CATO
POLICY
ANALYSIS

June 23, 2025 Number 998

# Rethinking Social Security from a Global Perspective

## What Congress Can Learn from the Experiences of Canada, Germany, New Zealand, and Sweden

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### EXECUTIVE SUMMARY

Social Security is projected to reach technical insolvency by 2033, threatening retirees with automatic 23 percent benefit cuts as the program will be unable to pay full benefits on time. The program's looming trust-fund insolvency creates a legislative forcing mechanism and thus presents an opportunity to reimagine how Social Security could work. Policymakers should consider fundamentally rethinking the program's structure and transform it into a system that ensures seniors are protected from poverty when they can no longer work, while also freeing up resources for younger workers to save more on their own. With Social Security running large and rising cash-flow deficits since 2010, and given a political desire to protect most current retirees from being affected by benefit reductions, Congress should act now to stabilize the system—not procrastinate any longer, which only ensures that inevitable changes will be more drastic and economically harmful. The longer Congress waits, the more people will be locked into the current unsustainable system, and the higher the burden will be on younger generations to finance it.

The United States can learn from other nations facing similar demographic challenges. Canada, Germany, New Zealand, and Sweden have successfully reformed their pension systems, providing US policymakers with proven policy options to reform Social Security and move the federal government toward fiscal sustainability.

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## INTRODUCTION

Social Security is the United States' largest federal program, with expenditures on its Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) programs totaling $1.49 trillion, or 5.1 percent of US gross domestic product (GDP) in 2024.[1] Despite rhetoric about its trust fund, Social Security has been running cash-flow deficits since 2010, with the federal government borrowing about $1.3 trillion to help fund Social Security benefits through 2024.[2] According to the latest projections of the Social Security Board of Trustees, the OASI trust fund will be depleted by 2033, triggering a 23 percent cut in benefits that Congress will be loath to accept.[3]

Social Security is an earnings-related program that provides recipients a benefit that is loosely tied to a portion of the wages they earned when they were working, up to a set limit established by the taxable payroll amount. However, the structure of this 90-year-old program was flawed from the start: Early beneficiaries typically received vastly more benefits than they paid into Social Security, leaving later Social Security taxpayers to make up the difference.[4] Over time, later taxpayers received increasingly poorer returns from the program compared to their payroll taxes.[5] Thus, instead of a government savings plan, Social Security is an intergenerational income-transfer program that was designed not unlike a Ponzi scheme.

What if, instead of replacing earnings in old age regardless of need, Social Security was a basic safety net? And what if, instead of relying so heavily on a government program for income in retirement, Americans could own and control more of their own retirement savings, with Social Security acting as a poverty backstop? This reimagined Social Security system would be far from ideal but substantially better than the current unsustainable system.

August 2025 marks the 90th anniversary of Social Security. Roughly eight years from now, all of the special-issue securities held in the program's trust fund will have been redeemed, and the program will face technical insolvency, meaning it will be unable to pay full benefits on time. Arguably, Social Security is already insolvent, as it has been running rising cash-flow deficits since 2010. From the perspective of the federal government and US taxpayers, the trust fund is an accounting gimmick rather than a real depository of savings.[6] That is why reform is needed now, not in eight years. The window for gradual and predictable reforms is rapidly closing, and the consequences of political procrastination are severe—with 23 percent automatic benefit cuts looming and the threat of thousands of dollars in additional annual taxes for hardworking Americans only increasing.

Congress has yet to consider reforms to address the program's funding gaps. Fear of political backlash has made the program the so-called third rail of US politics, deterring members of Congress from advancing meaningful changes. Each additional year of inaction results in a decreasing number of viable reform options, heightening the risk of higher taxes and disruptions to benefits for seniors. Past reform efforts have primarily focused on papering over deficits instead of reimagining Social Security in light of new economic and demographic realities. Effective reform would make it easier for individuals to plan for their own retirements instead of enabling the government to transfer income from a declining group of working Americans to a rising number of retirees.

Political obstacles to retirement reform are not unique to the United States. Similarly, the primary factor negatively affecting Social Security's finances—the aging population—is a shared challenge among most developed nations. However, countries such as Canada, Germany, New Zealand, and Sweden have demonstrated that overcoming these challenges is politically feasible. In May 2024, the Cato Institute organized a Social Security Symposium to explore these international reform experiences to educate American policymakers and experts about the possibilities for reforming Social Security.[7] The symposium discussions provided valuable insights, highlighting potential ways to not only stabilize Social Security's finances but also modernize the program.

As we identified at the symposium and through subsequent research, Canada, Germany, New Zealand, and Sweden adopted a range of effective policies to strengthen their pension systems that can serve as examples for the United States. Such measures include a focus on alleviating old-age poverty while keeping costs manageable, gradually raising the retirement age to address demographic challenges, and using automatic stabilizers to ensure long-term financial balance. Furthermore, some of these countries have developed additional schemes to promote private savings.

