

Supplemental Handout

Testimony: Comparing Social Security Reform Proposals

*Figures and Tables from the Prepared Testimony of Jeff Lemieux
Given Before the Senate Special Committee on Aging on June 15, 2004*

Figure 1.

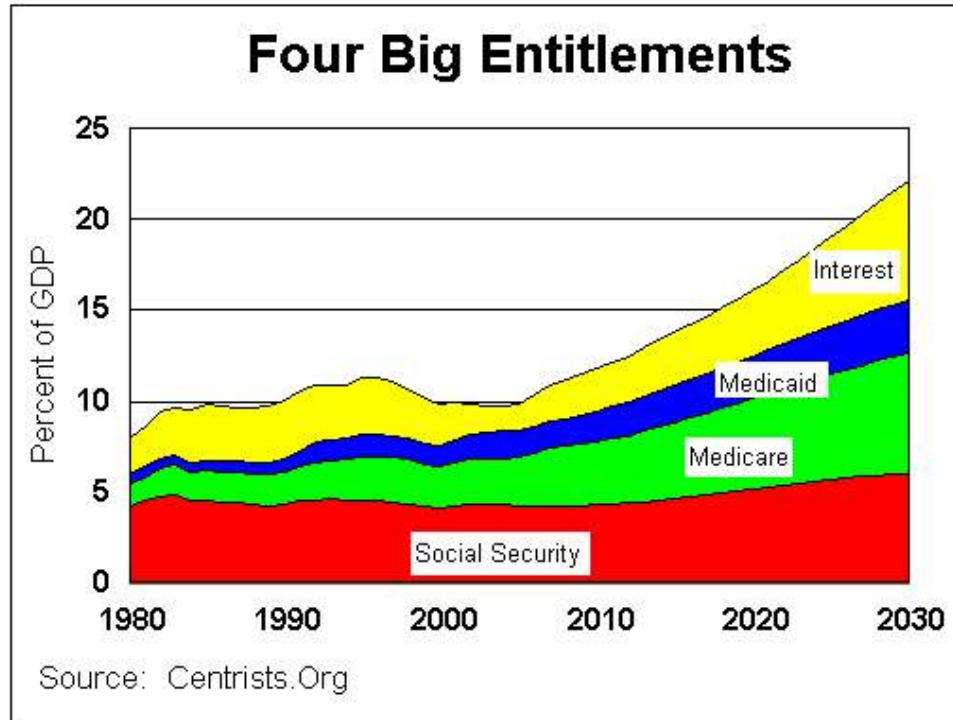


Figure 2.

