I Want My Social Security
by Dan Jacoby

Social Security is in trouble.

Current estimates say the Social Security Trust Fund will run out of money, possibly as early as 2032, and probably by 2042[1]. After that point, there will be nothing left to pay the tens of millions of people who are "entitled" to Social Security benefits.

The reason the fund will run out of money is that we're paying people far more than they deserve. We're paying more than people deserve because we're basing payment rates on actuarial tables that are decades out of date. Americans are living years longer than we used to, and collecting benefits far longer than we can afford to pay.

There are five possible solutions to this problem. We can reduce benefits, raise taxes, redirect money from general revenues, raise the salary cap on which Social Security taxes are paid, or raise the age at which people can collect. As the Social Security website says, "If Social Security is not changed, payroll taxes will have to be increased, the benefits of today's younger workers will have to be cut, or massive transfers from general revenues will be required."[2]

Before examining the possible solutions, let us first look at the root of the problem. Current benefit rates were set in 1972, and have been adjusted for inflation ever since. But these benefit rates were based on actuarial tables that were outdated even then, and have fallen farther behind ever since. Since people are living years longer than originally anticipated, they are on average collecting more checks, and therefore more money, than they are due.

Since we're paying out too much to current and future recipients, the money to make these payments will soon be unavailable. In fact, this happened in the early 1980s, and Social Security taxes were significantly raised in 1983. But it wasn't enough, and soon we'll be forced to take some other action.

The first solution, reducing benefits, is mathematically legitimate, since people are receiving more than they deserve. It is also politically impossible and ethically questionable. Many people with little or nothing in the way of other resources depend to a large extent on their Social Security Old Age benefits to live on; cutting their benefits just increases hardship for many of those least able to make adjustments.

The second solution, raising taxes, is economically incompetent. This would be strictly a middle-class tax increase. It would reduce the disposable income available to most consumers and will drastically damage the economy in both the short- and long-term.

The third solution, taking money from general revenues, is fiscally irresponsible. Excluding Social Security and Medicare, the projected fiscal '03 deficit is well over half a trillion dollars, with no end to deficits in sight. Borrowing from the general fund would just make a bad situation worse.

The fourth solution is to raise the cap beyond which no Social Security taxes are paid. In 2003, we only pay Social Security taxes on the first $87,000 in earned income. This cap goes up every year, based on increases in average wages. Raising this cap can balance the Social Security Trust Fund temporarily, but it will have to be raised again and again. And it will do nothing for Medicare, which has no cap.

This leaves one option left, raising the age at which people can begin to receive benefits. Before examining this option, let's look at a brief history of the program.

In 1935, when Social Security was created, the “full benefit age” was set at 65. Back then, most workers didn’t live to see their 65^{th} birthday. Those who did were generally too old to continue working in the (mostly) hard labor jobs that were available. Since then, things have changed dramatically. Americans now expect to live not only to 65, but well beyond. We also expect to be fairly healthy and active. Furthermore, most jobs involve little or no physical labor. As a result, 65-year-old Americans are generally no longer too old to work.

And that’s the key phrase – “too old to work”. Social Security was never intended to be a retirement plan, or even a pension plan. It is an insurance policy, designed to insure workers against getting too old to work. By raising the age at which people can begin to receive benefits, we are simply restoring Social Security to its original intent.

Furthermore, by raising the age gradually to 72, beginning in 2011 and extending through 2034, we will not only “save Social Security”, but we will also have a long-term surplus. And that means we can actually cut taxes now!

An FICA tax cut, meaning a tax cut on both Social Security and Medicare taxes, would be a tax cut for every working American on every dollar earned. Since Social Security taxes are only charged on the first $87,000 of income in 2003[3], this would be mostly a middle-class and working-class tax cut, the kind of tax cut that leads to more consumer spending and a vibrant economy. Furthermore, it is also a business tax cut, especially for labor-intensive businesses, since payroll taxes would also go down. This means that the cost of labor goes down, which means that businesses can afford to hire more workers or, alternatively, lay off fewer workers. The end result is greater business profits, more jobs, higher confidence, increased consumer spending, and a robust economy.

It should be noted that, starting in 2003, the full-benefit age is rising, going up to 66 by 2008, and rising to 67 between 2022 and 2027[4]. But it is not enough.

There is a political consequence – deep tax cuts will result in the burgeoning deficit in the general fund becoming more transparent. The benefits of a Social Security tax cut, however, by stimulating the economy, will lead to greater revenues, reducing the deficit. Additionally, repealing the Bush tax cuts should have the same result as the Clinton tax increase of 1993 – eventual budget surpluses, so this problem could solve itself.

The bottom line is that the sooner we act on Social Security, the less we have to do to fix the looming problem. The only solution that is both economically and politically feasible is to raise the age at which people can begin to receive benefits. And the side effect of this change can be a tax cut for the middle class and working poor, as well as businesses that employ workers – a tax cut that nobody with serious political ambitions would dare publicly oppose, and one that would result in greater consumer spending and more jobs.

[1] 2003 OASDI Report, Appendix E, Stochastic Projections, available online at http://www.ssa.gov/OACT/TR/TR03/VI_stochastic.html

[2] Social Security website, FAQ page, available at http://www.ssa.gov/qa.htm

[3] 2003 OASDI Report, Table V.C1

[4] 2002 OASDI Report, Appendix C, Program-Specific Assumptions and Methods, Table V.C3, available online at http://www.ssa.gov/OACT/TR/TR02/V_programatic.html