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THE IMPACT OF PRESIDENT BUSH'S SOCIAL SECURITY PROPOSAL IN MICHIGAN'S 15TH CONGRESSIONAL DISTRICT

PREPARED FOR

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EXECUTIVE SUMMARY

President Bush has endorsed significant cuts in benefits as part of his Social Security proposal. Under the President's plan, future benefit payments for most wage earners would drop because they would cease to be fully indexed to the wage rate. According to the AARP, the President's plan "amounts to a middle class benefit cut" that "breaks Social Security's promise that the benefit you receive will reflect what you paid into the system."

At the request of Rep. Dingell, this report analyzes the impact of President Bush's Social Security plan on working families in Michigan's 15th Congressional District. The report finds that the majority of wage earners in the district will face steep benefit cuts under the President's plan. Specifically the report finds:

- **The President's plan would cut benefits for over 210,000 wage earners in Rep. Dingell's district.** There are 313,000 wage earners in the district who are currently contributing to Social Security. The President's plan would cut benefits for 70% — or more than 219,000 — of these employees.

- **The President's plan would result in significant benefit cuts for individual wage earners in Rep. Dingell's district.** For wage earners between the ages of 35 and 55, the average benefit cut would be $2,530 per year. For younger wage earners, the average benefit cut would be $5,085 per year. Over 63,000 wage earners in the district would face benefit cuts of over 20%.

- **The President's plan would cut total benefits by over $19 billion for current wage earners in Rep. Dingell's district.** Over their lifetimes, wage earners in the district who are currently contributing to Social Security would lose $19.2 billion in benefits under the President's plan. More than 75% of this cut will come from middle-class workers who earn between $30,000 and $90,000 annually.

- **The President's plan could also cut benefits for widows and surviving children in Rep. Dingell's district.** Social Security benefits for surviving spouses and children are tied to the benefits earned by the deceased wage earner. Because the President has yet to explain how the benefit cuts he is proposing for wage earners will affect surviving spouses and children, no precise estimate of the impacts of his proposal on surviving spouses and children is possible. But the number of survivors likely to be affected is large.

Additional cuts in Social Security benefits for wage earners in Rep. Dingell's district could result from the President's proposal for private accounts. Under this part of the President's proposal, Social Security benefits are reduced by the amount deposited into the private account plus interest. Some experts believe that for many Social Security beneficiaries, these "clawback" provisions would result in a total reduction in benefits. This analysis does not estimate the impact of these potential benefit reductions in Rep. Dingell's district.

I. BACKGROUND

According to the nonpartisan Congressional Budget Office (CBO), Social Security can pay full benefits until 2052.[1] Beyond 2052, the Social Security program will have exhausted its reserve funds, and the program will be able to pay only what it collects in taxes.

President Bush has called this development, which will not occur for decades, a "crisis."[2] To address the potential shortfall, he has proposed dramatic "reform" of the Social Security system. These reforms have two main features: (1) the privatization of Social Security through the addition of private accounts and (2) significant cuts in guaranteed Social Security benefits.

On April 28, 2005, President Bush announced his "vision for moving forward with bipartisan Social Security reform."[3] The President endorsed an approach for reducing benefits that was developed by mutual fund executive Robert C. Pozen, a member of the President's 2001 commission on Social Security. The key feature of this proposal is a sliding scale of reductions in benefits for Social Security recipients. Under the President's plan, these benefit reductions are achieved by changing the index used for calculating Social Security benefits.

Under current law, Social Security benefits for retiring wage earners are calculated by "indexing" the average value of their earnings by the increase in the wage rate over their working lifetimes. This wage indexing allows retirees to keep pace with rising productivity and maintain their standard of living at the time they retire. Social Security benefits have been calculated in this fashion for almost three decades.[4]

The President's plan would change this approach. Instead of indexing benefits to the rate of wage increases, the plan would index them using a combination of the increase in wages and price inflation. The proposal would adjust the proportion

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1 Congressional Budget Office, *Updated Long-Term Projections for Social Security* (Mar. 2005). The Social Security trustees estimate that Social Security can pay full benefits until 2041. Social Security Administration, *2005 Annual Report of the Board of Trustees of Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Mar. 23, 2005) (online at: www.ssa.gov/OACT/TR/TR05/).

