Washington Square Citizens League

Discussion Forum
7:00-8:15 pm
Monday, April 29, 2024
Gary Mucciaroni, PhD, moderator

Could Social Security Run Out of Money?

The actuaries have spoken. In 2033 the Social Security Trust Fund will run dry. At that point everyone's benefits will be slashed by 20%. There's no debate about this fact. Even Democrats and Republicans agree there's trouble on the horizon. This discussion forum will explore:

1. How does Social Security work? We'll get into the funding sources, details of retirement age and FICA tax rates--all the boring details that we often ignore, but which will become very important in just a few years.

2. Why are we running out of money? "Multi-factorial" doesn't even begin to describe the situation.

3. What are the solutions? It should come as no surprise that Democrats and Republicans have very different ideas.

Some brief history: Social Security was created during the Great Depression and signed into law by FDR on August 14, 1935. Since then, the program has been amended several times, but the overall structure of the program has basically remained the same. By that I mean that the program is self-funded through payroll deductions paid by the employer and the employee, and the program cannot by law receive any general tax revenue.

There have been times when the SS Trust Fund had massive surpluses (measured in trillions of dollars), but recently outflows have outpaced income, thus leading to the impending crisis.

Social Security in 2024: A quick snapshot

Source: Social Security Administration

Social Security and Supplemental Security Income (SSI) benefits for more than 71 million Americans will increase 3.2 percent in 2024.

The 3.2 percent cost-of-living adjustment (COLA) will begin with benefits payable to more than 66 million Social Security beneficiaries in January 2024. Increased payments to approximately 7.5 million SSI recipients will begin on December 29, 2023. (Note: some people receive both Social Security and SSI benefits)

The maximum amount of earnings subject to the Social Security tax (taxable maximum) will increase to $168,600.

The earnings limit for workers who are younger than "full" retirement age (see Full Retirement Age Chart) will increase to $22,320. (We deduct $1 from benefits for each $2 earned over $22,320.)

The earnings limit for people reaching their "full" retirement age in 2024 will increase to $59,520. (We deduct $1 from benefits for each $3 earned over $59,520 until the month the worker turns "full" retirement age.)

There is no limit on earnings for workers who are "full" retirement age or older for the entire year.

Why Is Social Security Running Out of Money?

Demographic changes mean more retirees and fewer workers paying payroll taxes.

By JEAN FOLGER, *Investopedia*, October 17, 2023
Reviewed by ANTHONY BATTLE, Fact checked by SUZANNE KVILHAUG

Social Security was created as a contributory old-age insurance plan with limited and phased-in benefits for retirees in 1935. The program extended benefits to survivors of beneficiaries by 1939, to farm and domestic workers and the self-employed in 1950, and to disabled workers in 1957. Congress postponed planned payroll tax increases during the program's early years.

The pattern of favoring political expediency over the system's long-term solvency persists. With payroll taxes no longer fully covering the benefits paid out, Social Security's cash reserves are projected to run out by 2033. Benefits will have to be reduced by more than 20% at that point unless Congress enacts a legislative fix.

Understanding Social Security

The Social Security program is funded through the Federal Insurance Contributions Act (FICA) tax, a dedicated payroll tax. Social Security taxes amount to 12.4% of wages up to a cap on taxable annual income set at $160,200 for 2023 and $168,600 in 2024. Employees and employers split the tax contributions 50/50, with employees paying 6.2% of their wages and employers paying the other 6.2%.

You pay the entire 12.4% if you're self-employed, but you can deduct half of that from your taxable income as an above-the-line adjustment to income. Receipts go into the Social Security trust funds, which use them to pay benefits. The funds invest any surplus in U.S. government debt.

The payroll taxes you contribute to the Social Security system aren't set aside to pay your benefits when you become eligible. They fund payouts for current beneficiaries or are saved as part of the system's surplus. This means that everyone's future benefits depend on the solvency of the entire Social Security system rather than on their own contributions.

The Problem with Social Security

Americans have fewer children and live longer, and these trends contribute to an aging population. The outsized generation of Baby Boomers (those born between 1946 and 1964) is retiring at a record pace, further lowering the proportion of the population in the workforce.

Based on U.S. Census projections, 17% of the population was age 65 and over in 2020. That share is expected to increase to 24% by 2060. Meanwhile, the proportion of the working-age population is due to shrink from about 62% in 2020 to 57% in 2060.

There will be fewer workers to support each retiree in the future as a result. The ratio of workers paying Social Security taxes per beneficiary is projected to decline from 2.8 in 2021 to 2.3 by 2035. The 2023 report from the Social Security and Medicare Boards of Trustees predicted that Social Security's trust fund for retirement benefits will deplete its reserves in 2033, one year earlier than was projected in 2022. Tax receipts are expected to cover 77% of the scheduled benefits at that point.

The Old Age and Survivors Insurance Trust Fund, which pays retirement and survivor's benefits, isn't the only Social Security fund projected to deplete its reserves. The trustees' 2023 report also predicted that the Hospital Insurance (HI) Trust Fund, which finances Medicare Part A, will be depleted in 2031, three years later than projected in 2022. Payroll taxes will cover 89% of scheduled benefits after that point.

