The Social Security Guarantee

A promise to guarantee Social Security for all Americans

This document presents research conducted by the AMAC organization on the long-term solvency issues facing Social Security. The material highlights the circumstances that have led to the projected insolvency and outlines potential reforms that policymakers might consider. The document concludes with specific recommendations aimed at addressing the long-term funding shortfall.

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<u>Section One:</u>

AMAC and the Social Security Guarantee

The Association of Mature American Citizens (AMAC) has conducted years of careful research into Social Security's long-term financial plight. Alongside this research, the AMAC Foundation has built an extensive body of knowledge on Social Security's operations and the application of its rules and regulations to real-life day-to-day situations facing the American Public. In fact, the AMAC Foundation's accredited Social Security Advisory Service regularly assists thousands of seniors each year as they navigate these rules and regulations.

Together, this research and the practical application of how Social Security actually works provides a backdrop for AMAC's advocacy arm—AMAC Action—to represent membership as legislation is proposed in Washington. With the Social Security Administration's recurrent warnings of impending insolvency, now projected to be reality in about eight years, the need for reform measures is rapidly gaining recognition in many quarters, and the sense of urgency increases by the day.

This document will set forth the AMAC organization's viewpoints on the insolvency problems facing Social Security, beginning with the deficiencies developing over the program's 90-year history and the imbalance between current state and the realities of 21st Century economics. A menu of options that should be considered to restore the program's financial stability for future generations will be presented, along with discussion on the implications of each. This will be followed by a slate of specific recommendations representing AMAC's suggested modifications.

The material represents over a decade of AMAC's research into thoughtful ways to guarantee the solvency of Social Security for current and future beneficiaries, while preventing the automatic cut in benefits projected in less than a decade absent legislative attention.

About the Association of Mature American Citizens

The Association of Mature American Citizens (AMAC, Inc.) represents Americans 50 plus. AMAC is centered on American values, freedom of the individual, free speech and exercise of religion, equality of opportunity, sanctity of life, rule of law, and love of family, with benefits at all levels. AMAC plays a vital role in helping build the services that will enrich the lives of America's seniors.

About AMAC Action

AMAC Action, a 501(c)(4) nonprofit conservative advocacy organization, was created to support AMAC and its over 2 million members by advancing initiatives on Capitol Hill, in state legislatures, and at the local level through grassroots advocacy.

About AMAC Foundation

The AMAC Foundation, a 501(c)(3) charitable foundation, exists to help protect and ensure the financial security, health, safety, and social lives of current and future mature Americans. The Foundation helps Americans navigate the bewildering array of decisions they need to make regarding key support areas, with a strong focus on Social Security and Medicare. Its trained and certified Social Security Advisors are dedicated to interpreting Social Security on behalf of the public and providing assistance in navigating the programs' complex rules and regulations.

Section Two:

Social Security Solvency and the future of retiree benefits: Defining the problem

This section presents a recap of the solvency dilemma facing Social Security, along with a general review of Social Security's financial history since its creation and the establishment of its trust funds. The societal and financial events materializing during the program's nine decades of operation are outlined, along with an assessment of their impact on the program's future. The section concludes with introductory commentary on a pathway to resolving the steadily unfolding catastrophe facing America's seniors.

Social Security: The Projected Depletion of Reserves

The 2025 Social Security Trustees Report projects the Social Security Old-Age and Survivors Insurance (OASI) Trust Fund's full depletion by the beginning of 2033 and the resulting across-the-board 23% cut in monthly benefit payments. The Trustees Report further notes that hypothetically combining the OASI trust fund with the Disability Insurance (DI) trust fund would improve this outlook a bit, to 2034 with a cut of 19%, although current law prohibits combining the funds.[1]

The Congressional Budget Office (CBO) diverged only slightly from these projections, forecasting that the combined trust funds would be fully depleted by 2034, with a 21% benefit cut commencing in 2035.[2]

This graphic, prepared by the Committee for a Responsible Budget based on data from the 2024 Trustees Report, illustrates the "cliff" ahead for Social Security beneficiaries absent legislative reform, with the program's benefit payments mandated to match incoming revenue after the trust fund reserves are fully depleted. The cliff is the gap between scheduled benefits and the revenues dedicated to support these benefits.

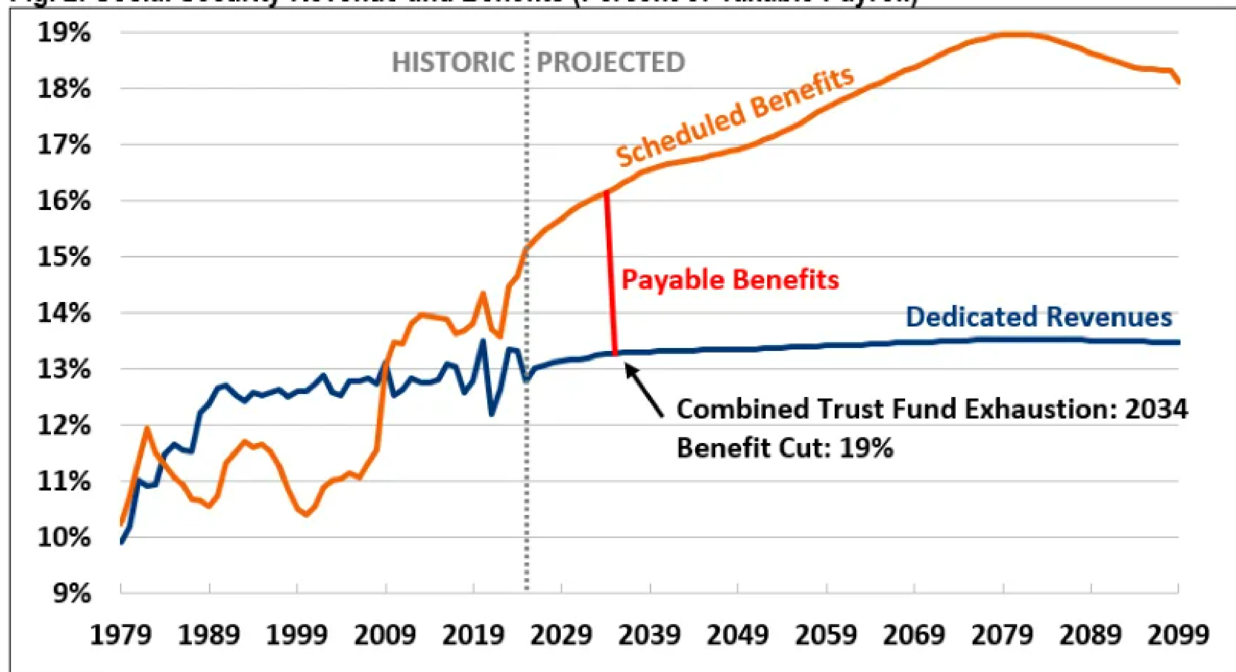

Figure 1 - https://www.crfb.org/papers/analysis-2025-social-security-trustees-report

[1] https://www.ssa.gov/OACT/TRSUM/index.html
[2] https://www.cbo.gov/system/files/2025-03/61187-Long-Term-Outlook-2025.pdf

How Funds Flow Through the Social Security Program

As a matter of law, all revenues flowing into Social Security are received by the U.S. Treasury and immediately converted into special interest bonds.[3] These bonds are then held by Social Security in the program's trust funds and redeemed as necessary to pay benefits. Excess revenues over disbursements increase the trust fund reserve balance, while excess distributions reduce the trust fund balances.

Social Security income is derived from three sources—payroll taxes, interest on reserves, and income tax paid on benefits. In fiscal 2024, incoming revenue totaled $1,417.5 billion[4]:

Payroll Taxes	$1,293.3 billion
Interest	69.1 billion
Income taxes	55.1 billion

In 2011, the income from payroll taxes alone became insufficient to meet payable benefits, causing the program to draw on interest in addition to income tax revenue to make up the difference. As of 2021, the combined revenue from *all* sources became insufficient to cover benefits paid, causing the program to resort to liquidating reserves to meet promised benefits. This liquidation of reserves, if not corrected, will lead to the eventual full depletion of the trust funds' balances.

As shown in Figure 1 (above), the point of full trust fund depletion, now projected to be reached in 2033 or 2034, would prompt an immediate and substantial across-the-board reduction of benefit payments.

Trust Fund History

Historical growth in the Social Security trust funds has spanned more than 80 years. Established in 1940 under the Social Security Act Amendments of 1939,[5] the OASI trust fund was inaugurated as the first recipients began to receive monthly social security checks. At the end of the first fiscal year (ending June 30, 1940), the OASI trust fund had a recorded balance of $1.745 billion; this reserve balance grew steadily from 1940 through 1957, the year the disability insurance (DI) trust fund was established and had accumulated over $23 billion at that point.[6] At the end of fiscal year 1957, the DI trust fund balance was $337 million, bringing the combined OASDI balance to $23.366

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[3] Social Security Administration, Social Security Trust Fund Cash Flows and Reserves, https://www.ssa.gov/policy/docs/ssb/v75n1/v75n1p1.html.
[4] Excludes Gen. Fund reimbursements ($.3 billion (see Table III.A1 & Table iII.A2 in https://www.ssa.gov/OACT/TR/2025/tr2025.pdf
[5] Ibid.
[6] Social Security Administration, Eighteenth Annual Report of the Boad of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund, https://www.ssa.gov/OACT/tr/historical/1958TR.pdf.

billion.[7] Despite yearly fluctuations, the combined trust fund balance grew until 1974, reaching over $48 billion in cash reserves.

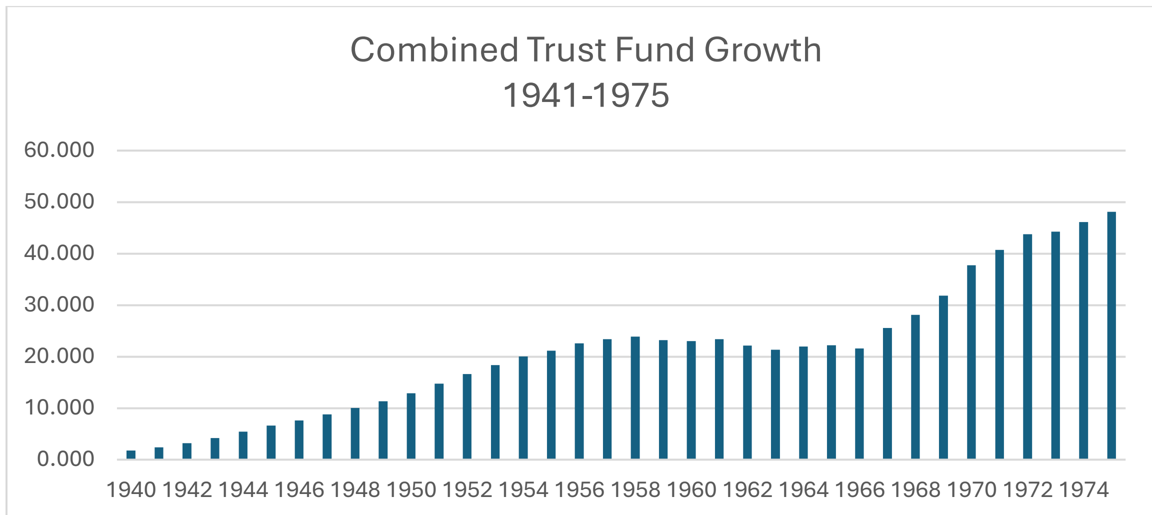

Figure 2 - AMAC Foundation Social Security Advisory Service

Then, in 1982 after seven consecutive years of decline in the trust fund balances as benefit payments exceeded incoming revenue, the annual Trustees Report contained this statement: "Without corrective legislation in the very near future, the Old-Age and Survivors Insurance Trust Fund will be unable to make benefit payments on time beginning no later than July 1983."[8] Congress acted immediately and passed the Social Security Amendments of 1983.[9] These reforms primarily included setbacks in full retirement age and the initial levy of federal income tax on benefits for certain taxpayers.

With implementation of the 1983 Amendments, the Social Security Administration (SSA) projected, "… the program will be able to pay benefits on time for the next 75 years under all but the most pessimistic [assumptions]."[10] As a result of these changes, the combined trust fund reserves resumed their growth, reaching a high of $2.9 trillion by year-end 2020.[11]

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[7] Ibid

[8] Social Security Administration, 1982 Annual Report–Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund, https://www.ssa.gov/oact/tr/historical/1982TR.pdf.

[9] Social Security Administration, Social Security Amendments of 1983: Legislative History and Summary of Provisions, https://www.ssa.gov/policy/docs/ssb/v46n7/v46n7p3.pdf.

[10] Social Security Administration, 1983 Annual Report–Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund, https://www.ssa.gov/OACT/tr/historical/1983TR.pdf.

