Introduction

A NEW DEAL FOR OLD AGE: TOWARD A PROGRESSIVE RETIREMENT (Harvard University Press, 2016)

Anne L. Alstott

Nearly everyone now recognizes that inequality has transformed American life. Americans at the top enjoy secure jobs, stable families, and ample opportunity for their children, while those at the bottom struggle with low wages, disrupted families, and dismal prospects for the next generation. What has largely escaped notice is that the hard-core inequality that has divided America is also undermining our nation's proudest experiment in equality—the Social Security retirement system.

Enacted in the mid-20th century, Social Security stood for the proposition that we're all in it together. Along with tax incentives to encourage everyone to save for retirement, the program promised a dignified old age for rich and poor alike. But the sad fact is that we are no longer in it together, and the egalitarian promise of Social Security is failing.

We live in an era of such stark inequality that the experience of old age itself has become increasingly unequal. For the well-off, age 65 now represents late middle age. It isn't until age 80 or so that the average better-off American feels old or faces serious impediments to work and healthy leisure. By contrast, many lower earners struggle to stay in the workforce to age 65. Many face disability in their early 60s, and many more confront limited job options and long-term unemployment.[1]

The last half-century has created a wide—and still-growing—gap in the experience of old age. To be sure, the rich have always enjoyed some advantage: wealth has always bought an easier life.[2] But until relatively recently, the experience of old age was not so very different for the rich and for the poor. Indeed, through the mid-20th century, the great majority of people of all income classes aged in a similar way. Most men died in their 60s of heart attacks and strokes, and most women followed in their 70s.[3]

But the past 50 years have wrought a dramatic change in the experience of old age. Public investments in sanitation, medicine, technology, and legal protections for older workers have paid off handsomely in longevity and improved quality of life in old age. Today, the average 65-year-old American can expect to live to her mid-80s, and most of those years will be disability-free.[4] The prevalence of heart disease has fallen dramatically, and advances in treating cancer and strokes have saved lives and reduced disability. Cataract surgery and hip replacements, along with other medical advances, treat debilitating conditions. Disability accommodations, including mobility and hearing aids, have improved life as well. Legal innovation, too, has contributed to the new landscape of old age. The Age Discrimination in Employment Act and the Americans with Disabilities Act have helped change the cultural meaning of old age, and older workers now enjoy a greater array of job options than ever before.[5]

So altered is old age in America that sociologists have coined a new term, the Third Age, to describe the unprecedented range of choices in work, family, and leisure now available to Americans in their 60s, 70s, and 80s. With longer lives and better health, many older people no longer retire in the classic sense. Instead of exiting the workforce permanently in their mid-60s, Americans increasingly remain at work or reinvent themselves, taking on new careers, hobbies, and leisure pursuits. Data confirm the cultural trend: employment among older workers declined from the 1930s to the 1980s, but has increased since then.[6]

But the Third Age unfolds very differently for the poor than for the rich. Most obviously, lower-earning workers earn less and accumulate less wealth than their better-off peers, and so they reach their 60s and 70s with far less financial security. But the gap is more than a matter of money: low earners also suffer cumulative disadvantage, which leaves them with a shorter life span, worse health, higher rates of disability, and worse job options. Consider just one metric: American retirees in the top half of the earnings distribution now enjoy 6 more years of life than their peers in the bottom half, a gap that has widened with each successive generation.[7]

A tale of two colleagues illustrates all this at a human level. A Yale faculty colleague of mine—still teaching, writing, and traveling at 71—could pass for 55. He has boundless energy and publishes at a rate that daunts many younger professors. He confided in me recently that he claimed his Social Security benefits at age 65. When I explained that he could have reaped a greater financial return had he waited until age 70, he shook his head. "I know that," he responded, "but I feel ashamed enough already to be collecting what I am."

In another part of the university, a woman in her early 60s is struggling to hold onto her job. After surviving a stroke and a bad fall, she finds her clerical job stressful, but she is too healthy to qualify for disability benefits. She has continued working because she needs the money and the Yale health insurance. She hopes to hang on till age 65, when Medicare begins. Her Social Security benefits and Yale pension will be modest, and she is hoping to find part-time work to make ends meet.

Static Law in a Changing Society

Retirement policy has grown more and more out of sync with the changing experience of old age. Paradoxically, programs originally intended to ensure a decent retirement for all now too often preserve or even worsen the widening gap in the experience of old age.

Social Security is Exhibit A. We progressives like to think of Social Security as a great equalizer. The program's defenders point out, fairly enough, that Social Security keeps millions of elderly Americans out of poverty. The program transformed mid-20th-century America by providing a secure safety net for retiring workers and their spouses.[8]

Social Security is, of course, a complex program that incorporates retirement, disability, and survivors' benefits. But the lion's share of spending, and my primary focus in this book, is the retirement program. Accordingly, when I refer to "Social Security," I generally mean the old-age benefits program. (In later chapters we'll see, however, that the components of the program must work together, and that reforms in retirement benefits should motivate reforms in disability and survivors' entitlements too.)

The big problem is that Social Security has remained static despite seismic changes in American life. In 1950, the average American worker was a blue-collar man with a nonworking wife and a high school education (or less). Retirement meant a permanent exit from the workforce at age 68, and he could expect disability and death within a decade.[9] Today, by contrast, the average worker has some college education and a white-collar job. If he (or she) is married, it is to a working spouse, but the average worker is as likely to be unmarried as married. If this person retires at 65, he or she can expect to live another two decades, mostly in good health and disability-free.[10]

The out-of-sync Social Security system increasingly produces perverse results, rewarding affluence and penalizing disadvantage. Consider the problem of early retirement. Even as many older people enjoy the rewards of higher education, white-collar employment, longer lives, better health, and greater work options, Social Security permits workers to claim benefits in their early 60s—and the vast majority do. Until the 1960s, most workers could not claim Social Security until age 65, and most waited longer.[11] Today, workers can collect Social Security as early as age 62, although early retirees pay a lifelong financial penalty in the form of reduced benefits. What is more, nearly half of Americans claim benefits at age 62, and a stunning 75% claim Social Security before today's full retirement age of 66.[12]

The stampede to early retirement is dysfunctional for both higher and lower earners. Most well-off retirees do not need the money in their early 60s. They could remain in the workforce longer, and some (like my Yale faculty colleague) happily remain in their primary career well into their 70s and beyond.[13] For this group, Social Security benefits simply enrich their option set, and the penalty for early retirement doesn't hurt all that much. They can bank the money or count on the extra cash to enable them to choose part-time work, a career change, or time for travel or family or hobbies.

Early retirement looks very different for low earners, but the Social Security rules are no more functional for this group. Many less-educated, low-earning workers have physically demanding jobs, and many are in poor health.[14] Unemployment in this group is high as well. For low earners, early Social Security benefits provide welcome relief from financial hardship. But the financial penalty for early retirement is equally steep for rich and poor. Regardless of income level, early retirees can sacrifice more than 40% of their monthly benefits—for the rest of their lives.

The key point, as economist Alicia Munnell notes, is that Congress has stealthily raised the real Social Security retirement age to 70.[15] Although the program, confusingly, terms age 66 (rising soon to 67) the "full retirement age," the fact is that anyone who claims before age 70 pays a big financial penalty. Thus, for instance, a worker who would receive $1,000 at age 70 would receive only $568 at age 62.[16] The percentage penalty is the same for a highly educated, highly paid college professor as for a low-earning construction worker. But because the low earner typically lacks a private pension and relies mostly on Social Security, the total income hit is substantial, and it lasts for the rest of his life. (That is, the benefit doesn't bounce back to $1,000 once the worker reaches 70—he is stuck with $568 no matter how long he lives.)

Adding insult to injury, the rules on private pensions are stacked to favor the wealthy. The federal government spends more than a hundred billion dollars a year to subsidize private pension savings. These retirement subsidies cost nearly 20% again as much as the Social Security program.[17] But fully two-thirds of the tax subsidies go to affluent households.[18] And these expensive subsidies have failed to expand private pension coverage to low earners. Only 10% of low-earning workers have any private pension at all, compared with 70% of higher earners.[19]

Social Security is also out of step with the modern family. In the 1950s, nearly everyone married and stayed married. Husbands worked while wives stayed home to raise children, and retirement meant the loss of the family's only paycheck. Today, by contrast, only half of the population is married, and divorce is common. More and more people never marry at all. And women's roles have changed dramatically. The vast majority of wives work, and most work full-time. Single parenthood also is increasingly common.[20]

Yet Social Security's rules presume that Americans still live in "Leave It to Beaver" families. The rules pay an extra 50% of retirement benefits to any worker with a nonworking spouse—without requiring any additional payroll taxes. The result is that two-earner couples lose out, as do the unmarried. Compounding the unfairness, Social Security's spousal benefit increasingly skews to the affluent, who are more likely to have a nonworking spouse.[21]

For decades now, we progressives have turned a blind eye to the perversities of Social Security. The party line has been that any inequity is simply the price of securing a decent retirement for vulnerable Americans. After all, any universal program must include the affluent in order to direct resources to the less well-off. And Social Security's popularity depends on the appearance of universality. Means testing, goes the progressive line, would only torpedo political support for one of the most progressive public policies around.

But the social revolution in the experience of age has been so decisive, and the growth of inequality so staggering, that progressives should reexamine their commitment to Social Security *in its present form.* The hard fact is that the program (together with tax subsidies for private pensions) is becoming less and less progressive, and—worse—less and less functional for workers at the low end of the earnings scale.

Today, well-off Americans not only can look forward to decades of unprecedented prosperity and personal choices during their Third Age but also can augment those choices with sizable public retirement benefits. Social Security and private pensions once represented income substitutes to replace lost wages for those no longer able to work. For the affluent today, though, these benefits amount to a basic income—a cash grant from the government that the recipients can use to supplement their budget, underwrite part-time work, or fund ambitious travel and leisure plans.

To be sure, Social Security still awards benefits according to a progressive formula, which replaces a higher percentage of the income of a low earner. The progressive benefits formula marks one of the proudest achievements of American retirement policy, and it still protects low earners compared with, say, a private-accounts scheme like the one proposed by President George W. Bush. But the progressive benefits formula by itself no longer secures a decent retirement for low earners. More and more, Social Security pays substantial benefits to long-lived, affluent workers while imposing heavy financial penalties on low earners who must retire early.

The fundamental problem is that Social Security represents an outdated compromise. Looking back, the period between World War II and 1980 was exceptional, because inequality was low by historical standards. The earnings distribution was compressed, and retirement was predictable and universal. Family life was remarkably homogeneous across social and economic classes. And health outcomes were relatively homogeneous as well. The economic and social patterns of the postwar era presented a gift to policy designers, who could offer universal protections highly valuable to most families.

