September 13, 2019

Honorable Kevin Brady
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Re: Analysis of Effects on Social Security of H.R. 860, the Social Security 2100 Act

Dear Mr. Ranking Member:

In response to your request, the Congressional Budget Office and the staff of the Joint Committee on Taxation (JCT) have analyzed the budgetary, financial, and long-term distributional effects of enacting H.R. 860, the Social Security 2100 Act, as introduced on January 30, 2019. The bill would increase benefits and raise Social Security payroll taxes.

As shown in Table 1, CBO and JCT estimate that over the current baseline projection period (2020 to 2029), enactment of H.R. 860 would:

- Increase Social Security outlays by $386 billion;

- Increase federal revenues by $911 billion, the net effect of a decrease in on-budget revenues of $719 billion and an increase in off-budget revenues of $1.629 trillion; and

- Reduce the federal deficit by $525 billion (excluding any effects on direct spending for programs other than Social Security).

To help the House and Senate Budget Committees determine whether certain budgetary points of order apply to legislation, CBO typically provides information in cost estimates about whether a bill would increase on-budget deficits by more than $5 billion in any of the four decades after the baseline projection period.[1] Although H.R. 860 would reduce the overall federal deficit over that period, CBO estimates that enacting the bill would increase on-budget deficits by hundreds of billions of dollars in each decade. Those increased deficits would occur because a portion of income taxes paid on Social Security

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1. The revenues and outlays of the Social Security trust funds and the net cash flow of the Postal Service are classified as off-budget.

benefits would no longer be allocated to the Medicare Hospital Insurance (HI) trust fund (which is on-budget) and because of the reductions in income tax revenues that would result from the increase in payroll taxes.

CBO also has completed a more extensive analysis of the bill's long-term effects on the Social Security system, described below.

In the long term, H.R. 860 would increase Social Security revenues more than it would increase benefits, nearly closing the funding shortfall that is currently projected. Under the bill, the 75-year summarized value of revenues would increase by 1.7 percent of gross domestic product (GDP), and the 75-year summarized value of outlays would increase by 0.3 percent of GDP, CBO estimates.[2] The net effect of those changes would be to reduce the Social Security system's 75-year actuarial deficit from 1.5 percent of GDP under current law to 0.1 percent under the bill (see Table 2).

At the end of the 75-year period in 2093, CBO projects, under H.R. 860, spending would increase by 0.4 percent of GDP and revenues would increase by 2.2 percent of GDP, compared with the amounts projected under current law. This would significantly reduce but not eliminate the annual gap between Social Security's costs and its revenues. Under H.R. 860, that annual gap would be widening by the end of the 75-year period and would continue to widen thereafter, causing the program's financial shortfall to increase in subsequent years.

Under H.R. 860, the newly established Social Security Trust Fund would be exhausted in calendar year 2041. Under current law, CBO projects, the existing Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds will be exhausted in calendar year 2032 and fiscal year 2028, respectively. If their balances were combined, the OASDI trust funds would be exhausted in calendar year 2032. (Following common analytical conventions, CBO often considers the two trust funds as combined.)

The estimated effects of H.R. 860 are subject to significant uncertainty, particularly over the longer term, and the effect of the legislation on the trust funds could be larger or smaller than described here.

Summary of the Bill

Beginning in January 2020, H.R. 860 would increase Social Security benefits for most recipients, change the measure used to determine cost-of-living adjustments (COLAs), increase the minimum benefit for some new recipients with low lifetime earnings, and

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2. The 75-year summarized value of revenues is the present value of tax revenues for the period, plus the trust fund's initial balance, divided by the present value of gross domestic product over the same period. The 75-year summarized value of outlays is the present value of outlays for the period, plus the present value of a year's worth of benefits at the end of the period, divided by the present value of gross domestic product over the same period. A present value is a single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) at a specific time.

include earnings above $400,000 in the benefit formula. The bill also would increase revenues by gradually raising the payroll tax rate and subjecting earnings above $400,000 to the payroll tax. In addition, it would reduce the individual income tax liability on Social Security benefits. Furthermore, H.R. 860 would establish a new Social Security Trust Fund to replace the existing OASI and DI trust funds.

Scope of the Analysis

For this estimate, CBO and JCT assume that H.R. 860 will be enacted in the fall of calendar year 2019. CBO's estimate of changes in direct spending includes only the bill's effects on Social Security; it excludes the effects of applying the new COLA to Supplemental Security Income benefits. Other federal benefits also could be affected indirectly by enactment of H.R. 860. For example, benefits under the Supplemental Nutrition Assistance Program (SNAP) are calculated on the basis of household income, so households with higher Social Security benefits under the bill might have SNAP benefits reduced as a result. CBO did not consider those effects for this analysis. (Typically, CBO would account for such effects in a formal cost estimate transmitted when a bill is ordered reported by a Congressional committee.)

