

# Social Security – Hard Choices (?)

*Belvedere Tiburon Library*  
February 9, 2026

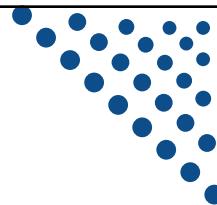
Jon Haveman, Ph.D.



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## Outline



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



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# What is Social Security?



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## 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.

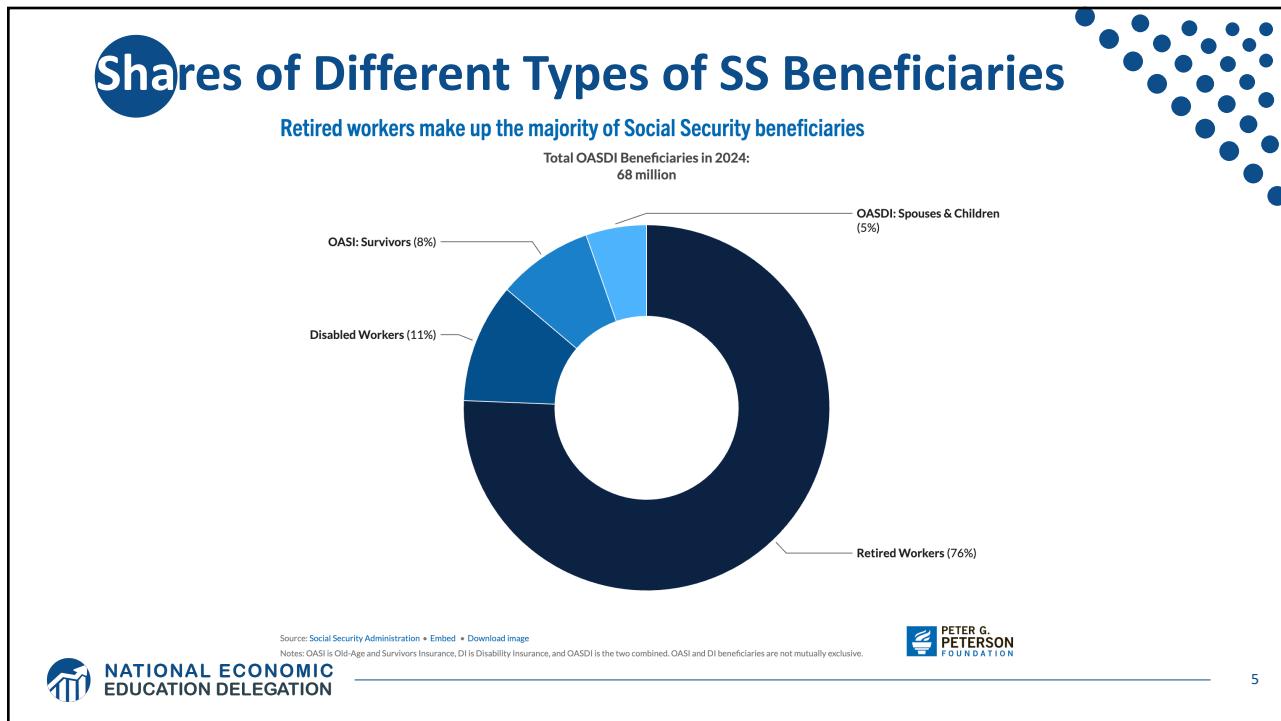


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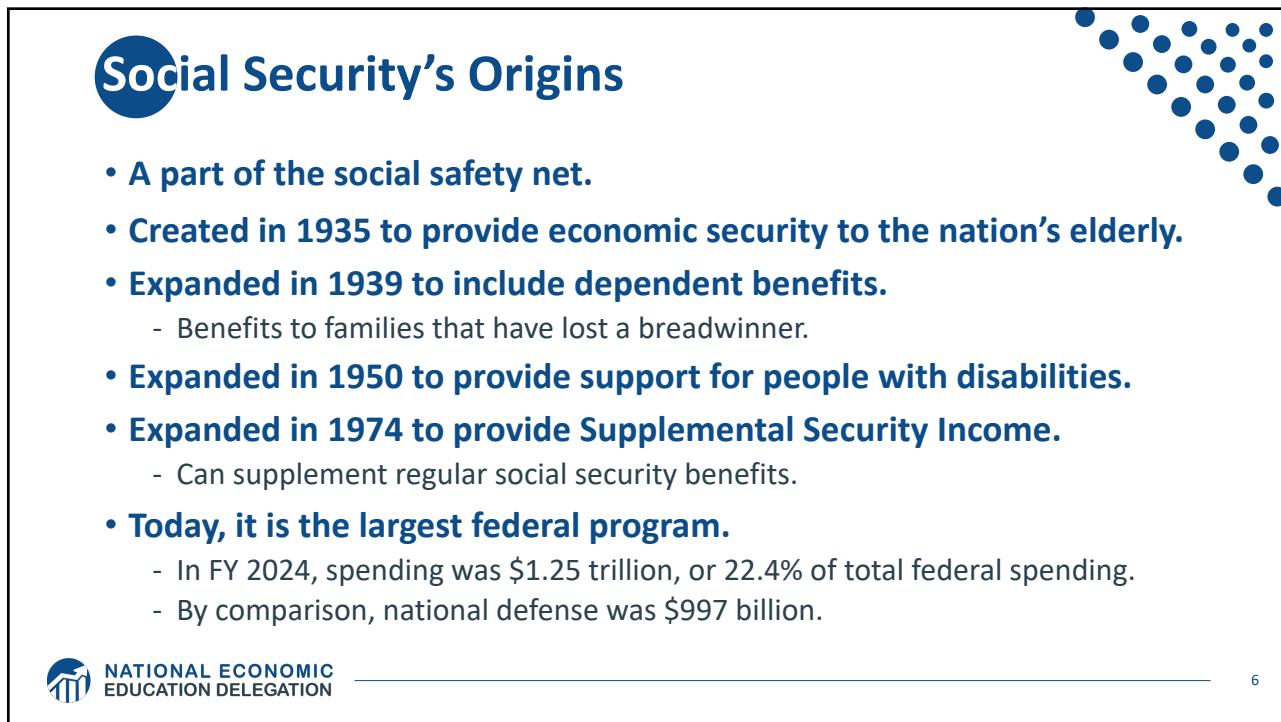
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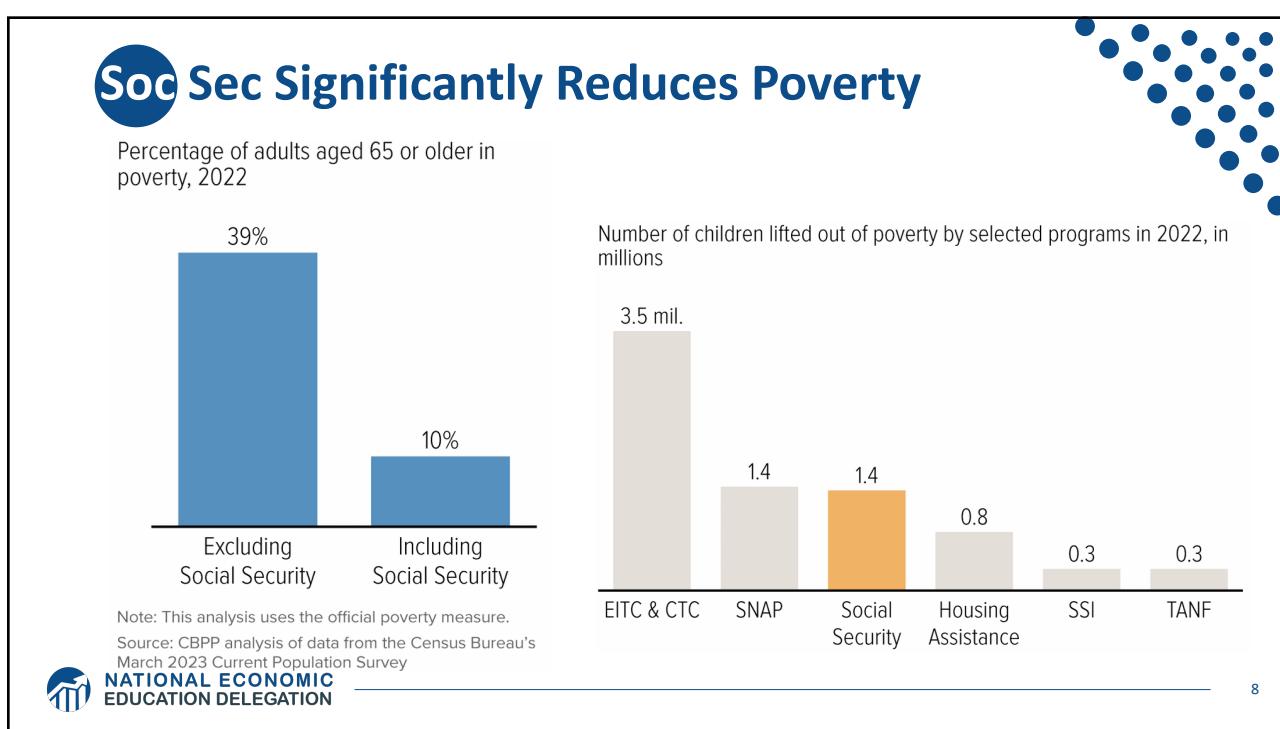
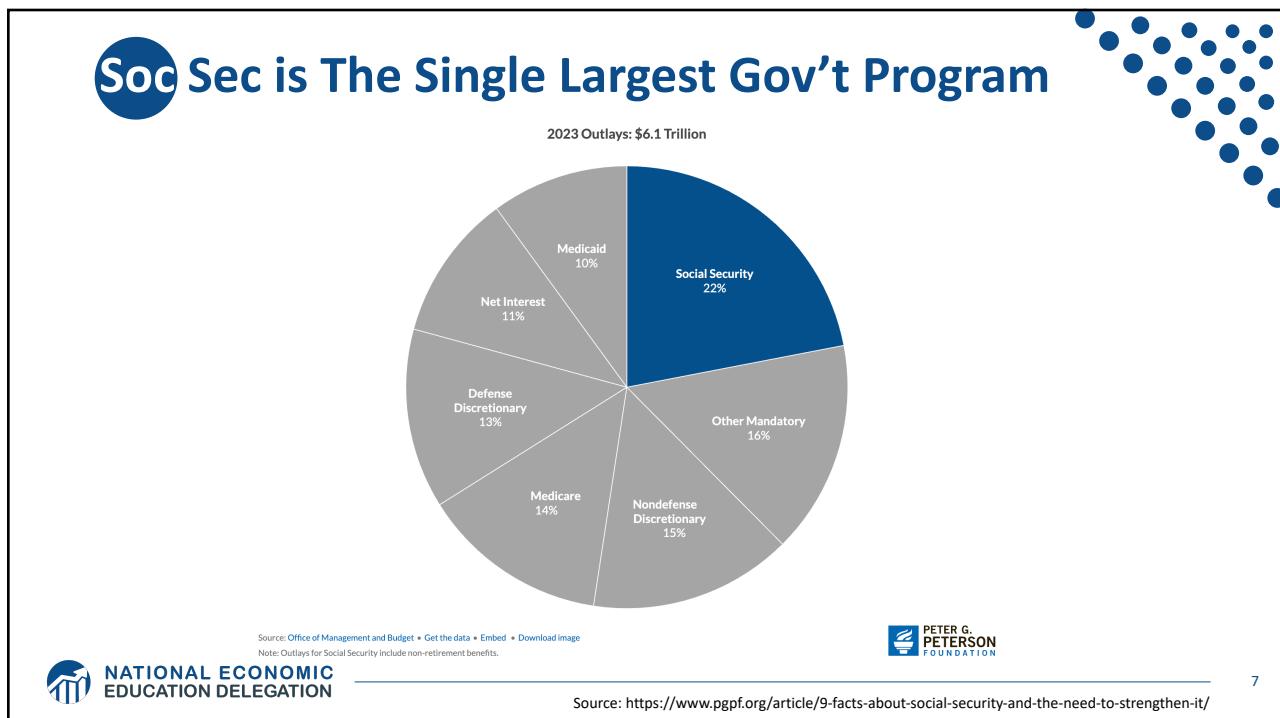


