

Distributional Effects of Reforming Social Security through Benefit Reductions

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Abstract

To address Social Security's long-term financial imbalance, some policymakers have proposed reducing benefits below the levels scheduled in current law. This report examines which demographic and economic groups will be affected more than others in 2050 under various options for reducing benefits. Options considered include (1) indexing benefits by price growth instead of wage growth; (2) indexing benefits by price growth for high-income workers and wages for low-income workers (progressive price indexing); (3) reducing the annual cost of living adjustment; and (4) raising the retirement age. Unlike other policies, progressive price indexing potentially eliminates most of Social Security's 75-year deficit without increasing hardship for vulnerable retirees. However, if continued indefinitely, it would significantly reduce Social Security's role in providing retirement security for middle-income workers.

Introduction

While Social Security's long-term financial imbalance has been known for many years, it has recently received increased attention due to the current administration making Social Security reform a legislative priority. Much of 2005's debate has focused on incorporating private accounts into the system, although the accounts themselves would do little to address Social Security's financial shortfall.¹ Most analysts agree that either additional revenue needs to be raised or benefits need to be reduced below the levels scheduled in current law. To date, reform proposals introduced in Congress have focused on reducing benefits as the way to achieve solvency, although some experts have developed options that include tax increases.²

The purpose of this study is to examine which demographic and economic groups will be affected more than others in 2050 under various options for reducing benefits. The study compares the projected distribution of benefits under current law with benefits projected under four options: (1) indexing benefits by price growth instead of wage growth; (2) indexing benefits by price growth for high-income workers and by wages for low-income workers (progressive price indexing); (3) reducing the annual cost of living adjustment after retirement; and (4) raising the normal retirement age.

Policy Scenarios

The analysis includes simulations of the following policy scenarios:

- *Scheduled Benefits*. This scenario pays current-law benefits assuming the Social Security trust funds receive additional revenues to avoid becoming insolvent in the early 2040s.³ Initial benefits are wage indexed, meaning benefits at the normal retirement age increase across generations by the growth in wages. Wage

¹ See GAO (2005).

² For proposals that reduce benefits see Commission to Strengthen Social Security (2001), Pozen (2005), Senator Bennett's proposal—http://bennett.senate.gov/press/documents/062205bennett_sossummary.pdf, H.R. 440 (Kolbe and Boyd—109th Congress), H.R. 530 (Johnson—109th Congress), and S. 540 (Hagel—109th Congress). For proposals that increase revenues see Diamond and Orszag (2004), H.R. 440 (Kolbe and Boyd—109th Congress), and H.R. 2472 (Wexler—109th Congress).

³ The Social Security Board of Trustees (2005) and the Congressional Budget Office (2005) project the trust funds will be depleted by 2041 and 2044, respectively.

indexing results in starting benefits replacing about the same proportion of preretirement earnings for each generation.

- *Benefits Supportable by Trust Funds.* Scheduled benefits are paid until the Social Security trust funds are exhausted, at which point benefits are reduced by the same percentage for all beneficiaries⁴ to equate program outlays and revenues. This scenario provides context for the size of reductions under the various alternatives but is not included in the distributional analyses because it reduces benefits for all recipients by the same proportion.
- *Price Indexing of Initial Benefits.* Beginning in 2012, initial benefit growth is indexed to prices instead of wages. Under price indexing, each generation of retirees receives starting benefits that are about constant in inflation-adjusted dollars. Because wages grow faster than prices, benefits under this proposal would replace smaller proportions of preretirement earnings over time.
- *Progressive Price Indexing of Initial Benefits.* Beginning in 2012, benefits for retirees with career average earnings above the maximum covered by Social Security, currently \$90,000, receive price-indexed benefits; those with career average earnings below the 30th percentile, currently about \$25,000, receive wage-indexed benefits; and all other retirees receive something in between.⁵
- *Reducing the Annual Cost of Living Adjustments (COLA).* Beginning in 2012, the annual COLA is reduced by 0.4 percentage points for all beneficiaries.⁶ Reducing the COLA has little impact on initial benefits, but unlike the other policy options, it continues to reduce benefits relative to scheduled amounts after initial entitlement.⁷
- *Raising the Normal Retirement Age (NRA).* Accelerates the currently scheduled increase to age 67 and continues increasing the NRA until it reaches age 70 for those turning 62 after 2028. Currently, benefits are reduced for workers who retire

⁴ Benefits would be reduced for all types of recipients, including spouse, survivor, and disability beneficiaries.

⁵ The rate of indexing for those with lifetime earnings between the 30th percentile and maximum covered earnings would gradually decline with lifetime earnings.

⁶ The analysis assumes annual COLAs of 2.8 percent under current law and 2.4 percent under the reduced scenario.

⁷ COLAs can affect initial benefits because they begin at the year of first eligibility (attainment of age 62, disability, or death) as opposed to the year of first benefit receipt.

early by a factor that increases with each month before the NRA that benefit receipt begins. If workers continue to retire at the same ages, raising the NRA will reduce initial benefits because it increases the number of months early for those retiring before the NRA.

