THE SOCIAL SECURITY TRUST FUNDS IN 2024 AND BEYOND

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

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C O N T E N T S

OPENING STATEMENTS

WITNESSES

MEMBER QUESTIONS FOR THE RECORD

PUBLIC SUBMISSIONS FOR THE RECORD

United States House Committee on
Ways & Means
CHAIRMAN JASON SMITH

FOR IMMEDIATE RELEASE
May 28, 2024
No. SS-08

CONTACT: 202-225-3625

Chairman Smith and Social Security Subcommittee Chairman Ferguson Announce Subcommittee Hearing on The Social Security Trust Funds in 2024 and Beyond

House Committee on Ways and Means Chairman Jason Smith (MO-08) and Social Security Subcommittee Chairman Drew Ferguson (GA-03) announced today that the Subcommittee on Social Security will hold a hearing to examine the current and projected financial status of the Social Security Trust Funds. The hearing will take place on **Tuesday, June 4, 2024, at 11:00 AM in 1100 Longworth House Office Building.**

Members of the public may view the hearing via live webcast available at https://waysandmeans.house.gov. The webcast will not be available until the hearing starts.

In view of the limited time available to hear the witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record can do so here: WMSubmission@mail.house.gov.

Please ATTACH your submission as a Microsoft Word document in compliance with the formatting requirements listed below, **by the close of business on Tuesday, June 18, 2024**. For questions, or if you encounter technical problems, please call (202) 225-3625.

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The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission but reserves the right to format it according to guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Please indicate the title of the hearing as the subject line in your submission. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

ACCOMMODATIONS:

The Committee seeks to make its facilities accessible to persons with disabilities. If you require accommodations, please call 202-225-3625 or request via email to WMSubmission@mail.house.gov in advance of the event (four business days' notice is requested). Questions regarding accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the Committee website at http://www.waysandmeans.house.gov/.

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THE SOCIAL SECURITY TRUST FUNDS IN 2024 AND BEYOND

TUESDAY, JUNE 4, 2024

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON SOCIAL SECURITY,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The subcommittee met, pursuant to call, at 11:19 a.m., in Room 1100, Longworth House Office Building, Hon. Drew Ferguson [chairman of the subcommittee] presiding.

Chairman FERGUSON. Good morning, everyone. We will call the subcommittee hearing to order.

I want to thank each of you for being here today. And I especially want to thank our witnesses for being here today. We look forward to hearing from you.

Last month, the Social Security Board of Trustees released its annual report on the fiscal status of Social Security programs, and it came as more unwelcome news for American seniors and workers. Like, last year, both the trustees and the Congressional Budget Office project Social Security's retirement and survivors' program will be unable to pay full benefits in less than a decade. What that means to the American people and those seniors that are near retirement or will be in retirement is that it could produce a benefit cut of somewhere between 21 and 25 percent. And the difference is that now it is a year later, and we are much closer to the insolvency.

As we will hear today, the longer the wait, the harder it is going to be to solve. It is clear that Social Security's cost growth is unsustainable. Program costs average 4.5 percent of GDP from 1994 to 2023, and are projected to grow rapidly to nearly six percent of GDP by 2034 as baby boomers continue to reach retirement age.

Simply put, more people are and will be collecting Social Security for longer periods of time. And we are looking at a situation where we have fewer workers. And this trend is projected to continue for decades.

To add insult to injury, President Biden's recent budget does nothing to address the pending exhaustion of the trust fund. And to make matters worse, the accumulative effect is that it actually hurts Social Security's funding stream by billions of dollars over the next decade. On top of that, the Social Security Administration has done everything it can to push out rules and other policy changes that will result in tens of billions of dollars of new and unpaid for program costs that will only accelerate the trust fund exhaustion.

Social Security is a vitally important part of every single American's life and retirement, so it is important that we don't downplay how bad the situation really is. To tell the American people that the most recent trustees report is good news because projections push back insolvency by a few months is misleading and simply misses the point. These programs are in dire trouble, and sugarcoating the problem instead of seeking bipartisan solutions only puts seniors and workers at greater risk.

The American people rightfully expect and deserve that we find a way to work together to save and strengthen this program. This starts here with an honest assessment of the program's finances and a sincere discussion of the size of the problem we need to solve. And I invite my colleagues here today to join in that discussion and have a very robust debate on what we need to do moving forward.

I would now like to yield to the ranking member, Mr. Larson, for his opening statement.

Mr. Larson, you are now recognized.

Mr. LARSON. Thank you, Mr. Chairman. And thank you for your remarks.

And I want to thank our panelists. It is not often that we get the Walter Cronkite of actuaries that is here. So, I am pleased that we are going to hear straightforward talk.

But let's cut to the chase. Congress has not done its job in over 50 years. We have not enhanced this program so that your constituents are better served. On average, every single one of our districts receives more than $200 million monthly to people that are on Social Security. It is arguably probably the best economic development plan that we have. And where do they spend that money? They spend it right back in the district.

I can't help but get upset when you think about the fact that 10,000 baby boomers a day become eligible for Social Security. And they look and say, well, what has happened? Why hasn't Congress acted?

We have a proposal that is out there. What Congress needs to do is something the public expects from us: vote. You got a plan. We have a plan. We are happy to put our plan up for a vote. What is yours? What we hear is $1.5 trillion in cuts to Social Security? That is your idea of saving Social Security? Raising the age of Social Security recipients. The American public knows for every year you raise the age, that is a 7 percent cut in benefits.

So, the opening remarks of the chairman is that we are in dire straits. We will see 20 percent-plus cuts by 2033 if Congress does nothing. So, your proposal is, well, let's do something. Let's make those cuts now by raising the age and cutting it 21 percent upfront.

It is long overdue to stop all of the dialogue and how about vote. How about put out your plan. Do what the people have asked us to do. Everybody agrees that there is a crisis, that there is a need here.

So, what did we get elected to do? I don't know how people go home and look themselves in the mirror and understand that there is 5 million of your fellow Americans that get below poverty level checks from Social Security. More than 70 million people—or close to 70 million people now who rely on Social Security, 40 percent of them, it is the only benefit they have. And you, Congress, with the responsibility of changing that, do nothing. You don't vote. That is what we need more than anything else.

Aside from laying out the numbers and getting the news, good and bad, then the question is, how do you solve the problem? Cutting Social Security doesn't solve the problem. It exacerbates it.

You mean to tell me that things haven't changed in 53 years? Not having a COLA that works. Having 5 million-plus people who have paid into a system get below poverty level checks. What do you have against giving 23 million Americans a tax cut? These are the hard workers. You guys are going to work overtime to make sure that millionaires and billionaires get their tax cut. But the average working person, 23 million Americans that will get a tax cut, if this Congress were to act, you don't care about.

So, whether it is a tax cut, whether it is getting benefits to the point where they are livable for people, and making sure that no one can retire into poverty, and repealing WEP and GPO and paying for it.

Thank God for President Biden saying, hey, let's pay for this. Let's have people who pay nothing or next to nothing, millionaires and billionaires, just pay their fair share of what the guy making 50 or 30,000 a year has to pay all year long. You know what that does? It both allows us to extend the benefits and also allows us to extend the solvency.

The choice is yours. If you got a better idea, put it out there. But it seems like the only idea is to cut Social Security by $1.5 trillion and to cut people's benefits by raising the age 21 percent across the board.

I yield back.

Chairman FERGUSON. Thank you.

I now have the pleasure of introducing our witnesses for the day. Stephen Goss is the chief actuary at the Social Security Administration. Dr. Phillip Swagel is the director of the Congressional Budget Office. And Barry Huston is an analyst of Social Security policy at the Congressional Research Service.

Thank you all, once again, for being here. I look forward to hearing your remarks. You will have 5 minutes to deliver the oral remarks.

Mr. Goss, you are now recognized.

STATEMENT OF STEPHEN GOSS, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION

Mr. GOSS. Thank you very much, Chairman Ferguson, Ranking Member Larson, members of the committee. Thank you for the opportunity to come and talk to you today about Social Security's program past, present, and future.

Social Security started paying monthly benefits, as you all well know, to qualifying retired workers and family members and survivors in 1940. Benefits to disabled workers and their families started in 1957. Over the 85 years through 2024, all scheduled benefits had been paid in full and on time. Social Security provides this fundamental insurance against loss of earned income due to old age, disability, and death, for nearly all current and past workers and their families.

Today, over 67 million people receive monthly benefits from the OASDI program, nearly 20 percent of the population, at a cost of 5.2 percent of GDP. By 2060, OASDI program cost is projected to rise to a stable, roughly, 6.1 percent of GDP, with over 23 percent of the population then expected to be receiving monthly benefits. But currently scheduled tax income remains at only 4.6 percent of GDP. So we have a shortfall to deal with. Over the 75 years as a whole, the unfunded obligation, the shortfall that we have over the period of the next 75 years, is 1.2 percent of GDP. We need to get these things back in balance.

At the start of 2024, reserves in the combined OASI and DI trust funds total $2.8 trillion, nearly double the amount of annual payments. So our contingency reserve fund is strong at the moment. However, revenues to the combined OASI and DI trust funds are projected to be less than program costs in 2024, as they have been since 2010, in future years under the intermediate projections to the 2024 Trustees Report. So combined OASI and DI reserves would become depleted in June of 2035. That is 13 months later than projected in the last year's report but is still on the horizon. At that time, 83 percent of the scheduled benefits would still be payable.

For the OASI Trust Fund alone, which is a separate legal entity, it is projected to become depleted in its reserves in November of 2033, 7 months later than last year's report. Again, an incremental change with 79 percent of scheduled benefits then payable from that fund alone. The DI Trust Fund is in good shape and not projecting to have issues under the current projections through 2100 and beyond.

Now, improvement in the 2024 Trustees Report is due to better than expected economic growth in 2023, a very good thing, and recognition of continued high-labor productivity and employment levels through 2023, and expected to go on for the future. In addition, lower disability incidents and prevalence rates have continued. We do have a rise in issues with the birth rate to be dealt with, obviously.

Our projected annual shortfall for income to cover program costs should come as no surprise. The trustees have projected combined OASDI Trust Fund reserve depletion will occur between 2033 and 2035 for the last 13 years' reports, and between 2029 and 2042 for the last 34 Trustees Reports.

The fundamental challenge of the changing age distribution at the adult population due to reduction in birth rates after 1965 was well known even in 1983, at the time of the last major amendments for this program. The 1983 amendments intended to accumulate substantial trust fund reserves, making full payment of scheduled benefits possible for decades to come. But these amendments were understood at that time not to be a permanent solution.

Prior to the 1983 amendments, income was expected to cover only 93 percent of program costs for the year 1983, declining to 78 percent of scheduled costs for 2025. After the enactment of the 1983 amendments, tax income was projected to exceed program costs through 2020, but to cover only 93 percent of scheduled benefits for 2025, a year yet to come, declining to 86.5 percent by 2035, with trust fund reserves becoming depleted not until 2063 under those projections.

However, annual tax income fell short of expectations after 1983, and fell below annual program costs, starting in 2010 for two big reasons that had not been anticipated back in 1983. First, the share of covered earnings subject to the payroll tax declined from 90 percent in 1983, which is expected to persist, to just 82.5 percent over the next 17 years by the year 2000. Because average earnings grew much, much greater by 62 percent more than inflation for the highest 6 percent of earners between 1983 and 2000, where the average wage grew by only 17 percent for the other 94 percent of workers across that period.

Second, the deep recession of 2007 to 2009, with only a very gradual 10-year recovery reduced employment earnings for a decade of costing us not to have the buildup of reserves that was expected. As a result, trust fund reserves did not accumulate to what was expected in 1983. And our scheduled cost at this point is projected to cover—our revenues to cover only about 86 percent of scheduled cost in 2025, declining to 84 percent by 2035.

The combined OASDI reserves are now projected to become depleted in 2035, almost 30 years earlier than 1983 for the two reasons already mentioned.

Chairman FERGUSON. Mr. Goss, we have allowed you a little latitude to go over by about a minute. And if we could, I am going to get you to yield, try to keep everybody on the 5-minute clock. And I am sure we can get into more of this really important information through member questions.

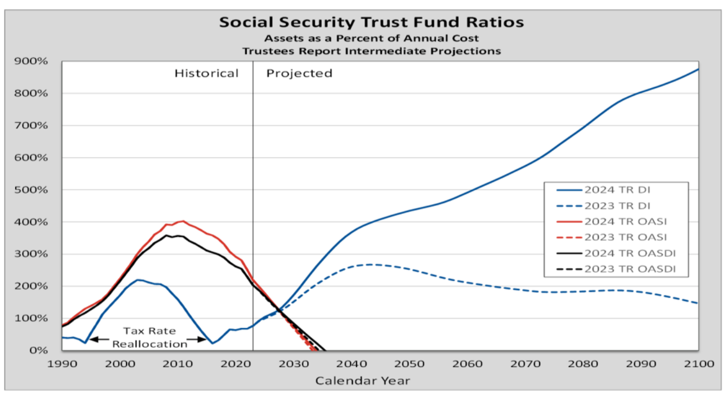
[The statement of Mr. Goss follows:]

Social Security Actuarial Status: The 2024 Trustees Report
Testimony by Stephen C. Goss, Chief Actuary, Social Security Administration
House Committee on Ways and Means, Subcommittee on Social Security
June 4, 2024

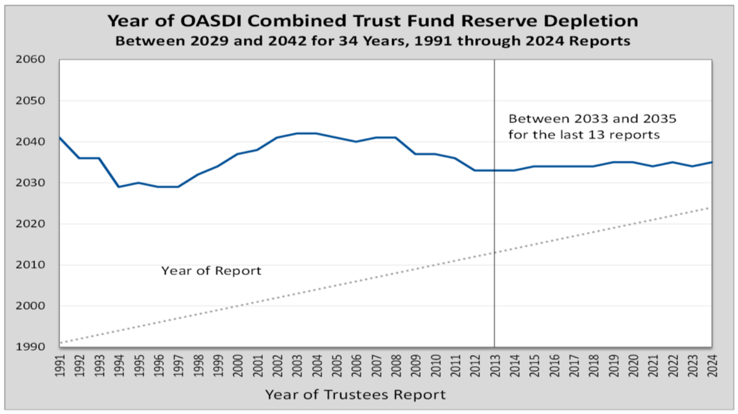
Chairman Ferguson, Ranking Member Larson, and members of the committee, thank you very much for the opportunity to speak to you today about the Social Security program, past, present, and future.

Social Security started paying monthly benefits to qualifying retired workers and their family members and survivors in 1940. Benefits for disabled workers and their families started in 1957. Over the 85 years through 2024, all scheduled benefits have been paid in full. In December 2023, nearly 67 million people received benefits from the OASDI program. Social Security provides this fundamental insurance against loss of earned income due to old-age, disability, and death for nearly all current and past workers and their families.

At the start of 2024, reserves in the combined OASI and DI Trust Funds total $2.8 trillion, nearly double the amount of annual benefit payments. However, under the intermediate assumptions of the 2024 Trustees Report, revenues to the combined OASI and DI Trust Funds are projected to be less than program cost in 2024 and in future years, so that combined OASI and DI reserves would become depleted in June 2035, 13 months later than in last year's report, at which time 83 percent of scheduled benefits would still be payable. The OASI Trust Fund alone is projected to deplete reserves in November 2033, 7 months later than in last year's report, with 79 percent of scheduled benefits then payable. The DI Trust Fund alone is projected to be fully financed and able to pay all scheduled benefits through 2100 and beyond.



The assessment of the actuarial status of the combined OASI and DI Trust Funds provided in the annual Trustees Reports since 1941 tells us by when, and to what degree, changes in scheduled revenue and/or scheduled benefits will be needed. The Trustees' assessment has been remarkably consistent and stable over past decades. The year of projected combined OASI and DI Trust Fund reserve depletion has been in the range of 2029 to 2042 in the last 34 annual reports, and in the range of 2033 to 2035 in the last 13 reports.



The fundamental nature of these trust funds is important. These funds are credited all income to the OASDI program on a daily basis and provide the sole source for paying benefits and administrative expenses. If at any point reserves were to become depleted with program cost still exceeding continuing income, then scheduled benefits would not be fully payable on time. The OASDI program and the Trust Funds do not have any authority to borrow from the General Fund of the Treasury or the public and never have.

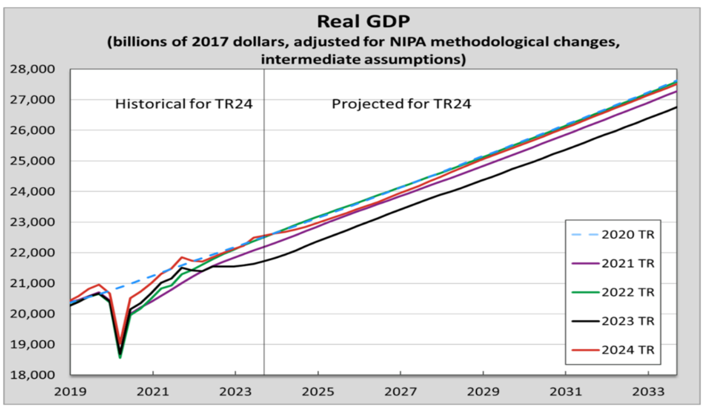
What Is New in the 2024 OASDI Trustees Report: Three Primary Changes

There are three primary changes in the 2024 Trustees Report that affect the actuarial status of the OASI and DI Trust Funds:

1. Economic: Given the unanticipated strength of the economy through 2023, the Trustees increased the level of labor productivity and the employment rate over the entire 75-year projection period. This offsets the 3-percent permanent drop in the level of labor productivity and GDP that was assumed in last year's report.
2. Disability: The assumed ultimate disabled worker incidence rate was lowered from 4.8 to 4.5 per thousand, as applications for and awards of disability benefits have continued at historically low levels.
3. Demographic: The assumed ultimate total fertility rate (TFR) was lowered from 2.0 children per woman reached in 2056 to 1.9 children per woman reached in 2040, given continued low level of the TFR in recent years.

The net effect of these changes is a reduction in the OASDI 75-year actuarial deficit from 3.61 percent of taxable payroll in last year's report to 3.50 percent in the 2024 report. In the absence of these changes and other updates, the actuarial deficit would have risen to 3.67 percent of taxable payroll just due to the change in the valuation period.

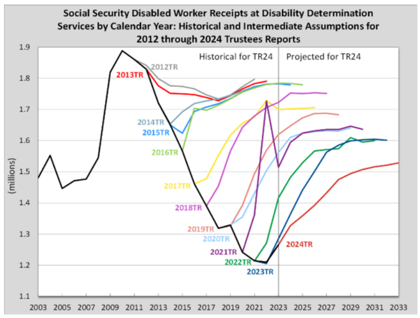
As shown in the figure below, the economic slowdown that was widely expected for 2023 in late 2022 did not materialize, and growth through 2023 was strong. In addition, the Bureau of Economic Analysis (BEA) in the Department of Commerce revised the level of real GDP upward for 2019 through 2022 based on the latest data. The intermediate assumptions for the 2024 report assume a period of slowed growth in 2025 with recovery back to a level 3 percent above that projected for last year's report by 2029, with the growth rate in GDP thereafter the same as assumed in last year's report. The further good news is that reported growth in GDP since the assumptions for the 2024 report were set in December 2023 has been stronger than expected for late 2023 and so far in 2024.

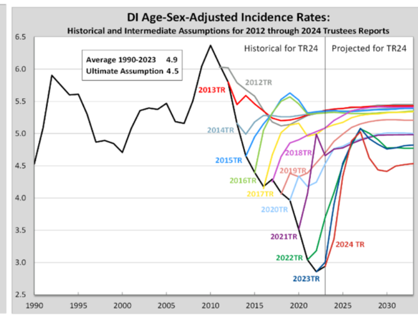


The change in the assumed levels of GDP, labor productivity, and employment explains why the projected OASI and OASDI combined Trust Fund reserve depletion years are now later than in last year's report. It also reduced the OASDI actuarial deficit by 0.13 percent of payroll.

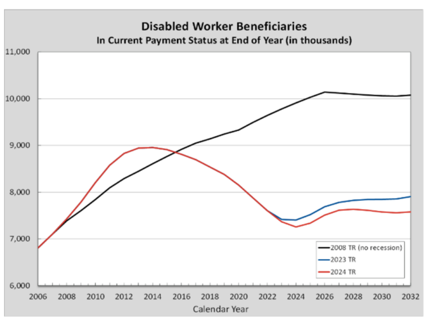
The second primary change for the 2024 report is a further incremental change in the ultimate disabled worker incidence rate from the level of 4.8 new awarded beneficiaries per thousand "exposed" workers (those who are insured and not receiving benefits) to a level of 4.5 per thousand for the 2024 report. This change is the most recent in a series of reductions over the last several years reflecting the continued decline in disability applications, awards, and beneficiaries since 2010. (See further explanation below.) This reduced level of disability has not only reduced program benefit cost, but it also contributes to higher employment rates, thus reducing the OASDI actuarial deficit by 0.12 percent of taxable payroll.

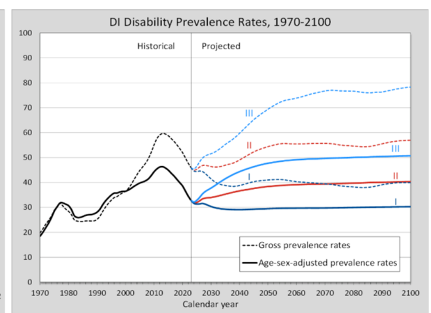
Applications for disability benefits and incidence rates have been declining steadily since 2010 and have continued to be below our prior projections. We and the Trustees continue to assess the reasons for these declines and the likelihood that rates will rise to levels not seen since the period immediately after the 2007-09 recession.





The total number of beneficiaries paid from the DI Trust Fund has now been falling since 2013. As a result, the disability prevalence rate (recipients in current payment status as a percent of the insured population) has also dropped to levels not seen for 20 years. Only with the assumed return of disability incidence rates back to much higher levels will the prevalence rate rise to the level seen before the 2007-09 recession.





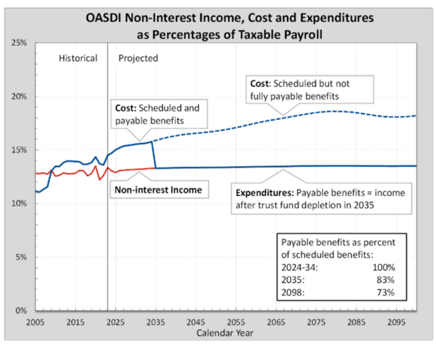
Many factors have played a role in the lower disability incidence rates and prevalence rates. Among these are the changing nature of work and the increasing accommodation of workers with some limitations, given the changing age distribution of the adult population.

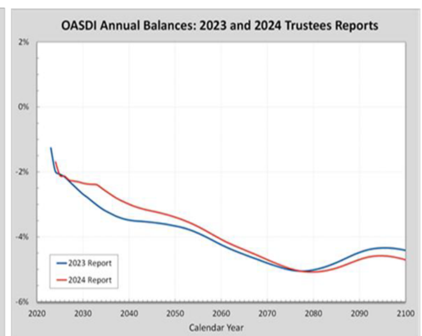
The combination of the positive economic and disability experience and change in assumptions is largely responsible for the extended reserve depletion dates—the dates through which the OASI Trust Fund and the combined OASDI Trust Fund are projected to be able to provide full payment of scheduled benefits on a timely basis.

The third primary change the 2024 report is a reduction in the ultimate total fertility rate (TFR) from 2.0 children per woman over her lifetime reached in 2056 in the 2023 report to an ultimate level of 1.9 children per woman reached in 2040 for the 2024 report. The history of the TFR shows a level averaging more than 2.5 births through 1965. For the period 1966 through 2008, the TFR was at an average level of 2.0. Since 2008, however, the TFR has declined below 2.0, as it did between 1975 and 1990. The most recent birth expectations survey from CDC indicates that women still expect to average 2 children over their lifetime. But due to the persistence of the historically low level since 2008, the Trustees have assumed an incremental reduction in ultimate TFR for the 2024 report increases the OASDI actuarial deficit by 0.13 percent of taxable payroll.

Actuarial Status in the 2024 OASDI Trustees Report

The cost of providing scheduled benefits under current law has been rising as a percent of taxable payroll (all covered earnings below the annual taxable maximum amount) since 2008, and it will continue to rise through 2030 with a slower rise thereafter through about 2080.

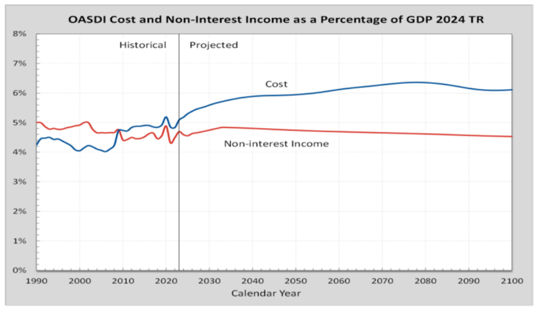




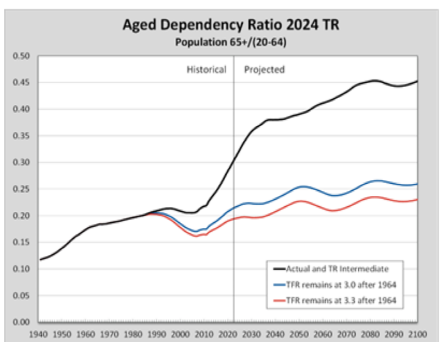
The projected OASDI annual balance (the difference between the income rate and the cost rate) has been improved significantly through 2045, due to the changes in the economic outlook and disability assumptions for the 2024 report. However, by 2077, this positive effect is offset and then reversed due to the lower assumed TFR for the 2024 report. The net effect is a more gradual increase in the OASDI cost rate in the 2024 report.

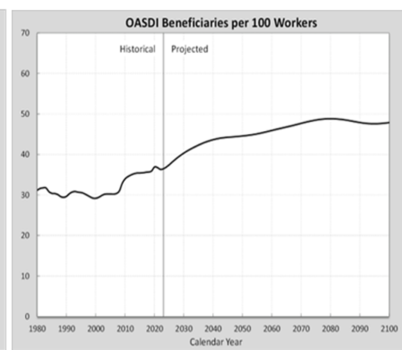
The financial shortfall over the next 75 years as a whole for the OASDI program, or unfunded obligation, amounts to $22.6 trillion in present value. However, this shortfall must be met with changes over this period of 75 years as a whole, and thus represents 3.32 percent of taxable payroll and 1.2 percent of GDP over the entire period.

Similar to the trend in the OASDI program cost as percent of taxable payroll is the trend in cost as a percent of GDP. Cost rises to a relatively stable level of GDP due to the changing age distribution of the population.

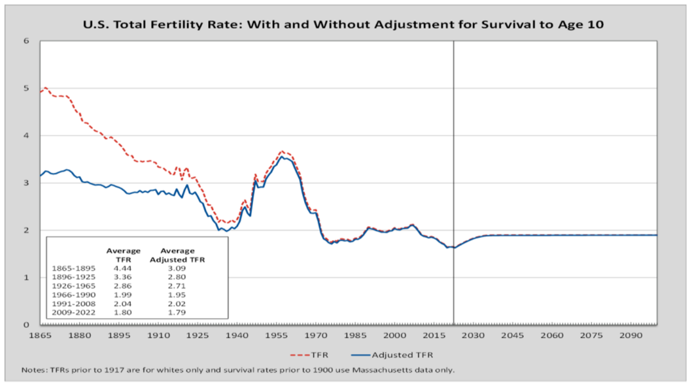


There are two primary reasons for this fundamental rise in cost as a percent of payroll and GDP. First, the age distribution of the adult population has been changing substantially due largely to reduced birth rates that were well-recognized in 1983. This change in age distribution is also increasing the ratio of OASDI beneficiaries to workers. Had birth rates remained at levels seen before 1965, the increases in cost relative to payroll and GDP would have been much less.

