



Social Security the Budget and an Aging Population

A Choicework Discussion Starter

A Note on Public Agenda's Choicework Discussion Starters

Public Agenda Choicework Discussion Starters support dialogue and deliberation on a wide variety of issues. They have been used in thousands of community conversations and classrooms, by journalists and researchers, and by individual citizens looking to gain perspective on public issues.

Each discussion starter is organized around several alternative ways of thinking about an issue, each with its own set of values, priorities, pros, cons and tradeoffs. The different perspectives are drawn both from what the public thinks about an issue, based on surveys and focus groups, as well as what experts and leaders say about it in policy debates.

Customizing to Fit Your Situation

Note that the Choicework Discussion Starters are meant to help people start thinking and talking about an issue in productive ways — they are not meant to rigidly restrict thinking or dialogue. The perspectives described are not the only ways of dealing with the problem, nor are the viewpoints mutually exclusive in every respect. Many people would mix and match from different perspectives, or add additional related ideas.

Additionally, users of these guides have the option of providing various kinds of nonpartisan information along with them as context for a conversation.

Public Agenda's Community Conversations Model

Public Agenda often uses these guides as discussion starters for Community Conversations as part of a larger program of community dialogue and action. Such conversations are frequently a solid first step toward new partnerships and initiatives.

Public Agenda's approach to Community Conversations involves several principles and guidelines that can be flexibly applied to different settings:

- Local, nonpartisan sponsors/organizers
- Diverse cross-section of participants, "beyond the usual suspects"
- Small, diverse dialogue groups with trained moderators and recorders
- Nonpartisan discussion materials that help citizens weigh alternatives (Choicework)
- Strategic follow-up to connect dialogue to action

If you would like to learn more about Public Agenda's approach to public engagement, or to see a full list of our Choicework Discussion Starters (including print and video versions), please visit our website www.publicagenda.org/publicengagement.

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Social Security, the Budget and an Aging Population

America is getting older. This is the result of a whole range of generally positive trends in society: advances in medicine, changes in demographics, and other benefits of living in one of the wealthiest societies in the world. But that also means we have to adapt to those changes, and one of the things that will have to adapt is Social Security, the nation's retirement system.

Social Security is one of the most popular and successful government programs in U.S. history, ensuring Americans' stable retirement since 1935. But now that the 76 million baby boomers have started retiring – and are projected to live longer than any previous generation of Americans – the question is how to keep the program financially stable.

An estimated 10,000 people a day will become eligible for Social Security benefits over the next two decades, putting an unprecedented strain on the system, and on the federal budget. Social Security paid out more in benefits than it collected in payroll taxes for the first time ever in 2010. Social Security has a trust fund to fall back on, but if nothing is done, the most recent estimates project it will run dry in 2036.¹ Sometimes people say the system will be bankrupt at that point, but that isn't really true. Social Security would still receive tax revenues and still function – but it would only have enough money to pay about three-quarters of promised benefits to retirees.

Nearly everyone believes Social Security is important, but no consensus has emerged, either in Washington or among the public at large, on what approach the government should take to keep it financially stable. Yet while 2036 may seem a long way off, many fiscal experts say it makes sense to act sooner rather than later.

The nonpartisan Congressional Budget Office says if the government were to act now, the program could be maintained as is for another 75 years by either raising the payroll tax from 12.4 percent currently to 14 percent, or by cutting benefits by an equivalent amount.² But if the government were to wait until later, the tax increase or benefit cuts would have to be more dramatic to get the same effect.

"If changes are enacted soon, it will be possible to close the program's financing gap with relatively modest, incremental tax increases or restraints on the growth of benefits," said the Choosing Our Fiscal Future report, a project of the National Research Council and the National Academy of Public Administration. "The longer action is delayed, the larger will be the required changes to restore long-term solvency. Future retirees will confront increasing uncertainty about what they can expect from Social Security in their old age, and low-earning workers, who rely far more than others on Social Security benefits for retirement income, will be particularly vulnerable to sudden or unexpected benefit reductions."³

¹ Social Security and Medicare Boards of Trustees, "A Summary of the 2011 Annual Reports," May 13, 2011, <http://www.ssa.gov/oact/TRSUM/index.html>

² Congressional Budget Office, Director's Blog, "CBO's 2010 Long-Term Projections for Social Security: Additional Information," Oct. 22, 2010, <http://cboblog.cbo.gov/?p=1498>

³ National Research Council and the National Academy of Public Administration, "Choosing Our Fiscal Future," January 2010, <http://www.ourfiscalfuture.org/thereport/>

