

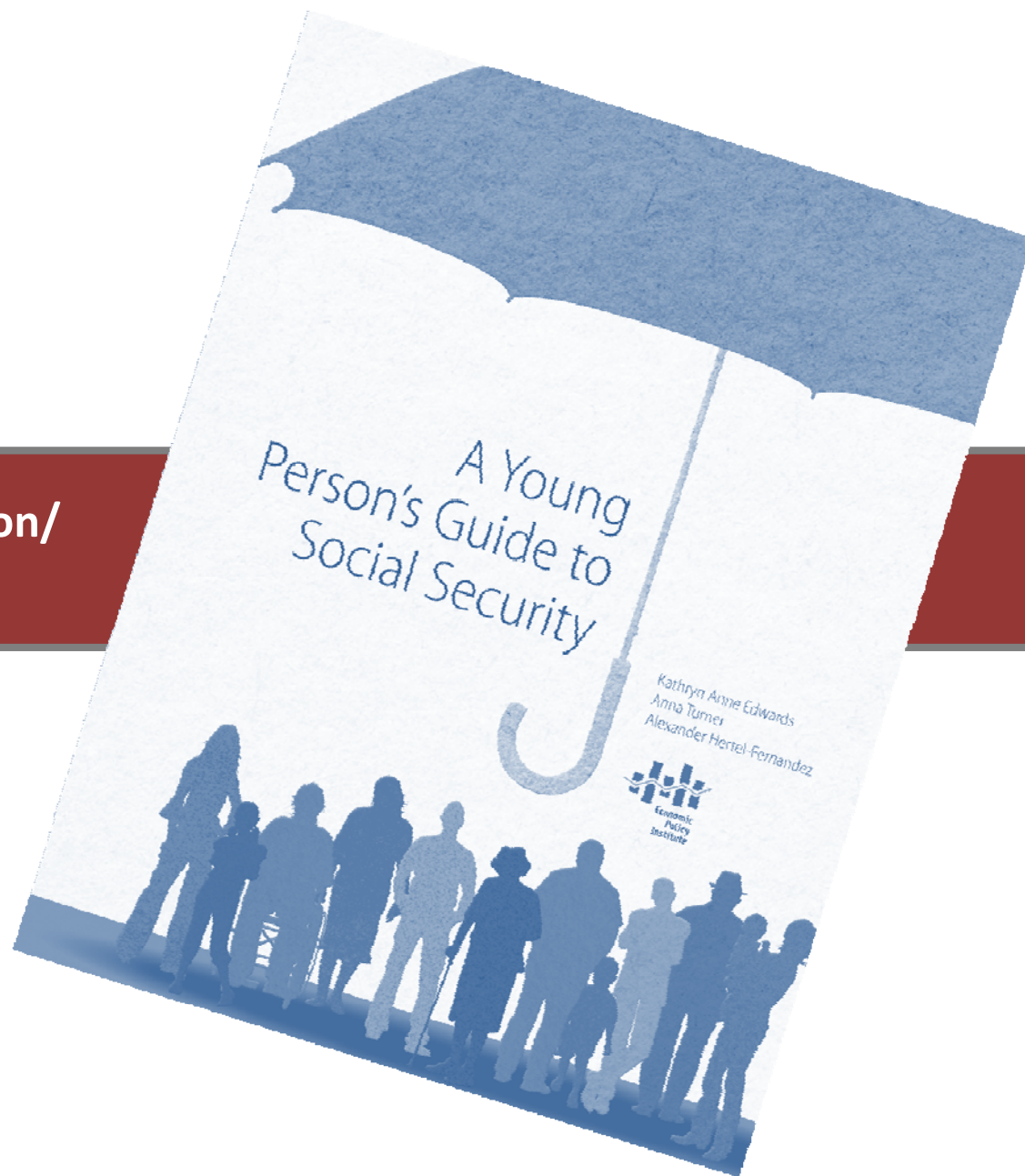
# Young People and Social Security Reform: What is at Stake? What Are the Options?

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[http://www.epi.org/publication/  
socialsecuritytextbook](http://www.epi.org/publication/socialsecuritytextbook)



# Outline

- What role has Social Security played in the past?
- What is the young adult stake in the program?
- What role do we want Social Security to play in the future?

# Something to keep in mind...

- Policy should ultimately reflect our values and priorities: **what kind of society do we want to live in?**

