Keeping Social Security Afloat

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Proposals to Prolong Social Security's Solvency

In 2015, Social Security expenditures amounted to more than $895 billion with total income at $920 billion[1]. According to the 2016 Trustee Report, the underlying combined trust funds responsible for paying Social Security benefits will reach depletion in 2034. At this time, asset reserves will not be able to fully pay scheduled benefits when due.

The Skinny on Social Security Solvency

In March 2015, our Your Trusted Source newsletter featured an article entitled "How Secure is Social Security?" which explained the fundamental trust funds from which Social Security benefits are paid, known as the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds. At this time, the Disability Insurance fund was projected to reach depletion by the fourth quarter of 2016 meaning it would be adequate only to pay 81% of scheduled benefits. With the passing of the Bipartisan Budget Act of 2015[2], a portion of payroll taxes dedicated to the OASI fund was rerouted to the DI to slow depletion. The DI fund is now projected to remain solvent until 2023 at which time it will be sufficient to pay 89% of scheduled benefits. The underlying OASI trust fund is forecasted to remain solvent until 2035 and the combined OASDI funds until 2034. At this time, the combined assets will only be sufficient to pay 79% of payable benefits.[3]

Solvency? Depletion? 2034? What does this all mean? It means that in just 18 years, without policy change, Social Security will be attempting to pay out more money in benefits than it's bringing in through payroll taxes. As our March 2015 article states, this imbalance can be partially attributed to the Baby Boomer generation reaching retirement at a time of a low worker to beneficiary ratio. Since Social Security is a significant source of income for millions of Americans, its shortcomings must be remedied as soon as possible.

Proposing Change

One thing that most Americans, even politicians, can agree on is that something significant has to change for Social Security to remain solvent for future generations. With so many cooks in the kitchen, we receive countless recipes to fix this inadequacy. While we presume no proposal will be approved without modification, there are underlying commonalities among the proposals that highlight which areas may be changed to prolong solvency.

Cost of Living Adjustments

Social Security benefits are adjusted annually to keep up with inflation through a Cost of Living Adjustment or COLA. Since 1975, these adjustments have been calculated

[1] The $920 billion in income consists of $827 in non-interest income and $93 billion in interest earnings.
[2] The Bipartisan Budget Act of 2015 passed on November 2, 2015.
[3] The 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds. 22 June 2016.

based on the Consumer Price Index, CPI, to mimic the change in prices of consumer goods and services.

Many proposals recommend a change in how the COLA is calculated for some or all beneficiaries, using either a chained CPI which aims to account for changes in consumer buying habits relative to changes in price, or the CPI-E which reflects the spending habits of older Americans. Using the CPI-E would actually increase the Social Security deficit by approximately 14% but it would allow the COLA to keep up with inflation that seniors face with rising out-of-pocket health care costs. Using the chained CPI would fill the funding gap by approximately 21%, according to the AARP.[4]

Normal Retirement Age

A person's normal retirement age is dependent on their birth date. Currently, the normal retirement age for a person born in 1960 or later is age 67. At this age, the beneficiary is entitled to his or her full Social Security benefit, paid in monthly installments. The earliest age to claim reduced benefits is age 62.

Overall, Americans are living longer than ever before which equates to a longer span of time drawing Social Security benefits. Increasing the retirement age and/or the early retirement age could drastically reduce the funding gap.

Taxation

For 2016, the current maximum amount of taxable earnings for Social Security is $118,500 which is taxed at 6.2%, payable by both employees and employers for a total tax of 12.4%.[5] As with many COLAs, this amount remained the same for 2015 and 2016.

Proposed changes to taxation regarding Social Security include increasing the maximum amount of taxable earnings subject to the payroll tax or eliminating the limit entirely which would, in effect, increase the tax for high-income earners. Alternatively, some proposals recommend increasing the payroll tax rate. While these may seem to be simple solutions to fix the funding gap, they would increase the cost of employment for employers and have the potential to be more harmful than helpful.

Targeted Benefit Increases

As explained by Marc Goldwein[6] of the Committee for a Responsible Federal Budget, "Promising every American - regardless of income - a bigger retirement check might be good election politics, but it's unnecessary and unaffordable." He continues to explain that today's 60 million Social Security beneficiaries will expand to 90 million in just two decades. An increase of just $100 in every monthly benefit check would equate to a cost of $1.2 billion over ten years. Proposals such as the Simpson-Bowles proposal from the National Commission on Fiscal Responsibility and Reform and the Save Our

[4] Updating Social Security for the 21st Century:12 Proposals You Should Know About. AARP. October 2015.

[5] Social Security Administration - Update 2016. https://www.ssa.gov/pubs/EN-05-10003.pdf.

[6] Marc Goldwein is the Senior Vice President of the Committee for a Responsible Federal Budget and the former Associate Director of the Simpson-Bowles Commission.

Social Security (SOS) plan sponsored by Rep. Reid Ribble establish a minimum benefit for lower income workers.[7]

The idea of means testing has been proposed and debated as it would allow scarce Social Security resources to be focused on the beneficiaries who truly need them rather than all beneficiaries equally. As an opponent of means testing for Social Security, Virginia Reno[8], the Social Security Administration's Deputy Commissioner for Retirement and Disability Policy, explains that means testing would fundamentally change Social Security from a social insurance where all who have paid in benefit, to a form of welfare and would likely harm the middle class.[9]

The Bottom Line

Social Security will continue to exist in some form for future generations. However, changes are required to keep the program afloat and ensure that the underlying trust funds do not reach depletion.

[7] Goldwein, Marc. Five Social Security Plans that Really Would Help Make America Great Again. Forbes. 23 August 2016.

[8] Virginia Reno is the current Deputy Commissioner for Retirement and Disability Policy (Social Security Administration) and the former Vice President of Income Security Policy for the National Academy of Social Insurance (NASI).

[9] Option: Begin Means-Testing Social Security Benefits. AARP Public Policy Institute. 22 June 2012.