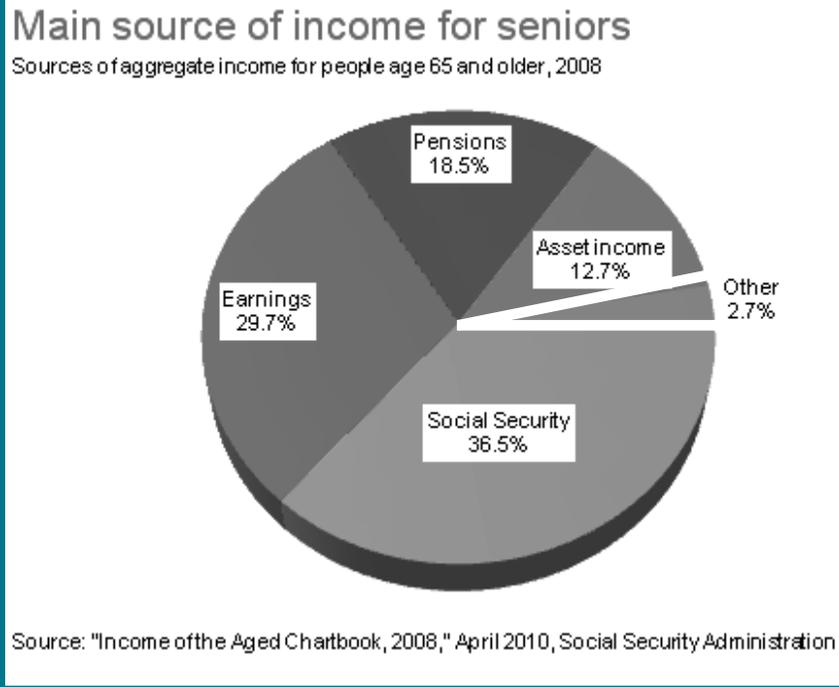
At the same time, Americans as a nation only save a miniscule percentage of their income, and individual investment plans (like the widely used 401K) have been battered by the global financial crisis and recession. That may leave Americans' own resources dwindling even as the government safety net begins to fray.

How Social Security Works

Nearly all Americans over 65 collect monthly Social Security benefits, the backbone of the nation's retirement income system. But besides supporting 36.4 million retirees and their dependents, the program also provides benefits to some 9.6 million disabled people and 6.4 million survivors of deceased workers.⁴ Overall, Social Security is the largest single program the federal

government has, projected to account for about 20 percent of the federal budget this year (slightly more than national defense).⁵ Social Security was originally designed to provide one leg of a "three-legged stool" for retirement security, the others being savings and a pension. Now, however, many companies have moved away from traditional pensions, and relatively few people have adequate personal savings. According to studies by the Employee Benefits Research Institute, only 23 percent of workers over 55 have more than \$250,000 in savings, and just 14 percent of those aged 45 to 54 have that much.⁶ That means that more Americans will be relying heavily on Social Security.

The Social Security Administration says that about a third of the recipients depend on Social Security for more than 90 percent of their income, while another third rely on the program for more than half of their money. The agency estimates that about 13 million people would fall below the poverty line without Social Security.⁷



⁴ Social Security Administration, "Fast Facts About Social Security, 2010," http://www.ssa.gov/policy/docs/chartbooks/fast_facts/2010/fast_facts10.html

⁵ <http://www.whitehouse.gov/winning-the-future/interactive-budget>

⁶ Employee Benefit Research Institute, Retirement Confidence Survey, 2010 RCS Fact Sheet # 4: Age Comparisons Among Workers, Page 3, http://www.ebri.org/pdf/surveys/rcs/2010/FS-04_RCS-10_Age.pdf

⁷ Social Security Administration, "Fast Facts About Social Security, 2010," http://www.ssa.gov/policy/docs/chartbooks/fast_facts/2010/fast_facts10.html#agedpop

Social Security is a "pay-as-you-go" insurance program, meaning that the current workforce pays for the benefits of the current retirees. And, eventually, when people who are working now become retirees, their benefits will be paid by those who are working in the future. Employees pay 6.2 percent of every paycheck toward Social Security, and their employers pay the same amount as well. So today's workers won't get back "their" money when they retire; the money taken out of their paychecks today go to those receiving Social Security today.

In 1950, there were 16 workers to support every one beneficiary of Social Security. Today, there are only three workers for every retiree. By 2030, the ratio will fall to an estimated 2.1 workers per retiree.

Americans become eligible for Social Security benefits at age 62. But if they retire then, they receive a smaller amount than if they wait until age 67, when full benefits kick in. Only about 5 percent of retirees, however, wait until after they've reached full retirement age to claim benefits, preferring to take the decreased amount instead of working a few years longer.

Trust and the Trust Fund

With the baby boomers still in the workforce and paying into the system, Social Security has been running a surplus: taking in more money than it needs to pay benefits. Since everyone could see this demographic problem coming, the government set up a "trust fund" for this extra money. When the system falls short of tax revenue, Social Security will be able to draw on this trust fund to keep paying full benefits until 2036.

