

“Social Security: The Reality”
Senate Budget Committee
Wednesday, November 18th, 2026
Testimony of Kathryn Anne Edwards, Ph.D. Economist and Senior Fellow, National Academy of Social Insurance

Social Security reform is not an accounting problem. Although it is the projected depletion of the trust fund in six years' time that compels Congress to pursue reform, the scope of that reform ought to be much broader than the financial pressure it will be borne from. At the least, Social Security needs to address the decline in the US worker and wages that have contributed to its shortfalls. However, reform offers the opportunity to assess how the program—one that is trusted, beloved, and successful—could be expanded to address economic insecurity.

This testimony reflects my views and not the view of the Academy or its members.

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Key Point 1 – Social Security Reflects Economics, Not Just Demographics

It is tempting to view Social Security's finances as the inexorable result of demographics. Workers pay in, retirees get out, so the ratio between them underpins the program's stability. People live longer and have fewer kids, ergo, Social Security is not sustainable. That is a one-dimensional view of a multidimensional problem. Understanding those other dimensions to the problem is essential, as they open up the avenue for potential policy solutions.

Social Security is in fact underpinned by the paychecks of American workers. In simplest terms, both quantity and quality matter. Demographics influence quantity, economics influences both. In the oral testimony, I highlighted three evolutions in the labor market that make the taxable base of Social Security a "shrinking base of a shrinking base of a shrinking base."

Shrinking Base Part 1 – Wage Inequality

Social Security payroll taxes are not levied on all wages, but on all wages up to a cap, commonly referred to as the tax cap. The cap is a holdover of the program's social insurance design.

Workers face risk that can be neither efficiently nor effectively insured against on the individual level. Social Security is insurance to protect against that risk. Workers pay monthly premia (their tax contributions) to earn coverage should the insured event occur. In the case of Social Security, the insured events are retirement, disability, and death. None of those events can be easily adequately saved for individually, and even if they were adequately saved for, putting that much money into savings wouldn't be efficient from the economy's perspective. Workers need to switch jobs, start businesses, buy houses, start families, and take risks during their worklife. At some wage level, the risk is low enough that insurance is no longer needed, hence the tax cap.

In 1983, the tax cap was set to cover 90% of all wages earned in the US. Each year, the tax cap increases automatically based on average wages. Even with this automatic increase, the cap fell from 90% to 82.5%, where it has been for the past 30 years. Most of the deterioration in the taxable wage base in this regard took place in the 1980s and 1990s. The cause was that the wages of earners who earn more than the cap (about six percent of workers) grew faster than the average. The cap and its automatic indexing didn't keep up. Just the drop from 90 to 82.5% is the equivalent of $100 billion in foregone annual revenue.

Further reading and sources on wage inequality:

The former chief actuary of Social Security, Stephen Goss, testified in front of this committee in 2023 to speak directly to the issue of wage inequality and Social Security. His testimony includes a visualization of the erosion in taxable payroll.

- Goss, Stephen C. 2023. "Testimony by Stephen C. Goss, Chief Actuary, Social Security Administration." Testimony before the U.S. Senate Committee on the Budget, hearing on Protecting Social Security for All: Making the Wealthy Pay Their Fair Share," July 12, 2023.

The Economic Policy Institute maintains the State of Working America database, which includes graphics and downloadable files of wage statistics from the Current Population Survey microdata (the microdata is publicly available, but wage data from the raw microdata files can be hard to work with and interpret, and needs some cleaning).

- Economic Policy Institute, State of Working America Data Library, "Hourly wage percentiles." 2026.

Shrinking Base Part 2 – Non-wage Compensation

Social Security payroll taxes are not levied on all compensation, but wages up to a cap. Over the past 45 years, non-wage compensation has grown as a share of total compensation, to the cost of wages.

For example, if a worker's total compensation is $100,000 a year, that $100,000 can take many forms. They can receive $100,000 in cash. Or, they can receive $90,000 in cash and while their employer puts $10,000 towards their retirement. They can receive $70,000 in cash, have $10,000 put towards retirement and have their employer spend $20,000 on their health plan. After all that, the workers can contribute $10,000 towards retirement. In the cash-only scenario, all $100,000 are subject to the payroll tax. In the health, employer retirement contribution, and employee retirement contribution scenario, only $60,000 is subject to the payroll tax.

The trend in compensation is for growth in the non-wage, and therefore non-taxed, portion.

No doubt, many would point to the benefits to having health and retirement fostered through work and subsidized through the tax system. That's not the issue, the issue is that subsidization is at Social Security's direct expense. Were it the issue, however, it would be fair to point out that neither health nor retirement are required to be offered to all workers and the enormous tax subsidies put towards health and retirement accrue to the highest income workers.

