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# FIXING SOCIAL SECURITY

## BLUEPRINT FOR A BIPARTISAN SOLUTION

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# Introduction

This paper outlines a blueprint for strengthening and restoring solvency to the Social Security program.[1] Social Security is the nation's most important social insurance program. Previous research has found that Social Security provides at least half of income for about 40% of beneficiaries, and over 90% of income for about 14% of beneficiaries (Dushi et al. 2024).[2] The Social Security program is also the nation's oldest and largest anti-poverty program. It keeps approximately 20 million older Americans and some one million children out of poverty (Romig 2025).[3]

Why is it critical to revise this vital program? According to both the Social Security Administration's (SSA) Office of the Chief Actuary and the Congressional Budget Office (CBO), the Old-Age and Survivor Insurance (OASI) Trust Fund will exhaust its funds in 2033 (SSA 2024f; CBO 2023).[4] At that point, without changes, the Social Security program will become insolvent. When that happens, the ongoing revenues to the OASI Trust Fund will finance about 83% of scheduled benefits, implying that beneficiaries will experience a 17% reduction in benefits.[5]

Restoring solvency will require substantial policy changes. According to the 2024 Social Security Trustee's Report, today Social Security faces a deficit of 3.5% of taxable payroll. This deficit is about 1.7 times greater than the 2.09% of taxable payroll deficit in 1983, when amendments to the Social Security Act were last enacted to restore solvency to the program (Svahn and Ross 1983). Under the 2024 CBO projections, the Social Security deficit is 4.3% of taxable payroll, over two times greater than in 1983. The significant difference between the Trustee's and CBO's estimates primarily relates to different demographic and economic assumptions, such as fertility, immigration, and economic growth. Both the CBO and SSA estimates make the fundamental point that the system is significantly financially stressed.

Demographic trends are a key factor causing the system's financial problems. The United States has an aging population. People are living longer despite COVID-era setbacks. It is projected that by 2060 compared to 2017, life expectancy will have increased by about six years to more than 85 years old (Medina, Sabo, and Vespa 2020). At the same time, fertility has declined below replacement levels, with the CBO projecting that the fertility rate will remain between 1.67 and 1.70 over the next several decades (CBO 2024a). The result of these forces is a striking change in what is known as the old-age dependency ratio. The number of working-aged people ages 18 to 64 per adult ages 65 and older has declined from 5.7 in 1970 to 3.7 in 2020. The ratio is expected to fall further to 2.7 by 2040 (U.S. Census Bureau n.d.). These demographic shifts put pressure on the financing of Social Security because fewer workers are contributing to the Trust Fund while more older people qualify for benefits.

We note that the factors burdening the financial health of Social Security have been known for some time. These demographic shifts were already progressing at the time of the 1983 amendments to the Social Security program. The changing demographic composition of the country, rising wage inequality, and, to a lesser extent, rising disability rates have contributed to the 1983 amendments fully financing Social Security for only 50 years—a window of time we are rapidly approaching the end of.[6] In 1983, the actuaries anticipated very large increases in the trust fund balance before 2020. While the balances were projected to decline thereafter, they were expected to remain positive throughout the 75-year period (Bayo 1983).

The urgent need to stave off the Trust Fund's depletion comes as the Democrat and Republican political parties have sharply divergent views about how to fix this problem. In both parties, Congress members have introduced Social Security solvency plans in recent years. The Democratic plans would restore solvency entirely by increasing revenue while the major Republican plans would restore solvency entirely by reducing benefits. Yet, both parties have been reluctant to move Social Security legislation forward and put the program on secure financial footing. This is because doing so requires political pain—raising taxes or cutting benefits.

Even so, Congress should tackle Social Security solvency in 2025 for several powerful reasons. First, restoring solvency to Social Security would put the United States on a far more secure fiscal path at a time when recent federal budgets have had huge deficits of over a trillion dollars.[7] Second, public debt is on a risky and troubling path, growing to 122% of gross domestic product (GDP) by the end of 10 years and to over 166% of GDP within 30 years according to CBO's latest projections (CBO 2024b). Third, according to a recent poll, a vast majority of Americans say Congress should act now to shore up funding rather than waiting (Bond and Kenneally, 2024). The American people are concerned about the financial future of Social Security and are relying on lawmakers to ensure that their benefits are protected. Waiting another 10 years will grow the size of the Social Security deficit and make the required policy changes to restore solvency greater, including the likelihood of a larger reduction in benefits. Ultimately, neither party's position will prevail, and the only way to resolve these differences is through compromise and a more centrist approach.

The proposed blueprint presented here achieves solvency on both the long-range Old-Age, Survivors, and Disability Insurance (OASDI) actuarial balance and 75th-year annual balance, as well as over the 75-year period.[8] The plan follows the program's 90-year tradition, introducing no new revenue sources and not changing the structure of the formula for calculating benefits. The major proposals of the plan to stabilize the program's solvency include increasing the taxable maximum earnings to cover 90% of wages, increasing the payroll tax slightly, and closing a loophole whereby some business owners are escaping the payroll tax. Benefit changes include increasing the retirement age for high earners and increasing the number of years used in computing wages. The plan raises legal immigration levels to increase the pool of tax-paying workers and alleviate critical workforce shortages facing the United States. Additionally, proceeds from the taxation of Social Security benefits are placed in the OASDI trust funds. On the other hand, the plan strengthens child benefits and disability and survivor protection; would achieve universal coverage shortly after the program's 125th birthday; and makes the system more progressive. Over the 75-year period, revenue increases would be equal to benefit reductions minus benefit improvements.

Through a balance of tax-based revenue enhancements, benefit reductions, benefit improvements, and coverage and transfers, the proposed blueprint to achieve solvency continues Social Security's long tradition of being a truly bipartisan program that is favorable to both Republicans and Democrats. While this plan might not seem politically feasible today, as policymakers and the public begin to focus more on Social Security's approaching insolvency in the years ahead, this proposal should become more attractive to both parties. Overall, the plan strengthens the program in the long run; makes the system fairer; improves the system for several key groups, such as dependents and individuals with physical hardships; balances benefit and tax changes; and avoids general-fund financing that would fundamentally change the nature of Social Security and place the rest of the federal budget in jeopardy. With insolvency looming less than a decade away, discussions need to begin now on how to implement a bipartisan plan to rescue the program, and this paper is intended as a significant step towards that conversation.

# What are the goals of the proposed blueprint?

The key goals or principles that guided the development of the proposal are solvency, keeping benefits the same for current beneficiaries, no General Fund financing, maintaining the program's bipartisan nature, enhancing the program's overall progressivity, increasing protection against risk, and universal participation. By far, the most important goal is to restore solvency so that trust fund depletion can be avoided, and benefits will not have to be reduced. Here is why each goal or principle matters.

### SOLVENCY

Americans want to have confidence that the benefits they have been promised are entirely financed. Given that solvency depends upon many economic and demographic projections, how long the system remains solvent can change over time. The Trust Fund should have significant reserves so it can weather recessions. Just like the last major changes to Social Security passed in 1983, which are discussed in further detail in the appendix, the goal of this blueprint is to achieve 75 years of solvency under SSA actuary assumptions.

### NO BENEFIT REDUCTIONS FOR CURRENT BENEFICIARIES

Most Social Security beneficiaries are aged or disabled and have no way of offsetting the loss of income from a Social Security benefit reduction. A key characteristic of entitlement programs is that the benefits they deliver do not change abruptly. Policy changes should be implemented with enough time after enactment so that current and future beneficiaries have time to understand how their benefits are impacted and take action to offset those changes, such as saving or working more. All beneficiaries receiving Social Security before the blueprint is enacted would not see any reductions in their benefits. Additionally, phasing in many of the proposals included in this blueprint allows future beneficiaries time to understand how benefits might differ relative to current Social Security law.

### NO GENERAL FUND FINANCING

Throughout the 90-year history of the program, its financing has been entirely accomplished by revenue from payroll taxes, interest earned on the trust fund balances, and the taxation of benefits. Introducing other financing, such as from the General Fund, runs the risk of destroying the direct link between wages and benefits—a key principle of Social Security—therefore undermining political support. Adding General Fund financing without limits increases the temptation to improve benefits without considering costs. Furthermore, adding general revenues would not improve federal budget deficit projections, whereas increasing specific taxes or reducing benefits would.

### MAINTAIN THE BIPARTISAN NATURE OF THE PROGRAM

All prior major Social Security actions that addressed solvency have been bipartisan. Since 1983, due to amendments to the Congressional Budget Act, Social Security changes cannot be included in a reconciliation bill. For that reason, 60 votes are needed in the Senate to enact changes. Given that there is no expectation that either political party will have 60 seats in the Senate in the coming years, changes to the Social Security program must have both Democratic and Republican votes. Thus, any major Social Security financing bill must be bipartisan.

### INCREASE THE OVERALL PROGRESSIVITY OF THE PROGRAM

The Social Security program is not nearly as progressive as one might conclude from the benefit formula alone. Although the program redistributes resources from higher- to lower-earning groups, many individuals never reach retirement age, and overall survivor benefits are small relative to retirement benefits. Benefit improvements should be pursued that improve the overall progressivity of the system.

### INCREASE RISK PROTECTION

The Social Security program provides economic protection in the event of three major risks: death, disability, and old age. Embedded within the protection against these risks, Social Security benefits are received over a beneficiary's lifetime and adjusted for inflation to account for changing economic conditions. The suggested benefit improvements in the proposal bolster the program's protection against these risks. The proposal includes more survivor protections, improves benefits for disabled individuals, and provides additional income support for grandparents who are raising grandchildren.

### UNIVERSAL PARTICIPATION

Our proposal calls for all workers to be covered under Social Security. The 1983 amendments moved the program much closer to universal participation by including all federal workers and nonprofit employees and preventing state and local government entities from dropping coverage. The workers who remain uncovered are predominantly state, city, and county workers in selected jurisdictions. Universal participation in Social Security ensures fairness in benefit levels between workers who have been in the system for their entire careers and those who have been in the system for only a portion. Additionally, Social Security benefits tend to be more generous than other currently available retirement benefits for uncovered workers, such as public pension plans.

## Description of a centrist proposal to restore solvency

Following the goals outlined above, the blueprint to achieve solvency offered here contains both revenue increases and benefit reductions aimed at attracting bipartisan support, in addition to tax-based revenue enhancements, and coverage and transfers. The proposals of the blueprint are outlined in Table 1. The Office of the Actuary at SSA, as well as the Dynamic Simulation of Income Model (DYNASIM) at the Urban Institute, have scored and evaluated the proposal, giving three ways of thinking about the blueprint's effect on the Social Security system's finances.[9] Estimated by SSA, the first column shows each proposal's anticipated impact on the program's solvency over the coming 75 years and the second column shows each proposal's anticipated impact in the 75th year. These columns are expressed as percent of taxable payroll, which are earnings subject to the Social Security payroll taxes. Estimated by DYNASIM, the impact of each proposal on the federal budget over the period between 2025 and 2035 is highlighted in the last column.

The Chief Actuary at SSA estimates that, under 2024 Trustee assumptions, the plan achieves a reduction of 3.58% of taxable payroll—eliminating the current deficit of 3.5% of taxable payroll (SSA 2025b).[10] Therefore, the plan clearly meets the SSA solvency goal. CBO has not scored the proposal, but we expect it would achieve 50 years of solvency under CBO assumptions. We note that this blueprint was evaluated prior to the recent law eliminating the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO). The blueprint originally called for reforming WEP and GPO, but that proposal has been dropped in light of the law. The addendum to Table 1 shows the final blueprint's effect on solvency. Table 1 demonstrates that the blueprint would save money over the next decade and cause the program's deficit to disappear.

Unlike virtually all other Social Security plans lawmakers have put forth in recent years, this centrist blueprint contains changes in multiple categories of

proposals that will bring about solvency. The plan contains several tax-based revenue-increasing provisions, greater dedication of existing tax revenues to the OASDI trust funds, changes to legal immigration policy, and universal coverage. It also calls for five benefit reductions and five major benefit improvements. We assume that Congress will enact the blueprint in 2025 and prepares for implementation in 2026. Unless otherwise specified, policies are effective on January 1, 2027. The following proposals within each category are listed in order of their financial impact on the estimated OASDI actuarial balance as a percent of taxable payroll, starting with the largest. Within each proposal description, we show the estimated solvency and budget impact over the next 10 years. For six proposals, it was also possible to estimate the number of beneficiaries they would affect in the 10th year after enactment.

TABLE 1

### Estimated Effects of Blueprint on the Social Security System's Finances

| Proposal | OASDI Actuarial Balance, Percent of Taxable Payroll | 75th Year Annual Balance, Percent of Taxable Payroll | Budget Impact 2025-2035, Billions ($)* |
|---|---|---|---|
| **Tax-Based Revenue Enhancements** | | | |
| Increase the taxable maximum ceiling | 0.66 | 0.37 | -730.2 |
| Change rules for pass-through payroll tax | 0.19 | 0.21 | -553.1 |
| Increase payroll tax | 0.19 | 0.20 | -208.5 |
| **Subtotal** | **1.04** | **0.78** | **-1,491.8** |
| **Benefit Reductions** | | | |
| Increase retirement age for high earners | 0.55 | 1.04 | -1.3 |
| Increase the number of working years used to calculate Social Security's average indexed monthly earnings | 0.39 | 0.66 | -19.0 |
| Tax all Social Security benefits of high earners | 0.17 | 0.25 | -241.2 |
| End the dependent retiree spouse benefit | 0.17 | 0.23 | -2.3 |
| Replace the Windfall Elimination Provision and the Government Pension Offset | 0.05 | 0.07 | ^ |
| Eliminate child retiree benefits | 0.03 | 0.03 | -75.0 |
| **Subtotal** | **1.36** | **2.28** | **-338.8** |
| **Benefit Improvements** | | | |
| Increase survivor benefits | -0.10 | -0.11 | 156.0 |
| Create a disability benefit for older workers with disabling conditions that make them unable to do their jobs | -0.10 | -0.10 | 211.6 |
| Restore and expand the student benefit for children whose parents are disabled or dead | -0.07 | -0.07 | 111.4 |
| Provide a child benefit to grandparents or certain other relatives caring for children | -0.04 | -0.05 | 61.5 |
| Improve benefits for disabled adult children | -0.01 | -0.01 | + |
| **Subtotal** | **-0.32** | **-0.34** | **540.5** |

TABLE 1 CONT.

| Proposal | OASDI Actuarial Balance, Percent of Taxable Payroll | 75th Year Annual Balance, Percent of Taxable Payroll | Budget Impact 2025-2035, Billions ($)* |
|---|---|---|---|
| **Coverage and Transfers** | | | |
| Devote all proceeds from taxes on Social Security benefits to OASDI trust funds | 0.87 | 0.91 | -755.1 |
| Expand the labor force by changing policies on legal immigration | 0.30 | 0.64 | -117.2 |
| Achieve universal coverage in Social Security | 0.15 | -0.14 | -4.8 |
| **Subtotal** | **1.32** | **1.41** | **-877.1** |
| **Total for all proposals, including interactions** | **3.63** | **4.66** | **-2,291.2** |
| **Addendum** | Change from Total | | |
| Remove proposal to replace the Windfall Elimination Provision and Government Pension Offset from the blueprint | -0.05 | -0.07 | ^ |
| **New total for all proposals** | **3.58** | **4.59** | **-2,291.2** |

**SOURCE:** Office of the Chief Actuary, SSA; Dynamic Simulation of Income Model (DYNASIM)
**NOTE:** The Chief Actuary completed this analysis of the actuarial balance as a percent of taxable payroll before former President Biden in early January 2025 signed a Social Security bill that eliminates the system's Windfall Elimination Provision (WEP) and related Government Pension Offset (GPO). The new law increases the 75-year deficit slightly from 3.50%of taxable payroll to 3.62%. This blueprint originally envisioned changing WEP and GPO, but that proposal has been dropped in light of the new law.
*Negatives indicate a decrease in the federal unified budget.
^The budget impact was not modeled by the Urban Institute because the WEP and GPO proposal was dropped from the blueprint. As a result, there is no change in addendum total.
+ DYNASIM did not model the cost of this proposal, as the estimated effects on the budget are small.

