



Social Security – Hard Choices (?)

Money Talks Monthly Seminar
June 16, 2025

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1

1

National Economic Education Delegation

• Vision

- One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.

• Mission

- NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

• NEED Presentations

- Are **nonpartisan** and intended to reflect the consensus of the economics profession.



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Who Are We?

• Honorary Board: 52 members

- 2 Fed chairs: Janet Yellen, Ben Bernanke
- 6 chairs of the Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel prize winners
 - o Akerlof, Smith, Maskin

• Delegates: 525 members

- At all levels of academia and some in government service
- All have a PhD in economics
- Crowdsource slide decks
- Give presentations

• Global Partners: 44 PhD Economists

- Aid in slide deck development



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3

Available NEED Topics Include:

- | | |
|---------------------------|--------------------------|
| • US Economy | • Immigration Economics |
| • Healthcare Economics | • Housing Policy |
| • Climate Change | • Federal Budgets |
| • Economic Inequality | • Federal Debt |
| • Economic Mobility | • Black-White Wealth Gap |
| • Trade and Globalization | • Autonomous Vehicles |
| • Minimum Wages | • US Social Policy |



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4

Outline

- What is Social Security?
- How Does Social Security Work?
- What is The Trouble with Social Security?
- Available Solutions



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What is Social Security?



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What is Social Security?

- Social Security is a federal social insurance program that provides financial support to workers and their families.
- Different benefits:
 - **Retirement Benefits:** Social Security provides monthly payments to qualified retirees based on their lifetime earnings.
 - **Disability Benefits:** It also provides financial support to individuals who are unable to work due to a disability.
 - **Survivor Benefits:** Social Security offers benefits to the families of deceased workers, including spouses and children.
 - **Supplemental Security Income (SSI):** SSI provides financial support to individuals who are 65 or older, blind, or disabled and have limited income and resources.



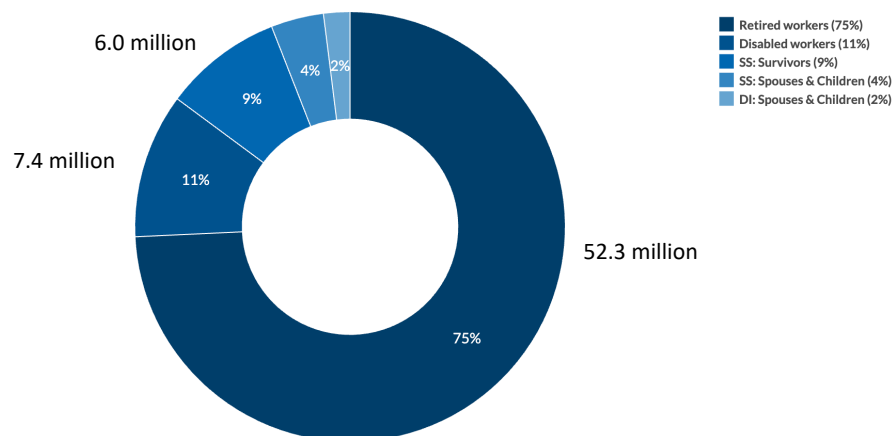
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7

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Numbers of Different Types of SS Beneficiaries

Total OASDI Beneficiaries in 2023: 67 Million



Source: Social Security Administration • Get the data • Embed • Download image

Notes: SS is Social Security, DI is Disability Insurance. Totals may not add up to 100% due to rounding.



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Social Security's Origins

- A part of the social safety net.
- Created in 1935 to provide economic security to the nation's elderly.
- Expanded in 1939 to include dependent benefits.
 - Benefits to families that have lost a breadwinner.
- Expanded in 1950 to provide support for people with disabilities.
- Expanded in 1974 to provide Supplemental Security Income.
 - Can supplement regular social security benefits.
- Today, it is the largest federal program.
 - In FY 2024, spending was \$1.25 trillion, or 22.4% of total federal spending.
 - By comparison, national defense was \$997 billion.



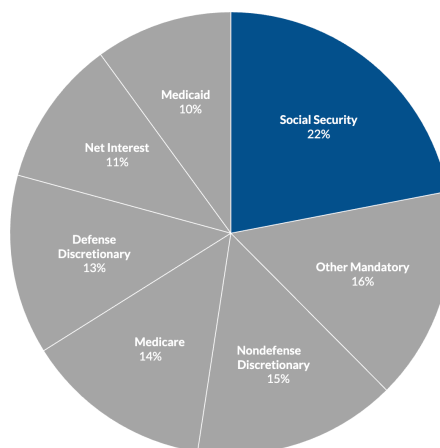
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Soc Sec is The Single Largest Gov't Program

2023 Outlays: \$6.1 Trillion



Source: Office of Management and Budget • Get the data • Embed • Download image
Note: Outlays for Social Security include non-retirement benefits.



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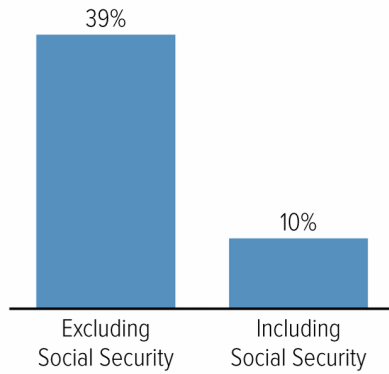
Source: <https://www.pgpf.org/article/9-facts-about-social-security-and-the-need-to-strengthen-it/>

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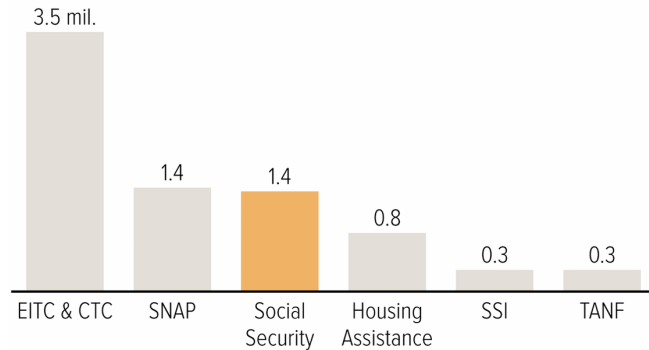
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Soc Sec Significantly Reduces Poverty

Percentage of adults aged 65 or older in poverty, 2022



Number of children lifted out of poverty by selected programs in 2022, in millions



Note: This analysis uses the official poverty measure.
Source: CBPP analysis of data from the Census Bureau's March 2023 Current Population Survey



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Is Social Security Good for Just The Beneficiaries?

No, it also benefits broader society.



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Economics Impact on Individuals and Families

- **Poverty reduction**
 - Good investment for society
- **Reduces income inequality among the elderly.**
- **Increases social mobility**
- **Income stability**
 - Helps households plan for the future.
- **Enables older adults to maintain independence.**
 - Reduces caregiving burdens on family members.
- **Consumer spending**
 - Supports businesses and the local economy.



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13

13

How Does it Work?



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14

14

The Mechanics of Social Security

- **“pay-as-you-go” system**

- Payroll taxes are collected from current workers.
- These pay for the benefits of the currently retired, or otherwise eligible.

- **Taxes**

- Payroll taxes amount to 12.4% of earnings.
 - o Workers pay 6.2% of earnings as payroll taxes.
 - o Employers also pay 6.2% of worker’s earnings.
- **Earnings Cap.** Not all earnings are subject to payroll taxes.
 - o In 2025, only the first \$176,100 of earnings are taxed.
 - o Earnings above that level are not taxed.



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What if Payroll Taxes Don’t Match Benefits?

- **The Trust Fund**

- If revenues exceed benefits, the excess is placed in a trust fund.
- If benefits exceed revenues, the excess is taken out of the trust fund.
- The funds in the trust are invested in **non**marketable U.S. Treasuries.

