U.S. Senate Committee on the Budget
Hearing on "Delivering Benefits and Protecting Retirement Security"
Testimony of Rebecca D. Vallas, CEO, National Academy of Social Insurance
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Chairman Whitehouse, Ranking Member Grassley, and Members of the Committee, thank you for the opportunity to testify today. My name is Rebecca Vallas, and I have the privilege of serving as the Chief Executive Officer of the National Academy of Social Insurance, a diverse, nonpartisan network of more than 1,200 of the nation's leading experts on Social Security, Medicare, and other social insurance programs. My testimony today reflects my own views and may not reflect the views of the Academy's members.

The Academy envisions a society where economic security, well-being, and health care are assured across the lifespan and we are each adequately protected against the "hazards and vicissitudes of life," in the iconic words of Franklin Delano Roosevelt upon signing the Social Security Act in 1935.

That's why, since the Academy's founding by former Social Security Commissioner Robert Ball in 1986, the organization and its members have championed the safeguarding, strengthening, and updating of America's social insurance system, to enable individuals and families to maintain their standards of living and protect them from poverty and hardship in the event of retirement, death, disability, and unemployment. And that's why I've devoted my career to the same mission. I think of the Academy's members as the stewards of social insurance. And since the Academy's founding, protecting and strengthening Social Security has been core to its work.

Today's hearing comes at a critical moment, with the clock ticking for policymakers to address Social Security's long-term financing gap—and the Social Security Administration facing major customer service challenges, due in large part to 10+ years of disinvestment in its administrative funding.

That said, it's a pleasure to be part of a hearing on a topic where there's so much agreement at a baseline level. Republicans and Democrats alike—including Americans of all political stripes; current and future beneficiaries; and most if not all of the members of this Committee—agree it is essential that we keep Social Security's promises to the American people, and have stated their opposition to benefit cuts. Thus, the only question that remains is how to achieve these goals.

It is with this question in mind that I will offer three main points today:

- First, Social Security is key to the economic security of U.S. workers and families, and the vast majority simply cannot afford cuts to already modest benefits that they rely on to get by.
- Second, keeping Social Security's promises to current and future generations will require strengthening the program's financing. If policymakers take no action prior to 2034, we will see across-the-board benefit cuts that no one wants to allow to happen.
- And third, delivering on Social Security's promise to the American people requires ensuring that the Social Security Administration has the resources it needs to administer its programs and ensure high-quality customer service.

1. Social Security is key to the economic security of American workers and families, and the vast majority simply cannot afford cuts to already modest benefits.

Social Security has been an integral part of American life for nearly a century. The bedrock of America's social insurance system, Social Security serves as the foundation of retirement security for the vast majority of American workers. In addition to retirement benefits, Social Security provides a suite of insurance that provides essential economic protection across the lifespan—yes, for those of us lucky enough to make it to retirement, *and* also for those of us who experience life-changing disability that impacts our ability to work, or who lose a breadwinner. Fully 1 in 5 Social Security beneficiaries receive disability benefits or survivor's benefits because they lost a parent who died prematurely.

This year alone, approximately 68 million Americans are receiving some type of Social Security benefit: around 53 million receive retirement benefits, nearly 6 million receive survivors' benefits, and nearly 8 million receive disability insurance benefits.

Benefits are incredibly modest, yet absolutely vital to the economic well-being of the individuals and families who receive them. Focusing on the retirement side, given the focus of today's hearing: the average monthly Social Security retirement benefit in 2024 is $1,864. For roughly 40 percent of retirees, Social Security makes up half or more of their income; for 1 in 7, it makes up 90 percent or more.[1] For the typical retiree, it replaces less than 40 percent of their pre-retirement income.[2] The program provides especially important economic protection for older women, people of color, and disabled workers, who are disproportionately likely to lack other sources of income in retirement.

