

SOCIAL SECURITY FINANCING

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ISSUE DEFINITION

The Old Age and Survivors Insurance (OASI) program, the largest of the social security programs, will not have sufficient resources to meet its benefit payments on time in July 1983. Even if the program were permitted to continue to borrow from the other social security programs, the financial shortfall would re-emerge in 1984. Recent projections show that the cash benefits programs, OASI and Disability Insurance (DI), together would need \$150 to \$200 billion in new revenues or benefit cuts to give a reasonable degree of assurance that they would make it to 1990 without further changes. Assuming this short-range problem is met, the program should be solvent until about 2025, when the effects of the retirement of the baby boom generation will plunge the system into deficit.

To solve social security's financing problems both in the short and long term, President Reagan appointed a bipartisan panel, the National Commission on Social Security Reform. On Jan. 15, 1983, a majority of its members reached agreement on a compromise solution that will produce \$168 billion in additional revenue and benefit reductions by the end of this decade and reduce the projected long-range deficit by two-thirds.

Congress is expected to begin consideration of the Commission's and other possible proposals immediately. The House Ways and Means Committee plans to have hearings in February, and have a bill before the full House by sometime in March. Primary jurisdiction in the Senate is in the Finance Committee.

BACKGROUND AND POLICY ANALYSIS

Social Security and Its Relatives

There are two social security programs, OASI and DI, that provide monthly cash benefits to retirees, the disabled and survivors. Both are financed with social security taxes.

Medicare provides nationwide health benefits to many of the same persons who receive cash benefits through its two programs: Hospital Insurance (HI) financed with social security taxes, and Supplementary Medical Insurance (SMI) financed by General revenues and by premiums from participants.

Medicaid, Aid to Families with Dependent Children (AFDC), and Supplemental Security Income (SSI) provide various similar forms of cash and health benefits, but they are means-tested and financed entirely by general revenues and State and local funds.

Cash Benefits

Social insurance concept. Social security is not "insurance" in any sense recognizable by the business community or private actuaries. However, it is often viewed as a very broad type of "social insurance" under which the

"group," in this case 90% of the workers of the nation, pools resources to meet the wide variety of individual and family circumstances arising from the loss of a worker's earnings due to retirement, death or disability. As such, it has what some refer to as a mixture of insurance and welfare features. While work in covered employment is required for eligibility, and benefits are computed using one's earnings history, the various forms of benefits are not directly related to the amount of one's tax payments (for instance, no added premium is required for spouse's benefits or survivor protection).

Eligibility. Cash benefits are payable to "insured workers" (i.e., those who have worked a sufficient amount of time in jobs covered by social security) and to their spouses and children.

--Full retirement benefits are payable at age 65, but benefits can begin as early as age 62 at reduced levels.

--Disability benefits are payable if a worker has had relatively recent attachment to the workforce and his impairment is so severe that it precludes him from doing substantive work.

--Widows' and widowers' benefits can begin at age 60 (earlier if the surviving spouse is disabled or caring for the deceased worker's children).

Benefit computations. Benefits are calculated using much of a worker's earnings record. However, the benefit formula is tilted to provide higher returns on taxes to workers who have had relatively low earnings. Benefits are not means-tested, but, if a recipient works and has earnings above a certain level, benefits are fully or partially withheld (this is sometimes referred to as the "retirement or earnings test").

Financing Structure

Pay-as-you-go concept. Social security taxes do not build up in a "fund" for an individual or group to meet their eventual benefits (as do private pension contributions). Taxes are set in the law in a way that produces only enough revenues to meet current obligations. Current workers support current beneficiaries; future workers will eventually support today's workers when they become beneficiaries.

Taxation: OASI, DI and HI are funded almost entirely with social security tax proceeds. SMI receives three-fourths of its income from the General Fund, one-fourth from premiums paid by recipients. (Because SMI is not financed with social security taxes, unlike HI it usually is not considered in discussions of social security financing. Even HI is often taken up only peripherally.)

--The overall tax rate is 6.7% paid by employee and employer each (13.4% combined) on earnings up to \$35,700 in 1983. (The tax rate is 9.35% for the self-employed.)

--The tax rate is scheduled to rise in three steps to 7.65% in 1990. The maximum earnings subject to the tax will rise each year at the same rate that average

earnings rise in the economy.