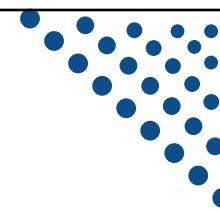
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# Is Social Security Good for Just The Beneficiaries?

No, it also benefits broader society.



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## 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.



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# 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.



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 **nonmarketable U.S. Treasuries**.
  - o So, really just bookkeeping.

### • When did the Trust Fund start?

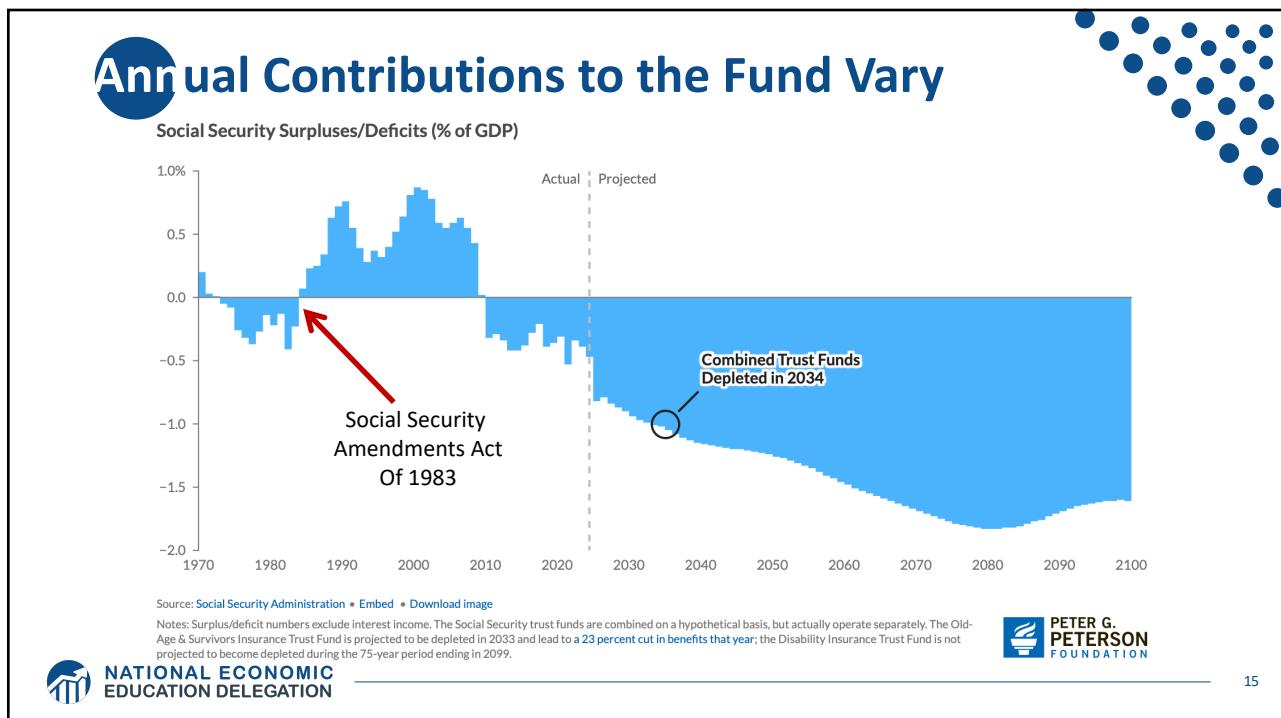
- The OASI Trust Fund was created in 1939. (Old Age & Survivors Ins)
- The Disability Trust Fund was created in 1956.