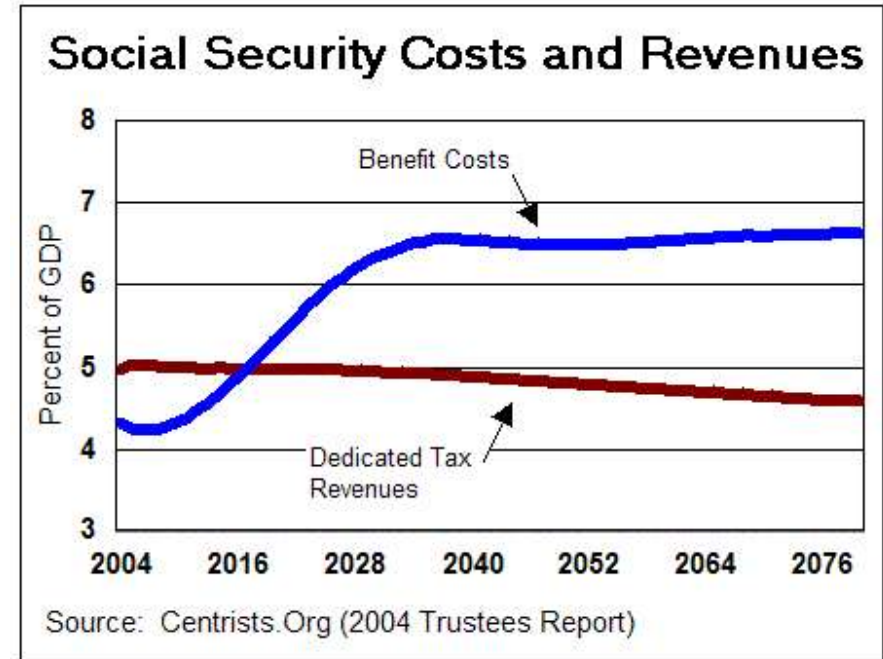


Figure 3.

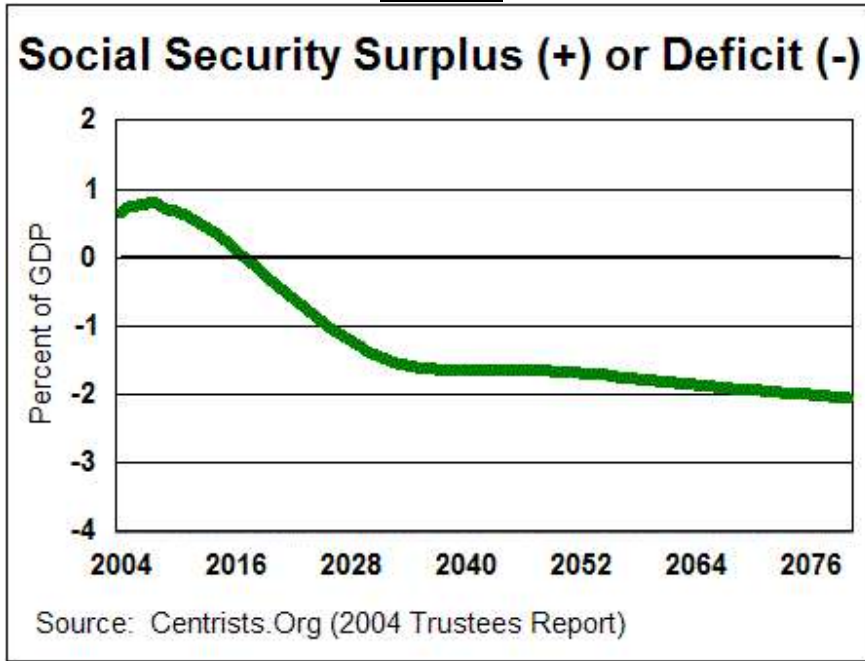


Figure 5.

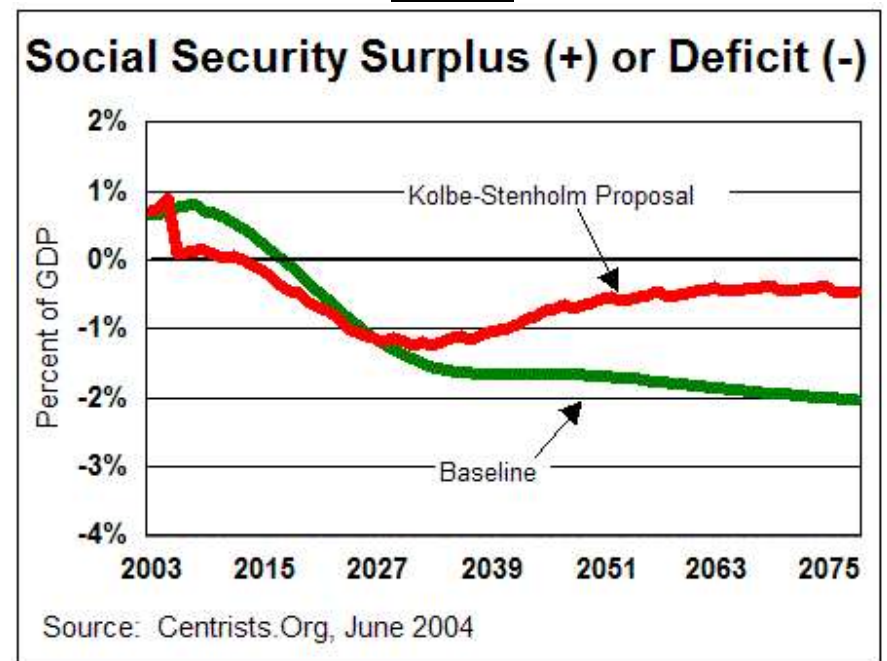


Figure 4.

