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Four Simple Changes to Bring Social Security Into the 21st Century

The program was devised for a totally different era and now it's time to update

By Alicia H. Munnell

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Social Security was designed in the 1930s for a working dad and stay-at-home mom. The program remains as crucial as ever, and some simple updates could help modernize it.

Ensuring Social Security benefits can be paid in the future should be the most important item on any retirement-income agenda, because the program serves as the backbone of the retirement system. Social Security currently faces a long-term deficit, which could be closed equitably with additional revenue by some combination of increasing the payroll-tax rate and expanding the Social Security wage base. Relying on additional revenue, rather than benefit cuts, to shore up the system's finances is important because Social Security benefits are modest, and many of today's current workers are already at risk of having insufficient savings for retirement.

Solving the system's financial shortfall should also be taken as an opportunity to update the program, given that the nature of the family and the employment patterns of women have changed dramatically since the 1930s. Most married women now work, which means that they increasingly receive benefits based on their own earnings and receive a smaller share of the couple's benefit when widowed. At the same time, an increase in divorce and a decline in marriage have sharply raised the percentage of households headed by single mothers. Despite their increased workforce activity, women continue to be at a disadvantage in the labor market compared with men, in large part due to their caregiving duties. In addition, life expectancy at 65 has increased from about 14 years to 20 years so the value of benefits at older ages has become more salient. Finally, the increase in inequality means that those at the lower end of the wage distribution remain vulnerable.

Given these developments, four changes could greatly improve the protections offered by Social Security. If these changes are well targeted, their costs could be easily offset by small changes elsewhere in the program.

• Improve widow's benefits. This change would offset the decline in benefits relative to household benefits experienced by wives who had worked. Under the current system, a woman in a traditional one-earner couple receives a widow's benefit equal to 67% of what the household received when both members were still alive. In contrast, a woman in a two-earner couple with equal earnings receives a widow's benefit of just 50%. To help widows of all types of households, one idea is to increase the widow's benefit to 75% of the couple's benefit, with a capped dollar amount to target the improvement more to low- and middle-income households.
• Adopt caregiver credits. This addition would ensure that time spent raising children would be at least partially reflected in retirement benefits. Currently, individuals who reduce their work hours or temporarily leave the labor force to raise a family may significantly reduce their lifetime earnings and, thus, their Social Security benefits. Traditionally, the Social Security spousal benefit implicitly recognized this caregiving role. However, many women today aren't eligible for a spousal benefit because either they aren't married or they qualify for their own worker's benefit. One proposed policy change is to allow caregivers to average their earnings over 30 rather than 35 years when determining their Social Security benefits.
• Increase benefits at an advanced age. This change would protect the oldest old. As life expectancy rises, more retirees face the higher risk of poverty associated with declining resources and widowhood. This risk is even greater in a world in which private pension income has shifted from the automatic lifelong payouts of a defined-benefit plan to the uncertain income stream of a 401(k). One option is to have a one-time 5% increase in benefits at age 85, with a capped dollar amount.

• Increase the minimum benefit. Raising the minimum benefit would protect workers with very low average wages. Currently, Social Security has a special minimum benefit on its books; the original aim of this provision was to protect full-career workers from poverty in retirement. However, this benefit has severely eroded over time due to a design flaw so that virtually no new retirees today are even eligible to receive it. One proposal is to increase the minimum benefit to 125% of the poverty level and index that amount by wages going forward.

Given Social Security's long-term financial shortfall, these four enhancements should be fully offset by benefit reductions to ensure that they are cost neutral to the program. Three types of offsets that would do the trick are: reducing benefits for higher earners, lowering the spousal benefit, and slightly trimming the annual cost-of-living adjustment. These offsets, together with the benefit improvements, would make the system a bit more progressive and would shift benefits from points in time when retirees are less vulnerable (early in retirement, married) to points when they are more vulnerable (late in retirement, widowed).

The bottom line is that Social Security needs to continue to do the job it was designed to do: provide a base income on which people can build for a secure retirement. Given the fragility of the current retirement system, policy makers need to ensure that Social Security will have the resources to fulfill this task in the future. In addition, the targeted benefit improvements outlined here could help ensure that the system reflects societal changes that have occurred over the past 80 years.