--Distribution of tax receipts among the programs (1982):

<u>OASI</u>	<u>DI</u>	<u>HI</u>
68%	12%	19%

Trust Funds

Each program has its own trust fund, whose entire assets are invested in U.S. government securities. The trust funds serve only a contingency purpose in the event that adverse circumstances arise (i.e., a severe recession). Presently, the combined reserves of the OASI, DI and HI funds represent less than 2 months worth of assets (slightly more than one month for just OASI and DI). The system cannot function with less than one month's worth of benefit payment in reserve.

Indicators of Social Security's Growth and Relative Importance

	<u>1960</u> (OASI and DI only)	<u>1980</u>
Expenditure as % of Federal budget ...	12.6%	20.6%
Expenditure as % of GNP	2.33%	4.79%
Tax rates	3.0%	5.08%
Taxes paid by worker with average earnings	\$120.21	\$635.68
Covered workers	73 million	115 million
Beneficiaries	14 million	35 million
Worker to beneficiary ratios	5.1 to 1	3.3 to 1
Earnings replacement for new retirees (benefits as a % of final earnings for average earner)	33.3%	51.1%
Social security as % of personal income	2.8%	5.6%
Poverty trends (% in poverty) 1959 and 1980		
Age 55 to 64	21.5	9.5
Age 65 and older	35.2	15.7
Total population	22.4	13.0

THE FINANCING ISSUE

History

Financing shortfalls first appeared in the 1973 Trustees' report, and grew substantially worse with each succeeding report. Both near- and long-term problems emerged -- the near-term one was caused by adverse economic conditions, the long-term one by a technical flaw in the benefit formula and more pessimistic demographic trends. The OASI and DI trust funds would have been exhausted in the early 1980s if legislation had not been enacted in 1977 raising taxes and curtailing future benefit growth. The legislation also corrected the technical flaw in the formula and substantially reduced the long-run deficit (estimated then to equal 40% of the program's cost).

Even though significant increases in social security taxes were enacted in 1977, the major increases were not scheduled to take effect until 1981 and later. In the meantime, the performance of the economy was much worse than expected. It is this fact that has caused continuing decline in the OASI reserves -- in fact, the estimates of future beneficiaries made in 1977 turned out to be somewhat on the high side (specifically in the DI program), but not enough to offset the drain on the system caused by the adverse economic conditions.

High unemployment, of course, reduces income because fewer workers are contributing to the system. It has been estimated that each one percent increase in unemployment reduces income, depending on residual effects, by \$2 to \$4 billion a year. However, it is generally agreed that the most important economic factor affecting social security financing is the growth in real wages -- i.e., the excess of the increase in wages over the increase in prices. When wages do not keep up with prices, increases in social security tax revenue do not keep pace with the increase in expenditures arising from the automatic adjustment of benefits to increases in prices. For example, in June 1980, beneficiaries received a 14.3% automatic cost of living increase, while the increase in average wages during the year ending June 1980 was only about 8.7%. The economic forecast underlying the 1977 amendments assumed that real-wage growth would average over 2% during 1977 through 1981; in fact wages grew more slowly than prices during most of that period. That is the crux of the short-range financing problem.

As the forecasts of the condition of the OASI trust funds have worsened over the past several years, stopgap measures have been enacted to buy time for the Congress to assess the significance of the problem. In 1980 revenues were reallocated from the DI program to the OASI program, but only for calendar years 1980 and 1981. In 1981 various relatively minor categories of benefits were cut by the Omnibus Budget Reconciliation Act, and at the end of the year authority was given for the trust funds to borrow from one another, but only until the end of 1982. The borrowing could not exceed the amount needed to assure benefit payments beyond June 1983.

In May 1981 the President presented a package, consisting almost entirely of benefit reductions, that would solve social security's financing problem. After considerable adverse reaction from the public and Congress, the President withdrew the package and called for the creation of a bipartisan commission to come up with substantive solutions to social security's fiscal

crisis. The study group, called the National Commission on Social Security Reform, would report its recommendations by the end of 1982. In fact, the Commission could not agree on a set of recommendations by the scheduled date, but did arrive at a consensus agreement on a compromise package of proposals on Jan. 15, 1983. The package consisted of a combination of tax increases and benefit cuts, and are described in more detail later under the section that discusses options.

