the SOCIAL SECURITY FIX-IT book

A CITIZEN’S GUIDE

A REVIEW of the program, its financing problem, and the leading proposals for eliminating the shortfall.

EVERYTHING the earnest but over-burdened citizen needs to know. Cheerfully narrated and handsomely presented in 52 pages.
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Social Security

_in a nutshell_

3
Social Security helps everyone. Our older parents and grandparents, who paid into the program while working, now get a check each month. So do their spouses, disabled workers, and the dependents of breadwinners who die. We and our children will also collect benefits when we grow old or become disabled or die.

Social Security provides a basic income, not enough to maintain our standard of living. The average worker who retires at 65 gets 41 percent of pre-retirement earnings—$15,400 a year in 2006. So most people need to supplement Social Security with employer pensions, 401(k)s, and individual savings.

Unlike other sources of old-age income, Social Security benefits are adjusted to keep up with inflation. And the checks keep coming as long as we live. Other sources of income often dry up toward the end of life, when we are most vulnerable. Social Security thus provides 70 percent of the income of 70 percent of households headed by someone age 80 or over.
Benefits replace a portion of our earnings from work. The more we earn and pay in tax, the higher our benefits. Social Security also tries to assure Americans a basic income after a lifetime of work. Because low earners spend more of their income on necessities, the program replaces more of our earnings if we don’t earn a lot.

We can claim benefits at any age between 62 and 70. We collect for more years if we claim at 62. But Social Security adjusts the annual amount to keep lifetime benefits much the same. Annual benefits are thus much lower if claimed at 62 and much higher if claimed at 70. Social Security will replace less of our earnings going forward because

- We’re raising the age when we can claim full benefits from 65 to 67.
- Medicare premiums, which are deducted from Social Security checks before they’re sent out, will take a greater share of our benefits.
- More of our benefits will be subject to income tax.

By 2030, benefits for the average worker who claims at 65 will fall from 41 to 36 percent of earnings, and to 30 percent net of Medicare premiums and income taxes.

### ANNUAL BENEFITS DEPEND ON HOW MUCH YOU EARN AND PAY IN TAX

<table>
<thead>
<tr>
<th>Low Earner</th>
<th>Average Earner</th>
<th>High Earner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual earnings</td>
<td>$16,700</td>
<td>$37,200</td>
</tr>
<tr>
<td>Social Security % of earnings replaced if claimed at age 65</td>
<td>56%</td>
<td>41%</td>
</tr>
<tr>
<td>Annual benefits if claimed at age 65</td>
<td>$9,400</td>
<td>$15,400</td>
</tr>
</tbody>
</table>

### THEY ALSO DEPEND ON WHEN YOU CLAIM

<table>
<thead>
<tr>
<th>Year claimed</th>
<th>Low Earner</th>
<th>Average Earner</th>
<th>High Earner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual benefit if claimed in 2003, at age 62 (2006 dollars)</td>
<td>$12,400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual benefit if claimed in 2011, at age 70 (2006 dollars)</td>
<td>$21,400</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Numbers are rounded)

Mr. High gets the largest benefit. Mr. Low gets the largest share of earnings replaced.
Social Security has a financing problem.

Benefits are mainly financed by a 12.4 percent tax on earnings, split evenly between workers and employers. Far more of us, however, will soon be collecting benefits with not many more paying taxes.

Not all of the 12.4 percent payroll tax is currently used to pay benefits. A portion is set aside in the Social Security Trust Fund, invested in government bonds, to help pay benefits down the road.

In 2017, Social Security will need all the money from the payroll tax, plus some interest from the bonds in the Trust Fund, to pay benefits. If the Trust Fund produced enough investment income, Social Security could continue to replace the same share of earnings without raising the payroll tax.

But as costs continue to rise, in 2027 the program will need to sell bonds to pay benefits. In 2040, the Trust Fund will be depleted. Social Security will then be able to pay only 74 cents on the dollar. And the shortfall slowly but steadily widens thereafter.

(Note: The government’s need to redeem the bonds in the Trust Fund also creates an economic burden if the government had failed to use the surplus funds it received from Social Security to increase national saving.)
The only 2 ways to fix the problem are to cut benefits or increase revenues. But cutting benefits is no walk in the park. And raising revenues is also tough.

