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MARKUP: SOCIAL SECURITY FINANCING AMENDMENTS

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Wednesday, March 9, 1983

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United States Senate
Committee on Finance
Washington, D. C.

The Committee met, pursuant to notice, at 10:32 a.m., in Room SD-215, Dirksen Senate Office Building, the Honorable Robert J. Dole (Chairman of the Committee) presiding.

Present: Senators Dole (presiding), Packwood, Danforth, Chafee, Wallop, Durenberger, Armstrong, Symms, Grassley, Long, Bentsen, Matsunaga, Moynihan, Baucus, Boren, Bradley, Mitchell and Pryor.

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The Chairman: The Committee will come to order.

Mr. Lighthizer: We made a couple of changes in the spread sheet and we are trying to get copies made right now. Maybe Carolyn can go on through it.

The Chairman: I think you have to pull that mike up very close, Carolyn.

I think what we might do so everybody will understand what might be the agenda for today is to go through what I think everyone is already aware of sort of the highlights of the Commission recommendations, with some minor changed as reflected by conversation, discussion with staff on both sides. I am not suggesting Members will agree or have agreed, but not have any votes this morning or today on any matter unless someone wants to vote on something, but go over the so-called spread sheet, give us a chance to caucus, or the Democrats to caucus, and the House to pass something today.

I understand they will pass the bill today. We will come back tomorrow morning at 10:00 and just stay with it tomorrow until we finish the markup.

There are some amendments to be offered, I assume, from both sides. Some may be adopted; some may be rejected. But I think the one thing we must keep in mind -- I think Senator Moynihan would agree, as a Member of the Commission -- that it is a rather fragile package and if one of the major parts drops out, I assume we are out of business.

Would that be your view, Pat?

Senator Moynihan: That would be my view, yes, sir.

The Chairman: So if there is no objection to that procedure, I would ask Miss Weaver to sort of go over the spread sheet. If anybody has any questions they would like to raise, they can interrupt.

We have Bob Myers, who probably is the real expert in this area, as a consultant to the Senate Finance Committee. He is here to answer any questions or any background, as well as Jack Svahn, Social Security Administrator -- Commissioner, excuse me -- who has now been confirmed for something else, and Mr. Ballantyne, members of our staff, members of the Joint Committee.

Carolyn?

Ms. Weaver: Okay. The cover sheet you have in front of you is basically outlining the provisions that were included in the package of the National Commission --

Senator Bentsen: I want to be sure we can hear. Can you speak into the mike?

The Chairman: Pull it way over there.

Ms. Weaver: The cover sheet you have in front of you is basically summarizing the provisions in the consensus package of the National Committee on Social Security Reform. There are some additions and modifications that we will note as we go through. I believe you have page 1 in front of you now.

Senator Danforth: Carolyn, if you could speak into your microphone, because your microphone is aimed at your shoulder.

The Chairman: I think you have to get rid of those books in front of you and just worry about the microphone.

Mr. Lighthizer: That is the right sheet, Senator Bentsen. It is the front page. The second two or three pages will be up in a minute. They are being Xeroxed.

Senator Long: Does this go with the memorandum?

Mr. Lighthizer: No, this page right here.

Senator Long: Okay.

Ms. Weaver: The figures shown on that table show the short-range savings or revenues for the OASDI trust funds. For example, the $9.3 billion is revenues from covering new Federal hires. If you see a figure in parentheses, that includes the HI Trust Fund impacts, so it would be the Social Security trust fund impact, as on Item Number 2.

Then, in the final column are the long-range numbers, expressed as a percent of taxable payroll.

Senator Moynihan: Carolyn, we did not really hear you. If you see a number in parentheses, that means --

Ms. Weaver: That includes the HI Trust Fund impact. All the other numbers are OASDI Trust Fund impact.

The first three provisions involve expanding coverage of Social Security. Item 1 would basically reflect the Commission recommendation to cover all new Federal civilian employees hired after 1983. There is a qualifier in there that unless the break in Federal service has been less than one year.

In addition to that, current Members of Congress, the President, Vice President, Commissioner of Social Security and congressional staff not already under some type of Federal retirement program would become covered as of 1/1/84.

Senator Packwood: That is the consensus report?

Ms. Weaver: The consensus report simply stated cover all new Federal employees hired ater 1983.

Senator Packwood: Now I am curious about the Members of Congress and the President and Vice President. The public is mad enough about double-dipping. Is this going to make us statutory double-dippers? We are going to have a congressional retirement system and Social Security?

Ms. Weaver: We are going to deal with the problem that Members of Congress are not now covered under Social Security.

Senator Packwood: I understand that. I think we ought to be covered. But are we going to be covered and now we are going to have a dual retirement system?

Ms. Weaver: You would have a choice to opt out of the Civil Service Retirement System.

Senator Packwood: And take back all the money we paid into it, I assume.

Ms. Weaver: Yes.

Senator Packwood: Okay.

We are having trouble hearing you still, but I think she said you have the option of opting out of the Civil Service Retirement System, I assume taking back all the money that has been paid in on our behalf and what we have paid in, and just being covered by Social Security.

Senator Moynihan: When you leave the Civil Service, you just get the money you put in.

Senator Packwood: Just so long as I understand where we are. We just take back the money we put in and just go on with Social Security.

Ms. Weaver: That is correct.

Senator Packwood: For those who choose not to, do we then become double-dippers? Do we then have both our present congressional retirement system and, on top of that, Social Security?

Ms. Weaver: Yes, but presumably not in the negative sense. You would then be paying taxes into both of those systems.

Senator Packwood: I understand that also. But if we go under Social Security and we all are above, at the moment, the maximum base, will we keep the present retirement system we have and we will now be covered by Social Security. The Federal government will pay half of the premium and we will pay the other half. It will be a further deduction from our paycheck.

Ms. Weaver: How the various Civil Service retirement systems would be modified to take into consideration currently covered and current employees is not clear.

Senator Packwood: It is not covered in this bill at all.

Ms. Weaver: Pardon me?

Senator Packwood: It is not covered in this bill at all.

Ms. Weaver: That is because that is not within the jurisdiction of the Finance Committee.

Senator Packwood: I understand that. So if we pass this the way it is at the moment, we will have our present congressional retirement system, which is a very generous system, and we will be covered by Social Security. Okay.

Senator Chafee: We will have to pay.

Senator Packwood: Yes, we will have to pay, but we will be covered by both.

Ms. Weaver: Item number 2 would cover all employees of non-profit organizations as of January 1, 1984. That is the recommendation of the National Commission.

Senator Armstrong: Mr. Chairman, could we ask what testimony did we have on that? Did individual non-profits comment on how that would impact on their operation?

Ms. Weaver: In our Social Security hearings on the Hill?

Senator Armstrong: Yes.

Ms. Weaver: Yes.

Senator Armstrong: Could you summarize that? Is that going to be something they can handle pretty easily, or is it going to be a large problem for them? Would you like to characterize that?

Ms. Weaver: For those that are not covered, they are well aware of the increase in the cost that will be borne as a consequence of the new payroll tax being applied to them.

Senator Armstrong: Do you recall, did any of them testify as to what the dollar magnitude of it is?

Ms. Weaver: That I do not recall.

Senator Armstrong: I tell you what. Not to bog down, Mr. Chairman, maybe after the meeting this morning somebody could point me to that in the testimony. I have the impression that for some of these non-profit organizations we are talking about a really serious impact which would have a lot to do with their being able to carry forward their programs.

We are talking about, in some cases, organizations that have very worthy, meaningful programs of health care and missionary work and you name it who are going to face this all at once, in one single lump sum, and it appears to me we ought to take a look at that and perhaps offer an amendment to delay it or phase it in or something.

In fact, I expect to offer such an amendment, but I do not have any numbers with me.

Senator Bentsen: If I might on that, Mr. Chairman, and to reply to the Senator from Colorado, I have an amendment that I have proposed and staff has looked at, and that is one that would say to the non-profit hospitals that they would be able to pass on the employer part to Medicare, which puts them on the same basis as the profit hospitals. It just equates it and tries to bring some equity in it.

As I understand it, staff, in looking at it, has reacted favorably to it, and I believe the Chairman has.

Ms. Weaver: Another problem that the hospitals raised was that a provision enacted last summer having to do with hospitals and reimbursement, when coupled with coverage of non-profits, would cause them a great deal of difficulty.

My understanding is that that provision in TEFRA can be repealed.

Senator Bentsen: And you also have that situation in Colorado, Senator.

Senator Armstrong: Sure do, but the concern I am getting to -- what you are saying sounds like a worthy amendment to me, but my concern is broader than that. In conversations in the last day or two with some of the non-profit organizations, they have cited some impacts on their operation in terms of their ability to actually go forward that are very serious and I will get those quantified in terms of how specific non-profit organizations might be affected and have some kind of an amendment in mind when we meet again to do that.

I would urge at least that we look at that because while maybe the principle of this is well justified, I do not think we would want to inadvertently drive a bunch of these non-profit organizations to the wall by hitting them all at once, and the nature of my amendment will simply be to treat non-profit organizations in exactly the same way that we are proposing to treat the Federal government.

Neither of them are covered at the present time. With the Federal government we are saying cover the new hires. So I think my amendment will do the same thing for the non-profits, say that as they bring new people aboard that they ought to be covered, but effectively phase it in.

Senator Bentsen: I would like to say, now that the Chairman has returned, that we went quite early on here to a question of non-profit organizations, and I have referred specifically to non-profit hospitals and having this pass through to Medicare the employer's portion. That obviously does not mean a full recovery, but it puts them in the same position as other hospitals.

It establishes equity there, and I have proposed an amendment for it. Unfortunately, I will not be here tomorrow. I have a situation back in Texas I have to attend to. And I have submitted that one to the staff and they have evaluated it. I would appreciate any comment.

Ms. Burke: Senator Bentsen, there are two issues at hand. The first is the provision that was included in TEFRA last year, if you recall, which reduced Medicare's payments, if indeed an institution pulled out of Social Security. The intent was to discourage that withdrawal.

What we intend to do as part of the prospective piece of this is to repeal the TEFRA provision and, secondarily, for those institutions coming into Social Security, allow those costs to be effectively passed through for Medicare reimbursement purposes. They will be added in to their base in terms of their reimbursement.

Senator Bentsen: That puts them on the same basis, then.

Ms. Burke: Yes, sir. They will be treated as all other institutions who had previously been under social security.

Senator Bentsen: Right, and that would take care of it, and that is the amendment I propose, and that is the one that they have evaluated. And, as I say, unfortunately I have to be in Texas for something tomorrow. I would appreciate consideration of that.

The Chairman: Thank you, we will. I think we have it pretty much worked out right now, right?

Ms. Burke: Yes, sir. It is all taken care of.

The Chairman: I think it is a good suggestion. If we have any problems, we will just hold it until you come back.

Senator Bentsen: All right. Thank you.

The Chairman: Where are we? You are just going through the package?

Ms. Weaver: Item Number 3, yes.

Senator Baucus: Mr. Chairman, before we go through, may I ask a question with respect to Number 1? Will all new Federal employees be covered after 1983? By that I mean, would that include Executive level employees, civilian Federal employees?

Ms. Weaver: Yes.

Senator Baucus: So Cabinet officials, Assistant Secretaries, et cetera.

Ms. Weaver: Yes.

Senator Baucus: Very good.

The Chairman: What about Federal judges? Would that take care of their problem?

Ms. Weaver: They would be covered as new hires under this proposal, and they were covered currently in the Ways and Means Committee bill.

The Chairman: Foreign Service Officers?

Ms. Weaver: They would be new hires.

The Chairman: They claim some special hazard.

Senator Bradley: They would be considered new hires -- all judges -- or only new judges?

Ms. Weaver: They would be covered when they were newly hired after 1983.

Senator Bradley: So that a sitting Federal judge would not come under this?

Ms. Weaver: That is correct.

Senator Pryor: May I ask a question? Let's say if an agency hires a new Federal worker January 2 of next year, 1983. At that point, unless we do something about the civil service system, is that new employee going to be paid 14 percent on retirement?

Ms. Weaver: That is correct, yes.

Senator Moynihan: Well, not 14.

Senator Pryor: He paid seven percent, I think, into each system.

Senator Moynihan: Oh, I see. Yes.

Senator Pryor: Unless we correct what I perceive to be a defect.

Ms. Weaver: Right, and presumably either --

The Chairman: As I understand it, Senator Stevens will have an amendment to address that. It is something we do not have jurisdiction of, but we understand he may. Is that correct, Carolyn?

Ms. Weaver: We spoke to his staff yesterday and he would plan to offer an amendment on the floor that would allow new hires, new federal hires, to opt out of the civil service program beginning in January, so that they were under Social Security only until the supplemental plan was fully in place so there would not be that double taxation problem.

Mr. Lighthizer: There is also proposed by Senator

Moynihan, which we have included in this list, language which sort of makes the point to the extent we can in our jurisdiction that we do not intend to have anybody's accrued entitlement benefits changed and that we expect the system to be worked out.

The Chairman: That is an amendment Senator Moynihan will be offering, is that correct?

Ms. Weaver: I think it is included in here.

The Chairman: All right.

Senator Matsunaga: Mr. Chairman, if I may raise a question also, to be covered under civil service retirement system presently the minimum requirement is five years, correct?

Now to be covered under Social Security, ten quarters, correct?

Ms. Weaver: Ultimately 40 quarters -- ten years.

Senator Matsunaga: Under this provision?

Ms. Weaver: Under Social Security in general, ten years.

Mr. Lighthizer: Forty quarters for Social Security.

Senator Matsunaga: So which will govern the new civil servant who will retire after five years?

Ms. Weaver: A newly hired federal worker will simply be brought under the Social Security system and will have to meet the eligibility requirements of Social Security.

Senator Matsunaga: Of ten years?

Ms. Weaver: Yes.

Mr. Lighthizer: For social security. Now what happens in his pension is something that has to be worked out by the appropriate committee.

Ms. Weaver: And most people who are retiring under civil service now we find are already eligible for social security. I think the figure is maybe 80 percent.

Senator Matsunaga: Yes, but I am referring to the new ones, which would mean that the new ones would not have the same benefits as the present civil servants. Present civil servants may retire after five years and be eligible for retirement benefits.

Ms. Weaver: Again, that will depend on how the supplementary system is set up for the civil service retirees.

Senator Matsunaga: So that has not yet been worked out. How long will that take?

Mr. Lighthizer: That is now within our jurisdiction, Senator, which is why we have not worked it out, but presumably the Government Affairs Committee will work out a system which integrates the new federal worker.