Today, by contrast, inequality is rampant in education, health, employment, and family stability, and disadvantaged workers typically experience hardship in multiple dimensions of life. Wages at the very top have skyrocketed, while wages at the bottom have stagnated or fallen. Low-earning, less-educated workers face higher rates of unemployment and greater risks of disease and disability throughout their lives. They are less likely to marry, more likely to divorce if they do marry, and more likely to rear a child as a single parent.[22] These inequalities cumulate over a lifetime. The result is that low-income workers typically live shorter lives and are far more likely to end their lives in poor health and with physical and mental disabilities.

In the broadest terms, social inequality has defeated the universalist promise of Social Security. The ironic and unintended result is that the state now funds a lengthy Third Age for the well-off but leaves low earners in a marginal financial position when they can no longer work. Nor do other programs adequately close the gap. The Social Security disability system plays an important role in insuring workers against total work disability, but the program's disability standard and procedural hurdles can exclude low earners who cannot work and badly need assistance. Unemployment insurance, too, is particularly important for low earners, but current rules do not take into account the difficulties facing older workers who experience unemployment.

Roadblocks to Reform

The financial plight of the Social Security system has prompted scholars and policy analysts in Washington to scrutinize old-age entitlements. Today, 57 million Americans receive Social Security retirement and disability benefits.[23] By 2033, the Social Security trust fund will be unable to pay scheduled benefits.[24] By 2080, nearly one-quarter of the U.S. population will be age 65 or older.[25]

These numbers have generated considerable concern. In light of the longer life spans of today's older Americans, the sensible response, many policy analysts agree, would be to raise the

Social Security retirement age.[26] Other developed nations face a similar demographic crunch, and the international trend is decisively in favor of postponing retirement ages.[27]

But the conventional response is that raising the retirement age will be difficult, and perhaps impossible, for three reasons. First is the *egalitarian problem.* Progressives worry—with good reason—that raising the retirement age would harm lower-earning workers, who live shorter lives and suffer early disability due to physically demanding jobs and worse health.[28] This issue is not a trivial one: one-quarter of adults aged 65–74 report some degree of disability, and the rate is 40% for those with less than a high school diploma.[29]

It might seem that the solution would be to offer more generous retirement terms to lower earners, but that move seems to be barred by the second roadblock, the *universality problem.* Social Security has prospered politically and socially because it promises a decent retirement for all workers, rich and poor alike. Introducing new differentials in treatment, no matter how justified, could undermine the political foundations for retirement policy and leave low earners even worse off in the end.

As if the equality and universality problems weren't barrier enough, a third roadblock looms—the *myth of purchased benefits.* Politicians since Franklin Roosevelt have cleverly framed Social Security in terms of ownership: workers, they have insisted, purchase their own benefits via payroll-tax "contributions."[30] Of course, the politicians—like every policy wonk inside and outside Washington—know that the claim is false.[31] Most workers receive more or less than a fixed return on their contributions. But if the political popularity of Social Security is rooted in the myth, then changing benefits—especially cutting benefits—is almost impossible.

Not for nothing is Social Security called the "Third Rail" of American politics, something any sane politician is afraid to touch.[32]

Making the Moral Argument

Competing moralisms complicate the fiscal debate. Some commentators treat the elderly as "greedy geezers," living it up on Social Security benefits that will bankrupt our children.[33] Others argue that the program damages the economy and discourages work, savings, and self-reliance.[34] One critic compares Social Security to a Ponzi scheme, paying windfalls to early claimants and cheating later participants out of a fair return on their money.[35]

Defenders of Social Security, for their part, reject the "greedy geezer" stereotype. The elderly, they say, are mostly hard workers who live modestly and would fall into poverty in large numbers if their benefits were cut. Others invoke society's commitment to deliver the Social Security benefits elderly workers have earned.[36]

But the barrage of competing slogans and stereotypes obscures the serious questions of justice at stake in retirement policy. These moral questions deserve sustained consideration. Take, for example, the ongoing debate over Social Security's solvency. Critics of the present program cite figures to show that the program is bankrupt and unaffordable, while defenders of the status quo cite figures to demonstrate that solvency can be restored with minor tax increases and benefit cuts.[37] Critics point out the increasing longevity of the older population, while defenders emphasize the prevalence of disability among older people.[38] Who is right?

The problem is that the solvency debate dodges the moral issues at stake. Insolvency, standing alone, offers no principled grounds for any policy response. Congress could restore the solvency of the system by raising taxes or by cutting benefits in any of a nearly infinite array of possible ways, with a range of effects on people of different generations, different occupations, and different genders. The goal of solvency cannot justify any particular approach as fair or efficient. Solvency is an accounting concept, a matter of numerical balance, and not a criterion for justice.

Claims about increasing longevity suffer from the same deficit. The fact that Americans are living longer has no necessary normative significance for retirement policy. Some argue that the Social Security retirement age should rise to reflect longevity gains, but one could just as easily argue that older people should simply enjoy longer periods of retirement. The length of the average life span, standing alone, gives no grounds for any particular direction in retirement policy, unless one smuggles in (as analysts sometimes do) hidden normative premises.

The best—and only satisfying—way to gain some purchase on policy directions is to grapple with the values at stake in retirement policy. Claims about solvency and longevity actually implicate one of the deepest and most contested issues in moral and political philosophy: the problem of *justice between age groups,* which addresses how a fair society should allocate resources to individuals across the life cycle. We can know whether a program is "too expensive" only if we have some moral reference point for how much we ought to spend on it. If we think that Social Security pays the right amount to everyone, then, however expensive it is, we should dig deeper and pay the price. But if the public resources now devoted to retirement exceed the fair allotment, then the elderly should reduce their claim so that resources can properly flow to younger age groups.

Is it relevant that society has promised Social Security benefits to retirees? A society, like an individual, should often keep its promises, especially when others rely on the promise in arranging their lives. But it is a serious question whether social insurance legislation represents a promise and, if so, what the promise consists of. Some defenders of Social Security treat any reduction in benefits from the current baseline as an unwarranted "cut."[39] But the program has changed over time, and it is reasonable to expect that Congress will alter it again as society changes. The real question, once again, is what a fair society owes its older and younger members.

The classic answer to the problem of justice between age groups, and one that remains sound today, is that Americans—young and old—should be entitled to look to the state for assistance when they are unable to work. Work disability is, of course, more common as we reach older ages, and it provides a classic justification for state-provided social insurance. Workers often will not or cannot insure themselves against disability in the private market, and so—on a wide variety of theories of justice—the state may properly step in and use its taxing and spending powers to provide disability insurance.

Taking the long view, then, Social Security is a social insurance program that draws on the resources of younger taxpayers to cushion the risks of old age for an older generation. As these risks change, so should the benefits and burdens of the Social Security program. For instance, today's older Americans have benefitted enormously from collective investments in public health, health care, technology, and legal innovation. The result of these social investments is that many of today's (and tomorrow's) over-65s live long, healthy lives, with a set of work, family, and leisure options that would have astonished their grandparents. Retirement policy may fairly take notice of these improvements in allocating resources to the elderly.

The moral problem of justice *within age groups* is significant for retirement policy as well. The experience of age has grown more and more unequal, as we have seen. As a group, today's older Americans enjoy unprecedented levels of education, longevity, and work opportunity. But these benefits have been captured disproportionately by the well educated and the affluent. Disadvantaged workers now face multiple and cumulative hardships, because low levels of education lead to low wages and correlate with poor health and family instability. A just retirement policy should take due care to recognize cumulative disadvantage and unequal flourishing.

These moral propositions motivate this book, and I will argue that it is possible to deploy them to help us move past sloganeering and technocratic jargon. Readers may not agree with the principles I offer; they are, by definition, value-laden, and people may reasonably dispute the values that a fair society should pursue. Even readers who find congenial the principles I offer may not agree with the policy implications I draw and may prefer alternative reforms. But even in these cases, the larger agenda of the book can succeed by prompting policy analysts and legal thinkers to clarify their own policy prescriptions for addressing problems of justice between and within age groups.

From Principles to Policies

Too often, principles and policies occupy separate spheres. Philosophers think deep thoughts about justice but are not trained to design policy. Policy analysts draw on a wealth of facts and experience to offer programmatic reforms, but they seldom ground reforms in first principles of justice. Legal scholars can help bridge that gap, and in this book (as in other projects),[40] I aim to do so. Drawing on literatures in political theory, economics, and law, I show how three principles can motivate concrete reforms that would improve the justice of American retirement policy.

First, the problem of justice between age groups should be guided by principles of *life-cycle fairness* and *social reciprocity.* A just society should allocate resources fairly across the life cycle, ensuring adequate resources for education in childhood, equal opportunity in adulthood, and basic security in old age. But, having secured these basic protections, a society should grant individuals maximum freedom to pursue a life of their own choosing. Concretely, social insurance should provide for those who cannot work due to old age or early disability. But *life-cycle fairness* suggests that it should be the inability to work, and not one's chronological age, that serves as the criterion for entitlement to social assistance.

Justice between age groups implies obligation as well as entitlement, however. When social investments produce large gains to an age group, the *principle of social reciprocity* justifies the state in taking those benefits into account in adjusting resource allocations. In the past one hundred years, the United States has invested public funds in ways that have greatly enhanced the education, health, and work opportunities of people over age 60. These gains enable many (though not all) older people to work longer than ever before, a social fact that should be recognized in the design of public programs.

Second, a fair society should also promote justice within age groups. The experience of age has grown more and more unequal as inequality has widened in nearly every sphere of life—health, education, work opportunity, and family life. These inequalities should be of special concern for justice because they tend to affect the same group of people and to cumulate over a lifetime. Thus, less-educated workers not only earn low wages but also experience shorter lives, higher rates of disability and unemployment, and greater family disruption than their better-educated and more-affluent peers. A fair society should *recognize cumulative disadvantage* and make fair provision for the earlier onset of work disability.

A final principle guides policy design: A fair society should take care not to humiliate its members in the implementation of justice between and within age groups. The *antihumiliation principle* pushes toward reforms that are universal, when possible, and toward procedures that are dignified and unintrusive.

These ideals have strong implications for retirement policy. Life-cycle fairness suggests that we should maintain a combination of public and private pensions that ensure that older Americans do not fall into destitution when they can no longer work. Social Security should remain a pillar of retirement policy, but the retirement age should be raised significantly to reflect the increasing work ability and work options of those over 60.

At the same time, social reciprocity suggests that we should not treat older people as having a moral claim to Social Security benefits fixed at their present levels. It is eminently fair to expect those who have gained from public investments in health and work opportunity to share with the collective some of those benefits by working longer and collecting less from the fisc. Fairness counsels caution in changing the financial entitlements of present retirees, who may have limited capacity to adjust their decisions. Public policy must also take care to ensure adequate work opportunities and legal protections for older workers. But, looking ahead, it is entirely just to adapt Social Security to the abilities and work patterns of the 21st century. Doing so does not defeat any defensible moral claim by future retirees.

