



SOCIAL SECURITY
Office of the Chief Actuary

June 1, 2017

The Honorable Tom Cotton
United States Senate
Washington, D.C. 20510

Dear Senator Cotton:

Thank you for your letter of April 12 regarding the implications for Social Security of reducing the employee portion of the payroll tax. The proposal would cut the payroll tax rate by 2 percentage points on Social Security-covered earnings up to:

- \$28,258 for workers filing an individual income tax return,
- \$56,512 for a married couple filing a joint return, and
- \$28,258 for a married worker filing a separate return.

The proposal would reduce the employee portion of the payroll tax rate from 6.2 to 4.2 percent on annual earnings below the applicable threshold; the employer portion would remain at 6.2 percent. The tax rate for self-employed workers would be reduced from 12.4 to 10.4 percent on annual earnings below the applicable threshold. The dollar levels indicated above would apply for tax year 2018, with the thresholds increased by price inflation after 2018; that is, by the annual COLA increase percentage determined for December of the prior calendar year.

As we have discussed with your staff, this tax rate reduction would be implemented by way of a credit associated with the workers' income tax filings. The reductions could not be efficiently applied in payroll withholding for at least two reasons. First, the employer would not know for certain the tax filing status the worker will use for the year. Second, for individual workers or married couples with more than one job during the year, it would not be clear to which job's earnings the reduced payroll tax rate should be applied. As a result, the reduction in payroll tax would be received in the form of a credit included in workers' federal income tax returns for the year.

The estimates provided in this letter reflect the baseline intermediate assumptions of the 2016 Trustees Report. We estimate that enactment of this proposal would increase the long-range OASDI actuarial deficit by about 0.77 percent of taxable payroll, from 2.66 percent of payroll under current law to 3.43 percent of payroll under the proposal. Please see the attached Table 1 that shows estimated annual effects of implementing this change over the next 75 years. In the near term, over the period 2019 through 2027, the reduction in OASDI payroll tax income would

average slightly above 1.0 percent of payroll, for a net reduction in payroll tax revenue of roughly \$900 billion.

For the purpose of developing these estimates, our modeling incorporates a behavioral response by workers and employers to a change in tax rates that would offset, to a small degree, the reduction in payroll tax revenue from this proposal.

We have enjoyed working with Alex Hanson and Matt Shannon of your staff in developing the requested estimates. Development of these estimates reflects the efforts of many in our office, but particularly Karen Glenn, Chris Chaplain, and Daniel Nickerson. Please let me know if we may be of any further assistance on this or any other matter related to Social Security.

Sincerely,

A handwritten signature in cursive script that reads "Stephen C. Goss".

Stephen C. Goss, ASA, MAAA
Chief Actuary

Enclosures

Table 1 - OASDI Cost Rate, Income Rate, Annual Balance, and Trust Fund Ratio

Reduce by 2 percentage points the OASDI employee payroll tax starting in 2018 for the first \$28,258 of taxable earnings for single filers and married individuals filing separate, and the first \$56,512 for married couples filing joint. Thresholds increase by price inflation after 2018. Payroll tax reductions provided as a credit in income tax return for the tax year.