Senator Matsunaga: How much time will we be allowing the system to be worked out by this proposal? Certainly it will take some time to work this formula out, striking some formula between social security and civil service.

Mr. Lighthizer: Before this becomes effective we have ten months and, in addition to that, there obviously is some period of time after that in which the Government Affairs Committee can still operate and not affect anybody because you have to be in the system a little while in any event before they can -- I mean, somebody that is hired next January 2 would not be eligible for benefits in any event for a number of years.

So there is a period of time for the Government Affairs Committee and ultimately the whole Senate and the Congress to work it out.

Senator Matsunaga: Yes, but beginning immediately they make contributions. So depending upon what the plan is, the contribution will have to be made by the new civil servant.

Mr. Lighthizer: Effective next January. So Senator Stevens is proposing to offer an amendment, as we understand it, which is not really within our jurisdiction but which lets these people opt out of the civil service retirement program so that if it takes a little while to get the system integrated they will not be paying double taxes.

Senator Armstrong: Would the Senator yield to me for just a moment? The same problem which he is describing, which federal civil service employees will face in their retirement system, is exactly the same sort of problem that the non-profits are going to face and is the reason why at the appropriate time I hope the Senator would support an amendment to treat the non-profits in the same way -- that is, to pick up the new hires but not to force them to pick up everybody that is not on board, just so it is not so sudden.

Senator Boren: Mr. Chairman, I am a little confused by what I have heard. When Mr. Greenspan testified he testified that the Commission was recommending that the present federal employee would have the same contribution and the same combined benefit. In other words, he would pay into social security and I guess he would be only about a quarter of a percent left is what he would pay into a supplemental system, and then that the retirement benefit would be the same as the present retired benefit -- social security plus the supplemental -- so they would be on an equal footing with the present employee.

Is that correct?

Ms. Weaver: That was what he envisioned in the supplemental plan, yes.

Senator Boren: But that is not what is being talked about now, is that correct?

The Chairman: We do not know what the supplemental plan will be.

Mr. Lighthizer: We do not have the jurisdiction over the part of the program that affects the civil service retirement program. That is the jurisdiction of the Government Affairs

Committee and they will have to integrate that.

Senator Boren: Has the Administration made a recommendation at this point as to what that supplemental plan would look like?

Mr. Svahn: No, Senator, we have not at this time made any recommendation. We are studying it and looking at a supplemental retirement system.

Senator Boren: What are the savings projected? I understand Mr. Greenspan said there are no savings in terms of the unified budget, but what are the savings in terms of the first year impact on social security to bring new hires in? How much does that produce in the social security system in the first year?

Ms. Weaver: $200 million in calendar year 1984.

Senator Boren: $200 million in 1984. Then what does that go up to in 1985?

Ms. Weaver: 1985 is $700 million, then $1.2 billion, for a cumulative of $9.3 billion over the period.

Senator Boren: Over that period. Thank you.

Senator Pryor: Mr. Chairman, I am not at this point proposing an amendment, but I would just like to ask this question, and I am not saying that I will or will not. Give me the down side, if you might, of what might happen if we delayed by one year the inclusion of the federal employees. Say if we moved that date from January 1, 1984 to January 1, 1985, so that we would at least assure the federal employees that we are going to have something worked out, because what I think we are doing here, we have no Administration proposal.

We have at least a commitment from Senator Stevens, whom I greatly respect, but I do not think we have any idea of what is going to be the real final outcome of that system. What is the down side of moving that to 1985?

The Chairman: I might just say the down side would be that that would be not a violation but would a significant departure from the recommendation on this sort of fragile package, and we are only talking about new hires. I do not see any reason to delay it.

There are a lot of people who would like to delay the whole thing. Some do not like to call it a delay. They would like to delay that, but do you see -- Mr. Myers, I assume this question has been raised on the House side, and may be raised on the House floor today, I am not certain, Senator Pryor.

Mr. Myers: Mr. Chairman, I believe the new plan can be worked out once it is clear that new hires are going to be covered under social security next January 1. This is not all that difficult. I think there is plenty of time to do it.

As you will recall, I testified before your committee that one possible plan for doing this would coordinate the two so that federal employees would pay the same contributions they pay now, but it would be divided up between the two systems and at the same time the benefits would be the same as the present civil service retirement benefit, except they would be reduced by the social security benefits that would come from the federal employment.

It is not that difficult a problem.

The Chairman: I might say, too, I think, Senator Pryor, at one time Mr. Myers was I do not say negotiating, but you had some discussion with some of the federal employees union leaders to solve this real concern they had. Did you have any success in that effort?

Mr. Myers: Well, I showed them my plan and said if they had any questions or comments about it as they considered it I would be glad to hear from them. I have not heard from them. I do not know whether that means assent or dissent.

Senator Bradley: Mr. Chairman, Mr. Svahn, you said that you have not sent up the supplemental plan yet, is that correct?

Mr. Svahn: That is correct, Senator.

Senator Bradley: You have made recommendations about the existing civil service retirement system though, haven't you?

Mr. Svahn: The Administration -- and I do not know where those recommendations are --

Senator Bradley: What are those recommendations?

Mr. Svahn: I am not familiar with them, Senator.

Senator Bradley: You are not familiar with recommendations made by the Administration on federal employees and you are here now testifying on the base of social security inclusion and you do not know what the recommendations were by the Administration?

Mr. Svahn: I assume what you are talking about, Senator, are the budget proposals for the civil service retirement system. I am not familiar with those. Dr. Devine runs the Civil Service Retirement System, not the Commissioner of Social Security.

The Chairman: And he did testify. I think we have a record of his testimony. I think he outlined in a general way. Do you have that information, Carolyn?

Ms. Weaver: We have it available.

Senator Bradley: Well, Mr. Chairman, I think that there are a couple of things that the Administration has recommended that raise legitimate questions about what kind of supplemental insurance system would be provided. Instead of putting away seven percent of the payroll, of the salary, they suggest that you put away eleven percent of the salary. Instead of retiring at 55, they say you retire at 65. Instead of having your payment based on the high three years of earnings, they want the high five years of earning.

I mean, those are a few rather significant changes in the civil service system that would lead any federal employee to have some reason to doubt that a civil service supplemental is going to give what precisely Mr. Ball said it was so easy to give. Mr. Myers, I am sorry, Mr. Myers.

So I think that the questions raised by Senator Boren and Senator Pryor are at least reasonable questions.

Mr. Svahn, you have no comment about that. I voted for you yesterday, Mr. Svahn.

Mr. Svahn: I appreciate that, Senator.

Senator Bradley: I swallowed deeply, but I voted.

Mr. Svahn: I think, Senator, that what you are talking about are proposals and, as I said, we have not made any proposals yet as to a supplemental civil service retirement system. But, as the Senator knows, the Administration's proposals are not necessarily what will eventually emerge as law and that this Committee, Members of this Committee, will have an opportunity, I am sure, to shape whatever kind of supplemental retirement system emerges finally.

I think that the comment was made or question was asked a minute ago about what a delay in including new federal employees would cost in terms of the savings put together in the bipartisan package. I am assuming now that if you delayed, the same arguments would apply to non-profit organizations who are going into the system January 1, assuming passage of the bill.

That would cost, over the 1983 to 1989 period approximately $3.6 billion.

Senator Pryor: Not just for a one-year delay? What is that figure?

Mr. Svahn: It is $3.6 billion.

The Chairman: How do you divide that up?

Mr. Svahn: 1983 to 1989. Perhaps I can ask Mr. Ballantyne to divide that up.

The Chairman: How much would be -- I do not propose we do that, but how much?

Mr. Ballantyne: For new federal employees, newly hired employees, it would be $2.5 billion in that period, 1983 through 1989, and for all non-profit employees it would be $1.1 billion, and this assumes that in 1983, beginning in 1983, further terminations of non-profit employees would be prohibited, just as state and local terminations are.

Senator Bentsen: If I may, Mr. Chairman.

The Chairman: Senator Bentsen.

Senator Bentsen: I think what we are seeking is a means of addressing the concern of the present civil service employee that there is going to be continued funding for that civil service pension system and that there is going to be a commitment on the part of this government when you have the new hires that they are not just limited to a social security pension system, that you are going to see the government committed to the kind of funding that is necessary to be sure that we retain a solvent and security civil service retirement system for the people that are hired.

That is what we are seeking and that is why you see Senator Bradley and Senator Boren and some of the others making the kind of statements that they are.

The Chairman: I think Senator Bentsen is absolutely correct. That is what we propose, that is what we hope we can do, but some of it we do not have jurisdiction of. We are willing to work with the appropriate committee. We have made it clear to the federal employees who have testified -- it is on the record -- that we are going to try to make certain that they are protected.

We see no reason they should not be protected. They should be. And again I would suggest maybe, Mr. Myers, between now and the time we start wrapping this up tomorrow, you might explore that idea that you had when you sort of wrapped up the hearing testimony. That may be something you would want to make available to members on both sides to see if they have any interest in that.

Would you describe that again briefly so we are all focusing on it now?

Mr. Myers: Mr. Chairman, on the contribution side, new federal hires would pay exactly the same as the present employees do, that is, seven percent for retirement plus the

1.3 percent Medicare tax. The seven percent for retirement would be divided up. The part that would go to social security would be taken out first and the remainder would go into the civil service retirement fund.

In the same way, the roughly 30 percent of payroll that the government now contributes for civil service retirement would continue to go in, but first the social security tax would be taken out and then the other roughly 24 percent would go into the civil service retirement fund.

On the benefit side, benefits for the new hires would be exactly the same as at present until age 65. At age 65 they would be reduced by the amount of social security benefits that they would be eligible for on the basis of their federal employment.

So, in other words, both the contributions and the benefits of the present civil service retirement system would, for new hires, be offset by the social security contributions and by the social security benefits resulting therefrom.

Senator Mitchell: Mr. Chairman?

The Chairman: Senator Mitchell.

Senator Mitchell: The problem, Mr. Myers, is that what you have asserted, which is consistent with and more specific with what Mr. Greenspan said earlier, is directly contradicted by the Administration's proposals regarding civil service retirement. What you have just said is not consistent with, contradictory to, and not the same as what the Administration has already proposed. Now Mr. Svahn says the Administration has not taken a position on a supplementary system, but they have taken a position on the civil service system.

Mr. Myers: Well, Senator Mitchell, I am not speaking for the Administration. I am not an employee of the Executive branch. When I testified before your Committee I was speaking as an individual. At present, I am a consultant to your Committee, but I have no connection with the Executive branch.

Senator Mitchell: Well, of course that is precisely the problem. It is the Administration position that is likely to be of more significant to the federal employees. After all, you are not the President; neither is Mr. Greenspan. And they are more likely to be influenced by what the President is saying should be done than by what you say.

I kind of think your idea is a lot better than the President's and in this respect, at least, we probably would like to have you as President.

But, in any event, that is a problem that is faced here, Mr. Chairman. I do not know how we get around it. It is all well and good for him to say this is what should be done and Mr. Greenspan to say this is what should be done, but we confront a circumstance in which the Administration has taken a position that is wholly inconsistent with what he has said.

Senator Moynihan: Would the Senator yield for a comment?

Senator Mitchell: Yes.

Senator Moynihan: I would hope all the members of the Committee would hear these numbers once more. They came as a surprise to me and, I think, to most members of the Commission. That is that only 26 percent of the people who enter federal service ever retire in the federal service retirement system. A few die and some go off on disability, but a full 62 percent never get any civil service retirement benefits.

And if they do not get social security, they do not have anything. The number, rather striking, 37 percent of federal employees, people who join the federal civil service, do not stay five years, and they leave and when they leave they can take out their contribution, but the federal contribution does not exist and they have no social security.

This way, in that five years they will have earned amost half the amount of benefits they need to qualify for social security. Altogether, 62 percent of the people withdraw, either do not get vested or withdraw, and in consequence have no rights under the retirement system, and under what we are proposing will have rights vested under social security.

Senator Mitchell: I think the Senator is making a very valid point, that there is a certain category of persons in federal employment, now or future, who will benefit from inclusion in social security, not only those who leave before five years, but those who become totally disabled.

But there is another category that is concerned that they will not, and excepting the fact that you have just stated -- and I think it is a very valid point -- there remains the concern of that category of persons who are now in and who will be in and will continue.

Senator Moynihan: Well, could I suggest to the Senator that we are not proposing any change in the traditions of the persons now employed by the federal government. We are proposing a change in the arrangements for people who will in the future, but they are not quite a category of people.

Senator Mitchell: They do not necessarily know who they are. We do not know who they are and we do not know who the individuals are, but we do know there will be a certain number of persons in that category.

Senator Moynihan: Right, and we want them to be covered by both systems and properly.

Senator Symms: If one of the Senators would yield, I would like to ask a question. Why can't you figure out a system here where if you are a civil servant and you retire and then you go out and you work in the private job that you have a guarantee that you are going to get back all the money you put into the social security system and then, after that, you have to elect whether you are going to be on social security or civil service and do it from the benefit end and keep these two things here.

It seems to me we are just robbing Peter to pay Paul, when the problem is let them decide which one they want to be, or if they want to go on social security to get back all the money they put in, the civil service program -- they can be a social security recipient but not try to fold in civil service pension and somehow think that we are going to get something for nothing out of this, because with the unfunded liability in civil service we have got to do something about that too.

Is that impossible to do from the benefit end? Don't 80 percent of the people who retire as civil servants actually end up drawing social security also?

Mr. Myers: That is correct.

Senator Symms: Why not just say okay, you worked from 19 -- from the time you are 55 until you are 65. You paid in X number of dollars in the social security program. You get that back when you quit working and then you go ahead and retire on your civil service pension.

Mr. Myers: The National Commission consensus did address that too, because that applies also to state and local employees. There is a provision in here to prevent so-called "windfall" benefits that says we will calculate the social security benefits differently for people who have non-covered employment and to recognize that they are getting heavily weighted benefits.

So you can attack it from the benefit side.

Senator Symms: If you solve it from the benefit side, what is the purpose of putting them into social security?

Mr. Myers: I think the benefit is to also see, as Senator Moynihan said, that the maybe roughly three-quarters of the people never get civil service retirement benefits have some social security coverage during their period of federal service.

In other words, if they leave after three years of federal service, they get nothing but their contributions back. They have that blank period in their social security record that could prevent them from getting benefits or might result in them getting lower benefits if they did qualify.

The Chairman: I wonder if we might -- I know this provision is controversial, but so is every other provision in this package. So therein lies the problem. I mean, that is the problem the Commission felt. We had a lot of solutions and they were good ideas, but we could not put the package together.

