

8 Questions About Social Security Answered as Election Day Nears

Every two years, voters — whether they already count on the program, expect to or question paying into it — try to make sense of competing claims about it. It's that time again.



By Tara Siegel Bernard
Graphic by Karl Russell

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<https://www.nytimes.com/2018/09/28/your-money/8-questions-about-social-security-answered-as-election-day-nears.html?action=click&module=RelatedCoverage&pgtype=Article®ion=Footer>

It's no wonder that Social Security is politically contentious. The program's reach is vast: More than 175 million workers contribute to it with every paycheck, and about 43 million retirees collect monthly benefits. For three in five older Americans, those checks account for more than half their income.

Every two years, voters — whether they already count on Social Security, expect to or question paying into the program — must try to make sense of competing claims about it and which lawmakers to entrust it to. This year's midterm elections are no exception.

Speaking at a rally in Montana this month for a Republican Senate candidate, President Trump [asserted](#) that Democrats would “hurt your Social Security so badly.” Most Democrats have suggested preserving or expanding the program. Republicans generally favor scaling it back.

Mr. Trump's top economic adviser, Larry Kudlow, said in a recent interview that the administration had to be tougher on spending and would begin to consider the “the larger entitlements” — Social Security and Medicare are the two biggest social insurance programs — “probably next year.”

Social Security faces a projected shortfall in about 16 years, when benefits for all recipients — present and future — would be cut by roughly 20 percent. How hard would it be to close the gap, and what plans are there for doing it?

“There remains a great deal of misinformation and misconceptions about Social Security,” said William Arnone, chief executive of the National Academy of Social Insurance, a nonpartisan group of social insurance experts.

Here's a guide to clear up some of the confusion:

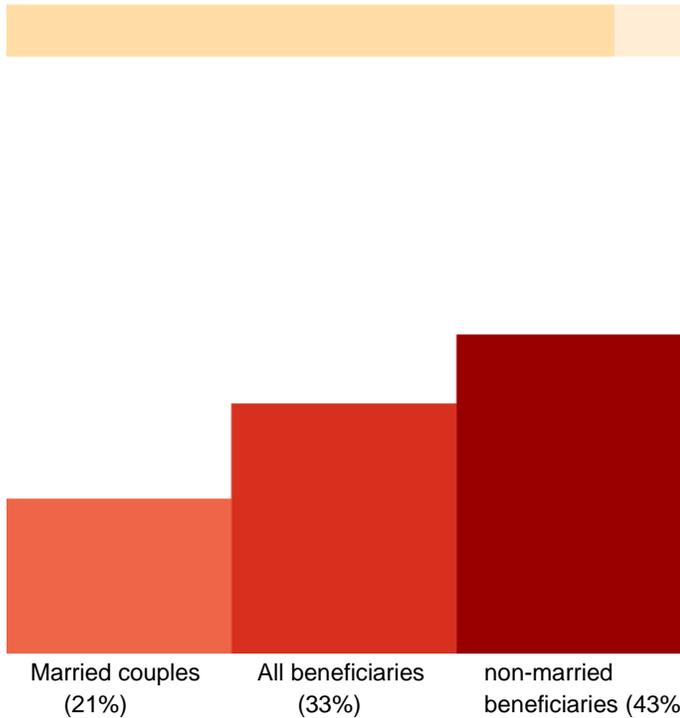
To what degree do Americans rely on Social Security?

Signed into law by Franklin D. Roosevelt in 1935, Social Security was created to mitigate the risks for workers in an increasingly industrialized economy. Over time, it came to be seen as one leg of a “[three-legged stool](#) of retirement” (pensions and savings were the others). With pensions vanishing and the savings rate dismal, millions of retirees now rely on Social Security for a big slice, if not most, of their income.

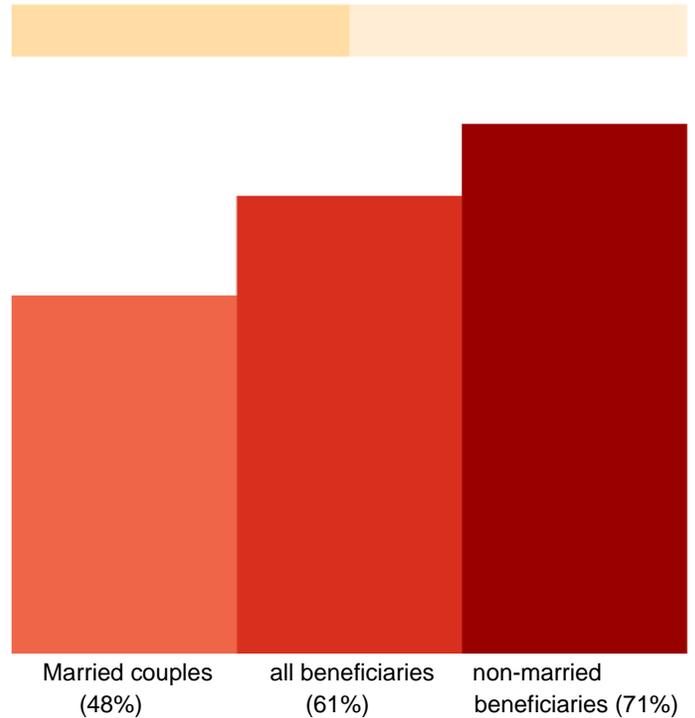
The average monthly check is \$1,413. For about one in three older people receiving benefits, that check accounts for 90 percent of income, [according](#) to the Social Security Administration.