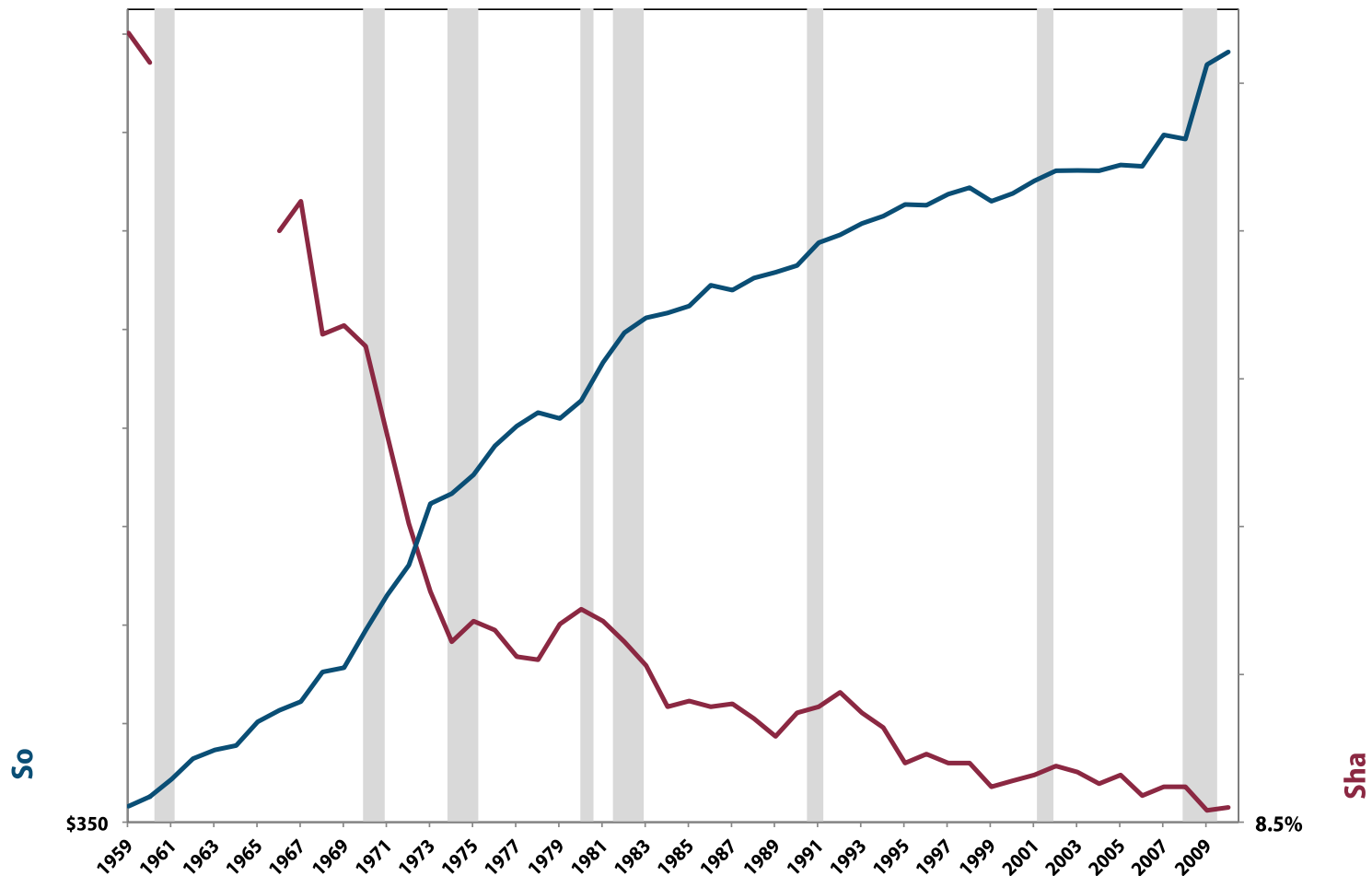
# Social Security's Role: Senior Independence

- Social Security created the possibility of retirement and senior independence, especially for lower-income seniors
- This has helped families as a whole – grandparents, parents, and children alike

# Social Security's Role: Social Insurance

- Why might (social) insurance be preferable to private insurance or private savings?
  - **Unpredictable and large risks**
  - **Society-wide economic risks**
  - **Protections against a wide variety of risks**
  - **Universal coverage**
  - **Equity and redistribution**
  - **Low administrative costs**
  - **Guarantee of persistence over time**

# Social Security's Role: Reducing Poverty



# Social Security's Role: Reducing Poverty

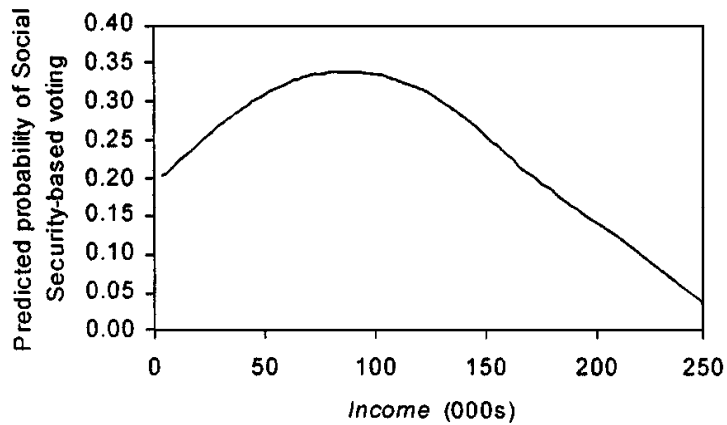
- Social Security's poverty reduction isn't limited to seniors: benefits flow to surviving families and families with a disabled worker, including children



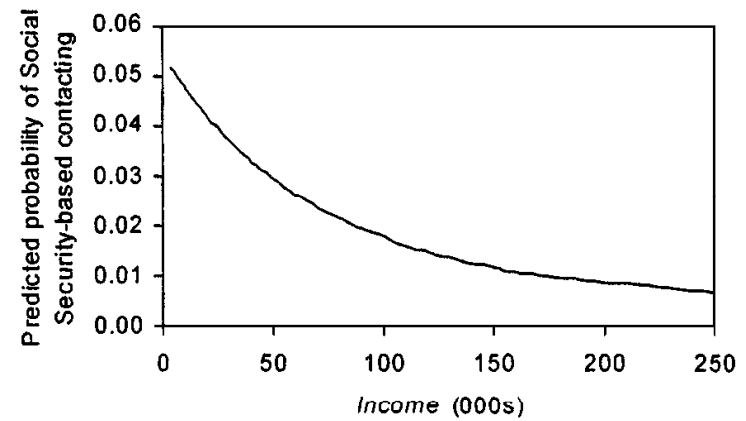
# Social Security's Role: Political Empowerment

- Social policies are not just tools of economic planning: **they also shape citizens' identities and resources**
- Social Security has been **a major source of political empowerment** for its recipients