Methodology

Projections

The projections are based on the Urban Institute's DYNASIM3 model, a dynamic microsimulation model that forecasts future demographic, social, and economic characteristics of the population by simulating births, deaths, marriages, divorces, work decisions, disability, and earnings.⁸ The model accounts for many of the forces transforming society that will shape future retirement outcomes over the next half century, including improvements in productivity, increases in women's employment and earnings, the growing racial and ethnic diversity of the older population, and changes in retirement behavior and private pensions. The model uses the Social Security Trustees' 2005 intermediate assumptions for labor force participation, fertility, mortality, inflation, and wage growth. The simulation assumes no change in behavior across proposals; for example, raising the retirement age does not change when individuals choose to take up benefits. To classify individuals by lifetime income the analysis uses shared lifetime earnings. The earnings stream used to calculate shared lifetime earnings includes a worker's entire earnings in years he or she is single and half of the earnings of both the worker and the worker's spouse in years he or she is married.⁹ For technical reasons, benefit amounts do not include the impact of the program's earnings test, which reduces benefits for recipients younger than the normal retirement age with earnings above a certain threshold.

⁸ For more information about DYNASIM3, see Favreault and Smith (2004).

⁹ This report uses shared lifetime earnings to better classify the well-being of individuals who share resources with their spouses. For instance, when using shared lifetime earnings a nonworking spouse of a high-wage worker is not classified as low-income. Similar to Social Security's average indexed monthly earnings, earnings are wage-indexed to equate the same relative earnings over time.

Implementation of Indexing Proposals

The Social Security benefit formula currently replaces 90 percent of the first \$7,524 of career average earnings, 32 percent of career average earnings between \$7,525 and \$45,348, and 15 percent of career average earnings between \$45,349 and \$90,000.¹⁰ The formula factors, 0.90 and 0.32, are constant over time and the bend points, \$7,524 and \$45,348, are increased each year by the growth in economy-wide wages.

The indexing proposals continue to index the bend points to the growth in wages but reduce the growth of initial benefits by reducing the formula factors. Price indexing reduces all of the formula factors each year by the growth in inflation-adjusted wages. Progressive price indexing adds a new bend point at the 30th percentile of career average earnings. Factors beyond the new bend point are reduced such that starting benefits for workers who always earn the maximum amount covered by Social Security remain constant over time in inflation-adjusted dollars. Figure 1 illustrates the benefit formulas under the different indexing scenarios by showing benefits as a function of career average earnings in 2050.

Effects of Policy Changes on Overall Benefit Levels

Table 1 presents estimates of average annual benefits at ages 62 to 67 in inflation-adjusted dollars, as a percent of economy-wide earnings and as a percent of scheduled benefits, by policy scenario. Average scheduled benefits in 2005 dollars increase from \$12,100 in 2012¹¹ to \$17,600 in 2050. The increase is nearly equivalent to real wage growth over the period, as average benefits as percent of economy-wide earnings hold steady at about 30 percent.¹² Inflation-adjusted benefits grow more slowly under the other scenarios, or not all in the case of price indexing, resulting in average benefits declining as a percent of economy-wide earnings. As expected, reducing the annual COLA has

¹⁰ No additional benefits are accrued for career average earnings beyond maximum taxable earnings (\$90,000 in 2005).

¹¹ President Bush has said that benefits for workers over age 55 should not be affected by any reforms. Workers currently age 55 become eligible for Social Security in 2012.

¹² Benefits as percent of economy-wide earnings change somewhat due to the scheduled increase in the normal retirement age and differences across cohorts in wage levels and the distribution of beneficiary types.

little impact on recipients ages 62 to 67 who generally have only been receiving benefits for a few years and therefore have not experienced many years of reductions.

The third section of table 1 illustrates a fundamental difference between the indexing proposals and the other benefit changes. Unlike the other proposals, price indexing and progressive price indexing reduce benefits each year below levels scheduled in current law. For instance, price-indexed benefits are 95 percent of scheduled in 2020 but only 69 percent of scheduled by 2050. In contrast, once fully implemented in 2029, raising the NRA results in benefits holding steady at about 85 percent of scheduled.

The last row of table 1 presents Congressional Budget Office (CBO) estimates of the Social Security trust funds' cumulative deficit over the next 75 years as a percentage of taxable payroll.¹³ Under scheduled benefits payroll taxes would need to be immediately raised by 1.69 percentage points to put the system into 75-year balance. The alternative policy scenarios make varying degrees of progress toward solvency, ranging from reducing the COLA (which reduces the 75-year deficit by 0.5 percentage points) to price indexing (which results in a surplus of 0.68 percentage points of taxable payroll). Benefits supportable by the trust funds achieve a balance of zero by definition, because benefits are reduced to the level of revenues once the trust funds reach exhaustion.¹⁴

Distributional Effects of Benefit Reductions

The distributional impacts of these policy alternatives depend not only upon their design but also the type, age, and birth cohort of the beneficiary. In addition to providing retired worker benefits, Social Security also pays spouse, survivor, and disability benefits. Because policy changes may have different impacts on the various types of beneficiaries, the analysis first focuses on retired worker benefits for individuals ages 62 to 67 and then

¹³ The analysis uses CBO as opposed to SSA estimates of solvency because CBO scored all of these policy options under the same set of assumptions.