## TAX-BASED REVENUE ENHANCEMENTS

### Increase the taxable maximum ceiling

*Current law*

The Social Security OASDI program applies a payroll tax of 12.4% to a certain amount of a worker's earnings each year. This amount of earnings is referred to as the taxable maximum ceiling, which is $176,100 in 2025 (SSA n.d.). The ceiling increases each year by the average increase in wages. The overall percentage of earnings covered by the taxable maximum ceiling has dwindled over time because the highest wage earners account for a growing proportion of total earnings. In 1983, this percentage of covered earnings was 90%, but in 2024, it was about 82.5% (Evangelista and Lu 2023).[11] In 2024, the taxable maximum ceiling would need to have been about $346,500 to cover 90% of earnings.[12]

*Proposal*

**Reduction in actuarial deficit:** 0.66% of taxable payroll
**Budget impact, 2025-2035:** -$730 billion

This proposal would increase the taxable maximum each year, so it once again eventually covers 90% of total wage earnings. Starting in 2027, the proposal would increase this ceiling

by six percentage points faster than the current law. When 90% is achieved, the taxable maximum would increase by whatever percentage is needed to maintain that 90% target. The SSA actuaries estimate that the 90% target would be reached in 2039.

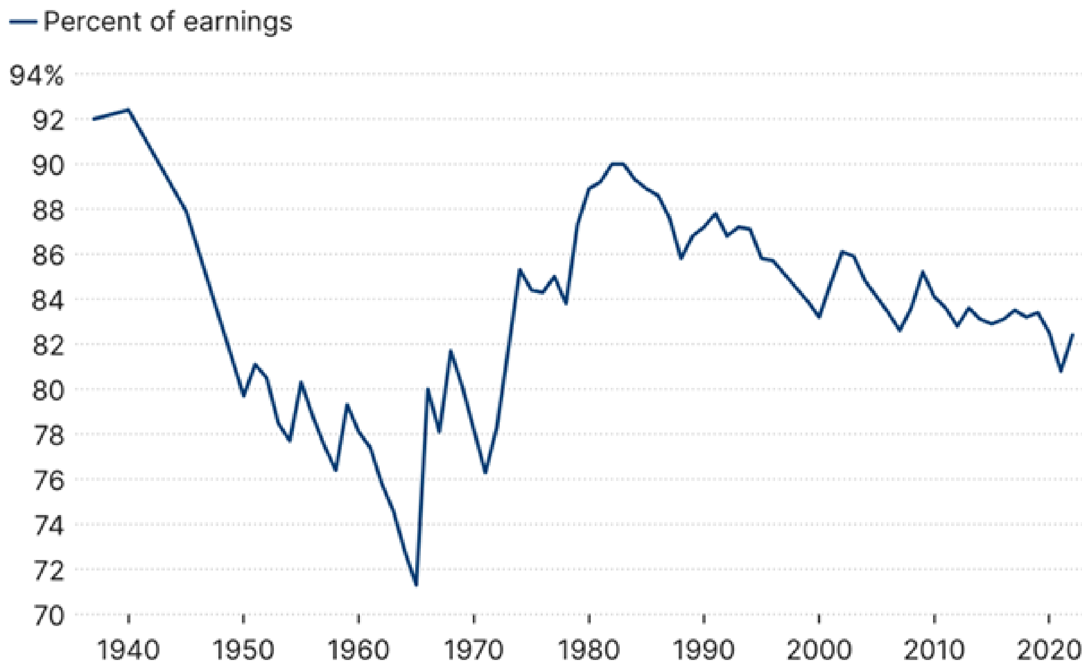
*Rationale*

When payroll taxes were first collected in 1937, about 92% of wage earnings for workers in Social Security were covered by the taxable maximum. Covered wages fell to a low of 71% in 1965 but reached back up to 85% by 1977 (Evangelista and Lu 2023). The 1977 amendments to the Social Security Act increased the taxable maximum, and by 1983, 90% of wages were covered by this limit. Figure 1 below shows the taxable maximum over time. Our proposal gets back to the historic 90% level.

There are three major reasons for not increasing the taxable maximum further. Primarily because there are many other unrelated priorities that need to be financed by revenue from higher-income individuals and families. From a Democratic viewpoint, to name several examples, revenues would be needed to finance investments to address climate change, paid family leave, childcare, and the child tax credit. From a Republican viewpoint, an extension of the Trump tax cuts and defense spending would require more tax revenues. Furthermore, a recent CBO report forecasts that currently projected deficits will add trillions to the United States' national debt and that debt will exceed 160% of GDP within 30 years (CBO 2024b). These large

FIGURE 1

**Percent of Total Earnings for Workers in Social Security Covered by the Taxable Maximum, 1937-2022**




**Source:** Annual Statistical Supplement to the Social Security Bulletin, 2023

deficits will increase interest rates and lower families' incomes, in addition to heightening the risk of a financial meltdown. The latest CBO report on long-term financing projects shows that, under the current financing system, the 5.1% of GDP we are now spending on Social Security will rise to 6.7% of GDP by 2098 (CBO 2024c). Reducing these deficits will require substantial revenues, and it is unwise fiscal policy to divert too much revenue to the Social Security system.

Secondly, with no taxable maximum, all earnings would be considered in the benefit formula. Therefore, if the taxable maximum is eliminated, high earners would get huge benefits because more of their earnings would be included in the Social Security benefit formula. As such, high earners' overall benefit amounts would be much larger. It is both politically unsustainable and poor safety net policy to divert more Social Security funds to high earners. If the taxable maximum were eliminated, a potential alternative would be to make an accompanying change to the benefit formula. However, we do not prefer this approach as it creates other problems for the system (such as the lack of funds for other policy priorities, as previously mentioned).

The final reason for not making the taxable maximum higher is that the tax on earnings becomes unbalanced with non-wage income. If the taxable maximum is increased further, then very high wage levels will be subject to tax. This creates perverse incentives, as taxation at high-income levels invites high earners to seek compensation in other forms to avoid payroll taxation.

**Change rules for pass-through payroll tax**

*Current law*

Under current law, the definition of taxable self-employment income varies depending on the type of business. Laws attempt to distinguish between profits from business investment, which are not subject to payroll taxation, and earnings from employment, which are. In many cases, these types of earnings are easily distinguishable, and such an approach is reasonable and correct.[13] However, because of the complexity of distinguishing between labor and investment income for owners who are deeply involved in running their own businesses—particularly those that meet the existing Internal Revenue Service (IRS) "material participation standard"—these laws create substantial opportunities for evasion and tax-motivated income shifting.

Two types of owners are particularly challenging under current law: limited partners in unincorporated businesses and the owners of S-corporations. The owners of S-corporations are subject to Federal Insurance Contributions Act (FICA) tax, but only on the share of their earnings that represent labor income. S-corporations are legally required to pay actively participating owners "reasonable compensation" as labor income. However, S-corporations have a great deal of discretion over what constitutes reasonable compensation. The remaining income of the corporation after compensation is deducted is simply passed through to owners. The passed-through income is subject to income taxes but not the FICA or Self-Employed Contributions Act (SECA) tax. In practice, this means that owners are incentivized to pay themselves as little as possible in "reasonable compensation" and pass through more of their income as distributions in order to avoid payroll taxation. Moreover, it creates incentives for tax-driven decisions by owners about the organizational form of their businesses, which distorts the economy. Meanwhile, limited partners are subject to the SECA tax, with the same rate as FICA. But

they are only required to pay the tax on guaranteed payments, which represent “compensation for labor services.” Here, there is even more room for the tax-motivated recharacterization of income because it is easy for firms to argue about the definition of labor services and what necessary compensation for those services would entail.

*Proposal*
**Reduction in actuarial deficit:** 0.19% of taxable payroll
**Budget impact, 2025-2035:** -$553 billion

This proposal is based on a CBO Revenue Budget Option (CBO 2018). We propose all payments to active pass-through business owners who meet the material participation standard be subject to SECA taxation up to the earnings cap. The earnings cap would equal the taxable maximum in that year. For example, if an owner earned $100,000 in wages and $500,000 in distributions, and the earnings cap was set to $300,000, they would be assessed payroll tax on all $100,000 of their wages and the first $200,000 of their distributions. Active involvement would be determined using the existing IRS definition of a “material participant,” which covers owners who participate in the business on a “regular, continuous, and substantial basis” for at least 100 hours in the tax year (IRS n.d.).

*Rationale*
This proposal ensures that all workers who materially participate in a business will be equally subject to payroll taxes on their earnings. Most employees at businesses owned by other people contribute to Social Security through the 12.4% FICA or SECA taxes. However, the owners of S-corporations and limited partners at unincorporated businesses have substantial opportunities to avoid payroll taxation by passing through their income as deductions. A simple reform to the payroll taxation of pass-through income would reduce opportunities for FICA and SECA tax avoidance, raise hundreds of billions of dollars in revenue, and ensure that S-corporation owners and limited partners contribute their share to Social Security.

### Increase payroll tax

*Current law*
The current OASDI payroll tax in 2025 is 12.4% on wages. The tax is split evenly between employers and employees.

*Proposal*
**Reduction in actuarial deficit:** 0.19% of taxable payroll
**Budget impact, 2025-2035:** -$208 billion

Increase the payroll tax from 12.4% to 12.6%, split evenly between employers and employees.

*Rationale*
The increase in the payroll tax of 0.2 percentage points is the amount needed to balance revenue increases with benefit reductions while maintaining the goal of keeping the payroll tax increase as small as possible. In the proposed plan, in terms of percent of taxable payroll, the solvency improvement from tax-based revenue enhancements is equal to benefit reductions minus benefit improvements.

## BENEFIT REDUCTIONS

### Increase retirement age for high earners

*Current law*

The full retirement age, also known as the normal retirement age, is the age at which a Social Security beneficiary becomes eligible for a full benefit. The full retirement age is dependent upon the beneficiary's birth year. For individuals born in 1937 or before, the full retirement age is 65. The retirement age increases gradually for every birth year, up to 67 years old for people born in 1960 and later (SSA n.d.).

*Proposal*

**Reduction in actuarial deficit:** 0.55% of taxable payroll

**Budget impact, 2025-2035:** -$1 billion. Although this proposal is not effective until outside of the 10-year budget window, these savings are due to modeled anticipatory effects.

This proposal would increase the full retirement age for the top two-fifths of the wage distribution. We suggest that SSA no longer refer to a "full (normal) retirement age" and instead use the terminology of "benefit age" (Fichtner et al. 2020).[14] For the top one-fifth of the wage distribution, the policy increases the full retirement age from 67 to 70. The full retirement age would increase proportionally by percentiles of earnings for those in the fourth quintile. This modification would be phased in starting in 2037. This later effective date allows impacted beneficiaries to have a period to adjust to this policy change. The technical details for the phase-in for the top two-fifths of the wage distribution are as follows.

Under current law, the wage distribution would be established at age 61 for a given birth cohort, calculated separately for female and male wage earners. The individual's Social Security statement would also be modified to indicate whether they would be affected by the increase in the retirement age. The top two-fifths of the wage distribution would be defined based on the highest 40 years of indexed wages.[15] The wage distribution would include wages in both covered and uncovered employment, but zero earnings years would be removed. For those individuals in the 60th percentile and below, the retirement age does not change. Those individuals at the 80th percentile and above would bear the full impact of a three-year increase in the retirement age in 2054.

The phase-in for the top quintile is the most straightforward. Starting in 2037, the retirement age would be increased by two months each year between 2037 and 2054, ultimately bringing the retirement age from 67 to 70.

The phase-in for the fourth quintile is proportional to the individual's percentile on the wage distribution. The increase in retirement age would be two months for the 61st, 62nd, and 63rd percentiles, then increasing by two months for each percentile until the 80th percentile. The 64th percentile would have an increase of four months, the 65th percentile would have an increase of six months, the 66th percentile an increase of eight months, and the 79th percentile an increase of 34 months. The 80th percentile would have the full 36-month increase. Given that the increases in retirement age would be phased in over time, the increase would terminate for each percentile once the newly defined maximum retirement age is reached. Table 2 below shows the increase in retirement age and the year at which the new retirement age would be reached for each percentile.

Only retirement benefits are affected by the increase in retirement age. Social Security Disability Insurance (SSDI) beneficiaries and survivor beneficiaries would not have a change in benefits.

*Rationale*
The primary rationale for this policy change is that life expectancy at the top of the income distribution has increased relative to the bottom of the income distribution over time, both for men and women. Data analysis completed by SSA and the National Academy of Sciences both support this rationale.

