

Federal Update 2005-18 (June 20, 2005)
Options To Put Social Security In Financial Balance For 75 Years

Solvency Option	Percent of 75-year shortfall met
Raise the Tax Cap	
1. Make all earnings subject to Social Security taxes, but retain the cap for benefit calculations, beginning in 2005	116
2. Make all earnings subject to Social Security taxes and credit them for benefit purposes, beginning in 2005	93
3. Make 90 percent of earnings subject to Social Security taxes and credit them for benefit purposes, phase in 2005-2014	40
Extend Coverage	
4. Cover newly hired State and local employees, with a 5-year phase in	10
Raise the Age for Full Retirement Benefits	
5. Speed up the increase to age 67 and index the age to 68, by raising it one month every two years	28
6. Same as #5, but index the age to 70 by raising it 1 month every two years	36
Cut Benefits for New Beneficiaries	
7. Cut benefits by 3 percent for those starting to get benefits in 2005	20
8. Cut benefits by 5 percent for those starting to get benefits in 2005	32
9. Price index the benefit formula	111
Change Cost of Living Adjustment (COLA)	
10. Lower the COLA by 1 percentage point each year	79
11. Lower the COLA by ½ of 1 percentage point each year	41
12. Shift to “chained” CPI*	18
Raise Social Security Taxes	
13. Raise tax rate for workers and employers from 6.2 to 7.2 in 2005	104
14. Schedule tax rate for workers and employers, each, of 7.25 percent in 2020-2049 and 8.3 percent in 2050 and beyond.	104
Use Other Taxes	
15. Earmark for Social Security the remaining tax on estates over \$3.5 million in 2010 and beyond	27
16. Instead of making 2001 and 2003 tax cuts permanent, earmark part of federal income taxes or capital gains taxes for Social Security after 2009	**
Invest Trust Fund in Equities	
17. Invest 40 percent of trust funds in equities, phased in 2005-2014, assuming a 6.5 percent real return (over 3.0 percent inflation)	48
18. Same as #17, assuming 5.5 real return (over 3.0 percent inflation)	35

* Better accounts for substitution of one commodity for another as prices go up; results in slower rise in COLA

**Not a specific proposal

Source: This table appears in National Academy of Social Insurance, *Options to Balance Social Security Funds over the Next 75 Years*, February 2005. All estimates are from the Office of Chief Actuary, 2005c, with three exceptions. Option 9 is from the Office of the Chief Actuary, 2002. Options 12 and 15 are reported in Ball, Robert M., *Social Security Plus*, December 2004, and based on estimates by the Office of the Chief Actuary using the Trustees' 2004 assumptions.

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