[11] Social Security Administration, Operations of the Combined OASI and DI Trust Funds, https://www.ssa.gov/OACT/tr/2020/IV_A_SRest.html#126084

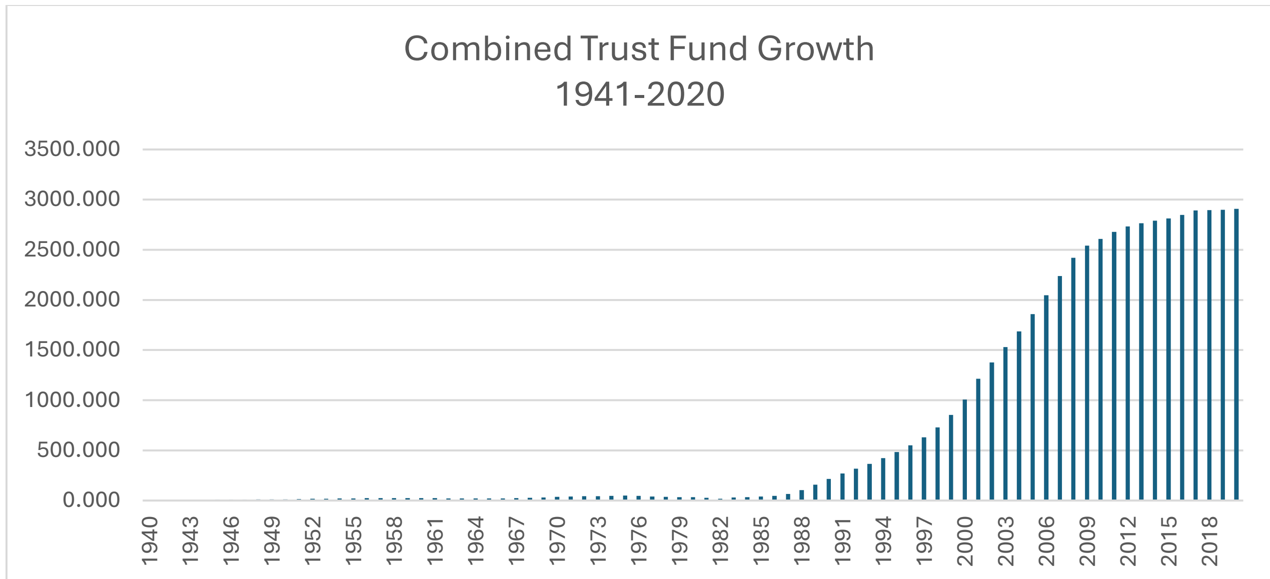

Figure 3 - AMAC Foundation Social Security Advisory Service

The Beginning of Financial Insolvency

As noted previously, the trust funds' *total* income (payroll tax, interest, and federal income tax on benefits) became insufficient to pay scheduled benefits in 2021, requiring redemption of the bonds held by the trust funds. Consequently, the reserve balance entered a pathway to depletion since incoming revenue is projected to remain insufficient to cover scheduled benefits in the years ahead. The graph below illustrates the steady drop in combined reserves beginning in 2021 and the total depletion projected by the trustees for 2034. Even with tax increases, such as those proposed in the Social Security Expansion Act,[12] the Social Security Trust Fund would only see 13 years where revenues exceed outlays, according to a 75-year analysis by the Social Security Administration.[13]

[12] S.393 - 118th Congress (2023-2024): Social Security Expansion Act. (2023, February 13). https://www.congress.gov/bill/118th-congress/senate-bill/393.
[13] Social Security Administration, Letter to Senator Sanders on February 13, 2023, https://www.sanders.senate.gov/wp-content/uploads/SandersLetter-2023-0213.pdf.

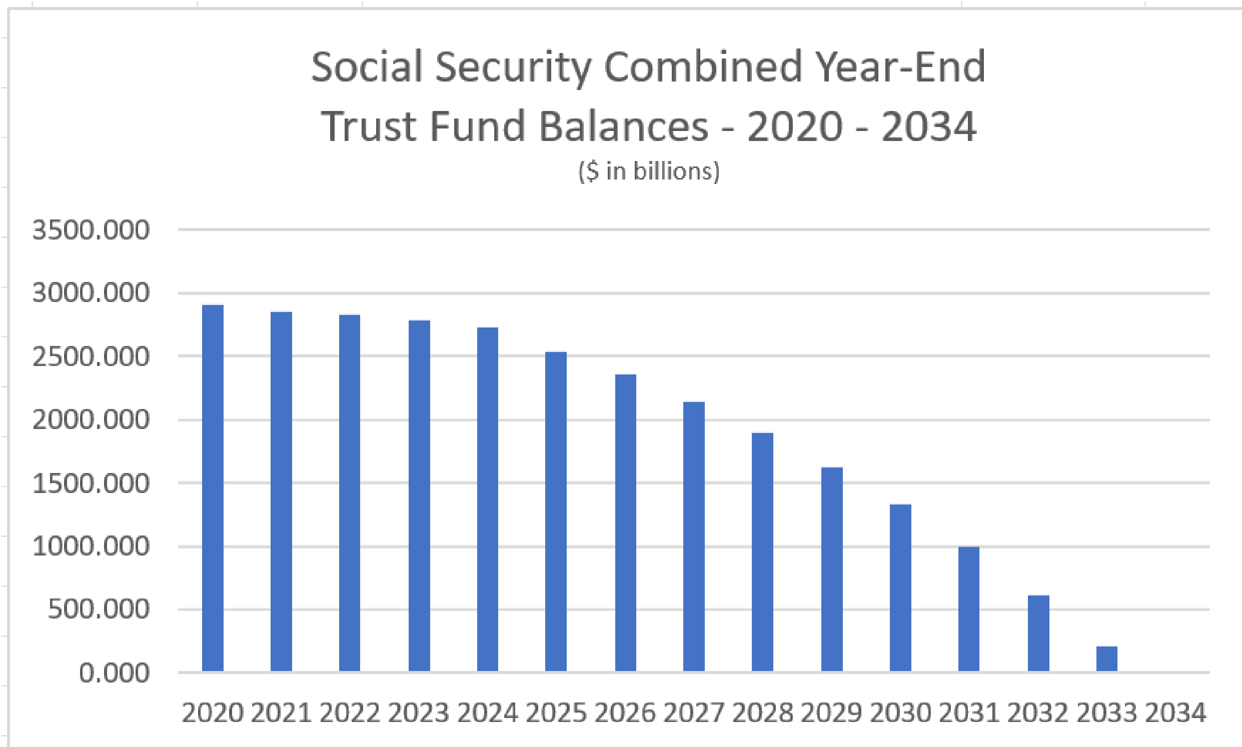

Figure 4 - AMAC Foundation Social Security Advisory Service, via https://www.ssa.gov/OACT/tr/2025/IV_A_SRest.html#382302

The Cause of the Problem

When the trust fund reserves are fully depleted, Social Security benefits will be forced to move to a cash basis, where benefits paid must equal revenues received. The reality of this situation sets program beneficiaries up for severe consequences in less than a decade. As noted earlier, this shift to cash in/cash out is projected to result in a substantial across-the-board cut in benefits that will grow as more retirees enter the program.

This is not the first time insolvency has surfaced in the program's history. With the remedial action taken in the early 1980s (the Social Security Amendments of 1983 mentioned earlier), it was projected the trust fund would remain solvent for 75 years; unfortunately, changing demographics have rendered this projection obsolete, with the point of full cash reserve depletion now projected to be reached some 25 years sooner.

How Did We Get to This Point?

Depletion of Social Security's trust fund cash reserves can be attributed to several key factors, beginning with the length of time benefits need to be paid to beneficiaries. For example, since 1940 life expectancy for those reaching age 65 has grown substantially, increasing by 9.7% for females and 8.5% for males, a trend expected to continue increasing through the end of the century.

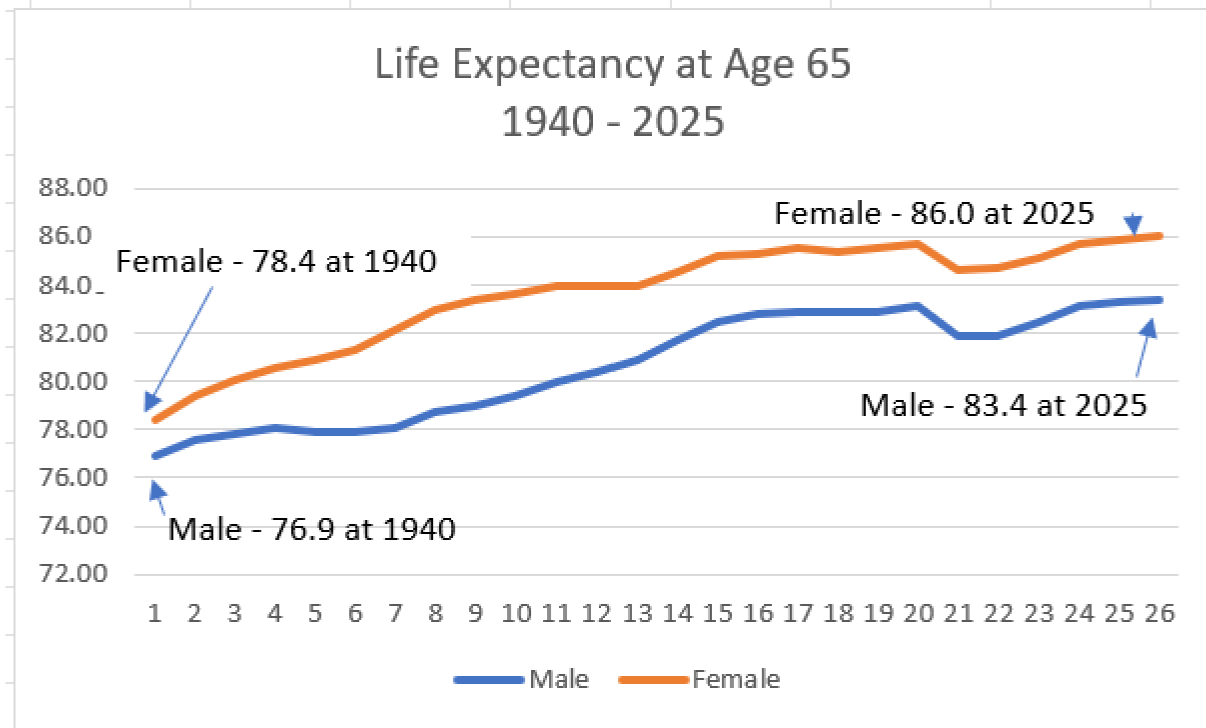

Figure 5 - 2025 Social Security Trustees Report, Table VA4. https://www.ssa.gov/OACT/tr/2025/V_A_demo.html#226697

The fact that American seniors are living longer is indeed a positive societal development, but it presents a challenge to ensuring long-term Social Security solvency. In addition to longer life-expectancy, the "Baby Boomer" generation has been reaching retirement eligibility since 2008. This population cohort is uncharacteristically large—76 million—and is expected to result in roughly doubling the population of Americans over age 65 by 2031.[14] With many boomers claiming benefits early, and with many of them leaving the workforce entirely, it is expected that there will be additional pressure on Social Security's cash flow as growth in the number of beneficiaries increases at a faster pace than workers contributing to the program. On this point, the taxpayer-to-beneficiary ratio has dropped dramatically, skidding from 42:1 in 1945 to less than 3:1 today, with projections calling for a continued decline in the years ahead.[15] Further, the most recent annual Social Security Trustees' report noted, "There were about 2.7 workers for every OASDI beneficiary in 2024."[16]

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[14] National Academy of Social Insurance, How Will Boomers Affect Social Security?, https://www.nasi.org/learn/social-security/how-will-boomers-affect-social-security/.
[15] Mercatus Center, How Many Workers Support One Social Security Retiree?, https://www.mercatus.org/sites/default/files/worker-per-beneficiary-chart-jpeg.jpg.
[16] https://www.ssa.gov/OACT/tr/2025/II_D_project.html#132991

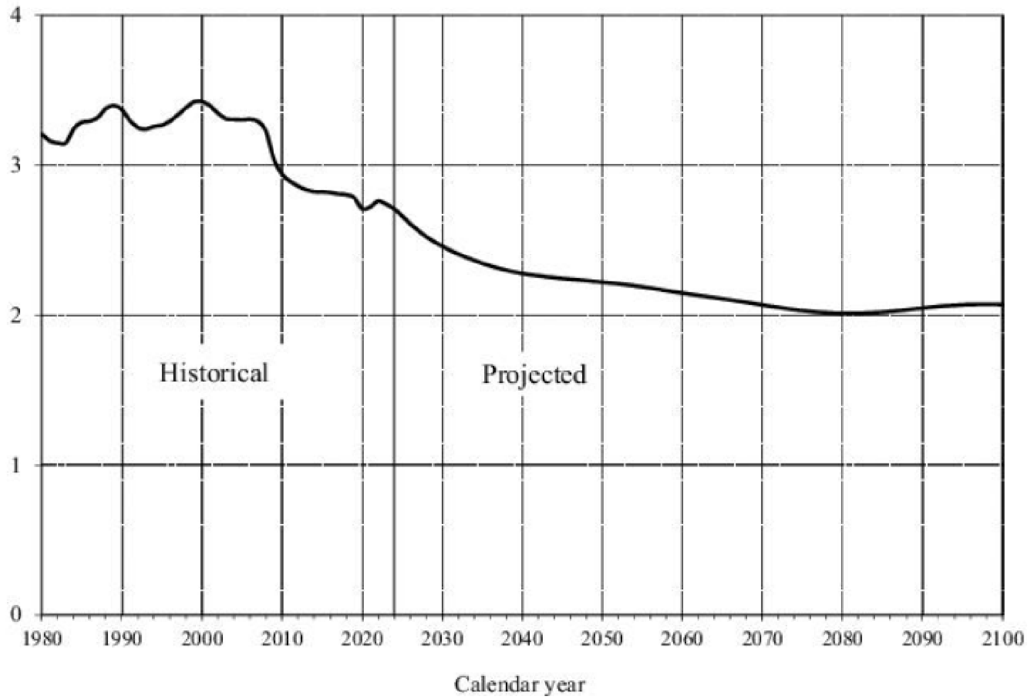

Figure 6 - Social Security Administration, Covered Workers and Beneficiaries, Calendar Years 1980-2100 https://www.ssa.gov/OACT/tr/2025/II_D_project.html#132991

Another factor relates to the size of the future taxpaying workforce. The CDC reports that the 2020 U.S. birthrate fell by 4% from 2019 and, after a slight uptick in 2021, again dropped in 2022 and 2023 marking a return to a pattern of declining births. This tends to presage the expected taxpayer-to-beneficiary ratio decline,[17] as does the 3% increase in U.S. infant mortality rate reported by the National Center for Health Statistics in 2023[18]. As a result, Social Security is projected to see a declining number of taxpayers, exacerbating the program's current and future deficit projections[19].

