

## Option: Increase Computation Years from 35 to 38, Effective 2010

### *Summary comments on computation years increases*

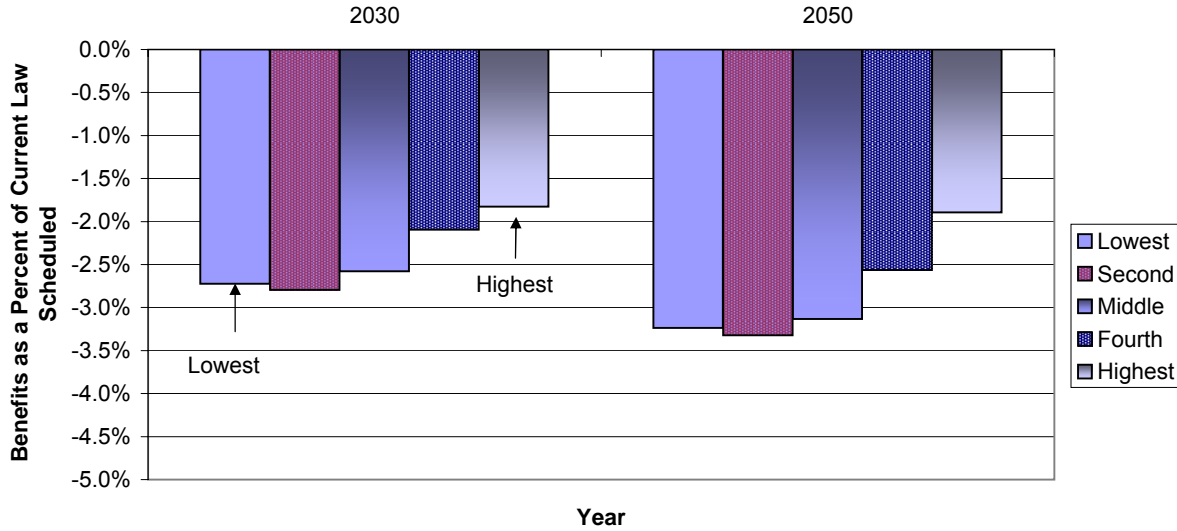
- As the tables and figures show, computation years increases are a relatively regressive way to reduce benefits.
- In relative terms, those with the highest lifetime earnings experience lower reductions than those in higher earnings quintiles.
- More educated beneficiaries (those with more than a high school diploma) have lower relative reductions than less educated beneficiaries.
- The age and year patterns in the table to some extent reflect the phase-in of the proposal (the proposal does not affect individuals in earlier cohorts and/or who were entitled prior to 2010).

- The relative similarity in men's and women's changes under this option may be surprising given that men are more likely than women to work more than 35 years. The relative similarity reflects several facts: 1.) sizable fractions of women receive OASDI on a husband's or former husband's record, 2.) women are older, and therefore more likely to not have experienced the reform (in the 2030 results), and 3.) women increasingly work long careers.
- This proposal's relative regressivity needs to be weighed against its improved work incentives and equity for workers with careers longer than 35 years (relative to those with similar earnings spread over exactly 35 years).
- Annual benefit changes rarely exceed 10% (Table COMP-4).
- The effects of this option on long-term fiscal OASDI actuarial balance are significantly less than those for the one percentage point COLA reduction.
  - Using 2008 Trustees Assumptions, OCACT projects that a gradual increase in computation years to 38 phased in 2009-2013 would reduce the imbalance in program's long-run actuarial balance by about 18.2 percent.

