

Option: Reduce Annual Cost-of-Living Adjustment (COLA) by One Percentage Point, Effective 2010

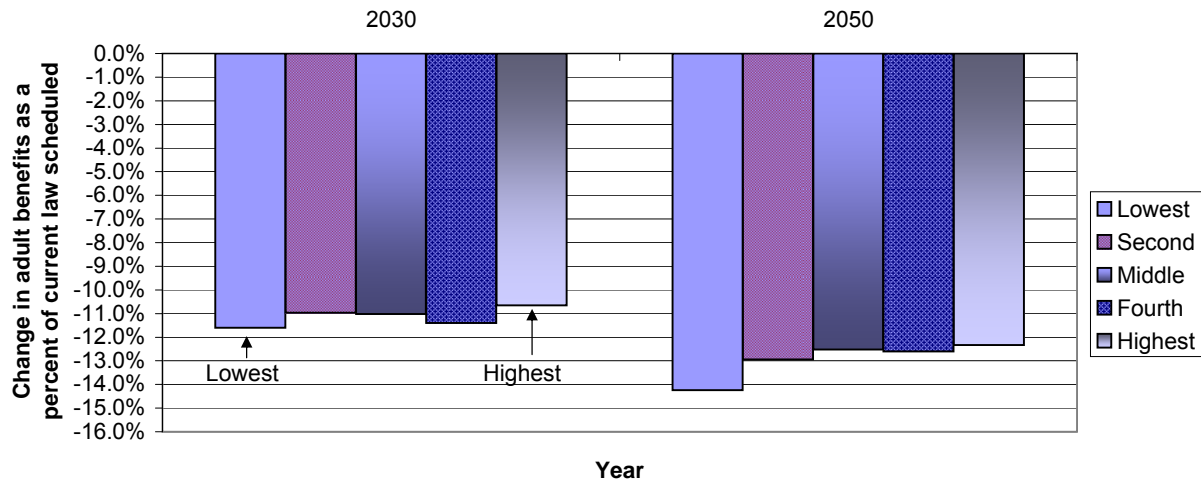
Summary comments on annual COLA reductions

- As the tables and figures show, COLA reductions are a relatively regressive way to reduce benefits.
 - In relative terms, women would experience greater benefit reductions than men.
 - Older (and long-disabled) beneficiaries would experience greater relative benefit reductions than younger beneficiaries.
 - Lower lifetime earners would experience greater reductions than higher lifetime earners (in part reflecting the tendency for later cohorts to experience relatively higher family earnings growth).
- While not highlighted in the tables and figures, a key argument for reducing the COLA is that it could be implemented quickly, and could thus distribute the burden of putting OASDI into long-term fiscal balance across more cohorts (as opposed to several other benefit reduction proposals in which younger and future workers would bear the entire burden of bringing the system into balance).
- In the aggregate, benefit levels under the COLA reduction on average fall between scheduled and payable benefits in 2050.
 - Using 2008 Trustees Assumptions, OCACT projects that a 1 percentage point reduction in the COLA effective December of 2009 would reduce the imbalance in program's long-run actuarial balance by about 84 percent.
 - For the oldest old (ages 85+), 2050 benefits are actually lower than payable benefits with the COLA reduction.
 - Benefit changes tend to be very large (>10%) among those with reductions (see Table COLA-4) in both 2030 and 2050.
 - Note: Some government forecasters project that there will not be any COLA increases over the next year or two because of anticipated zero or negative measured price inflation. This may have some effects on the relative changes, for example by age, under this option.
 - This may also have an effect on projection's of this provision's long-run impact on solvency in future Trustees Reports.