2 *See e.g.*, The White House, "President Bush Closes the White House Economic Conference" (Dec. 16, 2005).

3 The White House, *Fact Sheet: Strengthening Social Security for Those in Need* (Apr. 28, 2005).

4 Social Security Amendments of 1977 (P.L. 95-216).

by which an employee's earnings are price-adjusted rather than wage-adjusted, depending on the employee's earning level. Individuals who are eligible for the maximum Social Security benefits — those currently earning more than $90,000 per year — would have their future benefits adjusted based on the inflation rate. At the other end of the spectrum, individuals with incomes below $20,000 would continue to have their benefits adjusted based on the wage rate. For wage earners with incomes in between these levels, benefits would be calculated using a sliding-scale combination of wage and price indexing.

The President's proposal would not, however, affect the benefits of wage earners close to retirement. Regardless of earning level, individuals born before 1950 (age 55 and older) would continue to have their benefit levels adjusted by the wage rate.[5]

This proposed change in indexing, while technical in nature, would have a large impact on benefit levels. Over the past 20 years, wages have increased 44% more than prices.[6] These trends are projected to continue in the future. According to the CBO, over the next 50 years wages will grow 83% more than prices.[7] As a result, tying future increases in benefits to the inflation rate as opposed to the faster-growing wage rate will cause a significant reduction in Social Security benefits for future retirees.

The President euphemistically calls his proposal "progressive indexing." In fact, no wage earner's benefits increase under the proposal compared to current law. The sole "progressive" element of the proposal is that the magnitude of the benefit reductions increases as earnings rise from $20,000 to $90,000 annually. For the very wealthy, the President's proposal has little impact because the benefit reductions do not increase at earning levels above $90,000.[8]

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5 The White House, *supra* note 3.

6 Between 1985 and 2005, the employment cost index increased by 117%. Social Security Administration, *Average Wage Index (AWI) Series* (Oct 19, 2004). This is 44% more than the increase in inflation over this period. U.S. Department of Labor, Bureau of Labor Statistics, *Consumer Price Index* (May 18, 2005).

7 CBO projects that wages will increase at 1.27% per year more than the inflation rate. Congressional Budget Office, *The Outlook for Social Security* (June 2004).

8 As a percentage of overall earnings, these cuts are not progressive. Under the President's plan, employees who earn $30,000 annually over their working life would experience a cut of 8.5% of their annual earnings, and those earning $50,000 would face a cut of 14.0% of their annual earnings. In contrast, individuals earning $250,000 would have their benefits cut by only 4.6% of their annual earnings, and those earning $1,000,000 would have their benefits cut by only 1.2% of their annual earnings. Center for Economic and Policy Research, *Accurate Benefits Calculator* (May 6, 2005) (online at: http://www.cepr.net/calculator/calculator.html).

According to the AARP, "progressive indexing in this form amounts to a middle class benefit cut." Because progressive indexing would create a sliding scale for benefit calculation, the AARP states that the President's plan "breaks Social Security's promise that the benefit you receive will reflect what you paid into the system."[9]

II. PURPOSE AND METHODOLOGY

At the request of Rep. Dingell, this report analyzes the impact of the President's proposal on wage earners in his congressional district, the 15th Congressional District of Michigan. The 15th Congressional District is located in southeast Michigan and includes Ann Arbor, Taylor, and parts of Dearborn and Dearborn Heights.