The long-term analysis in this letter focuses on Social Security's finances rather than on total federal revenues and outlays. Similarly, for this analysis, CBO and JCT did not project the overall economic effects of the bill's provisions or the consequences of any economic effects for the federal budget. For example, this analysis does not consider the labor supply effects of the additional payroll tax on earnings above $400,000 or the effects on investment of any change in federal deficits.

Provisions That Affect Direct Spending

Four provisions in H.R. 860 would affect direct spending. The provisions would interact and have consequences that differ from the sum of their separate effects.

Increase Benefits Across the Board. Beginning in January 2020, almost all Social Security recipients would receive a benefit increase under the bill. Under current law, the amount paid to a disabled worker or to a retired worker who claims benefits at the full retirement age is called the primary insurance amount (PIA). The PIA is calculated by applying a formula to the worker's average indexed monthly earnings (AIME)—a measure of average taxable earnings over a worker's lifetime.

In the PIA computation, the AIME is separated into three brackets by using a pair of dollar threshold amounts, called bend points. In calendar year 2019, the first bend point is $926, the second is $5,583. The average indexed earnings in each bracket are multiplied by three corresponding factors—90 percent, 32 percent, and 15 percent—to determine the

PIA.[3] (Bend points rise annually with average wages; the three factors remain constant.) Because the PIA factors are smaller for higher earnings brackets, an increase in average indexed earnings translates to a smaller increase in benefits.

Under H.R. 860, the first factor would rise from 90 percent to 93 percent, increasing the benefits associated with the average indexed earnings below the first bend point.[4] CBO estimates that this provision would increase benefits, on average, by about 2 percent. Benefits would increase for nearly everyone, but the percentage increases would be largest for beneficiaries with lower lifetime earnings and smallest for beneficiaries with higher lifetime earnings. Spending on benefits would increase by $219 billion over the 2020-2029 period and by 0.1 percent of GDP in 2093.

Recalculate Cost-of-Living Adjustments. H.R. 860 also would change COLA calculations for all Social Security beneficiaries. Benefits under current law are adjusted annually on the basis of the consumer price index for urban wage earners and clerical workers (CPI-W), a measure of overall inflation calculated by the Bureau of Labor Statistics. Under H.R 860, beginning with the adjustment made in December 2019, COLAs would rise with the CPI for elderly consumers (CPI-E)—an index of consumption among people age 62 or older. On the basis of its analysis of historical trends, CBO expects that annually, on average, the CPI-E will increase 0.2 percentage points faster than the CPI-W.[5]

Although the COLA provision would not alter benefits for people when they become eligible, either now or in the future, their benefits would increase faster in subsequent years. The effect ultimately would be especially large for the longest-lived beneficiaries and for disabled beneficiaries who became eligible before age 62 and whose benefits would be adjusted for a longer time. Under this provision, for example, after 20 years of receiving benefits, a beneficiary would receive about 4 percent more per month than under current law.

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3. For a more detailed explanation of Social Security's benefit formula, see Congressional Budget Office, *Social Security Policy Options, 2015* (December 2015), www.cbo.gov/publication/51011, pp. 13-16.

4. This provision would not change the calculation of Social Security benefits under the Windfall Elimination Provision; those benefits are calculated using a different formula.

5. H.R. 860 directs the Bureau of Labor Statistics to publish a consumer price index for elderly consumers. CBO based its analysis on the historical differences between the current CPI-E—an experimental price index for people age 62 or older—and the CPI-W. The CPI-E places more emphasis on prices for housing and medical care and less on prices in other categories, such as transportation and food and beverages, than the CPI-W does. The difference in growth rates between the two indexes has varied substantially from year to year because of differences in price changes in various expenditure categories. Therefore, the realized effect on COLAs from this provision could differ substantially from the estimated effect. For more information, see Bureau of Labor Statistics, "Consumer Price Index for the Elderly," *TED: The Economics Daily* (March 2, 2012), https://go.usa.gov/xVXUT.

Under H.R. 860, the annual cost of the COLA provision would increase over time as the effects of the change compounded. CBO estimates that this provision would increase spending by $134 billion over the 2020-2029 period and by 0.2 percent of GDP in 2093.

