

ISSUE GUIDE • UPDATED EDITION, 2014



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>> Social Security

How Can We Afford It?



About This Issue Guide

By most accounts, the Social Security system is in trouble. This issue involves questions of fairness, individual responsibility, financial priorities, and what we owe our aging citizens. Deliberative forums on this issue will not be easy. It may be helpful to remind participants that the objective of these forums is to begin to work through the tension between collective security, a healthy society, and individual freedoms.

In productive deliberation, people examine the advantages and disadvantages of different options for addressing a difficult public problem, weighing these against the things they hold deeply valuable.

The framework in this issue guide encompasses several options and provides an alternative means for moving forward in order to avoid polarizing rhetoric. Each option is rooted in a shared concern, proposes a distinct strategy for addressing the problem, and includes roles for citizens to play. Equally important, each option presents the drawbacks inherent in each action. Recognizing these drawbacks allows people to see the trade-offs that they must consider in pursuing any action. It is these drawbacks, in large part, that make coming to shared judgment so difficult—but ultimately, so productive.

One effective way to hold deliberative forums on this issue:

- Ask people to describe how the issue of Social Security has affected them, their families, or friends. Many will have direct experiences. They are likely to mention the concerns identified in the framework.
- Consider each option one at a time, using the actions and drawbacks as examples to illustrate what each option entails.
- Review the conversation as a group, identifying any areas of common ground as well as issues that still must be worked through.

The goal of this issue guide is to assist people in moving from initial reactions to more reflective judgment. That requires serious deliberation, or weighing options for action against the things people hold valuable.

The National Issues Forums Institute

This issue guide was prepared for the National Issues Forums Institute in collaboration with the Kettering Foundation. Issue guides in this series are used by civic and educational organizations interested in addressing public issues. These organizations use the books in locally initiated forums convened each year in hundreds of communities. For a description of the National Issues Forums, go to www.nifi.org.

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Social Security: How Can We Afford It?

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>> Social Security

How Can We Afford It?

SOcial Security is among the most popular of all government programs and has been, in large part, credited with reducing the poverty rates among the nation's elderly. It is a system that almost every working person contributes to and benefits from upon retirement.

According to most observers, the program is in trouble. Designed before World War II, when average life spans were shorter, Social Security is now the largest item in the federal budget, amounting to more than one-fifth of all government outlays. Experts say that the money needed to continue to pay benefits to retirees is running out.

The problems facing Social Security didn't develop overnight. But they weren't obvious to the public for many years because the sheer size of the 70-million-plus baby-boom generation who were paying their Social Security

taxes ensured that the Social Security program would run huge surpluses. For every retiree collecting money from the program, there were many workers paying into the system. In the 1960s, there were four workers paying into Social Security for every retiree being paid. Those surpluses—a total of about \$2.5 trillion—were deposited in a Social Security Trust Fund intended to meet future Social Security needs.

Unanticipated Retirees

Now that the baby boomers are about to retire, the bills are coming due. As the number of retirees grows, there will be fewer and fewer workers to support them with their payroll taxes. To complicate matters, people are living lon-

ger than ever before. Life expectancy in 1940 was 63.6 years, whereas now it is 78.7 years. When Social Security began in 1935, planners never anticipated retirements lasting decades, nor did they foresee that the program would have to support such a huge generation of retirees.

Projections in 2013 showed that the Social Security Trust Fund could run out of money in 2033. Growing federal deficits and a rising national debt have made many wonder whether Social Security will soon become too great a burden on the workers who have to pay for it.

Time to Deliberate

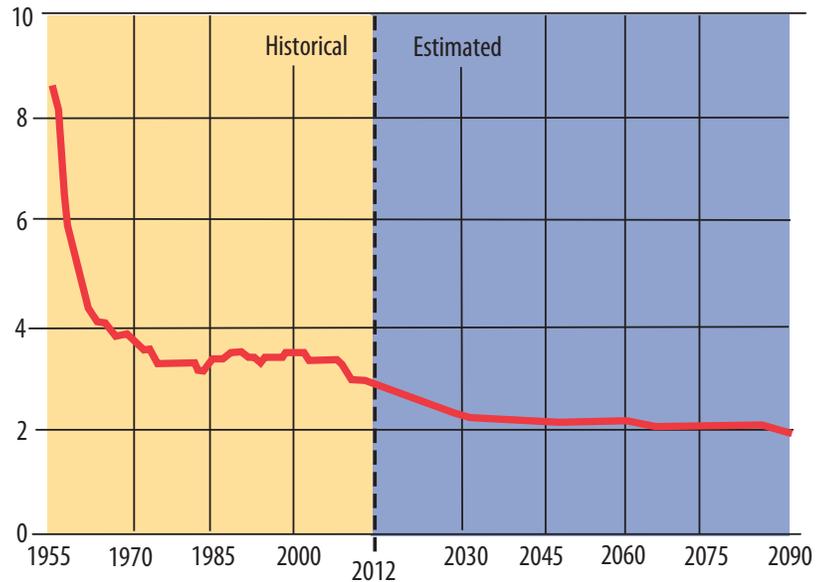
If anything, the recession that began in 2008 increased the concern about the cost of caring for the elderly because so many people lost their jobs, forcing some to take Social Security years earlier than they had intended. Social Security is one leg of a “three-legged stool” that also includes private pensions and personal savings. However, in tough times many find that the Social Security leg must bear much more than its share of the weight.