Policies should recognize cumulative disadvantage by protecting retirement options for low earners and those who experience poor health or disability. Members of these groups should generally be able to retire earlier and on more-favorable terms. Reforms in both Social Security and tax subsidies should ensure that these workers have access to adequate retirement income. Policy design should ensure that these new policies do not humiliate their beneficiaries. Universal entitlements should be used where possible, and any measure of disadvantage should avoid a demeaning means test.

To be sure, ideals of justice do not always yield determinate directions for public policy. Reasonable people might draw quite different conclusions about how exactly to reform Social Security and a host of interrelated programs for disability, unemployment, and pensions savings.

Still, this book aims to translate principles into concrete policies. Readers may find these proposals attractive. But even those who prefer another direction may find it useful to see how thinking through the details of policy design can illuminate tradeoffs and synergies that are not immediately obvious.

With this note of humility, I argue that a principled approach suggests five concrete reforms in Social Security and other public programs.

Progressive Retirement: Five Reforms to Restore Fairness to U.S. Retirement Policy

First: *the Social Security retirement age should rise (over time) to 76, but timing penalties in Social Security should be adjusted to permit early retirement on relatively advantageous terms for low-earning workers and those with physically demanding jobs.* At first glance, age 76 may seem high, and indeed it is significantly higher than most conventional proposals to raise the retirement age. But first principles return our focus to work disability and away from chronological age. Studies confirm that the majority of Americans who reach age 65 can work past age 80, so age 76 is, if anything, a cautious number.[41]

Progressive retirement timing would mark a new approach to addressing the egalitarian and universality objections that have, thus far, deterred some progressives from endorsing a higher retirement age. The idea is relatively simple. The range of retirement ages would be the same for all workers, from early retirement at 62 to full retirement at 76. But the financial penalty for early claiming would be based on a sliding scale linked to lifetime earnings. The result is that the system would remain universal in the options it offers: everyone could choose the retirement timing that works for her. But baked into the benefit calculation would be a timing preference for low-earning workers. They would be able to claim Social Security retirement benefits early, as many do now, and with a smaller financial penalty than that imposed today. At the same time, high earners would pay a larger penalty than they do today for early claiming.

The progressive retirement timing rules I propose have major advantages over both current law and proposals simply to raise the retirement age for all. They achieve the egalitarian objective of securing early retirement on decent terms for workers facing cumulative disadvantage. Progressive retirement timing would also motivate higher-earning workers to claim benefits later, and perhaps work longer—an appropriate result given their longer life spans, increasing health and ability, and greater work options.

An immediate objection springs to mind: If older workers remain in their jobs, won't there be fewer opportunities for younger workers, already hard-pressed by the Great Recession? Economists have studied the issue, and, in a rare bit of happy news from the dismal science, they have found that there is no necessary tradeoff, because the labor market is plastic enough to expand to accommodate a larger pool of workers. It isn't like a musical-chairs game with a fixed number of seats. I will review the evidence for this important claim in a few pages, and I discuss the issue at length in Chapter 4.

Importantly, progressive retirement timing would retain the present Social Security system's commitment to universality. The range of retirement ages offered to every worker would be the same: anyone could claim Social Security between 62 and 76. Each person's choice would be determined, as it is today, by personal circumstances and plans. But the new system would exact a heavier penalty on affluent workers who choose to claim Social Security early. At the same time (as I discuss later) complementary reforms would provide an earlier exit from the workforce (penalty-free) for affluent workers truly unable to work.

Second: *Social Security should create a phased retirement option that would mirror current patterns of work transitions and ease the transition to delayed retirement.* Phased retirement has become more and more common in private industry, and it should become a key part of modernizing the system. Today, most retirees do not permanently exit the workforce all at once. Instead, they cut back their hours, take a less-demanding position, or try a new job. To recognize and facilitate these shifts, the Social Security system should offer three years of half-benefits beginning at age 73, without any reduction in full benefits payable at age 76.

Incorporating phased retirement into Social Security would ease the transition to a higher retirement age. Workers who want or need to slow down could count on the half-benefits from ages 73 to 76 when planning their finances. And the option to retain older workers part-time while they collect partial Social Security benefits could be an attractive perk for employers as well.

Third: *Disability and employment policies should be reformed to protect the interests of older workers.* Progressive retirement timing and phased retirement would protect the great majority of older workers who experience disability and unemployment. Compared with today, low earners could retire early with far less financial loss. And phased retirement would assist even high earners who want (or need) to exit the workforce before age 76.

Still, the state should create additional backstops to protect older workers who find that they cannot work until 76. Feasible changes in Social Security Disability Insurance (SSDI) and unemployment insurance (UI), along with better age discrimination protections and changes in employment law would all anticipate the needs of a new, older workforce.

Fourth: *The spousal benefit for retirees should be gradually repealed.* The spousal benefit is an artifact of family life in the mid-20th century, when most wives did not work outside the home. The spousal benefit remains critical for current retirees who lived mid-20th-century lives. But the spousal benefit will become far less important for future cohorts of retirees, and it should be phased out, because it no longer reflects the social organization of work. Along with a growing number of policy analysts, I recommend a minimum benefit for low-earning workers to reduce poverty among the elderly generally and to cushion the gradual repeal of the spousal benefit. And I suggest a joint-and-survivor annuity option for people who wish to stretch their Social Security benefit to support themselves and a spouse, partner, or dependent child. Importantly, though, retirees choosing the joint-and-survivor option should pay the full actuarial price for their benefit, as Chapter 9 explains.

Fifth: *Tax provisions related to retirement should be redesigned to serve the interests of the disadvantaged.* Progressive reform should restructure the Social Security financing system to include an equitable tax burden on income from capital. And universal, portable private pensions should be funded by redirecting tax subsidies now captured by the richest workers.

Some of these policies would reduce the budgetary cost of Social Security. The increase in the retirement age (while holding maximum benefits constant) would cut program expenditures dramatically, and the repeal of the spousal benefit would also save money. But some of these proposals would increase government expenditures. The favorable shift in retirement timing rules for low earners and the expansion of SSDI and unemployment insurance would all add to government outlays. As a rough matter, though, the savings seem likely to exceed the additional costs by a wide margin, creating financial capacity in the system to handle a predictable increase in expenditures on SSDI and UI.[42]

The progressive retirement timing proposal is new, as is the phased retirement proposal. The other reforms often build on existing proposals, as noted earlier. But this book's distinctive contribution is to deploy ideals of justice to motivate thoroughgoing reform that extends across social programs and fields of law. It is understandable that Washington policy analysts tend to propose incremental change and to examine elements of the social insurance state in piecemeal fashion. But in this book, I aim to take advantage of an academic vantage point to propose more-ambitious reforms anchored to a moral foundation and spanning a wide variety of programs beyond Social Security. Along the way, I provide principled reasons for rejecting the status quo and other proposed reforms, including means testing and longevity indexing.

Sacrificing Jobs for the Young?

As the economy slowly exits the Great Recession, it might seem that raising the Social Security retirement age takes a leap in the wrong direction. It seems intuitive, after all, that early retirement helps younger workers by freeing up jobs. If we can clear out the Baby Boomers now occupying senior positions, then middle-aged people can move up, and younger people can get a foothold.

But intuition, it turns out, is a poor guide to policy in this case. The most careful studies suggest that raising the retirement age will not harm youth employment. Jonathan Gruber and David Wise conducted a massive, multination study of the relationship between retirement policy and youth employment. They concluded that there is no correlation between later retirement ages and youth unemployment.[43]

Indeed, the researchers found that youth employment and the employment of older workers tend to be positively correlated: that is, holding other factors constant, when more older people are working, so are more younger people.[44] Just as developed economies were able to absorb the influx of women into labor markets in the 1970s, so they can absorb a new group of older workers.[45]

These findings seem especially important once we realize that the United States, like other developed nations, will likely confront a shrinking labor force in the coming decades as the Baby Boom ages.[46] At the same time, gains in the educational attainment of the workforce are projected to slow.[47] These changes will, if anything, tighten demand for workers of all ages.

Seizing the Opportunity

Inequality poses a moral challenge to American retirement policy. When our laws reward lifetime privilege and compound lifetime disadvantage, something has gone badly wrong. Social cooperation in the past century has produced valuable gains in longevity and quality of life for the elderly, particularly those in the top half of the income distribution. We should not hesitate to revisit the public retirement system and to ask them to share some of those gains with younger age groups and with their less-affluent peers.

As the Baby Boom retires, the stakes for the nation could not be higher. The budgetary cost of Social Security retirement benefits and retirement tax subsidies is formidable—more than three-quarters of a trillion dollars annually. But, as I have emphasized, the budget numbers only hint at the real problem, which is injustice between and within age groups. The resources spent to fund healthy retirement for Third Agers cannot also be spent on childcare, on Head Start, on college educations, on payroll tax reductions, or on other measures to ensure just treatment of the young. The resources devoted to healthy retirement for affluent retirees cannot also be spent to cushion the illness, disability, and limited work options of those who bear the burden of cumulative disadvantage.

Funding decades of healthy leisure for the affluent middle-aged simply should not be a social priority. We can and should change American retirement policy so that it insures against work disability and mitigates the outcomes of lives lived in disadvantage.

And we should reject the idea that retirement reform necessarily pits the elderly against everyone else. Older Americans, even affluent ones, have much to gain from a more just retirement policy. Today's policies tempt or force many older workers out of the workforce before they wish to exit. The proposals I outline would support all workers, at every level of income, in crafting a Third Age full of meaningful opportunities.

Notes

[1] For subjective statements about the experience of old age, see, e.g., Hamm (2010); UBS Investor Watch (2013). The UBS report offers poll results: a majority of their investors "do not feel 'old' until they are in their 80s." For objective evidence, see the discussion in Chapter 2, which documents the rising well-being of older people as a group but wide and growing inequality.

[2] Waldron (2007) (discussing historical differentials in mortality by socioeconomic status).

[3] See Centers for Disease Control (2012), p. 46 (Table 21); Munnell (2013), p. 2.

[4] Centers for Disease Control (2012); Crimmins et al. (2009).

[5] Chapter 2 documents these facts.

[6] Chapter 2 documents these facts.

[7] Waldron (2007) (finding that male Social Security–covered workers in the top half of the earnings distribution born in 1941 live 5.8 years longer than those in the bottom half; the gap was 1.2 years for those born in 1912).

[8] See Van de Water et al. (2013).

[9] Steuerle (2013), pp. 1–2 (noting that in 1940 and 1950, the average worker retired at 68); Social Security Administration (2014i) (noting that in 1940, a 65-year-old man could expect to live 13 more years).

[10] Centers for Disease Control (2013) (reporting that, in 2010, an American man or woman at 65 could expect to live 19 more years); Crimmins et al. (2009) (noting that a 70-year-old can now expect to live 14 more years, 12 of them without disability).

[11] Early retirement at age 62, with actuarial reduction, was introduced in 1956 for women and 1961 for men. Social Security Administration (2013), Table 2A.20.