[1] Irina Dushi and Brad Trenkamp, "Improving the Measurement of Retirement Income of the Aged Population," SSA, ORES Working Paper No 116, January 2021, https://www.ssa.gov/policy/docs/workingpapers/wp116.html.
[2] Kyle Burkhalter and Chris Chaplain, "Replacement Rates for Hypothetical Retired Workers," SSA, Office of the Chief Actuary, Actuarial Note Number 2023.9, March 2023, https://www.ssa.gov/OACT/NOTES/ran9/an2023-9.pdf.

What would the picture be without Social Security? Nearly 4 in 10 older adults would have incomes below the poverty line, compared with 1 in 10 today. And without the disability insurance it provides, more than 4 in 10 non-elderly disabled adults would live below the poverty line, compared with roughly 1 in 4 today. All told, at least 23 million more U.S. adults and children would live below the federal government's official poverty line, if not for Social Security.

When we talk about Social Security, it's easy to get lost in facts and figures, bend points, and percentages of payroll—and all too often, that's where ivory tower debates around Social Security remain. But Social Security isn't just a government program. And it isn't just a math problem to be solved. It's a reflection of our shared values as Americans, of our shared awareness that we're all in this together, and that we are all interconnected. The reason there's so much bipartisan support and love for this program is that we feel this not just at a financial level, but at a human and spiritual level. It's that feeling inside of us that we all know when we see someone in need.

Former NFL player and now Social Security disability insurance beneficiary Steve Gleason spoke to this dimension of the program recently as part of a White House event marking the 89th anniversary of the program when he said: *Social Security is more than just a safety net; it embodies our nation's values of compassion, service, support, and unity. It says that we, as a society, believe in taking care of our most vulnerable members, while ensuring they have the resources we all need to live as independently as possible. Social Security is a commitment we make to each other.*[3]

When you ask people receiving Social Security what it means to them—and what they would do without it, or if it were cut—you hear that they wouldn't be able to pay their bills or afford enough food to last the month; that they'd be cutting pills in half; that they wouldn't be able to live independently; that they'd have to "work until they die." These are the people we must keep front of mind as we think about the future of this vital program—and the importance of strengthening its finances. They are our grandmothers and grandfathers, our parents, our uncles and aunts, our sisters and brothers, our friends and neighbors. And someday, if not already, they will be us.

Finally, before I move on from the critical importance of America's Social Security system to workers and families, I want to take a brief moment to mention Supplemental Security Income, or SSI, which is marking 50 years of providing benefits to very low-income disabled and older people. While SSI isn't operated out of the Social Security trust funds, it constitutes a critical part of the Social Security system. And while SSI benefits are even more modest than Social Security—at just $943 per month in

[3] White House celebration of Social Security's 89th anniversary, August 14, 2024, https://youtu.be/yy3N-LycudE.

2024, SSI benefits are not enough on their own to bring an individual above three quarters of the federal poverty line—SSI also plays a critical role in blunting the effects of poverty and hardship for more than 7 million Americans with disabilities and older adults, including nearly 1 million disabled children. Importantly, SSI also boosts the incomes of roughly 2.5 million "concurrent beneficiaries," for whom SSI acts as a vital supplement to very low monthly Social Security payments.

2. Keeping Social Security's promises for current and future generations will require strengthening Social Security's financing.

Social Security currently faces a significant, though manageable long-term financing shortfall. While its trust funds currently have $2.8 trillion in reserves, Social Security's trustees forecast that the program's reserves will be depleted by the year 2034 if policymakers do not act. In that event, while Social Security would still be able to pay roughly 80 percent of promised benefits, we would see an across-the-board benefit cut that the vast majority of beneficiaries simply cannot afford—and which I trust none of you want to see jeopardize the financial well-being of millions of your constituents.

