SOCIAL SECURITY
Office of the Chief Actuary

July 12, 2023

The Honorable John Larson
Subcommittee on Social Security
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Ranking Member Larson:

I am writing in response to your request for our estimates of the financial effects on Social Security of enacting the *Social Security 2100 Act*, which you introduced today. The estimates provided here reflect the intermediate assumptions of the 2023 Trustees Report.

This Bill (hereafter referred to as the proposal) includes 16 provisions with direct effects on the Social Security trust funds. As detailed in this letter, these provisions would provide benefit enhancements that would, for 12 of the provisions, apply for eligible benefits for affected individuals in ten years (generally 2025 through 2034), and then revert to current-law benefit levels for eligible benefits after the ten-year period. The descriptions of these provisions and our estimates reflect our understanding of the intended effects for this proposal.

We have enjoyed working closely with Emily Naden, Scott Stephanou, Kathryn Olson, and TJ Sutcliffe. The estimates and analysis provided here reflect the combined effort of many in the Office of the Chief Actuary, but most particularly Karen Glenn, Daniel Nickerson, Christopher Chaplain, Kyle Burkhalter, Sharon Chu, Karen Rose, Anna Kirjusina, Katie Sutton, and Tiffany Bosley.

The enclosed tables provide estimates of the effects of enacting the 16 provisions on the cost, income, and combined trust fund reserves for the Old Age, Survivors, and Disability Insurance (OASDI) program, as well as estimated effects on retired worker benefit levels and effects on payroll tax levels for selected hypothetical workers. In addition, tables 1b and 1b.n provide estimates of the federal budget implications of enacting these 16 provisions with direct effects on the OASDI program.

We estimate that enactment of these provisions would extend the ability of the OASDI program to pay scheduled benefits in full and on time for an additional 32 years. That is, the date of projected depletion of the combined OASI and DI Trust Fund reserves would be moved from 2034 under current law to 2066 assuming enactment of the proposal, under the intermediate assumptions of the 2023 Trustees Report. In addition, because the tax provisions are not

temporary, the percent of scheduled benefits that would be payable would be increased in all years after projected trust fund reserve depletion in 2066. For the calendar year period 2023 through 2032, the OASDI net cash flow is projected to increase by $1,013 billion. The increased net revenue from the payroll tax rate increase on earnings over $400,000 (Sections 201 and 202) and the application of the 12.4-percent tax to net investment income over the specified threshold (Section 203) more than offsets the increased cost from the 13 benefit enhancement provisions, most of which apply from 2025 to 2034.

The proposal includes 16 provisions with direct effects on the OASDI program. The following list briefly describes these provisions:

Section 101. Increase the first PIA formula factor from 90 percent to 93 percent for all beneficiaries with benefit entitlement for months in 2025 through 2034. Revert to current-law benefit levels for January 2035 and later.

Section 102. Use the higher of the change in the Consumer Price Index for the Elderly (CPI-E) or the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) to temporarily calculate the cost-of-living adjustment (COLA), effective for December 2024 through December 2033 COLAs. Revert to current-law benefit levels for January 2035 and later. We estimate this change would increase the COLA by an average of 0.3 percentage point per year.

Section 103. Increase the special minimum PIA temporarily for workers who become newly eligible for retirement or disability benefits or die in 2025 through 2034. Revert to current-law benefit levels for January 2035 and later. For workers who become newly eligible or die in 2025, the minimum PIA for 2025 for workers with 30 or more years of coverage (YOCs) is 125 percent of the annual poverty guideline for a single individual published by the Department of Health and Human Services for 2024, divided by 12. For workers who become newly eligible or die in 2026 through 2034, the minimum PIA for their initial year of eligibility is increased by the growth in the national average wage index (AWI). For all affected benefits, the minimum PIA is increased by the COLA after the worker's year of initial eligibility.

Section 104. Replace the current-law thresholds for federal income taxation of OASDI benefits with a single set of thresholds at $35,000 for single filers and $50,000 for joint filers for taxation of up to 85 percent of OASDI benefits, effective for tax years 2025 through 2034. Revert to current-law specifications for tax years 2035 and later. The amount of revenue from taxation of OASDI benefits that would be allocated to Medicare's Hospital Insurance (HI) Trust Fund for tax years 2025 through 2034 will be at the same level as if the current-law computation (in the absence of this provision) were applied. The net amount of revenue from taxing OASDI benefits, after the allocation to HI, would be allocated to the combined OASI and DI Trust Funds.

Section 105. Establish an alternative benefit for non-divorced surviving spouses. This benefit would be available temporarily for surviving spouses with benefit entitlement for months in 2025 through 2034. Revert to current-law benefit levels for January 2035 and later. For the surviving spouse, the alternative benefit would equal 75 percent of the sum of the survivor's

own worker benefit and the deceased worker's PIA (including any actuarial reductions or delayed retirement credits (DRC)). If the deceased worker died before becoming entitled, use the age 62 actuarial reduction if deceased before age 62, or the applicable actuarial reduction/DRC for entitlement at the age of death if deceased after 62. The alternative benefit would not exceed the PIA of a hypothetical earner who earns the AWI every year, and who becomes eligible for retired-worker benefits in the same year in which the deceased worker became entitled to worker benefits or died (if before entitlement). The alternative benefit would be paid only if more than the current-law benefit.

Section 106. Provide a 5-percent uniform PIA increase 20 years after initial eligibility, temporarily for 2025 through 2034. Revert to current-law benefit levels for January 2035 and later. The benefit increase would be phased in at 1 percent per year from the 16th calendar year through the 20th calendar year after the year of initial eligibility. The uniform PIA increase is equal to the specified percent of the PIA of a worker who becomes newly eligible in the same year who had career-average earnings (AIME) equal to the AWI for the second year prior to initial eligibility. Auxiliary beneficiaries would receive benefit enhancements based on the PIA of the governing worker.

Section 107. For workers caring for a child under age 12 or for a dependent relative, provide a temporary "earnings credit" on their record to be used for computation of their benefit. Effective for workers who become newly eligible for retirement or disability benefits or die in 2025 through 2034, with all past caregiving years counted. Revert to current-law benefit levels for January 2035 and later.

Section 108. Eliminate the DI waiting period after enactment of the proposal effective for all months in 2025 through 2034. Revert to current law for waiting period months in January 2035 and later.

Section 109. End the DI benefit cliff temporarily for beneficiaries with earnings after initial disability entitlement for months in 2025 through 2034. In this period, use a $1-for-$2 offset for earnings above the blind substantial gainful activity (SGA) level. Revert to current law for months of benefit entitlement in 2035 and later.

