



Social Programs Debate

February 07, 2023

There are a variety of reasons to closely watch the new debate over Social Security benefits and FICA taxes, which has become part of the negotiations over raising the U.S. Federal debt ceiling. For people of a certain age (who are currently collecting Social Security benefits), the most alarming proposal comes from Rick Scott, the influential chairman of the National Republican Senatorial Campaign Committee. He has recommended that Social Security and Medicare be sunset five years in the future—meaning no benefits in 2028 and thereafter to the people who paid into the system, effectively allowing the government to appropriate trillions of dollars of future benefits that people thought they had paid for.

At least five of the seven Republican Senatorial candidates ran on a promise to cut Social Security, Medicare and/or prescription drug reforms that lower drug costs for seniors. And the Republican Study Committee released a proposed budget that would raise the age to receive full Social Security benefits to age 70, with the age going up based on changes to life expectancy thereafter. Medicare benefits would, under the plan, become a means-tested voucher program.

On the other side of the political divide, a number of prominent Democrats, including Senators Bernie Sanders and Elizabeth Warren, have proposed that the government shore up the Social Security program by eliminating the wage cap on FICA taxes. That means that instead of applying a 15.3% tax on wage earnings up to \$160,000, the tax would be applied to all wage earnings. The argument there is that it's unfair that a handful of executives effectively pay their entire year's FICA taxes in the first hour of their first workday in the new year, effectively paying hundredths of a percent of their income into the system, while the majority of people are paying 15.3% of their income.

It's unlikely, from a political standpoint, that Congress will take away Social Security benefits from the people who are already receiving them—because that would create a backlash among older voters. The people who have become most wary of the Republican proposals are younger workers, who have grown up skeptical that their parents' generation ever intended for them to enjoy the lifetime retirement annuity that they created for themselves. Cuts to Medicare might be easier to hide from voters, but would run afoul of the medical lobby.

A compromise might be a gradual increase in full retirement age over time, tied to increases in lifespans. After all, when the Social Security program was enacted, the normal retirement age (65) roughly equaled the average American's lifespan; things have changed a lot since then.

Most economists are equally skeptical about eliminating the wage cap, for a number of reasons. One is that it wouldn't be imposed on investment gains and income, which is a significant source of wealth for the wealthiest Americans. Second, it would be relatively easy to avoid the tax; business owners and corporate executives could find ways to recharacterize their compensation as dividends or other distributions that are not wages.

But at the same time, the current cap is somewhat arbitrary, and raising it incrementally might not be too onerous on working Americans or politically dangerous.

Another possible 'fix' to Social Security is to raise the number of workers who pay into the system. Currently, 16.9% of Americans are over age 65, and that percentage is expected to grow to 22% by 2050. The ratio of workers to retirees (people paying in to people receiving) could be improved if the U.S. were to be more welcoming to younger immigrant workers seeking an opportunity to earn an income here in America. But of course that, too, carries with it a number of delicate political implications.

Sources:

<https://www.americanprogressaction.org/article/maga-republicans-plan-to-force-social-security-and-medicare-cuts/>

<https://www.nerdwallet.com/article/taxes/fica-tax-withholding>

<https://www.greemantoomey.com/eliminating-the-wage-cap-on-social-security-taxes/>

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

Please feel free to forward this article and offer to anyone you know who might have financial questions or need some unbiased advice. Most financial advice is sales advice. In stark contrast, we are fee-only (non-commissioned) fiduciary advisors. We just provide truthful, unbiased advice to our clients.



Jeffrey Broadhurst
MBA, CFA, CFP
Broadhurst Financial Advisors, Inc.



****PRIVACY NOTICE****

This message is intended only for the individual or entity to which it is addressed and may contain information that is privileged, confidential, or exempt from disclosure under applicable federal or state law. You are hereby notified that any dissemination, distribution, or copying of this communication, except in accordance with its intended purpose, is strictly prohibited.

Our physical and mail address:

1911 West Point Pike
P.O. Box 301
West Point, PA 19486-0301

Contact us:

Phone: (215) 325-1595
Email: jeff@broadhurstfinancial.com