Options to address Social Security's financing gap fall into two primary categories: *increasing revenues* and *cutting benefits*. While benefit cuts are simply unaffordable for the vast majority of Social Security beneficiaries, Senator Whitehouse's Medicare and Social Security Fair Share Act demonstrates that the program's long-term financing shortfall isn't just manageable; it can be more than fully addressed without cutting benefits. As policymakers consider the options for Social Security's future, understanding how recent economic trends have impacted its financing is of great value.

The effect of recent economic trends on Social Security's finances:

When major action was last taken to address Social Security's financing in 1983—through a set of changes that mostly relied on benefit cuts, including raising the retirement age and delayed COLAs—policymakers believed they were extending the program by 75 years. So, how did it come to be that Social Security's actuaries are now projecting reserve depletion will occur in 2034 instead of 2057 if Congress fails to act?

According to Social Security's actuaries, in addition to declining U.S. fertility rates, what was unanticipated in 1983 was the tremendous increase in income inequality the nation has experienced in recent decades. In short, rising earnings inequality at levels unforeseen by SSA actuaries has dramatically hastened the program's revenue shortfall, as more and more of the nation's high earners' wages have avoided taxation for Social Security.[4]

In 1983, 90 percent of covered wages were captured by Social Security's payroll tax cap; today that figure is down to roughly 82 percent, a 50-year low. As a result, the very wealthiest Americans stop paying into Social Security just a few days or weeks into the year, while average earners pay in all year round. Social Security's revenues have taken an enormous hit as a result in the decades since. Had the share of covered wages remained fixed at 90 percent since 1983, today, the Old Age and Survivors Insurance Trust Fund would have more than $1.4 trillion in additional reserves, which alone would close more than one-quarter of the long-term shortfall the program faces today.[5]

Another recent economic trend that has implications for Social Security's financing is that a growing share of wealthy Americans' income now comes from sources other than wages—such as investment income and "pass-through" business income. As with their wages over Social Security's payroll tax cap, wealthy people do not pay Social Security taxes on these other forms of income. And on the flip side, wage stagnation impacting lower- and middle-income workers has further depressed Social Security contributions, as well.

With these trends in mind, let's take a look at some of the most frequently discussed proposals to close Social Security's long-term financing gap and what they would mean for the program's financing as well as its current and future beneficiaries.

Proposals to increase Social Security's revenues:

Reforming the payroll tax cap. One of the most popular policy options for increasing revenues is increasing or eliminating Social Security's payroll tax cap, to stop the program's revenue leak and ensure that wealthy earners contribute their fair share. A variety of options have been proposed to reform the payroll tax cap. Some would lift the cap to return it to 90 percent of covered wages; some would eliminate the cap altogether; and some would create a "donut hole" to avoid impacting people

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[4] Steve Goss, "Social Security Actuarial Status: The 2024 Annual Report of the Board of Trustees of the OASI and DI Trust Funds." Presentation to the National Academy of Social Insurance, May 15, 2024. https://www.nasi.org/wp-content/uploads/2024/05/TR2024_Presentation_-NASI-0515-FINAL-2.pdf

[5] Josh Bivens and Elise Gould. "A Record Share of Earnings Was Not Subject to Social Security Taxes in 2021: Inequality's Undermining of Social Security Has Accelerated," Economic Policy Institute, January 2023, https://www.epi.org/blog/a-record-share-of-earnings-was-not-subject-to-social-security-taxes-in-2021-inequalitys-undermining-of-social-security-has-accelerated/#:~:text=In%202020%20and%202021%2C%20the,50%20years%20(since%201972); Rebecca Vallas, Christian Wellner, Rachel West, and Jackie Odum. "The Effect of Rising Inequality on Social Security," Center for American Progress, February 2015, https://www.americanprogress.org/article/the-effect-of-rising-inequality-on-social-security/.

with incomes under $400,000 per year. *Depending on their design, actuarial projections indicate these types of proposals would close between 19 and 60 percent of the current financing gap.*