Possible Solutions

Fortunately, a large, across-the-board benefits cut is only the worst-case scenario. Congress has more than a decade to act to shore up Social Security's finances, and lawmakers continue to generate proposals for doing so. The Social Security Administration routinely publishes estimates of such plans' projected effects on the Social Security trust funds.

Congress has options for how to fill the gap in Social Security funding. These include:

1. Raising payroll taxes
2. Lowering benefits
3. Setting a higher retirement age
4. A combination of all these options

The growing population of retirees is likely to become an even more politically powerful constituency, one with a direct financial incentive to defend Social Security benefits and assure the system's future. Despite its reluctance to increase Social Security payroll taxes in the program's early years, Congress has subsequently approved numerous such hikes to preserve the program. Proposals to means-test benefits and to eliminate the annual cap on income subject to Social Security taxes have fewer historical precedents, but they may enjoy more popular support.

Social Security's projected long-term funding shortfall of 3% of the gross domestic product (GDP) is manageable, but the program's trustees note in their report that Congress must act quickly to create a workable plan and reassure taxpayers. The longer the fix takes, the more painful the solution is likely to prove for everyone who depends on it.

What Are Social Security Benefits?

Social Security benefits are monthly payments made to qualified retirees and disabled workers. These benefits can also be paid to spouses, ex-spouses, children, and survivors. Benefits are paid out of the Social Security trust funds, which are funded by payroll taxes from current workers. The value of benefits depends on factors such as your income and how old you are when you start taking Social Security.

What Is Full Retirement Age?

Full retirement age (FRA) is the age at which you're eligible for full retirement benefits from Social Security. FRAs vary depending on when you were born. It's 66 years and two months for those born in 1955 and it gradually increases to 67 for those born in 1960 and after. Your monthly benefit will be lower if you start taking Social Security benefits before you reach full retirement age.

Will Social Security Disappear When It Runs Out of Money?

The prediction that Social Security will be depleted doesn't mean that Social Security will disappear in 2033. It means the trust fund that helps pay retirement benefits will run out of money. Social Security will continue to be funded from the FICA taxes that are paid annually by workers and employers, but these payroll taxes will only be able to cover 77% of retirement benefits without contributions from the trust fund unless Congress acts to fix the program.

Let's take a closer look at the proposed solutions. Basically, they fall into two camps: increase revenue sources and decrease outflow. I came away with the thought that a combined approach is necessary. What's important to realize is that we who are already retired won't bear the brunt of the burden of fixing the problem.

5 Ways to Fix Social Security's Funding Problems, According to Actuaries

By: Pete Grieve, Editor: Julia Glum, Published: Nov 01, 2023, MONEY

The **Social Security** trust funds are expected to be depleted in about a decade if Congress doesn't act, leading an association of actuaries to argue that now is the time to think seriously about solutions.

Taxpayer funds cover the bulk of Social Security payments, but if the program's reserves run dry, beneficiaries would face immediate 20% cuts to their checks come 2034. Any decrease to Social Security payments would likely be extremely unpopular, considering they're a major source of retirement income for tens of millions of people.

Politicians often make campaign promises that Social Security will remain in full force, but everybody seems to have a different idea about how to actually achieve that. According to a new **report** from the American Academy of Actuaries, the longer the issue is put off, the harder it will be to address the looming shortfall.

Linda Stone, senior pension fellow for the academy, said in a Monday news release that there's "a clear, compelling benefit and public good to Congress engaging the reform process sooner rather than later." If legislators act quickly, they could consider "reform options that are more moderate, gradual, and give the American people time to adjust to any needed changes in benefits or **taxes**," Stone added.

How to fix Social Security

Here are five ways Social Security's financial challenges could be addressed so that it can pay out all scheduled benefits, according to the actuaries' report:

1. Increase payroll taxes

The payroll tax for Social Security, which is paid by workers and employers, could be hiked 25% in 2034 to make up the difference. That would be an increase from the current rate of 6.2% up to 7.75%. However, the report notes that this could be unaffordable for low-income Americans without additional changes to their federal income taxes. Gradual payroll tax increases, therefore, would be less disruptive.

2. Tax high earners more

Americans with high incomes **do not pay Social Security taxes** after a certain point — for 2023, the threshold is $160,200 (for 2024, $168,600). The actuaries note Congress could consider the option of taxing all earned income. Removing this cap, however, would only make up for 78% of the projected shortfall.

3. Add new tax sources

The report floats the possibility of taxing investment income to fund Social Security or increasing estate and gift taxes. But it points out that not only has this not been done before, it also is likely to face resistance.

4. Reduce benefits for high earners

Congress has long adhered to a tradition of not cutting benefits for people already getting paid, but the report details several options to potentially reduce benefits for high-earning Americans who are *not yet* eligible for Social Security. However, these measures would be insufficient to fix the 2034 shortfall.

5. Raise the retirement age

Americans become eligible to take Social Security at 62, though benefits increase the longer you wait until age 70. The report considers several ideas for increasing retirement ages to address the shortfall, including gradual approaches that (theoretically) wouldn't feel grossly unfair to people in different age cohorts. But raising the retirement age would be especially painful for low-income Americans and anyone who works a physically demanding job.

