

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: June 4, 2015

TO: Honorable Members of the Rules, Elections and Intergovernmental Relations Committee

FROM: Sharon M. Tso 
Chief Legislative Analyst

Council File No.: 15-0002-S1
Assignment No. : 15-01-0023

SUBJECT: Resolution (Koretz – Huizar) to oppose any legislation that adopts new rules prohibiting the reallocation of Social Security payroll taxes.

CLA RECOMMENDATION: Adopt the attached Resolution (Koretz - Huizar) to include in the City's 2015-2016 Federal Legislative Program **OPPOSITION** to any legislation or Congressional action that prohibits the reallocation of Social Security payroll tax revenue from the Old-Age and Survivors Insurance program (OASI) to the Disability Insurance (DI) program.

SUMMARY

Resolution (Koretz – Huizar), introduced on January 9, 2015, states that currently pending in the United States House of Representatives is a proposal for a new rule that makes it difficult for Congress to reallocate Social Security payroll tax revenue from the program's retirement fund (OASI) to the program's Disability Fund (DI). The Resolution indicates that Congress routinely reallocates these funds to enhance the viability of the Social Security Trust Fund and that House Republicans moved to block this standard reallocation of funds. The Resolution further states that the disability fund will run out of reserves in 2016 without a reallocation of revenue from the retirement fund to the disability fund. According to the Resolution, this would result in a 20 percent reduction to disability benefits.

The Resolution states that reallocation between the two programs has traditionally been a routine matter. The Resolution notes that such a reallocation only has a minor effect on the solvency of OASI and any action adopting this rule will cause harm to the hard working people of Los Angeles by putting the health and welfare of the elderly and disabled at risk.

The Resolution requests the City to oppose any legislation or other Congressional action which adopts new rules regarding the reallocation of Social Security payroll tax revenue between DI and OASI.

BACKGROUND

Social Security provides retirement benefits, survivor benefits, and disability benefits and is supported by payroll taxes paid by workers and matching contributions paid by employers. According to the Social Security Administration (SSA), approximately 165 million individuals pay Social Security taxes and approximately 58 million individuals receive monthly Social Security benefits. The retirement program is funded by revenues contained in the Old-Age and Survivors Insurance Trust Fund (OASI Trust Fund), and the disability insurance program is funded by revenues contained in the Social Security Disability Insurance Trust Fund (DI Trust Fund).

According to the SSA, Congressional action is needed to reallocate funds from the OASI Trust Fund to the DI Trust Fund to ensure that the DI Trust Fund will continue to pay full disability benefits through 2016. The SSA notes that, if the trust fund reserve is depleted in 2016, revenue for the DI program would be sufficient to support 81 percent of program costs which may delay or reduce benefit payments to individuals who receive income from this program. The SSA further notes that President Clinton signed a bill in 1994 to reallocate funds from the OASI Trust Fund to the DI Trust Fund to avoid the depletion of the DI Trust Fund in 1995.

On January 6, 2015, the United States House of Representatives approved H. Res. 5 relative to various operating rules for the 2015-16 Congressional session. The Resolution also includes a provision to prohibit the House of Representatives from considering any bill that does not improve the actuarial balance of the two Trust Funds. Thus, the Resolution prohibits the House of Representatives from considering any bill which reallocates funds from the OASI Trust Fund to the DI Trust Fund as proposed by the SSA. Advocates state that the provision is intended to ensure that Congress resolves issues related to Social Security and to prevent the Social Security program from addressing one debt by incurring another. The Center on Budget and Policy Priorities, an organization which analyzes federal fiscal issues and programs which affect low to moderate-income individuals, states that a reallocation from the OASI to the DI would only have a minor effect on the OASI program's solvency inasmuch as the balance in the OASI Trust Fund is much larger than the DI Trust Fund.

The City has long prioritized policies and programs which support the continued health and well-being of disabled individuals. Therefore, we recommend that the City support the Resolution to oppose any legislation or other Congressional action which adopts new rules that prohibit the reallocation of Social Security payroll tax revenue between the DI and OASI programs.

Departments Notified

None.

Bill Status

01/06/2015 Passed in House of Representatives.



Brian Randol
Analyst

Attachment: Resolution (Koretz – Huizar)

RULES, ELECTIONS & INTERGOVERNMENTAL RELATIONS
RESOLUTION

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations, or policies proposed to or pending before a local, state, or federal government body or agency must first have been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, currently pending in the United States House of Representatives is a proposal for a new rule that makes it considerably more difficult for Congress to reallocate Social Security payroll tax revenue from the program's retirement fund ("OASI") to the program's disability fund ("SD"); and

WHEREAS, Congress routinely reallocates these funds to enhance the viability of the social security trust fund and the house republicans moved to block this standard reallocation of funds; and

WHEREAS, without a reallocation of revenue from the retirement fund to the disability fund, the disability fund will run out of reserves in 2016, requiring a 20% cut to disability benefits; and

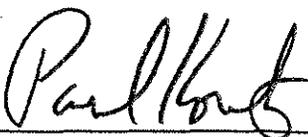
WHEREAS, reallocation between the two programs has traditionally been a routine matter; and

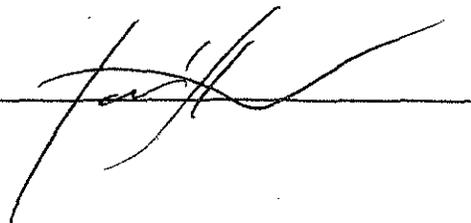
WHEREAS, the need to replenish the DI fund is largely the result of the reallocation of revenues from DI to OASI which started in 1983 and has happened 11 times since; and

WHEREAS, a reallocation to replenish DI would have only a minor effect on the solvency of OASI; and

WHEREAS, any action adopting this rule will ostensibly cause harm to the hard working people of Los Angeles by putting the health and welfare of the elderly and disabled, some of the most vulnerable members of our population, at serious risk;

NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2015-2016 Federal Legislative Program opposition to any legislation or other Congressional action which adopts its new rules regarding the reallocation of Social Security payroll tax revenue between DI and OASI.

PRESENTED BY: 
PAUL KORETZ
Councilmember 5th, District

SECONDED BY: 

JAN - 9 2015