

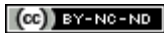
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NOTES

THE ECONOMIC IMPACT OF SOCIAL SECURITY REFORMATION

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NOTES

THE ECONOMIC IMPACT OF SOCIAL SECURITY REFORMATION

*Matthew L. VanDyke**

The Old-Age, Survivors, and Disabilities Insurance (OASDI) Program, commonly referred to as the Social Security Program (hereinafter “the Program”), is the largest income maintenance program in the United States, and has guaranteed an income for retirees, their survivors, and people with disabilities for over 80 years.¹ In 2017 alone, roughly 61 million people received monthly benefits² averaging \$1,342 per person,³ with total expenditures exceeding \$922 billion.⁴ Due to this substantial disbursement of benefits, the Program has a major impact on the U.S. economy, and it is particularly responsible for a reduction in the poverty rate and an increase in economic output.⁵ However, the Program is currently on a collision course with an economic reality: Its expenditures have begun to exceed its income, and if the Program maintains its current benefit and tax rates, it is on a fiscally

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¹ David Hosansky, *Social Security: Is the Program Running Out of Money?*, 26 CQ Researcher 481 (June 2016), <https://www.brookings.edu/wp-content/uploads/2016/07/cqr20160603C.pdf>.

² THE 2017 ANNUAL REPORT OF THE BD. OF TRUSTEES OF THE FED. OLD-AGE AND SURVIVORS INS. AND FED. DISABILITY INS. TRUST FUNDS at 2 (2017) [hereinafter TRUSTEES REPORT]. The Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds (also known as the Social Security Trustees) oversees the financial operations of the two Trust Funds and issues an annual report that presents the financial status of the Funds.

³ Penelope Wang, *What's The Maximum Social Security Benefit in 2017?*, TIME (Feb. 6, 2017), <http://time.com/money/4644332/maximum-social-security-benefit-2017/>.

⁴ TRUSTEES REPORT, *supra* note 2, at 2.

⁵ See generally Gary Koenig & Al Myles, *Social Security's Impact on the National Economy*, AARP PUB. POL'Y INST. (2014).

unsustainable path.⁶ Since 2010, the Program has been paying more in benefits and expenses than it has collected in taxes and other non-interest income, a trend that is expected to continually worsen.⁷ The 2017 Social Security Trustees Report (“Trustees Report”) projects that by 2035, the two trust funds that finance the Program—the Old-Age and Survivors Insurance (OASI) Trust Fund, and the Disability Insurance (DI) Trust Fund—will be completely depleted and therefore insolvent.⁸

In order to resolve the projected financial shortfall of the Program, immediate reform is necessary. However, due to the heated political climate in the United States, the types of reform that have been proposed to solve this fast-approaching economic crisis exist on opposite sides of the political spectrum. Thus, reform is a hot topic issue that is often debated but has yet to be resolved.⁹ Indeed, an array of economic consequences will stem from reform, and dependent upon socioeconomic class and the reform measure(s) implemented, citizens’ benefits will be affected. Therefore, when determining how to best resolve the Program’s impending financial shortfall, lawmakers must carefully consider the economic impact that specific reform measures would have on both individual citizens and the U.S. economy as a whole.

This Note analyzes the economic impact of Social Security reform at both the individual (micro) and national (macro) level. In doing so, it weighs the positive and negative economic effects of two major Social Security reform policies: (1) increasing funding by raising or eliminating the payroll tax cap, and (2) cutting benefits by increasing the retirement age. Part I of this Note provides a brief history of the Program and the issues that gave rise to its projected financial shortfall. Parts II and III, respectively, discuss the

⁶ TRUSTEES REPORT, *supra* note 2, at 2.

⁷ *Id.*

⁸ *Id.* at 3.

⁹ The last time the Program experienced a full-scale reform was in 1983. The reform stemmed from President Ronald Regan’s creation of the National Commission on Social Security Reform, which was created to determine how to resolve the Program’s then-projected financial shortfall. The Commission issued a report in January 1983, which became the basis for the 1983 Social Security Amendments. The Amendments included both reducing benefits and raising taxes. The reform measures were a success, as they resolved the Program’s projected financial shortfall. *Report of the National Commission of Social Security Reform*, Social Security Administration, <https://www.ssa.gov/history/reports/gspan.html> (accessed on Mar. 3, 2017). See also Social Security Reform Center, *History of Social Security*, <http://www.socialsecurityreform.org/history/index.cfm>.

individual economic consequences of increasing funds by raising or eliminating the payroll tax cap, and the economic consequences of cutting benefits by raising the retirement age. Part IV provides an outlook of the Program's impact on the U.S. economy. Finally, Part V briefly suggests a number of solutions that would fix the projected economic shortfall and therefore lead to the continued solvency of the Program.

While the Program is comprised of two separate entities—the OASI Program and the DI Program—the operations of the Program are shown on a combined basis as the OASDI Program.¹⁰ Consistent with the Trustees Report, this Note combines the two Programs as the OASDI Program. However, this Note places a greater emphasis on the larger of the two Programs—the OASI Program.

I. OVERVIEW OF THE SOCIAL SECURITY PROGRAM

A. History

The Program was created on August 14, 1935, when the Social Security Act was signed into law by Franklin D. Roosevelt.¹¹ Following the onset of the Great Depression, poverty among the elderly grew dramatically, and at the Depression's height, an estimated one-half of the elderly lacked enough income to be self-supporting.¹² The Program was created to provide economic security through a continuing source of income for retired workers.¹³ At its inception, the Program provided single-lump sum payments, financed by payroll taxes, to retired workers aged 65 and older.¹⁴

When the Program was enacted, President Roosevelt noted that it was simply a starting point, and that future reform would be necessary.¹⁵ The Program underwent reform in 1939 by expanding benefits to include a

¹⁰ TRUSTEES REPORT, *supra* note 2, at 2.

¹¹ SOC. SEC. ADMIN., HISTORICAL BACKGROUND AND DEVELOPMENT OF SOCIAL SECURITY, <https://www.ssa.gov/history/briefhistory3.html> [hereinafter HISTORICAL BACKGROUND] (last accessed Mar. 2018).

¹² *Id.* See also MARTHA A. MCSTEEN, SOC. SEC. ADMIN., FIFTY YEARS OF SOCIAL SECURITY 37 (1985), <https://www.ssa.gov/policy/docs/ssb/v48n8/v48n8p36.pdf>.

¹³ HISTORICAL BACKGROUND, *supra* note 11.

¹⁴ *Id.*

¹⁵ MCSTEEN, *supra* note 12, at 38 (Quoting President Franklin D. Roosevelt: "This law, too, represents a cornerstone in a structure which is being built but is by no means complete.").

worker's spouse and children, and by providing "survivors benefits paid to the family in the event of the premature death of a covered worker."¹⁶ Expanding from a retirement program solely for workers, into a family-based economic security program,¹⁷ the 1939 Amendments established the Old Age and Survivors Insurance (OASI) Trust Fund.¹⁸ It again underwent reform in 1956 to create the Disability Insurance (DI) Trust Fund, which provides benefits to disabled persons who are unable to work due to long-term disability.¹⁹ Today, the OASI Program and DI Program constitute what is commonly referred to as the OASDI Program, or Social Security Program.

