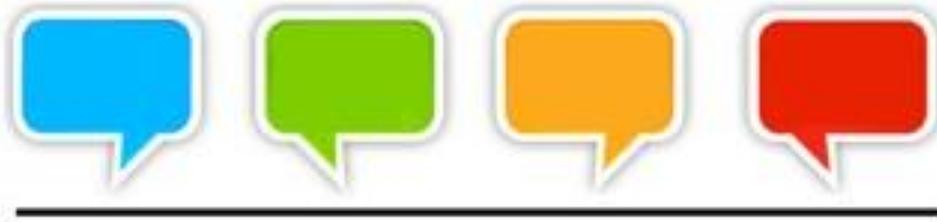# A Colorado Conversation
on Means Testing for Social Security

Currently, more than 55 million Americans receive Social Security benefits. These benefits total approximately $60 billion monthly. It is estimated that Social Security keeps 40 percent of Americans over the age of 65 out of poverty. Slightly more than a quarter of retirees have no other income.

In 2010 for the first time, Social Security payments exceeded the program's non-interest income, meaning money had to be drawn from the Social Security Trust Fund. In 2011, the amount from the Trust Fund used to make benefit payments was approximately $45 billion. As more baby boomers retire, the draw-down from the Trust Fund will increase. The most recent estimates from Social Security's Board of Trustees suggest that, if no reforms are enacted in the interim, the Trust Fund will be exhausted by 2033. At that point, payroll taxes would be able to pay for about 75 percent of benefits.

Many reform options have been proposed. These include but are not limited to raising the full retirement age, recalculating the cost of living adjustment, increasing or eliminating the payroll tax cap, reducing benefits for higher earners, and increasing the payroll tax rate. Another oft-discussed reform is means testing for social security.

How is means testing different from the current way retiree benefits are determined? Currently, benefits are paid to any person who paid into the system and meets work and age requirements. Benefits are calculated using a rather complicated formula based on the wages on which contributions were made. Benefits are not affected by other income (although a part of benefits are taxable if total income passes a certain level). With means testing, benefits for high-income retirees and beneficiaries would be reduced or eliminated. For example, under one proposal, for every $1000 of income over $55,000, benefits would be reduced by 1.8 percent. With retirement income of $110,000 or more, no Social Security benefits would be paid. According to AARP, this proposal would fill about 11 percent of the funding gap.

Proponents of means testing argue that it would produce significant savings for the system. Those who need Social Security would still receive benefits. Only a small portion of retirees would be affected—perhaps 9 percent. Depending on the specific plan adopted, some would have their benefits reduced, while others would lose benefits entirely. However, if their income fell below the established threshold, they would be able to collect benefits. Thus, the program would continue to provide security for all Americans who need it.

Opponents of means testing believe it would erode popular support for Social Security. People, they argue, see Social Security as an earned right. With means testing, it would become a welfare program. Welfare programs tend not to be popular. Rather, they exacerbate tensions among social classes. Opponents also say that a means test would encourage people *not* to save for retirement. In addition, a means test would be expensive to administer and would not save enough money to justify its disadvantages.
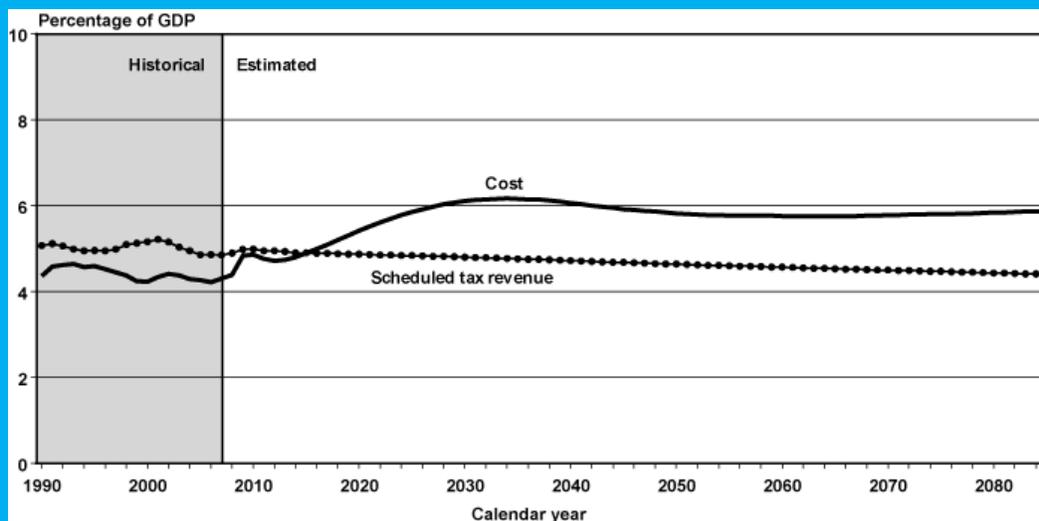
Two Views on Means Testing and Social Security

In an era of scarce resources, Social Security cannot afford to continue to pay benefits to every eligible retiree regardless of what other income they have. One approach to preserving the program would be to provide monthly benefits only to retirees who have less than a certain amount of non-Social Security annual income. Those with more income would be guaranteed that if their circumstances change, they would start to receive their benefits. Social Security would continue to be insurance against retirement poverty for everyone, but would focus its benefit payments on those who really need them.

　　—David John, The Heritage Foundation (2012)

Means testing Social Security would fundamentally change it from social insurance (a universal system of benefits earned by all who have paid in) to welfare (a system requiring you to prove you are needy in order to qualify for benefits). As social insurance, Social Security provides a foundation of retirement security, family life insurance, and disability income protection for virtually all American workers. Benefits are an earned right based on earnings from which premiums are deducted, as payroll taxes. . . . Means testing would violate many of the key principles that have made Social Security so effective and popular for 77 years.

　　—Virginia Reno, National Academy of Social Insurance (2012)