

**Statement of
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Before the Committee on Ways and Means
Subcommittee on Social Security
U.S. House of Representatives
Hearing on
Save Our Social Security Now Act
September 24, 2020**

Chairman Larson and Ranking Member Reed:

On behalf of the millions of members and supporters of the National Committee to Preserve Social Security and Medicare, I want to thank you for holding this hearing on “Save Our Social Security Now Act. Mr. Chairman, your bill of the same name (H.R. 8171) would nullify the Internal Revenue Service (IRS) guidance on President Trump’s August 8th executive action to impose a payroll tax deferral.

First, a few words about our organization. National Committee members come from all walks of life and every political persuasion. What unites them is their passion for protecting and strengthening Social Security, SSI, Medicare, Medicaid and Older Americans Act services, not just for themselves, but for their children and grandchildren as well. Our members see Social Security as an inter-generational compact that protects all members of the family. To them, it is a single integrated system of benefits that provides protection from birth to death. It is a system where all of its parts are equally important.

Importance of Today’s Hearing

Social Security is an essential economic lifeline for millions of America’s most vulnerable people, including aged individuals and persons with disabilities, as well as their spouses, dependents and survivors. At the end of 2019, 48.2 million people were receiving retirement and survivor benefits and another 9.9 million disabled workers and their family members were receiving disability benefits.

Social Security benefits are financed mainly through payroll taxes on wages and self-employment income. Employees and employers each make contributions equal to 6.2 percent of wages, up to a wage cap of \$137,700 in 2020 that increases with the growth in the nationwide average wage. In 2019, \$944.5 billion (89 percent) of total Old-Age and Survivors and Disability Insurance (OASDI) income came from payroll taxes. The remainder was provided by interest earnings \$80.8 billion (7.6 percent) and revenue from taxation of OASDI benefits \$36.5 billion (3.4 percent).ⁱ The payroll tax

rates are set by law, and for OASI and DI, apply to earnings up to a certain amount. This amount, called the earnings base, rises as average wages increase.

Social Security is broadly supported by Americans because they correctly see it as an earned right. Benefit amounts are determined by the contributions made during a person's working career. The relationship between earnings and benefits is a fundamental feature of the program.

When President Franklin D. Roosevelt was asked by a young economist why the program is financed this way, FDR responded by saying, "We put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions With those taxes in there, no damn politician can ever scrap my Social Security program."

Sadly, individuals who are philosophically opposed to this popular and successful program have dreamed about undermining the earned right nature of Social Security's financing by eliminating the payroll tax.

The President's executive action to defer payment of payroll taxes is one step closer to this nightmare. What's more, his public statements on August 8th (and at least five times since then) in support of forgiving the deferral and terminating Social Security and Medicare payroll taxes could actualize this nightmare making it a terrible reality.ⁱⁱ

Unfortunately, the current administration has not cornered the market on payroll tax cut proposals. In December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312) enacted a payroll tax "holiday" that temporarily reduced the employee and self-employed shares of the OASDI payroll tax by two percentage points (from 6.2 percent to 4.2 percent for employees; and from 12.4 percent to 10.4 percent for the self-employed). The Social Security trust fund was "made whole" by a transfer of general revenue. The temporary reduction was scheduled to expire at the end of 2011, but was extended for two months as part of the Temporary Payroll Tax Cut Continuation Act of 2011 (P.L. 112-78). The temporary payroll tax cut was extended again through the end of 2012 by the Middle Class Tax Relief and Job Creation Act of 2012 (P.L. 112-96).ⁱⁱⁱ

The National Committee opposed the payroll tax cut provisions in each of these bills and successfully fought efforts to extend the payroll tax cut beyond its expiration on December 31, 2012.

Social Security Payroll Tax Deferral

Despite the fact that there was not bicameral or bipartisan agreement on COVID relief legislation before the August recess, the package would not have included the payroll tax cut the President wanted – due to bipartisan opposition to it^{iv} – and because a payroll tax cut was not added to the two leading relief bills: the Senate Health, Economic Assistance, Liability Protection and Schools (HEALS) Act or the House-passed Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act (H.R. 6800).

In the face of bipartisan opposition to a payroll tax cut, President Trump took unilateral action to bypass Congress by taking executive action to implement a payroll tax deferral. While his desire to boost the economy is understandable, most businesses are not participating in the deferral because of the following flaws:

- ✓ There's no guarantee the deferred taxes will be forgiven and they don't want to be in a position where their employees are seeing less in take-home pay for the first four months of 2021, so most employers are likely to continue withholding Social Security payroll taxes from paychecks.
 - ✓ Businesses that have an interest in participating may not be able to do so since there is not enough time between now and the end of the year to update their payroll systems.
 - ✓ IRS guidance on the payroll tax deferral is unclear and does not answer many of the questions that business and tax professionals have about implementation.
 - ✓ According to a survey of 420 employers conducted between August 31 and September 2 by Ernst & Young Global Limited, close to 50 percent said they will continue to withhold the Social Security tax from employees' wages, and close to 50 percent indicated they are waiting on more IRS guidance before deciding. A slim margin, just 2 percent, are planning on making the deferral available to employees, but not by the September 1 effective date. None of the responders said they implemented the program by the September 1 effective date.^v
- As structured, the payroll tax deferral is unlikely to help individuals who are suffering the most from the COVID recession.
 - ✓ While payroll deferrals or cuts overwhelmingly favor higher earners, they do nothing to provide relief to the 30 million unemployed Americans who are not receiving wages and not paying payroll taxes. In fact, tax relief that mainly benefits higher earners does less to stimulate the economy than relief to lower earners because the former tend to save rather than spend additional income while the latter of necessity must spend it.
 - ✓ Given that most businesses are unlikely to participate, most people with jobs will not participate either.
 - ✓ For employees required to participate – like federal civilian workers and military personnel – their payroll taxes will double next year when they will be forced to pay these deferred taxes back.