Increase the Minimum Benefit. H.R. 860 would set a new minimum benefit to take effect in January 2020 for newly eligible beneficiaries who would receive either the new minimum benefit or their traditional benefit, whichever was greater. Those beneficiaries who had worked for 30 years or more would be entitled to an annual minimum of $15,612.50—125 percent of the 2019 federal poverty guideline amount for a single person. People who worked more than 10 but fewer than 30 years would be entitled to a smaller amount. (Specifically, the minimum benefit would be 6.25 percent of the poverty guideline for each year of earnings, beyond 10 years, above a threshold, up to a maximum of 125 percent. In 2019, the earnings threshold would be $5,440; the threshold would rise annually with the average wage index.)

The amount of the new minimum benefit would increase each year after 2020 to keep pace with average wages. It would therefore generally rise faster than the poverty guideline, which is indexed to inflation.

If this provision was enacted on its own, CBO estimates, approximately 12 percent of new beneficiaries in 2020 would be entitled to the new minimum benefit. As more people come into the program, the costs would increase. In total, CBO estimates, this provision would increase spending by $42 billion over the 2020-2029 period and by 0.1 percent of GDP in 2093.

Include Earnings Above $400,000 in the Benefit Formula. Under H.R. 860, beginning in calendar year 2020, in addition to applying to currently taxed earnings, the Social Security payroll tax would apply to earnings over $400,000. The additional earnings would be credited toward benefits separately from earnings below the current-law taxable maximum (in 2019, $132,900, also called the Social Security wage base) and would be included in a second calculation of average indexed monthly earnings. A 2 percent factor would be applied to that second calculated amount, and the result would be added to the PIA, thereby increasing benefits for anyone who contributed payroll taxes on earnings above $400,000.

CBO estimates that including earnings above $400,000 in the benefit formula would increase spending by $4 billion over the 2020-2029 period and by less than 0.05 percent of GDP in the long term. The higher benefits would go entirely to workers with earnings above $400,000 in at least one year.

Interactions Among Benefit Provisions. H.R. 860 would change several aspects of the Social Security program simultaneously, and the combined effects would differ from the sum of the effects individually, relative to CBO's current-law baseline projections.

In total, CBO estimates, those interactions would reduce the costs of H.R. 860 by $13 billion over the 2020-2029 period. Specifically, the new minimum benefit would be less costly, given the across-the-board increase, because for some beneficiaries, the new PIA formula would result in benefits that are closer to or above the new minimum benefit. CBO estimates that 9 percent of new beneficiaries would receive the new minimum benefit in 2020 if the two provisions were enacted simultaneously (compared with 12 percent of new beneficiaries if the minimum benefit provision was implemented alone). CBO estimates that, compared with current law, implementing those two provisions together would reduce costs by $15 billion, relative to the sum of their effects separately. Higher COLAs, by contrast, would be more costly when applied to the larger initial benefits calculated under the bill's other three provisions than if they were applied to initial benefit amounts under current law. CBO estimates that higher COLAs would increase the cost of the other provisions by $2 billion over the 2020-2029 period.

Provisions That Affect Revenues

Three provisions in H.R. 860 would affect revenues. The Congressional Budget Act of 1974 stipulates that revenue estimates provided by JCT are the official estimates for all tax legislation considered by the Congress. CBO therefore incorporates JCT's estimates into its cost estimates. The analysis described in this letter incorporates revenue estimates provided by JCT for the 2020-2029 period. The long-term effects of the legislation were estimated by CBO in consultation with JCT.

Apply the Payroll Tax to Earnings Above $400,000. Under current law, wages and net income from self-employment up to a maximum amount are subject to the Social Security payroll tax. In calendar year 2019, that taxable maximum is $132,900, and it will increase in subsequent years with the average wage index. Under H.R. 860, beginning in calendar year 2020, annual earnings in excess of $400,000 would be subject to the payroll tax. The taxable maximum would continue to keep pace with average wages, but the $400,000 threshold would not change, so the gap between the two would narrow over time.

In CBO's projections, the current-law taxable maximum exceeds $400,000 in calendar year 2052; after that, under H.R. 860, all earnings from work covered by Social Security would be subject to the payroll tax. Currently, less than 1 percent of people in work covered by Social Security earn more than $400,000, but the amount of earnings above that threshold accounts for about 8 percent of the total amount of earnings from work covered by Social Security. In 2052, about 7 percent of people in work covered by Social Security will earn more than $400,000, CBO projects, and the amounts over $400,000 would account for about 22 percent of earnings from work covered by Social Security under the bill.

JCT estimates that this provision of H.R. 860 would increase federal revenues by $868 billion over the 2020-2029 period. CBO estimates that it would increase Social Security revenues by 1.0 percent of GDP in 2093.

