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CHAPTER

# Reforming Social Security for the Long Haul

by Mark Duggan



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# Reforming Social Security for the Long Haul

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**ABSTRACT**

Social Security is arguably America's most important government program, as it is the main source of income for most elderly Americans and represents the primary tax paid by most workers as well. Forty years after Congress made its last significant changes to the program, Social Security again faces severe funding challenges, primarily due to a declining number of workers per Social Security recipient and slower-than-predicted growth in taxable earnings. Absent any change in policy, the program's trust fund will be depleted in about ten years and payments to Social Security recipients will immediately decline by an estimated 23 percent. In this document, I propose a package of six reforms, aimed at raising revenue and slowing benefits growth, that would tackle this challenge head-on and put the program on a sustainable fiscal path. These proposals insulate America's most economically vulnerable and instead call for sacrifice primarily from those with high incomes, who have seen large increases in lifetime benefits recently due to their rising life expectancy. If implemented, this reform package will ensure that Social Security benefits for elderly and disabled Americans and for their dependents will not be at risk in the future and that the program will not consume an ever-increasing share of federal spending.

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## 1. Introduction

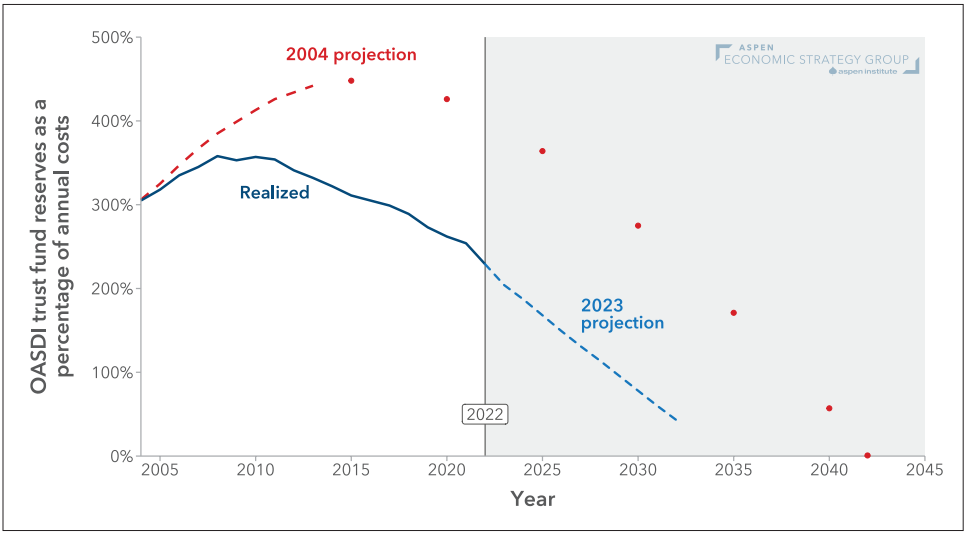
Old Age, Survivors, and Disability Insurance (OASDI)—more commonly known as Social Security—is America's largest and arguably most important government expenditure program. One in five Americans (67 million) will receive a Social Security payment this month, while about 180 million workers (and their employers) will contribute tax payments to the program. These tax payments from both workers and their employers account for the vast majority of Social Security's revenues each year (91 percent in 2022) and exceed individual income tax payments for most workers (Social Security Administration 2022; Joint Committee on Taxation 2019). Survey data indicate that Social Security is the most important source of income for elderly (aged 65 and up) Americans, with OASDI accounting for more than half of income for most elderly adults (Dushi, Iams, and Trenkamp 2017).

In the first few decades following the issuance of the first Social Security check in January 1940, there were dozens of legislative changes to the program. These changes included increases in tax rates and in benefit generosity; they also included expansions to the taxable wage base and to benefit eligibility. All these changes culminated in the bipartisan Social Security Amendments of 1983 that addressed significant financial troubles in the program, including the deficits it ran in every year from 1975 through 1981. The two key components to the 1983 amendments were (1) an increase in the program's tax rate (not fully phased in until 1990) from 10.6 percent to 12.4 percent and (2) an increase in the full retirement age from 65 to 67 (phased in gradually and completed for those born in 1960 and later). These changes put the program on a much stronger financial footing and allowed the program's trust fund to grow from just 15 percent of annual expenditures in 1983 to a peak of 387 percent 25 years later, in 2008.

In the 40 years since the 1983 amendments, there have been no further significant legislative changes to Social Security. This status quo is perhaps not surprising, since Social Security benefits have not been at risk as they were in the early 1980s with an increasing trust fund that reached a peak (in nominal terms) of $2.91 trillion in December 2020.

But government officials and other observers recognized 40 years ago that the 1983 amendments would not permanently solve Social Security's funding problems. At the time, the program's actuaries expected that OASDI's revenues (including both tax revenue and income from the trust fund) would be sufficient to finance OASDI benefits through approximately 2058. Over time, these initial projections proved to be much too optimistic. As shown in figure 1, the most recent estimates indicate that the now-declining trust fund will hit zero in just ten years. And as this same figure shows, the most recent projections for Social Security's finances are considerably worse than they were less than 20 years ago in 2004.

**Figure 1. SSA's Projections for the OASDI Trust Fund: 2004 vs. 2023**




**Source:** Social Security Administration (2004, 2023b).

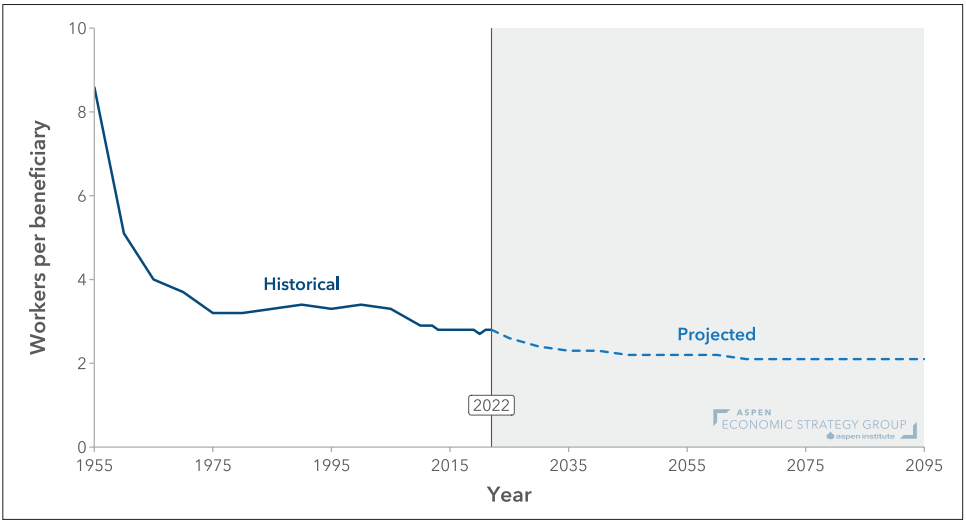
The key driver of the program's shift from annual surpluses to annual deficits, which will rise as a share of program spending going forward, has been a steadily declining ratio of workers to OASDI recipients, since individuals are now living much longer, and fertility rates have declined significantly over time as well. Two additional drivers of the faster-than-expected depletion of the Social Security trust fund have been slower-than-expected earnings growth during the last 40 years and rising earnings inequality, which has caused an increasing share of earnings to be above the program's taxable maximum (rising from just 10 percent in 1983 to 19 percent by 2021; see SSA, 2023) and thus not contributing to Social Security revenues.

