Researchers weigh impact of various Social Security solvency cures

By Editorial Staff *Thu, Dec 7, 2017*

A two-year increase in the age for receiving full Social Security benefits (to age 69) would reduce annual consumption in retirement by 5.6% for low-income, 4% for middle-income, and 2.2% for high-income retirees, according to the Center for Retirement Research at Boston College.

The Social Security Trust Fund is currently projected to deplete its surplus in 2034, and policymakers know a reckoning is coming. How they respond is the hard part. To restore solvency, Congress can either cut Social Security's pension benefits or increase the payroll taxes deducted from workers' pay.

Both policies would affect the amount that households can spend. A new study from the Center for Retirement Research at Boston College finds that benefit reductions would have a much larger annual impact on retirees than would the higher taxes on workers. But the taxes would be spread over a longer time period.

The **new study** looks at four specific policies, two that cut retirement benefits and two that raise taxes. All four would have an equally beneficial effect on Social Security's finances.

To gauge the likely effects, researchers used a model for predicting workers' behavior. Some workers might be inclined to retire earlier if more taxes are being taken out of their paychecks. But if they knew their future benefits would be trimmed, they might decide to work longer to increase the size of their monthly checks.

The options

One option for reducing Social Security payouts would be to delay the full retirement age (FRA) (the age at which retirees are eligible to collect "full" benefits). A two-year increase in the FRA, to 69, would reduce annual consumption in retirement by 5.6% for low-income, 4% for middle-income, and 2.2% for high-income retirees.

A second option would be to trim Social Security's annual cost-of-living (COLA) increases. The impact of COLA reductions, small at first, would compound over time. For people who live to age 90, the COLA cut would mean sharply lower consumption—10.5% less for low-income, 8% for middle-income, and 4% less for high-income retirees.

To increase the revenues going into Social Security, Congress could either raise the payroll tax rate or the dollar ceiling on workers' earnings that are taxed. The researchers looked at the impact of increasing the payroll tax to 7.75% from the current 6.2%.

This would reduce consumption during people's working lives by 1.55 percentage points per year. Raising the earnings amount subject to the payroll tax—to $270,000 from $127,200 currently—would have a smaller impact, decreasing consumption by 1% on Americans with very high income.