The following headline caught my eye. Yikes! Seriously?

For the Good of the Country, Older Americans Should Work More and Take Less

By C. Eugene Steuerle and Glenn Kramon. NYT, Oct. 26, 2023

We older Americans are not only controlling national politics; we are consuming an ever larger share of our economy's resources through programs like Social Security and Medicare, leaving younger Americans to foot growing bills for their parents' and grandparents' retirements. And politicians of both parties are refusing to recognize the consequences.

When President Franklin D. Roosevelt signed Social Security into law in 1935, the age to qualify for Old-Age, Survivors and Disability Insurance was 65. Back then, most of those at that age were poor and lacked health insurance. And many jobs were more physically demanding. When benefits were first paid in 1940, 46 percent of adult males couldn't even make it to 65, and for those who did, the average additional life expectancy was less than 13 years. For women, it was not a lot better.

Today many 65-year-olds are healthy enough to live independently, play golf or pickleball daily and travel far and wide. Picture the vigorous contestants, age 60 to 75, on the new television dating show "The Golden Bachelor." Every contestant older than 70 is retired, as are some as young as 60. "Here's to Social Security!" one grateful contestant exults. Indeed!

For a typical 65-year-old couple, at least one partner, on average, will likely make it to 90 or beyond. Yet even as life expectancy has risen since 1935, the minimum age to qualify for at least a portion of your Social Security benefits has fallen to 62. That means that many people are now drawing from Social Security for as much as a third of their adult lives, if not more. If people took the same number of retirement years as the average person retiring in 1940, they would stop working at around 77. As such, Social Security is increasingly losing its purpose as old-age insurance, as benefits stretch well into what is becoming late middle age for many.

With Medicare and Social Security, older Americans are taking far more out of the system than they paid in. Consider how much lifetime Social Security and Medicare benefits have grown. For a typical 65-year-old couple, those benefits, adjusted for inflation, are worth over $1.1 million today, compared with $330,000 in 1960. Benefits rise as each generation lives longer and receives amounts that grow with the cost of living and as medical prices rise and expensive medical treatments proliferate. Yet the lifetime taxes this couple pays into Social Security and Medicare amount to about $650,000.

Longer lifespans and increasingly expensive medical care strain America's social safety net

Average Social Security and Medicare lifetime benefit estimations for past and future cohorts of seniors, in 2022 dollars.

Line charts showing the total lifetime Social Security and Medicare benefits for single men, single women, and married couples based on income. Lifetime benefits are projected to almost double for people who retire in 2060.

And the number of people available to pay for each retiree's benefits is dwindling: Declines in birthrates and, at times, immigration rates, have helped lower the ratio of covered workers to beneficiaries, from 4.0 in 1965 to 2.7 today, with 2.3 projected in two decades.

The young have been losing out for some time: 80 percent of federal spending growth since 1980 has gone to Social Security and health care (much of it for Medicare), according to Mr. Steuerle's calculations. That growth has been paid for with taxes, additional borrowing and cuts in other programs — the latter two disproportionately affecting those still working.

Nearly everyone in Washington, Democrat and Republican, socialist or MAGA, is aware that withdrawals from these programs exceed the money being put in. They are just too scared to do anything about it. Just look at the budget compromise this year. Like many past ones, it protects the growth of Social Security and Medicare — and cuts the share of the budget devoted to discretionary programs like science, research, environment and education. The only thing to be resolved in the budget battle that threatens another government shutdown is how much further to limit growth in these other programs.

To start devoting a reasonable share of resources to everything from better education to reform of student loans to addressing climate change, we must redefine "old age" to reflect that most Americans are living longer and better lives than they did in the mid-20th century. We must adjust our retirement expectations and the government and private programs that largely define them.

To sustain the government's two biggest entitlement programs, taxes must be increased — with the wealthy paying a fair share, some would argue — or benefits cut or both, many analysts agree. But there's another way to help long term: Those in late middle age will need to work longer as they live longer. That would help shore up revenue with additional Social Security taxes and the income taxes that largely pay for Part B of Medicare. It would also reduce pressure to cut benefits for the oldest of the old.

We can adjust Social Security to help achieve that goal. We can both increase revenue and reduce spending by increasing the earliest retirement age from 62 and the full retirement age from 67. (The most recent increase, from 65, was approved 40 years ago.)

We acknowledge the unpopularity of this idea; look at protests in countries like France and Russia when they did this. But some minds might be changed by noting that the big winners from growing retirement support are richer Americans, who tend to live longer.

Medicare, which effectively discourages work after 64, also needs to be redesigned. We believe that a worker eligible for Medicare should be allowed to take it in lieu of employer insurance and negotiate with an employer for cash compensation. Then we need to address myriad other distortions. In traditional employer pension plans, which still dominate state and local government, a worker can lose huge benefits by working beyond full retirement age.

By saving money on those who don't need it, we can also reorient spending toward those who actually do. We're not asking a laborer or trucker who did backbreaking work for decades to keep working. Congress could enact a more liberal definition of disability for such workers who reach 60. A strong minimum benefit could essentially eliminate poverty among the elderly.

