



SOCIAL SECURITY

MEMORANDUM

Date: October 20, 2003 **Refer To:** TCC

To: Steve C. Goss, Chief Actuary

From: Alice H. Wade, Deputy Chief Actuary
Chris Chaplain, Actuary

Subject: Estimated Long-Range OASDI Financial Effects of Eliminating the *OASDI Contribution and Benefit Base* --**INFORMATION**

This memorandum provides estimates of the financial effect on the Social Security (OASDI) program for eliminating the OASDI contribution and benefit base. All estimates are based on the intermediate assumptions of the 2003 Trustees Report. The estimates reflect the assumption that the total amount of covered earnings would diminish as a result of increasing the base. This would occur because many workers who have earnings above the base would be able to modify the form of their compensation in reaction to a change in the marginal payroll tax rates to which the earnings are subjected.

Background

The contribution and benefit base for Social Security (OASDI) is \$87,900 for earnings in 2004. Under current law, this base will be indexed in future years to increases in the level of the average annual wage as measured by the SSA average wage index. The contribution and benefit base serves the following two purposes:

- As a contribution base, it establishes the maximum annual amount of covered earnings subject to OASDI payroll taxes.
- As a benefit base, it establishes the maximum annual amount of earnings creditable for the purpose of benefit computation.

The contribution and benefit base, which is often referred to as the maximum taxable earnings level, has generally been increased automatically each year since 1982 by the rate of growth in the average wage level in the U.S. economy. The percentage of covered earnings that is taxable has decreased from 90 percent in 1982 to 85.0 percent in 2001. This is mainly due to relatively larger increases in earnings levels for those above the maximum. Under the intermediate assumptions of the 2003 Trustees Report, this percent of earnings that is taxable is projected to decline to about 83.8 percent for 2012 and later.

Description of Proposals

Two proposals for eliminating the benefit and contribution base are analyzed in this memorandum. The first, *Proposal 1*, eliminates the contribution and benefit base for the purpose of (1) determining earnings subject to payroll taxes and (2) crediting earnings for computing benefits. *Proposal 2* eliminates the contribution and benefit base only for the purpose of determining earnings subject to payroll taxes.

Eliminating the contribution and benefit base would result in an increase in the amount of payroll taxes for workers with earnings above the present-law base. If the additional earnings subject to payroll tax are also credited for the purpose of computing OASDI monthly benefit amounts, then the income from additional taxes payable over the long-range (75-year) period would be partially offset by the cost of additional benefits. However, the cost of additional benefits over the period would be less than the income from additional taxes. This is because:

- The OASDI benefit formula is progressive (workers who are affected by this provision generally have high career-average earnings and relatively low marginal benefit formula factors); and
- A significant portion of the additional benefits related to additional taxes payable during the period would not be received until after the long-range period.

Proposal 1:

Under proposal 1, the contribution and benefit base would be eliminated for earnings in years after 2003, for both the purpose of computing payroll tax and for setting limits on the amount of earnings credited in OASDI benefit computations. For example, a worker with covered earnings of \$200,000 in 2004 would pay employee payroll taxes of \$12,400 (more than double the amount under current law, with a similar increase for the employer), but would also be credited the total \$200,000 as 2004 earnings when determining OASDI benefits. The worker's benefits would be higher than under present law.

Proposal 2:

Under proposal 2, the contribution and benefit base would become a benefit base only. The base would be eliminated for the purpose of computing payroll tax, but would continue to be used to set limits on the amount of earnings credited in OASDI benefit computations. For example, a worker with covered earnings of \$200,000 in 2004 would pay employee payroll taxes of \$12,400 (more than double the amount under current law, with a similar increase for the employer), but would only be able to credit about \$87,900 as 2004 earnings when determining OASDI benefits. The worker's benefits would be the same as under present law.

Long-range Financial Effect of Proposals

Both proposals would improve the long-range actuarial balance significantly. Under proposal 1, the long-range OASDI actuarial balance is estimated to increase by 1.70 percent of taxable payroll. Thus, the long-range actuarial deficit of 1.92 percent of taxable payroll under present law would be reduced to a deficit of 0.22 percent of taxable payroll. Under proposal 2, the long-range OASDI actuarial balance is estimated to increase 2.17 percent of taxable payroll. Thus, the long-range actuarial deficit of 1.92 percent of taxable payroll under present law would be completely eliminated and the resulting actuarial balance would be a positive 0.25 percent of taxable payroll. All estimates are based on the intermediate assumptions of the 2003 Trustees Report.

A table for each of the proposals is included in this memorandum. These tables include individual-year estimates of:

- The annual income rates, annual cost rates, and annual balance of the combined Trust Funds of the Old-Age and Survivors Insurance (OASI) and the Disability Insurance (DI) programs,
- The combined OASI and DI Trust Fund ratio, and
- The taxable payroll in current dollars, both under the proposal and under current law.

