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# **A ‘conservative/progressive’ path to Social Security solvency: bend the benefit cost curve, grow revenue, and protect lower earners**

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The next President and Congress will face daunting fiscal issues. In the shadow of historic levels of national debt, lawmakers will be bargaining over trillions of dollars of taxes and spending as they deal with expiration of the Trump tax cuts. On top of that loom major Social Security financing gaps. Paying promised benefits will require the government to raise more than \$2 trillion in cash over the next eight years and more than \$24 trillion to achieve long-run solvency.

This paper presents policy options – some favored by conservatives, others by progressives – as a framework for negotiating a solution. Taken together, the changes could generate more than twice as much in savings and revenue than needed to balance Social Security’s books. Negotiators, for example, could strike a deal by drawing about half the amount of program savings through switching to blended price/wage index that provided protection for the lowest earners. The remaining portion of the financing gap could be filled by removing or adjusting the payroll tax cap, possibly augmented by a modest raise in the payroll tax rate and capital gains tax. The financing options provide room for modest benefit improvements.

Social Security’s financing challenge is large. According to the 2024 Trustees report, Social Security’s 75-year actuarial imbalance totals 3.5 percent of US payroll, which is more than 1.2 percent of GDP, or nearly \$24 trillion in present value terms. Without changes in current law, Social Security trust funds, which hold past surpluses borrowed from the program by the Treasury, will be depleted sometime in 2035. That would leave the program in a position to pay out only what it raised in current taxes, covering only about 83 percent of promised benefits. Closing the gap will require lowering scheduled benefits by one-quarter, or raising revenue by one-third, or a combination of the two approaches.

## **Lowering Benefit Growth**

Recent proposals from conservative think tanks to slow the overall growth of Social Security benefits -- while also protecting lower-income retirees from poverty – may open the way toward negotiating a bipartisan solution. The central idea is to bend Social Security’s cost curve down by pegging benefit growth to inflation instead of the average

wage. Since 1978, wages have grown faster than inflation in most years – at an average rate of 4.2 percent compared with 3.59 percent for prices by one [estimate](#).

[Before 1972](#), Social Security benefits were not indexed to any economic measure. Inflation reduced the purchasing power of benefits until Congress passed a benefit increase. Since then, Congress tied benefits to two economic indexes that change at different speeds. Amendments in 1972 adopted the consumer price index to automatically adjust current benefits for inflation. In 1977, Congress determined that a recipient’s starting benefit amount would be indexed to wage growth.

Switching from a wage to a price index would yield an average of less than one percentage point in benefit cost reduction annually for new retirees. Savings would be small at first but would compound over decades. Social Security [actuaries](#) project that having initial benefits grow by inflation rather than by its average wage index would cover 85 percent of the program’s long-term shortfall and result in a major annual surplus after 75 years.

“Shifting to price indexing for calculating initial benefits, at the very least when calculating benefits for higher income earners, is a sensible policy change,” Romina Boccia noted in a Cato Institute [policy blog](#). “It would help avoid indiscriminate benefit cuts when Social Security’s trust fund borrowing authority runs dry and avert economically harmful tax increases to finance unsustainable benefit growth.”

#### Challenges with a switch to price indexing

Repegging benefit growth from wages to prices can play a major role in Social Security financing reform, but the strategy faces several challenges that would require other policy changes to address concerns relating to the equity and timing of savings. Raising the initial benefit level to match wage growth has allowed workers to share in the gains of the US economy. Switching to a price index entirely would end this form of long-term profit and productivity sharing.

In an [article](#) supporting the indexing change, economists from two conservative think tanks note: “In Social Security’s case, what drives its insolvency is ever-increasing benefits that are baked into Social Security’s benefit formula...To afford these ever-increasing benefits would require the largest peacetime tax hike in history. Or Congress could simply slow future increases of Social Security benefits to the rate of inflation. Instead of Social Security expanding by 0.8% of GDP, the economy would outgrow the cost of the program, whose share of GDP would decline by 0.1%.”

The indexing change would chip away at monthly checks of all beneficiaries equally in mathematical terms. But it could cause hardship over time for lower-earning retirees, most of whom depend solely on Social Security to pay their bills. Social Security actuaries have analyzed proposals addressing this issue by keeping wage indexing for workers with the lowest lifetime earnings while switching to price indexing for higher earners. For example, a

more “progressive” approach that kept wage indexing only for the bottom 30 percent ([See SSA actuarial estimate B1.2](#)) of earners beginning in 2031 would reduce the savings of the indexing change to cover 47 percent of the program long-term shortfall -- instead of 85 percent by indexing all recipients completely by inflation ([B1.1](#)).

