

# Stabilizing Social Security

The American worker faces a crisis. Social Security, declared actuarially unsound in the early 1980's, will begin paying out more than it collects in 2018 – less than thirteen (13) years from today. The time to act is now.

Opinions on how to best address this problem range from doing nothing to eliminating the Social Security system altogether. The impact of change on the system is likely to stretch over generations, and carry both national and international economic repercussions.

The issue is highly politicized by those in elected office and emotionally charged for both payees and payers. Despite decades of debate, little has been done to address the impending insolvency. The complexity and magnitude of the issue, combined with the volume of opinions from constituents and interest groups, has resulted in paralysis on the part of legislators. It is essential to find a logical, coherent method of evaluating the Social Security problem against potential solutions to determine the best possible course of action.

The Analytic Hierarchy Process (AHP) is a decision-making theory that measures the interdependencies of tangible and intangible criteria against the benefits, opportunities, costs and risks of a set of alternatives in order to prioritize outcomes and allocate resources in the face of conflicting judgments and values.

The first step in the process is to define a goal; in this case, the goal is to determine a course of action for the US Social Security program. Next, we identify the strategic criteria to provide the framework for the decision:

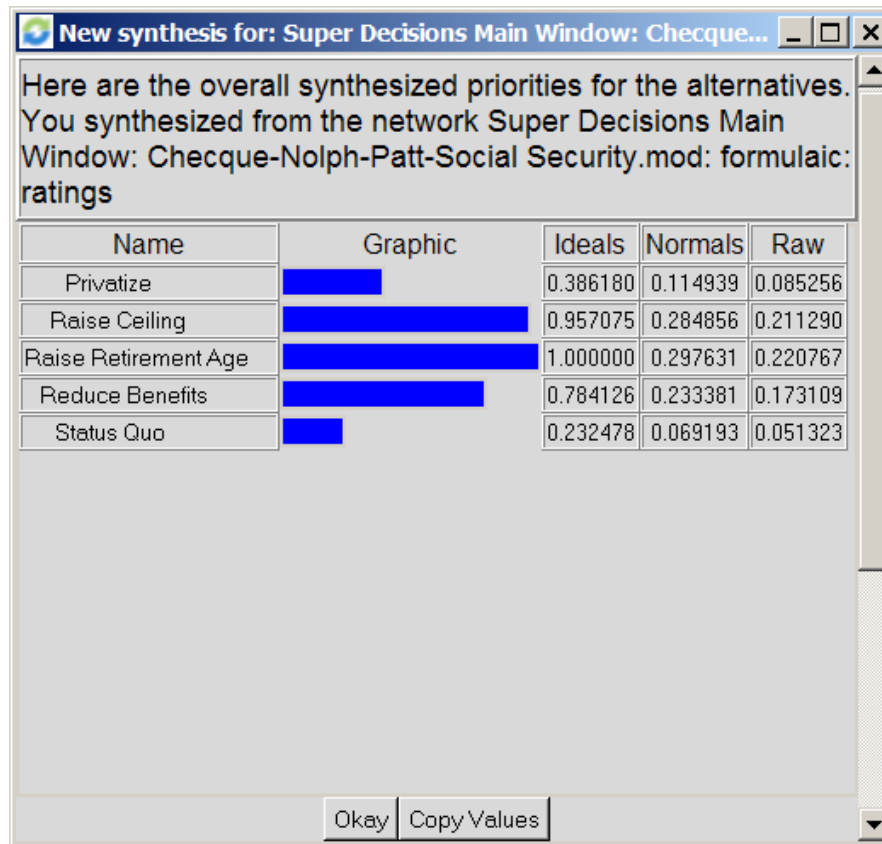
- Program Stability: the solution should provide for long-term solvency, should not require further significant modification, and should not be overly susceptible to political or economic fluctuations.
- Adequate Means for Participants: the solution should provide adequate support to participants for the duration of retirement.
- Perception of Fairness: the solution should allow participants to feel they are receiving a fair amount of benefits in relation to what they contributed to the system. Small segment(s) of the population should not be seen as benefiting unfairly.

The following alternatives (a hybrid of 14 or more proposals made by different people) were evaluated:

- Raise the withholding limit
- Raise the retirement age
- Privatize: divert 4% of current withholding diverted to a private account
- Reduce current and/or future benefits
- Maintain Status Quo

Social, Political and Economic control criteria were used to evaluate the Benefits, Opportunities, Costs and Risks of each alternative. Relevant comparisons are done for each criterion – for example, is privatization more likely to result in payer confidence or payee confidence? Is raising the withholding limit more likely to result in constituent alienation or party recognition for legislators? The priorities assigned after comparisons are complete are shown in the table below, followed by a complete explanation of each criterion.

