3 Ways to Save Social Security and Medicare

April 13, 2023

John Manganaro

The recently released Social Security and Medicare **trustees report** shows in no uncertain terms that both programs are fiscally unsustainable as currently structured, with the main trust fund used to support the payment of retirement benefits on track to be depleted by the mid-2030s.

Despite what's often assumed, Americans' federal retirement income benefits won't disappear at that time, but they will be subject to a cut in the realm of 25%. Unless congressional action is taken to shore up both programs, anticipated reductions in Medicare reimbursements going to hospitals and doctors offices could cause the price of health care to spike for seniors.

It's a worrying picture, experts agree, and the longer Congress waits to act, the more severe the eventual remedies (or benefit cuts) will have to be. For now, policy experts continue to debate and discuss potential responses, as do members of the general public, and few anticipate a solution will be struck in the current, divided Congress.

While there's substantial disagreement about the role of tax increases or the treatment of benefits for the highest-earning Americans, one emerging area of consensus is opposition to proposals that aim to raise the full retirement age to 70. It's currently set at 67 for workers born after 1960.

Many workers see such an increase as untenable and unfair — with analysts saying such a move will actually do very little to right the ship. **According to the American Academy of Actuaries**, for example, setting a retirement age at 69 or 70 would close only about 30% to 40% of the projected funding shortfall.
As such, it's clear that a mix of policy responses will be required, experts say, and this debate will have to take place within the process for figuring out the best ways to "save" Social Security and Medicare.

The Age Debate

As highlighted in a **new analysis** published by Morningstar, the current Social Security rules are designed to pay everyone with roughly equal earnings roughly the same lifetime benefit, no matter when a person claims.
“You can file for a retirement benefit as early as age 62, or delay up to age 70,” writes Mark Miller, an author on retirement and Morningstar contributor. “If you claim at age 62, your monthly benefit will be considerably smaller than if you claim at age 66 — but you’re likely to collect those benefits for a greater number of years.”

Conversely, a later claim will confer a higher monthly benefit, but this higher benefit will be enjoyed for a shorter period of time.

In Miller’s view, the vast majority of workers would benefit by **waiting until age 70 to claim**, when they will collect the maximum possible benefit. However, most workers today don’t get anywhere close to filing their claim at age 70.
“And that’s not surprising, considering the universal nature of Social Security, which covers nearly all of the diverse U.S. population,” Miller says. “Working well past 65, or even past 70, can be feasible for better-educated knowledge workers, but it’s not a practical option for people who hold physically demanding jobs.”

As Miller points out, Democrats generally favor shoring up Social Security’s finances via new taxes on the wealthy. Republican positions vary, but Miller says the only “substantive proposal,” **from conservatives in the House of Representatives**, would gradually raise the full retirement age to 70, based on the premise that greater longevity demands a higher full benefit age.

“It’s true that average life spans in the U.S. have risen over the past couple of decades,” Miller concedes. “The expected life span for men and women at age 65 has jumped more than 10% since 2000, according to the Society of Actuaries. But further gains are not assured. Life spans actually have been falling since the onset of the pandemic.”

What’s more, Miller says, is that higher longevity is not distributed evenly across the U.S. population. Instead, there is a substantial and widening gap in mortality gains by income and by race, making the prospect of raising the retirement age to 70 even more problematic.

The Math on Taxes

Since the publication of the 2023 trustees report, a number of Social Security experts have staked out a similar position to Miller’s.

Max Richtman, president and CEO of the National Committee to Preserve Social Security and Medicare, wrote to ThinkAdvisor to say that raising the full retirement age represents “a benefit cut, plain and simple.”

Many workers, especially those in physically demanding jobs, simply cannot work up to age 70, Richtman argues. And even when people want to continue working, he says, the unfortunate reality is that job discrimination against older workers also prevents many from keeping their jobs late into their 60s.

As Richtman notes, congressional Democrats have introduced legislation that would extend the solvency of the Social Security trust fund by asking high earners to begin paying more into the system, without benefit cuts. One broadly supported proposal on the left is to raise or eliminate the cap on the amount of wages that are subject to Social Security taxes.

This amount is also commonly referred to as the taxable maximum, and for earnings in 2023, this base is $160,200.

As pointed out by Nancy Altman, president of the lobbying organization **Social Security Works**, a cap at this level means a far higher percentage of earnings generated by Americans are not currently subject to Social Security taxes compared with previous decades.

According to Johnson, when Congress last addressed Social Security’s financing problems, back in 1983, the payroll tax rate covered 90% of Americans’ earnings. Today it covers only 83%, and that is mainly because there has been so much growth in the top end of the earnings distribution.

To address this problem, Johnson advocates for a more straightforward approach of increasing the taxable minimum to $250,000 today. She would also propose that this wage level be set to automatically grow based on average earnings growth.

Means-Testing and More

Speaking with ThinkAdvisor last year, Romina Boccia, director of budget and entitlement policy at the Cato Institute, put a spotlight on another commonly discussed and much-debated funding solution: **means-testing Social Security**.
According to Boccia, depending on what direction Congress takes with respect to current tax policies that will expire in 2025, publicly held debt could reach anywhere between 185% and 260% of GDP over the next 30-year projection period.

“No matter how you look at it, U.S. fiscal policy requires a substantial course correction to stabilize the rising debt,” Boccia says. “Today, rising spending is primarily driven by the major entitlement programs. Medicare and Social Security are the primary culprits, such that, in my view, benefit eligibility reforms are inevitable."

Boccia and other like-minded experts argue that Social Security's benefits are poorly targeted, paying the largest benefits to recipients who need them the least. Furthermore, she suggests, the benefit formula is so complex that most Americans have little idea of what they can expect from the program, making it difficult for them to properly plan for retirement.

Also, Boccia believes Congress must modernize the Social Security program and ensure financial solvency without burdening younger generations with excessive taxes or debt. She says this is possible by better targeting Social Security benefits to those who need federal assistance — to those who cannot work due to disability or old age.

"The current universal coverage of Social Security is not sustainable under current and future demographic trends," she warns.

"A more targeted program would free up resources for working individuals to provide for more of their own retirement needs through private means," Boccia says. "Social Security today provides income support to practically all older Americans, regardless of need. This makes Social Security an entitlement program, rather than an old-age poverty program."