*Social Security again faces severe funding challenges, primarily due to a declining number of workers per Social Security recipient and slower-than-predicted growth in taxable earnings.*

The challenge for Social Security during the upcoming decade and beyond is much greater than the one that policymakers confronted 40 years ago. At that time, annual deficits were a much smaller fraction of Social Security benefits than they are projected to be ten years from now. Additionally, the country was then becoming demographically stronger in each year after 1983 as baby boomers (then 19–37 years old) aged into higher earnings years. Now that same baby-boom generation is aging from workers

into benefit recipients, with program expenditures rising rapidly as a result. As figure 2 shows, the number of workers per OASDI beneficiary was relatively stable throughout the 1980s, 1990s, and the first decade of the 2000s, but this number has declined substantially in recent years (from 3.3 in 2007 to 2.8 in 2022) and is projected to decline further (to 2.5 by 2030, 2.3 by 2035, and 2.2 by 2040).

**Figure 2. Ratio of Covered Workers to Social Security Beneficiaries**




**Source:** Social Security Administration (2023b).

Unfortunately, this more difficult financing challenge is reaching us at a time when America's political system seems much less up to the challenge of solving problems through bipartisan compromise.

In the pages that follow, I outline the basics of today's Social Security program and a set of changes that would put the program on a much stronger financial footing and allow it to continue paying promised benefits to current and future OASDI recipients for many decades to come. I work within the structure of the existing (largely pay-as-you-go) system rather than proposing a major overhaul such as a shift to privately managed individual accounts. Additionally, I assume that the program will continue to finance OASDI benefits from OASDI revenue sources rather than from, for example, general federal revenues. Specifically, I propose six simple changes to Social Security that would put this program on a sustainable fiscal path while maintaining benefit levels for low- and middle-income retirees:

1. Increase Social Security's payroll tax rate from 12.4 percent to 13.4 percent.
2. Increase the Social Security wage base so that 90 percent of earnings will be subject to Social Security's payroll tax (as was true in 1983).
3. Apply a 3.0 percent tax rate on all earnings above the annual taxable maximum (currently $160,200 for an individual).
4. Increase the full retirement age from 67 to 68 while leaving benefits unchanged for those who claim retired-worker benefits during the first two years of eligibility (from 62 to 64).
5. Reduce the growth rate of benefits for high-income earners by freezing the second "bend point" in Social Security's progressive 90-32-15 benefit formula.
6. Allow Social Security's trust fund to "go negative" by temporarily borrowing from the US Treasury (as many state unemployment insurance trust funds do during recessions), with future annual OASDI surpluses used to repay this debt.

In my judgment, and for reasons I expand on below, this package is appropriate in that it includes a mix of tax increases and benefit reductions, with the largest sacrifice required of high-income workers. The reform package leaves untouched benefits for current OASDI recipients and for the most vulnerable future OASDI recipients. If changes along these lines that significantly improve Social Security's finances are not implemented in the very near future, then the program's structural deficits will almost inevitably crowd out other important priorities such as military spending and investments in clean energy.

## 2. A Primer on Social Security

Social Security is America's largest government program, with total expenditures of $1.24 trillion in 2022 and total revenues slightly lower, at $1.22 trillion. The program paid an average monthly benefit of $1,698 to 66.6 million Americans in April 2023. As the following table shows, by far the largest category of recipients is retired workers (49.3 million), though there are another 17.3 million beneficiaries, including 7.5 million disabled workers and 9.7 million spouses or children of current retired or disabled workers or of deceased workers. It is important to emphasize that Social Security is not just a retirement program, but that it also provides insurance to workers and their families against death and severe disability. Indeed, Social Security's official name is Old Age, Survivors, and Disability Insurance (OASDI).[1]

1 Social Security (or OASDI) combines two distinct programs: Old Age and Survivor's Insurance (OASI) and Disability Insurance (DI). Both programs are self-financing, and each has a separate trust fund that—based on current statute—cannot borrow from the US Treasury. Both OASI and DI are designated as off-budget. The only other federal account designated as off-budget is the US Postal Service (Congressional Research Service 2020).

**Table 1. Social Security Benefits, April 2023**

| | Number of recipients (in thousands) | Average monthly benefit |
|---|---|---|
| **OASDI total benefits** | 66,558 | $1,698 |
| **Retirement benefits** | 51,975 | $1,785 |
| Retired workers | 49,295 | $1,835 |
| Spouses of retired workers | 1,982 | $897 |
| Children of retired workers | 698 | $860 |
| **Survivor benefits** | 5,878 | $1,449 |
| Nondisabled widow(er)s | 3,498 | $1,713 |
| Disabled widow(er)s | 210 | $894 |
| Children of deceased workers | 2,060 | $1,071 |
| Widowed mothers and fathers | 108 | $1,223 |
| Parents of deceased workers | 1 | $1,537 |
| **Disability benefits** | 8,705 | $1,341 |
| Disabled workers | 7,482 | $1,484 |
| Spouses of disabled workers | 88 | $405 |
| Children of disabled workers | 1,135 | $474 |

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**Source:** Social Security Administration (2023).

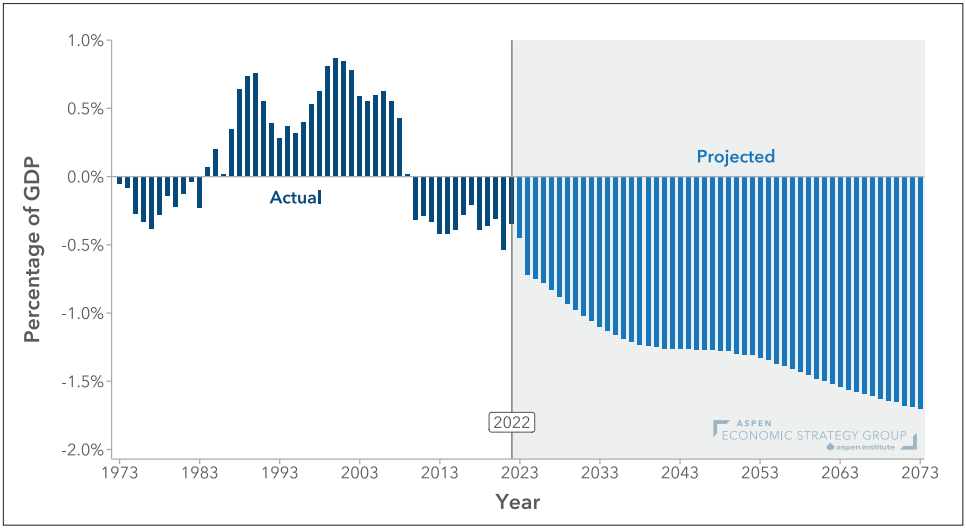
Over the next ten years, what was in 2022 a relatively modest OASDI deficit of $22 billion (less than 2 percent of OASDI revenues) is projected to steadily increase to $380 billion in 2032 and thereby steadily deplete the OASDI trust fund, which stood at $2.82 trillion as of December 31, 2022. By 2033, when Social Security's actuaries predict that the combined OASDI trust fund will hit zero, the annual deficit will be more than 20 percent of annual revenues. As a result, absent changes in legislation, Social Security would only be able to pay about 77 percent of promised benefits, with this percentage likely declining in subsequent years. Based on current law, the Social Security Administration (SSA) would then have to apply an equal (in percentage

terms) "haircut" to the more than 80 million people projected to be receiving Social Security benefits in 2033.

The magnitude of this challenge is captured by the following figure, which shows annual Social Security surpluses and deficits as a percentage of GDP (excluding interest on the program's trust fund). Amounts for future years represent projections by the SSA (Congressional Budget Office 2022b).

