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Before the U.S. Senate Committee on Finance
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Thank you, Chairman Crapo, Ranking Member Wyden, and all the members of the committee, for this opportunity to discuss potential processes for addressing Social Security solvency.

Why Social Security Solvency Matters

When considering the best process for moving forward, it may be useful to step back and remind ourselves why Social Security solvency matters. To get a sense of its importance, it can be instructive to review the Social Security amendments of April, 1983, the last major program financing reforms.

Consider the substantive reach and political controversy associated with the 1983 Social Security amendments. Among other things, federal lawmakers delayed the annual Cost of Living Adjustments (COLAs) by six months. They exposed a portion of benefits to income taxation for the first time. They gradually increased the full retirement age by two years. They required federal employees to join the system, meaning they were required to pay Social Security payroll taxes for the first time. They accelerated previously-enacted payroll tax rate increases. They increased the self-employment payroll tax rate.² These and other provisions of the law were intensely controversial and generated spirited opposition from lobbying groups.

Studying that comprehensive legislation prompts the question: why would lawmakers join hands in a bipartisan way, expose themselves to potent political attacks, and enact such controversial measures? The reason lay in the value lawmakers on both sides of the aisle saw in preserving Social Security's longstanding design as a solvent, self-financing income insurance program.

This historical achievement reminds us that maintaining Social Security solvency isn't just a matter of government bookkeeping. Solvency has tangible importance to participating workers because it underlies the reliability and predictability of Social Security benefits. Countless other federal programs, including other income support programs, are not required to be solvent in this way. As a result, the political dynamics of such programs are very different than Social Security's, providing a glimpse of what would be lost if Social Security's solvency failed to be maintained.

Most other federal income support programs (such as so-called welfare programs) operate very differently. We typically pay for those programs out of the federal government's general fund, meaning that they are largely financed by income taxes. We don't keep track of how much each taxpayer has contributed to support each program. Welfare benefits are typically provided on the basis of perceived need, without requiring that beneficiaries have paid income taxes to finance them. As a result, those programs' funders and their beneficiaries are not generally the same

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² Social Security Administration, "[Summary of P.L. 98-21](#)."

people, resulting in competing perspectives and interests. Wherever there is such a competition of interests, there is likely to be renegotiation of the terms of exchange. As lawmakers, you are more familiar than anyone with how welfare programs can change from one Congress to the next: who is eligible for benefits, what the benefit levels are, whether there is a means test or a work requirement, and so forth. No American can safely make long-term income plans around getting benefits from a federal welfare program, because there is no telling what the rules will be just a few years from now.

By contrast, participants can and do make long-term income plans around the presumption of receiving a certain amount of Social Security benefits. The reason they are able to do this is that Social Security benefits have been consistently secure and reliable. The basis of this stability is Social Security's financing design. When you are employed, you pay taxes earmarked specifically for Social Security. Your pay stub separately quantifies these Social Security contributions, and the federal government represents to you that they are credited to dedicated Social Security trust funds, which can only spend their financial resources on Social Security obligations. These trust funds, in turn, are not permitted to spend in excess of the revenues they have collected (including interest earnings). Your Social Security benefit is computed as a direct mathematical function, written into law, of the amount of your earnings taxed by Social Security.³ Unlike with a welfare program, there is a direct connection between what you put into Social Security and what you get out – both for you as an individual, and for participating workers as a group. This connection is what enables participants to say to lawmakers that they earned and paid for their benefits, and that they can't be arbitrarily taken away merely because political winds change.

There is a price for this unique stability and the exceptional political support that undergirds it. This construct only survives as long as lawmakers remain willing to do what they have done in the past: namely, to align Social Security's benefit schedule with what participating workers' tax contributions can finance. This has meant, from time to time, increasing payroll tax assessments, moderating the growth of benefits, and adjusting eligibility ages to keep Social Security's books in balance. If lawmakers are no longer willing to do these things, we cannot have this type of Social Security system anymore. We can certainly have *a* Social Security system, but not one in which benefits are fully financed by participating workers' contributions – and importantly, not one where all participating workers could still legitimately claim they had paid for their benefits.

