What Happens When the Social Security Trust Fund Is Exhausted: An Alternative Contingency Policy

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What Happens When the Social Security Trust Fund is Exhausted:

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Abstract

When the Social Security retirement Trust Fund is exhausted in 2032, old-age and survivor benefits in total must be cut by 24 percent, according to current projections. This is generally thought to be an across-the-board cut by the Social Security Administration, which would hit the poor particularly hard. But some are beginning to consider other, fairer ways of allocating the cuts, including limiting benefits to a certain dollar amount. But as the empirical analysis here shows, that policy too would harm those with relatively high benefits but low or modest net worths, some young survivors, and the advanced aged; it would not touch those with high net worths but relatively low benefits, for example, non-working spouses and early retirees. Instead, I propose an alternative policy on the unfortunate but now likely contingency that Congress does not enact a comprehensive reform package before exhaustion. This alternative is based on one prong of the asset means test used in the age pension program in Australia. Restricted to those ages 62 to 74, and excluding the disabled and those with net worths measured on an individual basis below $470,400, in 2025 dollars, with partial cuts for those with individual net worths below $785,400 at the median benefit, the necessary balance of revenues and outgo would be achieved with some margin allowance for projection corrections and minimum benefit provisions. This alternative contingency policy would highlight the real policy question of whether payroll or other taxes should be raised in any eventual reform package to preserve high levels of scheduled Social Security retirement benefits being paid to rich people, and whether asset means-testing should be part of a more permanent resolution of the financial and policy problems of the current program.

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Introduction

Despite repeated warnings over the last three decades from the Trustees, the Congressional Budget Office, and others of the projected exhaustion of the Social Security Retirement Trust Fund in the mid-2030s, and the need to change the retirement program to make it sustainable, Congress and most Presidential administrations of both political parties have ignored the problem. Similarly, attempts to simplify and modernize the vocational standards for disability benefits have gone nowhere for two decades owing to opposition. Worse still, advocates, analysts and politicians have demagogued these issues, preventing reasonable discussions and compromise. This is despite the fast approach of the exhaustion date of the retirement fund and the context of increasing budget deficits, growing debt, and long-term interest rates higher than economic growth rates. It is becoming clear that this deep-seated reluctance to deal with difficult issues will postpone any action until right up to and perhaps even after the time of fund exhaustion, like recently experienced federal government shutdowns.

Hence, some analysts are proposing actions that the executive branch can take on its own upon fund exhaustion to allocate revenues among the benefits scheduled but unable to be fully paid, to equitably assign the cuts, and to make the political debate around the inevitable changes more focused and productive. Andrew Biggs and Kristin Shapiro recently made one such proposal, to impose a cap on retirement and survivor benefits, so those with lower benefits do not experience any cut. Here I propose and empirically model another way to allocate full, partial, and no retirement and aged widow(er) benefits, keying off a measure of individual net worth – akin to the asset means tests used in the Australian age pension program. I believe this allocation is more equitable than the Biggs and Shapiro proposal, and certainly more so than an indiscriminate across-the-board cut that most assume is the inevitable result of fund exhaustion. That being said, these types of proposals are second and third best, and even at this late date it would be better for Congress and the Administration to reform Social Security comprehensively, as I proposed in Warshawsky (2022).

Other analysts, perhaps more jaded, have claimed that even these second-best and third-best actions will not be needed, because Congress will simply decide to maintain current benefit levels and continue to increase federal borrowing and fill in the growing Social Security funding gap with general revenues when exhaustion occurs. Indeed, it has been

implicitly doing this since the cash flow to the Trust Fund turned negative in 2010. The counterargument to this view is that the resource needs for full Social Security benefits will continue to grow, and at the same time the Social Security fund is exhausted, so too will be the Medicare fund, and the costs for Medicaid, veterans, insurance exchange subsidies, and other health programs from rising health care costs and the demographic pressures of an aging population will explode the budget. Other budget pressures come from national security needs in a competitive, even hostile, global scene, along with rising interest rates and inflation. Moreover, there may be political resistance in some quarters of both parties to explicitly turn Social Security into a welfare program, dependent on general revenues and the annual budget process, away from its self-contained and stable revenue sources and long-term promised benefits. These pressures and considerations can be expected to finally warrant some policy seriousness, albeit with much angst. So, hopefully, the policy exercise here will be helpful in focusing attention, engendering discussion, and contributing to a responsible and fair solution.

