Reports & Studies

REPORT OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

JANUARY 1983

The National Commission on Social Security Reform (informally known as the Greenspan Commission after its Chairman) was appointed by the Congress and the President in 1981 to study and make recommendations regarding the short-term financing crisis that Social Security faced at that time. Estimates were that the Old-Age and Survivors Insurance Trust Fund would run out of money possibly as early as August 1983. This bipartisan Commission was to make recommendations to Congress on how to solve the problems facing Social Security. Their report, issued in January 1983, became the basis for the 1983 Social Security Amendments which resolved the short-term financing problem and made many other significant changes in Social Security law.

(Editorial Note: We have converted this report from its 200+-page printed version. This required photocopying each page, OCRing the document, scanning numerous tables and graphs as image files, editing, proofing and encoding in HTML. This is a complex process. We have made painstaking efforts to assure the accuracy of our electronic version. However, it is possible that errors may have been introduced in the conversion. Accordingly, when in doubt, or in case of a conflict, the printed document should be considered the accurate record.

Basic Report:

Members of the National Commission

Letter of Transmittal to The President

Chapter 1- Introduction

Chapter 2- Findings and Recommendations

Chapter 3- Financing Problems of the Medicare Program

Chapter 4- Additional Statements

Appendices:

A. Executive Order 12335 Establishing the NCSSR and Executive Orders 12397 and 12402 Modifying the Reporting Date

B. President's Remarks Announcing the Establishment of the NCSSR

C. Charter of the NCSSR

D. President's Letter to the Chairman and the Commission Members

E. List of Meetings of the NCSSR

F. List of Staff Memorandums Prepared for the NCSSR

G. Papers presented to the NCSSR

H. Staff of NCSSR

I. Glossary

J. Financial Status of the Social Security Program

K. "Old-Age, Survivors, and Disability Insurance and Hospital Insurance Programs -- Actuarial Cost Estimates for OASDI and HI and for Various Possible Changes in OASDI and Historical Data for OASDI and HI", Background Book, revised version, December 1982.

Chapter 4

ADDITIONAL STATEMENTS

This chapter consists of additional statements of individual members of the National Commission. These statements are presented alphabetically by name of member; those which are signed onto by several members appear first.

The statements appear in the following order:

(1) Commissioners Archer, Beck, Conable, Dole, Fuller, Greenspan, Heinz, and Trowbridge
(2) Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper (long-range financing and issues of special concern to women)
(3) Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper (independent agency)
(4) Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper (HI cost estimates)
(5) Commissioners Dole and Conable
(6) Commissioner Archer
(7) Commissioner Armstrong
(8) Commissioner Fuller (long-range financing)
(9) Commissioner Fuller (issues of special concern to women)
(10) Commissioner Kirkland
(11) Commissioner Waggonner

SUPPLEMENTARY STATEMENT ON MEETING THE LONG-RANGE FINANCING REQUIREMENTS BY COMMISSIONERS ARCHER, BECK, CONABLE, DOLE, FULLER, GREENSPAN, HEINZ, AND TROWBRIDGE

The recommendations made in the "consensus" package fail to meet the long-range goal of providing additional financing equivalent to 1.8% of taxable payroll. The shortfall is an estimated .58% of taxable payroll. We believe that this should be derived by a delayed, slowly phased-in increase in the "normal" retirement age (the age at which unreduced retirement benefits are available to insured workers, spouses, and widow(er)s -- which is age 65 under present law).

The major reasons for this proposal are:

(1) Americans are living longer.

(2) Older workers will be in a greater demand in future years.

(3) The disability benefits program can be improved to provide cash benefits and Medicare to those between age 62 and the higher normal retirement age who, for reasons of health, are unable to continue working.

(4) Because the ratio of workers to beneficiaries is projected to decline after the turn of the century, younger generations are expected to pay significantly increased taxes to support the system in the 21st century. An increase in the normal retirement age will lessen the increase.

(5) Given sufficient notice, coming generations of beneficiaries can adjust to a later retirement age just as earlier generations adjusted to age 65.

Although we believe that greater action in this direction may be desirable, we are suggesting only enough change to produce approximately the needed .58% of taxable payroll. The recommended change would apply only to the normal retirement age. Early-retirement benefits would continue to be available beginning at age 62 for insured workers and spouses and at age 60 for widows and widowers, but the actuarial reduction factors would be larger. The minimum age for eligibility for Medicare benefits would continue to be the "normal" retirement age for OASDI benefits. Disability benefits are now available under somewhat less stringent definitions for those aged 60-64. However, because some workers, particularly those in physically demanding employment, may not benefit from improvements in mortality and be able to work longer, we assume that the disability benefits program will be improved prior to the implementation of this recommendation to take into account the special problems of those between age 62 and the normal retirement age who are unable to extend their working careers for health reasons.

Under our proposal, the normal retirement age would be gradually increased -- one month each year -- to age 66 in 2015, beginning the phase-in with those who attain age 62 in 2000. Beginning with those who attain age 62 in 2012, the normal retirement age would be automatically adjusted (on a phased-in basis) so that the ratio of the retirement-life expectancy to the potential working-lifetime (from age 20 to the "normal" retirement age) remains the same over the years as it was in 1990. The estimated long-range savings of this proposal is 0.65% of taxable payroll.

SUPPLEMENTARY STATEMENT

BY

Commissioners Robert M. Ball, Martha Keys, Lane Kirkland, Daniel Patrick Moynihan and Claude Pepper (members selected by the Democratic leadership of the Congress)

<u>Long-Term Financing and Issues of Special Concern to Women</u>

<u>Meeting the Remaining Long-Term Deficit</u>

All of us supported the compromise agreement which is being recommended by a vote of 12 to 3 of the full Commission.(1) The agreement provides for fully meeting the Commission's short-term financing goal and also for meeting about two-thirds of the Commission's long-term goal--1.22% of payroll out of the 1.8% projected need.

We recommend that the remaining 0.58% of payroll deficit be met by providing additional revenues starting in the year 2010, in advance of the period when the bulk of the deficit is projected to occur. Sufficient additional revenues would be provided by an increase of less than one-half of 1% (0.46%) in deductions from workers' earnings beginning in 2010 and a like amount in employer payroll taxes (with an equal combined rate for the self-employed) or the revenue could be supplied by an equivalent general revenue contribution, or some combination of the two. For purposes of present legislation we would support putting in the law now an increase in the contribution rate beginning in 2010 of 0.46% of payroll (with the employee contribution offset by a refundable income tax credit) recognizing, of course, that in the next century the Congress may prefer to raise the money in some other way and that, in fact, such a rate increase would not be allowed to go into effect unless estimates at the time of the scheduled increase showed that it would be needed.

An increase of less than one-half of 1% in the contribution rates in all probability would not mean an increase in the burden of supporting OASDI because: (1) By 2010 real wages are likely to be substantially higher than they are now; and, (2) although levied at a higher rate, the rate will apply to a smaller portion of total compensation than today if the expansion of non-taxable fringe benefits projected in the estimates actually occurs. (If such expansion fails to materialize the contribution rate increase would be unnecessary.)

In contrast to our plan for meeting the part of the long-range deficit not addressed by the compromise agreement, some members of the Commission seek to meet the remaining deficit by raising the age at which full benefits are first payable and then continuing to raise the age automatically in relation to improvements in longevity. This proposal is a benefit cut. If the age is raised to 68, benefits would be reduced by 20% relative to those received at age 65; if it is raised to age 67, the cut is 13%; and if set at age 66, the cut is 7%.

The cut would be concentrated on those unable to work up to the newly set higher age and on those unable to find jobs. It would cut protection for those now young, the very group being asked to pay in more and for a longer period of time. And an automatic provision changing the age of first eligibility for full benefits would make it very difficult for people to plan for retirement. It would also greatly complicate private pension planning. In our opinion it is unwise to try to index Social Security for all possible future changes in society. Social Security has enough indexing. Congress can act to make future changes in the long-run future as needed.

We favor the maintenance of the full range of retirement options in present law so that the program will be responsive to the great variety of occupations in the American economy and to the great variety of individual circumstances. It is one thing for example, to consider a higher age of first eligibility for full benefits for white collar workers; something else again for those required to do heavy work. The system today has the required flexibility. It provides: (1) full benefits at any age for qualified workers who have long continued total disability, (2) actuarially reduced benefits for those who apply between ages 62 and 65, (3) higher benefits for those who postpone retirement and continue to work between 65 and 70 (3% a year additional benefits under present law, to be raised to 8% during the 1990's under the Commission recommendations).

Some have argued for raising the age at which full benefits are first payable on the ground that as life expectancy increases, so will the ability to work. However two leading government authorities on health and the aging testified before the Commission that data on increased longevity carry no evidence that health improved commensurately. If anything, they said, what evidence there is indicates the contrary; more people living longer, but with more chronic illness and impairments. Moreover, recent increases in longevity may be related to retirement at earlier ages.

It is, of course, highly uncertain what the economy and the labor market will look like in the next century. Two major possibilities exist. A labor shortage may result from projected shrinkage of the proportion of persons in the 20-64 age group(2). In that event, greater market demand for the services of older people would produce greater paid-work opportunities for them. Employers would be seeking older people and the benefit increase for work after 65 recommended by the Commission would encourage older people to work. If, on the other hand, a labor shortage does not materialize, raising the age of first eligibility for fell Social Security benefits would force a large number of elderly persons into early retirement with lower benefits than current law provides.

We should not cut benefits in an attempt to keep older persons at work. Instead we should recognize and remove the impediments that stand between older 'corkers and employment. Most important of all, economic arrangements should favor full employment and, then, the voluntary approach -- the incentives prepared by the Commission -- will have a chance to work. Social Security benefits are not so large as to cancel the lure of good wages. The best medicine for Social Security is full employment and economic growth, not benefit cuts.

Meeting Problems of Special Concern to Women

Since enactment of the Civil Rights Act of 1964, Federal law has sought to prevent and redress unequal treatment of women. Despite those efforts, substantial inequalities persist and much remains to be done.

In general, gender-based discrimination has been eliminated from the OASDI program through legislative change and court decisions, but in recent years there has been a growing concern regarding the extent to which the Social Security system has adapted to the changed roles of women in society and the economy. The labor force participation rate for married women has almost doubled in the last 25 years. Over 65% of all women aged 20 to 54 are now in the labor force. In addition, the divorce rate has increased significantly. Two decades ago, there was one divorce for every four marriages; in 1976 that rate had risen to one divorce for every two marriages.

Although the scope and urgency of economic considerations appropriately consumed most of the time of the Commission, it did give attention to some of the problems that currently exist for women in Social Security coverage. Four specific recommendations were made for important changes affecting certain groups of widows, divorced women and disabled women.

Social Security has indeed given extensive protection to women and men. It provides benefits for 91% of women over 65 today (compared to 10% of women who received benefits from a private pension system in 1980). Nevertheless, the significant changes in women's roles in society and the economy have caused many inequities and unintended results for women beneficiaries.

Today, the majority (65%) of working age women are in the labor force; yet their benefits may be greatly reduced if they leave the labor force for a period of time for homemaking or child-caring. Also lower family retirement and survivor benefits exist for 2 wage-earner couples than for 1 wage-earner couples with the same family earnings history (although there are some advantages to having benefits based on one's own earnings that are partly offsetting).

Homemakers have no individual coverage or eligibility to Social Security and no credits of their own on which to build with later employment because of early widowhood or any other reason. Divorced women may be severely affected by the arbitrary 10-year duration-of-marriage requirement and the inadequacy of the 50% dependent benefit for their independent economic needs. Currently, the benefit for the divorced woman depends upon the actual retirement of the former spouse; however, the Commission has recommended a change which will correct this problem. Disability protection exists only for women who remain quite continuously in the labor force and not at all for homemakers. It is often lost to working women during a period of time spent in the home.

Since the introduction in 1976 by Representative Martha Keys and Representative Don Fraser of legislation to implement the concept of earnings sharing, many have believed this to be the best solution to these anomalies. Earnings sharing is a recognition of marriage as an economic partnership with equal respect given to the division of labor chosen by each couple. It accords the right of each individual to a retirement income based on half of the total retirement credits earned by the couple during their marriage. This is similar in concept to the sharing of income in the joint tax return of a married couple. Working women would have a continuous record of Social Security credits when they retire instead of zero credits for years spent in the home. It would respond to, and recognize, the economic value to the couple of full-time work in the home by either spouse.

Earnings sharing has been proposed in many forms and was recommended for consideration by both the 1979 Advisory Council on Social Security and the 1980 President's Commission on Pension Policy. Obviously, such a comprehensive change in structure requires careful development of a detailed proposal and thorough analysis of its impact. There are many technical and administrative questions to be worked out and special consideration must be given to continued strong protection for the family against death or disablement of its primary wage-earner. These are not insurmountable problems, however. We believe that earnings sharing is the most promising approach to the solution of Social Security problems of special concern to women and we urge renewed efforts to develop a comprehensive proposal based on this concept.

