LifeZette

The Social Security Crash Is Closer Than You Think

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Social Security turned 82 years old this week and finds itself as sickly as many of the elderly Americans it serves.

Unless Congress acts soon, it will not be around in its current form for another 82 years — or even half that long. The Social Security Trustees forecast that the trust fund will go broke in 2034. The Congressional Budget Office projects an even earlier collapse, pegging it at 2030.

But even taking the more optimistic forecast, American workers who today are 50 would face an automatic 22 percent reduction in benefits the year they are eligible to retire. That same cut would apply to all people collecting Social Security — regardless of their wealth or age.

"That's not a long time," said Michael Tanner, senior fellow at the libertarian Cato Institute. "Somebody's who's 50 now is not going to see it."

But Tanner and other experts argue that it is even worse than that, because the Social Security Trust Fund is little more than an accounting gimmick. Unlike most trust funds, the Social Security Trust Fund has no assets, and the government has no legal obligation to continue making the payments.

"The reason it's called a trust fund is that's what Congress decided to call it," said Sheila Weinberg, founder of the nonprofit group Truth in Accounting.

The government does not have a pile of money in a vault to pay Social Security recipients. Instead, it collects Social Security payroll taxes from workers and employers and pays current retirees. For decades, the program collected more than it paid. Congress used the surplus funds to subsidize the rest of government.

But that surplus turned into a deficit in about 2010. Since then, the money flow has reversed. The general fund props up Social Security. Marc Goldwein, senior vice president and senior policy director at the Committee for a Responsible Federal Budget, noted that those transfers are projected to total $1.4 trillion over the next decade.

That money can come from only three sources — higher taxes, reduced spending outside of Social Security, or more debt.

"We're basically borrowing the difference," Goldwein said. "That's going to come back to haunt us."

$20 Trillion in Promises

Weinberg said Social Security has some $20 trillion in long-term promises.

"They have no idea where they are going to get the money," she said. "So I'd be very worried."

Said Tanner: "We have to face up to the reality that we lied to young people and promised them benefits that we can't deliver."

Weinberg said there is another important factor to consider. The government for decades has pitched Social Security as a personal retirement program — workers pay in and then collect when they retire. But she said in reality, it transfers money from workers to retirees without regard to the relative wealth of either the contributors or the recipients.

"It was not sold as a tax. It was sold as an overall insurance program," she said. "It's not what you think it is … The reality of it is, it's a wealth transfer program from younger, maybe poorer, workers, to older and sometimes wealthier retirees."

Experts argue that the looming crash would have been easier to avoid if Congress had acted a decade or more ago when there was more time to phase in benefits cuts or revenue increases. But Goldwein said lawmakers can still avoid a shock.

"We can certainly make relatively small changes and give people plenty of time to plan," he said. "The longer you wait, the fewer generations and cohorts you can spread it out over."

But Goldwein said the country is running out of time. He estimated that action is needed within the next five years, or else it will be too late to avoid wrenching disruption.

Unfortunately, the crisis is gathering at a time that the U.S. political system shows little ability to solve big problems. Experts said the kind of bipartisanship in Washington that typically is required for changes of the order that Social Security reform would entail has been in short supply in recent years.

President Donald Trump explicitly promised not to touch Social Security or the other behemoth entitlement program for seniors, Medicare. Meanwhile, many Democrats want to expand Social Security benefits, "which is frankly, crazy," Goldwein said.

Rep. Sam Johnson (R-Texas), the chairman of the Social Security subcommittee of the Ways and Means Committee, has offered a plan that relies heavily on cuts in benefits to rescue Social Security. Rep. John Larson (D-Conn.), the top Democrat on the panel, has a competing plan that relies primarily on new taxes.

No Easy Fixes

An online tool, created by the Committee for a Responsible Federal Budget, demonstrates just how difficult either approach would be.

For instance, some Democrats have suggested raising the cap on Social Security payroll taxes. Currently, those taxes apply for the first $127,000 of income. But even eliminating that cap altogether would not make the Social Security Trust Fund solvent for another 75 years. It would push the day of reckoning back to 2067, at which time beneficiaries would face a sudden 14 percent cut.

Raising the retirement age, a favorite proposal of some Republicans, would have a minimal impact. Raising the age to 69 and then letting it rise with life expectancy would not push back the 2034 insolvency date and would reduce the benefits cut only from 21 percent to 19 percent. Coupling that with lower cost-of-living increases for the top half of earners would push back insolvency by a year and reduce the benefits cut by an additional percentage point.

"We are politically beyond the point of a revenue-only solution," Goldwein said. "Now, we're past the point where we could do the easy things."

He recommends that Congress appoint a bipartisan commission similar to the last time it tackled Social Security in the early 1980s. That commission, headed by Alan Greenspan, led to a deal that Republican President Ronald Reagan cut with Democratic House Speaker Thomas P. "Tip" O'Neil that saved the program from a looming crisis.

Goldwein said a commission is not needed to study the already well-researched issue. But he said it would provide cover to politicians.

Tanner said the crisis then was more immediate — checks were within weeks of not going out — but the changes were much more modest than what would be required now. He said relying mostly on more revenue could slow economic growth.

"It would be huge," he said. "It would give us some of the highest marginal tax rates in the world. I think it would be a huge blow to the economy."

Tanner is not optimistic given the current political environment.

"Congress couldn't fix Medicaid," he said. "Of the three biggest entitlement programs, that's the smallest one and probably the easiest to fix … The urgency of dealing with the deficit and the debt even five years ago is totally gone."