TABLE 2

## Implementation of Proposal to Increase the Retirement Age for High Earners Phase-In

| Wage Percentile | Full Increase in Retirement Age (Months) | Year Full Increase in Retirement Age is Achieved |
|---|---|---|
| 61, 62, & 63 | 2 | 2037 |
| 64 | 4 | 2038 |
| 65 | 6 | 2039 |
| 66 | 8 | 2040 |
| 67 | 10 | 2041 |
| 68 | 12 | 2042 |
| 69 | 14 | 2043 |
| 70 | 16 | 2044 |
| 71 | 18 | 2045 |
| 72 | 20 | 2046 |
| 73 | 22 | 2047 |
| 74 | 24 | 2048 |
| 75 | 26 | 2049 |
| 76 | 28 | 2050 |
| 77 | 30 | 2051 |
| 78 | 32 | 2052 |
| 79 | 34 | 2053 |
| 80 and above | 36 | 2054* |

**NOTE:** *Phase-in is two months per year, 2037-2054.

Using data from SSA, Table 3 illustrates that life expectancy in years at age 62 for men and women is greater in the top two quintiles than in the bottom three. Among new retirees born in 1960, SSA estimates that women at the threshold of the 3rd and 4th quintile have annual career average earnings of about $50,000, and women at the threshold of the 4th and 5th quintile have annual earnings of about $74,000; These thresholds are about $80,000 and $111,000 for men. The spread in life expectancy at age 62 between the bottom and top of the income distribution has increased over time. Based on projections for the 1960 birth cohort, the difference in life expectancy for those in the top quintile relative to the bottom quintile grew an additional two years between the 1930 and 1960 birth cohorts for both men and women. The gains in life expectancy over time are the least for both men and women in the lowest income quintile. The greatest gains in life expectancy are seen by men in the top two income quintiles and women in the top income quintile.

Table 4 shows life expectancy in years at age 50 for men and women born in 1930 and 1960 instead of at age 62, again with life expectancy projected for the 1960 birth cohort. Consistent with SSA's estimates, life expectancy among women and men is greater in the top two income quintiles than in quintiles one, two, or three. Over time, the spread in life expectancy between the bottom quintile and the top quintile of the income distribution for both men and women has increased significantly, similar again to the findings from SSA. For those in the top quintile compared to the bottom quintile, men born in 1960 are living almost 2.5 times longer relative to those born in 1930, and women almost 3.5 times longer. Within income quintiles, men in the top two quintiles have seen increases in life expectancy of seven to eight years, compared to men in the lowest income quintile seeing a small decline. The life expectancy of women in the highest quintile increased by nearly six years and decreased minimally in the 4th quintile, whereas it decreased by four years in the lowest income quintile.

TABLE 3

**Estimated Life Expectancy in Years at Age 62, by Sex and Income Quintiles for 1930 and 1960 Birth Cohorts (SSA)**

| | Quintile 1 | Q2 | Q3 | Q4 | Q5 | Difference between Q5 and Q1 |
|---|---|---|---|---|---|---|
| **Male** | | | | | | |
| 1930 | 13.6 | 16.8 | 18.4 | 19.9 | 22.0 | 8.4 |
| 1960 | 15.3 | 18.8 | 21.3 | 23.5 | 25.6 | 10.3 |
| Change | 1.7 | 2.0 | 2.9 | 3.6 | 3.6 | |
| **Female** | | | | | | |
| 1930 | 18.3 | 20.6 | 22.1 | 23.2 | 22.9 | 4.6 |
| 1960 | 19.7 | 23.2 | 24.5 | 25.1 | 26.1 | 6.4 |
| Change | 1.4 | 2.6 | 2.4 | 1.9 | 3.2 | |

**SOURCE:** Office of the Chief Actuary, SSA
**NOTE:** Income quintiles defined by average indexed monthly earnings (AIME).

TABLE 4

## Estimated Life Expectancy in Years at Age 50, by Sex and Income Quintile for 1930 and 1960 Birth Cohorts (NAS)

| | Quintile 1 | Q2 | Q3 | Q4 | Q5 | Difference between Q5 and Q1 |
|---|---|---|---|---|---|---|
| **Male** | | | | | | |
| 1930 | 26.6 | 27.2 | 28.1 | 29.8 | 31.7 | 5.1 |
| 1960 | 26.1 | 28.3 | 33.4 | 37.8 | 38.8 | 12.7 |
| Change | -0.5 | 1.1 | 5.3 | 8.0 | 7.1 | |
| **Female** | | | | | | |
| 1930 | 32.3 | 31.4 | 32.4 | 33.4 | 36.2 | 3.9 |
| 1960 | 28.3 | 29.7 | 32.4 | 33.1 | 41.9 | 13.6 |
| Change | -4.0 | -1.7 | 0.0 | -0.3 | 5.7 | |

**SOURCE:** National Academy of Sciences, "The Growing Gap in Life Expectancy by Income: Implications for Federal Programs and Policy Responses" (2015)

Increases in life expectancy over time among high earners provide ample evidence as to why an increase in the retirement age in the highest quintiles is warranted. Conversely, the fact that life expectancy has declined or increased the least in the lowest earnings quintile strongly suggests that the retirement age should not be increased across the board. While it is well known that life expectancy increases with wages and education, the fact that life expectancy has declined among lower-wage quintiles is very disturbing (Chetty et al. 2016).

This policy has historical precedent. The 1983 Social Security amendments increased the retirement age from 65 to 67 over a 22-year period. Congress cited improvements in the health of older individuals and increased average life expectancy at age 65. The age when individuals could receive reduced retiree benefits remained at age 62.

For individuals retiring before the full retirement age, an actuarial reduction factor is applied so that whenever an individual retires, the expected present value, or ultimate value of the benefits over time, remains the same. If an individual begins claiming benefits at 62 and the full retirement age is 67, there is a 30% actuarial reduction in benefits to account for the longer period of benefits being received. A case could be made to simultaneously increase the age when early benefits could be taken alongside our proposed increase in the retirement age. However, there may be some individuals who must take early retirement because of a partial disability or job loss. For those affected by the increase in the retirement age, the actuarial reduction factor would be adjusted to achieve actuarial equivalence in line with the new retirement age.

### Increase the number of working years used to calculate Social Security's average indexed monthly earnings

*Current Law*

Under current law, the average indexed monthly earnings (AIME), which is the basis of a worker's Social Security benefit, is calculated using the worker's highest 35 years of earnings (SSA n.d.). The yearly earnings are adjusted by a wage index, added together, then divided by the total number

of months in those years to put into monthly earnings. This monthly earnings amount is used in the benefit formula. See the appendix for a more detailed explanation of how Social Security benefits are calculated.

*Proposal*
**Reduction in actuarial deficit:** 0.39% of taxable payroll
**Budget impact, 2025-2035:** -$19 billion

This proposal changes the AIME formula to use the highest 40 years of earnings. The number of years included in the formula would increase by one every two years, beginning in 2032. In 2032, the highest 36 years of earnings would be used. In 2034, the highest 37 years would be used. As such, in 2040, the highest 40 years would be used.

This policy would impact low earners, among other groups such as caretakers who have extended periods out of the workforce, the most because lower-wage workers tend to have longer periods of unemployment. As such, the AIME calculation might include more years of zero or low earnings, driving down the Social Security benefit amount. However, the impact of this proposal would be significantly offset by policy improvements in the Supplemental Security Income (SSI) program we propose in our forthcoming paper on reducing poverty among low-income, older and disabled adults. We propose reforms, including increasing the SSI Federal Benefit Rate, requiring increases in SSI state supplements, and implementing a 40% disregard in determining SSI eligibility and benefit levels. If these low-income SSI protections are not part of the Social Security reform effort, this AIME-related proposal must be modified or dropped to reduce harm to low-income workers.

*Rationale*
Given the overall increase in life expectancy in the United States, this proposal sends a strong signal that the number of years working needs to increase. If one graduates from high school at age 18 and then goes to further education for four years, forty years of earnings can be accomplished by age 62, which is the earliest age a beneficiary can begin claiming Social Security. Additionally, the inclusion of this policy is important to the overall balance between benefit reductions versus tax increases in the proposal at large.

### Tax all Social Security benefits of high earners

*Current law*
An individual must pay federal income taxes on up to 50% of Social Security benefits if their income is between $25,000 and $34,000, or up to 85% of benefits if the individual's income is greater than $34,000 (SSA n.d.). For a couple filing a joint tax return with combined income between $32,000 and $44,000, up to 50% of benefits are taxable. Up to 85% of benefits are taxable for a couple with combined income greater than $44,000 (SSA n.d.).[16]

*Proposal*
**Reduction in actuarial deficit:** 0.17% of taxable payroll
**Budget impact, 2025-2035:** -$241 billion

This proposal would tax all Social Security benefits of single individuals and couples with adjusted gross income (AGI) above $100,000 and $125,000, respectively. These thresholds would be adjusted annually for inflation.

*Rationale*
Taxing all Social Security benefits for higher-income beneficiaries would be a benefit reduction for those recipients and increase the overall progressivity of the system.

## End the dependent retiree spouse benefit

*Current law*
Under current law, a spouse can receive up to 50% of their partner's Social Security benefit. The spouse must be at least age 62 or have a qualifying child under age 16 in their care. The spousal benefit amount received depends on the spouse's age, caretaking responsibility of a dependent child, and previous earnings (SSA 2013b).

*Proposal*
**Reduction in actuarial deficit:** 0.17% of taxable payroll
**Budget impact, 2025-2035:** -$2 billion

The proposal would gradually eliminate the dependent spouse benefit for new retiree beneficiaries over time. The dependent spouse benefit would be reduced by 5 percentage points per year beginning on January 1, 2027, so that it is completely terminated by 2037.[17] Additionally, the dependent spouse benefit would be eliminated on January 1, 2030, for any dependent spouse of any earner in the top earnings quartile.[18] This elimination would not apply to anyone who would receive this benefit before January 2027, and it would not apply to disabled spouses or widow(er)s.

*Rationale*
In 1940, shortly after Social Security was implemented, the labor force participation of women was under 30% (Carter 1980).[19] As the gap between women and men's labor force participation has shrunk, all workers should receive their Social Security retirement benefit solely based on their own earnings records.

The Social Security actuaries project that the proportion of women who receive Social Security benefits based on their own earnings will continue to increase over time. In 2025, more than half of female beneficiaries over age 60 will receive benefits based solely on their own earnings, and by 2095, over 70% of women will receive such benefits (SSA 2024e). Also, in 2025, over one-third of women will receive a benefit based both on their own earnings and their spouse's work, and by 2095, this proportion will decline to less than one-quarter (SSA 2024e). Steadily, from 2025 to 2095, per year, about 7% of women will receive benefits based solely on their spouses' earnings (SSA 2024e).

In December 2023, some 1.9 million spouses of retired workers received this benefit (an average of $912 per month) who did not have a retirement benefit on their own record (SSA 2024b). Another 3.2 million spouses of retired workers have their own retirement benefit increased by an average of $377 per month (SSA 2024c).[20] That means that the dependent spouse benefit in December 2023 was worth $2.94 billion, or about $35 billion over the year.[21] This is a high cost that can be eliminated, as fewer and fewer individuals are receiving the dependent spouse benefit.

## Eliminate Child Retiree Benefits

*Current Law*

Children can receive Social Security benefits if they have parents who are retired or disabled and are entitled to Social Security benefits, or if they have a deceased parent who paid Social Security taxes. Children are entitled to benefits if they are not married and younger than age 18 or up to age 19 if they are full-time students in elementary or secondary school. The children are entitled to up to 50% of the parents' full retirement or disability benefits or up to 75% of the deceased parent's Social Security benefit (SSA 2025a).

*Proposal*

**Reduction in actuarial deficit:** 0.03% of taxable payroll
**Budget impact, 2025-2035:** -$75 billion
**Affected beneficiaries in the tenth year after enactment:** 608,000

The proposal would end benefits to children of retirees and the associated caretaker (father or mother) benefit beginning in January 2027. Only newly retired beneficiaries would be affected, meaning everyone getting child retiree benefits in January 2027 would be protected. This benefit would continue for disabled children, adopted children, and children in the care of a grandparent or eligible relative.[22]

*Rationale*

The primary reason this benefit exists is that the same structure is applied to children of retirees as to children of disabled or deceased workers. The latter is an excellent policy, but there is no strong rationale for these benefits for children of retirees. Retirement is a choice unlike death or onset of disability, and a decision to have children later in life should not be subsidized by the federal government. No other retirement or pension system rewards the presence of children. This benefit encourages early retirement, and the money could be better spent elsewhere in Social Security, such as towards efforts to better support grandparents raising children and students.

In December 2023, as shown in Table 5, there were about 322,000 minor children of retired workers receiving an average monthly benefit of $840 (SSA 2024b). These are primarily children of male retirees because very few children are born to women at age 45 or older. Less than 1% of retirees have minor children in the household, yet over the decade, billions would be spent on these children (SSA 2024b).

The Social Security system should ensure that benefits flow to children of disabled or deceased workers. As shown in the table, some 2.2 million children receive Social Security benefits because of a parent becoming disabled or deceased. This proposal would not change benefits for those children.

TABLE 5

### Social Security Benefits for Minor Children, December 2023

| Child of— | Number | Average Monthly Payment ($) |
|---|---|---|
| Retired worker | 321,700 | 840 |
| Deceased worker | 1,299,300 | 1,074 |
| Disabled worker | 926,800 | 470 |
| Total children | 2,547,800 | 825 |

**SOURCE:** Annual Statistical Supplement to the Social Security Bulletin (2024)

## BENEFIT IMPROVEMENTS

### Increase survivor benefits

*Current law*

Under current law, the surviving spouse, dependent parents, and unmarried children of a deceased worker are eligible for Social Security survivor benefits. Specifically for surviving spouses, when one member of a couple dies, the survivor benefit is the larger of the two benefits—the Social Security benefit of the deceased worker or of the survivor (SSA 2024d). Thus, for a couple with similar earnings records, the Social Security benefit is essentially cut in half when one dies.

*Proposal*

**Increase in actuarial deficit:** 0.10% of taxable payroll
**Budget impact, 2025-2035**: $156 billion
**Affected beneficiaries in the tenth year after enactment:** 5.5 million

We propose to take the higher of the two benefits or 75% of the combined benefits, whichever is greater. However, the benefit would be capped at 75% of two combined median benefits.

*Rationale*

For many years, Social Security advocates have pressed for this change in the benefit structure. Among the aged population, older widows are the demographic group most likely to live in poverty (Streeter 2019). When one person in a couple dies, the Social Security benefit loss can be close to 50%, yet household expenses are estimated to only fall by 25%, as evidenced by the percent difference in the poverty thresholds for a single person relative to a household of two people (ASPE 2024). There is a large, long-standing body of evidence that suggests that survivor benefits are too low (Auerbach and Kotlikoff 1985; Hurd and Wise 1991).

