

# 10

STAFF DATA WITH RESPECT TO H.R. 1

## SOCIAL SECURITY CASH BENEFIT INCREASE; NEW FINANCING PROPOSALS

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COMMITTEE ON FINANCE  
UNITED STATES SENATE  
RUSSELL B. LONG, *Chairman*



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# 1. SOCIAL SECURITY CASH BENEFIT INCREASE

## Introduction

Following discussion in earlier meetings on the social security cash benefit programs, the Committee directed the staff to explore ways of modifying the social security program to provide more substantial benefits for long-term low-income workers, with a view toward bringing their benefits at least to the poverty level. The Committee also directed the staff to look into ways of providing a more substantial benefit increase than in the House bill in order to more effectively improve benefits for lower income workers.

The discussion below begins with a proposed alternative which would be within the same general range of cost as the House-passed bill. Following this, a number of additional alternative ways of increasing benefits at a cost beyond that of H.R. 1 are presented.

### A. Alternative Proposal for Redistributing Social Security Benefits

The proposal described below would redistribute the increase in social security benefits provided by the House bill so as to provide relatively more for persons with a long period of employment covered under the social security program while providing lower benefits for persons with only a slight connection to covered employment.

The staff suggestion contains the three elements shown in the table below:

Provision	Cost compared with H.R. 1—	
	As percent of payroll	On average annual basis
1. Across-the-board increase of 10 percent (replacing 5-percent increase and 3 special provisions in H.R. 1).....		
2. Higher special minimum benefit for long-term, low-wage workers.....	+ .21	+\$1,050,000,000
3. Lower minimum benefits for persons coming on the rolls in the future who lack substantial connection with employment under social security..	- .07	-350,000,000
Total.....	+ .14	+700,000,000

Each of these elements is discussed more fully below.

### 1. *Across-the-Board Increase of 10 Percent*

The House bill contains three major provisions which would increase benefits for specific groups and which were not in the 1970 Senate-passed social security bill:

Provision	Long-range cost as a per- cent of taxable payroll	Cost on an average annual basis
Additional dropout years.—Allows a beneficiary to disregard 1 additional year of low earnings (for purposes of computing average monthly wages on which benefits are based) for each 15 years of coverage.....	.20	\$1,000,000,000
Combined earnings for couple.—Allows couples married at least 20 years to combine wage credits (up to maximum taxable wages for any one year) for benefit computation purposes.....	.18	900,000,000
Actuarially reduced benefits.—Eliminates the provision in present law under which the actuarial reduction made in 1 benefit (for example, a widow's benefit) lowers the amount of another type of benefit taken later based on another earnings record (for example, a retirement benefit based on one's own earnings).....	.13	650,000,000
Total.....	.51	2,550,000,000

This same amount could be used instead to increase the 5-percent across-the-board benefit increase in the House bill to a 10-percent increase.

*Staff Suggestion.*—It is recommended that the committee provide a 10-percent across-the-board benefit increase in lieu of these three provisions in the House bill.

### 2. *Higher Special Minimum Benefit for Long-Term, Low-Wage Workers*

*Eligibility for Benefits Under Present Law.*—In order to be eligible to receive any social security retirement benefits, an individual must have worked at least a specified amount of time in employment covered under the social security program. Eventually, everyone will need 10 years of employment covered under social security in order to be eligible for retirement benefits; however, a man reaching age 65 in 1960 required only 2¼ years of covered employment to be eligible for retirement benefits; one attaining age 65 in 1965 required only 3½ years of covered employment; and a man reaching age 65 in 1971 required only 5 years of covered employment.

*Determining the Amount of the Social Security Benefit.*—Once an individual has sufficient years of covered employment to be eligible for social security benefits, the amount of the benefit for which he is eligible is calculated on the basis of his average earnings in covered employment, including years with no earnings if his connection with employ-

ment under the social security program is slight. For example, the benefits for men retiring at age 65 in 1972 are based on their 16 years of highest earnings after 1950 under the social security system; a man with 16 years of earnings of \$250 monthly will have the same average earnings as one with 8 years of earnings of \$500 monthly combined with 8 years of no earnings under social security. Thus it would be appropriate for the Committee, in increasing benefits, to distinguish between individuals whose low average earnings result from only slight connection with covered employment and those individuals who worked for years at low wages.

*Minimum Social Security Benefits.*—Under present law, an individual whose average monthly earnings are less than \$76 is eligible for a monthly social security benefit of \$70.40. Typically, an individual has average wages of less than \$76 monthly because for a number of years he was not working in covered employment at all, and these years of no earnings, when averaged in with the years of covered employment, brought his average wages to a low level. This would occur if an individual spent most of his working career in employment not covered under social security but instead covered by another public pension system (such as employment in the Federal civil service, under a State retirement system not linked to social security, or as a policeman or fireman). A woman who spent most of her adult life not working but who had some earnings under social security would ordinarily receive wife's or widow's benefits based on her husband's earnings under social security; however, if he receives another public pension because he never worked under social security, she will probably be receiving the minimum benefit even though his pension benefit may be substantial.

Thus it appears that many, if not most, persons receiving the minimum benefit under social security are doing so because they have had little connection with employment covered under social security.

On the other hand, many persons receive relatively low social security benefits because they have worked for years at low wages under the social security system. For example, an individual with average wages of \$200 monthly (whether he worked for 30 years under social security or only for 10 years) receives monthly social security benefits of \$128.60, and a person with average earnings of \$250 monthly (regardless of the number of years worked under social security) is eligible for monthly benefits of \$145.60. These amounts represent the benefit to a single person retiring at age 65; a married couple would receive an additional 50 percent.

*Special Minimum Benefit for Long-Term Workers.*—The House bill provides a 5-percent across-the-board increase, with the minimum benefit also increased 5 percent, from \$70.40 to \$74. However, the House bill would provide a new special minimum benefit of \$5 times the number of years a person worked in covered employment. The benefit would thus be \$75 for a person who had 15 years of coverage, \$100 for a person with 20 years of coverage, \$125 for a person with 25 years of coverage, with a maximum of \$150 for a person with 30 or more years of coverage. These special minimum benefits would not be raised under the automatic benefit increase provisions of the House bill.

