Inequality in the Social Security Debate

How benefit cuts would impact health industry CEOs versus home health aides

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IPS INSTITUTE FOR POLICY STUDIES

Release date:
March 14, 2013

www.IPS-dc.org

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Acknowledgements: Many thanks to Brenda Nachtway and Jessica Brill Ortiz of the Direct Care Alliance and our IPS colleagues Tiffany Williams and Javier Rojo for their assistance with this report. We are also grateful to the Center for Community Change and Social Security Works for valuable comments on drafts of the report.

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Introduction

The Fix the Debt campaign, a large, well-funded corporate lobby group, has been leading the charge for massive new corporate tax cuts paid for with cuts to Social Security, Medicare, and Medicaid.

The nearly 100 CEOs who are leading Fix the Debt have relatively little to lose from cuts to these benefit programs, particularly when compared with low-wage workers.

> *"We have to convince our lawmakers that they need to address overall spending levels including entitlements."*
>
> — Fix the Debt Campaign press release

To illustrate this disparity, we analyzed the potential impact of several proposed Social Security reforms on two Fix the Debt CEOs from the health care industry and a representative low-wage worker from that same sector.

The CEOs we focus on in this report are the leaders of the nation's largest drug retailer and the nation's largest health insurer. CVS Caremark's Larry Merlo is a member of Fix the Debt's CEO Council and UnitedHealth Group is a corporate endorser. The worker we focus on is Rhonda Straw, a home health aide from Pennsylvania.[1]

Extreme Inequality in Current Retirement Assets

CVS Caremark and UnitedHealth CEOs

The CEOs of CVS Caremark and UnitedHealth illustrate how lucrative the health industry can be for those at the top. At CVS Caremark, Merlo has accumulated a retirement stash of $46 million, the fifth-largest of the Fix the Debt member CEOs.[2] If invested in an annuity at age 65, Merlo's employer-provided nest egg would deliver him a monthly retirement check of $263,169 for the rest of his life. Combined with Social Security benefits, Merlo could expect monthly retirement income of $267,445 on average over the next 20 years.

UnitedHealth CEO Stephen Hemsley, after only 15 years in the job, has an $18 million retirement cache, enough to provide him a $104,671 monthly retirement check if he converted his golden egg into an annuity at age 65. Combined with Social Security benefits, Hemsley could expect average monthly retirement income of $108,607.

Fix the Debt member CEOs of publicly held firms as a whole have average retirement assets of $9.1 million, according to the IPS report "A Pension Deficit Disorder."

Home Health Aide

In contrast to the Fix the Debt CEOs, home health aide Rhonda Straw will need to rely almost entirely on Social Security in her retirement years. Straw enjoys her work caring for elderly, disabled, and cognitively impaired patients. At 51, she works 40 hours per week, often in the evenings, performing such tasks as administering medications, checking vital signs, and changing bandages as well as communicating her observations and concerns to the patient's health care team.

Despite the high level of responsibility in her job, she has not earned enough to put much away for her retirement. Her current wage is $9 per hour. (The median wage for the nearly one million people in her profession across the country is $9.91 per hour, or $20,610 per year, according to the Bureau of Labor Statistics.[3]) Aside from a five-year period when she ceased paid work to care for a sick relative, she has worked full-time since she was 18, but often earning only a little more than the minimum wage. As a result, it's been difficult to put money away for retirement. She has $475 in a 401(k) account, which could be expected to deliver a monthly payment of only $2 after she retires.[4] Together with her Social Security benefits, her retirement income over 20 years is expected to average about $2,704 per month.

Straw is not alone in her dependence on Social Security for a dignified retirement. A Congressional Research Service analysis of U.S. Census Bureau data found that one in two private sector workers had no retirement program other than Social Security.[5] According to the Social Security Administration, 23 percent of elderly married couples and 46 percent of elderly unmarried citizens receive 90 percent or more of their total income from Social Security.[6] The average Social Security monthly retirement check in 2012 was $1,237, or about the amount Merlo's CVS Caremark expected retirement check would deliver in less than four hours.

