Article from:

Pension Section News

"THE REFORMER"
AN INTERACTIVE TOOL TO FIX SOCIAL SECURITY

By Eric Atwater

Eric Atwater, FSA, FCA, EA, MAAA, is vice president and consulting actuary at The Segal Company in Atlanta, Ga. He can be reached at *eatwater@segalco.com*.

BACKGROUND

Social Security provides vital income security to millions of beneficiaries, but it is not sustainable in its current form. The Social Security program currently pays more in benefits than it collects in revenue, and under the latest official projections its trust funds will run out in 2033. At that point, all beneficiaries regardless of age and income will face an immediate 23 percent benefit cut.

Due to this crisis, the Committee for Responsible Federal Budgets (CRFB) has created a tool called "The Reformer" which allows users to choose from a number of options to modify current law in order to close the program's 75-year shortfall and keep it sustainable for future generations.[1]

The Reformer lets users pick from a variety of options to modify Social Security and then shows the impact on annual revenue, spending, and trust fund balance. Additionally, it tells the user what percent across-the-board cut to expect absent further action.

ABOUT THE TOOL

The tool is available online at: *http://crfb.org/socialsecurityreformer/*

Once the user accesses the tool, they are taken to the home page of the tool which shows the current projected revenue/expenses and trust fund depletion. There is also a large, gold percent sign that shows how much of the gap is closed. The tool has grouped the choices for the user to modify has into three tabs: Benefit Formula, Other Benefits, and Revenues.

The **Benefit Formula** tab allows the user to vary the primary options related to benefits received from the system. The user has the following options to vary:

- *Reduce (Increase) initial benefits* - user has option of reducing or increasing benefit by any percentage

- *Slow initial benefit growth* - user has option of slowing initial benefit growth for the top 20 percent, 50 percent or 70 percent of earners

- *Increase retirement age* - user has option of increasing retirement age to age 68 or tying increase to increases in life expectancy

- *Modify cost-of-living adjustments (COLA)* - user has option of changing the methodology used to determine the COLA from the current policy to "Chained CPI," CPI minus 1 percent or CPI-E

The **Other Benefits** tab allows the user to vary ancillary options related to the amount of benefits participants receive from the system. The user has the following options to vary:

- *Reform Disability benefits* - user has option of modifying eligibility and other features related to disability benefits

- *Enact Benefit Enhancements* - user has option of increasing certain benefits like increasing minimum benefit

- *Enact Other Benefit Changes* - user has option of increasing the number of years used to average earnings, tying benefit amount to earnings (i.e., means testing) and reforming spousal benefits

The **Revenue** tab allows the user to vary options related to revenues or taxes received by the system. The user has the following options to vary:

- *Increase (Reduce) Payroll Tax Rate* - user has option of increasing (or reducing) the payroll tax rate by a certain percentage

- *Increase Taxable Maximum* - user has option of increasing the taxable wage base to all earnings, 90 percent of earnings or charge a 3 percent surcharge above the current wage base

- *Raise Additional Revenue* - user has option of increasing additional revenue by including employees not covered by current system, increasing taxation of benefits or applying payroll tax to cafeteria plans

- *Invest in the Stock Market* - user has option of increasing trust fund earnings by diversifying assets to achieve a higher return or diverting payroll tax to "carve-out" accounts

USING THE TOOL

With so many options, I was overwhelmed at what current policy to change. Therefore, I began to think how this tool would useful in helping society understand the choices available based on their demographic cohort or political affiliation.

I then decided to create four hypothetical groups (Baby Boomers, Generation X, Big Business and Socialist) and vary options based on what is important to each group. I was able to change options that made the system solvent based on each group's principles but this further highlighted the difficulty in changing the policy. The following are the changes, and percentage of gap closed, each group would hypothetically make to bring the system back into solvency. *Note this is a based on my personal views of what these different groups might want:*

- *Baby Boomers* (100 percent of gap closed) – slow initial benefit growth for top 70 percent of earners, increase retirement age to 69 and index to increases in life expectancy, reduce fraud and overpayments

- *Generation X* (100 percent of gap closed) – slow initial benefit growth for top 50 percent of earners, increase retirement age to 69 and index to increases in life expectancy, modify COLA to use "chained CPI," cover newly hired state/local government workers and diversify investments in trust fund to increase returns

THE REFORMER LETS USERS PICK FROM OPTIONS TO MODIFY SOCIAL SECURITY AND SHOWS THE IMPACT ON THE TRUST FUND BALANCE ALONG WITH WHAT PERCENT OF AN ACROSS-THE-BOARD CUT TO EXPECT ABSENT FURTHER ACTION.

- *Big Business* (97 percent of gap closed) – slow initial benefit growth for top 20 percent of earners, increase retirement age to 68, modify COLA to use "chained CPI," reduce fraud and overpayments, tighten disability eligibility, prohibit applications above early retirement age, increase earnings averaging period to 38 years and cover newly hired state/local government workers

- *Socialist* (100 percent of gap closed) – increase minimum benefit, apply means testing, increase payroll tax to 100 percent of earnings and cover newly hired state/local government workers

CONCLUSION

The Reformer is a very good tool for the user to get familiar with regarding the impact of various policy changes on the system's solvency. For me, it highlighted the job policy makers will have as they tackle this issue. The question is why aren't people using the tool more? The answer is complicated, but I assume the primary reason is that people are not that interested or do not know the tool exists. We certainly will have a tough time convincing people to get more interested in the topic. However, we can certainly make people aware of the tool so they can see the impact that various policy changes have on Social Security's long-term solvency. ∎