Some say the program is on its way to becoming an expense the country can’t afford—and shouldn’t have to pay for. Many younger people say that unless the program is changed they don’t believe they will be able to rely on it to support their own retirement decades from now. At the same time, our views of retirement have undergone considerable change. For many elderly people, settling into a rocking chair is not a big part of their post-career plans. In increasing numbers, Americans are choosing to continue working long after the traditional retirement age.

Social Security’s Demographic Challenge

Ratio of Covered Workers to Social Security Beneficiaries

Workers Per Beneficiary



Source: 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds

Many Americans are reexamining the principles on which Social Security is based and are thinking anew about the nature of individual responsibility. What does the government owe the elderly? Should saving for retirement be strictly an individual responsibility? Is it fair to require succeeding generations to shoulder the increasing burdens of supporting retirees?

The question we must face is this: how can we best provide for Americans’ retirement?



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Citizens in favor of protecting Social Security rally on the U.S. Capitol grounds.

OPTION ONE

Social Security benefits represent a promise made to Americans, symbolizing a shared commitment to one another that is a fundamental value of our country. The program has earned its near-universal support and the promise should be kept by doing whatever it takes to keep these benefits as they are.



>> Shore Up and Reaffirm Social Security

THE SOCIAL SECURITY ACT was passed in 1935 as a safety net for the elderly, half of whom were indigent. “We have tried to frame a law which will give some measure of protection . . . against a poverty-ridden old age,” said President Franklin D. Roosevelt as he signed the measure.

The idea combined compassion with pragmatism: Employees would pay a small tax from their wages that would be matched by their employers. Called the Federal Insurance Corporations Act tax (FICA), the money collected would go to support then-current retirees. When those employees were elderly and could no longer work, they would collect a modest monthly

income from the taxes of those still working.

Everyone who paid Social Security taxes would benefit from them, which is one reason the program was so popular. Today, 9 out of 10 Americans aged 65 and over receive Social Security payments. Along with Medicare, the program is credited with helping reduce the poverty rate among retirees to about 10 percent.

This option holds that Social Security benefits represent a promise made to Americans that should be strengthened. It symbolizes a shared commitment we have to one another—and is a proven success story. According to this option, we should do whatever it takes to keep these benefits just as they are.

Continue to Support the Generations to Come

Benefits have been significantly expanded since Social Security began. The system now also supports millions of disabled workers and their dependents, as well as survivors of deceased retirees.

So it is not surprising that what was once a small tax is not so insignificant anymore.

With so many baby boomers heading toward retirement, the taxes collected won't be enough to support the current benefit levels past 2033 unless the system changes. (Even if nothing changes, the program could continue to pay three-quarters of its benefits from ongoing payroll tax revenue.)

In 1940, there were just 222,000 beneficiaries of Social Security. Today, there are more than 58 million people collecting benefits. Over that time, the number of workers paying into Social Security in comparison to those collecting benefits has dropped. In 1940, there were 159 workers for each retiree receiving benefits. That ratio dropped to four workers for each retiree in 1965.

Today, the burden of paying for each retiree is shared by just three wage earners. There is no magic number of workers required to pay for each retiree, but many experts worry that this three-to-one ratio is not sustainable.

Nevertheless, this option says we should do what it takes to ensure that Social Security can continue to support the generations to come. The question is: how can we make the program stronger?

