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SOCIAL SECURITY SERIES

PART 3: Options for Reform

Introduction

Social Security is a fundamental source of income for millions of retirees and their families.[1] In light of Social Security's importance to retirement income, we have developed a three-part series of reports to shed light on the serious financial challenges the program faces and a range of policy options for addressing these challenges. The first report in our series, issued in May 2023, describes the financial challenges the program faces, which—if not addressed—are projected to render the program unable to pay full scheduled benefits starting in 2033.[2] At that point, if no action is taken to reform the program to shore up its finances, Social Security revenue is projected to be able to pay retirees just 79 percent of their scheduled benefits. The Social Security Trustees and groups such as the American Academy of Actuaries have also stressed the urgent need to address the program's financial challenges given the impact that changes to the program would have on beneficiaries.[3] The second report in our series, issued in November 2023, lays out criteria we developed that policymakers may wish to consider when evaluating potential reforms to Social Security.[4] The criteria in that framework include examining:

- The extent to which a proposal achieves sustainable solvency (i.e., the extent to which a proposal improves Social Security's finances);
- How a proposal addresses the goals of equity and income adequacy;
- The extent to which a proposal accounts for demographic, economic, and societal changes; and
- How readily a proposal could be implemented and administered.

This report, the final report in our series, focuses on a range of Social Security reform options based on proposals introduced in Congress, identified in literature, or suggested by Social Security experts.

Options for Reform

Developing a Social Security Reform Package

Social Security reform proposals often combine several distinct reform options into a comprehensive package.[5] Many of the options policymakers and experts have proposed would directly address Social Security's financial challenges. Other options might pursue nonfinancial goals that would, in isolation, worsen the financial challenges. Such nonfinancial goals could include changing the distribution of benefit payments and revenue collections across society or modernizing the program's structure to reflect demographic, economic, or societal changes. The individual reform options that are included in a reform package can interact with one another, and these interactions can affect both the financial and societal outcomes that a reform package would produce.

Given the seriousness of Social Security's impending financial challenges, we present options for reform that policymakers or experts have proposed, and place them in four categories that focus on their financial implications:[6]

- Options to Improve Finances by Reducing Program Costs,
- Options to Improve Finances by Increasing Program Revenues,
- Options with Mixed or Uncertain Effects on Finances, and
- Options that Pursue Nonfinancial Goals.

We identified options for reform by reviewing the Social Security Administration Office of the Chief Actuary's (OCACT) list of reform options, the Congressional Budget Office's list of options for deficit reduction, and relevant literature. We also interviewed selected experts on Social Security and OCACT officials, and we reviewed prior GAO work that presented options based on proposals introduced in Congress or suggested by experts.[7]

These options provide possible types of reform that are available to policymakers. We do not endorse any specific reform option. In addition, the order in which we present options does not reflect a preference for certain categories of options over others nor does it suggest that policymakers should pursue certain options before others. We do not hold a position on the appropriate mix of changes to program costs or revenues, or on how to distribute the impacts of reform across society.

We discuss reform options conceptually, and we do not describe the specific details that policymakers would need to choose when implementing a given option. Moreover, projecting the impact of reform options is challenging, and those projections are subject to uncertainty and dependent on those specific implementation details. While our methodology is intended to capture a broad range of reform options, our list of reform options may not be exhaustive.

Options to Improve Finances by Reducing Program Costs

Source: GAO (icon). | GAO-24-107240

The reform options in this category would address Social Security's financial challenges by reducing costs. The Old-Age and Survivors Insurance (OASI) program provides several types of benefits and uses many factors to determine eligibility and benefit amounts. As such, there are many different options for reducing the program's costs. Some of these options would affect all beneficiaries, while others would focus their impact on certain groups. For example, policymakers could choose to exempt current beneficiaries and those nearing retirement from benefit reductions and instead phase in reduced benefits for younger workers.[8]

Reducing benefits for all beneficiaries or for specified groups	One option to reduce costs would be to apply an across-the-board cut that reduces benefits for all beneficiaries by a set percentage. Policymakers could also choose to reduce benefits but apply the reduction to specific groups of individuals. For example, benefits could be reduced for those whose income exceeds a given threshold.
Reduce benefits for spouses, widow(er)s, and/or children of workers	A retired worker's dependents or survivors may be eligible to receive OASI benefits on that worker's record. For example, the spouse of a retired worker may be eligible for a spousal benefit of up to 50 percent of the retired worker's benefit. Reducing these benefits would therefore lower overall costs of Social Security.