So if we want to delay the federal employee, then we ought to delay everybody else. So then you do not have the package and I do not -- we want to protect everyone's rights, but we cannot resolve the crisis in the civil service retirement system, which has about a $500 billion unfunded liability, whatever it is, in this Committee, unfortunately. We do not have that. That is one thing we do not have.

But we would like to move on so we can sort of run through the spread sheet and then, if there are amendments, they could be offered tomorrow. I would rather not offer them today.

I have been approached by some Members of the House, particularly new Members of the House, with less than five years' service. Now Senator Packwood may have raised that, but they are concerned, like other federal employees are concerned, and I do not know whether you can comment on that or not, Mr. Myers. You had focused on that problem on the House side.

Mr. Myers: Well, I think in the vast majority of those cases there is no problem because if the present Members were covered and they do not get five years of congressional service, certainly at some other time during their career, either before they came to Congress or after they leave, they are going to be in social security-covered employment. So the social security coverage they would pick up as Members of Congress would just add to all their other social security coverage.

The Chairman: They have another concern, like the concern about the 15 percent or 14 percent, whatever it is, not getting the money out if they have paid into one system and then being forced to pay into both systems. That is a question, I assume, that we will have to address.

Mr. Myers: Well, anything they paid into the congressional retirement system, of course, they get back. What they paid into social security would be like all new hires. If they are in just for a few years, they have social security credits, which they add to their previous or subsequent social security credits.

Senator Matsunaga: Will the option still be left open, Mr. Myers, under your proposal to civil servants, say working here on the Hill, to withdraw whatever they have put in if they leave prior to the five years?

Mr. Myers: Yes, that is what would happen, yes.

Senator Matsunaga: I am talking about new employees.

Mr. Myers: New employees --

Senator Matsunaga: They would still have that option?

Mr. Myers: The new employees -- well, it depends on the supplemental plan, but as I would foresee it, the new employees could withdraw the part that went into the civil service retirement fund. Of course, the part that went into social security would be like anybody else. That money stays in the fund and they build up a lifetime record.

Senator Matsunaga: Yes, I am referring to that portion which is assigned to the civil service retirement system.

Mr. Myers: I am certain that under any supplemental plan that would be drawn up that money would be refundable to them if they had less than five years of service.

Senator Matsunaga: Okay.

Senator Pryor: If we withdraw the money or if a federal employee withdraws, let's say we have $20,000 built up over a period of years and we withdraw that to be reimbursed for what we put in, I can only assume that that is taxable income to us and, say, taxed at the 50 percent rate or whatever it might be.

It looks like we are going to be --

Senator Moynihan: You already paid tax on it.

Mr. Myers: Senator Pryor, I do not think that is the case because you pay the civil service contribution out of after-tax income.

Senator Pryor: So you would not have a taxation problem?

Mr. Myers: No.

The Chairman: I wonder if we could move on to some of the other areas and then maybe come back to this first item.

Ms. Weaver: I think the next item we were on was Item 3, which was another recommendation of the National Commission to prohibit termination by state and local government employees. In addition to that, as the Ways and Means Committee proposal would do, those state and local governments that are currently not covered under social security would be given the option to opt back in to the system.

Item 4 pertains to the social security COLA delay and, in addition to the recommendation of the National Commission, the waiver of the 1983 three percent trigger COLAs is included here. This was something else recommended by the Ways and Means Committee.

The Chairman: This would assure that there would be some adjustment in January of 1984?

Ms. Weaver: That is right, if indeed the cost-of-living adjustment for July may have been less than three percent. Under present law it would not have been paid and so when we delay until January there might have been no COLA at all. So for a one-time -- if the COLA turned out to be, say, one or two percent, that would be paid in January.

Senator Wallop: Mr. Chairman, can I just ask, is there an assumption, Miss Weaver, that these states might opt back into the system? Is there an economic assumption attached to that, or is that just an opportunity?

Ms. Weaver: That is an opportunity.

Senator Wallop: You do not really anticipate that anybody will opt back in?

Ms. Weaver: No.

Senator Chafee: I would like to ask a question here on Number 4, Miss Weaver. Let's assume that inflation in the first six months -- that is, from July to January -- were four percent. Now what would happen? They would not get that six-months COLA, is that right?

Ms. Weaver: The way we presently calculate it, it would be from the first quarter of this calendar year over the first calendar quarter of last year. That amount, which is yet to be determined -- say that is four percent -- that is what would be paid out in July. That amount will be shifted to January and paid in January.

The following year and then all future years, we would shift that measuring period to a third quarter-third quarter basis so that the lag between the end of the measuring period and the day you actually pay out the cost-of-living adjustment is not lengthened beyond three months.

Senator Chafee: I guess I am missing the point on the waiver of the three percent trigger.

Ms. Weaver: Suppose we get in all the information on prices for the first quarter of this year, through March, and we find out after we have enacted a six-month delay, for example, that the cost-of-living adjustment would have been two percent. Under present law, if the COLA would have been less than three percent, nothing is paid. It is caught up the following year.

And the concern raised by Congressman Conable on the House side was that there would be a great deal of misunderstanding if you told all recipients that there was going to be a six-month delay and then nothing ended up being paid in January.

Senator Chafee: Does this change your financial predictions?

Ms. Weaver: No, because there was an assumption that the COLA would exceed three percent.

Senator Chafee: Thank you.

Ms. Weaver: Item 5 pertains to the supplemental security income program. It would make a coordinated six-month delay in the COLA for that program and, in addition, would couple that with a $20 per month increase in the income -- pardon me, in the SSI payment standard under the SSI program. That would be $30 a month for a couple.

The Chairman: Is that the recommendation I think Dr. Fleming made before the Committee, at least a $20 increase?

Ms. Weaver: They have been seeking an increase in the SSI payment standard, yes.

The Chairman: Instead of the disregard, we do it this way.

Senator Long: Did you do Item 3, yet?

The Chairman: The SSI?

Senator Long: Is what you were talking about?

The Chairman: That is the one Mike was questioning.

Ms. Weaver: Item 5.

The Chairman: You are talking about the pass through? Why don't you just raise it, Mike.

Mr. Stern: This was a question on Item 3, which is a provision that would prohibit termination of coverage by state and local governments. Under present law, they are not taxed because of the constitutional question of whether the federal government can tax them. If they come in voluntarily they take payments in lieu of contributions. And under the present law, if they want to opt out, they give notice and they have a two-year period, and then after that they are out.

The question that has been raised is what about the case where a state or locality has already given notice to the federal government but the two-year period just has not run out. To now say that they cannot get out really is kind of a unilateral change in position.

The Chairman: I think we recognized that.

Senator Wallop: A number of the changes, though, are unilateral.

Senator Long: This seems to be rather unfair, though. We told these communities, as I understand it, that we were going to give them the option to come in. The Commission still is recommending that we not try, as I understand it, to put these people in against their will. Now they were told that they could come in and participate and then have the privilege of opting back out again.

Now when you have a whole list of them -- about how many are there in the country? Aren't there about 600 communities?

Ms. Weaver: There are 635 pending terminations.

Senator Long: About 635 who came in on that basis, that they would have the privilege to opt back out and they have applied to opt back out and they have a right to do so. Now this seems to be a complete breach of faith on the part of Congress, and it confronts you directly with a constitutional question which the Commission said they were seeking to avoid.

Now how do we justify this to people?

Ms. Weaver: Part of the difficulty, I believe, is that if the elimination date were made prospectively, say on enactment, there is some concern that huge numbers of state and local governments would then file a notice to terminate, much more so than would have taken place in the absence of that type of prospective elimination.

The Chairman: I think there is another problem. Once they opt out, generally the employees that are impacted tend to be low income employees. Los Angeles County, I guess, was the latest example. We would hope we might address the constitutional question. We even thought about trying to work that into the law in some way so we could take it to the Supreme Court and find out.

But it is like other decisions here. They will not be met with total acceptance by the people who are impacted.

Senator Moynihan: Mr. Chairman, could I speak just a moment to that? I believe it to be the fact, and I would ask Miss Weaver or Dr. Myers, that the decision to enter the social security system by municipal employees, say, is a decision in which the employeees take part and typically they vote.

But the decision to leave is a decision by one man or two people. The Administrator, the Mayor, and Council make the decision, isn't that right?

Mr. Myers: Yes, that is correct, Senator Moynihan.

Senator Moynihan: And if you believe social security is a good thing, then you believe that to arbitrarily take it away from the people who need it is not a good thing.

I doubt very much if you took a vote among the employees of Los Angeles whether they wanted to lose that protection that was done just because it saved money in the budget.

Senator Long: Well, if we could agree that we would leave them the privilege of opting out if they vote on it, that would seem to be all right with me. But to say that when you took them in it was agreed that they could opt out and then deny them that opportunity, that just does not seem right to me.

Now it may be that honor and conscience and the Constitution and everything else has to fall before the fact that the government needs money. I do not think we are that hard up. It seems to me as though justice, righteousness, conscience, truth should be a part of our way of doing business, even if the government does need money. And I do not know when we have to start taking the view that I'm sorry, but all that will have to go by the board because the government needs money.

I cannot see where we are in that bad a shape or that hard up.

The Chairman: Bob, do you have any comments on that -- not on the adjectives, but it sounds like you are making a case for withholding to me.

Mr. Myers: The only thing -- certainly, as a minimum, if the employees had to vote to come in, they ought to have to vote to go out, but I think beyond that -- I am no constitutional lawyer, of course, but I think there is the point that since the state or local government waived its constitutional right to stay out, it is a little different situation to say now you have to stay in, to try to put somebody in who never did come in.

So I think what the National Commission did had a certain logic to it.

Senator Long: Well, the constitutional point is, and this is the point that the Commission saw fit to raise now, the constitutional point is that you have no right to tax a state government. That is the constitutional point, and I do not see that they waived that by voluntarily participating in the program, especially if the basis upon which they did it was that they had the right to terminate that relationship.

The Chairman: We had thought at one time in the Commission -- maybe we did not think about it carefully enough -- is to indicate that some place down the road we would bring in these employees to give enough time to address the constitutional question, but apparently they decided to drop that. This may do it indirectly.

But I think we can focus on this --

Senator Armstrong: Mr. Chairman?

The Chairman: Yes.

Senator Armstrong: I share the reservation that Senator Long has expressed about the constitutional question, but there is also a very practical question which I do not think we focused on. As I understand it, there are a large number of state and local jurisdictions, or at least several, that have asked to be relieved from this whose applications have been on file and in effect they have a Catch-22 situation where even though they complied in good faith with the prior law long before this bill was even introduced, and yet we will preempt them in the middle of their process of withdrawal under either their constitutional right to do so or under their former statutory right to do so.

So I will have an amendment tomorrow that will permit the withdrawal of anybody whose application was on file prior to January 15 of this year. That does not address the constitutional question, which is separate, but at least that would be some degree of fair play for the people who are already in the pipeline.

The Chairman: I understand that amendment would be offered, but the people are the ones we thought we were concerned about -- those who would not have any choice. If Los Angeles County decided to opt out, you do not have any protection at all, and that is precisely what happened. It was an economic problem for Los Angeles County, but it is a human problem for the employees who are no longer protected.

Senator Long: Let me ask Senator Armstrong, would you be willing to modify your amendment to say that the employees would have the right to vote on whether they would be opting out?

Senator Armstrong: I would want to reflect on that. If the Senator were to propose an amendment which would delay the effective date in order to permit the constitutional question to be tested, I would unquestionably support that.

I am not sure about the implications of the voting question. Out our way there are questions in our state constitution of home rule, municipalities and that kind of thing. I would want to think that question through, but I would certainly consider it.

The Chairman: Well, there probably will be amendments to that section tomorrow, but hopefully they will not be adopted.

[Laughter]

Ms. Weaver: Item 6 is the beginning of the section of provisions described as equity provisions. Item 6 would eliminate windfall benefits for those people who receive both social security and another pension from non-government employment, effective 1/1/84.

Senator Mitchell: Excuse me. Are we on Item 6, Mr. Chairman? Did we bypass 4 and 5, or did we take them up and go back to 3?

Ms. Weaver: We went through them.

The Chairman: No. We were just discussing 4 and 5. Did you have a question on those?

Senator Mitchell: My question related to 5. I do not want to go out of order.

The Chairman: No, no. Go ahead.

Senator Mitchell: There has been an increase in, it says, SSI payment standard obviously to offset the delay of the COLA. Was that calculated as a dollar-for-dollar swap, and what is the financial effect upon an SSI recipient?

Ms. Weaver: The $20 increase in the payment?

The Chairman: It costs some money, but I think it is more equitable.

Ms. Weaver: It more than offsets the delay.

Senator Mitchell: Could you perhaps take a moment and explain?

Ms. Weaver: What the initial Commission proposal was and what this does relative to that?

Senator Mitchell: Yes, if you can do that in a relatively short time.

Ms. Weaver: The initial Commission proposal was to increase the income disregard used for SSI purposes, but only in the case of OASDI income, so that rather than disregarding the first $20 of income in determining the SSI benefit amount and eligibility, you disregard the first $50, but only if it came from OASDI income.

I believe it is fair to say that there was a misunderstanding about the fact that the income disregard under SSI applies to all income, not just OASDI. There were several ways of remedying that. One would have been to expand the new $50 disregard across the board. One would be to increase the payment standard for everybody, which is what this provision and the Ways and Means Committee provision would do. The other would have been to lower the increase in the income disregard and apply it to all income.

What is viewed by some people as the attractive feature of an increase in the payment standard is that it protects all SSI recipients from a COLA delay, even those with no other sources of income.

The Chairman: Particularly the lower income.

Senator Mitchell: What is proposed is for everyone now in SSI, an individual would get an increased benefit of $20 and a couple would get an increased benefit payment of $30.

Ms. Weaver: Beginning in July.

Senator Mitchell: Beginning in July. Do you estimate or do you know whether that will offset precisely or more than or less than the amount of loss caused by the COLA delay?

Ms. Weaver: That will more than offset.

Senator Moynihan: May I speak to that point? I believe the estimate of increased payments to SSI recipients under the House provision, which we are adopting, is estimated for fiscal 1984 at $750 million. It was the intention of the Commission to, as in more than one place in this package, to raise benefits to people who were in the lowest levels -- widows and people such as that -- and SSI in particular.

Senator Mitchell: I understand that. The $750 million is the amount by which the SSI payments will increase. What is the amount by which they will be adversely affected by it?

Senator Moynihan: That is the net amount.

Senator Mitchell: Oh, that answers my question.

Senator Bradley: Would the Senator yield? Isn't this also correct, that if we had only done the disregard we would not have helped all SSI recipients? We would have only helped those who have dual tracks, meaning social security plus SSI, and that eliminates one-third of that SSI population.

