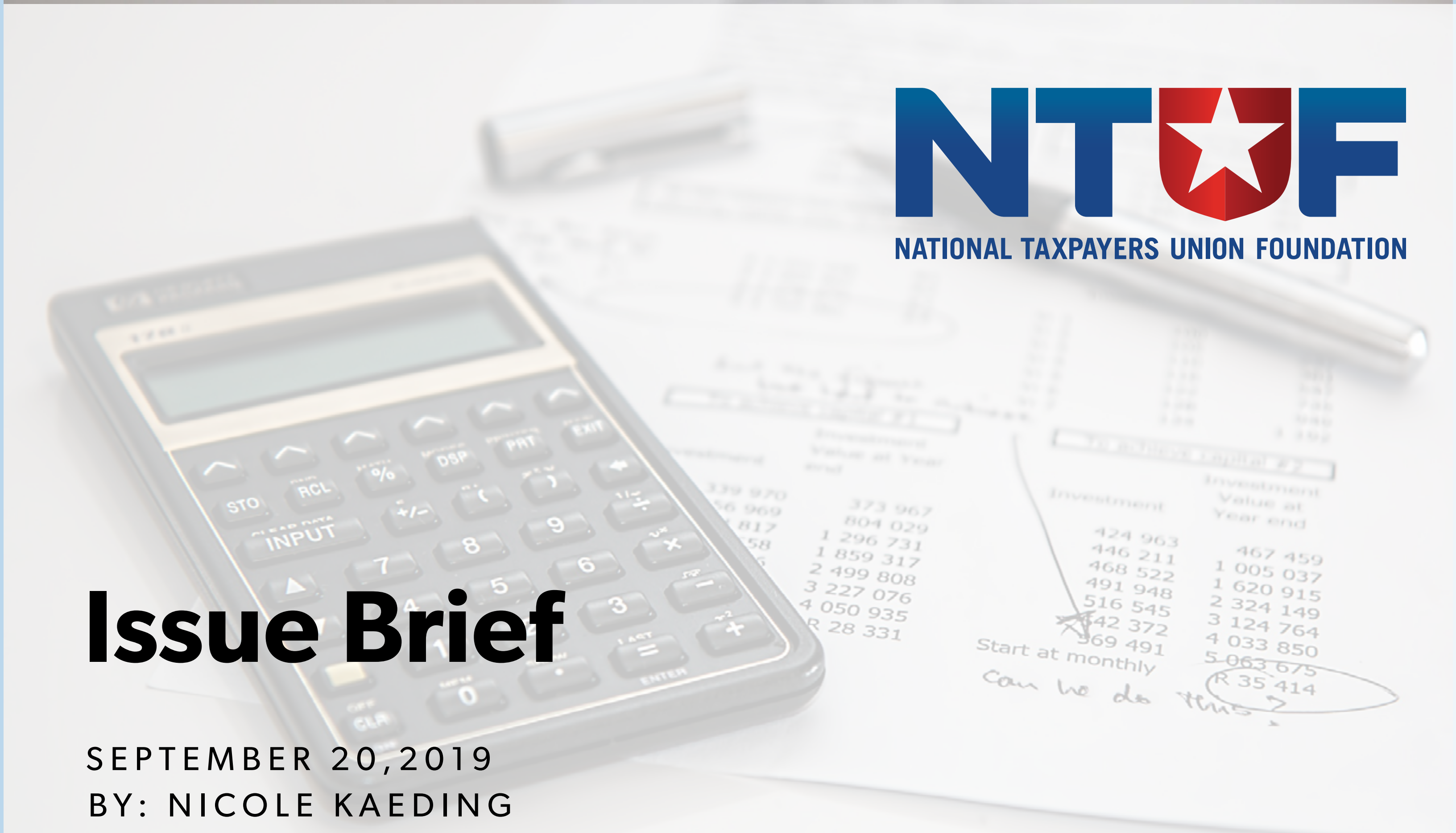

NATIONAL TAXPAYERS UNION FOUNDATION

# Issue Brief

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BY: NICOLE KAEDING

# The Social Security 2100 Act: The Wrong Approach to Entitlement Reform

## Introduction

Introduced by Congressman John Larson (D-CT) and cosponsored by more than 200 members of the House of Representatives, the Social Security 2100 Act[1] would dramatically raise taxes, increase Social Security benefits, and only marginally improve Social Security's finances. The Congressional Budget Office (CBO) estimates that from 2020 to 2029, the spending increases total $386 billion, while the tax increases dwarf that at $911 billion.[2] It extends the Social Security trust fund by eight years, far below its goal of 75-year solvency.