The current lack of adequate retirement assets helps explain why the United States has the seventh-highest rate of elder poverty (22.4 percent) among the 30 member states of the Organization for Economic Co-operation and Development (OECD), an organization comprised of the wealthiest nations. If proposed cuts are adopted, the situation would grow even worse.[7]

Proposed Cuts Would Widen the Divide

Among the various possible ways to cut Social Security, two seem to have the most traction in the current budget debate:

Chained CPI: President Barack Obama and some members of Congress from both sides of the aisle have expressed support for a proposal to replace the current measure of inflation used to set annual cost of living adjustments with the "chained CPI." The Social Security Administration estimates that this change would lower beneficiaries' cost of living adjustments by 0.3 percent a year.[8] It doesn't sound like much, but after 20 years the average Social Security recipient's benefit check would be about $100 a month lower than if the traditional inflation adjustment had remained in place.

Raising the retirement age: Another often proposed change to Social Security involves raising the retirement age beyond the current 66 years (scheduled to rise to 67 years by 2022). We looked at the impact of increases to either age 68 or 70. Such changes would be particularly detrimental to people in low-wage, physically demanding work, since both characteristics lead to shortened life expectancies.

Not surprisingly, when we compared the potential impact of these proposals on the UnitedHealth and CVS CEOs and a typical middle-aged home health aide, we found that the health aide stands to be hurt much more by these changes.

Reduction in Total Retirement Payments over 20 years

Proposed reforms	CVS CEO Merlo	UnitedHealth CEO Hemsley	Home Health Aide Straw
1. Chained CPI	-0.07%	-0.15%	-4.39%
2. Raise the retirement age to 68	-0.12%	-0.28%	-3.80%
3. Chained CPI and raise retirement age to 68	-0.19%	-0.42%	-8.13%
4. Raise retirement age to 70	-0.25%	-0.57%	-11.71%
5. Chained CPI and raise retirement age to 70	-0.31%	-0.71%	-15.89%

For details on retirement benefit calculations and methodology, see appendices.

If Congress adopts the most draconian approach — a combination of "chained CPI" and raising the retirement age to 70 — health aide Rhonda Straw could face a nearly 16 percent reduction in her total retirement payments over 20 years. That's compared to reductions of only 0.3 percent and 0.7 percent for Merlo and Hemsley, respectively.

Both Merlo and Hemsley are members of the Business Roundtable, which recently issued a proposal for Social Security reform that would raise the retirement age to 70 and adopt the chained CPI method of calculating cost of living adjustments.[9]

Business Roundtable members have little skin in the game when it comes to increasing the Social Security retirement age. Not only does Social Security make up a miniscule share of their retirement income, but most of the Roundtable's CEO members are men in the final ten years of their working life. This means that any reform enacted now would be unlikely to affect them.

Fair Retirement Security Reforms

If the CEO leaders of Fix the Debt are truly interested in fixing the debt, preserving Social Security for years to come, and ensuring a dignified retirement for all Americans, here are a few important initiatives they should get behind:

1. Eliminating the Cap on Wages Subject to Social Security Taxes

Presently just the first $113,700 of an American worker's wage income is subject to a 12.4 percent Social Security tax. Honeywell CEO David Cote had the highest cash compensation among the Fix the Debt CEOs in 2011 (the most recent year data is available) — $25.1 million. Cote paid just $11,107 in Social Security taxes in 2011. If the cap were lifted, Cote would have paid $2.6 million in Social Security taxes. New legislation introduced by Senator Mark Begich (D-AK) proposes eliminating the cap on Social Security taxes for upper income earners like Cote. The Congressional Research Service analyzed a similar proposal in 2010 and found that it would eliminate 95 percent of the expected Social Security shortfall over the next 75 years.