Reduce Annual COLA by One Percentage Point

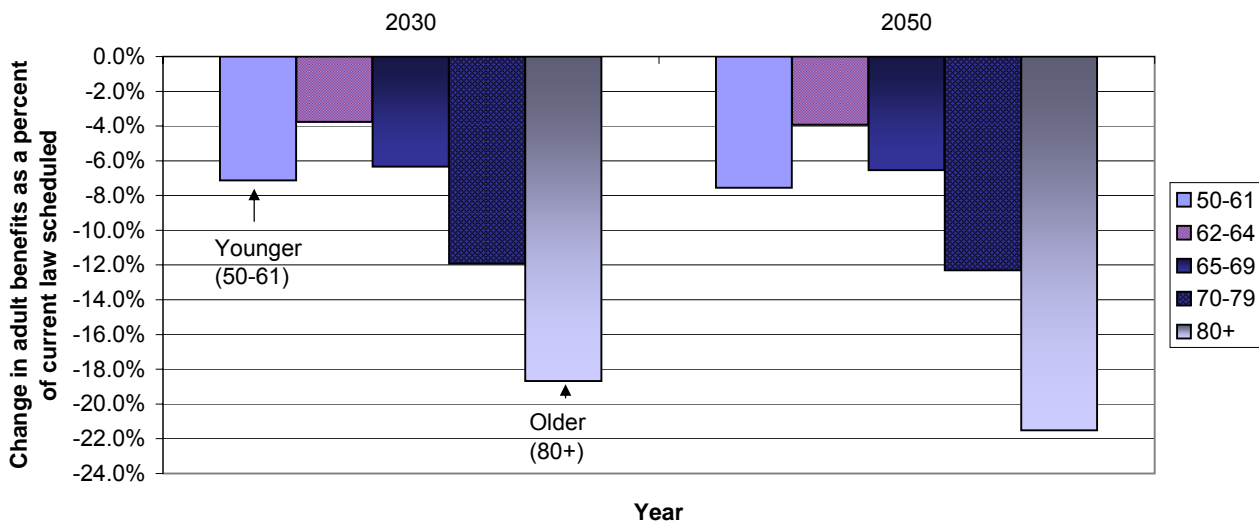
COLA FIGURES 1 & 2:
Mean Percent Changes in Adult Social Security Benefits, by Lifetime Earnings and Age

Shared Lifetime Earnings Quintile, 2030 and 2050



- Lower lifetime earners would experience greater reductions than higher lifetime earners (in part reflecting the tendency tendency for later cohorts to experience relatively higher family earnings growth).

Age, 2030 and 2050



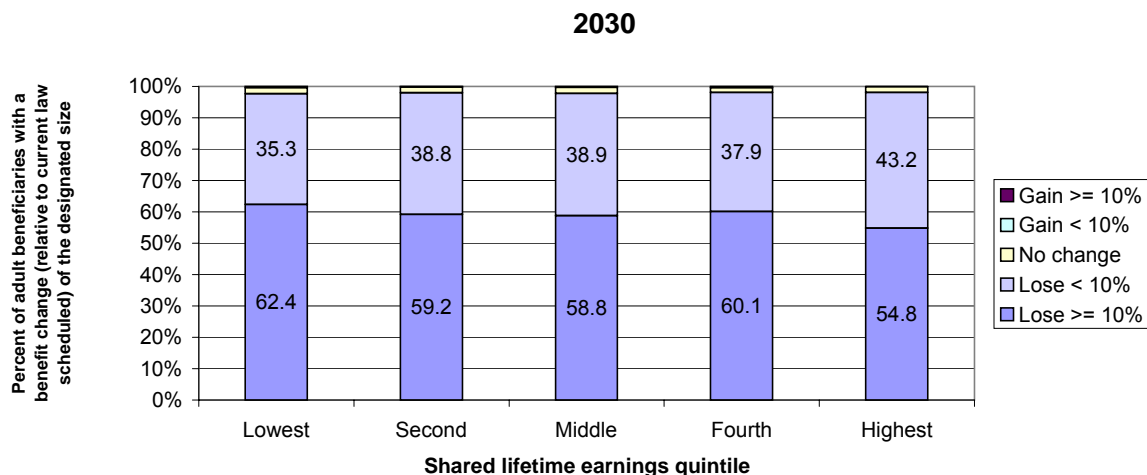
- COLA cuts accumulate over a lifetime, leading to very steep reductions in benefits at the oldest ages.

Source: DYNASIM (Run 614, April 2009).

