



COMMITTEE ON THE BUDGET

Chairman John Yarmuth

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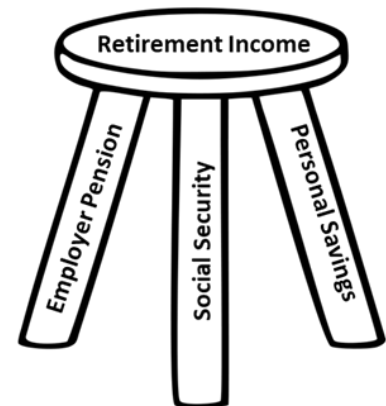
Congress Must Act to Strengthen Americans' Retirement Security

In a [hearing](#) last week, “Keeping Our Promise to America’s Seniors: Retirement Security in the 21st Century,” the House Budget Committee heard from two panels of witnesses on the shifting retirement landscape and the various challenges workers and seniors face in preparing for retirement. Members across both sides of the aisle agreed that Congress must act to strengthen retirement security to ensure that all Americans have the opportunity to retire with financial stability and dignity.

The Three-Legged Stool of Retirement is Broken

Americans have traditionally relied on three income streams to support themselves through retirement: employer-sponsored pensions, personal savings, and Social Security – the “three-legged stool.” While each leg was considered insufficient on its own, together the three would provide for economic security over the course of retired life. As our witnesses testified, however, these legs have become shaky over the last few decades:

- **Employer-sponsored pensions** are largely a thing of the past, having been replaced by less secure 401(k)s and other “defined contribution” savings plans. Additionally, nearly [30 percent](#) of workers do not have access to any kind of employer-sponsored retirement plan, while only 55 percent of those who do have access end up participating.
- **Personal savings** are meager following [decades](#) of wage stagnation, coupled with the rising cost of essentials like health care. [Most](#) families have also struggled to make up for the earnings and savings lost during the Great Recession.
- **Social Security** plays an increasingly crucial role in supporting retirees and single-handedly keeps [millions](#) of seniors out of poverty each year. The increased reliance on Social Security comes as the program faces a long-run funding shortfall, which makes it all the more important to ensure that Social Security continues to provide future generations with adequate retirement security.



These shifts have spurred greater retirement insecurity among many American workers, at a time when longer lifespans are increasing the amount of resources they will need to sustain themselves through retirement. Nearly [half](#) of households over the age of 55 had zero retirement savings in 2016. Participation in employer-provided pension and savings plans was [lower](#) in 2016 than it was in 1989. According to one [study](#), 50 percent of households are at risk

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of being unable to maintain their pre-retirement standard of living in retirement, up from 45 percent in 2004.

While Dr. Andrew Biggs, a resident scholar at the American Enterprise Institute, testified that “things are going fairly well” for workers and retirees, the other witnesses in that panel agreed that retirement and financial security are significant stressors for many seniors today. As Ann Marie Cook, the President and CEO of Lifespan of Greater Rochester – a New York nonprofit that provides information, guidance, and services to older adults – noted: “The outlook for future retirees is wobbly at best. The three-legged stool of retirement is, for many, history.”

