

# Winners and Losers Under the Simpson-Bowles Social Security Plan

Charles Blahous | November 29, 2010

Every Social Security proposal has relatively clear winners and losers, for the reason that Social Security is a simple income transfer program. The benefits it pays must (in the long run) be equal to the taxes it collects, and the distribution of both its tax burdens and its benefit payments are fairly straightforward to analyze.

In my initial piece on the Simpson-Bowles Social Security plan, I explained its major provisions as well as the broader philosophical choices that it embodied. I thought it might be useful in this follow-up piece to explain in clearer terms who would be the plan's winners and losers.

A complete answer would be fairly complex given the broad array of Social Security's distributional patterns by income level, sex, longevity, birth year, marital status and other factors. I will instead simplify and focus on three obvious categories of winners:

- 1) Low-income workers;
- 2) Fiscal conservatives concerned with the growth of taxpayer burdens;
- 3) Advocates of bipartisan problem-solving.

And, three categories of losers:

- 1) Advocates of a solution based primarily on tax increases;
- 2) Advocates of improving intergenerational equity through funded savings accounts;
- 3) Senior-scaring political opportunists.

It's notable that each of these groups of three

winners/losers includes one thought of as being on the philosophical left, one on the right, and one more removed from philosophy or ideology. (This simply happened; I didn't purposely select to produce this result). Let's go through them in turn:

*Winners #1: Low-income workers.* Low-income workers and those who advocate for them would achieve a great victory if Simpson-Bowles were enacted. This is far and away the single most striking substantive feature of the proposal. The program's substantial fiscal shortfall would be closed without a toll on those on the low-income end, either on the benefit or tax side. Those on the lowest-income end would actually see their benefit growth increased above what current law promises (but cannot finance without a substantial tax increase).

As shown in the chart on the following page, Simpson-Bowles would collapse the range of earned benefits considerably; whereas today the maximum-wage earner receives more than three times that provided to a "very low" earner, under Simpson-Bowles this ratio would be less than 2:1 by 2050. In sum, benefit growth on the high end would be constrained while on the low end it would be accelerated. In addition, low-income workers would have added security via the reduction of the threat of insolvency-triggered benefit cuts.

This feature of Simpson-Bowles is so pronounced that advocates for the poor should be aggressively vocal in support of the plan. If they choose not to be, they will need to find a rationale based on factors



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Worker Earnings Profile	2010: Benefits at 65 (\$2010)	2050: Benefits Under Simpson-Bowles at 65 (\$2010)
"Very Low"	\$7,780	\$14,270
"Low"	\$10,180	\$14,310
"Medium"	\$16,760	\$21,090
"High"	\$22,210	\$24,000
"Maximum"	\$26,300	\$26,480

– simply another way of showing “taxpayer-financed payments that simply will not be cut once begun.”

Well before 2037, unless we cut benefits for those already retired, a tax increase could not be avoided even if the entirety of payments to new

other than the plan’s substantive impact on low-income workers.

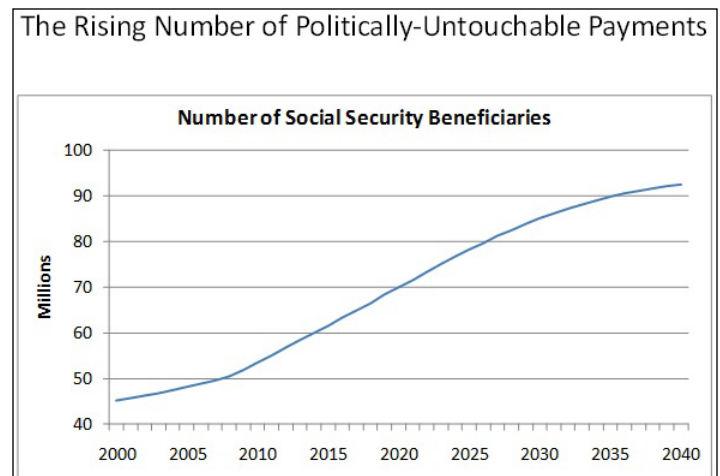
*Winners #2: Fiscal conservatives.* Simpson-Bowles would also represent a substantial victory for fiscal conservatives, or at least it would if one provision superfluous to fiscal sustainability (bringing in state and local workers) were stricken from the plan. If that were done, the plan would solve the shortfall primarily by constraining the growth of system costs rather than by raising taxes.

To understand the stakes facing fiscal conservatives, one must appreciate how demographics, program indexing methods and political realities combine to stack the deck against them. By bipartisan consensus, we won’t cut the benefits of those already in retirement; we won’t send a \$2000 check to an 85-year-old widow in January and then cut it back to \$1600 in February. Both parties (including the most conservative members) repeatedly reaffirm their dedication to this principle.