2. End the Ability of CEOs and Other High-Income Executives to Defer Unlimited Amounts of Pay in Their Retirement Plans

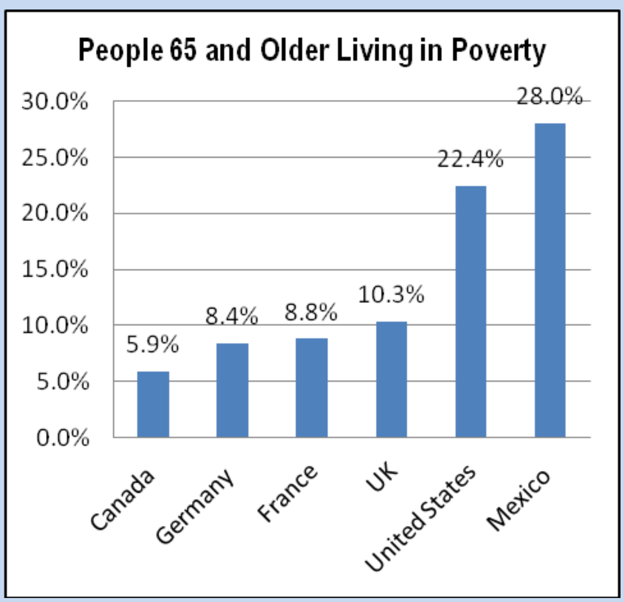
Regular employees 50 years old and older can set aside no more than $23,000 tax-free each year in their 401(k) plans. Corporate executives face no such limits. In 2011, Fix the Debt member Thomas Monahan, CEO of Corporate Executive Board Corporation, set aside $1,360,491 tax-free in his company's executive deferred compensation program. If Monahan had been bound by the same rules as other workers, he would have paid an additional $468,472 in federal income taxes in 2011. In the past, Congress has considered legislation to close this CEO-friendly loophole, but no legislation to address this is currently pending.

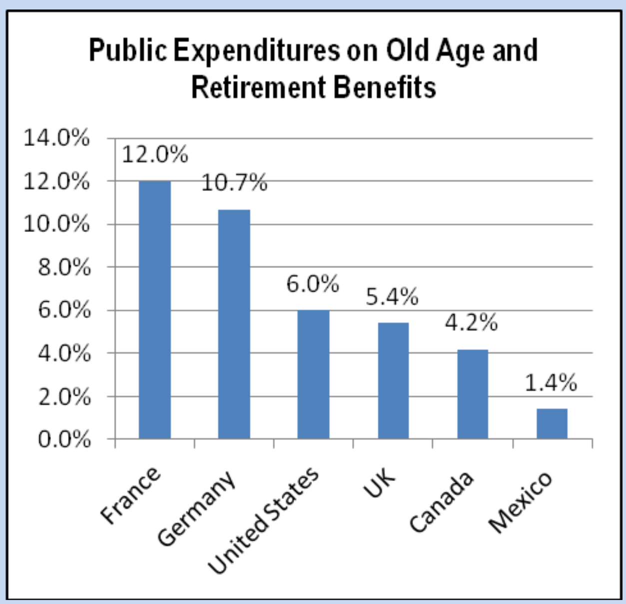
3. Support Universal, Secure and Adaptable (USA) Retirement Funds

Senator Tom Harkin (D-IA) has proposed a plan that recognizes the shared responsibility between employees, employers, and government to ensure that every worker enjoys a secure retirement. To provide this, Harkin's proposal would require employers currently not providing retirement benefits to contribute to a USA Retirement Fund on their workers' behalf. These funds would be pooled and professionally managed, ensuring that all workers have some pension assets to supplement their Social Security.

The United States v. Other OECD Countries on Elder Care

Even under current policies, the United States ranks poorly in international comparisons of poverty rates and public spending for the elderly.





Source: OECD, "Pensions at a Glance," 2011.

