



A Guide to Designing Social Security Reforms

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The purpose of this guide is to inform policymakers seeking to preserve Social Security's financial solvency and improve its efficacy as income insurance.

Though the specific design of any Social Security reform plan inevitably involves several subjective value judgments, this guide accepts as a foundational premise that certain historical features of Social Security should be preserved: namely, that it should continue to provide income for families of retired and disabled American workers while maintaining Social Security's core design feature as a benefit workers earn through their payroll tax contributions.

This central design element has distinguished Social Security, from its inception, from so-called welfare programs in which there is no direct connection between individual contributions and benefits. In such welfare programs, one person may receive benefits without ever paying taxes, whereas another may pay taxes without receiving benefits. Social Security's design as earned contributory insurance affords it a political strength unseen in welfare programs, and it is a primary reason Social Security benefits are as reliable and secure as they have been to date.

Social Security is, in several respects, unique among federal programs. Americans' tax payments to support other federal spending—whether on national defense, food stamps, agriculture subsidies, or most anything else—are not quantified separately on their pay stubs. By contrast, workers' Social Security (Federal Insurance Contributions Act, or FICA) contributions are separately tracked. These contributions are earmarked for the two Social Security trust funds: Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI). By law, Social Security can only make benefit payments using the financial resources in these trust funds. This design provides income security to participants by ensuring that their contributions are used only for Social Security payments. It also provides financial discipline by forbidding any benefit payments exceeding the amounts that program revenues (plus interest) can fund. Participating workers can therefore claim, with justification, that they have earned and paid for their benefits.

Policymakers should remain mindful of these core design features that give Social Security a political status and substantive stability unshared by any other federal income support program. They should also be aware that this unique programmatic strength comes with a price. Social Security's advantages can continue only as long as lawmakers remain willing to do what they have always done in the past –namely, to align the program's benefit schedules with the amounts revenue collections can fund. If federal lawmakers become unwilling to limit future benefit payments to the amounts workers' contributions can finance, then we can no longer have this kind of Social Security system, but instead a very different one in which workers' benefit payments are disconnected from their tax contributions.

Abandoning Social Security's central design feature would destroy its essential character as Americans currently know it. No longer would there be valid arguments that workers' benefits reflect what they paid in taxes; benefit amounts would instead merely reflect the political winds and would thereby almost certainly become more changeable and less reliable. At the same time, the program's financing discipline would be lost, as benefits would no longer be financed with worker payroll taxes but effectively with additional government debt, worsening inflationary pressures. Indeed, there would no longer be a compelling policy reason to even have Social Security trust funds, if they no longer reflected revenues actually generated by Social Security.

Abandoning Social Security's self-financing design would precipitate the worst of policy worlds, simultaneously destroying its mechanisms of financial discipline and the reliability and security of its benefits. Americans and their elected representatives can certainly choose to exchange our current Social Security system for a different one that abandons the program's historical self-financing structure and is funded wholly or in part from the government's general fund. Such a momentous change, however, should be made only with the informed consent of the American electorate. For policymakers who wish to maintain the advantages of the present system, this guide explains the actions required to do so.

Closing the Financing Shortfall: The Big-Picture Value Judgments

Balancing Social Security's finances involves a host of subjective value judgments, reducible to three basic categories:

1. The income Social Security provides to beneficiaries
2. The tax burdens Social Security imposes on workers
3. The proportion of Americans' lives spent receiving benefits

There is no avoiding the fundamental math that links these three concepts. If we want Social Security benefits to be of a certain level, then the tax burdens placed on American workers must be large enough to finance them. The more benefits increase, the more tax burdens on workers must rise.

Similarly, lawmakers must confront the question of what proportion of Americans' lives should be spent drawing benefits rather than making contributions as taxpaying workers. If, as Americans live longer lives, those additional years are spent receiving benefits rather than generating taxable employment earnings, the fraction of Americans' lives spent as beneficiaries increases. It follows that the tax burden required of workers to finance a given level of annual retirement income must also increase. Alternatively, if instead we want to hold the tax burden constant, and if an increasing proportion of Americans' lives is spent collecting benefits, then the amount of annual retirement income generated by that given tax burden must decline, as the benefits are spread out over more years. In other words, if Americans spend a larger fraction of their lives collecting benefits, then either workers' living standards must fall, beneficiaries' living standards must fall, or (more likely) both.

The ratio of the number of those receiving benefits to the number of workers paying payroll taxes is the fundamental mathematical concept that governs Social Security. To prevent a continually worsening relationship between worker tax burdens and retiree income adequacy, the proportion of Americans' lives spent collecting benefits would need to be held constant. This in turn suggests that average claim ages would need to increase as the proportion of Americans living at advanced ages increases. Lawmakers must decide how to distribute the effects of population aging between the three options of rising tax burdens, smaller annual benefits or constraints on the fractions of our lives spent receiving benefits.

Social Security currently faces a projected financing shortfall equal to approximately 22% of scheduled benefit payments.¹ This means that long-term solvency (defined as 75 years by Social Security's trustees) could be achieved by reducing benefit payments by an average of roughly 22% of scheduled benefit payments. However, this hypothetical reduction includes scheduled benefits for recipients who are already on the beneficiary rolls—which, historically, federal lawmakers have been unwilling to cut. If expressed more relevantly as a percentage of *future* benefit claims, the average reduction required is already nearly 27% and rising with each passing year.

The necessary savings could theoretically be achieved by reducing the average rate of benefit growth from that of the Average Wage Index, as it is under current law, to slightly more than the rate of growth of the Consumer Price Index.² Alternatively, the 75-year shortfall could be eliminated by raising the payroll tax immediately from its current 12.4% to 16.05%—although under this approach, the financing shortfall would immediately begin to re-emerge just one year later, for raising taxes would not achieve sustainable solvency as long as costs continued to grow faster than the program's tax base.³ Benefit growth reductions could be less severe if accompanied by tax increases, and tax increases could be less severe if accompanied by benefit growth restraints. Each of those options could be less severe if eligibility ages were simultaneously adjusted.

Program Size vs. Rate of Growth

Although the balance of benefit growth adjustments, tax increases, and eligibility age adjustments in a financing reform package is inevitably a subjective value judgment, policymakers should understand certain phenomena that bear upon these decisions.

How large Social Security benefits and costs should be is a question about which well-intended people can differ, but only up to a point. There is an important distinction to be drawn between the *level* of benefits, which is a discretionary choice, and the *rate of growth* of benefits, which must be moderated if the program is to be financially sustainable and treat different generations with reasonable fairness.

For example, imagine hypothetically that in a program financed with payroll taxes, there is a 2.5-to-1 ratio in the number of working taxpayers to beneficiaries.⁴ If the payroll tax rate in such a program were 10%, it could pay an average benefit equal to 25% of an average worker's taxable wages (because $10\% \times 2.5 = 0.25$, or 25%). Alternatively, if the payroll tax rate on workers were 20%, the program could pay an average benefit equal to 50% of an average worker's taxable wages ($20\% \times 2.5 = 0.50$, or 50%). If the payroll tax rate on workers were 15%, the program could pay an average benefit equal to 37.5% of an average worker's taxable wages ($15\% \times 2.5 = 0.375$, or 37.5%).

These equations illustrate the statutory provisions necessary to maintain stable financing. If the program's eligibility ages were automatically adjusted to maintain a constant ratio of beneficiaries to taxpaying workers, then tax rates and benefit wage-replacement rates could both remain constant, system finances would remain stable, and each generation of Americans would receive similarly fair treatment. Stabilizing the parameters in this way would enable policymakers to implement a consensus value judgment as to the optimal level of Social Security benefits and tax burdens.