¹⁴ The 75-year deficit does not correspond perfectly with benefits levels for those ages 62 to 67 in 2050. The 75-year period extends beyond 2050, so some of price and progressive price indexing's impacts on the long-term deficit are due to benefits continuing to fall below scheduled amounts beyond 2050. Reducing the COLA has little impact on benefits for those ages 62 to 67 but reduces the deficit by about a third because benefits for older recipients are reduced significantly.

examines the comprehensive program for the same age group. To see how distributional effects vary by age and birth cohort, the report then examines beneficiaries ages 80 to 85.

Retired Workers Ages 62 to 67

Table 2 present estimates of the distribution of annual benefits for retired workers ages 62 to 67 in 2050 under the alternative policies as a percent of scheduled benefits. Unlike the other options, progressive price indexing reduces benefits less for groups with lower lifetime earnings than for groups with higher lifetime earnings. Overall benefits are reduced by almost 20 percent relative to scheduled benefits, but benefits are only reduced by about 1 percent for those in the lowest shared lifetime earnings quintile and 28 percent for those in the top quintile. Benefits are reduced less for those with less education and fewer years of work, blacks and Hispanics, and never-married men.¹⁵ In contrast, the impact of price indexing, raising the NRA, and reducing the COLA does not vary much by subgroup. As expected, reducing the COLA has very little impact on recent retirees. The analysis assumes that raising the NRA does not affect when workers apply for benefits, which results in most groups experiencing a similar percentage reduction in benefits.¹⁶ If workers in fact retired later in response to raising the NRA, groups that are less able to work longer, such as those with more health problems or those in more strenuous occupations, might be more negatively affected than others.

All Beneficiary Types, Ages 62 to 67

To examine the impact of the policy changes on the complete program, table 3 shows the distribution of annual benefits at ages 62 to 67 for all types of beneficiaries. When including all beneficiary types, price indexing and raising the NRA reduce benefits somewhat more progressively than before, because these policy options reduce benefits less for spouse, survivor, and disability recipients, who on average have lower shared

¹⁵ Benefits are reduced more for widowed women in this table because the sample is restricted to individuals who receive retirement benefits based on their own earnings record. Widowed women receiving retired worker benefits as opposed to survivors benefits have higher lifetime earnings.

¹⁶ If there is no change in behavior, the actuarial reduction factor for early retirement will increase by 15 percentage points for workers who retire at or before age 67. The reduction factor will increase by 10 and 5 percentage points for workers who retire at ages 68 and 69, respectively, and workers who retire at age 70 and older are unaffected. Since the majority of workers retire by age 67, the impact of raising the NRA is mostly uniform.

lifetime earnings.¹⁷ Benefits are reduced less for those with lower shared lifetime earnings and fewer years of work, for widowed women, and, in the case of raising the NRA, for those with less education. However, progressive price indexing still protects vulnerable groups more than the other options.

- *Price Indexing.* Because the effect of substituting price for wage indexing is cumulative over time, individuals who become eligible for benefits earlier experience relatively smaller benefit reductions compared with scheduled amounts. Disability recipients and survivors often become eligible for benefits before age 62 and therefore receive smaller reductions in initial benefits under price indexing.¹⁸ Spouse beneficiaries married to older retirees often receive benefits based on an initial benefit calculation from several years before they reach retirement age. As a result, they avoid some years of benefit cuts due to price indexing.
- *Raising the NRA.* This option has no impact on recipients of disability benefits because, unlike retired worker benefits, disability benefits are unaffected by age of take-up. Survivors benefits for those who take up at age 60 or earlier are also largely unaffected by increases in the NRA.¹⁹
- *Progressive Price Indexing.* The difference in benefit reductions between the top and bottom earnings quintiles is about 25 percentage points under progressive price indexing, compared with 5 and 6 percentage points under price indexing and raising the NRA, respectively.

Retirees Ages 80 to 85

Tables 4 and 5 show the distribution of benefits in 2050 at ages 80 to 85 for retired workers and for all beneficiaries. The distributional effects of the policies within this age

¹⁷ To some extent, however, spouse and survivor beneficiaries with lower shared lifetime earnings may be highly educated individuals who chose to take time out of the labor force. Some have argued that potential income, which includes foregone wages for those who voluntarily leave the labor force, would be a more accurate measure of well-being. See Gustman and Steinmeier (2001).