The Social Security 2100 Act fails to confront the complex needs of the Social Security program; instead, it leaves future generations to deal with the hard choices. The plan is the wrong approach to fixing Social Security's structural deficit.

## Key Facts:

- **The Social Security 2100 Act would dramatically raise taxes, increase Social Security benefits, and only marginally improve Social Security's finances.**
- **The Congressional Budget Office estimates that from 2020 to 2029, the spending increases total $386 billion, while the tax increases dwarf that at $911 billion.**
- **The bill attempts to extend Social Security's solvency from 2032 until 2100, but the Congressional Budget Offices says solvency is only extended eight years, until 2041.**

[1] H.R. 860. Introduced on January 30, 2019.
[2] Congressional Budget Office. (2019). "Analysis of Effect on Social Security of H.R. 860, the Social Security 2100 Act."

## Social Security's Finances

Social Security is the federal government's largest program, projected by CBO to spend $14.4 trillion from 2020 to 2029—25 percent of total projected spending. The amount spent by the program is increasing quickly, in large part due to the aging of the population. CBO estimates that benefits paid per year will grow from $1.09 trillion in 2019 to $1.83 trillion in 2029, an increase of 68 percent in a decade.[3]

The program's increasing spending is putting pressure on the program. Every year, it spends more than it collects in revenue. In 2020, it will spend $27 billion than it collects, growing to an annual deficit of $361 billion in 2029.[4] As a result, the Social Security trust fund is quickly running out of reserves. Estimates are that Social Security's trust fund will become insolvent in 2032.[5]

## Social Security 2100 Act

It is with this backdrop that Congressman Larson has proposed the Social Security 2100 Act, with the goal of extending the trust fund's solvency for the next 75 years. The bill includes a number of provisions, impacting both revenues and programmatic spending.

### Tax Changes

The bill includes a litany of tax increases, totaling more than $911 billion over the next decade.

**Raising the payroll tax rate:** From 2020 to 2043, the Social Security payroll tax rate would increase from 12.4 percent to 14.8 percent, growing by 0.1 percentage points a year. While the rate would continue to be split between employers and employees in a legal sense, economists across the spectrum agree that employees effectively pay both parts of the tax, be it through the tax itself or through reduced wages. The Joint Committee on Taxation (JCT) estimates that this change would raise $474 billion from 2020 to 2029.

Proponents of the bill argue that the tax increase is no more than a "cup of coffee," but that ignores the increasing tax bite.[6] For the median household, the additional tax liability would approach almost $2,500 per year in 2043, an almost 20 percent increase.[7]

This tax, of course, is not the only tax applied to individuals' wages. In addition to traditional income taxes, with rates that range from 10 percent to 37 percent, individuals are liable for the Medicare payroll tax of 2.9 percent. Individuals with income above $200,000 ($250,000 for married couples) must also pay the additional Medicare tax of 0.9 percent.

**Increasing the wage cap on the payroll tax:** Currently, the Social Security payroll tax only applies to wages below $132,900. Under the bill, the tax would also begin applying to wages above $400,000. Individuals would not pay the payroll tax on wages between $132,900 and $400,000, but the full 14.8 percent would then go back into effect on any wages earned above $400,000.

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[3] Congressional Budget Office. (2019). "Old-Age, Survivors, Disability Insurance Trust Funds--CBO's May 2019 Baseline."
[4] *Ibid*.
[5] The Social Security Trustees estimate the trust fund will be insolvent in 2035, rather than 2032.
[6] Konish, Lorie. "The Price of a Cup of Coffee May Be the Answer to Fixing Social Security," CNBC, August 17, 2019. https://www.cnbc.com/2019/08/17/the-price-of-a-cup-of-coffee-may-keep-social-security-solvent.html.
[7] Author's calculation. Median income in 2018 was $63,000, according to the U.S. Census Bureau. This amount of income was projected forward 25 years (to 2043) assuming a 2 percent wage growth rate, resulting in projected income of $103,360. That was then used to reflect the additional tax of 2.4 percent.

Over time, the lower limit would increase to meet the higher limit, meaning that each year the range of non-taxable wages would shrink. After the phase-out is complete, the plan would impose the full Social Security payroll tax on all income, representing an enormous tax increase. JCT estimates that this provision would raise $868 billion from 2020 to 2029, and impacts are likely to be much larger in subsequent decades.

**Changing the taxation of Social Security benefits:** The bill does include one tax decrease. Under current law, 50 percent of Social Security benefits are taxable when a beneficiary's modified adjusted gross income exceeds $25,000 for a single filer or $32,000 for a married couple. Eighty-five percent is taxable above $34,000 for singles and $44,000 for married filers. This bill would reduce this tax bite significantly. Benefits would only be taxed when modified adjusted gross income exceeds $50,000 for single filers and $100,000 for married couples; 85 percent of benefits would be taxed. Those limits, however, would not be tied to inflation, meaning more benefits would be taxable every year. JCT estimates this would reduce taxes by $431 billion from 2020 to 2029.

