



SOCIAL SECURITY REFORM MENU

These are the 36 policy reform options found in our Social Security Calculator. Use (almost) any combination of these 36 choices to bring the program to solvency... but remember, you'll also have to argue for the feasibility of your choices. Definitions of key terms can be found in the online glossary.

Choose wisely!

OPTION

1

INCREASE THE PAYROLL TAX RATE BY 1 PERCENTAGE POINT: The Social Security payroll tax rate is currently 12.4 percent (split evenly by employers and employees) up until the taxable maximum of \$142,800 in 2021. This option would increase the Social Security tax rate to 13.4 percent. Employers and employees would both contribute 6.7 percent on every dollar up to the taxable maximum, instead of the current rate of 6.2 percent.

2

INCREASE THE PAYROLL TAX RATE BY 2 PERCENTAGE POINTS OVER 10 YEARS: This option would raise the Social Security payroll tax rate by 2 percentage points, from 12.4 percent to 14.4 percent over ten years. Each year, the payroll tax rate would rise by 0.2 percentage points, split evenly by employers and employees. It would not affect the taxable maximum.

3

INCREASE THE PAYROLL TAX RATE BY 3 PERCENTAGE POINTS OVER 60 YEARS: This option would raise the Social Security payroll tax rate by 0.05 percentage points every year for 60 years. The 12.4 percent Social Security tax rate would be 12.45 percent the first year, 12.50 percent the second, and so on. This option would not affect the taxable maximum. After 60 years, the Social Security payroll tax rate would rise to 15.2 percent.

4

RAISE THE TAXABLE MAXIMUM TO COVER 90 PERCENT OF EARNINGS: This option would raise the taxable maximum over a period of ten years, in order for 90 percent of all wage earnings to be taxed by Social Security. Currently around 80 percent of all wages earned are subject to Social Security taxes. The taxable maximum currently increases each year by the rate of wage inflation. This option would increase the taxable maximum at a faster rate than wage inflation each year until 90 percent of all wages earned were taxed by Social Security.

5

RAISE THE TAXABLE MAXIMUM TO COVER 90 PERCENT OF EARNINGS; DO NOT INCREASE BENEFITS: This option would function exactly like option 4 by raising the taxable maximum more rapidly than currently projected. But any new taxes paid would not count toward future benefits. As a result, it would function as a tax increase on anyone earning money above where the taxable maximum is currently projected to rise to over time.

6

ELIMINATE THE TAXABLE MAXIMUM: Over ten years, this option would eliminate the taxable maximum so that all wage income is taxed by the Social Security payroll tax. Functionally, earnings above the taxable maximum would be taxed an additional 1.24 percent every year for ten years. Benefits for higher-income earners would also rise to some extent, as they would receive credit for paying more into Social Security.

7

TAX COVERED EARNINGS ABOVE THE TAXABLE MAXIMUM; CREATE A TWO-COMPONENT SYSTEM FOR CALCULATING THE PIA: This option would be mechanically identical to Option 6, although it reduces benefits for high-income earners by making the benefit formula more progressive. Above certain income levels, Social Security beneficiaries receive less as a share of their tax contributions than low-income beneficiaries.

8

TAX COVERED EARNINGS ABOVE THE TAXABLE MAXIMUM; DO NOT INCREASE BENEFITS: This option would also eliminate the taxable maximum over ten years, but any new taxes paid would not increase a taxpayer's Social Security benefits in retirement. In effect, this option would function as a new 12.4 percent income tax above the existing taxable maximum, as opposed to an increase in a payroll tax that yields Social Security benefits.

9

TAX COVERED EARNINGS ABOVE THE TAXABLE MAXIMUM AT 4 PERCENT; DO NOT INCREASE BENEFITS: This option would tax all earnings above the existing taxable maximum at 4 percent instead of at 0 percent. The 4 percent rate would be phased in over ten years, increasing tax rates by 0.4 percent per year. Taxes paid at this rate at higher earnings would not be credited for higher Social Security benefits in retirement.

