LEGISLATIVE HEARING ON THE SOCIAL SECURITY 2100 ACT

Testimony by Stephen C. Goss, Chief Actuary, Social Security Administration
House Committee on Ways and Means
July 25, 2019

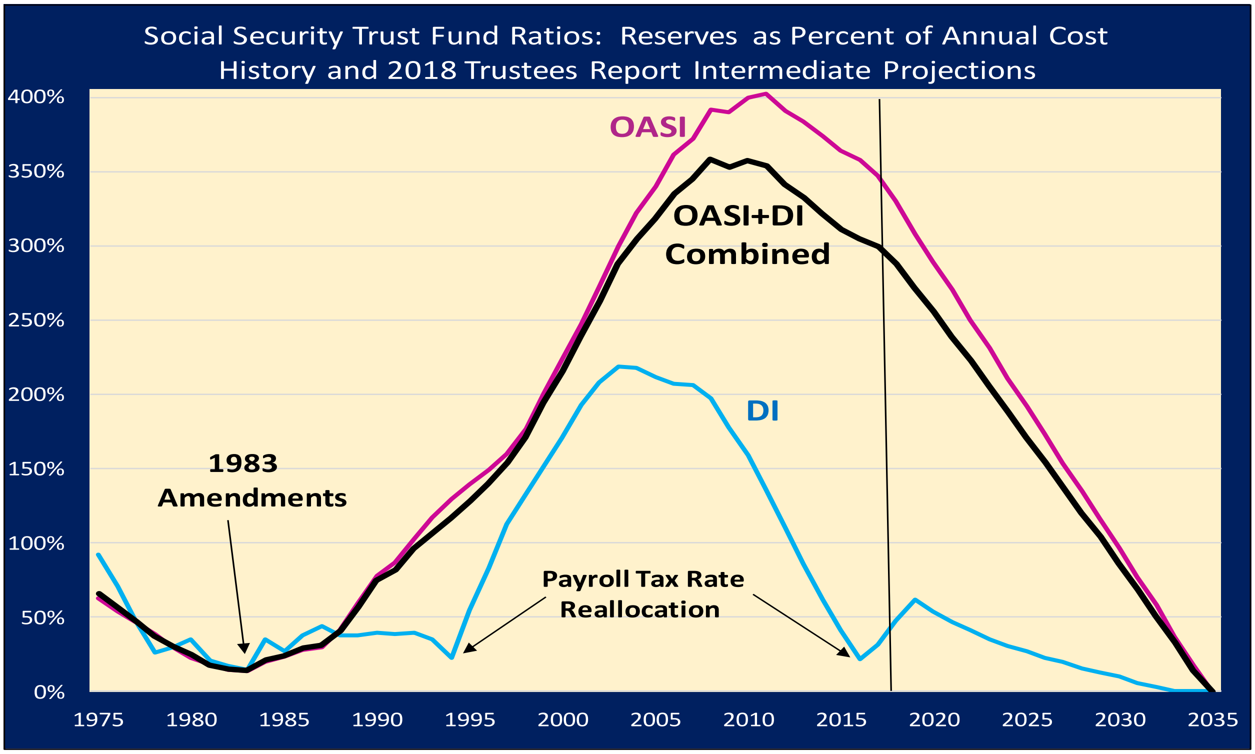
Chairman Neal, Ranking Member Brady, and members of the committee, thank you very much for the opportunity to speak to you today about the provisions of the Social Security 2100 Act as introduced in the House and the Senate on January 30 of this year, and the implications of enacting this bill. I appreciate this opportunity to expand upon the testimony and discussion with the Subcommittee on Social Security on "Comprehensive Legislative Proposals to Enhance Social Security" on April 10 of this year.

Since April 10, The Social Security Board of Trustees has issued the 2019 Annual Report on the actuarial status of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds. The actuarial status of these trust funds, taken together, is reported to be slightly improved in this latest report. However, legislation is still needed to address imbalances in future cost and financing, so that we will avoid depletion of the combined reserves of the OASI and DI Trust Funds in 2035. If we do not address these imbalances in a timely fashion, continuing revenue after reserve depletion in 2035 is projected to be 80 percent of what would be needed to continue payment of full scheduled benefits in a timely fashion.