The centrality of Social Security's financing design to the reliability of its benefits has long been noted by bipartisan expert councils. The report of the 1994-96 Social Security Advisory Council is an instructive case in point. That advisory council was starkly divided over policy recommendations, but they unanimously agreed that Social Security should remain a self-financing system, "without other payments from the general revenue of the treasury." As they eloquently expressed it, abandoning self-financing would harm Social Security because, "Federal budget results are inevitably determined by competition in allocating spending during the budget cycle, depending on the revenue generally available. Social Security. . . should not be part of an annual budgetary allocation process. There would be less security in a retirement system that changed benefits -- those being paid now or those payable many years hence -- because of short-term

³ Social Security Administration, Compilation of the Social Security Laws, "[Computation of Primary Insurance Amount](#)."

budgetary considerations.”⁴ Similar views have been expressed by countless other bipartisan advisory councils, including the 1957-1959 Social Security Advisory Council and the 1981 National Social Security Commission.⁵

Different experts may have different expectations of what would happen if lawmakers abandon the principle of self-financing solvency and turn to an alternative financing method. For my part, I agree with these historical bipartisan councils that such a step would risk the reliability of future benefits, and I further believe that the political dynamics surrounding welfare programs, which are so different from Social Security’s, should warn us to employ extreme caution before discarding Social Security’s current financing structure and benefit philosophy. If instead we want to retain the design that has historically kept Social Security so strong, there is challenging work ahead.

The Need for Prompt Action

The most important aspect of Social Security reform may simply be getting the process moving, and not permitting continued delay to render preserving solvency even more difficult than it already is.

Delays to date have made the task of restoring solvency much more difficult than it ever needed to be. Various illustrations in the Social Security trustees’ reports demonstrate how difficult it has already become. To restore long-term solvency solely by increasing Social Security’s payroll tax rate would require immediately increasing it from 12.40% to 16.65% -- an increase of over one-third in Americans’ total payroll tax burdens.⁶ Alternatively, solvency could be achieved by a roughly 25% across-the-board reduction in scheduled benefits. The utility of this latter illustration is lessened by the fact that federal lawmakers have never seriously advanced legislation to reduce benefits in this way for those already receiving them. More relevantly, as a percentage of new claims going forward, the required benefit reduction would be roughly 30%. Contemplating sudden changes of such severity should prompt our skepticism that, at this stage, a solution consisting solely of either tax increases or benefit reductions is remotely plausible from political or policy vantage points.

Examining prior trustees’ reports further illuminates the rising cost of continued delay. If we look back just ten years to the trustees’ report of 2016, we find that year’s calculation that attaining solvency would require savings equal to a 19% reduction in future benefit claims.⁷ In other words, these last ten years of delay have already increased the size of required benefit reductions from 19% to 30%. If action continues to be delayed until 2032 -- the currently-projected date of depletion of Social Security’s Old-Age and Survivors Insurance Trust Fund -- it will for all practical purposes become too late for corrective action to be achievable. At that point, even entirely halting all new benefit claim payments would be insufficient to avert insolvency.

In this respect, the current situation is very different from 1983’s. Prior to that time, Social Security operations had been essentially pay-as-you-go with no large trust fund reserves built up, so the program’s annual inflow and outflow were still reasonably close together when trust fund depletion

⁴ 1994-96 Advisory Council on Social Security, “[Findings, Principles and Recommendations Regarding the Overall Social Security system](#).”

⁵ Blahous, Charles, “[The Failure to Establish Effective Rules for Financing U.S. Federal Entitlement Programs](#).”

⁶ 2026 Annual Report of the Board of Trustees, “[Highlights](#).”

⁷ 2016 Annual Report of the Board of Trustees, “[Highlights](#).”

was threatened.⁸ Only this fact permitted a solution to be enacted so near to impending insolvency. Today, by contrast, because Social Security's annual cash deficits are already so large and growing, lawmakers do not have the luxury of waiting until the trust funds are nearly depleted before acting – at least not if they wish to have a reasonable prospect of preserving Social Security's historical design.

