**REFORMING SOCIAL SECURITY**

**Option: Reduce Benefits for Higher Earners**

Social Security benefit payments are based on the portion of a worker’s earnings that was subject to Social Security payroll taxes. While higher lifetime earners receive higher payments than lower lifetime earners, their benefits replace a smaller share of their past earnings than do the benefits provided to lower earners. One option to help close Social Security’s funding gap would be to reduce benefits for higher lifetime earners. This could be done by modifying Social Security’s benefit formula in a number of ways, depending on who is classified as higher earners and how much their benefits are reduced. Most options use a sliding scale to reduce benefits most for higher earners, make smaller changes for middle earners and make no benefit changes for lower earners. Options include:

- **Reduce benefits for the highest-earning 25 percent.** Gradually reducing benefits over time for the highest-earning 25 percent of individuals by a sliding scale up to a 15 percent benefit reduction for maximum earners is estimated to fill 7 percent of the funding gap.

- **Reduce benefits for the highest-earning 50 percent.** Gradually reducing benefits over time for the highest-earning 50 percent of individuals by a sliding scale up to a 28 percent benefit reduction for maximum earners is estimated to fill 31 percent of the funding gap.

**Argument for:**

David John  
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**Argument against:**

Virginia Reno  
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David John

Changing benefit levels for higher earners is not a radical idea. In fact, it is really just an expansion of the way that Social Security has always operated.

Today, Social Security pays a higher monthly retirement benefit compared to their average lifetime income to lower-income workers than it does to those who had much higher incomes while they were working. It does this through the formula that is used to calculate an individual’s benefits based on income history.

In the future, we face an era when Social Security has promised future retirees more in benefits than it will be able to pay once the Social Security trust fund runs out of money. It seems only fair to protect the benefits of those who have lower wages by reducing the benefits of those who have higher earnings. Everyone would still receive a benefit, but higher-earning retirees would receive less than they do now.
Upper-income workers tend to have better opportunities to save for retirement than those with lower incomes. They are more likely to work at a company that offers them either a traditional pension or a retirement savings plan. They are also much more likely to have extra income to put away for retirement, while lower-income workers are likely to need a higher proportion of their income for day-to-day expenses.

That does not mean that lower-income Americans are not capable of saving or do not need to save. They are and they do. Even if Social Security could afford to pay its current level of benefits indefinitely, its benefits alone are not high enough to ensure a comfortable retirement.

There are many ways to reduce benefit levels for those who have had higher incomes, but all of them achieve the same result. Some of those methods are so complex that even policy professionals with decades of experience in working with the details of Social Security have a hard time understanding them. Other methods are much simpler, but are still fairly detailed.

All of them use a sliding scale that reduces benefits most for individuals with higher incomes, make no benefit changes for people with average career incomes below a preset level, and make smaller changes for those who fall in between those two levels. That way, the higher a person’s income, the more his or her benefits are reduced. And of course, the more people whose benefits are not touched, the lower the overall savings.

Regardless of what method is used, the goal is the same. Everyone receives some level of Social Security retirement benefit. But those with higher average incomes receive less than they do now, because they have a greater chance to build other forms of retirement income.

**Virginia Reno**

Proposals to cut benefits for higher earners are often billed as benefit reductions for the wealthy—but they would actually cut benefits for the broad middle class. These proposals do not consider the total incomes or wealth (such as financial assets, real estate, and so forth) of the individuals whose benefits would be cut. Instead, they simply ratchet down the formula that calculates your benefit based on your lifetime earnings that were taxed for Social Security. Because taxable earnings are capped annually (at $110,100 in 2012), the formula does not distinguish between someone making $110,100 and a millionaire. Using the Social Security benefit formula to cut benefits does not target the rich; it hits middle-class workers making $110,100 or less.

People whose benefits would be cut under these proposals fall far short of making it into the much-publicized top 1 percent of household income, which begins at about $380,000 a year. Those among the top 1 percent have average incomes of about $1.5 million a year. In sharp contrast, one proposal targeting the so-called “highest-earning 25 percent” under Social Security would cut benefits for workers earning above $54,000 a year. Another proposal allegedly targeting the “highest-earning 50 percent” would start cutting benefits for workers earning as little as $37,000 a year.

The case against cutting future Social Security benefits for such middle-class workers is strong. Social Security benefits are already modest, and benefits in the future will be less adequate as the full retirement age rises from 66 today to 67. To illustrate, schoolteachers
or nurses now in their 40s who make about $54,000 a year and who start collecting Social Security benefits at age 62 will get benefits that replace just 29 percent of their prior earnings. That benefit of about $1,300 a month is far from overly generous. Other elements of a secure retirement—a home with a paid-off mortgage, a steady pension check, and solid savings—are much less secure than once thought. Social Security’s guaranteed benefits are more important than ever.

The recent financial crisis has strengthened Americans’ commitment to keeping Social Security strong. In a nationwide poll, large majorities of Americans across age groups and political party affiliations agree it is critical to preserve Social Security for future generations even if that means increasing working Americans’ contributions to Social Security. Social Security is affordable. Working Americans want to preserve it. Cutting benefits is unnecessary, and doing so would be a breach of trust with millions of Americans who have been paying into the program and earning their modest benefits.

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NOTE: The estimated solvency effects in this Perspectives report are based on the intermediate assumptions in the 2011 Social Security Trustees Report.