Keep in mind, the most popular policy for addressing Social Security's finances is to raise the tax cap and have all wages subject to Social Security taxes, a policy that affects only the highest six percent of earners. Those six percent of earners are the most likely to be enjoying the income and payroll tax subsidies of their health and retirement plans, benefiting from income tax expenditure.

Further reading and sources on non-wage compensation:

There are a few ways to measure the growth in non-wage compensation. One way is to look on the macro level at economy-wide totals in wages, compensation, and health benefits. This is one of the many tables included in the GDP report produced by the Bureau of Economic Analysis, and what I reference in the oral remarks — the share of total compensation in the economy that goes to health benefits.

- U.S. Bureau of Economic Analysis. 2026. "Table 7.8. Supplements to wages and salaries by type."

Another way to measure health costs is to look at the micro level at firm-specific costs for employee benefits and aggregate them up into national averages. The employer cost for employee compensation (ECEC) produced by the Bureau of Labor Statistics takes this approach.

- U.S. Bureau of Labor Statistics. 2026. "Medical Care Premiums in the United States." National Compensation Survey, Employee Benefits. Last modified September 25, 2026.

The Joint Committee on Taxation produces an annual summary of all tax expenditures, which includes the health and retirement expenditures across income and payroll taxes. The Congressional Budget Office, on occasion, will produce a distributional analysis of tax expenditure separately delineating the income and payroll tax components. In their latest report from 2019, the CBO notes that health accounts for $121 billion and retirement $74 billion in foregone payroll tax revenue per year. The number seven years later is no doubt much larger.

- Congressional Budget Office. 2021. *The Distribution of Major Tax Expenditures in 2019*. Washington, DC: Congressional Budget Office.
- Joint Committee on Taxation. 2025. *Estimates of Federal Tax Expenditures for Fiscal Years 2025–2029*. JCX-45-25. Washington, DC: Joint Committee on Taxation.

Shrinking Base Part 3 – Falling labor share

The share of the economy that ends up on workers' paychecks has been falling. This is colloquially referred to as "the labor share," though technically there are a handful of data series that comprise different ways of measuring the same thing. They all show a decline in the labor share, a decline which accelerated in the last 15 years.

One way to think of a falling labor share is that the gains to productivity are accruing to business owners and shareholders, not workers. Another way to think of the falling labor share is that the economy is growing faster than workers' wages.

There are many potential reasons for labor's decline. In the middle of the last century, unions and high rates of unionization were responsible for increasing workers' wages and decreasing economic inequality in the economy. Unions have since declined, and the share of workers that are in a union is lower in 2025 (10%) than it was in 1934 before the National Labor Relations Act was passed (11%). It is as if the right to organize no longer exists.

At the same time, the labor standards that govern the workplace for all workers through federal law have been left to erode. The poster child for this erosion is the federal minimum wage, which is $7.25 and has not been increased since 2009 or voted to be increased since 2007 (Congress voted on a three-year phase-in in 2007).

The labor market has also changed. Much of a worker's power comes from their mobility to leave and find another job, to use or threaten an outside option in order to bid up their wage. That outside option is shrinking as the labor market becomes less competitive and more concentrated. This is "monopsony," the buyer equivalent to monopoly. The classic example of a monopsony is a coal mine in an Appalachian town. They are the only employer and therefore can dictate wages and working conditions; workers have little redress because they have nowhere else to work. Monopsony today is a much more dynamic, nuanced concept that studies the power that employers have in labor markets. By most measures, monopsony is growing, suppressing wages in the process.

Falling unionization, weakened labor rules, and employer concentration have contributed to the decline in the labor share.

Recent research from the AARP Institute puts this decline in the labor share in terms of Social Security by estimating the tax revenue that would have been collected if Social Security's tax base had remained 41% of GDP, as it was in 1983. The erosion of the tax cap and the falling labor share have reduced that tax base to 34%. Between 1984 and 2034, Social Security would have collected an additional $10.8 trillion if taxable payroll had remained at its 1983 share of GDP and added 25 years to trust fund solvency, pushing depletion to 2059.

Further reading and sources on the falling labor share:

Labor share is measured by both the Bureau of Economic Analysis in its GDP reports and the Bureau of Labor Statistics in its labor productivity reports. In my oral remarks, I referenced the BLS series, which showed that the labor share was above 60% from 1947 to 2000, but fell after the 2001 recession and never recovered, continuing to fall to 52.85% in the second quarter of 2026, the lowest ever recorded.