Social Security could also encourage people to delay full retirement by adding more flexibility and transparency to the existing deferral process. This could mean allowing seniors to defer a different share of benefits each year after the early retirement age and the full retirement age, according to their needs, health and part- or full-time jobs. The benefits they defer would be credited toward a higher benefit later.

State tax systems also offer subsidies to seniors unrelated to needs. As noted by the Institute on Taxation and Economic Policy, "the median state asks senior citizens to pay about one-third less in personal income tax than younger families with similar incomes." Income from private pensions, for instance, is fully exempt from taxes in four states and partly exempt in more than a dozen others.

As the programs that support us older Americans put ever greater pressure on working families, is it asking too much to encourage everyone, old and young, to embrace a future where our healthiest and wealthiest take a little less and contribute a little more? By the way, research shows emotional and cognitive benefits to working and volunteering.

Younger Americans must help lead this transformation because every year reform is delayed, they and future generations will receive less support during their working and child-raising years. Just as their parents and grandparents did on important issues, it's time for them to speak out and step up.

What Is the Ideal Retirement Age for Your Health?

Average life expectancy has risen by 16 years since the national retirement age was set at 65. We asked health experts when they think people should stop working now.

By Dana G. Smith, NYT, Published April 3, 2023

In 1881, the conservative German Chancellor Otto von Bismarck, plagued by a rise in socialist ideology, proposed a national retirement benefit to appease the leftist masses. He set the retirement age at 70. Average life expectancy at the time? About 40 years.

Von Bismarck resigned shortly after the policy passed, but his legacy remained, and Germany's retirement benefit (which was lowered to age 65 in 1916) became the model for many other nations. When President Roosevelt established the Social Security Act of 1935, 65 was similarly chosen as the national retirement age, despite the fact that less than 60 percent of American adults lived that long.

Which is all to say, the national retirement age in the U.S. and elsewhere has origins in a bit of political smoke and mirrors; it began as a symbolic offering, accessible only to the lucky citizens who managed to survive well into old age.

Today though, many more people live long enough to have access to a national retirement fund, often for years if not decades. Average life expectancy in the United States is 76, and in many European countries it's even higher. The U.S. national retirement age — when you can start claiming full Social Security benefits — has crept up much more gradually, to 67 for people born after 1960.

In response, several countries — most notoriously France, where the retirement age is 62 and life expectancy is 82 — are debating raising the retirement age to try to offset the economic pressures of an aging population and the concern that national retirement benefits won't be able to keep up for much longer.

From an economic standpoint, a later retirement age perhaps benefits everyone's bottom line. But putting finances aside, what are the mental and physical implications of raising a national retirement age? We asked experts to weigh in.

Working-life expectancy

One way to answer this question is to look at changes not in life span but in health-span — the number of years people are healthy and disability-free. Think of it as your work-span.

Gal Wettstein, a senior research economist at the Center for Retirement Research at Boston College, looked at age and potential for employment in a study about people's working life expectancy. He found that Americans who are healthy at age 50 can expect to have roughly 23 more years free of disability, plus about eight years living with disability. That would suggest people's maximum working life expectancy, on average, is age 73.

"There's no doubt that life expectancy is longer, and also the ability to work has expanded," Dr. Wettstein said. "Part of that is medical changes, and part of that is the nature of work has changed." In 2020, roughly 45 percent of the American labor force worked in a knowledge-based field, such as management, business and finance, education and health care. In 1935, these types of professions accounted for just 6 percent of the workforce.

Dr. Pinchas Cohen, dean of the Leonard Davis School of Gerontology at the University of Southern California, agreed that, from a health standpoint for people in these fields, a retirement age under 65 "makes no sense."

"Even 65 is a 20th century number," he said.

For people working in knowledge-based jobs, a retirement age in the 70s is reasonable from a cognitive perspective, too, said Lisa Renzi-Hammond, director of the Institute of Gerontology at the University of Georgia. "Our cognitive faculties we're able to maintain, usually, pretty well into our 70s," she said. "If retirement age is set based on the capabilities or competence of employees, there's absolutely no reason to have a retirement age in the 60s."

Parts of the brain — most notably the prefrontal cortex, which is critical for executive functioning, attention and working memory — do start to lose volume as early as around age 45, but other areas are able to compensate, Dr. Renzi-Hammond said. And other aspects of cognition, such as crystallized intelligence (accumulated knowledge that can be applied to new situations) and social cognition (behaving appropriately in interpersonal interactions), continue to improve for decades.

Many of these cognitive processes are maintained and strengthened by staying in the work force. Consequently, some people decline mentally and physically when they stop working. One study even found that delaying retirement was associated with a decreased risk of death, regardless of health before retirement. Experts speculate that the losses of job-related physical activity and social interactions that come with leaving work are largely to blame for post-retirement declines.

Retirement equity

National health and disability averages don't tell the full story, though. While some people stay sharp and continue to work into their 80s, other jobs are more physically demanding and take a toll on people's health.

"There are people who do manual labor where at age 65, they really cannot continue to do this very challenging work," Dr. Cohen said. "Their need to retire needs to be respected."

