But Social Security is neither broken nor bankrupt. And it is not nearly as fragile as Medicare and Medicaid—entitlement programs with far more serious budget problems. Social Security is running short of the money needed to pay scheduled benefits, but modest adjustments can halt that slide. Some argue that those adjustments should go beyond solvency, to improve the adequacy and equity of benefits, better protect vulnerable workers, and encourage work at older ages. Although the how and when are still up for debate, policymakers can address these problems without removing the basic protections provided by one of the nation’s most popular and successful programs.

For 75 years, Social Security has kept millions of Americans from poverty, and it remains the major source of income for most older adults. But over the next 75 years, the program faces a $5.4 trillion shortfall. Social Security’s actuaries estimate that trust fund reserves will run dry before the end of 2037, at which point the program will have only enough income to cover about three-quarters of scheduled benefits.

Some argue that adjustments to Social Security should go beyond solvency, to improve the adequacy and equity of benefits, better protect vulnerable workers, and encourage work at older ages.
Solvency: do We need to Fix Social Security now?

Social Security payments to current beneficiaries are financed primarily through payroll taxes from current workers. But because Americans are living longer and having fewer children, the number of workers supporting each retiree is shrinking. In 1970, there were 3.2 workers for each Social Security beneficiary. By 2035, there are projected to be only 2.1 workers per beneficiary. Additionally, retirement ages have not risen as quickly as lifespans, extending the period over which retirees collect benefits.

Does Social Security need to be fixed now? In 2010, the program began paying out more in benefits than it collected from payroll taxes because high unemployment has shrunk tax revenue and encouraged many to file for early benefits. But Social Security is not facing an immediate crisis. It has survived periods of negative cash flow before when benefits were drawn from trust fund reserves, and it is expected to temporarily generate surpluses again once the economy recovers (figure 1).

Nonetheless, after 2015 the system is projected to pay more than it collects in payroll taxes for the foreseeable future, making some fix inevitable. Without congressional action, reserves are projected to be exhausted by 2037—four years earlier than forecast two years ago when the economy was stronger, said Stephen Goss, chief actuary at the Social Security Administration (figure 2). Since Social Security cannot borrow money, once the reserves are gone, the program will have only enough to pay about three-quarters of scheduled benefits.

Panelists agreed that Congress should act sooner rather than later. Making changes now allows workers to plan ahead, knowing the benefit cuts or tax increases coming down the road. It spreads the cost out over a longer period and over multiple generations, allows for more gradual changes, and gives policymakers more options to consider. Waiting for the trust fund reserves to run out before enacting changes will
cost more. For these reasons, Goss said, he is hopeful that lawmakers will act quickly.

Fixing Social Security now could enhance its reputation. In addition to cash benefits, the program is intended to provide peace of mind, said panelist Nancy Altman, codirector of Social Security Works. Americans should know that if they become disabled, die, or retire, they and their families will not become destitute, she said. This intangible benefit has been eroded. Ninety percent of Americans are concerned that Social Security won’t be available for the next generation, according to a poll by the National Academy of Social Insurance and the Rockefeller Foundation (Reno and Lavery 2009). Shoring up the program now could help reassure Americans that it is secure.

With public concern growing over the federal debt and deficit, the timing may be right to tackle Social Security. The program is not nearly the biggest offender, but it’s big enough to matter, said panelist Andrew Biggs, a resident scholar at the American Enterprise Institute. Joyce Manchester from the Congressional Budget Office laid out Social Security’s place in the budget: Medicare and Medicaid are projected to rise rapidly from 5 percent of gross domestic product (GDP) in 2009 to about 10 percent in 2035. Social Security costs, in comparison, she said, are expected to go up from less than 5 percent to about 6 percent of GDP—not nearly as big a problem as ballooning health care costs or interest on the debt, but not insignificant either. President Obama’s deficit commission may be reluctant to adjust Medicare and Medicaid in the wake of health care reform, Biggs said, making Social Security the next likely target.