Social Security benefits, which are hardly generous, are about the only source of income for a third of all elderly households. Another third gets more than half its income from the program.

The Social Security payroll tax is the largest tax most of us pay. It’s especially burdensome on low-wage workers, who spend much of their earnings on necessities.

So it should come as no surprise that nothing has been done. But the longer we wait, the larger the benefit cut or tax increase needed to fix the problem.

Social Security in a nutshell

The elderly are heavily dependent on Social Security.

Social Security benefits as % of elderly household income

Social Security payroll tax is the largest tax most of us pay.

Federal taxes and credits as % of household income

Has been done

And the longer we dawdle, the harder the fix.
The fix should be long-lasting. Social Security uses a 75-year planning horizon, which sounds long-term. But a fix that only solves the problem for the next 75 years will typically build up assets in the near term and sell those assets to pay benefits at the end of the time frame. In the 76th year, there are no more assets to sell. So the program falls off a cliff.

Solving the 75-year problem remains a reasonable place to start. But it’s not a reasonable place to end. What follows are different ways to cut benefits or raise revenues, and the contribution each makes toward solving the 75-year shortfall. We then discuss what must be done to make a fix long-lasting.
How benefits could be cut
An immediate across-the-board cut

We could fix Social Security’s financing problem over the program’s 75-year planning horizon if we cut scheduled benefits by 13 percent for current and future beneficiaries. More of the payroll tax would be sent to the Trust Fund. The payroll tax could also finance a greater share of the program’s reduced obligations down the road. So the Trust Fund should last 75 years.

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>A 13 percent across-the-board benefit cut, for current and future beneficiaries, solves the 75-year financing problem.</td>
<td>This hits current beneficiaries, many with low incomes and no way to adapt, and could lead to an expansion of means-tested programs to assure a basic income.</td>
</tr>
<tr>
<td>It spreads the burden over all generations, including those currently collecting benefits.</td>
<td>Middle-income workers with inadequate 401(k)s would also be stressed.</td>
</tr>
</tbody>
</table>
Raise the Normal Retirement Age

The Normal Retirement Age (NRA) is the age we can claim full benefits. If we claim earlier, annual benefits are less. The NRA is currently rising from 65 to 67. This means workers claiming at 65, or any age, will get less of their earnings replaced than in the past.

One proposal would raise the NRA to 67 more quickly and continue to raise the NRA, as lifespans increase, to keep constant the portion of adult life over which we could collect full benefits.

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rapidly raising, then indexing, the NRA to longevity cuts the 75-year shortfall about 35 percent.</td>
<td>We must already work longer to offset the rise in the NRA and the increase in Medicare premiums and income taxes.</td>
</tr>
<tr>
<td>It recognizes that we probably need to work longer as we live longer.</td>
<td>Many who claim at 62 will have inadequate incomes later in life, as other sources of income dry up. So we might need to raise the earliest age one could claim, which would create hardship for some.</td>
</tr>
</tbody>
</table>

*ANOTHER BIRTHDAY*

Raising the NRA is reasonable if we are willing and able to work longer. But it could create hardship at older ages if we continue to claim as early as we do today.
Freeze the purchasing power of benefits

Social Security benefits are designed to replace a portion of our earnings. As earnings and living standards have grown over time, so has the income Social Security provides.

We could end Social Security’s earnings replacement function and freeze the purchasing power of benefits paid to future beneficiaries at current levels. Our benefits would be able to buy the same goods and services as they do today. But as wages and living standards rise, they would support an ever-shrinking portion of our standard of living.

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Freezing the purchasing power of benefits more than solves Social Security’s financing problem.</td>
<td>The cuts are dramatic. By mid-century, new beneficiaries get less than what the program could pay even after the Trust Fund is gone.</td>
</tr>
<tr>
<td>As benefit outlays fall below revenue inflows, Congress could lower the payroll tax or use the extra revenue to finance other programs.</td>
<td>Benefits could in time be seen as inadequate, which would lead to a major expansion of means-tested welfare for the elderly.</td>
</tr>
</tbody>
</table>

Low-wage workers who claim at 65 would get $5,300 a year had we frozen the purchasing power of benefits in the past.