Biggs and Shapiro Proposal and Analysis

Andrew Biggs, an economist colleague at AEI, and Kristin Shapiro, an attorney at BakerHostetler, put forward in a 2024 working paper and in a 2025 article a proposal for dealing with the exhaustion of the Social Security Trust Fund when it occurs. They noted the political paralysis of Congress to address, on either the revenue or spending sides, the financing problem, known for the last three decades, arising from the retirement of the baby boom generation, longer lifespans, lower birth rates, and moderate economic growth. Hence, Biggs and Shapiro reasonably believe that it will fall to the executive branch to act on its own just before the fund exhaustion to put forward a contingency plan, and, if political paralysis continues, begin to implement it, to allocate the revenues of the system collected according to law among beneficiaries, inevitably cutting some scheduled benefits.

Conventional wisdom is that upon trust fund exhaustion, overall Social Security spending must be reduced to that payable from revenues coming into the trust fund, and that every beneficiaries' benefits must receive a pro rata cut to account for the deficit of revenues compared to scheduled benefits. Biggs and Shapiro explain the legal validity of the first part of the above statement but challenge the second part. They say that the so-called Judgment Fund, intended to pay money-mandating legal judgments, awards, compromise settlements, and so on by the federal government is not legally responsible for benefit shortfalls clearly legislated and accounted. But they also say that the conventional wisdom on pro rata allocation is wrong and that the Commissioner of Social Security has the discretion to allocate the shortfall in other ways.

Biggs and Shapiro cite various court cases and Government Accountability Office dicta stating that, if the basis is rational and consistent, reasonable classifications, priorities, and eligibility standards can be established, not necessarily the pro rata cut common in bankruptcy cases where lenders are usually large and sophisticated. Rather, they propose capping monthly benefits for individuals at approximately $2,050 (in 2024 dollars), so that beneficiaries currently getting below that amount would not get a cut, while those above that amount would get progressively larger cuts in dollar and percentage terms. No other classifications, such as age, total income, net worth, benefit type, spousal or survivor status, and so on, would be used. Using the results of the 2024 Social Security Trustees Report, which indicate a 21 percent cut beginning in 2034, they estimate that the imposition of a cap this size is sufficient to bring revenues and benefits in line.

Biggs and Shapiro estimate that about half of retirees and survivors would receive 100 percent of their scheduled benefits, and 80 percent would receive a smaller reduction than under a policy of pro rata cuts. Retirees entitled to the very highest benefits under current law, about $4,000 monthly in 2024 dollars, would get a 40 percent cut, while those in the top decile would receive a cut of one-third, on average. Given that beneficiaries with these high benefit levels are asserted to have other sources of income and assets, Biggs and Shapiro argue that this benefit cut policy is equitable. They also argue that it would be politically more productive than the status quo of pro rata cuts, by preventing panic and general economic dislocations, and would reset the terms of negotiation on Social Security reform to change the focus away from tax increases to pay for full benefits to affluent retirees.

Current Financial Status of Social Security System

According to the 2025 Trustees' Report, released on June 18, the retirement and survivors' benefit Trust Fund would be able to pay full benefits until 2033, at which time reserves will be depleted, as costs outpace income, and continuing program income will then be sufficient to pay 77 percent of total scheduled benefits, declining to 69 percent by 2099. Costs have exceeded income, excluding interest, since 2010, and including interest, since 2021. The disability trust fund is projected to be able to pay disability benefits over the next 75 years. If the two trust funds were combined, as Congress might do at the point of exhaustion of the larger retirement fund to buy some time, then the combined fund would be exhausted in 2034, when 81 percent of scheduled benefits could be paid, declining to 72 percent by 2099. These depletion dates advanced by about 3 calendar quarters from the dates in the prior year's Report owing to the repeal by Congress of prior-law benefit offsets for government workers and retirees who did not pay into Social Security for their entire careers, thereby increasing benefits for millions of workers and retirees. Also, lower birth

rate and labor compensation share assumptions caused part of the closing of the exhaustion date.

The Social Security Trust Funds receive most of their income from payroll taxes paid by workers, employers, and self-employed workers; the combined tax rate is 12.4 percent of earnings up to an annual maximum of $176,100 in 2025. A small but steadily increasing share of income has come from income taxes paid on Social Security benefits; under current law, beneficiaries with incomes above $25,000 (unindexed) for individuals and $32,000 for couples filing jointly pay income taxes on up to 50 percent of their benefits, going to the Social Security Trust Funds.

Under the One Big Beautiful Bill Act (OBBBA) signed by the President Trump on July 4, 2025, marginal tax rates and tax bracket amounts that were lowered in 2017 but scheduled to increase in 2026 were made permanent, and certain standard and itemized deduction amounts were temporarily changed. OBBBA increased the standard deduction amounts for those age 65 and older for years 2025 through 2028. Seniors now have an extra deduction of $6,000 in addition to the current standard deduction for seniors under existing law. The new $6,000 senior deduction is per eligible individual (i.e., $12,000 total for a married couple where both spouses qualify). The deduction phases out for taxpayers with modified adjusted gross income over $75,000 ($150,000 for joint filers) and is available for both itemizing and non-itemizing taxpayers.