SUPPLEMENTARY STATEMENT

BY

Commissioners Robert M. Ball, Martha Keys, Lane Kirkland, Daniel Patrick Moynihan and Claude Pepper (members selected by the Democratic leadership of the Congress)

Social Security as an Independent Agency

We believe that it would improve the operation of the Social Security system and strengthen public confidence in the integrity of the program if it were administered as an independent agency under a bi-partisan Board as it was in the early days of the program. We do not believe that an in-depth study is necessary, but rather any study should be confined to the details of implementation.

SUPPLEMENTARY STATEMENT

BY

Commissioners Robert M. Ball, Martha Keys, Lane Kirkland, Daniel Patrick Moynihan and Claude Pepper (members selected by the Democratic leadership of the Congress)

HI Cost Estimates

We do not believe that the work of the Commission provided any basis for overturning the long-term position of the Board of Trustees that the HI estimates should be limited to 25 years, and we object to the use of a 75-year valuation period for HI cost estimates. The Trustees consider that the degree of uncertainty concerning future hospital costs, relative to the remainder of the economy, is so great as to make projections beyond 25 years thoroughly misleading.

Since official projections for the Hospital Insurance (Medicare) program are made for only 25 years, tax rates are formulated based on expected income and outgo only during that period. It is misleading to extend a fixed tax rate into the distant future while assuming that costs continue to accelerate. This procedure (1) exaggerates program costs and (2) assumes that unlimited growth in health care costs would be permitted without intervention.

ADDITIONAL VIEWS OF SENATOR ROBERT J. DOLE AND CONGRESSMAN BARBER B. CONABLE, JR.

When the National Commission on Social Security Reform was created on December 16, 1981, few people had real confidence in what the commission could accomplish. And little wonder. For the better part of a year, social security had been embroiled in political controversy. The system moved closer to insolvency as proposals for financial reform were subjected to-partisan political attack. The 15 selected as commission-members, moreover, embodied widely divergent views. At least-to outsiders, these members probably seemed incapable of reaching any true bi-partisan consensus.

In the last several days, the commission accomplished what some said was impossible. With the cooperation and approval of President Reagan and House Speaker O'Neill, the commission forged a consensus reform package with broad bipartisan support. As detailed earlier in this report, the package is designed to close the short-term deficit identified by the commission, and go a long way toward closing the long-range deficit. It requires concessions from all of the parties who have a stake in social security--current and future beneficiaries, taxpayers, and government employees who do not now contribute to the system. While no one member is happy with every specific recommendation, the important fact is that a consensus was reached on how to save the system. The bipartisan reform package, which we plan to introduce into the Senate with Senators Heinz, Moynihan, and others, and into the House, merits speedy Congressional action.

Agreeing on the essential provisions of a social security solution was by no means the only accomplishment of the commission. It should be noted that the commission reached unanimous agreement on the size of the short-and long-term deficits in the social security cash benefit programs (old-age and survivors insurance and disability insurance). That is, in concrete dollar terms, the-commission quantified the seriousness and the urgency of the financing problem. In our judgment, \$150-\$200 billion is the amount required to keep the system (excluding Medicare) solvent through 1990. Over the very long term, the next 75 years, the needs of the system amount to about \$25 billion a year (in 1983 dollar terms) over and above currently scheduled tax income. Only a year ago, partisan lines were drawn between those who did and did not believe there was any financing problem at all before the year 2000.

In addition, the National Commission provided a valuable forum for the diverse views on social security. With the able leadership of Chairman Alan Greenspan and with the expert assistance of Executive Director Robert Myers, members of both political parties were able to work together in studying the social security financing problem and options for financial reform. The interests of the elderly, organized labor and business, and the general taxpayer were all well represented. In recent weeks, we engaged in intensive negotiations which were, to a large extent, absent of the political partisanship that so seriously damaged efforts for responsible reform in 1981.

Finally, we believe the commission's recommendations are: significant in that they narrowed the range of realistic options for closing the deficits. Realistic options were not judged to include, nor was there any support for, proposals to reduce or eliminate benefits for people now on the rolls. Options under consideration involved restraining the growth of benefits in future years and providing additional financing through some form of revenue increase. Current and future beneficiaries should be reassured by the unanimously held view that social security is an important and vital program that must be preserved.

With these accomplishments under our belts, we in Congress are in a strong position to hammer out the details of legislation in the early months of the 98th Congress. The expiration of interfund borrowing and the likely inability of the retirement program to pay full benefits in July make prompt action essential.

The Financing Problem

While the commission report accurately reflects the size of the social security financing problem, perspective may be provided by some additional facts. Most importantly, without prompt Congressional action, the social security retirement program will not be able to pay benefits on time beginning in July. In fact, were it not for "interfund borrowing," authorized by Congress in 1981 to permit the reserves of each social security trust fund (old age and survivors insurance, disability insurance, and hospital insurance) to be used to help pay benefits from another, the retirement program would have stopped meeting its monthly payments on time two months ago. With the authority for interfund borrowing now expired (as of December 31, 1982), July is when all of the money borrowed from the other two trust funds--$17.5 billion in total--finally runs out.

Reauthorizing interfund borrowing can not help the retirement program for long. The retirement program is so large--accounting for 73 percent of all social security spending--and its borrowing demands are so heavy, the rest of the system could be insolvent before the year is out. The Social Security Board of Trustees, the Congressional Budget Office, and a wide variety of private actuaries and economists all agree that additional trust fund revenues must be provided or savings must be achieved if the social security system is to remain solvent through the remainder of this decade.

While it is the short-term financing problem that is immediately pressing, the long-term financing problem is equally serious, if not more so. The Social Security Board of Trustees reports that the combination of the baby-boom generation retiring and gradually lengthening lifespans will lead to a dramatic increase in the cost of social security--about 55 percent between 2005 and 2035 alone. In the year 2035, when the young people of today are beginning to retire, the actuaries expect that the elderly population will account for 21 percent of the overall population (as compared to 11 percent today), and the typical 65 year old will have a life expectancy of 17 years (as compared to 14.5 years today). The effect will be to decrease the ratio of taxpayers to beneficiaries from just over 3:1 today to 2:1,. helping to generate the enormous long-term deficits we now foresee.

According to the social security actuaries, the long-term deficit in the non-medicare social security programs is 1.8 percent of taxable payroll. This is the figure adopted by the National Commission. To translate, it means that over the next 75 years, the actuaries project that benefits will outstrip payroll tax income, in dollar terms, by about $25 billion per year, or $2 trillion in total (expressed in 1983 dollar terms). Including medicate, the long-term deficit has been estimated at 7.01 percent of taxable payroll, or nearly $8 trillion in total.

How Much Does the System Need?

How much the system needs in additional financing depends on how we expect the economy to perform in the years ahead and how much of a "safety margin" is accumulated in reserves. Each set of forecasts provides a different view of the needs of the system, as illustrated in the table below.

TABLE -- ADDITIONAL RESOURCES REQUIRED IN THE NEAR-TERM TO BRING OASDI RESERVES UP TO CERTAIN LEVEL (in billions)

	Additional resources required (2)		
	CBO	**1982 trustees' Intermediate (II-B)**	**1982 trustees' pessimistic assumptions**
Percent of 1 year's expenditures desired at beginning of 1990:			
9 percent (1 mo)	56.6	62	187
13 percent	68.7	70	195
15 percent	74.7	74	200
20 percent	89.9	88	216
30 percent	120.1	113	246
50 percent (6 mo)	180.7	163	303

(1) Table includes the effects of the Tax Equity and Fiscal Responsibility Act of 1982. Target reserve levels are attained in even annual increments.

(2) CBO estimates and Trustees' estimates are not directly comparable because CBO numbers include added interest on larger trust fund balances, while Trustees' numbers do not.

The commission settled on $150-$200 billion as the amount required in the years 1983-89 to ensure the solvency of the system through 1990. This is roughly consistent with achieving reserve ratio (reserves relative to annual outgo) of 15 percent by 1990, under the 1982 Board of Trustees' pessimistic assumptions.

Several points are worth noting in this regard. First, planning for a low growth decade is prudent in light of the experience during the 1970s. (The pessimistic assumptions in the 1982 Board of Trustees Report project the economy will perform much like in the past 5 years.) The failure to anticipate, both in 1972 and 1977, that prices would grow more rapidly than wages, and therefore benefits would grow more rapidly than tax income, is why we are in the situation we are in today. Second, a reserve ratio of 15 percent is not, in and of itself, a "goal". At this level, reserves would be lower than at any point in history. Accumulating considerably larger reserves is desirable, although this would be difficult to do very quickly. We believe we express the views of all members of the commission when we say that it is our hope that the economy will perform better than we assumed when we made our estimates and that a larger reserve cushion will accumulate. Finally, if the medicare program were under consideration as well, the reserve needs of the system would be considerably higher.

Not a New Problem

Given the partisan debate that raged over social security in 1981, some people may have lost sight of the fact that the financing crisis is not a new problem. Trust fund reserves have been on a down-hill course for years. As the table below indicates, prior to 1970, there were always reserves on hand capable of financing a year's worth of bnefits or more--that is, reserves equal to 100 percent or more of annual outgo. By 1976, reserves had fallen to 57 percent of outgo, and today, the combined reserves of the system stand at about 15 perccent of annual outgo, only 8 weeks worth of benefits. The situation is even worse, at least today, when Medicare is excluded.

Table- HISTORICAL OASDHI RESERVE RATIOS, 1950-83

Among other public groups to report in the last 5 to 10 years, the social security advisory councils of 1975 and 1979, an expert consultant panel of actuaries and economists, reporting in 1976, and President Carter's Commission on Pension Policy and the National Commission on Social Security, both reporting in 1981, all underscored the seriousness of the short- and long-term financing problem. Social security's financing problem dates to the early 1970s and even earlier, when Congress increased benefits and expanded eligibility without facing up to the cost of doing so.

The Time for Action is Now

There is no denying that we have a big job ahead of us in Congress. We face many difficult decisions as to the details of the legislation, and the adequacy of the measures proposed. The balance of the long-term deficit will also have to addressed. In our view, a balanced solution to this problem will involve bringing the cost of social security into line with the ability of our working population to finance the system. The tax burden is already heavy, and the confidence of young people critically low. As reflected in the additional views, a majority of commission members recommends increasing the retirement age, for people retiring in another 20 or 30 years, as an equitable way of reducing long-range costs.

The American people--the 36 million people receiving benefits as well as the 116 million working people who support the system--deserve more than another "quick fix" that holds the system together until the next crisis comes along. They deserve the speedy consideration of this bi-partisan package of recommendations. Confidence in the long-term viability of social security will only be restored by enacting measures that put the system back on a sound financial footing and do so without imposing an unrealistic tax burden on present and future workers.

Within a matter of weeks, the House Ways and Means Committee and the Senate Finance Committee will begin the task of weighing the options and then drafting social security financing legislation. We feel confident that the essential elements of the reform package we now recommend, as endorsed by President Reagan, Speaker O'Neill, Majority Leader Baker and others, will be adopted by the Congress and enacted into law by May. Moving quickly to shore up the nation's largest domestic program is in all of our interests.

Dissenting Views of Congressman Bill Archer to the Report of the National Commission on Social Security Reform

It is customary in instances such as this to address one's dissenting views to the body of the main report itself.

In this case, however, it is perhaps more appropriate for me to address my comments on the report to my children and future grandchildren and those of their generations who will be most affected by the changes proposed. Should the Commission's proposals be enacted into law, it is they who have the most at stake.

Unquestionably, great credit is due the President, the Congressional leadership and Commission negotiators who were able to arrive at this point where a plan exists to be considered by the Congress. The fact that I personally have strong reservations about the specific plan proposed in no way diminishes my respect for that effort.

It is unfortunate that the agreement reached continues to leave in doubt, in my opinion, the future stability of the Social Security system. We have not taken advantage of this rare historic opportunity to do more toward designing greater stability. The proposals treat symptoms, not causes.

My concern stems from a variety of sources, but primarily from those involving the basic economic and demographic assumptions used to assess the short and long term deficits, and the failure to address adequately the basic structural deficiencies which will continue to cause severe strains on the system in the future.

The compromise agreement does not make a specific recommendation regarding a portion of the long term need (.58% of payroll), even assuming the accuracy of the projections of the dimensions of the gap it sought to close. That significant element has been left open to Congressional consideration under the terms of the agreement. Neither does the agreement address certain factors influencing the short term need, such as the repayment of loans made to the retirement fund by the Health Insurance trust fund. Those revenues will be badly needed as the HI fund becomes deficient in the near future. In fact, the Commission's agreement bears no relationship to the parallel dilemma faced in the health insurance program.

