

When You're Cutting Social Security, 'Wealthy' Begins at \$25K

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Here's a proposal for Social Security that was on the *New York Times'* op-ed page yesterday ([2/20/13](#)):

"The top third of beneficiaries (by lifetime income) [would] receive no annual cost-of-living adjustment in retirement. The middle third would get half of today's adjustment, and the bottom third would receive the same annual increase they do now. Such a reform...would reduce Social Security spending by more than a tenth over a decade and fix the program's long-term financing."

This is part of Paul Ryan adviser [Yuval Levin](#)'s attempt to find "common ground" on the entitlement issue: "Both sides should agree at least to spend less money on the wealthy." So who are these "wealthy" people who would be getting a benefit cut equal to the rate of inflation every year? According to the SSA, [about 34 percent](#) of people over 65 have family incomes of \$50,000.

Now, you can argue about what "wealthy" is, but I think you would find pretty widespread agreement on what wealthy isn't: \$50,000 a year. If you sent the New York Times an op-ed outlining your plan to balance the budget by raising taxes on "wealthy" people who make 50k a year or more, it would be put in the same pile that gets the submissions about Elvis's UFO diet. But when you're talking about cutting entitlements, if you want to call those people "wealthy," that's perfectly reasonable.

But wait! Those aren't the only people who are getting too much from the government and need to have their benefits cut—the middle third of the elderly are also "wealthy" and need their benefits cut—but by only half the rate of inflation per year. The ones making more than \$50,000 must be the super-wealthy, the regular wealthy make...between \$25,000 and \$50,000, roughly.

For comparison purposes, the poverty line for a family of four is [\\$23,350](#). Talk about a shrinking middle class!

This idea of "means testing" as a painless way to solve the supposed entitlement crisis is [very popular](#) among wealthy pundits. It's not hard to understand why. One of the principles Levin suggests we should all be able to agree on is "give less to the wealthy rather than take more from them."

OK, so let's say you're wealthy—not Levin's pretend wealthy, but truly super-rich, in the top 0.01 percent of income. Average income in this group is [about \\$24 million](#) a year. So you

can easily afford to give up their whole Social Security paycheck. If you've paid in the maximum possible amount and retire at 66, that's [\\$2,513 a month](#)—or \$30,582 a year. You have sacrificed for your country.

But let's say that instead of taking away your Social Security check, we tax your income—which comes entirely in the form of investment income, since you're a wealthy retiree—at the rate for regular income rather than at the [special lower fat-cat rate](#). So instead of paying (very roughly) \$4.8 million in federal income tax, you'll be paying about \$9.5 million.

Now, you can surely afford to live on \$14.5 million a year rather than \$19.2 million—just as you can afford to give up your Social Security check. Somehow, though, making the latter sacrifice is probably going to seem more appealing.

And the thing is, there aren't that many really wealthy people who won't miss their Social Security checks—so in order to save any appreciable amount of money, you have to take a substantial chunk away from people who actually aren't very wealthy at all. That's a principle we can all agree on. All of us making \$24 million a year, anyway.

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