



The Daily Dish

Scoring the Coming Social Security Reforms

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Regular readers of Eakinomics, and especially those that follow the writing of Jordan Haring (see [here](#), [here](#), and [here](#)), are aware of the perilous state of Social Security's finances. The latest trustees' report indicates that the trust funds will hit zero in 2032. In the absence of reforms, current law dictates that all Social Security recipients will receive a 22-percent, across-the-board cut in their monthly checks.

That is unthinkable and will not happen. But that means there *will* be Social Security reform at some point in the next 6 years. Your Congress will wrap its arms around the notorious third rail of politics and your president will sign the law. This is Eakinomics' happy place.

There will be many, many proposals for reform. How can one sort through the options and rank them? Here are a few of the criteria Eakinomics is using.

1. *Does the proposal solve the two Social Security funding problems? The first problem arises in 2032. When the trust fund exhausts, Congress needs the payroll tax receipts plus an additional \$600 billion each year to hold current beneficiaries harmless. That is the big and immediate problem. The second problem is the long-term imbalance in receipts and benefits. Getting to balance is a bigger problem, but can be done over the course of five to seven decades.*

A good reform solves both problems. A great reform solves both problems without simply borrowing more (because the federal government cannot simply keep borrowing).

2. *How much does the reform preserve Social Security as an insurance program? Social Security was structured as a social insurance program with the payroll*

taxes playing the role of insurance premiums and benefits linked (but not dollar-for-dollar) with premiums paid. Because, for example, there is a maximum benefit, there is also a cap on the amount of wages that are subject to tax, thereby capping the taxes.

For 2026, the payroll tax cap is \$184,500, so the maximum Social Security tax for an individual is \$22,878, or 12.4 percent of \$184,500. A popular proposal, [advocated](#) by Senators Warren and Moreno in yesterday's New York Times, is to get rid of the cap and tax all wages. Notice that this means taxing only the more affluent to pay the benefits of the less affluent; those paying more taxes do not see any change in benefits. The insurance program structure is gone and what is left behind is a very familiar tax-and-spend, left-wing welfare program.

Oh, and by the way, it raises only \$300 billion a year so it flunks criteria 1 as well as criteria 2. Eakinomics no like.

- 3. Does the reform address both the tax and spending sides of the equation? Social Security's problems are large and cannot be addressed by taxes alone, benefit reforms alone, or – believe it or not you will hear this – simply borrowing more money. If the reform does not address revenues and benefits, stop reading.*
- 4. Does the reform include everyone in the reform, but preserve the progressive nature of the program? At present, Social Security pays out a greater fraction of lifetime wages at the lower end than for the affluent. This redistribution to raise the rate of return at the low end should be preserved. But that means reform to make the total spending and revenue add up should affect all participants.*

Exempting the low end of the scale from any revenue increases moves the program to be more and more redistributive, while exempting the upper end from benefit reductions makes it less and less so. Both are undesirable. Part of the political genius of the program was to have 100-percent participation. Reform should have 100-percent participation as well.

Oh, and for those keeping score, the proposal of Senators Warren and Moreno flunks criteria 3 and criteria 4. There will be a place for a modest adjustment of the cap in a reform, but not eliminating the cap.

So, some food for thought on the coming Social Security debate. Let the fun begin.