The Heritage Foundation

CONGRESSIONAL TESTIMONY

The Fierce Urgency of Now—Social Security 2100: A Sacred Trust

Testimony before the

Social Security Subcommittee of the

Ways and Means Committee

U.S. House of Representatives

December 7, 2021

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My name is Rachel Greszler. I am a Research Fellow in Economics, Budgets, and Entitlements at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

The need for Social Security reform is absolutely imminent as the costs of insolvency continue to grow exponentially, and the simultaneous exponential growth in the federal debt limits the ability of the U.S. to meet rising unfunded Social Security costs.

The two priorities for Social Security reform must be to make the program solvent over the long run and to improve its effectiveness. That requires either making the program and its taxes bigger, or making it smaller and better-targeted. That choice should be based on whether Social Security is a good deal; if it provides significant value not otherwise obtainable outside the system, it should be made larger, but if it provides negative value and limits personal and societal well-being, it should be made smaller.

The Social Security 2100 Act fails to make the program solvent and would almost certainly reduce economic growth, including leading to lower lifetime incomes for workers. The prior version of the Social Security 2100 Act that did produce solvency would also reduce economic growth and exacerbate Social Security's generational wealth theft.

To preserve Social Security's most important components and improve its effectiveness for all current and future workers, policymakers should focus Social Security on its original goals of poverty prevention in old age and modernize the program to reduce its drag on workers' incomes and wealth, and on economic growth.

Urgency for Reform

Each year that policymakers fail to act to reform Social Security, the larger the consequences are for current and future workers, and also current and future retirees.

Social Security's Retirement Program Is Projected to Be Insolvent in 2033. Absent legislation to address Social Security's shortfalls, Social Security's Old-Age and Survivors Insurance (OASI) benefits would need to be cut by 24 percent beginning in 2033.[1] That means that anyone currently 50 or younger (those born in in 1971 or later) will not receive a single benefit equal to what Social Security's formula currently provides. Moreover, tens of millions of retirees receiving Social Security benefits in 2033 will also be subject to 24 percent benefit cuts. If policymakers decide to raise taxes to keep the program solvent, it will burden all current and future workers, and it will also result in a smaller economy for everyone.

Social Security Has $19.8 Trillion in Unfunded Obligations. Including both Social Security's Old Age and Survivor's Insurance and Disability Insurance programs, Social Security's $19.8 trillion in unfunded obligations amounts to $154,000 for every household in the U.S. That is more than a typical household spends in five years on housing, groceries, gas, and clothing combined.[2]

Social Security Has Now Been in the Red for More Than a Decade. Last year marked the 11th straight year that Social Security has been in the red, with the program paying out $96 billion more in benefits than it collected in payroll taxes. The only reason why the program is still considered solvent is that it is cashing in on IOUs that were previously issued to the program in exchange for using some of the payroll taxes that most people think are being set aside to fund their future benefits to finance other government spending. Cashing in those IOUs requires the Treasury to issue more publicly held debt. And the inability of current payroll taxes to earn a positive rate of return (because they go immediately to pay current retirees benefits) exacerbates the system's financial shortfalls.

The Costs of Congressional Inaction Are Exponential. Each year that policymakers ignore Social Security's shortfalls results in ever higher costs and consequences for workers and retirees. Between just 2010 and 2020, Social Security's combined retirement and disability programs' unfunded obligations tripled, from $6.5 trillion to $19.8 trillion, and the size of immediate tax increases needed to maintain the programs' solvency jumped from a 2.15 percentage-point increase to a 3.36 percentage-point increase. A 15.76 percent payroll tax, compared to the current 12.4 percent, would mean a $7,880 social security tax bill for someone making $50,000 per year. Not only would those taxes mean lower incomes during workers' careers, but also lower incomes in retirement. A Heritage Foundation analysis found that even if politicians coupled tax increases with higher benefits, workers across all income levels would be worse off.[3]

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[1]The Social Security program consists of two separate programs: the Old-Age and Survivors Insurance (OASI), or retirement, program and the Disability Insurance (DI) program. The DI program is projected to become insolvent in 2057, which is eight years earlier than the 2065 date projected in the Trustees' 2020 report. The DI program is highly sensitive to changes in economic conditions and often experiences large swings in financial projections. The notional combined OASDI trust fund—if the two programs were combined, which would require congressional action—is projected to become insolvent in 2034, which is a year earlier than the 2035 date projected in the Trustees' 2020 report

