CBO TESTIMONY

Statement of
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Director

Options for Social Security: Budgetary and Distributional Impacts

before the
Committee on Finance
United States Senate

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WASHINGTON, D.C. 20515

Mr. Chairman, Senator Baucus, and Members of the Committee, the Congressional Budget Office (CBO) appreciates the opportunity to appear before you to discuss the budgetary and distributional implications of various options for slowing the growth of Social Security benefits.

As you know, Social Security is the single largest federal program. In 2004, the Social Security system took in $569 billion in tax revenue and paid out $493 billion in benefits. The program provided benefits to more than 47 million people—about two-thirds of them retired workers and the rest disabled workers, survivors of deceased workers, workers' spouses, and minor children.

Although today the program takes in more revenue than it spends, that situation will not continue once large numbers of baby boomers begin claiming retirement benefits. In coming years, the Social Security system will face mounting financial pressures as its outlays start to grow much faster than its revenue. CBO projects that scheduled Social Security outlays (those implied by the current benefit formula) will rise from 4.3 percent of gross domestic product (GDP) this year to 6.5 percent in 2050. Revenue, however, is scheduled to remain at 4.9 percent of GDP.

That financial outlook has prompted discussion of various ways to make the Social Security system solvent. My testimony today focuses on the spending side of the program, as requested by the Chairman. I will discuss several options for curtailing the growth of outlays and compare their effects on the system's finances and on different types of beneficiaries. CBO has also prepared a more comprehensive menu of options for changing scheduled benefits or revenue, which is included as an attachment at the end of this statement.

The Financial Outlook for Social Security

The next decade will see the beginning of a significant, long-lasting shift in the age profile of the U.S. population. Over the next 50 years, the number of people ages 65 and older will more than double, while the number of adults under age 65 will grow by less than 20 percent. That shift reflects demographic trends that have been evident for many years and that are expected to continue, such as the aging of the baby-boom generation, increases in life spans, and a fertility rate below that needed to replace the population.

Those trends imply that the number of workers per Social Security beneficiary will drop significantly, from 3.3 this year to 2.0 in 2050. Because Social Security depends on revenue from current workers to finance benefits, that demographic shift will have a profound impact on the system's finances. Without changes in tax or spending policies, expenditures will start to rise faster than revenue, pushing up federal debt and slowing the growth of the economy.

As requested by the Chairman, my testimony examines the outlook for Social Security using the same long-term economic and demographic assumptions used in the March 2005 report of the Social Security trustees. The differences between the projections of annual Social Security spending and revenue presented here and the ones that CBO released in March 2005 are small and occur largely because CBO's assumptions about future wage growth and interest rates are slightly higher than the trustees'.

The Financing Perspective

In 2009, the Social Security surplus—the amount by which the program's dedicated revenue in a year exceeds the benefits paid in that year—will start to diminish. In 2019, that surplus will disappear, and outlays for benefits will begin to exceed the system's annual revenue, CBO projects using the trustees' long-term economic assumptions (see Figure 1). To pay full benefits, the Social Security system will eventually have to rely on interest on government bonds held in its trust funds—and ultimately, on the redemption of those bonds. In the absence of other changes, bonds can continue to be redeemed until the trust funds are exhausted, which will occur in 2044, CBO projects. But where will the Treasury find the money to pay for the bonds? Will policymakers cut back other spending in the budget? Will they raise taxes? Or will they borrow more?

Once the trust funds are exhausted, the Social Security Administration will no longer have the legal authority to pay full benefits. As a result, it will have to reduce payments to beneficiaries to match the amount of revenue coming into the system each year. Although the exact size of that reduction is uncertain, benefits would probably have to be cut—both for current recipients and for new beneficiaries—by about 25 percent to match the system's available revenue.

The key message from those numbers is that with benefits reduced annually to equal revenue, as they will be under current law when the trust funds run out, some form of the Social Security program can be sustained forever. Of course, many people would not consider a sudden 25 percent cut in benefits to be desirable policy. In addition, the budgetary demands of bridging the gap between spending and revenue in the years before that cut could prove onerous. But Social Security is sustainable from a narrow programmatic perspective. What is not sustainable is continuing to provide the present level of scheduled benefits given the present financing.

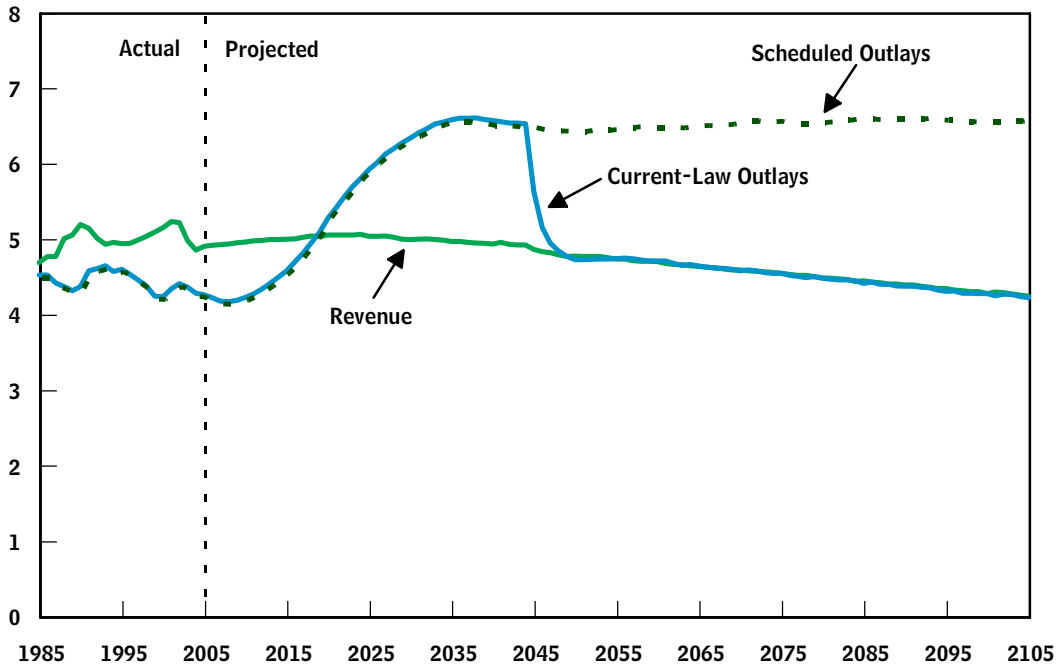
The Budgetary and Economic Perspective

CBO's projections offer some guidance about the potential impact of those developments on the budget. Under the trustees' long-term assumptions, the Social Security surplus (excluding interest on bonds in the trust funds) will reach about $100 billion in 2007. By 2025, however, the surplus will have turned into a deficit

Figure 1.

Social Security Revenue and Outlays as a Share of GDP

(Percentage of GDP)



Source: Congressional Budget Office.

Notes: This figure is based on a simulation from CBO's long-term model using the Social Security trustees' 2005 intermediate demographic assumptions and long-term economic assumptions and CBO's January 2005 10-year economic assumptions.

Revenue includes payroll taxes and income taxes on benefits but not interest credited to the Social Security trust funds; outlays include Social Security benefits and administrative costs. Under current law, outlays will begin to exceed revenue in 2019; starting in 2045, the program will no longer be able to pay the full amount of scheduled benefits.

of roughly $100 billion (in 2005 dollars). That $200 billion swing will represent a significant challenge for the budget as a whole, especially in light of the current budget deficit.

The demand on the budget from Social Security will take place at the same time as—but be eclipsed by—the demand from Medicare and Medicaid. Currently, outlays for Social Security benefits are slightly more than 4 percent of GDP, as is federal spending on Medicare and Medicaid combined. But whereas Social Security outlays are projected to grow to 6.5 percent of GDP by 2050, spending on the two health programs could reach a total of 20 percent of GDP if current trends in health care costs continue.

Without changes in policy, therefore, federal spending is likely to increase sharply in coming decades, widening the gap between outlays and revenues and expanding the amount of federal borrowing. The resulting rise in government debt could seriously harm the economy. It could crowd out private capital formation, and although its impact on capital accumulation could be muted by borrowing from abroad, foreign borrowing is no panacea. The debt owed to foreigners would still have to be serviced. In the end, federal debt would reduce the disposable income of U.S. residents and erode future living standards.

The Structure of the Current Social Security System

Social Security benefits are based on earnings during a person's working years. Workers with higher lifetime earnings receive higher benefits, as do their dependents and survivors. However, the benefit formula is structured to redistribute income: benefits replace a smaller portion of earnings for higher earners and a larger portion for lower earners.

The Benefit Formula

Benefits for retired or disabled workers are based on the average level of workers' taxable earnings over their working lifetime (their average indexed monthly earnings, or AIME). For retired workers, the AIME is based on the highest 35 years of earnings on which they paid Social Security taxes (up to the taxable maximum, $90,000 in 2005), with some adjustments. Earnings before age 60 are indexed to compensate both for past inflation and for real (after-inflation) growth in wages. For disabled workers and the survivors of deceased workers, the AIME can be based on a shorter period.

A progressive formula is applied to a worker's average indexed monthly earnings to calculate his or her primary insurance amount (PIA). The PIA is the monthly amount payable either to a worker who begins receiving Social Security retirement benefits at the age at which he or she is eligible for full benefits or to a disabled worker. The formula is designed to ensure that initial Social Security benefits replace a larger proportion of preretirement earnings for people with low average earnings than for those with higher earnings. For workers who turn 65 this year, the formula is:

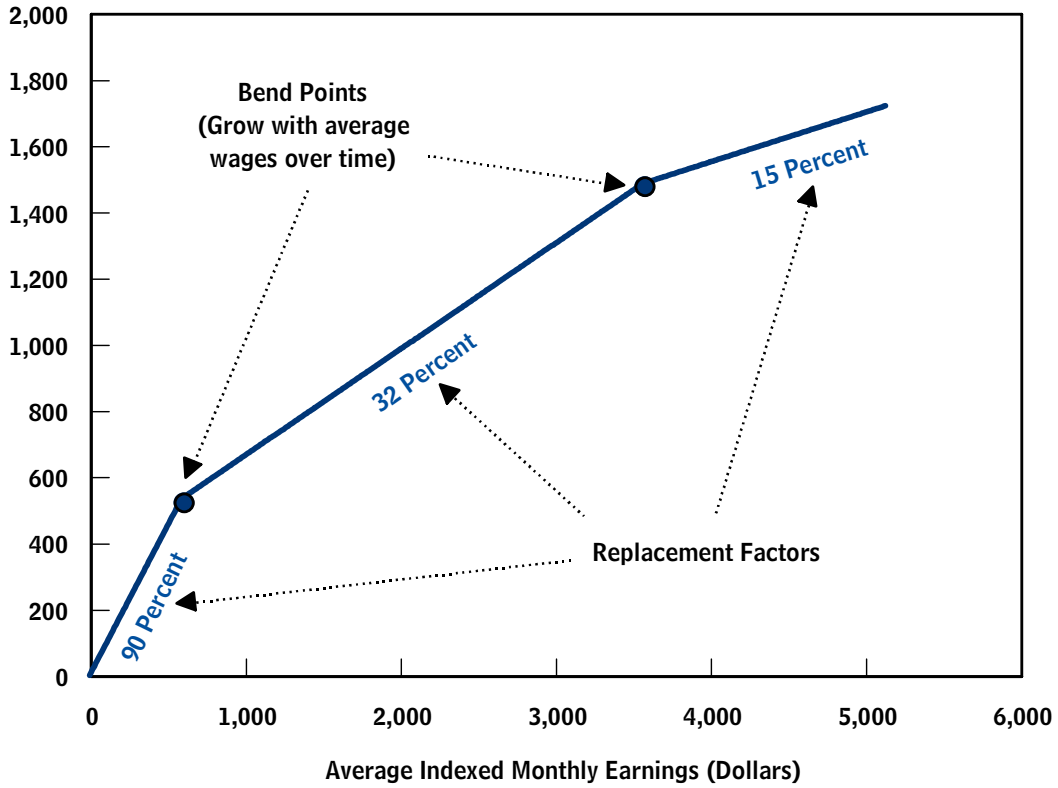
PIA = (90 percent of the first $592 of the AIME) +
(32 percent of the AIME between $592 and $3,567) +
(15 percent of the AIME over $3,567)

The dollar thresholds at which changes occur in the percentage of the AIME replaced by the PIA are known as "bend points" (see Figure 2). The percentages themselves are known as "replacement factors."

Figure 2.

Primary Insurance Amount Under Current Law (For workers who turn 65 in 2005)

(Primary insurance amount in dollars)



Source: Congressional Budget Office based on data from the Social Security Administration.

