



Menu of Social Security Policy Options

The Cato Institute has developed a Social Security model (the Cato Model) designed to closely replicate the Social Security Administration’s methodology for projecting program outlays and scoring policy proposals. The Cato Model focuses exclusively on the Old-Age and Survivors Insurance program and does not analyze the Disability Insurance program.

This document presents a menu of Social Security policy options that have been previously introduced in Congress or have been advanced by policy experts to improve the program’s finances. Our goal is to provide a comprehensive selection of policy options that we are prepared to score using the Cato Model. Inclusion of any option does not imply endorsement by the Cato Institute. The list is not exhaustive; if you have additional ideas, please contact socialsecurity@cato.org to determine whether they can be scored.

WE GROUP POLICY OPTIONS INTO FIVE CATEGORIES:

1. Options that reduce benefit levels or slow benefit growth
2. Options that redesign Social Security’s structure
3. Options that modify retirement ages, early claiming reductions, and delayed retirement credits
4. Options that modify or eliminate spousal and widow(er) benefits
5. Options that raise revenues

For each policy option, we indicate its overall effect on Social Security’s finances—specifically, whether it would increase or decrease benefit spending or revenues. The magnitude of these effects depends on the proposal’s design details and implementation timeline. Policy changes may take effect in a specific year or may be phased in gradually over time. Multiple policies may also be combined, potentially producing larger fiscal effects than implementing each proposal on its own.

THE CATO MODEL ESTIMATES THE IMPACT OF POLICY CHANGES ON:

- Social Security benefit spending
- Tax revenues (payroll taxes and taxation of benefits)
- Cash-flow balances (the difference between tax revenues and benefit spending)
- The projected trust fund reserve depletion date

Although the Cato Model reports the projected trust fund depletion date—consistent with the Social Security Administration’s practice—it is important to understand the limitations of this metric as a measure of long-term sustainability.

The Social Security trust fund consists of special-issue Treasury securities credited for past surpluses. When the program runs a cash-flow deficit, it redeems those securities to pay benefits, requiring the Treasury to borrow from the public. Social Security has run persistent cash-flow deficits since 2010, increasing publicly held federal debt. Once the trust fund is depleted—currently projected in 2032—the program will be limited to paying benefits from incoming tax revenues. The Social Security trust fund is therefore an accounting mechanism reflecting Social Security’s legal authority to pay benefits, not a store of real economic resources; cash-flow balances provide a more meaningful measure of the program’s fiscal sustainability and budgetary impact.

Options That Reduce Benefit Levels or Slow Benefit Growth

To calculate a worker’s initial Social Security benefit, past earnings are first indexed to wage growth, and the highest 35 years of adjusted earnings are averaged to determine the average indexed monthly earnings (AIME). A progressive formula is then applied to the AIME to determine the worker’s primary insurance amount (PIA), which is the monthly benefit a person would receive at the full retirement age of 67. Early claiming reduces initial benefits, whereas late claiming increases them relative to the PIA.

In 2026, the formula replaces 90 percent of the AIME up to \$1,286, 32 percent of the AIME between \$1,286 and \$7,749, and 15 percent of the AIME above \$7,749. The dollar thresholds are known as bend points. Although higher earners receive a smaller share of their preretirement earnings in benefits, they receive larger benefits in absolute terms.

After initial benefits are determined, they are adjusted annually through cost-of-living adjustments (COLAs), which are tied to an inflation index—the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

The following policy options would reduce benefit levels or slow benefit growth by modifying these components—including replacement rates, bend points, or the index used for COLAs.

REDUCING REPLACEMENT RATES

- Current law: The benefit formula replaces 90 percent of the AIME up to the first bend point, 32 percent between the first and second bend points, and 15 percent above the second bend point.
- Policy option: Reducing one or more replacement rates would lower initial benefit levels and improve Social Security’s finances. Reducing the replacement rates applied to higher portions of the AIME (32 percent and 15 percent) would reduce its earnings-replacement function for higher earners, who have the capacity to save and invest for their own retirement.

MODIFYING BEND POINTS

- Current law: The bend points are \$1,286 and \$7,749 in 2026, updated annually based on wage growth.
- Policy option: Adjusting the bend points—such as lowering them or adding an additional one—would improve Social Security’s finances by reducing initial benefit levels. Adding a new, higher bend point with a lower replacement rate would reduce benefits for higher earners.