**Figure 3. Actual and Projected Annual Deficits for Social Security**

*Social Security surplus or deficit as percentage of GDP, by year: 1973-2073*




**Source:** Social Security Administration (2023b).

### *2.a. Social Security's Revenues*

There are three primary sources of revenue for Social Security. The first is a 12.4 percent payroll tax, half of which is paid by workers and half by employers (with the full 12.4 percent paid by self-employed individuals) up to Social Security's annual taxable maximum, which in 2023 is $160,200 (approximately 2.5 times the average annual wage). In 2022, these payroll taxes accounted for $1.11 trillion (90.5 percent) of OASDI's $1.22 trillion in revenues. An additional 5.4 percent was accounted for by income from Social Security's trust fund (which had assets of $2.82 trillion at the end of 2022 and was invested entirely in US Treasury securities with an effective interest rate of 2.3 percent last year), with the remaining 4.0 percent received from income taxes on the Social Security benefits of OASDI recipients with relatively high incomes.

One important development since the 1983 amendments is that the fraction of earnings that are beyond Social Security's annual taxable maximum has steadily increased due to rising earnings inequality, from just 10 percent in 1983 to 19 percent by 2021. This taxable maximum is automatically "indexed up" each year along with growth in average wages so that, for example, the 2023 taxable maximum is approximately twice the 2001 taxable maximum of $80,400. For the first 25 years of Medicare's existence, that program shared the same annual taxable earnings base. However, the Medicare tax base was increased significantly in 1991 (from $51,300 to $125,000) and was then eliminated in 1994, so that all earnings are now subject to Medicare's 2.9 percent payroll tax.[2]

As I describe below, adjusting the OASDI tax rate, increasing the taxable maximum so that 90 percent of earnings are subject to Social Security taxes, and applying a 3 percent tax on earnings beyond the taxable maximum would significantly improve the program's financial outlook. The financial challenges facing the program were summarized in a recent Congressional Budget Office (CBO) report that predicted that absent any change in legislation, OASDI benefits will decline by 23 percent in 2033 when the trust fund hits zero (Congressional Budget Office 2022b).

### *2.b. Eligibility for Social Security Benefits*

To be insured for Social Security's retirement or disability benefits, an individual must have worked for at least ten years.[3] Benefits for retired workers and disabled workers accounted for 80.0 percent and 9.8 percent, respectively, of total OASDI benefits paid in April 2023. Survivors' benefits are also available for the spouses and children of deceased workers, with these benefits representing 7.5 percent of total benefits paid. And finally, the spouses and children of retired and disabled workers accounted for the remaining 2.6 percent of benefits paid in April 2023. In contrast to benefits for retired and disabled workers, survivors' benefits and benefits for spouses and children do not require an individual to have ten or more years of work history. The share of Social Security benefits paid to widow(er)s and family members has steadily declined over time for several reasons, including longer life expectancies and an increase in female employment (causing more women to claim their own Social Security benefits rather than their spouses').

2 As of 2013, an additional 0.9 percent Medicare tax is imposed on earnings above $125,000 ($250,000 if married filing jointly), and a 3.8 percent Medicare investment tax is levied on earners with adjusted gross incomes above those same thresholds.

3 Young adults can potentially qualify for Social Security disability benefits with fewer years of work given that they could not legally have yet worked for ten years.

### *2.c. Social Security's Benefit Formula*

An important and little-understood feature of Social Security is the formula used by the Social Security Administration (SSA) that converts an individual's entire earnings history into the *primary insurance amount (PIA)*. Also known as the PIA, this amount is the monthly benefit for a person who claims retirement benefits at his or her full retirement age (FRA) or for a disabled worker in his or her first month of eligibility. There are two primary steps to this process:

#### *2.c.1. Average Indexed Monthly Earnings*

The first step involves the calculation of an individual's average indexed monthly earnings (AIME). For this calculation, SSA considers only the highest 35 years of indexed annual earnings (including only those earnings on which Social Security taxes were paid) for a retired or disabled worker.[4] If, for example, an individual worked only from ages 25 through 59, then earnings in all 35 of those years would be considered when calculating the AIME. If instead an individual worked every year from ages 18 through 64, then only the 35 of those 47 years when the individual earned the most would be counted in the AIME calculation. If an individual worked for only 20 years, then SSA would average fifteen zeroes into the AIME calculation. Earnings from previous years are indexed up to account for the growth in average economy-wide wages over time.[5]

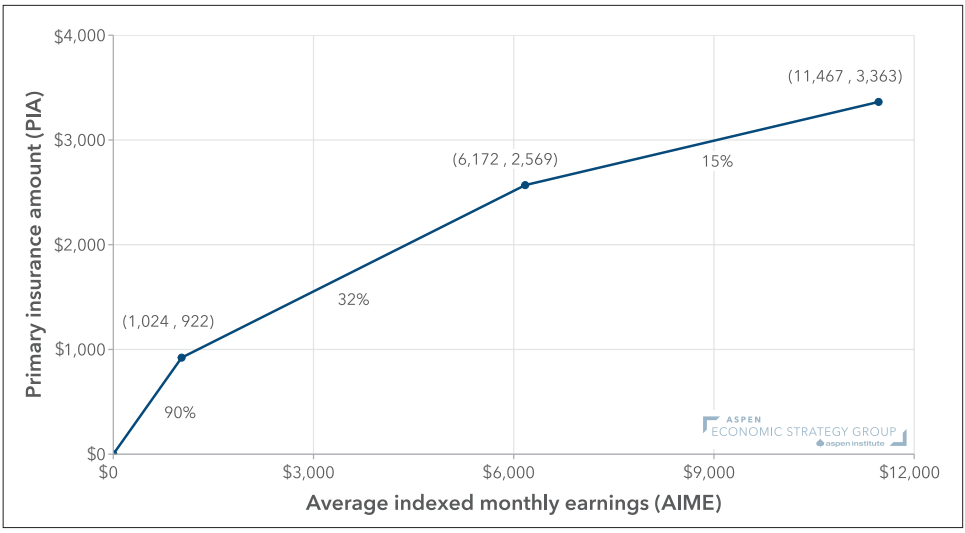
#### *2.c.2. PIA and Benefits Progressivity*

Using the AIME, the Social Security Administration then calculates the primary insurance amount as shown in the benefit formula displayed in figure 3. For an individual reaching age 62 in 2022, SSA replaces the first $1,024 in AIME at a 90 percent rate and the next $5,148 at a 32 percent rate. Any AIME above $6,172 is replaced at 15 percent. The maximum possible PIA (using earnings through 2022) for someone born in 1960 would be $3,363, though this figure could increase slightly during the subsequent years if this person continued to work at age 63 and beyond (thereby potentially increasing his or her AIME).

4 Fewer than 35 years are used for a disabled worker if, for example, he or she is only 40 years old.

5 For example, the indexing factor for a person reaching age 62 in 2022 for his or her 2005, 1997, and 1987 earnings would be 1.51, 2.03, and 3.02, respectively. The indexing factor is equal to 1.00 for earnings received in or after the year that a person reaches age 60.

**Figure 4. Social Security PIA vs. AIME Benefit Formula in 2022**




**Source:** Social Security Administration (2023c).

If, for example, an individual's average monthly earnings in her best 35 years, adjusted for wage growth as described above, were $4,000, then her PIA would be (($1,024 x 0.9) + ($4,000 - $1,024) x 0.32), or $1,874. For this individual, Social Security would replace almost half of her average monthly earnings.

As this figure suggests, the PIA represents a much higher fraction of earnings for low-income workers than for high-income workers. Consider two hypothetical workers born in 1960 named Lucy and Holly who earned exactly 50 percent and 200 percent of average annual earnings in each year from 1980 through 2022. Given SSA's progressive benefit formula, the PIA would represent 60 percent and 30 percent, respectively, of each person's earnings in 2022. While this comparison suggests that Social Security is a better deal for low-income workers such as Lucy (with respect to a rate of return), much of this benefit is offset by the fact that higher-income workers like Holly live, on average, significantly longer.

