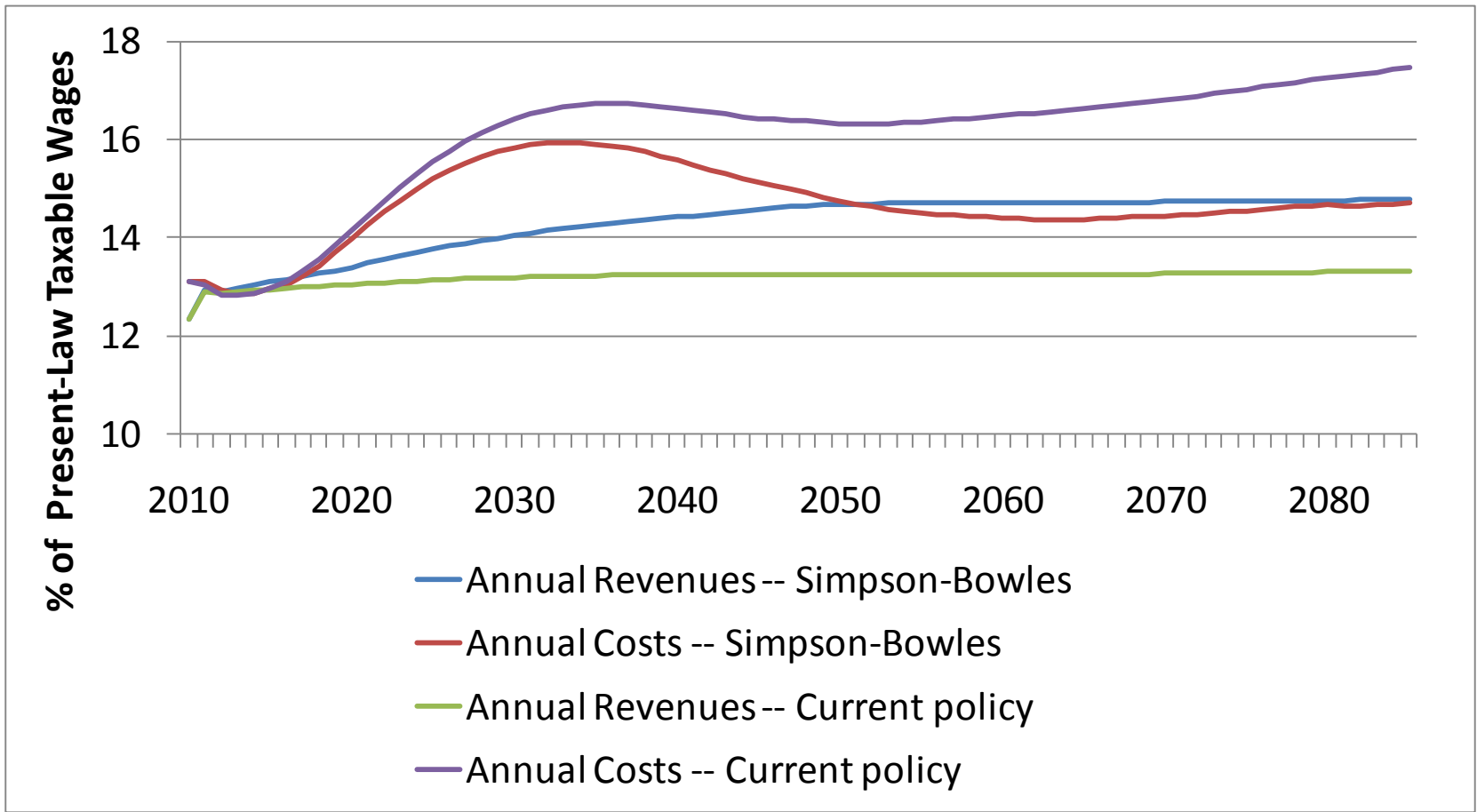


The Simpson-Bowles Social Security Framework: A Bipartisan Compromise Worthy of Support

