



Social Security – Hard Choices (?)

Belvedere Tiburon Library
February 9, 2026

Jon Haveman, Ph.D.



Outline

- What is Social Security?
- How Does Social Security Work?
- What is The Trouble with Social Security?
- Available Solutions

What is Social Security?



What is Social Security?

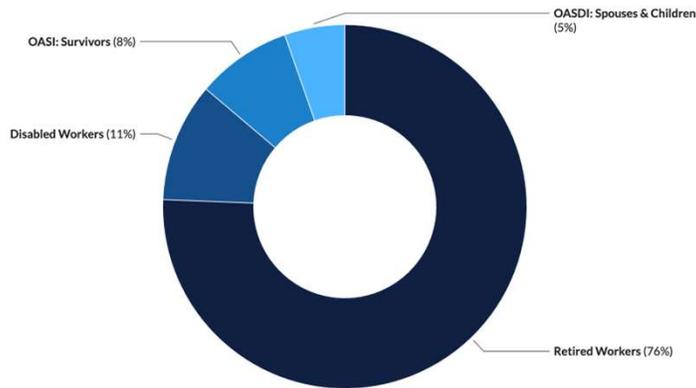
- Social Security is a federal social insurance program that provides financial support to workers and their families.
- Different benefits:
 - **Retirement Benefits:** Social Security provides monthly payments to qualified retirees based on their lifetime earnings.
 - **Disability Benefits:** It provides financial support to individuals who are unable to work due to a disability.
 - **Survivor Benefits:** Social Security offers benefits to the families of deceased workers, including spouses and children.
 - **Supplemental Security Income (SSI):** SSI provides financial support to individuals who are 65 or older, blind, or disabled and have limited income and resources.



Shares of Different Types of SS Beneficiaries

Retired workers make up the majority of Social Security beneficiaries

Total OASDI Beneficiaries in 2024:
68 million



Source: Social Security Administration • Embed • Download image

Notes: OASI is Old-Age and Survivors Insurance, DI is Disability Insurance, and OASDI is the two combined. OASI and DI beneficiaries are not mutually exclusive.



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Social Security's Origins

- **A part of the social safety net.**
- **Created in 1935 to provide economic security to the nation's elderly.**
- **Expanded in 1939 to include dependent benefits.**
 - Benefits to families that have lost a breadwinner.
- **Expanded in 1950 to provide support for people with disabilities.**
- **Expanded in 1974 to provide Supplemental Security Income.**
 - Can supplement regular social security benefits.
- **Today, it is the largest federal program.**
 - In FY 2024, spending was \$1.25 trillion, or 22.4% of total federal spending.
 - By comparison, national defense was \$997 billion.

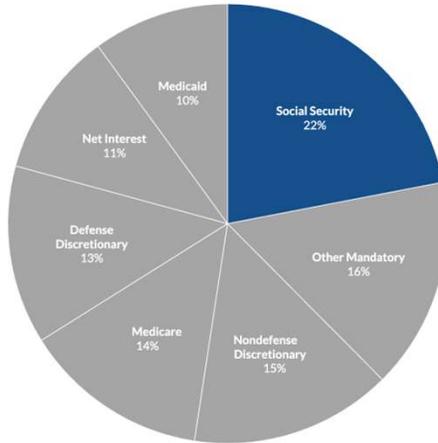


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Soc Sec is The Single Largest Gov't Program

2023 Outlays: \$6.1 Trillion



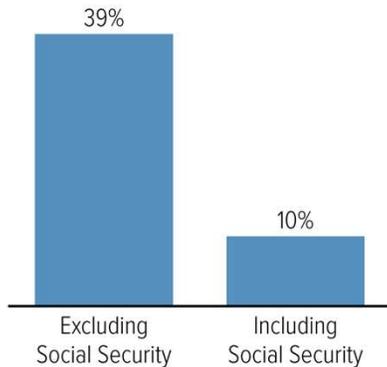
Source: Office of Management and Budget • Get the data • Embed • Download image
Note: Outlays for Social Security include non-retirement benefits.



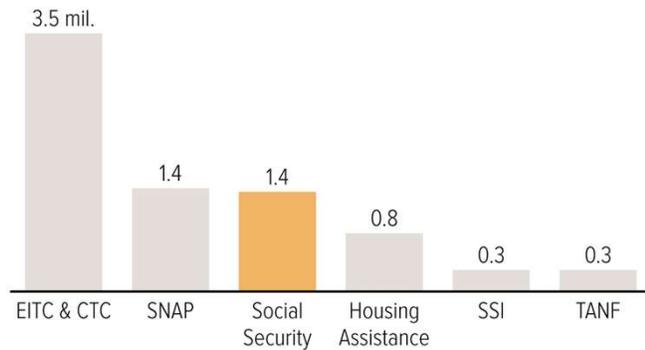
Source: <https://www.pgpf.org/article/9-facts-about-social-security-and-the-need-to-strengthen-it/>

Soc Sec Significantly Reduces Poverty

Percentage of adults aged 65 or older in poverty, 2022

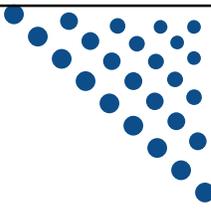


Number of children lifted out of poverty by selected programs in 2022, in millions



Note: This analysis uses the official poverty measure.
Source: CBPP analysis of data from the Census Bureau's March 2023 Current Population Survey





Is Social Security Good for Just The Beneficiaries?

No, it also benefits broader society.



Economic Impacts on Individuals and Families

- **Poverty reduction**
 - Good investment for society.
- **Reduces income inequality among the elderly**
- **Increases social mobility**
- **Income stability**
 - Helps households plan for the future.
- **Enables older adults to maintain independence**
 - Reduces caregiving burdens on family members.
- **Consumer spending**
 - Supports businesses and the local economy.



How Does it Work?

The Mechanics of Social Security

- “pay-as-you-go” system
 - Payroll taxes are collected from current workers.
 - These pay for the benefits of the currently retired, or otherwise eligible.
- Taxes
 - Payroll taxes amount to 12.4% of earnings.
 - Workers pay 6.2% of earnings as payroll taxes.
 - Employers also pay 6.2% of worker’s earnings.
 - **Earnings Cap.** Not all earnings are subject to payroll taxes.
 - In 2026, only the first \$184,500 of earnings are taxed.
 - Earnings above that level are not taxed.

