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# Five Ideas To Start Fixing Social Security

## How different ways to boost revenue or cut spending could change the program

BY RICHARD RUBIN AND KARA DAPENA

Social Security is on the path to insolvency, prompting lawmakers and experts to hunt for ways to address its long-term finances.

The program already spends more on benefits than it receives in tax revenue. Within a few years, reserves built up in flush years will be exhausted, raising the prospect of benefit cuts that exceed 20%.

No one in Congress expects that to happen. But Congress hasn't figured out what to do instead.

Beyond just borrowing more or considering outsidethe- box ideas such as an investment fund offered by Sen. Bill Cassidy (R., La.) to bolster long-run solvency, lawmakers have a bunch of options within the current confines of the program. They can lower benefit levels and raise retirement ages. They can expand payroll taxes.

Social Security's actuaries provide annual estimates of the effects of dozens of different ideas.

Here's a look at some of those ideas, showing how far they go to narrow Social Security's 75-year shortfall—and how long they postpone the insolvency date, if at all.

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# The path we're on

Because the U.S. population is aging, costs for Social Security are projected to grow faster than revenue. In 2033, for ex--ample, Social Security is projected to spend $2.4 trillion and collect $2 trillion, equal to 16% and 13% of U.S. taxable payroll.

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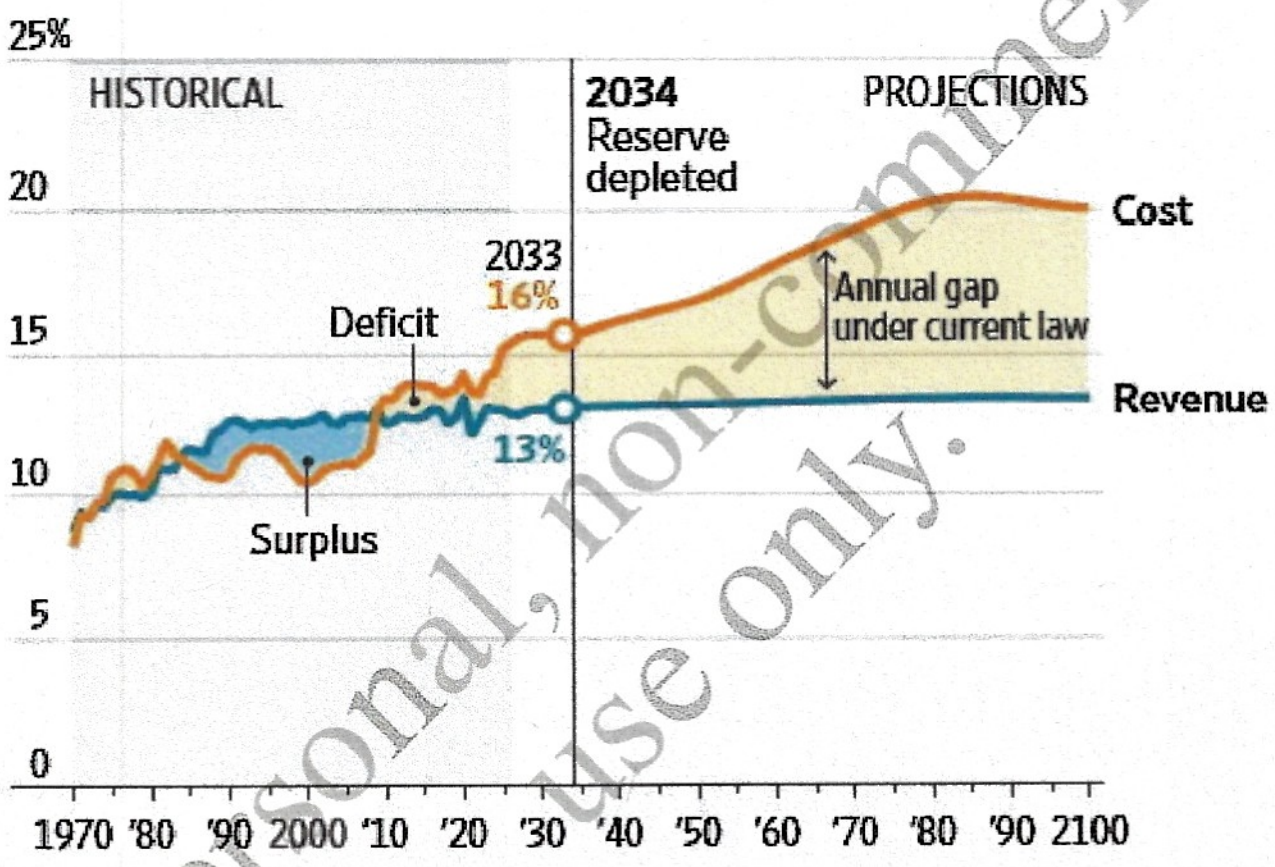


