Donald Trump’s $15,000-a-year Social Security Bonus

By Eugene Steuerle *Thu, Apr 12, 2018*

Where to begin reforming Social Security? Our guest columnist would start by eliminating the late-life fatherhood benefit that favors the president and others.

Would you believe that President Donald Trump is eligible for an extra Social Security benefit of around $15,000 a year because of his 11-year-old son, Barron Trump? Well, you should believe it, because it’s true.

How can this be? Because under Social Security’s rules, anyone like Trump who is old enough to get retirement benefits and still has a child under 18 can get this supplement—without having paid an extra dime in Social Security taxes for it.

The White House declined to tell us whether Trump is taking Social Security benefits, which by our estimate would range from about $47,100 a year (including the Barron bucks) if he began taking them at age 66, to $58,300 if he began at 70, the age at which benefits reach their maximum.

Of course, if Trump, 71, had released his income tax returns the way his predecessors since Richard Nixon did, we would know if he’s taking Social Security and how much he’s getting. There’s no reason, however, to think that he isn’t taking the benefits to which he’s entitled.

Meanwhile, Trump’s new budget proposes to reduce items like food stamps and housing vouchers for low-income people. It doesn’t ask either the rich or the middle class to make sacrifices on the tax or spending side. And it doesn’t touch the extra Social Security benefit for which Trump and about 680,000 other people are eligible.

The average Social Security retiree receives about $16,900 in annual benefits. Does it strike you as bizarre that someone in Trump’s position gets a bonus benefit nearly equal to that? Does it seem unfair that by contrast to Trump, most male workers—and for biological reasons, an even greater portion of female workers—can’t get child benefits because their kids are at least 18 and out of high school when the workers begin drawing Social Security retirement benefits in their 60s and 70s?

Trump is eligible for the Late-in-Life-Baby Bonus, as we've named it, because the people who designed Social Security decided in 1939, about five years into the program, that dependents and spouses needed extra support. They didn't think much (if at all) about future expansion in the number of retirees, primarily male, who would have young kids.

The Late-in-Life-Baby Bonus goes to about 1.1% of Social Security retirees and costs about $5.5 billion a year. That's a mere speck in Social Security's $960 billion annual outlay.

Yet the Late-in-Life-Baby Bonus is a dramatic—and symbolic—example of hidden problems that plague Social Security, problems that few non-wonks recognize and that reform proposals have largely ignored.

Those problems are why the two of us—Allan Sloan, a journalist who has written about Social Security for years; and C. Eugene Steuerle, an economist who has written extensively about Social Security, co-founded the non-partisan Urban-Brookings Tax Policy Center and is the author of ***Dead Men Ruling: How to Restore Fiscal Freedom and Rescue Our Future***—combined forces to write this article.

We want to show you how we can help Social Security start heading in the right direction before its trust fund is tapped out, at which point a crisis atmosphere will prevail and rational conversation will disappear.

Calling for Social Security fixes isn't new, of course, but the calls usually focus primarily on fixing the increasing gap between the taxes Social Security collects and the benefits it pays. For us, however, the Late-in-Life-Baby Bonus is an example of why reform should not only restore fiscal balance but should also make the system more equitable and efficient, more geared to modern needs and conditions, and more attuned to how providing ever-more years of benefits to future retirees puts at risk government programs that help them and their children during their working years.

If all that mattered were numbers, we could easily provide better protections against poverty with no loss in benefits for today's retirees, while providing higher average benefits for future retirees. But that works only if the political will is there to update Social Security's operations and benefit structure. After all, a system designed in the 1930s isn't necessarily what we'll need in the 2030s.

And make no mistake about how important Social Security is. Millions of retirees depend heavily on it. According to a recent Census working paper, about half of Social Security retirees receive at least half their income from Social Security — and about 18% get at least 90% of their income from it. Add in Medicare benefits, and retirees' reliance on programs funded by the Social Security tax are even higher.

Given the virtual elimination of pension benefits for new private-sector employees and the increasing erosion in pensions for new public-sector employees, Social Security will likely be needed even more in the future than it is today.

Simply throwing more money at Social Security isn't the way to solve its imbalances, much less deal with the Late-in-Life-Baby Bonus and some of the other bizarre things we'll show you.