The survivor benefit should more clearly reflect the needs of the surviving spouse. Given that women outlive men, this is an especially important benefit improvement for women. This proposal ensures that the Social Security benefit level remains adequate when one member of the couple dies.

### Create a disability benefit for older workers with disabling conditions that make them unable to do their jobs

*Current law*

The eligibility determination process for Social Security Disability Insurance (SSDI) and Supplemental Security Insurance (SSI) adult disability benefits is complex. SSA uses a five-step sequential process to determine eligibility for both SSDI and SSI benefits.

1. In the case of SSDI, an applicant must have worked at least 20 quarters over the prior 40 quarters. In the case of SSI, the applicant must have low-income and assets. If they meet the criteria, they proceed to step two.
2. SSA establishes whether the applicant has a medically determinable physical or mental impairment. The impairment must be severe, meaning it significantly limits the applicant's physical or mental ability to do basic work activities. If they are determined by medical evidence to have a severe impairment, they proceed to step three.

3. SSA considers whether an applicant's severe impairment meets or equals SSA's "listings of impairments," which are a set of medical criteria in SSA's regulations for a wide range of physical and mental impairments (SSA n.d.). If they do, the applicant is awarded benefits. If an applicant satisfies the first two steps but doesn't have a severe impairment that meets or equals the listings, they go on to step four.
4. SSA considers whether an applicant can do their recent past work at a substantial gainful activity level ($1,620 per month in 2025). This is referred to as a residual functional capacity assessment (SSA n.d.). An applicant who cannot do their past recent work proceeds to step five.
5. Finally, SSA considers whether they can do other work in the national economy at the substantial gainful activity level, taking into account the applicant's residual functional capacity and age, education, and work experience. If SSA determines that they cannot do other work, they are awarded benefits.[23]

Many workers who retire prematurely due to a health condition do not qualify for SSDI and instead take the reduced early-eligibility age (EEA) benefit. For a worker planning to claim benefits at the full retirement age, claiming the EEA benefit represents a permanent 30% reduction in their benefits due to the actuarial adjustment, as well as reductions in auxiliary benefits, such as spousal and child benefits. This can be the difference between a comfortable, modest retirement and financial hardship.

*Proposal*
**Increase in actuarial deficit:** 0.10% of taxable payroll
**Budget impact, 2025-2035:** $212 billion
**Affected beneficiaries in the tenth year after enactment:** 700,000

This proposal would establish an Early Retirement Disability (ERD) benefit for workers who do not qualify for SSDI but meet the SSDI criteria with these two changes:

1. When a worker reaches age 58, SSA considers only whether a person can perform the work they have done in the recent past. This would eliminate step five of the sequential determination process described above and allow all workers who pass through step four to receive the ERD benefit.
2. For purposes of the ERD, eliminate the SSDI work recency requirement, which specifies that an applicant must have worked at least five of the last 10 years. In other words, only the simple 40 quarters of work for retirement insured status would apply to this benefit.

The ERD benefit would be the average of the retirement benefit the worker would be eligible for at the full retirement age (FRA) and the EEA for workers who apply at age 58. Workers applying from age 59 to 62 would also receive the average of the worker's FRA and EEA benefit. Workers applying at age 63 would receive the average of the FRA and the age 63 benefit, and similarly for any age up to the FRA. Additional aspects of the policy include:

- Any auxiliary benefits related to SSDI would also apply to those qualifying for the ERD.
- The ERD criteria would also apply to eligibility for SSI disability benefits beginning at age 58.

- In terms of step four, the "recent past work" has traditionally been defined as the last 15 years. SSA recently changed its regulation to define the recent past as the last five years. For this policy, the time frame would be reversed, and the recent past would once again be the last 15 years.
- SSA would evaluate an applicant's eligibility for both SSDI and ERD.
- Applicants who qualify for the ERD and not SSDI and have a date of onset before age 58 would only receive back payments beginning at age 58 (Smalligan, Williams, and Boyens 2019).

*Rationale*

The real issue is that the disability definition in both the Social Security and SSI programs is very strict, and it forces many workers to retire early and take a large reduction in benefits because of the actuarial adjustment associated with early retirement. This proposal eases the disability definition significantly and allows workers with extenuating health circumstances that prevent ongoing work to start to claim benefits at age 58.

The proportion of older Americans with self-reported health-related work limitations has held steady over the past two decades but given the increase in size of the older adult population, the number of older Americans with such a limitation has grown. From 1997 to 2017, the number of adults reporting a health-related work limitation increased from 2.8 million to 5.4 million for people ages 55 to 61 and from 1.7 million to 3.1 million for people ages 62 to 65 (Smalligan, Williams, and Boyens 2019).

Earlier in this paper, we described the disparities in life expectancy by income. Disparities also exist in poor health that force some older workers to take early retirement. The income groups least likely to be forced into retirement have seen the biggest gains in quality of life and life expectancy; the groups most likely to be forced into retirement have seen little or no gains. There are also disparities in health-related work limitations based on racial and ethnic background and education level. For people who were 62 to 65 in 2017, 27% of non-Hispanic Black people and 26% of Hispanic people reported health-related work limitations, compared with 19% of non-Hispanic white people (Johnson 2018).

While we identify a group of at-risk older workers who would benefit from the ERD benefit, many workers with serious health conditions qualify for SSDI. Older applicants are more likely than younger applicants to be awarded SSDI benefits (Rupp 2012). Of new SSDI awardees in 2019, 51.9% were 55 or older (SSA 2019).[24] The Social Security actuaries in the 2024 Trustees Report estimate that for men and women ages 60 to 64, 16.8 and 14.4 workers out of 1,000 respectively, will be awarded benefits, whereas they estimate that for workers ages 30 to 34, 1.8 workers out of 1,000 will be awarded SSDI benefits each year (Office of the Chief Actuary 2024). Someone who qualifies for SSDI avoids the reduction in monthly benefits that would otherwise result from claiming benefits before reaching the full retirement age. Those older workers awarded SSDI have substantially lower life expectancies. Men and women awarded SSDI at age 62 have a six- and seven-year lower life expectancy, respectively than the overall population at that age (Zayatz 2015). This suggests that SSDI plays a vital role for these at-risk older workers. Workers should be able to access both current law SSDI and the proposed ERD.

Although SSDI helps many workers with serious disabilities, many who apply for SSDI are not awarded benefits. In 2019, SSDI had an award rate of 27% and an allowance rate of just under 50% among workers (SSA 2020). These other workers with serious health problems who do not receive SSDI often instead take early retirement with dramatically reduced monthly benefits. Three out of 10 retirees reported taking an involuntary retirement between 1992 and 2011, with half of this group attributing the decision to poor health (Seligman 2014). Moreover, these people who retired early because of a health issue were just as likely to be receiving retirement benefits as disability benefits. A substantial portion of early retirees who had health issues were very similar to those receiving SSDI or SSI (Bound and Waidmann 2011).

The population of adults with serious health problems who are unlikely to be eligible for SSDI face significant social, economic, and health disadvantages. Older workers with serious health conditions may not be able to navigate the stringent SSDI eligibility criteria. SSDI applicants must show that not only can they not perform their recent past work, but they cannot do other work in the economy. SSA researchers matched agency administrative data with survey data and focused on those survey respondents ages 62 to 64 who reported one or more health problems. Of those who reported severe impairments, nearly as many received retirement benefits as received SSDI or SSI, and one-fifth did not receive any of these benefits, indicating many workers have taken early retirement or are forced to continue working while experiencing poor health. The early retirees with health problems had median lifetime earnings of about 60% of early retirees without serious health problems. Those unlikely to be eligible for SSDI were much more likely to be female and have lower levels of education (Leonesio, Vaughan, and Wixon 2003). Older adults ages 60 to 64 with poor health or disabling conditions but who are not receiving SSDI are especially likely to be living below or close to the poverty level. 35% of this group have incomes below the federal poverty level, and another 9% have incomes less than 150% of the federal poverty level. By comparison, older workers on SSDI are less likely to have incomes at either of those levels (Favreault, Johnson, and Smith 2013). Our proposed Early Retirement Disability benefit would help support these at-risk retirees.

### Restore and expand the student benefit for children whose parents are disabled or dead

*Current law*

When Social Security was originally established, the children of beneficiaries could only receive Social Security payments through age 18 or completing secondary school (DeWitt 2001). However, as more Americans began to pursue higher education, legislators recognized that many full-time students were dependent on their parent's support past the age of 18. Thus, in 1965, Congress broadened the definition of dependent to include full-time students up to age 22. Those benefits were only available for unmarried dependent children and did not apply to students in trade school. They were not intended to be a form of financial aid but rather a way to compensate for lost income, given the dependency of full-time students on their parents. $2.4 billion was provided in its peak pay-out year in 1981, with more than 760,000 students benefiting (DeWitt 2001). However, in 1981 policymakers reformed Social Security to provide benefits only for students in secondary education or below. Benefits for college students were phased out, ending in 1985. The primary rationale was to reduce spending and lower federal budget deficits. Therefore, today, children of disabled or deceased parents who are full-time students at age 18 are entitled to benefits until completing their secondary education or reaching age 19, whichever comes first (SSA n.d.).

*Proposal*
**Increase in actuarial deficit:** 0.07% of taxable payroll
**Budget impact, 2025-2035:** $111 billion
**Affected beneficiaries in the tenth year after enactment:** One million

Starting in 2027, this proposal would restore the student benefit to all children of disabled or deceased parents through age 25, regardless of marital status. The provision would also apply to children who are receiving benefits based on their grandparent's or other eligible relative's earnings record.[25] The benefit would be extended to community colleges and accredited trade schools.

*Rationale*
Making college or trade school affordable is a very important benefit both to students and to society. Many parents provide funds from their wages to help defray the cost of education for their children, and when parents lose wages because of disability or death, children no longer receive this support.

Policymakers should allow individuals pursuing higher education to remain eligible for child benefits. Fundamentally, the justification for these student benefits in 1965 is still true today: students are still largely dependent on their parent's income. The child benefit for students was an essential support for vulnerable families. The CBO, in 1978, found that student Social Security benefits tended to support lower-income families given the economic conditions of the eligible population. The median income of student beneficiaries was 33% lower than the median income of all college students (Hertel-Fernandez 2010). Ultimately, this benefit made higher education in all forms more accessible.

Likewise, providing child benefits to students would increase enrollment and reduce attrition. Research after the 1981 reform found that the elimination of benefits for students reduced college attendance among the previously eligible population by more than 33% (Dynarski 2003). Each $1,000 spent by the Social Security program on the student benefit increased the probability of attendance by nearly 4 percentage points.

Our proposal also includes making the student benefit available to children who are receiving benefits based on their grandparents' or other eligible relative's earnings records. By expanding student benefits to children cared for by grandparents and other eligible relatives, policymakers would eliminate a large gap in the social safety net.

### Provide a child benefit to grandparents or certain other relatives caring for children

*Current law*
Generally, grandparents may receive child Social Security benefits if the child's biological parents are deceased or disabled, or the grandparent has legally adopted their grandchild. The grandchild must have begun living with their grandparent beneficiary before age 18 and have received at least half of their support from the grandparent during the year before becoming eligible for benefits. The biological parents of the child must not be making regular contributions to support the child (SSA n.d.).

*Proposal*
**Increase in actuarial deficit:** 0.04% of taxable payroll
**Budget impact, 2025-2035:** $62 billion
**Affected beneficiaries in the tenth year after enactment:** One million

This proposal would loosen the eligibility rules to provide benefits on behalf of children who are in the custody of a grandparent or other eligible relative for at least six months and are receiving at least one-half of their financial assistance from the grandparents or eligible relative.[26,27] This child benefit would be available even if the parent is living in the household, as long as they are not the primary caretaker of the child. This proposal would become effective on January 1, 2027, and would be immediately available to all grandparents or eligible relatives raising children. If the child is receiving a survivor benefit or a benefit for the child of a disabled parent, the benefit would be the greater of this new benefit or the child benefit that is already being provided.

The grandparent or other eligible relative would not have to be receiving retirement benefits because the proposal should not be designed to encourage early retirement. If the grandparent is below the age of retirement and they are not yet receiving benefits, the calculation would use fewer years of earnings to determine the child benefit level, as is done in the calculation for child benefits to a disabled parent. As the grandparent continues to work and increases their number of years making earnings, the child benefit would be adjusted. When the grandparent begins to receive retirement benefits, the grandchild benefit would be recalculated. In the case of a grandparent couple, the child benefit would be based upon the higher of the two grandparent's earnings records.

*Rationale*
An increasing number of children are being placed in the care of a grandparent (Link, Watson, and Kalkat 2023). To be considered the primary caregiver, these grandparents or other relatives must provide at least 50% of the dependent's financial support, which is most often through housing. In 2019, 10.5% of American households with children were multigenerational. An additional 2.2% of households with children were skip-generation, meaning the household was headed by a grandparent with no parent present. These data demonstrate that many grandparents provide substantial support to their grandchildren, and a significant number assume a caregiving role when parents are unable to fully support their child.

Grandparents are most often placed into a caregiving role due to parental inability to care for a child, the death of a parent, or other crises such as incarceration or mental health issues of the parent (Baker and Mutchler 2010). Skip-generational households, especially, are formed in response to family adversities that make the children and grandparents highly susceptible to further instability (Smith and Palmieri 2007).

Since family crises such as incarceration and substance abuse disproportionately affect low-income and minority households, the burden of grandparent caregiving is also larger in such communities. In 2019, Black children were most likely to live in skip-generation households (Link, Watson, and Kalkat 2023). Although skip-generation living arrangements for white children have increased over time, Black children were over two times as likely to be in the care of a grandparent as the sole provider compared to white children.

Given that grandparent caregivers tend to come from marginalized communities, they often experience worse health and financial outcomes compared to the overall older adult population (Kolomer 2008; Waldrop and Weber 2001). They have significantly less wealth, receive less public support, and report higher rates of poverty compared to parent-child households (Baker, Silverstein, and Putney 2008). They are also younger but report higher rates of chronic conditions and lower well-being (Danielsbacka, Křenková, and Tanskanen 2022; Waldrop and Weber 2001). Therefore, the proposed enhanced child benefit can provide an important source of income for this population.

## Improve benefits for disabled adult children

*Current law*

According to SSA, a disabled adult child (DAC) is an unmarried adult aged 18 or older who has a qualifying disability that started before age 22 (SSA n.d.). The DAC may be eligible for child benefits if their parent is deceased or has begun receiving Social Security benefits. The disabled child's benefit amount is based on the parent's earnings history. Additionally, the DAC must not have substantial earnings, and benefits often end if the DAC gets married. A DAC may not be entitled to a child disability benefit if they worked at the level of substantial gainful activity after age 22 because such prior earnings are deemed to indicate that the individual has not been continuously disabled starting before age 22.