The problem is that this trust fund, currently worth about \$2.6 trillion, isn't sitting in a bank somewhere. The federal government has borrowed the surplus money from the fund to pay its year-to-year bills, giving the fund special "intergovernmental" Treasury bonds in return. There's nothing illegal or secret about this. When the trust fund needs its money, the government is legally obligated to pay it back, with interest.

The risk isn't that Social Security won't pay its benefits; the trust fund bonds guarantee that retirees are among the first in line when the government pays its bills. People will get their checks as long as the trust fund exists. The risk is that the cost of keeping up with those benefits will put an increasing strain on the federal budget. That means the government may have to raise taxes, cut other programs or borrow elsewhere to repay its obligation to Social Security.⁸

Most budget experts say Social Security isn't the main factor driving the nation's long-term budget problems. The rising cost of health care and programs like Medicare and Medicaid play a greater role. But overall, the government's own auditors call the federal budget "unsustainable" over the long run.⁹ Fixed costs are increasing, and by 2019 the GAO estimates 90 cents of every dollar the government takes in will go to Medicare, Medicaid, Social Security and interest on the money we've already

⁸ U.S. Department of the Treasury, Office of Economic Policy, "Social Security and Medicare Trust Funds and the Federal Budget," May 2009, http://www.treasury.gov/resource-center/economic-policy/ss-medicare/Documents/budget_trust_fund_perspectives_2009.pdf, and U.S. Government Accountability Office, "Social Security Reform: Answers to Key Questions," May 2005, <http://www.gao.gov/new.items/d05193sp.pdf>

⁹ U.S. Government Accountability Office, "The Federal Government's Long-Term Fiscal Outlook, January 2011," <http://www.gao.gov/new.items/d11451sp.pdf>

borrowed.¹⁰ “Changes to make the Social Security program financially solvent are an essential element of a strategy to put the federal budget on a sustainable path,” the Choosing the Fiscal Future report concluded.¹¹

Since everyone could see these problems on the horizon, the government has taken some steps in the past. In 1977, Congress almost doubled the payroll taxes for Social Security and Medicare. In a bipartisan agreement in 1983, the government gradually started to raise the age for full benefits from 65 to 66 for people born after 1943 and to 67 for people born after 1960. Since then, however, there's been plenty of discussion about what to do, but little agreement.

Starting the Discussion

Clearly, we've got choices to make, decisions involving values and money. To help get our discussion started, we've created a framework describing several approaches to keeping Social Security solvent.¹² Which makes the most sense to you, and why?

¹⁰ U.S. Government Accountability Office, "2010 Financial Report of the United States Government," <http://www.gao.gov/financial/fy2010financialreport.html>

¹¹ National Research Council and the National Academy of Public Administration, "Choosing Our Fiscal Future," January 2010, <http://www.ourfiscalfuture.org/thereport/>

¹² Disclaimer: The approaches presented do not necessarily represent the options analyzed and presented by the Committee on the Fiscal Future of the United States, a National Research Council - National Academy of Public Administration study committee. Instead, these approaches have been tailored to prompt constructive and deliberative dialogue for the purposes of the Community Conversations.

Approach A:

Raise Revenue to Keep Social Security Intact

Social Security is one of our most vital public programs, and the best way to preserve it is to be willing to pay for it. To ensure that Americans are able to retire with security and dignity, government must keep Social Security benefits intact, even if it means raising taxes or reducing spending on other government programs. The government's promise of income security in retirement years must be honored. It is immoral to reduce benefits to older Americans because of the pressures created by a large number of individuals in the baby boom generation. In any case, maintaining this program over the long run requires only modest adjustments of revenues and expenses.

What should we consider doing?

- Keep Social Security benefits and eligibility criteria intact. Maintain the current retirement age.
- Eliminate the income cap on Social Security taxes, currently set at \$106,800, for both workers and employers.
- Increase the payroll tax on both employers and employees. Make other adjustments to raise revenues, such as taxing Social Security benefits the same way other retirement income is taxed.
- If necessary, raise other taxes or cut other federal programs to enable the federal government to meet its obligation to the Social Security trust fund.

Arguments For This Approach

- Social Security represents a right and a promise. Older Americans need these programs now more than ever, since private pensions are shaky and many have saved less than they will need in retirement. We should be willing to pay higher taxes if needed to keep that promise.
- The best way to maintain public support for Social Security is to continue to cover all of the elderly, regardless of need.
- Social Security goes a long way toward keeping older Americans financially independent. If benefits were cut back, many retirees would be forced to live with their families or go on welfare.
- There's no reason why the highest-earning Americans should get a tax break on Social Security.