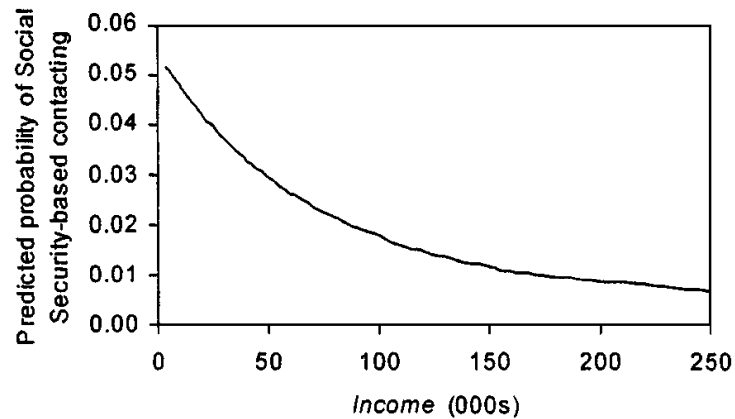
# Social Security's Role: Political Empowerment



a. Social Security-based contacting



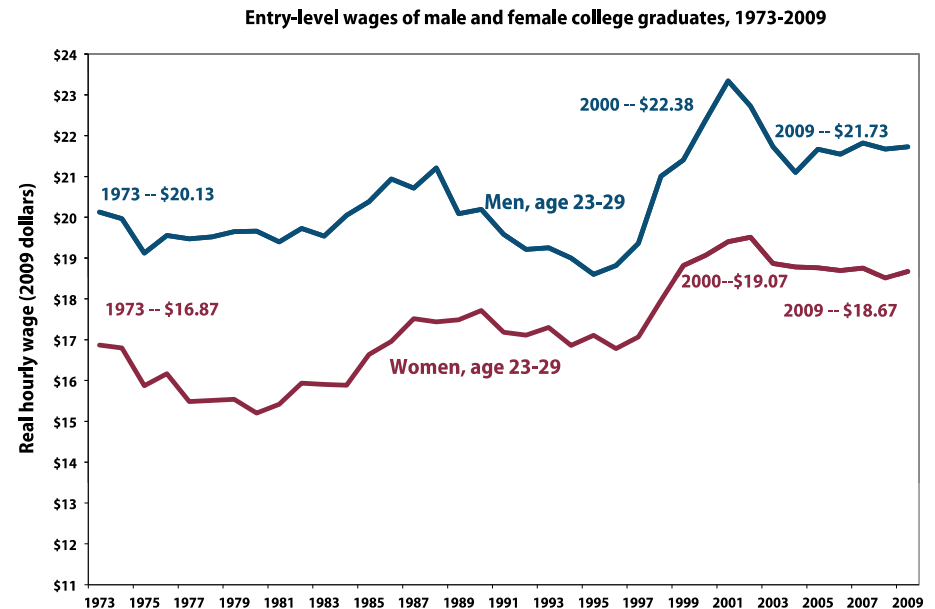
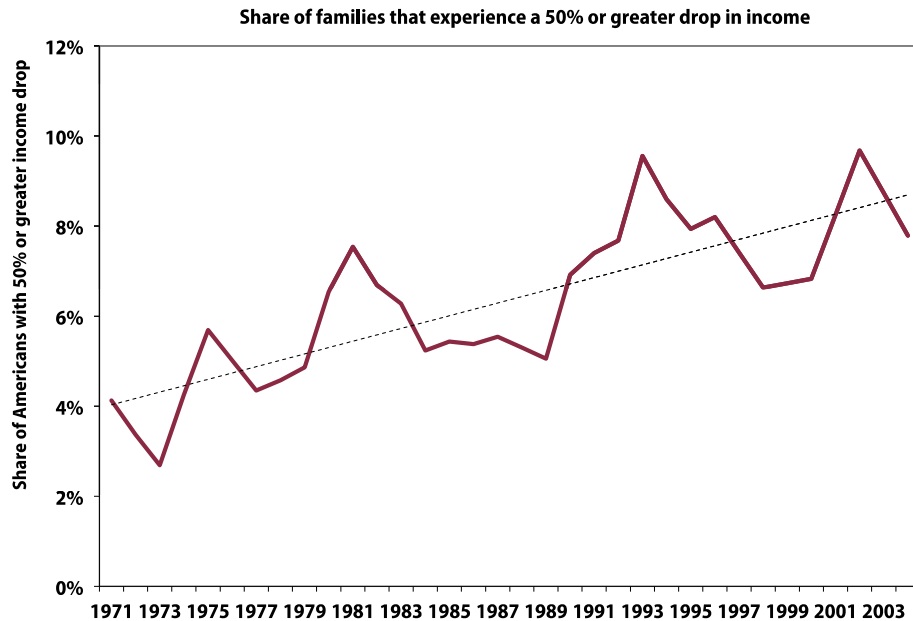
a. Social Security-based contacting



# Young People's Stake: What Has Changed?

- We are coming of age in a **new economy and labor market**
- There are **new and intensified sources of economic risk** that may make us *more* reliant on Social Security compared to past generations

