401(k)s Are Not a Substitute for Social Security

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This is an exciting time for U.S. retirement policy. Everyone — left, right, and center — recognizes that American retirement policy is out of date. According to the Global Pension Index, the U.S. ranks 19th out of 43 nations for best retirement income policies, barely ahead of poor nations such as Malaysia and Uruguay. Our score would be even lower if it weren't for Social Security.

American workplace retirement coverage is spotty, as employers are not required to provide retirement plans beyond contributing to Social Security; individual investors have inappropriate portfolios and they can spend retirement money before retirement.

The most common suggested fixes for these problems are another tax break for 401(k)s or IRAS, and more financial education, as proposed in the federal legislation Secure 2.0. But none of those tweaks will significantly improve retirement security.

The most important fix we can make to address American retirement insecurity is to expand and protect Social Security.

Why do I feel the need to make Social Security explicit? In introductory economics, we learned about *substitutes* and *complements*. Social Security and employer pensions are not substitutes — cutting one and getting more of the other does not leave you whole. Social Security is insurance while retirement plan accounts are private wealth.

You need Social Security insurance to cover disabilities, dependents, and living a long life. You need wealth to adjust your benefits according to your desired lifestyle, and to protect against early retirement and surprise expenses. Each program covers different aspects of old age. All workers need a solvent and adequate Social Security and a robust and efficient retirement savings plan. Both, not one or the other.

People who want to privatize or narrow Social Security — Andrew Biggs, the Cato Institute, and current Republicans, as made clear by *Los Angeles Times*columnist Michael Hiltzik — promote private accounts as substitutes for Social Security. But private accounts are not substitutes for Social Security. Republican Senators Mitt Romney of Utah and Marco Rubio of Florida view Social Security as a piggy bank. They propose funding a federal family leave program by cutting recipients' future Social Security benefits.

Expanding retirement income security makes sense now. Agendas to add revenue to Social Security and improve retirement accounts are complementary: each needs the other in order to work best.

Why Social Security is important

The U.S. retirement system is a patchwork of do-it-yourself programs and policies that leaves millions of workers without a stable and secure ways to save for retirement. At any point in time, more than half of the American workforce is not covered by an employer retirement plan. The system has a bedrock, however, that keeps it all from collapsing — Social Security.

Social Security is the most significant anti-poverty policy in modern U.S. history. In 2021 it lifted nearly 23 million people out of poverty, including 16 million seniors and another 7 million children and non-elderly adults who receive survivor's benefits and other payments.

Most recipients, nearly two-thirds of beneficiaries aged 65 or older, receive at least half of their total income from the program, complementing other sources such as employer wealth. About one-third of elderly beneficiaries receive 90% or more of their income from Social Security. Social Security is one of the few sources of income indexed to inflation, and protects tens of millions of older adults from falling standards of living.

Social Security benefits many aspects of society. Whereas retirement wealth is sharply unequal, Social Security significantly reduces inequalities. In recessions Social Security functions as an automatic economic stabilizer, providing steady income streams amid layoffs. Social Security's macro-stabilizing effect is important in smaller communities with older populations.

What Social Security needs

Social Security has a host of macro- and micro-level benefits, but it also has a long-term, too often misunderstood financing problem. Social Security's trust funds will be depleted by 2035, at which point beneficiaries may face projected benefit cuts of around 20%. But Social Security is not going "bankrupt," as some claim. And privatization schemes would only make retirement security worse.

Social Security does need more revenue. The most direct way to increase revenue is to collect more in payroll taxes, bringing the current rate of 12.4% (split evenly between workers and employers) in line with other developed countries by raising it by at least 3 percentage points.

Another easy fix would be to raise Social Security's earnings cap so that higher earners making more than $147,000 would contribute more to the system.

Expanding Social Security is necessary because even with its progressive formula, the program allows a high level of elder poverty. Congress should expand Social Security benefits to increase the Special Minimum Benefit up to 125% of poverty.

We are among many experts who propose opening up Social Security to allow workers to contribute more to strengthen the program. One plan is "catch-up" contributions — additional voluntary Social Security payments by workers 50 and older. Catch-up contributions would benefit high, medium, and low earners.

Increasing the normal retirement age is not a solution — it's a disguised benefit cut, as Nancy Altman of Social Security Works and member of the prestigious Social Security Advisory Board notes in her Senate testimony.

While working longer is an option for a privileged minority of older workers, a policy push to make people work longer is unfair to those who die sooner because of low income and wealth and the cuts will make the retirement crisis worse.

There are many policymakers who care for the elderly and Social Security —Representative John Larson and Senator Tim Kaine are but a few. My colleagues who contributed to this article, Owen Davis, Eva Conway, and Christopher D. Cook, look forward to their quick and innovative action to adopt modest, sensible measures to expand Social Security.