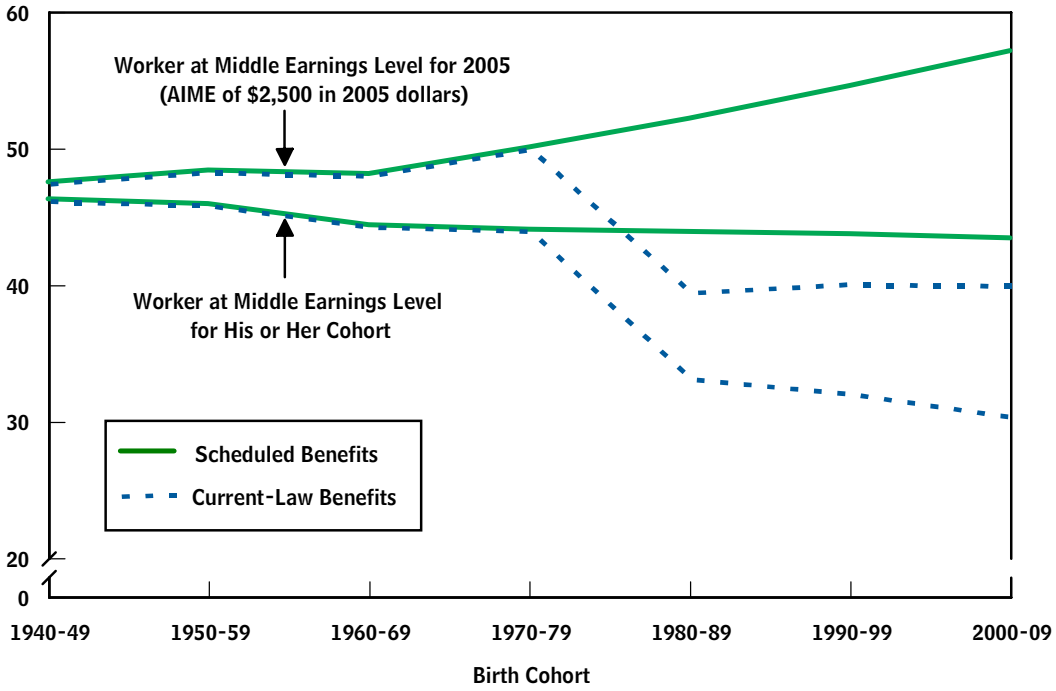
Note: The bend points shown here are those in 2002, the first year in which workers turning 65 in 2005 were eligible to collect retirement benefits.

Each year, the bend points are increased to match growth in average annual earnings for the labor force as a whole. If earnings growth is roughly constant, benefits for new recipients rise at approximately the same rate as average earnings. So long as the system pays scheduled benefits, Social Security benefits will replace the same portion of earnings for future generations (at the normal retirement age) as they do for today's beneficiaries. But because average earnings typically grow faster than prices do, the purchasing power of those benefits will be higher than that of benefits paid today, allowing beneficiaries to share in future increases in workers' living standards. Once the trust funds are exhausted, however, those replacement rates will fall, under current law (see the lower lines of Figure 3).

Figure 3.

Projected Replacement Rate for Retired Workers at Age 65

(Benefits as a percentage of average indexed monthly earnings)



Source: Congressional Budget Office.

Notes: This figure is based on a simulation from CBO's long-term model using the Social Security trustees' 2005 intermediate demographic assumptions and long-term economic assumptions and CBO's January 2005 10-year economic assumptions.

The replacement rate is the ratio of the benefits that a worker would receive upon claiming them at age 65 to the worker's average indexed monthly earnings (AIME), both computed using earnings through age 61. Under current law, scheduled benefits cannot be paid starting in 2045.

Another perspective on trends in replacement rates comes from considering how benefits change over time for workers with the same level of real earnings. To illustrate that perspective, consider someone making $2,500 a month. That level of income is currently around the middle of the earnings distribution. But in 2050, someone earning $2,500 a month (adjusted for inflation) will earn less than two-thirds of workers, even though he or she will have the same purchasing power as a median worker today. Because the Social Security benefit formula is progressive and indexed to wages—through both the indexation of earnings before age 60 in calculating the AIME and the indexation of the bend points in the PIA formula—benefits will replace a larger portion of earnings for future workers at that earn-

ings level (see the top line in Figure 3). Again, exhaustion of the trust funds would lead to lower replacement rates.

Retirement Age

Under current law, the age at which a worker becomes eligible for full Social Security retirement benefits—the normal retirement age (NRA)—depends on the worker's year of birth. For people born before 1938, the NRA is 65. For slightly younger workers, it increases by two months per birth year, reaching 66 for people born in 1943. The NRA remains at 66 for workers born between 1944 and 1954 and then increases in two-month increments again, reaching 67 for people born in 1960 or later.

Workers can begin receiving retirement benefits before their NRA—as early as age 62—but their monthly benefits will be permanently lower than if they had waited until the NRA to claim benefits. Likewise, if workers delay receipt until they are older than the NRA, their monthly benefits will be higher. Those adjustments are intended to be "actuarially fair," so that the total value of benefits received over a lifetime will be approximately equal regardless of when a worker first claims benefits.

Cost-of-Living Adjustment

At the end of each year, the Social Security Administration adjusts existing benefits by the amount of any increase in the consumer price index. For example, the cost-of-living adjustment of 2.7 percent that took effect in December 2004 reflected the increase in the consumer price index for urban wage earners and clerical workers that occurred between the third quarter of 2003 and the third quarter of 2004.

Policy Options for Slowing the Growth of Outlays

As discussed earlier, in the absence of policy changes, CBO expects the Social Security trust funds to be depleted in 2044, under the trustees' long-term assumptions. After that, the program would no longer have the legal authority to pay full benefits. Spending would have to be reduced to match available revenue, which could require across-the-board cuts of 25 percent in benefits. Those reductions would affect not only newly eligible beneficiaries but also existing Social Security recipients of all ages.

Providing the Authority for Full Scheduled Benefits

Those benefit cuts could be avoided by giving the Social Security program the legal authority to borrow money in the event of trust-fund exhaustion. That option, however, would not address the broader budgetary and economic issues stemming from the fiscal imbalances in the Social Security system. Borrowing

money to pay benefits would not be a sustainable option in the long run. By contributing to the growth of federal debt, it could have a corrosive effect on economic growth and could eventually lead to a sustained economic contraction. Repaying that debt would ultimately require cuts in spending or higher taxes somewhere in the budget.

Cuts in benefits could also be avoided by increasing taxes or reducing other federal spending and directing the savings to Social Security. Although such approaches would address Social Security's fiscal imbalances, some types of tax increases could risk slowing economic growth by discouraging work and saving, and reducing other spending could be difficult in light of the projected rise in federal outlays for health care.

Improving Social Security's Financial Balance

A variety of proposals have been advanced for restoring balance to the Social Security system. As noted above, CBO has prepared a menu of illustrative options for altering scheduled benefits or revenue. That menu—which is attached to this statement—includes the effects of the options on Social Security's finances as well as on the taxes paid and benefits received by people in different income groups and birth cohorts. The menu is intended to be representative of the types of changes that could be made to Social Security, but it is far from exhaustive. For example, it does not include options to introduce individual accounts, because the effects of such options are too complex to be shown clearly in the limited space available in the menu. (CBO has analyzed proposals for individual accounts in other publications.)[1] Moreover, it must be emphasized that various changes would be likely to interact with each other, so the net effect of multiple changes would be different from the sum of the individual effects.

This testimony examines the budgetary and distributional implications of three options to slow the growth of benefits: the first is taken directly from the attached menu, the second is a variation on a menu option, and the third is a combination of two menu options. All three would reduce scheduled benefits for people who first become eligible for benefits in 2012, including retired and disabled workers and their dependents and survivors. All of the options would keep the Social Security system solvent for at least the next 100 years.

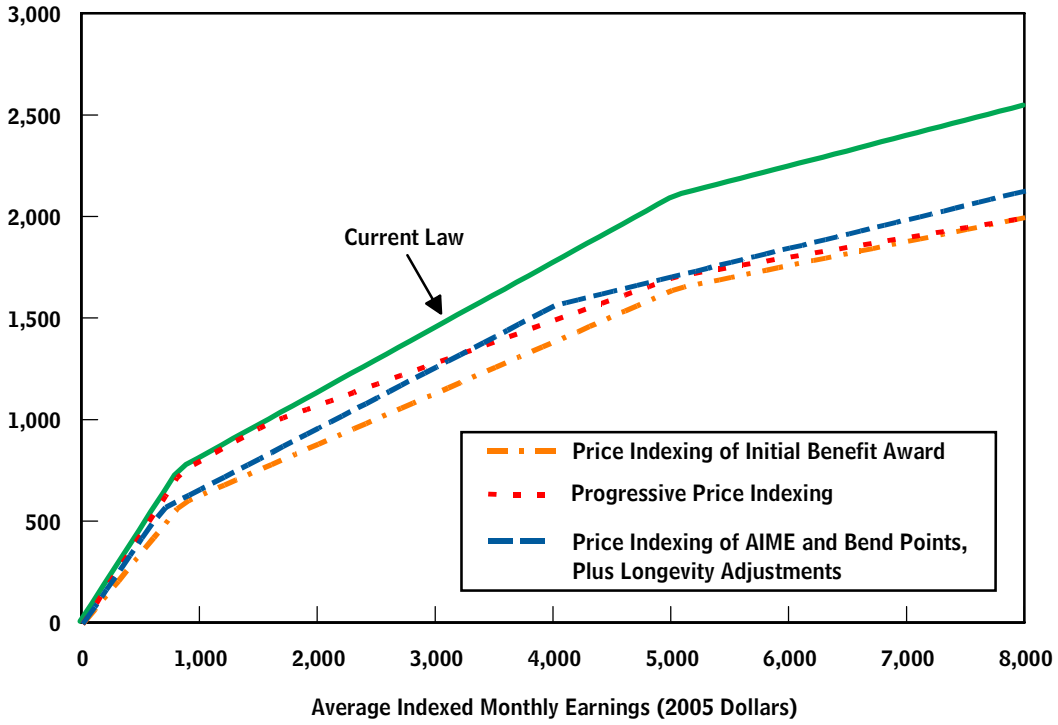
Descriptions of the Options. The first approach considered here is the provision for price indexing of initial benefit awards advanced by the President's Commission to Strengthen Social Security (option 1.1 in the attached menu). Under that

1. See, for example, Congressional Budget Office, *Long-Term Analysis of Plan 2 of the President's Commission to Strengthen Social Security* (July 21, 2004), and *Long-Term Analysis of H.R. 3821, the Bipartisan Retirement Security Act of 2004* (July 21, 2004).

Figure 4.

Primary Insurance Amount Under Various Options (For workers who turn 65 in 2035)

(Primary insurance amount in 2005 dollars)



Source: Congressional Budget Office.

Notes: This figure is based on a simulation from CBO's long-term model using the Social Security trustees' 2005 intermediate demographic assumptions and long-term economic assumptions and CBO's January 2005 10-year economic assumptions.

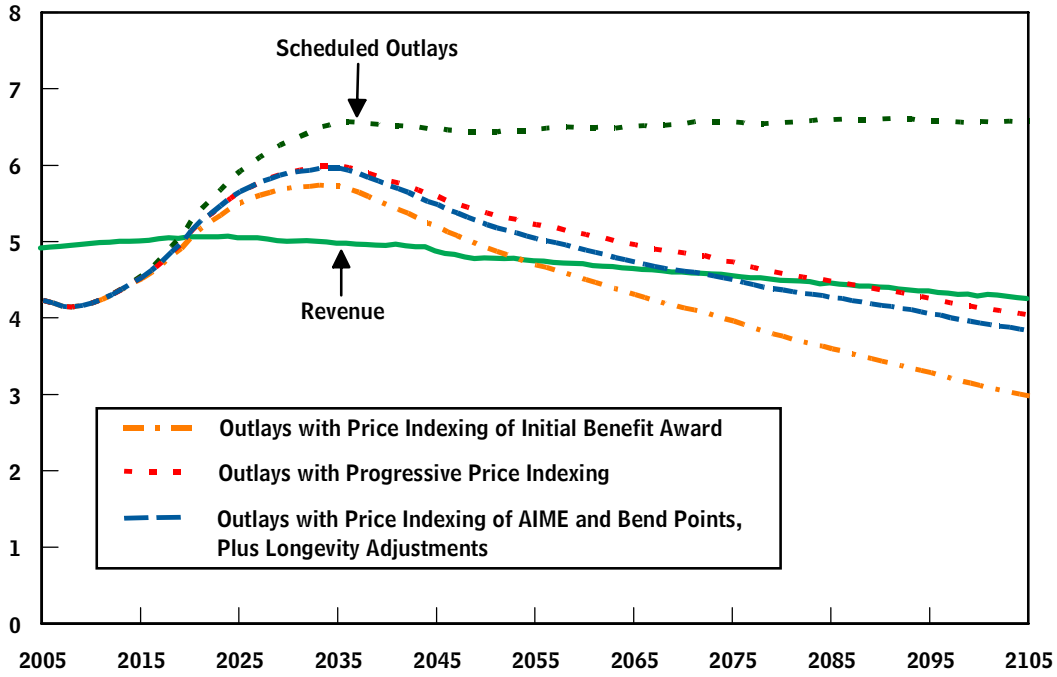
The bend points shown here are those in 2032, the first year in which workers turning 65 in 2035 will be eligible to collect retirement benefits under current law.

option, the three replacement factors in the current PIA formula would be lowered each year to offset the effects of real wage growth (see Figure 4, which shows the effects of the options in 2035). The AIME and the bend points would continue to be indexed to wages. As a result, benefits would generally grow with inflation, so future beneficiaries would have the same purchasing power as today's beneficiaries, on average. Relative to scheduled benefits, payments to new beneficiaries would decline by one-quarter over 26 years and by one-half over 63 years, assuming that real wages grew by 1.1 percent a year, on average. Initially, Social Security outlays would increase relative to GDP, but in later years, they would decline

Figure 5.

Social Security Revenue and Outlays as a Share of GDP Under Various Options

(Percentage of GDP)



Source: Congressional Budget Office.

Notes: This figure is based on a simulation from CBO's long-term model using the Social Security trustees' 2005 intermediate demographic assumptions and long-term economic assumptions and CBO's January 2005 10-year economic assumptions.

