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SOCIAL SECURITY SERIES

PART 2: Criteria for Evaluating Reform Proposals

Introduction

Social Security is considered the bedrock of the U.S. retirement system, and many retirees rely on Social Security benefits for the majority of their income.[1] As we recently reported, Social Security's Old-Age and Survivors Insurance benefit program faces financial challenges and is projected to be unable to pay full scheduled benefits starting in 2033.[2] At that point, if no action is taken, Social Security revenue is projected to be sufficient to pay retirees just 77 percent of their scheduled benefits.

This report, the second in our series, outlines criteria that may help policymakers evaluate proposals for reforming Social Security to address its financial challenges. Our third and final report in the series will present options for reforming Social Security that have been proposed.

Proposals to reform Social Security often combine several changes to the program in a comprehensive set, and those changes can interact with or offset one another. For example, some comprehensive proposals may include changes that enhance benefits for certain groups as well as changes that reduce benefits for other groups. The four criteria we present in this report are intended to be used to evaluate a comprehensive reform proposal, including the interactions between changes in a proposal:[3]

1. **Financing Sustainable Solvency**
   The extent to which a proposal achieves "sustainable solvency" and how it would affect the national economy and the federal budget.

2. **Considering Adequacy and Equity**
   How a proposal addresses the goals of equity and income adequacy.[4]

3. **Modernizing the Program to Respond to Societal Changes**
   The extent to which a proposal accounts for demographic, economic, and societal changes in recent decades.[5]

4. **Implementing and Administering Proposed Changes**
   How readily a proposal could be implemented, administered, and explained to the public.

Source: GAO Social Security Reform Criteria; GAO (icons). | GAO-24-106778

The criteria we present in this report are key factors policymakers may consider, but do not capture every potential criterion or other consideration for reforming Social Security. Furthermore, these criteria cannot determine whether a particular reform proposal is desirable. Any reform effort requires tradeoffs depending on public policy goals and priorities. Policymakers will apply their values and priorities when evaluating proposed changes and may vary in terms of the relative importance they place on certain criteria relative to others.

Figure 1: Policymakers May Value Certain Criteria Differently

Source: GAO Social Security Reform Criteria; GAO (icons). | GAO-24-106778

Criterion 1: Financing Sustainable Solvency

Source: GAO. | GAO-24-106778

Improving the program's projected solvency requires difficult choices. One key criterion that policymakers may wish to consider when evaluating Social Security reform proposals is how the proposals affect Social Security's finances. Any proposal that seeks to improve Social Security's finances will involve revenue increases (e.g., payroll tax increases), cost reductions (e.g., benefit cuts), or some combination of the two, as we explained in our 2015 report.[6] Evaluating Social Security's finances is an imprecise practice due to the complexity of the projections and the long periods over which Social Security's taxes are collected and benefits paid. When evaluating proposals to determine how they affect solvency, policymakers may also want to consider potential broader budgetary and economic implications.

Sustainable solvency aligns assets and payments. Social Security's actuaries project and evaluate Social Security's finances over an extended future time period.[7] Sustainable solvency means the actuaries project that the difference between Social Security's assets and costs will be positive throughout a 75-year period and stable or rising at the end of that period.[8]

Long-term projections are uncertain. Projections over long periods—such as 75 years—are inherently uncertain because they depend on many demographic and economic factors that can change over time (see fig. 2). Therefore, even if Social Security projections suggest that the program is sustainably solvent, future demographic or economic trends could worsen—or improve—solvency in unanticipated ways and may require additional changes.

Figure 2: Selected Factors Upon Which Social Security Financial Projections are Based

Demographic factors:

- Fertility
- Mortality
- Immigration
- Marriage
- Divorce

Economic factors:

- Productivity
- Inflation
- Average earnings
- Interest rates
- Labor force participation

Source: GAO analysis of 2023 Social Security Trustees' Report; GAO (icons). | GAO-24-106778

Note: The Social Security Trustees project Social Security's finances using assumptions about selected demographic and economic factors such as those shown above, which can affect Social Security's finances in different ways. For example, a decrease in the fertility rate—the average number of children per woman—would worsen Social Security's finances because it raises the ratio of beneficiaries to workers, according to the Trustees' report. The various demographic and economic factors that underlie projections of Social Security finances can vary over time, and thus make long-term projections uncertain.