- Bureau of Economic Analysis. 2026. "Table 1.11. Percentage Shares of Gross Domestic Income."
- U.S. Bureau of Labor Statistics. 2026. "Labor Share at Its Lowest Level, 52.8 Percent, in Second Quarter 2026." *The Economics Daily*, September 15, 2026.
- Giandrea, Michael D., and Shawn Sprague. 2017. "Estimating the U.S. Labor Share." *Monthly Labor Review*, February 2017.

The reasons for declining labor share have been investigated in hundreds of research papers, this is a selection of those investigations.

- Dube, Arindrajit. 2026. *The Wage Standard: What's Wrong in the Labor Market and How to Fix It*. New York: Dutton.
- Engbom, Niklas, Aniket Baksy, and Daniele Caratelli. 2026. "The Long-Term Decline of the U.S. Job Ladder." NBER Working Paper 34981. Cambridge, MA: National Bureau of Economic Research.

- Farber, Henry S., Daniel Herbst, Ilyana Kuziemko, and Suresh Naidu. 2021. "Unions and Inequality over the Twentieth Century: New Evidence from Survey Data." *Quarterly Journal of Economics* 136 (3): 1325–85.
- Ashenfelter, Orley, David Card, Henry Farber, and Michael R. Ransom. 2022. "Monopsony in the Labor Market: New Empirical Results and New Public Policies." *Journal of Human Resources* 57 (S): S1–S10.

The Ashenfelter, Card, Farber and Ransom (2022) paper is an introduction to a special issue of the *Journal of Human Resources* that presents a series of papers on modern monopsony.

The cost of the falling labor share is hard to measure. While I was a staff economist at RAND, I coauthored a study that aimed to estimate how much more households would have if income growth had kept pace with economic growth and my coauthor updated after I left RAND. It amounts to $2–3 trillion less in annual earnings for the bottom 90%, a staggering sum when accumulated over time.

- Price, Carter C., and Kathryn A. Edwards. 2020. *Trends in Income from 1975 to 2018*. Working Paper WR-A516-1. Santa Monica, CA: RAND Corporation.
- Price, Carter C. 2025. *Measuring the Income Gap from 1975 to 2023.* Working Paper WR-A516-2. Santa Monica, CA: RAND Corporation.

A recent report from AARP discusses these trends in direct relation to Social Security.

- Johnson, Richard W. 2026. "Shifting Income Patterns Have Shortened the Life of Social Security's Trust Fund." Washington, DC: AARP Public Policy Institute. November 2026.

The Upshot for Reform

Taking into account the evolutions in the labor market that have hurt Social Security's finances reveals the extent of the problem and hopefully broadens the scope for solution. If Social Security is a purely demographic program, it's simply a matter of workers in and workers out. But Social Security reflects the strength of the US worker and the US economy.

Perhaps no example drives home this point more than the accelerated deterioration of Social Security's finances over the course of the Great Recession of 2007-2009. In the years before the financial crisis and ensuing recession, the trust fund was projected to be depleted by 2041. By 2012, the projected depletion date had moved up to 2033. That was not a demographic, but economic event.

Reform must look beyond fertility and mortality. This is a win for policymakers, as it widens the aperture to address the program's finances.

Key Point 2 – Sustainable Social Security Reform Would Target Wages and Labor Force Participation

Social Security's finances press the need for reform. The trust fund depletion is just six years away. The assumption is that when the trust fund is depleted, Social Security benefits will be automatically cut by whatever percentage is necessary to balance the long-term shortfall. In part, this reflects the language of the Trustees report, which uses the percent of benefits payable as a way to express the depth of the

shortfall. From 2026, for example: “At that time, the fund’s reserves will become depleted and continuing program income will be sufficient to pay 78 percent of total scheduled benefits.”

However, there is no language prescribing or even authorizing a benefit cut. At trust fund depletion, two laws come into conflict: the Social Security Act and the Anti Deficiency Act, and there’s disagreement among experts about what would happen next.

Reform *must* happen before then.

As I noted in my oral testimony, if the goal of the reform is simply to address the shortfall and approach the issue as if it is an accounting problem, the options are to raise revenue or cut benefits. But neither get at the economic issues discussed above—US workers and their paychecks are not as strong as they should be and rising earnings and wealth inequality means the program’s financing structure is no longer keeping up with today’s economy. Problems left unaddressed are unlikely to fix themselves. Hence, a balanced reform would target both the program’s finances and the labor market.

The Financial Side of Reform

There are many ways to raise revenue for Social Security to forestall benefit cuts, the clear preference of the American people across party lines, generations, and income levels according to the National Academy of Social Insurance. Options that have been at any point scored by the Office of the Actuary are updated each year. These can be found in “Individual Changes Modifying Social Security,” which has ten separately enumerated sections of policies.

