New Social Security Bill Calls for Tax and Benefit Hikes

By Kerry Pechter *Thu, Feb 7, 2019*

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With the threat of a 25% cut in all Social Security benefits looming in 2034 if Congress doesn't act to prevent it, House and Senate Democrats have proposed new legislation that would keep the old age and disability insurance program solvent through at least 2100.

John Larsen (D-CT) re-introduced the **Social Security 2100 Act**, which he first introduced in April 2017, when Republicans controlled the House. The bill has more than 200 co-sponsors. A similar bill, S. 269, was introduced in the Senate a week ago by Richard Blumenthal (D-CT).

The bills emphasize balancing Social Security's books by raising revenue instead of cutting benefits. It proposes slowly raising the payroll tax by 1.2 percentage points for employers and employees over the next 23 years, and applies the payroll tax to incomes above $400,000 in addition to those below $132,900 (per current law).

The philosophy behind the new bills starkly contrasts with the Social Security reforms proposed in 2005. Some of the 2005 reforms would have diverted a portion of payroll taxes into individual accounts where savers could invest in the stock market. The new bills reject of the supply-side economic thinking behind the December 2017 Republican tax cut.

The current bills proposes to:

- Raise benefits. The bills increase benefits for all current and new beneficiaries by about 2% of the average benefit. Today's average benefit is about $1,340.
- Inflation-protection. The bill adopts a CPI-Elderly formula for inflation adjustments instead of the annual cost-of-living adjustment (COLA) formula, to reflect seniors' exposure to health care cost inflation.
- Raise the minimum benefit. The new minimum benefit will be set at 25% above the poverty line ($12,490 in 2019 for one person) and would be tied to increases in wage levels.
- Raise the earnings cap. Presently, Social Security benefits are taxed if non-Social Security income exceeds $25,000 for an individual or $32,000 for couples. The new proposal would raise that threshold to $50,000 and $100,000 respectively. Almost 12 million Social Security recipients would see a tax cut.

- Hold SSI, Medicaid, and CHIP beneficiaries harmless. The bill ensures that any increase in benefits from the bill won't reduce SSI benefits or eliminate eligibility for Medicaid or CHIP (Children's Health Insurance Program).
- Apply payroll tax to highest earners. Presently, payroll taxes are not collected on wages exceeding $132,900. This legislation would also apply the payroll tax to the 0.4% of Americans with wages above $400,000.
- Introduce a higher payroll tax rate gradually. Starting in 2020, the payroll tax would start to rise in annual increments from the current 6.2% for workers and employers to 7.4% each in 2043. The average worker would pay an additional 50 cents per week per year.
- Establish a unified Social Security Trust Fund. This provision combines the Old Age and Survivors Trust Fund and the Disability Insurance Trust Fund into one Social Security Trust Fund, to ensure that all benefits will be paid.

The proposals' political viability remains to be seen. It would need support from Republican Senators and the signature of a Republican president. But the measure might be so broadly popular that it could gather that support. Democrats might, in a sense, dare Republicans to oppose it as the 2020 election approaches.

"One might consider this bill a Democratic first bargaining position, [since] it cuts back on no or almost no benefits, even those that are poorly designed, and it finances current law promises and additional benefit increases through tax increases," Eugene Steuerle, a former Social Security official, told *RIJ* in an email this week.

Alicia Munnell, an economist and director of the Center of Retirement Research at Boston College, told *RIJ*, that, speaking for herself and not for the Center, "I am supportive of the approach that maintains and even enhances benefits and brings in additional money to ensure the long-term solvency of the program. In my view, it's useful to spell out clearly what it would take to finance the program and see if the American people support it.

"I could quibble with parts of the bill. For example, I'm not sure about the COLA indexing change. And I'm a big fan of separating out Social Security's legacy debt from the long-run cost issue and handling it differently from the ongoing cost of the program."

Her colleague, Steven Sass, added, "Given the importance of Social Security in the nation's retirement income system and its fast approaching cash flow shortfall, restoring the program's solvency (and that of Medicare and Medicaid) should be at the top of the nation's domestic policy agenda. Given Social Security's generally low level of benefits, especially for those who claim at or before their FRA [full retirement age], raising revenues is far less painful."

If past is prologue, opposition will come from those who call Social Security a “Ponzi” scheme, who believe that Millennials will pay high taxes for a program whose benefits they may never see, and who believe that more spending on retirees will crowd out federal spending on, for instance, education and infrastructure renewal.

The life insurance industry might decide to oppose the measure. Though not all retirement experts agree on this, some have written that Social Security crowds out the market for private annuities. Its inflation-protected, joint-and-survivor benefits are more generous than any private life insurer could match.

It’s a stubborn fact that not everyone’s Social Security benefits will be exactly commensurate with their contributions, Steuerle points out. “The public does seem to place limits on how much it will accept in taxes, whether for political or economic reasons, and I think that such transfers should go for the priorities in society. There’s also a generational issue,” he told *RIJ*.

“The design of Social Security and Medicare for about 80 years (and projected forward into the future) provided greater net transfers to older generations and less net transfers to younger generations.

“So, for instance, I’m old enough [that] I paid Social Security taxes at a lower rate than you for more years for roughly the same benefit (relative to taxes paid). And when the birth rate falls, somebody’s got to pay somehow with more taxes or fewer benefits, and I think that burden should be shared.

“And, on the supply side front, I do think that all these years in retirement (people now retire for 13 years more than they did in 1940) does reduce personal income and government revenues to support those who need support, retirees and non-retirees alike.”