman and members of the Committee, thank you for inviting me to offer testimony regarding the reform proposals of the President's Commission to Strengthen Social Security.

My name is Andrew Biggs, and I am a Social Security analyst at the Cato Institute. During 2001 I was a staff member to the President's Commission and worked with the Commission members and other staff on reports and proposals in question. While I am broadly supportive of the Commission's goals and proposals, I should add that the opinions expressed today are my own.

Details of the Commission's reform models can be found in its final report, as well as in a shorter analysis I conducted for the Cato Institute and a recent working paper for the National Bureau of Economic Research by two Commission members.[1]

The Commission was appointed with a mandate to "provide bipartisan recommendations to the President for modernizing and restoring fiscal soundness to the Social Security System,"[2] with provisos that modernization should: protect retirees and near-retirees from changes to their benefits; dedicate the entire Social Security surplus to Social Security; not increase payroll taxes or allow the government to invest Social Security funds in the stock market; preserve Social Security's disability and survivors' components; and include voluntary personal retirement accounts to augment the Social Security safety net.

My testimony today will focus on Commission Model 2, which has been the subject of the greatest debate in the public sphere. The Commissioners' first step with

Model 2 was to determine the rate of benefit growth the current program could afford to pay each cohort of future retirees without raising taxes, regardless of whether personal accounts were introduced. This affordable rate of benefit growth turned out to be slightly above the rate of inflation. The Commission instituted this affordable benefit growth rate by replacing the current program's formula of "wage indexing" with a formula of "price indexing." (See below for further comment.) The excess affordable benefit growth was targeted toward improving the safety net and poverty protections for low-wage workers and widows. *Under Commission Model 2, however, all workers and retirees aged 55 and older would be exempt from any changes to their Social Security benefits.*

Having established a benefit formula that would bring Social Security back to long-term solvency without tax increases, the Commission introduced personal retirement accounts. Accounts could help make up for the reduction in traditional benefit growth through their higher-returning investments; give workers a true property right to their benefits, which they lack under current law; more effectively prefund future benefits than the current trust fund financing mechanism; and aid groups disadvantaged by aspects of the current program, such as African Americans, divorced women, and single workers and dual-earner couples.

Commission Model 2 would improve the long-term unified budget cash flow by over $16 trillion (in $2001), equivalent to a lump sum today of $2.2 trillion. Thus Model 2 provides increased budgetary flexibility to address national security, health care, and the many other issues sure to face the government over the next 75 years.

The remainder of my testimony will concentrate on several important objections to the Commission's proposals made in a recent study co-authored by Peter Orszag of the Brookings Institution and Peter Diamond of the Massachusetts Institute of Technology.[3] This focus is testament to the authors' reputations as economists and the influence the study has had on the public debate over Social Security since it was released in June. Nevertheless, I am concerned that their study does not tell the full story, and by itself could give a false impression regarding the challenges we face over Social Security and the role the Commission's proposals could play in addressing those challenges.

In my testimony, I will make several references to recommendations from the Consultant Panel on Social Security, which was appointed in April 1975 at the request of the Senate Finance Committee to recommend revisions to Social Security's financing structure. Professor Diamond served on the Consultant Panel, and in several significant ways the Panel's recommendations mirror those of the President's Commission.[4]

Benefit Cuts

I first wish to address charges of "benefit cuts" in the Commission proposals. Consider the following passage from a press release summarizing the findings of the Diamond-Orszag study:

> The proposals that President Bush's Social Security Commission issued in December would substantially reduce benefits for future retirees and the disabled while requiring multi-trillion dollar transfers from the rest of the budget to finance private retirement accounts.

The press release goes on to state that, "Benefits would be reduced 41 percent for those born in 2001 who retire at age 65 in 2066."[5]

These charges are initially compelling. After all, if a Social Security proposal both pays less and costs more than the current program, what is the point of making the change? This is the question that many opponents of personal accounts would like the public to ask itself, particularly in this year in which Social Security reform is a highly-charged election issue.

Winston Churchill was reputedly once asked the question, "How is your wife?" The former British Prime Minister reportedly answered with a second question: "Compared to what?"

It is not recorded precisely how the Prime Minister's wife reacted to this comment, yet these charges of benefit cuts and large general revenue transfers must be subjected to the same counter-question put forward by Mr. Churchill: "Compared to what?" The answer, I submit, is <u>not</u> compared to the present Social Security program.

The following arguments may seem excessively technical and arcane. Yet they have a direct impact on the Social Security debate taking place not only here in Congress, but outside the beltway as well.

For example, last week the head of the North Carolina Democratic Party wrote that under the Commission's proposals, "the guaranteed monthly benefits for the average retiree would fall by 46 percent, or $374, from $814 to $440 per month."[6] This statement, which is wholly and unequivocally false, is based on a misunderstanding of the arguments presented in the Diamond-Orszag paper.

It is unlikely that the Democratic Party chair intended to make such a blatant misstatement, and I am sure that Peter Orszag and Professor Diamond do not intend for such errors to be made. But unless participants in the debate clearly understand the distinctions I am going to make, an informed and accurate debate regarding the choices facing us on Social Security will be difficult to achieve.

The essential problem with Diamond and Orszag's charges of "benefit cuts" is that, simply put, they mis-define "benefits" and mis-define "cuts." Benefits paid by personal accounts are not counted as true benefits, while cuts are measured versus what the current system *promises*, not what it can and would pay under current law.

The following charts illustrate.

Chart 1 compares the annual retirement benefits promised to a low-wage worker[7] by the current program (solid line) to the traditional benefit paid by the government under the Commission's Model 2 (dashed line). While the Commission proposal would pay higher traditional benefits in the short term, beginning in 2031 the current program promises a significantly higher government-paid benefit. This is the basis of charges of large "benefit cuts" that you have heard repeated so often. By 2075, the "cut" for a low-wage worker reaches 35 percent, for an average-wage worker 46 percent.

The comparison in Chart 1 is less than fully informative, though, because it compares the Commission proposal to the benefits Social Security *promises*, not what Social Security would actually *pay*.[8] By law, when the trust fund runs out in 2041, benefits would be reduced to the level that payroll tax revenues alone could pay. This will amount to an across-the-board benefit cut of 25 percent or more.

In testimony to the House Budget Committee the day following the release of the Diamond-Orszag study, GAO director David Walker made pointed reference to this issue:

> There's a lot of people that want to compare Social Security reform proposals just to promised benefits. That is fundamentally flawed and unfair because all of promised benefits are not funded. There is a huge shortfall between what's been promised and what's been funded, and you've got to figure out how you're going to close that shortfall. So, any analyses, including the [Diamond-Orszag] one released yesterday, that compare the benefit cuts based upon promised benefits solely rather than funded and promised, is unfair, unbalanced, in my opinion inappropriate.[9]

Former Senators Bob Kerrey (D-NE) and Warren Rudman (R-NH) went as far as to characterize such comparisons as a "shell game," writing recently that while

> It is certainly fair to criticize reform plans on policy grounds. But it is fundamentally unfair to judge them against a standard that assumes the current system can deliver everything it promises. It can't. Today's Social Security system promises far more in future benefits than it can possibly deliver. The relevant comparison for any reform plan is with what current law can deliver, not what it promises.[10]

Likewise, the Congressional Research Service writes that

> Comparing a proposal's projected benefits to those resulting from the rules of current law can be misleading, since the full amount of benefits promised under current law would not be payable under the trustees' projections. For example, a proposal that is shown to result in benefits that are 10 percent or 20 percent lower than under current law may at first glance appear politically unattractive, but may appear less so if compared to the 27 percent reduction in benefits that would have to occur … if policymakers were to take no action.[11]

These points are important to remember throughout the debate.