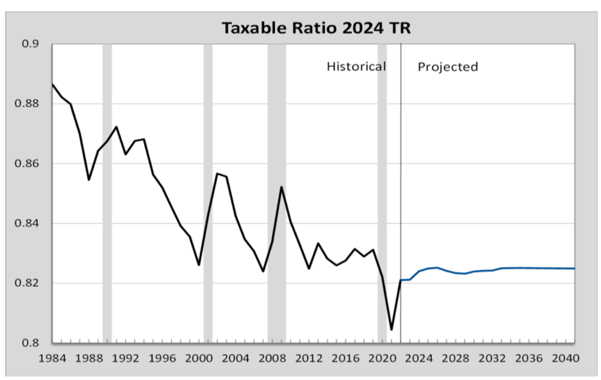




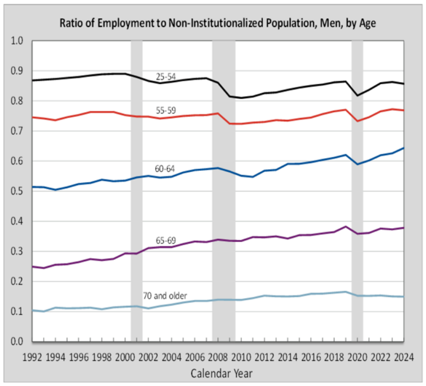
Social Security is financed primarily from payroll taxes paid by current workers, which pay benefits for current beneficiaries. Because of the drop in birth rates from 3.3 children per woman in the baby boom period (1946 through 1965) to about to 2 children per woman for 1966 through 2008, the ratio of adults over age 65 to those at "working ages" (between 20 and 64) will rise through about 2040, increasing OASDI cost as a percent of both taxable payroll and as a percent of GDP. Further reduction to just 1.8 children per woman for 2009 through 2022 would make the effects of the changing age distribution even more challenging if such low birth rates persist. While the most recent surveys of birth expectations still suggest a level closer to 2.0 is plausible for the future, the Trustees have made an incremental change in the ultimate assumed total fertility rate to 1.9 this year, as was assumed prior to the rise back to 2.0 in 1990. The question we now face is whether recent very low birth rates are due to delay in births to higher ages as in the 1980's, temporary concerns that have reduced marriages and births, or a more fundamental and permanent reduction in births.

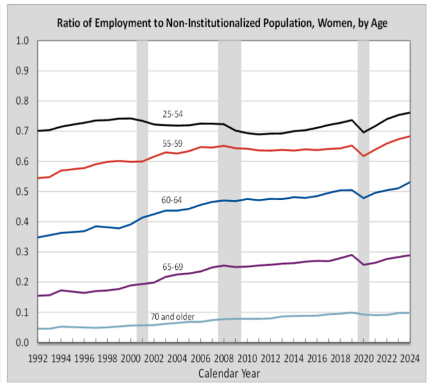


The other reason for increase in cost as percent of taxable payroll since 1983 is that the percent of total covered earnings that is below the taxable maximum amount declined from about 90 percent in 1983 to about 82.5 percent in 2000. This change was not anticipated in 1983. In 1983, the taxable maximum was scheduled to rise in the future with the average wage, with this indexing expected to maintain the taxable ratio at 90 percent. However, wage levels rose much faster than average for high earners. Between 1983 and 2000, average earnings for the top 6 percent of earners rose 62 percent more than price inflation, while average earnings for the other 94 percent of earners rose only 17 percent more than price inflation. Since 2000, the ratio has stayed at about 82.5 percent, except for temporary spikes during economic recessions. As a result of this increased dispersion in wage levels, Social Security payroll tax income is about 8 percent less than it would have been if the taxable ratio had remained at 90 percent. This change, along with the effects of the deep recession of 2007-2009 and slow recovery, are primarily responsible for moving the expected year of OASDI Trust Fund reserve depletion from 2063 in the 1983 Trustees Report to 2035 currently.

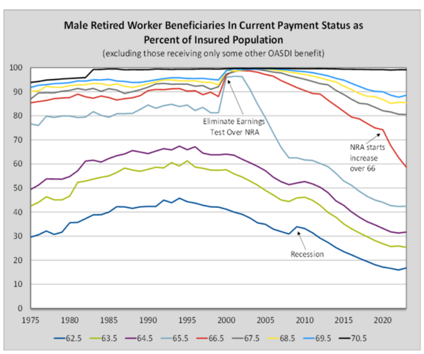


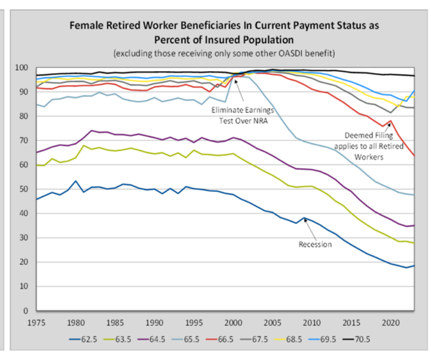
Additional evidence of the effect of the changing age distribution is the increased employment of those over age 60 since 1990.



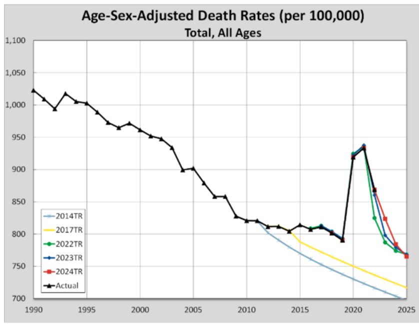


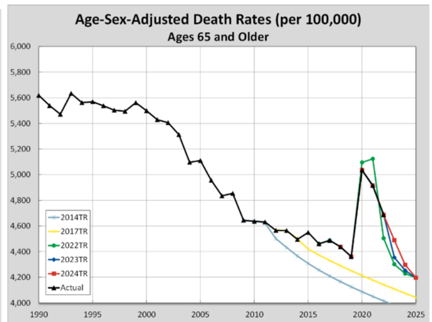
With the changing age distribution and demand for workers, age at retirement continues to rise, with a declining share of insured workers starting retirement benefits early.



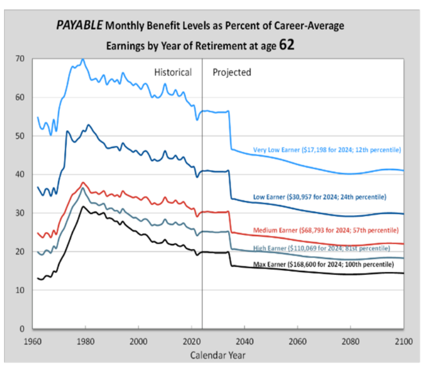


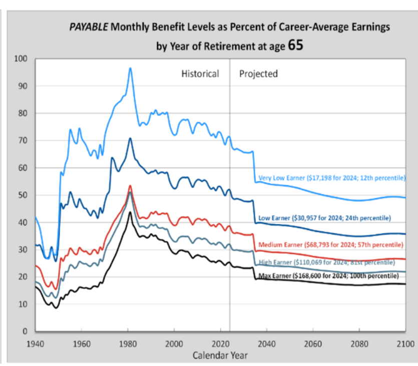
Mortality is also an important factor in the cost of the Social Security program. Declines in death rates slowed considerably after 2009, and as a result, life expectancy at age 65 reached the level projected in the 1983 Trustees Report for 2015, and not the higher level expected more recently.





Benefit levels scheduled in current law vary by workers' career average earnings levels. Monthly benefits are designed to replace a larger percentage of career average earnings for lower earners. The "replacement rates" shown below for benefits as a percent of career average earnings at selected levels indicate the impact that trust fund reserve depletion could have in the absence of a future change in law, assuming that benefits would be reduced for all by the same percent if reserves were allowed to become depleted. Benefit levels are shown for retirees at the earliest eligibility age (62) and the average age of starting retired worker benefits (65). Benefits in 2035 would be reduced by 17 percent overall if there is no change in law, even if the allocation of payroll tax rates between OASI and DI were adjusted as was done to maintain DI benefits in 1995 and 2015.





The importance of the retirement income provided by Social Security is as important as ever, with the percent of private-sector workers participating in an employer-based retirement plan still at only one-half, with defined benefit plans that provide annuities becoming increasingly rare.

Conclusion

Based on the experience of the past year and the intermediate assumptions of the 2024 Trustees Report, there are three main points I would like to make.

- First, the reserve depletion date for OASI Trust Fund is projected for November 2033, 7 months later than in last year's report, due largely to the Trustees' reassessment of the future level of GDP, labor productivity, and employment. The reserve depletion date for the combined OASI and DI Trust Funds is projected for June 2035, 13 months later than projected in last year's report, for the same reason. These are positive, but incremental, improvements.
- Second, the long-known and understood shift in the age distribution of the United States population will continue to increase the ratio of beneficiaries to workers, and in turn increase the cost of the OASDI program as a percentage of taxable payroll and GDP. With this shift, which reflects the drop in the birth rate after 1965, the cost of the program will rise from just over 4 percent of GDP seen prior to 2008 to a relatively stable level around 6 percent of GDP.
- Third, the actuarial status of the combined OASI and DI Trust Funds is similar to the assessment of reports over the last 34 years, and even more consistent with the assessment of the last 13 reports. As the Trustees have indicated consistently, legislative change will be needed prior to reserve depletion, requiring about a one-third increase in scheduled revenue, a one-fourth reduction in scheduled benefits, or a combination the two over the balance of the 75-year projection period.

We look forward to working with this Committee and others in developing the adjustments to the law that will be needed to keep the Social Security program in good financial order, providing retirement, disability, and survivor benefits for future generations.

Again, thank you for the opportunity to talk about the fundamental aspects of the Social Security program. I will be happy to answer any questions you may have.

Chairman FERGUSON. With that, Dr. Swagel, I am going to call on you for your 5 minutes.

STATEMENT OF DR. PHILLIP SWAGEL, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. SWAGEL. Very good. Thank you.

Chairman Ferguson, Ranking Member Larson, and members of the subcommittee, thank you for inviting me to testify about Social Security.

Social Security faces a significant financial challenge. Under current law, in our projections, the Old Age and Survivors Insurance Trust Fund is exhausted in fiscal year 2033, and the Disability Insurance Trust Fund is exhausted in 2061. If the two trust funds were combined, they would be exhausted in fiscal year 2034.

After the trust funds are exhausted, we project that the resources to pay benefits in 2035 would be 21 percent less than the amount of scheduled benefits. And that shortfall would increase over time.

In CBO's projections, about 82 million people, that is roughly one-fifth of the U.S. population, receive Social Security benefits in 2035. That is a projection. If all Social Security benefits were reduced by the same percentage in that year, lower income households would reduce their spending by more and increase the amount they work by more in percentage terms than households with higher lifetime incomes. Legislative action would be needed to avoid this scenario.

The imbalance between the systems' revenues and scheduled benefit payments extends beyond 2034, and that imbalance grows over time. We project that the actuarial deficit over the next 75 years equals 1.5 percent of GDP or 4.4 percent of taxable payroll. So, that is, scheduled benefits could be paid over 75 years through 2098, if payroll tax rates were increased by 4.4 percentage points right away, from 12.4 percent to 16.8 percent, and that is an increase of 35 percent. That is a 35 percent tax hike.

Alternatively, a reduction in scheduled benefits of 24 percent would permit full payment of those smaller benefits through 2098. And, of course, a combination of changes to taxes and benefits or relying on resources from the Treasury's general fund could also suffice. And policymakers, you and your colleagues, can have different changes apply to people of different incomes and people of different ages. Additional changes would be needed to ensure solvency beyond 2098.

The aging of the population is a key factor affecting the finances of Social Security. The number of people age 65 or older who are less likely to work and pay payroll taxes and are generally eligible for Social Security benefits is projected to grow faster than the number of people age 25 to 54 who are more likely to work and to pay payroll taxes.

Population growth is determined by births, deaths, and net immigration. Fertility in our projection remains lower than replacement. We project life expectancy will continue to increase. And immigration is now an increasingly important part of the growth of the U.S. population and the U.S. labor force. And all of these demographic changes affect the financial status of Social Security.

A feature of CBO's work is that the demographic and economic projections used in our Social Security analysis are consistent with those used in CBO's baseline projections and for other purposes.

In closing, let me note that any projection over a horizon of seven decades is inherently uncertain, but it is clear that action is needed to make Social Security financially sustainable.

Thank you very much. I am happy to answer questions.

[The statement of Mr. Swagel follows:]

Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

TESTIMONY

Social Security's Finances

Phillip L. Swagel
Director

Before the Subcommittee on Social Security
Committee on Ways and Means
U.S. House of Representatives

JUNE 4 | 2024

Chairman Ferguson, Ranking Member Larson, and Members of the Subcommittee, thank you for inviting me to testify about the Social Security program.

Social Security faces a significant financial challenge in the coming decade. Its two components, Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI), are financed by revenues from payroll taxes and from income taxes on Social Security benefits. But those revenues, which are credited to the components' separate trust funds, are not sufficient to cover the benefits that are due under the program.

- In the Congressional Budget Office's projections, the balance of the OASI trust fund reaches zero in fiscal year 2033, and the DI trust fund is exhausted in 2061. If the two trust funds were combined, they would be exhausted in fiscal year 2034.
- The trust fund balances would be sufficient to pay benefits as scheduled under current law through 2098 if payroll tax rates were increased immediately and permanently by about 4.4 percentage points or benefits were reduced by an amount equivalent to that change. A combination of changes to taxes and benefits or a transfer from the Treasury's general fund could also be sufficient.
- Such long-term projections are uncertain. Demographic and economic factors are key sources of that uncertainty. For instance, if the economy grew more quickly than projected, the trust funds' annual revenues would be greater, and the changes to taxes or spending that would be necessary to pay benefits as scheduled under current law through 2098 would be smaller. If, instead, the economy grew more slowly than projected, revenues would be smaller, and the necessary changes would be larger.

CBO's long-term projections for Social Security, which provide estimates of the trust funds' balances and of other aspects of the program over the next 75 years, are based on a detailed microsimulation model that starts with data about individuals from a representative sample of the population and simulates demographic and economic outcomes for that sample over time.[1] CBO produces long-term projections of Social Security's finances under two scenarios that are based on different assumptions about the amounts of benefits that would be paid after the trust funds were exhausted:

- A **scheduled-benefits scenario**, in which people's benefits are paid as scheduled under current law, regardless of whether balances in the program's trust funds are sufficient to cover those payments; and
- A **payable-benefits scenario**, in which total benefit amounts are limited to annual revenues from payroll taxes and income taxes on benefits after the combined trust funds are exhausted.

In this testimony, I will discuss CBO's two sets of projections of Social Security's finances, differences in initial benefits received (by beneficiaries' birth cohort and lifetime earnings), and key sources of uncertainty in the agency's projections for the program.

Scheduled-Benefits Scenario

CBO's baseline budget projections for Social Security are required by statute to reflect scheduled benefits.[2] The agency projects that if Social Security benefits were paid as scheduled, the program's actuarial deficit over the next 75 years would equal 1.5 percent of gross domestic product (GDP), or 4.4 percent of taxable payroll.[3] In other words, CBO estimates that trust fund balances would be sufficient to pay scheduled benefits through 2098 if payroll tax rates were increased immediately and permanently by about 4.4 percentage points (before the effects of such changes on the economy are accounted for). Such an increase would boost payroll taxes paid by workers and employers from 12.4 percent to 16.8 percent—a 35 percent rise. Alternatively, if scheduled benefits were reduced by an amount equivalent to 4.4 percent of taxable payroll (a 24 percent reduction in benefits), those smaller benefits could be paid through 2098. A combination of changes to taxes and benefits or a transfer from

1. Congressional Budget Office, *An Overview of CBOLT: The Congressional Budget Office Long-Term Model* (April 2018), www.cbo.gov/publication/53667.

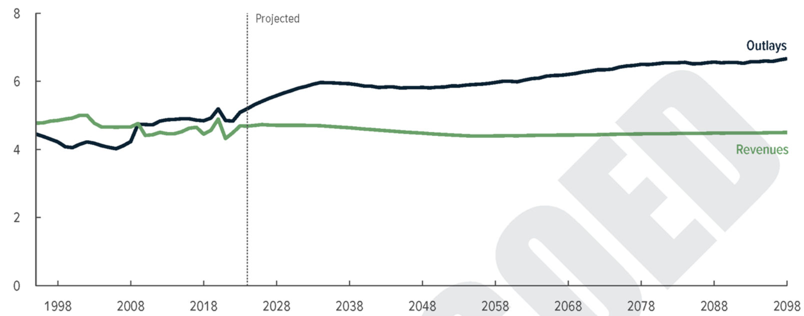
2. Congressional Budget Office, *CBO Explains the Statutory Foundations of Its Budget Baseline* (May 2023), www.cbo.gov/publication/58955.

3. An actuarial deficit is a negative actuarial balance. The actuarial balance is the sum of the present value of projected income and the current trust fund balance minus the sum of the present value of projected outlays and a year's worth of benefits at the end of the period. (A present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid today. Such a value depends on the rate of interest, or discount rate, used to translate a cash flow in a future year into current dollars.)

Figure 1.

Social Security Outlays and Revenues Under the Scheduled-Benefits Scenario

Percentage of gross domestic product



Data source: Congressional Budget Office. See www.cbo.gov/publication/60281#data.

the Treasury's general fund to the Social Security trust funds could also suffice.[4]

Such policies would not, however, ensure Social Security's solvency after 2098. Policies that increased taxes or reduced benefits by a constant percentage equivalent to those specified here would create annual surpluses over the next three decades, but thereafter, annual deficits would still occur.

CBO projects that if Social Security paid benefits as scheduled, outlays for the program would equal 5.2 percent of GDP in 2024 and 6.7 percent in 2098. In the agency's projections, most of that increase occurs over the next decade as members of the large baby boom generation retire (see Figure 1).

From 2024 to 2034, the number of Social Security beneficiaries increases by about 12 million, from 68 million (or 20 percent of the population) to 80 million (or 22 percent of the population). Over the next 64 years, the number of beneficiaries continues to rise, though more slowly; it increases by 38 million over that period, reaching 118 million (or 29 percent of the population) in 2098. The rise in the number of beneficiaries slows after 2034, when the youngest members of the baby boom generation turn 70—the age by which nearly everyone claims Social Security benefits. The growth in Social Security outlays slows thereafter, though it continues to rise throughout the 75-year projection period as life expectancy increases.[5]

Unlike outlays, revenues for Social Security are projected to change little in relation to GDP over the 75-year period. They average 4.5 percent of GDP from 2024 to 2098 in CBO's projections. Measured as a percentage of GDP, payroll tax revenues decrease, and receipts from income taxes on Social Security benefits increase over that period.

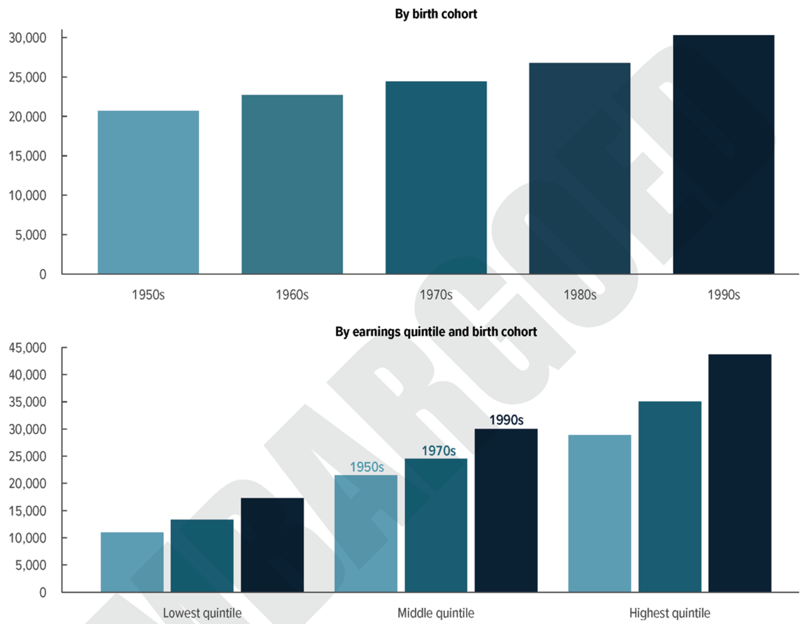
4. For a discussion of policy options that address the Social Security program's finances, see Congressional Budget Office, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions* (December 2022), www.cbo.gov/publication/58164, *Options for Reducing the Deficit, 2023 to 2032—Volume II: Smaller Reductions* (December 2022), www.cbo.gov/publication/58163, "How Changing Social Security Could Affect Beneficiaries and the System's Finances" (interactive tool, April 2019), www.cbo.gov/publication/54868, and *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011.

5. The long-term projections in this testimony are consistent with the extended baseline projections that CBO published in March 2024. See Congressional Budget Office, *The Long-Term Budget Outlook: 2024 to 2054* (March 2024), www.cbo.gov/publication/59711.

Figure 2.

Average Initial Annual Social Security Benefits for Retired Workers Under the Scheduled-Benefits Scenario

2024 dollars



Data source: Congressional Budget Office. See www.cbo.gov/publication/60281#data.

A quintile is one-fifth of the distribution.

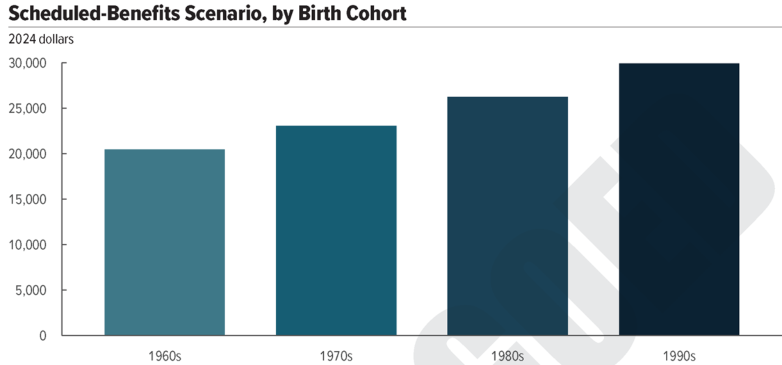
The Distribution of Scheduled Benefits

In CBO's projections, initial annual Social Security benefits—that is, the real (inflation-adjusted) benefits that people receive in the first full year that they claim them—grow over time in a scheduled-benefits scenario because real earnings are expected to continue to rise (see Figure 2). That growth in initial benefits for retired workers is partly offset for some birth cohorts because the increase in the full retirement age from 66 (for people born from 1943 to 1954) to 67 (for people born after 1959) reduces their initial benefits. (The analysis of initial benefits reflects the assumption that all eligible beneficiaries would claim benefits at age 65.) In addition, initial Social Security benefits are larger, on average, for retired workers with higher lifetime household earnings because people's Social Security benefits are based on their earnings history.

If paid as scheduled, initial benefits for disabled workers would also be larger in the future than they are today, CBO projects, because real earnings are expected to continue to rise (see Figure 3).

Figure 3.

Average Initial Annual Social Security Benefits for Disabled Workers Under the Scheduled-Benefits Scenario, by Birth Cohort



Data source: Congressional Budget Office. See www.cbo.gov/publication/60281#data.

Payable-Benefits Scenario

Under current law, after one of the program's trust funds is exhausted, Social Security outlays for that part of the program are limited to amounts payable from annual revenues. For this analysis, CBO considered the two separate trust funds combined as the Old-Age, Survivors, and Disability Insurance (OASDI) trust funds. The agency projects that the combined trust funds would be exhausted in fiscal year 2034; at that point the Social Security Administration would no longer be able to pay full benefits. It is unclear how payments to specific beneficiaries would be reduced if total benefits were limited to the amounts payable from dedicated funding.[6]

CBO estimated the amount of the annual reduction in total benefits that would be necessary for the program's outlays to match its revenues after the combined funds were exhausted. In 2035, Social Security revenues are projected to equal 79 percent of the program's scheduled outlays, resulting in a 21 percent shortfall. Thus, CBO estimates that Social Security benefits would be reduced by 21 percent in 2035 under the payable-benefits scenario.[7] For this analysis, CBO assumed that benefits paid to all existing and new beneficiaries would be reduced by the same percentage.[8] In CBO's projections, about 82 million people (roughly one-fifth of the population) receive OASDI benefits in 2035.

In CBO's assessment, the reductions in benefit amounts under the payable-benefits scenario would have four important effects on the nation's economic output—one that would decrease it in the short term and three that would increase it in the long term:

6. Barry F. Huston, *Social Security: What Would Happen If the Trust Funds Ran Out?* Report RL33514, version 34 (Congressional Research Service, September 28, 2022), https://tinyurl.com/3v5t6a28.

7. The annual shortfall—and thus the amount by which Social Security benefits would need to be reduced for the program's outlays to match its revenues—generally rises slightly over time. In 2054, for instance, a 25 percent reduction would be required under the payable-benefits scenario.

8. If a trust fund was depleted and its expenditures continued to exceed its receipts, two federal laws would come into conflict. Under the Social Security Act, beneficiaries would remain legally entitled to full benefits. However, under the terms of the Antideficiency Act (which prohibits agencies from spending more than the amounts available in an appropriation or fund), the Social Security Administration would not have legal authority to pay those benefits on time. It is unclear what specific actions the Social Security Administration would take if a trust fund was insolvent. See Barry F. Huston, *Social Security: What Would Happen If the Trust Funds Ran Out?* Report RL33514, version 34 (Congressional Research Service, September 28, 2022), https://tinyurl.com/3v5t6a28.

- Retirees would have less income and would be able to consume less, dampening the overall demand for goods and services and causing output in the years immediately after the trust funds' exhaustion to be lower than CBO currently projects.[9] If benefits were reduced equally for all Social Security beneficiaries after the trust funds were exhausted, the number of beneficiaries in poverty would increase.[10]
- Some people would find it necessary to work more or to remain in the labor force longer than they would have otherwise, which would expand the supply of labor and thus the economy's output in the long term.
- Some workers who have not yet retired would respond to the prospect of smaller benefit payments by boosting their saving and reducing their spending. Those changes would lessen the effect that smaller future benefit payments would have on households' future income and spending. The resulting increases in saving would boost the stock of private capital and output in the long term.
- Federal debt would be less than it is in CBO's extended baseline projections. That smaller debt would increase the amount of money available for private investment in capital goods and services, boost the stock of private capital, and increase output in the long term.

CBO estimates that lifetime spending would decrease by a larger percentage, and lifetime hours of work would increase more, on average, for households with less lifetime income than for those with more lifetime income.

Key Sources of Uncertainty

Long-term projections, including CBO's long-term projections of Social Security's finances, are inherently uncertain. If demographic trends or economic conditions differ from those in the agency's projections, then actual spending and revenues for Social Security will also differ from the projected amounts. Such discrepancies could be especially large in the later years of the projection period because differences in the underlying projections would compound over time.

Projections of demographic factors—including fertility, mortality, and net immigration—are highly uncertain.[11] If changes in fertility diverged from those in CBO's projections (which reflect an anticipated delay in childbearing), overall fertility rates would also differ from the projected rates. In addition, mortality rates in the long term are uncertain because factors such as environmental conditions and the evolution of medical technology may have different effects in the future than they have had in the past. How long the recent slowdown in the decline of the mortality rate will continue is also unknown.

In addition, CBO's projections of net immigration, particularly for people in the other-foreign-national category, are uncertain because information about that group is hard to obtain.[12] Moreover, changing conditions in other countries or changes in federal immigration policy, even without changes in law, could significantly alter the number of people who choose to immigrate to the United States.

If the number of working-age people was greater than CBO projects, the amount of revenues paid into the OASDI trust funds would exceed the agency's projections. And if demographic changes resulted in more Social Security beneficiaries than projected, Social Security outlays would be greater than projected.

CBO's projections of Social Security's finances are based in part on the agency's projections of economic factors, which are also uncertain, especially over a long projection period. For example, GDP growth, which is affected by changes in demographics and other factors, is one key driver of the Social Security system's finances. When economic growth is strong, earnings growth is also strong, resulting in more revenues paid into the trust funds and more outlays for Social Security benefits. Inflation, which affects annual increases in benefit amounts, is another source of uncertainty, as are interest rates.

9. Congressional Budget Office, *The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget* (July 2023), www.cbo.gov/publication/59233.

10. Kathleen Romig, *Social Security Lifts More People Above the Poverty Line Than Any Other Program* (Center on Budget and Policy Priorities, January 2024), https://tinyurl.com/2rpvpfxd.

11. Congressional Budget Office, *The Demographic Outlook: 2024 to 2054* (January 2024), www.cbo.gov/publication/59697.

12. The other-foreign-national category includes people in the following groups who have not become U.S. citizens or received legal permanent resident, asylee, or nonimmigrant status: people who entered the United States illegally, people who entered legally in a temporary status and then remained after that legal status expired, and people who were permitted to enter (typically through the use of parole authority) despite not being admissible as a legal permanent resident, asylee, refugee, or nonimmigrant—including people who may be awaiting proceedings in immigration court. See Congressional Budget Office, *The Demographic Outlook: 2024 to 2054* (January 2024), www.cbo.gov/publication/59697.

Moreover, differences from the economic projections underlying CBO's long-term Social Security projections could have significant implications for other parts of the federal budget—because those economic projections are consistent with the ones that the agency uses to prepare its baseline budget projections and for other purposes. For example, the projections of interest rates that underlie the agency's Social Security projections are consistent with those used to project federal debt. Higher projected interest rates would result in a smaller actuarial deficit for the Social Security program.[13] But when the federal budget is considered in its entirety, those higher interest rates would result in larger net outlays for interest, larger budget deficits, and more debt.

