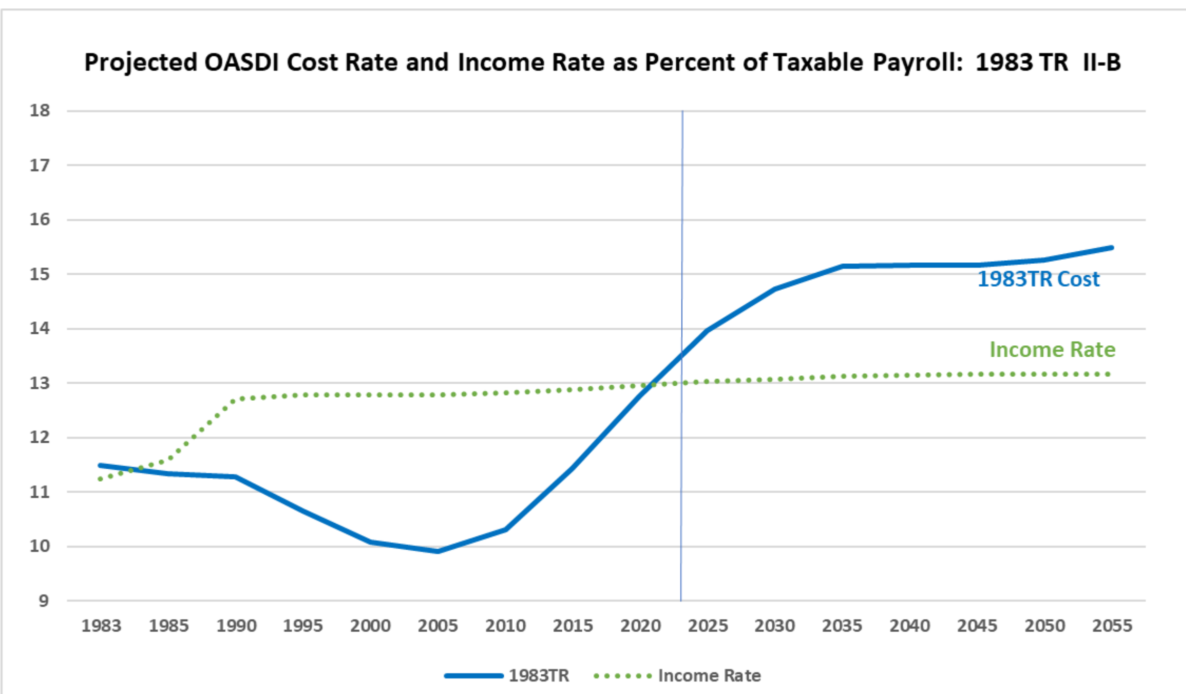
Protecting Social Security for All: Making the Wealthy Pay Their Fair Share
Testimony by Stephen C. Goss, Chief Actuary, Social Security Administration
United States Senate Committee on the Budget
July 12, 2023

Chairman Whitehouse, Ranking Member Grassley, and members of the committee, thank you for the opportunity to speak to you 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 84 years through 2023, all scheduled benefits have been paid in full.

The Challenge of 1983: The Last Major Changes Made to the Program

In 1982, the Old-Age and Survivors (OASI) Trust Fund faced immediate crisis. The fund's reserves were depleted, requiring temporary borrowing from the Disability Insurance (DI) and Medicare Hospital Insurance (HI) Trust Funds. The 1983 Amendments quickly followed, making changes needed to address immediate shortfalls and to begin addressing the impending shift in the age distribution of the US population. This shift was already foreseen, based on the drop in the birth rate after 1965. We well understood at the time that the 1983 Amendments were not a permanent solution to Social Security's long-term shortfalls.

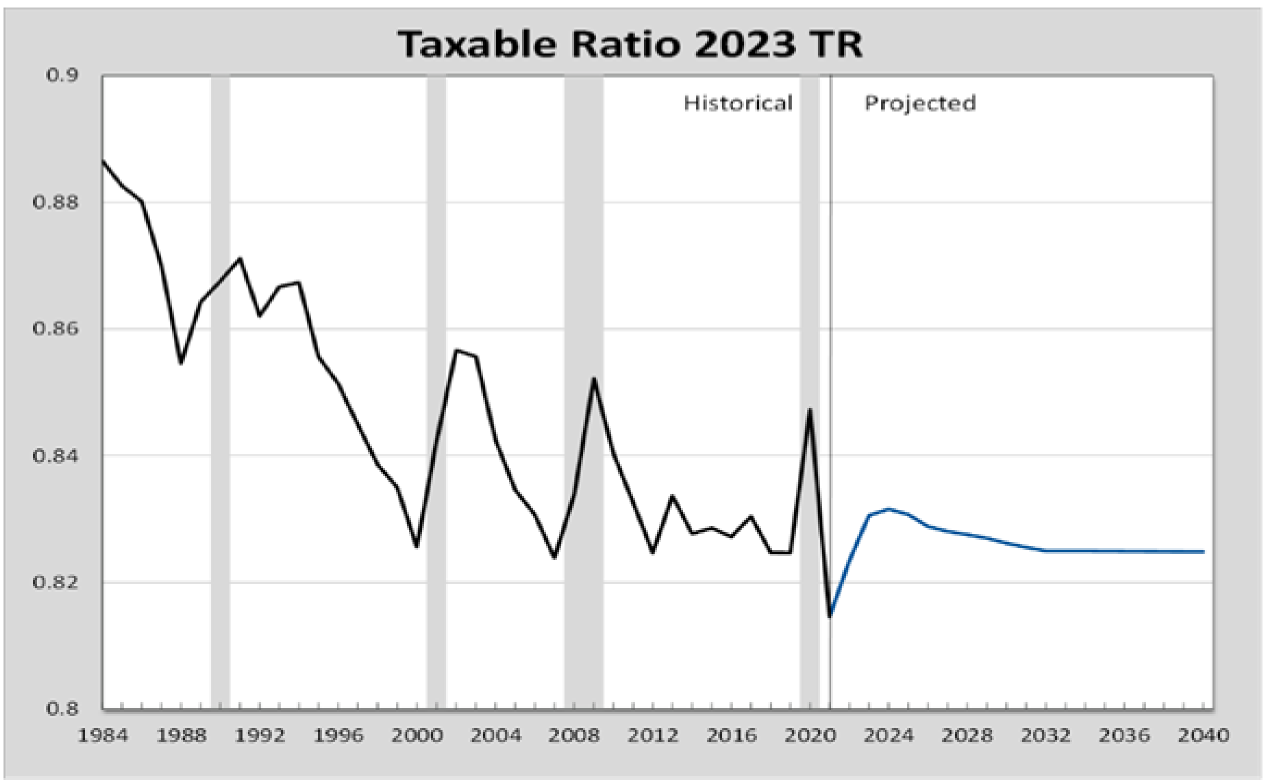


In 1983, we knew that in 2008 the baby-boom generation (those born in 1946 through 1965) would begin retiring and would gradually be replaced at working ages by the subsequent lower-birth rate generations. Excess annual income through 2020 was projected to accumulate to cover shortfalls through the mid-2050s. It was known that further action would be needed by that time.

<u>The Challenge of 2023: The Additional Changes That Are Needed</u>

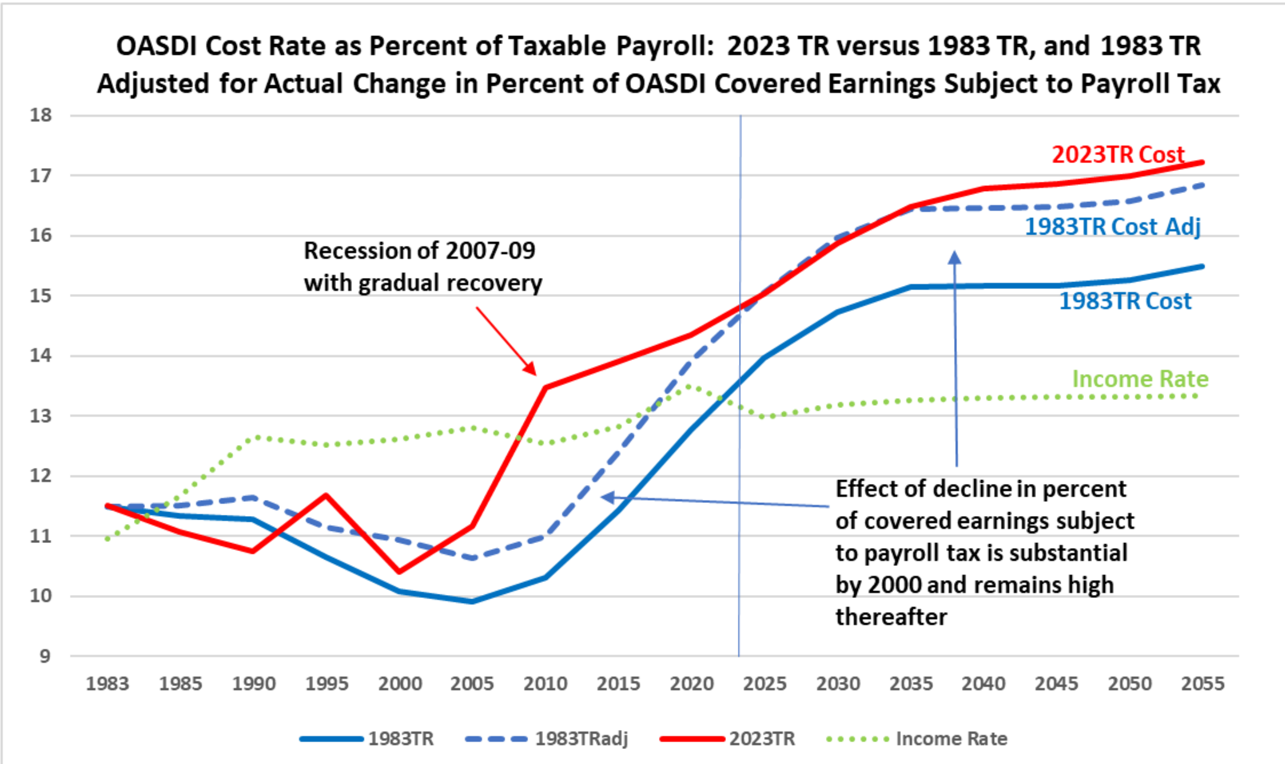
So why are we now facing a need for action to avert trust fund reserve depletion in the mid-2030s, 20 years sooner than expected in 1983? The age distribution of the population has followed expectations with continued low birth rates and modest increases in life expectancy at age 65. (Note that the increase in life expectancy at age 65 projected in the 1982 Trustees Report through 2015 matched the actual outcome.)

