Act Sooner Rather than Later on Social Security, Says Report

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An analysis of the latest financial report on Social Security says that while the worst of the program's problems are still years away, taking action sooner rather than later would soften what would need to be done.

A report from the Center for Retirement Research concludes that the program's long-term shortfall is "manageable" but warns that it can be solved "only by putting more money into the system or by cutting benefits. There is no silver bullet."

The latest report from Social Security's trustees shows that the program's outlays in 2021 will exceed its income and the interest credited to its trust fund–a year later than the three prior projections–and after that the trust fund will have to be drawn down to keep payment levels at the amounts set by current law. It further projects that the trust fund–which exists in the form of Treasury securities–will be exhausted in 2034, also about the same as under earlier projections. At that point the program's ongoing income would be able to pay only 75 percent of the ongoing outlay.

The report says that one solution would be an immediate increase of about 2.8 percent of salary in both what individuals and employers pay in; but waiting until 2034 would require a 4 percent of salary increase by both.

Another option would be to require a smaller increase in the payroll tax but to apply it to all income, rather than only up to a limit (this year $127,200)–with possibly a small increase in benefits for those who must pay the additional taxes.

On the payout end, it said that options include raising the age at which full benefits can be drawn to 69 (it currently is 66 and will phase up to 67 in coming years); cutting benefits for above-average earners; and eliminating COLAs for recipients with incomes above a certain threshold and using a less generous inflation count for other beneficiaries.

Said the report: "The arguments for acting sooner rather than later are compelling. First, early action has important implications for distributing the burden across generations. The fact that the country has not taken any steps to restore balance since the substantial deficits first appeared in the 1990s means that most baby boomers have escaped completely from contributing to a solution. Second, eliminating the deficit will restore people's faith in the program and make them feel more secure about retirement. Third, to the extent that changes are phased in, early action allows workers to adjust their savings and retirement plans to offset any cuts."