The Cap Causes The Tax Rate to Fall w/Income

Payroll Taxes are **Regressive**

The annual limit on wage earnings subject to Social Security taxes is set to \$176,100 for 2025. As a result, Taxpayer C pays a lower share of their income in payroll taxes compared to those who earn less.

| | TAXPAYER A | TAXPAYER B | TAXPAYER C |
|---|------------|------------|------------|
| Wages | \$36,000 | \$72,000 | \$216,000 |
| Social Security Payroll Tax Owed | \$2,232 | \$4,464 | \$10,918 |
| Effective Tax Rate | 6.2% | 6.2% | 5.1% |

NOTE: Taxpayer B based on average wage index for 2025



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What if Payroll Taxes Don't Match Benefits?

• The Trust Fund

- If revenues exceed benefits, the excess is placed in a trust fund.
- If benefits exceed revenues, the excess is taken out of the trust fund.
- The funds in the trust are invested in **non**marketable U.S. Treasuries.
 - o So, really just bookkeeping.

• When did the Trust Fund start?

- The OASI Trust Fund was created in 1939. (Old Age & Survivors Ins)
- The Disability Trust Fund was created in 1956.

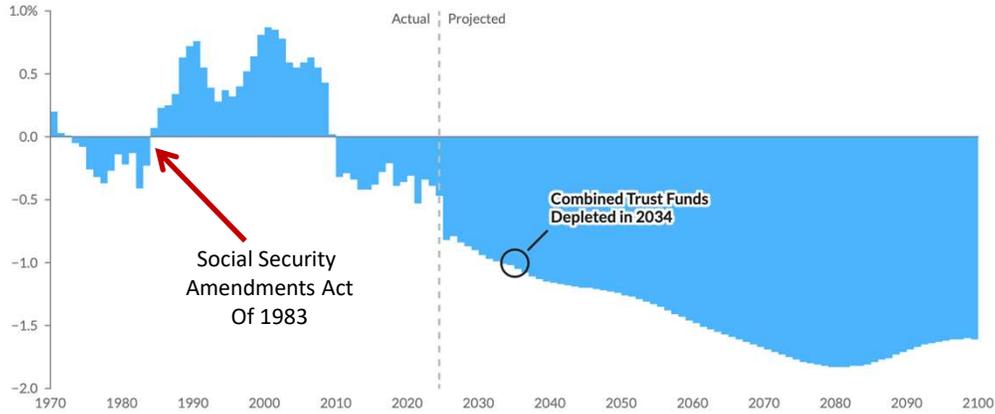


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Annual Contributions to the Fund Vary

Social Security Surpluses/Deficits (% of GDP)



Source: Social Security Administration • Embed • Download image

Notes: Surplus/deficit numbers exclude interest income. The Social Security trust funds are combined on a hypothetical basis, but actually operate separately. The Old-Age & Survivors Insurance Trust Fund is projected to be depleted in 2033 and lead to a 23 percent cut in benefits that year; the Disability Insurance Trust Fund is not projected to become depleted during the 75-year period ending in 2099.

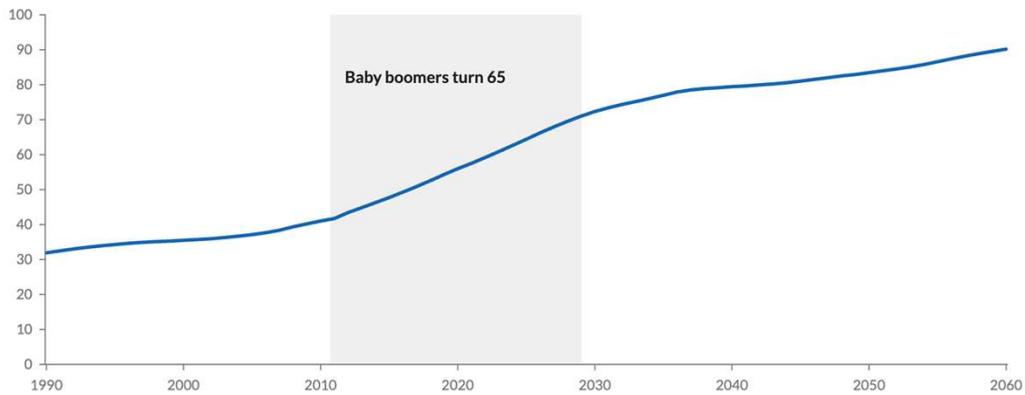


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Why the Change in Direction? Aging Population

Number of People Age 65 and Older (Millions)



Source: Social Security Administration • Get the data • Embed • Download image

Note: The highlighted range represents the period during which the Baby Boomer generation turns age 65.

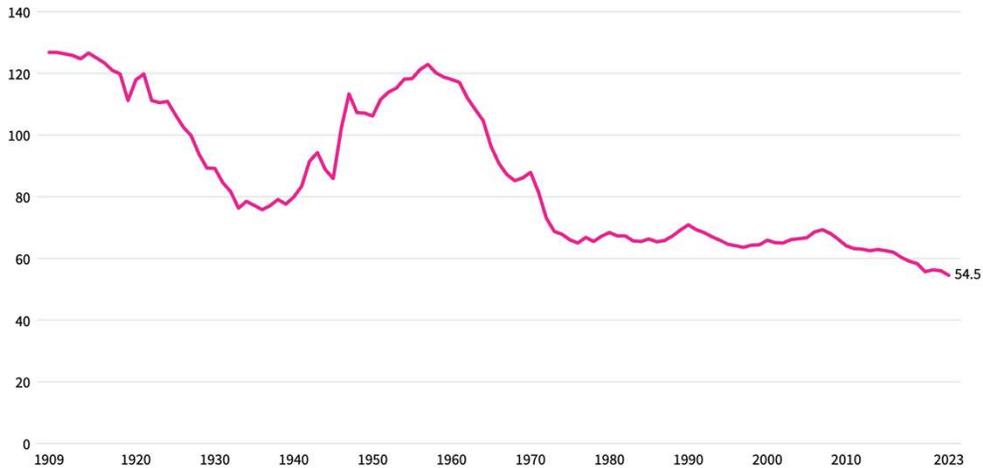


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Lower Births = Slower Labor Force Growth

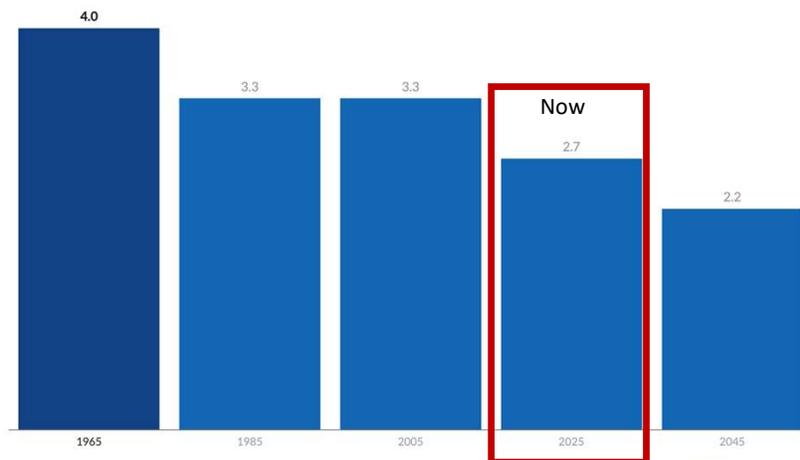
Number of births per 1,000 women ages 15-44, 1909-2023



