

# the journal of --- retirement

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The bulk of articles in this edition of the journal are about fixing US Social Security. Readers who look back through recent, as well as not-so-recent issues, will find that interest in what's wrong with Social Security and what to do about it has remained high for many years. Add to that history official information from quadrennial Social Security commission reports and annual Social Security Trustees evaluations, independent reports from major think tanks, and an array of academic publications and we could argue that the history of Social Security is also the history of Social Security reform.

Without doing justice to all of the outstanding analyses, the basic problem is that a large proportion of Americans do or will depend on Social Security for most or all of their retirement income. However under current policies, retirees will see automatic cuts of 21% in their Social Security retirement benefits about the year 2035 or whenever the program's reserve fund is depleted, as program costs (payments to beneficiaries) already exceed revenues (earmarked taxes).

It might seem to many that options for fixing or reforming Social Security are simple: raise taxes, cut benefits, or a combination of both. However, at least four considerations undercut apparent simplicity. First, demographics are, to say the least, a challenge, exacerbating the gap between costs and revenues. The program has depended from the beginning, more at some times and less at other times, on payroll taxes paid by current workers to fund benefits for current retirees and for higher-income retirees to receive a smaller replacement income than low-income retirees. In the former case, the ratio of retirees to workers continues to shift upward, challenging program finances as the size of projected benefit cuts and/or tax increases soars.

Second, we know that questions about intergenerational and other forms of equity are closely connected to financial sustainability. Today, given the system transfers, how should we allocate the burden of benefit cuts or taxes among retirees, current workers, future workers, high-income taxpayers, and low-income taxpayers? While all of these groups can claim legitimacy, some have more powerful political voices in promoting their own version of equity.

Third, who will be responsible for ensuring Social Security's future? By law, Congress is responsible for raising taxes and enacting benefits changes. There have also been calls, most notably in the mid-2000s, for shifting responsibility for the size of future benefit payments onto workers and retirees through replacing Social Security's defined benefit structure with a defined contribution structure where individuals are responsible for their own investment results (cf., the transition from private defined benefit to defined contribution pension plans).

Fourth, is the support for the Social Security system itself. To put it another way, confidence among future recipients of Social Security benefits can play an important role in supporting reform efforts today. In 2015, a Gallup poll found that 60% of Americans between the ages of 18 and 49 believed that they would not receive Social Security benefits. These kinds of beliefs make it harder for legislators to generate the support needed to pass reforms, particularly if they involve immediate sacrifices.

All of these considerations are well known and have received much attention. Nevertheless, renewed hopes for Social Security reform, including serious legislative scrutiny in 2019, compel us to turn to the experts for their latest thinking.

To that end, the first article in this issue of the Journal, entitled “Alice in Wonderland... or Is It Plunderland? *The Generational Implications of Social Security Financing Policy and New Proposals to Expand Benefits*,” is by Sylvester Schieber, a long-time scholar of Social Security reform. He gives us an analytical history of the Social Security program, focusing our attention on the reasons why it developed dysfunctions, particularly those involving intergenerational equity and why we should avoid taking what he characterizes as the easy way out by placing the cost of supporting the baby boomers on millennials and their successors.

In a similar vein, John Turner offers us his article, “Top-Up Contributions to Social Security.” Building on an idea from Nobel Prize winner Richard Thaler, who proposed that at retirement, Americans should be able to purchase additional Social Security benefits using their personal savings, Turner outlines how Social Security could be used to accept a worker’s ongoing additional contributions that would boost their personal future Social Security retirement benefits. Both of these ideas rest on advantages of the Social Security program, specifically its low administrative cost

(e.g., M&E expenses), large insurance pool, and lack of adverse selection. These proposals would also be a way for higher wealth or higher income Americans to increase their participation in the system, thereby building their own economic benefits as well as potentially garnering their continuing political support.

Turning from future policy recommendations to the current program, a large literature has taken shape helping people understand how to better manage retirement when Social Security is a component. While answers will vary depending relative age, health, wealth, and income, among other things, this literature, some of which has appeared in recent issues of the journal, can help advisors and individuals avoid pitfalls and maximize their retirement income. For example, in this issue Michael Harris asks, “Should a Retiree File for Social Security at 62 or 70?” Harris adopts the perspective of a financial advisor, who should look at the Social Security claiming decision in light of the retiree’s full financial and personal circumstances, which can alter what seems to be the “optimal” Social Security starting age. He outlines the range of relevant factors and what role they play.

Finally, although not specifically about Social Security, Alfred Rappaport writes about “The Unrealistic Optimism That Threatens Retirement Security.” In comparison to Social Security, whose defined benefits are spelled out in law, most Americans now depend on savings and investments that are uncertain. Rappaport reminds us that many of the assumptions advisors and others use to estimate future investment returns, wealth, and retirement income are uncertain and possibly optimistic. We should plan for outcomes that may be less positive than what the industry has experienced in the past or may assume about the future.

**Brett Hammond**  
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