- **When did the Trust Fund start?**

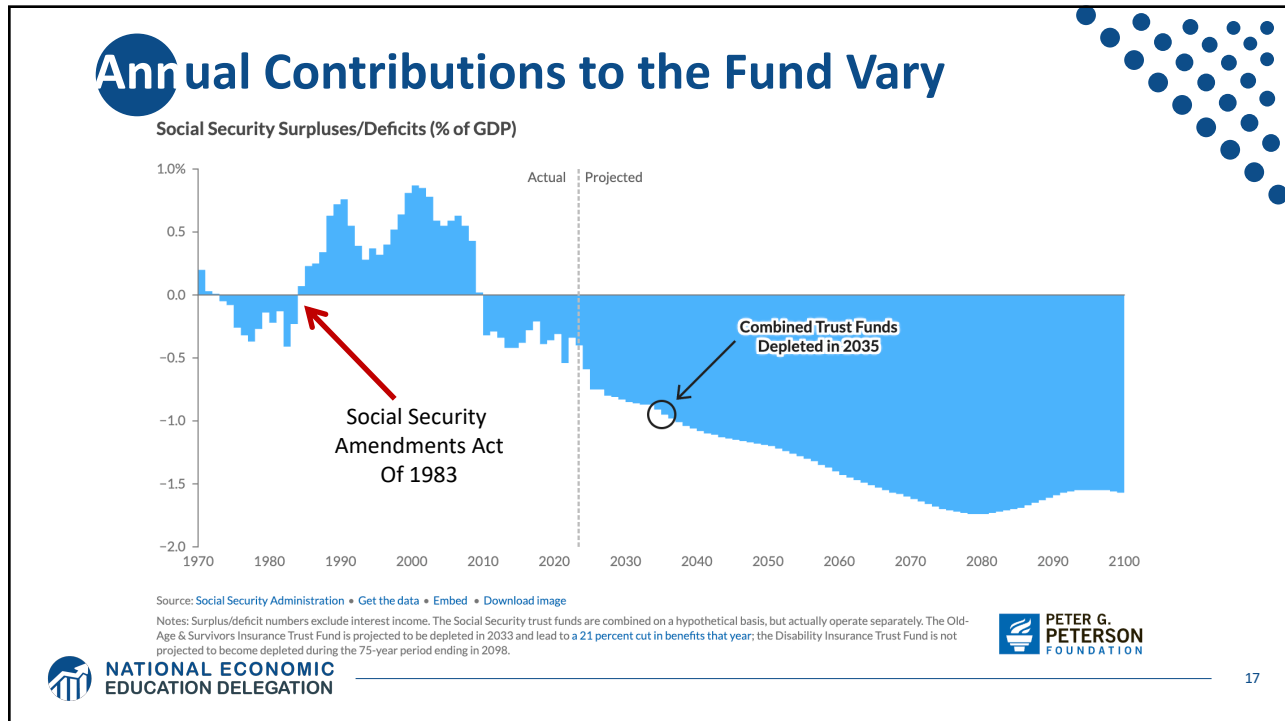
- The OASI Trust Fund was created in 1939. (Old Age & Survivors Ins)
- The Disability Trust Fund was created in 1956.