However, some of their approaches should serve as cautionary examples for the United States. Policies such as increasing payroll taxes on workers and expanding government-run pension programs at the expense of individual choice in retirement planning could place undue burdens on workers and limit personal financial control. This paper selectively highlights reforms that would reduce financial pressures on American workers while promoting personal responsibility in line with the authors' libertarian outlook on enhancing human agency—creating space for individuals to determine their own financial futures.

In August 2025, on Social Security's 90th anniversary, the Cato Institute will release *Reimagining Social Security: Global Lessons for Retirement Policy Changes*, a book that will include a detailed analysis of the Canadian, German, New Zealand, and Swedish retirement systems and reform histories, recommendations for the US Congress, and transcripts of the panel discussions from the Cato symposium. This policy analysis provides a high-level summary of the book's key insights.

## SOCIAL SECURITY IN CRISIS

As life expectancy soars and fertility rates decline, the very structure of entitlement programs, particularly Social Security, is being stretched to the breaking point. Once supported by a robust ratio of workers to beneficiaries, defined-benefit public pension programs such as Social Security face an imbalance that threatens financial sustainability and fairness across generations. This section explores how demographic pressures, policy inertia, and structural design choices have converged to create one of the most urgent fiscal challenges facing the United States today.

### Demographic Pressures

The consistent increase in life expectancy is one of humanity's most remarkable achievements. Between 1950 and 2023, the global average life expectancy at birth has increased from 46 years to 73.[8] This progress has been fueled by human ingenuity and innovation. However, this impressive trend has also been accompanied by decreasing fertility rates—the projected average number of children born to a woman—dropping from nearly 5 in 1950 to 2.3 in 2023.[9] These demographic developments have resulted in a higher proportion of older individuals in nearly every country.[10] The World Health Organization predicts that the proportion of the global population over 60 will double from 2015 to 2050.[11]

These demographic shifts pose a major challenge globally for public retirement systems, most of which run on a pay-as-you-go model (PAYGO). In PAYGO systems, current workers' taxes fund the benefits of current beneficiaries, making these schemes critically dependent on the worker-to-beneficiary ratio. Put simply, a higher ratio means more workers are paying for the benefits of a single retiree, making a PAYGO system more financially resilient. On the flip side, fewer workers per retiree makes funding such systems more burdensome for taxpayers.

According to the Social Security Administration (SSA), the ratio of covered workers to OASI program beneficiaries has declined from 16.5 in 1950 to 3.1 in 2024 (Figure 1). The Congressional Budget Office (CBO) notes that the aging population is the primary driver of growing spending on Social Security—spending that is projected to increase from 5.1 percent of GDP in 2024 to 6.7 percent of GDP in 2098, as revenues would remain near 4.5 percent of GDP during that 75-year period.[12]

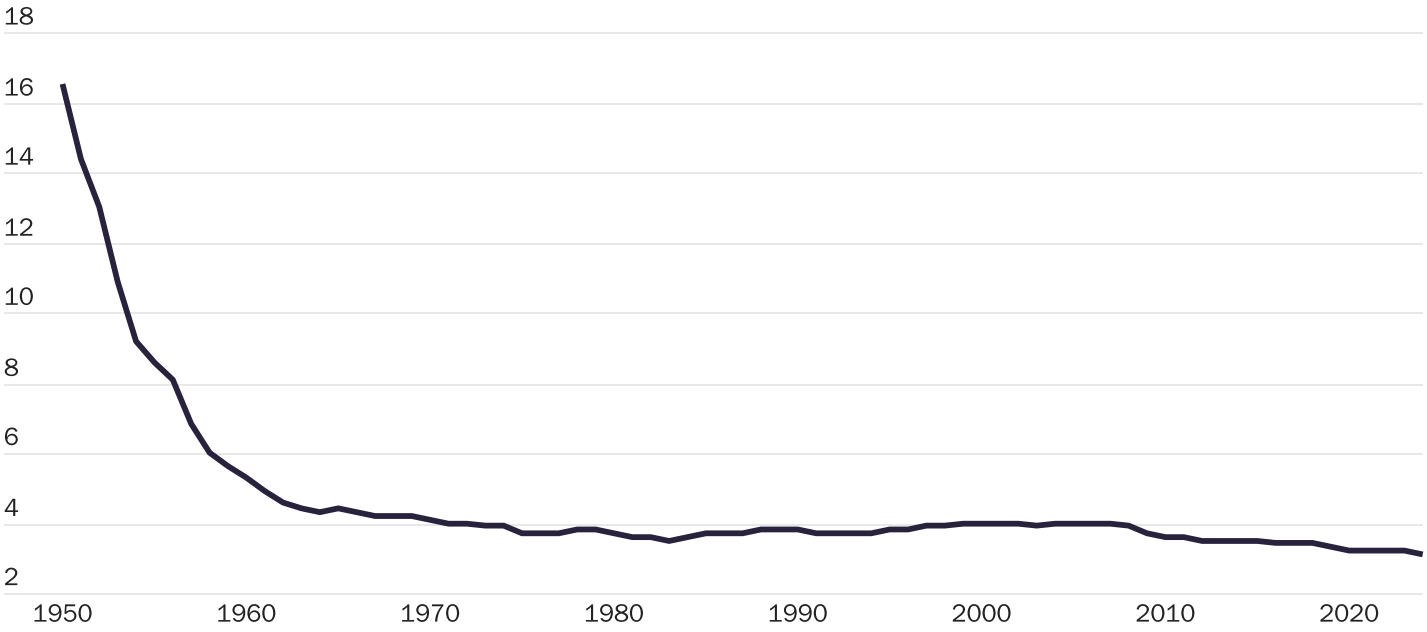
This dynamic is playing out throughout the developed world. The Organisation for Economic Co-operation and Development (OECD) states that population aging is the primary factor straining public pension systems. That has led to reforms among many member nations.[13]

