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# 5 Potential Social Security Fixes

## These Social Security changes would correct the funding shortfall.

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Social Security's tax revenue and trust fund reserves will provide enough cash to pay out promised benefits until 2033. After that, the trust fund will be exhausted and incoming payroll taxes will only bring in enough to pay for 77 percent of scheduled benefits. But there are a variety of ways to correct this funding shortfall. A recent National Academy of Social Insurance and Greenwald and Associates report and online survey of 2,013 adults examined the changes that could be used to improve the Social Security system's finances. Here are five potential Social Security fixes, and how well they would correct the financing gap.

**Increase Social Security taxes.** Workers currently pay 6.2 percent of their earnings into the Social Security system, and employers pay a matching amount. If that tax rate was gradually increased to 7.2 percent over 20 years, it would reduce the Social Security funding shortfall by 52 percent, NASI found. For a worker earning $50,000, this tax increase would result in paying 50 cents more per week during each year the change was phased in. Gradually raising the Social Security payroll tax by 1 percent over 20 years is a popular fix, with 83 percent of the survey respondents supporting this change.

Alternatively, the Social Security payroll tax could be increased more abruptly to 7.2 percent in 2022 and 8.2 percent in 2052. This payroll tax increase would reduce Social Security's funding gap by 76 percent, and result in a sudden $9.60 per week tax increase for a worker earning $50,000 in each year the tax rate changes. A majority of the survey respondents (66 percent) support increasing Social Security taxes in two steps, but the sudden tax increases are less popular than a gradual change.

**Increase or eliminate the tax cap.** Workers pay into Social Security based on earnings of up to $117,000. People who earn more than that don't pay Social Security payroll taxes on that amount or have it factored into their retirement benefit. The cap covers about 83 percent of all earnings. If the tax cap were gradually increased over five years until it covers 90 percent of all earnings (a $230,000 tax cap) it would reduce Social Security's funding shortfall by 29 percent, NASI found. This change would result in the top 6 percent of earners paying higher taxes and getting bigger payments in retirement.

The tax cap could also be gradually eliminated over 10 years. This change would result in the top 6 percent of earners paying Social Security taxes on all of their earnings, instead of only a portion of them, and getting higher benefit payments in retirement. Eliminating the payroll tax cap would reduce 74 percent of Social Security's shortfall. This change is supported by most Americans, with 80 percent of survey respondents favoring gradually eliminating the taxable earnings cap, including 76 percent of people with family incomes of over $100,000.

**Change the cost-of-living adjustment.** Social Security benefits are adjusted each year to keep up with inflation as measured by the consumer price index. However, a different measure of inflation could be used that typically grows more slowly, the chained CPI. For example, if the average inflation rate is 3 percent, but the new inflation measure increases by an average of 2.7 percent annually, that new measure would boost a $1,000 monthly Social Security benefit by $27 instead of $30. And these smaller benefit increases each year would add up over time. Using a slower growing measure of inflation to calculate annual cost-of-living adjustments is projected to reduce Social Security's funding gap by 20 percent. However, three quarters (76 percent) of survey respondents oppose reducing the cost-of-living adjustment.

**Raise the retirement age.** Social Security's full retirement age is 66 for most baby boomers and 67 for everyone born in 1960 and later. Benefit payments are reduced if you sign up for Social Security before your full retirement age. Gradually raising the full retirement age to 68 between 2023 and 2028 would reduce benefits by about 7 percent and decrease Social Security's financial shortfall by 16 percent. Further increasing the retirement age to 70 between 2023 and 2069 decreases benefit payments by 21 percent and reduces the Social Security financing gap by 25 percent. Raising the retirement age past 67 is an unpopular proposal, with 65 percent of adults opposing an increase to 68 and 75 percent rejecting the idea of a full retirement age of 70, including people of all political affiliations and income levels.

**Means-test.** Means-testing Social Security would reduce or eliminate retirement payouts for retirees with high incomes. For example, you could reduce Social Security benefits for individuals with non-Social Security retirement income higher than $55,000 for individuals or $110,000 for couples and eliminate benefits for people with incomes higher than $110,000 for individuals and $165,000 for couples. This change would reduce Social Security's shortfall by about 20 percent. However, means-testing Social Security is typically an unpopular idea, with 60 percent of those surveyed opposing the idea, including 64 percent of Republicans, 60 percent of Democrats and 56 percent of Independents. Under current law, all workers who pay Social Security taxes for enough years receive benefits in retirement.