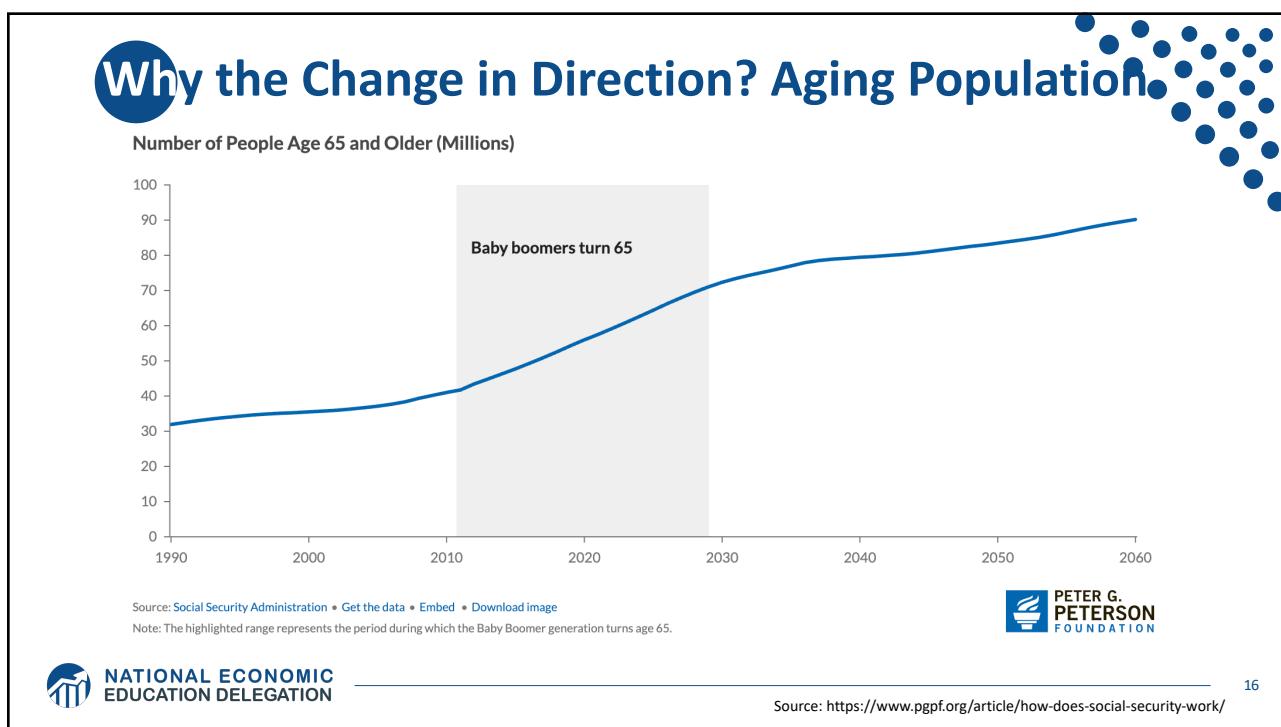
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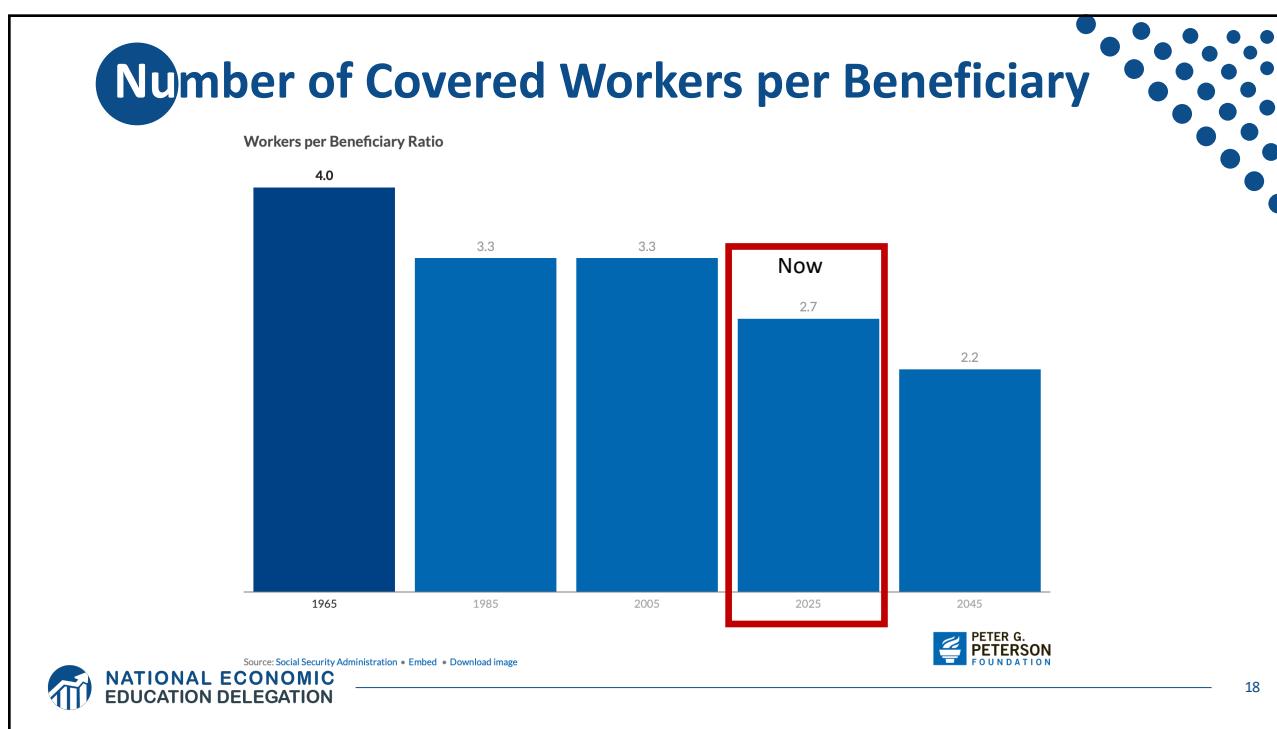
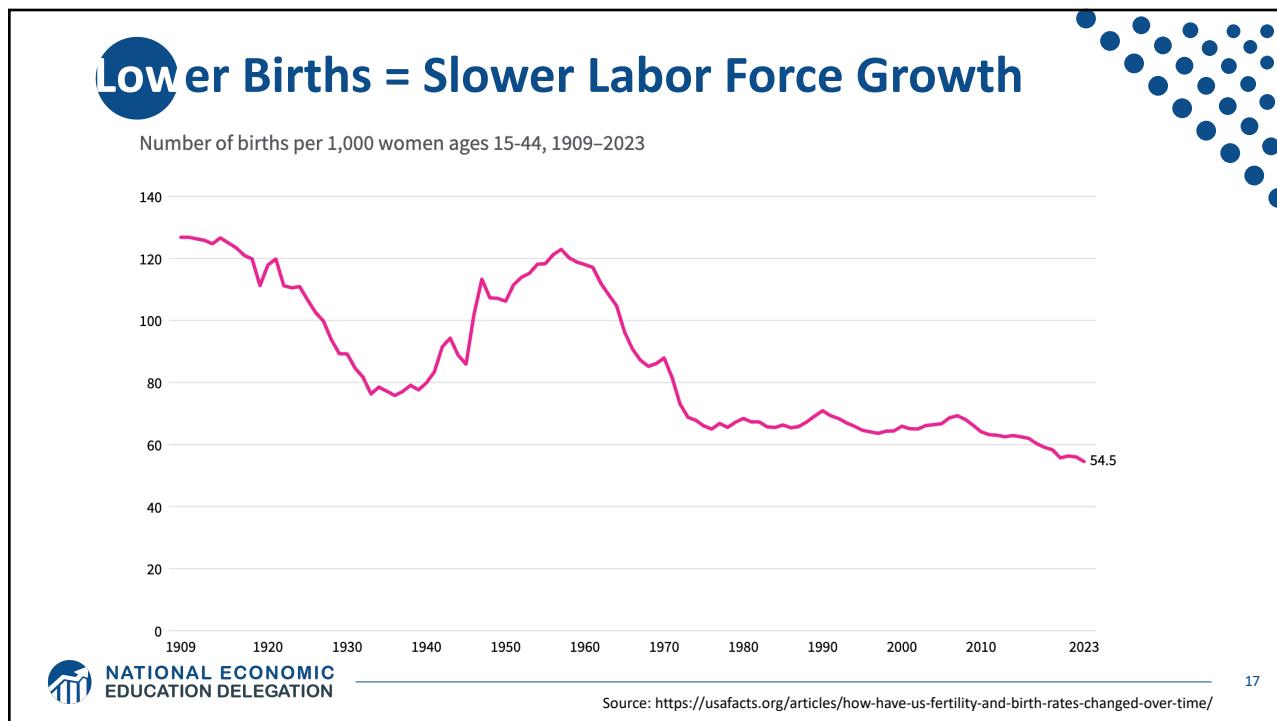
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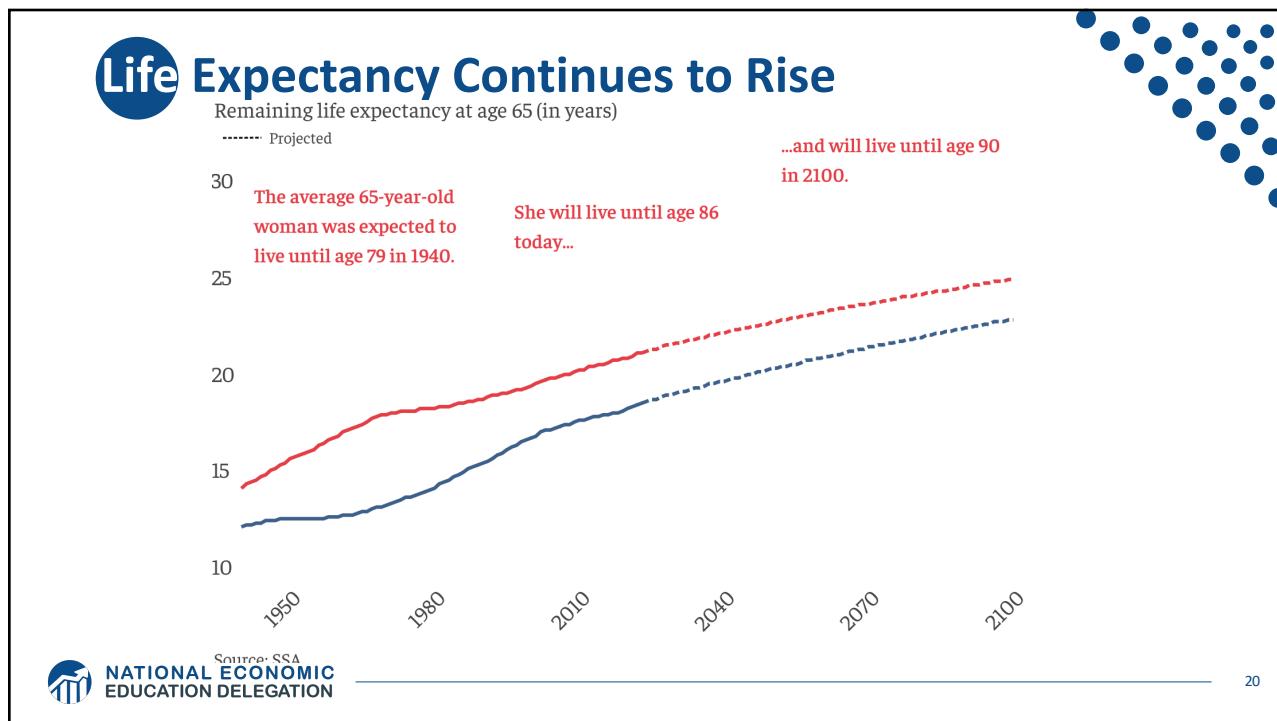