For comparison, consider that the largest cash deficit Social Security faced in the early 1980s was about 1.0% of the program's payroll tax base, and that even before the 1983 reforms, the program was anticipating future annual surpluses when the baby boomers filled the workforce. This meant that lawmakers merely had to enact enough short-term savings to get past a brief cash-deficit hump. Even that task required several difficult measures, as noted earlier in this statement. By contrast, when the 2030s arrive, the system's annual cash deficits will be more than two and a half times as large as a percentage of the program's tax base (>2.6%) – and instead of being a temporary hump as projected in 1982, would be followed by still larger ones.⁹ The point is that federal lawmakers are already in the unfortunate position of needing to legislate measures that are 2-3 times as severe and sudden as those enacted in 1983, and this situation gets worse the longer we wait.

Thus, expeditious action is necessary. Federal lawmakers are better positioned than any outside expert to determine which legislative procedure is most likely to deliver it. Useful information outside experts can provide includes detailing the substantive importance of swift action, as well as the most important analyses to conduct to arrive at a successful and equitable result. The next section of my statement will discuss such analysis.

Analyzing Reform Proposals

There is much informative Social Security history to be drawn upon when crafting financing reforms. In this section, I will explain the rationales behind the methods that have been developed to measure Social Security's financial condition, as well as possible alternatives to those methods, and considerations to bear in mind with each.

The Social Security trustees' primary method of measuring the program's financial condition is long-range solvency, defined as actuarial balance over 75 years. As stated in the annual trustees' reports, the trustees use 75 years because it covers the remaining lifetime for "virtually all current Social Security participants."¹⁰ For example, if a hypothetical person aged 20 today begins their employment career and pays payroll taxes for the first time, the trustees' valuation period would cover all of their experience with Social Security through age 95. This valuation period will cover most such participants' full remaining lives. Obviously, it won't cover every single participant's lifetime transactions with Social Security, such as those who begin their earnings careers at younger ages or who live to older ages. However, it covers the vast majority.

To accurately judge the net effect of Social Security reforms, one must analyze both sides of the equation: that is, both the effect on a participant's taxes while employed, as well as the effect on their lifetime benefits. Leaving out a significant portion of other side results in an inaccurate calculation of the net effects on individuals as well as on systemic finances. For example, a proposal

⁸ 2026 Annual Report of the Board of Trustees, Supplemental Single-Year Tables, [Table IV.B.1](#).

⁹ 2026 Annual Report of the Board of Trustees, Supplemental Single-Year Tables, [Table IV.B.1](#).

¹⁰ 2026 Annual Report of the Board of Trustees, "[Glossary](#)."

to increase young workers' taxes as well as their lifetime benefits, by equal amounts in present value, could not be accurately assessed using just a 10-year window. Adopting a 10-year view would count these workers' additional taxes but not their additional benefits, creating a false sense that system finances had improved when they had not. The shorter the time window used, the greater this distortion, exaggerating how much financial improvement can be accomplished by near-term tax increases. This is one reason why the trustees employ a 75-year window, although later in this section I will discuss ways by which lawmakers can still usefully employ different valuation periods.

History demonstrates how the efforts of legislators to maintain Social Security's finances can be either facilitated or undermined by the quality of the analytical methods employed. The 1983 Social Security reforms were certainly a major bipartisan achievement and secured Social Security for several decades, but almost immediately after they were enacted, its shortfall began to re-emerge. The 1985 trustees' report not only showed a system heading toward insolvency again, but the size of the projected shortfall more than quintupled as a share of the program's tax base over the following decade, becoming in that short period even larger than the one just closed.¹¹ The reason this deterioration occurred was that the Greenspan Social Security Commission relied on actuarial estimates of program operations on *average* over 75 years, without a thorough analysis of how reforms under consideration would affect operations in different individual years of the valuation period. As a result, the package of reforms produced large surpluses early in the valuation period, followed by large and growing deficits later, and the solution began unraveling almost immediately after it was enacted.

This problem was recognized in the 1980s but it was considered too late to do anything about it without revisiting the reforms that had been so painstakingly negotiated.¹² Instead, Social Security's Office of the Chief Actuary thereafter adopted methodological standards to prevent repeating this mistake. For several decades now, the office has analyzed all proposals by two important metrics: their effects on actuarial balance on *average* over the 75-year valuation period, as well as on annual cash operations through the *end* of the valuation period.¹³ If a solvency solution is not to unravel immediately after enactment, it needs to close both gaps.