Ms. Weaver: That is right.

Senator Moynihan: Mr. Chairman, may I correct? I made a mistake in my response to Senator Mitchell. The net additional is $620 million.

The Chairman: There is some added cost, but it seemed to us that the Ways and Means Committee dealt with it properly. It was a change we should make.

Senator Mitchell: I agree, Mr. Chairman. I was not raising questions in opposition but only to clarify.

Ms. Weaver: Item 6, again, was the proposal to eliminate the windfall now occurring to people who retire under social security and also have another government pension. The proposal would be to modify the social security benefit formula applied to people dually entitled to social security and a non-government pension.

This is one of the recommendations of the National Commission in the sense that they did not make a specific recommendation but proposed two alternative methods that might be used. This was one of them, and it was embodied in S. 1, as introduced in the Senate, with the additional guarantee to protect those people with low pensions from non-covered employment. No more than one-third of the benefit would be offset, rather than the proposal in the House, which would offset up to one-half of the benefit.

The Chairman: Now as I understand it -- and Senator Chafee raised a question on that -- it may be we are looking at how we might do it to phase that in so that you do not have an abrupt change in there.

Would you want to discuss that?

Senator Chafee: That is right, Mr. Chairman. The feeling was it was very unfair to make changes in expected receipts of social security that people had made plans on receiving and had altered their lives in anticipation of receiving a set amount of money.

So to overcome that unfairness, the plan was to look into how this might be phased in gradually so that people have warning that there is some change taking place.

Ms. Weaver: The proposal we were looking at was a simple five-year phase-in, and my understanding from the actuaries is that rather than saving $.5 -- $500 million it would save $.2 but would have no long-range impact in terms of reducing the savings.

Senator Moynihan: Carolyn, you said that the long-range would still be .05?

Ms. Weaver: Right.

Senator Moynihan: And the short-range is a loss of $200 to $300 million?

Ms. Weaver: The savings would be $.2, for a loss of $.3.

Senator Moynihan: I think the Senator has raised a very fair point.

Ms. Weaver: Item 7 would --

Senator Durenberger: Mr. Chairman, before we move, would you, Carolyn, explain for me where we are leaving some of the non-profits? I am thinking about the hospitals that talked to us, some of the hospitals that left the system, say, five years ago and have the problems of calculating, say, 15 years out for a retiree the portion of the pension that was earned during the five years.

In this proposal that is before us, what are we going to do to try to simplify that whole calculation problem?

Ms. Weaver: My understanding is that there was a difficulty in the sense that we were going to require a calculation of actually the value of the pension that came in during periods of covered and non-covered employment. The

Ways and Means Committee, as I understand the drafting of their bill, would do it on the basis of what proportion of time you spent in and out of covered employment, and that would presumably be something we could easily incorporate into our language.

Senator Durenberger: I would hope we would support that.

The Chairman: I think she was right behind you. She has been working on that.

Senator Durenberger: On the same subject.

The Chairman: I think it is somewhat similar to the question Senator Bentsen had.

Ms. Weaver: Okay. Item 7. Items 7, 8, 9 and 10 are ll designed to improve the equity of the system, in particularly with regard to elderly women.

Item 7 would continue benefits upon remarriage for certain survivors beginning January 1, 1984. Presently, a group of survivors, in particularly surviving divorced spouses and widowed and disabled surviving divorced spouses, lose benefit eligibility should they remarry after the time they initially go on to the benefit rolls.

This would simply allow them to remarry and get whatever benefit to which they are entitled the higher of. That is, they would not become eligible for more than one pension, but they would be able to continue drawing a pension should they remarry after the initial age of eligibility.

Item 8 would continue indexing deferred survivor benefits effective January 1, 1985. Presently there is a situation in which if a man, for example, dies at an early age, his earnings history is wage-indexed up until two years before the time of his death and should his widow not become eligible for benefits for many years into the future, she has lost the advantage of wage indexing that earnings history in intervening years. We would be currently price indexing.

This would simply allow for continuing to wage index his earnings history up until the time prior to her eligibility for benefits as a widow, for example. The effective date of that would be January 1, 1985. We understand from the Administration there might have been difficulties trying to get this implemented any quicker than that.

Item 9 would allow for independent eligibility of divorced spouses as of January 1, 1985. Presently, a divorced spouse is not eligible to actually draw her benefits -- his or her benefits -- until the worker himself retires. So if a man, for example, divorces from his wife and chooses to continue to work beyond 65, it would not be until the time he stopped working and began drawing benefits that she would be eligible to draw as a retired spouse's wife. This would simply give her independent eligibility at age 62.

Item 10 would increase benefits for disabled widowers. Presently widows and widowers are eligible for benefits at age 60. If they are disabled, they are eligible for benefits at age 50 and at an actuarily reduced rate. Presently, that is 50 percent of the full benefit they are eligible for. If they were a regular widow eligible at age 60, they would be earning 71-1/2 percent of the full benefit should they retire at the actual age.

This would simply increase benefits for those people between 50 and 60, disabled widows and widowers, up to the amount of benefits that would have been payable at age 60, up to 71-1/2 percent of the worker's benefit. That again would be effective on January 1, 1984.

Item 11 would increase the delayed retirement credit from three percent to eight percent a year between the years 1990 and 2010. Presently, for workers who choose to continue working beyond 65 and prior to the time they turn 72, they receive an increase of three percent a year in their benefits. That we have understood for many years has not been actuarily fair.

They have had a disincentive for continuing to work. This was judged to be the actuarily fair delayed retirement credit.

Senator Chafee: How would that work, Carolyn? It gets phased in, but you have got a 20-year period for five points there.

Ms. Weaver: I believe it is a quarter of a percent per year.

Senator Chafee: Okay, thank you.

Ms. Weaver: Item 12 pertains to including half of social security benefits in adjusted gross income for purposes of taxation. Under the proposal that is described here, this is the one included in the Ways and Means Committee bill, it has a threshold of $25,000 for an individual, $32,000 for a couple, and the way it would operate is you would take the individual's adjusted gross income, add half of social security benefits to that amount, tax half the excess or, if it is a small amount, half of the social security benefits.

It is a very gradual way of phasing in taxation, and the thresholds here have been chosen so that the adjusted gross income prior to including social security would be $20,000 and $25,000, as recommended by the National Commission.

Senator Bradley: So when does a person start to have his social security benefits taxed? It would be at $20,000?

Ms. Weaver: An individual, yes.

Senator Bradley: Let's say the social security benefits are $10,000. What is his taxable income?

The Chairman: We will get the tax experts in here. Why don't you ask the question again?

Senator Bradley: Sure. If the provision in the mark that we have before us has individuals above $25,000 who then have their social security benefits taxed, if you have an income of $20,000 and social security benefits of $10,000, what is your taxable income -- $30,000?

Mr. Weiss: The way the provision would work is that you would take your other adjusted gross income besides social security, add to it half your benefits -- which in your example would be $5,000 -- and subtract off the base amount. And if a person is single, that would be $25,000.

Therefore, the excess in that case would be zero and there would be no social security benefits included in that person's income.

Senator Bradley: If it was $1 more?

Mr. Weiss: If there was $1 of excess, then half of that excess, or 50 cents, would be.

Senator Bradley: So you have a dramatic notch here.

Mr. Svahn: No.

Mr. Weiss: No, because for each dollar of excess only 50 cents of benefits is included in tax. So if, for example, there is $20,001 of other income, plus $10,000 of benefits, this formula would mean the 50 cents of benefits would be taxed. So as other income rises, then the proportion of benefits that gets subject to tax gradually increases until finally half of benefits are --

Senator Bradley: What if your income is $19,500 and then you had $10,000 of social security?

Mr. Weiss: Then there would be no taxation of benefits in that case.

Senator Bradley: So as soon as you get above that notch, $20,000, you have a very abrupt --

Mr. Weiss: No, it is not very abrupt because it starts out very gradually. You know, only 50 cents of benefits is taxed for somebody whose income is $20,001, and then at $20,002 only $1 of social security benefits is taxed, so that it rises gradually as the other income of the person --

Senator Bradley: Okay. So the base really is $20,000. You start from $20,000. You do not start from $16,000.

Mr. Weiss: That is correct.

Senator Bradley: Okay. Then I would raise for this Committee's consideration at the appropriate time an amendment that will be deal with the taxing of benefits, which I think does present some problems for us, and at the appropriate time I will offer it.

Senator Armstrong: Could you tell us the nature of that amendment? Would it be to strike this provision?

Senator Bradley: No. I would probably offer an amendment that would defer the taxing of one-half of benefits until after the social security recipient had received all that he or she had contributed, plus interest, and do that on an average basis as opposed to a recipient basis, which amounts to about 2-1/2 or three years.

Senator Armstrong: Mr. Chairman, I want to sound a note of caution about this whole idea because we have had spirited arguments over the last couple of years over various proposals to restrain the growth of future benfits. Some have thought that benefit increases should be restained in one way or another. Others have argued they should not be restrained at all.

But the one thing that we have said we would never do is cut the existing benefit levels for existing beneficiaries, and yet that is exactly what this does. This is exactly the proposal which the Senate voted last year 96-to-nothing that we would never do, in fact which I guess we voted on several times. The House of Representatives did the same thing.

Now this is a benefit cut to people who are already on the rolls. Conceptually, just as an intellectual abstraction, I think a very good case can be made for taxing one-half the benefits, but to do it in the way it is suggested here -- that is, after 50 years of saying we are not going to tax benefits, after having made that statement and having affirmed it and reaffirmed it on many occasions and having encouraged people to organize their lives and their retirement plans based on the assumption that we were not going to do that and we have -- that has not just been a passive matter.

The notion that we would not tax benefits has been one of the main pillars of the whole social security concept for half a century. We now come along and say, but, effective January 1 of next year, nine months from now, we are going to tax these benefits seems wrong to me. At the very least, it ought to be delayed or phased in. I am not at all sure it is a good idea in any case, for reasons which I will mention in more detail tomorrow.

But I just wanted to sound that note of caution. I also wanted to point out this: There is some concept here that we are only talking about the upper income people. I just want to point out to you that in its present form this threshold is not indexed. Everybody's benefits are going to be taxed in a very few years if inflation is even at the modest rates that are now forecast.

If we are talking about inflation rates of even three or four percent a year, which would be, I think, a pretty optimistic forecast for the next decade, everybody is going to be in that boat in a very few years. Now, of course, if we have inflation rates in the next ten years and five years like we have seen in the last five or ten years, then that moment will come much more quickly.

So I just think both for practical reasons and equitable reasons that we ought to take another look at this tomorrow and I will have an amendment that will do so. I would like to get together with Senator Bradley and see if we can join forces on this. I think his concerns are similar to mine, if we could do something together on that, Bill.

Senator Mitchell: May I ask a question following up on that? Senator Armstrong is commenting on the lack of indexing, suggesting that this would apply to more than just those in the minority at the upper end of the income scale. Would you please tell us in both absolute numbers and percentages those beneficiaries whose benefits will be subject to tax when this takes effect?

Mr. Belas: Senator, on the percentage level, what we are looking for, the absolute level, about seven percent of recipients would have any portion of their income taxable.

Senator Mitchell: So 93 percent of those persons now receiving social security benefits have incomes below the level subjected to taxation or which would be subject to taxation? Only seven percent would have their benefits taxed?

Senator Armstrong: Could we, when we come tomorrow and have this issue before us, could you also bring us, based upon an assumption of, say, a five percent inflation rate and a ten percent inflation rate, computing the change in benefits that would occur and the assumptions about income that would occur -- what those same proportions would be, say, by the end of the decade?

I think what you will find, Senator Mitchell, is that under either of those projections, certainly under a ten percent projection, which would be something like we have seen in the last decade, but even under a more modest projection of future inflation, everybody's benefits are going to get taxed and, in fact, that is the agenda which underlies this amendment. Make no mistake about it. That is exactly what is intended by the advocates of this amendment.

Senator Mitchell: That may be true, Senator, but it is quite clear that as of now at least this is reaching only a very small proportion of the total that can truly be categorized as those at the upper end. Everything in life is relative, but seven out of 100 is the upper end.

Senator Armstrong: Absolutely right.

Senator Baucus: Will the Senator yield? Bill, I wonder if you could in some way give us some indication of the kind of amendment you are thinking of.

Senator Armstrong: Yes, Senator. I hope before noon, but certainly before 2:00, there will be in your office a write-up that will explain each of about a dozen amendments which I expect to offer. They will be completely priced and spelled out with precision. They are just coming out of the typewriter now and I have signed off on them and you will have them shortly.

Senator Grassley: Mr. Chairman?

The Chairman: Senator Grassley and then Senator Boren.

Senator Grassley: On this whole issue, I have been impressed in the past with the arguments just put forth by the Senator from Colorado and I voted accordingly both as a member of the House and as a member of the Senate, but I think I have also been impressed and probably surprised in the last 12 months or longer that we have been dealing with this issue on the number of people in meetings that I have had in my state who obviously are in these upper income groups, probably seeing themselves getting a ten percent increase of $600 or $700 in social security each year, who have told me that, you know, we could forego that COLA, as an example.

That is one way that you could help solve the social security problem. Even though this is a very indirect way of doing it, through the taxing of benefits, I think that the extent to which people who have the means have been willing to do this, I think I have changed my view on it and looking at it differently than in the past as one way of helping to solve the problem.

Senator Armstrong: Well, as the Senator knows, it is an indirect way of restraining the growth of benefits at the upper level. My feeling is why not do directly what we are seeking to do, that is, restrain the future growth of benefits at these upper levels, rather than tax the benefits for people who are already retired.

You know, if you are 75 or 80 years old and you have arranged your life based on one set of assumptions and, as Senator Mitchell says, it is only maybe seven percent and it might only be 25 or 30 percent three or four years from now, but still fair is fair. And if you tell somebody something and they get their life organized that way, it is pretty hard if you are 75 or 80 years old to go out and get a part-time job and start making other arrangements.

But there will be an amendment available to us tomorrow to put bend points in the cost-of-living adjustment to do directly in the future tense rather than the past tense exactly what the Senator from Iowa is saying, and I think he is right.

Senator Grassley: I would make more sweeping changes than are suggested by the Commission in the COLAs anyway, and even reform the CPI to accomplish those goals. And I am willing to look at anything else, but short of that, you know, I think the Commission has tackled something here that two years ago would have been very unpopular, and today I see it as being right in the mainstream of thinking on the reform of social security.

The Chairman: Senator Boren.

Senator Boren: Mr. Chairman, I wonder if the way the tax proposal is written now, is it neutral in terms of any kind of marriage penalty which is exacted? This is a question that has been raised to me, that the exemption for a married couple from the tax would be lower than it would be for two single persons. How does that work now in terms of this proposal?

