The Daily Dish

The Fairness Will Continue Until Morale Improves

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There is a growing, bipartisan consensus to reform Social Security. Perhaps one could be forgiven for assuming that the countless hours spent analyzing, advocating, or otherwise engaging in this decades-long effort had finally paid off, and that Congress, stirred from apathy, could address the program's looming insolvency in a deliberate and disciplined fashion.

But it's 2023, so of course that's not what Congress is considering. Not content to simply let the Social Security Trust Fund become insolvent in its own good time (2034 by the current estimates), Congress is considering a change that could hasten the fund's exhaustion by at least a year, possibly more. Specifically, there are now 288 cosponsors for the "Social Security Fairness Act of 2023." The title alone should give one concern, considering it invokes Social Security, over which there is no substantive agreement in Congress, and "fairness," over which there is no substantive agreement in the universe.

Nevertheless, the majority of a body that likely couldn't agree on the cardinal direction of sunrise supports "fairness" in Social Security. Oh goody. What is this newfound understanding of fairness? Turns out it's really just basic laziness in which 288 members of Congress want to indulge at a cost in excess of $150 billion. Specifically, these members want to make the world a fairer place by giving retirees with state and local pensions more Social Security benefits than retirees who only worked in jobs covered by Social Security.

Social Security generally covers private-sector workers such that earnings are subject to payroll taxes that fund the program. In retirement, those workers will receive benefits in the form of a progressive replacement of their earnings. Benefits are structured so that retirees with lower lifetime earnings receive a higher proportion of their earnings than do retirees with higher lifetime earnings. This structure lends progressivity to the system overall, despite being financed by a somewhat regressive tax.

For most workers, this system is relatively straightforward. But about a quarter of state and local employees are not covered by Social Security, nor were federal employees hired before 1984. The workers face no payroll tax liability, but similarly receive no credit for earned Social Security benefits because they weren't earned. Rather, these employees paid into separate pension systems. For workers who remain entirely in that system, there's no particular complication or challenge.

Things get complicated for workers who have spent time in covered and non-covered employment. All else equal, such a retiree would be receiving a pension from their time in non-covered employment and retirement benefits from Social Security. But their earnings history, and related retiree benefit, would make them look as if they were a low-income retiree, and they would therefore receive a higher proportion or replacement of those covered earnings. But of course, they are not so situated – they are also receiving their pension benefit from their non-covered employment. Similar circumstances can also arise with respect to survivor benefits. To mitigate this effect, Congress enacted the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP). These policies are designed to avoid overpaying these retirees.

Yet these provisions are complicated and imperfect solutions at best, and there is widespread acknowledgment that they could benefit from tweaking. Any policy change in Social Security is fraught and challenging, however. These specific policy reforms involve complicated policy changes that are poorly understood and involve powerful constituencies. In short, reforms involve exactly the kind of tradeoffs and compromise that should animate legislating on Social Security.

But recall that it’s 2023, so instead a majority of the House has signed up to simply throw in the towel and repeal GPO/WEP. Will it cost $183 billion over 10 years? Yep. Will it push Social Security into insolvency even faster? Sure will. But rest assured, it will be “fair.”