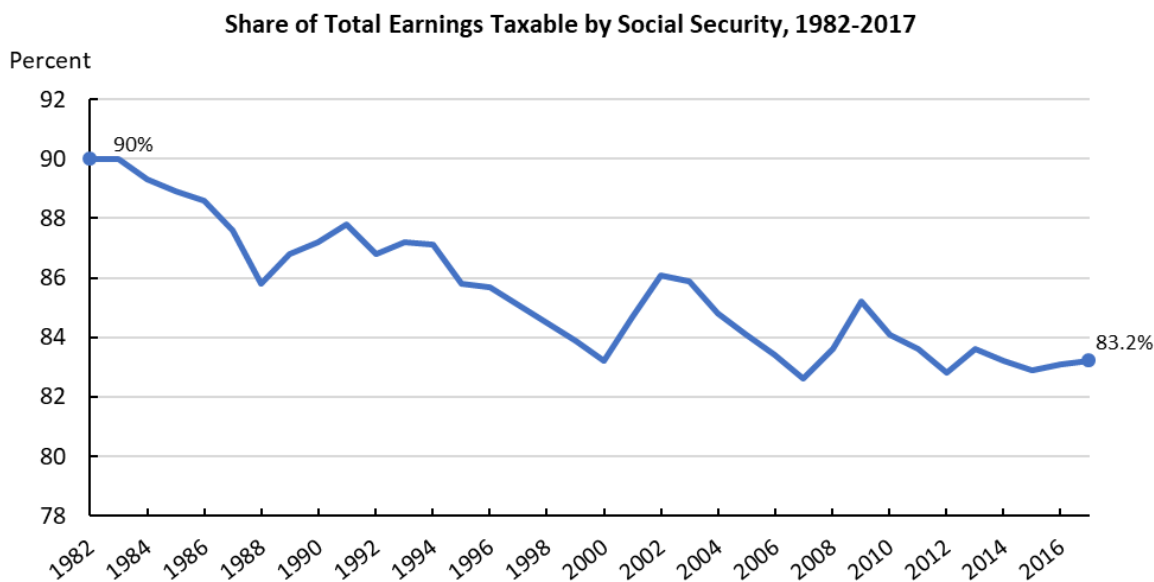
Social Security is the Bedrock of the American Retirement System

As the only reliable leg left standing, Social Security has come to play an outsized role in bolstering seniors’ economic security. For most workers, Social Security will be their only source of retirement income that guarantees benefits will continue over their lifetime, is protected from inflation, and is not subject to investment risk. While it was not designed to serve as retirees’ primary income source, [half](#) of seniors today receive at least 50 percent of their income from Social Security, and one-fifth receive 90 percent or more of their income from the program. As multiple witnesses testified throughout the hearing, improving retirement security for current and future generations of retirees will depend on protecting Social Security’s long-term viability.

“What’s at stake here is the nation’s leading insurance program and the nation’s leading anti-poverty program” — During his testimony, Congressman John Larson (CT-1) laid out the importance of Social Security for supporting seniors’ economic well-being and highlighted the funding shortfall that endangers the program’s ability to guarantee Americans the insurance that they paid for. According to the latest [Trustees report](#), if Congress does not act before 2035, each Social Security beneficiary would face an immediate 20 percent cut in benefits. Mr. Larson also stressed the importance of protecting Social Security for future generations, noting that millennials will need to rely more on Social Security than their parents did given wage and income stagnation, exploding housing costs, the rise of gig work, and unprecedented levels of student debt.

“Any cut to Social Security would throw millions of older adults in poverty” — Mrs. Cook, drawing on her decades of on-the-ground experience helping older adults face the challenges of aging, testified on the difficult decisions seniors would face if Social Security benefits were slashed by 20 percent: “They would have the devastating choice of paying for prescription drugs, paying for their utilities, or paying for food.” Mrs. Cook also pointed out that many retirees are already struggling to live on their modest Social Security benefits: “By the end of the month we have to direct older adults to food kitchens and pantries because they can’t make it right now. So I can’t imagine they could even survive with a 20 percent cut.”

“Economic inequality has eroded the program’s wage base” — Dr. Melissa Favreault, Senior Fellow at the Urban Institute, emphasized that increased inequality has exacerbated Social Security’s shortfall. The program’s cap on taxable wages has not kept pace with explosive income growth at the top since the mid 1970s. As a result, the share of earnings subject to the Social Security payroll tax has fallen from 90 percent in 1982 to 83 percent. Dr. Favreault further argued that “increasing program revenue needs to be a critical component of restoring the program’s long-term financial balance. At least part of this new revenue should come from high-income adults who can best afford to make higher contributions.”