To assess the impact of the President's proposal in Rep. Dingell's district, district-specific income and age distribution data was obtained from the U.S. Census. This data included information on age and personal earnings from the 2000 U.S. Census, which was divided into 10 age cohorts and 48 earnings cohorts for the district.[10] The data on earnings was adjusted to reflect 2005 values based on the increase in the average wage index between 2000 and 2005. Future earnings for each cohort were then calculated based on current earnings data adjusted by a 2% growth factor, which is the same growth factor assumed by the Social Security Administration in its benefits calculator.[11]

The future benefits for each age and earnings cohort were estimated under both current law and the President's proposal using the Center for Economic and Policy Research's "Accurate Benefits Calculator."[12] This analysis assumes that

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9 American Association for Retired Persons, *AARP's Response to Proposed Progressive Price Indexing of Social Security Benefits* (May 6, 2005).

10 Age cohorts were ages 16-24, 25-29, 30-34, 35-39, 40-44, 45-49, 50-54, 55-59, 60-64, 65 and above. Earnings cohorts were, in 2000 dollars, $1–$99,999 in $2,500 increments, $100,000–$149,999 in $10,000 increments, $150,000–$199,999 in $25,000 increments, and $200,000 and above. Earnings consist of wage and salary income as well as self-employment income. Of those wage earners between the ages of 16 and 24, this report examines only those working 26 weeks or more per year. This avoids including students and other young workers who have not entered the workforce on a fulltime basis.

11 Social Security Administration, *Social Security Quick Calculator* (July 9, 2004) (online at: http://www.ssa.gov/OACT/quickcalc/).

12 Center for Economic and Policy Research, *Accurate Benefits Calculator* (May 6, 2005) (online at: http://www.cepr.net/calculator/calculator.html). The analysis assumed that the age and income distribution within each cohort was equal throughout the cohort (i.e., that the median age and median income of wage earners within a given cohort were equal to the average age and average income).

each wage earner receives a Social Security benefit based on the wage earner's earning history.[13] All data on income, Social Security benefits, and Social Security benefit cuts was adjusted for inflation and expressed in constant 2005 dollars.

III. FINDINGS

A. The President's Plan Would Cut Benefits for Hundreds of Thousands of Wage Earners in the 15th Congressional District

President Bush's Social Security proposal would reduce benefits for all wage earners in Rep. Dingell's district who are 55 or younger and who make more than $20,000 annually. There are over 219,000 of these affected wage earners in the district.

There are currently more than 4.4 million wage earners under the age of 55 in Michigan. Of these wage earners, over three million — 69% — make more than $20,000 per year. Under the President's proposal, these three million wage earners would be subject to benefit cuts.

In the 15th Congressional District, there are more than 313,000 wage earners under the age of 55. Of these wage earners, 219,000 — 70% — make more than $20,000 per year and would be subject to benefit cuts under the President's proposal. See Figure 1.

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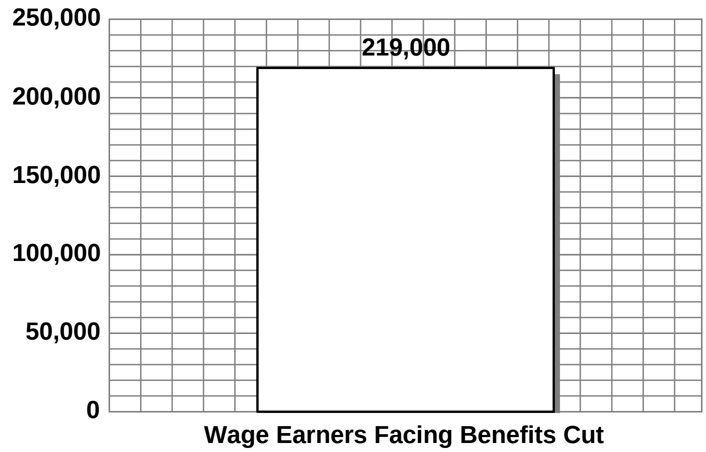
13 A married beneficiary can opt to receive either his or her earned benefits or 50% of his or her spouse's benefit. Generally, married beneficiaries who earn 35% or more of their higher-earning spouse's income are better off opting to receive their own benefits. Center for Economic Policy Research, *supra* note 7, at Methodology (May 6, 2005) (http://www.cepr.net/calculator/sscalculator_tech_notes.pdf).