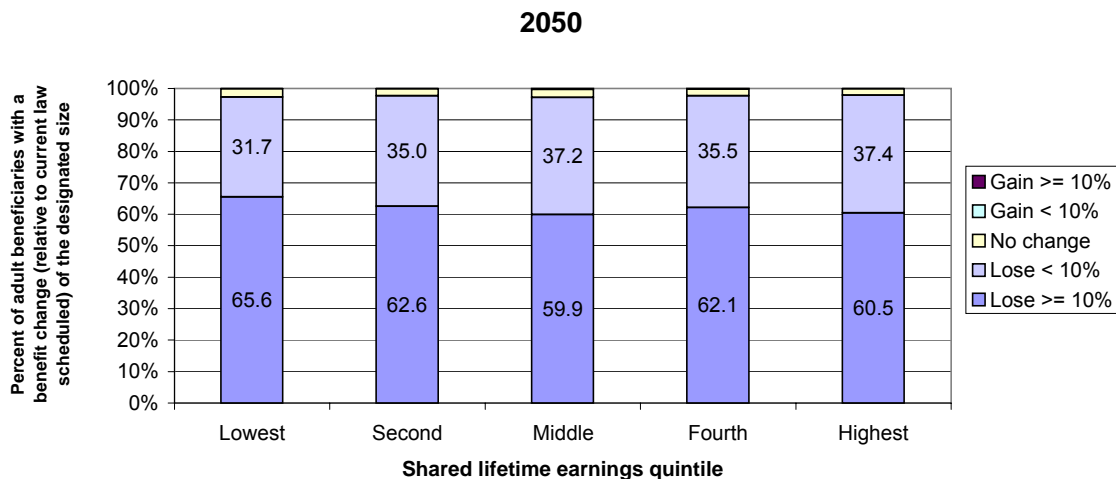
Notes: Uses individual benefit for married people. Excludes non-aged spouse dependent benefits. Shared lifetime earnings is defined as average indexed earnings ages 22-62 (or disability year if earlier), shared by spouses. Index used is Social Security's average wage index (AWI). Quintiles are defined using the beneficiary population (rather than the overall population).

Reduce Annual COLA by One Percentage Point

COLA FIGURES 3 & 4:
Distribution of Changes in Adult Social Security Benefits, by Lifetime Earnings



- The majority of 2030 beneficiaries would have benefits that were at least ten percent lower than current law scheduled under this option.
- The lowest lifetime earners in 2030 are the most likely of the earnings quintiles to have a reduction of ten percent or more (in part reflecting the tendency for later cohorts to experience relatively higher family earnings growth).



- Three-fifths of 2050 beneficiaries would have benefits that were at least ten percent lower than current law scheduled under this option.
- The lowest lifetime earners remain most likely to have a benefit reduction of ten percent or more.

Source: DYNASIM (Run 614, April 2009).

Notes: Uses individual benefit for married people. Excludes non-aged spouse dependent benefits. Shared lifetime earnings is defined as average indexed earnings ages 22-62 (or disability year if earlier), shared by spouses. Index used is Social Security's average wage index (AWI). Quintiles are defined using the beneficiary population (rather than the overall population).

Table COLA-1. OASDI Benefits in 2030 and 2050 for Adult Beneficiaries under Current Law and with an Annual COLA Reduction of One Percentage Point

	2030			2050		
	Current Law Scheduled	Current Law Payable	Reduce COLA by 1 Percentage Point	Current Law Scheduled	Current Law Payable	Reduce COLA by 1 Percentage Point
	Average, \$2009	as % of current law scheduled		Average, \$2009	as % of current law scheduled	
All	\$15,899	100.0	88.9	\$19,417	80.1	87.2
Gender						
Men	\$17,130	100.0	89.5	\$20,596	80.1	88.3
Women	14,834	100.0	88.3	18,358	80.1	86.2
Age						
Disabled < 35	\$12,819	100.0	96.6	\$16,997	80.1	96.7
Disabled 35-49	14,199	100.0	92.9	18,253	80.1	93.6
Disabled 50-59	15,521	100.0	92.9	19,256	80.1	92.5
60-61	15,828	100.0	92.7	18,989	80.1	92.2
62-64	12,861	100.0	96.2	15,818	80.1	96.1
65-69	15,598	100.0	93.7	19,351	80.1	93.5
70-74	16,498	100.0	89.8	20,531	80.1	89.6
75-79	16,813	100.0	85.8	20,228	80.1	85.4
80-84	16,947	100.0	82.5	20,065	80.1	81.4
85+	16,285	100.0	79.7	19,145	80.1	75.8
Education						
<High school	\$11,515	100.0	88.9	\$14,394	80.1	87.0
High school graduate	14,943	100.0	88.8	17,855	80.1	87.1
College or more	19,578	100.0	89.2	23,290	80.1	87.5
Shared Lifetime Earnings Quintile						
Lowest	\$9,208	100.0	88.4	\$11,004	80.1	85.8
Second	13,175	100.0	89.0	15,700	80.1	87.1
Middle	16,014	100.0	89.0	19,506	80.1	87.5
Fourth	18,698	100.0	88.6	22,959	80.1	87.4
Highest	22,396	100.0	89.3	27,916	80.1	87.7