INCREASING THE NUMBER OF EARNINGS YEARS, APPLYING THE FORMULA ANNUALLY, OR BOTH

- **Current law:** A worker's initial benefit is based on the highest 35 years of covered earnings.
- **Policy option:** Increasing the number of earnings years used to calculate the AIME (e.g., from 35 to 38 or 40 years) would improve Social Security's finances by reducing initial benefit levels. It would reflect significant gains in life expectancy and longer working lives. This change could also strengthen work incentives by ensuring that additional years of work continue to meaningfully affect benefit calculations. A related policy would apply the current formula to each year's earnings separately rather than to career-average earnings, eliminating the current averaging effect that allows workers with a few high-earning years to receive benefits similar to those with lower earnings spread over a full career.

CHANGING THE COLA INDEX

- **Current law:** Benefits are adjusted annually for inflation using the CPI-W.
- **Policy option:** It is well established that the CPI-W overstates inflation. Proposals to adopt a more accurate inflation measure—such as the Chained Consumer Price Index for All Urban Consumers, which grows more slowly than the CPI-W—would improve Social Security's finances by reducing the growth rate of benefits over time. Eliminating COLAs altogether for certain higher earners would slow overall benefit growth and reduce real benefits for these individuals, reducing the program's earnings-replacement function for higher earners.

INDEXING LIFETIME EARNINGS BY PRICES INSTEAD OF WAGES

- **Current law:** When calculating initial benefits, a worker's past earnings are indexed to average wage growth.
- **Policy option:** Because wages tend to grow faster than inflation, beneficiaries in more recent cohorts generally receive higher initial benefits in real (inflation-adjusted) terms than beneficiaries from earlier cohorts with similar earnings histories. Switching from wage indexing to price indexing for initial benefit calculations would improve Social Security's finances by slowing the growth of benefits across retiree cohorts while preserving the benefits' purchasing power over time.

Options That Redesign Social Security's Structure

The following policy options would fundamentally change how Social Security calculates benefits and determines eligibility, rather than adjusting parameters within the current earnings-based structure.

ADOPTING A FLAT SOCIAL SECURITY BENEFIT

- **Current law:** Benefits are related to lifetime earnings, with individuals with a higher AIME receiving higher benefits in absolute terms.
- **Policy option:** Under a flat-benefit system, every beneficiary who meets specified eligibility criteria would receive the same base benefit. For example, eligibility could be based on a minimum number of years of residency in the country. Alternatively, eligibility could require a minimum number of years of covered work, with either a minimum earnings threshold or no regard for how much the individual earned during those years. Some proposals would adopt a credits-based system, in which workers earn credits for each year their earnings exceed a specified minimum threshold, with the value of each credit varying by total years worked. These proposals generally aim to refocus Social Security on preventing senior poverty by reducing benefits for higher earners relative to current law and sometimes by increasing benefits for the lowest earners. Such policies would improve Social Security's finances with effects on both total spending and senior poverty, depending on the benefit level and its design.

MEANS-TESTING SOCIAL SECURITY

- Current law: Social Security benefits are calculated based on a worker's earnings history and are adjusted for claiming age. They are not subject to a means test and are not reduced because of other retirement income, accumulated assets, or lifetime earnings.
- Policy option: A Social Security means test would reduce or eliminate benefits for individuals whose retirement income, accumulated wealth, or lifetime earnings exceed specified thresholds. The test could be based on any of these measures or a combination of them. Although the effects would differ depending on the design, such proposals would improve Social Security's finances by reducing benefit spending. Means testing would also reduce the program's earnings-replacement function for higher earners. Note that the Cato Model can score income- or earnings-based means tests but does not currently model means tests on the basis of accumulated wealth.

Options That Modify Retirement Ages, Early Claiming Reductions, and Delayed Claiming Credits

Under current law, the full retirement age (FRA)—the age at which beneficiaries receive 100 percent of their PIA—is 67. Workers can claim benefits as early as age 62 (the early eligibility age [EEA]), which permanently reduces monthly benefits, or they can delay claiming beyond the FRA to receive permanently increased benefits through delayed retirement credits, up to age 70.

The following policy options would modify eligibility ages or adjust early retirement reductions and delayed retirement credits.