13. Higher interest rates result in a smaller actuarial deficit for the Social Security program because the years with larger shortfalls—those relatively far into the future—have a smaller effect on the actuarial deficit than they would have if discount rates were lower.

Xinzhe Cheng, Noah Meyerson, and Delaney Smith conducted the analysis for this testimony with guidance from Molly Dahl, Elizabeth Cove Delisle, Sam Papenfuss, and Julie Topoleski. Alia Abdelkader, Daniel Crown, Madeleine Fischer, and Charles Pineles-Mark also contributed to the analysis. Madeleine Fischer fact-checked the testimony. In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, the testimony makes no recommendations.

Mark Doms, Jeffrey Kling, and Robert Sunshine reviewed the testimony. Bo Peery edited it, and Jorge Salazar created the figures and prepared the text for publication. The testimony is available at www.cbo.gov/publication/60281.

Phillip L. Swagel
Director

Chairman FERGUSON. Thank you, Dr. Swagel.

Mr. Huston, it is now time for your 5 minutes.

STATEMENT OF BARRY HUSTON, ANALYST OF SOCIAL POLICY, CONGRESSIONAL RESEARCH SERVICE

Mr. HUSTON. Chairman Ferguson, Ranking Member Larson, and members of the subcommittee, thank you for inviting me to testify. My name is Barry Huston, and I am an analyst with the Congressional Research Service.

Today's Social Security is different from the one that was enacted in 1935. The program matured from one that covered about half of workers and paid benefits only to retired workers, to one that covers almost all workers and pays benefits to retired and disabled workers and their eligible family members.

This year, Social Security will pay benefits to over 67 million beneficiaries, and about 182 million workers will work in covered employment. Most of these workers will become future beneficiaries.

The program's ability to pay benefits to current and future beneficiaries is determined by its revenues, costs, and its trust funds. Current and projected imbalances between these elements indicate the program will not be able to pay the full amounts of scheduled benefits in about 11 years.

The largest source of revenue is payroll taxes, about 91 percent of revenues in 2023. The tax, evenly split between employees and employers, is levied on covered earnings up to an annual limit. This annual limit generally rises with wage growth in the economy. As average wages are projected to increase along with the number of covered workers, so too are projected revenues from payroll taxes.

The second source of revenue is income from the taxation of Social Security benefits, about 4 percent of revenues in 2023. About half of beneficiaries pay Federal income tax on a portion of their benefits. The thresholds used to determine tax liability are fixed in law and not indexed. For this reason, among others, projected revenue from the taxation of benefits is expected to increase.

In previous years, tax revenues exceeded the amounts needed to pay benefits. Under law, the trust funds hold excess revenues in interest-bearing government securities. And in 2023, interest income on these asset reserves accounted for about 5 percent of revenues. However, with costs now exceeding revenues and increasing amounts of asset reserves projected to be redeemed to help pay benefits, this revenue source is projected to decrease and will approach zero as the asset reserves are depleted.

In 2023, monthly benefits accounted for 99 percent of costs. Costs are expected to increase for several reasons, such as increasing average initial benefits and increasing number of beneficiaries and increasing beneficiary longevity.

Although the benefit computation process is the same for all workers, average initial benefits generally increase for successive birth cohorts since the process index is for wage growth, which is typically positive. The process results in stable replacement rates across birth cohorts; that is, initial benefit levels as a percentage of career preretirement earnings are consistent across cohorts. It also results in progressivity. Workers with relatively lower career average earnings experience a relatively higher replacement rate.

In the years to come, an increasing number of covered workers will become beneficiaries. As we are meeting life expectancy, as older ages continues to increase, they are expected to remain in current payment status for longer periods of time, on average. For these reasons, in addition to other factors, such as cost of living adjustments, costs are projected to increase.

The program's revenue and costs are expected to increase in aggregate nominal dollars. Comparing the projected income and cost rates reveal that, for several decades, costs are projected to increase relative to revenues. This imbalance impacts the program's ability to pay full scheduled benefits.

Since 2021, the program has relied on asset reserves to help pay scheduled benefits, and can continue to do so for about 11 more years. Once asset reserves are depleted, continuing revenues are projected to cover about three-fourths of scheduled benefits.

Lawmakers may choose from a wide range of revenue increasing or cost-reducing provisions to help eliminate this imbalance. The Social Security amendments of 1983, generally considered the program's last major reform, use both types of revisions, among others.

Depending on what provisions may be included in future legislation, changes may affect groups of workers and beneficiaries in different ways. Changes implemented sooner rather than later, in addition to requiring cost reducing or revenue increasing provisions that are smaller in magnitude, would allow workers and beneficiaries more time to adjust their behavior.

Thank you, and I look forward to your questions.

[The statement of Mr. Huston follows:]

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TESTIMONY

Statement of

Barry F. Huston
Analyst in Social Policy

Before

Ways and Means Committee
Subcommittee on Social Security
U.S. House of Representatives

Hearing on

"The Social Security Trust Funds in 2024 and Beyond"

June 4, 2024

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Chairman Ferguson, Ranking Member Larson, and Members of the Subcommittee:

Thank you for inviting me to testify on *The Social Security Trust Funds in 2024 and Beyond*. My name is Barry Huston, and I am an analyst in social policy with the Congressional Research Service (CRS).

Background on Social Security

Old-Age, Survivors, and Disability Insurance (OASDI), or Social Security, is a federal social insurance program that provides monthly cash benefits to eligible retired or disabled workers and their dependents, and to the eligible survivors of deceased insured workers.[1] The program—authorized under Title II of the Social Security Act and administered by the Social Security Administration (SSA)—protects workers and their family members against a loss of income due to old-age, disability, and death.

For two primary reasons, Social Security is commonly referred to as the federal government's largest program. First, it is estimated that in 2024 about 182 million workers (about 94% of the workforce) will work in Social Security-covered employment.[2] Second, in 2024 Social Security will pay benefits to over 67 million beneficiaries, the largest subgroup of beneficiaries being retired workers (over 75% of all beneficiaries).[3] Social Security is estimated to collect about $1.26 trillion in payroll taxes and pay about $1.47 trillion in scheduled benefits in 2024.[4]

Workers obtain insurance protection by earning of *quarters of coverage* (or credits) during their careers in employment covered by Social Security.[5] The amount needed to earn a credit generally increases annually with growth in average wages in the national economy as measured by SSA's *Average Wage Index* (AWI)—a measure of all workers' wages subject to federal income taxes and contributions to deferred compensation plans.[6] While in covered employment, a worker's earnings are subject to the Social Security payroll tax. The payroll tax is levied on the earnings of covered workers up to an annual limit commonly referred to as the *taxable maximum* or *contribution and benefit base*.[7] The taxable maximum is also indexed to the AWI, so it also generally increases annually by average wage growth.

Initial monthly benefits are computed using a progressive formula and are based on a worker's wage-indexed career-average earnings in covered employment. Workers can collect their full initial monthly benefit at the *full retirement age* (FRA). The FRA is 67 for all workers born in 1960 or later. Workers can collect a reduced monthly benefit at the *earliest eligibility age* (EEA) of 62. Conversely, workers can delay benefit collection after age 67 (up to age 70) and receive an increased initial monthly benefit. After the first year of eligibility, monthly benefits are adjusted for inflation through annual *cost-of-living adjustments* (COLAs).

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[1] For more information, see CRS Report R42035, *Social Security Primer*.

[2] Social Security Administration (SSA), Office of the Chief Actuary (OCACT), *Fact Sheet on the Old-Age, Survivors, and Disability Insurance Program*, January 29, 2024, https://www.ssa.gov/oact/FACTS/index.html.

[3] SSA, "Monthly Statistical Snapshot, April 2024," released in May 2024, https://www.ssa.gov/policy/docs/quickfacts/stat_snapshot/.

[4] *The 2024 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, May 6, 2024, at https://www.ssa.gov/OACT/TR/2024/tr2024.pdf (hereinafter cited as 2024 Annual Report), intermediate assumptions in Table IV.A3, p. 50. As shown in the table, *total* revenues and *total* costs are larger because total revenues also include income from taxation of benefits and interest income while total costs also include administrative costs and transfers to the financial interchange for railroad retirement benefits.

[5] Among other requirements, a worker generally needs 40 credits (10 years of covered employment) to be eligible for retired-worker benefits. Fewer credits are needed to qualify for a disabled-worker benefit if the worker is under age 62. The number of credits needed varies depending on the age of the worker when he or she becomes disabled.

[6] As such, it is calculated using some wages that are not subject to the Social Security payroll tax.

[7] The contribution and benefit base (CBB) links the payroll taxes paid by a worker and his or her future benefits.

Social Security Finances

Social Security revenues and costs are accounted for in two separate trust funds authorized under Title II of the Social Security Act: (1) the Federal Old-Age and Survivors Insurance (OASI) Trust Fund and (2) the Federal Disability Insurance (DI) Trust Fund.[8] A Board of Trustees manages the trust funds and issues an annual report to Congress on the financial operations and projected financial status of the two trust funds.[9] The trustees released *The 2024 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds* (hereafter referred to as the 2024 Annual Report) on May 6, 2024, which provides the projected financial status for trust funds for a 75-year projection period (2024-2098). Under current law, the two trust funds are legally distinct and cannot borrow from each other. The annual reports provide information on the status of the separate trust funds and on a hypothetical combined basis.[10] This statement discusses the trustees' intermediate projections for the combined (i.e., OASDI) trust funds from the 2024 Annual Report.[11]

Trust Fund Revenues

Social Security has three sources of revenue: the Social Security payroll tax, income from the taxation of Social Security benefits, and interest income on assets held in the trust funds. In 2023, the Social Security program had total revenues of $1.35 trillion. The projected total revenues are expected to increase in aggregate nominal dollars over the next 10 years from $1.38 trillion in 2024 to $2.03 trillion in 2033.[12]

Payroll Taxes

A payroll tax of 12.4% (6.2% for employees and employers, each) is levied on Social Security-covered earnings up to an annual limit (i.e., contribution and benefit base or taxable maximum). In 2023, payroll taxes were the largest source of revenue for the program ($1.23 trillion or 91.3% of total revenues).

In 2024, the taxable maximum (or contribution and benefit base)—the maximum annual amount of earnings subject to the Social Security payroll tax and that can be used in calculating benefits—increased to $168,600 (from $160,200 in 2023).[13] The taxable maximum generally rises at the same rate as average wages in the economy using the SSA's AWI.[14] Because the taxable maximum is indexed to the AWI, the

[8] 42 U.S.C. §401.

[9] The Board of Trustees is composed of three officers of the President's Cabinet (Secretary of the Treasury, Secretary of Labor, and Secretary of Health and Human Services), the Commissioner of Social Security, and two public representatives who are appointed by the President and subject to confirmation by the Senate. The two public trustee positions are currently vacant.

[10] That is, were one trust fund to become depleted—as the OASI trust fund is projected to be in 2033—the combined OASDI trust fund assumes a change in law that would permit transfers between funds as needed. (The 2024 Annual Report, p. 3)

[11] Annual reports include three sets of assumptions for demographic, economic, and program-specific factors. The low-cost set of assumptions represents a future experience that is the most advantageous to the program's financial status. The high-cost set of assumptions represents a future experience that is the least advantageous to the program's financial status. As the trustees state: "These alternatives are not intended to suggest that all parameters would be likely to differ from the intermediate values in the specified directions, but are intended to illustrate the effect of clearly defined scenarios that are, on balance, very favorable or unfavorable for the program's financial status." In actual experience, it is unlikely that all demographic, economic, and program-specific factors move in a manner that is either favorable or unfavorable to the program's financial status. Thus, the trustees use the intermediate set of assumptions to illustrate their best guess as to the future experience (2024 Annual Report, p. 20).

[12] The 2024 Annual Report, intermediate assumptions in Table IV.A3.

[13] SSA, OCACT, "Contribution And Benefit Base," https://www.ssa.gov/oact/cola/cbb.html.

[14] 42 U.S.C. §430(b). The automatic indexation of the CBB was established in the 1972 Amendment to the Social Security Act (P.L. 92-336), while the current-law formula for determining the CBB was established by the Social Security Independence and Program Improvements Act of 1994 (P.L. 103-296), which set the formula for the CBB in years after 1994. While the CBB can remain the same as the previous year, it is protected from decreasing.

share of covered workers with earnings below the taxable maximum has remained relatively stable at about 94% since the 1980s. Similarly, the share of covered workers with some earnings above the taxable maximum has remained relatively stable at approximately 6%. However, from 1983 to 2020, the percentage of aggregate covered earnings subject to the payroll tax has decreased from 89.6% to 82.1%.[15] The trustees state, "The decline was related to several factors that increased the concentration of earnings among the very high earners compared to all other earners."[16]

In aggregate nominal dollars, projected revenues from payroll taxes are expected to increase. This reflects a projected increase in the number of covered workers and the projected increase in the taxable maximum (i.e., total earnings subject to the payroll tax), in addition to other factors.[17] The projected revenues from payroll taxes are projected to increase year-to-year from $1.26 trillion in 2024 to $1.87 trillion in 2033.[18]

Taxation of Benefits

Beginning in 1984, up to 50% of Social Security benefits became subject to federal income tax for beneficiaries whose provisional income exceeds $25,000 and couples whose provisional income exceeds $32,000.[19] The proceeds from taxing up to 50% of Social Security benefits are credited to the trust funds. Beginning in 1994, if provisional income exceeded $34,000 for single-filing beneficiaries and $44,000 for couples, up to 85% of Social Security benefits became taxable. Proceeds from any tax on more than 50% of a taxpayer's benefits are credited to Medicare's Hospital Insurance trust fund.[20]

The two sets of thresholds mentioned above are fixed in law. That is, unlike the taxable maximum, they are not indexed. Because the thresholds are fixed, this share is expected to increase as overall economy-wide wages and monthly benefit amounts increase.[21] Recent projections suggest that more than half of Social Security beneficiaries will be subject to federal income taxes on a portion of their Social Security benefits each year between now and 2050.[22]

In 2023, taxation of Social Security benefits contributed $50.7 billion to the program's revenue (3.8% of total revenues).[23] Given a projected increase in the number of beneficiaries, and the projected increase in benefits, the projected revenues from the taxation of benefits are expected to increase in aggregate nominal dollars.[24] The projected revenues from the taxation of benefits are projected to increase year-to-year from $57.4 billion in 2024 to $132.8 billion in 2033.[25]

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[15] Office of the Chief Actuary, *The Long-Range Economic Assumptions for the 2024 Trustees Report*, May 6, 2024, Table 6.2, https://www.ssa.gov/OACT/TR/2024/2024_Long-Range_Economic_Assumptions.pdf (hereinafter cited as 2024 Economic Assumptions).

[16] Ibid., p. 80.

[17] The 2024 Annual Report, Tables IV.B3 and V.C1.

[18] The 2024 Annual Report, intermediate assumptions in Table IV.A3.

[19] Provisional income equals adjusted gross income plus certain otherwise tax-exempt income, including half of Social Security benefits.

[20] The 2024 Annual Report, p. 153.

[21] Patrick J. Purcell, "Income Taxes on Social Security Benefits," SSA, Issue Paper no. 2015-02, December 2015, chart 1, at https://www.ssa.gov/policy/docs/issuepapers/ip2015-02.html.

[22] Ibid.

[23] The 2024 Annual Report, Table IV.A3.

[24] The 2024 Annual Report, Tables IV.B3 and V.C7.

[25] The 2024 Annual Report, intermediate assumptions in Table IV.A3.

Interest Income

The trust funds provide a means for Social Security to hold its accumulated assets. From 1983 through 2009, Social Security operated with a *cash surplus* (i.e., tax revenues exceeded costs).[26] Each of those year's cash surpluses were invested in government securities—as required by law—and earned interest.[27] Earned interest was credited to the trust funds, their third source of revenue.

Since 2010, Social Security has operated with *cash deficits* (i.e., costs exceeded tax revenues).[28] Under the intermediate assumptions, the trustees project cash deficits for the remainder of the 75-year projection period.[29] However, from 2010 through 2020, Social Security operated with *annual surpluses* (i.e., total revenue exceeded costs). That is, interest income *plus* tax revenues exceeded costs.

Starting in 2021, Social Security has been operating with *annual deficits* (i.e., total costs exceed total revenue). Said differently, tax revenues and interest together would not have been able to pay scheduled benefits. Thus, since 2021, Social Security has redeemed asset reserves held in the trust funds in order to pay scheduled benefits. Under the intermediate assumptions, the trustees project continuing and increasing annual deficits that would require increasing amounts of asset reserve redemption.

As the combined trust fund balance decreases each year, the amount of interest earned on the balance is projected to become successively smaller each year as well. In 2023, interest income contributed $66.9 billion (5.0% of total revenues). In aggregate nominal dollars, interest income is projected to decrease year-to-year from $68.6 billion in 2024 to $29.2 billion in 2033.[30] Under the intermediate assumptions, the trustees project a positive combined trust fund balance until sometime in 2035.[31]

Trust Fund Costs

Social Security has three main costs: monthly benefit payments, administrative expenses,[32] and the Railroad Retirement financial interchange.[33] Administrative expenses and the financial interchange typically account for about 1% of program costs on an annual basis.[34] Thus, this discussion of trust fund costs focuses on monthly benefits, which account for about 99% of costs on an annual basis.

Monthly Benefits

In 2023, payment of scheduled monthly benefits totaled $1.38 trillion (or 99.1% of total costs). In aggregate nominal dollars, the projected cost of scheduled benefits is projected to increase year-to-year from $1.47 trillion in 2024 to $2.34 trillion in 2033. The cost of total monthly benefits is expected to

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[26] See https://www.ssa.gov/OACT/STATS/table4a3.html.

[27] 42 U.S.C. §401(d).

[28] See "Income Components" and "Cost Components" at https://www.ssa.gov/OACT/ProgData/tsOps.html.

[29] The 2024 Annual Report, p. 3.

[30] The 2024 Annual Report, Table IV.A3.

[31] The 2024 Annual Report, p. 3.

[32] The program's administrative expenses are expenses incurred by the SSA and Department of Treasury for administering the program and provisions of the Internal Revenue Code (The 2024 Annual Report, p. 240). Administrative expenses are paid from the trust funds. Nearly all of SSA's administrative expenses are funded by appropriations to its limitation on administrative expenses (LAE) account, and almost all of the funding for the LAE account is provided each year as part of the annual appropriations process. For more information, see CRS Report R47746, *Social Security Administration (SSA): FY2024 Annual Limitation on Administrative Expenses (LAE) Appropriation: In Brief*.

[33] The purpose of the financial interchange is to place the Social Security trust funds in the same position they would have been in if railroad employment had been covered under Social Security since that program's inception. For more information, see CRS Report RS22350, *Railroad Retirement Board: Retirement, Survivor, Disability, Unemployment, and Sickness Benefits*.

[34] See "Cost Components" at https://www.ssa.gov/OACT/ProgData/tsOps.html.

increase for several reasons, such as increasing average initial benefits on a per beneficiary basis, an increase in the number of beneficiaries, and an increase in beneficiary longevity.

Average Initial Benefits

The 2024 Annual Report states "...new beneficiaries tend to have higher monthly benefit amounts than previous beneficiary cohorts, because their initial benefits are based on average wages, which tend to rise faster than the cost of living."[35] The three-step benefit computation process, described below, is the same for all workers.[36] The process uses parameters indexed to wage growth that are likely different for each birth cohort. In general, positive wage growth has resulted in increasing average initial benefits.

The first step of the benefit computation process computes a worker's average indexed monthly earnings, or AIME. A worker's career of covered earnings is converted into current dollar values for the year the worker turns 60 (two years prior to the EEA) using the SSA's AWI. Any earnings after the age of 60 are added at nominal value without indexing. Because of differences in wage growth, two workers with identical nominal earnings at each age, but born in different years, will likely have different wage-indexed earnings. Assuming positive wage growth in the national economy, a younger worker would have higher wage-indexed earnings than an older worker with identical nominal earnings at each age. Once a worker's past earnings are indexed, the highest 35 years of indexed earnings are summed and divided by 420 (the number of months in 35 years) to yield an average monthly measure of indexed earnings, or AIME.[37]

The second step of the benefit computation process applies a progressive benefit formula to the worker's AIME. The progressive benefit formula replaces a larger share of earnings of low-wage workers compared with high-wage workers. The formula separates a worker's AIME into three brackets, or segments, using two bend points. Each bracket of a worker's AIME is multiplied by a fixed replacement factor. Specifically, the segment of a worker's AIME up to the first bend point is multiplied by 90%, the segment of a worker's AIME between the two bend points is multiplied by 32%, and the segment of a worker's AIME—if any—above the second bend point is multiplied by 15%. The sum of these three products is the worker's primary insurance amount, or PIA. The bend points used in the progressive formula are indexed to average wages (i.e., SSA's AWI), therefore, they generally increase each year.[38] Similar to the wage index, no two birth cohorts are likely to have the same bend points. So, two workers with identical AIMEs, but born in different years, will likely have different PIAs. Assuming positive wage growth in the national economy, the younger worker would likely have the higher PIA than the older worker with an identical AIME. The PIA represents a worker's basic benefit before any adjustments.

The third step of the benefit computation process applies adjustments to a worker's PIA. Two common adjustments are COLAs and adjustments for claiming age.[39] COLAs—which maintain the purchasing power of benefits—are payable after the first year of benefit eligibility. Adjustments for claiming age are intended to provide a beneficiary with the same total lifetime benefits, on average, regardless of claiming

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[35] The 2024 Annual Report, p. 32.

[36] For examples of benefit calculations, see CRS Report R46658, *Social Security: Benefit Calculation*.

[37] For retired-worker benefits, the highest 35 years are always included, even if in some years a worker had no earnings.

[38] For any year after 1979, the formula states that the bend points are equal to the base—set for the bend points in 1979 (i.e., $180 and $1,085)—multiplied by the ratio of (1) the AWI for the year that is two years prior to the year for which the worker turns 62 to (2) the AWI for 1977. The result is rounded to the nearest dollar. For instance, the first bend point for those born in 1960, $1,024, is calculated by multiplying the first bend point in 1979 ($180) by the ratio of the 2020 AWI to the 1977 AWI (i.e., $55,628.60 to $9,779.44). The result, $1,023.90, is rounded to the nearest dollar: $1,024.

[39] Other benefit adjustments apply in certain situations such as the windfall elimination provision—which reduces benefits for workers who have pensions from employment that was not subject to the Social Security payroll tax—and the retirement earnings test—which results in a temporary withholding of monthly Social Security benefits paid to certain beneficiaries who are younger than FRA and have earnings above a certain level. For more information, see CRS Report 98-35, *Social Security: The Windfall Elimination Provision (WEP)* and CRS Report R41242, *Social Security Retirement Earnings Test: How Earnings Affect Benefits*.

age. Workers claiming before FRA will receive a reduced monthly benefit to account for the longer expected period of benefit collection, whereas workers claiming after FRA (up to age 70) will receive an increased monthly benefit to account for the shorter expected period of benefit collection, on average.

The wage index series (used in step one of benefit calculations) and the bend points (used in step two of benefit calculations) are adjusted annually for wage growth in the overall economy as measured by SSA's AWI. Typically, overall economy-wide earnings increase over time.[42] Although the benefit computation process is the same for all workers, the effects of wage-indexed parameters generally result in increasing average initial benefits.

Average Wage Index

The 2022 AWI was calculated by taking the annual economy-wide aggregate wages (including contributions to deferred compensation plans) of $10,531,745 million and dividing it by the number of workers, 172,031 thousand, to yield a per capita value of raw earnings of $61,220.07.[40] The 2022 per capita raw earnings were divided by the 2021 per capita raw earnings of $58,129.99, showing a percentage change in per capita raw earnings of 5.32%. Lastly, this percentage change was applied to the 2021 AWI of $60,575.07 to yield the 2022 AWI value of $63,795.13.[41]

The AWI increased by 5.32% in 2022. Under the intermediate assumptions, the trustees project continuing growth in the AWI, albeit at a relatively lower rate. In the 2024 Annual Report, the intermediate assumptions project that AWI will grow at an average annual rate of 4.16% over the next 10-year period.[44] This assumption, combined with the benefit calculation process, contributed to the growth in average initial benefits on a per beneficiary basis. This relationship will also contribute to an increase in cost, in nominal aggregate dollars, when considering the increasing number of beneficiaries and their time in current-payment status (i.e., increasing longevity).

Average Benefits

Initial average benefits tend to increase with increases in average wages (i.e., AWI). If benefits are collected after age 62 (the EEA) they are also indexed to prices. Specifically, the initial monthly benefit is adjusted based on the COLA for the period from benefit eligibility to benefit receipt. In addition, benefits already in payment are adjusted annually based on the COLA. Thus, after the EEA, benefits also tend to increase with increases in average prices. For this reason, average initial benefits *and* average benefits increase over time.[43]

Although the benefit computation process results in increasing average initial benefits, it results in stable replacement rates (i.e., percent of a worker's indexed average earnings replaced by benefits). That is, the effects of wage-indexing ensure initial benefit levels—as a percentage of pre-retirement earnings—are consistent from one birth cohort to the next. In general, the benefit computation process results in:

- **Individual Equity.** Benefit amounts are correlated to the taxes paid by workers. That is, the more a worker has paid in payroll taxes, the higher his or her benefit (see **Figure 1**).
- **Progressivity.** Workers with relatively lower career average earnings experience a relatively higher replacement rate. That is, a lifetime *low* earner will have a higher replacement rate than a lifetime *high* earner (see **Figure 2**).
- **Stable Replacement Rates.** The percentage of pre-retirement earnings that is replaced by Social Security benefits—since the 1980s—has been relatively stable from one birth cohort to the next (see **Figure 2**).

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[40] For raw data, see https://www.ssa.gov/OACT/COLA/awidevelop.html.

[41] SSA publishes the annual AWI calculation in the *Federal Register*. It typically takes about three calendar quarters for the SSA to collect the wage data and perform the necessary calculations. The AWI calculations for 2022 were published in the *Federal Register* on October 23, 2023. Social Security Administration, "Cost-of-Living and Other Determinations for 2024," 88 *Federal Register* 72803, October 23, 2023.

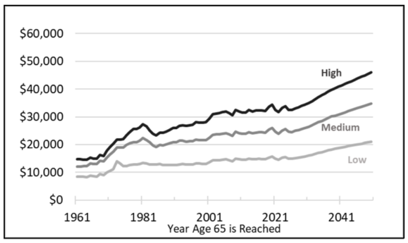
[42] Through 2022, the AWI has increased in all but one year (2009), see https://www.ssa.gov/OACT/COLA/awiseries.html.

[43] SSA, *Annual Statistical Supplement*, Table 5.B4.

[44] The 2024 Annual Report, Table V.C1.

Figure 1. Annual Scheduled Benefit Amounts for Retired Workers at 65

Indexed to 2024 Dollars Using the Consumer Price Index for Urban Wage Earners

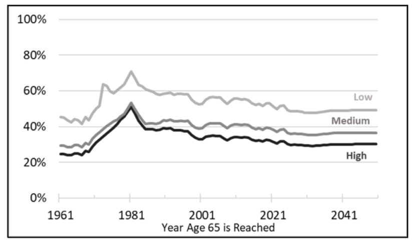


Source: The 2024 Annual Report, Table V.C7 and Supplemental Single-Year Table V.C7.

Notes: Hypothetical low, medium, and high earners are assumed to have career average earnings of 45%, 100%, and 160% of the AWI, respectively.

Figure 2. Scheduled Replacement Rates for Retired Workers at 65

Percent of Highest 35 Years of Indexed Average Earnings



Source: The 2024 Annual Report, Table V.C7 and Supplemental Single-Year Table V.C7.

Notes: Hypothetical low, medium, and high earners are assumed to have career average earnings of 45%, 100%, and 160% of the AWI, respectively.

Number of Beneficiaries

The number of beneficiaries is increasing and is projected to increase for several decades.[45] There are several reasons for the historical and projected future growth in the number of Social Security beneficiaries: (1) historical expansions in coverage of workers,[46] (2) creation of new Social Security benefits,[47] (3) increases in covered workers (i.e., baby-boomers),[48] and (4) increases in longevity. Said differently, there are more people eligible for benefits and they are expected to remain in current-payment status for a longer period of time, on average.

Figure 3 shows the historical number of Social Security beneficiaries in current-payment status, by year. As **Figure 3** shows, this number generally increased over time and is projected to increase each year under each of the trustees' sets of assumptions. A larger number of beneficiaries contributes directly to an increase in program cost in aggregate nominal dollars.

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[45] The 2024 Annual Report, Table IV.B3.