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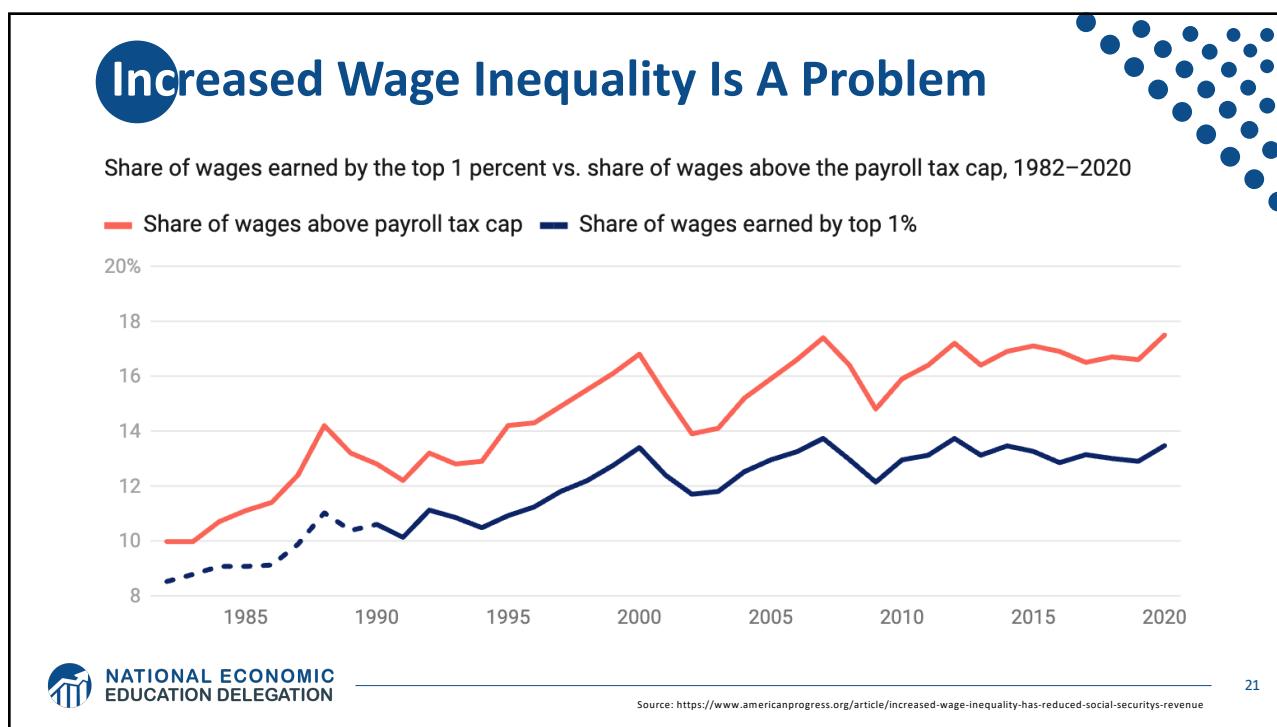