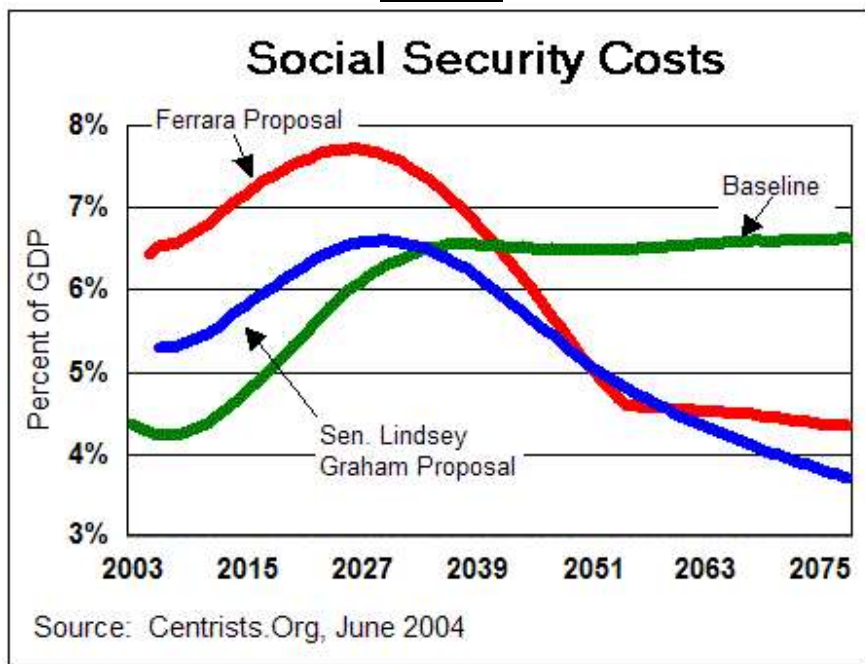


Figure 6.

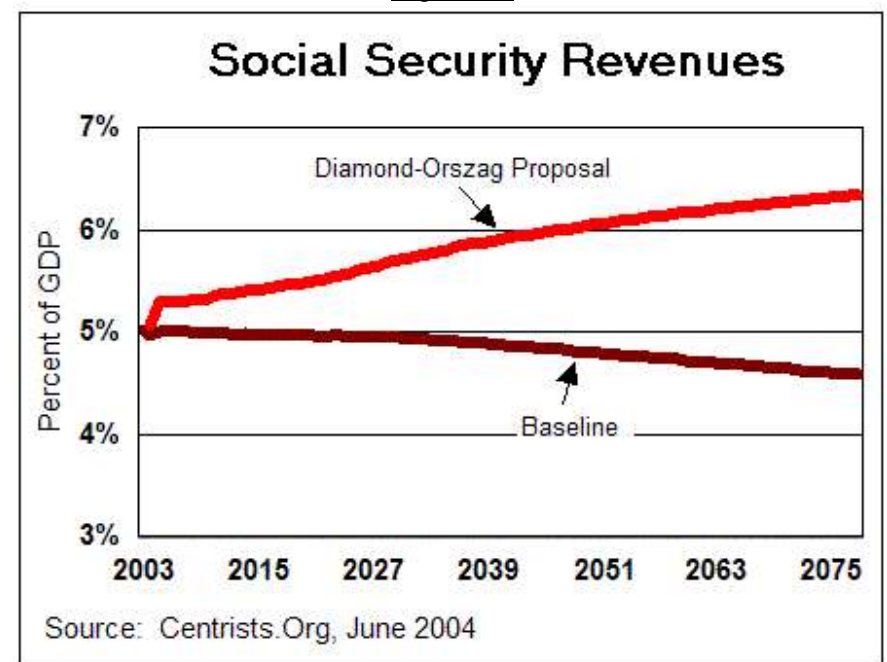


Figure 7.