Revenue includes payroll taxes and income taxes on benefits but not interest credited to the Social Security trust funds; outlays include Social Security benefits and administrative costs. Under current law, outlays will begin to exceed revenue in 2019; starting in 2045, the program will no longer be able to pay the full amount of scheduled benefits. Under the alternative options, outlays will start to exceed revenue in 2020. All three of the options begin in 2012, and under each, scheduled benefits are always payable.

as a share of GDP and fall substantially below the program's dedicated revenue (see Figure 5).

A variant of that type of price indexing is known as progressive price indexing. In the version of progressive price indexing that CBO analyzed (a variation of menu option 1.2), the replacement factors for workers with the highest earnings—those who earned the taxable maximum or more for at least 35 years—would be reduced to the same extent as under the previous option. For most workers below that earnings level, however, the reductions in replacement factors would be

smaller, with the extent of the reduction correlated with earnings, so that workers with higher earnings would have their replacement factors reduced the most. Beneficiaries in the lowest 25 percent of the earnings distribution would not be directly affected by this policy change (see Figure 4). After 95 years, new beneficiaries with AIMEs above $3,150 (in 2005 dollars) would all receive the same benefit. Because fewer beneficiaries would be affected under this option and because their benefit reductions would be smaller, total outlays would be higher than under the previous price-indexing option, but they would fall below revenue around 2090 (see Figure 5).

The third option that CBO examined (a combination of menu options 1.3 and 1.6) would change the indexing of bend points and of the AIME and would adjust benefits for increases in longevity. Under this approach, bend points would grow with prices instead of with average wages, as they do under current law. Over time, the bend points would shift to lower levels of earnings, and average replacement rates would decline relative to those specified by current law (see Figure 4). In addition, in the calculation of the AIME, earnings would be indexed to prices instead of to wages. Finally, this option would adjust the benefit formula to offset increases in life expectancy in order to ensure that total lifetime benefits did not grow as life spans increased. (The longevity adjustments would apply only to retirement benefits.) All three of those changes would reduce scheduled benefits. Outlays would be higher than under price indexing of initial benefits but would fall below dedicated revenue after 2075 (see Figure 5).

Under all three options, the PIA formula would change annually. Before 2035, the proposed formulas would be closer to current law than shown in Figure 4, whereas in later years they would be lower.

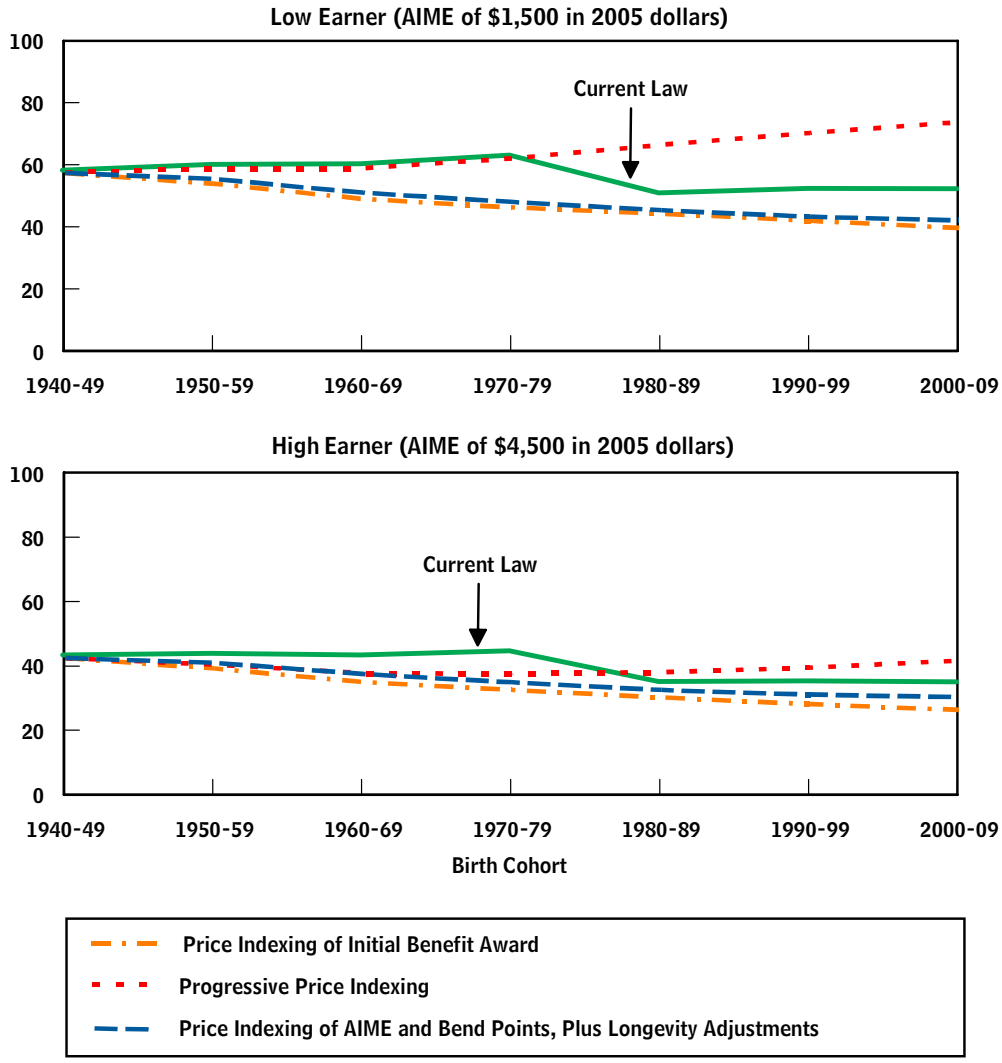
Distributional Effects. The effects of those options on different groups of workers—younger and older, lower-earning and higher-earning—can be examined by estimating how much of a group's earnings the proposed benefits would replace. Under all of the options, as under current law, higher earnings would result in higher benefits in dollar terms, but the percentage of earnings replaced would be greater for lower earners. The three options differ in the degree to which they would affect replacement rates.

As discussed earlier, workers can be classified by earnings levels in various ways. One way is to group people with a specific real earnings level, such as $1,500 a month. Someone at that earnings level always has the same purchasing power but will fall lower in the earnings distribution over time. Alternatively, workers can be grouped by relative earnings—for example, the top 20 percent or bottom 20 percent of earners in each cohort. (For projections of replacement rates by birth cohort using those two classifications, see Figures 6 and 7.)

Figure 6.

Projected Replacement Rate for Retired Low and High Earners at Age 65 Under Various Options

(Benefits as a percentage of average indexed monthly earnings)



Source: Congressional Budget Office.

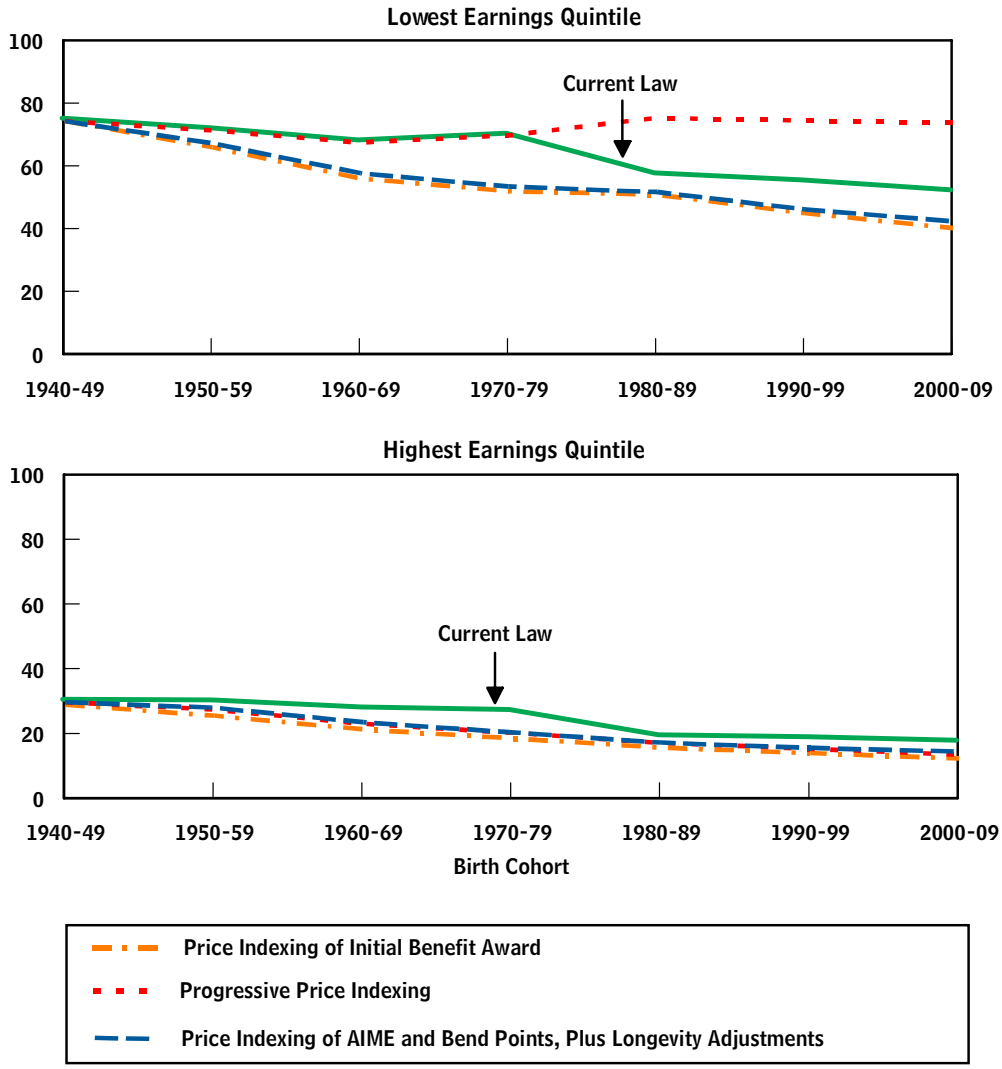
Notes: This figure is based on a simulation from CBO's long-term model using the Social Security trustees' 2005 intermediate demographic assumptions and long-term economic assumptions and CBO's January 2005 10-year economic assumptions.

The replacement rate is the ratio of the benefits that a worker would receive upon claiming them at age 65 to the worker's average indexed monthly earnings (AIME), both computed using earnings through age 61. Under current law, scheduled benefits cannot be paid starting in 2045. Under the alternative options, scheduled benefits are always payable.

Figure 7.

Projected Replacement Rate for Retired Workers at Age 65, by Earnings Quintile, Under Various Options

(Benefits as a percentage of average indexed monthly earnings)



Source: Congressional Budget Office.

Notes: This figure is based on a simulation from CBO's long-term model using the Social Security trustees' 2005 intermediate demographic assumptions and long-term economic assumptions and CBO's January 2005 10-year economic assumptions.

The replacement rate is the ratio of the benefits that a worker would receive upon claiming them at age 65 to the worker's average indexed monthly earnings (AIME), both computed using earnings through age 61. Under current law, scheduled benefits cannot be paid starting in 2045. Under the alternative options, scheduled benefits are always payable.

Under current law, people who died before 2044 would not be affected by the automatic benefit reductions that would occur upon trust-fund exhaustion. For the most part, their benefits would be lower under all three options, although benefits would be unchanged for lower earners in those cohorts under progressive price indexing.

Of the three options, price indexing of initial benefits would produce the largest change for future beneficiaries, especially later cohorts. Moreover, because that policy would involve an across-the-board cut in initial benefits, it would affect the benefits of all earnings groups by the same percentage.

Under progressive price indexing, benefits for high earners would be lower than under current law. But unlike under current law, those benefit reductions would allow the trust funds to remain solvent. As a result, workers in later cohorts would be spared the across-the-board benefit cuts that would occur when the trust funds were exhausted. For lower earners in those cohorts, benefits would be higher than under current law.

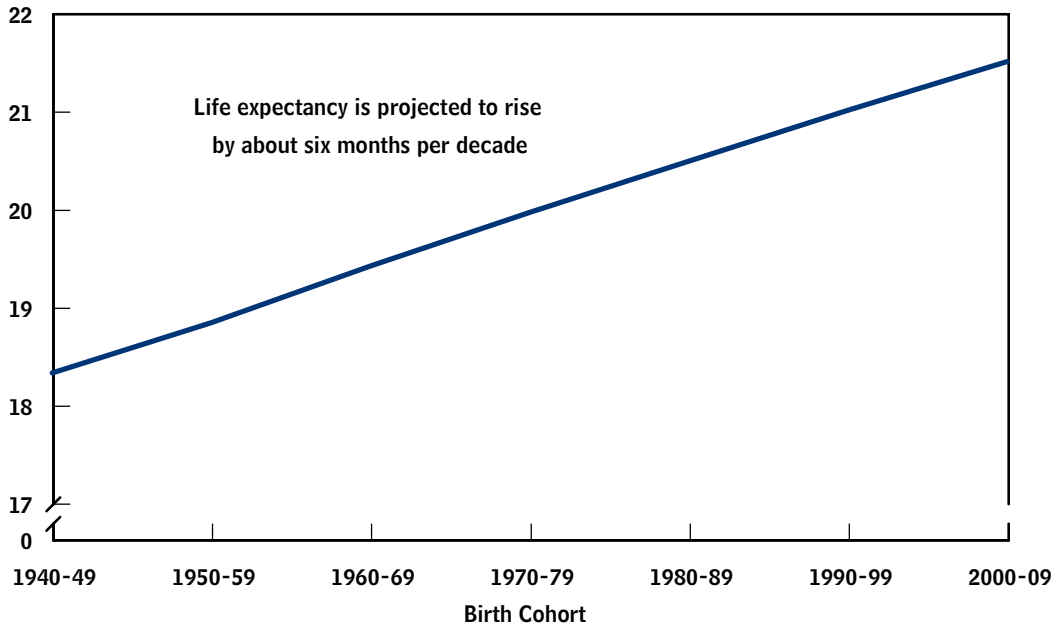
Under the third option, price indexing of the AIME and bend points plus longevity adjustments, replacement rates would be lower than under current law for all income groups. However, those rates would be slightly higher than under price indexing of initial benefits.