While Social Security's benefit formula has remained the same for more than 40 years, the bend points in the formula are indexed up each year with average earnings growth in the economy. So, while the bend points for a worker born in 1960 were $1,024 and $6,172, they were about half that amount for a counterpart born in 1937 (at $505 and $3,043) and just one-fourth that amount for someone born in 1921 (at $254 and $1,528). As I describe below, altering this formula by freezing the 32-15 bend point (rather than indexing it to average economy-wide earnings) would reduce the growth rate of benefits for high-income recipients while preserving its progressivity and the distributional aims of the program.

### *2.d. Social Security's Actuarial Adjustment*

Upon reaching the age of 62, a person with ten or more years of earnings can claim Social Security retired-worker benefits. However, if she was born in 1960 or later, she would receive only 70 percent of her PIA when claiming at 62 (five years before her full retirement age of 67). That person can choose to increase monthly benefits received by delaying claiming, with for example 80 percent of the PIA received at age 64, 100 percent at age 67, and 124 percent at the age of 70. The actuarial adjustment is 5.0 percent per year from ages 62 to 64, 6.67 percent per year from ages 64 to 67, and 8.0 percent per year from ages 67 to 70.

The Social Security Administration allows a person to claim retired-worker benefits partway through the year. As a result, there are in fact 97 different possible ages at which an individual can claim retired-worker benefits, ranging from 62 years and 0 months to 70 years and 0 months (or later, though with no actuarial adjustment after age 70). For example, a retired worker claiming benefits at the age of 65 years and 6 months would receive 90 percent of their PIA while someone claiming at 68 years and 3 months would receive 110 percent. All else equal, those who expect to live longer have a stronger financial incentive to delay claiming since they can enjoy the higher monthly benefits for more months in the future.

Disabled workers have no similar financial incentive to delay claiming—they receive 100 percent of their PIA if and when they meet the program's medical eligibility and other criteria (with payments beginning five months after the onset of disability). The fraction of non-elderly adults receiving Social Security Disability Insurance (SSDI) benefits rose steadily from the mid-1980s until about a decade ago (Duggan 2015), when the stringency of the program's medical-eligibility criteria appears to have increased. An individual receiving SSDI benefits is converted to Social Security's retired-worker category upon reaching full retirement age (FRA).

From the early 1980s through 2006, more than half of individuals claiming retired-worker benefits claimed them at age 62. But during the past fifteen years, there has been a steady decline in this share and a corresponding increase in the share claiming later. For example, from 2006 to 2021, the fraction claiming at age 62 fell from 50.2 percent to just 26.1 percent. During that same period, the share claiming at age 70 (or later) more than quadrupled, increasing from 2.0 percent to 8.6 percent. This shift likely reflected a combination of three factors that have all increased the relative advantages of claiming benefits later.

First, since individuals are living longer, those who delay claiming can enjoy higher benefits for more years. Someone who expected to live to just 72 would likely prefer ten years of reduced benefits (70 percent of PIA if claiming at age 62) to five years

of full benefits (100 percent of PIA if claiming at age 67) or two years of maximum benefits (124 percent of PIA if claiming at age 70). But if instead that person expected to live to age 82 or 92, the financial incentive to delay claiming would be much greater since the individual would enjoy higher benefits for more years. These increases in life expectancy have been greater for high-income individuals (Chetty et al. 2016), who also are less likely to rely on Social Security as their primary source of income.

Second, the historically low interest rates in recent years have also raised the financial incentive to delay claiming, as higher future benefits of delaying until age 67 or 70 are relatively more valuable. Finally, the actuarial adjustment beyond the full retirement age has increased from 3 percent annually to 8 percent annually, and recent research has shown that many workers responded to this change by delaying claiming beyond their FRA (Duggan et al. 2023).

Individuals who claim at the early retirement age tend to have lower incomes and be in worse health than those who claim at the full retirement age or later. As I describe below, one can fine-tune the actuarial adjustment in Social Security to reduce the growth rate of benefits while leaving benefits unchanged for those who claim early, as these claimants tend to be in worse health and have lower incomes.

### *2.e. The Level of Social Security Benefits*

For the reasons outlined above, there is substantial variation across Social Security recipients in the monthly Social Security benefit received. For example, 11 percent of retired workers had a monthly benefit of less than $800 in December 2021 while 10 percent had a monthly benefit of $2,600 or more. This discrepancy partly reflects the effects of delayed claiming—the corresponding shares are 7 percent and 25 percent for those claiming at or after their full retirement age versus 13 percent and 3 percent for those claiming before that age. Put another way, those who claim early tend to have much lower incomes than do those who claim later.

Disabled workers tend to have lower monthly OASDI benefits than retired workers, with 13 percent receiving less than $800 per month from SSA and just 4 percent receiving $2,600 per month or more. This difference is not driven by actuarial adjustment but instead reflects the fact that workers with lower earnings are more likely to become disabled and to qualify for SSDI. Table 2 displays the distribution of monthly benefits for retired workers and for disabled workers in December 2021.[6]

6 As shown in table 1 above, average benefits for the spouses and children of both retired and disabled workers are substantially lower than for retired and disabled workers, while average survivors' benefits are comparable.

**Table 2. Distribution of OASDI Benefits for Retired and Disabled Workers**

| Monthly benefit, December 2021 | Retired workers | Disabled workers |
|---|---|---|
| $1–$799 | 11.0% | 13.4% |
| $800–$999 | 9.0% | 15.8% |
| $1,000–$1,199 | 9.8% | 17.1% |
| $1,200–$1,399 | 9.6% | 14.0% |
| $1,400–$1,599 | 9.6% | 10.8% |
| $1,600–$1,799 | 10.1% | 8.1% |
| $1,800–$1,999 | 10.6% | 5.9% |
| $2,000–$2,199 | 8.4% | 4.3% |
| $2,200–$2,399 | 6.5% | 3.5% |
| $2,400–$2,599 | 5.1% | 3.1% |
| $2,600 + | 10.4% | 3.8% |
| **Average** | **$1,658** | **$1,358** |

**Source:** Social Security Administration (2023).

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Analysis of survey data from three different sources indicates that most elderly (defined here as ages 65 and up) Americans receive more than half their income from Social Security and approximately one in four receive more than 90 percent of their income from Social Security (Dushi, Iams, and Trenkamp 2017). As table 3 below shows, this reliance on Social Security varies substantially by age, gender, marital status, race, ethnicity, educational attainment, and lifetime income. For example, more than 60 percent of individuals aged 80 and up receive more than half their income from Social Security versus 42 percent of those between ages 65 and 69. Similarly, approximately two-thirds of elderly adults without a high school degree receive more than half their income from Social Security versus one-third among college graduates. Furthermore,

*Most elderly Americans receive more than half their income from Social Security and approximately one in four receive more than 90 percent of their income from Social Security.*

Black and Hispanic individuals are more likely to receive more than 90 percent or more of their income from Social Security than are their non-Hispanic White counterparts. And perhaps most striking of all, more than 80 percent of individuals in the lowest two quintiles of income rely on Social Security for more than half their income versus just 2 percent of those in the top income quintile.

