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Saving Social Security

A Balanced Approach

Peter A. Diamond and Peter R. Orszag

Social Security is one of America's most successful government programs. It has helped millions of Americans avoid poverty in old age, upon becoming disabled, or after the death of a family wage earner. Despite its success, however, the program faces two principal problems.

First, Social Security faces a long-term deficit, even though it is currently running short-term cash surpluses. Addressing the long-term deficit would put both the program itself and the nation's budget on a sounder footing.

Second, two decades have passed since the last significant changes in Social Security. Since then, as our economy and society have continued to evolve, some aspects of the program have become increasingly out of date. The history of Social Security is one of steady adaptation to evolving issues, and it is time to adapt the program once again.

Restoring long-term balance to Social Security is necessary, but it is not necessary to destroy the program in order to save it. To be sure, some analysts reject the view that Social Security's projected financial problems are serious enough to warrant any changes right now. Others, in contrast, exaggerate the difficulty of saving Social Security to justify proposals that would shred the most valuable features of this exemplary program. Our view is that Social Security's projected financial difficulties are real and that addressing those difficulties sooner rather than later would make sensible reforms

easier and more likely. The prospects are not so dire, however, as to require undercutting the basic structure of the system. In other words, our purpose is to save Social Security both from its financial problems and from some of its "reformers."

Our approach recognizes and preserves the value of Social Security in providing a basic level of benefits for workers and their families that cannot be decimated by stock market crashes or inflation, and that lasts for the life of the beneficiary. Our plan updates Social Security to reflect changes in the labor market and life expectancies. And it eliminates the long-term deficit without resorting to accounting gimmicks, thereby putting the program and the federal budget on a sounder financial footing.

Our plan to restore long-term solvency has three components, each of which addresses one of the factors that contribute to the long-term deficit in Social Security: improvements in life expectancy, increased earnings inequality, and the ongoing legacy debt that arises from the program's generosity to its early beneficiaries. Each component of our reform plan includes adjustments to both benefits and revenue to help close the long-term deficit.

The first of these components is the life expectancy component. Life expectancy at age 65 has risen by four years for men and five years for women since 1940, and it is expected to continue rising in the future. Increases in life

expectancy make Social Security benefits more valuable to recipients, because the benefits are paid over more years. But for that very reason, increases in life expectancy also raise the cost of Social Security.

Many observers have recognized that it makes sense to adjust Social Security for the effects of increased life expectancy. Previous proposals to do this, however, have adopted the extreme view that all of the adjustment should occur through reductions in benefits. Instead, we propose a balanced approach in which roughly half the life expectancy adjustment occurs through changes to benefits and the rest through changes to payroll taxes.

The second component of our plan addresses earnings inequality, which has risen substantially in the past two decades. Inequality of earnings across workers in the labor force affects Social Security in several ways. For example, the payroll tax is levied on earnings only up to a certain level (in 2003 that level, the maximum taxable earnings base, was \$87,000). In each year over the past two decades, about 6 percent of workers have had high enough earnings that some of their earnings were above the maximum taxable earnings base and therefore not subject to the payroll tax. These higher-income workers have enjoyed disproportionately rapid earnings growth over that period, so that the share of economy-wide earnings not taxed for Social Security has risen substantially. In 1983, when the last major reform of Social Security was undertaken, 10 percent of all earnings were above the maximum taxable earnings base. By 2002 that share had risen to about 15 percent.

In addition to having more of their earnings escape taxation by Social Security, high-income workers have enjoyed increasing life expectancies relative to other workers. This increasing difference in life expectancy tends to diminish the progressivity of Social Security (that is, its provision of relatively more generous benefits to lower-earning workers) on a lifetime basis. The life expectancy adjustments in the first component of our plan are based on average

increases in life expectancy for the entire population. Since life expectancy for higher earners is increasing more rapidly than the average, an additional adjustment just for higher earners is warranted.

To address the effect of earnings inequality on Social Security, our plan again includes a balance of revenue and benefit adjustments. First, we propose gradually raising the maximum taxable earnings base until the share of earnings that is above the base—and hence escapes the payroll tax—has returned to roughly its average level over the past twenty years. This change would gradually reduce the share of earnings not subject to the payroll tax until it reaches 13 percent in 2063, roughly halfway between its current level and its level in 1983. Second, to make Social Security somewhat more progressive, and thereby offset the effects of disproportionately rapid gains in life expectancy among higher earners, we propose a benefit reduction that affects only relatively high earners. Currently, about 15 percent of workers newly eligible for Social Security benefits have sufficiently high earnings that a portion of those earnings falls in the highest tier of the Social Security benefit formula. Our benefit adjustment for income inequality consists of a gradual, modest reduction in benefits that would affect only those with earnings in this highest tier.

The third component of our plan recognizes the legacy cost stemming from Social Security's history. The first generations of beneficiaries received far more in benefits than they had contributed in payroll taxes. Beneficiaries in the earliest years of the program, for example, contributed for only a few years of their career but then received full benefits over their whole retirement. The decision to provide ample benefits to these early beneficiaries is understandable: most of them had experienced hardship during the Great Depression, many had fought in World War I or World War II, and elderly poverty rates were unacceptably high. But those benefits did not come free: the iron logic of accounting requires that since those early retirees received more in

benefits than they had paid in, later generations of retirees must receive less. In other words, the system's generosity to early beneficiaries generated an implicit debt, which we refer to in this book as Social Security's legacy debt. That debt can be defined as the accumulated difference between benefits and taxes (accumulated at the market rate of interest) for past and current beneficiaries. This legacy debt imposes an ongoing cost on participants in the program, which we call the legacy cost.

We all inherit a legacy from Social Security's history. Even if we wanted to, nothing we can do now could take back what was given to Social Security's early beneficiaries. In addition, most people are unwilling to reduce benefits for those already receiving them or nearing retirement. Those two facts determine the size of Social Security's legacy debt. And once that debt is determined, its cost cannot be avoided: the only issue is how we finance that cost across different generations.

Social Security's legacy is not new. It has been with us since the origins of the program itself. But the idea of a Social Security reform based in part on explicitly recognizing the need to share the cost of that legacy is new. We propose to reform the financing of the legacy debt through three changes:

- First, we would gradually phase in universal coverage under Social Security, to ensure that all workers bear their fair share of the cost of the nation's generosity to earlier generations. Currently, about 4 million workers, almost all of them in state and local governments, are not covered by Social Security. Their nonparticipation means that those workers escape any contribution to the financing of the legacy debt.
- Second, we would impose a legacy tax on earnings above the maximum taxable earnings base, thereby ensuring that very high earners contribute to financing the legacy debt in proportion to their full earnings. The legacy tax above the base would start at 3.0 percent and gradually rise to 3.5 percent by 2080.