Source: Social Security Administration
 Note: Reproduced from Favreault testimony

“It’s paramount that this Congress, faced with our responsibility, takes the action that it needs” — Mr. Larson stressed the need for Congress to act immediately to address Social Security’s funding shortfall and enhance its benefits. Every other witness agreed with the necessity of acting sooner rather than later. As Dr. Biggs noted, “if we leave it until 2035, then we have to pull the rug out from underneath people. And that’s very, very hard.”

As a solution to improve retirement security by enhancing Social Security, Mr. Larson promoted his Social Security 2100 Act, which would expand benefits and guarantee that all earned benefits can be paid for the next century. Dr. Favreault argued more generally that policies reforming Social Security must account for “persistent disparities in retirement and disability and the effects of increasing inequality in earnings, wealth, and longevity in recent decades.” In her testimony, Mrs. Cook was emphatic that any solution avoids cutting benefits: “As the president of an organization assisting older adults, I can emphatically tell you that Social Security is critical. To survive as the bedrock of retirement security for older Americans, change must occur, but

this change cannot include benefit cuts. The retirement crisis is real, both at the federal and at a very personal level for older Americans.”

Millions of Americans Are in Danger of Losing Their Hard-Earned Pensions

Witnesses also testified on the multiemployer pension crisis, which threatens to obliterate the retirement security of [1.5 million](#) working-class Americans. More than [100](#) of these plans – in which employers band together to provide employees with pensions as part of a collective bargaining agreement – face insolvency within the next two decades, putting participants in danger of seeing their monthly benefits slashed and the bulk of their retirement incomes wiped away. Meanwhile, the federal insurer of multiemployer plans – the Pension Benefit Guaranty Corporation (PBGC) – is itself at risk of insolvency if just [one or two](#) plans collapse.

Mr. Dale Hanner, a Teamster retiree and the Secretary-Treasurer of the North Carolina Committee to Protect Pensions, shared the stories of some of his fellow retirees participating in the Central States Pension Fund, one of the nation’s largest multiemployer plans covering more than [400,000](#) people. The Fund is projected to run out of money by 2025, leaving it unable to pay any benefits to current or future retirees.

“There’s a big feeling that you’re being stolen from” — Mr. Hanner explained that Fund participants “worked for 35 years and they put their part in. And they’re expecting a return on what they’ve done.... These are deferred wages that they’re not getting back.” Mr. Hanner also described the particularly vulnerable position surviving spouses occupy. Many of these survivors already see their monthly benefits cut in half upon the death of their spouse. The collapse of the Central States Pension Fund could see survivors – and all other participants – losing their benefits entirely. As Mr. Hanner posed to Committee Members, “Can you imagine dying not knowing if the financial security you planned would be provided for your surviving spouse?”

“They would have to turn somewhere” — Mr. Hanner pointed out that elimination of these pensions would force many retirees to seek support from government assistance programs, while also harming local economies by curbing pensioners’ economic activity. He argued that upon losing your pension, “you change from a comfortable retirement to a survival mode. And there’s a big difference between comfortable retirement and survival mode.” Mr. Hanner also noted that many of his fellow retirees worry about losing their homes once their pensions are gone: “When you lose your home, you’re homeless. This is probably the final straw for most people. This would probably be the one they couldn’t take.”