In addition to the above drivers, financial factors like historically low-interest rate returns[20] on the trust fund reserves have served to diminish the funds' incoming cash flow, while previously mentioned societal factors have blunted anticipated growth in Social Security tax revenue[21]. But an even more significant factor in the projected acceleration of the combined trust funds' point of full depletion—from 2056 projected in the 1983 Social Security Amendments to 2034 as currently

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[17] Center for Disease Control, Vital Statistics Rapid Release, https://www.cdc.gov/nchs/data/nvsr/nvsr74/nvsr74-1.pdf

[18] https://blogs.cdc.gov/nchs/2023/11/01/7479/#:~:text=A%20new%20Vital%20Statistics%20Rapid,rate%20since%202001%20to%202002.

[19] U.S. Bureau of Labor Statistics, Employment Projections Civilian labor force participation rate by age, sex, race, and ethnicity - https://www.bls.gov/emp/tables/civilian-labor-force-participation-rate.htm.

[20] https://www.ssa.gov/OACT/tr/2025/V_B_econ.html#308187

[21] https://taxfoundation.org/data/all/federal/latest-federal-income-tax-data-2025/

projected by the Social Security Trustees—has been cited by Steven C. Goss, Social Security's former Chief Actuary. Specifically, Goss suggested that the phenomenon of "earnings dispersion" has created a situation where an unexpected amount of earnings is escaping payroll taxation due to an increased number of higher earners exceeding the annual taxable maximum. He reports the results of a study showing the ratio of total payroll to taxable earnings dropping from a projected level of 90% to 82.5%, with real wage growth for the top 6% earners outstripping the wage growth of the lower 94% by 45%. The effect on projected Social Security finances is dramatic, with 7.5% of a total payroll of roughly $15 trillion essentially escaping the 12.4% payroll tax.[22]

Goss further projects that the lower taxable ratio will continue in the years ahead, further aggravating Social Security's financial situation.

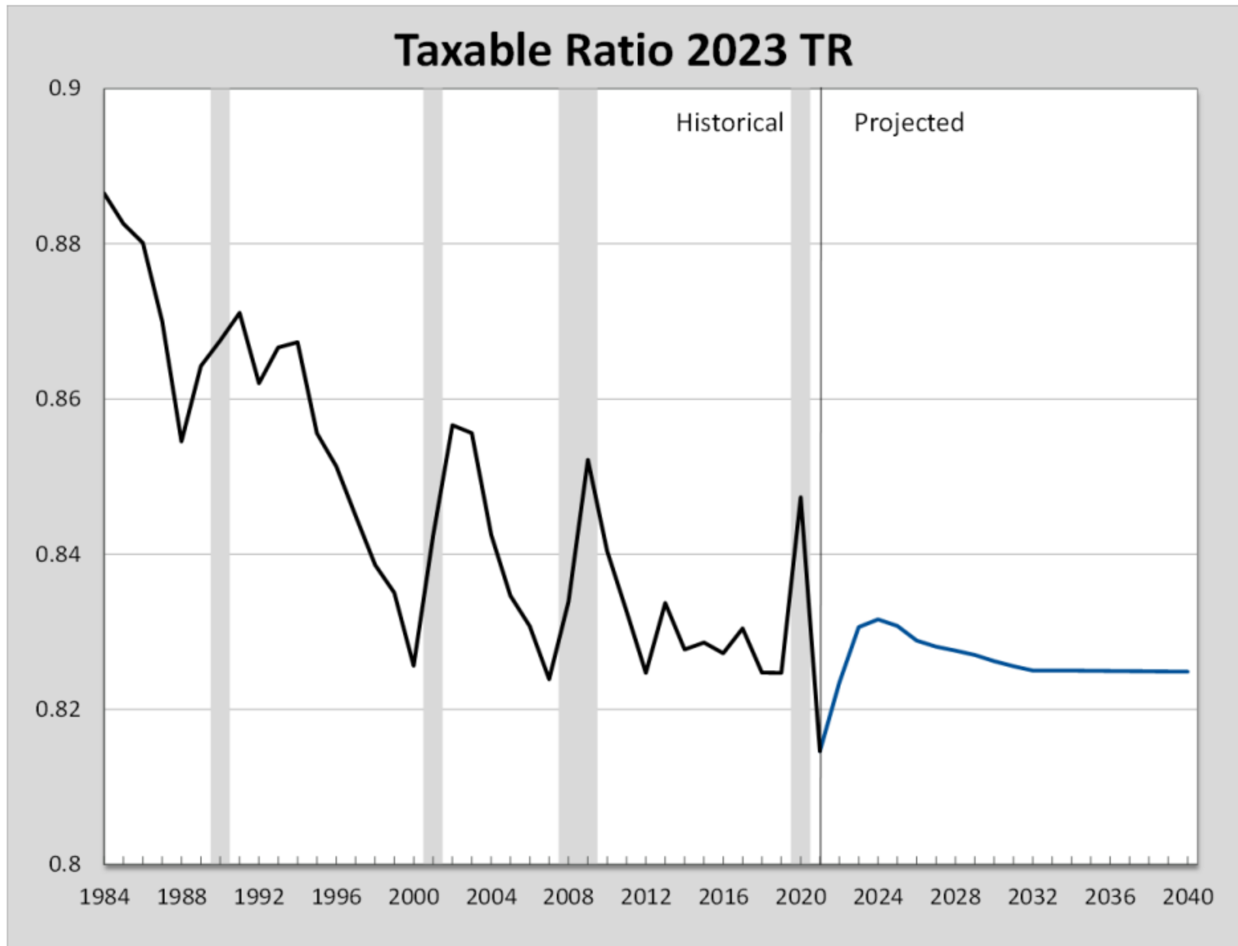

Figure 7, Social Security Administration presentation – Steve Goss at 2023 Harkin Retirement Security Symposium, Harkin-Institute-Morning-Keynote-2023-0913-FINAL.pdf

[22] https://www.ssa.gov/OACT/presentations/scgoss_20240724.pdf

Fixing the Social Security Solvency Dilemma

Despite the potential for catastrophe, Congress can restore Social Security Solvency if lawmakers act swiftly, much like they did in 1983. It is imperative that corrective action be undertaken as far in advance of full trust fund depletion as possible to minimize disruption but, while immediate action is critical, so too is adopting the best long-term solution.

Some organizations believe that the solution is to raise taxes; AMAC believes there is a better way. Social Security can be preserved and modernized through an approach that guarantees current retirees continue to receive their full benefits while adjusting future benefits to stay true to the program’s anti-poverty mission and ensure beneficiaries receive the full value of benefits paid into the program.

Section Three:

Social Security Solvency and the future of retiree benefits: Fixing the Problem

AMAC's position on guaranteeing Social Security for future generations has undergone several iterations since 2014, each time adjusting to accommodate evolving conditions. Most recently, AMAC convened a dedicated working group to evaluate Social Security's worsening financial trajectory and recommend changes that would lead to its preservation and modernization to meet the challenges of 21st Century economics.

AMAC's working group examined the conditions presented in recent Trustees Reports, along with the many prior legislative proposals on which the Social Security Office of the Chief Actuary has conducted actuarial analyses[23]. From this review, we selected specific alternatives believed to be best suited to save Social Security's retirement trust fund.

In studying the Chief Actuary's data, we focused on each selected alternative's effect on the long-range actuarial balance shortfall estimated in the most recent Trustees Report's intermediate projections. We subsequently validated this approach via an external actuarial firm[24] review, an engagement calling for an independent assessment of our summary analysis of a range of selected alternatives. The intent of this third-party review was solely to endorse the approach taken in comparing AMAC's proposed policy changes to those scored by the Chief Actuary and was not intended to affirm any specific recommendations.

From our research of prior proposals, we highlighted several policy areas as examples for consideration to address the Social Security solvency problem. These proposals are *examples of alternatives* that could be considered to set the best path to long-term trust fund solvency without the necessity of payroll tax increases. They are:

Price indexing of PIA factors
Changing the Normal Retirement Age (NRA)
Changing the Early Eligibility Age (EEA)
Cost-of-Living Adjustments
Computational year changes
Earnings Test Elimination
Changes to Income Tax on Benefits
Changes to Survivor Benefits
Elimination of Lump-Sum Survivor Benefit
Reduction of Final Bend Point Percentage
Set the Annual Taxable Maximum to 90% of Payroll
Improve savings opportunities for future retirees

[23] https://www.ssa.gov/OACT/solvency/provisions/
[24] https://www.bpas.com/

To reiterate, these items represent options that could be considered in crafting a solution to the Trust Fund Insolvency issue discussed earlier in this document. The remainder of this section will discuss these options and illustrate their projected effect on Social Security's long-range actuarial balance shortfall.

A Menu of Options for Consideration

Price indexing of PIA factors

To calculate a retiree's monthly benefits, Social Security determines their Primary Insurance Amount (PIA). To determine the PIA, Social Security first looks at the retiree's wage history and adjusts each year's total earnings to account for wage inflation. From the wage-adjusted earnings history, Social Security then selects the highest 35 years of earnings, which are then totaled and divided by 420 (the number of months in 35 years) to determine the Average Indexed Monthly Earnings (AIME).

After the AIME is determined, Social Security applies three "bend-points" designed to add progressivity by ensuring lower earners receive a higher rate of replacement of their pre-retirement income. In 2024, for example, retirees earned 90% of their first $1,174, 32% of their monthly earnings above $1,174 and below $7,078, and 15% of any monthly earnings over $7,078.[25] Social Security uses annual changes in the National Average Wage Index (NAWI) to adjust the bend points used in the PIA calculation each year.

Using price indexing to adjust the bend points calls for each year's new values to be adjusted based on the Consumer Price Index rather than the average wage index. Since prices tend to grow at a slower rate than wages, the bend points would also move in lesser increments, shifting more of AIME out of the 90% calculation bracket and into the 32% and 15% benefit brackets.

The chart below shows an example, using 2024 bend point values, of the impact on a hypothetical AIME of $8,000. The first chart shows the PIA calculation using wage indexed bend points. The second chart shows the calculation using price indexed bend points. The difference is a PIA reduction of 1.2%, and a reduction in the retiree's income replacement rate from 38.6% to 38.1%. In periods of high wage rate growth, the difference would be greater, as would the change in pre-retirement income replacement rates.

The net effect of this recommended change would be a lowering of the initial benefit calculated for all earners, primarily by moving more of their average earnings away from the first (90%) bend point to the bend points that generate lesser portions of the calculated benefit (the 32% and 15% portions).

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[25] https://www.ssa.gov/oact/cola/bendpoints.html

Progressive Price Indexing Example

Chart 1 – Using Current Bend Point Values (AIME - $8000)				
Segments	Applied to	Multiplier	Calculation Value	PIA Portion
First	$0 to $1,174 of AIME	90%	$1,174	$1,057
Second	$1,175 to $7,078 of AIME	32%	$5,904	$1,889
Third	$7,079 to $8000	15%	$922	$138
Calculated Primary Insurance Amount (PIA)				$3,084
Chart 2 – With Adjusted Bend Point Values (AIME - $8000)				
Segments	Applied to	Multiplier	Calculation Value	PIA Portion
First	$0 to $1,151 of AIME	90%	$1,151	$1,036
Second	$1,152 to $6,936 of AIME	32%	$5,785	$1,851
Third	$6,408 to $8,000	15%	$1,064	$160
Calculated Primary Insurance Amount (PIA)				$3,047

Table 3 Illustration of PIA calculation using price indexing

Fiscal impact:

According to the Social Security Office of the Chief Actuary's analysis of this provision, using progressive price indexing to calculate initial benefits for *all* newly eligible beginning in 2031 would eliminate 85% of the long-range actuarial balance shortfall.[26] In periods of high wage inflation, the reduction realized by higher earners is likely to be greater, again because wage rates tend to escalate faster than the CPI indicators currently used to adjust bend points.