The replacement rates presented here consider only retired-worker benefits. Moreover, they do not account for expected increases in longevity (see Figure 8), which will allow future cohorts to claim benefits for a longer period of time. To address those issues, CBO estimated how the policy options discussed here would affect the lifetime Social Security benefits of people in different earnings levels and birth cohorts (see Figure 9). On average, real scheduled lifetime benefits for the cohort born from 2000 to 2009 will be more than twice as high as those for the 1940s cohort, CBO projects. Although lifetime benefits and replacement rates are different measures, both convey the same basic message about how these policy changes would affect various beneficiaries.

Figure 8.

Life Expectancy at Age 65

(Remaining years of life)



Source: Congressional Budget Office.

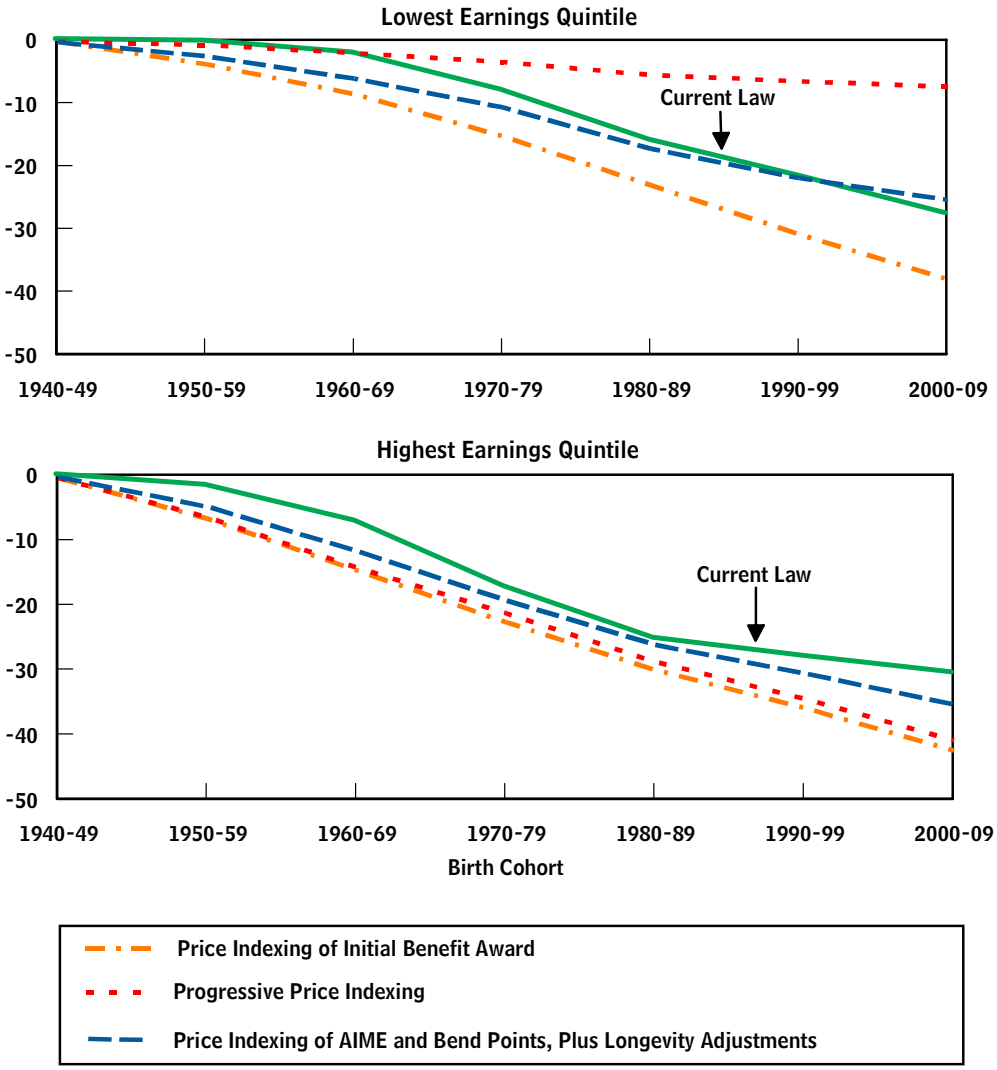
Notes: This figure is based on a simulation from CBO's long-term model using the Social Security trustees' 2005 intermediate demographic assumptions and long-term economic assumptions and CBO's January 2005 10-year economic assumptions.

Cohort life expectancies are calculated using death rates from the series of years in which a person will reach each succeeding age if he or she survives.

Figure 9.

Percentage Change in Lifetime Benefits Relative to Scheduled Benefits, by Earnings Quintile, Under Various Options

(Percent)



Source: Congressional Budget Office.

Notes: This figure is based on a simulation from CBO's long-term model using the Social Security trustees' 2005 intermediate demographic assumptions and long-term economic assumptions and CBO's January 2005 10-year economic assumptions, including only people who live to at least age 45.

Lifetime benefits are the present value of benefits received by an individual over his or her lifetime, including Old-Age and Disability worker benefits and Old-Age Spouse and Survivor benefits financed by dedicated payroll taxes, net of income taxes on benefits credited to the Social Security trust funds. Under current law, scheduled benefits cannot be paid starting in 2045; under the alternative options, scheduled benefits are always payable.

Attachment May 25, 2005

Projected Effects of Various Provisions on Social Security's Financial and Distributional Outcomes

Congressional Budget Office

The attached tables present projected changes to *financial* and *distributional* outcomes under various provisions. In keeping with CBO's mandate to provide objective, nonpartisan analysis, this document makes no recommendations.

Outcomes presented here are based on the Social Security trustees' 2005 demographic and long-run economic assumptions and CBO's January 2005 short-run economic assumptions, which differ from the outcomes released in March 2005 that were based on the Social Security trustees' 2004 demographic assumptions and CBO's January 2005 short- and long-run economic assumptions.

These provisions are stylized concepts of various individual changes to Social Security. The results may be very sensitive to the exact implementation of any particular provision. If provisions are combined, significant interactions in the presented changes may occur. If the start date of a provision is delayed, the change in the effects could be disproportionate because of the large shift in demographics occurring over the next 30 years. In particular, trust fund exhaustion dates can be very sensitive to adjustments in provision details. Provisions that change scheduled benefits also change revenues through the income taxation of benefits.

Financial outcomes are presented relative to a scheduled baseline. The scheduled baseline assumes the Social Security trust funds have borrowing authority to pay scheduled benefits after the trust funds have been exhausted. Distributional outcomes are presented relative to both scheduled and current law baselines. The current law baseline assumes that all beneficiaries are subject to an across-the-board cut in benefits so that total projected outlays equal projected revenues once the Social Security trust funds are projected to be exhausted; similar cuts are applied under each provision in any years after the Social Security trust funds are projected to be depleted.

Financial outcomes include:

- Revenues as a share of GDP
- Outlays as a share of GDP
- Balances (revenues less outlays) as a share of GDP
- 75-year present value deficit as a share of GDP

- 75-year present value deficit as a share of taxable payroll (75-year actuarial balance)
- Crossover year—revenues from dedicated taxes first fall below outlays
- Exhaustion year—trust funds are projected to be depleted

Distributional outcomes, presented for selected 10-year birth cohorts and lifetime household earnings quintiles, include:

- First-year retired worker benefits
- Present value of all lifetime benefits
- Present value of all lifetime payroll taxes

Provisions considered include changes to:

1. Indexing of benefits
2. The benefit formula
3. Normal retirement age or actuarial adjustments
4. Cost-of-living adjustments (COLA) for benefits
5. Payroll tax rates or taxable maximum
6. Benefits for low earners
7. Auxiliary benefits

Many other provisions are possible; these tables present the results for one set of various types of changes. However, there are no individual accounts considered here.

The appendix provides more details about how each provision would alter existing Social Security rules.

The analysis does not reflect any considerations of the potential effects on the macroeconomy that may occur under any of the various provisions.

Definitions of Key Terms:

Lifetime Earnings Quintile: Each individual is ranked by his or her lifetime household earnings. Individuals are then divided into five quintiles. The values shown are the averages for the bottom, middle, and top quintiles. (The values for the 2nd and 4th quintiles are not shown.) Lifetime household earnings equal the sum of real earnings over a given person's lifetime if they remain single in all years. In any year an individual is married, the earnings measure for that year is a function of his or her earnings plus his or her spouse's earnings (adjusted for economies of

scale in household consumption). The individual's lifetime earnings is the present value of these annual amounts.

Birth Cohort: Individuals are grouped into 10-year cohorts. The 1960s birth cohort includes those born from 1960 through 1969; the 1980s cohort includes those born from 1980 through 1989; and the 2000s cohort includes those born from 2000 through 2009.

First-Year Benefits for Retired Workers: The average of retired worker benefits that would be received by workers eligible to claim Old-Age Insurance benefits at age 62 who have not yet claimed any other benefit. Benefits are computed assuming that all workers claim benefits at age 65 and are based only on earnings through age 61. Values are net of income taxes paid on benefits and credited to the Social Security trust funds.

Lifetime Benefits: The present value at age 60 of benefits received by an individual over a lifetime, including Old-Age and Disability worker benefits and Old-Age Spouse and Survivor benefits, net of income taxes paid on those benefits and credited to the Social Security trust funds.

Lifetime Payroll Taxes: The present value of both OASDI employer and employee taxes paid over a lifetime; under current law, the tax is 12.4 percent of taxable earnings.

Scheduled Benefits (Table 2) and Current-Law Benefits (Table 3): Under current law, all beneficiaries are subject to an across-the-board cut in benefits such that total projected benefits equal projected revenues once the Social Security trust funds have been exhausted. Similar cuts are applied under each provision in any years after the Social Security trust funds are projected to be depleted.

Table 1. Summary Measures of Social Security Financial Outcomes
Projections Under Scheduled Baseline

		Revenues, Outlays and Balance (Revenues Less Outlays) as a % of GDP					75 Year PV Deficit as a % of		Revenues Fall Below Outlays	Trust Fund Exhaustion Year
		Year						Taxable		
		2020	2040	2060	2080	2100	GDP	Payroll		
Baseline Projections	**Revenues**	**5.04**	**4.92**	**4.79**	**4.58**	**4.40**	**5.19**	**13.94**	**2019**	**2044**
	Outlays	**5.29**	**6.54**	**6.51**	**6.57**	**6.59**	**5.82**	**15.63**		
	Balance	**-0.25**	**-1.62**	**-1.72**	**-1.99**	**-2.19**	**-0.63**	**-1.69**		

Changes to Social Security Financial Outcomes Under Various Provisions
Projections Under Scheduled Baseline

		Change in Revenues, Outlays and Balance (Revenues Less Outlays) as a % of GDP					Change in 75 Year PV Deficit as a % of		Revenues Fall Below Outlays	Trust Fund Exhaustion Year
		Year						Taxable		
		2020	2040	2060	2080	2100	GDP	Payroll		
1. Changes to Indexing of Benefits										
1.1 Grow initial benefits with prices rather than wages beginning in 2012	Revenues	-0.01	-0.05	-0.10	-0.15	-0.19	-0.05	-0.13	2020*	None
	Outlays	-0.22	-1.02	-1.97	-2.79	-3.44	-0.93	-2.50		
	Balance	0.21	0.97	1.86	2.64	3.25	0.88	2.37		
1.2 Grow initial benefits slower than wages for top 70% beginning in 2012 ("progressive price indexing")	Revenues	-0.01	-0.03	-0.07	-0.11	-0.13	-0.03	-0.09	2019*	2065
	Outlays	-0.13	-0.66	-1.32	-1.89	-2.30	-0.61	-1.64		
	Balance	0.13	0.62	1.24	1.78	2.17	0.58	1.55		
1.3 Price index earnings in AIME formula and bend points in PIA formula beginning in 2012	Revenues	0.00	-0.03	-0.07	-0.10	-0.11	-0.03	-0.08	2019	2057
	Outlays	-0.10	-0.59	-1.27	-1.76	-2.12	-0.57	-1.53		
	Balance	0.10	0.56	1.20	1.67	2.00	0.54	1.45		
1.4 Price index earnings in AIME formula beginning in 2012	Revenues	0.00	-0.01	-0.02	-0.02	-0.03	-0.01	-0.02	2019	2046
	Outlays	-0.01	-0.15	-0.40	-0.46	-0.43	-0.16	-0.42		
	Balance	0.01	0.15	0.38	0.43	0.41	0.15	0.40		
1.5 Price index bend points in PIA formula beginning in 2012	Revenues	0.00	-0.02	-0.05	-0.07	-0.10	-0.02	-0.06	2019	2053
	Outlays	-0.09	-0.46	-0.95	-1.40	-1.79	-0.44	-1.18		
	Balance	0.09	0.43	0.90	1.33	1.69	0.42	1.12		

Changes to Social Security Financial Outcomes Under Various Provisions
Projections Under Scheduled Baseline