Gradually increasing the payroll tax rate. The current combined Federal Income Contributions Act (FICA) rate is 12.4 percent, with workers and employers each contributing half of that to the program—or 6.2 percent on wages earned or wages paid up to the maximum of $168,600 in 2024. While raising the rate would impact lower as well as higher earners, polling indicates that large majorities of Americans are willing to contribute more to strengthen the program. *For example, actuarial projections indicate that gradually raising the rate to 7.2 percent over two decades would close roughly 40 percent of the gap.*

Identifying new sources of revenue for Social Security. Some have proposed applying the FICA rate to income types that now make up a disproportionately greater share of wealthy earners' incomes. For example, Senator Whitehouse's Medicare and Social Security Fair Share Act would treat investment income and income from "pass through" businesses like wages, by asking wealthy people who make over $400,000 from those types of income to make Social Security contributions on those income streams. *Actuarial projections indicate that these two options, together with imposing the FICA rate on earned income over $400,000 per year, would cover more than 100 percent of the long-term gap.*

<u>Proposals to cut Social Security benefits:</u>

Further increasing Social Security's retirement age. Some, including the House Republican Study Committee, have proposed to further increase Social Security's retirement age to 68 or even 69. Social Security's retirement age has already risen from 65 to 67, as changes legislated in 1983 continue to phase in. Further raising the retirement age to 69 would amount to a 13 percent benefit cut for all new retirees, and as the Academy's Task Force on Older Workers' Retirement Security found last year,[6] would cause serious hardship for low-income workers already at risk of facing significant retirement insecurity—including the more than 10 million older workers in physically challenging jobs who are already struggling to make it to the current full retirement age.

Workers who claim Social Security early because they are unable to make it to full retirement age face a steep lifetime benefit reduction. It is important to consider that while wealthier workers have seen increases in life expectancy, those with lower incomes and lower levels of education are not seeing the

[6] "A Report of the Older Workers' Retirement Security Task Force: Older Workers in Physically Challenging Jobs Need Stronger Social Insurance Supports," National Academy of Social Insurance, September 2024, https://www.nasi.org/pressrelease/older-workers-in-physically-challenging-jobs-need-stronger-social-insurance-supports/.

same gains.[7] *Actuarial projections indicate that, depending on design, these proposals would reduce the financing gap by 15 to 20 percent.*

Switching to a less generous COLA. Some have proposed slowing the increase of Social Security benefits by switching to a less generous cost-of-living adjustment formula—for example, by basing it on the chained Consumer Price Index, which assumes that consumers will switch to categories of goods and services with smaller price increases. This would cause benefits to increase more slowly, with benefit cuts adding up over time. *Actuarial projections indicate this proposal would reduce the long-term financing gap by roughly 17 percent.*

Switching to a benefit formula that reduces benefits for people with incomes over a certain threshold. Some have proposed changing Social Security's benefit formula so that people with incomes over a certain threshold receive smaller benefits. It is important to recognize that many of these types of proposals would shrink benefits for people with middle-class incomes. For example, one version of this proposal would adjust the formula so that workers with earnings above the 60th percentile (currently about $68,000 per year) would see benefits reduced in proportion to their lifetime earnings. The risk of these types of proposals is that they would make it even more difficult for middle-class workers to retire without drastic reductions in their standard of living, which would also likely diminish universal support for Social Security. *Actuarial projections indicate that this proposal would reduce the long-term financing gap by 23 percent.*

Convert Social Security's structure to a flat benefit. Some have proposed dramatically restructuring Social Security to function more like SSI. In addition to shattering the current structure of the program, these types of proposals would dramatically weaken retirement security for a huge number of lower-income and middle-income individuals and families, most of whom would face substantial benefit cuts if such a proposal were to take effect. While such proposals are generally underpinned by the argument that Social Security beneficiaries are living high on the hog, in reality: today, roughly one-quarter of older U.S. households have incomes less than $20,000; roughly half are getting by on less than $50,000; and more than 3 in 4 live on less than $100,000.[8] And as noted above, most retirees rely on Social Security as their primary or sole source of retirement income.