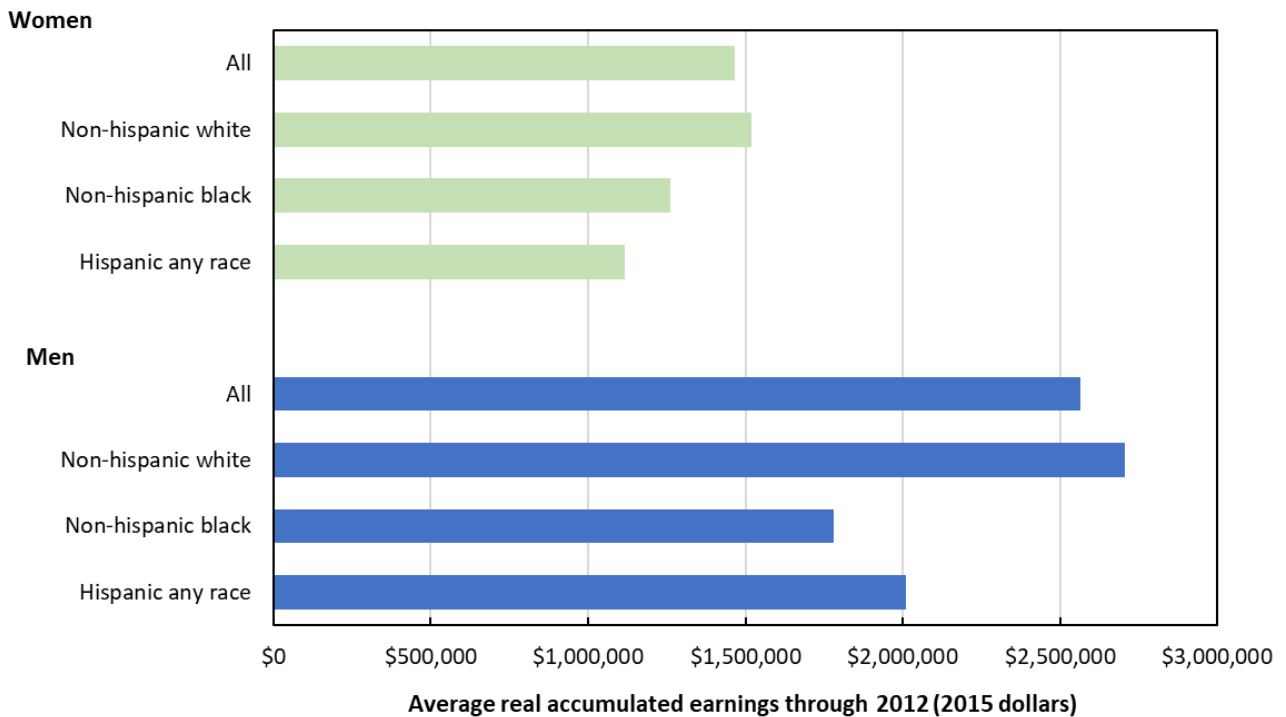
Disparities in Retirement Security Persist

For workers with lower lifetime earnings, wealth, and rates of pension coverage, retirement security may be further out of reach. Witnesses highlighted the persistence of gaps in retirement preparedness, the sources of these disparities, and the need to reduce retirement security

inequality to ensure that the most vulnerable Americans also have the opportunity to enjoy a financially stable retirement.

“The differences across groups are stunning” — In her testimony, Dr. Favreault described how retirement security and the various risks workers face over their lifetimes – including the risk of low earnings, job loss, disability, health problems, and death – vary significantly across income, gender, and race and ethnicity. As she argued, “inequality and socioeconomic disparities run deep. They often extend across multiple domains and in some cases may be growing. The people who do not have good jobs and have less access to retirement accounts are the same people who are more likely to become disabled.” Dr. Favreault further underscored that large racial disparities in lifetime earnings “reflect decades of discrimination in labor and housing markets, many of which persist to this day.” Women also face lower lifetime incomes, in part because they are more likely to leave the workforce to have children or provide care to family members.

Accumulated Lifetime Earnings by Gender and Race, for People Born 1950-1954 Who Survive until 2012



