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Social Security hits first wave of boomers

Drain on the system picks up in Jan., when millions born in '46 start taking benefits

By Richard Wolf

EARLEVILLE, Md. — When Kathleen Casey-Kirschling signs up for Social Security benefits Monday, it will represent one small step for her, one giant leap for her baby boom generation — and a symbolic jump toward the retirement system's looming bankruptcy.

Casey-Kirschling — generally recognized as the nation's first boomer (born in Philadelphia on Jan. 1, 1946, at 12:00:01 a.m.) — won't bankrupt the Social Security system by taking early retirement at 62. But after her, the deluge: 80 million Americans born from 1946 to 1964 who could qualify for Social Security and Medicare during the next 22 years.

The first wave of 3.2 million baby boomers turns 62 next year — 365 an hour. About 49% of the men and 53% of the women are projected to choose early retirement and begin drawing monthly Social Security checks representing 75% of the benefit they'd be entitled to receive if they waited four more years to retire.

In 2011, they'll turn 65 and be eligible for Medicare. In 2012, those who didn't take early retirement benefits will turn 66 and qualify for their full share.

"Once it starts to happen, and it's going to start in January, you're going to see millions of baby boomers starting to take it," says Casey-Kirschling, a retired seventh-grade teacher and nutrition consultant.

By 2030, Social Security's caseload will be 84 million people, up from 50 million today. Medicare will go from 44 million beneficiaries to 79 million. That will leave barely more than two workers paying payroll taxes for every retiree.

The boomer retirements have demographers, actuaries and economists worried as they prepare for an estimated $50 trillion in future obligations over the next 75 years. Social Security will rise from 4% to 6% of the nation's economy. Medicare will go from 3% to 11%.

"This," says Brian Riedl of the conservative Heritage Foundation, "is the single greatest economic challenge of our era."

Medicare's hospital insurance fund now pays out more than it takes in. Barring action by Congress, Social Security will start doing so in 2017. In 2019, the hospital insurance fund is projected to run out of funds. In 2041, the Social Security Trust Fund will run dry.

All the while, Medicare's payments for doctors and prescription drugs are projected to rise faster than the nation's overall economic growth. Beneficiaries' premiums, deductibles and co-payments will rise faster than their incomes, the government says.

It's a coming financial implosion that Washington hasn't mustered the will to confront. Fixing Social Security solely with higher taxes or cuts in spending would mean a 16% increase in the payroll tax or a 13% cut in benefits. Medicare's needs would be far greater: a 122% payroll tax hike or a 51% reduction in spending, just for hospital care.

Each year action isn't taken, the prognosis gets worse and the cure more expensive. It's "the power of compounding," says David Walker, the nation's comptroller general. "Right now, it's working against us."

On this one issue, liberals and conservatives agree: It's an unsustainable path, it must be altered, and Democrats and Republicans must do it together.

"Partisanship on this issue is as foolish as a food fight on the Titanic," says Rep. Jim Cooper, D-Tenn. Adds Rep. Frank Wolf, R-Va.: "It's not red or blue."

So far Washington has done little.

President Bush and Congress cut taxes in 2001 and 2003, which has left federal revenue at a level that Walker says will not support promises to future retirees. Congress added $768 billion over 10 years to Medicare in 2003 by creating a prescription-drug benefit. Two years later, lawmakers nicked Medicaid's projected cost by $5 billion over five years, but the Congressional Budget Office still projects the program to grow by about 8% a year.

Bush tried to overhaul Social Security and create private investment accounts in 2005 but was blocked by Democrats, who said it would drain money from the Social Security Trust Fund. Last week, his administration renewed an effort to charge upper-income seniors more for Medicare's prescription-drug coverage — a plan Congress ignored earlier this year.

Now a few lawmakers and budget analysts are sounding the alarm. Three commissions have been proposed to study the issue, recommend changes and, in two cases, force Congress to vote.

Walker is headlining a group of analysts from the political left and right on a nationwide "Fiscal Wake-Up Tour," speaking to dozens of Rotary clubs and newspaper editorial boards. Pollsters are holding focus groups in which citizens, once informed of the nation's fiscal future, usually say they'll accept tax increases or cuts in benefits.

Casey-Kirschling recently moved with her husband, Patrick Kirschling, a university professor who turns 62 in March, into what had been their summer home on Maryland's Bohemia River. After years of working, they want the good life: time with family and friends, volunteer work, a villa in Florida and a 42-foot trawler to get them there. Its name: "First Boomer."

In deciding when to take Social Security benefits, the couple did the math and agreed Casey-Kirschling would take the money next year. They estimate she will get $240 less per month than she would have if she waited four years, but the money she'll receive — she wouldn't say precisely how much that will be — initially will stop her from having to tap other investments, she says.

"I could be dead next year," she says, "so why not take it this year?"