The Social Security Board of Trustees has been warning about the long-term effects of demographic shifts and the program's unsustainable trajectory for decades.[14] Yet Congress, unlike other OECD governments, has been reluctant to adopt meaningful reforms. It last enacted policy changes to Social Security in 1983 in response to an impending benefit cut as the trust fund was also nearing depletion.[15] The 1983 amendments included gradually raising the full retirement age to 67; subjecting some Social Security benefits to income taxes; accelerating payroll tax increases; and expanding coverage for federal employees hired after 1983, who were previously exempt from Social Security. While these amendments averted the imminent insolvency, they failed to put Social Security on a sustainable long-term path.[16]

Figure 1

**Worker-to-beneficiary ratio has declined sharply since 1950**

Covered workers per Social Security beneficiary




Source: *The 2025 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (US Government Publishing Office, 2025).
Note: "Social Security" refers to the Old-Age and Survivors Insurance program.

Instead of adopting automatic adjustments like linking the retirement age to life expectancy, lawmakers left policy fixes to future Congresses—leading to inaction on Social Security's growing financial woes because of policy gridlock.

## Misguided Focus on Earnings Replacement Leads to Excessive Benefits

Social Security is a PAYGO earnings-related program in which retirees with higher lifetime wages receive larger benefits. While the benefit formula is progressive—replacing a greater portion of pre-retirement earnings for lower earners compared to higher earners—those with higher wages still receive larger benefits in absolute terms (and pay more in payroll taxes, also in absolute terms).

For example, a beneficiary with a maximum earnings history who retires at age 70 will receive more than $61,000 annually in Social Security benefits (an amount that will further increase with inflation).[17] This is about four times the senior poverty threshold.[18] Benefits of such enormous size have further exacerbated the program's financial strain.

Meanwhile, many retirees who receive these outsized benefits have significant private wealth and are not financially dependent on Social Security. Only 42 percent of retirees rely on Social Security for at least half of their family income, and just 14 percent depend on it for 90 percent or more.[19] Additionally, in 2022, the median net worth of seniors aged 65–74 was $410,000, compared to $135,600 for workers aged 35–44—workers who fund the benefits for seniors.[20] Notably, according to the Internal Revenue Service, the largest share of Social Security payments in 2022—about 34 percent—went to individuals with an adjusted gross income of over $100,000 (Figure 2).

While retirees need to maintain a portion of their working income to avoid a significant drop in their standard of living, the federal government is not better suited than most individuals to achieve this goal. Most workers would have been better off had they saved for their retirement by investing in financial markets, getting higher returns than what Social Security offers. Kevin Dayaratna, Rachel Greszler, and Patrick Tyrrell of the Heritage Foundation found that virtually all workers born in 1995 would see significantly better outcomes from private retirement accounts.[21] For example, an

Figure 2

**Largest share of Social Security payments goes to individuals with adjusted gross income over $100,000**

Distribution of Social Security payments by income range, tax year 2022

Source: Statistics of Income Division, "Table 1.4. All Returns: Sources of Income, Adjustments, and Tax Items, by Size of Adjusted Gross Income, Tax Year 2022 (Filing Year 2023)," Internal Revenue Service, October 2024.

average-earning male born in 1995, expected to live to age 80, would pay $404,377 in lifetime payroll taxes and receive just $227,513 in total Social Security benefits—a negative 2.31 percent annual return. As the authors explain, this outcome would occur because of higher average lifetime Social Security tax rates than previous generations faced, coupled with the 1983-enacted increase in the retirement age, and assuming Congress allows benefit reductions scheduled under current law when Social Security's trust fund arm runs dry. In contrast, if that individual invested his payroll taxes in a personal retirement account, his investments would grow to $1.24 million—a positive 4.79 percent annual return.