Source: <https://usafacts.org/articles/how-have-us-fertility-and-birth-rates-changed-over-time/>

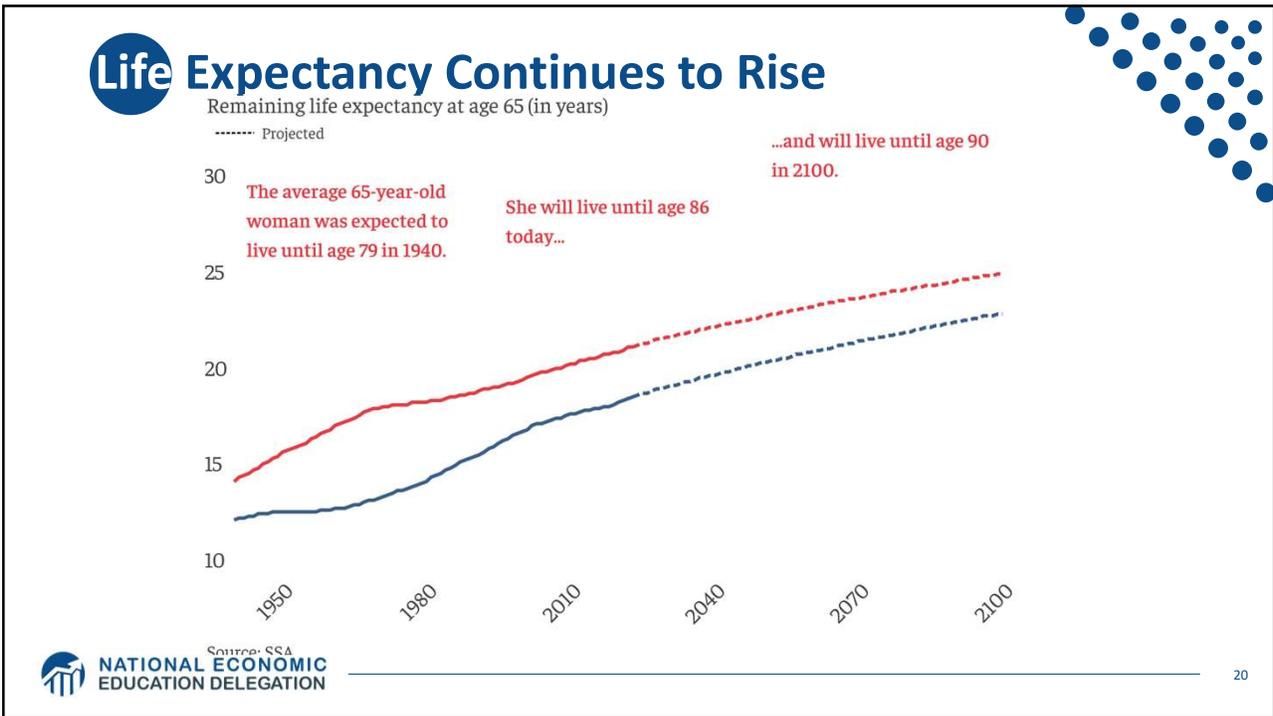
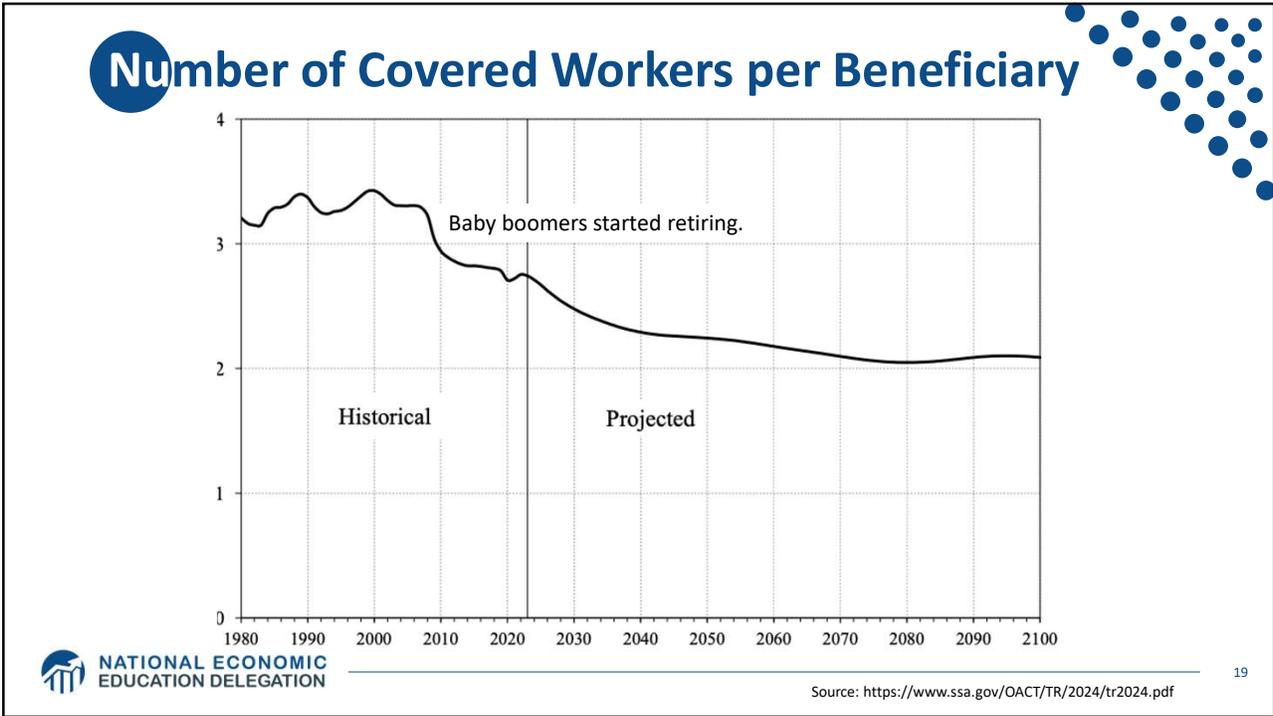
Number of Covered Workers per Beneficiary