The combined effect of these changes lowered the projected income taxes going to the Trust Funds and, according to an August 2025 letter from the Social Security actuary, accelerated the depletion date for the retirement trust fund from the first quarter of 2033 to the fourth quarter of 2032 (and lowered its estimate of benefits payable at that time to 76 percent), and for the combined trust funds from the third quarter of 2034 to the first quarter of 2034. It is furthermore plausible that the popular extra senior deduction will be extended, further reducing Trust Fund revenues and hastening exhaustion.

The disability trust fund is not projected to be exhausted, and the law would require the continued payments to disabled beneficiaries. Hence, the prudent relevant scenario for an Administration to plan for would be the exhaustion of the uncombined retirement and survivor trust fund in the fourth quarter of 2032 and the ability to pay no more than 76 percent of scheduled retirement benefits in aggregate. That is the problem that needs to be addressed at that time, given current projections.

Australian Means-Tested Social Security

The current Australian Social Security pension system, established in 1992, is composed of three parts: a means-tested age pension funded through federal general tax revenues, a

tax-favored (but not tax-exempt) defined contribution ("superannuation") system where employers make mandatory contributions to workers' personal investment accounts of 12 percent of pay up to a maximum ceiling of earnings in 2024-5 of AUD 260,280 on an annual basis, and voluntary tax-favored personal savings (with a modest government match for low-income workers) of up to 3 percent of pay. The age pension is payable at age 67 for men and women. Retirement payments from the pension are not dependent on past contributions or earnings, but are generally the same for all aged persons, subject to income and assets means tests and marital and residential status. Pension payments are supplemented by government assistance for medications, utility, energy, sometimes rent, and other living expenses if even one dollar in age pension benefits is received. In September 2024, the maximum annual payment from the age pension with some supplements added, for a single was AUD 29,754 and for a couple AUD 44,855; these payments are adjusted for price inflation biannually. Recently, the exchange rate is AUD 1.55 for $1. As we will see below, at $19,200 in 2024 US dollars, the Australian maximum pension payment is significantly below the upper deciles of Social Security retirement benefits in US in 2019; it is minimally set to reflect 42 percent of average male earnings in Australia.

The age pension is reduced if annual income from other sources exceeds a threshold set in 2024-5 at AUD 5512 annually for a single and AUD 9672 for a couple; for each dollar of income over these thresholds, the pension is reduced by 50 cents. There is a work bonus concession on this income test for earnings less than AUD 7800 at an annual rate. There is also an assets test. In 2024-5, the assets test thresholds for homeowners are AUD 314,000 for singles and AUD 470,000 for couples; for non-homeowners the thresholds are AUD 566,000 for singles and AUD 722,000 for couples. Owner-occupied homes are excluded from considered assets, but superannuation accounts are included. Assets above these amounts reduce the pension by AUD 78 annually for every AUD 1000 above the thresholds, so that at AUD 947,462 in assets for the non-homeowner single, the age pension benefit is cut entirely.

These means tests, which have historically been part of the Australian Social Security system since the early 1900s, are checked annually, and if circumstances change significantly, the beneficiary is obliged to report the changes when they occur. Although there were times in the past when the tests were only imposed on individuals younger than 70 or 75, the current tests are not age-related. The percent of the retired population with age pension benefits, however, increases with age, as a natural result, presumably as older beneficiaries stop work and use up their assets, as well as because they participated in the compulsory superannuation schemes started in 1992 for fewer years and at lower contribution levels than younger people. For example, as of March 2025, age pension

receipt was only 59% of those aged 70–74, but 80% of the population aged 85 and over got some age pension benefit. At that time, around 67 percent of all pensioners, that is, those with receipt of some age pension had full benefits; the rest were reduced, but not to zero, by the means tests – 54 percent were reduced by the income test and 46 percent by the asset test. Of the eligible Australian older population, 44 percent get a full pension, 31 percent a partial pension, and 25 percent get no pension, in 2024-5, according to the Australian Treasury.

Despite the projected aging of the Australian population, with low birth rates and steady but modest immigration flows, the aged pension program is projected by the Australian government to be sustainable over the long run, with little increase in spending as a share of GDP. This is because growing superannuation funds crowd-out means-tested age pensions, as that system matures and draws expected good investment returns.

Alternative Contingency Proposal

The Biggs-Shapiro proposal moves the debate about Social Security reform forward and focuses it on the central issue of whether large tax increases should be enacted to pay retirement benefits at high levels to presumably well-off individuals and households. The proposal has the advantage of radical simplicity, which is important in terms of communication with the public and ease of administration. Moreover, it is fairer than the common wisdom approach of enacting a pro rata cut.