RAISING RETIREMENT AGES

- Current law: The EEA is 62, and the FRA is 67.
- Policy option: When Social Security was established in 1935, the FRA was set at age 65. Since then, the FRA has only increased by two years, whereas life expectancy at 65 has increased by about six years. At the same time, US fertility rates have declined substantially, which has further strained Social Security's finances as the worker-to-beneficiary ratio—a measure of how many workers are paying for a single retiree's benefits—has fallen. Raising the EEA and FRA (e.g., by three years each) would ease demographic pressures on the program and improve its finances by reducing benefit spending and raising tax revenues.

INDEXING RETIREMENT AGES TO LIFE EXPECTANCY

- Current law: The EEA and FRA do not automatically adjust as life expectancy increases.
- Policy option: Many advanced economies index their retirement ages to changes in life expectancy, with eligibility thresholds rising as longevity increases. Indexing the EEA and the FRA to life expectancy would ensure that the system automatically adjusts to demographic changes, reducing benefit spending and increasing revenues. This policy could also be paired with an initial increase in the EEA and FRA, resulting in stronger financial effects.

ADJUSTING EARLY RETIREMENT REDUCTIONS AND DELAYED RETIREMENT CREDITS

- Current law: Workers who claim benefits at age 62 receive permanently reduced monthly benefits by up to 30 percent relative to claiming at the FRA. The reduction is smaller for those who claim between age 62 and the FRA. Workers who delay claiming beyond the FRA receive permanently increased benefits, with the maximum increase of 24 percent at age 70. Smaller increases apply for those who claim between the FRA and age 70.
- Policy option: Increasing early retirement reductions would lower benefits for early claimers and reduce overall benefit spending. Increasing late retirement credits may also improve the program's financing by incentivizing workers to retire later, although the Cato Model is unable to capture this specific effect.

Options That Modify or Eliminate Spousal and Widow(er) Benefits

Under current law, Social Security provides benefits to certain family members based on a worker's earnings record. A spouse of a living retired worker may receive up to 50 percent of the worker's PIA. Upon the worker's death, a surviving spouse (widow or widower) may receive up to 100 percent of the deceased worker's benefit. Social Security also provides benefits to dependent children and dependent parents, though the following policy options focus on spousal and widow(er) benefits.

Spousal and widow(er) benefits were originally designed in an era when single-earner families were more common and were intended in part to recognize child-rearing and family work. However, this structure reflects outdated assumptions about family roles and does not account for increased labor force participation among women. Because spousal and widow(er) benefits are based on marital status and a worker's earnings history rather than financial need, they advantage higher-income single-earner families. For example, a nonworking spouse of a high earner may receive a larger benefit than a full-career worker with low lifetime earnings. In addition, the current structure advantages single-earner families relative to dual-earner families with similar total earnings.

The following policy options aim to better align spousal and widow(er) benefits with modern household structures and work patterns.

CAPPING OR REDUCING SPOUSAL BENEFITS

- Current law: A spouse of a retired worker may receive up to 50 percent of the worker's PIA.
- Policy option: Some analysts have suggested capping the spousal benefit so that it does not exceed the benefit earned by a full-career worker at a specified earnings level (e.g., the federal minimum wage). Another approach would directly reduce the spousal benefit percentage (from 50 percent to a lower share of the worker's PIA). These changes would reduce spousal benefit payments and improve Social Security's finances while more closely aligning benefit levels with individual work histories rather than marital status alone.

REPLACING SPOUSAL AND WIDOW(ER) BENEFITS WITH EARNINGS SHARING

- Current law: A spouse of a retired worker may receive up to 50 percent of the worker's PIA. A surviving spouse may receive up to 100 percent of the worker's PIA.
- Policy option: An earnings-sharing policy would combine and average a couple's covered earnings for the duration of their marriage when calculating benefits. Under this approach, spousal and surviving spouse benefits would be eliminated, and each individual's retirement benefit would be based on their own shared earnings history. This policy would reduce advantages for single-earner families and improve the program's finances by reducing overall benefit spending.

REPLACING SPOUSAL BENEFITS WITH CAREGIVER CREDITS

- Current law: Spousal benefits are payable regardless of whether a spouse engaged in child-rearing.
- Policy option: This approach would eliminate spousal benefits and instead grant caregiver credits for individuals who temporarily leave the workforce to care for children. Under such a system, eligible caregivers would receive earnings credits up to a specified level for a limited number of years, which would count toward their own benefit calculation. This policy would more directly link benefits to caregiving rather than marital status. The policy's financial effects would depend on its specific design.