For one in three retirees who receive Social Security, it accounts for 90 percent of their income. About three in five rely on it for at least half of their income.

Those for whom at least 90% of their income is Provided by Social Security



Those for whom at least 90% of their income is Provided by Social Security



Source: Social Security Administration | By The New York Times

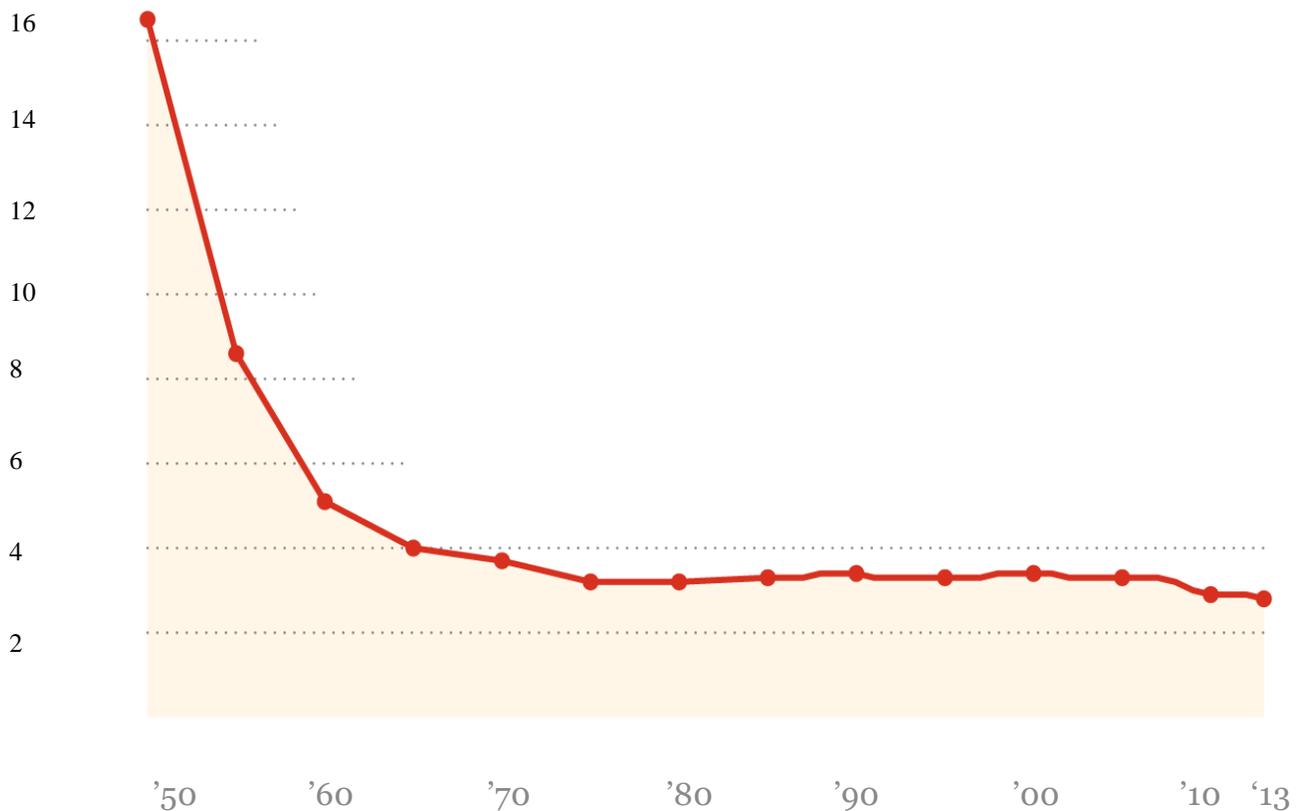
What's behind the looming shortfall?

This year, for the first time since 1982, benefits and administrative expenses are projected to exceed total income. As a result, the program will begin dipping into the reserves in its trust fund. That fund has a \$2.9 trillion surplus collected when revenue — most of it from payroll taxes paid by workers and their employers — exceeded costs. The fund will be depleted by 2034, according to the latest [annual report](#) from the agency's trustees. That's when benefits would fall by 21 percent for everyone.