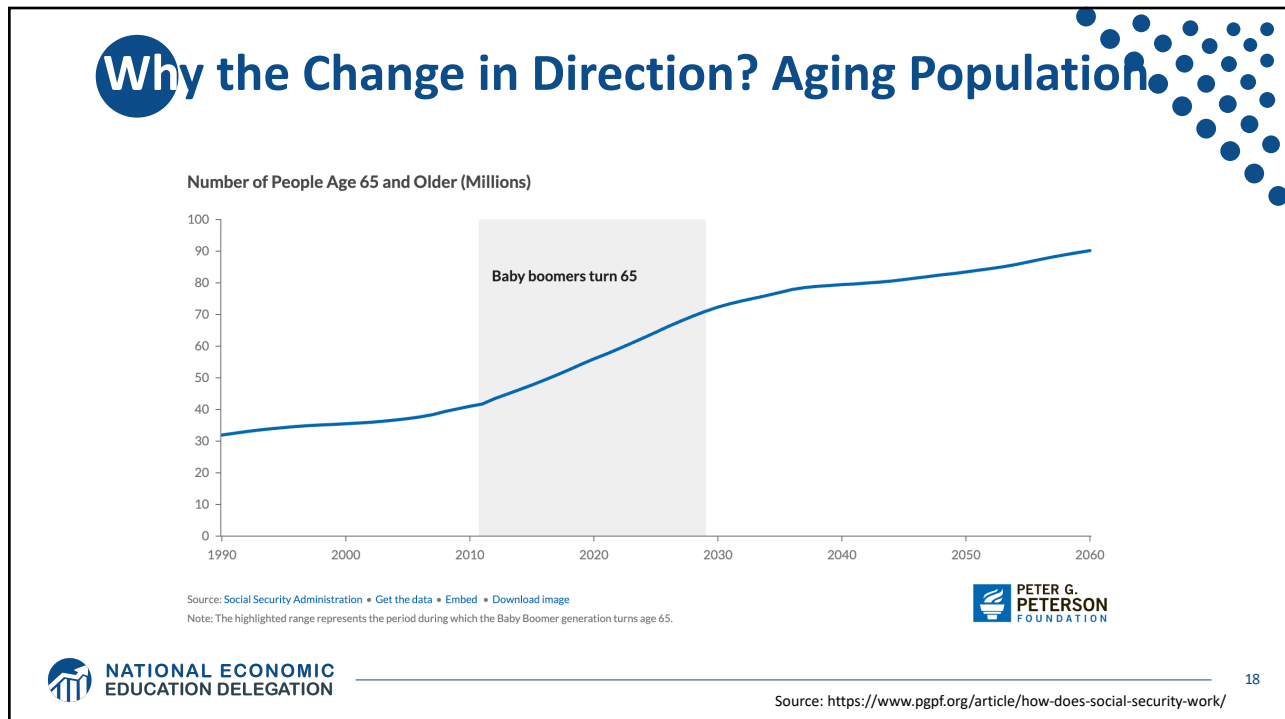
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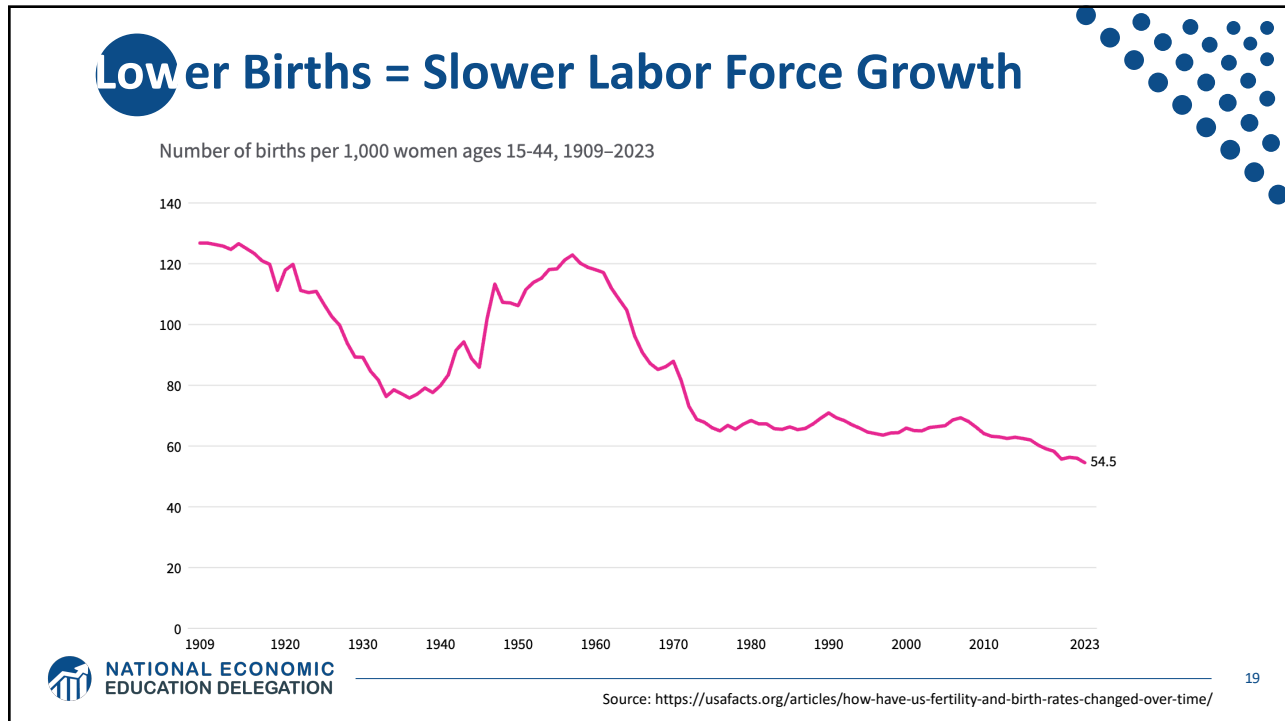
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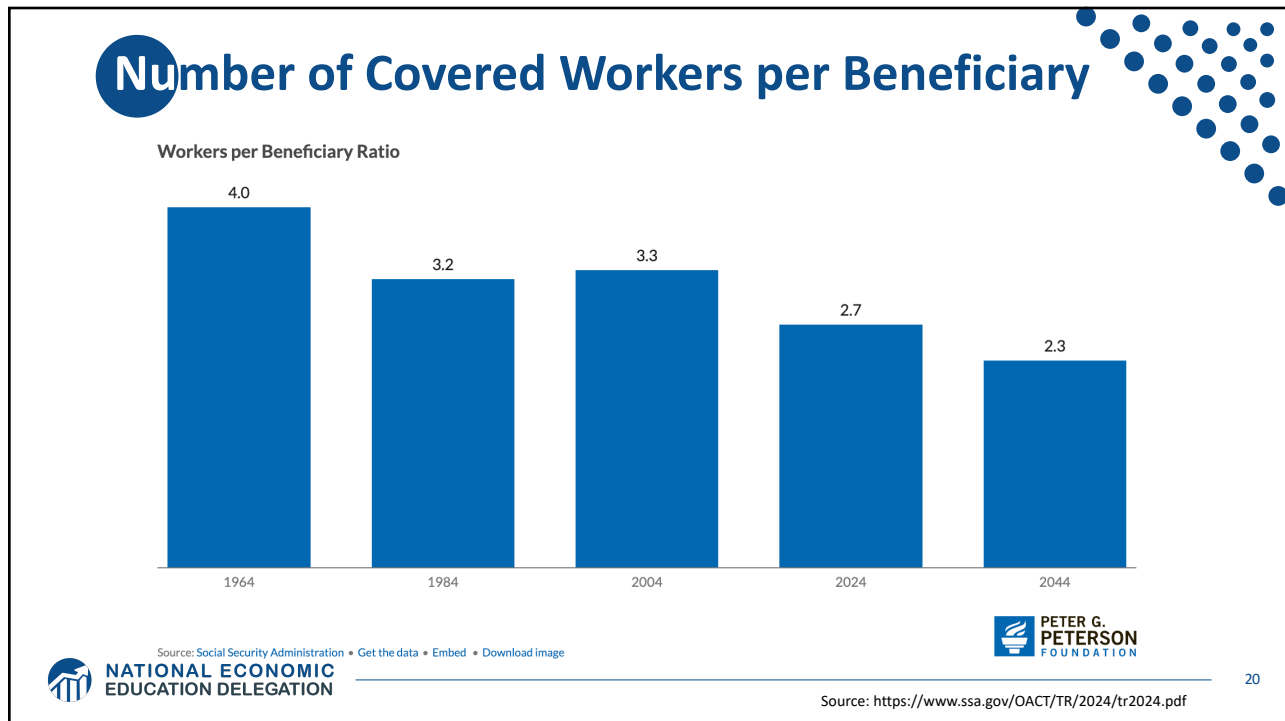
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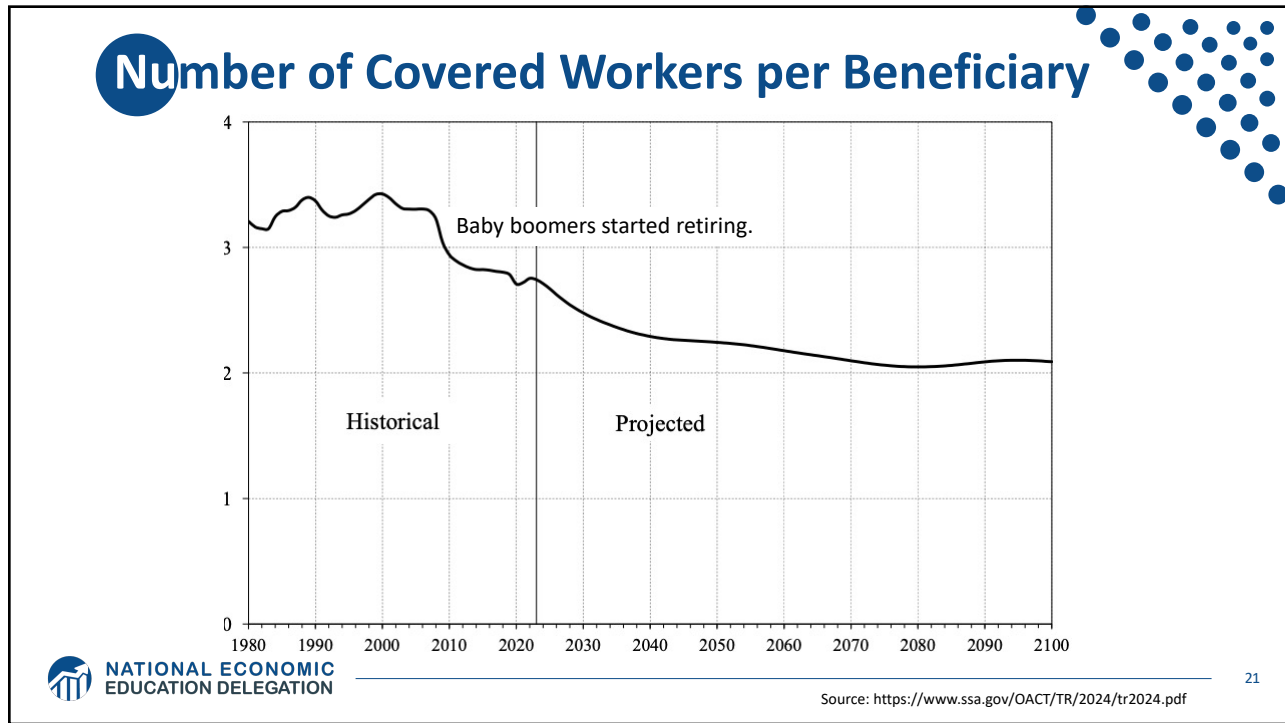
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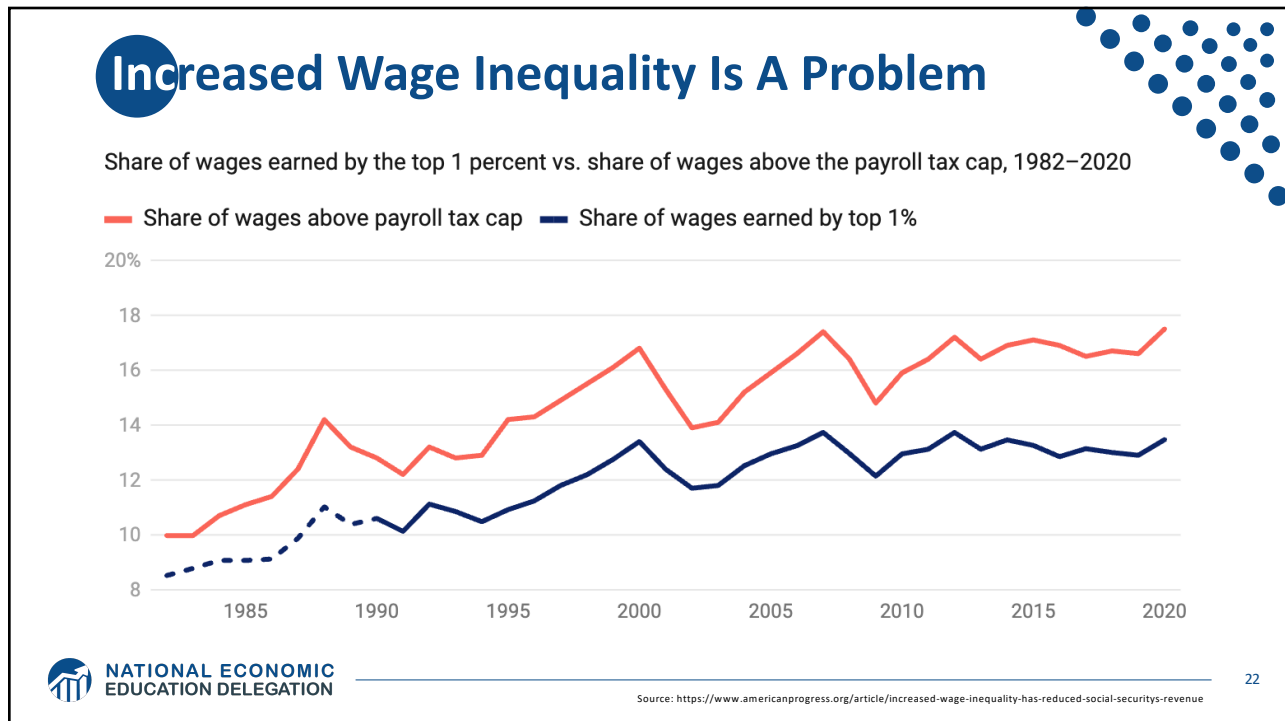
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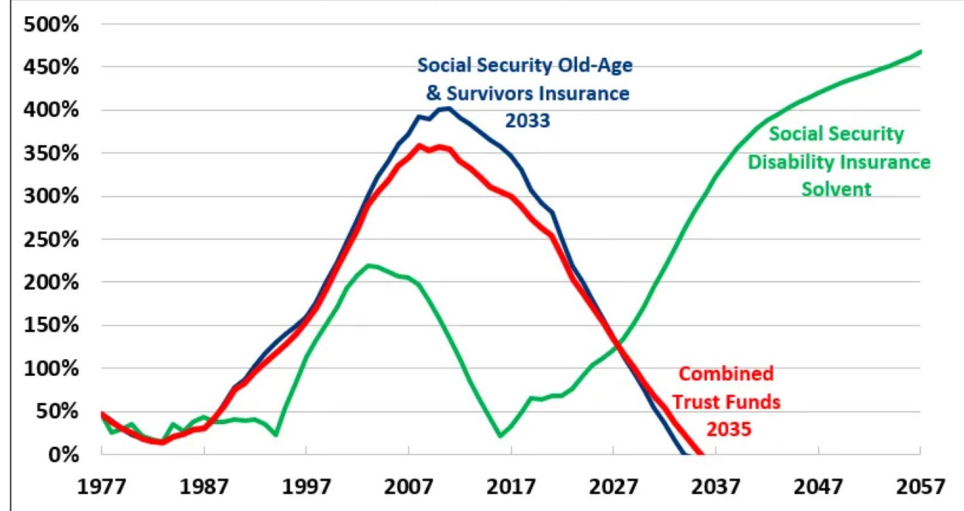
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22