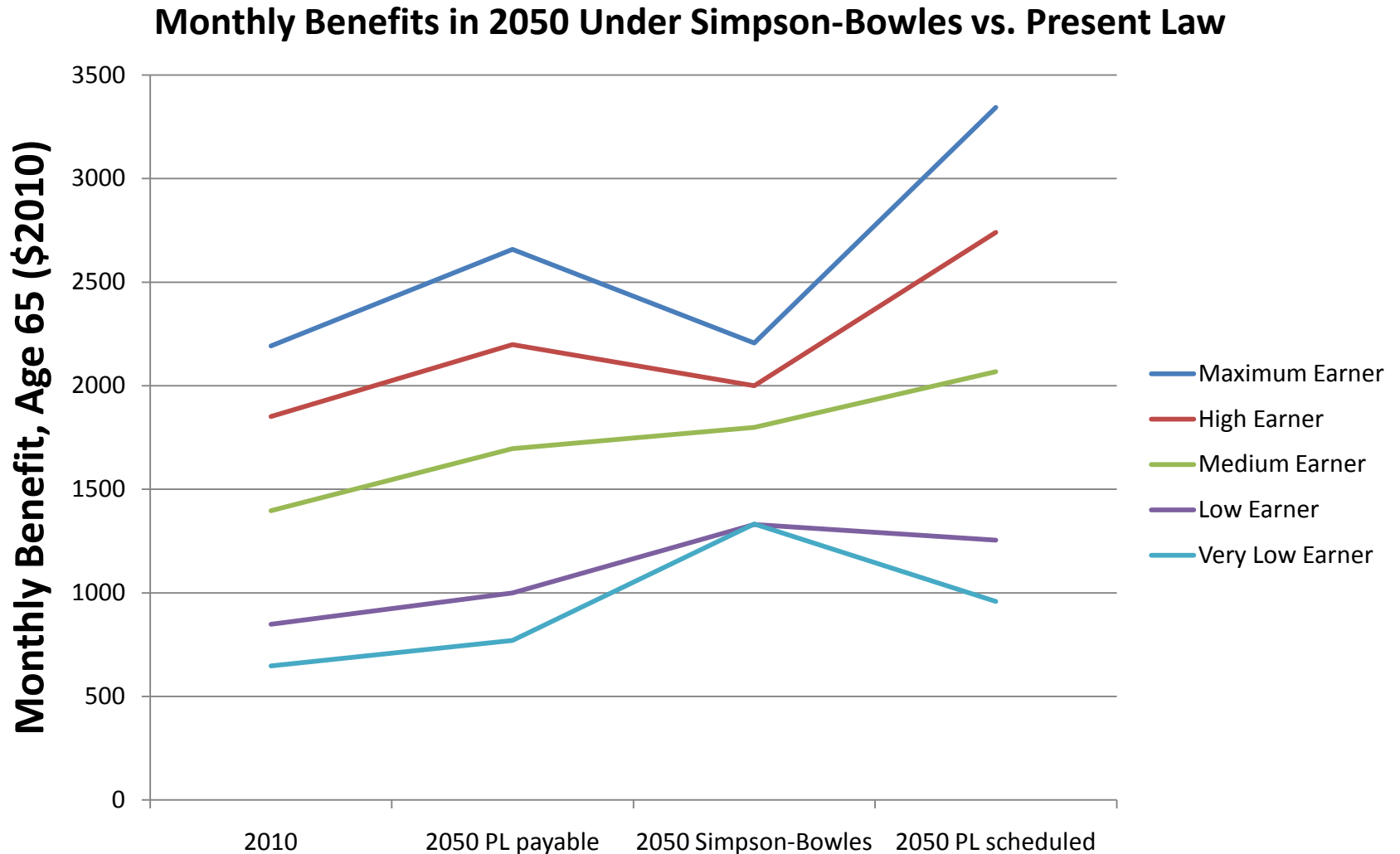
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Presentation to NASI Conference
National Press Club
January 27, 2010

Point #1: Simpson-Bowles strikes a reasonable compromise between containing costs and raising revenues to close the shortfall.