10

TAX COVERED EARNINGS ABOVE \$250,000 AT 4 PERCENT; DO NOT INCREASE BENEFITS: This option would leave the taxable maximum in place, but institute a new 4 percent payroll tax on incomes above \$250,000. Like Option 9, this rate would be phased in at 0.4 percent per year for ten years. Any new taxes paid would not be credited for higher Social Security benefits in retirement.

- 11** | **RAISE FROM 35 TO 40 THE YEARS OF EARNINGS INCLUDED IN THE AIME:** This option would increase the number of years used to calculate lifetime earnings, upon which initial monthly Social Security benefits are calculated. This option would typically lead to slightly lower Social Security benefits, as the average contributor to Social Security has worked for less than 35 years, leading to lower annual average earnings.
- 12** | **INDEX EARNINGS IN THE AIME FORMULA TO PRICES:** This option would slightly lower the benefits received in retirement by indexing the Average Indexed Monthly Earnings (AIME) formula to prices instead of wages.
- 13** | **APPLY THE SOCIAL SECURITY BENEFIT FORMULA TO INDIVIDUAL YEARS OF EARNINGS:** Instead of aggregating total lifetime earnings, adjusting for inflation, and then calculating the AIME, this option would calculate AIMEs for each year and then aggregate them. It would lead to slightly lower initial Social Security benefits compared to the current method.
- 14** | **REDUCE ALL PIA FACTORS BY 15 PERCENT:** This option would reduce initial monthly benefits for all recipients of Social Security by 15 percent. It would phase in over ten years.
- 15** | **REDUCE THE TOP PIA FACTOR BY 10 PERCENT:** This option would reduce initial monthly benefits for high-income earners by about 4 percent.
- 16** | **REDUCE ALL PIA FACTORS BY 0.5 PERCENT ANNUALLY:** This option would slowly reduce initial monthly benefits for new Social Security beneficiaries, every year and in perpetuity. Over a period of 75 years, benefits would be about three-quarters of their currently projected levels.
- 17** | **INDEX INITIAL BENEFITS TO CHANGES IN LONGEVITY:** This option would reduce initial benefits to new Social Security recipients as life expectancy increases. It would also increase initial benefits if life expectancy were to fall.
- 18** | **IMPLEMENT PURE PRICE INDEXING OF INITIAL BENEFITS:** This option would change how initial benefits for new retirees are calculated. Instead of adjusting lifetime wages by wage inflation, it would adjust them by price inflation. Since prices typically grow slower than wages, future retirees would have lower initial benefits than they are currently projected to receive.
- 19** | **IMPLEMENT PROGRESSIVE PRICE INDEXING OF INITIAL BENEFITS FOR THE TOP 70 PERCENT OF EARNERS:** This option would function like Option 18, except it would not change the initial monthly benefit calculation for new, low-income retirees. For those with lifetime earnings in the top 70th percentile, initial benefits upon retirement would be lower than currently projected.
- 20** | **IMPLEMENT PROGRESSIVE PRICE INDEXING OF INITIAL BENEFITS FOR THE TOP 50 PERCENT OF EARNERS:** This option would function like Option 19, except it would not change the initial monthly benefit calculation for the bottom half of the wage earners. For those with lifetime earnings in the top half of the income distribution, initial benefits upon retirement would be lower than currently projected.
- 21** | **INDEX THE BEND POINTS IN THE PIA FORMULA TO PRICES:** This option would lower initial benefits to new retirees over time by increasing the “bend points” used to calculate benefits upon retirement at a slower rate than currently projected.
- 22** | **ADD AN ADDITIONAL BEND POINT TO THE PIA FORMULA AND REDUCE THE PIA FACTORS:** This option would add an additional bend point to the formula used to calculate initial benefits upon retirement. It would result in lower benefits for higher wage earners and reduce long-term spending on Social Security.
- 23** | **INCREASE THE FIRST BEND POINT IN THE PIA FORMULA BY 15 PERCENT:** This option would increase the first bend point used to calculate initial benefits upon retirement. It would therefore increase benefits to all recipients, with the largest relative gains going to low-income beneficiaries. It would increase long-term spending on Social Security.
- 24** | **REPLACE THE CURRENT PIA FORMULA WITH A NEW TWO-PART FORMULA:** This option would change how initial benefits upon retirement are calculated. In general, low-income workers would see higher initial benefits while middle- and high-income earners would experience lower Social Security benefits. Social Security outlays would fall by a small amount under this option.