Reducing COLAs by indexing benefits to the "chained CPI"	The Social Security Administration (SSA) typically applies an annual cost-of-living adjustment (COLA) to increase benefit payments to account for inflation. To adjust benefit amounts for inflation, SSA currently uses a measure known as the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). An alternate approach to measure inflation would be to use a "chained CPI," which would more comprehensively account for how consumers substitute goods across item categories when relative prices change. Because the chained CPI is expected to rise more slowly than a traditional inflation measure such as CPI-W, using the chained CPI would likely reduce COLAs and thus future benefit payments.
Other ways to reduce COLAs	Policymakers looking to restrain future cost growth have other options to reduce COLAs. The COLA could be reduced to less than the CPI or limited to a specific ceiling. Policymakers could also reduce or eliminate the COLA for certain groups of beneficiaries, such as those with income above a certain amount.
Reducing the replacement percentages used to calculate monthly benefits	When calculating monthly benefits, SSA first computes a measure of workers' average earnings over their career, known as their Average Indexed Monthly Earnings (AIME, or career-average earnings).[9] SSA then computes an initial monthly benefit amount, known as the Primary Insurance Amount (PIA), that replaces a percentage of the worker's career-average earnings. The formula to compute the PIA is progressive in that it replaces a greater percentage of earnings for workers with lower career-average earnings. Specifically, the formula replaces 90 percent of career-average earnings up to a first threshold (known as a bend point), 32 percent of career-average earnings up to a second bend point, and 15 percent of any career-average earnings above that amount.[10] Policymakers could modify this formula to reduce benefit costs by, for example, reducing one or more of these replacement percentages.

STEP 1

Adjust each year of a worker's career earnings for wage growth. Then take the highest 35 years of adjusted earnings (including zeroes) and average them.

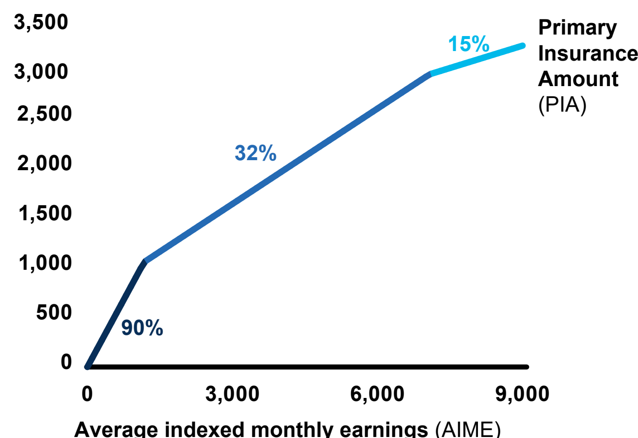
This ensures that a worker's future benefits reflect the general rise in the standard of living that occurred during the worker's career. The resulting value is called the average indexed monthly earnings (AIME).

STEP 2

Use a formula to calculate the initial monthly benefit amount–known as the Primary Insurance Amount (PIA).

As the figure below shows, the initial monthly benefit amount is the sum of three separate percentages of portions of AIME. The formula's percentages are fixed in federal law, but the segments of AIME they cover are updated annually to reflect wage growth.

Initial monthly benefit amount (2024 dollars)



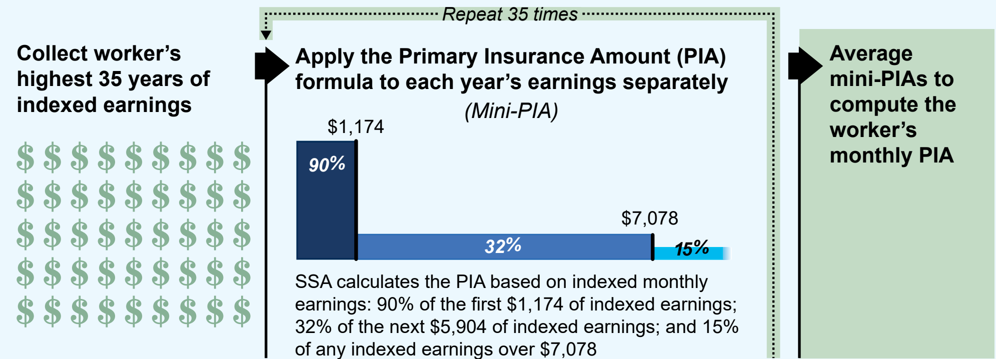
STEP 3

Make adjustments to account for various other factors, such as those relating to retirement age.

Retirement age: For retired workers, Social Security pays unreduced benefits at full retirement age, which is 67 for those born 1960 or later. A worker may begin collecting benefits as early as age 62, but the monthly benefit amount is reduced. Moreover, workers who begin receiving benefits after their full retirement age receive a benefit increase for each month of delayed retirement up to age 70.

