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The Honorable Sam Johnson  
Chairman, Subcommittee on Social Security  
Committee on Ways and Means  
Washington, DC, 20515

Dear Chairman Johnson:

Thank you again for the opportunity to testify on July 8 of this year on Social Security Finances. The following are responses to follow-up questions you submitted to me.

1. *In your testimony you discuss raising the retirement age and you refer to people in their late 50s, 60s, and 70s as “becoming the largest underused pool of resources in the economy”. What approaches do you support to address this concern of yours? How do you think we should address the problem of those who may be physically unable to delay their retirement?*

You have asked about my statement that people in their 50s, 60s, and 70s are “becoming the largest underused pool of resources in the economy.” These conclusions derive from the enormous share of the population in these age groups, their higher level of education in recent times, their reporting of good or excellent health in most cases (see the Health and Retirement Survey<sup>1</sup>)—with only moderate differences from the 50s to the 70s—and from the flip side of the coin, the ending of the large labor force influx from women and baby boomers in the last half of the 20<sup>th</sup> century. The approaches I would use to encourage taking advantage of their talents largely involve removing obstacles to their employment. These include

- a. No longer telling people they are “old” at age 62, which the government does by definition of Old Age and Survivors Insurance;
- b. Increasing the retirement age, especially in line with life expectancy;
- c. Finding alternatives to those features of defined benefit plans that encourage

people to retire quite early (through the accrual of negative pension benefits for working another year);

- d. Removal of Medicare as a secondary payer (which effectively acts like a tax on employers and employees for keeping or hiring older workers), regardless of the Medicare eligibility age;
- e. Offering simpler options within Social Security for partial rather than complete draw down of benefits (effectively also creating simpler options for getting higher annuity protection in old age)<sup>2</sup>; and
- f. Offering alternative ways, other than complete retirement, for older workers to stay at work, perhaps at lower rates of compensation; in particular, seniority pay scales are badly designed for the modern age and lead employers to drop employees unnecessarily.

Put another way, I have predicted for some time now that the demand for these older workers will be there. Social Security projections of labor force participation have been rising continually in lines with this prediction, and the obstacles to their employment are often those we ourselves create.

A related issue is addressing the problem of those who may be physically unable to delay their retirement. In truth, given the similar health status reported by those in their 50s, and the prevalence of unemployment in all age groups, I don't believe this is an "age-62" issue. It is an issue of how to design disability and unemployment insurance and other programs designed to meet these needs, which, as I say, don't really change much suddenly at age 62. Put another way, it's very expensive to provide 9 people with more years of retirement (or higher benefits if they delay retirement) in order to help 1 person who may not be able to tap into disability or other programs for help.

Let me add that maintaining some sort of health insurance option for older workers is important here, as it mitigates the health insurance problem for those whose incomes fall for whatever reason.

One additional thing we could do, of course, would be to offer those with significant impairments, but not eligibility for Disability Insurance, an option to retire at age 62 even though others could not use that option. I also favor a higher benefit for long-term workers, who don't get credit for more than 35 years within Social Security. I also favor a much stronger minimum benefit for other workers so that we remove many more elderly from poverty and near poverty.

At the end of the day, however, I still worry about the incomes of those many people today retiring in their early 60s who do not realize that their income now is likely to be insufficient in their late 80s or even 90s. This worry would be present even if the current system were in complete balance.

2. *In your written testimony, you note how certain individuals are treated under Social Security and how this would be illegal in the private pension system. What changes could be made to ameliorate this concern? Would Dr. Schieber's proposal address some of your concerns?*

Many anomalies in Social Security's treatment of the family derive from the design of spousal and survivor benefits that discriminate against single workers, particularly heads of household, two-earner couples with roughly equal earnings, divorcees with less than ten years of marriage. I would support efforts to beef up protections at the bottom—which is really what redistribute benefits are supposed to do—while ratcheting down the extra redistributive benefits at the top. I thus would accompany Dr. Schieber's suggestion for adopting the normal form of annuity, as in private pensions, with additional protections at the bottom. One way to achieve this is gradually to apply an actuarial calculation at the top (e.g., freeze or gradually ratchet down the extra benefits over and above actuarially fair spousal and survivor benefits, while at the same time granting wage-indexed minimum protections, include extra protections for spouses and survivors where the actuarial adjustments might leave them with benefits well below median levels of protection.

3. *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. The current program is not doing a good job of rewarding women who contribute to Social Security through their hard earned wages. What types of changes could address the anti-working spouse effect that you discussed?*

The reforms discussed in my answer to question 2 would help solve this problem. I would also re-examine proposals for earnings sharing, but I believe that the important side of such proposals in the past was not addressed: how to properly redistribute the money. That is, those proposals only achieve modest gains against poverty if they simply provide higher worker benefits, since worker benefits tend to be more oriented toward the higher-earning males. Instead, the monies generated through earnings sharing would need to help support much stronger minimum benefits for both worker, and worker and spouse, and might also require some rejiggering of the benefit formula to insure adequate progressivity was maintained or enhanced.

The point I am trying to make is that one must adopt several changes to both provide fairer treatment of singles and couples with relatively equal earnings and to provide greater protection against poverty and near-poverty.

4. *How would you design a fairer benefit between a non-working spouse and working spouses?*

The proposals discussed under items 3 and 4 would also create a fairer benefit.

5. *In your testimony you supported slowing the growth of benefits for middle and higher income beneficiaries. What is the best way to do this?*

My suggestion for slowing down the rate of growth of benefits for middle- and higher-income beneficiaries follows my concern for establishing balance in the system. Given any particular tax to pay for the system, I would first work on trying to increase work and employment, partly through retirement age changes (thus redistributing more benefits to older ages, as well). I would back this up with various types of minimum benefit supports. If greater work is encouraged, then annual benefits may not need to fall at all. Over and above any retirement age adjustment, I would still consider other alternatives.

In my testimony, for instance, I suggested that Congress consider a cap of \$1 million on lifetime Social Security and Medicare benefits per couple (adjusted for singles and with some different caps for two-earner and one-earner couples). The cap would apply only as long as Social Security and Medicare were not in long-term balance, although this requires some rule for including Medicare expenses beyond Part A, Hospital Insurance. The Medicare cap, by the way, would be based simply on some figure like current average insurance value times expected number of years of support, not on actually health expenses paid.

Progressive wage indexing should also be considered, though I consider retirement age adjustments and the simple cap just suggested as providing somewhat better protection, especially in very old age, for most workers.

Thank you for the opportunity to respond to the very important issues raised in these questions.

Sincerely,

C. Eugene Steuerle

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<sup>1</sup> [http://www.nia.nih.gov/NR/rdonlyres/D164FE6C-C6E0-4E78-B27F-7E8D8C0FFEE5/0/HRS\\_Text\\_WEB.pdf](http://www.nia.nih.gov/NR/rdonlyres/D164FE6C-C6E0-4E78-B27F-7E8D8C0FFEE5/0/HRS_Text_WEB.pdf), p.23.

<sup>2</sup> See <http://www.urban.org/UploadedPDF/901355-now-social-security-06302010.pdf>.