¹⁸ In addition to becoming eligible at age 60, survivors may receive benefits computed using the formula in effect when their spouse died.

¹⁹ The benefit reduction factor for survivors who take up benefits early is capped at 28.5 percent and is therefore often unaffected by an increase in the NRA. Also, benefits for early survivors are generally unaffected by the age at which their deceased spouses applied for benefits.

group are similar to their effects on the younger retirees, as progressive price indexing places less of the relative burden of reducing benefits on lower-earning groups than other options. However, comparing the top rows of tables 3 and 5 shows that the policies have different effects across age groups in 2050. The price indexing proposals and raising the NRA place more of the burden on the younger age group, while reducing the COLA has a larger impact on the older age group.

- *Price Indexing and Progressive Price Indexing.* These scenarios reduce benefits relative to those currently scheduled by 17 percent and 12 percent, respectively, for those ages 80 to 85, compared with 30 percent and 18 percent for those ages 62 to 67. The indexing proposals begin reducing starting benefits for those becoming eligible for Social Security in 2012 and continue to further reduce benefits for each successive generation of retirees. Retirees ages 80 to 85 experience smaller cuts in 2050 than retirees ages 62 to 67 because they reached eligibility age earlier and therefore experienced fewer years of reduced indexing.
- *Raising the NRA.* This option reduces benefits by about 13 percent for the older age group and by 15 percent for the younger age group. The increase in the NRA would still be phasing in when those age 80 to 85 in 2050 become eligible for Social Security.
- *Reducing the COLA.* This alternative reduces benefits by 8 percent for the older age group but only about 2 percent for younger age group. Unlike the other policy options, amending the COLA reduces benefits further after initial receipt of Social Security. The longer individuals are receiving benefits, the more their benefits are reduced. In addition to affecting older retirees more, reducing the COLA has a somewhat larger impact on disability recipients because they generally take up benefits earlier than other beneficiary types and therefore experience more years of reduced COLAs.

Impact on Near-Poverty Rates

Economic growth reduces the share of retirees in the future with near-poverty level incomes. If Social Security benefits are paid as scheduled under current law, DYNASIM3 projects that the proportion of retirees ages 62 to 67 and 80 to 85 with family incomes

below 150 percent of the federal poverty level will fall from 15.2 percent and 21.3 percent, respectively, in 2012 to 7.5 percent and 10 percent in 2050 (table 6). This decrease occurs because Social Security, pensions, savings, and earnings grow with wages, while the poverty level only rises with inflation. If Social Security benefits were price indexed or the NRA increased to 70, the near-poverty rate would fall less. For instance, under price indexing the near-poverty rate only falls to 12.7 percent in 2050, about 5 percentage points higher than under current law. In contrast, progressive price indexing results in near-poverty rates in 2050 that are less than a percentage point higher than under current law.

Importance of Social Security to Vulnerable Groups

Table 7 shows the proportion of per capita family income originating from Social Security for beneficiaries ages 62 to 67 and 80 to 85 in 2050. Under scheduled benefits, Social Security makes up a larger proportion of family income for older age groups, singles, those with less education, blacks and Hispanics, those with fewer years in the labor force, and those in lower earnings quintiles. All things being equal, a reduction in benefits will disproportionately affect the well-being of these groups.

