The Daily Dish

Effective Social Security Reforms

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Social Security reform is central to addressing the dire federal fiscal outlook. Social Security will contribute roughly $3 trillion to the federal debt over the next 10 years. Together with Medicare, Social Security constitutes over 50 percent of non-interest spending over the next 10 years. And avoiding Social Security reform is tantamount to advocating for draconian cuts to beneficiaries in retirement because the trust funds will become exhausted in the next 10 years. In short, it is easy to make the policy case for Social Security reform.

But what should reform look like? For most people, the reflex is simply to say “raise the retirement age” and assume the problem is solved. As Jordan Haring explores in detail, not quite.

The specific age in question is known as the normal retirement age (NRA). It is currently 67 years. If one retires as early as 62, annual benefits are adjusted downward to keep lifetime benefits the same. Similarly, one can retire as late as 70 and have annual benefits adjusted upward. As Haring notes:

> In a recent letter, the Congressional Budget Office (CBO) analyzed the effects of increasing the NRA from 67 to 69 on seniors’ benefits and Social Security’s finances; it found that raising the NRA would reduce lifetime Social Security benefits for all beneficiaries affected by the policy change and slow Social Security spending, but it would not extend the life of the program’s trust funds.

For the average observer, there are two surprising aspects to that conclusion. First, raising the NRA reduces lifetime benefits for individuals. The key here is that CBO anticipates that individuals will retire at roughly the same age (and die at the same age), so more will have their benefits adjusted downward for early retirement. Second, the increase in the NRA does not extend the lifetime of the trust funds because the impact of the higher NRA does not do much in the near term.

Over the longer term, the change has substantial impacts:

> Increasing the NRA from 67 to 69 would reduce Social Security spending and the program’s 75-year actuarial imbalance. Under current law, CBO projects that program spending will total 5.9 percent of gross domestic product (GDP) in 2054 and 6.7 percent of GDP in 2098. Raising the NRA from 67 to 69 would reduce Social Security spending to 5.4 percent of GDP in 2054 and 6.2 percent of GDP in 2098.

There are also substantial differences in the impact across different cohorts of retirees. See Haring’s analysis for these details.