		Change in Revenues, Outlays and Balance (Revenues Less Outlays) as a % of GDP					Change in 75 Year PV Deficit as a % of		Revenues Fall Below Outlays	Trust Fund Exhaustion Year
		Year								
		2020	2040	2060	2080	2100	GDP	Taxable Payroll		
1.6 Longevity index initial benefits beginning in 2012	Revenues	0.00	-0.01	-0.02	-0.03	-0.04	-0.01	-0.03		
	Outlays	-0.03	-0.20	-0.42	-0.60	-0.73	-0.19	-0.51	2019	2047
	Balance	0.03	0.19	0.39	0.57	0.69	0.18	0.48		
2. Changes to Benefit Formula										
2.1 Reduce all PIA factors by 20% in 2012	Revenues	-0.03	-0.06	-0.06	-0.07	-0.07	-0.04	-0.11		
	Outlays	-0.62	-1.12	-1.23	-1.25	-1.23	-0.81	-2.16	2023	2108
	Balance	0.60	1.07	1.16	1.18	1.17	0.76	2.05		
2.2 Reduce top two PIA factors from 32% to 20% and from 15% to 10% in 2012	Revenues	-0.03	-0.06	-0.07	-0.07	-0.07	-0.04	-0.12		
	Outlays	-0.61	-1.15	-1.27	-1.30	-1.28	-0.82	-2.20	2023	None
	Balance	0.59	1.09	1.20	1.23	1.21	0.78	2.09		
2.3 Reduce top PIA factor from 15% to 10% in 2012	Revenues	0.00	0.00	0.00	-0.01	0.00	0.00	-0.01		
	Outlays	-0.05	-0.09	-0.12	-0.13	-0.13	-0.07	-0.19	2019	2046
	Balance	0.05	0.09	0.12	0.12	0.12	0.07	0.18		
2.4 Reduce all PIA factors by 0.005 annually beginning in 2011	Revenues	0.00	-0.02	-0.05	-0.08	-0.11	-0.03	-0.07		
	Outlays	-0.10	-0.50	-1.03	-1.52	-1.96	-0.48	-1.28	2019	2054
	Balance	0.09	0.48	0.98	1.44	1.85	0.45	1.22		
2.5 Increase AIME calculation years from 35 to 40 phased in 2007-2011	Revenues	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.02		
	Outlays	-0.10	-0.20	-0.21	-0.20	-0.19	-0.14	-0.36	2019	2048
	Balance	0.10	0.18	0.20	0.19	0.18	0.13	0.34		
3. Changes to Retirement Age or Actuarial Adjustments										
3.1 Eliminate NRA hiatus to 67 phased in 2006-2011	Revenues	-0.01	0.00	0.00	0.00	0.00	0.00	-0.01		
	Outlays	-0.18	-0.03	0.00	0.00	0.00	-0.05	-0.14	2020	2047
	Balance	0.17	0.03	0.00	0.00	0.00	0.05	0.14		
3.2 Eliminate NRA hiatus to 67 and continue rise to 68 phased in 2006-2017	Revenues	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	-0.04		
	Outlays	-0.30	-0.29	-0.28	-0.28	-0.26	-0.23	-0.62	2021	2052
	Balance	0.28	0.28	0.26	0.27	0.24	0.22	0.58		
3.3 Eliminate NRA hiatus to 67 and continue rise to 70 phased in 2006-2029	Revenues	-0.02	-0.04	-0.05	-0.05	-0.06	-0.03	-0.09		
	Outlays	-0.31	-0.67	-0.78	-0.78	-0.77	-0.48	-1.27	2021	2063
	Balance	0.29	0.62	0.72	0.72	0.71	0.44	1.19		
3.4 Raise EEA to 65 phased in 2023-2040	Revenues	0.00	0.00	0.01	0.02	0.02	0.00	0.00		
	Outlays	0.00	-0.07	0.19	0.28	0.31	0.02	0.06	2019	2046
	Balance	0.00	0.07	-0.18	-0.26	-0.28	-0.02	-0.06		

Changes to Social Security Financial Outcomes Under Various Provisions
Projections Under Scheduled Baseline

		Change in Revenues, Outlays and Balance (Revenues Less Outlays) as a % of GDP					Change in 75 Year PV Deficit as a % of		Revenues Fall Below Outlays	Trust Fund Exhaustion Year
		Year						Taxable		
		2020	2040	2060	2080	2100	GDP	Payroll		
3.5 Raise actuarial reduction factor to maximum 37% phased in 2008-2012	Revenues	-0.01	-0.01	-0.01	-0.02	-0.01	-0.01	-0.02		
	Outlays	-0.11	-0.19	-0.20	-0.20	-0.19	-0.14	-0.37	2020	2048
	Balance	0.10	0.18	0.19	0.19	0.18	0.13	0.35		
3.6 Raise delayed retirement credit to 10% per year phased in 2009-2015	Revenues	0.00	0.00	0.00	0.01	0.01	0.00	0.00		
	Outlays	0.01	0.02	0.02	0.02	0.03	0.01	0.03	2019	2044
	Balance	-0.01	-0.02	-0.02	-0.01	-0.02	-0.01	-0.03		
4. Changes to COLA										
4.1 Reduce benefit COLAs by 0.2 percentage points beginning in 2012	Revenues	0.00	-0.01	-0.01	-0.01	0.00	0.00	-0.02		
	Outlays	-0.07	-0.17	-0.17	-0.18	-0.19	-0.11	-0.30	2019	2047
	Balance	0.07	0.16	0.16	0.17	0.18	0.11	0.29		
4.2 Reduce benefit COLAs by 0.4 percentage points beginning in 2012	Revenues	-0.01	-0.02	-0.02	-0.01	-0.02	-0.01	-0.03		
	Outlays	-0.14	-0.33	-0.35	-0.37	-0.37	-0.22	-0.60	2020	2051
	Balance	0.14	0.31	0.33	0.35	0.35	0.21	0.57		
4.3 Introduce super-COLA for DI workers of 1.3 percentage points beginning in 2012	Revenues	0.00	0.01	0.01	0.01	0.02	0.01	0.02		
	Outlays	0.06	0.19	0.23	0.22	0.25	0.13	0.35	2019	2042
	Balance	-0.06	-0.18	-0.21	-0.21	-0.23	-0.12	-0.33		
5. Changes to Payroll Tax Rates or Taxable Maximum										
5.1 Increase payroll tax rate by 1% 0.5% individuals, 0.5% employers beginning in 2007	Revenues	0.37	0.35	0.34	0.33	0.31	0.34	0.96		
	Outlays	N/A	N/A	N/A	N/A	N/A	N/A	N/A	2021	2061
	Balance	0.37	0.37	0.37	0.35	0.33	0.36	0.95		
5.2 Raise taxable maximum to cover 87% of earnings phased in 2007-2050	Revenues	0.08	0.18	0.20	0.21	0.22	0.13	-0.03		
	Outlays	0.00	0.03	0.07	0.10	0.13	0.03	-0.34	2019	2047
	Balance	0.08	0.15	0.13	0.11	0.10	0.10	0.30		
5.3 Raise taxable maximum cover 90% of earnings phased in 2007-2100	Revenues	0.08	0.18	0.26	0.32	0.36	0.15	-0.04		
	Outlays	0.00	0.03	0.07	0.12	0.18	0.03	-0.39	2019	2047
	Balance	0.08	0.15	0.18	0.20	0.18	0.11	0.35		
5.4 Raise taxable maximum to $250,000 with no additional benefits beginning in 2007	Revenues	0.66	0.67	0.67	0.64	0.63	0.63	-0.19		
	Outlays	N/A	N/A	N/A	N/A	N/A	N/A	-1.95	2023	2053
	Balance	0.68	0.71	0.71	0.68	0.67	0.66	1.77		
5.5 Apply 3% tax to all earnings above the taxable maximum beginning in 2007	Revenues	0.22	0.21	0.21	0.21	0.20	0.21	-1.76		
	Outlays	N/A	N/A	N/A	N/A	N/A	N/A	-2.53	2021	2053
	Balance	0.22	0.23	0.21	0.22	0.20	0.21	0.76		

Changes to Social Security Financial Outcomes Under Various Provisions
Projections Under Scheduled Baseline

		Change in Revenues, Outlays and Balance (Revenues Less Outlays) as a % of GDP					Change in 75 Year PV Deficit as a % of		Revenues Fall Below Outlays	Trust Fund Exhaustion Year
		Year						Taxable		
		2020	2040	2060	2080	2100	GDP	Payroll		
6. Changes to Benefits for Low Earners										
6.1 Introduce poverty-related minimum benefit beginning in 2007	Revenues	0.00	0.00	0.01	0.01	0.01	0.00	0.01		
	Outlays	0.04	0.09	0.12	0.11	0.12	0.07	0.18	2019	2043
	Balance	-0.04	-0.08	-0.11	-0.11	-0.11	-0.06	-0.17		
6.2 Enhance low-earner benefits based on years worked beginning in 2007	Revenues	0.01	0.02	0.02	0.02	0.02	0.01	0.03		
	Outlays	0.13	0.33	0.36	0.35	0.35	0.22	0.61	2019	2041
	Balance	-0.12	-0.31	-0.34	-0.34	-0.33	-0.21	-0.58		
7. Changes to Auxiliary Benefits										
7.1 Limit spouse's benefit for high-earner couples beginning in 2007	Revenues	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
	Outlays	-0.01	-0.02	-0.02	-0.03	-0.03	-0.01	-0.04	2019	2045
	Balance	0.01	0.02	0.02	0.02	0.02	0.01	0.04		
7.2 Reduce spouse's benefit to 33% of workers benefit beginning in 2007	Revenues	0.00	0.02	0.00	-0.01	0.00	0.00	-0.01		
	Outlays	-0.08	-0.02	-0.07	-0.08	-0.08	-0.05	-0.15	2020	2046
	Balance	0.08	0.05	0.07	0.07	0.07	0.05	0.14		
7.3 Raise low-earner widow(er) benefits to 75% of couple's benefit beginning in 2007	Revenues	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
	Outlays	0.01	0.03	0.02	0.02	0.02	0.02	0.05	2019	2044
	Balance	-0.01	-0.02	-0.02	-0.02	-0.02	-0.02	-0.04		

Source: Congressional Budget Office

Notes: Based on a simulation using the Social Security trustees' 2005 intermediate demographic and long-run economic assumptions and CBO's January 2005 short-run economic assumptions.

Revenues equal payroll taxes and income taxes on benefits as a share of gross domestic product (GDP) in the specified year.

Outlays equal scheduled Social Security benefits and administrative costs as a share of GDP in the specified year.

The balance is the difference between revenues and outlays as a share of GDP in the specified year and may not equal the difference of the previous two rows because of rounding.

N/A reflects results under provisions that would have no direct effects on revenues or outlays.

A trust fund exhaustion year value of "None" reflects a provision that makes the trust fund solvent throughout the 100-year projection period.

* Revenues exceed outlays in some later year.

Table 2. Summary Measures of Social Security Distributional Outcomes by Ten Year Birth Cohort and Lifetime Earnings Quintile Projections Under Scheduled Baseline

	Lifetime Earnings Quintile	First-Year Benefits Retired Workers at Age 65 (2005 Dollars) Birth Cohort 1960s	1980s	2000s	Present Value at Age 60 Lifetime Benefits (2005 Dollars) Birth Cohort 1960s	1980s	2000s	Present Value at Age 60 Lifetime Payroll Taxes (2005 Dollars) Birth Cohort 1960s	1980s	2000s
Baseline Projections	**Lowest**	**$9,200**	**$10,300**	**$12,800**	**$102,000**	**$117,000**	**$152,000**	**$69,000**	**$72,000**	**$87,000**
	Middle	**16,700**	**20,800**	**26,100**	**191,000**	**250,000**	**322,000**	**250,000**	**311,000**	**381,000**
	Highest	**23,900**	**29,800**	**36,700**	**285,000**	**369,000**	**466,000**	**490,000**	**636,000**	**793,000**

Changes to Social Security Distributional Outcomes Under Various Provisions by Ten Year Birth Cohort and Lifetime Earnings Quintile Projections Under Scheduled Baseline

	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65 Birth Cohort 1960s	1980s	2000s	Percentage Change in Lifetime Benefits Birth Cohort 1960s	1980s	2000s	Percentage Change in Lifetime Payroll Taxes Birth Cohort 1960s	1980s	2000s
1. Changes to Indexing of Benefits										
1.1 Grow initial benefits with prices rather than wages beginning in 2012	Lowest	-16.0	-31.6	-44.8	-8.4	-22.0	-37.4	N/A	N/A	N/A
	Middle	-15.9	-31.9	-44.9	-13.3	-28.8	-42.1	N/A	N/A	N/A
	Highest	-15.7	-31.4	-44.0	-14.2	-29.4	-42.3	N/A	N/A	N/A
1.2 Grow initial benefits slower than wages for top 70% beginning in 2012 ("progressive price indexing")	Lowest	0.0	0.0	0.0	-1.8	-3.0	-7.6	N/A	N/A	N/A
	Middle	-8.9	-18.6	-27.8	-7.2	-17.3	-24.9	N/A	N/A	N/A
	Highest	-15.0	-30.4	-42.6	-13.4	-28.1	-40.3	N/A	N/A	N/A
1.3 Price index earnings in AIME formula and bend points in PIA formula beginning in 2012	Lowest	-9.6	-23.7	-33.2	-4.3	-13.3	-22.6	N/A	N/A	N/A
	Middle	-6.6	-18.7	-27.0	-5.9	-17.6	-25.4	N/A	N/A	N/A
	Highest	-9.8	-22.6	-30.0	-8.0	-19.8	-26.8	N/A	N/A	N/A
1.4 Price index earnings in AIME formula beginning in 2012	Lowest	-1.1	-6.8	-9.7	-0.7	-4.3	-7.3	N/A	N/A	N/A
	Middle	-2.1	-9.2	-11.3	-1.3	-6.9	-8.1	N/A	N/A	N/A
	Highest	-1.3	-5.8	-6.5	-1.2	-4.9	-5.9	N/A	N/A	N/A
1.5 Price index bend points in PIA formula beginning in 2012	Lowest	-8.5	-17.9	-26.3	-3.5	-8.9	-17.8	N/A	N/A	N/A
	Middle	-4.6	-11.7	-21.3	-4.9	-11.8	-19.9	N/A	N/A	N/A
	Highest	-8.4	-16.8	-23.5	-6.8	-14.9	-21.3	N/A	N/A	N/A

