The State of the Social Security Reform Debate

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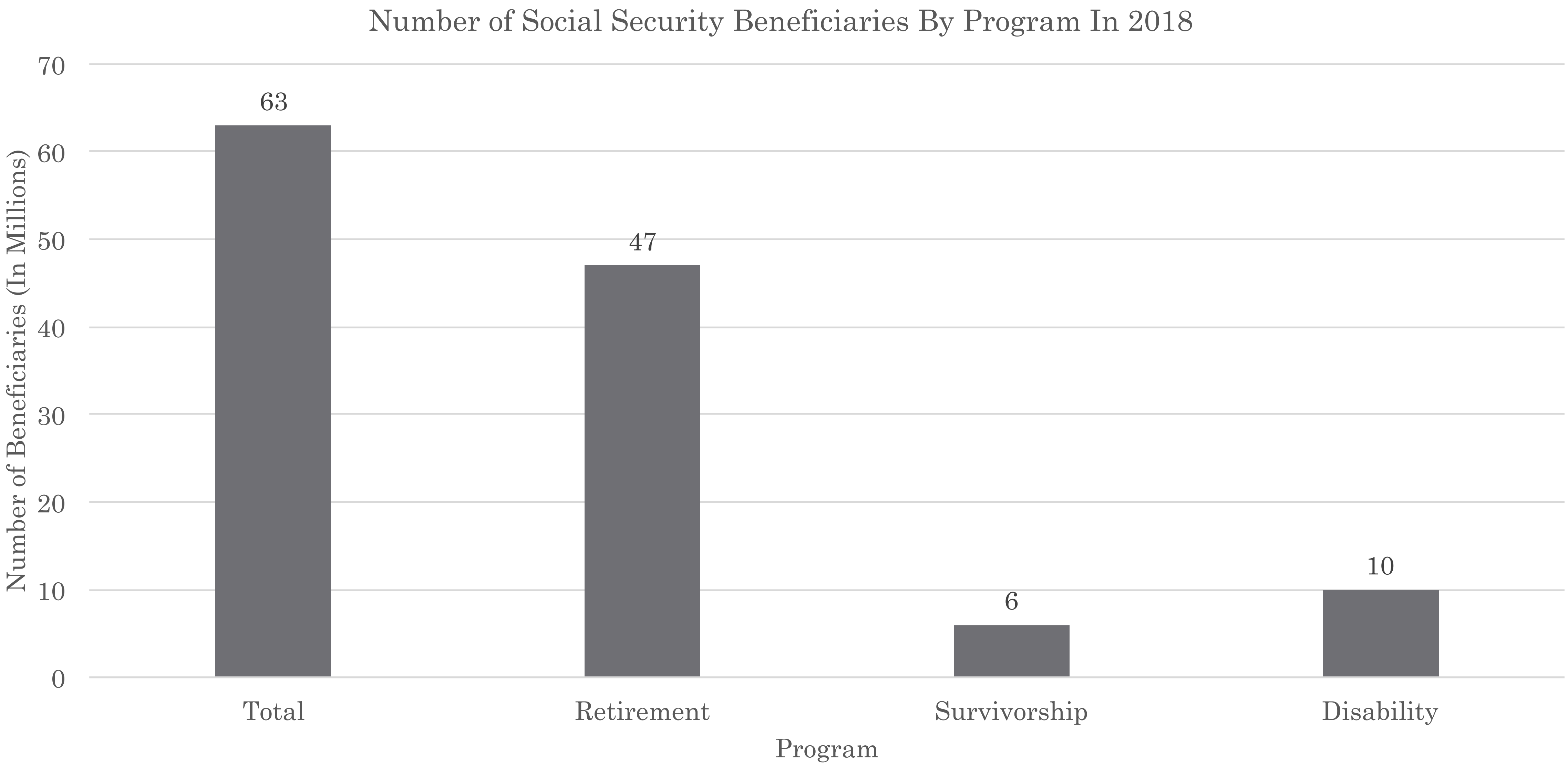
Overview

