
Reimagining Retirement: Higher Social Security

Taxes and the Impact on the Labor Force

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Most people aim to have financial stability. But how about economic stability? The U.S. was built during a time of momentous population growth, but now with slowing growth, we must figure out how to care for an aging populus. The U.S. has experienced a birth rate decline since the 1960s, and preliminary CDC data reports 1.6 births per woman in 2024, and a true replacement rate of 1.59, as reported by many news outlets (CDC 2025; PBS NewsHour 2025).

The Four-Part Series to Long Term Stability

This series aims to explore how the United States could adapt to what seems like an inevitable future of lower birth rates. The worker-to-retiree ratio is low for reasons due to low fertility, increasing life expectancy, and slow immigration. Without changes, our systems that care for the elderly could collapse, making tens of millions of aging Americans vulnerable to poverty. There are many policy approaches to address Social Security insolvency. Some approaches include: (1) raising taxation and maintaining benefit amounts for Social Security, (2) raising the retirement age for Social Security, (3) improving employer retirement account accessibility, and (4) expanding legal immigration and citizenship pathways. This blog piece's focus is on raising taxation and maintaining benefits for Social Security.

The Background and History of Social Security

Social Security is the largest welfare program in the United States that reduces poverty by providing benefits for retired workers, with the exact amount contingent on their lifetime earnings, years worked, and financial needs (SSA 2024a). Social Security uses a pay-as-you-go system, PAYGO, where current workers pay for previous workers' benefits (Tax Policy Center n.d.). Social Security benefits have a contribution benefit link, meaning that contributions generally increase with how much taxes you contributed while working.

When Social Security started, there were 159 workers for every Social Security beneficiary. Today, there are only 2.7 workers per beneficiary (Pew Research Center 2025). In fact, the most recent Social Security Trustees Report predicts the worker-to-retiree ratio will continue to decrease, hitting 2.3 by 2040 (SSA 2024b). With fewer workers per beneficiary paying into the system, Social Security is bringing in less revenue than is being used. The Committee for a Responsible Federal Budget estimates that Social Security will go insolvent by 2032, and if left unfixed, beneficiaries would experience a sudden 24 percent benefit reduction starting in 2032, which for an average married couple would be a \$18,400 cut in benefits (CRFB 2025a; CRFB 2025b).

Raising Taxes, A Simple Fiscal Tool with Complicated Effects

Social Security is currently funded by a 12.4 percent employee-employer payroll tax, which is part of the "FICA" tax seen on one's paystubs (SSA n.d.). To fix insolvency issues, simply increasing the 12.4 percent employee-employer tax rate, or removing the \$176,100 income tax cap, would immediately increase government revenue if benefit levels stayed intact. In fact, one analysis finds getting rid of the tax cap would close about half of the predicted solvency gap, and increasing the employer-employee payroll tax would close about a quarter of the predicted solvency gap (PGPF n.d.). Either policy change would achieve the same goal: raise revenues quickly. Both would also be easy to administer due to the pre-existing payroll tax infrastructure, but raising the tax cap would close more of the solvency gap.

Economic Trade-Offs

While raising taxes is one of the simplest ways to stabilize Social Security, the

tax increase would come with economic trade-offs. The two main tradeoffs include labor supply effects and tax incidence, which look at how people and businesses respond to changes in taxation.

Labor demand and supply theory acknowledges that people decide how much to work when taxes are higher based on two competing effects (Hausman 1985). First, removing the cap on Social Security taxes creates less take-home pay for higher income earners, which might incentivize them to work more to be able to afford the same level of spending, or second, the amount of work to make the same amount of money before the tax increase may not be worth it. A recent study shows that for each 1 percent increase in a firm's effective tax rate, employment growth drops by 2.24 percentage points year over year (U.S. Census Bureau 2024). This matters because the higher payroll taxes can be offset at least partially by reduced hiring rates, the extent dependent on the employers' elasticity.

Tax incidence theory predicts that employers react to raising payroll taxes by trying to pass the tax burden onto their workers (Tax Foundation n.d.). This could happen by lowering wages, freezing hiring, or slowing wage growth. A CBO report estimates that in competitive markets, employees end up paying for the majority of payroll taxes, regardless of the employer-responsibility laid out on paper (CBO 2021).

Raising the payroll tax in any way would help reduce the Social Security gap for now. However, individual wage earners would take on the majority of this cost, and the tax increase would reduce people's incentive to work. If the tax cap was eliminated, the tax increase would incentivize wealthier individuals to work less, and if Social Security raised taxes on the already eligible income, it would reduce work incentives for all individuals with taxable income under \$176,100 a year. Ultimately, simply raising taxes is not a long term sustainable policy fix. If the worker-to-retiree ratio continues to shrink, taxes for Social Security will have to continue to rise with time.

Political Complications

Setting a higher tax rate is both an economic equation and a political act. Decision-makers have to weigh fiscal issues, labor and productivity, as well as public and business acceptance. Individual voters are overwhelmingly supportive of Social Security, 79 percent of which believe benefits should not be reduced, and 61 percent would choose to raise taxes over cutting benefits (Pew Research Center 2024; Gallup 2024). However, business interest groups tend to

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disfavor any employer tax rate, stating that any change that effectively increases the corporate tax rate will have a moderate to very significant negative impact on innovation, investments, and competitiveness (Business Roundtable n.d.). This battle between individual and corporate interests makes relying solely on a Social Security tax increase an unlikely way to build a sustainable economy that supports the elderly. If used, any increase in FICA taxes will likely need to be paired with other, more friendly business options.

Conclusions

Raising taxes is one policy solution that helps buy time as we try to adjust to a lower population growth model. However, raising taxes will reduce work incentives for whoever the taxes target, and may have to keep increasing over time if the worker-to-retiree ratio continues to shrink.

ChatGPT was used to help source search.

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