*Proposal*

**Increase in actuarial deficit:** 0.01% of taxable payroll

**Budget impact, 2025-2035:** DYNASIM did not model the cost of this proposal, as the estimated effects on the budget are small.

This proposal would improve DAC benefits by including provisions from other bills introduced in Congress.[28] For OASDI beneficiaries, we propose to eliminate the requirement that a DAC beneficiary be unmarried for starting or restoring receipt of benefits, and to remove marriage as a terminating event for existing DAC beneficiaries. For SSI recipients, this proposal would: (1) eliminate the policy that an unmarried couple that presents themselves as married (sometimes referred to as "holding out") be considered married for purposes of the SSI program, and clarify same-sex marriage eligibility for SSI benefit entitlement; and (2) remove the SSI deeming of income requirement between a married couple, meaning attributing the income and resources of one spouse to the other, if one spouse is a Title II DAC beneficiary (Wilschke and Balkus 2003). In addition, in a marriage between a DAC beneficiary and any other person, both spouses would continue to receive Medicaid benefits as if they were unmarried.

Furthermore, we would require that any earnings by the DAC after age 22 are not considered when establishing if the DAC has a qualifying disability. This proposal would ensure that any individual applying for a child disability benefit before attaining age 62 who is disability insured would be considered to have applied for a disabled worker benefit, and any individual applying for a childhood disability benefit after attaining age 62 who is disability insured will be considered to have applied for a retired worker benefit.

*Rationale*

Table 6 below shows that there are some 1.1 million children receiving disabled child Social Security benefits. These disabled children are mainly adults, most of whom were disabled

at birth. Many DACs were likely getting adult SSI benefits before becoming Social Security eligible due to their parents retiring, becoming disabled, or being deceased. These disabled adults will receive child benefits for the remainder of their lives. However, some do lose these benefits because they marry or their work effort exceeds the level considered to be substantial gainful activity. This benefit is very comforting to parents who do not know how these children will be cared for when they die.

TABLE 6

**Social Security Benefits for Disabled Adult Children, December 2023**

| Child of— | Number | Average Monthly Payment ($) |
|---|---|---|
| Retired worker | 348,900 | 931 |
| Deceased worker | 688,100 | 1,149 |
| Disabled worker | 105,300 | 638 |
| Total children | 1,142,400 | 1,035 |

**SOURCE:** Annual Statistical Supplement to the Social Security Bulletin (2024)

## COVERAGE AND TRANSFERS

### Devote all proceeds from taxes on Social Security benefits to OASDI trust funds

*Current law*

The 1983 Social Security amendments included the first tax on Social Security benefits. Benefits were taxed 50% above $25,000 for single taxpayers and $32,000 for couples (Whittaker 2016). In the Omnibus Reconciliation Act of 1993, a larger percentage of benefits were taxed at somewhat higher thresholds. The additional revenue raised from this increase in taxes was placed into the Medicare Hospital Insurance (HI) Trust Fund because that fund was approaching insolvency at the time (SSA n.d.). Because the financing of the HI Trust Fund was accomplished through a reconciliation bill, and Social Security cannot be changed in a reconciliation bill by law, the revenues were prevented from being moved later into the OASDI trust funds.

The passage of the Affordable Care Act (ACA) introduced the Net Investment Income Tax (NIIT), which went into effect in January 2013. The NIIT applies a tax to net investment income of individuals, estates, and trusts that have income above a statutory threshold (IRS n.d.). Funds from the NIIT are currently placed in general revenues.

*Proposal*

**Reduction in actuarial deficit:** 0.87% of taxable payroll

**Budget impact, 2025-2035:** -$755 billion through NIIT transfers and slowed HI outlays.

This proposal would move all taxation proceeds that have gone into the Medicare HI Trust Fund (including past amounts) into Social Security's OASDI trust funds beginning on January 1, 2027. The legislation would specify that the HI Trust Fund could not be made worse off as a

result of this transfer. Therefore, if the HI Trust Fund is not funded well enough for all proceeds to be moved on January 1, the amounts would be moved as soon as possible. The necessary amounts could be raised by slowing HI Trust Fund outlays or by increasing revenues to the fund, such as through increasing the Medicare HI tax rate. Additionally, proceeds from the NIIT, including all amounts since first enacted, would be moved from general revenues into the HI Trust Fund on January 1, 2027. A forthcoming paper with Medicare policy proposals will lay this out in more detail. However, the basic idea is to devote to the HI Trust Fund money from an expansion of the HI tax base, an increase in the HI tax rate, and reduced reimbursements to Medicare Advantage (MA) plans.

*Rationale*

This is a very important proposal, as it is a key revenue increase for the Social Security program while allocating tax funds more efficiently than is currently being done. Taxation of Social Security benefits is more closely related to the cash benefits paid out from the Social Security trust funds than the Medicare HI Trust Fund. As such, proceeds from the taxation of benefits should contribute to funding the Social Security program. There is a larger number of potential policies available to slow health costs paid for by the HI Trust Fund than there are to modify cash benefits, such as reducing payments to MA or reducing Medicare's coverage of bad debt. In the Social Security system, there are only two options—reduce benefits or increase taxes. As such, the resulting loss in the HI trust fund can be offset. This is particularly true, given the details of this proposal ensure that the HI Trust Fund is not made worse off.

**Expand the labor force by changing legal immigration policies**

*Current law*

Immigration policy in the United States is more tied to Social Security than might be apparent at first blush. Flaws in the immigration system are depriving Social Security of critical funds because backlogs and too-low caps curb the number of foreign-born workers in the United States paying payroll taxes. Increasing legal immigration is a key to improving solvency.

Most immigrants come to the U.S. through the legal immigration system, which includes a variety of permanent and temporary pathways. Most of these are subject to caps determined by Congress, which have not been updated since 1990, when the economy was half of its current size (U.S. Bureau of Economic Analysis 2024).

Permanent migrants are issued a legal permanent residence visa, also known as a green card, which is a stepping-stone to citizenship. The most common pathway to permanent residence is through family, with some family categories subject to annual numerical caps. In the capped categories, there are significant backlogs of 3 to 24 years, depending on the familial relationship and country of origin (U.S. Department of State 2024). An average of 650,000 people gain legal permanent resident status through capped and uncapped family-based pathways each year (U.S. Department of Homeland Security 2023).

Another major pathway to permanent migration is through employment-based visas. These are mainly allocated to workers with high levels of education or technical skills. In many cases, workers are already in the country on a temporary visa. There are annual caps in the employment-based system totaling 140,000 workers, as well as per-country caps. Other less common routes to permanent residency include qualifying as a refugee or asylee and winning

the lottery for a diversity visa for those from countries without many immigrants in the United States. In total, about a million people a year get a U.S. green card.

There are also a number of temporary visa options. The H-1B is a “dual intent” visa, meaning that workers are able to apply for a green card while working on an H1-B, and visa holders are required to pay Social Security and Medicare taxes. However, some other temporary visa types are exempt, including workers on the H-2A program for seasonal agricultural workers and those on student visas.

Backlogs are severe in nearly every part of the immigration bureaucracy. Some of these backlogs are directly created by restrictions on legal migration and per-country caps. Other backlogs stem from inadequate staffing and infrastructure, leading to slow processing times for applications. The Bipartisan Policy Center has estimated that clearing the full queue of green card backlogs arising from the caps and the processing backlogs would generate trillions of dollars in economic activity (Malde, Brown, and Gitis 2023).

Undocumented immigrants are required to pay FICA taxes even though they typically do not have permission to work. In practice, undocumented immigrants often work in the formal sector using a false Social Security Number and contribute payroll taxes to the system without benefitting from it.

Though immigrants with legal status are both contributors to and beneficiaries of the system, immigration improves the Social Security and Medicare fiscal position. The 2024 Trustees report, for example, has a 75-year actuarial balance that is 25% less favorable in a low-immigration scenario versus a high-immigration scenario (SSA 2024a). In large part because of these tax contributions, immigration improves the fiscal situation of the federal government more broadly (National Academies of Sciences, Engineering, and Medicine 2017). Immigration policy can serve as a tool to strengthen the solvency of the Social Security system.

*Proposal*
**Reduction in actuarial deficit:** 0.30% of taxable payroll
**Budget impact, 2025-2035:** -$117 billion
**Immigration impact, 2025-2035:** The proposal would increase net immigration by a cumulative total of 3.1 million above a baseline of 13.6 million

The proposal consists of several components to expand and improve the immigration system. Expanding the population of working-aged adults boosts the U.S. economy overall and improves the fiscal position of the Social Security system.

The most critical immigration reform to promote solvency of the Social Security system is for Congress to raise the caps on legal migration. The proposal would increase the permanent employment-based migration caps (EB-1 through EB-5) by 50% (i.e. increase cap from 140,000 to 210,000) in fiscal year 2026 and then increase those caps by 3% per year from there starting in fiscal year 2027 and annually thereafter. In addition, the major temporary employment-based caps would be increased by 50% in fiscal year 2026 (H-1B, H-2B) and rise by 3% per year thereafter. The proposal would also increase the other major permanent migration caps by 1.5% per year annually starting in fiscal year 2026 (1.5% increase in F-1 through F-4 family pref-

erence visas as well as the current 226,000 allotment for the combined family preference, 1.5% increase in diversity visas), so all caps would slowly increase over time.

In addition to raising caps, several additional immigration reforms would also strengthen solvency and improve the immigration system. Status adjustments would be available for certain undocumented immigrants. In addition, visa backlogs for selected categories max out at 10 years, at which time green cards would be granted and not applied to caps. This applies to the F1, F2A, and F2B family preference categories and all EB permanent employment visa categories. Spouses and children will not count against employment-based visa caps. In addition, we propose a new H-1D visa for direct care workers and updating the Department of Labor Schedule A "shortage occupation" list to include direct care workers.

Over the long run, net immigration inflows would substantially increase as a result of these changes. As estimated by SSA, net immigration is projected to grow from 1.60 million in 2025 to 1.87 million by 2046 and 4.67 million by 2100 with the reform. For comparison, in the benchmark scenario, net immigration is 1.27 million in 2046 and 1.21 million in 2100 (SSA 2024). Though the proposed reforms would eventually lead to large flows by historical standards, it is natural for immigration to expand as the economy grows. The Social Security Trustees Report projects an intermediate assumption increase of real GDP of 224% over the 2025 to 2100 period, and the proposed changes in net annual inflows would roughly align with this growth.

Finally, the proposed reform significantly increases administrative monies to handle the backlog in our immigration system and provide the funds to accommodate these new flows of legal immigration. Implementing the changes proposed here will require substantial additional investment in the immigration bureaucracy to allow the legal immigration system to function smoothly.

*Rationale*

Roughly 14% of the U.S. population was born outside the United States (American Immigration Council n.d.). This is similar to the high level that existed around 1900 but is lower than some similar countries such as Germany (17%), Canada (23%), and Australia (29.5%) (Australian Bureau of Statistics 2024; DeStatis 2023; Government of Canada 2022). Within the U.S., the share of foreign-born ranges from 2% in West Virginia to 27% in California (American Immigration Council 2022). The optimal level of immigration is a matter of significant policy debate, but the experience of some states and countries shows that an immigrant population substantially higher than we have now can be successfully managed.

This proposal includes policies to promote and expand legal immigration. Immigrants help the U.S. meet its demographic challenge in several ways. First, many immigrants tend to come to the United States as young adults; 55% of new permanent residents fall in the 15 to 44 age range (Ward 2024). This means they have many years to contribute to the economy and to the Social Security system before becoming beneficiaries of that system. Second, though fertility is declining among immigrants as well as the U.S.-born, immigrants tend to have more children than the average U.S.-born person (Livingston 2019).

These factors mean that, even without policy change, immigration is critically important to population growth and Social Security system finances. In an illustrative but unlikely scenario

with no further net immigration, the U.S. Census Bureau projects that the nation's population would decline from 333 million today to 314 million in 2050 (U.S. Census Bureau 2023). For more likely estimates, the 2050 population projections range from 345 million to 384 million, depending on immigrant inflows (U.S. Census Bureau 2023). The key reason immigration affects solvency and increases revenue to the Treasury is that it generates growth in the working-age population.

The most straightforward way to change immigration levels is to adjust the existing annual caps on legal temporary and permanent migration. We propose a significant immediate increase in employment-based caps, followed by more gradual increases. The immediate increase would help address today's backlog of highly skilled workers who are living in the United States but are in a years-long queue for permanent residency. It would also boost flows of temporary workers who contribute to Social Security revenue. Other caps would rise more gradually, at 1.5% per year annually. The proposed reform would increase inflows in all categories and tilt aggregate inflows towards employment-based migrants, bringing critical skills to the U.S. economy and revenue to the Social Security system.

It is also important to make other improvements in the system. The bipartisan DIGNIDAD (Dignity) Act introduced in 2023 by Rep. Maria Elvira Salazar (R-Florida), is a major reform effort tackling many broken components of the current immigration system, and we propose adopting several of its provisions (Rep. Salazar 2024). The bill regularizes the status of many residents: "Dreamers," described in the 2023 Dignity Act as those who entered the U.S. as minors and are pursuing (or have completed) secondary education, Temporary Protected Status holders who have often lived in the U.S. for many years, and other undocumented immigrants. This reform would increase the eventual number of system beneficiaries, but in the short run, would raise revenue by encouraging formal sector employment and raising wages among the currently undocumented population. The increase in revenue would more than offset the cost of additional beneficiaries, mainly due to a timing effect. Given that most immigrants come to the U.S. earlier in life, these individuals will work and contribute to the Social Security system for many years before claiming their own benefits.

We also propose limiting the visa backlog queue to 10 years in certain family categories and all employment categories, facilitating a more functional system and nudging inflows higher than suggested by the cap increases alone. In addition, the introduction of a direct care worker visa and reforms to Schedule A would bolster the direct care workforce, which is critical to the successful aging of the U.S. population.

Finally, it is important to boost the administrative capacity of the various agencies to implement the proposed changes. The solvency estimates presented in this paper do not incorporate administrative costs, however, these costs are very small relative to the Social Security program. The U.S. Citizenship and Immigration Services budget for operations and support in 2025 was only about a quarter of a billion dollars (U.S. Department of Homeland Security 2024). There are severe backlogs and inefficiencies throughout the system, which will only be exacerbated without increased support for the bureaucracy that manages the immigration system.