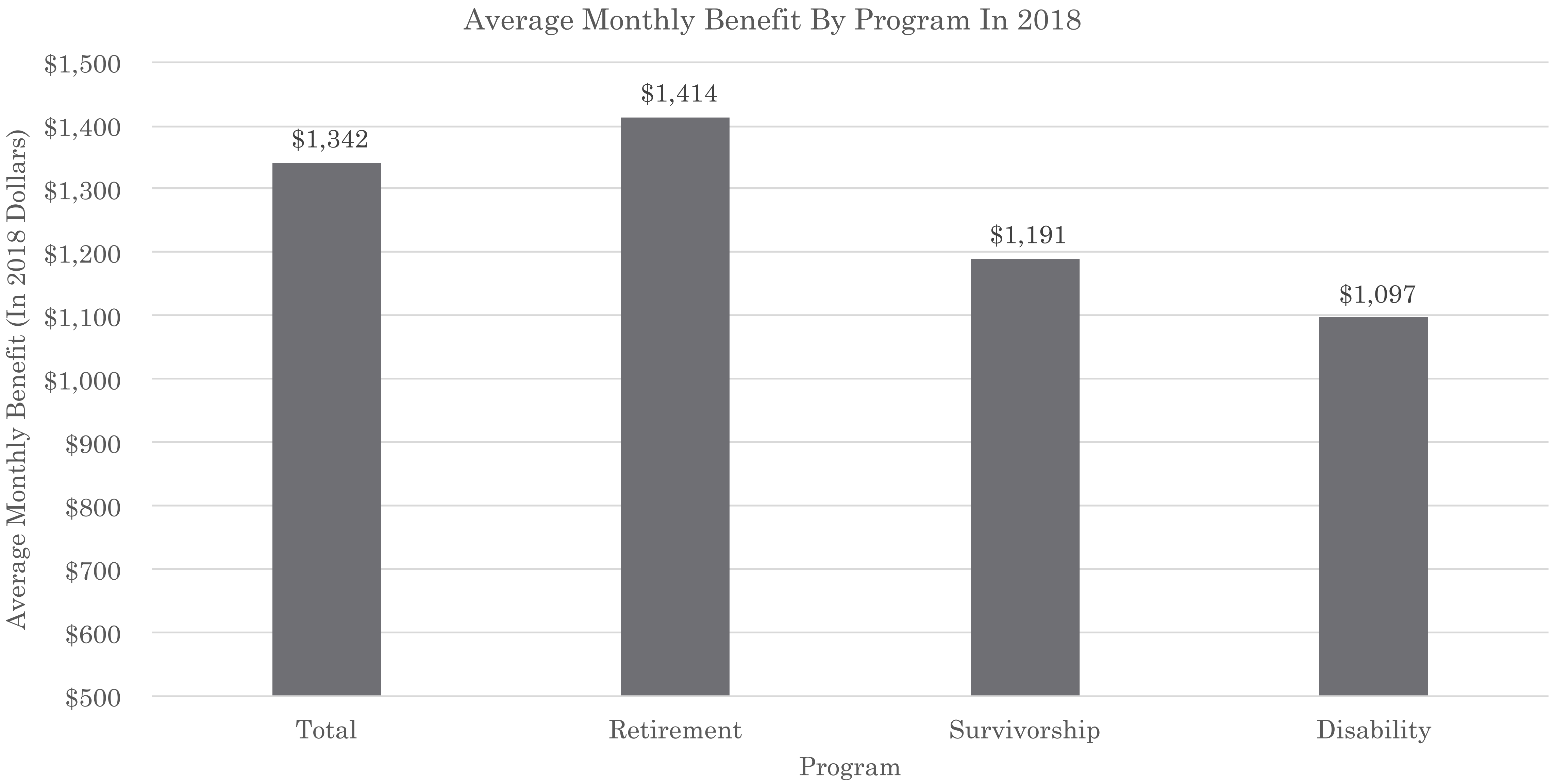
- Social Security reform has moved into the political limelight among both Democrats and Republicans.
- There are arguments both for cutting and increasing benefits.
- The momentum currently lies with increasing benefits that are paid for.
- But, is there a sense of urgency that could lead to reform next year?
- Some important benefit improvements could gather bipartisan support, while other benefit increases and benefit cuts fall squarely into one camp or another.