However, if instead system costs perpetually grow faster than American workers' aggregate taxable earnings, many problems arise. System finances would then be on an unsustainable course, one that requires repeated tax rate increases to keep up with cost growth. This course creates various problems. One is that perpetually rising payroll tax burdens force down American workers' standards of living. Another is that it misleads Social Security participants, in the sense that the system appears to promise more in benefits than worker contributions can fund. Additional future legislation would have to raise taxes further, or alternatively constrain the growth of benefits, but participants aren't yet being told about these measures and thus can't incorporate them into their retirement planning.

No matter what level of benefits and taxes lawmakers decide is optimal, it needs to be stable: Ergo, system cost *growth rates* must be limited so they don't exceed the rate of growth of Americans' taxable earnings. Excess unaffordable cost growth might occur either because of a failure to adjust eligibility rules sufficiently to offset demographic trends such as longevity and fertility, or because

of automatic benefit-growth provisions written into law, or both. To ensure that Social Security cost growth does not exceed sustainable rates, lawmakers can opt to gradually adjust eligibility ages, benefit growth indexing, or both. One way or the other, Social Security's automatic growth rate must be slowed from current law, regardless of policymakers' subjective value judgments of the optimal levels of Social Security benefits.

Defining a Balanced Solution

When the Social Security financing shortfall first began to re-emerge after the 1983 program amendments, and it had not yet grown nearly to the size it is now, one political party with a congressional majority might have been able to muscle a partisan solution into law consisting entirely of either tax increases or benefit restraints, without compromising with a conflicting approach. Those days are long gone.

For example, back in the 1990s and early 2000s, lawmakers could have achieved permanent Social Security solvency simply by changing the automatic rate of benefit growth from wage indexing to price indexing, without requiring any additional tax revenues. That is no longer the case. Additional revenues are now required simply to prevent the average inflation-adjusted value of Social Security benefits from declining over the next decade and a half.⁵ It is highly unlikely that even the most fiscally conservative members of Congress, let alone a congressional majority, would be willing to vote for real declines in Social Security benefit levels, which means additional revenues will be necessary.

Similarly, despite much political rhetoric from the left about the desirability of expanding Social Security benefits, there is no plausible likelihood that a majority of Congress would be willing to vote for the tax increases required to finance even currently scheduled benefits, let alone expanded ones. Much rhetoric in support of expanding Social Security benefits is based on the misapprehension that its benefits haven't been expanded in decades, when in reality they are automatically increased each year⁶ due to indexing provisions written into law.⁷

Although dozens of members of Congress are willing to cosponsor bills that would further accelerate across-the-board benefit growth, there has been no serious attempt to enact such legislation, and it is highly unlikely that there will be.⁸ A quick review of the numbers demonstrates why. In order to achieve long-term solvency with a payroll tax rate increase, the rate would need to rise immediately from today's 12.4% to 16.05%, which moreover would (a) still be inadequate to achieve sustainable solvency and (b) need to take full effect immediately, which would be a sharp departure from historical legislative norms.⁹ There is simply no practicable solution to Social Security's financing challenges that does not include moderating the growth of system costs.

There is no objectively correct way to distribute the components of a financing correction between benefit growth adjustments, revenue increases and eligibility age changes. The distribution

resulting from legislative negotiations will reflect the value judgments of negotiators. For various policy reasons alluded to in this guide, this author finds that an optimal solution would adjust eligibility ages as much as is politically practicable, while minimizing reliance on tax increases. Nevertheless, for illustrative purposes, this guide will adopt an initial assumption that changes will be roughly equally distributed between each of the three factors—i.e., one-third of the savings from moderating benefit growth, one-third from revenue increases, and one-third from eligibility age changes. Legislators can dial any of these factors up or down according to their preferences.

It is tempting to hope for a free-lunch solution to Social Security's financing shortfall that would lessen the need for politically difficult measures such as adjusting eligibility ages, moderating benefit growth, or raising taxes. Unfortunately, there is not. During the 1990s and 2000s, when the baby boomers were in the workforce and the program was collecting surplus payroll taxes, policymakers vigorously debated whether those surplus payroll taxes could be saved and invested, either through individually owned accounts or collectively through the trust fund, to prefund future Social Security obligations.¹⁰ Unfortunately, disagreements over what to do resulted in no action being taken, and those tax surpluses disappeared in 2010.¹¹

Today, the cost of making payments to current beneficiaries substantially exceeds payroll taxes being collected from workers; the program is able to maintain current payments only by redeeming assets held in the Social Security trust funds. In other words, there are no longer surplus payroll taxes to save, invest, or earn a higher rate of return. Creating a new flow of investment funds would require today's workers to make contributions above and beyond those they must already make to finance current benefit payments, thereby worsening rather than improving their returns from Social Security. In sum, there is no free-lunch alternative at this stage to adjusting eligibility ages, moderating benefit growth, or raising taxes.

The Importance of Intergenerational Equity

It is unlikely that any legislated Social Security reform will perfectly address every challenge facing the program, especially considering that legislators will differ over how best to do so. It is imperative for Social Security's useful functioning, however, that financing reforms facilitate rather than undermine its equitable treatment of different generations. Otherwise, even if Social Security is rendered financially solvent, it could still be unable to provide future generations with the income insurance protections the program was created to deliver.

This policy challenge exists because Social Security is an income transfer program. It collects worker tax contributions and from them dispenses benefits. Whether individuals gain or lose income through Social Security is a function of both the taxes they individually pay and the benefits they individually collect. In an important sense, the program is a zero-sum game: It does not and cannot create income out of nothing. Instead, it merely redistributes income from some participants to others.

For an average Social Security participant to come out even does not mean Social Security serves no purpose. It collects contributions from participants while they have earnings income to ensure that they will still have reliable income when they no longer have such earnings. Nevertheless, lawmakers must take care to ensure that all participants have a reasonable chance of receiving fair insurance value for their contributions. Otherwise, the program will not reasonably serve them. Unfortunately, under current law, Social Security will make young workers and future generations poorer over the course of their lifetimes than they would otherwise be. While it is unlikely that this problem can be entirely eliminated because of its origin in past actions, it must be ameliorated if Social Security is to continue to fulfill its purpose of providing income protections for future participants.

Many analyses substantiate the magnitude of this threat to Social Security's future efficacy. Table VI.F.2 in the 2025 Social Security trustees' report documents that the program's financing shortfall arises because scheduled benefits exceed tax contributions for those who have already become program participants—including past beneficiaries, current beneficiaries, and current workers.¹² Collectively, those who have entered the Social Security system to date have scheduled benefits that would exceed their past and future tax contributions by an amount equal to 3.8% of American workers' future taxable earnings (in present value).

In other words, unless current Social Security participants make a further contribution to system solvency, then Social Security can only remain solvent if future American workers are rendered poorer by Social Security over their lifetimes, by an amount equal to 3.8% of their career taxable earnings. It is extremely difficult for a program to provide effective income insurance if it is making average participants 3.8% poorer over their lifetimes, and making many below-average-income participants poorer as well.

A series of recurring notes from the Social Security chief actuary's office documents the reality and magnitude of this problem. Actuarial Note 2024.7 compares the present value of lifetime Social Security tax contributions relative to lifetime Social Security benefits for different birth cohorts.¹³ The most meaningful table in the memorandum is Table 3a, which reflects benefits and taxes absent a change in law, adjusted for mortality and disability rates. It shows that whereas a typical medium-income, two-earner couple born in 1920 received \$1.58 in benefits (in present value) for every \$1 in tax contributions, and a couple born in 1964 will receive back \$1.11 in benefits for every dollar contributed, a typical couple consisting of young workers born in 2004 will only receive 85 cents in benefits for every dollar in tax contributions.

