An Uncommon Argument Against Greater Savings

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Conservative commentator Andrew Biggs first started studying Social Security close to 20 years ago, beginning at the Cato Institute before moving to the Social Security Administration (SSA), where he spent five years.

By the end of his tenure at SSA, he ran the Office of Policy, eventually moving on to help pilot President George W. Bush's Commission to Strengthen Social Security.

"So yeah, it's been a long and sometimes tortured history, for sure," he jokes. "But I should say I have enjoyed the work and the people I work with. This is a pretty small and insular community working closely on these topics. There are some disagreements that can get pretty heated, but for the most part, people tend to get along and listen to each other's ideas."

Retirement and Social Security is "a great topic to work on," Biggs adds, "because it ranges across so many areas and because it is very direct and important to people."

Thinking back on two decades' experience, one high level comment Biggs makes is that a lot of people working on retirement issues take a lot of things for granted.

"For example, a lot of the time we talk about looking up to people in life who are willing to delay gratification—who can consistently put off the things they want today in order to better enjoy them tomorrow. And that's exactly what retirement savings is about, reducing your standard of living and your quantity of consumption today in order to benefit later in life," Biggs says. "In our industry, it is simply taken for granted that everyone should be saving more and that everyone should save as much as they possibly can. I think, frankly, a lot of this is just a simple morality play. You know, savings is good and it shows you have a good character, and therefore we should all save."

According to Biggs, more hard-headed analysis doesn't always say that everyone should be saving the absolute maximum they can for retirement at all stages of their life.

"You can point to a lot of examples where this is true," he says. "One of the clearest examples is if you are a lower-income worker and you expect to remain in that position for much of your working lifetime, and you expect to get a lot of your income replaced by Social Security. There are strong arguments to be made against building up a lot of private retirement savings, in that case."

Biggs says there are also cogent arguments to be made that many young people who are expecting to earn more in the future than they do today should prioritize other financial goals and immediate consumption needs ahead of retirement savings. Perhaps eliminating higher-interest debt or student loan debt should take precedence, or younger individuals with limited resources may prioritize buying a home in a way that makes more sense than starting to generate a retirement-specific investment portfolio.

"This is textbook economics," Biggs says. "We don't hear these arguments commonly because I think the rigor of analysis among many of the people who are out there telling everyone to save all they can all the time is, to put it mildly, lacking."

Biggs points to the fact that lower-income persons are often at real risk of falling into poverty and losing what financial stability they have.

"Why would you push an individual in this situation to start to save and put themselves into greater risk of actually being in poverty right now, when the data shows that, because of the progressive nature of Social Security, he or she has a lesser chance of being in poverty once they reach retirement?" Biggs asks. "It's one thing if providers or media commentators encourage everyone to save in a general way, but where this more cautious thinking becomes especially important is when we range into the territory of crafting and debating public policy."

Biggs goes on to make the argument that encouraging the lowest-income workers in the U.S. to contribute to auto-enrollment, state-run individual retirement accounts (IRAs) or even to private employer plans has something of a sinister underside. This is based on the fact that even small cash or retirement savings balances can bump lower-income people out of eligibility for supplemental benefits programs.

"It's something to consider," Biggs muses. "I have seen actuarial firms hired by state governments who have done studies showing these states that, if they implement auto-IRAs and there is X, Y or Z amount of take-up among low-income workers, here is exactly how much it is going to save you on Medicaid for retirees. The implication is that states will be able to means-test people out of benefits based on the dollars held in these savings plans. In turn, the individuals will see the state essentially force them to spend down those savings on their health care that otherwise would have been paid by Medicaid."

Once these dollars are spent, only then can the individuals get Medicaid and similar means-tested benefits.

"So in this sense, among the main beneficiaries of these state-run auto-IRAs will be the state governments' Medicaid systems, not the retirees themselves," Biggs concludes. "If I, as a conservative commentator, came out with the idea of these state-based auto-IRA plans, people would call me heartless. But instead, this approach is being framed by this thinking that it is always better for everyone to save more, all the time."

Biggs cites a series of papers from some Harvard economists as evidence for these conclusions.

“They looked at auto-enrollment for the federal Thrift Savings Plans, and they had access not only to savings balances but also to their credit reports. This would allow them to find out, how much does savings impact borrowing? What they showed was that the average participant is in fact saving more, but at the same time, the average debt has climbed by about 85% of the amount of the increased savings,” Biggs explains.

Interestingly, the Harvard study looks at credit card debt, auto-loan debt and mortgage debt, finding that mortgage debt represents a lot of the increase in debt measured. The authors believe this fact tempers the overall concern about the increase in debt, because mortgage debt is generally better than credit card debt, but Biggs tends to disagree, “because this could signify lower down payments rather than more valuable housing assets.”

According to Biggs, the data shows that for people with a high school education or less, this group saw additional debt due to auto-enrollment shoot up by three-times as much as the amount of additional retirement savings. And it’s not all mortgages. Credit card debt and auto-loan debt is equal to the amount of retirement savings they are doing.

“This result holds outside the Thrift Savings Plan, naturally,” Biggs concludes. “It puts the responsibility on governments and employers with workers who are in the lowest income brackets to ensure they are not falling victim to what seems like common sense thinking about promoting savings. Retirement programs should consider how Social Security will influence the income replacement of these workers. Ultimately, if we think there are too many retirees in poverty, we need to raise Social Security benefits for lower-income people. It won’t even be that expensive to do.”