Trajectory of the Funds

Fig. 1: Ratio of Social Security Trust Fund Reserves to Benefits (Percent of Benefits)



Source: Social Security Administration.



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Source: <https://www.crfb.org/papers/analysis-2024-social-security-trustees-report>

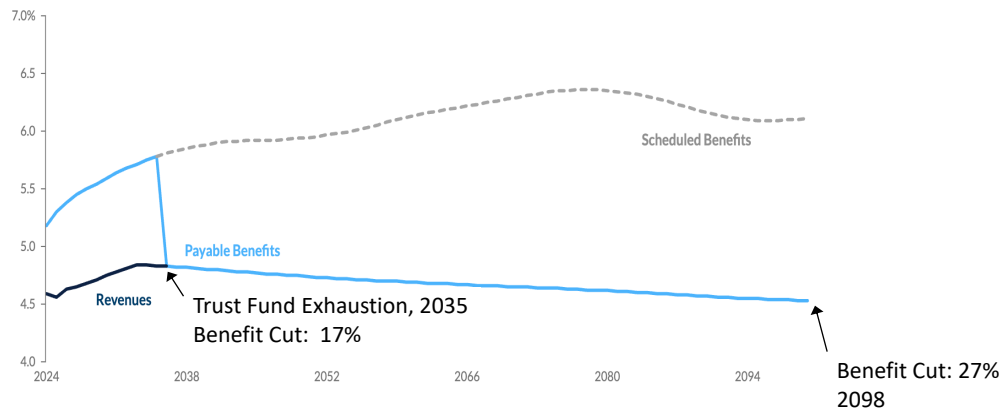
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What Happens When The Trust Fund Runs Out?

Percent of GDP

Revenues Scheduled Benefits Payable Benefits



Source: Social Security Administration • [Get the data](#) • [Embed](#) • [Download image](#)

Note: The Social Security trust funds are combined on a hypothetical basis, but actually operate separately. The Old-Age & Survivors Insurance Trust Fund is projected to be depleted in 2033 and lead to a 21 percent cut in benefits that year; the Disability Insurance Trust Fund is not projected to become depleted during the 75-year period ending in 2098.



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Source: <https://www.pgpf.org/article/how-does-social-security-work/>

24

24

Where Does the Money Come From?

- Payroll taxes
- Taxes on benefits
- Interest earnings
- Trust funds

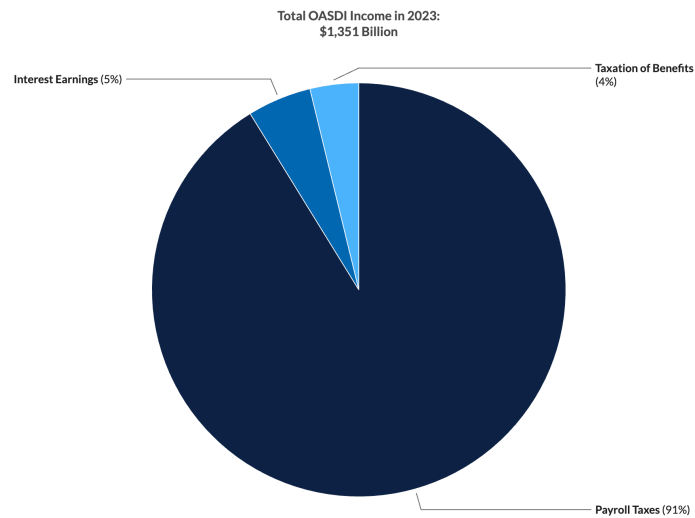


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Sources of SS Revenue



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Source: Social Security Administration • Embed • Download Image



26

26

Where Does The Money Go?



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27

27

Where Does The Money Go?

- Different benefits:
 - Retirement Benefits
 - Disability Benefits
 - Survivor Benefits
 - Supplemental Security Income (SSI)
- We will focus on retirement benefits.



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28

What Determines my SS Benefit (PIA)?

(Primary Insurance Amount)

- **Your work history.**
 - You need 40 work credits to qualify.
 - In 2025, 1 credit = \$1,810 in earnings.
 - Put another way: 10 years with social security earnings in each year of \$21,720.
- **Your (capped) earnings history.**
 - Indexed (to wages) earnings from 35 highest earning years.
- **Your birth year.**
 - Determines your FRA – Full Retirement Age.
 - Before 1960, it is 66-67, after 1960, it is 67.
- **Your claiming age.**
 - Claiming at 62 instead of 67 reduces your benefit by 30%.
 - Higher if wait until 70.



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29

What Determines my SS Payment Size (PIA)?

(Primary Insurance Amount – PIA)
(Adjusted Indexed Monthly Earnings - AIME)

Earnings History

- AIME is calculated using your 35 highest years of indexed earnings.
- These earnings are then adjusted for wage inflation.
- The AIME is used to determine your PIA, which is the amount you would receive if you start receiving benefits at your full retirement age.

Age at Which You Start Receiving SS

- You can start receiving benefits as early as age 62, but your monthly payment will be reduced if you choose to start before your full retirement age.
- Waiting to start benefits after your full retirement age (between 66 and 67, depending on your year of birth) will increase your monthly payment.
- You can receive the highest possible benefit by waiting until age 70.



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30

How Big are Payments?