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**Social Security finances under current law**

As a percentage of U.S. taxable payroll




Note: Includes Social Security's combined retirement, survivor and disability programs.
Source: Social Security Administration Office of the Chief Actuary

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## The challenge

The program has been running annual deficits, and by 2034, the combined retirement and disability funds will be insolvent. That means Social Security will have exhausted all the reserves it built up in surplus years. Over 75 years, those annual deficits will add up to an estimated $29.3 trillion in present value dollars. That is the program's long-range gap. The challenge for policymakers is to shrink or eliminate the gap between cost and revenue.

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image

# Increase the retirement age

## Option 1

Shrinks long-range gap by 15%

Delays insolvency by 0 years Increasing the retirement age can reduce the number of years that people get benefits. This proposal would gradually bump the normal retirement age—now approaching 67—to 69, with the first incremental The ultimate answer on Social Security will probably include many proposals stapled together—and perhaps additional borrowing. Acting sooner would give more time for changes to take effect, but lawmakers are a long way from making decisions.

Because Congress is often reluctant to reduce benefits for retirees or people approaching retirement, many effects on those age 62 in 2027. It would also raise the age for delayed retirement and higher monthly benefits to 72 from 70. Over time, this change reduces Social Security's costs.

politically plausible changes to Social Security's costs don't delay the insolvency date because they are phased in gradually.

In addition to the scenarios we illustrate here, you can look at the Social Security actuary's estimates yourself. And other groups, including the Committee for a Responsible Federal Budget, have their own do-it-yourself tools.

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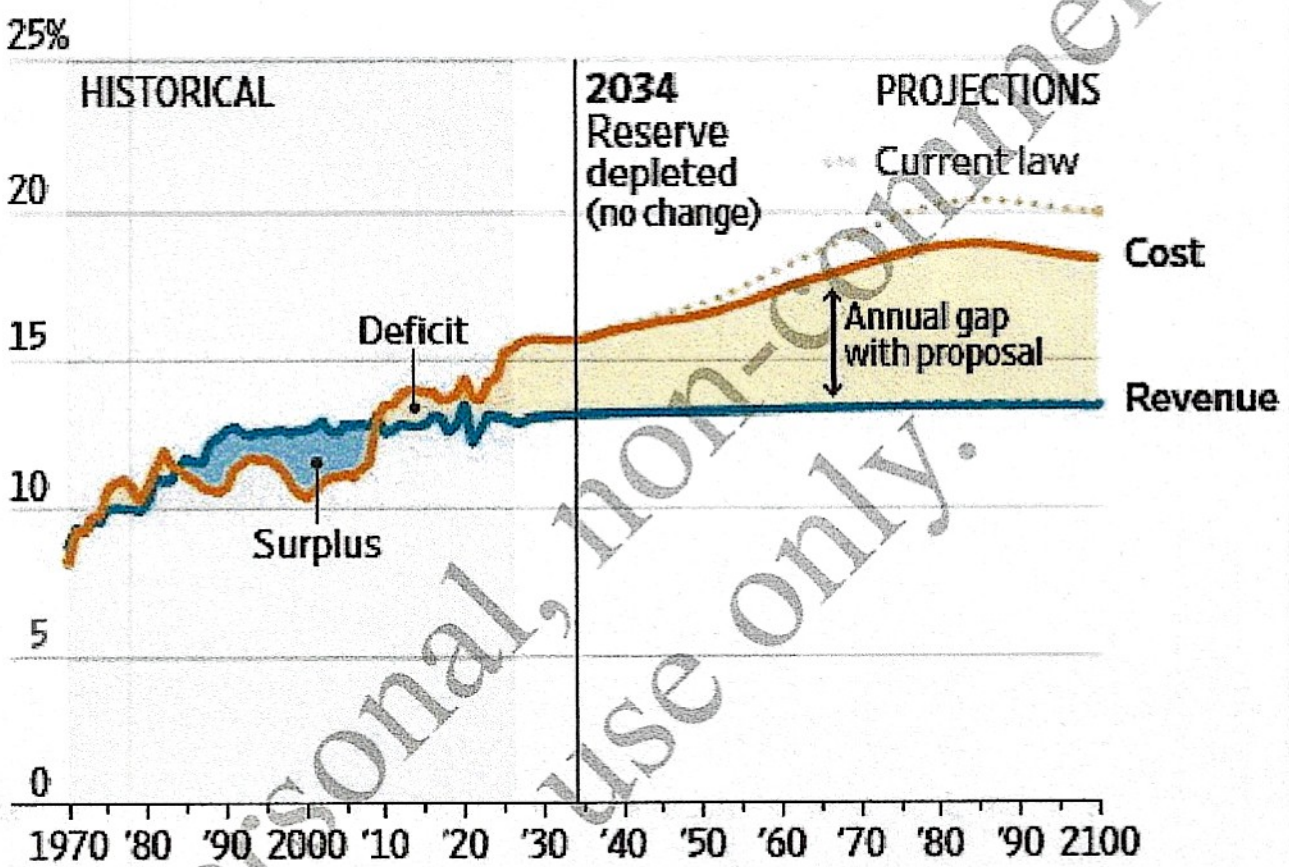
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**Social Security finances with proposal**

