Social Security Repair Bills, Compared by Actuaries

By Kerry Pechter *Thu, Mar 18, 2021*

In a webinar this week, a panel of Academy actuaries presented their analysis of three legislative proposals now floating inside the Beltway. One raises taxes, one lowers benefits, and another does some of each.

At the American Academy of Actuaries' (AAA) website, you can tackle the Social Security funding problem by playing a video **game**. I solved the problem by reducing the cost-of-living-adjustment by 0.7%, raising the level of income subject to the payroll tax, and hiking the combined employer/employee contribution to 14.8%.

Crisis averted.

As we all know, fixing Social Security is a task that either the Biden administration or its successors must face if the OASI (Old Age and Survivors Insurance) program is to avoid a big problem in the early 2030s. That's when the program's reserves or "trust fund" is expected to zero out and expected payroll tax revenue will fall short of earned benefits by about 25%.

In a webinar this week, a panel of Academy actuaries presented their **analysis** of three legislative proposals now floating inside the Beltway: The Bipartisan Policy Center proposal of 2016, the 2016 Johnson Proposal (after Rep. Sam Johnson, then-head of the House Social Security Subcommittee), and the 2019 Larson-Blumenthal-Van Hollen proposal. They also reviewed the 2020 Biden campaign proposal for Social Security.

The panelists, Amy Kemp, Janet Barr and Ron Gebhardtsbauer (led by moderator Linda K. Stone) tested the proposals, in effect, for their impact on two opposing principles that Social Security since its founding has tried to balance: the "individual equity" of the program and its "social adequacy."

From ‘The Social Security Game’

Those two expressions are social science terms for, respectively, the degree to which the program is financially fair (giving all taxpayers a reasonable benefit bang for their payroll tax buck) and to which it pays enough even at the low end to keep elderly Americans out of poverty—assuming at the same time that it pays for itself with the employer/employee FICA tax, currently 12.4%.

The AAA chose to consider only reform proposals that closed Social Security’s projected long-term funding shortfall and that kept the program in the form of a PAYGO (pay-as-you-go) defined benefit pension. They didn’t entertain proposals that would convert Social Security to a defined contribution plan with individual accounts, as was suggested by a presidential commission during the early 2000s.

The Bipartisan Policy Center (BPC) proposal: Mild tax hike, higher retirement age

- The minimum benefit would be $726 for an unmarried beneficiary, reduced by 70 cents for each dollar of earned benefit.
- The normal retirement age would increase by one month every two years starting in 2022 until reaching 69 for those reaching age 62 in 2070.
- Annual benefit increases would be pegged to the “chained CPI,” rather than the Consumer Price Index.
- The spousal benefit, now at least one-half the primary worker’s benefit, would change to one-half the benefit of a worker with career earnings at the 75th percentile.
- A worker’s widow or widower would no longer receive at least 100% of the deceased worker’s benefit but instead receive 75% of that benefit plus his or her own earned benefit.
- The taxable wage base would gradually increase to $203,700 in 2021, with annual increases according to the national average wage index plus half a percentage point thereafter.
- The BPC proposal would increase the 12.4% payroll tax gradually until it reaches 13.4% in 2026.
- Eliminate the 15% exclusion starting in 2022 for single taxpayers with incomes over $250,000 and married taxpayers with incomes over $500,000, so that 100% of benefits would be taxable.

The Johnson proposal: No payroll tax increase

- Provide a significant benefit increase for the lowest-paid workers, but a significant benefit reduction for those at the high end of the earnings spectrum.
- Increase the NRA (normal retirement age) by three months every year starting in 2023, until it reaches age 69 in 2030
- Eliminate the cost-of-living adjustment (COLA) for high-income beneficiaries and adopt the chained CPI for other beneficiaries.
- Limit the spousal benefit to the amount based on one-half the PIA (“primary insurance amount” or benefit) of a hypothetical worker of the same age, whose earnings equaled the national average wage in all years. The benefits of widows and widowers wouldn’t change.
- The minimum benefit would be a percentage of the national average wage two years before the person became eligible for benefits. The percentage would be based on a worker’s years of work.
- Between 2045 and 2053, the thresholds [of earned income] for taxation of benefits would be increased by $7,500 per year for singles and $15,000 per year for couples. In 2054 the tax would be eliminated.
- Provide a benefit increase to low-income beneficiaries after 20 years of retirement.

The Larson proposal: Higher tax rates on the wealthy

- Raise all benefits by making the calculation formula slightly richer.
- Use the Consumer Price Index for the Elderly (CPI-E) for annual inflation adjustments.
- Set the minimum monthly benefit for workers with at least 30 years (120 quarters) of covered employment at one-twelfth of 125% of the annual poverty guideline for single persons.
- Raise these income thresholds for paying taxes on Social Security benefits to $50,000 for singles and $100,000 for couples, so that fewer beneficiaries would pay income tax on their Social Security benefits.
- Apply the payroll tax rate to earnings in excess of $400,000.
- Increase the combined employer/employee payroll tax rate by 0.1 percentage point each year until it reaches 14.8% in 2043.

The Biden campaign proposal

During his 2020 presidential campaign, Joe Biden floated a plan for reforming Social Security. The plan maintained the PAYGO structure but did not raise enough revenue to close the program's funding gap. Like the Larson proposal, it applied the payroll tax to incomes in over $400,000, but not to taxable incomes between the FICA limit and $400,000—creating a "doughnut hole."

Biden proposed a minimum benefit at the low end and a five percent increase in benefits after 20 years of retirement. It did not raise benefits for those making more than $400,000 a year, even though it would make them liable for increased taxes. As the panelists pointed out, the Biden campaign plan hasn't resurfaced as an actual legislative proposal, and probably won't.

The report leaves the strong impression that Social Security isn't in crisis, and isn't in danger of "failing." (If taxpayers really believed that, they would probably rebel against the withholding of payroll taxes.) All it needs is a few tweaks. Politically, it's still a high-voltage "third rail" of American politics. For Republicans, the third rail is raising taxes. For Democrats, the third rail is cutting benefits. Finding a third way through the middle may prove difficult.