Social Security Proposals: (Save the Social Security Trust Fund!)

Social Security was created in 1935 by the Social Security Act. The Old Age and Survivors Insurance Fund, and the Federal Disability Insurance Trust Fund are collectively referred to as the Social Security Trust Funds (OASDI, Title 42 U.S.C. Sections 401(a) and 401(b)). In the report: "The 2024 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Federal Disability Insurance Trust Funds", the Social Security Trustees state that the Social Security Trust Fund (OASI) will deplete its reserves by 2033, and require a 21% reduction in benefits for all Social Security Beneficiaries beginning in 2034. (See page 26 of "The 2024 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Federal Disability Insurance Trust Funds"). The Social Security Trust Fund will run a deficit of $301,132,220,000.00 each year for the next nine years, on an amortized basis, commencing with a smaller number (approximately $100,000,000,000.00), which will increase and accelerate over the next eight years, into 2033. (See: The Congressional Budget Office: "CBO's 2022 Long-Term Projections for Social Security", December 2022). In 2034, cuts of 21% will be applied to all Social Security benefits, as the Social Security Trust Funds reserves will be depleted in 2033, and revenues will only fund benefits at 79% of their required amounts in 2034, (of the fully vested and accrued Social Security Benefits). There are 68,000,000 beneficiaries of the Social Security Trust Fund (OASI), receiving benefits in 2023.

The OASI Trust Fund (Title 42 USC Section 401(a)), contained asset reserves of $2,641,500,000,000.00 as of December 31 of the 2023 calendar year, which is subject to an accelerated depletion rate due to the large numbers of folks from the Baby Boom generation retiring.

The Trust Fund is required to be invested in non-marketable securities issued and guaranteed by the 'full faith and credit' of the federal government. These short-term securities earn a market rate of return.

A. How is Social Security Funded?

Internal Revenue Code (IRC) Section 3101(a), (Title 26 U.S.C. Section 3101(a)), requires that a 6.2% tax be imposed on each employee's income as defined by IRC Section 3121(a), (salary/payments, received in exchange for services provided by an employee to their employer as defined by IRC Section 3121(b)). This amount is withheld and deposited into the OASDI Trust Funds. (OASDI consists of: The OASI Trust Fund whose deposit is 5.3% of the 6.2% tax, (Title 42 U.S.C. Section 401(a)), which is deposited into the OASI Trust Fund (Social Security only). For Disability, the DI Trust Fund receives .9% of the 6.2% tax, which is deposited into the Disability Insurance Trust Fund, (Disability Insurance only), (Title 42 U.S.C. Section 401(b)).

Internal Revenue Code Section 3101(a) applies the employment tax obligation to the employee. Internal Revenue Code Section 3111(a) applies the employment tax obligation to the employer. So, likewise, the Internal Revenue Code (IRC) Section 3111(a), consists of OASDI, (Title 26 U.S.C. Section 3111(a)), and requires that a 6.2% tax be imposed on every employer, based on the wages the employer paid to their employees, as defined by IRC Section 3121(a), (based on the employees employment with the employer as defined by IRC Section 3121(b)). This amount is to be withheld and deposited into the OASDI Trust Funds. (OASDI consists of: The OASI Trust Fund whose deposit is 5.3% of the 6.2% tax, (Title 42 U.S.C. Section 401(a)), (Social Security only); and Disability, The DI Trust Fund which receives .9% of the 6.2% tax, (Disability Insurance only), (Title 42 U.S.C. Section 401(b)).

IRC Section 3121(a) provides the definition of compensation for services rendered by an employee for an employer. These amounts are subject to the Social Security (OASDI) tax and are withheld pursuant to IRC Section 3101(a) and IRC Section 3111(a). Two important concepts apply here:

A. Passive income, and distributions from annuities or IRAs or 401(k)s are not subject to IRC Section 3101(a) and IRC Section 3111(a), only wages paid for services rendered in an employment relationship.
B. Compensation taken into account is limited by section 230 of the Social Security Act (Title 42 of the U.S.C.) which limits the compensation (wages/remuneration) subject to the IRC Section 3101(a) and IRC Section 3111(a) OASDI tax, to the Taxable Wage Base. For 2023 the Taxable Wage Base was $160,200, (See Revenue Ruling 2022-24). For 2024 the Taxable Wage Base is $168,600.