B. Problems with the Program

Since the Program's inception, both life expectancy and the number of retirees eligible to receive benefits has drastically increased—a trend that is expected to continue.²⁰ In 2017, the average life expectancy in the United States for males and females combined who reached age 65 was 85.45 years.²¹ This means that on average, today's elderly live about 21 years post-retirement,²² which is a substantial increase compared to 1940, when the Program began making regular monthly payments.²³ At that time, the average post-retirement life expectancy for men and women combined was a mere 14 years.²⁴

Furthermore, as the nation's population ages, the number of retirees collecting benefits is rising faster than the number of workers paying taxes to support the Program.²⁵ This is due to the retirement of the baby-boom

¹⁶ *Id.*

¹⁷ HISTORICAL BACKGROUND, *supra* note 11.

¹⁸ MCSTEEN, *supra* note 12, at 38.

¹⁹ *Id.*

²⁰ TRUSTEES REPORT, *supra* note 2, at 23.

²¹ *Id.* at 96; *see also* SOC. SEC. ADMIN., CALCULATORS: LIFE EXPECTANCY, <https://www.ssa.gov/planners/lifeexpectancy.html> (last accessed Mar. 2018).

²² Hosansky, *supra* note 1, at 483; *see also* TRUSTEES REPORT, *supra* note 2, at 96. This assumes that a person retires at age sixty-five.

²³ SOC. SEC. ADMIN., LIFE EXPECTANCY FOR SOCIAL SECURITY, <https://www.ssa.gov/history/lifeexpect.html> (last accessed Mar. 2018).

²⁴ TRUSTEES REPORT, *supra* note 2, at 96.

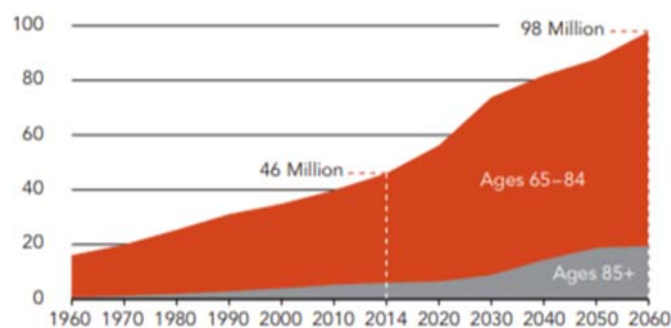
²⁵ *See generally id.* at 23.

generation coupled with lower birth rates.²⁶ As a result, the 2017 Trustees Report projects that the ratio of 2.8 workers paying taxes to each beneficiary will decline to 2.1 workers to 1 beneficiary in 2036.²⁷

In 2016, there were roughly 48 million Americans over the age of 65, which accounted for roughly 15.2% of the U.S. population.²⁸ This number is expected to increase to 79 million by 2035,²⁹ and by 2060, it is projected that roughly 98 million Americans will be over the age of 65, which is more than double what currently exists.³⁰

The Number of Americans Ages 65 and Older Will More Than Double by 2060.

U.S. Population Ages 65 and Older, 1960 to 2060 (Millions)



Source: PRB analysis of data from the U.S. Census Bureau.

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Due to the increase in life expectancy and growth of the elderly population, the Program's costs have exceeded its non-interest income, and this trend is expected to worsen for at least the next 75 years.³² By 2022, costs

²⁶ *Id.* See also SOC. SEC. ADMIN., PUB., NO. 13-11785, FAST FACTS AND FIGURES ABOUT SOCIAL SECURITY, 2017, at 36 (Sept. 2017) [hereinafter FAST FACTS & FIGURES].

²⁷ FAST FACTS & FIGURES, *supra* note 26, at 26; see also TRUSTEES REPORT, *supra* note 2, at 132-34.

²⁸ Hosansky, *supra* note 1, at 483.

²⁹ *Id.*

³⁰ Mark Mather, Linda A. Jacobsen & Kelvin M. Pollard, *Population Bulletin*, 70 POPULATION REFERENCE BUREAU 1, 3 (2015), <http://www.prb.org/pdf16/aging-us-population-bulletin.pdf>.

³¹ *Id.*

³² FAST FACTS & FIGURES, *supra* note 26, at 31.

are projected to exceed total income, and the Trust Funds' \$2.8 trillion surplus will decline. The DI Trust Fund is projected to become depleted in 2028, and the OASI Trust Fund projected to become depleted in 2035, at which point the Program will be insolvent.³³ While income will continue to flow into the Trust Funds, it will only be sufficient to pay 77% of scheduled benefits.³⁴ Specifically, the OASI Trust Fund is projected to only be able to pay 75% of its scheduled benefits.³⁵

In sum, the Program cannot continue to finance lengthier retirements for a rising percentage of the population. Therefore, reform must occur in order to resolve the impending financial insolvency of the Program's Trust Funds. If reform measures are not implemented until insolvency occurs, it is projected that restoring balance would require a 17% reduction in scheduled benefits, an increase of the payroll tax from 12.4% to 15.16%, or some combination of both.³⁶

II. ECONOMIC CONSEQUENCES OF RAISING OR ELIMINATING THE PAYROLL TAX CAP

A. Overview of the Payroll Tax Cap

The Program is financed by three main sources: payroll taxes, federal income taxes on benefits, and interest accrued on the Trust Funds' balance.³⁷ The largest of these three revenue generators is the payroll tax, which applies a 6.2% tax of a worker's earnings up to a taxable maximum, known as the "payroll tax cap."³⁸ The employee's employer is also subjected to a 6.2% tax

³³ TRUSTEES REPORT, *supra* note 2, at 4.

³⁴ FAST FACTS & FIGURES, *supra* note 26, at 37.

³⁵ TRUSTEES REPORT, *supra* note 2, at 23.

³⁶ *Id.* at 6.

³⁷ The revenue generated from the payroll tax is divided between the Trust Funds, with the substantial majority of revenue being allocated to the OASI Trust Fund. *Id.* at 8. In 2016, 10.03% of revenue generated from the payroll tax was allocated to the OASI trust fund, whereas only 2.37% was allocated to the DI Trust Fund. *Id.*

³⁸ The 2018 payroll tax cap is \$128,400.00. SOC. SEC. ADMIN., 2018 SOCIAL SECURITY CHANGES (2018), <https://www.ssa.gov/news/press/factsheets/colafacts2018.pdf>. The "payroll tax cap" is technically called the "contribution and benefit base," due to the fact that it applies the same annual limit to earnings when used in benefit computation. See CONTRIBUTION AND BENEFIT BASE, SOCIAL SECURITY ADMINISTRATION (2017), <https://www.ssa.gov/oact/cola/cbb.html>. Applying the cap to both contributions and benefits ensures that benefits bear some relationship to contributions and align with the progressive

that mirrors the employee's earnings up to the taxable maximum for a combined tax rate of 12.4%.³⁹ Due to the projected financial shortfall, many policymakers have proposed increasing or eliminating the payroll tax cap to help increase revenue to restore the Trust Funds' financial balance.⁴⁰