Yet the Biggs-Shapiro proposal is rough justice still. Even 100-year-old retirees, with reduced capacities for adjustment, albeit with high benefit levels, would receive cuts. Even some child survivors would receive cuts. By contrast, relatively younger spouses with no earnings history receiving 50 percent of their spouse's benefits would likely get no cut, even though their combined household Social Security retired worker and spousal benefits (and total income and net worth) might be quite high. This is especially so if the spouse was younger than the retired worker and therefore got a reduction in her/his benefit so that as little as 32.5 percent of the benefit of the worker who retired at or after the full retirement age is paid to the spouse. Similarly, aged spouse survivors of workers who died young or were disabled with truncated and/or low earning careers but have no or a modest earnings record of their own will typically get lower benefits, but may have significant net worth, say from life insurance proceeds or home equity. Also, early claimants in general get lower benefits than older claimants with otherwise similar earnings records, owing to the workings of the Social Security benefit formula that gives an actuarial reduction to early claiming. But these early claimants who are generally also early retirees may well have accumulated significant net worth precisely to enable them to afford a long retirement. Indeed, if the Biggs-Shapiro proposal in advance were thought likely to be implemented, it

would encourage early claiming of Social Security benefits, which may be welfare reducing because of the loss in price-indexed longevity insurance, and the tendency to retire when claiming early. On the other hand, although high benefits are thought to be strongly associated with high total income and net worth, that is not so as we will see below, and hence the simple single cap could harm some individuals and households with past significant and/or lengthy earnings streams and high benefits but otherwise modest means owing to, say, return reversals, significant expenses, high taxes, and so on.

To address these fairness issues, I propose an alternative contingency approach to allocating the benefit cuts, keying off a measure of individual net worth, adopting part of the asset means test in the Australian age pension. Under this alternative proposal, cuts would be limited to those receiving retirement and widow(er) (but not disability) benefits ages 62 to 74 on the theory that they can adapt more easily than older individuals, with the younger retirees continuing or even returning to the labor force if necessary. According to Liu and Quinby (2025), labor force participation rates are 59 percent at age 62, and 26 percent at age 70, before dropping below 20 percent at age 75, and nearly 50 percent of those who claimed retirement benefit continue to work after claiming. Moreover, this younger group has had the most notice of the impending exhaustion of the trust funds from the successive annual Trustees' Reports. Minimum distribution requirements do not begin until age 75, in 2033, so those younger than that age still can accumulate retirement assets to cushion any cuts.

Most importantly, cuts would be limited to those with net worth, measured on an individual basis at the time of the trust fund exhaustion, in excess of the Australian system's single non-homeowner asset limit of $313,625 in 2020 US dollars (2025 AUD 566,000) and would use that system's reduction factor of $78 cut to annual Social Security benefits (net of deductions) for every $1000 in net worth in excess of the limit. These specific limits, which will be indexed as described below, are chosen mainly as an illustration to examine its effects on Social Security's payments, finances, and beneficiaries to see if it meets the financing needs at the point of fund exhaustion. It is also a useful point of reference because Australia has a roughly similar standard of living as the US and its pension system is stable, sustainable, and well-regarded and supported across the political spectrum.

Net worth, and not assets, are used as the measure in the means test because loans and mortgages that must be paid back represent a real diminution in the ability to finance living costs in retirement. Similarly, the value of vehicles is removed from the definition of net worth as a wasting asset, but not housing, as the ready availability of mortgages and home equity loans makes that asset class quite liquid, and the exclusion of significant home net values, for example for California residents, would be unfair to non-homeowners and

residents living in areas where housing is much cheaper. The actuarial value of defined benefit pensions from past and current employers would be included in assets, reflecting the considerable wealth some hold in that asset class. Because the means testing would be done on an individual basis, household net worth would be divided evenly among married couples. Hence, those individuals getting 50 percent spousal benefits or other low benefit amounts but with significant net worths would likely still get at least some benefit cuts under the alternative policy, as is appropriate on fairness grounds.

The need for an income means test is avoided by converting the payment stream of defined benefit pensions to their annuitized present value lump sum equivalents. Also, eliminating the income means test allows for unpenalized unlimited labor earnings; work at older ages should be encouraged, especially as the birth rate falls, immigration is restricted, and the labor force is shrinking. Net worth, including the market value of personal businesses and equity investments that pay little in dividends and whose gains realizations can be strategically managed, is overall a better measure than income for welfare and economic capacity at retirement ages. Although there are certain economies of scale in multi-member households, because Social Security and retirement plan benefits and assets are assigned to the individual, mainly based on past work histories, it is more consistent to measure net worth on an individual basis and use that measure for the test.