Section 110. Temporarily cease applying the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) for all beneficiaries with benefit entitlement for months in 2025 through 2034. Revert to current-law benefit levels for January 2035 and later.

Section 111. Provide benefits for students who are children of disabled, retired, or deceased workers until attainment of age 26, for all eligible children with benefit entitlement for months in 2025 through 2034. Revert to current-law benefit levels for January 2035 and later.

Section 112. Provide benefits to children who are in the custody of a grandparent or other eligible relative for at least 12 months and are receiving at least one-half of their financial support from the relative on whose account the child benefit is based. Effective for all eligible children with benefit entitlement for months in 2025 through 2034. Revert to current-law benefit criteria for January 2035 and later.

Section 113. Prevent reductions in the AWI for any year 2025 or later from reducing benefits for individuals who become newly eligible for benefits two years later.

Section 201 and Section 202. Apply the combined OASDI payroll tax rate on covered earnings above $400,000 paid in 2025 and later. Tax all covered earnings once the current-law taxable maximum exceeds $400,000. Increase the computed level of the AWI for years after 2024 by amounts ranging from 0.5 percent for 2025 to 0.9 percent for 2047 and later. Credit the additional earnings that are taxed for benefit purposes by: (a) calculating a second average indexed monthly earnings ("AIME+") reflecting only additional earnings taxed above the current-law taxable maximum, (b) applying a 1-percent factor on this newly computed "AIME+" to develop a second component of the PIA, and (c) adding this second component to the current-law PIA.

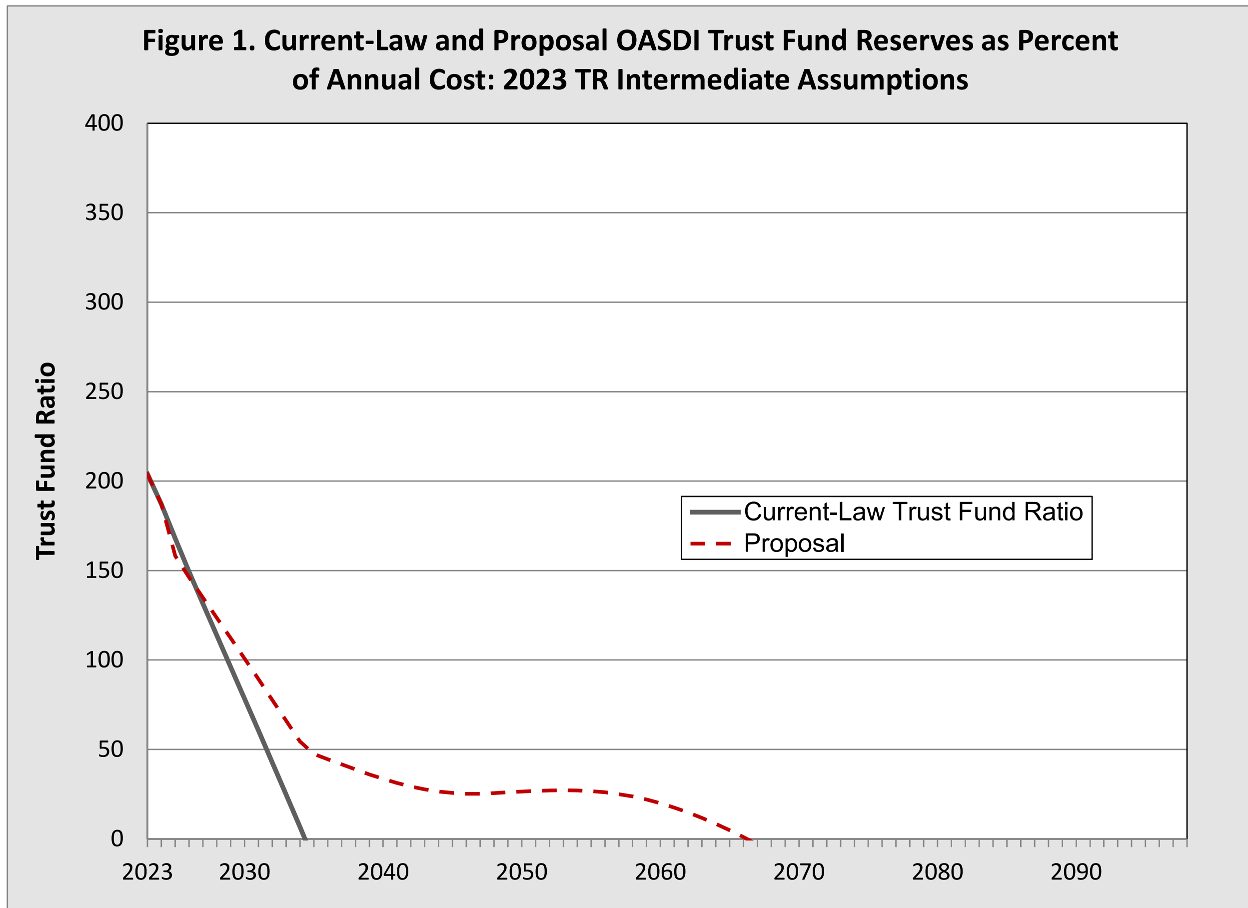
Section 203. Apply a separate 12.4-percent tax on net investment income (NII), as defined in the Affordable Care Act (ACA), payable to the OASI and DI Trust Funds with an unindexed threshold of $400,000, effective 2025 and later. The NII tax would apply to the lesser of NII and the excess of modified adjusted gross income (MAGI) above the unindexed threshold of $400,000. This single threshold would apply regardless of tax filing status.

Section 303. Increase the dollar level applicable for attorney fees entered into under the "fee agreement" process after enactment. Attorney fees under the fee agreement process would be the lesser of 25 percent of past-due benefits or $12,056 for enactment in 2023, as compared to $7,200 under current law for November 30, 2022 or later. Increase the dollar level by changes in the AWI for years after 2023.

The balance of this letter provides a summary of the effects of the 16 provisions on the actuarial status of the OASDI program, our understanding of the specifications and intent of each of the 16 provisions, and descriptions of our detailed financial estimates for trust fund operations, benefit levels, and implications for the federal budget. See the "Specification for Provisions of the Proposal" section of this letter for a more detailed description of these 16 provisions.

Summary of Effects of the Proposal on OASDI Actuarial Status

Figure 1 illustrates the projected OASDI Trust Fund ratio through 2097 under current law and assuming enactment of the proposal. The trust fund ratio is defined as the combined OASI and DI Trust Fund reserves expressed as a percent of annual program cost. Assuming enactment of the proposal, the combined OASI and DI Trust Funds are expected to be able to pay scheduled benefits in full and on time for an additional 32 years, under the intermediate assumptions of the 2023 Trustees Report.