My letter to Subcommittee Chairman Larson and sponsors of the Senate bill dated January 30, 2019 included our (Office of the Chief Actuary) analysis of the implications of enacting the Social Security 2100 Act under the baseline provided in the 2018 Trustees Report. We have not updated this analysis to the baseline of the 2019 Trustees Report, so I will be presenting here the implications under the 2018 baseline. It is worth noting that the implications of enacting the bill would be slightly more positive under the new 2019 baseline.

Trust Fund Reserves and Sustainable Solvency

Trust fund reserve depletion is a critical prospect for Social Security, because there is no current authority in the law that would allow borrowing in order to continue paying scheduled benefits in full and on time. For this reason, Congress has always acted to avert reserve depletion, as shown in the figure below. The last comprehensive legislation for Social Security was enacted in 1983. Since 1983, the total payroll tax rate was reallocated in 1994 and again in 2015 to avert depletion of DI Trust Fund reserves. Further comprehensive legislation will be needed by 2034 in order to avoid combined OASI and DI reserve depletion under the intermediate projections in the 2018 Trustees Report (2035 for the 2019 Trustees Report).



Enacting changes well before reserve depletion, even with delayed effective dates, will allow more options to be considered, more advance warning for those affected, and a more gradual phase-in of adjustments. Over the past 28 years, Trustees Reports have projected reserve depletion for the combined OASI and DI Trust Funds as early as 2029 and as late as 2042.

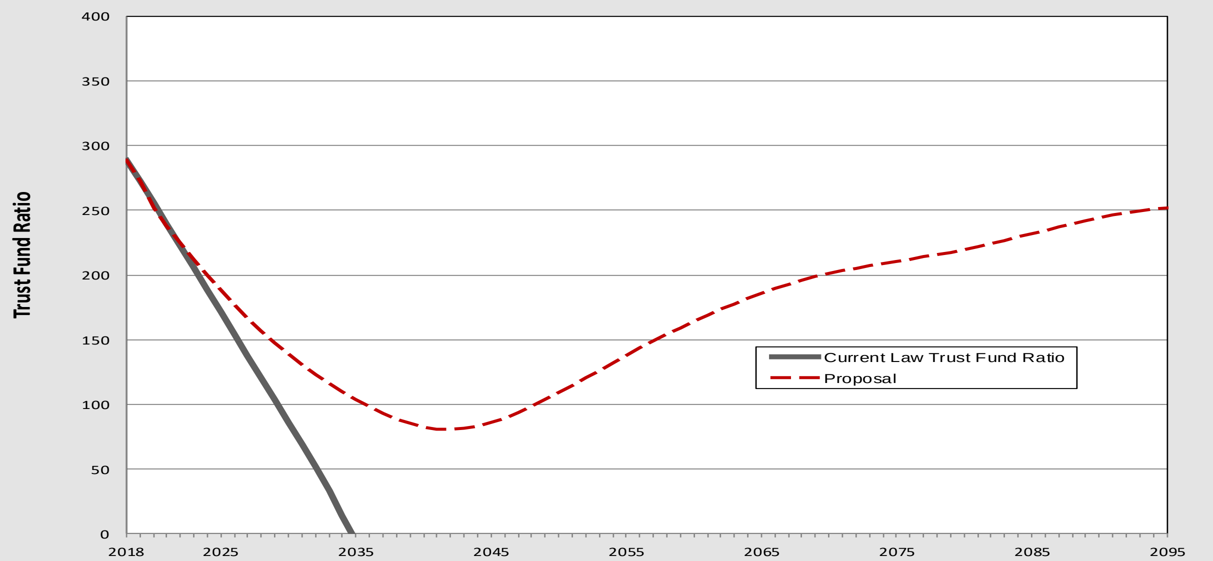
The last comprehensive legislation enacted for Social Security was the 1983 Amendments. We worked closely with House and Senate leadership in the Greenspan Commission, and ultimately in the conference committee, where the final amendments took shape. One major lesson from the 1983 Amendments is the importance of "sustainable solvency". While the 1983 Amendments were projected to adequately finance the program for 75 years, annual cash-flow balances were known to be inadequate in the latter half of the period, so reserves were projected to drop and become depleted rapidly, much as we see in the graph above.

By 1995, in the course of work with the 1994-96 Advisory Council with Bob Ball, Ned Gramlich, Carolyn Weaver, Syl Schieber, and others, and with Alan Simpson and Bob Kerrey in their landmark bill, we developed the concept of sustainable solvency. In essence, sustainable solvency is deemed to be achieved when the trust fund reserves are not projected to become depleted and are expected to be stable or rising as a percent of annual cost in the 75th year of the projection period. A plan that meets these criteria is said to provide a basis for adequate financing into the foreseeable future, with at most modest adjustments for unforeseen circumstances that may develop.