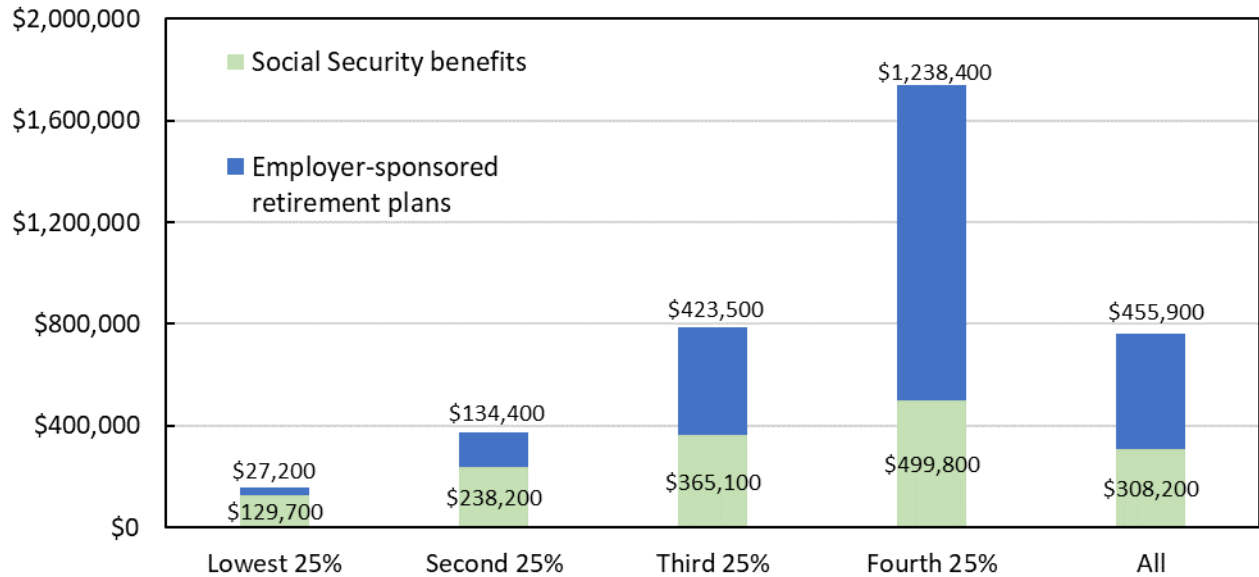
Source: Melissa M. Favreault, "How Might Earnings Patterns and Interactions Among Certain Provisions in OASI Solvency Packages Affect Financing and Distributional Goals?" Working Paper #2018-2. 2018. Chestnut Hill, MA: Center for Retirement Research at Boston College.

Notes: Accumulated values as of 2012 in 2015 dollars, without discounting.

“Absolutely critical when we look at these sorts of statistics that we look not just at the mean but at the whole distribution” — Dr. Favreault cautioned that statistics showing that total or average retirement savings were increasing could paint a misleading picture of Americans’ retirement security. As she noted, “we’ve had so much explosion at the very top of the earnings

distribution...that does skew the statistics.” Dr. Favreault cited research in her written testimony showing that among working families approaching retirement (ages 50-59), the average family in the lowest quartile of the wealth distribution held just \$27,200 in employer-sponsored retirement plans, while the average family in the top wealth quartile held more than \$1.2 million. Focusing on average retirement plan wealth for the whole population – \$455,900 – masks these disparities and presents a deceptively rosier snapshot of retirement preparedness.

