Securing Social Security

Social Security—which provides benefits to about 65 million retirees, survivors of deceased workers, disabled workers, and dependents—is the nation’s largest social insurance program. Social Security currently receives more in payroll taxes and interest income than it pays out in benefits, but that will change in 2021 as more Americans retire and continue to live longer. The latest Social Security Trustees Report estimates that the reserves will be depleted by 2034, one year earlier than projected last year, at which point only 78% (declining to 74% by 2095) of the promised benefits can be paid without a change in these benefits or additional financing. Social Security was impacted by the COVID-19 pandemic and recession of 2020, although those events are projected to have little long-term effect on Social Security solvency.

The program’s long-term solvency challenge stems from a declining ratio of workers per Social Security beneficiaries. Social Security benefits primarily are funded through payroll taxes of 12.4%, split evenly between workers and employers. Americans are having fewer children and living longer than in the past, and those trends compounded by Baby Boomers retiring in large numbers over the next 15 years are several of the challenges posed by the changing U.S. population to the program’s finances.

Social Security is supported by two trust funds—the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) funds. The OASI trust fund that pays benefits to retirees and their dependents will run out of reserves in 2033. The DI trust fund reserves are projected to be exhausted in 2057, according to the latest report, eight years earlier than the projection from last year’s report. The theoretical combined OASDI trust fund totaled $2,908 billion at the end of 2020, but now faces large annual withdrawals until the reserves are depleted in 2034.

Options to provide adequate long-term financing for Social Security involve revenue increases, benefit reductions, or some combination of both. Here are several approaches.

**Raising payroll taxes or increasing/eliminating its cap**

Today, workers and employers each contribute payroll taxes of 6.2% that fund Social Security. Some have called for raising that rate to 7.5% or some other level. Additionally, the payroll tax is capped at a maximum annual income amount—$142,800 in 2021, up $5,100 from 2020—and some have proposed imposing the tax on earnings over a specified level such as $400,000, lifting the maximum cap to higher levels, or eliminating it entirely to raise additional revenues for Social Security.

**Increasing Social Security income taxes**

Social Security benefits are partially taxed on a sliding scale for singles with annual incomes currently above $25,000 annually and married couples above $32,000. The taxable percentage on Social Security benefits is capped at 85% for the top-earning retirees.

**Lowering COLAs**

The cost-of-living adjustment (COLA) for Social Security beneficiaries is based on increases in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Switch-
ing to a different inflation benchmark could slow annual COLA increases to beneficiaries. Beneficia-
ries would receive slightly smaller benefit increases in their early retirement years but those reduced
COLAs amount to net reductions as they are com-
pounded over time.

**Reducing benefits to wealthier retirees**
Some have proposed reducing Social Security ben-
efits for higher-income beneficiaries. Supporters of
such proposals say that this program should not be
used to benefit those who are not in financial need,
because Social Security faces long-term financial
challenges. Opponents argue that eliminating
benefits for wealthier individuals would be unfair
because higher-income workers had contributed
and been promised retirement benefits like every-
one else.

**Raising the full retirement age further**
When Social Security began paying benefits in
1940, workers could receive full retirement benefits
at age 65. The law was changed to raise gradually
the full retirement age to 67 to address solvency
concerns in 1983 and in recognition of the increase
in Americans’ lifespans. The American Academy of
Actuaries supports raising the full retirement age
further as one part of a solution to restore Social
Security’s long-term financial health, as it would
decrease the benefit available at 62. It may make
sense to make this change in conjunction with
changes in eligibility for disability benefits.

**Conclusion**
While Social Security is not in imminent financial
danger, the program does face long-term finan-
cial viability challenges unless changes are made.
Smaller or gradual adjustments adopted sooner
could help avoid the need for options that could
have greater impact on taxpayers or beneficiaries
required later to maintain the program’s fiscal
integrity. The Academy believes that the time has
come for the United States to address Social Secu-
ry’s long-term financial soundness.

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![Social Security’s Costs Are Beginning to Exceed Income](chart.png)

**Retirees Depend on Social Security**

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**Additional Resources from the American Academy of Actuaries**
American Academy of Actuaries—Social Security