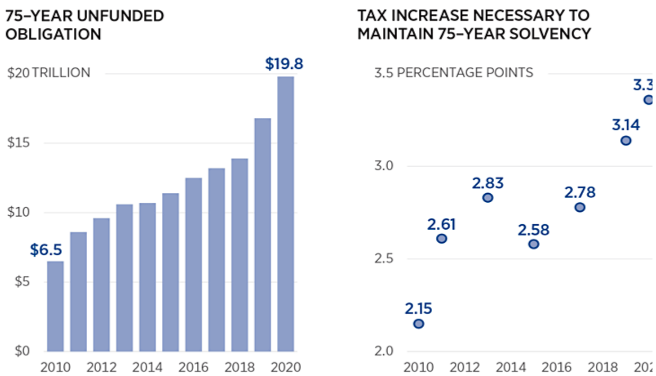
[2]News release, "Consumer Expenditures—2019," U.S. Bureau of Labor Statistics, September 9, 2020, https://www.bls.gov/news.release/cesan.nr0.htm (accessed September 1, 2021).

[3]Rachel Greszler and Drew Gonshorowski, "The Personal and Fiscal Impact of the Social Security 2100

CHART 1

Each Year Policymakers Kick the Can, Social Security's Shortfalls Increase

Social Security's retirement and disability insurance shortfalls have expanded more than three-fold since 2010. At $19.8 trillion, Social Security's shortfalls amount to $154,000 per household.



NOTE: The 75-year unfunded obligation represents the amount of money needed to prevent the combined Social Security trust funds (OASDI) from declining to zero over the next 75 years. This figure does not include obligations accrued to workers that might not be payable in the 76th year or beyond.
SOURCE: Social Security Administration, "Reports from the Board of Trustees," 2011–2021, https://www.ssa.gov/oact/tr/ (accessed September 1, 2021).

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Current Trustees' Projections May Be Optimistic. In addition to the Social Security Trustees, the Congressional Budget Office (CBO) provides projections on Social Security's finances. The CBO projects that Social Security will run out of funds to pay scheduled benefits beginning in 2032, at which point benefits would have to be cut by 25 percent.[4] If policymakers were to decide to limit benefit cuts only to new beneficiaries after 2032 (protecting existing retirees), benefits would have to be reduced by 45 percent to maintain the program's long-term solvency.

The Social Security Trustees' assumptions on fertility rates are, arguably, overly optimistic as the trustees assume that after having declined for 11 of the past 12 years, from a rate of 2.12 births per woman in 2007 to a rate of 1.68 in 2019, that they will climb rapidly and level off at a rate of 1.95, which is slightly higher than the average rate the U.S. has experienced over the past five decades.[5]

Red Lines on Reform

There are certain things Social Security reform must accomplish, and certain things it absolutely should not accomplish, including:

- No changes should be made that increase the program's unfunded liabilities;
- Reforms must prioritize individuals in need and potential benefit increases must be reserved only for individuals in need;
- Changes must reduce—and not exacerbate—intergenerational wealth redistribution; and
- Social Security reforms should contribute to a stronger economy with higher earnings and greater personal financial security.

Bigger or Smaller: Is Social Security a Good Deal?

Both the prior and current version of the Social Security 2100 Act would make the program bigger. If Social Security is a good deal for workers and retirees, then it might make sense to make it bigger by increasing taxes and benefits. But if Social Security is not a good deal, it would be better to make the program solvent by making it better-targeted and

Act," Heritage Foundation Backgrounder No. 3410, June 11, 2019, https://www.heritage.org/sites/default/files/2019-06/BG3410.pdf.

[4]Congressional Budget Office, "CBO's 2021 Long-Term Projections for Social Security: Additional Information," July 8, 2021, https://www.cbo.gov/publication/57342 (accessed September 1, 2021).

[5]Social Security Administration, "Fertility and Mortality Assumptions,--2020 OASDI Trustees Report," Table V.A1.—Fertility and Mortality Assumptions, https://www.ssa.gov/oact/tr/2020/lr_5a1.html (accessed December 2, 2021).

allowing everyone to keep more of their earnings.