A strategy of blending wage and price indexing also could cut the long-term shortfall roughly in half while allowing beneficiaries to share in economic gains but at a slower rate of growth. Both the above modifications to total price indexing would still leave a cumulative gap on the order of \$12 trillion today’s dollars over the next 75 years. Percentages of wage indexing and price indexing could be adjusted up or down.

Not only could re-indexing initial benefits dramatically reduce long-term costs, the change would be far less noticeable to the public than most proposals to cut benefits. People beginning benefits have no previous year of payments for comparison and would be unlikely to notice small initial payment adjustments. Under current law, benefits already are indexed to inflation once people begin receiving them. So payments to people already receiving checks would increase as they do today.

#### Better than raising the retirement age

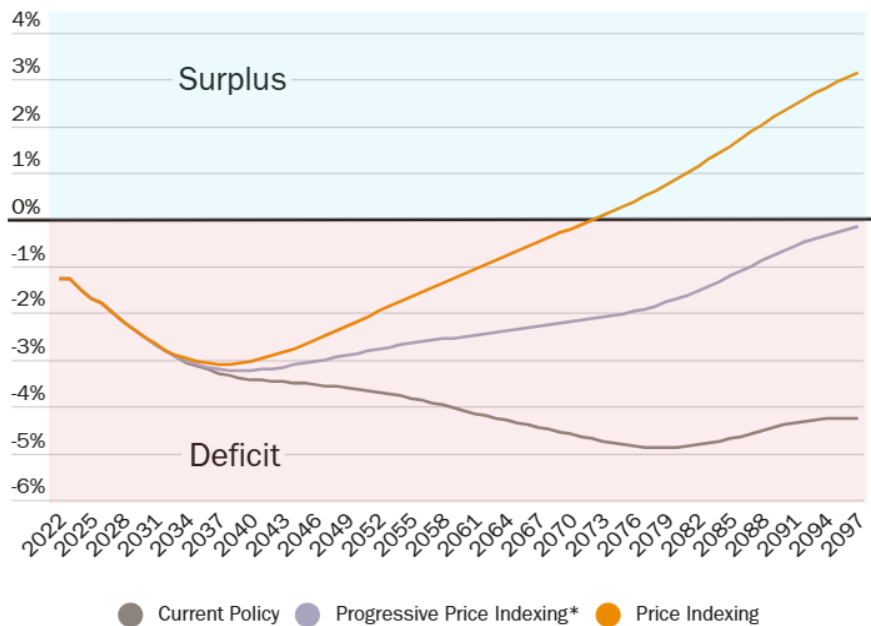
Reducing initial benefit growth through full or partial price indexing would be more effective and equitable than other cost cutting strategies including raising the age to receive full retirement benefits ([C](#)). Raising the retirement age (again) would hurt low-wage workers most and make the Social Security retirement benefits less progressive.

A [widening gap in life span](#) between high- and low-income Americans already has been eroding the program’s progressivity. Diverging longevity trends have had the effect of raising lifetime benefits for high earners more than for low earners. Social Security’s long-term financial problems result in part from an increase in average life expectancy driven by people living longer, and, thereby, collecting more benefits. Policymakers should not use funding shortfalls attributable to these trends as an excuse to cut monthly benefits alike for those who have gained many more years of life (high earners) than those who have not (low earners).

#### A major challenge: maintaining liquidity

Even though full price indexing could knock out almost all the long-term financial shortfall, it would take about [50 years](#) for the slower growth of benefit costs to dip below the path of Social Security’s projected revenues. Other policy changes discussed below would be needed to deal with annual deficits until that breakeven point.

**Price indexing closes Social Security's funding gap, annual balance as a percentage of current-law taxable payroll**



Source: Social Security Administration, "Long Range Solvency Provisions: B1.1 & B1.2," September 20, 2023.  
 \*Note: Progressive price indexing would maintain current law benefits for earners up to the 30th percentile of average

**Source: [Cato Institute/SSA](#)**

To summarize so far, switching fully from wage to price indexing to set initial benefit amounts could eliminate most of Social Security’s long-term solvency problem and generate growing surpluses after about 50 years. Because savings would accrue gradually, major liquidity problems would remain. Social Security would still face annual funding deficits requiring Congress to raise several hundred billion dollars annually for many years. Modifying price indexing to protect low earner benefits or to allow some sharing in national wage growth would decrease potential program savings. The next section discusses proposals to raise revenues that could fill early-year funding gaps left by price indexing while also augmenting long-term solvency.

