



Securing Social Security: Lessons for the Next Debate

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Sidelined during the early months of the new administration because of the economic crisis, entitlement reform may now be returning to President Obama's agenda. Why the interest? Because that's where the money is.

Looking at trillion-dollar deficits for years to come, about the only way Congress can stanch the flow of red ink is to cut Social Security and Medicare costs or raise revenues. Fixing Social Security is easier than negotiating the Medicare labyrinth, but it won't be simple. Social Security will begin paying out more than it takes in by 2017. Its projected shortfall over the next 75 years is an eye-popping \$4.3 trillion. (The Social Security trustees' annual report, expected soon, may alter the crossover year and shortfall estimate.)

President Bush tried to fix Social Security a few years ago, but failed. Congress and the new president can learn from their predecessors' mistakes and from good ideas that emerged then or since.

The first lesson is to invite rival camps to the table without preconditions. Joining President Bush's Commission to Strengthen Social Security required pledging not to increase payroll taxes or cut benefits for current and near retirees and to champion personal accounts. This hand-tying alienated legislators from across the political spectrum, few of whom thought benefit cuts alone could solve Social Security's financing problems. While the Bush administration later signaled openness to proposals that did not meet these criteria, the damage had already been done.

Second, don't play shell games. The commission's personal account proposals required large infusions of general revenue, but the panel never told Congress where this money would come from. Transferring funds from general revenues to Social Security may be appropriate, but failing to identify concrete, plausible funding sources isn't, especially in the current fiscal environment.

Third, don't leave disability insurance out of the deal. Nearly one of every ten men in his sixties receives Social Security disability benefits, the fraction of women getting them is increasing steadily, and the recession is throwing more people with disabilities out of work and into the benefits pool. At about 15 percent of total adult benefits and with some 7.1 million beneficiaries, the disabled worker component of Social Security is simply too big to ignore.

Fourth, don't short-circuit other benefit programs. Social Security reforms that boost benefits for lower-wage workers could disqualify them from Supplemental Security Income.

Policymakers need to make sure that such unintended interactions don't hurt the most vulnerable. Or that bringing Social Security into fiscal balance doesn't unreasonably constrain options for shoring up Medicare's shortfalls.

Fifth, update the benefit formula and payroll tax base with earnings inequality in mind. Over the past decade, wages have jumped for high-end workers, but have stagnated for lower- and moderate-wage workers. Social Security's progressive benefit formula helps by replacing a larger share of lower-paid workers' lifetime earnings. But these workers die younger and marry at lower rates than the rest of us so they don't get as good a deal as intended. Poverty dogs many who dropped out of the workforce for long spells to care for others or can't work much.

Even if Social Security costs must fall, Congress can tilt the system a bit more toward those with low incomes by tweaking the benefit formula, shoring up the benefit floor, and increasing the Social Security wage and benefit base. The Obama team is on the record supporting payroll tax increases for those with annual earnings over \$250,000. While there may be more effective ways to design a payroll tax increase for higher earners, the reality is that higher-wage workers have much greater capacity to withstand either payroll tax increases or benefit cuts.

Sixth, wake up and smell the 21st century. Americans are living longer and healthier, but Social Security's regular retirement age isn't keeping pace. One commission plan recognized this by tying retirement benefits to longevity. We need more work incentives backed up by robust disability and unemployment programs for those without the capacity or opportunities. Let's consider gradually raising the full retirement age or concentrating Social Security benefits closer to the end of life, when few can still work.

Also, benefits are parsed out as though we lived in single-earner, married-coupled families. In fact, most prime-age couples have two workers and over a third of children are born outside marriage. Granting caregiver credits, financed at no or low extra cost by reducing Social Security spousal benefits, would be one approach to tackling inequities embedded in current law—like non-working spouses sometimes receiving higher benefits than working spouses or than single parents who worked long careers at low pay.

All reforms should maintain Social Security's core strength: guaranteed, inflation-protected, progressive benefits. Stock market shocks illustrate how vulnerable the retirement plans of even well-prepared workers can be. Preserving Social Security's backbone—spreading risks over a large population for generations—means guaranteeing future recipients a fair deal. Heavily backloading the costs of reform would undermine this.

Politicians have kept their hands off Social Security because it's Americans' favorite government program and the technical challenges of reform are so daunting. But, along with research on how changes will affect various groups, the takeaway points from the last reform debate afford the new administration a running start on this monumental political challenge.

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