SOCIAL SECURITY

Office of the Chief Actuary

May 12, 2010

The Honorable Sam Johnson
The Honorable Kevin Brady
The Honorable Paul Ryan
House of Representatives
Washington, D.C. 20515

Dear Mr. Johnson, Mr. Brady, and Mr. Ryan:

As you requested in your letter of June 26, 2009, we have updated the estimates of the effect on the financial status of the Social Security program for a wide variety of provisions on our web site (www.ssa.gov/OACT) consistent with the intermediate baseline projections from the 2009 Trustees Report. In addition, we have produced estimates for eighteen provisions that you outlined in your letter. These provisions would apply a tax on OASDI covered earnings above certain thresholds starting in 2017. Working with Kim Hildred, Staff Director, Subcommittee on Social Security, Committee on Ways and Means Republicans, we have modified the earnings thresholds specified in your letter in order to provide a wider range of options. All estimates are based on the intermediate assumptions of the 2009 Trustees Report and reflect our estimates of the behavioral response of workers to changes in tax rates.

The provisions you requested, with subsequent modifications, would apply a total tax rate of 2, 3, or 4 percent for OASDI covered earnings of individuals that exceed annual earnings thresholds set at $200,000, $300,000, or $400,000 for 2017. For each provision, the threshold would be indexed after 2017 using the national average wage indexing series (AWI) in the same manner used to index the current contribution and benefit base (which is projected to be $140,400 for 2017 under the intermediate assumptions of the 2009 Trustees Report). For each provision, one half of the indicated tax rate would be payable by the employee and the other half by the employer. For workers with more than one job in a year, payroll taxes would be withheld as if each were the only job (as under current law) with a refund for excess tax paid by the employee only at the end of the year.

Each of the nine specifications above results in two separate provisions, one that would not provide credit toward OASDI benefits based on earnings taxed above the new threshold, and one that would provide such credit. For the provisions that provide benefit credit, the additional earnings would be included for the AIME calculation on a proportional basis. For example, the amount of earnings above a $300,000 threshold subject to a 3-percent tax for 2017 would be multiplied by the ratio 3/12.4 and added to the earnings up to the current taxable maximum amount that are subject to the full 12.4-percent payroll tax rate.

The table below provides our estimates of the effects of these provisions on the OASDI 75-year actuarial balance, and on the annual balance (difference between non-interest income and program cost) for the 75th projection year (2083).

Provisions to Apply Payroll Tax for OASDI Covered Earnings Above Thresholds

Provision		Estimated Effect on-- 75-year Actuarial Balance[1] (2009-83)	75th year Annual Balance[1] (2083)
1a	Apply 2 percent tax on earnings over $200,000 in 2017, threshold wage indexed after 2017. Give proportional credit for earnings in AIME for benefit computation.	0.19	0.16
1b	Same as 1a but no additional benefit credit.	0.24	0.30
2a	Apply 3 percent tax on earnings over $200,000 in 2017, threshold wage indexed after 2017. Give proportional credit for earnings in AIME for benefit computation.	0.29	0.25
2b	Same as 2a but no additional benefit credit.	0.37	0.45
3a	Apply 4 percent tax on earnings over $200,000 in 2017, threshold wage indexed after 2017. Give proportional credit for earnings in AIME for benefit computation.	0.39	0.34
3b	Same as 3a but no additional benefit credit.	0.49	0.61
4a	Apply 2 percent tax on earnings over $300,000 in 2017, threshold wage indexed after 2017. Give proportional credit for earnings in AIME for benefit computation.	0.14	0.12
4b	Same as 4a but no additional benefit credit.	0.18	0.23
5a	Apply 3 percent tax on earnings over $300,000 in 2017, threshold wage indexed after 2017. Give proportional credit for earnings in AIME for benefit computation.	0.21	0.19
5b	Same as 5a but no additional benefit credit.	0.27	0.34
6a	Apply 4 percent tax on earnings over $300,000 in 2017, threshold wage indexed after 2017. Give proportional credit for earnings in AIME for benefit computation.	0.29	0.25
6b	Same as 6a but no additional benefit credit.	0.36	0.45
7a	Apply 2 percent tax on earnings over $400,000 in 2017, threshold wage indexed after 2017. Give proportional credit for earnings in AIME for benefit computation.	0.12	0.10
7b	Same as 7a but no additional benefit credit.	0.15	0.18
8a	Apply 3 percent tax on earnings over $400,000 in 2017, threshold wage indexed after 2017. Give proportional credit for earnings in AIME for benefit computation.	0.17	0.15
8b	Same as 8a but no additional benefit credit.	0.22	0.28
9a	Apply 4 percent tax on earnings over $400,000 in 2017, threshold wage indexed after 2017. Give proportional credit for earnings in AIME for benefit computation.	0.23	0.20
9b	Same as 9a but no additional benefit credit.	0.30	0.37

[1] Expressed as a percent of present-law taxable payroll
Based on intermediate assumptions of the 2009 Trustees Report

Enclosed are eighteen tables providing annual estimates of the cost and non-interest income for the OASDI program expressed as percents of the current-law OASDI taxable payroll, as well as projected trust fund ratios, under the proposals considered here. For comparison purposes we have also provided the corresponding 2009 Trustees Report intermediate estimates of these values in each table.

It has been a pleasure working with Kim Hildred in the development of these provisions. Please let us know if we may be of any further assistance on this or any other matter.

Sincerely,

Stephen C. Goss

Stephen C. Goss
Chief Actuary

Enclosures