National Center for Food & Agricultural Policy

Social Security Policy and Rural Communities, with Comparisons to Urban Communities

A Policy Brief of the National Center for Food & Agricultural Policy

by Karl G. King, Glenn L. Nelson, and Jill Long Thompson

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Modifications of Social Security to increase its solvency have major implications for rural communities. Some policy options would be disproportionately harmful to rural communities while others would not. The findings of this study are:

1. Reducing Social Security benefits would cause rural communities to lose a larger portion of their income base than urban communities;

2. Raising the Social Security retirement age would cause rural communities to lose a larger portion of their income base than urban communities;

3. Raising the income level subject to the Social Security tax would have a smaller impact on the rural economic base than the urban economic base.

The table below shows a comparison of urban and rural elderly, incomes, and Social Security retirement benefits relative to income as well as the empirical findings. The geographic areas in the table are:

Metropolitan – An urban core of 50,000 or more population plus adjacent counties highly integrated with the core.

Micropolitan – An urban core of 10,000 – 50,000 population plus adjacent counties highly integrated with the core.

Countryside – Counties that are neither metropolitan nor micropolitan.

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[1] This policy brief is available on the web site of the National Center for Food and Agricultural Policy at http://www.ncfap.org/SocialSecurity.html and then click on the link below "Policy Brief".
[2] The National Center and the authors are grateful to the Howard G. Buffett Foundation, and most specifically to Mr. Howard G. Buffett, for his personal interest and support of this work.
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Item, Including Base Year of the Analysis	Metro-politan	Rural: Micro-politan	Rural: Country-side	U. S. Total
Context as of 2005				
Elderly Population Relative to Total Population, %	11.8	14.4	16.0	12.3
Per Capita Personal Income, $	36,235	27,058	24,891	34,544
Social Security Benefits Relative to Income, %	3.24	5.24	5.95	3.53
Benefit Cuts or Increased Taxes Relative to Income, %				
Reduce Upper Tier of Soc. Sec. Benefits, 2034	0.09	0.11	0.11	0.10
Increase the Retirement Age, 2034	0.35	0.50	0.56	0.37
Increase the Share of Earnings Subject to Taxation				
From 83 to 90 % of Earnings, 2034	0.47	0.30	0.28	0.45
No Cap, i.e., Tax 100% of Earnings, 2003	1.29	0.57	0.45	1.20

Context

Rural people are disproportionately elderly.[4] As of 2005, one of seven micropolitan residents was 65 or older; nearly one of six residents of the rural countryside was elderly; while a lesser one of 8.5 metropolitan residents was elderly. A higher proportion of rural than urban residents is eligible for Social Security.

Rural residents have lower incomes per capita than urban dwellers. As of 2005, per capita income in urban communities averaged 34 percent greater than that of micropolitan residents and 46 percent greater than the per capita income of those in the rural countryside.

Largely because of the disproportionate numbers of elderly and the lower incomes per person, rural communities are more dependent on Social Security than urban areas. As of 2005, Social Security benefits relative to income were 1.6 times as important in micropolitan communities as compared to urban areas and 1.8 times as important in the rural countryside as in urban communities.

A Note on the Benefits of Decreases in Federal Outlays and Increases in Federal Taxes

The Social Security Trust Fund has long been a source of financing for federal debt. Investing the Trust Fund surplus in U.S. Treasury notes allows the federal government to borrow from Social Security and at the same time allows the Fund to earn interest and grow. With baby boomers approaching retirement, Social Security payments will soon exceed

[4] "Rural" and "nonmetropolitan" as well as "urban" and "metropolitan" are used interchangeably in this report. "Rural countryside" includes all nonmetropolitan counties not included in micropolitan.

revenues. That reality, combined with the recent increases in federal deficits and subsequent increases in national debt, are putting pressure on Congress to explore policy options that will keep the Social Security Program solvent without creating financial stress for retirees.

As Congress debates options for keeping the Social Security Retirement Program secure, incorporated in the process must be an understanding of how various options would impact rural communities, relative to urban communities. In general, rural communities have a population that is older than the population of urban communities. Additionally, per capita income is lower in urban areas. Because of these demographic and geographic differences, specific reforms would impact rural and urban communities differently.

This study analyzes which communities would bear the cost associated with using modifications to Social Security as a contribution to a more sustainable national economy.

Policy Option: Reduce Social Security Benefits

A proportionate reduction of all Social Security benefits would affect the economy of communities in the same proportion as the importance of benefits to income. Reiterating the point made in setting the context, as of 2005 Social Security benefits relative to income were 1.6 times as important in micropolitan communities as compared to urban areas and 1.8 times as important in the rural countryside as in urban communities. Rural communities would lose a larger proportion of their economic base than would urban communities. Many people do not like the proportionate option because it lessens the benefits of lower and middle-income beneficiaries by the same proportion as for higher income beneficiaries.