Benefits for the average earner who claims at 65

- Current benefit: $15,400
- Had purchasing power been frozen 50 years ago: $8,700
- Had purchasing power been frozen 30 years ago: $13,000
Freeze the purchasing power of benefits on a sliding scale

Freezing the purchasing power of benefits could soon reduce Social Security’s guaranteed income for low earners below what’s seen as minimally adequate.

An alternative is to shelter the benefits of low earners. One such proposal would continue to replace earnings as we do today for the bottom 30 percent of earners, freeze the purchasing power of the maximum benefit the program pays out, and adjust all benefits in-between on a sliding scale.

**PROS**
- Freezing benefits on a sliding scale cuts the 75-year shortfall about 75 percent.
- Social Security would continue to provide a minimal basic income, limiting the need for means-tested welfare for the elderly.

**CONS**
- In time, all workers claiming at a given age would get much the same benefit, even though some paid much more in tax.
- This option sharply reduces Social Security’s role in spreading income from one stage of life to another.

**Benefits for low, average, and high earners who claim at age 65**

<table>
<thead>
<tr>
<th>Current Benefit</th>
<th>Benefits for low earners</th>
<th>Benefits for average earners</th>
<th>Benefits for high earners</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$9,400</td>
<td>$15,400</td>
<td>$22,500</td>
</tr>
<tr>
<td>Had purchasing power been frozen 30 years ago</td>
<td>$9,400</td>
<td>$14,100</td>
<td>$19,200</td>
</tr>
<tr>
<td>Had purchasing power been frozen 50 years ago</td>
<td>$9,400</td>
<td>$13,400</td>
<td>$19,200</td>
</tr>
</tbody>
</table>
Benefit cut

Change the Cost-Of-Living Adjustment

Social Security provides annual Cost-Of-Living Adjustments to maintain the purchasing power of benefits. Economists generally agree, however, that the Consumer Price Index (CPI), which Social Security uses to measure inflation, rises faster than the prices most people actually pay. As we shift our spending from more expensive to less expensive items, the CPI doesn’t fully reflect the changing mix of items we buy.

We could adopt a more accurate measure of inflation to adjust benefits to changes in the cost of living.

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Using a revised CPI cuts the 75-year shortfall about 20 percent.</td>
<td>Slowing benefit increases hits long-term beneficiaries—the disabled and the oldest old—who are least well-off and most dependent on Social Security.</td>
</tr>
<tr>
<td>If the revised CPI more accurately reflects changes in the cost of living, Social Security would work the way it’s designed.</td>
<td>The disabled and the oldest old might not shift their spending very much, so the CPI might not overstate the increase in the prices they pay.</td>
</tr>
</tbody>
</table>

WHAT’S THE RIGHT ADJUSTMENT?
Lower COLAs would hurt the disabled and the oldest old, who are disproportionately poor.
Do nothing (but cut benefits in 2040)

We could do nothing—we’re very good at that—and simply cut benefits in 2040 when the Trust Fund is depleted. If we cut across-the-board, including the benefits of those already disabled and retired, the program could then pay 74 cents on the dollar. The average worker who claims at 65 would get 27 percent of earnings—about $10,000 in terms of current wages—before deductions for Medicare premiums and income taxes. And if we shelter existing beneficiaries, new beneficiaries would get much less.

**PROS**

Cutting benefits to what taxes could pay when the Trust Fund is depleted solves the problem.

We don’t have to do anything for more than 30 years.

**CONS**

The cut is very deep and abrupt, and could impose significant hardship on those with low benefits and not much other income.

This option could lead to a major expansion of means-tested welfare programs to assure minimally adequate incomes.

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**FUTURE SHOCK**

Just cutting would slash the share of earnings the program replaces abruptly in 2040...

...then slowly as rising longevity drives up costs.