- Third, we would impose a universal legacy charge on future workers and beneficiaries, roughly half of which would be in the form of a benefit reduction for all beneficiaries becoming eligible in or after 2023, and the rest in the form of a very modest increase in the payroll tax from 2023 onward. This universal legacy charge would gradually increase over time, so as to help stabilize the legacy debt as a share of taxable payroll.

This approach to financing the legacy debt reflects a reasonable balance between current and distant generations, between lower earners and higher earners, and between workers who are currently covered by the program and workers who are not.

Our three-part proposal would restore long-term balance to Social Security as that term is conventionally understood: actuarial balance over a seventy-five-year horizon. Our plan would not only eliminate the seventy-five-year deficit in Social Security, but indeed would produce a modestly growing ratio of the Social Security trust fund to annual costs at the end of the seventy-five-year period. This is important because it makes it more likely that Social Security will not again face a seventy-five-year deficit for a long time to come.

Our plan combines revenue increases and benefit reductions—the same approach taken in the last major Social Security reform, that of the early 1980s, when Alan Greenspan chaired a bipartisan commission on Social Security. That commission facilitated a reform that included adjustments to both benefits and taxes. Such a balanced approach was the basis for reaching a consensus between President Ronald Reagan and congressional Republicans on one hand and congressional Democrats led by House Speaker Thomas P. O'Neill on the other.

In addition to our three-part plan to restore long-term balance to Social Security, we propose improvements to Social Security's financial protections for certain particularly vulnerable beneficiaries. We focus on changes in four areas:

benefits for workers with low lifetime earnings; benefits for widows and widowers; benefits for disabled workers and young supervisors; and further protection for all beneficiaries against unexpected inflation. These changes would significantly improve Social Security's ability to provide cost-effective social insurance while maintaining long-term financial balance.

What do these various changes imply for the benefits that individual workers will receive and for the taxes they will pay? Workers who are 55 years old or older in 2004 will experience no change in their benefits from those scheduled under current law. For younger workers with average earnings, our proposal involves a gradual and modest reduction in benefits from those scheduled under current law for successive cohorts. For example, a 45-year-old average earner would experience less than a 1 percent reduction in benefits under our plan. A 35-year-old average earner would experience less than a 5 percent reduction. And a 25-year-old with average earnings would experience less than a 9 percent reduction in benefits (Figure 1). Higher earners would experience somewhat larger reductions in benefits than the average, and lower earners would experience smaller reductions. These modest reductions in benefits are also in keeping with the tradition set in 1983. For example, the 1983 reform reduced benefits by about 10 percent for those 25 years old at the time of the reform, a slightly larger benefit reduction than under our plan for average earners age 25 in 2004.

It is important to underline that the reductions just described are relative to currently scheduled benefits; they are not absolute reductions from what retirees receive today. Although today's younger workers would experience somewhat larger percentage reductions in scheduled benefits when they retire than older workers, those benefits would still be higher, even after adjusting for inflation, than those of the older workers. An average earner who is 25 years old in 2004, for example, would receive an annual inflation-adjusted benefit at retirement that is more than

25 percent higher than the inflation-adjusted benefit of an average earner who is 55 years old in 2004. The reason is that Social Security benefits increase when career earnings rise, and today's 25-year-olds are expected to have higher career earnings than today's 55-year-olds because of ongoing productivity gains in the economy. Even with the modest benefit reductions in our plan, the result is that inflation-adjusted benefits rise from one generation to the next.

Our plan balances its modest and gradual benefit reductions with a modest and gradual increase in the payroll tax rate. As Figure 2 shows, the employee share of the payroll tax under our plan would slowly increase from 6.2 percent in 2005 to 7.1 percent in 2055. Because employees and their employers each pay half of the payroll tax, the combined employer-employee payroll tax rate would rise from 12.4 percent today to 12.45 percent in 2015, 13.2 percent in 2035, and 14.2 percent in 2055. This gradual increase in the payroll tax rate helps ensure that Social Security continues to provide

**Figure 1** Benefit Reductions Under Proposed Reform for Average Earners

Age at end of 2004	Change in benefits from scheduled benefit baseline percentage	Benefit at full benefit (2003 dollars) <sup>a</sup>
55	0.0	15,408
45	-0.6	17,100
35	-4.5	18,200
25	-8.6	19,400

SOURCE: Authors' calculations.

<sup>a</sup>For a retired worker with scaled medium preretirement earnings pattern. This scaled earnings pattern allows wages to vary with the age of the worker but ensures that lifetime earnings are approximately equal to those of a worker with the average wage in every year of his or her career.

**Figure 2** Payroll Tax Rates Under Proposed Reform Percentage of Earnings

Year	Employee rate	Combined employer-employee rate
2005	6.20	12.40
2015	6.22	12.45
2025	6.35	12.69
2035	6.59	13.18
2045	6.84	13.68
2055	7.09	14.18

SOURCE: Authors' calculations based on memorandum from the Office of the Chief Actuary.

an adequate level of benefits that are protected against inflation and financial market fluctuations, and that last as long as the beneficiary lives.

In summary, our plan differs from most other recent Social Security reform proposals, and in our view it represents the most auspicious way of reforming the program, for the following reasons:

- It balances benefit and revenue adjustments.
- It restores long-term balance and sustainable solvency to Social Security.
- It does not assume any transfers from general revenue.
- It does not rely on substantial reductions in disability and young survivor benefits to help restore long-term balance.
- It strengthens the program's protections for low earners and widows.
- It does not divert Social Security revenue into individual accounts.
- It preserves Social Security's core social insurance role, providing a base level of income in time of need that is protected against financial market fluctuations and unexpected inflation.

Despite our confidence in the plan's substantive merits, we are under no illusions regarding the political difficulties of enacting it. Social Security reform is controversial, as it should be. After all, Social Security plays a critical role in the lives of millions of Americans and in the federal budget. Reforms to such an important program *should* generate political interest and debate. Nonetheless, we hope that the simplicity and balance of our basic three-pronged plan demonstrate that Social Security can be mended without resorting to the most controversial and problematic elements included in some other recent reform plans.

### READING 39

## The Necessity and Desirability of Social Security Reform

Ramesh Ponnuru

Social Security has mostly been a "pay as you go" program. Today's workers finance, with

their payroll taxes, the retirements of today's senior citizens. When those workers get old,

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they will in turn rely on taxes from their children's generation. But increased lifespans and decreased childbearing have made this bargain hard to sustain. In 1950, there were 16 workers supporting each retiree. There are 3.3 today. By 2040, there will be only 2.1.

