STRENGTHEN SOCIAL SECURITY

...don't cut it.

High Earners Should Contribute Fair Share to Social Security: Policy Options

Social Security payroll tax contributions are due on earnings only up to $118,500 in 2015, with employees and employers contributing equally.[i] About 6 percent of workers earn more than the cap.[ii] While the vast majority of Americans contribute to Social Security on all of their earnings, millionaires and billionaires do so only on the first $118,500 of their earned income. And their investment income is completely outside the Social Security system. Scrapping the cap, and incorporating the investment income of high earners into Social Security, would ensure that high earners contribute on all their income at the same rate as average workers, and it would eliminate Social Security's projected 75-year funding gap.[iii] A strong case can also be made for dedicating estate tax revenue to the Social Security system.[iv]

Congress already scrapped the cap on payroll tax contributions to Medicare's Hospital Insurance Trust Fund in 1993, and subjected investment income to Medicare contributions effective in 2013. It's time for Congress to consider similar revenue options to strengthen Social Security. Below are examples of policy options, with official estimates of the extent to which these would strengthen Social Security's finances:

- **Eliminate the cap and do not credit additional earnings toward benefits.** Social Security's Office of the Chief Actuary estimates that eliminating the cap on earnings subject to the payroll tax, while not increasing benefits accordingly, would close about **82 percent** of Social Security's projected funding gap (providing additional revenue of roughly $9.1 trillion over 75 years).[v]

- **Eliminate the cap above $250k, while gradually eliminating it on earnings between current cap ($118.5k) and $250k (Sen. Sanders).** Sen. Bernie Sanders' (I-VT) "Social Security Expansion Act" would subject earnings above $250,000 to the Social Security payroll tax. This $250,000 threshold would not be indexed for inflation, while the cap on earnings (currently $118,500) increases each year, which will result in a gradual elimination of the cap altogether. Eliminating the cap this way, without crediting the additional earnings toward benefits, would close about **74 percent** of the projected funding gap (providing additional revenue of roughly $8.3 trillion over 75 years).

- **Incorporate investment income into Social Security (Sen. Sanders).** In addition, Sen. Sanders' bill would subject the investment income of households with modified adjusted gross income over $200,000 ($250,000 for married couples) to the Social Security payroll tax, as the Affordable Care Act did for Medicare. This provision would close about **33 percent** of the projected funding gap (providing additional revenue of roughly $3.6 trillion over 75 years).[vi]

- **Eliminate the cap and count additional earnings toward benefits at a lower replacement rate (Sen. Harkin).** Retired Sen. Tom Harkin's (D-IA) "Strengthening Social Security Act of 2013" would subject all earnings above the current-law cap to Social Security contributions, phasing in the change over 5 years.[vii] The bill would count earnings above the current-law cap toward Social Security benefits, but credit them toward benefits at a lower rate than earnings under $118,500. Excluding the bill's additional benefit increases, Senator Harkin's version of scrapping the cap would close about **73 percent** of the projected funding gap (providing additional revenue of roughly $8.1 trillion over 75 years).[viii] In addition to eliminating the cap, Senator Harkin's bill would improve benefit adequacy through two measures: an annual benefit increase of $864 per year for virtually all workers, and a more accurate cost-of-living adjustment (known as the CPI-E). With these two benefit expansions, a hypothetical average earner retiring now would see an annual benefit increase of $1,570 at age 75, and $2,131 at age 85. Over time, these annual increases would add up to $14,254 more in cumulative benefits by age 75, and $33,023 more by age 85.[ix]

- **Eliminate the cap and count additional earnings toward benefits using current formula.** Eliminating the cap on earnings while crediting those additional earnings towards benefits, as under current law, would close **66 percent** of the projected funding gap (providing additional revenue of roughly $7.4 trillion over 75 years).[x]

- **Restore the estate tax to its 2009 level and dedicate all revenues to Social Security.** Under this provision, the estate tax would be restored to its 2009 level, where it taxed estates in excess of $3.5 million ($7 million for married couples), and revenues from the tax would be dedicated to the Social Security trust funds. This approach would close **18 percent** of the projected funding gap (providing additional revenue of roughly 2 trillion over 75 years).[xi]

---

[i] Social Security Administration (SSA), "Benefits Planner: Maximum Taxable Earnings (1937-2015)," March 30, 2015. http://www.ssa.gov/planners/maxtax.htm The cap, or taxable maximum, goes up with increases in the Average Wage Index. SSA, *The Evolution of Social Security's Taxable Maximum*, September 2011. http://www.ssa.gov/policy/docs/policybriefs/pb2011---02.html For self-employed individuals, the employer contribution is tax deductible.