Short-Term Problem (1983 to 1990)

The OASI program is the only program in immediate trouble among the three financed by the social security tax, but the size of the OASI problem greatly exceeds the favorable situations of the DI and HI programs. Borrowings from the DI and HI funds made in December 1982 will keep OASI payments flowing only until June 1983 (the July payment won't be made on time without remedial legislation). Even if extended, interfund borrowing could not prevent all three funds from becoming exhausted by mid to late 1984.

The National Commission on Social Security Reform estimated that \$150 to \$200 billion in new revenues or benefit cuts would be needed to give reasonable assurance that the system will be adequately financed until 1990. This assumes sluggish economic performance and minimal trust fund build-up.

Intermediate Future Problem (Next 25 Years)

Under the Social Security Trustees' II-B projections, the OASI situation is predicted to improve in the early 1990s, even without legislation, because of the 1990 tax increase and a favorable demographic situation. The cash benefit programs are projected to recover from the 1980s' problems and actually build up fairly large reserves (\$700 billion by 2015 in 1982 dollars).

However, financing problems in the HI program beginning in the late 1980s are projected to grow and exceed the favorable situations for the two cash benefits programs. Thus, on a combined basis, all three funds would become inadequately financed in 1984 and not regain a favorable status during the next 25 years.

Long-Run Problem (Next 75 Years)

The retirement of the baby-boom generation in the first quarter of the next century is projected to erode the favorable OASDI situation (putting the HI problem aside), and by 2025 to 2030, financial problems would re-emerge (once again under the Intermediate II-B forecast). In contrast to the more than three workers to finance each beneficiary which exists today and is projected to last throughout the next 25 years, there would be only two workers for each beneficiary by 2030.

The financial shortfall for this later period is projected to equal about 26% of the cost of the program. The OASDI portion of the tax rate would have to rise from about 11% today for employee and employer combined to 17% by 2030. (HI estimates are not usually made beyond a 25-year period, and even the 25-year forecast often is not considered very meaningful).

Public's Perception -- The "Image" Problem

Repeated adverse financial reports over the past decade have created a significant degree of public pessimism about the longevity of the social security system. Public opinion polls of the past 5 or 6 years have consistently shown that substantial "doubts" exist that social security will survive, or that if it does, that it will provide much of a retirement benefit. Skepticism is most notable among workers under age 45. Recent examples:

LA Times, Nov. 1982 Poll:

--By 3 to 2, persons age 18-45 believed system "is in serious danger of going broke" (one-half of this group did not expect to receive social security benefits at all; one-half also favored making social security voluntary).

Gallup (U.S. Chamber of Commerce) Poll, spring 1982:

--By 6 to 1, workers who were interviewed felt the system had "major financial problems" (63% believed they would get no benefits when they retired).

OPTIONS

Policy options for improving social security's financial condition have taken a wide variety of forms ranging from small, token changes to a complete overhaul of how workers plan and provide for the risks of retirement, death or disability. For discussion purposes, they are presented under two general headings: conventional and unconventional proposals. These are generic options that are among the standard "bill of fare" usually mentioned as ways of solving social security's financing dilemma. At the end of this section, the specific financing recommendations of the National Commission on Social Security Reform are described.

Conventional Ideas

These are the most frequently discussed types of solvency measures. They are labeled "conventional" here because generally they are not intended to alter the pay-as-you-go or social welfare features of the program. They are grouped into four categories:

- raise social security taxes
- find new sources of revenue
- constrain social security benefits
- expand coverage.

It is very likely that any financing package emerging from the 98th Congress will not rely on any one of these approaches alone to address the problem, but will in fact be a "mix" of them with the major issue being "how much" of one or another is to be used.

1. Raise social security taxes. This approach typically calls for accelerating tax rate increases already scheduled in the law (i.e., moving up the 1985, 1986 or 1990 increases). Alternatives would raise the tax rate for the self-employed up to the combined employee/employer level, or raise the maximum amount of earnings subject to the tax. Yet another approach would raise taxes only for the employer. In addition, tax increase proposals frequently include provisions giving the employee an income tax deduction for part or all of his social security taxes to lessen the net increase he will actually feel (the employer already gets a business deduction for his social security taxes).