As a percentage of U.S. taxable payroll




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# End the tax cap

## Option 2

Shrinks long-range gap by 58%

Delays insolvency by 24 years Payroll taxes that go to Social Security stop once earnings reach an annual cap, currently $184,500.

This idea, popular among Democrats, would eliminate that cap. Taxes on higher-income workers would jump and they wouldn't qualify for more retirement benefits. If implemented soon, this staves off insolvency and closes most but not all of the long-term gap. Social Security would still run annual deficits.

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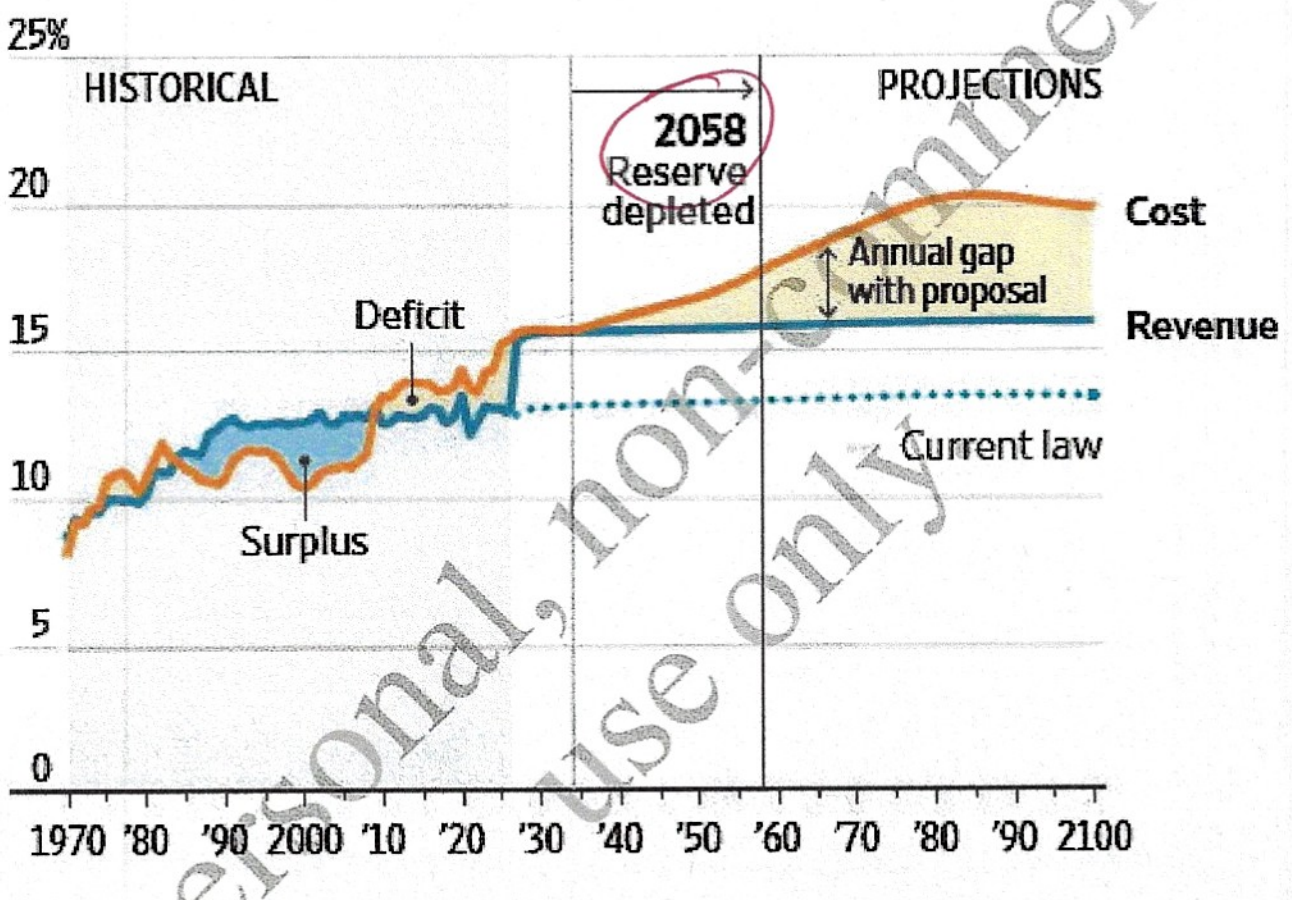