Even this table understates the tax burdens facing younger workers, because it does not account for the costs of redeeming debt issued to the Social Security trust funds in 2011–12 from general revenues, to cover benefit payments during a temporary payroll tax cut. These calculations illuminate the windfalls paid to earlier generations as well as the income losses facing younger workers if baby boomers and Gen Xers take more out of the system than they paid into it.

Social Security cannot serve different generations fairly if its financing shortfall is closed entirely by raising tax revenues, because this would concentrate financial sacrifices on the younger generations already being treated worst under current law. Limiting the extent to which younger workers' tax burdens exceed the value of their benefits requires moderating the growth of benefits paid to baby boomers and Gen Xers over the upcoming few decades. Balancing reform measures among moderating benefit growth rates, adjusting eligibility ages, and increasing program revenues is not only sensible from the standpoint of political compromise; it is essential from the standpoints of intergenerational equity and program efficacy.

Progressivity

Two of Social Security's key functions operate in tension with one another. On the one hand, the program is purposely designed to be progressive. Its benefit formula consists of graduated accrual rates, set so that lower-income workers receive a higher return on their investment in Social Security than higher-income workers do. In Social Security parlance, these accrual rates are called "bend point factors," and can be thought of as being much like income tax brackets. The 90% factor operating on the bottom end of the scale means that lower-income earners accrue benefits very rapidly, while the 15% factor on the top end means that higher-income earners accrue benefits much more slowly. This design helps lower-income workers attain greater income security in retirement than they would likely be able to achieve through their own individual savings.

On the other hand, Social Security is not designed to be purely redistributive welfare, but rather a contributory insurance system. All participants, rich or poor, accrue benefits whenever they contribute taxes. This structure helps to preserve the exceptional political strength of Social Security, shielding it from the political opposition that naturally arises under welfare programs to which many Americans may contribute tax revenues without ever receiving benefits. This contribution-benefit link is also the main reason that there is a cap on the amount of one's earnings subject to the Social Security tax. As long as the link exists between individual Social Security contributions and benefits, eliminating the cap would simply mean that upper-income people accrue additional benefits that they do not need. Maintaining Social Security's basic design and continuing to distinguish it from welfare programs, both politically and functionally, requires preserving this vital link between individual contributions and benefits.

How much Social Security should redistribute income from higher-earning workers to lower-earning workers is inevitably a subjective value judgment. This means it is also a subjective value judgment how much more redistributive Social Security should be rendered (if at all) in legislated reforms. My experience listening to policy advocates across the political spectrum suggests there is a general consensus that the burdens of restoring Social Security's solvency should be borne predominantly by upper-income workers. However, there is no similar consensus behind specific methods to do so: For example, entirely breaking the link between an individual's contributions and benefits would almost certainly be controversial. Nor is there a consensus as to how much of

higher-income workers' contributions should go towards accruing their own benefits, and how much toward creating a general safety net for the vulnerable. Finally, there is no consensus as to how much of the financial shortfall should be closed by moderating the rate of growth of benefits paid to those on the higher-income end, as opposed to collecting additional taxes from them.

Although there is often a reflex, especially on the left end of the American political spectrum, to assume that the rich can best “pay their fair share” by increasing their taxes, enhancing Social Security’s progressivity can be done more efficiently by moderating the growth of their benefits. This is true for a number of reasons. For one, growing wealth disparities in the US are largely driven by the gains of older Americans relative to younger ones.¹⁴ These wealthier, older Americans are far more likely to be beneficiaries than taxpaying wage earners in the upcoming decades, and thus they are more efficiently reached by moderations of benefit growth.

It’s also important to remember the root source of Social Security’s financing shortfall: namely, an excess of scheduled benefits over contributions for current and past Social Security participants. Because of this, closing Social Security’s shortfall solely through increased revenue collections would mean raising taxes on many lower-income younger Americans while holding harmless many higher-income older Americans.

In sum, it is a subjective value judgment how aggressively Social Security should redistribute income from rich to poor. Too little redistribution reduces the program’s efficacy as a protection against poverty; too much destroys the perceived stakes of middle-income and higher-income participants in Social Security. But however this balance is struck, an optimal solution from a progressivity standpoint will require at least some moderation of benefit growth.

Work Incentives

Social Security was purposely designed to be a supplement to other forms of savings rather than an all-compassing retirement income system. Its creators did not intend that Social Security stop Americans’ other saving, a result that among other things would cause substantial damage to the national economy. Accordingly, Social Security is by design not means-tested, so that participants are not directly penalized for other income they generate, nor for the pension benefits or retirement saving they accumulate.

Despite this intent that Social Security coexist with other savings, the program exerts a drag on individual saving for several reasons. One is that Social Security’s old-age benefits are subjected to progressively applied income taxes above certain income thresholds, thereby imposing higher tax rates as earnings on savings increase. Another is that the mere existence of Social Security discourages other savings. To the extent that individuals pay payroll taxes and accrue Social Security benefits, they have both less incentive and less ability to save. Lower-income Americans are substantially less able to save for themselves after Social Security payroll taxes are taken from

their paychecks. Higher-income Americans are relatively better able to save, but they also have less reason to do so when Social Security alone gets them more than halfway toward a reasonable personal retirement income goal.¹⁵

Social Security is deliberately designed to be unlike welfare; participants do not lose their Social Security benefits simply because they earn more. To the contrary, as workers earn more, they make larger contributions to Social Security, and their benefits increase. Nevertheless, in certain situations workers may receive hardly any additional Social Security benefits by generating additional earnings and paying additional payroll taxes. Elsewhere I have explained the technical reasons for this phenomenon, but suffice it to say here that the problem is worst for workers after they have worked for 35 years or more—that is, at precisely the point in their careers when they are contemplating leaving the workforce and drawing retirement benefits.¹⁶ It is obviously bad for middle-aged and senior workers if they receive back only pennies on each additional dollar they contribute to Social Security. Beyond this, it is also bad for the Social Security system, as well as the larger economy, if healthy, productive Americans are incented to prematurely end their workforce participation and begin collecting retirement checks.

As noted earlier, Social Security exhibits a natural tension between the extent to which a worker's payroll tax contributions earn benefits for that worker, and the extent to which they are redistributed to finance a safety net for others. To a first approximation, making the system more redistributive than it currently is would further reduce incentives for workforce participation and personal saving. Hence, policymakers must consider how they wish to strike the balance between maintaining work incentives and redistributing income.

Mechanisms to help policymakers balance these goals are available. Various forms of unintended regressive income redistribution exist under current law, which could be scaled back in a way that better targets safety net protections without undermining work incentives. Examples include Social Security's current nonworking spouse benefit, which is regressive in its effects, disproportionately benefiting higher-earning households without rewarding employment earnings.¹⁷ Moreover, Social Security's benefit formula, which calculates benefits as a function of a worker's career average earnings, mistakes many sporadic high-income workers for steady low-income workers and pays them unintended windfalls—a problem made worse by the recent enactment of the Social Security Fairness Act (SSFA).¹⁸ Reforming these provisions could simultaneously generate cost savings, increase progressivity, and improve work incentives.

There are also other ways around conflicts between preserving work incentives and strengthening safety net protections. Simply tilting the program's basic benefit formula to be more progressive would further undermine workers' returns on their payroll tax contributions. But if instead the safety net were strengthened by creating a new minimum benefit that increases with each year of earnings, work incentives could be preserved or even enhanced.

Stabilizing Two Trust Funds: Old-Age and Disability

This guide will give only brief attention to Social Security's parallel benefit system of disability benefits. There are a few essential things to know about Social Security Disability Insurance (DI). One is that DI is funded via a separate trust fund and financed with a separate payroll tax. This reflects an agreement among lawmakers when DI was first added to Social Security, that these added benefits would not be permitted to weaken the finances of the Old-Age and Survivors (OASI) benefit system.

