Bipartisan Policy Center

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Social Security Forever: Delivering Benefits and Protecting Retirement Security
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Good morning, Chairman Whitehouse, Ranking Member Grassley, and distinguished members of the committee. Thank you for inviting me to testify today on the efficacy and sustainability of Social Security—one of our nation's most important and popular programs. I commend the committee for elevating this issue now, and particularly for doing so in a bipartisan manner.

My name is Shai Akabas, and I am the executive director of the Economic Policy Program at the Bipartisan Policy Center. BPC is a mission-focused organization helping policymakers work across party lines to craft bipartisan solutions. By connecting Republicans and Democrats, delivering data and context, negotiating public policy, and creating space for bipartisan collaboration, BPC helps turn legislators' best ideas into durable laws that improve lives.

Social Security serves as the foundation upon which most Americans build and sustain their lives in retirement, lifting millions of households out of poverty and providing essential financial support. For generations, it has paid out benefits to people with disabilities, the elderly, and their family members.

Today, the program faces a critical, long-understood challenge that must be addressed with urgency. Unless Congress acts, Social Security's primary trust fund, the Old-Age and Survivors Insurance (OASI) trust fund, is heading for depletion within the next decade—2033 according to the latest report of the program's trustees. When that happens, every single American collecting OASI will see their benefits cut *immediately* by 21%.[1,a] This presents a grave threat to the retirement security of millions of Americans who rely on Social Security benefits, as well as the millions more trying to plan for a dignified retirement.

Policymakers from across the ideological spectrum have known for decades that the program's finances are unsustainable, but they have consistently failed to act, leaving Social Security an estimated $23 trillion short over the next 75 years—the cumulative sum of an annual gap between projected inflows and benefit payments that continues to grow.[2] Indeed, at this point, the math and politics of the situation nearly guarantee that some type of temporary borrowing for the program will be necessary as part of any solvency package to avoid trust fund depletion and an automatic cut in benefits.

Moreover, given the looming crisis, it is astonishing that discussion of Social Security is largely absent from the 2024 campaign. Even when the issue is raised, it is usually either in the context of proposals that would worsen the financial shortfall or pledges to change nothing. These pronouncements from both sides of the aisle that we must "protect" Social Security from any fiscal reforms obscure a hard truth: A vote for the status quo is a vote to cut benefits for every single beneficiary starting in less than ten years.

My goal today is to inject optimism into this committee, because at BPC, we know that Social Security's financing challenge can be overcome by:

[a] Although the Trustees Report included some cause for optimism, projecting that the Disability Insurance trust fund can pay out benefits through at least 2098, the Disability Insurance (DI) program still faces significant operational and policy challenges that Congress could address in tandem with OASI reforms.

1. First, replacing partisan politics with prudent and pragmatic policy. Continuing to delay necessary adjustments in favor of political talking points will only serve to make the changes more difficult and cause added uncertainty—and eventual benefits cuts—for all Americans.

2. Second, ensuring that reforms be both nuanced and thoughtful by bringing together the best ideas from both parties. The problem cannot be productively addressed simply by cutting benefits or raising taxes on the rich. Sensible, bipartisan policy reforms lead to durable policy solutions.

3. Third, recognizing that it is possible to both enhance benefits for those who most rely on Social Security in retirement while modernizing the program and putting it on a fiscally sustainable path. Doing so simultaneously will be vital to garner support across the political spectrum and ensure Social Security continues to help retirees for decades to come.

Social Security's Financial Challenge

As of August 2024, 68 million Americans per month receive Social Security benefits.[3] These benefits are a vital lifeline for many older Americans, making up at least 75% of income for over one-fifth of elderly Social Security beneficiary households.[4] But shaky finances threaten that foundation of retirement security.

Even if Congress acted to combine the OASI trust fund with the solvent—but much smaller—Disability Insurance trust fund, combined trust fund depletion and the corresponding automatic benefit cuts would be delayed only to 2035. The growing gap between income coming into the program and benefits going out is significant. Specifically, avoiding automatic cuts would require immediately (in 2024) raising the payroll tax rate by 3.33 percentage points to 15.73%, reducing benefits for all current and future beneficiaries by nearly 21% (or nearly 25% for only beneficiaries who become eligible in 2024 or later), or adopting some combination of these approaches.[5]

If policymakers wait until the combined trust fund's depletion in 2035, much larger changes will be required—and the burdens will fall on narrower group of Americans. Specifically, lawmakers would have to raise the payroll tax by one-third (4.02 percentage points) to 16.42%, reduce benefits by one-quarter, or adopt some combination of these approaches. The alternative would be an unprecedented departure from the pay-as-you-go structure of the program by beginning to permanently draw from general government revenue. Not only would this sacrifice Social Security's special status and make the program compete for resources with other federal priorities, but it would further worsen America's already significant fiscal woes.[6] In short, it would be irresponsible policymaking.

