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Prepared for  
The Committee on Ways and Means  
United States House of Representatives  
Regarding the Subcommittee's Hearing  
"The Impact of COVID-19 in Social Security and its Beneficiaries"

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Thank you for the opportunity to submit testimony regarding COVID-19's impact on Social Security and its beneficiaries. Like many aspects of today's fiscal environment, trends that were worrisome before the pandemic have been accelerated by the unprecedented nature of today's crisis. It is my belief that the bipartisan problem solvers of this committee can address these pressures through thoughtful and deliberate action, and it is a great privilege to share some thoughts on that debate with you today.

My name is Mattie Duppler and I serve as the Senior Fellow for Fiscal Policy at the National Taxpayers Union, a non-partisan advocacy firm dedicated to demonstrating the real-world effect of public policy decisions to average Americans. The National Taxpayers Union is the nation's oldest public-interest group devoted solely to defending the interests of taxpayers in the nation's capital and in statehouses across the country.

This Committee has contemplated the long-term structural challenges faced by Social Security long before the COVID-19 pandemic turned the world upside down. Those challenges are both substantial and circumstantial: the looming funding gap and its causes are well-documented, yet Congress has routinely refused to tackle the task of fixing it head-on.

It is laudable, then, that Chairman Larson has proposed legislation that would do what few have dared to attempt: put Social Security on secure financial footing. However, the Chairman's proposal does so at considerable cost to workers – the Social Security 2100 Act increases payroll taxes 2.4 percentage points, raising the cost of doing business for employers, increasing the marginal cost of an employee for firms and reducing take-home pay for workers.

This trade-off is unwise in a healthy economy, and a potentially disastrous one during times of economic uncertainty. As the committee considers COVID-19's effects on Social Security, it should be mindful that the pandemic still requires deliberate, targeted, but



ultimately temporary efforts to regain the country's economic footing.<sup>1</sup> Legislation that addresses Social Security's funding shortfalls with permanent and damaging tax increases, or uses the crisis as a pretext to expand benefits through a program that already faces durable fiscal imbalances, would undermine the nascent recovery.

The country is currently experiencing the most acute economic contraction in its history. In March, 6.9 million people filed for unemployment benefits in a week, leap-frogging the previous record of 695,000 claims filed in October 1982.<sup>2</sup>

The following month, 20.5 million people registered as unemployed in the Department of Labor's April unemployment report.<sup>3</sup> Despite the record levels of unemployment, data suggests much of the pressure is still temporary: millions of jobs have been slowly added back to the economy over the past two months, while the number of temporarily unemployed people has dropped.<sup>4</sup>

Worryingly, the number of "permanently unemployed" workers has increased, according to the Department of Labor. This suggests that as public policymakers consider what can be done to combat the economic effects of COVID-19, their efforts should be concentrated on ensuring the public health shutdowns don't leave lasting scars on the American economy.

As we have seen with state unemployment systems struggling to keep pace with the demands of the COVID-19 crisis, economic contractions illustrate the importance of a robust and effective social safety net. However, downturns tend to increase dependence on social programs at a time when revenues fall, presenting dual pressures on solvency. In the case of Social Security, which relies on employment taxes, the scenario can be more worrisome: the revenues losses from tens of millions of people being out of work become more pronounced the longer those workers are kept on the sidelines.

Removing barriers for getting workers back to work then is key – both for the financial health of Social Security and for workers. Data suggests retiree household income has risen twice as fast as it has for working-age households over the last 40 years;<sup>5</sup> COVID-19 could

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<sup>1</sup> Read more: Lautz, Andrew and Mattie Duppler. "COVID "Phase 4" Legislation: How Congress Can Best Support Workers, Businesses, and States," 23 June 2020, <https://www.ntu.org/publications/detail/covid-phase-4-legislation-how-congress-can-best-support-workers-businesses-and-states>

<sup>2</sup> Morath, Eric. "U.S. Unemployment Claims Edge Lower but Remain Historically High." *The Wall Street Journal*, 18 June 2020, <https://www.wsj.com/articles/unemployment-benefits-weekly-jobless-claims-coronavirus-11592431795>.