*Staff Suggestion.*—Under the alternative proposal, long-term low-income workers would receive a special minimum benefit higher than that in the House bill. Specifically, it is recommended that a special minimum benefit be provided equal to \$5 for each of the first 10 years worked, \$7 for each of the next 10 years worked, and \$8 for each of the third 10 years worked. This would assure that any person who has worked 25 years under the social security program would receive a benefit of at least \$160 monthly, slightly more than the poverty level, and that anyone who has worked under social security for at least 30 years would receive at least \$200 monthly, about 30 percent more than the poverty level, as shown on the table below:

Number of years worked	Special minimum benefit under H.R. 1	Special minimum benefit under alternative proposal
15.....	\$75	\$85
16.....	80	92
17.....	85	99
18.....	90	106
19.....	95	113
20.....	100	120
21.....	105	128
22.....	110	136
23.....	115	144
24.....	120	152
25.....	125	160
26.....	130	168
27.....	135	176
28.....	140	184
29.....	145	192
30 or more.....	150	200

### *3. Providing a Lower Minimum Benefit for Persons With No Substantial Connection With Covered Employment*

The alternative special minimum benefit proposal would cost .21 percent of payroll (about \$1.05 billion on an average annual basis) more than H.R. 1. About two-thirds of this amount (.13 percent of payroll, or about \$650 million on an average annual basis) could be saved by providing lower benefits to individuals whose average monthly earnings under social security are less than \$76 so that persons with earnings between \$51 and \$76 would receive benefits of between \$50 and \$74 (instead of all receiving \$74 as under the House bill) and persons with average earnings of \$50 or less would receive benefits of \$50 monthly (instead of \$74 as under the House bill). Needy persons



would be eligible to receive welfare, but the cost of welfare is borne by general funds; this appears a fairer way to finance income maintenance payments to needy persons who have had little connection with employment covered under social security than to charge the cost to the social security payroll tax.

Of the .13 percent of taxable payroll (about \$650 million on an average annual basis) that would be saved by providing benefits of between \$50 and \$74, a little less than half (.06 percent of taxable payroll, or \$300 million on an average annual basis) relates to persons currently receiving social security payments based on the minimum benefit. Thus the lowering of the minimum benefit could be made to apply only to persons who begin to receive benefits in the future at a savings of .07 percent of taxable payroll (\$350 million on an average annual basis).

*Staff Suggestion.*—It is recommended that the minimum benefit for persons now on the rolls be increased to \$74 as in H.R. 1, but that a minimum benefit of \$50 be set for persons coming on the rolls in the future.

### COMPARISON OF MONTHLY BENEFITS UNDER PRESENT LAW, H.R. 1, AND ALTERNATIVE PROPOSAL

Average monthly earnings	Years of employment under social security	Retirement benefit for an individual under—		
		Present law	H.R. 1	Alternative proposal
\$200.....	20.....	\$128.60	\$135.10	\$141.50
\$200.....	25.....	128.60	135.10	160.00
\$200.....	30 or more.....	128.60	150.00	200.00
\$250.....	20.....	145.60	152.90	160.20
\$250.....	25.....	145.60	152.90	160.20
\$250.....	30 or more.....	145.60	152.90	200.00
\$300.....	20.....	160.90	169.00	177.00
\$300.....	25.....	160.90	169.00	177.00
\$300.....	30 or more.....	160.90	169.00	200.00

### B. Additional Increases in Benefits

*Across-the-Board Benefit Increases.*—Each one percent increase in social security benefits applied across-the-board costs about 0.11 percent of taxable payroll, or \$550 million on an average annual basis. Thus a 15-percent across-the-board social security benefit increase (5 percent more than the proposal outlined above) would cost 0.53 percent of payroll or about \$2.65 billion more on an average annual basis, and a 20-percent across-the-board benefit increase (10 percent more than the proposal outlined above) would cost 1.06 percent of taxable payroll or about \$5.3 billion more on an average annual basis.

## COST OF VARIOUS ACROSS-THE-BOARD BENEFIT INCREASE PROPOSALS

Amount of increase	Additional benefits in first full year	Long-range cost as a per- cent of tax- able payroll	Cost on an average annual basis
5 percent.....	\$2,100,000,000	0.54	\$2,700,000,000
10 percent.....	4,200,000,000	1.05	5,250,000,000
15 percent.....	6,300,000,000	1.58	7,900,000,000
20 percent.....	8,400,000,000	2.11	10,550,000,000

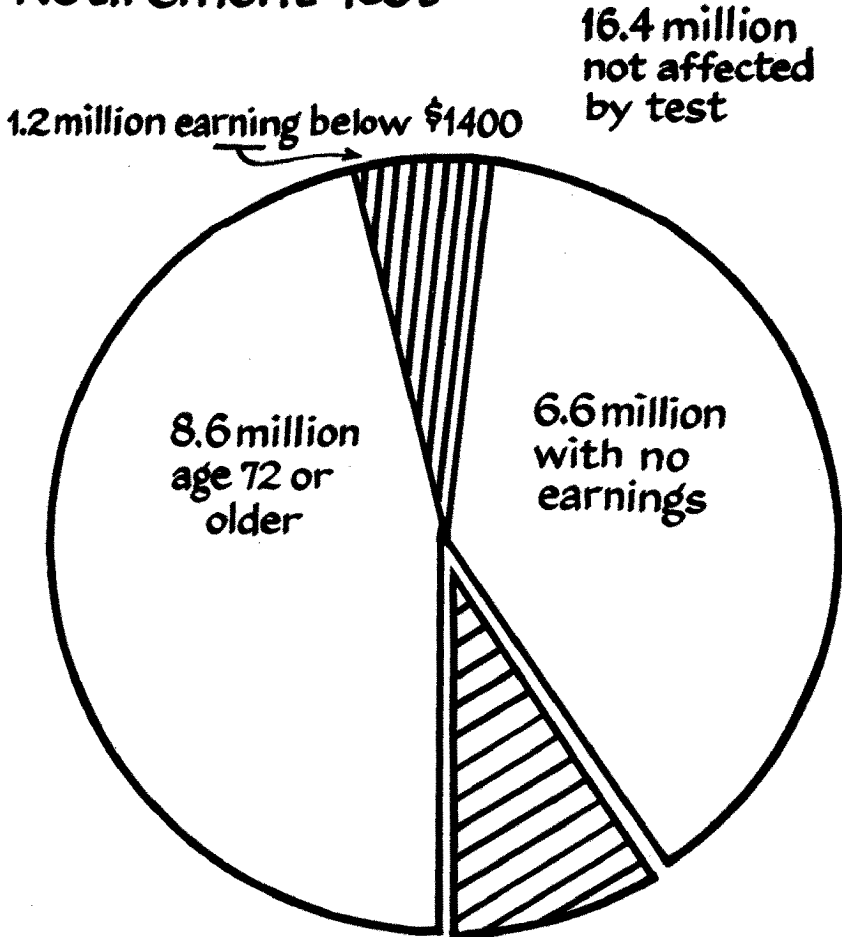
*Staff Suggestion.*—Regardless of the amount of the across-the-board increase approved by the Committee, it is recommended that the minimum benefit for present beneficiaries not be increased beyond \$74 (a 5-percent increase).

