

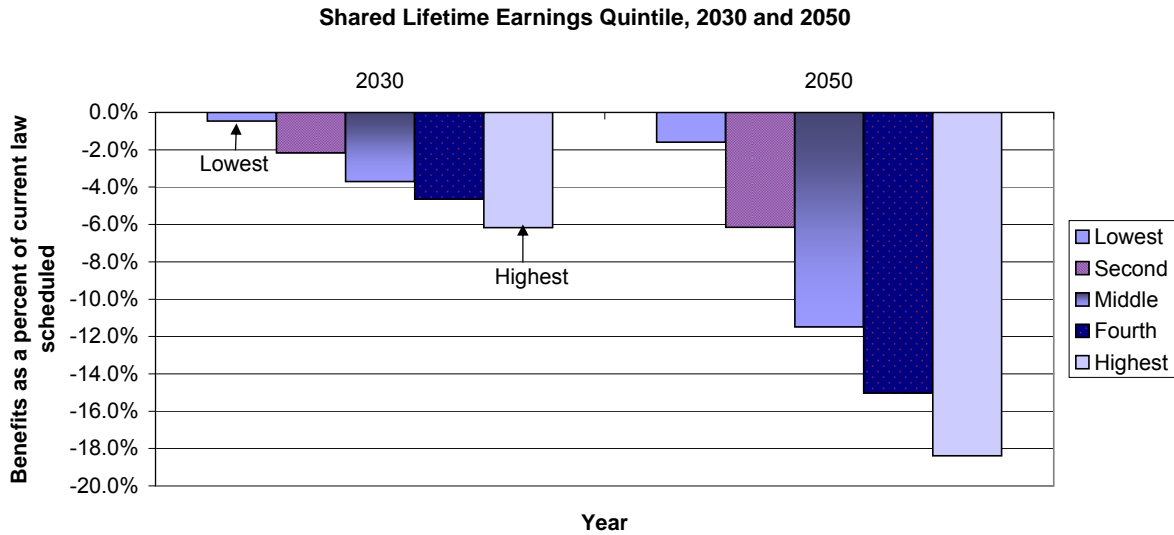
## **Option: Implement Progressive Price Indexing (with New Bend Point at the 30th Percentile of the Lifetime Earnings Distribution), Effective 2012**

*Summary comments on on progressive price indexing (with a new bend point set at approximately the 30th percentile of earners)*

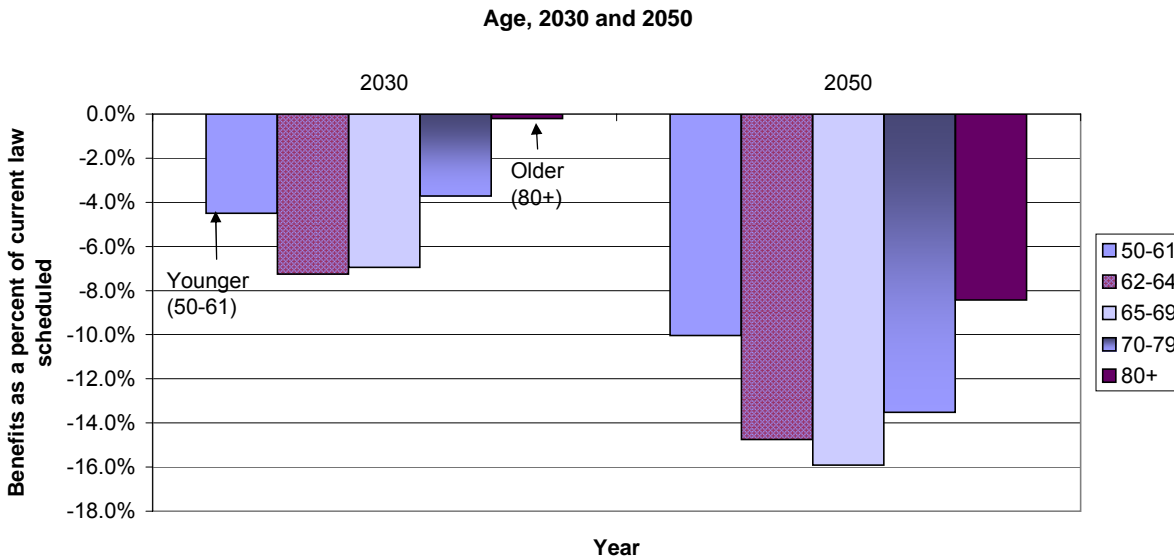
- As the tables and figures show, an important feature of progressive price indexing is the way that it shields lowest quintiles of the earnings distribution from large benefit reductions.  
  
