Karen Telleen-Lawton: Is Sustainable Social Security an Oxymoron?

Changes are inevitable, and there are ways to tweak the system to ensure its long-term viability

By Karen Telleen-Lawton, Noozhawk Columnist | Published on 06.10.2011 8:34 a.m.

For years baby boomers were warned not to count on Social Security. The system would go bankrupt before we saw any retirement benefit return on our tax dollar.

Perhaps this uncertainty forced us to save more than we would have otherwise, which is a good thing. But now that the first wave of baby boomers is reaching full retirement age, it's time to seek the straight scoop. Is sustainable Social Security an oxymoron?

In a word: no. The trust fund, backed by special issue U.S. Treasury securities, is growing at a healthy pace largely because of us boomers who are now in our peak earning years. The surplus is currently $2.5 trillion. As we retire, the surplus will shrink, and without changes would be depleted around 2037.

Changes are inevitable. Since the system began in 1935, various conditions have led to adjustments in the percentage of income taxed, the ceiling on income taxed, the age of full retirement and other variables. But since the formulas are always transitioned in over a period of years, the prevailing opinion is that anyone born in 1955 or earlier can pretty much bank on the benefits currently in her annual Social Security statement.

For younger boomers and the cohorts who follow, there are infinite ways to tweak the system to ensure its long-term viability. The ones being discussed are 1) increasing the maximum earnings subject to Social Security tax; 2) raising the normal retirement age; 3) basing annual increases in Social Security on the Consumer Price Index instead of the Wage Index; and 4) reducing the COLA (cost of living adjustment) for all retirees.

The system was originally designed to subject 90 percent of all covered earnings to payroll tax. But since high earners have been earning disproportionately more in recent years, only 85 percent of covered earnings are now subject to tax. If the limit were tied to the 90 percent figure, about 25 percent of the projected deficit could be eliminated.

Raising the retirement age to reflect increasing longevity could eliminate one-third to two-thirds of the deficit depending on when and how much it was raised. Likewise, tinkering with the COLA formula could eliminate about 20 percent. Other potential but less popular solutions include increasing the payroll tax, increasing the taxation of benefits, reducing all benefits, adjusting auxiliary benefits and changing various aspects of the benefit formula. There are lots of options to play with.

So, boomers are now free to drop the question of whether Social Security will be there for them and concentrate instead on the questions at hand: How much can we expect to receive? When should we start collecting? How can we maximize our benefits? Will it be enough to retire on?

The answers to these are unique to a boomer's circumstances, but there are some rules of thumb. As a financial planner who just passed the Certified Financial Planner exam, I'm up to date on the latest facts and figures. I will be sharing some general tips and addressing these questions at a series of seminars to be held at the University Club of Santa Barbara, 1332 Santa Barbara St., at 1:30 and 5:30 p.m. Tuesday, June 28. Email me at karen@sbfeeonly.com to register for one of the complementary spots.

— Karen Telleen-Lawton's column is a mélange of observations supporting sustainability. Graze her writing and excerpts from Canyon Voices: The Nature of Rattlesnake Canyon *at www.CanyonVoices.com*.