*Increasing the Special Minimum Benefit.*—The Committee might wish to consider providing a higher special minimum benefit than that outlined above. The costs of several alternatives are shown in the table below.

### COSTS OF ALTERNATIVE SPECIAL MINIMUM BENEFITS

Description of special minimum benefit	Minimum benefit for worker with social security coverage in—			Cost com- pared with House bill (percent of taxable payroll)
	20 years	25 years	30 or more years	
1. \$5 for each year up to 30 years (provision in H.R. 1).....	\$100	\$125	\$150	.....
2. \$5 for each of 1st 10 years, \$7 for each of next 10 years, \$8 for each of 3d 10 years (staff suggestion)...	120	160	200	0.21
3. \$5 for each of 1st 15 years, \$10 for each of next 15 years.....	125	175	225	0.56
4. \$5 for each of 1st 10 years, \$8 for each of 2d 10 years, \$12 for each of 3d 10 years.....	130	190	250	1.10

# Number of People 65 and Older Affected by the Social Security Retirement Test



1.9 million affected by test:

- 0.3 mil. earning \$1400-\$1600
- 0.1 mil. earning over \$1680 and getting all benefits for months entitled
- 0.7 mil. getting reduced benefits
- 0.8 mil. getting no benefits

## 2. LIBERALIZATION OF THE RETIREMENT TEST (EARNINGS LIMITATION)

Under H.R. 1, the amount that a beneficiary under age 72 could earn and still be paid all of his social security benefits would be increased effective January 1972 from the present \$1,680 to \$2,000 a year. Under present law, benefits are reduced by \$1 for each \$2 of earnings between \$1,680 and \$2,880 and by \$1 for each \$1 of earnings above \$2,880. The bill would provide for a \$1 reduction of each \$2 of all earnings above \$2,000; there would be no \$1-for-\$1 reduction as under present law.

*Long-range Cost.*—The long-range cost of the provision in H.R. 1 is estimated at 0.16 percent of taxable payroll (\$800 million on an average annual basis). The additional costs of increasing the exempt amount above the \$2,000 called for in H.R. 1 are shown in the following table:

Annual exempt amount	Long-range cost as a percent of taxable payroll	Cost on an average annual basis
\$2,100.....	0.03	\$150,000,000
\$2,400.....	.10	500,000,000
\$2,700.....	.16	800,000,000
\$3,000.....	.21	1,050,000,000
\$3,600.....	.31	1,550,000,000
\$4,200.....	.39	1,950,000,000
Elimination of earnings limitation.....	.59	2,950,000,000

At its February 22 meeting, the Committee directed the staff to explore ways of providing a higher earnings limitation for individuals who have low income other than their earnings and who, therefore, have a relatively greater need to supplement their unearned income with earnings. This problem is largely a function of the benefit levels, since a person with smaller social security benefits (and no other income aside from his earnings) has a greater need to earn additional income. If the Committee wishes to consider permitting an individual in these circumstances an alternative earnings limitation which will allow him a higher amount of earnings before his social security benefits are reduced, the following are alternatives to the earnings limit in H.R. 1:

1. Permit all social security beneficiaries an earnings limit of \$1,680 (as under present law) but provide that there will be no reduction in social security benefits until total income exceeds \$3,000.

This would allow a higher amount of exempt earnings for individuals with monthly unearned income of less than \$110. Cost: reduces cost of House bill by 0.11 percent of taxable payroll, or \$550 million on an average annual basis.

2. Permit all social security beneficiaries an earnings limit of \$1,680 (as under present law) but provide that there will be no reduction in social security benefits until total income exceeds \$3,500. This would allow a higher amount of exempt earnings for individuals with monthly unearned income of less than \$150. Cost: reduces cost of House bill by 0.06 percent of taxable payroll, or \$300 million on an average annual basis.

3. Permit all social security beneficiaries an earnings limit of \$1,680 (as under present law) but provide that there will be no reduction in social security benefits until total income exceeds \$4,000. This would allow a higher amount of exempt earnings for individuals with monthly unearned income of less than \$190. Cost: .02 percent of taxable payroll more than the House bill, or \$100 million more on an average annual basis.

If the Committee wishes to accept the increase in the earnings limit proposed by the House, the following are alternatives that may be considered:

4. Permit all social security beneficiaries an earnings limit of \$2,000 (as in H.R. 1), but provide that there will be no reduction in social security benefits until total income exceeds \$3,200. This will allow a higher amount of exempt earnings for individuals with monthly income other than earnings of less than \$100. Cost: .01 percent of taxable payroll more than the House bill, or \$50 million more on an average annual basis.

5. Permit all social security beneficiaries an earnings limit of \$2,000 but provide that there will be no reduction in social security benefits until total income exceeds \$3,500. This will allow a higher amount of exempt earnings for individuals with monthly income other than earnings of less than \$125. Cost: .02 percent of taxable payroll more than the House bill, or \$100 million more on an average annual basis.

6. Permit all social security beneficiaries an earnings limit of \$2,000 but provide that there will be no reduction in social security benefits until total income exceeds \$4,000. This will allow a higher amount of exempt earnings for individuals with monthly income other than earnings of less than \$165. Cost: .07 percent of taxable payroll more than the House bill, or \$350 million more on an average annual basis.