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**Earnings replacement for the average earner who claims at 65 (before reductions for Medicare premiums or income taxes)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Replacement Rate</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>45%</td>
<td>$15,400</td>
</tr>
<tr>
<td>2020</td>
<td>35%</td>
<td>$13,500</td>
</tr>
<tr>
<td>2040</td>
<td>27%</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

Benefits of the average worker who claims at 65, in terms of current earnings, if we just cut benefits in 2040
How revenues could be raised
Revenue increase

Increase the payroll tax rate today

We could fix Social Security’s financing problem over the 75-year planning horizon if we raised the payroll tax by 2 percent of earnings, split between us and our employers. Social Security would build up a larger Trust Fund. The higher payroll tax could also finance a greater share of the program’s obligations down the road. So the Trust Fund should last 75 years.

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing the payroll tax to 14.4 percent, split between us and our employers, solves the 75-year financing problem.</td>
<td>The increase could impose hardship on low-wage workers, who spend much of their income on necessities.</td>
</tr>
</tbody>
</table>

The trust fund would last 75 years
Revenue increase

Raise the earnings cap

Social Security taxes and replaces earnings up to a certain level—$94,200 in 2006—with the earnings cap indexed to wage growth.

When the current cap was put in place, Social Security covered 90 percent of all U.S. earnings. But rising inequality has pushed an increasing share of earnings above the ceiling, so that Social Security now covers only 84 percent. One proposal would gradually reset the cap, over a 10-year period, to cover 90 percent of earnings.

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raising the earnings cap to cover 90 percent of earnings cuts the 75-year shortfall about 45 percent.</td>
<td>Workers with earnings above the current cap would pay more in tax but not get much higher benefits in return.</td>
</tr>
<tr>
<td>It would affect workers who are relatively capable of bearing an increased burden—those making more than the current cap.</td>
<td>Raising the cap could undermine political support for the program among workers with the highest earnings.</td>
</tr>
</tbody>
</table>

If Social Security covered 90 percent of earnings, only those who earned more than $177,600 would have earnings above the cap.
**Revenue increase**

**Use the estate tax**

We could use other taxes to finance Social Security. The additional revenues should come from a tax dedicated to the program, as Social Security needs a secure financial base to be a reliable source of retirement income.

The most prominent proposal is to use the estate tax. The tax is levied only on large estates, those over $3.5 million (in 2009). So it is often thought less burdensome than other levies.

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**PROS**

Dedicating the estate tax to Social Security would reduce the 75-year shortfall 30 percent.

As the payroll tax is capped, the estate tax is a way to get the rich to help finance Social Security.

**CONS**

Many people view the estate tax as unfair and want it abolished.

Using the estate tax weakens the notion that workers pay for their benefits.

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*Less than 1% of all estates are subject to tax.*
how revenues could be raised

Revenue increase

Transfer start-up costs to general revenues

Social Security was designed as a self-funding program, with the payroll tax as its dedicated source of revenue. This gives workers the sense that they pay for their own benefits—that Social Security is not a welfare program. But in the early years of the program, retirees got benefits worth far more than what they paid in. The cost of these start-up benefits is now built into the ongoing cost of the program.

We could transfer these start-up costs to general government revenues. Then the payroll taxes paid by each generation would closely reflect the benefits it gets.

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferring start-up costs to general revenues more than solves the 75-year problem.</td>
<td>The transfer would require a 10-percent increase in all other federal taxes.</td>
</tr>
<tr>
<td>The transfer strengthens the link for each generation between Social Security taxes and benefits.</td>
<td>Higher income taxpayers, who pay the bulk of federal taxes, could object and withdraw support for the program.</td>
</tr>
</tbody>
</table>

SHIFT THE BURDEN
Should other taxes finance the “start-up” benefits we gave our parents and grandparents?
Revenue increase

Raise the return on assets
The Social Security Trust Fund currently holds about $2 trillion in government bonds. If a portion of these assets were invested in stocks, Social Security could expect to earn about a 3.5 percent higher annual return, over the long term, on those assets.

To capture these higher returns, one proposal would shift 40 percent of Social Security’s assets from bonds to stocks by 2020.

