Proposed Social Security Reforms

Introduction

Social Security was created during the Great Depression in 1935. Today the program provides benefits to over 40 million Americans. Unlike most federal programs it is an entitlement program. Accordingly by current statutes the federal government will fund the payments to its beneficiaries without any intervention from Congress. Since 1975 all beneficiaries of the system have received an annual cost of living adjustment which ensures that the value of the benefits doesn't decline with inflation.[1] Prior to that beneficiaries only saw their checks increase when the Congress made changes to the law.

The Future of Social Security

The programs run under the Social Security Administration currently generate more revenue than the program pays out in benefits. This will change in the upcoming future due to demographic changes in the population of the United States. Most experts generally believe the life expectancy of Americans will continue to increase. Increased life expectancy will mean that the average retiree will collect benefits from the system longer and in addition the percentage of the population collecting benefits will increase. Couple this with the fact that the demographic trend in America has been for families to have fewer children and you will get fewer workers being required to provide more revenues for an even greater number of retirees. By 2019 the head actuary at the Social Security Administration predicts that revenues from FICA taxes, commonly referred to as social security or payroll taxes, will no longer be sufficient to cover the benefits promised under current law. Assuming that the rest of the government is running a deficit the Congress would have to either raise taxes, cut other spending, or have the US Treasury Department sell Bonds so that the monies that are owed to the Social Security Administration could be paid out. By 2042 the SSA head actuary predicts that all monies in the Social Security trust fund will be exhausted at which point payroll taxes would only cover 76% of the promised benefits. Congress would be forced to come up with additional revenue to cover the programs obligations or cut benefits.

The Proposed Solutions

Due to the fact that many different actuaries have predicted a funding shortfall for Social Security over the years there has been no shortage of suggestions of how the government might change the program so as to ensure that the government is capable of covering whatever obligations that the law provides. Below is a list of different ways to adjust the program.

Raising the Retirement Age

This constitutes a form of benefit cut since it would mean that retirees would have to wait longer to collect their benefits. This would probably also raise payroll revenues slightly since some senior citizens with limited savings would be forced to stay in the

1 http://www.ssa.gov/history/briefhistory3.html#colas

work force longer so that they could cover their living expenses until they were old enough to reach the full retirement age. Under current law senior citizens can retire with reduced benefits at 62 and full benefits at 65 years and 6 months and will rise in a series steps until it reaches 67 for those born after January 1st, 1960. The proposed higher ages vary from 68 to the mid 70s.

Advantages:
Most Americans are living longer and more healthy lives. Medical science has allowed people to have a higher quality of life in old age. As America has moved away from a manufacturing economy most work has been less physically demanding which allows people to be productive workers later in life.[2] The argument that Social Security was there to provide for people who were no longer able to work due to disability is obsolete due to disability insurance.[3]. Slight tweaks to disability would allow the government to provide benefits to those who can't work while keeping people who are still able bodied in their late 60's in the work force for a few more years. The additional productive work from those who are still capable of working would be a benefit to the society at large.

Disadvantages:
An increase in the minimum retirement age would decrease the amount time people could live while retired. In addition, fewer people would live long enough to retire. By the time people are old enough to retire they may not be physically fit enough to actually 'enjoy' their retirement.

Across the Board cut in benefits
A cut of 30% or more in benefits would brings expenditures closer to being in line with revenues.
Advantages:
Since the cuts would be across the board there would be no charges of favoritism towards one particular group. The program could still pay beneficiaries after the benefits cut more than current retirees receive in price inflation adjusted dollars because the program has been indexed on wage inflation instead of price inflation. Since wage inflation is higher than price inflation retirees are actually receiving more than earlier retirees received. Hence, such a cut when the trust fund is exhausted would merely bring social security benefits closer to where they would have been had price inflation been used instead of wage inflation. In fact retirees would actually receive benefits higher than had price inflation been used from today forward. Such cuts would also allow the federal government to reduce the deficit and if future surpluses allow to invest a greater percentage of the budget on other programs that benefit other segments of society without raising taxes.
Disadvantages:
It would greatly reduce income in retirement for those who have little savings due to low wages because of poor skills or disability. If the phase in were too quick it would make it difficult for some people to adjust their savings accordingly. In turn they would be forced to delay their retirement or live on less income. Retirees with limited savings would

2 http://www.urban.org/Template.cfm?NavMenuID=24&template=/TaggedContent/ViewPublication.cfm&PublicationID=6435

3 http://www.ssa.gov/pubs/10029.html

struggle to provide for themselves and would be more likely to have to depend upon the charity of others to provide for their well being.