It must be acknowledged that a net worth means test applying to millions of beneficiaries will be challenging to administer. The Social Security Administration (SSA), however, does have some legal, policy, and practical experience with such a test from its administration of the Supplemental Security Income program, albeit on a smaller and less robust scale than needed here, and federal and state government regularly employ asset tests for eligibility to Medicaid and other welfare programs. The Australian experience clearly shows it can be done, with sufficient notice and planning. Data sharing agreements with the IRS, other federal and state government agencies, and private data vendors will need to be established, and, like the Australian system, certain deemed valuation methods employed, at least a year before exhaustion, to give the public and Congress sufficient notice of the Administration's plans and incentivize serious and speedy legislative negotiations. To avoid asset transfers and the incurrence of debt meant to evade the consequences of means-testing at the time of fund exhaustion, the computation of individual net worth would use data for a year prior to the announcement of the policy.

Empirical Analysis of Alternative Contingency Proposal

The RAND version of the 2020 Health and Retirement Study (HRS) database supplemented by the Boston College Retirement Research Center (BCRRC) originated pension code (Gok, et al. (2024) version of Gustman, et al. (2010)) applied to base HRS data to develop

complete pension and retirement account wealth is used to investigate empirically the impact of the alternative proposal. Because Primary Insurance Amounts are not available in the public access version of the HRS, the actual Social Security retirement or survivor (but not disability) benefits being paid to individuals are used instead. To avoid artificially low benefit values arising from the operation of the earnings test (applying to those with earnings above certain limits before the full retirement age) or the windfall elimination provision and government pension offset (repealed as of January 2024), observations where respondents are below the full retirement age and not completely retired (self-reported), or who worked as a government worker for their longest held job or the spouse of a government worker for their longest held job are excluded from the empirical analysis.

Because the RAND HRS records total Social Security benefits to the individual on an annual basis, observations of respondents who have not collected benefits for a full year are included here. Various workarounds like excluding those who retired after 2018 were considered but they run into the issue that retirement from work and claiming Social Security benefits are not synonymous. (Although the discussion and analysis here is in annual terms, for clarity, actual administration would likely have to be done on a monthly equivalent basis to avoid timing issues.) Those with family maximum reductions and worker's compensation offsets are also not excluded. RAND HRS person-level population weights are applied.

The RAND version of household net worth is the net value of all household assets less household debt. Household assets include businesses, real estate (owner-occupied or investment), stocks, mutual funds, IRAs and Keogh accounts, investment trusts, checking, savings, and money market accounts, CDs, bills, bonds, and bond funds, and other savings. Household debt includes all mortgages and other debt. In the variable used here, vehicles are excluded but the BCRRC version of pension assets are added, including the actuarial present value of all vested defined benefit pensions, and all defined contribution plan accounts from past and present employers for all household members.[2] For married individuals, this enhanced measure of household net worth is divided in two to get individual net worth.

In the RAND HRS, Social Security retirement, spousal, and widow(er) benefits are reported on an individual basis with annual amounts, for the respondent and their spouse separately. About 17 percent of these amounts are imputed according to RAND HRS

[2] The BCRRC code gives two versions of code to compute the value of defined benefit pension wealth. The second version is used here, as more consistent with data from the Survey of Consumer Finances of the Federal Reserve Board, and an increasing, rather than a decreasing, prevalence with age, consistent with the slow disappearance of pensions from private sector employers. This choice is significant in the middle of the net worth distribution, although not at either end.

formulae. Income variables, including Social Security benefits, refer to income received last calendar year. For married couples, spousal and own retired worker benefits are separately allocated, consistent with the practice of SSA to make two separate monthly deposits, regardless of the ultimate source of the benefits, although there may be some confusion among respondents on this point who combine benefit amounts. Reported benefits are asked as net of deductions, mainly Medicare premiums.

The data quality of the HRS survey is generally regarded as good, especially the RAND version, which is cleaned, imputed, and user-friendly. According to the analysis by Dushi, et al. (2025), however, when comparing the HRS to administrative records for 2016, Social Security gross income is somewhat underreported (by about 5 percent), and pension and retirement account income (and therefore pension and retirement assets) is significantly underreported (by about 22 percent). Other reported asset income seems close to the administrative data, and labor earnings are overreported. We do not know much about the quality of housing and other financial assets data. Therefore, the HRS-based statistics reported below should generally be regarded as lower bounds to actual amounts, especially for individual net worth. Moreover, since 2020, prices for equities and housing have increased significantly in excess of inflation. In 2020, the Australian asset means test amount for single non-homeowners was $313,625 in US dollars. That is the net worth limit used in the modeling below for the minimum individual net worth for beneficiaries when Social Security benefits begin to be cut when the trust fund is exhausted.

