Written by **Bob Adelmann** on May 18, 2011

Social Security: Way Beyond Tweaking

Just one year ago this week the Senate Special Committee on Aging, headed up by wealthy and aging Senator Herb Kohl (D-WI), announced that massive shortfalls in funding for Social Security could be papered over with just a few modest "tweaks":

Modest changes can be made over time that will keep the program in surplus. They are not draconian, as the report points out, and they can be done and [they] will be done.

Putting aside the fact that Social Security is not "in surplus" and has not ever been actuarially sound since it began in 1935 (the same year Kohl was born), the "modest changes" he and his committee recommended at the time were, in fact, "draconian":

> The entire $5.3 trillion shortfall over the next 75 years would be wiped out if payroll taxes were increased by 1.1 percentage points for both workers and employers.

Since Social Security is currently funded by a 6.2 percent payroll tax on wages paid by employers and received by employees (ignoring the current temporary two-percentage-point reduction to 4.2 percent for workers and 10.4 percent for self-employed people), that mere 1.1 percentage point increase translates to an increase of nearly 18 percent!

On the other hand, says the report, three-quarters of the shortfall would be closed if COLAs were reduced by one percentage point each year. Although recipients haven't received any COLA increases for the past two years, they have previously averaged closer to 4 percent per year. A one percentage point reduction would reduce recipients COLAs by 25 percent.

Another way to close the gap, according to Kohls report, would be if Congress were gradually to increase the age when beneficiaries would qualify for benefits. One third of the gap would be closed immediately if the full benefits retirement age were increased from age 66 currently to age 70.

That was then. This is now. Nothing has been done except to make the situation worse, by doing nothing. The current trustees' report, just released last week, now show the Social Security shortfall to have increased from $5.3 trillion to $6.5 trillion, in just one year. In order to fix the problem now, say the trustees

> The payroll tax rate could be increased [by an] immediate and permanent 2.15% OR scheduled benefits could be reduced by an immediate and permanent 13.8%.

And even this wouldnt likely be enough because some of the assumptions made in the report are highly uncertain. As noted by the two newest members of the panel of trustees, former CBO Director Robert Reischauer and former Deputy Director of the National Economic Council Charles Blahous:

> One way or the other the imbalance between scheduled benefits and future revenues must be

> resolved. Further delay in enacting corrective legislation to do so as equitably as possible would simply mean that continued uncertainty will surround how the imbalances will be resolved and that the unavoidable adjustments will be compressed into a shorter time period, be concentrated upon fewer affected individuals, and be more disruptive as a result.

What are the chances of anything being done without further delay? Probably none because, as the report also notes, Social Security's combined trust funds are projected to remain solvent until 2036. Concord Coalition makes the case that something has to be done now simply because the current shortfall between Social Security's revenue stream and benefits is being made up out of general treasury revenues, and that number is mounting rapidly. As the Treasury redeems the IOUs that Social Security currently holds as assets, it puts additional strain on the deficit and, inevitably, on the national debt. As the trustees noted: The drawdown of Social Security trust fund reserves result in mounting pressure on the Federal budget. In fact, pressure is already evident.

If the actions taken by Congress to address the issue since last years report by the trustees are any indication, despite Senator Kohls assurance that changeswill be done, there appears to be little likelihood that anything will be done about Social Security until the country is a lot closer to 2036. Only when the pain of imminent collapse is being felt will Congress be likely to address the issue. By then, of course, "tweaks" will be out of the question.

What will solve the problem, of course, is the change in the political climate that appears to be taking place now that questions why the federal government should be in the savings, investment, and retirement income business in the first place. For the first 146 years of the republic, such issues were resolved by individuals who accepted the responsibility for taking care of themselves and their own. The inevitable collapse of entitlement programs like Social Security should be viewed not as a catastrophe but as a catharsis.