Raise Income Caps, Raise Payroll Taxes

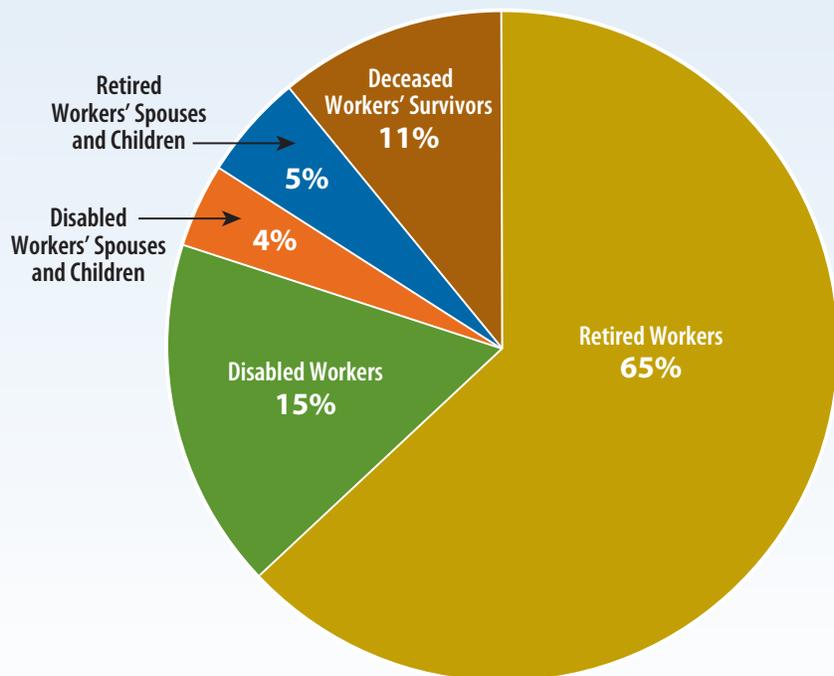
One straightforward approach to strengthening Social Security, according to this option, is to remove the income ceiling. In 2014, Americans paid Social Security taxes on only the first \$117,000 of income. If the income cap for payroll taxes were raised, or removed altogether, the long-term deficit in

Social Security would be significantly reduced, according to the Congressional Research Service. For example, raising the income cap to \$150,000 in 2005 would have eliminated 40 percent of the long-term shortfall in Social Security. Many more Americans are earning higher salaries; in 2014, only 83 percent of all salaries were subject to the tax.

Another action contemplated by this option is even more direct. The projected shortfall of Social Security over 75 years could be erased if the payroll tax simply went up 2.15 percent immediately, according to an American Academy of Actuaries report. Raising the current tax and splitting the increase equally between employer and worker suggests a relatively uncomplicated way of ensuring that Social Security remains in place.

Currently, the payroll tax rate for Social Security is 12.4 percent, with individual employees and their employers each paying 6.2 percent. The self-employed pay the entire 12.4 percent tax. Raising the payroll tax to 14.55 percent from its current level and splitting it evenly between employer and employee would end worries about the program's solvency.

Distribution of Social Security Beneficiaries, 2014



Source: Social Security Administration, *Fast Facts and Figures about Social Security, 2014*

Time to Try a Lockbox

Another way to fix the program, according to this option, is for the government to use Social Security taxes solely for their originally intended purposes. Many people are surprised to find out that this hasn't happened. Instead, the Social Security Trust Fund has been treated like a federal piggy bank.

The government deposits all the revenue collected from workers' paychecks into the Social Security Trust Fund. For most of its history, the trust fund has collected far more than it needed to pay out. But surpluses don't stay in the fund like a savings account to cover future obligations. Instead, the extra money is converted into U.S. securities, backed by the full faith and credit of the United States. Our government uses the money to pay for a variety of other items in the federal budget, although it is obligated to pay interest on what it borrows from the fund and to pay back the borrowed money in full when Social Security needs it to pay beneficiaries.

The government has borrowed more from Social Security than it has from any other source—a total of \$2.7 trillion by the end of 2012.

Yet even if the Social Security revenues had gone into a "lockbox," a significant portion of the money would not have been spent on retirees. In 1956, Congress passed Social Security Disability Insurance to pay for disabled workers aged 50 or older. Additional coverage for the disabled was expanded in 1969, when Congress established the Supplemental Security Income program. Both initiatives were added to the Social Security program. Because of less stringent eligibility standards approved during the 1980s, disability benefits in 2010 comprised 19 percent of all Social Security costs.

This option suggests that one reason Social Security may be headed for a shortfall is that the program strayed too far from its original intent of providing a federal safety net for elderly retirees. The burden of paying for the disabled should be shifted from the federal government to the states, in this view. This would result in significant savings for Social Security and would simplify the program.

What We Could Do

This option says that Social Security has helped tens of millions of people. It is a compact between working Americans and retirees. Rather than being dismantled, it should

be strengthened and continue to provide needed support to retirees, as it has for 75 years. We should do what it takes to continue to pay retirement benefits as promised. Here are some things that we could do, according to this option:

- We could raise payroll taxes, or lift the cap beyond which no Social Security tax is imposed on high-income earners. A 2 percent increase in the payroll tax would make the program solvent for the next 75 years. Considering all the benefits of the program, the tax hike would be modest. And currently, wages above \$117,000 are exempt from Social Security taxes. This takes away needed money from the program.