B. Advantages of Increasing or Eliminating the Payroll Tax Cap

Raising or eliminating the payroll tax cap would expand retirement security for millions of workers without imposing an economic burden on impoverished people who are most in need of the Program's benefits.⁴¹ Moreover, it would result in high-income earners paying a tax rate equal or closer to what middle and lower-class citizens currently pay, thus making the Program more progressive.⁴²

The average number of workers above the cap in a given year has risen from 3% at the Program's inception, to roughly 6% currently.⁴³ Furthermore, while the tax cap covered about 92% of taxable earnings in 1937, that number has decreased, and it now only covers about 82% of such earnings.⁴⁴ The increase in the number of workers above the tax cap and the recession in covered earnings is due to the fact that wages have remained stagnant over the last decade for middle and low-income earners, but have significantly increased for high-income earners.⁴⁵

If the cap was raised or eliminated, policymakers would need to decide how to account for any new taxed earnings. Three options exist: the first is

approach of the Social Security Program by providing a larger percentage of benefits to lower income citizens. See U.S. GOV'T ACCOUNTABILITY OFFICE GAO-16-75SP, SOCIAL SECURITY'S FUTURE: ANSWERS TO KEY QUESTIONS 9-11 (Oct. 2015), <http://www.gao.gov/assets/680/673385.pdf> [hereinafter SOCIAL SECURITY'S FUTURE].

³⁹ TRUSTEES REPORT, *supra* note 2, at 8.

⁴⁰ See generally Hosansky, *supra* note 1.

⁴¹ Kathleen Romig, *Increasing Payroll Taxes Would Strengthen Social Security*, CTR. ON BUDGET AND POL'Y PRIORITIES 7 (Sept. 2016), <http://www.cbpp.org/sites/default/files/atoms/files/9-27-16socsec.pdf>.

⁴² *Id.* Because income in excess of the payroll tax cap is exempt from taxation, workers with such income are not taxed on the same proportion of their earnings as workers who do not have income that exceeds the cap.

⁴³ FAST FACTS & FIGURES, *supra* note 26, at 10.

⁴⁴ *Id.*

⁴⁵ *Id.* See also *Raising the Social Security Tax Cap*, NAT'L COMM. TO PRESERVE SOC. SEC. & MEDICARE (2016), <http://www.ncpssm.org/PublicPolicy/SocialSecurity/Documents/ArticleID/1466/Raising-the-Social-Security-Tax-Cap>.

to keep the same formula, providing workers benefits on their newly taxed earnings; the second is to maintain the current benefit formula, only providing benefits up to the current tax cap and not on newly taxed earnings; and the third is a middle ground that includes increasing benefits for those paying higher taxes but by lesser amounts than the current formula mandates.⁴⁶

1. Increasing (But Not Eliminating) the Payroll Tax Cap

Increasing the cap to once again cover 90% of workers' earnings would set it at about \$270,000—more than double the current cap.⁴⁷ Specifically, if the cap was increased to cover 90% of earnings while also providing workers increased benefits up to the revised taxable maximum, 27% of the Program's shortfall over the Trustee's 75 year projection period would be eliminated, while its balance over that 75 year period would increase by 17%.⁴⁸ Doing the same while not providing increased benefits on the revised taxable maximum would eliminate about 35% of the projected financial shortfall, while increasing the annual balance by 27.83%.⁴⁹

2. Eliminating the Payroll Tax Cap

Eliminating the cap immediately, or phasing it out gradually, would drastically decrease the projected financial shortfall while restoring the Trust Funds' balance. For example, eliminating the cap immediately while providing benefit credits for earnings above the current cap would eliminate 67% of the projected shortfall while increasing the annual balance by

⁴⁶ See Romig, *supra* note 41, at 9; Citizens for Tax Justice, *An Analysis of Eliminating the Cap on Earnings Subject to the Social Security Tax & Related Issues* 3 (Nov. 30, 2006), <http://www.ctj.org/pdf/socialsecuritytaxearningscapnov2006.pdf>; SOC. SEC. ADMIN., ACTUARIAL PUBLICATIONS, PROVISIONS AFFECTING PAYROLL TAXES (2018), <https://www.ssa.gov/oact/solvency/provisions/payrolltax.html>.

⁴⁷ Romig, *supra* note 41, at 7.

⁴⁸ SOC. SEC. ADMIN., ACTUARIAL PUBLICATIONS, PROPOSED PROVISION E3.1 (2018) (The Program's annual balance would increase from -3% to +14%), https://www.ssa.gov/oact/solvency/provisions/charts/chart_run232.html.

⁴⁹ *Id.* at E3.2 (The Program's annual balance would increase from negative -2.83% to +25%), https://www.ssa.gov/oact/solvency/provisions/charts/chart_run215.html.

38.83%.⁵⁰ Eliminating the cap immediately and not extending benefits above the current cap would eliminate 83% of the projected financial shortfall, while increasing the annual balance by 57.83%.⁵¹

C. Disadvantages of Increasing or Eliminating the Payroll Tax Cap

While raising or eliminating the cap may resolve the Program's projected financial shortfall, such a reform measure comes with potentially negative economic consequences. Raising or eliminating the payroll tax cap could increase costs, harm individual incomes, and stunt economic growth while also frustrating the purpose of the Program.⁵²

1. The Purpose of the Program Would be Frustrated

As a Social Security Administration report provided, "The upper limit on the tax was designed to assure that no one contributed directly more than the value of the protection that he or she received."⁵³ In fact, the creators of the Program did not advocate for a tax cap, but instead recommended that people with earnings exceeding three times the average wage be exempt altogether from the Program—neither paying taxes nor receiving benefits.⁵⁴ "This recommendation was likely rooted in [the Program's] original intent to prevent poverty in old age."⁵⁵ Moreover, "persons who [did] earn more than three times the national average are unlikely to need government provided insurance to remain out of poverty during retirement."⁵⁶ However, by eliminating the cap, "a person earning \$225,000 would pay roughly four

⁵⁰ *Id.* at E2.2 (The Program's annual balance would increase from -2.83% to +36%), https://www.ssa.gov/oact/solvency/provisions/charts/chart_run193.html.

⁵¹ *Id.* at E2.1 (The Program's annual balance would increase from -2.83% to +57%), https://www.ssa.gov/oact/solvency/provisions/charts/chart_run181.html.

⁵² Rachel Greszler, *Raising the Social Security Payroll Tax Cap: Solving Nothing, Harming Much*, THE HERITAGE FOUND. 1 (Aug. 2014), http://thf_media.s3.amazonaws.com/2014/pdf/BG2923.pdf.

⁵³ MICHAEL RESNICK, SOC. SEC. ADMIN., ANNUAL EARNINGS AND THE TAXABLE MAXIMUM FOR OASDI 38 (Nov. 1966), <https://www.ssa.gov/policy/docs/ssb/v29n11/v29n11p38.pdf>.

⁵⁴ Greszler, *supra* note 52, at 2.