Another important fact is that the DI benefit formula is essentially the same as the one used for Old-Age benefits, with the distinction that fewer years of earnings are taken into consideration for DI, reflecting the younger ages at which one can become eligible for DI benefits as opposed to Old-Age benefits.

A third important fact is that DI benefits automatically convert to OASI benefits when a beneficiary reaches Full Retirement Age (FRA, now 67). Using the same formula for each type of benefit allows for a seamless transition upon conversion. It also theoretically limits participants' ability to game the system by applying for a higher benefit through disability than the one they would receive by retiring. However, while DI benefits match the Old-Age benefits received at the FRA, Old-Age benefits claimed earlier (i.e., between ages 62 and 67) are smaller due to the actuarial benefit reduction applied to early claims. This creates an incentive for nondisabled people to apply for higher DI benefits between the ages of 62 and 67—yet another example of the problems created by allowing early eligibility a full five years before FRA.

There are several policy challenges unique to the DI system that warrant lawmakers' attention. DI has higher administrative costs than OASI, and disability determinations can be inconsistent and plagued by long backlogs. DI has historically been susceptible to fraudulent claims¹⁹ and improper payments.²⁰ Experts such as Mark Warshawsky find that the grid SSA uses to cross-reference different occupational requirements with claim ages and medical conditions is out of date, and that the process for adjudicating disability claims warrants an overhaul.²¹ These are all issues of importance to program participants and thus should be of importance to lawmakers as well.

Nevertheless, this guide will give inadequate attention to DI's unique issues for a number of reasons. One is that this guide focuses on addressing Social Security's financing shortfall, and under current trustees' projections, DI will face no such shortfall over the next 75 years.²² Furthermore, this author believes it is a strength of Social Security that its DI benefit formula is linked to its OASI benefit formula, and thus he does not recommend separate changes to DI's formula to decouple them. Finally, any changes made to moderate the growth of OASI's benefit formula will (in the absence of specific actions to decouple the formulas) also affect DI's, thereby strengthening the finances of both trust funds.

Assembling a Plan, Part I: Eligibility Ages

One policy that must be decided in a plan for Social Security is its system of eligibility ages. The current eligibility system is both confusing and outdated for modern US demographics. Under current law, Old-Age benefits can be taken as early as age 62, defined in law as the program's Early Eligibility Age (EEA). Astoundingly, this is three years *younger* than when Social Security was first enacted in 1935 and is incommensurate with modern conceptions of old age. The FRA is currently 67, only two years older than at Social Security's inception, despite cohort life expectancy at age 65 having increased nearly seven years since then.²³

Social Security participants are permitted to claim benefits at the age that best suits their individual circumstances, including their health status, financial situation, and expected remaining years of life. Monthly benefits are adjusted downward if claimed earlier than the FRA, to reflect the fact that the claimants collect benefits for more months. Monthly benefit amounts are increased if claimed later than the FRA for similar reasons, via a Delayed Retirement Credit (DRC). In short, Old-Age benefits can currently be claimed as early as 62, and the amount of the monthly benefit is adjusted according to the age of claim—smaller if claimed when younger, larger if claimed at an older age.

A reformed Social Security system will reflect lawmakers' decisions with respect to each of the following: setting the age of first eligibility for OASI benefits (now 62), the age of eligibility for the standard benefit (now 67), the actuarial adjustments applicable at different claim ages, and the nomenclature used to explain these factors to participants.

Naming the eligibility ages

Although not bearing a direct impact on Social Security solvency, a reformed regime of eligibility ages would function better if renamed along the lines of bipartisan legislation introduced in the U.S. Senate in 2024, the Claiming Age Clarity Act.²⁴ This act would rename Social Security's EEA as the "minimum monthly benefit age," the FRA as the "standard monthly benefit age," and the age at which the DRC is fully effective (70 under current law) as the "maximum monthly benefit age." Such renaming would communicate to participants exactly what they need to know—e.g., that if they claim as early as 62, they will minimize their monthly benefit, but if they delay their claim to 70 or later, they can maximize it.

This nomenclature would be a significant improvement over current law, in which the nomenclature of "Early Eligibility" can misleadingly sound like an extra benefit or, even more misleadingly, cause participants to misbelieve that changes to the "Full Retirement Age" would push back the date at which they can first claim benefits. The salient facts for participants to know are the age at which they become eligible for a minimum benefit and the fact that their monthly benefit will increase as they defer claiming benefits.

The minimum benefit age

Gradually raising Social Security's minimum Old-Age benefit age from its current 62 would not directly improve program solvency. Monthly benefits are automatically adjusted downward the younger one's claim age: Hence, if participants must wait until 63 instead of the current 62 to claim benefits, they will be compensated by receiving larger monthly benefits, resulting in no systemic reduction in benefit obligations. Nevertheless, there are several important reasons to adjust the minimum benefit age. Doing so would increase income security and reduce senior poverty, because receiving larger monthly benefits at older ages reduces the risk of outliving one's savings. Americans are at greater risk of poverty in their 80s and 90s than they are in their mid-60s, and claiming larger benefits later in life would reduce this risk.

Another reason for updating Social Security's minimum benefit age is that it is increasingly detached from demographic realities such as improved health and greater longevity. It is unnecessarily damaging that well into the 21st century, the most common age of benefit claim is 62.²⁵ It would be risible to claim that 21st-century Americans with modern health and longevity are somehow less able to wait until 65 to claim benefits than was the much shorter-lived generation that fought the Spanish American War of 1898. Continuing to act as though Americans age and die much earlier than we actually do can only result in skyrocketing tax burdens, deteriorating retirement income security, or both.

Reforming the minimum benefit age would carry additional benefits as well, including increased workforce participation by middle-aged Americans and stronger economic growth. Further, Social Security's Old-Age benefit system is designed to deliver benefits at advanced ages, not in cases of unusual physical deterioration, which is instead the function of Social Security's DI program. Once individuals reach their 60s, Social Security's DI program employs more lenient standards for disability qualification than it does at younger ages, to accommodate those for whom physical wear has made continued workforce participation impracticable.²⁶

In sum, Social Security's minimum benefit age should be adjusted to reflect current demographic realities and to protect seniors from prematurely claiming Old-Age benefits in a manner that exacerbates their risk of poverty. One possible way to do this would be to gradually raise the minimum benefit age by 2 months per year so that it returns to its original 65 after an 18-year phase-in.²⁷ After that, it could increase by one month per year, so it reaches 66 in 30 years and 67 in 42 years. Even after all such changes, the age of first eligibility for Social Security benefits would still have increased by only two years, from 65 to 67, over more than 125 years of program operations.

The standard benefit age

As mentioned above, adjusting Social Security's minimum benefit age would enhance seniors' income security but not extend program solvency. The eligibility age adjustment necessary to improve Social Security's finances is its standard benefit age, a key determinant of the benefit an

individual receives at a given age of claim. If, per the previous paragraph, Social Security's minimum benefit age were increased by two months a year, then after 12 years of phasing in, it would have returned to within three years of the standard benefit age (at that point, the minimum benefit age would be 64 and the standard benefit age 67). Reestablishing this three-year difference would return Social Security to a long-standing norm throughout the late 20th century, as well as avoid the diminutions in annual benefits (and increased risk of poverty) that can result when these two important claim thresholds are as much as four or five years apart.