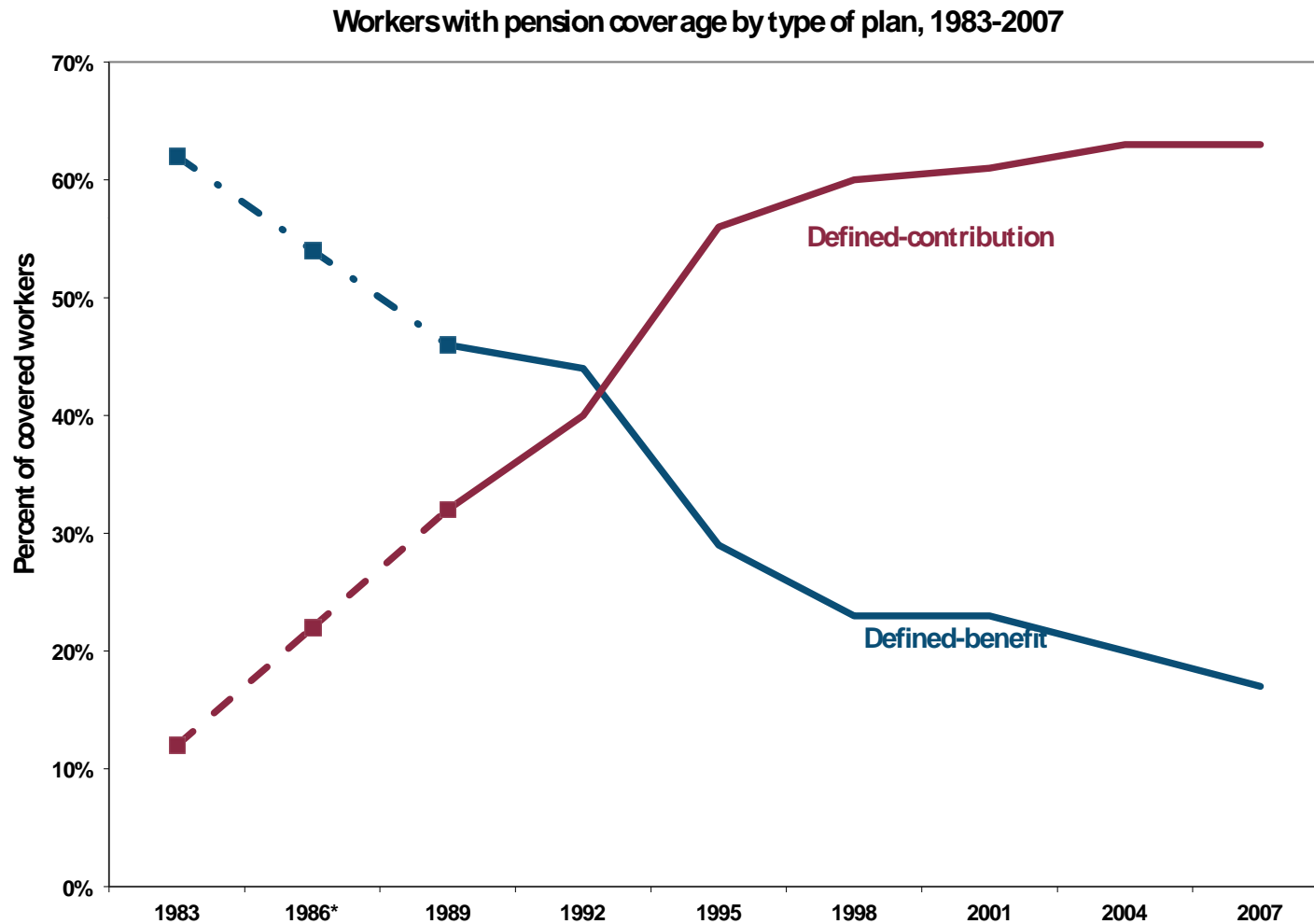
# Young People's Stake: Two Worrying Income & Wage Trends



# Young People's Stake: The Scars of the Great Recession

- The Great Recession is going to **lower our wage trajectories for years to come**
- It also shows just **how quickly a downturn can wipe out years of wealth building**

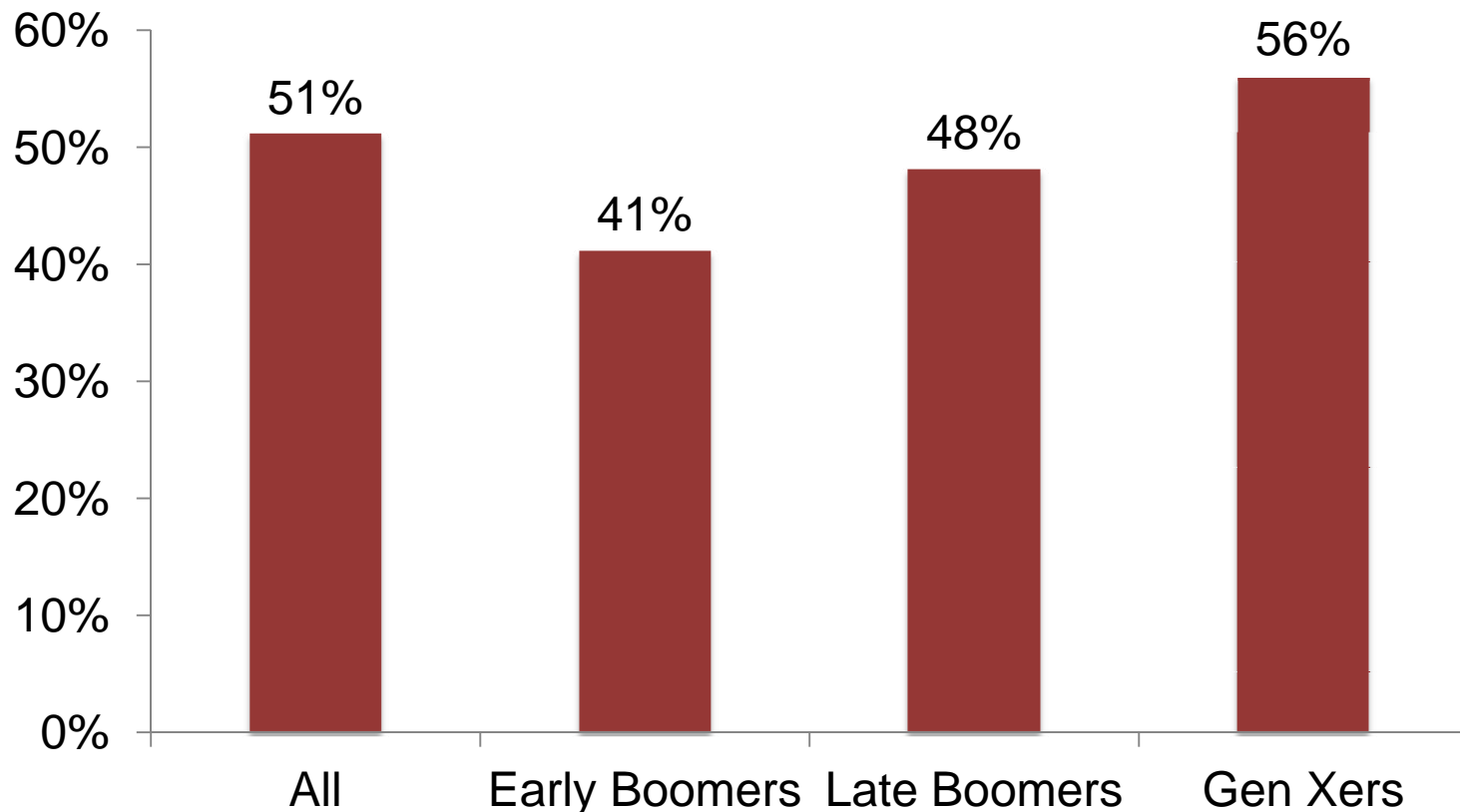
# Young People's Stake: The "Privatization of Risk"



