

January 25, 1990

SENATOR MOYNIHAN'S SOCIAL SECURITY PROPOSAL

Senator Moynihan has announced that he will introduce legislation on January 23, 1990 to cut the Social Security payroll tax rate. This memo

- a. Outlines current law;
- b. Describes Senator Moynihan's proposal; and
- c. Outlines pros and cons.

A. CURRENT LAW

The 1983 Social Security Amendments set payroll tax rates to accumulate a Social Security Trust Fund surplus. That surplus would then be available to help finance the retirement benefits of the baby boom generation.

SOCIAL SECURITY TAX RATES

	<u>Employee Share</u>	<u>Employer Share</u>	<u>Total</u>
1984 - 1987	5.70%	5.70%	11.40%
1988 - 1989	6.06%	6.06%	12.12%
1990 and after	6.20%	6.20%	12.40%

NOTE: This does not include the 1.45% payroll tax for the Medicare Hospital Insurance (Part A) program.

The tax is paid on annual earnings of up to \$51,300 in 1990. No tax is paid on earnings above that amount. The \$51,300 limit -- the so-called wage base -- is increased each year based on year-to-year growth in the national average wage.

B. SENATOR MOYNIHAN'S PLAN

The plan has two parts:

1. Repeal the 1990 increase.

For 1990, Senator Moynihan would reduce the rate from 6.20% each on employer and employee to the 1989 level of 6.06%.

Estimated 1990 cost: \$7 billion.

2. Beginning in 1991, Shift Social Security to Pay-As-You-Go Financing.

- a. For 1991 - 2014, Senator Moynihan would cut the payroll tax rate dramatically to 5.1%. This would return Social Security to so-called "pay-as-you-go" financing, under which a given year's benefits are paid for by that year's payroll tax receipts. Social Security operated under pay-as-you-go for many years prior to 1983.

Estimated 1991 cost: \$55 billion.

- b. For 2015 - 2045, Senator Moynihan would increase the tax rate significantly in order to pay the baby boom retirement benefits. Senator Moynihan estimates it would jump to 6.0% in the year 2015 and reach 7.6% by 2025.

Basically, Senator Moynihan trades a lower payroll tax rate in the next 25 years (1990 - 2015) for a higher rate in later years (2015 - 2049).

The following shows tax rates under current law and Senator Moynihan's plan:

SOCIAL SECURITY TAX RATE
EMPLOYEE SHARE ONLY (MATCHED BY EMPLOYER)

	<u>Current Law</u> <u>(Build Surplus)</u>	<u>Senator Moynihan*</u> <u>(Pay-As-You-Go)</u>
		(These are preliminary estimates provided by Moynihan's staff.)
1984 - 1987	5.70%	Not applicable
1988 - 1989	6.06%	Not applicable
1990	6.20%	6.06%
1991 - 2011	6.20%	5.10%
2012 - 2014	6.20%	5.60%
2015 - 2019	6.20%	6.20%
2020 - 2024	6.20%	7.00%
2025 - 2044	6.20%	7.70%
2045 and beyond	6.20%	8.10%

Note: These rates do not include the payroll tax of 1.45% for Medicare Hospital Insurance (Part A) Coverage because the proposal affects only the tax rate for the Old Age, Survivors, and Disability (OASDI) program. The proposal would not change the current rate of 1.45% for Medicare Part A. Nor does it change the wage base of \$51,300 in 1990.

Note: Under current law, the rate for years 2045 and beyond is 6.2%. However, according to Social Security actuaries the rate would have to be increased from 6.2% to about 8.1% in the year 2045 because the huge surplus would be exhausted.