- **In 2025:**
 - the average payment is \$2,002.
 - Maximum if claim at age 62 is \$2,831.
 - Maximum if claim at age 70 is \$5,108.
- **Special minimum Social Security benefit:**
 - For long-term, low-wage workers.
 - Minimum for 11 years of work: \$52.10
 - Maximum for 30 years of work: \$1,093.10



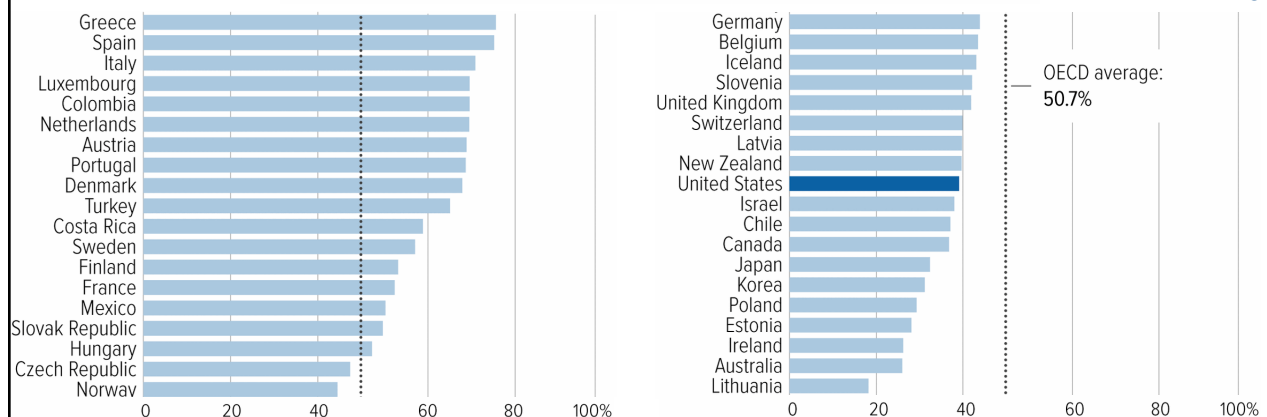
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31

31

Social Security Benefits are Comparatively Low

Social Security benefits for average worker as a percentage of earnings



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Source: <https://www.cbpp.org/research/social-security/top-ten-facts-about-social-security>

32

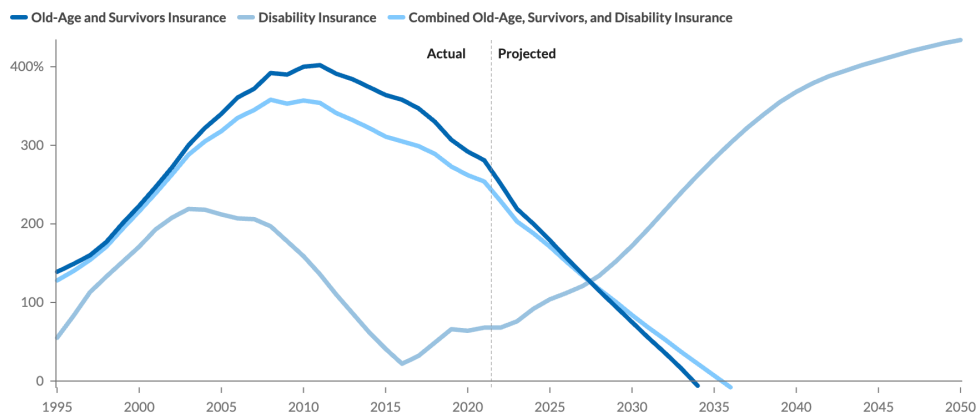
32

Remember: We Have A Problem

33

Trust Finds Are Running Out

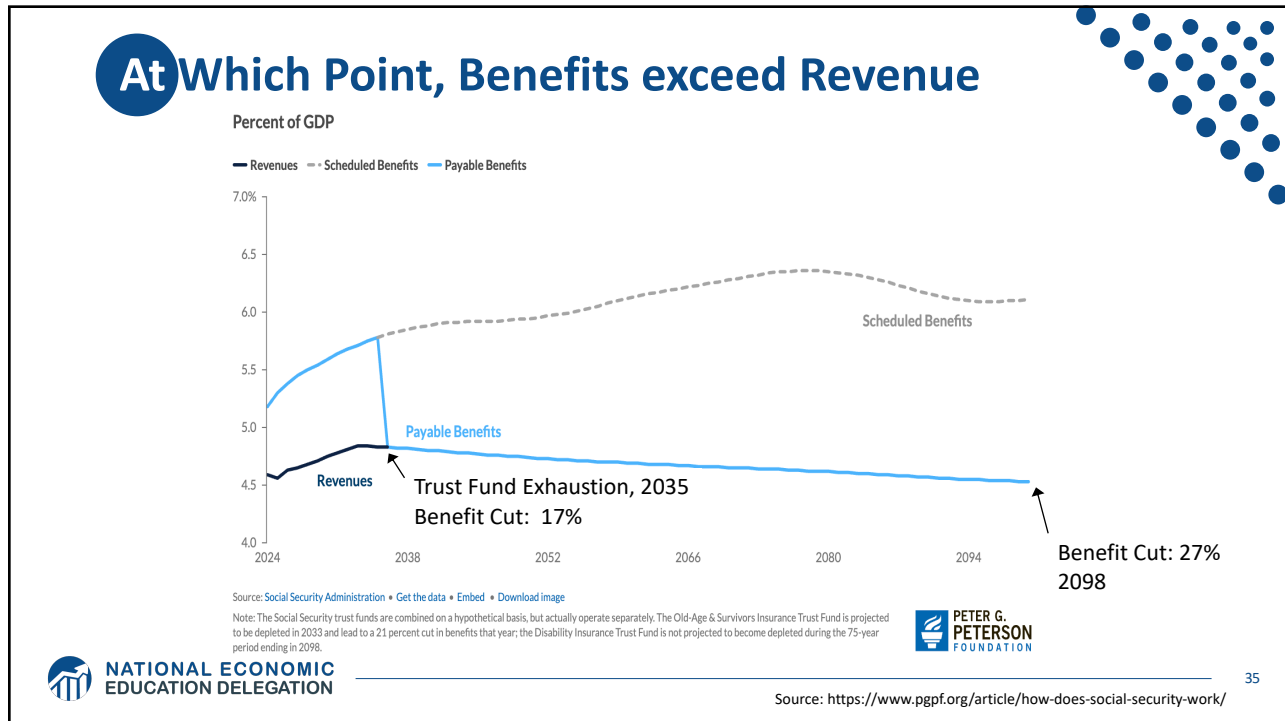
Asset Reserves as a Percentage of Annual Cost



Source: Social Security Administration • [Get the data](#) • [Embed](#) • [Download image](#)

Note: Under law, a trust fund cannot incur a negative balance. The OASI Trust Fund will be depleted in 2033 while the DI Trust Fund will not be depleted within the 75-year long-range projection period. Combined, the trust funds would be depleted in 2035.

34



35

Hard Choices (?)

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Let's Cut to the Chase...

- Solving the social security problem is simple:

Backfill out of general revenues!

- Why won't this happen?

Politics!
Our debt situation.
Maybe it shouldn't.



