# Social Security Cuts Threaten to Hurt Low-Income Americans More

## With Deficit and Debt at Highs, Lawmakers Look to Trim Expensive, But Popular, Entitlement Program

By Martha C. White 8/26/10 4:45 AM

This summer, Social Security – the government program that provides a steady check for seniors – turned 75. In Washington, lawmakers celebrated its platinum anniversary not with champagne, but with a heated argument over whether to reform the costly entitlement program by slashing benefits or raising the retirement age. Indeed, with the national debt over $13 trillion and the government running at a $1 trillion a year loss, the Obama administration created a deficit commission — the bipartisan National Commission on Fiscal Responsibility and Reform — to find ways to return the country to the black. In anticipation of its report, and in anticipation of possible changes to the program, lawmakers have started discussing how to reform Social Security.

After running a surplus for years and building up a sizable trust fund, Social Security now runs in the red. Though the program is far from bankrupt, more money is pouring out than going in. Economists project that the trust fund will be emptied by 2037. From there, opinions diverge on how far into debt the program will fall if nothing is done.

"Social Security is not in immediate trouble. There's been a lot of exaggeration of that problem," says Alice Rivlin, senior fellow at the Brookings Institution and a member of the deficit commission. "It is not on a solid basis for the long run, however. The sooner we act, the less we have to do."

The problem is, there's no consensus on what form that action should take. And many of the most commonly discussed tactics for stemming the flow of red ink would disproportionately impact lower-income Americans, the segment of the population that depends on Social Security the most.

One idea that comes up frequently is raising the retirement age. House Minority Leader John Boehner (Ohio), for instance, proposes lifting it to 70; some economists have suggested lifting it to as high as 75.

The idea sounds good: People are living longer, so it makes sense they will be working longer as well, right? But raising the retirement age will not necessarily keep people in the workforce longer, says Dean Baker, co-director of the Center for Economic Policy Research. For lower-income Americans, it would often just consign them to a retirement of lower benefit checks.

Already, around two-thirds of non-disabled workers elect to begin receiving smaller checks at 62 rather than full payments at 65. The hardship of raising the retirement age falls disproportionately on low-income workers who work in physically demanding professions, jobs they may not be able to continue through their seventh decade. According to Baker, 45 percent of workers over the age of 58 hold physically demanding jobs. Among those who lack a high-school diploma, that percentage skyrockets to around 75 percent. "If the hope is that people will work longer, that's a very difficult thing for low and moderate income Americans to do," Baker says.

Moreover, though the average lifespan has increased since Social Security's creation, those extra years aren't enjoyed equally by all Americans. Overall, Americans are living about 7 years longer. But the poorest 20 percent of Americans are living just two years longer – coinciding with that increase in retirement age. Baker notes that minority Americans fare even worse. "Even at 65, there's a gap of about two years in lifespan. Also, on average, they have much lower wealth at retirement, so they're much more dependent on Social Security."

Center and right-leaning policy experts say another way to limit Social Security expenditures is to change the baseline for the benefits calculator from a wage index to a price index. Since the price of goods tends to grow more slowly than wages do, this shift would reduce the amount the program would have to pay out in the future. Supporters of this proposal say that because the benefits will still increase along with price inflation, seniors won't suffer a shortfall in real-dollar terms.

This logic works in theory. But in practice, it would seriously impact lower-income Americans. Why? Seniors spend differently than average-aged workers: They buy more healthcare goods and services. And healthcare costs are skyrocketing well above the average inflation rate, so lowering benefits would make it more difficult for retirees to cover their costs. The more economically strapped the American, the more it would hurt.

Other plans would have less impact on those least able to shoulder the burden. One idea would be to reduce benefits for wealthy retirees. The idea is that "Bill Gates doesn't need social security," says Brookings' Rivlin.

The problem is deciding where to set the bar: Too low, and you ensnare middle-class families, too high, and you only earn the ire of the superrich without contributing much to the bottom line. Some experts, including Rivlin, think the political cost probably wouldn't be worth the impact on the bottom line. Polls show that even wealthy Americans want their Social Security, and are willing to pay for it. The government might net a little more money, but it would lose the public support and buy-in of wealthy (and thereby influential) citizens.

"U.S. benefits relative to earnings are low by comparison with those in other wealthy nations," says Henry Aaron, senior fellow at the Brookings Institution. "I don't think there's a strong case for cutting benefits on the merits of the idea. In my view, the bulk of the fix should come from the revenue side."

Many economists on the left share that sentiment. "It makes sense to fix social security by increasing revenues and making sure a good chunk of those revenues come from the high end of the income distribution," says Monique Morrissey, an economist at the Economic Policy Institute.

Raising the payroll cap is one popular idea. Currently, the first $106,800 an American makes is subject to the Social Security tax; above that, the earner pays nothing. "If you eliminate the cap, you're probably getting very close to eliminating the entire Social Security deficit for the next 75 years," says Christian Weller, senior fellow at the Center for American Progress. "The more common proposal is to raise the cap so 90 percent of earnings are subject to the tax, which would eliminate about a third of the deficit."

Another idea under consideration is raising the payroll tax rate by a fraction of a percentage point. Although the flat rate of this tax is inherently regressive, some left-leaning experts say it's preferable to a cut in benefits, especially when the prospect is discussed in conjunction with other modifications like a minimum benefit, as described in a recent report by the Urban Institute.

Not everyone thinks adding to the payroll tax rate is the way to go, though. "It seems to me that raising the payroll tax is the least desirable way to try to move the program towards solvency," says Will Marshall, president of the Progressive Policy Institute. "It's a tax on work and makes it more expensive for employers."

Marshall supports ideas more commonly embraced by the right to make up the shortfall, including an increase in the retirement age and a downward adjustment on the formula used to calculate benefits.

Some Republican politicians are still pushing for privatization, pointing to the rise of the stock market over the long term. Mike Tanner, senior fellow at the Cato Institute, asserts that even if a retiree cashed out at the trough of the market in 2009, he or she would have still experienced a growth in wealth. Given the wariness with which many Americans bruised by a drop in their 401(k) and home values now view the stock market, though, privatization may be a tough sell at least until the current bear market fades from our collective memory. “A lot of Republicans seem to view private investment as some kind of panacea, which I don’t think is correct,” says PPI’s Marshall. “That wouldn’t solve the underlying structural problems.”

Right-leaning experts tend to paint a bleaker view of the Social Security situation in general. Cato’s Tanner explains that the difference is that they include in their calculation of upcoming obligations the cost to be borne by the Treasury when the program cashes in its trust fund bonds. Obviously, that money will have to come from somewhere, but progressive economists like CAP’s Weller, counter that it’s disingenuous for the right to say those bonds pose an economic risk when the Social Security surplus is one factor that was used to justify Bush-era tax cuts in the first place.

Experts of all stripes like to point out that Social Security reform should be a snap compared to changing more complex programs like Medicare. In a strictly economic sense, that’s true. But the discussion around Social Security often threatens to collapse under the metaphorical weight lawmakers have conferred on the program. “It’ll probably be more politically determined than substantively determined,” PPI’s Marshall concedes. “Right now neither side wants to come out of its assigned place.”

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