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**Social Security finances with proposal**

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# Raise the tax cap

## Option 3

Shrinks long-range gap by 19%

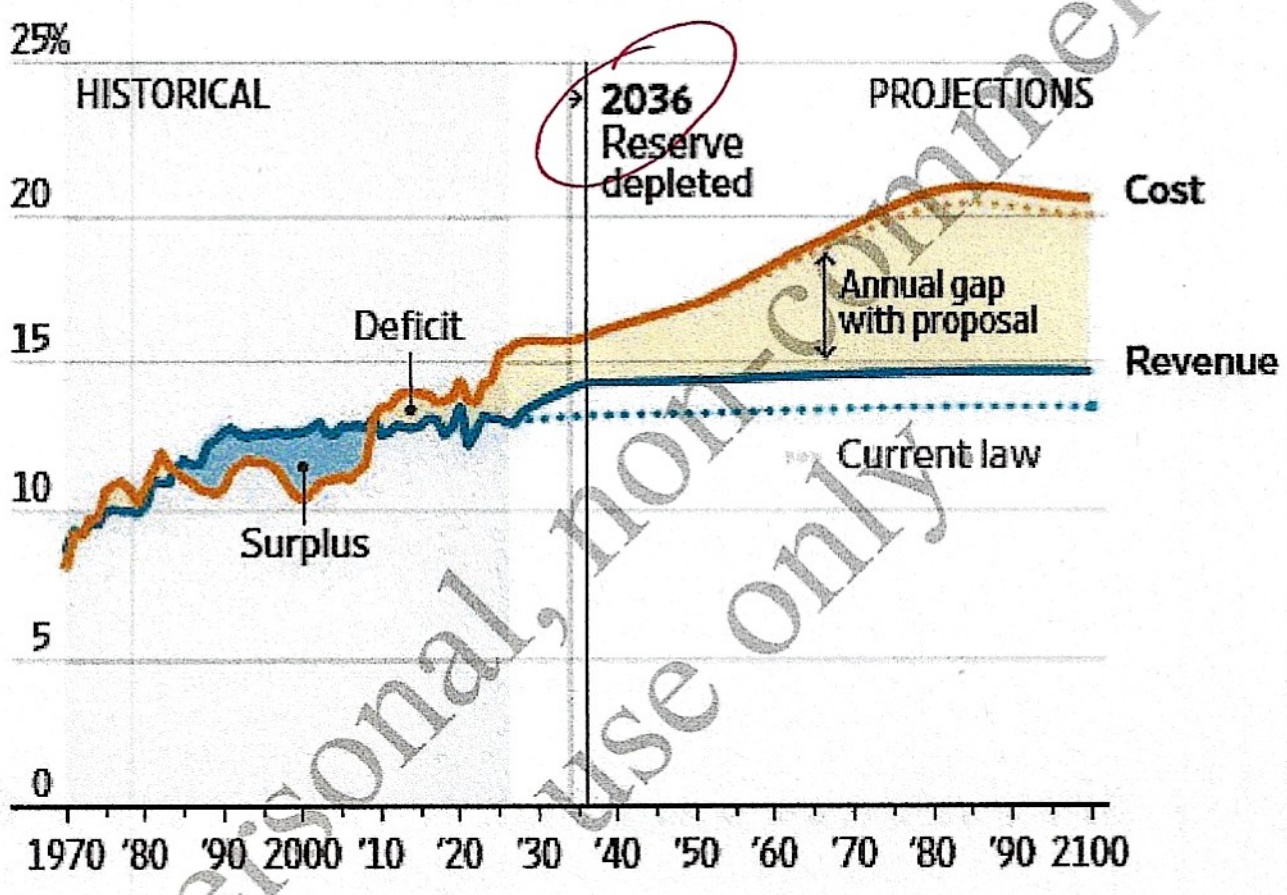
Delays insolvency by two years This idea is a much more modest approach to the payroll- tax cap. It would ensure that 90% of wages are subject to the tax but wouldn't remove the cap for the top earn--ers. It would also provide incremental benefits to people who pay those additional taxes. That combination slightly delays insolvency and narrows the long-run gap.