Mr. Weiss: There is some marriage penalty, given the relationship of the two thresholds. Essentially, this relationship is consistent with other provisions in the Code generally where, for example, in the standard deduction of the rate schedules married people do not get double the benefit of a single person but, rather, somewhere less than double.

So yes, there is some marriage penalty potentially where the income of the two people is roughly equally divided.

Senator Boren: Well, this is a question that has been raised to me. I had several open forums on social security in our state. It was brought up and strong opposition was voiced to it in each meeting that they felt we should make an adjustment so that it is neutral.

It was not an objection to the tax. Like Senator Grassley, I found surprisingly strong support and willingness for those in the upper income brackets to make some sacrifices, but there was objection to the idea that single persons would be favored over married couples in terms of the amount of income that would be exempt.

I think this is something we should look at, Mr. Chairman. I realize there may be problems in other parts of the Code, but I do not see that as any justification for further compounding the discrimination against married couples, and I think people in this age group have very strong feelings about that.

The Chairman: I will have Mr. Belas and Mr. Weiss take a look at that.

Mr. Belas: Mr. Chairman, something that should be pointed out is that this proposal is consistent with the way we tax unemployment compensation.

The Chairman: I understand that, but that may not be right either. That is not a requirement.

Senator Boren: If we could perhaps keep it so we would have no revenue change but see how this proposal might be drawn to make it neutral as far as marriage is concerned and still produce the same amount of revenue, I think it would be interesting for the Committee to have a chance to look at that as an option.

The Chairman: Senator Pryor?

Senator Pryor: Thank you, Mr. Chairman.

While we are on taxation of benefits, I have a question for Mr. Svahn, and that question is: Is the Social Security Administration today capable of telling a citizen what sort of benefits they have been paid, social security benefits, during the prior year?

Mr. Svahn: No, we are not, Senator.

Senator Pryor: You do not have that capability?

Mr. Svahn: No, we do not.

Senator Pryor: Well, how are we going to know what the benefits are to tax?

Mr. Svahn: Well, that is one of the problems that we have identified in administering the taxation proposal. Initially, it would be the intent that we would rely on the principle that we rely on in almost all payment of income taxes, and that is the declaration of the taxpayer as to how much income they had during the year.

Initially, for the first year we have planned on an information campaign to notify people that they should keep a record of the checks that are sent to them by social security, to keep a record of their benefit, because they will have to use it in computing their income tax. By 1985 we anticipate that we will be able to send a statement of benefits to each individual.

Senator Pryor: I do not think I am hearing this right. Let me rephrase it. With all the computers that you have in Baltimore and Washington and all over the country, you cannot tell a taxpayer today what he was paid in social security benefits last year?

Mr. Svahn: That is correct.

Senator Baucus: May I ask why?

Mr. Svahn: You got me. They never have kept records on an annual basis as to how much as person has been paid.

Senator Moynihan: Mr. Svahn, are you saying that the Social Security Administration does not know what monthly checks it sends out to people?

Mr. Svahn: I am sorry, Senator?

Senator Moynihan: The Social Security system could not retrieve the amount of the monthly check it sends out or take note of it? Mr. Myers?

Mr. Svahn: That is correct. We could --

Senator Moynihan: What is correct? How do they calculate the check in the first place?

Mr. Svahn: We make up new tapes every month. I do not think that the Senator nor the Committee should find that as too great a surprise. We have discussed social security's data processing problems here on a number of occasions. We make up a separate tape each month for benefits to be paid in that month. We have the current month's tape, the prior month's tape, and the second prior month's tape on file at all times in three different locations.

But we do not have the capability at the present time to be able to notify or to pull back benefits that have been paid to an individual beneficiary over a 12-month period.

The Chairman: Will you have that capability?

Mr. Svahn: Yes, by 1985 we anticipate being able to do that.

Senator Pryor: When does this go into effect -- the taxation of benefits?

Mr. Svahn: The first year if 1984.

Senator Pryor: How are we going to know what to tax?

Mr. Svahn: As I indicated, Senator, we will rely on the same principle that we rely on for all taxpayers in the United States, and that is that they declare their income, they would declare their benefits also.

Senator Boren: Well, there is a plan under way to make this information available?

Mr. Svahn: Yes, there is, Senator.

Senator Boren: You are systematically preparing to go about that in terms of upgrading of the data processing?

Mr. Svahn: Yes, we are, Senator.

The Chairman: When you get yours worked out, will you call your local banker and tell him how to do it?

[Laughter]

Senator Danforth: Mr. Chairman, I take it that the large underlying principle in this issue is whether or not social security benefits are going to be means tested now, and that the answer to that question is, if we adopt provision 12, yes. Mr. Myers, is that a fair statement of a philosophical question?

Mr. Myers: Could you repeat that again, please?

Senator Danforth: This whole question of taxing social security benefits is really an issue of means testing of social security benefits. It is the same issue.

Mr. Myers: I think you can look at that in different ways. The manner in which the proposal would tax social security benefits is much more liberal than the way other pensions are taxed, so I would not look at is as being a means test but rather as part of a sort of general tax policy -- that all income, including pensions and other benefits -- should be subject to some taxation.

The Chairman: Is there anything in the law now that says social security benefits should not be taxed?

Mr. Myers: There is nothing in the law. This was done by IRS regulations and interpretations early in the days of the program in the early 1940s.

Senator Moynihan: I wonder if I could speak to Senator Danforth in just an exchange here. I wonder if Dr. Myers would tell me if I have made some eggregious error.

It is the normal tax practice in the Internal Revenue Code that one-half of pension benefits are taxable, that half which the individual receives that the employer paid, where an individual pays taxes on the portion he paid. So the one-half is in the statute.

Now we are applying approximately the existing income tax treatment to beneficiaries under social security to a group of people with high incomes, and they are going to be treated like everybody else and the larger group is not going to be taxed. But there is in social security, there has always been, there is today, a deliberate intention to provide relatively more benefits to low income persons than to high income persons, and in that sense we are following that practice.

Senator Danforth: Well, that is, I think, precisely the point. I view this as a clear recognition of the principle of means testing. That is to say that from the standpoint of the high income recipient of social security benefits it does not make much difference whether if he receives the same check, then he has to pay part of it back, or, in contrast, whether the amount of the check is reduced.

But this is not a new principle. That is, as Senator Moynihan has pointed out, there is now in social security benefits, as I understand it, a welfare component or there is a difference in the ratio of the return of social security benefits to what you paid in depending on what your income is. Is that so?

Mr. Myers: Yes, that is correct. In fact, if I might say to Senator Moynihan, the case is even stronger than you made it, because private pensions really consist of three elements -- the part the employee pays in, the part the employer pays in, and then interest on both of those parts. And what is taxed are the latter two, both what the employer paid plus the interest on both of them.

So that actually in a joint contributory plan where the employer and employee pay equally, the employee's own contributions in the end only buy perhaps 20 to 25 percent of the total benefit because interest itself on these accumulated contributions provides 40 or 50 percent.

Senator Moynihan: Then I would say to Senator Danforth that I think we are in complete agreement. The principle to which he referred is incorporated in what we call the bend points -- 90 percent, 32 percent, and 15 percent. That is the manner in which the welfare principle takes place.

Senator Danforth: Well, I am not going to say anything more other than I think that this whole issue is going to have to receive more attention on the part of the Congress in the future, not simply with respect to social security but with respect to the various entitlement programs. We are really spending an increasing proportion of our budget on transfer payments to people who are not poor at all -- the middle income people.

The question is, to what extent can we continue to do that? How much of our budget-cutting has to come in programs that really are for the poor, and that is what we did, basically, in 1981, in 1982. But I think that the principle embodied in Item 12 is correct, and it is particularly correct when we are having a difficult time in the government coming up with money for anything.

The Chairman: This is another matter that, of course, was discussed at great length hundreds of times in the Commission's deliberations. We considered the suggestion of Senator Bradley, as I recall, and decided not to accept that, but we decided we would take another look at that, in addition to the question raised by Senator Boren on the so-called marriage penalty.

This was, I think, first designated as a benefit recapture provision rather than a tax, sort of like revenue enhancement, but it does means test to a certain degree, and there is some effort being made, as I understand it, on the House side to means test a lot of the entitlement programs.

I have also learned that in the House itself there will only be two amendments in order -- one on increasing retirement age. The other is the tax amendment, which would raise the same revenue, I guess, and then final passage. So they are now in the process of debate and should finish it today.

What I would like to do between now and 12:30 is to go through the other items on the spread sheet so we do not have to come back this afternoon, unless someone wants to come back.

Why don't you go on to Number 13?

Mr. Belas: The next item is the acceleration of the increase in FICA taxes combined with the 1984 employee FICA tax credit.

As you are aware, the OASDI tax rate is currently scheduled to increase in 1985 and again in 1990. The proposal would accelerate the 1985 increase to 1984 and accelerate part of the 1990 increase to 1988. In addition, the proposal would provide an employee tax credit of three percent of taxable wages to offset the 1984 increase. That will only be a one-year credit and would be refundable.

The proposal would also conform the railroad retirement tax, Tier 1 tax, to the increase in the OASDI and the only difference between this and the Ways and Means version would be to break out the credit from the tax increase so that they would be separately stated.

Item 14 deals with self-employment taxes and the deduction for 50 percent in self-employment tax provided in the Commission's recommendation. The item would provide that the OASDI and HI taxes for self-employed persons would be equalized to the combined employee-employer tax rates and, in addition, would provide for a credit against self-employment taxes of 2.5 percent of self-employment income in 1984, 2.2 percent in 1985 through 1988, and 2.3 percent thereafter.

That is .2 percent above what the -- I am sorry, .4

percent above what the Ways and Means Committee adopted, and that will increase the revenue loss from general revenues by $2.4 billion over the decade.

Senator Danforth: Mr. Chairman, I wonder if we could have a presentation on the tax increases that are going to be incurred by self-employed people under this proposal, as contrasted with what is going to happen to people who are not self-employed and as contrasted with what the situation is in the House bill.

The Chairman: Plus, I think it should also -- as I recall the Commission discussion of this, I think the self-employed had a somewhat favored position going into the discussions that ought to be reflected too.

Mr. Belas: Mr. Chairman, I would like to point out that you have in front of you a revised page, page four, for Item 14 which, since I garbled both the percentages and the years, states it correctly.

Senator Mitchell: May I ask a question on it?

Senator Danforth: May I have my question answered first?

Senator Mitchell: I'm sorry, Senator.

Mr. Weiss: Senator, one way to look at the effect of the increase in self-employment tax is to take an example of somebody whose self-employment income is $18,000 a year. And if you look at the change in the way by which the self-employment tax rates are set and isolate that portion of the increase, under the House bill this individual would have an increase in self-employment tax of $369 for 1984.

Under the proposal, with an extra .4 percent credit, the increase would be $297.

Senator Danforth: Now that does not include the Medicare?

Mr. Weiss: No. That includes the Medicare.

Senator Danforth: It does. That is the whole increase, then? The House bill is $369?

Mr. Weiss: Yes. Plus there is an additional $54 which results from the fact that the 1985 rate, which had already been in present law, was put into 1984.

Senator Danforth: So that would be the same for everybody, the $54?

Mr. Weiss: Right.

Senator Danforth: So that the difference between a person who is employed by somebody else and somebody who is self-employed is the person who is employed by somebody else is going to have a $54 increase next year, and the person who is self-employed is going to have an increase of $423 in the House bill. Is that right?

Mr. Weiss: Yes.

Senator Danforth: And $351 in what we are doing?

Mr. Weiss: That is correct.

Senator Danforth: Isn't that a little bit -- maybe the figures are just locked in. It would seem a little steep for somebody who is making $18,000 a year to have a $351 tax increase.

Mr. Weiss: We have also some data on the average increase as opposed to hypotheticals, and under the House bill the average increase is $208.

Senator Danforth: That is over and above the $54?

Mr. Weiss: Yes, over and above the $54. The average for all people who pay self-employment tax would be $208 and under the proposal with the extra .4 percent credit would be $168 for 1984.

Senator Danforth: Well, what lowers the average compared to the $18,000? Is it people who make over $18,000 or people who make under?

Mr. Weiss: The average taxable self-employment earnings of all those who pay the self-employment tax is on the order of $11,000, and that is why the average is lower in this case, this hypothetical.

Senator Danforth: So a person who would make $11,000 would have about a $262 increase, including the $54 in the House bill?

Mr. Weiss: It would be a little less than that because the $54 would be about $30, so it would be $208 plus about $30, roughly $240, in the House bill.

Senator Danforth: About $240 in the House bill, and what would that be in our bill for an $11,000 person?

Mr. Weiss: It would be about $210 or $200 roughly.

Senator Danforth: About $200 in our bill for a self-employed person.

Mr. Weiss: Now this is given the average self-employment income. The average total income of these returns is somewhat higher than just the taxable self-employment earnings because that has already been reduced to take care of --

Senator Danforth: May I ask you this: Is the income of people who are self-employed, or do you know whether the income of people who are self-employed is generally below or above those who are not self-employed?

Mr. Weiss: I think I would have to take a few minutes and look that up.

Senator Moynihan: Below.

Senator Danforth: My guess is -- Senator Moynihan says below. My guess is it is below, too.

Mr. Weiss: Yes, I would think so.

Senator Danforth: I mean, somebody who owns his own taxi and drives people around, or somebody who has a one-man band is a self-employed person, and maybe we are just stuck with this, and I do not want to undo the package either, but this is really an area where this one group of people who are not too well off is being socked. Nobody else is being hit as hard in this bill as the self-employed. Is that correct?

Mr. Weiss: If you look at the tax increases, the social security tax increases, the increase in the SECA tax, the self-employment tax, is higher than the increase in payroll taxes.

Mr. Belas: Of course, the --

The Chairman: On the other side, we are looking at the cost, but I think we are trying to correct what was a favored position in social security, too, for self-employed. Is that correct?

Mr. Belas: That is correct. There is one thing you should note, though. In 1984 the refundable credit for employees will completely offset their increase for that one year -- 1984 -- and for that same reason the proposal increases the amount of credit for self-employed in 1984 and then goes down by three-tenths of one percent in 1985.

It was an attempt to equalize that.

Mr. Weiss: Another point which I guess Senator Dole referred to is that the self-employed start out from a position where they are paying less into the trust fund than a comparable employee, and one of the things that this proposal moves toward -- it does not even fully get there -- is more nearly equal tax burden between self-employed and an employee who has the same income.

