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Whichever Way We Go, Some Get Left Behind

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Social Security's original mission was to protect society's most vulnerable from poverty. Figuring out who needs protection and how much of it, however, is not so simple.

Every idea for altering the Social Security system threatens to upset the economic calculations and political equilibrium behind the program. And that's why President Bush is quickly running into opposition for proposing to change Social Security at all. Two-earner vs. one-earner households, those who live long vs. those who die young, married vs. divorced, early retirees vs. late, high earners vs. low—the benefits paid to these groups and their families vary and once the floor is open to recalibrating them, it promises to be a long debate.

Social Security was designed around the stereotypical family of mid-20th century: dad, stay-at-home mom and the kids. Yet more and more people live in households that don't match that model. And as Social Security has adapted to the new demographics of old age—or as it has failed to—some groups have been favored over others. Sometimes this makes sense, and sometimes it doesn't.

For example, a single head of household can work more, pay more in taxes and raise more children, yet receive less in benefits than a spouse who does not work, does not raise children and does not pay taxes. A two-earner couple could get $100,000 less in benefits over their lifetimes than a one-earner couple who had the same income. A person who gets divorced the day before his or her 10th wedding anniversary can lose hundreds of thousands of dollars in benefits that he or she would have received for waiting one more day. And divorcees are better off (at least in terms of Social Security benefits) if their spouses die.

Social Security is riddled with other anachronisms and oddities. The biggest is that the early retirement age has been set at 62 ever since 1961, without any adjustment for rising life expectancy. As a result, ever-larger shares of total benefits go to people who have probably another 10 or 20 years to live. If people today were to live in retirement for the same number of years as they did when Social Security was young, they wouldn't start receiving benefits until their early seventies, not 63, which is the average retirement age today. Thus, Social Security has morphed into a middle-age retirement system even though the very old have greater healthcare needs, can work less, and are more likely to have no spouses to help out.

That's why those Bush foes who insist on protecting the Social Security program exactly as it is are misguided. By the same token, Bush has not made the original Social Security mission—protecting the vulnerable—his primary one. The president has focused instead on giving Americans "ownership" over their retirement benefits by creating private accounts, which simply give back the most to those who pay in the most.

The Social Security program was never intended to treat everyone equally. And it currently redistributes income in five major ways:

- From richer workers to poorer workers through a progressive benefit formula that provides higher returns to the first dollars of worker earnings and lower returns to the last dollars. Social Security's formula provides a benefit equal to 90 percent of former earnings to those with very low incomes, but only 40 percent to those with average earnings.
- From shorter-lived groups (such as men, African Americans and the less educated) to longer-lived groups (such as women and the highly educated) through annuities whose value depends upon life expectancy. Social Security prudently pays benefits in installments rather than lump sums, to ensure that retirees don't outlive their income.
- From singles to married couples (and from higher earners to lower earners within couples) through spousal and survivors' benefits, paid as a pure transfer without any additional contributions required;
- From the healthy to the disabled, through disability benefits; and from later generations to earlier ones. Earlier generations paid in at lower rates, yet receive benefits related to their prior earnings (rather than, as in private insurance, their actual contributions).

Like other public programs, Social Security will have winners and losers if its rules are rewritten. But when Lee Cohen, a Social Security Administration economist, Adam Carasso of the Urban Institute and I studied the numbers, we found that some widespread assumptions about who is hurt and who isn't are wrong. For instance, though Social Security is perceived as progressive, blacks don't get much better rates of returns (in the form of benefits) on the taxes they pay during their lifetimes than whites. Nor do high school dropouts fare better than the college educated. In both cases, shorter life expectancy for the poorer groups offset the Social Security formula's tilt in their direction. Women do gain relative to men, but those gains, rather than going where they are most needed, are concentrated among low- or non-earning women who marry richer men.

The public's devotion to protecting the vulnerable has diminished even as the cost of programs for the elderly have expanded. Indeed, the federal government now spends $1 trillion on the elderly every year—about one-half of all federal domestic spending apart from interest payments on the national debt.

There is hope buried in this irony. With spending at this level, it is possible to design reforms—even those that cut the growth rate of future benefits—that would do a better job than current law does in protecting the elderly, disabled and survivors against poverty.

For instance, giving the truly old and those with lower lifetime incomes a greater edge in the Social Security system wouldn't be hard. A solid minimum benefit of about $9,000 per person (roughly the poverty line) could be provided easily, especially if concentrated on the later part of old age. This minimum could rise with wages or living standards, even if the benefits for higher earners grew more slowly. Similarly, if we increased the early retirement age, beneficiaries would be in the system for fewer years—raising revenues because workers would contribute longer and allowing higher annual benefits since payments would be needed for fewer years.

Benefits could be adjusted actuarially so that lower amounts are paid when people are in their sixties and higher amounts as they age. Meanwhile, to help cover the costs of these higher benefits for lower-income people, higher-income workers could be required—just as holders of private retirement accounts are—to cover some of the costs of any survivor benefits.

With any proposal aimed at protecting the elderly, solid testing and assessment are required. Currently, the government does not make public the information needed to measure Social Security's effectiveness as an anti-poverty program for the elderly against proposed alternatives.

The seemingly straightforward goal of protecting the most vulnerable first and foremost has been muddled in the recent Social Security debates. The right argues that personal accounts are fairer to blacks and those with less education because these people die younger on average and otherwise can't spend their retirement money freely before their time comes. The left, meanwhile, insists that the retirement age can't be increased for the same reason: It's unfair to the poor, who are less healthy and more likely to hold physically demanding jobs.

Both arguments share the same flaw—the assumption that the fairness and effectiveness of the whole system can be judged by looking at a specific provision or particular set of losers or winners. Parents with two children may give more time to the younger and more food to the older, but that doesn't mean that the kids are being treated unfairly.

So it is with Social Security. Yes, giving more benefits to those who live to age 90 than to those who live to 80 favors healthier groups in the population. But lower-income groups with shorter life expectancies can be compensated in other ways, such as a good minimum benefit. Sound Social Security must be measured by how the system as a whole delivers.

Consider personal accounts in view of Social Security's original mission. Would these accounts protect the poorest elderly? By themselves, no. In general, personal accounts do not redistribute: What people get back depends on what they put in. Moreover, under any system of personal accounts, people will have to buy some annuities to meet their needs should they live to a very ripe old age. Yet, that requirement also plays favorites, this time to people who live longer.

Making protection of the vulnerable the first order of business does have a cost. It means less—whether lower benefits or higher taxes—for those of us who are not as likely to be poor. But if that seems threatening, remember that Social Security benefits are already equivalent in value to about a $400,000 401(k) plan for the average-income couple retiring today. Add in Medicare, and the total package of benefits for a couple is projected within less than 25 years to exceed $1 million.

With benefits soaring this high, Social Security reform should not be mainly about enabling the average American to retire in middle age, pay little tax and avoid saving. Rather, changes should aim to keep necessary sacrifices manageable while demanding fewer transfers from our children to us and more from them to our grandchildren. Social Security's creators believed the system should keep the wolf from the door at the end of life. Any system that does that helps reassure us all since none of us knows whether we will outlive our good health—and our money.

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