In a free society, individuals are best equipped to provide for their own retirement savings, with charities, congregations, family, friends, and other voluntary sources—not forced government redistribution—as the safety net for poor seniors. Falling short of this ideal, government intervention should aim to alleviate poverty among the poorest seniors, not crowd out private savings. A politically viable step in the right direction would limit government provision to a predictable basic pension benefit to mitigate old-age poverty. Such a basic benefit regime could be less expensive than an earnings-replacement program, depending on the level of benefits chosen.[22] Such a structure should leave most consumption-smoothing decisions to workers, empowering individuals with more autonomy in retirement planning, compared to earnings-related benefits or compulsory savings systems.

## Cash-Flow Shortfalls and Their Impact on Federal Debt

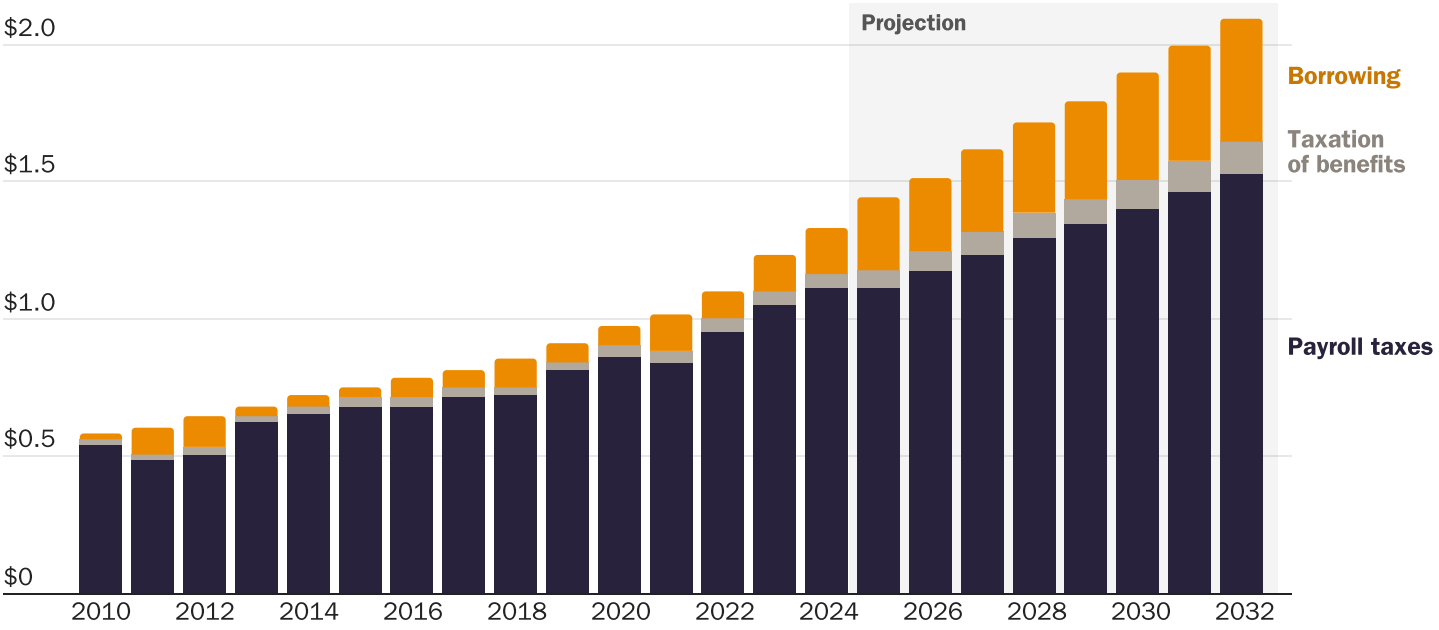
Adverse demographic trends and the earnings-related PAYGO structure have contributed to the financial unsustainability of Social Security. Since 2010, the program's tax revenues have been consistently lower than the program's costs, resulting in cash-flow deficits. Many people believe that Social Security deficits are being paid from its trust fund reserves. However, these reserves exist only on paper—special Treasury bonds and certificates known as special-issue securities—and, from the perspective of the unified federal budget, serve primarily as accounting entries that track how much of Social Security's historical surpluses the federal government has spent on non–Social Security activities.[23] In reality, nothing has been saved for the program over time, and the US Treasury is borrowing money to repay the securities so that the program can continue to pay full benefits, in excess of annual tax collections. From 2010 to 2024, the Treasury borrowed $1.3 trillion in order to redeem the securities and is projected to borrow an additional $2.8 trillion from 2025 to 2032, totaling $4 trillion over the 2010–2032 period (Figure 3). At that time, all the special-issue securities will be redeemed.