State of Working America, 2011.

# Young People's Stake: Adding it All Up

**Share of Households 'At Risk' by Cohort,  
2009**



# Young People's Stake: What Does the Polling Say?

- Support for increasing benefits roughly even across age groups
- Consistent with historical polling
- Raising the taxable wage cap, for example, is strongly supported by young adults



# Conclusion

- When we are considering changes to Social Security, we need to be mindful of our broader values and priorities: **what kind of society do we want to live in?**
- We need to weigh the role Social Security has played in the past and what roles we want it to play in the future

# Young People and Social Security Reform: What is at Stake? What Are the Options?

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Other Slides

# Social Social Security Reform: What are the Options?

- We need to keep the following factors in mind as we consider reform:
  - Social Security benefits are very modest
  - The majority of beneficiaries rely on Social Security for most, if not all, of their income
  - Social Security is often the only source of inflation-adjusted income for retirees that they cannot outlive (e.g. contrast with 401ks)
  - We have already cut benefits through an increase in the retirement age and rising Medicare premiums
  - Poor health remains a significant obstacle to employment for many older Americans
  - Gains in life expectancy have not been distributed equally, with lower-income individuals benefiting much less
  - Social Security is not a major contributor to our mid- and long-run fiscal imbalances

# Social Social Security Reform: What are the Options?

- In light of these considerations, we need to be sensitive to benefit adequacy, as well as long-run fiscal balance: **reform should improve both benefit adequacy and solvency**
- Balanced plans exist (see e.g. NASI report, People's Commission) that accomplish both goals

# Social Social Security Reform: Benefits are Modest (2012)

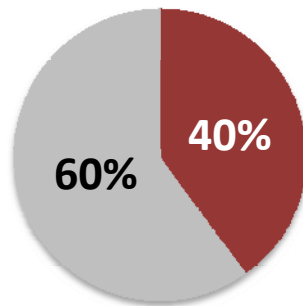
|   | Average Monthly<br>Benefit | Average Yearly<br>Benefit |
|---|----------------------------|---------------------------|
| <b>By Beneficiary Type:</b>                               |                            |                           |
| Retired workers   | \$1,230                    | \$14,760                  |
| Disabled workers  | \$1,110                    | \$13,320                  |
| Aged widow or widowers                                    | \$1,185                    | \$14,220                  |
| <b>By Family Type:</b>                                    |                            |                           |
| Retired worker and aged spouse                            | \$1,997                    | \$23,964                  |
| Widowed mother and two children                           | \$2,487                    | \$29,844                  |
| Disabled worker, young spouse and<br>one or more children | \$1,878                    | \$22,536                  |

# Social Social Security Reform: Benefits are Essential

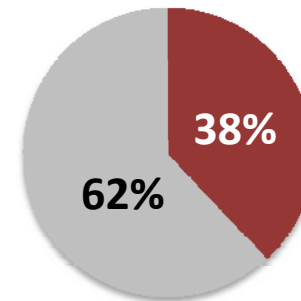
- **Nearly 90%** of people 65 and older get Social Security.
- **Nearly 2 in 3 (65%)** get half or more of their income from Social Security.
- **About 1 in 3 (36%)** get almost all (90% or more) of their income from Social Security.