New revenues
(1984-1989)

- move 1990 increase up to 1984 \$135 billion
- have no limit on taxable earnings80-85 billion

Arguments for: This is the traditional approach of addressing social security's financial needs. Raising taxes consistently shows up as the favorite in public opinions polls when pitted against benefit reductions. It also addresses the program's financial problems without disrupting the plans of those approaching retirement, and it dampens further erosion of public confidence about the long-run survival of the social security benefit package. Proponents further point out that a tax increase can be spread more thinly among workers than a benefit cut of comparable size among recipients, since there are three times as many workers as recipients.

Arguments against: A significant tax increase might hurt the Nation's recovery from the current recession, by increasing business costs and reducing a worker's disposable income. It also would raise the cost of labor at a time when unemployment is at its highest level since the Depression. It further would antagonize many workers who won't see the trade-off against benefit reductions when the larger tax deduction is taken from their pay, particularly younger workers who think they will not get benefits anyway or that they will get "poor" rates of return (their belief being that they are throwing money away on a "bad" system).

2. Find new sources of revenue. This approach calls for coming up with new sources of income to supplement the social security tax. Using general revenues is the most commonly discussed alternative, having been a highly visible option since the inception of the program (only the SMI program uses them in any significant way now). Others call for increasing excise taxes on such things as alcohol and tobacco products (with earmarking of such revenues for the DI and HI programs because of the connection of the consumption of these products with health problems) or on gasoline (which would address jointly the social security and energy conservation issues). Yet another approach would be to subject part or all of a recipient's benefits to the income tax as is the case for unemployment insurance, private pensions and other retirement-type benefits.

New income to system
(1983 to 1989)

- reallocate one-half of HI tax rate to OASI,
reimburse HI out of general revenues.....\$177 billion
- increase excise tax on alcohol and tobacco... 14 billion .

Arguments for: Many people feel that the social security tax is a "bad" tax -- it raises labor costs and is considered regressive. The use of general revenues is thought to be less regressive (i.e., to the extent that a tax increase ultimately arose, it would be with the more progressive income tax), and would not necessarily impose a new tax increase on the economy at a time when it is attempting to pull out of a bad recession. It further avoids imposing benefit cuts on people who now are living on their social security benefits or counting on them in the near future.

Selective excise tax increases would raise revenues while possibly discouraging consumption of goods thought by many to be harmful to the individual, or in the case of oil products, to the economy.

Arguments against: Critics feel that using general revenues simply would transfer the problem from one "troubled" fund to another (since the General Fund also is running an enormous \$150-\$200 billion deficit next year alone). They argue that "fiscal discipline" (paying for benefit improvement with tax proceeds) would be lost and little or no "brake" would exist to ward off excessive expansions of benefits. Others argue that using general revenues would lead ultimately to measuring "need" as a condition for benefits, by forcing social security to compete against other government programs for scarce resources. They also argue that any movement away from using the social security tax would weaken the worker's support for social security (by causing him to view it as less of a system that he paid for directly).

3. Cutting social security benefits. Typically this calls for constraining the growth of future benefits. It usually doesn't involve reducing benefits for current recipients, and future benefit levels very likely would rise above today's levels (but not as high as if they were not altered). Among the benefit reductions most frequently discussed are reducing or delaying cost-of-living adjustments (COLA's), raising the age of eligibility for retirement benefits or the age at which full benefits can be received, and altering the benefit formula to produce lower across-the-board "initial benefits" for future recipients.

Savings
(1983-1989)

- reduce COLA by 2 percentage points...\$103 to \$113 billion
- delay COLA for 3 months.....\$23-\$35 billion
- age and benefit formula changes are
viewed mostly as long-run measures,
with little or no savings in short run

Arguments for: Many analysts believe that the program's near-term financing problem is the consequence of overly generous automatic benefit increases. They argue that in recent years recipients have fared better than the workers whose taxes support the program (recipients have received full inflation adjustments of their benefits while workers' wages have not kept up with inflation). They argue that temporarily delaying or reducing the size of benefit increases would save substantial sums in the near-term without greatly harming any single subgroup of recipients.

Raising the retirement age is justified on the basis that people likely will live longer in the future and receive benefits for longer periods of their lives than current recipients do.

Constraining the growth of the benefit formula in the future often is justified on the basis that replacement rates (benefits as a percent of prior earnings) were not deliberately permitted to rise after 1972 (being an unintended aberration of providing automatic inflation adjustments), and a gradual return to 1972 replacement levels would go a long way toward reducing the program's long-run problem. Furthermore, benefits could still rise in "real" terms even if replacement rates were reduced.