Conclusion

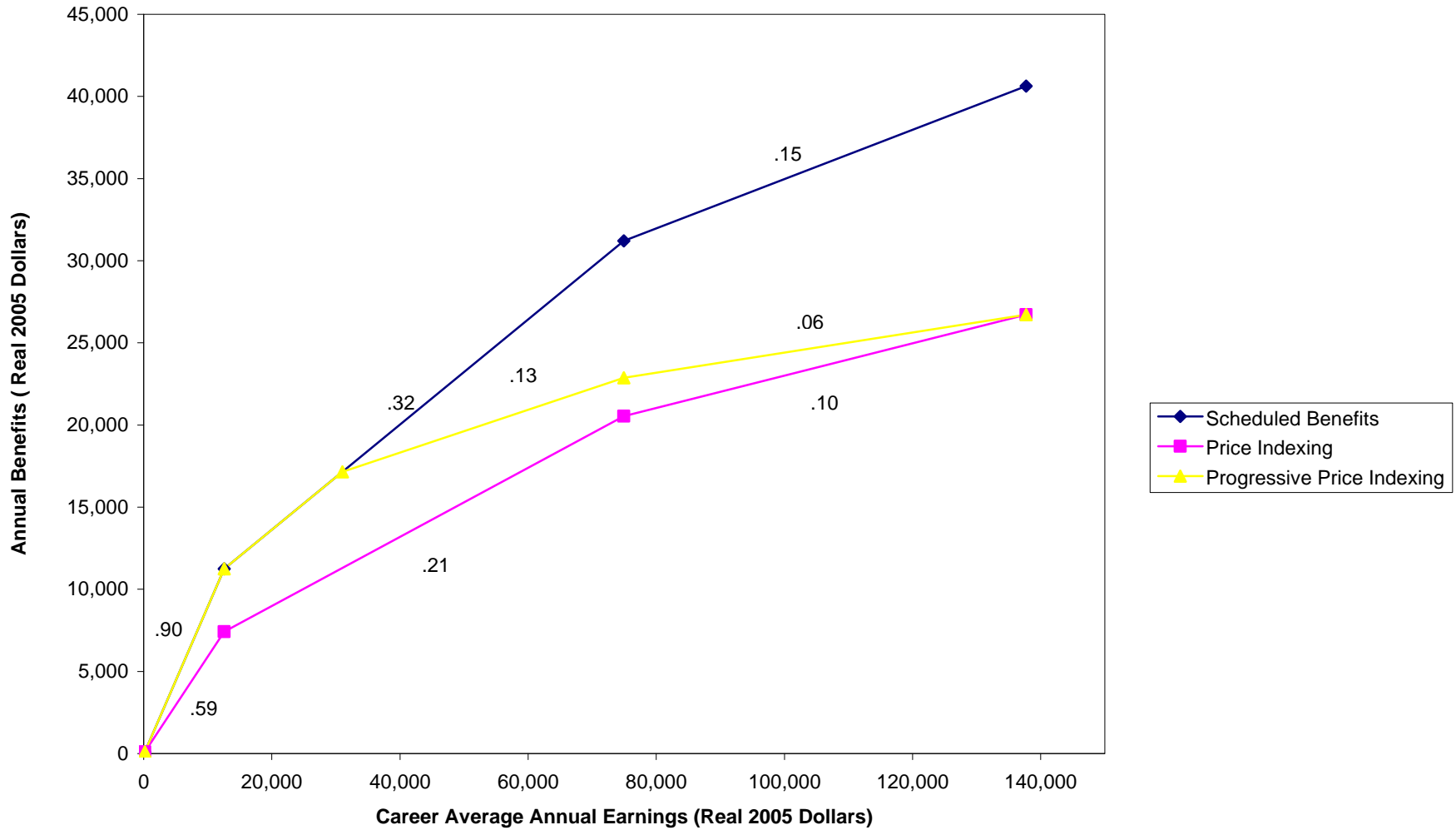
This analysis shows how some frequently proposed ways of reducing Social Security benefits would affect vulnerable groups of retirees in the future. Progressive price indexing potentially eliminates most of Social Security's 75-year deficit, without reducing benefits for many low lifetime earners and without significantly raising the number of beneficiaries in near poverty. But like price indexing, it would over time replace ever-smaller proportions of preretirement earnings for most workers. If continued indefinitely, it would transform Social Security from a major source of retirement income for most retirees to a minimal safety net program. Raising the NRA would protect lower earners less than progressive price indexing, but once fully implemented, benefits would hold steady at about 85 percent of levels scheduled under current law. Reducing the COLA has similar effects on beneficiaries in the same age group but places more burden on older recipients who generally rely more heavily on Social Security.

This study examines just a few ways of reducing Social Security's long-term financing shortfall. Other options for achieving solvency include payroll tax increases, allocation of other funding to Social Security (e.g., estate taxes), or alternative reductions such as one-time changes to the benefit formula or price indexing for a finite number of years. Any benefit reduction could include provisions to protect low-income retirees. Whatever options are selected, policymakers should address the system's long-term imbalance soon, to give workers time to plan and to avoid dramatic changes in the future.

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Figure 1. Annual Social Security Benefits as a Function of Career Average Earnings in 2050



Source: Author's calculations based on Social Security Board of Trustees (2005).
 Note: Career average annual earnings equal average indexed monthly earnings multiplied by 12.

Table 1. Annual Mean Social Security Benefits at Ages 62 to 67, by Policy Scenario

Year	Scheduled benefits	Benefits		Progressive price indexing	Reduced cost of living adjustment	Normal retirement age raised to 70
		supportable by trust funds	Price indexing			
Real 2005 Dollars						
2012	12,100	12,100	12,000	12,100	12,100	11,600
2020	13,100	13,100	12,400	12,700	13,000	11,900
2030	14,400	14,400	12,300	13,100	14,100	12,500
2040	16,000	16,000	12,300	13,800	15,700	13,600
2050	17,600	13,800	12,200	14,400	17,300	15,000
Percent of Economy-wide Earnings						
2012	29.8	29.7	29.8	29.8	29.8	28.8
2020	29.8	29.8	28.1	28.8	29.4	27.0
2030	29.4	24.4	25.1	26.8	28.9	25.5
2040	29.4	23.1	22.7	25.3	28.8	25.0
2050	29.0	22.7	20.2	23.8	28.5	24.7
Percent of Scheduled Benefits						
2012	100.0	100.0	99.2	100.0	100.0	95.9
2020	100.0	100.0	94.7	96.9	99.2	90.8
2030	100.0	100.0	85.4	91.0	97.9	86.8
2040	100.0	100.0	76.9	86.3	98.1	85.0
2050	100.0	78.4	69.3	81.8	98.3	85.2
<i>75-year deficit/surplus (percentage of taxable payroll)</i>						
	-1.69	0	+0.68	-0.14	-1.12	-0.5

Source: Author's calculations from DYNASIM3 (Runid: 432) and the Congressional Budget Office (2005).