A second important feature is the way that, under the current parameterization, benefit reductions increase markedly across cohorts (and over time), leading to very large reductions for higher earners in future years (with those in the second through fourth quintiles also seeing increasing reductions). This would to some degree shift the system away from its current focus on replacement of wages prior to retirement/disability/death.
- In the aggregate, the fact that the progressive price indexing falls between scheduled and payable benefits in 2050 indicates that it does not fully bring the system into long-term balance at that point (though it makes quite significant inroads).
- OCACT projects (using 2008 Trustees assumptions) that progressive price indexing implemented effective in 2015 with a bend point at the 30th percentile would reduce Social Security's long-term (75-year) imbalance by about 80 percent.
- The distribution of losses from progressive price indexing is highly skewed (Table PPI-4). By 2050, three-quarters of those in the highets quintile will lose at least ten percent (relative to current law scheduled). Thirty percent will lose at least twenty percent (again, relative to current law scheduled).

## Progressive Price Indexing (30th Percentile)

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



- Benefit reductions decrease markedly with lifetime earnings, especially over time.



- The benefit reduction declines with age in part reflect phase-in effects.
- The option could be specified to treated disabled workers and survivors in various ways.

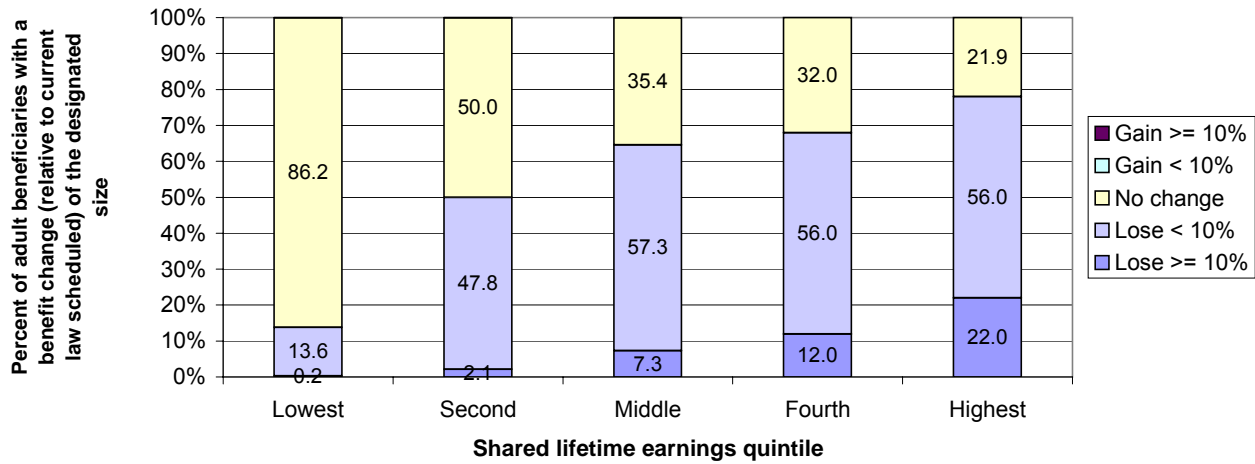
Source: DYNASIM (Run 614, April 2009).

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).

## Progressive Price Indexing (30th Percentile)

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

2030



- The distribution of benefit changes varies markedly by lifetime earnings, with greater reductions at higher levels.
- Most of those in the lowest quintile experience no change in their benefits.

2050



- By 2050, we see escalation in the reductions at middle to higher earnings levels.
- Benefits for most of those in the upper 2 quintiles decline by more than 10 percent.

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 PPI-1. OASDI Benefits in 2030 and 2050 for Adult Beneficiaries under Current Law and with Progressive Price Indexing (with a New Bendpoint Set at the 30th Percentile of Earners)

	2030			2050		
	<b>Current Law Scheduled</b>	<b>Current Law Payable</b>	<b>Progressive Price Indexing (Bend Point at 30th Percentile)</b>	<b>Current Law Scheduled</b>	<b>Current Law Payable</b>	<b>Progressive Price Indexing (Bend Point at 30th Percentile)</b>
	Average, \$2009	as % of current law scheduled		Average, \$2009	as % of current law scheduled	
<b>All</b>	\$15,899	100.0	96.0	\$19,417	80.1	87.7
<b>Gender</b>						
Men	\$17,130	100.0	95.4	\$20,596	80.1	86.4
Women	14,834	100.0	96.6	18,358	80.1	89.0
<b>Age</b>						
Disabled < 35	\$12,819	100.0	97.6	\$16,997	80.1	93.9
Disabled 35-49	14,199	100.0	96.7	18,253	80.1	91.6
Disabled 50-59	15,521	100.0	95.6	19,256	80.1	90.0
60-61	15,828	100.0	95.1	18,989	80.1	89.7
62-64	12,861	100.0	92.7	15,818	80.1	85.3
65-69	15,598	100.0	93.1	19,351	80.1	84.1
70-74	16,498	100.0	95.3	20,531	80.1	85.7
75-79	16,813	100.0	97.6	20,228	80.1	87.5
80-84	16,947	100.0	99.7	20,065	80.1	89.5
85+	16,285	100.0	99.9	19,145	80.1	93.4
<b>Education</b>						
<High school	\$11,515	100.0	97.8	\$14,394	80.1	92.8
High school graduate	14,943	100.0	96.6	17,855	80.1	89.4
College or more	19,578	100.0	94.7	23,290	80.1	84.8
<b>Shared Lifetime Earnings Quintile</b>						
Lowest	\$9,208	100.0	99.5	\$11,004	80.1	98.4
Second	13,175	100.0	97.8	15,700	80.1	93.9
Middle	16,014	100.0	96.3	19,506	80.1	88.5
Fourth	18,698	100.0	95.4	22,959	80.1	85.0
Highest	22,396	100.0	93.8	27,916	80.1	81.6

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 2012, and the 30th percentile is defined based on non-disabled workers in the 1948 birth cohort with at least 40 covered quarters.