Increase the Payroll Tax. Under current law, earnings up to the Social Security taxable maximum are taxed at a rate of 12.4 percent. (Workers and their employers each pay half; self-employed people pay the entire amount.) Under H.R. 860, starting in calendar year 2020, the tax rate would increase by 0.1 percentage point annually to reach 13.4 percent in calendar year 2029 and 14.8 percent in calendar year 2041 and then hold at that rate permanently.

JCT estimates that this provision would increase revenues by $474 billion over the 2020-2029 period, assuming enactment of the change that applies payroll taxes to earnings above $400,000. CBO estimates that the provision by itself would increase Social Security revenues by 0.8 percent of GDP in 2093.

By itself, this provision would increase the tax burden of lower-income workers by a larger percentage than that for higher-income workers because, on average, a larger share of the income of lower-income households is from earnings that are below the taxable maximum and thus subject to the payroll tax. However, assuming enactment of the provision that subjects earnings above $400,000 to payroll taxation, CBO estimates that the increase in the tax burden would be largest for the workers at the top of the earnings distribution.

Reduce the Amount of Benefits Subject to the Individual Income Tax. In general, under current law, up to 50 percent of either Social Security or the equivalent in tier I Railroad Retirement benefits is taxable if the sum of a recipient's modified adjusted gross income (typically, adjusted gross income plus certain other excluded items and tax-exempt interest) and half of those retirement benefits exceeds $32,000 for a couple filing jointly or $25,000 for a single taxpayer. As much as 85 percent may be taxable above a threshold of $44,000 for joint filers and $34,000 for single filers.

H.R. 860 would replace that two-tier system with a single set of thresholds: $100,000 for joint filers and $50,000 for most others. The bill also would subject as much as 85 percent of benefits to income taxation. As under current law, those new threshold amounts would not be indexed to inflation. The changes would take effect starting in calendar year 2020.

Under current law, a portion of receipts from income taxation of Social Security benefits is credited to Medicare's HI trust fund. Under H.R. 860, all federal income taxes paid on Social Security benefits would be credited to the new Social Security Trust Fund and none would be credited to the HI trust fund. The government would transfer from its

general fund to the HI trust fund amounts equal to those that trust fund would otherwise have received from income taxes on Social Security benefits.[6]

JCT estimates that lowering the amount of benefits subject to the individual income tax would reduce total revenues by $431 billion over the 2020-2029 period. It would change revenues allocated to the Social Security Trust Fund by a smaller amount, and eventually this provision would increase revenues credited to that trust fund, relative to current law. CBO estimates that this provision would increase revenues to the Social Security trust funds by 0.3 percent of GDP in 2093.

Provision That Would Form a Single Social Security Trust Fund

CBO projects that under current law, the DI trust fund will be exhausted in fiscal year 2028, and the OASI trust fund will be exhausted in calendar year 2032. The combined OASDI trust funds will be exhausted in calendar year 2032.[7]

H.R. 860 would combine the two into a single Social Security Trust Fund, which CBO projects would reach exhaustion in calendar year 2041.[8]

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6. CBO's analysis of the effects of H.R. 860 on the taxation of Social Security benefits differs from that of the Social Security Administration's Office of the Chief Actuary (OCACT) regarding the way transfers to the HI trust fund would be made under the bill. In OCACT's analysis, transfers of a portion of the income taxes paid on Social Security benefits continue to be made to the HI trust fund, and a smaller amount of those revenues are credited to the Social Security Trust Fund. If CBO had taken that approach, it would project exhaustion of the Social Security Trust Fund in 2036 rather than in 2041 and the 75-year actuarial deficit would be 0.3 percent of GDP rather than 0.1 percent of GDP. See Social Security Administration, Office of the Chief Actuary, letter to the Honorable John Larson, the Honorable Richard Blumenthal, and the Honorable Chris Van Hollen concerning estimates of the financial effects on Social Security of the Social Security 2100 Act (January 30, 2019), https://go.usa.gov/xVne9 (PDF, 657 KB).

7. See Congressional Budget Office, *The 2019 Long-Term Budget Outlook* (June 2019), www.cbo.gov/publication/55331.

8. In keeping with the rules in section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985, CBO's baseline incorporates the assumption that scheduled payments will continue to be made in full after a trust fund has been exhausted, even though there is no legal authority to make such payments. Because projected exhaustion of a trust fund does not affect projected spending, the proposal to combine the funds also would have no budgetary effects relative to the baseline.