Benefits are calculated using a complex formula. If you had higher wages, and thus paid more payroll taxes into the system, you'll get a higher benefit. But benefits don't rise in exact proportion to wages: There's some (somewhat haphazard) redistribution to the poor. Homemakers get a benefit, too; the system, it might be said, recognizes that they have contributed to it by nurturing the next generation of taxpayers. During your retirement, your benefits go up every year to keep up with inflation.

### A TRILLION HERE, A TRILLION THERE

A worker who has earned the average American worker's wage each year will get \$14,854 from Social Security this year if he retires now. Because wages grow over time, so do benefits. By 2050, the average worker's retirement benefit is expected to be \$23,811 (adjusting for inflation). That's 60 percent higher than today.

That growth is what is causing the fiscal problem. In 2018, the program is expected to start sending out more checks than it collects in revenues. The system has an expected \$283 billion shortfall during the following five years. By 2045, it is expected to lose \$394 billion in one year. (There's an asterisk by that number, though, as we'll see below.) One way to measure the financing gap is to estimate how much additional money the government would have to devote to Social Security *now* to make the program permanently solvent. Depending on how you calculate it, that number is \$10 to 11 trillion. That's larger than our entire economy.

It is true that we do not have to fix it immediately. It is also true that every year we wait, the choices get worse. We can gradually cut benefits if we get started now. If we don't, we will have to

cut them (or raise taxes) very sharply. Andrew Biggs, now a commissioner at the Social Security Administration, has estimated that delaying reform for one more year will cost \$600 billion—and that cost goes up every year. The *Titanic* didn't have a crisis until it hit the iceberg, but it would have been better off gently steering a different course beforehand.

Liberals contend that the scenario I have painted above is alarmist. Social Security, they say, will not actually go bankrupt until 2042. The program can be saved with some minor adjustments. Just rolling back Bush's tax cuts would raise the necessary funds. If the economy grows better than expected, the program might have enough revenues to pay for its promises.

None of this is true. The idea that the problem does not start until 2042 depends on sleight of hand. For several decades, the program, in anticipation of the retirement of the Baby Boomers, has collected more revenues than it pays out. The surplus has been banked in a Social Security trust fund. The liberal argument is that when payouts start to outstrip revenues, in 2018, the program can just draw on the trust fund—and it can keep drawing on it until 2042, when it is scheduled to run out.

When 2018 rolls around, the government will have to find the money to pay off those IOUs. It will have to raise revenues or cut spending or borrow elsewhere to do that.

### FORMS OF DENIAL

The "minor adjustments," meanwhile, aren't all that minor. The leading liberal plan on Social Security is that of economists Peter Diamond and Peter Orszag. Its backers, such as Jonathan Cohn of *The New Republic*, prefer to describe it as "a series of tweaks" that "involves both raising taxes and cutting benefits." Likewise, the *Washington Post* describes Diamond and Orszag as "'balancers,' who would use benefit cuts and tax increases in equal measure." In truth,

85 percent of the improvement in solvency their plan accomplishes would come from higher taxes. (They even propose adding some benefits.) They want to raise the payroll-tax rate. They want to raise the amount of wages to which the tax applies. Then they want to add a "surtax" to high earners.

The Congressional Budget Office (CBO) estimates that the Diamond-Orszag plan would mean that the share of the economy eaten up by Social Security taxes would grow by more than a third. (Those taxes equal 4.9 percent of the economy now but would rise to 6.6 percent by 2080 under the plan.) The cost of their plan over the next 75 years would be almost exactly the same as that of the current program. The CBO also estimates that the plan would reduce economic growth, the capital stock, and work effort.

The idea that merely repealing the Bush tax cut would pay for Social Security's promises is misleading. The people who make that claim are, again, ignoring the problem of paying off the IOUs in the trust fund. (They're assuming, that is, that the trust fund can pay for Social Security benefits painlessly.) And there's another problem. Because the income tax is progressive, its burden grows over time. As wages rise, people move into higher tax brackets. The average tax rate—the share of the economy that the government is claiming through taxes—therefore rises.

Finally, there is the illusion that we can grow our way out of the Social Security shortfall. Sure, higher growth would yield revenues. But higher growth would also increase wages—and since benefits are tied to wages, benefits would rise too. Growth is a very good thing, but it can't relieve us of the need to get the program's benefits structure in line with its revenues. Even if economic growth doubled, Social Security would still go insolvent. And to the degree that economic growth does help, it is mostly by swelling the balance of the trust fund, giving the system more IOUs to claim against future taxpayers.

## CHECKING THE INDEX

Moving from "wage indexing" to "price indexing" isn't a minor change. The middle-income worker of 2050 would be getting an annual benefit worth 37.5 percent less than he would have gotten under wage indexing. Price indexing would eliminate Social Security's shortfall all by itself. Would it be a draconian cut in benefits? If wages grow over time, workers will be putting more tax money into Social Security: Shouldn't they get bigger benefits as a result?

What that question ignores is that Social Security is not capable of converting our worker's payments into those massively higher benefits. The only way he could get those benefits is if he agreed to pay more taxes over the course of his working life (and to work in the smaller economy caused by higher taxes on everyone). The system can't pay for the larger benefits without tax increases. So nothing he could actually have, on terms he would want to have, would be taken away from him. If our worker wanted more money for retirement, he would almost certainly prefer to invest additional money himself rather than have the government raise his taxes.

In the debate over Social Security reform, even knowledgeable reformers are being careless in using phrases like "promised benefits" and "current-law benefits" to describe the 60 percent increase our median worker might get under wage indexing. The Supreme Court has ruled that nobody has a legal right to a particular benefit level. And current law includes a provision that automatically slashes benefits when the "trust fund" runs out in 2042. The current projections have benefits getting cut by 27 percent—and not gradually, but in one year, with more cuts following.

## THE CASE FOR PERSONAL ACCOUNTS

Solvency isn't the only problem with Social Security's current structure. It takes a lot of

money from young workers without giving them much in return. The program can afford to give a middle-income 25-year-old only 91 cents for every dollar he is going to put in over the course of his working life. Price indexing recognizes that reality, but does nothing to improve it. Personal accounts are a way of softening the blow. People would be able to supplement their reduced Social Security checks with the wealth built up in their accounts.

The second way to look at it is that the accounts are a way of putting Social Security on a firm footing. We would be moving from a "pay as you go" model in which each generation funds the retirement of the next to a "pre-funding model" where each generation saves in advance for its own retirement. If the government tries to do the pre-funding for us, without letting us have the money in individual accounts, there's a greater risk that the money will be diverted to other programs. The government could also gain too much influence over the economy if it tries to invest all that money itself.

