

**Committee on Ways and Means
Subcommittee on Social Security
Questions for the Record**

Hearing on “The President’s and Other Bipartisan Entitlement Reform Proposals”

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- 1. If the full retirement age (FRA) is increased but the EEA is not, people who claim at 62 would see larger reductions. For example, if the FRA is increased to age 70, the actuarial reduction at age 62 would be 43 percent. What is the impact of changing the size of the reductions so they are not actuarially neutral?**

Social Security has expanded years of retirement enormously by not changing the early retirement age and only adjusting the “normal” retirement age by two years from 65 to 67. If future reform merely responds by gradually adjusting the normal retirement age, but not the early retirement age, it effectively reduces annual benefits for those who continue to retire at the earliest age possible (again, for ever more years of support). This provides a threat to those retiring early, who often are unprepared for the costs of old age. Among married couples today, at least one spouse is likely to live to age 90 or so, in effect providing close to three decades of benefits for those who retire at age 62.

In effect, whether or not the normal retirement age is adjusted, the maintenance of the same minimum chronological age (62) for receipt of benefits continually “front loads” the system in the sense that greater and greater shares of benefits are provided further and further from old age—that is, further and further from years closer to death when impairments are more likely.

- 2. What percentage of the workforce really can’t work longer and would be adversely affected by an increase in the retirement age? Do you believe some type of hardship exemption should be included? If so, how would you design it to ensure it was well targeted?**

It would be difficult to put a precise figure on the percentage of those who cannot work at any given age. As health care improves in general and people live longer, most analyses support the notion that people can also work longer. Some evidence is provided by self-reports on health status. Today, for instance, close to 95 percent of those between the ages of 65 and 70 report being in at least fair health, and about 80 percent say they are in good or excellent health.

No one has come up yet with a good or administrable design of a hardship exemption, which relates closely to trying to measure disability. Then there are the equal justice issues. For instance, if hardship

is defined by type of job, should a middle income worker who can no longer work in a manufacturing job be favored over a retail firm worker with equal or lower lifetime earnings? And, unfortunately, those most threatened in true old age by retiring several decades before probable death tend to be those who are poorer to begin with and cannot rely upon other sources of income. As a consequence, their incomes in late old age are most threatened by the actuarial reductions that come from earlier retirement. The Social Security disability system remains our primary hardship-based system, backed up by the Supplemental Security Insurance program that needs to be better indexed for the future.

In my view, money should be spent on increasing benefits where they can be well targeted and not spent on those who are relatively well off. Such improvements include: minimum benefits, allowances for raising children, and other efforts to distribute a larger share of benefits to those with lower incomes. I also favor increasing benefits for long-term workers rather than cutting off credit for work at 35 years. I would also consider some minimum “life certainty” for some of those who die young and haven’t received disability benefits.

3. Your testimony talks more broadly about benefit adequacy. As we consider changes to the program, please discuss how you would address benefit adequacy. Whose benefits should be adjusted, how and why?

Many of our elderly have fairly low annual cash benefits despite a system that provide a typical newly retirement couple with close to \$1 million in lifetime Social Security and health benefits. Much of the differential derives from spending close to one-third of an adult life on Social Security. I believe an adequate annual cash benefit should be well above the federal poverty line, adjusted for wage growth in the economy (that is, keeping up relatively with the wages of workers). The benefit formula, minimum benefits, and adjustments for years of child rearing can all help in this respect. At higher income levels, at least above median, the annual benefit growth rate can be pared as long as the system is out of balance. Finally, I would encourage private pension reform as a supplement to Social Security for those with low- and middle-incomes, since so many retired individuals have little or nothing in the way of retirement support.

4. How do we design a program that suits today’s workers? Who will be most disadvantaged by sticking to the old system and forgoing the chance to give our country a new Social Security program that protects the vulnerable but also lets our younger workers prosper?

Social Security’s current structure was designed for a very different age. Why should we continue to have a system based essentially on the assumption of stay-at-home mothers with no incomes of their own? As one consequence, this system discriminates against single heads of household—many of whom are abandoned mothers—by making them pay for spousal and survivor benefits they cannot receive. Why should we count taxes or contributions for only 35 years, discriminating against longer-term workers? These are among the disfavored groups in the current system.

Also, why should we support middle-age retirement when a higher non-employment rate in the economy slows down overall growth and makes recovery from recession more difficult? Relative to their life expectancy, people on average today retire for in excess of a decade more than they did in 1940, when benefits were first paid. This provides a major threat to well-being in true old age, even if it did not also add to the imbalances in Social Security and the budget as a whole (partly through lower income tax collections). Higher non-employment also reduces personal income and GDP because of lower national output.

5. In your testimony, you noted that close to one third of adults will be receiving benefits for one third of their lives. Do you have concerns with the President's proposal that starts a long time beneficiary increase at age 76?

The adjustment suggested by the President for those living longer was proposed as a partial offset to the impact of a reduced COLA, which would reduce benefits for someone aged, say, 90, by close to 10 percent, but by almost nothing for those in their early 60s. Over the years, Social Security has provided smaller and smaller shares of total benefits to those truly old, for example, those in the last ten years of life as measured by life expectancy. To better protect for true old age, we should be increasing benefits more in older ages and decreasing them in younger ages, particularly at ages when people on average have fifteen or more years of life expectancy. "Backloading" the system in this way, even if lifetime benefits were held constant, would increase work incentives and add to revenues through that additional work.

6. Social Security has long included a benefit for nonworking spouses. In your testimony you discussed the varying amount of benefits a woman might receive depending on whether she is married and how much her spouse earns. For a married woman who earns less than her husband, the effective tax rate for her Social Security taxes could be 100% if she would end up with the same benefits regardless of her work history. The current program is not doing a good job of rewarding women who contribute to Social Security through their hard earned wages. How do we make the program work better for women?

The trick, I believe, is to recognize the multiple goals at hand and to target provisions to those goals. The archaic Social Security provision of additional spousal and survivor benefits without regard to any additional contribution is outlawed in the private pension system. The legitimate goal, badly designed in practice, was to protect survivors and to insure some minimum level of support to couples. Such can be achieved much more efficiently—and the well-being of the average woman and lower-income man—improved by providing minimum benefits and minimum credits for child-rearing years, along with a requirement that the worker provide and pay for survivor benefits through a lower up-front worker benefit. Further tweaks to the benefit formula can then insure better protection to those with low and moderate incomes, including typical but not all spouses and survivors. In the end, these goals can be

achieved even as legislation achieves long-term balance through other benefit and tax adjustments, most of which will be paid for one way or the other by those with lifetime incomes above median.