Source: Urban Institute Retirement Policy Program, based on DYNASIM3 (run614, April 2009). For more information, contact Melissa Favreault. Notes: Uses individual rather than family benefit for individuals in married couple households. Excludes dependent benefits for non-aged spouses. Shared lifetime earnings are defined as the average of indexed earnings from ages 22 through 62 (or year of disability, whichever is first). (The index used is Social Security's Average Wage Index.) Quintiles are defined for the OASDI beneficiary population in the selected year, not the overall population.

Policy change takes effect in 2010.

Payable projections assume that reductions occur when the combined OASI and DI Trust Funds fall below zero (under 2008 OACT projections). Reductions are applied identically to OASI and DI beneficiaries based on combined income and cost rates (rather than the income and cost rates for the particular Trust Fund from which benefits are paid). Payable projections are projected to be lower under 2009 Trustees assumptions, so readers should interpret payable percentages conservatively.

Table COLA-2. OASDI Benefits in 2030 and 2050 for Beneficiaries Ages 62 to 69 under Current Law and with an Annual COLA Reduction of One Percentage Point

	2030			2050		
	Current Law Scheduled	Current Law Payable	Reduce COLA by 1 Percentage Point	Current Law Scheduled	Current Law Payable	Reduce COLA by 1 Percentage Point
	Average, \$2009	as % of current law scheduled		Average, \$2009	as % of current law scheduled	
All	\$14,775	100.0	94.3	\$18,263	80.1	94.2
Gender						
Men	\$15,772	100.0	94.7	\$19,582	80.1	94.7
Women	13,812	100.0	93.9	16,996	80.1	93.6
Age						
62-64	\$12,861	100.0	96.2	\$15,818	80.1	96.1
65-69	15,598	100.0	93.7	19,351	80.1	93.5
Education						
<High school	\$10,794	100.0	93.2	\$14,007	80.1	93.1
High school graduate	13,874	100.0	94.2	16,840	80.1	94.2
College or more	18,252	100.0	94.7	21,740	80.1	94.4
Shared Lifetime Earnings Quintile						
Lowest	\$8,578	100.0	92.8	\$10,553	80.1	91.9
Second	12,481	100.0	94.1	15,056	80.1	93.8
Middle	15,014	100.0	94.5	18,411	80.1	94.4
Fourth	17,150	100.0	94.6	21,499	80.1	94.5
Highest	20,737	100.0	94.8	26,019	80.1	94.8

Source: Urban Institute Retirement Policy Program, based on DYNASIM3 (run614, April 2009). For more information, contact Melissa Favreault. Notes: Uses individual rather than family benefit for individuals in married couple households. Excludes dependent benefits for non-aged spouses. Shared lifetime earnings are defined as the average of indexed earnings from ages 22 through 62 (or year of disability, whichever is first). (The index used is Social Security's Average Wage Index.) Quintiles are defined for the OASDI beneficiary population in the selected year, not the overall population. Policy change takes effect in 2010.

Payable projections assume that reductions occur when the combined OASI and DI Trust Funds fall below zero (under 2008 OCACT projections). Reductions are applied identically to OASI and DI beneficiaries based on combined income and cost rates (rather than the income and cost rates for the particular Trust Fund from which benefits are paid). Payable projections are projected to be lower under 2009 Trustees assumptions, so readers should interpret payable percentages conservatively.