Senator Danforth: Well, I understand that if he is somebody who is 40 years old who wants to look down the road 25 years and say well, I am getting greater benefits compared to the total pay-in right now, but my concern is that as far as somebody is concerned right now, in a recession, who is not making very much income and is faced by a very, very substantial increase in a tax whether we maybe should not do something more on the credit side than we are doing.

The Chairman: If I might, I think we have added about $2 billion on the credit side or more.

Mr. Weiss: 2.4.

The Chairman: We added that much. Again, it is a question of where are you going to find something to offset that.

Senator Grassley: Is the 2.4 for this decade?

Mr. Belas: That is through 1989, that is correct.

Senator Grassley: Okay. And if we were to increase that to 3 percent, what more would that cost?

Mr. Belas: It would cost another $3 billion.

Senator Grassley: So instead of being 2.4 for the remainder of this decade, it would be $5.4 million. The $3 billion is a six or seven-year period of time of cost.

Mr. Belas: That is correct. It is $600 million for a tenth of a percent increase, so it would be 600 times 5, or $3 billion additional.

Senator Grassley: But that is spread out over the decade?

Mr. Belas: That is correct.

Senator Grassley: What was the decision, Mr. Chairman, on the 2.4 as opposed to 2.5 or 3? Was there any rationale behind the 2.4?

The Chairman: Well, we tried to do as much as we could. We were trying to react to some of the concerns expressed by self-employed, and we thought obviously they would like some total elimination of any added cost. But it is like everything else in this package. I mean, everyone is going to pay a little more and the benefits, you know, in some cases are going to be taxed, and others who have had a favored position the self-employed have had, they have gotten larger benefits than others who paid in more.

You know, we are trying to bring some equity into the system.

Senator Danforth: Well, could I ask a question? Could the credits be -- the purpose of a credit rather than a reduction is to try to weight what we are doing on the income tax side for those who are in the lower income scale. Couldn't that be further weighted? That is to say, couldn't you have a larger credit for people who are making, say, less than $20,000 and then phase out the credit?

Should the credit be the same? The credit is a percentage of income, correct?

Mr. Belas: That is correct.

Senator Danforth: Maybe we could have a fixed amount of credit, a dollar sum, that would be applicable to everybody, which would not have so much of a revenue effect. But I do not understand why, say, a self-employed doctor or lawyer with a quarter of a million dollars of income should have the same percentage amount of somebody who has got a leaf-raking service for $11,000 a year.

Mr. Belas: The argument would be, Senator, that a high income self-employed person could reduce his tax rate just by incorporating, and the question is how much of a differential between the self-employed and the incorporated doctor, for instance, do you want to have there, and how much encouragement, incentive, to have him incorporate are you willing to bear.

Senator Danforth: Well, I do not know about the incentive for incorporation, but I think the immediate problem is the dollar effect on people who do not have very much income.

The Chairman: Well, you know, this will come up again tomorrow. We would like to just raise that there appears to be some concern in this area. If we can address it without breaking the bank, we will address it. If we are going to break the bank, we cannot address it.

Senator Mitchell: Mr. Chairman, could I ask a follow-up question on that same area?

What is the rationale for reducing the credit by .3 of one percentage point for a period of time and then increasing it by one-tenth?

Mr. Belas: The rationale for having the larger credit in 1984 was to make it comparable to the employee credit. There was a .3 percent credit, as you recall, under the employee FICA. The thought was of the Ways and Means Committee, which we have followed in this proposal, to give that same .3 and then add a permanent credit on top of that of .2 percent. After 1987 it increases because of the increase in the SECA rate at that time.

Senator Mitchell: I see. Well, I just want to say that I share Senator Danforth's concern. I think he has raised a very good point, particularly with respect to the modification of the credits as income levels change. I think the experience has been that until last year the motivating factor for incorporation had more to do with private pension plans than they did with the level of this tax or credit. That really was the driving force for lawyers and doctors specifically. I do not know what the situation is now.

I do not think that should deter us from making what Senator Danforth suggests, which would be a very equitable change, if that can be done, Mr. Chairman, without disrupting the entire package.

The Chairman: We will have the staff join committee staff and our staff and anyone else who wants to participate to take a look at it this afternoon. That is what we hope -- to raise the questions, take a look at them this afternoon, come in tomorrow morning with a package, vote on the package or somehow work that out so we can take a look at everyone's amendments before they are rejected -- I mean, before they are voted on.

[Laughter]

Senator Chafee: Mr. Chairman, while we are on the self-employed, have you done anything about taxation of the self-employed's benefits if those benefits are taxable? In other words, it seems to me that if a person is paying 100 percent of his social security as a self-employed person, if you only exempt from taxation half of that, he is being treated unfairly, is he not?

Well, the theory is you do not tax half of the benefits on the person who is an employee because he paid half of those. What do you do for the self-employed person who paid 100 percent?

Mr. Belas: He would be paying 100 percent minus the credit. The argument, I guess, that you would be saying, Senator, would be that the credit does not provide a full offset for the employer analogy portion of FICA, and you are right. There will be a differential there. Although he did not receive a full deduction or credit to offset the employer side, he would be taxed on it at the time he retired.

Senator Chafee: Well, then, anyway he is treated more harshly then on the taxation of his benefits.

Mr. Belas: That is right.

The Chairman: We will include that in your --

Senator Chafee: We were a society that encouraged the self-reliant, independent person to go out to work for himself.

The Chairman: Let's move as quickly as you can.

Mr. Belas: The next item, Mr. Chairman, is broadening the social security wage base to include certain qualified and non-qualified deferred compensation amounts as well as benefits provided under certain fringe benefit plans, so-called cafeteria plans.

Under current law, the only thing that is included in the FICA wage base is cash compensation. This proposal would include certain deferred compensation and certain compensation paid in the form of fringe benefits.

Senator Bentsen: Mr. Chairman, I would like to comment on that, if I might, and try to stay within your ground rules and hopefully not cost us any money in the process. But when they talk about including the employer's part of the contribution under 403(b), then you are talking about employers -- non-profit employers, like hospitals and universities. When you talk about doing that, you are asking for something the Commission did not recommend and goes beyond the recommendations of the Commission, as I understand it, something that Treasury has not sought in the past in an expansion of what the IRS does.

And you treat them differently than you treat 401(a). My understanding is that this would pick up under the computations about $1.1 billion to do this. But I also understand that the assumptions were that in doing that that would not be picked up from the universities and hospitals because the assumption was they go to 401(a).

Now that is going to be the net result and you do not pick up more money. Then why do it? Why not leave them -- the hospitals and universities and the non-profits -- exempt from the process and let them continue on 403(b)s, which is their preferred way with the retirement annuities, of taking care of their employees?

Mr. Belas: Mr. Chairman, the estimate, as I understand it, does not anticipate that all the university employees and the church employees will go to 401(a) plans. The problem that was trying to be addressed was that if an employee has the ability to elect on his own, his own motion, whether to take income today and have it included in the FICA base or to defer it, in that case it should not matter and it should be included in the FICA base.

It is very comparable to the general rule under the income tax laws that if a person has a right to income he elects to take it or not. The problem with 403(b) plans as opposed to 401(a) plans is it is very difficult, if not impossible, to determine whether one of these plans is in fact a salary reduction plan where the employee has that potion, or whether it is not.

Senator Bentsen: Well, you have got many other cases where it is a mandatory thing, across the board it applies.

Mr. Belas: But the difference between a 403(b) and a 401(a) is that the 401(a) plan has anti-discrimination, non-discrimination rules, and the 403(b)s do not. It could very well be that a plan for a university or school or whatever would only have one or two people in it because it is only covering certain administrators.

Senator Bentsen: It is also true it can be non-discriminatory.

Mr. Belas: That is true. One possibility that you could have is if they were non-discriminatory, to exempt them from the FICA base and, if it were discriminatory, not to do so.

Senator Bentsen: Well, I am amendable to listening.

The Chairman: Okay, let's address that with Senator Bentsen's staff. Is there anything else?

Mr. Belas: That is the end of the tax portion.

The Chairman: All right. Let's try to move as quickly as we can. We do not want to shut anyone off. Unless there is a desire to come back this afternoon, let's try and get finished going over these.

What we are trying to do is just raise questions now and I think we can move on and give the staff time this afternoon with the Joint Committee and with other Members' staff to look at some of the questions that have been raised and see if we can resolve them.

It would save a lot of time tomorrow if we can do that.

Ms. Weaver: I will move through these very quickly.

Item 15 is the COLA stabilizer recommended by the National Commission which will become effective in 1988, whereby if OASDI Trust Fund reserves fell below some stated level, which is 20 percent of out-go, and if wages were growing less rapidly than prices, then there would be a triggered mechanism whereby the COLA would be paid on the basis of the lower of wages or prices, at which point, once the reserves began to accumulate again, once they reach 32 percent of out-go, then there would be provision for catch-up payments so that the elderly did not suffer as a consequence of being paid something less than the price increase.

Senator Chafee: Mr. Chairman, I just want to say a word about catch-ups. It seems to me that we are playing a dangerous game with the catch-up business because, first of all, it is not necessarily going to those who did not have it, since some of them might have died -- and I assume you do not pay it to their estates.

But, secondly, when you do a catch-up, what you do is you put people at a higher benefit temporarily and then comes the time that you cut them, and it seems to me -- in other words, once the catch-up has been completed, I presume that then you would drop down. Is that correct, Carolyn?

Ms. Weaver: I think we would be building that into the base so that it would just be an increase to their benefit and their new level would be higher, at which point the cost-of-living adjustments would be applied to it. They would not be seeing a benefit rising and falling.

Senator Chafee: I do not know what catch-up means, then. I thought they were down a certain amount and then the funds gets to 30 percent or whatever it is, and then you pay them back and you must have them at a higher level until they are repaid. Is that correct?

Senator Grassley: Is it even workable? Is the formula workable?

Mr. Myers: I think it is workable. Let me explain just briefly in a little detail how it would work.

Suppose that one year this was triggered and you paid one percent less COLA than you normally would, and that is all that happens. From that point on, you pay the CPI because the fund is starting to build up. And when the fund builds up to a high enough level you would then increase the benefit by one percent for those people who had had that one percent reduction previously.

That would be their new permanent benefit level and then you would go on from there. Then, if the fund were to run low again, you would hold the COLA down by the lesser of wages or prices, but that one percent, once it was repaid to them, would be part of the permanent benefit structure. But, as Senator Chafee has said, just for the people who were alive at the time, not for those who have died in the past.

Senator Chafee: Well, I can see a lot of problems with it because you have two people. Then somebody else retires and two people receiving different amounts, one at the one percent higher. But never mind. We are short of time now. I just see a lot of problems to it.

Senator Grassley: Mr. Chairman, I am going to offer an amendment tomorrow on this, one because I think it is such a good idea to have the stabilizer to move it up to a more current time, and, secondly, regardless of whether it is more current or whether it starts in 1988, to eliminate this catch-up for the reasons already stated by Senator Chafee.

The Chairman: We never thought the catch-up would come into play, I do not think, at the Commission.

Senator Grassley: Well, I think what is wrong with it is you always have hanging out there the fact that you have cut people out of something and are going to owe it to them. It is always just a thorn in the side of the people affected by it. It does not do anything.

The Chairman: There is always hope that way.

Senator Grassley: But in the process you are further deteriorating the credibility of the system, and part of what we are trying to do here, I hope, is to try to reestablish that credibility.

The Chairman: Okay. Let's move on.

Ms. Weaver: Item 17 would simply reauthorize inter-fund borrowing on the same conditions that were authorized in Public Law 97-123 last year. This would authorized inter-fund borrowing between the three trust funds in the period 1983 to 1987.

There is a second part to that provision which would provide for reallocation of the OASIDI tax rate to equalize the reserve ratios in those two trust funds.

Senator Grassley: Mr. Chairman, is it fair to assume that since there is inter-fund borrowing provided for on a more permanent basis than what we have had until now that it will be needed in 1984, 1985? It is definitely going to be needed? Has that been stated by the Commission?

Ms. Weaver: I believe with the entire package in place inter-fund borrowing is not required in that period. Let's check on that.

Senator Grassley: Okay. I get one answer from you and one from the Chairman.

Mr. Myers: It might be needed, depending on economic conditions, but under the current estimates, which you might call moderately pessimistic, they may not be needed.

Senator Baucus: Mr. Chairman, on that point, I would like to ask the staff how much has been borrowed out of the HI Fund in each of the last several years and what has been paid back and what interest has been paid.

I ask the question because as I understand it in each of the next several years, to the end of this decade -- let us assume S. 1 figures, these are CBO figures -- that the balance in the OASDHI, the combined fund, will be increasing every year up to $109 billion, $110 billion by 1989, whereas the HI Fund under present law and even under S. 1 is going to decrease every year during this decade to a point of a deficit figure of $34 billion.

That raises the question that the Senator from Iowa asked, the degree to which it is going to be necessary to borrow, on the one hand, and, second, the increased pressure we are putting on the HI Fund. We all know that Medicare is going to be in worse shape the next several years than social security, by far, and I am wondering if it makes sense, frankly, to allow inter-fund borrowing from the HI Fund when we are going to place Medicare in further jeopardy than it already is in.

The Chairman: I think we have that information which we can supply.

Ms. Weaver: To answer your first question, though, out of the total $17.5 billion that was borrowed by December 31 for the retirement program, $12.4 billion of that was from the HI Trust Fund.

Senator Baucus: Now what plans are there to repay that?

Ms. Weaver: It is repayable with interest when the trust funds are able to repay.

Senator Baucus: Do we know what rate of interest?

Ms. Weaver: At the prevailing rate paid on trust fund investments.

Senator Baucus: So it is up to the Trustee -- the Secretary of the Treasury, who is the same trustee over both funds?

Ms. Weaver: Yes.

Senator Moynihan: There is a number which they will apply.

Senator Baucus: I just raise the point because I think frankly it is a little silly. It is like robbing Peter to pay Paul. We have got HI, which is in very difficult straits in the next several years, and to put the HI fund under greater strain, potential strain at this point --

Ms. Weaver: I might note that the Commission recommended that only the cash benefits could borrow from HI and this proposal recognizes that HI may require borrowing toward the end in the next few years, toward the end of this borrowing period, and HI would be authorized in this proposal to borrow back.

The House provision goes one step further to require repayment of principal and interest at a time certain, by 1989. This is something the Committee may want to think about.

Senator Baucus: I just raise this, Mr. Chairman, because I do think it is not wise to authorize borrowing from the HI Fund.

Senator Grassley: We have borrowing now, or we did have until, I guess, July. Because of political problems we were not able to get to the table with the various sides to negotiate something, and it helped us get over the political problems, keep the system sound. Now here we are at the table and we have got everybody sitting down trying to figure something out, and we still have to rely on inter-fund borrowing.