*Staff Suggestion.*—Since the Committee has expressed a desire to improve the income of low-wage employees having substantial employment under social security through an increase in their benefits, and since this matter is dealt with in the earlier part of this pamphlet, it is recommended that the Committee approve the \$2,000 earnings limit as in the House bill. The table below shows the amount of earnings a single individual has at the point of losing his social security benefits entirely under present law, H.R. 1, and the alternative proposal:

**EARNINGS OF A SINGLE INDIVIDUAL AT THE POINT ALL OF HIS SOCIAL SECURITY BENEFITS STOP UNDER THE RETIREMENT TEST**

Average monthly earnings	Years of employment under social security	Annual earnings at point of losing all benefits under—		
		Present law	H.R. 1	Alternative proposal
\$200.....	20.....	\$4,766	\$5,243	\$5,390
\$200.....	25.....	4,766	5,243	5,840
\$200.....	30 or more.....	4,766	5,600	6,800
\$250.....	20.....	5,174	5,670	5,845
\$250.....	25.....	5,174	5,670	5,845
\$250.....	30 or more.....	5,174	5,670	6,800
\$300.....	20.....	5,542	6,056	6,248
\$300.....	25.....	5,542	6,056	6,248
\$300.....	30 or more.....	5,542	6,056	6,800

### 3. NEW PROPOSALS TO CHANGE THE FINANCING OF THE SOCIAL SECURITY PROGRAMS

#### A. Actuarial Assumptions Used to Date

The social security cash benefit programs have always been carefully considered by the Congress with a view toward ensuring the actuarial soundness of the old age, survivors and disability insurance system. Actuarial soundness has meant that the estimated future income from contributions and interest earnings on the accumulated trust fund investments would over the next 75 years pay for the expenditures for benefits and administrative expenses.

The long-range estimates for the social security cash benefit programs have until now been based on the assumption that earnings and benefit levels would not change over the next 75 years. This does not mean that covered payrolls were assumed to be the same each year; rather, they were projected to rise steadily as the covered population at the working age was expected to increase.

The assumption that neither wages nor prices would increase in the future was not meant as an economic forecast but rather as a purposefully conservative assumption on which to base a measure of the long-range cost of the program and proposed changes in the program. The assumptions recognize the probability that wage levels will continue to rise in the future and that Congress will act to increase benefits. Moreover, because of the conservative nature of the assumptions, when the costs are expressed in terms of a percentage of payroll, they allow for an increase in benefit levels in proportion to any rise in wage levels that actually does occur. In fact, as earnings levels and prices have actually increased, actuarial surpluses accumulated which could be and were used to finance a part of the cost of further benefit increases. Along with the periodic congressional action to increase benefits, the tax rates for the short-range future were generally adjusted downward to prevent a large accumulation of trust funds. This has generally meant that in recent years the trust funds have had sufficient assets to pay for a little more than 12 months of current benefits, as shown in the table below. Thus as a practical matter, the legislation enacted by the Congress in the past decade has resulted in the social security program being operated on a pay-as-you-go basis.

## INCOME AND OUTGO OF SOCIAL SECURITY CASH BENEFIT TRUST FUNDS

[In billions of dollars]

Year	Income	Outgo	Net increase or decrease	Assets, end of year
1961.....	12.9	13.4	-.5	22.2
1962.....	13.7	15.2	-1.5	20.7
1963.....	16.2	16.2	.....	20.7
1964.....	17.5	17.0	.5	21.2
1965.....	17.9	19.2	-1.3	19.8
1966.....	23.4	20.9	2.5	22.3
1967.....	26.4	22.5	3.9	26.2
1968.....	28.5	26.0	2.5	28.7
1969.....	33.3	27.9	5.5	34.2
1970.....	37.0	33.1	3.9	38.1
1971.....	40.9	38.5	2.4	40.4

*Actuarial Status of Present Social Security System and Effect of H.R. 1.*—Under the most recent estimates of the social security actuary, the present cash benefit programs have an actuarial surplus of +0.05 percent on a long-range basis. This figure is the net result of a 0.13 percent surplus for the retirement and survivor programs and a 0.08 percent deficit projected for the disability insurance program. Under H.R. 1, using the assumption that wages and prices will not increase in the future, the social security system would have a 0.13 percent deficit on a long-range basis (.06 percent deficit in the retirement and survivor benefit programs and a .07 percent deficit in the disability insurance program).

### B. Proposals To Change the Method of Financing the Social Security Cash Benefit Programs

Since the committee considered social security financing in 1970, several proposals have been made to revise the way the program is financed. Frequently these proposals have been described as reducing the cost of the social security program or as providing tax relief for social security taxpayers. The proposals, however, do not reduce the cost of the program; they merely change the way the cost is measured and the way the taxes are collected. Thus, if the cost of the program in a given year is 10 percent of payroll under the present actuarial assumptions and only 8.5 percent under pay-as-you-go assumptions, the percentage figures are not comparable because the payrolls assumed are not the same size. However, the actuarial assumptions have no effect on the amount of money that will be spent in the year in question.



## 1. REVISION OF SOCIAL SECURITY TAXATION (MUSKIE-MONDALE BILL S. 2656)

On October 5, 1971, Senators Muskie and Mondale introduced S. 2656 as a bill designed to provide social security tax relief to low-income families, provide much higher social security taxes (with no significant increase in benefits) for higher income individuals, and to require that social security financing be on a pay-as-you-go basis. The bill would do this by—

1. eliminating the \$9,000 limit on taxable wages;
2. allowing exemptions for social security tax purposes equal to the personal exemptions allowed under the income tax laws;
3. allowing single people and each couple an additional allowance equal to the low income allowance provided under the income tax laws; and
4. revising the schedule of social security taxes in the law.

The revised schedule of taxes in S. 2656 would lower the tax rates for cash benefits from 8.4 percent in H.R. 1 to 8 percent (for the years 1972 through 1974) and would authorize the Secretaries of Health, Education and Welfare and of the Treasury jointly to promulgate future tax rates at 5-year intervals at the level necessary to keep the program on a pay-as-you-go basis.

The social security actuary has estimated that under this bill the social security program would be underfinanced in 1972 and 1973. The following table showing the effect of the bill on social security income was prepared by the actuary in October of last year:

### EFFECT OF MUSKIE-MONDALE BILL (S. 2656) ON OASDI CONTRIBUTION INCOME AS ESTIMATED UNDER H.R. 1<sup>1</sup>

[In billions of dollars]

Proposed change	Impact on trust funds in calendar year—	
	1972	1973
Elimination of the \$10,200 limit on taxable wages under H.R. 1.....	+\$10.2	+\$12.0
Worker's deductions for low-income allowance and personal deductions.....	-12.3	-12.8
Lowering of self-employed tax rate to that paid by employees.....	-.8	-.8
Lower the tax rate from 5.4 to 5.2 percent in 1972-74..	-1.9	-2.1
<b>Total effect.....</b>	<b>-4.9</b>	<b>-3.7</b>
Additional effect if employer's contributions equal employee's contributions <sup>2</sup> .....	-11.3	-11.8

<sup>1</sup> Based on the tax rates in H.R. 1 of 5.4 percent employee, 5.4 percent employer, and 7.5 percent self-employed.