Workers per Beneficiary Ratio



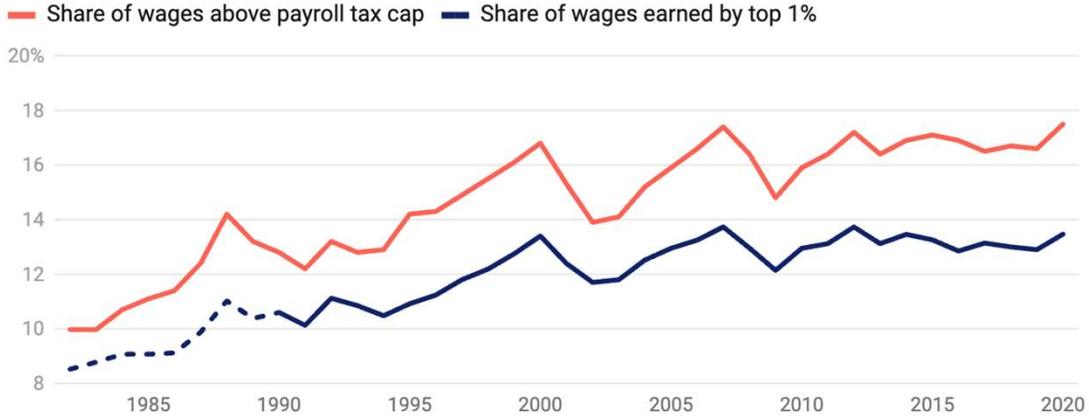
Source: Social Security Administration • Embed • Download image





Increased Wage Inequality Is A Problem

Share of wages earned by the top 1 percent vs. share of wages above the payroll tax cap, 1982–2020

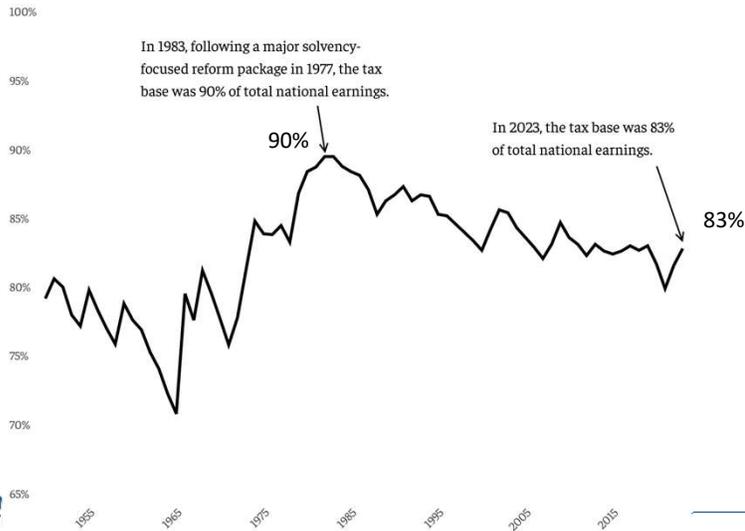


Source: <https://www.americanprogress.org/article/increased-wage-inequality-has-reduced-social-securitys-revenue>

Tax Base is Dwindling

Taxable earnings as a percentage of total earnings

Note: Y-axis does not start at 0.

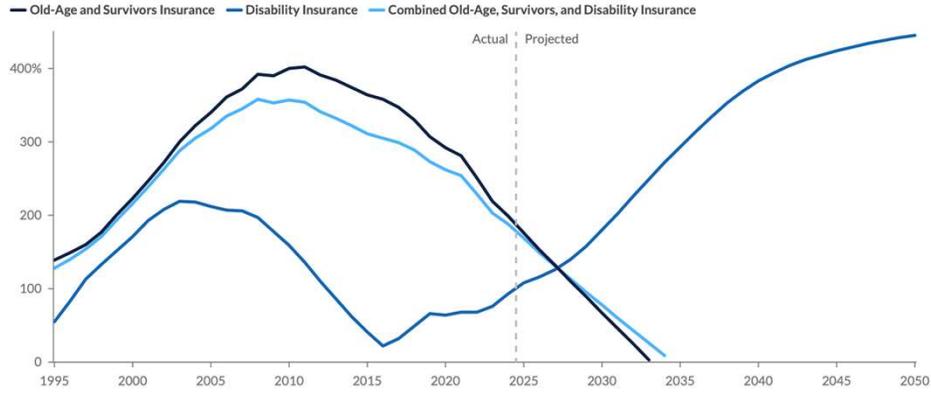


Source: SSA

Trajectory of Funds

Social Security's retirement fund will be depleted in eight years

Asset Reserves at the Beginning of Calendar Year (% of Annual Cost)



Source: Social Security Administration • Embed • Download image

Note: Under law, a trust fund cannot incur a negative balance. The OASI Trust Fund will be depleted in 2033 while the DI Trust Fund will not be depleted within the 75-year long-range projection period. Combined, the trust funds would be depleted in 2034.



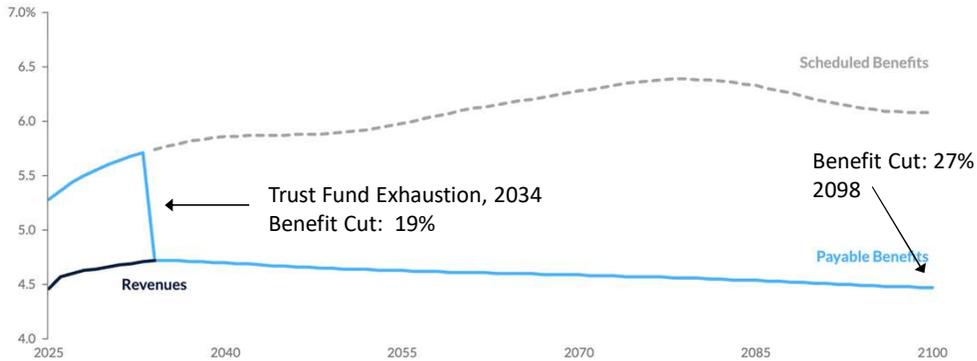
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What Happens When The Trust Fund Runs Out?

