H.R. 5306 "Social Security 2100 Act"

Introduced July 31, 2014 by **Rep. John Larson** (D-CT)

Provisions and their individual impact on the Trust Fund:

- Invest up to 25% of the Trust Fund reserves in equities, fully effective in 2025. Equities investments are phased in beginning in 2016. It is assumed that equity investment will be made in broad, diversified equity index funds – Common Stock Investment Funds (CSIF), for the OASDI and DI Trust Funds, separately.
  - Reduces long-range OASDI actuarial deficit by 0.38% of taxable payroll. The change in the annual deficit for the 75th projection year (2087) is negligible (between -0.005 and 0.005% of payroll).

- Increase the combined OASDI payroll tax rate to 14.4%, fully effective in 2037. The combined rate is increased by 0.1 percentage point each year starting in 2018. The payroll tax rate is reallocated between the DI Program and the OASI Program with the intent to roughly equalize the actuarial status of the two Trust Funds.
  - Reduces the long-range OASDI actuarial deficit by 1.45% of taxable payroll and will reduce the annual deficit for the 75th projection year (2087) by 1.99% of payroll. The reallocation in this provision extends the solvency of the DI program well beyond the projected date of reserve depletion (2016); however, further technical adjustments to this specified reallocation would be required to fully equalize the actuarial status of the funds. These technical adjustments would have no material effect on the projections provided here.
- Apply the combined payroll tax rate on earnings above $400,000 fully effective in 2015. Tax all earnings once the current-law tax max exceeds $400,000. Credit the additional earnings that are taxed for benefit purposes by: a) calculating a second AIME (AIME+) reflecting only additional earnings taxed above the current tax max; b) applying a 2% 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.
  - Reduces the long-range OASDI actuarial deficit by 1.83% of taxable payroll and reduces the annual deficit in 2087 by 2.35% of payroll.
- Increase the threshold for taxation of benefits to the OASDI Trust Funds, to $50,000 for single filers and $100,000 for joint filers, fully effective in 2015. These revised thresholds would be fixed and not indexed to inflation or wages. The HI Trust Fund would continue to be held harmless.
  - Increases the long-range OASDI actuarial deficit by 0.12% of taxable payroll and will increase the annual deficit for 2087 by 0.01% of payroll.
- Use CPI-E to calculate COLA effective December 2015. The projected increase in COLA is 0.2% per year.
  - Increases long-range OASDI actuarial deficit by 0.37% of taxable payroll and increases annual deficit for 2087 by 0.53% of payroll.
- Increase the first PIA formula factor from 90% to 93% for all eligible beneficiaries as of January 2015, and for those newly eligible for benefits after January 2015.
  - Increases long-range OASDI actuarial deficit by 0.24% of taxable payroll and increases annual deficit in 2087 by 0.27% of payroll.
- Increase the special minimum PIA, beginning for workers who become newly eligible for retirement or disability benefits or die beginning in 2015. For beneficiaries newly eligible in 2015, the minimum initial PIA for workers with 30 or more YOCs is 125% of the annual poverty guideline for a single individual published by DHHS for 2014, divided by 12. For beneficiaries newly eligible after 2015, the minimum initial PIA increases by the growth in the SSA AWI.
  - Increases long-range OASDI actuarial deficit by 0.21% of taxable payroll and increases annual deficit in 2087 by 0.32% of payroll.

- Overall Fiscal Impact: The entire proposal is projected to result in the OASDI program to be fully solvent throughout the 75-year projection period. The level of reserves is projected to be 147% at the end of the 75-year projection period in 2087. Enactment would eliminate the entire long-range OASDI actuarial deficit of 2.72% of taxable payroll under current law, replacing the OASDI actuarial deficit with a surplus of 0.05% of payroll for the long-range period. The ratio of trust fund reserves to annual program costs is projected to be declining by about 3 percentage points per year at the end of the long-range period; therefore, some additional provisions would be needed to attain sustainable solvency, which requires a stable or rising trust fund ratio at the end of the projection period; therefore, additional provisions would be needed to attain sustainable solvency requiring a stable or rising trust fund ratio at the end of the projection period.

- **NOTE:** The proposal includes investing in equities. Therefore, for main expected-yield assumptions, it is assumed that the future real annual return on equities of corporations based in the U.S. will average about 6.4% over long periods implying an average annual "equity premium" of 3.5% over the yield on long-term Treasury securities (ultimately 2.9%). Projections presented here

assume that the managing trustee of the Trust Funds (the Secretary of the Treasury) would be required to invest the maximum allowable percentage of reserves in equities each year in the future; however, if reserve accumulation substantially exceeds the level projected under these assumptions, then the managing trustee would be prescribed to invest a smaller portion of reserves in equities.