<sup>3</sup> The Employment Situation, April 2020. U.S. Bureau of Labor Statistics, 8 May 2020, [https://www.bls.gov/news.release/archives/empsit\\_05082020.htm](https://www.bls.gov/news.release/archives/empsit_05082020.htm).

<sup>4</sup> The Employment Situation, June 2020. U.S. Bureau of Labor Statistics, 3 July 2020, <https://www.bls.gov/news.release/empsit.nr0.htm>.

<sup>5</sup> Sullivan, John. "Is There Really a Retirement Crisis?" *401K Specialist*, 20 April 2020, <https://401kspecialistmag.com/401k-specialist-issue-2-2020-andrew-biggs/>



exacerbate this divide if the crisis is used to justify policies that increase employment burdens for workers.

While current economic conditions have not caused Social Security's funding imbalance this committee is focused on fixing, they have certainly exposed structural flaws that undermine the program's commitment to providing security for retirees.

In particular, Social Security's wage indexing formula (AWI) is affected by today's economic contraction. For retirees turning 60 this year, their benefits will be calculated using the national wage average in 2020. The obvious consequence of COVID-19 related layoffs, business bankruptcies and drop in consumer demand is a likely drop-off in this year's national average wage – by some estimates as much as 15 percent lower than predicted in last year's Social Security Trustees Report.<sup>6</sup>

Chairman Larson was absolutely correct when he said in a recent statement regarding this “notch” issue: “no one could have predicted the COVID-19 pandemic, especially not in 1977 when the Social Security benefit formula was created.”<sup>7</sup>

It is also true that nobody can predict how the remaining months of 2020 will turn out. After shedding the largest number of jobs ever recorded in one month in April, the unemployment rate was expected to jump to its highest level since the Great Depression.<sup>8</sup> Instead, the economy began to add jobs in May – 2.5 million workers returned to work, demonstrating the unwavering resiliency of the American worker. Given that the AWI calculation won't have an effect on retirees until the following year, any policy changes should be considered when the full extent of the effects the COVID-19 lockdowns have had on the national wage average are known.

While legislation has recently been introduced to fix this “notch” issue for seniors turning 60 this year, it is silent on the “notch” created for seniors born in 1951, who turned 60 in 2009, a year the AWI dropped 1.51 percent.<sup>9</sup> If Congress is going to consider changing the AWI approach to calculating career earnings for workers, it should do so in a way that eliminates this uncertainty for all retirees. It should avoid using the downturn to expand benefits in a way that does not carefully consider the enormous strain the program already faces for future beneficiaries.

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<sup>6</sup> Biggs, Andrew. “If You Were Born in 1960, You Pay Extra for Covid-19,” *The Wall Street Journal*, 11 May 2020, <https://www.wsj.com/articles/if-you-were-born-in-1960-you-pay-extra-for-covid-19-11589235056?st=09ztl7c1ghsaccs>.

<sup>7</sup> Lewis, Keith. “House Democrats aim to expand social security benefits, alleviate 'notch',” *CQ Roll Call*. 10 July 2020.

<sup>8</sup> Cox, Jeff. “May sees biggest jobs increase ever of 2.5 million as economy starts to recover from coronavirus,” *CNBC*, 5 June 2020. <https://www.cnn.com/2020/06/05/jobs-report-may-2020.html>

<sup>9</sup> Average Wage Index Series, Social Security Administration, <https://www.ssa.gov/oact/cola/awidevelop.html>



A strong economy cannot solve the long-term funding imbalances that Social Security faces, but it is a crucial factor in stabilizing the program for generations to come.

As such, as Congress contemplates how COVID-19 has impacted Social Security, it should consider the importance – both to the program, and to the country – of securing a swift recovery built for all Americans.

Here, past economic downturns are instructive. Young people entering the workforce during a sudden and sustained contraction in the Great Recession were met with fewer job prospects and less opportunity to increase their earnings. These effects can compound over time, permanently altering an entire generation’s wealth potential.