Before delving further into the problems at hand and describing possible solutions, I want to outline the two principles that must guide any reforms to the Social Security program:

1. Urgent action is paramount. The longer Congress waits to strengthen Social Security's finances, the more drastic the changes will have to be, and the more burden will fall upon regular Americans. Failing to enact reforms will simply kick the can down the road, pushing responsibility for a long-term solution onto future lawmakers, who will have to decide between inconceivable benefit cuts, impractical tax increases, or the abandonment of the program's historical financing mechanism—all bad options.

2. That action must garner significant bipartisan support. Working across the aisle is not only a best practice for enacting durable policies but also essential for changes to Social Security, which

require a supermajority in the Senate. Lawmakers should abstain from broad pronouncements like "no tax increases" and "no benefit cuts." Such red lines only put obstacles in the way of action. Social Security's financial challenge affects nearly all of American society, and the solutions will require a broad-based approach.

Social Security's Demographic Challenge

Demographic trends in the United States work against Social Security's finances. The ratio of covered workers paying into the system to the number of Americans drawing benefits has dropped from four-to-one in 1965 to just under three-to-one in 2021. The ratio is projected to drop to just over 2.5-to-one by 2030 as lengthening lifespans mean record numbers of Americans spend record lengths of time in retirement.[7]

At the same time, Social Security's tax base is shrinking as a share of national earnings. Social Security's payroll tax, which covered 90% of total earnings in 1983, is projected to cover just 82% this year, as income inequality continues to grow and more earnings fall above the taxable cap.[8]

Another issue is that because Social Security benefits are linked to earnings, as workers near retirement, they continue to pay taxes on earnings to support the program, yet often accrue little or no additional benefits as a result. This sends the wrong message. The program should be recalibrated to encourage work at older ages. Working longer allows more time to accumulate savings, shortens the period of retirement consumption that must be financed by those savings, and facilitates later claiming of Social Security benefits (which results in larger monthly payments). On top of these advantages for personal retirement security, a longer average working life yields additional payroll-tax revenue for the Social Security program and benefits the broader economy. Thus, better work incentives within Social Security would improve both retirement security and the financial condition of the program.

Because the program is designed as an earnings-based benefit, Social Security in isolation fails to adequately support individuals who have lower lifetime earnings. Although the progressive benefit formula ensures that lower-earning workers receive a higher return in benefits relative to their contributions than higher-wage earners, many retirees near the bottom of the economic ladder still struggle.[b] This is especially the case if they had unstable employment, stopped working at a relatively early age, or both. Realistically, many of these retirees had insufficient earnings during their working years to accumulate any significant savings to supplement their Social Security benefits. Even among middle-income workers who enter retirement with outside assets, those who claim Social Security benefits early at a reduced level and live unexpectedly long lives may find their monthly income inadequate.

An added factor to consider is that not all Americans have seen longevity gains over the past several decades. Life expectancy at age 50 for the lowest-income quintile has actually decreased, even while high-income individuals experienced large increases. This dynamic has a significant effect on the distribution of benefits within the system.[9]

Spousal and survivors benefits are other aspects of the Social Security program that seem outdated or ineffective at ensuring income adequacy. Spousal benefits, for example, reflect early-20th century assumptions about family structure. In 1950, just one-third of women over the age of 16 participated in the workforce (compared to more than 86% of men), making Social Security benefits a necessary source of

[b] Throughout this testimony, the term "progressive" is used only in this way, describing a technical feature of the Social Security benefit structure.

support for spouses throughout much of the income distribution. Today, in contrast, workforce participation of women has skyrocketed to 58% while the rate has dropped to 68% for men.[10] Yet, even as women have far more opportunities for employment today, the benefit structure for non-working spouses remains the same, providing unnecessary support to the spouses of high-income individuals, who can in some cases receive greater monthly benefits than a full-career, low-income worker.

Survivors benefits—where a surviving spouse is provided the larger of the couple's two earned benefits—were also designed for a workforce in which one-earner couples were predominant. As a result, many widows and widowers now struggle to support themselves after the death of a spouse, when household Social Security benefits can fall by as much as half, but household costs rarely decline commensurately.[11] Thus, survivors benefits often do not provide adequate income to maintain a widow's or widower's standard of living, and the sudden loss of income can even push some below the poverty level.

