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A FAIR DEAL FOR YOUNG ADULTS AND SOCIAL SECURITY

Intergenerational Risk and Responsibility

Written Testimony of

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I. Introduction

Together we represent the Roosevelt Institution—the nation’s first student think tank—with chapters at more than 75 university campuses nationwide. Our 7,000-plus members work with each other and their professors to contribute research and ideas to policymakers and elected officials at the local, state, and national level.

From discussions with our members, we know that young people are deeply supportive of the values that underlie Social Security: shared risk and responsibility, intergenerational interdependence, and care for the vulnerable members of our society. Young people may not know the details of the program, but they do understand the important role it plays in the lives of their parents and grandparents, and wholeheartedly accept the need for sharing economic risk across and between generations.

Moreover, though the majority of our members may be nearly half a century away from retirement, we still have a vested interest in the fate of Social Security. Not only is it an essential source of income for millions of children and teenagers with deceased, retired, or disabled parents, but in the face of rapidly eroding and precarious private pensions, Social Security represents an increasingly important source of retirement savings for our generation.

In this testimony we make the case for young adults’ support of and stake in Social Security while proposing some modest ideas for better connecting younger generations to the program.

II. Intergenerational Equity

Some leading policymakers and public figures have recently argued that the current Social Security system allocates resources unfairly to older generations at the expense of younger ones. But as policymakers consider proposals for how to reduce or eliminate Social Security’s long-run projected shortfall, they ought to consider the underlying values and logic of the program. Social Security is a truly national social insurance structure. It is designed to share risk across a broad population: across employment status, across race, across geographic location, and, critically, across age. Any proposals to “fix” Social Security must strengthen this core principle of risk sharing, including risk sharing across generations.

Suggestions to force both younger and older generations to rely more on their own incomes—ideas that involve mechanisms for private saving and investment, an end to the automatic funding of Social Security, and a move away from universal to targeted and means-tested social initiatives—violate not only the underlying values of the program but it’s effectiveness as social insurance.

The intergenerational inequity typically has a corollary argument that the spending on older generations crowds out spending on younger ones. While we do agree that we are not spending nearly enough public resources on our youth, our social insurance and human

capital investment programs are not zero-sum. Such a perspective isolates each generation from the other and overlooks the multiplicity of contributions that the elderly and retired can offer to other groups of society, particularly children.

For example, nearly four million children are being raised by their grandparents and a third of older Americans report providing some childcare for their immediate family members. In addition to directly contributing to children's welfare, childcare offered by the elderly often provide the deciding factor for young parents' labor force participation, especially in the case of low-income mothersⁱ. Conversely, the economic independence generated for the elderly by social insurance programs such as Social Security and Medicare relieves families of much of the economic cost of supporting their elderly relatives, permitting parents and guardians to invest resources in their children—old age pensions have provided security against the risk of financial strain for both the elderly and the young throughout historyⁱⁱ. This is but one example of many crucial intergenerational interactions that fosters economic productivity and growth, and which are obscured when we adopt a static and zero-sum perspective of generational spending. Reforms to the structure of Social Security ought to preserve and strengthen these intergenerational bonds.

III. The Young Adult Stake in Social Security

Young adults also have a more direct and immediate economic stake in strengthening Social Security. The program provides significant support for youth living in poverty while representing a critical component of their future retirement savings, a function that would be weakened under many current reform proposals.

Anti-Poverty

Beyond benefits for retirees, Social Security is a vital source of income for 6.5 million children—or nearly nine percent of all American children—through payments to the families of deceased or disabled workers and retireesⁱⁱⁱ. These payments are an effective tool for supporting low-income families, lifting 1.3 million children out of poverty annually and reducing the level of poverty for an additional 1.5 million children and their families. This represents one of the most important anti-poverty programs in the country. For comparison, Temporary Assistance for Needy Families (a program traditionally thought of as “welfare”) reached 2.8 million children in 2005, less than half the total of Social Security. Both in absolute terms and relative to other anti-poverty programs, Social Security represents an important source of income for low-income children and teenagers.

Retirement Savings

Given historical trends in retirement savings, Social Security will likely represent an important source of retirement income for young adults today. As has been widely documented, all three traditional sources of retirement income—private pensions, personal assets, and Social Security—have eroded over the past half-century. This trend is captured empirically through the National Retirement Risk Index, an indicator of the

percentage of working-age American families who face the risk of having an inadequate amount of income during their retirement. Nearly half (49%) of all Generation Xers (born between 1965-1972) are classified as being at risk, compared to 44% of those born between 1955-1964 and only 35% of those born in 1946-1954^{iv}. Increasing longevity, declines in Social Security benefits (due to the increase in the normal age of retirement), the shift from defined contribution to defined benefit pensions, and declining personal savings all drive this trend. Social Security—even with its declining benefits—still represents the largest source of retirement income for most retirees. Given that the shift from defined benefit to defined contribution pensions is unlikely to change, young adults will find themselves increasingly reliant on Social Security as a principal or important source of retirement savings in the future.