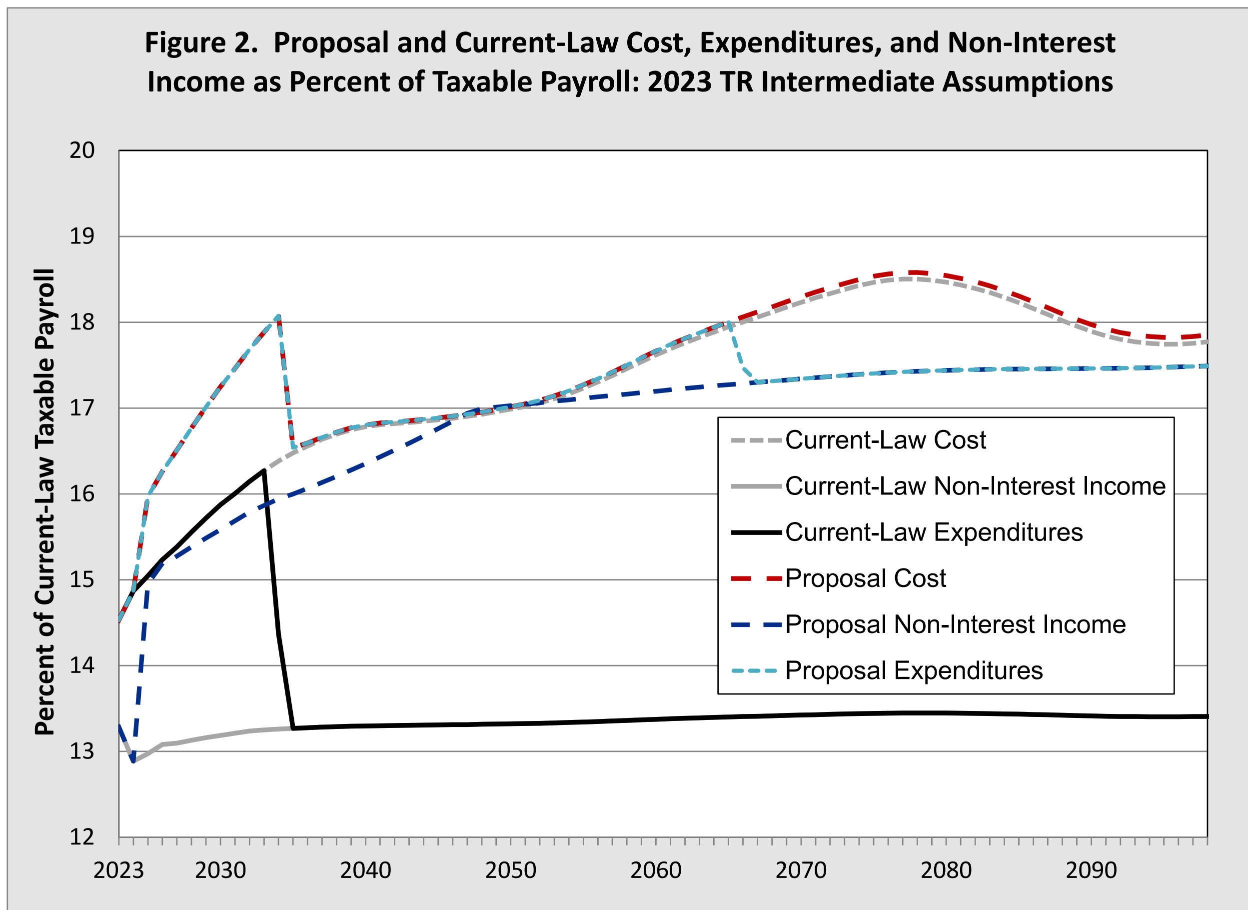


Note: *Trust Fund Ratio* for a given year is the ratio of reserves in the combined OASI and DI Trust Funds at the beginning of the year to the cost of the program for the year.

Under current law, 80 percent of scheduled benefits are projected to be payable on a timely basis in 2034 after depletion of the combined trust fund reserves, with the percentage payable declining to 74 percent for 2097. Under the proposal, 95 percent of scheduled benefits are projected to be payable on a timely basis in 2066 after depletion of the combined trust fund reserves, with the percentage payable increasing slightly to 98 percent for 2097.

Enactment of the 16 provisions of this proposal would decrease the long-range OASDI actuarial deficit from 3.61 percent of taxable payroll under current law to 0.47 percent of payroll under the proposal.

Figure 2 illustrates annual projected levels of cost, expenditures, and non-interest income as a percentage of the current-law taxable payroll. The projected level of cost reflects the full cost of scheduled benefits under both current law and the proposal. After trust fund reserve depletion, projected expenditures under current law and under the proposal include only amounts payable from projected tax revenues (non-interest income), which are less than projected cost.



Specific effects over the 75-year projection period include:

- OASDI program annual cost under the proposal is notably higher than under current law from 2025 through 2034, when the temporary benefit enhancements are effective. This difference between proposal and current-law cost increases from 0.92 percent of current-law payroll for 2025 to 1.69 percent of current-law payroll for 2034. After 2034, program annual cost remains higher than under current law, at 0.06 percent of payroll higher in 2035, declining to 0.02 percent higher in 2038-47, and then increasing gradually to 0.08 percent higher by 2097.

- Beginning in 2025, non-interest income under the proposal is projected to be higher than under current law. This difference between proposal and current-law income increases from 1.98 percent of current-law payroll for 2025 to 3.69 percent of current-law payroll for 2049, and thereafter increases more gradually, reaching 4.08 percent of current-law payroll for 2097. For 2025 through 2034, the proposal increases (improves) the annual balance (non-interest income minus program cost) by between 1.0 and 1.1 percent of current-law payroll, and then increases the annual balance for 2035 and later by between 2.7 and 4.0 percent, as (1) most of the benefit enhancement effects end and more earnings fall above the higher of $400,000 or the current-law taxable maximum and are subject to the 12.4 percent payroll tax, and (2) more MAGI falls above the fixed threshold, increasing revenue from the NII tax.

It is also useful to consider the projected cost, expenditures, and income for the OASDI program expressed as a percentage of Gross Domestic Product (GDP). Figure 3 illustrates these levels under both current law and the proposal.