For these types of work, retirement can actually improve health outcomes, Dr. Renzi-Hammond said. "If you're leaving a job that is physically bad for you, where you are getting terrible sleep and you're constantly stressed out, then retirement is great for your health."

Life span and health-span are also not consistent across race and gender, both because of the type of work certain demographics are more likely to take part in, and the toll chronic stress from discrimination takes on the body.

In his research, Dr. Wettstein found that, at age 50, Black men have a working life expectancy of approximately 17 years, while white women could continue working for 24 years. "There is an equity concern there, both on the life expectancy side, and also on the working-life expectancy side," Dr. Wettstein said.

"We know that Black Americans, particularly, develop illness at earlier ages, live with more disabilities, die younger," said Dr. Lisa Cooper, director of the Johns Hopkins Center for Health Equity. "So not allowing them to retire until they're older means they're just not going to benefit from" Social Security as much. This is also true for people from lower income brackets and those who work in physically intense jobs, she added.

As a result, Dr. Cooper said, "Raising the retirement age needs to be done with all of these issues in mind, because it's not going to affect everyone the same."

The initial intent for Social Security when it was established in 1935 was simply to sustain people once they could no longer physically work. But another way to think of federally funded retirement is that it should reward people with a few years of leisure.

"One of the areas that we don't talk enough about is: What do people deserve?" Dr. Cohen said. "Is a few wonderful years when you're still healthy — that you can do things and travel and so on — is that a national goal?"

In France, and likely elsewhere too, many would say yes.

Let's take a look at the future of Social Security through a partisan lens. Republicans and Democrats have differing points of view, as Paul Krugman points out in the following.

Social Security and Medicare are on the Ballot

By Paul Krugman, NYT, Opinion Columnist, March 14, 2024

A few days ago, the Biden administration released its budget proposal for the 2025 fiscal year (which begins in October). Given that Republicans control the House, this budget isn't going to happen, so it serves mainly as a statement of principles and intent.

But that doesn't make the budget irrelevant. It clearly signaled Democrats' vision for the future — in particular, their belief that we can preserve the solvency of Social Security and Medicare by raising taxes on high incomes rather than by cutting benefits. And it draws a stark contrast with the vision of Donald Trump, who appeared to say during an interview with CNBC that he would seek to cut those programs.

I'll come back to the question of what Trump meant by his remarks and, more important, what he might actually do if he returns to power. First, however, let's talk about President Biden's position.

You might be tempted to dismiss Biden's assurances on safety net programs as boilerplate — don't Democrats always promise to protect Social Security and Medicare?

But Biden has staked out a significantly stronger position than that of Barack Obama, who, as president, all too often seemed to be in the intellectual thrall of those I used to call the Very Serious People, opinion leaders who a decade ago dominated inside-the-Beltway discourse and were obsessed with the need for entitlement reform — which effectively meant cuts to Social Security and Medicare. Obama's 2014 fiscal year budget teased entitlement reform to the point that even John Boehner, then the Republican House speaker, was prompted to say Obama "does deserve some credit for some incremental entitlement reforms that he has outlined in his budget."

Biden is saying that none of this is necessary. This is a significant move to the left — although it's also a move to the center, in the sense that voters never agreed with the elite conventional wisdom that benefits must be cut and a majority consistently say the rich don't pay enough in taxes.

What explains this toughening up of the Democratic position? For one thing, entitlement programs look a lot more fiscally sustainable than they used to.

A decade ago, projections of spending generally assumed that health care costs would continue their historical pattern of rising much faster than G.D.P., making Medicare and other health programs increasingly unaffordable. In fact, however, Medicare costs, in particular, have been rising much less than expected. We don't know exactly why, although cost reduction efforts in the Affordable Care Act probably played a role.

We still have an aging population, which means a rising ratio of retirees receiving benefits to workers paying taxes; the Congressional Budget Office expects combined spending on Social Security and Medicare to rise by about three percentage points of G.D.P. over the next 20 years. But this cost rise, while not small, is moderate enough that it could be offset with higher revenues.

At the same time, the Very Serious People have lost much of their influence. Their repeated predictions of fiscal crisis kept not coming true. The inflation surge of 2021-22 temporarily boosted the credibility of critics of government spending, but this credibility evaporated when dire warnings about persistent stagflation proved utterly wrong.

All of this has, I believe, encouraged Biden and his officials to stake out a firm position opposing cuts to America's social safety net — indeed, calling for increased benefits, to be paid for with increased taxes on corporations and high-income individuals.

What about Trump? Here's what he said: "There is a lot you can do in terms of entitlements, in terms of cutting and in terms of also the theft and the bad management of entitlements." If you have trouble parsing that, it's not you; it's him. Trump sounded to me like a student who didn't do the reading, trying to bluff his way through an essay question. If pressed about what "bad management" he was talking about, which theft he had in mind, he'd probably just respond with more word salad.

And desperate follow-up attempts by the Trump campaign to insist that "cutting" didn't actually mean, well, "cutting" weren't convincing.

Incidentally, Social Security sees very little fraud, and if Medicare is very badly managed, how has it become so effective at cost control?