As a result, with each new class of retirees there is a new set of politically inviolate benefit obligations. Moreover, due to the wage-indexation of the initial benefit formula, the minimum threshold of politically acceptable future benefits rises with each subsequent class of retirees. So, with each year of delay the share of the problem eventually solved by tax increases inevitably rises. To visualize this, see the picture below of the rising number of beneficiaries

beneficiaries were shut off. Thus, if action is delayed for several years, virtually all of the “solution” will consist of tax increases.

Our potential success in constraining the growth of taxpayer burdens therefore depends largely on when a solution is enacted. It is not so simple as deciding a particular solution is faulty, tearing it up, and trying again in a few years on the hope that conservatives’ political position will then be stronger. Such a strategy naively ignores demographic realities. Enacting Simpson-Bowles by contrast would allow conservatives to lock in constraints upon cost growth that simply will not be achievable under a delayed solution.



*Winners #3: Advocates of bipartisan accomplishment.* Surveys continually emphasize public irritation over



partisan standoffs and legislative gridlock. Of course, bipartisanship isn't an end in itself; many forms of gridlock are good if they prevent the enactment of bad policies. But when gridlock prevents the enactment of solutions to obviously mounting problems, public frustration is substantiated.

There is ample historical reason for skepticism that Social Security reform will ever happen on a party-line vote. We will thus either have a bipartisan solution or we will face exploding cost growth over the next few decades. Simpson-Bowles is a reasonable approximation of the best that might be achievable on a bipartisan basis.

Of course, every plan has losers, too:

*Losers #1: Advocates of tax-increases-through-inaction.* Some advocates have noticed that, in order to ensure that the eventual "solution" is enacted solely through increased taxes, it's not actually necessary to accept political responsibility for those tax increases. All that is required is to stall action until no other result is possible.

This is, of course, a form of high-stakes brinksmanship; it represents a gamble with the future of Social Security, that in the moment of fiscal extremity the nation will choose to raise taxes dramatically rather than to let the program crumble. But it may be a winning bet given the numbers who will depend on the program in the future, and given historic public support for Social Security.

Clearly, Simpson-Bowles would represent a defeat for this strategy, in that it would lock in cost constraints that would obviate the need for most of those future tax increases.

*Losers #2: Advocates of intergenerational equity through pre-funding.* Social Security's current pay-as-you-go financing creates worsening returns for

younger generations regardless of whether the fiscal solution consists of raising taxes or reducing benefit growth. This is because as the worker-collector ratio drops, so too does the relationship between benefits and taxes worsen.

The only way to truly end the steadily worsening returns for younger generations is to transition from a pure pay-as-you-go program into a partially funded system (one possible method being the incorporation of personal accounts). Even then, future returns would still be lower than in the past; the best that we can do is to arrest the decline. Simpson-Bowles would probably be the final nail in the coffin for this hope, in that it would shore up system finances on a sustainable but pay-as-you-go basis.

How great of a policy loss this is depends on what one currently views to be the prospects for transition to partial funding. Those prospects have already been adversely affected by a number of factors, including: a) the frustration of President Bush's reform effort, b) the recent financial market downturn, c) the government's worsened finances, and d) a White House and Senate majority that remain firmly opposed. Simpson-Bowles would reduce the prospects to "none," but they may currently be "slim."

The tactical question facing intergenerational equity advocates is whether the prospects (and substantive gains) of transitioning to a pre-funded system remain promising enough to justify the near-certainty that a solution enacted after further delay, even if it contains personal accounts, will impose a much greater tax burden.

*Losers #3: Political opportunists.* Among the biggest losers under Simpson-Bowles would be those who make a living placing phone calls and sending letters to seniors, shaking them down in exchange for supposed protection from Social Security benefit



cuts. The only factor that makes such threats credible now is the program's fiscal imbalance; such fear tactics would lose all credibility once a solution is enacted to stabilize program finances. Without naming names, we can be sure that those who are in this category fully realize it, and will fight any solution because of it.

Summarizing, the enactment of Simpson-Bowles would be an obvious victory for those who want more bipartisan cooperation in solving the nation's greatest policy challenges. From a substantive perspective, it would be a simultaneous victory both for progressive advocates for low-income workers, and for conservative advocates of restraining the growth of taxpayer burdens. If nothing like Simpson-Bowles is enacted in the near term, the eventual solution will almost certainly do far less to protect both low-income workers as well as taxpayers.