Social Security 2100 Act and Sustainable Solvency

Since 1995, most comprehensive plans that would maintain solvency through 75 years have been designed to meet the criteria for sustainable solvency. The Social Security 2100 Act is no exception. Under the intermediate baseline from the 2018 Trustees Report, enactment of this bill would result in sustainable solvency, with trust fund reserves well above the target contingency reserve level of annual cost, and rising significantly late in the 75-year period.

Figure 1. Current Law and Proposal OASDI Trust Fund Reserves as Percent of Annual Cost: 2018 TR Intermediate Assumptions



Under current law, scheduled financing falls short of the cost of scheduled benefits by about 2.84 percent of taxable payroll over the next 75 years, which amounts to about 1 percent of GDP over the period. The increases in revenue included in the Social Security 2100 Act would:

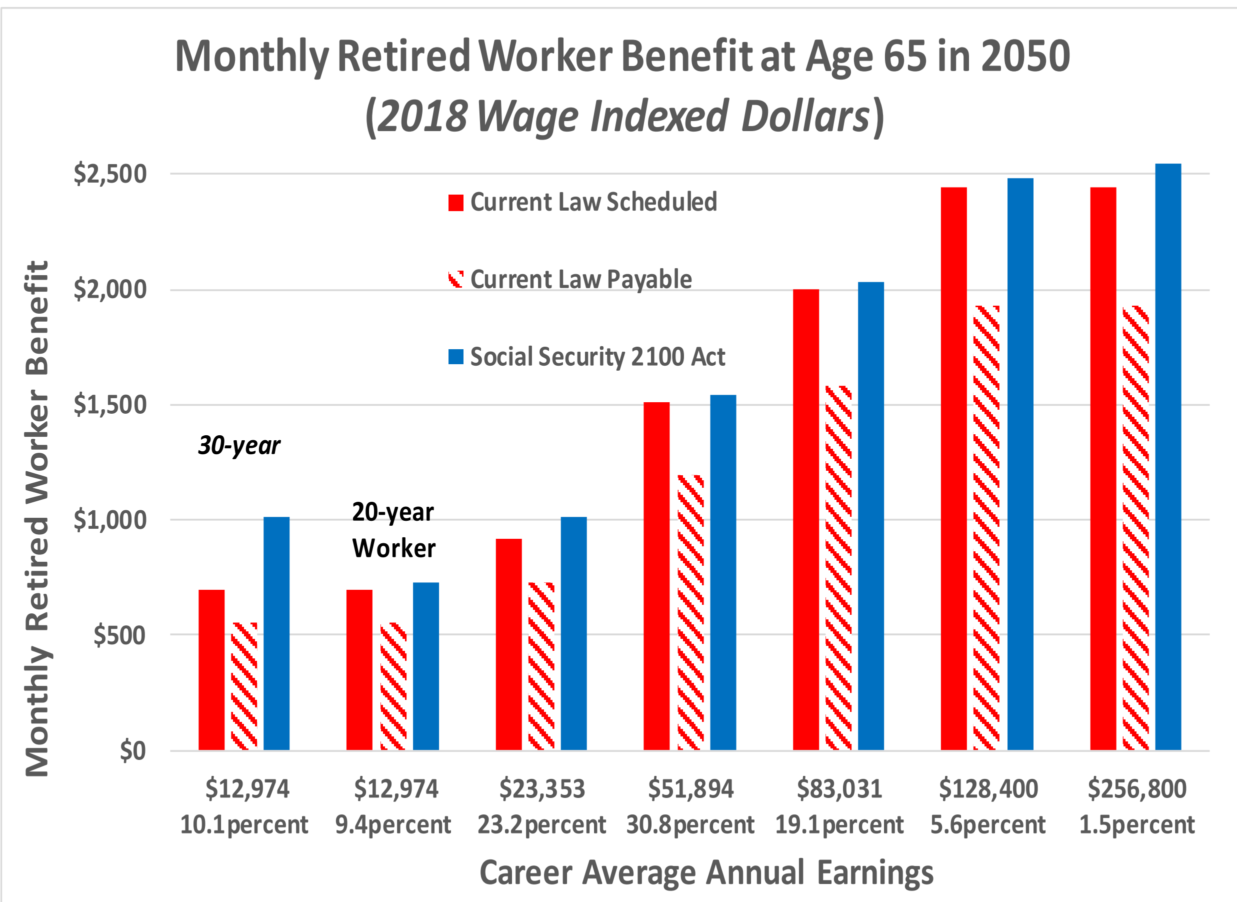
- Provide the extra 1 percent of GDP needed to fully finance currently scheduled benefits;
- Generate an additional 0.3 percent of GDP over the next 75 years, which would finance increases in currently scheduled benefits (benefit levels in the bill are about 4.6 percent above the levels scheduled in current law); and
- Generate a further 0.1 percent of GDP over the next 75 years, leading to a significant and rising level of trust fund reserves at the end of the period (250 percent of annual program cost at the end of 2092), providing some extra measure of certainty that Social Security would be adequately financed over the 75-year projection period and beyond.