The tables provide an analysis of the effects of the proposed plans on the financial status of the Social Security OASDI program. The tables include annual and 75-year-summarized cost rates, income rates, and balances for the OASDI program under the proposals. In addition, the tables also provide the trust fund ratio (TFR) for each year until the OASDI Trust Funds are projected to be exhausted. The TFR is defined as the amount of assets in the OASDI Trust Funds as of the beginning of the year, expressed as a percentage of the outgo from the OASDI Trust Funds during the year. Under present law, the OASDI Trust Funds are projected to be exhausted in 2042. The year of exhaustion is pushed to 2075 under proposal 1. Under proposal 2, the combined OASI and DI Trust Funds do not exhaust during the 75-year long-range period. However, under both proposals, the trust fund ratio is decreasing at the end of the long-range period.

Each table also provides estimates of annual taxable payroll, in billions of current dollars, for the proposal and for present law. The percentage increases in taxable payroll due to the proposal are also included.

/s/

Alice H. Wade

/s/

Chris Chaplain

Table 1 Financial Estimates for the OASDI Trust Fund Program Under Proposal 1
Eliminate the Contribution and Benefit Base, Effective 2004

Year	Expressed as a percent of taxable payroll			Trust Fund Ratio 1-1-year	OASDI Taxable Payroll (in billions of dollars)		Increase in Taxable Payroll over Present Law
	Income	Annual	Annual Balance		Proposed Plan	Present Law	
	Cost Rate	Rate					
2003	10.89	12.70	1.81	288	4,387	4,387	0.0%
2004	9.23	12.65	3.42	309	5,402	4,612	17.1%
2005	9.14	12.66	3.51	348	5,711	4,866	17.4%
2006	9.07	12.66	3.59	390	6,038	5,140	17.5%
2007	9.07	12.67	3.61	431	6,375	5,418	17.7%
2008	9.12	12.68	3.57	471	6,717	5,702	17.8%
2009	9.21	12.69	3.48	508	7,066	5,994	17.9%
2010	9.34	12.71	3.37	543	7,424	6,294	18.0%
2011	9.49	12.75	3.26	575	7,793	6,601	18.1%
2012	9.67	12.76	3.09	605	8,167	6,911	18.2%
2013	9.90	12.78	2.89	630	8,555	7,239	18.2%
2014	10.14	12.80	2.66	652	8,954	7,575	18.2%
2015	10.40	12.82	2.42	670	9,365	7,923	18.2%
2016	10.69	12.84	2.15	684	9,790	8,282	18.2%
2017	11.00	12.86	1.86	694	10,233	8,656	18.2%
2018	11.32	12.88	1.56	700	10,693	9,045	18.2%
2019	11.64	12.90	1.26	705	11,176	9,453	18.2%
2020	11.98	12.92	0.94	706	11,677	9,876	18.2%
2021	12.32	12.94	0.62	704	12,200	10,318	18.2%
2022	12.66	12.97	0.31	701	12,743	10,777	18.2%
2023	12.96	12.99	0.03	698	13,309	11,255	18.2%
2024	13.26	13.01	-0.25	693	13,898	11,753	18.3%