Social Security was a good deal for early beneficiaries who got far more out of the system than they paid into it, and more, even, than they could have gotten from saving and investing on their own. But Social Security is a bad deal for current and future generations.

IN part, that is because—despite common notions—Social Security is not a personal savings program, but rather a wealth transfer from younger generations' paychecks to older Americans' Social Security checks. Literally every single dollar that workers pay in payroll taxes goes immediately to current retirees, never earning even a single cent of positive return. Unlike when individuals invest their savings in stocks and bonds that produce real returns based on the activity of the investments, Social Security's "returns" are a function of politicians' willingness to raise taxes on future workers.

As our analysis shows, workers of all income levels would be better off keeping their own money than paying higher taxes and receiving higher Social Security benefits.

Social Security Is Not a Good Deal for Current and Future Workers. With every dollar that workers pay in Social Security taxes immediately sent out the door to fund current retirees' benefits, the program strips workers of the opportunity to earn a positive rate of return on their money. The effects of these lost earnings compound over time, creating a raw deal for current and younger workers. A Heritage Foundation analysis found that if a median earner who makes about $60,000 per year were allowed to keep and invest his Social Security taxes in a conservative mix of stocks and bonds, he would have three times as much retirement income—nearly $48,000 more per year than Social Security can provide.[6] Even workers making less than $20,000 per year would have far more money in retirement if they were able to keep and save their Social Security taxes.[7] (See Table 1.)

TABLE 1

Personal Savings Would Generate Higher Retirement Incomes for All Income Levels

MEN	Social Security	Personal Savings Annuity	Annual Gain from Personal Savings Annuity
0.5 Times Mean Earner	$1,551	$3,093	$18,504
Mean Earner	$2,209	$6,185	$47,712
Max Earner*	$2,683	$11,264	$102,972

WOMEN	Social Security	Personal Savings Annuity	Annual Gain from Personal Savings Annuity
0.5 Times Mean Earner	$902	$1,262	$4,320
Mean Earner	$1,393	$2,524	$13,572
Max Earner	$2,683	$10,132	$89,388

* Max earner refers to a worker who makes at least the taxable maximum to which Social Security benefits apply ($128,400 in 2018).

NOTE: Florida earnings levels are representative of national averages. All figures are in 2017 dollars. Personal Savings Annuity represents what individuals are projected to be able to purchase if they were able to put their Social Security taxes into personal savings accounts and purchase inflation-adjusted annuities at the time they would otherwise claim Social Security benefits.

SOURCE: Kevin D. Dayaratna, Rachel Greszler, and Patrick Tyrrell, "Is Social Security Worth Its Cost?" Heritage Foundation *Backgrounder* No. 3324, July 10, 2018, Tables 11 and 12, https://www.heritage.org/sites/default/fi les/2018-07/BG3324_0.pdf.

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Social Security's Large Tax Burden Can Hurt Lower-Income and Minorities. Social Security is often thought of as crucial for lower-income workers because it provides such a high proportion of their retirement incomes, but the emphasis on what Social Security provides ignores what it takes away in taxes and personal autonomy.

[6]Kevin D. Dayaratna, Rachel Greszler, and Patrick Tyrrell, "Is Social Security Worth Its Cost?" Heritage Foundation Backgrounder No. 3324, July 10, 2018, https://www.heritage.org/sites/default/files/2018-07/BG3324_0.pdf.

[7]Rachel Greszler and Julia Howe, "3 Examples of How Social Security Robs Americans of Greater Income Before, During Retirement," The Daily Signal, August 24, 2018, https://www.heritage.org/social-security/commentary/3-examples-how-social-security-robs-americans-greater-income-during.

Social Security's already heavy tax burden—$3,100 for someone making $25,000 per year—makes it difficult for lower-income households to save for all sorts of life events based on what is best for them. Moreover, many individuals who die before, or shortly after, they reach Social Security's retirement age lose tens or hundreds of thousands of dollars that they paid into the system and that otherwise could have helped provide for their families. This fact disproportionately harms lower-income and African American workers who live significantly shorter lives, on average, than higher-income and white workers.