Fundamental principles inherent in the basic concept of Social Security have been abrogated by the Commission's recommendations. The large infusion of general revenues into the system makes it self-sustaining no longer. The "earned right" concept which has been basic to the system since it was created has been abridged by a new means test. The concept of Social Security as a floor of protection to supplement other retirement savings has been further eroded by the agreement's perhaps unintended result of encouraging Social Security to be viewed as a sole source retirement system.

Certainly there is some good in the recommendations. The proposal to bring federal employees into the system is a welcome one, but its coverage of only newly hired employees continues an inequity. Ironically, those now in Congress who must vote on the plan are themselves going to continue to be exempt from coverage. So will those presently employed by the federal government who will administer the changes.

The plan provides very modest improvement in the treatment of women, but continues major inequities in this area as well as in other areas of the system.

There is a brief delay in cost of living increases for present beneficiaries, as a partial attempt to offset benefit increases which resulted in an increase of 52 percent in purchasing power for the average Social Security recipient over the past 15 years.

This is essentially the only element of the plan which directly affects those now retired or soon to retire -- except for those retirees who have set aside a portion of their earnings in savings for their retirement. The plan taxes those who have saved for their retirement and imposes a means test for full benefits. Those who do not save are rewarded by the system because of this change.

A Congress which has acted in recent years to encourage individual retirement savings is now being asked to enact a significant disincentive to retirement savings. There is also a basic flaw in the way the "means test" inherent in the tax on benefits is determined. Individuals with non-Social Security retirement income of $20,000 or more will be taxed on half of all their Social Security benefits. Those with incomes of $19,999.99 or less will not be taxed on and of their benefits. One penny of income could make the difference in whether hundreds of dollars in taxes must be paid.

The imposition of a means test, for the first time, destroys the earned right concept fundamental to Social Security and lends a new welfare aspect to its administration.

The same is true of the large infusion of general revenues proposed by the plan. The self-financing structure of the Social Security system has been significantly eroded.

Of the $168.7 billion in short term deficit reductions in the plan, approximately one-third is represented by direct and indirect infusion of general revenues, which, combined with payroll tax increases accounts for some 75% of the short term deficit reductions. In terms of the long term-deficit, new taxes account for even more of the reduction (excluding the portion of the deficit left unresolved by the report).

I do not hold the position that the deficit reductions for both the short term and long term should be accomplished without any additional taxes beyond those already scheduled by existing law to go into effect. I am concerned', however, about a recommended proposal which includes such an imbalance of dependence upon new revenues (taxes and general Treasury funds) relative to structural changes which would restrain the growth of spending outlays. I question the ability of our tax base in the future to support this enormous projected growth.

Structural changes are critical to the long term stability of the system. The report leaves unanswered the question of what benefit level our economy can afford in the next century and what those in the work force at that time will be able to pay.

What we should be providing here is a basis for realistic expectations for future Social Security recipients against which they can determine their own needs for retirement security beyond what the system may provide them at that time. There is great danger that these proposals have made promises which the system will not be able to support.

Changes which would more directly relate taxes paid into the system to benefits received are the type of structural changes which would lend greater credibility to Social Security. The Commission recommendations continue present inequities instead. An individual with a short covered employment history continues to be treated more favorably than his counterpart with the same average income who has a longer covered employment history.

Another important consideration the agreement does not address adequately is that of demographic changes, increased life expectancy and improvements in the physical and mental ability of individuals to continue to work. There is no direct recommendation by the Commission that the age of retirement be adjusted to take such changes into account. Nor is there adequate attention given to revision of automatic cost of living increases relative to the taxes which support them.

In regard to taxes imposed by the compromise, the use of a refundable tax credit (a concept which has been rejected repeatedly by Congress) ruptures the fundamental parity between employer and employee.

The 33% increase in the OASDI tax rate on the self-employed is too great a burden for those who are already operating at the margin because of difficult economic conditions.

In summary, the recommendations proposed by the National Commission on Social Security Reform, in my judgement, leave the system's future very much in doubt. We are again addressing the symptomatic deficits facing Social Security, rather than taking advantage of this opportunity to address the causes of the problems themselves.

We have postponed once again the day of reckoning by transferring the burden of supporting the system's shortcomings to future generations.

Social Security represents the single most important commitment to the elderly made by our society. It is a great testimony to our nation's dedication to assuring retirement security for our elderly of all generations.

The question facing Congress as we begin consideration of the Commission's recommendations is whether this particular plan exactly fulfills that commitment as completely as it must. I clearly have misgivings that it does.

As the legislative process begins, there remains an opportunity for the thoughtful concerns of others who share those misgivings to strengthen the product which is ultimately enacted. My own greatest hope is that my strong desire to guarantee the solvency of Social Security into the future can be matched by a confidence that the solution accomplishes that goal.

VIEWS OF SENATOR WILLIAM L. ARMSTRONG

Since 1971 maximum Social Security tax rates have quadrupled. These rates are scheduled to triple again in the 1980s as a result of legislation already on the books.(1) During the approximately same period of time, from 1970-1981, the "real" pay of working men and women fell While Social Security benefits went up about 50% faster than the cost of living.(2)

Now the National Commission on Social Security Reform is recommending new taxes as well as acceleration of tax increases already scheduled. Can such increases be justified?

I do not think so. The vast majority of workers, small business men and women and retirees are not likely to think so either. I expect there will be howls of outrage when Middle America discovers what the National Commission has recommended and some political leaders have already endorsed. Hopefully, grass roots lobbying will be sufficient to convince Congress to amend the Commission's plan to make it more workable, fairer, and more sound economically. If such amendments are ignored, Congress will be repeating the same basic mistake made in 1977. At that time, legislation was enacted which purported to shore up the financial solvency of the Social Security trust funds for the rest of our lives. But instead of focusing on basic systemic difficulties of the trust funds -- especially the growing ratio of retirees to taxpaying workers and benefit increases far outstripping the cost of living -- Congress concocted the largest tax increase in history.

A few of us objected. But the majority of Congress went along, and President Carter hailed passage "as the guarantee that from 1980 to 2030 Social Security funds will be sound."

It didn't quite work out that way. Social Security is again running out of money. By midyear, unless Congress intervenes, the trust fund will be unable to meet its obligations. The National Commission on Social Security Reform estimates a funding gap of $150-$200 billion between now and the end of the decade and a long-term deficit of 1.8 percent of payroll -- approximately $1.6 trillion. Even these gloomy prospects may prove too optimistic.

And once again the recommended solution is to raise taxes.

(1) Taxes paid by "average" workers rose 259% from 1970 to 1980; they are projected to rise another 246% this decade.

(2) From 1970 to 1981, pretax wages increased 122%; the Consumer Price Index rose 136%; Social Security benefits (OASDI) went up 205%.

On January 15, after a series of marathon negotiating sessions, and with the approval of President Reagan and House Speaker O'Neill, the National Commission recommended legislation. Unfortunately, the Commission suggested closing the gap primarily through new taxes. But even with the recommended tax increases, the plan fails to raise enough money to put Social Security back in the black. It also avoids the permanent structural changes necessary to restore public confidence in the solvency and fairness of Social Security. Moreover, the Commission's recommendations violate several basic principles on which the Social Security system has previously rested. Consider these facts about the Commission recommendation:

Including revenue from expanded coverage, higher taxes account for 75 percent of the proposed deficit reduction between now and 1990 -- $126 billion out of the $169 billion total. In the long run, the balance is even more lopsided. Tax increases constitute 91 percent of the Commission's total recommendation.

Such tax increases raise serious questions of economic impact. The first payroll tax hike in the Commission's plan will cut paychecks in 1984. Will the higher employment tax dampen the recovery? Will additional joblessness result? I think most economists would agree that higher payroll taxes are bound to have these undesirable effects.

Worse yet, the Commission's recommendations do not close the projected gap between revenues and outlays in the trust funds, which totals several trillion dollars: $1.6 trillion is the discounted present value of the deficit. Faced with actuarial estimates of a deficit of 1.8 percent of payroll, the Commission recommends measures solve only about two-thirds of the problem. Still more taxes have already been proposed to cope with the remaining .58 percent payroll deficit that the Commission left dangling.

It would not have been necessary to leave the long-term funding issue unsettled had the Commission been willing to recommend modest changes in the age of normal retirement. Previous advisory groups have suggested a variety of gradual changes such as increasing the retirement age by one month each year for the next 36 years or, possibly, even waiting to start such a phasing process five or 10 years from now. The approach I favor is to gradually increase the normal retirement threshold to age 66 with a phase-in period starting after the turn of the century; thereafter, the retirement age would be automatically indexed to changes in longevity. Such a proposal would apply only to persons fully able to work and would not preclude early retirement for those entitled to disability. Incredibly, this single, gradual change, which was ignored by the National Commission, would be sufficient to fulfill the entire long-term funding problem of Social Security, according to the actuaries.

Finally, the Commission may have erred in overturning at least three basic principles on which Social Security has long rested: taxation of benefits, the parity of treatment between employers and employees, and general fund financing. These conventions are deeply ingrained in the Social Security system and can only be abandoned at substantial risk of losing public support for the system itself. In my opinion, the present circumstances do not justify doing so.

There are other flaws in the Commission recommendations and, to be fair, a number of good points as well. Overall, however, I cannot escape the conclusion that the plan needs much improving. Whether this will happen remains to be seen. At least one White House insider is freely predicting quick legislation approval with few, if any, changes. He points out that a lot of "heavyweights" are already backing the package. He could be right.

He may be wrong.

There are also some heavyweights who are convinced the package must be amended in order to make it fairer and more financially sound. Among those who insist on amendments and oppose the plan in its present form are the 13 million-member American Association of Retired Persons and the largest association for small businesses -- who will feel the most impact of the plan -- the National Federation of Independent Business. If these and other citizen groups will energize their memberships to protest the Commission's plan and work to develop an alternative package, there is reason to hope amendments can be adopted that will significantly improve the final legislation.

As this issue develops, I expect strong support from employees and from business men and women. They have important economic interest at stake. However, I am increasingly convinced that support will also be forthcoming from retirees and the elderly. Based on many conversations with senior citizens, I doubt they will take a narrow or selfish view. They have much more at stake than merely their personal well-being. They are also concerned about their children and grandchildren. The last thing they wish is to leave a heritage of economic wreckage or an unfair retirement system.

The Commission's Major Accomplishment -- And Some Objections

The most important single achievement of the Commission, under the patient, considerate, and scholarly leadership of Chairman Greenspan, has been to Marshall a consensus for admitting the problem. Some of those who now hail the recommendations were quite recently claiming no changes were needed. They said, in effect "...don't let them touch Social Security...all this talk about reform is just a plot to wreck Social Security...."

As the Washington Post pointed out, "The first step toward solving any problem is to get people to admit the problem exists. The National Commission on Social Security Reform, meeting this week in Washington, has already made a huge contribution by getting its members of different political persuasions to agree that Social Security's problems are real, urgent, and -- within reason -- measurable."

A number of the Commission's recommendations make sense to me. On balance, however, in its present form, the plan falls short of the kind of balance program needed to restore public confidence in the solvency and fairness of the system. The plan:

- Does not meet the minimum long-term need of 1.8% of payroll, but leaves needed reforms open for further consideration;
- Settles the short-term problem at the low end of projected need;
- Tax benefits for the first time;
- Will create a severe "notch" between Social Security recipients whose adjusted gross income is just above and those just below the arbitrary point at which benefits are to be taxed; the result is unfair and will be so perceived;
- Grants refundable tax credits to employees, thereby upsetting the historic parity between employees and employers;
- Provides permanent general fund financing;
- Prohibits withdrawal of State and local government units, a legislative solution which may be subject to successful challenge on constitutional grounds;
- Avoids decision on changing-the normal retirement age, considered by many experts and earlier advisory groups as essential to the long-term stability of Social Security;
- Including revenue derived from expanded coverage, increased taxes account for 75% of deficit reductions; (63% if expanded coverage is excluded);
- In the long term, excluding the portion (.58% of taxable payroll) left unresolved and including revenues from expanded coverage, new taxes account for 91% of deficit reduction (not including revenues from expanded coverage, 66%).

Congress Must Act Promptly

The need for congressional action is immediate.

- Every single minute of every hour of every day, on the average, OASDI pays out $17,000 more than it takes in.
- Present reserves in the retirement system will be insufficient to fully meet benefit payments by mid-1983, unless Congress enacts corrective legislation.
- In 1950, there were 16 workers paying Social Security taxes for each beneficiary. Today there are just three workers per beneficiary. By 2025, there may be only two workers per beneficiary. The result? A steeply rising burden on workers whose Social Security taxes keep the trust funds solvent.
- A fourth of U.S. taxpayers are paying more in Social Security taxes than in federal income taxes, and sharply higher tax rates are scheduled to support projected benefits.

