2016 MAKING ISSUES COUNT

SOCIAL SECURITY BENEFIT CHANGES

CHANGING BENEFITS TO CURRENT OR FUTURE RETIREES could have a large impact on Social Security, especially in the long term. Benefit changes can provide a solution, or a partial one, to addressing Social Security's long-term funding challenge. These could include raising Social Security's full retirement age that would lower the program's costs. While it would be an extreme approach to suggest making Social Security solvent for the next 75 years through immediate benefit cuts only, to illustrate: Benefits would need to be immediately lowered by 16 percent to current and future recipients or cut 19 percent to those becoming eligible in 2016 and beyond in order to assure long-term solvency.

Besides an across-the-board decrease on current and future benefits, other proposals could change benefits and alter Social Security's long-range finances.

Should Cost-of-Living Adjustments (COLA) Be Altered to Reduce Social Security's Costs?

Some argue the consumer price index (CPI) used by Social Security to calculate annual COLAs overestimates inflation and instead support using the "chained CPI" in order to reduce Social Security's deficit. Supporters say a change in the COLA could be implemented quickly without radically restructuring the program, and, unlike other changes, could be applied to people already retired. However, there are concerns that many retirees would find it harder to adjust to this change because much of their income is fixed and they have fewer options to make up for a benefit cut.

Should COLAs Be Changed to Reflect Different Segments of the Population?

Proposals have been made to adjust the program's COLAs based on spending patterns of seniors. The Department of Labor's Bureau of Labor Statistics constructed an experimental CPI for the Elderly (CPI-E) based on a typical basket of goods and services for retirees, and the index has risen slightly faster than the current CPI. Some propose using the CPI-E or other methods of recalibrating the calculation of COLAs, but they would typically increase Social Security's funding challenge.

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Should Social Security's Primary Benefit Formula Be Changed?

Social Security benefits are calculated by averaging workers' highest 35 years of earnings and then applying a formula to calculate a retiree's primary insurance amount (PIA) benefit. This formula uses bend points that provide for a higher percentage of benefits paid for lower-income contributions, and reduces the percentage for higher-income contributions. While workers who contribute more into the system receive higher retirement benefits, the formula is designed to pay a higher percentage of benefits to beneficiaries who were lower-earning during their working years relative to their contributions.

To reduce Social Security costs, some have proposed modifying the PIA formula in ways that would lower benefits for everyone but reduce them faster for retirees who made the highest contributions. Another suggestion has been to average 38 or 40 years of workers' earnings, which would take into account lower-income years and ultimately reduce benefits.

Should Spousal and Dependent Benefits Be Changed?

At full retirement age, the lower-paid, or non-working, spouse receives 50 percent of the other's benefit unless the lower-paid spouse can receive a higher benefit based on his or her own earnings history. When one spouse dies, the survivor receives 100 percent of the deceased spouse's benefit or the surviving spouse's own benefit, whichever amount is higher. Social Security also pays benefits to former spouses, dependents, and parents in certain circumstances.

Spousal benefits under Social Security were established during an era when single wage earners predominated; some observers question whether the same level of spousal benefits are still necessary because most workers now qualify for benefits based on their own earnings. Under current rules, two-earner couples receive proportionately lower benefits relative to the Social Security taxes they contributed.

To remedy this inequity, proposals have been made to lower the benefits for non-working spouses, possibly from 50 percent to 33 percent, as well as provide to the survivor a minimum benefit of the couple's combined benefits. These changes also could lower costs to the Social Security program depending on how they were structured.

Means Testing for Social Security

One way to reduce Social Security costs is to reduce or eliminate benefits paid to wealthy retirees, whose assets and income would be measured by some sort of means test. Advocates say that reducing or eliminating benefits for those whose income or assets exceed certain thresholds would help preserve Social Security as a safety net for those who truly need it. Opponents say it would fundamentally alter the program that pays benefits to all workers who contribute into the system for a specified period of time and could erode support for the program, especially by the wealthy who might view Social Security as simply another income tax.

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