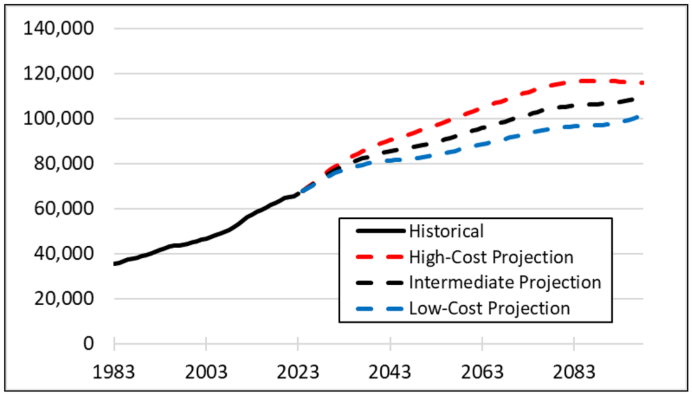
[46] Initially, coverage under the program was limited to wage and salary workers in industry and commerce, which was about 56% of the workforce. The percentage increased in the 1950s to about 86% when coverage was extended to certain self-employed individuals, farm workers, and domestic workers. In 1983, coverage was extended to newly-hired federal civilian employees and employees of nonprofit organizations. In 2024, about 94% of workers will work in Social Security-covered employment. For more information, see CRS Testimony TE10083, *Social Security Fundamentals: A Fact-Based Foundation*.

[47] Over numerous efforts, lawmakers changed the focus of the program from single workers to families by passing legislation that extended benefits to certain dependent family members of insured workers. Additionally, Congress established Social Security Disability Insurance under the Social Security Amendments of 1956, see CRS Report RL30920, *Social Security: Major Decisions in the House and Senate Since 1935*

[48] "The steady growth in the number of OASI beneficiaries in the past and the expected future growth result both from the aging of the baby-boom generation and from the increase in the proportion of the baby-boom generation that is insured for benefits, relative to earlier lower-birth-rate generations." The 2024 Annual Report, p. 47.

Figure 3. Social Security Beneficiaries in Current-Payment Status

Historical (1983-2023) and Projected (2024-2098)



Source: The 2024 Annual Report, Table IV.B3.

Notes: Figure 3 begins in 1983. The Social Security Amendments of 1983, P.L. 98-21, are commonly considered the last major reforms to the program. The trustees' three projections are shown: (1) intermediate projections reflect the trustees' best estimate as to the future experience, (2) low-cost projections represent a more optimistic scenario, and (3) the high-cost projections represent a more pessimistic scenario.

Longevity

More individuals covered by the Social Security program are surviving to retirement age, and once in retirement they are collecting benefits for a greater number of years than previous generations of beneficiaries. A main measure of life expectancy is period life expectancy: an individual's expected average remaining life at a selected age, assuming no future changes in death rates.[49] In 1945, shortly after Social Security began regular monthly payments, a 65-year-old female could expect to live another 14.4 years on average and a 65-year-old male could expect to live another 12.6 years.[50] In 2023, those life expectancies were estimated to be 20.5 years and 17.9 years, respectively.[51] In 2023, more of the population survived to the age at which they were eligible for Social Security benefits than in 1945. In addition, individuals reaching age 65 in 2023 exhibited longer period life expectancies than in 1945., The trustees project this trend to continue. For instance, in 2040, under the intermediate projections, a 65-year-old female could expect to live another 21.9 years on average and a 65-year-old male could expect to live another 19.4 years.[52] Thus, projected increases in longevity indicate that beneficiaries will remain in current-payment status for longer periods of time, directly contributing to an increase in program cost in aggregate nominal dollars.

[49] Samuel H. Preston, Patrick Heuveline, and Michel Guillot, Demography: Measuring and Modeling Population Processes (Malden, MA: Blackwell Publishers, 2001), p. 42.

[50] The 2024 Annual Report, Table V.A4.

[51] Ibid.

[52] Ibid.

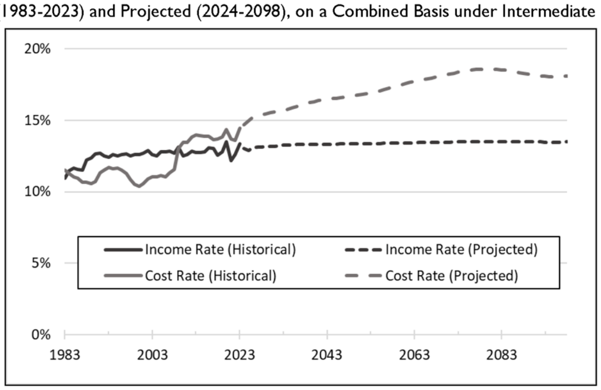
Revenues, Costs, and Policy Considerations

As discussed, the program's total revenue and total cost are expected to increase in aggregate nominal dollars. Given how the program is expected to change over the 75-year projection period—in terms of the number of workers, the proportion of earnings subject to the payroll tax, price growth, and wage growth—a common practice is to compare the programs' revenues and costs as a rate of taxable payroll.[53] As the program grows—in terms of number of covered workers (i.e., revenue) and number of beneficiaries (i.e., cost)—this practice provides a means to compare revenues and cost in a standardized manner. **Figure 4** displays this standardization with the income (i.e., non-interest revenues) and cost displayed as a percentage of taxable payroll.

Figure 4 shows the projected income rate is relatively stable (flat) over the projection period at just over 13%. Since the income rates are expressed as a percentage of taxable payroll, and the combined Social Security payroll tax is fixed under current law at 12.4% of taxable (i.e., covered) earnings, any remaining variation is caused by assumptions in the income from the taxation of benefits, which is a relatively small portion of revenue.[54] The cost rate, which has been higher than the income rate since 2010, is projected to rise rapidly through 2040 because of demographic factors, then rise more gradually through 2080 before declining somewhat afterwards.[55] The trustees' project that costs will to continue to exceed total non-interest revenue (income) indefinitely. That is, the program will continue to experience annual deficits.[56]

Figure 4. Social Security Tax Revenues and Cost as a Percentage of Taxable Payroll

Historical (1983-2023) and Projected (2024-2098), on a Combined Basis under Intermediate Projections



Source: The 2024 Annual Report, Table IV.B1 and supplemental single-year Table IV.B1.

Notes: Income rate excludes interest income.

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[53] The 2024 Annual Report, pp. 224-225. Taxable payroll is the weighted sum of taxable wages and taxable self-employment income. When this sum is multiplied by the OASDI program payroll tax rate, it results in the total amount of payroll taxes. See the 2024 Annual Report, p. 254. While the number of covered workers is expected to increase, and price and wage growth expected to be positive, the proportion of earnings subject to the payroll tax is expected to be relative stable. From a 2022 proportion of 82.1%, the trustees expect this to increase to 82.5% by 2033 and remain constant thereafter (2024 Economic Assumptions, Section 6.3).

[54] The 2024 Annual Report, p. 60.

[55] The 2024 Annual Report, p. 13.

[56] Ibid.

When Social Security is operating with annual deficits, as it has since 2021, the program relies in part on the asset reserves held in the trust funds to pay scheduled benefits. Under the intermediate assumptions in the 2024 Annual Report, the trustees project that the asset reserves of the hypothetical combined trust fund will be depleted sometime in 2035.[57] At the point of combined trust fund depletion, continuing revenues (i.e., payroll taxes and income from the taxation of benefits) are estimated to cover about 83% of scheduled payments. Because of the rising costs facing the system, relative to program revenues, the percent of scheduled benefits that could be supported by continuing revenues decreases through the projection period, falling to 73% by 2098.[58]

Under current law and intermediate projections, the trustees estimate that in 11 years the Social Security program will be unable to pay scheduled benefits in full and on time. To illustrate the magnitude of the changes needed to make Social Security solvent over the next 75 years, the trustees estimate the hypothetical immediate payroll tax increase (3.33 percentage points) or hypothetical immediate benefit reduction (21%) needed to eliminate the projected financial shortfall.[59] The projected rising costs, relative to revenues, indicate that were current law to change in the projected year of asset reserve depletion (2035), the hypothetical changes would increase in magnitude. In 2035, the trustees estimate a 4.02 percentage point increase in the payroll tax rate or a 25% reduction in benefits would eliminate the projected financial shortfall. The hypothetical scenarios described above illustrate that larger changes would be needed if action is deferred to 2035.[60] In practice, there are many more solvency-related measures available to lawmakers, including the combination of revenue-increasing and cost-reducing measures.[61]

For instance, the Social Security Amendments of 1983 (P.L. 98-21)—commonly considered the last major reform to the program—included measures that increased revenues (e.g., income from the taxation of benefits), reduced costs (e.g., increase of FRA), and expanded coverage (e.g., for newly hired federal employees), among many other provisions.[62] That said, the solvency-related issue facing lawmakers today is larger.[63] For this reason, the trustees recommend that "lawmakers address the projected trust fund shortfalls in a timely way in order to phase in necessary changes gradually and give workers and beneficiaries time to adjust to them. Implementing changes sooner rather than later would allow more generations to share in the needed revenue increases or reductions in scheduled benefits."[64] Depending on what provisions may be included in future legislation, the effect of program changes may affect groups of workers and beneficiaries in different manners. Policy changes implemented sooner rather than later, in addition to requiring cost-reducing or revenue-increasing provisions that are smaller in magnitude, would allow current workers and beneficiaries more time to change behavior.

[57] Under intermediate assumptions, on an individual trust fund basis, the OASI trust fund is projected to be depleted in 2033 whereas the DI trust fund is not projected to be depleted during the 75-year projection period.

[58] The 2024 Annual Report, p. 14. At the projected point of OASI trust fund depletion in 2033, about 79% of benefits could be paid with the estimated continuing revenues.

[59] The 2024 Annual Report, p. 5.

[60] Table 3 in CRS Report R47924, *Social Security: Estimated Impact of Hypothetical Solvency Measures* displays how the magnitude of these hypothetical solvency measures has changed, generally increasing, over the 2014-2023 Annual Reports.

[61] For a list of many policy options, see https://www.ssa.gov/OACT/solvency/provisions/index.html.

[62] For a description of all provisions, see https://www.ssa.gov/policy/docs/ssb/v46n7/v46n7p3.pdf.

[63] The 75-year actuarial deficit in 1983 was 1.80 percent of taxable payroll (see footnote 62) versus a 75-year actuarial deficit for 2024 of 3.50 percent of taxable payroll. The 2024 Annual Report, p. 5.

[64] The 2024 Annual Report, p. 6.

Chairman FERGUSON. Thank you all for your testimony. And we will now start with questions. And I will start with that.

Dr. Swagel, I want to start with you and talk to you about—you made a comment that just kind of caught me off. You suggested that one way of fixing this problem are general fund transfers to address the shortfall. If we did that, if we use that methodology, talk to us just very briefly about what that would do to the Federal debt and deficit each year, and what that potentially could do to interest rates and the amount of interest that the taxpayers are already paying.

Mr. SWAGEL. Yes, sir. You know, as I said, the shortfall could be, you know, addressed in many ways. Transferring funds from general revenues, you know, the amount of dollars that would be needed in our projections is nearly $400 billion in 2033, and about $550 billion in 2034. And, you know, in real dollars, the Treasury would have to come up with those additional dollars. That would mean, you know, either reductions in other spending or additional borrowing. That would mean more crowding out and impact on interest rates——

Chairman FERGUSON. And given our level of debt right now, that does not seem like a viable option. That is not a question. That is a statement from me.

I also want to ask you about in the shortfall category. You know, we hear a lot about, okay, the income cap right now of people who are making more than $168,000 a year, they are not paying their fair share. Currently, if you are paying above that, you are not—even if you are paying $168,000 a year—paying Social Security taxes on $168,000 a year, there is still a shortfall. I mean, there is a difference between what you are paying in and what you are actually getting back.

And then if you—and we have always tied the level of benefit to earnings, correct? So if you raise the cap, then, in theory, you would also raise the amount of earnings that people were eligible for down the road, or you would have to simply say—the answer is you are going to pay more in taxes, but you are going to receive less benefit. Is that a fair assessment?

Mr. SWAGEL. No, that is right. And since the system as whole is progressive, you know, so thinking of lifetime benefits against lifetime contributions, the bottom quintile of people, you know, with—the bottom quintile, the lowest 20 percent of lifetime earners gets about 2.5 times back in benefits as what they pay in in contributions. People in the middle get about 1.5 times. The top 20 percent, on average, gets about 1. So it is 1:1. So that is a sense which the system as a whole is progressive.

Chairman FERGUSON. And it is my understanding that if we subjected all earnings in the U.S. to the Social Security payroll tax, we would still have about a $10 trillion shortfall over the next 75 years.

Mr. SWAGEL. Yeah. So I don't have that number in my head. I can tell you, if we increase the taxable share back to 90 percent—it is around 82.5 now—so made 90 percent taxable, that would delay exhaustion by 4 years. If we said everything above $250,000 is taxable, that would delay exhaustion by 13 years. So it makes a difference, but it is—you know, there is still a challenge after that.

Chairman FERGUSON. Mr. Goss, question for you. When you look at what Social Security has done in terms of enhancing benefits and paying out more, would you say that couples that retire now on average receive a much greater benefit than, say, couples that retired back in the nineties—adjusted for dollars?

Mr. GOSS. Well, if we look at benefits as Barry indicated, the nature of the benefit formula is that it tends to rise with the average wage over time. So the people from one generation to the next, if they have had higher wage levels, a higher standard of living that Social Security benefits has been intended to maintain, therefore, a higher benefit level to give them a similar replacement rate.

In that regard, individuals and couples now who are retiring and getting the benefits are not really receiving more than generations in the past. In fact, one of the major changes I have seen in the 1983 amendments was to change the normal retirement age, which increased it by, what, by—you know, from 65 up to 67. And that actually lowered the average monthly benefit for people all as equal.

Chairman FERGUSON. So you would argue with the fact that a couple who turned 65 in 1990 on average received $590,000 in lifetime benefits, and that is adjusted for 2023 dollars, when compared to a couple that turned 65 in 2020, they were projected to receive $812,000. And I look at it, and it looks like that the formula has actually increased—has pushed up the amount of lifetime earnings that a couple could see.

Now, I say this to say that, you know, we have seen an increase in benefits over the years. It is not to argue that it is perfect, but we have seen that increase.

Mr. Huston, I want to touch on one other thing, if I could, talking about, you know, the other things that our seniors—and, look, seniors depend on this program, and we have an obligation, and it is important that we—that we honor what we—that Congress honors what it said it would do for the recipients of these benefits.

But I look at this and I think to myself, in 50 years, there have been a lot of other programs that are out there to help seniors as well. I am going to tick through just a small list of these things: SNAP Program, Older Americans Act, housing choice vouchers, Weatherization Assistance Program, the LIHEAP, or Low-Income Home Energy Assistance Program, Lifeline programs, reverse mortgages, the Seniors Farmers Market Nutrition Program. My point is you can go on and on.

And I think Congress as a whole, over the years, while it has made adjustments—while the formula for Social Security has said, we are going to see an increase in payments—but we have also done an awful lot to make sure that seniors have resources in many other areas for housing, in food assistance and, quite candidly, Medicare with healthcare as well. And there have been some great things that we have done there.

So I think it is a little bit disingenuous to say that seniors don't have any other lifelines and this is the only thing. It is simply that seniors have a lot that they can depend on. And I think Congress has been very thoughtful in making sure that they have got the resources that they need.

Again, I want to thank you for y'all's testimony.

And, now, I am going to yield 5 minutes to my friend, Mr. Larson, for his questions.

Mr. LARSON. Thank you, Dr. Ferguson.

And, yeah, I almost don't know where to start. But basically, when I listen to the chairman speak, it is that, hey, you folks out there who are depending on Social Security, look, you already got enough. And for God's sake, what we don't want to do, at all costs, is make sure that billionaires pay their fair share. Because that would be—you know. And then, hypothetically, what would happen?

Dr. Swagel, has the general fund ever been used to pay for Social Security?

Mr. SWAGEL. You know, I don't know.

Mr. LARSON. Ah. And so it has never been used but, hypothetically, that is what we are using here to try to say to the American public that somehow this is part of the—it contributes to the debt and deficit. That is total BS.

Now, let me ask a couple of questions here. Mr. Goss, if we were to raise the retirement age by 3 years, as has been proposed, what would that mean in terms of cut to benefits, if we went from 67 to 70?

Mr. GOSS. It would depend on how rapidly we did this. But at the point at which we had the retirement age raised by the 3 years, as you had indicated earlier, that reduces retirement benefits, monthly benefits and lifetimes benefits, by about 6.5 to 7 percent for each year that we raise. So an additional 3-year increase in the normal retirement age would in fact lower benefits by on the order of 20 percent.

Mr. LARSON. Now, Mr. Goss, also, because we have heard this question as well, what percentage of income does someone who makes $1 billion in wages contribute to Social Security?

Mr. GOSS. Well, given that the most they are going to pay is their 6.2 percent, they and their employer, on the first $168,600, I think the number comes out, for a billionaire, for somebody with $1 billion of earnings, to about .1 percent of their total wages paid by them and another .1 percent paid by their employer.

Mr. LARSON. What percentage is a person making $50,000 pay?

Mr. GOSS. Well, they would pay their 6.2 percent by themselves and their employer matching the——

Mr. LARSON. So, again, because we want to protect these billionaires and millionaires, it is unconscionable to think about the fact that they ought to pay their fair share, that they ought to be in a position where, as President Biden points out, if they do, we extend the solvency of the program for 66 years, and we are able to add on benefits.

Another question that comes up, because this happens frequently on the trail. Can you talk about how Social Security actually doesn't contribute a penny to the national debt?

Mr. GOSS. Yes, be happy to. As I think everybody here is very well aware, Social Security has its trust funds, and the trust funds can only have positive balances. Social Security now has and never has had the ability to borrow from the general fund or the Treasury. That is in the current law. Anything could change in the future.

But currently, Social Security can only hold asset reserves. And as a result, with the roughly $33 trillion, $34 trillion of total Federal debt we have now, Social Security is actually covering approximately $3 trillion of that and not needing to be borrowed from the public at the moment.

So Social Security can only really help surface some of the debt that the rest of the government develops. It does not contribute towards the debt.

Mr. LARSON. So, for the general public to understand this, it is called a trust fund for a reason. And that trust fund has not been tapped into, nor will it ever be tapped into, unless Members of Congress have a different idea and want to change it. And they could through a vote, if they decided that this is the tact they would want to take. But the fact of the matter is, and it is a fact, that it doesn't contribute to the debt or deficit. And what aggravates people the most is, they pay into this. So does their employer. But their employer gets a tax write-off.

Twenty-three million Americans get double taxed under current Social Security programs. And we as a body are the only ones that can change that. And instead, we don't put forward proposals that direct making the system both solvent and enhancing benefits, because people desperately need this money. Forty percent of our fellow Americans is the only thing they have. Twenty-eight million Americans.

Chairman FERGUSON. The gentleman's time has expired.

We now move to the gentleman from Ohio, Mr. Carey.

Mr. CAREY. I want to thank the chairman. I also want to thank the ranking member, as well as the witnesses for being here today.

Since day one, I have been a strong advocate for the strength and integrity of the Social Security trust fund. Unfortunately, if my numbers are correct, under this budget, if enacted, the administration's budget would cut approximately $17 billion to the Social Security trust fund over the next decade.

Now, I am the grandson of a couple that lived only on Social Security. And I watched how they scrimped and saved and tried to do what they could. So with that being said, I am dedicated to working with my colleagues both on the Democrat side and Republican side to find some solutions.

So, Mr. Goss and Director Swagel, the trustees in the Congressional Budget Office projected that, under current law, Social Security's Age-Old and Survivors Insurance Trust Fund would be depleted by 2033—we have established that—at which point the program will only be able to pay a fraction of the promised benefits. Absent any changes, what percentage of retirement and survivor benefits would be payable after the trust fund is depleted?

Mr. GOSS. So our projections in the latest Trustees Report indicate that in 2033, the OASI Trust Fund alone should reach the point where we do deplete the reserves and have only continuing income coming in. That would cover about 79 percent at that point of the scheduled benefits that people are expecting.

Mr. CAREY. Director?

Mr. SWAGEL. Right. And we are just a little bit less than that. So we see the shortfall is a little bit less, but in the same ballpark.

Mr. CAREY. So how is that projected to change in the years after 2033? Mr. Goss?

Mr. GOSS. After 2033, that percentage will, of course, decline. I know off the top of my head for the total Social Security OASI and DI, that will drop from 83 percent, eventually down to 73 percent by the time we get to about 2098, and will be a little bit less than 73 percent payable for the OASI Trust Fund alone by that time.

Mr. CAREY. Director?

Mr. SWAGEL. Right. And, again, we have the same general result. You know, we see the shortfall as a bit larger, and so the decline in benefits, a bit larger, but it is broadly similar to what the trustees have.

Mr. CAREY. Thank you both.

Mr. Huston, the 1983 amendments were the last time that Social Security saw major program reforms and intended to address the system's funding shortfalls. Can you help us understand how those reforms came to be and what Social Security's finances looked like leading up to those reforms?

Mr. HUSTON. Thank you. The 1977 amendments were the previous major reform, and they were estimated to get the program to be solvent for about 50 more years. The economic experience right after that proved to be much worse. In the 1980 Trustees Report, they highlight that benefits would be not paid the full scheduled amount in under 2 years. Later in 1980, Congress passed a temporary reallocation of the payroll tax from the disability program to Old-Age and Survivors Insurance program.

Later in 1981, as the situation continued to deteriorate, Congress authorized interfund borrowing, and President Reagan established what became known as the Greenspan Commission. The Commission's report included provisions that would have resolved about two-thirds of the projected shortfall and became the basis for the 1983 amendments. Congress later added several more provisions which covered about the remaining one-third of the shortfall. And when it passed in March, April of 1983, it was estimated that the OASI program was months, if not weeks, away from being able to pay the full amount of scheduled benefits.

Mr. CAREY. Thank you for that.

I am going to follow up to Mr. Goss. How does the projected cash imbalance in 2033 compare to the imbalance in the early 1980s?

Mr. GOSS. The projected imbalance in 2033—let's see, I actually had the numbers in the testimony here for 2035. We are at this point actually having a fairly significant imbalance in 2035, much more than was expected after the 1983 amendments. Again, really primarily for the one factor of the changing distribution of earnings in the economy. We have actually lost, as mentioned, I think Dr. Swagel mentioned earlier, we have gone from 90 percent down to 82 percent of all covered earnings being below our taxable maximum. That is an 8 percent reduction in the amount of revenue that we would have expected. And that cumulatively, ever since 1983, has had a major effect on the level of trust fund reserves that we have. That is the primary reason why we have——

Mr. CAREY. My time has expired. I thank the witnesses, and I thank the chair for giving me the opportunity. Thanks so much.

Chairman FERGUSON. I thank the gentleman from Ohio.

Next, the gentlelady from California.

Ms. Sánchez, you are now recognized for 5 minutes.

Ms. SÁNCHEZ. Thank you, Mr. Chairman.

I must say that it feels like we have been here before. It feels a little bit like Groundhog Day in this committee, because each time that the subcommittee convenes to talk about the future of Social Security in this country, we hear plenty of proposed solutions on the Democratic side.

For example, my friend, Ranking Member Larson, has pushed Social Security reforms again and again. He is very passionate about this issue. And his planned Social Security 2100 would increase benefits across the board, repeal WEP and GPO, and make Social Security work better for every American. And all of those benefits that we just talked about would be paid for, and they would serve those who need them the most.

My Republican colleagues, on the other hand, are proposing significant cuts to Social Security. And while those cuts would be detrimental to all Americans, it would disproportionately impact people of color who would be affected the most by cuts. People of color are less likely to work for employers who offer pensions or any kind of retirement plans. So they are more likely to rely on Social Security after retirement.

Proposed cuts to Social Security would really be a direct attack on those communities of color, specifically the Latino population, who relies almost exclusively on Social Security for their retirement.

Once again, we are hearing talk about Republican plans to cut benefits, and in stark contrast, the Democratic plans, which are to increase benefits for those in need.

I very much appreciate our witnesses coming here today to discuss this issue. Mr. Huston helpfully outlined what this subcommittee already knows, that the combined trust fund will hypothetically be depleted sometime after the year 2035. Everyone on this dais knows that this is a problem. But the real disagreement comes in how do we fix it.

I, you know, hear my colleagues across the aisle maintain that, you know, slashing Social Security benefits or privatizing Social Security and raising the retirement age is somehow going to benefit Social Security as a whole. And I disagree with that.

As my dear friend, Ranking Member Larson, always says, Social Security is the most successful anti-poverty program in our country.

So we shouldn't be talking about slashing benefits, increasing the retirement age, privatizing Social Security. We need to find a very thoughtful path forward. And I think my friend, Mr. Larson's, proposal is that path forward.

I just want to quickly talk about something that was mentioned in terms of who pays into the Social Security trust fund, and the fact that the fertility rate in the United States is declining, our birth rate is not replacement rate. But there is one potential avenue for finding the workers that we are going to need in the future if our economy is going to continue to grow and if we are going to keep the Social Security fund solvent, and that is immigration and immigration reform. That is something that I have been working on for 22 years in this Congress. And we have done nothing other than throw more money at the border, more enforcement.

If we provided pathways to citizenship for people like Dreamers who were brought to this country when they were children, have never known another country but this, they want to work, they want to pay taxes, they want to pay into the system, if we were to increase legal pathways to citizenship, I think our Social Security trust fund would be in better shape.

Is there anybody on the panel that disagrees with that?

Okay. That is what I suspected. And yet we cannot get traction for a comprehensive overhaul of our broken immigration system so that we will have the workers of the future that we are going to need if we want our country's economy to continue to grow.

I have nothing further, other than to say, you know, it is a little disheartening when we have a system right now where a professional baseball player who earns millions of dollars in a season hits the Social Security cap in their first at bat of the season and for the rest of the season does not pay into the Social Security trust fund. I think if we could balance that out to make it a little bit fairer for everybody, we would find some revenue to extend the livelihood of the Social Security trust fund. I don't understand why that proposal is not one that my colleagues on the other side of the aisle are willing to—are willing to consider.

And with that, I will yield back.

Chairman FERGUSON. As a Braves fan, we would support that coming all out of the Nationals' payroll.

With that—and I thank the lady for her comments.

With that, we will yield 5 minutes to the gentleman from Arizona, Mr. Schweikert.

Mr. SCHWEIKERT. Thank you, Mr. Chairman.

Dr. Swagel, first off, don't all workers, whether they are just on a work visa, a Dreamer, even if they don't have U.S. citizenship, they are paying a FICA tax, correct?

Mr. SWAGEL. The ones who are in the country lawfully.

Mr. SCHWEIKERT. Legally.

Mr. SWAGEL. That is right. Yeah.

Mr. SCHWEIKERT. Okay. I just want to—okay. Because that was a misnomer.

I want to work through—so because there is some baseline problems I have between CBO numbers and the actuary report. I think the actuary report already understands their fertility calculations are substantially off from even censuses at math and those. But let's walk through some stuff here.

For just this year, so let's do our 2024 year. We have payroll taxes, income tax from beneficiaries, and the interest—because they are going to make about 6 percent of the fund—it is going to come in as interest. I have 1 trillion, 166 billion. Okay. I have the spend in the 2024 fiscal year of 1 trillion, 480. Do those sort of match up with your numbers? That means the 2024 reaching into the trust fund will be $314 billion this year.

Mr. SWAGEL. Yeah, that is close to what I have got.

Mr. SCHWEIKERT. Okay. So it is $26 billion a month is reached into the trust fund and used to supplement the checks that are going out the door?

Mr. SWAGEL. That is right. And the money from the trust fund is, you know, the securities of the trust fund redeemed by the Treasury.

Mr. SCHWEIKERT. Yeah. It is the special T-bills. But some people don't understand that there were—you know, six percent of the entire revenues, at least this fiscal year, on Social Security are actually interest that the general fund pays for having borrowed the money.

Mr. SWAGEL. That is right.

Mr. SCHWEIKERT. So you do have the weird multiplier. And then there is the tax on benefits, which is about four percent.

I wanted to make sure, because there was a couple of things said that made it sound like the trust fund isn't already in play. It is in play this year. Over $314 billion will be borrowed from the trust fund this year—excuse me, refunded—the trust fund will cash in.

Mr. SWAGEL. Redeeming securities.

Mr. SCHWEIKERT. Yeah, redeem.

Mr. SWAGEL. That is right.

Mr. SCHWEIKERT. A couple other things I want to walk through. And instead of me leading you on these, I have three or four charts here. What do you see is the biggest differentials between SSA baseline and the CBO baseline? Particularly, I am looking at—you have a fairly substantial difference in outyears on, you know, their baseline. You also have some different calculations on the caps.

But first, off the top of your head, can you give me what you see as differences on how the CBO actuaries built their model compared to the SSA?

Mr. SWAGEL. Sure. I can talk to that now, and I know Steve will have, you know, a lot to stay also.

So we do have different modeling technologies. So I will just set that aside. You know, we do things slightly differently. We do current law. And, you know, they assume some changes in the law. You know, outside of Social Security but in the tax law.

