Social Security and Its Future

Take-Away: Social Security benefits are facing a reduction of 23% in 2032 if changes are not made to its existing funding sources.

Background: The Social Security funding crisis is something that we have been informed about for several years now, it's just that each Congress wants to 'kick that can down the road to someone else.' This is a big looming problem when you consider that about 22% of the U.S. population receives a Social Security payment each month- or about 75 million individuals. A recent AARP study tells us that 96% of Americans view Social Security to be 'important' while another poll conducted by the Bipartisan Policy Center concluded that 93% of Americans see Social Security as a valuable federal program. Yet another poll conducted by KFF found that at least 84% of the public opposes major cuts to the Social Security Program. With these survey results it is surprising that Congress has apparently decided to turn a 'blind eye' to fixing the problem when so many of their constituents believe so strongly in the Social Security program.

The Problem: The Congressional Budget Office's actuary recently reported that the Social Security program is facing serious financial problems, which should come as no surprise since we've been told that for well over three decades now. The 75-year actuarial deficit in the Social Security program is almost 4% of all taxable payrolls, and if Congress does not act to fix the problem, come 2032 the Social Security funding reserve will be completely depleted, forcing an across-the-board cut of 23% in Social Security benefits to match benefits to the incoming revenues. That is seven short years from now.

Floating Proposals: Several proposals have been floated in recent years to address the Social Security funding shortfall. Three notable proposals are briefly summarized below.

Cato Institute: This proposal encourages Congress to move beyond temporary solutions to Social Security financing by: (i) raising the retirement age to reflect longer life expectancies; (ii) shifting to a flat benefit structure that focuses on reducing poverty as opposed to 'replacing' wages; (iii) reducing costs by using a more accurate inflation index for cost-of-living; (iv) expanding savings through universal savings accounts; and (v) introducing automatic balancing mechanisms to prevent future insolvency during periods of 'political inaction' (a term which brought a smile to my face considering the current Congress's sloth.)

Progressive Policy Institute: The PPI's proposal would be to use time-in-the-labor-force, rather than earnings, to determine Social Security benefits, although earnings would still be one smaller factor in setting benefits. In addition, this proposal would make Social Security more progressive and ensure that the Social Security trust fund would remain solvent (without requiring Congressional action) by: (i) establishing an overall spending target as a percentage of gross domestic product; (ii) adjust benefits up, or down, periodically to ensure that the target is met and that benefits do not exceed revenues; (iii) increase the retirement age, except for low-wage workers; (iv) increase survivor and disability benefits to reduce poverty, offset by the reduction in spousal benefits; and (v) subject more high-income Social Security benefits to income taxes.

AEI: The American Enterprise Institute's proposals would shift the focus of Social Security away from 'wage replacement' to poverty reduction. This would result in a flat benefit. For example, the retiree benefit for someone who worked full-time for most of their career would receive a government-provided benefit equal to 28% of the national average wage for single retirees and 41% of the national average wage for couples, which is along the 'Australian model.' Using 2024 as an example, the Social Security trustees projected that the national average wage was $69,847. Thus, under the AEI approach, that would result for a single individual a guaranteed minimum benefit of $19,557 and $28,637 for a married couple, both amounts thus exceeding the 2024 federal poverty threshold. These minimum benefits would increase annually at the rate of average wage growth, while the federal poverty threshold would only increase with inflation. This Social Security reform proposal would be about 20% less expensive than current law Social Security benefits.

All three proposals would be a dramatic shift away from the wage-replacement underlying principle of the current Social Security system. Social Security recipients would then receive nearly the same benefit, despite significant differences in their earnings. However, these proposals do not include any specific solutions for revenue changes. Moreover, each of these proposals would destroy the principle of the current funding system that each worker who pays into the Social Security system through payroll taxes 'earned and paid for their own benefits.' The obvious 'danger' resulting from these proposals, if any were implemented, is that Social Security would look much more like a social welfare program, making it and the benefits it provides more susceptible to ‘politics’ than the current Social Security system which is ‘protected’ by internal discipline mechanism, e.g., it is currently self-funding through payroll tax withholding, Congress cannot borrow from the Social Security trust fund, and Social Security benefits paid cannot exceed the amount currently held in the trust fund.

Fixing Social Security Blueprint: In early 2025 yet another proposal to ‘fix’ Social Security was published by three authors, who claimed it could restore solvency to the Social Security program through a combination of tax increases and benefit reductions. This Blueprint has attracted a fair amount of bipartisan support, albeit from ‘former’ Congresspersons. Surprisingly, one of its features is to promote legal immigration to have more contributors into the system. This proposal would continue to follow the ‘wage replacement’ principle on which the historic Social Security system is premised.

The specifics of this proposal would: (i) increase the number of working years in the benefit formula from 35 to 40; (ii) eliminate the dependent spouse benefit; (iii) increase the retirement age by three years, but only for high earners; (iv) eliminate child retiree benefits; and (v) include all Social Security benefits in taxable income for high earners. Other ‘fine-tuning’ details to the Blueprint proposal would: (a) increase survivor benefits; (b) restore student benefit for college and trade schools; (c) add low-income grandparent caretaker assistance benefit; (d) expand disability benefits; and (e) all workers would be required to participate in the Social Security system through universal coverage, which would improve solvency as more workers, e.g., state and local employees who are not covered by Social Security, would be required to pay taxes into, and receive benefits from, the system.

With regard to the Blueprint’s proposal’s reliance on increasing legal immigration, it’s reasoning would not only improve solvency derived with more workers contributing into the Social Security system, but it would also address labor force issues in the health care and long-term care industries.

Conclusion: Clearly Congress needs to act before 2032 to stabilize Social Security’s finances. It has already waited too long by ignoring this ever-growing problem. I find it ironic that as I type this missive, ICE agents are massing in Minneapolis and citizen protests are growing about the ‘quotas’ for arresting and deporting working immigrants (many of whom it seems to be working, not criminals, and who are here legally) when a noteworthy bipartisan proposal to fix the Social Security trust fund insolvency is to bring more immigrants to our country. We seem to be shooting ourselves in the foot when a potential solution to Social Security insolvency is in front of us.

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