Table COLA-3. Average and Median Ratio of Real Lifetime Shared OASDI Benefits to Real Shared OASDI Contributions for Members of the 1965-1972 Birth Cohorts (Ages 37 to 44 in 2009) Under Current Law and an Annual COLA Reduction of One Percentage Point

	Current Law Scheduled		Current Law Payable		Reduce COLA by 1 Percentage Point	
	average	median	average	median	average	median
All	1.684	1.136	1.541	1.008	1.483	1.012
Gender						
Men	1.420	1.003	1.304	0.897	1.267	0.904
Women	1.966	1.296	1.794	1.145	1.713	1.144
Education						
<High school	2.363	1.396	2.200	1.270	2.105	1.253
High school graduate	1.730	1.176	1.588	1.052	1.522	1.054
College or more	1.353	1.044	1.217	0.919	1.183	0.924
Shared Lifetime Earnings Quintile						
Lowest	3.013	1.715	2.808	1.531	2.648	1.542
Second	1.767	1.336	1.626	1.201	1.569	1.197
Middle	1.378	1.164	1.248	1.041	1.210	1.045
Fourth	1.098	1.033	0.980	0.914	0.965	0.920
Highest	0.912	0.899	0.802	0.783	0.799	0.792

Source: Urban Institute Retirement Policy Program, based on DYNASIM3 (run614). For more information, contact Melissa Favreault.

Notes: Benefits and taxes are shared when an individual is married. Excludes dependent benefits for non-aged spouses. Shared lifetime earnings are defined as the average of indexed earnings from ages 22 through 62 (or year of death or disability, whichever is first). (The index used is Social Security's Average Wage Index.) Quintiles are defined for the 2050 beneficiary population.

Policy change takes effect in 2010.

Discount rate for accumulating both contributions and benefits is 2 percent real. Individuals who die prior to receiving OASDI benefits are included in the tabulations if they make payroll tax contributions and survive to at least age 30. To reduce the influence of extreme outliers, we cap the tax-benefit ratios at 99.

Payable projections assume that reductions occur when the combined OASI and DI Trust Funds fall below zero (under 2008 OCACT projections). Reductions are applied identically to OASI and DI beneficiaries based on combined income and cost rates (rather than the income and cost rates for the particular Trust Fund from which benefits are paid). Payable projections are projected to be lower under 2009 Trustees assumptions, so readers should interpret payable percentages conservatively.

Table COLA-4. Distributions of Changes in OASDI Benefits (Relative to Current Law Scheduled) in 2030 and 2050 for Adult Beneficiaries with an Annual COLA Reduction of One Percentage Point

	2030					2050				
	Shared Lifetime Earnings Quintile					Shared Lifetime Earnings Quintile				
	Lowest	Second	Middle	Fourth	Highest	Lowest	Second	Middle	Fourth	Highest
lose >=20%	18.6	16.4	15.4	13.7	6.7	34.0	26.9	24.2	23.1	20.4
lose 15-19.99%	21.9	19.4	19.5	22.6	22.2	14.5	16.8	16.8	18.0	19.1
lose 10-14.99%	21.9	23.4	24.0	23.8	25.9	17.1	18.9	18.9	21.0	21.0
lose 5-9.99%	20.1	21.2	22.6	24.0	28.1	16.0	18.5	20.1	20.2	21.9
lose < 5 %	15.3	17.5	16.3	13.9	15.2	15.7	16.5	17.1	15.3	15.5
no change	2.0	1.8	1.9	1.6	1.9	2.6	2.2	2.6	2.1	2.1
gain < 5%	0.3	0.1	0.3	0.3	0.1	0.1	0.1	0.3	0.2	0.1
gain 5-9.99%	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
gain 10-14.99%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
gain 15-19.99%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
gain >=20%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Urban Institute Retirement Policy Program, based on DYNASIM3 (run614, April 2009). For more information, contact Melissa Favreault.

Notes: Uses individual rather than family benefit for individuals in married couple households. Excludes dependent benefits for non-aged spouses. Shared lifetime earnings are defined as the average of indexed earnings from ages 22 through 62 (or year of disability, whichever is first). (The index used is Social Security's Average Wage Index.) Quintiles are defined for the OASDI beneficiary population in the selected year, not the overall population.

Policy change takes effect in 2010.

In displays of full distributions of benefit changes at a single point in time, small numbers of anomalous cases (for example, apparent benefit increases in cases in which only reductions should occur or reductions when only increases should occur) typically arise. These are often the result of complex interactions with the retirement earnings test or cases of individuals switching benefit types (for example, from worker to survivor). In many cases, the beneficiary experiences a roughly offsetting change in a subsequent year. These projections allow such anomalies to occur (rather than overwriting the projected benefits to conform with an expected benefit).