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investing 40 percent of Trust Fund assets in equities reduces the 75-year shortfall about 45 percent.</td>
<td>Stocks are risky. So Social Security would need to adjust benefits or taxes in response to market fluctuations.</td>
</tr>
<tr>
<td>It diversifies Social Security’s funding base.</td>
<td>Stocks risk government involvement in the economy, which could be limited by capping trust fund holdings and using privately managed index funds.</td>
</tr>
</tbody>
</table>

YIKES!
Stocks promise higher returns, but bring financial and political risks.
Revenue increase

Do nothing (but raise taxes in 2040)

We could do nothing and simply raise the payroll tax when the Trust Fund is depleted. With the Trust Fund gone, Social Security becomes a purely pay-as-you-go program. The payroll tax would need to be 16.7 percent of earnings, split evenly between workers and employers, to pay promised benefits in 2040. By the end of the 75-year time frame, it would need to be 17.8 percent of earnings.

### PROS
- Substantially raising the payroll tax to pay benefits when the Trust Fund is depleted solves the problem.
- We don’t have to do anything for more than 30 years.

### CONS
- The increase is very large, abrupt, and disruptive.
- It could impose significant hardship on low-wage workers, who spend much of their earnings on necessities.

Taxes as a percent of covered earnings (split evenly between us and our employer) if we do nothing but raise taxes in 2040:

- **Today:** 12.4%
- **2040:** 16.7%
- **2080:** 17.8%
by themselves, they don’t help fix the problem

What about individual accounts?

There are two types of individual accounts. Add-ons require contributions on top of the payroll tax, so do not directly affect Social Security revenues or benefits. Carve-outs let workers send part of their payroll tax to an individual account, which reduces revenues. But these workers must give up future benefits of equal value, so the shortfall again remains unchanged.

But if the accounts raise retirement incomes, we could cut benefits without lowering old-age incomes. Add-ons increase saving, which will raise incomes, though by an unknown amount. Carve-outs probably increase incomes, though only for those who invest their account in stocks. In both cases, the effect on the shortfall is indirect, and unclear.

<table>
<thead>
<tr>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers could invest in stocks, which have higher expected returns than Social Security.</td>
<td>Stocks are risky, especially for individual investors.</td>
</tr>
<tr>
<td>Contributing to such accounts is far more palatable than paying payroll taxes.</td>
<td>Cutting benefits based on the expected returns in individual accounts is risky.</td>
</tr>
<tr>
<td>Individual accounts may be a more effective way to build savings than the Trust Fund. This would be so if the government uses Social Security surpluses, lent to the Treasury, to run larger deficits not pay down debt.</td>
<td>Workers with individual accounts might reduce 401(k) or other types of saving, which would offset the positive effect on retirement saving.</td>
</tr>
</tbody>
</table>

**No direct effect**

Individual accounts can help only if they increase incomes down the road and allow a cut in benefits.
Time to fix the problem
A lasting fix would keep Social Security revenues and outlays in balance well beyond the traditional 75-year horizon.

Fixes that balance the books for the next 75 years might not be long-lasting. If the fix builds up Trust Fund assets in the near term, but sells those assets to pay benefits in the out years, the program could suddenly be short of money when there is nothing left to sell.

A lasting fix could use investment income from the Trust Fund to help pay benefits beyond the 75th year. This approach probably requires the use of equities to boost investment returns. It would also require larger benefit cuts and tax increases than needed in a 75-year fix—to build up the Trust Fund and narrow the gap between taxes and benefits. One such fix would raise the payroll tax by 2 percent of earnings, index the Normal Retirement Age to longevity, and invest 40 percent of Trust Fund assets in equities.

The alternative is to finance benefits beyond the 75th year on a pay-as-you-go basis. We would not need to cut benefits or raise taxes as much in the near term. But at the end of the 75-year horizon, taxes must be 18 percent of earnings, benefits 70 cents on the dollar, or some combination of the two.

To secure Social Security for our grandchildren’s children, we must build up a much larger Trust Fund or bequeath much higher taxes or much lower benefits.
## How the proposals stack up

The table lists the contribution each proposal makes toward closing both the 75-year shortfall and the shortfall on the other side of the 75-year horizon. When evaluating the various proposals, note:

1. **Benefit cuts lower incomes in retirement.** Initiatives that raise revenues primarily lower incomes during our working years.