It seems to me now that we are at the table we ought to be able to come up with a proposal that is more economically sound than one in which perhaps we may still have to continue to do the things which we could not do before.

The Chairman: As I recall, we provided for inter-fund borrowing, hoping we would not need it. But, you know, let's face it. The last thing we want is another -- to come back here in 1985 and say well, we need $500 million but we do not have any authority and raise the whole issue again.

Mr. Myers, you do not think we are going to need it?

Mr. Myers: According to the estimates, it will not be needed. As you say, Mr. Chairman, it is a safety valve and it will take care of just a slight imbalance, as you say.

Senator Mitchell: Mr. Chairman, I commend the Commission on that. If there is one thing that we have learned or we should have learned from the social security experience of the past decade, it is our inability to predict future economic events. Dramatic changes in 1972 which were really one of the principal causes of the current problems were made in good faith based on good economic data at the time. The 1977 tax, as you know, was stated to be the answer for all the problems, and we just do not know what is going to happen.

The Chairman: I hope we do not use it.

Senator Baucus: Mr. Chairman, I think it is unlikely we will need to borrow from HI to finance social security. I think it is probably an accurate statement. On the other hand, what is the likelihood that the trustees are going to want to borrow from OASDHI fund in order to supplement the HI Fund?

Ms. Weaver: As soon as benefits --

Senator Baucus: To agree that that is a possibility, then we have to look and see what our numbers are for social security trust fund and what the surpluses are and what the balances are.

Mr. Myers: I do not think it is too likely that there would be any borrowing by HI in 1983, 1984 or 1985. The only possibility would arise a little later, maybe in 1987 or so. But it is likely if there was any borrowing it would have to be the other way.

Senator Baucus: That is my point, yes. That is, to help HI.

Ms. Weaver: Item 18 would normalize tax revenues to the OASDHI Trust Funds on a triggered basis. The Ways and Means Committee adopted a provision whereby in all future months the Treasury Secretary would credit the full amount of tax income anticipated during the month at the start of the month, given that expenditures out of the social security trust funds are concentrated when benefits are paid at the start of each month.

This would limit that so that it did not become a permanent part of the law but indeed would only trigger on when the Secretary determined that the trust funds were critically low, so that in the event the trust funds could not meet, say, the next month and a half's benefits without speeding up and accelerating the income to the trust funds to the start of the month, then this provision otherwise would not be in place.

Interest would be charged and would be repayable at the end of the month. It is simply transfering income over the course of a month.

Item 19 would reimburse the trust fund for the amounts of past unnegotiated checks, those that have remained uncashed for 12 months or longer, and would set up a mechanism for continuing to do that on an ongoing basis in the future.

Item 20 would reimburse the trust funds on account of the gratuitous military wage credits which have been granted over the years and in effect would put the system on a current accounting basis. It would provide a lump sum transfer to the trust funds in the amount of the present value of past gratuitous wage credits and the benefit costs of those and then provide a lump sum transfer for the amount of foregone taxes and interest that have been provided.

Senator Grassley: How accurate are the guestimates of $18 billion, that that takes care of the problem? Or is that just a figure out of the blue sky?

Ms. Weaver: We have been comfortable with those numbers. They have changed some. One of the reasons that they have changed over time was a different calculation procedure for the lump sum transfers and, secondly, with the introduction of the HI transfer as well. Those, I think, were the two reasons that they have changed.

The Chairman: Do you have any problems with that, Mr. Simmons?

Mr. Simmons: I will let Mr. Ballantyne speak to that.

Mr. Ballantyne: We believe those estimates are fairly good. There is a chance that later on, as we get more data on the cost of military service credits, that there would be revisions, but that would be based on actual data, where today we have had to make some projections, and that is something -- the usual thing in the past as well under this provision.

The Chairman: Twenty-one?

Ms. Weaver: Item 21 would modify the trust fund investment procedures. This is an idea that was going around last year, a modified almost savings account approach for the trust fund.

The Chairman: I guess Senator Proxmire and Senator Stennis and others testified on this.

Mr. Myers: Mr. Chairman, this is very much like what Senator Proxmire testified before your Committee on last time.

The Chairman: So he should be pleased.

Mr. Myers: Yes.

Ms. Weaver: Item 22 is a consensus recommendation of the

Commission, although it was not a part of their consensus package, is to expand the Board of Trustees to include two public members.

Item 23 would be a provision to limit benefits paid to aliens.

Senator Mitchell: I would like to address that, if I could, Mr. Chairman. I believe this is something that we should consider and wonder if there is some possibility of working something out before we act on it tomorrow.

As you know, Mr. Myers, there is a recent GAO report on this subject which indicates that there is a substantial number of non-citizens, that is, aliens who are non-residents, who receive benefits, and, as do all beneficiaries, they tend to get back as a group more than they put in over a long period of time.

I was also disturbed by the fact that in that case they generally or frequently add dependents after retirement and generally tend to have more dependents than do citizen resident beneficiaries. I just have a figure which struck me, that 34 percent of the dependents of such persons are added after retirement, and I think the intention and motivation is quite clear.

I understand that there are some concerns, and I have some concerns myself, about people being treated fairly, as everyone should be, whether they are citizens or non-citizens.

Senator Grassley: Would the Senator yield?

Senator Mitchell: Secondly, I think we have to be concerned about potential retaliatory response against Americans in similar situations. But notwithstanding those concerns I think there is a very serious problem here which we ought to address and I think we are capable of addressing, Mr. Chairman.

Senator Grassley: Would the Senator yield?

Senator Mitchell: Surely.

Senator Grassley: I think everything you have said I agree with and very factually correct, from my study of it. You were asking if something could be worked out. Senator Boren and I, following on Senator Lugar's leadership in this, are going to propose the amendment that is in the form of S. 213, which has 23 co-sponsors.

Senator Mitchell: That is Senator Nickles' bill?

Senator Grassley: Well, Senator Nickles is a co-sponsor of this bill.

Senator Mitchell: He has a separate bill also.

Senator Grassley: He could have. Also, there are over 100 co-sponsors of similar legislation in the House. I would like to have your staff, if you have got questions and concerns, could we get together on that?

Senator Mitchell: I do. I have some reservations about some aspects of those bills.

Senator Grassley: Well, let's talk about those ahead of time.

The Chairman: I think we should tighten it up. Mr. Myers had some concerns. Do you want to address those briefly, Bob?

Mr. Myers: Yes. As the Committee knows, this is a very complicated matter because of treaties and that sort of thing, but there certainly is one category that in my view should be taken care of. That is when dependents are acquired after the insured workers has left the country, because there are many instances, I think, as were brought out in some of those figures there, many instances where somebody works in this country for a number of years and then goes back to their home country and all of a sudden they acquire a lot of dependents -- adoptions or marriages or even they say that they have children.

This is very difficult to enforce, so that is certainly the most glaring example.

Senator Mitchell: May I just say, Mr. Myers, I agree with that and it is obvious we should do that. I think we should go beyond that and limit non-citizen, non-residents from receiving social security benefits to the amount that they paid into the system, plus interest. This is intended as a social security system for Americans.

Under our Constitution we extend to resident aliens the same privileges as Americans have, but we are dealing now with a separate category of non-citizen, non-residents. I do not believe by any stretch of the imagination the social security system was intended to provide retirement support for that category of persons.

Senator Grassley: And the only problem we have there are treaties, and I think this amendment is going to take care of the problem so that we do not circumvent any treaties. It is not our intention to do that.

Senator Moynihan: You mean the statute?

Senator Grassley: The amendment we are drafting.

Senator Mitchell: Thank you.

Ms. Weaver: Item 24 would eliminate benefits to incarcerated felons. Presently there are certain groups of beneficiaries who continue to receive benefits while they are incarcerated. This would allow family benefits to continue to be paid, but during the period of incarceration benefits would cease.

Item 25 would remove the social security trust fund from the unified budget effective in fiscal year 1989.

Finally, Item 26 is some legislative language to reassure current and retired federal workers that nothing in this Act is intended to or will impact on their own level of future benefits.

Senator Moynihan: Which is clearly the intention of the Commission and the intention of this Committee and the Chairman.

The Chairman: Is that it?

Ms. Weaver: I should point out that there is the expectation that a long-range option will be added to this. This is just meeting the consensus package.

The Chairman: Well, I appreciate that very much, Carolyn. I do believe if we can get together with Senator Moynihan's staff and other members of the Committee staff what we might be able to do is where we have agreement on some of the amendments that have been discussed or raised by Senators Grassley, Mitchell, whoever, maybe in corporate those into some package that we could place before the Members in the morning and try to get some general consensus on that, and then move to specific amendments.

A number of the amendments, in my view, would violate the spirit of the compromise, not that they may not be meritorious, but once we start going outside the compromise then we are in effect inviting those who have supported the compromise to say well, we cannot do that. Now we know we are going to have a separate vote, probably, on the retirement age, which we have not discussed.

We know we are working on Medicare. I think that is being addressed. And then in the unemployment area we have got the problem there trying to accommodate some of the states with their concerns about interest payments. If we can work out some agreement, we hope to do that.

Senator Moynihan: Mr. Chairman, I will be introducing a minority proposal on the long-range.

The Chairman: That is right. We understand we have got a license by the -- or at least we agreed to disagree on that, and that we would try to work -- whoever had the most votes would prevail. It is the same thing they are doing in the House.

Are you available this afternoon, Mr. Myers, to consult with the staff and Members?

Mr. Myers: Yes, indeed.

The Chairman: All right, then, we will meet tomorrow at 10:00.

Mr. Lighthizer: Yes, sir.

The Chairman: And at that time we hope to move rapidly into the markup.

[Whereupon, at 12:53 o'clock p.m., the Committee recessed, to reconvene at 10:00 o'clock a.m., Thursday, March 10, 1983.]

ROBERT J. DOLE, KANS., CHAIRMAN

United States Senate

COMMITTEE ON FINANCE
WASHINGTON, D.C. 20510

March 7, 1983

M E M O R A N D U M

TO: FINANCE COMMITTEE MEMBERS

FROM: FINANCE COMMITTEE STAFF

SUBJECT: MARKUP ON WEDNESDAY, MARCH 9, 1983

Markup will be held on Wednesday, March 9, 1983 at 10:00 a.m., in Room SD-215 on the social security financing package.

Enclosed you will find a synopsis of the Ways and Means Committee action on the Social Security Amendments of 1983, a provision-by-provision description of S. 1, and the most recent projections of the operations of the social security trust funds, prepared by the Office of the Actuary, Social Security Administration.

Enclosures

COMMITTEE ON FINANCE

Wednesday, March 9, 1983, 10:00 a.m.

AGENDA

1. Social Security Financing Package

WAYS AND MEANS COMMITTEE ACTION ON SOCIAL SECURITY AMENDMENTS

On Thursday, March 3, 1983, the Ways and Means Committee completed action on the Social Security Amendments of 1983. Summarized below are the provisions approved by the Committee which pertain to the consensus recommendations of the National Commission on Social Security Reform.

Coverage of New Federal Employees: Extends social security coverage to the following groups: (1) all Federal employees hired on or after January 1, 1984, including those with previous periods of Federal service; (2) legislative branch employees on the same basis, as well as all current employees of the legislative branch who are not participating in the Civil Service Retirement System as of December 31, 1983; (3) all Members of Congress, the President and the Vice-President effective January 1, 1984; (4) all new employees of the judicial branch, including judges, on or after January 1, 1984; (5) all elected officials and political appointees of all branches of Government, including (in addition to elected officials mentioned above) all sitting Federal judges, and all executive level and senior executive level and senior executive service political appointees, as of January 1, 1984. Salaries of Federal judges under age 70 will be considered wages for purposes of the social security earnings test, if the judge renders services.

Coverage of Nonprofit Employees: Extends social security coverage on a mandatory basis to all employees of nonprofit organizations as of January 1, 1984. Nonprofit employees age 55 or older affected by this provision would be deemed to be fully insured for social security benefits after acquiring a given number of quarters of coverage, according to a sliding scale set in the law (e.g., 20 quarters would be required for persons age 55 and 56, ranging down to 6 quarters for those age 60 and over).

Prohibit Termination by State and Local Governments: Prohibits State and local governments from terminating coverage for their employees if the termination has not taken effect by the date legislation is enacted, and allows State and local governments which have withdrawn from the social security system to voluntarily rejoin.

Delay of Cost-Of-Living Adjustment: Delays the June 1983 cost-of-living adjustment until December (January 1984 check), and provides all subsequent cost-of-living adjustments for December (January checks). The SMI premium would not be adjusted until January 1, 1984. A cost-of-living adjustment would be provided in the January 1984 payment even if the increase in the CPI is less than 3 percent.

SSI Benefit Increase, COLA Delay, and Pass-through Requirements: The Federal SSI benefit payment would be increased by $20 per month for individuals and $30 per month for couples, effective July 1, 1983. In addition, the 1983 SSI cost-of-living adjustment (COLA) would be delayed by 6 months, so that, effective January 1984, SSI benefits would be adjusted by the same amount and under the same procedures as OASDI benefits. The current SSI pass-through law would also be amended.

Benefits for Certain Widows, and Divorced and Disabled Beneficiaries: Four provisions were approved to continue benefits for surviving divorced or disabled spouses who remarry; to increase benefits for disabled widows and widowers; to increase benefits for widows and widowers whose spouses died several years before the widow(er) is eligible for benefits; and to allow divorced spouses to draw spouses benefits at age 62 whether or not the former spouse has retired.

COLA Stabilizer: Beginning with 1988, if the fund ratio of the combined OASDI trust funds as of the beginning of a year is less than 20.0 percent, the automatic cost-of-living adjustment (COLA) of OASDI benefits would be based on the lower of the CPI increase or the increase in average wages. "Catch-up" payments would be made in subsequent years when trust fund reserves reach at least 32 percent.

Windfall Benefits: Modifies the social security benefit formula (substituting 61 percent for the 90 percent in the first bracket of the formula) so as to reduce social security benefits for workers with pensions from noncovered work. This formula would apply only to those reaching age 60 after 1983.

Delayed Retirement Credit: Gradually increases the delayed retirement credit from 3 percent to 8 percent per year between 1990 and 2010.

Taxation of Social Security (OASDI) Benefits for Higher-Income Persons: Includes in taxable income, beginning in 1984, a portion of social security benefits and Tier One benefits payable under the Railroad Retirement Act for taxpayers whose adjusted gross income combined with 50 percent of their benefits exceeds a base amount. The base amount would be $25,000 for an individual, $32,000 for a married couple filing a joint return and zero for married persons filing separate returns. The amount of benefits that could be included in taxable income would be the lesser of one-half of benefits or one-half of the excess of the taxpayer's combined income (adjusted gross income plus one-half of benefits) over the base amount.

