

Questions for the Record

What Every Worker Needs to Know About an Unreformed Social Security System

C. Eugene Steuerle

1. Recent legislative proposals have focused on expanding Social Security benefits and dramatically increasing taxes, but would do little to address the program's financing challenges over the long-term. As we work to strengthen Social Security, should Congress look to expand benefits across the board, or should increases be targeted to help those poorly served by the current system?
2. Research like yours provides important insights into the Social Security program. Does Social Security make needed data available to researchers to enhance their ability to further examine the impacts of the program? What should change?
3. You note in your testimony how Social Security benefits grow automatically, regardless of actual changes in the needs of the public. What impact will leaving this program on autopilot have on future generations?

Recent legislative proposals have focused on expanding Social Security benefits and dramatically increasing taxes, but would do little to address the program's financing challenges over the long-term. As we work to strengthen Social Security, should Congress look to expand benefits across the board, or should increases be targeted to help those poorly served by the current system?

1. Social Security has always tried to maintain a balance between providing adequate levels of support for all workers and giving each participant some return on his or her contributions. The former appeals to a principle of progressivity and the latter to a principle of individual equity. In the first case, government usually tries to provide more for those with greater needs, in the second, people are mandated to participate in the retirement system so that they do not unfairly act as free riders (not contributing when working, then later spending down their money so that others have to support them).

Because of the latter principle, I do not think that progressivity should be extended so far that Social Security becomes means-tested, by which I refer to cutting benefits to zero when income reaches some level. If people are mandated to contribute to their retirement, then they should get some retirement benefits back from that mandate. In addition, means testing on the basis of annual income works very poorly when people can decide to work or not or can shift their assets to children. However, Social Security does provide a type of lifetime "means testing" in that it attempts to provide greater returns to lower-wage workers.

The complication is that despite the progressive rate formula for allocating benefits according to lifetime earnings, the old age part of the system (excluding disability) does not turn out to be very progressive, if at all. The system contains a number of regressive or unfairly distributed benefits,

and the higher mortality rates of lower-wage workers. Forced annuitization, though appropriate for a retirement system, offsets much of the intended progressivity.

Now take a system out of balance, such as Social Security in its current condition. Either tax increases or benefit cuts must be enacted to bring the system back into balance. On the benefit side, benefits have expanded significantly over the decades, in no small part because more and more years of benefits have been provided as people's life expectancies have increased. The primary beneficiaries of these years of expansions have been higher-wage workers, so that, say, an extra six years of benefits at \$50,000 a couple add up to \$300,000 of additional lifetime benefits for those higher income groups.

My conclusion is that the system should start moving toward establishing a higher level of progressivity among the truly old, doing better by those at the lower-end of the spectrum by raising minimum and other benefits but reducing the rate of growth of real lifetime benefits at the top. Note that I would do this regardless of the overall eventual size of the system. I would also reform the system in ways that encourage employment, as we are moving to a system that will be providing benefits to close to one-third of the adult population, encouraging them to retire in what might be considered late middle age. Regardless of Social Security balances, this reduces personal income and GDP and income and other tax collections, and it threatens the well-being of many elderly who approach old age in decent financial shape in their early 60s but are not prepared for retirement in their late 80s or 90s.

Research like yours provides important insights into the Social Security program. Does Social Security make needed data available to researchers to enhance their ability to further examine the impacts of the program? What should change?

2. Yes. Data are crucial for performing analysis of Social Security. Confidentiality issues can be handled by engaging Social Security or other government researchers in collaborative nonpartisan research with outsiders, ensuring that confidential data are not revealed. The Social Security Administration (SSA) has made headway in the recent past, e.g., establishing the Retirement Research Consortium (RRC), but funding for research has been cut in recent years. The research staff at SSA, for instance, has cut back staff significantly, and RRC funding has declined.

High on the list where progress has been very slow is in the area of merging Social Security records with other sources (income tax records, surveys, Medicare records) in ways that would allow us to answer all sorts of questions not just on Social Security, but economic mobility (Social Security is the only agency with lifetime earnings histories), health by lifetime income, combined progressivity and benefits provided by Social Security and Medicare (and, for that matter, Medicaid), and much else.

Keep in mind that with administrative records or with surveys already conducted, the public has already paid for most of the cost of gathering the basic information. Yet much of that information is not assembled or presented in ways that could answer many questions.

As I see it, there are at least three levels of problems in getting adequate levels of Social Security research performed.

The first is that no one is held responsible for insuring that at least some minimum level of good research is done. SSA has turned more and more to administrative matters, partly because research, even simple factual information, may be disliked by some portion of the population or political community.

The second is ensuring adequate resources, and this includes the ability of SSA to hire enough top-notch staff who understand the issues and the assignment of enough people to partake in collaborative research.

The third is adequate guidance, sometimes by Congress, as to what is allowed. Otherwise, legal advisors will almost always be tempted to take the easy way out of simply blocking the research or making it hard for very many to undertake it. For instance, researchers must have a government grant or contract to be able to use Health and Retirement administrative data at their own site under careful conditions. This leaves out many potential research projects that could be done with data for which Congress has already paid the cost.

You note in your testimony how Social Security benefits grow automatically, regardless of actual changes in the needs of the public. What impact will leaving this program on autopilot have on future generations?

3. As I discuss in more detail in a book, *Dead Men Ruling*, the complication with fore-ordaining where most future spending will go is not that it is ill-intended. It is simply that we do not know the future and therefore simply cannot direct it efficiently or fairly. No business would sign contracts for all the plant and equipment it is going to buy 50 or 100 years from now even if it expected to have a lot to spend on such items. One consequence of so many attempts to control the future is that the budget for children and infrastructure and other major functions of government are in significant decline even as health and retirement spending keep ratcheting upward. Along with interest costs, they now absorb just about all projected growth in direct spending as the economy grows. This spending is also designed in a way that discourages work in late middle age and maintains a late-19th century view of an industrial order where education, work, and retirement occur in three distinct periods of life, rather than in more of a continuum over a lifetime. To be clear, tax cuts that are not financed by spending cuts add to interest costs and also attempt to foreordain a future that has not arrived, as do many tax subsidies (e.g., housing subsidies that grow as ever larger McMansions are built).

Congress was given the power of appropriations for a reason. I do not believe the founders of this nation intended for past Congresses essentially to take that power away from current and future Congresses.