## Increase Computation Years to 38

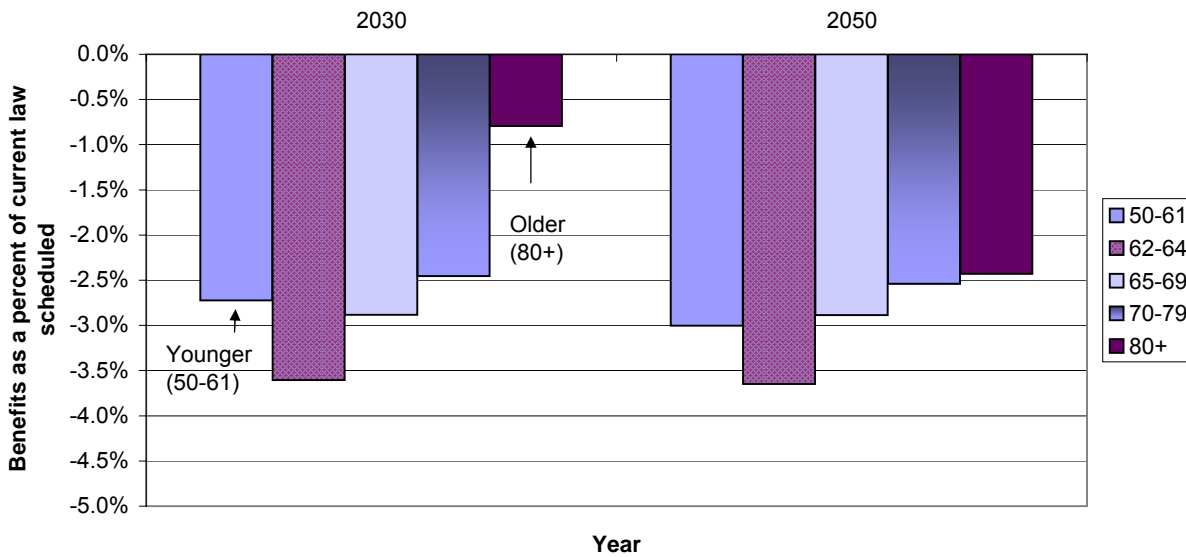
COMP FIGURES 1 & 2:  
Mean Percent Changes in Adult Social Security Benefits, by Lifetime Earnings and Age

### Shared Lifetime Earnings Quintile, 2030 and 2050



- Benefit reductions decline with lifetime earnings in both 2030 and 2050.

### Age, 2030 and 2050



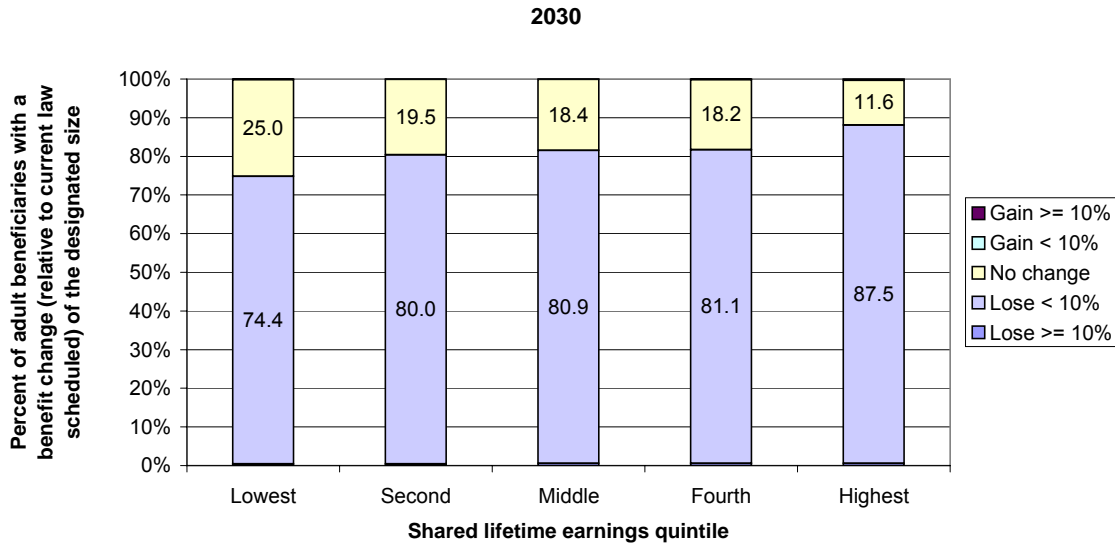
- In 2030, the benefit reductions decline more markedly with age as a result of a phase-in effect. When the option is almost fully phased in (2050), the pattern persists but with a gentler decline.
- Such options could be specified to prorate the computation years increase for the disabled.

Source: DYNASIM (Run 614, April 2009).

