How to solve Social Security’s solvency problem

By Editor Test *Wed, Apr 6, 2011*

Alicia H. Munnell, director of the Center for Retirement Research at Boston College, made her recommendations in an op-ed piece in the New York Times this week.

To restore Social Security to long-term solvency, a leading authority on retirement financing recommends four measures:

- Indexing the full retirement age (after it reaches 67) to improvements in longevity;
- Switching to a measure of inflation that grows more slowly than the one now used to calculate Social Security’s cost-of-living adjustment;
- Gradually increasing the earnings subject to the payroll tax (and the basis for benefits) to about $180,000 from $106,800 today; and
- Gradually subjecting both employer and employee premiums for group health insurance to payroll and income taxes.

So wrote Alicia H. Munnell, director of the Center for Retirement Research at Boston College, in an op-ed piece published in the New York Times yesterday. Such measures would brighten the long-term fiscal outlook in the U.S., she added.

“Scheduled Social Security benefits and current payroll taxes are included in long-term deficit projections by the Congressional Budget Office, the Office of Management and Budget and the Government Accountability Office,” she wrote.

“These projections matter: policymakers, investors and the bond markets use them to gauge the nation’s fiscal health. Since a shortfall in Social Security is embedded in these projections, eliminating that shortfall would substantially improve the long-term budget outlook and the nation’s creditworthiness.”

Fear of Social Security insolvency compels many people to claim benefits at age 62, thus locking themselves into the system’s lowest payout rate for life. Restoring solvency to the system would give them the confidence to delay claiming and maximize their benefit.