To remain in tandem with the previously suggested schedule for adjusting the minimum benefit age, the standard benefit age could thereafter rise by two months a year until it hits 68, then afterward one month a year until it reaches 70 in the late 21st century. This would close approximately 24% of the 75-year actuarial deficit and roughly 36% of annual deficits by the end of the 75-year window.²⁸ (To achieve sustainable solvency requires closing both financing gaps). Table 1 summarizes what the minimum benefit age and the standard benefit age would be under this schedule, assuming legislation is enacted this year and becomes effective in 2026.

It is occasionally argued that adjusting the eligibility age for full/standard Social Security benefits would be unfair to lower-income Americans, who tend to have shorter lifetimes than higher-income Americans. This mortality differential is real and unfortunate, but it in no way implies that Social Security's eligibility ages should remain as they are. First, the mortality differential will still exist regardless of where Social Security's eligibility ages are set, and there is nothing about mortality differentials that suggests the current eligibility age regime is the optimal one. Second, individuals can choose any claim age after earliest eligibility that works best for them, taking into account their health status and life expectancy. And third, even if changing the standard benefit eligibility age did have a disproportionate adverse impact on lower-income workers, that problem is easily surmounted by making an offsetting change to the benefit formula to make it more progressive. The wrong answer to mortality differentials is to pay all higher-income, healthy individuals to retire prematurely, as is currently done.

TABLE 1. Illustrative Minimum and Standard Benefit Age Reforms over Time

Year	Minimum Benefit Age	Standard Benefit Age
1940 (first beneficiaries)	65	65
2025	62	67
2037	64	67
2043	65	68
2055	66	69
2067	67	70

The maximum benefit age

Social Security currently pays a DRC that increases annual benefits by 8% per year of deferral, up to three years past the standard benefit age. Continuing this policy would result in the maximum benefit age automatically adjusting in tandem with Social Security's standard benefit age. Lawmakers always have the option of extending the DRC still further, so that participants could choose to continue to defer benefits and thereby receive higher annual benefits once claimed.

Other age-related adjustments

Other useful adjustments can be made to Social Security's system of eligibility ages. One involves the formulas used to reduce monthly benefits for early claims (the Actuarial Reduction Factor, or ARF) and to increase benefits for the DRC. Under current law, formulas are calculated to hold average lifetime Social Security benefits roughly constant regardless of claim age, to prevent gaming of the system from draining system finances. One problem with this is that if one delays one's claiming age and stays in the workforce, one pays additional payroll taxes without receiving significant additional benefits for doing so. Economist Andrew Biggs found that for each additional dollar of payroll taxes paid by working seniors, they receive only 2.5 cents in additional benefits, a terrible work disincentive right at the moment in life when younger seniors are making retirement decisions.²⁹

One possible reform is to increase the sizes of the ARF and DRC to reflect the value of payroll taxes paid by working seniors: e.g., increasing the ARF for claiming three years early from 20% to 25%, and increasing the DRC from 8% a year to 10%. Because more individuals claim early rather than late, this change would produce a small improvement in system finances. Perhaps more importantly, it would position Social Security on the side of working seniors, instead of operating against them as it currently does.

Another possible reform is to offer a lump sum option for receiving the DRC, following evidence that individuals respond more to the prospect of a substantial lump sum than to a small adjustment in monthly benefits.³⁰ Offering this option would not change Social Security's actuarial status but could induce greater workforce participation and retirement income security among seniors. Finally, the Retirement Earnings Test, which withholds benefits from claimants if they have significant employment earnings prior to the FRA, could be repealed. This adjustment would also not directly affect Social Security solvency, but it would remove another disincentive for seniors' workforce participation.

Estimated effects of these age-related provisions are given in table 2.

Assembling a Plan, Part II: Benefit Growth

Certain aspects of Social Security policy, such as deciding the appropriate levels for benefits, involve subjective value judgments. Other benefit policy decisions require confronting unavoidable

TABLE 2. Projected Financial Effects of Adjustments to Social Security Eligibility Ages

Provision	Percentage of 75-year actuarial shortfall closed	Percentage of annual cash shortfall closed by 75th year
Increase minimum benefit age to 67 and standard benefit age to 70 by 2067	24%	36%
Increase ARF for early claims and DRC for delayed claims, to reflect payroll tax payments	7%	6%
Offer DRC as a lump sum	0%	0%
Repeal Retirement Earnings Test	0%	0%

Source: Social Security Administration, "Long-Range Solvency Provisions: Proposed Provision C2.4," accessed September 9, 2025, https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run101.html.

problems. As mentioned earlier, Social Security's current per capita benefit growth rate warrants moderation. Current automatic growth methods are not sustainable within stable payroll tax rates. And current benefit and cost growth rates cause taxpaying workers' living standards to persistently lag behind the automatic boosts to beneficiaries' incomes.³¹

In addition to the above considerations, certain features currently fueling excess growth warrant reform for the simple reason that they involve technical mistakes. One of them is CPI-W, the Consumer Price Index for Urban Wage Earners and Clerical Workers, used to calculate Social Security Cost of Living Adjustments (COLAs). There is a broad consensus among economists that the CPI-W overstates actual price inflation. The main reason for the overstatement is that unlike C-CPI-U, the Chained Consumer Price Index for All Urban Consumers, CPI-W is not a chained index and thus does not adequately account for changes in buying patterns.³² Also, CPI-W only measures inflation for 30% of the U.S. population, whereas C-CPI-U measures it for 90%.³³ The only reason Social Security uses CPI-W today is that it was the measure available when inflation-indexation was adopted in the 1970s.³⁴

An analysis by the Social Security chief actuary's office found that correcting COLA calculations by using the C-CPI-U would close roughly 16% or 17% of the financing shortfall under 2025 estimates, depending on the specific metric cited.³⁵ Also, importantly, it is one of the few ways that current participants can reasonably contribute to achieving solvency, which is essential if the program is to adequately serve younger generations.

Another reform that would improve program fairness while strengthening finances is to reform the nonworking spouse benefit. Currently the nonworking spouse benefit can be as high as 50% of the household primary worker's benefit, which represents a significant transfer of income from

lower-income households to higher-income households. For example, the nonworking spouse of the richest earner can currently be eligible—without paying any payroll taxes—for a spousal benefit nearly twice what a minimum-wage worker can earn over a lifetime of paying payroll taxes.³⁶ For this reason, some reformers have proposed eliminating the nonworking spouse benefit altogether.³⁷ Short of that, another option is simply to cap the nonworking spouse benefit so that going forward, it cannot exceed what a minimum-wage single worker can earn over a full career of payroll tax contributions. The cap could be indexed to grow with C-CPI-U in future years. This reform would slightly improve system finances, perhaps by as much as 2% of the current 75-year shortfall, or 3% of the annual shortfall in the 75th year.

Another reform that would be meritorious in its own right, apart from its financial effects, would be to replace Social Security's current benefit formula, which operates on the average of a worker's career earnings, with a mathematically equivalent formula that operates separately on each of the worker's years of annual earnings. In other words, instead of applying the current benefit formula to the average of a worker's top 35 earnings years, the formula could be divided by 35, applied separately to each year of earnings, and added up to produce the worker's total benefit. For someone who worked steadily for 35 years, this adjustment would leave their benefit basically unchanged. The divisor could be changed to 37 to reflect the recent increase in the standard benefit age from 65 to 67, or further increased to 38 if and when the standard benefit age reaches 68, and so forth.

There are a number of important reasons for such a reform. One is to preserve work incentives for workers when they reach their 60s. Because the current formula only operates on an average of the top 35 earnings years, once one has worked for 35 years, one's additional benefits received for additional payroll taxes currently decline to almost nothing. Applying the benefit formula to each separate year of earnings would preserve work incentives regardless of the worker's age or previous work history, and it would more closely resemble how benefits accrue in a private pension plan.