Year	Proposal			Trust Fund Ratio 1-1-year	Change from Present Law		
	Expressed as a percentage of present-law taxable payroll				Expressed as a percentage of present-law taxable payroll		
	Cost Rate	Income Rate	Annual Balance		Cost Rate	Income Rate	Annual Balance
2016	14.05	12.94	-1.10	303	0.00	0.00	0.00
2017	13.72	12.92	-0.80	293	0.00	0.00	0.00
2018	13.86	12.96	-0.90	277	0.00	0.00	0.00
2019	13.99	11.88	-2.10	262	0.00	-1.08	-1.08
2020	14.14	11.91	-2.22	239	0.00	-1.07	-1.07
2021	14.27	11.95	-2.33	217	0.00	-1.06	-1.06
2022	14.49	11.99	-2.51	195	0.00	-1.05	-1.05
2023	14.76	12.02	-2.74	172	0.00	-1.04	-1.04
2024	15.03	12.06	-2.96	149	0.00	-1.03	-1.03
2025	15.29	12.09	-3.19	126	0.00	-1.02	-1.02
2026	15.47	12.12	-3.35	104	0.00	-1.01	-1.01
2027	15.65	12.14	-3.51	81	0.00	-1.00	-1.00
2028	15.82	12.17	-3.65	58	0.00	-0.99	-0.99
2029	15.97	12.19	-3.78	36	0.00	-0.98	-0.98
2030	16.10	12.21	-3.90	13	0.00	-0.97	-0.97
2031	16.22	12.23	-4.00	----	0.00	-0.96	-0.96
2032	16.33	12.25	-4.08	----	0.00	-0.95	-0.96
2033	16.41	12.26	-4.15	----	0.00	-0.94	-0.95
2034	16.47	12.28	-4.19	----	0.00	-0.93	-0.94
2035	16.50	12.29	-4.21	----	0.00	-0.93	-0.93
2036	16.56	12.31	-4.25	----	0.00	-0.92	-0.92
2037	16.60	12.32	-4.28	----	0.00	-0.91	-0.91
2038	16.61	12.33	-4.28	----	0.00	-0.90	-0.90
2039	16.61	12.34	-4.27	----	0.00	-0.89	-0.89
2040	16.59	12.35	-4.24	----	0.00	-0.88	-0.88
2041	16.56	12.36	-4.20	----	0.00	-0.87	-0.87
2042	16.53	12.37	-4.17	----	0.00	-0.86	-0.86
2043	16.50	12.38	-4.12	----	0.00	-0.85	-0.86
2044	16.47	12.39	-4.08	----	0.00	-0.85	-0.85
2045	16.45	12.39	-4.06	----	0.00	-0.84	-0.84
2046	16.43	12.40	-4.02	----	0.00	-0.83	-0.83
2047	16.40	12.41	-3.99	----	0.00	-0.82	-0.82
2048	16.39	12.42	-3.97	----	0.00	-0.81	-0.81
2049	16.37	12.43	-3.94	----	0.00	-0.80	-0.81
2050	16.36	12.44	-3.92	----	0.00	-0.80	-0.80
2051	16.36	12.45	-3.91	----	0.00	-0.79	-0.79
2052	16.37	12.45	-3.92	----	0.00	-0.78	-0.78
2053	16.39	12.46	-3.93	----	0.00	-0.77	-0.77
2054	16.43	12.48	-3.95	----	0.00	-0.76	-0.77
2055	16.46	12.49	-3.98	----	0.00	-0.76	-0.76
2056	16.51	12.50	-4.01	----	0.00	-0.75	-0.75
2057	16.56	12.51	-4.05	----	0.00	-0.74	-0.74
2058	16.61	12.52	-4.09	----	0.00	-0.73	-0.73
2059	16.66	12.53	-4.13	----	0.00	-0.73	-0.73
2060	16.71	12.54	-4.16	----	0.00	-0.72	-0.72
2061	16.76	12.55	-4.20	----	0.00	-0.71	-0.71
2062	16.81	12.57	-4.24	----	0.00	-0.70	-0.70
2063	16.86	12.58	-4.28	----	0.00	-0.70	-0.70
2064	16.91	12.59	-4.32	----	0.00	-0.69	-0.69
2065	16.96	12.60	-4.36	----	0.00	-0.68	-0.68
2066	17.01	12.61	-4.40	----	0.00	-0.67	-0.68
2067	17.06	12.62	-4.44	----	0.00	-0.67	-0.67
2068	17.11	12.63	-4.48	----	0.00	-0.66	-0.66
2069	17.17	12.64	-4.53	----	0.00	-0.65	-0.65
2070	17.22	12.65	-4.57	----	0.00	-0.65	-0.65
2071	17.27	12.66	-4.60	----	0.00	-0.64	-0.64
2072	17.31	12.67	-4.63	----	0.00	-0.63	-0.63
2073	17.34	12.68	-4.66	----	0.00	-0.63	-0.63
2074	17.37	12.69	-4.68	----	0.00	-0.62	-0.62
2075	17.39	12.70	-4.70	----	0.00	-0.61	-0.61
2076	17.41	12.70	-4.70	----	0.00	-0.61	-0.61
2077	17.41	12.71	-4.70	----	0.00	-0.60	-0.60
2078	17.41	12.72	-4.69	----	0.00	-0.59	-0.59
2079	17.41	12.72	-4.68	----	0.00	-0.59	-0.59
2080	17.40	12.73	-4.67	----	0.00	-0.58	-0.58
2081	17.40	12.74	-4.66	----	0.00	-0.57	-0.58
2082	17.41	12.74	-4.66	----	0.00	-0.57	-0.57
2083	17.42	12.75	-4.67	----	0.00	-0.56	-0.56
2084	17.44	12.76	-4.68	----	0.00	-0.56	-0.56
2085	17.47	12.77	-4.70	----	0.00	-0.55	-0.55
2086	17.50	12.77	-4.73	----	0.00	-0.54	-0.54
2087	17.54	12.78	-4.76	----	0.00	-0.54	-0.54
2088	17.59	12.79	-4.80	----	0.00	-0.53	-0.53
2089	17.63	12.80	-4.83	----	0.00	-0.53	-0.53
2090	17.68	12.81	-4.87	----	0.00	-0.52	-0.52
2091	17.72	12.82	-4.91	----	0.00	-0.52	-0.52

Summarized Rates: OASDI			
	Cost Rate	Income Rate	Actuarial Year of reserve depletion ¹
2016 - 2090	16.50%	13.08%	-3.43% 2030

Summarized Rates: OASDI		
Change in Cost rate	Change in Income Rate	Change in Actuarial Balance
0.00%	-0.77%	-0.77%

Based on Intermediate Assumptions of the 2016 Trustees Report.

¹ Under present law the year of combined Trust Fund reserve depletion is 2034.

United States Senate

WASHINGTON, DC 20510

April 12, 2017

Chief Actuary Stephen Goss
Office of the Chief Actuary, Social Security

Chief Actuary Goss,

I would appreciate your budgetary assessment of a tax cut proposal that I am evaluating. This proposal would:

- Provide a two percentage point cut in the employee side of the payroll tax:
 - For income up to \$28,258 per individual; or
 - For income up to \$56,512 per married couple filing jointly

The income levels to which this tax cut would apply would be adjusted annually by inflation.

Thank you for your help with this matter. Please reach out to my staffer Brian Colas at Brian_Colas@cotton.senate.gov if he can provide you with any additional information.

Sincerely,

Senator Cotton

A handwritten signature in blue ink that reads "Tom Cotton". The signature is written in a cursive, flowing style.