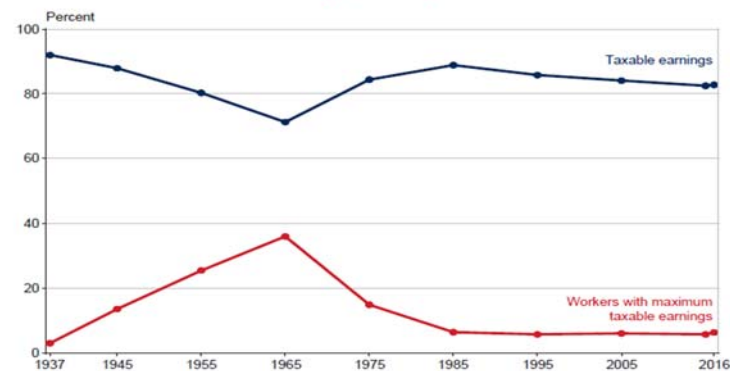
⁵⁵ *Id.*

⁵⁶ *Id.*

times more in taxes than [he would] receive in benefits,”⁵⁷ thus steering the Program towards becoming a “welfare program.”

Furthermore, while proponents of raising or eliminating the cap point to the decrease in taxable wages, opponents argue that coverage has fallen (from 90% to about 83%). Specifically, (1) the 83% rate has been the average rate of coverage during the duration of the Program,⁵⁸ and (2) the falling coverage is due to the increase of health costs.⁵⁹

Taxable earnings as a percentage of earnings in covered employment and percentage of workers with maximum taxable earnings, selected years



SOURCE: SSA, Office of the Chief Actuary.

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⁵⁷ Andrew G. Biggs, *Don't Raise or Eliminate the Cap*, AM. ENTER. INST. (Apr. 18, 2013), <http://www.aei.org/publication/dont-raise-or-eliminate-the-cap/>.

⁵⁸ *Id.* See also Andrew G. Biggs, *Eight Reasons We Shouldn't Raise the Cap on Social Security Taxes*, NAT'L REV. (Feb. 25, 2015), <https://www.nationalreview.com/2015/02/eight-reasons-we-shouldnt-raise-cap-social-security-taxes-andrew-biggs/>, stating:

Social Security didn't start in 1983. And over the program's entire history, an average of just 84% of wages have been taxed, practically equal to today's 83%. In fact, from 1950 through 1972, upward of 20% of total earnings generally weren't taxed by Social Security. From the CAP authors' perspective, the Social Security tax base was more inequitable during those two decades than it is today.

⁵⁹ *Id.*

⁶⁰ FAST FACTS & FIGURES, *supra* note 26, at 10.

2. An Increase in the Marginal Tax Rate Would Result in Negative Economic Affects

Raising or eliminating the cap would cause a substantial increase to the tax rates of high-income earners.⁶¹ Today's top marginal tax rate on earned income is 37%.⁶² Adding state income tax drives that number even higher—into the mid-40% range for most states, and 50% for California.⁶³ Eliminating the tax cap effectively raises the top tax rate by 6 percentage points. For example, if the cap was eliminated, a single person with \$150,000 in taxable income would see his or her combined federal income and payroll tax rate jump from 24% to 30.2%, and would pay an additional \$13,392 in taxes.⁶⁴

Because taxes are distortionary,⁶⁵ meaning that they alter individuals' behavior and total economic output, a raise in the marginal tax rate could discourage work by the most productive workers.⁶⁶ This would result in less payroll revenue than anticipated.⁶⁷ When marginal tax rates rise, lower-income workers are constrained in their ability to cut back on work due to the fact that they must maintain some minimal level of income.⁶⁸ In contrast, higher-income workers generally have more flexibility to work less.⁶⁹ However, working less leads to a reduction of take-home pay, which tends to result in cuts on savings and investment.⁷⁰ The disincentive to work results in lower incomes and less investment, which ultimately would harm economic growth and negatively affect tax revenues.⁷¹

In conclusion, while raising or eliminating the payroll tax cap would mitigate the projected economic shortfall, an increase in taxes on high-wage earners may lead to a decreased work incentive, which in turn would

⁶¹ *Why the Social Security Tax Cap Shouldn't Be Raised*, FOUND. FOR ECON. EDUC. (Jan. 1, 2005), <https://fee.org/articles/why-the-social-security-tax-cap-shouldnt-be-raised/>.

⁶² Amir El-Sibaie, *2018 Tax Brackets*, TAX FOUND. (Jan. 2, 2018), <https://taxfoundation.org/2018-tax-brackets/>.

⁶³ Morgan Scarboro, *State Individual Income Tax Rates and Brackets for 2018*, TAX FOUND. (Mar. 5, 2018), <https://taxfoundation.org/state-individual-income-tax-rates-brackets-2018/>.

⁶⁴ 2018 tax rates were used for this calculation.

⁶⁵ Greszler, *supra* note 52, at 4.

⁶⁶ *Why the Social Security Tax Cap Shouldn't Be Raised*, *supra* note 61.

⁶⁷ See generally Greszler, *supra* note 52, at 1.

⁶⁸ *Id.* at 4.

⁶⁹ *Id.*

⁷⁰ *Id.*

⁷¹ *Id.*

negatively affect economic output and tax revenue. Therefore, when deciding whether to increase or eliminate the payroll tax cap, policymakers must weigh the costs and benefits of the economic effects.

III. THE ECONOMIC EFFECTS OF CUTTING BENEFITS BY RAISING THE RETIREMENT AGE

A. Overview of the Retirement Age

The Program provides monthly benefits⁷² based on an employee's earnings history.⁷³ To receive such benefits, a worker must have worked in "covered" employment for at least 40 calendar quarters (known as "quarters of coverage"),⁷⁴ and the total earnings must meet a required minimum, which is adjusted annually for inflation.⁷⁵ If the aforementioned requirements are met, a worker is entitled to an unreduced benefit at "normal retirement age" (NRA) equal to his or her primary insurance amount (PIA). The PIA is progressive, providing a larger benefit as a percentage of earnings to lower earners than to higher earners.⁷⁶

The NRA, which has gradually increased since the Program's creation, is based on a worker's year of birth.⁷⁷ A worker also has the option to elect for early retirement beginning at age 62 at the cost of permanently reduced

⁷² See SOCIAL SECURITY'S FUTURE, *supra* note 38, at 8–11 (There are three steps to determine the amount of benefits a worker will receive. First, the average indexed monthly earnings (AIME), which are indexed to changes in average wages, are calculated based on the worker's highest thirty-five earning years in which he or she paid Social Security taxes (known as computation years). Second, the AIME is used in a progressive formula to calculate the PIA, which is the benefit received if claimed at the full retirement age. Third, adjustments are made to the PIA to reflect various other provisions, such as those relating to early or delayed retirement, maximum family benefit amounts, and receipt of a non-covered pension. *Id.* Additionally, once monthly payments have begun, benefits are generally adjusted to reflect price inflation, known as cost-of-living-adjustment (COLA)).

⁷³ LAWRENCE A. FROLIK & RICHARD L. KAPLAN, ELDER LAW IN A NUTSHELL 281 (6th ed. 2014).

⁷⁴ *Id.* at 283.

⁷⁵ *Id.* at 284.

⁷⁶ SOC. SEC. ADMIN., PRIMARY INSURANCE AMOUNT (2018) (in 2018, the PIA is derived via the following calculation: 90% of the first \$895 of AIME + 32% of AIME over \$895 through \$5,397 + 15% of AIME over \$5,397).

