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Proposals for Social Security Reform

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The Social Security Administration's Office of the Chief Actuary performs estimates for a wide variety of proposals to make changes to Social Security. Many proposals address the long-range solvency deficit for Social Security's Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds.[1] Other proposals make revisions to specific aspects of Social Security law without significant effects on long-term solvency. This article will discuss and provide examples of both types of proposals.

COMPREHENSIVE SOLVENCY PROPOSALS

In the *2019 Social Security Trustees Report* (*https://www.ssa.gov/OACT/TR/2019/tr2019.pdf*), the combined OASI and DI Trust Funds are projected to be unable to pay full benefits in years 2035 and later. The financing shortfall is often expressed in terms of the 75-year actuarial balance, which is essentially the difference between the present value of future projected program income and program cost, as a percent of the present value of taxable payroll[2] over the 75-year valuation period. For the intermediate (best estimate) assumptions of the *2019 Trustees Report*, the actuarial balance is −2.78 percent of taxable payroll, or, equivalently, the "actuarial deficit" is 2.78 percent of taxable payroll. The actuarial deficit represents the average amount of change in currently scheduled income or cost that will be needed over the valuation period in order to result in an ending trust fund reserve equal to one year's cost.

The actuarial deficit can be eliminated through increases in scheduled revenue, decreases in scheduled cost or some combination of both. Some proposals attempt not only to achieve solvency throughout the 75-year period but to assure that the trust funds will remain solvent for the foreseeable future beyond the 75th projection year. This concept is called "sustainable solvency," which in addition to 75-year solvency, requires that the "trust fund ratio" of trust fund reserves to the following year's program cost be steady or rising at the end of the 75th year.

The following are descriptions of three recent comprehensive solvency proposals that would achieve sustainable solvency in different ways.

1. The Social Security 2100 Act—introduced on Jan. 30, 2019, by Chairman John Larson, Senator Chris Van Hollen, and Senator Richard Blumenthal—increases the OASDI payroll tax rate from 12.4 percent to 14.8 percent by 2043 and eventually fully eliminates the OASDI contribution and benefit base (currently at a level of $132,900 for 2019). The combination of these two revenue increases is large enough to allow for several benefit increases while still achieving sustainable solvency for the full proposal under the intermediate assumptions of the *2019 Trustees Report*. Table 1 provides brief descriptions of the provisions of the proposal, along with the estimated change in actuarial balance due to each provision. A letter from the Office of the Chief Actuary with detailed estimates appears at: *https://www.ssa.gov/OACT/solvency/LarsonBlumenthalVanHollen_20190918.pdf*.

Table 1
The Social Security 2100 Act, Introduced as H.R. 860 and S.269 on Jan. 30, 2019

Provision	Estimated Change in OASDI Actuarial Balance (as a Percent of Payroll)
Benefit Changes	
Increase the first PIA formula factor from 90 percent to 93 percent	−0.24
Use CPI measure for the elderly rather than current CPI for COLA increases	−0.41
Expand the current-law minimum benefit	−0.15
Increase income threshold amounts for taxation of Social Security benefits	−0.14
Revenue Changes	
Apply payroll tax rate on earnings over $400,000 initially and eventually on all earnings	1.93
Increase the combined OASDI payroll tax rate to 14.8 percent	1.87
Total for all provisions, including interaction	**3.18**

Based on intermediate assumptions of the *2019 Trustees Report*

2. The Social Security Reform Act of 2016, introduced on Dec. 8, 2016, by Representative Sam Johnson, specifies a number of reductions in scheduled benefits, including a revised lower-cost benefit formula, an increase in the full (normal) retirement age from 67 to 69, and a reduced COLA for all beneficiaries (including no COLA for beneficiaries with income exceeding specific levels). This bill also contains benefit increase provisions—such as expansion of a minimum benefit to long-career, low-wage workers; eventual full elimination of taxation of Social Security benefits; and an increase in benefits for those who have been eligible for Social Security benefits for at least 20 years and have relatively low income levels. No direct revenue increases are included in the proposal.

   The combination of these provisions decreases program costs enough for the proposal to achieve sustainable solvency under the intermediate assumptions of the *2016 Trustees Report*. Table 2 provides brief descriptions of the proposal's provisions, along with the estimated change in actuarial balance of those provisions with significant effects. A letter with detailed estimates appears at *https://www.ssa.gov/OACT/solvency/SJohnson_20161208.pdf*.