The primary unexpected change was the large *relative* increase in earnings for the highest earners. In 1982, the OASDI maximum taxable earnings level was set such that about 90 percent of covered earnings were subject to the payroll tax, and the level was scheduled to increase with the average wage in the economy. Assuming similar annual increases in average earnings at all levels, this approach was expected to maintain 90 percent of earnings below the taxable maximum and thus subject to payroll tax. Between 1983 and 2000, however, earnings for those with earnings above the taxable maximum (the highest 6 percent of earners) rose much faster than the overall average, lowering the percent of covered earnings below the taxable maximum to only 82.5 percent. Other than temporary effects from recessions, this "taxable ratio" has remained at about the same level since 2000, and we expect it to remain there in the future.



The other major unexpected change since 1983 was the performance of the economy, in particular the deep recession of 2007-09. Recovery from that recession was gradual and incomplete in terms of expected labor productivity, or real output per hour worked.

The chart below illustrates the impact of these two major unexpected events that have occurred since 1983. First, the dashed blue line shows the effect of the diminished share of covered earnings subject to payroll tax, on the cost of the OASDI program as a percent of taxable payroll. Program cost as a percent of the diminished taxable payroll by 2000 and thereafter is elevated from the projected levels in the 1983 Trustees Report as shown on the solid blue line to nearly the level projected in the 2023 Trustees Report as shown on the red line. Second, the recession of 2007-09 and the very gradual recovery that followed increased OASDI cost above income earlier than had been expected, reducing anticipated trust fund accumulations.

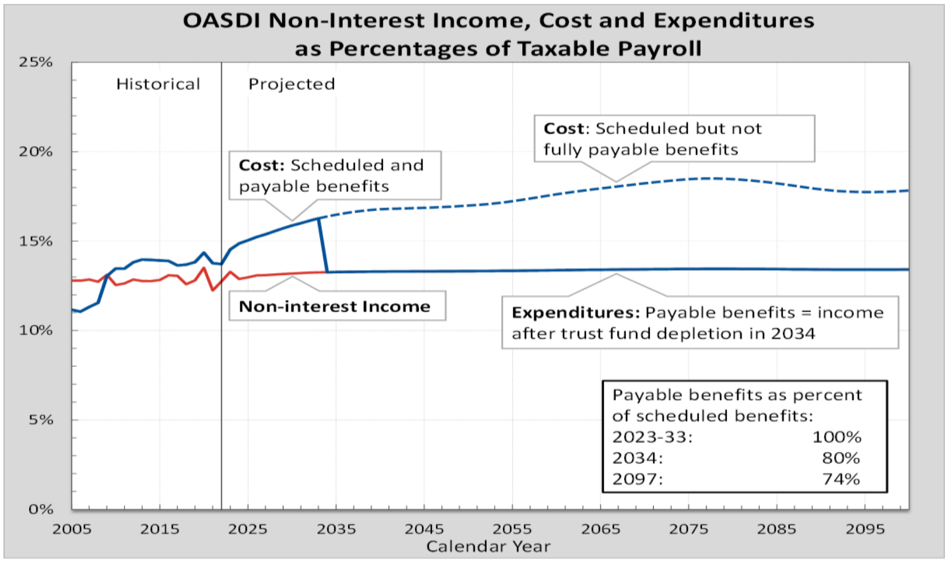


Thus, while the 1983 Amendments made an excellent start at addressing the long-term challenge of the changing age distribution of the US population, more change was then known to be needed, and the time for further change is sooner than had been expected due to unanticipated changes in the economy. We need to close the gap between the program's cost rate and income rate before reserves become depleted in 2034, finishing the work started in 1983, and addressing the unanticipated drop in the share of covered earnings subject to the payroll tax. To close this gap, we will need to raise program income by about one-third, lower scheduled benefits by about one-fourth, or some combination of these approaches.

A more permanent solution to the Social Security financing shortfall requires attaining "sustainable solvency," a concept developed in the mid-1990s in conjunction with Bob Ball and others on the 1994-96 Social Security Advisory Council, and with Senators Bob Kerrey and Alan Simpson. Sustainable solvency requires that trust fund reserves as a percent of annual program cost be stable or rising at the end of the 75-year long-range projection period. This condition was not met or intended in the 1983 Amendments.

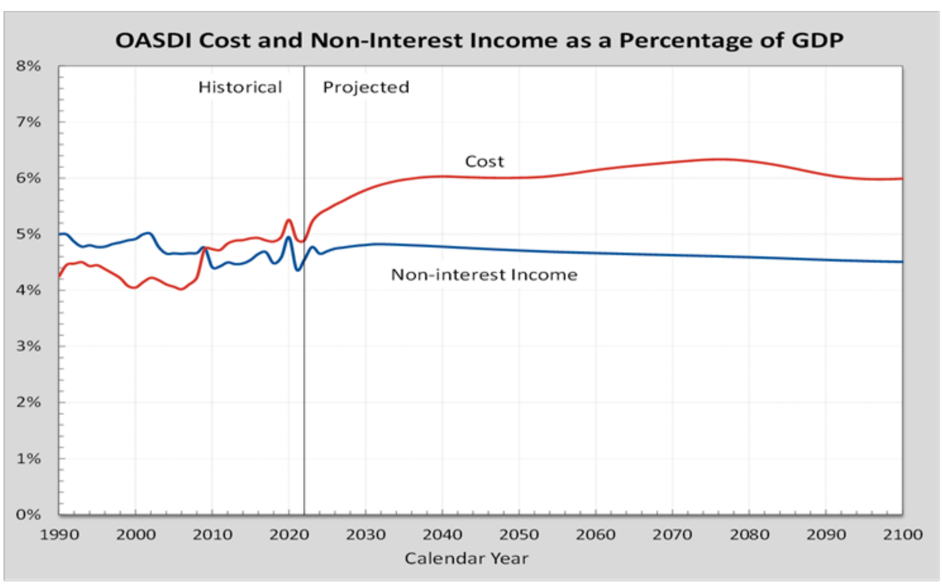
Actuarial Status in the 2023 OASDI Trustees Report

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 by 2040 to a relatively stable level above scheduled program income. This rise is attributable to the long-recognized changing age distribution in the population.

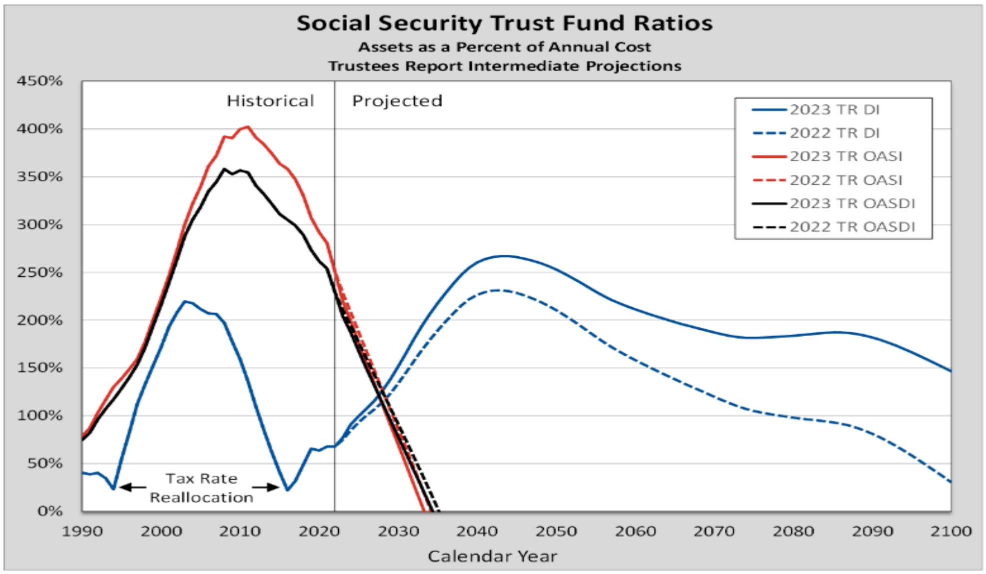


The financial shortfall over the next 75 years as a whole for the OASDI program, or unfunded obligation, amounts to $22.4 trillion in present value, which represents 3.42 percent of taxable payroll and 1.2 percent of GDP over the entire period. This shortfall over the entire 75-year period must be met with changes over the entire 75-year period in order for full scheduled benefits to be paid on a timely basis.