- Polls show Americans are losing faith in the Social Security system. Fifty-four percent of those surveyed by CBS/New York Times doubt that Social Security will have money to pay benefits in the future.

How does Congress begin the important work of enacting a fair retirement system? I suggest adopting five principles to guide its work:

1. Current basic level of benefits on which so many persons depend, must not be reduced.

2. Needed changes -- whether in future rates of benefit increases, retirement ages, eligibility standards, etc., should be made gradually, not in a drastic or abrupt manner.

3. Economic projections, on which the system is based, should be conservative -- in short, we should hope for the best, but plan for less optimistic economic conditions.

4. Permanent solvency must be achieved. Stop-gap solutions are not satisfactory.

5. Public confidence must be restored. The politics of fear -- which has surrounded past decision-making -- must end.

No solutions are easy, but we are in firm agreement on the goal: Our elderly must feel assured of our good faith, and Social Security must be restored and maintained as a valuable bond between generation and generation.

Toward that end, it is important that everyone know the basic facts of Social Security...how it began, how it grew, who it affects, what its future will be.

Social Security Highlights

- One trillion dollars will be paid out in Social Security benefits the next four years.

- Thirty-six million Americans receive Social Security benefits.

- Most Social Security retirees today receive more in benefits than they paid in taxes -- by a ratio of 5 to 1.

- Social Security benefits have risen sharply over the past few years. In the beginning, Social Security was designed to be supplemental retirement income. Today, Social Security benefits on average equal 60% of their after-tax working income.
- In recent years, Social Security benefits have increased faster than increases in wages or prices.

- Americans are living longer. Women becoming 65 in 1982 live, on average, an additional 19 years; men live an additional 15 years. This is a 20% increase in 40 years.
- Social Security comprises one-fourth of the total federal budget and 5% of the Gross National Product.

- The maximum Social Security tax an employee working from 1935 to 1982 could make is $17,000. This will nearly triple to $44,000 by 1990, just seven years.

- Social Security taxes for the average worker have increased 2,000% since 1935; the maximum Social Security tax has increased 6,500%.
- Fifty-one percent of all Americans pay more in Social Security taxes than federal income taxes.
- Even with the additional $437 billion in tax increases that will be implemented this decade because of a 1977 law, Social Security will exhaust its reserves and total outgo will exceed income by the mid-1980s, unless Congress takes decisive action.
- When Social Security began, only retirement benefits were paid to workers. Today, there are about 21 general types of benefits provided under Social Security.
- One indication of the growth in Social Security: When President Franklin Roosevelt proposed his Social Security program in 1935, he contemplated Social Security expenditures would be about $1.3 billion in 1980. Actual 1980 outlays: $149 billion.
- In designing his Social Security retirement program, President Roosevelt rejected the use of general revenues, wanting instead for the program to pay for itself through separate financing.
- The National Commission on Social Security Reform identified more than 80 options for restructuring Social Security financing to achieve short- and long-term solvency. One example of potential savings through gradual changes in Social Security: delaying the full cost-of-living increase two months for three years will save $40 to $60 billion this decade alone.

<u>Social Security......In the Beginning</u>

Social Security was created in 1935 to partially replace earnings lost through retirement or death. Initially, only commerce and industry workers (about five out of 10 jobs in America) over age 65 were eligible for benefits.

Benefits were <u>supplemental</u> income...about 29% of pre-retirement income (known as the "replacement rate"...the percent of working income replaced by retirement income).

Payroll taxes financed these benefits on a pay-as-you-go basis. Initial taxes were also small...$60 per worker maximum (cost split between employer and employee). In 1980 dollars, this tax equaled $360.

<u>...Program Expansion</u>

Congress and Presidents dramatically expanded the program through 13 expansionary laws and seven automatic benefit increases (although twice Congress slightly reduced benefits). Today, three separate trust funds pay benefits and collect taxes. Two trust funds -- Old Age and Survivors (OASI) and Disability (DI) -- pay cash benefits directly to recipients. The third -- Hospitalization (HI) -- pays costs of medical care provided to the elderly and disabled.

Nine out of 10 jobs in America are included in Social Security. The program now pays retirement, early retirement, widow, children, parent, disability and hospitalization benefits to 35.4 million. Basic benefit rules were expanded, and later made inflation-proof through automatic cost-of-living increases. Generally, eligibility has been liberalized. Cash benefits -- not counting the value of hospital care -- as a percent of pre-retirement income has increased to 49.3%.

Consequently, the tax rate, tax base and number of taxpayers have also increased. Today, the combined employee-employer maximum tax is $4,340. One hundred ten million workers pay taxes; 11 million (mostly government employees) do not. While the number of taxpayers has increased, the worker/recipient ratio has not. In 1940, there were 16 workers supporting each recipient. Today, the ratio is only 3 to 1, and declining.

...As Part of the Federal Budget

Total Social Security outlays comprise about one-quarter of the budget. Including all programs, 27.7% of the federal budget is devoted to elderly needs. By 1985, pensions, national defense and interest payments will comprise 75% of the U.S. budget. Total Social Security and other senior citizen federal outlays amount to $15,000 per elderly couple.

...As Part of the National Economy

Benefits comprise about 5% of the real gross national product, and it's rising. If no changes are made, and if government spending were to be maintained at 20% of GNP, then by 1985 other government spending must be cut 13.1%.

Since Social Security is a major component of the economy, it is particularly sensitive to economic fluctuation. Each 1% of inflation increases costs $1.5 billion annually (although the higher costs are offset in part by higher revenues). Each 1% of unemployment reduces revenues by $2 billion. Social Security tax increases exacerbate unemployment. For example, the Congressional Budget Office projected that the Social Security tax increases since 1977 reduced employment by 500,000 jobs. Accelerating to 1983 the tax increase scheduled for 1990 is projected to increase unemployment two to four million job years by the end of the decade.

...Economic and Demographic Developments

Since Social Security began, significant changes have reshaped America. Once an economy dominated by manufacturing and agriculture, America is quickly becoming a service based economy. Once men dominated the work force; now half of all jobs are held by women. In 1935, a third of all elderly Americans were impoverished; today less than 15% have incomes below the poverty threshold. Forty years ago, less than three marriages in 10 ended in divorce; today five of 10 marriages end in divorce. Family size has declined.

Americans are living longer; on average, men live 15 years past retirement, and women 19 years...a lifespan increase of 20% over 40 years. Even so, more Americans are opting for early retirement before age 65. Today 90% of Americans who retire opt for retirement before age 65.

...As Part of the Lives of Recipients

Social Security is a financial lifeline to most recipients. Fifty percent of benefits are paid to elderly single members of households for whom Social Security is their principal income. Median income for all those over 65 is $ 5, 771. Average median income for a retired couple receiving Social Security is $14,300.

Newly eligible retirees -- 80% of whom opt for early retirement -generally are improved financially. Median retirement income is $14,259, of which 42% is Social Security. Gross family assets -- including personal residences or automobiles -- exceed $48,000. Seventy percent of new retirees either outright own their home, or pay less than $200 in monthly mortgage or rent. The average value of a new retiree's home is $54,000.

Most Social Security recipients today will receive far more in benefits than they contributed in taxes...by a ratio of 5 to 1. This ratio will decline for future recipients. Social Security benefits are progressive... meaning that low-income receive relatively higher benefits than middle or high-income.

...As Part of the Lives of Workers

The maximum Social Security tax a worker and his employer could have paid from 1937 to 1982 is $ 16,932. This will nearly triple by 1990 when the maximum tax possible rises to $43,000.

For 51% of all families -- and practically all low-income families -- they pay more Social Security taxes than federal income tax. This is also true for employers, particularly the marginally profitable.

...Benefits

One trillion dollars will be spent from the Social Security trust funds in the next four years (1983 to 1986), an amount roughly equal to that spent from 1935 to 1981. Four-year spending and income by trust funds:

	(billions)	
	Outlays	**Income**
Old Age and Survivors (OASI) ·	$728	$634
Disability (DI)	83	135
Hospitalization (HI)	198	210
TOTAL	$1009	$979
--Social Security Administration September 1982		

Monthly Social Security costs exceed $17.9 billion.

Of trust fund outlays...

...67% go to retirees, their spouses, children or survivors.

...9% go to the disabled, their spouses, children or survivors.

...22% pay medical costs.

Cash benefits paid from the OASI and DI trust funds:

	(millions)	Average annual benefit
Retired workers	20.3	$4,686
Their spouses	3.0	2,350
Their children	.5	1,841
Total	23.8	
Survivors		
Widowed parents	.5	3,372
Widowed spouses	4.4	4,210
Children	.2	3,278
Disabled, widowed spouses	.1	2,760
Parents	.01	3,732
Total	5.21	
Disabled workers	4.1	4,944
Their spouses	.4	1,452
Their children	1.0	1,428
Total	5.5	
Special Age 72	.1	

The maximum possible benefit for a retired couple with children under 18 is $14,748 annually.

These benefits do not include the value of medical benefits provided through Medicare. Since all benefits are tax free, current benefits are about 60% of after-tax, pre-retirement income.

...Taxes

About $1 trillion in taxes has been raised since 1935. If a worker contributed the maximum taxes from 1937 to 1982, he would have contributed $17,000 (an amount matched by his employer). By 1990, this will nearly triple to $44,600.

Today, the total Social Security tax is 13.4% of up to $32,400 of income. This rate will increase to 15.3%, and the base up to $45,600 of income by 1990.

The average tax paid by a worker and his employer annually is about $2,000.

...Individual Equity and Social Adequacy

Social Security emphasizes social adequacy, not individual equity. The social adequacy basis is evident through the provision of relatively high minimum benefits, paying proportionately higher benefits to low average wage earners, the imposition of maximum benefits regardless of past earnings, and the payment of derivative benefits at no additional cost to the worker. While there are some elements of individual equity -- benefits in relation to earnings -- Social Security, over the years, has moved away from individual equity and more toward social adequacy.

...As It Affects Women

Social Security was created when men dominated the work force. Since then, a number of economic and demographic changes involving women affect Social Security and its future. More women work today, are living longer, and the divorce rate is increasing. Since these changes were not contemplated at the time Social Security was created, retirement benefit adequacy for women is a significant concern because a high percentage of the elderly poor are widowed, divorced or were never married. It is also a concern since the current labor force -- once male dominated -- has a high percent of women workers who pay Social Security taxes, and expect to receive just benefits.

Problems in providing benefits to women exist in part because benefits are linked to an individual's earnings and work history. Working women frequently have interrupted work histories due to child rearing. Women also have had generally lower career earnings than men. As a result, a large proportion of women fail to qualify for Social Security benefits, qualify for benefits on their lower earnings, or they qualify based on their husband's benefits, and then receive half of these benefits. Some of these concerns have been addressed by changes made in the computation of spouse benefits, but questions of equity continue to be raised with regard to women, particularly those who work. The National Commission on Social Security Reform identified 12 options that address the issue of making Social Security equitable for women.

...and Other Federal Pension Policies

Since Social Security was created, there have been significant developments in federal pension policy. Among them:

1. Individual Retirement Accounts: Most workers can contribute up to $2000 annually tax free into Individual Retirement Accounts, the proceeds of which are invested, and then paid out as retirement income as early as age 59 ½. Workers with wives who do not work contribute up to $2,275 annually.

2. Keogh retirement plans: The self-employed can set aside $15,000 annually to help replace earnings lost through retirement.

3. Employee Retirement Income Security Act: Regulates company sponsored, tax-deferred pension plans.

Sixty percent of workers between age 25-34 are covered by retirement pensions other than Social Security.

...Financial Status

Social Security is going broke. High inflation, slow economic growth, rising numbers of beneficiaries, increased benefit levels and an eroding tax base have increased Social Security's costs, and depressed revenues. The retirement and survivors trust fund has run a deficit since the early 1970's. This deficit erased the once large cash reserves...to the point where Congress had to enact legislation permitting the OASI trust fund to borrow from the DI and HI trust fund to make full and timely benefits. By the mid-1980s, however, even these reserves will be exhausted. Technically, Social Security will have no choice but to either reduce all benefits by the amount of income then on hand, or delay checks until enough income is on hand to pay full benefits.

Thus, Congress must achieve two goals in the short-term: Enact legislation that eliminates the future deficits, and achieve adequate reserves so that enough money is on hand to pay two months of benefits.

The National Commission on Social Security Reform unanimously agreed that $150-200 billion is needed this decade to assure Social Security solvency. In addition, the Commission projects that Social Security needs to either increase revenues or reduce spending $1.6 trillion over the next 75 years to guarantee solvency.

