Options for Strengthening Social Security

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…**	**% of Imbalance Fixed**
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.	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%** **Alt: 26%**
Reduce the cost-of-living adjustment (COLA) by _ percentage point	A Congressional commission felt that the Consumer Price Index (CPI) was overstated by 1.1 percentage points, meaning the annual COLA is too high.	The Bureau of Labor Statistics decreased the CPI estimate by _%. COLA reductions are cumulative, which means the oldest retirees fall far behind in purchasing power. Very elderly women already have very high poverty rates	**37%**
Reduce benefits by 5% for future retirees Alternative: Tilt formula more. Phase in a reduction in benefits: 0% for low-income workers up to 5% for high-income workers	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.	**26%** **Alt: 10%**
Increase number of years used to calculate average wages from 35 to 40 years	Encourages people to work more years, increasing U.S. productivity.	Hurts people who work less than 40 years, especially women.	**24%**
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 earnings & the value of Medicare) of $70,000 would lose 30% of their Social Security benefit. Over $120,000, they would lose 85%.	Discourages saving and encourages people to hide assets; changes Social Security from a universal program to one based on need. Social Security enjoys universal support and this might hurt that. Some people might try to avoid paying taxes if they didn't get anything for them.	**75%**

Option	**Supporters say…**	**Opponents say…**	**% of Imbalance Fixed**
Raise payroll tax on workers and employers by _ 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, and employers might pay less to pensions.	**53%**
Increase wages subject to Social Security tax	Raising the current $80,400 limit to $100,000 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.	**26%**
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.	This will increase the taxes of middle-income people.	**16%**
Include new state and local government workers	State and local workers should pay their fair share to keep Social Security solvent.	These workers do fine under their own pensions; this would divert contributions from state and local government pension plans.	**11%**
Invest 40% of the Social Security Trust Funds 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 the private market; stock voting and stock selection could be politicized. Could increase income taxes, interest rates, and borrowing costs.	**48%***
Create personal retirement accounts (divert 1 percentage point of payroll tax to a private account)	Could boost return on investment. Add-on could increase national saving and productivity. Saves money outside government. Gives individuals more control over investments and responsibility for retirement.	Individuals take on investment risk, inflation risk, longevity risk, and 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 could reduce other saving and pension contributions.	**

*The report of the 1996 Social Security Advisory Council suggested that this would solve about 48% of Social Security's current financial problems. However, this is heavily dependent on the assumption for future investment returns.

**The Trust Funds would get less income. Guaranteed benefits might have to be reduced, but could be offset by benefits from personal retirement accounts for the average investor. Due to transition costs, however, some retirees in the next several decades may not do as well and we all may have to pay more in income taxes.