# Social Security Reform: Most Elderly Don't Have Pension Benefits

**All Age 65+**

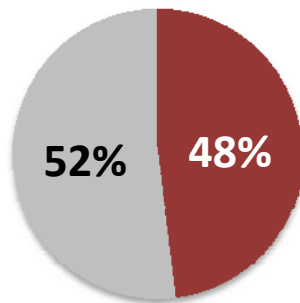


**Unmarried Men**

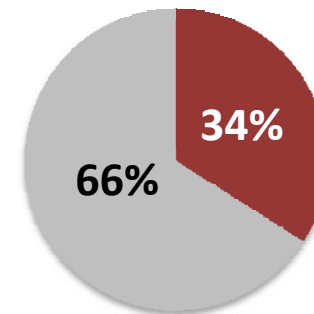


■ Pension  
■ No pension

**Couples**

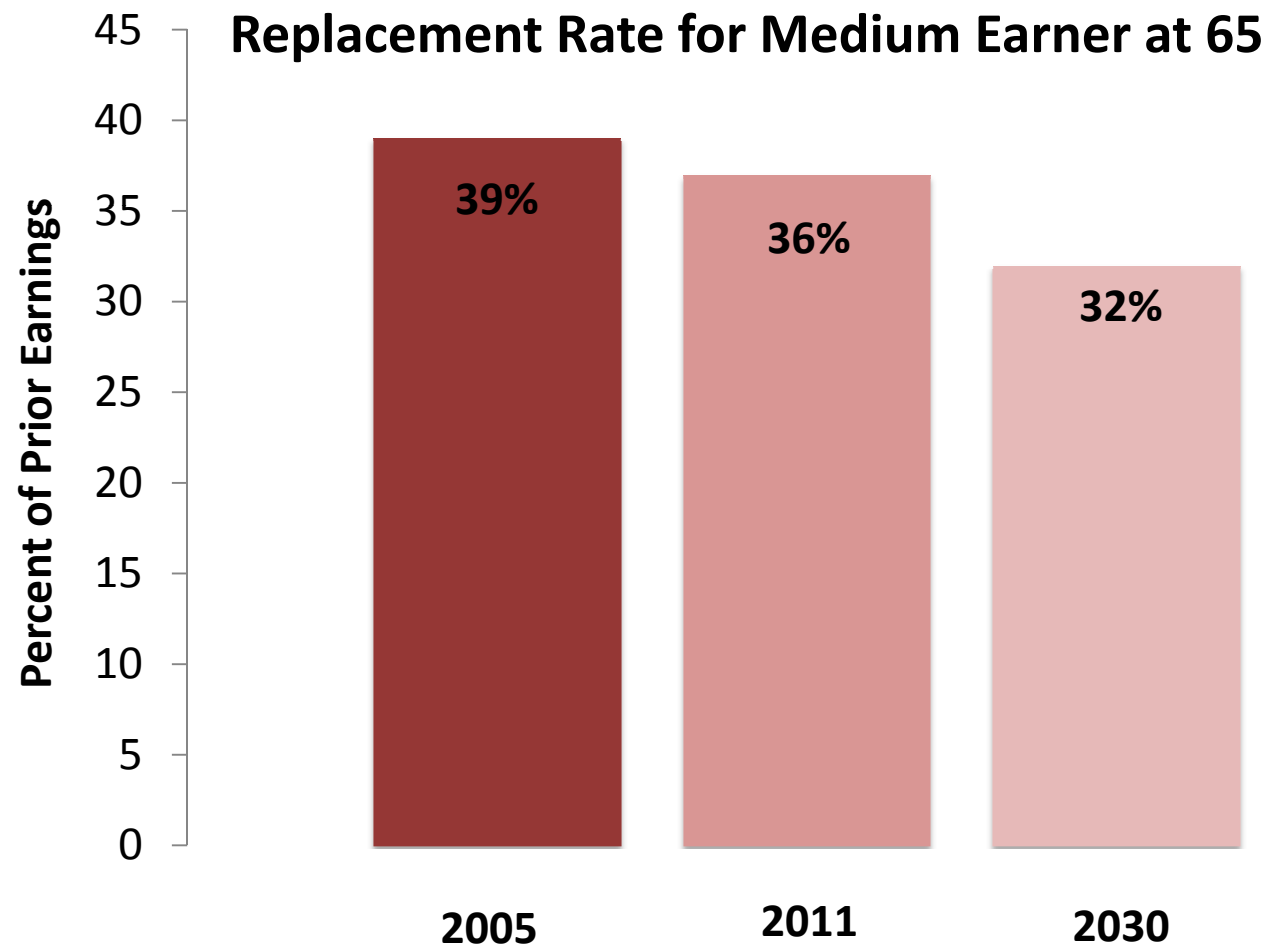


**Unmarried Women**



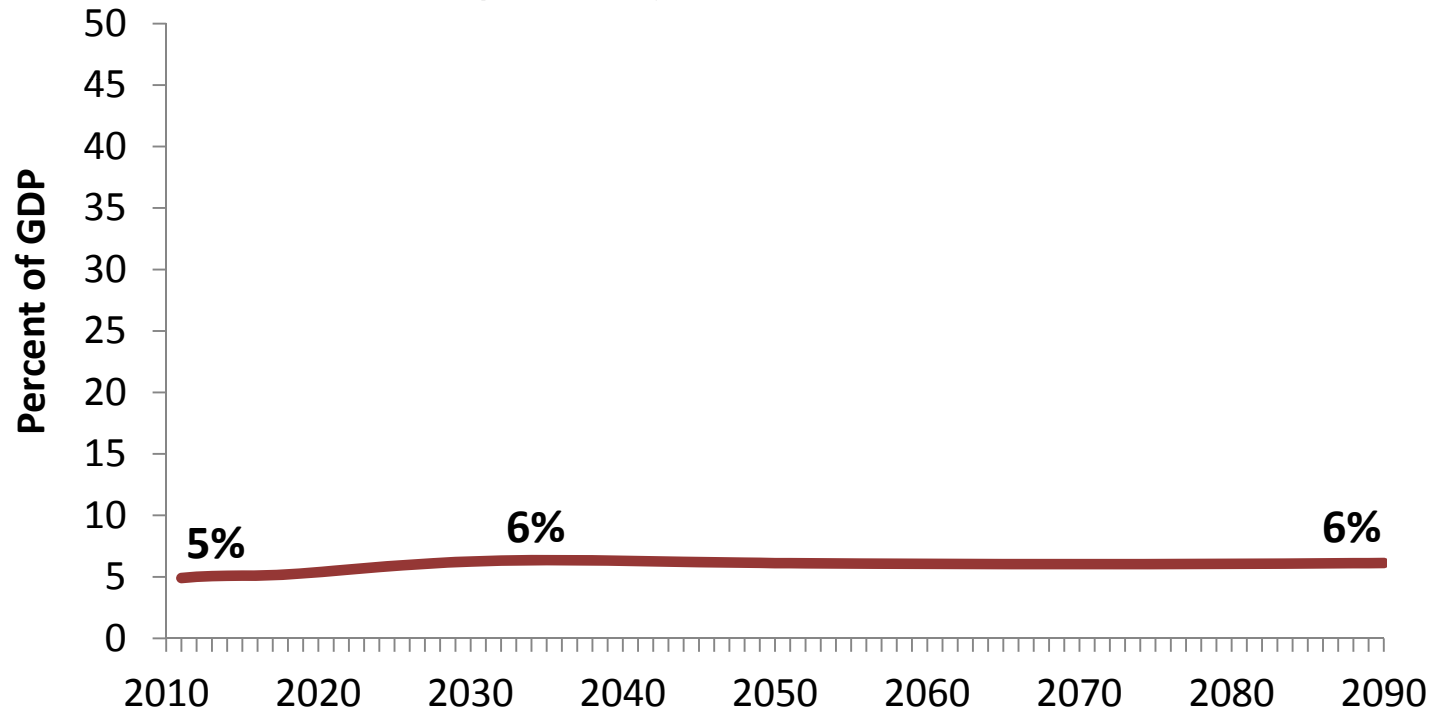


# Social Social Security Reform: Benefits Are Already Being Cut



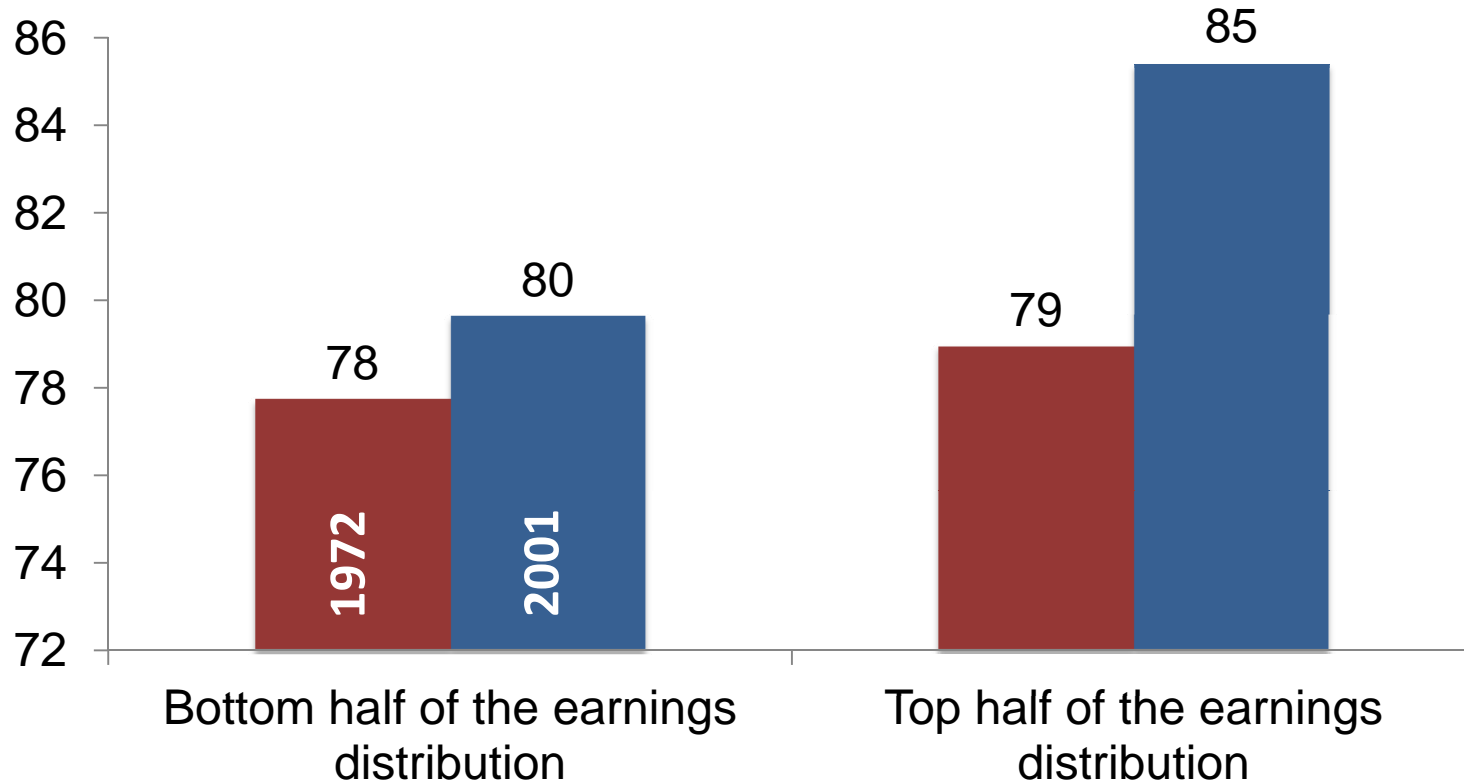
# Social Social Security Reform: Social Security is Affordable

## Social Security as a Percent of the Economy (GDP), 2011-2090



# Social Social Security Reform: Gains in Life Expectancy Not Evenly Distributed

## Social Security-Covered Male Earners' Life Expectancy at Age 60



## Social Social Security Reform: What is Driving Demographic Changes?

- Increases in life expectancy are **not** driving the decline in the worker-to-beneficiary ratio – it's a decline in the birth rate
- *“Because the large shift in the cost of OASDI over the next 20 years is not due to increasing life expectancy, **it is not clear that increasing the [normal retirement age] should be the principal approach for restoring long-term solvency.**” – Stephen Goss, Social Security Actuary*