**<u>Achieve universal coverage in Social Security</u>**

*Current law*

About 94% of American workers in 2024 paid into Social Security and can subsequently expect benefits when they retire (Li 2024). The remaining 6% of workers held jobs considered "uncovered employment." These workers do not pay into Social Security and, therefore, cannot expect benefits based upon these earnings when they retire, although most will receive Social Security benefits on covered work before, during, or after their employment in uncovered jobs. The largest share of uncovered workers is the 5.9 million state and local government employees who, instead of being covered by Social Security, are insured by alternative public pension plans provided by their state and local employer (Li 2024). The rate of coverage varies by state, but eight states account for 76% of uncovered state and local government employees, with the most working in California, Texas, and Ohio (Li 2024).

*Proposal*

**Reduction in actuarial deficit:** 0.15% of taxable payroll
**Budget impact, 2025-2035:** -$5 billion
**Affected beneficiaries in the tenth year after enactment:** 800,000

Effective on January 1, 2032, all newly hired employees of state and local governments who are not part of the Social Security system would be covered by Social Security. The effective date of this proposal is five years after the assumed date of enactment in 2027 to allow states and localities time to change their retirement and pension plans.

To help states manage the near-term transition costs, the Department of the Treasury would make low-cost loans available, which would be repaid to the federal government over 30 years. These same financing arrangements were made available to large employers by the Employee Benefits Security Administration to preserve the solvency of their pension plans. While the arrangements would shift some near-term costs from the states to Treasury, all the loans would be repaid.

*Rationale*

Universal coverage has several benefits for workers. First, unlike many state and local government pension programs, Social Security provides automatic cost-of-living adjustments (COLAs) based on the Consumer Price Index (CPI), ensuring that Social Security benefits retain their purchasing power over time. Most pension plans, in contrast, are imperfectly indexed to inflation, meaning they do not adjust based on true inflation rates, and some are subject to caps. Second, Social Security provides more robust dependent and survivor benefits. Benefits for spouses and dependents in state and local pension plans are not comparable to Social Security, which provides a 50% spousal benefit and a 100% widower benefit, neither of which affects the worker's monthly benefit. Most state and local pension plans do not provide any benefit to the spouse of a living retired worker and only a partial benefit to a surviving spouse. Additionally, if a worker dies after retirement, their spouse would receive benefits only if the couple opted into a joint-and-survivor annuity account, but, in exchange, the worker typically must have accepted lower monthly payments (Nuschler 2021).

Social Security also provides portability, meaning that as workers change jobs, they maintain coverage and continue to accumulate benefits no matter where they live or work. Pension

plans, however, are not portable, and benefit accrual is heavily backloaded to reward longer tenure. This is evidenced by the fact that 43% of pension plans shortchange workers with 6 to 20 years of tenure (NCSL 2022). Social Security accrual is more uniform across an individual's career, and years of service in a job are not considered when calculating benefits, so workers are not punished for changing jobs (Gale, Holmes, and John 2015). The uniform accrual structure of Social Security is especially important, considering that workers are increasingly prone to job hop, and workers tend to overestimate their tenure in one job (Adkins 2016). For example, only half of teachers work long enough to qualify for a public pension (Kan and Aldeman 2014). Given uncovered workers enter their jobs with the anticipation of qualifying for a pension, many uncovered workers will retire with fewer benefits than they currently expect. Additionally, unlike traditional pension plans, Social Security uses a progressive formula. Lower-income workers benefit from a higher replacement rate, meaning they receive more Social Security benefits relative to pre-retirement earnings compared to higher-earning workers (Nuschler 2021).

Mandating universal coverage will affect federal and local budgets differently. For the Social Security trust fund, universal coverage would be highly beneficial. The proposal would reduce the 75-year actuarial deficit by providing a rapid infusion of cash to the Trust Fund, as more workers will be paying into the system, which will not be paid out in benefits for decades (Nuschler 2021). However, for state and local governments, the effects of universal coverage will depend on how they respond to the proposal. However, the financial strain on state and local governments would diminish in the long run. Ultimately, state and local governments would also benefit from mandatory coverage because pension programs often burden on state and local budgets. In 2013, researchers found that nearly all state and local government plans were underfunded, meaning they did not have sufficient assets and contributions to cover plan liabilities (Nuschler 2021). States with the highest rates of uncovered workers are also the states with the highest levels of underfunding. The fragility of current pension programs underscores the need for improved retirement protections for uncovered employees. If state and local governments respond to mandatory coverage appropriately, it would reduce the burden that current pension programs impose on state and local budgets while improving the long-term financial security of these workers (Gale, Holmes, and John 2015).[29] Universal Social Security for new state and local government workers would benefit state and local governments, employees, employers, and the Trust Fund.

# Why not more automatic adjustments and benefit improvements?

The blueprint outlined in this paper includes changes in retirement age over time based on income, in addition to numerous benefit improvements. Several experts suggest that Social Security plans automatically adjust retirement age as longevity changes (SSA n.d.).[30] That provision is not included in this proposal for two reasons. The first is that longevity increases are not uniform across all wage levels. The second is that Congress legislates on Social Security very infrequently. It is not wise to automatically adjust certain parameters and facilitate less active legislation around Social Security. Congress should examine Social Security policy more often than it has done in the recent past to remain up to date on the health of the system.

Several plans currently circulating in Congress have many more extensive program improvements—such as an overall increase in benefits, reducing taxation of Social Security benefits, and increasing benefits at age 80. However, the most important goals of Social Security are to restore long-term solvency and to lower poverty among older adults. With those prime, dual objectives, there is a limit to how many improvements can be made in the program because all benefit improvements must be adequately financed, and our overall public debt put on a downward trajectory. This required balance is the key reason as to why more Social Security benefit improvements are not included in this paper.

Table 7 below shows the impact of each of the 16 different Social Security proposals on the unified budget over the next two decades. The impact on the deficit is significant, with the overall blueprint reducing the deficit by $2.3 trillion over the next decade and another roughly $6.6 trillion between 2036 and 2045. There are two proposals that impact the budget significantly beyond the Social Security trust fund: expanding the labor force by changing immigration policies and changing rules for pass-through payroll taxation. The proposal to devote all proceeds from taxes on Social Security benefits to the OASDI trust funds and transfer NIIT revenues into the HI Trust Fund also has large impacts on the budget. Table 8 shows the transfer of dollars from the HI Trust Fund to the OASDI trust funds and then how the HI Trust Fund is replenished from NIIT revenues and outlay reductions. Those transfers of dollars have an impact on the unified budget deficit, primarily through the increase in NIIT revenues and the slowdown in health spending that reduces outlays from the HI Trust Fund. We note that the key requirement of the proposal is the HI Trust Fund not be made worse off.

This paper has focused on entitlement and revenue changes—provisions within the jurisdiction of the Committee on Ways and Means in the House of Representatives and the Committee on Finance in the Senate. The Appropriations Committee also needs to adequately finance the administration of the Social Security program, either through substantially improved discretionary appropriations or through new mechanisms using mandatory funding (Boyens and Smalligan 2024). Financing the administration of Social Security requires serious attention. While solvency legislation is being advanced, mandatory funds to finance the administration of Social Security also should be considered if needed.

TABLE 7

## Change in the Unified Budget by Fiscal Year, Billions ($)

| Proposal | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|
| Increase the taxable maximum ceiling | 0.0 | 0.0 | -15.4 | -30.9 | -47.3 | -63.8 | -80.2 |
| Change rules for pass-through payroll tax | 0.0 | 0.0 | -51.9 | -51.0 | -56.7 | -59.4 | -62.1 |
| Increase payroll tax | 0.0 | 0.0 | -10.1 | -21.3 | -22.1 | -23.1 | -24.2 |
| Increase retirement age for high earners | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Increase the number of working years used to calculate Social Security's average indexed monthly earnings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax all Social Security benefits of high earners | 0.0 | 0.0 | -18.6 | -20.9 | -23.3 | -24.9 | -26.9 |
| End the dependent retiree spouse benefit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Eliminate child retiree benefits | 0.0 | 0.0 | -0.9 | -3.3 | -6.0 | -6.8 | -8.9 |
| Increase survivor benefits | 0.0 | 0.0 | 13.7 | 14.8 | 15.8 | 16.7 | 17.2 |
| Create a disability benefit for older workers with disabling conditions that make them unable to do their jobs | 0.0 | 0.0 | 4.7 | 19.9 | 19.7 | 19.9 | 23.8 |
| Restore and expand the student benefit for children whose parents are disabled or dead | 0.0 | 0.0 | 9.4 | 10.5 | 11.0 | 12.9 | 13.1 |
| Provide a child benefit to grandparents or certain other relatives caring for children | 0.0 | 0.0 | 6.8 | 7.3 | 6.7 | 6.2 | 6.3 |
| Devote all proceeds from taxes on Social Security benefits to OASDI trust funds* | 0.0 | 0.0 | -57.8 | -64.1 | -69.2 | -76.4 | -84.1 |
| Expand the labor force by changing policies on legal immigration | 0.0 | -1.2 | -3.0 | -4.8 | -6.9 | -8.5 | -12.4 |
| Achieve universal coverage in Social Security | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total for all proposals, including interactions** | **0.0** | **-1.2** | **-127.3** | **-156.0** | **-178.3** | **-211.6** | **-244.6** |

TABLE 7 CONT.

| Proposal | 2032 | 2033 | 2034 | 2035 | 2025-2035 Total | 2036-2045 Total |
|---|---|---|---|---|---|---|
| Increase the taxable maximum ceiling | -99.2 | -114.0 | -133.4 | -146.1 | -730.2 | -2,440.5 |
| Change rules for pass-through payroll tax | -62.7 | -67.1 | -72.0 | -70.1 | -553.1 | -877.3 |
| Increase payroll tax | -25.3 | -26.4 | -27.4 | -28.6 | -208.5 | -356.9 |
| Increase retirement age for high earners | 0.0 | -0.2 | -0.4 | -0.7 | -1.3 | -99.3 |
| Increase the number of working years used to calculate Social Security's average indexed monthly earnings | -1.7 | -3.5 | -5.6 | -8.2 | -19.0 | -333.0 |
| Tax all Social Security benefits of high earners | -28.7 | -30.6 | -32.6 | -34.6 | -241.2 | -502.2 |
| End the dependent retiree spouse benefit | -0.1 | -0.3 | -0.7 | -1.2 | -2.3 | -67.9 |
| Eliminate child retiree benefits | -10.5 | -11.8 | -13.0 | -13.8 | -75.0 | -183.0 |
| Increase survivor benefits | 17.9 | 18.8 | 20.1 | 21.2 | 156.0 | 277.5 |
| Create a disability benefit for older workers with disabling conditions that make them unable to do their jobs | 28.9 | 30.3 | 31.7 | 32.7 | 211.6 | 400.1 |
| Restore and expand the student benefit for children whose parents are disabled or dead | 12.3 | 12.8 | 14.1 | 15.2 | 111.4 | 195.3 |
| Provide a child benefit to grandparents or certain other relatives caring for children | 7.3 | 7.7 | 6.7 | 6.6 | 61.5 | 97.9 |
| Devote all proceeds from taxes on Social Security benefits to OASDI trust funds* | -89.3 | -101.5 | -106.8 | -105.9 | -755.1 | -573.2 |
| Expand the labor force by changing policies on legal immigration | -14.7 | -18.6 | -23.4 | -23.8 | -117.2 | -696.5 |
| Achieve universal coverage in Social Security | -0.7 | -1.0 | -1.3 | -1.8 | -4.8 | -64.7 |
| **Total for all proposals, including interactions** | **-276.0** | **-332.4** | **-367.3** | **-396.5** | **-2,291.2** | **-6,610.6** |

**SOURCE:** Dynamic Simulation of Income Model (DYNASIM)
**NOTE:** *Budget impact due to NIIT enhancements and HI outlay reductions. Negatives indicate a decrease in annual federal unified budget. Proposal improving benefits for disabled adult children is omitted because SSA estimates indicate the impact is very small and the proposal was not modeled by DYNASIM.

TABLE 8

## Transfers from and into the Hospital Insurance Trust Fund, in Billions ($)

| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2025-2035 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Transfers from HI into OASDI** | 0.0 | 0.0 | -667.2 | -153.1 | -165.3 | -177.0 | -190.1 | -201.7 | -213.8 | -227.7 | -244.0 | -2,240.0 |
| **Transfers into HI Trust Fund** | | | | | | | | | | | | |
| Retroactive NIIT Transfer and Current Law NIIT | 0.0 | 0.0 | 581.0 | 63.1 | 70.8 | 70.9 | 82.6 | 79.2 | 85.8 | 94.9 | 88.6 | 1,216.8 |
| NIIT Increased Rate and Base | 0.0 | 0.0 | 79.6 | 95.5 | 96.4 | 104.4 | 119.6 | 117.8 | 164.1 | 151.8 | 162.6 | 1,091.7 |
| Outlay Reductions | 0.0 | 0.0 | 26.7 | 33.0 | 33.5 | 38.9 | 43.9 | 48.9 | 56.7 | 59.7 | 59.7 | 401.1 |
| **Total Transfers into HI Trust Fund** | 0.0 | 0.0 | 687.3 | 191.5 | 200.7 | 214.2 | 246.1 | 245.9 | 306.7 | 306.4 | 310.9 | 2,709.6 |
| **Annual Net Impact on HI** | 0.0 | 0.0 | 20.1 | 38.5 | 35.4 | 37.2 | 55.9 | 44.2 | 92.8 | 78.7 | 66.9 | 469.6 |

**SOURCE:** Dynamic Simulation of Income Model (DYNASIM); Congressional Budget Office.
**NOTE:** Sign denotes impact on the HI Trust Fund balance.

# Conclusion: Why Should This Solvency Plan be Adopted?

There are many reasons why this plan should be adopted. Foremost, this centrist plan contains both benefit reductions and revenue increases, unlike many of the current Social Security solvency plans circulating in Congress. The bipartisan ideas presented here are important because, to be adopted by Congress, any solvency plan must be acceptable to both Republicans and Democrats. As noted earlier in this paper, Social Security changes are not allowed in a reconciliation bill and thus require 60 votes in the Senate. By having both significant benefit reductions and revenue increases, this plan should have the greatest potential to attract both Republican and Democratic votes. The plan largely follows and improves upon the Social Security amendments passed in 1983.

