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BENEFICIARIES OF PROPOSED SOCIAL SECURITY-RELATED TAX CUT HAVE SIGNIFICANT WEALTH

Their Average Net Worth Exceeds $1 Million, While Their Median Net Worth is $420,000

by Robert Greenstein and Diane Whitmore

Senator Bunning today offered an amendment to the budget resolution to increase both the reconciliation tax-cut instruction and the overall tax cut by $146 billion. The amendment fell short by a vote of 51-48. It may be voted on again tomorrow (on March 26).

The amendment ostensibly would use this money to make room for a proposal to repeal the provision of current law under which 85 percent of Social Security benefits are counted as part of adjusted gross income for the approximately one-fifth of beneficiaries with the highest incomes. In fact, the amendment would simply increase the size of the tax cuts. There is no assurance the funds would be used for this particular tax cut.

The provision of law that ostensibly would be repealed was enacted in 1993 as a deficit reduction measure. This provision of law is designed to ensure that Social Security benefits are counted as taxable income for high-income beneficiaries to the extent that the benefits these individuals receive *exceed* the Social Security payroll tax contributions they have made. This is the same approach as is used in determining the portion of private pension payments that is taxable. The provision enacted in 1993 makes 85 percent of Social Security benefits taxable because, on average, approximately 85 percent of the Social Security benefits that beneficiaries receive exceed the payroll tax contributions they have made.

In assessing the Bunning amendment, one important question is who would benefit from it. Some discussion of this amendment or of similar proposals in the past has simply noted that the Social Security taxation provision that would be repealed begins to phase in at $34,000 of adjusted gross income for single filers and $44,000 for married filers. Some have concluded, as a result, that repealing this provision would reduce taxes for seniors of modest means. Simply citing these dollar figures, however, doesn't tell very much about who would be affected for two reasons. First, these are the income levels at which the 85-percent taxation provision begins to phase in, not the income levels at which it takes full effect. Second and more important, significant numbers of retirees possess very substantial assets but have current incomes that do not look especially high. Thus, to determine whether those who would be affected by repealing this provision are retirees struggling to make ends meet or are people with much more substantial means entails examining the assets, as well as the current income, of this group.

To secure data on the assets these individuals possess, we used the best source of information on this matter, the Survey of Consumer Finances, which is conducted by the Federal

Asset Holdings of Social Security Beneficiaries Who Would Receive a Tax Cut Under House Bill Related To Taxation of Social Security Benefits

	Net Worth		Financial Assets		Income	
	Average	Median	Average	Median	Average	Median
Beneficiary Households that Will Receive a Tax Cut Under House Bill	$1,066,300	$420,200	$607,100	$187,000	$96,300	$66,000
Beneficiary Households that Are Not Subject to Taxation of Any Portion of Their Benefits	$137,400	$74,000	$49,400	$11,000	$17,000	$15,000

Source: 1998 Survey of Consumer Finances. Figures in 1997 dollars.

Reserve Board. These survey data include information on Social Security benefits and adjusted gross income, as well as on assets, so one can determine which families and individuals have a portion of their Social Security benefits subject to taxation and what their assets and incomes are. The results, from the Federal Reserve survey conducted in 1998, which provides data for 1997, are as follows:

- The beneficiaries who would receive a tax cut if the 1993 provision were repealed had average net worth of nearly $1.1 million in 1997. Their median net worth was $420,200.
- If one looks at *financial* assets (which excludes housing and debt)[1] rather than total net worth, those who would benefit from repealing this provision had average financial assets of $607,100 in 1997 and median financial assets of $187,000.
- The average current income of those who would get a tax cut was $96,300. The median income was $66,000.

Other Beneficiaries Have Much Less Wealth

The wealth and income of those who would benefit from this tax cut stand in sharp contrast to the wealth and income of those beneficiaries whose Social Security benefits are *not* taxable.

- The large group of beneficiaries whose benefits are not subject to taxation had average net worth of $137,400 and median net worth of $74,000 in 1997. If one looks just at financial assets, this group had average financial assets of $49,400 and median financial assets of only $11,000.
- The average income of this group was $17,000. Its median income was $15,000.

[1] Financial assets include liquid assets (checking, savings, money market accounts and call accounts), CDs, other mutual funds, stocks, bonds, savings bonds, quasi-liquid retirement accounts (including IRA, pension and thrift plans), the cash value of life insurance, other managed accounts, and other financial assets such as cash, royalties, non-public stock and deferred compensation. For more information, see the Federal Reserve Board home page.