

Option: Increase the Contribution and Benefit Base ("Taxable Maximum") such that Approximately 90 Percent of Earnings Would be Subject to the Payroll Tax, with Increased Taxes Creditable toward Benefits, Effective 2010

Summary comments on increasing the taxable maximum (to the point where 90 percent of earnings are taxable)

- Because all of the improvement to Social Security's financing comes from increased payroll tax contributions, this proposal shows very different patterns than the others simulated in this group of options that address solvency.
- Benefits increase relative to current law scheduled under the proposal, with those in the highest lifetime earnings quintile experiencing most of the increase. (Beneficiaries in lower quintiles do show some gains, as the result of, for example, relatively short-term marriages to high earners or one or two years of unusually high earnings in the career.)
- Men have higher benefit increases than women, though many women also receive higher benefits as a result of their own earnings above the taxable maximum or the added earnings of a spouse or former spouse.
- The lifetime estimates (in Table TM-3) reveal that the tax-benefit ratios do decline for the higher earners, so the increased benefits to higher earners and their spouses/survivors come at a cost of lower lifetime returns to their contributions.
- Using 2008 Trustees Assumptions, OCACT projects that increasing the contribution and benefit base to the point at which it would cover 90 percent of earnings and allowing the additional contributions to count toward benefits effective in 2009 would reduce Social Security's long-run (75-year) imbalance by almost half (about 49 percent).

Table TM-1. OASDI Benefits in 2030 and 2050 for Adult Beneficiaries under Current Law and with an Increase in the Taxable Maximum to Approximately 90 Percent of Total Payroll, Allowing Additional Benefit Payments on the Basis of the Increased Contributions

	2030			2050		
	Current Law Scheduled	Current Law Payable	Taxable Maximum to 90% of Payroll	Current Law Scheduled	Current Law Payable	Taxable Maximum to 90% of Payroll
	Average, \$2009	as % of current law scheduled		Average, \$2009	as % of current law scheduled	
All	\$15,899	100.0	101.0	\$19,417	80.1	103.4
Gender						
Men	\$17,130	100.0	101.1	\$20,596	80.1	103.9
Women	14,834	100.0	100.9	18,358	80.1	103.0
Age						
Disabled < 35	\$12,819	100.0	101.2	\$16,997	80.1	100.4
Disabled 35-49	14,199	100.0	100.9	18,253	80.1	101.2
Disabled 50-59	15,521	100.0	101.0	19,256	80.1	102.0
60-61	15,828	100.0	101.4	18,989	80.1	101.9
62-64	12,861	100.0	101.3	15,818	80.1	103.2
65-69	15,598	100.0	101.5	19,351	80.1	104.2
70-74	16,498	100.0	101.2	20,531	80.1	104.2
75-79	16,813	100.0	100.9	20,228	80.1	104.0
80-84	16,947	100.0	100.3	20,065	80.1	103.5
85+	16,285	100.0	100.2	19,145	80.1	101.9
Education						
<High school	\$11,515	100.0	100.4	\$14,394	80.1	101.4
High school graduate	14,943	100.0	100.4	17,855	80.1	102.2
College or more	19,578	100.0	102.0	23,290	80.1	105.2
Shared Lifetime Earnings Quintile						
Lowest	\$9,208	100.0	100.1	\$11,004	80.1	100.3
Second	13,175	100.0	100.2	15,700	80.1	100.6
Middle	16,014	100.0	100.3	19,506	80.1	101.1
Fourth	18,698	100.0	100.8	22,959	80.1	102.8
Highest	22,396	100.0	102.5	27,916	80.1	108.5

Source: Urban Institute Retirement Policy Program, based on DYNASIM3 (run614, April 2009). For more information, contact Melissa Favreault. Notes: Uses individual rather than family benefit for individuals in married couple households. Excludes dependent benefits for non-aged spouses. Shared lifetime earnings are defined as the average of indexed earnings from ages 22 through 62 (or year of disability, whichever is first). (The index used is Social Security's Average Wage Index.) Quintiles are defined for the OASDI beneficiary population in the selected year, not the overall population.

