How to save social security:

A large number of people believe that the social security fund will run out of money in the near future. This is based on the near certainty that at current benefit and retirement rates, the trust fund will be exhausted as early as 2025 by some estimates, but perhaps as late as 2034. The trust fund grew over time because social security taxes have exceeded social security payments. One purpose of the trust fund is to enable social security to continue full payments when social securities benefits exceed social security revenues. Once the trust fund is fully depleted, social security will be able to pay only 75% to 80% of benefits. However, this is very different from the erroneous belief that all benefits will nrcessarily be terminated.

Why will the trust fund run out of money? The most obvious reason is that people live much longer now than in 1935 when the social security program was initiated. The increase in life expectancy for American has grown by a little over 16 years. A second reason is that peoples' expectations of what retirement should be like have also grown significantly. After all, in 1935, most Americans were happy to have a room to sleep in, and enough money for food and clothing, and perhaps the luxury of a radio and for some, even a car. Modern Americans wish many more amenities - big screen television, wireless telephone, computer, guaranteed health care, etc., etc. It is worth noting that the average monthly social security payment for males was 60 times greater in 2012 as compared to 1940, while consumer prices increased only about 16 fold.

In any event, it is almost certain that social security benefits will continue, with or without a trust fund. The only relevant question is whether benefits will be reduced, stay the same, or be increased. In turn, this depends upon congressional actions. There have been many legislative possibilities suggested. Among them are:

- increasing the social security tax which is already a hefty 15.3% if we include the medicare tax (2.0%) and the employer's contribution. People with high earnings pay an addition .9% medicare tax.

- raising the maximum amount of earnings subject to the social security tax which is currently (2017) $127,200 for social security and **all** earned income for medicare.

- subjecting unearned income, e.g., dividends, interest payments, capital gains, to FICA taxes.

- privatizing all or part of the social security program;

- raising the age of retirement currently set at 67 for those born in 1960 or later.

Although some action will eventually be necessarily taken, I have no useful thoughts on the first three of the above possibilities, other than that the changes will probably eventually include (but not be limited to) some combination of raising the social security tax, and the amount and composition of income subject to the tax. However, we need to consider the last two of the above possibilities.

Privatizing social security: This is based on the notion that private investors may obtain greater returns on their money if allowed to place a part or all of their social security tax payments in private securities. This is a terrible option.

Unlike private insurance, the social security program is **not** actuarially based. It is a pay as you go system, i.e., current benefits are largely paid out of current social security tax receipts. Of course, this could be changed, but only by changing the underlying philosophy of the social security program. Moreover ,there has always been an element of income redistribution in the program Benefits relative to contributions are more generous for low income earners than high income earners. People with physical or mentally disabilities can qualify for full benefits, sometimes with a short work history even though they may have had disabilities from a young age.

Moreover, retirement in the U.S. is already heavily privatized. Social security benefits alone can, at best, finance a relatively low quality of life in retirement. People are constantly encouraged to set aside additional savings in IRA or 401 accounts. Privatization would simply increase the amounts going into these private accounts while reducing or eliminating social security benefits.

Another problem with privatizing social security is that it is inevitable that many people who determine their own investments will lose money. The only people guaranteed to make money are the brokerage firms. The great virtue of social security is that it assures that all Americans with a significant work history have a small lifetime pension at retirement. Privatizing social security is certain to create a large number of individuals who lose all or most of their investments and become dependent on public welfare.

Raising the retirement age: This is a much more sensible suggestion and one that is almost inevitable. Not all people will like this, but if you live longer, then you must work longer to finance a comfortable retirement. Up to the present, entitlement to full social security retirement benefits has been based on reaching a particular full retirement age (FRA). When social security was established in 1935, the retirement age was set at 65. Social security amendments in 1983 raised the retirement age to 67 to be phased in gradually until 2027.

There is a serious problem with this approach. Not all people can work full- time until they reach retirement age. This becomes an increasing problem as people age and begin to become afflicted with physical problems such as arthritis, vision and hearing limitations, back problems, etc. In fact, for many people increasing work limitations begin before the original full retirement age of 65. Because of this, the **social security disability insurance program** was enacted in 1956 and has grown to pay benefits to almost 9 million persons by the end of 2016. If the retirement age rises, and if congress continue to envision people **working full time** until full retirement age, then one must expect the percentage of persons receiving social security because of a disability retirement will also rise.

In addition, many people will resent the need to continue to work full time as the retirement age rises. This does not mean that they wish to quit work altogether, But after 40 to 50 years of full-time work, many people would like more time to devote to other pursuits, e.g., hobbies, travel, further education, starting a business, etc. And who can blame them.

In sum, people are living longer, and want comfortable retirements. But over time, the ability of social security to fund ever longer, and perhaps higher benefits will become increasingly limited. One common proposal is to require people to work longer **before** qualifying for social security. But people are likely to resist working longer and in any event, the percentage of people unable to continue working full-time on their existing jobs is certain to rise diminishing the financial relief engendered by raising the retirement age.

One possible, but **speculative** alternative solution, would be to greatly modify the existing approach to retirement. Instead of an approach where people are able to cease **all** work at the full retirement age, people could be expected to continue working, at least part time, as long as they were physically able. Suppose for example that people were expected to continue working **half (or more**) of a normal week, which they could satisfy by working 4 hours a day, or six months of the year, or some combination. It is possible that this could be accomplished while continuing to pay full social security benefits. However, failure to continue working could result in a small reduction in those benefits say 10 to 15 percent to ensure an incentive to continue to work. In the case of full disability, continued work would not be expected,.

The advantages of this approach to raising the retirement age are many.

- First, approximately 15% of their earnings would be paid into to the social security, disability insurance, and medicare funds. This would go a long ways towards resolving the financial problems facing social security. Second, the additional earnings that people receive would also be subject to federal and state income taxes. Of course not everyone would earn enough to be subject to income taxation, but a significant proportion of the population would, especially when their additional earnings are added to social security and other pension payments, as well as dividend and interest payments, IRA and 401k distributions, and other income. A person whose marginal federal tax bracket is in the moderate 25% level and 8% for state and local taxes, would be contributing almost 50% of their **additional earnings** to government revenues (after taking account of FICA taxes).

- Additional work would enable many retirees to lead more comfortable and fulfilling lives more closely related to their previous standard.

The main issue is not whether many retirees can work. Based on Department of Lasbor data, almost 20% of persons over age 65 are in the labor force, the great majority of who are employed. I suspect, that many others would accept paid employment (an assumption based on observation, not data) but are unable to locate jobs within their capabilities given the reluctance of many employers to hire older workers, and the reduced ability of many older Americans to work on various types of jobs. For this speculative proposal to work, federal, state, and local governments would have to invest heavily in programs to assist older individuals to locate suitable work. It should be noted that there are already important features of the social security program that encourage work.

- After reaching full retirement age, there is no limit on how much can be earned while receiving social security retirement benefits.

- Before the full retirement age, social security will deduct $1 for every $2 in earnings above a maximum. The maximum amount was $16,920 in 2017.

- In addition, people automatically become eligible for medicare at age 65. This greatly reduces worry about medical expenses, and should encourage employers to employ these individuals, particularly if the affordable Care Act could be amended so that large employers would **not** be required to provide medical coverage to worker over age 65.