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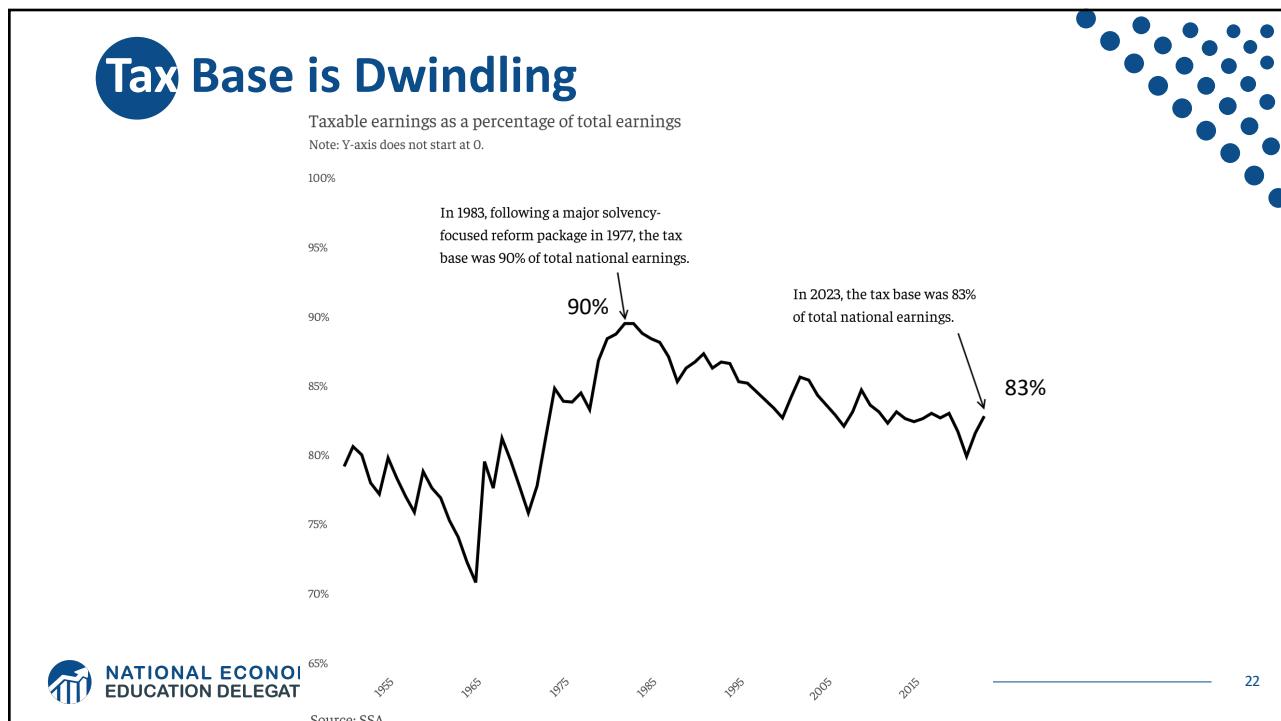