<sup>2</sup> The bill would make this change applicable after 1974, but in the description in the Congressional Record, this 3-year delay was not discussed.

## 2. GENERAL REVENUE FINANCING OF SOCIAL SECURITY CASH BENEFITS (HARTKE AMENDMENT NO. 893)

Senator Hartke's Amendment No. 893 would make a number of changes in the social security program. One of the provisions of the

bill would provide for a general revenue contribution for social security cash benefit programs increasing from 4 percent of total expenditures in 1973 (roughly about \$2 billion in general revenues) rising to 20 percent of expenditures in fiscal year 1981 and thereafter (roughly about \$12 billion in general revenues in 1981).

### 3. ALTERNATIVE SOCIAL SECURITY TAX FOR LOW-INCOME INDIVIDUALS (HARTKE AMENDMENT NO. 892)

Senator Hartke has also introduced an amendment to H.R. 1 to provide an alternative social security tax for low income individuals. Under this proposal, an individual's "adjusted social security income" would be determined by taking the \$750 personal exemptions provided under the income tax law plus \$1,300 (the low income allowance) and subtracting the total from his wages. If his adjusted income is less than \$850, his social security taxes would be reduced according to a schedule in the law. The reduction would be made at the time taxes are withheld by the employer. The table for determining the reduction follows:

If the adjusted social security income is—	The low-income tax is the following percentage of the regular taxes
Less than \$0.....	10
\$0 to \$49.....	15
\$50 to \$99.....	20
\$100 to \$149.....	25
\$150 to \$199.....	30
\$200 to \$249.....	25
\$250 to \$299.....	40
\$300 to \$349.....	45
\$350 to \$399.....	50
\$400 to \$449.....	55
\$450 to \$499.....	60
\$500 to \$549.....	65
\$550 to \$599.....	70
\$600 to \$649.....	75
\$650 to \$699.....	80
\$700 to \$749.....	85
\$750 to \$799.....	90
\$800 to \$849.....	95

### 4. RECOMMENDATION OF ADVISORY COUNCIL ON SOCIAL SECURITY

On April 1, 1971 an advisory council on social security submitted a report which recommended a revision in the long-range actuarial assumptions that have been used in determining the cost of the social security program and which are, therefore, the basis for the schedule of tax rates that is in the law. In essence, the Council's recommendation

is that the actuarial projections assume an increase in both wages and prices in future years.

Up to this time, the costs of the social security cash benefits programs have been based on the assumption that over the long-run neither benefit nor wage levels will change. While this is not considered to be a forecast of what will happen, it is considered a valid measure of the long-range cost which can be used to compare the relative cost of various changes in the program and to determine what level of social security taxes is needed to pay for the program. Because the conservative nature of the assumptions runs counter to the rising wage trends that have actually existed, most reevaluations of the actuarial cost estimates have shown that the then existing tax schedules could support a higher level of benefits than was being paid and that the higher level was in proportion to the rise in wage levels that had occurred between actuarial evaluations.

The advisory council appointed a panel of actuaries and economists to examine the assumptions on which the actuarial estimates are based. This panel stated—and the council concurred—that the way in which the present estimates are made has resulted in actuarial surpluses which “. . . have been used in the past, partly to finance cost-of-living increases, partly to maintain replacement ratios, and partly to expand benefit provisions”. In the panel’s opinion, the mechanism is not “generally understood” and the panel believed that understanding and analysis of the program would be improved if the present level-wage assumptions were to be “. . . replaced with reasonable assumptions concerning the future growth in average covered wages”.

With regard to the economic assumptions to be used the panel said:

We recommend that the cost projections be based on the best available estimates of the future course of prices and wages. Adoption of realistic wage assumptions for the short term alone is, of course, not sufficient in itself for either actuarial or economic analyses. For the actuarial and economic analyses underlying projections, the relationships between covered payrolls, benefits, tax rates, and trust fund balances need to be traced out as accurately as possible in the long as well as the short run. In such analyses the possible changing interconnections between social security financing, the replacement rate and the purchasing power of benefits need to be studied with care. We recommend further that the economic assumptions for the cost projections should be related, for the short range, as now, to those used by the Administration for budgetary purposes, and for the longer range, should be based on the expectations of continuation of historical price and wage trends.

In adopting the panel’s recommendations on financing, the advisory council said:

As a matter of fact, a current-cost approach under the Council’s recommended actuarial assumptions and methodology shows that the cost of the cash benefits program over the next 3 or 4 decades will be a smaller percentage of estimated covered payrolls than it is at the present time. Costs as a percentage of covered payrolls would then rise somewhat beginning about the year 2010 because of the growth of the retired population relative to the employed population as those born during the high birth-rate years following World War II reach age 65. The table following shows con-

tribution rates that would be sufficient to meet the estimated costs of the cash benefits program under the Council's recommended actuarial assumptions and methodology and to allow for growth in the trust funds. The table indicates the combined employer-employee contribution rates by 2-year intervals for the years 1973 through 1985 and 5-year intervals for the years 1985 through 2045.

**SOCIAL SECURITY CASH BENEFIT TAX RATES (EMPLOYER  
AND EMPLOYEE TAXES COMBINED) UNDER PRESENT  
LAW AND UNDER ADVISORY COUNCIL RECOMMENDATION**

Calendar year	Combined employer-employee tax rates under—	
	Present law	Advisory Council recom- mendation
1973-74.....	10.0	9.3
1975.....	10.0	8.9
1976.....	10.3	8.9
1977-78.....	10.3	8.8
1979-80.....	10.3	8.7
1981-82.....	10.3	8.6
1983-84.....	10.3	8.5
1985-89.....	10.3	8.4
1990-94.....	10.3	8.2
1995-99.....	10.3	7.9
2000-04.....	10.3	7.6
2005-09.....	10.3	7.5
2010-14.....	10.3	7.9
2015-19.....	10.3	8.8
2020-24.....	10.3	9.7
2025-29.....	10.3	10.4
2030-34.....	10.3	10.7
2035-39.....	10.3	10.9
2040-44.....	10.3	11.2
2045-2049.....	10.3	11.6

Note: This estimate is based on the assumption that prices and wages will rise as follows:

Calendar year:	Percent increase	
	Prices	Wages
1971.....	3.8	6.0
1972.....	3.4	5.6
1973.....	3.0	5.2
1974.....	2.6	4.8
1975 and thereafter..	2.3	4.5

## 5. MILLS BILL (H.R. 13320)

On February 23, 1972, the Chairman of the House Committee on Ways and Means, Wilbur D. Mills, introduced H.R. 13320 which is designed to replace the benefit increase provisions and the financing provisions of H.R. 1. Under this bill, there would be a 20 percent general benefit increase (rather than 5 percent as in House-passed H.R. 1) effective for June 1970, the increase in the tax base to \$10,200 called for in H.R. 1 would go into effect as scheduled (retroactively to January 1972) and there would be an additional increase to \$12,000 on January 1, 1973.