Effects on Social Security's Long-Term Finances

CBO estimates that implementing the bill would reduce the 75-year actuarial deficit from 1.5 percent to 0.1 percent of GDP (see Table 2).[9] Relative to taxable payroll as calculated under current law, the 75-year actuarial deficit would decline from 4.6 percent to 0.4 percent. (Taxable payroll under the bill would be larger than taxable payroll under current law because the bill would subject earnings above $400,000 to the payroll tax. However, the decline in the 75-year actuarial deficit would be about the same; see Table 3.)

H.R. 860 also would shrink the annual gap in finances (the difference between the program's costs and its revenues) by almost 2 percent of GDP in 2093. However, by the end of the 75-year period, the annual gap would be widening, indicating a growing financial shortfall in subsequent years.

Long-Term Distributional Effects

CBO also analyzed the long-term distributional effects of H.R. 860. The agency analyzed three measures: mean initial benefits, the ratio of mean lifetime benefits to lifetime earnings, and the ratio of mean lifetime payroll taxes to lifetime earnings. For each measure, the results were calculated for different groups, varying by 10-year birth cohort and lifetime household earnings quintile. The results are shown in Table 4 with scheduled benefits (benefits paid as scheduled, regardless of the trust fund's balances) and in Table 5 with payable benefits (benefits limited to amounts that are payable from revenues received by the trust fund after it is exhausted).

Under both current law and H.R. 860, the Social Security trust funds are projected to be depleted. After trust fund exhaustion, trust fund balances would no longer be available to make up the gap between benefits specified in law and annual trust fund receipts. If benefits were limited to amounts that are payable from revenues received by the trust fund after it is exhausted, the bill would boost benefits (relative to current law) by a greater percentage than if benefits were paid as scheduled. That would occur because the increase in payable benefits would be determined by the amount of the increase in trust fund revenues, which would be greater than the increase in scheduled benefits.

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9. The actuarial deficit is the negative of the actuarial balance. The actuarial balance is the present value of tax revenues for the period, plus the trust fund's initial balance, divided by the present value of GDP over the same period minus the present value of outlays for the period, plus the present value of a year's worth of benefits at the end of the period, divided by the present value of GDP over the same period. A present value expresses a flow of past and future income or payments as a single amount received or paid at a specific time. The value depends on the interest rate, known as the discount rate, used to translate past and future cash flows into current dollars at that time. To account for the difference between a trust fund's current balance and the desired balance at the end of the period, the balance at the beginning is added to the projected tax revenues, and an additional year of costs at the end of the period is added to projected outlays.

Because of that increase in trust fund revenues, if payments were limited to the amounts payable from those revenues, the necessary reduction in benefits after the trust funds' exhaustion would be much smaller under H.R. 860 than under current law. Under current law, total benefits would need to be reduced by 24 percent in 2033, the year after the OASDI trust funds' exhaustion, and by larger percentages in subsequent years. Under H.R. 860, larger amounts of revenue would delay trust fund exhaustion until 2041 and require a benefit reduction of 5 percent in 2042. In the years after that, the projected reduction in benefits would be smaller, averaging about 2 percent over the rest of the projection period.

As with scheduled benefits, the increase in payable benefits relative to current law would be the largest for retired workers with low lifetime earnings. For example, mean initial payable benefits for workers born in the 1980s with earnings in the lowest quintile would be 69 percent higher under H.R. 860 than under current law. For workers with earnings in the highest quintile, mean initial payable benefits would be 41 percent higher under the bill than under current law.

Uncertainty

The estimates described in this letter are subject to significant uncertainty. For example, the budgetary effects estimated under H.R. 860 depend in part on the distribution of earnings in the economy, particularly over the long term. If more earnings fall below the Social Security taxable maximum than CBO currently projects, raising the payroll tax rate would result in more revenues than described here. At the same time, if relative earnings for low earners in the economy were higher, the cost of the new minimum benefit would be lower. As another example, the estimated increases in outlays under H.R. 860 depend in part on CBO's projections of life expectancy. If people live longer on average than CBO projects, the increase in outlays from the new COLA computation would be larger than described because that provision's effects would compound over a longer period.

CBO's Analytical Methods

The analysis in this letter is based on CBO's May 2019 baseline projections, which were developed from economic projections published in January 2019.[10] The most recent long-term projections were published in *The 2019 Long-Term Budget Outlook* and are consistent with the agency's May 2019 baseline projections. They form the basis for the long-term analysis in this letter.

