



FAQ: DONALD TRUMP'S HARMFUL SOCIAL SECURITY PLAN

What was the action the President recently took to suspend collection of payroll contributions?

The Federal Insurance Contributions Act ("FICA") [requires](#) employers to withhold Social Security insurance contributions from their employees' pay, match the contributions dollar for dollar, and regularly transmit them to the U.S. Department of the Treasury. In turn, Treasury deposits those contributions into Social Security's Old Age and Survivors Insurance and Disability Insurance trust funds. By law, those funds can [only be used](#) for the payment of benefits and related administrative expenses.

On August 8, 2020, Donald Trump [ordered](#) the Secretary of the Treasury to defer Social Security contributions (i.e., payroll taxes) from September 1, 2020 until December 31, 2020, pursuant to [Section 7508A](#) of the Internal Revenue Code. That section authorizes the Secretary of the Treasury to disregard the tax liability of taxpayers determined to be affected by federally declared disasters, terrorist attacks, or military actions.

For the first time in the history of Social Security, these contributions have been deferred unilaterally, by the president, with no Congressional legislation whatsoever. (The only other time they have been deferred [was](#) earlier this year, as part of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act.) Moreover, for the first time in history, the deferral differentiates between employees. It defers the tax liability of those making less than \$4000 in a two-week period and not a penny for those who make more, creating both a notch and administrative complexity.

How will this affect the Social Security Trust Funds and payment of benefits?

Social Security has three sources of revenue: (1) employee contributions matched dollar-for-dollar by employers; (2) investment income on the Treasury bonds held by Social Security in trust for the beneficial owners – the contributors and beneficiaries; and (3) dedicated revenue from the taxation of benefits.

In 2019, eighty-nine percent of Social Security's revenue came from the first source, the Social Security contributions. Eight percent came from the second source, the interest on Social Security's reserve, which totaled \$2.9 trillion at the end of 2019. Three percent came from the taxation of benefits. These percentages do not vary substantially from year to year.

The contributions the Trump administration has deferred amounts to about \$100 billion plus all interest earned on those deferred funds. Fortunately, Social Security has, as just stated, an accumulated reserve of \$2.9 trillion. Consequently, if the deferred funds are paid back in 2021, Social Security would have lost the interest income, but all benefits will continue to be paid in full and on time.



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At the same time, it sets a dangerous precedent with no real assistance to anyone. The supposed reason for Trump's action was to help Americans during today's economic crisis. However, a change in Social Security contributions does nothing for unemployed workers. Nor does it do anything for the forty percent of public-school teachers and two out of three police and firefighters who do not participate. For those who are employed and contributing, it provides more dollars to those who are affected and earn more. Someone who earns the minimum wage and works forty hours a week will receive an additional \$35 every two weeks, while the worker earning \$4,000 every two weeks will receive \$248.

That is, of course, if they receive anything at all. Employers are on the hook for the funds in 2021, so, though the government has not yet been clear, they may simply continue to withhold the money but not transmit it to Treasury until 2021, thereby securing an interest free loan from the government. Indeed, that is the likely outcome: the U.S. Chamber of Commerce has denounced the plan, as it creates an enormous administrative burden.

The Trump action likely will provide none of the financial assistance that is desperately needed by American families suffering because of our lagging economy. It certainly will not provide enough. And, to the extent they receive any relief at all, these employees will have double what is normally withheld for Social Security in order to pay back the deferral. That has not been well publicized and could create even more hardship in 2021, when the economy is unlikely to have fully recovered.

Indeed, that is apparently what will happen to federal employees, who will be subject to the double withholding in 2021. In response, Representative Don Beyer (D-VA) [said](#):

"The Trump Administration's plan to initiate payroll tax deferrals for civil servants treats the federal workforce as a guinea pig for a bad policy that businesses already rejected as 'unworkable.' Their proposed payroll tax deferral would not really put money in workers' pockets, it would simply set up the members of the federal workforce who can least afford it for a big tax bill that many will not expect."