The bill would also provide a revised schedule of contribution rates for cash benefits based on a modification of the advisory council's recommendations. The schedule in the bill is compared to the schedule in H.R. 1 in the following table:

TAX RATES FOR THE SOCIAL SECURITY CASH BENEFIT PROGRAMS  
(EMPLOYEE AND EMPLOYER TAXES COMBINED)

[In percent]

Year	Present law	H.R. 1 <sup>1</sup>	H.R. 13320 <sup>2</sup>
1972.....	9.2	8.4	9.2
1973-74.....	10.0	8.4	9.2
1975.....	10.0	10.0	9.2
1976.....	10.3	10.0	9.2
1977-2010.....	10.3	12.2	9.8
2011 and after.....	10.3	12.2	12.2

<sup>1</sup> \$10,200 contribution and benefit base for 1972 with automatic adjustments to increases in earnings levels thereafter.

<sup>2</sup> \$10,200 contribution and benefit base for 1972 and \$12,000 for 1973 with automatic adjustments to increases in earnings levels thereafter.

This schedule is based on the assumption that wages will increase 5 percent annually and that prices will rise 3½ percent annually. In effect, the estimates assume that benefits keep up with changes in the cost of living and that wages rise sufficiently to meet the additional benefit expenditures. The income, outgo, and assets of the cash benefit trust funds for the next few years are compared in the table below.

SOCIAL SECURITY CASH BENEFIT TRUST FUNDS UNDER PRESENT LAW, H.R. 1,<sup>1</sup>  
AND THE MILLS BILL (H.R. 13320)

[In billions of dollars]

Calendar year	Income			Outgo			Assets, end of year		
	Present law	H.R. 1 <sup>1</sup>	H.R. 13320	Present law	H.R. 1 <sup>1</sup>	H.R. 13320	Present law	H.R. 1 <sup>1</sup>	H.R. 13320
1972.....	\$46.2	\$44.1	\$47.7	\$41.0	\$42.6	\$45.7	\$45.6	\$41.9	\$42.5
1973.....	53.7	47.5	53.9	43.0	46.9	53.4	56.3	42.6	42.9
1974.....	57.9	50.8	58.4	44.9	49.3	56.5	69.3	44.0	44.8
1975.....	61.5	64.9	63.5	46.9	54.4	62.3	83.9	54.6	46.0
1976.....	66.5	69.7	67.2	48.9	57.4	65.7	101.6	66.9	47.5
1977.....	70.3	90.6	76.6	51.1	63.3	72.6	120.8	94.3	51.5

<sup>1</sup> Assumes modifications of effective dates as in 1973 budget.

In discussing the bill in the Congressional Record, Chairman Mills indicated that the assumptions used are a departure from past practice and explained as follows:

In the past, the contribution rates were based on the assumption that neither benefits nor earnings levels would rise. And as a result, when earnings levels did rise, there was an automatic excess of social security income that the Congress would use to finance benefit improvements. The use of the so-called level earnings assumption in the financing of the cash benefits program has resulted in the enactment of contribution rates that, when earnings did increase, actually provided financing in advance for benefit increases that go beyond increases in the cost of living. The use of dynamic assumptions would mean that at any time in the future Congress chose to increase benefits by more than the increase in the cost of living, contribution rates would also have to be increased.

The contribution rates I am recommending are based on the best actuarial estimate of future price and earnings relationships but with a margin of safety so that even if the estimate of actual earnings and price relationship in the future should vary to any significant degree from the assumptions, the rates provided by my bill will be sufficient to meet the cost of benefits, adjusted in the future for increases in the cost of living, over the 75-year valuation period.

Thus, if the assumptions underlying the estimates for H.R. 13320 are correct and if Congress continues (as it has in the past) to increase benefits by more than the rise in the cost of living, future tax rates will have to be increased significantly above the levels called for in H.R. 13320.

#### **6. COMMENTS OF FORMER SOCIAL SECURITY ACTUARY ON ACTUARIAL ASSUMPTIONS OF ADVISORY COUNCIL RECOMMENDATION AND MILLS BILL**

In a statement submitted to the Committee, Robert J. Myers, former actuary of the Social Security Administration, commented on the actuarial assumptions of the Advisory Council and those of the Mills bill:

In the *Congressional Record* for February 23 (page H-1413), Chairman Mills describes a proposal to increase Social Security benefits by 20%, instead of by the 5% in the House-passed version of H.R. 1. This additional 15% benefit increase would be financed in part by raising the earnings base to \$12,000 per year (instead of to \$10,200) and by adopting a new actuarial cost methodology. The increase in the earning base would account for only 2% of the 15% benefit increase.

The change in the actuarial methodology is that recommended last year by the Advisory Council on Social Security, whose recommendations the Nixon Administration has been considering for some time but did not finally act upon. As I discussed in some detail in my recent testimony on H.R. 1 before the Senate

Finance Committee, I believe that this new actuarial methodology is not desirable. The use of dynamic economic assumptions as to the future trends of prices and wages is a most hazardous undertaking, especially when projected over a 75-year period, with the great effects of compounding over such a long time. Moreover, the interrelationship of the assumed wage trends and price trends result in a very fluid and unstable effect on the cost estimates.

As an illustration of the previous point, the calculations used by Chairman Mills assume annual wage increases of 5% and annual price increases of 2¾%. Under such assumptions, the actuarial balance of the program is shown to be in very favorable conditions, and so a low level of tax rates can prevail for the next three or four decades. On the other hand, if the wage and price assumptions were only slightly closer, such as a 3% annual increase in prices and a 4% annual increase in wages, the result would be catastrophic. Much higher tax rates would be required after 1980 than in the Mills proposal.