3. The Bipartisan Policy Center's Commission on Retirement Security and Personal Savings released a comprehensive Social Security solvency proposal on June 9, 2016. That proposal contained provisions that both increased revenue and decreased scheduled benefits. On a 75-year present value basis, revenue increases accounted for about 56 percent of the total effect, while net benefit decreases accounted for the remaining 44 percent. Revenue increases included (1) an increase in the contribution and benefit base by about 43 percent in the near term and by about 99 percent at the end of the 75-year projection period; and (2) a gradual increase in the payroll tax rate from 12.4 percent to 13.4 percent. Significant benefit decreases included (1) a mini-PIA calculation that can lower benefits for those with irregular earnings patterns; (2) a gradual increase in the normal retirement age; and (3) using a chained CPI measure for computing COLA, which is expected to lower the COLA by about 0.3 percentage points per year. The proposal also contains benefit increases to allow for student benefits up to age 22 (rather than age 18 under current law) and to expand the basic minimum benefit for beneficiaries who fall below specified income thresholds.

   The combination of these changes allows the proposal to achieve sustainable solvency under the intermediate assumptions of the *2016 Trustees Report*. Table 3 provides brief descriptions of the provisions of the proposal, along with the estimated change in actuarial balance of those provisions with significant effects. A letter with detailed estimates appears at *https://www.ssa.gov/OACT/solvency/BPCCRSPS_20161011.pdf*.

Table 2
The Social Security Reform Act of 2016, Introduced as H.R. 6489 on Dec. 8, 2016

Provision	Estimated Change in OASDI Actuarial Balance (as a Percent of Payroll)
Revise benefit formula to include factors of 95%, 27.5%, 5% and 2% instead of current-law 90%, 32% and 15%, on indexed earnings. Revise current law bend points	0.85
Use a mini-PIA approach rather than aggregating all earnings for computing the PIA	0.34
Alternative Windfall Elimination Provision approach using covered and noncovered earnings levels	0.03
Increase normal retirement age to 69	0.84
Use chained consumer price index for urban wage earners (C-CPI-U), estimated to be 0.3 pp lower than current law, for COLA if below certain income levels; no COLA if above those thresholds	1.25
Require full-time school enrollment at age 15 and higher for child benefits	0.01
Expand the current-law minimum benefit	–0.23
Eliminate the retirement earnings test at the earliest eligibility age	0.01
Eliminate taxation of Social Security benefits, phased in 2045–2054	–0.40
Provide additional benefit (5% of average wage index (AWI) earner benefit) for those eligible at least 20 years and below certain income thresholds	–0.07
Limit spouse benefit to that for a worker earnings the AWI each year	0.07
Total for all provisions, including interaction	**2.67**

Based on intermediate assumptions of the *2016 Trustees Report*

EXAMPLES OF PROPOSALS FOR SPECIFIC CHANGES

As previously mentioned, the Office of the Chief Actuary also provides estimates for proposals that do not materially affect the solvency of the OASDI program but do affect selected provisions of the Social Security Act. These proposals can have significant impacts for subgroups of beneficiaries. Descriptions of two types of proposals follow, with specific examples of each.

1. **Revised treatment of Social Security beneficiaries with noncovered pensions.** Many individuals, primarily those working for certain state and local governments, receive pensions based on work that Social Security does not cover. Those workers and their employers do not pay payroll taxes to Social Security for that noncovered work and then do not receive Social Security benefits based on that work. However, some of these individuals also have enough work that is covered by Social Security so that they would qualify for a Social Security benefit.

   Under current law, the Windfall Elimination Provision (WEP) reduces the Social Security benefit level by up to $463 for workers first eligible in 2019, depending on the amount of the pension they are receiving based on non-covered work. The rationale for the WEP derives from the Social Security benefit formula. The Social Security benefit formula treats workers who have Social Security coverage for only part of their career as if they were long-term, low-wage workers. Because of the progressivity of the benefit formula, these workers have the advantage of receiving a Social Security benefit representing a higher percentage of their earnings, plus a pension from a job for which they did not pay Social Security taxes. The WEP is designed to remove that advantage.