⁷⁷ SOC. SEC. ADMIN., RETIREMENT AGE: BACKGROUND, <https://www.ssa.gov/planners/retire/background.html> (last accessed Mar. 2018).

monthly benefits.⁷⁸ Finally, a worker may elect to defer retirement beyond the NRA up to age 70, in which case the retiree receives a bonus in the form of “delayed retirement credits.”⁷⁹

Year Born	Full Retirement Age (FRA) 100% Benefit
1937	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943 to 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

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B. Advantages of Raising the Retirement Age

The increase of the average life expectancy and the retirement of the baby-boom generation have led to more benefits being paid to beneficiaries for longer periods of time.⁸¹ Increasing the retirement age by raising the NRA, ERA, or a combination of both would help reduce the Program’s

⁷⁸ FROLIK & KAPLAN, *supra* note 73, at 291 (providing that “[t]he amount of the reduction is five ninths of 1 percent per month for the first 36 months plus 5/12 of 1 percent for each additional month thereafter”).

⁷⁹ *Id.* at 292.

⁸⁰ *Understanding Social Security*, REINVENTING RETIREMENT, http://www.michigan.gov/reinventretirement/0,5764,7-332-69371_69423-337704--,00.html (last accessed Mar. 2018).

⁸¹ See generally TRUSTEES REPORT, *supra* note 2, at 23.

projected financial shortfall, while also increasing work productivity, which benefits both individuals and the economy as a whole.⁸² Furthermore, it would bring the post-retirement life expectancy gap closer to what it was when the Program was enacted.⁸³

1. Increasing the Retirement Age Will Reduce the Projected Shortfall

Increasing the retirement age would help reduce the Program's projected economic shortfall, which is demonstrated by a series of policy proposals that would raise the NRA, ERA, or a combination of both. For example, a proposal that advocates solely for an increase in the NRA suggests raising the NRA one month every two years until it reaches 68, with the increase beginning after the NRA reaches 67 for people age 62 in 2022.⁸⁴ If this policy were implemented, it would eliminate 13% of the projected financial shortfall and would create an annual balance of 16% by year 75.⁸⁵

Conversely, a proposal advocating for only raising the ERA, suggests increasing the ERA by two months per year for people age 62, beginning in 2019 and ending in 2036, so that the ERA would reach 65 for people age 62 in 2036.⁸⁶ While not eliminating the same amount of shortfall as the proposal increasing the NRA, this proposal would still eliminate 0.83% of the shortfall.⁸⁷

Finally, a proposal that advocates for increasing both the NRA and ERA would eliminate 29% of the projected shortfall and would create an annual balance of 26% by year 75.⁸⁸ Under this proposal, the NRA and ERA would rise for people age 62 starting in 2018, by 3 months per year, until the REA reaches 64 in 2025 and the NRA reaches 69 in 2029.⁸⁹

⁸² See *supra* Part I.B. (explaining that the post-retirement life expectancy was 14 years at one point in time).

⁸³ See *infra* Part II.B.

⁸⁴ SOC. SEC. ADMIN., ACTUARIAL PUBLICATIONS, PROPOSED PROVISION C1.1 (2018), https://www.ssa.gov/oact/solvency/provisions/charts/chart_run104.html.

⁸⁵ *Id.*

⁸⁶ *Id.* at C2.1, https://www.ssa.gov/oact/solvency/provisions/charts/chart_run144.html.

⁸⁷ *Id.*

⁸⁸ *Id.* at C2.7, https://www.ssa.gov/oact/solvency/provisions/charts/chart_run164.html.

⁸⁹ *Id.*

2. *Increasing the Retirement Age Will Benefit the Economy*

Increasing the retirement age will benefit both individuals and the economy by incentivizing workers to remain in the labor force longer.⁹⁰ The longer a person waits to retire, the wealthier and more financially secure that person will become. For example, a worker who works 8 extra years between ages 62 and 70, which is a 20% increase in working years for a person who began working at age 22, will increase his or her Social Security payouts by 76% per year.⁹¹ In other words, 20% more work yields a 76% increase in benefits.⁹² Working until age 70 would also likely double 401(k) benefits.⁹³ The combined increase in both Social Security and 401(k) benefits would lead to a substantial income increase per year.⁹⁴ This significantly reduces a retiree's chance of sinking into poverty at an early age. Moreover, it increases economic output and raises the standard of living for both active and retired workers.⁹⁵

In conclusion, while increasing the retirement age would not completely eliminate the projected financial shortfall, it would help reduce it. By doing so, elderly people would have an incentive to work longer. Therefore, fewer taxes would need to be paid by taxpayers to support the elderly, and the overall economy would expand due to increased productivity. Furthermore, raising the retirement age would decrease the post retirement life expectancy gap so that it is closer to what it was when the Program was enacted.

C. Disadvantages of Raising the Retirement Age

While raising the retirement age in some form would reduce the Program's economic short-fall, such a reform measure places economic

⁹⁰ CONG. BUDGET OFFICE, RAISE THE FULL RETIREMENT AGE FOR SOCIAL SECURITY (Dec. 8, 2016), <https://www.cbo.gov/budget-options/2016/52186>.

⁹¹ Charles D. Ellis, Ph.D., *Work Longer, Retire Richer* (Dec. 9 2014), <http://www.cnbc.com/2014/12/09/work-longer-retire-richer-research-reveals.html>.

⁹² *Id.*

⁹³ *Id.*

⁹⁴ *Id.*

⁹⁵ Gordon B.T. Mermin & C. Eugene Steuerle, *Would Raising the Social Security Retirement Age Harm Low-Income Groups?*, URBAN INST. 1 (2006).

burden on low-income earners,⁹⁶ and the U.S. economy as a whole. It also frustrates the purpose of the Program. Furthermore, costs might merely shift from the OASI Program to the DI Program, thus, ultimately not solving the impending financial shortfall.

1. Raising the Retirement Age Would Harm Low-Income Workers

Increasing the retirement age results in lower-income earners, who need benefits the most, collecting benefits for a shorter period of time than higher-income earners. While the average life expectancy has increased, longevity differences exist between socioeconomic classes.⁹⁷ A recent study shows that in the United States, the richest 1% of men live an average of 14.6 years longer than the poorest 1% of men, while amongst women with those same wealth percentiles, the difference is 10.1 years, on average.⁹⁸ This gap is rapidly growing. Over the past 15 years, life expectancy has increased by 2.34 years for men and 2.91 years for women who are among the top 5% of income earners in the United States, but it has increased by just 0.32% and 0.04% for men and women respectively in the bottom 5% of income earners.⁹⁹

These numbers are more drastic when broken down by race. In 2015, 18.4% of African American elderly people lived below the poverty line.¹⁰⁰ Furthermore, about 45% of elderly African Americans rely on the Program's benefits for more than 90% of their income.¹⁰¹ This compares to only 32% of white people.¹⁰² Reducing benefits by raising the retirement age would negatively affect the elderly poor by cutting into their retirement income.¹⁰³

⁹⁶ Jordan Yadoo, *Raising Retirement Age Disproportionately Hurts Poor*, BLOOMBERG (Jan. 11, 2016), <https://www.bloomberg.com/news/articles/2016-01-11/raising-retirement-age-disproportionately-hurts-poor>.