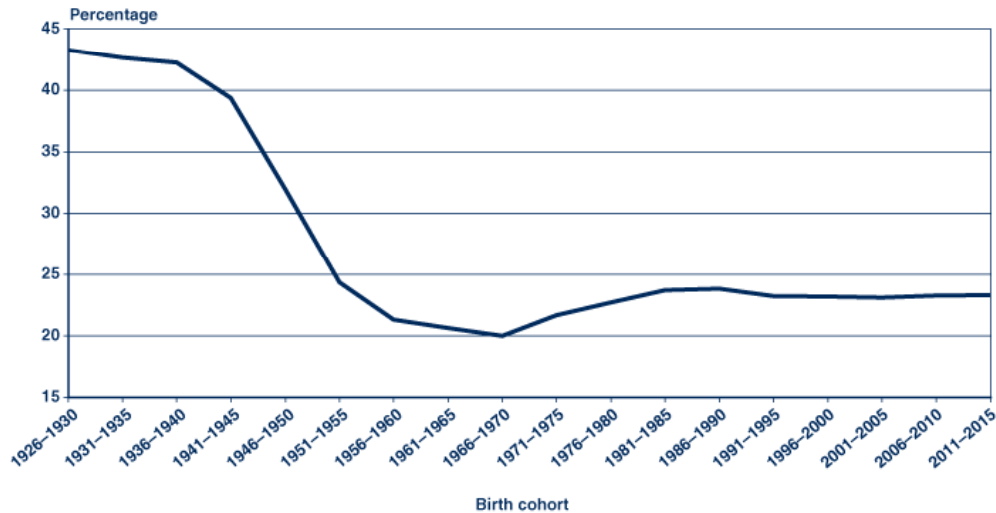
## Social Social Security Reform: Many Elderly Cannot Work Longer

- **20% to 30%** of elderly Americans in their 60s have a health problem limiting their ability to work or perform basic physical tasks (Morrissey and Kingson 2012)
- **45% of workers aged 62-65** have physically demanding jobs or work under difficult conditions (64% of 60-61 year olds had jobs that were physically demanding at least some of the time) (CEPR 2010)
- **Caregiving responsibilities and difficulty with reemployment** also hinder movement into the labor market

## Social Social Security Reform: What about Hardship Exemptions?

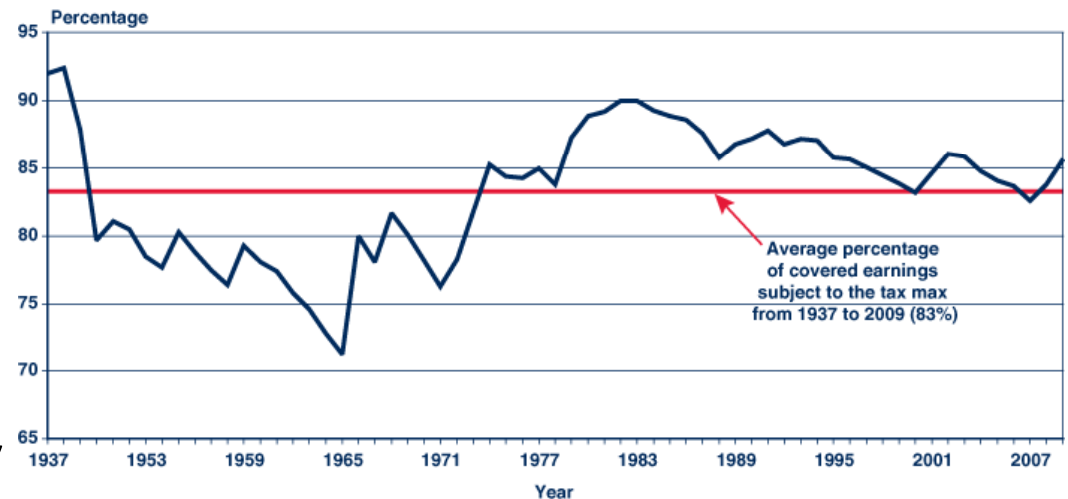
- Offsetting the impact of a retirement age increase with hardship exemptions would likely be expensive, removing much of the cost advantages from raising the retirement age
- Bowles-Simpson plan likely too restrictive
- Other measures that are needed: extension of unemployment benefits for older workers, health insurance for near-elderly (ACA?), stronger age discrimination enforcement, SSI liberalization for low-income disabled

# Social Social Security Reform: Wage Inequality is a Cause of Imbalance



*The share of individuals who earn more than the taxable wage maximum **has not increased...***

*...but **the share of covered earnings has declined**, a result of higher earnings above the maximum. **Raising or eliminating the cap would substantially improve finances**, though we have to consider how to count towards benefits.*



# Social Social Security Reform: New Indexation Measures?

- **The “chained” CPI** is a price index that better takes into account substitution of goods. It grows more slowly than the original index. As a result, adopting the chained index would slow benefit growth.
- Why adopt the chained index? We have to be clear about goals – to cut benefits or improve measurement?
- We also have to think about the capacity of the elderly to change what they buy in response to inflation
  - Most elderly are low-income and have lower expenditures than other households
  - Most purchases by the elderly are for necessities



# Social Social Security Reform: New Indexation Measures?

- **There are other, more balanced ways of achieving long-run solvency**
- If legislators are to adopt the chained measure as part of a broader deficit reduction initiative, certain precautions should be taken:
  - Increases in Social Security benefits to shield the elderly (especially the very old), who are less able to adjust their purchases
  - Shield SSI and other very vulnerable populations
  - Apply new index to both tax code and benefits

<http://www.insightcced.org/>



# Social Social Security Reform: What Options Would Increase Adequacy and Solvency?

## Revenue Options

Gradually increase payroll tax by one percent over 20 years

Eliminate cap but count earnings towards benefits with flatter formula

Cover all new state and local workers

Treat salary reduction plans like 401(k)s

## Adequacy Options

Increase benefits by a uniform amount at age 85

Pay widowed spouse 75% benefit with 'average earner' benefit cap

Provide five years of dependent care credits at half of average wage

Update special minimum benefit to 125% of FPL at full benefit age, index

Reinstate benefits for student children of deceased and disabled parents

Administrative fixes