In the parameters, the sort of numbers where we have different GDP growth, and Steve highlighted that this year, you know, they have bumped up GDP growth. And that just slightly more than offset, you know, their moving toward, you know, sort of what is happening on fertility. So it is growth fertility. They have much higher interest rates further out.

And then immigration. You know, we have picked up the immigration surge that is not yet in the population numbers. But working with DHS numbers, we have picked that up.

Mr. SCHWEIKERT. And where I was really going with this was not to pick on the Social Security actuaries or the CBO. It was more, I am trying to head towards the fragility of the numbers. When we did our math last year, the exhaustion, the first year of exhaustion was $616 billion short. Now it is 400 and some.

Mr. SWAGEL. Yeah. Yeah. And in ours—that is immigration. In essence, it is from last year to this year, we picked up immigration.

And sometimes we picked up—the immigration surge started in 2021.

Mr. SCHWEIKERT. Okay. So year of exhaustion, you pick up a couple hundred billion just on what you consider immigration population.

Mr. SWAGEL. The immigration surge, that is right.

Mr. SCHWEIKERT. Okay. But it also actually should give us a sense of the level of fragility if we were to go into recession. You know, let's say it is a mild recession, would we probably see—you know, because you just had a $200 billion change at the end of the ten, in a single cycle. I am trying to get some sense of the fragility of that baseline number.

Mr. SWAGEL. I agree that a recession would affect wages, would affect contributions. It would also affect fertility, right. After the 2008 rece—you know, recession and financial crisis and after the pandemic, fertility declined. It came up a bit, but not—you know, it didn't go backward.

Mr. SCHWEIKERT. Yeah, but then it took a big spike downward last year. We went to 1.63.

Mr. SWAGEL. Yeah.

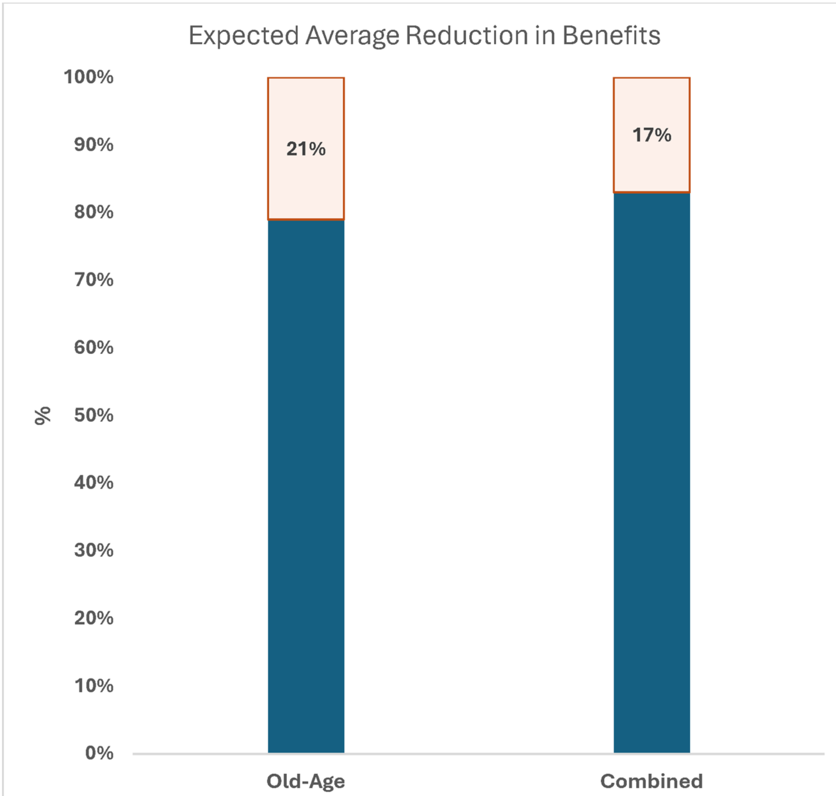
Mr. SCHWEIKERT. And I am over my time.

Mr. Chairman, without objection, I have a number of charts that we have worked on with both taking from the actuary report and then some notes from the joint economic economists. I would like to add those to the record.

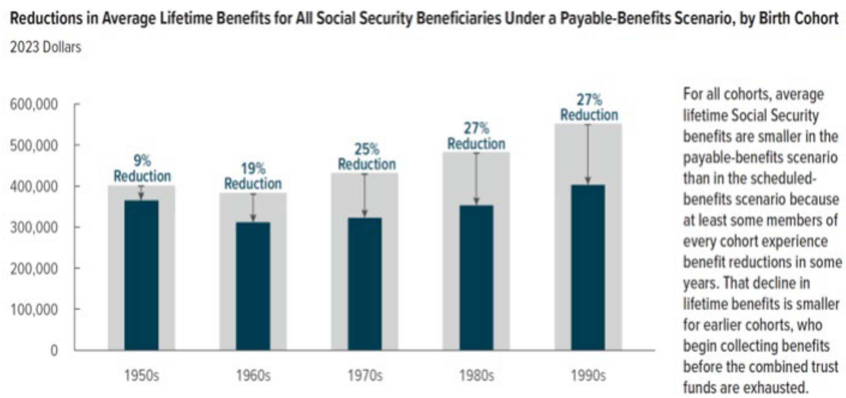
Chairman FERGUSON. Without objection, your charts are added to the record.

[The information follows:]

Note: The depletion would be 2033 for Old-Age alone, and 2035 for the combined.

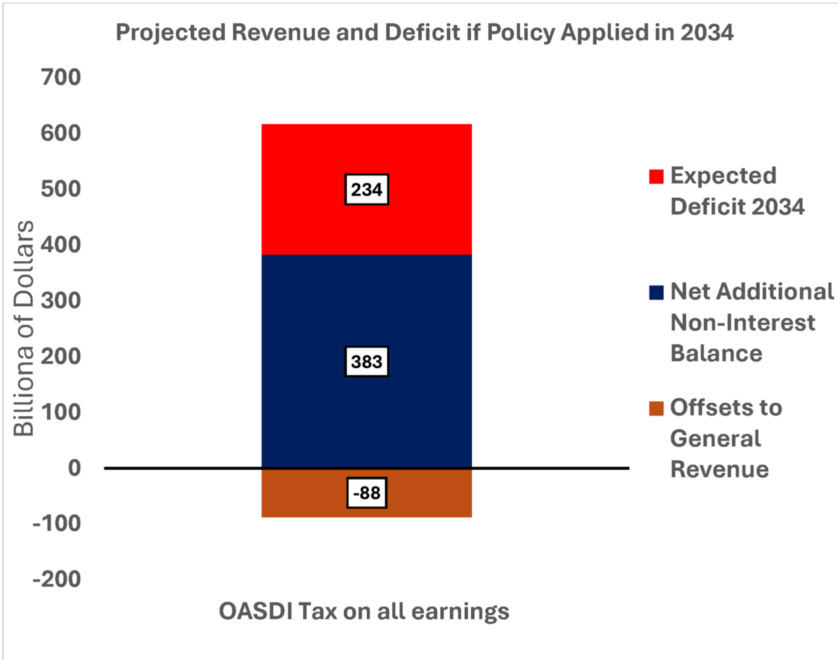


Source: Trustees Report 2024. Table IV.B4. Page 69



Source: CBO 2023 Long-Term Projections for Social Security.

https://www.cbo.gov/publication/59340 . Excel file, here: https://www.cbo.gov/system/files/2023-06/59184-Data.xlsx

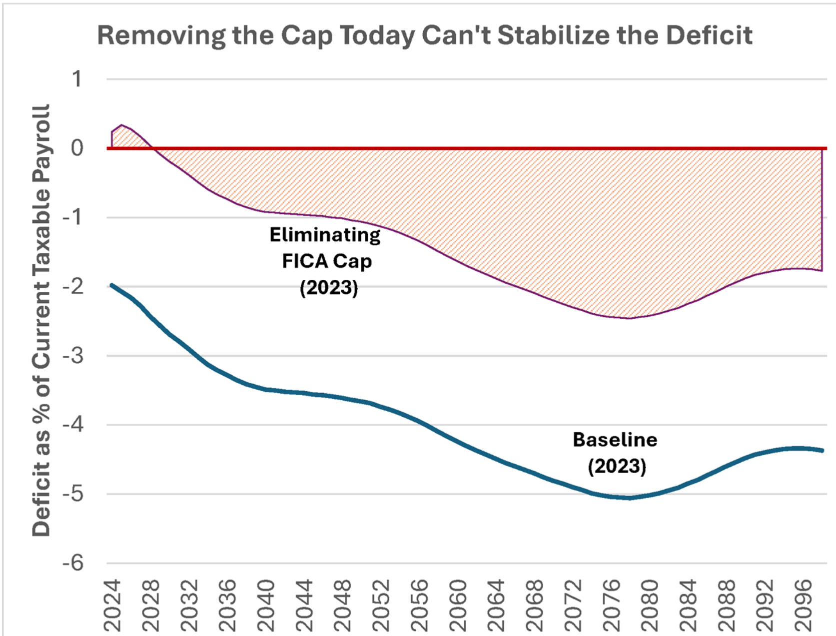


Source: CBO 2023 projections on Social Security for baseline. Office of Chief Actuary for changes of policy (Based on the Trustees Report of 2023), and JEC Calculations

That is, using CBO for the baseline regarding the deficit. Using SSA for the changes from removing the cap.

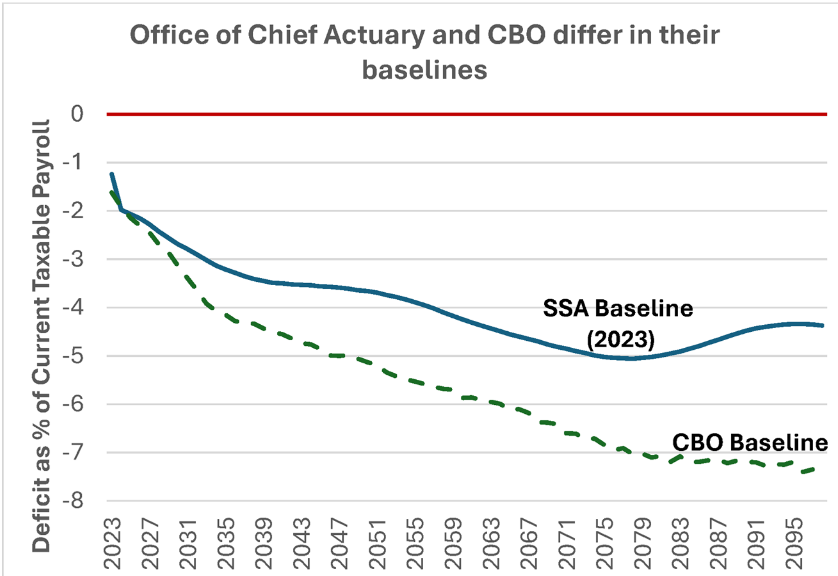
Note that since the Trust Fund is depleted, there are no income from interest to the Trust Fund. Also, since benefits suffer a reduction, CBO's baseline includes a reduction in taxes on benefits due to this reduction.

Additional Charts: they are miscellaneous. They came from playing with the data and exploring the documents.



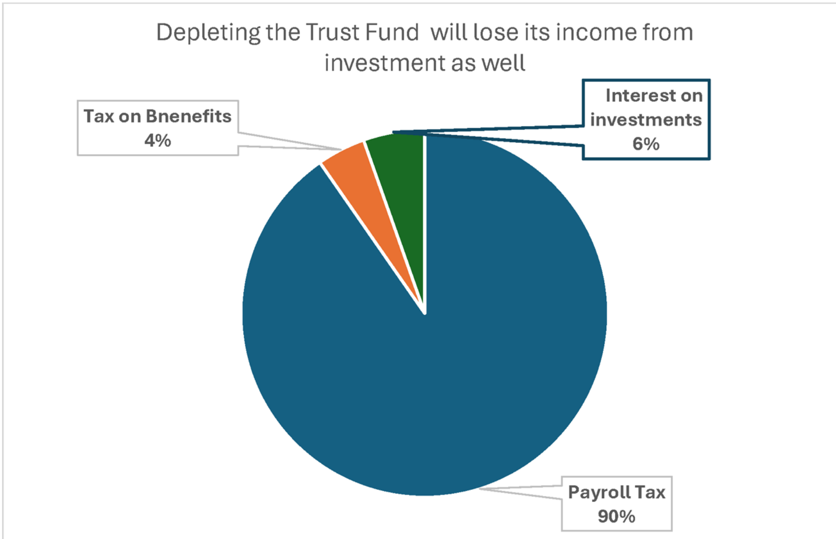
Source: SSA 2023 Trustees Report, Office of the Chief Actuary's Estimates of Individual Changes Modifying Social Security

Also note that applying payroll tax to these other incomes imply adding taxes to an income already subject to personal income tax. (I can't find data on how much both tax bases overlap)



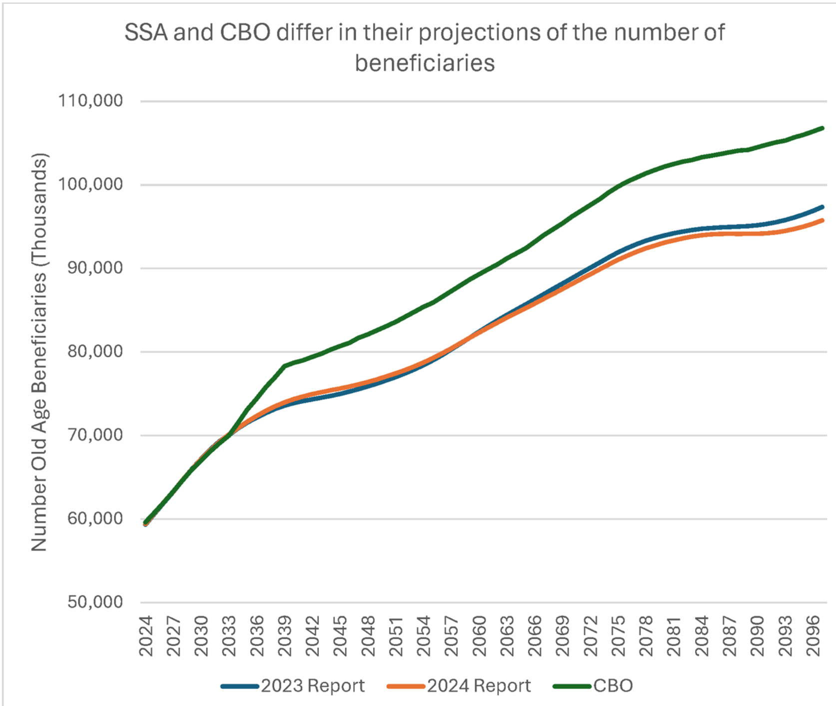
Source: CBO 2023 Long-Term Projections for Social Security, SSA 2023 Trustees Report

Note: this is important. For example, when both teams scored the Social Security 2100 in 2019, both estimated a similar bump in revenues but, while to SSA the Trust Fund would rebound and remain solvent, to CBO, the Trust Fund would've depleted anyway.



Source: 2024 Trustees Report. Table III.A1.—Operations of the OASI Trust Fund, Calendar Year 2023. Page 31
Note: Raw data

	Millions of $
Net payroll tax contributions[a]	1,054,077
Total income from taxation of benefits[a]	49,764
Total investment income and interest adjustments	63,043
Total income	1,166,885



CBO 2023 Long-Term Projections for Social Security, SSA 2023 Trustees Report, SSA 2024 Trustees Report

Note on replication. The SSA data is not in the report's pdf but in the single file tables https://www.ssa.gov/OACT/TR/2023/SingleYearTRTables_TR2023.xlsx and https://www.ssa.gov/OACT/TR/2024/SingleYearTRTables_TR2024.xlsx

Mr. SCHWEIKERT. Thank you, Chairman.

Chairman FERGUSON. Thank you.

Next, we will call on the gentleman from Michigan, Mr. Kildee. You are now recognized for 5 minutes, sir.

Mr. KILDEE. Thank you, Mr. Chairman and Ranking Member, for holding this hearing.

And to our witnesses, thank you so very much for being here, and perhaps more importantly, for your years of work on this and other subjects.

I am from Michigan. In Michigan, over 2 million seniors rely on Social Security just to make ends meet. For most of those folks, Social Security is the most important source of income retirement— or retirement income. And, in fact, for many, it is the only source of retirement income that they depend on. They have contributed, these folks that I represent, that we all represent, have contributed to Social Security with every paycheck, and rightfully expect that it will be waiting for them when it is time for them to retire. That is sort of the deal.

When you work hard, you play by the rules, you ought to be able to retire with dignity. Those American workers have lived up—paycheck to paycheck, have lived up to their end of the deal, and so it is really important that Congress, on behalf of the American people, live up to our end of the deal and make sure that that benefit that they paid for, that was promised to them, is waiting for them.

Democrats on this committee—it has been mentioned, Mr. Larson's leadership on this issue, Democrats on this committee are focused on delivering on that promise. And we are willing, even if it is hard, even if it may not be perfect, we are willing to put our name behind a proposal to fix this problem. And that is why we put up our solution to shore up the Social Security trust funds, to increase benefits, important part of this provision, for current and future retirees. We do so by making the wealthiest Americans pay into Social Security at the same rate as those Bay City teachers that I represent or Saginaw firefighters that I represent, Midland factory workers that I represent are paying out of their paychecks. This approach stands, as has been said, in pretty stark contrast to the proposals or lack of proposals put forward by our Republican colleagues.

Now, we haven't seen the legislative approach prepared and drafted and dropped in the hopper. We have done ours. But we do know that the Republican Study Committee, which 80 percent of House Republicans belong to, recently released their budget plan for 2025. And under their plan, Republicans would cut Social Security benefits by $1.5 trillion. You can say it is this or that or the other thing, but when you take that kind of money out of the program, someone is going to have to lose a benefit.

This proposal which raises the retirement age and cuts benefits for family members couldn't be more out of step from what I hear back home about the solutions that people want to see us take up.

For the Michiganders, the seniors that I represent barely getting by on their Social Security check, the answer to the long-term solvency of Social Security is not to increase the retirement age, not to cut benefits. It is time that we advance legislation that increases Social Security benefits to reflect the true cost of living that they experience and does so by making the wealthiest Americans, who have done extraordinarily well, as evidenced by some of the data dating back to the 1983 reform, the millionaires and billionaires have done extraordinarily well, and they certainly can step up and do their fair share.

Again, it is time to move legislation that does not cut benefits, that solves this problem by making sure that the people at the very top of our economy pay their fair share. That is what our legislation would do.

I don't want to ask a question. I just want to say to Mr. Huston, Mr. Goss, and Mr. Swagel, thank you for the work that you do. Thank you for keeping us informed with the facts. The facts speak to the need for us to take action.

I look forward to working, for my remaining time here in Congress, alongside each and every one of you to make sure we solve this problem. So thanks for your service to our country,

Ms. SÁNCHEZ. Will you yield?

Mr. KILDEE. I would yield to Ms. Sánchez.

Ms. SÁNCHEZ. Yeah. I just want to put a finer point on the immigration issue. When we have an underground economy, when workers are not part of the legal system, they do not pay into the Social Security system. Is that correct? Does anybody disagree with that?

Mr. GOSS. That is correct.

Ms. SÁNCHEZ. So, if we had opened up legal pathways for folks to naturalize and get their citizenship, they then would be, if they were working, paying into the Social Security system. Is that not correct?

Mr. GOSS. That would make a significant difference. There are cases where people are not legally authorized, but they may nonetheless have earnings reported on their behalf by their employer with tax revenue coming into the trust funds. It goes into what we call the earning suspense file. They will likely not ever get any benefit credit, but payroll taxes still accrue in many cases where people are not legally work authorized.

Ms. SÁNCHEZ. But that probably isn't the norm, because I would expect that in a cash underground economy, nobody is contributing into the Social Security trust fund.

Mr. GOSS. If people are paid cash literally, absolutely.

Ms. SÁNCHEZ. So, again, if we opened up legal pathways for those folks to regularize their status, we could boost what goes into the Social Security trust fund, correct?

Mr. GOSS. Definitely, yeah.

Ms. SÁNCHEZ. Thank you. And I thank the gentleman for yielding.

Mr. CAREY [presiding]. The chair now recognizes Mr. Kustoff for 5 minutes.

Mr. KUSTOFF. Thank you, Mr. Chairman. Thank you for the witnesses for appearing today.

If I could, Mr. Goss, if I could ask a question more on process than substance for a moment. I am a big believer that we can always look to history when we are trying to address issues and problems and see what was done right and see what was done wrong.

From a historical perspective, giving guidance to us, can you talk about the 1983 process and lessons that we can learn, right and wrong, to help direct us?

Mr. GOSS. Wonderful question, thanks very much. And I was actually there working with Moynihan and Dole and others throughout the Greenspan Commission and after. It was a wonderful process.

I would say that what we really need to do is to do that more and more often, to have the kind of discussion we are having today, to talk about the possibilities through the Greenspan Commission and through the conference committee that actually developed the 1983 amendments. We made a lot of progress.

One of the shortfalls that we had at the time was computers have advanced a little bit since 1983. We were not able to overnight develop a full annual projection of what the implications of reform would be at that time. We are now able do that literally overnight. For example, the fact that we had the big rise up in trust fund reserves expected in the 1983 amendments and then dropping down at the end. Had we had more time, we might have been able to smooth that out and been in better shape. But we are now in much better shape to do it.

If I may just add, by the way, I think Phil and I are going to have to talk, because our projected shortfall for the calendar year 2024 for the OASDI program as a whole, our reduction in our trust fund reserves is $100 billion. I think I heard $300 billion. What is curious here is that, in fact, from the 2023 Trustees Report last year to the new one, the economy did so much better in 2023 that actually we are in better shape now. And here is the really good news: The end of 2023 and so far in 2024, the economy is actually operating better now than we even had included in our 2024 Trustees Report. I assume that is probably the same for the CBO projections. So I am not quite sure why CBO is seeing a $300 billion drop in trust fund reserves where the trustees, on what are conservative assumptions so far for 2024, has seen only a $100 billion drop.

Mr. KUSTOFF. Are there other lessons, good or bad, that we can learn from the 1983 process?

Mr. GOSS. I think the lesson that we learned then was that there was great cross-aisle discussion, bicameral, bipartisan. It was a wonderful experience dealing with people all looking towards where we were. Now, of course, the one shortfall was that it was so late in the game, as Barry mentioned earlier. So the fact that we are now roughly 10 years before the point of reaching reserve depletion is wonderful. If we could add that kind of cross-the-aisle discussion and come to serious discussion about what we want to do for the American people, that would be wonderful.

So there was great bipartisan discussion back in the day, but it was very late in the game. We are now in a nice position of being 10 years before reserve depletion to be able to hopefully come up with a good approach.

Mr. KUSTOFF. Thank you, Mr. Goss.

Mr. Huston, can I talk to you about your report for CRS? You have a section in there about interest income. And you show the disparity in interest income to about 2008, 2009, 2010, and then it drops off.

Can you walk us through the early 2000s to about 2009, 2010, and walk us through the present as it relates to interest income and its relevance?

Mr. HUSTON. Sure. So as I had mentioned in my oral and my written testimony, there is three sources of revenues for the trust funds. One is the payroll taxes, another is taxation on benefits. And in years where there is excess tax revenues, those excess funds get invested in interest-bearing government securities. And then the trust fund earns interest on those, and that becomes the third source of revenue.

Interest income that is not needed to pay benefits gets credited back to the trust funds. And the trust funds never needed to rely on that interest income till about 2009, 2010. Starting in 2009, the cost rates started to exceed the income rates, and the income stream started to be used as a means to help pay benefits. That has been moving forward up until 2021, when, in addition to the interest income, the program has also needed to rely in part on the trust fund assets themselves to help pay benefits.

Mr. KUSTOFF. Thank you very much.

My time has expired. I yield back.

Chairman FERGUSON [presiding]. I would ask for just a little bit of leeway here from my colleagues before I call on Ms. Moore.

Dr. Swagel, I believe that you—I saw you wanted to respond to the question about the difference between Social Security's estimates and CBO's estimate on the withdrawal of the $100 million versus $300 billion.

Mr. SWAGEL. Yeah. I mean, and since——

Chairman FERGUSON. And if you could make this quick.

Mr. SWAGEL. Yeah, sure, sure. Of course, there is a lot to numbers. So we have—it is $150 billion now that the trust fund expenditures exceed the income, and that is rising to $500 billion in our projections by 2034.

Chairman FERGUSON. Okay. Thank you for that clarification.

Now the gentlelady from Wisconsin, Ms. Moore, you are now recognized.

Ms. MOORE of Wisconsin. Thank you so much.

And I am always delighted to talk about our premier program that prevents seniors from living in poverty, particularly important for our disabled community, women, and people of color.

I want to start out by thanking one of our witnesses, Mr. Goss, for diligently working with me and my staff and answering questions that we have given you in writing.

I think it is important, when we talk about—Mr. Chairman and Mr. Ranking Member—that when we talk about Social Security, we talk about it in real terms, that we really come to the table, coming together in good faith. And my concern is that it is not good faith to come to the table scaring young people, telling them not to rely on Social Security because it won't be there anymore. So many young people have bought into the idea that it is hopeless to ever rely on it or to—you know, that is not a realistic way of fixing it.

It is not fair to come to the table and say to people the only way that we can fix it is to cut benefits by 25 percent. You can't say that you are working toward a solution to say that we ought to raise the retirement age. You know, you look at all the gray hair up here. It is one thing for us to be doing this kind of work at our age, but when I think about the people that I need to fix the gutters on my house, I don't think any of them are going to make it by increasing the age.

But one of the things that I just wanted to review with you, Mr. Goss, there are many roads to the city. And before I talk to you, I want to talk to Mr. Swagel.

You shared with my colleague, Ms. Sánchez, that you thought immigration reform was a real vital way to improve the receipts—the payroll receipts. And you also mentioned, as Mr. Schweikert well knows, that we have decreased population, and we are facing a fertility crisis.

And so, you know, we have several approaches to immigration. But I once read the CBO report, that within a window of a 10-year budget window, we could see a $1 trillion increase minimum if we were to have some sort of immigration reform. Am I remembering that correctly?

Mr. SWAGEL. Yes. What we said is that the immigration surge we project from 2021 to 2026 will result in about $1 trillion of additional revenue. We are working further on that. So we will have an update to that soon, but it is still on the order of——

Ms. MOORE of Wisconsin. That is only 5 years, $1 trillion.

Mr. SWAGEL. Over the 10-year period.

Ms. MOORE of Wisconsin. Over the 10-year period.

Mr. SWAGEL. The 5 years is over——

Ms. MOORE of Wisconsin. Well, I just wanted to remind us of that.

Mr. Goss, you sent me a really long memo. Be careful of what you ask for, people actually might write you back. And so what I asked you to analyze was how could we maintain the solvency of this program but yet be humane and recognize that people were getting older, that people were losing benefits, because they—5 years of their lives have gone toward childcare, rearing, women who never—don't get that credited, people over 80, kids who lost their benefit. There have been so many teary-eyed Members of Congress that have talked about how they were able to go to college after their dad died.

And so, I propose restoring all those benefits and still extending the life of Social Security by 24 years. I have 42 seconds, take it away, sir, and sort of review this thick memo for us.

Mr. GOSS. Well, thank you very much. There is no question that we can maintain the benefits we have now, but we do need more revenue in the future. Because of what has happened with the changing earnings distribution and the changing number of working age people versus retirement age people in our country, largely because of the birth rate dropping, we do have a situation where to maintain the level of benefits we had scheduled in current law we will need more——

Ms. MOORE of Wisconsin. I mean, it is a modest change in benefits. Like, right now, we have a combined contribution level of 12.4 percent. If we were to increase it by 13 percent payroll an employee, that is how we achieve that 24-year increase. So, you know, you pay a penny today for benefits for 25 more years. Am I correct?

Mr. GOSS. That is right. And let me just also go back to immigration that you mentioned, which is so important. We have less than 4 million births per year in this country, but our net immigration is on the order of 1 million. That is an enormous help in terms of maintaining our population in the future. We had such a drop in births because of the birth rate since 1965, that having elevated immigration would be a big help in maintaining our population and the age, distribution, which would have enormous ramifications.

Chairman FERGUSON. The gentleman——

Ms. MOORE of Wisconsin. Sorry. Mr. Chairman, let me thank you for your indulgence, and Mr. Ranking Member. And I will yield back.

Chairman FERGUSON. Thank you, Ms. Moore.

The gentleman from Pennsylvania, Mr. Smucker, you are now recognized for 5 minutes.

Mr. SMUCKER. Thank you, Mr. Chairman.

I refer to something Mr. Larson said. I am not even sure where to start here. There is a lot to talk about. This has been a great conversation.