2025	13.54	13.03	-0.52	687	14,513	12,272	18.3%
2026	13.81	13.04	-0.77	681	15,156	12,815	18.3%
2027	14.08	13.06	-1.01	673	15,829	13,383	18.3%
2028	14.33	13.08	-1.24	665	16,533	13,978	18.3%
2029	14.55	13.10	-1.45	656	17,271	14,601	18.3%
2030	14.75	13.12	-1.64	648	18,043	15,253	18.3%
2031	14.93	13.13	-1.80	639	18,851	15,935	18.3%
2032	15.09	13.15	-1.95	630	19,696	16,649	18.3%
2033	15.23	13.16	-2.07	622	20,579	17,395	18.3%
2034	15.34	13.17	-2.18	613	21,502	18,174	18.3%
2035	15.45	13.18	-2.27	604	22,465	18,987	18.3%
2036	15.53	13.19	-2.34	596	23,472	19,837	18.3%
2037	15.60	13.20	-2.40	588	24,524	20,725	18.3%
2038	15.65	13.20	-2.45	580	25,621	21,651	18.3%
2039	15.70	13.21	-2.49	571	26,766	22,617	18.3%
2040	15.74	13.22	-2.53	563	27,956	23,622	18.3%
2041	15.78	13.22	-2.56	555	29,198	24,670	18.4%
2042	15.83	13.23	-2.60	546	30,492	25,763	18.4%
2043	15.87	13.23	-2.64	537	31,840	26,900	18.4%
2044	15.92	13.24	-2.68	528	33,245	28,086	18.4%
2045	15.98	13.25	-2.73	518	34,707	29,320	18.4%
2046	16.04	13.25	-2.79	507	36,227	30,603	18.4%
2047	16.10	13.26	-2.84	497	37,813	31,940	18.4%
2048	16.17	13.27	-2.90	485	39,465	33,334	18.4%
2049	16.24	13.27	-2.96	474	41,187	34,786	18.4%
2050	16.31	13.28	-3.03	461	42,982	36,302	18.4%
2051	16.39	13.29	-3.10	449	44,851	37,878	18.4%
2052	16.47	13.29	-3.17	435	46,803	39,524	18.4%
2053	16.55	13.30	-3.25	421	48,839	41,241	18.4%
2054	16.63	13.31	-3.32	407	50,964	43,034	18.4%
2055	16.71	13.31	-3.39	392	53,184	44,906	18.4%
2056	16.78	13.32	-3.46	377	55,502	46,860	18.4%
2057	16.85	13.33	-3.52	361	57,925	48,903	18.4%
2058	16.91	13.33	-3.58	345	60,454	51,036	18.5%
2059	16.97	13.34	-3.63	329	63,093	53,261	18.5%
2060	17.02	13.34	-3.68	312	65,847	55,582	18.5%
2061	17.07	13.35	-3.73	295	68,719	58,004	18.5%
2062	17.12	13.35	-3.77	278	71,716	60,530	18.5%
2063	17.18	13.35	-3.82	260	74,844	63,167	18.5%
2064	17.23	13.36	-3.87	241	78,103	65,913	18.5%
2065	17.28	13.36	-3.92	223	81,501	68,778	18.5%
2066	17.34	13.37	-3.97	203	85,046	71,766	18.5%
2067	17.40	13.37	-4.03	183	88,740	74,879	18.5%
2068	17.46	13.37	-4.08	163	92,594	78,127	18.5%
2069	17.51	13.38	-4.13	142	96,611	81,512	18.5%
2070	17.57	13.38	-4.19	121	100,795	85,037	18.5%
2071	17.63	13.39	-4.25	99	105,157	88,712	18.5%
2072	17.69	13.39	-4.30	77	109,706	92,545	18.5%
2073	17.75	13.39	-4.36	54	114,449	96,540	18.6%
2074	17.81	13.40	-4.41	30	119,393	100,705	18.6%
2075	17.87	13.40	-4.46	6	124,547	105,046	18.6%
2076	17.92	13.41	-4.52	<u>1/</u>	129,921	109,573	18.6%
2077	17.98	13.41	-4.57	<u>1/</u>	135,529	114,296	18.6%
2078	18.03	13.41	-4.62	<u>1/</u>	141,376	119,220	18.6%

