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A Permanent "Social Security 2100: A Sacred Trust" Would Exacerbate Shortfalls and Hasten Insolvency

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KEY TAKEAWAYS

Social Security is running out of time and money, and it needs real solutions, but the Democratic plan is a dishonest distraction from serious proposals.

If made permanent, "Social Security 2100: A Sacred Trust" would hasten Social Security's insolvency by two years and increase its shortfalls by 21 percent.

Social Security reform is politically difficult, but absolutely necessary, to protect vulnerable Americans and to make more people—and the entire economy—better off.

America's Social Security program is running out of time and money. Policymakers cannot agree on how to fix it, and generations of Americans have been duped into believing it is a good deal. Now, lawmakers who want to expand Social Security are further misleading Americans by claiming that it is possible to fix Social Security *and* to provide big benefit increases simply by taxing the "rich." Specifically, 202 House Democrats have co-sponsored the Social Security 2100: A Sacred Trust (SS-AST) legislation, a dishonest proposal that promises five years of various benefit increases based on 75 years' worth of tax increases.

The Heritage Foundation's Social Security model estimates that if the bill's benefit and tax increases were made permanent, SS-AST would exacerbate Social Security's shortfalls by 21 percent and cause the program to run out of money two years earlier than currently projected, in 2032. In fact, maintaining Social Security's long-term solvency under the bill would require a new 34 percent increase in the payroll tax, from 12.4 percent to 16.67 percent.[1]

Social Security needs real solutions but it is reckless and dangerous for politicians to support a disingenuous proposal that will ultimately make Social Security and its participants worse off.[2]

Social Security's Hard Truth

The Social Security Trustees 2022 report projects that Social Security's retirement program, known as Old Age and Survivor's Insurance (OASI), will be insolvent in 2034, resulting in 23 percent across-the-board benefit cuts.[3] That means that no one who is currently 55 or younger will receive a single full retirement benefit before the program runs out of money, and about 60 million people who are already retired and collecting benefits in 2034 will be subject to cuts averaging $4,400 per year.

Despite the common myth that workers' payroll taxes have been set aside to fund their future retirement benefits, Social Security has been operating in the red for 12 years, paying out more in benefits than it collects in taxes. It can do this because when previous Social Security taxes exceeded the benefits paid, the government spent what the American public thought was being set aside for Social Security on *other* programs and credited Social Security's trust fund with IOUs. Cashing in on those IOUs, as is happening now, requires the Treasury to issue more publicly held debt.

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Social Security was supposed to be a social safety net, providing benefits for people who live longer than expected and run out of savings and for those who experience hardships, such as the premature death of a family's breadwinner. But what started as a small program that took 2 percent of workers' paychecks and promised never to take more than 6 percent now takes more than twice that amount while providing significantly higher benefits to a broader population, over significantly longer life spans. As a result, while past and current retirees have on average received far more from Social Security than they paid in taxes (though usually less than they would have earned if those taxes were invested in a personal retirement account), current and future workers will get a raw deal.[4]

Paying out more in benefits than government collects in taxes to pay for them is the oldest short-term political trick in the book. Add to this the fact that fully half of Social Security's taxes[5] are hidden from taxpayers and one can understand Social Security's political popularity. Social Security's too-good-to-be-true design has amassed $20.4 trillion in unfunded obligations—that is $157,000 per household. Maintaining the current system's benefits would require an immediate 26 percent increase in the payroll tax, while preventing insolvency without tax increases would require an immediate 20 percent benefit cut. Social Security's ability to provide windfall benefits is nearing its end; the program long ago lost its "insurance" function and has become a giant intergenerational transfer program that is a bad deal for current and future workers.

Reform Is Inevitable

Despite its name, Social Security is anything but secure. Simply put, Social Security as Americans have known it will no longer be possible in a dozen years. Americans deserve to know what will happen if policymakers do nothing, and what could happen under viable reform options. Following is what will happen if Congress:

Does Nothing. Absent congressional action, Social Security's trust fund will run out of money in 2034, its combined old-age and disability insurance (DI) trust funds will run out of money in 2035, and all benefits will be reduced by 23 percent across the board, with larger benefit cuts necessary over time.[6] Workers will continue to pay 12.4 percent of their wages into Social Security's combined old-age and DI programs.

Increases Taxes. Maintaining Social Security in its current form would require an immediate payroll tax hike, from 12.4 percent to 15.82 percent. This hike would amount to an additional $2,290 in annual taxes for the median household and a total Social Security tax bill of $11,070.[7]

Alternatively, if policymakers wait until 2035, when Social Security's old-age and DI programs run out of money, taxes would need to rise to 16.47 percent. This would amount to an additional $2,880 in annual taxes for the median household and a total annual Social Security tax bill of $11,660.