Support is growing for strengthening Social Security's benefits.

With growing concern about U.S. retirement insecurity, and poverty among older adults on the rise, a growing share of policymakers—as well as Americans across the political spectrum—agree that

[7] See Ibid.

[8] Irina Dushi and Brad Trenkamp, "Improving the Measurement of Retirement Income of the Aged Population," SSA, ORES Working Paper No 116, January 2021, https://www.ssa.gov/policy/docs/workingpapers/wp116.html.

increasing benefits should be a priority as part of upcoming action to secure Social Security's future. To that end, many recent Social Security proposals include policies to strengthen benefits in tandem with reforms that strengthen the program's financing.

Some of the most frequently discussed options to strengthen Social Security's benefits include increasing benefits for all retirees; boosting benefits for older beneficiaries, such as those 85+; switching to a COLA formula that more accurately captures the cost of living for older and disabled people; implementing a caregiving credit to boost benefits for workers who take time out of the workforce to provide care; and establishing a "bridge benefit" to increase retirement security for workers unable to make it to retirement age, to protect them from the lifetime benefit reduction that comes with claiming Social Security early.[9] And on the disability side, eliminating the 5-month waiting period for disability insurance and the 24-month waiting period for Medicare are also frequently discussed.

Updating SSI as part of Social Security reform.

As policymakers consider policy options to secure Social Security's future, making long-overdue updates to SSI should be considered within that context. As we mark the 50th anniversary of SSI payments, key elements of the program are desperately in need of an update, including asset limits that haven't been updated for inflation in 40 years, and which now serve as one of the most regressive anti-savings penalties in federal law today.

Other outdated aspects of SSI include income rules that have never been updated for inflation since the program's inception; marriage penalties that keep beneficiaries from marrying the person they love; and a federal benefit rate that is not sufficient to bring an individual above 75 percent of the federal poverty line, despite the program's original bipartisan intent of ensuring that "older and disabled people would never have to subsist on below-poverty incomes."

Fortunately, we have seen historic bipartisan momentum to update SSI's antiquated asset limits as part of larger conversations about retirement security; for example, the SSI Savings Penalty Elimination Act is championed by both Republicans and Democrats on this committee. Just as Medicare and Medicaid are deeply intertwined, Social Security and SSI are as well; for example, there are some 2.5 million concurrent beneficiaries, who receive SSI to supplement very low Social Security benefits. As such, policymakers would do well to consider SSI and Social Security together.

[9] For a discussion of proposals to create a "bridge benefit" to protect lower-income older workers unable to make it to full retirement age, please see the report of the Academy's Task Force on Older Workers' Retirement Security in note 6.

3. **Keeping Social Security's promises to the American people requires ensuring that SSA has the resources it needs to administer its programs and ensure high-quality customer service.**

As you heard from Commissioner Martin O'Malley, SSA's appropriated administrative resources, as a share of benefits it pays to beneficiaries, have shrunk by one-fifth over the last decade—while the number of beneficiaries it serves has grown by an even greater share. Compared with FY 2015, when Congress allowed an SSA funding level equivalent to 1.26 percent of benefit outlays, in FY 2024, the agency's funding level had declined to 0.94 percent. By contrast, as Commissioner O'Malley frequently notes, private sector insurance companies generally run on closer to 20 percent overhead. As a result, SSA staffing is at its lowest levels in more than 25 years.

The human consequences of inadequate SSA customer service are as preventable as they are shameful. Delays in accessing SSA's programs—which provide what is often survival income—cause struggling individuals and families to be unable to pay their bills, skip meals, go without needed medical care, and even lose their homes. Perhaps most alarmingly, *thousands of people die every year waiting for disability benefits,* due in large part to unacceptable hearing backlogs that are the result of inadequate administrative funding. Indeed, according to the Government Accountability Office: between FY 2008 and FY 2019, 109,725 applicants for disability benefits died waiting on their appeals,[10] and still more have died waiting for decisions since then. A more recent analysis found these numbers climbed to 30,000 deaths in FY 2023.[11] It doesn't have to be this way.