Changes may affect the budget and economy. Policymakers may also want to consider how proposals to improve solvency would impact the overall federal budget (e.g., deficits and debt) and the national economy. For example, we reported in 2015 that one option for reforming Social Security that had been proposed was transferring revenues from the U.S. Department of the Treasury's general fund, which could partially fund the system with money from other government revenue sources. Such transfers would ultimately be financed either by reducing other government spending, increasing taxes, or borrowing from the public. However, this funding source would depart from the general principle of Social Security as a self-financed system.[9]

Changes to Social Security could also affect the federal budget and national economy in other ways. A change in payroll tax rates or in the structure of Social Security benefits could influence people's decisions about when to retire and how much to save for retirement, among other things, according to a 2015 Congressional Budget Office (CBO) report.[10] For example, CBO noted that in response to a reduction in benefits, older workers, on net, would probably choose to work longer, resulting in a larger workforce. CBO also noted that a reduction in benefits would probably lead workers to save more for retirement. Changes in the size of the workforce can affect the federal budget through the amounts the federal government collects in income taxes and pays through various benefit programs.

Criterion 2: Considering Adequacy and Equity

Source: GAO. | GAO-24-106778

Policymakers may also wish to consider how a proposal addresses issues of adequacy (providing an adequate income) and equity (providing a reasonable relationship between contributions and benefits). In considering adequacy and equity, policymakers may also wish to examine the likely impacts of proposed reforms on different groups within society.

Social Security is a social insurance program. Under a social insurance program, society as a whole insures its members against various risks they all face, and members pay for that insurance through contributions to the system.[11] For Social Security, these risks include how long individuals will be able to work, how much they will earn and save over their lifetimes, how much they will earn on retirement savings, how long they will live, and whether they will be survived by a spouse or other dependents. Benefit amounts are related to the worker's earnings history, as are the worker's contributions through payroll taxes. Under Social Security, some individuals will receive benefits that exceed their individual contributions and others will not, and benefits are paid out regardless of the recipient's need.[12]

Income adequacy and individual equity have been described as goals of Social Security.[13] Income adequacy focuses on the amount and sufficiency of benefits for individuals and families. Individual equity focuses on whether, over the course of a lifetime, individuals receive benefits that bear a reasonable relationship to their past earnings and contributions.[14] Social Security incorporates income adequacy in part through its progressive benefit formula. This formula provides disproportionately larger benefits, as a percentage of earnings, to lower earners than to higher earners. This benefit formula also incorporates individual equity by providing larger benefits, in dollar amounts, to higher earners who have contributed more into the system.

Policymakers could also assess adequacy and equity from a group perspective. Reform proposals could have different impacts on beneficiaries based on when the beneficiaries were born or their demographic characteristics, which policymakers may wish to consider. For example:

- *Intergenerational equity:* This perspective looks at the experience of successive birth cohorts and the relationship between their contributions and benefits, in the aggregate, relative to earlier generations. The sooner a reform proposal is implemented to address Social Security's financial challenges, the greater the potential equity across generations since the changes could more easily be spread across more generations of workers.
- *Demographic disparities.* Earnings records, and thus benefit levels, reflect wage disparities across demographic groups in the labor market.[15] Furthermore, Social Security Administration (SSA) data show that there are demographic differences in the usage rates of spousal and survivor benefits.[16] Therefore, reform proposals that change the adequacy or equity of benefits could have different impacts on some subgroups of beneficiaries.
- *Life expectancy.* Changes in life expectancy have not been evenly distributed, such as across income groups.[17] Reform proposals that change parameters like the full retirement age could differently affect those with lower and higher life expectancies.

Adequacy and equity can be in tension. Reform proposals that seek to improve income adequacy, particularly for low-wage earners, may decrease individual equity by weakening the relationship between contributions and benefits. Conversely, changes that seek to improve equity, such as by diverting a portion of payroll taxes and the associated benefits into individual accounts, could decrease benefit adequacy for low-wage earners. Differences in how proposals emphasize these goals may determine which proposals policymakers and the public will accept.

Criterion 3: Modernizing the Program to Respond to Societal Changes

Source: GAO. | GAO-24-106778

Our society and economy have changed in many ways since Social Security's creation in the 1930s. Therefore, a third criterion that policymakers may wish to consider when evaluating reform proposals is the extent to which proposals take into account demographic, societal, and economic changes that have occurred in recent decades.[18] For example, four areas where such changes have implications for Social Security are the role of women in the workforce, trends in life expectancy, the nature of work, and economic trends affecting the program's revenue.

