



How the Payroll Tax Cut Puts Your Social Security Benefits at Risk!

Social Security is funded directly by a 6.2% payroll tax that workers pay on their earnings up to \$106,800. Employers also contribute 6.2% on these earnings. The money raised through this payroll tax is used to pay benefits. It is in this way that **Social Security is entirely self-financed**. In fact, through the years, workers have contributed more to the program than what has been paid out, leaving the **Trust Fund with a \$2.6 trillion surplus**. Being independently financed is the armor that protects Social Security from attacks falsely claiming that the program is a burden to our economy.

The 2011 Payroll Tax Cut

Last year, Congress agreed to a **payroll tax cut that is costing the Social Security Trust Fund \$112 billion in lost contributions**. Under the deal, workers are contributing two percent less to Social Security (4.2 percent of their wages to Social Security rather than the usual 6.2 percent). This lost revenue is then paid back to Social Security from general revenues by the U.S. Treasury.

The idea was that this one-year, “temporary” tax cut would stimulate the economy because workers would use this money to buy more and employers would then use these extra profits to hire more workers. Unfortunately, **there is little evidence of the payroll tax cut having a stimulative effect on the economy**.

Diverting funds from Social Security and then replenishing them with transfers from the general fund is alarming because **the transfer undermines the fundamental pillar that Social Security is self-financed and self-sustaining**. Transferring money from general revenues to Social Security to replace the contributions it lost from the payroll tax cut only gives the program’s critics more fodder to falsely argue that the program is in trouble. As noted below, **there are better ways to stimulate the economy without risking Social Security benefits**.

Beware - Proposal to Extend and Expand the Payroll Tax Cut!

Even though the cut has not been stimulative and paying for it has actually contributed to the deficit, many in **Congress are considering *extending* the cut and this time *expanding* the payroll tax holiday** to exempt employers from paying a portion of their payroll tax contributions. **This all spells trouble for Social Security**.

Extending and expanding the payroll tax cut could erode public support for the program by destroying the one component that many hold dear: You pay into the program with the trust that when you retire, you will receive the benefits that you have earned. Using general revenue to help pay benefits jeopardizes this popular feature and threatens public support for the program.

What You Need to Know About the Payroll Tax Cut

It undermines Social Security's Long-Term Solvency

- A 2% payroll tax cut, if unfunded from general revenue, runs the risk of almost doubling Social Security's 75-year projected shortfall.
- Using general revenue to repay the contributions diverted from the Social Security Trust Fund each year will be increasingly difficult in a political environment where all we hear is "Cut, Cut, Cut!" This could result in a huge drain to Social Security.
- There is legitimate concern that there will be a push to permanently extend the payroll tax cut, without replenishing the Social Security Trust Fund to make up for the lost revenue. This will devastate the financial foundation of the program and the retirement security of millions of Americans.

It Threatens to Weaken Popular Support for Social Security.

- Despite its \$2.6 trillion surplus, Social Security is already unfairly described by its critics as an "unfunded liability." The payroll tax cut makes Social Security dependent on transfers from the general fund to reimburse it for the diverted funds. This arrangement only gives the program's critics more fodder to claim that Social Security is not self-sustaining and thus in need of immediate cuts.
- The American people support Social Security because they know that it is a program that they paid for with their hard-earned contributions. Breaking this link between contributions paid and benefits received risks putting a serious dent in this appreciation for the program.

There Are Better Ways to Stimulate the Economy Without Putting Social Security at Risk

A tax credit, such as the 2010 "Making Work Pay Tax Credit" would put money back in workers' pockets without jeopardizing Social Security. The Making Work Pay Tax Credit was tax credit worth up to \$400 for single taxpayers and \$800 for married taxpayers who filed jointly.