For most Americans, Social Security benefits provide the critical foundation on which to plan and realize a secure retirement. Yet, those who rely on the program do not know what changes to expect in the context of its troubled financial future.

Pragmatic Policy and Political Courage Can Meet Social Security's Challenges

In 2016, BPC convened a bipartisan Commission on Retirement Security and Personal Savings, co-chaired by former Senator Kent Conrad and Jim Lockhart, former principal deputy commissioner of the Social Security Administration. The commission spent two years studying the state of retirement security in the U.S. and made recommendations in six key areas, including Social Security.[12] These recommendations combined sensible revenue and benefits adjustments that, at the time of the commission's conclusion, would make Social Security solvent for more than 75 years while avoiding steep benefits cuts. Such recommendations included:

1. Increasing the progressivity of the benefit formula to more better target support across the income distribution[13]
2. Applying the benefit formula annually to earnings to more evenly reward continued work[14]
3. Establishing a basic minimum benefit to enhance Social Security for beneficiaries with low incomes
4. Indexing the retirement age to longevity to reflect ongoing increases in average life expectancy[15]
5. Raising the maximum taxable earnings level[16]
6. Increasing the payroll tax rate by 1 percentage point[17]
7. Increasing taxes on benefits for high-income beneficiaries
8. Leveraging a more-accurate measure of inflation for Social Security's cost-of-living adjustments and for indexing parameters within the tax code[18]
9. Capping and re-indexing the spousal benefit
10. Enhancing survivors benefits to help widows and widowers maintain their standard of living
11. Replacing the windfall elimination provision (WEP) with a pro-rated benefit for workers with non-covered earnings[19]
12. Reinstating benefits for college-aged children of deceased beneficiaries and certain other beneficiaries
13. Improving the Disability Insurance program

Beyond making Social Security financially sound, enacting these recommendations would dramatically reduce poverty among retirees by making Social Security's benefit distribution more progressive and by

enhancing benefits for widows and widowers. Over a lifetime, the average household in the bottom two quintiles of earners would receive higher benefits than scheduled levels under these proposed reforms, and middle earners would receive benefits roughly at scheduled levels. Nearly all the benefit savings would come from beneficiaries in the top two quintiles of the lifetime earnings distribution.[20]

The commission recommended this balanced approach eight years ago, however, and Social Security's challenges have since grown while the time to address them has shrunk. To restore long-term solvency now, policymakers will have to phase in larger changes at a faster pace—or more realistically, turn to some type of temporary borrowing for part of the solution.

Improving Claiming Behavior and Access to Information

Any discussion of modernizing Social Security would be incomplete without considering the importance of when and how Americans decide to claim benefits, and the responsibility of policymakers to help them choose wisely. Although Americans may claim benefits as early as age 62, waiting to claim permanently increases one's monthly benefit, with the maximum available to those who claim at age 70. Delaying claiming is thus equivalent to purchasing a greater inflation-adjusted annuity that will be paid for as long as the beneficiary lives (as well as a surviving spouse, subject to the rules described above). Most people, however, do not claim Social Security at their optimal age, usually because they claim too early.[21] By one estimate, sub-optimal claiming decisions will cost current retirees $3.4 trillion in retirement income.[22]

Unlike the contentious debates over solvency, this is an example of how public policy could enhance retirement security simply by providing better information at better times. Bipartisan legislation introduced last year would do exactly that by improving the vague language SSA currently uses to describe different claiming ages. The bill, called the Claiming Age Clarity Act, would change the way SSA refers to ages 62, 67, and 70 to the "minimum monthly benefit age," "standard monthly benefit age," and "maximum monthly benefit age," respectively, providing needed clarity to Americans about the implications of their decision of when to claim benefits. Another way that lawmakers could help would be by creating a safe harbor for workplace retirement plan sponsors that responsibly provide information to assist participants in making informed decisions about when to claim Social Security benefits or about using their private retirement savings to bridge to a later claiming age. Congress could also instruct SSA to send out the paper benefit statement more frequently or revisit the efficacy of the Retirement Earnings Test, which is poorly labeled and often misunderstood in a way that discourages work.[23]

Reforming the Windfall Elimination Provision

Few, if any, aspects of Social Security are as misunderstood as the Windfall Elimination Provision (WEP). Congress enacted the WEP as part of a 1983 reform package to prevent inequitably generous benefits from going to workers who spent part or all of their career in non-covered employment (and were therefore exempt from Social Security payroll taxes).[24] It currently affects approximately 2 million beneficiaries.[25] Because of data limitations at the time the WEP was enacted, these benefit adjustments are often not perfect, but the provision attempts to ensure that Social Security treats similarly situated workers in a similar manner.