[12] National Academy of Social Insurance (2014) (reporting that 74% of Social Security claimants in 2011 had benefits reduced for early retirement and that "just under half (41 percent of men and 47 percent of women)" first claimed at age 62).

[13] See Munnell (2013), p. 4 (Table 3) (reporting that 62% of workers with advanced degrees remain in the workforce at ages 62–64, while only 42% of high school graduates do; by ages 65–67, the proportions are 47% and 29%, respectively).

[14] See General Accountability Office (2014), pp. 7, 15–16; Leonesio et al. (2003).

[15] Munnell (2013).

[16] Munnell (2013), p. 4 (Table 4).

[17] The Joint Committee on Taxation (2013) predicts that tax expenditures on employer pensions and IRAs will amount to $126 billion in 2014. The White House Office of Management and Budget (2014), Table 11.3, estimates that Social Security OASI outlays will be $708 billion in 2014.

[18] Marmor et al. (2014), p. 183 (noting that "two-thirds of federal tax expenditures for retirement saving go to those in the top fifth of the income distribution").

[19] Marmor et al. (2014), p. 185 (Figure 10.2) (noting that 70% of workers with incomes of $75,000 and above had private pensions, while less than 10% of low earners [earning less than $10,000] had pensions).

[20] Alstott (2013).

[21] See Chapters 2 and 9.

[22] See Chapter 2.

[23] OASDI Trustees (2013), p. 2.

[24] OASDI Trustees (2013), p. 4 (OASDI trust fund, which includes retirement and disability).

[25] Reznik et al. (2005–2006), p. 37.

[26] See, e.g., Simpson-Bowles Commission (2010) (recommending an increase in the Social Security retirement age); Marmor et al. (2014), pp. 194–201 (recommending a gradual increase in the Social Security full retirement age to 70). See also Shoven and Goda (2010) (estimating age inflation since 1935 and projecting that the retirement age in 2050 should range from the mid-70s to late 80s, depending on the adjustment method used).

[27] Siegel (2014); OECD (2013), ch. 1.

[28] Marmor et al. (2014); Burtless (2013a); Ghilarducci (2005); Reznik et al. (2005–2006); GAO (2014); Leonesio et al. (2003). But see Mermin and Steuerle (2006) (pointing out that the large percentage of low earners who claim SSDI would be unaffected by an increase in the Social Security retirement age).

[29] American Community Survey (2014) (based on 2012 data).

[30] Diller (1996), pp. 383–384 (quoting Roosevelt's claim that contributors have a "legal, moral, and political right to collect their pensions").

[31] See, e.g., Steuerle and Rennane (2011) (comparing Social Security benefits and taxes over a lifetime for different retirement cohorts and finding that earlier cohorts, on average, received more than later ones); Beach and Davis (1998) (pointing out the low rates of return to some low-income and minority households).

[32] For a recent example of the "Third Rail" metaphor for Social Security politics, see Keane (2013).

[33] Geiger (2012) (reporting Senator Alan Simpson's use of the "greedy geezer" phrase); Gokhale (2013) (arguing that Social Security and Medicare overpay today's elderly at the expense of future generations).

[34] Biggs (2013a).

[35] Tanner (2011).

[36] See Kuttner (2012) (criticizing the "greedy geezer" notion and contending that economic growth, not cuts in Social Security, are the best way to secure the economic future of today's children); Van de Water et al. (2013) (reporting that Social Security benefits keep 15 million retirees out of poverty); Ruffing and Van de Water (2011) (criticizing Simpson-Bowles for cutting expected Social Security benefits).

[37] For an example of news coverage of the most recent Social Security Trustees Report, see Prial (2013). For an example of the argument that Social Security is affordable, see Reno and Walker (2013), p. 32–36 (arguing that expenditures will remain stable at about 6% of GDP).

[38] See Favreault and Johnson (2010) (discussing budget and longevity issues); Ghilarducci (2005) (pointing out that disability rises with age).

[39] See, e.g., Ruffing and Van de Water (2011).

[40] See Alstott (2008); Alstott (2007); Alstott (2004); Ackerman and Alstott (1999).

[41] See Chapter 7.

[42] For the substantial revenue gained by more-modest increases in the full Social Security retirement age, see CBO (2012).

[43] Gruber et al. (2010), pp. 9–14.

[44] Gruber et al. (2010), p. 10.

[45] Gruber et al. (2010), pp. 4–5.

[46] Hill and Reno (2005), p. 12.

[47] Hill and Reno (2005), p. 13.

6

From Principles to Policies

It is time to translate principles into policy. Chapters 4 and 5 developed four principles:

- The principle of *life-cycle justice* guides the fair allocation of resources among age groups and justifies state mandates for savings to anticipate work disability, whether during the working years or in old age.
- The principle of *social reciprocity* holds that members of an age group have an obligation to share with others the gains from social investments.
- The principle of *state recognition of cumulative disadvantage* directs state attention to the multiple burdens facing low earners, including illness, disability, low savings capacity, and family instability.
- The *antihumiliation* principle supports administration designed to preserve individual dignity and avoid humiliation.

At first glance, these principles may seem to provide limited guidance for policy design. After all, in policy circles, we typically speak a different language. Policy analysts classify programs as social insurance or public assistance, universal or means tested. They analyze the distributive, behavioral, and efficiency effects of public benefits and the taxes that fund them. Some policy analysts run elaborate regressions to tease out the effects of programs on income, employment, or other economic indicators.

But a closer look reveals that these four principles provide clear directions for policy design and equally clear reasons for rejecting some familiar reform proposals. Life-cycle justice suggests a system of public pensions linked more closely to work disability but also expanded antidiscrimination rules to ensure that able older workers have a fair opportunity to work if they choose. The recognition of cumulative disadvantage supports rules that permit disadvantaged workers to leave work at earlier ages and with adequate support. Social reciprocity suggests that affluent older workers should bear greater costs at retirement, in light of their dramatic gains from public investments. And the antihumiliation principle supports a range of initiatives to provide a dignified exit from the workforce for older workers who experience disability or long-term unemployment before they are entitled to full retirement benefits.

A principled approach also helps clear away roadblocks to reforming retirement policy. A clearer understanding of the deeper purposes of public retirement programs reveals that the egalitarian problem can be addressed without undermining universality, and that the myth of purchased benefits should give way to a more nuanced public discussion about social change and fair transitions.

To be sure, these principles cannot dictate every detail of program design. Some provisions must be crafted according to prudential considerations of cost and administrative capacity. Chapters 7 through 10 extend the analysis, offering a range of possible reforms in Social Security, tax law, disability insurance, unemployment insurance, and age discrimination law.

Democratic politics, of course, will play a large role in determining feasible and attractive reforms. This is (mostly) as it should be: democracy itself is an important value in a fair society. But, as Rawls (in his book, *Political Liberalism*)[1] points out, politics need not mean a crass free-for-all in which powerful interests always win. Chapter 11 draws on Rawls' work to consider how we can—and why we should—meld principles with politics in public discussions of Social Security reform.

The Importance of Principle in Policy Analysis

To translate principles into policies, we must pause for a moment and introduce the core ideas that inform policy analysis. Policy wonks speak what may seem a peculiar language, and yet it expresses useful concepts. Indeed, I will show very shortly that principles of justice provide quite crisp answers to the core questions of policy design. But first, we need a brief introduction to policy analysis.

Policy analysts typically ask (or should ask) three questions about any existing program—or any proposal for reform: First, what is the rationale for state action? Some matters are best left to individual choice and to the operation of market or nonmarket interactions—labor markets or the family, for instance. But the operation of these institutions depends on the configuration of background entitlements and rules, and they sometimes fail badly. Any proposal for change should specify why institutions should be altered.

Second, with this rationale for state action in mind, what—precisely—should the policy change aim to accomplish? For example, a program might attempt to redistribute income, to change behavior, or to improve the allocation of resources. The statement of goals then provides criteria for success. A proposal to redistribute income, for example, should raise the incomes of the target group. A proposal to change behavior should alter the choices people make. And a proposal to increase allocative efficiency should alter prices so that they produce a welfare-improving allocation of resources.

Third, what is the proper pattern of taxation? Some initiatives will raise taxes, and it will be necessary not only to raise sufficient revenue but also to do so taking into account the distributional, behavioral, and efficiency effects of the necessary taxation. Other initiatives will permit tax reductions, and once again, a precise policy design will take into account the distributional, behavioral, and efficiency effects. Critically, the tax side of the equation should not counteract the desired effects of the benefits change. It would be ludicrous to, say, raise Social Security benefits for Group X and fund the change by taxing the Social Security benefits of Group X.

The terms *distribution, behavior,* and *efficiency* have a commonsense sound, but they have precise, technical meanings with subtle content. *Distribution* refers to the impact of a policy on the dissemination of a specified good—usually money or income, but sometimes opportunities or jobs. Policies may be aimed at *redistribution* compared to the status quo, meaning that some groups would receive more or less than they currently do. For instance, a proposal to raise Social Security benefits for survivors might aim to increase the incomes of older widows, who are often very poor.

Behavior refers, of course, to the impact of a policy on the choices individuals make. Policies may attempt to alter behavior to counteract some cognitive bias or to serve some social end. For example, a proposal to enroll workers automatically in employer retirement plans might aim to increase the proportion of workers who save for retirement.

Efficiency is a concept drawn from economics, and it is sometimes misused in popular discussions. Efficiency in its technical sense does not (necessarily) mandate low-cost administration of government programs. Nor does efficiency (necessarily) mandate cutting social programs or taxes. Instead, an economist deems an arrangement "efficient" if it involves a pricing structure that results in an allocation of resources that maximizes the well-being (or welfare) of society. An inefficient market results in a distorted allocation of resources. For instance, the minimum wage may be inefficient because it artificially raises wages for low-wage workers, with the result that the job market is distorted, and too few workers are employed.

These three concepts, used with precision, can provide a rationale for state action and can describe the purposes of a policy initiative, as well as provide criteria for evaluating a program's success. Sticking with the minimum wage example, some have proposed to repeal the minimum wage in order to increase employment for low-wage workers. The goal of the program would be behavioral (to induce employers to hire and retain low-wage workers and to induce these workers to accept jobs and to remain employed). The corollary is that the program's success can and should be measured by increases in employment for low-wage workers due to the program (rather than, say, due to an uptick in the business cycle).

If all this seems complicated and technical, it may be surprising to learn that all these concepts are readily recognizable to any scholar of distributive justice. To be sure, philosophers ponder different questions than policy wonks do: philosophers tend to emphasize the refinement of ideals, while policy analysts translate practical goals into practical policies. But the best policy analysis marries the precision of theories of justice to the details of program design, and for this reason, there should be more than a little shared intellectual territory between the philosopher and the policy analyst.

