

REFORMING SOCIAL SECURITY

Option: Increase Number of Years Used to Calculate Initial Benefits

Social Security retirement benefits are based on a worker's average earnings history. Average earnings are computed from a worker's highest 35 years of annual indexed earnings that were subject to Social Security payroll taxes. If a worker has fewer than 35 years of earnings, each year needed to reach 35 is assigned zero earnings. One option to help close the Social Security funding gap would increase the number of years of earnings used to calculate Social Security retirement benefits from 35 to 38 or even 40. Because that method would typically include more years of lower earnings, the average earnings would decrease and benefits would be lower. Increasing the number of computation years to 38 is estimated to fill 13 percent of the solvency gap.

Argument for:

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Argument against:

Virginia Reno

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David John

Social Security calculates monthly retirement benefits using only the highest 35 years of earnings during an individual's work history. The rest of them are discarded. This produces a skewed picture of an individual's full employment history, and inaccurate Social Security benefits. A more accurate method would be to expand the required work history from today's 35 years to either 38 years or even 40 years.

Under the current method, an individual who goes to work full time at age 21 has worked and paid Social Security taxes for 45 years by the time that he or she reaches Social Security's current full benefit age of 66. Going to work at age 18 adds three years for a 48-year work history. Meanwhile, people could wait until age 30 before going to work and still receive full credit toward their eventual retirement benefits, allowing them to pay fewer years of Social Security payroll taxes than someone who works longer, but get the same benefits.

Increasing the number of years used to calculate an individual's Social Security benefit would provide an added incentive for him or her to go into the workforce sooner and to keep working. It would also enable the Social Security Administration to use a more complete picture of an individual's working life when it calculates benefits.

In fairness, for many workers a change to counting 38 years of earnings would include some lower earning years that today's 35-year work history ignores. That would slightly reduce benefit levels. Moving to a required 40-year work history would reduce them slightly more. On the other hand, people who continue to work beyond their full benefit age would still receive higher benefits than those who retire earlier and could thereby make up that difference in most cases.

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Neither change would result in a major change in most individuals' benefits, but adding everyone's small benefit reductions together would help to strengthen Social Security and make its scarce resources last longer. The improvement to the program's finances would not be enough by itself to completely fix Social Security. It would need to be combined with other changes to do that.

Increasing the number of years an individual must work to qualify for full Social Security benefits recognizes that people are living and working longer on average than they did in the past. The change would encourage younger people to start working sooner than they might otherwise, and the small benefit changes would help to preserve Social Security for everyone.

Virginia Reno

This proposal is a bad idea because it would reduce benefits the most for people who need them the most: women and lower-income, less-educated, and minority retirees. It would reduce benefits not only for retired workers, but also for their dependents and survivors.

The cuts would occur because many retirees do not have a full 35 years of earnings, much less 38 or 40 years. The largest reductions would affect people with gaps in their covered work histories, typically women. Women are more likely than men to drop out of the workforce to raise children or care for other family members. The average monthly benefit for retired women (\$1,073) is 78 percent of the average benefit for men (\$1,383); this proposal would increase that gender gap.

This change would have little or no impact on benefits of people who have worked steadily for 38 or 40 years—but far fewer people than might be expected have such work records. Because of periods of unemployment, incomplete work records, or temporary illness or disability, most workers have gaps in their work histories. The Social Security Administration estimates that about 75 percent of all those receiving retired-worker benefits would experience a benefit cut if the computation period were increased to 40 years.

Social Security benefits are modest and already being cut as a result of changes enacted in 1983. Cutting them further is unnecessary, as large majorities of Americans report that they would rather pay more for Social Security than see future benefits cut further.

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NOTE: The estimated solvency effects in this Perspectives report are based on the intermediate assumptions in the *2011 Social Security Trustees Report*.

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