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Highlights

Highlights of GAO-03-310, a report to the Chairman of the Special Committee on Aging, U.S. Senate

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SOCIAL SECURITY REFORM

Analysis of Reform Models Developed by the President's Commission to Strengthen Social Security

Why GAO Did This Study

Social Security is an important social insurance program affecting virtually every American family. It represents a foundation of the nation's retirement income system and provides millions of Americans with disability insurance and survivors' benefits. Over the long term, as the baby boom generation retires, Social Security's financing shortfall presents a major solvency and sustainability challenge. Numerous reform proposals have been put forward in recent years, and in December 2001 a commission appointed by the President presented three possible reform models.

Senator Breaux, Chairman of the Senate Special Committee on Aging, asked GAO to use its analytic framework to evaluate the Commission's models. This framework consists of three criteria: (1) the extent to which a proposal achieves sustainable solvency and how it would affect the economy and the federal budget; (2) the balance struck between the twin goals of income adequacy and individual equity; and (3) how readily such changes could be implemented, administered, and explained to the public.

www.gao.gov/cgi-bin/getrpt?GAO-03-310.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Barbara D. Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

What GAO Found

Applying GAO's criteria to the Commission models highlights key options and trade-offs between efforts to achieve sustainable solvency and maintain adequate retirement income for current and future beneficiaries.

For example, the Commission's Model 2 proposal reduces Social Security's defined benefit from currently scheduled levels through various formula changes, provides enhanced benefits for low-wage workers and spousal survivors, and adds a voluntary individual account option in exchange for a benefit reduction. Model 2 would provide for sustainable solvency and reduce the shares of the federal budget and the economy devoted to Social Security compared to currently scheduled benefits (tax increase benchmark) regardless of how many individuals selected accounts. However, with universal account participation, general revenue funding would be needed for about 3 decades.

GAO's analysis of benefit adequacy and equity issues relating to Model 2 found that

- Across cohorts, median monthly benefits for those choosing accounts are always higher, despite a benefit offset, than for those who do not; this gap grows over time. In addition, benefits assuming universal account participation are higher than payment of a defined benefit generally corresponding to an amount payable from future Social Security trust fund revenues (benefit reduction benchmark). However, benefits received by those without accounts fall below the benchmark over time.
- For the lowest quintile, median monthly benefits with universal participation in the accounts tend to be higher than GAO's benefit reduction benchmark, likely due to the enhanced benefit for full-time "minimum wage" workers. This pattern becomes more pronounced across the cohorts analyzed.
- Regardless of whether an account is chosen, many people could receive monthly benefits under Model 2 that are higher than the benefit reduction benchmark. However, a minority could fare worse. Some people could also receive a benefit greater than under the tax increase benchmark although a majority could fare worse. Benefits for those choosing individual accounts will be sensitive to the actual rates of return earned by those accounts.

Adding individual accounts would require new administrative structures, adding complexity and cost. Public education will be key to help beneficiaries make sound decisions about account participation, investment diversification, and risk. Finally, any Social Security reform proposal must also be looked at in the context of both the program and the long-term budget outlook. A funding gap exists between promised and funded Social Security benefits which, although it will not occur for a number of years, is significant and will grow over time. In addition, GAO's long-term budget simulations show, difficult choices will be required to reconcile a large and growing gap between projected revenues and spending resulting primarily from known demographic trends and rising health care costs.