A recent study found that life expectancy for men in the lowest-income quartile is 10 years less than men in the top quartile, and the gap for women is five years.[8] Black Americans have a life expectancy at birth that is 3.5 years less than for whites.[9] And more than 19 percent of black men in the U.S. will die between ages 45 and 65, likely having paid tens, if not hundreds, of thousands of dollars in taxes to Social Security while receiving little or nothing in return.[10] The inability to spend or bequest this money to finance things like a child's or grandchild's education, a home purchase, or to set aside a savings cushion to prevent future hardships exacerbates existing inequalities.

Moreover, regardless of life expectancy, different families face different optimal spending and savings rates over their lifetimes, yet Social Security prescribes the same tax and benefit formulas to everyone.[11] Government programs that determine who can receive which benefits and under which circumstances leave individuals and families with less control over their future and with fewer opportunities to pursue what is best for them.

Social Security 2100 Act Would Hurt Workers, Economy

Social Security's main two problems are that it is insolvent and inefficient (both of which are owing in large part to the program's increasing reliance on intergenerational redistribution). On both accounts, the current Social Security 2100 Act would make things worse.

New Tax on Earnings Over $400,000 Economically Destructive, Not Nearly Enough to Make Program Solvent. The new version of the Social Security 2100 bases nearly all its new revenues on applying the payroll tax cap to earnings over $400,000, without an inflation index.

For starters, this proposal is in stark contrast to Social Security's original intent and design. The creators of Social Security actually recommended that everyone with earnings above three times the average wage (about $167,000 in today's dollars) would be exempt from Social Security altogether, paying zero Social Security taxes and receiving zero Social

[8]Life expectancy in this study was measured as remaining expected years at age 40. Raj Chetty et al., "The Association Between Income and Life Expectancy in the United States: 2001–2014," Journal of the American Medical Association, Vol. 315, No. 16 (2016), pp.1750–1766, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4866586/ (accessed September 29, 2020).

[9]Elizabeth Arias and Jiaquan Xu, MD, "United States Life Tables, 2017," Centers for Disease Control and Prevention National Vital Statistics Reports, Vol. 68, No. 7 (June 24, 2019), https://www.cdc.gov/nchs/data/nvsr/nvsr68/nvsr68_07-508.pdf (accessed October 6, 2020).

[10]The corresponding figure for white men dying between ages 45 and 65 is 13.7 percent. National Vital Statistics Reports, Table B. Number of survivors out of 100,000 born alive, by age, race, Hispanic origin, race for non-Hispanic population, and sex: United States, 2017, https://www.cdc.gov/nchs/data/nvsr/nvsr68/nvsr68_07-508.pdfworkers (accessed September 29, 2020)

[11]Andrew Biggs, "How Do Children Affect the Need to Save for Retirement?" American Enterprise Institute Economic Policy Working Paper Series, December 16, 2019, https://www.aei.org/research-products/working-paper/how-do-children-affect-the-need-to-save-for-retirement/ (accessed October 6, 2020)

Security benefits, as high-income earners typically do not need government-provided social insurance to keep them out of poverty in retirement.[12]

Moreover, the proposed 12.4 percent payroll tax hike on earnings over $400,000 would result in economically destructive tax rates. Combined with the Build Back Better (BBB) plan's proposed tax hikes, the top federal income tax rate in the U.S. would rise from 40.8 percent to 63.8 percent, and the top combined state and federal income tax rate would equal 77.1 percent in California. The U.S. has experienced similarly high marginal tax rates on high-income earners in the past and they did not result in higher tax revenues because not only do those affected find ways to minimize their tax burdens, but high rates cause economically destructive changes in behavior.

And finally, the tax hike—large as it is—would not come close to solving Social Security's shortfalls even under the most optimistic assumptions.

The mere payment of the tax—reducing taxable earnings—would significantly reduce other federal income tax revenues. Liebman and Saez estimate that incidence shifting would reduce actual net revenue gains by 24 percent if the payroll tax cap were eliminated completely.[13]

The behavioral effects—reducing work and reducing productive investments—would further reduce non–Social Security tax revenues and lead to smaller economic growth. With a lower-end elasticity of 0.2, Liebman and Saez estimate that actual revenue gains would equal only 54 percent of those projected using static estimates that assume no changes in incomes or behaviors.[14] With an elasticity of 0.5, Saez and Liebman estimate that the impact of eliminating the payroll tax would be so detrimental as to produce zero new tax revenues.