Social Security...Explained

To make changes necessary to insure solvency in Social Security first requires understanding its current benefit and tax structure.

A. Coverage

Originally, Social Security only provided benefits to those age 65 and over working in commercial and industrial employment. Only five out of 10 jobs in America were covered.

Since then, Congress expanded Social Security to cover about nine out of every 10 jobs. Coverage was extended to most self-employed, hired farm and domestic workers, armed forces, and professionals. Optional coverage was provided clergymen. State and local governments and non-profit organizations can opt for Social Security coverage. Both state and local governments and non-profit organizations, if they elect Social Security coverage, can later elect to opt-out of Social Security.

For certain military personnel, the armed forces pays Social Security taxes up to a maximum of $1,200 (representing the cash value of non-taxable income). This contribution is not matched by the servicemen.

Work not covered by Social Security is federal civilian employment, non-covered state and local governments (30% are not covered), and non-covered, non-profit organizations (about 15% are not covered).

B. The Benefit Structure -- Retirement and Survivors Benefits -- OASI

Four principal components comprise the Social Security benefit structure...eligibility, computing initial benefits, annual benefit increases and types of benefits.

1. Eligibility

To be eligible a worker must be "insured" through earning "quarters of coverage." Some explanation...

Becoming "fully insured" means working in a Social Security covered job (and thus paying Social Security taxes) and earning at least $340 in a calendar quarter. Doing so entitles a worker to a quarter of coverage. A worker receives one quarter for each $340 up to a maximum of four quarters. With 31 quarters -- as little as eight years work -- a worker and his family is entitled to full Social Security benefits based on his earnings. The number of quarters required will increase one quarter for each year until a maximum of 40 quarters is reached.

"Currently insured status" applies only to a worker dying before retirement. A worker becomes currently insured -- and thus eligible for benefits -- by attaining six quarters in the 13 quarters preceding death.

Of course, a worker does not automatically receive benefits when he becomes insured. A condition for receiving OASI benefits is reaching retirement age or death. Full benefits are paid at age 65; lesser benefits at age 62. Age eligibility varies for other OASI benefits...and are described in Part C.

2. Calculating Initial Benefit Levels

Benefit levels for retired and disabled workers, dependents and survivors are generally related to the past earnings of the covered worker, and more directly to a percent of the benefits that the covered worker will receive.

There are four basic steps used in most cases to compute a worker's Social Security benefit:

a. "Computation Years"...That is, the years worked in Social Security employment between age 21 and the year of death, disability, or the attainment of age 62, then drop out the five lowest income years.

b. "Index Earnings"...The earnings of each year are converted, or indexed, into more recent levels by increasing them to reflect changes in wage levels since the time they were actually earned.

Indexing creates an earnings record that reflects the value of the individual's earnings relative to national average earnings in the indexing year. The indexing year is the second year before the year in which the worker attains age 62 (in other words, age 60), becomes disabled or dies. Earnings after the indexing year are counted at their current value (not indexed).

Earnings are indexed by increasing the actual earnings in each year after 1950 by the percentage increase in national average wages between that year and the indexing year.

c. "Average Indexed Monthly Earnings" (AIME)...These indexed earnings are then averaged to a monthly amount...known as the AIME. Simply divide total indexed earnings by the number of months in the computation years.

d. "Primary Insurance Amount" (PIA)...A percentage formula is applied to the AIME to derive the primary insurance amount, or basic benefit level. The 1982 formula is:

90% of the first $230 of AIME, plus

32% of AIME over $230, but less than $1,388, plus

15% of AIME over $1,388

An example follows:

A worker retires at age 62 in 1982, and had earned \$2,900 in 1960. The \$2,900 would be multiplied by the ratio of average annual wages in 1980 (\$12,513), and divided by average annual wages in 1960 (\$4,077):

$$\frac{\$2,900 \times \$12,513}{\$4,077} = \$9,056$$

Although the worker's actual earnings for 1960 were \$2,900. . . his wage indexed earnings would be \$9,056.

This calculation is applied to each year between 1951 and 1980 (the second year prior to his attaining age 62) . Once total indexed earnings are obtained, they are divided by the number of months in the computation years. This monthly amount is the AIME.

Let's assume that after this worker's entire wage record is indexed, his AIME is \$420. Let's run this through the PIA benefit formula:

90% of the first \$230 = \$207.00

32% of amount above \$230 = <u>60.80</u>

Total PIA 267.80

His PIA is \$267.80. This is the amount he would receive at age 65. Since he opted for early retirement at age 52, he receives 80% of that total...or \$214.00.

3. <u>Types of Benefits</u>

As already mentioned, benefit levels for retired and disabled workers, dependents and survivors are generally related to the past earnings of the covered worker, and more directly to a percent of the benefits -- or the primary insurance amount -- that the covered worker will receive. Below is a list of benefits provided through OASI, and the percent of PIA each receives:

1. <u>Full retirement</u>: 100% of PIA/eligible at age 65/eligible for reduced benefits at age 62.

2. <u>Widowed spouses</u>: 100% of PIA/eligible at age 65/eligible for reduced benefits at age 60.

3. <u>Spouses</u>: 50% of PIA/eligible at age 65, or younger if caring for a disabled child, or a child under age 16/eligible for reduced benefits at age 62.

4. <u>Divorced spouses</u>: 50% of PIA/same eligibility for spouses, but must have been married at least 10 years.

5. <u>Children</u>: 50% of PIA/eligible until 18 if child of a retired or deceased insured worker, or until 19 if still in high school. College benefits to age 21 will be phased out by 1985.

6. Surviving children: 75% of PIA/eligibility same as 5.

7. Parents: 75% of PIA/eligible if surviving spouse caring for a child under 16 at time of death.

8. Maximum Family Benefits: 188% of PIA (175% of PIA for high income earners) if total benefits to a family exceed 188% of PIA (or 175%) then all benefits for family members is reduced by an amount to bring all benefits under the 188/175% caps.

9. Lump Sum Death Benefit: Not a percent of PIA...just a $255 payment on the death of a worker. Paid to survivors.

10. Transitionally insured benefits: Not a percent of PIA...is paid to those over age 65 with insufficient quarters of coverage.

11. Special age 72: Not a percent of PIA...paid to those over 82 with insufficient quarters of coverage to qualify for a retired worker benefit and who do not receive public assistance.

12. Special minimum: Not a percent of PIA...increases benefits for workers with low average earnings.

13. Retroactive: For persons over age 65, retroactive benefits can be paid up to six months. For disabled beneficiaries, benefits can be paid retroactively up to 12 months.

14. Currently Insured: OASDI benefits paid to survivors of workers not fully insured but who worked at least six of the 13 quarters preceding death.

4. Annual Cost-of-Living Adjustments

All benefit levels are increased each year when the Consumer Price Index exceeds 3% increase each year, and when it does, the full CPI increase -- not just the amount above 3% -- is applied to benefit levels automatically without action by Congress.

5. The Retirement Test

Under current law, all benefits are reduced when a beneficiary's earnings record exceeds certain levels. This is called the earnings test, or retirement test, and applies to beneficiaries until they reach age 72 (in 1983 and later, the retirement test will not apply after age 70). The amount of annual earnings permitted in 1982 without causing a benefit reduction is $4,440 for persons under age 65, $6,000 for persons age 65-72. Each $2 of earnings in excess of these amounts reduces annual benefits by $1.

6. Policy Summary

These five sections summarize the mechanics of the benefit and eligibility rules. But what is the overall effect of this formula, and what are the policy implications? Several aspects should be mentioned:

First, only minimum requirements are imposed to become eligible for Social Security. The fact that eligibility is so easy to attain is the reason why there are so many who receive more than one federal pension...the so-called "double-dippers" who receive "windfall" benefits.

Second, the entire benefit structure heavily favors those with low average earnings. This does not necessarily mean the low income...it means those with sporadic work histories, those who often shift between covered and non-covered Social Security employment, go through periods of unemployment. It achieves this effect through three ways...the low minimum eligibility requirements, dropping out of the computation years the five lowest income producing years, and heavily weighting the PIA formula to the low-income.

Third, wage indexing provides retirees with a significant though usually not noticed added benefit: By basing retirement benefits on real wage increases, it permits retirees to share in retirement the overall productivity growth achieved by workers.

Fourth, wage indexing, coupled with drop-out years and automatic cost-of-living increases for all benefits, is achieving a remarkable effect. This formula increases real benefits paid to new beneficiaries each year. For example, those who retire in the year 2040 will receive <u>double</u> the current value of benefits paid to those retiring this year.

Fifth, replacement rates -- the percent of working income replaced by retirement income -- have increased sharply. When Social Security began, the average replacement rate was about 29%. Today, the average is 49% for all beneficiaries. That is for pre-tax income. The replacement rate today for after-tax income is closer to 60%...meaning that in retirement a worker will receive 60% of his pre-retirement income. Incredible though it may seem, a worker with low average earnings in his lifetime who retired in 1981 will in retirement earn more in Social Security benefits than he earned while working.

Because of legislation enacted in 1977, these high replacement rates will gradually decline somewhat.

Replacement rates have increased primarily because of legislative and automatic benefit increases. Cost of living increases the past decade have been generous. From 1970 to 1981, pre-tax wages went up 122%; the CPI increased 136%; Social Security benefits have increased 205%.

7. <u>Program Growth Since Social Security Began</u>

Although the number of benefits has vastly increased and the requirements determining insured status have been liberalized, the basic notion of insured status has not changed since Social Security began. In 1940, three requirements had to be met before a worker or his family received benefits: The worker had to be industrially or commercially employed, earning at least $50 ($568 in 1982 dollar) in at least six calendar quarters, and be over age 65.

Since then, almost all age requirements for benefit eligibility have been reduced, types of benefits expanded. Benefits are now increased automatically each year.

C. <u>Benefit Structure -- Disability Insurance (DI)</u>

Social Security disability began in 1956, and operates on the same insured status concept used by OASI.

To be eligible for disability, a worker must be both fully insured under OASI, as described in Section II-A, and disability insured. To be disability insured, the worker must have 20 quarters of coverage in the 40 quarters immediately preceding disability. Generally, disability is defined as the inability to engage in gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death, or last at least 12 continuous months. Before benefits can be paid, a waiting period must lapse of at least five months, benefits are paid up to age 65, and then regular full retirement benefits are paid, and benefits can be paid retroactively up to 12 months.

A worker disabled in the line of work need not file for worker's compensation. Disability benefits are offset by all other disability benefits, with the exception of veterans disability benefits. Currently, Social Security and the states are reviewing all disability cases, and terminating benefits to those who never were or no longer are eligible. Benefits are being denied in about 50% of all cases, but are restored on appeal to administrative law judges about 64% of the time. Appeal takes six months or longer, and benefits are paid for only 60 days during that time.

Five types of benefits are paid:

1. Disabled worker: 100% of PIA/eligible 5 months after disability

2. Disabled surviving spouse: 100% of PIA/eligible at age 60/eligible for reduced benefits at age 50

3. Disabled child: 50% of PIA/eligibility begins at age 18

4. Disabled surviving child: 75% of PIA/eligibility begins at 18

5. Retroactive: up to 12 months

Only benefits for disabled workers (and their dependents) are paid out of the DI trust fund. Benefits #2 - #4 are simply the dependents and survivors benefits paid out of the OASI trust fund.

D. <u>The Benefit Structure -- Hospitalization Insurance/Medicare (HI)</u>

Created in 1965, Medicare is a national health insurance program for the aged and certain disabled persons. Almost all citizens over age 65 are automatically entitled to Medicare coverage. If they are not, they can purchase the coverage for an annual premium of $1,360.

Medicare has two parts: Part A, hospital insurance, pays hospital, post-hospital and home health services. This program is financed through Social Security payroll taxes. Part B. supplementary medical insurance, is a voluntary program, financed through individual medical premiums, and through general revenues. Elderly beneficiaries pay one-quarter of the costs (about $150 a year with a $75 deductible), the disabled pay one-seventh, and the federal government pays the difference. Services and fees vary between the two programs.

<u>PART A</u>:

During each benefit period -- whenever a patient has not been in a hospital for 60 consecutive days, Medicare Part A pays for the following services:

Inpatient Hospital Care: Ninety days of coverage. For the first 60 days, all costs are paid, except for the first $304 deductible. For the last 30 days, Medicare pays for all but $76/daily in covered costs. After that, patients can draw upon a lifetime reserve of 60 hospital days. For reserve days, all costs after the first $152 each day are paid.

Nursing Facility Care: One hundred days of coverage are paid for. The first 20 days of care are free for the patient. After that, all patients pay $38 each day, and the rest of the cost is paid by Medicare.

Home Health Care: Medically necessary home health care visits by nurses, therapists and other health workers are paid for by Medicare.