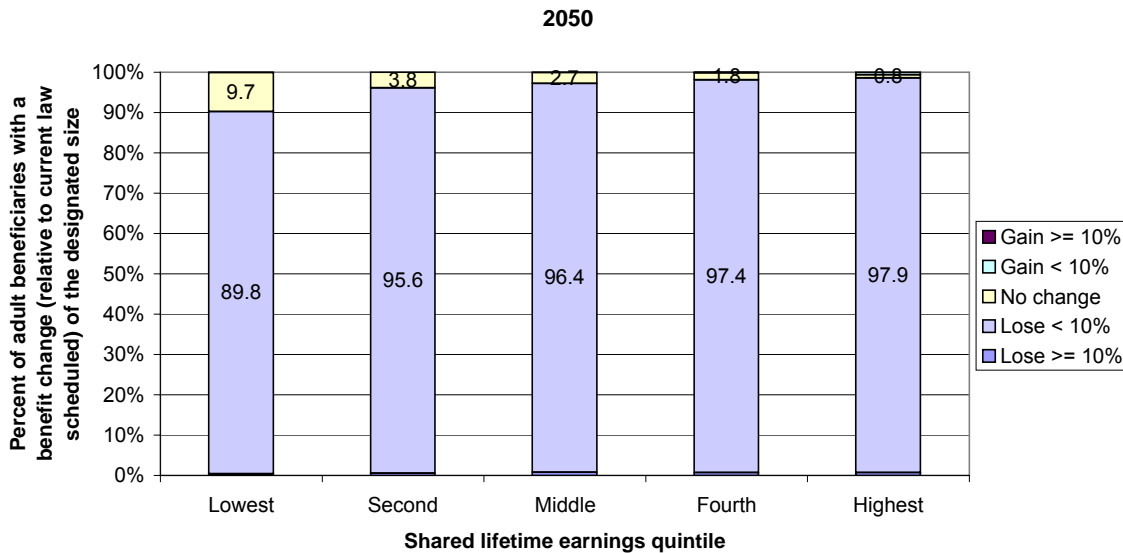
Notes: Uses individual benefit for married people. Excludes non-aged spouse dependent benefits. Shared lifetime earnings is defined as average indexed earnings ages 22-62 (or disability year if earlier), shared by spouses. Index used is Social Security's average wage index (AWI). Quintiles are defined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

## Increase Computation Years to 38

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



- The majority of 2030 beneficiaries would have benefits that were less than ten percent lower under this option.
- Most of those experience little or no change had their benefits determined before the proposal took effect. This partially accounts for the fraction of those with losses of at least 10 percent increasing with income.



- Most 2050 beneficiaries would have benefits that were by less than ten percent lower under this option.
- The lowest lifetime earners remain least likely to have a 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 COMP-1. OASDI Benefits in 2030 and 2050 for Adult Beneficiaries under Current Law and with an Increase in Computation Years to 38

	2030			2050		
	Current Law Scheduled	Current Law Payable	Computation Years Increase to 38	Current Law Scheduled	Current Law Payable	Computation Years Increase to 38
	Average, \$2009	as % of current law scheduled		Average, \$2009	as % of current law scheduled	
<b>All</b>	\$15,899	100.0	97.7	\$19,417	80.1	97.3
<b>Gender</b>						
Men	\$17,130	100.0	97.7	\$20,596	80.1	97.5
Women	14,834	100.0	97.7	18,358	80.1	97.2
<b>Age</b>						
Disabled < 35	\$12,819	100.0	98.4	\$16,997	80.1	98.1
Disabled 35-49	14,199	100.0	97.2	18,253	80.1	97.2
Disabled 50-59	15,521	100.0	97.3	19,256	80.1	97.0
60-61	15,828	100.0	97.1	18,989	80.1	96.9
62-64	12,861	100.0	96.4	15,818	80.1	96.4
65-69	15,598	100.0	97.1	19,351	80.1	97.1
70-74	16,498	100.0	97.4	20,531	80.1	97.4
75-79	16,813	100.0	97.7	20,228	80.1	97.5
80-84	16,947	100.0	98.7	20,065	80.1	97.6
85+	16,285	100.0	99.9	19,145	80.1	97.6
<b>Education</b>						
<High school	\$11,515	100.0	97.3	\$14,394	80.1	96.7
High school graduate	14,943	100.0	97.7	17,855	80.1	97.2
College or more	19,578	100.0	97.8	23,290	80.1	97.5
<b>Shared Lifetime Earnings Quintile</b>						
Lowest	\$9,208	100.0	97.3	\$11,004	80.1	96.8
Second	13,175	100.0	97.2	15,700	80.1	96.7
Middle	16,014	100.0	97.4	19,506	80.1	96.9
Fourth	18,698	100.0	97.9	22,959	80.1	97.4
Highest	22,396	100.0	98.2	27,916	80.1	98.1

