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Should we act now or later to fix Social Security?

Participants in P&I round table disagree on timing of action

By **Doug Halonen**

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Experts participating in *Pensions & Investments'* round table on the future of Social Security disagreed over the urgency for repairing the system and just what the remedy should be.

Panelists were Nancy J. Altman, chairwoman of the Pension Rights Center; Dean Baker, co-director of the Center for Economic and Policy Research; David John, a senior research fellow for the Heritage Foundation; Virginia Reno, vice president for income security, National Academy of Social Insurance; Michael Tanner, a senior fellow at the Cato Institute; and Mark Warshawsky, a member of the Social Security Advisory Board, all of Washington.

The round table was convened in connection with Social Security's 75th anniversary next month. The panel met at the National Press Club in Washington.

"We don't have to fix it immediately, especially if the fixes are bad fixes," Mr. Tanner said. "I would rather take a little time to get that right."

Mr. Baker advocated postponing any fix for at least 10 years, partly because plunging home values have zapped so much of the wealth of retiring baby boomers.

"They're sitting there at the edge of retirement with almost nothing, and I don't think it makes good sense for us to now turn around and cut their Social Security," Mr. Baker said.

But Mr. Warshawsky said he believes



NANCY ALTMAN: If companies were talking about their pension trusts the way we're talking about Social Security, they would appropriately be accused of raiding the fund.



DEAN BAKER: We'll see how easy it is to change the law.



DAVID JOHN: It may well be that the current structure of Social Security benefits is not appropriate for this society.



VIRGINIA RENO: Americans would much rather pay more for Social Security than to see the benefits cut.

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the federal government should move to fix Social Security now, as part of an effort to bring the federal budget deficit under control.

“What the public is looking for ... is some responsibility, some fiscal responsibility, so I think now is the time to do that,” he said.

Ms. Reno agreed with the immediacy: “It gives people the peace of mind that they can count on these benefits,” she said. “Good policy can also be good politics in this case.”

Social Security’s future is an issue because the system’s board of trustees has projected Social Security’s trust fund will be exhausted beginning in 2037 — and that the system will be collecting enough tax revenue thereafter to pay only 76% of anticipated benefits.



MICHAEL TANNER: There isn’t \$2.7 trillion sitting anywhere as far as I know. It’s not buried in a box out behind the Treasury Building.



MARK WARSHAWSKY: People don’t think that the program is solid. Let’s make it solid. There’s no better time to do that than now. Why wait?

Photos by Leo Druker

A deficit is projected because too few taxes are being paid into the system to cover the benefits of retirees in the pool. In a 2009 report, trustees said Social Security could be brought into balance over 75 years through an immediate increase in the payroll tax (paid equally by employers and employees) to 14.4% from 12.4% or an immediate 13% decrease in benefits; or some combination of the two.

Politically feasible

Round-table panelists disagreed on what sorts of reforms should be taken or are politically feasible, with the more conservative panelists favoring benefit cuts and the more liberal ones, tax increases — particularly enhanced levies for the more affluent wage earners.

Messrs. John and Warshawsky advocate raising the age at which retirees may begin collecting their full Social Security benefits. (The current age for full benefits is 66; it rises to 67 for those born in 1960 or later. Retirees may begin drawing reduced benefits at 62.)

“We’re seeing a substantial increase in longevity,” Mr. John said.

Mr. Warshawsky said the full-benefits retirement age should be indexed “to longevity thereafter.” He also supports increasing the early eligibility age and creating new retirement benefit programs for lower-income people, including one that would provide a match for their retirement contributions.

Said Mr. John: “It is nothing less than absurd to me that we have a situation right now where 50% of the workers can’t save for retirement or receive a pension at their workplace.

“It makes very little sense to me where, on one hand, a lower-income individual is receiving a below-poverty benefit, while basically Bill Gates is going to get the same benefit that I get,” Mr. John continued. “That suggests to me that there’s some changes that could be made here.”

Mr. Baker would eliminate the cap that currently limits the Social Security tax to the first \$106,800 of income.

Ms. Altman said she would require people who make more than \$106,800 a year to pay an additional week’s worth of the payroll tax. She also advocated changes in the system to ensure a “special minimum benefit so no one retires under the poverty line.”

Ms. Reno also advocated raising the cap, “which could be very strongly justified on fairness grounds.”

But Cato’s Mr. Tanner countered: “There’s zero chance of that passing. There would not be a Republican vote in Congress to raise the cap.”

Mr. John said raising the \$106,800 cap would “hurt an awful lot of middle-class individuals,” because about half of those earning more than \$106,800 actually earn less than \$130,000 annually.

"People are always quite delighted to raise somebody else's taxes when it comes right down to it," Mr. John said. "It's not painless and it's not something that we can just simply dismiss as saying, 'Well, we are taxing the rich.' There's a real genuine consequence there."

"Likewise, increasing the size of the payroll tax ... is especially going to hurt lower- and moderate-income workers because they're the ones who are basically going to be marginally priced out of jobs. It's a dangerous situation."

Mr. Tanner's own fix would include slashing benefits. "We cannot ... pay the level of benefits that we have promised in the future," Mr. Tanner said.

Commission's impact

On another topic, panelists said the question of how big an impact the Obama administration's National Commission on Fiscal Responsibility and Reform will have on the reform debate is a jump ball.

The commission is supposed to recommend deficit-slashing changes for Social Security and other federal programs by Dec. 1.

"When I was last on the (Capitol) Hill, I had a large stack of commission reports, all of which had glossy covers and beautiful charts and things like that, many of which made terrific recommendations," Mr. John said.

"Sadly, they were most useful for swatting the bugs that were in my congressional office."

"I don't see that this Dec. 1 commission is likely to be any different."

(Mr. John was an aide to then-Rep. Mark Sanford, R-S.C. Mr. Sanford, who may be most widely known for his 2009 revelation that he had been having an affair with an Argentine woman, now is governor of South Carolina.)

Mr. Warshawsky, however, said he believes the Obama administration will move to fix Social Security during the president's current term.

"I will be optimistic and I will say that it will be addressed, and it will be addressed in the context of an overall deficit-reduction package," Mr. Warshawsky said.

"In the context of the overall budget, there is a great deal of urgency, and there's absolutely no reason why Social Security should be excluded from that, particularly because there is this long-term problem with Social Security," he said.

Said Ms. Altman: "Something this program is supposed to provide is not just cash benefits but security, a peace of mind, and I think that has been lost, and I think we should all work to try to get that back."

"This is a case for acting now to schedule the revenue that is needed to keep the system sound for the long term," added Ms. Reno. "I think that's good politics because people say they're willing to pay for this system. It gives people the peace of mind that they can count on these benefits, that the long-term focus is going to be the system is in balance. That would be a wonderful thing."

Mr. Tanner urged moving with caution, but not postponing solutions until the problem reaches crisis proportions.

"The dislocations of trying to do something at the last minute are always going to be much more painful than if we tried to do them now," Mr. Tanner said.

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