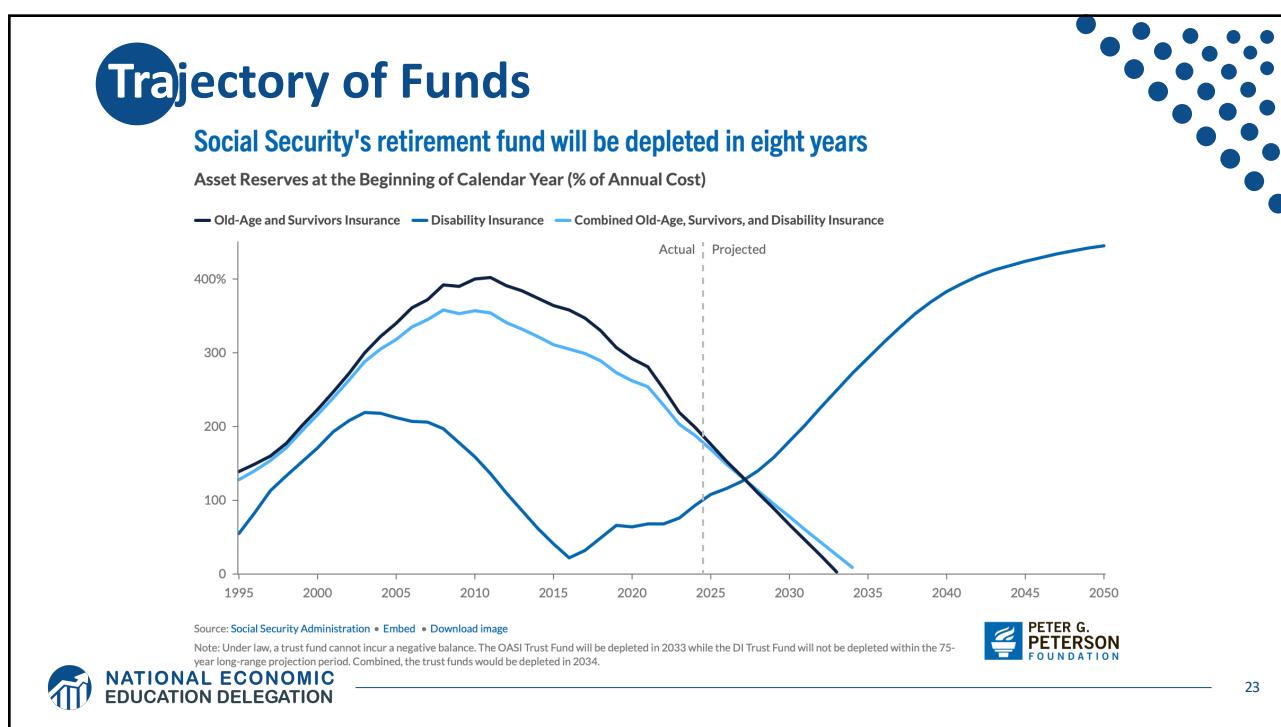
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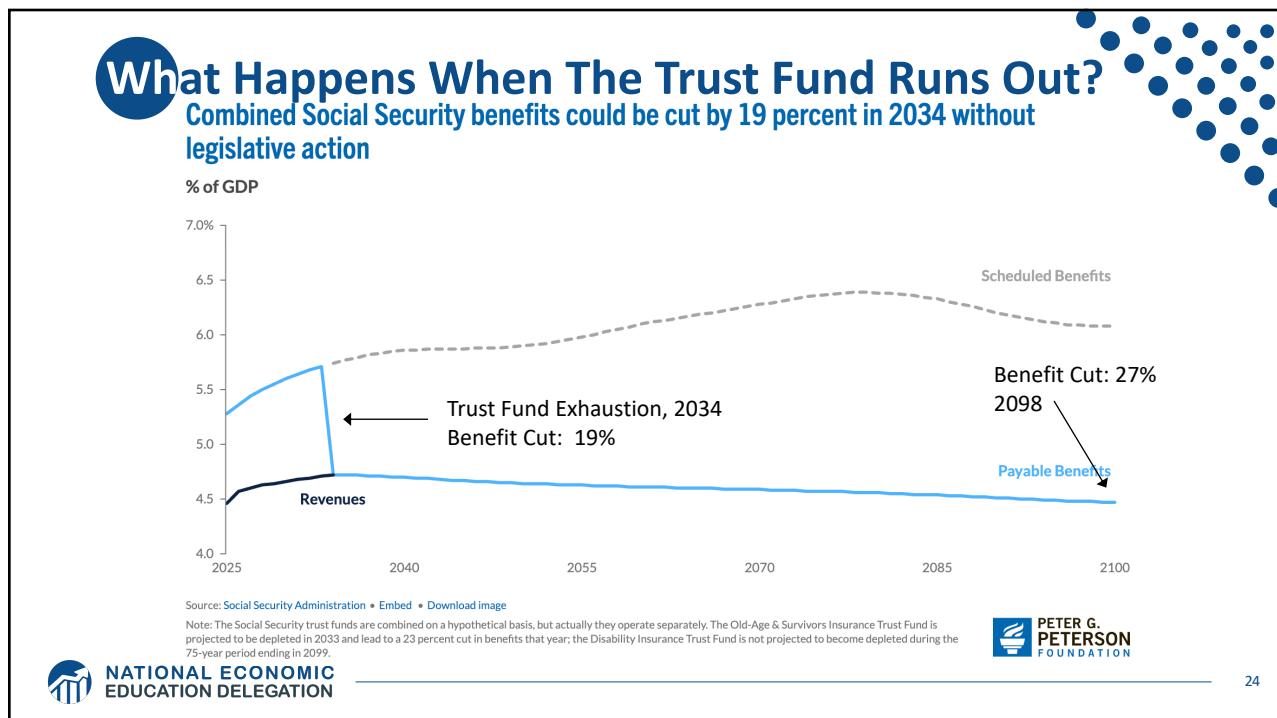
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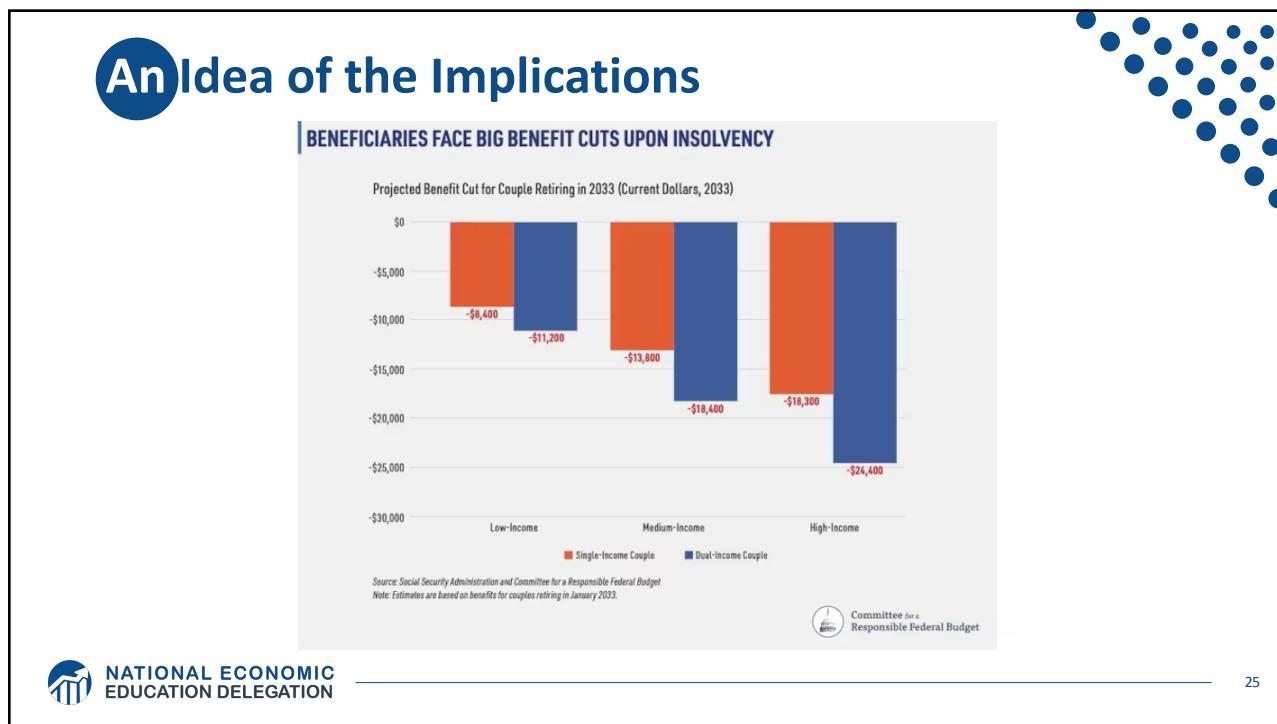
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# Hard Choices (?)



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## 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.**



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## So, Let's Consider Some Other Choices

- Changes to revenues

- Changes to benefits



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## The Following Simulations Brought to you by:



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### 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.crb.org/socialsecurityreformer/>



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## Possible Changes to Revenues

% OF GAP CLOSED

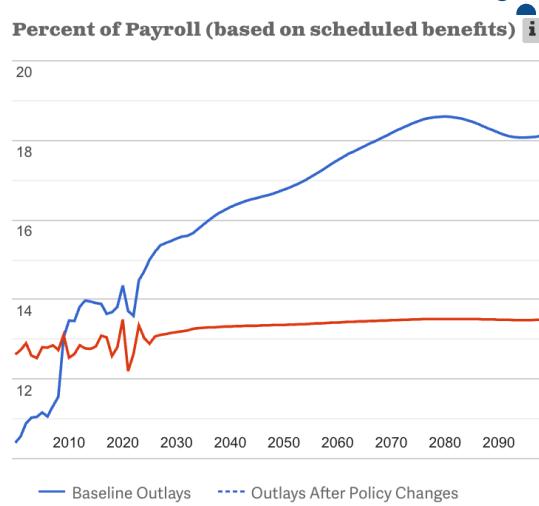
Increase (+) / Reduce (-) Payroll Tax Rate by: 0%

Increase Taxable Maximum  
 Subject All Wages to Payroll Tax  
 Subject 90% of Wages to Payroll Tax  
 Tax All Wages Above \$400,000

Raise Additional Revenue  
 Cover Newly-Hired State & Local Workers  
 Apply the Payroll Tax to "Cafeteria Plans"  
 Increase Taxation of Benefits

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**Percent of Payroll (based on scheduled benefits)** i



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

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## Possible Changes to Revenues: Example