The plan involves one major tax expansion: applying Social Security taxes on wages that cover 90% of earnings and maintaining that percentage over time. The proposal does not eliminate the taxable maximum to avoid diverting funds that would need to be used to reduce the federal budget deficit and finance other policy priorities. Important benefit improvements are an integral part of the proposal—improving survivor benefits, providing student benefits, establishing an early retirement disability benefit, and assistance to grandparents raising grandchildren. These benefit improvements serve the goal of increasing risk protection in the Social Security program. The entire cost of these benefit improvements is offset by eliminating more outdated Social Security elements, such as benefits to children of retirees and the dependent spouse benefit.

This proposal contains three major reforms specific to child benefits within the Social Security program—establishing benefits for caregiving grandparents, restoring student benefits for those pursuing higher education, and eliminating child benefits for retirees. These reforms realign child benefits with their intended purpose: to support children in families with significant lost income. These reforms will allow for some of the most vulnerable families to receive the financial protection they need. Combined, the expansion of child benefits to grandparents and the reinstatement of the student benefit would increase assistance to over 2 million Americans. These programs not only have broad reach but also offer a material improvement in the financial conditions of their beneficiaries. The circumstances which lead to grandparent caregiving or a loss of parental income do not arise evenly. Families that are already vulnerable to financial insecurity and poor health are also the most likely to rely on child benefits. By expanding child benefits to grandparents and students, policymakers will restore a large gap in the social safety net.

Our solvency proposal has the obvious benefit of guaranteeing that the Social Security program has enough financing to ensure that scheduled benefits can indeed be made. It also conveys important, broad economic benefits. Under the CBO's assumption that current laws governing taxes and spending remain generally unchanged, the public debt will increase from approximately 100% of GDP today to about 166% of GDP by 2054 (CBO 2024b). This means interest costs will rise, and we will pass a huge debt burden to our children and grandchildren. Large public debt constrains private investment, making our GDP and household income somewhat smaller. Large public debt also runs the risk that more catastrophic economic damage could occur if our fiscal house is not restored. The solvency plan proposed in this paper raises taxes and reduces benefits, and thus makes our overall federal budget picture substantially better. It should decrease interest rates and somewhat raise family incomes.

In sum, the distinct advantages of this Social Security solvency plan are:

- Scheduled benefits are financed for 75 years under SSA actuary assumptions and likely 50 years under CBO assumptions,
- Benefits will not have to be cut by 17% when Social Security trust funds are projected to be exhausted in 2033,
- The student benefits for hundreds of thousands

of student survivors and parents with disabilities are restored so that more individuals can attend college or trade school without incurring huge student debt,

- Actuarial reduction is lowered for thousands of retirees who can no longer do their former jobs,
- Over 1 million grandparents have a much easier time raising their grandchildren,
- Over 5.5 million widows find that survivor protection has been greatly enhanced,
- Payroll taxes are increased only slightly,
- Family incomes are somewhat larger,
- The Social Security system becomes substantially more progressive,
- Changes in immigration policy shore up solvency of the Social Security program and increase the number of direct care workers available to meet many older adult's long-term care needs, and
- All American workers are treated more fairly because universal coverage has been achieved.

# Broader implications: Social Security in context of the safety net for older adults

This solvency paper fits within the context of The Brookings Institution's Promoting Economic Security for Older Adults project. Decisions about which benefits are enhanced in Social Security versus other programs involve tradeoffs and value judgments. For example, in our forthcoming paper on reducing poverty among low-income older and disabled adults, we explain why lowering Medicare premiums on low-income beneficiaries and improving the Supplemental Security Income program are more important than alleviating taxation of Social Security benefits, providing an overall increase in Social Security benefits, or increasing benefits for older beneficiaries.

When making legislative changes, Congress needs to assess all programs that affect the safety net for older adults and people with disabilities, such as SSI, SSDI, and SNAP. In other work associated with Promoting Economic Security for Older Adults, we explore financing long-term care, improving the Medicare program, and addressing the direct-care workforce shortage (The Brookings Institution n.d.).

Consideration of weaknesses in other policy areas informed many of the policy recommendations presented in this paper. It is important to extend solvency in the most efficient manner possible. We did not want to raise taxes on middle-income families because that revenue needs to be reserved to meet long-term care needs. To meet labor force and revenue needs, expanding immigration must be part of the solution. Given the enormous increase in life-expectancy among higher-wage workers, we propose increasing the retirement age just for those workers—both to reduce Social Security costs but also to encourage labor force participation.

It is imperative that Social Security remains solvent and benefits not be cut across the board when the Social Security trust fund exhausts its funds in 2033. This Social Security proposal restores solvency under SSA assumptions for 75 years and adheres strictly to the principles of the program over its 90-year history. The proposal makes the system more progressive, achieves universal participation, increases risk protection, and does not rely on General Fund borrowing or financing. Compared to alternatives, it has better prospects of ultimately securing Democratic and Republican support and maintaining the bipartisan nature of the program.

# Appendix: A Description of the Social Security Program and the 1983 Amendments

The Social Security Act which was signed into law in 1935 during the Great Depression, created a social insurance program to provide economic security for retired workers. It was later expanded to include benefits for dependents, survivors, and disabled individuals (SSA n.d.). Today, Social Security accounts for nearly one-fifth of total federal spending, making it the largest program in the federal budget (Peter G. Peterson Foundation n.d.).

As detailed in Table A1, as of December 2024, 68.5 million people were receiving benefits, primarily older adults, but also individuals with disabilities, dependents, and survivors of deceased workers (SSA 2024g). These benefits are administered by the Social Security Administration (SSA).

The CBO 2025 to 2035 Budget Outlook estimates that spending from the OASDI trust funds will grow from

TABLE A1

### Social Security Benefits, December 2024

| Type of Beneficiary | Number of Beneficiaries (Thousands) | Percent of Beneficiaries | Total Monthly Benefits, Millions ($) | Average Monthly Benefit ($) |
|---|---|---|---|---|
| **Total** | **68,456** | **100.0** | **125,578** | **1,834** |
| **Old-Age and Survivors Insurance** | 60,134 | 87.8 | 113,598 | 1,889 |
| **Retirement benefits** | 54,348 | 79.4 | 104,656 | 1,926 |
| Retired workers | 51,773 | 75.6 | 102,268 | 1,975 |
| Spouses of retired workers | 1,862 | 2.7 | 1,733 | 931 |
| Children of retired workers | 714 | 1.0 | 655 | 918 |
| **Survivor benefits** | 5,786 | 8.5 | 8,942 | 1,546 |
| Children of deceased workers | 2,051 | 3.0 | 2,325 | 1,134 |
| Widowed mothers and fathers | 104 | 0.2 | 137 | 1,316 |
| Nondisabled widow(er)s | 3,434 | 5.0 | 6,293 | 1,832 |
| Disabled widow(er)s | 196 | 0.3 | 187 | 951 |
| Parents of deceased workers | 1 | <0.05 | 1 | 1,675 |
| **Disability Insurance** | 8,322 | 12.2 | 11,980 | 1,440 |
| Disabled workers | 7,231 | 10.6 | 11,431 | 1,581 |
| Spouses of disabled workers | 86 | 0.1 | 37 | 432 |
| Children of disabled workers | 1,005 | 1.5 | 512 | 509 |

**SOURCE:** Social Security Administration, Master Beneficiary Record, 100 percent data

TABLE A2

### Expenditures of the Combined OASI and DI Trust Funds

| Year | Total Expenditures, Billions ($) | Total Expenditures as Percent of GDP | Total Expenditures as Percent of Budget |
|---|---|---|---|
| 2024 (Actual) | 1,454 | 5.0 | 21.5 |
| 2025 | 1,572 | 5.2 | 22.4 |
| 2026 | 1,664 | 5.3 | 22.8 |
| 2027 | 1,761 | 5.4 | 23.1 |
| 2028 | 1,865 | 5.5 | 23.3 |
| 2029 | 1,968 | 5.6 | 23.9 |
| 2030 | 2,072 | 5.7 | 23.8 |
| 2031 | 2,179 | 5.8 | 24.0 |
| 2032 | 2,289 | 5.8 | 24.2 |
| 2033 | 2,399 | 5.9 | 23.9 |
| 2034 | 2,511 | 5.9 | 24.4 |
| 2035 | 2,624 | 6.0 | 24.8 |

**SOURCE:** The Budget and Economic Outlook: 2025 to 2035 (CBO)

$1,572 billion in 2025 to $2,624 billion in 2035 (CBO 2025). Table A2 shows the projected spending over this 10-year period as a percentage of GDP and percentage of budget.

The Social Security program has five main principles: it is work-related, not means-tested, contributory, has nearly universal compulsory coverage, and the benefits are clearly defined in the law. The program promotes economic security for workers and their families by basing benefits on the worker's lifetime earnings. A worker's benefits are directly tied to their lifetime earnings rather than other forms of income, meaning the program is not means-tested. This structure ensures that eligibility and the amount of benefits are determined solely by an individual's work history and earnings or the work history of the primary worker they are connected with, not by their financial need or non-work related income.

Individuals are eligible for benefits if they are retired insured workers aged 62 or older, disabled insured workers who have not yet reached full retirement age, and spouses or dependents of retired, disabled, or deceased workers who meet eligibility requirements (SSA n.d.). The program guarantees that workers will receive roughly the same total benefits over their lifetime, regardless of when they choose to start claiming, as long as it's between ages 62 and 70. The normal retirement age is currently 67, but workers can start receiving benefits at 62, with a reduction of 30% to account for the longer period they will be receiving benefits. Conversely, if they claim benefits after age 67, their monthly payments will increase until they reach age 70 to reflect the shorter period of receipt (SSA n.d.).

In addition to workers themselves, Social Security benefits extend to family members, including spouses

and children. Spouses can claim benefits regardless of their own age if they care for a child under 16 or a disabled child. Divorced spouses are also eligible for benefits if the marriage lasted at least 10 years. Children, whether biological, adopted, or stepchildren, may be entitled to benefits under certain conditions (SSA 2025a).

The core Social Security benefit, known as the primary insurance amount (PIA), is calculated based on a worker's average indexed monthly earnings (AIME) over their 35 highest-earning years. The PIA ensures that benefits increase with wages, keeping replacement rates consistent over time. This helps maintain a reliable level of income for beneficiaries as wages rise nationally. The PIA is equal to the sum of three different percentages of portions of the AIME. In 2025, the PIA is equal to the sum of 90% of the first $1,226 of AIME, plus 32% of AIME between $1,226 and $7,391, plus 15% of AIME over $7,391 (SSA n.d.).

Social Security benefit payments are dispersed from the OASDI trust funds. The OASDI trust funds are financed in three ways. The bulk of financing comes from a uniform payroll tax of 12.4% on the first $176,100 of wages or business income in 2025 (SSA n.d.). This taxable earnings level changes each year with the increase in average wages. The second most important revenue source is revenue from income taxes levied on Social Security benefits. Under current law, 50% of Social Security benefits above the thresholds of $25,000 for single taxpayer and $32,000 for couples are included in taxable income. At the higher thresholds of $34,000 for a single taxpayer and $44,000 for a couple, 85% of benefits are included in taxable income (SSA n.d.). The revenue raised from this tax is deposited into the OASDI trust funds. The final source of revenue is interest earned on the trust funds. The Social Security program is considered "solvent" when the trust funds can pay the full scheduled benefits in the law on time (Goss 2010).

The most significant changes in Social Security in recent memory occurred in 1983. Facing a substantial immediate deficit, Congress passed a package of changes summarized in Table A3. These Social Security amendments provided decades of trust fund surpluses, leading to the accumulation of substantial trust fund balances. However, as the baby boom population began to retire, the trust funds began to run deficits and gradually reduced trust fund reserves, as we explain in more detail below.

As shown in Table A3, the estimates made in 1983 resulted in improving the actuarial balance by 2.09 of taxable payroll. Benefits reductions were 1.69% of taxable payroll or about 80% of the improvement. Tax increases were only 0.22% of taxable payroll or about 10% of the improvement. Expanded coverage and benefit improvements were also important parts of the 1983 amendments.

The other significant amendment that framed our current Social Security program was the passage of the Disability Benefits Reform Act in September 1984. This act made significant changes to the disability determination process. According to the Social Security Bulletin of April 1985, the law was meant to assure "more

TABLE A3

### 1983 Amendments to Social Security Effects on the System's Finances and Major Selected Provisions

| Summarized Provision Categories | Percent of Taxable Payroll |
|---|---|
| Expand Coverage to New Federal Employees and All Nonprofit Employees | 0.44 |
| Tax Increases | 0.22 |
| General Fund Transfers | 0.01 |
| Benefit Reductions | 1.69 |
| Benefit Improvements | -0.21 |
| **Total, including interactions** | **2.09** |
| **Selected provisions** | |
| Cover new federal employees | 0.28 |
| Cover all nonprofit employees | 0.10 |
| Prohibit state and local terminations | 0.06 |
| Delay benefit increases for 6 months | 0.30 |
| Tax half of benefits | 0.61 |
| Raise normal retirement age to 67 | 0.71 |
| Eliminate "windfall" benefits | 0.04 |

**SOURCE:** Social Security Bulletin, July 1983

accurate, consistent, and uniform disability decisions" and the fairer treatment of new applicants and beneficiaries of Disability Insurance (DI) or Supplemental Security Income (SSI) payments based on disability or blindness (Collins and Erfle 1985). Since then, a few large changes have been made to the Social Security disability program. Between 1984 and 1998, smaller changes included providing additional Medicare protection, prohibiting eligibility for individuals in which drug or alcohol contributed to their impairment, and altering the provisions for a trial work period (SSA 2023). In 1999, the passage of the Ticket to Work and Work Incentives Improvement Act provided DI recipients with vouchers to purchase rehabilitation services and extended Medicare coverage for workers receiving DI to improve work incentives for beneficiaries (Kollmann 2000). After growing enrollment and costs between the 1990s and 2010s due to demographic changes and women's increasing involvement in the labor force, DI costs have stabilized in recent years, and the trust fund is projected by the SSA actuaries to remain fully funded through at least 2098 (SSA 2024f).

As highlighted in this paper, today, the reserves in the Social Security trust fund that have been built up over the last 35 years are being depleted. The OASI Trust Fund assets are projected to be exhausted in 2033, according to both SSA actuaries and CBO projections. The SSA actuaries project if the OASDI trust funds were combined, they would be depleted in 2035, whereas CBO projects depletion in 2034 (The Board of Trustees, OASI, and DI Trust Funds 2024; CBO 2024c). In 2033, ongoing taxes are expected to be sufficient to pay 83% of scheduled OASI benefits. Policymakers must act soon to restore the sufficiency of the OASI Trust Fund and protect the vital Social Security program.