All of those long-term projections, and CBO's projections of long-term Social Security spending and revenues, are based on a detailed microsimulation model, which starts with

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10. See Congressional Budget Office, *The Budget and Economic Outlook: 2019 to 2029* (January 2019), www.cbo.gov/publication/54918.

data about individuals from a 1-in-1,000 sample of the population and projects demographic and economic outcomes for that sample through time.[11] For each person in the sample, CBO's model simulates birth, death, immigration and emigration, marital status and changes to it, fertility, labor force participation, hours worked, earnings, and payroll taxes along with Social Security retirement, disability, and dependent benefits. The long-term analysis of the provisions presented in this letter is based on average results from 30 simulations of the model.[12]

I hope this information is helpful to you. If you have any questions, please contact me or Julie Topoleski.

Sincerely,

Phillip L. Swagel
Director

Enclosure

cc: Honorable Richard Neal
        Chairman
        Committee on Ways and Means

Identical letter sent to the Honorable Tom Reed

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11. For a description, see Congressional Budget Office, *The 2019 Long-Term Budget Outlook* (June 2019), Appendix A, www.cbo.gov/publication/55331, and *An Overview of CBOLT: The Congressional Budget Office Long-Term Model* (April 2018), www.cbo.gov/publication/53667.

12. The model's outcomes differ slightly from one simulation to another because of a variation that is mitigated by taking the average of 30 simulations. For details, see Michael Simpson, Principal Analyst, Health, Retirement, and Long-Term Analysis Division, Congressional Budget Office, "Investigating Monte Carlo Variation in a Dynamic Microsimulation Model" (presentation to the Fifth World Congress of the International Microsimulation Association, September 2, 2015), www.cbo.gov/publication/50736.

Table 1.

Estimated Budgetary Effects of H.R. 860, Fiscal Years 2020 to 2029

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2020-2024	2020-2029
	By Fiscal Year, Millions of Dollars											
Increases or Decreases (-) in Direct Spending (Outlays)												
Across-the-Board Benefit Increase	12,700	18,000	19,100	20,300	21,500	22,700	24,000	25,400	26,800	28,300	91,600	218,800
Cost-of-Living Adjustment	1,500	3,700	6,100	8,700	11,400	14,200	17,200	20,500	23,800	27,300	31,400	134,400
Increase Minimum Benefit	100	500	1,000	1,700	2,700	4,000	5,500	7,100	8,800	10,200	6,000	41,600
Include Earnings Above $400,000 in Benefit Formula	10	60	120	190	280	390	520	660	830	970	660	4,030
Interaction Among Outlay Provisions	-30	-120	-270	-470	-770	-1,200	-1,710	-2,260	-2,810	-3,270	-1,660	-12,910
Estimated Changes in Direct Spending (Off-budget)[a]	**14,280**	**22,140**	**26,050**	**30,420**	**35,110**	**40,090**	**45,510**	**51,400**	**57,420**	**63,500**	**128,000**	**385,920**
Increases or Decreases (-) in Revenues												
Apply Payroll Taxes to Earnings Above $400,000	21,600	71,700	77,000	81,900	87,300	93,700	99,400	105,000	111,800	118,900	339,500	868,200
Increase Payroll Tax Rate by 0.1 Percentage Point Annually[b]	7,600	12,800	21,000	29,800	39,300	49,600	60,200	71,500	84,100	97,600	110,500	473,600
Change Taxation of Benefits	-1,700	-34,200	-36,500	-39,000	-41,500	-44,100	-47,300	-59,000	-62,300	-65,600	-152,900	-431,200
Estimated Changes in Revenues	**27,500**	**50,300**	**61,500**	**72,700**	**85,100**	**99,200**	**112,300**	**117,500**	**133,600**	**150,900**	**297,100**	**910,600**
On-budget	-10,300	-50,400	-55,500	-60,900	-66,700	-73,300	-81,300	-98,000	-106,700	-115,600	-243,900	-718,600
Off-budget[a]	37,700	100,800	116,900	133,600	151,800	172,300	193,500	215,500	240,300	266,500	540,100	1,629,200
Net Increase or Decrease (-) in the Deficit From Changes in Direct Spending and Revenues												
Effect on the Deficit	**-13,220**	**-28,160**	**-35,450**	**-42,280**	**-49,990**	**-59,110**	**-66,790**	**-66,100**	**-76,180**	**-87,400**	**-169,100**	**-524,680**
On-budget	10,300	50,400	55,500	60,900	66,700	73,300	81,300	98,000	106,700	115,600	243,900	718,600
Off-budget[a]	-23,420	-78,660	-90,850	-103,180	-116,690	-132,210	-147,990	-164,100	-182,880	-203,000	-412,100	-1,243,280

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Components may not sum to totals because of rounding.

