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Op-Ed: How to fix Social Security

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State of the Program

"Lawmakers have many policy options that would reduce or eliminate the long-term financing shortfalls in Social Security and Medicare. Lawmakers should address these financial challenges as soon as possible." – Social Security and Medicare Board of Trustees[1]

The phrase “Social Security is broken” seems to be common rhetoric in today’s financial spheres. In fact, the American public has become increasingly pessimistic about the likelihood of Social Security still being around in the long run. But, is that opinion well-founded? Sort of.

At the end of 2017, the Social Security Trust Fund posted reserves of approximately $2.9 trillion. When these reserves are combined with the projected amount of funds that will be collected in the future, the Social Security program satisfies the Trustees’ short-range (ten-year) test for financial adequacy.

However, the program fails long-range tests due to the increasing costs of the Social Security program. In fact, the year 2020 is projected to be the first year costs will exceed total income in the OASI (Old Age and Survivors Trust Fund).[2] The Trustees project that by 2034, the combined Old Age and Survivors, and the Disability Insurance Trust funds will be depleted! [2]

But, that doesn’t mean Social Security would completely go away. With reserves depleted in the OASI Fund, tax income would be sufficient to pay about 77% of scheduled OASI benefits. When combining OASI and DI trust funds, tax income would be sufficient to pay 79% of benefits from 2034 to 2092, and 74% of benefits thereafter.[1]

Ways to Fix It

The Social Security Administration has gone into detail on several ways to “fix the system,” which include changing the COLA calculation, the taxation of benefits, benefits for family members, increasing payroll taxes, changing how the trust fund is invested, and more. They have also published multiple versions of each method to improve Social Security, complete with summary measures, graphs, and detailed tables.

Some of these suggested changes have a larger impact than others. However, with a simple combination of proposed changes, it’s clear that there is no excuse for the long-term failure of the Social Security program.

Here are a few arguments for some of the proposed changes:

1. Increasing the Early Eligibility Age

When Social Security first began in 1935, there was no early retirement age. However, that changed in 1956, when Congress passed an amendment allowing an early retirement age for women at age 62. In 1961, the same provision was made for men wishing to retire early.[2]

However, according to historical life expectancy tables, a 60 year-old woman was only expected to live another 17.83 years in 1961[3] compared to 26.1 years for 60-year old women in 2018.[4]

Therefore, life expectancy in men and women has continued to increase, but the age at which men and women can begin drawing Social Security benefits has not changed in 57 years. While it may not be a favorable provision change to increase the early eligibility age, it's certainly a logical one.

2. Changing the Normal Retirement Age

There is a similar story if you examine the history of the Normal Retirement Age (NRA). The last time changes were made to the Normal Retirement Age was in 1983, when Congress enacted a slow and gradual increase of the NRA from 65 to 67.[2] As of the current law, NRA will remain consistent at age 67 for those before in 1960 or later.

By gradual increasing the EEA and NRA from 62 to 64, and 67 to 69, respectively, the long-range actuarial shortfall can be reduced by approximately 31%.[5]

3. Changing How PIA is Calculated

Your Social Security PIA (or Primary Insurance Amount) is essentially your benefit at your "full retirement age." The Social Security Trustees have predicted that a portion of the trust fund shortfall can be eliminated by altering the PIA formula.

One example of a potential change to the PIA formula is to increase the number of years used to calculate benefits from 35 to 40 years. The rationale here is that benefits would be lower with this change since adding 5 more years would likely result in adding 5 early working years to the calculation. Because one's first 5 years of work usually results in a lower income, benefits would also likely be lower.

This change would eliminate the long-range actuarial shortfall by 15%.[6]

4. Increasing the Social Security Wage Base, or Taxable Maximum

Currently, Social Security taxes only apply to income up to $128,700 in 2018. That means that Social Security tax is not applied to all income above that amount. One proposal is to gradually phase in the taxation of up to 90% of earnings, providing benefit credits for earnings up to the revised taxable maximum.

This change would eliminate approximately 28% of the long-range actuarial shortfall.[7]

Bottom Line

None of these proposed changes to Social Security will single-handedly "fix" the Social Security system. And, this article certainly did not cover nearly all of the proposed changes to the system *(see Summary List of Proposed Changes to Social Security)*.[8] However, it's easy to see how a combination of a few common-sense changes can make a significant difference to the long-term health of the Social Security system.

Therefore, it's reasonable to figure that Social Security can remain healthy for a long period of time. Hopefully, our representatives on both sides of the aisle can come together and implement these changes, as both Republicans and Democrats have a vested interest in the long-term success of the Social Security program.

[1]A Summary of the 2018 Annual Social Security and Medicare Trust Fund Reports. *https://www.ssa.gov/oact/trsum/*
[2]The Social Security Retirement Age: In Brief. https://fas.org/sgp/crs/misc/R41962.pdf
[3]Life Expectancy By Age: 1850-2011. https://www.infoplease.com/us/mortality/life-expectancy-age-1850-2011
[4]Retirement and Survivors Benefits: Life Expectancy Calculator. https://www.ssa.gov/cgi-bin/longevity.cgi
[5]Change in NRA and EEA. https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run168.html
[6]Change in PIA formula. https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run153.html
[7]Change in SS Taxable Maximum. https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run267.html
[8]Summary of Provisions that Would Change the Social Security Program. https://www.ssa.gov/OACT/solvency/provisions_tr2017/summary.pdf

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