How would you fix Social Security?

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While the congressional supercommittee fights over ways to cut the deficit, the elephant in the room is Social Security, which is 21 percent of the federal budget, but it's a key part of almost everyone's retirement planning.

Using Social Security's own actuarial numbers, the National Center for Policy Analysis, a free market-leaning nonprofit, analyzed four proposals to modify how Social Security taxes and spends, calculating the impact of each proposal on single males ages 26 and 46 who will be living in retirement until they are 95.

The goal of each of these proposals is to make Social Security solvent for the long haul. Of course, we don't know what the long haul will bring, but these actuaries calculated the numbers to the infinite horizon.

Here are the four proposals. You can see their impacts in the charts below:

Progressive price indexing. Social Security already pays lower earners a larger percentage of their incomes. Under this proposal, low earners would continue to receive benefits calculated they way they are now. But high earners would have their benefits calculated differently, using a formula that that would base benefits on "price indexing" -- the cost of goods and services. For average workers, benefits would be calculated by using a mix of wage indexing and price indexing, which reduces benefits more than they would be reduced for low earners but less than for high earners. The changes would be instituted over time.

Changing how benefits are calculated. This proposal would use factors that reduce income replacement rates as average wages rise. As a result, everybody's Social Security would be cut compared to the way it is calculated now, but lower earners would be affected less than people in the middle. Higher earners would see the largest cuts.

Raise the retirement age. This proposal increases full retirement age one month every two years until it reaches age 70 for those born in 1960. This would have a punishing effect on lifetime benefits for workers with lower life expectancies. Social Security's actuaries currently calculate that the life expectancy at age 65 for very high earning men is almost 20 percent higher than for those with medium earnings, while the life expectancy for very low earners is about 7 percent lower than for medium earners.

Eliminating the taxable maximum income. This proposal increases revenues immediately. That makes it a likely choice for deficit cutters. Some proposals ignore the additional taxes paid on earnings above the maximum for purposes of calculating benefits. That makes this a pure tax on high earners, so that version of the proposal isn't likely to be adopted. The proposal analyzed in the chart below credits all earnings to workers in the calculation of their benefits. That enlarges the size of the Social Security program, while the rest of these proposals shrink it. In the short run, it produces a surplus, but in the long run, it increases the annual funding gap. By 2085, the gap is 2.5 percent of taxable payroll.

If we just leave Social Security alone, paying out just like it is now, but increase payroll taxes immediately by a total of 3.6 percent -- levying half on workers and half on employers -- these actuaries calculate the program would remain solvent indefinitely.

Pick your poison:

The cost of cutting Social Security

Change in lifetime taxes and benefits for average income single male, age 41 (in 2011 dollars)			
Reform	**Lifetime taxes**	**Lifetime benefits**	**Gain/loss**
Progressive price indexing	-$50,793	-$20,522	$30,271
Change the benefit formula	-$63,709	-$59,123	$4,586
Raise the retirement age	-$38,687	-$59,047	$20,360
Eliminate the taxable maximum	-$37,458	$0	$37,458
Change in lifetime taxes and benefits for average income single male, age 26 (in 2011 dollars)			
Reform	**Lifetime taxes**	**Lifetime benefits**	**Gain/loss**
Progressive price indexing	-$106,288	-$52,406	$53,882
Change the benefit formula	-$133,316	-$135,260	-$1,944
Raise the retirement age	-$80,957	-$85,284	-$4,327
Eliminate the taxable maximum	-$78,384	$0	$78,384