Fact Sheet

Solving Social Security: Ensuring Long-Term Stability

Joel Eskovitz
AARP Public Policy Institute

Social Security is a multigenerational program that uses taxes from today's workers to support the earned retirement benefits of those who have previously paid into the system. The system also provides a vital safety net, regardless of age, for workers who suffer from significant disabilities and for the surviving family members of deceased workers.

Congress has not significantly altered the program since 1983. Meanwhile, demographic and socioeconomic changes in the interim have led to long-term financial challenges. Without legislative action, beginning in 2034 Social Security would still be able to pay roughly three-quarters of benefits for the remainder of this century.[1] But a reduction of this size would compromise the economic security of beneficiaries, particularly those with low and moderate incomes who rely on Social Security the most.

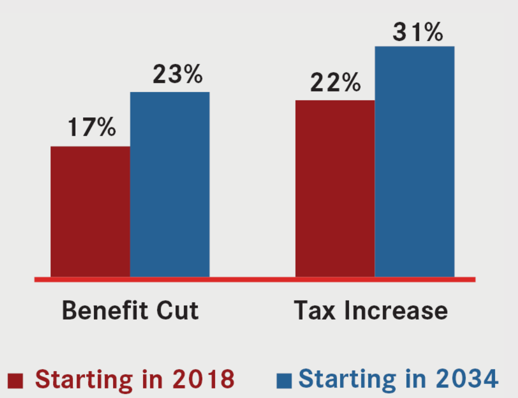
Lawmakers can pursue a variety of options to fix the program's long-term shortfall by changing how it pays benefits or obtains revenue. The longer Congress waits, however, the harder and more dramatic those fixes will need to be (see Figure 1).

Following is a look at the dynamics at play—including recent history, active trends, and the basic building blocks available to strengthen the system.

How Social Security Is Funded

Social Security benefits are primarily funded through payroll taxes, which represented nearly 88 percent of all program revenue in 2017. Workers pay 6.2 percent of their wages into Social Security and their employers match that contribution; self-employed workers pay the entire 12.4 percent.

FIGURE 1
The Cost of Waiting: Benefit Cuts or Tax Increases Needed to Achieve Long-Term Solvency Become Greater Over Time



Source: 2018 Social Security Trustees Report

Payroll taxes apply to the first $128,400 (2018) of a worker's pay (the "taxable maximum"), with additional earnings not being subject to the tax. The remaining 12 percent of Social Security revenue has come from two additional sources: (a) taxes on some Social Security income and (b) interest accrued from surplus money received in prior years.

Era of surplus. Following changes made in 1983, for nearly three decades the Social Security system took in more money than it paid out. This extra money went into two separate trust funds for each of the basic Social Security benefit types: retirement/survivor and disability. The US Treasury invests this surplus money in interest-bearing government bonds, and the Social Security Administration can redeem these bonds at any time to pay Social Security benefits.

Trend reverses. In 2010, the system began to pay out more money in benefits than it was taking in via payroll taxes and taxes on Social Security income. But the trust funds continued to grow because of interest earned on surplus assets, totaling nearly $2.9 billion at the end of 2017. However, 2018 marks a pivotal year. The Social Security Administration expects that, for the first time since 1982, trust-fund assets will decline. That is, Social Security benefits paid will exceed all forms of income coming into the system.

How We Got Here: Trust-Fund Projections

Social Security's chief actuary projects that the declining trust funds can still cover full benefits until 2034, when those assets from past surpluses are expected to be depleted. At that point, Social Security can pay out only what it takes in via payroll taxes and taxation of some benefits. If Congress makes no change to Social Security, all beneficiaries—regardless of age, income, or health status—are projected to receive only about 79 cents for every dollar promised under today's rules.

1980s fix. When Congress last changed the tax and benefit structure of Social Security in 1983, the program was only months away from not being able to pay all retirement and survivor benefits on time. The Social Security Trustees estimated that with the 1983 changes the program would be able to pay benefits, as modified by the law, through a 75-year projection period (ending in 2057).[2] The 1983 law accomplished this by the build-up of trust-fund assets, followed by the drawdown to pay the retirement benefits of the largest generation in American history, the baby boomers.

Projections fall short. Even though Congress planned for the retirement wave, several demographic and socioeconomic changes have accelerated the projected depletion date of trust fund assets. First, retirees are living longer—and collecting benefits for a greater number of years—at a time when fertility rates have dropped to near-record lows, exacerbating the predicted trend of fewer workers paying into the system. In 1950, roughly 16 workers were paying payroll taxes for every retiree; that number has slipped to about 3 workers per retiree today.[3] Further, the Great Recession of 2008 dampened anticipated economic growth, resulting in weaker-than-projected growth in payroll-tax revenue.

Meanwhile, the number of baby boomers filing for disability benefits grew at a larger-than-expected rate over the last two decades, a trend that has since leveled off.

How the System Can Be Stabilized

To make Social Security's numbers add up, mathematically the solution can reside within only two overarching areas: expenditures and revenue. That is, to ensure the Social Security Administration has enough money to pay all expected benefits beyond 2034, Congress must change either the tax or benefit structure of the program, or some combination of the two. Any action could have significant impacts on all beneficiaries.

Within each of the two options or tools—tax increases and benefit cuts—are many choices. Such choices include **who bears the burden** of any change (e.g., high-earning workers or all workers, workers or retirees, etc.), **when** to apply a change, and **the extent** of a change. Here is a closer look at the choices, broken down by each of the two broad categories:

Tax increases. The payroll tax would have to increase by roughly 2.8 percentage points today to pay all expected benefits for the next 75 years (i.e., the combined employee and employer payroll tax would increase from 12.4 to 15.2 percent of a person's wages). Waiting to raise taxes until 2034 would require an increase to 16.27 percent of a person's wages. Other options to increase taxes include raising or eliminating the payroll taxable maximum or subjecting other forms of income to Social Security taxes.

Benefit cuts. Benefits would need to be cut by 17 percent today to balance Social Security finances for the next 75 years. Waiting until 2034 to take action to make the system solvent for 75 years would require cutting benefits by 23 percent. Other options to reduce benefits include raising the retirement age, reducing benefits for higher-wage earners or changing the way cost-of-living adjustments are calculated.

Thus, detail lies at the heart of any solution. But regardless of the approach, time is also important. For every year Congress waits to revise the program, it will face more difficult decisions that come with increasingly drastic impacts.

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1 Board of Trustees, Federal Old-Age Survivors Insurance and Federal Disability Trust Funds, The 2018 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Trust Funds (Washington, DC: Social Security Administration, June 5, 2018), https://www.ssa.gov/OACT/TR/2018/.

2 Board of Trustees, Federal Old-Age Survivors Insurance and Federal Disability Trust Funds, The 1984 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Trust Funds (Washington, DC: Social Security Administration, April 5, 1984), https://www.ssa.gov/oact/TR/historical/1984TR.pdf.

3 Social Security Administration, https://www.ssa.gov/history/ratios.html.

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601 E Street, NW
Washington DC 20049

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