Furthermore, based on CBO data, federal borrowing to retire the special-issue securities will contribute about $5.5 trillion to federal deficits from 2010 to 2033, including associated interest costs (Figure 4). In 2033, the OASI will have no more securities to redeem. Under current law, that

Figure 3

**The government will borrow $4 trillion to cover Social Security's cash-flow deficits from 2010 to 2032**

Income sources for the Old-Age and Survivors Insurance program costs, trillions of US dollars

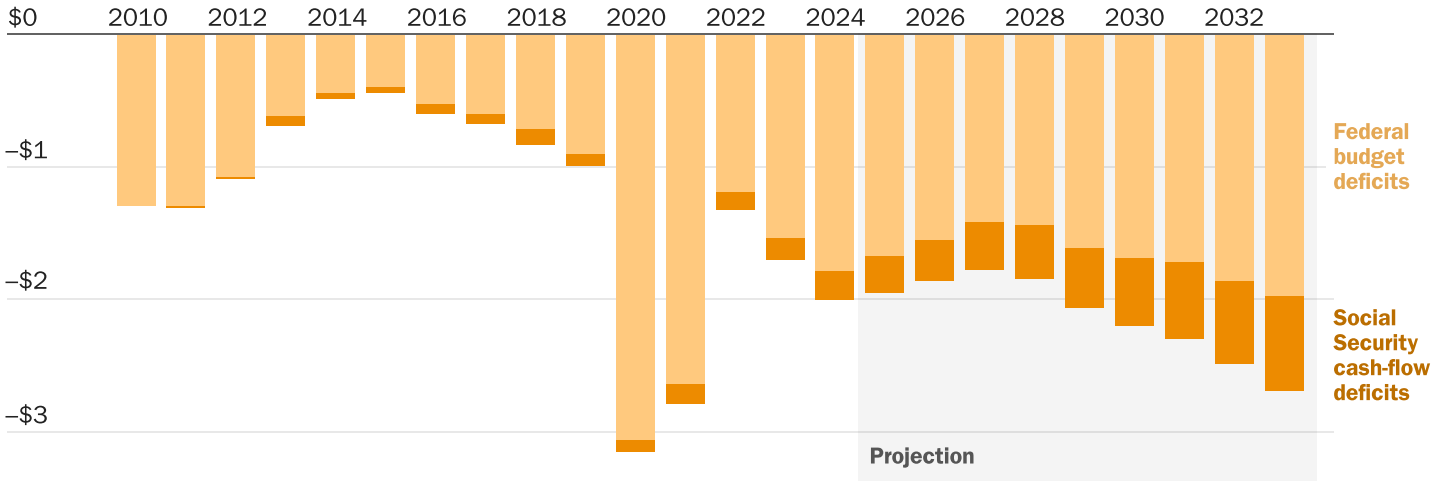



Source: Data were obtained from the Social Security Administration's *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* for 2010–2025.

Figure 4

**Social Security's cash-flow shortfalls are projected to add $5.5 trillion in deficits from 2010 to 2033**

Projected federal and Social Security deficits, trillions of US dollars




Source: "Details About Baseline Projections for Selected Programs," Social Security Trust Funds 2011–2024, Congressional Budget Office.
Note: "Social Security" refers exclusively to the Old-Age and Survivors Insurance program. Social Security cash-flow deficits include interest costs.

will trigger a 23 percent cut in benefit costs that could be indiscriminately applied to all beneficiaries regardless of their income or need.[24] According to the CBO, preventing Social Security's insolvency and paying full benefits for the next 75 years would require a major, immediate, and permanent payroll tax hike from 12.4 to 16.7 percent. This is equivalent to raising the payroll taxes of a median wage earner to $10,260, an increase of more than $2,600 per year.[25]

Despite the dire outlook and a short window to address Social Security's financing challenges, there is still an opportunity for meaningful reforms. International examples from Canada, Germany, New Zealand, and Sweden provide

Congress with reform options that would put Social Security on a more sustainable path and improve the broader US retirement system. These reforms could promote individual freedom, reduce the tax burden on workers, and expand private savings opportunities.

It is important to note that this policy analysis focuses on the positive elements of these countries' retirement systems that are most relevant to Social Security. However, these systems are not without flaws, many of which are discussed in greater detail in our upcoming book, set for release in August 2025.

## SOCIAL SECURITY REFORM OPTIONS INSPIRED BY OTHER COUNTRIES

This section outlines reform options inspired by the experiences of Canada, Germany, New Zealand, and Sweden. For context, below is a brief description of the retirement systems of these countries.

- **Canada:** The public side of the Canadian retirement system includes Old Age Security (OAS), which is a basic pension that provides a nearly universal flat-benefit pension; the means-tested Guaranteed Income Supplement (GIS); and the earnings-related Canada Pension Plan (CPP). A notable aspect of the Canadian approach is the high degree of individual autonomy offered in retirement planning. Many workers save through various private retirement accounts, with a significant portion owning Tax-Free Savings Accounts (TFSAs) that are flexible in accessing funds for nonretirement reasons.
- **Germany:** Statutory Pension Insurance (*Gesetzliche Rentenversicherung*, or GRV), an earnings-related public pension system similar to Social Security, is the primary component of the German retirement system. Although participation in occupational and personal pension plans is relatively high, most senior income still comes from government benefits.[26] Notably, Germany has been experiencing one of the most severe demographic challenges within the OECD, prompting lawmakers to pass a series of reforms to prop up GRV.
- **New Zealand:** New Zealand is unique among OECD nations in that it does not have a mandatory pension system in which workers pay dedicated taxes (e.g., payroll taxes in the United States) to qualify for future benefits. The country limits government old-age provisions to the New Zealand Superannuation (NZS), which is funded from general revenues and provides flat benefits. Furthermore, the government incentivizes participation in KiwiSaver, a voluntary pension plan, through automatic enrollment and a modest subsidy. However, individuals are free to opt out of the scheme.[27]
- **Sweden:** The Swedish pension system is partially privatized. Alongside an earnings-related and PAYGO government Income Pension, it includes the Premium Pension, in which workers' mandatory contributions are saved in individual private accounts and invested in markets. Sweden also provides a means-tested Guarantee Pension that supports about half of seniors and effectively reduces old-age poverty while costing less than 1 percent of GDP.[28] Additionally, over 90 percent of Swedish workers are covered by mandatory occupational schemes.

