Statement of Mattie Duppler
Senior Fellow for Fiscal Policy
National Taxpayers Union

Prepared for
The Committee on Ways and Means
United States House of Representatives
Regarding the Subcommittee's Hearing
"Comprehensive Legislative Proposals to Enhance Social Security"

Submitted April 8, 2019

Thank you for the opportunity to submit testimony regarding comprehensive legislative proposals to enhance Social Security. It is my belief that long-term, bipartisan solutions to the emerging fiscal pressures presented by entitlement spending are possible, and the Committee's efforts in pursuit of this goal are necessary and appreciated.

My name is Mattie Duppler, I serve as the Senior Fellow for Fiscal Policy at the National Taxpayers Union, a non-partisan advocacy group focused on demonstrating the real-world effects of government taxes, spending and regulations to average Americans.

I have spent the last ten years working on fiscal policy in Washington, D.C. in a variety of capacities. I have watched the economy evolve drastically over the last decade and have frustratingly observed our fiscal policy fail to keep pace.

With regard to Social Security, this results in a debate that focuses primarily on current or near-term beneficiaries, while ignoring the generations who ultimately bear a greater responsibility in confronting the program's looming financial challenges. Similarly, bold, bipartisan efforts to ensure Social Security endures for future generations have been few and far between.

Recently, a proposal by Social Security Subcommittee Chairman John Larson does what few have managed to propose in recent memory: puts Social Security on secure financial footing for the actuarial landscape of 75 years. However, the Social Security Act 2100 does so at considerable cost. Its intended effect of increasing payroll taxes and exposing more income to taxation to close Social Security's funding gap will almost certainly undermine savings opportunities for future generations, handicap entrepreneurial enterprises and threaten to undermine the strong private savings rates Americans currently enjoy.

2019 marks the first year where Millennials will overtake Baby Boomers as the country's largest living generation, making up a full quarter of the population.[1] Data shows that they differ from previous generations in ways that have significant impact on public policy.

For one, young people are building their careers at a time when private retirement savings are at an all-time high. Since 1975, when employer-funded pensions were the dominant source of private retirement savings, retirement assets have risen from 48 percent of total employee wages to 337 percent in 2017.[2] This has been aided by an embrace by Congress of expanding private retirement savings opportunities, from changes in the code that allowed the IRS to create new savings vehicles such as the 401(k)s to statutory changes that make it easier for companies to enroll employees in retirement savings plans. Just last year, the House of Representatives passed the Family Savings Act with bipartisan support, which would further expand savings opportunities for all Americans. This demonstrates an understanding from Members of Congress that private savings contribute in a meaningful and necessary way to Americans' retirements planning.

Despite these opportunities, Millennials still tend to lag cohorts at similar stages in previous generations with regards to asset and wealth accumulation.[3] However, more than nine out of ten Millennials participate in an employer-sponsored retirement plan when they are eligible.[4] What's more, a Bank of America 2018 report indicated that a larger percentage of Millennials have a savings goal than other generations. But this generation still struggles with competing financial priorities, such as student loans and increased costs of living. Policies that would further restrict opportunity to grow their wealth would continue to put pressure on their actual savings rates. An increase in payroll taxes, for instance, would exacerbate the divide between millennials and the asset accumulation rates of other generations by depriving younger workers of the means to save and grow their wealth.

Conventional financial wisdom dictates that the best time to start saving is today, as each day that passes is a missed opportunity to accrue interest and grow wealth. As such,

[1] Kristen Bialik, Richard Fry, Pew Research Center, Millennial life: How young adulthood today compares with prior generations, February 14, 2019
[2] Andrew Biggs, Statement before the Committee on Ways & Means United States House of Representatives, The Real Retirement Crisis: It's Not Where You Think, February 6, 2019
[3] William G, Gale, Hilary Gelford, Jason J. Fichtner, The US 2050 Project, How Will Retirement Saving Change by 2050? Prospects for the Millennial Generation, December 2018
[4] Jennifer Erin Brown, National Institute on Retirement Security, Millennials and Retirement: Already Falling Short, February 2018

confiscating a larger share of the burgeoning incomes of younger workers robs them of the resources to begin their own savings journey. This disparity will widen with each year that passes without reforms to Social Security, and be exacerbated by reforms that expand the tax burden on young workers.