⁹⁷ Peter Dizikes, *New study shows rich, poor have huge mortality gap in U.S.*, MIT NEWS (Apr. 2016), <http://news.mit.edu/2016/study-rich-poor-huge-mortality-gap-us-0411>.

⁹⁸ *Id.*

⁹⁹ *Id.*

¹⁰⁰ FAST FACTS & FIGURES, *supra* note 26, at 9.

¹⁰¹ *Top Ten Facts on Social Security*, CTR. ON BUDGET AND POL'Y PRIORITIES 7–8 (Aug. 2017), <https://www.cbpp.org/sites/default/files/atoms/files/8-8-16socsec.pdf>.

¹⁰² *Id.*

¹⁰³ *See generally* Elvis Guzman & Nakia Gladden, *Why Raising the Retirement Age Would Hurt African Americans*, CTR. FOR GLOBAL POL'Y SOLUTIONS (July 2015).

This would ultimately affect their children and families, which would negatively impact the U.S. economy.

2. Raising the Retirement Age Would Shift Costs to the DI Program

Another disadvantage of raising the retirement age is that it would incentivize older workers who are nearing retirement, but who have not yet reached the mandated retirement age, to stop working and apply for DI benefits.¹⁰⁴ A person receiving disability benefits under the DI program is automatically transferred to the OASI program once that person reaches the full retirement age.¹⁰⁵ Before 2003, no individual over age 65 received DI benefits because upon turning 65, they would have been transferred to the OASI Program.¹⁰⁶ However, the FRA is currently 66 and is scheduled to rise to 67 (for people who were born in 1960 and later).¹⁰⁷ The increase of the FRA means that people can remain on the DI Program for an additional year (and soon to be 2) before rolling over to the OASI Program.¹⁰⁸ Moreover, because the number of DI beneficiaries rises with age, more older workers will apply for the DI Program at age 65.¹⁰⁹ “To eliminate the added incentive to apply for disability benefits, policymakers could narrow the difference by also reducing scheduled disability benefits.”¹¹⁰ However, this would further burden low-income earners and would cause negative impacts on the economy.

¹⁰⁴ CONG. BUDGET OFFICE, *supra* note 90.

¹⁰⁵ SOC. SEC. ADMIN., ANNUAL STATISTICAL REPORT ON THE SOC. SEC. DISABILITY INSURANCE PROGRAM 2016, at 2 (Oct. 2017), https://www.ssa.gov/policy/docs/statcomps/di_asr/2016/di_asr16.pdf. [hereinafter DISABILITY INSURANCE PROGRAM].

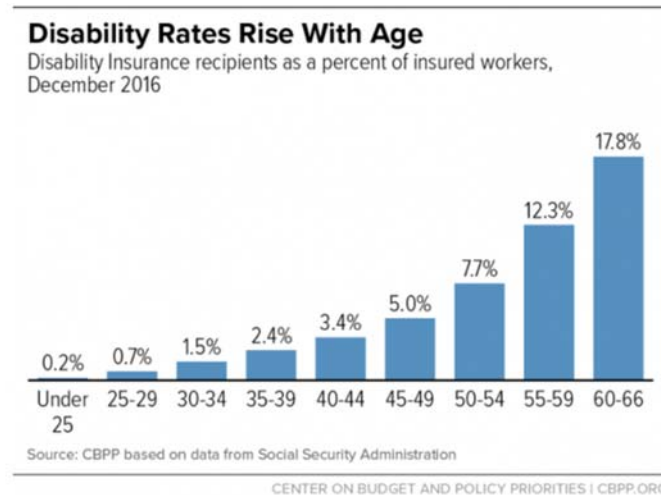
¹⁰⁶ Nick Buffie, *Raising the Retirement Age Has Increased the Costs of the Disability Program*, CTR. FOR ECON. & POL’Y RESEARCH (Oct. 30, 2015), <http://cepr.net/blogs/cepr-blog/raising-the-retirement-age-has-increased-the-costs-of-the-disability-program>.

¹⁰⁷ Buffie, *supra* note 106.

¹⁰⁸ DISABILITY INSURANCE PROGRAM, *supra* note 105, at 1.

¹⁰⁹ *Id.*

¹¹⁰ RAISE THE FULL RETIREMENT AGE FOR SOCIAL SECURITY, *supra* note 90.



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IV. SOCIAL SECURITY'S BENEFIT ON THE U.S. ECONOMY

A. Overview of the Program's Economic Effect

The Program, which provides the foundation of retirement and disability income for almost all Americans,¹¹² has a major impact on the U.S. economy. At the end of 2016, the OASDI Program provided benefits to about 61 million people.¹¹³ “Benefits were paid to 44 million retired workers and dependents of retired workers, 6 million survivors of deceased workers, and 11 million disabled workers and dependents of disabled workers.”¹¹⁴

The average monthly benefit paid to beneficiaries equated to \$1,360 under the OASI Program, and \$1,172 under the DI Program.¹¹⁵ Of last year's benefit recipients, about 50% of elderly beneficiary couples relied on the

¹¹¹ *Chart Book: Social Security Disability Insurance*, CTR. ON BUDGET AND POL'Y PRIORITIES 4 (Aug. 1, 2017), <https://www.cbpp.org/sites/default/files/atoms/files/7-21-14socsec-chartbook.pdf>.

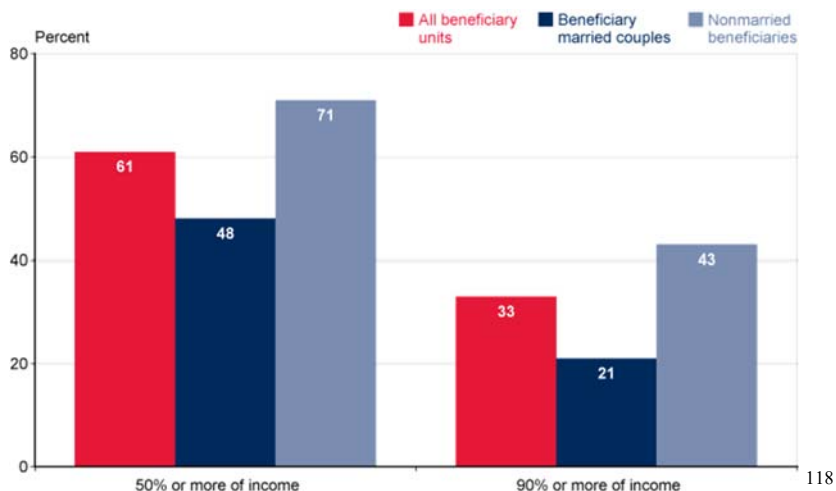
¹¹² Elisa A. Walker, Virginia P. Reno & Thomas N. Bethell, *Americans Make Hard Choices on Social Security: Report Highlights*, NAT'L ACADEMY OF SOC. INS. 1 (2014), https://www.nasi.org/sites/default/files/research/HIGHLIGHTS_Americans_Make_Hard_Choices_on_SS.pdf.

¹¹³ TRUSTEES REPORT, *supra* note 2, at 2.