A financial package that I have previously advocated for is to eliminate the tax cap (section E) and invest a portion of the trust fund à la a sovereign wealth fund in the meantime (section G). My argument is that this reform balances progressive and conservative goals while improving Social Security’s bottom line.

Eliminating the tax cap appeals to fairness: everyone pays the same share to Social Security. In any given year, 6-8% of earners make more than the cap, but they are not a fixed or exclusive group. The Social Security Administration estimates that 20% of workers will earn above the cap at some point in their careers. It is also the most popular policy when it comes to Social Security. And while I am of the opinion that benefits should reflect those additional contributions, the benefit formula or the means test on beneficiaries can be adjusted to maintain the progressivity of benefits.

The tax cap alone would raise revenue to forestall trust fund depletion for around 30 years. That does not solve the 75-year problem, but it does bring fresh revenue into the program and adds some health to the trust fund, creating the opportunity to invest a portion. Social Security is not an investment, it’s insurance. But conservatives have long lamented that a pay-as-you-go benefit with a treasury bond trust fund misses out on the returns long-run exposure to the market can generate. Americans are deeply averse to taking on that investment risk at the cost of the guarantee of Social Security. Investing a portion of the trust fund splits the difference, getting the returns from tax contributions without putting so much risk on each worker’s plate.

A separate revenue policy that I have advocated for is splitting independent contractors off from the rest of the self-employed and treating 1099 contractor income like W-2 income. Employers would pay their half of payroll taxes and withhold the worker’s portion. This raises revenue and reduces the tax incentive to misclassify employees as independent contractors.

Other revenue policies that exist include dedicating a portion of capital gains, corporate income taxes, or estate taxes to Social Security. All of these policies have their economic and political tradeoffs, as well as their efficacy in raising revenue for Social Security. What I stress is that the options to raise revenue are numerous and that Americans view cutting benefits as a last resort, as opposed to a first step.

Further reading and sources on the financial side of reform:

For views on the favorability of a range of policies to reform Social Security, see:

- National Academy of Social Insurance. 2025. "Social Security at 90: A Bipartisan Roadmap for the Program's Future." January 29, 2025.
- Moore, Jacob, and Tyler Bond. 2025. "Social Security's First 90 Years: A History of Bipartisan and Intergenerational Support." Washington, DC: National Institute on Retirement Security. January 23, 2025.
- Shesgreen, Deirdre. 2026. "Voter Poll: Preventing Social Security Cuts a Driving Issue for Older Americans." AARP, November 4, 2026.
- Voice of the People, Program for Public Consultation, and Civic Innovation Center, University of Maryland. 2026. "Common Ground in the Battlegrounds? 2026."

The Labor Side of Reform

So long as workers have lower earnings, Social Security will struggle to be sustainable. Revenue for the program must be balanced with investments in US workers that counter or counteract the decline they have experienced.

To start, we need to bolster labor force participation. The US has low labor force participation compared to our peers. Current prime-age work rates are at series highs, around 83-84%. This is the most that Americans age 25-54 have worked. Yet, in our counterpart English-speaking industrialized countries (the UK, Canada, Ireland, Australia, and New Zealand), the average is 87-88%, four points higher. If the US worked at the same rates, we would have 5.1 million additional prime-age workers in the labor force. There is no established shorthand for how 5.1 million additional prime-age workers (that is, above the current assumption) would affect Social Security's bottom line. However, we can assume it is positive.

I have previously testified in front of the Joint Economic Committee in a hearing about demographic drivers of the deficit and offered myriad opportunities to increase labor force participation. In that written testimony, I discuss paid family and medical leave, support for the unemployed, scheduling laws, and child care. What I stress is the lack of retention policy in the US: policies and programs that keep workers attached to the labor force through difficult times. I reference that testimony and its explanation here, but would like to note here that there have been some developments and research findings since my remarks.

The first is a study of paid sick days. The introduction of universal paid sick days in California and Oregon raised the employment of women by 1.7% a year and their wages of women by over $2000 a year. As a result of having access to paid sick leave, the downstream result was a reduction in poverty and program participation.

Next is a study of New Haven's preschool program, which found that access to universal preschool increases parent labor supply and earnings, to an incredible degree: seven years of 20% higher earnings for parents who have access to universal preschool. This was driven by a 7% increase in labor force participation (5.7 points). The researchers found that preschool decreased job and career disruption. This is not a one-off finding. Early analysis of universal child care in New Mexico found that low-income women

increased their labor force participation by 18%, spanning a 23% increase in full-time work and 15% increase in hours. High-income women, on the other hand, reduced participation by 8%, either to cut back on full-time work in order to spend more time with their children or to go back to school. Both of these results demonstrate just how much the behavior of women is constricted by child care and its high price.

