

Social Security and the Poor

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Document date: December 23, 2000

Released online: December 23, 2000

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It is tempting for to assess the modern debate over Social Security by what proposed changes will do for each of us personally. But many people, if not most, want a more principled approach to considering what, if anything, needs to be reformed. To these I suggest that there is a solid civil and moral basis for applying as the primary principle how effectively the program takes care of the poor. The civil basis has its roots in the program's history. The old age program was established in 1935 largely because the elderly had significant needs and were poorer than other age groups. Few wanted a society in which those worse off were abandoned—thus justifying the transfers from young to old that has formed the core of the system ever since. This emphasis is at the same time in harmony with the moral imperative of a "preferential option for the poor," as proclaimed by the Catholic Church and in different words by preachers from other faiths.

What a program does for the poor, of course, is not the only criterion by which to judge it: such principles as efficiency and equal justice must also be considered. But when it comes to Social Security, none of these others attains the same lofty status. Indeed, the most common statistic cited in support of the program is the decline in poverty rates among those 65 and older from 35.2 percent in 1959 to around 9.7 percent today. Let us then apply this yardstick along several dimensions to the Social Security and see how it measures up. The results might surprise some people:

First, if one is concerned about poverty among the elderly, then the elderly budget needs to be reoriented more to the older of the elderly—those who are 75, 80 or older. These are the ones more likely to be poor. Second, poverty among children and some other age groups are higher than among those in their 60s and early 70s, calling into question Social Security's automatic budgetary claim to more years in retirement and ever higher levels of benefits for each future generation of retirees. Third, although it will not be easy, Social Security reform might extend into private pension reform in a way that could expand property ownership among those who are poor when poverty is measured by private wealth rather than simply income. Finally, Social Security family benefits—those available only to spouses, survivors and some divorced persons—must be redesigned because they discriminate against an increasingly large and vulnerable group: single heads of household raising children by themselves, as well as some other low-income single persons, who have no access at all to these family benefits.

Helping the Truly Old

The older among the aged tend to have lower income and less capability of supporting themselves than those in their 60s or early 70s. Still, every year Social Security itself pays each new group of retirees higher levels of benefits than those poorer persons who preceded them into retirement. Private pensions not only tend to do the same but often provide lower benefits over retirement years because they are not adjusted for inflation. Thus, over a 20 or 30 year retirement, it is common for retirees to see their private pension benefits fall by one-third or one-half or more. The older among the old are also less likely to have spouses available to help them when they are most frail, which can reduce substantially their ability to meet their own needs.

Like many nations, the U.S. has undergone a dramatic drop in birth rates. The consequence is that soon a much larger proportion of the population is going to be in the last years of their lives. In effect, fewer young people mean a larger proportion of old people. The baby boomers hid the impact of this development on retirement systems as they swelled the working age population, but the day of reckoning is at hand. The oldest members of this cohort will turn 65 before the end of the current decade. More importantly, a couple of decades later there will be a dramatic increase in the percentage of the population that is likely to be in their last years of life.

Few reform proposals prepare for this contingency. Yet Social Security's original purpose was largely to help those who were old and most likely to need help. Sticking with this fundamental goal likely means that more resources are going to be required for those who are very old, especially as their numbers swell in the

not-too-distant future.

Poverty Within All Groups

A corollary of a preferential option for the poor is that money to combat poverty should be spent first where it marginally does the most good. Children and the very old are among society's poorer groups, but such is not true of those in their 60s and early 70s. This latter group also has higher average levels of assets and consumption than other age groups combined, and the rate of growth of its consumption is higher.

The dictionary defines "old" as being in the last years of one's life. Compared to when Social Security benefits were first paid in 1940, individuals on average now live about 5 years longer and retire about 5 years younger. By the dictionary standard, many people in their late 60s would be considered in middle age because on average they have close to a third or so of their adult lives remaining. Moreover, the constant expansion of years of retirement has actually reduced the percent of the Social Security budget available to the older and poorer of the elderly.

Whereas in 1960 a typical elderly couple could expect about \$100,000 in lifetime government benefits (adjusted for inflation), today it can expect in excess of \$500,000 in lifetime benefits—about half in Social Security and half in Medicare. And the amount keeps growing in real terms. This forces us to confront some choices. For example, is an 18th year in retirement on average more beneficial than, say, additional payments for education or to provide adult supervision for many young people when they are not in school? Is a 16th or 17th year in retirement more important than funds to provide work opportunities to the middle-aged disabled? As people live longer and longer—President Clinton recently suggested that someone born in 1998 might live to see the year 2100, should the costs of those additional years of life be borne by them or should they continue to pass increasing burdens onto younger generations?

Expanding Wealth Ownership

One of the most contentious of Social Security issues is whether individual accounts holding real assets such as stocks and bonds (not simply claims for transfers from other taxpayers) can be grafted onto the Social Security system. Both Presidential candidates in 2000 support some sort of individual account—one using some current Social Security tax revenues, one using income tax revenues. Without getting into the details of these proposals, both seem to be addressing another type of poverty gap—the very unequal ownership of societal wealth. In private pensions alone, only about half the population really receives much in the way of retirement support. Social Security reform, therefore, offers the possibility of expanding private pensions in such a way that the distribution of private wealth might be made more equal.

The road, however, is not well paved, and I suspect that reform here will not be solved by a single legislative enactment. Since holding real private wealth also involves market risks, the antipoverty yardstick requires an adequate back-up system that will support the elderly even when the private investments fail.

Family Benefits

Normally a program that provides higher levels of average benefits over time will simultaneously reduce poverty. Research at the Social Security Administration and the Urban Institute, however, now shows that these rising benefits are likely to be offset by another problem: the growing percentage of individuals who go into old age without the antipoverty protections offered by spousal and survivor benefits. Especially vulnerable here are those mothers raising children but who are single or become divorced after a few years.

Social Security spousal and survivor benefits are not designed as in private pension systems to be taken out of the worker's benefit. Instead, they are pure add-ons, adopted originally largely to protect women from poverty in old age. But now, they won't be there for many women. Some believe that these benefits are compensation for child raising, but, if so, they are poorly targeted. They go to individuals regardless of whether they raise children, the largest benefits are paid to those married to the richest spouses, and many who do raise children receive no benefit at all.

Confronting these issues will not be easy politically. One option that I have suggested is to create a much stronger minimum benefit that would be there to protect against poverty for all groups—whether low-income workers, spouses, single heads of household, or those who have bad luck with their private pension investments. But Social Security is out of financial balance for the long run, meaning that Congress is already facing the problem of who is going to pay to restore balance—much less who is going to pay to address these equity issues.

Today's political rhetoric largely simplifies Social Security into two ideological sides—those who want to protect the current system and those who want to "privatize" the system by encouraging more individual saving. Certainly there is something to be said for both sides: we don't want to lose the gains we have achieved, while at the same time more saving would likely help those in the future, whether poor or not. But this simplification deters attention from many of the more fundamental issues we have raised here.

A rigorous antipoverty focus would take us in at least four directions: more concern for the older and poorer of the elderly; less insistence on the right of individuals to spend one-third or more of their adult lives in retirement when there are other important societal needs to be met; a renewed attention to expanding private wealth ownership, especially private pensions; and reform of Social Security family benefits so that these transfers are concentrated more on those in need, especially the growing number of single heads of household. If reform moves in these four directions, then poverty rates are likely to fall in the future regardless of what other reforms are undertaken at the same time.

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