At the end of the 75-year projection period, annual income and annual cost for the program would both be about 6.4 percent of GDP, whereas under current law, cost is projected to be 6.1 percent of GDP and income is projected to be only 4.6 percent of GDP.

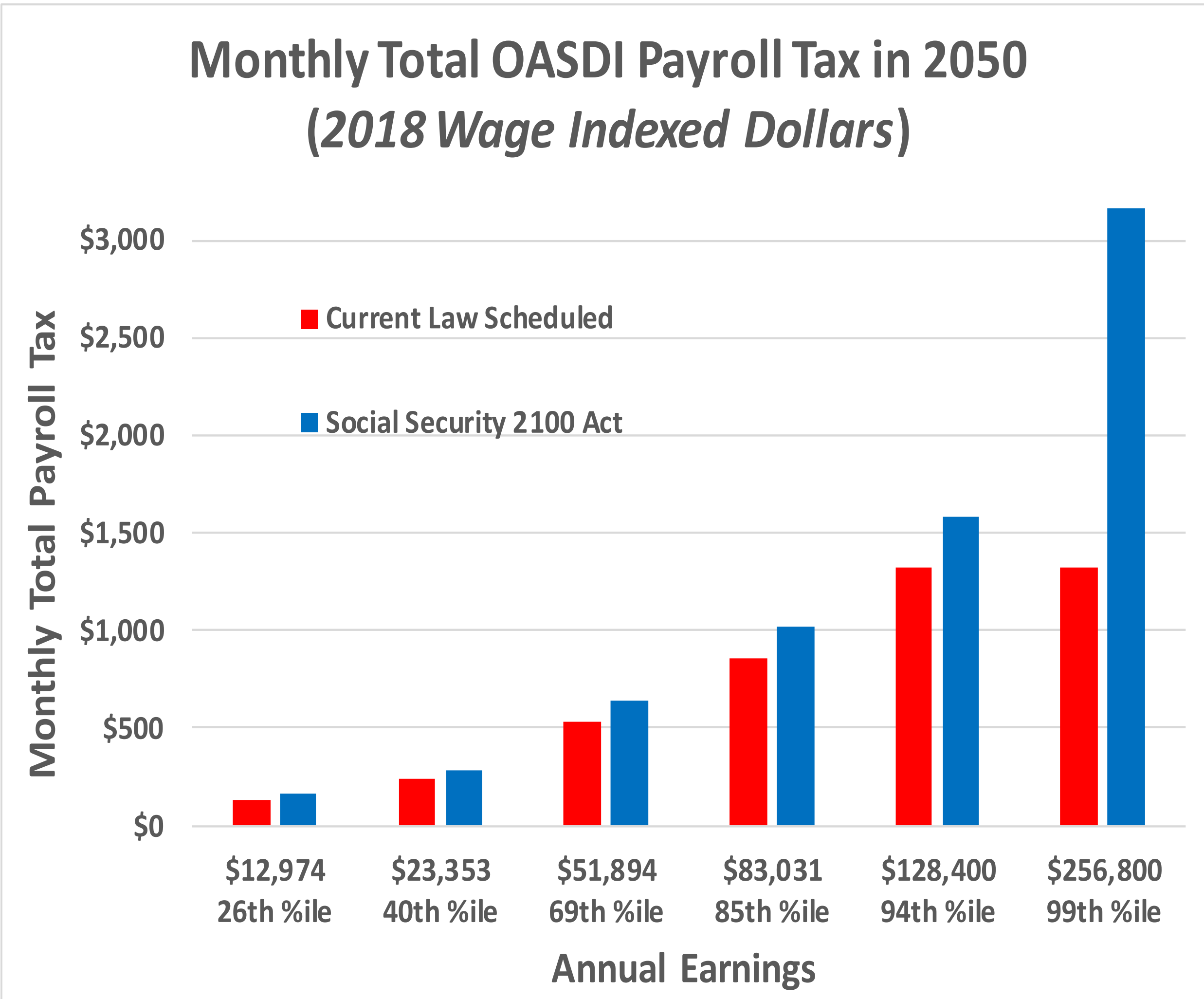
Future Social Security Benefit Levels and Tax Levels under Social Security 2100 Act