Arguments against: Critics argue that cutting future benefits breaks the so-called "social contract" between the government and workers. Although no contract exists in a truly legal sense, many argue that social security carries a long-term moral commitment. They argue that social security benefits are still quite low for many workers, that most other sources of income for recipients are fixed, and that private pensions have not shown much tendency to grow and fill the gap between what a recipient needs and what he receives from social security. They also argue that reducing benefits will raise the poverty rate among the elderly, since so many recipients rely on social security for most of their income. They further contend that raising the retirement age will hit the most economically vulnerable members of society the hardest -- those in arduous occupations, the disabled or impaired, the unemployed and minorities. Finally, like tax increases, they argue that benefit reductions will worsen "expected" future rates of return for those already skeptical about the value of the system.

4. Expanding coverage. Most Federal employees do not pay into social security, but into their own civil service pension system. State and local government and nonprofit organizations have an option of whether to participate, which has resulted in some 30% of State and local employees and 20% of nonprofit employees being excluded. Proposals to cover these workers mandatorily would bring substantial resources into the social security program both in the near and long-term (although the more obvious financial gain would be in the near-term). They range from covering all workers (including those who have had many years of service under a separate staff plan) to only new hires (sometimes the new hires approach includes those not yet vested under civil service, i.e., those with less than 5 years of service). They also range from covering only Federal workers to covering all presently excluded workers.

New income to system
(1983-1989)

-- cover all Federal, State and local,

and nonprofit workers.....\$117 billion

-- cover new Federal, State and local
and nonprofit hires.....\$ 35 billion

-- cover new Federal hires and all
nonprofits.....\$ 21 billion

Arguments for: Since social security has many social welfare features, advocates argue that these excluded workers do not pay their fair share of the Nation's social costs by avoiding the portion of such costs built into the social security system. Advocates also point out that these workers often get "heavily weighted" benefits intended not for them but for long-term low wage earners (because in computing benefits, the social security system does not consider this worker's full earnings history, i.e., his noncovered work). They further point out that social security protection is often better for younger workers than government staff plans, particularly for survivor and disability protection.

Arguments against: Critics argue that this question should not be decided solely on the grounds that social security is having financial troubles. They argue that government workers have their own systems and are not the cause of social security's financial woes. They view coverage under social security as a back door way of cutting their benefit package (by imposing an earnings test or reduced benefits for early retirement). They view themselves as being "under attack" (for being part of the "bloated bureaucracy") and are fearful of further measures to alter their compensation, including fringe benefits.

State and local critics argue that mandatory coverage would be tantamount to Federal taxation of the States (and therefore unconstitutional) and if implemented would cause substantial and very complicated restructuring of many existing staff plans.

Unconventional Ideas

Numerous proposals have emerged in recent years raising what many view as fundamental questions about social security. The current financial problems confronting the system are used as the stepping off point for promoting a complete overhaul for how society goes about addressing the income requirements of the elderly, the disabled and families of deceased workers. Their major purpose is to change either how the program distributes its resources or to turn much of its function over to the private sector. Typically the arguments are that the program is grossly inequitable and/or that its financing is "inherently unstable" because it is pay-as-you-go and relies on the government's "withering" ability to raise taxes.

1. Giving a bigger role to the private sector. These proposals often are confused with the idea of making social security completely voluntary. Generally, advocates of giving a larger role to the private sector would continue to mandate that people put resources aside, while they work, for their retirement (or for the risks of early death or disability). Some want to give people a choice between social security and a private sector

alternative. Others would dismantle social security and require people to set money aside in private plans (savings, IRAs, private pensions, etc.). Some call for immediately dismantling social security, giving workers bonds or the like for their existing contributions to the system, and financing current benefits out of General revenues. Others call for a more gradual phase-out of social security, perhaps accomplished over 30 or more years (for instance, by requiring that young workers pay into a private fund rather than social security).

The primary intent of these proposals is to create a more direct link between what a worker puts into a plan and what he gets out, and to have him put the resources away during his productive years (often referred to as full or advance funding) rather than requiring future workers to come up with the resources for his benefits.

Arguments for: Advocates believe these approaches would result in more adequate funding of retirement and related income needs, because in private sector plans, resources would be set aside in advance of receipt of the benefits. They wouldn't rely on the "willingness" of future workers to accept taxation.