Changes in direct spending are limited to effects on the Social Security program. CBO did not analyze other effects. For example, the change in cost-of-living adjustments would affect spending in the Supplemental Security Income program, and changes to Social Security benefits could indirectly affect other federal benefits people might receive, such as those through the Supplemental Nutrition Assistance Program.

a. The revenues and outlays of the Social Security trust funds and the net cash flow of the Postal Service are classified as off-budget.

b. This estimate measures the effect of the provision from a baseline including the change that applies payroll taxes to earnings over $400,000

Table 2.

Social Security Finances Under Current Law and H.R. 860, in Selected Years, as a Percentage of Gross Domestic Product

	Actual, 2018	Projected			75-Year Summarized Value (2019-2093)[a]
		2029	2049	2093	
Under Current Law					
Tax Revenues	4.5	4.6	4.4	4.3	4.6
Outlays	4.9	6.0	6.2	6.3	6.2
Difference	-0.4	-1.3	-1.8	-2.0	-1.5
Effect of H.R. 860					
Outlays					
Across-the-board benefit increase	n.a.	-0.1	-0.1	-0.1	-0.1
Cost-of-living adjustment	n.a.	-0.1	-0.2	-0.2	-0.2
Increase minimum benefit	n.a.	*	-0.1	-0.1	-0.1
Include earnings above $400,000 in benefit formula	n.a.	*	*	*	*
Total Change in Outlays, Excluding Interactions	**n.a.**	**-0.2**	**-0.4**	**-0.4**	**-0.4**
Revenues					
Apply payroll taxes to earnings above $400,000	n.a.	0.5	1.0	1.0	0.8
Increase payroll tax rate by 0.1 percentage point annually	n.a.	0.3	0.8	0.8	0.6
Change taxation of benefits	n.a.	*	0.1	0.3	0.1
Total Change in Revenues, Excluding Interactions	**n.a.**	**0.8**	**1.9**	**2.0**	**1.6**
Interaction Among All Provisions	n.a.	*	0.2	0.2	0.2
Under H.R. 860					
Tax Revenues	4.5	5.5	6.4	6.5	6.4
Outlays	4.9	6.2	6.6	6.7	6.5
Difference	-0.4	-0.7	-0.1	-0.2	-0.1

Source: Congressional Budget Office.

Components may not sum to totals because of rounding; n.a. = not applicable; * = between -0.05 percent and 0.05 percent.

Annual tax revenues consist of payroll taxes and income taxes on benefits in the specified year. Annual outlays consist of scheduled benefits and administrative costs. Scheduled benefits are benefits as calculated under the Social Security Act, regardless of trust fund balances.

a. The 75-year summarized value of revenues is the present value of tax revenues for the period, plus the trust fund's initial balance, divided by the present value of gross domestic product over the same period. The 75-year summarized value of outlays is the present value of outlays for the period, plus the present value of a year's worth of benefits at the end of the period, divided by the present value of gross domestic product over the same period. A present value is a single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) at a specific time.

Table 3.

Social Security Finances Under Current Law and H.R. 860, in Selected Years, as a Percentage of Taxable Payroll

	Actual, 2018	Projected			75-Year Summarized Value (2019-2093)[a]
		2029	2049	2093	
		Under Current Law			
Tax Revenues	12.6	13.1	13.3	13.7	13.8
Outlays	13.8	16.9	18.6	20.0	18.4
Difference	-1.2	-3.8	-5.3	-6.4	-4.6
		Under H.R. 860, Using Taxable Payroll Under Current Law			
Tax Revenues	12.6	15.6	19.3	20.5	19.0
Outlays	13.8	17.6	19.7	21.3	19.4
Difference	-1.2	-2.1	-0.3	-0.8	-0.4
		Under H.R. 860, Using Taxable Payroll Under H.R. 860[b]			
Tax Revenues	12.6	14.0	15.8	16.6	15.9
Outlays	13.8	15.8	16.1	17.2	16.3
Difference	-1.2	-1.8	-0.3	-0.6	-0.4

Source: Congressional Budget Office.

Annual tax revenues consist of payroll taxes and income taxes on benefits in the specified year. Annual outlays consist of scheduled benefits and administrative costs. (Scheduled benefits are benefits as calculated under the Social Security Act, regardless of trust fund balances.)

a. The 75-year summarized value of revenues is the present value of tax revenues for the period, plus the trust fund's initial balance, divided by the present value of the taxable payroll over the same period. The 75-year summarized value of outlays is the present value of outlays for the period, plus the present value of a year's worth of benefits at the end of the period, divided by the present value of the taxable payroll over the same period. A present value is a single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) at a specific time.

b. Taxable payroll would be larger under H.R. 860 than under current law because the bill would subject earnings above $400,000 to payroll taxes.