Correcting for this problem, <u>Chart 2 compares the traditional benefits paid by the government under Model 2 to the benefits the current program can actually pay</u>.[12] In most years the Commission's Model 2 would pay a low-wage retiree a higher traditional benefit than the current program can afford to pay.

But even this comparison does not tell the whole story. Chart 2 assumes that the worker holds a personal account. Such a worker would accept a traditional benefit up to 24 percent lower than a worker without an account. Yet Chart 2 does not include the benefits paid by the account.[13]

<u>Chart 3 compares the total retirement benefits a low-wage worker could expect under Commission Model 2 to those the current program could afford to pay</u>.[14] In almost all cases Commission Model 2 would pay a low-wage account holder

substantially higher expected benefits than the current program can afford to pay. A low-wage worker retiring in 2052, for instance, can expect total retirement benefits 47 percent higher than Social Security can afford to pay.

However, some would call this an unfair comparison, arguing that Commission Model 2 receives general revenue transfers with a present value of $0.9 trillion while the current program receives no extra funding.

Chart 4 compares the total retirement benefits a low-wage worker could expect under Commission Model 2 to those the current program could pay with similar general revenue transfers. Simply put, Chart 4 shows what the current system could afford to pay if we boosted the current $1 trillion balance of the trust fund by another $900 billion. The current program would remain solvent for 9 additional years, from 2041 until 2050, but after that would again be forced to cut benefits by more than 25 percent. A low-wage worker retiring in 2052 could expect total retirement benefits from Commission Model 2 46 percent higher than from the current program, even with similar general revenue transfers.

Chart 5 shows that Model 2 generally would increase benefits for a low-wage worker, even compared to a current program that faced no financing shortfall and could pay full benefits without any increase in taxes. A worker retiring in 2052, for instance, could expect total benefits some 7 percent higher under Model 2 than those promised by the current program.

An average-wage worker retiring in mid-century would receive around 94 percent of promised benefits (and around 28 percent more than the current program can afford). A high-wage worker would receive less, collecting around 89 percent of promised benefits, though 23 percent more than the current program can afford to pay. All workers, however, would be spared the 50 percent increase in payroll tax rates necessary in 2041 to finance the benefits the current system promises, but cannot pay.

To repeat, the entire basis of charges of large benefit cuts under the Commission proposals is, in the opinion of GAO head David Walker, “fundamentally flawed and unfair.” People from both sides of the debate should remember this when considering these claims.

A Note on "Risk Adjustment"

Most charges of "benefit cuts" do not even count income from personal accounts as true benefits, though this is rarely made clear in non-technical writings. But even when Diamond and Orszag do count the benefits from personal accounts, they use a method of "risk adjusting" which reduces them by one-third or more compared to the standard methodology used by Social Security's actuaries.[15]

In practice, "risk adjusting" means that Diamond and Orszag assume that personal accounts would invest solely in government bonds (earning 3 percent returns after inflation), rather than the mixed portfolio of stocks, corporate and government bonds assumed by Social Security's actuaries (returning 4.6 percent). This risk adjustment reduces monthly benefits substantially; for a low-wage worker retiring in 2042, "risk adjustment" reduces the account balance by 36 percent.

Three points are worth making regarding risk adjustment.

First, <u>whatever its merits, risk adjustment is not standard policy of Social Security's independent actuaries, nor is it standard practice among actuaries in general</u>. Any equity investment necessarily involves risk, and economists and actuaries should and do explore the best ways to express the risks of equity investment. Even some members of the Commission favored risk adjusting. Nevertheless, general actuarial practice[16] as well as the specific policies of Social Security's actuaries is to focus on the expected value of the investment portfolio chosen, not to risk adjust all equity and corporate bond investments to the government bond rate of return. Diamond and Orszag have in other contexts criticized the Commission for veering from the actuaries' standard methodology,[17] yet risk adjusting investment returns is simply not how the Office of the Chief Actuary conducts its analysis.

In the actuaries' analysis, "Workers are assumed to maintain personal-account portfolios that would have an average distribution of 50 percent in equity, 30 percent in corporate bonds, and 20 percent in U.S. Treasury long-term bonds." Equities are assumed to return 6.5 percent after inflation, corporate bonds 3.5 percent, and government bonds 3 percent, for an annual portfolio return of 4.6 percent net of inflation and administrative costs. The benefit levels discussed in this testimony and in the Commission's own report are based on these return assumptions, which the actuaries make in consultation with outside experts.

Social Security's actuaries presented two variations on the assumed account yield. A "high yield" portfolio assumes that equities return 7.1 percent annually, their long-term historical average or, alternately, that workers invest a higher proportion of their portfolio in equities. The "low yield" portfolio assumes 100 percent investment in government bonds or, alternately, the risk adjustment utilized by Diamond and Orszag.

The actuaries judged the intermediate yield assumptions utilized in this presentation to be the most likely. Following that, "the high yield is assumed to be more likely to occur than the low yield."[18] In other words, the risk-adjusted return utilized by Diamond and Orszag is, in the view of Social Security's actuaries, the least likely outcome of the three.

Second, <u>while Diamond and Orszag have discussed issues of risk in prior analyses of Social Security, their analysis of the Commission proposals appears to be the first instance in which explicit risk-adjustment of investment returns was insisted upon</u>.

In a prior paper on then-Governor Bush's proposal for personal accounts, Peter Orszag did not explicitly risk-adjust account returns.[19] Likewise, the final report of a recent panel chaired by Professor Diamond argued that

> Diversifying the planned portfolio for Social Security would increase the expected rate of return on the Trust Fund. Thus *it would improve the intermediate-cost actuarial evaluation of Social Security* that is based on expected returns.[20]

Yet if proposals for the government to invest the trust fund in the stock market were scored on Diamond and Orszag's risk-adjusted basis, this would be wholly untrue: even if the trust fund diversified from bonds to stocks, it would be *treated* as if still held only bonds and thus actuarial balance would be unaffected.

Diamond and Orszag's risk adjustment renders any private investment, whether undertaken centrally by government or de-centrally by individual workers, superfluous to enhancing the solvency of the Social Security program. This would be a radical departure from mainstream Social Security analysis over the past decade or so.

Third, if benefits from personal accounts are to be adjusted for risk, benefits from the current program should be similarly risk-adjusted. This concept applies in two ways. First, the current program is insolvent over the long-term, promising future retirees benefits 50 percent higher than can be paid under current law financing. Hence, there is not simply a risk but a *certainty* that current tax or benefit schedules will be altered. Assuming that legislated tax rates are not changed, the common sense "risk adjusted" benefit baseline would be what the current program can afford to pay – that is, the payable level of benefits utilized for analysis by the Commission. By this standard, the comprehensive Commission Models pay substantially higher benefits to all retirees than the current program, with low-wage individuals receiving the largest increases.

Moreover, benefit promises under the current program are clearly not as secure as explicit government obligations such as Treasury bonds. A worker with a personal account holding bonds backed by the full faith and credit of the government would unquestionably have a stronger claim on future government resources than a worker promised the same sum under the current Social Security program, which grants individuals no legal right to their benefits and which, as the 1977 and 1983 reforms attest, can change the rules of the game at relatively short notice. Risk adjusting current program benefits could involve estimating the risk of the current system and adjusting promised benefit levels downward until risk was comparable to that of government bonds.[21]

Subsidies to personal accounts

Under Commission Model 2, workers opting for personal accounts give up their traditional benefits equal to their account contributions compounded at a 2 percent real interest rate, called the "offset interest rate."[22] Diamond and Orszag argue that "Model 2 subsidizes the accounts by charging an interest rate projected to be one percent below the [3 percent real interest] rate on Treasury bonds." The traditional program, they argue, loses money on the deal and reform therefore subsidizes personal account holders at the expense of non-account holding taxpayers and retirees.