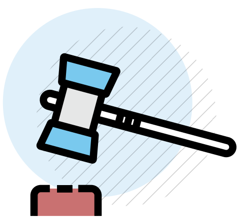
Changes in the role of women in the workforce. Women's participation in paid employment increased substantially during the second half of the 20th century. As a result, by 2022, only 17 percent of women beneficiaries received Social Security benefits solely as spouses, down from 57 percent in 1960.[19] Because some workers—disproportionately women—take time out of the workforce to care for family members, some reform proposals include caregiving credits that would increase the Social Security benefits of these workers. In addition, some proposals would modify the structure of spousal benefits given equity concerns regarding how benefits are paid to different types of households. For example, a one-earner household and a two-earner household with the same total earnings split evenly between the two working spouses would pay the same amount of Social Security taxes, but the one-earner household would receive higher benefit payments.[20]

Trends in average life expectancy. Current and future beneficiaries may receive benefits for a longer period of time, on average, than previous generations, which has implications for Social Security's benefit costs. According to the Social Security Administration, overall life expectancy at age 65 has increased in recent decades.[21] In 1983, the Social Security Trustees Report projected an increase in life expectancy, and amendments to the Social Security Act that year included provisions to increase the full retirement age gradually to 67.[22] However, gains in life expectancy have not been distributed evenly across the population. Moreover, the long-term effect of COVID-19 on longevity is as yet unknown. The Social Security Trustees assume significant effects will be temporary, and that life expectancy will continue to increase in the future.[23]

The changing nature of work. According to the Bureau of Labor Statistics, labor force participation among those 65 and over has increased since the 1990s.[24] Efforts at the federal and state levels to increase employee enrollment in workplace retirement accounts could reduce the number of future retirees who rely almost exclusively on Social Security. However, with the development of the "gig" economy, some "gig" workers—who do not have a formal employer—may rely more on Social Security.[25] Meanwhile, technological changes in workplace automation and generative artificial intelligence may continue to affect the nature of work and demand for workers in different occupations.[26]

Economic trends that affect Social Security's revenues. As the economy changes, some sources of Social Security's revenues may no longer operate as before. For example, because of larger increases in wage levels for very high earners than all other earners, a smaller share of all wage income is subject to the payroll tax (e.g., up to $160,200 in 2023), decreasing Social Security's revenue relative to what was expected at the time of the 1983 amendments.[27] In a trend that increases Social Security's revenue, a greater share of beneficiaries pay income taxes on their Social Security benefits today than in the past. The income thresholds above which the tax begins to apply are the same in nominal dollars as they were when the tax was introduced in the 1980s, and the tax now affects a greater proportion of beneficiaries due in part to inflation.[28]

Criterion 4: Implementing and Administering Proposed Changes



Source: GAO. | GAO-24-106778

A fourth criterion that policymakers may wish to consider is the degree of complexity that could be involved with implementing and administering proposed changes to Social Security. The complexity may vary based on factors such as the information and time required to implement and administer changes as well as interactions with other federal programs and across government. Changes that are more complex may also be harder for the public to understand.

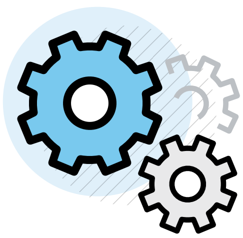
Information needs. Some changes would be complicated by the need to collect information—such as if a proposal to modify Social Security establishes new ways to become eligible for benefits. For example, one policy option that has been proposed by policymakers is to give Social Security work credits to people for time spent out of the workforce in order to provide caregiving.[29] Administering "caregiver credits" would involve, among other things, verifying that caregiving actually occurred, as we noted in our 2014 report.[30]

Time for implementation. Changes to Social Security that reduce costs may be phased in over time so workers can adapt their retirement plans. For instance, 1983 legislation gradually increases the full retirement age (FRA) from 65 to 67 over decades.[31] Phasing in changes can be particularly important if policymakers cut benefits. As retirement planning is a long-term process, workers affected by benefit cuts would benefit from advance notice to adapt. For example, workers may increase their savings or plan to work longer. However, policy options phased in over time have slower effects on Social Security's finances.