In our letter of January 30, 2019, we illustrated the effects of enacting the Social Security 2100 Act on both benefit levels (Tables B1 and B2) and tax levels (Table T). The charts below summarize some of the estimates from these tables.

The chart below illustrates projected levels of monthly benefits for a new retiree at age 65 in 2050, under current law (both scheduled and payable), and assuming enactment of the bill. Results are shown for career-average earners at various levels (from very low up to two times the current-law taxable maximum) with indication of the approximate percentages of retirees with career earnings closest to each example. Benefit level increases over the level scheduled in current law are modest at age 65, except for the very low earner with a long career (30 years of work). For that long-career very low earner, the special minimum benefit provision in the bill provides a considerable increase in benefit, nearly to the level of career-average earnings. In addition, benefit levels would be further increased compared to current law for all earners after age 65 due to the increased COLA in the bill. Note that career-average annual earnings reflect the highest 35 years of earnings, as in the average indexed monthly earnings (AIME) used for benefit level computation.



The chart below illustrates the level of monthly total payroll taxes in 2050 for workers at various earnings levels, under current law and assuming enactment of the bill. Monthly total payroll tax levels here include both the employee contribution and the matching employer contribution. For all workers up to the 94th percentile, annual earnings are at or below the current law taxable maximum amount, so the increase in payroll tax reflects the gradual increase in the total payroll tax rate from 12.4 percent up to 14.8 percent, which is fully realized for earnings in 2043 and later. For the 6 percent of workers with earnings over the current law taxable maximum, payroll tax increases will be greater under the bill because annual earnings in excess of $400,000 will be subject to the payroll tax. This $400,000 threshold is fixed for years after 2020 in the bill, so that by 2048 the current law taxable maximum is projected to rise to that level, making all earnings subject to the payroll tax thereafter. This table reflects changes only in payroll taxes and thus does not include the reduction in taxes on Social Security benefits under the bill.



Provisions of Social Security 2100 Act

In total, enactment of the Social Security 2100 Act would increase the long-range OASDI actuarial balance by 3.10 percent of payroll. This would eliminate the actuarial deficit of 2.84 percent of payroll projected under the intermediate assumptions of the 2018 Trustees Report, and result in a positive actuarial balance of 0.25 percent of payroll for the 75-year long-range period. As noted above, enactment of the bill would also result in sustainable solvency for the Social Security combined trust fund. Individual provisions and their effect on the actuarial balance are listed below. The total effect reflects significant interactions among the individual provisions.

Section 204 of the bill would combine the OASI and DI Trust Funds into a single fund starting in 2020. This provision would eliminate the need to separately maintain the investments in the OASI and DI Trust Funds. Once implemented, all tax revenues for the Social Security program would be deposited into the single fund and all expenditures would be similarly drawn from the single fund. This change would eliminate the need to make adjustments to the total payroll tax rate allocation between OASI and DI as was done in 1994 and in 2015 in order to avert reserve depletion for the DI fund. Making this change would not diminish the ability to monitor the actual changes in numbers of beneficiaries and amount of benefits for retirement, survivors, and disability benefits under the program. This provision has no effect on the OASDI long-range actuarial balance.

Additional provisions of the bill would either increase scheduled benefits or increase scheduled revenue.

Provisions that provide increased levels of scheduled benefits under the bill include:

- Section 101—would increase the first “PIA factor” from 90 to 93, thus increasing benefits by about 3 percent for the 10 percent of beneficiaries with the lowest PIA (below the first formula “bend point), with smaller increases for all other beneficiaries. This provision would reduce the OASDI long-range actuarial balance by 0.24 percent of taxable payroll.
- Section 102—would change the computation of the annual Social Security COLA by using the CPI-E (based on purchase patterns by the elderly) rather than the CPI-W (based on purchase patterns for urban workers). This change would increase annual COLAs by about 0.2 percent on average. For retirees, benefits would be increased by about 2 percent at age 72 (10 years after initial eligibility), and by about 4 percent at age 82 (20 years after initial eligibility). Disabled worker beneficiaries would be similarly affected based on the number of years since their initial entitlement for benefits, and such increases would continue to accumulate after disabled workers convert to retired worker

benefits on attaining their normal retirement age. This provision would reduce the OASDI long-range actuarial balance by 0.40 percent of taxable payroll.