Cost-of-living adjustments: Each year, Social Security benefits may be adjusted upward for price inflation. Specifically, monthly benefits may be adjusted annually based on the Consumer Price Index, which is produced by the Bureau of Labor Statistics. Over the last 20 years, the cost-of-living adjustment has ranged from zero (in 2009, 2010, and 2015) to 8.7 percent (in 2022).

Source: GAO analysis of Social Security Administration (SSA) documents; GAO (icons). | GAO-24-107240

Calculating the PIA for each year of earnings	The PIA formula replaces a greater percentage of earnings for workers with low career-average earnings. Since a worker's career earnings are averaged before the PIA formula is applied, workers who have high earnings in a limited number of years but no earnings in other years may have low career-average earnings that are like those with consistently low earnings over many years. An alternative would be to apply the PIA formula to each year's earnings separately. The resulting PIAs for each year are sometimes referred to as mini-PIAs. The mini-PIAs would then be averaged to compute the worker's PIA. This change would more explicitly account for the number of years that someone works in employment covered by Social Security. It would reduce costs by reducing benefits paid to those who had high earnings in a limited number of years of employment covered by Social Security, as the progressive nature of the PIA formula would no longer increase their benefits in the same way that it does for workers with consistently low earnings across many years of employment.  Source: GAO analysis of Social Security Administration (SSA) documents; GAO (icons). | GAO-24-107240
Indexing the earnings used in the benefit formula by prices instead of wages	In computing a worker's career-average earnings, SSA generally adjusts the earnings using a measure known as the national average wage index.[11] This ensures that a worker's benefits reflect the general rise in the standard of living that occurred during their working years. An alternative approach would be to use price inflation to ensure constant purchasing power. Over recent decades, wage growth has generally exceeded price growth. As a result, if this trend continues, indexing earnings by prices instead of wages would reduce benefits.
Increasing the number of working years over which earnings are averaged	The current career-average earnings computation uses a worker's highest 35 years of earnings. When workers have less than 35 years of earnings, the formula functionally includes years without earnings as zeros. Given an increasing societal emphasis on working at older ages, the computation could be modified to include additional years of earnings. This option would reduce benefit amounts for most workers, as the formula would take into account additional years of lower or no earnings.
Shifting to a flat benefit	OASI benefits are paid relative to a worker's earnings in covered employment—meaning those with higher career average earnings receive higher benefit amounts. An alternative approach would be to provide a flat benefit amount at a level below the current average benefit amount. This approach would break the link between earnings and benefits, but it could provide higher benefits to those who currently receive very low or no OASI benefits due to limited earnings while reducing overall program costs.
Further reducing benefits for early retirement	Policymakers seeking to encourage individuals to continue working at older ages could further reduce the benefits of workers who claim benefits before their full retirement age. This option would directly decrease expenditures by reducing benefits paid to workers who claim benefits before their full retirement age, although the cost savings would be offset to the extent that this change discourages early retirements.

Increase the full retirement age	Raising the full retirement age above its current level—age 67 for those born in 1960 or later—is another option to reduce Social Security's costs. The amount of the cost savings from increasing the full retirement age would depend on factors such as the new retirement age selected, how the new retirement age is phased in, any changes to early claiming or the credits for delayed retirement, and how workers respond to these changes. While the scope of this report is OASI, any increase in the full retirement age is likely to also increase the costs of Social Security's Disability Insurance (DI) benefit program, as more beneficiaries would become disabled before reaching full retirement age.
Index the full retirement age to changes in life expectancy	As an alternative to increasing the full retirement age by a set amount, the full retirement age could be indexed to changes in life expectancy. Such an option could be designed to maintain, on average, a constant number of years in retirement as life spans change. Alternatively, the option could maintain a constant ratio of working years to retirement years so that, on average, the proportion of life that individuals spend in work and retirement does not change as life expectancy changes. Social Security's actuaries anticipate that overall life expectancy will continue to increase in the future; therefore, this option would reduce program costs based on these assumptions.[12]
Indexing the benefit formula to reflect improvements in longevity	If people live longer in retirement and collect benefits for more years, the aggregate cost of those benefits increases. One option to address the benefit cost of increasing longevity is to factor it into the benefit formula. For example, as life expectancy increases, the replacement percentages in the PIA formula could be reduced. This approach could keep the total value of an individual's expected lifetime benefits consistent, while reducing benefit growth relative to the current expectations.

Options to Improve Finances by Increasing Program Revenues

Source: GAO (icon). | GAO-24-107240

Reform options in this category would address Social Security's financial challenges by increasing the revenues available to the program.[13] OASI benefits are financed largely using payroll tax revenues.[14] Some options to increase revenues would maintain the concept of taxes paid being related to both earnings and benefit amounts by providing benefit credit for additional payroll taxes that are collected. Implementing these options could increase benefit payments somewhat but would, on net, bring more revenue into the program than the increase in benefit payments. Other options would increase revenues without an associated benefit increase, including options that would use revenues from sources outside Social Security's existing revenue sources.