A retiree for every couple

The imbalance between workers and beneficiaries didn't happen overnight. In 1945, a decade after Social Security was created, there were 42 workers paying into the system for each retiree. Today, there are three. By 2030, Riedl says, "Every couple will have their own retiree to support."

Lawmakers have long known this. But in recent years, the short-term deficit picture has improved, masking the long-term problem.

The annual budget deficit dropped from $413 billion in 2004 to about $161 billion this year, but much is not included in that calculation: money owed to the Social Security Trust Fund, future federal and military retirement costs, obligations to veterans and more.

Nothing drives the problem home better than the baby boom generation. The impact of baby boomers on the Social Security and Medicare systems started in about 1990, when they began entering their 40s and were more prone to getting hurt or sick. The number of Americans claiming disability benefits doubled from 4.2 million in 1990 to 8.4 million in 2006.

"This has been going on for some years already," says Rick Foster, Medicare's chief actuary.

Now the boomers are readying for retirement. The Class of 1946 features some big names: President Bush, Laura Bush, former president Bill Clinton. (Hillary Rodham Clinton follows a year later.) Also turning 62 next year are five U.S. senators and 22 House members.

In each retiree's case, the decision on whether to take Social Security benefits now or later hinges on two issues: life expectancy and investment acumen. Those who take Social Security at 62 will get only 75% of their full benefit each month for the rest of their lives. Those who put off receiving the benefits get a higher percentage of their full benefit, up to 100% for those who wait until age 66 to retire.

Those who wait up to age 70 can get 132% of their full benefit.

If you expect to live to a ripe old age, financial planners say, it may be worth waiting for the larger benefit at age 66 or later. But if you're investment-savvy or can put the money to good use now, it may be worth taking early retirement.

"Most people are claiming (benefits) in their early 60s," says Andrew Eschtruth of the Center for Retirement Research at Boston College. Average age: 63.

The actuaries at Social Security have accounted for such decisions. Because benefits are reduced for early retirement, the choices retirees make won't affect the long-term solvency of the system, says Stephen Goss, Social Security's chief actuary.

The Medicare situation is far worse. As baby boomers age, so will the average age of beneficiaries, and with it the medical costs that accompany longevity. Recognizing that health care costs present the greatest threat to the federal budget and economy, the Congressional Budget Office has revamped its operation to find new ways to lower costs.

Taking the show on the road

While bickering over $22 billion that Democrats want to add to Bush's 2008 budget of $1.9 trillion, the White House and Congress realize bigger issues lie ahead.

"In 10 years, Social Security will turn upside down," says White House budget director Jim Nussle, referring to when paid benefits will outweigh taxes coming in. "Anything we can do to wake people up to this challenge is important."

That's where the "Fiscal Wake-Up Tour" comes in. The presentation by the traveling troupe of policy watchdogs — hardly anyone's idea of entertainment — has appeared in 22 states so far, seeking to ignite public interest and political action. "The American people are starved for two things: truth and leadership," Walker says.

Robert Bixby of the Concord Coalition, which organized the tour, opened a recent event in Manchester, N.H., with a reference to that state's first-in-the-nation presidential primary. "The first thing I want to do is assure you that none of us is running for president," he said.

"After you hear what we have to say, you'll understand why."

During the next hour, the local chamber of commerce was treated to a series of PowerPoint presentations with arrows that invariably pointed the wrong way. Negative savings rates. Rising health care costs. An aging population.

Pushing aside her chicken and rice in the back of the room, Manchester insurance agent Kathy Sousa, 55, started jotting down fixes she would be willing to consider. The first one was profound: stopping heroic care for the terminally ill, which costs Medicare billions. "This gets to be a very emotional conversation," she said.

It's getting emotional in Washington as well. Even the debate over immigration is connected, because an estimated 12 million illegal immigrants make up a growing share of the payroll tax-paying workforce. The influx of immigrants helps to slow down the inexorable decline in the number of workers per retiree.

Cooper and Wolf last month proposed a panel that would force Congress to vote up-or-down on a fiscal fix — akin to the process now used to close military bases.

That's because the solutions aren't pretty: raising the retirement age for full Social Security benefits past 67, the current limit for people born in 1960 or later. Charging wealthier Medicare beneficiaries more — a new reality for doctors' care — or giving them less. Raising or eliminating the $97,500 wage cap for payroll taxes. Perhaps all of that and more.

Drinking tea on their porch, Casey-Kirschling and her husband say they're willing to do their part on behalf of their two daughters, who are socking money away for retirement because they don't expect much government help.

"I can't imagine what's going to happen with our children and our grandchildren," Casey-Kirschling says. "They're not going to be able to retire."

"Social Security hits first wave of boomers": The impact of baby boomers' retirement

Objectives

- Read the article "Social Security hits first wave of boomers."
- Define "baby boomer."
- Determine how old students will be when the Social Security fund is empty.
- Discuss, compare and evaluate options for shoring up Social Security.
- Identify alternative retirement funding options.