The third view is that making it possible for millions of Americans to buy a share of the economy through personal accounts would be a good thing in itself. It would give them wealth they could hand on to their heirs. It would make them worker-capitalists with a direct interest in sound economic policies. Edward Prescott, the 2004 Nobel Prize winner in economics, argues that letting people invest payroll taxes would also expand the economy by stimulating them to work more. The CBO has found that a plan including price indexing and personal accounts would lead to a larger economy. National wealth would be 10 to 12 percent larger by 2080. (That's in contrast with the wealth-destroying Diamond-Orszag plan.)

Liberal politicians and journalists persist in speaking of capital-market investment as though it were "speculation" or "roulette." But nobody is talking about having 64-year-olds take all of their Social Security money and put it all on a tech stock. We are talking about letting people invest a portion of their Social Security contributions

over a long period of time. There are plenty of ways to reduce the risks—by diversifying stock portfolios, by buying index funds, by buying bonds as well as stocks. People are quite capable of taking advantage of these methods (and a law establishing personal accounts would probably require them to do so). Between the end of 1999 and the end of 2002, broad stock-market indices fell by nearly 40 percent. But a report jointly produced by the Employee Benefit Research Institute and the Investment Company Institute found that the average 401(k) plan fell by only 10 percent. It's established fact that stocks grow less volatile over the long run: There is no 20-year period in American history in which the stock market has declined. The average annual return on stocks has been 6.7 percent above inflation.

Setting up personal accounts does, however, involve a short-term increase in the federal debt. This debt increase is the badly misunderstood "transition cost" to personal accounts. Since we have a pay-as-you-go program, most of today's payroll taxes go to today's retirees. The rest goes, notionally, to the trust fund, but really to fund other government operations (which borrow from the trust fund). If people can put some of their payroll taxes in personal accounts, the government has to find other money to fund its other commitments. The result could be \$1 trillion or even \$2 trillion of borrowing over the next decade.

Those numbers may look alarming. But it's important to remember that they do not represent new costs. The government is already undertaking to pay for the retirements of today's senior citizens and tomorrow's. Pre-funding part of tomorrow's retirements would not increase the government's total obligations; it would just bring some of them forward in time. If the accounts are part of a long-term deal to reduce the cost of Social Security—as in Bush's price-indexing plan—then temporary debt increases should not deter us. The markets are well aware that the future benefits from Social Security constitute a large off-budget liability for the government. An increase in on-budget

debt, even a large one, will not frighten them if they have confidence in the long-term trajectory of the reform plan.

### DECISIONS, DECISIONS

How much should [the government] let people invest in personal accounts? Should it vary by income, so that poorer people can invest a higher percentage of their wages? How tightly should the government regulate the investments? Should it require people to convert their accounts into annuities when they retire?

There are trade-offs attending each choice. Large accounts would give workers a reason to participate, but would also mean higher transition costs.

On the other hand, if the whole account has to be made into an annuity, then some of the appeal of personal accounts vanishes. Reformers would not be able to say that the accounts are a way of building wealth that can be handed down the generations.

There is a political theory that can help guide reformers in making some of these choices—a theory that falls under the heading of “the new investor class.” The theory holds, among other

things, that participation in capital markets changes people’s political attitudes and behavior. Perhaps more pertinently here, it holds that pro-investor policies tend to perfect themselves over time. So, for example, a limited tax break for retirement savings will generate a constituency that wants bigger tax breaks for saving for retirement as well as for health and educational expenses.

A relatively small personal-account option, for the same reason, will generate demands for its expansion. Reformers need not be disappointed if they don’t win large accounts this year. Holders of 401(k)s have over time gotten more and more options in how they invest their money. Regulations on personal accounts will probably get looser as well.

But the theory, by itself, is not a substitute for the political judgment required to make the major choices here. The theory is capable of telling conservatives that instituting personal accounts offers the prospect of reshaping American politics in their favor. The upside from the accounts is larger than from policies such as expanded IRAs, which would not do as much to increase the number of investors. But the political risks are greater, too, and the theory cannot tell you whether a specific historical moment is ripe for reform.

## READING 40

### Social Security Reform and Benefit Adequacy

Lawrence H. Thompson

Over a third of all retirees, including more than half of retired women, receive monthly Social Security benefits that are less than the poverty level for a single elderly individual. Many receive benefits this low despite having

worked under Social Security and contributed for more than 30 years. Any significant reduction in the benefits of these people would have serious consequences for both the adequacy of income among the elderly and for the 1935

SOURCE: “Social Security Reform and Benefit Adequacy” by Lawrence H. Thompson from *The Retirement Project*, Brief Series, No. 17, March 2004. pp. 1–7. Copyright © 2004 Urban Institute.

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social commitment to provide a floor of protection in retirement to those who contributed to Social Security while working.

This brief focuses on Social Security retirement benefit payments to low-wage workers and how current changes in the retirement age and likely future cost-cutting reforms could affect these benefits. The analysis begins by comparing the average level and distribution of current benefits with several benchmarks of benefit adequacy, using data on actual benefit awards in 2001. Information from the University of Michigan's Health and Retirement Study (HRS) is then used to simulate the impact on benefit adequacy of both the retirement-age increase and the further benefit reductions that would also be required to restore long-range fiscal balance to the Social Security program.<sup>1</sup> The brief concludes with some observations about the implications for future program policy.

Social Security is an income-transfer program based on a social contract. In return for payroll tax contributions while employed, workers are promised income support when they retire or become disabled. Benefits are related to prior contributions, but the relationship is not proportional. Those who contribute more while working or work more years receive higher benefits when retired. But in keeping with the social aspects of the program, the benefits paid to lower earners replace a larger percentage of their previous earnings. This feature of the program's structure recognizes that lower earners are less likely to have other sources of retirement income and will be relying primarily on Social Security benefits to assure a minimally adequate living standard in retirement. In fact, among elderly households, Social Security accounts for over 80 percent of total family income in the bottom two-fifths of the income distribution.

### THE ACTUAL VERSUS THE HYPOTHETICAL

The average retirement benefit is actually quite a bit lower than the hypothetical benefit illustrations

used in most discussions of Social Security policy. Benefit illustrations often focus on a hypothetical worker that was employed continuously for at least 35 years, earned each year the average amount earned by all workers under Social Security that year (about \$33,000 in 2002), and retired at the normal retirement age. Such a worker retiring in January 2002 would have qualified for a monthly benefit of \$1,127, some 40 percent of his or her 2001 earnings (SSA 2002, Table VI.E11).<sup>2</sup>

Actual retirees do not fare as well. The average person retiring in 2001 was awarded a benefit of \$894; the average was \$1,033 for men, and \$694 for women. The actual average benefit is less than 80 percent of the benefit calculated for the hypothetical average earner and is equal to 32 percent of average earnings, not the 40 percent associated with the hypothetical worker. Clearly, the hypothetical average earner commonly used in Social Security policy discussions is not representative of actual retirees.