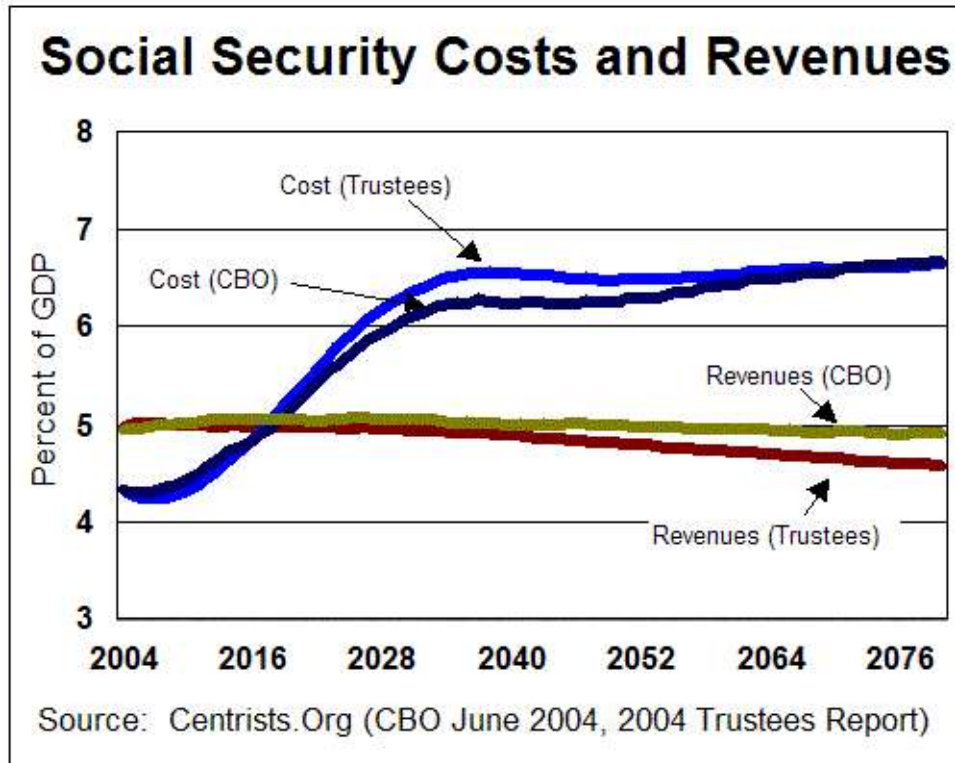


Figure 8.