Finally, basic labor law updates are long overdue, whether that is increases to the minimum wage, the guarantee of paid sick days and paid vacation for all workers, updates to overtime and scheduling law, or sufficient funds for enforcement. The flipside to a declining labor share is that the corporate share, the share of the economy taken home by corporate profits, has never been higher. Indeed, the highest year of corporate profits on record was 1929, until it was displaced by 2021 and the five years that followed. Labor law isn't free to employers, but they've never been so well positioned to bear the costs.

Tax rates and a tax base are not the only way to generate revenue for Social Security.

Further reading and sources on the labor side of reform:

The specific studies mentioned:

- Slopen, Meredith. 2024. "The Impact of Paid Sick Leave Mandates on Women's Employment and Economic Security." *Journal of Policy Analysis and Management* 43(4): 1129–1151.
- Humphries, John Eric, Christopher Neilson, Xiaoyang Ye, and Seth D. Zimmerman. 2024. "Parents' Earnings and the Returns to Universal Pre-Kindergarten." NBER Working Paper No. 33038. Cambridge, MA: National Bureau of Economic Research. October 2024, revised April 2025.
- Herbst, Chris M. 2026. "The Introduction of Universal Child Care in New Mexico: Initial Evidence on Mothers' Labor Supply." IZA Discussion Paper No. 18968. Bonn: IZA Institute of Labor Economics. September 2026

My prior testimony:

- Edwards, Kathryn Anne. 2023. Testimony before the Joint Economic Committee, U.S. Congress. Hearing on "Aging Americans and a Waning Workforce: Demographic Drivers of our Deficit." 118th Cong., 1st sess., November 15, 2023.

Key Point 3 – Social Security Can Do More for the Economic Security of Americans

As I said in my oral remarks, how we frame the problem before us defines the scope of reform. Social Security's finances will be the impetus for policy action, but that does not mean that they alone should define the scope. I offer the question, "What do Americans need from Social Security?" If the upcoming reform is an opportunity to amend the program, that means it is also an opportunity to expand it to meet the needs of the people it exists to serve.

The year 2026 is a modern nadir for economic security. Americans are reporting in large numbers that they are facing deep financial difficulties. According to the University of Michigan Survey of Consumers, 30% of Americans think their financial situation will be worse in five years. That is ten points higher than during the peak of the 1981 recession and inflation crisis. This is a remarkable milestone to pass when the unemployment rate sits at 4.1% and the economy is not in a downturn. It portends a deeper insecurity than can be explained by macroeconomic performance.

Social Security is a tool at Congress's disposal. Its legislative history before 1983 was one of active expansion and experimentation. The 1935 legislation only created the Old-Age program; Survivors were added in 1939 and Disability in 1956. Expand again to better protect older workers who have done hard physical labor and are struggling to make it to an already increasing retirement age as well as caregivers who take time out of the workforce during their working years. Add paid family and medical leave to the program, so that all workers in the US can maintain their job and income when going through a medical emergency themselves or in their family. The states that have created paid leave programs have shown that a very small payroll tax rate of even 1 percent can sustain benefits. In addition, Social Security is the federal legislation that oversees the state-run unemployment insurance system. That state-run program needs to be modernized and expanded into a robust program.

Lack of paid leave and paltry unemployment benefits are not the root cause of the current sentiment and hardship in the economy, and so it cannot and should not be claimed that they are the cure. However, social insurance programs create security by reducing risk that individuals are exposed to, and therefore reducing precarity.

On a final note, the original 1935 legislation was home to the aid to dependent children program, which throughout its history has often been dubbed "welfare." The program was ended in 1996, replaced by a temporary state-run benefit. I have advocated for a renewal of the children's portion of the legislation. My proposal is to reduce the estate tax exemption and dedicate the proceeds of the estate tax into a children's trust fund that covers investments in children, whether that be free child care, after-school and summer programming, or a universal cash benefit.

There is a symmetry to it, that OASDI benefits are financed by younger generations sending money up, so the children's trust fund is financed by the older generations sending money down. There is also a fairness, that a small share of adults will inherit fortunes from their parents, but must pay into a fund that supports the vast majority of children who will inherit nothing. Plus, making this part of Social Security balances the generational investment made in seniors with a similar permanent commitment to children. Social Security transformed what it means to grow old in the US; it can do the same for childhood.

Trust fund depletion in 2032 motivates action, but shouldn't limit it.