Many policy makers and analysts recommend reducing benefits only for those whose earnings were sufficiently high to be affected by the top-most of the three ranges for the "replacement factor." In 2006 the top-most range included those whose Average Indexed Monthly Earnings (AIME) were equal to or greater than $3,955; this equates to annual earnings of $47,460 or more. Using projections for 2034 and as shown in the table, rural communities would find their decline in benefits relative to income to be about 1.2 times that in urban communities. This is much smaller than the factors of 1.6 and 1.8 estimated for the option of a proportionate reduction of all SS benefits. The underlying reason for the shift is that beneficiaries in the top tier are distributed more uniformly over rural-urban communities than is the case for all beneficiaries.

Policy Option: Raise the Retirement Age

An increase in the retirement age is a commonly proposed policy that would reduce Social Security outlays by delaying the onset of eligibility for benefits. This study examined the consequences of raising the full retirement age (FRA; a.k.a. normal retirement age) to 68. The increase was assumed to phase in over a six-year period, as is now legislated for the increase to age 67. The increase to age 68 would be fully implemented for retirees born in or after 1966 and reaching the FRA in 2034 or later. This analysis estimates the impacts as of 2034.

Increasing the retirement age would decrease benefits in a pattern strongly correlated with the urban-rural spectrum, as shown in the table. This is not surprising in view of the elderly being a disproportionate share of the total population in rural communities relative to urban communities. The decline of benefits relative to income in micropolitan communities and the rural countryside would be about 1.45 and 1.61 times respectively the decline in urban communities. The rural-urban differential is considerably larger than that associated with a policy that would reduce benefits of only those in the top tier of benefits. The differential associated with raising the retirement age is moderately smaller than that associated with a proportionate reduction in all benefits.

<u>Policy Option: Raise the Proportion of Earnings That Is Taxable</u>

This analysis followed two complementary approaches in investigating the policy option of raising the proportion of earnings that is taxable. The first approach assumed all earnings would be taxable, following the path that lawmakers chose for Medicare. This analysis incorporated a comparative analysis of Social Security and Medicare tax bases in 2003 to assess the consequences of moving Social Security to the tax base under girding Medicare. The second approach assumed the maximum on taxable earnings for Social Security would be increased sufficiently that 90 percent of total earnings in the U. S. would be taxable as compared to the current 83 percent. The analysis focused on the year 2034 because this would enable comparisons with the consequences of other policy proposals analyzed in this study.

The two approaches differ in two important respects: a) the proportion of earnings which would be added to the Social Security tax base and b) the year in which consequences were assessed. The following discussion integrates the findings from the two approaches. The results from both analyses are reported in the table.

In contrast to the other policy options, rural communities would fare much better than urban places if the ceiling on taxable earnings were to be raised. The analysis which assumed all earnings would be taxed found that taxes as a percent of personal income would increase in micropolitan and rural countryside communities by only 0.44 and 0.35 times respectively the increase in metropolitan areas. The approach focused on raising the taxable base to 90 percent of earnings found that taxes as a percent of personal income would increase in micropolitan and rural countryside communities by 0.64 and 0.60 times respectively the increase in metropolitan areas. Many things could account for the differences. This study hypothesizes that the very high earnings that would be taxed in the first approach, but not in the second, are more disproportionately earned in urban communities than the earnings in the 83-90 percent portion of the earnings distribution. The point to be emphasized is that both approaches estimated rural communities would find the increased tax to be a substantially smaller proportion of total income than would occur in metropolitan communities; the former would likely be 0.4-0.6 of the latter.

Policy Option: An Example of a Synthesis That Is Geographically Neutral

Many policy proposals include elements of two or more of the options presented above. The resulting consequences for communities can be roughly estimated by computing the weighted average of the component parts of the proposal. For example, assume the impacts of a proposal are attributable as follows: 1/2 to increasing the share of earnings taxed, 1/3 to an increase in the full retirement age, and 1/6 to a reduction of benefits for beneficiaries with higher benefits. Using the information in the table for 2034, we estimate rural and urban communities would, on average, have virtually identical proportions of their incomes devoted to a modification of Social Security policy. That is, communities across the rural-urban spectrum would experience, on average, the same proportion of the cost, relative to their income, required to achieve the national benefit of a more sustainable national economy. The benefits of a more sustainable national economy would likely be similarly widespread.

Additional Information

The full report underlying the summary in this policy brief contains much more detail. All of the estimates for the U.S. in the table in this brief are displayed by state; other related variables are presented by state as well. U.S. maps display estimates for counties through color codes. Regional differences as well as rural-urban differences become clear. The accompanying discussion of the estimates is more detailed. Methods of analysis are summarized. The report includes 35 pages. It is available on the web site of the National Center for Food and Agricultural Policy (NCFAP) at http://www.ncfap.org/SocialSecurity.html and then click on the link below "Full Report". It is also available by request to the National Center at telephone number 202-328-5183 and address 1616 P Street, N.W., Suite 100, Washington, DC 20036 and by e-mail to ncfap@ncfap.org.

The most detailed information is available on the web site http://www.ncfap.org/SocialSecurity.html in multiple files. One file contains a detailed description of the methodology. Other files contain tables with estimates for all counties of the U.S. comparable in scope to the subject matter presented for states in the full report. A map of U.S. counties, analogous to those in the full report, is available for the geographically neutral option.