The Future of Social Security

4 Proposals on the Table in Washington

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Raise the Full Retirement Age

Right now: The age when a person becomes eligible to receive full Social Security retirement benefits has been increasing from age 65 on a schedule set by Congress in 1983. It has reached 66 and will gradually rise to 67 for those born in 1960 and later. Raising the full retirement age further is one option to help close Social Security's funding gap.

What's on the table?

- Raise the full retirement age to 68. Starting in 2023, the age would increase by two months each year until it reached 68 in 2028. This is equivalent to a 6 to 8 percent benefit reduction and is estimated to fill 18 percent of the funding gap.

- Raise the full retirement age to 70. Starting in 2023, the age would increase by two months each year until it reached 70 in 2040. This is equivalent to an 18 to 24 percent benefit reduction and is estimated to fill 44 percent of the funding gap.

Why do it?

Americans are living longer, and they are working longer too. Today's Social Security has not kept pace with longer life expectencies, and the current system is not affordable.

Why not?

Increasing the retirement age is an across-the-board benefit cut for all retirees. It would greatly disadvantage lower wage and minority workers, who have not seen the same increases in life expectancy.

"We have a right to know what our legislators are discussing and planning."

– C. McCready, Greensboro, NC

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Reduce Benefits for Higher Earners

Right now: Social Security benefit payments are based on the portion of a worker's earnings that was subject to Social Security payroll taxes. While higher lifetime earners receive higher payments than lower lifetime earners, their benefits replace a smaller share of their past earnings than do the benefits provided to lower earners.

What's on the table?

- One option to help close Social Security's funding gap would be to reduce benefits for the highest-earning 50 percent. Gradually reducing benefits over time for the highest-earning 50 percent of individuals by a sliding scale up to a 28 percent benefit reduction for lifetime high earners is estimated to fill 31 percent of the funding gap.

- Another option would reduce benefits for the highest-earning 25 percent. Gradually reducing benefits over time for the highest-earning 25 percent of individuals by a sliding scale up to a 15 percent benefit reduction for lifetime high earners is estimated to fill 7 percent of the funding gap.

Why do it?

- It seems fair to protect the benefits of those who have lower wages by reducing benefits for those who have higher earnings.

- Upper-income workers tend to have better opportunities to save for retirement than those with lower incomes.

Why not?

- These proposals would actually cut benefits for middle-class workers. Reducing benefits for the "highest-earning 50 percent" would start cutting benefits for workers making as little as $37,000 a year. The proposal targeting the highest-earning 25 percent, under Social Security, would cut benefits for workers earning more - above $54,000 a year. Benefits are already modest.

- Retirees' health care costs are rising while other retirement resources – home equity, pensions, lifetime savings – are at risk or unavailable for too many Americans. Most seniors get most of their retirement income from Social Security.

Recalculate the COLA

Right now: Social Security benefits generally keep up with inflation through a cost-of-living adjustment, or COLA. One option to modify Social Security would be to use an alternative price index for calculating the COLA.

What's on the table?

- Using the "Chained consumer price index (CPI)" to calculate COLA. This aims to account for ways consumers change their buying habits when prices change. Experts predict that the annual COLA would be on average 0.3 percentage points lower under this new formula. The effect of a lower COLA would compound over time, reducing the benefit by 3 percent after 10 years and 8.5 percent after 30 years. Permanently reducing the size of the benefit adjustment by this amount every year is estimated to fill 23 percent of the gap.

- Using the "Elderly index" to calculate COLA. This method aims to reflect specific spending patterns of older Americans, in particular the greater amounts they spend on health care costs, which rise faster than inflation. Experts predict that the annual COLA would be on average 0.2 percentage points higher under this formula. The effect of a higher COLA would compound over time, increasing the benefit by 2 percent after 10 years and 6 percent after 30 years. Permanently increasing the size of the benefit adjustment by this amount every year is estimated to increase the funding gap by 16 percent.

Why do it?

- Chained CPI: Using this index to calculate COLA provides a more accurate measure of inflation because it accounts for more realistic behavior when prices change.

- Elderly Index: Using this index to calculate COLA provides a better measure of the higher inflation seniors experience due to rising out-of-pocket health care costs.

Why not?

- Chained CPI: This index would lower benefits by reducing the COLA and not fully compensating for rising health care costs. It also compounds over time, hurting those receiving benefits the longest the most.

- Elderly Index: Because younger people receive Social Security too (as disabled workers, survivors, or children), an elderly index would unfairly benefit them and would increase Social Security's financial problems.

Changes to the Payroll Tax Cap

Right now: The Social Security payroll tax currently applies to annual earnings up to $110,100. Any wages earned above $110,100 go untaxed for Social Security. Today, the cap covers about 84 percent of total covered earnings in the nation.

What's on the table?

Increase the Payroll Tax Cap to 90%. One commonly mentioned proposal would raise the cap to cover 90 percent of all covered earnings, which in 2012 would have meant a cap of about $215,000. This is estimated to fill 36 percent of the funding gap.

Why do it?

- Only 6% of workers would be affected, and they are the top earners.

- This change would restore the intent of Congress when it set the tax cap to include 90% of covered earnings in 1977, and require top earners to pay more into Social Security.

Why not?

- This change would cause a tax increase for middle-income taxpayers while barely affecting the rich.

- It could hurt the self-employed and certain smaller business owners.

Eliminate the Payroll Tax Cap. Eliminating the cap (so that all earnings would be subject to Social Security's payroll tax) would help close the program's funding gap. If all earnings were immediately subject to the Social Security tax, the new revenue is estimated to fill 86 percent of the funding gap.

Why do it?

- Eliminating the tax cap would make Social Security's financing more fair, making everyone pay on all their earnings throughout the year.

- This change alone would nearly eliminate Social Security's long-term financing gap.

Why not?

- This change would either lead to huge benefit checks for the very wealthy or break the link between earnings and benefits.

- It would also hurt the self-employed and certain small business owners.