There is no limit to the number of benefit periods a patient can have.

Institutions are reimbursed for their reasonable costs incurred in providing services to Medicare patients. Reasonable costs are determined by law and regulation. Services and costs are reviewed by Professional Standards Review Organizations. Medicare is administered by the Health Care Financing Administration which, in turn, contracts much of the operational work to private sector intermediaries.

PART B:

During any calendar year, Part B pays 80% of reasonable charges for services rendered by doctors, osteopaths, chiropractors, psychiatrists, independent therapists. Most medical services and outpatient and laboratory services are covered.

E. Administration

Administration costs in 1981 were $1.7 billion or 1.2% OASDI benefit payments or 1.3% of revenues.

Retirement and survivors insurance is largely administered by the federal government, with disability insurance administered by the states.

F. Taxes

In 1982, the combined employer-employee tax rate is 13.40% on earnings up to $32,400. The maximum tax today is $4,342. Self-employed pay 150% of the employee's share of the tax.

In 1977, Congress enacted legislation that significantly increased taxes during the rest of this decade. By 1990, the tax rate will increase three times, to 15.3%, and the tax base seven times. The total maximum tax paid in 1990 will exceed $9,400. The 1977 law will pump another $437 billion in additional taxes into the Social Security Trust Fund.

Under current law, Social Security benefits are tax free.

Social Security only taxes payroll, and no other tax revenues flow into the Social Security trust funds.

G. Social Security Tax' Benefit, Trust Fund, Chronology, Charts, Tables and Graphs

The following pages contain selected tables highlighting key aspects of Social Security.

Charts 1: Social Security's Deficit

Charts 2: Total Annual Expenditures OAS and DI Programs Combined

Charts 3: Maximum Social Security Tax

Charts 4: Who Pays For Social Security

Charts 5: Payouts By The Four Social Security Funds in 1980

Charts 6: Payouts By The OASI Trust Fund in 1980

Charts 7: A Social Security Fact Sheet

Charts 8: Newly Entitled Retiree Families' Mean and Median Incomes, By Source and Family Type

Charts 9: Newly Retired Workers (65 and older) Average Annual Benefits and Poverty Level

Charts 10: Newly Entitled Retiree Families' Investments and Total Assets, By Median Amounts and Family Type

Charts 11: Total Social Security Beneficiaries/ and Total Beneficiaries and Payments by State

Charts 12: Growth of Real After-Tax Incomes of Average Social Security Recipients

Charts 13: Annual Benefits to "Average" Age 65 Worker Retiring in Various Years

Charts 14: Comparison of the Growth in Average Real After-tax Earnings and Social Security Benefits Over Selected Time Periods

Charts 15: Net Tax Changes

IV. References/Recommended Reading

Sources: Social Security Administration, General Accounting Office, Congressional Budget Office, Office of Management and Budget, Congressional Research Service, House Ways and Means Committee, Senate Finance Committee, Senate Select Committee on Aging, selected books and publications.

For those interested in further reading, perhaps the five best references about the past, present and future of Social Security are:

Policymaking for Social Security

--Martha Derthick, The Brookings Institute

Developments in Aging: 1981: Volume 1

--Senator John Heinz, Chairman, Senate Select Committee on Aging

Social Security

--Robert J. Myers, McCahan Foundation Book Series

Major Federal Expenditures in Jurisdiction of the Senate Finance Committee

--Senator Robert Dole, Chairman, Senate Finance Committee

Social Security: The Need For Action

--Robert Beck, Chief Executive Officer, Prudential Life Insurance Company

FOOTNOTES:

(1) Mr. Kirkland is not joining in the recommendation to extend coverage to Federal employees and has filed a supplemental statement on the issue.

(2) A labor shortage would result only if the relative reduction in the working age population were not offset by productivity improvements.

Major Legislative Changes in Social Security

1935:	A system of Federal old age benefits covering workers in commerce and industry is established. Benefits were to be based on cumulative wages and to be payable beginning in 1942 to qualified workers age 65 and over. A payroll tax of 1 percent on employer and employees, each imposed on a wage base of $3,000, was to be collected as of January 1937; the tax would rise to 3 percent by 1949.
1939:	The starting date for benefits is advanced to 1940. Benefits for dependents of retired workers and for surviving dependents in case of a worker's death are authorized.
1952:	Benefits are increased by 12.5 percent.
1954:	Coverage is almost universal except for Federal government employees. The wage base is increased to 64,200, and benefits are increased by 13 percent.
1956:	Disability insurance (DI) benefits are added payable at age 50. Women are permitted to retire at age 62 with actuarially reduced benefits.
1958:	Benefits are added for dependents of DI recipients, and the DI eligibility standard is liberalized.
1960:	The age 50 limitation for DI eligibility is eliminated.
1961:	Men may retire at age 62 with an actuarial reduction.
1965:	Medicare becomes part of social security. Cash benefits are increased by 7 percent.
1968:	Cash benefits are increased by 13 percent. The tax rate is now 4.4 percent and the wage base $7,800.
1969:	Cash benefits increased by 15 percent.
1972:	Cash benefit increases, which had previously been made in an ad hoc fashion by the Congress, were made automatic as was the increase in the wage base. The 20 percent benefit increase which occurred this year was made possible by a change in actuarial assumptions from a level wage growth path to a dynamic one.
	An error in the 1972 automatic indexing at initial benefit determination produced a

1977:	long-run deficit due to the high rates of inflation between 1972 and 1977. This error was corrected and the current method of wage-indexing both the earnings history and the bend points was decided upon. Automatic cost-of-living adjustments remained intact. The long-run deficit necessitated the largest increase in scheduled-tax rates in the system's history, culminating at 7.65 percent on employee and employer in 1990.
1981:	A short-run financing problem requires interfund borrowing and some benefit reductions near-term. The long-term actuarial and economic problems are worse. Even the large pending tax increases are inadequate to cover the large increases in real benefits being promised over time under OASDI. The system's grand promises are depressing the Nation's saving and growth rates, jeopardizing its own tax base. There is a burgeoning long-run deficit under HI which dwarfs the OASDI problem. Some politically acceptable alteration in benefit formulas must be found for the long run. This will inevitably involve indexing changes.
Source: Derthick, Martha, Policymaking for Social Security, The Brookings Institution, 1979, pp. 429-432.	

SUPPLEMENTARY STATEMENT BY MARY FALVEY FULLER

Working Toward Meaningful Social Security Reform

After a year's work, the National Commission on Social Security Reform, together with the White House and the Speaker, have produced a package with the potential to be passed into law within the next few months. The overriding objective of our recent negotiations was to produce a package that would generate enough support to be enacted by the Congress in time to prevent either delay of benefit checks in July of this year or an emergency infusion of general revenues. As a result, the compromise includes elements that are distasteful to many Commissioners for different reasons.

In my view, the package contains two major provisions that are commendable:

1. Extension of coverage to new Federal employees and all employees of nonprofit organizations, so that Social Security becomes closer to a universal-coverage system.

2. Shift in the COLA to wages or prices or lesser after 1988 if the trust fund ratio falls below 20%. Although this stabilizer of outgo relative to income is effective only in times of real wage loss, it is a step in regulating the COLA to reflect economic conditions.

However, there are a number of additional provisions that I believe are necessary for meaningful reform that we should work for vigorously in the months and years ahead, specifically:

1. A clear commitment to increase the retirement age to reflect the increased longevity of the American population. The increased life expectancy of beneficiaries, coupled with the declining birthrate, means that we will have only two workers supporting each beneficiary in 2025 and after, in contrast to the 16 we had in 1950.

2. A combination of COLA stabilizer and fail-safe mechanism to guarantee that crises like the one we face now, and the one we had in 1977, will not recur before the end of the decade and in the future.

3. A balance between tax increases and benefit restraints that is realistic and fair over the long term. This package relies on new sources of revenue and tax increases for about $100 billion of the gap of $168 billion, and the tax increases come on top of $300 billion enacted in 1977 that apply to the 1983-89 period. Relatively little has been accomplished to date in restraining the growth of benefits over the long term.

4. Reliance on the payroll tax as the sole source of financing. This is essential to preserve the discipline in managing the growth of benefits relative to taxes, the parity between the employer and employee contributions, and the earned-right character of the program.

The remainder of this statement discusses each of these areas.

Clear Commitment to Increase the Retirement Age

The bi-partisan package leaves open a gap of .58% of payroll as part of the total long-term gap of 1.80%. The package stipulates that the gap would be filled by either a gradual increase in the normal retirement age or a combination of other measures. I support the proposal to fill the entire gap through a gradual increase in the normal retirement age. In fact, I believe that this measure, while adequate based on the economic projections used in costing out the package, may fall short of what will actually be needed. Furthermore, the age of 66 in 2015 is about 5 years below the age at which a person would work the same portion of his/her life as that determined by using age 65 when it was enacted in 1935. Consequently, I believe that the increase in the normal retirement age should be adjusted at some later time so as to reach age 68 by 2015. This would produce long-range savings of 1.3% of payroll.

There is a growing belief that this will be needed to fill a long-term gap of 2.4% of payroll, which results from the latest projections of fertility rates by the Bureau of Census.

The Congress and the public may not be aware that actual economic performance has, in recent years, consistently fallen short of the most pessimistic economic projections made in the annual reports of the Board of Trustees. It would be responsible, forward-thinking policy to provide for this gap soon -- especially since a retirement age of 68 is what the many research studies have shown to be appropriate by the year 2015 to reflect longevity at that time -- even allowing for some growth in the proportion of life spent in retirement. One could then delay the indexing schedule to begin after 2020 if the trust funds show a substantial surplus. This would be fairer to the working population than allowing another crisis to loom before taking needed action.

Combination of COLA Stabilizer and Fail-Safe Mechanism

The bi-partisan package includes a provision that would substitute the lesser of the percentage wage increase or the percentage price increase, beginning with 1988 if the combined OASDI trust fund ratio falls below 20%. While this is a positive step, it is possible that action will be needed before 1988 to avoid another funding crisis. Several Commissioners had proposed putting a cap on the COLA between 1984 and 1988 or basing the COLA on wage increases minus 1 1\2 percentage points. The latter method would make the adjustment independent of the CPI and yet produce exactly the same benefit increases over the long-term, (after the 1980s) as under present law, if economic conditions are the same as those assumed under the intermediate assumptions of the 1982 Trustees Report. On the other hand, if economic conditions are unfavorable, and wages do not exceed prices by as much as is projected, the financial solvency of the program would be protected, because benefit increases would be smaller than under present law. Conversely, if economic conditions are more favorable than assumed, benefit increases would be larger than under present law, and the financial condition of the system would still be strong.

If another funding crisis develops before 1988, we will be faced with further tax increases -- on top of those enacted in 1977 and those that are proposed in the "consensus" package -- or another COLA delay. I hope that this does not occur, because our credibility in controlling the financial condition of the Social Security program would be damaged in the eyes of the American people. However, based on recent experience with actual economic conditions versus projections, we cannot rule this out.

Several of us also recommended a fail-safe mechanism to ensure that benefits would continue to be paid on time despite unexpectedly adverse conditions, which can occur with little advance notice. One mechanism would be
to reduce, temporarily, benefits payable. Alternatively the same result could be accomplished indirectly by reducing the next benefit increase that would occur as a result of the COLA. Another mechanism could be to increase, temporarily, the OASDI tax rates. Because of the already large tax burden on today's workers, I would favor the first or second alternative. I recognize that Congress is more likely to respond to actual, rather than potential crisis, but I am concerned about further damaging public confidence in the Social Security program by frequent short-term threats.

Balance Between Tax Increases and Benefit Restraints

The current estimated short-term gap of $150 to $200 billion for 1983-89 comes on top of a tax increase in 1977 that amounts to about $300 billion during this period. The bi-partisan package contains new sources of revenue and tax increases of about $100 to $130 billion depending on whether the taxing of benefits is classified as a tax increase or a benefit reduction. In any case, this means that at least $400 billion in new revenues and tax increases will have been enacted in 1977 and after to close a gap of $500 billion. This is, in my view, an unbalanced reliance on taxes, which places an excessive burden on today's working population, while holding retirees relatively harmless. There is a limit to the psychological as well as financial capacity of the working population to absorb continued tax increases. This is especially true during times when they are asked to accept wage increases that do not keep up with inflation.

The clear preference for tax increases rather than benefit restraints has been shown by the actions taken over the last decade. This is one of the major reasons that young people are afraid that the Social Security program will not be around to support them when they retire. The public may be beginning to realize that our overall budget deficit of about $200 billion is, essentially, a commitment on the part of the next generation to pay increased income taxes. The combined effects of increases in Social Security taxes, income taxes and, inevitably, Hospital Insurance taxes appears formidable, to say the least, and unfair when certain groups of people are partially exempt.