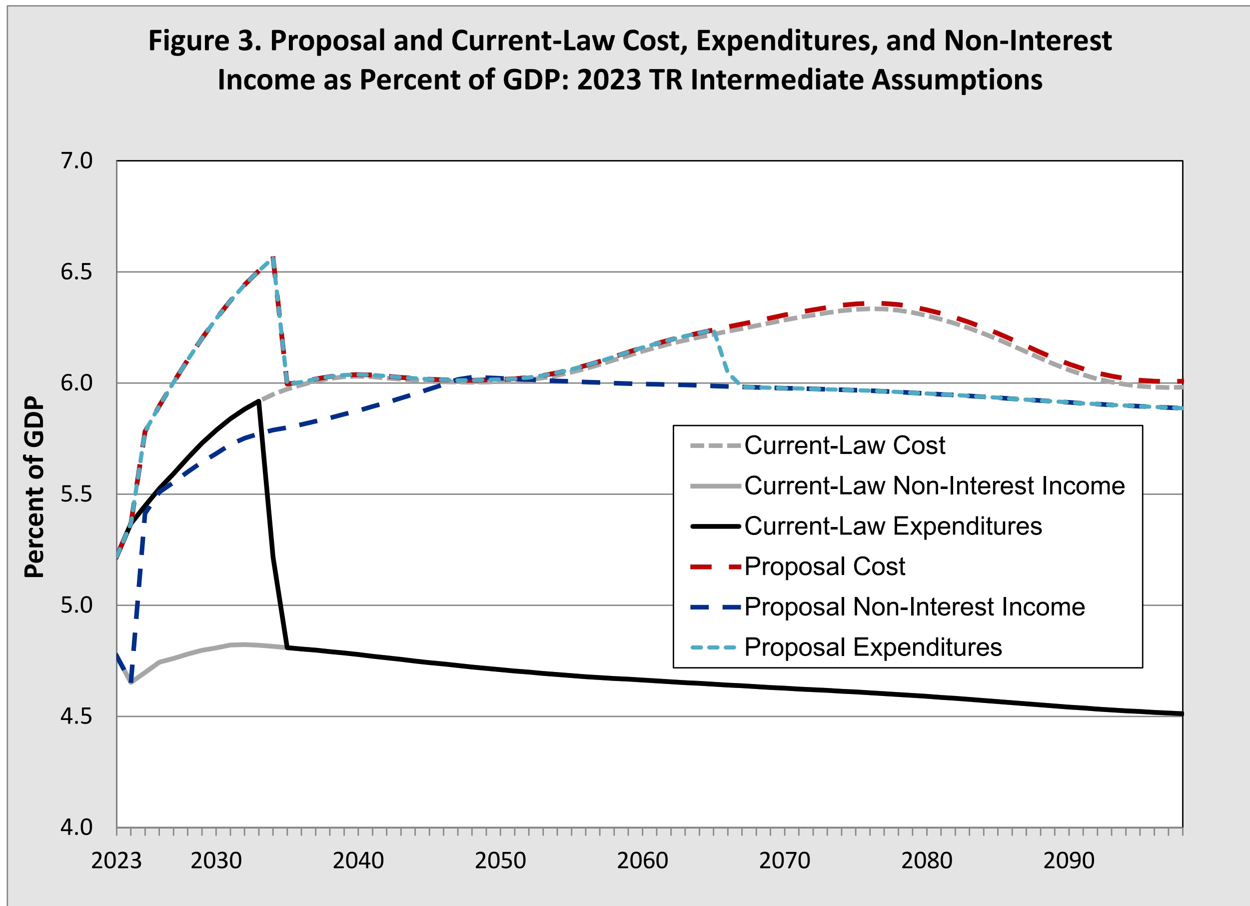


Figure 3. Proposal and Current-Law Cost, Expenditures, and Non-Interest Income as Percent of GDP: 2023 TR Intermediate Assumptions

<u>Specification for and Effects of Provisions of the Proposal</u>

Section 101. Increase the first PIA formula factor from 90 percent to 93 percent for all beneficiaries with benefit entitlement for months in 2025 through 2034. Revert to current-law benefit levels for January 2035 and later.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.04 percent of taxable payroll and would have no effect on the annual deficit for the 75th projection year (2097).

Section 102. Use the higher of the change in the CPI-E or the CPI-W to temporarily calculate the COLA, effective for December 2024 through December 2033 COLAs. Revert to current-law benefit levels for January 2035 and later.

Under current law, the annual cost-of-living adjustment (COLA) applied to Social Security benefits is calculated using the Consumer Price Index for Urban Wage Earners and Clerical

Workers (CPI-W). We estimate that using the higher of the change in the Consumer Price Index for the Elderly (CPI-E) or the CPI-W in each year from the December 2024 through December 2033 COLAs would increase the effective COLA by 0.3 percentage point per year on average. For this provision, the COLAs based on the higher of the CPI-W or the CPI-E would apply for benefits paid from 2025 through 2034, then revert to current-law benefit levels for years 2035 and later.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.04 percent of taxable payroll and would have no effect on the annual deficit for the 75th projection year (2097).

> *Section 103. Increase the special minimum PIA temporarily for workers who become newly eligible for retirement or disability benefits or die in 2025 through 2034. Revert to current-law benefit levels for January 2035 and later.*

Under this provision, the minimum initial PIA for workers who become newly eligible or die in 2025 with 30 or more years of coverage (YOCs) would be 125 percent of the annual poverty guideline for a single individual published by the Department of Health and Human Services for 2024, divided by 12. For those with less than 30 YOCs, the minimum PIA per YOC in excess of 10 YOCs is the minimum PIA for workers with 30 or more YOCs, divided by 20. Any year in which a worker earns four quarters of coverage is determined to be a YOC. For workers who become newly eligible or die in 2026 through 2034, the initial PIA per YOC in excess of 10 YOCs is indexed from the 2025 level by growth in the AWI to determine the minimum PIA applicable for the year of initial eligibility. After the year of initial eligibility, the minimum benefit is increased by the COLA for each cohort. The 30 and 10 YOC levels apply for all workers, including those who die or become disabled under age 62. Increased benefits under this provision would be payable for affected beneficiaries only for months of eligibility in 2025 through 2034.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by an amount that is negligible, that is, less than 0.005 percent of taxable payroll, and would have no effect on the annual deficit for the 75th projection year (2097).

> *Section 104. Replace the current-law thresholds for federal income taxation of OASDI benefits with a single set of thresholds at $35,000 for single filers and $50,000 for joint filers for taxation of up to 85 percent of OASDI benefits, effective for tax years 2025 through 2034. Revert to current-law specifications for tax years 2035 and later.*

Under current law, single tax filers with combined "income" (approximately equal to adjusted gross income plus non-taxable interest income and one-half of their Social Security benefit) greater than $25,000 may have to pay income tax on up to 50 percent of their Social Security benefits. If combined "income" exceeds $34,000, up to 85 percent of benefits may be taxable. The income tax revenue for taxing up to 50 percent of Social Security benefits is credited to the OASI and DI Trust Funds. The additional income tax revenue derived from taxing benefits in excess of 50 percent, up to 85 percent, is credited to the HI Trust Fund. The process is similar for joint tax filers, with $32,000 and $44,000 thresholds applying for possible taxation of up to 50

percent or 85 percent of the Social Security benefits, respectively. All threshold levels are fixed amounts and not indexed to price inflation or the AWI.

