NATIONAL TAXPAYERS UNION

June 14, 2021

The Honorable John Larson
Chair, House Ways and Means Subcommittee on Social Security
1501 Longworth House Office Building
Washington, D.C. 20515

The Honorable Tom Reed
Ranking Member, House Ways and Means Subcommittee on Social Security
1203 Longworth House Office Building
Washington, D.C. 20515

Dear Chair Larson, Ranking Member Reed, and Members of the Subcommittee:

On behalf of National Taxpayers Union (NTU), the nation's oldest taxpayer advocacy organization, I wish to submit the following letter for the record ahead of the Subcommittee's hearing, "Equity in Social Security: In Their Own Words." As an organization that has weighed in on Social Security reform for decades, we appreciate your focus on reforming this critical program, as well as the need to secure the promise of Social Security benefits for current and future generations.

As you well know, NTU's experts and advocates have also testified before the Subcommittee on this very subject in the past. Former NTU Senior Fellow Mattie Duppler testified before the Subcommittee in April 2019[1] and again in July 2020.[2] NTU appreciates the constructive relationship we have had with the Subcommittee and its Members, and we hope this submission represents yet another opportunity to work together.

Like many stakeholders, we are eagerly awaiting the latest report from the Social Security Trustees. We suspect, however, that the significant disruptions of the COVID-19 pandemic and consequent economic downturn will not change the fundamental, long-running concerns about the health and solvency of the program.

According to the Trustees' 2020 report, reserves in the Old Age and Survivors Insurance (OASI) trust fund -- which serviced nearly 85 percent of overall Social Security beneficiaries at the end of 2019 -- are projected to be depleted by 2034.[3] Without Congressional action, trust fund depletion would lead tens of millions of seniors to experience an automatic, 24-percent benefit cut.[4] This could, in turn, lead millions of seniors on fixed budgets to struggle to afford housing, health care, food, and other basic expenses. In short, an automatic benefit cut this large should simply not be an option on the table for lawmakers.

[1] Duppler, Mattie. "NTU's Mattie Duppler testified before Ways and Means Social Security Subcommittee." National Taxpayers Union, April 10, 2019. Retrieved from: https://www.ntu.org/publications/detail/ntus-mattie-duppler-testified-before-ways-and-means-social-security-subcommittee

[2] Duppler, Mattie. "Testimony on The Impact of COVID-19 on Social Security and its Beneficiaries." National Taxpayers Union, July 16, 2020. Retrieved from: https://www.ntu.org/publications/detail/testimony-on-the-impact-of-covid-19-on-social-security-and-its-beneficiaries

[3] The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds. (April 22, 2020). "The 2020 Annual Report of the Board Of Trustees of the Federal Old-age and Survivors Insurance and Federal Disability Insurance Trust Funds." Retrieved from: https://www.ssa.gov/oact/TR/2020/tr2020.pdf (See: "Overview.")

[4] *Ibid*.

The Trustees' 2020 report also makes clear that the longer Congress fails to act, the more severe actions lawmakers will need to take to make the program solvent again. If Congress wanted to meet unfunded obligations over 75 years *immediately*, with just a payroll tax increase, it would have to raise the current rate from 12.4 percent to 15.5 percent.[5] For a worker making $50,000 per year, that's a $775 tax increase for just the worker's half of the payroll tax. For a self-employed individual making $50,000 per year, the tax increase is double -- $1,550, or $129 per month out of that worker's pocket. However, the Trustees' report that waiting until 2035 would require a payroll tax rate increase from 12.4 percent to 16.53 percent, which would raise taxes on middle-class workers by hundreds of dollars *more*.

Similarly, if lawmakers wanted to meet 75-year unfunded obligations right away, with just a benefit cut, they would have to slash benefits by 19 percent.[6] For the average retired worker's benefit,[7] that would result in a nearly $300 cut per month from current benefits. Waiting until 2035 would require a deeper 25-percent, across-the-board cut in benefits.

As the Subcommittee well knows, inaction is not an option, and delayed action is far from an ideal option. Chair Larson, we understand and appreciate that you have regularly proposed Social Security reform through your "Social Security 2100 Act." Respectfully, we believe that this proposal will ultimately fail to achieve equity in Social Security by significantly increasing payroll taxes on tens of millions of low- and middle-income workers.