Table 1 below shows the distributions of individual net worth of Social Security beneficiaries ages 62 to 74 in 2020 by the deciles of annual Social Security net retirement and survivor benefits in 2019, based on HRS data. Overall, the median individual net worth is $372,500, while the mean is $673,890.[3] The median annual net benefit is $16,080. Although at the net worth medians and means and the other percentiles, net worth generally increases with annual benefit levels, that is not uniform. In particular, the median net worth in the first decile of benefits is $280,500, higher than in the next few deciles; the mean is $797,880, higher than the next six deciles. The lower benefit levels are accounted for, in part, by non-working spouses, primarily women, early retirement ages, and those with shorter earnings histories (albeit with at least forty quarters to qualify for Social Security retirement benefits). Indeed, according to the SSA actuary, spouses of retired workers got, on average, 54 percent of the $17,198 annual gross average benefit received

[3] According to Staff of the Federal Reserve Board (2023), family net worth (not including the present value of defined benefit pension plans) for 65 – 74-year-olds in 2019 was $308,000 in 2022 dollars at the median and $1,411,600 at the mean, based on the Survey of Consumer Finances. Because about 65 percent of people are married at these ages, and the net worth measure in this paper is calculated on an individual basis and includes value of defined benefit pension wealth and the population here includes only Social Security recipients, the net worth measures from the two sources seem roughly comparable.

by all retired workers, spouses, and aged widow(er) survivors as of July 2019. By contrast, the tenth percentile of the highest benefit decile has only $195,890 in individual net worth, and of the ninth benefit decile, most of whom would be subject to Biggs-Shapiro cuts, at the tenth percentile has only $135,400, and at the 25th percentile, only $253,500. These results strongly indicate the wide variation in individual net worth at the onset of retirement, the unfairness of a simple cap on benefits, and instead show that a net worth means test would produce a fairer outcome, as the base for discussions about future reforms to Social Security.

Table 1

Statistical Distribution (Percentiles) of Individual Net Worth in 2020 for Deciles of Social Security Benefits in 2019: Recipients Ages 62 to 74

decile	min	p10	p25	p50	mean	p75	p90	max
$ ≤ $7,560	25	25,000	84,903	280,500	797,878.7	1,011,619	1,840,936	6,520,000
$7,560 < $ ≤ $9,996	4	4,000	69,498	180,522	449,690.0	487,797	1,069,622	4,861,659
$9,996 < $ ≤ $12,000	1	20,160	83,500	275,286	451,717.1	611,250	1,153,229	3,629,357
$12,000 < $ ≤ $14,400	25	19,500	80,000	216,000	486,575.2	611,000	1,171,257	4,564,100
$14,400 < $ ≤ $16,080	25	20,026	86,000	284,000	542,827.2	609,509	1,831,593	3,155,000
$16,080 < $ ≤ $18,000	400	24,850	133,882	359,048	616,511.5	816,251	1,336,865	5,935,678
$18,000 < $ ≤ $19,896	100	44,000	150,153	381,000	615,370.1	814,136	1,404,165	6,252,000
$19,896 < $ ≤ $22,800	2	115,000	222,020	510,000	901,000.1	901,000	1,410,097	4,796,816
$22,800 < $ ≤ $26,136	300	135,399	253,500	582,500	757,848.1	979,759	1,756,838	3,937,668
$ > $26,136	15	195,894	435,277	855,000	1,317,596	1,416,000	2,331,171	17,172,028
Total	1	36,500	129,869	372,500	673,890.4	853,029	1,535,943	17,172,028

Source: Author's calculations based on RAND and BCRRC versions of 2020 HRS

Table 2 is the obverse of Table 1, that is, it shows the distributions of the 2019 annual net benefits of Social Security beneficiaries ages 62 to 70 by the deciles of individual net worths in 2020. According to the computation here from the RAND and BCRRC HRS, across all net worth deciles, the median annual net Social Security retirement/spousal/widow(er) benefit in 2019 is $16,380 and the average $16,560. This is lower than the average reported by the Social Security actuary with reference to July 2019 and then annualized at $17,198, but the actuary's statistics are gross, not net, of deductions, and, as noted above, the HRS tends to underreport this variable compared to administrative data. Overall, benefits range from $7,800 at the tenth percentile to $26,230 at the ninetieth percentile. (In 2019, the maximum possible Social Security retirement benefit at age 70 was $45,240.) When looking at benefits across deciles of net worth, we see the general pattern that benefit levels tend to increase with net worth, although not in the tenth benefit percentile (consistent with Table 1 results), but even then, not in a particularly strong way. For example, at the fiftieth benefit percentile (median), Social Security retirement benefits only increase from $13,104 at the first net worth decile (less than $36,500) to $19,402 at the tenth net worth decile (more than $1,535,900), while at the

ninetieth benefit percentile, the comparable benefit amounts are $19,020 and $30,000. Clearly, many with benefit levels above $24,600 have modest individual net worths.

