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The Up hot
BY THE NUMBERS

We're Living Longer. That's Great, Except for Social Security.

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I wrote last week about rising life expectancy: Children born today will most likely live on average to their late 80s, well above the current average life expectancy of 79. You probably think of this as good news, and from most perspectives, it is.

But every rose has its thorn, and longer lives happen to create some problems for Social Security. As people live longer, they spend a larger fraction of their lives in retirement, collecting benefits.

As large government programs go, Social Security retirement benefits are extremely simple: The program takes money from working people and gives it to retired people. This simplicity is great in that it makes it easy to see the magnitude of the program's solvency problem: large, but manageable through modest adjustments that can take place over decades. Simplicity is a disadvantage because it means the problem can't be addressed through innovation; the military or the Justice Department might find ways to do more with less, but sending out a \$1,000 benefit check will always cost at least \$1,000.

For Social Security to be fixed, the program must take more money in, send less money out or both. So when overhaul options for Social Security get floated that aren't tax increases, you can usually assume they are fancy ways of saying "send less money out."

Consider, for example, a higher retirement age. This sounds like an alternative to lower annual benefits, but most Social Security beneficiaries experience it as a straightforward reduction in the annual benefit amount because they retire early. The full retirement age is 66, but people may start getting benefits as early as age 62 if they agree to accept a 25 percent reduction in their annual benefit. Under current law, the full retirement age is scheduled to rise to 67 by 2027, but it will remain possible to retire at 62; doing so will just mean taking a 30 percent hit to the annual benefit.

"Changing the full retirement age is just a benefit cut," said Alicia Munnell, an economist at Boston College who led the most recent Technical Panel on Assumptions and Methods, a body of experts assembled by the federal government's Social Security Advisory Board.

Ms. Munnell noted it would be possible to make people retire later by raising the minimum retirement age, but it would save very little money because the early retirement adjustments are pretty well designed to offset for life span. That is, forcing people to wait until 67 to collect wouldn't save taxpayers any more money than the 30 percent cut to the benefit at age 62 does. The real savings come from the benefit cuts, not from the number of years spent in retirement.

Changes to "indexing" are another oblique way to cut benefits. As part of his search for a deficit reduction deal earlier in his presidency, Barack Obama offered to link Social Security benefits to the Chained Consumer Price Index, an alternative measure of inflation that economists generally say is more accurate than traditional inflation measures. It also happens to be lower than traditional inflation measures, meaning if it were used for Social Security, benefits wouldn't rise as fast. As such, Chained C.P.I. is another version of "send less out."

The fact that Social Security overhauls can be reduced to simple arithmetic does not mean they all are equivalent. There are very important questions of fairness and efficiency about who will send what and who will receive what.

Consider two possible “take more in” approaches. Currently, Social Security is financed by a 12.4 percent tax on wage and salary income up to \$118,500. The long-term funding gap in the program could be closed by raising this tax by 2.9 percentage points, or nearly closed by keeping the tax rate the same and abolishing the cap. But raising the tax hurts the low earners, and abolishing the \$118,500 cap acts like a large tax increase on high earners.

The “send less out” solutions that focus on getting people to retire later hurt poor people in another way because people with higher incomes enjoy higher life expectancies.

“You’re essentially punishing low-income people for a problem they didn’t cause,” said Andrew Biggs, a retirement policy expert at the conservative American Enterprise Institute.

Mr. Biggs argues that older people’s choices about work are highly sensitive to changes in their after-tax wages; he notes that their participation in the labor force actually went up in the last recession, and he believes either changes to the minimum retirement age or an exemption from the payroll tax could cause more people to work into their mid- and late 60s, which would grow the economy. But as he notes, later retirement would have especially negative effects for lower earners with shorter life expectancies, so he says these changes should be paired with others that help low earners, such as a substantially higher minimum Social Security benefit.

That is, he’s proposing a suite of reforms that seek to add up to “send less out” without soaking the poor.

But Jared Bernstein, an economist at the liberal Center on Budget and

Policy Priorities, says that's too complicated for a simple program.

“There may be formulaic ways to fix the problems you create by raising retirement ages,” he said, “but I usually try to avoid policies that break something and then add complexities to fix what you just broke.”

What then? Well, there are the “take more in” options.

“I would certainly start on the revenue side,” Mr. Bernstein said.

The last time Social Security retirement benefits got a major overhaul, in 1983, it was a bipartisan compromise based on a combination of taking more money in and sending less of it out. It's a good bet that will be the ultimate resolution in the next round, too.

Correction: November 18, 2015

An Upshot article on Tuesday about the effect of longer life spans on the solvency of Social Security misstated the year that the agency's retirement provisions last had a major overhaul. It was in 1983, not 1985.

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