



Rep. Jeff Landry Presents the SSPICE Act

By Daniel Anderson on February 16, 2012

This morning, Representative Jeff Landry (R-LA) and representatives from FreedomWorks and the Cato Institute presented a briefing on the Social Security Preservation through Individual Choice Enhancement (SSPICE) Act. In response to the seemingly endless debate over the payroll tax cut, Rep. Landry has introduced this common sense reform bill into the House, while Senator Mike Lee (R-UT) and Senator Jim DeMint (R-SC) have cosponsored an identical bill in the Senate.

We [support](#) this legislation, and here's why.

First, it's important to understand the issue at stake. The "payroll tax cut" I'm referring to is a 2 percentage-point reduction in the FICA wage tax, and was originally promoted by President Obama as a temporary measure to help relieve the tax burden on struggling families. In December of last year, the one-year tax cut was set to expire, but Congress agreed to a two-month extension after a brief but heated political battle over how to pay for it. Now that the two months are nearly up, Democrats and Republicans have agreed to extend the tax relief for an additional ten months, without paying for it.

Republicans did try to hold out for spending cuts as "pay-fors," but Democrats refused to go along, and so GOP leaders gave up trying. The politics of letting the FICA tax rise by 30 percent on 160 million Americans in an election year, and during a down economy, was too daunting.

The SSPICE Act, however, offers a simple solution to the GOP's problem. The Chief Actuary of Social Security has calculated that the loss of revenue from an individual participating in the payroll tax cut could be made up if that individual pushed back his retirement age by one month for every year he received the tax break. In other words, to pay for the tax break for a year, you would have to accept a one-month delay before retirement. If an American who enters the workforce at age 18 opts into the tax break every single year until he's 67, the current retirement age, he would be able to retire just over the age of 71.

The key issue here is the near-term revenue shortfall that results from the payroll tax cut. In 2011, the payroll tax cut decreased revenue by \$120 billion dollars. While FreedomWorks supports tax cuts and believes that the government has a spending problem, not a revenue problem, Social Security presents a difficult situation.

Michael Tanner, a senior fellow at the Cato Institute, laid out some of the facts about Social Security. Today, it's running a deficit. It's technically above water due to interest payments on the Social Security trust fund, but the revenue coming in is simply less than the spending going out. In order to make up this gap, the government must raise taxes, cut benefits, or take the money from other programs and agencies in the budget.

Of course, that is not the whole picture. There *is* the Social Security trust fund, which can make up the revenue gap because Social Security has run a surplus in the past. This is something that opponents of Social Security reform are always quick to point out. However, what's actually in the trust fund? The answer is government bonds – basically, IOUs from Uncle Sam to himself.

So, in order to actually use this money, the Social Security trust fund must redeem these bonds, and again *that* money will come from the government. The trust fund holds \$2.9 trillion dollars in government bonds. Obviously, the federal government does not have \$2.9 trillion dollars. Therefore, once again, in order to actually find the money to make up the revenue shortfall for Social Security, the government must raise taxes, cut benefits, or take the money from other government programs and agencies in the budget.

The bigger picture is even more troubling. Today, Social Security has \$21 trillion dollars in unfunded liabilities. As things are, Social Security simply cannot pay out the present level of benefits to future generations without dramatically increasing revenue, which in effect means raising taxes. The only alternatives are to cut benefits significantly or to end the program altogether. As Tanner pointed out, this is only making a bad deal for young people even worse, and we need to come up with a better deal.

Congressman Landry was blunt about the problems at hand and told the audience, largely comprised of young people, that "It's your problem. ...It's real." He suggested that the SSPICE Act is the first step in solving this crisis. With the finances of Social Security in shambles, losing an additional \$120 billion dollars annually because of the payroll tax cut is devastating and only makes the problem more difficult.

He argued that Social Security is a "something for something" system, one in which you pay in something in order to get something out. If we pay in less money due to the payroll tax cut holiday, then we obviously can't receive the same benefits that we did before. Something *must* change. The SSPICE Act is a simple solution that will help to fix the revenue shortfall. Better yet, the Chief Actuary of Social Security found that the SSPICE Act would reduce Social Security's long-term unfunded liabilities by \$2.1 trillion dollars.

The SSPICE Act is by no means a cure-all for Social Security. The problems with the program are systemic and will require additional significant reform. However, it *is* a powerful first step that solves the current debate over the payroll tax cut while simultaneously helping Social Security. More importantly, the SSPICE Act is a *principled* solution to the problem. By giving the option of whether or not to participate in the tax break back to the American people, the bill would restore individual choice and increase freedom for Americans.

Conservatives should embrace this issue as a way to help deal with the Social Security crisis, end the payroll tax cut debate, and restore freedom to Americans over what to do with the money they earn. As Congressman Landry put it at the conclusion of the briefing, the SSPICE Act is "good policy and good politics."

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