2. **Initiatives that cut benefits generally hit low earners, the disabled, and the oldest old, who are heavily dependent on Social Security.** Initiatives that raise revenues primarily hit those with higher incomes.

3. **Combining proposals does not reduce the shortfall by the sum of the individual reductions.** The effect of changing the COLA, for example, falls if we raise the NRA but rises if we invest the Trust Fund in equities.

### HOW BENEFITS COULD BE CUT FOR THE NEXT 75 YEARS IN THE 76TH YEAR

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Next 75 Years</th>
<th>76th Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cut benefits today by 13 percent</td>
<td>100%</td>
<td>45%</td>
</tr>
<tr>
<td>Raise the Normal Retirement Age quickly, then in line with longevity</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>Freeze the purchasing power of benefits</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Freeze the purchasing power of benefits on a sliding scale</td>
<td>75%</td>
<td>80%</td>
</tr>
<tr>
<td>Change the COLA</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>Do nothing (but cut benefits in 2040)</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

### HOW REVENUES COULD BE RAISED FOR THE NEXT 75 YEARS IN THE 76TH YEAR

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Next 75 Years</th>
<th>76th Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase the payroll tax today by 2 percent of earnings</td>
<td>100%</td>
<td>35%</td>
</tr>
<tr>
<td>Raise the earnings cap to cover 90 percent of earnings</td>
<td>45%</td>
<td>20%</td>
</tr>
<tr>
<td>Use the estate tax</td>
<td>30%</td>
<td>15%</td>
</tr>
<tr>
<td>Use general revenues to finance the legacy debt</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Invest 40% of Social Security assets in stocks</td>
<td>45%</td>
<td>depends</td>
</tr>
<tr>
<td>Do nothing (but raise taxes in 2040)</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
The answers to three key questions will largely determine how we should fix Social Security:

1. **Do we want to keep benefits more or less as currently set? If so, how should the burden be shared?**
   a. By all workers equally, or primarily by those better-off?
   b. By workers alone, or by taxpayers generally?

2. **Do we want to keep taxes more or less at current levels? If so, how do we cut benefits?**
   a. Target workers with higher benefits?
   b. If we cut across-the-board, how do we assure people that they won’t fall into poverty in their old age?

3. **Should each generation pay much the same tax and get much the same benefits?**
   a. If yes, the current generation must build up a large Social Security Trust Fund, with a portion of the assets invested in equities.
   b. If no, we could have our children and grandchildren, who will be richer and live longer, finance Social Security on a pay-as-you-go basis.

One thing we know for certain. Something will be done in 2040—when Social Security redeems its last bond—unless we do something sooner. And the sooner we act, the easier the fix.
Your Fix-It Book gets most of its facts and figures from the Social Security Administration. The 2006 Social Security Trustees Report (www.ssa.gov/OACT/TR/TR06/tr06.pdf) is a basic source. (The recently issued 2007 Report tells the same story, but with Trust Fund depletion moved out one year, to 2041, and a 75-year shortfall of 1.95 percent of taxable payroll, not 2.02 percent.) Our “average earner” is its “medium earner;” our “high earner,” however, earns twice the medium wage, not 60 percent more. The “high earner” benefit we present assumes the current program had always been in place, and therefore assumes that benefits are unaffected by the cap on maximum taxable earnings. We also rely on the Social Security Advisory Board, Social Security: Why Action Should Be Taken Soon, which presents estimates of the contribution that reform proposals make to reducing the shortfall, based on 2005 data (www.ssab.gov/documents/WhyActionShouldbeTakenSoon.pdf). Estimates based on more recent data will be slightly different. The Office of the Chief Actuary of the Social Security Administration provided additional facts and figures and clarified various issues.


Your authors calculated the benefit of the high earner (p.7); the role of Social Security in the income of the elderly (p.11); the effect of freezing benefits (p.21) and freezing benefits on a sliding scale (p.23); the distribution of earnings in 2006 (p.33); and the effect of transferring start-up costs to the Treasury (p.36). Your authors, of course, accept full responsibility for any and all errors in your Fix-It Book.