Interactions across federal programs and government. Changes to Social Security may interact with related federal programs, and therefore may call for a large set of policy changes that require collaboration across government. For example, we reported in 2015 that raising the full retirement age would increase the incentive for individuals with work-limiting health conditions to apply for Social Security Disability Insurance (DI) benefits, as well as extend the time DI beneficiaries could receive DI benefits.[32]

Public understanding. Complex changes that are difficult to explain to the public may be misunderstood and have unintended effects. For example, we reported in 2016 that research found many older workers mistakenly thought the retirement earnings test would permanently cut benefits, and that this misunderstanding might lead them to retire early or work less as a result.[33]

Methodology



Source: GAO. | GAO-24-106778

To identify criteria for evaluating reform proposals, we reviewed prior GAO work that outlined criteria for evaluating reform proposals as well as relevant literature and interviewed six Social Security experts.[34] We created an initial list of criteria by reviewing and including all criteria from our prior work. We supplemented this initial list by reviewing literature to identify any additional criteria. We added criteria to our list if they appeared in more than one article. Finally, we interviewed a group of Social Security experts to obtain their perspectives on our list of criteria. Our final list of criteria includes those that all experts (six out of six) agreed policymakers should consider when evaluating reform proposals.[35]

To identify literature, we searched databases (e.g., Scopus and PAIS International) for peer reviewed articles and other publications from the past 5 years that discussed Social Security reform. These searches identified 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 criteria or other considerations for reforming Social Security. Two analysts reviewed the full text of each article using a standard template to determine, among other things, whether the articles (1) addressed criteria for reforming Social Security, (2) specifically addressed criteria that aligned with criteria from prior GAO work, and (3) addressed any new criteria.

To identify an initial list of potential experts for our interviews, we began by requesting recommendations from internal GAO subject matter experts. We then 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. We interviewed all six of the experts we selected. 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 then interviewed Social Security experts to obtain their perspectives on Social Security reform criteria that policymakers should use, including criteria from prior GAO reports and any new criteria. We also asked experts to recommend other experts we should consider interviewing.

To obtain additional information for our analysis and discussion of criteria for evaluating reform proposals, we reviewed prior GAO reports beyond those that outline criteria for evaluating reform proposals as well as Social Security Administration documentation and relevant federal law.

Endnotes

[1]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 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 One: The Dilemma,* GAO-23-106667.

[3]GAO does not take a position on how these criteria should be prioritized. To identify these criteria, we reviewed prior GAO work that outlined criteria for evaluating reform proposals as well as relevant literature and interviewed six Social Security experts. See the "Methodology" section for additional details on our approach for identifying criteria.

[4]In this context, equity refers to the relationship between contributions (i.e., payroll taxes) and benefit payments for individuals or groups within society.

[5]GAO does not take a position on whether or how to respond to specific demographic, societal or economic trends.

[6]GAO, *Social Security's Future: Answers to Key Questions*, GAO-16-75SP (Washington, D.C.: Oct. 2015).

[7]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).

[8]GAO-16-75SP.

[9]GAO-16-75SP.

[10]Congressional Budget Office, *Social Security Policy Options, 2015* (Dec. 2015).

[11]GAO-16-75SP.

[12]The Social Security Administration (SSA) also administers the Supplemental Security Income (SSI) program, which provides monthly benefits to aged (those 65 and older), blind, and disabled individuals with limited income and assets. SSI benefits are funded by general revenues, not by Social Security taxes.

[13]See, for example, Larry DeWitt, "The Development of Social Security in America," *Social Security Bulletin*, vol. 70 no. 3 (2010), and Andrew Biggs, testimony before the Senate Budget Committee, 118th Cong., 1st sess., July 12, 2023.

[14]GAO, *Social Security: Criteria for Evaluating Social Security Reform Proposals*, GAO/T-HEHS-99-94 (Washington, D.C.: Mar. 25, 1999).

[15]See, for example, GAO, *Retirement Security: Income and Wealth Disparities Continue through Old Age,* GAO-19-587 (Washington, D.C.: Aug. 9, 2019); and *Women in the Workforce: The Gender Pay Gap is Greater for Certain Racial and Ethnic Groups and Varies by Education Level,* GAO-23-106041 (Washington, D.C.: Dec. 15, 2022).