Summarized Rates: OASDI				Change in
	Cost Rate	Income Rate	Actuarial Balance	Actuarial Balance
2003				
-2077	13.85	13.64	-0.22	1.70

1/ The combined OASI and DI Trust Funds are projected to be exhausted as of the beginning of the year.

Table 2 Financial Estimates for the OASDI Trust Fund Program Under Proposal 2
Eliminate the Contribution and Benefit Base Only for Determining Contributions, Effective 2004

Year	Expressed as a percent of taxable payroll			Trust Fund Ratio 1-1-year	OASDI Taxable Payroll (in billions of dollars)		Increase in Taxable Payroll over Present Law
	Cost Rate	Income Rate	Annual Balance		Proposed Plan	Present Law	
2003	10.89	12.70	1.81	288	4,387	4,387	0.0%
2004	9.23	12.65	3.42	309	5,402	4,612	17.1%
2005	9.15	12.66	3.51	348	5,711	4,866	17.4%
2006	9.07	12.66	3.59	390	6,038	5,140	17.5%
2007	9.06	12.67	3.61	431	6,375	5,418	17.7%
2008	9.11	12.68	3.57	471	6,717	5,702	17.8%
2009	9.20	12.69	3.50	509	7,066	5,994	17.9%
2010	9.31	12.71	3.39	545	7,424	6,294	18.0%
2011	9.45	12.74	3.29	578	7,793	6,601	18.1%
2012	9.62	12.76	3.13	609	8,167	6,911	18.2%
2013	9.83	12.78	2.94	635	8,555	7,239	18.2%
2014	10.06	12.79	2.73	658	8,954	7,575	18.2%
2015	10.30	12.81	2.50	678	9,365	7,923	18.2%
2016	10.58	12.82	2.25	694	9,790	8,282	18.2%
2017	10.86	12.84	1.98	706	10,233	8,656	18.2%
2018	11.16	12.86	1.70	715	10,693	9,045	18.2%
2019	11.46	12.88	1.42	722	11,176	9,453	18.2%
2020	11.77	12.90	1.12	725	11,677	9,876	18.2%
2021	12.09	12.92	0.82	726	12,200	10,318	18.2%
2022	12.40	12.93	0.53	726	12,743	10,777	18.2%
2023	12.67	12.95	0.28	725	13,309	11,255	18.2%
2024	12.94	12.97	0.02	723	13,898	11,753	18.3%
2025	13.20	12.98	-0.22	721	14,513	12,272	18.3%
2026	13.44	13.00	-0.45	717	15,156	12,815	18.3%
2027	13.68	13.01	-0.66	713	15,829	13,383	18.3%
2028	13.90	13.03	-0.87	708	16,533	13,978	18.3%
2029	14.09	13.04	-1.05	703	17,271	14,601	18.3%
2030	14.27	13.06	-1.21	698	18,043	15,253	18.3%
2031	14.42	13.07	-1.35	693	18,851	15,935	18.3%
2032	14.55	13.08	-1.47	688	19,696	16,649	18.3%
2033	14.66	13.09	-1.57	683	20,579	17,395	18.3%
2034	14.75	13.09	-1.66	679	21,502	18,174	18.3%
2035	14.82	13.10	-1.72	675	22,465	18,987	18.3%
2036	14.88	13.11	-1.78	671	23,472	19,837	18.3%
2037	14.93	13.11	-1.82	668	24,524	20,725	18.3%
2038	14.96	13.12	-1.84	665	25,621	21,651	18.3%
2039	14.98	13.12	-1.86	662	26,766	22,617	18.3%
2040	15.00	13.12	-1.88	659	27,956	23,622	18.3%
2041	15.02	13.13	-1.90	656	29,198	24,670	18.4%
2042	15.04	13.13	-1.91	653	30,492	25,763	18.4%
2043	15.07	13.13	-1.93	650	31,840	26,900	18.4%
2044	15.09	13.13	-1.96	647	33,245	28,086	18.4%
2045	15.13	13.14	-1.99	643	34,707	29,320	18.4%
2046	15.17	13.14	-2.03	639	36,227	30,603	18.4%
2047	15.21	13.15	-2.06	634	37,813	31,940	18.4%
2048	15.25	13.15	-2.11	629	39,465	33,334	18.4%
2049	15.30	13.15	-2.15	624	41,187	34,786	18.4%
2050	15.36	13.16	-2.20	619	42,982	36,302	18.4%
2051	15.42	13.16	-2.26	612	44,851	37,878	18.4%
2052	15.48	13.17	-2.32	605	46,803	39,524	18.4%
2053	15.55	13.17	-2.38	598	48,839	41,241	18.4%
2054	15.61	13.18	-2.44	591	50,964	43,034	18.4%
2055	15.68	13.18	-2.50	583	53,184	44,906	18.4%
2056	15.74	13.19	-2.55	574	55,502	46,860	18.4%
2057	15.80	13.19	-2.61	566	57,925	48,903	18.4%
2058	15.85	13.19	-2.65	557	60,454	51,036	18.5%
2059	15.90	13.20	-2.70	548	63,093	53,261	18.5%
2060	15.94	13.20	-2.74	539	65,847	55,582	18.5%
2061	15.98	13.20	-2.78	529	68,719	58,004	18.5%
2062	16.03	13.21	-2.82	519	71,716	60,530	18.5%
2063	16.07	13.21	-2.86	509	74,844	63,167	18.5%
2064	16.12	13.21	-2.90	499	78,103	65,913	18.5%
2065	16.16	13.22	-2.95	488	81,501	68,778	18.5%
2066	16.21	13.22	-2.99	476	85,046	71,766	18.5%
2067	16.26	13.22	-3.04	465	88,740	74,879	18.5%
2068	16.32	13.23	-3.09	452	92,594	78,127	18.5%
2069	16.37	13.23	-3.14	440	96,611	81,512	18.5%
2070	16.42	13.23	-3.19	427	100,795	85,037	18.5%
2071	16.48	13.24	-3.24	414	105,157	88,712	18.5%
2072	16.53	13.24	-3.29	400	109,706	92,545	18.5%
2073	16.59	13.24	-3.34	386	114,449	96,540	18.6%
2074	16.64	13.25	-3.39	371	119,393	100,705	18.6%
2075	16.69	13.25	-3.44	356	124,547	105,046	18.6%
2076	16.75	13.25	-3.49	341	129,921	109,573	18.6%
2077	16.80	13.26	-3.54	325	135,529	114,296	18.6%
2078	16.85	13.26	-3.59	309	141,376	119,220	18.6%

Summarized Rates: OASDI				Change in
	Cost Rate	Income Rate	Actuarial Balance	Actuarial Balance
2003				
-2077	13.32	13.57	0.25	2.17

Based on Intermediate Assumptions of the 2003 Trustees Report

October 17, 2003 Office of the Chief Actuary
 Social Security Administration