According to the Social Security Office of the Chief Actuary's analysis,[27] applying this change to the 50th percentile of the AIME distribution of newly retired workers rather than 100% would reduce the

[26] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run103.html
[27] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run190.html

shortfall by 33% and would help preserve the program's progressive intent. Other options assessed by the Social Security Office of the Chief Actuary include:

- Applying the above change to the 40th percentile[28] of the AIME distribution, a projected 40% elimination of the shortfall
- Applying the above change to the 60th percentile[29] of the AIME distribution, a projected 25% elimination of the shortfall

Another consideration might be to change the indexing method on earnings history, using price indexing instead of wage indexing for this parameter as well. The effect of this change would require extensive actuarial analysis; a preliminary opinion on its efficacy has been requested from the Social Security Office of the Actuary.[30]

Changing the Social Security Normal Retirement Age

As suggested by the data presented in section two, life expectancy has improved substantially since Social Security was designed nine decades ago. Consequently, retirement benefits need to be paid for much longer than originally intended. To borrow a phrase from Mercatus Center's Charles P. Blahous in his research paper titled *An Analytical Framework for Strengthening Social Security*, "Simply put, Americans are living longer and collecting benefits for more years, while spending a smaller fraction of their adult lives as employed workers."[31]

Recognizing this, Social Security's Chief Actuary has been called on to analyze a wide range of proposals to adjust the Normal Retirement Age (NRA) from its current ceiling of 67 for those born in 1960 or later. Some call for a one-year increase (to age 68), while some suggest age 69 or 70 as the NRA. Several also include provisions to avoid future imbalances in the NRA by indexing it to maintain a constant ratio of expected retirement years (life expectancy at NRA) to potential work years (NRA minus 20).

As is the case with most of the proposals we examined, variations in phase-in schedules and the inclusion of early eligibility age (EEA) changes and indexing provisions make it difficult to compare proposals. For illustration purposes, however, we've included here a proposal for each NRA target. For example, a proposal to phase in NRA 68 would reduce the shortfall elimination by 15%[32] without future NRA indexing, while a similar proposal to phase in NRA 69 would reduce the shortfall elimination by 29%.[33] A proposal to phase in NRA 70 would reduce the shortfall elimination by 47%,[34] although this proposal would include advances in the EEA from 62 to 64, as well as future NRA indexing.

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[28] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run189.html
[29] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run191.html
[30] Email to actuary@ssa.gov, 12/4/2024
[31] https://www.mercatus.org/research/research-papers/strengthening-social-security#:~:text=In%20%E2%80%9C%20An%20Analytical%20Framework%20for%20Strengthening%20Social,Social%20Security%20and%20how%20they%20can%20be%20addressed.
[32] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run115.html
[33] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run119.html
[34] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run165.html

Regarding NRA indexing, a proposal evaluated by the Social Security Office of the Chief Actuary suggests that adopting indexing alone would reduce the shortfall elimination by 19%.[35] The assumption in this proposal is that the NRA will increase 1 month every 2 years.

Changing the Social Security Early Eligibility Age

Many of the proposals evaluated by Social Security's Chief Actuary regarding NRA included complementary changes to the early retirement age (EEA), currently set at 62. We did note one proposal focused on changing the EEA that was evaluated separately by the Actuary,[36] specifically calling for a gradual change to EEA from 62 to 65.

The actuarial study of this proposed change indicates that this would likely add 3% to the long-range actuarial balance shortfall, thus worsening the long-range OASDI actuarial deficit. According to the Chief Actuary, this is attributable to a likely increase in the number of individuals who would apply for disabled worker benefits during the extended period.

Cost-of-Living Adjustments

Social Security currently applies the annual cost-of-living adjustment (COLA) on an equal percentage basis. Average annual calculations for the 2000 to 2024 period have been 2.6%, although there were four years in which the adjustment was either 0% or less than 1%. During this period, the costs faced by seniors have outpaced benefits substantially, leading to a 36% loss of purchasing power as reported last year by The Senior Citizen League (TSCL).[37]

The Department of Labor has multiple measures of inflation available to Social Security for determining annual COLAs. Currently, CPI-W is used, but some proposals have suggested switching to a chained measurement (C-CPI-U) or a particular measure for seniors called CPI-E; see Exhibit A for more information on the difference in CPI measures. Many proposals suggest using C-CPI-U to match other inflation-based changes, such as the annual increase in the marginal income tax brackets.

The Social Security Office of the Chief Actuary's analysis of several provisions related to COLA adjustments suggests, for example, that:

- A change to C-CPI-U beginning in 2025 would eliminate 16% of the long-range actuarial balance shortfall[38]
- A change to C-CPI-W beginning in 2027 would eliminate 14% of the long-range actuarial balance shortfall[39]
- A change to CPI-E beginning in December 2026 would add 12% to the long-range actuarial balance shortfall[40]

[35] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run116.html
[36] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run134.html
[37] https://seniorsleague.org/assets/LOBP-Study-2023.pdf
[38] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run185.html
[39] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run184.html
[40] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run147.html

While it is recognized that changing to C-CPI-U from CPI-W may reduce the annual COLA, adopting a different approach to application of the annual adjustments could mitigate potential reductions in the benefit increase for lower income beneficiaries.

To help reinforce Social Security's mission as an anti-poverty program, consideration of adopting an equal dollar approach to the COLA calculation based on the average retirement benefit could be considered. This approach would shift more of the COLA to lower income beneficiaries, thus increasing their buying power.

Figure 9 below provides an illustration of this in practice in a year in which inflation is measured at 2.5%.

Individual Social Security Benefit	Current law: Example 2.5% COLA to all	Same dollar amount to all	Difference	Guaranteed COLA when inflation is <1%
Special Minimum $1,093[41]	$27	$48	+$21	$19
$1,400	$35	$48	+$13	$19
Avg. = $1,925[42]	$48	$48	$0	$19
$2,400	$60	$48	-$12	$19
FRA = $3,822[43]	$95	$48	-$47	$19
W/DRC = $4,873[44]	$122	$48	-$74	$19

Figure 9 - SSG proposed COLA compared to a 2.5% COLA under current law

[41] https://www.ssa.gov/cgi-bin/smt.cgi (for 2024, 30-year)

[42] https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/index.html (Table 2 - using Retired Workers - October 2024)

[43] https://www.investopedia.com/ask/answers/102814/what-maximum-i-can-receive-my-social-security-retirement-benefit.asp#:~:text=Qualifying%20for%20Social%20Security%20benefits,maximum%20monthly%20benefit%20is%20%244%2C873.

[44] Ibid

Fiscal impact:

The net effect of this change in how COLAs are applied would be to shift a significant portion of the dollars associated with the annual adjustment to lower-benefit recipients. As such, it is consistent with Social Security's primary purpose, and with the SSG objective, of emphasizing those with lower earnings to keep seniors out of poverty. The fiscal impact associated with this change would be relatively small, since the number of beneficiaries below the median benefit distribution is about equal to the number above the median. The additional dollars flowing to low earners should roughly offset the dollars taken away from the higher earners. The effect of a lower dollar adjustment for high earners could be mitigated by a related recommendation to modify the rule for taxation of Social Security benefits.

The change to C-CPI-U for inflation measurement would likely benefit Social Security's trust funds by lowering the overall annual adjustment slightly.

Computational year changes

Social Security retirement benefits are based on earnings history, currently using 35 "computation years" to develop an average indexed monthly earnings (AIME) figure for use as the base for determining a retiree's primary insurance amount (PIA). The PIA is the base benefit amount at normal retirement age. These computation years are the highest wage-indexed earning years in the worker's history. Since Social Security generally assumes a 40-year work history as the norm, taking a lower number of earnings years in effect "drops out" five lower earning years, resulting in a higher AIME.

A change in the calculation of benefits to include additional years in the PIA calculation would be more reflective of 21st-century earnings histories. The current 35-year parameter theoretically assumes an age 25 to age 60 range of workforce participation; with the 1983 NRA change to 66-67 and with an increasing number of workers remaining on the job into their 70s, adopting a 25-65 employment range is more in line with current economics.

The Social Security Office of the Chief Actuary assessed a variety of proposals in this area, producing the following results:

- Increase the computational years to 40 over the 2026-2034 period[45], resulting in eliminating 17% of the long-range shortfall
- Increase the computational years to 38 over the 2025-2029 period[46], resulting in eliminating 8% of the long-range shortfall
- Using a stepped approach[47], with computational years increasing to 36 in 2026, 37 in 2027, and 38 in 2028, resulting in eliminating 10% of the shortfall

To assess the savings expected from this change, we examined the impact of increasing the number of computational years to 38, in effect dropping out two lower earnings years from the PIA

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[45] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run151.html
[46] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run149.html
[47] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run144.html

calculation. Using a range of hypothetical career earnings, our analysis indicates that the PIA reductions, in percentage terms, would be greater for those with lower total career earnings than for those with higher career earnings—in effect, a contradiction of Social Security's progressive design. Further, the change would have a greater impact on retirees with zero years in their earnings history.

Fiscal Impact:

As noted, the addition of earnings years to the AIME calculation would eliminate a portion of the long-term shortfall, with variances in the amount of elimination based on the number of years added. To mitigate the impact on lower career earners, it becomes clear that a provision would be needed to restrict the application of additional computational years to only those with lower income replacement rates (e.g., at or below 40%). Income replacement rates reflect the percentage of career-averaged earnings to be replaced by Social Security—a progressive methodology intended to ensure a higher benefit for lower career earners—thus preserving the benefit levels for those with higher replacement rates would be consistent with the basic premise of "keeping seniors out of poverty" by focusing the benefit reductions on those with higher benefit amounts and lower income replacement rates.

We note here that while this change would reduce the initial benefits for higher earners, a subsequent change to consider (eliminating or adjusting the income tax on benefits) would mitigate a portion of this reduction.

Earnings Test Elimination

Social Security regulations stipulate that upon beginning retirement, spousal, or survivor benefits, beneficiaries are considered "retired" and expected to leave the workforce. Current regulations allow for continued earning from employment for those who claim benefits before their full retirement age (NRA), but there is a limit to how much a worker can earn and continue to receive scheduled benefits prior to reaching NRA.

Social Security sets annual limits on the earnings early filers can record before those benefits are reduced. The limit changes each year based on the National Average Wage Index (NAWI), with the 2025 limit set at $23,400. Exceeding that limit triggers a reduction of $1 for every $2 earned over the limit, causing an impact on benefit payments. In the year the early retiree reaches FRA, there is a different limit and a different reduction factor applicable to the months until the month full retirement age is reached.

The Social Security Earnings Test severely limits the ability of early retirees to earn income without having their benefits reduced. Because of this provision, many older Americans are forced out of the workplace when they would otherwise continue contributing to payroll tax revenue. Removing this provision would allow early retirees to increase their earnings while receiving Social Security benefits.

In the original bill establishing Social Security, it was stipulated that *"No person shall receive such old-age annuity unless . . . He is not employed by another in a gainful occupation."*[48] This absolute

[48] Social Security Administration, https://www.ssa.gov/history/ret.html

stipulation was quickly (and repeatedly) modified more than a dozen times through the years to allow for a base amount of earnings that would not affect benefits, and in 1975 the limits were tied to the national average wage index for annual adjustment purposes. [49]

The last modification to the earnings test regulation occurred near the end of the Clinton Administration when Congress decreed that the earnings limit would evaporate completely at normal retirement age (NRA). In his January 1999 State of the Union Address, President Clinton stated, "We should eliminate the limits on what seniors on Social Security can earn." Unfortunately, the details of the amendment qualified “seniors” to mean only those at their NRA, leaving the limitation in effect for those who filed for benefits before NRA.[50]

In situations where benefits are reduced because of earnings exceeding the limit, there is a provision in Social Security to return the withheld payments to the beneficiary through a recalculation of the recipient’s base benefit amount (PIA). Although some recovery can be realized, the adjustment would extend over the remaining years of benefit payments[51], making it unlikely that the withheld earnings would be fully recovered.

Administration of the earnings test is an overly complex process, creating an extraordinary amount of clerical effort to track. The reporting and verification processes place a substantial recordkeeping burden on the workers and the Social Security Administration staff and often add to the overpayment situations so often highlighted in the media. Likewise, for those who elect to file early, it is often a surprise that affects cash flow planning in retirement, especially among those intending to use the extra income to bolster their savings for later years.

From a Social Security revenue perspective, limiting the earnings of retirees reduces payroll taxes thus exacerbating the program’s financial problems. Eliminating this provision would encourage workforce participation and allow retirees to earn more and pay more into the program via FICA taxes.

Fiscal Impact:

This proposal would encourage seniors to work longer even if they receive Social Security retirement benefits, thus allowing them to bolster their savings for their retirement years. Seniors would contribute more to Social Security through FICA taxes, and SSA staff would be free of the extensive burden of tracking, enforcing, and follow-up on repayment of the withheld benefits. Further, this would eliminate one of the key sources of the overpayment problems plaguing SSA today.