Note: For technical reasons Social Security benefits do not include the impact of the retirement earnings test.

**Table 2. Distribution of Annual Benefits at Ages 62 to 67 in 2050
Retired Workers Only**

	Percent of sample (N=5351)	Scheduled benefits	Price indexing	Progressive price indexing	Reduced cost of living adjustment	Normal retirement age raised to 70
		Mean (2005\$)	Percent of Scheduled Benefits			
All	100.0	17,700	67.8	80.4	98.9	79.7
Men						
Married	35.8	19,200	67.9	78.6	98.8	79.8
Widowed	0.9	20,100	68.4	77.9	98.7	81.0
Divorced	7.9	18,100	67.6	79.1	98.9	79.5
Never married	9.8	16,900	67.7	81.3	98.9	79.4
All	54.4	18,600	67.8	79.1	98.9	79.7
Women						
Married	29.9	16,400	67.8	82.6	98.9	79.5
Widowed	2.4	19,900	69.1	78.6	98.7	81.2
Divorced	7.0	17,000	67.9	81.3	98.8	79.6
Never married	6.3	16,200	67.7	81.8	98.9	79.5
All	45.6	16,700	67.9	82.1	98.9	79.6
Education						
High school dropout	8.6	12,900	67.8	88.9	98.9	79.5
High school graduate	51.2	16,100	67.8	83.0	98.9	79.5
College graduate	40.2	20,800	67.9	76.6	98.8	79.8
Race						
White	59.7	18,400	67.9	79.3	98.9	79.7
Black	13.4	15,600	67.7	83.7	98.9	79.4
Hispanic	18.1	16,600	67.8	82.2	98.9	79.7
Other	8.8	18,500	67.8	79.8	98.9	79.7
Work years						
Less than 20	9.4	10,000	67.7	96.5	98.9	79.5
20–29	16.4	14,600	67.6	86.3	99.0	79.3
30–34	13.4	16,800	67.7	81.3	99.0	79.3
35+	60.7	20,000	67.9	77.8	98.8	79.8
Shared lifetime income quintile						
Lowest	20.0	9,200	67.8	98.7	98.9	79.4
Second	20.0	13,900	67.8	90.4	98.9	79.5
Third	20.0	18,100	67.9	81.3	98.8	79.6
Fourth	20.0	21,900	67.8	75.7	98.9	79.8
Highest	20.0	25,600	67.8	71.7	98.9	79.9

Source: Author's calculations from DYNASIM3 (Runid: 432) and the Congressional Budget Office (2005).

Notes: Retired workers are defined as retirees receiving benefits solely on their own earning record. Retirees receiving both retired worker and spouse or survivors benefits are not included in this table. Shared lifetime earnings include a worker's entire earnings in years he or she is single and half of the earnings of both the worker and the worker's spouse in years he or she is married. For technical reasons Social Security benefits do not include the impact of the retirement earnings test.

Table 3. Distribution of Annual Benefits at Ages 62 to 67 in 2050

All Beneficiary Types

	Percent of sample (N=7935)	Scheduled benefits	Price indexing	Progressive price indexing	Reduced cost of living adjustment	Normal retirement age raised to 70
	Mean (2005\$)		Percent of scheduled benefits			
All	100.0	17,600	69.5	81.8	98.1	85.0
Men						
Married	31.7	19,400	68.9	79.7	98.4	84.4
Widowed	1.7	20,100	69.7	80.8	97.8	89.7
Divorced	7.0	18,100	69.3	80.9	98.2	84.2
Never married	9.3	17,300	69.5	83.1	98.1	85.8
All	49.7	18,900	69.1	80.5	98.3	84.8
Women						
Married	28.8	15,500	69.0	83.4	98.3	82.4
Widowed	7.0	19,600	73.9	81.8	96.3	92.2
Divorced	7.7	16,900	69.8	83.2	97.9	86.0
Never married	6.7	15,900	69.9	84.8	97.9	86.7
All	50.3	16,300	70.1	83.3	97.9	85.2
Education						
High school dropout	11.1	13,700	70.9	88.9	97.4	88.4
High school graduate	52.9	16,400	69.7	83.8	98.0	85.5
College graduate	36.0	20,600	69.1	78.0	98.3	83.7
Race						
White	59.3	18,200	69.6	80.8	98.1	84.8
Black	14.3	16,000	69.8	84.5	97.9	86.2
Hispanic	18.3	16,500	69.5	83.7	98.1	85.3
Other	8.2	18,400	68.6	80.7	98.5	84.3
Work years						
Less than 20	15.8	11,800	75.0	92.1	95.7	89.6
20–29	18.8	15,500	70.7	86.7	97.5	87.1
30–34	14.2	17,900	69.2	82.2	98.2	86.5
35+	51.2	20,100	68.3	78.4	98.7	83.2
Shared lifetime income quintile						
Lowest	20.0	9,800	73.6	97.5	96.3	89.4
Second	20.0	13,900	70.5	91.8	97.6	86.4
Third	20.0	17,600	69.3	83.6	98.2	85.3
Fourth	20.0	21,300	68.7	77.5	98.5	84.1
Highest	20.0	25,300	68.3	72.6	98.6	83.1
Benefit type						
Retired worker	68.3	17,700	67.8	80.4	98.9	79.6
Spouse	7.8	10,800	71.4	84.1	97.4	83.2
Survivor	5.7	20,000	75.8	82.4	95.5	97.0
Disability	18.3	19,300	72.9	85.9	96.5	100.0