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37

37

So, Let's Consider Some Other Choices

- Changes to revenues
- Changes to benefits




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38

The Following Simulations Brought to you by:



Committee for a
Responsible Federal Budget

ISSUE AREAS > OUR WORK >

The Reformer

An Interactive Tool to Fix Social Security

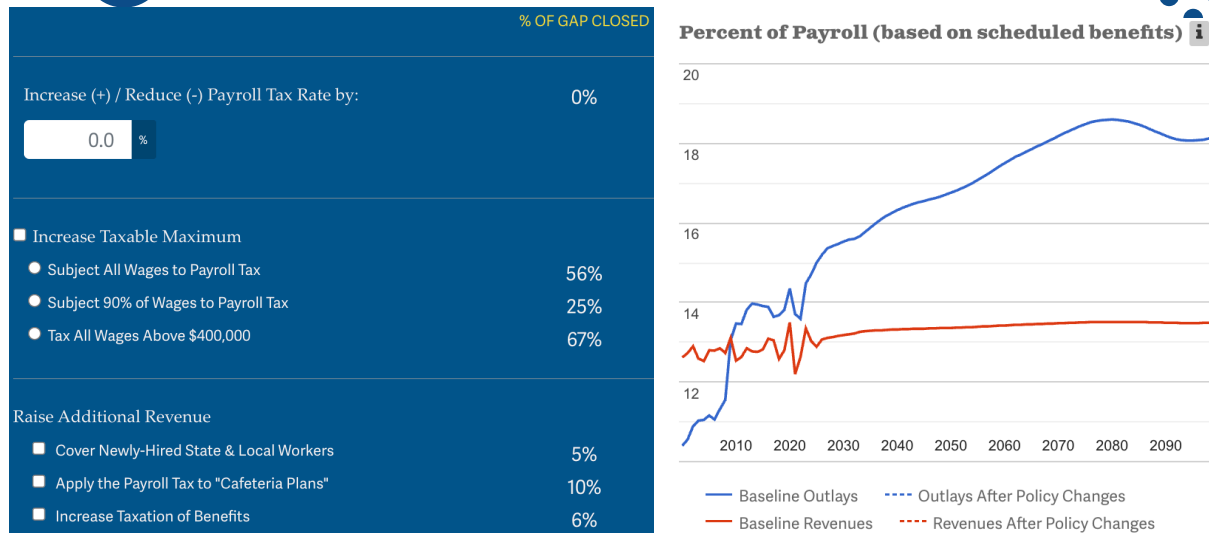
Social Security provides vital income security to millions of beneficiaries, but it is on a road toward insolvency. The Social Security **retirement** program is **projected to run out of reserves by 2033, or by 2035 if combined with the disability program**. Upon insolvency of the theoretically combined trust funds, all beneficiaries regardless of age and income will face an immediate 17 percent benefit cut, growing to 28 percent by 2073.

"The Reformer" allows users to build their own plan to restore solvency. See how your choices stack up!

<https://www.crfb.org/socialsecurityreformer/>

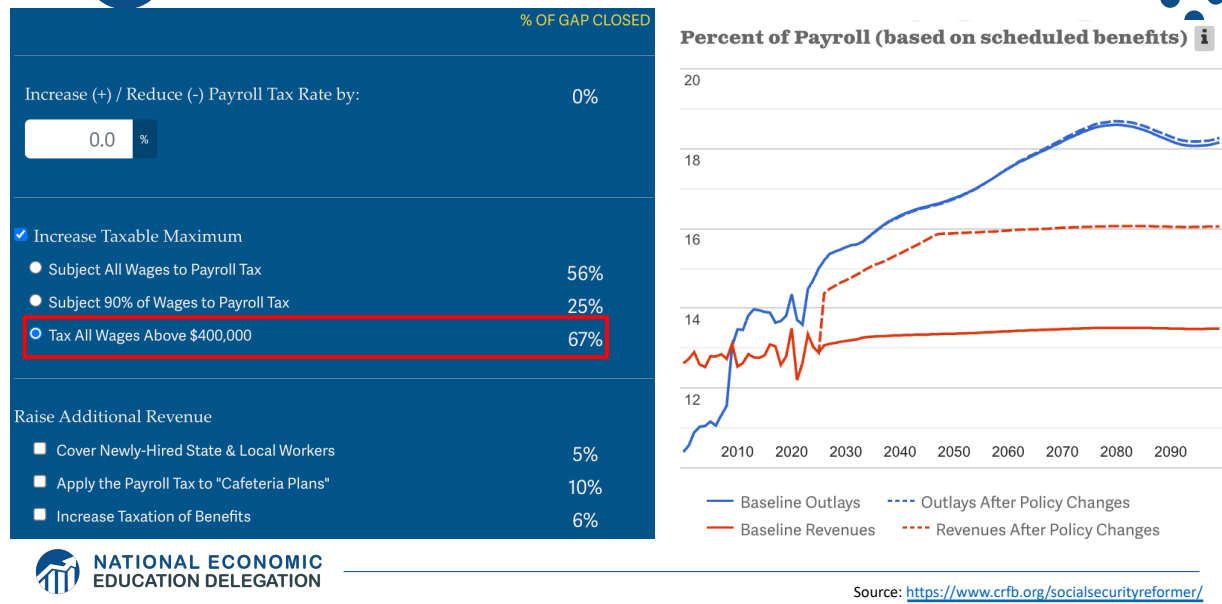
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Possible Changes to Revenues



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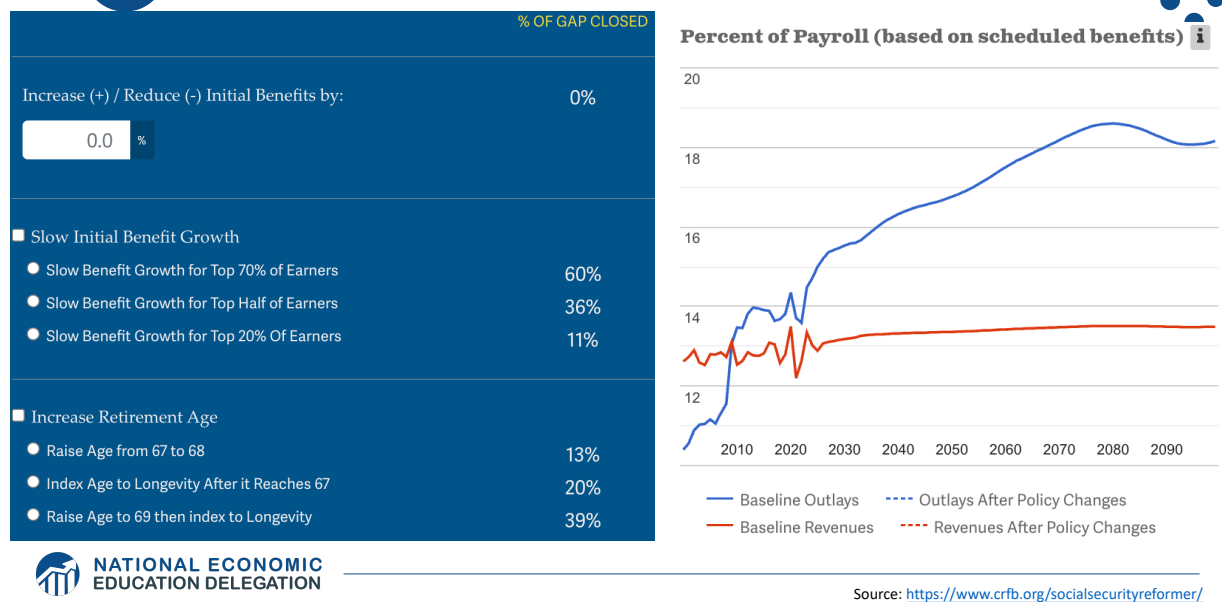
Possible Changes to Revenues: Example



41

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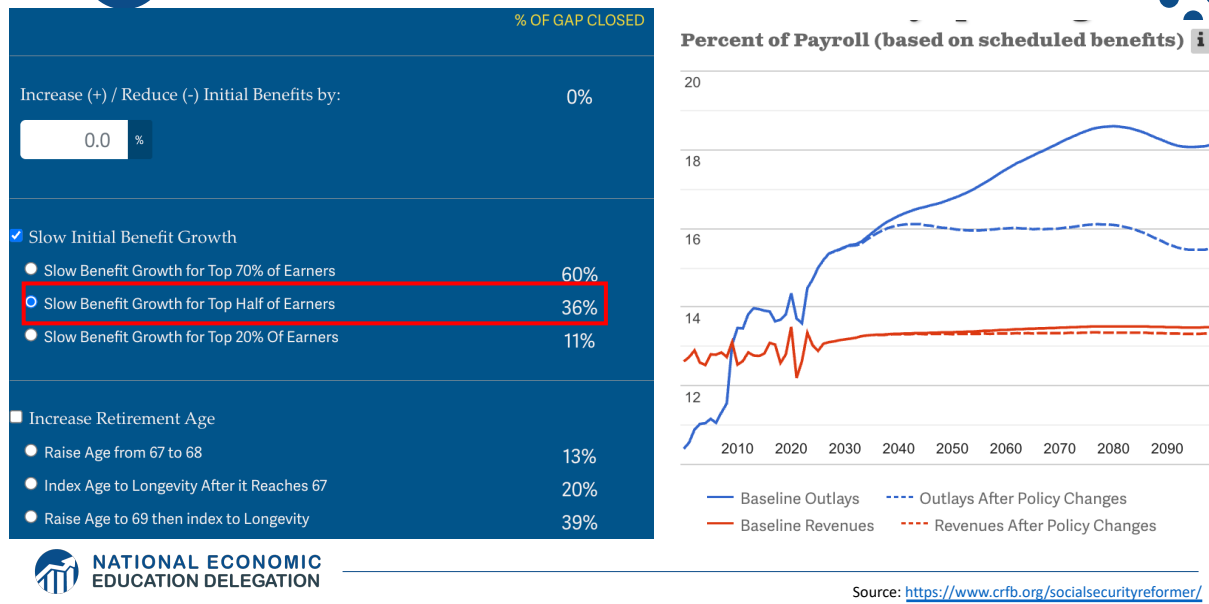
Possible Changes to Benefits