What are the factors that have undermined OASDI financing? The most important factor was already clear when the 1983 amendments were enacted. The amendments were estimated to fund the Social Security program from 1983 through 2057 by producing large trust fund balances exceeding five times the annual expenditure. However, costs were projected to exceed revenues beginning around 2020, and as such, trust fund balances began to decline. With each passing year, the 75-year summary of finances adds an additional year with a large negative annual balance. Consequently, near the end of the 75-year period, trust fund balances are less than one year's outgoing amount. As shown in Table A4, changes in the valuation period explain 68% of the erosion of the actuarial balance (Chu and Burkhalter 2024).

After the changes in the valuation period, the next most important factor weakening the actuarial balance is the increase in earnings inequality. As we discussed earlier, the percentage of earnings subject to Social Security taxes has fallen from 90% in 1983 to about 82.5% in 2024. Overall economic factors and assumptions, including earning inequality, explain 27% of the reduced actuarial balance. Increased relative inequality of earnings has also increased the year in which the Social Security trust funds are depleted. In a testimony before the Senate Budget Committee, former Chief Actuary Steve Goss estimated that increased earnings inequality largely explains the 20-year acceleration in the date of trust fund depletion (Goss 2023).

TABLE A4

### Reasons for Change in Social Security's Actuarial Deficit since the 1983 Trustees Report

| Factor | Change as Percent of Taxable Payroll | Percent of Total |
|---|---|---|
| Valuation Period | -2.38 | 68 |
| Economic Data and Assumptions | -0.94 | 27 |
| Disability Data and Assumptions | -0.33 | 9 |
| Methods and Programmatic Data | 0.13 | -4 |
| Demographic Data and Assumptions | -0.05 | 1 |
| Legislation/ Regulation | 0.06 | -2 |
| Total | -3.51 | 100 |

**SOURCE:** Disaggregation of Changes in the Long-Range Actuarial Balance for the Old Age, Survivors, and Disability Insurance (OASDI) Program Since 1983, SSA (2024)
**NOTE:** Totals do not necessarily equal the sum of rounded components.

# Glossary

**Actuarial** Adjustment – When workers retire at the normal retirement age (NRA), their monthly Social Security benefit is equal to the primary insurance amount (PIA). However, workers can claim their Social Security benefits any time between the ages of 62 and 70. Workers should receive roughly the same total lifetime benefits, regardless of when they claim benefits. Therefore, benefits will be lower than the PIA for workers claiming Social Security between age 62 and the NRA, and benefits with be higher than the PIA for workers claiming Social Security after the NRA up to age 70. This adjustment to benefits based upon the age of claiming is known as the actuarial adjustment (Li 2022).

**Average** Indexed Monthly Earnings (AIME) – Average indexed monthly earnings are the basis of a worker's Social Security benefit. The AIME summarizes up to 35 years of earnings. The earnings are adjusted, or "indexed," to reflect changes in general wages over time. The AIME is calculated by summing together up to 35 years of the worker's highest indexed earnings and dividing this amount by the total number of months in those years (SSA n.d.).

**Budget** Window – The budget window is the number of years to which the spending and revenue decisions decided in Congress, known as the budget resolution, apply. A 10-year budget window is currently standard (Peter G. Peterson Foundation n.d.).

**The** Congressional Budget Office (CBO) – The Congressional Budget Office provides independent and nonpartisan analysis of economic and budgetary issues to Congress (CBO n.d.).

**Consumer** Price Index (CPI) – A measure that captures the prices paid by consumers for a representative group of goods and services. The Consumer Price Index tracks average changes in prices over time (BLS n.d.).

**Cost-of-Living** Adjustment (COLA) – A benefit adjustment that is based on increases in the cost of living, as measured by the Consumer Price Index (SSA n.d.).

**Delayed** Retirement – Refers to when Social Security benefits begin to be claimed after the normal retirement age. Delayed retirement credit is generally given for retirement after the normal retirement age up through age 70 as an actuarial adjustment, resulting in larger benefits (SSA n.d.).

**Disability** Insurance (DI) Trust Fund – The fund that pays the monthly benefits to disabled-worker beneficiaries and their dependents (SSA n.d.).

**Disabled** Adult Child (DAC) – An unmarried adult who has a disability that began before age 22 and meets the definition of disability for adults. These adults may be eligible for Social Security benefits if their parent is deceased or starts receiving retirement or disability benefits. The benefit is considered a "child" benefit because the benefit is paid on a parent's Social Security earnings record, and hence the adult is referred to as a disabled adult child (SSA n.d.).

**Dynamic** Simulation of Income Model (DYNASIM) – A quantitative data analysis tool at the Urban Institute used to project the size and characteristics of the United States population and assess changes in outcomes due to policy changes (Urban Institute n.d.).

**Early** Eligibility Age (EEA) – An individual is eligible to receive Social Security retirement benefits as early as age 62, the early eligibility age. If benefits are taken anywhere between the early eligibility age and the normal retirement age, benefits will be reduced by a small amount as an actuarial adjustment (SSA n.d.).

**Federal** Insurance Contributions Act (FICA) Tax – Taxes employers and employees pay on earnings towards funding the Social Security and Medicare programs (SSA 2025c).

**Full** Retirement Age (FRA) – See normal retirement age (NRA).

**General** Fund – The name of the treasury fund that receives all revenues, and from which all outlays are made (U.S. Department of the Treasury n.d.).

**Gross** Domestic Product (GDP) – The measure of the total market value of all final goods and services produced in an economy in a given year (Federal Reserve Bank of St. Louis n.d.).

**Hospital** Insurance (HI) Trust Fund – Fund that pays for Medicare Part A Hospital Insurance benefits and Medicare Program administration (Centers for Medicare and Medicaid Services n.d.).

**Internal** Revenue Service (IRS) – The bureau in the Department of the Treasury that is responsible for collecting federal taxes and enforcing tax laws (IRS n.d.).

**Net** Investment Income Tax (NIIT) – Tax applied to the net investment income of individuals, estates, and trusts that have income above a statutory threshold (IRS 2024).

**Noncovered** employment – Noncovered work refers to employment in which a worker and their employer do not pay Social Security taxes on the worker's earnings. Most jobs in the United States are covered by Social Security. In 1983, federal and nonprofit employees were brought into the Social Security system. Today, many state and local government employees are in noncovered employment (Purcell 2021).

**Normal** Retirement Age (NRA) – Also known as the full retirement age, is the age at which retirement benefits are equal to the primary insurance amount (PIA). The normal retirement age varies from age 65 to 67 for individuals born before 1960 and is 67 for those born in 1960 and later (SSA n.d.).

**Old-Age** Dependency Ratio – The ratio of people older than age 64 to those ages 15 to 64 (World Bank 2024).

**Old-Age,** Survivors, and Disability Insurance (OASDI) – Program that provides monthly benefits to qualified retired and disabled workers, their dependents, and their survivors (SSA 2013a).

**Old-Age** and Survivors Insurance (OASI) Trust Fund – Funds monthly benefits to retired-worker beneficiaries of the Old-Age, Survivors, and Disability Insurance program, their dependents, and their survivors. The Old-Age and Survivor Insurance program is conventionally known as "Social Security" (SSA n.d.).

**Percent** of GDP – Expressing an economic factor as a proportion of a country's gross domestic product.

**Percent** of Taxable Payroll – Expressing the cost or benefit to the Social Security program as a percent of the total earnings taxable by Social Security over the 75-year period.

**Primary** Insurance Amounts (PIA) – The primary insurance amount is the core Social Security benefit. The PIA is the sum of three percentages of portions of the average indexed monthly earnings. The PIA formula is fixed by law and the dollar amounts in the formula change annually. In 2025, the PIA is equal to the sum of 90% of the first $1,226 of AIME, plus 32% of AIME between $1,226 and $7,391, plus 15% of AIME over $7,391 (SSA n.d.).

**Reconciliation** – A legislative process that allows for expedited consideration of certain legislation related to taxes, spending, and the debt limit; and allows the Senate to pass legislation with 51 votes instead of 60 (Kogan and Reich 2022).

**Replacement** Rate – The amount of Social Security benefits relative to a worker's pre-retirement earnings (Biggs and Springstead 2008).

**S** Corporation – A corporation that elects to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes (IRS n.d.).

**Self-Employed** Contributions Act (SECA) Tax – Taxes self-employed individuals pay on earnings towards funding the Social Security and Medicare programs (SSA 2025c).

**Social** Security Administration (SSA) – The agency in the federal government that administers Social Security. The Social Security Administration also engages in other functions, including managing Supplemental Security Income and issuing Social Security numbers (SSA n.d.). The agency houses the Office of the Chief Actuary, which directs actuarial estimates and analyses related to SSA-administered programs; and the Office of Research, Evaluation, and Statistics, which conducts policy research related to SSA-administered programs (SSA n.d.).

**Social** Security Disability Insurance (SSDI) – Monthly benefits provided to people who have a disability that stops or limits their ability to work (SSA n.d.).

**Solvency** – refers to the ability of the Social Security trust funds at any point in time to pay for 100% of scheduled benefits (Goss 2010).

**Substantial** Gainful Activity (SGA) – A person who is earning more than a specified monthly amount is

considered to be engaging in substantial gainful activity. In 2025, the monthly substantial gainful activity amount is $2,700 for a blind individual and $1,620 for a non-blind individual. A person must not be able to engage in substantial gainful activity to be eligible for disability benefits (SSA n.d.).

**Supplemental** Security Income (SSI) – A safety net program providing monthly payments to people with disabilities and older adults with low income or resources (SSA n.d.).

# Endnotes

**1** Solvency refers to the technical problem of depletion of the Old-Age and Survivors Insurance (OASI) Trust Fund. At the point of "insolvency," the Social Security program will be able to pay most of the scheduled benefits.

**2** The authors account for reporting error in their estimates. These estimates are conservative because Social Security income is underreported in Current Population Survey (CPS) data.

**3** Supplemental poverty measure. See the paper's appendix for a discussion of why statistics are robust to underreporting of income in the CPS.

**4** The OASI program is part of the Old-Age, Survivors, and Disability Insurance (OASDI) program. The second part of OASDI, the Disability Insurance (DI) program, is projected to be funded through the 75-year period ending in 2098.

**5** The conventional wisdom is that when the OASI Trust Fund is exhausted in 2033, total spending would have to be reduced by 17% to 21%. It is most often assumed, that each benefit check would be reduced by a uniform percentage. However, the executive branch has considerable discretion in how to implement the reduction. Some assume no reduction in benefits, and rather the benefits would be delayed until sufficient payroll taxes and receipts from income taxation are deposited into the trust fund. Alternatively, a recent American Enterprise Institute (AEI) paper argues for a capped benefit, for example, capped at $2,050 (in 2024 dollars) in 2033 (Biggs and Shapiro, 2024).

**6** At the time of passage, the 1983 amendments generated enough funding to theoretically achieve solvency over the 75-year period on average. However, in practice, the amendments resulted in the trust fund being overfunded initially, with the reserves depleting over time.

**7** Technically, CBO assumes that scheduled benefits will be made even if financing is not forthcoming. Benefits would be automatically reduced.

**8** As is explained in the paper, the Chief Actuary of SSA completed the analysis of the blueprint before former President Biden in early January 2025 signed a Social Security bill that eliminates the system's Windfall Elimination Provision (WEP), and related Government Pension Offset (GPO). The new law increases the 75-year deficit slightly from -3.50% of taxable payroll to -3.62%. This blueprint originally envisioned changing WEP and GPO but has dropped that proposal in light of the new law. The blueprint achieved solvency under the deficit when the proposal was evaluated before the elimination of WEP and GPO.

**9** Scoring is the process of estimating the budgetary effects of a proposed piece of legislation on government spending. CBO is required to score all legislation in Congress, and SSA also scores legislation related to Social Security.

**10** As previously mentioned, the deficit has increased to 3.62% of taxable payroll, given the elimination of the WEP and GPO. However, we refer to the deficit as 3.50, as this was the deficit when the blueprint was evaluated.

**11** SSA Office of the Chief Actuary.

**12** SSA Office of the Chief Actuary.

**13** For instance, an investor in an S-corporation with no role in the day-to-day management of the business should not be subject to payroll tax.

**14** We recommend this change in terminology as per a proposal from the Bipartisan Policy Center to improve communication around Social Security claiming decisions (Fichtner et al. 2020). We continue to use the terminology of the normal or full retirement age throughout the proposal for clarity, as it is the current status quo.

**15** See the immediately following proposal to increase the number of working years used to calculate average indexed monthly earnings.

**16** Unlike most tax provisions, the thresholds of $32,000 and $44,000 are not indexed to inflation.

**17** Because the dependent spouse benefit is 50% of the worker spouse's benefit, a 5-percentage point reduction per year over 10 years equates to the elimination of this 50% benefit.

**18** The earnings quartile would be calculated by SSA as under the proposal to increase the retirement age for high earners.

**19** Many individuals worked on home farms or in the businesses of their spouses. Taxes paid by the (usually male) business owner also applied to their (usually female) partner. This happens much less frequently today, however, if beneficiaries are in this position, the couple can notify SSA and indicate how the earnings of the business should be split between the couple.

**20** See Table 5.G3 and author's calculations.

**21** Author's calculations.

**22** Eligible relatives other than grandparents must be of the same generation as a grandparent, such as a great aunt or great uncle.

**23** For more information on steps four and five, see SSA, "How We Decide If You Are Disabled," (SSA n.d.)

**24** This is the most recent year that SSA published this table.

**25** Eligible relatives other than grandparents must be of the same generation as a grandparent, such as a great aunt or great uncle.

**26** This provision is borrowed from Rep. Larson, "H.R.4583 - 118th Congress (2023-2024)."

**27** Eligible relatives other than grandparents must be of the same generation as a grandparent, such as a great aunt or uncle.

**28** These bills include HR 6405 introduced by Representative Jimmy Panetta, and the "Work Without Worry Act" introduced by Senators Wyden and Cassidy and by Representatives Larson and Reed in 2021.

**29** Nevertheless, these states and localities will have to require additional revenues to resolve these financing problems. One potential response from state and local governments to mandatory coverage would be to preserve first-year benefits. This would ensure that new employees would receive the same amount in combined pension and Social Security benefits as they would have received in the current system. This response would, on average, increase costs for new hires by 6% of payroll—or 0.15% of state budgets. Such a transition would be a negligible increase in spending but would ultimately provide higher lifetime benefits due to Social Security's more generous inflation adjustments and secondary benefits.

**30** The SSA Office of the Chief Actuary shows a range of automatic adjustments to the retirement age under C1.3, C2.2, and C2.3 in their summary of Social Security proposals.

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