They picture the current system as just a massive "money machine" that attempts to redistribute resources between those who work and those who do not, but that it doesn't direct its benefits to those most in need since it doesn't use a means-test. They further argue that poverty levels among the elderly are generally no higher than for the rest of the population, being in the 10% to 15% range, and that the bulk of the workforce does not need a massive "income redistribution program" to meet its retirement income and related needs. Finally, they argue that redirecting money to the private sector would increase "investment" resources in the economy, thereby stimulating capital formulation, and creating strong economic growth.

Arguments against: critics point out that giving people an option to choose between social security and a private sector alternative would further weaken if not destroy social security's financing base. If a substantial number of workers opted into a private sector plan, the social security tax would have to rise for everyone else. Moreover, the well-to-do (the group most likely to opt out) would be the ones able to avoid paying for the social costs built into the system. Conversely, those with the highest "risks" would be the ones likely to stay in (creating what is known as adverse selection).

With regard to plans to dismantle social security, critics argue that there really is no way to get from here to there without putting an astronomical burden on the General Fund (in order to pay for the benefits of those continuing under the current system). They also argue that social security does not inhibit savings and investment, that its mere existence has made people more aware of the need to set aside resources for their later years. Finally, they argue that the poverty rate among the elderly would rise significantly if social security were dismantled, and many older persons would have to "suffer the indignities" of going on what they would view as "public relief."

2. Two-tier benefit programs. The primary objective of these types of plans is to separate the social or welfare features of social security from its annuity functions. The financing issue is more or less a secondary one, although advocates like to point out that expenditures would be reduced under

two-tier plans since payments to those not "in need" would be reduced. While numerous two-tier plans have been proposed, they generally fall within two very different frameworks.

One has a first tier which provides what might be considered a "universal benefit" payable to everyone at a certain age. It is not a means-tested benefit. It is expected that this tier would substantially take the place of the weighted benefit formula and dependents benefits of the current system. A worker would then supplement this first tier with an "earned" benefit from working. The amount he receives would be directly proportional to the amount of his average earnings -- the tilt in the current formula would be removed (and benefits would be computed as a flat percentage of one's average earnings).

The second approach would set a specified dollar amount as the accepted "minimum income guarantee." As in the first approach, a worker would get an "earned" benefit from his work based on a flat-rate benefit formula. However, the tiers would be reversed. If his earned benefit were less than the "guaranteed level," he would receive a supplement to bring him up to that level. The supplement, however, would be based on his "need" as determined by a means-test. If his earned benefit exceeded the guarantee level, he wouldn't get a supplement.

The welfare tiers of either of these plans presumably would be financed from general revenues.

Arguments for: Advocates argue that the current system does not address its social or welfare goals effectively. They argue that it provides "social type" benefits to persons of substantial means (for instance, the larger a worker's benefit, the larger will be his spouse's benefit. Thus, a minimum wage earner today is paying for the relatively large family benefits provided to a wealthy retired couple). They argue that dividing the program's welfare and annuity features would lessen or eliminate these "wasteful" benefits. They further argue that creating "individually-based" earned and supplemental benefits would remove many benefit inequities that exist between single workers and couples, and between one and two-earner couples.

Arguments against: Critics of these approaches argue that they would create greater social stratification. The current system does not label any portion of its benefits as welfare, and avoids many of the connotations and images of welfare-type programs. They feel that by creating this welfare "stigma," the worker's support for the system would be eroded. They also argue that benefits would be reduced for many "non-wealthy" dependents and survivors. They further argue that this type of change would not necessarily bring about any further financial security to the system, since it would merely move the costs from one fund to another, and any inherent weaknesses of "pay-as-you-go" financing would carry over to the new "earned-benefit" tier.

National Commission on Social Security Reform Recommendations

The following is a list of the National Commission's recommendations that affect the financing of the social security program and their cost effects. It should be noted that the savings and revenues produced are estimates and can vary widely depending upon what assumptions are used. It is also noteworthy that the Commission specifically rejected the "unconventional"

approach and chose instead among the "conventional" ideas mentioned above.