Source: Author's calculations from DYNASIM3 (Runid: 432) and the Congressional Budget Office (2005).

Notes: Shared lifetime earnings include a worker's entire earnings in years he or she is single and half of the earnings of both the worker and the worker's spouse in years he or she is married. For technical reasons Social Security benefits do not include the impact of the retirement earnings test.

Table 4. Distribution of Annual Benefits at Ages 80 to 85 in 2050

Retired Workers Only

	Percent of sample (N=3088)	Scheduled benefits	Price indexing	Progressive price indexing	Reduced cost of living adjustment	Normal retirement age raised to 70
	Mean (2005\$)		Percent of scheduled benefits			
All	100.0	17,900	81.5	86.7	92.4	80.9
Men						
Married	33.3	19,200	81.4	85.8	92.5	80.5
Widowed	10.3	19,300	81.8	86.0	92.3	82.4
Divorced	5.5	17,600	81.5	86.7	92.4	80.9
Never married	8.5	15,200	81.5	88.3	92.4	80.1
All	57.7	18,500	81.5	86.2	92.4	80.9
Women						
Married	17.9	15,900	81.2	88.3	92.5	80.2
Widowed	10.4	19,800	82.0	85.9	92.4	82.7
Divorced	7.8	17,500	81.4	87.1	92.5	80.9
Never married	6.2	15,400	81.5	88.5	92.4	80.2
All	42.3	17,100	81.5	87.4	92.5	81.0
Education						
High school dropout	6.8	11,100	81.5	93.3	92.5	80.6
High school graduate	48.5	16,100	81.5	88.2	92.4	80.8
College graduate	44.7	21,000	81.5	84.9	92.5	81.0
Race						
White	66.4	18,900	81.5	86.0	92.5	81.0
Black	9.0	15,500	81.5	88.4	92.4	80.9
Hispanic	15.6	15,400	81.4	88.7	92.5	80.7
Other	9.0	17,400	81.6	87.3	92.4	80.9
Work years						
Less than 20	8.5	9,800	81.5	96.1	92.4	81.0
20–29	12.6	13,400	81.4	91.0	92.5	80.2
30–34	10.6	15,600	81.5	88.0	92.4	80.2
35+	68.3	20,100	81.5	85.4	92.4	81.1
Shared lifetime income quintile						
Lowest	20.0	9,200	81.6	97.8	92.4	80.6
Second	20.0	14,700	81.6	90.6	92.4	80.6
Third	20.0	18,400	81.7	86.6	92.4	80.9
Fourth	20.0	21,700	81.5	84.3	92.4	81.0
Highest	20.0	25,500	81.3	82.4	92.6	81.2

Source: Author's calculations from DYNASIM3 (Runid: 432) and the Congressional Budget Office (2005).

Notes: Retired workers are defined as retirees receiving benefits solely on their own earning record. Retirees receiving both retired worker and spouse or survivors benefits are not included in this table. Shared lifetime earnings include a worker's entire earnings in years he or she is single and half of the earnings of both the worker and the worker's spouse in years he or she is married. For technical reasons Social Security benefits do not include the impact of the retirement earnings test.

Table 5. Distribution of Annual Benefits at Ages 80 to 85 in 2050
All Beneficiary Types

