Automatic Fiscal Stabilizers Can Support Social Security Solvency
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"Exploring Process Approaches for Addressing Social Security Solvency"
Hearing on August 5, 2026, before the Committee on Finance, United States Senate

The Social Security Trustees' latest report estimates that the Old Age and Survivors Insurance (OASI) trust fund will run out of reserves in the fourth quarter of 2032. At that point, under current law, benefits may not exceed dedicated revenue and will fall by 22 percent.

Most analyses assume across-the-board reductions, but Andrew Biggs and Kristen Shapiro and Mark Warshawsky have argued that the president could protect the most vulnerable beneficiaries and reduce benefits only to those with higher lifetime earnings or net worth, respectively.

Ideally, of course, Congress would resolve these questions proactively to bring certainty to beneficiaries and taxpayers while preserving its legislative powers to determine how funds shall be raised and expended.

Commissions can advance Social Security solvency

Bipartisan, bicameral support exists for fiscal commission legislation as well as a Social Security solvency commission. As long as Congress ultimately votes on whether to approve the recommendations, a commission can pass constitutional muster.

Commissions have well-understood drawbacks, however. Relatively few members of Congress can participate. A one-time exercise brings political headwinds from making major changes all at once without necessarily providing for follow-up fine-tuning to incorporate lessons learned. Deficit commissions generally imply taking things away from people without the tempering effects of a more holistic budget process.

That said, a commission is worth pursuing. It can help Congress enact needed policy adjustments and be a vehicle for legislature-empowering process changes.

Social Security needs automatic fiscal stabilizers

A meaningful process change for Social Security can be automatic fiscal stabilizers: incremental, repeatable, automatic adjustments to reduce the program's funding gap. If designed well, they could delay or entirely avoid trust fund depletion by reducing the drawdown of reserves. They could also push Congress to enact better alternatives, but, as Statutory PAYGO enforcement has shown, automatic enforcement must be reasonable to minimize Congress' temptation just turn them off. Incremental automatic changes can support overall budget enforcement as well.

Automatic triggers can keep Social Security solvent

- **How**: Identify provisions in current law — and/or create new dials — to adjust repeatedly.
- **Choose a benchmark:** For example, aim to reduce 1/10 of the OASI funding gap in the 20th year.
- **OMB executes:** The Office of Management and Budget works down the list, more than once, if necessary, to meet the target. Each round begins with the option following the last one used.

Illustrating automatic fiscal stabilizers for Social Security

- **Measure**: Each year, based on the Social Security Administration's projected deficit for OASI in the intermediate scenario in 20 years (2046).
  - If no shortfall is expected, no automatic action occurs.
  - If a gap is anticipated, the savings target could be 1/10 of that gap.
- **Illustrative options:** To reduce benefit growth for future retirees:
  - Increase retirement age by several months per birth year
  - Use chained CPI to calculate COLAs
  - Reduce the 15% or 38% "bend points" for income replacement rates for the initial Primary Insurance Amount (PIA)
  - Index benefits, including PIA bend point brackets, by prices instead of wages
  - Include more work history years to calculate the PIA, currently 35 years

Can automatic fiscal stabilizers really prevent Social Security insolvency?

Automatic adjustments can be scaled to prevent trust fund depletion entirely or at least to delay exhaustion while Congress considers other options. If Congress ultimately approves a general revenue transfer, pairing it with automatic fiscal stabilizers may improve expectations for deficits, debt, and governance enough to keep bond markets stable.

Extrapolating for 2046 using the intermediate scenario (sheet IV_B, cells E40-41) shows an OASI shortfall of 3.55% of payroll. Our illustrative benchmark of 10 percent savings equals 0.355% of payroll.

Table 1 shows how this can work. Each line roughly adapts estimates from the Social Security Actuary without attempting to calculate interactions.

