Journal of Pension Economics and Finance (2020), **19**, 576–577
doi:10.1017/S1474747220000219

BOOK REVIEW

Book Review: Sustaining Social Security in an Era of Population Aging

John A. Turner, W. E., Upjohn Institute for Employment Research, Kalamazoo, Michigan, United States.

A Webb

(First published online 30 July 2020)

The United States Social security program faces an actuarial shortfall. The Social Security Trust Fund is on track to be exhausted by 2034 after which tax revenues will be sufficient to pay only 79 percent of current law benefits. Restoring solvency requires some combination of benefit cuts and tax increases.

The impending shortfall has been understood for many years by policy analysts, politicians, and indeed by the general public. Several reports and books have outlined the contours of reforms that would restore solvency, notably the Simpson Bowles National Commission on Fiscal Responsibility and Reform, Diamond and Orszag in their book titled "Saving Social Security: A Balanced Approach," and the recently updated Social Security Fix-It Book, published by the Center for Retirement Research.

So the question arises – what does John Turner's book add to the literature? The author attempts to address this question at page five, where he itemizes four contributions. But we have to wait until page sixteen, after a lengthy discussion of benefit formulas, before he provides a book overview, and until page sixteen before he provides a chapter roadmap. More generally, firm editing would have enhanced the readability of the book.

The book is aimed at a policy audience. Although the author discusses the usual ways in which actuarial balance can be restored, it would have been helpful to provide a table indicating their relative magnitude. Some proposals, such as remitting unclaimed IRA and 401(k) balances to the Social Security Trust Fund, were novel, at least to me. But I was left pondering whether John Turner had discovered a money tree that would bridge the actuarial shortfall, or whether the sums available were too inconsequential to be worthy even of discussion.

The book would have benefited from greater attention to the difficulties older Americans face in the workplace. John Turner emphasizes the longevity insurance provided by Social Security. But Social Security not only provides longevity insurance, but also offers a socially acceptable alternative to work at older ages. Although longevity has increased dramatically since Social Security was established in 1937, even for lower socioeconomic status workers, it it is not clear that older Americans ability to work has increased in line with increases in longevity. And America is a vastly wealthier country than in 1937 – real GDP per capita has increased somewhat more than six-fold – and Americans might choose to spend some of that wealth to allow early retirement to less healthy workers who in previous generations would have been expected to soldier on. Although John Turner acknowledges that his proposed increase in the early retirement age from 62 to 63 may be burdensome to some, he does not note the possibility that some of these workers may, in future, end up on the disability rolls.

The book was it its most interesting when discussing the reform process. Although it is well understood that uncertainty as to the level of future benefits and taxes imposes significant costs on households, politicians have chosen to delay reform. Drawing on behavioral economics, John Turner proposes that Congress pass legislation that would default benefit cuts and tax increases to be implemented whenever the Social Security actuaries determine that the Trust Fund will be exhausted within 15 years, so that the default would no longer be inaction. Congress would be able to override the default should it so wish. But 2034, the date on which the Trust Fund will be exhausted, is now only 15 years away, and legislators are unlikely to agree to a default that conflicts with their political preferences. And we already have a default – that when the Trust Fund is exhausted solvency should be restored by benefit cuts. Legislators who favor benefit cuts over tax increases are hardly likely to agree to what is, to them, a less favorable outcome. John Turner omits to mention what is, to my mind, a significant barrier to reform, namely the unspoken understanding that, as with the 1983 reform, those near to retirement will be protected from benefit cuts. Older voters have a financial incentive to support delay because by so doing the avoid tax increases while increasing the likelihood that they will be old enough to escape benefit cuts.

John Turner devotes a chapter to discussing benefit adequacy. The chapter starts by defining alternative replacement rate measures, explaining that the Social Security Administration uses a denominator of wage indexed earnings, contrasting wage indexed with price indexed earnings which yield a higher replacement rate, and characterizing price indexed earnings as "the standard measure." By endorsing one measure as "the standard measure," John Turner gives ammunition to those who argue Social Security benefits are quite generous. To my mind, if households want to maintain pre-retirement consumption rather than the liquidity constrained consumption they enjoyed in their 20s, wage indexed earnings is the more correct denominator as it has been shown to approximate to pre-retirement earnings.

More generally, one cannot discuss the adequacy of Social Security replacement rates without considering the structure and goals of the retirement system as a whole. Social Security is not designed to maintain pre-retirement consumption. Instead, it is a base that workers can supplement through employer sponsored retirement plans and private savings and which the government can supplement through means tested programs for the truly destitute. But the progressivity of the Social Security permits redistribution from high to low lifetime earners and provides insurance against bad labor market outcomes. Any discussion of the adequacy of benefits should start by setting out the program's goals.

Although the book has its shortcomings, the language is accessible, and at 98 pages, it is agreeably short. I commend it to its intended policy audience.