Social Security Pays Insurance Benefits To Millions of Families



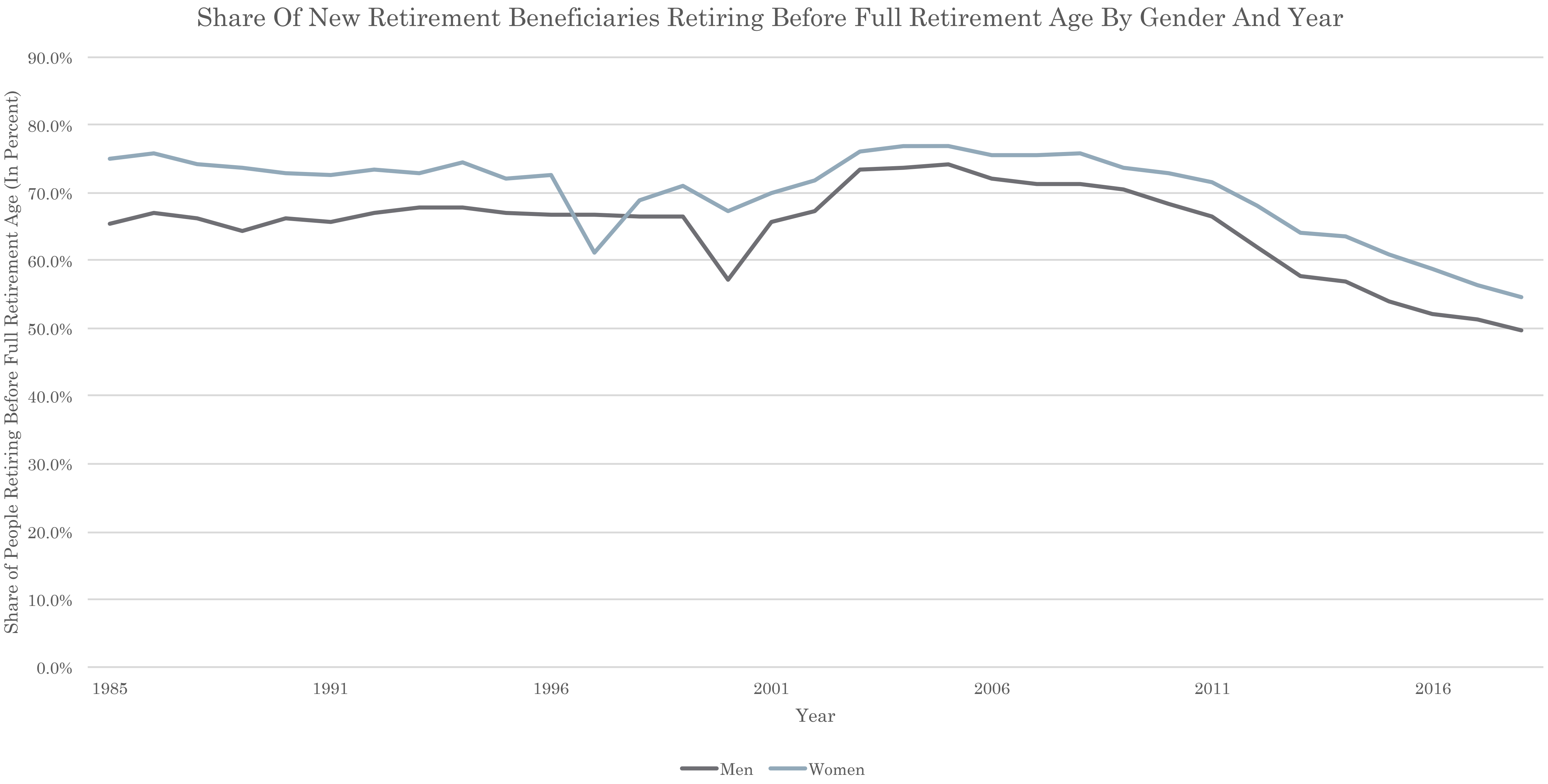
Source: SSA, OASDI 2019 Trustees Report. Washington, DC: SSA.