Under the proposal, both sets of the current-law thresholds would be replaced with a single set of thresholds, $35,000 and $50,000 for single and joint filers, respectively, for taxing up to 85 percent of OASDI benefits, effective for tax years 2025 through 2034. For tax years 2025 through 2034, the amount of revenue from taxation of OASDI benefits that would be allocated to the HI Trust Fund would be at the same level as if the current-law computation (in the absence of this provision) were applied. The net amount of revenue from taxing OASDI benefits, after the allocation to HI, would be allocated to the combined OASI and DI Trust Funds. All specifications for taxing Social Security benefits would revert to current law for tax years 2035 and later.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.01 percent of taxable payroll and would have no effect on the annual deficit for the 75th projection year (2097).

> *Section 105. Establish an alternative benefit for non-divorced surviving spouses. This benefit would be available temporarily for surviving spouses with benefit entitlement for months in 2025 through 2034. Revert to current-law benefit levels for January 2035 and later.*

Under current law, surviving spouses aged 60 or older are eligible to receive the higher of their own worker benefit (as a retiree or a disabled worker) or the benefit amount their deceased spouse was eligible to receive, subject to potential reductions for age at benefit entitlement. This proposed provision is intended to allow non-divorced surviving spouses to receive an alternative benefit when it is higher than the benefit available under current law.

The alternative benefit would be computed as 75 percent of the sum of (a) the worker benefit (as a retired worker or as a disabled worker) the survivor is eligible to receive, including any reductions for age or DRC and (b) the worker benefit the deceased spouse would be eligible to receive if still alive, reflecting any reduction for age at entitlement or DRC (or if not entitled at death, then the reduction for age or DRC available for entitlement at the date of death or the earliest time thereafter). However, the size of the alternative benefit so computed would be limited so as not to exceed the PIA (unreduced for early retirement and not increased by DRC) for a theoretical retired worker who becomes entitled to benefits at age 62 in the same year the deceased first became entitled to a benefit (or the year of death if not yet entitled), with earnings for each year equal to the AWI. Benefit increases under this provision would be applicable for surviving spouses receiving benefits for months of benefit entitlement in 2025 through 2034.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.02 percent of taxable payroll and would have no effect on the annual deficit for the 75th projection year (2097).

> *Section 106. Provide a 5-percent uniform PIA increase 20 years after eligibility, temporarily for 2025 through 2034. Revert to current-law benefit levels for January 2035 and later.*

The uniform PIA increase would be phased in at 1 percent per year from the 16th calendar year through the 20th calendar year after the year of initial eligibility. The uniform PIA increase is equal to the specified percent of the PIA of a worker who becomes newly eligible in the same year who had career-average earnings (AIME) equal to the AWI for the second year prior to initial eligibility. Auxiliary beneficiaries would receive benefit enhancements based on the PIA of the governing worker. Benefits under this provision would be payable for all qualifying beneficiaries with months of benefit entitlement in 2025 through 2034.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.03 percent of taxable payroll and would have no effect on the annual deficit for the 75th projection year (2097).

> *Section 107. For workers caring for a child under age 12 or for a dependent relative, provide a temporary "earnings credit" on their record to be used for computation of their benefit. Effective for workers who become newly eligible for retirement or disability benefits or die in 2025 through 2034, with all past caregiving years counted. Revert to current-law benefit levels for January 2035 and later.*

For workers caring for a child under age 12 or for a dependent relative (a chronically dependent individual unable to perform at least two of five activities of "daily living"), this provision applies a temporary "earnings credit" on the worker's record to be used for computation of their benefit. The provision applies for years where earnings are less than the AWI of the second prior calendar year. If an individual has no earnings in the month, the "earnings credit" is one-half of the AWI level for the second prior calendar year. For those with positive earnings but less than the AWI level of the second prior calendar year, the additional earnings credit (or "top-up") equals one-half of the AWI level minus one-half of the earnings before the credit. For example, if the applicable AWI were $50,000 and an individual's earnings before the credit were $40,000, then total credited earnings would equal $40,000 + ½ * ($50,000 - $40,000) or $45,000, with a top-up of $5,000. Stated another way, the additional earnings credited goes halfway from the earnings before the credit to the applicable AWI amount.

This provision is effective for workers who become newly eligible for retirement or disability benefits or die in 2025 through 2034. Benefit levels would not be affected under this provision for January 2035 or later. All past caregiving years before 2034 can qualify for the caregiver earnings credit. The computation would apply the most advantageous five caregiving years to maximize the worker's benefit.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.01 percent of taxable payroll and would have no effect on the annual deficit for the 75th projection year (2097).

> *Section 108. Eliminate the DI waiting period after enactment of the proposal effective for all months in 2025 through 2034. Revert to current law for waiting period months in January 2035 and later.*

Under current law, disabled workers and disabled widow(er)s must be disabled for five months after their disability onset date before they can begin receiving Social Security disability benefits.

Section 108 would eliminate this five-month waiting period for disabled workers and disabled widow(er)s. Thus, the proposal would make Social Security monthly benefits available beginning with the first full month after the onset of disability. The proposal would become effective upon enactment for those whose waiting period would have included months in 2025 through 2034.

With temporary elimination of the DI waiting period, we project that some individuals who would otherwise not apply for benefits under current law would be induced to apply for and receive disability benefits. These individuals would continue to receive disability benefits for years 2035 and later, but waiting period months starting in 2035 would take effect as under current law.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.01 percent of taxable payroll and would have no effect on the annual deficit for the 75th projection year (2097).

Section 109. End the DI benefit cliff temporarily for beneficiaries with earnings after initial entitlement for months in 2025 through 2034. In this period, use a $1-for-$2 offset for earnings above the blind substantial gainful activity (SGA) level. Revert to current law for years 2035 and later.

Under current law, individuals entitled on the basis of disability who earn above a specified monthly amount for nine months over a 60-month trial work period (TWP) go into an extended period of eligibility (EPE) period of 36 months. During this EPE period, if monthly earnings are above a specified SGA amount, benefits are completely withheld for that month. If earnings are zero or not higher than the specified SGA amount for a given month, then full benefits are paid for that month. Then, after the 36-month period, for the first month earnings exceed the SGA level, the individual is terminated from receiving benefits. For non-blind disabled beneficiaries, the 2023 SGA level is $1,470 and for blind disabled beneficiaries, the 2023 SGA level is $2,460. Both SGA levels will increase in future years based on increases in the AWI.