Options That Raise Revenues

Social Security is primarily financed through payroll taxes on workers' earnings. The combined tax rate is 12.4 percent, formally split between employers and employees. However, economists generally agree that the full economic incidence of the payroll tax falls on workers in the form of lower wages.

Payroll taxes apply only up to a taxable maximum (\$184,500 in 2026). Earnings above that threshold are not subject to the tax and are also excluded from the benefit formula.

In addition to payroll taxes, Social Security receives revenues from the taxation of benefits. Depending on a beneficiary's combined income, up to 50 percent or 85 percent of benefits may be subject to taxation. Revenues from the taxation of up to 50 percent of benefits are credited to the Social Security trust funds, whereas revenues from the additional 35 percentage points are credited to Medicare's Hospital Insurance Trust Fund. Revenues from benefit taxation account for a relatively small share of total Social Security tax revenues—approximately 5 percent.

Under current law, any cash-flow surpluses generated by higher tax revenues will not be saved but will be used for other federal spending, with the Social Security trust fund receiving corresponding Treasury IOUs. For reform options that would generate large, temporary cash-flow surpluses, we note this explicitly.

RAISING THE PAYROLL TAX RATE

- Current law: The Social Security payroll tax rate is 12.4 percent on covered earnings up to the taxable maximum.
- Policy option: Proposals to increase the payroll tax rate would raise Social Security's revenues and generate temporary cash-flow surpluses. However, under current law, any surplus tax revenues that are not needed to pay benefits in the year in which they are collected would flow to the Treasury and be used immediately for other federal government purposes. As a result, a payroll tax hike would increase the tax burden on workers—reducing take-home pay—without increasing national saving.

RAISING OR ELIMINATING THE CEILING ON EARNINGS SUBJECT TO THE PAYROLL TAX

- Current law: The Social Security payroll tax applies only to covered earnings up to the taxable maximum (\$184,500 in 2026).
- Policy option: Raising the taxable maximum—or eliminating it entirely—would increase payroll tax revenues. Lawmakers could extend benefit credits to earnings above the current cap, which would also increase future benefit obligations. Alternatively, they could subject earnings above the current cap to the payroll tax without providing additional benefit credits, which would increase payroll tax revenues only. Either approach could generate temporary cash-flow surpluses. However, under current law, any surplus tax revenues that are not needed to pay benefits in the year in which they are collected would flow to the Treasury and be used immediately for other federal government purposes without increasing national saving. Moreover, eliminating the taxable maximum would increase the marginal tax rate on labor income for higher earners above 60 percent in some states. Studies show that higher marginal tax rates can reduce incentives for work, innovation, investment in human capital, and job creation—slowing economic growth.

EXPANDING THE TAXATION OF SOCIAL SECURITY BENEFITS

- Current law: Depending on a beneficiary's combined income, up to 50 percent or 85 percent of Social Security benefits may be included in taxable income. Tax revenue attributable to the first 50 percent of taxable benefits is credited to the Social Security trust funds, whereas revenue attributable to the additional 35 percentage points (for those taxed on up to 85 percent of benefits) is credited to Medicare's Hospital Insurance Trust Fund.
- Policy option: Eliminating the income thresholds below which benefits are not taxed and including 85 percent of benefits in taxable income for all beneficiaries would improve Social Security's finances by raising revenues. This option would also treat Social Security more consistently with other sources of income, allowing for lower tax rates more broadly rather than providing preferential tax treatment for seniors.

BROADENING THE PAYROLL TAX BASE TO INCLUDE FRINGE BENEFITS

- **Current law:** The Social Security payroll tax applies to cash wages up to the taxable maximum but excludes nonwage forms of compensation—often referred to as fringe benefits—such as employer-provided health insurance.
- **Policy option:** Excluding fringe benefits from taxable wage income creates incentives for employers to shift compensation toward this tax-advantaged option. This tax preference is more heavily used by higher earners with more comprehensive compensation packages. Including fringe benefits in the payroll tax base would improve Social Security's finances by raising revenues. If fringe benefits are also credited toward benefit calculations, future benefit obligations would rise, partially offsetting the additional revenues. If fringe benefits were taxed without being credited toward benefits, this policy change would increase revenues only.