**Table 3. Share of the Elderly Who Receive ≥ 50 Percent or ≥ 90 Percent of Income from Social Security**

| Category | ≥ 50% | ≥ 90% | Category | ≥ 50% | ≥ 90% |
|---|---|---|---|---|---|
| Total | 52% | 25% | White (non-Hispanic) | 52% | 24% |
| Women | 55% | 27% | Black (non-Hispanic) | 57% | 33% |
| Men | 48% | 21% | Other (non-Hispanic) | 44% | 23% |
| Ages 65–69 | 42% | 18% | Hispanic origin | 52% | 31% |
| Ages 70–74 | 51% | 23% | Married | 46% | 19% |
| Ages 75–79 | 57% | 27% | Not married | 60% | 33% |
| Ages 80+ | 61% | 33% | Lowest income quintile | 87% | 64% |
| No high school diploma | 68% | 41% | Income quintile 2 | 82% | 48% |
| High school graduate | 58% | 28% | Income quintile 3 | 63% | 14% |
| Some college | 50% | 21% | Income quintile 4 | 25% | 1% |
| College graduate | 35% | 14% | Highest income quintile | 2% | 0% |

**Source:** Dushi, Iams, and Trenkamp (2017).

Previous research has shown that more generous Social Security benefits lead to both lower poverty rates among the elderly (Engelhardt and Gruber 2004) and to lower mortality rates among SSDI recipients (Gelber et al. 2023). If not carefully designed, any reduction in Social Security benefits to address the program's fiscal challenges as described above could therefore lead to increases in poverty and/or mortality.

## 3. Lessons from the 1983 Amendments

The challenge that faced policymakers in the 1980s when Social Security had run deficits for seven consecutive years (from 1975 through 1981) was significant. The problem was especially urgent since the Social Security trust fund had less than two months of benefits in reserve. But fortunately for them, the annual deficits were small, at just 1–4 percent of total program expenditures. Additionally, the deficits were projected to transition to annual surpluses by the late 1980s or early 1990s, even absent any policy changes, as the large baby-boom population entered its higher-earnings years.

As a result of the small annual deficits, only minor changes were needed to the program to address the immediate risk to benefits. Policymakers responded by raising the payroll tax from 10.6 percent to 12.4 percent from 1983 to 1990 but made no change in the payroll tax base. This change merely accelerated tax increases that were already scheduled to take effect. The following table shows how both Social Security's tax rate and its taxable wage base (as a ratio of average annual earnings) have increased over time (in ten-year increments) since the program's inception. As the table shows, Social Security's revenues grew both because of increases in the taxable wage base and because of increases in the tax rate, though neither has changed since the 1983 amendments.

**Table 4. Total OASDI Tax Rates and Taxable Maximum by Calendar Year**

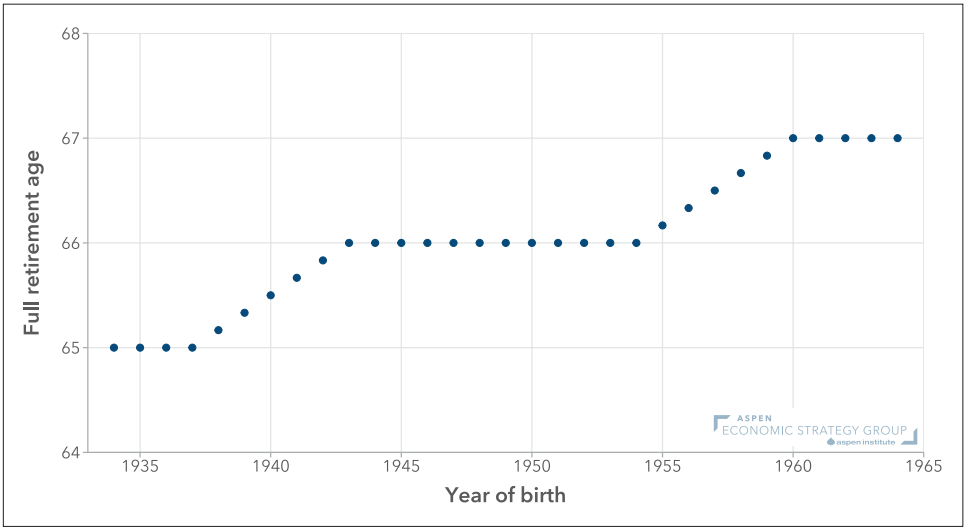
| Year | Tax rate | Taxable max / average wage |
|---|---|---|
| 1940 | 2.0% | 2.2 |
| 1950 | 3.0% | 1.3 |
| 1960 | 6.0% | 1.2 |
| 1970 | 8.4% | 1.3 |
| 1980 | 10.2% | 2.1 |
| 1990 | 12.4% | 2.4 |
| 2000 | 12.4% | 2.4 |
| 2010 | 12.4% | 2.5 |
| 2020 | 12.4% | 2.5 |

**Source:** Social Security Administration (2023).



But in contrast to most previous Social Security reforms, the 1983 amendments also significantly reduced the generosity of benefits. The amendments increased the full retirement age (FRA) from 65 to 67 and simultaneously lowered the fraction of full benefits that one could receive at age 62 from 80 percent to 70 percent. Crucially, these changes were phased in gradually, with individuals born in 1937 or earlier (age 46 or older then) unaffected by the changes while those born in 1960 or later were fully affected. The following figure shows the evolution of the program's FRA (in years and months) by year of birth—a change that essentially represented about a 12.5 percent cut in Social Security benefits once it was fully phased in.

**Figure 5. Social Security's Full Retirement Age by Year of Birth**




**Source:** Social Security Administration (2023d).

It is striking that these reductions in benefit generosity have now been fully phased in and there has been essentially no political backlash. Such criticism was likely forestalled because individuals had sufficient time to plan and to adjust their savings and employment plans accordingly by—for example—working longer and/or saving more. Previous research has shown that the changes led to increases in employment, which amplified the beneficial effects of the reform on the long-term solvency of the program (Mastrobuoni 2009).

Historical experience suggests that tax increases can be implemented relatively quickly and improve Social Security's finances. But any benefit cuts will likely need to be phased in gradually so that individuals on the cusp of retirement or who have already retired are not blindsided. Consistent with this caution, in 1991 and again in 1994, the tax base for the Medicare program with its 2.9 percent payroll tax rate increased substantially. More specifically, the 1991 change that was signed into law by President George H. W. Bush increased the tax base from $51,300 to $125,000 while the 1994 change eliminated the cap so that all earnings were subject to the Medicare tax. These changes significantly extended the solvency date of Medicare and there has been little evidence to suggest that either change had harmful effects on labor supply, a common and legitimate concern with any tax increase.

## 4. Reform Principles

Once policymakers decide that they are ready to confront the increasingly urgent issue of Social Security's medium- and long-run fiscal health, three key decisions await them.

### *4.a. Should fiscal balance in the program be achieved through tax increases, benefit reductions, or a combination of the two (as in the 1983 amendments)?*

If no changes in policy are made, then the Congressional Budget Office (CBO) projects that in ten years the federal government will have to reduce benefits by about 23 percent for the 80 million individuals expected to be receiving Social Security benefits in that year.[7] This "haircut" to benefits will likely increase in subsequent years, given projected further declines in the number of workers per retiree. This across-the-board benefit cut will be necessary because, given current law, Social Security is not authorized to incur debt. Therefore, once the trust fund hits zero, it must change benefits to bring the deficit to zero. Doing so will place the entire adjustment to the program's fiscal imbalance on the benefit side and will likely impose especially severe hardship on those with low incomes, underrepresented minorities, women, and the oldest beneficiaries—given their much greater reliance on Social Security (see table 3).