It will almost certainly prove impossible to pay for the Social Security 2100 Act's proposed benefit increases by raising taxes only on very high-income earners. Achieving lasting solvency through tax hikes would have to extend those tax hikes to middle- and even lower-income earners, as called for in the original version of the Social Security 2100 Act—the solvency version.

Solvency Version of Social Security 2100 Act Not Worth It for Workers. The original Social Security 2100 Act—which included an across-the-board tax hike on all workers—would have made the program solvent. Since the revised version does not achieve solvency, that original version is a more appropriate way to evaluate whether a larger Social Security program is worth the costs.

To consider whether the solvency version of the Social Security 2100 Act would benefit or harm workers, my colleague Drew Gonshorowski and I compared the benefit and tax increases workers would get from the 2100 Act compared to the savings they could accumulate by forgoing the benefit increases and saving the earnings that would otherwise have been taken away in higher taxes through the Act. We found that Americans of all income levels would be better off forgoing the Social Security 2100 Act's proposed benefit increase and instead keeping and saving the money that the proposal would take from them.

[12] The Committee on Economic Security, "Report of the Committee on Economic Security, Need for Security," December 1934, http://www.ssa.gov/history/reports/ces/ces5.html (accessed December 3, 2021).

[13] Jeffrey Liebman and Emmanuel Saez, "Earnings Responses to Increases in Payroll Taxes," National Bureau of Economic Research Retirement Research Center Paper No. NB 04-06, September 2006, http://www.nber.org/aging/rrc/papers/onb04-06.pdf (accessed February 18, 2014).

[14] Ibid.

If young Americans were to keep and save the money that the solvency-version of the Social Security 2100 Act would take from them in taxes, low-income earners would have $14,778 more in retirement; middle-income earners would have $37,601 more; and high-income earners would have $99,311 more.[15]

TABLE 2

Workers Would Have More Money in Retirement from Personal Saving Than From a Bigger Social Security Program

FOR WORKERS BORN IN 1998 AND RETIRING IN 2065*

	Annual Earnings	Additional Benefits Under 2100 Act	Additional Savings Accumulated Without Higher Taxes	Adde Incom Savin
Lower Income	$23,353	$63,748	$78,526	
Middle Income	$51,894	$89,085	$126,686	
High Income	$128,400	$102,900	$202,211	
Very High Income	$1,000,000	$171,315	$1,508,227	+

* Calculations are based on workers born in 1998 who enter the labor force in 2020 at age 22 and work until full retirement age of 67 in cohort of workers does not pay the full 14.8 percent Social Security tax rate until 2043. Thus, the additional savings accumulated withou as well as the amount by which personal savings exceed additional Social Security benefits, would be larger for workers born after 199 those born before 1998.

SOURCE: Authors' calculations based on The Heritage Foundation Social Security Model and the specifications of the Social Security 21

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That is at the individual level. But the societal impact is even more profound. Researchers at the University of Pennsylvania's Wharton School of Business looked at both the Social Security 2100 Act and a smaller, more targeted Social Security reform—something similar to The Heritage Foundation's proposal, including raising the retirement age, reducing benefits based on wealth, and lowering cost-of-living adjustments. They found that the economy would be 7.3 percent larger with a smaller Social Security program.[16] That translates into $10,740 more in annual income per household across the U.S.[17]

This stark contrast between a bigger and smaller Social Security program is primarily because Social Security's taxes cause people to work less and its benefits cause them to save less, both of which lead to smaller economic growth. Slower growth compounds over time, bringing down family incomes.

BBB Could Exacerbate Social Security Shortfalls

The current tax-and-spend legislation contains many policies that would make it harder to confront Social Security's shortfalls. Most notably, increased deficits and debt alongside higher marginal tax rates would make it harder to use deficit-spending or tax increases to pay for Social Security's unfunded obligations. And the massive social spending package would reduce employment through its welfare-without-work policies and attempts to micromanage businesses.

