



Problem

Social Security

Overall, Social Security is the more stable of the social programs operated by the United States government. The vast majority of benefits have designated funding sources. The trust fund also has the great advantage of a huge reserve fund made up of approximately 2.3 trillion dollars. The fund also has several years to establish a plan for a soft landing.

However, the 2009 Social Security Trust Fund report shows that the fund will be exhausted in the year 2037. At that point benefits for seniors will automatically drop to about 75% of normal benefits. This is a problem as 35% of seniors rely on social security for 90% of their income. The report implies one of three actions to allow long-term sustainability: reducing benefits by 13% or increasing revenue by 16% or a combination of the two.

I.O.U.s

The elephant in the room is the 2.3 trillion dollar fund mentioned above. Essentially, the money in the trust fund has been loaned to the general fund in the form of treasury securities. These securities are really I.O.U.s to the Social Security Trust Fund. So, if the general fund of the federal government owes the money to the Social Security Trust Fund, how does the money get paid back? The sad part is the general fund does not have the money available to pay it back nor does it have a designated revenue source to generate the money. The general fund of the federal government will likely need to borrow money from the public to pay back borrowed money it owes to the Trust Fund. We need to be clear. This I.O.U. problem is not derived from Social Security; this problem is derived from the general fund which is the responsibility of Congress. So, there are two separate issues. One issue is the shortfall in the Social Security trust fund itself and the second issue is the I.O.U.s from the general fund.

Where Are We Today?

Despite repeated calls for action, Congress has not dealt with the tough decisions surrounding the future shortfalls in the Social Security Trust Fund itself or the I.O.U.s from the general fund. This document will deal with the future shortfalls in the Social Security Fund.

Considerations

As a minimum, Congress should approve a safety net to protect seniors in the event a major reform package is not developed in time. However, even the safety net should provide a long-term sustainable approach to Social Security.

Objective

The objective of a solution is to sustain nearly 100% of social security benefits for seniors.

The sooner decisions are made with either a safety net or a full reform, the easier the objective can be accomplished.

Disclaimer: This document is merely a conceptual design and is intended for discussion purposes only.

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Solution – *For Discussion Purposes Only*

A **Social Security Safety Net** would be enacted when the Social Security Trust Fund is within 20 years of exhaustion as determined by the Social Security Board of Trustees annual report.

If at any time before October 1, 2020, the above trigger occurs, the Social Security Safety Net would be deployed. The Social Security Safety Net would be based upon the following assumptions:

- There are three basic segments of people impacted by Social Security: Those paying into Social Security, those approaching retirement age and those receiving benefits.
- Success can and will be obtained after a small degree of shared sacrifice occurs by each of the three segments as described below.

Those Paying into Social Security

Currently, employees are capped on the amount paid into social security each year. Once the employee reaches a certain wage amount the employee is free of any further contribution to Social Security for that calendar year. Each year the cap amount increases slightly. In early 2010 the amount was just under \$107,000 of W-2 income. The shared sacrifice for employees would be to raise the cap to \$200,000 gradually. In other words any income earned between \$107,000 and \$200,000 annually would continue to have payroll taxes deducted for Social Security. This change would occur immediately upon deployment of the safety net.

Those Approaching Retirement Age

The age of retirement would gradually start to increase within three years of the deployment of the safety net. It would continue to be indexed to life expectancy over the longer term.

Those Receiving Benefits

Seniors receiving social security would receive half of the normal Cost of Living Adjustment (COLA) for five years. This would occur three years after the deployment of the safety net.

Long-Term Monitoring and Adjustments

Annual Review Committee

The unique aspect of this solution is the difficulty in planning ahead for decades. By nature, the number and size of variables are hard to predict. Therefore, it would be best to establish an annual review committee that could recommend timely adjustments to assure a fully sustainable trust fund. The committee would need to make midcourse corrections based on a well-engineered math model, constant feedback of real world data and frequent small changes. This group would: 1) Monitor, 2) Report to Congress and 3) Implement. Here are a few guidelines:

1. Total income must always be greater than total outgo.
2. Minimize impact on those paying into the fund and those receiving benefits.
3. Corrections can be made quarterly.
4. Continue funding from current sources, that is, no income from the general fund.
5. Investments of the surplus will continue to be limited to treasury securities; however trustees will manage the investments to maximize interest.

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