Monthly Social Security Benefits Are Modest



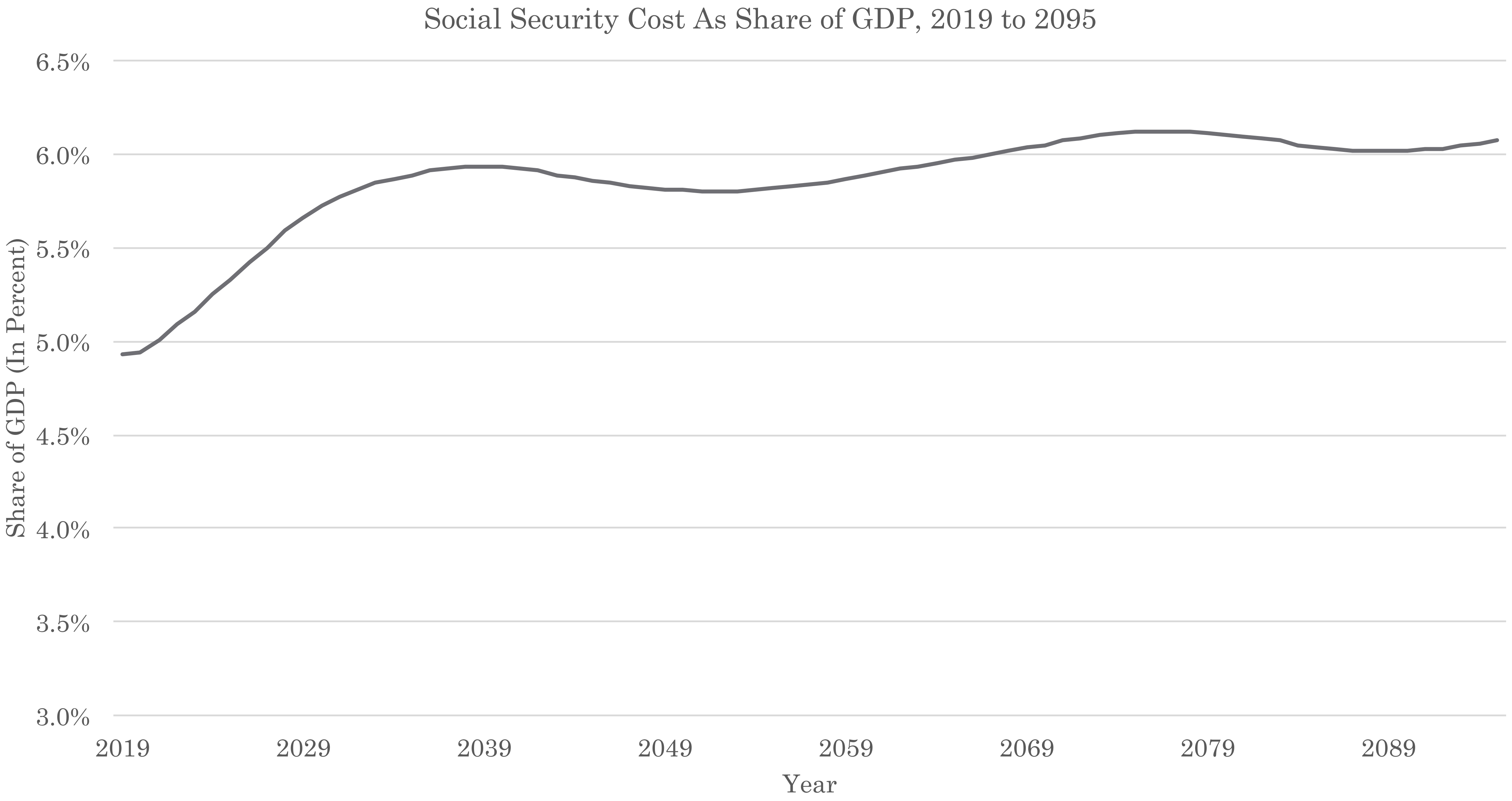
Source: SSA, OASDI 2019 Trustees Report. Washington, DC: SSA.

Most People Still Retire Before Full Retirement Age Even As Full Retirement Is Going Up



Source: SSA, Annual Statistical Supplement 2018. Washington, DC: SSA.

Social Security Costs Will Remain Stable After 2035



Source: SSA, OASDI 2019 Trustees Report. Washington, DC: SSA.