The shortfall is largely a product of demographic shifts: A large number of baby boomers are collecting Social Security, a declining birthrate is producing fewer workers to pay taxes into the system and retirees are living longer.

Demographic shifts, including a decline in the number of workers paying into the system, are putting stress on Social Security.

Number of workers who (it takes to) support one retiree (currently) receiving benefits



Source: Social Security Administration | By The New York Times

Does Social Security contribute to the federal budget deficit?

It depends on whom you ask, but the simple answer is no.

Roosevelt [intended](#) the program to be self-sufficient. It has a dedicated revenue source, primarily from those payroll taxes. In many cases, workers split the burden with their employers; each currently pays 6.2 percent on earnings up to [\\$128,400](#), for a total of 12.4 percent. (By law, Social Security, unlike Medicare, cannot use money from the general budget to pay benefits.)

The payroll taxes go into the trust fund. When there is a surplus, the extra money is invested in a special type of Treasury security that pays interest to the trust fund.

Because it is invested in [Treasury securities](#), the money is essentially being lent to the federal government to use however it wants, and must eventually be repaid.

That is where confusion sometimes arises about how Social Security is used to pay for things unrelated to the program. But it is really no different from what happens when the government sells Treasury securities to other investors, like China.

Although Social Security is considered “off budget,” economists and government prognosticators may also view it as part of the so-called unified budget, which includes all federal activities when evaluating everything that affects the economy. From that perspective, Social Security can make the deficit look larger.

What can be done to close the shortfall?

There are [various moves](#) that could shore up the program. Potential fixes generally involve raising taxes, reducing benefits or some combination of the two.

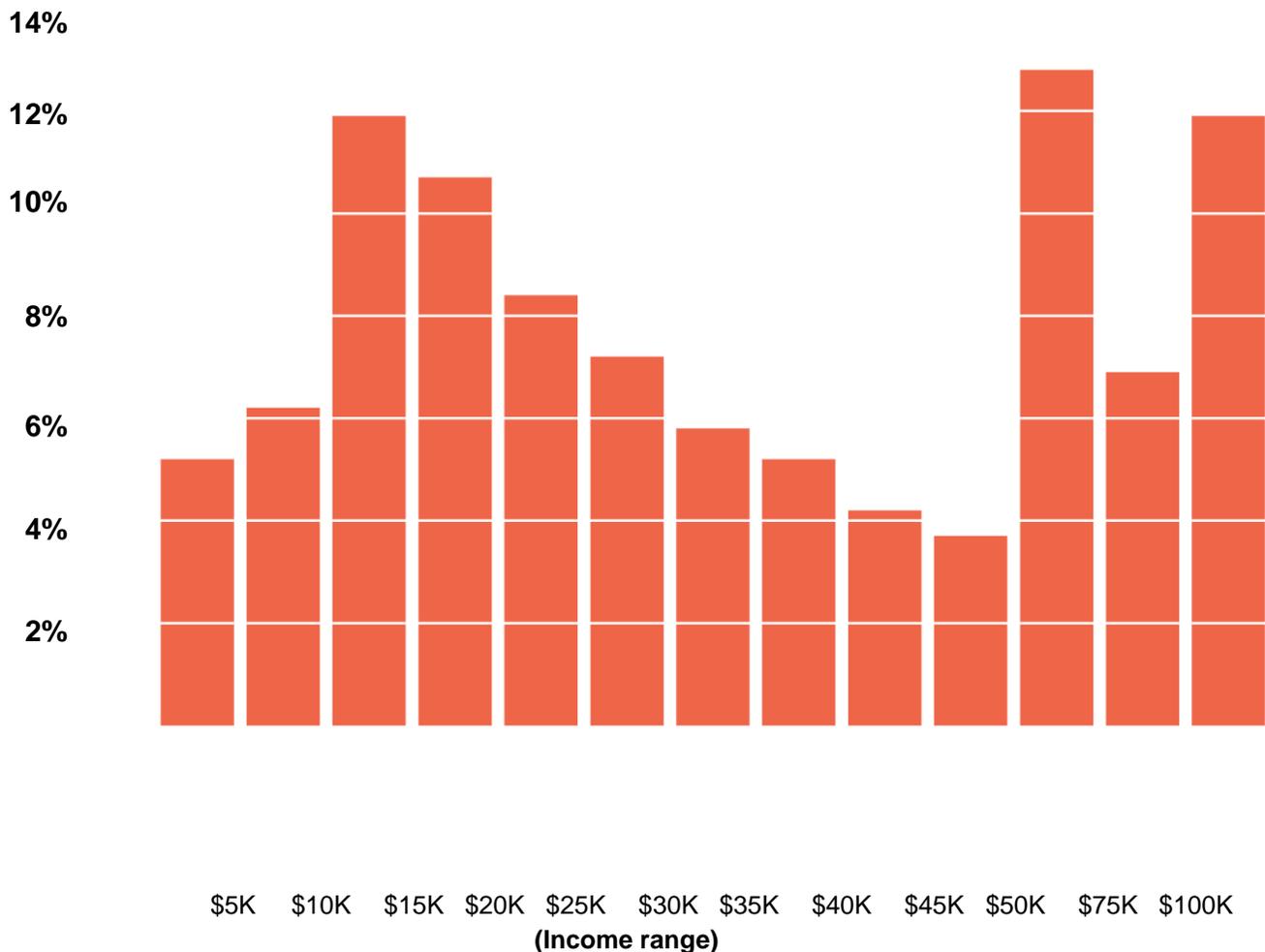
One idea that is often floated is to tax a broader base of workers' incomes. For instance, the cap on how much income is taxed could be lifted above the current \$128,400. Another option would be to raise the tax rate above the 12.4 percent now split between workers and employers.