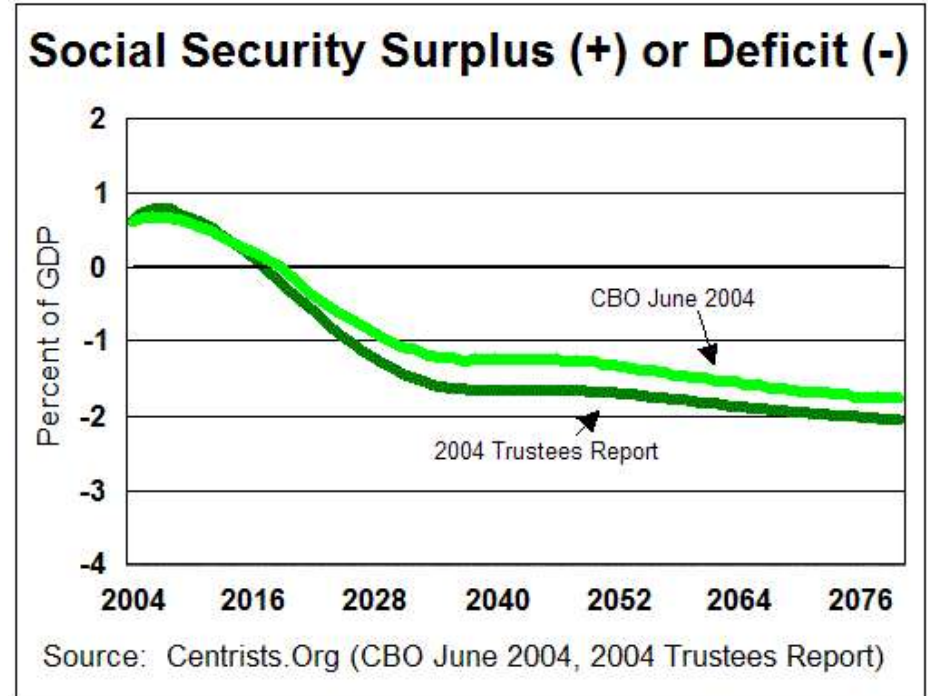


Table 1.

Social Security Costs and Reform Options
(as a percent of GDP)

| <i>Selected Years</i> | 2010 | 2020 | 2030 | 2040 | 2050 | 2060 |
|-------------------------|------------|------------|------------|------------|------------|------------|
| Baseline Benefit Costs | 4.3 | 5.3 | 6.3 | 6.5 | 6.5 | 6.5 |
| "Dedicated" Revenues | <u>5.0</u> | <u>5.0</u> | <u>5.0</u> | <u>4.9</u> | <u>4.8</u> | <u>4.7</u> |
| Gap | -0.7 | 0.3 | 1.3 | 1.6 | 1.7 | 1.8 |
| Reform Options: | | | | | | |
| Sen. Lindsey Graham | 1.1 | 0.9 | 0.3 | -0.5 | -1.3 | -2.0 |
| Kolbe-Stenholm | 0.6 | 0.2 | -0.2 | -0.7 | -1.2 | -1.5 |
| Peter Ferrara | 2.4 | 2.2 | 1.3 | 0.2 | -1.2 | -2.0 |
| Diamond-Orszag | -0.3 | -0.3 | -0.5 | -0.8 | -1.1 | -1.5 |
| Misc: Tax Max at \$140k | -0.3 | -0.3 | -0.3 | -0.2 | -0.2 | -0.2 |

Source: Centrists.Org

Note: Data from the 2004 Trustees Report and other reports from Social Security's Office of the Actuary.

Table 2.

Simulation of Sen. Lindsey Graham Social Security Proposal on Married Workers Retiring at NRA in 2034

Assuming Normal (60% Stock, 40% Bond) Investment Returns
(all amounts in 2003 dollars)

| Average Annual Earnings (each spouse) | Average Annual Earnings (each spouse) | Average Annual Earnings (each spouse) | Annual Earnings Above (each spouse) |
|--|---------------------------------------|---------------------------------------|-------------------------------------|
| \$16,600 | \$34,700 | \$55,600 | \$87,000 |
| Current Law Monthly Benefit Promised (Not Funded) | | | |
| 860 | 1,417 | 1,879 | 2,294 |
| Proposed Law Defined Benefit | | | |
| 590 | 822 | 1,180 | 1,505 |
| Benefit from Individual Account (Basic Contribution) | | | |
| 232 | 381 | 417 | 415 |
| Range of Benefit from Matched Contributions ^{1a} | | | |
| 80 | 6 | 0 | 0 |
| 414 | 29 | 0 | 0 |
| Range of Proposed Law Benefit (Total) | | | |
| 902 | 1,209 | 1,597 | 1,920 |
| 1,236 | 1,232 | 1,597 | 1,920 |

Source: Centrists.Org.