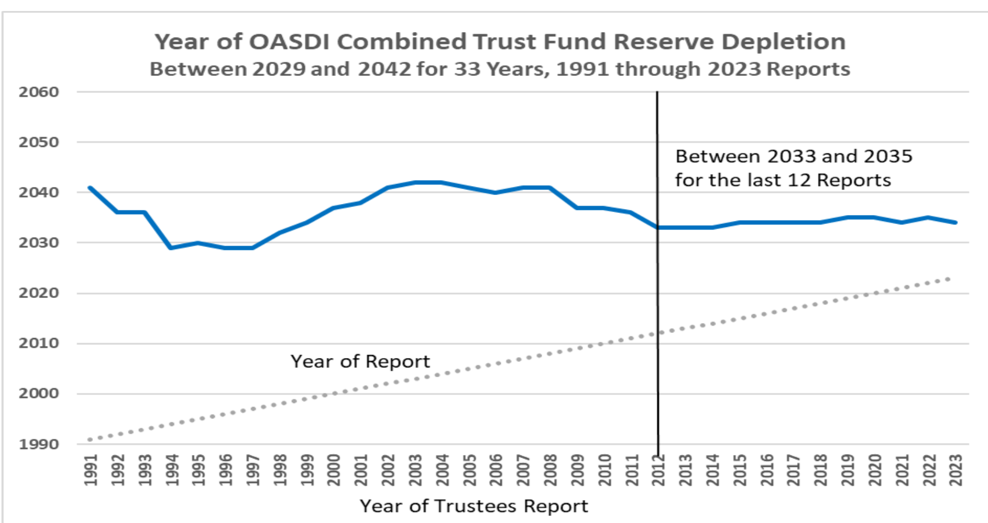
Similar to the trends as a percent of taxable payroll are the trends as a percent of GDP.



The current reserves in the combined OASI and DI Trust Funds total $2.8 trillion, more than double the amount of annual program cost. However, under the intermediate assumptions of the 2023 Trustees Report, revenues to the combined funds are projected to be less than program cost in future years, so that combined OASI and DI reserves would become depleted in 2034 in the absence of legislation. At that time, 80 percent of scheduled benefits would still be payable. The OASI Trust Fund alone is projected to deplete its reserves in 2033, with 77 percent of scheduled benefits then payable. These dates are both 1 year earlier than projected in the 2022 Trustees Report. The DI Trust Fund alone is projected to be fully financed beyond 2100.



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 in recent decades. The year of projected combined OASI and DI Trust Fund reserve depletion has been in the range of 2029 to 2041 in the last 33 annual reports, and in the range of 2033 to 2035 in the last 12 reports.

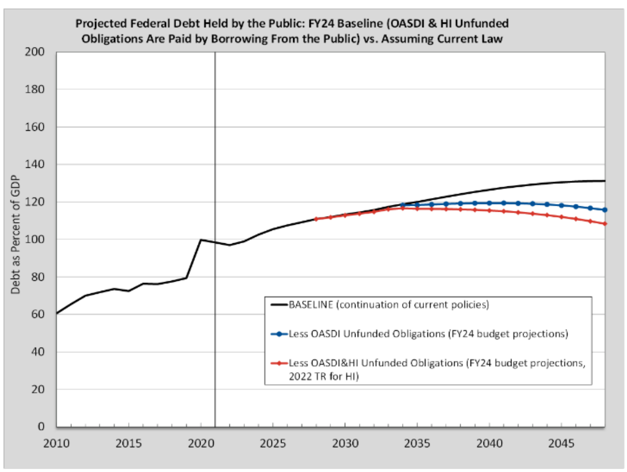


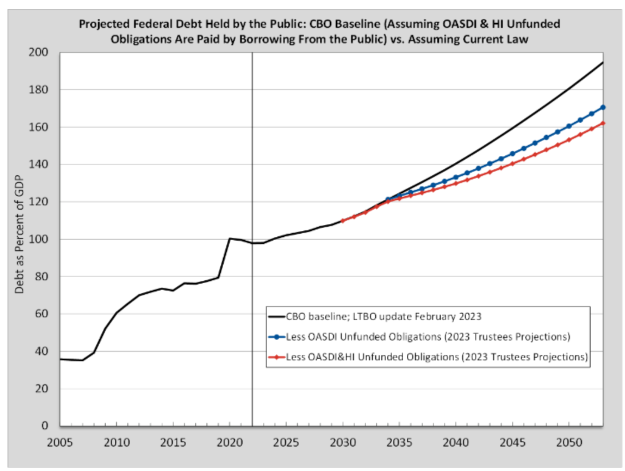
<u>Social Security and Federal Debt</u>

The fundamental nature of these trust funds is important. These funds are credited with 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. It should be noted that the President's Budget and CBO project federal debt by making 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 the Medicare Hospital Insurance Trust Fund after reserve depletion. This assumption is based on a specific requirement in Sec. 257(b)(1) of the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177 (codified at 2 U.S.C. §907(b)(1) (2016)):

> "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 graphs below show recent projections of publicly held debt as a percent of GDP with this assumed change in law (black line) and the debt levels that would actually occur under current law and policy (blue and red lines).



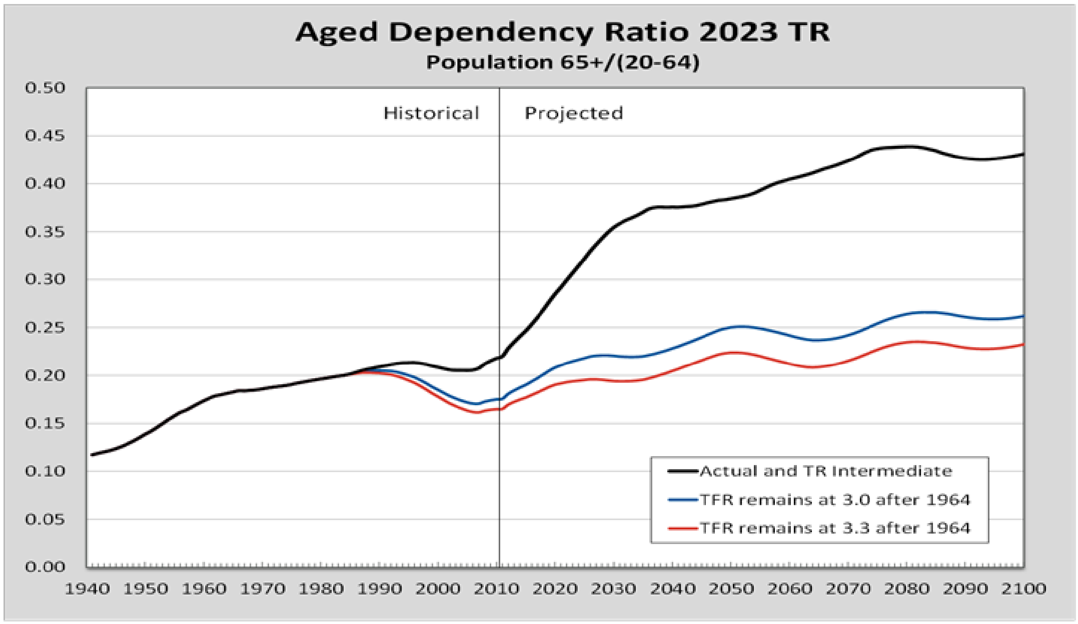


Under current law, Trust Fund reserves are invested only in Treasury Bonds, thus reducing the amount that must be borrowed from the public due to past deficits for all other federal programs. When trust fund reserves are drawn down in order to maintain full Social Security benefits, such redemption has no effect on the total federal debt subject to limit or on on-budget federal deficits. Such draws on reserves just require shifting some federal debt from debt owed to the trust funds to debt owed to the public. This shift in federal borrowing has been projected years in advance, so it is no surprise to the financial markets. Moreover, it is understood that any unfunded obligation that exists when reserves might become depleted would almost certainly be met with Congressional action, in the form of legislation providing either additional tax revenue or a reduction in scheduled benefits, as has always been done in the past.