Combined Social Security benefits could be cut by 19 percent in 2034 without legislative action

% of GDP



Source: Social Security Administration • Embed • Download image

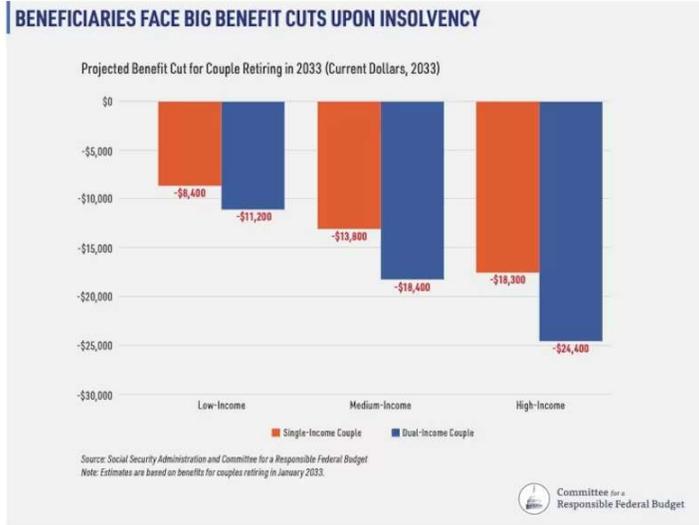
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An Idea of the Implications



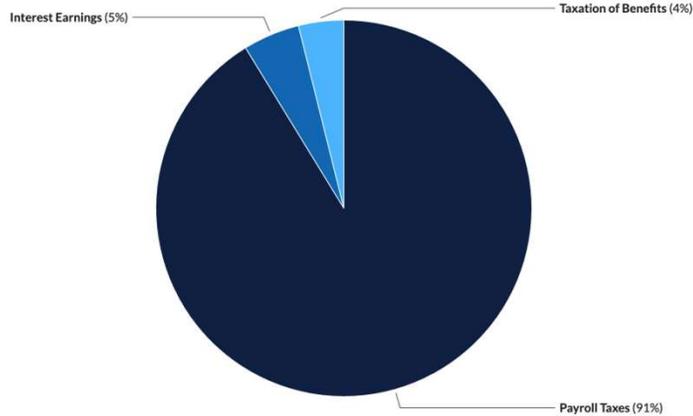
Where Does the Money Come From?

- Payroll taxes
- Taxes on benefits
- Interest earnings
- Trust funds

Sources of SS Revenue

Most OASDI income comes from payroll taxes

Total OASDI Income in 2024:
\$1,418 Billion



Source: Social Security Administration • Embed • Download image
Note: General Fund Credits account for 0.01% of total OASDI income and, therefore, are not shown above.

Where Does The Money Go?

Where Does The Money Go?

- Different benefits:
 - Retirement Benefits
 - Disability Benefits
 - Survivor Benefits
 - Supplemental Security Income (SSI)

- We will focus on retirement benefits.

What Determines my SS Benefit (PIA)?

(Primary Insurance Amount)

- **Your work history.**
 - You need 40 work credits to qualify.
 - In 2025, 1 credit = \$1,810 in earnings.
 - Put another way: 10 years with social security earnings in each year of \$21,720.
- **Your (capped) earnings history.**
 - Indexed (to wages) earnings from the 35 highest-earning years.
- **Your birth year.**
 - Determines your FRA – Full Retirement Age.
 - Born before 1960, it is 66-67, after 1960, it is 67.
- **Your claiming age.**
 - Claiming at 62 instead of 67 reduces your benefit by 30%.
 - Higher if you wait until 70.
 - Increases approximately 8% each year that you wait.

What Determines my SS Payment Size (PIA)?

(Primary Insurance Amount – PIA)
(Adjusted Indexed Monthly Earnings - AIME)

Earnings History

- AIME is calculated using your 35 highest years of indexed earnings.
- These earnings are then adjusted for wage inflation.
- The AIME is used to determine your PIA, which is the amount you would receive if you start receiving benefits at your full retirement age.

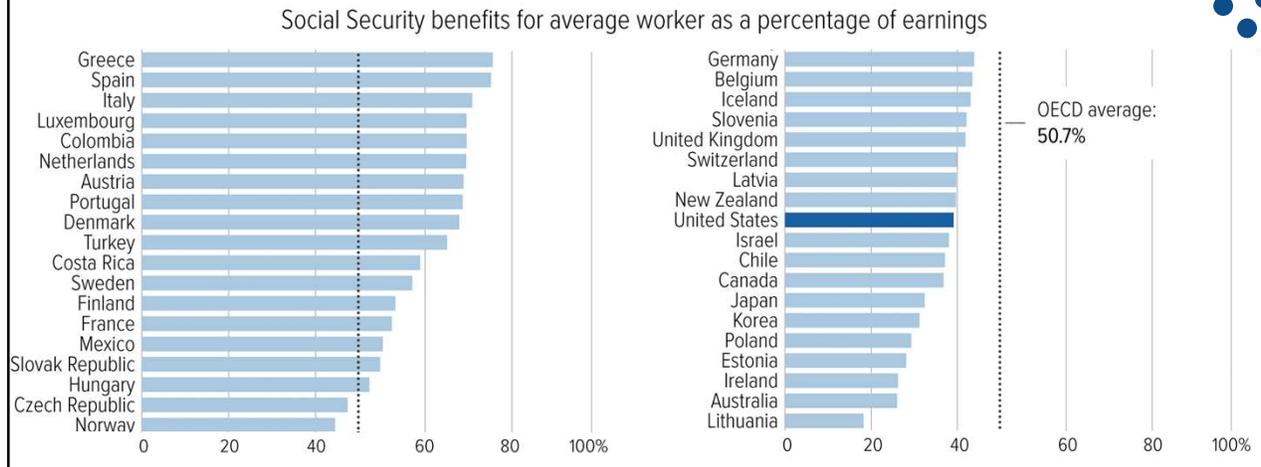
Age at Which You Start Receiving SS

- You can start receiving benefits as early as age 62, but your monthly payment will be reduced if you choose to start before your full retirement age.
- Waiting to start benefits until after your full retirement age (between 66 and 67, depending on your year of birth) will increase your monthly payment.
- You receive the highest possible benefit by waiting until age 70.

How Big are Payments?

- **In 2025:**
 - the average payment was \$2,002.
 - Maximum if claim at age 62 was \$2,831.
 - Maximum if claim at age 70 was \$5,108.
- **Special minimum Social Security benefit:**
 - For long-term, low-wage workers.
 - Minimum for 11 years of work: \$52.10
 - Maximum for 30 years of work: \$1,093.10

Social Security Benefits are Comparatively Low

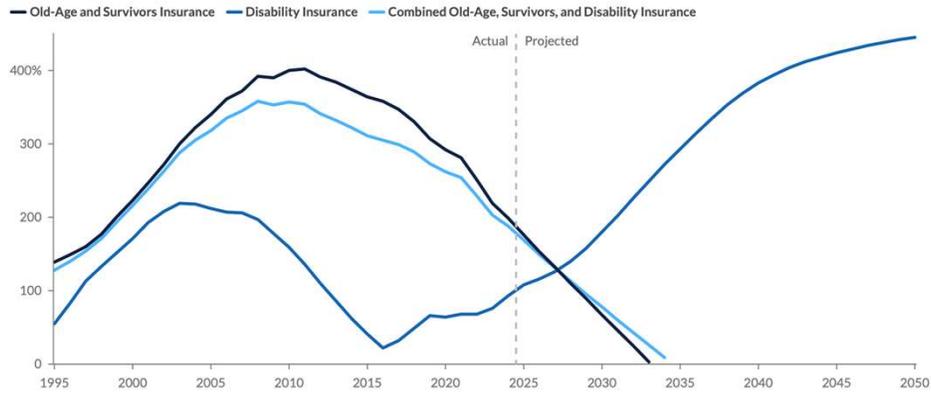


Remember: We Have A Problem

Trust Finds Are Running Out

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Asset Reserves at the Beginning of Calendar Year (% of Annual Cost)