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# Lower the annual benefit adjustment

## Option 4

Shrinks long-range gap by 15%

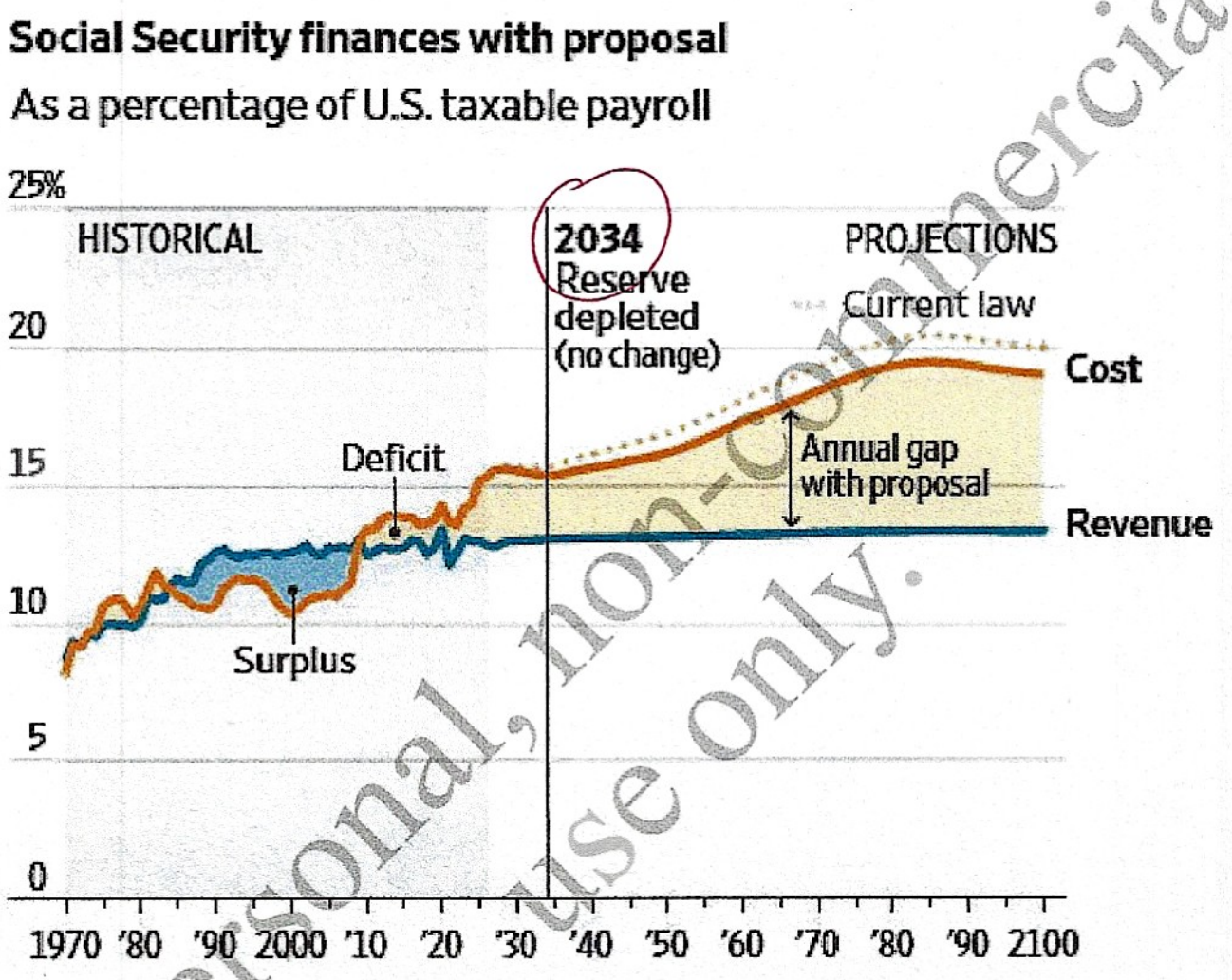
Delays insolvency by 0 years Social Security benefits rise each year along with a measure of inflation. Changing in December 2027 to a different— and typically smaller— inflation metric known as the "chained" consumer-price index would mean smaller increases each year. That yields minimal short-run savings but closes some of the gap over time.