To summarize, for each U.S. citizen or permanent U.S. resident, who is earning wages from employment in the United States, Puerto Rico, the Virgin Islands, and, (with caveats, in Guam and American Samoa); each employee must pay 6.2% of their first $160,200 (2023) of income into the Social Security and Disability Trust funds. Each employer must pay 6.2% of the employee's first $160,200 (2023) of income into the Social Security and Disability Trust funds.

For self employed individuals the OASDI tax is 12.4% , (The OASI Trust Fund, plus The DI Trust Fund contributions), on the first $160,200 (2023) of their earnings. This amount must be withheld and paid into the OASDI Trust funds.

Keep in mind that the tax for Medicare: IRC 3101(b) is 1.45% (up to the Taxable Wage Base with an additional tax of .9% for wages over $200,000, (or $250,000 for joint filers)). This amount is required to be paid by employees into the Medicare Trust Fund). IRC Section 3111(b) requires that employers pay an additional tax of 1.45% of their employees wages (up to the Taxable Wage Base) into the Medicare Trust Fund. This proposal does **not** address Medicare.

Employment is defined by IRC Section 3111(b), as services performed by an employee for an employer, in the United States, Puerto Rico, and the Virgin Islands, (with some caveats for Guam and American Samoa). Employment also covers U.S. citizens engaged in employment outside the United States in the U.S. Maritime Service, and employment with international U.S. based airlines.

A Social Security Beneficiary is generally defined as a U.S. Citizen or as a permanent U.S. Resident.

B. The Social Security Trust Fund:

Public Law 101-508, Title XIII Section 13301(a) (passed November 5, 1990), provided that "Notwithstanding any other provision of law, the receipts and distributions of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund **shall not be counted** as new budget authority, outlays, receipts, or deficit or surplus for purposes of- (1) the budget of the United Stated Government as submitted by the President, (2) the congressional budget, or (3) the Balanced Budget and Emergency Deficit Control Act of 1985."

Therefore, Public Law 101-508 does not permit deposits, made to the OASDI Trust Funds (The OASI Trust Fund and The DI Trust Fund of Title 42 U.S.C. Sections 401(a) and 401(b)), to be used for any other federal expenditure, other than Social Security Benefits accrued under Title 42 U.S.C. Section 202, or Disability Benefits under Title 42 U.S.C. Section 401(b). The OASDI Trust Funds (OASI and DI), are similar to the "G Fund" of the Thrift Savings Plan, (for federal employees). The deposits are directly made into the Social Security Trust Funds, and must be invested in non-marketable short-term U.S. Treasury Securities.

The Board of Trustees of the Social Security Trust Funds consist of six members: The Secretary of the Treasury, The Secretary of Labor, the Secretary of Health and Human Services, and two members are appointed by the President and confirmed by the Senate.

C. Who are the beneficiaries of the Social Security Trust Fund?

Retired Workers
Spouses of Retired Workers (at least 62 years old), or surviving spouses' who have a child under 16, or have a disabled child in his or her care
Aged Widow
Young Widow, child under 16 in their care, or a disabled child over 16
Disabled Widow, at least 50
Parent of deceased worker, if age 62 and dependent on the worker
Spouse of Disabled Worker, at least 62, or if they have a child under 16
Child Beneficiaries of deceased parents:
- Minor Child under age 18
- Adult Disabled under age 22
- High School Student under 19

General eligibility requires a worker to pay social security taxes for 10 years (40 quarters), attain age 62, or be a spouse or beneficiary of a worker who has met the general eligibility requirements, listed above.

D. How is a Social Security Benefit calculated?

Primary Insurance Amount: Section 202 of the Social Security Act (Title 42 U.S.C.),
For Individual A, who attains Social Security Retirement Age in **2023** and who applies to commence benefits in **2023:** (Age 66 and 6 months)
The Primary Insurance Amount and Bend Points are as follows:
For folks reaching their Social Security Retirement Age in **2023**.
Their Monthly Benefit at full Social Security Retirement Age, without any age adjustment, is as follows::

(2023):
A. 90% of the first $1,115 of average indexed monthly earnings, plus
B. 32% of average indexed monthly earnings in excess of $1,115, up to $6,721, plus
C. 15% of average indexed monthly earnings in excess of $6,721.