Commissioner O'Malley deserves serious credit for making improving Social Security's customer service a top priority. He has taken many long-overdue steps that improve efficiency for the agency, reduce burdensome workloads, and help claimants and beneficiaries. A notable example is his action to reform the agency's handling of overpayment clawbacks, which can unjustly impoverish already struggling beneficiaries. Worth noting, a policy option that could further reduce this burdensome workload for SSA while also protecting beneficiaries would be for Congress to institute a statute of limitations on overpayment clawbacks. Additionally, many of the steps to update SSI described earlier, such as updating SSI's asset limits, would further reduce a burdensome workload for SSA staff.

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[10] Government Accountability Office, "Social Security Disability, Information on Wait Times, Bankruptcies, and Deaths Among Applicants Who Appealed Benefit Denials," August 2020, https://www.gao.gov/products/gao-20-641r.

[11] Natalie Alms, "30,000 Died in Fiscal 2023 Waiting for Disability Decisions from Social Security," Nextgov.com, April 2024, https://www.nextgov.com/digital-government/2024/04/30000-died-fiscal-2023-waiting-disability-decisions-social-security/395796/.

As Congress considers government funding in the upcoming continuing resolution, the White House has requested that SSA's administrative functions be funded at $15.4 billion, an increase from its current $14.2 billion allocation. Without this anomaly, SSA staffing could potentially reach the lowest levels it has seen in 50 years. Congress must do its part to ensure SSA is able to provide high-quality customer service to ensure we, our friends, neighbors, loved ones, and fellow community members—and, in particular, people with disabilities and older adults—are all able to access SSA's critical programs when we need them most.

In Conclusion:

At a time of historic levels of political polarization and partisanship, Social Security remains something Americans of all views and walks of life can agree on. Public opinion research over the years consistently tells us the same thing: the American people love Social Security and don't want to see it cut; Americans want to see their policymakers bring in the revenues we need not just to prevent cuts, but to strengthen benefits; and large majorities support not only seeing the wealthy contribute more, but even modest across-the-board increases to the FICA rate, in order to achieve those goals.[12]

Now is the time for policymakers to work together to secure and strengthen Social Security for generations to come. It is heartening to hear policymakers across the political spectrum state their commitment to keeping Social Security's promises to the American people—and their opposition to cutting benefits. As Senator Whitehouse's Medicare and Social Security Fair Share Act demonstrates, it is eminently possible to keep those promises—and to strengthen Social Security's finances indefinitely without harmful cuts that would jeopardize millions of people's economic security—if policymakers take action to correct for revenue leaks that have weakened the program considerably in recent decades.

Thank you for inviting me to be part of this important conversation. The Academy and our members stand at the ready to be a nonpartisan, evidence-based resource to this Committee on these critical issues moving forward. And I look forward to answering any questions you have.

[12] See, for example, Kelly Kenneally and Tyler Bond, "Americans' Views of Social Security," National Institute for Retirement Security, July 2024, https://www.nirsonline.org/reports/socialsecurity2024/; Kim Parker, Rich Morin, and Juliana Menasce Horowitz, "Looking to the Future, Public Sees an America in Decline on Many Fronts," Pew Research Center, March 2019, https://www.pewresearch.org/social-trends/2019/03/21/public-sees-an-america-in-decline-on-many-fronts/; Data for Progress polling, June 2022, https://www.filesforprogress.org/datasets/2022/6/dfp_june22_ss_updated_tabs.pdf; National Academy of Social Insurance, "Americans Make Hard Choices on Social Security: A Survey with Trade-off Analysis," October 2014, https://www.nasi.org/research/disability/report-americans-make-hard-choices-on-social-security-a-survey-with-trade-off-analysis.