Figure 1: The President's Plan Would Cut Benefits for over 200,000 Wage Earners in the 15th District



B. The President's Plan Would Result in Large Benefit Cuts for Individual Wage Earners in the 15th Congressional District

For many individual wage earners, the benefit cuts would be large. Statewide, the average benefit cut for wage earners between the ages of 35 and 55 would be approximately $2,340 per year. The President has frequently argued that his Social Security proposal is necessary to protect the retirement security of younger workers.[14] In fact, the President's plan actually has a greater impact on younger wage earners than on older ones. Statewide, the average benefit cut for current wage earners younger than 35 would be approximately $4,740 year.

These reductions are large in percentage terms. Statewide, over 1.8 million wage earners (43% of wage earners in the state) would have more than 10% of their Social Security benefits cut under the President's plan. More than 762,000 wage earners (17% of wage earners in the state) would have more than 20% of their Social Security benefits cut.

The impacts on individual wage earners in Rep. Dingell's district are similar. The average benefit cut for wage earners between the ages of 35 and 55 in the district would be $2,530 per year. For younger wage earners, the average benefit cut would be $5,085 per year. See Figure 2. Over 145,000 wage earners in the district would have more than 10% of their Social Security benefits cut. Over 63,000 wage earners would have more than 20% of their Social Security benefits cut.

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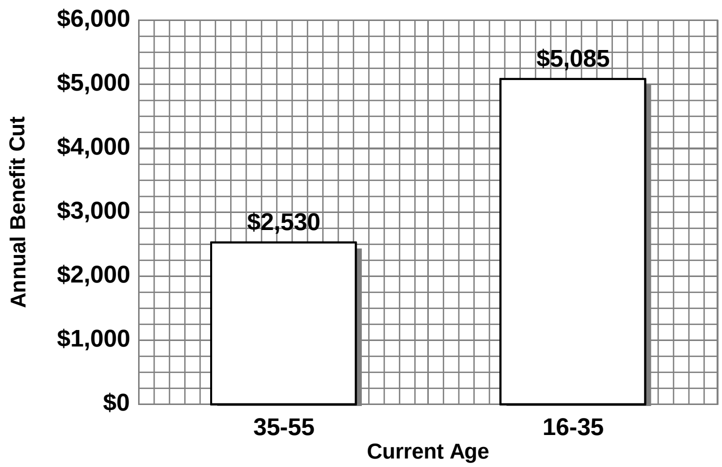
[14] *See e.g.*, The White House, "President Discusses Social Security with Future Farmers of America" (June 14, 2005).

Figure 2: The President's Plan Would Cut Benefits for Wage Earners in the 15th District by Thousands of Dollars



For children in Rep. Dingell's district, the benefit cuts under the President's plan would be even greater. It has been projected that some wage earners retiring in 2075 would receive 51% less than they would under current law.[15]

C. The President's Plan Would Reduce Total Benefits for Current Wage Earners in the 15th Congressional District by Billions of Dollars

It is possible to estimate the total value of the lost Social Security benefits under the President's proposal by taking into account the life expectancies of wage earners. The cumulative impact of the benefit cuts is staggering, assuming that wage earners in Michigan have the life expectancies projected by the Social Security actuaries.[16] Over their expected lifetimes, wage earners in Michigan would lose $245 billion in retirement benefits under the President's proposal. The majority of these cuts would come from the benefits of middle-class wage earners. Statewide, an estimated $183 billion — 75% of the cuts — would come from wage earners who earn between $30,000 and $90,000 a year.