Critical Factors for Projections: Historical Experience and Assumptions for the Future

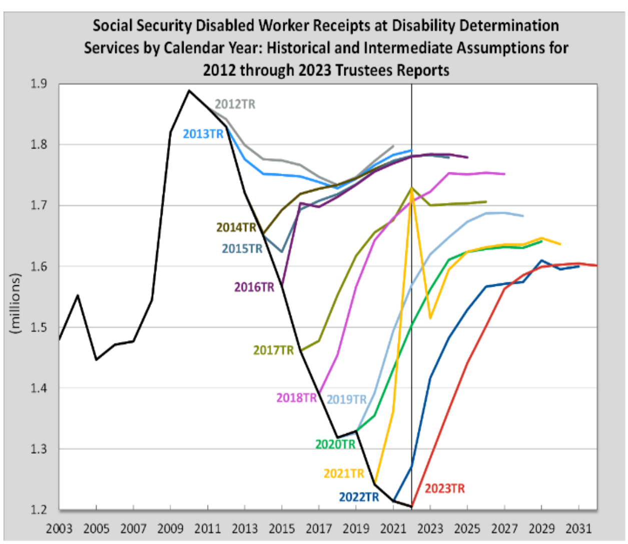
Age Distribution

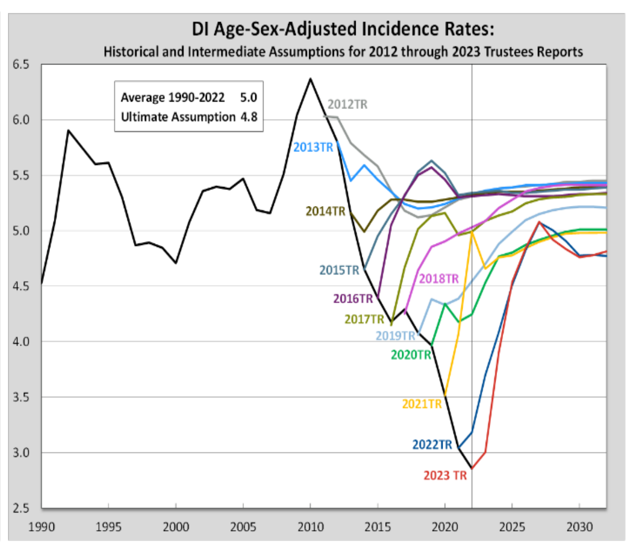
The rise in the cost of the Social Security program between 2008 and 2040, as a percent of both taxable payroll and GDP, follows directly from the changing age distribution of the adult US population, as seen in the familiar aged dependency ratio graph shown below.



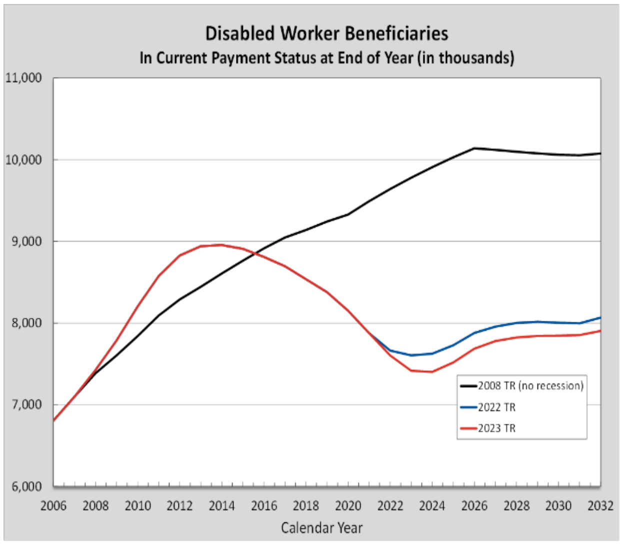
Disability

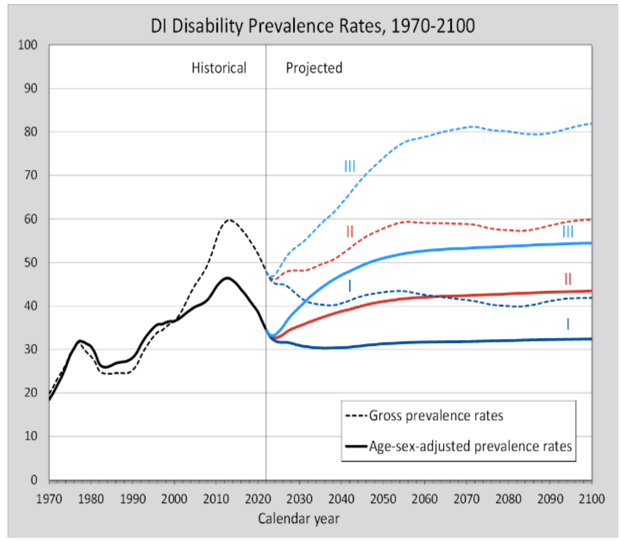
Applications for disability benefits and incidence rates have been declining steadily since 2010 and have continued to be below our prior projections. We and the Trustees continue to assess the reasons for these declines and the likelihood that rates will rise to levels not seen since the period immediately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

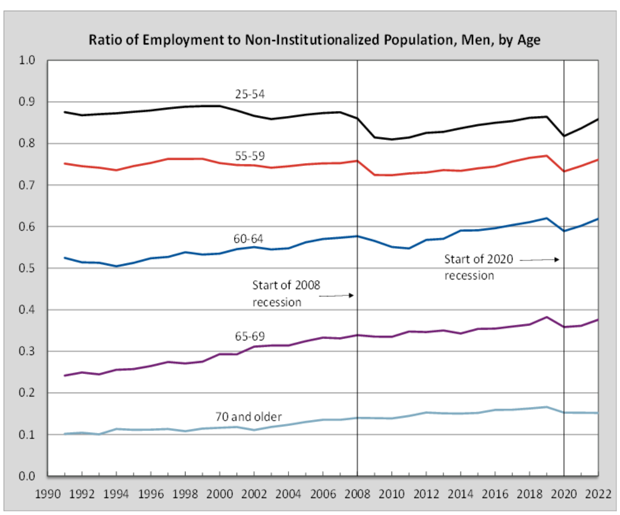


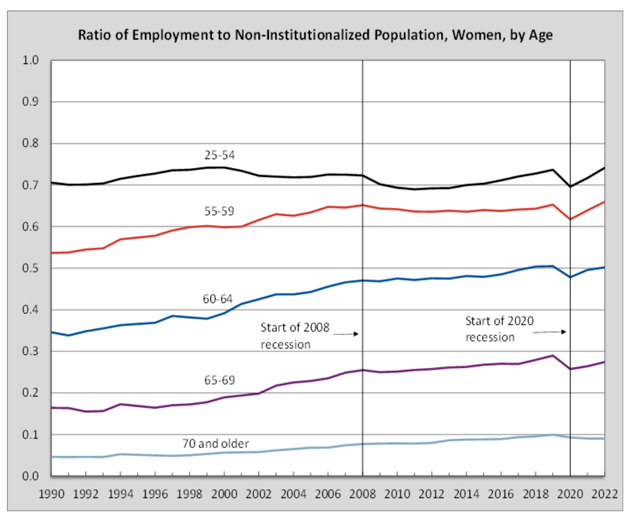


Many factors have played a role in the lower disability incidence rates and prevalence rates. Among these are the changing nature of work and the increasing accommodation of workers with some limitations, given the changing age distribution of the adult population.

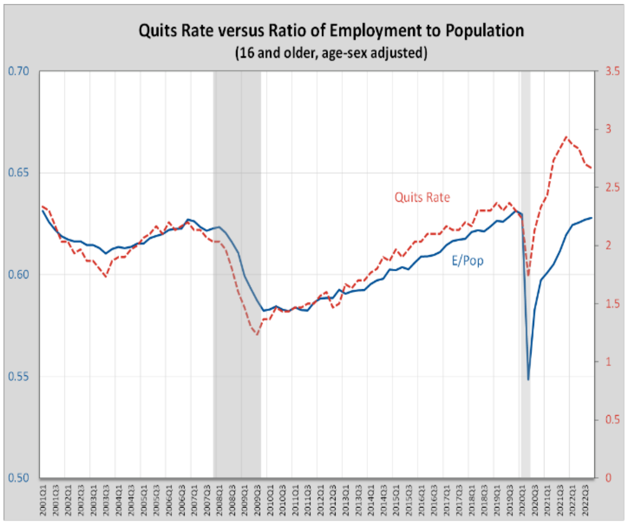
Employment

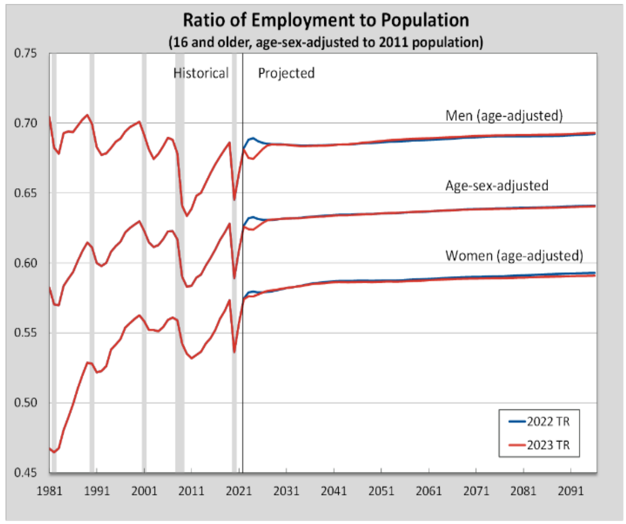
Additional evidence of the effect of the changing age distribution is the increased employment of those over age 60 since 1990.