   Under H.R. 3934, the Equal Treatment of Public Servants Act of 2019, introduced by Representative Kevin Brady on July 24, 2019, the current-law WEP would eventually not apply and an alternative calculation would take its place. The alternative calculation modifies the benefit formula to reflect all past earnings (including earnings in noncovered employment). The resulting benefit is then multiplied by the ratio of the average indexed monthly earnings[3] computed

Table 3
Bipartisan Policy Center's Commission on Retirement Security and Personal Savings Plan, Released on June 9, 2016

Provision	Estimated Change in OASDI Actuarial Balance (as a Percent of Payroll)
Benefit Changes	
Use a mini-PIA approach rather than aggregating all earnings for computing the PIA	0.23
Alternative Windfall Elimination Provision and Government Pension Offset approach using covered and noncovered earnings levels	0.06
Limit spouse benefit to that received for worker at the 75th percentile of PIA	0.11
Convert couple benefit to a "joint and 75 percent survivor" annuity approach but equivalent in aggregate to current law	0.02
Revise benefit formula by adding bend point and factors of 95%, 32%, 15% and 5% rather than 90%, 32% and 15%	0.04
Increase normal retirement age to 69 in a gradual manner	0.50
Use chained CPI-U (0.3 pp lower than current law) for COLA for benefits paid out of OASI Trust Fund only	0.47
Extend student benefits to age 22	–0.06
Create a new basic minimum benefit for those with income below specific thresholds	–0.19
Revenue Changes	
Continually increase the contribution and benefit base beyond the current-law level (by about 99% in 75th year)	0.56
Increase payroll tax rate to 13.4 percent over a 10-year period	0.88
Include up to 100% of Social Security benefits in taxable income for single filers with specified income levels of $250,000+ and for joint filers with specified income levels of $500,000+	0.01
Total for all provisions, including interaction	**2.77**

Based on intermediate assumptions of the *2016 Trustees Report*

without noncovered earnings to a modified average indexed monthly earnings that includes both covered and noncovered earnings.

With this alternative calculation, the existence of a noncovered pension and the amount of that pension have no effect on an individual's final Social Security benefit amount. In contrast, as mentioned above, the noncovered pension and the amount of that pension do affect Social Security benefit amounts under the current-law WEP.

For H.R. 3934, individuals first eligible before 2021 receive a rebate of past WEP reductions. Those individuals first eligible after 2021 but before 2061 receive the higher of the current law WEP benefit and the alternative calculation previously mentioned. Individuals first eligible in 2061 and later get the benefit based on the alternative calculation, whether it is higher or lower than the current-law WEP amount. This proposal, as described in a July 24, 2019, letter (*https://www.ssa.gov/OACT/solvency/KBrady_20190724.pdf*), has a negligible impact on the long-range actuarial balance, that is, between –0.005 and 0.005 percent of taxable payroll.

Under H.R. 4540, the Public Servants Protection and Fairness Act, introduced by Representative Richard Neal on Sept. 27, 2019, the same alternative calculation would be part of the Social Security benefit determination. Individuals who have noncovered earnings and become eligible for OASDI benefits in 2022 or later would receive the higher of their benefit using this alternative calculation or the current-law WEP. The proposal would also provide for a relief payment for workers first eligible for a benefit before 2022 who are affected by the current-law WEP. The General Fund of the Treasury would reimburse the increased program cost for this bill; therefore, there would not be any direct effect on Social Security financing. Program cost and program income would both be increased by an estimated 0.02 percent of taxable payroll, as described in a Sept. 30, 2019, letter at *https://www.ssa.gov/OACT/solvency/RNeal_20190930.pdf*.

2. **Parental leave benefit proposals.** Several proposals since 2018 have provided for a new Social Security benefit of up to three months for individuals to care for a newborn child or newly adopted child. The benefit amount would be subject to meeting specific work requirements and would be calculated as if the parent(s) were eligible for a disabled worker benefit at the time of the birth or adoption. In return, either the individual's earliest eligibility age (EEA) and normal retirement age (NRA) would increase[4] or their benefits would be reduced by a specified future percentage reduction, depending on the proposal. The EEA/NRA increase option would generally result in a benefit decrease as compared to current law, because individuals would either wait longer to get the same dollar benefit or get a reduced benefit if first claiming a benefit at a specific age. Details for three of these proposals follow.