Money-tossing would just continue the pattern of recent decades that provides an ever increasing proportion of national income and government revenue to us when we're old (largely through Social Security and Medicare), and an ever smaller proportion when we're younger (anything from educational assistance to transportation spending). This shortchanges the workers of today and tomorrow who will be called upon to fork over taxes to cover the costs of Social Security and other government programs for their elders.

We began with the Late-in-Life-Baby Bonus because giving people like Trump—a wealthy man with a young child from a third marriage—an extra benefit unavailable to 99% of retirees is a dramatic example of how problems embedded in Social Security cause inequities and problems that few people other than Social Security experts know about.

Think that we're overreacting to a minor quirk? We aren't. Here are some additional aspects of Social Security that we think violate standards of equal justice and common sense:

There's the **Single Parent Shortchange**, whereby many single parents—largely mothers with below-average earnings—pay Social Security taxes to cover spousal and survivor benefits for other people even though the solo parents can't receive them. Sure, many people contribute toward benefits they will never see, especially if they die before retirement age. But the Single Shortchange strikes us as horribly unfair. Single parents are among the lowest income payers of Social Security taxes. Why should they subsidize other folks' never-working spouses in a way that gives the biggest benefits to the best-off people?

Then there's the **Agatha Christie Benefit**: Some divorced people get a bonus from Social Security only if their former spouse dies. And the **Serial Spouse Bonus**: If someone has had, say, three spouses, each might get the same full spousal and survivor benefits available to the one lifetime spouse of another worker — provided that each marriage lasted at least

10 years. If a marriage lasts nine years and 364 days, the spouse gets zippo.

The **Equal Earner Penalty** means that a couple with two people each earning $40,000 gets about $100,000 less in lifetime benefits than a couple with one spouse earning $80,000 and the other earning nothing. This happens even though both couples and their employers pay identical Social Security taxes.

Many if not most of these inequities would be illegal in private retirement plans.

Fixing the Late-in-Life-Baby Bonus and the other inequities we mentioned (as well as plenty that we omitted) is more about remedying injustice than cutting costs; giving some people more benefits and others less would pretty much offset each other.

The system needs to be overhauled not simply to become more fair by giving less to the Trumps of the world and more to the less fortunate among us, but because Social Security, created in the 1930s, was largely constructed around a world in which married women were expected to stay at home. People also had shorter lifespans then and retired later, so that today retirees receive benefits for 12 more years on average than retirees in the system’s earlier days.

Back in 1965, there were about four workers for every person drawing benefits. Currently the ratio is in the low threes. Now, the decline in birth rates is hitting with a bang as baby boomers retire en masse, with the ratio expected to fall to about 2.2 in 2035. Each baby boomer retirement leads to an increase in takers and a decrease in makers.

Not dealing with this decline in workers-to-beneficiaries—a good chunk of which is caused by Social Security treating people as young as 62 as “old” —has broad implications for the revenues available for all government services, not just Social Security, as well as for the growth rate of our economy.

Even as fewer workers support more retirees, the average value of Social Security retirement benefits continues to rise. Look at the increasing “present value” of Social Security benefits for a two-income 65-year-old couple earning the average wage each year and expecting to live for an average lifespan.

In 1960, such a couple needed to have on hand $269,000 (in 2015 dollars) in an interest-bearing account to cover the cost of their lifetime benefits. Today, it’s about $625,000. In 2030, it will be about $731,000. And in 2055, when a Millennial age 30 this year turns 67, the full retirement age under current law, the present value of scheduled benefits hits seven digits: $1,029,000. Include Medicare, and benefits are about $1 million for today’s couple, rising to $2 million for the millennial couple.

These benefit-value increases are caused by a combination of longer lives for retirees and Social Security formulas that increase benefits as wages rise.

These numbers matter because Social Security isn’t like an Individual Retirement Account or a pension plan that sets money aside for you today for use when you retire. It’s mainly an intergenerational transfer system: Today's workers pay Social Security taxes to cover their parents, who previously paid to cover their parents, who paid to cover their parents. That's the way the system has worked since its founding in 1935. Social Security taxes paid by current workers and their employers get sent to beneficiaries, not stashed somewhere awaiting current workers reaching retirement age.

