SOCIAL SECURITY ADMINISTRATION 75 YEARS

SOCIAL SECURITY

MEMORANDUM

Date: May 18, 2010 Refer To: TCA

To: Ms. Debra Whitman
Majority Staff, Senate Special Committee on Aging

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Subject: Estimated Financial Effects of Two Social Security Reform Options Requested by the Senate Special Committee on Aging for Inclusion in the Committee Report --INFORMATION

This memorandum documents the long-range estimates we have provided of the financial effects for two options that would change the current-law provisions for the OASDI (Old-Age and Survivors and Disability Insurance) program. These provisions are included along with many other options available for consideration by policymakers in the recently released report of the Senate Special Committee on Aging, which is entitled *Social Security Modernization: Options to Address Solvency and Benefit Adequacy*.

The committee report presents a wide range of options that enhance benefits or improve the financial status of the OASDI program. We also reviewed the financial estimates for the other options in the report. These other options are included in solvency memoranda issued by this office and are publically available on our internet site.

Estimates for all options in the report, including the two estimates documented in this memorandum, are based on the intermediate assumptions of the 2009 Trustees Report.

Option 1: Provision to change the OASDI taxable maximum and payroll tax rates

Under this provision, the OASDI contribution and benefit base (taxable maximum) would increase to a level where 90 percent of covered earnings would be subject to the payroll tax. This increase in the taxable maximum phases in over the years 2010-19. In addition, a tax rate equal to1/2 of the self-employment tax rate would be phased in and would apply to earnings above the revised taxable maximum. This additional tax rate would be paid by employers on wages of their employers, and by self employed workers on their earnings. The new rate starts at 0.62 percent for 2010 and increases by 0.62 percentage point each year thereafter until reaching a rate of 6.2 percent for earnings in 2019. For each year after 2019, the new tax rate applied to earnings above the revised taxable maximum would remain at 6.2 percent. Benefit computations for workers would reflect only their earnings below the revised taxable maximum.

Enactment of this provision would *increase* the long-range actuarial balance by an estimated 1.37 percent of taxable payroll. In addition, the estimated annual balance for the 75th year of the projection period (2083) would increase by 1.36 percent of payroll.

Option 2: Provision to increase the COLA for older beneficiaries

This provision would add 1 percentage point to the annual cost-of-living adjustment (COLA) for OASDI monthly benefits for beneficiaries who have lived past a *specified age*, which reflects their age 65 life expectancy. This provision would be effective starting for Dec. 2010. For Dec. 2010, those beneficiaries who are older than their specified age as of December 31, 2010, would receive an increase in their monthly benefit level equal to the standard COLA plus 1 percentage point, in lieu of the standard COLA alone. The *specified age* is based on the beneficiary's year of birth and is determined as the sum of:

(1) 65 and
(2) The unisex cohort life expectancy at age 65 for the for the Social Security area population with the same year of birth as the beneficiary. The cohort life expectancy used would be that determined based on the past and projected mortality rates used for the most recently published OASDI Trustees Report

Enactment of this provision would *decrease* the long-range actuarial balance by an estimated 0.08 percent of taxable payroll. In addition, the estimated annual balance for the 75th year of the projection period (2083) would decrease by 0.10 percent of payroll.

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