Figure 1 shows the actual distribution of Social Security retired worker benefit awards during 2001. Workers are categorized by the amount of their January 2002 check. The first column shows the range of monthly benefits for each category in absolute terms, while the second column shows the ratio of the dollar amount at the category ceiling to the average earnings of current workers. As the figure shows, 52 percent of 2001 monthly awards were for less than \$900. Over one-third were for less than \$700.

### STANDARDS OF BENEFIT ADEQUACY

What level of protection should Social Security offer people that have worked for many years under the program, even if much of their work was at low wages? Figure 2 shows some potential benchmarks for defining a minimally adequate level of support for such workers.

In contrast to most other developed countries, the United States has no official policy about minimum pension guarantees other than

**Figure 1** Cumulative Distribution of Retired Worker Awards, 2001

Monthly benefit	Percent of average earnings <sup>a</sup>	Men receiving this amount (%)	Women receiving this amount (%)	Total receiving this amount (%)
Below \$450	16.1	8	18	12
Below \$500	17.9	10	24	16
Below \$700	25.1	19	58	36
Below \$900	32.3	31	77	52
Below \$1,000	35.8	40	84	59
Below \$1,200	43.0	60	94	75

<sup>a</sup>Ratio at the top boundary to estimated average 2002 earnings under Social Security.

relatively obscure provision known as the special minimum benefit. This special minimum pays a benefit that is based on the retiree's years of creditable service, defined as years in which the worker earned at least a specified amount. Workers must have at least 20 years of such service to qualify for a benefit, but don't get credit for any more than 30 years of service in the benefit calculation. As shown in Figure 2,

the maximum special minimum benefit payable in 2002 was \$617 a month, or about 22 percent of average Social Security earnings.<sup>3</sup> Currently, about 120,000 retired workers qualify for benefits under this provision, most of them women.

The second row of Figure 2 shows the benefit awarded in 2002 to someone that retired at age 65 after being employed continuously at the federal minimum wage (SSA 2002, Table 2A26).

**Figure 2** Potential Adequacy Benchmarks: Monthly Amount and Ratio to Average Social Security Earnings, 2002

Adequacy benchmarks	Monthly amount (\$)	Percent of average earnings
Special minimum benefit (at full retirement age)	617	22
Career minimum wage retiree (at full retirement age)	729	26
Federal SSI guarantee for a single individual	575	21
Poverty line, single elderly individual	719	26
Minimum wage	893	32
Average Social Security earnings	2,790	

SOURCES: SSA (2002, 2003), U.S. Bureau of the Census.

Such a worker would have received a monthly benefit of \$729, or 26 percent of average Social Security earnings.

The third row shows the minimum income guarantee provided a Social Security recipient under the means-tested Supplemental Security Income (SSI) program, which provides a safety net for the elderly and disabled with few other resources. In 2002, the combination of the SSI and Food Stamp programs guaranteed an individual also eligible for Social Security a monthly income equal to \$575, or about 21 percent of average Social Security earnings.<sup>4</sup> Those residing in states that supplement the SSI benefit would receive more.

The next two rows in Figure 2 show two other parameters not directly related to the Social Security program but useful in establishing benefit adequacy criteria. The 2002 poverty level for a single elderly individual was equal to roughly 26 percent of average Social Security earnings, and the earnings of a full-time minimum-wage worker would have equaled roughly 32 percent of average Social Security earnings.<sup>5</sup>

These various parameters suggest that a reasonable benchmark for a minimally adequate retirement benefit would be in the range of 21 to 25 percent of average Social Security earnings. The full retirement benefit awarded to a career, full-time minimum-wage worker and the single-person poverty level lie just above this range. The maximum benefit under the special minimum and the income guarantee under the universal means-tested assistance program (SSI) for the elderly fall at the bottom of this range. The analysis that follows (Figure 3) focuses on the fraction of retired worker benefits that falls below 21 percent and 25 percent, respectively, of average earnings.

The retirement-age increase now being implemented will cause more benefit awards to fall below the adequacy benchmarks. Most people begin receiving benefits before reaching the normal retirement age. In fact, about one-third of the gap between the hypothetical average

earner and the actual average retiree is the result of the benefit adjustment made when someone retires early.<sup>6</sup>

The change now being implemented increases the normal retirement age to 67 but maintains 62 as the age at which people can first receive their retirement benefits. Until recently, those retiring at age 62 had their benefits reduced permanently by 20 percent. Those who retire at age 62 in the future will face larger early retirement reductions; after 2022, the reduction will be 30 percent.<sup>7</sup>

Calculations using the HRS data find that the larger reductions for early retirement will increase the fraction of long-service workers receiving less than 21 percent of average earnings from 7 percent to 12 percent among men and from 22 percent to 32 percent among women, after adjusting for the expected behavior change of working an additional two months. The fraction of long-service women whose benefits fail to reach the higher adequacy benchmark will increase from 37 to 47 percent.

Predictably, the additional benefit reduction required to balance the program's finances, should that be accomplished only through benefit cuts, would further increase the incidence of low-benefit awards. That change would cause about half of all retirees to get benefits that fell short of the minimal adequacy standard used here. Even workers with at least 30 years of service fare poorly. These further benefit reductions would cause one-quarter of long-service men and three-quarters of long-service women to have benefits amounting to less than 25 percent of average earnings. Over half of long-service women would fail to reach the lower of the two adequacy benchmarks.<sup>8</sup>

## SUMMARY AND IMPLICATIONS

A little over a third of the people now retiring receive Social Security benefits that amount to less than 25 percent of the average earnings of those

working under the program, earnings that are less than the current poverty level for a single elderly individual. Just over a quarter receive benefits of less than 21 percent of average earnings.

The retirement-age increase now being phased in will cause more people to receive

Social Security benefits at these low levels, and attempting to solve the future financing predicament entirely through benefit reductions will make the problem even worse. Taken together, the two changes would cause over half of new retirees, including 85 percent of women, to

**Figure 3** Estimated Share of Workers With Inadequate Benefits: Monthly Benefits Below Reasonable Benchmarks, Different Benefit Reduction Scenarios (percent)

	Share of workers receiving less than 21%			Share of workers receiving less than 25%		
	Men	Women	Total	Men	Women	Total
<b>All eligible workers</b>						
Actual benefit in late 1990s	14	46	27	21	61	37
Effect of retirement age increase	20	58	35	24	70	42
—if work effort increases	19	57	34	22	69	40
Effect of additional 25% benefit cut	28	76	47	36	86	55
<b>Workers with at least 20 years of service</b>						
Actual benefit in late 1990s	12	39	22	19	54	32
Effect of retirement age increase	18	51	30	22	64	37
—if work effort increases	18	49	29	20	63	36
Effect of additional 25% benefit cut	26	71	42	34	84	52
<b>Workers with at least 30 years of service</b>						
Actual benefit in late 1990s	7	22	11	13	37	19
Effect of retirement age increase	12	33	20	15	48	24
—if work effort increases	12	32	19	14	47	23
Effect of additional 25% benefit cut	18	57	33	25	75	39

SOURCE: Urban Institute tabulations of the first four waves of the Health and Retirement Study.