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 PPI-2. OASDI Benefits in 2030 and 2050 for Beneficiaries Ages 62-69 under Current Law and with Progressive Price Indexing (with a New Bendpoint Set at the 30th Percentile of Earners)

	2030			2050		
	<u>Current Law Scheduled</u>	<u>Current Law Payable</u>	<u>Progressive Price Indexing (Bend Point at 30th Percentile)</u>	<u>Current Law Scheduled</u>	<u>Current Law Payable</u>	<u>Progressive Price Indexing (Bend Point at 30th Percentile)</u>
	Average, \$2009	as % of current law scheduled		Average, \$2009	as % of current law scheduled	
<b>All</b>	\$14,775	100.0	93.0	\$18,263	80.1	84.4
<b>Gender</b>						
Men	\$15,772	100.0	92.2	\$19,582	80.1	82.8
Women	13,812	100.0	93.8	16,996	80.1	86.1
<b>Age</b>						
62-64	\$12,861	100.0	92.7	\$15,818	80.1	85.3
65-69	15,598	100.0	93.1	19,351	80.1	84.1
<b>Education</b>						
<High school	\$10,794	100.0	96.9	\$14,007	80.1	91.4
High school graduate	13,874	100.0	94.1	16,840	80.1	86.6
College or more	18,252	100.0	90.3	21,740	80.1	80.5
<b>Shared Lifetime Earnings Quintile</b>						
Lowest	\$8,578	100.0	99.4	\$10,553	80.1	98.2
Second	12,481	100.0	96.5	15,056	80.1	92.6
Middle	15,014	100.0	93.6	18,411	80.1	85.6
Fourth	17,150	100.0	91.4	21,499	80.1	80.5
Highest	20,737	100.0	89.0	26,019	80.1	76.1

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 2012, and the 30th percentile is defined based on non-disabled workers in the 1948 birth cohort with at least 40 covered quarters.

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 PPI-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 Progressive Price Indexing (with a New Bendpoint Set at the 30th Percentile of Earners)

	Current Law Scheduled		Current Law Payable		Progressive Price Indexing (Bend Point at 30th Percentile)	
	average	median	average	median	average	median
<b>All</b>	1.684	1.136	1.541	1.008	1.601	1.024
<b>Gender</b>						
Men	1.42	1.003	1.304	0.897	1.345	0.899
Women	1.966	1.296	1.794	1.145	1.873	1.173
<b>Education</b>						
<High school	2.363	1.396	2.200	1.270	2.317	1.325
High school graduate	1.730	1.176	1.588	1.052	1.653	1.073
College or more	1.353	1.044	1.217	0.919	1.244	0.911
<b>Shared Lifetime Earnings Quintile</b>						
Lowest	3.013	1.715	2.808	1.531	2.988	1.702
Second	1.767	1.336	1.626	1.201	1.708	1.268
Middle	1.378	1.164	1.248	1.041	1.276	1.062
Fourth	1.098	1.033	0.980	0.914	0.979	0.908
Highest	0.912	0.899	0.802	0.783	0.784	0.764

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 2012, and the 30th percentile is defined based on non-disabled workers in the 1948 birth cohort with at least 40 covered quarters.

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 PPI-4. Distributions of Changes in OASDI Benefits (Relative to Current Law Scheduled) in 2030 and 2050 for Adult Beneficiaries with Progressive Price Indexing (with a New Bendpoint Set at the 30th Percentile of Earners)

	2030					2050				
	Shared Lifetime Earnings Quintile					Shared Lifetime Earnings Quintile				
	Lowest	Second	Middle	Fourth	Highest	Lowest	Second	Middle	Fourth	Highest
lose >=20%	0.0	0.5	1.1	1.9	3.1	0.7	2.3	10.1	17.3	29.6
lose 15-19.99%	0.0	0.2	0.5	0.9	1.9	0.8	5.4	15.2	20.5	24.0
lose 10-14.99%	0.2	1.4	5.7	9.2	17.0	2.3	12.6	19.6	23.3	21.1
lose 5-9.99%	1.1	12.4	22.0	27.6	31.8	5.2	21.5	23.8	18.8	14.4
lose < 5 %	12.4	35.5	35.3	28.4	24.2	12.8	23.6	15.9	10.2	6.3
no change	86.2	50.0	35.4	32.0	21.9	78.1	34.6	15.1	10.0	4.4
gain < 5%	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.0	0.0
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	0.1	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 2012, and the 30th percentile is defined based on non-disabled workers in the 1948 birth cohort with at least 40 covered quarters.