Changes to Social Security Distributional Outcomes Under Various Provisions
by Ten Year Birth Cohort and Lifetime Earnings Quintile
Projections Under Scheduled Baseline

	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65			Percentage Change in Lifetime Benefits			Percentage Change in Lifetime Payroll Taxes		
		Birth Cohort			Birth Cohort			Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
1.6 Longevity index initial benefits beginning in 2012	Lowest	-4.4	-9.0	-13.3	-1.6	-3.4	-5.4	N/A	N/A	N/A
	Middle	-4.1	-9.6	-13.7	-2.6	-5.6	-8.1	N/A	N/A	N/A
	Highest	-4.3	-9.3	-13.6	-3.2	-7.0	-10.3	N/A	N/A	N/A
2. Changes to Benefit Formula										
2.1 Reduce all PIA factors by 20% in 2012	Lowest	-19.7	-19.3	-19.9	-12.2	-18.3	-20.1	N/A	N/A	N/A
	Middle	-19.9	-19.8	-20.0	-17.6	-19.4	-19.2	N/A	N/A	N/A
	Highest	-19.5	-19.3	-19.1	-18.0	-18.3	-18.2	N/A	N/A	N/A
2.2 Reduce top two PIA factors from 32% to 20% and from 15% to 10% in 2012	Lowest	-4.6	-2.1	-3.3	-5.8	-8.7	-11.7	N/A	N/A	N/A
	Middle	-19.5	-20.1	-20.4	-17.2	-19.6	-18.9	N/A	N/A	N/A
	Highest	-24.6	-24.6	-24.5	-22.5	-23.0	-23.1	N/A	N/A	N/A
2.3 Reduce top PIA factor from 15% to 10% in 2012	Lowest	0.0	0.0	0.0	0.0	0.0	-2.4	N/A	N/A	N/A
	Middle	0.0	0.0	0.0	0.0	-0.5	0.0	N/A	N/A	N/A
	Highest	-3.8	-4.3	-4.6	-3.9	-4.5	-4.4	N/A	N/A	N/A
2.4 Reduce all PIA factors by 0.005 annually beginning in 2011	Lowest	-7.7	-16.1	-24.1	-4.1	-11.0	-19.7	N/A	N/A	N/A
	Middle	-7.7	-16.8	-24.6	-6.4	-14.3	-21.2	N/A	N/A	N/A
	Highest	-7.6	-16.1	-23.7	-6.6	-14.6	-22.4	N/A	N/A	N/A
2.5 Increase AIME calculation years from 35 to 40 phased in 2007-2011	Lowest	-5.1	-5.8	-4.8	-2.5	-2.1	-3.1	N/A	N/A	N/A
	Middle	-6.9	-7.5	-7.7	-3.8	-3.7	-4.7	N/A	N/A	N/A
	Highest	-4.3	-4.5	-4.2	-2.8	-2.1	-2.0	N/A	N/A	N/A
3. Changes to Retirement Age or Actuarial Adjustments										
3.1 Eliminate NRA hiatus to 67 phased in 2006-2010	Lowest	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A
	Middle	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A
	Highest	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A
3.2 Eliminate NRA hiatus to 67 and continue rise to 68 phased in 2006-2017	Lowest	-7.5	-7.5	-7.5	-2.4	-2.1	-2.9	N/A	N/A	N/A
	Middle	-7.7	-7.5	-7.4	-4.2	-4.3	-3.5	N/A	N/A	N/A
	Highest	-7.4	-7.3	-7.1	-4.9	-4.4	-4.7	N/A	N/A	N/A
3.3 Eliminate NRA hiatus to 67 and continue rise to 70 phased in 2006-2029	Lowest	-16.4	-18.5	-18.1	-6.0	-6.9	-7.2	N/A	N/A	N/A
	Middle	-16.0	-18.9	-18.9	-10.1	-11.6	-10.8	N/A	N/A	N/A
	Highest	-15.8	-18.4	-18.2	-11.8	-13.9	-13.2	N/A	N/A	N/A
3.4 Raise EEA to 65 phased in 2023-2040	Lowest	0.0	3.0	2.6	0.0	2.6	3.2	N/A	N/A	N/A
	Middle	0.0	3.5	3.1	0.0	4.1	4.1	N/A	N/A	N/A
	Highest	0.0	4.1	3.9	0.8	5.8	5.3	N/A	N/A	N/A

Changes to Social Security Distributional Outcomes Under Various Provisions
by Ten Year Birth Cohort and Lifetime Earnings Quintile
Projections Under Scheduled Baseline

	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65			Percentage Change in Lifetime Benefits			Percentage Change in Lifetime Payroll Taxes		
		Birth Cohort			Birth Cohort			Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
3.5 Raise actuarial reduction factor	Lowest	-3.7	-3.5	-3.8	-2.2	-1.7	-2.8	N/A	N/A	N/A
to maximum 37%	Middle	-3.9	-4.0	-3.9	-3.0	-3.7	-2.8	N/A	N/A	N/A
phased in 2008-2012	Highest	-3.5	-3.7	-3.7	-2.8	-2.3	-2.6	N/A	N/A	N/A
3.6 Raise delayed retirement credit	Lowest	N/A	N/A	N/A	-0.2	1.0	0.8	N/A	N/A	N/A
to 10% per year	Middle	N/A	N/A	N/A	0.5	0.0	0.2	N/A	N/A	N/A
phased in 2009-2015	Highest	N/A	N/A	N/A	0.4	0.5	0.3	N/A	N/A	N/A
4. Changes to COLA										
4.1 Reduce benefit COLAs by	Lowest	-0.6	-0.2	0.1	-1.8	-1.7	-2.2	N/A	N/A	N/A
0.2 percentage points	Middle	-0.7	-0.7	-1.0	-2.1	-2.8	-2.7	N/A	N/A	N/A
beginning in 2012	Highest	-0.6	-0.4	-0.3	-2.4	-2.2	-1.9	N/A	N/A	N/A
4.2 Reduce benefit COLAs by	Lowest	-1.0	-1.1	-1.3	-3.3	-3.7	-5.8	N/A	N/A	N/A
0.4 percentage points	Middle	-1.2	-1.0	-1.2	-4.3	-4.7	-3.9	N/A	N/A	N/A
beginning in 2012	Highest	-1.1	-1.0	-1.0	-4.9	-5.4	-5.5	N/A	N/A	N/A
4.3 Introduce super-COLA for DI	Lowest	N/A	N/A	N/A	4.6	10.5	9.3	N/A	N/A	N/A
workers of 1.3 percentage points	Middle	N/A	N/A	N/A	2.7	3.3	3.9	N/A	N/A	N/A
beginning in 2012	Highest	N/A	N/A	N/A	1.2	1.3	1.2	N/A	N/A	N/A
5. Changes to Payroll Tax Rates or Taxable Maximum										
5.1 Increase payroll tax rates by 1%	Lowest	N/A	N/A	N/A	N/A	N/A	N/A	3.1	6.8	8.0
0.5% individuals, 0.5% employers	Middle	N/A	N/A	N/A	N/A	N/A	N/A	3.1	7.3	7.4
beginning in 2007	Highest	N/A	N/A	N/A	N/A	N/A	N/A	3.7	7.2	7.9
5.2 Raise taxable maximum to cover	Lowest	0.0	0.0	0.0	0.0	1.5	-0.5	0.0	0.0	-0.8
87% of earnings	Middle	0.0	0.0	0.7	0.4	0.0	0.4	0.0	0.9	0.6
phased in 2007-2050	Highest	0.7	2.7	4.1	1.0	2.8	4.0	1.5	5.1	8.2
5.3 Raise taxable maximum to cover	Lowest	0.0	0.0	0.0	0.0	1.4	0.0	0.3	0.1	0.0
90% of earnings	Middle	0.0	0.0	0.6	0.4	-0.1	0.2	0.0	0.8	0.4
phased in 2007-2100	Highest	0.7	2.7	4.6	1.0	2.8	4.8	1.5	5.2	9.5
5.4 Raise taxable maximum to 250,000	Lowest	N/A	N/A	N/A	N/A	N/A	N/A	0.0	0.0	0.0
with no additional benefits	Middle	N/A	N/A	N/A	N/A	N/A	N/A	0.7	1.9	1.7
beginning in 2007	Highest	N/A	N/A	N/A	N/A	N/A	N/A	28.4	42.9	41.9
5.5 Apply 3% tax to all earnings	Lowest	N/A	N/A	N/A	N/A	N/A	N/A	0.0	0.0	0.0
above the taxable maximum	Middle	N/A	N/A	N/A	N/A	N/A	N/A	0.0	0.0	0.0
beginning in 2007	Highest	N/A	N/A	N/A	N/A	N/A	N/A	6.8	10.2	10.4

Changes to Social Security Distributional Outcomes Under Various Provisions
by Ten Year Birth Cohort and Lifetime Earnings Quintile
Projections Under Scheduled Baseline

	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65			Percentage Change in Lifetime Benefits			Percentage Change in Lifetime Payroll Taxes		
		Birth Cohort			Birth Cohort			Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
6. Changes to Benefits for Low Earners										
6.1 Introduce poverty-related minimum benefit beginning in 2007	Lowest	5.1	14.3	12.7	4.3	15.0	15.4	N/A	N/A	N/A
	Middle	0.0	0.0	0.0	0.0	0.0	0.6	N/A	N/A	N/A
	Highest	0.0	0.0	0.0	0.0	0.0	0.0	N/A	N/A	N/A
6.2 Enhance low-earner benefits based on years worked beginning in 2007	Lowest	23.0	21.4	21.6	10.7	21.8	22.5	N/A	N/A	N/A
	Middle	2.7	2.0	1.1	4.2	4.7	4.9	N/A	N/A	N/A
	Highest	0.0	0.0	0.0	0.0	0.7	0.0	N/A	N/A	N/A
7. Changes to Auxiliary Benefits										
7.1 Limit spouse's benefit for high-earner couples beginning in 2007	Lowest	N/A	N/A	N/A	-0.7	-1.0	-1.1	N/A	N/A	N/A
	Middle	N/A	N/A	N/A	-0.1	-0.1	0.0	N/A	N/A	N/A
	Highest	N/A	N/A	N/A	-0.3	-0.5	-0.6	N/A	N/A	N/A
7.2 Reduce spouse's benefit to 33% of workers benefit beginning in 2007	Lowest	N/A	N/A	N/A	-2.8	-6.0	-3.5	N/A	N/A	N/A
	Middle	N/A	N/A	N/A	-0.4	-0.9	-0.3	N/A	N/A	N/A
	Highest	N/A	N/A	N/A	-0.5	0.1	-0.3	N/A	N/A	N/A
7.3 Raise low-earner widow(er) benefits to 75% of couple's benefit beginning in 2007	Lowest	N/A	N/A	N/A	1.0	1.1	1.0	N/A	N/A	N/A
	Middle	N/A	N/A	N/A	0.4	0.4	0.0	N/A	N/A	N/A
	Highest	N/A	N/A	N/A	0.0	0.4	0.0	N/A	N/A	N/A

Source: Congressional Budget Office

Notes: Based on a simulation using the Social Security trustees' 2005 intermediate demographic and long-run economic assumptions and CBO's January 2005 short-run economic assumptions.

First-year annual benefits are computed for all workers eligible to claim Old-Age Insurance benefits at age 62 who have not yet claimed any other benefit. Benefits are computed assuming claim at age 65, based only on earnings through age 61. All values are net of income taxes paid on benefits and credited to the Social Security trust funds. Lifetime benefits include Old-Age and Disability worker benefits and Old-Age Spouse and Survivor benefits received by each individual during his or her lifetime net of income taxes credited to the Social Security trust funds. Lifetime taxes include OASDI employer and employee taxes.

N/A reflects results under provisions that would have no direct effects on benefits or taxes.