(1) The OASDI tax schedule would be accelerated. The 1985 rate would be moved to 1984, the 1985-87 rates would remain as scheduled under present law, part of the 1990 rate would be moved to 1988, and the rate for 1990 and after would remain unchanged. The HI tax rates for all years would remain unchanged. The resulting tax schedule would be:

Year	Employer and Employee Rate (each)			
	OASDI		OASDI-HI	
	Present Law	Proposal	Present Law	Proposal
1983	5.4%	5.4%	6.7%	6.7%
1984	5.4	5.7	6.7	7.0
1985	5.7	5.7	7.05	7.05
1986	5.7	5.7	7.15	7.15
1987	5.7	5.7	7.15	7.15
1988-89	5.7	6.06	7.15	7.51
1990 and after	6.2	6.2	7.65	7.65

For 1984, a refundable income tax credit would be provided against the individual's Federal income-tax liability in the amount of the increase in the employee taxes over what would have been payable under present law. Revenues under this proposal would be \$40 billion in 1984-1989 and +.02% of taxable payroll in the long range.

(2) The automatic cost-of-living adjustments (COLA) of OASDI benefits, beginning in 1983, would be delayed 6 months, so that they are payable in January rather than in July. The increase in the CPI for purposes of the automatic adjustments for any particular year is currently measured from the first quarter of the previous year to the first quarter of that particular year. This procedure would continue to apply for the adjustment in benefit amounts for 1983 (payable in early January 1984). However, for subsequent years, the comparison would be made on a "third quarter to third quarter" basis. This proposal would save \$40 billion 1983-1984 and .27% of payroll in the long run.

(3) Mandatory OASDI coverage would be extended, as of Jan. 1, 1984, to all newly hired civilian employees of the Federal Government and all employees of nonprofit organizations. This proposal would produce \$20 billion in 1984-1989 and a net long-range revenue of +.30% of taxable payroll.

(4) Beginning with 1984, 50% of OASDI benefits would be taxable for persons with Adjusted Gross Income (excluding OASDI benefits) of \$20,000 (single) or \$25,000 (married). Proceeds from such taxation would be credited to the OASDI Trust Funds. This proposal would produce \$30 billion in 1984-1989 and +.60% of taxable payroll in the long run.

(5) The OASDI tax rates for self-employed persons, beginning in 1984, would be equal to the combined employer-employee rates. One-half of the

OASDI taxes paid by self-employed persons would be tax deductible. This proposal would produce \$18 billion in 1984-1989 and +.19% of taxable payroll in the long range.

(6) A lump-sum payment to the OASDI Trust Funds would be made from the General Fund of the Treasury for:

- the present value of the estimated additional benefits arising from the gratuitous military service wage credits for service before 1957;
- the amount of the combined employer-employee OASDI taxes on the gratuitous military service wage credits for service after 1956 and before 1983 (the cost of which is met, under present law, when additional benefits derived therefrom are paid). In the future, the OASDI Trust Funds would be reimbursed on a current basis for such employer-employee taxes on such wage credits for service after 1982; and
- the amount of uncashed OASDI checks issued in the past (which were charged against the trust funds at time of issue), estimated at about \$300-400 million.

The effect of these proposals is to add \$20 billion to the trust funds in 1983, with a net effect in 1983-1989 of +\$18 billion (due to some additional costs in 1984 and 1985). There is no long-range effect.

(7) Withdrawal by State and local government employees would be prohibited. Termination notices now pending would be invalid if the process of termination, which takes at least 2 years, is not completed by the date of enactment. This would save \$3 billion in 1983-1989 with negligible effect in the long run.

The other commission recommendations, which have minor effects, are summarized in the following table.

<u>Proposal</u>	<u>Short-Term Savings, 1983-89 (billions)</u>	<u>Long-Range Savings (percentage of payroll)</u>
Eliminate windfall benefits for persons with pensions from noncovered employment	+.2	+.01
Continue benefits on remarriage for disabled widow(er)s and for divorced widow(er)s	-.1	--
Index deferred widow(er)'s benefits based on wages (instead of CPI)	-.2	-.05
Permit divorced aged spouse to receive benefits when husband is eligible to receive benefits	-.1	-.01
Increase benefit rate for disabled widow(er)s aged 50-59 to 71 1/2% of primary benefit	-.1	-.01
Reallocate OASDI tax rate between OASI and DI	--	--
Allow inter-fund borrowing from HI by OASDI for 1983-1987	--	--
Base automatic benefit increases if fund ratio is under 20%, with catch-up if fund ratio exceeds 32%	--	--
Increase delayed retirement credit from 3% per year to 8%, beginning in 1990 and reaching 8% in 2010	--	-.10

In total, the commission's recommendations are projected to increase OASDI trust fund assets by \$168 billion by the end of the decade, and reduce the long-range deficit from 1.8% to .58% of taxable payroll. Alternative methods for solving the remaining long-range deficit are presented in the statements by the members, but no consensus was reached.