Increasing the payroll tax rate	Increasing the payroll tax rate would bring additional revenue into the program. A payroll tax increase, like other options to increase program revenue, could be phased in over time or could be implemented immediately.
Raising or eliminating the cap on taxable earnings	The amount of a worker's earnings that is subject to the payroll tax is capped. For 2024, this cap is $168,600. Earnings above this level are not subject to the payroll tax and are also not included in a worker's benefit calculation. Raising the cap to a higher amount, or eliminating it entirely, would bring additional revenue into the program.[15] Some proposals to raise or eliminate the cap on taxable earnings would include the newly taxed earnings above the cap in the benefit calculation. Other proposals would collect payroll taxes on these earnings but would not allow these earnings to increase a worker's monthly benefit.

Expanding covered earnings to include additional employee benefits	Payments that workers or their employers make for certain employee benefits, such as premiums for employer-based health insurance, are exempt from the payroll tax. Expanding the application of the payroll tax to include more employee benefits would increase revenues.
Increasing taxation of Social Security benefits	Some Social Security beneficiaries do not pay federal income tax on their benefits, while those with incomes above certain thresholds may owe federal income taxes on a portion of their benefit payments. By contrast, private pension income and withdrawals from tax-deferred retirement accounts are generally subject to federal income taxes. Increasing the taxation of Social Security benefits and dedicating the new revenue to Social Security would increase program revenues.
Using general revenues or a new revenue stream	Social Security is funded using dedicated sources—such as the payroll tax—related to the program's structure. Policymakers could choose to break from this pattern and provide revenues from sources unrelated to the program's structure, whether via dedicated revenues from a new source or by using general revenues.[16]
Eliminating the retirement earnings test	OASI beneficiaries below their full retirement age who are still working are subject to a "retirement earnings test" that withholds all or part of their monthly benefit if their earnings are above a certain amount. On average, beneficiaries later receive these benefits back, as SSA recomputes their benefit amounts when they attain full retirement age and increases their benefit to account for the withheld amounts. However, research has indicated many older workers mistakenly believe the retirement earnings test permanently reduces their benefits. Such workers may decide not to work or continue some work but limit their earnings to avoid the retirement earnings test. Social Security's actuaries estimate that eliminating the retirement earnings test would, on net, improve Social Security's finances.

Options with Mixed or Uncertain Effects on Finances

Source: GAO (icon). | GAO-24-107240

The reform options in this category are not expected to clearly improve or worsen program finances. These options could have a mix of effects on program finances, such as initially increasing revenue while ultimately increasing costs. They could also improve or worsen finances depending on the specific details of their implementation or the accuracy of assumptions about the future.

Covering additional state and local government employees	Approximately one in four employees of state and local governments are not covered by Social Security and instead receive retirement benefits through their employer. Extending Social Security coverage to newly hired state and local government employees would initially improve the program's finances, as these employees would start paying payroll taxes and few would initially receive benefits. Absent other program reforms, however, this option would ultimately worsen the financial outlook of the program over time as more of these workers start receiving benefits.[17]
Modifying the delayed retirement credit calculation	Workers who choose to start receiving retirement benefits after their full retirement age receive a permanent increase to their monthly benefit payment. This delayed retirement credit is currently 8 percent per year of delay, up to age 70. One option is to provide a portion of the increase as an immediate lump sum, with a smaller monthly benefit increase. Policymakers could also modify the amount of the delayed retirement credit or the ages at which it is available. The effect of any change in the delayed retirement credit on the program's finances would depend on the specific proposal.

Modifying the Windfall Elimination Provision or the Government Pension Offset	The Windfall Elimination Provision and the Government Pension Offset reduce the benefits paid to workers who receive a pension from employment that was not covered by Social Security, such as certain state and local government employees. Both provisions address concerns that Social Security's rules provided excess benefits to these individuals. The effect of changes to these provisions would depend on factors such as whether the reform option applies a different reduction to these individuals' benefits. Eliminating these provisions without a replacement would worsen the program's finances. However, other reform options would replace one or both provisions and apply a different benefit reduction to workers with noncovered employment that would, in aggregate, reduce overall program spending.
Investing trust fund assets in private-sector securities	The assets of the OASI trust fund are invested in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States. Some reform options propose to instead invest trust fund assets in private-sector securities such as corporate equities. These types of securities could have higher long-term returns but would also face greater investment risk. Investing trust fund assets in private-sector securities would also require determining how to select appropriate securities and exercise shareholder voting rights. The impact of a change in investment policy would depend on both economic conditions and the amount invested. Given current income and cost projections, it may not be possible to substantively delay the expected depletion of trust fund reserves through a change in investment policy alone.
Allowing individuals to invest a portion of their payroll taxes in private securities	Some reform options would allow workers to create individual investment accounts in addition to, or as a partial replacement for, their Social Security benefits. Such an approach could offer workers the possibility of greater returns while exposing their benefits to greater investment risks. The impact of any such reform option on Social Security's finances would depend on the details of its implementation, such as the extent to which currently scheduled benefits would be reduced. For example, because current payroll taxes are used to pay benefits to current beneficiaries, a choice to fund individual accounts using payroll taxes would require policymakers to either decrease payments to current beneficiaries or finance alternate means of paying their scheduled benefits.

