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Social Security 2100: An Overview

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Rep. John Larson, chair of the House Ways and Means Subcommittee on Social Security, has introduced a major piece of legislation titled Social Security 2100: A Sacred Trust (H.R. 5723). Although bearing a title similar to a bill Rep. Larson introduced in the previous Congress (H.R. 860, 116th Congress), the current proposal is substantially different. It includes 13 provisions that would increase Social Security benefits, 12 of which would be temporary, applying for only five years. The bill would also increase Social Security revenues by imposing the Social Security payroll tax on individual earnings above $400,000.[1] Overall, it would reduce Social Security's 75-year shortfall by about half and postpone by about four years the program's reserve depletion date. However, if the bill's benefit increases were all made permanent — and there would be public and political pressure to do so — Social Security's financial picture would worsen compared to current law. Congress would then have to raise even more revenues or cut benefits to finance the permanent benefit improvements and also close the long-term financing gap.

In contrast, the previous version of Rep. Larson's bill contained only four benefit expansions, and all of them would have been permanent. It also would have gradually increased the Social Security payroll tax rate in addition to expanding the payroll tax base. As a result, the earlier legislation would have fully financed Social Security for 75 years and beyond.

Social Security Benefit Enhancements

The new version of the Social Security 2100 legislation would increase Social Security benefits in several ways, *but only for five years*, from 2022 through 2026, after which benefits would generally revert to their current-law levels. Temporary changes in benefits, such as these, would make the already hard job of planning for retirement even more difficult as workers and retirees would not know whether these temporary benefit expansions would be extended or expire as scheduled. For that reason, previous changes in Social Security benefits have always been permanent.

Some of the proposed benefit enhancements, such as a new minimum benefit and earnings credits for caregiving, would appropriately be focused on beneficiaries who received low pay for most of their careers. But others would be less well targeted. One provision, for example, would increase Social Security benefits across the board by about $30 a month for all retired and disabled worker

[1] For a detailed description of the proposed legislation, see Congressional Research Service, *Memorandum: Social Security 2100: A Sacred Trust (H.R. 5723 and S. 3071, 117th Congress) and Estimated Long-Range Financial Effects*, March 14, 2022.

beneficiaries, including those with high pre-retirement earnings. While this increase may sound modest, it is costly because all beneficiaries would receive it.

Another provision of the bill would reduce the taxation of Social Security benefits by increasing the income thresholds below which benefits are not taxed. This change would not help the roughly half of beneficiaries with the lowest incomes who pay no tax on their benefits because their income is below the current thresholds. Moreover, it would reduce the amount of income tax credited to the Social Security trust funds, weakening the program's long-term financing.[2]

The bill would also end the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO), which reduce the benefits of some Social Security beneficiaries who also receive a pension from government employment not covered by Social Security. Because the Social Security benefit formula is progressive, workers with earnings outside the Social Security system can look like low earners, even when they are not. Without the WEP and GPO, workers with earnings not covered by Social Security would receive benefits that replace a larger share of their earnings than similar workers whose earnings were totally covered (and, thus, fully taxed) — plus pensions that were intended to *replace* Social Security benefits.[3]

The previous version of Social Security 2100, introduced in January 2019, contained fewer benefit enhancements. These changes would have been permanent and would not have sunset after five years.

Revenue Increases and Trust Fund Impacts

Social Security faces a long-run financing shortfall. Over the program's 75-year forecast horizon, dedicated revenues will fall short of spending by an estimated 3.42 percent of taxable payroll, or 1.19 percent of gross domestic product. The reserves of the combined Social Security retirement and disability trust funds are projected to be depleted in 2035. At that point, Social Security could pay only about 80 percent of scheduled benefits using its annual tax income.

Social Security 2100 contains one provision that would increase Social Security revenues. The bill would apply the Social Security payroll tax of 12.4 percent, split equally between employees and employers, to earnings and self-employment income above $400,000. Currently, the tax applies only to earnings up to a specified level, which is $147,000 in 2022. The $400,000 threshold would remain fixed, while the current-law taxable maximum would continue to rise with wage growth, so that by around 2050 all earnings would be subject to the Social Security payroll tax. Newly taxed earnings would count toward benefits at a 1 percent replacement rate.

The bill would also combine Social Security's two trust funds into a single Social Security trust fund. At present, Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) have separate trust funds. Combining the trust funds would reflect the reality that the retirement and

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[2] Paul N. Van de Water, *Taxing Social Security Benefits Is Sound Policy*, Center on Budget and Policy Priorities, September 6, 2019, https://www.cbpp.org/research/social-security/taxing-social-security-benefits-is-sound-policy.

[3] Kathleen Romig, *A New Way to Treat Social Security Beneficiaries Who Work Outside the System*, Center on Budget and Policy Priorities, March 21, 2016, https://www.cbpp.org/blog/a-new-way-to-treat-social-security-beneficiaries-with-work-outside-the-system.

disability portions of Social Security operate as a single program. Both the increase in payroll taxes for high earners and the merger of the trust funds would be permanent.

Social Security's chief actuary estimates that Social Security 2100 would postpone the reserve depletion date for the combined OASI and DI trust funds by just four years. That means that by 2039, Congress would have to act to avoid reserve depletion and automatic cuts to benefits. The proposal would reduce Social Security's 75-year actuarial deficit by about half, if the benefit increases expire as proposed.[4] If the benefit enhancements were made permanent, without further tax increases or other offsets, the long-run actuarial deficit would be worse than under current law.

In contrast, the earlier Larson bill would have gradually raised the payroll tax rate, in addition to taxing earnings above $400,000. The combined tax rate for employees and employers would have been increased by 0.1 percentage point each year for 24 years, eventually reaching 14.8 percent.

With fewer benefit increases and more revenues, the earlier version of Social Security 2100 would have done substantially more to improve Social Security's long-term financing. The combined Social Security trust fund would have been able to pay all scheduled benefits for a full 75 years, and the trust fund's reserves would have been growing faster than costs at the end of the 75-year projection period.[5]

When Congress next legislates on Social Security, members may decide to concentrate on a medium-term solvency goal, such as ensuring that the program can pay full benefits for several decades rather than the entire 75-year period. But shoring up the program's financing for a substantial period — and making changes to benefits permanent rather than very short lived — is important for assuring both current and future beneficiaries that the program will be there for them in the years to come and helping them plan thoughtfully for their retirement.

[4] Stephen C. Goss, Letter to the Honorable John Larson, October 26, 2021, https://www.ssa.gov/oact/solvency/JLarson_20211026.pdf. These estimates are based on the assumptions of the 2021 Social Security trustees report.

[5] Stephen C. Goss, Letter to the Honorable John Larson, January 30, 2019, https://www.ssa.gov/oact/solvency/LarsonBlumenthalVanHollen_20190130.pdf.