Since Social Security is the largest social welfare program, reform could indirectly benefit other policies and efforts to rein in the deficit, Urban Institute Fellow Eugene Steuerle said. Social Security is the “flagship of social welfare policy,” he said, and sets retirement expectations for Medicare, private retirement plans, and pay scales. It signals when we should stop working, even though Americans are living longer and spending more years in retirement. And when people stop working, they stop contributing tax revenue and start drawing from their personal savings and public benefits—a shift that happens earlier now in an average lifetime and that compounds our demographic imbalance. Many of these effects, such as a drop in income tax revenues when employment rates fall, extend well beyond Social Security.

The options for restoring Social Security solvency—shortening the retirement period, cutting monthly benefits, raising revenue—are well known, though there is less consensus on the goal and how to get there. Should we aim to keep Social Security solvent for the next 75 years, the current valuation period? Should the valuation period be shorter? Or should we aim for a perpetual balance, to prevent a scenario in which the system falls into a 75-year deficit just one year after achieving solvency because the 76th year was imbalanced? The panelists, like policymakers, had diverse views. Altman said the 75-year test is an extreme goal, longer than the gaze of private pensions and other countries’ public retirement programs. Biggs argued for indefinite solvency, as a lower standard ignores the problems ahead. Steuerle recommended automatic triggers—modest revenue or benefit adjustments that would kick in if Social Security goes out of balance—to ensure long-run solvency.

Robert Greenstein, founder and executive director of the Center on Budget and Policy Priorities, cautioned not to “let the perfect be the enemy of the good or you may end up… with deadlock and no progress.” Restoring solvency over an infinite period would be difficult and, in fact, might be politically impossible, but aiming for a mix of benefit cuts and revenue increases over a 75-year (or somewhat shorter) period is potentially achievable.

Options for increasing revenue include raising the payroll tax rate, subjecting more earnings to the payroll tax, or changing the way we tax Social Security benefits. The share of earnings that falls under the taxable cap has declined from 90 to 84 percent over time as earnings have grown more unequal. Raising the taxable maximum to again cover 90 percent of earnings would reduce Social Security’s 75-year deficit by more than a third; immediately increasing the payroll tax rate by 2.2 percentage points would eliminate the shortfall (figure 3). Benefit cut options include reducing cost-of-living adjustments, changing the benefit formula, and tying benefits to changes in prices instead of wages. A third strategy is raising the retirement age, which would cut lifetime benefits by reducing the retirement period.

While reform will likely include a mix of revenue increases and benefit cuts, the panelists weighed in on whether to rely more heavily on one option over the other. One argument for greater revenue increases maintains that there is little room for benefit cuts. The average Social Security benefit is $1,170 a month, or about $14,000 a year (Social Security Administration 2010a). While benefits are scheduled to be higher for new and future retirees even after controlling for inflation, the share left over after rising Medicare premiums are taken out will shrink. Revenue increases, some panelists argued, would more quickly bring Social Security back into balance than cutting benefits. Other panelists supported a mix of benefit reductions, arguing that most cuts would affect high earners who could easily save on their own. Steuerle noted that lifetime benefits paid to retirees have increased over time and continue to rise, so we should question how we are allocating society’s benefits to different age groups. Because higher earners would likely shoulder much of the burden of balancing Social Security, Biggs argued their preference for tax increases versus benefit cuts should be considered.

Steuerle underscored the importance of programmatic details when weighing alternative reform proposals. Some proposals affect older seniors more than younger seniors;
Raising the Retirement Age while Protecting Those Who Can’t Work

House leaders John Boehner (R-OH) and Steny Hoyer (D-MD) have recently promoted raising Social Security’s retirement age. Doing so would shrink the number of beneficiaries, shortening retirements and reducing lifetime benefits. It could also encourage work at older ages and better target benefits to older adults, but might pose financial hardships for adults with health problems and disabilities, those in physically demanding jobs who cannot continue working, and those who simply can’t find work.

The full retirement age is now 66 and will increase to 67 for those born in 1960 or later. The early eligibility age is 62, but those who retire early get reduced benefits. Increasing the full retirement age to 68 (for those born in 1960 or later) would eliminate over a quarter of Social Security’s expected shortfall (figure 3).