Options that Pursue Nonfinancial Goals

Source: GAO (icon). | GAO-24-107240

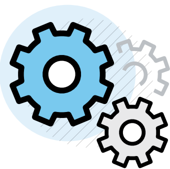
The reform options in this category would increase Social Security's costs or reduce its revenues. Implementing any of them, in isolation, would worsen the financial situation. We discuss these options in this report because comprehensive reform packages often include features that seek to achieve nonfinancial goals but would worsen the financial challenge.[18] For example, policymakers may look to reduce the impact of reform on particularly vulnerable beneficiaries. Alternatively, they may seek to modernize aspects of the program by increasing benefits for some individuals to respond to changes in our society. These options could achieve goals important to policymakers even though these options would make it harder to solve Social Security's financial challenges.

Increasing benefits for specified groups or all beneficiaries	Policymakers may determine that certain beneficiaries do not receive an adequate Social Security benefit and choose to increase benefits for them. Given concerns that the elderly may outlive their private savings, for instance, one reform option would be to increase benefits for those who live beyond a certain age. A broader approach would be to increase benefits for all beneficiaries, such as by increasing the replacement percentage for earnings below the first bend point from its current level of 90 percent.

Reducing the impact of caregiving on benefit amounts	When workers do not have 35 years of covered employment, the Social Security benefit formula functionally includes zeros for years without earnings, which reduces their benefit amounts. Such workers are disproportionately women who take time out of the workforce to care for family members. One option to reduce the impact of caregiving on benefit amounts would be to exclude years when workers provided caregiving from the averaging period used in their benefit calculation. Another approach would be to provide some level of Social Security earnings credits to those who care for a child or another family member in a given year – these credits are sometimes referred to as caregiver credits.
Increasing benefits for spouses, widow(er)s, or children of workers	Policymakers concerned with benefit levels for dependents and survivors could consider the option to change these benefits. For example, benefits for widow(er)s could be increased to reduce the financial impact of the loss of a spouse. Another option would be to extend the age up to which children of deceased workers can continue receiving benefits if they are pursuing continued education.
Modifying minimum benefit amounts for workers	Currently, some workers with a long work history in low-wage employment receive Social Security benefits that are below the federal poverty guidelines.[19] While Social Security does include a "special minimum benefit," that provision currently affects very few beneficiaries.[20] One option to improve benefit adequacy for long-time, low-wage workers would be to increase the minimum benefit. This option would continue to pay an earnings-related benefit when the benefit formula produces an amount greater than the minimum benefit.
Adding a new minimum benefit for spouses and survivors	Spousal and survivor benefits are calculated as a percentage of the benefit payable on a worker's earnings record. As a result, spouses and survivors of workers with low benefits will also have low benefits. An option targeting such individuals—such as allowing them to qualify for a minimum benefit regardless of their work history—could improve the adequacy of their benefits.
Raise the early retirement age	Workers can claim retirement benefits based on their own earnings record starting at age 62 and receive a reduced benefit amount.[21] Some research suggests that the adjustments for early claiming have become outdated due to changes in life expectancy and interest rates, and therefore reduce benefits more than would be actuarially fair.[22] To the extent that the current adjustments for early retirement reduce benefits to less than their actuarial equivalent, raising the early retirement age may increase costs to the OASI program.[23] While the focus of this report is OASI, increasing the early retirement age could increase the number of applicants for disability benefits and raise costs for the Social Security Disability Insurance program, as we have noted in prior work.[24]
Index benefits to the Consumer Price Index for the Elderly (CPI-E)	The basket of goods and services that individuals purchase—and thus the price inflation they experience—varies over their lifetimes. For example, younger workers may spend more on education or childcare, while older workers and retirees may spend more on health care. The Bureau of Labor Statistics publishes a research price index for Americans aged 62 and older, commonly known as the CPI-E. Social Security's actuaries expect the CPI-E to average about 0.2 percentage points higher than the CPI-W currently used to index OASI benefits, so using this measure would likely increase costs.
Increasing the COLA for certain groups	Another option to increase COLAs would be to target such an increase to specific populations that policymakers view as particularly vulnerable. Beneficiaries above a certain age or who have received benefits for many years, for example, may have fewer resources remaining besides Social Security.