Arguments Against This Approach

- Higher taxes will take a toll on the economy. For example, requiring employers to pay higher Social Security taxes will make it more expensive for them to hire workers.
- People are living and working much longer than they did when Social Security was created. We should change the benefits to reflect this reality.
- Other government programs are important, too. This may force us to cut education, defense, or other important priorities in order to keep Social Security untouched.
- The current system pays benefits to retirees no matter how affluent they are. We should direct government help to those who need it most.

Approach B:

Redefine the contract to make Social Security sustainable

A lot has changed since Social Security was created. People are living longer, healthier lives. To avoid stark choices, including sharp hikes in taxes and reductions in other government programs, significant changes must be enacted to meet the needs of future retirees. The demographics of the baby boom generation and the smaller generation that follows it require pared down benefits and revised eligibility rules.

Commitments to older Americans must not jeopardize other public needs. We will have to trim benefits, especially to those who need them least, and reverse the trend to early retirement.

What should we consider doing?

- Focus Social Security on those who need it most, by scaling back benefits for upper-income retirees, but keep benefits stable for lower-income people.
- Gradually raise the retirement age to only allow for full retirement benefits at 70.
- Change how cost-of-living adjustments are calculated. Economists argue that the Consumer Price Index, which is used to calculate Social Security cost-of-living increases, overstates inflation. If we calculate cost-of-living adjustments based on a different measure (called the "chained CPI"), we'll more accurately reflect inflation and reduce costs.

Arguments For This Approach

- Circumstances have changed drastically since Social Security went into effect. It's time to adjust benefits and eligibility criteria accordingly.
- The current system is based on outmoded assumptions about who's old. There is no good reason to offer inducements to early retirement, or even to encourage most people to retire in their mid-60s.
- Government benefits should be targeted to those who need them. Affluent retirees don't need public subsidies.
- Unless benefits are reduced or taxes raised, these programs will be unsustainable, as fewer and fewer workers pay for more and more retirees.

Arguments Against This Approach

- If benefits were reduced, many retirees would be in financial peril. Social Security provides more than half the income for half of retired couples and nearly three-quarters of single retirees.
- Saying people should work longer and push back retirement is all right for office workers, but blue-collar workers who do heavy physical labor may not be able to keep up. A delayed retirement would be a burden to them.
- Scaling benefits to retirees' income will undermine support for Social Security, which is popular because it's a universal program. Furthermore, it would penalize people who have worked hard, invested and been financially prudent.
- Millions of Americans have made retirement plans assuming current benefit levels and eligibility criteria. It's a bad idea to change the rules in the middle of the game.

Approach C:

Make Economic Security in Retirement a Personal Responsibility

We need a dramatic rethinking of Social Security. Americans need to save more for retirement and other needs, but have lost the habit of saving, and are plagued by personal debt. We need a system of mandatory personal savings accounts, which make individuals more responsible for their own financial security, even though Social Security would be retained to provide some benefits. Mandatory personal savings accounts would either wholly or partly replace the current system, putting responsibility for retirement security where it should be, on each of us individually.

What should we consider doing?

- Create mandatory personal retirement accounts, much like a 401(k) account, into which both individuals and employers would contribute. Individuals would manage the accounts to get the best yield on their retirement savings and could pass them on to their heirs.
- Subsidize lower-income Americans' personal retirement accounts with government funds, to create a more level playing field, and enhance their Social Security benefits.
- Make the shift gradually, over a period of many years, so that people have time to plan.

Arguments For This Approach

- This approach reflects America's traditional emphasis on personal responsibility and limited government.
- Many people would feel better handling their own financial affairs rather than trusting that the government will do it for them. They wouldn't have to worry about the uncertainty of a government-run system that may not be able to meet its commitments.
- Over time, investments in stocks and mutual funds provide the best return on your savings. Many people would come out ahead compared to Social Security.
- The resulting increase in the nation's savings rate would strengthen the economy. Savings would be invested privately, helping to create new businesses and jobs.

Arguments Against This Approach

- Social Security is one of the most popular and effective government programs we have. The point is to fix the system, not to move to a radically different one.
- This would be a shift from a certain government benefit to a system where there was no guarantee that private savings would cover retirement costs, especially when individuals make foolish or risky investments.
- A system like this would have winners and losers, because some people are better savers and investors than others. Low-income retirees, survivors of deceased workers, and people with disabilities would suffer disproportionately, as would anyone who's bad at investing, or just had bad luck.
- The financial crisis of 2008 showed what can happen to private investments when the stock market crashes. Millions of people who saved prudently and in good faith suffered huge losses. Social Security is much more reliable than the markets.

Approaches in Brief

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Approach B:

Redefine the contract to make Social Security sustainable

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Approach C:

Make Economic Security in Retirement a Personal Responsibility

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Public Agenda

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