Table 4.

Changes to Social Security's Benefits and Payroll Taxes for Different Groups Under H.R. 860, With Scheduled Benefits

Lifetime Household Earnings Quintile[a]	Mean Initial Benefits for Retired Workers by 10-Year Birth Cohort (Thousands of 2019 dollars)			Ratio of Mean Lifetime Benefits to Lifetime Earnings for All Beneficiaries by 10-Year Birth Cohort			Ratio of Mean Lifetime Payroll Taxes to Lifetime Earnings for All Beneficiaries by 10-Year Birth Cohort		
	1960	1980	2000	1960	1980	2000	1960	1980	2000
Under Current Law									
Lowest	10	12	18	0.31	0.33	0.33	0.12	0.12	0.12
Middle	19	22	30	0.17	0.19	0.17	0.12	0.12	0.12
Highest	26	33	44	0.08	0.07	0.07	0.08	0.07	0.07
Under H.R. 860									
Lowest	11	15	21	0.34	0.40	0.39	0.12	0.13	0.14
Middle	20	23	31	0.18	0.20	0.19	0.12	0.13	0.14
Highest	27	34	46	0.08	0.08	0.07	0.10	0.12	0.14
	Percentage Change From Current Law			**Difference Between Ratios**					
Lowest	13	23	20	0.03	0.06	0.06	*	0.01	0.02
Middle	5	4	3	0.01	0.01	0.01	*	0.01	0.02
Highest	3	3	4	0.01	0.01	0.01	0.02	0.04	0.06

Source: Congressional Budget Office.

* = between zero and 0.005.

All benefits are net of income taxes paid on those benefits.

Initial benefits are computed for people who are eligible to claim retirement benefits at age 62 and who have not yet claimed any other Social Security benefits. All workers are assumed to claim benefits at age 65.

Lifetime benefits are measured as the present value of all benefits received. To calculate present value, benefits are adjusted for inflation (to arrive at constant dollars) and discounted to age 65. A present value is a single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) at a specific time.

Scheduled benefits are benefits as calculated under the Social Security Act, regardless of trust fund balances.

a. The lowest, middle, and highest fifths of people within a 10-year birth cohort ranked by lifetime household earnings.

Table 5.

Changes to Social Security's Benefits and Payroll Taxes for Different Groups Under H.R. 860, With Payable Benefits

Lifetime Household Earnings Quintile[a]	Mean Initial Benefits for Retired Workers by 10-Year Birth Cohort (Thousands of 2019 dollars)			Ratio of Mean Lifetime Benefits to Lifetime Earnings for All Beneficiaries by 10-Year Birth Cohort			Ratio of Mean Lifetime Payroll Taxes to Lifetime Earnings for All Beneficiaries by 10-Year Birth Cohort		
	1960	1980	2000	1960	1980	2000	1960	1980	2000
Under Current Law									
Lowest	10	9	12	0.27	0.25	0.24	0.12	0.12	0.12
Middle	18	16	21	0.13	0.14	0.12	0.12	0.12	0.12
Highest	24	24	32	0.06	0.05	0.05	0.08	0.07	0.07
Under H.R. 860									
Lowest	11	15	21	0.34	0.40	0.40	0.12	0.13	0.14
Middle	20	23	31	0.18	0.21	0.19	0.12	0.13	0.14
Highest	27	34	46	0.08	0.08	0.07	0.10	0.12	0.14
Percentage Change From Current Law				**Difference Between Ratios**					
Lowest	19	69	73	0.08	0.15	0.16	*	0.01	0.02
Middle	11	44	48	0.05	0.07	0.07	*	0.01	0.02
Highest	9	41	47	0.02	0.03	0.03	0.02	0.04	0.06

Source: Congressional Budget Office.

* = between zero and 0.005.

All benefits are net of income taxes paid on those benefits.

Initial benefits are computed for people who are eligible to claim retirement benefits at age 62 and who have not yet claimed any other Social Security benefits. All workers are assumed to claim benefits at age 65.

Lifetime benefits are measured as the present value of all benefits received. To calculate present value, benefits are adjusted for inflation (to arrive at constant dollars) and discounted to age 65. A present value is a single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) at a specific time.

Payable benefits are benefits as calculated under the Social Security Act, reduced as necessary to ensure that outlays do not exceed the Social Security system's revenues once the trust fund balance is exhausted.

a. The lowest, middle, and highest fifths of people within a 10-year birth cohort ranked by lifetime household earnings.