Table 1: Spending Options for Social Security Automatic Fiscal Stabilizers (Percentage of Payroll)				
Option (source)	**US Code Citation**	**Full Option (2046) [a]**	**Estimate of increment [b]**	**Share of target (0.355)**
Increase Normal Retirement Age by 2 months per year (C1.2) for 2 birth year cohorts and after	42 USC 416(l)	0.49	0.16	45%
Use chained CPI for the COLA (A3) for the next 2 years	42 USC 415	0.60	0.09	25%
Reduce 15% PIA factor by 2 PP (B3.14)	42 USC 415(a)(1)(A)	0.30	0.06	17%
Progressive price indexing above the 30th percentile (B1.2, 2026 for 2 years	42 USC 415	1.00	0.02	6%
Increase 35-year period counted in work history by 6 months (B4.2)	42 USC 415(b)	0.36	0.06	17%
Totals [c]		2.75	0.39	110%

a. As estimated for 2046.

b. Adjusted for effective date of option.

c. Interactions would reduce these totals.

These five incremental, repeatable options would exceed the overall target by 10%.

Dialing up the first four options could leave the fifth item unused in the first round, and the next round would begin with it before returning to the beginning. After cycling through, an option could be triggered more than once in a year to meet the savings target.

What role for revenue?

Reducing spending growth promotes greater prosperity than increasing revenue because rate increases impose exponentially increasing deadweight losses on the economy. Even so, including revenue may be necessary to attract and sustain congressional support.

How automatic fiscal stabilizers could include revenue:

- **Subdivide the savings target:** Use a pre-set ratio to allocate savings between spending and revenue. With a 4:1 ratio, for example, OMB would make congressionally specified changes to narrow the funding gap: 80% from spending savings and 20% from revenue. A savings target of 0.355% of payroll requires at least .284% of payroll (4/5 of 0.355) from spending and at least 0.071% of payroll (1/5 of 0.355) from revenue.
- **Revenue options:** A list of revenue changes (see Table 2) would supplement the incremental spending changes. Illustrative revenue options:
    - Increase the FICA "tax max" ($184,500 in 2026) slightly faster than the standard average wage adjustment.

- Increase the FICA payroll tax rate.

Table 2: Revenue Options for Social Security Automatic Fiscal Stabilizers (Percentage of Payroll)

Option (source)	US Code Citation(s)	Full Option (2046) [a]	Estimate of Increment [b]	Share of target (0.355)
Increase tax max by an additional 2% (E3.5)	26 USC 3121(x)	0.73	0.04	11%
Increase combined payroll tax rate by 0.005 percentage points (E1.10)	26 USC 3111(a), 3101(a), 1401(b)	0.98	0.05	14%
Totals [c]		1.71	0.09	25%

a. As estimated for 2046.

b. Adjusted for effective date of option.

c. Interactions would reduce these totals.

Illustrative automatic adjustments from both spending and revenue changes:

- **Spending**: The first three spending changes in Table 1 would yield about 87% of the overall target (80% required). Subsequent automatic savings would pick up where the last round left off.

- **Revenue**: The revenue options in Table 2 yield would about 25% of the overall target (20% required). Doubling both parameters would mean, at least initially, that only one would be needed to hit the target each year and would therefore alternate. Smaller adjustments, however, would keep the revenue contribution closer to the target as approaching solvency reduces the size of the targets.

Repeating this process each year would delay OASI trust fund exhaustion date while gradually closing the financing gap. Automatic fiscal stabilizers' dynamic approach would adjust the required savings as the financing gap narrows. As each round of savings narrows the twenty-years-from-now shortfall, lesser adjustments would be needed to keep the Social Security Old Age and Survivors Insurance program solvent.

Solvency is not the only goal for Social Security but is a start.

Setting Social Security on track to fiscal stability could empower Congress to find other ways to improve value for both taxpayers and beneficiaries.

Changing Social Security's default trajectory from insolvency to sustainability would improve the federal government's fiscal outlook, America's economic performance, and Congress' stewardship of Social Security.

It would also help prevent a trust fund crisis and a broader fiscal crisis. Automatic fiscal stabilizers can provide more certainty for Social Security beneficiaries, taxpayers, and the legislators charged with overseeing the program.