NOTES: The calculations exclude persons born after 1934, persons who received disability insurance benefits at some point in their working lives, persons who began receiving benefits prior to age 60 for any reason, and persons who had not already retired or given an expected retirement date. The ratio is the initial benefit in the year of retirement (or the year retirement is planned) divided by the average Social Security earnings that year.

receive benefits amounting to less than 25 percent of average earnings. Many of these people would have worked under and contributed to Social Security for many years before retiring. Among those with at least 30 years of service under the program, three-quarters of women and one-quarter of men would have benefits amounting to less than 25 percent of average earnings.

These results suggest that across-the-board benefit reductions are probably not a viable way of dealing with the currently projected financing gap. When added to the impact of the retirement-age increase that has already been legislated, reductions would lower benefits to levels that undermine the social purpose of the Social Security program. Even among long-service workers, as many as half of all retirees would have benefits that fall below reasonable benchmarks for benefit adequacy.

This analysis suggests two basic conclusions. First, any further increase in the normal retirement age needs to be accompanied by an equal (or greater) increase in the age at which people are first eligible to draw benefits. Otherwise, further increases in the reduction factors for early retirement will cause actual retirement benefits to continue to fall relative to average earnings levels. Second, absent a substantial increase in the age at which benefits can first be drawn, it is probably not possible to close the financing gap currently projected for Social Security without finding additional revenues. Attempting to close the financing gap entirely through benefit reductions would drive average benefits to such low levels that the program would fail to serve the social purpose for which it was created.

## NOTES

1. The University of Michigan Health and Retirement Study surveys more than 22,000 Americans over the age of 50 every two years.

Supported by the National Institute on Aging, the study paints an emerging portrait of an aging American's physical and mental health, insurance coverage, financial status, family support systems, labor market status, and retirement planning.

2. The average earnings used in these calculations and this brief is the figure used to index prior-year earnings in the Social Security benefit calculation.

3. The special minimum is calculated by multiplying the number of years of creditable earnings in excess of 10 and up to 30 by a dollar factor. In 2001, the dollar factor was \$30.90 and the maximum possible full retirement benefit was therefore 20 times \$30.90, or \$617. The dollar factor is indexed to changes in the price level. Since 1990, a year of creditable earnings has been defined as a year with annual earnings greater than 15 percent of what the taxable maximum would have been had there been no ad hoc increases after 1973. This amounted to \$9,450 in 2001, or about 31 percent of average Social Security earnings. Prior to 1990, the amount required was 25 percent of what the taxable maximum would have been (SSA 2002, Tables 2A12 and 5A8).

4. The basic SSI benefit was \$545. The guaranteed income to someone receiving Social Security benefits was \$565, since the first \$20 of the Social Security benefit is disregarded in the SSI benefit calculation. Persons receiving SSI benefits of this level would also be eligible for \$10 a month in food stamps.

5. Assuming the individual works 173 hours (4 and 1/3 weeks) each month at \$5.15 an hour.

6. Another cause of the discrepancy between the theoretical benefit and the actual average benefit is the taxable maximum. The average earnings figure used to calculate the hypothetical earner's benefit is based on total earnings, whereas actual benefit calculations are based only on taxable earnings.

7. Retirement benefits for those retiring at age 62 in the late 1990s were permanently reduced by 20 percent (from the level they would have received if they waited until the "normal retirement age"). When the retirement-age increase is phased in fully, the benefit awarded at age 62 will be reduced by 30 percent.

8. These calculations assume that earnings levels and service years are the same in the future as they were for people retiring in the late 1990s. In fact, future female retirees are likely to have longer careers and higher average earnings than female retirees in the late 1990s, somewhat reducing the incidence of inadequate benefits among women. Since the key parameters of the Social Security benefit calculation are adjusted each year to reflect changes in average Social Security earnings levels, the increase in the relative status of women will lead automatically to a decrease in the relative status of men, somewhat increasing the incidence of inadequate benefits among men.

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## READING 41

### Social Security for Yesterday's Family?

C. Eugene Steuerle and Melissa Favreault

Imagine a retirement program that spends an ever-larger share of its resources on people who still have 15 or more years to live and an ever-smaller share on very old, poor, or infirm people. Imagine that this same program:

- treats married couples with the same total earnings differently by granting smaller benefits to those whose earnings are more equally split between spouses;
- gives an additional benefit to spouses just for being spouses, but no such benefit to single and many divorced parents, including those who raise more children, work more, and pay more taxes;
- grants people who signed divorce papers after being married nine years and eleven months hundreds of thousands of dollars less than those who waited another month to divorce;
- makes some benefits for divorced people married more than 10 years conditional upon their former spouses dying;
- increases benefits for a high earner who brings additional earnings home but does not similarly reward many second earners who contribute to household income and pay additional taxes on their earnings; and
- increases the size and likelihood of rewards for those who have kids when older rather than when younger, marry much younger spouses, and divorce and remarry several times.

Now imagine a never-ending fight among elected officials and advocates over who can best guarantee that these imbalances will continue forever.

You've probably guessed the system in question by now. It's Social Security, and the elected

SOURCE: "Social Security for Yesterday's Family?" by C. Eugene Steuerle and Melissa Favreault. Number 35 in series *Straight Talk on Social Security and Retirement Policy*. Copyright © 2004 Urban Institute.

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officials are those who think that the Social Security debate is mainly about whether some retirement money gets put into individual accounts: specifically, whether one-seventh of Social Security taxes, and far less than one-tenth of scheduled spending on the elderly, should be held directly by individuals or put into a government trust fund.

It's bad enough that the inequities in the remaining pie—with or without a slice taken for individual accounts—are largely being ignored. Worse, many reformers on both sides of the individual account debate are willing to lock in these disparities if that's what it takes to control the one-seventh of the pie under dispute.

How might these contradictory rewards and penalties become even more institutionalized if the debate never moves beyond the question of individual accounts versus trust fund saving?