### Transitioning Social Security to a Basic Benefit Structure

Congress should fundamentally restructure the program by returning Social Security to its original goal of reducing old-age poverty. Instead of providing earnings-related benefits that far exceed anti-poverty protection, Social Security should limit the size of benefits to alleviate senior poverty. Such benefits could be universal or means-tested.

An example of a universal basic benefit system is the New Zealand Superannuation (NZS), which offers flat benefits to all retirees who meet residency requirements, regardless of work history. The benefit for couples is set at 66 percent of the net average wage, with a single person receiving 65 percent of the gross rate paid to couples.[29] In 2024, the maximum pre-tax biweekly benefit for a single senior was roughly NZ$1,214, which is NZ$31,500 annually. Using the International Monetary Fund's (IMF) purchasing power parity (PPP) conversion rate, this amounts to $21,430 annually or $1,800 monthly in US dollar terms.[30]

This benefit effectively protects seniors with low lifetime earnings from poverty while encouraging higher earners to generate additional savings through voluntary tools

like KiwiSaver. A 2021 study found that about 4 percent of New Zealand seniors suffered material and social deprivation in 2018, a metric used by the European Union (EU) to measure an individual's ability to afford "essential" items such as an internet connection.[31] The United States was not included in this study, so we cannot make direct comparisons. However, when compared to 27 EU countries along with Norway and Iceland, only seven countries had lower material and social deprivation rates than New Zealand. Notably, New Zealand's senior material deprivation rate was lower than that of some wealthier countries, such as Germany, France, and the Netherlands. Furthermore, NZS's spending of 4.9 percent of GDP in 2023 was slightly lower than Social Security's expenditures, which amounted to 5 percent of GDP.[32] NZS is also significantly less expensive per person, with New Zealand spending approximately $2,540 (adjusted for PPP) per person on the program, compared with about $4,021 per person that the United States spends on Social Security.[33]

Sweden's Guarantee Pension is also a basic anti-poverty benefit, but it is means-tested against income from the Income Pension. The maximum monthly benefit is $1,380 (adjusted for PPP), which fully phases out for individuals receiving more than $2,100 per month from the Income Pension. Additionally, the Guarantee Pension benefit is related to one's years of residency. The full benefit is proportionally reduced for each year below 40 years of residency.[34] In 2023, around 50 percent of Swedish seniors received the Guarantee Pension.[35] In addition, Swedish seniors may be eligible for a means-tested housing supplement, and about 15 percent received this benefit in 2024. In 2023, the Guarantee Pension, the housing supplement, and other minor means-tested supplements cost $5.4 billion, or just 0.77 percent of Sweden's GDP.[36] Moreover, these Swedish programs achieved the lowest rate of material and social deprivation in the EU, at just 1.9 percent in 2023.[37]

Canada's Old Age Security (OAS) and Guaranteed Income Supplement (GIS) programs effectively reduce old-age poverty, with only 6 percent of Canadian seniors living in poverty in 2022.[38] These programs are also relatively cost-efficient, spending about 2.59 percent of Canada's GDP in 2023.[39] The OAS, which is nearly universal, covers approximately 95 percent of Canadian seniors, while around 31 percent receive GIS benefits.[40] In 2024, the maximum monthly OAS benefit for seniors aged 65–74 was $615 (adjusted for PPP), and the GIS provided up to $920 per month for seniors with annual incomes below $18,700.[41]

A more libertarian retirement system would favor targeted benefits like the Swedish Guarantee Pension and the Canadian GIS, which are less costly because they are provided only below certain income thresholds—unlike universal benefits such as the NZS. However, targeted systems can discourage saving, particularly when benefits are means-tested against retirement income. In such cases, workers may reduce their investments in assets that would generate income in retirement to avoid triggering benefit reductions. Means-tested systems are also prone to individuals gaming or taking advantage of the system. For example, some elderly Medicaid beneficiaries try to stay below the program's asset thresholds by transferring assets to family members.[42]

Even though means-tested systems are less expensive than universal programs, transitioning Social Security to a system like NZS could still result in significant savings, depending on the level of benefits. For example, the CBO estimates that replacing the current benefit structure for all newly eligible beneficiaries beginning in 2026 with a uniform Social Security benefit set at 125 percent of the federal poverty level ($1,660 in 2026) would fully eliminate the program's 75-year deficit and result in an actuarial surplus.[43] This change would save $607 billion by 2034, and by 2054 Social Security would cost only 3.8 percent of GDP, compared to the 5.9 percent projected under current law. Moreover, such a change would increase average annual benefits for the lowest earners born between 1970 and 1979 by 27 percent, while reducing benefits for medium earners by 34 percent and for the highest earners by 55 percent.