- Section 103—would update the special minimum benefit provision (which under current law, provides virtually no additional benefit now and in the future). The current special minimum benefit formula has been automatically indexed over many years reflecting only increases in price levels (the CPI). Average benefit levels have grown faster than the CPI across succeeding generations of retirees, due to increases in earnings levels in excess of price-level increases. The updated special minimum provision would assure a minimum PIA at 125 percent of the poverty level for long-career workers becoming eligible in 2020, with that minimum increased by average wage growth for individuals becoming eligible after 2020. As a result, the effectiveness of the minimum provision would be restored and would persist into the future. This provision would reduce the OASDI long-range actuarial balance by 0.12 percent of taxable payroll.

- Section 104—would increase the thresholds at which Social Security benefits become subject to income tax from $25,000 for single filers and $32,000 for joint returns to $50,000 and $100,000 respectively. The new higher thresholds would apply for taxing up to 85 percent of benefits. While this provision would lower the amount of income tax paid on Social Security benefits, the Medicare HI Trust Fund would still be allocated the same amount as if this change had not been made. This provision would reduce the OASDI long-range actuarial balance by 0.16 percent of taxable payroll.

- Section 202—would provide a 2 percent PIA factor for earnings subject to the increase in the payroll tax base above the current-law maximum (see section 201). For this provision, earnings subject to payroll tax in excess of the current law taxable maximum for each year would be accounted separately and used for developing a secondary AIME', averaging the highest 35 years of these excess earnings. The PIA under the bill would be the sum of the standard PIA and 2 percent of the AIME'. See Section 201 below for the net effect of the payroll tax above the current law maximum and the additional benefits.

Provisions in the bill that provide additional revenue include:

- Section 201—would apply the current payroll tax rate (including the increase in the rate in section 203) to earnings in excess of $400,000, starting in 2020. This threshold would not be indexed and would meet the current-law maximum amount by around 2048, so that all covered earnings would be subject to the payroll tax thereafter. This provision, in combination with Section 202 would increase the OASDI long-range actuarial balance by 1.90 percent of taxable payroll.

- Section 203—would increase the combined Social Security payroll tax rate by 0.1 percentage point each year starting in 2020 through 2043. Thus, the current law 12.4 percent rate would still apply for 2019, and would increase to 12.5 percent for 2020, 12.6 percent for 2021,…, reaching 14.8 percent for 2043 and later. This provision, alone, would increase the OASDI long-range actuarial balance by 1.81 percent of taxable payroll.

Conclusion

Annual actuarial valuations of the OASI and DI Trust Funds show that the program faces financial shortfalls in the future under the current law provisions. Social Security's financing has not yet been adequately adjusted to accommodate the changing age distribution of our population, which has been well understood and anticipated for many years, but was not fully addressed by the 1983 Amendments. The shift to a higher but stable level of cost as a percent of GDP, as a result of the aging population, must be addressed in the next 10 to 15 years, before the combined OASI and DI Trust Funds reach reserve depletion.

The Social Security 2100 Act would raise revenue sufficient to finance benefits scheduled in current law and expand benefits in selected areas, helping most beneficiaries with low earnings levels, and particularly those with long careers at low earnings levels. Increases in payroll tax levels would be gradual starting in 2020. The basic payroll tax rate would not be increased fully to the ultimate level of 14.8 percent until 2043. This means that the first generation who would experience the full rate increase throughout their working years would be those reaching age 20 in 2043, and thus reaching their retirement eligibility age of 62 in 2085. This generation will not be born until 2023. Additional payroll taxes due to taxation of earnings above the current law maximum will ultimately apply to only the top 6 percent of earners, and will not affect earnings marginally above the current law maximum until 2048.

For benefit levels, the bill would increase benefits for all beneficiaries starting in 2020, including those who became initially eligible in prior years. Benefits would be recomputed for all with the increased PIA factor (from 90 to 93) applying for benefit payments starting in 2020. The modified COLA using the CPI-E would apply for all benefits payable in 2020 and later. The enhanced special minimum benefit would apply for all beneficiaries becoming newly eligible starting in 2020. Therefore, the full ultimate enhancement of benefit levels would be applicable for retirees attaining age 62 in 2020.