***But,** while this would collect more money for the program, it could come at the cost of popular support for Social Security. Part of Social Security's wide appeal is that everybody contributes and everybody benefits. Raising the payroll tax would be especially hard on employers, who have to pay the tax for all their workers.*

- Government could stop borrowing from the Social Security Trust Fund to pay for other programs.

***But,** this would make it even more difficult to balance the budget and would remove funding from areas of the budget that many value just as much as Social Security.*

- We could return Social Security to its roots, and use the money for what it was originally intended: elderly retirement. Too much money from this critical program goes to pay for disability payments for people of all ages, even children who make no contributions to the system. States should take care of their own disabled citizens; the responsibility should not be the federal government's to shoulder.

***But,** many Americans depend on these supplemental payments. Making such a drastic change would hurt the most vulnerable in our society. This would create a system of haves and have-nots, with each state granting its own level of disability—or declining to do so altogether.*

These and other possible actions are summarized in the table on page 12.

OPTION TWO

Government has assumed too much responsibility for the well-being of its older citizens, undermining the nation's traditional emphasis on self-reliance. We should phase in a privatized system of retirement savings accounts.



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>>End Reliance on Social Security for Retirement

THE VERY FIRST BENEFICIARY of monthly Social Security checks, Ida May Fuller, died at the age of 100. She paid a total of \$24.75 in accumulated taxes over a period of three years and her employer matched that amount before Fuller retired from her job. She collected far more than she put in: \$22,888.92 over 35 years.

For Fuller, Social Security was a very good deal, and as the first recipient, she was a special case. But today's Social Security payments reflect such minuscule returns it leads some to question whether the program is capable of providing the "security" its name promises. As an investment, it performs poorly, providing less than 2 percent return for every dollar paid into the system.

This option says that future retirees would likely reap a far better return if they controlled their own money. This would change Social Security from a "pay it forward"

system in which current workers pay the benefits of current retirees, to a system in which people can control their own retirement accounts. According to this option, we should bring back the notion of both individual responsibility and, when necessary, community support, thus lifting the burden from government and strengthening communities for the welfare of all.

Unsustainable Growth

One of the biggest flaws in the Social Security system, according to this option, is that the government has shouldered far too much responsibility for the welfare of retirees.

Shortly after the Social Security Act was passed in 1935, a government pamphlet compared the program to "barn raisings and corn huskings," as if it were just one more way

of relying on neighbors. Today, however, Social Security pays benefits to more than 50 million people and provides the majority of income for 64 percent of them; for one-third of retirees, it is more than 90% of their income.

Estimates are that, by 2015, federal spending on the elderly will make up 48 percent of the federal budget, up from 31 percent in 1980. While this includes Medicare (\$766 billion) as well as Social Security (\$911 billion), the rate of growth, many say, is just unsustainable.

Furthermore, this option holds, it simply is not good for citizens to be so dependent on the government. It undermines America's traditional emphasis on self-reliance.

Instead, according to this option, we should establish a private mechanism that encourages near-universal retirement savings, yet does so in a way that allows for private initiative. There are a number of ways this could be done. The government could allow workers to divert a percentage of current payroll taxes into regulated, private accounts that could be invested. This would partially privatize the system. Or, Social Security could be phased out over time, with private accounts taking its place on a relatively slow, but predictable, schedule.

Such a move to private accounts would have a number of benefits, according to this option. Citizens would be able to invest their retirement funds for greater return. Even though there may be ups and downs in the economy, over time, investment accounts perform well. Full privatization would also have the effect of reducing payroll taxes, which would be welcome to many.

Allowing workers to move to a privatized system would give them the added benefit of having contractually obligated retirement benefits. While any private retirement account would be subject to the rise and fall of the economy (as any investment is) the money in that account belongs to the individual—it is not a “benefit.” Currently, even though workers universally pay into the system, the money they pay in is not “theirs”; it goes to current retirees. And Congress can change the benefit structure at will, regardless of what has been promised. But the government cannot interfere with private funds.

Critics of the Social Security system argue that the program is fundamentally flawed in terms of its social effects. Rather than encouraging individuals to be personally responsible for their financial planning, in this view Social Security creates an unhealthy dependency on government. While government has a role to play in sudden emergencies, aging and eventual retirement are completely foreseeable. Why shouldn't individuals be asked to plan and invest for their own retirement, rather than rely on a government check?