This argument relies on a confusion between the interest rate earned by the Social Security trust fund – which is set in legislation, and can be changed at any time –

and the (generally lower) rate of return Social Security pays to individuals. In this context, several points are worth making:

1. <u>Account holders *as a group* do not receive a subsidy under Commission Model 2</u>. If a worker choosing an account gives up less traditional benefits than his account contributions would have "bought" him from the current program, he has effectively been subsidized. On average, future retirees will receive an approximately 2 percent real return from Social Security, the same as the offset interest rate under Model 2. At a 2 percent offset interest rate, most workers would give up traditional benefits worth roughly what their account contributions would have bought them. At an offset interest rate of 3 percent, which Diamond and Orszag imply would eliminate the "subsidy," most workers would give up substantially *more* in traditional benefits than their account contributions would have bought from the current program.[23] Hence, there is no <u>overall</u> subsidy to the individuals holding accounts.

<u>Illustration</u>: A worker earns a 2 percent return under the current program, entitling him to $1,000 per month in retirement. If he put *all* his payroll taxes into an account (not just part, as under the Commission plans) subject to an offset interest rate of 2 percent, he would give up all his traditional benefits -- $1,000 per month. At a 3 percent offset interest rate, he would not only have to give up the entire $1,000 per month but pay an *additional* $200 per month back to the government. In short, Diamond and Orszag argue that to eliminate Model 2's account "subsidies" account holders should owe the traditional system *more* than they would have received from it, a highly counterintuitive argument.

2. <u>Subsidies *within* the group of account holders tend to flow toward lower-wage individuals</u>. An account-holder entitled to a current-program return exceeding the 2 percent offset interest rate gives up *less* in traditional benefits than his account contributions would have bought him in the current system. In effect, he receives a subsidy. An account holder entitled to a current-program return below the 2 percent offset interest rate effectively pays an "exit tax": he must give up *more* traditional benefits than his account contributions would have bought him.

While future retirees will receive approximately 2 percent returns *on average*, low-wage workers tend to be entitled to returns above 2 percent and high-wage workers to returns below 2 percent. Hence, while account holders as a group do not receive a subsidy, within the group low-wage account holders effectively receive a subsidy from high-wage account holders.[24]

3. <u>Diamond and Orszag's contention that 100 percent of eligible workers would opt for accounts means we would be "subsidizing ourselves</u>." Even if we accept that a general subsidy to account holders exists, Diamond and Orszag argue that participation under Commission Model 2 would be 100 percent (not 67 percent as assumed by the Commission and Social Security's actuaries).[25] If every eligible worker would become an account holder, what exists is a general tax subsidy to personal account holders with, as point 2 shows, the largest subsidies relative to wages flowing to low-wage workers.

4. <u>Charges of "subsidies" assume the trust fund can effectively save cash today to pay benefits tomorrow. Many believe this not to be the case.</u> Many argue that Social Security surpluses have historically been used to hide deficits elsewhere in the budget, enabling the non-Social Security portion of the government to tax less or spend more than in otherwise would have. If this is the case – and many on both sides of the personal accounts debate believe it is[26] – then Social Security funds are effectively subsidizing the rest of the budget, not being saved to pay future retirement benefits. Saving Social Security funds in accounts that cannot be "raided" to pay for other programs simply reduces these subsidies to the rest of the budget and ensures that funds dedicated to Social Security can, in a meaningful economic sense, help pay benefits in the future.

It is true, of course, that a worker holding a personal account could increase his total benefits simply by investing in guaranteed, risk-free government bonds. What that shows is that today's workers effectively subsidize the system, since they receive lower returns than their contributions would earn in Social Security's trust fund and could earn higher returns with ownership and absolute security by holding even the safest, lowest-returning private investments. That says very little for the value-for-money the current Social Security program renders to the public.

Price Indexing

The Commission's recommendation in Model to move from the "wage indexation" to the "price indexation" of initial Social Security benefits has generated controversy, at lies at the root of charges of "benefit cuts." At present, the initial benefits received by each annual cohort of new retirees rises by the rate of wage growth. If wage growth were 2 percent, for instance, an average-wage worker retiring in any given year should receive benefits 2 percent higher in real terms than an average-wage worker retiring the previous year. Under price indexing, the two retirees would receive the same benefit from the government, adjusted for inflation.[27] (Total benefits under Model 2 would continue to rise, however, due to rising personal account balances.)[28]

Wage indexing's principal merit is that it maintains replacement rates over time, such that Social Security benefits would comprise a relatively constant share of a worker's retirement income. But wage indexing has several downsides as well.

The first, of course, is dramatically rising costs. The math is simple: today, the average benefit paid by Social Security equals roughly 36 percent of the average wage; since there are 3.4 workers per retiree, the required tax rate is approximately 10.6 percent (36/3.4=10.6). As the payroll tax rate is 12.4 percent, Social Security is currently running surpluses. When the worker-to-retiree ratio falls to 2-to-1, the cost to each worker to maintain that 36 percent replacement rate rises from 10.6 percent to around 18 percent of each worker's wages (36/2 = 18). Under a wage-indexed benefit formula, rising costs are simply inescapable.

Wage indexing means that in 2075 a maximum-wage earner will be entitled to a monthly retirement benefit of $3,250 (in today's dollars), yet the program will require a 19.8 percent payroll tax rate to pay such benefits. Is such a growth in both taxes and benefits truly necessary? As chairman of the 1978–79 Advisory Council on Social Security, Henry Aaron of the Brookings Institution argued for price indexing on just such a basis:

> As per capita income rises, the case for increasing the amount of mandatory "saving" for retirement and disability through Social Security is far weaker than was the rationale for establishing a basic floor of retirement and disability protection at about the levels that exist today.[29]

The policy was not adopted, however.

Second, wage indexing means that increased economic growth can do very little to ease the burden of Social Security's financing. If economic growth increases then wages and payroll tax receipts rise as well. But since Social Security's benefits are also linked to wages, after a short delay the amount it must pay out rises too. Hence, even if economic growth doubled, Social Security would still begin running payroll tax deficits and eventually become insolvent.[30]

Price indexing would avoid these rising costs, principally because price indexing closely approximates the level of benefits that the current Social Security program is able to pay over the next 75 years. (In fact, Social Security could pay somewhat higher benefits; under Model 2, as noted above, the residual is dedicated to improving the Social Security safety net.)

Indeed, Peter Diamond argued as a member of the Consultant Panel that it was both "fair and necessary"[31] to price index future benefit levels, since "Future generations of workers should not be committed in advance to materially rising tax rates."[32] The wage indexing formula, as noted above, commits future workers to an over 50 percent increase in system costs relative to their wages. Under price indexing, Diamond and the Panel argued, "Workers would receive more equitable benefits in relation to their contributions."[33]

Diamond also noted, correctly, that price indexing "is not a benefit reduction for those already retired. Nor is it a reduction in the purchasing power of benefits for any generation of retired people compared with corresponding people of previous generations."[34] A glance at the Commission's report shows rising real benefit levels for all future retirees.