This formula is applied to the sum of an employee's Social Security Earnings over their entire working life, (taking into account their highest earnings over 35 years). The sum of the employee's total annual Social Security Earnings are then divided by 35; (35 years must be taken into account). The amount that is calculated, is then divided by 12 to determine the individuals' average monthly wage, based on all their earnings from all years of employment, taking into account 35 years.

This average monthly wage amount is applied to the Primary Insurance Amount formula to determine the individual's monthly social security benefit for an individual retiring at their social security retirement age, without adjustment.

If Individual B who attains their Social Security Retirement Age in **2001**, (Age 65) had the Primary Insurance Amount Bend Points from **2001** applied to determine their monthly Social Security benefit, it would be calculated as follows:

(2001):
A. 90% of the first $561 of average indexed monthly earnings, (**2001**), plus
B. 32% of average indexed monthly earnings over $561 and not exceeding $3,381, (**2001**), plus
C. 15% of average indexed monthly earnings over $3,381, (**2001**)

Example i.: Employee Y earns Social Security wages for 28 years that average $38,000 (annual compensation). Y attains age 65 in 2001. Therefore, Y attained their Social Security Retirement Age in **2001** and applied for their Social Security benefits in **2001**: (Y was born in 1936)

($38,000 x 28) = $1,064,000, (then divide by 35) = $30,400
(then divide by 12) = $2,533
Y's monthly Social Security Benefit, (**2001**), would be:
90% of $561 = $505
32% of $1,972 = $631 ($2,533 minus $561 equals $1,972)
Y's Total Social Security Benefit in **2001**= $1,136, monthly Social Security benefit commencing in **2001** assuming Y attained age 65.

If Y commenced benefits in 1998 at age 62, the
monthly benefit would be reduced to $908
(See the reduction schedule below)

Example ii.: Employee X earns Social Security wages for 28 years that average $54,000 (annual compensation). X attained their Social Security Retirement Age in **2023**, and applied for their Social Security benefits in **2023:**

($54,000 x 28) = $1,512,000 (then divide by 35) = $43,200
(then divided by 12) = $3,600
X's monthly Social Security Benefit, (**2023**), would be:
90% of $1,115 = $1,003
32% of $2,485 = $795.20 ($3,600 minus $1,115 equals $2,485)
X's Total Social Security Benefit in **2023** = $1,798 monthly benefit
This assumes X was born January 1957 and commenced benefits July 2023.
If X commenced benefits at age 62, the monthly benefit would be reduced to $1,303, assuming X commenced their benefits January, 2019.
(See the reduction schedule below)

E. What is full social security retirement age?

Full Social Security Retirement Age:

Year of Birth:	Social Security Retirement Age:
1937 and earlier:	65
1943 to 1954:	66
1955	66, 2 months
1956	66, 4 months
1957	66, 6 months
1958	66, 8 months
1959	66, 10 months
1960	67

F. What are the adjustments?

For someone **born between 1943 to 1954,** their Social Security Retirement Age would be 66. The adjustments to their PIA monthly benefit is as follows:

Age 62: 75% of benefit is payable
Age 63: 80% of benefit is payable
Age 64: 86 2/3% of benefit is payable
Age 65: 93 1/3% of benefit is payable
Age 66: 100% of benefit is payable
Age 67: 108% of benefit is payable

Age 70: 132% of benefit is payable

For someone **born in 1960** whose Social Security Retirement Age is 67:
The adjustments to their PIA monthly benefit is as follows:
Age 62: 70% of benefit is payable
Age 63: 75% of benefit is payable
Age 64: 80% of benefit is payable
Age 65: 86 2/3% of benefit is payable
Age 66: 93 1/3% of benefit is payable
Age 67: 100% of benefit is payable
Age 70: 124% of benefit is payable

Each year of delayed commencement of Social Security benefits, beyond a participant's Social Security Retirement Age, the annual PIA benefit is increased by 8% for each 12 month period, (on a monthly basis .0066% each month). The increase stops at age 70.

Reduction to the PIA monthly benefit is 5/9s of 1% for each month benefits commence prior to Social Security Retirement Age, up to 36 months. The reduction in excess of 36 months, to the Social Security Benefit, is 5/12s of 1% for each additional month.