Beyond the increase in benefits scheduled in current law, enactment of the Social Security 2100 Act would also fully finance those benefits currently scheduled, increasing what would be payable under current law scheduled benefits from 80 percent payable at reserve depletion in 2035 and from 75 percent payable in 2094 (as estimated under the 2019 Trustees Report) to 100 percent of the scheduled benefits for all years, with that as a base upon which the benefit enhancements would apply.

All of us in the Office of the Chief Actuary look forward to continuing to work with the members of this committee, and other members of the House and the Senate, in developing comprehensive legislation to maintain Social Security solvency for the foreseeable future. Whether the next comprehensive legislation that is enacted increases scheduled benefits (as does the Social Security 2100 Act), maintains scheduled benefits with full financing, or reduces scheduled benefits, we are committed to providing analysis and projections to assist in your consideration of all options.

Thank you again for the opportunity to talk to you today. I look forward to answering any questions you may have.

SOCIAL SECURITY
Office of the Chief Actuary

August 27, 2019

The Honorable John Larson
Chairman, Subcommittee on Social Security
Committee on Ways and Means
House of Representatives
Washington, DC 20515

Dear Mr. Larson:

Thank you, Chairman Neal, and ranking member Brady for the opportunity to testify before the Committee on Ways and Means at the July 25, 2019 hearing on "The Social Security 2100 Act." It is always a pleasure working with you and everyone associated with the Committee. I hope the information that I provided at the hearing will be helpful. Below I have restated the five questions for the record that you sent to me on August 13, 2019 and have provided answers.

1. **For a typical Millennial born in 1990, with earnings around $50,000 in 2020, what are the lifetime differences in taxes and in benefits that they would experience under the Social Security 2100 Act, compared to what they would pay and receive in the absence of this bill? Would this average earner still see an increase in their real after-tax earnings, between now and 2043, even with the payroll tax increase in this bill?**

   A millennial worker born in 1990 will turn age 30 in 2020 and is likely to work until age 64, and then start Social Security retired worker benefits in 2055 at age 65. Assuming this millennial has earnings (expressed in terms of today's dollars, on an average-wage-indexed basis) of about $50,000 per year through age 64, and assuming enactment of the Social Security 2100 Act, this worker will pay an additional $25 in payroll tax during the year 2020, an additional $50 in 2021, an additional $75 in 2022, and so on, reaching an additional $600 in each year 2043 through 2054. The additional payroll taxes paid by the worker would be matched by an equal additional amount paid by his or her employer in these years. Thus, the average additional amount paid by this worker in the 35 years 2020 through 2054 would be about $403 per year in today's dollars, with an equal additional amount paid by the employer, for a total additional payroll tax contribution averaging $806 per year over 35 years.

   Consistent with values shown in table B1 of the January 30, 2019 letter, this worker would have a current-law "scheduled" monthly benefit level of about $1,450 in 2055, or about $17,400 per year in today's (wage indexed) dollars. However, under current law, the amount that would be actually payable would be closer to $13,760 for the year, because scheduled benefits would be cut by about 21 percent in 2050 after reserves are depleted. Assuming enactment of the Bill, the benefit payable at age 65 would be increased to $17,750. This would be an increase in the payable benefit for the worker of about 30 percent, or about $3,990 per year of retirement in today's dollars. Taking this example a step further, the 30-year old millennial in 2020 has about a 90 percent probability of surviving to age 65, and if he or she does survive, would be expected to live roughly 22 additional years thereafter. Considering discounting for interest, the expected additional benefits in retirement for the millennial earning $50,000 and surviving to age 65 would be about 2.5 times as much as the additional payroll taxes paid by the employee and employer. In addition, enactment of the Bill would also support increased payable benefits should the worker die or become disabled between 2020 and 2055.

Regarding your second question, the average wage for workers is projected to increase by 38.7 percent more than the increase in price inflation between 2019 and 2043 in the 2018 Trustees Report. If we look at the average wage, net of the full 12.4 percent payroll tax in 2019 and net of the proposed full payroll tax of 14.8 percent for 2043, the increase in purchasing power (real after-tax average wage) would be about 35 percent between 2019 and 2043.

