

RESEARCH SUMMARY

Generational Equity and Social Security Financing Reform

Social Security’s trustees first reported current program underfunding in 1992, and since then virtually every annual trustees report to Congress has urged policymakers to address the financing gap before the remaining funds are depleted. In spite of this, to date no meaningful action has been taken.

In “Generational Equity and Social Security Financing Reform” (published in the Summer 2017 issue of the *Journal of Retirement*), Sylvester J. Schieber, former chair of the Social Security Advisory Board, argues for including all generations in the necessary reforms.

Schieber’s thesis is that there is a conflict between the desire to shield current retirees from the cost of Social Security financing reform and the desire to make the program more progressive. Failing to include today’s elderly in addressing Social Security financing reforms would suggest that the system is rigged against younger generations.

CHALLENGES TO REFORM

Social Security is funded by payroll taxes—therefore, restoring fiscal balance will require an increase in future tax collections, a reduction in future benefit payments, or some combination of the two.

Two strong public sentiments are at play in most reform proposals that have been put forward to address the existing financing imbalance:

- Current retirees should be shielded from reform costs because they paid into the system and saved for retirement according to the rules that were in place during their careers.
- Many workers, especially those at low earning levels, are not saving at rates sufficient to meet their retirement needs, and Social Security should provide added retirement income security for these workers—so they deserve special consideration as reform options are considered.

The paper’s examination of the expected effects of a recent reform proposal from the Bipartisan Policy Center reveals problems with shielding current and soon-to-be retirees from the cost of reform while also pursuing a more progressive Social Security system.

- The benefit reductions workers will experience, combined with the increased taxes required to reform the system while maintaining current retirees’ benefits, would be equivalent to losing up to nearly two years of lifetime earnings for some workers. Rather than achieving equity between retirees and workers, this policy strongly favors current retirees.
- Many retirees and near-retirement workers have higher incomes than younger generations thanks to wage stagnation, and because older generations did not have to face the high healthcare and education costs that

today's workers do. The workers expected to shoulder the burden of reform to insulate retirees from harm, especially older workers, may not be any more equipped to incur the cost of reforms than retirees are.

THE CASE FOR GENERATIONAL EQUALITY IN REFORM

Including more generations in the necessary reforms will lessen the average burden on all affected.

- Current retirees and those near retirement age have benefitted from being insulated from reforms that policymakers have known are necessary for a quarter of a century. This long delay has increased the cost of eventual reform. Some of the benefits that have accrued to older generations because of the delays should be used to help finance reform.
- The goal of making the system more progressive is at odds with a policy of insulating high-income retirees from helping to pay for the cost of reform.
- Many other developed countries facing similar financing challenges with their retirement systems have limited cost-of-living adjustments for retirees with higher incomes, and similar policies should be considered here.
- Social Security benefits have been given special treatment under the federal income tax code, and should be taxed in a way more in line with tax-qualified retirement plans.
- These and other proposals that might modestly affect higher-income retirees are often conflated with the suggestion that benefits be reduced for all retirees, adversely affecting the income security of the economically vulnerable elderly. Other societies have been able to cut through the conflation—unwillingness to do so in the United States puts current younger generations and those not yet born at risk of much higher lifetime Social Security costs than anyone now participating in the system has ever faced.