	Percent of sample (N=5135)	Scheduled benefits	Price indexing	Progressive price indexing	Reduced cost of living adjustment	Normal retirement age raised to 70
	Mean (2005\$)	Percent of Scheduled Benefits				
All	100.0	17,700	82.9	87.9	92.0	87.1
Men						
Married	24.3	18,600	81.9	86.5	92.3	82.9
Widowed	10.5	19,200	82.6	87.1	92.1	88.6
Divorced	4.8	17,700	81.9	87.4	92.4	86.0
Never married	6.2	15,200	82.3	89.3	92.1	83.5
All	45.8	18,200	82.1	87.0	92.2	84.7
Women						
Married	16.2	14,800	81.7	88.3	92.4	83.1
Widowed	24.0	19,300	84.9	88.8	91.3	93.4
Divorced	8.4	17,700	83.0	88.1	91.9	87.8
Never married	5.6	14,900	83.6	90.5	91.6	86.4
All	54.2	17,300	83.7	88.7	91.7	89.3
Education						
High school dropout	9.9	12,400	84.0	93.2	91.6	91.2
High school graduate	52.5	16,500	83.3	89.1	91.8	88.3
College graduate	37.6	20,700	82.4	85.8	92.2	85.2
Race						
White	66.5	18,700	83.0	87.4	91.9	87.1
Black	9.8	15,400	83.3	89.7	91.8	88.2
Hispanic	16.1	15,400	82.8	89.7	92.0	87.7
Other	7.7	17,000	82.3	87.9	92.1	85.0
Work years						
Less than 20	14.5	12,100	85.1	93.3	91.2	91.8
20–29	16.8	15,400	84.8	91.4	91.3	90.9
30–34	12.5	17,100	83.3	88.8	91.8	89.4
35+	56.2	19,900	82.1	86.1	92.3	85.1
Shared lifetime income quintile						
Lowest	20.0	10,100	85.2	97.4	91.1	91.3
Second	20.0	14,700	83.8	92.0	91.6	89.6
Third	20.0	17,900	83.0	88.5	92.0	88.0
Fourth	20.0	20,900	82.4	85.5	92.1	86.2
Highest	20.0	24,800	81.9	83.2	92.4	84.2
Benefit type						
Retired worker	61.8	17,800	81.6	86.9	92.4	81.4
Spouse	6.0	10,600	79.5	85.2	93.6	85.9
Survivor	22.3	19,600	79.5	85.2	93.6	85.9
Disability	9.9	16,700	87.1	93.1	90.4	100.0

Source: Author's calculations from DYNASIM3 (Runid: 432) and the Congressional Budget Office (2005).

Notes: Shared lifetime earnings include a worker's entire earnings in years he or she is single and half of the earnings of both the worker and the worker's spouse in years he or she is married. For technical reasons Social Security benefits do not include the impact of the retirement earnings test.

Table 6. Near-Poverty Rates at Ages 62 to 67 and 80 to 85

Year	Scheduled benefits	Price indexing	Progressive price indexing	Reduced cost of living adjustment	Normal retirement age raised to 70
Beneficiaries ages 62 to 67					
2012	15.2	15.2	15.2	15.2	15.8
2020	13.7	14.7	14.0	14.1	15.1
2030	11.9	14.5	12.4	12.2	14.0
2040	9.4	13.6	10.1	10.1	11.5
2050	7.5	12.7	8.1	8.1	9.5
Beneficiaries ages 80 to 85					
2012	21.3	21.3	21.3	21.3	21.3
2020	18.6	18.6	18.6	19.7	18.6
2030	15.2	15.3	15.2	16.7	15.7
2040	12.6	14.3	13.1	14.3	13.9
2050	10.0	13.1	10.6	11.7	12.1

Source : Author's calculations from DYNASIM3 (Runid: 432).

Notes : Near-poverty rates are the percent of families with incomes below 150 percent of the federal poverty level. Family income includes Social Security, pensions, earnings, asset income, and Supplemental Security Income (SSI). For technical reasons Social Security benefits do not include the impact of the retirement earnings test.

Table 7. Scheduled Median Social Security Benefits as Percent of Family Income in 2050

	Ages 62 to 67	Ages 80 to 85
All	43.4	57.3
Men		
Married	33.4	55.0
Widowed	52.2	49.7
Divorced	50.5	50.2
Never married	50.2	47.5
All	39.4	52.7
Women		
Married	41.2	54.2
Widowed	57.8	62.9
Divorced	57.3	65.9
Never married	61.7	65.4
All	47.4	61.1
Education		
High school dropout	61.2	77.5
High school graduate	47.4	62.8
College graduate	34.8	45.5
Race		
White	41.4	53.4
Black	49.6	66.1
Hispanic	44.2	68.0
Other	42.9	56.3
Work years		
Less than 20	61.6	77.5
20–29	56.0	64.8
30–34	52.4	57.6
35+	33.8	51.3
Shared lifetime income quintile		
Lowest	64.1	77.5
Second	51.4	68.3
Third	46.8	59.5
Fourth	37.0	49.2
Highest	26.0	34.8
Benefit type		
Retired worker	35.7	53.6
Spouse	52.3	56.5
Survivor	61.3	62.5
Disability	67.2	68.8

Source: Author's calculations from DYNASIM3 (Runid: 432).

Notes: Family income includes Social Security, pensions, earnings, asset income, and Supplemental Security Income (SSI). For technical reasons Social Security benefits do not include the impact of the retirement earnings test. Shared lifetime earnings include a worker's entire earnings in years he or she is single and half of the earnings of both the worker and the worker's spouse in years he or she is married.