"Sliding Scale" Benefit Cuts

The President has endorsed a substantial benefit cut that he labeled a "sliding scale" benefit formula, developed by investment manager Robert Pozen. This proposal has also been referred to as "progressive indexing" because the benefit cuts are less for lower-income workers than for higher-income workers.

How Would a Sliding Scale Benefit Formula Work?

Currently, Social Security benefits keep pace with the standard of living of the workers who pay into the system. This is accomplished by adjusting the benefit formula to the level of wages that workers earn. If benefits were instead adjusted by prices, which rise more slowly than wages, benefits would be less than under current law. Benefits would fall further and further behind a worker's pre-retirement standard of living, and provide less and less adequate income in retirement. Future retirees would receive benefits based on today's standard of living, no matter how much our economy grows and living standards rise.

Under a sliding scale benefit formula, benefits would still fall behind the standard of living for most workers. This is because it would subject high earners to full price-indexing, and hit the middle class with a blend of wage- and price-indexing. Only the lowest-earning workers would be exempt from cuts. For example, once fully phased in:

- **A worker who had earned $37,000 per year would have a 28 percent benefit cut.**
- **A worker who had earned $58,000 per year would have a 42 percent benefit cut.**
- **A worker who had earned $90,000 per year would have a 49 percent benefit cut.**

Benefits would be cut for all workers whose annual earnings are more than $20,000 a year.

In addition to being a substantial benefit cut for most workers, including the middle class, this proposal would over time lead to a flat benefit amount. Social Security would become more like a welfare system, where all earners would receive the same benefit amount, rather than having their benefit vary according to their earnings as the current system does. In other words, those who paid substantially more in FICA taxes would get the same benefit as those who paid in much less.

Impact of the Benefit Cuts and the Private Accounts

The President has made clear that his only approach to closing the long-term gap in Social Security is benefit cuts. The sliding-scale benefit cuts he has proposed would close about three-fourths of the existing long-range deficit in Social Security. However, that is without considering the effects of his private accounts. The private accounts he proposed in his State of the Union Speech would increase that deficit by nearly $5 trillion over just the first 20 years the accounts were available. He has not proposed any way to close the deficit that would be created by the private accounts.

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