Beyond reducing the administrative burdens, according to the Social Security Office of the Chief Actuary’s analysis, elimination of the Retirement Earnings Test would eliminate 1% of the long-term shortfall[52] via increased tax revenue.

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[49] Ibid.

[50] Ibid.

[51] Social Security Administration, Exempt Amounts Under The Earnings Test, https://www.ssa.gov/OACT/COLA/rtea.html

[52] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run285.html

Changes to Income Tax on Benefits

In 1983, as part of the Social Security Amendments passed to avert a solvency crisis, Congress required all retirees to pay income taxes on 50% of their benefits if their incomes reached a minimum threshold.[53] The 1983 decision, however, did not call for adjusting the taxation thresholds, a move apparently designed to pull more and more people into tax liability.[54] By 1993, when the Omnibus Budget Reconciliation Act of 1993 (OBRA) put new and higher taxation thresholds for Social Security, the slice of beneficiaries paying federal income tax on their Social Security proceeds had grown to 18%. In 2015, the Social Security Administration estimated that nearly 60% of retiree households are subject to this income tax levy today.[55]

The thresholds adopted via OBRA 1993 called for 85% of a retiree's benefits to be taxed if income exceeded $34,000 for an individual and $44,000 for a married couple filing a joint return. These thresholds remain in effect today, having never been adjusted to account for inflation and the corresponding rise in wage levels. The current income thresholds are:

Current income thresholds for taxation of Social Security Benefits		
	Up to 50% of benefits included in taxable income	Up to 85% of benefits included in taxable income
Single	$25,000	$34,000
Married Filing Jointly	$32,000	$44,000

As a result of the thresholds being frozen in place, what was once a high income for the average retiree is now low enough that, as noted above, a substantial percentage of retiree households pay taxes on their Social Security benefits. While one popular notion calls for complete elimination of benefit taxation, a more plausible alternative might be to increase the thresholds and index them to account for future inflation.

[53] Social Security Administration, Research Note #12: Taxation of Social Security Benefits, https://www.ssa.gov/history/taxationofbenefits.html
[54] ibid.
[55] Social Security Administration, Income Taxes on Social Security Benefits, https://www.ssa.gov/policy/docs/issuepapers/ip2015-02.html

For example:

Updated income thresholds for taxation of Social Security Benefits		
	Up to 50% of benefits included in taxable income	Up to 85% of benefits included in taxable income
Single	$50,000	$75,000
Married Filing Jointly	$100,000	$150,000

Future occurrences of this problem would be averted by indexing these thresholds to match other automatic adjustment features of the tax code.

Fiscal Impact

Total 2024 tax revenues from this provision were $55.1 billion, or 3.9% of the total revenue for the OASI and DI Trust Funds that year[56]. Total elimination of federal income tax on Social Security benefits would result in a substantial loss of revenue for the program; updating of the 40-year old thresholds would lessen this impact substantially.

The Social Security Office of the Chief Actuary's analysis of a recommendation to eliminate this taxation completely would, if changed via a "stepped" process from 2045 through 2053, add 18% to the long-term shortfall.[57] As an alternative, changing the taxation thresholds to $50,000 for single filers and $100,000 for joint filers starting in 2026 would add 3% to the long-term shortfall.[58]

It's important to note that either total elimination of the tax or adjustment of the thresholds would enable more seniors to retain their full benefits, which keeps the program in line with its intended purpose.

Changes to Survivor Benefits

Increasing the benefit available to surviving spouses would enhance Social Security for lower income households. Under current law, when one spouse dies, the survivor receives the higher of the two benefits in place of their own. For example, consider a situation where spouse A receives a monthly benefit of $2000, and spouse B receives $1000. If either spouse dies, the surviving spouse receives the $2000 benefit, resulting in a household benefit reduction of $1000. Realistically, this leaves the surviving spouse with a substantially reduced total monthly family benefit at a time when overall household expenses have typically not diminished appreciably.

A recommended change would have the surviving spouse receive an amount equal to the lower of the two benefits plus 75% of the higher benefit amount. Applying the change to only survivors having incomes below the threshold for income taxation would preserve progressivity. In the example shown above, the survivor would receive a benefit of $2500 rather than $2000 as under

[56] https://www.ssa.gov/OACT/tr/2024/tr2024.pdf
[57] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run159.html
[58] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run157.html

current law. The household would only see a reduction of $500; this would be instrumental in keeping lower income households from falling below federal poverty limits.

The net effect of this recommendation is an increase in the monthly benefit paid to the surviving spouse in situations where the surviving spouse has an income level below the threshold for income tax.

Fiscal Impact: This provision would increase outlays; however, consistent with Social Security's objectives for progressivity, it would help ensure that more surviving spouses remain above federal poverty limits. According to the Social Security Office of the Chief Actuary's analysis of a somewhat similar proposal[59], provision of this enhanced survivor benefits would add 3% to the long-term shortfall.

Elimination of Lump-Sum Survivor Benefits

The lump-sum benefit paid to survivors ($255) has been a fixed amount for the past eight decades and has consequently eroded in real value. According to the Congressional Research Service (CRS),[60] Social Security paid out $215 million in lump-sum death benefits in 2023, with the lump-sum payment only extended in about 38% of deaths, likely the result of there no longer being an eligible recipient.

Numerous legislative attempts have been made unsuccessfully through the years to either eliminate the lump-sum benefit amount or adjust its nominal value to reflect current economics, and references have been made on the record to the benefit being "largely an anachronism[61]". President George Bush, in his 2007 Budget challenged its inability to provide "meaningful monetary benefit for survivors" considering its administrative costs to manage.

Given its relative value in today's economics, elimination of the lump-sum benefit might be appropriate at this time and would likely relieve the Social Security Administration from a considerable clerical burden. Assuming the annual level of payout continues to remain constant over the 75-year projection period, elimination would save the Social Security an estimated $16.1 billion and, perhaps even more importantly, would cancel a significant administrative expense borne by the Social Security Administrative. When coupled with the changes to survivor benefits discussed in the preceding item, any impact on low-earning households would be more than offset.

Reduction of Final Bend Point Percentage

The Social Security primary insurance amount (PIA) calculation for initial benefits credits the portion of average indexed monthly earnings (AIME) exceeding the second bend point with 15%. For 2025, this second bend point is $7,391 ($88,692 in annualized career average earnings), so any AIME amount greater than that would add 15% of that amount to the benefit calculation.

Gradually reducing the third bend point percentage to 10% from 15% would lessen the benefit payable to relatively high earners and would not affect low- to medium-level earners, consistent

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[59] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run345.html
[60] https://crsreports.congress.gov/product/pdf/R/R43637
[61] Ibid

with Social Security's progressive intent. A similar proposal evaluated by the Social Security Office of the Chief Actuary[62] suggests that this change would eliminate 3% of the long-term shortfall if phased in from 2037 to 2066.

An alternative involving bend point manipulation would be to change parameters for the 50th percentile of AIME values, such that the bend point values below the 50th percentile are reduced from 32% to 30%, the bend point values at or above the 50th percentile are reduced to 10% from 32%, and the third bend point value is reduced from 15% to 5%. The Social Security Office of the Chief Actuary's evaluation of a change like this[63] would eliminate 29% of the long-term shortfall if phased in from 2031 to 2064.

Set the Annual Taxable Maximum to Ensure 90% of payroll is subject to FICA tax.

As noted in section two, the ratio of total payroll to taxable earnings dropped over time from a previously projected level of 90% to 82.5%, a level that remains relatively constant now and in the projectable future. Consequently, an estimated 7.5% of the workforce's payroll is not subject to FICA tax. In other words, about 7.5% of the total workforce payroll of between $14 and $15 trillion is escaping direct FICA taxation.

According to comments from Social Security's Chief Actuary, this anomaly can be attributed to "faster growth in annual earnings for high earners than for medium and low earners" a change that increases the "spread" in the relative earnings distribution, increasing the share of all earnings for the top percentiles.[64]

To address this matter, it has been recommended that the taxable maximum be adjusted such that 90 percent of earnings would be subject to the payroll tax (phased in 2025-2034), while providing credit for earnings up to the revised taxable maximum. According to the Social Security Advisory Board's analysis of this provision[65], this change to the taxable maximum would eliminate 24% of the long-term shortfall and would be in keeping with Social Security's progressive intent.

A similar proposal was entered in early 2025[66] to "Increase the OASDI taxable maximum earnings level by 6 percent faster than current law beginning in 2027, until the taxable ratio reaches 90 percent of covered earnings. Maintain a 90 percent taxable ratio thereafter." This proposal was determined by Social Security's Chief Actuary to reduce the annual deficit for the 75th projection year (2098) by 0.37 percent of payroll.

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[62] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run194.html
[63] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run193.html
[64] https://www.ssa.gov/oact/presentations/scgoss_20240724.pdf
[65] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run266.html
[66] https://www.ssa.gov/oact/solvency/HoyerPrimus_20250103.pdf

Improve existing supplemental voluntary after-tax savings programs for all earners to facilitate the availability of more income at retirement.

The recently enacted Secure 2.0 Act substantially improved retirement savings options, with provisions to promote savings and increase flexibility for those saving for retirement. AMAC has long recognized the importance of increasing workers' ability to accumulate savings to augment their cash flow in retirement and after claiming Social Security benefits. Both AMAC and Secure 2.0 recognize this measure of financial health in retirement as being critical to a retirees' ability to meet financial obligations and survive through economic downturns.

With many retired workers relying on Social Security as a significant portion of their retirement income, and with many Americans facing retirement with Social Security as their only source of income, making common sense changes to improve financial stability in later years is vital. Increasing retirement plan portability, making Roth conversions easier, and increasing access to retirement savings vehicles will help workers save more for retirement.

In keeping with this general objective, and as an extension of the Secure 2.0 Act's provisions, inclusion of a new benefit would help and encourage workers to secure a financially sufficient retirement. Specifically, through creation of an Early Retirement Account (ERA) structured as a voluntary, supplemental savings vehicle with preferred tax provisions and built-in portability, wealth accumulation could develop under the guidance of investment experts.

With access restricted to age 62, death, or total disability, the recommended ERA would serve to create estate value for dependents and heirs. Linking the availability of an ERA to employment has the lateral benefit of recognizing the dignity of participating in the economy and the confidence that results from building financial self-sufficiency.

To be effective, an Early Retirement Account provision would be governed by a set of clearly defined parameters:

- The ERA would be a <u>voluntary</u> account for both employee and employer
- The individual would be the owner of this supplemental retirement savings account
- Employers would be eligible for a tax deduction
- Employee contributions would be an after-tax deduction with income sheltered
- Employees would not be taxed on withdrawals (similar to a Roth IRA)
- Employee contributions would be paid via payroll deduction, with the employer providing the mechanism for employees to do so
- Employers would be required to offer participation to all employees (full and part-time)
- The weekly minimum is $5, the weekly maximum is $100 or $5,200/year
- When new employees are hired, they would need to opt out of the ERA, or they would be enrolled at $10/week

- Employers may elect to contribute to employees' ERA account in any amount or percentage of pay they choose up to $50 per week ($2,600 per year)
- The employer may start or stop their contribution at any time
- If the employee changes jobs, their new employer must add payroll access for the ERA
- Access to funds in the ERA is restricted such that the funds are only available to the employee at age 62 or because of death or total disability
- The employee may elect to start receiving payouts at any age between 62 and 70 ½
- The ERA's death benefit would be the accrued account value at time of death
- ERA account benefits, including earnings, are tax-free at withdrawal
- The ERA's contribution limits would be indexed for inflation at 4%

In addition to these operating parameters, the ERA would be administratively subject to investment oversight as follows:

- 80% of the funds would be invested in stock funds
- The other 20% may be invested in any approved conservative investment (i.e. S & P 500 index)
- To ensure quality, a volunteer board of investment experts would create and maintain lists of approved investments
- Investment choices would be similar to those used in 401k plans and IRAs and the cost of administration would be borne by the same providers who offer those plans, not the federal government

Fiscal impact: Because savings improvements like those described above would be after-tax, there would be no change in FICA tax collections. Rather, they are aimed at improving workers' ability to save for retirement to help future retirees accumulate financial resources to facilitate their post-career years. Similarly, other common sense adjustments to improve the Secure Act 2.0, including for example, increasing portability and making Roth conversions easier, would go a long way toward erasing many of the doubts future retirees have about their ability to financially navigate their later years. In fact, a recent Senior Living[67] study crystalized these doubts with a conclusion that, "Nearly 1 in 2 older adults' biggest financial fear was not having enough money saved for retirement, and this rings truer for those between the ages of 55 and 64."

[67] https://www.seniorliving.org/finance/senior-fears-study/

A Summary of Options and Their Impact on the 75-year Shortfall

Below is a roadmap to the selected proposals evaluated by the Social Security Office of the Chief Actuary, showing comparable shortfall impacts and the specific proposal number as presented on the SSA.gov OACT page[68].