An increase in the full retirement age amounts to an across-the-board benefit cut for future retirees (except those on disability and some widows and widowers), which could be particularly hard on low-income adults. Some proponents argue that the age increase really offsets an expansion in lifetime benefits, because Americans are now living longer. Since 1940, life expectancy at age 65 has gone up 5.1 years for men and 6.0 years for women (Favreault and Johnson 2010). Workers also retire earlier now than they did some 60 years ago when Social Security was new. As a result, the average retiree in 2008 collected Social Security for seven more years than in 1950.

Some panelists supported raising the early retirement age. Workers eligible for full retirement age 67 will receive just 70 percent of their full pensions each month if they retire at 62. If the full retirement age is moved to 68, those who retire at 62 would get only 65 percent of their full pensions—for many, too small a sum to protect against poverty in retirement, especially for those who live into their nineties and risk depleting their savings. “At some point, you have to protect workers from…taking benefits early when they don’t need to and giving up their longevity insurance,” said panelist Frank Todisco, senior pension fellow at the American Academy of Actuaries. He also noted that many workers might consider an increase in the retirement age less objectionable if it were combined with policies that promote work-life balance at all ages, such as mandatory paid leave.

But can older adults hold off on retirement and continue working? Americans are in better health now than they were a generation ago. In 1983, 33 percent of Americans age 65 to 74 were in fair or poor health; by 2007 that number had shrunk to 22 percent, said Richard Johnson, director of the Urban Institute’s Program on Retirement Policy. Fewer adults work physically demanding jobs, and more older adults are better educated now than in the past, meaning more are qualified for less strenuous jobs.

Figure 3. Percent Reduction in the Long-Range Social Security Deficit under Selected Policy Options

Source: Social Security Administration (2010b).
Note: Option 1 would reduce cost-of-living adjustments (COLAs) by 1 percentage point each year, beginning in 2010. Option 2 would gradually increase the full retirement age beginning in 2010 until it reached 68 for those turning 62 in 2022 and later. Option 3 would tie benefit growth to the change in prices instead of wages, but maintain wage-indexed benefits for retirees with low lifetime earnings (bottom 30% of the distribution), beginning with those turning 62 in 2016. Option 4 would increase the taxable maximum to cover 90% of all earnings, phased in between 2011 and 2016, and count the added contributions toward benefits. Option 5 would increase the payroll tax by 2.2 percentage points (for employers and employees combined), effective in 2010. Estimates are based on the 2009 trustees’ assumptions.

Graph showing the percent reduction in the long-range Social Security deficit under selected policy options.
These three trends—better health, better education, fewer physically demanding jobs—have dramatically improved job prospects for older Americans, Johnson said. In fact, labor force participation at ages 62 to 74 has gone up 39 percent for men and 66 percent for women between 1993 and 2009 (Johnson 2010). While the recession slashed jobs for all workers, the demand for older workers will likely be stronger by the time any Social Security changes go into effect. Looking ahead, employers may be more willing to hire older workers as the pool of younger workers fails to keep up with demand.

However, age discrimination persists in the job market. Laid-off older workers spend more time unemployed than their younger counterparts (Johnson and Mommaerts 2010a). Older adults with limited education have a particularly hard time finding jobs. Any change to the Social Security retirement age, the panelists agreed, should be accompanied by policies to protect those who can’t work at older ages. Johnson also recommended offsetting the negative effect on vulnerable groups by making Social Security’s benefit formula more progressive.

Only 47 percent of adults with significant disabilities receive public disability benefits between ages 51 and 64—roughly the same ages when disability rates nearly double (Johnson, Favreault, and Mommaerts 2010). Eligibility rules are strict, application is difficult, and long backlogs leave disabled workers without help for months. Social Security’s early retirement benefits act as a fallback for those who don’t qualify, so raising the eligibility age could weaken that safety net.