I mention these metrics for a couple of reasons. One is that, although the actuary's office has routinely performed both tests for several decades, you will probably find that when advocates argue for one solution over another, they sometimes have a tendency to only cite one of the measures: specifically, whichever test makes their proposal look better. Different provisions will naturally look better by one of the two tests or the other, and that's fine, providing that the package as a whole passes both tests at the end of the process.

The other reason to mention it here is that that some process proposals would take a 50-year view of program finances rather than the Social Security trustees' traditional 75-year view. Although I have explained the rationale underlying the trustees' 75-year view, and why it's important for understanding the net effects of reforms on participants, 75 years can certainly sound to much of the body politic like an unnecessarily long time to look forward. A 50-year standard can work, *provided* that the package closes the shortfall by both of the actuaries' longstanding metrics. It

¹¹ 2026 Annual Report of the Board of Trustees, [Table VI.B.1](#).

¹² Social Security Administration, [Oral History Interview with Robert Myers](#).

¹³ Social Security Administration, "[Actuarial Services' Estimates of Individual Changes Modifying Social Security](#)."

would only become problematic to relax the test from 75 to 50 years if one of these two tests were disregarded.

Facilitating Bipartisan Participation and Compromise

The last portion of my written statement will focus on lessons from history with respect to factors that influence a process's likelihood of success.

A critical factor is the importance legislators on both sides of the aisle assign to preserving Social Security's historical design as a self-financing program financed by worker contributions, and to preserving both the perception and reality of it being an earned, paid-for benefit. Only if enough lawmakers on both sides still believe Social Security's historical design remains important – as they did in 1983 -- will there be reasonable prospects for success. Lawmakers will not inflict political difficulties upon themselves by increasing tax assessments, moderating the growth of benefits, or tweaking eligibility ages – all politically controversial measures in any era – if it is deemed acceptable to toss the self-financing principle overboard, bail out the system from the general fund, and sever the longstanding connection between worker contributions and benefits. It's simply too easy to take the latter way out unless legislators decide that they still value Social Security's historically successful design more than taking the path of least political resistance. Legislators will only be willing to enact the measures necessary to preserve Social Security as a self-financing program if they believe that abandoning that design would lose something of great value to the American public.

Second, history teaches that this can't and won't be done by either of our two major political parties without the full participation of the other. Enacting the 1983 reforms required vigorous leadership from a Republican President, a Democratic Speaker of the House, and key Senators and Representatives from both sides of the aisle. During the subsequent decades, as the Social Security shortfall has re-emerged, there have been no fewer than fifteen years when the presidency, the House, and the Senate have all been under unified party control. Not once in any of these years did the governing party move legislation to eliminate the Social Security shortfall, even when it would have been much easier to do so than it is now.¹⁴ History shows that when one party has the power to act alone, it does not. The politics of Social Security solvency are simply too delicate for either party to take them on by itself.

There have been many failures to facilitate needed financing reforms, whereas successes have been rare. Even the 1981-1983 Social Security Commission floundered for considerable time until last-ditch efforts to revive the process were launched after the 1982 election results were in. Key differences distinguishing the relatively successful 1981-1983 Commission process from various subsequent failures are worth noting. Failures (including attempts both at correcting Social Security's shortfall specifically and at making larger federal fiscal corrections) tend to fall into one of two categories: either they put the process too far outside Congress so that Congress chooses not to legislate on the basis of it, or their construction too closely replicates the partisan impasse within Congress. The 1981-1983 Commission seems to have operated in a sweet spot, in that it facilitated negotiations between key figures including White House officials, influential Senators from both

¹⁴ U.S. House of Representatives, "[Party Government Since 1857](#)."

sides of the aisle, and representation of the House leadership. At the same time, the Commission's outside experts provided substantial cover for these negotiations. Striking this balance seems to be an important element of success: that is, creating a process in which the key players within Congress and the White House are each represented, but which has enough outside cover so that it's not simply replicating the longstanding impasse between elected lawmakers.