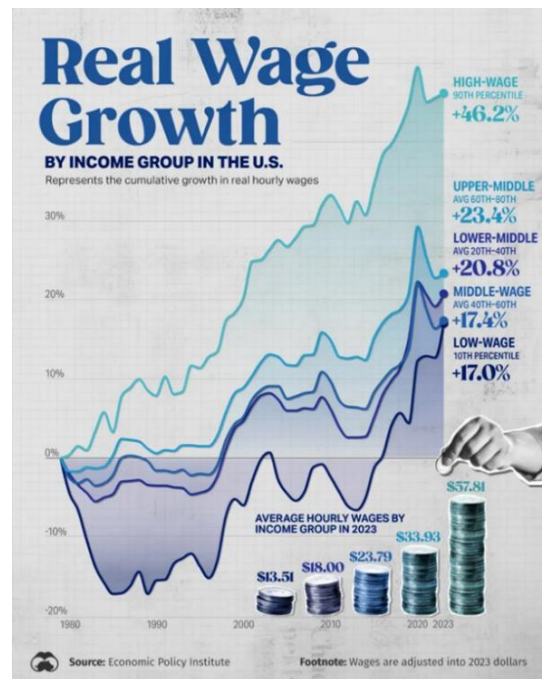
### **Raising revenue**

Presenting the 2024 trustees report to Congress, Social Security Chief Actuary Stephen Goss identified two major reasons for the program’s financial imbalance. One is a major shift in the US age distribution leaving fewer workers to pay taxes to support more beneficiaries. As the outsized Baby Boom generation retires, the birth rate has dropped significantly. Without more immigration, the US population could soon decrease for the first time.

A second major driver is growing economic [inequality](#). Social Security payroll taxes are capped (at \$168,600 in 2024). Since Congress refinanced Social Security in 1983, earnings above the cap have grown much faster than below. Goss noted that from 1983 and 2000, average earnings for the top six percent of earners rose 62 percent more than price inflation, while average earnings for the other 94 percent rose only 17 percent. Disproportionate growth in earnings above a tax cap has reduced the percentage of payroll subject to the payroll tax well below the 90 percent level that once supported the program.

“As a result of this increased dispersion in wage levels, Social Security payroll tax income is about 8 percent less than it would have been if the taxable ratio had remained at 90 percent. This change, along with the effects of the deep recession of 2007-2009 and slow recovery, are primarily responsible for moving the expected year of OASDI Trust Fund reserve depletion from 2063 in the 1983 Trustees Report to 2035 currently,” Goss said.

Social Security actuaries estimate that raising the amount of national payroll taxed to fund the program back to 90 percent (phased in from 2025 to 2034) would eliminate 31 percent of the long-term shortfall and 24 percent of the shortfall if some credit were given to beneficiaries for the added taxes ([E3.2 & E3.1](#)) This policy change would take a major step toward solvency and also help with liquidity as it would take full effect within 10 years. Coupled with lowering the growth of benefits over time, restoring Social Security taxes to cover 90 percent of payroll might be an acceptable trade-off to conservatives.



Source: Visual Capitalist/EPI

Progressives are pushing to bolster the program's finances by removing the payroll tax cap altogether. Eliminating the taxable maximum in 2025 and later and applying the full 12.4 percent payroll tax rate to all earnings would eliminate 73 percent of the 75-year shortfall, or 53 percent in some credit is given for earnings above the current-law taxable maximum ([E2.1 & E 2.2](#)).

Alongside top-heavy wage growth, burgeoning [wealth inequality](#) has crowded out Social Security tax revenue. As Americans at the top of the economic spectrum continue to amass equities, bonds, and other assets, the portion of national income from capital investment has increased significantly, crowding out the portion earned through labor. Because Social Security relies primarily on a tax on labor for its sustenance, the relative growth of capital income gradually is eroding a source of revenue.

Congress acted 15 years ago to deal with similar issues facing Medicare, the other major US social insurance program relying primarily on payroll taxes. In the Affordable Care Act (ACA), Congress added extra Medicare taxes for high earners on both income and capital gains, thereby providing a precedent for Social Security. Unlike Social Security, there is no income cap on Medicare's 2.9 percent payroll tax split between employers and workers.

Social Security actuaries estimate that adding a 6.2 percent tax on investment income as defined in the ACA, with unindexed thresholds as in the ACA (\$200,000 for single filer, \$250,000 for married filing jointly) would reduce Social Security's long-range shortfall by 19 percent ([F6](#)).