When President Carter was seen to be favoring wage indexing over a price-indexed approach, Diamond and the other panel members chided him for fiscal and generational irresponsibility:

> President Carter would be displeased with his predecessors if he were currently faced with the choice of cutting Social Security benefits for present recipients or raising the same amount of revenue as would be raised by an increase in the payroll tax rate of five percentage points. Yet that is precisely what the best

> current estimates say he is proposing to do to some future President.... *It appears to us that correction of overindexing by choice of a price indexing method would be greatly superior [to wage indexing]....* Use of the price indexing method would eliminate the need for a tax rise when the percentage of retirees increases sharply early next century... While the price indexing method implies protection from inflation and a growth in benefits with the real growth of the economy, *the wage indexing method calls for a much larger growth in benefits for future retirees at a time when the country may not be able to afford it*. Use of the price indexing method would permit moderate tax and benefit increases to aid those recipients with greatest need as perceptions of those needs arise.[35]

The same charges could be made today against those who wish to saddle future taxpayers with economic burdens they themselves are unwilling to bear today.[36]

The price indexing method as advocated by Professor Diamond was somewhat different from that proposed by the Commission. Diamond's iteration would, if instituted at the same time as the Commission's method, pay somewhat higher total benefits over time (at a somewhat higher cost, of course). On the other hand, according the Social Security's actuaries, the alterations this method of price indexing makes to Social Security's benefit formula would "gradually reduce, and eventually eliminate, the progressivity of the current benefit formula.[37] As a whole, Model 2 clearly *increases* Social Security's progressivity.[38]

The most important difference, however, is based on time: the Consultant Panel of which Diamond was a member would have fully implemented their version of price indexing by 1988, reducing benefits for workers retired *today*. The Commission, by contrast, would not begin price indexing benefits until 2009, protecting all workers aged 55 and over from any changes. Moreover, unlike the Commission's Models, the Consultant Panel's proposal contained no provisions for higher-returning personal accounts with which to make up for reductions in promised traditional benefits.

Diamond and others argue that they favored price indexing in the 1970s because the short and long-term financing problems facing Social Security at the time were much greater than those at present. But price indexing, which is extremely slow to take effect, would have done little to avert short-term insolvency, which was addressed largely through increases in the payroll tax rate and wage ceiling.

Over the long term, the double indexing for inflation introduced in the 1972 amendments would have produced runaway growth of benefits. Clearly promised benefit levels would not be produced.

The question facing Diamond then, as facing us today, is what is the appropriate level of benefits that Social Security should pay – the higher but more expensive level entailed by wage indexing, or the lower but less expensive level produced by price indexing? Diamond rejected the wage indexed benefit formula that Social Security now contains and argued that a price-indexed formula was more appropriate.

Today, Diamond and Orszag argue that maintaining constant replacement rates through wage indexing is "crucial."[39] Yet as part of the Consultant Panel, Diamond explicitly rejected the idea that replacement rates should be the sole criterion for appropriate benefit levels: "The merit of seeking a benefit formula that undertakes to maintain the present distribution of replacement ratios is a source of doubt to this Panel." [40] The Panel elaborated:

> [T]he effects of any particular formula should be studied in terms of what the formula accomplishes in each of two related but distinct measure, these being (a) the purchasing power of the benefit, and (b) the relationship of retirement benefit to income covered for Social Security just before retirement, i.e., the 'replacement ratio.' Discussion of Social Security benefit structure has concentrated heavily upon the second of these as the criterion of reasonableness. But we believe it is just as important to discover whether the proposed formula succeeds in granting nearly equal purchasing power to comparable workers who retire at different times. [41]

For lower-wage individuals, total benefits paid under Commission Model 2 would largely maintain current law replacement rates. For higher-wage individuals, greater emphasis is placed on maintaining real purchasing power at a reasonable cost to the workers supporting the program. By the standard set by Diamond as a member of the Consultant Panel, Commission Model 2 would be more successful than maintaining the current program's benefit formula, as most critics of the Commission propose.[42]

Disability Benefits

Diamond and Orszag, as well as many other commentators, have been harshly critical of the Commission's treatment of Social Security's Disability Insurance program, which provides benefits to workers who through illness or injury are unable to continue to work. They say:

> The same benefit formula that is used for retirement benefits is also used for disability benefits. Thus the switch to price indexation means that a worker becoming entitled to disability benefits in 2020 would have disability benefits reduced by 10.7 percent; a worker becoming entitled in 2040 would have disability benefits reduced by 26.4 percent; and a worker becoming entitled in 2075 would have disability benefits reduced by 47.5 percent. Yet, many disabled workers would have little opportunity to accumulate substantial balances in their individual accounts to offset these benefit reductions – and in any case, they would not be allowed access to their individual account balances prior to retirement age.[43]

To their credit, Diamond and Orszag recognize that "the Commission apparently does not support the dramatic implications of its proposals for disability benefits."

This does not, however, stop them from condemning the Commission's handling of disability benefits:

> Nevertheless, the Commission still counts every penny of decreased disability benefits in its actuarial scoring. While the Commission was willing to assume substantial general revenue infusions to subsidize individual accounts, it was unwilling to use general revenue or other means to protect the disabled and young survivors from the traditional benefit reductions called for under Models 2 and 3.[44]

These charges have been repeated throughout the Social Security reform debate.

Diamond and Orszag's charges would have greater resonance, however, if there had been a superior way for the Commission to handle disability benefits and if Diamond himself had not treated disability benefits in precisely the same way as a member of the Consultant Panel on Social Security.

To be clear, the Commission made <u>no</u> specific recommendations regarding the long-term financing of Social Security's disability program. As the Commissioners' stated:

> The Commission's short life span has not allowed time for the careful deliberation necessary to develop sound reform plans for the disability program. Because of the complexity and sensitivity of the issues involved, we recommend that the President address the DI program through a separate policy development process.[45]

The Commission noted that, “in the absence of fully developed proposals, the calculations carried out for the Commission and included in this report assume that defined benefits will be changed in similar ways for the two programs.” However,

> *This should not be taken as a Commission recommendation for policy implementation….* the Commission recognizes that changes in Social Security’s defined benefit structure and the role of personal accounts may have different implications for DI and OASI beneficiaries. The Commission urges the Congress to consider the full range of options available for addressing these implications.[46]

In other words, while the Commissioners anticipated that additional steps would be taken to address the DI program, in the absence of such recommendations the Commission’s proposals were *scored* as if the changes made to Social Security’s benefit formula were to be equally applied to the disability (and survivors) elements of the program.

This is clearly an imperfect step. Were legislation based on the Commission models to provide higher disability benefits than as scored by the actuaries, it would come at a greater cost and therefore produce smaller savings relative to maintaining the current program.

Nevertheless, it is difficult to imagine a superior solution. Diamond and Orszag faulted the Commission, saying, “it dedicated no revenue to financing a more modest reduction in disability benefits.”[47] But any such dedication of additional revenues to the disability program would clearly (and mistakenly) be *interpreted* as a specific policy recommendation, just as the Commission’s failure to dedicate additional revenues has been mistakenly interpreted.

The Commission itself had neither the time nor the expertise to tackle the considerable financing and policy difficulties facing the disability program.[48] Rather than pretend to have solved the disability program’s problems through hastily considered changes or to paper them over through increased general revenue transfer that imply that DI needs only money and not reform, the Commission chose to leave disability reform to a later group of specialists.

Significantly, as a member of the Consultant Panel on Social Security, Professor Diamond adopted precisely the same treatment of disability benefits as the Commission:

> This Panel has concentrated on benefits for retirements, and therefore recommends a separate exploration of redesign of survivor and disability benefit programs by a selected group of authorities.[49]

The Consultant Panel presented its cost estimates for the Social Security program as a whole – including Disability Insurance – rather than restricting its scoring to the retirement element of the program. In addition, the Consultant Panel – like the President's Commission – did not dedicate additional revenues to the disability program.