Source: Social Security Administration • Embed • Download image

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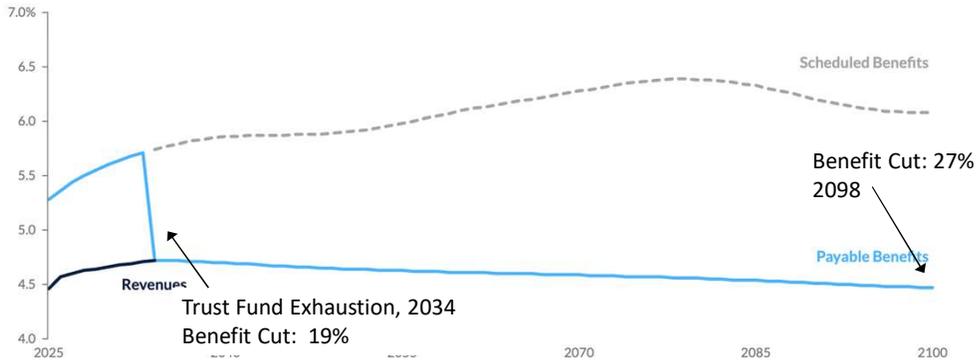


Source: <https://www.pgpf.org/article/social-security-faces-serious-financial-shortfalls-and-other-takeaways-from-the-trustees-report/>

At Which Point, Benefits exceed Revenue

Combined Social Security benefits could be cut by 19 percent in 2034 without legislative action

% of GDP



Source: Social Security Administration • Embed • Download image

Note: The Social Security trust funds are combined on a hypothetical basis, but actually they operate separately. The Old-Age & Survivors Insurance Trust Fund is projected to be depleted in 2033 and lead to a 23 percent cut in benefits that year; the Disability Insurance Trust Fund is not projected to become depleted during the 75-year period ending in 2099.



Hard Choices (?)



Let's Cut to the Chase...

- Solving the social security problem is simple:

Backfill out of general revenues!

- Why won't this happen?

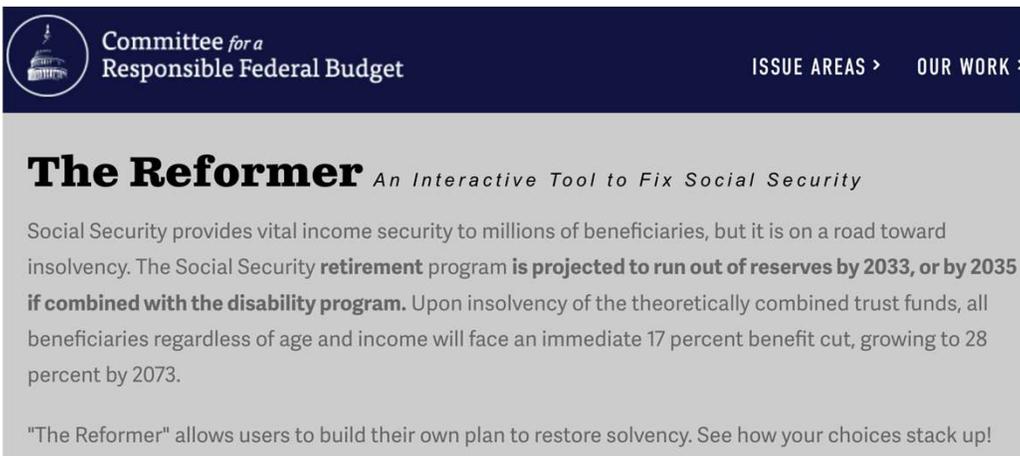
Politics!
Our debt situation.
Maybe it shouldn't.



So, Let's Consider Some Other Choices

- Changes to revenues
- Changes to benefits

The Following Simulations Brought to you by:



 Committee for a Responsible Federal Budget

ISSUE AREAS > OUR WORK >

The Reformer *An Interactive Tool to Fix Social Security*

Social Security provides vital income security to millions of beneficiaries, but it is on a road toward insolvency. The Social Security **retirement** program is **projected to run out of reserves by 2033, or by 2035 if combined with the disability program**. Upon insolvency of the theoretically combined trust funds, all beneficiaries regardless of age and income will face an immediate 17 percent benefit cut, growing to 28 percent by 2073.

"The Reformer" allows users to build their own plan to restore solvency. See how your choices stack up!

<https://www.crfb.org/socialsecurityreformer/>

Possible Changes to Revenues

% OF GAP CLOSED

Increase (+) / Reduce (-) Payroll Tax Rate by: 0%

0.0 %

Increase Taxable Maximum

- Subject All Wages to Payroll Tax 56%
- Subject 90% of Wages to Payroll Tax 25%
- Tax All Wages Above \$400,000 67%

Raise Additional Revenue

- Cover Newly-Hired State & Local Workers 5%
- Apply the Payroll Tax to "Cafeteria Plans" 10%
- Increase Taxation of Benefits 6%

Percent of Payroll (based on scheduled benefits) i

— Baseline Outlays - - - Outlays After Policy Changes
— Baseline Revenues - - - Revenues After Policy Changes

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Source: <https://www.crfb.org/socialsecurityreformer/>

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Possible Changes to Revenues: Example

% OF GAP CLOSED

Increase (+) / Reduce (-) Payroll Tax Rate by: 0%

0.0 %

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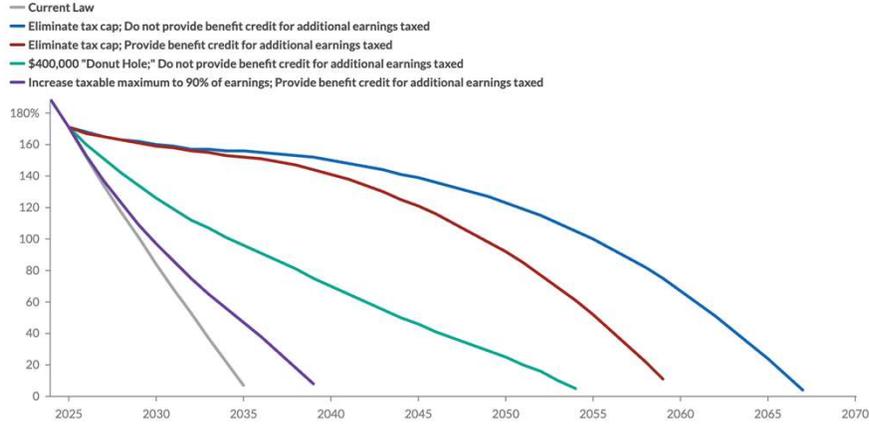
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Source: <https://www.crfb.org/socialsecurityreformer/>

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Changing the Cap Can Go A Long Way...