42

42

Possible Changes to Benefits: Example

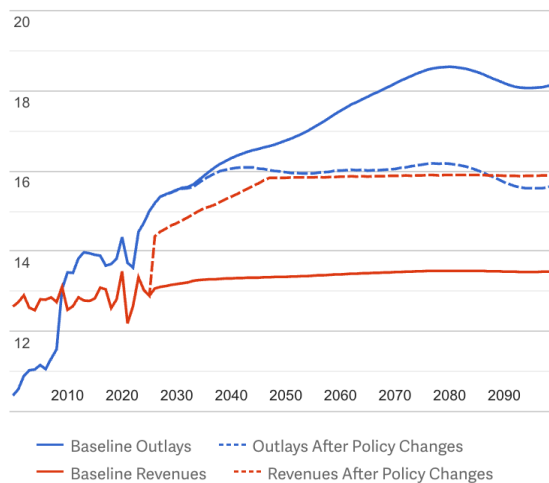


43

43

Suppose We Do Both! Problem Solved

Percent of Payroll (based on scheduled benefits)

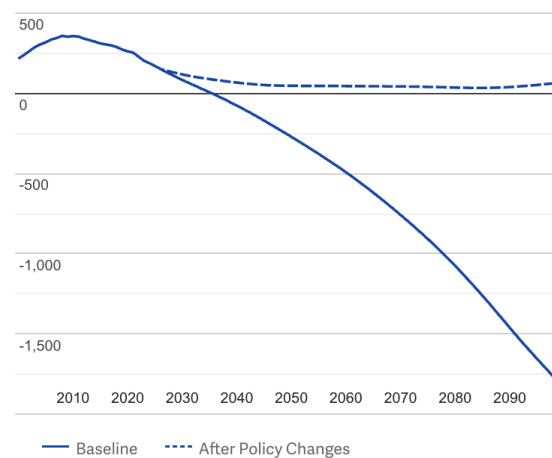


44

44

Trust Fund Projections

Percent of Annual Benefits



Some Additional Thoughts on Options

- **COLAs – cost of living adjustments**
 - Merely another way of reducing benefits
- **Raising the retirement age**
- **Investing in the stock market**



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45

Raising the Retirement Age

■ Increase Retirement Age

● Raise Age from 67 to 68	13%
● Index Age to Longevity After it Reaches 67	20%
● Raise Age to 69 then index to Longevity	39%

- **Very regressive.**
 - Larger tax on low-income workers than high income workers.



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46

Raising the Retirement Age

Sex	Income Category	Life Expectancy (Years)	Difference High vs Low
Women	Highest Incomes (top 1%)	88.9	10.1 years
	Lowest Incomes (bottom 1%)	78.8	
Men	Highest Incomes (top 1%)	87.3	14.6 years
	Lowest Incomes (bottom 1%)	72.7	



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47

Investing in the Stock Market.

Invest in the Stock Market

- Diversify the Trust Fund to Increase Returns 6%
- Divert 2% of Payroll Tax to "Carve-Out" Accounts -1%
- Allow Contributions into "Add-on" Accounts 0%

1. Doesn't do much to solve the problem.
2. Concerns with government investing in the stock market.
3. Logistics of allowing individuals to customize are enormous.
 1. And subject to political influence.
4. May increase the fragility of the system.



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48

48

Other Solution? Tax More Than Just Earnings

- Social Security is funded through payroll taxes.
- Broadening the base would increase programmatic revenues.
- This begs the question of why the program is funded only by a tax on earnings.
- Other sources of income: capital gains
- Social security is an economic security program.
 - Yet its revenue source is earnings.
 - Is income a better indication of economic security?



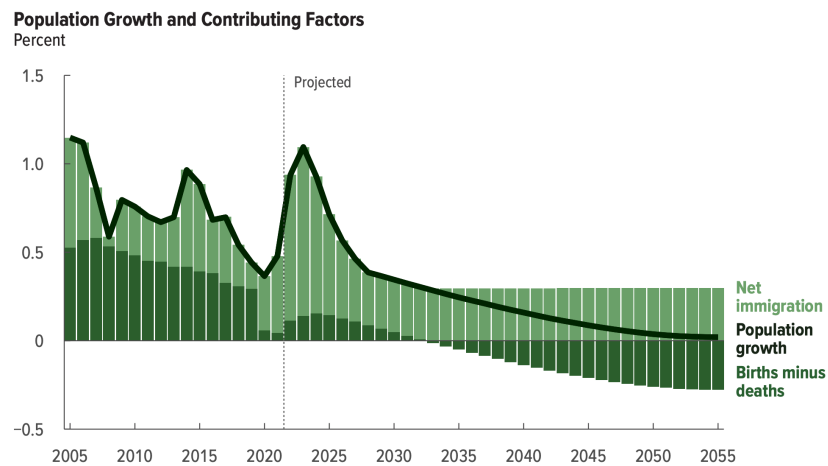
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49

Another Solution?

- Increase legal immigration of prime working age.



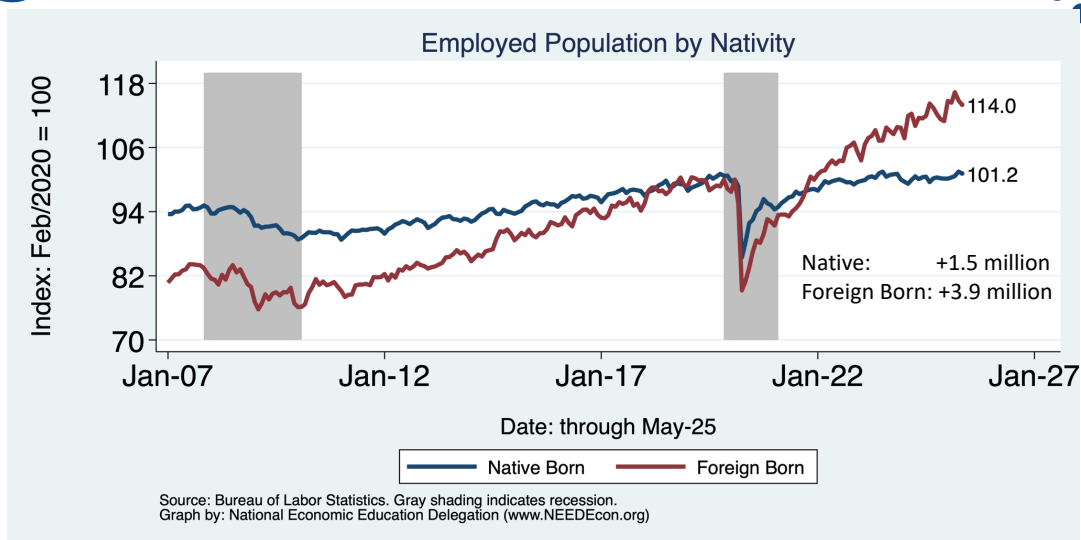
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Source: <https://www.cbo.gov/system/files/2025-01/60875-demographic-outlook.pdf>

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Immigrants to the Rescue?