Table 2

Statistical Distribution (Percentiles) of 2019 Social Security Benefits for Deciles of 2020 Individual Net Worth: Recipients Ages 62 to 74

decile	min	p10	p25	p50	mean	p75	p90	max
$ ≤ $36,500	360	7,344	9,468	13,104	13,075.03	16,800	19,020	33,732
$36,500 < $ ≤ $100,000	84	6,000	8,988	12,780	13,011.41	17,340	21,132	28,800
$100,000 < $ ≤ $162,080	792	8,400	10,896	15,000	15,438.61	19,200	22,836	35,766
$162,080 < $ ≤ $255,125	1,600	7,400	10,560	15,000	15,389.79	20,400	23,952	29,876
$255,125 < $ ≤ $372,500	192	8,400	11,436	16,800	16,737.04	21,192	26,160	40,000
$372,500 < $ ≤ $524,574	1,680	8,400	12,000	17,720	16,858.57	21,000	25,680	36,000
$524,574 < $ ≤ $702,299	1,188	9,600	12,000	18,000	18,108.98	23,844	27,353	39,600
$702,299 < $ ≤ $982,588	660	10,200	14,400	19,296	19,690.59	24,120	28,600	40,800
$982,588 < $ ≤ $1,535,942	240	6,909	12,000	19,200	18,128.21	24,000	27,888	37,200
$ > $1,535,942	12	6,600	13,200	19,402	19,275.89	25,200	30,000	42,000
Total	12	7,800	11,280	16,380	16,559.27	21,600	26,228	42,000

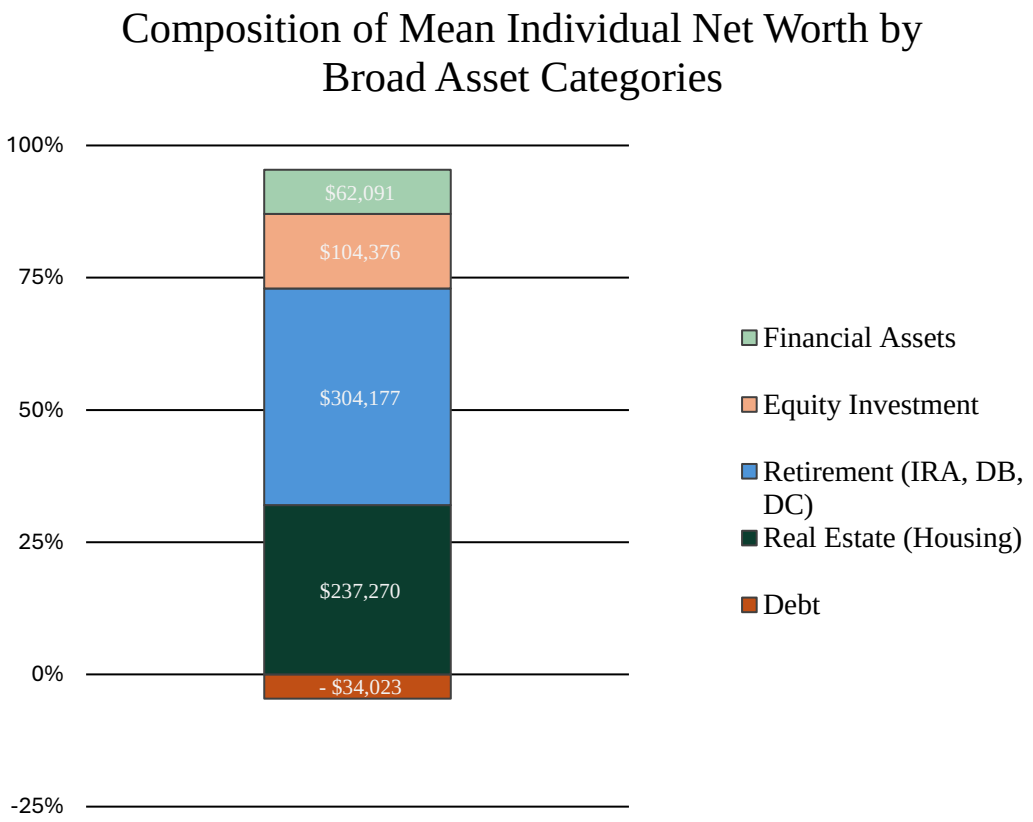
Source: Author's calculations based on RAND and BCRRC versions of 2020 HRS

Looking at the relationship in the other direction, in the top net worth decile (above $1,535,900), benefits range from $6,600 to $30,000, at the tenth and ninetieth percentiles, respectively, showing that benefit levels may not be the best measure of financial capacity. All of this is presumably a reflection of the progressive nature of redistribution within Social Security as well as a weaker relationship between lifetime earnings and benefit type and individual net worth than commonly thought. Perhaps also the randomness of wealth accumulation in later life, given investment and real estate markets' ups and downs, business successes and failures, differential retirement plan coverage rates, and so on, plays an important role.