Policy change takes effect in 2010, when the taxable maximum is set at \$213,000.

Payable projections assume that reductions occur when the combined OASI and DI Trust Funds fall below zero (under 2008 OACT projections). Reductions are applied identically to OASI and DI beneficiaries based on combined income and cost rates (rather than the income and cost rates for the particular Trust Fund from which benefits are paid). Payable projections are projected to be lower under 2009 Trustees assumptions, so readers should interpret payable percentages conservatively.

Table TM-2. OASDI Benefits in 2030 and 2050 for Beneficiaries Ages 62-69 under Current Law and with an Increase in the Taxable Maximum to Approximately 90 Percent of Total Payroll, Allowing Additional Benefit Payments on the Basis of the Increased Contributions

	2030			2050		
	Current Law Scheduled	Current Law Payable	Taxable Maximum to 90% of Payroll	Current Law Scheduled	Current Law Payable	Taxable Maximum to 90% of Payroll
	Average, \$2009	as % of current law scheduled		Average, \$2009	as % of current law scheduled	
All	\$14,775	100.0	101.5	\$18,263	80.1	103.9
Gender						
Men	\$15,772	100.0	101.6	\$19,582	80.1	104.3
Women	13,812	100.0	101.2	16,996	80.1	103.5
Age						
62-64	\$12,861	100.0	101.3	\$15,818	80.1	103.2
65-69	15,598	100.0	101.5	19,351	80.1	104.2
Education						
<High school	\$10,794	100.0	100.5	\$14,007	80.1	101.2
High school graduate	13,874	100.0	100.6	16,840	80.1	102.6
College or more	18,252	100.0	103.0	21,740	80.1	105.9
Shared Lifetime Earnings Quintile						
Lowest	\$8,578	100.0	100.1	\$10,553	80.1	100.4
Second	12,481	100.0	100.3	15,056	80.1	100.6
Middle	15,014	100.0	100.5	18,411	80.1	101.2
Fourth	17,150	100.0	101.3	21,499	80.1	103.4
Highest	20,737	100.0	103.5	26,019	80.1	109.8

Source: Urban Institute Retirement Policy Program, based on DYNASIM3 (run552, July 2008). For more information, contact Melissa Favreault. Notes: Uses individual rather than family benefit for individuals in married couple households. Excludes dependent benefits for non-aged spouses. Shared lifetime earnings are defined as the average of indexed earnings from ages 22 through 62 (or year of disability, whichever is first). (The index used is Social Security's Average Wage Index.) Quintiles are defined for the OASDI beneficiary population in the selected year, not the overall population.

Policy change takes effect in 2010, when the taxable maximum is set at \$213,000.

Payable projections assume that reductions occur when the combined OASI and DI Trust Funds fall below zero (under 2008 OCACT projections). Reductions are applied identically to OASI and DI beneficiaries based on combined income and cost rates (rather than the income and cost rates for the particular Trust Fund from which benefits are paid). Payable projections are projected to be lower under 2009 Trustees assumptions, so readers should interpret payable percentages conservatively.

Table TM-3. Average and Median Ratio of Real Lifetime Shared OASDI Benefits to Real Shared OASDI Contributions for Members of the 1965-1972 Birth Cohorts (Ages 37 to 44 in 2009) Under Current Law and with an Increase in the Taxable Maximum to Approximately 90 Percent of Total Payroll, Allowing Additional Benefit Payments on the Basis of the Increased Contributions

