SEPTEMBER 2019

# Commentary

THE BUFFIN FOUNDATION SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

# Social Security 2100 Act
## Modified Provisions and Updated Actuarial Cost Projections

The *Social Security 2100 Act,* which was previously discussed in the August 2014 edition of *Commentary,* has been modified and updated. This proposed legislation would strengthen the United States Social Security system, known as Old-Age, Survivors and Disability Insurance (OASDI), and would achieve 100% actuarial solvency based on financial projections for the next 75 years. This Act comprises several key proposals to generate enhanced revenues and provide benefit improvements. These new provisions, as described in a September 18, 2019 memorandum from the Social Security Office of the Chief Actuary, are presented in the following paragraph.

*Increase the combined OASDI payroll tax rate from 12.4 to 14.8 percent, fully effective for 2043 and later.* The combined rate is increased by 0.1 percentage point each year starting in 2020, reaching the ultimate 14.8 percent rate for 2043. *Apply the combined payroll tax rate on covered earnings above $400,000 paid in 2020 and later,* so that all earnings would be taxable once the current-law maximum ($132,900 in 2019) exceeds $400,000. Credit the additional earnings that are taxed for benefit purposes by calculating a second average indexed monthly earnings (AIME+) reflecting only additional earnings taxed above the current-law taxable maximum, and applying a 2-percent factor on this newly computed AIME+ to develop a second component of the Primary Insurance Amount (PIA), adding this second component to the current-law PIA. *Replace the current-law thresholds for federal income taxation of OASDI benefits with thresholds at $50,000 for single filers and $100,000 for joint filers for taxation of up to 85 percent of OASDI benefits, effective for tax year 2020.* These thresholds would be fixed and not indexed to price inflation or average wage increase. *Use the Consumer Price Index for the Elderly (CPI-E) replacing the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) to calculate the annual cost-of-living adjustment (COLA), effective for December 2019 and later.* It is assumed this change would increase the COLA by an average of 0.2 percentage point per year. *Increase the first PIA formula factor from 90 percent to 93 percent for all benefits payable for months of entitlement January 2020 and later, including benefits for those becoming newly eligible both before and after January 2020. Increase the special minimum PIA, beginning for workers who become newly-eligible for retirement or disability benefits or die in 2020 or later.* For workers becoming newly eligible or dying in 2020, the minimum PIA for 2020 for workers with 30 or more years of coverage is one-twelfth of 125 percent of the annual poverty guideline for a single individual published by the Department of Health and Human Services for 2019. For workers becoming newly eligible or dying after 2020, the minimum PIA for their initial year of eligibility is increased by the growth in the national average wage index. For all affected workers, the minimum PIA is increased by the COLA after their initial year of eligibility. *Beginning in 2020, establish a new Social Security Trust Fund by combining the reserves of the separate OASI and DI Trust Funds and managing all future financial operations of the program on a combined basis.*

These proposals address the need for enhanced Social Security revenues by a combination of increased payroll tax rates and moving towards the inclusion of all earnings for tax purposes in two steps by applying the payroll tax to earnings above $400,000 starting in 2020 and then narrowing the gap between the current maximum taxable earnings limit of $132,900 and the $400,000 threshold with annual increments as provided under the current law. The proposals also address the logical choice of the COLA adjustment basis by utilizing the CPI-E that is constructed in such a way as to reflect the actual expenditure patterns of elderly persons as opposed to the current practice of utilizing an index that reflects the expenditure patterns of wage earners. The revised *Social Security 2100 Act* represents well-thought-out and affordable proposed legislation that addresses all of the major issues in the ongoing debate about reforming Social Security to make it fairer and less regressive, with high-income earners paying a fair share of the cost of the social compact that Social Security represents. The financial effect of all of these proposals in combination would be to improve the long-term projected 75-year actuarial balance by the equivalent of 3.18 percent of payroll compared to the actuarial deficit under current law of 2.78 percent of payroll as reported in the 2019 annual trustees report. When each of the proposed provisions is valued in isolation, without regard to the possible interaction of the provisions, they generate revenue enhancements equivalent to 3.80 percent of payroll and benefit improvements equivalent to 0.94 percent of payroll, and total 3.18 percent after allowing for interaction.

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