As additional information, Figure 1 shows for mean individual net worth the primary components: financial assets, equity investments (stocks, funds, trusts and private businesses), retirement (IRAs, DC and DB plan values), real estate (mainly housing) and debt as a negative. The largest component is retirement, followed by real estate and equity

investments. At the median (not shown), housing and retirement are most prominent, in that order.

Figure 1



Source: Author's Calculations based on RAND and BCRRC versions of 2020 HRS.

Now applying the individual net worth means test described above to the relevant population of ages 62 to 74, 45 percent would maintain their full benefits, 16.1 percent would get some reduction, and 38.9 percent would experience a full reduction. Despite different definitions of assets and institutional and economic settings and age groupings, these statistics seem roughly like the Australian experience. The partial reduction starts at individual net worth of $313,625 in 2020 dollars as mentioned above, and the full reduction comes at individual net worth of $523,624, in 2020 dollars, at the median benefit. The mean individual net worth for the group whose benefits are eliminated is $1,410,385, 58.4 percent are female, and 92.7 percent are white. Just adjusting for US price inflation of 25.3

percent from 2020 to 2025, in 2025 dollars, the limits would be $392,972 and $656,101, for partial and full benefit cuts at the median benefit, respectively. As noted above, however, equity and housing prices increased significantly in excess of inflation over the period 2020 to 2025 – equities, measured by the S&P500 index, rose by 93.8 percent, and housing, according to average sales collected by the Federal Housing Finance Authority, increased by 53.1 percent. So, given that equities are a major holding in retirement accounts across the net worth distribution and in household portfolios for the wealthier segments, and paid-up housing is a particularly prominent asset value for middle-class retired families, a possible alternative indexing increase from 2020 to 2025 could be 50 percent; then the limits would be $470,438 and $785,436 at the median benefit. Depending on the permanence of means-testing, the cut-off points in net worth would likely be indexed, either for inflation or asset prices. Depending on if means-testing was extended to older ages with time as the cash flow needs of system grow and Congress delayed reform, the new approach would variously affect individuals as they spend down their wealth with age.

The reduction in aggregate benefits for the population age 62 to 74 would be 50.7 percent, based on the 2020 data Given that total annualized benefits to this age group in June 2025 were $761.9 billion, out of total annualized benefits to all ages groups in the retirement, spousal and aged widow(er) benefit categories of $1.377 trillion, and if the HRS analysis results apply evenly across the entire intended population, an overall benefit cut of 50.7 percent would represent an aggregate reduction of 28.1 percent. As mentioned above, current projections indicate that a total benefit cut of 24 percent will be needed at the point of Trust Fund exhaustion, so either the individual net worth limit can be raised somewhat, the affected age groups reduced by a year or so, or minimum benefit levels could be given to those otherwise zeroed out, to maintain some politically desired small connection to past earnings and tax contributions. It is also good to have a conservative cushion in case projections worsen.

Discussion

It is disappointing that despite three decades of notice in the Trustees' Reports of impending Trust Fund exhaustion in the 2030s, and President George W. Bush's push for reform two decades ago and some discussions during President Obama's term, that no changes or even prospect for change, have occurred in Social Security. This means that whereas in the past changes could have been introduced gradually while keeping the current self-contained financing structure and minimizing disruptions and economic disincentives, when the trust fund is soon exhausted, change will need to be abrupt and disincentives will be introduced. In particular, the disadvantage of the allocations of cuts proposed here is that means testing on net worth discourages savings and wealth

accumulation if the test is prominent and known in advance or if continued for any length of time. Australia avoids some of this moral hazard by making contributions to superannuation funds large and mandatory. If a mandatory retirement savings policy is not adopted in the US, the proposal here is mainly meant as a stopgap. Like the Biggs-Shapiro proposal, it also highlights how it may not make much sense to increase taxes, on everyone or even only on the high-income groups, just to continue to pay often high Social Security retirement annuity benefits to long-lived rich people. The empirical analysis using the HRS done above shows that the alternative contingency proposal, with its limits, phase-outs and age bands, works quite well to balance revenues and benefits. Its keying off individual net worth produces its basic fairness.

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