Potential Change	Impact on Shortfall	OACT Ref
Changes that reduce the shortfall		
Price Indexing of PIA Factors - ALL	-85%	B1.1
Price Indexing of PIA Factors – 50 percentile and above	-33%	B1.4
Price Indexing of PIA Factors – 40 percentile and above	-40%	B1.3
Price Indexing of PIA Factors – 60 percentile and above	-25%	B1.5
Phase in NRA to 68	-15%	C1.2
Phase in NRA to 69	-29%	C1.6
Phase in NRA to 70 (includes indexing of NRA)	-47%	C2.5
Adopt NRA indexing w/o changing NRA	-19%	C1.3
Cost-of-living adjustments (C-CPI-U)	-16%	A8
Cost-of-living adjustments (C-CPI-W)	-14%	A4
Computational year changes – 40 years	-17%	B4.3
Computational year changes – 38 years	-8%	B4.1
Computational year changes – 38 years phased	-10%	B4.5
Elimination of Retirement Earnings Test	-1%	B7.11
Reduce third PIA bend point from 15% to 10%	-3%	B3.9
Reduce second and third PIA bend points	-29%	B3.8
Set taxable maximum to equal 90% of total payroll (w/benefit inc.)	-24%	E3.1
Set taxable maximum to equal 90% of total payroll (no benefit inc.)	-31%	E3.2
Elimination of Lump Sum Benefit	*	

[68] https://www.ssa.gov/OACT/solvency/provisions/

Changes that add to the shortfall		
Change the Social Security Early Eligibility Age (EEA)	+3%	C2.1
Cost-of-living adjustments (CPI-E)	+12%	A6
Elimination of Income Tax on Benefits	+18%	H6
Elimination of Income Tax on Benefits – Threshold v=change only	-+3%	H4
Changes to survivor benefits	-+3%	D4
Changes that have no effect on shortfall:		
Improved Savings Opp.	0%	

- No estimate available.

Section Four:

AMAC's Social Security Guarantee

AMAC regularly surveys its membership to stay abreast of issues crucial to their well-being. Without question, one of the issues cited most frequently is the long-term stability of Social Security…an area where AMAC has been engaged prominently for more than a decade. In recent years, the level of interest in the future of this fundamental retirement support program has risen dramatically as the projected point of trust fund depletion draws closer.

Philosophically, AMAC believes preservation and modernization of Social Security can be achieved via slight modifications to specific processes in the existing system accompanied by innovations designed to preserve the program's mission of keeping vulnerable seniors out of poverty. Toward this objective, we recently conducted a focused survey for AMAC members requesting input as we refine the results of our years of research into a set of actionable recommendations for presentation to Congress.

AMAC Social Security Survey

The survey was conducted in early December of 2024, and included a set of ten questions covering specific Social Security policy areas that we know to be of interest to our members. The survey produced well over 4,000 responses, along with a wealth of comments reflecting the views of our members. Exhibit B presents the questions posed in the survey.

These survey results were a significant aid to our work on crafting specific recommendations to address the Social Security insolvency problem. As evidenced by the result of the first poll question, they supported our general premise that necessary changes need to be spread over a variety of program areas to avoid targeting any specific demographic too severely.

AMAC Social Security Guarantee Recommendations

AMAC's work on a solution to Social Security's long-term insolvency problem has, from the very beginning, focused on three prime directives:

- Guarantee an annual Increase in benefits for all, with emphasis on those with lower earnings to ensure the program says true to its mission of keeping seniors out of poverty
- Guarantee achieving solvency and ensure benefits continue without automatic cuts
- Guarantee all earners the opportunity to create more income available at retirement through work and improved retirement savings programs

To achieve these broad directives, AMAC's Social Security Guarantee (SSG) specifically recommends the following:

Cost-of-Living Adjustment (COLA) Changes

Recommendation: To help reinforce Social Security's mission as an anti-poverty program, AMAC recommends providing an equal dollar COLA based on the average retirement benefit as illustrated

in the preceding section of this document. This will increase the buying power of retirees below or near the poverty line.

Recommendation: We also recommend a change from CPI-W to C-CPI-U as the basis for determining COLA adjustments, along with alignment of the measurement period to coincide with the Federal government's fiscal year. AMAC's SSG proposes using chained CPI-U (C-CPI-U) to match other inflation-based changes, such as the annual increase in the marginal income tax brackets. While we recognize that changing to C-CPI-U from CPI-W would likely reduce the annual COLA), SSG's proposal to adopt an average dollar adjustment in place of an average percentage would negate any potential reduction in the benefit increase for lower income beneficiaries.

Recommendation: We further recommend a provision that all retirees be guaranteed an increase in benefits even when the calculated adjustment falls below 1%. This recommendation stipulates that the annual COLA would be a minimum of 1% of total benefit payments and would be applied as an average dollar amount rather than a percentage.

a. **Fiscal Impact** - The net effect of this average dollar change in how COLAs are calculated would be to shift a significant portion of the dollars associated with the annual COLA to lower-benefit recipients. As such, it is consistent with Social Security's primary purpose and with the SSG objective of emphasizing those with lower earnings to keep seniors out of poverty. The fiscal impact associated with this change would be relatively small, since the number of beneficiaries below the median benefit distribution is about equal to the number above the median. The additional dollars flowing to low earners should roughly offset the dollars taken away from the higher earners. The effect of a lower dollar adjustment for high earners would be mitigated by SSG's recommendation to modify the rule for taxation of Social Security benefits.

   We recognize also that the change from CPI-W to C-CPI-U would likely minimize the amount of dollars paid out in annual COLAs, but the higher dollar adjustment flowing to lower earners would be expected to offset the decrease for those with below average benefits.

   The inclusion of a 1% minimum COLA is unlikely to generate any significant negative effect on the long-term shortfall, given the statistical history of COLAs since 1976. With only four occurrences of a less than 1% CPI calculation in the 50-year COLA history, we project the potential impact over the 75-year projection period to be statistically insignificant.

b. **Relationship to survey results –** AMAC members strongly favored changing the COLA calculation process to direct a larger portion of the adjustment dollars to low earners. The average-dollar adjustment process would accomplish that. They likewise supported ensuring that the COLA calculation process more accurately reflects inflation; the change

to C-CPI-U, which in final form is said to be a "superlative" index[69], is designed to be a closer approximation to a cost-of-living index than other CPI measures.

Either eliminate or reduce taxation of benefits by increasing the income thresholds for taxation of Social Security benefits to exempt middle-class seniors' benefits; index the thresholds for inflation.

Recommendation: Taxing Social Security benefits is a frequently recurring item in discussions on the program's need for reform. The threshold amounts were not indexed for inflation when Congress began taxing Social Security benefits in 1983. As a result, what was once a high income for the average retiree is now low enough that more than half of retiree households pay taxes on their Social Security benefits.[70] While AMAC supports completely eliminating taxation of Social Security benefits, a compromise position is to increase the threshold where benefits become part of the income tax liability calculation

The thresholds for taxation as they exist today are shown in the table below

Current income thresholds for taxation of Social Security Benefits		
	Up to 50% of benefits included in taxable income	Up to 85% of benefits included in taxable income
Single	$25,000	$34,000
Married Filing Jointly	$32,000	$44,000

If elimination is not possible, SSG recommends increasing the thresholds for taxation of Social Security benefits to relieve the undue taxable income hardships on Social Security beneficiaries. Specifically, we recommend that the income thresholds be changed as follows:

Proposed income thresholds for taxation of Social Security Benefits		
	Up to 50% of benefits included in taxable income	Up to 85% of benefits included in taxable income
Single	$50,000	$75,000
Married Filing Jointly	$100,000	$150,000

Recommendation: Further, we recommend that future versions of this problem be averted by indexing these thresholds to match other automatic adjustment features of the tax code.

a. **Fiscal Impact:** This proposal will reduce the income tax portion of Social Security's income stream. However, more beneficiaries will be able to retain their full benefits, which keeps the program in line with its intended purpose. Total 2024 tax revenues from this provision raised $55.1 billion, or 3.9% of the total revenue for the OASI and DI Trust Funds that year. For comparison purposes, and as noted in the previous section, the Social Security Office of the Chief Actuary's analysis of a recommendation to eliminate this taxation completely

[69] https://www.bls.gov/cpi/additional-resources/chained-cpi-questions-and-answers.htm#Question_1
[70] https://www.ssa.gov/policy/docs/research-summaries/income-taxes-on-benefits.html

would, if changed via a “stepped” process from 2045 through 2053, add 18% to the long-term shortfall.[71] As an alternative, changing the taxation thresholds to $50,000 for single filers and $100,000 for joint filers starting in 2026 would add 3% to the long-term shortfall.[72]

Gradually adjust the normal (full) retirement age from 67 to 70 over time; retain age 62 as the early retirement age and eliminate delayed retirement credits.

Recommendation: Gradually adjust the normal (full) retirement age (NRA) from 67 to 70 over a period of 12 years, beginning at a point that shields those within 10 years of age 62 from any effect of the change. Table 1 below assumes this proposal became law in 2026; it would affect beneficiaries turning age 62 in 2036, annually increasing NRA by three months until reaching age 70 for those attaining age 62 in 2048. Beneficiaries already enrolled in Social Security would not be affected.

Birth Year	Normal (Full) Retirement Age (NRA)	Year turning 62	Year reaching NRA
1974	67	2036	2041
1975	67+3 months	2037	2042
1976	67+6 months	2038	2043
1977	67+9 months	2039	2044
1978	68	2040	2046
1979	68+3 months	2041	2047
1980	68+6 months	2042	2048
1981	68+9 months	2043	2049
1982	69	2044	2051
1983	69 & 3 months	2045	2052
1984	69 & 6 months	2046	2053
1985	69 & 9 months	2047	2054
1986	70	2048	2056

Recommendation: Concurrent with this change, we recommend retaining age 62 as the optional early retirement age. We recognize, however, that the reduction applied to monthly benefits claimed before NRA must be examined to mitigate some of the impacts. Under current law, a reduction of 5/9 of 1% is applied for every month of early retirement up to 36 months; for any

[71] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run159.html
[72] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run157.html

additional months, an additional decrease of 5/12 of 1% is applied. Using this formula, a retirement at age 62 would reduce benefits by 45% for an NRA of 70.

To lessen the impact on early retirees, SSG recommends a third reduction calculation of 1/6 of 1% for each month beyond 60 months of early retirement. This change would reduce the reduction percentage from 45% under current law to 36%, increasing benefits for early retirees enrolling at age 62. The adjustment to 1/6 of 1% is in line with SSG's goal of keeping seniors out of poverty. Table 2 compares the annual reduction rate for the SSG proposal and current law.

Age	SSG proposed reduction per year (FRA 70)	Current Law reduction per year (FRA 67)
69	6.7%	
68	6.7%	
67	6.7%	
66	5%	6.7%
65	5%	6.7%
64	2%	6.7%
63	2%	5%
62	2%	5%
Total	36%	30%

Table 2 Comparison of SSG proposed reduction rate and current law

Recommendation: Included with this recommendation is the adoption of a regular review of NRA via a formula that keeps the ratio of life expectancy/NRA intact and consistent with changes in longevity demographics.

a. **Fiscal Impact** - Based on comparison to prior proposals evaluated by the Social Security Chief Actuary, specifically proposal C2.5[73], it is estimated that a 47% reduction in the long-range actuarial balance shortfall would be realized. The proposal used for comparison is based on a phase-in schedule different from that proposed here; a review by the Chief Actuary would be needed to validate this reduction estimate.
b. **Relationship to survey results** – more than 70% of the survey respondents agreed that a change in NRA should be part of the plan to save Social Security. In fact, an NRA of 70 was the most-favored recommendation, with 36% choosing that as the target NRA.

Recommendation: The recommended change to NRA would in effect sunset DRCs as they exist under current law. Currently, seniors who delay claiming past their normal retirement age earn an increase in benefits for every month they delay, up to age 70. The delayed retirement credit significantly increases retirement benefit expenditures while doing little, if anything, to reduce retiree poverty. This change will produce cost savings and reduce the income inequality created by

[73] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run165.html

the program. Statistically, 10% of claimants defer filing to age 70.[74] In conjunction with the recommendation to advance NRA to 70, the SSG recommendation is to phase out the additional incentive so that monthly benefits are maximized at age NRA.

Historically, the availability of DRCs has served as a financial incentive to wait past NRA to begin claiming benefits, with the motivation being an increase in the benefit amount of 8% for each full year of deferral (or 2/3 of a percent for each month of deferral). This increased benefit can be realized until age 70, with the result being that a benefit for a claimant with an NRA of 67 can be increased by as much as 24%. The 8% DRC rate was established as part of the Social Security Amendments of 1983, reflecting economics at that time, and has never been adjusted; as a result, the credit rate has been excessive for some time compared to the current and projected economic conditions and is a contributor to both the impending insolvency problem and the growing income inequality plaguing the U.S. economy. DRCs have largely benefited individuals in jobs with substantial retirement benefits and a corresponding ability to defer claiming Social Security benefits, as well as those otherwise financially able to defer claiming benefits. SSG's proposal eliminates DRCs, a change that helps support long-term solvency while reinforcing Social Security as a progressive anti-poverty program.