% OF GAP CLOSED

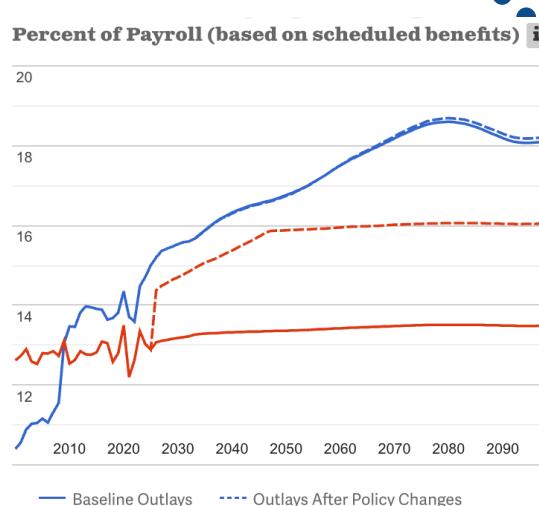
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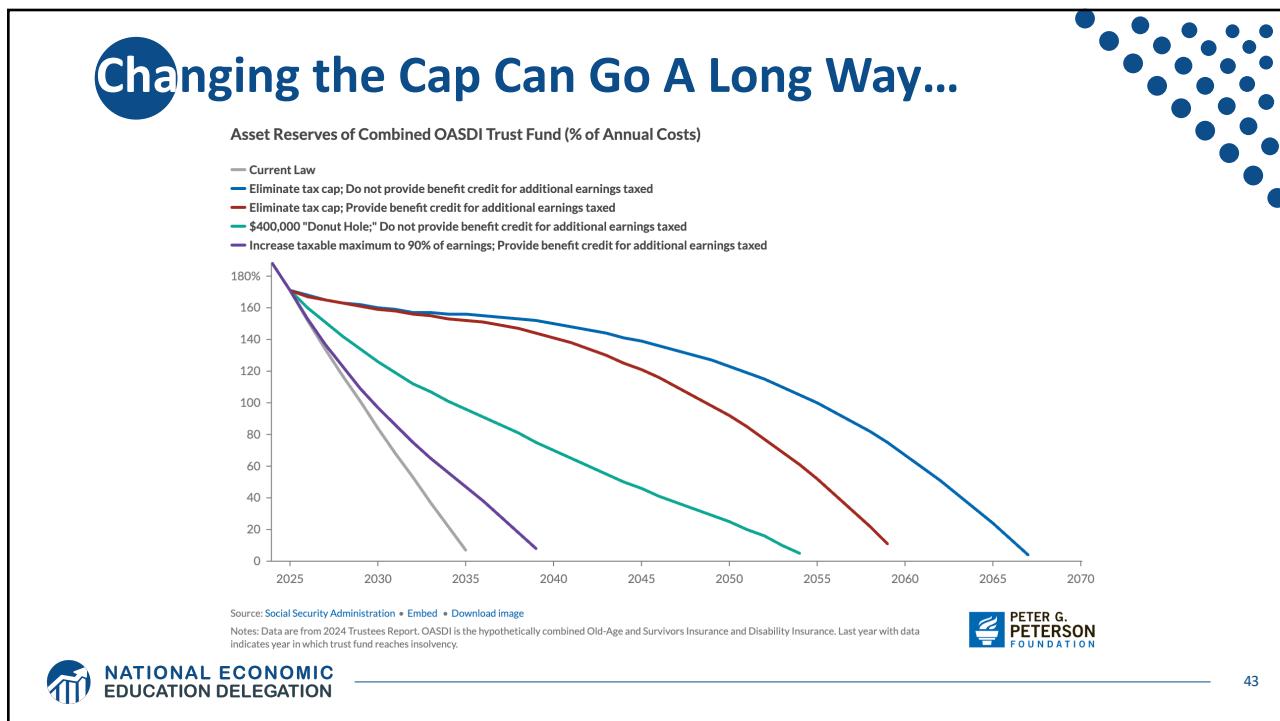
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**Percent of Payroll (based on scheduled benefits)** i

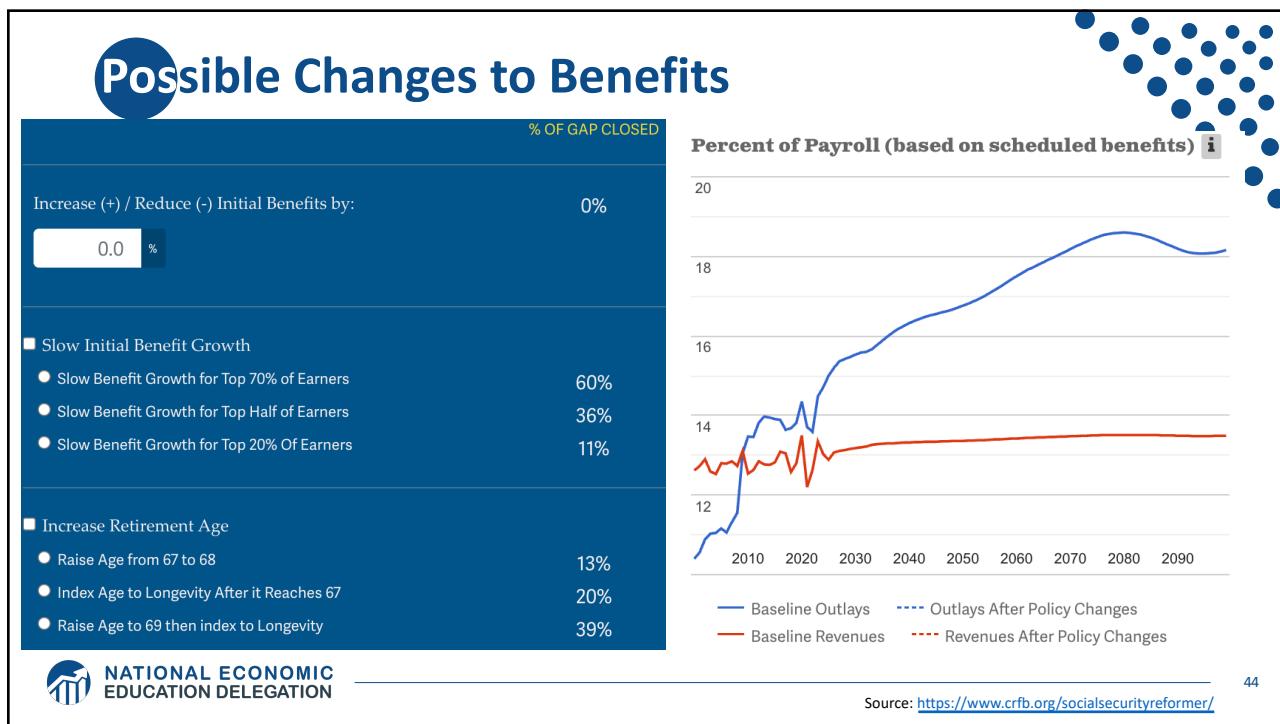


Source: <https://www.crfb.org/socialsecurityreformer/>

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## Possible Changes to Benefits: Example

% OF GAP CLOSED

Increase (+) / Reduce (-) Initial Benefits by: 0.0 %

Slow Initial Benefit Growth

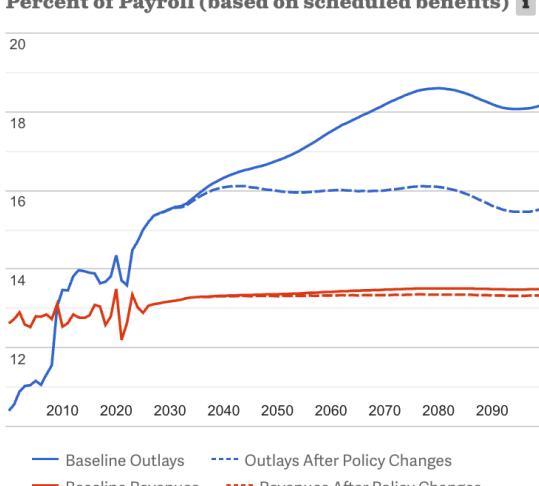
- Slow Benefit Growth for Top 70% of Earners: 60%
- Slow Benefit Growth for Top Half of Earners: 36% 36%
- Slow Benefit Growth for Top 20% Of Earners: 11%

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%

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Percent of Payroll (based on scheduled benefits) i



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

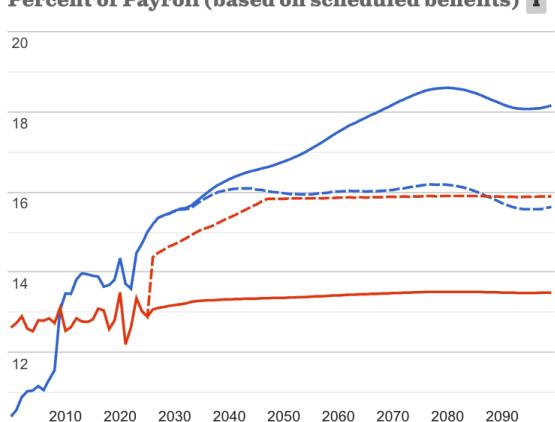
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## Suppose We Do Both! Problem Solved