Table 3. Summary Measures of Social Security Distributional Outcomes by Ten Year Birth Cohort and Lifetime Earnings Quintile Projections Under Current Law Baseline

	Lifetime Earnings Quintile	First-Year Benefits for Retired Workers at Age 65 (2005 Dollars) Birth Cohort 1960s	1980s	2000s	Present Value at Age 60 Lifetime Benefits (2005 Dollars) Birth Cohort 1960s	1980s	2000s	Present Value at Age 60 Lifetime Payroll Taxes (2005 Dollars) Birth Cohort 1960s	1980s	2000s
Baseline Projections	**Lowest**	**$9,200**	**$7,900**	**$9,100**	**$101,000**	**$100,000**	**$113,000**	**$69,000**	**$72,000**	**$87,000**
	Middle	**16,700**	**16,000**	**18,500**	**182,000**	**193,000**	**224,000**	**252,000**	**308,000**	**384,000**
	Highest	**23,900**	**22,900**	**26,000**	**266,000**	**276,000**	**323,000**	**489,000**	**633,000**	**794,000**

Changes to Social Security Distributional Outcomes Under Various Provisions by Ten Year Birth Cohort and Lifetime Earnings Quintile Projections Under Current Law Baseline

	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65 Birth Cohort 1960s	1980s	2000s	Percentage Change in Lifetime Benefits Birth Cohort 1960s	1980s	2000s	Percentage Change in Lifetime Payroll Taxes Birth Cohort 1960s	1980s	2000s
1. Changes to Benefit Growth Rates										
1.1 Grow initial benefits with prices rather than wages beginning in 2012	Lowest	-16.0	-9.9	-21.8	-6.0	-6.4	-13.5	N/A	N/A	N/A
	Middle	-15.9	-10.1	-22.1	-8.2	-7.5	-16.7	N/A	N/A	N/A
	Highest	-15.7	-9.9	-21.0	-6.6	-5.7	-16.8	N/A	N/A	N/A
1.2 Grow initial benefits slower than wages for top 70% beginning in 2012 ("progressive price indexing")	Lowest	0.0	32.1	32.3	0.7	15.4	23.4	N/A	N/A	N/A
	Middle	-8.9	7.5	-5.0	-1.7	5.7	3.1	N/A	N/A	N/A
	Highest	-15.0	-8.6	-24.5	-5.7	-6.2	-17.3	N/A	N/A	N/A
1.3 Price index earnings in AIME formula and bend points in PIA formula beginning in 2012	Lowest	-9.6	0.5	-5.2	-1.9	4.0	7.0	N/A	N/A	N/A
	Middle	-6.6	7.4	3.2	-0.3	7.0	7.3	N/A	N/A	N/A
	Highest	-9.8	1.6	-1.2	0.2	7.1	5.7	N/A	N/A	N/A
1.4 Price index earnings in AIME formula beginning in 2012	Lowest	-1.1	-3.2	-3.0	0.0	-0.7	-0.9	N/A	N/A	N/A
	Middle	-2.0	-5.5	-5.2	0.2	-2.0	-2.0	N/A	N/A	N/A
	Highest	-1.4	-2.2	0.0	1.0	0.0	0.0	N/A	N/A	N/A
1.5 Price index bend points in PIA formula beginning in 2012	Lowest	-8.4	2.6	-10.1	-1.4	2.5	0.0	N/A	N/A	N/A
	Middle	-4.6	9.5	-4.1	-0.3	3.2	0.0	N/A	N/A	N/A
	Highest	-8.4	3.4	-7.1	-0.4	0.0	-0.9	N/A	N/A	N/A

Changes to Social Security Distributional Outcomes Under Various Provisions
by Ten Year Birth Cohort and Lifetime Earnings Quintile
Projections Under Current Law Baseline

	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65			Percentage Change in Lifetime Benefits			Percentage Change in Lifetime Payroll Taxes		
		Birth Cohort			Birth Cohort			Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
1.6 Longevity index initial benefits beginning in 2012	Lowest	-4.4	-3.9	-6.3	-0.5	1.3	3.4	N/A	N/A	N/A
	Middle	-4.1	-3.5	-6.7	-0.5	0.2	0.2	N/A	N/A	N/A
	Highest	-4.3	-4.1	-6.6	-0.4	-1.5	-2.2	N/A	N/A	N/A
2. Changes to Benefit Formula										
2.1 Reduce all PIA factors by 20% in 2012	Lowest	-19.7	6.3	13.6	-10.0	-1.9	10.5	N/A	N/A	N/A
	Middle	-19.9	6.0	13.1	-12.7	4.7	16.2	N/A	N/A	N/A
	Highest	-19.5	5.9	14.2	-10.6	9.2	18.1	N/A	N/A	N/A
2.2 Reduce top two PIA factors from 32% to 20% and from 15% to 10% in 2012	Lowest	-4.6	29.0	37.1	-3.4	9.6	22.1	N/A	N/A	N/A
	Middle	-19.5	5.6	12.6	-12.2	4.5	16.6	N/A	N/A	N/A
	Highest	-24.6	-1.0	6.6	-15.5	2.9	11.0	N/A	N/A	N/A
2.3 Reduce top PIA factor from 15% to 10% in 2012	Lowest	0.0	2.4	2.2	0.0	2.0	1.0	N/A	N/A	N/A
	Middle	0.0	2.3	1.5	1.0	1.2	2.6	N/A	N/A	N/A
	Highest	-3.8	-2.6	-2.6	-2.3	-2.8	-2.4	N/A	N/A	N/A
2.4 Reduce all PIA factor by 0.005 annually beginning in 2011	Lowest	-7.7	7.9	-5.8	-1.9	1.2	0.0	N/A	N/A	N/A
	Middle	-7.7	7.6	-6.7	-1.5	2.2	0.6	N/A	N/A	N/A
	Highest	-7.5	7.8	-5.5	0.0	2.4	0.0	N/A	N/A	N/A
2.5 Increase AIME calculation years from 35 to 40 phased in 2007-2011	Lowest	-5.1	1.1	-0.8	-1.3	1.6	2.3	N/A	N/A	N/A
	Middle	-7.0	-0.2	-4.6	-1.5	0.0	-0.9	N/A	N/A	N/A
	Highest	-4.3	1.7	0.0	0.0	1.0	1.3	N/A	N/A	N/A
3. Changes to Retirement Age or Actuarial Adjustments										
3.1 Eliminate NRA hiatus to 67 phased in 2006-2011	Lowest	0.0	2.9	0.5	0.9	1.2	2.0	N/A	N/A	N/A
	Middle	0.0	3.6	-0.2	1.5	0.9	0.6	N/A	N/A	N/A
	Highest	0.0	2.6	0.5	2.0	0.6	0.5	N/A	N/A	N/A
3.2 Eliminate NRA hiatus to 67 and continue rise to 68 phased in 2006-2017	Lowest	-7.5	12.0	-2.2	-0.4	5.2	5.2	N/A	N/A	N/A
	Middle	-7.6	12.6	-2.5	-0.1	4.5	1.7	N/A	N/A	N/A
	Highest	-7.4	12.4	-2.0	0.6	2.3	-0.2	N/A	N/A	N/A
3.3 Eliminate NRA hiatus to 67 and continue rise to 70 phased in 2006-2029	Lowest	-16.3	7.4	-6.3	-3.6	8.5	10.9	N/A	N/A	N/A
	Middle	-16.0	7.2	-7.6	-4.8	8.6	3.7	N/A	N/A	N/A
	Highest	-15.8	7.2	-6.7	-4.1	5.5	-1.0	N/A	N/A	N/A
3.4 Raise EEA to 65 phased in 2023-2040	Lowest	0.0	3.4	-0.3	0.5	1.7	0.7	N/A	N/A	N/A
	Middle	0.0	3.7	-0.5	1.1	2.1	0.0	N/A	N/A	N/A
	Highest	0.0	3.9	0.8	1.6	2.6	0.4	N/A	N/A	N/A

Changes to Social Security Distributional Outcomes Under Various Provisions
by Ten Year Birth Cohort and Lifetime Earnings Quintile
Projections Under Current Law Baseline

	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65			Percentage Change in Lifetime Benefits			Percentage Change in Lifetime Payroll Taxes		
		Birth Cohort			Birth Cohort			Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
3.5 Raise actuarial reduction factor	Lowest	-3.7	3.7	-0.5	-0.9	2.0	1.7	N/A	N/A	N/A
to maximum 37%	Middle	-3.9	4.5	-0.9	-0.5	0.7	0.7	N/A	N/A	N/A
phased in 2008-2012	Highest	-3.5	3.4	-0.6	0.5	0.9	0.7	N/A	N/A	N/A
3.6 Raise delayed retirement credit	Lowest	N/A	0.1	-0.7	0.0	1.4	0.0	N/A	N/A	N/A
to 10% per year	Middle	N/A	0.0	-1.4	0.3	0.0	0.2	N/A	N/A	N/A
phased in 2009-2015	Highest	N/A	-0.2	-0.4	0.1	0.5	0.0	N/A	N/A	N/A
4. Changes to COLA										
4.1 Reduce benefit COLAs by	Lowest	-0.6	5.0	3.0	-0.8	1.7	2.0	N/A	N/A	N/A
0.2 percentage points	Middle	-0.7	5.7	1.8	0.0	0.7	1.0	N/A	N/A	N/A
beginning in 2012	Highest	-0.6	4.8	2.7	0.0	0.7	1.3	N/A	N/A	N/A
4.2 Reduce benefit COLAs by	Lowest	-1.0	14.3	5.6	-1.5	3.2	2.5	N/A	N/A	N/A
0.4 percentage points	Middle	-1.3	15.7	5.4	-0.5	3.4	2.4	N/A	N/A	N/A
beginning in 2012	Highest	-1.1	13.7	5.8	0.0	1.4	0.0	N/A	N/A	N/A
4.3 Introduce super-COLA for DI	Lowest	N/A	-2.6	-3.8	3.2	7.1	4.7	N/A	N/A	N/A
workers of 1.3 percentage points	Middle	N/A	-2.7	-3.9	0.0	-0.5	0.6	N/A	N/A	N/A
beginning in 2012	Highest	N/A	-2.8	-3.7	-1.7	-2.0	-2.3	N/A	N/A	N/A
5. Changes to Payroll Tax Rates or Taxable Maximum										
5.1 Increase payroll tax rate by 1%	Lowest	N/A	32.1	10.7	2.3	15.7	13.9	3.0	6.7	8.2
0.5% individuals, 0.5% employers	Middle	N/A	31.9	9.4	5.4	18.5	11.6	3.1	7.1	7.0
beginning in 2007	Highest	N/A	30.7	10.1	8.0	19.2	9.3	3.7	6.5	7.8
5.2 Raise taxable maximum to cover	Lowest	0.0	6.2	3.0	1.2	5.0	3.6	0.0	0.0	0.0
87% of earnings	Middle	0.0	7.7	4.3	2.8	4.0	4.4	0.0	0.7	0.7
phased in 2007-2050	Highest	0.7	9.4	7.7	4.0	6.5	7.9	1.5	4.9	8.1
5.3 Raise taxable maximum to cover	Lowest	0.0	6.6	4.5	1.2	5.7	5.7	0.0	0.0	0.0
90% of earnings	Middle	0.0	8.1	5.7	2.8	4.8	6.3	0.0	0.8	0.5
phased in 2007-2100	Highest	0.7	9.9	10.0	4.1	7.6	10.5	1.5	4.9	9.1
5.4 Raise taxable maximum to $250,000	Lowest	N/A	31.5	40.4	2.3	20.2	32.8	0.0	0.0	0.0
with no additional benefits	Middle	N/A	31.4	40.8	5.4	29.4	37.1	0.7	1.7	1.1
beginning in 2007	Highest	N/A	30.6	40.5	8.5	32.9	33.8	28.4	42.0	40.6
5.5 Apply 3% tax to all earnings	Lowest	N/A	23.1	6.3	1.9	8.5	7.1	0.0	0.0	0.0
above the taxable maximum	Middle	N/A	23.4	5.8	4.2	10.0	6.3	0.0	0.0	0.0
beginning in 2007	Highest	N/A	22.8	6.3	6.2	8.0	5.3	6.8	9.5	10.1

Changes to Social Security Distributional Outcomes Under Various Provisions
by Ten Year Birth Cohort and Lifetime Earnings Quintile
Projections Under Current Law Baseline

	Lifetime Earnings Quintile	Percentage Change in First-Year Benefits for Retired Workers at Age 65			Percentage Change in Lifetime Benefits			Percentage Change in Lifetime Payroll Taxes		
		Birth Cohort			Birth Cohort			Birth Cohort		
		1960s	1980s	2000s	1960s	1980s	2000s	1960s	1980s	2000s
6. Changes to Benefits for Low Earners										
6.1 Introduce poverty-related minimum benefit beginning in 2007	Lowest	5.1	12.7	10.0	3.4	13.0	13.7	N/A	N/A	N/A
	Middle	0.0	-1.3	-2.3	-0.8	-1.7	-1.4	N/A	N/A	N/A
	Highest	0.0	-1.5	-1.8	-1.5	-1.7	-1.8	N/A	N/A	N/A
6.2 Enhance low-earner benefits based on years worked beginning in 2007	Lowest	23.0	16.5	15.3	7.7	15.5	16.6	N/A	N/A	N/A
	Middle	2.7	-1.9	-5.3	0.0	-1.7	-1.5	N/A	N/A	N/A
	Highest	0.0	-4.3	-5.7	-4.9	-4.4	-4.7	N/A	N/A	N/A
7. Changes to Auxiliary Benefits										
7.1 Limit spouse's benefit for high-earner couples beginning in 2007	Lowest	N/A	0.0	0.7	-0.5	-1.1	-1.2	N/A	N/A	N/A
	Middle	N/A	-0.2	0.0	0.0	0.0	0.7	N/A	N/A	N/A
	Highest	N/A	0.0	0.5	0.0	0.0	0.0	N/A	N/A	N/A
7.2 Reduce spouse benefit to 33% of worker PIA beginning in 2007	Lowest	N/A	1.8	1.2	-2.3	-3.9	-1.1	N/A	N/A	N/A
	Middle	N/A	1.8	1.4	0.7	0.8	0.9	N/A	N/A	N/A
	Highest	N/A	1.7	1.5	1.0	0.9	0.9	N/A	N/A	N/A
7.3 Raise low-earner widow(er) benefits to 75% of couple's benefit beginning in 2007	Lowest	N/A	0.0	0.0	0.8	0.0	0.0	N/A	N/A	N/A
	Middle	N/A	-0.5	-0.8	0.0	0.0	0.0	N/A	N/A	N/A
	Highest	N/A	-0.6	-0.5	0.0	0.0	0.0	N/A	N/A	N/A

Source: Congressional Budget Office

Notes: Based on a simulation using the Social Security trustees' 2005 intermediate demographic and long-run economics assumptions and CBO's January 2005 short-run economic assumptions.