Appendix 1: Detailed Data Comparing the United Health and CVS CEOs and a Health Aide

Stephen Hemsley, CEO, UnitedHealth

		BENEFITS UNDER CURRENT POLICY				BENEFITS UNDER PROPOSED REFORMS					
Age	Year	Corporate pension	SocSec annual benefit	Total benefits		SocSec annual benefit with chain CPI	Total annual benefits with chain CPI	Total benefits with retirement age of 68	Total benefits with chain CPI and retirement age of 68	Total benefits with retirement age of 70	Total benefits with chain CPI and retirement age of 70
66	2013	1,256,052	35,874	1,291,926		35,457	1,291,509	1,256,052	1,256,052	1,256,052	1,256,052
67	2014	1,256,052	36,878	1,292,930		36,343	1,292,395	1,256,052	1,256,052	1,256,052	1,256,052
68	2015	1,256,052	37,911	1,293,963		37,252	1,293,304	1,293,963	1,293,304	1,256,052	1,256,052
69	2016	1,256,052	38,973	1,295,025		38,183	1,294,235	1,295,025	1,294,235	1,256,052	1,256,052
70	2017	1,256,052	40,064	1,296,116		39,138	1,295,190	1,296,116	1,295,190	1,296,116	1,295,190
71	2018	1,256,052	41,186	1,297,238		40,116	1,296,168	1,297,238	1,296,168	1,297,238	1,296,168
72	2019	1,256,052	42,339	1,298,391		41,119	1,297,171	1,298,391	1,297,171	1,298,391	1,297,171
73	2020	1,256,052	43,524	1,299,576		42,147	1,298,199	1,299,576	1,298,199	1,299,576	1,298,199
74	2121	1,256,052	44,743	1,300,795		43,201	1,299,253	1,300,795	1,299,253	1,300,795	1,299,253
75	2122	1,256,052	45,996	1,302,048		44,281	1,300,333	1,302,048	1,300,333	1,302,048	1,300,333
76	2123	1,256,052	47,284	1,303,336		45,388	1,301,440	1,303,336	1,301,440	1,303,336	1,301,440
77	2124	1,256,052	48,608	1,304,660		46,523	1,302,575	1,304,660	1,302,575	1,304,660	1,302,575
78	2125	1,256,052	49,969	1,306,021		47,686	1,303,738	1,306,021	1,303,738	1,306,021	1,303,738
79	2126	1,256,052	51,368	1,307,420		48,878	1,304,930	1,307,420	1,304,930	1,307,420	1,304,930
80	2127	1,256,052	52,806	1,308,858		50,100	1,306,152	1,308,858	1,306,152	1,308,858	1,306,152
81	2128	1,256,052	54,285	1,310,337		51,352	1,307,404	1,310,337	1,307,404	1,310,337	1,307,404
82	2129	1,256,052	55,805	1,311,857		52,636	1,308,688	1,311,857	1,308,688	1,311,857	1,308,688
83	2130	1,256,052	57,367	1,313,419		53,952	1,310,004	1,313,419	1,310,004	1,313,419	1,310,004
84	2131	1,256,052	58,973	1,315,025		55,301	1,311,353	1,315,025	1,311,353	1,315,025	1,311,353
85	2132	1,256,052	60,625	1,316,677		56,683	1,312,735	1,316,677	1,312,735	1,316,677	1,312,735
20-year total				26,065,615			26,026,777	25,992,863	25,954,976	25,915,979	25,879,541
% change from current							-0.15%	-0.28%	-0.42%	-0.57%	-0.71%
difference in annual total at age 85									-3,941		-3,941
avg monthly benefits over 20 yrs				108,607							