Reduces Benefits. Preserving Social Security's solvency would require an immediate 20 percent across-the-board benefit reduction. This reduction would amount to a $4,000 annual benefit cut for the average retired worker.[8] If policymakers wait until 2035, when Social Security's old-age and DI programs run out of money (the do-nothing scenario), benefits would need to be cut 23 percent, or by $4,600, and cuts would continue to rise over time.

Enacts Comprehensive Reform. Instead of relying exclusively on benefit cuts or tax increases, policymakers could protect Social Security's solvency through a combination of reforms that could also include measures like raising the retirement age and indexing it to life expectancy, using a more accurate inflation index,[9] altering the benefit formula, and adding a personal wealth-building component.

To date, federal lawmakers have introduced two very different comprehensive Social Security reform proposals that would make Social Security solvent in the long run. The Social Security Reform Act of 2016 would have increased benefits for lower-income earners, gradually reduced benefits for middle-income and upper-income earners, and modernized the program through increases in the eligibility age and the use of more accurate inflation adjustments.[10] An opposite approach to solvency was the SS-AST's immediate predecessor, called the Social Security 2100 Act (introduced in the 116th Congress).[11] The Social Security 2100 Act would have significantly increased taxes and benefits for all workers and retirees, shifted to an inferior inflation measure, and was estimated to lead to a smaller economy and lower incomes.[12] But unlike the SS-AST, the Social Security 2100 Act would have led to solvency.

Sham Solution: "Social Security 2100: A Sacred Trust" Would Hasten Insolvency and Exacerbate Shortfalls

SS-AST was introduced in the 117th Congress. The proposal couples 75 years of tax increases with over a dozen benefit increases that expire after five years, in 2026. Table 1 describes SS-AST's major components.

Even with 75 years of tax increases and only five years of benefit increases, SS-AST would not make Social Security solvent. The Social Security Administration estimated that SS-AST would reduce Social Security's combined OASI and DI long-run shortfalls by about only half, from 3.54 percent of payroll to 1.71 percent of payroll and would extend the programs' solvency by four years, from 2034 to 2038.[13]

TABLE 1

Nearly Every Component of "A Sacred Trust" Is Temporary

Component	Time Period
Temporarily increases benefits for all retirees by raising the 90 percent Primary Insurance Amount (PIA) threshold to 93 percent (roughly an extra $400 per year)	2022–2026 only
Temporarily uses the Chained Consumer Price Index for the Elderly (CPI-E)	2022–2026 only
Temporarily increases the special minimum primary insurance amount	2022–2026 only
Temporarily increases the thresholds for the retirement earnings test	2022–2026 only
Temporarily establishes an alternative benefit for surviving spouses equal to 75 percent of the couples' prior combined benefit	2022–2026 only
Temporarily provides an additional 5 percent benefit increase for individuals ages 82 and older	2022–2026 only
Temporarily provides an "earnings" credit for individuals who cared for children under age 12	2022–2026 only
Temporarily eliminate the disability insurance waiting period for newly eligible individuals	2022–2026 only
Temporarily eliminates the cut off in disability insurance benefits for individuals with earnings above about $27,000	2022–2026 only
Temporarily ends the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO)	2022–2026 only
Temporarily extends child benefits through age 26 for full-time and part-time students	2022–2026 only
Temporarily prevents reductions in the average wage index for 2021 or later from reducing benefits	2022–2026 only
Applies Social Security's payroll tax on earnings above $400,000, eventually applies the tax on all earnings,* and applies a new 1 percent benefit factor on newly-taxed earnings (marginally increasing benefits for those paying higher taxes)**	Permanent

* The SS-AST does not index the $400,000 amount to inflation, so eventually, the "doughnut hole" of earnings that would exist between Social Security's current taxable maximum and the $400,000 threshold would disappear due to inflation bringing the current taxable maximum up to the $400,000 threshold. Social Security's taxable maximum is $147,000 in 2022 and will rise to $160,200 in 2023.
** Rachel Greszler, "Raising the Social Security Payroll Tax Cap: Solving Nothing, Harming Much," Heritage Foundation *Backgrounder* No. 2923, August 1, 2014, http://thf_media.s3.amazonaws.com/2014/pdf/BG2923.pdf
Source: Author's research.

