Seven-Point Plan for Social Security Solvency

Andy Landis

The following is an excerpt from ***Social Security: The Inside Story, 2016 Edition****, proposing a plan to make Social Security solvent. It has been updated to 2017 figures.*

Full funding of Social Security requires a savings of 2.66% of taxable payroll (2016 Trustees Report). A remarkable document can be found at www.ssa.gov/OACT/solvency/provisions/summary.html. There, SSA actuaries list numerous individual policy proposals and evaluate the impact of each one on Social Security's solvency, in terms of a percent of taxable payroll. You can pick and choose your own reforms to save Social Security.

Below is a modest proposal, a seven-point model that fully funds Social Security for the 21st Century with no benefit cuts and a minimum of disruption. All plan numbers and savings figures are from www.ssa.gov/OACT/ solvency/provisions/summary.html:

- *Raise the earnings ceiling (Plan E3.1).* This was the most popular "fix" identified by Americans Discuss Social Security and other polling. It is politically viable and could save a tremendous amount of money for the system. The ceiling can be raised to capture 90% of total compensation, as was the case in 1983, when the current ceiling was adopted. The increase would be phased in by 2026. Retirees would receive increased benefits in line with their increased contributions. Shortfall eliminated: **29%**.
- *Increase the payroll tax rate (Plan E1.8).* An increase from the current 12.4% to 13.0% could be phased in by 2024. Nobody likes a tax increase, but this very modest increase—the employee share would be only 0.3% of payroll—makes a dramatic difference in Social Security financing. Shortfall eliminated: **20%**, and we've already saved about half of the total needed.
- *Re-invest the Trust Funds (Plan G2).* This is not as popular a fix, but it is an obvious step. 40% of the funds could be put in a broad-based index of stocks between now and 2031. This option assumes a modest 5.2% return on equities. The Trust Funds would still be the most conservative pension fund around, and could weather another Great Depression. Shortfall eliminated: **15%**.
- *Cover newly-hired state and local government employees (Plan F1).* Shortfall eliminated: **6%**.
- *Tax Social Security as pensions are taxed (Plan H2).* This could be phased in by 2036 by lowering the existing taxation thresholds. Shortfall eliminated: **7%**.
- *Adjust the PIA formula (Plan B3.3).* The formula could be modified to protect lower earners and reduce benefits of higher earners. This fits well with increasing the earnings ceiling while still rewarding the higher earner with higher benefits. Shortfall eliminated: **8%**.

- *Increase the computation years in the formula from 35 to 40 (Plan B4.2).* This preserves the principle that benefits should be proportional to lifetime earnings. Shortfall eliminated: **17%**.

Remarkably, these seven reforms *by themselves* would save 102% of the money necessary for *permanent* Social Security solvency. Retirement age remains the same. COLAs are not reduced. Across-the-board cuts are avoided. Cost to the government is zero. Deficit impact is positive. Changes are focused on a small number of higher-income individuals, most able to afford change. Social Security is sustainable for our children, grandchildren… basically indefinitely.

What could be simpler?

Andy Landis
Thinking Retirement
Seattle, WA
andy@andylandis.biz
www.andylandis.biz

Andy Landis is one of the nation's leading authorities on Social Security and Medicare through his practice, Thinking Retirement.

He is the author of *Social Security: The Inside Story,* and *When I Retire,* available from Amazon.com in print and Kindle formats. He is a regular blogger for the *Wall Street Journal's* "MarketWatch" site.

Andy conducts workshops for Fortune 500 firms, financial professionals, and others. He has authored courses for financial planners and CPAs, and appears on radio and television.

Andy's background includes employment at the Social Security Administration, AARP, and multinational corporations. He is a past state president of the International Society for Retirement Planning.

Andy lives in Seattle with Kay, keyboards, camper, computers, cars, and sometimes kids.