Larry Merlo, CEO, CVS Caremark

		BENEFITS UNDER CURRENT POLICY				BENEFITS UNDER PROPOSED REFORMS					
Age	Year	Corporate pension	SocSec annual benefit	Total benefits		SocSec annual benefit with chain CPI	Total annual benefits with chain CPI	Total benefits with retirement age of 68	Total benefits with chain CPI and retirement age of 68	Total benefits with retirement age of 70	Total benefits with chain CPI and retirement age of 70
66	2013	3,158,028	38,973	3,197,001		38,520	3,196,548	3,158,028	3,158,028	3,158,028	3,158,028
67	2014	3,158,028	40,064	3,198,092		39,483	3,197,511	3,158,028	3,158,028	3,158,028	3,158,028
68	2015	3,158,028	41,186	3,199,214		40,470	3,198,498	3,199,214	3,198,498	3,158,028	3,158,028
69	2016	3,158,028	42,339	3,200,367		41,482	3,199,510	3,200,367	3,199,510	3,158,028	3,158,028
70	2017	3,158,028	43,525	3,201,553		42,519	3,200,547	3,201,553	3,200,547	3,201,553	3,200,547
71	2018	3,158,028	44,743	3,202,771		43,582	3,201,610	3,202,771	3,201,610	3,202,771	3,201,610
72	2019	3,158,028	45,996	3,204,024		44,671	3,202,699	3,204,024	3,202,699	3,204,024	3,202,699
73	2020	3,158,028	47,284	3,205,312		45,788	3,203,816	3,205,312	3,203,816	3,205,312	3,203,816
74	2121	3,158,028	48,608	3,206,636		46,933	3,204,961	3,206,636	3,204,961	3,206,636	3,204,961
75	2122	3,158,028	49,969	3,207,997		48,106	3,206,134	3,207,997	3,206,134	3,207,997	3,206,134
76	2123	3,158,028	51,368	3,209,396		49,309	3,207,337	3,209,396	3,207,337	3,209,396	3,207,337
77	2124	3,158,028	52,807	3,210,835		50,542	3,208,570	3,210,835	3,208,570	3,210,835	3,208,570
78	2125	3,158,028	54,285	3,212,313		51,805	3,209,833	3,212,313	3,209,833	3,212,313	3,209,833
79	2126	3,158,028	55,805	3,213,833		53,100	3,211,128	3,213,833	3,211,128	3,213,833	3,211,128
80	2127	3,158,028	57,368	3,215,396		54,428	3,212,456	3,215,396	3,212,456	3,215,396	3,212,456
81	2128	3,158,028	58,974	3,217,002		55,788	3,213,816	3,217,002	3,213,816	3,217,002	3,213,816
82	2129	3,158,028	60,625	3,218,653		57,183	3,215,211	3,218,653	3,215,211	3,218,653	3,215,211
83	2130	3,158,028	62,323	3,220,351		58,613	3,216,641	3,220,351	3,216,641	3,220,351	3,216,641
84	2131	3,158,028	64,068	3,222,096		60,078	3,218,106	3,222,096	3,218,106	3,222,096	3,218,106
85	3132	3,158,028	65,862	3,223,890		61,580	3,219,608	3,223,890	3,219,608	3,223,890	3,219,608
20-year total				64,186,733			64,144,540	64,107,696	64,066,537	64,024,170	63,984,585
% change from current							-0.07%	-0.12%	-0.19%	-0.25%	-0.31%
difference in annual total at age 85									-4,282		-4,282
avg monthly benefits over 20 yrs				267,445							

Rhonda Straw, Home Health Aide

	BENEFITS UNDER CURRENT POLICY				BENEFITS UNDER PROPOSED REFORMS					
Age	401(k) annual benefit	SocSec annual benefit	Total benefits		SocSec annual benefit with chain CPI	Total annual benefits with chain CPI	Total benefits with retirement age of 68	Total benefits with chain CPI and retirement age of 68	Total benefits with retirement age of 70	Total benefits with chain CPI and retirement age of 70
67	24	24,619	24,643		24,262	24,286	24	24	24	24
68	24	25,308	25,332		24,869	24,893	25,332	24,893	24	24
69	24	26,017	26,041		25,490	25,514	26,041	25,514	24	24
70	24	26,745	26,769		26,128	26,152	26,769	26,152	26,769	26,152
71	24	27,494	27,518		26,781	26,805	27,518	26,805	27,518	26,805
72	24	28,264	28,288		27,450	27,474	28,288	27,474	28,288	27,474
73	24	29,056	29,080		28,136	28,160	29,080	28,160	29,080	28,160
74	24	29,869	29,893		28,840	28,864	29,893	28,864	29,893	28,864
75	24	30,705	30,729		29,561	29,585	30,729	29,585	30,729	29,585
76	24	31,565	31,589		30,300	30,324	31,589	30,324	31,589	30,324
77	24	32,449	32,473		31,057	31,081	32,473	31,081	32,473	31,081
78	24	33,358	33,382		31,834	31,858	33,382	31,858	33,382	31,858
79	24	34,292	34,316		32,630	32,654	34,316	32,654	34,316	32,654
80	24	35,252	35,276		33,445	33,469	35,276	33,469	35,276	33,469
81	24	36,239	36,263		34,282	34,306	36,263	34,306	36,263	34,306
82	24	37,254	37,278		35,139	35,163	37,278	35,163	37,278	35,163
83	24	38,297	38,321		36,017	36,041	38,321	36,041	38,321	36,041
84	24	39,369	39,393		36,918	36,942	39,393	36,942	39,393	36,942
85	24	40,471	40,495		37,840	37,864	40,495	37,864	40,495	37,864
86	24	41,604	41,628		38,786	38,810	41,628	38,810	41,628	38,810
20-year total			648,707			620,244	624,088	595,982	572,763	545,624
% change from current						-4.39%	-3.80%	-8.13%	-11.71%	-15.89%
difference in annual total at age 85								-$2,818		-$2,818
avg monthly benefits over 20 yrs			2,703							