Reduce or eliminate the taxation of benefits	Since the income thresholds for determining whether benefits are taxable are not indexed for inflation, an increasing proportion of beneficiaries owes taxes on their benefits over time. Policymakers concerned with the impact of these taxes—or who prefer other means of financing benefits—could consider the option of increasing these thresholds or eliminating the taxation of benefits entirely.
Exempting certain workers from the payroll tax	One reform option that may encourage labor force participation is to exempt certain workers from paying payroll taxes on their earnings. For example, policymakers could exempt workers with particularly long work histories from paying further payroll taxes on any earnings if they continue to work.
Reducing the payroll tax rate	Depending on the approach policymakers take in reforming Social Security to address the system's financial challenges, policymakers may opt to reduce the current payroll tax rate. For example, policymakers could choose to provide lower or less comprehensive benefits, or they could choose to bring in revenue from sources outside of Social Security's traditional financing mechanisms, such as general revenue. In such situations, policymakers might opt to reduce the current payroll tax rate.

Scope and Methodology



Source: GAO (icon). | GAO-24-107240

Identifying Options

To identify options for reforming Social Security, we reviewed the Social Security Administration Office of the Chief Actuary's (OCACT) list of reform options and relevant literature as well as prior GAO work that covered reform options introduced in Congress or suggested by experts.[25] We also interviewed six Social Security experts. We created an initial list of reform options by reviewing and including all options from our prior work, which were based on options introduced in Congress or suggested by experts. We supplemented this initial list by identifying additional options through our review of OCACT's list of reform options, our literature review, and interviews with Social Security experts. We are not recommending or endorsing the adoption of any policy option mentioned in this report.

Two GAO analysts reviewed OCACT's list of reform options to identify options that were not covered in prior GAO work. An option was only added to our list of options if both analysts agreed that the option was new.

To identify literature, we searched databases (e.g., Scopus and Public Affairs Information Service International) for peer-reviewed articles and other publications from the past 5 years (2018-2023) that discussed Social Security reform. These searches identified 42 abstracts from which we selected 26 relevant articles for our full-text review. To select relevant articles, two analysts reviewed the abstracts to identify articles that appeared to address options for reforming Social Security. Two analysts reviewed the full text of each article using a standard template to determine whether the articles identified options for reforming Social Security and any new options not identified in prior GAO work. We incorporated new options only if they appeared in more than one article.

To develop an initial list of potential experts for our interviews, we requested recommendations from internal GAO subject matter experts. We supplemented this list by identifying authors who appeared three or more times in our literature search. We collected information about each of the potential experts on our list, including their titles, affiliations, education, years of experience, and types of work experience, among other information.

To reflect a range of perspectives and a balance of experience across academia, think-tanks or nonprofits, and government, we applied three selection criteria, all of which had to be met, against each potential expert to select six experts. The three criteria were: (1) education level (Master's degree or higher in a relevant field of study such as economics, public administration, actuarial science, or a math or math-related field); (2) published work on Social Security (wrote or contributed to at least one article, book, or report—sponsored by a research organization or federal agency—that focused on Social Security); and (3) employment status (currently holds a position that involves examining or performing other work related to Social Security or a related area). We interviewed all six of the experts we selected to obtain their perspectives on our list of options for reforming Social Security as well as any options not reflected in our list. We also interviewed OCACT officials to obtain their perspectives on Social Security reform options.

We developed our list of options to capture the general types of options that may be included in comprehensive proposals to reform Social Security. As such, our list does not include every possible way in which a particular type of reform option could be implemented. In addition, given our focus on general types of reform options, we do not identify specific proposals that policymakers have introduced in Congress. Finally, our list of reform options focuses exclusively on Social Security's OASI benefit program—we do not address options for reforming the Disability Insurance (DI) program. However, where appropriate, we acknowledge potential ways in which changes to the OASI program could affect the DI program.

Assessment of How Reform Options May Affect Social Security Finances

To assess and report the effect that reform options might have on Social Security's finances over time, which informed how we categorized the options in our list, we consulted several sources. These sources included projections from OCACT's September 2023 list of reform options, articles from our literature review and other relevant sources, and the perspectives of the Social Security experts we interviewed.[26] For each option on its list, OCACT provides two key indicators of the financial effect on the combined OASI and DI Trust Funds. Since options for reforming OASI could also affect costs for the DI program–as we noted in our discussion of OASI reform options–these data recognize the combined financial impact on both programs.[27]

The first indicator in OCACT's projections—the change in the 75-year long-range actuarial balance—summarizes the financial effect of a provision over an extended period of time. The second key indicator—the change in the annual balance as of the 75th year—gives some indication of how a provision affects the balance between income and cost in the distant future. Projecting the impact of reform options is challenging and those projections are subject to uncertainty and dependent on specific implementation details.

