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February 9, 2011

The Honorable Richard Shelby
304 Russell Senate Office Building
Washington, DC 20510

Dear Senator Shelby:

During a recent breakfast at the Institute for Education, you said that Social Security is actuarially unsound, that the next generation of workers would receive little or nothing from Social Security and that there is no proof that your sons would get much at all. This is badly mistaken. You should know, both for your own personal finances, and more importantly for your actions as Senator, that under any plausible set of circumstances you and your sons can anticipate a substantial Social Security benefit.

You reached the national retirement age for Social Security in 1999. While I don't know your precise earnings history, your pay as a senator made you eligible for the maximum benefit if it were sustained for 35 years. The Social Security Trustees Report and likely your own personal finances show that a maximum wage earner retiring in 1999 receives an annual benefit of $21,674 in 2010 dollars.

The trustees' projections show that if nothing is ever done, then Social Security would pay full benefits through the year 2037. At this point, even if Congress does nothing there still would be substantial money flowing into the program, allowing the program to pay just under 80 percent of benefits. In the case of your youngest son, he would receive $29,700 from 2037 on (in today's dollars), if his lifetime earnings path is similar to your own (i.e. he is a maximum wage earner).

As can be seen in Table V1.F2 of the Trustees Report, Social Security's revenue in 2040 will be equal to 13.23 percent of covered payroll, while its outlays are projected at 16.64 percent. This would be sufficient to pay 79.5 percent of scheduled benefits.

Social Security's finances are actually projected to improve slightly over the next decade so that the program would be able to pay 81.0 percent of scheduled benefits in 2050. For your son, this would be a benefit of slightly over $30,000. The situation is projected to change little in subsequent years. This means that your youngest son should be able to get a benefit of roughly this size for as long as he lives, even if Congress never does anything to eliminate the shortfall in the program. Again, these sums are all adjusted for inflation.

You also said that the normal retirement age for social security should be raised "every several years". However, this would amount to a cut in benefits with each successive increase in the retirement age. If the normal age of retirement is phased in to reach 70 by

2036, it would result in a 4.0 percent reduction in benefits for workers between the ages of 50-54 in 2007 and a 10 percent reduction for workers between the ages of 40-44 in 2007.

Another point worth considering is that if the normal retirement age increased every few years, many workers would find it increasingly difficult to work until they are eligible for Social Security benefits. Forty five percent of workers over the age of 58 work in jobs that are physically demanding or have difficult work conditions. It is hard to imagine construction workers, firefighters, or nurses working well into their mid 60's. Many would end up taking early retirement with a considerable reduction in benefits compared to currently scheduled levels.

Of course, it would be extremely unfortunate if Congress ever allowed Social Security to pay less than the full scheduled benefit. As a political matter it also seems unlikely in a context where beneficiaries are almost 50 percent larger as a share of the adult population than they are today. It is also worth noting that the necessary increases in funding are relatively small compared to items like the rise in defense spending over the last decade, so there certainly are not major economic obstacles to maintaining full funding.

I hope that you will take the time to review the program's finances more carefully so that when you speak on it in the future you are better informed. I would be happy to assist you in providing additional background if it would be helpful.

Regards,

Dean Baker
Co-Director, Center for Economic and Policy Research

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