Trump gives no indication here that he really knows what he's talking about. What that could mean in practice, however, is that if he gets back to the White House, he'll do for Social Security and Medicare what he did in his almost successful attempt to replace Obamacare: leave the drafting of legislation to right-wing ideologues who do understand how the programs work — and who want to gut them.

One final point: Trump's plan for a draconian crackdown on immigration would be a disaster on many fronts, but one important consideration is that it would have a catastrophic impact on the future finances of Social Security and Medicare. Why? Because at this point, immigration is crucial for growth in the working-age population, whose taxes support retirees.

So will Social Security and Medicare be on the ballot this November? Definitely. Biden has a clear plan to preserve these programs; Trump, wittingly or unwittingly, would probably help wreck them.

How to fix Social Security? It's political but it can be done

By B. Rose Huber, Princeton School of Public and International Affairs, May 2, 2022

Social Security remains beloved and holds bipartisan support among American citizens. Yet the program faces an insolvency crisis. It pays out more in benefits than it collects in taxes and is therefore devouring its trust fund. By 2034, when the fund is projected to run dry, it's estimated that 81 million Americans will face automatic benefit cuts of 20%.

There is nothing complicated about fixing Social Security, according to R. Douglas Arnold, the William Church Osborn Professor of Public Affairs, Emeritus, and professor of politics and public affairs, emeritus, at Princeton University. Legislators could simply raise taxes or they could cut benefits — by raising the retirement age, for example. What remains complicated are the *politics* of fixing Social Security, Arnold argues in a new book published by Princeton University Press.

In "Fixing Social Security: The Politics of Reform in a Polarized Age" Arnold explores the historical role that Social Security has played in American politics, why Congress has done nothing to fix its solvency problem for three decades, and what legislators can do to save it.

Q. Why did you write a book on the politics of Social Security? And why is it important to focus on this now?

Arnold: In the mid-1990s, Social Security was a hot issue. Social Security's actuaries had just projected serious, long-term financial problems. There was a lot of commotion in Washington as policymakers competed to devise creative solutions. One proposal was to privatize Social Security. In the late-1990s, I was asked to join a study panel, sponsored by the National Academy of Social Insurance, that was examining privatization. It consisted mostly of economists and demographers, but they were finding that the politics was more complicated than they thought, so they asked me to join. Our final report became a book published by MIT Press. I later co-edited a book, "Framing the Social Security Debate: Values, Politics, and Economics," published in 1998. And then I didn't do anything about Social Security for the next 25 years. And as it happened, neither did Congress. Recently, I started to wonder what went wrong. Why did Congress drop the ball on this? And what can be done now?

Q. Why hasn't anyone paid attention to this issue since the 1990s?

Arnold: There were no immediate consequences for anyone. Although Social Security finances are not in good long-term shape, they are fine in the short-term. There are currently 65 million beneficiaries, and they are all collecting their benefits on time. And they will continue to do so for the next dozen years. Then, when the trust fund runs dry, their benefits will automatically be cut by one-fifth. So, right now, the solvency problem is not hurting anyone. Other problems seem more urgent. Legislators keep putting it off. I hope my book will help people understand the problem and put pressure on politicians to do something.

Q. You say Social Security is heading toward insolvency. What does that mean exactly? Is it going to go broke?

Arnold: Before I answer, it is important to understand how Social Security is funded. It is a self-funded pay-as-you-go program. That means it does not receive any money from general taxes, and by law, it cannot. It raises its own revenue through the payroll tax. We all pay a certain percentage of our base salary up to what has called the maximum taxable wage base, and our employers match everything we pay. Although the money is sent to Washington to be put in the trust fund, it's quickly spent out immediately on beneficiaries.

The last solvency crisis was in 1983. At that time, legislators changed the tax and benefit formulas in ways that gradually built up the trust fund to almost $3 trillion. But right now Social Security is devouring its trust fund. Payroll taxes are no longer sufficient to pay all benefits. So, every month, Social Security withdraws more and more money from the trust fund. And the reason is the retirement of the huge baby boom generation. The next generation is not as large, so Social Security is not getting enough tax revenue.

Projections show that the trust fund will be empty by 2034. At that point, Social Security will have enough revenue to pay only 78% of benefits. And that is what we call the solvency crisis. It happened in 1977, and again in 1983, and each time legislators came together and fixed it. But Congress has been ignoring the problem since 1994, when the actuaries first identified it. The question remains: Will legislators ignore it for the next 12 years, or act sooner?

Q. What are some of the options for fixing the solvency problem?

Arnold: Since we have had two solvency crises in the past — 1977 and 1983 — let's see how legislators fixed the problem then. The first time, they simply raised the payroll tax rate by 25% and the maximum taxable wage base by 68%. Six years later, they switched course. They effectively cut benefits by raising the full retirement age from 65 to 67, phasing it in over four decades. So, those are the two basic options: raise taxes or cut benefits.

You could do similar things today. For example, to make Social Security solvent for the next 75 years, legislators could raise the tax rate from 6.2% to 8.1%. According to current actuarial projections, this would fix the problem until 2095. So, it is fixable, but painful.

