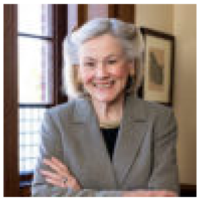
Not all new ideas are good ideas

February 21, 2018

MarketWatch Blog by Alicia H. Munnell



Alicia H. Munnell is a columnist for ***MarketWatch*** and director of the Center for Retirement Research at Boston College.

Social Security is not the right way to finance student loan debt or parental leave

Recently two proposals have emerged that would essentially allow individuals to tap Social Security today in exchange for lower benefits in the future. The first was Congressman Tom Garrett's (R-VA) **Student Security Act of 2017**, which would allow young people to pay off a portion of their student loans today in exchange for a reduction in their future Social Security benefits. The second was a **Wall Street Journal op-ed** by Kristin Shapiro and Andrew Biggs that would use the Social Security Disability program's formula to fund 12 weeks of paid parental leave in exchange for retiring about 6 weeks later.

While alleviating the burden of student debt and offering paid parental leave are both laudable goals, I bristle at the idea of using Social Security to address either of these problems.

Student loan debt was $1.4 trillion in 2017, compared to just $0.3 trillion in 2003. It now accounts for more than 36 percent of total household non-mortgage debt, having surpassed credit card debt in 2010. The average student debt level for recent college students in 2016 was about $35,000.

Student debt prevents young people from saving; as a result, Millennials have a much **lower ratio of assets to income** than earlier generations.

Paid parental leave would greatly ease the pressure on working women and increase the likelihood that they will return to work. It also results in healthier babies. And, in an era when fertility rates might be dropping, it could also increase women's willingness to have more children. Yet parental leave is rare in the United States; according to the Bureau of Labor Statistics, only 13 percent of workers enjoy such a benefit. The United States is unique among developed counties in not making paid parental leave broadly available.

Although the goals are laudable, reducing future Social Security benefits is not the right method to fund them. The key reason is that our retirement income system is **already inadequate**. Social Security will – under current law – replace less of earnings than it has in the past, because the Full Retirement Age has been increasing from 65 to 67, more households are two earners and thereby not eligible for the spouse benefit, Medicare premiums account for an ever-increasing share of benefits, and more households will see a portion of their benefits taxed under the personal income tax. Moreover, Social Security faces a 75-year deficit, which could lead to further benefit cuts. The only supplement to Social Security for private sector workers is increasingly 401(k) plans, and in 2016 401(k)/IRA balances were only $135,000 for working households with a 401(k) plan approaching retirement (ages 55-64). About half of all private sector workers have no workplace retirement plan at any given point in time; many of these will end up solely dependent on a contracting Social Security system.

I have a list of other reasons to oppose using Social Security to finance student loans and paid parental leave. These proposals would increase administrative costs and complexity, they would create a slippery slope (why not use it to cover periods of unemployment or as a down payment for a house?); and they would undermine support for the program by confusing its mission. However, I don't feel like I really need these reasons when the inadequacy of our current retirement income system is so compelling.