Moreover, reductions in promised disability benefits under the Consultant Panel's recommendations would have been substantially *larger* than under the Commission proposals, as price indexing would already have been in place for twenty years.

By all appearances, this is an instance of the pot calling the kettle black. Yet both the pot and the kettle did the right thing. A working group focusing on retirement issues could not adequately address the more complex policy questions involved with disability reform. Dedicating additional revenue to the disability program would inevitably be interpreted as a policy recommendation, whatever the group members might have said.

The non-partisan Social Security Advisory Board declared that, "the issues facing the disability programs cannot be resolved without making fundamental changes."[50] The Commission did not, and did not claim to, make recommendations for those fundamental changes. Nor, however, did it recommend the nefarious "cuts" that so many commentators have attributed to it.

Conclusion

Let me conclude by pointing out that Social Security reform incorporating personal accounts is not painless, it is not a free lunch, it is not something for nothing. And the Commission never claimed that it was. Personal accounts would, however, pay higher benefits at lower cost than alternatives lacking private market investment, making reform *less* painful than it otherwise will be. And the continued public appeal of personal accounts – a July poll by Zogby International found 68 percent of likely voters continuing to support voluntary accounts, despite a falling stock market and relentless attacks by political opponents – can make public acceptance of reform easier to achieve.

As I argued, Commission Models cut benefits only when compared to a mythical Social Security program that faces no financing shortfall. To their credit, Diamond and Orszag acknowledge the current program's financing shortfalls, noting that

> Some combination of a reduction in benefits, an increase in revenue, and an increase in the rate of return earned on the reserves of the Social Security Trust Fund is required to bring the system back into balance. Since it is unlikely that a reform plan would restore long-term solvency solely through payroll tax increases, transfers from the rest of the budget, and/or the investment of Social Security reserves in financial instruments that yield a higher rate of return than Treasury bonds, restoring long-term balance to Social Security will likely involve some reduction in "replacement rates." A fundamental issue is whether the balance among the possible elements of a reform plan is appropriate.[51]

Yet nowhere in their study do they even hint at what the proper balance among reform elements is, nor how they would address Social Security's long-term funding problems.[52]

What would be most helpful to the reform debate would be for the considerable talents of Drs. Diamond and Orszag, as well as the many other able critics of personal accounts, to be dedicated to formulating model legislation so that a true apples-to-apples comparison between legitimate reform proposals could be made.

The best way to defeat the Commission's proposals is to put forward a better one. It is telling that most personal account opponents appear reluctant in the extreme to do so. At present, the so-called "secret plan" for Social Security is not, as some allege, the Commission's proposals but the alternatives to them. Once viable alternatives to account-based plans are put forward, the political and legislative process can produce choices and compromises between these outlooks and progress toward strengthening Social Security can be made.

Thank you for the opportunity to testify, and I hope that my views may be helpful in your consideration of Social Security reform.

[1] See "Strengthening Social Security and Creating Personal Wealth for All Americans," Report of the President's Commission, December 2001; available at hereafter referred to as "CSSS Final Report." See also "Perspectives on the President's Commission to Strengthen Social Security," Cato Institute Social Security Paper No. 27, August 2002; and John F. Cogan and Olivia S. Mitchell, "The Role of Economic Policy in Social Security Reform: Perspectives from the President's Commission," National Bureau of Economic Research Working Paper No. 9166, September 2002.

[2] Executive Order 13210, President's Commission to Strengthen Social Security, May 2, 2001.

[3] Citations here are from Peter A. Diamond and Peter R. Orszag, "An Assessment of the Proposals of the President's Commission to Strengthen Social Security," Brookings Working Paper, June 18, 2002, hereafter referred to as "Diamond-Orszag." Other versions have been released as well, though the fundamental arguments do not change.

[4] William Hsiao (Chairman), Peter Diamond, James Hickman, and Ernest Moorhead, "Report of the Consultant Panel on Social Security to the Congressional Research Service," August 1976, p. 23. Hereafter referred to as "Consultant Panel Report."

[5] "Social Security Commission Plans Would Entail Substantial Benefit Reductions And Large Subsidies For Private Accounts," press release, Center on Budget and Policy Priorities, June 18, 2002

[6] Barbara Allen, "Simple Arithmetic," letter to the *Winston-Salem Journal*, September 24, 2002.

[7] Benefits are illustrated with a low-wage worker for two reasons: first, low-wage workers and their families are in most in danger of poverty if the current program becomes insolvent. Second, two of the Commission reform models (2 and 3) contain progressive personal accounts giving relatively larger contributions to lower-wage workers. High-wage workers with relatively smaller accounts would not see the same improvements in benefits relative to the current program; nevertheless, these illustrations show the power of prefunding future benefits with market assets earning higher rates of return than the current program.

[8] Diamond and Orszag argue that their use of the single baseline of promised ("scheduled") benefits "conforms to the approach to evaluating Social Security reforms adopted by the Greenspan Commission in 1983 and the Advisory Council in 1994-1996, both of which used the scheduled benefit formula as the baseline despite projected long-term deficits in Social Security." It is worth noting, however, that the Greenspan Commission report contained (surprisingly) little in the way of individual benefit projections. The report of the 1994-96 Advisory Council, like the Final Report of the President's Commission, contained in its actuarial tables data both for what the program promises ("Present Law") and what under current law financing it could actually pay ("Present Law Payable"). Providing information both on what Social Security promises and on what it can actually pay allows readers to understand how much a reform proposal improved on what it started with – a system that must make deep across the board benefit cuts beginning in 2041.

[9] Testimony of David Walker, General Accounting Office, before the House Budget Committee, June 19, 2002. In fairness, Walker's comments applied only to the scheduled benefits baseline utilized by Diamond and Orszag. Walker did not condemn the paper as a whole, only the basis of their charge of benefits cuts.

[10] Bob Kerrey and Warren Rudman, "Social Security Shell Game," *The Washington* Post, August 12, 2002, Page A15.

[11] David Koitz, Geoffrey Kollmann and Dawn Nuschler, "Social Security: What Happens to Future Benefit Levels Under Various Reform Options," Domestic Social Policy Division, Congressional Research Service, August 20, 2001, p. 13.

[12] The current law baselines tells us what will happen in the absence of action, so that we might best weigh the various courses of action available to us today and in the future. Some have noted

comments by Federal Reserve Board Chairman Greenspan that such a sudden reduction in benefits is politically unrealistic, since some action would surely be taken to avoid it. (See "Saving for Retirement," Remarks before the 2002 National Summit on Retirement Savings, February 28, 2002.) Greenspan's observation is unquestionably true, but the laws of politics cannot justify defiance of the laws of mathematics. If we assume that full promised benefits are to be paid beyond the trust fund exhaustion date of 2041, we must similarly assume the tax increases necessary to fund those benefits; the simplest assumption is an increase in the payroll tax rate in 2041 from the 12.4 percent contained in current law to the 17.8 percent required to pay scheduled benefits.

[13] Some argue for showing only the government-paid portion of the total Social Security benefit, describing it as "guaranteed." In fact, Social Security benefits are not guaranteed in a legal sense, as the Supreme Court ruled in Flemming v. Nestor (1960). Neither are currently scheduled benefits guaranteed in a financial sense, since the current program promises benefits up to 50 percent greater than the tax rates mandated in law can sustain. Were a worker to invest his account in government bonds, his account assets would be both legally and financially more guaranteed than scheduled (or even payable) benefits from the current program.