The difference between the annual increase in wages and the annual increase in prices represents the annual increase in productivity. Thus, the economic assumption inherent in the cost estimates underlying the Mills proposal is that, in the future, productivity will increase at a rate of 2¼% per year. This seems reasonable if we look only at past trends, but it does not seem to be a prudent procedure when other factors are considered. Many experts believe that, over a long-range future period (such as the 75 years in the actuarial cost estimates for the OASDI program), productivity gains will be much less than this. Such a trend will possibly occur because of such factors as a greater proportion of service industries (where productivity gains are difficult to achieve), greater attention being paid to ecology, changing life styles, etc.

Moreover, it seems unwise to base the soundness of the Social Security system on the occurrence of sizable inflation. If inflation were to be controlled, and if reasonably steady wage levels were to occur, the tax schedule established under the dynamic economic assumptions used would be extremely inadequate, and much higher rates would be needed after the first few years. Thus, the use of these economic assumptions is like the well-known game of continually borrowing from Peter to pay Paul, all in the hope that inflation will bail you out.

In any event, for the next few years the Mills proposal would have sufficient financing as compared with the present version of H.R. 1, because the tax rate is about 10% higher, and the increased earnings base brings in about 5% more tax income, a total increase of about 15%. However, in 1975-76, I believe that the tax rate in the Mills proposal would be inadequate, in that the outgo of the system would exceed the income—which is not a proper procedure under the current-cost financing basis recommended by the Advisory Council (and which I have long believed in), and now supported by Chairman Mills.

## 7. ADMINISTRATION POSITION ON H.R. 13320 AND REVISED ACTUARIAL ASSUMPTIONS IN IT

During the committee's recent hearings on increasing the debt limit, the chairman asked Office of Management and Budget Director Shultz the administration position on the Mills bill and its financing. Mr. Shultz expressed the administration's concern at the diminishing ratio of trust fund assets compared to outgo under the bill, in this reply:

The President's position is to support the social security provisions in H.R. 1, namely, a 5-percent increase, plus the provisions for changing the payment levels as the Consumer Price Index changes.

Now, as I said a little while ago, when changes are suggested by members of this committee or the Ways and Means Committee, we look at them. But we can see without looking very far that some great problems are posed by a movement to a 20-percent increase. And they concern the budget as a whole. They have to do with the very rapid increase in social security benefits in recent years and to the extent that the Advisory Committee's recommendations, which were cited by Chairman Mills in his proposal, are to be taken seriously. The proposal seems to violate one of the principal conditions, namely, that the asset level should be kept at the approximate level of the following years' outlays. As we calculate it, the proportion would drop below 75 percent, which was their trigger point for flash action, by about 3 or 4 years. So I think there are some real problems connected with it.

. . . The Advisory Committee's report, as I understand it, suggests a change from the notion that social security benefits would be paid in part from current contributions, but also in great part from the flow of interest from a built-up trust fund. To change that and to say directly, as we as a country have been saying more or less directly—that social security benefits will be financed on a current cost basis.

Now, having said that, they then try to provide some sort of guide to what that meant and their guide is that the assets in the fund ought to approximate the estimated outlays for the following year. So that you have that kind of assurance in front of you all the time.

As we compute the implications of the suggestion that has been made, a more or less 1-to-1 relationship between trust fund balances and annual outlays would not be maintained. The Advisory Committee further stated that you would seek around a 1-to-1 relationship, with some deviation up and down, but that you cannot let that deviation get too large. They described this "flash point" on either side as 75 percent on the one hand and 125 percent on the other.

Now, in computing the proposal at 75, we invoke the flash point, and you get close to it by 1973 with the proposal. So I think it is not quite correct to say that somehow, the assets are there and the money is there to finance this.

\* \* \* \* \*



*Staff Suggestion.*—It is recommended that the committee continue to measure actuarial soundness as it has in the past, based on an assumption of level earnings and prices.

#### 4. PROPOSAL TO FACILITATE DISPOSITION OF UNDERPAYMENTS

##### *Present Law*

If a beneficiary dies before receiving social security cash benefits due him, payment may be made only to a surviving spouse, child, parent, or legal representative of the deceased beneficiary's estate, in that order of priority.

##### *Problem*

Where there is no surviving spouse, child, or parent and the deceased beneficiary's estate consists of little more than social security benefits due, payment is often not made because some survivors find it too costly to take action necessary to become the legal representative of the estate. When the present order of priority was under consideration in 1967, the committee added a further category under which underpayments could be paid to persons related to the deceased individual by blood, marriage, or adoption. The Senate change was dropped from the bill by the conference committee. Since then, experience has shown that disposition of underpayments can be made in only about 60 percent of the cases without formal probate proceedings. Where formal probate procedures are necessary, the minimum cost is about \$200, while 90 percent of underpayments amount to less than \$150.

##### *Proposal*

The Social Security Administration and the staff recommend that, if there is no survivor in the categories listed in present law, any other relative (by blood, marriage, or adoption) of the deceased social security beneficiary may be determined by the Secretary, under regulations, to be the appropriate person to receive, on behalf of the estate, any social security payments due the deceased under title II of the Social Security Act. This position was adopted by the committee in 1970.

##### *Cost*

The proposal would have no significant cost.

#### 5. COMPENSATION OF COMMISSIONER OF SOCIAL SECURITY

##### *Present Law*

At the present time the Commissioner of Social Security is at level V of the Executive Schedule (at a salary of \$36,000 per year), as is his deputy. In contrast, other similar positions in the Department of Health, Education, and Welfare are at level IV of the Executive Schedule (at a salary of \$38,000 per year) while their deputies are at level V, one grade lower. The duties of the Commissioner of Social Security—both in terms of the number of employees and responsibilities for supervising expenditures of public funds—are much greater than those of any comparable position in the Department of Health, Education, and Welfare.

### *Committee Action in 1970*

In recognition of the high-level responsibilities of the Commissioner of Social Security and to preserve a grade-level separation between him and his deputy, the Committee bill in 1970 contained a provision which would have placed the position of Commissioner of Social Security at level IV of the Executive Schedule, one grade higher than the grade level of his deputy.

### *Staff Suggestion*

It is recommended that the Committee again approve an amendment to place the position of Commissioner of Social Security at level IV of the Executive Schedule.

## **6. INCREASE IN RAILROAD RETIREMENT BENEFITS**

On March 3 the Chairman received a letter from Senator Cranston, Chairman of the Railroad Retirement Subcommittee of the Labor and Public Welfare Committee. In this letter Senator Cranston recommends that the Committee approve an amendment to H.R. 1 providing the same increase for railroad retirement beneficiaries as the Committee provides for social security beneficiaries, and that the benefit increase be effective until June 30, 1973. The letter continues:

The temporary nature of these increases is designed to enable us to study thoroughly the report of the Commission on Railroad Retirement which is due this June 30, and, hopefully, to place the system on an actuarially sound basis to support these temporary increases as well as future ones. . . .