Under this provision, the TWP would be retained, but the EPE and the possibility of benefit termination based on earnings would be temporarily eliminated. For only the purpose of benefit amount determinations after the TWP, the blind SGA level would also be used for all beneficiaries: for instance, $2,460 rather than $1,470 would be used for 2023. The benefit reduction would remove the “cliff” of full benefits or no benefits, and instead reduce benefits by $1 for every $2 of monthly earnings above the blind SGA level. For example, if an individual were receiving a $1,500 monthly benefit during the current-law EPE period and earned $4,460 for a given month in 2023, then the benefit received for that month would be $0 under current law, but would be $1,500 – ½ * (4,460 – 2,460) = $500 if this provision applies. Therefore, many disability beneficiaries in these five years would have the enhanced ability to have earnings with less benefit reduction.

This provision does not change the SGA earnings level used to determine allowances for disability benefits. Instead, it only applies to the thresholds used for benefit offset for beneficiaries after completion of the TWP.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.01 percent of taxable payroll and would have no effect on the annual deficit for the 75th projection year (2097).

Section 110. Temporarily cease applying the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) for all beneficiaries with benefit entitlement for months in 2025 through 2034. Revert to current-law benefit levels for January 2035 and later.

The Windfall Elimination Provision reduces the 90 percent PIA factor to as low as 40 percent for individuals who receive a pension based on employment not covered by Social Security. The Government Pension Offset reduces benefits for spouse and surviving spouse beneficiaries by two-thirds of qualifying non-covered government pensions. Such pensions include pensions based on state and local covered employment or for Federal workers covered under the Civil Service Retirement System. Section 110 would eliminate the WEP and GPO completely for all beneficiaries with benefit entitlement for months in 2025 through 2034.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.02 percent of taxable payroll and would have no effect on the annual deficit for the 75th projection year (2097).

Section 111. Provide benefits for students who are children of disabled, retired, or deceased workers until attainment of age 26, for all eligible children with benefit entitlement for months in 2025 through 2034. Revert to current-law benefit levels for January 2035 and later.

Under current law, benefits are available to children of retired, disabled, and deceased workers who are full-time students at a secondary school or elementary school, up to attainment of age 19. This provision would extend eligibility of student benefits to full-time elementary or secondary students and at least half-time post-secondary students, up to attainment of age 26, for all eligible children with benefit entitlement for months in 2025 through 2034.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by 0.01 percent of taxable payroll and would have no effect on the annual deficit for the 75th projection year (2097).

Section 112. Provide benefits to children who are in the custody of a grandparent or other eligible relative for at least 12 months and are receiving at least one-half of their financial support from the relative. Effective for all eligible children with benefit entitlement for months in 2025 through 2034. Revert to current-law benefit criteria for January 2035 and later.

Under section 112, children in the custody of a grandparent or other eligible relative can receive Social Security benefits on the grandparent's or eligible relative's Social Security account. The grandparent or eligible relative must provide at least one-half of the child's support. This provision is effective for all eligible children with benefit entitlement for months in 2025 through 2034.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by a negligible amount, that is, less than 0.005 percent of taxable payroll, and would have no effect on the annual deficit for the 75th projection year (2097).

Section 113. Prevent reductions in the AWI for any year 2025 or later from reducing benefits for individuals who become newly eligible for benefits two years later.

Under this provision, for any year where the AWI as computed would be lower than the AWI for any previous year, the largest AWI from among all previous years will be used for the purpose of computing the average indexed monthly earnings (AIME) and the PIA for all beneficiaries who become initially eligible for benefits two years after such year. This provision would apply for the AWI computed for all years 2025 and later.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by a negligible amount, that is, less than 0.005 percent of taxable payroll, and would have a negligible effect on the annual deficit for the 75th projection year (2097).

Section 201 and Section 202. Apply the combined OASDI payroll tax rate on covered earnings above $400,000 paid in 2025 and later. Increase the computed level of the AWI for years after 2024 by amounts ranging from 0.5 percent for 2025 to 0.9 percent for 2047 and later.

These provisions apply the OASDI payroll tax rate to covered earnings above $400,000 paid in 2025 and later. The $400,000 level is a fixed amount after 2025 and is not indexed to price inflation or the AWI. All covered earnings would be taxed once the current-law taxable maximum exceeds $400,000, which is projected to occur in 2048. Any covered earnings above the higher of $400,000 or the current-law taxable maximum in a given year would be counted as "excess wages" and would be credited for benefit purposes by:

a. Calculating a second average indexed monthly earnings ("AIME+") reflecting only additional earnings taxed above the current-law maximum,
b. Applying a 1-percent PIA factor to this newly computed "AIME+" to develop a second component of the PIA, and
c. Adding this second PIA component to the current-law PIA.

In addition, the AWI would be increased above the computed level for all years beginning in 2024, as follows: 0.5 percent for years 2025-30, 0.6 percent for years 2031-36, 0.7 percent for years 2037-42, 0.8 percent for years 2043-46, and 0.9 percent for 2047 and later.

The secondary AIME+ calculation and the AWI increases for years 2025 and later in sections 201 and 202 increase OASDI cost. However, in response to the increased payroll tax in section 201 for 2025 and later, we assume employers will redistribute total employee compensation among taxes, wages, and other compensation. This behavioral response reduces the increase in both payroll tax revenue and scheduled benefits that would accrue in the absence of this behavioral response.

We estimate that enactment of sections 201 and 202 alone would reduce the long-range OASDI actuarial deficit by 2.16 percent of taxable payroll and would reduce the annual deficit for the 75th projection year (2097) by 2.47 percent of payroll.

Section 203. Apply a separate 12.4-percent tax on net investment income (NII), as defined in the Affordable Care Act (ACA), payable to the OASI and DI Trust Funds with an unindexed threshold of $400,000, effective 2025 and later.

The NII tax would apply to the lesser of NII and the excess of Modified Adjusted Gross Income, or MAGI (AGI with adjustments for specific circumstances), above the unindexed threshold of $400,000. This single threshold would apply regardless of tax filing status.

We estimate that enactment of this provision alone would reduce the long-range OASDI actuarial deficit by 1.20 percent of taxable payroll and would reduce the annual deficit for the 75th projection year (2097) by 1.53 percent of payroll.

Section 303. Increase the dollar level applicable for attorney fees entered into under the "fee agreement" process after enactment.

For cases where a potential beneficiary has attorney representation, typically for disability cases, attorney fees are based on past-due benefits paid—that is, the time between entitlement to a benefit and when the benefit is awarded. Attorney fees are established under either a "fee agreement" or "fee petition" process. Under the fee agreement process, the agreement must be signed by the beneficiary and attorney, and submitted to the Social Security Administration (SSA) before the first favorable decision (allowance). For those cases not using the fee agreement process, attorneys must file a "fee petition" to SSA for approval and payment of attorney fees.