Efficiency, for example, reflects a utilitarian perspective, typically translated via the discipline of economics, with its emphasis on the maximization of social welfare and its allegiance to market distributions based on accurate pricing. Concerns about distribution and behavior arise in a variety of theories of justice. Even a highly egalitarian theorist such as John Rawls considers the impact of redistribution on behavior; Rawls' well-known difference principle, for instance, incorporates the tradeoff between redistribution and work disincentives.

Without a principled foundation, a policy proposal is unanchored, a problem that happens all too often. Complaints about the insolvency of the Social Security system, for example, often do not reflect a clear theory of justice. The result is that the insolvency worry is ambiguous, because it could reflect either the notion that the elderly as a group are receiving too much (so that their benefits should be cut) or that younger citizens are paying too little (so that their taxes should be raised). Without specifying a theory of justice—an ideal—between age groups, there is no way to analyze how Social Security measures up.

For example, some policy analysts have recommended longevity indexing for Social Security benefits. John Turner offers a particularly thoughtful proposal: taking as the goal the solvency of the Social Security system, he suggests that benefits could be indexed to increasing (average) longevity, in order to keep constant the lifetime value of benefits. After reviewing international experience and policy design options, Turner proposes to adjust annual benefits downward to reflect increasing longevity in each age cohort.[2]

Longevity indexing certainly is one way to address the solvency problem. But longevity indexing, as Turner candidly notes, would place the financial burden of increasing life spans on retirees. Lower annual retirement benefits would consign more retirees to poverty. An increase in the payroll tax, by contrast, would place the financial burden of solvency on working-age taxpayers. It is not obvious which solution is fairer, unless we smuggle in the unarticulated premise that retirement benefits are now too high. Solvency, it turns out, cannot be the real goal, because it does not reach the moral issues at stake. The real question is the proper allocation of resources between generations.

Armed with these preliminaries, we can draw on the principles of life-cycle justice, social reciprocity, recognition of disadvantage, and antihumiliation to motivate a set of reforms in present retirement policy.

Life-Cycle Justice and Work Disability

The principle of justice over the life cycle, as developed in Chapter 4, answers all three of the policy analyst's standard queries. First, myopia and negative externalities justify state action—the use of law to mandate insurance for work disability in old age. Second, the government's goal should be for individuals to insure themselves, so that the costs of their work disability do not fall on others. (The state's goal should not be to fund years of healthy retirement.) A fair retirement policy, accordingly, should insure everyone against work disability. Third, the taxation scheme, too, is clear: each individual should pay the costs of insuring herself.

Notably, life-cycle justice mandates intrapersonal but not interpersonal redistribution. The prospect of negative spillover effects justifies the state in overriding individuals' choices about allocating resources over their life spans. Even if I soberly wish to spend all my money now and live out my older years in destitution, that choice is properly foreclosed by the state, and the law may fairly require me to set aside some of my resources to purchase insurance. Justice may require that individuals devote fewer resources to their youth and more resources to their old age than they otherwise would.

But life-cycle justice does not mandate redistribution from rich to poor: it justifies only measures to protect against the negative spillover of the costs of the elderly unable to work. Instead, the proper shape and scope of redistribution must await additional principles—social reciprocity and recognition of cumulative disadvantage. *Ex ante,* then, each person should pay a fair actuarial price for his or her insurance. *Ex post,* the payout of work disability benefits—like any insurance—will differ across individuals.

Concretely, then, the principle of life-cycle justice supports a public retirement program, but one that ties the payment of benefits to any individual to work disability. Today's Social Security system achieves near-universal coverage for work disability at younger ages through SSDI. But at older ages, the program pays benefits at a fixed chronological age, regardless of work ability. The result, as Chapter 3 discusses, is that most Americans begin to collect public retirement benefits in their early and mid-60s, whether or not they are capable of working. As a matter of justice over the life cycle, the program engages in too much redistribution from younger to older workers, compared with the ideal program, which would link payouts to work disability.

A reorientation of Social Security to focus on work disability is consistent with Social Security's original mission. In the mid-20th century, age 65 marked a relatively uniform entry into old age. We can quibble about whether 65 or 70 or some other age would have been a better estimate, at that time, of the onset of work disability. But the larger point is that the experience of old age in that era was relatively uniform. The workforce was mostly male. Most men had limited education and physical jobs, and their health prospects at age 65 were homogeneous. In that era, age 65 marked a reasonable and dignified proxy for work disability.

Today, however, the unequal experience of old age must send us back to the drawing board to confront two major issues for policy design. First, the determination of work disability poses an important and difficult issue, but one amenable to policy design. We need not imagine that all older people must undergo the rigorous, time-consuming, and individualized determinations now used for Social Security Disability Insurance. Indeed, I will argue in a few pages—and at more length in Chapters 7 and 8—that the SSDI model should not be the primary method of determining work disability. Instead of attempting individualized determinations, a better approach would craft new rules based on empirical evidence in order to make plausible judgments, valid for groups, about the likely onset of work disability.

Second is the problem of transition. If older workers must remain in the workforce longer, then society should take seriously the availability and conditions of work. Age discrimination is already illegal, but extending protections to an even older workforce will pose new challenges. Unemployment insurance for older workers, too, will require new provisions. Chapter 8 examines a range of options, including new options for phased retirement.

But, setting aside for the moment these important details, it is critical to see that the ideal of insuring against work disability helps distinguish life-cycle justice from competing notions of fairness sometimes posed in discussions of Social Security. For example, begin with the idea that public retirement benefits should provide equal lifetime benefits per individual. For instance, proposals to raise the Social Security retirement age sometimes draw fire for disadvantaging workers with shorter life expectancies.[3] That criticism imagines Social Security as a kind of retirement savings club, promising members that if they contribute $x, then they are assured of an equal payout $y. But work disability insurance does not and should not promise equal payout to every participant. It is, instead, a contingent entitlement, truly insurance. If a worker is fully capable of work until he dies at 80, then he should collect nothing and presumably will feel happy to have been spared the challenges of illness and disability. If a worker cannot work at 62 and lives to 80, he should collect 18 years of benefits, fairly enough.

The problem with unequal longevity, then, is not that it deprives some people of their fair share of Social Security's payout. The problem is, instead, that some people are burdened by cumulative disadvantage that unfairly reduces their life options.

Taking the opposite tack, and emphasizing gains in longevity for older people as a group, some analysts argue that the Social Security retirement age should rise. Eugene Steuerle points out that in 1940 and 1950, the average worker retired at 68. Given increases in longevity, an equivalent retirement age would be 76 today and 80 by 2070.[4] Steuerle's calculations usefully show the dramatic change in life span since the mid-20th century. But it is curious to assume that the goal of a just retirement policy should be to guarantee a retirement of a fixed length, regardless of social changes, including gains in health and ability.

The significance of longevity gains, then, is not that they necessarily authorize a change in the retirement age. Consistent with justice over the life cycle, the state should not attempt to guarantee a standard retirement to all. Instead, evidence about changing longevity, health, and ability is relevant to a prediction about the onset of work disability. Chapter 7 presents empirical evidence suggesting that although the average older person can work well into her 70s, inequality should be taken into account.

Linking public retirement benefits to work disability may, incidentally, return the Social Security system to solvency.[5] Chapter 7 discusses the likely budgetary impact of the specific reforms I suggest, and the savings are substantial. Still, accounting solvency is a by-product of a fair retirement policy, and not an independent rationale for reducing Social Security benefits. Along similar lines, a retirement policy that links benefits to work disability may well induce many older Americans to remain in the workforce longer, but, again, this is an acceptable by-product, not a criterion for success. That is, it would not be a fatal objection if the policies did not increase work—if older people continued to retire at present ages but simply funded their retirement on their own. Life-cycle justice frames that goal not as a matter of discouraging leisure or encouraging work, but instead as a matter of setting the scale of the public pension program at its appropriate level: sufficient to prevent destitution.

Cumulative Disadvantage and Retirement

I will turn to the principle of social reciprocity in a few pages, but first, consider how the principle of state recognition of cumulative disadvantage prompts attention to the problem of unequal age. A fair program of work disability insurance should not presume that the chances of work disability are equally distributed. Instead, a fair program should take notice of cumulative disadvantage, which leaves the same group with limited education, low wages, physical and stressful jobs, worse health, and greater rates of disability.

This principle, too, provides ready answers to the policy analyst's three questions. First, the rationale for state action is that a just society should pay due attention to the multiple burdens facing low earners, including illness, disability, low savings capacity, and family instability. As Chapter 5 discussed, the state should redress unfair inequalities throughout the life cycle, and not just at older ages or in cases of work disability. But a fair retirement policy offers an opportunity to mitigate these inequalities, a task that is important given the state's failure to resolve these inequalities and their cumulative effect on the same group of people.

Second, the goal should be to address the inequalities that pose particular disadvantage at retirement: unequal financial capability and earlier and more-prevalent disability. (As I have throughout this book, I will set aside the topic of health care, but poor health forms a part of cumulative disadvantage and should be addressed.) Third, these initiatives should redistribute from the advantaged, including older people as well as younger ones.

Concretely, a public retirement program should incorporate three elements. The program should ensure adequate income to disadvantaged workers who experience work disability and should expect only token contributions from them. At the same time, the public retirement program should enable—and not unduly penalize—early retirement for disadvantaged workers due to work disability. Penalties for early retirement should thus be progressive, permitting earlier retirement on more-favorable terms for those facing multiple disadvantages. And the program should rely on progressive taxation to reduce the financial burden on the least advantaged during their working lives.

Today's Social Security program unevenly fulfills this ideal. SSDI nominally provides decent benefits for those unable to work, but gaps in coverage and long waiting periods can impose hardship on low earners unable to work.[6] Social Security's lack of a minimum benefit, combined with regressive subsidies for private pensions, leaves many low earners in or near poverty even when they reach retirement age. The early retirement rules offer an early exit from the workforce that is especially valuable to the disadvantaged, but they pay the same hefty penalty (in percentage terms) as more-affluent workers for the ability to retire "early." And the payroll tax base is increasingly regressive as wage and income inequality grow.

The details of these reforms will require examination and elaboration in Chapters 7 and 8. But, even at this stage, it is clear that Social Security's progressive benefits formula alone is insufficient to meet the criteria for justice.[7] The progressive benefits formula, as Chapter 3 explains, provides a higher proportionate payout to lifetime low earners. This feature of Social Security certainly operates to mitigate inequality in lifetime earnings. But the progressive formula is limited in its ability to mitigate cumulative disadvantage. The formula, as we have seen, does not ensure a minimally decent living standard. Nor does it mitigate the hefty financial penalty on early retirement for disadvantaged workers. Nor does it address the increasingly regressive tax structure that funds Social Security.

One clear implication is that a fair retirement program should permit earlier participation on relatively favorable terms for the disadvantaged. In Chapter 7, I consider several options and settle on a system that would enable lifetime low earners to retire early with very little financial penalty. (Penalties on higher earners would be graduated and would be significant for the highest earners.)