[14] Workers are assumed to purchase annuities at retirement paying a fixed monthly benefit indexed annually for increases in the Consumer Price Index. Workers who chose variable annuities would receive benefits 4–9 percent higher than those with fixed annuities, assuming that the annuity is invested in the default portfolio of 50 percent stocks, 50 percent bonds. It is also assumed that the worker is married. Single workers would receive benefits approximately 10 percent higher, as they would not be required to purchase joint-and-survivors annuities providing spousal coverage.

[15] Diamond and Orszag cite recommendations from the Congressional Budget Office and the Office of Management and Budget that the Railroad Retirement Fund "risk adjust" its investments in equities. Certainly, had the Commission been allowed to borrow policy views from other organizations rather than submitting their proposals to the scoring rules of Social Security's actuaries, its conclusions would have been buttressed. Nevertheless, the Commission abided by SSA's scoring guidelines, as do Diamond and Orszag in other aspects of their analysis.

[16] The American Academy of Actuaries recommends a similar process focusing on expected returns, with due cognizance of historical variations, rather than Diamond and Orszag's practice of risk adjusting all investments to the government bond rate of return. See Pension Practice Council of the American Academy of Actuaries, "Practice Note: Selecting and Documenting Investment Return Assumptions," May 2001. Available at www.actuary.org.

[17] For instance, Diamond and Orszag criticize the Commission for stressing sustainable rather than mere 75-year solvency, which is the standard most often used by Social Security's actuaries, despite the fact that all sides agree that a sustainable system would be preferable and that sustainability is clearly a higher standard than mere 75-year solvency. See, for instance, Peter A. Diamond and Peter R. Orszag "A Response To The Executive Director Of The President's Commission To Strengthen Social Security," Center on Budget and Policy Priorities, July 15, 2002.

[18] Stephen C. Goss, Chief Actuary, Alice H. Wade, Deputy Chief Actuary, Memorandum: "Estimates of Financial Effects for Three Models Developed by the President's Commission to Strengthen Social Security," January 31, 2002, p.18

[19] Henry J. Aaron, Alan S. Blinder, Alicia H. Munnell, and Peter R. Orszag, "Governor Bush's Individual Account Proposal: Implications for Retirement Benefits," The Century Foundation Issue Brief no.11, June 2000.

[20] "Evaluating Issues in Privatizing Social Security: Report of the Panel on Privatization of Social Security," National Academy of Social Insurance, November 1998, p. 10. Emphasis added.

[21] The difference between the risk-adjusted current program benefit and the benefit offered by an account holding government bonds would be the amount a rational individual would pay in order to have the greater security that an explicit legal asset provides. On a simpler basis, a worker who would be owed,

say, $1,000 per month at retirement could be asked how much less he would accept in order to have a benefit based on government bonds, which would give him a legal asset backed by the full faith and credit of the government.

[22] Under Model 1 the "offset interest rate" equals 3.5 percent; under Model 3, 2.5 percent.

[23] Moreover, even at a 3 percent offset rate the current program's actuarial balance would decline, due the fact that the fixed 75-year actuarial scoring period would count the "loss" to the trust fund through account diversions taking place within the scoring period but ignore the "gain" from benefit offsets taking place outside of it.

[24] To illustrate, an average-wage dual-earning couple retiring in 2029 is projected to receive a 2 percent real annual return from Social Security. This couple would be held relatively harmless either way. A low-wage dual earner couple, by contrast, is projected to receive a 3.1 percent average return from the current program, but in choosing an account they give up traditional benefits only as if they were earning a two percent return and hence are subsidized. A high-wage couple is entitled to a 1.4 percent return from the current program, but must give up traditional benefits at a 2 percent rate, effectively penalizing them.

A note on progressivity: Diamond and Orszag argue that the alleged subsidy in Model 2 favors high-wage over low-wage workers: "A lower earner choosing to divert revenue into an account would receive a smaller subsidy than would a higher earner, so that the subsidies represent a regressive feature of the Commission plans." (Diamond-Orszag, p. 12) However, the authors' use of the word "regressive" is wholly contrary to its general application. Under the current Social Security program, for instance, high-wage workers receive larger monthly benefits than do low-wage workers. Does this make Social Security regressive? Of course not, because low-wage workers receive higher benefits relative to what they contribute. Based upon Diamond and Orszag's definition of progressivity, the current Social Security system itself would be regressive.

Under the Commission's Model 2 a low-wage worker holds an account – and therefore receives a "subsidy" – four times higher relative to his income than a maximum-wage worker. For workers retiring in 2052, for instance, a personal account would increase a low-wage worker's total benefit by 48.5 percent, versus a 32 percent increase for a maximum-wage worker. Moreover, as noted above, subsidies under Model 2 flow not from the system as a whole to account holders but from account holders earning low returns under the current program to account holders earning higher returns under the current program. To the extent the current benefit formula is progressive, the individual subsidies inherent to the offset interest rate maintain that progressivity.

[25] Diamond-Orszag, p. 29. Higher participation increases the costs of Model 2 during the 75-year valuation period because the assets accumulated in accounts as of the 76th year (and traditional benefits foregone by account holders at that point) are not counted.

[26] For instance, in 1988 – under budget conditions similar to those of today – Henry Aaron of the Brookings Institution argued that, "the current policy is to borrow the OASDHI surplus to finance a deficit in the rest of the budget. As a result the payroll tax, ostensibly earmarked for retirement, survivors, disability, and hospital insurance, is being used increasingly to pay for other government expenditures, such as defense and interest on the public debt." Henry Aaron, Barry Bosworth and Gary Burtless, *Can America Afford to Grow Old?* (Washington: The Brookings Institution, 1988), pp. 11, 7.

[27] Following retirement, benefits for both retirees would continue to increase along with the Consumer Price Index, as under current law.

[28] Lifetime benefits from the government would also rise, since future retirees will live longer.

[29] Aaron and his coauthors argued that:

> At the levels of real income prevailing in the 1930s (or perhaps even in the 1950s), it can well be argued that it was appropriate, indeed, highly desirable––perhaps even necessary for the preservation of our society––that government should, by law, have guaranteed to the aged and disabled and their dependents replacement incomes sufficient to avoid severe hardship, and to

> have required workers (and their employers) to finance this system with a kind of "forced saving" through payroll tax contributions. But as real incomes continue to rise, it is not easy to justify the requirement that workers and their employers "save" through payroll tax contributions to finance ever higher replacement incomes, far above those needed to avoid hardship. Perhaps not all workers will want to save that much, or to save in the particular time pattern and form detailed by present law.
>
> Future Congresses will be better equipped than today's Congress to determine the appropriate level of and composition of benefits for future generations... Congress might elect to give more to certain groups of beneficiaries than to others, or to provide protection against new risks that now are uncovered. But precisely because we cannot now forecast what form those desirable adjustments might take, we feel the commitment to large increase in benefits and taxes implied under current law will deprive subsequent Congresses, who will be better informed about future needs and preferences, of needed flexibility to tailor Social Security to the needs and tastes of the generations to come.

Statement of Henry Aaron, Gardner Ackely, Mary Falvey, John Porter, and J. W. Van Gorkom, *Social Security Financing and Benefits, Report of the 1979 Advisory Council* (Washington: Government Printing Office, 1979), pp. 212–15.

[30] See Andrew G. Biggs, "Social Security: Is It 'A Crisis That Doesn't Exist'?", Cato Institute Social Security Paper No. 21, October 5, 2000.

