

Social Security Payroll Tax Reallocation Provision in the Proposed Bipartisan Budget Act of 2015

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Lawmakers and the public have expressed increasing concern over the imminent depletion of the Disability Insurance (DI) trust fund. Without legislative action, the DI trust fund is projected to be depleted [at the end of 2016](#), at which time tax revenue would be sufficient to pay only 81% of scheduled DI benefits. On October 27, 2015, the House Committee on Rules posted on its website the proposed Bipartisan Budget Act of 2015 ([H.R. 1314](#)). Among other provisions, the bill would extend the solvency of the DI trust fund to 2022 by temporarily reallocating a larger share of the Social Security payroll tax rate to DI. To inform the current debate, this Insight provides background on payroll tax reallocations between the Social Security trust funds.

The Social Security Trust Funds

Although commonly viewed as a single program, Social Security is financed through two legally distinct [trust funds](#). The DI trust fund finances the benefits of disabled workers and their dependents and the Old-Age and Survivors Insurance (OASI) trust fund pays for the benefits of retired workers and their dependents as well as the survivors of deceased workers. Each trust fund is a separate account in the U.S. Treasury, and under current law, the two trust funds may not borrow from one another.

Social Security is financed primarily by dedicated payroll and self-employment taxes under the Federal Insurance Contributions Act (FICA) and the Self-Employment Contributions Act (SECA). FICA taxes are split evenly between employees and employers, whereas SECA taxes are borne fully by self-employed individuals. Under current law, the FICA tax rate for employees and employers, each, is 6.200%, with 0.900% allocated to the DI trust fund and 5.300% to the OASI trust fund. On a combined basis, the FICA rate is 12.400%, with 1.800% allocated to the DI trust fund and 10.600% to the OASI trust fund. The SECA rate is the same as the combined FICA rate. The Social Security payroll tax applies to the first [\\$118,500](#) of earnings in 2015.

Under current law, the Social Security trustees project that the DI trust fund will be depleted in 2016 and the OASI trust fund will be depleted in 2035. The trustees project that the theoretical combined OASDI trust funds will be depleted in

2034.

Reallocation Proposal

The Bipartisan Budget Act of 2015 would extend the solvency of the DI trust fund by temporarily reallocating the payroll tax rate under [Section 201\(b\)](#) of the Social Security Act to provide DI with a larger share. A reallocation would redirect a portion of *future* Social Security tax revenues to the DI trust fund that would otherwise go to the OASI trust fund. Specifically, the bill would increase DI's portion of the payroll tax rate for employees and employers, each, by 0.285 percentage point, from 0.900% to 1.185%, for 2016 through 2018. On a *combined basis*, [the bill](#) would increase DI's share of the tax rate by 0.570 percentage point, from 1.800% to 2.370%, for the same period. The change in the SECA rate would mirror the change in the combined FICA rate.

Table 1. Social Security Tax Rates Under Current Law and Under the Bipartisan Budget Act of 2015

Year	Employees and Employers, Each (FICA)			Self-Employed (SECA)		
	OASDI	OASI	DI	OASDI	OASI	DI
<i>Rates Scheduled Under Current Law</i>						
2015+	6.200%	5.300%	0.900%	12.400%	10.600%	1.800%
<i>Rates Proposed Under the Bipartisan Budget Act of 2015</i>						
2015	6.200%	5.300%	0.900%	12.400%	10.600%	1.800%
2016-2018	6.200	5.015	1.185	12.400	10.030	2.370
2019+	6.200	5.300	0.900	12.400	10.600	1.800

Source: Congressional Research Service.

Because the bill would maintain the current payroll tax rate of 6.200% for employees and employers, each (12.400% combined), the portion of the tax rate allocated to OASI would *decrease* by a corresponding amount. This means that OASI's share of the tax rate for employees and employers, each, would decline by 0.285 percentage point (0.570 percentage point combined). For 2019 and later, the shares allocated to the OASI and DI trust funds would return to their 2015 levels.

The Social Security Administration's Office of the Chief Actuary (OACT) projects that the reallocation would extend the solvency of the DI trust fund from the fourth quarter of 2016 to the [third quarter of 2022](#). Although the reallocation would reduce the solvency of the OASI trust fund slightly, OACT estimates that the depletion date for OASI would remain unchanged at 2035. The depletion date for the theoretical combined OASDI trust funds would remain unchanged at 2034.

Use of Reallocations by Congress in the Past

As shown in [Table 2](#), Congress has authorized the reallocation of the payroll tax rate multiple times in the past, most recently in 1994. For the purposes of this Insight, a *reallocation* occurs when (1) the overall tax rate remains the same but the shares allocated to the trust funds change proportionally, or (2) the overall tax rate changes and the shares allocated to the trust funds change in opposite directions. In other words, a reallocation increases tax revenues to one trust fund and decreases revenues to the other regardless of whether the overall Social Security tax rate increases, decreases, or stays the same.

Lawmakers have historically included payroll tax reallocations in major amendments to the Social Security Act in order

to put the OASI and DI trust funds on a more or less equal financial footing. However, reallocations have been used at times to extend the solvency of nearly depleted trust funds. Payroll tax reallocations have sometimes benefited the DI trust fund and at other times have favored the OASI trust fund. Reallocation legislation may contain a rate schedule that changes the allocation between the trust funds multiple times and in different directions.

Table 2. Legislation Reallocating the Social Security Payroll Tax Rate

Public Law Number	Name	Date of Enactment	Reallocation Direction	Reallocated the FICA Rate?	Reallocated the SECA Rate?
P.L. 90-248	Social Security Amendments of 1967	January 2, 1968	OASI to DI	Yes (once)	Yes (once)
P.L. 91-172	Tax Reform Act of 1969	December 30, 1969	OASI to DI	Yes (once)	Yes (once)
P.L. 92-603	Social Security Amendments of 1972	October 30, 1972	DI to OASI	No	Yes (once)
P.L. 93-233	"Social Security Benefits Increase Act of 1973"	December 31, 1973	OASI to DI	No	Yes (once)
P.L. 95-216	Social Security Amendments of 1977	December 20, 1977	Both Directions	Yes (twice)	Yes (once)
P.L. 96-403	"Reallocation of Social Security Tax Receipts Act of 1980"	October 9, 1980	Both Directions	Yes (twice)	Yes (twice)
P.L. 98-21	Social Security Amendments of 1983	April 20, 1983	Both Directions	Yes (twice)	Yes (once)
P.L. 103-387	Social Security Domestic Employment Reform Act of 1994	October 22, 1994	Both Directions	Yes (3 times)	Yes (3 times)

Source: Compiled by the Congressional Research Service from the Social Security Administration, "Social Security History: Legislative Histories 1935-2004," Downey Books, <https://www.ssa.gov/history/legislativehistory.html>.

For historical Social Security payroll tax rates, see OACT's website at <https://www.ssa.gov/oact/progdata/oasdiRates.html>.