Appendix 2: Sources and Methodology

Social Security benefit numbers: We took numbers generated from this Social Security calculator http://www.ssa.gov/retire2/AnypiaApplet.html and increased them by traditional and chained CPI cost-of-living amounts through the normal retirement age of person profiled. This is the number in the initial box for Social Security benefits, with and without chained CPI.

CPI/Chained CPI calculations: For calculating traditional Social Security benefit increases we assumed a 2.8 percent cost-of-living adjustment (COLA), the same as is assumed by trustees of the Social Security Trust Fund. In calculating chained CPI we assumed a 2.5 percent annual increase, also used by the Social Security Administration of the annual impact of chained CPI on COLA adjustments.

Retirement asset values: Merlo's and Hemsley's retirement assets are those reported in their respective company's 2012 proxy statement, filed with the Securities and Exchange Commission. Values include the present value of pension assets and the current value of deferred compensation assets. We have made no attempt to estimate the future value at the time of each man's retirement, though it is likely these values will be far greater than they are today. Straw's retirement assets were reported by her to the report's authors. Similarly, we have made no attempt to estimate the growth in value of her 401(k) by the time she reaches retirement age because we didn't do that analysis for the executives.

Corporate pension annuity values are derived using retirement assets from sources explained above from www.immediateannuities.com as of February 14, 2013.

Additional IPS reports on Fix the Debt:

- A Pension Deficit Disorder: The Massive CEO Retirement Funds and Underfunded Worker Pensions at Firms Pushing Social Security Cuts, Institute for Policy Studies, November 27, 2012.
- The CEO Campaign to 'Fix' the Debt: A Trojan Horse for Massive Corporate Tax Breaks, published by the Institute for Policy Studies, November 13, 2012.

Endnotes

[1] We contacted the Direct Care Alliance, an advocacy group, for help in identifying a home health aide willing to share personal financial and employment history for this research project. We communicated with Rhonda Straw numerous times on the phone and email to verify the information she provided.
[2] The Fix the Debt CEOs with even larger pensions are: David Cote of Honeywell with $78 million, Hamid Moghadam of Prologis with $57 million, Jeffrey Immelt of General Electric with $53 million, and Randall Stephenson of AT&T with $47 million.
[3] http://www.bls.gov/oes/current/oes311011.htm
[4] Based on a projected growth rate of 3 percent a year until she is 67 and then invested in an annuity.
[5] http://assets.opencrs.com/rpts/RL30122_20090911.pdf
[6] http://www.ssa.gov/pressoffice/basicfact.htm
[7] Pensions at a Glance 2011: Retirement-Income Systems in OECD Countries 10.1787/pension_glance-2011-28-en
[8] Reducing the Deficit: Spending and Revenue Options, Congressional Budget Office, March, 2011, p. 58 http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12085/03-10-reducingthedeficit.pdf
[9] http://hosted.ap.org/dynamic/stories/U/US_CEOS_ELDERLY?SITE=KTVB&SECTION=HOME&TEMPLATE=DEFAULT