Solvency Isn't Social Security's Only Problem

By Eugene Steuerle *Thu, May 30, 2013*

We need to reform the program's benefit structure, now misaligned with its original anti-poverty goals, as much as we need to reform its financing structure, writes the Urban Institute fellow.

Social Security has morphed into a middle-age retirement system. Despite its great success, its growth in lifetime benefits over time has been *decreasingly* targeted at its major goals. Even while programs for children and working families are being cut, combined lifetime benefits for couples turning 65 rise by an average of about $20,000 every year.

Couples in their mid-40s today are scheduled to get about $1.4 million in lifetime benefits, of which $700,000 is in Social Security and the rest in Medicare. Typical couples are receiving close to three decades of benefits. Smaller and smaller shares of Social Security benefits are being devoted to people in their last years of life.

If people were to retire for the same number of years as they did when benefits were first paid in 1940, a person would on average retire at age 76 today rather than 64. Soon close to a third of adults will be on Social Security, retiring on average for a third of their adult lives.

While Social Security did a good job reducing poverty in its early years, it has made only modest progress recently, despite spending hundreds of billions of dollars more. The program discourages work among older Americans at the very time they have become a highly underused source of human capital in the economy.

The failure to provide equal justice permeates the system. The existing structure discriminates against the working single head of household and the couple with relatively equal earnings between spouses. At the same time, private retirement policy leaves most elderly households quite vulnerable.

Out of the box thinking needed

Unfortunately, the Social Security debate has largely proceeded on the basis of being "for the box" or "against the box." The contents themselves deserve scrutiny.

While I applaud the efforts of the Simpson/Bowles Commission and the Bipartisan Policy Commission I believe we can go much further to address the problems I just raised. How? We should start with a basic set of principles and see where they lead us.

Consider. Inevitably, we will pay for balancing the system mainly through benefit cuts or tax increases on higher income individuals, who have most of the resources. That debate need not derail other needed reforms. I suggest the following reforms aimed at meeting Social Security's primary purposes:

- Provide greater protections for those truly old or with limited resources
- Support the work and saving base that undergird the system

- Provide more equal justice for those suffering needless discrimination in the system, like single heads of household and longer-term workers.

Second, further adjust minimum benefits and the rate schedule and indexing of that schedule over time to achieve final cost and distributional goals. The extent of these adjustments will also depend upon the tax rate and base structure agreed upon.

Some of those fixes cost money, and some raise money. We don’t have to address trust fund and distributional consequences in each and every change.

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