In Rep. Dingell's district, the cumulative lost benefits are also large. Over their expected lifetimes, wage earners in the district would lose $19.2 billion in

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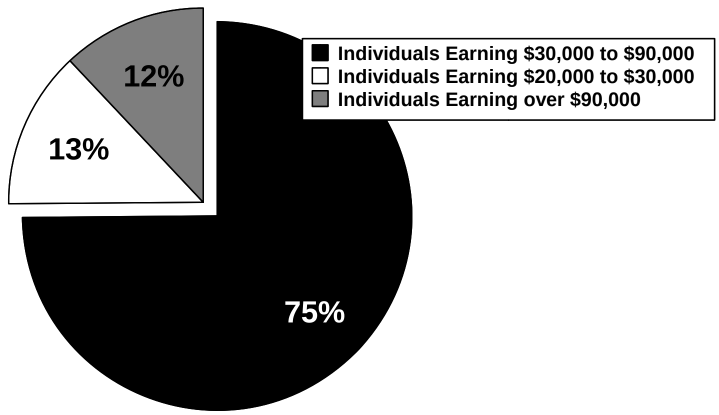
15 Center for Economic and Policy Research, *supra* note 12.

16 *See* Social Security Administration, *2005 Annual Report of the Board of Trustees of Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Mar. 23, 2005) (online at: www.ssa.gov/OACT/TR/TR05/).

retirement benefits under the President's proposal. The majority of these cuts would come from the benefits of middle-class wage earners. An estimated 75% of the cuts would come from wage earners in the district who earn between $30,000 and $90,000 a year.

Figure 3: The Majority of the Cuts in the 15th District Will Come from Middle-Class Wage Earners



D. The President's Plan Could Cut Benefits for Surviving Spouses and Children in the 15th Congressional District

In addition to providing benefits for retired wage earners, Social Security also provides benefits to surviving spouses and dependent children of wage earners who die at an early age. In this capacity, the Social Security program acts as a kind of life insurance program. Under current law, the benefits that these survivors receive are based on the benefits that the wage earner would have received at retirement.[17] Cutting the benefit of the wage earner will as a consequence, also reduce the benefit to the surviving spouse and children.

The President has not provided details of how survivor benefits would be affected under his Social Security proposal, which makes it makes it impossible to

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[17] The size of the benefits that a survivor receives is dependent on the survivor's age and relation to the wage earner. Surviving spouses who are over the retirement age are entitled to the full amount of their spouse's earned benefits, and surviving spouses under the retirement age can receive a portion of those benefits. Surviving children are entitled to benefits equal to 75% of their parent's earned benefits until they reach the age of 18. Other relations such as divorced spouses, dependent parents, and step-children are entitled to survivor benefits though special formulas. Social Security Administration, *Survivor Benefits* (May, 2004) (http://www.ssa.gov/pubs/10084.html#3).

quantify the impact of the President's proposal on survivors. But the number of survivors who could be affected is large. Currently, over 19,700 surviving spouses and children in Rep. Dingell's district receive these benefits.[18]

E. Other Potential Benefit Cuts Are Possible under the President's Plan

Retirees could face additional cuts under the President's proposal for private accounts. This part of the President's proposal would reduce the benefits promised under current law by the amount diverted into the private account over the wage earner's career, plus the interest these funds would have earned if they had been left in the Social Security trust funds. According to the President, these mandatory reductions (or "clawbacks") would be recouped though investment in the private account. However, a number of independent analysts disagree. Assuming realistic returns on the stock and bond markets — and taking the costs of these accounts into account — they estimate that many individuals who open the private accounts would suffer from further reductions in benefits.[19]

This report does not analyze this potential source of benefit reductions upon wage earners in Rep. Dingell's district.

IV. CONCLUSION

This report analyzes the impact of President Bush's Social Security proposal in the 15th Congressional District of Michigan. It finds that the President's proposal would trigger benefit cuts for over 219,000 wage earners in the district. For the average younger worker, the benefit cuts would equal $5,085 per year. Over the lives of the wage earners in the district, the President's plan would result in more than $19.2 billion in benefit cuts.

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[18] Social Security Administration, *Congressional Statistics* (Dec. 2003) (online at http://www.ssa.gov/policy/docs/factsheets/cong_stats/2003/).

[19] *See e.g.*, Center for Economic and Policy Research, *supra* note 12.