Based on the US Census Bureau's official poverty measure (OPM), 9.7 percent of American seniors lived in poverty in 2023.[44] However, this measure inflates the actual senior poverty figure, as the Current Population Survey (CPS), which the OPM is based on, does not account for most of the income the elderly receive from their private retirement accounts such as 401(k)s.[45] The Census Bureau, acknowledging this issue, released the National Experimental Well-Being Statistics (NEWS), which supplements the CPS data with administrative data from the Internal Revenue Service, Social Security Administration, and other sources to produce more accurate estimates.[46] The

2025 NEWS report compares the 2018 CPS-based figures to its own estimates for the same year. While the OPM indicated a 9.75 percent senior poverty rate in 2018, the NEWS estimate was substantially lower: 5.73 percent.

## Reducing Excessive Benefits

If Congress is unwilling to fundamentally restructure Social Security into a basic, predictable benefit, legislators should consider reducing Social Security payments for wealthier retirees, similar to the modest benefits of the Canada Pension Plan. In 2023, the average monthly Social Security benefit for a new retiree was $1,990, with a maximum benefit of $4,018 for someone retiring at age 65 in 2025. In contrast, the CPP, also an earnings-related program, paid an average of $665 in 2023, with a maximum benefit of $1,214 for 65-year-old retirees in 2025.[47]

Providing benefits far in excess of what is needed to prevent old-age poverty serves no prudent policy goal. Congress could address the Social Security financing challenge in part by reducing benefits for middle-income and higher earners. The CBO estimates that reducing average annual benefits for new beneficiaries by 10 percent for middle earners and 26 percent for the highest earners would eliminate 42 percent of the program's long-term funding shortfalls and save about $200 billion over the next decade.[48] More important, reducing benefits is less economically costly than increasing younger workers' payroll tax burdens. Higher payroll taxes increase labor costs, reduce work incentives, and displace private savings, creating a larger drag on economic growth than benefit reductions of what's largely consumption income for a small group of wealthier retirees. Reducing higher earners' benefits would also be less harmful than across-the-board benefit cuts that could increase old-age poverty. Ideally, Congress will reduce benefits in a targeted way that protects the most vulnerable while also restoring long-term solvency through reforms that enhance incentives to work and save.

## Implementing Automatic Stabilizers in Social Security

Political considerations have been a key factor delaying Social Security reform. US lawmakers have been hesitant to adopt changes that, while improving the program's finances, would be politically unpopular. For example, raising the Social Security eligibility age is a prudent step but one likely to receive backlash from voters, discouraging many lawmakers from even discussing it.

When Congress ultimately confronts Social Security's challenges, it should align the program's eligibility ages with rising life expectancy, which has increased by nearly 16 years since Social Security's inception.[49] A gradual increase of both the early and full retirement ages by three years each, from 62 to 65 and from 67 to 70, respectively, would be an appropriate reform. It is vitally important that, to avoid today's political gridlock in the future, Congress index these thresholds to life expectancy (automatically raising eligibility thresholds as people live longer), ensuring that the program automatically adjusts to demographic trends without requiring further legislative action.

Sweden provides a blueprint for this reform. It recently raised eligibility ages for its pensions and, starting in 2026, will index them to average life expectancy at 65, automatically mitigating the pressures of the aging population.[50] A similar policy has been adopted by a quarter of OECD countries.

According to the CBO, gradually raising Social Security's full retirement age so that it increases from 67 to 70 for workers born in 1981 or later would reduce the program's costs by $95 billion from 2025 to 2034 and eliminate 33 percent of the program's 75-year actuarial deficit (note that this estimate does not include adjusting the eligibility age automatically with improvements in longevity).[51]

Congress should also consider implementing stabilizers that automatically adjust other parameters of the program to ensure that it is balanced in the long term. For instance, if the Swedish Income Pension's liabilities exceed its assets, an automatic mechanism is activated that slows the rate of growth in pension balances (which determine future payouts) and benefits, ensuring that the system always remains balanced.[52] In the aftermath of the Great Recession, this mechanism was triggered to stabilize the system, mitigating the impact of the crisis on the Income Pension's finances.

