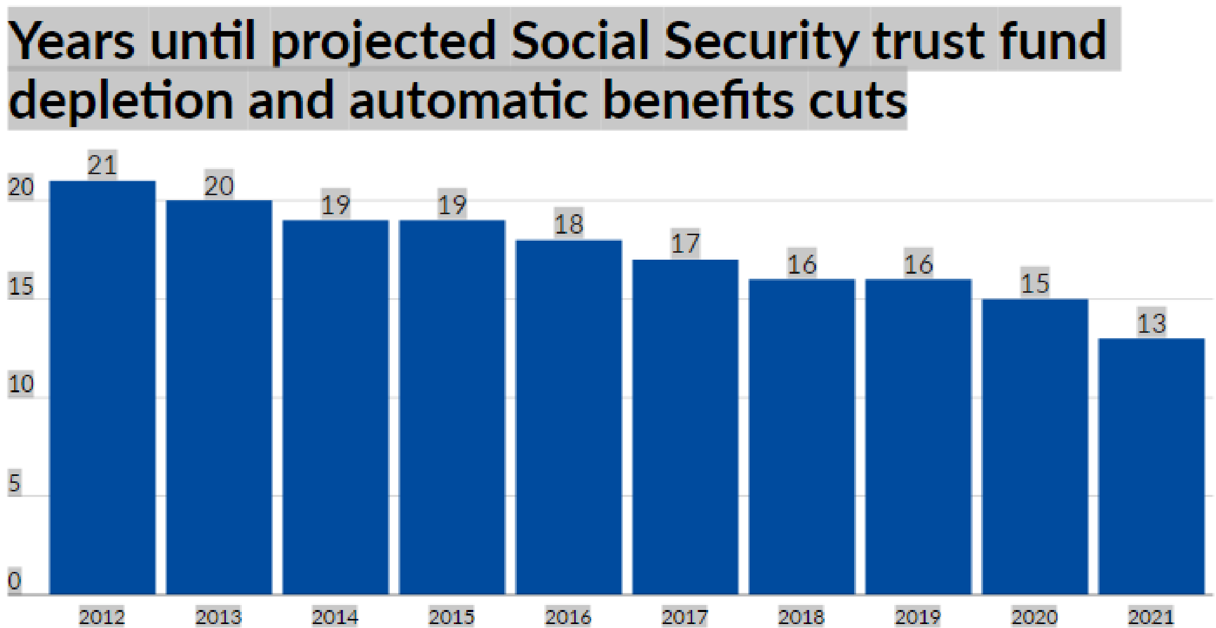
POLITICS AND POLICY

Hopes for Social Security reform likely dead under Biden tax pledge

By Tobias Salinger May 10, 2022, 7:43 p.m. EDT5 Min Read



Source: Center for Retirement Research at Boston College, September 2021

A nonpartisan budget watchdog whose support for House Democrats' previous Social Security reform proposal raised hopes for bipartisan consensus is panning the new version of the bill.

Rep. John Larson of Connecticut introduced "Social Security 2100: A Sacred Trust" after making changes to the prior package of higher taxes, expanded benefits and a fix to the long-term solvency of the program that "would close half the solvency gap on paper and would actually worsen solvency once gimmicks are removed," according to a May 4 report from the Committee for a Responsible Federal Budget. Without its advocacy, the bill is unlikely to win enough votes from centrist Senate Democrats — let alone any Republicans — to pass Congress.

For its part, the party in a slim minority in both houses with high hopes to win back majorities in each in this fall's midterm elections hasn't introduced any comprehensive proposals to assure the solvency of the program since 2016, according to experts. Previous iterations of Larson's bill addressed the shortfall through gradually raising the respective payroll tax rates on workers and employers by about a percentage point each over 25 years. The new version aligns with President Biden's pledge not to raise taxes on anyone making less than $400,000 a year; it also would reduce the solvency of Social Security from about 75 years to just four — or negative one if the temporary higher benefits are made permanent, according to the Committee's calculation

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Earlier versions of the Social Security 2100 Act represented “a very serious and honest approach to Social Security, and for a while it was the only one out there,” Marc Goldwein, the Committee’s senior policy director, said in an interview. While no one at the organization viewed the legislation as perfect, Goldwein had “been out there very strongly for the last few years” in favor of it, and the Committee had invited Larson to speak at “a bunch” of its events, he said.