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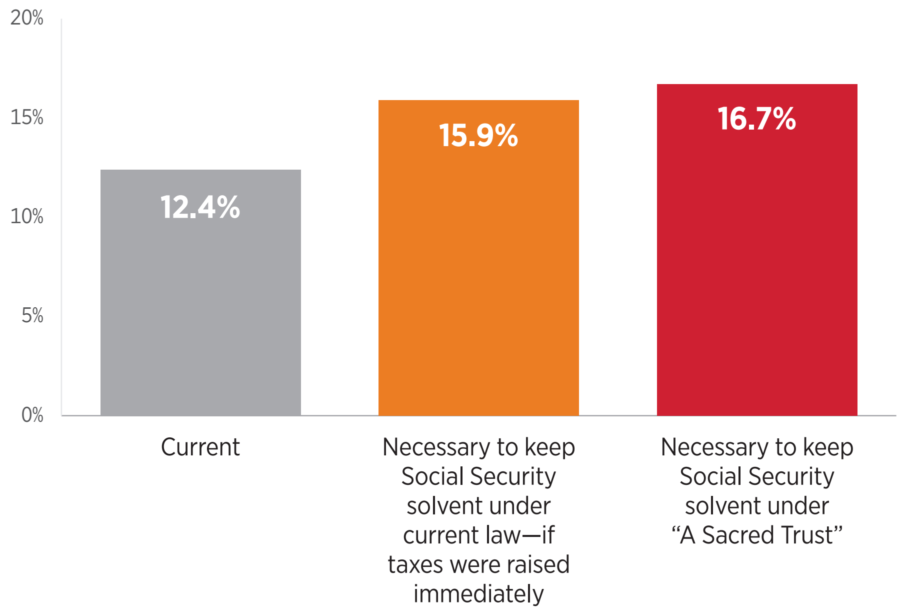
CHART 1

Key Social Security Payroll Tax Rates



SOURCE: Author's calculations based on data from the Heritage Foundation's Social Security Model.

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But those estimates are based on an entirely fanciful assumption—that the bill's sponsors actually intend to sunset the benefit increases after only five years.

> If all 12 of Social Security 2100: A Sacred Trust's temporary benefit increases were made permanent, Social Security would run out of money two years earlier—in 2032 instead of 2034.

The Heritage Foundation's Social Security Model estimates that if all 12 of SS-AST's temporary benefit increases were made permanent, Social Security would run out of money two years earlier, in 2032 instead of 2034.[14] Benefit cuts in 2032 would be greater than the roughly 23 percent cuts that would apply in 2034 under current law because the bill raises benefits to a higher level prior to insolvency. Enacting a permanent version of SS-AST would exacerbate Social Security's shortfalls by 21 percent, increasing them from 3.54 percent of payroll to 4.27 percent of payroll.

Even with SS-AST's massive tax hikes on higher-income earners, the proposal's expansion of benefits would *still* require a 34 percent, across-the-board payroll tax increase, bringing the current 12.4 percent tax to 16.67 percent. A permanent version of SS-AST would require an extra $3,000 per year in Social Security taxes, and $11,800 per year in total Social Security taxes for the median household.

A Heritage Foundation analysis of the personal impacts of the SS-AST's predecessor bill (the 116th Congress version, which massively increased taxes but achieved solvency) found that workers of all income levels would be better off, with higher incomes in retirement, if they were allowed to keep the money they would have to pay for the proposed tax hikes and instead save that money in a personal account.[15] That same analysis holds true for SS-AST, but the magnitude of the potential losses to workers' future financial well-being would be even greater considering the larger tax increases needed to sustain SS-AST.

Conclusion

Social Security's future is not secure. The program is running out of time and money, and recent increases in debt and spending have crowded out options for reform. SS-AST is a dishonest distraction from serious proposals that would make Social Security solvent for the long run. By recognizing the budget deception of labeling what are intended to be permanent benefit increases "temporary," one can see that SS-AST would increase Social Security's shortfalls by 21 percent and cause the program to run out of money two years earlier, in 2032. Maintaining benefit increases and preventing insolvency under SS-AST would require a 34 percent tax increase—an extra $3,000 for the median household.

In contrast, The Heritage Foundation's proposals to modernize the program and shift to a universal benefit—that keeps more people out of poverty and provides workers an ownership option—would achieve long-run solvency, pave the way for Social Security's tax to decline nearly 20 percent, to 10.1 percent, and provide an extra $1,600 in take-home pay for the median household.[16] In addition to higher earnings and larger retirement incomes for everyone, lower-income workers would benefit the most as they would receive higher benefits, pay less in taxes, and gain the opportunity to build personal wealth.