One way to cut costs would be to raise the age at which workers become eligible for a [full retirement benefit](#). This last occurred in 1983, when the age for collecting full benefits gradually rose to 66 and then 67 from 65 (that's still being phased in now).

What do Americans support?

Social Security is one thing most Americans seem to agree on. Polls consistently show that they prize and want to protect their benefits. A [2017 poll](#) from the Pew Research Center found that 86 percent of Republicans and 95 percent of Democrats supported maintaining or increasing spending on Social Security.

The median income for retirees who receive Social Security is about \$30,000 a year, but about 6 percent earn as little as \$5,000 to \$10,000; the largest share, about 13 percent, earn \$50,000 to \$75,000.



Source: Social Security Administration | By The New York Times

Where does Congress stand?

Republicans and Democrats have starkly different ideas, which fall into two broad categories: [Democrats](#) favor raising revenue through taxes; [Republicans](#) support measures to reduce benefits, or to at least slow their growth. Experts cite a couple of bills as illustrating the two parties' general philosophies on the issue.

More than 170 House Democrats, nearly the entire caucus, have [co-sponsored](#) a [bill](#) by Representative John B. Larson of Connecticut [that would](#) generally increase benefits by 2 percent (more for people with lower lifetime income; less for those with higher incomes), set a minimum benefit for low-income earners and adopt a potentially faster-rising [cost of inflation adjustment](#) than the one now in effect because it takes into account that older people tend to spend proportionally more on medical care.

[To pay for](#) those changes and for the coming shortfall, the legislation would apply payroll taxes to wages above \$400,000 (not indexed for inflation, meaning that, eventually, all earnings would be covered). It would also gradually raise the payroll tax over 24 years by 1.2 percentage points to 7.4 percent for workers and employers.

Although Representative Sam Johnson, Republican of Texas, is retiring, [a bill](#) he introduced in 2016 includes the [types of changes](#) that Republicans typically support. Among other things, it would gradually raise the age at which retirees can claim full benefits to 69.

In practice, that would amount to a significant benefit cut, according to an analysis by [Melissa M. Favreault](#), a senior fellow at the Urban Institute who studies social insurance programs and models the effects of different policy changes. Based on the Social Security Administration's actuaries' [review](#) of Mr. Johnson's proposal, Ms. Favreault calculates that a retiree would either have to forgo two years of benefits, or receive a check that was 13.3 percent smaller at 67. This change would affect people born in 1968 and later. Those born from 1961 to 1967 would see smaller cuts. (Mr. Johnson's office confirmed the accuracy of Ms. Favreault's calculations.)

Mr. Johnson's proposal would also change the benefit formula so that higher-than-average earners would receive less while the lowest earners got more. Another provision would cut benefits for people who had more variable earnings or people who spent long periods not working, Ms. Favreault said. The plan also proposes using a [cost-of-living adjustment](#) that grows more slowly, and the creation of a minimum benefit.

Has the Trump administration taken steps that affect Social Security?

A couple of relatively recent actions would hurt the trust fund slightly over the next decade, but would have a negligible long-term effect. The [tax law](#) enacted last year has a "significant net negative effect" over the next 10 years, according to the 2018 annual trustees' report, and the proposed [elimination](#) of the Deferred Action for Childhood Arrivals, or DACA, program, would also reduce program revenue.

What are the prospects for an agreement that fixes the program?

The last time Congress made [significant adjustments](#) to close a shortfall, in 1983, both Democrats and Republicans had to make concessions. Some policy experts said they believed the parties were more polarized now, making such an agreement more difficult.

"It will require some very substantial give by both parties to make it happen," said [Charles Blahous](#), a senior research strategist at the Mercatus Center at George Mason University.

The sooner that giving starts, experts agree, the less drastic the changes will need to be.

Doris Burke contributed research.