Average Retirement Wealth for Working Families (Ages 50-59), by Wealth Quartile

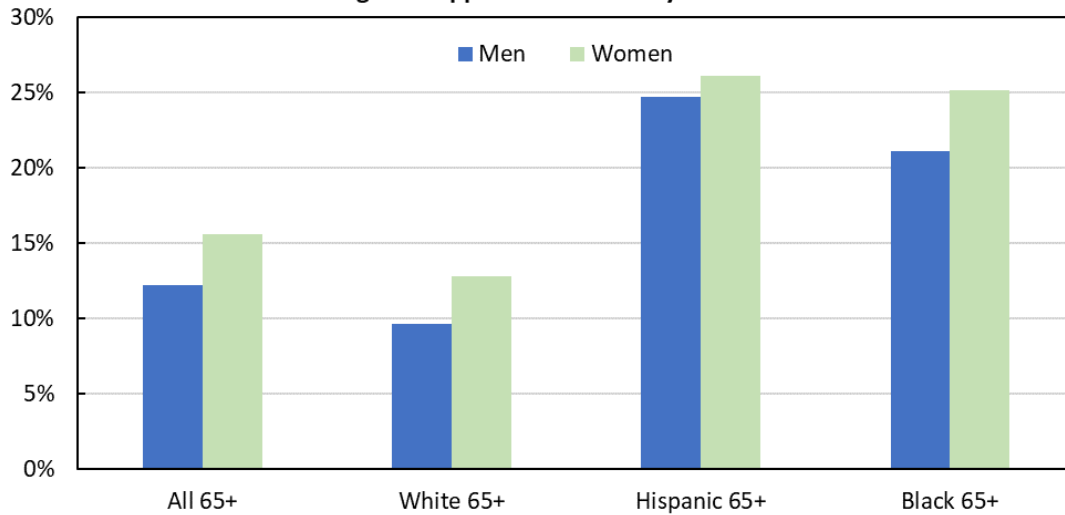


Source: Federal Reserve Board

“Today, long-term low-wage workers are not guaranteed a Social Security benefit that can bring them out of poverty” — Dr. Favreault also stressed that while Social Security has played a significant role in reducing poverty among older adults, it alone cannot eliminate elderly poverty or disparities in poverty rates among groups. Women are much more likely to have low Social Security benefits and higher rates of old-age poverty than men, while older black and Hispanic workers are estimated to have poverty rates more than double those of the aged population as a whole. Indeed, using a more comprehensive measure of poverty shows even greater differentials in poverty rates across gender and racial groups.

Mr. Larson pointed to disparities in poverty rates and Social Security reliance to argue that strengthening Social Security and enhancing benefits “has become the civil rights issue of the day, a women’s issue of the day, and an economic development issue of the day.” He further explained that protecting Social Security’s long-term viability “will impact all individuals, but when you look currently at how this disproportionately impacts women and men of color.... it’s time for us to act.”

Elderly Poverty Rates by Gender and Race, using the Supplemental Poverty Measure



Source: Kaiser Family Foundation

Soaring Living Costs Are Putting Pressure on Retiree Incomes

Throughout the hearing, witnesses pointed to rising costs, particularly for health care, as another factor undermining Americans’ retirement security. Average life expectancies have also increased, requiring workers to plan and save for a longer period of retirement while increasing the risk that they will require costly long-term care services. The average number of retirement years has already increased from [12](#) in the 1960s to nearly 20 today, increasing the amount of resources seniors will need to survive their retirements.

“Truthfully, some retirees are being skinned alive as it is” — Mr. Hanner powerfully explained that pensioners in North Carolina are seeing their modest pension benefits stretched by increasing costs of living, including for utilities and out-of-pocket medical expenses. With an average monthly pension payment of \$1,200 – with no cost-of-living adjustments – many participants in the Central States Pension Fund are already struggling to get by. Consequently, Mr. Hanner argued, “any potential cut in retiree benefits would be devastating.”

“Premiums often eat up a significant share of Social Security benefits” — Dr. Favreault testified that although Medicare has a progressive financing system and serves as a critical source of Americans’ retirement security, middle-class seniors are quite vulnerable to high health care spending burdens. Additionally, “the burden is likely to get much larger in coming decades.” Medicare “premiums and cost shares are projected to increase faster than their incomes if current laws do not change,” with the share of retirees spending more than 20 percent of their income on premiums and cost shares expected to rise significantly through 2050. Mrs. Cook supported this account, noting that among the older Americans she works with in Rochester, about one-third of their retirement incomes are going to health care costs.

We Must Not Improve Our Fiscal Outlook by Gutting Retirement Security

Our long-term budget challenges should not be solved on the backs of retirees, but Republicans have a long history of calling for cuts to vital programs in the name of taming deficits made worse by their own unpaid-for tax cuts, including the 2017 tax law. As Chairman John Yarmuth noted in his opening statement, “These tax cuts blew a massive \$1.9 trillion hole in our deficits, and as a result, our Republican colleagues have called for extreme cuts to entitlement programs, including Social Security and Medicare.” Policymakers must reject these efforts if we are to close retirement gaps and honor the promise of retirement security.