When the model is complete and synthesized, the alternatives are ranked:



Raising the retirement age and raising the withholding ceiling emerge as the best alternatives. Raising the retirement age makes perfect sense, as the original retirement age was determined in 1935 and has only been adjusted by two (2) years in the ensuing 70 years. Average life spans have increased by over five (5) years in the same time period. It makes logical and financial sense to adjust the program to keep pace with biology. An excellent summary of the benefits that could result from changing the retirement age to 73 can be found in William A. Saletan's article ["Biology Can Solve the Social Security Debate"](#).

Raising the withholding ceiling has an effect similar to a tax increase, which has been done more than twenty (20) times since 1935 with no long-term success. However, it does provide a short-term influx of capital to the system, which can increase solvency during the time required to phase in the increased retirement age.

A sensitivity (what if) analysis performed against the results illustrates that raising the retirement age and raising the withholding ceiling are largely insensitive to changes in other considerations.

In conclusion, rational observers agree that something must be done in order for Social Security to survive – and it must be done soon. Our analysis has provided a clear, common-sense and long-term solution that can be phased in without disrupting the current system and minimizes the negative impact to current participants.

GOAL: Determine a course of action for the US Social Security Program

Strategic Criteria

Program Stability

Adequate Means for Participants

Perception of Fairness

Alternatives

Status Quo

Privatize

Raise Withholding Ceiling

Reduce Benefits

Raise Retirement Age

BENEFITS

Social

- Stakeholders
  - Payee confidence
  - Payer confidence

Political

- President
  - Media coverage
  - Legacy/Place in History
  - Voter perception
- Legislators
  - Media coverage
  - Party recognition
  - Voter perception

Economic

- Financial
  - Program stability
  - US economic stability

OPPORTUNITIES

Social

- Stakeholders
  - Participant peace of mind
  - Encourage financial responsibility
  - Decrease dependence on govt.

Political

- President
  - Media coverage
  - Legacy/Place in History
  - Attract new supporters
  - Increased political capital
- Legislators
  - Media coverage
  - Party recognition
  - Attract new supporters
  - Likelihood of reelection

Economic

- Financial
  - Effect on capital markets
  - Effect on US budget
  - Effect on US economy
- Operational
  - Reduction of bureaucracy

COSTS

Social

- Stakeholders
  - Fees
  - Increased withholding

Political

- Legislators
  - Constituent alienation

Economic

- Operational
  - Conversion costs
  - Agency costs
  - Marketing/communication to the public

RISKS

Social

- Stakeholders
  - Payee confidence
  - Payer confidence
  - Increased potential for loss
  - Loss of potential profit
  - Reduced benefits

Political

- President
  - Media coverage
  - Legacy/Place in History
  - Constituent alienation
- Legislators
  - Media coverage
  - Party recognition
  - Constituent alienation
  - Likelihood of reelection

Economic

- Financial
  - Long-term insolvency
- Operational
  - 3<sup>rd</sup> party failure
  - Increased corruption

## Benefits, Opportunities, Costs and Risks

Priorities assigned via pairwise comparisons of elements

BOCR	Control Criteria	Clusters	Elements	Priorities
Benefits	Social	Stakeholders	Payee confidence Payer confidence	0.502 0.498
	Political	President	Media coverage Legacy/Place in history Voter perception	0.245 0.164 0.591
		Legislators	Media coverage Voter perception Party recognition	0.243 0.608 0.149
	Economic	Financial	Program stability US economic stability	0.705 0.295
Opportunities	Social	Stakeholders	Participant peace of mind Encourage financial responsibility Decreased dependence on government program	0.328 0.333 0.339
	Political	President	Legacy/Place in history Attract new supporters Media coverage Increased political capital	0.229 0.197 0.252 0.322
		Legislators	Media coverage Attract new supporters Party recognition Likelihood of reelection	0.260 0.277 0.213 0.250
	Economic	Financial	Effect on capital markets Effect on US budget Effect on US economy	0.224 0.440 0.336
		Operational	Reduction of bureaucracy	1.000
Costs	Social	Stakeholders	Fees Increased withholding	0.408 0.592
	Political	Legislators	Constituent alienation	1.000
	Economic	Operational	Conversion costs Agency costs Marketing/communication to public	0.631 0.164 0.205
Risks	Social	Stakeholders	Payer confidence Payee confidence Increased potential for loss Loss of potential profit Reduced benefits	0.153 0.136 0.134 0.140 0.437
	Political	President	Media coverage Legacy/Place in history Constituent alienation	0.192 0.095 0.713
		Legislators	Media coverage Constituent alienation Party recognition Likelihood of reelection	0.167 0.498 0.098 0.237
	Economic	Financial	Long-term insolvency	1.000
		Operational	Agency failure Increased corruption	0.333 0.667