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 COMP-2. OASDI Benefits in 2030 and 2050 for Adult Beneficiaries Ages 62 to 69 under Current Law and with an Increase in Computation Years to 38

	2030			2050		
	Current Law Scheduled	Current Law Payable	Computation Years Increase to 38	Current Law Scheduled	Current Law Payable	Computation Years Increase to 38
	Average, \$2009	as % of current law scheduled		Average, \$2009	as % of current law scheduled	
<b>All</b>	\$14,775	100.0	96.9	\$18,263	80.1	96.9
<b>Gender</b>						
Men	\$15,772	100.0	97.0	\$19,582	80.1	97.1
Women	13,812	100.0	96.8	16,996	80.1	96.7
<b>Age</b>						
62-64	\$12,861	100.0	96.4	\$15,818	80.1	96.4
65-69	15,598	100.0	97.1	19,351	80.1	97.1
<b>Education</b>						
<High school	\$10,794	100.0	96.5	\$14,007	80.1	96.4
High school graduate	13,874	100.0	96.8	16,840	80.1	96.9
College or more	18,252	100.0	97.2	21,740	80.1	97.1
<b>Shared Lifetime Earnings Quintile</b>						
Lowest	\$8,578	100.0	96.6	\$10,553	80.1	96.5
Second	12,481	100.0	96.5	15,056	80.1	96.4
Middle	15,014	100.0	96.6	18,411	80.1	96.5
Fourth	17,150	100.0	97.0	21,499	80.1	97.0
Highest	20,737	100.0	97.6	26,019	80.1	97.7

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 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 COMP-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 with an Increase in Computation Years to 38**

	<b>Current Law Scheduled</b>		<b>Current Law Payable</b>		<b>Computation Years Increase to 38</b>	
	average	median	average	median	average	median
<b>All</b>	1.684	1.136	1.541	1.008	1.643	1.102
<b>Gender</b>						
Men	1.42	1.003	1.304	0.897	1.385	0.975
Women	1.966	1.296	1.794	1.145	1.918	1.260
<b>Education</b>						
<High school	2.363	1.396	2.200	1.270	2.303	1.348
High school graduate	1.730	1.176	1.588	1.052	1.688	1.142
College or more	1.353	1.044	1.217	0.919	1.319	1.017
<b>Shared Lifetime Earnings Quintile</b>						
Lowest	3.013	1.715	2.808	1.531	2.943	1.646
Second	1.767	1.336	1.626	1.201	1.721	1.284
Middle	1.378	1.164	1.248	1.041	1.338	1.130
Fourth	1.098	1.033	0.980	0.914	1.070	1.006
Highest	0.912	0.899	0.802	0.783	0.894	0.884

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 COMP-4. Distributions of Changes in OASDI Benefits (Relative to Current Law Scheduled) in 2030 and 2050 for Adult Beneficiaries with a 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%	0.1	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.3	0.4
lose 15-19.99%	0.0	0.1	0.1	0.1	0.2	0.0	0.1	0.2	0.2	0.1
lose 10-14.99%	0.3	0.1	0.3	0.3	0.2	0.2	0.2	0.3	0.3	0.2
lose 5-9.99%	16.3	13.2	11.7	7.1	2.8	17.4	16.1	16.6	10.0	5.5
lose < 5 %	58.2	66.8	69.2	74.1	84.7	72.4	79.6	79.8	87.4	92.4
no change	25.0	19.5	18.4	18.2	11.6	9.7	3.8	2.7	1.8	0.8
gain < 5%	0.1	0.1	0.1	0.1	0.3	0.1	0.0	0.1	0.1	0.6
gain 5-9.99%	0.0	0.0	0.0	0.0	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.