Revenue also can be raised by increasing the current 12.4 percent Social Security payroll tax. Since all workers pay at the same rate, the payroll taxes are considered "regressive" in that they impinge on the spending power of the lowest income workers the most. A proposal for a sudden, substantial increase in the payroll tax rate can expect strong resistance from many workers and employers. A modest, phased increase could be more palatable if coupled with proposals to add benefits such credit for unpaid care of one's young children or higher minimum benefits, discussed later. Gradually increasing the payroll tax rate by 0.1 percentage point per year for 2026 through 2035 so that it rises from 12.4 percent to 13.4 percent in 2035 and thereafter would reduce Social Security long-term funding gap by 26 percent ([E1.10](#)).

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## Summary of Solvency Proposals Above

### Benefit Reductions:

Switch from wage to price index for initial benefits: 85% of shortfall eliminated

- or blended indexing: **up to** 85% of shortfall

### Revenue Increases:

Restore tax base to 90% of payroll: 31% of shortfall eliminated

- or eliminate payroll tax cap entirely: 73%

Tax investment income like Medicare: 19%

Raise payroll tax one percentage point: 26%

Note: Some policy changes would affect the estimated impact of others.

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Taken together, the policy options summarized above could reduce benefits and raise revenue amounting to more than twice as much as needed to balance Social Security's books. Negotiators, for example, could strike a deal by drawing about half (give or take) the amount of program savings through switching to blended price/wage index that provided protection for the lowest earners. The remaining portion of the solvency gap could be filled by removing or adjusting the payroll tax cap, possibly augmented by a modest raise in the payroll tax rate and capital gains tax.

Social Security actuaries have analyzed many other ways to raise revenues. For example, beginning to cover newly hired state and local government employees could cover 4 percent of the shortfall and bring in funds immediately ([F1](#)). Returning the estate tax (and related taxes) to 2009 levels could cover 17 percent of shortfall ([F7](#)).

### Short-term funding and liquidity

Depending on the policy options taken, Social Security could be solvent and have a large surplus decades from now, but still face trust fund depletion projected in 2035 and years beyond. Unlike the bulk of savings from bending the benefit cost curve, tax increases could help Social Security immediately.



Congress also could opt to fill funding gaps in the early years of a long-term solvency fix by drawing money from general revenues. Money could be borrowed from the general fund and put into the Social Security trust fund with the latter having an obligation to repay with interest once the program achieved a surplus. Until recently, Social Security surpluses were borrowed by the rest of the government. Congress could also provide liquidity outside the Social Security trust fund. This might give lawmakers more flexibility to adjust benefits on an ad hoc basis but also would provide less financial stability and predictability for Social Security beneficiaries.

The trust fund provides a vehicle for ensuring that Social Security promises will be delivered. For almost 40 years, the US Treasury borrowed Social Security's surpluses leaving promises to repay with interest in the program's trust fund. Since Social Security's revenues dropped below its expenditures in 2021, the program has been drawing down these reserves. However, because reserves are in the form of intragovernmental IOUs rather than hard assets, their redemption requires the Treasury to [raise new money](#) to send cash to beneficiaries. Even though Social Security is not taking money from the general fund, drawing down its reserves increases total current-year overall government spending and impacts the economy.

Spending down [Social Security reserves](#) increased spending for the government as a whole by \$59 billion in 2021, \$41 billion in 2022, and \$70 billion in 2023. The trustees estimate that amount to grow to \$130 billion in 2024 and reach \$375 billion in 2032. In a functional sense, the federal government already is filling in Social Security's financial shortfall by selling bonds. Overall government spending would not change much immediately after trust fund depletion if Congress simply keeps funding the program one way or another.

By way of contrast, Supplemental Security Income (SSI) – a back-up program covering more than [seven million](#) disabled and old people with little or no income who do not qualify for Social Security benefits – draws money outside Social Security trust funds from the [general fund](#). Unlike Social Security, Congress must approve funding for SSI on an annual basis. SSI has faced major [structural and financial issues](#) for many years. More than two-fifths of recipients live below the poverty line. Decades of inflation have made SSI's tight limits on income and assets far more restrictive and narrowed access to the program.

### **Benefit Improvements**

#### Credit for unpaid childcare

The sources of benefit savings and new revenue discussed above could accommodate the cost of modest benefit improvements. Congress, for example, could begin providing [Social Security credit](#) for unpaid work raising young children. Policymakers could remove a disincentive in America's Social Security program to having and raising children while providing parents with greater old age security.