# Benefits, Opportunities, Costs and Risks

## Clusters and Criteria

### ❖ BENEFITS

- Social
  - Stakeholders
    - Payee Confidence - confidence of those receiving benefits that their benefits will continue at an acceptable rate
    - Payer Confidence - confidence of those paying in to the program that it is worthwhile and they will see a return on the money they are investing
- Political
  - President
    - Media Coverage – This is the benefit that comes from positive coverage in media outlets.
    - Voter Perception – This is the benefit that comes from a favorable impression in the mind of likely voters.
    - Legacy Place in History – benefit that comes from being identified with significant historical achievements.
  - Legislative
    - Media Coverage – Media Coverage is the benefit that comes from positive coverage in media outlets.
    - Party Recognition - supporting the alternative results in support or lack of support from the legislator's political party
    - Voter Perception – This is the benefit that comes from a favorable impression in the mind of likely voters.
- Economic
  - Financial
    - Program Stability – Program that is not overly susceptible to normal political or economic fluctuations.
    - US Economic Stability – Program that does not subject the economy to fluctuations or inhibit growth.

### ❖ OPPORTUNITIES

- Social
  - Stakeholders
    - Participant Peace of Mind – comfort that comes from the assurance the program will last throughout the participant's lifetime.
    - Encourage Financial Responsibility – encourages participants to educate themselves on financial matters.
    - Decreased Dependence on Government Programs – potential benefit that comes from a more secure financial future where participants increase personal savings rates.
- Political
  - President
    - Media Coverage – benefit that comes from positive coverage in media outlets.
    - Attract New Supporters – potential benefit from taking a position that brings in likely voters outside the normal base.
    - Increased Political Capital – potential benefit that comes from securing a major political victory that translates into more political power on upcoming issues.
    - Legacy Place in History – benefit that comes from being identified with significant historical achievements.
  - Legislative
    - Media Coverage – benefit that comes from positive coverage in media outlets.
    - Party Recognition - supporting the alternative results in support or lack of support from the legislator's political party
    - Attract new supporters – potential benefit from taking a position that brings in likely voters outside the normal base.
    - Likelihood of re-election – increase in the likelihood of re-election from association with a significant political issue.
- Economic
  - Financial
    - Effect on Capital Markets – This is the potential benefit on interest rates or investment rates from the alternative.
    - Effect on US Budget – This is the potential positive impact on the US budget deficit.
    - Effect on US Economy – This is the Potential opportunity from for positive impact to the US Economy.
  - Operational
    - Reduction of Bureaucracy – The potential impact of a reduction in US government bureaucracy and/or a reduction of bureaucracy at employers to comply with the program.

# Benefits, Opportunities, Costs and Risks

## Clusters and Criteria (con't)

### ❖ COSTS

- Social
  - Stakeholders
    - Fees – amounts paid by participants to third parties to have individual accounts managed.
    - Increased withholding – the cost to participants through increased withholding in a given year.
- Political
  - Legislative
    - Constituent Alienation – the likelihood efforts on an alternative will anger or disenfranchise constituents.
- Economic
  - Operational
    - Conversion Costs – one-time costs to implement the alternative.
    - Agency Costs – ongoing costs necessary to implement the alternative.
    - Marketing/Communication to Public – Costs to ensure the general public understands the alternative sufficient to plan appropriately.

### ❖ RISKS

- Social
  - Stakeholders
    - Payee Confidence - confidence of those receiving benefits that their benefits will continue at an acceptable rate
    - Payer Confidence - confidence of those paying in to the program that it is worthwhile and they will see a return on the money they are investing
    - Increased Potential for Profit – Potential that an alternative will lead to higher rate of return on investment.
    - Loss of Potential Profit – opportunity cost of not pursuing a different alternative
    - Reduced Benefits – risk that an alternative will lead to a reduction in benefits.
- Political
  - President
    - Constituent Alienation – the likelihood efforts on an alternative will anger or disenfranchise constituents.
    - Legacy Place in History – benefit that comes from being identified with significant historical achievements.
    - Media Coverage – benefit that comes from positive coverage in media outlets.
  - Legislative
    - Constituent Alienation – the likelihood efforts on an alternative will anger or disenfranchise constituents.
    - Likelihood of re-election – increase in the likelihood of re-election from association with a significant political issue.
    - Media Coverage – benefit that comes from positive coverage in media outlets.
    - Party Recognition - supporting the alternative results in support or lack of support from the legislator's political party
- Economic
  - Financial
    - Long-term Insolvency – risk that an alternative will lead to or contribute to the insolvency of the program.
  - Operational
    - 3rd Party Failure – risk that a non-government agency associated with the program will experience bankruptcy.
    - Increased Corruption – risk that the alternative will lead to increased abuse or corruption.

# Sensitivity Analysis