For cases using a fee agreement, current-law attorney fees are the lesser of 25 percent of the past-due benefits or $7,200. Section 303 of the proposal would increase the dollar level based on the formula: $4,000 * AWI for 2 years prior / AWI for 1989. This formula yields a dollar level of $12,056 for 2023, which would be increased in future years by changes in the AWI. Section 303 makes no changes to the fee petition process.

We estimate that enactment of this provision alone would *increase* the long-range OASDI actuarial deficit by a negligible amount, that is, less than 0.005 percent of taxable payroll, and would have a negligible effect on the annual deficit for the 75th projection year (2097).

<u>Detailed Financial Results for the Provisions of the Proposal</u>

Summary Results by Provision

Table A provides estimates of the effects on the OASDI long-range actuarial balance of the provisions of the proposal separately and on a combined basis. The table also includes estimates of the effect of the provisions on the annual balance (the difference between the income rate and the cost rate, expressed as a percentage of current-law taxable payroll) for the 75th projection

year, 2097. Interaction among individual provisions is reflected only in the total estimates for the combined provisions.

Benefit Illustrations

Tables B1 and B2 provide illustrative examples of the projected change in benefit levels under the provisions of the proposal for beneficiaries retiring and starting benefit receipt at age 65 in future years at six selected earnings levels, with selected numbers of years of work. The "Maximum-AIME Steady Earner" is assumed to have earnings at ages 22 through 64 that equal the current-law taxable maximum level (equivalent to $160,200 for 2023) and the "Twice Maximum-AIME Steady Earner" is assumed to have earnings at ages 22 through 64 that equal twice the current-law taxable maximum level (equivalent to $320,400 for 2023). As a result, the provision to tax and credit earnings above the current-law taxable maximum (sections 201 and 202) has the greatest effect on the "Twice Maximum-AIME Steady Earner" benefit level. This provision has small effects on all hypothetical workers shown, due to the prescribed AWI increases for years after 2024. **Table B3** provides additional important information on characteristics of retired workers represented by these illustrations for the year 2019.

The first several columns of Table B1 compare the initial scheduled benefit levels, assuming retirement at age 65 under the provisions of the proposal, to scheduled current-law benefit levels. For 2027, the COLA provision and the benefit formula provisions affect all workers. Note that the effects of the minimum benefit provision are not visible in the table, because it applies for workers attaining age 65 in years 2028 through 2037. The scheduled benefit amounts under the proposal are higher than under current law by 0.1 percent or less in 2040, 2060, and 2090, for all workers except the twice maximum-current-law-AIME worker. For the twice current-law-AIME worker, there are additional increases shown in years 2040, 2060, and 2090, reflecting the additional earnings subject to payroll tax above the current-law taxable maximum and credited for benefit purposes. The final two columns of this table show the level of scheduled benefits under the proposal as a percentage of current-law scheduled benefits and the level of payable benefits under the proposal as a percentage of current-law payable benefits.

Table B2 provides two comparisons: (1) the percentage change in scheduled benefit levels at ages 65, 75, 85, and 95 under the proposal compared to scheduled benefits under current law; and (2) the percentage change in payable benefit levels at the same four ages under the proposal compared to payable benefits under current law. Each comparison assumes retirement and start of benefit receipt at age 65. Table B2 shows the same increases in benefits as shown in table B1 for age 65, and also shows the accumulating effects of the COLA provision (section 102) at older ages (zero in this case). Payable benefit levels increase under the provisions of the proposal in relation to current-law payable benefit levels.

The hypothetical workers represented in these tables reflect average career-earnings patterns of workers who started receiving retirement benefits under the Social Security program in recent years. The tables subdivide workers with very-low, low, and medium career-average earnings levels by their numbers of years of non-zero earnings.

Table B3 provides information helpful in interpreting the benefit illustrations in Tables B1 and B2. Percentages in Table B3 are based on tabulations from a 10-percent sample of newly-entitled

retired workers in 2019. Table B3 displays the percentages of these newly-entitled retired workers in 2019 that are closest to each of the illustrative examples and are:

1) "Dually Entitled", meaning they received a higher spouse or widow(er) benefit based on the career earnings of their husband or wife,
2) "WEP" (Windfall Elimination Provision), meaning that they received a reduced benefit due to having a pension based on earnings that were not covered under the OASDI program (primarily certain government workers), and they had less than 30 years of substantial earnings that were taxable under the OASDI program,
3) "Foreign Born", meaning that they entered the Social Security coverage area after birth (and generally after entering working ages), and
4) "All Others", meaning they had none of the three characteristics listed above.

The extent to which retired-worker beneficiaries represented by each of the illustrative examples have any of the characteristics listed above (dually entitled, WEP, foreign born) is important because such individuals are less dependent on the OASDI benefit that relates to their own career-average earnings level. It should be noted that the distributions shown in Table B3 for retirees in 2019 will be changing somewhat for beneficiaries becoming entitled as retired-worker beneficiaries in the future.

Payroll Tax Effects

Table T compares the scheduled payroll tax levels under the provisions of the proposal to scheduled current-law payroll tax levels. Under the proposal, the full payroll tax rate of 12.4 percent would apply to annual earnings in excess of $400,000 starting in 2025. As a result, Table T shows that the example worker with earnings at twice the current-law taxable maximum in 2060 and later would have payroll tax liability increased by 100 percent. In addition, there would be effects on earnings (and therefore payroll taxes paid) due to the assumed behavioral response by employees and employers; these effects are not included in this table. Note that Table T does not reflect the effects of the NII tax provision (section 203).

Detailed Tables Containing Annual and Summary Projections

Enclosed with this letter are **tables 1, 1a, 1b, 1b.n, 1c, 1d, and 1d.n,** which provide annual and summary projections for the proposal.

Trust Fund Operations

Table 1 provides projections of the financial operations of the OASDI program under the proposal and shows that the combined OASI and DI Trust Funds would be able to pay scheduled benefits in full and on time for an additional 32 years assuming enactment of the 16 provisions. The year in which the combined reserves of the OASI and DI Trust Funds are projected to become depleted would change from 2034 under current law to 2066 under the proposal. Even after depletion of the trust fund reserves, however, the actuarial status of the program would be improved as continuing income would be sufficient to pay a higher percentage of scheduled benefits than under current law. Under current law, 80 percent of scheduled benefits are projected to be payable at trust fund reserve depletion in 2034, declining to 74 percent payable

by 2097. Under this proposal, 100 percent of the proposed (higher) scheduled benefits would be fully payable through 2065, and 95 percent would be payable at trust fund reserve depletion in 2066, increasing slightly to 98 percent payable by 2097.