¹¹⁴ *Id.*

¹¹⁵ SOC. SEC. ADMIN., FACT SHEET: SOC. SEC. 1 (2017).

Program's benefits for more than half of their income, while this number increased to 71% for elderly, nonmarried beneficiaries.¹¹⁶ Moreover, one-third of elderly beneficiaries relied on the Program's benefits for 90% or more of their income.¹¹⁷



The benefits paid to millions of recipients positively affect the economy by reducing the poverty rate and increasing economic output.¹¹⁹ Therefore, lawmakers must consider the impact of any proposed reforms on not only specific classes of individuals, but on the U.S. economy as a whole.

B. The Social Security Program Reduces Poverty

The Program plays a vital role in reducing poverty throughout the United States, which positively affects the economy. It does so by reducing money that stems from supporting the needy and by increasing economic

¹¹⁶ FAST FACTS & FIGURES, *supra* note 26, at 8.

¹¹⁷ *Id.*

¹¹⁸ *Id.*

¹¹⁹ Kathleen Romig & Arloc Sherman, *Social Security Keeps 22 Million Americans Out of Poverty: A State-By-State Analysis 1* (2016), <http://www.cbpp.org/sites/default/files/atoms/files/10-25-13ss.pdf>. See also Hosansky, *supra* note 1, at 1.

output.¹²⁰ Since 1959, poverty rates have dropped by more than two-thirds for people age sixty-five and older,¹²¹ and without benefits, a study found that 22.1 million more Americans would have income below the poverty line.¹²²

1. The Program Mitigates the Percentage of Elderly Poverty

People age 65 and older rely heavily on the Program's benefits. Benefits constituted at least 50% of total income for 50% of elderly beneficiary couples and 71% of elder nonmarried beneficiaries.¹²³ Benefits constituted 90% or more of income for 23% of elderly beneficiary couples and 43% of elderly nonmarried beneficiaries.¹²⁴

Without the Program's benefits, 40.5% of the elderly would have income below the poverty line.¹²⁵ However, due to the Program's existence, that number currently lies at only 8.8%, with benefits lifting roughly 15.1 million elderly above the poverty line.¹²⁶

2. The Program Benefits Children and Their Families

The Program's benefits also protect children and their families.¹²⁷ In 2015, about 9%, or 6.5 million, of children age 18 and under lived in families that received income from the Program, and it is projected that benefits lifts about 1.1 million children out of poverty each year.¹²⁸

In 2016, 3.1 million children age 18 and under qualified for benefits themselves.¹²⁹ Of those children, 1.2 million received payments due to being the child of a deceased worker,¹³⁰ 1.5 million received payments due to a

¹²⁰ See generally Koenig & Myles, *supra* note 5.

¹²¹ U.S. CENSUS BUREAU, FIGURE FIVE: POVERTY RATES BY AGE: 1959 TO 2016, <https://www.census.gov/content/dam/Census/library/visualizations/2017/demo/p60-259/figure5.pdf> (last accessed Mar. 2018).

¹²² Romig & Sherman, *supra* note 119, at 1.

¹²³ FAST FACTS & FIGURES, *supra* note 26, at 8.

¹²⁴ *Id.*

¹²⁵ Romig & Sherman, *supra* note 119, at 1.

¹²⁶ *Id.*

¹²⁷ *Id.* at 2.

¹²⁸ *Id.*

¹²⁹ *Id.* See also FAST FACTS & FIGURES, *supra* note 26, at 23.

¹³⁰ Romig & Sherman, *supra* note 119, at 1. See also FAST FACTS & FIGURES, *supra* note 26, at 23.

parent or parents being disabled,¹³¹ and 353 received payments due to a parent or guardian being retired.¹³²

Children who grow up in poverty are more likely to have low earnings as adults, which ultimately results in lower workforce productivity and economic output.¹³³ Thus, the Program helps mitigate such negative economic effects.

3. *The Program Benefits Elderly Women and Minority Families*

The Program's benefits are especially important for elderly women and minorities, who on average have lower lifetime earnings than elderly men and non-minority families.¹³⁴ This is demonstrated by the fact that nonmarried women and minorities had the highest poverty rates as of 2015, ranging from 15.3% to 18.4%.¹³⁵

Because women, on average, earn less than men during their careers and take more time out of the paid workforce, they generally have less lifetime savings and smaller pensions than men.¹³⁶ Moreover, women have a higher life expectancy and thus, tend to outlive their spouses, which leads to increasing impoverishment as they age.¹³⁷ However, due to the Program's benefits, in 2015, 8.9 million elderly women were lifted out of poverty.¹³⁸

Finally, without benefits, the poverty rate for elderly Latinos and African Americans would be 44.7% and 50.6%, respectively.¹³⁹ However, because of the Program's benefits, that number is reduced to roughly 18.2% for African Americans and 17.5% for Latinos.¹⁴⁰

¹³¹ Romig & Sherman, *supra* note 119, at 1. *See also* FAST FACTS & FIGURES, *supra* note 26, at 23.

¹³² FAST FACTS & FIGURES, *supra* note 26, at 23.

¹³³ Harry J. Holzer, Diane W. Schanzenbach, Greg J. Duncan & Jens Ludwig, *The Economic Costs of Poverty in the U.S.: Subsequent Effects of Children Growing Up Poor*, CTR. FOR AM. PROGRESS 3 (2007), https://cdn.americanprogress.org/wp-content/uploads/issues/2007/01/pdf/poverty_report.pdf.

¹³⁴ Romig & Sherman, *supra* note 119, at 2; *see also id.*

¹³⁵ FAST FACTS & FIGURES, *supra* note 26, at 9.

¹³⁶ *Id.*

¹³⁷ *Id.*

¹³⁸ Romig & Sherman, *supra* note 119, at 2.

¹³⁹ FAST FACTS & FIGURES, *supra* note 26, at 9.

¹⁴⁰ Romig & Sherman, *supra* note 119, at 2.

Effect of Social Security on Elderly Poverty by Sex and Race, 2015

Demographic Group	Percent in Poverty		Number Lifted Out of Poverty By Social Security
	Excluding Social Security	Including Social Security	
Sex			
Men	35.8%	7.0%	6,111,000
Women	44.3%	10.3%	8,956,000
Race/Ethnicity			
White	39.4%	6.6%	12,040,000
African American	50.6%	18.2%	1,363,000
Latino	44.7%	17.5%	1,051,000
Other	34.4%	12.4%	613,000
Total, Age 65+	41.5%	8.8%	15,067,000

Source: CBPP, based on data from the Census Bureau Current Population Survey, March 2016.

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4. *By Reducing Poverty, the Program Positively Benefits the National Economy*

The Program's reduction of the poverty rate helps alleviate costs that poverty inflicts on society.¹⁴² The economic costs of poverty to society include public expenditures on poor families, especially for conditions and behaviors such as poor health and crime that are associated with poverty.¹⁴³ According to a report conducted by the University of California, Berkeley, Center for Labor Research and Education, low-wage earners cost taxpayers approximately \$153 billion every year in public support.¹⁴⁴ By reducing the number of people below the poverty line, the Program ultimately helps mitigate the amount of public expenditures needed to support impoverished persons.

¹⁴¹ *Id.*

¹⁴² See generally Koenig & Myles, *supra* note 5.