As Ms. Duppler testified to this Subcommittee in 2020:

> "...people at the beginning of their careers are most burdened by an increase in payroll taxes. In fact, the current crisis has hurt the vulnerable populations that I warned were also most exposed to the impact of higher employment taxes; CBO earlier this spring stated that the economic effects of the precautions taken to contain the virus were disproportionately hurting younger and low-wage workers.
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> ...Another group that suffers disproportionately under increased payroll tax costs are entrepreneurs and small business owners. Payroll taxes present a larger burden, in some ways, to small businesses since the qualified business income deduction, – which is meant to establish parity between taxation of pass-through businesses and corporations – does not reduce an entity's net earnings for assessing self-employment taxes."[8]

We remain concerned that a 19-percent increase in the payroll tax rate -- even one spread out over several years -- could rob current and future workers of hundreds of thousands of dollars of wages that they could put toward basic needs, major purchases like a home, or privately-held retirement savings. We also believe that such a tax hike could lead businesses, especially small businesses and entrepreneurs, to hire fewer people over time.

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[5] *Ibid*.
[6] *Ibid*.
[7] Social Security Administration. (2021). "Fact Sheet." Retrieved from: https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf (Accessed June 10, 2021.)
[8] Duppler, Mattie. "Testimony on The Impact of COVID-19 on Social Security and its Beneficiaries." National Taxpayers Union, July 16, 2020. Retrieved from: https://www.ntu.org/publications/detail/testimony-on-the-impact-of-covid-19-on-social-security-and-its-beneficiaries

The proposed payroll tax rate increase in the Social Security 2100 Act would be concerning even if policymakers could be certain that such a tax hike would guarantee 75-year solvency for the program. Solvency projections are shaky at best, though, given the Social Security Chief Actuary and the Congressional Budget Office (CBO) disagree on whether the Social Security 2100 Act would provide for 75-year solvency in the newly-created Social Security Trust Fund.

The Chief Actuary offers an optimistic picture of solvency under the Social Security 2100 Act. The Trust Fund ratio, at 273 percent in 2019, would dip to a perilously low 105 percent from 2040 through 2042 before rising to 200 percent by 2059, back to 2019 levels by 2081, and to 313 percent by 2094.[9] CBO, meanwhile, projects that under the Social Security 2100 Act, the Trust Fund would be exhausted by calendar year 2041 -- just seven years after the current projected insolvency date.[10] CBO also projects that the payroll tax rate increase alone would raise taxes nearly half a trillion dollars over the next decade while "increas[ing] the tax burden of lower-income workers by a larger percentage than that for higher-income workers."[11]

A fair question, then, is what legislation could build equity in the Social Security program? NTU has supported several proposals over the years that we believe meet this challenge, including but not limited to:

- Rep. Jackie Walorski's (R-IN) legislation to suspend the retirement earnings test (RET) for early retirees who rejoined the workforce during the COVID-19 crisis.[12] The **Pandemic Relief for Working Seniors Act** (H.R. 1601[13]) would enable working seniors to confidently provide for themselves and their families during an extraordinarily challenging time. The legislation would also fix an inequity in the Social Security program, given beneficiaries who have already reached full retirement age (FRA) are not subject to the RET but beneficiaries below the FRA *are* subject to the RET.[14]
- Rep. Tim Walberg's (R-MI) **Social Security and Medicare Lock-Box Act** (H.R. 1269[15]), which would ensure that future Social Security program surpluses are *only* devoted to the Social Security program. This would end a practice that "allows the government to borrow" from the Social Security trust fund to meet other spending needs.[16] Given the dire state of Social Security solvency, we think Rep. Walberg's legislation would build equity by better securing the funds of an essential program that disproportionately benefits low-income seniors.

We understand that these are small reforms, not large ones that will make Social Security solvent. To answer the perhaps more pressing question of how to ensure the Social Security trust fund is not depleted in the next 75 years, NTU has identified several suggestions from the Office of the Chief Actuary that together could close the 75-year shortfall:

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[9] Social Security Office of the Chief Actuary. (September 18, 2019). "SSA Chief Actuary Report." Retrieved from: https://larson.house.gov/sites/larson.house.gov/files/Larson%20Blumenthal%20Van%20Hollen_2019%200918.pdf#page=18

[10] Congressional Budget Office. (September 13, 2019). "Re: Analysis of Effects on Social Security of H.R. 860, the Social Security 2100 Act." Retrieved from: https://www.cbo.gov/system/files/2019-09/hr860.pdf

[11] *Ibid*.

