https://www.unionleader.com/news/business/money_sense/money-sense-with-so-many-proposals-to-fix-social-security/article_ca13a060-c51d-51d3-aae9-1509dc88fc64.html

'Money Sense': With so many proposals to fix Social Security, it's important to pay attention to any bills that pass

Nov 30, 2019

SOCIAL SECURITY has been around for a while — the first recipient, Ida May Fuller, received her check in 1940.

The program provides a basic income level, which is just one leg of what is a three-legged stool of benefits. The other two legs were pensions and savings. Pensions have been disappearing and savings are nonexistent for many. Consequently, Social Security has become the main source of income for countless older Americans.

It is a source that lasts a lifetime and grows with inflation, too. In fact, about 62 million people rely on some type of benefit, be it retirement, disability or a survivor benefit.

Social Security was conceived of as a pay-as-you-go system. Current workers pay into the system, and the funds are used to support current beneficiaries. This is done through payroll taxes collected from paychecks. Both the employee and the employer pay a share at a current rate of 6.2% each. If an individual is self-employed, it is his or her responsibility to pay both the employee and employer portions. All the collected payroll taxes are deposited into the Old-Age and Survivors trust fund and the Disability fund (OASDI).

When the system originated, there was no cause for concern over changing demographics. However, this country has experienced lower birth rates, meaning there are fewer workers supporting Social Security recipients. There have been more retirees, as well. The impact of these factors has stressed the system. The current Old-Age and Survivors fund is slated to run out in 2034. Starting in 2034, payroll taxes would support about 75% of recipients' benefits.

Addressing this issue soon is the prudent thing to do. Doing so will provide for a more gradual change and less impact to the nation.

Over the years, many bills have been introduced to accomplish just that. In July, the House Ways and Means Committee took up a new bill called the Social Security 2100 Act. The bill was introduced by Rep. John Larson, D-Conn., and is making its way through the legislative process. Some of the provisions in the bill include raising payroll taxes on wages over $400,000 and increasing the payroll tax to 7.4% for both employees and employers. The payroll tax increase would be phased in starting in 2020.

Here are examples of other proposed changes that have surfaced:

• Depending on the year an individual was born, he or she has a full retirement age (FRA). For those born in 1960 or later, it is currently age 67. It has been suggested that this age be increased.

• The Social Security trustees have indicated that reducing benefits by 17% for all will address the shortfall. It has been claimed that reducing benefits by 20% for people initially eligible for benefits in 2019 and on would also help to solve the problem.

• Benefits are based on a formula incorporating the number of years worked and the amount earned. There are also reductions for taking benefits before FRA, as well as increases, up to age 70, for taking benefits later. Changes to the formula could help solve the trust fund problem.

• Benefits also are subject to a cost-of-living adjustment each year. The adjustment is calculated using the Consumer Price Index (CPI). It is intended to reflect the price changes of necessities, such as food. A change to the inflation adjustment, such as using a chained-CPI, has been suggested as a means to deal with the shortfall. Chained-CPI calculates prices by trying to include product substitutes in the numbers.

• Social Security funds are invested in federal-government securities. These are usually lower-return investments. If the funds were invested in other ways, would the return be greater? This is an extreme option, as it introduces more risk and uncertainty into the system.

As you can see, there are many proposals to improve Social Security, so it is best to pay attention to any bills that might pass Congress so you can begin planning for any potential changes.

Marc A. Hebert, MS, CFP, is a senior member and president of the wealth management and financial planning firm The Harbor Group of Bedford. Email questions to **mhebert@harborgroup.com**. Your question and his response might appear in a future column.

<]