In Canada, if the chief actuary determines that the CPP is unsustainable over 75 years, federal and provincial finance ministers are required to devise a plan to fix the program's

finances. If they fail to take action or reach an agreement, an automatic stabilizer is triggered, freezing benefit growth and increasing CPP taxes automatically.[53] And in Germany, an automatic balancing mechanism in the GRV called the sustainability factor inversely links annual benefit growth to the pensioner-to-contributor ratio.[54] Thus, GRV benefit growth automatically reduces in response to adverse demographic trends.

A Social Security balancing mechanism should align the program's costs with its revenues, focusing on slowing the growth in benefits and adjusting the program to reflect changing demographic realities. Americans for Prosperity's Kurt Couchman has pointed to adjustments to the program's formula to calculate a given participant's benefits—such as reducing the 15 and 32 percent bend points (which determine how much of a worker's average earnings are replaced at different earnings levels)—as potential options for automatic mechanisms beyond eligibility age changes when the program is facing funding shortfalls.[55] Notably, unlike current law—where automatic benefit cuts are triggered only when the trust fund is fully depleted—a well-designed stabilizer would activate earlier, introducing smaller, more gradual adjustments. This would not only balance the program's finances but could also encourage timely action by politicians. The stabilizer's activation would result in changes that would directly and immediately affect voters, encouraging more regular debate of available policy reforms. Social Security automatic stabilizers should focus on benefit reductions, not increase already high payroll tax burdens.

## Establishing Universal Savings Accounts

The voluntary component of the US retirement system is stronger than in most OECD countries. More than half of American workers participate in plans like 401(k)s, and voluntary savings represent an important source of retirement income for US seniors.[56] However, there is room for improvement.

Congress should consider introducing universal savings accounts (USAs) to expand private retirement options. These accounts would function similarly to existing options but without the same restrictions. Specifically, a Roth-style USA would allow individuals to contribute after-tax earnings that would grow tax-free, and withdrawals would also be tax-exempt.[57] More important, individuals would not be restricted from accessing their funds until age 59½ and would have the freedom to use their savings at any time and for any purpose. This flexibility is particularly important for low-income and younger workers, who are often reluctant to lock away their savings until retirement.

With its TFSA program, Canada introduced such accounts in 2009, and they have gained widespread popularity.[58] Notably, TFSA adoption rates among younger and low-income Canadians are higher than the adoption rates of traditional retirement accounts. Following Canada's example, Congress should consider establishing USAs to boost personal savings. Making it easy for workers to save in these accounts automatically, similar to how workers save in 401(k)s through automatic payroll deductions, would further facilitate participation across a broader section of the US population. Finally and most importantly, such accounts should be voluntary—not compulsory, as advocated by some financial firms that stand to gain from forcing Americans to use their products.[59]

## CONCLUSION

Social Security is at a critical crossroads. The program is projected to reach insolvency in less than 10 years. Additionally, Social Security is a key driver of the United States' fiscal troubles, contributing trillions to federal budget deficits over the next eight years as it runs growing cash-flow deficits. Americans have an opportunity to remedy some of Social Security's most serious defects before the crisis becomes unavoidable. If we do not act now, future generations will experience higher taxes, lower benefits, and less opportunity. The time for bold reform is now.

The experiences of Canada, Germany, New Zealand, and Sweden provide valuable lessons for tackling Social Security's financial challenges. A realistic and fiscally responsible policy objective would transition Social Security into a targeted anti-poverty program, similar to New Zealand's Superannuation, which effectively reduces old-age poverty while containing costs for taxpayers. If Congress is unwilling to significantly change Social Security's earnings-related design, it should at a minimum

reduce benefits for higher earners to prevent harmful payroll tax hikes and focus limited taxpayer resources on those most in need.

Furthermore, reforms such as increasing Social Security eligibility ages and indexing them to life expectancy, as Sweden has done, are effective ways to adjust program parameters to reflect an aging population while improving intergenerational fairness. Additionally, Congress should consider introducing other automatic balancing mechanisms that would adjust program parameters to maintain long-term balance in light of demographic and economic conditions, without requiring further legislative action. Automatic stabilizers, which have improved the financing of Canadian, German, and Swedish public pensions, are an effective way to ensure long-term sustainability by negating the need for unpopular political actions. For example, Social Security's benefit formula could be modified to automatically reduce benefit costs when revenues fall short. Lastly, creating voluntary universal savings accounts similar to Canadian Tax-Free Savings Accounts could empower more individuals to save for their own needs, particularly low-income and younger workers.

However, time is of the essence. Each year of delay reduces the range of viable reform options and worsens the program's financial outlook. Addressing Social Security's problems is crucial—not only to safeguard a vital source of income for many retirees but also to protect workers from undue tax burdens that reduce their choices and opportunities for a better life while taking a meaningful step toward fiscal sustainability.

## NOTES

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## CITATION

Boccia, Romina, and Ivane Nachkebia. “Rethinking Social Security from a Global Perspective: What Congress Can Learn from the Experiences of Canada, Germany, New Zealand, and Sweden,” Policy Analysis no. 998, Cato Institute, Washington, DC, June 23, 2025.

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