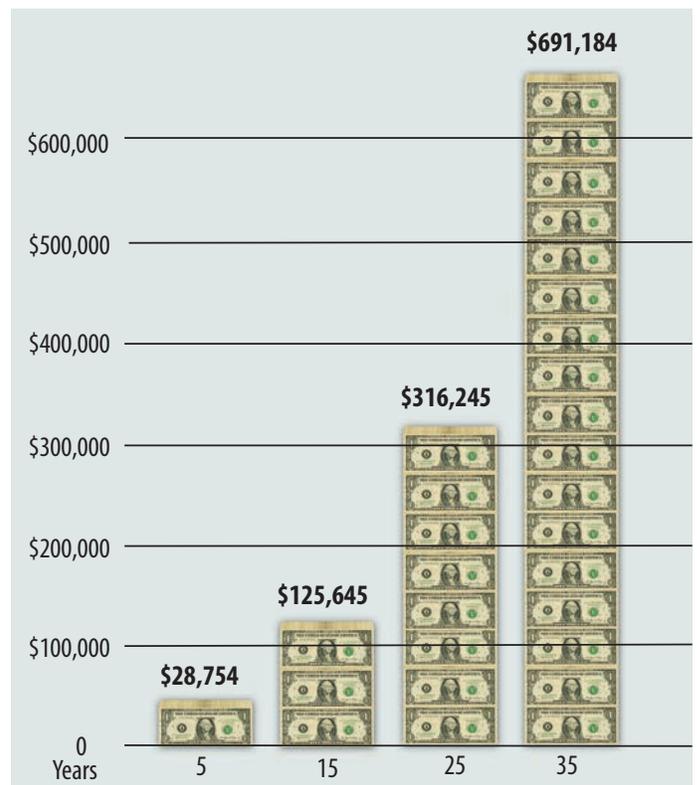
Chile grappled with these issues in the 1970s and changed its retirement system from a government-run plan to a privatized program that emphasized worker choice. The country required people to save for their own retirement, offering them a variety of investment funds, but leaving the question of risk and reward up to each individual. The increase in the savings rate helped fuel the country's impressive growth, and economists have praised what has become known as the “Chilean model.” Retirees enjoy a higher return on their money and can control the money they have.

Required, Assisted Savings

A happy medium, according to this option, is for the government to require regular payments from employee and employer alike, and regulate the companies that would manage the private accounts—and their investments. This suggests that businesses should match a higher percentage of 401(k) benefits, especially since, in 2010, fewer than one-third of employees had access to a traditional pension at work. The requirement that employers participate is especially important; a 2008 study showed more workers

The Advantage of Starting Early

Returns after 5, 15, 25, and 35 years if you saved \$5,000 each year and your money earned 7% annually.



Source: U.S. Department of Labor

participated in 401(k) plans when their employers matched contributions.

Finally, to some, the question of relying on either workers or employers to set aside money for retirement overlooks the simple fact that the earlier one starts saving, the easier it is to save the large sums necessary to support a longer life span. The federal government did take a step in this direction in 2014 with the creation of “myRAs,” which allow most workers to open accounts investing in government bonds.

Some lawmakers have proposed a plan that would require government to open tax-deferred savings accounts for each American child. The proposal works like this: At birth, the government would make a \$1,000 deposit, followed by \$500 deposits for the following five years. The money could not be withdrawn until retirement. But because of compound interest, the accounts would grow to provide more than \$100,000 at retirement. Such a proposal, advocates say, would shrink the wealth gap between rich and poor and give people more control over their own lives.

There is another form of support that the elderly could depend upon as well, says this option: friends and neighbors. Many who call for more choice say that increased community participation should provide a safety net for the elderly poor. In this view, food pantries, churches, and neighborhood groups could be relied upon to support elderly persons in need. In Norwich, Connecticut, for example, the City Social Human Services Department helps coordinate an extensive network of nonprofit organizations and volunteers, working in teams delivering meals to the elderly, visiting shut-ins, and providing transportation, housing, and financial help.

What We Could Do

This option says that the government’s shouldering of responsibility has gone too far, hurting both America’s traditional self-reliance and burdening a government that is deeply in debt. Here are some things that we could do, according to this option:

- We could allow citizens to control their own retirement accounts. Individuals would get a far better return if they controlled their own investments instead of relying on Social Security. People deserve to have more say over the money set aside for retirement.

But, not everyone would make good choices in their investments. Some individuals

might lose money and end up worse off than if they were on the current Social Security system. And some employers might not be able to afford to match contributions. They might hire fewer people as a result, causing unemployment to rise.