Instituting a means test
Instituting a means test would make Social Security like other government welfare programs in that it would be a safety net for those who were no longer able to provide for themselves.
Advantages:
Depending upon how the qualifications were determined it could dramatically cut costs since the number of beneficiaries would fall over time. This would also ensure that society provided only for those that actually need the benefits.
Disadvantages:
Some liberals may object because it would dramatically cut support for the program because over time fewer and fewer people could relate towards it since it would just be a 'poor people's' program. Some conservatives would have objections because the program would become more like other welfare programs that seek to redistribute income.

Having the government invest the Social Security Trust Fund in various Private Stocks and Bonds
Under this proposal which was supported by several officials in the Clinton Administration and some conservatives the government would choose a certain set of stocks and bonds to invest the assets of the Social Security Trust Fund. The idea would be that the government would be able to get a better investment then US Treasury Bills provide.
Advantages:
Could potentially provide higher returns on the monies in the trust fund which would provide additional revenue to pay out benefits. It would provide additional capital for businesses to build and prosper.
Disadvantages:
The decisions of which companies to invest it would become a highly political process. Should the government invest in companies that sell tobacco, guns, or hold investments in countries that have numerous human rights abuses? Whoever controls the investments would have significant influence over the American economy which would make Laissez-Faire Conservatives leery of such an approach. It could also be a method by which an administration could steer money towards their friends and starve their enemies. Such a proposal depending upon the nature of the investment could add substantial volatility towards in the investments. During a down market the government could see revenues plummet as some state pension funds have in recent years. During a bad year the government might have to pour additional billions into Social Security to cover benefits.

Private Investment Accounts
This is part of President Bush's proposed plan to reform Social Security. Under Bush's proposal workers would have a limited number of choices to be made amongst a certain set of professionally managed funds that would invest in the broader market.
Advantages:
If the returns on the accounts were higher then government bonds retirees could see their

income in retirement being much higher without paying additional taxes. It would give workers money that they could pass on to their heirs if there were monies still left in the account when they die.
Disadvantages:
It would increase the risks assumed by the worker. If the professional investment did poorly they could see their nest egg rise or fall rapidly with little warning. If a retiree lived substantially longer then expected they might 'outlive' their investment and would be see their income fall dramatically at an age where they would be too old to work.

Headright or "Birthright" Privilege
Under this system every single American born would be issued a certain amount a money upon birth. This money would then be invested upon the recipients behalf to be used upon their retirement. A system of this sort is supported by Paul O'Neill, George W Bush's first Treasury Secretary.[4]
Advantages: It would ensure that everyone who was born in the United States would have some money in their retirement. It would be an egalitarian system in such a system would give everyone the same amount of money.
Disadvantages: In the short term there would be no savings under such a system because a person born today wouldn't be eligible for retirement until 67. Even if such a system allowed early retirement it is still unlikely that anyone would retire much earlier then 50 since an early retirement would reduce the income one could collect off their birthright. Such a system would favor children over the current workers in the system. Anyone working under the current system would see their tax burden rise since they would have to pay for both the retirees under the current system and the initial principal on the birthrights. This would pit the young against the older generation and would likely doom such a proposal since the people who are currently in a position to implement it not only wouldn't benefit from it but would likely see their own benefits cut.

Additional Resources

Social Security Administration
http://www.ssa.gov

White House: Strengthening Social Security
http://www.whitehouse.gov/infocus/social-security/

President's Commission to Strengthen Social Security
http://www.csss.gov/

The Social Security Advisory Board
http://www.ssab.gov

4 http://www.latimes.com/news/opinion/commentary/la-oe-oneill15feb15,0,3297856.story?coll=la-news-comment-opinions

American Academy of Actuaries: A review of the financial issues facing Social Security
http://www.actuary.org/socsec.htm