Reliance on Payroll Tax to Finance Social Security Program

The Social Security system has been based on the philosophy that benefits are financed by payroll taxes, paid equally by employers and employees. The bipartisan package contains a refundable income tax credit for 1984 that would offset the payroll-tax increase. This is a direct violation of this fundamental principle; it upsets the parity between employer and employee contributions and infuses general revenues into the Social Security program. It should not be repeated under any circumstances. In my view, it is essential to maintain the self-financed character of the Social Security program -- both to maintain discipline in managing the system and to protect its status as an earned-right, rather than a welfare program. The self-financed character of the system is essential to prevent moving to a system that conditions benefits based on financial need. Furthermore, to inject general revenues at a time when we have the highest budget deficits in American history, it is very unfortunate and should not be repeated in any form. Americans value the Social Security system as a contributory program, and this is essential to the long-term health of the system.

* * * * * *

It has been a privilege to serve on this Commission and, though many of us have had to swallow hard, some constructive steps have been taken. I am hopeful that some meaningful reforms will emerge from the up-coming deliberations in the Congress.

SUPPLEMENTARY STATEMENT BY MARY FALVEY FULLER

Addressing the Changing Role of Women

The effect on women of the Social Security program is a subject of major importance, and much analytical work has been done to identify and evaluate alternative approaches to correct the unintended inequities. In fact, the 1979 Advisory Council on Social Security spent more time on this issue than on any other single issue. Unfortunately, our commission could not address this issue due to the urgent priority of restoring the solvency of the system. But we do not intend this choice to detract from the importance of restoring the equitable treatment of women in today's world. The provisions of the bi-partisan package, while advantageous to certain groups of women, do not begin to address the fundamental, though unintended, inequities, that act to the disadvantage of all people except members of intact one-earner couples.

The Social Security system was designed at a time when most families each had one wage earner with a dependent spouse, and marriages were, for the most part, lifelong. As a result, the benefits of the dependent spouse are determined as a function of the earnings of the worker, and divorced spouses do not receive any benefits unless the marriage has lasted for more than arbitrary number of years (which is now 10). Today, the times are different; a substantial majority of women spend most of their lives in the paid workforce, and there is one divorce for every two marriages, with two-thirds of divorces occurring after less than 10 years. The Social Security program, therefore, has some unintended inequities that need to be corrected:

1. The secondary earner, in most cases the women, gets little, if any, return on her Social Security taxes. Only if she earns more than one-third of the combined couple's income do her benefits as a worker exceed those she would receive as a dependent spouse.

2. Two-earner couples receive less in benefits than one-earner couples with the same earnings. Survivors of two-earner couples are, correspondingly, penalized.

3. Single retirees receive lower benefits relative to their tax contributions then married couples.

4. The spouse receives no benefits on divorce unless the marriage lasted 10 years or more.

These inequities result from the continued use of the concept of a dependent spouse which is, in today's world, an anachronism. Marriage today is an economic partnership, and each partner contributes to the well-being of the family. The most direct method of restoring the proper treatment of both spouses is through a program of earnings sharing, where each spouse receives credit for one-half of the combined earnings of the couple during the life of the marriage. In this way, each spouse receives credit for her/his contribution to the marriage year-by-year with no requirement based on duration of the marriage. The conceptual precedent is community property, which prevails in several states.

Such a program would need to be tailored to special circumstances, such as protecting the family in the event of loss of the primary earner's income through disability. Moreover, the transition would need to be orderly and fair, which is not to say, protracted and expensive. However, there is in my view, no need to hold harmless group; (like divorced men) whose total benefits may have been high relative to their contributions. There is also no need for increased costs except for the transition. The earnings-sharing program developed for evaluation by the 1979 Advisory Council had an increased cost of .09% of payroll -- excluding the cost of adding disability protection for certain groups, primarily homemakers. I do not believe that the evaluation of earnings sharing should be complicated by adding benefits that do not exist today. Responsibility for supporting homemakers during retirement and disability is a separate subject with different arguments, which are based on different issues.

The fact that transition to such a program will be complex to design and implement should not prevent this much-needed change. Work on the program should begin now so that the details can be worked out and communicated well in advance. Implementation should begin as soon as the system is in a position to support the cost of transition -- hopefully by 1990. Change is natural in a healthy society, and effort is better spent implementing orderly change than trying to force-fit elements of the status quo that have outlived their relevance.

Supplementary Statement on Mandatory Coverage of Public Employees by Lane Kirkland

I cannot support the Commission's recommendation for mandatory social security coverage of newly hired federal and postal employees. The many complex issues involved make it difficult to protect federal and postal employee rights under the best of circumstances. This is even more difficult at the present time since the proposal is being put forward in the context of a search for additional sources of revenue and Congress is not likely to decide the issue solely on its own merits.

I could not support coverage unless all of the following conditions were met:

1. No reduction in the level of pension benefits now available to government workers.

2. No additional financial burden on government employees without a commensurate adjustment in benefits.

3. Preservation of the identity for government workers' retirement plans.

4. No diminution in the opportunity for these employees to improve their retirement systems.

The Commission cannot know in advance whether the pension rights of present and future employees will be adequately protected if Congress enacts mandatory coverage. Federal and postal employees should have the right to know and evaluate in advance the details of any proposal before they are asked to take this step.

Discussions are going forward to try to develop a solution to this problem which will strengthen and reinforce both the Social Security System and the Civil Service Retirement System. Those discussions ought not to be hampered by untimely and imprecise recommendations of this Commission. The Commission should not recommend nor should the Congress act when the coverage details are unknown. Otherwise, there can be no assurance that they meet criteria essential for assuring equity to those affected.

A majority of the Commission supports in principle social security coverage of state and local government employees but has not so recommended because of concern about constitutional barriers. The implication is that Congress should mandatorily cover these employees if the constitutional issues can be resolved. I will not support such coverage unless the protections previously specified for federal employees are met by any legislation applicable to State and local government employees.

I support legislation that would remove the option for State and local governments and nonprofit organizations to withdraw from social security once they have elected for coverage. The unilateral right of these employers to withdraw has resulted in their employees losing valuable retirement, survivor and disability protections. This "loophole" in the law should be eliminated. Once this has been accomplished, public employers that have withdrawn in the past should be permitted to reenter the system. The legislation should specify a way for workers or their unions to initiate such action. This is not possible under present law.

Proponents of coverage will contend that twenty billion dollars will be lost between now and 1990 to social security trust funds if coverage of federal and postal employees does not take place. As s substitute source of revenue and as a meritorious proposal in its own right, I recommend requiring employers to contribute to social security on the basis of their total payrolls. This would bring into the system about $40 billion between now and 1990 and would reduce social security's long run deficit by .56% of taxable payroll.

The wage base is necessary to determine the maximum employee benefit but plays no similar role for the employer. Employers' responsibility for the welfare of their employees should be based on their total payrolls, not just on a portion of workers' earnings. Employees must pay federal income tax on their social security contributions. Employers do not pay the full rate since they deduct their tax as a business expense.

This give-back to employers in reduced income taxes is largely financed by the income taxes of workers since federal revenues to an overwhelmingly degree are based on taxes provided by individuals' incomes. Individual income taxes now provide 71 percent of general revenues, up from 47.5 percent in 1954. The corporate share is expected to be only 11 percent of general revenues for 1982. In 1954, corporation income taxes supplied 34 percent of all revenues (excluding employment taxes). As a result, employers pay only about one-third of the combined costs of the program and employees two-thirds. Thus, there is every reason why employers should pay social security taxes on their total payrolls.

Dissenting Views of Joe D. Waggonner, Jr.

It has been a privilege and an honor to serve on the National Commission on Social Security Reform. Our country needs a sound, adequately financed Social Security program. I thank the President for the opportunity to serve.

I strongly support the Social Security program and recognize its critical role in providing income security. The program has been extremely successful and must be preserved for this generation as well as future generations.

I am in complete agreement with the initial finding of the Commission, that the fundamental structure of the Social Security program has proven to be sound and should not be altered.

Since its inception nearly a half a century ago, the program has been maintained on a self-financing, contributory basis. With a few limited exceptions (i.e., gratuitous military wage credits and special benefits for certain uninsured persons age 72 and over) the program has been financed exclusively by taxes paid by workers and employers.

The self-financing principle has served a dual purpose. It has helped to protect the program -- although it has not completely guaranteed it -- against unwarranted and ill-considered over-expansion. At the same time, the "earned right" concept inherent in a self-financed program has helped to protect it -- although it has not completely guaranteed it -- from gradual conversion to a needs-tested welfare program. Therefore, the public should rest assured that there is strong support for the program. Neither party wants to see the system fail. Consequently, I believe that the program is too important to be subjected to politics. It is now, and in fact long since, time to cease the political rhetoric and enact legislation that responsibly solves both the short-term and long-term financing problems. The longer such action is delayed, the more severe the consequences of such inaction.

There are a variety of reasonable solutions to the financing problems of the system. Those solutions do not have the dire consequences that people fear as a result of the emotional rhetoric. It is unnecessary to reduce benefits currently being paid or to make precipitous changes in the future growth of benefits. However, the future growth of benefits must be slowed. Revolutionary or radical changes are not desirable. Similarly, there is no need for massive tax increases or for the use of non-existent general-revenue financing.

It is critical that the solutions to the problems address the causes of the short-term and long-range problems. The immediate cause of the short-term problem is a technical deficiency in the cost-of-living adjustment that causes the program to be unstable. It absolutely must be changed if a stable system is to survive. The long-term problem is essentially the product of demographic changes. The "baby boom" generation and continuing improvements in life expectancy will overwhelm the program unless changes are made. Demographics in the long-range demand structural changes. Demographics is the long-term problem.

I am greatly concerned that proposals have been made that do not adequately address those causes. A brief background on the growth of the Social Security program and further explanation of the causes is warranted.

Disability and Medicare benefits have been added since monthly benefit payments started in 1940, coverage has been expanded, the level of benefits has grown, and the tax liabilities of workers and employers have increased. Fundamentals for financing and redistribution of benefits have changed very little. The combined maturing of the program and the growth of real benefits brought on by the runaway inflation of the 1970s, have raised the increased tax burden. In 1950, only 20% of people above age 65 received Social Security benefits. Today, more than 90% do. The average retired worker benefit has increased from $70 a month in 1960 to about $420 a month today.

It was unquestionably intended that Social Security benefits provide a basic floor of protection to be supplemented by other retirement income when Social Security was enacted. Other retirement income was available then and continues to increase. Too often, older Americans are portrayed as being totally dependent on Social Security benefits for retirement income. Those who paint the economic picture of the elderly often overlook certain truths. In past years, the relative value of other sources of income has significantly increased. Among these sources are (1) pension programs, which have increased from some 750 plans (private) in 1935 to some 700,000 plans today; (2) the Keogh program for the self-employed recently was enlarged to encourage savings; (3) Individual Retirement Accounts have been liberalized and will encourage a more responsible attitude for retirement planning among employed workers; (4) CODAs, which are cash or deferred arrangements are allowed by changes to the tax code in 1978 which provide that workers can now establish cash or deferred arrangements under qualified profit sharing or stock bonus plans; (5) in addition, some 70% of the elderly couples own their homes at retirement and some 80% of those have no mortgage; (6) many have accumulated a significant amount of wealth at retirement; (7) some continue to work after age 65; and (8) programs with means-test eligibility criteria for the elderly such as the Supplemental Security Income program, housing, food stamps, Medicaid, and energy assistance provide additional protections for low-income elderly persons.

Just since 1968, cumulative Social Security benefit increases have totaled 270%, compared with a CPI increase over that same period of 189%. The proportion of before-tax income replaced by Social Security benefits has increased steadily over this same 15-year period. A male aged 65 with average covered earnings who retired in January 1968 had 32.3% of his before-tax earnings replaced by Social Security; in January 1983 a similar individual will have 45.7% of his before-tax earnings replaced.

As Social Security benefits and replacement rates have been steadily increasing, the Federal Government has essentially placed itself in direct competition with the private sector in the providing of retirement income security.

As indicated previously, the method by which benefits are adjusted for inflation permits benefits to increase more rapidly at times than the wages of those paying taxes to support those benefits. As a result, benefits can grow more rapidly than taxes, causing the program to be unstable when economic conditions are adverse.

For example, in the past four years, CPI-indexed benefits grew by 50%, while average wages grew by only 37%. If benefits had increased at the same rate as wages, the program would be generating excesses of income over outgo and there would be no short-term problems.