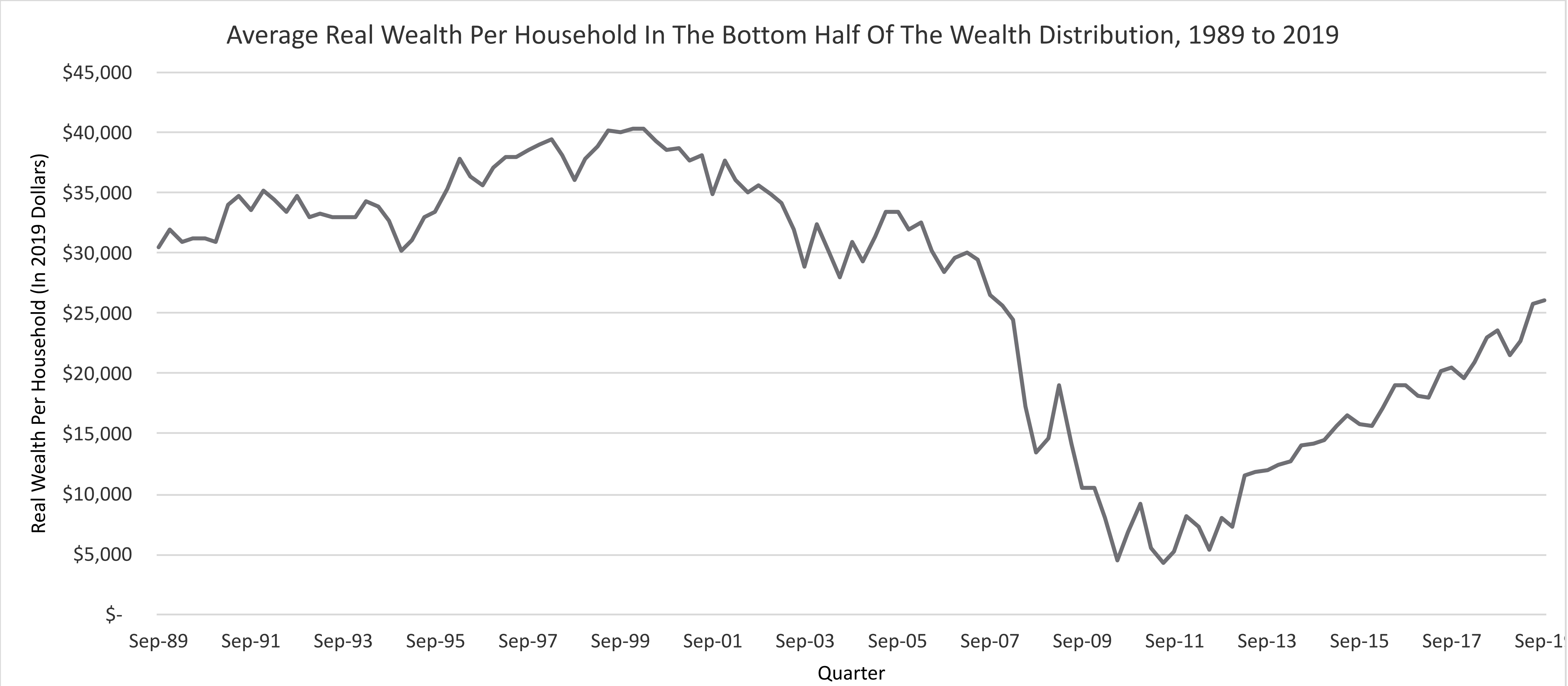
The debate: Arguments for Social Security benefit increases

- Social Security is universal and progressive. Its importance has grown as many low-income and middle-income households have not been able to save enough for their retirement.
- The country's demographics have changed over the past 3-4 decades, while benefits largely have not. Benefits do not match the needs of the population.
- Economists have become less worried about Social Security's long-term financial shortfall because of both a greater need for benefits in a world of rising inequality and because of low interest rates.