All told, JCT estimates that the revenue changes included in the Social Security 2100 Act would increase federal revenues by $911 billion over the next decade, a significant tax increase. For comparison, the Tax Cuts and Jobs Act (TCJA) cut revenue by $1.5 trillion. This tax increase would be more than half the size of the TCJA.

## Spending Changes

In addition to tax increases, the Social Security 2100 Act makes Social Security benefits more generous, leading to higher levels of government spending.

**Changes to the Benefit Formula:** The amount that Social Security beneficiaries receive is determined by a complex formula. This bill would make the benefit formula more generous, increasing benefits by an estimated 2 percent a year. CBO estimates this would increase spending by $219 billion over the decade.

**Changes to the Cost-of-Living Adjustment:** Social Security benefits, like many other federal tax and spending provisions, are adjusted annually to reflect inflation. The Social Security 2100 Act would modify which measure of inflation Social Security uses, moving to the Consumer Price Index for the elderly (CPI-E). This measure of inflation grows much faster than other inflation indexes, an estimated 0.2 percent a year. While this seems small, overtime, the faster growth would compound, leading to significantly larger benefits. CBO estimates this change would increase spending by $134 billion from 2020 to 2029, but much more in later decades.

**Increasing Minimum Benefits:** The bill would also increase the minimum benefit received by beneficiaries, pegged at $15,612.50 for 2020. The benefit amount would increase over time. CBO estimates this will cost $12 billion over the next decade.

**Higher Benefits for High-Income Beneficiaries:** Because wages above $400,000 would now be taxable under the approach, workers would also receive credit for the taxes paid in their benefit formula, making their future benefits more generous. CBO estimates this costs $4 billion a year.

Combined, these provisions raise federal spending by $386 billion over the next decade.[8]

[8] Note: The above figures do not sum due to interaction effects.

## Trust Fund Solvency

While the bill attempts to extend Social Security's solvency from 2032 until 2100, hence the bill's title, CBO suggests that it falls far short of that. According to CBO, the trust fund's solvency is only extended eight years, until 2041.

The trust fund solvency projections differ greatly from those released from the Social Security Chief Actuary.[9] The difference is due to long-standing differences between the two groups' methodologies, centered on questions about life expectancy, interest rates, and income levels.[10]

It is difficult for economists to predict five years out, let alone 75 years, so some differences are to be expected. CBO's report on the Social Security 2100 Act, for example, actually includes a section on uncertainty, something the National Taxpayers Union Foundation has urged it to do for many years.

According to CBO, the Social Security 2100 Act fails on its key goal: it does not make Social Security solvent for the next generation. By leaning heavily on tax increases, it also ensures added economic pain. Employers would likely lower wages, for example, if payroll tax rates are increased.

The Chief Actuary's research, however, does include one fascinating statistic. As mentioned previously, the size of tax increases will grow over time. The Chief Actuary estimates that over the next 75 years, tax increases in the Social Security 2100 Act will total $21.2 trillion, in 2019 dollars.[11][12] For comparison, the benefit increases will cost $4.3 trillion over 75 years, in 2019 dollars.

## Conclusion

Reforming Social Security is not politically easy, but changes are needed. The trust fund is expected to be exhausted in 2032. The Social Security 2100 Act would extend that date eight years into the future, but it does so by raising taxes almost $1 trillion over the next decade and $21 trillion over the next 75 years.

Serious Social Security reform must confront the stark reality that tax hikes alone are an ineffectual solution to saving the program. Restructuring benefits, not expanding them, is essential to improving the program's finances.

### About the Author

*Nicole Kaeding is Vice President of Policy Promotion and Economist at National Taxpayers Union Foundation.*

[9] Goss, Stephen C. (Chief Actuary, Social Security). Letter to: Rep. John Larson and Sens. Richard Blumenthal and Chris Van Hollen. Actuarial Analysis for the Social Security 2100 Act. September 19, 2019.
[10] Congressional Budget Office. "CBO's Long-Term Social Security Projections: Changes Since 2017 and Comparisons with the Social Security Trustees' Projections." December 2018.
[11] Goss, Stephen C. Table 1d.
[12] It is important to note that given the differences in methodologies between CBO and the Social Security Trustees' CBO would likely estimate a smaller, but still quite large, tax increase over a 75 year period.

*2019 National Taxpayers Union Foundation*
*122 C Street NW, Suite 650, Washington, DC 20001*
*ntuf@ntu.org*