As I explained in my first appearance before this Committee last spring,<sup>10</sup> people at the beginning of their careers are most burdened by an increase in payroll taxes. In fact, the current crisis has hurt the vulnerable populations that I warned were also most exposed to the impact of higher employment taxes; CBO earlier this spring stated that the economic effects of the precautions taken to contain the virus were disproportionately hurting younger and low-wage workers.<sup>11</sup>

Increases in payroll taxes would add thousands of dollars to the cost of hiring the typical college graduate.<sup>12</sup> This will force employers to either hire fewer new employees or cut wages for workers.

As such, both CBO and the Social Security Actuaries expect employers to cut salaries in response to an additional payroll tax levied on higher income earnings.<sup>13</sup> What’s more, when income exemptions are not indexed to inflation, such as in the Chairman’s bill, they eat up a larger share of employee income over time. This will further erode young people’s earnings opportunities as they move up the income ladder.

Another group that suffers disproportionately under increased payroll tax costs are entrepreneurs and small business owners. Payroll taxes present a larger burden, in some ways, to small businesses since the qualified business income deduction, – which is meant to establish parity between taxation of pass-through businesses and corporations – does not

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<sup>10</sup> Duppler, Mattie. “Statement Prepared for The Committee on Ways and Means Regarding the Subcommittee’s Hearing “Comprehensive Legislative Proposals to Enhance Social Security.” 8 April 2019, <https://gop-waysandmeans.house.gov/wp-content/uploads/2019/04/Duppler-Testimony.pdf>.

<sup>11</sup> Interim Economic Projections for 2020 and 2021. Congressional Budget Office, May 2020, [www.cbo.gov/publication/56351](http://www.cbo.gov/publication/56351).

<sup>12</sup> Duppler. “Statement Prepared for The Committee,” 3.

<sup>13</sup> Biggs, Andrew. “Statement before the Committee on Ways & Means United States House of Representatives, The Real Retirement Crisis: It’s Not Where You Think,” 6 Feb. 2019



reduce an entity's net earnings for assessing self-employment taxes.

This is especially important as the country begins to recover from the economic sanctions required to fight the spread of COVID-19 and as policymakers consider how much commercial life must change to keep the virus at bay. There are over 30 million small businesses in the United States, many of whom have struggled to keep their doors open during these uncertain economic times. CBO warned in May that its expectations for the labor market to recover are “dampened by the prospect that many businesses may not survive the earlier extended period of revenue loss.”<sup>14</sup>

Those businesses who have persisted may now be faced with additional costs and a reduced number of customers as a condition of opening in a world without a COVID-19 vaccine. In the CARES Act, Congress acknowledged these pressures by providing enhanced liquidity for businesses through a payroll tax holiday and Treasury followed suit with an automatic extension on first and second quarter income tax payments for businesses. It would be reckless for Congress to reverse course now and embrace new burdens on small businesses as the recovery gets underway.

A payroll tax holiday was deployed during the last crisis and today, this policy response seems even more prudent, because unlike the Great Recession, otherwise healthy businesses have been forced to close to slow the spread of coronavirus. This has created immediate cash-flow problems for tens of millions of American employers - limiting tax obligations for businesses is one vital step Congress took to try to give businesses financial space to survive the crisis.

I raise this point to demonstrate that bipartisan consensus on issues that impact Social Security – such as the payroll tax – are not relics of a bygone era but are real compromises that have been reached in recent memory while the country stood on the brink of an unprecedented crisis. Likewise, criticisms that the employer payroll tax holiday pits the interests of Social Security beneficiaries against workers are unfounded; just as in the Great Recession, Congress has repeatedly acknowledged that without protections against the economic onslaught the workforce was experiencing in times of economic uncertainty, both groups would suffer.

We are not yet through the challenges COVID-19 presents to the public and to the economy, but the thoughtful consideration of what it will take to revive the American economy is a task for which I know the members of this committee are prepared. I want to thank the committee for its thought leadership on how Social Security can be preserved beyond its current outlook. A robust economy cannot solve all the challenges Social Security funding faces, but it is a necessary piece of any plan to secure it for generations to come.

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<sup>14</sup> Interim Economic Projections for 2020 and 2021. May 2020