Fortunately, there are alternatives to a payroll tax deferral or cut which would be more targeted and effective to stimulate an economy slowed by the spread of the coronavirus. For example, another

one-time relief payment by the federal government can put money in the hands of taxpayers quickly, and the Making Work Pay Tax Credit can be passed by Congress rapidly as can an expansion of the Earned Income Tax Credit. Spending in other programs that directly help those who lose employment as a result of the virus can be the most targeted relief of all. And well-targeted direct government spending will do more to stimulate the economy because individuals most in need are more likely to spend payments and tax credits than save them.

Forgiving the Payback of Deferred Payroll Taxes

Next year, to prevent a significant drop in take home pay created by his deferral plan, President Trump says payback of deferred payroll taxes should be forgiven. That means Congress would deprive the Social Security trust fund of forgone tax revenue or replace the loss with general revenue transferred to the trust fund. While replacing forgone payroll taxes with general revenue is preferable to the alternative, it is still a bad option because it would undermine the earned right nature of Social Security and make it vulnerable to those who would cut benefits or privatize it.

Permanently Terminating Social Security and Medicare Payroll Taxes

Terminating payroll taxes altogether – as the President has repeatedly called for -- would be a disaster for current and future generations of beneficiaries. Under the worst-case scenario, ending payroll taxes with “no reimbursement” to the trust funds would permanently defund and undermine Social Security and Medicare. The Chief Actuary of the Social Security Administration estimates that Social Security Disability Trust Fund reserves would be permanently depleted in about the middle of 2021 and the Old Age and Survivors Insurance Trust Fund reserves would be permanently depleted by the middle of calendar year 2023. Thereafter, the program would have no ability to pay earned benefits to eligible retirees, workers with disabilities and survivors.^{vi}

The President’s plan to end payroll taxes comes as Medicare faces fiscal challenges exacerbated by the COVID pandemic. Indeed, the Congressional Budget Office recently projected an accelerated insolvency date of the Medicare Part A Hospital Insurance Trust Fund to 2024, compared to projections earlier this year of 2026.^{vii} Insolvency – meaning more money is going out than coming in – is not “bankruptcy,” as characterized by some policymakers. Nonetheless, Congress should help, as it has in the past when projected insolvency has been imminent. Instead, the President proposes slashing payroll taxes, one of Medicare’s most significant funding streams.

But even if terminated payroll taxes were replaced with general revenue, retirees’ benefits would be subject to the whims of Congress and the vagaries of the annual appropriations process. As a result, Social Security and Medicare as we know them would end by converting them into welfare programs.

Conclusion

The National Committee strongly urges this subcommittee to oppose any plan to change Social Security and Medicare’s funding by eliminating, cutting or deferring the payroll tax.

In addition, we urge the Administration to disavow elimination of the payroll tax so that America's seniors can rest assured that they will continue to have economic and health security in retirement, just as they have had since Social Security was created 85 years ago and Medicare 55 years ago. Social Security and Medicare are too important to replace the dedicated and self-financed revenue source with another funding mechanism.

And we urge Congress to send a strong bipartisan signal against interfering with the mandatory funding of these critical programs by enacting your bill, Mr. Chairman, the Save our Social Security Now Act. H.R. 8171 is also supported by the Leadership Council of Aging Organizations (LCAO), a coalition of 69 national nonprofit organizations concerned with the well-being of America's older population, which I currently have the honor of chairing.

On behalf of the National Committee, I want to thank you for your leadership on this matter, and we stand ready to work with you to see your legislation become law.

ⁱ [The 2020 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds \(Washington, DC: April 22, 2020\).](#)

ⁱⁱ ["President Trump Announces Executive Orders for COVID-19 Relief" \(Bedminster, New Jersey: C-SPAN, August 8, 2020\).](#)

ⁱⁱⁱ Molly F. Sherlock and Donald J. Marples, "Payroll Tax Cuts as Economic Stimulus: Past Experience and Economic Considerations" (Washington, DC: Congressional Research Service, August 23, 2019), Page 1-2.

^{iv} [Jordain Carney, "Trump's push for payroll tax cut sparks GOP pushback" \(Washington, DC: The Hill, July 20, 2020\).](#)

^v ["EY survey results: Are employers participating in the employee Social Security tax deferral program?" \(Ernst & Young Global Limited: Tax News Update US Edition, September 9, 2020\).](#)

^{vi} ["Estimates of the Financial Effects on Social Security of hypothetical legislation that would change the tax rate paid by employers, employees, and self-employed individuals to zero percent" \(Washington, DC: Office of the Chief Actuary, Social Security Administration, August 24, 2020\).](#)

^{vii} ["The Outlook for Major Federal Trust Funds: 2020 to 2030" \(Washington, DC: Congressional Budget Office, September 2020\).](#)