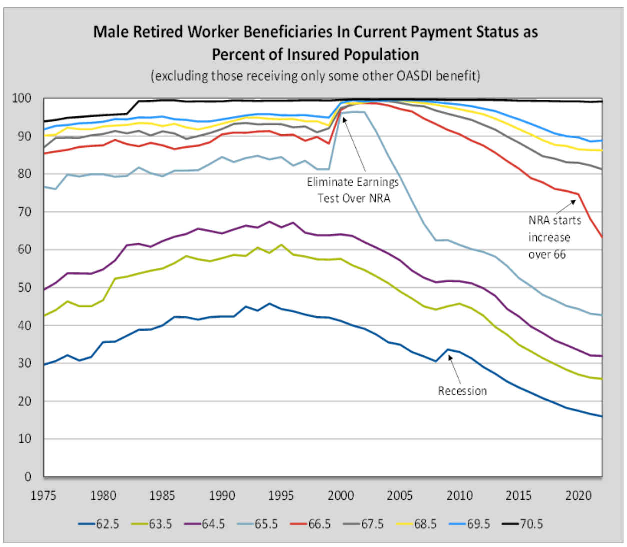


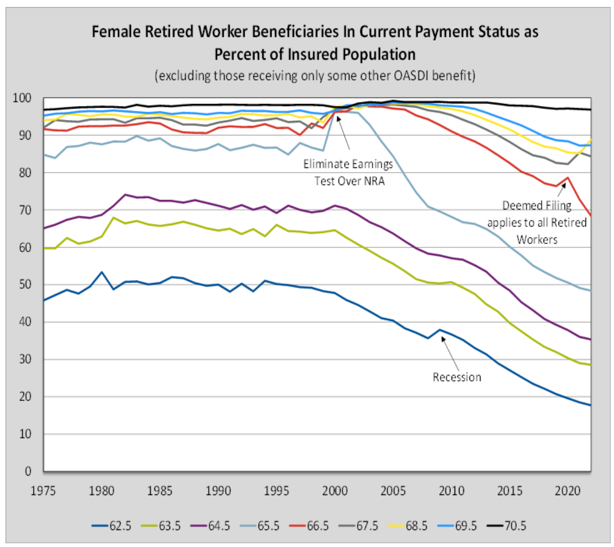
The pandemic has had significant effects on employment, but the drop in employment during the 2020 recession was brief with an extraordinarily fast recovery. The "quits rate" indicates the rate of workers voluntarily leaving a job, often due to the opportunity for a higher paying job in a high labor demand environment. After a brief drop in the employment rate in the assumed economic slowdown in 2023, we project the future employment rate to remain at about recent peak levels.





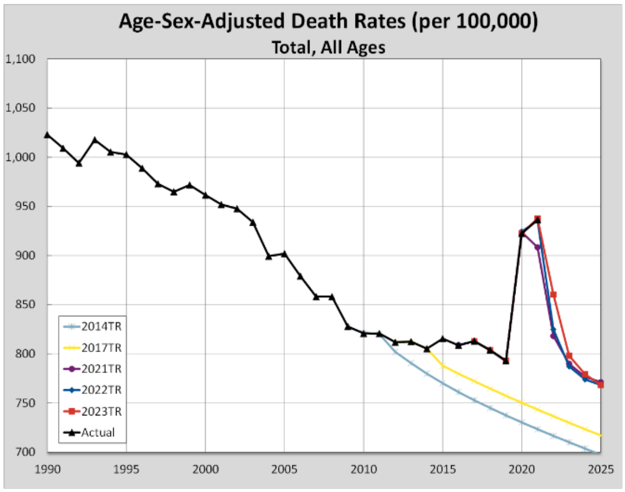
With the changing age distribution and demand for workers, age at retirement and age at start of receipt of Social Security retirement benefits continues to rise.

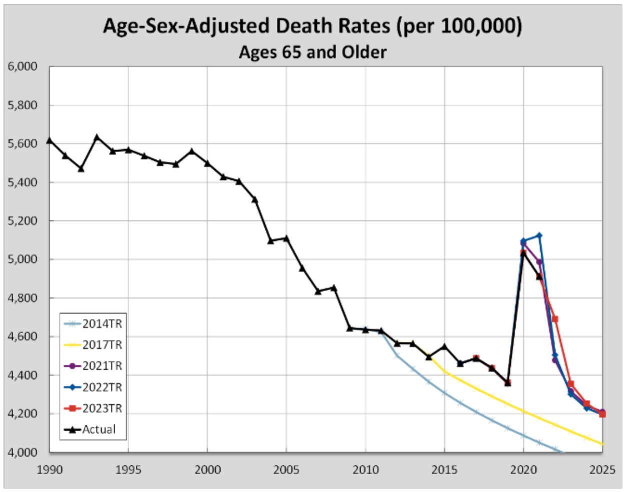




Mortality

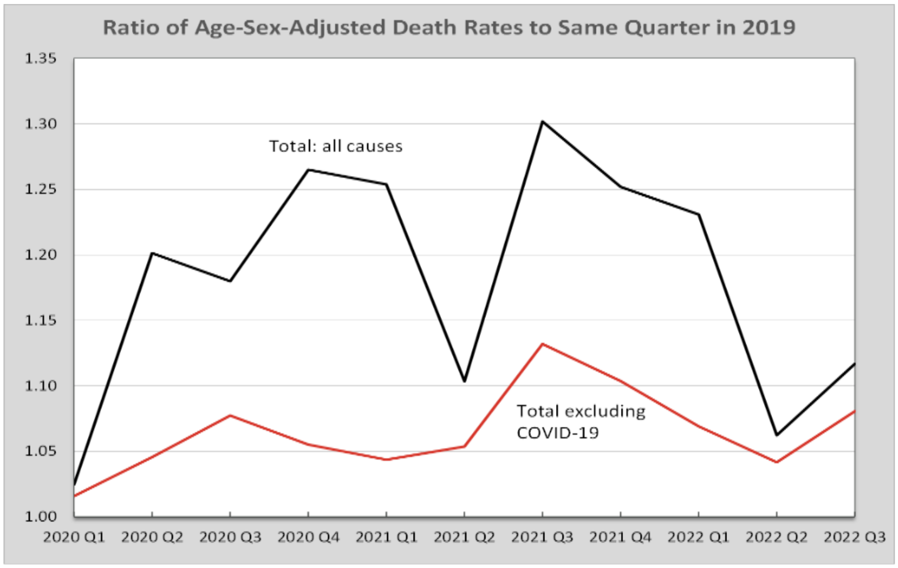
Mortality is also an important factor in the cost of the Social Security program. Declines in death rates slowed considerably after 2009, not only in the US but also in the United Kingdom and Canada.





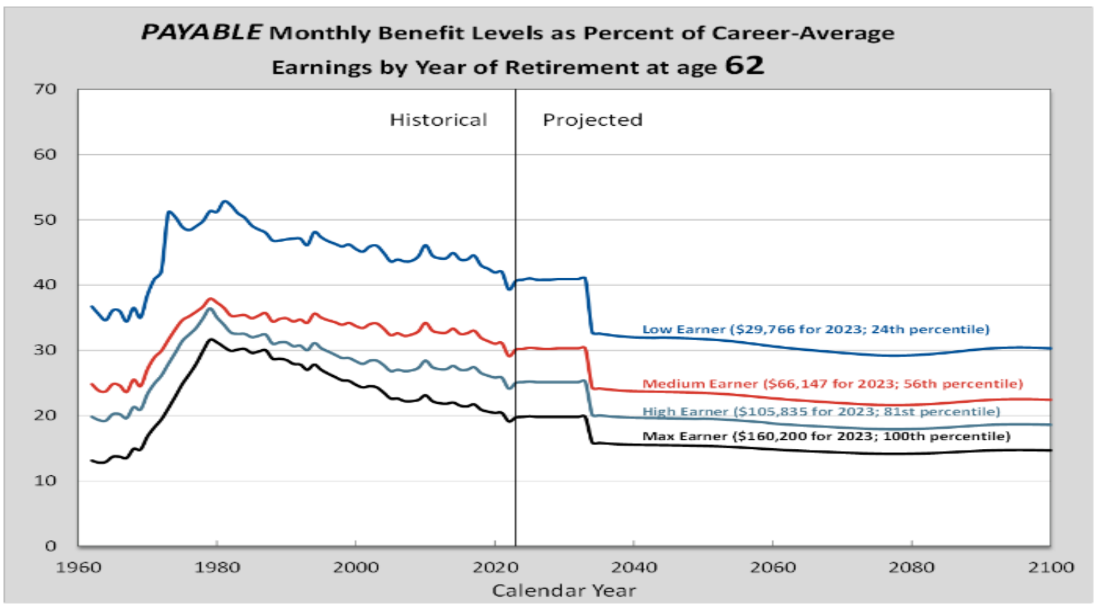
The effect of the COVID-19 pandemic dramatically elevated death rates. Since the beginning of the pandemic, we have been assuming that in the long term, two factors would roughly balance out: (1) individuals with preexisting health conditions are more likely to die from acute COVID, meaning that the surviving population might be healthier, and (2) the surviving population who lived through the pandemic have potentially suffered negative effects from having been infected, including post-COVID conditions. As a result, we project that age-sex adjusted death rates will return to the path seen between 2009 and 2019.