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General Principle of Solutions

- Social security was originally created (primarily) to reduce economic instability among the elderly.
- Shouldn't solutions to the shortfall respect that original intent?
- Regressive solutions are anathema to the original intent, disproportionately reducing the programs effects on those most at risk of economic instability.
- Equality of contributions to the solution increase economic instability among the elderly.
- Progressive solutions are more likely to respect the original intent.



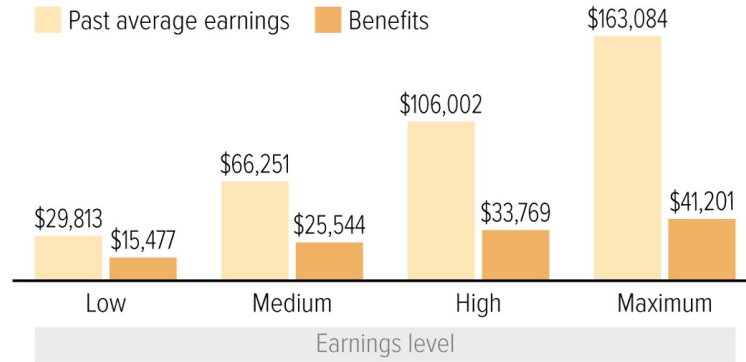
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52

52

Social Security Benefits are Progressive

Annual benefits and earnings for worker retiring at age 65 in 2024



Source: Social Security Administration, Actuarial Note 2024.9

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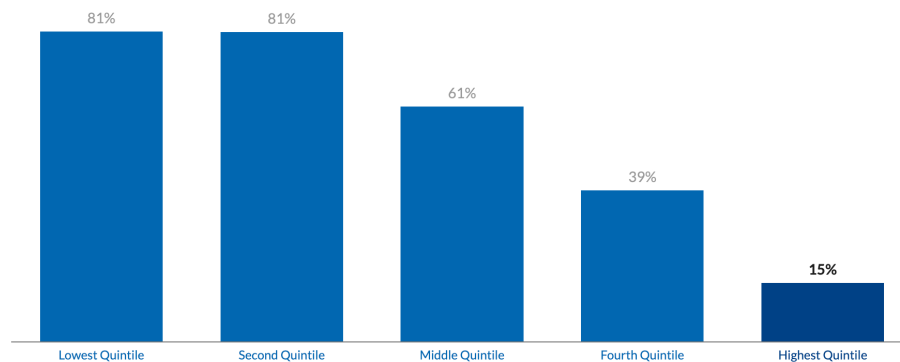
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53

Program is VERY Important for Low-Income Retirees

Low-income seniors rely on Social Security benefits for a major share of their retirement income

Social Security Benefits (% of Total Income)



Source: Social Security Administration • Get the data • Embed • Download image

Note: A quintile is one-fifth of the population. The lowest quintile's income range is under \$13,499, the second quintile's is \$13,499-\$23,592, the middle quintile's is \$23,592-\$39,298, the fourth quintile's is \$39,298-\$72,129, and the highest quintile's is over \$72,129. Data are for 2014.



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Source: <https://www.pgpf.org/article/9-facts-about-social-security-and-the-need-to-strengthen-it/>

54

54

Summary

- **Social Security is an important part of the social safety net.**
- **The OASDI Trust Fund is likely to be exhausted in 2035.**
- **Why are the funds being depleted?**
 - An aging population – fewer paying in and more taking out.
 - Declining birth rates - slowing growth of the labor force.
 - Wage inequality – more and more wages are above the wage cap.
- **What happens when the funds are depleted?**
 - Benefits may have to be reduced by 17%.
 - The system will continue!
- **Solutions abound. The problem is political will.**
 - Needed changes will be unpopular, but they are very manageable.



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Thank you!

Any Questions?

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1983 Social Security Amendments Act

- https://www.google.com/search?q=what+percent+of+the+budget+is+social+security&oq=what+percent+of+the+budget+is+social+&gs_lcrp=EgZjaHJvbWUqBwgAEAAyGAQyBwgAEAAyGAQyBwgBEAAyGAQyBggCEEUYOTIICAMQABgWGB4yCAGEEAAyFhgeMggIBRAAGBYHjIICAYQABgWGB4yCAGHEAAyFhgeMggICBAAGBYHjIICAKQABgWGB7SAQg3MDE5ajBqN6gCALACAA&sourceid=chrome&ie=UTF-8



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57

Social Security: Disability

- **Eligibility:**
 - Disability or blindness that prevents you from working.
 - Enough work history.



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Social Security: Disability

• Eligibility:

- Disability or blindness that prevents you from working.
- Enough work history.
 - o Minimum of 6 credits.

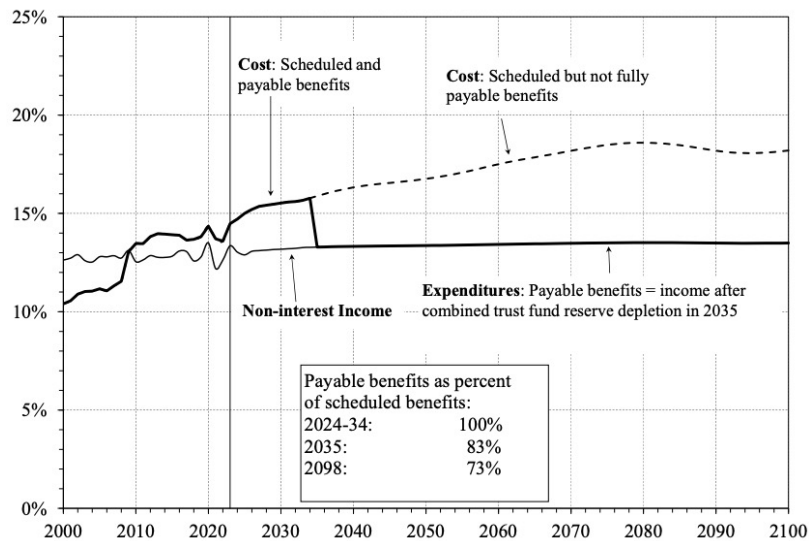


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What Happens When The Trust Fund Runs Out?



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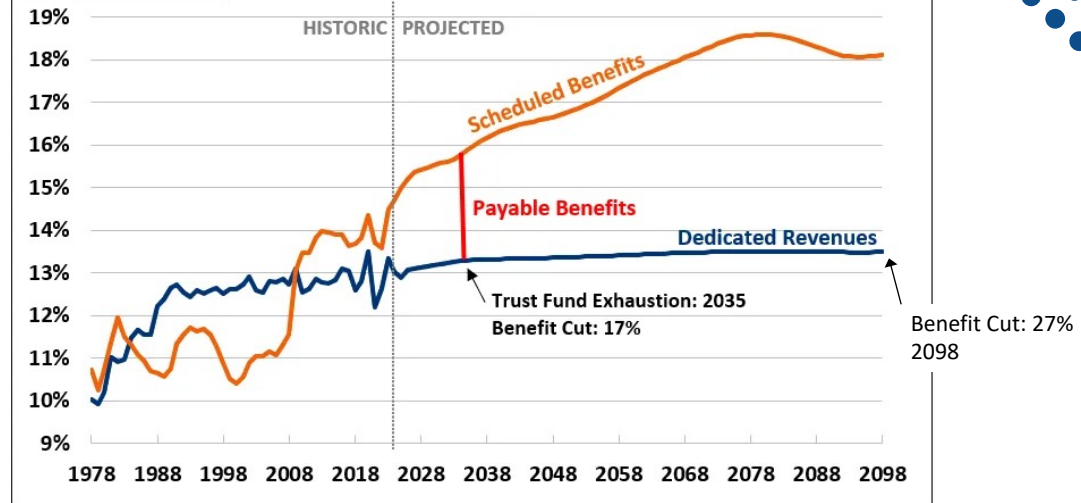
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Source: <https://www.ssa.gov/OACT/TR/2024/tr2024.pdf>

60

What Happens When The Trust Fund Runs Out?

Fig. 2: Social Security Revenue and Benefits (Percent of Taxable Payroll)



Source: Social Security Administration.



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Source: <https://www.crfb.org/papers/analysis-2024-social-security-trustees-report>

61

61

- What about widow or disabled status on the previous page?



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62

62