   - Senator Marco Rubio introduced S. 3345, the Economic Security for New Parents Act, on Aug. 1, 2018. Under this proposal, parental leave benefits would be available for births and adoptions in calendar years 2020 through 2023. Qualifying parents must take leave from work to receive the parental leave benefit. Parents may elect to receive parental leave benefits for the equivalent of three months, and their EEA and NRA for a future retired worker benefit would then be increased by two months for every equivalent month of parental leave benefit taken. Under this proposal, the General Fund of the Treasury would reimburse the OASI Trust Fund for the net cost of the parental leave benefits. In later years when increases in individuals' EEA and NRA occur, the OASI Trust Fund would transfer the benefit reductions to the General Fund of the Treasury. The estimated long-range effect on the OASI and DI Trust Funds is negligible. The Aug. 31, 2018, letter at *https://www.ssa.gov/OACT/solvency/MRubio_20180801.pdf* provides more details on this proposal.

- Senators Mike Lee and Joni Ernst released a discussion draft of the Child Rearing and Development Leave Empowerment Act, or CRADLE Act, on March 13, 2019. This proposal is very similar to S. 3345 but with slightly different standards to become a qualifying parent. Under this proposal, parental leave benefits would be available for births and adoptions in calendar years 2021 through 2025. Qualifying parents must take leave from work to receive the parental leave benefit. Parents may elect to receive parental leave benefits for up to three months, and their EEA and NRA for a future retired worker benefit would then be increased by two months for every month of parental leave benefit taken. The General Fund of the Treasury would reimburse the OASI Trust Fund for the net cost of the parental leave benefits. In later years when increases in individuals' EEA and NRA occur, the OASI Trust Fund would transfer the benefit reductions to the General Fund of the Treasury. The estimated long-range effect on the OASI and DI Trust Funds is negligible. The March 14, 2019, letter at *https://www.ssa.gov/OACT/solvency/LeeErnst_20190314.pdf* provides more details on this proposal.

- Senator Marco Rubio and Representative Ann Wagner introduced S. 920 and H.R. 1940, the New Parents Act of 2019, on March 27, 2019. Under this proposal, parental leave benefits would be available beginning in 2022 and continuing through each year for which OASI Trust Fund reserves as a percentage of projected program cost that are at least 20 percent for that year and for the following year. The parental leave is estimated to be available through 2032, according to the OCACT estimate. Parents must attest that they intend to use the benefit to finance spending more time with their child and not be working during the benefit period. Those who elect to receive parental leave benefits would repay that benefit by choosing either (1) a two-month increase in EEA/NRA for their future retired worker benefit or (2) a 4.5 percentage point reduction in their future benefit for each month of parental leave taken, for the first 60 months of benefit receipt. There are no transfers to or from the General Fund of the Treasury for this proposal. Because the proposal is designed to fully pay for the cost of the parental leave benefit on a present value basis, the estimated long-range effect on the OASI and DI Trust Funds is negligible. The April 9, 2019, letter from the Chief Actuary at *https://www.ssa.gov/OACT/solvency/RubioWagner_20190409.pdf* provides more details on this proposal.

For a full list of proposal estimates by the Office of the Chief Actuary and links to estimates and detailed information for specific proposals, see *https://www.ssa.gov/OACT/solvency/index.html*. A comprehensive list of individual provisions from comprehensive solvency proposals appears at *https://www.ssa.gov/OACT/solvency/provisions/index.html*. ■

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ENDNOTES

1 The OASI and DI Trust Funds are distinct legal entities that operate independently. To illustrate the actuarial status of the program as a whole, the fund operations are often combined on a hypothetical basis. The program as a whole is referred to as OASDI.

2 A weighted sum of taxable wages and taxable self-employment income.

3 The average indexed monthly earnings equals the average monthly earnings of the highest 35 earnings years, indexed by changes in economy-wide average earnings levels from the specific earnings year, if before age 60, to age 60 for retired workers. For disabled workers, the number of earnings year used may be less than 35, depending on the age at disability.

4 The EEA is the first age at which individuals can become entitled to aged widow(er), aged spouse and retired worker benefits. The EEA is 60 years for aged widow(er)s and 62 years for aged spouses and retired workers. The NRA is the age at which the basic Social Security benefit, the primary insurance amount (PIA), is paid for these same three benefit categories. Individuals first claiming a benefit before NRA receive a permanent percentage reduction in their benefit relative to their PIA, based on the age at claiming. Retired workers first claiming a benefit after NRA receive a permanent percentage benefit increase relative to the PIA.