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RESEARCH SUMMARY

Strengthening Social Security: An Analytical Framework

Social Security has recently been pushed to the sidelines of recent policy discussions by the pandemic and the economic contraction it has unleashed. Yet Social Security remains the largest and most important single federal program affecting Americans' economic lives. Its projected insolvency alone means that Social Security must return to Congress's legislative agenda.

Social Security faces a large and growing financial shortfall that policymakers must address promptly if the program is to continue to provide income security for participating Americans. But while Social Security's projected insolvency may be its most urgent challenge, it is by no means its only one.

In "An Analytical Framework for Strengthening Social Security," Charles P. Blahous explains a number of problems facing Social Security and how they can be addressed. While it is likely that any bipartisan agreement to achieve sustainable solvency will include a blend of eligibility age changes, revenue increases, and moderation of benefit growth rates, certain prudent reforms that would slow the growth of system costs would not only make it easier to finance Social Security, but they would also improve prospects for treating younger generations fairly, for improving workforce participation and savings incentives, and for better targeting program resources on households of greatest need.

SOCIAL SECURITY'S ADDITIONAL CHALLENGES

- Counter to widely shared values and expectations, in many instances Social Security redistributes income from those with less income to those who have more.
- The program currently stands on balance to substantially reduce future workers' lifetime incomes by requiring them to pay more in taxes (in present value) than they receive in benefits.
- Program costs as a whole are growing faster than workers' earnings, thereby depressing living standards that Americans experience as workers relative to those they experience later as beneficiaries.
- Quirks of Social Security's benefit formula undermine workforce participation and personal saving.
- Contrary to widely shared goals for social insurance, the program is actually designed so that Americans become more dependent on Social Security as national incomes grow, rather than less.

HOW TO REFORM SOCIAL SECURITY

No single reform to Social Security can solve all of these problems simultaneously. However, a combination of prudent reforms could simultaneously improve the program's finances as well as its efficacy in furthering societal goals.

By contrast, by expanding the program or failing to include current participants in addressing the looming insolvency, the most problematic features would be exacerbated, including work and saving disincentives and inequitable treatment of younger generations.

POLICYMAKERS ARE RUNNING OUT OF TIME

If policymakers do not act soon, it will no longer be possible to restore Social Security to sustainable solvency without abandoning its self-financing structure. This study explains how Social Security finances can be stabilized without the loss of the program's historical financing construct while re-enabling the program to adequately serve younger generations, working seniors, and vulnerable groups.