Endnotes

[1] In February 2024, over 53 million individuals received about $99 billion in Social Security retirement benefits. Social Security Administration, *Monthly Statistical Snapshot, February 2024*. Unless otherwise noted, we use "Social Security" and "retirement" (such as when we discuss "retirement benefits") to refer to the Old-Age and Survivors Insurance (OASI) benefit program, which replaces a portion of earnings that are lost when a worker retires, and which may pay benefits to their dependents and survivors. For ease of reference, we refer to recipients of these benefits as "retirees" even though some individuals may still be able to qualify for and receive retirement benefits while working. Although we refer to "Social Security" in this way for this report, "Social Security" can also refer collectively to OASI and the Disability Insurance (DI) program, a separate benefit program that replaces earnings that are lost due to a worker's disability.

[2] For the first in our series of three reports on Social Security, see GAO, *Social Security Series Part 1: The Dilemma,* GAO-23-106667. Our analysis is based on data from the 2023 Social Security Trustees' Report (intermediate assumptions).

[3] For example, as noted in the 2024 Social Security Trustees' Report, "the Trustees recommend that lawmakers address the projected trust fund shortfalls in a timely way in order to phase in necessary changes gradually and give workers and beneficiaries time to adjust to them. Implementing changes sooner rather than later would allow more generations to share in the needed revenue increases or reductions in scheduled benefits." See Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, *The 2024 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (Washington, D.C.: May 6, 2024). In a recent issue brief, the American Academy of Actuaries similarly notes that earlier reform action would allow for changes to the program to be phased in gradually and provide individuals more time to plan and adjust to the changes. See American Academy of Actuaries, *Issue Brief: Reforming Social Security Sooner Rather Than Later* (Washington, D.C.: October 2023).

[4] GAO, *Social Security Series Part 2: Criteria for Evaluating Reform Proposals,* GAO-24-106778. We developed these criteria by, among other things, reviewing literature and interviewing Social Security experts. See the Methodology section of GAO-24-106778 for more information on our approach for developing our criteria.

[5] Throughout this report, we use the terms "reforms" and "reform options" to refer to changes to the Social Security benefit program that might be included in comprehensive legislative proposals that are aimed at addressing Social Security's financial challenges. For criteria that could be considered in evaluating comprehensive reform packages, see GAO-24-106778.

[6] To estimate the effect that reform options might have on Social Security's finances over time, we consulted sources including projections from the Social Security Administration (SSA) Office of the Chief Actuary's (OCACT) September 2023 list of reform options. See the Methodology section for more details on our overall approach and the specific OCACT measures we used.

[7] We previously addressed options for reforming Social Security in GAO-16-75SP. See the Methodology section for more details on our approach for identifying reform options.

[8] Some provisions that determine OASI benefit amounts also apply to the Social Security Disability Insurance program. While our focus in this report is OASI, many of the options we discuss could also affect Disability Insurance beneficiaries unless policymakers specifically exempt Disability Insurance beneficiaries from the changes.

[9] More specifically, the Average Indexed Monthly Earnings (AIME) calculation includes earnings in employment covered by Social Security, up to a maximum amount—$168,600 in 2024—that is indexed to wage growth.

[10] For 2024, the formula replaces 90 percent of AIME up to $1,174; 32 percent of AIME between $1,174 and $7,078; and 15 percent of AIME over $7,078. The formula's percentages are set in federal law, but the segments of AIME they cover are updated annually.

[11] SSA uses the national average wage index to adjust earnings prior to the year a worker turns 60, while any subsequent earnings are unindexed.

[12] Changes in life expectancy have not been evenly distributed, such as across income groups. Life expectancy involves estimates of mortality rates many years into the future. Thus, while events such as a pandemic may increase current rates of mortality, the effect on life expectancy may be less if the elevated rates do not last.

[13] Currently, Social Security is primarily funded by one source of revenue–payroll taxes. As a result, there are relatively few policy levers available as reform options. For this reason, we present a shorter list of options for increasing revenue than we do for reducing program costs.

[14] Workers and employers pay a payroll tax. The amount of that tax that is allocated to the OASI Trust Fund is 10.6 percent (5.3 percent of covered earnings from workers and the same amount from employers) of wages and self-employment income. In general, workers who earn more—and thus make larger contributions to Social Security—receive higher benefit amounts.