Though it may not provide relief, what Trump's action does is set a dangerous precedent. Trump declared, at the same time he issued his deferral order, that, if re-elected, he wants to "terminate all contributions." That would be a death sentence for Social Security. His action on August 8 provides all of us with a roadmap of how he could kill Social Security, on his own, without any Congressional action whatsoever, as explained in the answer to the next question.

What is the President proposing for ongoing suspension of payroll premium contributions?

When Trump threatens to permanently "terminate" all Social Security contributions, he is saying, implicitly that he wants to end Social Security as we know it.



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[According to the Chief Actuary of the Social Security Administration](#), if all Social Security contributions stopped on January 1, 2021, the nearly 10 million people today getting Social Security Disability Insurance benefits, which average about \$1,125 every month, would see them stop abruptly in the middle of 2021. Those 55 million receiving Social Security Old Age and Survivors' Insurance benefits, which average around \$1,440 a month, would see them disappear just two years later in 2023.

That is because Social Security is, and has been since the beginning, primarily current-funded. That is, benefits are paid from current income. Since Social Security can only pay benefits if it has sufficient income to cover the costs of all benefits plus associated administrative costs, if its income stops, so do benefits. Social Security has an accumulated reserve of \$2.9 trillion, but that is only enough to pay its disability benefits to the middle of 2021 and its retirement and life insurance benefits to the middle of 2023.

While pundits correctly point out that only Congress can terminate the contributions, it is important to keep in mind the legal proposition, "Justice delayed is justice denied." In this case, Social Security contributions delayed, are Social Security benefits denied.

Trump has already ordered Treasury to stop collecting Social Security contributions for the next four months. Under that same authority, he could simply keep the deferral going. Just as Trump ordered the four-month deferral without any Congressional involvement whatsoever, he certainly could continue the deferral, once he is safely re-elected and no longer answerable to voters.

On its face, section 7508A permits deferrals for up to one year when a disaster is federally declared. That is long enough to stop Social Security disability benefits. While killing off Social Security's old age and survivors' benefits would take longer than a year, the president could interpret the statute to permit an additional twelve-month deferral with the declaration of another disaster, and then one more. Three one-year deferrals would cause all Social Security benefits to cease and the program to effectively terminate.

Even if he did not intend to cause all benefits to stop, that threat would give him enormous leverage, forcing Congress to privatize Social Security, as he supported before running for office, make other destructive changes, or use it as a hostage for other priorities. At worst, Social Security would no longer pay benefits to anyone; at best, the threat to end Social Security would provide him with even more power than he now has.

Can't Congress prevent him from causing this sort of harm to Social Security? If not, why?

In theory, Congress could stop him, but it would need to pass legislation by a veto-proof majority in both the Senate and the House of Representatives, both of which are highly unlikely.

If Congress didn't try to stop the deferrals but merely substituted general revenue, it would require a transfer of over \$1 trillion each and every year. That is [about a 30 percent increase](#) in



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general revenue spending over what the general fund spent in 2019. Moreover, that additional \$1 trillion would have more than doubled the FY 2019 deficit.

Moreover, spending has already gone up and revenue has gone down substantially as a result of the pandemic. [According to](#) the Congressional Budget Office, spending has increased 50 percent in the first 10 months of this fiscal year and the deficit has more than tripled.

Concerningly, even if Congress were willing to spend that much general revenue and Trump declined to veto the legislation, substituting general revenue would fundamentally alter Social Security. Its dedicated revenue and inability to deficit-spend means that Social Security does not add a penny to the nation's federal debt. Social Security's creator, President Franklin D. Roosevelt clearly understood the importance of those Social Security contributions, which, in his words, "give the contributors a legal, moral, and political right to collect their [Social Security] pensions."

With a presidential threat to have zero benefits paid whatsoever, Congress, absent a veto proof majority, would effectively be held hostage. It is not hard to imagine, at that point, a backroom deal that fulfilled the longstanding goal of opponents of Social Security to eliminate the features of Social Security that have made it so successful and so popular.