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# Change initial benefit levels

## Option 5

Shrinks long-range gap by 69%

Delays insolvency by 0 years Initial Social Security benefits for retirees are based on a calculation that is tied to growth in average wages. Changing that for retirees in 2033 to tie the initial calculation to inflation instead would make a big dent in the program's cost—and in expected benefits. By the 2080s, Social Security would be running annual surpluses.

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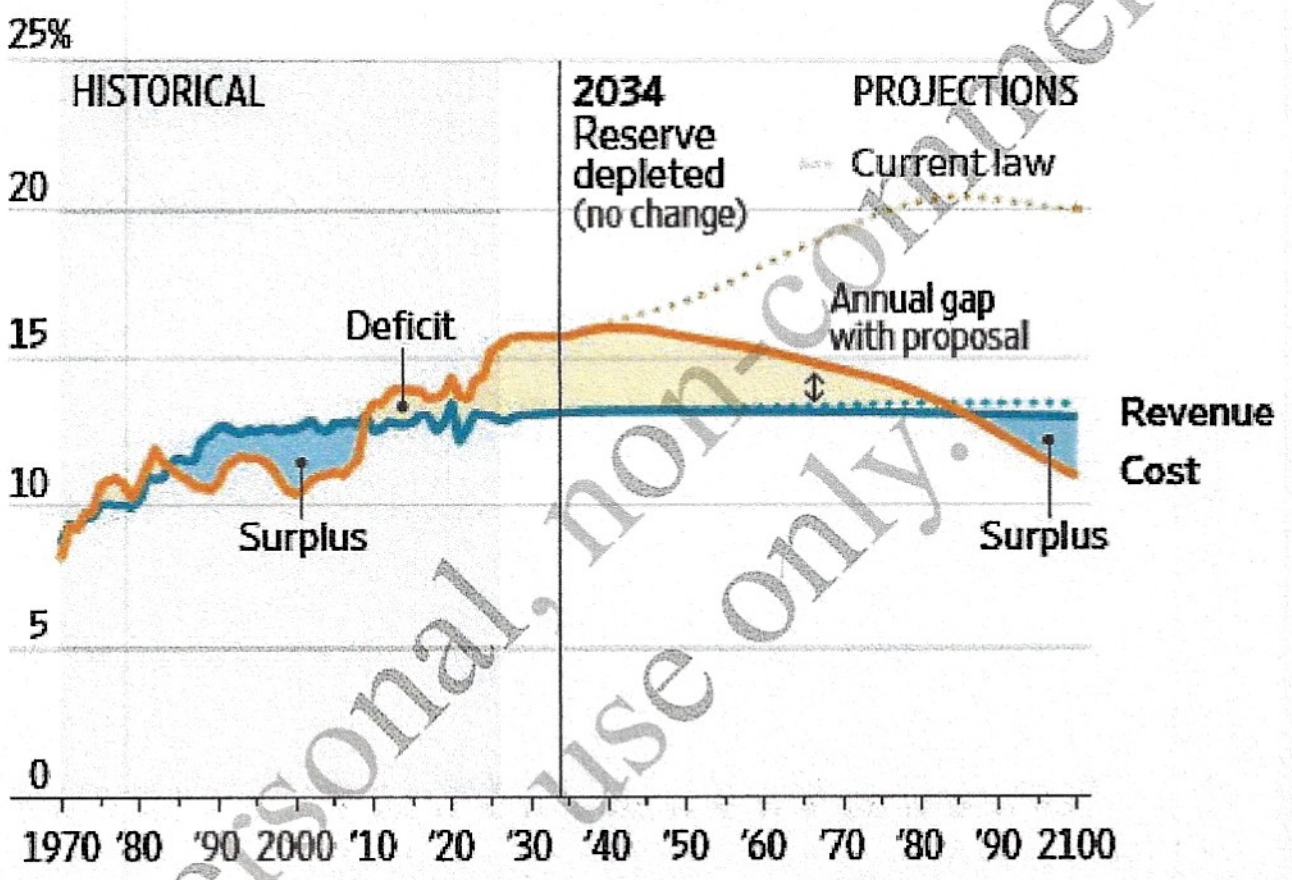


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