Percent of Payroll (based on scheduled benefits) i

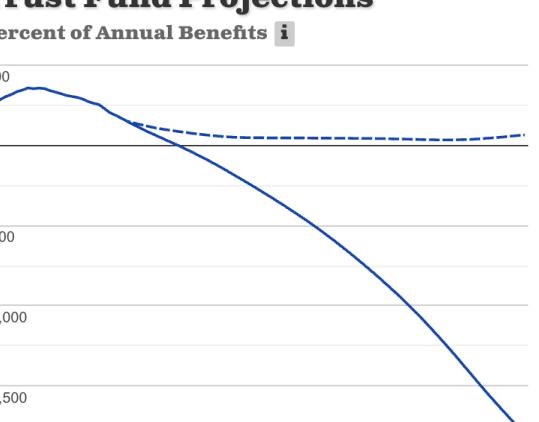


— Baseline Outlays    - - - Outlays After Policy Changes  
 — Baseline Revenues    - - - Revenues After Policy Changes

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Trust Fund Projections

Percent of Annual Benefits i



— Baseline    - - - After Policy Changes

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

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## 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%
● Raise Age to 69 then index to Longevity	39%

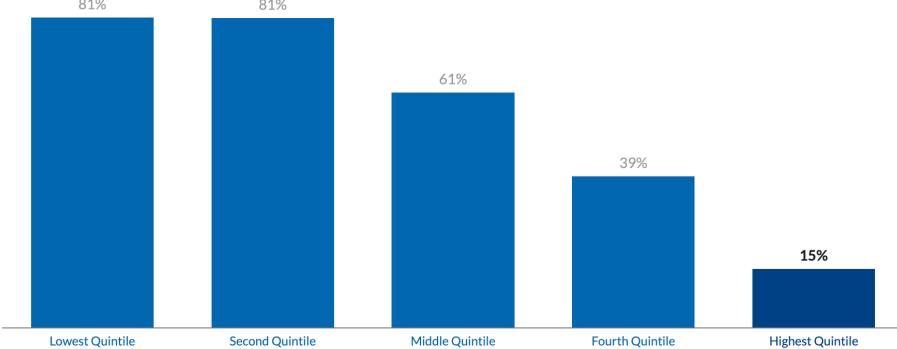
- **Very regressive.**
  - Larger tax on low-income workers than high income workers.



## 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)



Income Quintile	Social Security Benefits (% of Total Income)
Lowest Quintile	81%
Second Quintile	81%
Middle Quintile	61%
Fourth Quintile	39%
Highest Quintile	15%

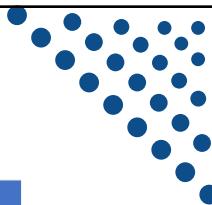
Source: Social Security Administration • Get the data • Embed • Download image  
 Note: A quintile is one-fifth of the population. The lowest quintile's income range is under \$13,499, the second quintile's is \$13,499-\$23,592, the middle quintile's is \$23,592-\$39,298, the fourth quintile's is \$39,298-\$72,129,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

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 PETER G. PETERSON FOUNDATION

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

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## 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	

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## Investing in the Stock Market

### ■ Invest in the Stock Market

- Diversify the Trust Fund to Increase Returns
- Divert 2% of Payroll Tax to "Carve-Out" Accounts
- Allow Contributions into "Add-on" Accounts

6%

-1%

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.

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## 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?

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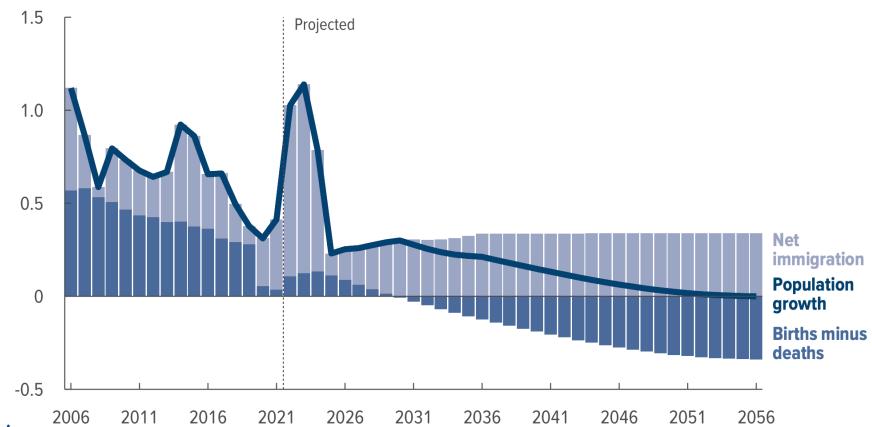
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## Another Solution?

- Increase legal immigration of prime working age.

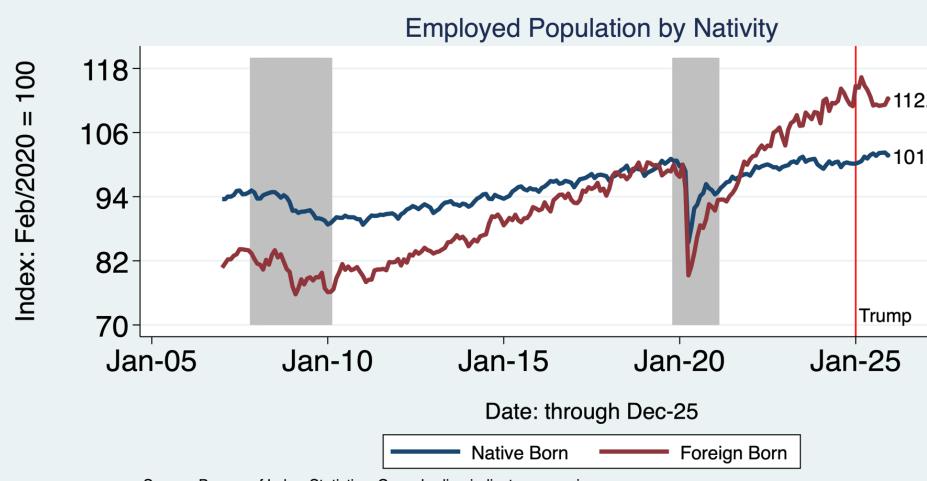
Population Growth and Contributing Factors  
Percent



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## Immigrants to the Rescue?



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## 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.



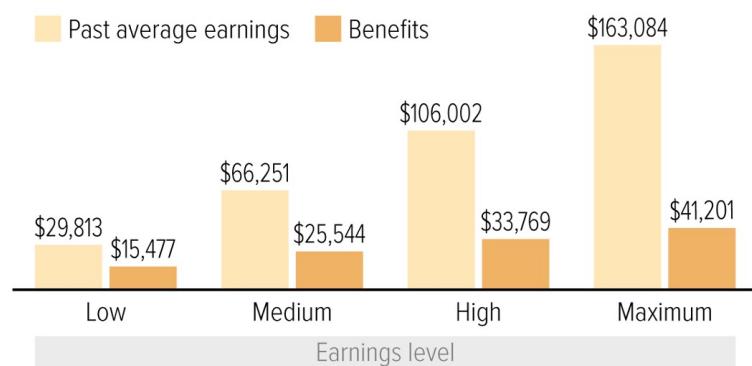
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## Social Security Benefits are Progressive

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.



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## Thank you!

## Any Questions?

[www.NEEDEcon.org](http://www.NEEDEcon.org)

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