The debate: Arguments against increases and for benefit cuts

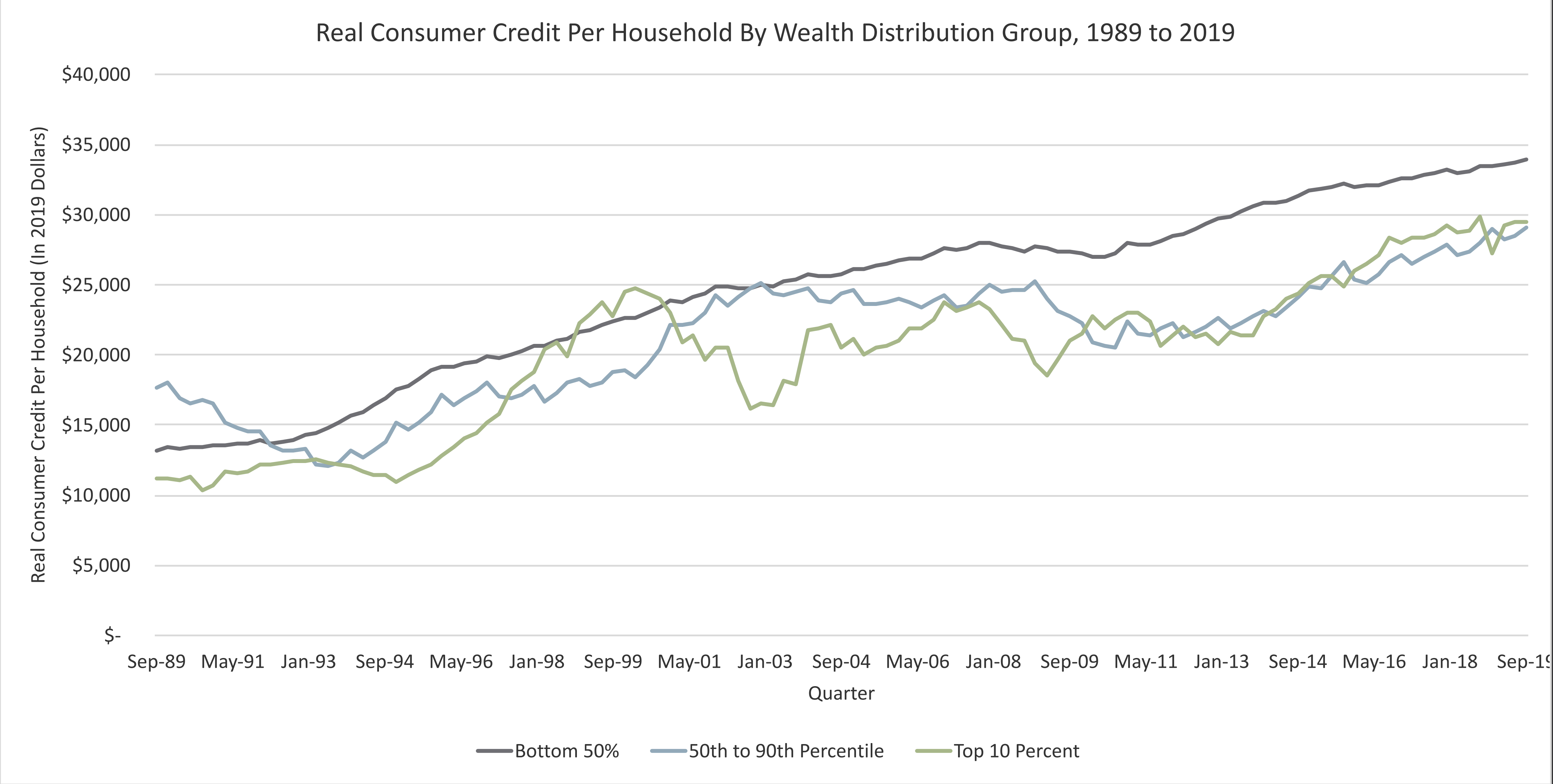
- Social Security already faces a financial shortfall in 2035 and its deficit will gradually increase thereafter unless there are changes.
- People live longer but still retire at the same time as in the past. That is, on average people receive benefits for longer than in the past.
- While life expectancy has on average declined, it has actually increased for higher-income earners. Thus, they are receiving more from Social Security over their lifetime, as compared to the past.
- The federal budget deficit is large and growing, requiring spending cuts.
- Social Security and Medicare deficits make up a growing share of government spending for the extended future. Entitlement reform is necessary to fix the federal budget.