Panelist David Stapleton, a senior fellow at Mathematica Policy Research, suggested easing the eligibility criteria for disability benefits and, for the poorest adults, reducing the age at which those without disabilities can qualify for Supplemental Security Income. He further recommended expanding work supports for disabled adults who can continue working, while also investing in such work incentives as payroll tax breaks for employers who hire older workers. Some panelists cautioned, though, that strengthening the disability safety net would not help workers who retire early to care for sick family members or who can’t find work but don’t qualify for disability benefits.

Disability and mortality rates are higher for low-income adults with less education, possibly because they have less access to health care and often work strenuous jobs. Many do not share the gains in life expectancy that may offset an increase in the retirement age. For many low-income retirees, Social Security is their only income. Poverty rates for adults with limited education rise sharply as they near retirement age, but drop once they qualify for benefits at 62 (Johnson and Mermin 2009). Making them wait another year would be a significant hardship, said Karyne Jones, president and CEO of the National Caucus and Center on Black Aged.

Monique Morrissey, an economist at the Economic Policy Institute, also opposed raising the retirement age, in favor of lifting or eliminating the cap on taxable earnings. Taxing earnings above the cap makes sense, she said, because high earners captured most of the last decades’ wage gains. As a result, a greater percentage of earnings have become exempt from the program’s payroll tax while lower-income workers continue to pay in the same portion of their income.

Gary Burtless, an economist at the Brookings Institution, favored a compromise of all three options to close Social Security’s long-term funding gap—reduce benefits for high earners, increase contribution rates modestly, and raise the early and full retirement ages. He emphasized that Social Security retirement ages set expectations for work and leisure. He also pointed out that while wage and health disparities favor high earners, disability insurance payments have increased sharply as well, benefiting lower-income workers. Burtless

Though Social Security has reduced poverty at older ages, some low-wage workers still end up with insufficient benefits after a full career’s worth of work. Low-wage, less-educated workers, who are more likely to become unemployed or disabled, are particularly vulnerable to ending up with sub-poverty benefits.
stressed that every available option for restoring Social Security solvency is going to hurt some people. Pain-free solutions don’t exist. The challenge is to formulate a compromise that shares the pain among different groups while maintaining a well-functioning system.

**Benefit Adequacy and Equity**

Restoring solvency is a priority, but are there other improvements we can make to Social Security? Can we do a better job providing adequate benefits to low-income retirees? Does the system need to be updated to reflect new social and family patterns? And can we afford these changes?

Changing work and family patterns have created unintentional benefit disparities. The system was designed in the 1930s for single-earner, two-parent households, which were the norm then, but now more households have two earners, nearly half of marriages end in divorce, and never-married parents are common. A married couple with evenly split earnings will typically receive far lower benefits than a couple with very different earnings—even when both couples contribute the same total payroll tax. Never-married adults and couples whose marriages end in divorce in less than 10 years are not eligible for spouse or survivor benefits, even though they pay the same payroll tax rates as other workers.

Though Social Security has significantly reduced poverty at older ages, some low-wage workers still end up with insufficient benefits after a full career’s worth of work. Low-wage, less-educated workers, who are more likely to become unemployed or disabled, are particularly vulnerable to ending up with sub-poverty benefits. Further, far more unmarried women are poor at older ages than married women (17 versus 5 percent). In 2009, about 36 percent of retired workers and nondisabled widows received benefits that fell below the individual poverty level (Favreault 2010). Some experts argue for a minimum benefit to reduce poverty and near poverty at older ages.

A minimum benefit would fit with the program’s redistributive nature. Social Security is progressive, giving lower-income workers higher replacement rates—a recognition that they could not live off the portion they paid into the system. Sylvester Schieber, former chair of the Social Security Advisory Board, describes this feature as “insurance against bad labor market outcomes.” And just as with any other form of insurance, he said, if you are lucky enough not to need it and some of your contributions went to someone who did, you still benefitted from having insurance. He emphasized, however, that changing family and work patterns have eroded progressivity, and he stressed that the way Social Security redistributes incomes should be readily transparent.