Another reason this reform is desirable is that the program's current progressive formula, which is intended to help lower-income workers, actually rewards many higher-income individuals simply for not working as often. It has this unintended and undesirable effect because it does not distinguish between a steady working-class earner (e.g., someone who earns \$50,000 a year for 30 years) and a higher-income individual who seldom works (e.g., someone who earns \$150,000 a year but only works for 10 years). This problem of unintended windfalls for sporadic high-income workers recently worsened with the passage of the SSFA, which repealed the Windfall Elimination Provision (WEP). Reforming the Social Security benefit formula in this way might close roughly 8% of the program's financing shortfall over 75 years and 8% of the annual cash shortfall in the 75th year.

The 2024 enactment of the SSFA repealed the WEP and Government Pension Offset (GPO). Roughly 4% of the program's currently projected shortfall is attributable to the SSFA. Although simply repealing the SSFA would be a step in the right direction, a better solution would be to replace the previous WEP and GPO with updated provisions that more accurately adjust benefits

for workers' untaxed earnings. Taken together, these corrective measures could close roughly 5% of the currently projected shortfall.

As described earlier, the current method of indexing the bend points in the Social Security benefit formula (to growth in the national Average Wage Index) causes program costs to grow faster than is sustainable. It also causes per-capita benefits to grow faster than taxpaying workers' standards of living. It is essential for program financing, as well as for equity between workers and beneficiaries, that this growth rate be moderated, even if the degree of moderation is modest enough that the overall financing solution does not rely heavily upon it.

Under 2024 trustees' report assumptions, implementing annual changes to the bend point factors so that benefits grow with price inflation rather than wage inflation would close 85% of the long-term financing shortfall, which would be roughly 77% of the financing shortfall under 2025 assumptions.³⁸ Indexing the bend points themselves (rather than the bend point factors) to grow with inflation would close roughly half as much, or 38% of the shortfall. Reindexing the bend points by an amount roughly halfway between price indexation and wage indexation would close roughly 19% of the 75-year shortfall, also closing 37% of annual cash-flow deficits by the 75th year. Thus, even small incremental changes to the rate of benefit growth can produce qualitative financial improvements over the long run.

Lawmakers may wish to shield low-income participants from the effects of benefit growth and eligibility age changes, contingent upon consistent workforce participation. One possibility I sketched out in a previous publication is to have Social Security guarantee a benefit of no lower than 125% of the poverty line once an individual has completed 30 years of covered work, phasing in 1/20 of this protection for each year of work between 10 and 30 years.³⁹ Such a phase-in would provide significant benefit enhancements for many low-income households while preserving work incentives, and it was estimated to add roughly 5% to the program's long-term shortfall.

Table 3 summarizes these possible reforms to Social Security's benefit formulas.

Assembling a Plan, Part III: Tax Revenues

Should policymakers decide additional revenues are needed for Social Security, there are various ways to provide those revenues. Many of these possibilities, however, would not maintain Social Security's historical design. For example, if Social Security were to receive financing from general government revenues, or from taxes on wealth or capital gains, or via any other mechanism through which individuals make financial contributions without accruing benefits, Social Security's foundational construct as an unsubsidized, earned benefit would be undone. It would become just another welfare program to which one set of people contribute their taxes without accruing benefits, while another set of people receive benefits for which they didn't pay.

TABLE 3. Projected Financial Effects of Adjustments to Benefit Formulas

Provision	Percentage of 75-year actuarial shortfall closed	Percentage of annual cash shortfall closed by 75th year
Calculate COLAs with more accurate C-CPI-U	16%	17%
Cap NW spouse benefit at amount earned by steady minimum-wage worker, and index afterward for C-CPI-U	2%	3%
Mini-PIA: Divide current Primary Insurance Amount (PIA) formula by 37, phasing to 40, and apply additively to each year of annual earnings	8%	8%
Establish corrected WEP and GPO	5%	5%
Index PIA benefit formula bend points by the midpoint of price inflation and wage growth	19%	37%
Guarantee minimum benefit of 125% of the poverty line, phasing in 1/20 of the new benefit from 10 to 30 years of work	-5%	-5%

Source: Social Security Administration, "Long-Range Solvency Provisions: Proposed Provision A3," accessed September 9, 2025, https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run144.html.

Tax revenue options that would by contrast preserve Social Security's historical design include broadening the forms of income subject to the payroll tax (again, subject to the proviso that any increased contributions made under the latter two options are credited toward benefits), increasing the payroll tax base, and increasing the payroll tax rate.

Broadening the base

Many proposals to subject other forms of worker compensation to the Social Security payroll tax, such as employer-provided health benefits, suffer from the downside that their effects would likely be regressive, collecting a higher percentage of the earnings of lower-income workers (for whom health benefits represent a proportionally larger share of their employment compensation). A different base-broadening proposal that would avoid this problem has been put forward by the Brookings Institution: to subject distributions to pass-through business owners to the payroll tax as long as they fall below the Social Security taxable earnings cap.⁴⁰ This provision is estimated to close roughly 5% of the 75-year shortfall and 4% of the annual shortfall in the 75th year.

Raising the cap on taxable wages

Probably no potential change to Social Security is the subject of greater public misunderstanding than raising the cap on taxable wages, thereby increasing the amount of higher-earners' income

subject to the Social Security payroll tax. Virtually any time Social Security’s financing shortfall is discussed, someone offers the view that the only thing necessary to restore Social Security to long-term solvency is to raise the cap. Unfortunately, this isn’t even close to being true. Exposing every penny of earnings in the US to the full amount of the payroll tax would close only roughly half of the 75-year shortfall and only 29% of the program’s long-term annual deficits under 2024 estimates, or merely 26% under 2025 estimates.⁴¹ Raising the cap on taxable wages would create other inefficiencies as well, because it would result in increased system costs from paying additional benefits to high-income individuals who don’t need them (a problem that could only be sidestepped by taking the damaging step of severing the link between individual contributions and benefits).

No matter what, the preponderance of Social Security’s solvency solution must involve measures other than raising the cap on taxable wages. Because the principle has been embraced by so many, however, any bipartisan solution would likely include at least some increase in the payroll tax cap. Raising it to cover 90% of all wages nationwide, close to its historic high, would close roughly 22% of the 75-year shortfall, or 14% of annual shortfalls through the end of 75 years.⁴²

Increasing the payroll tax rate

Beyond broadening and raising the payroll tax base as much as is practicable and useful, one simple option is to raise the current payroll tax rate of 12.4%. Raising it to 12.7% could close about 8% of the 75-year shortfall and 6% of annual shortfalls by the end of 75 years.

Table 4 summarizes these options for closing one-third of the program’s 75-year actuarial shortfall through revenue increases.

Putting It All Together

A viable Social Security financing plan must pass several tests. It needs not only to achieve long-term solvency (defined as actuarial balance over the trustees’ long-range valuation period of 75 years), but also to close the system’s annual cash shortfalls in the latter part of the valuation period. Passing both tests is necessary to avoid repeating a problem that emerged after the 1983 Social Security reforms: namely, that they achieved long-range solvency but not *sustainable* solvency. The average actuarial balance projected in the 1983 reforms problematically consisted of large surpluses in the early part of the 75-year period, followed by large and growing deficits later in the period. As a result, the solution began to unravel almost as soon as it was enacted; trustees’ reports in the mid-1980s showed Social Security once again out of balance, almost immediately after lawmakers had expended so much effort to balance it.⁴³

The reemergence of shortfalls immediately after the 1983 reforms was more than just an embarrassment to lawmakers; it also meant that Social Security participants were inadvertently being

TABLE 4. Projected Financial Effects of Revenue Increases

Provision	Percentage of 75-year actuarial shortfall closed	Percentage of annual cash shortfall closed by 75th year
Subject pass-through business owner earnings to the payroll tax	5%	4%
Increase the payroll tax cap to cover 90% of national earnings	22%	14%
Increase the payroll tax rate from 12.4% to 12.7%	8%	6%

Source: Social Security Administration, “Long-Range Solvency Provisions: Proposed Provision E3.1,” accessed September 9, 2025, https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run266.html.

misled, in that additional tax increases, benefit reductions, or both would be required in the future that weren’t being disclosed. To prevent a recurrence of this problem in future Social Security rescues, the SSA Office of the Chief Actuary has subsequently graded all reform proposals by two measures: actuarial balance on average over 75 years, and the annual cash balance in the 75th year. For a reform plan to put Social Security on a sustainable course, it must close both shortfalls.