For higher earners, modify the primary insurance amount calculation so that more of the average indexed monthly earnings are moved to the lower percentage tiers (progressive price indexing)

Recommendation: Adopt price indexing of PIA factors for the top half of wage earners, i.e., average indexed monthly earnings at the 50th percentile and higher. This would shift a portion of the average indexed monthly earnings (AIME) for higher earners to the lower percentage tiers in the PIA calculation and reduce the initial benefit calculation for those affected.

The SSG recommendation calls for no change from the current approach for workers with AIMEs below the 50th percentile of wage earners but calls for the bend points for those above the 50th percentile to be adjusted using CPI-based inflation rates, which tend to be lower than wage rate increases. For 2024, the bend points for AIMEs increased by 5.3%;[75] under this proposal, the bend points for AIMEs above the 50th percentile would move by 3.82%.[76] As a result, the "upper half" bend points for 2024 would be $1,151 and $6,936 rather than $1,115 and $6,721, shifting more of AIME out of the 90% bracket and into the 32% and 15% benefit brackets for benefit calculation.

a. **Fiscal Impact** - Based on comparison to prior proposals evaluated by the Social Security Chief actuary, we would estimate a 33% reduction in the long-range actuarial balance shortfall.

[73] https://www.financialplanningassociation.org/learning/publications/journal/FEB24-it-may-be-mistake-delay-social-security-retirement-benefits-OPEN/
[75] Social Security Administration, - https://www.ssa.gov/oact/COLA/bendpoints.html
[76] Social Security Administration, CPI For Urban Wage Earners And Clerical Workers, https://www.ssa.gov/oact/STATS/avgcpi.html.

b. **Relationship to survey results** – Although member responses were slightly opposed to changes that would curtail benefits for higher earners, the relatively even response (54%/46%), when coupled with adjustments that would compensate for reductions in benefits for higher earners, would preserve somewhat the "earned benefit" nature of the initial benefit calculation.

Computational Year Changes

Recommendation: Increase the number of years of indexed earnings used to calculate the career average earnings from 35 to 38.

This proposal reduces the number of years removed (dropped out) of the calculation or, said another way, phases in a higher number of computation years. Each addition of a lower earning year reduces AIME and, therefore, the PIA determination. We examined the impact of this change using a range of hypothetical career earnings; our analysis indicates that the PIA reductions, in percentage terms, would be greater for those with lower total career earnings than for those with higher career earnings—in effect, a contradiction of Social Security's progressive design and one of the basic premises of SSG. Further, the change would have a greater impact on retirees with zero years in their earnings history. Below are examples illustrating the PIA reductions:

Career Earnings	AIME (via current law)	PIA (via Current Law)	Income Replacement Rate	Repl. Rate With 38 comp yrs
$500,000	$1,190	$1,061	89%	90%
$1,000,000	$2,381	$1,442	61%	63%
$1,500,000	$3,571	$1,824	51%	53%
$3,000,000	$7,143	$2,966	41%	42%
$4,000,000	$9,523	$3,312	35%	36%

Table 4 Effects of using 38 computational years

To mitigate the impact on lower career earners, our recommendation is to restrict the application of additional computational years to only those with an income replacement rate at or below 40%. Income replacement rates reflect the percentage of career-averaged earnings to be replaced by Social Security—a progressive methodology intended to produce a higher benefit for lower career earners. Preserving the benefit levels for those above a 40% replacement rate would be consistent with SSG's basic premise of "keeping seniors out of poverty," focusing the benefit reductions on those with higher income replacement rates.

a. Fiscal Impact: Based on comparison to prior proposals[77] evaluated by the Social Security Chief actuary, we would estimate an 8% reduction in the long-range actuarial balance shortfall.

[77] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run149.html

Address the "Income Dispersion" matter by gradually increasing the amount of earnings subject to payroll taxation (FICA)

As discussed in Section II, the proportion of the U.S. workforce payroll not subject to FICA tax has grown from the 10% projected in 1983 to an estimated 17.5%. In other words, about 7.5% of the total workforce payroll assumed to be subject to FICA taxation is escaping this levy. This loss of anticipated tax revenue is a primary reason for the trust fund full depletion projections moving from 2056 to 2033. For perspective, consider that Brookings Institute estimates that the taxable maximum would have reached $346,500 if 1983's 90% assumption had remained true,[78] a level nearly 200% above the current $176,100.

Although the taxable maximum does increase annually based on the NAWI, the proportion of wages above the maximum has grown disproportionately, with real wage growth for the top 6% of earners growing more than three times that of the lower 94%. This has led to many calls for either eliminating the taxable maximum or implementing various levels of increase. In fact, the Social Security Office of the Chief Actuary has evaluated and scored 29 separate proposals calling for changes to the taxable maximum provision.[79]

Recommendation: Implement a series of increases to the OASDI Taxable Maximum Earnings Amount to advance taxable maximum to the level targeted in the 1983 amendments (90%). For example, as recommended in a proposal from the Bipartisan Policy Center, adding 2% to the annual OASDI taxable maximum NAWI adjustment would, over a 38-year period, raise the taxable maximum ($176,100 in 2025) to $740,851 by 2064, eliminating an estimated 22% of the long-range actuarial balance shortfall. This recommendation has been scored by the Social Security Office of the Chief Actuary[80], and includes an annual increase in the taxable maximum from that point at a rate needed to maintain 90 percent of covered taxable earnings. In making this projection, we assumed an annual increase in the NAWI of 3.7%, based on the 1985-2023 actual increases published on the SSA.gov website[81].

Also, our recommendation is to include the additional earnings in the PIA calculation to maintain at least some connection between earnings and eventual benefits, perhaps applying a lower bend point to the additional taxed income.

For those beneficiaries with incomes below the thresholds for income taxation, increase the benefit available to surviving spouses

Recommendation: As explained in the prior section, when one spouse dies, the survivor receives the higher of the two benefits in place of their own. Realistically, this leaves the surviving spouse with a substantially reduced total monthly family benefit at a time when overall household expenses have typically not diminished appreciably. This provision would have the surviving spouse receive an amount equal to the lower of the two benefits plus 75% of the higher benefit

[78] https://www.brookings.edu/articles/fixing-social-security-blueprint-for-a-bipartisan-solution/
[79] https://www.ssa.gov/OACT/solvency/provisions/payrolltax.html
[80] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run289.html
[81] https://www.ssa.gov/oact/COLA/awidevelop.html

amount. It would apply to only those who have an income level below the threshold for income taxation.

Repeating the example provided in the prior section, in a situation where one spouse receives a monthly benefit of $2000 and the other spouse receives a $1000 monthly benefit, the surviving spouse would receive a $2000 monthly benefit--a household benefit reduction of $1000. This recommendation would result in the surviving spouse receiving the lower benefit ($1000) plus 75% of the higher benefit ($1,500) resulting in the surviving spouse receiving a monthly benefit of $2500—a household benefit reduction of $500.

a. **Fiscal impact:** The net effect of this recommendation is an increase in the monthly benefit paid to the surviving spouse in situations where the surviving spouse has an income level below the threshold for income tax. As noted in the preceding section, the Social Security Office of the Chief Actuary's analysis of a somewhat similar proposal[82], suggests this enhanced survivor benefits would add 3% to the long-term shortfall. Consistent with Social Security's objectives for progressivity, it would help ensure that more surviving spouses remain above federal poverty limits.

b. **Relationship to Survey Results**: Nearly 80% of AMAC members responded favorably to this poll question.

Eliminate the Social Security Earnings Test

The Social Security Earnings Test severely limits the ability of early retirees to earn income without having their benefits reduced. Because of this provision, many older Americans are forced out of the workplace when they would otherwise continue contributing to payroll tax revenue.

Administration of the earnings test is an overly complex process, creating an extraordinary amount of clerical effort to track. Likewise, for those who elect to file early, it is often a surprise that affects cash flow planning in retirement, especially among those intending to use the extra income to bolster their savings for later years. From Social Security's revenue perspective, limiting the earnings of retirees reduces payroll taxes thus exacerbating the program's financial problems. Eliminating this provision would encourage workforce participation and allow retirees to earn more and pay more into the program via FICA taxes.

Recommendation: SSG recommends removing this provision to allow early retirees to increase their earnings while receiving Social Security benefits.

[82] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run345.html

a. **Fiscal Impact**: This provision incentivizes seniors to work longer even if receiving Social Security retirement benefits. Seniors earning higher wages would contribute more to Social Security through FICA/SECA taxes, and SSA staff would be free of the extensive burden of tracking, enforcing, and follow-up on repayment of the withheld benefits, while eliminating one of the key sources of the overpayment problems plaguing SSA today. Beyond reducing the administration burdens, according to the Social Security Office of the Chief Actuary's analysis, elimination of the Retirement Earnings Test would eliminate 1% of the long-term shortfall[83].
b. **Relationship to survey results:** AMAC members preferred elimination of the earnings test by a 2 to 1 margin, likely because 88% of the respondents were Social Security beneficiaries and many of them are or were affected by this provision.

Improve existing supplemental voluntary after-tax savings programs for all earners to facilitate the availability of more income at retirement.

Fifty million Americans have no retirement plan, and the average person receiving retirement benefits collects roughly $24,000 per year[84]. Accordingly, most retired workers rely on Social Security as a significant portion of their retirement income. For many Americans, Social Security is their only source of income. There is an urgent need to help workers save more for retirement. Coincident with this, US savings rate is at historic lows, and many Americans in retirement do not have the savings to help them through unforeseen events that many are forced to deal with.

The AMAC SSG advocates the adoption of a new supplemental savings program as outlined in the preceding section. Specifically, we recommend the implementation of the Early Retirement Account, with the guidelines enumerated earlier. As explained, this additional savings capability would facilitate the creation of wealth for retirement, enhance estate value for families, and place retirement financial accountability more in the hands of individual retirees.

[83] https://www.ssa.gov/OACT/solvency/provisions/charts/chart_run285.html
[84] https://www.kiplinger.com/retirement/social-security/average-monthly-social-security-check

Summary of Social Security Guarantee Recommendations

Using the approximations derived from the Social Security Office of the Chief Actuary's scoring of comparable proposals, we estimate that the slate of recommendations comprising the SSG would achieve a net resolution of 101% of the long-range actuarial balance shortfall. Absent formal actuary scoring, we view these estimates as representative of a potential long-term solution subject to further discussion.

Rec.	Recommendation Description	Shortfall Impact
1.1	Equal-dollar COLA	0%
1.2	Change to C-CPI-U; Align with U.S. fiscal year	-16%
1.3	1% minimum COLA	0%
3.1	Increase NRA from 67 to 70	-47%
3.2	Retain EEA at age 62	0%
3.3	Index NRA to life-expectancy	(-19%*)
4	Progressive price indexing – Upper 50%	-33%
5	Increase computational years from 35 to 38	-10%
7	Eliminate Social Security earnings test	-1%
8	Address the "Income Dispersion" matter	-22%
9	Improve supplemental savings programs	0%
	Net effect of recommendations	**-129%**
Increase in 75-year shortfall		
2.1	Increase thresholds for income taxation	+3%
6	Improve survivor benefits	+3%
	Net effect of recommendations	**6%**
Not estimated		
3.4	Eliminate delayed retirement credits	-
2.2	Index taxation thresholds to inflation	-

* The reduction assumed in recommendation 3.3 is included in the scoring for recommendation 3.1.

Section Five:

Tax Increases and Social Security Trust Fund Solvency

Two types of tax increases have been discussed in recent Social Security proposals. One is an increase in the FICA contribution rate (currently 12.4% of wages split evenly between employer and employee). The second is changing the current taxable maximum provision ($176,100 for 2025). A key factor to consider is that any tax increases that do not also result in benefit increases would further shift the Social Security program from an earned benefit to a welfare program.

Changes to FICA contribution rates could have a chilling effect on payroll growth since the additional tax burden might inhibit wage growth and correspondingly inhibit overall workforce tax contributions. A higher FICA rate would also impact lower-wage earners disproportionately since the increased burden would represent a higher portion of their overall earnings. Further, additional payroll costs would likely impact hiring, especially for small businesses. Overall, this option is the least politically viable as it violates both parties' pledges to not increase taxation, either at all or on those earning less than $400,000.

The more common option of the two in Congress is to increase the amount eligible for taxation. However, a 2019 study by Congressional Research Service[85] reports that "…if all earnings were subject to the payroll tax, but the current-law base was retained for benefit calculations, the Social Security trust funds would remain solvent for about 35 years."

The Social Security Expansion Act would tax all earnings over $250,000 at the current rate and allow the taxable maximum to catch up to that threshold, effectively eliminating the cap.[86] The Social Security 2100 Act would apply the Social Security payroll tax to earnings over $400,000. One study found that removing the tax cap would result in 1.1 million fewer new jobs.[87] Additionally, retaining the current benefit calculation law would further increase the degree of means-testing built into the program since the additional earnings would likely be pushed to the final (15%) bend point in the benefit calculation.

Additional solvency relief could be attained by phasing in higher taxable limitations over several years and excluding the additional tax contributions beyond the current law cap from the benefit calculation. This latter "fix" would create additional tax revenue but at the cost of further severing the link between the taxes paid into Social Security and the benefits derived from these tax payments. Under today's beneficiary program, retirees receive back more in benefits than they paid into the program. AMAC calculations of typical earners' primary insurance amounts based on

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[85] Congressional Research Service, Social Security: Raising or Eliminating the Taxable Earnings Base, https://sgp.fas.org/crs/misc/RL32896.pdf

[86] Ibid.

