Actuaries suggest automatic adjustments for Social Security

By Editor Test *Wed, Sep 7, 2011*

"Automatic adjustments to benefits, taxes, or the normal retirement age could solve Social Security's long-range financing problem permanently and automatically—and restore public confidence in the system," says the American Academy of Actuaries.

Several industrialized countries have added automatic adjustment mechanisms to their national pension programs in response to rising longevity and increasing "dependency" ratios.

In Canada, for instance, taxes rise automatically if the Canada Pension Plan chief actuary determines that the system is not sustainable over the long run at the scheduled tax rate and if government ministers cannot agree on other actions to sustain the system.

In Sweden, automatic adjustments to the retirement age are based on changes in life expectancy, benefits that are in pay status depend in part on measures of worker productivity, and starting benefits are sensitive to the long-range solvency of the system. Indexing benefits and/or retirement age to changes in life expectancy has become common among European countries.

Now the American Academy of Actuaries is suggesting that the U.S. try similar measures to ensure the long-run solvency of the Social Security system. In an August 2011 Issue Brief, the AAA's Social Security committee said:

- An across-the-board reduction to current and future benefits of about 14% would be required to bring the program into actuarial balance over the 75-year valuation period.
- At this time, an increase in the combined employer-employee tax rate of approximately 2.15 percentage points (split evenly between employer and employee) would bring the program into actuarial balance.
- Immediately increasing the normal retirement age from age 66 to age 67, followed by a continued increase by one month every two years until the normal retirement age reaches age 70, would reduce the long-range actuarial deficit by about a third.

"Automatic adjustments to benefits, taxes, or the normal retirement age could solve Social Security's long-range financing problem permanently and automatically—and restore public confidence in the system. Without automatic adjustments, any legislation to restore the system to long-term financial stability might fall short of this goal if experience is less favorable than assumed, or if assumptions are changed, as happened after the 1983 legislation," the actuaries wrote.

"Proponents of automatic adjustment approaches point out that, without such adjustments, Congress usually allows Social Security's problems to mount until a crisis is reached, at which time the need for immediate, large-scale changes to the system inevitably causes some beneficiaries unnecessary financial harm."