Recent change to the tax code have also bolstered entrepreneurial opportunity. One major change to the tax code as a result of the passage of the Tax Cut and Jobs Act in 2017 was the new 20 percent deduction granted for small business income.[5] The Qualified Business Income deduction (Section 199A) helps equalize the tax treatment between pass-through entities and corporations by providing a deduction on business profits. However, it does not reduce the net earnings for an entity's self-employment taxes. This means an increase in the payroll tax further dilutes parity measures in the tax code meant to place small businesses and corporations on equal footing.

This disparity will hit younger generations particularly hard as they embrace entrepreneurship at a faster rate than other generations. Millennials are more likely to start their own business. In fact, a recent PwC survey found that over a third of millennials currently operate a "side hustle" in addition to their full-time job.[6] This means many young people in the workforce today are not only employees but potential employers as well.

This also means that increases in the payroll tax fall heavily on this cohort. The Social Security 2100 Act proposes increasing payroll taxes 2.4 percentage points, split between the employer and the employee. A sole proprietor would be responsible for both of those increased liabilities under this plan, potentially increasing their payroll taxes by thousands of dollars.

For workers who are focused on growing their careers inside of an existing business, an increase in the payroll tax further erodes opportunity for them. A 2.4 percent increase in the payroll tax would result in an employer who hires a college graduate at the average starting salary of $50,000 facing an additional $600 tax burden for that employee, hiking the payroll tax cost of that employee to $3,700.

Lastly, I would urge Members to consider the consequences to economic mobility. While nearly half of Americans do not pay income taxes, Social Security payroll taxes are the largest tax paid for the typical American worker. Increasing the payroll tax reduces the take-home pay for workers - as much as 2.4 percent if the Social Security 2100 Act were to be implemented. The result is lower-to-middle income workers, who have higher fixed

[5] Tax Cuts and Jobs Act (TCJA), P.L. 115-97
[6] PwC, Millennials at work, Reshaping the workplace

costs as a percentage of their take-home pay, will have fewer resources available to save for their own retirement. The impact of savings foregone compounds overtime, further exacerbating the pressure on low and middle income savings to save properly for the future. What's more, if that loss of income induces a household to take on more debt, the net effect is to reduce not just the income of that household but also its net worth.

The impact will be similar on the employer side: increasing the marginal cost of an employee ultimately represents an additional barrier to wage increases. Both CBO and the Social Security Actuaries expect employers to cut salaries in response to an additional payroll tax levied on higher income earnings.[7] These lost wages not only represent a barrier for mobility in the workplace, they also would result in a loss of payroll taxes and state and local income taxes to which that income would have been exposed. Proponents of increasing the payroll tax to shore up Social Security should be aware that the highly elastic nature of wage generation means such a move will ultimately undermine efforts to bolster government revenue streams.

What's more, the income exemptions in this bill are not indexed to inflation, meaning they eat up a larger share of employee income over time. This will further erode young people's earnings opportunities as they move up the income ladder.

The workforce today looks different than the workforce of different generations; this is a feature, not a flaw, of the American system. As our economy evolves, however, so too must our public policy. For many Millennials who entered the workforce during the recession, the recent economic expansion has been their first opportunity to grow in their careers and build wealth. Proposals that would force this cohort to shoulder new tax burdens threaten to undermine this progress. While Congress has enhanced private savings opportunities to the widespread benefit of American workers, it has yet to tackle the looming fiscal insecurity of government spending. The Committee should consider bipartisan methods of meeting this challenge without simply redistributing the burden to future generations.

[7] Andrew Biggs, Statement before the Committee on Ways & Means United States House of Representatives, The Real Retirement Crisis: It's Not Where You Think, February 6, 2019