The recognition of cumulative disadvantage thus provides a principled ground for addressing what I termed in the Introduction the "egalitarian problem." It is possible both to recognize the increased education, longevity, health, and ability of older workers as a group and to make secure provision for the least advantaged through minimum benefits and progressive retirement timing rules.

One likely objection to this approach is that the correlation between cumulative disadvantage and work disability is strong but imperfect.[8] Some robust people may be able to continue low-paid manual labor into their 70s. Some affluent people may suffer work disability in their early 60s, despite high levels of education and relatively pleasant working conditions. The result is that early retirement rules targeted for the disadvantaged may seem over- and underinclusive.

But that criticism mischaracterizes the foundation for an early retirement program targeted to those experiencing cumulative disadvantage. Low lifetime income is not simply a predictor measure of likely work disability. To be sure, early retirement on relatively favorable terms does have prudential value. It would ease the administrative burden of determining work disability, because such a high percentage of low earners experiences disability in their 60s.[9] But there is a principled rationale for early retirement as well: low lifetime earnings are a reliable marker of cumulative disadvantage, given current social conditions, which heap multiple obstacles in the paths of those with little education and low earning power.

The larger point is that it is entirely fair to offer retirement earlier and on better terms to those facing cumulative disadvantage. At the same time, it is also fair to expect higher earners either to work longer or to take extra steps to document their inability to work. Chapters 7 and 8 will outline a number of alternatives open to higher earners who experience early work disability. They can claim SSDI (on somewhat easier terms than today), they may be eligible for unemployment insurance if they experience long-term unemployment, they can claim early retirement benefits subject to a penalty, or (as Chapter 8 discusses) they can select a new phased retirement option.

The measurement of cumulative disadvantage is, of course, critical to the implementation of these principles and potentially difficult on the ground. One signal advantage is that the Social Security system already collects reliable data on lifetime income, which is the gold standard for measuring disadvantage. Lifetime low income is very difficult for individuals to game or to fake. By contrast, a typical income tax has only one year's information about a taxpayer's economic situation, and it is sometimes too easy for taxpayers to understate their income for a short time.

Still, there are open issues for administration, which Chapters 7 and 10 take up. One is the problem of the part-time worker who has a high wage rate but low total earnings: think of the part-time lawyer or doctor who deliberately chooses to work limited hours. Another is the balance to be struck between public provision via Social Security and subsidized private provision via a reformed 401(k) system.

Social Reciprocity and Justice in Transition

The principle of social reciprocity reinforces the progressive cast of a fair retirement policy. Chapters 2 and 5 discussed the significance of the fact that older Americans, as a group, have reaped gains in life span and in quality of life from public investments, but that gains have not been equally distributed. Social reciprocity calls for affluent older workers to contribute more than they now do to the collective, in order to share their gains with younger age groups and with less-affluent older ones.

Concretely, social reciprocity supports progressive taxation of income, which tends to fall on older and more-affluent individuals. Social reciprocity also provides a powerful reply to what I termed in the Introduction the "myth of purchased benefits." The myth probably contributed—and still contributes—to the popularity of the Social Security program, and it may foster a sense of security. But discussions of retirement policy in the United States are sometimes hampered by claims that workers own their existing state benefits because they have paid for them.

One reply emphasizes that Social Security contributions are not, in fact, set aside in individual accounts or linked to contributions.[10] The pay-as-you-go system uses current tax payments to fund current benefits, and the level of benefits reflects a congressional decision, not a payout of each worker's account. Indeed, some generations as a whole receive far more than they have paid in, while other generations will receive less.

The principle of social reciprocity suggests an additional reason to set aside the myth of purchased benefits. Older workers, as a group, have benefitted from social investments in education, health, disability accommodations, and antidiscrimination. The measure of their "payout" should thus not be limited to their Social Security checks. Nor should their obligation to contribute be exhausted by their Social Security payroll taxes.

Taking a larger view of justice over the life cycle, older Americans enjoying longer, healthier lives with unprecedented work options should not expect that they also have an inviolable right to claim public benefits at a fixed chronological age of 62 or 66. Instead, what they should expect is that society will make adequate provision—in light of changing social conditions—for work disability.

But this reply is not quite sufficient, because it ignores an unstated concern subsumed in the myth of purchased benefits. When older Americans protest, "Hands off my Social Security!"[11] they seem to be staking an ownership claim. But they are also expressing a worry about transition, and that worry is a serious one.

Transition is a familiar problem in public policy. Any change in law may shift wealth, defeat expectations, and upset plans. The problem of transition is especially salient for changes in retirement policy, and for good reason. Current retirees who have left work (or have left their primary careers) have a limited capacity to adjust to new rules. Even younger workers have a stake in the transition to a new retirement policy, because retirement planning takes place over the long term.

A principled approach to transition would take seriously the ideal of life-cycle justice in light of current labor market conditions. Older people who have already left work probably have very limited opportunities to return to it, and they likely have made long-term financial and personal plans in reliance on Social Security benefits under present rules. In effect, they are not able to work, and so they meet the (transitional version of the) work disability test.

Workers in their 50s have greater flexibility and can fairly be expected to alter their plans, although they have less capacity to do so than younger workers. An appropriate transition policy would give as much notice as possible of changing rules and would take into account age and labor market conditions in assessing work ability. Chapter 8 considers how a reformed unemployment insurance program and a new phased retirement option in Social Security might assist in the transition, helping those unable to find work or to continue full-time.

Antihumiliation and Mass Justice

The antihumiliation ideal informs the administration of justice. Ideally, the determination of work disability would take into account an individual's circumstances, including her education, abilities, and work opportunities. Individuals differ as they age; they differ in their capabilities and ability to accommodate; and they differ in their work options, which depend on training, geography, and demand for their skills. Thus, an English professor who is unable to hear might still be able to do much of her job, while a call-center operator would not. (Whether other feasible work options are open to the call-center operator would depend on her other capabilities.)

Remaining in the ideal world for one thought more, a work disability determination also should not be all or nothing: it is entirely reasonable to anticipate cases in which people can work part-time or take somewhat lesser jobs that add up to partial self-support. An English professor with mild heart disease, say, might be able to work a half-time schedule, an option that is quite common in academia, where courses can be parceled out in easily divisible fashion.

Moving from ideal to reality, though, individualized determinations of work disability prove far less appealing, because they contravene the antihumiliation principle. As Chapter 8 discusses in more detail, the present SSDI program presents a cautionary tale, for several reasons. Individualized determinations are resource-intensive: they are costly for the government and for claimants as well. But cost is not the only reason to take a skeptical view of individualized determinations. Complex legal processes tend to favor the well-off and the well advised and to disfavor the most vulnerable groups. Workers who can hire lawyers, doctors, and other experts can obtain the most favorable interpretation of the law and can pursue their remedies through appeals. Workers who lack the physical, mental, or financial resources to mount a concerted campaign may find themselves excluded—even when their situation is just as meritorious.

These are, of course, good reasons to reform SSDI. The challenge is that SSDI must determine work disability for (relatively) young workers. In this population, permanent disability is exceptional, not part of the expected life course, and many disabled people can ultimately return to work. For this reason, many SSDI reform proposals focus on keeping (younger) people off the disability rolls or returning them to the workforce.[12]

By contrast, the determination of work disability for older workers poses different, and less intractable, problems. When the question is whether people, say, ages 60 and above should be entitled to collect retirement benefits, the disability frame changes. For this group, work disability is far less rare than for younger workers. Just as important, work disability is part of a typical life course rather than a detour. Individuals and the government should face less pressure to send disability recipients back into the labor force, because they are likely at the end of their working careers.

Linking retirement to work disability, then, need not follow the SSDI model of individualized, heavily litigated determinations. A better approach would adopt mass or categorical determinations, with traditional SSDI and its individualized determinations as a backstop for outliers.

The antihumiliation ideal supports a mass justice approach, which stands in sharp contrast to individualized determinations. Lawyers often suppose that justice is best served by individualized determinations, which can take into account the nuances of personal situation. This legal individualism has deep grounding in liberal individualism and the ideal of due process before the law.

And yet, lawyers also know too well the limitations of legal institutions, which raise deep questions about the feasibility and desirability of individualized determinations. Too often, legal processes intended to elicit the nuances of individual situations fail to do so. Instead, they create expensive procedures that invite exploitation by the knowledgeable—but too often exclude the most vulnerable claimants.

For these reasons, we should recognize the potential for what we might think of as mass justice. Mass justice is the already-familiar mode of most social insurance programs: the idea is to use aggregate data to create programs that preserve privacy and dignity and yet do far better than present law in meeting the demands of equality. Categorical rules based on age, lifetime income, and job category permit the government to adopt administrative processes that are easily accessible to all, private, and without the inequities associated with complex, litigation-style determinations.

Social Security itself adopts just this kind of mass justice. The retirement program (technically, Old-Age Insurance) covers most retirees, permitting individuals to qualify based on information the government already possesses (age and earnings history). SSDI, along with Supplemental Security Income (SSI) and unemployment insurance, provide backstops for workers who become disabled or unemployed before old age.

But, as Chapter 3 documented, the present system is dysfunctionally over- and underinclusive because it relies too heavily on chronological age, despite growing inequality in the experience of old age. Chapters 7 and 8 will develop a multilayered approach. Using data on lifetime income and occupation, progressive retirement timing rules will permit workers facing cumulative disadvantage to claim Social Security earlier and on better terms. Workers facing disability but not yet able to claim Social Security will be able to take advantage of new unemployment insurance benefits for older workers and a new phased retirement option for Social Security. By definition, workers not covered by these rules will be relatively affluent, and they will always be able to claim benefits under traditional SSDI, with its individualized determinations.

It will take some time to work out the details of these new regimes in Chapters 7 and 8. But, even at this stage, it is important to contrast mass justice of this type with traditional means testing. Proposals for means testing Social Security are familiar, if not terribly popular.[13] The rationale is straightforward: means testing would reduce the budgetary cost of Social Security while ensuring that truly poor older people are not left destitute.

But means testing runs counter to two important principles. First, means testing does not recognize cumulative disadvantage. Means testing implies that benefit levels should be set based on annual income *at retirement.* This snapshot of retirement income, though, is an uncertain guide to lifetime circumstances. A far better indicator of an individual's situation is lifetime earnings. Accordingly, all the reforms I propose would use the gold standard of lifetime earnings, and not present "snapshot" income, for determining advantage and disadvantage.

Second, means testing of the traditional type runs afoul of the antihumiliation ideal. Conventional means testing requires a personal interview and intrusive questions about the most intimate matters, including household composition, spending habits, and past consumption choices. And standard means testing casts the applicant in the position of supplicant. She must travel to the welfare office, wait in line for the caseworker's attention, and then conduct herself humbly while answering intrusive questions. This is institutionalized humiliation.