Lawmakers should also be mindful that interactive effects among individual provisions can cause the total financial improvement from a reform package to be less than the apparent sum of the parts. For example, a hypothetical eligibility age change might close 20% of the shortfall, and a hypothetical benefit formula change might close 30% of the shortfall, but together they would likely close less than 50%. This is because the eligibility age change would save less if it’s applied to a less generous benefit formula—or, put the other way, an annual benefit reduction will save less money if applied over fewer years of outlays.

Interactive effects can also operate in a positive direction: For example, indexing the benefit formula’s bend points for price inflation would save more if combined with a provision to use the chained C-CPI-U for all Social Security indexation. Only after a plan is scored in its entirety is it possible to know the extent of interactions among provisions, but lawmakers would be wise to build in a cushion of 3% or more when negotiating provisions (i.e., provisions that separately add up to closing at least 103% of the shortfall), to be relatively certain that the resulting package meets the two key solvency tests.

The provisions listed in this explanatory article would, if all were adopted, save more than necessary to achieve sustainable solvency, allowing lawmakers a cushion for interactive effects or for dialing back any provisions that prove to be sticking points in bipartisan negotiations. Table 5 summarizes the various options.

TABLE 5. Projected Financial Effects of Reform Provisions

Provision	Estimated percentage of 75-year actuarial shortfall closed	Estimated percentage of annual cash shortfall closed by 75th year
Increase minimum benefit age to 67 and standard benefit age to 70 by 2067	24%	36%
Increase ARF for early claims and DRC for delayed claims, to reflect payroll tax payments	7%	6%
Offer DRC as a lump sum	0%	0%
Repeal Retirement Earnings Test	0%	0%
Calculate COLAs with more accurate C-CPI-U	16%	17%
Cap NW spouse benefit at amount earned by steady minimum-wage worker, and index afterward for C-CPI-U	2%	3%
Mini-PIA: Divide current PIA formula by 37, phasing to 40, and apply additively to each year of annual earnings	8%	8%
Establish corrected WEP and GPO	5%	5%
Index PIA benefit formula bend points by the midpoint of price inflation and wage growth	19%	37%
Guarantee minimum benefit of 125% of the poverty line, phasing in 1/20 of the new benefit from 10 to 30 years of work	-5%	-5%
Subject pass-through business owner earnings to the payroll tax	5%	4%
Increase the payroll tax cap to cover 90% of national earnings	22%	14%
Increase the payroll tax rate from 12.4% to 12.7%	8%	6%
Total, prior to interactions	111%	131%

Source: Author's calculations.

Additional analyses would optimally be performed before any legislated solution is finalized. Among them are calculations similar to those in Table VI.F.2 in the trustees' report⁴⁴ and Actuarial Note 2024.7, to illuminate the relative treatment of different generations of Social Security participants.⁴⁵ Unfortunately, the ideal of perfectly equitable treatment across generations is at this point essentially unattainable due to the excess of benefits over tax contributions for those who have already claimed benefits. Nevertheless, reformers should aim to have today's young and future workers come out closer to even than they do under current law, which requires older generations making at least some net contribution to program solvency. These contributions from older generations could be achieved on either the revenue or the outlay side. At the very least, a solution should not make the intergenerational inequity problem worse by increasing net benefit gains for current participants, which would worsen net income losses for younger workers.

Lawmakers will likely want to monitor the distribution of net benefits by income level, to ensure that the program meets national policy goals such as protections against poverty while still providing for reasonable treatment of participants at all income levels. However, there are right and wrong ways to conduct these evaluations. One clearly wrong way is to measure benefits under proposed reforms only against currently scheduled future benefits, which over the distant future would be much higher than today's levels in real (inflation-adjusted) terms, and which cannot be paid without enormous tax increases. Net treatment under Social Security can be fairly measured only by taking into account both sides of the equation, meaning both taxes and benefits, as is done in the "money's worth" calculations performed by the Social Security Office of the Actuary. Even some of the tables included in those actuarial memoranda are not meaningful because they assume benefits can be paid without tax collections to finance them. For example, in Actuarial Note 2024.7, table 3a is meaningful while table 1 is not.

Benefit adequacy is usefully measured by comparing the real value of future benefits to today's levels, while benefit equity is usefully measured by comparing the net present value of lifetime tax contributions and lifetime benefits. These can be computed for prototypical workers of various illustrative income levels. The key mistakes to avoid include comparing a reform plan's benefits with currently unfinanced, long-distant future benefit schedules, as well as comparing benefits among plans without adjusting for the different levels of tax revenues required to finance them. Such comparisons are uselessly misleading.

Table 6 illustrates how such a money's worth analysis might usefully be presented.

A well-crafted proposal would increase current law's weak money's worth returns for younger workers, as shown in table 6, and reduce the extent to which older generations weaken system finances by taking out more than they contribute.

The progressive tilt of the benefit structure, providing higher returns to lower-wage workers, has broad support from across the political spectrum, but how much income redistribution is too

TABLE 6. Money’s Worth Ratio: Present Value of Lifetime Benefits/Taxes, Two-Earner Couple

Birth Year	Very Low Wage (Current Law)	Very Low Wage (Proposal)	Low Wage (Current Law)	Low Wage (Proposal)	Medium Wage (Current Law)	Medium Wage (Proposal)	High Wage (Current Law)	High Wage (Proposal)	Max Wage (Current Law)	Max Wage (Proposal)
1955	2.06	TBD	1.49	TBD	1.04	TBD	0.86	TBD	0.67	TBD
1964	2.29	TBD	1.63	TBD	1.11	TBD	0.89	TBD	0.65	TBD
1973	2.36	TBD	1.66	TBD	1.12	TBD	0.90	TBD	0.67	TBD
1985	2.16	TBD	1.50	TBD	1.01	TBD	0.81	TBD	0.61	TBD
1997	1.88	TBD	1.31	TBD	0.88	TBD	0.70	TBD	0.53	TBD
2004	1.80	TBD	1.26	TBD	0.85	TBD	0.68	TBD	0.50	TBD

Source: Karen Rose, Kyle Burkhalter, and Daniel Nickerson, “Money’s Worth Ratios Under the OASDI Program for Hypothetical Workers,” Actuarial Note No. 2024.7 (Social Security Administration, Office of the Chief Actuary, October 2024).

much or too little is subjective. Lawmakers will need to decide how much more favorably Social Security should treat lower-income workers than higher-income workers.

Benefit adequacy is better evaluated by some measures than others. As previously mentioned, one analytical mistake is to compare future benefits under a reform proposal to scheduled benefits under current law, or to today’s benefits in “wage-indexed” dollars (i.e., benefits adjusted across time not for price inflation, but for intervening growth in the national average wage index). Similarly problematic is calculating benefit “replacement rates” as a percentage of pre-retirement income indexed for national average wage growth. Such calculations are misleading because scheduled benefits would not be paid under current law, and indeed cannot be paid without dramatic future tax increases.