The system does have a trust fund that in the early 1980s was about to run out of money. A crisis loomed. As a result, after a report by the Greenspan Commission, Congress in 1983 enacted reforms that included gradually raising the normal retirement age (but not the early retirement age) and subjecting some Social Security retirement benefits to federal income tax.

This led to temporary surpluses while baby boomers were in their peak earning years. But now that boomers are retiring rapidly, Social Security's tax revenues are falling farther and farther behind benefits being paid out.

The trust fund is projected to run dry in about 15 years. Meanwhile, every year without reform adds to the share of the burden required of the young, who already are scheduled to have lower returns on their Social Security contributions than older workers.

Do you think that if someone offered millennials a choice, they would want to face huge student debt, declining government investment in their children and higher future taxes (which are inevitable as deficits mount) — in exchange for a more generous retirement than today's retirees get? Or would they prefer a system that treats them and their children better when they're younger?

We're both way past millennial age — but we know which we would prefer.

Now, we'll show you how we can tweak Social Security to address the problems we've discussed without cutting benefits for current retirees or denying future retirees average benefits higher than current retirees get.

It's about math. Social Security pays out far more than would be required to provide well-above-poverty-level benefits to all elderly recipients. Future growth in the economy will help tax revenues and benefits rise, which would give us room to modify the payout formulas and deal with problems that this iconic program isn't addressing.

Those problems include poverty and near-poverty for millions of retirees, particularly the very old. That problem is greater for people who retired at 62 rather than waiting for their full retirement age, a move that locks them into lower payments for the rest of their lifetimes.

How can we orient the system more progressively to the needs of modern society, provide a stronger base of protection for all workers, and slow the growth rate of benefits to bring the system into better balance? To shore up Social Security permanently, it'll be necessary to

slow down the overall growth in benefits, encourage more years of work and end the pattern of people having ever-longer retirements as lifespans increase and Social Security doesn’t adapt its rules. At some point, it will also require a revenue (i.e., tax) increase, too.
Here, in simplified form, are some suggestions for making Social Security more modern and more fair:

Change the benefit structure. Reduce the level of benefits that retirees get in their 60s and early 70s but give them higher-than-now benefits in their mid-to-late 70s and beyond. That would shift resources to retirees’ elder years when they have greater needs, including a higher probability of having to pay for long-term care.

Raise the minimum benefit. Have a strong minimum benefit for most elderly that’s indexed to wage growth, which typically exceeds inflation. This would raise benefits for one-third to one-half of the elderly in a way that will essentially remove them from poverty

Index the retirement age. Having people work for additional years helps pay for higher levels of both lifetime and annual benefits. So if people on average are living a year longer, they should have to work a year longer. Those additional income and Social Security taxes would help support both Social Security and national needs that are higher priority than paying additional retirement years. Gradually phase out the early-retirement age that leads many healthy couples to retire on Social Security for close to three decades for the spouse who lives longer.

Trim benefit growth for those at the top. Offset at least part of the cost of higher minimum benefits by paying the highest-paid recipients less in the future than they would get under the current formula. Slow the rise in benefits for future retirees with way-above-average lifetime earnings by indexing their benefits to inflation rather than to wage growth.

Make spousal and survivor benefits more fair. Modify these benefits so that they provide higher benefits for those with greater needs rather than giving the richest bonuses to the richest spouses even when they contributed less in taxes than lower-income spouses. Otherwise, use rules similar to what private pensions use, so that benefits are shared fairly for the time of marriage together.

And one final thing: Bye-bye late-in-life-baby bonus. Stop paying retirees extra for children under 18. Continue the young-child bonus for widows or widowers below retirement age, and for people on disability.
Eliminating that bonanza for older parents would be a symbolic first step. And who can say?

Perhaps now that lots more people (including possibly Trump himself) know that the Late-in-Life-Baby Bonus exists, our leaders might just be embarrassed enough to realize that the sooner Social Security is adapted to modern needs and circumstances, the better.
If this results in starting to fix Social Security the right way, the Late-in-Life-Baby Bonus will have delivered a big-time bonus of its own. The beneficiaries would be our future retirees, our workers and our country as a whole.