[12] Congresswoman Jackie Walorski. (March 3, 2021). "Walorski Introduces Bill to Provide Relief to Working Seniors." Retrieved from: https://walorski.house.gov/relief-working-seniors/ (Accessed June 11, 2021.)

[13] Congress.gov. (Introduced March 3, 2021). "H.R. 1601 - Pandemic Relief for Working Seniors Act of 2021." Retrieved from: https://www.congress.gov/bill/117th-congress/house-bill/1601 (Accessed June 11, 2021.)

[14] Olsen, Anya, and Roming, Kathleen. "Modeling Behavioral Responses to Eliminating the Retirement Earnings Test." Social Security Bulletin. Vol. 73, No. 1. 2013. Retrieved from: https://www.ssa.gov/policy/docs/ssb/v73n1/v73n1p39.html

[15] Congress.gov. (Introduced February 23, 2021). "H.R. 1269 - Social Security and Medicare Lock-Box Act." Retrieved from: https://www.congress.gov/bill/117th-congress/house-bill/1269/text (Accessed June 11, 2021.)

[16] Center on Budget and Policy Priorities. (May 14, 2020). "Policy Basics: Understanding the Social Security Trust Funds." Retrieved from: https://www.cbpp.org/research/social-security/understanding-the-social-security-trust-funds-0 (Accessed June 11, 2021.)

- **Increasing the retirement age** from 67 to 70 over the next 15 years, and indexing the retirement age to life expectancy after that, would close 47 percent of the 75-year shortfall.[17] The Social Security retirement age has gone up two years (three percent) since 1934, even though life expectancy has gone up around 18-20 years in that timespan (or more than 30 percent).[18] We think that a slow climb in the retirement age is long overdue.
- **Slightly reducing benefits for the top 30 percent of earners newly eligible for OASI benefits in 2024** would close another 47 percent of the 75-year shortfall.[19] We believe this provision keeps Social Security equitable by protecting current-level benefits for the bottom 70 percent of income earners.
- **Eliminating cost-of-living adjustments (COLAs) for six-figure households, and using the Consumer Price Index for All Urban Consumers (CPI-U) for COLAs for all other beneficiaries**, would close another 43 percent of the 75-year shortfall. While a uniform revision of COLA may be preferable, this recommendation deserves consideration from policymakers.[20]

Lawmakers could, of course, mix and match these provisions or adjust them, given together they close 137 percent of the 75-year shortfall. While we recognize some policymakers may disagree with NTU's preferences for Social Security reform, we share an interest in protecting benefits first and foremost for lower-income households. Further, we look forward to future opportunities to engage with the Subcommittee on Social Security reform and the pressing issue of Social Security solvency. Should you have any questions, I am at your service.

Sincerely,

Andrew Lautz
Director of Federal Policy

CC: Members of the House Ways and Means Subcommittee on Social Security
The Honorable Richard Neal, Chair, House Committee on Ways and Means
The Honorable Kevin Brady, Ranking Member, House Committee on Ways and Means

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[17] See Proposed Provision C2.5 in: Social Security Office of the Chief Actuary. (July 1, 2020). "Summary of Provisions That Would Change the Social Security Program." Retrieved from: https://www.ssa.gov/OACT/solvency/provisions/summary.pdf

[18] Li, Zhe. "The Social Security Retirement Age." Congressional Research Service, January 8, 2021. Retrieved from: https://fas.org/sgp/crs/misc/R44670.pdf (Accessed June 11, 2021.); Social Security Administration. (2021). "Life Expectancy for Social Security." Retrieved from: https://www.ssa.gov/history/lifeexpect.html (Accessed June 11, 2021.); Centers for Disease Control and Prevention. (2021). "Life Expectancy." Retrieved from: https://www.cdc.gov/nchs/fastats/life-expectancy.htm (Accessed June 11, 2021.)

[19] See Proposed Provision B1.6 in: Social Security Office of the Chief Actuary. (July 1, 2020). "Summary of Provisions That Would Change the Social Security Program." Retrieved from: https://www.ssa.gov/OACT/solvency/provisions/summary.pdf

[20] *Ibid*., see Proposed Provision A9.