[ii] In 2011, the latest year for which data are available, 6.2 percent of covered workers had earnings equal to or above the cap. SSA, "Annual Statistical Supplement, 2013," Table 4.B1. http://www.ssa.gov/policy/docs/statcomps/supplement/2013/4b.html

[iii] This is true in all cases except with the final two 'scrap the cap' options below.

[iv] Benjamin W, Veghte, "What Are the Implications of Rising Inequality for Social Security Policy," Social Security Works, February 2015. http://www.socialsecurityworks.org/wp-content/uploads/2015/02/What-are-the-Implications-of-Rising-Inequality-for-Social-Security-Policy-2.pdf

[v] SSA, Office of the Chief Actuary, Provisions Affecting Payroll Tax Rates: "Eliminate the taxable maximum in years 2015 and later, and apply full 12.4 percent payroll tax rate to all earnings. Do not provide benefit credit for earnings above the current-law taxable maximum." http://www.ssa.gov/oact/solvency/provisions/charts/chart_run096.html#graph

[vi] SSA, Office of the Chief Actuary, "Estimates of the Financial Effects on Social Security of S. 731, the "Social Security

Expansion Act," legislation introduced on March 12, 2015 by Senator Bernie Sanders," March 26, 2015. http://www.ssa.gov/oact/solvency/BSanders_20150323.pdf

[vii] SSA, Office of the Chief Actuary, "Estimated Financial Effects on Social Security of the 'Strengthening Social Security Act of 2013,' legislation introduced on March 14, 2013 by Senator Tom Harkin," March 18, 2013. http://ssa.gov/oact/solvency/THarkin_20130318.pdf

[viii] Provisions Affecting Payroll Tax Rates: "Eliminate the taxable maximum in years 2025 and later. Phase in elimination by taxing all earnings above the current-law taxable maximum at: 1.24 percent in 2016, 2.48 percent in 2017, and so on, up to 11.16 percent in 2024. Provide benefit credit for earnings above the current-law taxable maximum, adding a bend point at the current-law taxable maximum and applying a formula factor of 5 percent for AIME above this new bend point." http://www.ssa.gov/oact/solvency/provisions/charts/chart_run274.html#graph

[ix] Annual and cumulative benefit increases are the sum of the $72 monthly ($864 annual) benefit increase provided by Senator Harkin's bill, and the adoption of the CPI-E. Social Security Works Analysis based on cost-of living adjustment projections from Social Security Trustees Report, *2014 Social Security Trustees Report*, July 28, 2014. http://www.ssa.gov/OACT/TR/2014/tr2014.pdf; and data on benefits of hypothetical average earner from the Congressional Budget Office, *Social Security Old-Age and Survivors Insurance – Baseline Projections*, April 2014. http://www.cbo.gov/sites/default/files/cbofiles/attachments/43889-2014-04-Social_Security.pdf.

[x] SSA, Office of the Chief Actuary, Provisions Affecting Payroll Tax Rates: "Eliminate the taxable maximum in years 2015 and later, and apply full 12.4 percent payroll tax rate to all earnings. Provide benefit credit for earnings above the current-law taxable maximum." http://www.ssa.gov/oact/solvency/provisions/charts/chart_run113.html#graph

[xi] The most recent cost estimate available for this provision is based on the 2004 Social Security Trustees Report. The estimate in this fact sheet reflects this 2004 cost estimate as a percentage of the 75-year shortfall projected in the 2014 Social Security Trustees Report. National Academy of Social Insurance, "Fixing Social Security: Adequate Benefits, Adequate Financing," October 2009. http://www.nasi.org/sites/default/files/research/Fixing_Social_Security.pdf