[16]Social Security Administration, Office of Retirement and Disability Policy and Office of Research, Evaluation, and Statistics, *Fast Facts & Figures About Social Security, 2023* (Aug. 2023).

[17]GAO, *Retirement Security: Shorter Life Expectancy Reduces Projected Lifetime Benefits for Lower Earners,* GAO-16-354 (Washington, D.C.: Mar. 25, 2016).

[18]GAO does not take a position on whether or how to respond to specific demographic, societal, or economic trends.

[19]Social Security Administration, *Fast Facts & Figures about Social Security, 2023* (Washington, D.C.: Aug. 2023).

[20]Congressional Research Service, *Social Security: Revisiting Benefits for Spouses and Survivors* (Washington, D.C.: Sept. 21, 2021).

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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.

We conducted our work from April 2023 to November 2023 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.

[21]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).

[22]See Pub. L. No. 98-21, § 201(a), 97 Stat. 65, 107-08.

[23]Life expectancy involves estimates of mortality rates many years into the future. Thus, while events such as a pandemic may have an enormous effect on current rates of mortality, the effect on life expectancy may be less if the elevated rates do not last. Nonetheless, the Trustees continue to monitor emerging data in the development of their assumptions.

[24]U.S. Bureau of Labor Statistics, Current Population Survey, "Labor Force Participation Rate – 65 yrs. & over LNU01300097" (Oct. 2023).

[25]"Gig" work refers to nontraditional work arrangements such as work mediated through online platforms that connect workers and customers. GAO, *Taxpayer Compliance: More Income Reporting Needed for Taxpayers Working Through Online Platforms,* GAO-20-366 (Washington, D.C.: May 28, 2020).

[26]To the extent technological changes affect wages and hours worked, Social Security could see impacts on aspects such as its payroll tax revenues or the ages at which workers claim Social Security benefits. For discussion of these technological changes, see GAO, *Workforce Automation: Better Data Needed to Assess and Plan for Effects of Advanced Technology on Jobs,* GAO-19-257 (Washington, D.C.: Mar. 7, 2019); and *Science & Tech Spotlight: Generative AI*, GAO-23-106782 (Washington, D.C.: June 13, 2023).

[27]For discussion of this topic, see the 2023 Social Security Trustees Report and Stephen C. Goss, testimony before the Senate Budget Committee, 118th Cong., 1st sess., July 12, 2023.

[28]Factors such as rising real incomes could result in a greater proportion of beneficiaries becoming subject to taxation of benefits regardless of the role of inflation.

[29]GAO is not recommending or endorsing the adoption of any policy option mentioned in this report; such options are instead used for illustrative purposes.

[30]GAO, *Retirement Security: Trends in Marriage and Work Patterns May Increase Economic Vulnerability for Some Retirees*, GAO-14-33 (Washington, D.C.: Jan. 2014).

[31]We reported in 2015 that one option suggested by experts for changing the program would increase the FRA above 67. This change would reduce monthly benefits, assuming there are no changes to the early retirement age or the formula for reducing benefits for early retirement, and workers make no changes to their retirement age. See GAO-16-75SP.

[32]GAO-16-75SP.

[33]People who claim benefits before their FRA but continue to work for pay face a retirement earnings test, with earnings above a certain limit resulting in a temporary reduction of monthly benefits. Benefits withheld under the earnings test are not forfeited but rather deferred, and are, on average, paid back later with interest. In addition, every year after the initial claim for benefits, any new earnings the worker has may increase benefits. See GAO, *Social Security: Improvements to Claims Process Could Help People Make Better Informed Decisions about Retirement Benefits*, GAO-16-786 (Washington, D.C.: Sep. 2016); and J. Liebman and E. Luttmer, "The Perception of Social Security Incentives for Labor Supply and Retirement: The Median Voter Knows More Than You'd Think," NBER Working Paper No. 20562 (October 2014).

[34]GAO-16-75SP and GAO/T-HEHS-99-94.

[35]For readability, we made minor language changes to two of the criteria we asked experts about during interviews: *Considering Adequacy and Equity* and *Modernizing the Program to Respond to Societal Changes*. The actual criteria and definitions we asked experts about were: "Balancing adequacy and equity in the benefit structure—whether a proposal strikes a relative balance between the goals of income adequacy and individual equity"; and "Modernizing benefit programs—taking into account demographic and societal changes that have occurred over the many years since Social Security was established and most recently updated."