For Social Security reform: People have little savings due to low wage growth, lack of mobility and increasing income instability



Calculations based on Federal Reserve, Distributional Financial Accounts and Survey of Consumer Finances

For Social Security reform: people can't save because of high costs that lead to record amounts of consumer debt



Calculations based on Federal Reserve, Distributional Financial Accounts and Survey of Consumer Finances

For Social Security reform: People's circumstances have changed creating more financial insecurity

- Divorce rates have gone up over the decades. But, divorce hurts women's income and wealth more than it does for men.
- More women are in the labor force. The growth in dual earner couples makes retirees financially vulnerable when one spouse dies.
- Family's care for disabled children, grandchildren with absentee parents, ailing parents and grandparents as well as sick and disabled spouses. Caregivers earn less, work fewer hours and thus will get lower retirement benefits in the future.
- Many older workers retirees live longer than in the past. But, Medicare premiums rise faster than Social Security benefits. Health insurance costs take a bigger bite out of Social Security checks as people get older.
- Long-term unemployment for older workers has gone up over the past three decades. Many older workers leave the labor market early because they cannot find another job, accepting permanently lower Social Security benefits.

Benefit improvements with potential bipartisan support

- Create a meaningful minimum benefit:
  - This would address the lack of savings among low lifetime earners. It would raise the floor for those who have worked at very low wages for their careers. It would widen Social Security's deficit by 6 percent.

- Phase-in divorce benefits between five and ten years of marriage instead of cliff of 10 years:
  - This would improve the financial security of many divorced women, who often left the labor force or reduced hours at work during their marriage. It would widen Social Security's deficit by 0.7 percent.

- Put a floor under the benefit loss for a surviving spouse when one spouse dies:
  - This would give widows and widowers in dual earner couples greater financial security. It would increase the Social Security deficit by 4 percent.

- Reform Social Security benefits to help family caregivers:
  - One approach would grant caregiver credits and provide cash benefits through paid medical and family leave as a separate social insurance program (Weller and Hamilton, 2018)
  - Another approach would allow people to receive benefits during their working years in exchange for fewer retirement benefits in the future (Biggs, 2018).
  - Both approaches would cost little or nothing.

Benefit increases without clear bipartisan support

- Increase every beneficiary's benefit by a fixed amount when they reach age 85:
  - This benefit increase would be progressive.
  - It would especially help older beneficiaries, who are at higher risks of poverty.
  - It would partly offset higher Medicare premiums.
  - This benefit increase would raise the Social Security deficit by four percent.
- An across-the-board benefit increase of five percent for all beneficiaries:
  - This would offset the growth of inequality during people's lifetime.
  - This would boost benefits not just for low-income earners, but also for middle-income ones.
  - This benefit increase would grow the Social Security deficit by 28.4 percent.
- Add a new benefit to help people, who can no longer work, transition into retirement:
  - This bridge benefit (Weller, Vallas and Lessing, 2019) would offset the lack of savings among some of the most vulnerable workers.
  - This bridge benefit would be targeted to the long-term unemployed and workers with severe health issues that do not qualify for disability benefits.
  - This benefit would increase Social Security costs between two and five percent.
- Use a new consumer price index for annual post-retirement benefit adjustments:
  - This change could raise annual benefits more than is currently the case.
  - This change would increase the Social Security deficit by 15 percent.

Frequently proposed benefit cuts

- Raise the full retirement age to 69 years:
  - An increase in the retirement age would cut the deficit by 20 percent.
  - It would disproportionately affect low-income workers as they have shorter life expectancies.
  - It is highly unpopular.
- Gradually reduce benefits for the top 30 percent of income earners:
  - This approach is known as progressive price indexing.
  - It would shrink the Social Security deficit by 57.9 percent.
  - It would cut benefits for many middle-income families, who need more benefits amid rising income inequality.
- Use a new inflation measure to provide annual benefit increases:
  - This approach would slow the growth of benefits after retirement by using a chain weighted consumer price index for clerical workers (CPI-W).
  - It would reduce the Social Security deficit by 21.4 percent.
  - It is not clear that this is a more accurate inflation measure for Social Security beneficiaries.

Conclusion: How to pay for Social Security reform?

- Currently, proposals for benefit improvements receive more attention and support than proposals to cut benefits.
- This reflects economic realities as families struggle.
- Worries over Social Security's long-term shortfall have also receded as interest rates are low and addressing income inequality is seen as a key policy goal.
- Most proposals include ways to pay for benefit improvements:
  - Broaden the tax base by raising the cap on taxable earnings.
  - Broaden the tax base by including newly hired state and local government employees.
- In the end, the exact shape and timing of Social Security reform will depend on a sense of urgency over the need to change the program.