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MEASURING SOCIAL SECURITY PROPOSALS BY MORE THAN SOLVENCY: IMPACTS ON POVERTY, PROGRESSIVITY, HORIZONTAL EQUITY, AND WORK INCENTIVES

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Distributional and efficiency questions are at the core of proposals to change Social Security. This project expands upon the usual intense focus on solvency to explore measures of Social Security benefit adequacy (anti-poverty effectiveness), progressivity, horizontal equity, and work incentives. Using simulation output from the Urban Institute's Dynamic Simulation of Income Model (DYNASIM), we show both new and old ways to inform policymakers about the relative merits of different types of Social Security changes. We do not claim to provide an exhaustive list of measures that analysts can examine, but rather suggest that these types of measures increase our ability to assess whether key objectives other than solvency are attained.

We illustrate these measures by evaluating several facets of the Social Security proposal of the National Commission on Fiscal Responsibility and Reform (NCFRR), also known as the Simpson-Bowles Commission. We find that the proposal's performance on adequacy measures relative to current law depends on whether we define current law with taxes and benefits brought into long-range balance. Whether our measure is poverty, the poverty gap, poverty intensity, or lifetime poverty, the NCFRR proposal increases poverty (relative to current law scheduled) less than across-the-board cuts technically required when the trust funds run out of money (current law payable) or a compromise that reduces benefits to cover one-half of the shortfall and increases taxes for the other half (current law feasible). NCFRR concentrates benefits more on lower lifetime earners relative to most current law variations, including benefits that are scheduled but technically not payable when the trust funds run out. This results from relatively steep reductions in benefits for moderate to higher earners, especially in later years.

When it comes to horizontal inequities, the results are mixed. A moderately higher share of spousal and survivor benefits are distributed to lower earners, but the NCFRR proposal often increases current law's favorable treatment of single-earner couples over those couples with the same household earnings but a more even earnings split. NCFRR also continues a system in which all workers contribute to such benefits, but many unmarried people, some of whom are parents, are ineligible for transfers. This implies different annual benefit levels for some individuals paying the same taxes and retiring at the same time, though the overall share of benefits that are non-contributory declines over time. Finally, work incentives improve very modestly on a lifetime basis for some very low lifetime earners under the NCFRR proposal, but other earners experience minimal changes in their relative lifetime experiences. By late middle age (measured at age 60), under NCFRR most earners face less incentive to work than under current law scheduled or payable, although incentives would worsen further still for many if tax rates were raised more broadly (as under a calculation of current law feasible).

Our analyses also highlight the sensitivity of projections to assumptions about how future beneficiaries will react to the half-benefit provision, consistent with prior work (Favreault and Karamcheva 2012).

The NCFRR proposal aimed mainly at restoring solvency and not at addressing other Social Security inconsistencies, inequities, or inefficiencies. Its primary accommodation elsewhere was to limit benefit reductions in coming decades for low to moderate lifetime earners. So many of the results we present are quite subtle in comparison to the distributional results in Favreault and Karamcheva (2012).

As other policymakers develop proposals over time, their impacts on adequacy, fairness, and efficiency can be assessed using the measures we offer here. These analyses also confirm that there are target efficient ways of modifying the system – for instance, treating those in equal circumstances more similarly while improving progressivity and work incentives at the same time.

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