Today, however, SSA has access to the earnings data necessary to more accurately calculate these benefit adjustments, and thus BPC has recommended replacing the WEP with a proportional benefit formula, which would prorate benefits based on the fraction of one's total lifetime earnings covered by Social Security. Under this proposal, to determine the monthly benefit of someone with substantial non-covered

earnings, SSA would first calculate their primary insurance amount (PIA) as though their entire career was in covered employment (i.e., it would combine earnings from covered and non-covered employment and calculate a PIA based on that combined total). Then, SSA would multiply that PIA by the fraction of total earnings that came from covered employment to generate the final, proportional PIA. In practice, the proportional benefit method ensures that if two beneficiaries have the same total lifetime earnings, but one has substantial non-covered earnings and the other does not, those two beneficiaries receive Social Security benefits that replace the same proportion of their *covered* earnings. In other words, the proportional benefit formula treats like earners alike, regardless of where those earnings came from.

Absent such a reform, policymakers should refrain from fully repealing the WEP, which would advantage higher-income households to the tune of billions of dollars, enabling them to benefit disproportionately, at taxpayer expense, from Social Security and their state or local government pension.[26] It would also substantially add to the looming financial shortfall facing the program, siphoning an additional $100 billion out of the trust fund over the next 10 years.[27] Instead, reforms like the proportional benefit formula would ensure that Social Security benefits accurately reflect both covered and non-covered earnings over a worker's lifetime, addressing the shortcomings of the current WEP structure without undermining the program's core mission.

Protecting Comprehensive Retirement Security in America

Although Social Security plays an integral role in Americans' retirement security, it is only part of the picture: Private savings and workplace retirement plans form the other legs of the traditional "three-legged stool" of retirement security. Americans are rightly anxious about retirement because the three-legged stool is no longer stable. Beyond Social Security's unsustainable finances and outdated structure, too many Americans lack access to workplace retirement savings plans, do not have enough personal savings for short-term needs, risk outliving their retirement savings, fail to build and use home equity to support retirement security, and lack basic knowledge about personal finance.[28]

BPC's Commission put forward a comprehensive package of bipartisan proposals to address these key private-sector challenges facing American households—proposals that complement one another and create a policy solution far more effective than a piecemeal approach. In particular, federal policy that helps to ensure nearly all working Americans have access to a well-designed workplace retirement savings plan can dramatically increase the funds that households are able to accumulate with the support of their employer. Modeling conducted for BPC's Commission showed that these additional savings can more than offset necessary Social Security benefit adjustments for Americans in the upper half of the lifetime earnings distribution.[29] This type of integrated solution can ensure that conversations about Social Security solvency do not just entail painful decisions about curtailing benefits and raising taxes, but rather improved retirement security for all Americans.

A Call for Bipartisan Cooperation and Action

Policymakers have known for decades that Social Security's financial and demographic challenges are unsustainable. Although these challenges may appear insurmountable, let me reiterate: they are not. Pragmatic solutions exist, and better yet, there is still time to act. Restoring retirement security in America through durable reform, however, will require cooperation from both sides of the aisle. The country's leaders cannot continue to promise the status quo.

In 1983, the OASI trust fund was just months away from depletion. With automatic benefit cuts looming, Democrats and Republicans came together around comprehensive legislation that averted insolvency and extended the life of the trust fund by several decades.[30] Policymakers can look back to this recipe for success, but unfortunately, the magnitude of today's shortfall is much larger, necessitating more significant changes.[31]

The broader context is also very different. Back then, the ratio of U.S. debt held by the public to gross domestic product (GDP) was 32%, whereas today that figure is nearing 100% and projected to head much higher.[32] Although the federal budget should not be fixed on the back of Social Security, the federal budget *cannot* be fixed without addressing Social Security. It is past time for elected leaders and those seeking office to prioritize fiscal responsibility. That is why BPC has worked for over a decade to bring members of Congress from both sides of the aisle together around policies to reduce the deficit, and why we have consistently called for a new bipartisan fiscal commission as a step toward strengthening retirement security and helping to rebuild Americans' fundamental trust in their government.[33]

On behalf of the Bipartisan Policy Center, I want to thank the committee for convening today's important hearing. BPC stands ready and willing to assist this committee and the broader Congress as you develop and advance bipartisan, fiscally sound solutions on behalf of both current retirees and the millions of hardworking American people currently paying into the Social Security system yet doubting it will be there to support them in retirement. Together we *can* solve this challenge.

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