Alternatively, policymakers could strive to avoid benefit cuts by increasing the program's 12.4 percent payroll tax rate and/or its annual taxable wage base (currently set at $160,200). According to estimates from the CBO—updated to reflect recent revisions to the expected date of trust-fund exhaustion—the payroll tax rate would need to increase by about 4 percentage points or more to fill the substantial annual deficits that will exist when the trust fund reaches zero. This approach would lead to the imposition of substantial Social Security taxes for all workers—for example, Social Security taxes for a worker earning $50,000 annually would increase by $2,000. Alternatively, Congress could fill a majority of the program's fiscal hole by eliminating the cap on Social Security taxes (and by simultaneously giving no credit in the form of higher future Social Security benefits for any taxes paid beyond $160,200). One potential problem with such a significant and immediate increase in either the tax rate or the tax base is that it could reduce employment or hours of work, which would have adverse effects on other tax revenues such as individual income

7 Given that recipients are legally entitled to their full benefits under the Social Security Act, but Social Security cannot legally pay out more funds than it has available, there is some debate over how (and to some degree, whether) this reduction in benefits will occur when the trust fund hits zero. Here I take the most straightforward interpretation that recipients will, on average, see a 23 percent reduction in benefits in 2033. See Congressional Research Service, 2022, for a more detailed discussion of this issue.

taxes, thereby worsening the federal government's fiscal challenges elsewhere in the federal budget.[8]

***4.b. Should changes to Social Security taxes and/or benefits be phased in gradually, immediately, or once again as a combination of the two (as in the 1983 Amendments)?***

Policymakers will not have the luxury of phasing in all policy changes gradually, as was possible in 1983. This choice will not be viable because the deficit as a share of spending in 2033 will be more than ten times greater than it was just prior to the 1983 amendments. Additionally, in 1983, projected deficits were declining rather than increasing, as they likely will be in 2033. Social Security is now drifting into the situation that both President Bill Clinton and President George W. Bush had hoped to avoid in their efforts to strengthen Social Security's finances in the late 1990s and the first decade of the 2000s.

***4.c. Should changes be across-the-board ones that would apply to all workers and/or benefit recipients (as with the 1983 amendments and their increase in the program's payroll tax rate), or should they instead be targeted (by, for example, increasing the taxable wage base from its current $160,200 level—a change that would only affect high-income earners)?***

Policymakers will need to decide in the coming years whether to make changes to Social Security that apply equally to all taxpayers and/or beneficiaries or whether to target the changes to those with higher incomes and benefit levels. With the 1983 amendments, Congress chose the former approach with an across-the-board increase in the payroll tax rate and in the full retirement age. But both income inequality and wealth inequality have soared in the 40 years since, and thus the case for targeting tax increases and/or benefit cuts to those with higher incomes is stronger now than it would have been then (or when Medicare eliminated its taxable maximum in 1994 or increased Medicare premiums for high-income taxpayers in 2006).

There is no one obvious right way to tackle the significant fiscal imbalances in Social Security. Some combination of benefit cuts and tax increases is inevitable, as was the case 40 years ago, when the challenges that Social Security faced were small relative to the ones that we face today. Necessary changes to Social Security would have been much smaller and could have been phased in gradually if past policymakers had not ignored the issue and left this problem for others to solve.

8 Using the 2011 and 2012 reduction in Social Security taxes as a natural experiment, Powell (2015) estimates a small (.08) elasticity of earnings at Social Security's taxable maximum, suggesting that increasing taxes beyond the taxable maximum would lead to a modest reduction in earnings, partially offsetting revenue gains. Estimates from Liebman and Saez (2006) suggest an even smaller elasticity using tax reforms from the 1980s and 1990s.

## 5. A Six-Part Proposal to Permanently Strengthen Social Security

The first five proposed changes below to Social Security include a mix of both tax increases and benefit reductions (relative to current law); both immediate and gradual changes; and two policies that apply equally to all as well as three policies differentially affecting workers with the highest earnings. Taken together, these policies would involve some sacrifice by all workers but an additional sacrifice from high-income workers, given the significant increases in inequality since the last major reform of Social Security.[9] Current Social Security recipients or those who will claim benefits soon would see no reduction in benefits. The benefit reductions for future Social Security recipients insulate disabled workers and those with low incomes as well as those who would be likely to claim their Social Security retired worker benefits at or soon after the early-retirement age of 62.

The fiscal impact of the proposed changes—especially those on the benefit side—would increase steadily over time and would eventually return the program to annual surpluses. It is beyond the scope of this document to calculate a full year-by-year "score" (analogous to the scoring conducted by CBO) of the impact of the proposed changes on Social Security's annual surplus/deficit or on the level of the trust fund each year. Such a score would depend on the year in which each change is implemented, how rapidly the changes were phased in, and the behavioral response of individuals (and their employers) to the changes. There is also of course substantial uncertainty about the evolution of key variables in the future, including earnings growth, mortality, and immigration.

Additionally, even if some of the proposed changes were implemented immediately, Social Security's trust fund would still likely hit zero before 2040. That is why the sixth proposed change calls for the US Treasury to temporarily loan funds to Social Security (as Social Security loaned funds to it over the last 40 years and as it loans funds to state unemployment-insurance programs during and after recessions). This loan could be paid off later as the full effect of the gradually phased-in proposed changes is realized. This transfer from the US Treasury to the Social Security trust fund would not be without precedent. For example, in both 2011 and 2012, the US Treasury Department financed a Social Security tax cut with a total transfer of $217 billion from the US Treasury to the OASDI trust fund across the two years.

Drawing on estimates from CBO and from related research, I estimate that these reforms, coupled with the ability to borrow from the US Treasury, could deliver

9 As shown in a 2022 CBO report on the distribution of household income, from 1979 to 2019 average inflation-adjusted after-tax income increased approximately twice as much among the highest 20 percent of taxpayers as it did among the remaining 80 percent of taxpayers (123 percent versus 63 percent—see the data underlying exhibit 18 in Congressional Budget Office 2022a).

essentially permanent solvency for the OASDI program through a mix of tax increases and benefit cuts, with the latter phased in more gradually than the former.

### *5.a. Raise the Social Security payroll tax rate by 1.0 percent to 13.4 percent.*

The Social Security payroll tax rate has been at a constant 12.4 percent for 33 years, with the most recent increase, from 10.6 percent to 12.4 percent, phased in gradually between 1983 and 1990 following the 1983 amendments described above. One rationale for a payroll tax rate increase is that the present value of Social Security coverage for workers has risen substantially over time due to rising life expectancy and less stringent medical eligibility criteria to qualify for SSDI than were in effect at the time of the 1983 amendments. Research suggests that previous increases in the Social Security tax rate did not significantly reduce labor supply (Liebman and Saez 2006), though these increases would still inevitably reduce disposable incomes for workers.[10]

This 1.0 percent tax increase alone would fill about 28 percent of the fiscal gap that the program faces beginning in 2033.[11] It is purposefully much smaller than the nearly 4.0 percent increase that CBO has estimated would be required to close the entire gap since it would impose costs on all workers rather than only those with the highest earnings. For example, a worker with earnings of $30,000 annually would pay an additional $150 in Social Security taxes each year; that person's employer would pay an additional $150 as well. To the extent that increases in employers' payroll tax bills partially or fully "pass through" to workers in the form of lower wages, the ultimate cost to workers of this policy change could be larger than just the increase in their own direct taxes.

### *5.b. Increase the taxable maximum so that 90 percent of earnings are again subject to Social Security payroll taxes.*

Forty years ago, when the 1983 Social Security amendments were signed into law, fully 90.0 percent of workers' total earnings were subject to Social Security taxes. At that time, the program's taxable wage base was $35,700, with this amount indexed to average annual earnings each year. Since average annual (nominal) earnings have more than quadrupled in the 40 years since, Social Security's taxable wage base is now much higher as well—at $160,200 in 2023.

10 See Kim, Kim, and Koh (2022) for a recent review of the literature regarding the effects of payroll tax rates on employment and earnings, including the extent to which tax increases or reductions pass through to earnings.

11 The actual impact would of course depend on many factors, including the behavioral response of both workers and employers to the payroll tax change. For reference, the most recent OASDI report projects payroll tax revenues of $1.735 trillion in 2032 and a program deficit that same year of $407 billion (excluding interest on the trust fund). Absent any behavioral response, the payroll tax change would reduce the deficit by $140 billion (34 percent of the total).