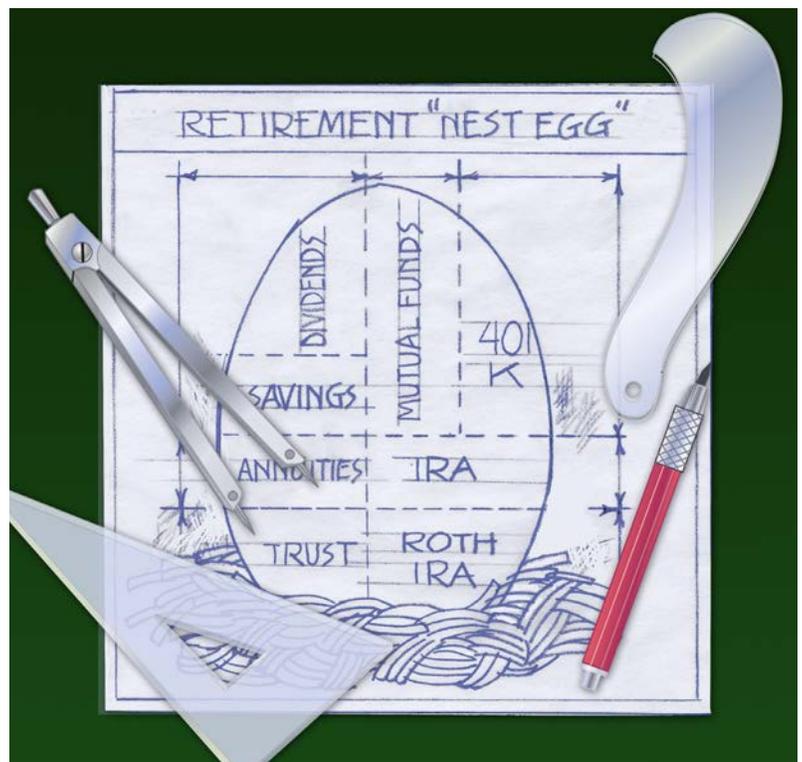
- The best way to both give people more control over their money and harness an underutilized resource—time—is to make sure people begin to set aside money at birth for their retirement. If the government provided payments at birth and for the first few years, then allowed people access to the money at retirement, people would have far more money under their individual control and it would help pay for their elderly years.

But, if the government set aside money for everyone at birth, it would add to the federal debt. Also, we would be helping at least a certain percentage of people who could afford to set aside money for themselves.

- Employers could match more 401(k) plans to augment their employees’ retirement savings. This is particularly important because many businesses no longer offer pension plans.

But, if businesses were pressured to spend more money on matching 401(k) plan contributions, they might not be able to hire as many workers.

These and other possible actions are summarized in the table on page 13.



OPTION THREE

It is unrealistic to continue to support a plan that enables people to retire in their early-to-mid-60s when the average life span now extends to the age of 78, and sometimes far beyond. Americans are living longer, healthier, more active lives. The compact that Social Security represents should be adjusted to account for this.



>> Reinvent Retirement and Social Security

WHEN SOCIAL SECURITY BEGAN, America had a very different economy than it does today. In the 1930s, the vast majority of wage earners toiled at jobs that required physical labor. Life expectancy was just 61. Social Security offered the prospect of financial support for the few short years people were expected to live after retirement. Not many people survived into their 70s.

Times have changed. Life expectancy has increased dramatically. Today, a 65-year-old man can expect to live, on average, until the age of 82. Women live several years longer. Even more significant is the fact that retirees are healthier than ever, leading increasingly active lifestyles years after their careers have concluded.

Simply put, Social Security was not designed to support millions of retirees for 20 years or more. It is time, according to this option, to reconsider the assumptions upon

which the program was based—and take into account the changing nature of retirement and retirees.

Working Longer

This option says that it is entirely reasonable to raise the age for receiving Social Security benefits to 70 for full retirement benefits and to 66 for early retirement. “Demographic problems require demographic solutions. You just cannot have people living longer and longer with a frozen retirement age,” according to a 2008 statement on Social Security by the American Academy of Actuaries.

Moreover, surveys show that majorities of Americans plan on working past the age of 65, which was once the traditional retirement age. The number of Americans working past 65 has increased nearly 60 percent in the last decade alone.



Some businesses report that older workers cost less to train.

Even more striking, the number of workers aged 75 and older has grown to about 1.4 million in 2013 from under half a million in 1989. According to the Census Bureau, of those working who are between the ages of 75 and 84, more than 42 percent work full time.

“There are some pretty striking changes going on,” John Rother, American Association of Retired Persons vice president for policy, told *The New York Times*.

According to Need

If the issue is the solvency of the system, then this option suggests that the best way to fix it is to give Social Security to those who need it the most but earn the least. Currently, Social Security provides an income to anyone who contributed to the program—even to those who are very well-off in retirement.

This option says we would be better off as a society giving more money to those who are at the bottom of the income scale and limiting the amount those at the top could get from Social Security. Every year, \$15 billion in Social Security benefits goes to households with retirement incomes of more than \$100,000. While this is roughly two percent of the overall payout, people who support this option say it is a beginning and would still allow us to care for those who have the least.

