



SPOTLIGHT ON... A Process for Social Security Reform

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We in the LWV of Athens County have been developing a general approach to resolving public-policy issues and applying it to Social Security reform.

The current Social Security system will soon run out of money. Suppose your job was to close the funding shortfall. You might propose the percentage of the shortfall you will close by each of (1) increased contributions, (2) decreased benefits and (3) different investments of the trust fund.

This involves identifying whose interests should be significant in the decision making. For Social Security, we have identified the trustees of the trust fund, retirees, currently enrolled workers, disabled workers and families of deceased workers. Next we formulated a set of criteria with which to rate and compare various proposed options for closing the shortfall. For example, one of the criteria is “Fairness of benefits received compared with the level of contributions.”

The next step is to formulate a number of specific alternatives for achieving the percentage reductions described above. We found very useful a paper published in 2008 by the AARP Public Policy Institute, which provides estimates of the percentage of the shortfall which would be closed by each of fourteen specific proposals, which can then be combined. An example: increasing the payroll tax by 0.5 percent was estimated to close 23% of the shortfall.

Next we used the viewpoints of the various groups identified above to rate each of the options for closing the trust fund shortfall upon each of the criteria. We used a scale from 1 (least favorable) to 5 (most favorable). For example, a retiree would consider a reduction in benefits to be unfavorable.

We found it useful to use the extreme cases in order to develop rating scales. Suppose 100% of the shortfall was to be met entirely through increased contributions. People currently working will find this solution quite unfavorable and will rate it 1.

However, those who no longer make regular contributions will be pleased to have the shortfall closed in this manner and will rate this option a 5.

On the other hand, consider the case in which the entire shortfall is closed through benefit cuts which fall equally upon all. All four groups will consider this resolution quite unfavorable and rate it 1.

To illustrate the process, consider a very unrealistic, over-simplified example. We will use only the one criterion discussed above and will ignore any investment of trust fund assets beyond U. S. Treasury securities. We assign a weight of 0.5 to the viewpoint of current workers regarding this one criterion, then a weight of 0.3 for retirees and finally 0.2 for disabled workers and families of deceased workers. An unrealistic weight of zero, therefore, is given to the other four criteria.

From this, we will calculate the weighted-average rating for each option. For the increased-contribution-only option it is $(.5)(1) + (.3)(5) + (.2)(5) = 3.0$. For the decreased-benefits-only alternative, the weighted-average rating is plainly 1.

Next, we can use this analysis to consider other alternatives, such as closing the trust fund shortfall 60% by increased contributions and 40 % by decreased benefits. The weighted-average rating here is equal to $(.60)(3.0) + (.40)(1.0) = 2.2$.

The last step is to compare these weighted-average ratings of the proposed options for closing the shortfall. Here the rating for “increased contributions only” is substantially larger than the others, so we would choose that option in this example.

It needs to be stressed that the illustration above is greatly oversimplified in order to illustrate the process. Among other things, only one of five criteria has been used.

When we turn to considering the investment of trust fund assets in equities to seek returns which exceed the interest paid on U. S. Treasury securities, we are confronted with a grim reality: There is no money in the trust fund “lockbox.” It has been spent over the years on various other federal government programs.

Various types of private accounts could also be added to the Social Security system, but in our opinion should be considered only after the fundamental trust fund shortfall has been resolved.