For example, researchers at the University of Chicago estimated that making the proposed $250 or $300 monthly child payments permanent would reduce the employment of parents by 2.6 percent, which equals approximately 1.5 million workers.[18]

[15]Greszler and Gonshorowski, "The Personal and Fiscal Impact of the Social Security 2100 Act."
[16]Andrew Biggs, "Social Security Expansion Could Shrink Economy by $1.6 Trillion," *Forbes*, June 11, 2019, https://www.forbes.com/sites/andrewbiggs/2019/06/11/social-security-expansion-could-shrink-economy-by-1-6-trillion/?sh=147a1e7815b0 (accessed December 2, 2021).
[17]Author's estimates based on data from 2019, corresponding to the $1.6 trillion estimate for 2019, including gross domestic product (GDP) of $21.373 trillion and personal income of $18.424 trillion representing 86.2 percent of GDP. The $1.6 trillion multiplied by 86.2 percent equals a loss of $1.379 in personal income, which divided by 128.451 million households equals $10,738 per household.
[18]Kevin Corinth, Bruce D. Meyer, Matthew Stadnicki, and Derek Wu, "The Anti-Poverty, Targeting, and Labor Supply Effects of the Proposed Child Tax Credit Expansion," Becker Friedman Institute for Economics at UChicago, October, 2021, https://bfi.uchicago.edu/wp-

Since every dollar that older Americans and individuals with disabilities receive in Social Security benefits comes directly from the paychecks of current workers, fewer workers would mean fewer contributions and a quicker depletion of Social Security's trust fund. Two recent studies estimated that in total, the massive tax-and-spend package would result in job losses of 5.3 million[19] to 8.7 million.[20]

With assumptions on the lower-end of that range—a 6.2 million decline in full-time employment—The Heritage Foundation's Social Security model projects a loss of $25 billion in payroll tax revenues in 2022, and $289 billion in lost revenues between 2022 and 2031. This decline in labor and Social Security revenues would cause Social Security's combined retirement and disability insurance trust funds to be exhausted three months earlier than currently projected.

With benefits limited to incoming revenues after insolvency, fewer workers would translate into larger benefit cuts. Heritage estimates that cuts to the combined Social Security and disability insurance programs would need to be 26 percent instead of 22 percent, as currently projected. That increase would mean $750 less per year in Social Security benefits for the average retiree. And in total, a 26 percent cut in monthly benefits would cause the average retired worker's benefit to fall by $405 per month, from $1,560 to $1,155.

Creating a Solvent Social Security System that Provides a Better Deal for Workers, Retirees

To better provide for workers and retirees in need while also reducing Social Security's drag on individual incomes and on economic growth, policymakers should:

- **Gradually shift Social Security to a flat benefit.** Social Security was not intended to be an income-replacement program, but to prevent poverty in old age; and yet, it provides the largest benefits to the highest-income people with the least need. By very gradually shifting Social Security toward a universal, anti-poverty benefit, increasing benefits for low-income earners and reducing them for middle-income and upper-income earners until everyone receives the same amount, Social Security could be made solvent and everyone could eventually pay significantly less in Social Security taxes.
- **Update Social Security's eligibility age and index it to life expectancy.** When Social Security first began, the average life expectancy was only 61 years, meaning that the typical worker would not even receive Social Security benefits.[21] Today, life expectancy has increased by 17 years, and the typical worker receives benefits for

content/uploads/2021/10/BFI_WP_2021-115-1.pdf (accessed October 22, 2021).

[19]E. J. Antoni, Vance Ginn, and Steve Moore, "Reversing the Recovery: How President Biden's 'Build Back Better' Plan Raises Taxes, Kills Jobs, and Punishes the Middle Class," Texas Public Policy Foundation, October 2021, https://www.texaspolicy.com/wp-content/uploads/2021/10/2021-10-RR-Ginn-RTT-Build-Back-Better-updated10-18.pdf (accessed October 22, 2021).

[20]Casey B. Mulligan, "Build Back Better's Hidden But Hefty Penalties on Work," The Committee to Unleash Prosperity, October 2021, https://www.dropbox.com/s/xc28a96mfn6pvpj/BBBworkCommitteetoUnleashProsperity.pdf?dl=0 (accessed October 22, 2021).