2. **In your estimation, how would the Social Security 2100 Act affect the economy as a whole, including consumer demand and GDP growth?**

Economic effects from changes in Social Security can be complicated and depend on many considerations. Economic growth, increases in the production of goods and services, follows from demand for goods and services, and the ability to produce these goods and services. If income levels from Social Security benefits were to be reduced by 21 to 26 percent for the 1 in 6 Americans who receive these monthly benefits, there would clearly be a substantial drop in demand for goods and services, and so a shrinkage in production (GDP) and employment. On the other hand, raising payroll taxes to sustain the level of income and consumption for Social Security beneficiaries would have some negative effects on consumer demand and saving by the workers who would pay the additional taxes. The fact that increases in taxes under the Social Security 2100 Act would be paid disproportionately by the top 6 percent of earners, suggests that the net effect would be an initial net increase in consumer demand and an initial net decrease in savings, compared to what would happen if benefits were to be reduced in 2034 upon trust fund reserve depletion under current law.

The question that is complicated is whether the initial net reduction in savings would result in a commensurate reduction in business investment compared to what would follow from a sudden and substantial net reduction in consumer demand if Social Security benefits were allowed to drop. The net effect on actual GDP is debatable, but it does not seem plausible that maintaining the purchasing power of 1 in 6 Americans, who are largely dependent on Social Security benefits, and thus their ability to purchase goods and services, would result in a net permanent reduction in total production compared to the possibility of a sudden and permanent drop in beneficiary income. Given these uncertainties, we assume no net effect on economic output from enactment of the provisions of the Social Security 2100 Act.

3. **You have found that the 2100 Act would more than close Social Security's financing shortfall for the next 75 years, ensuring that full benefits can be paid throughout that time. In the absence of the bill, how large is the shortfall – the actuarial deficit – that Social Security faces: in the first year the trust funds would be depleted, in the first 10 years after that, and over the entire 75-year projection period?**
Under the intermediate assumptions of the 2018 Trustees Report we project that the combined OASI and DI Trust Fund reserves would become depleted in 2034. Thereafter, under current law it would not be possible to pay the scheduled benefits in full and on time. The shortfall would be about 21 percent of scheduled benefits or about 3.5 percent of taxable payroll over the first 10 years after reserve depletion. In present discounted value terms this would be a shortfall over these 10 years of about $2.7 trillion. Over the full 75-year projection period, the actuarial deficit (that is the additional amount needed over the period to maintain solvency and a trust fund reserve equal to one year's benefits) is projected to be 2.84 percent of taxable payroll over the whole period. This shortfall for the next 75 years as a whole is equal to about $14 trillion in present discounted value, or about 1 percent of GDP over the period.

4. **The 2100 Act calls for increasing the Social Security payroll tax rate by 1.2 percentage points for workers and employers each, phased in at a rate of 0.05 percentage points over 24 years. How would this rate increase compare in size to the prior FICA rate increases over Social Security's history?**

   For 1937 through 1949, the payroll tax was 1.0 percent for employers and employees each. Over the next 20 years, from 1949 to 1969, the payroll tax rate rose to 4.2 percent (an average annual increase of 0.16 percentage point) as the program matured and because of the addition of the Disability Insurance program. In the 21 years between 1969 and 1990, the payroll tax rate was raised to 6.2 percent for employees and employers each (an average annual increase of 0.095 percentage point), in partial recognition of increasing program costs due largely to demographic changes. The increase in the payroll tax rate under this Bill from 6.2 percent each in 2019 to 7.4 percent each for 2043 (an average annual increase of 0.05 percentage point) for employees and employers each, combined with eventual full elimination of the current-law taxable maximum, would finance the balance of the effects of demographic change plus the increase in scheduled benefits under the Bill.

5. **Throughout Social Security's history, some have claimed that the program's trust funds are worthless IOUs, or that the government is using the money for other things. How do you respond to such claims? How secure are Social Security's trust funds?**

> By law, all revenues directed to the Social Security Trust Funds are, and always have been, required to be invested in interest bearing securities guaranteed as to principal and interest by the full faith and credit of the United States government. Such securities are generally considered to be the most secure investments available anywhere. All expenditures for the Social Security program are made from asset reserves held in the trust funds. These reserves have always been available and have been redeemed as needed to cover expenditures in full and on a timely basis, throughout the history of the program.

I hope this further information will be helpful. If you have any additional questions or need assistance in any way, please let me know.

Sincerely,

Stephen C. Goss

Stephen C. Goss, ASA, MAAA
Chief Actuary