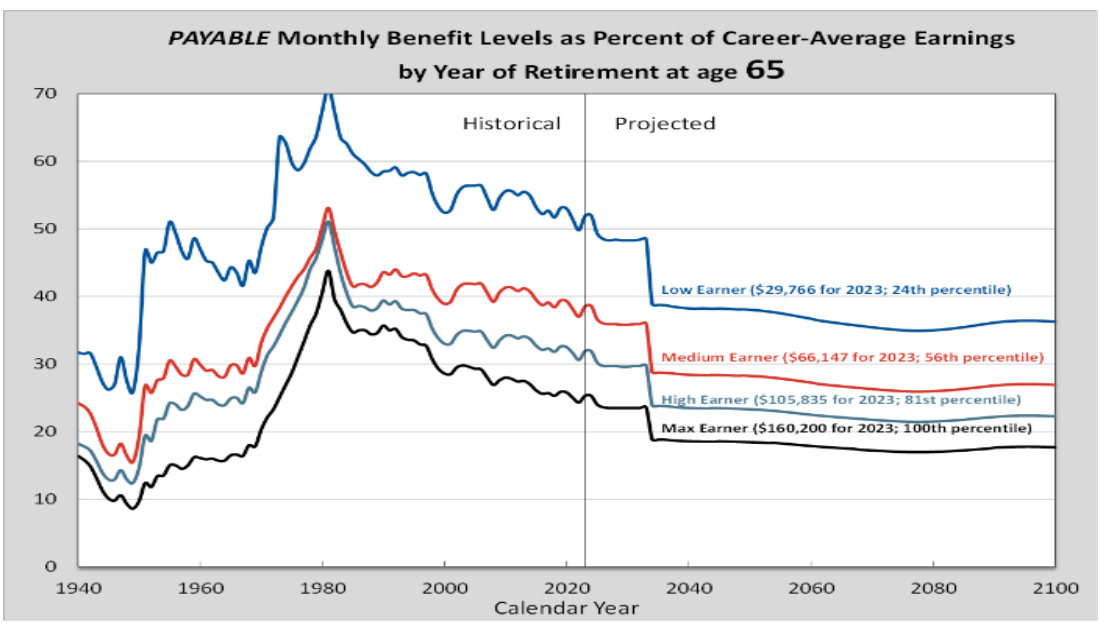
However, there are concerns about the magnitude of effects on the residual population. Provisional data from the National Center for Health Statistics show that during 2020, 2021, and 2022, death rates for causes other than COVID have been elevated above the level seen in 2019.



Benefit Levels

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). All benefits in 2034 would be reduced by 20 percent 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.





Conclusion

We face a challenge to build on the 1983 Social Security Amendments and to correct their shortcomings, in order to ensure that the OASDI program will continue to be strong and adequately financed into the future.

- First, the 1983 Amendments were an interim solution to the well-understood changing of the age distribution due to the drop in birth rate after 1965. These Amendments were expected to extend the ability to pay scheduled benefits from 1982 to the mid-2050s, with the clear understanding that further changes would be needed by then.

- Second, the redistribution of earned income to the highest earners was not anticipated in 1983. This shift resulted in about 8 percent less payroll tax revenue by 2000 than had been expected, with this reduced level continuing thereafter. The severity of the 2007-09 recession was also not anticipated.

- Third, with the passage of 40 years since 1983, we clearly see the shortcomings of the 1983 Amendments in achieving "sustainable solvency" for Social Security. We are now in a position to formulate further changes needed, building on the start made in 1983.

- Fourth, the long-known and understood shift in the age distribution of the US population will continue to increase the aged dependency ratio until about 2040, and in turn increase the cost of the OASDI program as a percentage of taxable payroll and GDP. Once this shift, which reflects the drop in the birth rate after 1965, is complete, the cost of the program will be relatively stable at around 6 percent of GDP. The unfunded obligation for the OASDI program over the next 75 years represents 1.2 percent of GDP over the period as a whole.

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 actuarial status of the Social Security program. I will be happy to answer any questions you may have.

SOCIAL SECURITY

Office of the Chief Actuary

July 20, 2023

The Honorable Sheldon Whitehouse
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Chairman Whitehouse:

Thank you for the opportunity to testify before the Senate Committee on the Budget at the July 12, 2023 hearing on "Protecting Social Security for All: Making the Wealthy Pay Their Fair Share." 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 two questions for the record that you sent to me on July 13, 2023 and have provided answers.

Question #1:

Mr. Goss, during the hearing, CBO Director Swagel indicated that taxes remove income from the economy. However, taxes also put money back into the economy when those revenues are spent on social programs, like Social Security. If Congress were to enact a Social Security tax on the incomes of very wealthy people, for whom each additional dollar of income is more likely to be saved than spent, to fund Social Security benefits for all retirees, who are more likely to spend than save, what would the net effect on the economy be after accounting for the distribution of the revenue to Social Security beneficiaries?

Answer: Additional taxes to allow the full payment of currently scheduled OASDI benefits would have the effect you indicate. While increased taxes on individuals with high income would reduce their ability to invest in capital that supports economic growth, the roughly 25-percent increase in the amount of benefits that would be paid to beneficiaries by averting trust fund reserve depletion would result in additional demand for goods and services by beneficiaries, which would induce more employment and production, and thus economic growth.

CBO's evaluation of Social Security's finances assumes that all scheduled benefits will be paid, based on language cited on page 6 of my written testimony and noted below. However, this assumption from this "budget perspective" presumes that there will be a change in law requiring the General Fund of the Treasury to transfer revenue to the trust funds to meet all benefit obligations that cannot be met under current law. As a result, Treasury would have to borrow that additional amount from the public, absorbing private capital that could otherwise contribute to private capital stock and economic growth. Even under this budget perspective, the additional taxes that would be required to fully finance currently scheduled Social Security benefits would avert such additional borrowing from the public, allowing that revenue to be invested in the private sector and not in additional Federal debt, which would also require taxes in the future to service and repay.

Regardless of the perspective, additional taxes to fully finance scheduled Social Security benefits would either increase income to beneficiaries or reduce Federal borrowing from the public. In either case, the "first-order" effect of the additional taxes on the economy would be largely, fully, or possibly more than fully offset by the increased consumer demand and/or investment in the private economy.

As noted in page 6 of my written testimony, the assumption under the budget perspective that there would be a change in law requiring General Fund financing of any shortfall through increased borrowing from the public is based on a specific requirement in Sec. 257(b)(1) of the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177 (codified at 2 U.S.C. §907(b)(1) (2016)):

> "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."

Use of this rationale in budget scoring should at a minimum be accompanied by a clear indication that current law is not being reflected for this purpose, but rather that a change in law is being explicitly assumed, requiring a transfer of the General Fund revenue as needed to pay all scheduled benefits. This assumption should be made explicit in any analysis made on this basis.

There is an additional issue with this interpretation of P.L. 99-177. The guidance states that "entitlement authority is assumed to be adequate to make all payments *required* by those laws" (emphasis added). Required payments under current law are limited to the amounts that can be paid from funds that are available in the trust funds. Under the Antideficiency Act (see https://www.gao.gov/legal/appropriations-law/resources, for example), Federal employees are prohibited from:

> "…making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law. 31 U.S.C. § 1341(a)(1)(A)."

Finally, in situations where it is suggested that all scheduled benefits will be payable in the future based on this presumption of a change in law requiring all needed revenue to be transferred to the trust funds from the General Fund, it should also be stated that trust fund reserves would never become depleted and full benefits would always be paid on a timely basis.