[21]Felicitie C. Bell and Michael L. Miller, "Life Tables for the United States Social Security Area: 1900–2100," Social Security Administration *Actuarial Study* No. 120, August 2005, pp. 162–166, Table 10, "Period Life Expectancies at Selected Exact Ages, by Sex and Calendar Year," https://www.ssa.gov/oact/NOTES/pdf_studies/study120.pdf (accessed October 29, 2020).

nearly two decades. Improved health and work capacity means that the average individual can work longer than before. [22]

- **Use a more accurate inflation index.** The current inflation measure used by the Social Security Administration, the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), is based on prices paid by less than a third of the population, and it fails to account for how people respond to changes in prices. There is bipartisan agreement among many policymakers and economists that the chained CPI is a more accurate index, and thus it should replace the outdated and inaccurate CPI-W.[23]
- **Let workers opt out of Social Security's earnings test.** Social Security's misunderstood earnings test is perceived by workers as a 50 percent tax on their earnings, which results in those subject to the earnings test working and earning less than they otherwise would.[18] Policymakers should end this paternalistic and economically detrimental policy and let workers choose whether they want to pay the tax in exchange for higher future benefits.
- **Consider options of earned benefits and lump sum delayed retirement benefit.** Other reforms that would reduce the disincentives to work at older ages include shifting the benefit formula so that workers would accrue benefits based on each year they work, as opposed to averaging their benefits across all years (which disproportionately benefits high earners with fewer years of work),[24] and allowing workers the option to receive a lump sum delayed retirement credit.[25]
- **Give workers an ownership option in Social Security.** Individuals have no legal claim to their scheduled Social Security benefits, as Congress can change or take them away at any time.[26] Workers should have the choice of contributing all of their payroll taxes to Social Security and receiving whatever benefit the program can provide when they retire, or of putting a portion of their taxes into their own personal account that would increase in value over time and could be used to purchase an annuity like Social Security provides, from which to withdraw funds as needed during retirement, or to pass on as an inheritance to family members.[27]

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[22]Rachel Greszler, "Rescuing Entitlements and Pensions: Study Shows Americans Can Work Longer," Heritage Foundation *Issue Brief* No. 4539, April 6, 2016, http://thf-reports.s3.amazonaws.com/2016/IB4539.pdf.

[23]Romina Boccia and Rachel Greszler, "Social Security Benefits and the Impact of the Chained CPI," Heritage Foundation Backgrounder No. 2799, May 21, 2013, http://thf_media.s3.amazonaws.com/2013/pdf/bg2799.pdf.

[24]Charles Blahous, "Make Social Security Fairer to Workers," Morning Consult, October 22, 2021, https://morningconsult.com/opinions/make-social-security-fairer-to-workers/?fbclid=IwAR12_NYh6aeJ8HmmJejwl5YbQ70_gQlmjyLjC3Xlmc7qRvGQVwI-trRSMEM (accessed October 22, 2021).

[25]Olivia S. Mitchell, "Why a Lump Sum Payment Should be Part of Social Security," Market Watch, April 11, 2016, https://www.marketwatch.com/story/why-a-lump-sum-payment-should-be-part-of-social-security-2016-04-09 (accessed October 22, 2021).

[26]Social Security Administration, "History: Supreme Court Case: Flemming vs. Nestor," https://www.ssa.gov/history/nestor.html (accessed October 6, 2020).

[27]Due to Social Security's massive shortfalls, individuals who choose to set aside part of their Social Security taxes in an account they own, instead of receiving Social Security's traditional benefits, would still need to contribute a substantial portion of their earnings to the Social Security program. That portion—similar to a legacy tax—would decline over time if policymakers enact reforms to put Social Security on a path to long-term solvency.

Summary

Social Security reform is inevitable, but the impact of those reforms on individual workers, families, and the economy will depend on the direction of those reforms. If policymakers choose to make the program larger, with benefit increases and tax hikes, individuals will work less and save less and innovators will invest less in productivity-enhancing technology, resulting in lower lifetime incomes and a smaller economy. Proposed deficit increases, tax hikes, and employment-reducing policies in the Build Back Better bill could exacerbate Social Security's shortfalls and leave the federal government with less ability to preserve benefits for those truly in need.

In contrast, if policymakers choose to make the program smaller and provide better-targeted benefits, individuals could keep more of their earnings and accumulate greater savings, resulting in higher lifetime incomes and a bigger economy. To make the program solvent and more beneficial for workers and retirees, policymakers should shift toward a universal benefit structure that would help raise more people out of poverty, use a more accurate inflation index, modernize benefits, remove work disincentives, and give workers an ownership option. According to The Heritage Foundation's Social Security model, these changes would not only solve Social Security's shortfalls, but they would also allow a roughly 25 percent reduction in Social Security's tax rate, allowing all Americans to keep more of their earnings to save and spend as they see fit for them and their families.