Preparation

Each student will need:

- A copy of the article "Social Security hits first wave of boomers."
- A copy of the lesson.

1. Read the article and answer discussion questions. (20 minutes)

- What is a baby boomer? ______________________________
- What is the age for early retirement for Social Security?______________________________
- How many boomers are there? ______________________________
- Over the next 75 years, Social Security and Medicare will need $50 trillion. How many zeros does trillion have? How many billions is $50 trillion?

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- When will Medicare's hospital insurance fund run out of money? When will Social Security run out of money? How old will you be when each fund runs out?

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- What are some ideas mentioned by the "Fiscal Wake-up Tour" for decreasing Medicare costs?

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- Do you think your parents can retire on Social Security? Why or why not?

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- Do you think you'll be able to rely on Social Security? Why or why not?

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2. Role play consultants to Congress. (25 minutes)

Directions: Your task is to create a plan to shore up the dwindling Social Security fund. Below are the facts you need to know and the options you can consider to "fix" Social Security. Any of these options can be modified or combined as you put together a workable solution to present to Congress. Before deciding on an option, consider the pros and cons of it by answering the questions that follow it. Then, create the solution you will propose to Congress. Be prepared to discuss it with the class.

Facts:

- Right now, the Social Security system is $12.8 trillion in debt. For every year we wait, according to the CATO Institute, the cost to "fix" Social Security will go up $600 billion.

- Currently, Social Security funds are considered taxes. Even though you pay them, you do not own them. Therefore, no one can inherit the funds you paid in.

- Social Security is a pay-as-you-go system. The money you pay in goes immediately toward someone who is already receiving Social Security benefits. The money you pay in does not sit in an account waiting for you. In 2017, benefits owed will be higher than the amount brought in, creating a deficit (www.ssa.gov).

- Nothing prevents Congress from changing Social Security benefit levels at any time. Accounting estimates show Congress will have to cut benefits by at least 26% based on Social Security income.

- Only spouses can receive the spousal benefits of Social Security. Those who live together or get divorced cannot receive those benefits.

Options to consider:

A. Create personal retirement accounts: A percentage of payroll taxes collected for Social Security would go into these funds, which would be owned by the retiree. The retiree could not touch the funds until he or she reached 62 years of age. If he or she should die before then, the funds would go to his or her personal estate. This would not affect current Social Security recipients. On average, over the last 80 years, private investments have earned just under 8%. Social Security currently pays just over 1% in returns.

- How will taking this money out of Social Security affect current Social Security recipients?
- How will this affect the future of the Social Security fund?
- Can individuals be trusted to invest this money wisely?
- What if stocks were down when an individual wanted to retire?
- What would it cost to administer this program?

B. Increase or eliminate the cap on payroll taxes: Currently, only the first $97,500 of an employee's wages is subject to Social Security and Medicare withholding. This means that people who make $98,000 or more do not pay on those additional funds. In the first five years, this tax increase would bring in $541 billion.

- If they had to pay higher payroll taxes, would people in the upper-middle income bracket consume less and thus hurt the economy? What impact would this measure have overall?
- Would this option eliminate the Social Security problem completely?

2. Role play consultants to Congress (continued).

C. Increase the percentage of payroll tax collected: Currently, 6.2% of an employee's paycheck goes to payroll taxes. Employers pay the other 6.2%. One option is to increase that percentage. If only a tax increase were put into place to bolster Social Security, it would have to eventually be raised by 50% to about 18.6% — half paid by the employee and half by the employer. Self-employed people would pay all of it.

- How would paying an additional 3.2% impact companies?
- How would the increase affect employees?

D. Cut the benefits guaranteed: This option would modify how much money retired workers receive. If they retire at 62, currently they receive 75% of guaranteed benefits. If they retire at 66, they receive 100%. If they retire at age 70, they receive 132% of guaranteed benefits.

- When would this cut go into effect?
- How would it affect retirees?
- How much would this move benefit the Social Security fund?
- What else, if anything, would need to be done to shore up Social Security?

E. Increase the age to receive full Social Security benefits: Again, consider that if workers retire at 62, they currently receive 75% of guaranteed benefits. If they retire at 66, they receive 100%. If they retire at age 70, they receive 132% of guaranteed benefits.

- What ages should be eligible to receive benefits?
- How would this measure impact current recipients?

Teacher: After groups have had 15 minutes to create their proposals, have each team share one cut or increase they would make and explain their decision. If there are duplicate ideas, groups can share additional reasons for their decision or pass to the next team.

3. Debrief and apply. (5 minutes)

- Do you see Congress voting on these controversial cuts or increases? Why or why not?
- If nothing is done, what will have happened to the Social Security system by the time you want to retire?
- What are some other financial alternatives that would help you plan for your retirement?