<u>Question #2</u>:

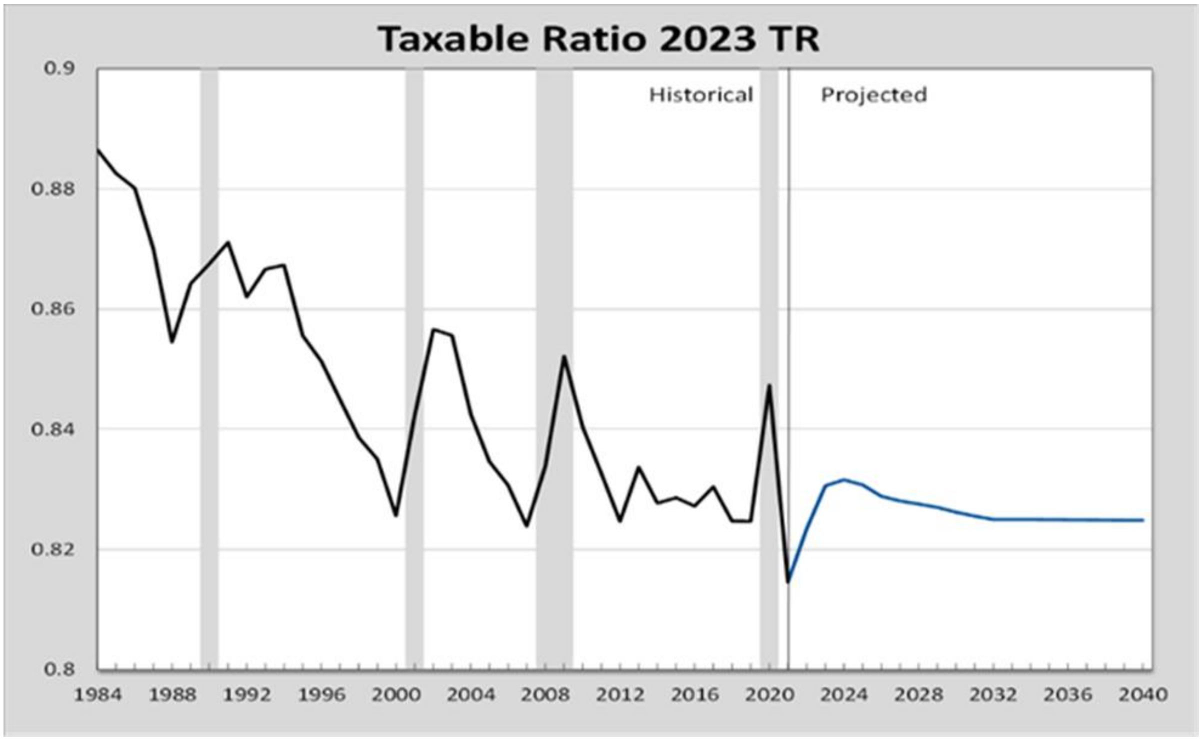
In your testimony, you stated that the increase in average real earnings for higher earners has outpaced the increase in average real earnings for everyone else and that this trend has reduced the share of covered earnings below the Social Security contribution cap. Can you elaborate on the disparity between earnings growth for higher-income earners and those with earnings below the taxable maximum?

Answer: The Social Security annual taxable maximum amount for covered earnings was $29,700 for 1981. It has since been increased annually by the increase in the average wage index (AWI), which tracks the average annual wage for all wage earners in the US economy. In 1983, the maximum rose to $35,700, and about 90 percent of all OASDI covered earnings were below this level and subject to payroll tax. At that time, about 6 percent of all covered workers had earnings in excess of the maximum. Given the nature of the indexing and an expectation at the time that the overall distribution of earnings among workers at different earnings levels would likely remain about the same in the future, it was assumed that the share of covered earnings below the maximum would remain at about 90 percent in future years.

However, while the percent of workers with covered earnings above the indexed maximum level remained at about 6 percent through 2000, the increase in average earnings for that 6 percent of workers was far greater than for those with earnings below the maximum.

In the 1983 Trustees Report, we assumed an increase in average real earnings (average earnings growth adjusted for increase in the CPI) of about 24 percent between 1983 and 2000, and that the increase would be similar for workers at all earnings levels. Overall, average real earnings actually increased by 28 percent in that period, increasing the taxable maximum by that same amount. However, the real increase from 1983 to 2000 for the 6 percent of workers with earnings over the maximum was 62 percent, while it was only 17 percent for the other 94 percent of workers. As a result, the share of covered earnings below the taxable maximum (and therefore subject to the payroll tax) declined from 90 percent in 1983 to 82.5 percent in 2000. Other than temporary effects from recessions, this "taxable ratio" has remained at about the same level since 2000, and we expect it to remain there in the future, as shown in the graph below.

Because the Social Security benefit formula is indexed across generations of new beneficiaries by the growth in the AWI, this unexpected increase in earnings dispersion has also affected the cost of the OASDI program as a percent of taxable earnings. The far greater growth in average earnings by workers earning over the taxable maximum meant that average taxable earnings grew by 8 percent less than the growth in benefits that had been expected in 1983. As a result, the cost for the OASDI program as a percent of taxable earnings was 8 percent higher by 2000 than had been expected in 1983, has been that much higher since, and is expected to be that much higher in the future than expected in 1983.



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, ASA, MAAA
Chief Actuary

SOCIAL SECURITY
Office of the Chief Actuary

July 20, 2023

The Honorable Chuck Grassley
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Ranking Member Grassley:

Thank you for the opportunity to testify before the Senate Committee on the Budget at the July 12, 2023 hearing on "Protecting Social Security for All: Making the Wealthy Pay Their Fair Share." 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 three questions for the record that you sent to me on July 13, 2023 and have provided answers.

Question #1:

During the hearing, it was claimed that the "The Medicare and Social Security Fair Share Act" would raise taxes on just 2 percent of Americans. How many Americans would see a tax increase under the legislation at the end of the 75-year projection period, when the net investment income tax's unindexed income threshold would be well below the average annual wage projected in the 2023 Trustees Report?

Answer: Based on our modeling and available information, we confirm that currently, with the specified AGI thresholds, about 2 percent of the US population would have net investment income subject to this tax. Due to projected increases in earnings and AGI levels in the future, the percentage of the US population with AGI above the unindexed thresholds and some net investment income would clearly rise in the future. Many variables will affect the outcome, but based on our assumptions and modeling, we expect that the percent of the US population with net investment income subject to this tax would rise to 20 to 25 percent of the US population by 2097.

Question #2:

How does your office estimate the revenue and behavioral effects of taxes on investment and business income? What experience does your office have estimating these types of taxes?

Answer: Our office makes use of available information for national income of all types, including earned income (wages and self-employment income), investment income, Social Security benefits (which are subject to income tax), as well as inheritance and wealth in some cases. We work collaboratively in data sharing with the Department of Treasury, Department of Labor, Department of Commerce, CBO, JCT, and others, in providing and receiving information to facilitate development of estimates and projections. Such work in our office has been done consistently since the first Trustees Report in 1941.

Experience from after the net investment income tax was enacted as part of the Affordable Care Act has been helpful in gauging the degree to which individuals might restructure investments in the face of a change in tax rate. We do similar analysis on the behavioral response to tax rate changes on earned income, assuming redistribution among various forms of employee compensation. All such estimates have a degree of uncertainty. However, under the assumed future course of GDP and national income growth, the growth in various forms of income can be estimated reasonably.

One example of uncertainty is the fact indicated in my oral testimony that average earned income of the top 6 percent of workers rose by 62 percent in real terms between 1983 and 2000, while average earned income for the lower 94 percent of workers grew in real terms by only 17 percent over this period. This dispersion in earnings was not anticipated or projected at the time of the 1983 Social Security Amendments. Since 2000, the growth rates for these groups of workers have been similar.

Question #3:

Your office estimates money's worth ratios comparing lifetime Social Security benefits and tax contributions. Under current law with scheduled payments, a single male with high earnings born in 2004 is estimated to receive 90 cents in lifetime benefits for every dollar in Social Security taxes paid, while someone with career earnings at the taxable maximum can expect a money's worth ratio of 66 cents on the dollar.

Has your office analyzed how the payroll and net investment income tax increases in the "The Medicare and Social Security Fair Share Act" would affect money's worth ratios for high and maximum earners?

Answer: Based on estimates we provided under the intermediate assumptions of the 2021 Trustees Report (see https://www.ssa.gov/OACT/NOTES/ran7/an2021-7.pdf), the value of currently *scheduled* benefits for a single man born in 2004 with career-average high earnings would be about 90 percent of the interest-adjusted value of the currently scheduled payroll taxes from him and his employer. However, currently scheduled payroll taxes are insufficient to provide the currently scheduled level of future benefits. Consistent with the currently scheduled payroll tax rate, the amount of lifetime future benefits for a worker born in 2004 would be only about 73 percent of the amount scheduled in current law. Thus, the value of benefits that would actually be *payable* for this single male high earner would be only about 65 percent of the value of payroll taxes paid by him and his employer.

Similarly, the value of currently scheduled benefits for a single man born in 2004 with steady earnings at the Social Security maximum taxable amount would be about 66 percent of the value of payroll taxes from him and his employer. The value of benefits payable for this worker would be only 48 percent of the value of payroll taxes from him and his employer. In order to realize the level of benefits scheduled in the law for the future, clearly a significant change in program income would be needed.

My office has not at this time developed estimates of the impact on money's worth ratios of additional revenue from a tax on net investment income dedicated for the OASI and DI Trust Funds. Enactment of such tax credited to the trust funds would both increase the level of benefits *payable* for all workers and increase the amount of tax revenue received by the trust funds from individuals with AGI above the specified thresholds.

