

Reforms could solve Social Security funding woes

But high-income retirees might pay more, get less

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Financial advisers are always asking me to speculate about future changes to Social Security benefits. Will benefits be reduced or eliminated for high-income seniors? Will more wages be subject to payroll taxes? Will all benefits be taxed in the future? What will happen if the Social Security trust funds run dry as projected in 2034?

I don't profess to have a crystal ball. And despite more than 20 bills being introduced this session of Congress to address various aspects of the Social Security program, lawmakers have yet to take any concrete steps towards a major overhaul of the nation's retirement system. But the two leading presidential candidates have pledged to protect Social Security benefits — and in the case of Democratic standard bearer Hillary Clinton, to expand it. All over Washington, various lobbying groups are staking out their positions.

In the past, Social Security's political clout has been based on its near-universal coverage and its broad popular support. But the future debate could spark generational and class warfare, pitting today's workers against current and future retirees. Reformers will need to tread carefully, weighing the needs of the poor, who rely on Social Security for most or all of their retirement income, against the fairness to the well-to-do who already pay more into the system than many of them will ever get back in benefits. The essence of the program's popular and political support is it is an earned benefit, not welfare.

But the Social Security retirement and disability trust funds are projected to be depleted by 2034 unless Congress acts before then. At that point, there would be sufficient revenue from earmarked payroll taxes to pay 79% of promised benefits, which translates into a 21% benefit cut for everyone. To correct the long-term financial outlook of the Social Security system, Congress needs to increase taxes, cut benefits or a combination of both. The sooner, the better.

The Committee for a Responsible Federal Budget (CRFB), a nonpartisan, centrist organization, issued a [report on retirement security](#) this summer that calls for reforming Social Security in a way that would allow the program to pay 100% of promised benefits for the foreseeable future through a comprehensive 12-point plan that would increase taxes, boost the full retirement age and expand benefits for the truly needy.

One of the best ways to understand what is at stake and how much proposed changes would cost or save the program is to try your hand at one of interactive Social Security reform tools available online, such as the [CRFB's Social Security Reformer tool](#).

For example, the CRFB Social Security Reformer tool shows that gradually raising the full retirement age from 67 under current law for those born in 1960 or later to 69 for those born in 2008 or later, and indexing the full retirement age to longevity, would resolve 39% of the long-term financial shortfall.

Using a less-generous inflation gage than the current Consumer Price Index, known as the chained CPI, to trigger annual cost-of-living adjustments would eliminate 21% of the funding gap. On the other hand, adopting an inflation index that more closely monitors how the elderly spend money, known as the CPI-E, would increase the costs by 14%.

Lifting the cap on taxable wages, currently set at \$118,500, would resolve a whopping 76% of the funding deficit. But subjecting all Social Security benefits of high-income beneficiaries to income taxes would reduce the funding gap by a mere 8%. Under the CRFB's proposal, current-law taxation of benefits up to 85% of benefits would be unchanged for individuals with modified adjust gross income below \$250,000 and married couples with MAGIs below \$500,000.

A separate [Social Security Policy Simulator](#) produced by the University of Pennsylvania's Wharton School allows users to see the results of six policy options and combinations of those options. Potential reforms include an increase in Social Security's payroll tax rate, an increase in the taxable maximum earnings limit, an option to base annual Social Security's annual COLA on the chained CPI, an across-the-board reduction or across-the board increase to Social Security benefits, a progressive benefit reduction and an increase in the normal retirement age. Any combination of these policy options can be considered at the same time, thereby allowing for a total of more than 4,000 policy combinations.

Advisers often wonder whether they should tell clients to claim Social Security benefits as soon as possible before any potential rule changes. But responding to fear rather than facts is seldom a wise strategy. Most proposals call for prospective changes that would protect existing beneficiaries and would allow future retirees to adapt their plans. Until then, the best advice is to help clients maximize their Social Security benefits as part of a comprehensive retirement plan based on their personal circumstances, health and finances.