The antihumiliation ideal captures what I called in the Introduction the "universality problem," the worry that targeting Social Security to economic circumstances in any way will undermine the appearance (and reality) of universal provision. Chapters 7, 8, and 10 will show that the universality problem can and should be managed. With due attention to the possibility of humiliation, and by judicious use of mass justice approaches, Social Security can incorporate attention to disadvantage without imposing a humiliating means test.

Indeed, Social Security already makes use of just such an approach. The progressive benefits formula is the model for many of the reforms I propose, because it uses lifetime income and a progressive formula to make a quiet adjustment in favor of the disadvantaged. We can, I will show, extend that approach to progressive retirement timing rules as well.

Looking Ahead

The remainder of this book will tackle the task of turning general principles into concrete policy options. I hasten to add that the policies I will propose are hardly set in stone. They represent one—and only one—attempt to tease out the implications of principle for Social Security form. There is surely wide room for disagreement about the practicalities of policy design, and any particular blueprint will provide only a foundation for further discussion.

Even so, I think it is well worth it to push into the world of policy design rather than remain at the level of general principle. Working out some of the details will help reveal pressure points and synergies that are not obvious at first glance. For instance, Chapter 7 wrestles with the problem of how to extend earlier retirement to workers facing cumulative disadvantage. As a thought experiment, I first analyze a system that would graduate the Social Security retirement age based on indicia of disadvantage (lifetime earnings, occupation, and education). But I conclude that this regime could be improved upon with a second proposal that would adopt a universal range of retirement ages—from 62 to 76—but would impose progressive retirement timing rules.

But changing the financial terms of early retirement, it turns out, is only one piece of the puzzle. Rules that would enable some to retire early but encourage others to work longer have ripple effects on a wide range of rules inside and outside Social Security. Chapter 8 tackles the task of reorienting a range of social programs to assist an older workforce, and Chapters 9 and 10 consider the implications of Social Security reform for families and for the tax system.

7

Progressive Retirement Timing

A growing chorus of policy analysts is calling for an increase in the Social Security retirement age.[14] Even staunch defenders of Social Security concede that the retirement age of 66 is too low, in light of the increasing longevity, improving health, and expanding work options of older Americans.[15] But the egalitarian problem has discouraged some progressives from joining the chorus: they worry that the only way to protect disadvantaged workers is to leave the early and full retirement ages as they are.[16]

But we can solve the policy deadlock by reframing the question. Policy debates tend to focus on how high the retirement age should rise. But age, as we have seen, is a contingent category, with shifting physical and social meaning. Instead of beginning with chronological age, we can and should start with a deeper account of the objectives of retirement policy.

As we have seen, individuals ideally should claim public retirement benefits when they can no longer support themselves through work. And, ideally, the state should pay a basic income or other income supplement to disadvantaged workers throughout their lives. But, as Chapter 6 discussed, the gap between ideal and reality is large. Individualized determinations, as in the case of welfare or SSDI, too often humiliate the recipients and can exclude the disadvantaged. And the United States does not offer an adequate income supplement to the disadvantaged prior to retirement.[17]

This chapter takes up the challenge set by Chapter 6 to craft categorical rules that would accomplish two objectives: to provide a reasonable, yet dignified, means of linking public retirement benefits with work disability and to permit earlier retirement on secure terms for workers facing cumulative disadvantage. The key task, we shall see, is to find reliable indicia for identifying work disability and cumulative disadvantage. Armed with those indicators, progressive retirement timing rules can accomplish both objectives while preserving a high degree of universality and individual choice.

Work Disability and Age

Measuring the extent of work disability among older people is not particularly easy, because data are imperfect, criteria are inexact, and moral hazard may entice individuals to exaggerate (or fabricate) disability. To be sure, age is a strong predictor of work disability. About 16% of people aged 55–64 experience severe work disability—nearly twice as high as the roughly 9% rate for the 45–54 age group.[18] Data on SSDI benefits bear out the correlation between age and work disability: a man aged 50–64 is more than 5 times as likely to receive disability benefits than a man aged 20–49.[19] Today, the SSDI rules make limited use of age in determining work disability, and Chapter 8 discusses how that program might take further steps to accommodate age.

But, as we have seen, there is considerable diversity among older Americans in the experience of old age. Within the group of older people, work disability correlates with lifetime earnings and with occupation as well as health status. And, even within these categories, individual experience differs based on genetic factors, health habits, and luck.

Still, if we bear in mind that the goal is to craft practical rules aimed at mass justice rather than complete precision, data on work disability and age can help us take a cut at measuring the prevalence of work disability among older individuals. As a first cut, consider this question: *At what age can a majority of older people no longer work?* The goal is to help us take a first stab at crafting rules for linking retirement age more closely to work disability.

The answer, it turns out, is not age 65—or anything close to it. In fact, a majority of American workers could work into their late 70s or early 80s. Studies find that about 33% of adults in their late 60s have health problems or serious disabilities that cannot be accommodated successfully.[20] That figure rises to 43% for adults in their late 70s. By ages 80–84, 53% of adults report reduced activity levels, difficulty managing activities despite accommodations, or needing assistance from others.[21]

To be sure, we should interpret disability studies with caution. The concept of disability is slippery and can vary from study to study and program to program.[22] Compounding the measurement problem, most studies rely on self-reporting of disability, and there is no way to check for accuracy of self-reports or consistency across individuals. One person might report, say, walking with a cane as a serious disability, while another might feel that the cane represents a successful accommodation or even removes the "disability" entirely. Studies also differ in how questions for survey participants are framed.

Simple humanity counsels caution as well. Those of us who are older know that aging is felt not only in the onset of obvious disability but also in smaller ways. Older people may have less energy or may need more rest to perform with high energy. Older bodies may need more regular exercise to stay fit, or more sleep to regain energy, leaving less time for work, and so on.

Another important caveat is that work disability data focus on workers' abilities and not job market opportunities. Even though most people can probably work into their 80s, the present job market may not be well organized to accommodate them. Chapter 8 discusses the options for (and the importance of) reforms to combat age discrimination and anticipate unemployment among older workers. Still, at least as a transitional matter, a conservative approach seems wise.

The antihumiliation principle underscores the importance of taking a conservative approach to the disability data. When data show that a majority of older people are unable to work due to disability, it is reasonable enough for public retirement programs to grant the benefit of the doubt to the remainder. Of course, there is no hard-and-fast principle at stake here. We might look, instead, to the age when 60% can no longer work. Or 75%. But 50% represents a cautious first step.

Work Disability and Lifetime Income

Looking beyond chronological age, lifetime income and education level also strongly predict work disability, and they provide a means of identifying cumulative disadvantage.[23] For instance, in 2014, 25% of adults aged 65–74 reported some kind of disability, but the rate was 40% for those with less than a high school diploma and only 15% for those with a BA or more.[24] Rates of disease correlate with income level and education level as well. Heart disease, for example, falls as income rises.[25]

To be sure, these correlations too are imperfect. Liqun Liu and coauthors find that lifetime income is negatively related to disability, especially for men. Still, the relationship is complex, they conclude, and is influenced as well by "gender, race and family structure."[26] Some researchers notice that disability rates tend to converge at much older ages: disability varies negatively with income in the 50s and 60s but much less so by the mid-70s, primarily because of mortality differences: by the mid-70s, many sicker, lower-income people are no longer alive.[27]

It might be possible to refine the correlation between income and work disability further by adding information on job category, because physical occupations tend to produce higher rates of disability. Today, the Social Security Administration does not collect data on occupation type. A reporting system could be designed to capture the degree of physical labor and mental stress associated with particular jobs and informed by data on disability.

Still, as Chapter 6 discusses, the imperfect nature of the income and education correlations does not vitiate the mass justice approach, for reasons both principled and practical. At the level of principle, the state should be concerned about cumulative disadvantage—whether measured by lifetime income, by education level, or by occupation type—throughout the life span. For that reason, it is not unfair if retirement rules based on these indicia permit some disadvantaged workers to claim public benefits while still able to work. The state is, in effect, finally paying an income supplement that should (in an ideal society) have been paid all along.

By the same token, it is not unfair to offer different options to more-privileged individuals. A fair system should provide backstops to public retirement so that anyone experiencing work disability can claim public benefits at the appropriate time. But it is not unfair to expect these workers to go through the additional process necessary to gain access to these programs. Chapter 8 discusses three backstops of this kind: SSDI, unemployment insurance, and a new phased retirement option.

A Progressive Retirement Age?

Before we dive into the details of progressive retirement timing, consider a thought experiment. What if Social Security attempted to recognize the unequal experience of age by adopting graduated retirement ages for different individuals based on their lifetime income, education level, and job type? For reasons I explain next, I find this approach less appealing than the solution I propose, but the thought experiment is worthwhile, because it highlights problems of equality and administration.

Today, the Social Security retirement age is the same for everyone. The "full retirement age," or the age at which full benefits are paid, is currently 66, slated to rise to 67 by 2027.[28] Workers can claim benefits as early as age 62, but they pay a penalty of as much as 25% (30% by 2022) for early claiming, and the penalty is the same (in percentage terms) for everyone.[29] Workers who wait until 70 receive a bonus called the "delayed retirement credit."[30]

But the fixed retirement age ignores the unequal experience of age. A highly paid college professor, for instance, should probably be able to work until 76 or later, reflecting the low-stress nature of her job, the high levels of education needed to attain it, and the high levels of lifetime earnings. By contrast, a low-paid warehouse worker likely will need to retire much earlier in recognition of the multiple disadvantages she has faced: a physically and mentally stressful job, low wages, and little education.

We are so used to thinking of the retirement age as universal that it may seem odd to consider graduating retirement according to progressive criteria. One immediate objection—to which I will turn shortly—is the departure from universalism. But first, it is worth pausing to consider the advantages of a progressive retirement age.

First, as we have seen, the unequal experience of age is well documented. On average, affluent workers can work longer: they have better health, lower rates of disability, and generally more work options open to them. As Chapters 4 and 5 argued, these workers have reaped large gains in longevity and quality of life from social investments, and so it is fair to expect them either to stay in the workforce longer—or, if they want to retire, to fund early retirement themselves.

The option for self-funded early retirement is worth emphasizing. As we have seen, public retirement benefits should be a hedge against work disability, not a pool of money tapped for optional leisure. Affluent workers who want a long period of leisure in late middle age should save to fund early retirement, just as they would save for a vacation, a bigger house, or other consumption items.

By contrast, earlier retirement is not a luxury for many lower-earning workers. On average, lower earners reach their 60s with lower life expectancy, worse health, and higher rates of disability. These workers have often faced relatively harsh working conditions, including higher levels of physical and mental stress, greater unemployment, and less autonomy in the timing and content of their work. The work options open to them at older ages are often quite poor, involving—at best—the same type of high-stress, low-autonomy work.

Second, from an administrative perspective, the good news is that the existing Social Security system already has the data needed to begin to implement a graduated retirement age. Every employer files wage information with the Social Security Administration every year. The result is that the government has an accurate record of lifetime earnings for every worker (setting aside off-the-books work, to which I will return in the next section.)