First-year annual benefits are computed for all workers eligible to claim Old-Age Insurance benefits at age 62 who have not yet claimed any other benefit. Benefits are computed assuming claim at age 65, based only on earnings through age 61. All values are net of income taxes paid on benefits and credited to the Social Security trust funds. Lifetime benefits include Old-Age and Disability worker benefits and Old-Age Spouse and Survivor benefits received by each individual during his or her lifetime net of income taxes credited to the Social Security trust funds. Lifetime taxes include OASDI employer and employee payroll taxes.

Under current law, all beneficiaries are subject to an across-the-board cut in benefits such that total projected outlays equal projected revenues one the Social Security trust funds have been exhausted. Under each provision, similar cuts are applied at the relevant trust fund exhaustion date (see Table 1).

N/A reflects results under provisions that would have no direct effects on benefits or taxes.

Appendix: Description of Social Security Provisions

Under current law, initial Social Security benefits are wage indexed. All Social Security benefits are based on a worker's primary insurance amount (PIA). In turn, the PIA depends on a measure of the worker's career earnings in employment subject to the Social Security payroll tax, expressed as his or her average indexed monthly earnings (AIME).

AIME. For people who attain age 62 after 1990, the AIME is calculated based on the highest 35 years of earnings on which the individual paid Social Security taxes (up to the taxable maximum, which is $90,000 in 2005). Earnings before age 60 are indexed to compensate for past growth in average (nominal) wages, and earnings after age 59 enter the computation at their actual levels. Dividing the total earnings by 420 (35 years times 12 months) yields the AIME.

PIA. The PIA is the monthly amount payable to a worker who begins receiving Social Security retirement benefits at the age at which he or she is eligible for full benefits or payable to a disabled worker who has never received a retirement benefit. The PIA formula is designed to ensure that initial Social Security benefits replace a larger proportion of preretirement earnings for people with low average earnings that for those with higher earnings. For workers who turn 62, become disabled, or die in 2005, the formula is:

PIA = (90 percent of the first $627 of the AIME) +
(32 percent of the AIME between $627 and $3,779) +
(15 percent of the AIME over $3,779)

The percentages of the AIME are known as "PIA factors" or "replacement factors" and remain unchanged. The thresholds at which the percentage of the AIME changes are known as "bend points." They change each year along with changes in the average annual earnings for the labor force as a whole. Consequently, as wages rise over time, initial benefits increase at a similar pace or are said to be "wage-indexed."

In addition, at the end of each year after participants become eligible for benefits, the Social Security Administration (SSA) adjusts the PIA by the amount of any increase in the consumer price index (CPI). Those annual cost-of-living adjustments are designed to ensure that the purchasing power of benefits does not decline.

1. Changes to Benefit Growth Rates

1. Under this provision, initial benefits for retired and disabled workers grow with the CPI beginning in 2012. In practice, the policy would be implemented by reducing the PIA replacement factors successively by the measured real wage growth in the second prior year. The bend points would remain indexed to wages. (This is the provision proposed by the Commission to Strengthen Social Security.)

2. This provision, often described as "progressive indexing," does not change the benefits for those in the bottom 30 percent of career average earnings. Initial benefits for higher earners would grow slower than under current law. Initial benefits for someone who earned the taxable maximum throughout a career, "maximum earners," would grow with prices (as in 1.1). Initial benefits for participants with lifetime earnings between the 30th percentile and the maximum would grow faster than prices but slower than wages; the actual benefit change would be related to the worker's position in the income distribution.

   Specifically, this would be achieved by adding a third bend point to the PIA formula within what is now the 32 percent bracket. The PIA factor would remain 32 percent below this new bend point. The PIA factors in the next two brackets would initially be 32 percent and 15 percent, but they would be reduced annually—multiplied by a rate sufficient to keep benefits for a maximum earner growing with prices, as described.

   The adjustments apply to the computation of initial benefits for both retired and disabled workers, beginning in 2012. (This is the provision proposed by Robert C. Pozen.)

3. Under this provision, wages in the AIME formula as well as bend points in the PIA formula increase with prices rather than wages as under current law. This applies to both retired and disabled workers, beginning in 2012

4. This provision price indexes wages in the AIME formula for retired and disabled workers, beginning in 2012

5. This provision price indexes the bend points in the PIA formula for retired and disabled workers, beginning in 2012.

6. This provision reduces the PIA factors to reflect future changes in life expectancies at age 62. Beginning in 2012, the provision would multiply the factors by a ratio that captures the increase in life expectancy at age 62 for the each cohort as it reaches that age. For any given cohort, the ratio would equal life expectancy at age 62 for the cohort reaching age 62 in 2008 divided by the life expectancy at age 62 for the cohort reaching age 62 three years prior to the cohort in question. (For example, the ratio used for the cohort reaching age 62 in 2020 would reflect the difference between the life expectancy of the cohort reaching age 62 in 2017 and the one reaching age 62 in 2008.) The reductions apply fully to retired workers and partially to disabled workers, implemented upon conversion to Old-Age Insurance benefits at the normal retirement age and is weighted by the number of years worked prior to the onset of the disability.

2. Changes to Benefit Formula

1. This provision reduces the PIA factors for retired and disabled workers by 20 percent (to 72 percent, 26 percent, and 12 percent) in 2012. Under current law, the PIA factors are 90percent, 32 percent, and 15 percent.

2. This provision reduces the top two PIA factors for retired and disabled workers, from 32 percent to 20 percent and 15 percent to 10 percent, in 2012.

3. This provision reduces only the top PIA factor for retired and disabled workers, from 15 percent to 10 percent, in 2012.

4. This provision reduces the PIA factors for retired and disabled workers by 0.005 annually (all PIA replacement factors would be multiplied by 0.995 each year) beginning in 2011.

5. This provision increases the AIME calculation years for retired workers from 35 to 40, phased in over 2007 to 2011. This change applies to both the numerator and denominator of the AIME calculation; the AIME would then be the average of the 40 highest years of indexed monthly earnings. The AIME calculation change is applied only to the calculation of retired worker benefits.

3. Changes to Retirement Age or Actuarial Adjustments

Under the Social Security Amendments of 1983, the age at which individuals could receive unreduced Social Security retirement benefits was increased from 65 to 67 in two stages. The first stage raised the age by two months a year each year from 2000 to 2005, so that workers turning 62 in 2005 face a normal retirement age (NRA) of 66. The second stage is scheduled for 2017 to 2022, when the age will increase from 66 to 67. The period from 2006 to 2016 is the "NRA hiatus."

1. This provision eliminates the NRA hiatus to 67, so the NRA reaches 67 for beneficiaries who turn 62 in 2011.

2. This provision eliminates the NRA hiatus to 67 and continues to increase the NRA by two months per year to age 68, so the NRA reaches 68 for beneficiaries turning 62 in 2017.

3. This provision eliminates the NRA hiatus to 67 and continues to increase the NRA by two months per year to age 70, so the NRA reaches 70 for beneficiaries turning 62 in 2029.

4. This provision raises the early eligibility age (EEA), the age at which Social Security retirement benefits can first be claimed, from 62 to 65 by two months per year beginning in 2023, so the EEA reaches 65 for beneficiaries turning 65 in 2040.

5. This provision increases the reduction factors for retired workers who apply for benefits before the NRA. The reduction factor for spousal benefits would also be increased. When the NRA reaches 67, the proposed change would have the effect of reducing the PIA for benefits at age 62 by 37 percent for retired workers (compared with 30 percent under current law) and by 42 percent for spousal benefits (compared with 35 percent under current law). This is phased in from 2008 to 2012.

6. This provision increases the delayed retirement credit (DRC) to 10 percent per year (compared with 8 percent per year under current law) phased in 0.5 percent per year from 2009 to 2015.

4. Changes to COLA

Under current law, at the end of each year, SSA adjusts benefits by the amount of any increase in the CPI. This increase is known as a cost-of-living adjustment (COLA).

1. This provision reduces the COLA applied to all benefits by 0.2 percentage points beginning in 2012.

2. This provision reduce the COLA applied to all benefits by 0.4 percentage points beginning in 2012.

3. This provision introduces a super-COLA for DI workers and auxiliaries that increases the COLA by 1.3 percentage points beginning in 2007.

5. Changes to Payroll Tax Rates or Taxable Maximum

Under current law, the OASDI payroll tax rate for both employers and employees is 6.2 percent. Payroll taxes are imposed on income up to the taxable maximum ($90,000 in 2005).

1. This provision raises the payroll tax rate by 0.5 percentage points for both employers and employees, beginning in 2007. The increased rates total 13.4 percent: 6.7 percent for both employers and employees.

2. This provision raises the taxable maximum to cover 87 percent of earnings with additional amounts used in benefit calculations, phased in from 2007 to 2050. Currently, about 83 percent of covered earnings are taxable, and under current law the taxable maximum increases annually at the same rate as average wages in the economy. Under this provision, the taxable maximum would increase faster than average wages until 2050, when 87 percent of earnings would be taxable. Thereafter, it would increase as under current law. The additional taxable earnings would be included in benefit calculations, so workers who paid additional taxes would also be entitled to higher benefits.

3. This provision raises the taxable maximum to cover 90 percent of earnings with additional amounts used in benefit calculations, phased in from 2007 to 2100. Currently, about 83 percent of cov-

ered earnings are taxable, and under current law the taxable maximum increases annually at the same rate as average wages in the economy. Under this provision, the taxable maximum would increase faster than average wages until 2100, when 90 percent of earnings would be taxable. Thereafter, it would increase as under current law. The additional taxable earnings would be included in benefit calculations, so workers who paid additional taxes would also be entitled to higher benefits.

4. This provision raises the taxable maximum to $250,000 in 2007, then grows it with wages in all later years, as under current law. This provision would not affect benefit calculations.

5. This provision applies a 3 percent tax on all earnings above the taxable maximum, beginning in 2007. This provision would not affect benefit calculations.

6. Changes to Benefits for Low Earners

1. This provision introduces a poverty-related minimum benefit, phased in from 2009 to 2013. A new formula for raising benefits for long-term workers with relatively low earnings would be introduced for workers becoming eligible for benefits beginning in 2009. (Current law includes a special minimum benefit, but it affects relatively few workers and is gradually diminishing in importance because it is not adjusted for real wage growth.) A new minimum PIA would be calculated based on a worker's quarters of coverage (QCs). The minimum PIA would be 2 percent of the poverty level for each QC above 40 (10 years of earnings) and up to 80 QCs, and 0.5 percent of the poverty level for QCs above 80 but not more than 160. Thus, for someone with 20 years of earnings, the minimum PIA would typically be 80 percent of the poverty level; at 40 years, the amount would be 120 percent of the poverty level. (For disabled workers, fewer quarters would be required because of their shortened careers.) Beginning in 2014, the effective poverty levels would be increased with average wages.

2. This provision increases benefits for workers who have both low lifetime average earnings and at least 20 years of covered earnings, beginning in 2007. Qualifying workers would have their PIA multiplied by the following factor:

1 + (40.4 percent x AIME factor x coverage factor)

The two factors each range from 0 to 1, so this provision increases benefit levels by up to 40.4 percent.

The average indexed monthly earnings (AIME) factor would give a larger increase to workers with lower average wages. The AIME factor is set equal to 1 for workers with an AIME equal to or less than the AIME of a worker who earned the minimum wage for 30 years. It is set to zero for workers with an AIME greater than the AIME of a "scaled medium worker" (a worker who worked for 35 years, always earning an amount equal to the AWI).

For workers with earnings between these levels the factor is set proportionately, for example, 0.5 for those at the average of those two levels. The formula is:

AIME factor = (AIMEmedium worker - AIME)/(AIMEmedium worker - AIMEminimum wage worker)

The coverage factor would give a larger increase to workers with more years of covered earnings. (Years of covered earnings are defined through earned quarters of coverage.)

For most retired workers, it is set equal to 1 if the worker has at least 35 years in covered employment. It is set equal to 0 if the worker had 20 or fewer years in covered employment. For workers who worked between 20 and 35 years, the factor is set proportionately, for example, 0.6 for those with 29 years in covered employment. The formula is:

Coverage factor = 1 - {[(3.5 x elapsed years) - quarters of coverage]/(1.5 x elapsed years)}

7. Changes to Auxiliary Benefits

1. This provision limits benefits for couples in cases where the primary worker's earnings are above the national average. Beginning in 2007 the spousal benefit would be reduced in any situation where the couple's benefit (before any actuarial reductions) would exceed the PIA of a worker who always earned the taxable maximum and reached eligibility age in the same year as the primary

earner. The spouse's benefit for these high-earner couples is limited to the difference between the worker benefit and the PIA paid to the maximum earner in that year. In an extreme case, where the primary earner has earned the taxable maximum each year, no spousal benefit would be paid.

2. This provision would reduce spousal benefits to 33 percent of the worker's benefit from the current 50 percent. This applies to both spouses of both retired and disabled workers beginning in 2007.

3. This provision boosts benefits to some surviving spouses by ensuring that benefits equal 75 percent of the hypothetical benefit that the couple would receive if both were alive. The new minimum benefit for the surviving spouse could not exceed the average PIA for retired-worker benefits in the December before the month of entitlement to the widow(er)s benefit (or, if the month of entitlement is December, then that same month). The proposed change would be implemented for those who apply for a surviving spouse's benefit beginning in 2007.