Asset Reserves of Combined OASDI Trust Fund (% of Annual Costs)



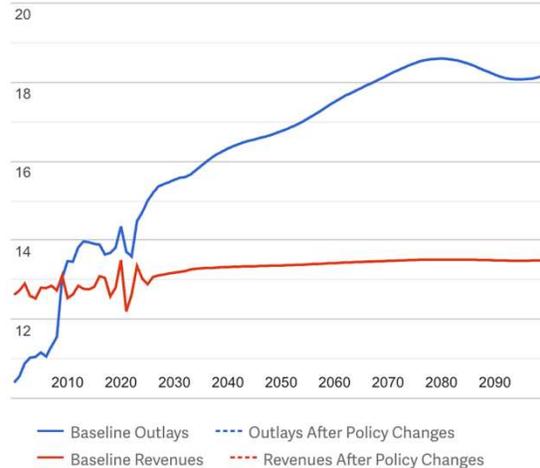
Source: Social Security Administration • Embed • Download image
 Notes: Data are from 2024 Trustees Report. OASDI is the hypothetically combined Old-Age and Survivors Insurance and Disability Insurance. Last year with data indicates year in which trust fund reaches insolvency.



Possible Changes to Benefits

| | % OF GAP CLOSED |
|--|-----------------|
| Increase (+) / Reduce (-) Initial Benefits by: | 0% |
| <input type="text" value="0.0"/> % | |
| Slow Initial Benefit Growth | |
| • Slow Benefit Growth for Top 70% of Earners | 60% |
| • Slow Benefit Growth for Top Half of Earners | 36% |
| • Slow Benefit Growth for Top 20% Of Earners | 11% |
| Increase Retirement Age | |
| • Raise Age from 67 to 68 | 13% |
| • Index Age to Longevity After it Reaches 67 | 20% |
| • Raise Age to 69 then index to Longevity | 39% |

Percent of Payroll (based on scheduled benefits)



Source: <https://www.crfb.org/socialsecurityreformer/>

Possible Changes to Benefits: Example

% OF GAP CLOSED

Increase (+) / Reduce (-) Initial Benefits by: 0%

%

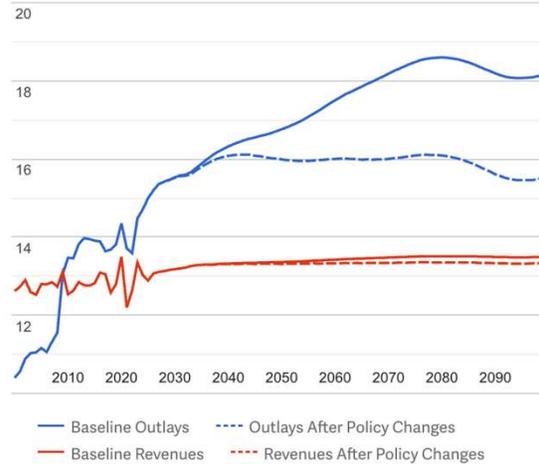
Slow Initial Benefit Growth

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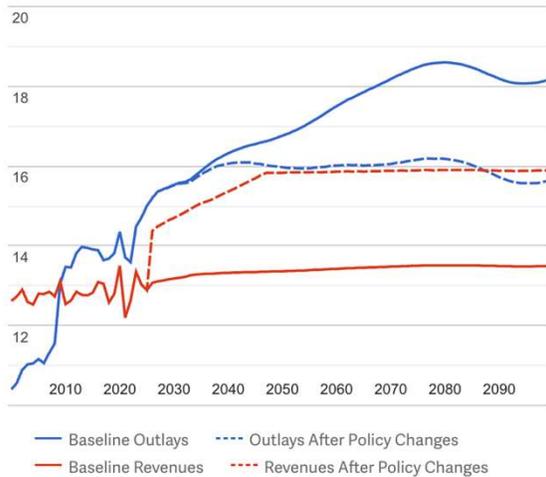
Percent of Payroll (based on scheduled benefits) i



Source: <https://www.crfb.org/socialsecurityreformer/>

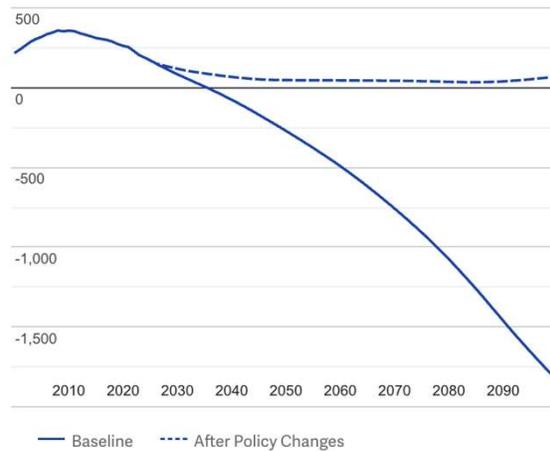
Suppose We Do Both! Problem Solved

Percent of Payroll (based on scheduled benefits) i



Trust Fund Projections

Percent of Annual Benefits i



Source: <https://www.crfb.org/socialsecurityreformer/>

Some Additional Thoughts on Options

- **COLAs – cost of living adjustments**
 - Merely another way of reducing benefits
- **Raising the retirement age**
- **Investing in the stock market**



Raising the Retirement Age

| ■ Increase Retirement Age | |
|--|-----|
| ● Raise Age from 67 to 68 | 13% |
| ● Index Age to Longevity After it Reaches 67 | 20% |
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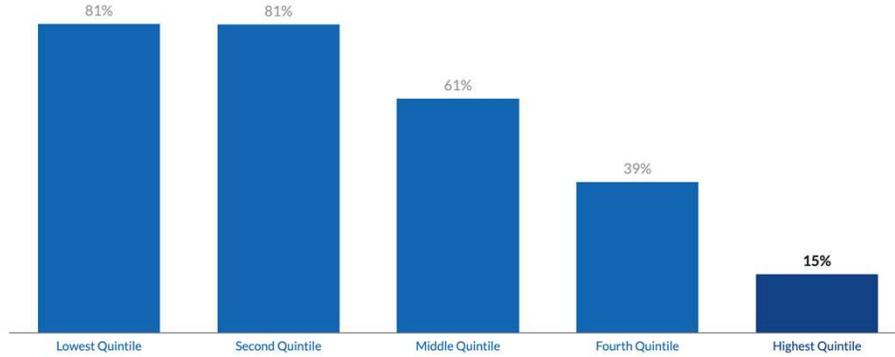
- **Very regressive.**
 - Larger tax on low-income workers than high income workers.