First, some reformers, in trying to create the illusion that no one will lose or pay, have tried to guarantee benefit levels near those specified under current law. This promise, if kept, would perpetuate existing inequities. Second, most reformers are set on balancing total benefits and total taxes. But if in the rush to reconcile dollars and cents reformers ignore the system's large inequities, ignored they will stay for many years. It would be difficult after a major reform for Congress to tell the public, oops, we still got it wrong, even under the newly balanced system.

The fact is that Social Security was designed in the 1930s, a time when a married male worker and a stay-at-home wife were considered the norm. In the ensuing decades, benefits were added without much regard for the way family life was evolving. For instance, generous survivor benefits were added to help care for women, who tended to be poorer. But this benefit totally ignored many women (and men) who were single or left by former spouses after a few years of marriage.

Is it too late to bring Social Security in sync with contemporary family life? Not at all. Besides reaching financial balance and increasing saving, reform should have two main goals: providing minimum levels of income above poverty and removing obvious inequities. For example, the system should stop the obvious disparities in the way it treats single heads of household and those divorced after being married fewer than 10 years.

Most of the inequities noted here are illegal under the private pension system. But that still has not prompted the Social Security Administration to take the first reform step: providing measures that assess the success of different reform options in reducing inequities as well as poverty among the elderly.

Some commissions and congressional bills have made tentative moves in the right direction. But without an independent scorecard, there is no way to determine whether these efforts have succeeded or which approach works best. And without a good understanding of what's at stake, the temptation to choose reform options that are mainly symbolic will likely win out.

The real choices before lawmakers will test their political mettle. The temptation to guarantee that reform will create no losers defies reality, as correcting inequities always means that somebody pays more or that somebody receives less. To meet the two goals of providing minimum levels of well-being and removing clear-cut cases of unfairness, any redistribution should not be based on sex or marital status. Rather, supplemental benefits should be targeted more directly to individuals with low lifetime earnings and low income. By this standard, many married individuals will still qualify for additional benefits, but not because marriage somehow makes them more deserving than a poor single person.

Beyond need, adjustments for family circumstances, such as marriage and divorce, should be made on an actuarially fair basis to avoid stacking the cards against many divorced men and women, spouses with equal rather than unequal

earnings, spouses who are approximately the same age rather than different ages, and single heads of household.

Is the current debate going to address the retirement needs of modern families? Only if it

is based on how six-sevenths or more of the system meets their conditions and needs—not merely on what happens to the small piece that some want to put in, and others want to keep out of, individual accounts.

## READING 42

### The Future of Social Security Proposals You Should Know About

AARP

#### RAISE THE FULL RETIREMENT AGE

The age when a person becomes eligible to receive full Social Security retirement benefits (the full retirement age) has been increasing from age 65 on a schedule set by Congress in 1983. It has reached 66 and will gradually rise to 67 for those born in 1960 and later. Raising the full retirement age further is one option to help close Social Security's funding gap. The earliest age for claiming reduced benefits could remain at age 62, but the monthly benefit for those claiming early would be further reduced—about 6 to 8 percent for each year that the full retirement age increases. One proposal would raise the full retirement age to 68. Starting in 2023, the age would increase by two months each year until it reached 68 in 2028. This is estimated to fill 18 percent of the funding gap. Another proposal would raise the full retirement age to 70. Starting in 2023, the age would increase by two months each year until it reached 70 in 2040. This is estimated to fill 44 percent of the funding gap.

**Pro:** People are living longer than ever before, and the full benefits age should be increased. Otherwise, recipients will spend an ever-greater amount of their lives living in retirement, which we simply cannot afford. When Social Security started in 1935, 65-year-old men expected to spend about 13 years in retirement. Soon, men will live about 20 years in retirement. Women in 1935 averaged 15 years in retirement. Soon, they will live almost 22 years. (David John, Heritage Foundation)

**Con:** Raising the full retirement age is a benefit cut no matter what age you begin taking benefits. The increase from 65 to 67 already in law cuts benefits by 13 percent. Low-earning workers have seen little or no gains in longevity. Raising the full retirement age for everyone simply because well-off Americans are living longer is a stealth benefit cut that is unnecessary and unjust. We can afford to improve and pay for Social Security without benefit cuts. (Virginia Reno, National Academy of Social Insurance)

SOURCE: "The Future of Social Security: 12 Proposals You Should Know About," by AARP. Reprinted with permission.

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Is it too late to bring Social Security in sync with contemporary family life? Not at all. Besides reaching financial balance and increasing saving, reform should have two main goals: providing minimum levels of income above poverty and removing obvious inequities. For example, the system should stop the obvious disparities in the way it treats single heads of household and those divorced after being married fewer than 10 years.

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### INCREASE THE PAYROLL TAX CAP

The Social Security payroll tax currently applies to annual earnings up to \$110,100. Any wages earned above \$110,100 go untaxed for Social Security. This cap generally increases every year as the national average wage increases. Today, the cap covers about 84 percent of total earnings in the nation. Raising the cap to cover a higher percent of total earnings would help close Social Security's funding gap. How much depends on how high the cap is set and how quickly the cap would be raised to reach that level. One commonly mentioned goal would raise the cap to cover 90 percent of all earnings, which in 2012 would have meant a cap of about \$215,000. This would mean any employee earning more than the current tax cap of \$110,100 (as well as his or her employer) would have to pay more payroll taxes, up to about \$6,500 per year for those earning \$215,000 a year or more. Raising the cap to 90 percent is estimated to fill 36 percent of the funding gap.

**Pro:** Lifting the cap to cover 90 percent of all earnings is sensible and fair. Only 6 percent of workers earn more than the current cap of \$110,100. It is fair for top earners to pay more into Social Security, and they would get a bit more in benefits. This change reflects the intent of Congress in 1977, when it set the cap to include 90 percent of earnings. Congress also provided for automatic adjustments for average wage growth so that the cap would continue to cover 90 percent. But with today's top earners enjoying much bigger gains than everyone else, the cap now covers only about 84 percent of all earnings. This proposal, together with other changes, could keep Social Security strong and pay for benefit improvements. (Virginia Reno, National Academy of Social Insurance)

**Con:** In general, increasing taxes is a serious mistake. It reduces the amount that Americans have to spend on their family's food, housing, clothes, education, etc. This bad idea would cause a hefty tax increase for middle-income

taxpayers while not affecting the rich. It would especially hurt the self-employed and certain smaller business owners. To make matters worse, this tax increase delays Social Security's problems by only eight years. It does not fix them. (David John, Heritage Foundation)

### REDUCE BENEFITS FOR HIGHER EARNERS

Social Security benefit payments are based on the portion of a worker's earnings that was subject to Social Security payroll taxes. While higher lifetime earners receive higher payments than lower lifetime earners, their benefits replace a smaller share of their past earnings than do the benefits provided to lower earners. One option to help close Social Security's funding gap would be to reduce benefits for higher lifetime earners. This could be done by modifying Social Security's benefit formula in a number of ways, depending on who is classified as higher earners and how much their benefits are reduced. Most options use a sliding scale to reduce the benefits most for higher earners, make smaller changes for middle earners and make no benefit changes for lower earners. Options include:

- Reduce benefits for the highest-earning 25 percent. Gradually reducing benefits over time for the highest-earning 25 percent of individuals by a sliding scale up to a 15 percent benefit reduction for maximum earners is estimated to fill 7 percent of the funding gap.
- Reduce benefits for the highest-earning 50 percent. Gradually reducing benefits over time for the highest-earning 50 percent of individuals by a sliding scale up to a 28 percent benefit reduction for maximum earners is estimated to fill 31 percent of the funding gap.