“He had almost all House Democrats on board with a plan that had everyone contribute a little bit more in order to make it solvent,” Goldwein said. “He's just trying to have his cake and eat it, too.”

Representatives for Larson’s office didn’t respond to a phone call and email seeking comment on the Committee’s report. In an appearance last year on the *Financial Planning* Podcast, Larson described the higher payroll tax rates as “an insurance premium” since they’re technically payments under the Federal Insurance Contributions Act (FICA).

“That would be ‘federal insurance contribution.’ Whose? Yours,” Larson told FP at the time. “And the public knows that, because they look at their pay stub. Now, of course it is on a pay stub and other taxes come out of there. So it's easily called a FICA tax. But when you look at what the benefit is and what is derived, then it's why 70% of Americans — Democrat, Republican and independents — all say they do not mind paying additional insurance contributions through FICA to get the benefit that they know is guaranteed, the one that didn't miss a payment.”

By last fall upon the introduction of the new bill, though, Larson had altered the proposal to require only the top 0.4% of wage earners to pay higher rates. The change makes the legislation much less effective in ensuring the long-term solvency of the program and avoiding the scheduled automatic cuts to benefits in 2034. In its current form, Larson’s bill raises benefits for short periods of time without raising enough tax revenue for the long term.

“On paper, ‘A Sacred Trust’ would close half of the solvency gap, while [the 2019 version] closed the full solvency gap,” the Committee’s report states. “Assuming the five-year benefit expansions are made permanent, as clearly intended, we estimate they would consume more than all of the revenue increases. In fact, a permanent version of A Sacred Trust would actually worsen solvency. Accounting for interactions with the income tax, it would also increase the national debt.”

U.S. Rep. John Larson, a Democrat from Connecticut, spoke at the introduction last year of the bill called "Social Security 2100: A Sacred Trust." The legislation has attracted more than 200 co-sponsors among House Democrats.

Rep. John Larson's office

The White House Press Office didn't respond to an email seeking comment. While the promise to protect anyone making less than $400,000 a year from higher taxes has created similar complications in other policy areas, Biden said during the 2020 campaign that he would put the program on a path to solvency.

These potential snags on his plan to fix Social Security's solvency occurred two years ago to R. Douglas Arnold, an emeritus professor of politics and public affairs at Princeton University and author of a new book titled "Fixing Social Security: The Politics of Reform in a Polarized Age." At the time, he calculated that Biden's plan would cover only 26% of the shortfall. Republicans have largely sat out the effort by failing to issue any proposals that would assure the solvency of the program since President Trump took office, Arnold said. Larson's new bill faces slim hopes.

"Larson 2021 is not only not a solvency plan, it's a messaging bill. A messaging bill is just telling people what you think would be good," Arnold said. "Is there anything lower than absolute zero? No, it's absolute zero. When a political scientist calls something a messaging bill, it's got no chance at all."

On the other side of the aisle, Republican bills from 2016 that would have enabled Social Security to reach solvency by cutting benefits failed to garner any widespread support even from fellow Republicans, Arnold noted. The GOP lawmakers have "painted themselves into a corner" by refusing to raise any taxes while not being willing to "stand up and say, 'Yeah we can make it solvent, but we're going to cut your benefits," he said.

"Citizens have to pressure legislators to be realistic," Arnold said. "It is surprising to me that no one seems to insist that Republicans have to come up with any sort of a plan."

The nonpartisan Senior Citizens League has joined many organizations such as the NAACP and the National Committee to Preserve Social Security and Medicare in supporting Larson's new bill, according to Mary Johnson, the organization’s Social Security and Medicare policy analyst. More than 200 House Democrats are co-sponsors of the bill as well.

The seniors group views Larson’s bill as “an example of the types of changes we would like to see,” even though many details haven’t been worked out, Johnson said. At least 68% of its members said they support raising tax revenues to fix the program without cutting benefits, according to a recent survey of its members.

“Our surveys show that the very large majority of Social Security recipients want to see those payroll taxes applied to all earnings, not just $400,000 and up,” she said. Congress has “a conflict of interest” with respect to payroll taxes, Johnson added.

“They would have to vote to increase their own payroll taxes. There's going to be a perception from the public that what's good for the goose is good for the gander,” she said. “I’m sure just phasing in boosts would also be OK with people if that's the way to get it passed. Passage is what you're going for. We're still not any further along with resolving solvency issues and they're just getting worse.”

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