[15] Some proposals to raise or eliminate the cap on taxable earnings would apply the payroll tax to earnings above a new threshold that would be higher than the current cap. Under these proposals, earnings between the current cap and this new threshold would not be subject to the payroll tax. The new threshold would stay at a set amount in nominal dollars (i.e., would not be adjusted for inflation) while the current cap would continue to rise with increases in the national average wage index. As a result, eventually all earnings would be subject to the payroll tax.

[16] Use of general revenue for Social Security would ultimately be financed by reducing other government spending, increasing taxes, or borrowing from the public (e.g., through the issuance of bonds or other Treasury securities).

[17] More specifically, OCACT estimates that covering all newly hired state and local government employees would improve Social Security's "long-range actuarial balance"—essentially a summary measure of its effects over a 75-year period that puts more weight on short-term changes. However, this option is projected to have a negative effect at the end of the 75-year period and beyond.

[18] As previously discussed, GAO has presented four criteria that could be considered in evaluating Social Security reform proposals, and one criterion is directly focused on the financial solvency of the program. See GAO-24-106778.

[19] The Department of Health and Human Services issues poverty guidelines for administrative purposes that are a simplification of the Census Bureau's poverty thresholds. For 2024, the poverty guideline is $15,060 for a single individual in the 48 contiguous states and the District of Columbia.

[20] The special minimum benefit is only paid if the special minimum PIA formula results in a higher benefit than the regular PIA formula. The formula for the special minimum PIA is indexed to prices, while the bend points in the regular PIA formula are indexed to wages. Because wages have grown faster than prices over time, the special minimum benefit has become nearly obsolete. As of December 2022, only 23,047 of OASDI's nearly 66 million beneficiaries—or 0.03 percent—received benefits based on the special minimum PIA. Individuals aged 65 and over, among others, who have low benefit amounts may qualify for concurrent benefits under the means-tested Supplemental Security Income (SSI) program if they meet the applicable income and asset limits.

[21] Workers who claim benefits before their full retirement age receive a permanently reduced monthly benefit amount. They receive benefits for a longer amount of time than they would have if they had waited longer to claim benefits. However, the total value of benefits—in today's dollars—that a beneficiary receives over their lifetime (i.e., the present value of their benefits) may be lower depending on factors including the beneficiary's lifespan.

[22] Andrew G. Biggs, Anqi Chen, and Alicia H. Munnell, *The Consequences of Current Benefit Adjustments for Early and Delayed Claiming* (Center for Retirement Research at Boston College, 2021).

[23] In this context, actuarial equivalence refers to the expected amount of lifetime benefits being approximately the same regardless of whether a worker claims benefits early (such as age 62) or their full retirement age due to the benefit reduction for early claiming. The size of the reduction for early claiming is intended to closely approximate an actuarial equivalent basis, so that no additional cost to the Social Security system arises on account of early retirement. See Alicia H. Munnell and Anqi Chen, *Are Social Security's Actuarial Adjustments Still Correct?* (Center for Retirement Research at Boston College, 2019).

[24] GAO-16-75SP.

[25] See GAO-16-75SP, and Office of the Chief Actuary, Social Security Administration, *Summary of Provisions that Would Change the Social Security Program* (Feb. 21, 2023). OCACT's list of reform options reflects proposals and options that policymakers have developed to address Social Security's solvency problem. We reviewed OCACT's more recent September 2023 list, but we did not identify any new options that substantively differed from the options included in the February 2023 list.

[26] Office of the Chief Actuary, Social Security Administration, *Summary of Provisions that Would Change the Social Security Program* (Sept. 27, 2023). OCACT's September 2023 list is based on the intermediate assumptions described in the 2023 Social Security Trustees' Report Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, *The 2023 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (Washington, D.C.: Mar. 31, 2023). As previously noted, OCACT's list of options served as the source for some of the options included in our list. In any

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This document is based on GAO audit products and is subject to update.

We provided a draft of this report to SSA for review and comment. SSA provided technical comments, which we incorporated as appropriate.

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We conducted our work from December 2023 to July 2024 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions in this product.

cases where options from our list did not originate from OCACT's list, we reviewed the projections for comparable options from OCACT's list. We also reviewed the Congressional Budget Office's (CBO) list of options for reducing the deficit, which includes many of the reform options from our list and projects how their implementation would affect Social Security's finances over a shorter time period. We determined that CBO's assessments of the general financial effects of these options (i.e., whether they reduce costs or increase revenues) were consistent with OCACT's assessments. Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032 Volume I: Larger Reductions* (Dec. 2022) *and Options for Reducing the Deficit, 2023 to 2032 Volume II: Smaller Reductions* (Dec. 2022).

[27] For example, we noted that increasing the full retirement age is likely to also increase DI costs, as more beneficiaries would become disabled before reaching full retirement age.