Currently, people pay taxes on a portion of their Social Security benefits. The tax rate on this portion or the portion itself could be increased.

There’s another issue, too. The poverty that was once endemic to the elderly has eased, in large part because of Social Security. After adjusting for inflation, the income

of 65-and-over households has risen by more than a third over the last three decades, while average household income for those younger than 45 has stagnated. Some question the fairness of giving Social Security to well-off elderly people while wage earners who make far less struggle to pay for the program with their taxes.

As economist Rita Ricardo Campbell points out, “We are taking real income from people who are heads of households, who don’t own a home, who don’t have the assets, and giving it to old people, some of whom live in mortgage-free homes and have accumulated savings.”

Why Retire?

While many people look forward to retirement, and others simply cannot work any more due to wear and tear from physical labor, for many others, the idea of retirement is not welcome. At least a portion of the elderly would prefer to stay in the workforce indefinitely and not retire at all.

This is a complex issue. Some companies see older workers’ higher salaries and higher-than-average health-care costs as burdens on the bottom line. Other employers, however, welcome older workers. Home Depot, for example, offers such employees a “snowbird special,” with winter work in Florida and summer work in Maine. Other businesses report that they like to hire older workers because they cost less to train than younger workers.

This option holds that businesses should treat older workers as assets, not liabilities. If employers could see the value in older wage earners and take steps to keep them, employees would be able to delay the day of retirement, which would save money for the federal government.

Elder Entrepreneurs, Lending Circles

If younger workers don't always see the issue of older employees lingering in the workforce in quite so positive a light, this option advocates another choice that would benefit workers of every age, one that would fit right in with the longer life span and more active lifestyle of many aging baby boomers. Seniors could start their own businesses instead of leaving the workforce and drawing Social Security. This could have the impact not only of vacating jobs that younger workers would be eager to take on, but of potentially creating jobs and adding to the economy.

If the approach caught on, communities could form lending circles to help seniors find the capital to get businesses off the ground. A lending circle—such as the Cestas program in the Mission District of San Francisco—gives its members no-interest loans, operating on trust. Each member puts in a fixed amount of money on a regular basis. Then, once a month, one member gets the total amount to invest in his or her business. Banks could also make low-interest loans to the elderly who start retirement businesses.

Ultimately, this option says, the future of Social Security can't be considered without a discussion about what it means to work and grow older in America today.

What We Could Do

This option says that retirement is very different today from what the founders of Social Security envisioned. Changes should take into account the changing nature of aging—and retirement. Here are some things we could do: —

- We could raise the age at which Social Security benefits could be collected to 70 for full benefits (it is now 67 for those born after 1960) and allow early retirement with reduced benefits at age 66, instead of 62.

But, this would be a hardship for workers who do manual labor and cannot work as long, or those who cannot find work. Of those Americans who have reached the age of 62, 41 percent of men and 46 percent of women apply for benefits immediately.

- Employers should take steps to hire older workers and keep older workers in their jobs. This would make it possible to raise the retirement age and strengthen the Social Security system.

But, many companies would be reluctant to incur the risks and expenses of retaining or hiring retirement-age employees. And doing so could result in higher unemployment rates for young people and delay the beginning of their careers.

- Older people should be helped to start their own businesses, so they can stay in the economy longer and create jobs for others.

But, it would be neither fair nor good for the economy to channel scarce financial resources to the elderly as incentives to start their own businesses. It would drain capital that otherwise could be used by energetic young people who have many more years to operate and grow their own companies.

These and other possible actions are summarized in the table on page 13.





>> Social Security

How Can We Afford It?

SOcial Security has been a popular, and successful, safety net for the retired elderly for more than 75 years. Although most of the program’s money is used to help support retirees, over the years Social Security has expanded to include widowed spouses, children of deceased workers, and the disabled. More than 50 million people now get monthly checks from the program, and those numbers will grow as more and more of the huge baby boom population retires. If nothing changes, it is estimated that Social Security won’t be able to pay all of its bills starting in 2033.

At the same time, our government is deeply in debt. As more and more of our nation’s budget goes toward

providing money and health insurance to the elderly—even to those who are wealthy, and don’t need the money—it seems only fair to question what the role of the government should be in providing retirement income.

Furthermore, many argue that the nature of retirement has changed, since Americans live much longer than they did when the program started. With more older people looking forward to retirements lasting decades, it seems fair to consider whether the Social Security program is relevant. No matter what, in its present form, Social Security will not be able to serve future generations as it has served those of the past. The question is: how can we best provide for Americans’ retirement?