Despite this large increase, the share of workers' earnings that are not subject to the Social Security payroll tax has steadily increased – from 10.0 percent in 1983 to 14.1 percent in 2003 to 18.6 percent by 2021. This trend has been driven by the well-known increase in income inequality during this same period. Had the program's tax base instead been adjusted each year so that approximately 90 percent of earnings were subject to Social Security's payroll tax, the program's current financial difficulties would be much less severe.

This adjustment would yield significant incremental payroll tax revenues for the program, though this effect would be partially offset by correspondingly higher Social Security benefits in the future since it would increase average indexed monthly earnings (AIME) for some high-income workers. Estimates from the Joint Committee on Taxation indicate that the taxable maximum would have to be increased from $160,200 to about $300,000 in 2023 to cover 90 percent of earnings.

According to data from the Congressional Budget Office and the Social Security Administration, the combined impact would eliminate 19 percent of the program's projected annual deficit in 2032 if it were fully implemented by that year. But this would be a very significant increase in payroll taxes to implement immediately and could lead to significant disruptions in employment and earnings for the nearly 11 million workers with earnings above the taxable maximum.

It would therefore be prudent to phase this change in gradually by increasing Social Security's taxable maximum by just 2.5 percent more each year than average annual earnings growth. If the distribution of earnings remained relatively stable in the coming years, then after about 25 years, fully 90.0 percent of earnings would once again be subject to Social Security's payroll taxes. To the extent that earnings inequality increased (declined) over time, then the number of years needed would be correspondingly higher (lower) to get to 90.0 percent.

The savings for the program could be substantially larger if the incremental taxes paid did not translate into higher Social Security benefits in the future or if the program's benefit formula were adjusted to reduce the incremental benefits paid to high-income taxpayers stemming from their higher AIME. I propose an adjustment along these lines in Section 5.e. below.

***5.c. Levy a 3 percent tax on earnings above the taxable maximum.***

As described above, Social Security taxes are not presently levied beyond the annual taxable maximum, which is currently set at $160,200 and has been indexed up each year with average earnings growth for the last few decades. This component of the reform proposal would yield a third source of incremental revenue by applying a 3

percent tax rate on any earnings above the taxable maximum. In contrast to the provision described in the preceding section, this incremental revenue would not increase high-income workers' AIMEs, nor would it generate higher Social Security benefits for them in the future.

This change would differentially affect high-income taxpayers and, according to CBO estimates (2015), could make a significant dent in Social Security's long-run fiscal imbalance. One rationale for imposing an additional tax on those with high incomes beyond the increase in the payroll tax rate and in the program's taxable wage base is that life expectancy has risen much more among those with very high incomes since the 1983 amendments were passed. As a result of these improvements, the increase in the present value of Social Security benefits has been much greater for high-income workers.

A similar change occurred for the Medicare payroll tax base nearly 30 years ago. From its inception in 1966 through 1990, Medicare used the same payroll tax base as Social Security did. But the Medicare tax base was increased substantially in 1991 (from $51,300 to $125,000) and then the cap was eliminated three years later in 1994. There has been little evidence to suggest that the extension of Medicare's 2.9 percent payroll tax to all worker earnings significantly reduced either earnings or employment. Indeed, these tax increases preceded a historically strong performance for the US economy during the mid and late 1990s, with declining unemployment, increasing labor-force participation, and rising earnings through 2000.

While this change would of course lower after-tax income for America's highest earners, they are the group whose earnings have grown the most since the 1983 amendments. The incremental revenue that this change would produce would decline somewhat over time given the increase in the taxable maximum described in section 5.b.

This 3 percent tax, applied to all earnings greater than Social Security's taxable maximum, would fill about 12 percent of the fiscal gap that the program faces beginning in 2033.

### *5.d. Increase the full retirement age from 67 to 68.*

One of two major changes implemented by the 1983 amendments to Social Security increased the full retirement age (FRA) from 65 to 67. These changes were phased in gradually so that those born in 1937 or earlier were unaffected while those born in

1960 or later were fully affected.[12] This change resulted in a substantial reduction in benefits for those claiming at ages before FRA. For example, people claiming retired-worker benefits at age 62 saw their benefits decline from 80 percent of their PIA to 70 percent of PIA as a result of these amendments, a decline that represented a 12.5 percent cut in benefits. The evidence to date convincingly demonstrates that these reforms caused many people to delay retirement and to delay claiming their Social Security benefits (Mastrobuoni 2009). The delay in retirement amplified the beneficial effects of this reform on the Social Security trust fund through the policy-induced increase in employment and payroll tax revenue.

One potential concern with these reforms was the financial hardship that they imposed on the most disadvantaged, especially those in poor health, who tended to claim at the early retirement age of 62. Research by Duggan et al. (2007) shows that the 1983 amendments led to a significant increase in applications for SSDI, since the full-PIA benefits associated with an SSDI award changed from being 25 percent more generous than early retirement benefits at age 62 to 43 percent more generous. These findings suggest that further reductions in the generosity of retirement benefits at age 62 would lead still more individuals to apply for SSDI benefits.

To address this potential concern, my fourth proposal involves an increase in the full retirement age from 67 to 68 that leaves unchanged the generosity of benefits for those claiming between the ages of 62 and 64. Individuals who claim at these earlier ages tend to be in worse health with less savings and so the reform purposefully insulates them from the effects of reduced retirement benefit generosity. The following table shows the generosity of retirement benefits for someone reaching age 62 in 2022 as a function of claiming age and compares this with the generosity of the proposed change. While this increase would inevitably induce changes in the timing of retired-worker benefit claims, a back-of-the-envelope calculation suggests that once fully phased in, it would fill approximately 15 percent of Social Security's long-term funding gap.

12 The FRA increased in two-month increments from 65 to 66 for those born in 1937 (65) to those born in 1943 (66) and again in two-month increments for those born in 1954 (66) to those born in 1960 and later (67).

**Table 5. Current and Post-Reform Generosity of Retired-Worker Benefits by Age at Claiming**

| Claiming age | Percentage of PIA disbursed in current law | Proposed percentage of PIA |
|---|---|---|
| 62 | 70 | 70 |
| 63 | 75 | 75 |
| 64 | 80 | 80 |
| 65 | 86.7 | 85 |
| 66 | 93.3 | 90 |
| 67 | 100 | 95 |
| 68 | 108 | 100 |
| 69 | 116 | 108 |
| 70 | 124 | 116 |

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**Source:** Social Security Administration (2023) and author's proposal.

This change would ultimately represent a 5–8 percent reduction in benefit generosity relative to current law for those claiming at or beyond the full retirement age. As described above, this group tends to include those with higher incomes, as lower earners tend to claim benefits at the early retirement age of 62 or soon after that. This change seems appropriate given the financial pressures of the program combined with the much greater increase in life expectancy among those with high incomes since the 1983 amendments were enacted.

### *5.e. Freeze the 32-15 bend point and introduce a new 15-5 bend point in the Social Security benefit formula.*

The Social Security benefit formula displayed in figure 3, coupled with the percentage-of-PIA figures shown in table 5, implies that individuals born in 1960 could receive a monthly Social Security benefit of $4,170 (or more than $50,000 per year), if they have earned more than Social Security's taxable maximum throughout their careers and if they delay claiming benefits until age 70. This fifth and final component of the reform proposal would freeze the bend point in the 90-32-15 Social Security benefit formula shown in figure 2 so that benefits would increase more slowly for high-income

taxpayers while they would continue to increase as called for in current law for those with low and middle incomes. It would also introduce a new 15-5 bend point to reduce the incremental benefits received by the highest income workers from the increase in the Social Security taxable maximum described in Section 5.b.