A few things I want to mention, I think. Mr. Goss, you had responded in an answer to a question from Mr. Kustoff about the Commission or the deal in 1983, and talked very positively about that; really people coming together and resolving this, putting everything on the table and making it solvent for years to come. We can do that again, right, and we should do that?

Mr. GOSS. We are much looking forward to that.

Mr. SMUCKER. Yeah. And would like to suggest to Mr. Larson and others who I think are, you know, sincere about the desire to fix Social Security, there is a difference between proposing a bill that doesn't go anywhere and having a real bipartisan discussion about resolving this. And so, I guess, I would like to suggest the fiscal commission that we had recommended that looks at both debt and Social Security really is an attempt to do that. And I know you have spoken out——

Mr. LARSON. Would the gentleman yield?

Mr. SMUCKER. Let me finish my sentence and I would be happy to.

Mr. LARSON. Sure.

Mr. SMUCKER. I know you have spoken out against that and, you know, I am telling you in all sincerity that I think that we could resolve this if we had that kind of conversation with the American people. We could do what has been done in 1983. And we could take your bill and others and put them together and really resolve this for the American people. I can tell you that I am certainly interested in doing that, people on our side are interested in doing that. And we are willing to put everything on the table.

And so, yes, I will yield.

Mr. LARSON. So what is it you are putting on the table, number one? And there are many Social Security proposals that exist out there, not just Social Security 2100.

But also, there is a big difference between the Greenspan Commission and the commission that was proposed behind closed doors with only a select group of people with a decision that would require only an up or down vote is——

Mr. SMUCKER. Well, and I——

Mr. LARSON. That is not a democratic—let's sort through this, let's have this exposed to the public, let's go through this, and let's put all those discussions on the table. And I——

Mr. SMUCKER. So I am going to reclaim——

Mr. LARSON [continuing]. Totally agree with you that people like yourself and others are very sincere about this, except the proof is in the pudding.

Mr. SMUCKER. And I will take my time, because I would love to get to a lot more here. But I would love to continue to have that discussion. I would love to not just get a no on that, because I can tell you, we are sincere about it and we could put everything on the table to try to solve this.

I do want to—on your point on the debt, so very briefly so that people understand this, initially when Social Security was put in place, we were taking in more money coming in than was going out, correct? When did that change? When did Social Security no longer begin to receive each—more money annually than they were paying out?

Mr. Goss?

Mr. GOSS. Well, most recently that has occurred in 2010. It was expected to be in 2020 at the time of the 1983 amendments, but because some of the changes——

Mr. SMUCKER. So since 2010, we have been paying out more than we have been taking in?

Mr. GOSS. Exactly.

Mr. SMUCKER. And within 9 years, the difference—the trust which was the difference that has been accumulating over time that has been borrowed and is being paid back, in 9 years, that expires, right? That is gone. We no longer have excess funds. Am I right on that?

Mr. GOSS. On a combined basis, maybe 10 years, on that order.

Mr. SMUCKER. So at that point, unless something changes, people will no longer get all of their Social Security benefits because we don't have money to pay it, correct?

Mr. GOSS. Under current law——

Mr. SMUCKER. Yes.

Mr. GOSS [continuing]. We cannot pay what is not in the fund.

Mr. SMUCKER. Or if at that time Congress decides to make it up by taking on additional debt, that is a choice we could make, right? We could continue to pay benefits, if nothing has changed, by taking on additional debt and paying for those benefits.

Mr. GOSS. Unprecedented, but anything is possible.

Mr. SMUCKER. But at that point, it would add to the debt, right?

Mr. GOSS. If Congress were to change the law and say that we will borrow from the public——

Mr. SMUCKER. The only point I am making—and I would love to have more conversation about this publicly, that is why we need a commission to talk about this—is that this will contribute—there is a fundamental problem: We have far fewer workers than we do retirees. That ratio is far different, and so we need more workers.

By the way, I agree with Ms. Sanchez, who I don't often agree with, on immigration. It is something that it is a partial solution here. We need a lot more workers, we should be talking about legal immigration.

But it is a great conversation. I wish others would agree that we need to continue to have this conversation. This is how I think a commission could work. We would take this conversation across America. We would begin to have a real understanding of the facts and how they exist. We just can't have that conversation in 5 minutes each here. I only get 4 if I give some to you. But, like, I would love to continue this conversation.

But thank you, Mr. Chairman, for your indulgence of time here.

Chairman FERGUSON. Thank you, Mr. Smucker.

Next, we will go to our dear friend from the great State of Illinois, Mr. Schneider, you are recognized.

Mr. SCHNEIDER. Thank you.

And I will say to not just my friend, my next-door neighbor, Mr. Smucker, I look forward to the conversation. I think it is important that we have it. I will challenge this one premise: I don't think it is a binary option.

And, Mr. Goss, I am going to ask you about the trust fund in a second, but it is not just necessarily going to debt. There is no reason, I am not advocating this, but we could raise taxes to pay for it. There are whole ways to do it. Or we could, as was mentioned earlier in the conversation, increase the percent of income debt paid into Social Security as a piece of it. We need to have a discussion around all of those things.

And, Mr. Goss, I took a quick look at your biography. You are a little bit older than me. I graduated college in 1983. I want to make sure that we are going to be in the same way. You were actually here in 1983 when they were talking about Social Security. When I graduated, every one of my classmates and my cohort were told Social Security won't be there for you because it is insolvent, and then Congress acted. So we are talking about the trust fund being depleted.

Why is there a trust fund in the first place? And I will get the leading question, wasn't the plan to create a trust fund for a period of time that would rise and then ultimately fall? Isn't that the design from the 1980s?

Mr. GOSS. Well, the trust fund—we oftentimes refer to the money in the trust funds as a contingency reserve. This is not an advanced funded program. If we were a fully advanced funded program, our trust fund reserves would actually be about 25 times annual cost. We are only at about 1.5 or so times annual cost now because it is supposed to be a contingency reserve. If, as some have mentioned, we were to hit another recession at some point and our income started to drop relative to our cost, we need to have some time to draw on those contingency reserves so that you all will have time to make changes to address that issue.

Mr. SCHNEIDER. But the goal was to buy time in the 1980s. And here I am now 40 years—40-plus years since then, and people that I went to school with, that I grew up with, are beginning to retire. And for many of them, their retirement and the security of their retirement is standing on a foundation of Social Security that they didn't believe would be there for them 40 years ago. But because of the work we did in this—work those before us did in Congress, extended it. And I think now it is falling on our shoulders to figure out how do we make sure that the next generation, the young people and the young people graduating today.

You know, in 1983 when I graduated, we had the recession. It was the tail end of the recession, the economy had great success ever since. The kids graduating today first graduated 4 years ago from high school in the teeth of COVID, now are graduating, and the challenges are different. The least we can do is stand there for them. But I think there is also a way that we do it.

So, you know, the Republican Study Committee's proposal of cutting Social Security by $1.5 trillion puts a burden on those who can least afford it who are depending on Social Security. The idea of raising the retirement age—you know, life expectancy is in many cases tied or at least there is a correlation to income. And those who are in the highest income brackets, when they retire, let's assume at 67 right now, their life expectancy at retirement is another 20-plus years. For those who are in the lowest quintile, their life expectancy in retirement is less than 10 years. It is a factor of health; it doesn't matter why.

If we raise the retirement age from 67 to 70 on these people, we are literally cutting their expected retirement by fully a third. People who have worked their entire life, who have followed the rules, who have struggled their entire life to make ends meet, and we are to tell them that their golden years are going to be cut by a third? That just doesn't seem fair.

So, we need to have these conversations, we need to be working together, Republicans and Democrats, across the aisle, but we have to do it in a way that recognizes the original intent of Social Security, an insurance program to give Americans, after a lifetime of service and contribution to their communities and their Nation, a dignified and secure retirement.

And that is why, Mr. Smucker, I look forward to working with you—we just have to walk one office over—but with our other colleagues to have these conversations, and I do agree, we have to take it to the public.

And I am grateful for our ranking member, Mr. Larson, your leadership and work, and you have done incredible yeoman's effort with Social Security 2100. How do we take this not just for another 20 or 30 years. I think earlier it was said that—Dr. Swagel, I think you were asked the question. You said if we took it to 90 percent, we would have 13 years. Thirteen years is great if you are in your 80s. If you are 25 years old, 13 years doesn't solve the problem. How do we add 75 years to this to do it in a way that reflects our values as a country, the hardworking American individuals and their enterprises are doing to grow our country.

And so, I am over my time. I am sure I have lots of questions for all of you, but I don't want to keep us longer. Let me just say thank you to the chairman and ranking member for this hearing. We have to get this done. It is our generation who is benefiting from Social Security that needs to make sure that the next generations have the same benefits that we have.

I yield back.

Chairman FERGUSON. I thank the gentleman.

Next, the gentleman from Iowa, Mr. Feenstra, you are now recognized for 5 minutes.

Mr. FEENSTRA. Thank you, Chairman Ferguson, Ranking Member Larson.

Thank you also, Dr. Swagel and Mr. Goss and Mr. Huston, thank you for being here today.

We have got, obviously, a lot of concerns with Social Security, and we have got to resolve them. But we also have to be singing from the same song book, understanding what is happening.

Dr. Swagel, I have got a lot of things to talk about, but I want to just ask you, do Social Security payments create debt?

I mean, I am hearing from the other side that there is this view that it doesn't. And I would like you to explain to me, does it create debt?

Mr. SWAGEL. You know, there are lots of ways to look at it, and I realize that is part of the confusion. The $150 billion that I think Steve and I both, you know, talked about, today that is being funded by the Treasury, the cash has to come from the Treasury to get that $150 billion.

Mr. FEENSTRA. It has got to redeem its assets.

Mr. SWAGEL. Exactly.

Mr. FEENSTRA. Correct? I mean, Social Security has got to redeem its assets.

Mr. SWAGEL. Yes. It is an asset for Social Security, but it is a liability for the Treasury. The Treasury borrows——

Mr. FEENSTRA. Thank you. And so what is the Treasury going to do again? So you have go to redeem the assets, but how does the Treasury redeem its assets?

Mr. SWAGEL. To come up with the cash, the Treasury——

Mr. FEENSTRA. Yeah, comes up with the cash by selling bonds, right?

Mr. SWAGEL. Selling bonds, everything——

Mr. FEENSTRA. Thank you. Yeah, exactly right. So it actually is adding to our debt, right?

Mr. SWAGEL. To redeem the assets in the trust fund, the Treasury has to borrow and create debt.

Mr. FEENSTRA. Yes, it has got to create debt. Yes.

Mr. Goss.

Mr. GOSS. So if we redeem $100 billion of debt that is owed to the trust funds and we trade that for $100 billion that is now owed to the public, it is merely a swap. The total Federal debt is unchanged.

Mr. FEENSTRA. But you still have got to—you have got to sell bonds to do that. The Treasury still has got to sell bonds to do that. Is that a fair statement?

Mr. GOSS. It has to sell bonds to the public by redeeming the same amount of bonds that it now—that are held by the trust fund.

Mr. FEENSTRA. Thank you.

But, Mr. Swagel, can you answer that?

Mr. SWAGEL. Yeah. You know, the numbers that we focus on are debt held by the public.

Mr. FEENSTRA. Yes.

Mr. SWAGEL. So what Steve is saying is correct, the debt held by the public goes up.

Mr. FEENSTRA. The debt held by the public, yes. But, I guess, what I am trying to say is that you still have got to sell Treasury bills, you still have got to sell T-bills.

Mr. SWAGEL. That is right, to the market.

Mr. FEENSTRA. To the market. All right. And when you do that, that is, in essence, getting a loan, that is going further into debt.

Mr. GOSS. You are redeeming one loan and creating another.

Mr. FEENSTRA. What I am trying to have everybody understand here is that we have got a problem, okay? We have got a problem. And I think we all agree to this that we have a problem. And there is a lot of insightful ways that we can look at this, but the fact of the matter is, is that, you know, in, what is it, 2032 now, the CBO's outlook—I think it is 2032, am I right, fair statement?

Mr. SWAGEL. It is 2033.

Mr. FEENSTRA. 2033.

Mr. SWAGEL. The end of 2032——

Mr. FEENSTRA. Right. So, Dr. Swagel, and so what is going to be the percentage cut per Social Security recipient right now at 2033?

Mr. SWAGEL. So we have about 21 percent.

Mr. FEENSTRA. Twenty-one percent. So what you are telling the public, I just want to make sure we are fair here, you are telling the public that they are going to see a 21 percent cut in their Social Security if we do nothing.

Mr. SWAGEL. That is correct.

Mr. FEENSTRA. Okay. Everybody get that? I just want to make sure the public gets that. Twenty-one percent cut in 2033, if we do nothing. So that means we have got to act, that means we have got to do something.

Thank you, by the way, for holding this because this is very important.

So what I did, I think the seniors—I created a Seniors Saves Act that creates an accurate forecast. I think right now the CBO, the 10-year outlook showing the outlays is not an accurate forecast because it just continues in full regardless of the trust fund's exhaustion.

Can you talk about this a little bit, Dr. Swagel?

Mr. SWAGEL. Yes, for sure. So under the Balanced Budget Act of 1985, our baseline projections are required to show outlays as if the trust fund continues even after it is exhausted, so the scheduled benefits.

Mr. FEENSTRA. Yes.

Mr. SWAGEL. We show both the schedule and payable, but the baseline by law shows the scheduled.

Mr. FEENSTRA. Yes. And again, here's the problem: It is a false narrative, right? I mean, we are making assumptions here. You don't have to answer that.

I just want everybody to understand that we have got to have accurate data. We have got to make sure the CBO is telling everybody, and just like I am telling everybody, by 2033, you are going to get a 21 percent cut in your Social Security if we don't do something. So you might want to tell your Congressmen and women, you better act.

Thank you. I yield back.

Chairman FERGUSON. I thank the gentleman from Iowa.

Thanks again to each of you for being here. I would like to say— we have got one more member coming in before we wave the flag here, so we are going have one more.

I was going to cut you off, but Mr. Larson insisted that you get your 5 minutes. So thank you, John, for that.

So we will now recognize Mr. Estes for 5 minutes.

Mr. ESTES. Thank you, Mr. Chairman. And thank you Mr. Larson for looking out for me. I appreciate that, my good friend.

And I thank you all for being here today to talk through some of these issues that are so important for everyday Americans. You know, today's hearing obviously is critically important as both the CBO and the trustees have, on their most recent assessment, projected that Social Security's trust fund will be unable to pay full retirement benefits starting in 2033. According to the projections, that means that tens of millions of seniors and their families who rely on the programs would experience immediate benefit cuts.

Unfortunately, a lot of those folks are already experiencing cuts, thanks to the sky-high inflation that is 19.9 percent since January 2021. And rising prices hurt those on a fixed income and just like so many of our seniors.

You know, a key driver of inflation is an uncontrolled and insatiable desire to spend. Our debt now stands at $34.6 trillion, and grows by $100,000 a second. It is simply unsustainable.

Even though we have got our spending under control in Congress, we still have a problem. And discretionary spending, actually the spending that we get to vote on as Members counts for less than 30 percent of all government spending. And CBO projects that Social Security will eclipse all discretionary spending, including defense by 2029.

So if we are going to make real changes to preserve Social Security, we have got to talk about responsible reform. I know in an election year there is a lot of rhetoric about how do you cut Social Security, but I think we all can agree we don't want seniors to suffer through that process. And the truth is, if we put our heads in the sand and do nothing else, American seniors who will suffer the most. As it stands now, in the next decade, if no action is taken, Social Security recipients will start receiving $0.75 on the dollar when insolvency is reached.

I want to talk a little bit about, you know, what is the impact and how we are being impacted. And something that is obviously having an impact on Social Security is illegal immigration. Since President Biden took office, there have been more than 2.15 million encounters on the southwest border alone, and we can't be sure how many people have crossed into our country.

Mr. Goss, how do the Social Security trustees account for the impact of illegal immigrations in your assumptions and has it been accounted for in the current Trustees Report?

Mr. GOSS. Absolutely. We always have—we look at total immigration, both immigration subject to the legal limits and also undocumented immigration coming into the country. By the way, the undocumented are generally looked at as people who come across the border without documentation.

Many of these people come to the country and eventually become legal permanent residents or may have children while they are here who will then be citizens. That actually contributes positively to the economy and to Social Security.

So on the bottom line, really, immigration of all forms is actually a positive in the realm that we are in now where the birth rates in the country are as low as they are. So immigration is actually a positive.

Mr. ESTES. It is positive in the short term before those individuals start taking benefits, right?

Mr. GOSS. Well, it is positive also in the long term, because if we have more people coming into the country, whether they are initially undocumented or not, if they come in in their 20s or 30s, which is generally the age range for new immigrants, if they have children, then that adds to the future population. It adds to the growth of our population, which is very much a positive.

Mr. ESTES. Right. I mean, we are a country of immigrants, so we want to continue to have, you know, legal immigration that has an impact and be able to come out of that shadow economy.

Do you take into account any dealings with how many of those folks that have come here illegally and not had a legal right to cross the border, that more likely working in the shadow economy, that they are paying—paid cash under the table, in which case they wouldn't be captured, as far as being able to pay payroll taxes?

Mr. GOSS. If people are literally paid cash then, of course, there is going to be no record of that towards benefits or towards their paying in payroll taxes. However, in many cases, where people are either undocumented or have come on a temporary visa and overstay it, they are not legal permanent residents, in many cases, those individuals will, through their employers, still be paying payroll taxes that go into the trust fund, and very likely they will never receive benefits.

So in addition to the possibility they are having children on our shores, there is a possibility of that kind of immigration actually having a positive. We had a little actuarial note back in 2013 that walks through this in some detail.

Mr. ESTES. Well, I am about out of time but, Dr. Swagel, did you have anything that you could include and talk about your assumptions?

Mr. SWAGEL. Oh, okay. No. Just the same thing that, you know, we are looking carefully at immigration and the share of the immigrants who are paying into the system and the share who are collecting benefits. It is something we are working on carefully right now.

Mr. ESTES. All right. Thank you.

And, Mr. Chairman, I thank you for your indulgence. And I am out of time. I would like to ask more questions, but I will yield back. Thank you.

Chairman FERGUSON. Thank you.

Again, I want to thank our witnesses for being here today. And please be advised that members have 2 weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record.

With that, the subcommittee stands adjourned.

[Whereupon, at 12:54 p.m., the subcommittee was adjourned.]

MEMBER QUESTIONS FOR THE RECORD

JOHN B. LARSON
FIRST DISTRICT, CONNECTICUT

COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON SOCIAL SECURITY
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INTERNET ADDRESS
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June 18, 2024

Mr. Stephen Goss:

Thank you for your participation in the Ways and Means Social Security Subcommittee Hearing on June 4, 2024. Your work is critical to ensuring lawmakers make well-informed decisions.

Please explain what would happen if the Social Security trust funds were to become depleted. What are the implications for payment of benefits and for federal debt in such a scenario?

Thank you,

John B. Larson
Member of Congress

SOCIAL SECURITY
Office of the Chief Actuary

June 28, 2024

The Honorable John Larson
Committee on Ways and Means
Subcommittee on Social Security
United States House of Representatives
Washington, D.C. 20515

Dear Ranking Member Larson:

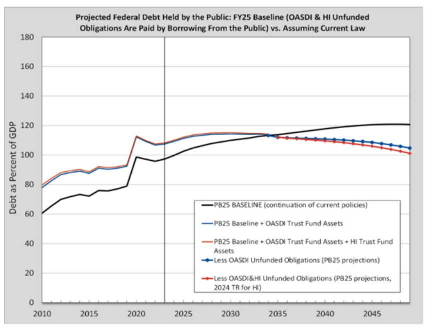
Thank you for the opportunity to testify before the Committee on Ways and Means, Subcommittee on Social Security, at the June 4, 2024 hearing on "The Social Security Trust Funds in 2024 and Beyond." It is always a pleasure working with you and everyone associated with the Committee. I hope the information that I provided at the hearing will be helpful. Below I have restated the question for the record that you sent to me on June 18, 2024, and have provided my answer.

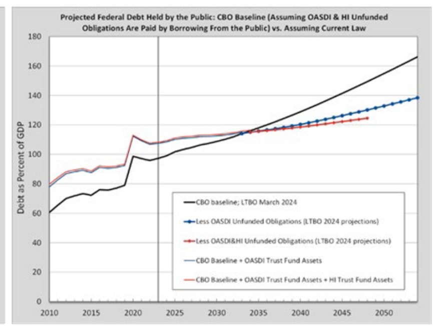
Please explain what would happen if the Social Security trust funds were to become depleted. What are the implications for payment of benefits and for federal debt in such a scenario?

The only sources of revenue for the OASI and DI Trust Funds are the dedicated taxes paid by covered workers and beneficiaries, which are invested daily in Treasury securities, plus interest on those securities. Future scheduled benefits are not *promises* or liabilities, and they can only be paid to the extent that there are asset reserves in the trust funds, as Social Security has no borrowing authority. Should reserves become depleted at any point, benefit payments would be limited to the amount of the continuing tax receipts. In this case, the trust funds would not "run out of money," but they would need to pay less than the full amount of scheduled benefits. It is for this reason that the Congress has always acted timely to avoid trust fund reserve depletion over the 85 years, 1940 through 2024.

The total federal debt subject to limit is the result of borrowing required by the General Fund of the Treasury to finance federal expenditures from the General Fund in excess of collected revenues other than those dedicated to the trust funds. The current level of total Federal debt subject to limit is near $35 trillion. In contrast, Social Security can only hold positive trust fund reserves, $2.8 trillion at the beginning of 2024, which are invested in, or loaned to, the General Fund on behalf of future beneficiaries (i.e., the public), and thus lessen the amount the Treasury would otherwise have borrowed *directly* from the public. Redemption of trust fund reserves to pay benefits has no effect on total Federal debt. It just replaces debt owed to future Social Security beneficiaries with debt owed *directly* to the public. In addition, if trust fund reserves were allowed to become depleted, current law would not allow transfers from the General Fund, thus increasing publicly held debt, in order to fully pay scheduled benefits.

It should be noted that when projecting federal debt, the President's Budget and CBO make an assumption that current law will be changed in the future, requiring the General Fund to borrow sufficient amounts from the public to cover any shortfall for OASI, DI, and Medicare HI after trust fund reserve depletion. The graphs below show recent projections of publicly held debt as a percent of GDP with this unprecedented assumed change in law, in the solid black lines. The red lines after 2035 show the debt levels that would actually occur under current law and policy.





The indicated basis for this "budget scoring convention" that presumes benefits will be fully paid after reserve depletion is the following language in Section 257(b)(1) of the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177:

> "Laws providing or creating direct spending and receipts are assumed to operate in the manner specified in those laws for each such year and funding for entitlement authority is assumed to be adequate to make all payments required by those laws."

The problem with this interpretation is that under current law, full scheduled benefit payments are not required after trust fund reserve depletion. In fact, they are not even allowed.

In addition, the red lines for years before 2035 indicate the level of debt owed both directly to the public and that owed ultimately to the public as trust fund reserves. We see that total debt owed to the public (including trust fund reserves) is currently 110 percent of GDP, but will under current law be 100 percent of GDP according to the President's Budget, or 125 percent of GDP according to CBO, by 2050.

I hope this further information will be helpful. If you have any additional questions or need assistance in any way, please let me know.

Sincerely,

Stephen C. Goss

Stephen C. Goss, ASA, MAAA
Chief Actuary

DREW FERGUSON
GEORGIA,
CHAIRMAN

JOHN LARSON
CONNECTICUT,
RANKING MEMBER

U.S. House of Representatives

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June 18, 2024

Phillip L. Swagel, PhD
Director
Congressional Budget Office
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Washington, DC 20515

Dear Director Swagel,

Thank you for your testimony at the Committee on Ways and Means Subcommittee on Social Security hearing titled, "The Social Security Trust Funds in 2024 and Beyond." Please see the below questions for the record following the hearing on June 4, 2024.

1. You state in your written testimony that "initial annual Social Security benefits—that is, the real (inflation-adjusted) benefits that people receive in the first full year that they claim them—grow over time in a scheduled-benefits scenario because real earning are expected to continue to rise." Could you describe what this increase has looked like across income levels?

   How does the growth in initial annual benefits affect average lifetime benefits across income levels?

Sincerely,

A. Drew Ferguson, IV

A. Drew Ferguson, IV
Chairman
Subcommittee on Social Security
Committee on Ways and Means

RANDY FEENSTRA
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Congress of the United States
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June 18, 2024

Questions for the Record

Directed to CBO Director Phillip Swagel from Rep. Randy Feenstra

1. Director Swagel, you state in your testimony that "trust fund balances would be able to pay scheduled benefits through 2098 if payroll tax rates were increased immediately and permanently by about 4.4 percentage points (before the effects of such changes on the economy are accounted for)." How would an immediate and permanent payroll tax rate increase of 35 percent harm the economy?

2. The CBO projects that if Social Security paid benefits as scheduled, outlays for the program would equal 5.2 percent of GDP in 2024 and 6.7 percent at the end of the long-term, 75-year window. How would further increasing costs relative to current law affect the economy?

Sincerely,

Randy Feenstra
Member of Congress

Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

ANSWERS TO QUESTIONS FOR THE RECORD

Following a Hearing on

Social Security's Finances

Conducted by the Subcommittee on Social Security
Committee on Ways and Means
U.S. House of Representatives

JULY 10 | 2024

On June 4, 2024, the Subcommittee on Social Security of the House Committee on Ways and Means convened a hearing at which Phillip L. Swagel, the Director of the Congressional Budget Office, testified about Social Security's finances.[1] *After the hearing, Chairman Ferguson and Congressman Feenstra submitted questions for the record. This document provides CBO's answers. It is available at* www.cbo.gov/publication/60478.

Chairman Ferguson's Question About the Growth of Inflation-Adjusted Social Security Benefits

Question. You state in your written testimony that "initial annual Social Security benefits—that is, the real (inflation-adjusted) benefits that people receive in the first full year that they claim them—grow over time in a scheduled-benefits scenario because real earnings are expected to continue to rise." Could you describe what this increase has looked like across income levels? How does the growth in initial annual benefits affect average lifetime benefits across income levels?

Answer. Under a scheduled-benefits scenario (in which Social Security continues to pay benefits as scheduled under current law regardless of the status of the program's trust funds), average initial scheduled benefits for retired workers increase over time, even with the effects of inflation removed, for people across the income distribution.[2] For example, for both the quintile (one-fifth) of households with the highest lifetime earnings and the quintile with the lowest lifetime earnings, initial benefits are larger, on average, for retired workers born in the 1990s than for retired workers born in earlier decades (see Figure 1). Measured in 2024 dollars, average initial annual benefits for retired workers in households with the highest lifetime earnings rise from $28,880 for those born in the 1950s to $43,660 for those born in the 1990s, an increase of 51 percent. For retired workers in households with the lowest lifetime earnings, average initial annual benefits increase by 57 percent—from $10,980 for people born in the 1950s to $17,250 for those born in the 1990s.

That increase in initial benefits for retired workers contributes to an increase over time in average lifetime benefits for people in all earnings quintiles. Other factors, such as longer life expectancy, also contribute to the rise in average lifetime benefits.

Congressman Feenstra's Question About the Effects of a Payroll Tax Increase on the Economy

Question. Director Swagel, you state in your testimony that "trust fund balances would be sufficient to pay scheduled benefits through 2098 if payroll tax rates were increased immediately and permanently by about 4.4 percentage points (before the effects of such changes on the economy are accounted for)." How would an immediate and permanent payroll tax rate increase of 35 percent harm the economy?

Answer. Raising the payroll tax rate for Social Security by 4.4 percentage points would increase that tax from 12.4 percent of earnings to 16.8 percent, a rise of 35 percent.[3] An immediate and permanent increase of that size would cause the economy to grow more slowly than CBO now projects. The tax increase would slow economic growth by decreasing the supply of labor; to a lesser extent, it would boost growth by increasing private investment.

The reduction in economic growth because of the decrease in the supply of labor would be the net result of two countervailing factors. Most earners would see an increase in the marginal tax rate on their earnings (the percentage of an additional dollar of earnings that they pay in taxes). On the one hand, those workers would have an incentive to work fewer hours because other uses of their time would become relatively more attractive. On the other hand, they would also have an incentive to work more hours because having less after-tax income would require additional work to maintain the same standard of living. CBO estimates that, on balance, the

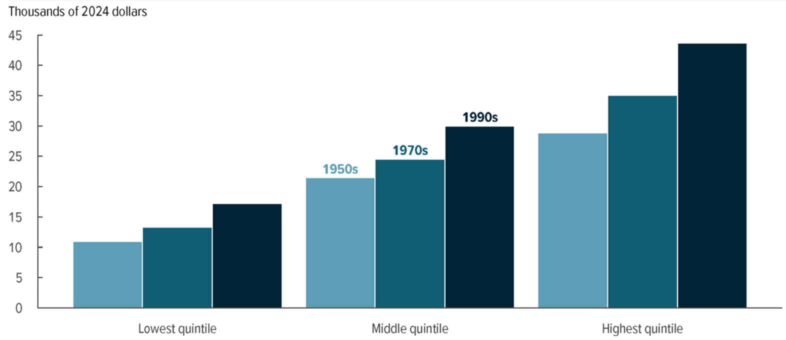
1. Testimony of Phillip L. Swagel, Director, Congressional Budget Office, before the Subcommittee on Social Security of the House Committee on Ways and Means, *Social Security's Finances* (June 4, 2024), www.cbo.gov/publication/60281.