OPTION ONE

Shore Up and Reaffirm Social Security

Social Security benefits represent a promise made to Americans, symbolizing a shared commitment to one another that is a fundamental value of our country. The program has earned its near-universal support, and the promise should be kept by doing whatever it takes to keep these benefits as they are.

But, this could endanger support for disabled workers and their children, make it difficult to balance the federal budget, or be seen as unfair if earnings-caps are raised.

EXAMPLES OF WHAT MIGHT BE DONE

The government could raise the percentage of Social Security taxes that all Americans pay on their salaries.

Wealthier Americans could agree to pay Social Security taxes above the current cap, in return for incentives like larger tax deductions. In 2014, only earnings up to \$117,000 were taxed for future Social Security benefits.

To shore up Social Security, the government should stop borrowing from the Social Security Trust Fund to pay for other programs.

Lawmakers could reduce or eliminate Social Security disability payments, which were never envisioned by the original program. States could take over the responsibility of disability assistance.

SOME CONSEQUENCES AND TRADE-OFFS TO CONSIDER

This may promote class divisions, as fewer and fewer workers, many struggling to make ends meet, are already paying for more and more retirees, many of whom are living very comfortably.

Removing the cap on salary from which the payroll tax is deducted would be a tax increase. Some may say it is unfair to ask wealthy Americans to shoulder more responsibility for a program that helps those in need.

This would make it even more difficult to balance the budget and would remove funding from areas of the budget that are just as vital as Social Security.

Because state benefits vary widely from state to state, some workers would see their disability safety net sharply curtailed or cut altogether.

OPTION TWO

End Reliance on Social Security for Retirement

Government has been taking too much responsibility for the well-being of its older citizens, undermining the nation’s traditional emphasis on self-reliance. We should phase-in a privatized system of retirement savings accounts, which could be regulated by the government, but controlled and managed by individuals.

But, individuals’ choices may not result in adequate savings for old age, businesses may not be able to afford more taxes, and this could take money away from other federal programs.

EXAMPLES OF WHAT MIGHT BE DONE

Workers can save and invest in their own retirement funds—instead of paying into a government system—and control how their money is invested to get a better return than they do now from Social Security.

Government should require regular payments from workers and employers into private retirement accounts and regulate the companies that manage these accounts.

Businesses can match more 401(k) plans to augment retirement savings of workers. This is particularly important because many businesses no longer offer pension benefits.

Government could expand incentives for more savings by giving everyone a retirement account at birth, and reducing or eliminating taxes paid on such accounts.

SOME CONSEQUENCES AND TRADE-OFFS TO CONSIDER

Not everyone would do better. Some would misjudge what they need to retire. This could result in large numbers of sick and poverty-stricken elderly persons.

This will create a whole new set of potentially burdensome government regulations. Moreover, young people with early (and typically lower-paying) jobs may not be able to meet their expenses if they must also save for retirement.

Businesses might not be able to employ as many people if they are pressured to spend more money on matching 401(k) plan contributions.

This would give money to many people who don’t need it, depriving the federal government of needed dollars.

OPTION THREE

Reinvent Retirement and Social Security

It is unrealistic to continue to support a plan that enables people to retire in their early-to-mid-60s when the average life span is now 78. The compact that Social Security represents should be adjusted to take that change into account.

But, people who do hard physical labor may not be able to work for more years, younger workers may be crowded out of jobs, and Social Security could lose its universal support.

EXAMPLES OF WHAT MIGHT BE DONE

The government could raise the age at which citizens can receive Social Security benefits. Early retirement age could be 66 and normal retirement age with full benefits could be changed to 70.

Employers could allow and encourage older employees to work longer so they could defer retirement benefits.

Nonprofits and banks could give low-interest loans to help elderly people start their own businesses. Lending circles and microfinance ventures could form to help get these businesses off the ground.

Congress could change the Social Security benefit structure. The poorest Americans who need the program the most could receive the most, while those who have more money receive less.

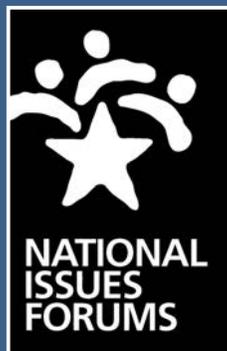
SOME CONSEQUENCES AND TRADE-OFFS TO CONSIDER

It would be difficult for those who do physical labor for a living to defer retirement. This move might inflate disability rolls, as those who could not wait to retire would apply for disability.

This would crowd out younger people who want jobs, and make fewer jobs available to them. In addition, more older employees may result in making businesses less innovative.

This gives older people advantages in getting business loans based only on their age. And at least some proportion of those who start businesses would fail.

This may erode the universal support of Social Security by making it a limited program supported by a tax instead of a program from which everyone in society benefits.



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