Alternatively, legislators could close three-quarters of the long-term deficit by immediately abolishing the maximum taxable wage base (currently $168,600), thus subjecting all wages to taxation. Or they could raise the full retirement age to 68. This would close one-seventh of the long-term actuarial deficit.

Legislators could also change the way benefits are adjusted for inflation. They are currently adjusted with the consumer price index. Some economists think this index overstates inflation. They suggest using an alternative index called the chained price index. If you switch to that index, you would solve one-fifth of the long-term deficit.

If you think about Congress as a place that reaches compromises, legislators will probably adopt some combination of these options.

Q. It seems like representatives are polarized on the issue of fixing Social Security. Why?

Arnold: Legislators are polarized on just about everything from health care to climate change to taxing and spending. Social Security is different. Legislators are *not* polarized on whether the program should be fixed. Their principal disagreement is about how to fix it. Republicans have been talking about making strategic benefit cuts — such as raising the retirement age, not immediately, but in the long term — or doing something like privatizing Social Security. But it is hard to design a plan to reduce benefits that can somehow put Social Security in balance in just 12 years. If they had started in 1994, it would have been possible. They could have gradually reduced benefits or gradually raised the retirement age, but those things take decades to do. It is very difficult to do when the runway is so short.

The real problem for Republicans is that they refuse to consider raising taxes. Most Republican legislators have signed the so-called Norquist pledge — named after political activist Grover Norquist, a promoter of the Taxpayer Protection Pledge — promising never to raise taxes. It is tough to design a solvency plan without including some tax increases. So, that is the big partisan divide. Democrats are willing to raise taxes. Republicans are not.

Q. Do you think voters are as polarized as legislators are?

Arnold: Political polarization by leaders often transfers to citizens. For example, as legislators became more polarized on climate change, citizens followed. Social Security is the great exception. This plays a large role in my book, teasing out why polarization among citizens has not happened for Social Security.

How has Social Security escaped that polarization? To start, it has not been on the congressional agenda, so loud political talk has not primed citizens to think about it in polarized ways. But I think there is a deeper reason: Citizens know this program intimately. Some of our first experiences with Social Security are about our grandparents collecting benefits. When you get your first job, you find out there's a Social Security tax, which you pay throughout your working years. Then, you watch your parents plan for retirement, and later on, you plan for it yourself. Family members keep moving through the system.

Unlike other programs, where people think about "us" versus "them," for Social Security, people think about "we." Right now, Social Security is not polarized, and that makes reform easier.

Q. Do you think Congress is going to fix Social Security soon, or wait until 2034? And if Congress delays, what are the costs?

Arnold: First, it is important to remember that legislators are human beings, and human beings are procrastinators. Second, every possible reform would impose costs on someone. Legislators worry that whatever costs they impose now would be directly traceable to their actions in Congress. So, they are afraid to do anything. And third, they are polarized. They disagree about the appropriate solutions.

In both 1977 and 1983, legislators had to act quickly because the trust fund was tiny. This time, the huge trust fund, built up over four decades, is shielding them from the need for quick action. The trust fund can continue to give legislators a free ride for another dozen years. Then — poof! — the trust fund disappears, and legislators will have to act.

If you want to convince legislators to reform Social Security now, you need to put pressure on them and make it costly for them to delay. Citizens can do this through their votes, their campaign contributions, and their direct communications. Their voices will pressure legislators to introduce bills. Democrats are still sponsoring solvency bills. But Republicans are not. If citizens lean on Republicans, they might do so again. That is how you get action in the next few years.

I have no doubt that if we wait a dozen years, Congress will eventually fix the solvency problem. But the solutions will be more expensive — and more painful — than they are today.

If you search the Web, you can find lots of people arguing that George Bush raided Social Security to pay for the Iraq War and fund tax cuts for the rich. The truth, according to this fact-checker is "not exactly," but like most things, it's complicated. What struck me was the finding that SS surpluses can be drained and put into the general treasury. When the money gets there. who knows how it's spent? To me this system seems odd. I'd like to know your thinking.

Did George W. Bush 'borrow' from Social Security to fund the war in Iraq and tax cuts?

By Linda Qiu, August 3, 2015, Politicofact

Evoke George W. Bush, his income tax cuts and the war in Iraq, and you're sure to arouse some liberal ire. Suggest that Bush financed those projects by plundering Social Security's retirement coffers, and you've got yourself a popular meme.

"Next time a Republican tells you that 'Social Security is broke,' remind them that Pres. Bush 'borrowed' $1.37 trillion of Social Security surplus revenue to pay for his tax cuts for the rich and his war in Iraq and never paid it back," reads one version of the meme, which appeared on the Facebook pages of Occupy Democrats and Americans Against the Republican Party.

A number of readers asked us to check out the claim, so we decided to take a look. The meme seems to extrapolate a point made in a 2009 newsletter post by Allen W. Smith, a professor of economics emeritus from Eastern Illinois University.

"Bush spent every dime of Social Security surplus revenue that came in during his presidency. He used it to fund his big tax cuts for the rich, and much of it was spent on wars," Smith wrote.

The meme's claim and Smith's argument circle back to how Social Security funds are managed. Experts say words like "borrow" and "raid" don't really capture how the system works.