2. Section 257 of the Deficit Control Act requires CBO to project spending for certain programs, including Medicare and Social Security, under the assumption that they will be fully funded—and thus able to make all scheduled payments—even if the trust funds associated with those programs do not have enough resources to make full payments. See sec. 257(b)(1) of the Balanced Budget and Emergency Deficit Control Act of 1985, Public Law 99-177 (codified at 2 U.S.C. § 907(b)(1)).

3. The payroll tax rate for Social Security is generally 12.4 percent of earnings up to a maximum annual amount ($168,600 in 2024). Workers and their employers each pay half; self-employed people pay the entire amount.

Figure 1.

Average Initial Annual Benefits for Retired Workers Under the Scheduled-Benefits Scenario, by Earnings Quintile and Birth Cohort



Data source: Congressional Budget Office. See www.cbo.gov/publication/60281#data.

A quintile contains one-fifth of households ranked by lifetime household earnings. Under the scheduled-benefits scenario, Social Security pays benefits as scheduled under current law regardless of the status of the program's trust funds.

second effect would be smaller than the first and that people would, on average, reduce the number of hours they worked, thus slowing economic growth compared with the growth CBO currently projects.

At the same time, a higher payroll tax rate would increase the federal government's revenues, thus reducing the budget deficit from the amounts in CBO's baseline projections. In CBO's assessment, the resulting decrease in government borrowing would increase the amount of resources available for private investment, which in turn would boost economic growth. That increase in growth would be smaller than the reduction in growth resulting from the decrease in the supply of labor.

Raising the payroll tax rate would have other effects on the economy. For instance, it would create an incentive for employers and employees to change their mix of compensation, shifting from taxable compensation, such as wages and salaries, to nontaxable compensation, such as employment-based health insurance.

Congressman Feenstra's Question About How Additional Spending for Social Security Would Affect the Economy

Question. The CBO projects that if Social Security paid benefits as scheduled, outlays for the program would equal 5.2 percent of GDP in 2024 and 6.7 percent at the end of the long-term, 75-year window. How would further increasing costs relative to current law affect the economy?

Answer. The economic effects of additional federal spending for Social Security (compared with the amounts in CBO's baseline projections) would depend on the size and distribution of the benefit increase that caused the additional spending and on the way the spending increase was financed.[4] A large increase in spending would have both short-term and long-term

4. For a discussion of the budgetary and economic effects of decreasing Social Security benefits, see Congressional Budget Office, *The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget* (July 2023), www.cbo.gov/publication/59233.

effects on the economy and would significantly increase budget deficits and federal debt held by the public. A small increase in spending would have more modest effects.

In the short term, a large and sudden increase in Social Security payments would boost the overall demand for goods and services; increase consumer spending; and decrease the amount people would save for retirement, on average. As a result, economic growth would accelerate, and the economy would be larger than CBO currently projects for several years after the increase in Social Security spending. The decrease in retirement savings and other factors would put upward pressure on interest rates. In addition, depending on economic conditions at the time of the spending increase, the Federal Reserve might raise interest rates to offset inflationary pressures in an effort to achieve its long-term goal of 2 percent inflation.

In the long run, however, economic output would be smaller than CBO currently projects, for three main reasons. First, the supply of labor would shrink. Second, private investment would decline as some people chose to save less while they were working because of expectations about how larger Social Security benefits would affect their income and spending in retirement. Third, private investment would decline further because of larger budget deficits and an associated increase in federal borrowing, which would raise interest rates and reduce economic output compared with interest rates and output in CBO's current projections.

The economic effects would differ for people depending on their wealth and employment status. Social Security beneficiaries with little or no wealth would immediately increase their spending. Most beneficiaries with wealth would also increase their spending, but by a smaller percentage than the percentage increase in spending for those with little or no wealth. A sudden, large increase in benefits would also cause changes in employment. Some workers would choose to work fewer hours and would perhaps choose to receive Social Security benefits sooner because of their reduced need for earnings and savings.

In addition, lifetime spending would increase for most people, on average, and lifetime hours worked would decline. Compared with income levels in CBO's projections, those changes would be larger for people with lower lifetime income than for people with higher lifetime income. Changes in lifetime spending would stem not only from the direct effects of an increase in Social Security benefits but also from macroeconomic effects that would reduce wages in the long run. On average, lower wages and fewer hours worked would partially offset the direct effect of increased benefits on people's lifetime spending.

The increase in Social Security benefits and the associated effects on the economy in the long run would generally increase income and wealth for generations born earlier and decrease income and wealth for generations born later. In particular, later generations would experience the associated reduction in economic output for a longer time than earlier generations would.

The economic effects of an increase in spending for Social Security would also depend partly on whether the increase was financed through higher taxes, reductions in other spending, additional federal borrowing, or some combination of those approaches.[5]

5. For a discussion of how the means of financing an increase in government spending affects the economy, see Jaeger Nelson and Kerk Phillips, *The Economic Effects of Financing a Large and Permanent Increase in Government Spending*, Working Paper 2021-03 (Congressional Budget Office, March 2021), www.cbo.gov/publication/57021.

DREW FERGUSON
GEORGIA,
CHAIRMAN

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June 18, 2024

Barry Huston
Analyst in Social Policy
Congressional Research Service
101 Independence AVE SE
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Dear Mr. Huston,

Thank you for your testimony at the Committee on Ways and Means Subcommittee on Social Security hearing titled, "The Social Security Trust Funds in 2024 and Beyond." Please see the below questions for the record following the hearing on June 4, 2024.

1. Your written testimony includes the following quote from the 2024 Annual Report of the Social Security Trustees, "…new beneficiaries tend to have higher monthly benefit amounts than previous beneficiary cohorts, because their initial benefits are based on average wages, which tend to rise faster than the cost of living." Please describe what this increase has looked like across income levels since the last major Social Security reforms in the early 1980s.

   How do the Trustees project initial scheduled benefits to change in the coming years and decades?

   How does the growth in initial annual benefits affect average lifetime benefits across income levels?

2. Have there been any partisan Social Security bills passed out of the Ways and Means Committee? If so, when?

Sincerely,

A. Drew Ferguson, IV

A. Drew Ferguson, IV
Chairman
Subcommittee on Social Security
Committee on Ways and Means

Congressional Research Service
Informing the legislative debate since 1914

MEMORANDUM June 28, 2024

To: House Committee on Ways and Means, Subcommittee on Social Security
Attention: Ben Ridder

From: Barry F. Huston, Analyst in Social Policy, bhuston@crs.loc.gov, 7-0879

Subject: **Responses to Questions for the Record for the June 4, 2024, House Committee on Ways and Means Subcommittee on Social Security Hearing on "The Social Security Trust Funds in 2024 and Beyond"**

This memorandum provides responses to the questions for the record submitted by Chairman Drew Ferguson for the House Committee on Ways and Means, Subcommittee on Social Security hearing, "The Social Security Trust Funds in 2024 and Beyond," held on June 4, 2024.

Question 1: Your written testimony includes the following quote from the 2024 Annual Report of the Social Security Trustees, "...new beneficiaries tend to have higher monthly benefit amounts than previous beneficiary cohorts, because their initial benefits are based on average wages, which tend to rise faster than the cost of living." Please describe what this increase has looked like across income levels since the last major Social Security reforms in the early 1980s. How do the Trustees project initial scheduled benefits to change in the coming years and decades? How does the growth in initial annual benefits affect average lifetime benefits across income levels?

Social Security benefits are indexed in two ways.[1] Generally speaking, initial benefit amounts—the benefit amounts received by retired-workers at the earliest eligibility age (EEA)[2]—are indexed to average wage growth in the national economy. Changes in initial benefits from one birth cohort to the next are largely based on changes in average wages in the economy, which are typically positive. Subsequent benefit amounts—the benefit amounts received by retired-workers after the EEA—are generally indexed to average price growth. Thus, initial benefit amounts tend to increase with increases in average wages while average benefits tend to increase with increases in average wages *and* prices. This characteristic of retired-worker benefits remains when controlling for different levels of income. For instance, a hypothetical medium—or average—earner born today is expected to have a higher initial benefit than an average earner currently collecting benefits.

[1] For more detail on how Social Security benefits are computed, including examples by earnings levels, see CRS Report R46658, *Social Security: Benefit Calculation*.

[2] CRS Report R46658, *Social Security: Benefit Calculation* also provides background on how benefits may be adjusted for the age at which a beneficiary chooses to begin receiving benefits.

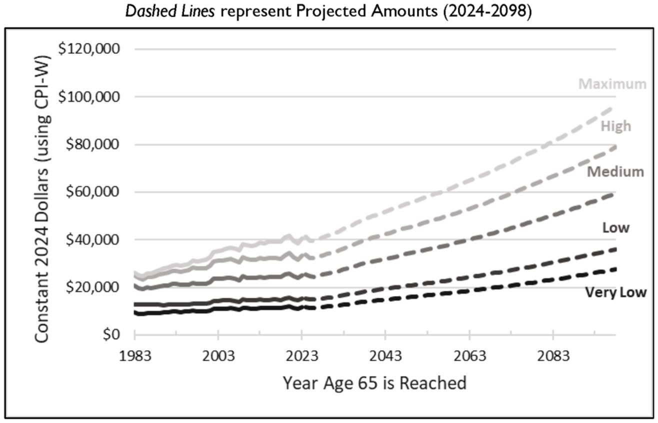
Historically, wage growth has outpaced price growth.[3] Thus, in constant 2024 dollars, average annual scheduled benefits have generally increased for successive birth cohorts. In both nominal and price-adjusted dollars, the average scheduled benefits for new beneficiaries have generally been higher relative to benefits for previous cohorts. This is reflected in **Figure 1**, which shows the annual scheduled benefit amounts for retired workers at age 65 for hypothetical earners. As requested, **Figure 1** shows that from 1983 to 2023, the annual scheduled benefits at age 65 for hypotheticals earners have increased.[4] **Figure 1** also highlights that a hypothetical medium earner born today (i.e., collecting benefits in the future) is projected to have higher benefits, in constant 2024 dollars, at age 65 in the year 2089 than a medium earner who started collecting benefits at age 65 in 2023. This is largely a result of projected wage growth outpacing projected price growth.

For the remainder of the trustees' 75-year projection period (2024-2098), the trustees project the annual percentage change in covered wages to be 3.56% and the annual percentage change in prices to be 2.4%.[5] That is, the trustees' assumptions project the trend of increasing benefits—in nominal and price-adjusted dollars—for successive cohorts to continue for several decades. This is also reflected in **Figure 1**, which shows relatively smooth and consistent growth from 2024 onwards.

Figure 1. Annual Scheduled Benefit Amounts for Hypothetical Retired Workers at Age 65

Solid Lines represent Historical Amounts (1983-2023)

Dashed Lines represent Projected Amounts (2024-2098)



Source: The 2024 Annual Report, Table V.C7 and Supplemental Single-Year Table V.C7.

Notes: Hypothetical very low, low, medium, and high earners are assumed to have career average earnings of 25%, 45%, 100%, and 160% of the Social Security Administration's Average Wage Index (AWI), respectively. A hypothetical maximum earner is assumed to have earnings equal to the taxable maximum, or contribution and benefit base, in each year. In any individual year, hypothetical earnings are the product of the AWI and a respective scaled earnings factor (see Actuarial

[3] *The 2024 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, May 6, 2024, at https://www.ssa.gov/OACT/TR/2024/tr2024.pdf (hereinafter cited as 2024 Annual Report), Table VI.G6, pp. 226-227.

[4] The Social Security Amendments of 1983 (P.L. 98-21) are commonly considered the last major reform to the Social Security program.

[5] The 2024 Annual Report, Table II.CI, intermediate assumptions.

Note 3 at https://www.ssa.gov/OACT/NOTES/ran3/an2024-3.pdf). For historical and projected taxable maximum see Table V.C1 in the 2024 Annual Report.

Total lifetime benefits—the product of annual scheduled benefits and the number of benefit years—are expected to increase. As discussed, annual scheduled benefits are projected to increase. A hypothetical medium earner collecting benefits in the future is projected to have a higher annual benefit than a medium earner currently collecting benefits. The number of benefit years is projected to increase as well. A hypothetical medium earner collecting benefits in the future is projected to have a longer period of benefit collection, on average. For instance, in 2023, the period life expectancy at age 65 was estimated to be 20.5 years for females and 17.9 years for males.[6] In 2040, under the intermediate assumptions, a 65-year-old female could expect to live another 21.9 years on average and a 65-year-old male could expect to live another 19.4 years.[7] Thus, projected increases in longevity predict that beneficiaries will remain in current-payment status for longer periods of time, and contribute to higher total lifetime benefits. However, although life expectancies have generally increased during SSA's history, gains in life expectancy have not been equally distributed across sex, race, educational attainment, and income level.[8] Generally, relatively high earners live longer than low earners, on average. This may compound the growth in lifetime benefits for higher earners relative to lower earners.

Question 2: Have there been any partisan Social Security bills passed out of the Ways and Means Committee? If so, when?[9]

The Congressional Research Service (CRS) examined the 62 Social Security-related bills listed in CRS Report RL30920, *Social Security: Major Decisions in the House and Senate Since 1935*.[10] The bills were researched to determine if any of the bills were reported out of the House Committee on Ways and Means with all favorable votes coming from Members of the same party. The bills meeting this criterion, and their committee vote tallies, are listed in **Table 1**.

Committee votes are not always reported by the committee. House reports may include the voting information. For instance, H.Rept. 108-46, which accompanied the Social Security Protection Act of 2004 (P.L. 108-203), included a roll call vote. The *Congressional Record* may include a statement by a Member of the Committee regarding the vote. For example, in a floor speech about the Social Security Amendments of 1958 (P.L. 85-840), Representative Scott said "Mr. Speaker, this bill came out of the Committee on Ways and Means by a vote of 24 to 1."[11] Contemporaneous secondary sources may provide committee vote information in their reporting. For each of the Social Security-related laws, CRS searched for committee vote tallies in the following sources:

- *CQ Almanac*[12] (1945-2020),
- House reports accompanying the House bills,[13]

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[6] The 2024 Annual Report, Table V.A4.

[7] The 2024 Annual Report, Table V.A4, intermediate assumptions.

[8] For more information, see CRS Report R44846, *The Growing Gap in Life Expectancy by Income: Recent Evidence and Implications for the Social Security Retirement Age*

[9] This response was co-written with Senior Research Librarian Tamar Breslauer.

[10] For a full list of the search, see Table 1 of the report.

[11] Rep. Hugh Scott, *Congressional Record*, vol. 104, part 12 (July 31, 1958), p. H15731. https://www.congress.gov/85/crecb/1958/07/31/GPO-CRECB-1958-pt12-5-2.pdf#page=4

[12] *CQ Almanac*, a subscription database, provides "authoritative analysis on the major legislation and actions of Congress for each year since 1945."

[13] These were identified in the Social Security Administration's published legislative histories of the bills (also known as the "Downey Books") at https://www.ssa.gov/history/legislativehistory.html, in Congress.gov, or in subscription databases.

- Legislative histories published in the *Social Security Bulletin*,[14]
- *Social Security: A Documentary History*,[15] and
- Summaries provided in CRS Report RL30920, *Social Security: Major Decisions in the House and Senate Since 1935*.

Note that while every attempt was made to be thorough, CRS relied, in part, on keyword searching to identify committee votes. As some of the documents CRS searched have poor text quality, relevant votes may have been missed. In addition, voting records available in other sources may not have been retrieved.

Many of the House reports include a discussion of the debate and voting. Some House reports describe the vote totals but without detail necessary to be included in **Table 1**. For instance, H. Rept. 84-1189, accompanying the Social Security Amendments of 1956 which became P.L. 84-880, noted that, "A majority of the undersigned voted to report this bill favorably."[16] Furthermore, some contemporary sources noted votes along party lines but, again, a vote total is not available. For example, in the discussion of Committee votes on the Social Security Amendments of 1977 (P.L. 95-216), the *CQ Almanac* notes,

> The House Ways and Means Committee Oct. 6 approved a Social Security financing plan combining large payroll tax increases with basic changes in benefits and coverage.... Partly because of Republican unity, major proposals often succeeded by fragile margins. Committee Chairman Al Ullman (D Ore.) cast the deciding vote to save his guaranteed loan plan; the payroll tax increases survived on a vote of 20–17.[17]

Although the source cites party "unity," it comes without the specific vote total to be included in **Table 1**.

Table 1. Selected Social Security-Related Bills Reported Out of the House Committee on Ways and Means Without Bipartisan Support

Year	Law/Bill	Vote
1935	Social Security Act P.L. 74-271[a]/ H.R. 7260	17 (17-D, 0-R) to 0 (0-D, 0-R) The seven Republican members of the committee voted "present."[b]
1965	Social Security Amendments of 1965 P.L. 89-97/ H.R. 6675	17 (17-D, 0-R) to 8 (0-D, 8-R)[c]
1987	Budget Reconciliation Act of 1987 P.L. 100-203/ H.R. 3545	23 (23-D, 0-R) to 13 (0-D, 13-R)[d]

Source: Congressional Research Service (CRS).

Notes:

a. The printed law does not show the number of the Congress that passed it. The number is given here for reference purposes.

b. A reproduction of the Ways and Means Committee votes on 74 H.R. 7260 appears on p. 283 (PDF p. 293) of U.S. Congress, House Committee on Ways and Means, The Committee on Ways and Means: A Bicentennial History 1789-1989, 100th Cong., 1st Sess., January 1, 1989, H.Doc. 100-244, at https://www.govinfo.gov/app/details/GPO-

[14] Issues of the *Social Security Bulletin* are available at https://www.ssa.gov/policy/docs/ssb/. Many were also included in SSA's Social Security Legislative Histories, 1935-2004, at https://www.ssa.gov/history/legislativehistory.html.

[15] Larry W. Dewitt, Daniel Beland, and Edward D. Berkowitz, *Social Security: A Documentary History* (CQ Press, 2008).

[16] The House Report is available in volume 1 of the "Social Security Amendments of 1956" available from the Social Security Administration's Legislative Histories 1935-2004, at https://www.ssa.gov/history/pdf/Downey%20PDFs/Social%20Security%20Amendments%20of%201956%20Vol%201.pdf (page 62 of the pdf).

[17] See "Congress Clears Social Security Tax Increase," *CQ Almanac* 1977, 33rd ed., 161-72. Washington, DC: Congressional Quarterly, 1978, available at http://library.cqpress.com/cqalmanac/cqal77-1202042.

CDOC-100hdoc244. One Democratic member of the committee was absent and did not vote by proxy. For a list of committee membership in the 74th Congress by party, see p. 415 (PDF p. 425).

c. "The bill was reported from the Committee with all 17 Democrats in favor, all 8 Republicans opposed to it "Social Security Medicare Program Enacted." In *CQ Almanac* 1965, 21st ed., 236-45. Washington, DC: Congressional Quarterly, 1966. http://library.cqpress.com/cqalmanac/cqal65-1259021.

d. "Partisan divisions were reflected in the straight party-line 23-13 vote by which the Ways and Means Committee approved its tax package." See "Reconciliation Bill Raises Taxes, Cuts Spending." In *CQ Almanac* 1987, 43rd ed., 615-27. Washington, DC: Congressional Quarterly, 1988. http://library.cqpress.com/cqalmanac/cqal87-1144163.

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Congress of the United States
House of Representatives

COMMITTEE ON WAYS AND MEANS
RANKING MEMBER, SUBCOMMITTEE ON OVERSIGHT
SUBCOMMITTEE ON SOCIAL SECURITY

DEMOCRATIC STEERING AND
POLICY COMMITTEE

June 4, 2024

Statement for the Record for Ways and Means Social Security Subcommittee Hearing on "The Social Security Trust Funds in 2024 and Beyond"

Dear Chairman Ferguson and Ranking Member Larson,

For nearly a century, Social Security has remained one of America's greatest success stories. After nearly ninety years, it still stands as a monument to decency, dignity, and the birthright of hard-working Americans.

We must ensure the longevity and sustainability of Social Security for generations to come. This is non-negotiable. Yet, throughout its storied history, Social Security has been under attack. Even today, the Republican Study Committee is proposing slashing benefits by $718 Billion! As Members of Congress, it is our job to safeguard this national treasure.

As a proud cosponsor of my friend Rep. Larson's Social Security 2100 Act, I strongly support providing paid-for benefit enhancements for our 67 million beneficiaries while not raising taxes on middle-class families. This bill would also finally put an end to the painful five-month disability waiting period, helping Americans suffering with permanent disorders like Huntington's Disease get the help they need without red tape or delay.

Let us resolve to work across the aisle so that the Social Security Trust Fund lives through the next century and beyond. Thank you for your continued attention to this issue.

Sincerely,

Bill Pascrell Jr

Bill Pascrell, Jr.
Member of Congress

National Committee to Preserve Social Security & Medicare®
Trusted • Independent • Effective

STATEMENT BY
MAX RICHTMAN
PRESIDENT AND CEO
NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE
TO THE SUBCOMMITTEE ON SOCIAL SECURITY
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
HEARING ON THE SOCIAL SECURITY TRUST FUNDS IN 2024 AND BEYOND
JUNE 4, 2024

On behalf of the millions of members and supporters of the National Committee to Preserve Social Security and Medicare, I am pleased to submit this testimony for the record regarding the 2024 Social Security Trustees Report. Members of the National Committee come from all walks of life and every political persuasion. What unites them is their passion for protecting and strengthening Social Security, Medicare, Medicaid, and the other programs that are so vitally important to older Americans.

Highlights of the 2024 Report

Since its inception, Social Security has been the foundation on which America's retirement security rests. It has demonstrated its strength by paying benefits without interruption in good times and bad, during periods of recession and disaster and during recovery and healing. The program's durability is demonstrated yet again in this year's Trustees Report. While declining fertility rates continue to place stress on the program's long-term financing, the 2024 report provides an important reassurance for working Americans and for seniors.

The 2024 report shows that Social Security will continue to play a critical role in the lives of the 67 million beneficiaries and the 183 million covered workers and their families who depend on the program now or will depend on it when they retire in the future.

Here are some of the highlights:

- Social Security's health remains sound. The system remains stable and will be able to pay full benefits for many years to come — until 2035 — one year later than in last year's report. Thereafter, there will still be enough income coming into the program to pay about 83 percent of all benefits owed, declining to 73 percent in 2098.

- Social Security remains adequately funded for now. The Trustees estimate that, in 2024, Social Security's total income, along with the assets in the trust funds, will be more than sufficient to pay full scheduled benefits.
- According to the Trustees, the program is fully funded for more than a decade, around 90 percent funded for the next 25 years, around 83 percent funded for the next 50 years, and 81 percent funded over the next 75 years.
- The Trustees report that there is now about $2.788 trillion in the Social Security Trust Funds and that these reserves will continue to contribute to the funding of the program, yielding interest income of about $67 billion in 2023.

Background

The Social Security Act established a Board of Trustees to oversee the Old-Age, Survivors and Disability Insurance Trust Funds (OASDI), popularly known as the Social Security Trust Funds. Each year the Trustees issue a report on the financial status of the Trust Funds. The report is a snapshot of the projected health of the funds over the upcoming 75 years (ending 2098). The 2024 report is the 84th report that has been prepared by the Trustees since the beginning of the program. With the help of the Social Security Administration's actuaries, the Trustees estimate the income and expenditures of the Funds, considering projections of both demographic and economic factors.

The Social Security Trust Funds are in long-range balance when the income to the Funds exceeds expenditures over the upcoming 75-year valuation period. When income does not meet expenditures in the long run, there is a shortfall, or deficit. Income, expenditures and balances are usually expressed as a "percent of payroll," meaning the percent of all wages and self-employment that is projected to be earned by Americans over the 75-year valuation period. The 2024 report projects that the combined OASDI Trust Funds have an actuarial deficit equal to 3.5 percent of taxable payroll, a decrease from the 3.61 percent shortfall projected in last year's report.

The persistence of an actuarial deficit is a reminder that the Social Security program's financial health still needs to be strengthened. Despite the crisis rhetoric used by some, including many in the media, the National Committee believes that Congress can improve the long-term outlook for Social Security with modest and manageable changes in revenue without enacting harmful cuts for current or future retirees. Polling has consistently shown that Americans of all political persuasions value Social Security, want to improve benefits and are willing to pay higher taxes to preserve the program.

That is why the National Committee enthusiastically endorses legislation that extends the financial footing of Social Security. Bills such as those introduced by Representative John Larson (D-CT), Senator Richard Blumenthal (D-CT), Senator Bernie Sanders (I-VT), Representative Janice Schakowsky (D-Ill), Representative Brendan Boyle (D-PA), and Senator Sheldon Whitehouse (D-RI) show how Social Security's future can be preserved for both current and future retirees. Both bills ask the wealthy to pay their fair share to strengthen Social Security, something supported by overwhelming majorities of the American people. This legislation also calls for significant improvements in the benefits provided by Social Security.

Sources of Funding for Social Security

Social Security is financed mainly through payroll taxes on wages and self-employment income. Employees and employers each make contributions equal to 6.2 percent of earnings, up to a cap of $168,600 in 2024, up from $160,200 in 2023. The cap increases with the growth in the nationwide average wage. In 1983, the wage cap was set at an amount that would tax about 90 percent of all wage income in the United States. But because wages above the cap have grown much faster than average, earnings under the cap now comprise about 82 percent of aggregate wages.

The self-employed contribute the equivalent of the combined employer and employee tax rates, which totals 12.4 percent. They are then allowed to deduct the equivalent of the employer's share from their income taxes.

In addition to payroll tax contributions, Social Security receives revenue from income taxes on Social Security benefits paid by retirees with higher incomes, and modest transfers from the general fund. The Trust Funds are also credited with interest from their Treasury bond holdings.

The Social Security Trust Funds

When working Americans pay their Social Security payroll taxes to the U.S. Treasury, those taxes are credited to the Social Security Trust Funds. These funds are used to pay Social Security benefits. When income to the Trust Funds in a year has exceeded the amount of benefits that the program is obligated to pay, then the Social Security Trust Funds hold these funds until they are needed to pay benefits. The surplus income is used to purchase special issue U.S. government bonds that are backed by the full faith and credit of the United States and which earn a rate of return similar to that earned by other long-term U.S. securities. These bonds comprise the assets of the Trust Funds. They earn interest and further increase the balance of the funds. These accumulated assets are commonly referred to as the Social Security "surplus" or "reserves", and they remain available, when needed, to help pay benefits to current retirees. In fact, $41.4 billion in trust fund assets were redeemed in 2023 to help pay benefits.

The cost of administering the Social Security program is modest. The net administrative expenses of the OASI and DI Trust Funds combined in 2023 totaled $7.2 billion, equal to 0.5 percent of the total cost and 0.6 percent of total income of both programs. Of that amount, the OASI Trust Fund net administrative expenses totaled 0.4 percent of both cost and income, and the DI Trust Fund net administrative expense totaled 1.5 percent of total income and 1.8 percent of total cost.

At the end of 2023, about 67 million people were receiving benefits: 53 million were retired workers and their dependents; 6 million were the survivors of deceased workers; and about 9 million were disabled workers and their dependents. About 183 million workers had earnings covered by Social Security and paid payroll taxes in 2023.

The Importance of the Trust Funds

Although some dismiss the importance of the Social Security Trust Funds and discount the interest income produced by their assets, the Trust Funds are an essential element of the program's funding. And it is important to emphasize that the Trust Funds did not accumulate the substantial portfolio of assets they now hold by accident.

Throughout most of the early history of Social Security, the Trust Funds played only a limited role in the funding of the program. That is because for many years the balances they held were relatively small and were used only as a contingency reserve to tide the program over in years when revenue temporarily fell below the level needed to pay benefits.

The Social Security Amendments of 1983 expanded the role of the Trust Funds. At that time Congress made the decision, in essence, to partially advance-fund the retirement of the baby boomers by accumulating a very substantial balance in the Trust Funds. As the present balance of over $2.788 trillion testifies, Congress was successful in achieving this goal.

Some, however, question whether this plan will work. There are economists who argue that the balances in the Trust Fund, and the interest they earn, are not economically meaningful. Others question how the bonds would be redeemed when the money is needed to pay benefits. Still others argue that the program must be cut to make sure that the Trust Funds' assets never have to be drawn down.