The table shows the annual cost and income rates, annual balances, and trust fund ratios (reserves as percentage of annual program cost) for OASDI, as well as the change from current law in these cost rates, income rates, and annual balances. Included at the bottom of this table are summarized rates for the 75-year (long-range) period.

The proposal increases the annual balance (non-interest income minus program cost) for all projection years. For 2025 through 2034, during the period of temporary benefit enhancements, the annual balance is increased by 1.1 percent of current-law payroll for 2025, with generally decreasing improvements to about 1.0 percent for 2034. The improvement in annual balance then increases from 2.7 percent in 2035 to 3.7 percent in 2049, and then increases more gradually to 4.0 percent in 2097.

Under the proposal, the annual deficit (negative annual balance) increases from 1.0 percent of current-law payroll for 2025 to 2.1 percent for 2034, primarily reflecting the effect of the temporary benefit enhancements. The annual deficit declines to 0.5 percent for 2035, and then continues to decline until it turns to a small positive annual balance for 2047-50. The annual balance turns negative again in 2051, after which the annual deficit increases to 1.2 percent for 2077 and then generally declines to 0.3 percent for 2097. Under current law, the projected annual deficit for 2097 is 4.3 percent of payroll.

The actuarial deficit for the OASDI program over the 75-year projection period is reduced by 3.14 percent of taxable payroll, from an actuarial deficit of 3.61 percent of payroll under current law to an actuarial deficit of 0.47 percent of taxable payroll under the proposal.

Program Transfers and Trust Fund Reserves

Column 4 of **Table 1a** provides a projection of the level of reserves for the combined OASI and DI Trust Funds, assuming enactment of the 16 Social Security provisions of the proposal. These trust fund reserve amounts are expressed in present value dollars discounted to January 1, 2023. The table indicates that the provisions include no new specified transfers of general revenue to the combined OASI and DI Trust Funds. For purpose of comparison, the OASI and DI Trust Fund reserves, expressed in present value dollars, are also shown for the current-law Social Security program both without and with the added proposal general fund transfers (zero in this case) in columns 6 and 7.

Note that negative values in columns 6 and 7 represent the “unfunded obligation” for the program through the year. The unfunded obligation is the present value of the shortfall of revenue needed to pay full scheduled benefits on a timely basis from the date of trust fund reserve depletion through the end of the indicated year. Gross Domestic Product (GDP), expressed in present value dollars, is shown in column 5 for comparison with other values in the table.

Effect of the Social Security Provisions on the Federal Budget

Table 1b shows the projected effect, in present value discounted dollars, on the federal budget (unified-budget and on-budget) annual cash flows and balances, assuming enactment of the 16 Social Security provisions of the proposal. Our analysis provided in these tables reflects only the direct effects of these provisions on the OASI and DI Trust Funds and does not reflect the effects of these provisions on the General Fund of the Treasury under the on-budget operations of the federal government. Table **1b.n** provides the estimated nominal dollar effect of enactment of the proposal on annual budget balances for years 2023 through 2032. All values in these tables represent the amount of *change* from the level projected under current law. In addition, changes reflect the *budget scoring convention* that presumes benefits, not payable under the law after depletion of trust fund reserves, would still be paid using revenue provided from the General Fund of the Treasury. The reader should be cautioned that this presumption of payment of benefits beyond the resources of the trust funds is prohibited under current law and is also inconsistent with all past experience under the Social Security program.

Column 1 of Table 1b shows the added proposal general fund transfers (zero for this proposal). Column 2 shows the net changes in OASDI cash flow from all provisions of the proposal.

We project the net effect of the proposal on unified budget cash flow (column 3) to be positive in years 2025 through 2034 because the cost of the temporary benefit enhancements does not exceed added revenue; we project even larger positive net effects in years 2035 and later after the temporary benefit enhancements have expired, due to the continuing revenue from the payroll tax newly applied to earnings above $400,000 in sections 201 and 202 and the NII tax newly applied to earnings above $400,000 in section 203.

Column 4 of Table 1b indicates that the effect of implementing the proposal would be a reduction of the theoretical federal debt held by the public, reaching about $20.5 trillion in present value at the end of the 75-year projection period. Column 5 provides the projected effect of the proposal on the annual unified budget balances, including both the cash flow effect in column 3 and the additional interest on the accumulated debt in column 4. Columns 6 and 7 indicate that the provisions of this proposal would have no expected direct effects on the on-budget cash flow, or on the total federal debt, in the future, because estimates provided here include only direct effects of the provisions on the OASI and DI Trust Funds.

It is important to note that we base these estimates on the intermediate assumptions of the 2023 Trustees Report, so these estimates are not consistent with estimates made by the Office of Management and Budget or the Congressional Budget Office based on their assumptions. In particular, all present values are discounted using trust fund yield assumptions under the intermediate assumptions of the 2023 Trustees Report.

Annual Trust Fund Operations as a Percent of GDP

Table 1c provides annual cost, annual expenditures (amount that would be payable), and annual tax income for the OASDI program expressed as a percentage of GDP for both current law and assuming enactment of the 16 Social Security provisions of the proposal. Showing the annual trust fund cash flows as a percentage of GDP provides an additional perspective on these trust

fund operations in relation to the total value of goods and services produced in the United States. The relationship between income and cost is similar when expressed as a percentage of GDP to that when expressed as a percentage of taxable payroll (Table 1).

Effects on Trust Fund Reserves and Unfunded Obligations

Table 1d provides estimates of the changes in trust fund reserves and unfunded obligations on an annual basis, expressed in present value dollars discounted to January 1, 2023. **Table 1d.n** provides the same estimates, expressed in nominal dollars, for years 2023 through 2032.

For the 75-year (long-range) period as a whole, the current-law unfunded obligation of $22.4 trillion would be reduced to $1.9 trillion in present value at the end of 2097, assuming enactment of the proposal. This change of $20.5 trillion results from:

- A $22.2 trillion net increase in revenue (column 2), primarily from additional payroll tax revenue due to the payroll tax being newly applied to earnings above $400,000 and from the NII tax being newly applied to earnings above $400,000, *minus*
- A $1.7 trillion net increase in cost (column 3), primarily from the 13 benefit enhancement provisions in Sections 101 through 113, and also from the additional benefits from earnings taxed above the current-law taxable maximum and the specified AWI increases in Sections 201 and 202.

We hope these estimates are helpful. Please let me know if we may provide further assistance.

Sincerely,

Stephen C. Goss, ASA, MAAA
Chief Actuary

Enclosures