25

RAISE THE FULL RETIREMENT AGE (FRA) TO 68: The full retirement age is currently rising to 67 for people born in 1960 or later. This option would continue increasing the full retirement age until it reaches 68. Early retirement with reduced benefits starting at 62 would remain unchanged.

26

RAISE THE FULL RETIREMENT AGE (FRA) TO 70: The full retirement age is currently rising to 67 for people born in 1960 or later. This option would continue increasing the full retirement age until it reaches 70. Early retirement with reduced benefits starting at 62 would remain unchanged.

27

INCREASE THE FULL RETIREMENT AGE (FRA) BY ONE MONTH PER BIRTH YEAR: The full retirement age is currently rising to 67 for people born in 1960 or later. This option would raise the full retirement age by one month, every year, indefinitely. After 75 years of increases, the full retirement age would be 72 years and 7 months. Early retirement with reduced benefits starting at 62 would remain unchanged.

28

INCREASE THE FULL RETIREMENT AGE (FRA) AND THE EARLY EDIBILITY AGE (EEA) BY ONE MONTH PER BIRTH YEAR: The full retirement age is currently rising to 67 for people born in 1960 or later. This option would raise the full retirement age by one month, every year, indefinitely. After 75 years of increases, the full retirement age would be 72 years and 7 months. Early retirement with actuarially reduced benefits would also increase by the same rate, so after 75 years, early retirement would start at age 67.

29

BASE COLAS ON THE CHAINED CPI-U: This option would lead to lower annual cost-of-living adjustments (COLAs) to existing beneficiaries of Social Security by using a different rate of inflation. Since the chained CPI-U increases at a slower rate than the existing measure of inflation, benefits would not rise by as much each year.

30

BASE COLAS ON THE CHAINED CPI-U AND INCREASE BENEFITS 20 YEARS AFTER INITIAL ELIGIBILITY: This option would make up for some of the effect of lower COLA increases over time by increasing benefits starting 20 years after Social Security benefits are first received. Compared to Option 29, it would benefit Social Security beneficiaries who are especially long-lived.

31

BASE COLAS ON THE CPI-E: This option would increase annual cost-of-living adjustments for existing beneficiaries of Social Security by using the CPI-E, an inflation metric aimed at measuring changes to prices for the elderly.

32

REDUCE COLAS FOR PEOPLE WITH HIGHER PIAS: This option would reduce the rate of cost-of-living adjustments to Social Security beneficiaries who had high lifetime earnings. It would not change COLAs for low- and middle-income retirees.

33

INTRODUCE A NEW POVERTY-RELATED MINIMUM BENEFIT: This option would create a minimum benefit amount for all eligible Social Security recipients. In order to qualify for Social Security, you must work at least 40 quarters with covered earnings. Many recipients do not work for their entire working-age lives, leading to low monthly payments. This option would create a minimum monthly benefit of about \$800 for all individuals with at least 120 quarters (30 years) of covered earnings.

34

CREATE AN ALTERNATIVE BENEFIT FOR SPOUSES OF DECEASED WORKERS: This option would raise benefits for some surviving spouses of deceased workers. Survivors' benefits would be whichever the higher amount is between the old calculation and the new calculation. The actuarial effect of this option is relatively small.

35

LIMIT THE SURVIVORS' BENEFIT: This option would place an upper limit on survivors' Social Security benefits of 100 percent of the PIA for an average-wage worker. It would lower future Social Security outlays.

36

REDUCE THE SPOUSAL BENEFIT: This option would reduce the eligible benefit of a spouse to 33 percent of the primary beneficiary's retirement benefit, instead of 50 percent under the current law. It would reduce Social Security outlays in the long run.