G. Spousal Benefits and the Social Security minimum benefit:

The minimum social security benefit for 2023 is $1,033.50, if the benefit first commences at their Social Security Retirement Age based on 30 years of contributions into the Social Security Trust Fund. There are reductions for fewer than 30 years worked (in addition, the earner spouse must have contributed for at least for 11 years, 44 quarters), and there is a reduction if benefits commenced prior to the beneficiary's Social Security Retirement Age. The individual will receive **the greater of** their calculated benefit or the Social Security Minimum Benefit.

A non-working spouse can receive Social Security Retirement Benefits if they are at least age 62, or caring for a qualifying child. The spouse must be married at least one continuous year to an individual eligible for Social Security benefits. The maximum Social Security Benefit of a non-working spouse is 50% of the working spouse's Social Security Benefit, (Primary Insurance Amount), commencing at their Social Security Retirement Age. This is based on the worker spouse's contributions to the Social Security Trust Fund.

H. Why are we facing deficits?

Between 2008 to 2019, the retired population aged 55 and over grew by one million. From 2020 to 2022 the retired population grew by 3.5 million. The Fertility Rate is lower than the replacement level required. The ratio of workers to social security beneficiaries was 8.5 to 1 in 1955. In 1995, the ratio of workers to social security beneficiaries was 3.5 to 1. In 2023, the ratio of workers to social security beneficiaries was 2.8 to 1, (according to "Fast Facts and

Figures about Social Security, 2023", SSA Pub. No. 13-11785). (Folks need to have more kids.)

According to "The Economist", which is the primary news and business magazine of the United Kingdom, Volume 451, Number 9393, April 20th, 2024, page 15, reported that the United States population growth rate in the 1990's was 13%. Between 2010 and 2020 the growth rate of the population of the United States declined to 7.4%, rivaling the rate of population growth during the Great Depression (of 7.3%). For 30 years starting in the mid-1970s, the United States fertility rate grew or was stable. But, by 2008, the fertility rate in the United States, had fallen below 2.1% (the replacement rate), and by 2023 the fertility rate in the United States, dropped to 1.67%.

The U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, Vital Statistics Rapid Release, Report Number 012, May 2021, stated the following:

i. The provisional number of births in the United Stated for 2020 was 3,605,201 down 4% from 2019 (3,747,540). This is the sixth consecutive year that the number of births has declined after an increase in 2014. The fertility rate in 2020 was 1.637%, (2.1% being the replacement level).

ii. The provisional birth rate for women aged 20 to 24 in 2020 was 62.8 births per 1,000 women, down 6% from 2019. This rate has declined 40% since 2007. The provisional birth rate for teenagers aged 15-19 was down 8% from 2019, and has declined 63% since 2007. Birth rates have declined in every age category according to the report.

Note, the Anti-Deficiency Act, Public Law 97-258, prohibits federal agencies from distributing federal funds in excess of an appropriation, 31 U.S.C. Section 1341(a)(1)(A). The Anti-Deficiency Act prohibits a federal agency or department from making obligations (using debt financing), or making expenditures in excess of an apportionment or amount permitted by agency regulations, 31 U.S.C. Section 1517(a). Further, the Anti-Deficiency Act also prohibits actual expenditures (outlays) that exceed amounts available from appropriations or funds.

See The Social Security Proposal on the **next page:**

The Social Security Proposal proposes:

proposes a onetime increase to the Taxable Wage Base of Section 230 of the Social Security Act, (Title 42 U.S.C. Section 230), of $29,500, to assist in addressing the forecasted under-funding of the Social Security Trust Fund, that the trust fund will face when disbursing benefits in 2034, (as determined by the Social Security trustees and actuaries in the "The 2024 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Federal Disability Insurance Trust Funds"). This permanent, one time increase to the Taxable Wage Base, would be effective in calendar year 2026. In addition, a Fourth Bend Point needs to be added to the calculation of the Primary Insurance Amount of Section 202 of the Social Security Act,
(Title 42 U.S.C. Section 202), of 6% of average annual earnings in excess of $117,000 (based on a 35 year average), which are average monthly earnings in excess of $9,750, (based on a 35 year average, generally, which for most wage earners would be $400,000 in today's wages, based upon the Average Indexed Monthly Earnings). In addition, an increase of 7/10s of one percent is to be added to the tax rate of the IRC Section 3101(a), (Title 26 U.S.C. Section 3101(a)), (please see below), and 4/10s of one percent is to be added to the tax rate of IRC Section 3111(a), (Title 26 U.S.C. Section 3111(a)), (please see below).