[87] National Center for Policy Analysis, Eliminating the Social Security Payroll Cap: A Bad Idea, https://www.ncpathinktank.org/pdfs/ba839.pdf.

lifetime earnings suggests a typical retiree would receive benefits equal to their full contribution in about three years. Even the maximum earner receives back full contributions in under a decade.

One philosophical effect of changing the taxable earnings limit by elimination or a phase in of higher limits is a potential reduction in work incentives and career development incentives, coupled with the likely incentive for employers to shift payroll contributions to more untaxed benefits and the resulting decrease in tax revenue for Social Security.

Still, the longer it takes to enact reforms to shore up Social Security's solvency and/or the closer any reform is to the insolvency date, tax increases of some kind may have to be considered. Indeed, a yearly automatic tax increase already occurs under current law. The Social Security Administration bases the annual tax cap on changes in the National Wage Index (NAWI)[88]. This measure of U.S. wage trends generally increases each year, thus forcing an increase in the taxable maximum wage cap. The changes are intended to keep Social Security benefits on track with wage inflation.

The Peter G. Peterson Foundation, a nonpartisan organization dedicated to addressing America's long-term fiscal challenges to ensure a better economic future, has identified pros and cons of changing the tax cap.[89]

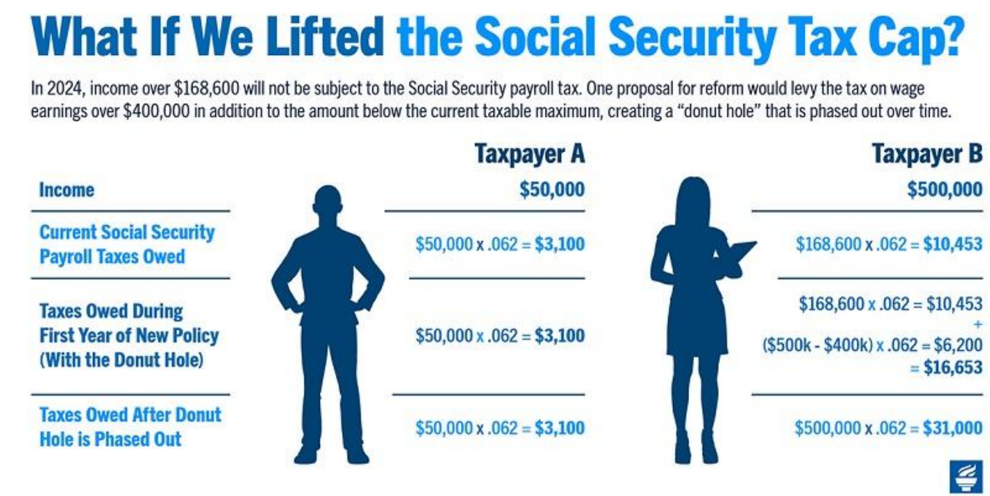

Figure 11 – Taxable Earnings Example - Source: Peter G. Peterson Foundation

In lieu of immediate enactment of FICA/SECA increases, AMAC believes that the implementation of key structural reforms enacted by the Congress provides the opportunity to evaluate their efficacy and sufficiency for long term solvency of the OASDI. In this regard, AMAC recommends the

88 https://www.investopedia.com/terms/n/national-average-wage-index-nawi.asp

89 https://www.pgpf.org/article/should-we-eliminate-the-social-security-tax-cap-here-are-the-pros-and-cons/

following alternative legislative approach if additional increases in the FICA/SECA rates are needed:

- After a period of 5 years, the Social Security Commissioner shall determine if an increase in the OASDI payroll tax rate is necessary and shall advise the Trustees and the President.
- Thereupon, the Trustees shall review the recommendations of the Commissioner of Social Security and advise the President.
- The President may then request the Congress to increase the OASDI payroll tax, based upon the recommendations of the Trustees and the Commissioner.
- Congress may approve the President's request through expedited consideration of a Joint Resolution.

Conclusion

The goal of AMAC's Social Security Guarantee (SSG) is to preserve the program for current beneficiaries and to modernize it for successive generations. AMAC's plan is balanced and singles out no group with excessive changes. We are also confident that our blueprint, presented here as a whole, will extend the solvency of the program and prevent across the board cuts.

Our plan suggests a variety of areas for change to accomplish solvency for the long term:

- We advocate changing the cost-of-living adjustment (COLA) calculation from a straight percentage for all to a same dollar amount for all using the Chained CPI index on the average benefit, and include a 1% floor for the annual adjustment
- We propose either eliminating or at least indexing the amount where income tax is due on benefits
- We propose gradually adjusting the normal retirement age (but not early retirement age) by three years, from age 67 to age 70 consistent with increasing longevity, and index the normal retirement age to life expectancy
- We propose changing the formula for the highest earnings such that more income is captured at the secondary bend points, consistent with the progressivity of the program
- We propose increasing the work history calculation by three years from 35 to 38
- We propose elimination of the earnings test on those who work before full retirement age
- We propose a formula change for the taxable maximum to address the "income dispersion" issue
- We propose enhancing surviving spousal benefits
- We propose improved supplemental retirement savings opportunities

Note, it must be recognized that these recommendations are interlocking to achieve full elimination of the projected funding shortfall. Caution must be taken to not "pluck" only one or two items out for passage. For example, if Congress were to only lessen income tax on benefits and/or only enhance survivor benefits, solvency would be exacerbated, as these two items would have a "cost" rather than a "savings" to the Social Security Trust Fund.

Finally, the plan here is by no means the only way to fix the solvency problem. Although we have called for no broad tax increase, some kind of increase in either the FICA/SECA tax rate (currently 6.2%) or amount of wages captured by this tax is likely inevitable, given the urgency of the problem and compromise required in the political climate.

EXHIBIT A: Measuring inflation and the change in cost-of-living

The current cost-of-living-adjustment (COLA) uses CPI-W, the consumer price index for all urban wage earners and clerical workers, to determine the annual increase in benefits. The Department of Labor's Bureau of Labor Statistics (BLS) also collects information to calculate CPI-E, a consumer price index for Americans over age 50, and chained CPI-U, a consumer price index of urban consumers, using a chained methodology. Below is an explanation of the three methods:

CPI-W:

The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is the current method for determining inflation.[90] CPI-W is a statistical average of the price change for a basket of goods and services based on the buying habits of urban wage earners. BLS surveys households in urban areas to calculate the price change in both product groups and geographic regions to create primary indexes that are then combined to develop regional and national indexes.[91] The national index is the Consumer Price Index for all urban consumers (CPI-U). The eight major product groups are food and beverage, housing, apparel, transportation, medical care, recreation, education and communication, and other goods and services. These groups are calculated in 23 metropolitan areas determined by the Census Bureau. CPI-W is derived from CPI-U by limiting the survey data to price changes seen by households in which at least half of the household income comes from clerical or wage occupations and at least one household member was employed for 37 weeks. Because CPI-W is based on wage earners, the behaviors used to calculate the basket of goods and the related price changes are biased by wage income changes.

CPI-E:

The Consumer Price Index for Americans 62 years of age and older, known as CPI-E, is a research price index designed to measure price changes using the spending patterns of older Americans.[92] BLS has said there are several limitations to the validity of CPI-E as it is currently calculated. Under its current data collection, CPI-E uses data from the CPI-U calculation based on the subset of survey respondents with a household member over age 62. The prices collected are not based solely on data statistically significant to the over-aged 62 population, such as which items, where the items are purchased, and the impact of senior discounts on the pricing of these items. Before CPI-E can be used to calculate the COLA, DOL must improve its collection methods for this index.

Chained-CPI-U (C-CPI-U):

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[90] U.S. Bureau of Labor Statistics, CPI-Urban Wage Earners and Clerical Workers, https://www.bls.gov/help/one_screen/cw.htm.
[91] U.S. Bureau of Labor Statistics, Handbook of Methods, https://www.bls.gov/opub/hom/cpi/concepts.htm, last modified 1/31/2025.
[92] U.S. Bureau of Labor Statistics, R-CPI-E Homepage, https://www.bls.gov/cpi/research-series/r-cpi-e-home.htm, last modified 2/12/2025.

BLS also calculates the Chained Consumer Price Index for All Urban Consumers (C-CPI-U), which considers the substitution effect that impacts consumer behavior to changing prices.[93] Just like CPI-W, C-CPI-U is based on the groups and geographies used to calculate CPI-U; while CPI-U does use a geometric mean formula to allow for minor substitutions within product categories (granny smith apples instead of red delicious apples), C-CPI-U allows for substitutions across product categories (pork or chicken instead of beef, bus fare instead of a car).[94] While all CPI calculations do include some amount of substitution, some categories where substitution is unlikely, such as medical care, utilities, and shelter, are excluded from any substitution calculations.[95] C-CPI-U is designed to be more accurate in determining the impact of price changes on consumers. For this reason, on a year-over-year basis, C-CPI-U will always be lower than CPI-U, and subsequently CPI-W, because of the substitution effect exhibited by consumers, which would, over the long run, change future COLAs compared to the baseline expectation.

The C-CPI-U, which in final form is said to be a "superlative" index, is designed to be a closer approximation to a cost-of-living index than other CPI measures. That said, BLS publishes thousands of indexes each month; these indexes can vary by which items, geographic areas, and populations are covered. As different users have different needs, BLS cannot say which index is necessarily better than another. As such, BLS takes no position on what the Congress or the Administration should use to make adjustments to Social Security or any other federal program. Since 2017, the C-CPI-U has been used to adjust tax brackets for inflation.[96] Further, President Barack Obama's **National Commission on Fiscal Responsibility and Reform** (often called **Simpson–Bowles** from the names of the co-chairs) called for using C-CPI-U as far back as 2010.

Using C-CPI-U for future COLA calculations is considered appropriate because CPI-W is inaccurate for retirees due to the basket of goods being based on working individuals' choices. CPI-E has evolved over the past few years but is still considered somewhat experimental. C-CPI-U is also used by many other programs, including indexing marginal tax brackets.

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[93] U.S. Bureau of Labor Statistics, Frequently Asked Questions about the Chained Consumer Price Index for All Urban Consumers, https://www.bls.gov/cpi/additional-resources/chained-cpi-questions-and-answers.htm, last modified 3/13/2024.
[94] Ibid.
[95] Ibid.
[96] Ibid.

EXHIBIT B: AMAC December 2024 Member Survey Questions

AMAC Social Security Survey

The Social Security Trustees Report warns that program reserves will be depleted by 2034 or sooner, leading to automatic 20-25% benefit cuts for millions of Americans who depend on Social Security for retirement. Recognizing this impending crisis, AMAC founder Dan Weber developed the Social Security Guarantee concept to guide Congress toward solutions that preserve and modernize the program. Our AMAC team is now refining these ideas into actionable recommendations. With Social Security last overhauled over 40 years ago, and with solutions likely requiring a balance of increased revenue and reduced benefits, we need your input to prioritize options for presentation to Congress and the Trump Administration.

With Social Security facing a forecasted trust fund depletion by 2033-2034, which could result in automatic benefit cuts of 20-25%, would you support modest structural changes to the program to prevent these reductions and ensure no single group is disproportionately affected?

Yes

No

This question asks if you would support making adjustments to the Social Security program to avoid across-the-board benefit cuts, with the goal of spreading changes evenly across different groups.

Would you support a change to the benefit calculation math that limits or reduces benefits for higher earners?

Yes, the relationship of Social Security benefits to overall financial resources needs to change.

No, Social Security benefits are based on earnings and that’s appropriate.

Would you support a change in the Social Security cost-of-living calculation?

Yes, a change to distribute more of the annual COLA amount to low earners.

Yes, a change that more accurately reflects the relationship between COLA and inflation.

Yes, a combination of both.

No, keep as is.

Congress last increased the full retirement age (FRA) for Social Security in 1983, raising it by just two years, even though Americans now generally live much longer than when the program began. To ensure the program’s solvency and avoid benefit cuts for current recipients, would you support gradually increasing the FRA beyond its current age of 67 for future beneficiaries who are not yet receiving benefits and are also not close to eligibility?

Yes, gradually raise FRA to 70.

Yes, gradually raise FRA to 69.

Yes, gradually raise FRA to 68.

No change to FRA.

Would you support raising the early retirement age from 62 to 63 for future beneficiaries?

Yes

No

Would you support an increase in the payroll tax on American workers from the current 6.2% employee/6.2% employer rate to fund Social Security?

Yes

No

Continue

Would you support any additional increase in the amount of wages subject to the payroll tax (current cap is $176,100 in 2025)?

Yes

No

Would you support the addition of a voluntary, supplemental savings program available to all but restricted to use as a retirement fund that builds estate value?

Yes

No

Would you support a change that increases the survivor benefit for lower-income widows/widowers?

Yes

No

Would you support the elimination of the Social Security Retirement Earnings Test that limits the amount of earnings a retiree drawing benefits before full retirement age can earn without benefit reduction?

Yes

No

Are you currently receiving Social Security benefits?

Yes

No