This final component would have little impact on benefit generosity initially though would replace an increasing fraction of earnings at 15 percent rather than 32 percent, with this change only affecting benefits for those with high incomes. To consider the effect of this shift on Social Security benefits, suppose that the AIME at the 32-15 bend point had been frozen ten years ago at $4,624 (for someone born in 1950). This figure is much lower than the actual bend point of $6,172 in effect in 2022 (for someone born in 1960) and would lead to a $263 (= (.32 - .15) * (6172 – 4624)) reduction in the PIA for a high-income taxpayer whose earnings were above the taxable maximum throughout his or her work years. The corresponding reduction in benefits would be significantly greater if the 32-15 bend point had been frozen in 2002—with monthly benefits falling by $443 (or about 13 percent) for high-income Social Security recipients.

Most of Social Security's retired-worker recipients—including all recipients with benefits below the median—would be unaffected by this change in benefits for at least 25 years. Even the highest-income recipients would only see a lower growth rate of benefits—not an actual cut in their benefits—and they would have sufficient time to plan (as was true for the increase in FRA induced by the 1983 amendments). The effects of this change on the Social Security trust fund would be small initially but would grow substantially over time as benefits for high-income earners would grow much more slowly than they do under current law.

The introduction of a new 15-5 bend point would moderate the increase in Social Security benefits that high-income workers would receive from the increase in the taxable maximum described in 5.c.[13] More specifically, about 6 percent of workers have had earnings above the taxable maximum in recent years. This group would see an increase in payroll taxes that they pay and in their eventual AIME. This provision would lead to greater savings for the program from the increase in Social Security's taxable maximum than if the 90-32-15 formula was unchanged.

There are three key benefits of this adjustment to the benefit formula relative to other possible changes that reduce the generosity of Social Security benefits. First, it would give individuals adequate time to plan and adjust their savings and employment decisions (as the 1983 amendments did) since the effects would be small for those about to retire but would be much larger for those born in the 1980s

13 Referring to figure 4, this would introduce a 5 percent slope in the figure 4 Social Security benefit schedule beyond the current maximum AIME of $11,467 (which would increase with average earnings).

and later. Second, it would not affect benefits for those with low or middle incomes, whose incomes grew more slowly relative to the national average during the last few decades than did those of their counterparts a few decades ago. The third benefit of this provision is that its beneficial effects for Social Security's trust fund would grow substantially each year, with an increasing fraction of beneficiaries' AIME replaced at a 15 percent rather than a 32 percent rate.[14] This change, in combination with the other four provisions described above, would eventually allow Social Security to generate annual surpluses once more.

Freezing the AIME at the 32-15 bend point for 25 years would fill about 24 percent of the fiscal gap that the program faces, though this full effect would not be realized until after the Social Security trust fund reaches zero. Introducing a new 15-5 bend point (at an AIME of $11,467 if using the 2023 benefit formula) would generate further budgetary savings that would conservatively fill at least another 2 percent of this gap in the long run.

***5.f. Allow Social Security to borrow from the General Fund as state UI trust funds do.***

Even if all five of these reform proposals were implemented in the next few years, the Social Security trust fund seems certain to hit zero in the next decade (as both CBO and the SSA project) or soon after. One approach that policymakers could take would be to allow Social Security to borrow from the US Treasury (as state unemployment-insurance trust funds often do, especially during and after recessions) and pay those amounts back in the future. This approach would have the advantage of disciplining the Social Security program's finances so as not to crowd out spending elsewhere in the federal budget (for example, national security spending or investments in clean energy). Once the reductions in benefits and the increase in the program's taxable maximum are fully phased in, Social Security would then have sufficient surpluses to pay down its debt.

With the clear caveat that significant uncertainty exists about earnings growth, mortality, immigration, and many other variables—including behavioral responses to the proposed changes outlined above—I estimate that the five proposed changes would each contribute significantly to closing Social Security's fiscal gap as outlined in the table 6. Two of the changes would be implemented immediately in 2026 while the other three would be phased in over time.

14 If the growth rate in earnings observed over the last few decades were to continue in the years ahead, the 90-32 bend point would catch up to the 32-15 bend point in about 45 years.

**Table 6. Contribution of Policy Proposals to Closing Social Security's Fiscal Gap**

| Proposed change | Percentage of total impact | Phase-in period |
|---|---|---|
| Increase payroll tax rate from 12.4 percent to 13.4 percent | 28% | 2026 |
| Increase taxable max to cover 90.0 percent of earnings | 19% | 2026–51 |
| Impose a 3 percent tax on earnings above the taxable max | 12% | 2026 |
| Increase full retirement age from 67 to 68 | 15% | 2026–2032 |
| Freeze AIME at 32-15 bend point and create 15-5 bend point | 26% | 2026–51 |

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**Source:** Author's calculations and analysis using data from SSA and CBO.

## 6. Discussion

Taken together, the reforms outlined in this proposal could ensure that Social Security is adequately funded for current and future generations of Social Security recipients. At present, more than one in four American adults receive benefits from the program while more than two-thirds of adults pay Social Security taxes. The last major amendments were able to extend the solvency of the program by about 50 years—from the mid-1980s to about 2033. In contrast to the current proposal, those policy changes applied equally to all taxpayers and to all Social Security recipients (with effects varying only by year of birth).

The current proposal takes as a starting point that both income and wealth inequality have increased significantly since the 1983 amendments as has inequality in life expectancy. Because of these changes and given the fiscal pressures on the program resulting primarily from a declining number of workers per Social Security recipient, the current proposal calls for larger sacrifices from workers and Social Security recipients with the highest earnings. Additionally, benefit reductions are phased in gradually so that existing Social Security recipients are unaffected and so that those future recipients with low incomes and/or in poor health are insulated from these changes in the program.

US policymakers have for decades kicked the proverbial can down the road on this predictable funding challenge that we as a nation are now facing. It is time for individuals on both sides of the political aisle to work together on reforming America's largest government expenditure program so that it is adapted to 21st century realities while continuing to protect the most economically vulnerable. The changes called for in this proposal would achieve these goals while ensuring that Social Security is fundamentally strong for today's workers and for future generations as well.

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Mark Duggan is the Trione Director of the Stanford Institute for Economic Policy Research (SIEPR) and the Wayne and Jodi Cooperman Professor of Economics at Stanford. His research focuses on the health care sector and the effects of government expenditure programs such as Medicare, Medicaid, and Social Security. His research has been published in leading academic outlets including the American Economic Review, the Journal of Political Economy, and the Quarterly Journal of Economics and has been featured in many media outlets including The Economist, The New York Times, and The Wall Street Journal. Duggan was the 2010 recipient of the ASHEcon Medal (awarded once every two years to the leading health economist in the MA under age 40) and his research has been funded by National Science Foundation, the National Institutes of Health, the Alfred P. Sloan Foundation, the Robert Wood Johnson Foundation, and the Social Security Administration. He has testified about his research to committees in both the US Senate and US House of Representatives and he served from 2009 to 2010 as the senior economist for Healthcare Policy at the White House Council of Economic Advisers. He teaches "Econ 1" at Stanford and advises dozens of undergraduate and graduate students.

## About the Aspen Economic Strategy Group

The Aspen Economic Strategy Group (AESG), a program of the Aspen Institute, is composed of a diverse, bipartisan group of distinguished leaders and thinkers with the goal of promoting evidence-based solutions to significant U.S. economic challenges. Co-chaired by Henry M. Paulson, Jr. and Timothy F. Geithner, the AESG fosters the exchange of economic policy ideas and seeks to clarify the lines of debate on emerging economic issues while promoting bipartisan relationship-building among current and future generations of policy leaders in Washington.