The Primary Insurance Amount formula needs to be adjusted. The first bend point and the second bend point, and the third bend point, would continue to be based on the Bureau of Labor Statistics average indexed monthly earnings as they increase from year to year.

Bend Points would be calculated as the indexed monthly earnings from the Bureau of Labor Statistics, (defined as: the current indexed monthly earnings), as follows:
Bend Point One: $180 times (the current indexed monthly earnings) divided by 9.779.44 which equals a beneficiary's, (35 year), average monthly compensation up to $1,114.94, (**2023**), x 90%.
Bend Point Two: $1,085 times (the current indexed monthly earnings) divided by 9.779.44 which equals a participant's (35 year) average monthly compensation in excess of $1,114.95 up to $6,721,(**2023**), x 32%.
Bend Point Three: (35 year) Average Monthly Compensation in excess of $6,721 to $10,000 (as adjusted by the Current Indexed Monthly Earnings determined by the Bureau of Labor Statistics) multiplied by 15%.
(**Needed to add-Fourth Bend Point-by legislation**)
Bend Point Four: 35-year Average Monthly Compensation in excess of $9,750 (as adjusted by the Current Indexed Monthly Earnings determined by the Bureau of Labor Statistics), multiplied by 6%.

For each Bend Point defined in the formula as applied to the Primary Insurance Amount, the only variable is the Current Indexed Monthly Earnings, (C.I.M.E.), as adjusted each year or number of years by the Bureau of Labor Statistics. In the first bend point the calculation of $180 times, (the C.I.M.E) which is divided by 9.779.44, are constants used year to year. In the second bend point $1,085 times, (the C.I.M.E.), which is divided by 9.779.44, are constants year to year.

The $180 for the first bend point, and the $1,085 for the second bend point are based upon the original bend points from calendar year 1979, as adjusted by the Current Indexed Monthly Earnings determined by the Bureau of Labor Statistics for 44 years. The Current Indexed Monthly Earnings (C.I.M.E.), reflects the average increase in real wages, each calendar year, (from year to year), determined based on compensation nationally, as published by the U.S. Department of Labor Bureau of Labor Statistics.

In Summary, The Social Security Proposal proposes:

proposes a onetime increase to the Taxable Wage Base of Section 230 of the Social Security Act, (Title 42 U.S.C. Section 230), of $29,500, to assist in addressing the forecasted under-funding of the Social Security Trust Fund, that the trust fund will face when disbursing benefits in 2034, (as determined by the Social Security trustees and actuaries in the "The 2024 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Federal Disability Insurance Trust Funds"). This permanent, one time increase to the Taxable Wage Base, would be effective in calendar year 2026. In addition, a Fourth Bend Point needs to be added to the definition and calculation of the Primary Insurance Amount of Section 202 of the Social Security Act,(Title 42 U.S.C. Section 202), of 6% of average annual earnings in excess of $117,000 (based on a 35 year average), which are average monthly earnings in excess of $9,750, (based on a 35 year average).

proposes an increase and permanent adjustment to the tax rate of IRC Section 3101(a) (Title 26 U.S.C. Section 3101(a)), to 6.9%, replacing its current tax rate of 6.2%, effective in the 2026 calendar year. In addition, the proposal proposes an increase and permanent adjustment to Title 42 U.S.C. Section 401(a), requiring that 6.05% of the IRC 3101(a) 6.9% tax be deposited into the OASI Trust Fund, and amending Title 42 USC Section 401(b), requiring .85% of the IRC 3101(a) 6.9% tax be deposited into the DI Trust Fund

proposes an increase and permanent adjustment to the tax rate of IRC Section 3111(a) (Title 26 U.S.C. Section 3111(a)) to 6.6% replacing its current tax rate of 6.2%, effective in the 2026 calendar year. In addition, the proposal proposes an increase and permanent adjustment to Title 42 USC Section 401(a), requiring that 5.75% of the IRC 3111(a) 6.6% tax be deposited into the OASI Trust Fund, and amending 42 USC Section 401(b), requiring .85% of the IRC 3111(a) 6.6% tax be deposited into the DI Trust Fund.

proposes an annual limited scope audit of the Social Security Trust Fund by a national outside CPA firm, effective in the 2026 calendar year.

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