The Social Security program as presently structured is widely accepted by the American people, although their confidence in its financing basis has been unnecessarily shaken. The present financial difficulty is real, arguments to the contrary notwithstanding, but emotion has overwhelmed reason. This Commission is obligated to the President and the American people to recommend a plan whose policy or policies would assure an on-going program for the benefit of this Nation, our present and future generations. What are our options? Basically only four exist. They are:

(1) Increase or accelerate already scheduled tax increases. Surely, past experience has demonstrated and proved the futility of such a policy. The last major Social Security refinancing legislation, enacted in 1977, is a good example. At that time, Congress and the Administration attempted to solve Social Security's financing problems by the enactment of the largest peace-time tax increases in U.S. history. In spite of this tremendous tax increase, because subsequent economic conditions were far worse than those assumed in the formulation of the legislation, the solution failed. This recent experience must not be reenacted. Because forecasting future economic conditions is, at best, an imprecise science, extreme caution must be taken when considering current reform proposals to err on the side of caution -- to avoid simply another short term fix.

Four tax rate changes have already gone into effect since 1977. Three more are scheduled to go into effect during the next several years, and large increases in the maximum earnings subject to taxes are also scheduled. Because of the 1977 legislation, wage earners and their employers will pay an additional $299 billion in taxes during the period 1983 through 1989. That does not include the huge tax increases scheduled to begin in 1990.

Since 1977, maximum annual taxes paid by an individual have increased from $965 to $2,392, an increase of almost 150%. In fact, since 1949, maximum taxes have increased by 7900%.

I am strongly opposed to a solution that depends to a large extent on tax increases, which increase the cost of labor at a time when we should be concerned about creating jobs. A further tax on labor will only serve to significantly increase unemployment, as forecast by several econometric studies. Such action would weaken some of our major industries struggling for survival in the face of stiff foreign competition, as well as many small companies struggling to avoid bankruptcy. Furthermore, despite the adverse effect on unemployment, large payroll tax increases would be inflationary because some companies would be able to pass along the higher labor costs to consumers. Alternatively, further tax increases will tend to depress wage growth.

While decoupling provisions of the 1977 legislation cut the long-term deficit by about 80 percent, its short-term financing provisions relied primarily on tax increases rather than on reductions in costs. Thus, legislation which was heralded as guaranteeing the financial soundness of the program well into the second decade of the next century has proven inadequate in less than five years. You simply can't raise enough money by taxation to satisfy people's wants. We have long since exceeded our ability to pay for all that people want from government.

(2) Provide general Treasury direct or indirect financing to meet the program needs.

This approach is totally unrealistic in the light of today's circumstances. Even with the budget growth cuts that have been painfully enacted in the last two years, there is now no end in sight for annual Federal budget deficits in the neighborhood of $200 billion. Under these conditions, introducing general revenues into the financing of the Social Security program would require the program to compete with all of the other demands for the general funds of the Treasury. It would be disastrous on the economy. Financial stability of the Social Security program depends on a healthy economy. The "earned right" concept would be abandoned, and almost overnight the program would take on all the aspects of a welfare program. It would in fact become a "guaranteed annual income" from the government such as the already rejected "Family Assistance Plan". I strongly oppose this.

(3) Combine additional taxes through the system or Treasury financing. A mix of unrelated taxes such as excise taxes would simply employ the use of concepts which would work to undermine the earned-right concept so central to Social Security. I strongly oppose this.

(4) Tailor benefits to revenues. This is the only reasonable course. In fact this Commission and this policy may have been our last chance to preserve the Social Security program as it was intended and should be. There will be no return to reason, stability and solvency, you just don't go back. We must tailor benefits to revenues.

The elderly are fair and responsible. They don't want to see their children and grandchildren, whose wages have not been keeping pace with inflation and who face high levels of unemployment, burdened with large tax increases. However, they are also very concerned about drastic cuts in benefits because of all the political rhetoric. When the problems and solutions are presented to them objectively and unemotionally, most agree to balanced solutions that address the causes of the problems.

The demographic problems are well-documented. The "baby boom" represents a tidal wave of future beneficiaries. Their benefits will be paid for by the relatively small "baby bust" generation that results from the dramatic reduction in birth rates since 1970. Substantial improvements in mortality compound the problems because benefits will have to be paid over longer periods of time.

Once the baby boom generation retires, "best estimate" projections predict there will be only two workers supporting each beneficiary. If the Office of the Actuary modifies those "best estimate" assumptions to reflect continuation of current birth rates, as has been done by the Census Bureau in its most recent population forecast even fewer workers will be expected to support each beneficiary.

While this Commission has not addressed the financing problems facing Medicare, I recommend that the policy implications of Medicare be reflected in OASDI legislation. The long-term deficit for the Hospital Insurance portion of Medicare is almost three times as large as the OASDI deficit. It is 5.21, of payroll. That deficit occurs despite massive cost shifts and despite assumptions that predict that health care costs will ultimately be controlled.

I recommend that it is imperative that long-term changes be enacted now for several reasons. First, the confidence of young workers must be restored. The best way to accomplish this is to make realistic and affordable benefit promises. Second, those who are to be affected must be given adequate advance notice for personal and financial planning, and the changes should be gradual. If action is delayed, the changes may have to be precipitous. Third, the Hospital Insurance program will begin to experience large deficits by the end of the decade and proper OASDI changes can help mitigate the effect of those deficits.

The Social Security program is an intergenerational transfer program. As such, parents have to ask the question, "At what age should they expect their children to support them and what level of income should their children transfer to them?"

With all of this as background, I believe that the legislation should meet certain reasonable and specific tests and/or constraints as follows:

1. All changes in their totality should be perceived to be fair to everyone affected by Social Security -- taxpayers and beneficiaries alike.

2. All changes should have the objective of placing the Social Security program on a sound financial basis for the short-term and long-term. Those changes should not have the objective of balancing the budget, but rather of preserving the solvency of the Social Security program. Conversely, those changes should not increase the enormous budget deficits of other government programs. The objective should be to consistently maintain the trust funds in total at a reasonable level through the years.

3. Changes should not be precipitous -- gradual changes can and should be made so as to allow adequate time for planning.

4. Changes need not and should not reduce benefits of those now receiving benefits.

5. Recommended changes to improve the viability of the Social Security program and to restore public confidence in the system must respond to the causes of both the short and long-term problems:

- There is a technical deficiency in the cost-of-living adjustment that permits benefit increases to grow faster than wage increases.
- The "baby boom" generation is not replacing itself. It is responsible for the "baby bust".
- People are living longer.
- The ratio of taxpayers to beneficiaries will decrease.
- Health care costs continue to increase rapidly.

6. Future tax rates for the entire Social Security program, including Hospital Insurance, should be reasonable and affordable.

7. Should not (a) increase already scheduled tax increases; (b) provide General Treasury, direct or indirect, financing to meet the program needs; (c) funnel unrelated additional taxes through the system.

Recommendations approved by the National Commission on Social Security Reform show progress toward closing the gap between projected revenues and outlays in the OASDI system. The efforts which produced this package of proposals also reflects credit on those who took part in extended negotiations, including representatives of the President and the Speaker of the House.

Unfortunately, however, in its present form, the bi-partisan plan falls far short of fulfilling the mandate of our Executive Order insofar as it does not specifically address or assure the long-term solvency of the Social Security system. It is also deficient as a balanced solution which is necessary to restore public confidence in the solvency and fairness of the Social Security program.

Specific elements of the plan that I find unacceptable are:

1. The granting of a temporary refundable income tax credit to employees for the differential between the proposed payroll tax rate and the already scheduled payroll tax rate establishes a precedent for permanent General Treasury financing of the program. It moves us closer to the establishment of a guaranteed-annual-income policy by putting the government in support of a refundable tax credit for the first time and it upsets the historic parity of taxes between employers and employees. The matter of providing a refundable tax credit is a major tax policy consideration. It should not be resolved as a Social Security matter in isolation from the Tax Code.

2. Taxing Social Security benefits establishes a means test on benefits, effecting a penalty upon those who are prudent in saving and investing for their retirement. Future program financing difficulties or efforts to further enhance the regressive redistribution of benefits will exert pressure to retain the fixed thresholds of $20,000/$25,000 which will result in the taxing of a greater proportion of beneficiaries in the future. In effect, certain people will never quit paying into the system. Future retirees, especially those of the baby-boom generation and beyond will receive far less of a return on the taxes they will have paid while working. Also, major "notches" will develop as a result of this recommendation.

The matter of taxing Social Security benefits is a major tax policy consideration, as is, for example, taxing unemployment compensation, and should not be considered in isolation of the Tax Code.

3. The short-range deficit is met only at the low end of the projected need. There is no adequate margin of safety provided through the end of this decade, particularly in the years prior to 1988. Unless economic conditions are much better than expected over the

next few years, we could once again be in a situation of having inadequate revenue to pay checks on time. In fact, I believe the short-range deficit is far more serious and the projected need is inadequate.

4. Over the period 1983-84 over one-half of the new revenue comes directly from the General Treasury. The large infusion of general revenues for the first time into the system assures that it will never again be self-sustaining. General funds should never be used. To combine Treasury revenues and a refundable tax credit will complete the transition of the program to welfare and once done, will not be changed. The hope of the young is diminished.

5. The plan adds to projected budget deficits by permanently increasing the cost of the Supplemental Security Income program at a time of severe overall budgetary concerns. This is a welfare consideration.

6. Major necessary structural long-term reforms are entirely avoided. There is no specific plan by which the long-term cost is met. Demographic changes which are the primary cause of the long-term problem are not adequately addressed. The proposed change in the retirement age is tragically deficient.

7. Adding to the cost of the program in the long-term through increasing the delayed retirement credit is irresponsible inasmuch as the long-term cost reduction goal is not specifically met.

8. It repeats the mistake of the 1977 Amendments by relying primarily on increasing taxes. Including revenue derived from expanded coverage, increased taxes account for 75% of deficit reductions; (63% if expanded coverage is excluded);

In the long-term, excluding the portion left unresolved (.58% of taxable payroll) and including revenues from expanded coverage, new taxes account for 91% of deficit reduction (not including revenues from expanded coverage, 66%).

9. It does not provide a specific fail safe mechanism to assure that benefits could continue to be paid on time despite unexpectedly adverse conditions which occur with little advance notice. (See point #3)

The list of options which I would now like to present do meet the tests and/or constraints previously described in this statement. While these options do address the basic causes of both the short-range and long-term problems they by no means constitute an all inclusive list. It should be noted that the options do not specify a single solution to either the short-range or the long-term problem, but instead, the list provides several examples of changes, that in combination could resolve the problems facing Social Security more fairly and equitably than those in the Commission report. At the same time, these options avoid violating the basic tenants of Social Security, in that they allow the system to remain self-financing and do not introduce any elements of means-testing. (The bi-partisan approach developed in 1981 by Congressmen Barber Conable and Jake Pickle adopted a combined approach.)

Some Alternative Options to the Commission Report

	Short-Term Savings (billions) (1983-89)	Long-Term Savings (% of Payroll) (75 Years)
1. Coverage of new Federal hires and Federal employees with under 5 years of service, all nonprofit employees, and elimination of windfall benefits (also, prohibit opting out)	$33	.31%
2. Suspend COLA adjustment for one year, 1983	80	.13
3. COLA based on CPI minus 2% for next 3 years' COLAs, with cap on COLA of 6%; thereafter, use "wages minus 1 ½%" basis	80	.15
4. Four percent cap for 3 year's COLAS; thereafter, lesser of wage or CPI increase if fund ratio is under 25% (with catch up when fund ratio is over 50%)	33	.04
5. Provide future benefit increases equal to 75% of the CPI, effective 1983	75	1.45
6. Prorate both CPI and wage increase adjustments in initial OASDI benefit based on month of eligibility, effective 1984.	40	.40
7. Accelerate State and Local deposits	3	--
8. Increase retirement age to 66 in 2002, beginning phase-in in 1995; thereafter, adjust according to changes in longevity.	--	1.68
9. Gradually increase the "normal" retirement age from 65 to 68 in 2017 beginning the phase-in with those who attain age 62 in 2000.	--	1.22
10. Increase "bend points" in the PIA benefit formula by 75% of the increase in wages until they are 80% of what they would have been under 100% wage indexing, effective 2000.	--	.80
11. Reduce percentages in PIA benefit formula by 10% relatively, over a 15-year period beginning 1984-98	1	1.10

"Fail-Safe" Mechanism

A "fail-safe" mechanism should be provided in the event that the OASDI trust fund ratio falls below a specified level. In the event of the determination of a fund-ratio-deficiency, all benefits due during the coming year should be guaranteed to be sent out on time, but should be proportionately reduced automatically by first affecting any scheduled COLA increase. In the event that the fund-ratio-deficiency exceeded the scheduled COLA increase, then the existing benefit amounts would be reduced proportionately unless Congress acted to provide for the remaining fund-ratio-deficiency through raising payroll tax rates.