Wealth Enhancement®

Touching the Third Rail of Politics

7 ways to save Social Security

With the recent passage of the “One Big Beautiful Bill” President Trump and Congress reformed part of Medicaid with new work requirements and significant efforts to reduce fraud. Many political pundits predicted that no one in Washington, DC would dare touch Medicaid.

The passage of Medicaid reform makes one wonder if there is also the political courage to touch the “third rail” of politics and attempt to reform Social Security. Most people know that Social Security is not on solid financial ground. According to the most recent reports from the Social Security Trustees, Social Security is projected to lose its ability to pay full benefits around the year 2032. The current estimate is that if reforms are not made, the Social Security Administration (SSA) will only be able to pay approximately 77% of current benefits.

Of course, Congress and the President (whoever is in office between now and 2032) could simply choose to do nothing until the looming date gets closer. After all, who wants to be the politician who is talking about raising taxes or cutting benefits? On the other hand, the sooner reforms are made, the less draconian the changes would need to be. Like most financial issues, the longer the timeframe, the greater number of options available. Here are some possible solutions:

1. **Adding a bit of investment diversification**. Currently, Social Security trust funds are invested only in U.S. Treasury securities. While Treasuries are certainly considered to be a safe investment, they typically only provide returns slightly higher than the inflation rate. By investing a portion of Social Security funds a bit less conservatively over the long term, it is likely the investment returns would strengthen the system. Since equity markets can be volatile, diversifying the mix of social security investments by adding 25% of new social security contributions into a broad-based stock market index would likely provide additional earnings to Social Security.

2. **Raising the Payroll Tax Rate.** The quickest and most direct, but probably least popular approach, is to increase the payroll tax rate that funds Social Security. Currently, both employees and employers contribute a portion of wages. Even a very small increase rate could generate significant additional revenue.

3. **Raising or eliminating the Taxable Earnings Cap**. For 2025, the Social Security earnings limit is $176,100. This means that Social Security taxes are only applied to earnings up to this amount. Income over this level is not subject to Social Security taxes. Some proposals have suggested this level of income is too low and that the Social Security taxes should be collected on earnings at a much

higher level. By raising the cap or eliminating it, more income will be taxed to help address the Social Security challenges.

4. **Reducing benefits for future retirees**. When Social Security was started in 1935, the average life expectancy was around 61 years. Now, that figure is 76 years, and most people who begin collecting Social Security at retirement can expect to live for nearly two more decades after retiring. By gradually raising the full retirement age on future generations of retirees, Social Security would reduce the total number of years someone would collect benefits. Currently, people born in 1960 or later reach full retirement age at 67. The full retirement age could be changed to 68, 69, or 70 for those born in 1980 or later. By delaying any increases in the retirement age, people in or near retirement age would not be impacted and future generations would have time to adjust to the change.

5. **Means Testing Benefits**. Should everyone, even the ultra-wealthy, receive Social Security or should there be a sliding scale which reduces or eliminates social security benefits based on annual income or net-worth? If Congress has the appetite for such a measure, any sliding scale should be indexed to inflation to ensure the system remains as intended in the years to come. While this would break the promise made by Social Security that everyone who pays a minimum amount into the system will receive a benefit, such a policy would add to the long-term solvency of the system.

6. **Reducing Fraud and Improving Program Efficiency**. While some have dismissed meaningful attempts to reduce fraud by arguing that any fraud is relatively small, an audit by the SSA Office of the Inspector General (OIG) indicated that the SSA made $71.8 billion in improper payments over a seven-year period and the SSA reported $88.05 million in confirmed financial fraud. Certainly, reducing fraud by itself will not solve the looming funding crisis. With the increased use of Artificial Intelligence, administrative efficiency and fraud reduction are areas ripe for improvement and should be a part of the multifaceted solution.

7. **Immigration Reform.** President Trump's immigration policy has been making daily headlines. Wherever you stand on these policies, there is broad consensus that the United States needs more workers and that those workers should be legally in the country. A practical solution is to address workforce shortages through immigration reform by authorizing more working-age individuals to enter the country and contribute to Social Security. Such would expand the number of current contributors thus supporting the ratio of workers to retirees.

No single solution is likely to address Social Security's funding challenges on its own. Some political compromise will be needed to pass a comprehensive reform. To gain the public and political support needed, a combination of strategies to both increase revenue and contain cost reductions will be needed. There is no doubt that implementing meaningful long-lasting changes to Social Security will require public support and political courage. Whether or not President Trump and Congress will touch

the “third rail” of politics or “kick the can down the road” is anyone’s guess. For the survival of Social Security as we know it, let’s hope reform is sooner rather than later.

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