Intergenerational Impacts of Social Security Reform

Several proposals currently forwarded by policymakers and policy analysts—such as price indexing or raising the normal retirement age—represent considerable benefit reductions that disproportionately affect younger generations. For example, price indexing would replace the way benefits are calculated by indexing payments to prices, rather than to wages, as is currently done. This would represent a substantial benefit cut for middle-income households, severing the historical link between the amount of contributions paid into the system and benefits received. More importantly, benefit cuts are largest for future generations, growing over time. For example, an analysis of a leading price-indexing proposal in 2005 found that the average benefit cut for a worker aged 54 would be only 0.13% compared to a average benefit cut of nearly 15% for a worker aged 26^v. A similar effect would occur with an increase in the age at which workers can begin to claim full benefits^{vi}. Given the differential magnitude of these changes over time, policymakers ought to consider the intergenerational equity implications of any reform to Social Security^{vii}.

IV. Connecting Young People to Social Security

There is strong polling and survey evidence that young adults support Social Security, though most are uninformed about the structure and status of the program^{viii}. At the same time, most young adults are also unaware about public and private opportunities for retirement savings and few take advantage of workplace plans even when offered, despite consistent evidence that workers must start saving as soon as possible to ensure retirement income adequacy. Less than a third of workers 25 and under contribute to their retirement savings in the workplace and only 4% max out their contributions^{ix}.

The federal government could rectify both problems by increasing awareness of Social Security among young adults and educating younger generations about the importance of retirement savings. There are many possible strategies and tools. For example:

- The Social Security Administration already sends annual mailings with earnings and tax information to workers 25 and older. But this is too late for many young workers, who may have lost up to seven years of potential retirement-savings opportunities. A Social Security welcome letter could be sent to workers 18 and

older when they first begin to report taxable earnings with information about Social Security and the need for retirement savings.

- There is no website aimed at younger generations about Social Security. Such a website could be launched by the Social Security Administration at relatively low cost. It could include interactive features like a retirement savings calculator (that includes not only potential Social Security benefits but hypothetical 401(k) and other investment income) and more detailed information and recommendations for financial planning, specifically geared towards young adults.

V. A Fair Deal for Young Adults and all Americans

Young people are invested in Social Security. They recognize it as an expression of our country's dedication to interdependence and shared responsibility. Millions of individuals and families rely on its payments each day. And millions more of the younger generations will rely on it for retirement security in the decades to come. A "fair deal" for Social Security will account for the importance of the program in supporting young people while spreading risk and responsibility equitably across and between generations, thereby recognizing the importance of our leading social insurance structure for Americans of all ages.

ⁱ E. Fuller-Thomson and M. Minkler. 2001. "American Grandparents Providing Extensive Child Care to Their Grandchildren." *The Gerontologist* 41: 201-209.; Hayslip and Kaminski 2005

ⁱⁱ C. Haber and B. Gratton. 1994. "Old Age and the Search for Security: An American Social History." Bloomington, Indiana: Indiana University Press.

ⁱⁱⁱ J. Lavery and V. Reno. 2008. "Children's Stake in Social Security." National Academy of Social Insurance Social Security Brief No. 27.

^{iv} A. H. Munnell, A. Webb, and F. Golub-Sass. 2007. "Is there really a Retirement Savings Crisis? An NRRI Analysis." Center for Retirement Research at Boston College Brief 7-11.

^v W. E. Spriggs and D. Ratner. 2005. "Social Security price indexing proposal means benefit cuts for workers." Economic Policy Institute Briefing Paper 209.

^{vi} M. Morrissey and E. Garr. 2009. "Working the graveyard shift: Why raising the Social Security retirement age is not the answer." Economic Policy Institute Briefing Paper 232.

^{vii} A. Hertel-Fernandez. 2009. "Against False Choices: Towards True Intergenerational Equity in Social Insurance." 2009 Annual Conference of the National Academy of Social Insurance.

^{viii} F. L. Cook, J. Barabas, and B. I. Page. 2002. "Invoking public opinion: Policy elites and Social Security." *American Public Opinion Quarterly* 66(2).

^{ix} CCH Pension and Benefits Survey. 2007.