	Current Law Scheduled		Current Law Payable		Restore the Taxable Maximum to 90% of Payroll	
	average	median	average	median	average	median
All	1.684	1.136	1.541	1.008	1.673	1.120
Gender						
Men	1.42	1.003	1.304	0.897	1.410	0.990
Women	1.966	1.296	1.794	1.145	1.953	1.278
Education						
<High school	2.363	1.396	2.200	1.270	2.362	1.385
High school graduate	1.730	1.176	1.588	1.052	1.723	1.169
College or more	1.353	1.044	1.217	0.919	1.332	1.017
Shared Lifetime Earnings Quintile						
Lowest	3.013	1.715	2.808	1.531	3.011	1.714
Second	1.767	1.336	1.626	1.201	1.765	1.329
Middle	1.378	1.164	1.248	1.041	1.370	1.157
Fourth	1.098	1.033	0.980	0.914	1.080	1.019
Highest	0.912	0.899	0.802	0.783	0.881	0.870

Source: Urban Institute Retirement Policy Program, based on DYNASIM3 (run614). For more information, contact Melissa Favreault.

Notes: Benefits and taxes are shared when an individual is married. Excludes dependent benefits for non-aged spouses. Shared lifetime earnings are defined as the average of indexed earnings from ages 22 through 62 (or year of death or disability, whichever is first). (The index used is Social Security's Average Wage Index.) Quintiles are defined for the 2050 beneficiary population.

Policy change takes effect in 2010, when the taxable maximum is set at \$213,000.

Discount rate for accumulating both contributions and benefits is 2 percent real. Individuals who die prior to receiving OASDI benefits are included in the tabulations if they make payroll tax contributions and survive to at least age 30. To reduce the influence of extreme outliers, we cap the tax-benefit ratios at 99.

Payable projections assume that reductions occur when the combined OASI and DI Trust Funds fall below zero (under 2008 OCACT projections). Reductions are applied identically to OASI and DI beneficiaries based on combined income and cost rates (rather than the income and cost rates for the particular Trust Fund from which benefits are paid). Payable projections are projected to be lower under 2009 Trustees assumptions, so readers should interpret payable percentages conservatively.

Table TM-4. Distributions of Changes in OASDI Benefits (Relative to Current Law Scheduled) in 2030 and 2050 for Adult Beneficiaries with an Increase in the Taxable Maximum to Approximately 90 Percent of Total Payroll, Allowing Additional Benefit Payments on the Basis of the Increased Contributions

	2030					2050				
	Shared Lifetime Earnings Quintile					Shared Lifetime Earnings Quintile				
	Lowest	Second	Middle	Fourth	Highest	Lowest	Second	Middle	Fourth	Highest
lose >=20%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
lose 15-19.99%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
lose 10-14.99%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
lose 5-9.99%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
lose < 5 %	0.0	0.0	0.0	0.2	0.1	0.0	0.0	0.2	0.2	0.2
no change	98.3	92.7	81.0	61.0	29.8	95.8	83.8	60.5	38.2	15.8
gain < 5%	1.4	6.2	17.9	35.2	55.4	3.6	13.2	34.3	47.8	43.0
gain 5-9.99%	0.2	0.7	0.8	2.7	9.6	0.4	1.8	3.5	8.8	17.2
gain 10-14.99%	0.0	0.2	0.1	0.6	2.7	0.1	0.8	0.9	2.7	8.9
gain 15-19.99%	0.0	0.1	0.1	0.2	1.0	0.0	0.1	0.3	1.0	4.8
gain >=20%	0.1	0.1	0.2	0.2	1.3	0.2	0.3	0.3	1.3	10.16

Source: Urban Institute Retirement Policy Program, based on DYNASIM3 (run614, April 2009). For more information, contact Melissa Favreault.

Notes: Uses individual rather than family benefit for individuals in married couple households. Excludes dependent benefits for non-aged spouses. Shared lifetime earnings are defined as the average of indexed earnings from ages 22 through 62 (or year of disability, whichever is first). (The index used is Social Security's Average Wage Index.) Quintiles are defined for the OASDI beneficiary population in the selected year, not the overall population.

Policy change takes effect in 2012, and the 30th percentile is defined based on non-disabled workers in the 1948 birth cohort with at least 40 covered quarters.