CHRONOLOGY OF EVENTS

- 01/15/83 -- The National Commission on Social Security Reform agreed on a compromise package of recommendations to solve the short- and long-term problems facing social security.
- 09/03/82 -- President signed into law the Tax Equity and Fiscal Responsibility Act of 1982 (H.R. 4961), including significant changes in the Medicare program.
- 08/19/82 -- House and Senate passed conference agreement on H.R. 4961.
- 12/29/81 -- President Reagan signed H.R. 4331 into law (P.L. 97-123), restoring minimum benefit and authorizing interfund borrowing for 1 year.
- 12/16/81 -- House passed conference agreement on H.R. 4331, by a vote of 412-10.
- 12/15/81 -- Senate passed conference agreement on H.R. 4331, by a vote of 96-0.
- 10/15/81 -- Senate passed H.R. 4331 with interfund borrowing, tax reallocation and other measures, by a vote of 95-0.
- 09/24/81 -- President Reagan shelved his social security financing proposals for a while, and called upon Congress to enact interfund borrowing while a bipartisan task force pursues more substantive financial solutions.
- 08/13/81 -- President Reagan signed Omnibus Budget bill into law as P.L. 97-35.
- 07/31/81 -- House and Senate approved conference agreement on Omnibus Budget Reconciliation Act of 1981 (H.R. 3982) which includes a number of significant cutbacks in the social security program. House passed H.R. 4331 (restoration of minimum benefit).
- 05/12/81 -- Reagan Administration announced 14-point plan to correct social security short and long term financing problems.
- 03/27/81 - 04/07/81 -- Social Security Subcommittee of House Ways and Means Committee conducted "tentative" markup sessions on social security financing legislation.
- 02/17/81 -- Social Security Subcommittee began a series of hearings on the system's financial problems.
- 10/09/80 -- President Carter signed H.R. 7670, creating P.L. 96-403 (2-year tax reallocation -- DI to OASI).
- 09/25/80 -- Senate passed H.R. 7670 and sent bill to President for

signing.

- 09/16/80 -- Senate Finance Committees approved H.R. 7670 and H.R. 5295, with amendments, including tax reallocation measures previously passed by Senate in S. 2885.
- 08/21/80 -- Senate Finance Committee ordered reported H.R. 5829, providing for \$39 billion in income tax reductions for 1981.
- 07/21/80 -- House passed H.R. 7670.
- 07/01/80 -- Full House Ways and Means Committee approved H.R. 7670.
- 06/30/80 -- Full Senate approved S. 2885, the FY81 Budget Reconciliation bill, including Finance Committee recommendation to reallocate tax rates to the OASI program.
- 06/25/80 -- Subcommittee on Social Security of House Ways and Means Committee recommends 1980-1981 partial reallocation of DI rate to OASI program (H.R. 7670).
- 06/19/80 -- Senate Finance Committee recommends 1980-81 partial reallocation of DI rate to OASI program as proof of budget reconciliation measures.
- 03/17/80 -- Subcommittee on Social Security of House Committee on Ways and Means began 2 days of hearings on Social Security aspects of President's FY81 Budget.
- 02/22/80 -- Senate Finance Committee began two days of hearings on social security financing.
- 12/19/79 -- Senate passed Crude Oil windfall Profits Tax measure (H.R. 3919) including provision creating a taxpayers trust fund for possible use in providing payroll tax relief.
- 11/08/79 -- House Ways and Means Committee began 3 days of hearings on VAT.
- 11/01/79 -- Senate Finance Committee reported out H.R. 3919 with provision creating Taxpayers Trust Fund.
- 09/28/79 -- Subcommittee on Social Security of House Committee on Ways and Means began 5 days of hearings on social security financing.
- 08/01/79 -- House Republican leadership proposed \$36 billion tax relief measure, including partial rollback of social security tax increases.
- 01/24/79 -- Democratic Caucus voted resolution calling for rollback of social security taxes in 1981.

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