Beware of Social Security Myths
April 27, 2016

Social Security is on the road to insolvency, with its trust fund projected to run dry within the next 18 years. At that point, tens of millions of seniors, dependents, and workers with disabilities who depend on the program will face an abrupt and painful 21 percent cut in their benefits. Yet too little of the discussion in Washington and on the campaign trail has focused on the solutions necessary to fix Social Security, and too much has focused on perpetuating myths that cloud the discussion.

Today, the Committee for a Responsible Federal Budget presents "Nine Social Security Myths You Shouldn't Believe."

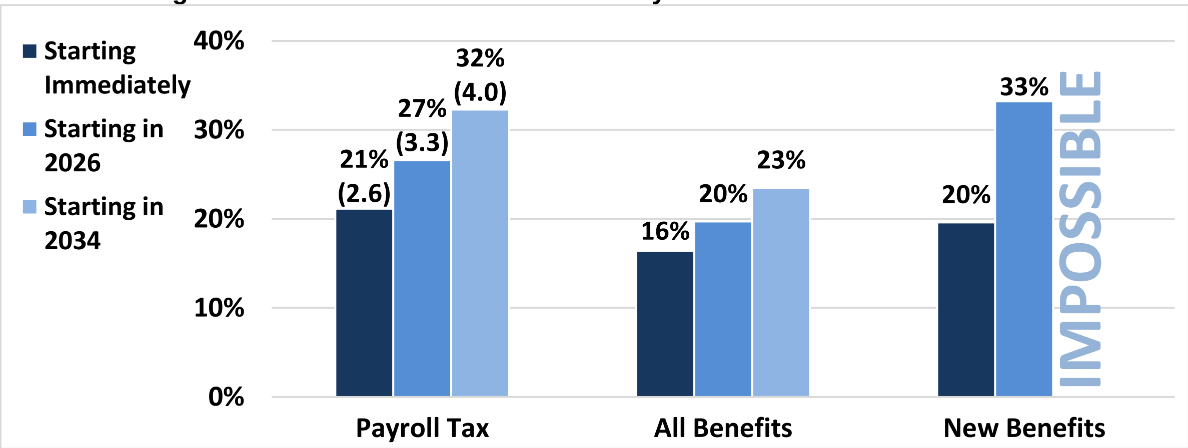
Myth #1: We don't need to worry about Social Security for many years.
Myth #2: Social Security faces only a small funding shortfall.
Myth #3: Social Security solvency can be achieved solely by making the rich pay the same as everyone else.
Myth #4: Today's workers will not receive Social Security benefits.
Myth #5: Social Security would be fine if we hadn't "raided the trust fund."
Myth #6: Social Security cannot run a deficit.
Myth #7: Social Security has nothing to do with the rest of the budget.
Myth #8: Social Security can be saved by ending waste, fraud, and abuse.
Myth #9: Raising the retirement age hits low-income seniors the hardest.

Here are some examples:

Myth #1: We don't need to worry about Social Security for many years.

Because the Social Security Trustees estimate the programs' trust funds will not become insolvent until 2034, many argue there is little need to rush reforms. But the reality is that the longer policymakers wait to act, the harder it will be to fix the program.

Percent Change Needed to Ensure 75-Year Solvency



Source: CRFB calculations based on Social Security Trustees
Numbers in parentheses represent percentage point payroll tax increases.

As we explain, waiting would literally make the problem larger. What could be solved by increasing taxes or reducing new benefits by about one-fifth today would require a one-third tax increase or a benefit cut larger than all new benefits if lawmakers wait until 2034. Waiting also reduces the number of options available and gives workers less time to plan and adjust for any change.

Myth #3: Social Security can be fixed solely by making the rich pay the same as others.

Because Social Security's benefit formula and 12.4 percent payroll tax do not apply to wage income above $118,500 (indexed to wage growth), many have proposed increasing or eliminating this "taxable maximum" in order to make the program solvent.

Certainly increasing the wages subject to the payroll tax will improve the program's finances, but those who argue it will achieve long-term solvency overstate the case. Depending on the details and estimating agency, fully eliminating the taxable maximum will close 40 to 90 percent of the program's 75-year shortfall and only one-fifth to one-half of the program's long-term structural gap. This means further action would be needed to truly achieve sustainable solvency.

Myth #8: Social Security can be saved by ending waste, fraud, and abuse.

One popular idea to reduce Social Security spending is to eliminate improper and fraudulent payments within the program. Of course nobody likes fraud, but there is little that anti-fraud measures can do to improve the program's solvency.

The Social Security Administration estimates that improper payments total about $5 billion per year. Even if somehow all these payments could be ended, it would only address 3 percent of the $150 billion needed each year to make the program solvent.

Myth #9: Raising the retirement age hits low-income seniors the hardest.

Because life expectancy is higher for wealthier Americans, it seems intuitive that raising Social Security's normal retirement age (NRA) to above 67 would represent a larger cut for lower earners. Yet in reality, raising the NRA represents a roughly even reduction in benefits for all income groups.

Raising the NRA is not regressive is because it does not affect eligibility but rather the size of the benefit reduction one receives for retiring early.

As we show in our paper, the Congressional Budget Office, Social Security Actuary, Social Security's Office of Retirement Policy, and Urban Institute all calculate that increasing the retirement age to 68 results in at least as large (and in many cases larger) a percentage cut for higher earners as for lower earners, on both an annual and lifetime basis.

Read more about these and other myths here.