[31] Consultant Panel Report, p. 23. As the panel's report pointed out: "The wage-indexing method provides a sharp tilt in favor of workers retiring in the future. The increases in benefits for workers already retired are limited to increases in the rise in the Consumer Price Index. Yet workers who retire five years later will receive increments due to both price changes and increases in real wages. This difference in retirement benefits can be substantial" (p.9).

[32] Consultant Panel Report, p. 2

[33] Consultant Panel Report, p. 4

[34] Consultant Panel Report, p. 4

[35] William Hsiao, Peter Diamond, James Hickman, and Ernest Moorhead, letter to the *New York Times*, May 29, 1977, sec. 4, p. 14. Emphasis added.

[36] Other current opponents of the Commission's position then took a similar view. Henry Aaron of the Brookings Institution concurred with Diamond, arguing that price indexing "would leave more options open for spending the productivity dividend of economic growth. Congress could still raise pensions in the future, but it could also decide that other programs such as housing, health insurance, or defense have greater claims on available funds." See "Propping up Social Security," *Business Week*, July 19, 1976, p. 34.

[37] Stephen C. Goss, Deputy Chief Actually, Social Security Administration, "Long-Range OASDI Financial Effects of a Proposal to CPI-Index Benefits Across Generations," Memo to Harry C. Ballantyne, Chief Actuary, May 3, 1999

[38] Under current law, a low wage retiree in 2022 would receive benefits equal to 46 percent of those received by a high wage retiree. Under Model 2, that figure would increase substantially to 56 percent.

[39] Diamond-Orszag, p. 6

[40] Consultant Panel Report, p. 23.

[41] Consultant Panel Report, p. 21.

[42] The current wage indexing formula would promise far higher benefits to future workers with identical wages to a worker today. For instance, a $20,000 per year worker would retire today with

monthly benefits of about $877, equal to 53 percent of his pre-retirement earnings. By 2050, the same worker earning the same $20,000 (in today's dollars) would be entitled to $1091 monthly, equal to 64 percent of his pre-retirement earnings. In other words, the 2050 retiree would receive 25 percent higher benefits simply due to the passage of time, even if he paid precisely the same taxes. Moreover, under the current benefit formula, future increases in benefits will be greatest for the highest earners. For instance, a worker earning $10,000 today already receives the maximum 90 percent replacement rate on much of his wages. A similar worker making $10,000 (in 2002 dollars) in 2031 will receive a 25 percent real benefit increase, and in 2071 a 58 percent increase versus today. By contrast, higher income workers today have much of their wages covered under the upper bend points offering lower replacement rates. Over time, wage indexing pushes more of these wages into the bend points offering higher replacement rates. For instance, a $100,000 worker retiring at 65 in 2001 can expect to receive about $330,000 in lifetime retirement benefits. By 2031, lifetime benefits increase by 51 percent to $499,000, and by 2071 increase by 120 percent to $725,000, under today's (unsustainable) benefit formula. See Andrew G. Biggs, "Perspectives on the President's Commission to Strengthen Social Security," Cato Institute Social Security Paper No. 27, August 2002, pp. 26-27.

[43] Diamond-Orszag, p. 8

[44] Diamond-Orszag, p.43

[45] CSSS Final Report, p. 149

[46] CSSS Interim Report, August 2001, p. 138; emphasis in original. Available at www.csss.gov.

[47] Diamond-Orszag, pp. 9-10. Emphasis in original.

[48] As the Commission's Final Report pointed out, "While both OASI and DI face financial shortfalls due to demographic changes, other factors affect the DI program that are more complex and may require a unique set of solutions. It has been decades since a comprehensive review of the DI program has occurred. There are indications that the standards used to determine disability vary across geographic regions and across different levels of the adjudicative process, which raises questions about the overall consistency and fairness of the program for claimants. In addition, fundamental questions exist as to whether the program adequately reflects Congressional intent and current thinking on disability policy. Technology, the economy, and social attitudes about disability have changed dramatically in the past 50 years. The law has only begun to respond to these changes." CSSS Final Report, p. 149.

[49] Consultant Panel Report, p. 38

[50] Social Security Advisory Board, "Charting the Future of Social Security's Disability Programs: The Need for Fundamental Change," January 2001, p. 11.

[51] Diamond-Orszag, p. 8-9

[52] Peter Diamond has suggested the following steps to address Social Security's funding problems: force newly-hired state and local workers to enter the system; raise the maximum wage subject to payroll taxes; increase taxes on benefits and eliminate the current tax exemption for low-income retirees; index benefits for life expectancy to about half the degree done in Plan 3 (critics call this an increase in the retirement age, though technically it is not); and phase in payroll tax increases to cover the remainder of the deficit. "Will Voluntary Personal Accounts Save Social Security?" American Enterprise Institute Seminar Series in Tax Policy, April 5, 2002. The impact of these steps on individual benefits and annual system cash flows is not clear, as they have not been combined in a comprehensive way so that they might be actuarially scored.

Chart 1: Comparison of the current program's promised benefits to the traditional (government-paid) benefits under Commission Model 2 show large "cuts" for future retirees.

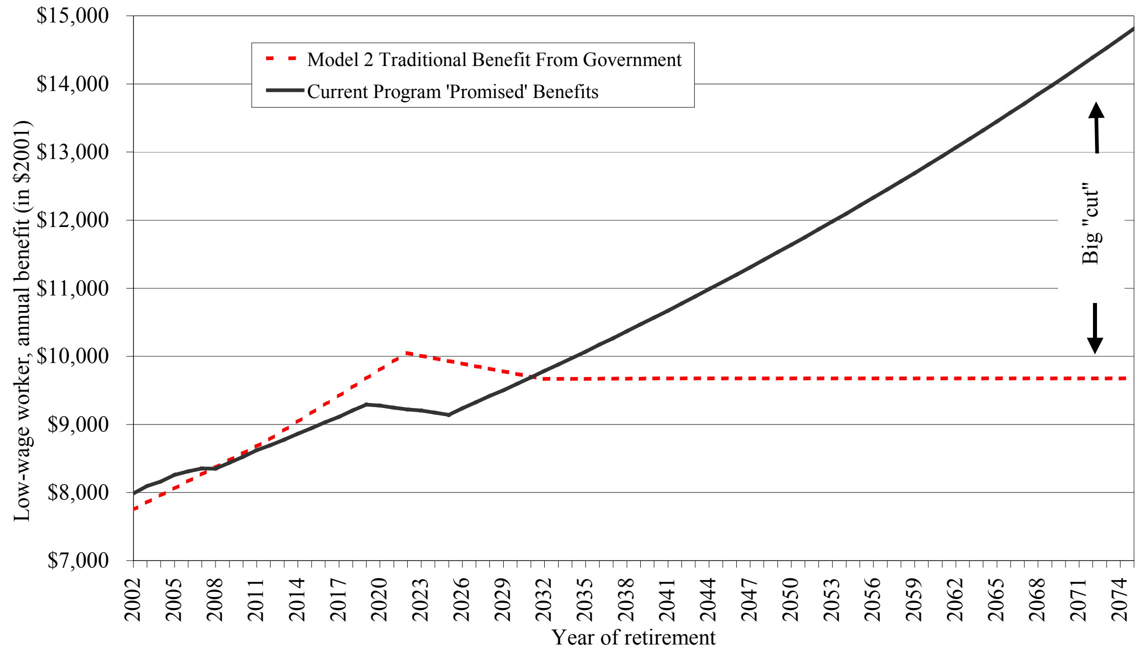

Chart 2: Compared to what Social Security can actually afford to pay, low-wage workers would generally receive higher benefits under Commission Model 2 .

