Karen Telleen-Lawton: Retirement Is for Baby Boomers, Part 2

A look at proposed changes to keep Social Security viable past 2037

By Karen Telleen-Lawton, Noozhawk Columnist | Published on 01.05.2012 8:21 a.m.

Last June, I argued in this space ("Is Sustainable Social Security an Oxymoron?") that Social Security is alive and well for baby boomers. The trust fund, backed by special issue U.S. Treasury securities, is growing at a good pace because most boomers are still in their peak earning years. The surplus is currently $2.5 trillion.

The Social Security surplus will naturally shrink as we retire; it would last without changes until around 2037. Since we explored how to fix the budget deficit in October, I thought it would appropriate this time to discuss some of the proposed changes being discussed to keep Social Security viable past 2037.

When the Social Security Act was signed into law in August 1935, retired workers were granted benefits at a Full Retirement Age (FRA) of 65, but the average life expectancy was 62. The program was equivalent to an annuity: Those who lived an unexpectedly long life were supported by those who died too early to claim benefits.

The situation is the same now, except that increases in life expectancy mean that many more — most — survive to collect benefits. One obvious and equitable fix is to raise the retirement age to match increased longevity. The Academy of Actuaries estimates that continuing to raise the FRA would reduce the long-range actuarial deficit by one-third to two-thirds, depending on the formula.

Back in 1935, paying Social Security tax on the first $3,000 of earnings subjected 90 percent of the nation's income to the tax. In 2012, the first $110,100 is taxed, but this captures only around 85 percent of national income. A fix that would again capture 90 percent of the income tax base would set the base at $250,000. This means that if you earned $300,000, that last $50,000 would be free of

Social Security tax. Economists say this fix would close 25 percent of the deficit. Better yet, the tax base could be set at a relative instead of absolute number; that is, the tax base could be defined as the amount that would capture 90 percent of the previous year's national income.

Some alternatives either don't make much difference or would be so unpopular as to render them moot. Among them are decreasing the level at which benefits would be taxable or increasing the payroll tax rate. If benefits were 100 percent taxable, the gap would only be narrowed by about one-sixth. Moreover, we've all been able to witness the popularity of fiddling with the tax rate! Other ideas are reducing benefits across the board, changing the benefit formula and reducing the cost-of-living adjustment.

You can find legislative proposals for working on the solvency issue on the Social Security Web site. If you want to voice your opinion, you can contact Rep. Lois Capps, D-Santa Barbara, with which alternatives you prefer to make sure our safety net stays intact.

On an individual note, I will again be sharing some general tips about planning for and collecting Social Security at seminars to be held in the East Wing of the Faulkner Gallery, opposite the Santa Barbara Central Library, 40 E. Anapamu St. The small-group seminars, each covering identical material, will be held at 1:30 p.m. and 5:30 p.m. on Tuesday, Jan. 24.

Please email me at ktl@decisivepath.com to register for one of the complementary spots.

— Karen Telleen-Lawton's column is a mélange of observations spanning sustainability from the environment to finance, economics and justice issues. She is a fee-only financial advisor (www.DecisivePath.com) and a freelance writer (www.CanyonVoices.com).