Congress Can Save Social Security for Millennials, It Just Won't

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June 14, 2018

Last week, the Social Security and Medicare Boards of Trustees **issued a report** showing that the trust fund that helps pay out part of retiree, disability, and workers' survivor benefits will run dry by 2034, and the trust fund that pays part of seniors' hospital bills will be empty by 2026. This (predictably) set off a spree of **dire headlines** about Social Security and Medicare running out of money.

That's not what's happening. Most of these programs **are paid for by payroll taxes** and to a far lesser extent by taxes levied on a few people's benefits. The trusts (funded by past years' tax surpluses) generate interest and act as a stopgap funding pool. So Medicare and Social Security checks won't cut out in 2026 and 2034, respectively, as many already **(wrongly) expect them to** within their lives. They will just shrink to what taxes alone can cover **Medicare will deliver** about 90 percent of its promised benefits, while **Social Security will deliver** about 75 percent, according to recent estimates.

But that prospect is still worrying. **About 62 percent of retirees rely on these programs' modest benefits** for half of their income and a third are 90 to 100 percent dependent on them, to use one metric. As younger generations age **current trends predict** they will have less financial security and face greater healthcare costs, making these programs even more vital, just as benefits slip.

Grim predictions about entitlement programs are nothing new. Privatization advocates **have used them** to justify their agendas for decades. But policy wonks actually have solid ideas for how to address Social Security's financial woes, and there's some understanding on how to address Medicare's shortfall as well. Congress has just declined to act on them—for decades.

"There have been efforts to try to elevate this issue that have come close in the last ten to 12 years," said Jim Kessler of center-left think tank Third Way, "but they have not succeeded."

So what gives? Why can't Congress just get its shit together and fund vital social insurance programs, especially when it has the tools to do so and ample warning of a clear pending crisis?

The financial problems facing Social Security are really just basic demographic math. The program uses current workers' taxes to pay current seniors' benefits, which is fine so long as the ratio of young workers to their elders stays near constant. **But as the massive Baby Boomer generation ages**, and survives longer than past elderly cohorts, the ratio of seniors to young people is rising, a trend that **will likely continue to until 2030**, when it will even off for a few decades. That means the current tax base will be insufficient to cover seniors' benefits unless something about the program changes.

If the problem is basic math, so is the solution: Simply remix taxes and benefits against each other until balanced. Wonks have developed numerous sound proposals. "The Boards of Trustees puts out a whole book of any policy idea in any pieces of legislation or suggested by any policy wonk," said Social Security expert Alicia Munnell. "They're all there. It's just a question of selecting from the menu and putting something together that will solve the problem."

Liberals tend to advocate for a gradual increase in payroll taxes that tracks with wage growth, so as to be unobtrusive but tackle up to half of the funding gap. They also support lifting a cap on Social Security taxes. (**As of 2018, income over $128,000 a year** cannot be taxed towards the social security pot. The cap is in place because benefit payouts are limited as well.) This is often justified as a means of correcting the upward flight of wealth. "In 1982, only 10 percent of wage income was over the cap and escaped taxation," said Center for Economic Policy and Research scholar Dean Baker. "Now it is more than 18 percent." Bringing that 8 percent back to the taxable sphere could fix up to 30 percent of the shortfall, he thinks.

Conservatives, meanwhile, favor slowly and selectively lowering benefits to match what today's tax levels can pay for. **They also advocate raising** the retirement age, tweaking annual cost of living adjustments, and means-testing benefits to make sure that those who do not need them don't get them. Ideally, said Michael Tanner of the libertarian-leaning Cato Institute, these changes could come through so gradually that younger people could easily prep for them.

"The big reason we haven't fixed" Social Security's finances, though, said Tanner, "is that there's no painless way to fix it. Whether you pick the solutions from the left or the right, they are going to involve someone paying more or getting less." Taxes are **eternally unpopular**, and Baker admits that they'd likely be felt more today than in the past because wage growth has not been strong in recent years, which would make new outflows more noticeable. Cutting benefits will always hurt someone, and usually vulnerable people, said Ben Veghte of the National Academy of Social Insurance, an organization pushing for awareness of funding solutions. Even lifting tax caps, which Veghte noted may be the most popular idea, would irk influential wealthy voters.

Any solution to Social Security's financial woes would also **likely need to be bipartisan**. But Republicans have long rejected any tax increases, full stop, while Democrats consider them a precondition for benefit cuts. And partisan polarization is only growing; **many Democrats now insist on** expanding the program's benefits while addressing its finances.

Without a popular solution where everyone (or at least a critical mass of reliable voters) wins, politicians have simply ignored the problem. It doesn't help, adds Romina Boccia of the conservative Heritage Foundation, that there are no direct consequences for legislators' recalcitrance to act. Yet the longer they wait, the worse the financial shortfall becomes and the more costly and painful the tradeoffs will be for the politicians who have to make them later on.

Medicare is a trickier beast. Not only is it facing the same demographic upheaval, it's also coping with the harsh fluctuations of healthcare costs, which are not set, under current models, to stabilize like the senior population. Volatility in the healthcare market, and the more complex nature of these calculations, noted Robert Bixby of the bipartisan, pro-balanced budget Concord Coalition, means that projections on the durability of the program's trust fund jump around more.

Generally, most policy thinkers agree that prices need to be driven down through negotiation with and legislation of drug companies, medical equipment suppliers, doctors, and others. However, it is less clear what specific policies would have meaningful cost control effects.

Ideally, argues Marc Goldwein of the Committee for a Responsible Federal Budget, that means Congress and any given administration would actively "experiment with new payment models and benefit designs and pursue a variety of reforms to keep cost growth under control."

But in the best of times, noted Baker, healthcare players "will scream bloody murder if Congress does anything that will reduce their income… The groups affected are hugely powerful."

And these are hardly the best of times. Congress spent the better part of 2017 duking it out on strictly partisan lines over healthcare reform, only to leave the issue largely unresolved. The changes they did make, according to last week's **report (issued by Trump administration officials**) actually damaged the trust's financial health.

In the past, Congress managed to make hard choices about these programs. **Notably, in 1983** a bipartisan push shored up the programs for decades with a mixture of tweaks similar to those being discussed now. But that only occurred, Tanner pointed out, when "they were within a couple months of the checks just not being mailed," a crisis so imminent that they couldn't avoid serious action for a moment longer.

And today, we have "a Congress that has a problem passing a resolution to pay for mom and apple pie," said Tanner. The idea that they, or any other Congress operating similarly in the future, might tackle entitlements in general, much less the cost control problems facing Medicare, is farcical.

As Kessler pointed out, in 1983 national politics were more stable and lawmakers were willing to trust each other to share the pain of tackling entitlement finance. A less functional Congress, like the one we have now, might favor a relatively painless short-term quick fix, said Bixby. They could, he explained, "just create resources for the trust fund. Say, 'the trust fund shall be solvent for ten years and here are the bonds to do it,' period… I don't think a gimmicky solution like that would be a real solution" to entitlement programs' long-term financial issues. "But I don't doubt that Congress could do it."

All of this, most of the experts I've spoken to agree, could change rapidly. An unexpected crisis or some miraculously functional Congress could lead to serious, timely action on this perennial financial issue. But for now, the reality is that we have known about the looming threat of Social Security and Medicare benefit cuts for decades, and how to address them. The nature of our political environment, though, means that Congress isn't likely to act either to cut benefits or raise taxes, even if that means letting the problem metastasize. So we all have to live with low-grade anxiety, waiting on last-minute band-aid after band-aid and hoping for something more.