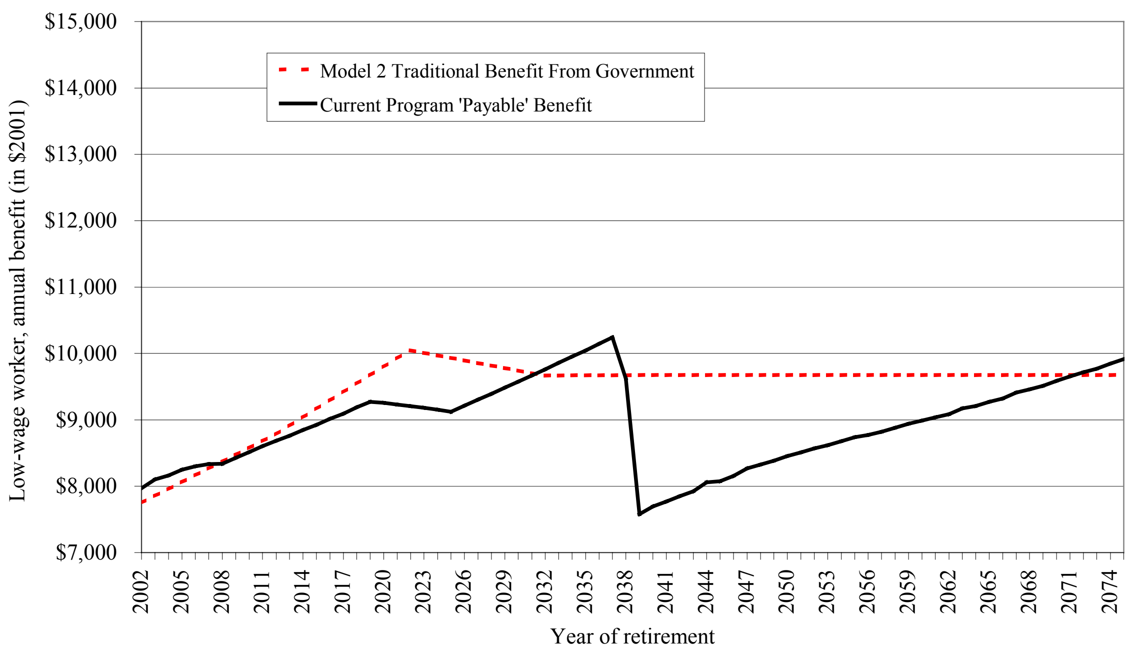

Chart 3: Under Commission Model 2, a low-wage worker can expect total retirement benefits almost 50 percent higher than payable under current law financing.

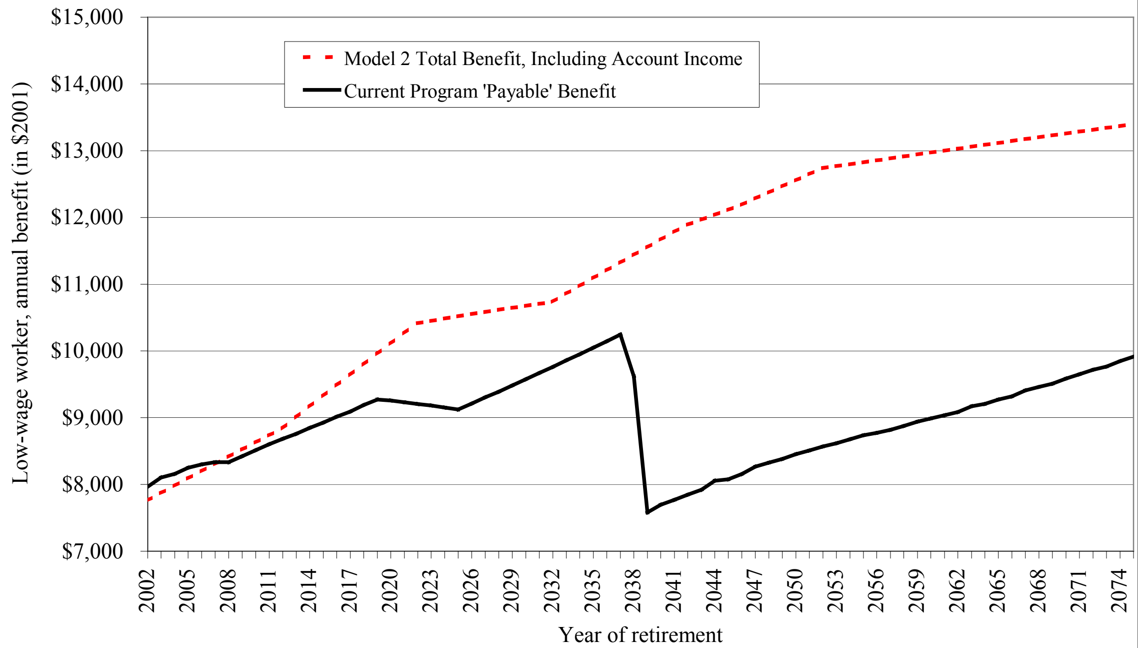

Chart 4: Even if the current program received similar general revenue transfers to Model 2, low-wage workers could still expect substantially higher total retirement benefits.

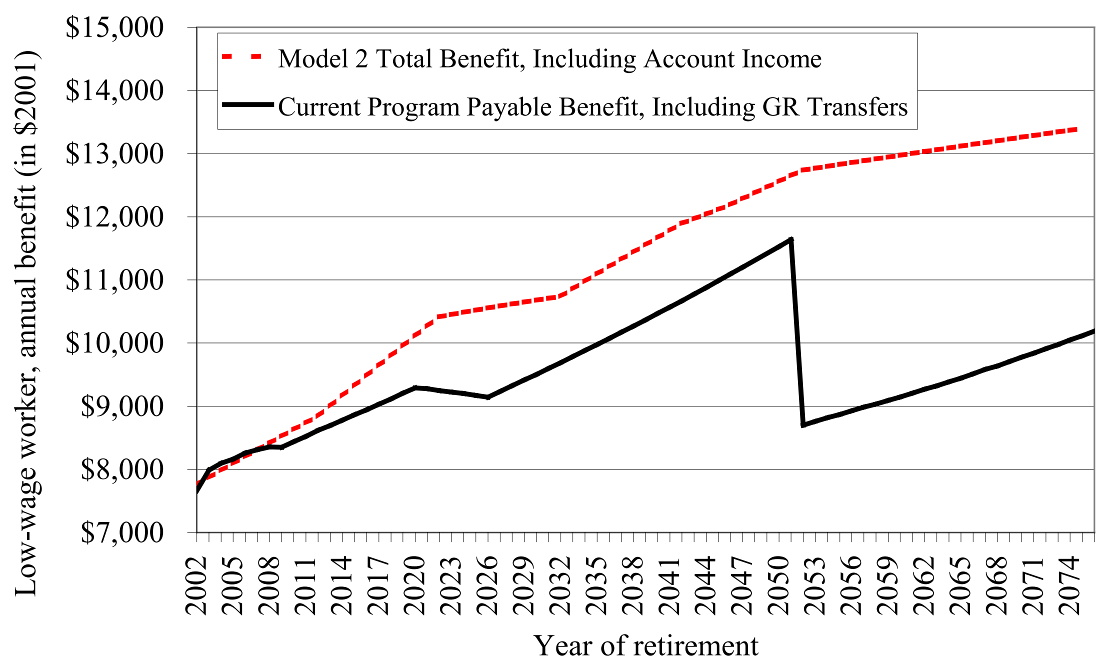

Chart 5: In most cases, low-wage workers under Model 2 could expect higher total benefits than the current program would pay, even if it faced no financing shortfall.