Bonds, 'borrowing,' and Bush

For about 50 years, Social Security was a "pay-as-you-go" system, meaning annual payroll taxes pretty much covered that year's benefits checks. Then in 1982, President Ronald Reagan enacted a payroll tax hike to prepare for the impending surge of retiring baby boomers, and a surplus began to build.

By law, the U.S. Treasury is required to take the surplus and, in exchange, issue interest-accruing bonds to the Social Security trust funds. The Treasury, meanwhile, uses the cash to fund government expenses, though it has to repay the bonds whenever the Social Security commissioner wants to redeem them.

In this broad sense, Bush technically did "borrow" Social Security surplus to pay for the income tax cuts and the Iraq war. But even if we use this loose definition of the word, we still run into a few issues.

First, the amount of surplus Bush "borrowed" is actually around $708 billion, a little more than half of the $1.37 trillion claimed in the meme. While around $1.52 trillion in bonds was added to the trust funds from 2000 to 2008, the Treasury only has access to the cash revenue collected every year, not the interest accrued on the entire surplus.

Second, Bush didn't exclusively spend on the war, which has an estimated cost of $1.7 trillion. Other big costs include the financial bailout in 2008.

"Since all money is green, the cash that the Treasury received from the Social Security surplus was not earmarked for any specific government program," said Andrew Eschtruth, a former Social Security research analyst at the U.S. Government Accountability Office and current spokesperson for the Center on Retirement Research at Boston College.

The larger question is whether the existence of the surplus influenced Congress' spending decisions, but Eschew pointed out that no one can prove what was on the lawmakers' minds.

"The idea that lawmakers consciously thought, 'We can only go into Iraq because of the surplus' is a stretch," he said.

Third, if we characterize the entire trust fund system as the government borrowing from Social Security, Bush is by no means the only debtor.

"That's how the Social Security trust fund has worked ever since the program started, so there's no point in focusing on Bush," said Andrew Biggs, an economist at the conservative American Enterprise Institute. "You could focus on pretty much any president."

That being said, some nonetheless contend that Bush's case is unique. Smith, a self-described progressive, told us in an interview that the tax cuts wouldn't have been possible without the surpluses funded by payroll taxes.

Maintaining payroll taxes (everyone pays the same rate) while cutting income taxes (rates are much higher for the rich) effectively streams the money from lower- and middle-income earners into the pockets of millionaires, according to Michael Hiltzik, a financial reporter with the *Los Angeles Times*.

"Bush was able to do whatever he wanted without raising income taxes," he said.

Replenishing the coffers

As for the claim that Bush "never paid back" what he reaped, experts told us that doesn't really make sense.

The meme's language implies that Bush bailed on a loan, but no one was really pressing him for repayment. During his presidency, the Social Security trust fund was still running surpluses (which stopped in 2010), enough to cover the benefits checks, and had no need to cash in their bonds (which won't happen until 2020).

The larger question posed by critics of the trust fund system is if and how the government will provide cash for all the bonds, now totalling $2.8 trillion. These bonds are a special class of securities unique to the Social Security fund that can't be sold. Because they're not-marketable, some contend that they're "worthless IOUs."

"These special-issue things, they're all in a filing cabinet in West Virginia. That's the entire trust fund," Smith said in an interview. "There's no trust, and there are no funds."

Experts told us there's no question that the Treasury will repay the Social Security surplus (including what was accumulated during the Bush years) when the trust fund starts redeeming the bonds in 2020. Otherwise, says Hiltzik of the *Los Angeles Times*, "you'd have to march 40 years worth of Treasury, Labor, Health and Human Services secretaries, Social Security commissioners, and public trustees -- Republicans and Democrats -- into prison."

To Paul Craig Roberts, the assistant Treasury secretary under Reagan, the bonds are harbingers of more tax hikes and more public borrowing to come.

Biggs said the bonds are like money that we owe ourselves. "The bonds *are* worthless to the taxpayer as a way of actually paying for Social Security, since those bonds must be paid off by the taxpayer," he said.

Hiltzik, though, dismisses these concerns as alarmism. He pointed out that taxpayers who would foot most of the bill for surplus repayment are those who pay higher income tax rates and who reaped the benefits of the Bush tax cuts. As for borrowing to cover the bonds, doesn't the meme suggest that's what the government's been doing the whole time?

"You're not actually increasing the public debt. If you have to redeem $100 million bonds and you do it by borrowing $100 million, the net change is 0," Hiltzik said.

Our ruling

A Facebook posts says, "Bush 'borrowed' $1.37 trillion of Social Security surplus revenue to pay for his tax cuts for the rich and his war in Iraq and never paid it back."

By law, the Social Security surplus is converted into bonds, and the cash is used by the Treasury to pay for government expenses. If we agree that this is "borrowing," every president since 1935 has done it, to fund all sorts of things. Even if Bush "borrowed" from the surplus, the amount is more like $708 billion, and the borrowing wasn't earmarked for a special purposes.

As for not "paying back," the bonds won't need to be repaid until 2020.

Overall, the claim is misleading and confuses many points. So we rate it Mostly False.