I believe that it is important in general principle to handle Railroad Retirement increases with Social Security increases in order to eliminate the delay and uncertainty which is inevitable if a separate Railroad Retirement bill must pass both Houses following a Social Security increase. I have discussed this with Senator Williams, Chairman of the Committee on Labor and Public Welfare, Senator Javits, ranking minority member, and Senator Schweiker, ranking minority member of the Subcommittee on Railroad Retirement, all of whom agree.

## **7. AMENDMENTS TO H.R. 1 NOT PREVIOUSLY DISCUSSED RELATING TO SOCIAL SECURITY CASH BENEFITS**

### **AMENDMENT NO. 938 (HARRIS)**

*Divorced Women's Benefits.*—Reduces from 20 years to 10 years the period of time a woman must have been married to an individual in order to qualify for widow's or wife's benefits based on his earnings.

*Cost.*—Negligible.

### **AMENDMENT NO. 939 (HATFIELD)**

*Lump-Sum Death Payment.*—Eliminates the \$255 limit on lump-sum death payments. The payment would be three times the primary insurance amount in every case.

*Cost.*—0.09 percent of payroll, or \$450 million on an average annual basis.

**AMENDMENT NO. 940 (HATFIELD)**

*Social Security Benefits for Disabled Widows.*—Provides for the payment of unreduced disability benefits to disabled widows (or dependent widowers) without regard to age; under present law reduced benefits are payable starting at age 50.

*Cost.*—0.07 percent of payroll, or \$350 million on an average annual basis.

**AMENDMENT NO. 941 (HATFIELD)**

*Social Security, Occupational Definition of Disability.*—Provides that a person age 55 or over will be considered disabled if he is so disabled that he cannot do any significant amount of work requiring skills or abilities comparable to those used in any type of work that he has done with some regularity over an extended period of time.

*Cost.*—0.33 percent of payroll, or \$1.7 billion on an average annual basis.

**AMENDMENT NO. 942 (HATFIELD)**

*Work Requirements for Social Security Disability Benefits.*—Eliminates the recency-of-work requirements for disability benefits. Under present law, in order to qualify for disability benefits a worker generally must have had covered work in 20 out of the 40 quarters just before he became disabled.

*Cost.*—0.24 percent of payroll, or \$1.2 billion on an average annual basis.

**AMENDMENT NO. 943 (HATFIELD)**

*Children's Social Security Benefits.*—Amends the definition of "child" in the Social Security Act to include additional children who were living with and receiving at least one-half of their support from a worker who is over 21 for at least six weeks just before the worker became entitled to benefits or died if the child's parent (including step-parent or adopting parent) was the worker's father, stepfather, mother, stepmother, son, daughter, brother, stepbrother, sister, stepsister, aunt, or uncle.

**AMENDMENT NO. 945 (JAVITS)**

*Exemption from Earnings Test.*—Provides that income from the sale of certain literary or artistic items created before age 65 shall not be included as income for purposes of determining the amount of benefits to be withheld under the Social Security earnings test.

*Cost.*—Negligible.

**AMENDMENT NO. 967 (HUMPHREY)**

*Social Security Benefit Computation.*—Provides that the average monthly wage, which determines an individual's benefit amount, shall be based on the 5 years in which the individual's earnings are highest.

*Cost.*—1.3 percent of payroll, or \$6.5 billion on an average annual basis.

**AMENDMENT NO. 968 (HUMPHREY)**

*Social Security Disability Benefits.*—Provides that social security disability benefits will be payable to an individual after the first month of disability (rather than after the sixth month of disability). In addition, provides that a person age 55 or over will be considered disabled if his disability prevents him from doing his regular work or any other work that he has done with some regularity in the past.

*Cost.*—1.13 percent of payroll, or \$5.6 billion on an average annual basis.

**AMENDMENT NO. 971 (HUMPHREY)**

*Earnings Test.*—Provides that the social security earnings test exempt amount shall be increased to \$3,000 a year (from \$1,680 under present law and \$2,000 under H.R. 1).

*Cost.*—0.21 percent of payroll, or \$1 billion on an average annual basis.

**AMENDMENT NO. 985 (MOSS)**

*Social Security Earnings Test.*—Provides that the social security earnings test exempt amount shall be increased to \$2,520 a year (from \$1,680 under present law and \$2,000 under H.R. 1).

*Cost.*—0.12 percent of payroll, or \$600 million on an average annual basis.

**AMENDMENT NO. 986 (EAGLETON)**

*Social Security Benefits for Disabled Wives.*—Provides for the payment of unreduced disability benefits to the disabled wife (or disabled dependent husband) without regard to age of a worker who is entitled to social security benefits.

*Cost.*—0.05 percent of payroll, or \$250 million on an average annual basis.

**AMENDMENT NO. 987 (EAGLETON)**

*Social Security Benefits for Disabled Widows.*—Provides for the payment of unreduced disability benefits to disabled widows (or disabled dependent widowers) without regard to age; under present law reduced benefits are payable starting at age 50.

*Cost.*—0.07 percent of payroll, or \$350 million on an average annual basis.

**AMENDMENT NO. 988 (EAGLETON)**

*Divorced Women's Benefits.*—Reduces from 20 to 10 years the period of time a woman must have been married to an individual in order to qualify for wife's or widow's benefits based on his earnings.

*Cost.*—Negligible.

**AMENDMENT NO. 999 (CHURCH)**

*Social Security Benefit Increase and Financing.*—Provides a 20 percent general benefit increase payable starting with the July 1972 checks; increases the social security tax base to \$10,200 effective January 1972 and to \$12,000 effective January 1973; and modifies the tax schedules and actuarial assumptions. (Note: This amendment is identical to H.R. 13320 introduced by Mr. Mills.)

*Cost.*—About \$6 billion in the first full year.

**AMENDMENT NO. 1000 (HATFIELD)**

*Social Security Benefits for Disabled Widows.*—Provides for the payment of unreduced disability benefits to disabled widows (or disabled dependent widowers) without regard to age; under present law reduced benefits are payable starting at age 50.

*Cost.*—0.07 percent of payroll, or \$350 million on an average annual basis.

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