**Pro:** In coming years, when Social Security won't have enough payroll tax money to pay full benefits to everyone, it seems only fair to pay full benefits to lower-wage workers and lower benefits to those who had higher earnings.

Wealthier retirees have other ways, such as pensions and savings, to fund their retirements. They don't need full benefits. Everyone would still receive a benefit, but higher-earning retirees would receive less than they do now. (David John, Heritage Foundation)

**Con:** These proposals would actually cut benefits for middle-class workers making as little as \$35,000 a year. They are not "high earners." Benefits are already modest. Retirees' health care costs are rising while other retirement resources—home equity, pensions, lifetime savings—are at risk or unavailable for too many Americans. Most seniors get most of their income from Social Security. Cuts are not the answer. We can afford to preserve Social Security's promised benefits. (Virginia Reno, National Academy of Social Insurance)

### INCREASE THE PAYROLL TAX RATE

Employees and employers each currently pay a 6.2 percent tax to Social Security on earnings up to \$110,100. Self-employed workers pay both the employer and employee share for a total of 12.4 percent. One option to help close the Social Security funding gap would raise the payroll tax rate for all workers and employers. For instance, on a \$50,000 annual salary, increasing the payroll tax to 6.45 percent would increase both the annual employee and employer contribution by \$125 each. Changing it to 7.2 percent would increase the annual employee and employer contribution by \$500 each. The rate increase could occur gradually or all at once. Increasing the payroll tax rate from 6.2 percent to 6.45 percent immediately is estimated to fill 22 percent of the funding gap. Increasing the payroll tax rate gradually over 20 years on employers and employees from 6.2 percent to 7.2 percent is estimated to fill 64 percent of the funding gap.

**Pro:** Gradually increasing the Social Security tax rate from 6.2 to 7.2 percent over 20 years

makes good sense. Most Americans say they would rather pay more than see Social Security cut. This change—just 50 cents more a week for an average earner—would close just over half of the financing gap. Together with eliminating the earnings cap, it could pay for much-needed improvements and keep Social Security strong for the long-term. (Virginia Reno, National Academy of Social Insurance)

**Con:** Increasing Social Security's payroll tax rate is a bad idea that would increase everyone's taxes, no matter their income. Economists have known for decades that if the cost of employees gets too great, employers will start to replace them with machines or move to locations with lower taxes. Unfortunately, this does not hit all employees equally. Employers are most likely to replace younger workers and those with lower skill levels. (David John, Heritage Foundation)

### BEGIN MEANS-TESTING SOCIAL SECURITY BENEFITS

Social Security benefits have always been provided to anyone who has paid into the system and who meets the work and age requirements. That's regardless of other income—investment, pension, savings—the person receives in addition to Social Security benefits (although a portion of Social Security benefits is taxable if the total income exceeds a certain threshold). One option to help close Social Security's funding gap is to "means test." Means testing would reduce benefits for higher income recipients and could even eliminate benefits altogether for the highest-income households. Unlike the option to reduce benefits for higher earners, which uses a measure of career average earnings to reduce benefits, means testing would reduce benefits based on the full range of current income. Who would be affected and by how much depends on how the income thresholds are defined. One version of means testing is estimated to fill about 11 percent of the funding gap.

**Pro:** In an era of scarce resources, Social Security can't continue to pay benefits to all retirees regardless of what other retirement income they have. Instead, the program should provide monthly benefits only to retirees who have less than a certain amount of non-Social Security annual income. Social Security would continue to be insurance against retirement poverty for everyone, but would focus its benefit payments on those who really need them. (David John, Heritage Foundation)

**Con:** Means testing would change Social Security from an earned right to welfare. It would penalize you if you saved or earned a pension because that income would reduce your Social Security. And it would cost more to administer. The government would have to routinely check your income and assets in order to adjust your benefit. Means testing would be a huge breach of faith with working Americans who earned their benefits by paying in over the years. (Virginia Reno, National Academy of Social Insurance)

## FOCUS ON THE FUTURE

### Two Scenarios for the Future of Social Security

**First Scenario: Trouble ahead.** The year now is 2025, and the oldest of the baby boomers are in their mid-70s. But the world isn't at all what most of them expected to find in old age.

Looking back, it's easy to see signs of today's problems. First came the Medicare shortfall in 2018; then Medicare was merged with Medicaid 3 years later. Today, health care costs consume 20% of the gross national product, but still there are millions with Alzheimer's disease or kept alive in a persistent vegetative state. Of course, the worst shock was the stock market decline in 2008, followed by the big collapse in 2015 brought on when baby boomers started cashing in their mutual funds. The Dow Jones Industrial Average went down to 5,000, where it has been ever since. Most people lost their Social Security savings in the stock market crash.

After the great Baby Boomers Social Security March on Washington, Vice President Chelsea Clinton was appointed to head a special commission to restore solvency to the system. Drastic cuts were enacted, but no one's very happy with the result. Most everyone nowadays stays in the labor force until age 70 to receive full benefits, but lots of people in their mid-70s are also desperately trying to work again, part time, because cost-of-living increases have been frozen for the next 5 years. Middle-age adults have mixed feelings about the Social Security crisis. They never expected to collect benefits in the first place, but their taxes are too high, and now they're in no position to support their older parents as new laws require them to do.

The economy has been in a shambles since the Great Flooding began. For the past two decades, ocean levels have been rising steadily as a result of global warming. More recently, the collapse of the Ross Ice Shelf in Antarctica led to abandonment of Manhattan and to the resettling of the population in what used to be the Netherlands. These events have plunged industrialized countries into the worst depression in the 21st century, so people have other things to worry about besides Social Security. Older people will just have to look out for themselves.

**Second Scenario: The best is yet to be.** It's funny to look back now, in the year 2025, on all those gloomy predictions that were so common just after the turn of the century. People at that time were actually afraid of the coming of an aging society.