But can we afford to make these changes? Options for a minimum benefit, increasing dual-earner-couple widows’ benefits, boosting benefits for the eldest beneficiaries, and extending survivors’ benefits until age 22 would be relatively low cost, said panelist Virginia Reno, vice president for income security at the National Academy of Social Insurance.

Rep. Nita Lowey (D-NY) has introduced a bill that would allow caregivers who leave the workforce to get credits toward their Social Security benefits. The value of informal caregiving, Lowey said, is estimated at $200 billion a year. Unpaid caregivers—disproportionately women—end up with lower Social Security benefits because of these gaps in their earnings histories. Roughly a third of Social Security beneficiaries who took five or more years out of the labor force to care for children have low benefits, compared with only about a sixth of beneficiaries who did not (Favreault 2010).

The panelists disagreed over whether caregiver credits were the best way to target needy
beneficiaries. Some said these credits might go to higher-income households where parents could afford to leave their jobs. For example, less than half of the new benefits generated by a caregiver credit would go to beneficiaries in the bottom fifth of the income distribution (figure 4). Melissa Favreault, senior research associate at the Urban Institute, argued that capping the credit and narrowly targeting it to lower-wage workers could keep it highly progressive. She stressed the importance of careful attention to detail and the design of adequacy adjustments. Since reforms will come in packages rather than as individual provisions, adequacy and equity adjustments should be considered as a whole with an eye toward how they interact with each other and with provisions to restore solvency.

Other panelists were wary about making benefit changes that would increase the cost of a program that already faces a long-term funding shortfall. Paul Van de Water, senior fellow at the Center on Budget and Policy Priorities, urged keeping the focus on solvency and not letting disputes about adequacy and equity sidetrack reform. Which improvements are preferable is partly a value judgment, he said. Should the primary goal be reducing poverty, rewarding caregiving, improving work incentives, or ensuring earnings are closely related to benefits? Van de Water suggested modest benefit improvements within the context of improving solvency. Policymakers could also consider lengthening the time over which wages are averaged from 35 years of earnings to 40 years.

**Conclusion**

In 2009, a record number of Americans filed for Social Security benefits, many opting to retire early (Johnson and Mommaerts 2010b). That so many count on this program makes it crucial for policymakers to bring the system back into balance. Some experts argue too that Social Security is dated and could do a better job providing adequate and fair benefits, given rapid changes to American family life.

Whatever changes are made should protect low-income retirees, disabled workers, and other vulnerable groups who rely heavily on the program. Policymakers should also keep in mind that future retirees and taxpayers, not the current elderly, will almost certainly be most affected by reform. How tax increases and benefit reductions affect different workers and beneficiaries can vary a great deal, so the policy details matter significantly. While Social Security is not facing an immediate crisis, acting sooner rather than later would spread the changes and costs over a long period and would give future beneficiaries time to plan ahead.

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Panelists

Nancy J. Altman, Social Security Works  
Andrew Biggs, American Enterprise Institute  
Gary Burtless, Brookings Institution  
Melissa Favreault, Urban Institute  
Howard Gieckman, Urban Institute (moderator)  
Stephen Goss, Social Security Administration  
Robert Greenstein, Center on Budget and Policy Priorities  
Richard W. Johnson, Urban Institute  
Karyne Jones, National Caucus and Center on Black Aged  
Nita M. Lowey, U.S. representative (D-N.Y.)  
Joyce Manchester, Congressional Budget Office  
Monique Morrissey, Economic Policy Institute  
Virginia Reno, National Academy of Social Insurance  
Sylvester Schieber, Social Security Advisory Board (formerly)  
David Stapleton, Mathematica Policy Research  
C. Eugene Steuerle, Urban Institute  
Frank Todisco, American Academy of Actuaries  
Paul N. Van de Water, Center on Budget and Policy Priorities  

Program on Retirement Policy

http://www.retirementpolicy.org

The Program on Retirement Policy addresses how current and proposed retirement policies, demographic trends, and private-sector practices affect the well-being of older individuals, the economy, and government budgets.

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URBAN INSTITUTE  
2100 M Street, NW  
Washington, DC 20037-1231  
(202) 833-7200  
paffairs@urban.org  www.urban.org