For the two examples you mention, (1) a single male worker born in 2004 with high career-average earnings and (2) a similar worker with steady career earnings at the current law taxable maximum ($160,200 this year), their nominal earnings levels at age 50 (in 2054) would be about $370,000 and $493,000, respectively. Both of these example workers would therefore likely have paid relatively little in net investment income tax, but they would benefit from the elevation of the payable benefit level due to tax paid on net investment income by those at significantly higher earnings and AGI levels. Thus, for these workers, the enactment of the net investment tax would be expected to increase somewhat the ratio of payable benefits to taxes paid, adjusted for interest. This ratio would be reduced for most individuals with very high career average earnings (those with career earnings substantially above the current law taxable maximum amount), because the additional tax they would likely pay on net investment income would generally exceed the increase in their payable OASDI benefits.

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

SOCIAL SECURITY
Office of the Chief Actuary

July 20, 2023

The Honorable Ron Wyden
Committee on the Budget
United States Senate
Washington, DC 20510

Dear Mr. Wyden:

Thank you for the opportunity to testify before the Senate Committee on the Budget at the July 12, 2023 hearing on "Protecting Social Security for All: Making the Wealthy Pay Their Fair Share." 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 two questions for the record that you sent to me on July 13, 2023 and have provided answers.

Question # 1:

There seems to be a misunderstanding from my Republican colleagues on the Social Security Trust Funds' relationship to the Federal Budget. As Congress considers proposals to increase Social Security's solvency, it is important that Members of Congress all understand how the Social Security Trust Funds operate and appear on the Federal balance sheet.

To make sure we all have a common understanding on the fundamentals of trust fund accounting:

1. How do the Social Security Trust Funds reserves appear on the Federal balance sheet?

   Answer: In this year's budget, the estimated total Federal debt subject to limit at the end of FY 2022 was $30.8 trillion (now expected to be around $33 trillion at the end of FY 2023), of which $22.3 trillion was held by the public. The $8.6 trillion difference was due in part to the Social Security trust fund reserves of $2.8 trillion at the end of FY 2022, all of which is invested in Treasury securities as required by law.

   Note that the $30.8 trillion total Federal debt represents the accumulated debt, including interest, of deficit financing in the non-trust-fund programs. It is this total Federal debt that Congress must contain within specified limits in the future as it adjusts the non-trust-fund revenues and expenditures. When the Social Security trust funds acquire some of this debt, the remaining debt held by the public is reduced, but the accrued debt obligations of the main Federal government are not reduced. Those obligations remain during the period the trust funds hold some of the debt, and will also remain even after the trust funds redeem their holdings.

2. Cash-flow surpluses in Social Security—when tax revenues and accumulated interest exceed outgoing benefit payments—are required by Section 201 of the Social Security Act (42 U.S.C. §401) to be immediately invested in interest-bearing U.S. Treasury securities. How does this investment practice appear on the Federal balance sheet?

   Answer: The holding of Treasury securities by the trust funds at any time directly reduces the amount that must be borrowed from the public. When the trust funds increase reserves due to income in excess of expenditures, the amount of the positive annual cash flow reduces the amount the Treasury would otherwise need to borrow from the public by the same amount. The total Federal debt, which is the sum of the debt held by the public and the debt held by the trust funds, is not affected. The publicly held debt, in contrast, is reduced by the amount of the Social Security surplus.

3. How does this investment practice affect the Federal Government's borrowing practices?

   Answer: The Treasury General Fund manages the government’s borrowing, both from the public and from the trust funds. The General Fund is also where government revenues, including the Social Security payroll tax revenues, are initially deposited and from which government expenditures, including Social Security benefits, are paid.

   When payroll taxes are deposited in the General Fund by employers and benefits are paid out to beneficiaries, Treasury is able to use for its other operations any remaining surplus of the payroll taxes over benefits, reducing the amount it would otherwise have had to borrow from the public. Publicly held debt, as a result, is reduced by the amount of the trust funds’ surplus.

   This reduction in borrowing from the public would occur even if the trust funds were not at the same time issued securities in exchange for the positive cash flow. The issuing of securities ensures that the trust funds are properly credited for the revenues they are authorized to draw on later. The inclusion of the trust-fund-held securities in total Federal debt ensures that the budget accounting properly includes the obligations that have been accrued at Treasury from past deficits of non-trust-fund cash flows.

4. Has the Federal Government ever not paid back the Trust Funds, even late?

   Answer: No. Treasury securities are issued to the trust funds on a daily basis as payroll taxes (and other income) are deposited, and they are redeemed as benefits and other expenses are paid. Although the amounts of securities issued or redeemed are based on preliminary estimates of the amounts of income that will be deposited and expenses that will be paid, a close accounting is kept, and adjustments are subsequently made that correct any discrepancies.

5. When Treasury securities held by the Social Security Trust Funds are redeemed, how does the redemption appear on the Federal balance sheet?

   Answer: The redemption of Treasury securities held by the trust funds affects neither the total Federal debt nor the Treasury obligation to service that debt. As the Social Security trust funds now redeem more than is deposited after accumulating large reserves after the enactment of the 1983 Amendments, the General Fund gradually returns to borrowing these amounts from the public, as it had before the trust funds accumulated substantial reserves.

6. Do trust fund operations draw on other Federal resources? Please explain why.

   Answer: A reasonable definition of a "draw on other Federal resources" would be a trust fund operation that necessitates a change in the taxes or expenditures of the rest of the Federal government. There is no such draw attributable to the OASI and DI Trust Funds' operations. As already described, the operations of the trust funds do affect the Treasury General Fund's cash management operations, but those effects are limited to changes in the amount the General Fund needs to borrow from the public. Those effects have no impact, now or in the future, on the taxes or expenditures associated with non-trust-fund operations.

7. Under budgeting rules, the Congressional Budget Office is required to assume that full scheduled benefits will continue to be paid by borrowing from the General Fund once trust fund reserves are depleted. Under federal law, if the trust funds were to be depleted, are the Social Security and Medicare trust funds permitted to borrow from the General Fund?

   Answer: No. Current law does not permit either loans or transfers from the General Fund after reserve depletion of a trust fund. Such loans or transfers are not permitted even to augment the continuing dedicated income so that full scheduled benefits could be paid.

   As noted in page 6 of my written testimony, the assumption under the budget perspective that there would be a change in law requiring General Fund financing of any shortfall through increased borrowing from the public is based on a specific requirement in Sec. 257(b)(1) of the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177 (codified at 2 U.S.C. §907(b)(1) (2016)):

   > "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."

   Use of this rationale in budget scoring should at a minimum be accompanied by a clear indication that current law is not being reflected for this purpose, but rather that a change in law is being explicitly assumed, requiring a transfer of the General

Fund revenue as needed to pay all scheduled benefits. This assumption should be made explicit in any analysis made on this basis.

There is an additional issue with this interpretation of P.L. 99-177. The guidance states that "entitlement authority is assumed to be adequate to make all payments *required* by those laws" (emphasis added). Required payments under current law are limited to the amounts that can be paid from funds that are available in the trust funds. Under the Antideficiency Act (see https://www.gao.gov/legal/appropriations-law/resources, for example), Federal employees are prohibited from:

> "…making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law. 31 U.S.C. § 1341(a)(1)(A)."

Finally, in situations where it is suggested that all scheduled benefits will be payable in the future based on this presumption of a change in law requiring all needed revenue to be transferred to the trust funds from the General Fund, it should also be stated that trust fund reserves would never become depleted and full benefits would always be paid on a timely basis.

Question #2:

In your testimony before this Committee, you mentioned the short-term and long-term benefits of immigration. During previous immigration reform discussions, your office has estimated that passing immigration reform would substantially increase the solvency of the trust funds without increasing revenue or cutting benefits, is that correct? Can you expand on why that is the case?

Answer: Yes, increased immigration would be expected to improve the actuarial status of the Social Security trust funds, even in the absence of any change in the payroll tax rate, change in future scheduled benefit levels, or change in eligibility requirements.

As we have known since the early 1970s, the principal factor in increasing the cost of the program, both as a share of GDP and as a share of earnings in the economy, is the changing age distribution of the adult population. This change in the age distribution is due to the drop in the birth rate, measured as the number of children per woman over her lifetime, from 3 or higher through 1965 to about 2 since then. Net immigration, particularly of individuals under age 30, alters the age distribution of the adult population in a manner similar to having had in increase in the US birth rate in the year the immigrant was born. Many immigrants initially enter the country in a permanent lawful status. Other immigrants enter in a temporary work or student status, but then remain in the country and convert to permanent lawful status. These immigrants then contribute by working in the economy and having children of their own.

In the sensitivity analysis in the 2023 Trustees Report, we estimate that an increase in the level of average annual net immigration from the intermediate assumption of 1.245 million people per year to 1.683 million people per year (an increase of about 35 percent) would reduce the 75-year OASDI actuarial deficit from 3.61 percent of taxable payroll to 3.21 percent of taxable payroll.

For the year 2097, the 75th projection year, this 35 percent increase in net immigration would reduce the annual deficit from 4.35 percent of taxable payroll to 3.66 percent of taxable payroll.

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