Because of how Social Security benefits are calculated, staying home to raise children can reduce monthly payments and, in rare cases, result in none after retirement. Social Security averages the highest 35 years of a person's earnings in its records to determine a benefit amount. Years of [zero](#) or limited earning resulting from reducing paid work to take care of children can lower benefits. U.S. workers must be employed for at least 10 years to have enough [work credits](#) to qualify for Social Security.

Canada, which calculates its pension benefits similarly, recently began allowing parents to subtract up to seven years of [zero or low earnings](#) from their lifetime income average for raising children under seven years of age. Canada also adds in [pension credits](#) for child-rearing years with low or no earnings based on a parent's pension contributions in the five years before becoming the primary caregiver.

Making changes like Canada's would be particularly helpful to single parents and families with low and modest incomes. Social Security actuaries have analyzed proposals to begin providing credit for child-rearing/childcare, often combined with other reforms requested by members of Congress from both parties. Depending on how many years of credit would be available, the 2024 trustees report estimates the cost would range from 1 percent to 7 percent of the program's long-term financing gap ([B5](#)).

On the other side of the coin, removing disincentives to having and raising children could help finance Social Security in the future. The declining U.S. [birth rate](#) is a major factor in the program's deteriorating ability to pay promised benefits.

#### Strengthening benefits at the bottom

For a similar cost, Congress could modestly increase benefits at the bottom, or progressively, to help the lowest earners. This could be done alongside a switch from wage to price indexing initial benefits or be embedded in a new indexing formula. As described earlier, a progressive approach that kept wage indexing only for the bottom 30 percent ([B1.2](#)) would yield about half the long-term savings of a full switch to price indexing ([B1.1](#)).

However, applying different indexes to set benefit levels for different segments of the income scale could cause distortions over time. For example, low-earners with benefits pegged to wage growth eventually could end up receiving bigger checks than high-earners pegged to price growth. To avoid such distortions, benefits for low earners could be increased, or raised above poverty, through a mechanism independent of indexing changes.

Social Security plays a vital role in providing economic security to low-income workers and families. Without Social Security, 22.7 million more adults and children would be below the [poverty line](#), according to the Center on Budget & Policy Priorities. Yet millions of elderly and disabled Americans remain close to the poverty line or below it.

In August 2024, Social Security monthly retirement benefit checks averaged \$1,920, and disabled workers \$1,403. These averages exceed the federal poverty level for a single person of \$15,060 annually or \$1,255 a month. Depending on factors including years of work and pay level, initial monthly retirement benefits for retired workers can range from less than \$100 to \$4,873.

Social Security offers a [minimum benefit option](#) but very few people qualify. In 2024, the minimum benefit option offered initial benefit amounts on a scale beginning at \$51 a month for those with 11 work years, rising to \$1,067 a month for 30 work years. Both figures fall well below the poverty line.

### **Conclusion**

As the next Congress and President engage in a major debate over taxes and spending, they need to leave room in the budget to restore Social Security's financial health. Social Security provides critically important financial protection for the American workforce and cash benefits to 67 million older and disabled people and family members. Unless Congress acts, the country's most highly valued social insurance program will only have authority to pay out 83 percent of promised benefits beginning sometime in 2035. Restoring Social Security's long-term solvency will require Congress to reduce its scheduled benefit cost by one-quarter or raise revenue for the program by one-third, or a combination of the two approaches. About \$24 trillion in current dollars will be needed over the next 75 years to achieve financial balance.

The size of Social Security's shortfall alongside growing national debt exacerbates the political heat that will face lawmakers negotiating a solution. Conservatives tend to favor benefit cuts. Progressives lean toward increasing taxes on those with the highest income and wealth. Recent proposals from conservatives to bend Social Security's cost curve downward by indexing initial benefits to price inflation rather than wage growth can restore program solvency if coupled with tax increases. Such a negotiating framework also could provide enough funding to buffer adverse impacts on lower income people and modestly improve benefits, for example, providing credit for unpaid childcare or increasing benefits to pull more people out of poverty.

While re-indexing benefit growth to prices could be a relatively painless path toward long-term solvency in political terms, savings from the change would accrue gradually. Congress still would need to raise several hundred billion dollars annually through higher taxes or other changes for decades. Along with increasing payroll taxes and levying other taxes dedicated to financing Social Security, Congress could begin drawing from the general fund to fill short-run gaps.

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