Such comparisons also distort the basis of evaluation by implicitly assuming the subjective value judgment that per capita benefits should grow as fast as worker wages—that is, significantly faster than price inflation. This in turn assumes that total system benefits and costs should grow faster than the program’s tax base in worker earnings. Any growth rate less rapid than this would be automatically deemed equivalent to a benefit cut, when it is no such thing. That Social Security benefits should grow as fast as worker wages is as valid a policy opinion as any other. However, it is not correct to assert that anything short of that is a benefit cut.

A more meaningful way to measure the growth of benefits is to compare future benefits at the FRA (or “standard benefit age”) to today’s levels, and measure how much they would grow in real terms, as in table 7. The earnings profiles these labels refer to are explained in Table V.C.7 in the trustees’ report’s supplemental tables maintained by the Social Security Chief Actuary.⁴⁶

TABLE 7. Standard Benefit Age (NRA) Benefits (CPI-Adjusted) for Workers with Different Earnings Patterns

Year Worker Turns 65	Scaled Very Low Earner	Scaled Low Earner	Scaled Medium Earner	Scaled High Earner	Scaled Maximum Earner
2010	\$11,894	\$15,574	\$25,705	\$34,021	\$40,490
2015	\$12,279	\$16,074	\$26,527	\$35,106	\$42,634
2020	\$13,032	\$17,051	\$28,133	\$37,249	\$45,483
2025	\$13,485	\$17,700	\$29,283	\$38,574	\$47,418
2030	TBD	TBD	TBD	TBD	TBD
2035	TBD	TBD	TBD	TBD	TBD
2040	TBD	TBD	TBD	TBD	TBD
2045	TBD	TBD	TBD	TBD	TBD

Source: Social Security Administration, Office of the Chief Actuary, *2025 OASDI Trustees Report*, Single-Year Table V.C7, “Annual Scheduled Benefit Amounts for Retired Workers with Various Pre-Retirement Earnings Patterns, Based on Intermediate Assumptions, Calendar Years 1940–2100,” accessed September 9, 2025, <https://www.ssa.gov/OACT/TR/2025/lr5c7.html>.

It is useful, indeed strongly advisable, to look at benefits from both angles. The money’s worth analysis evaluates, as the name implies, the extent to which differently situated workers receive a reasonable return on their investments in Social Security, as well as the degree to which income is progressively redistributed. It speaks to the *equity* part of the policy value judgment. Table 7 speaks to the *adequacy* part of the policy value judgment—that is, the degree to which Social Security provides protection against poverty in old age. These different measures speak to the multiple purposes of Social Security—as both a safety net against poverty and a universal contributory insurance benefit.

In an ideal policy world, lawmakers would not only restore Social Security to sustainable solvency, but address other program policy challenges including equity across birth cohorts and earnings levels, benefit adequacy, tax burdens, and incentives for personal saving and workforce participation. Because Social Security taxes reduce one’s ability to engage in other saving, and because Social Security benefits reduce one’s incentive to save, lawmakers must carefully consider how to strike the balance between benefit adequacy on the one hand, and reducing national saving, economic growth, and income on the other.

While calibrating savings incentives involves inherently subjective value judgments, work incentives under current law are a problem from almost any mainstream perspective. As noted earlier, it is bad for both affected individuals and the national economy that Social Security effectively

punishes healthy, productive seniors who remain in the workforce by providing them with only 2.5 cents in benefits for every dollar they contribute in payroll taxes. Any reform plan should be analyzed for the returns it provides on taxpaying work at every stage of a worker's career—both what it provides for each additional dollar of taxable earnings within a given year, and what it provides for each additional year of earnings. Workers should not be disincented from working more in a specific year, nor should they be disincented from continuing their working careers, as Social Security often does under current law.

Many of these analyses can be performed by the Social Security Administration. SSA's Office of the Chief Actuary frequently analyzes reform proposals' financial effects as well as effects on benefits for various worker prototypes. SSA's Deputy Commissioner for Retirement and Disability Policy leads an Office of Research, Evaluation, and Statistics that can perform many analyses of individual treatment. The Congressional Budget Office and some private think tanks also possess models that enable evaluations of effects on participant income, work incentives, and program finances. Lawmakers would do well to make use of these resources, starting with the SSA offices established for that purpose, to make iterative improvements in reform proposals.

Regardless of the specific value judgments made by lawmakers, certain imperatives must be met if a reform plan is to provide future American generations with the opportunity to benefit from Social Security that previous generations have had.

First and foremost, Social Security's financial outlook must be stabilized. This will likely mean devoting additional tax revenues to the program, and it definitely necessitates moderating the automatic growth of program costs, whether accomplished by moderating the growth in the number of beneficiaries relative to taxpaying workers, by moderating the growth of per capita benefits, or both.

Social Security will also be unable to fairly serve future generations unless current participants make additional contributions to program solvency, whether through tax revenues or benefit growth moderation. Otherwise, maintaining solvency will require younger workers to suffer large losses of lifetime income.

Ideally, lawmakers would also incorporate reforms to restore incentives for personal saving and workforce participation, especially for healthy workers who have reached late middle age.

The specific provisions in this guide may be combined and modified for inclusion in such a reform plan, as illuminated by analyses from the Social Security Administration, Congressional Budget Office, and other simulation models. Such an investment of effort by lawmakers in comprehensive Social Security reform could pay Americans enormous dividends.

About the Author

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Notes

1. Social Security Administration, *2025 OASDI Trustees Report*, Section II.E, "Conclusion," accessed September 9, 2025, https://www.ssa.gov/OACT/TR/2025/II_E_conclu.html#86802.
2. This statement is true with respect to average growth over a 75-year period. Importantly, however, Social Security's currently projected insolvency is near enough in time that reducing the average growth rate from the AWI to the CPI would not by itself prevent trust fund depletion, so additional financing corrections would be needed. However, over the long term, having average benefits grow in proportion to the CPI would more than correct Social Security's 75-year financing imbalance. In other words, over the next 75 years in the aggregate, Social Security benefits could grow on average somewhat faster than the CPI, but over the first 15 years, additional revenues would be needed unless per-capita real (inflation-adjusted) benefits declined. Social Security Administration Office of the Chief Actuary, "Long-Range Solvency Provisions: Proposed Provision C2.6," accessed September 9, 2025, https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run103.html.
3. Social Security Administration, *2025 OASDI Trustees Report*, Section II.E, "Conclusion."
4. Social Security also receives a small amount of income from the income taxation of Social Security benefits, but these illustrations will ignore that factor in the interests of simplification.
5. Social Security Administration, Office of the Chief Actuary, "Long-Range Solvency Provisions: Proposed Provision C2.6."
6. Social Security Administration, Office of the Chief Actuary, *2025 OASDI Trustees Report*, Single-Year Table V.C7, "Annual Scheduled Benefit Amounts for Retired Workers with Various Pre-Retirement Earnings Patterns, Based on Intermediate Assumptions, Calendar Years 1940–2100," accessed September 9, 2025, <https://www.ssa.gov/OACT/TR/2025/lr5c7.html>.
7. Social Security Act § 215, "Computation of Primary Insurance Amount," in *Compilation of Social Security Laws, Title II—Federal Old-Age, Survivors, and Disability Insurance Benefits* (Social Security Administration, accessed September 9, 2025), https://www.ssa.gov/OP_Home/ssact/title02/0215.htm.
8. Social Security Administration, Office of the Chief Actuary, *Office of the Chief Actuary's Estimates of Proposals to Change the Social Security Program or the SSI Program* (also titled *Proposals to Change Social Security*), accessed September 9, 2025, <https://www.ssa.gov/OACT/solvency/index.html>.
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