Notes: Assumes default investment returns based on 60% stock, 40% "safe" long-term bond return. Based on couples with equal work careers and earnings. Couples have typical earnings profile (except highest-earning couple assumed to have earnings at or above the taxable maximum in all years). It is important to remember that comparisons with currently promised benefits may be misleading if the government would not be able to fund those promises in the future. Calculations do not include income from unmatched voluntary contributions. NRA = normal retirement age.

^{1a} Low range of benefit from matched contribution assumes low-income worker voluntarily saves \$101 per year and receives gov't match of \$150. High range assumes low-income worker voluntarily saves \$801 per year and receives maximum gov't match of \$500.

Table 3.

Simulation of Sen. Lindsey Graham Social Security Proposal on Single Workers Retiring at Age 62 in 2041

Assuming Normal (60% Stock, 40% Bond) Investment Returns
(all amounts in 2003 dollars)

| Minimum Wage Earner | Low Wage Earner | Average Wage Earner | High Wage Earner | Annual Earnings Above |
|--|-----------------|---------------------|------------------|-----------------------|
| \$10,712 | \$16,600 | \$34,700 | \$55,600 | \$87,000 |
| Current Law Monthly Benefit Promised (Not Funded) | | | | |
| 636 | 774 | 1,285 | 1,699 | 2,052 |
| Proposed Defined Benefit and Basic Individual Account Benefit | | | | |
| 684 | 723 | 1,115 | 1,407 | 1,655 |
| Range of Benefit from Matched Contributions ^{1a} | | | | |
| 151 | 151 | 12 | 0 | 0 |
| 783 | 784 | 64 | 0 | 0 |
| Range of Proposed Law Benefit (Total) | | | | |
| 835 | 874 | 1,127 | 1,407 | 1,655 |
| 1,467 | 1,507 | 1,179 | 1,407 | 1,655 |

Source: Centrists.Org.

Notes: Assumes default investment returns based on 60% stock, 40% "safe" long-term bond return. Based on single workers with typical earnings profile (except highest-earning worker assumed to have earnings at or above the taxable maximum in all years, and min. wage worker assumed same wage all years). It is important to remember that comparisons with currently promised benefits may be misleading if the government would not be able to fund those promises in the future. Calculations do not include income from unmatched voluntary contributions.

^{1a} Low range of benefit from matched contribution assumes low-income worker voluntarily saves \$101 per year and receives gov't match of \$150. High range assumes low-income worker voluntarily saves \$801 per year and receives maximum gov't match of \$500.

Table 4.

**Social Security Costs and Revenues -- CBO
vs. Trustees**

(as a percent of GDP)

| <i>Selected Years</i> | 2010 | 2020 | 2030 | 2040 | 2050 | 2060 |
|-----------------------|------------|------------|------------|------------|------------|------------|
| CBO (June 2004) | | | | | | |
| Benefit Costs | 4.4 | 5.2 | 6.1 | 6.2 | 6.3 | 6.4 |
| "Dedicated" Revenues | <u>5.0</u> | <u>5.1</u> | <u>5.1</u> | <u>5.0</u> | <u>5.0</u> | <u>5.0</u> |
| Gap | -0.6 | 0.1 | 1.0 | 1.2 | 1.3 | 1.5 |
| 2004 Trustees Report | | | | | | |
| Benefit Costs | 4.3 | 5.3 | 6.3 | 6.5 | 6.5 | 6.5 |
| "Dedicated" Revenues | <u>5.0</u> | <u>5.0</u> | <u>5.0</u> | <u>4.9</u> | <u>4.8</u> | <u>4.7</u> |
| Gap | -0.7 | 0.3 | 1.3 | 1.6 | 1.7 | 1.8 |

Source: Centrists.Org

Notes: Data from 2004 Social Security Trustees Report and the Congressional Budget Office (CBO)

"The Outlook for Social Security" (June 2004). Figures may not sum to totals because of rounding.