We believe the important point to remember about the Trust Funds is that they hold bonds that were purchased with money that was paid into the program by millions of Americans. Those who made these contributions are aware of the amounts that were deducted from their paychecks, and they expect the U.S. government will redeem these bonds when they are needed to pay benefits, just like any other debt obligation it has.

And they have the law on their side in that regard. Section 201(d) of the Social Security Act says that "Each obligation issued for purchase by the Trust Funds shall be evidenced by a bond, note, or certificate of indebtedness setting forth the principal amount, date of maturity, and interest rate of the obligation and stating on its face that the obligation shall be supported by the full faith and credit of the United States, and that the United States is pledged to the payment of the obligation with respect to both principal and interest."

Clearly, it is important that action be taken soon to strengthen the financial soundness of the Social Security program so that it remains available to all Americans and can pay all benefits that are owed, both now and in the future. There are many different options for strengthening this vital program, and developing a consensus remains a challenge that must be met by the nation's leaders. But because of the decisions made in 1983 to build up a significant balance in the Trust Funds, we have time to develop that consensus.

Social Security's Long-Range Outlook

The 2024 Trustees Report projects that the Social Security Trust Funds will be able to pay full benefits until the year 2035. After 2035, Social Security will have annual revenue sufficient to pay about 83 percent of benefits, declining to 73 percent in 2098, only slightly lower than the projection in the 2023 report.

The actuarial deficit of the Social Security program, measured as a percent of taxable payroll over the 75-year valuation period, is projected to be 3.5 percent, which is slightly better than the 3.61 percent deficit projected in the 2023 report.

The annual cost of the program is estimated at 5.2 percent of Gross Domestic Product (GDP) in 2024, modestly increasing to 6.4 percent of GDP by 2078 and declining to 6.1 percent of GDP by 2098. The 75-year actuarial deficit equals 1.2 percent of GDP through 2098, slightly lower than the 1.3 percent of GDP estimated last year.

National Committee Concerns

The 2024 Trustees Report projects a 2.6 percent cost-of-living adjustment (COLA) for next year. As the result of pandemic-related inflation, the COLA was 8.7 percent in 2023 and 5.9 percent in 2022. While the 2023 COLA was the highest since 1981, the COLA for 2024 was only 3.2 percent, and the National Committee believes that the estimating methodology used by the Bureau of Labor Statistics does not fully reflect the effect of inflation on today's seniors. We further believe that Social Security's COLA needs to be strengthened. The need for doing so is forcefully demonstrated by the fact that the average COLA over the past thirteen years, excluding 2021 and 2022, was only 1.5 percent, and in three of those years there was no COLA at all.

Under current law, a Social Security beneficiary receives an increase in his or her Social Security check each year based on the previous year' increase in the cost of living. This COLA is intended to offset the individual's additional expenses resulting from inflation. The Social Security COLA is based on the Bureau of Labor Statistics' measurement of the increase of the cost of a market basket of goods and services for urban wage earners and clerical workers from the third quarter of one year to the third quarter of the next year. The size of the COLA is announced by the Social Security Administration, usually in October, and beneficiaries see the change in their January Social Security payment.

Unlike the urban wage earners and clerical workers upon whom the Consumer Price Index is based, seniors spend a significant portion of their income on out-of-pocket health care expenses not covered by Medicare. As time goes by, more and more of their Social Security benefits will be eaten up by rising health care costs. According to the Medicare Trustees, 34 percent of the average senior's Social Security benefit will be consumed by Medicare out-of-pocket costs in 2098, compared with 26 percent in 2024.

Seniors cannot afford to have their COLA calculated using an index that does not accurately gauge the spending patterns that are unique to them. That is why the National Committee supports legislation that would base the Social Security COLA on a fully-developed consumer price index for the elderly, or CPI-E, that better reflects the purchasing patterns of seniors. This kind of specialized index should be used to make sure that seniors' buying power does not erode over time. We are pleased to note that a number of bills introduced by members of Congress, including those sponsored by both Representatives Larson, Schakowsky, and Senators Sanders and Blumenthal, which we mentioned earlier, require use of the CPI-E in determining COLAs for Social Security.

Conclusion

Our nation needs Social Security more than ever. These modest benefits have become the last remaining pillar of economic security for millions of Americans. Personal savings have been difficult to accumulate because wages have remained stagnant for decades. More than half of all workers have no retirement plans at work and millions more have little or no retirement savings. While Social Security has lifted generations of seniors out of poverty, benefits must be improved to protect the growing share of seniors who depend on the program for all or most of their retirement income.

Social Security is strong. It provides a steady and reliable source of income for the more than 67 million individuals who receive benefits from the program. It also provides more than $1.4 trillion in annual economic stimulus as seniors spend their benefit for essential goods and services in their communities. Now is the time to strengthen a program that remains central to the economic well-being of all Americans — those who are retired today and those who one day hope to be retired.

Statement of

The Senior Citizens League (TSCL)

Submitted to the

House Ways and Means Committee

Concerning

Social Security's Disservice to Public Servants: How the Windfall Elimination Provision and Government Pension Offset Mistreat Government Workers

December 4, 2023

CHAIRMAN SMITH, RANKING MEMBER NEAL, SUBCOMMITTEE CHAIRMAN FERGUSON, RANKING MEMBER LARSON AND MEMBERS OF THE COMMITTEE AND SUBCOMMITTEE, on behalf of the almost one million supporters of The Senior Citizens League, we are grateful to the committee for this opportunity to express our views concerning the Windfall Elimination Provision and Government Pension Offset inequities, especially with regard to government employees, including retired military members.

The Senior Citizens League (TSCL) is one of the nation's largest nonpartisan advocacy groups representing older Americans. We strive to educate and alert senior citizens about the work of their elected officials on Capitol Hill and to protect, defend, and strengthen the retirement security they have earned and deserve.

TSCL's supporters are active and informed, and we advocate tirelessly for the issues that matter the most to them. We survey our supporters each year and ask them, "What's important to you?" We take their answers and shape our legislative agenda around them. We frequently hear from our members concerning the Windfall Elimination Provision and Government Pension Offset (WEP-GPO). Correcting this inequity has been one of our important goals for many years.

The Senior Citizens League does not receive any grants or contracts from the federal government.

We appreciate that you and the Committee are investigating the very real inequities faced by hard-working Americans who have spent part of their careers in public service and yet are denied Social Security benefits they legitimately earned when they contributed to the Social Security system during part of their working years.

The WEP was enacted in 1983 as part of major amendments designed to shore up the financing of the Social Security program. The 40% WEP formula factor resulted from a compromise between a House bill that would have substituted a 61% factor for the regular 90% factor and a Senate proposal that would have substituted a 32% factor.

The regular Social Security benefit formula was intended to help workers who spent their lifetimes in low-paying jobs by providing a benefit that replaces a higher proportion of their career-average earnings than those provided to workers with high career-average earnings.

However, the formula does not differentiate between those who worked in low-paid jobs throughout their careers and other workers who appear to have been low-paid because they worked many years in jobs not covered by Social Security and few years in covered jobs. Under the old law, workers who were employed for only a portion of their careers in jobs covered by Social Security—even highly paid ones—also received the advantage of the weighted formula because their few years of covered earnings were averaged over their entire working career to determine the average covered earnings on which their Social Security benefits were based.

The WEP is intended to remove an unintended advantage that the regular formula provides to certain retired or disabled worker-beneficiaries who were also entitled to pension benefits based on earnings from jobs not subject to the Social Security payroll tax. It is intended to place affected workers in approximately the same position they would have had had all their earnings been covered by Social Security.

However, organizations from the Heritage Foundation to the Bi-Partisan Policy Center to unions and organizations representing police, fire, and teaching personnel agree that when the WEP legislation was passed, Congress lacked sufficient data to design an accurate correction. As a result, the WEP gives some individuals Social Security benefits than intended.

Similarly, the Government Pension Offset (GPO) of 1977 provided an imperfect remedy to Social Security's spousal benefit formula. Before the GPO, those who worked in jobs exempt from Social Security taxes and provided separate government pensions could also receive Social Security spousal benefits equal to those with little or no work history. The spousal benefit allows individuals to receive the greater of their own earned benefit or 50 percent of their spouse's benefit, and it was designed to support spouses—namely women—who generally stayed at home to care for children and a household. Individuals who worked in jobs exempt from Social Security often looked like stay-at-home spouses or very low-income earners for purposes of Social Security benefit eligibility. In reality, they worked and earned government pensions of their own and did not have to pay into the Social Security system.

WEP and the GPO affect about 3.5 percent of households, or over 2.5 million government or former government workers, including military retirees, police officers, firefighters, teachers, postal workers, and others, and the provisions have a substantial effect on benefits in those households.

TSCL believes that at a time when there is a nationwide shortage of teachers and police officers and when there is a critical shortfall in military recruiting, fixing this inequity is an absolute must.

As the Pentagon acknowledges, military retirees are one of the best recruiters of new military personnel. Yet, when those retirees are shortchanged in their retirement the incentive to recruit young people is greatly reduced. We suspect the same holds true for police, fire, and educators as well.

What follows are a few of the many comments we have received from our supporters affected by WEP-GPO.

Email
smithef@XXXX.com
DUE TO WEP & GOP MY SOCIAL SECURITY CHECK IS $462 MONTHLY, STARTED OUT AT $405?, DOB 10-07-1948. HAD 40 QUARTERS BEFORE PRESIDENT REGAN INITIATED THE WEP & GOP WHICH STRIPS 1.9 MILLION AMERICAN CITIZENS OF A

DESCENT MONTHLY SOCIAL SECURITY CHECK. WHEN ARE THESE 2 PROGRAMS GOING TO BE ELIMINATED?

Email
druel@XXXX.com
My name is XXXX. I am currently affected by the unfair Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO). I am active in getting HR-82 (Congressional bill) & S-1302 (Senate bill) passed by working with the Facebook Group Repeal the Windfall Elimination Provision–WEP & Govt. Pension Offset–GPO, which currently has over 10,000 members who are contacting Congressmen & Senators daily. My story is not much different from most who are affected by WEP & GPO. I earned a 60 hour Master's (considered a specialist degree) in school psychology. I graduated with a school psychology license in Illinois and began my career in Illinois. I did not pay into social security because Illinois participated in the WEP/GPO laws. I worked for 6 years in Illinois and then moved to Kansas to continue my career as a school psychologist. I paid into social security in Kansas for 19 years since Kansas is not part of the WEP & GPO laws. After 19 years in Kansas, I moved back to Illinois and worked until December 2017 when I became disabled and needed to retire early. I qualified for social security disability in November of 2020. As an educator for most of 30 years, I also needed to supplement my income with ongoing part-time jobs. I paid into social security for these part-time jobs. Each year, I would get statements from Social Security letting me know what my estimated retirement payment would be. When I received my first paycheck in Illinois, I called payroll to find out why there was no social security taken out and was informed that IL educators do not have to pay into SS because we pay into TRS (Teacher Retirement System of IL). That was it and no explanations about how this could affect me. No more conversations and it was not until I qualified for social security disability that I understood how these laws impacted me. It has taken me a while to grasp what these laws really mean but once I did, my frustration and anger began.

Email
nlbrouillard@XXXX.com
My story is probably not all that unusual, but it is affecting my quality of life and health. I retired in 2015 after forty four years in the classroom. 28 in Connecticut and sixteen in Florida. I was dismayed to find my Social Security would be reduced because I had a pension from the State of CT. I had not paid into Social Security through my teaching, but had earned my forty quarters many times over through additional work I did to support my family. WEP and GPO were the enemy. Through no fault of my own and totally unaware having never been notified of this practice, I became the object of a political ploy from my State. I used all my available funds to pay for schooling for my children as many good parents had done, and thus had little to no savings. I moved south to find a better economic situation but soon had to return to work as a teacher in Florida. I continually paid into Social Security for another sixteen years. Finally deteriorating health led to my full retirement. Over the last six years I have not received an increase in my Social Security due to the increase in my medicare commitment and $299 dollars doesn't go very far in the household today. No fancy trips or cars, eat at home most of the time, watch my pennies very carefully. At this point in my life, my golden years, I feel neglected and betrayed by the very governmental safety net that was designed to be there for me. I fully support a supplemental payment, much like the child tax credit for all seniors who are in great need. I

also would like to see a repeal of WEP and GPO for all those public servants who unknowingly fell into the political trap of greedy states. Thank you for your time and interest.

Email
trish12332@XXXX.com
I worked FOR 31 years and had social security taxes taken from all my pay checks. But when I retired from the U. of Cincinnati, I had a WEP Offset to contend with, something I was not made aware of before I retired. It was a well kept secret. The WEP Offset stole 50% of my already earned social security benefits from me and I had to continue working then due to an amount I had planned on. Now with the paltry increases in social security, it created a definite hardship for me even after working so long during my life time. It is time to give back the social security that workers like myself have paid in for many many years. And the WEP Offset should be stopped and the amount of social security benefits that I earned and was told I would be receiving, returned to us the workers. There has to be fairness to the social Security system and this definitely is just NOT FAIR. The increases should be more each year as many people such as myself need to rely on social security. Also the WEP Offset needs to come tyo an end.

Email
Sandpiper812@XXXX.com
I have a problem that I have been dealing with for several years. I should be receiving survivor's benefits from my deceased former husband, however, because of the WEP/GPO laws, I get nothing. Our lawmakers have been playing at repealing these laws because they recognize that they are not fair to those of us who have paid into the system, yet receive no benefits. They sponsor bills to repeal the laws, send them to committee and then allow them to die. They do this year after year, while even daring to discuss the possibility of giving non-citizens benefits, while denying those of us who were born here and who paid into the system. Then, to make matters even worse, they continually raise the cost of Part B Medicare premiums. I receive a small pension which places me in the low income category and I could not survive, if not for some savings that I accumulated by scrimping over the years. I shouldn't have to dip into savings to survive, when I should be receiving survivor's benefits. This not only affects me but anyone who has worked for a county, state, etc. I would sincerely appreciate your support in getting the necessary changes. Please help repeal the WEP/GPO laws. Don't allow them to ignore needy seniors any longer.

TSCL strongly supports H.R.82 - the Social Security Fairness Act of 2023 as the remedy for the WEP-GPO inequity. This bipartisan legislation now has more than 300 cosponsors in the House and 49 cosponsors in the Senate.

We urge the Ways and Means Committee to hold hearings quickly, pass H.R.82, and send it to the full House for a vote as soon as possible.

Comments for the Record
United States House of Representatives
Committee on Ways and Means
Subcommittee on Social Security
Hearing on The Social Security Trust Funds in 2024 and Beyond
Tuesday June 4, 2024, at 11:00 am

By Michael G. Bindner
The Center for Fiscal Equity

Chairman Ferguson and Ranking Member Larson, thank you for the opportunity to submit comments to the subcommittee. I anticipate that this will be a multi-hearing exploration. Count me in. We have attached our comments from 2023, which are still relevant regarding the state of the Trust Fund, which is sound by realistic, rather than conservative scenarios. These comments addressed the following topics: the nature of social insurance, the intergenerational deal that saved Social Security in the 1980s (which is now coming due), the status of the Social Security Trust Fund, tax reform proposals and the need to raise incomes.

The program, as is, needs few changes to retain solvency. The proposed Social Security 2100 Act offers moderate improvements. Most families need more than this.

Social services in the United States need a major overhaul. The categorical grant approach reinforced a provincial view of federalism; one which created regional economies, especially in the South, with a barely hidden racist intent. The result of these policies has been to keep the region in a state of sustained poverty. Alabama Wealthy is not wealthy in the larger economy. This wound was self-inflicted.

Family incomes must be guaranteed, although not with a one size fits all subsidy. Our proposal has three components; two of which should be familiar to the Committee:

1. An increase in the minimum wage to at least $11 per hour (if not more to account for pandemic inflation), with a $12 wage for a shorter work week. This distributes the burden of higher wages for less work with employees and employers.
2. Increase the Child Tax Credit to levels passed by the House, with increases to at least twice that in fairly short order.
3. Replace the current menu of social programs with long term unemployment insurance at below minimum wage levels, which would be supplemented with additional funding for participation in basic education (especially for ex-offenders), employment training, psychiatric or addiction rehabilitation programs. Old Age, Survivors and Disability Insurance would start with this amount as a minimum, with higher benefit levels based on employment history. Dependent payments would be made through the child tax credit once it has been increased to current survivor benefit levels.
4. Long term unemployment insurance would be awarded on a no fault basis, ending the need for eligibility investigations beyond verification of identity and for punitive disciplinary systems by employers designed to avoid paying benefits. This payment, which would be indexed for inflation, would be $10 per hour for a 28 hour week, would be tax free and funded by a national goods and services tax. States could enact higher benefit levels funded by a local GST.
5. Most, if not all, anti-poverty programs would be discontinued, although programs to increase rental housing supplies would be expanded.

Please see the attachments for more information on the conforming changes to tax policy.

Taken together, these reforms will remove the punitive features from anti-poverty programs, especially those which require an excess of red tape to participate - especially the earned income tax credit and supplemental security income.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Attachment - Social Security Basics

Social Insurance

The most basic foundation for understanding Social Security is the nature of social insurance itself. As I commented to the Subcommittee in December 2021:

The theory behind social insurance has two pillars. One: accidents of birth and family size must be evened out so that unearned gains and unreasonable burdens are not a feature of retirement, as they once were.

The second is that, because a main feature of capitalism is the transfer of ownership of the products of labor, with a full return for that labor, social insurance returns what was surrendered during working years.

This is especially the case for lower wage workers that make it possible for higher wage workers to avoid less profitable activities - like cleaning their own offices or serving business lunches. Social insurance restores what society took from them without just recompense. The value of every minute of their lives, on a personal basis, is equal to the value of those who are "more productive."

Establishing The Trust Fund

In our first submission to Congress in May of 2010, we addressed Trust Fund reimbursement issues. They are particularly applicable given the proposed funding increases in the subject legislation (which, if passed, would continue to have workers subsidize lower income tax rates for the few). They remain especially true today.

When Social Security was saved in the early 1980s, payroll taxes were increased to build up a Trust Fund for the retirement of the Baby Boom generation. The building of this allowed the government to use these revenues to finance current operations, allowing the President and his allies in Congress to honor their commitment to preserving the last increment of his signature tax cut.

This trust fund is now coming due, so it is entirely appropriate to rely on increased income tax revenue to redeem them. It would be entirely inappropriate to renege on these promises by further extending the retirement age, cutting promised Medicare benefits or by enacting an across the board increase to the OASI payroll tax as a way to subsidize current spending or tax cuts.

The Conservative Nature of Trust Fund Estimates

In 1999, Dean Baker and Mark Weibrot published *Social Security: The Phony Crisis* in which they eviscerated the efforts by Michael Tanner and the Cato Institute in favor of personal accounts for Social Security. The myth that the program was out of balance is based on the necessity in law to estimate conservatively rather than putting forth the most likely scenario. The latter shows that there is no problem. Their bottom line is that, using the conservative assumptions found in the official forecast, personal accounts would not occur as advertised. Indeed, they would perform even worse than Social Security.

Tax Reforms

We offer two reform proposals in our comprehensive tax reform plan that will provide for a more equal distribution of Social Security benefits for the future, although if these proposals would make some current beneficiaries better off, they should be applied to them retroactively.

The problems with the current system are that the poor do not get enough and the rich get too much, although in the end, due to bend points, the rich only get what they put in, which drives the demand for personal accounts.

One oft-cited reform is means-testing. This will only make the call for personal accounts louder. The alternative to means testing is to lower the ceiling of the employee contribution. This seems counter-intuitive - but this is only the case if the employer and employee matches are equal. They need not be. Employer contributions need not be capped, nor should they be tied to income earned. Rather, they should be credited equally. Here are the details:

Individual payroll taxes. A floor of $20,000 would be instituted for paying these taxes, with a ceiling of $75,000. This lower ceiling reduces the amount of benefits received in retirement for higher income individuals. The logic of the $20,000 floor reflects full time work at a $10 per hour minimum wage offered by the Republican caucus in response to proposals for a $15 wage. The majority needs to take the deal. Doing so in relation to a floor on contributions makes adopting the minimum wage germane in the Senate for purposes of Reconciliation. The rate would be set at 6.25%.

Employer payroll taxes. Unless taxes are diverted to a personal retirement account holding voting and preferred stock in the employer, the employer levy would be replaced by a goods and receipts tax of 6.25%. Every worker who meets a minimum hour threshold would be credited for having paid into the system, regardless of wage level. All employees would be credited on an equal dollar basis, rather than as a match to their individual payroll tax. The tax rate would be adjusted to assure adequacy of benefits for all program beneficiaries.

If these options are adopted, the impetus to establish personal accounts largely goes away. Ironically, a more equal distribution on the side of accumulation would make personal accounts workable. Initially, the employer match would be replaced with a broad based VAT, as above. In time, as employee-ownership of the workplace evolves (and it must), funding with a goods and services tax would be replaced with funding with an employer-paid subtraction value added tax. Such a change would nearly be price neutral, although exporters would pay more while importers pay less.

Personal accounts for employee-owners could not be enacted now - as there are simply not enough such firms for this reform to make a difference. That this sector should be expanded is the difference between a widening income divide in the American economy and a more cooperative and democratic economic future.

A different form of tax reform is necessary to do this - one that involves a tax cut. Currently, when creating employee stock ownership programs, the founder sells his stock to an ESOP Trust fund and gets a tax premium due to the fact that capital gains taxes are not levied on such a sale. Giving shareholders in public companies the same benefit - in other words - a tax cut, will provide the incentives needed to jump start the employee-owned economy.

A further tax reform will facilitate this transition: fully end the "Death Tax" and capital gains taxes (both long and short term) and replace them with an asset value added tax, which is described in the attachment.

Increasing Incomes

The current "school solution" to increase savings to supplement Social Security, as found in Social Security 2100, is obscene. Those who can save, already do. Most cannot do so and giving them tax incentives, even with automatic contributions, highlights the inadequacy of the wages in the vast majority of households.

There are two reasons for this. The first is that the minimum wage has not increased in decades and the tipped wage is not a wage at all, especially when low tipping is not offset by higher wages, as required by law but never enforced (or paid). To restore the value of the minimum wage to the level it would have been had it been indexed to inflation would require an increase (and I mean an immediate increase) to $10 per hour. This was the counter-offer the Senate Minority made to counter a $15 wage increase until the Senate Parliamentarian ruled that such a reform was not germane in Reconciliation. The Majority Leaders should have taken the deal.

A $12 wage would restore the balance to 1965 levels, which is when the Kennedy-Johnson tax cuts took effect and compensation and productivity were decoupled. An $11 per hour wage with a decrease in full-time hours to 32 per week would have the same impact for workers.

A $15 wage - which is an old number - was meant to be a family wage - and would be $18 to have the desired effect. The other option, one proposed in the President's Budget, is to increase the Child Tax Credit to pandemic recovery levels (including making it fully refundable), although I would start the phase out at the $85,000 income level, with no credit for households earning over $150,000. The amount of the credit should also be increased with time to $1,000 per month, per child and then indexed for inflation.

The second reason wages are inadequate is the way inflation adjustments are made - which is as an equal percentage increase to all employees or beneficiaries rather than an equal dollar increase. This was an innocent mistake until tax rates were cut on the CEO class. When the government stopped taxing away increased compensation for business owners and executives who cut labor costs, a minor math mistake turned into class warfare from above. It is time to fix this.

Adjusting the minimum wage does not affect the median dollar in the economy, which is earned at the ninetieth percentile of households. This has been the case for decades, and it is why anyone below that level has LOST VALUE to inflation.

The federal government plays an outsized role in how salaries are determined through percentage based cost of living adjustments to government workers, beneficiaries, government contractors. The government can change this with the stroke of a pen.

From here on in, adjust for cost of living on a per dollar an hour rather than on a percentage basis (or dollars per month or week for federal beneficiaries). Calculate the dollar amount based on inflation at the median income level. No one gets more dollars an hour raise, no one gets less dollars per hour in increases. Increase the minimum wage as above and consider decreasing high end salaries paid to government employees and contractors. Even without decreases, simply equalizing raises will soon reduce inequality. Why is this necessary?

Let me emphasize: prices chaise the median dollar. The median dollar of income is actually at the 90th percentile, rather than the 77th percentile (which is about where the median is). This strategy will reduce inflation in both the long and short terms as prices adjust to decreases in higher salaried income.

Asset VAT - The President's Fiscal Year 2023 Budget, June 7, 2022

There are two debates in tax policy: how we tax salaries and how we tax assets (returns, gains and inheritances). Shoving too much into the Personal Income Tax mainly benefits the wealthy because it subsidizes losses by allowing investors to not pay tax on higher salaries with malice aforethought.

Asset Value-Added Tax (A-VAT) is a replacement for capital gains taxes and the estate tax. It will apply to asset sales, exercised options, inherited and gifted assets and the profits from short sales. Tax payments for option exercises, IPOs, inherited, gifted and donated assets will be marked to market, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed.

As with any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax free. This change would be counted as a tax cut, giving investors in public stock who make such sales the same tax benefit as those who sell private stock.

This tax will end Tax Gap issues owed by high income individuals. The base 20% capital gains tax has been in place for decades. The current 23.8% rate includes the ACA-SM surtax), while the Biden proposal accepted by Senator Sinema is 28.8%. Our proposed Subtraction VAT would eliminate the 3.8% surtax. This would leave a 25% rate in place.

Settling on a bipartisan 22.5% rate (give or take 0.5%) should be bipartisan and carried over from the capital gains tax to the asset VAT.A single rate also stops gaming forms of ownership. Lower rates are not as regressive as they seem. Only the wealthy have capital gains in any significant amount. The de facto rate for everyone else is zero.

With tax subsidies for families shifted to an employer-based subtraction VAT, and creation of an asset VAT, taxes on salaries could be filed by employers without most employees having to file an individual return. It is time to TAX TRANSACTIONS, NOT PEOPLE!

The tax rate on capital gains is seen as unfair because it is lower than the rate for labor. This is technically true, however it is only the richest taxpayers who face a marginal rate problem. For most households, the marginal rate for wages is less than that for capital gains. Higher income workers are, as the saying goes, crying all the way to the bank.

In late 2017, tax rates for corporations and pass-through income were reduced, generally, to capital gains and capital income levels. This is only fair and may or may not be just. The field of battle has narrowed between the parties. The current marginal and capital rates are seeking a center point. It is almost as if the recent tax law was based on negotiations, even as arguments flared publicly. Of course, that would never happen in Washington. Never, ever.

Compromise on rates makes compromise on form possible. If the Affordable Care Act non-wage tax provisions are repealed, a rate of 26% is a good stopping point for pass-through, corporate, capital gains and capital income.

A single rate also makes conversion from self-reporting to automatic collection through an asset value added tax levied at point of sale or distribution possible. This would be both just and fair, although absolute fairness is absolute unfairness to tax lawyers because there would be little room to argue about what is due and when.

Ending the machinery of self-reporting also puts an end to the Quixotic campaign to enact a wealth tax. To replace revenue loss due to the ending of the personal income tax (for all but the wealthiest workers and celebrities), enact a Goods and Services Tax. A GST is inescapable. Those escapees who are of most concern are not waiters or those who receive refundable tax subsidies. It is those who use tax loopholes and borrowing against their paper wealth to avoid paying taxes.

For example, if an unnamed billionaire or billionaires borrow against their wealth to go into space, creating such assets would be taxable under a GST or an asset VAT. When the Masters of the Universe on Wall Street borrow against their assets to avoid taxation, having to pay a consumption tax on their spending ends the tax advantage of gaming the system.

This also applies to inheritors. No "Death Tax" is necessary beyond marking the sale of inherited assets to market value (with sales to qualified ESOPs tax free). Those who inherit large cash fortunes will pay the GST when they spend the money or Asset VAT when they invest it. No special estate tax is required and no life insurance policy or retirement account inheritance rules will be of any use in tax avoidance.

Tax avoidance is a myth sold by insurance and investment brokers. In reality, explicit and implicit value added taxes are already in force. Individuals and firms that collect retail sales taxes receive a rebate for taxes paid in their federal income taxes. This is an intergovernmental VAT. Tax withheld by employers for the income and payroll taxes of their labor force is an implicit VAT. A goods and services tax simply makes these taxes visible.

Should the tax reform proposed here pass, there is no need for an IRS to exist, save to do data matching integrity. States and the Customs Service would collect credit invoice taxes, states would collect subtraction VAT, the SEC would collect the asset VAT and the Bureau of the Public Debt would collect income taxes or sell tax-prepayment bonds.

Contact Sheet

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All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears:

This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.

See also an article transmitted in a separate file published in the January 2003 issue of *PVS Labor and Corporate Governance* for the benefit of members and staff, but not for inclusion in the record.