The reasons bipartisan compromise is essential aren't just political. They are substantive as well. There was once a time, a few decades ago, when the shortfall was still of a size that one could make a reasonable argument that it could be easily fixed entirely with revenue increases, or entirely by slowing benefit growth, or entirely by adjusting eligibility ages. That time is long past. Those who believe this can all readily be done on the revenue side, without moderating the growth of benefits, should consider that this would require increasing current payroll tax collections by more than one-third. Increasing the amount of earnings subject to the payroll tax may be a component of the solution, but by itself won't get it done: even if all national earnings were so taxed, it would only close 28% of the system's annual shortfalls over the long term.¹⁵ Proposals that purport to accomplish more than this by taxing the earnings of the rich would do so not solely by increasing revenues, but also by either changing or totally eliminating benefit accrual rates associated with tax contributions under current law. In other words, even proposals that rely greatly on tax increases cannot avoid changing the benefit structure if solvency is to be achieved.

Similarly, those who believe this can readily be done without any additional tax revenues should consider that operating within the program's projected revenue stream would require the equivalent of a 30% reduction in all future benefit claims. A refusal to bring additional revenues into the system would also require future benefits per capita to be lower than today's, not just relative to current benefit schedules, but relative to consumer price inflation.¹⁶ Finally, those who believe this can readily be done without any adjustments to eligibility ages for the remainder of this century should look carefully at what will happen if Americans continue to claim benefits indefinitely at exactly the same ages even as lifespans lengthen. One of two things must happen under this scenario: either worker standards of living must decline because higher taxes will be required to support a given retirement living standard, or else standards of living in retirement must decline, as the retirement benefits funded by a given level of taxes must be spread out over more years of life. In other words, leaving eligibility ages where they are indefinitely, even as lifespans lengthen, means that standards of living will be steadily depressed throughout this century for either workers or beneficiaries, and most likely both.

While additional revenues should be considered for reasons given above, it is important to recognize certain limitations on a revenue-based solution. Optimizing the fairness and equity of a solution requires more than simply collecting additional revenues, but also moderating cost growth. This is true for a number of reasons. First, the current benefit formula automatically increases benefits from one retiree cohort to the next in proportion to the national Average Wage Index (AWI), but cannot be financed under current eligibility rules without tax burdens rising faster than AWI.¹⁷ All other things being equal, this causes the growth of worker standards of living to lag

¹⁵ Social Security Administration, "[Provisions Affecting Payroll Taxes, E2.2](#)."

¹⁶ Social Security Administration, "[Provisions Affecting Monthly Benefits, B1.1](#)." This projection shows that in the absence of additional revenues, the trust funds would become depleted even if the average real value of per-capita benefits remains constant.

¹⁷ Social Security Administration, Compilation of the Social Security Laws, "[Computation of Primary Insurance Amount](#)."

relative to those of beneficiaries. In addition, under current law, the portion of the financing shortfall attributable to the excess of scheduled benefits over tax contributions, for those who have already entered Social Security coverage, is equal to 4.4% of all American workers' future wages (in present value).¹⁸ In other words, if no further contribution to solvency is made by baby boomers and Gen Xers, then those who enter the workforce from this point forward will be made poorer by Social Security, net, by an amount equal to 4.4% of lifetime earnings. Relying solely on tax increases shifts financing burdens away from those who will become beneficiaries in the upcoming decades onto the shoulders of younger workers. This would hit those generations hardest who already stand to lose substantial net income through Social Security under current law. It will be extremely difficult – perhaps prohibitively so -- for Social Security to adequately fulfill its intended income insurance functions in the future if such a course is taken.

It bears repeating that if there were only one right way to do this, and if either major political party felt it was a truly important point of principle not to compromise with the other on Social Security policy, that belief would have been demonstrated by getting this job done when both the legislative and executive branches were under one-party control. But neither party has chosen to do so despite multiple opportunities. This demonstrates what each of us here probably already knows: that Social Security solvency will not be re-established unless and until our two major parties do it together.

I will close by commending this committee for holding this hearing, as well as commending the individual Senators, both on this committee and off, who are working to facilitate Social Security financing corrections. The American public will be well served if this leadership results in a significant extension of Social Security's solvency.

¹⁸ 2026 Annual Report of the Board of Trustees, [Table VI.F.2](#)