

# **Balancing Social Security Finances Over the Long Term**

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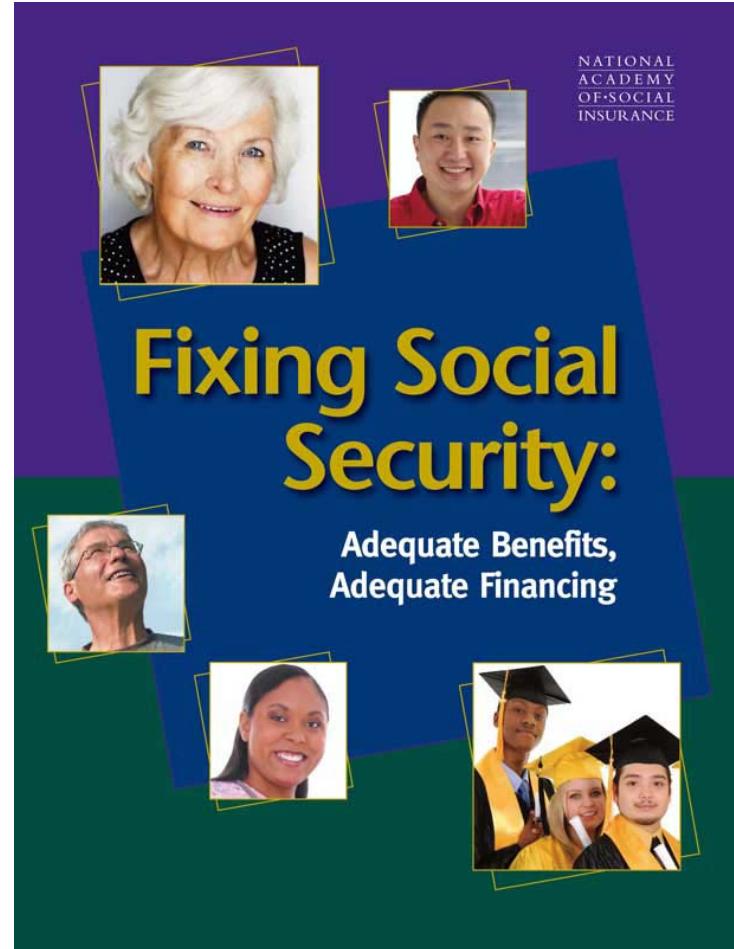
Center on Budget and Policy Priorities

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# Options to Increase Income

- Increase contribution rate
- Raise the tax cap
- Use progressive taxes for legacy costs
  - Income tax
  - Estate tax
  - Value-added tax
- Extend coverage
- Maintain reserves and diversify investments

# NASI Report



# Contexts

- Social Security policy
- Medicare
- Tax policy
- Economic and fiscal policy

# Social Security Policy

- How much progressivity in system?
- Should progressivity be on contribution or benefit side?
- What are the limits to general revenue financing?
- When to increase taxes?
  - Pay-as-you-go *versus* advance funding
  - Advantages of phase in, advance notice

# Medicare

- Medicare revenue needs much greater
- HI tax increase on high earners in health reform
- Medicare benefits not wage-related
- Proposals to use VAT for health care, possibly shift Medicare payroll tax to Social Security

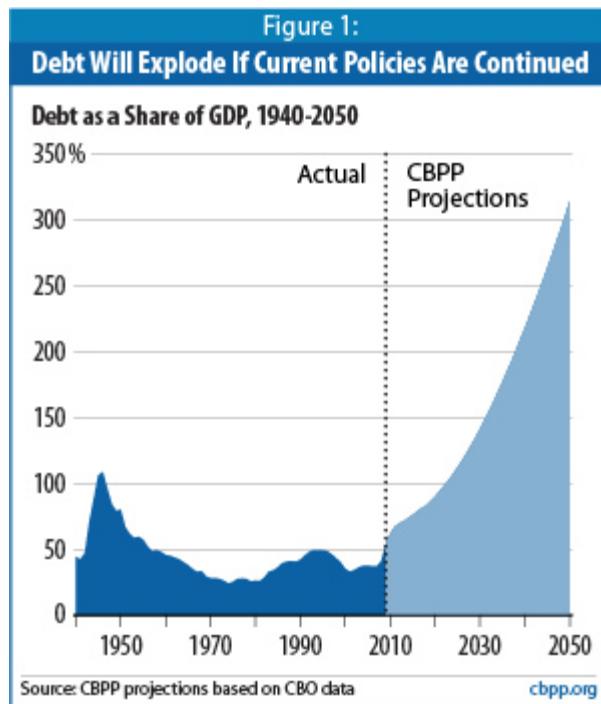
# Tax Policy

- Overall progressivity of tax system—focus on the whole, not the parts
- Efficiency and marginal tax rates
- Tax expenditures for health and retirement
- Tax compliance

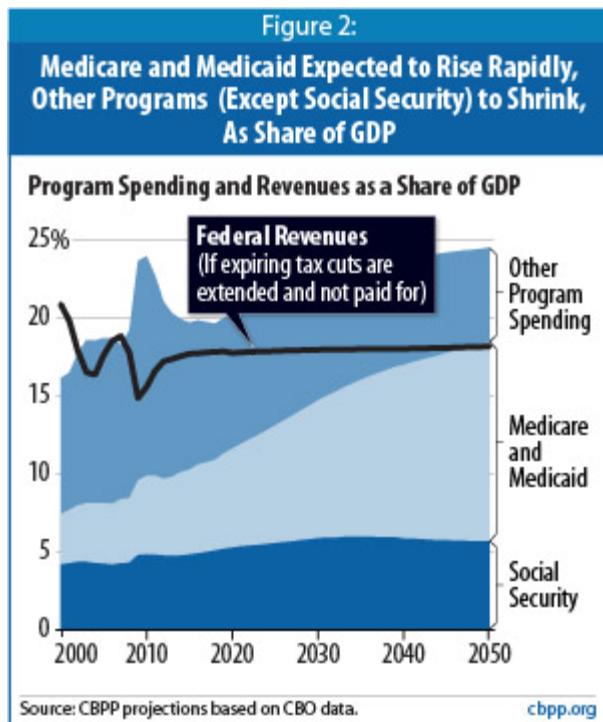
# Economic and Fiscal Policy

- Recovery from recession—don't increase taxes too soon
- Stem explosive growth of debt
  - Fiscal gap is 4.9% of GDP
  - Social Security shortfall is less than 1% of GDP over 75 years

# Balancing Social Security Will Help Defuse Debt Explosion



# Social Security Spending Rises by About 1% of GDP through 2050



“The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing.”—Colbert



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