¹⁴³ Holzer et al., *supra* note 133, at 3.

¹⁴⁴ Public Affairs, UC Berkeley, *Poverty-level wages cost U.S. taxpayers \$153 billion every year*, BERKLEY NEWS (Apr. 13, 2015), <http://news.berkeley.edu/2015/04/13/poverty-level-wages-cost-u-s-taxpayers/>.

Effect of Social Security on Poverty, 2015

Age Group	Percent in Poverty		Number Lifted Out of Poverty By Social Security
	Excluding Social Security	Including Social Security	
Children Under 18	21.2%	19.7%	1,078,000
Adults Ages 18-64	15.4%	12.4%	5,944,000
Elderly Age 65 And Over	40.5%	8.8%	15,067,000
Total, All Ages	20.5%	13.5%	22,090,000

Source: CBPP, based on data from the Census Bureau Current Population Survey, March 2016

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C. Social Security Enhances Economic Growth

By reducing the poverty rate and supplying income in the form of monthly benefits to millions of workers, the Program increases economic output and acts as an automatic stabilizer.¹⁴⁶ Specifically, benefit spending directly results in the employment of millions of Americans,¹⁴⁷ and thousands of businesses of all sizes exist in whole or in part because of the Program's effect on the economy.¹⁴⁸ Specifically, a study found that benefits contributed

¹⁴⁵ Romig & Sherman, *supra* note 119, at 1.

¹⁴⁶ See generally Hosansky, *supra* note 1. See also *Briefing Book*, TAX POL'Y CTR., URBAN INST. AND BROOKINGS INST., <http://www.taxpolicycenter.org/briefing-book/what-are-automatic-stabilizers-and-how-do-they-work> ("Automatic stabilizers are features of the tax and transfer systems that temper the economy when it overheats and provide economic stimulus when the economy slumps, without direct intervention by policymakers.")

¹⁴⁷ Koenig & Myles, *supra* note 5, at 1.

¹⁴⁸ *Id.*

roughly \$1.6 trillion to the U.S. economy,¹⁴⁹ supported more than 9 million jobs,¹⁵⁰ and accounted for 1 out of every 20 jobs.¹⁵¹

The Program's benefits increase economic output by affecting beneficiaries' marginal propensity to consume (MPC),¹⁵² thereby increasing the multiplier effect,¹⁵³ which ultimately results in a higher real gross domestic product.¹⁵⁴ Economic output is increased when beneficiaries spend their monthly checks on goods and services, thereby injecting money into the economy.¹⁵⁵ The money spent goes to the producer of those goods and services, who in turn uses the money to pay employees and buy more goods from suppliers to sell to future customers—therefore adding more money to the flow.¹⁵⁶ In sum, the extra income generated from the Program's benefits leads to extra demands and spending, which ultimately creates more income.¹⁵⁷ This increase in income due to the new injection of spending is the multiplier effect. A study found that for every one dollar in Social Security benefits paid, almost two dollars of spending in the United States occurred, which led to the increase of real GDP and hence economic output.¹⁵⁸

V. SUGGESTED CHANGES

The Program immensely benefits the U.S. economy. Therefore, lawmakers must carefully weigh the costs and benefits when deciding which

¹⁴⁹ Peter S. Arno & Andrew R. Maroko, Soc. Sec. Spotlight: *Economic Impact of Social Security*, NAT'L COMM. TO PRESERVE SOC. SEC. & MEDICARE FOUND. 4 (2016), <http://socialsecurityspotlight.org/wp-content/uploads/2016/07/report-low-res.pdf>.

¹⁵⁰ Romig & Sherman, *supra* note 119, at 1.

¹⁵¹ *Id.*

¹⁵² Marginal propensity to consume is a person's tendency to spend from a source of income. See Koenig & Myles *supra* note 5, at 7.

¹⁵³ The multiplier effect refers to the increase in income arising from any new injections of spending. Regarding Social Security, the multiplier is the ratio of the total impact on the economy to the amount of the original Social Security benefit payments. For example, if the original amount of benefits paid by the Social Security Program was \$1 billion, and the total amount of spending caused by the benefits was \$2 billion, then the multiplier effect would be 2 because each dollar of benefits paid resulted in \$2 of output. See *id.*

¹⁵⁴ Real gross domestic product is the inflation adjusted value of economic output. See FED. RESERVE ECON. DATA, REAL GROSS DOMESTIC PRODUCT, <https://fred.stlouisfed.org/series/GDPC1>.

¹⁵⁵ Koenig & Myles, *supra* note 5, at 7.

¹⁵⁶ *Id.*

¹⁵⁷ *Id.*

¹⁵⁸ *Id.* at 12.

policy measure(s) to implement in order to remedy the Program's projected financial shortfall. While raising or eliminating the payroll tax cap would impose no benefit reductions to the lower class, therefore preventing an increase in the poverty rate, it would likely disincentivize the most skilled and productive people from working, which would lead to lower savings and investment and thus lower economic growth.

In contrast, reducing benefits by raising the retirement age would reduce the projected financial shortfall and would increase economic output by incentivizing individuals to work longer. However, due to the disparity of average life expectancy between high income earners and low-income earners, low-income earners would receive benefits for shorter periods of time, which could force more people below the poverty rate. This would harm the U.S. economy by increasing taxes associated with poverty.

In order to decrease the projected financial shortfall without detrimentally harming individuals, and ultimately the economy, the best solution would be to enact a combination of reform measures that includes both decreasing benefits and raising taxes. For example, the Bipartisan Policy Center's Commission on Retirement Security and Personal Savings proposes a 12-step plan that eliminates Social Security's projected financial shortfall.¹⁵⁹ Of those 12 steps, 1 step includes increasing the payroll tax while also increasing benefits to go along with it, and the other step includes increasing the full retirement age to 69 over a gradual period of time.¹⁶⁰ The use of this reform measure would ensure that the Program remains solvent for at least 75 years and would guarantee that it would have the ability to pay 100% of scheduled benefits on a timely basis for the foreseeable future.¹⁶¹ The only issue with such a provision is the fact that lawmakers would need to set aside their political differences in order to benefit the U.S. economy. Whether or not this could actually happen remains to be seen.

¹⁵⁹ SOC. SEC. ADMIN., PROPOSALS AFFECTING TRUST FUND SOLVENCY, BIPARTISAN POLICY CTR. COMM. ON RETIREMENT SEC. AND PERSONAL SAVINGS (June 9, 2016), https://www.ssa.gov/oact/solvency/BPC_20160609.pdf.

¹⁶⁰ *Id.*

¹⁶¹ *Id.* at 3.

VI. CONCLUSION

In order to prevent the Program's Trust Funds from becoming insolvent, immediate reform is necessary. However, since reform continues to be a political hot topic, lawmakers have shied away from taking action. While debating which reform measures best suit remedying the projected financial shortfall, policymakers must give weight to the Program's effect on the U.S. economy and the impact of the varying reforms. They must keep in mind that the Program provides benefits to millions of people in need and enhances economic growth. Therefore, lawmakers should choose a package of reform measures that would mitigate negative economic benefits on certain classes of individuals in order to not negatively impact the U.S. economy.