Point #2: Simpson-Bowles is very progressive and strengthens income protections for low-income workers.



Point #3: Simpson-Bowles pays both left and right the compliment of responding to their stated priorities rather than opponents' caricatures.

Constituency	Stated Priority	Opponents' Caricature
Left	Benefit adequacy for vulnerable participants.	Indifferent to cost growth and taxpayer burdens.
Right	Containing projected cost growth and taxpayer burdens.	Indifferent to income security protections.

Hypothesis: A solution that ignores the left or right's stated priorities cannot pass Congress.

Point #4: Cost-saving provisions of Simpson-Bowles are well-considered.

1) Progressive changes to benefit formula bend point factors

-- No means-test; mostly affects upper 50%; more targeted than re-indexing

2) Changes to early/normal ages of eligibility

-- Extremely gradual; new benefit claim options for physical laborers

3) Increase cap on taxable wages

-- Phased in to fund benefits as needed; avoids 1983 mistake of permitting surplus revenues to be spent

4) Use superlative CPI for COLAs

-- Applied to all programs; counteracted by benefit increase for oldest recipients

**Point #5: The plan is not perfect in anyone's subjective estimation.
Tweaks are fully appropriate.**

State/local worker provision:

-- Mostly superfluous to fiscal sustainability, unintended consequences likely for struggling state/local plans

Early benefit claim provision:

-- Complexity, potential for misapplication, likely unnecessary

Fails to correct large net benefit losses for younger generations:

-- (though probably does about as well as possible within pay-go financing)

Fails to correct skewed program work incentives.

Point #6: Beyond enacting the proposal as is or modestly tweaked, fundamentally different alternatives are undesirable or impracticable.

There are essentially three alternatives to approving/tweaking:

- 1) Attempt to move a package shifted qualitatively to the left.
- 2) Attempt to move a package shifted qualitatively to the right.
- 3) Further delay; no comprehensive solution enacted in the near term.

All of these options offer less promise than Simpson-Bowles.

A solution qualitatively to the left is not likely a viable option now.

- Would require substantially more revenues than Simpson-Bowles.
- Overrides concerns of center/right with respect to growing cost burdens.
- Introduces Hobson's choice:
 - Higher tax burdens to pay benefits to higher-income workers?
(Inefficient; difficult to justify)
 - Higher tax burdens to increase low-income worker benefits still more?
(Severs contribution-benefit link for large numbers)

A solution qualitatively to the right is not likely a viable option now.

- Would require constraining benefit growth more than Simpson-Bowles.
- Mirror image of left's Hobson's choice:
 - Lessen benefit protections for low earners?
(Offers less income security than Simpson-Bowles)
 - Constrain benefit growth for high earners still more?
(Severs contribution-benefit link for large numbers)
- Could also bring personal account debate back onto table.

Delaying a comprehensive solution is the worst possible outcome.

- Takes millions of Baby Boomers out of potential solution.
- Increases size of revenue/benefit adjustments facing younger generations.
- Eventual package would have either higher tax burdens or fewer income security protections for affected cohorts – most likely both.
- Increased risk that no solution can be enacted (long-term problem is already larger than that resolved with difficulty in 1983).
- Whether viewed from left or right, significant delay is a much less attractive option than Simpson-Bowles.

Summary

Simpson-Bowles would:

- stabilize Social Security finances (under current projections)
- strike a reasonable balance between revenues and cost containment
- enhance protections for low-income workers
- honor the highest priorities of left and right
- require left and right to make concessions to each others' concerns
- employ well-considered cost-saving provisions
- be improved with further tweaking
- unlike packages far to left/right, offer greater potential for enactment
- provide workers with a strengthened Social Security system