Program is VERY Important for Low-Income Retirees

Low-income seniors rely on Social Security benefits for a major share of their retirement income

Social Security Benefits (% of Total Income)



Source: Social Security Administration • Get the data • Embed • Download image

Note: A quintile is one-fifth of the population. The lowest quintile's income range is under \$13,499, the second quintile's is \$13,499-\$23,592, the middle quintile's is \$23,592-\$39,298, the fourth quintile's is \$39,298-\$72,129, and the highest quintile's is over \$72,129. Data are for 2014.



Source: <https://www.pgpf.org/article/9-facts-about-social-security-and-the-need-to-strengthen-it/>

Raising the Retirement Age

| Sex | Income Category | Life Expectancy (Years) | Difference High vs Low |
|-------|----------------------------|-------------------------|------------------------|
| Women | Highest Incomes (top 1%) | 88.9 | 10.1 years |
| | Lowest Incomes (bottom 1%) | 78.8 | |
| Men | Highest Incomes (top 1%) | 87.3 | 14.6 years |
| | Lowest Incomes (bottom 1%) | 72.7 | |



Investing in the Stock Market

| |
|--|
| <ul style="list-style-type: none"> ■ Invest in the Stock Market <ul style="list-style-type: none"> ● Diversify the Trust Fund to Increase Returns 6% ● Divert 2% of Payroll Tax to "Carve-Out" Accounts -1% ● Allow Contributions into "Add-on" Accounts 0% |
|--|

1. **Doesn't do much to solve the problem.**
2. **Concerns with government investing in the stock market.**
3. **Logistics of allowing individuals to customize are enormous.**
 1. And subject to political influence.
4. **May increase the fragility of the system.**

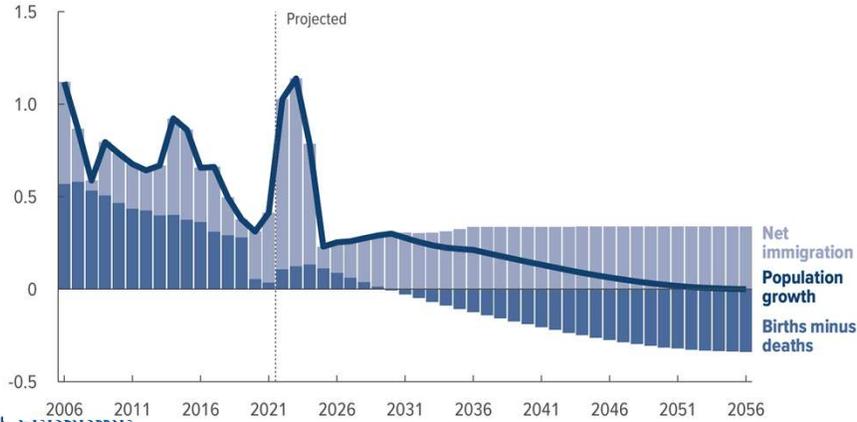
Other Solution? Tax More Than Just Earnings

- **Social Security is funded through payroll taxes.**
- **Broadening the base would increase programmatic revenues.**
- **This begs the question of why the program is funded only by a tax on earnings.**
- **Other sources of income: capital gains.**
- **Social security is an economic security program.**
 - Yet its revenue source is earnings.
 - Is income a better indication of economic security?

Another Solution?

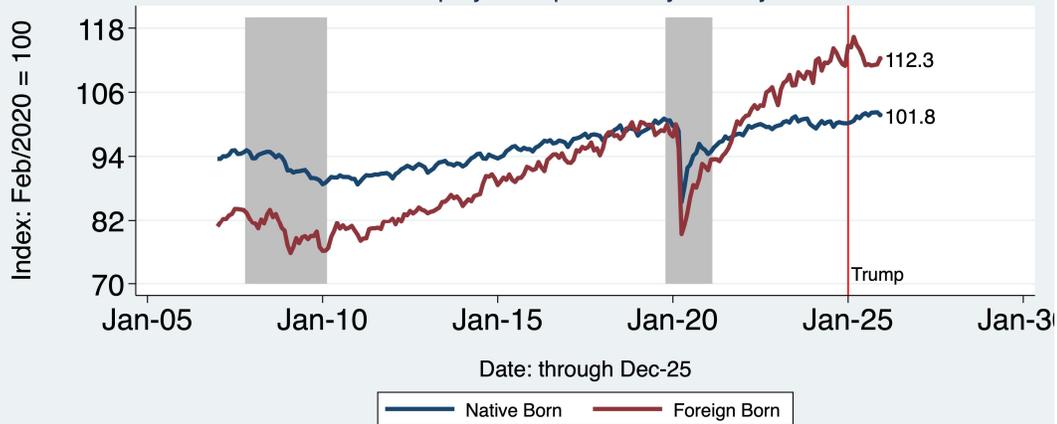
- Increase legal immigration of prime working age.

Population Growth and Contributing Factors
Percent



Immigrants to the Rescue?

Employed Population by Nativity



Source: Bureau of Labor Statistics. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDEcon.org)

General Principle of Solutions

- Social security was originally created (primarily) to reduce economic instability among the elderly.
- Shouldn't solutions to the shortfall respect that original intent?
- Regressive solutions are anathema to the original intent, disproportionately reducing the program's effects on those most at risk of economic instability.
- Equality of contributions to the solution increase economic instability among the elderly.
- Progressive solutions are more likely to respect the original intent.

Social Security Benefits are Progressive

Annual benefits and earnings for worker retiring at age 65 in 2024



Source: Social Security Administration, Actuarial Note 2024.9

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Summary

- **Social Security is an important part of the social safety net.**
- **The OASDI Trust Fund is likely to be exhausted in 2034.**
- **Why are the funds being depleted?**
 - An aging population – fewer paying in and more taking out.
 - Declining birth rates - slowing the growth of the labor force.
 - Wage inequality – more and more wages are above the wage cap.
- **What happens when the funds are depleted?**
 - Benefits may have to be reduced by 19%.
 - The system will continue!
- **Solutions abound. The problem is political will.**
 - The needed changes will be unpopular, but they are very manageable.



Thank you!

Any Questions?

www.NEEDEcon.org

Jon D. Haveman

Jon@NEEDEcon.org

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