Lifetime income is the gold standard for justice, because it portrays an accurate picture of an individual's long-term circumstances. Lifetime low earners typically are those who have worked consistently at low wages or who have faced job interruptions for child-rearing or unemployment.[31] Income taxation, by contrast, typically takes a one-year snapshot of income, and tax analysts worry (with justification) that snapshot income can badly over- or understate an individual's true circumstances. A high earner might report a temporarily low income due to a job transition or an extended vacation, but her wealth and other resources mean that she isn't really poor. The mirror-image case can occur too: low earners have volatile incomes and sometimes report temporarily higher incomes that do not accurately reflect their low wealth and (often) high levels of debt.

Mechanically, it would be straightforward to graduate the retirement age based on lifetime income (updated, as under current Social Security rules, to current dollars).[32] For instance, suppose that policy makers decided to raise the retirement age for the top 25% of earners to age 76. The rules could still permit the lowest 25% of earners to retire at 62. The middle 50% would face a graduated retirement schedule between those ages. (Table 1 illustrates the point.) A smooth schedule with no "cliffs" would be relatively easy to design.

[Table 1 about here]

Still, a graduated retirement age has two major disadvantages. First, a variable retirement age alters the appearance of universality. Today, the ages of 62 and 67 mark rites of passage for entire generations. The Third Age has brought diversity in retirement patterns, but we all become Social Security claimants together. If the retirement age were income-linked, that social identity would be undermined. Now, some might think it would be a good thing if the political influence of the elderly as a bloc were weakened. Perhaps it would be salutary to reduce the power of the AARP. But, at the same time, there would be dignitarian costs: People receiving benefits in their early 60s would no longer be seen—as they are today—as simply making a choice about early retirement. Instead, they would demarcate themselves as disadvantaged.

Second, retirees could not plan the timing of their retirement with certainty until age 62, when lifetime earnings are computed. Most retirees would have a pretty good idea of their status, and the Social Security Administration could offer a planning calculator. A degree of uncertainty exists today in the benefits calculation: one cannot know one's monthly retirement benefit until age 62, when the calculation of "lifetime" earnings becomes fixed. A graduated retirement age would add a second dimension of uncertainty—timing as well as amount.

A graduated retirement age is worth considering.[33] Still, we can do better, preserving its advantages while addressing its disadvantages, by making use of a lever already in place in the Social Security system—the benefits formula.

Progressive Retirement Timing

The good news is that we can adjust the Social Security benefits formula to achieve much of the upside of a graduated retirement age, but without the downside. The basic idea is that the retirement age would remain universal, but the timing penalties for early retirement would be

Anne Alstott 9/3/2016 1:29 PM
Deleted: 07_TAB07-01_CE_073115.DOC07_TAB07-01.DOC

Table 1.

COPY EDITOR 7/26/2015 11:25 PM
Deleted: 7.1

Linking retirement age to lifetime income

Lifetime income percentile	Full retirement age
Below 25th percentile	62
Between 25th and 75th percentile	Retirement age would gradually rise from 62 to 76 according to a sliding scale based on lifetime income level so that, for instance, a worker at the median income would have a full retirement age of 69.
At or above the 75th percentile	76

Anne Alstott 9/3/2016 1:29 PM
Deleted: 06/23/15 8:35 AM

progressive, permitting lower earners to retire earlier than higher earners with less financial cost in doing so.

Today's benefits formula, recall, imposes the same percentage penalty for early retirement (and bonus for late retirement) on every worker. For workers born in or after 1960, for example, workers retiring at age 62 instead of 67 lose 30% of the full monthly benefit.[34] Thus, a low earner might receive $700 per month instead of $1,000, while a high earner might receive $1,750 instead of $2,500.

Delayed retirement results in bonuses, presently 8% per year for up to three years. Thus, a low or high earner born in 1960 or afterward who can wait to retire until age 70 will receive 124% of her full monthly benefit. Continuing the example, the low earner would receive $1,240 per month instead of $1,000, while the high earner would receive $3,100.[35]

These flat penalties and bonuses ignore the unequal experience of age. Lower earners often need to retire early, with the result that they collect reduced benefits for the long term.[36] High earners often can work longer by virtue of their advantaged position, and they are best positioned to reap the percentage boost in lifetime benefits.[37]

But once we recognize that the retirement timing penalties and bonuses apply equally to low and high earners, we have pinpointed the source of the policy dilemma that opened this chapter. Progressives have worried that raising the retirement age would unduly penalize low earners who must retire early. But that concern reflects the present, flat percentage penalties and bonuses for early and delayed retirement.

The solution, then, is to decouple the retirement timing rules for low and high earners. Earlier in this chapter, I showed that we could do so by varying the retirement age by income. But we can now see that we can achieve a similar progressive effect by *varying the penalties and bonuses for retirement timing based on income.*

For instance, suppose Social Security kept the early retirement age for all workers at 62 but raised the normal retirement age ("full retirement age" in Social Security parlance) to 76, with no further bonus ("delayed retirement credit") beyond that. We could easily craft rules that would permit low earners to collect nearly a full benefit at 62, while imposing a significant penalty on high earners who retire in their 60s.[38]

Table 2 and Figure 1 illustrate variable retirement timing rules based on lifetime income. The lowest earners could retire at 62 with a very modest penalty of 10%, while the highest earners would pay an 80% penalty for retiring so early.

[Table 2 about here]

The adoption of progressive retirement timing would require some adjustment of the Social Security benefits rules. Today, the benefit payable at the so-called full retirement age is, in effect, a reduced early retirement benefit (compared with what is available at age 70). The rules should be rationalized so that the amount payable at the full retirement age of 76 is, indeed, the maximum benefit, with no bonuses for late retirement thereafter.

[Figure 1 about here]

Thus, Social Security would no longer distinguish among early, normal, and delayed retirement ages. Instead, there would be a spectrum of retirement timing options, with one focal point: the maximum benefit, claimable at age 76 and thereafter. The menu of benefits would be set (as under present law) at age 62, so each worker could see the schedule of benefits she would receive at any point. This presentation would not be substantively different from present law, with its penalties and bonuses, but the focal point would be the maximum benefit at age 76 and various penalties for earlier claiming. Along similar lines, the program should also eliminate the present earnings test, which reduces Social Security retirement benefits for workers who earn more than (roughly) $16,000 per year between ages 62 and 67 and then restores lost benefits later on.[39]

As a transitional (and permanent) matter, it will be important to set benefits and percentages so that low earners retiring at 62 receive no less than today at every age. So, for instance, benefits for low earners should be adjusted so that they receive more than today for early retirement ages but no less than today at later retirement ages. For example, a low earner with an age-70 benefit of $1,000 under present law might receive $900 at age 62 under the new system, rising to $1,000 at age 70 and $1,042 at age 76. Benefits for high earners, by contrast, should be set so that they receive less at every age until age 76. Middle earners should be, well, somewhere in the middle.

Table 3 provides an illustration. The table adjusts benefits so that low earners receive at least as much at every age as under present law. Medium and high earners, in this example, receive the same maximum as under present law, and so they receive less at every age until age 76.

Anne Alstott 9/3/2016 1:30 PM
Deleted: 07_TAB07-02_CE_073115.DOC07_TAB07-02.DOC

Table 2.

An example of progressive retirement timing: Percentage of maximum Social Security benefit collected at different ages

COPY EDITOR 7/26/2015 11:47 PM
Deleted: 7.

COPY EDITOR 7/26/2015 11:47 PM
Deleted: .

COPY EDITOR 8/2/2015 4:21 PM
Deleted: .

Lifetime earnings	Age	Proposed benefit (percentage of maximum benefit)
Low	62	90
	70	96
	76	100
Medium	62	45
	70	76
	76	100
High	62	20
	70	66
	76	100

Anne Alstott 9/3/2016 1:30 PM
Deleted: 06/23/15 8:35 AM

[Table 3 about here]

Of course, many additional variations are possible. The potential savings to Social Security of delayed retirement benefits are enormous; therefore, benefits for medium and high earners might be adjusted to increase benefits at later ages relative to current law. For example, perhaps at age 76 the medium earner in the example would receive $2,200 instead of $2,000. The key considerations should be to preserve the adequacy of benefits for low earners who must retire early and to implement a progressive system of timing penalties so that high earners receive very little until their 70s.

Importantly, a new progressive retirement timing formula could be designed to provide a gradual transition over time. Indeed, over the past two decades, the Social Security system has accomplished a similar (if less radical) change, raising the retirement age and altering penalties and bonuses for early and delayed retirement.[40] It might also be wise to index age 76 to trends in longevity, so that Social Security automatically captures future improvements in life span. By contrast, indexing the earliest retirement age (age 62) should be approached with caution, because the earliest age is most salient for lower-earning workers, who have not fully participated in longevity gains to this point.

A system of progressive retirement timing should ideally distinguish between disadvantaged workers and voluntary part-time workers who are not disadvantaged. Even though lifetime income is superior to snapshot income as a measure of disadvantage, it still cannot capture the diversity of individual experience within income cohorts. For instance, a well-educated artist living on $25,000 per year has a different life than a Wal-Mart worker working 60 hours per week for that same annual income. Similarly, it would be unfair, in principle, to treat as "disadvantaged" a lawyer with inherited wealth who takes the occasional consulting gig and averages, over a lifetime, the same $25,000 in earnings.

Although these distinctions are sound in principle, it may not be worth the administrative effort involved to make them in practice. Especially today, with more and more women in the workforce, there are fewer well-educated people capable of high earnings who choose to stay at home. Still, a bit of extra precision might be worthwhile and not too expensive to attain. Hours worked, job type, and education level are all useful refinements. Of these, hours worked and job type might be most easily manipulated; a self-employed worker might exaggerate her hours or misclassify her job. But education level could be reportable to the IRS at, say, age 30 and again at age 50.

Anne Alstott 9/3/2016 1:30 PM
Deleted: 07_TAB07-03_CE_073115.DOC07_TAB07-03.DOC

Table 3.

COPY EDITOR 7/27/2015 9:50 AM
Deleted: 7.

A comparison of progressive retirement timing with current law

Lifetime earnings	Age	Current law	Progressive retirement timing
Low earner (age 70 benefit is $1,000 under present law)	62	565	938
	70	1,000	1,000
	76	1,000	1,042
Medium (age 70 benefit is $2,000 under present law)	62	1,129	900
	70	2,000	1,520
	76	2,000	2,000
High (age 70 benefit is $3,500 under present law)	62	1,976	700
	70	3,500	2,310
	76	3,500	3,500

COPY EDITOR 7/27/2015 9:51 AM
Deleted:

COPY EDITOR 7/27/2015 9:51 AM
Deleted:

COPY EDITOR 7/27/2015 9:51 AM
Deleted:

Anne Alstott 9/3/2016 1:30 PM
Deleted: 06/23/15 8:36 AM