Social Security is politically difficult to reform, but it is absolutely necessary to protect the most vulnerable Americans from the consequences of an unsustainable system. While there is no way to undo past excesses that have made Social Security seem like a more beneficial program than it is, Congress can refocus the program on its original purposes: providing financial security and protecting seniors from poverty. By reducing Social Security's drag on personal incomes and nest eggs, it is possible to make more people—and the entire economy—better off.

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Endnotes

1. The 34 percent payroll tax increase is in addition to SS-AST's permanent 12.4 percent tax increase on people who make over $400,000 a year.
2. Rachel Greszler, "Social Security Policy for the Next Administration and 117th Congress," Heritage Foundation *Backgrounder* No. 3559, November 19, 2020, https://www.heritage.org/sites/default/files/2020-11/BG3559.pdf.
3. Social Security Administration, *The 2022 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, 2022, https://www.ssa.gov/oact/TR/2022/index.html (accessed October 20, 2022).
4. Kevin D. Dayaratna, Rachel Greszler, and Patrick Tyrrell, "Is Social Security Worth Its Cost?" Heritage Foundation *Backgrounder* No. 3324, July 10, 2018, https://www.heritage.org/sites/default/files/2018-07/BG3324_0.pdf.
5. Half of Social Security's payroll tax is taken directly out of employees' paychecks and half is assessed on employers, who, in turn, reduce workers' wages by an amount roughly equal to the Social Security tax.
6. Social Security Administration, *The 2022 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*.
7. Real median household income was $70,784 in 2021. St. Louis Federal Reserve, "Real Median Household Income in the United States," Economic Data, updated September 13, 2022, https://fred.stlouisfed.org/series/MEHOINUSA672N (accessed October 18, 2022).
8. The average retired worker benefit was $1,674 per month in September 2022. Social Security Administration, Monthly Statistical Snapshot, September 2022, https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/ (accessed October 20, 2022).
9. Romina Boccia and Rachel Greszler, "Social Security Benefits and the Impact of the Chained CPI," Heritage Foundation *Backgrounder* No. 2799, May 21, 2013, http://thf_media.s3.amazonaws.com/2013/pdf/bg2799.pdf.
10. Social Security Administration, letter from the Chief Actuary to Representative Sam Johnson, Table A. "Estimates Long-Range OASDI Financial Effects of H.R. 6489, the 'Social Security Reform Act of 2016,' Introduced by Chairman Sam Johnson," December 8, 2016, https://www.ssa.gov/OACT/solvency/SJohnson_20161208.pdf (accessed April 15, 2019).
11. H.R. 860, "The Social Security 2100 Act," 116th Congress, introduced January 30, 2019, https://www.congress.gov/bill/116th-congress/house-bill/860 (accessed November 8, 2022).
12. Penn Wharton Budget Model, "The Social Security 2100 Act: Effects on Social Security Finances and the Economy," University of Pennsylvania, March 11, 2019, https://budgetmodel.wharton.upenn.edu/issues/2019/3/1/the-social-security-2100-act-effects-on-social-security-finances-and-the-economy (accessed November 1, 2022).
13. The Social Security Actuaries' score of SS-AST and The Heritage Foundation's score of the proposal were based on the Social Security Trustees' assumptions as reported in their 2021 annual trustees report, which estimated that Social Security's shortfalls equaled 3.54 percent of taxable payroll. The 2022 Trustees report estimated the program's shortfall at 3.42 percent of taxable payroll.
14. The Social Security Trustees project that Social Security's old-age trust fund will be insolvent in 2034, while the notional combined old-age and DI trust funds will be insolvent in 2035. Prior estimates cited in this *Issue Brief* refer to benefit cuts and tax increases necessary to prevent insolvency for the combined programs, which have an insolvency date of 2035. Analysis of SS-ACT focuses on the old-age program's insolvency because the two programs are legally separate and would require an act of Congress to combine them. Because the trustees currently project that the DI program is solvent for the next 75 years, the estimated tax increases can be applied exclusively to the old-age program.
15. Rachel Greszler and Drew Gonshorowski, "The Personal and Fiscal Impact of the Social Security 2100 Act," Heritage Foundation *Backgrounder* No. 3410, June 11, 2019, https://www.heritage.org/sites/default/files/2019-06/BG3410.pdf.
16. Rachel Greszler, "Social Security Policy for the Next Administration and 117th Congress," Heritage Foundation *Backgrounder* No. 3559, November 19, 2020, https://www.heritage.org/sites/default/files/2020-11/BG3559.pdf.