SOCIAL SECURITY
Office of the Chief Actuary

August 24, 2020

The Honorable Chris Van Hollen
United States Senate
Washington, DC 20510

The Honorable Bernard Sanders
United States Senate
Washington, DC 20510

The Honorable Ron Wyden
United States Senate
Washington, DC 20510

The Honorable Charles E. Schumer
United States Senate
Washington, DC 20510

Dear Senators Van Hollen, Sanders, Wyden, and Schumer:

This letter is in response to your August 19, 2020 letter (available at https://www.vanhollen.senate.gov/download/van-hollen-letter-to-ssa-actuary-on-payroll-tax) requesting analysis of the implications of hypothetical legislation that would change the tax rate paid by employers, employees, and self-employed individuals to zero percent for the Federal Insurance Contributions Act (FICA) payroll taxes and Self-Employment Contributions Act (SECA) taxes that fund Social Security's Old Age and Survivors Insurance (OASI) Trust Fund and Disability Insurance (DI) Trust Fund. This hypothetical legislation would apply for all earnings paid on January 1, 2021 and thereafter.

When we in the Office of the Chief Actuary receive a request from one entity for an estimate regarding a proposal made by another entity, our policy is to ask the entity who made the proposal if they would like us to prepare an estimate for them directly. I am not aware that anyone has proposed the hypothetical legislation you describe. Therefore, I am answering your questions here based on the specifications you have provided.

If the hypothetical legislation specified that the OASI and DI Trust Funds would be held harmless from the reduction in the tax rate paid by employees, employers, and self-employed individuals (as was the case for the temporary payroll tax rate reductions of 2010, 2011, and 2012, where automatic transfers were specified from the General Fund of the Treasury to the trust funds in the amounts that would have been made in the absence of the tax rate reductions), then OASI and DI Trust Fund income, benefits paid, and the projected depletion date of the trust fund reserves would be essentially unaffected by the legislation.

Given your specification that there would be no other changes to current law, we assume that the reduction in payroll taxes paid by employees, employers, and self-employed individuals under this hypothetical legislation would also reduce the transfers of payroll tax revenue from the General Fund of the Treasury to the OASI and DI Trust Funds. With the elimination of payroll tax liability on earnings paid on January 1, 2021 and thereafter, the remaining sources of income to the trust funds would be limited to interest on the trust fund asset reserves and revenue derived from income taxation of monthly Social Security benefits. These two sources of income account for $118.8 billion, or just 10.3 percent, of the total $1,149.8 billion in income projected to be received by the trust funds under current law for calendar year 2021. However, the total OASDI income for 2021 under this hypothetical legislation would be less than 10.3 percent of the amount projected in the 2020 Trustees Report. Following the normal process for "truing up" payroll tax income, revenue adjustments made in 2021 will be based on the reestimation of payroll tax liability for 2020. Due to the COVID-induced recession, the reestimated liability for 2020 will be smaller than was previously estimated, and thus will require a significant transfer from the trust funds to the General Fund of the Treasury. As a result, the reduction in income to the OASI and DI Trust Funds in 2021 under this legislation would be in excess of the $1,031.0 billion net payroll tax income that was estimated for 2021 in the 2020 Trustees Report, and would thus exceed 90 percent of the total trust fund income estimated for 2021 under current law in the 2020 Trustees Report. For years after 2021, reductions in total trust fund income under the hypothetical legislation would increase as a share of the amounts estimated under current law, because interest on trust fund asset reserves would diminish as asset reserves move toward depletion

While benefits scheduled in the law for OASI and DI are obligations, such obligations can only be met to the extent that asset reserves are available in the OASI and DI Trust Funds. The law does not provide authority for the trust funds to borrow in order to pay benefits beyond the limited authority for "advance tax transfers." This limited authority allows all payroll tax income expected for a month to be advanced to the beginning of that month if needed to meet benefit obligations on a timely basis. Thus, under this hypothetical legislation, benefit obligations could not be met after the depletion of the asset reserves and elimination of payroll taxes.

If this hypothetical legislation were enacted, with no alternative source of revenue to replace the elimination of payroll taxes on earned income paid on January 1, 2021 and thereafter, we estimate that DI Trust Fund asset reserves would become permanently depleted in about the middle of calendar year 2021, with no ability to pay DI benefits thereafter. We estimate that OASI Trust Fund reserves would become permanently depleted by the middle of calendar year 2023, with no ability to pay OASI benefits thereafter.

Sincerely,

Stephen C. Goss

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Chief Actuary