Actuaries Look At Options for Reforming Social Security

*The **American Academy of Actuaries** has described below commonly discussed options for reforming Social Security, along with their impact on the solvency of the program's trust fund. You can use this to determine a combination of options that makes Social Security solvent again. (The total impact on solvency must equal or exceed 100%.) In addition, in order to keep Social Security solvent permanently, other adjustments would be needed in the future. This game is on our web site at www.actuary.org*

Option	Supporters say…	Opponents say…	% Fix	% Favor
1-Raise the retirement age to 70 by 2030 and keep adjusting the age as people live longer.	Since Social Security was enacted, life expectancy has increased from 61 to 76 years, and we are healthier at older ages. It makes sense to keep pace by asking people to work longer before claiming full retirement benefits, as they will prob live lovger.	Could be hard on people with physically demanding jobs or who are partially disabled; employers may not want an older workforce with associated higher health care costs. Alt: Accelerate increase in retirement age to 67 and index thereafter	68% 33%	46%
2-Reduce cost-of-living adjustment (COLA) by ½ percentage points	A Congressional commission felt that the Consumer Price Index (CPI) was overstated by 1.1 percentage points, meaning the annual COLA is too high.	BLS decreased the CPI estimate by 3/4%. COLA reductions are cumulative which mean oldest retirees fall far behind in purchasing power. Very elderly women already have very high poverty rates.	41%	26%
3-Reduce benefits by 5% for future retirees.	Everyone should be part of the solution.	This would hit hardest people with low incomes who often rely entirely on Social Security for all their retirement income.	32%	12%
4-Affluence Test: Reduce benefits for those whose total retirement income exceeds $50,000 per year.	This option preserves benefits for those most in need. A couple with total retirement income (including investment earning & the value of Medicare) of $70K would lose 30% of their Social Security benefit. Over $120K, they would lose 85%	Discourages savings and encourages people to hide assets; changes Social Security from universal program to one based on need. Social Security needs universal support to survive. Some people might try to avoid paying taxes if they didn't get anything for them.	75%	50% favor at higher cutoff
5-Raise payroll tax on workers and employers by ½ percentage points each	Increasing the Social Security payroll tax from 12.4% to 13.4% (gradually) won't hurt because real wages are going up and it would solve half of the system's financial problems.	Because we may also have to increase the Medicare payroll tax, total taxation could be burdensome, particularly for low-income people. Workers might save less, employers pay less to pension.	51%	31%
6- Increase wages subject to Social Security tax	Raising the current $90,000 limit by about 1/4th would increase FICA (& SECA) taxes for those who can afford it.	Makes Social Security a worse deal for those with higher incomes, who will get little for their additional contribution. Costly for employers too. Erodes universal support Alt: Eliminate cap	26% 77%	75%
7-Tax Social Security benefits like pension benefits	Why aren't Social Security benefits taxed as much as pension benefits? Low-income retirees (30% of total) would still pay no income tax. It simplifies tax rules, but should be phased-in.	This will increase the taxes of middle income people	20%	25%
8-Include new state and local government workers	State and local workers should pay their fair share to keep Social Security solvent. Universal SS has less problems.	These workers do fine under their own pensions; this would divert contributions from state and local government pension plans.	10%	83%
9-Invest 40% of the Social Security Trust Fund in private investments such as stocks	Could boost return on investment with less risk to individuals; hiring investment managers and using indexes avoids government interference. Saves money outside government.	Social Security's assets could be 5% of private market; stock voting and stock selection could be politicized. Could increase income taxes, interest rates, and borrowing costs, as gov't gets less.	36%* to 50%	32%
10-Create personal retirement accounts (Divert some payroll tax to a private account)	Could boost return on investment. Add-on would increase national savings and productivity. Saves money outside government. Gives individual more control over investments and responsibility for retirement	Individuals take on investment risk, inflation risk, longevity risk, leakage risk. Large transition costs must be paid to cover current retirees and administrative costs could eat into returns. Could increase income taxes, interest rates, and borrowing costs. Add-on reduces other saving and pension contributions.	**	40%

"% Favoring" is from votes at Town Hall meetings sponsored by America Discusses Social Security across the country after options were discussed.

* ***This is heavily dependent on the assumption for future investment returns.***

*** Model 1 of Bush's Commission to Strengthen Social Security, which was solely a plan to implement individual accounts (IA), did not reduce Social Security's deficit. Their Model 2 showed that the IAs could help workers make up some of the cuts in the Social Security guaranteed benefit if their investments do well.*