2026-9-17

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The case against cutting Social Security benefits

Translate

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Bloomberg Opinion

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Are Social Security benefits too generous? Some fiscal hawks and classic conservatives say the answer is yes, and see the upcoming depletion of the trust fund as an opportunity to rein them in. Social Security was meant to be insurance against poverty, they say, not the sole source of income for a middle-class retirement. The program needs to institute benefit caps, means testing or even a flat benefit to remain viable.

Note

It's an interesting line of reasoning, to say the least. The current benefit formula was adopted in 1977 and was designed to keep the replacement rate of benefits — the benefit in retirement as a share of average earnings while working — stable. It mostly worked out that way, except that the increase in the retirement age in 1983 effectively cut benefits, so upcoming retirees get relatively less.

That's not to say that it is obvious how generous Social Security benefits should be. In fact, it's a question that the program has faced since its creation in 1935. But it would be a mistake to limit the upcoming reform to an accounting exercise, because it's an opportunity to ask if, and how, Social Security can help Americans manage the risks of the modern economy.

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Certainly at the beginning, elderly Americans needed a life raft. They were mostly poor. Very few had any kind of pension. One argument for a retirement program was that it would relieve the labor market of the presence of older, desperate workers. The most popular proposal at the time, the Townsend Plan, advocated for a universal and generous basic income for the elderly, paid for with a national sales tax.

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Social Security was the compromise. Benefits would be directed to workers based on what they earned. The use of a payroll tax gave workers a stake in the program while limiting unfunded expansions — something that (as we all know today) is easy to do with general funds.

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In the first 45 years of its life, Social Security expanded — with coverage extended to families, death, disability and nearly all industries — while benefits were tinkered with. The basic structure was there: Benefits were progressive and based on past earnings.

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By the 1970s, Congress had zeroed-in on a formula — but it double-counted inflation and led to truly runaway benefits. That mistake was addressed in 1977. In 1983, a reform cut benefits via an increase in the retirement age and a tax on high-income beneficiaries. For the next 43 years, Social Security has been on autopilot.

So it's been a minute since there have been any experiments with Social Security, but the program is not meant to be kept in a glass case. Benefits, formulas, coverage — they can be changed.

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In that sense, it's not all that surprising to hear noise about benefits being too high. The U.S. doesn't have the same type of elderly poverty, and there are more ways to save for retirement. Lower the benefits, they say, lower the taxes, and increase opportunities for private savings.

The problem with this reasoning is twofold. One, Americans like Social Security as it is, and if anything support expanding it. Two, Americans are already anxious about their economic security. You can pull whatever statistic you prefer: the 37% of Americans who say they couldn't meet a $400 expense; the 54% who say their financial situation is poor or fair, or the 55% who say it is getting worse.

In this context, it's hard to sell the idea that what this economy needs is less protection from Social Security. Rather than seeing Social Security as a reflection of 1935's problems, the goal should be to see the program as an answer to 2026's problems. As even its critics, pointing to high benefits, admit, Social Security has been effective at the job it was designed to do. So let's put it to work.

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