The proceeds from the taxation of benefits, as estimated by the Treasury Department, would be transferred to the appropriate trust funds.

FICA Tax Rates and Payroll Tax Credit: Advances the OASDI payroll tax increase scheduled for 1985 to 1984 and part of the increase scheduled for 1990 to 1988, as indicated below. (Conforming changes would be made in the Tier One Railroad Retirement tax rates.)

Employer-Employee OASDI Tax Rate
(Each)
In percent

	Current Law	Proposed
1984	5.40	5.70
1985	5.70	5.70
1986	5.70	5.70
1987	5.70	5.70
1988	5.70	6.06
1989	5.70	6.06
1990	6.20	6.20

In addition, provides for a one-time credit of 0.3 percent of wages to be allowed against 1984 employee FICA and Tier One Railroad Retirement taxes. (Conforming changes would be made in Tier One Railroad Tax rates.)

Tax on Self-Employment Income: Beginning in 1984, equalize the OASDHI tax rates for self-employed persons with the combined employer-employee OASDHI rate. In addition, self-employed persons would be allowed a SECA tax credit of 2.1 percent of net self-employment income in 1984, 1.8 percent from 1985 through 1988 and 1.9 percent thereafter.

Interfund Borrowing: Authorizes interfund borrowing between the OASI, DI and HI trust funds for calendar years 1983-1987, with provision for repayment of the principal and interest of all such loans (including amounts borrowed in 1982) at the earliest feasible time but not later than the end of calendar year 1989.

Uncashed OASDI Checks: Provides for a lump-sum payment to the OASDI trust funds from the General Fund representing the amount of all uncashed benefit checks which have been issued in the past, plus accrued interest, and requires the implementation of a procedure to credit the trust funds on a regular basis with an amount equal to the value of all OASDI benefit checks which have not been negotiated for a period of six months.

Military Wage Credits: Provides for a lump-sum payment to the OASDHI trust funds from the General Fund of the Treasury for: (i) the present value of the estimated additional benefits arising from the gratuitous military service wage credits for service before 1957; and (ii) the amount of the combined employer-employee OASDHI taxes on the gratuitous military wage credits for service performed after 1956 and before 1983.

Long-Range Benefit Formula and Tax Rate Changes: Reduces initial benefit levels by 5 percent by decreasing the factors in the benefit formula by two-thirds of 1 percent each year for 8 years beginning in the year 2000. Increases the OASDI tax rate by .24 percentage points for employers and employees each in the year 2015.

Two additional financing changes approved by the Committee "normalize" tax transfers to the trust funds and modify the taxable wage base.

Fixed Monthly Tax Transfers: Requires Treasury to credit to the OASDHI trust funds, at the beginning of each month, the amount of payroll tax revenues estimated to be received during the month. These amounts would be invested by the trust funds as all other assets are invested, and the trust fund would pay interest to the general fund on these amounts.

FICA Wage Base: Provides that employer contributions to the following elective compensation arrangements will be includible in the FICA wage base: cash or deferred compensation (section 401(k) of the Internal Revenue Code), cafeteria plans (section 125) and tax sheltered annuities (section 403(b)).

Provides that the definition of wages subject to the FICA tax would be interpreted solely with reference to the FICA statute, not with reference to income taxes or income tax withholding. An explicit exclusion from FICA tax would be provided for meals and lodging excluded from income tax under section 119 of the Internal Revenue Code.

Provides that employer contributions to a simplified employee pension (SEP) plan would be exempt from FICA, but employee contributions would be subject to FICA. Conforming changes would be made in the Social Security Act definition of covered wages.

According to the Ways and Means Committee, the Social Security Amendments would produce savings and additional social security trust fund revenue through 1989 of $165.3 billion and eliminate the long-term deficit of 2.09 percent of taxable payroll.

PROVISION-BY-PROVISION DESCRIPTION OF S.1*

Prepared by Finance Committee Staff

*Included in S.1 are each of the consensus recommendations of the National Commission on Social Security Reform along with three other Commission recommendations that were made by unanimous agreement (sections 305, 406 and 407 of the bill).

Sections 101 and 102:

Coverage of Employees of Nonprofit Organizations and Newly Hired Federal Employees

Present Law: Approximately 91 percent of the Nation's workers are covered by social security. The major groups not now covered are Federal civilian employees (2.7 million), State and local government employees (3.9 million), and private, nonprofit organization employees (about 1 million).

Federal civilian employees that are covered under a Federal staff retirement system are excluded from coverage under social security as are members of Congress. (About 7 percent of Federal employees are covered by social security.)

Employees of the States and their political subdivisions are covered only through agreements between the Secretary of Health and Human Services and the States. Under the agreements, each State decides what groups will be covered, subject to provisions in the Federal law which assure retirement system members a voice in the coverage decision. About 74 percent of State and local employees are covered under social security.

Employees of nonprofit religious, charitable, educational, or other tax-exempt organizations specified in section 501(c)(3) of the Internal Revenue Code are covered under Social Security if the organization files a certificate with the IRS waiving its exemption from social security taxation. About 80-90 percent of nonprofit employees are covered under Social Security.

Proposed Change: Extend mandatory coverage to all nonprofit employees, all new Federal employees, all members of Congress, and the President and Vice President

Effective Date: January 1, 1984.

Revenue Gain: The following table reflects the savings to the OASDI trust funds, based on assumptions by the NCSSR.

(in billions, calendar years)

	1984	1985	1986	1987	1988	1989	1983-89
Short-range:	+$1	+$2	+$3	+$4	+$4	+$5	+$20
Long-range:	+.3 percent of taxable payroll						

Section 103:

Duration of Agreement for Coverage of State and Local Employees

Present Law: Employees of State and local governments may be covered under social security at the option of the State and in agreement with the Secretary of Health and Human Services. Coverage may be terminated if the State gives 2 years' written notice of such intent. Notice can only be given after a State or local group has been covered for at least 5 years. Once coverage is terminated, the group can never again be covered under social security.

Proposed Change: No longer permit State and local governments which have elected social security coverage for their employees to terminate such coverage. Pending termination notices would be invalid.

Effective Date: On enactment.

Revenue Gain: The following table displays the additional revenues to the OASDI trust funds, based on assumptions used by the NCSSR.

(in billions, calendar years)

	1984	1985	1986	1987	1988	1989	1984-89
Short-range:	a/	a/	a/	$1	$1	$1	$3
Long-range:				Negligible			

a/ Less than $500 million.

Section 201:

Shift of Cost-of-Living Adjustment to a Calendar Year Basis

Present Law: The automatic cost-of-living adjustment (COLA) of social security benefits is applicable to June benefits (payable early in July). The amount of the increase is equal to the percentage by which the Consumer Price Index (for Urban Wage Earners and Clerical Workers, CPI-W) for the first quarter of the calendar year has increased over the CPI for the first quarter of the previous calendar year. No COLA is paid unless the increase in the CPI is at least 3 percent. By law, cost-of-living adjustments in the SSI program are made at the same time, and in the same amount as the increases in social security.

In determining an individual's payment and eligibility under the SSI program (means-tested assistance for the needy elderly and disabled), $20 per month in income, including social security, is disregarded. An additional amount is disregarded if the individual has income from earnings.

Proposed Change: Provide the automatic cost-of-living adjustment in social security benefits on a calendar year basis. Beginning in 1983, the COLA for OASDI benefits would be applied to the December benefit, which is payable at the beginning of January. For 1983, the COLA would be calculated as under current law (i.e., the change in the CPI for the first quarter of 1983 over the CPI for the first quarter of 1982). Beginning with the COLA for 1984, the adjustment would be computed by comparing the increase in the CPI for the third quarter of a year over the CPI for the third quarter of the previous year. This would ensure that the lag between the end of the period over which the COLA is measured and the time the COLA is actually applied to benefits remains 3 months.

In addition, the amount of social security benefits that can be disregarded in determining SSI payments and eligibility, would be increased from $20 to $50 monthly. (This would not be a generalized increase in the income disregard.) This proposal would become effective for SSI benefits payable for months after June, 1983.

Cost/Savings: The following table shows the savings (-) to the OASDI trust funds and the cost (+) to the SSI program, based on asumptions used by the NCSSR.

(in billions, calendar years)

	1983	1984	1985	1986	1987	1988	1989	1983-89
OASDI:	-$5	-$5	-$5	-$6	-$6	-$6	-$7	-$40
SSI:	+$.25	+$.75	+$.75	+$.75	+$.75	+$.75	+$.75	+$4.75

OASDI Long-range: -.27 percent of taxable payroll.

Section 202:

Elimination of "Windfall" Benefits for Individuals Receiving Pensions from Non-Covered Employment

Present Law: Social Security benefits for workers with low average earnings are a relatively high proportion (up to 90 percent) of their average earnings under social security. However, no distinction is made between persons who have a lifetime of low earnings and those who have low average earnings only because they worked few years in covered employment (possibly at high wages) and many years in employment not covered by social security. Both groups receive the heavily weighted social security benefit intended for the first group. The heavily weighted benefit paid to the second group is often referred to as a windfall.

The present law benefit formula for persons who reach age 62 or become disabled in 1983 is: 90 percent of the first $254 of average indexed monthly earnings in covered employment (AIME), plus 32 percent of AIME over $254 and up to $1,528, plus 15 percent of AIME in excess of $1,528.

Proposed Change: Retired and disabled workers who become eligible for a pension based on non-covered employment after 1983 would have their social security benefit reduced (but not eliminated). For such workers, the heavily weighted 90-percent factor in the benefit formula would be replaced by a factor of 32 percent. In no case would total benefits be less than the present law social security benefit plus 50 percent of the worker's pension based on non-covered employment. Survivors benefits would not be affected.

Effective: January 1, 1984, for retired or disabled workers who first become eligible for a non-covered pension after 1983.

Savings: The following table displays the savings to the OASDI trust funds, based on assumptions used by the NCSSR:

(in billions, calendar years)

	1984	1985	1986	1987	1988	1989	1984-89
Short-range:	a/	a/	a/	a/	a/	a/	$.2

Long-range: .01 percent of taxable payroll

a/ Less than $500 million.

Section 203:

Benefits for Divorced or Disabled Widow or Widower Who Remarries

Present Law: Widow(er)s benefits are payable at age 60 to spouses who: (1) were married to the wage earner at the time of death, (2) had been married for nine months before the death of the wage earner, and (3) do not remarry before age 60 unless the subsequent marriage ended in death, divorce or annulment. If the widow(er) marries after age 60, he or she receives the largest benefit to which he or she is entitled as a wage earner, widow(er) or spouse.

Disabled Widow(er)s benefits are payable from age 50 to 60 to disabled spouses who: (1) were married to the wage earner at the time of death, (2) had been married to the wage earner for nine months before the time of death, and (3) are not married. These benefits convert to widow(er)s benefits at age 60.

Surviving Divorced Spouses benefits are payable at age 60 to spouses who: (1) were divorced from the wage earner at the time of death, (2) had been married to the wage earner for 10 years before divorce, and (3) are not married.

Disabled Surviving Divorced Spouses benefits are payable from age 50 to 60 to divorced spouses who: (1) were divorced from the wage earner at the time of death, (2) had been married to the wage earner for 10 years before divorce, and (3) are not married. These benefits convert to Surviving Divorced Spouses benefits at age 60.

Proposed Change: As is the case for widows and widowers, allow benefits to continue to be paid to certain beneficiaries upon remarriage if that marriage takes place after the age of first eligibility for benefits. No change would be made in the current dual entitlement provision of the law which allows only the highest benefit to which an individual is eligible to be drawn.

Disabled Widow(er)s benefits would be payable to those who remarry after age 50.

Surviving Divorced Spouses benefits would be payable to those who remarry after age 60.

Disabled Surviving Divorced Spouses benefits would be payable to those who remarry after age 50.

Divorced spouses would continue to lose eligibility for benefits upon remarriage.

Effective date: For benefits payable for months after December 1983.

Cost: The following table displays the cost to the OASDI trust funds, based on assumptions used by NCSSR.

(in billions, calendar years)

	1984	1985	1986	1987	1988	1989	1984-89
Short-range:	a/	a/	a/	a/	a/	a/	$0.1
Long-range:	negligible						

a/ Less than $500 million.

Section 204:

Change in Indexing for Deferred Survivor Benefits

Present Law: Survivor benefits are based on the amount of benefits that would have been payable to the deceased worker as determined by applying a benefit formula to the worker's earnings in covered employment. Such earnings are indexed to reflect economy-wide wage increases through the second year before the death of the worker. Beginning with the year of death, benefit levels are indexed to price changes.

Should the worker die long before retirement age, the benefit to which the widowed spouse ultimately becomes eligible in old-age (or at disability) is based on outdated wages. Thus, women who become widowed at a relatively young age, but do not become eligible for benefits for many years, are deprived of their husband's unrealized earnings as well as the economy-wide wage increases that may have occurred since the death of their husbands.

Proposed Change: In the case of deferred survivor benefits, continue indexing the worker's earnings to reflect economy-wide wage increases rather than price increases. Such wage indexing would apply through the year the worker would have reached age 60, or (2) two years before the survivor becomes eligible for aged or disabled widow's benefits, whichever is earlier.

Effective: For persons becoming eligible for benefits after December 31, 1983.

Cost: The following table displays the cost of this proposal to the OASDI trust funds, based on assumptions used by the NCSSR:

(in billions, calendar years)

	1984	1985	1986	1987	1988	1989	1984-89
Short-range:	a/	a/	a/	a/	a/	a/	$.2

Long-range: .05 percent of taxable payroll

a/ Less than $500 million.

Section 205:

Benefits for Divorced Spouses Regardless of Whether Former Spouse Has Retired

Present Law: A divorced spouse, eligible for benefits at age 62, may not begin to draw social security benefits until the worker begins to draw benefits. For some divorced women, this means that they must wait several years beyond their own retirement age (either because their ex-spouse delays retirement or otherwise fails to apply for benefits) before they can begin to draw benefits.

Proposed Change: Make benefits payable at age 62 to divorced spouses (who have been divorced for at least 2 years) if the former spouse is eligible for retirement benefits, whether or not they have been claimed or suspended because of substantial employment.

The direct effect of this provision is to exempt the divorced spouse from the earnings test applied to the worker.

Effective: On enactment, for monthly social security benefits payable for months after December 1983.

Cost: The cost of this proposal to the OASDI trust funds, based on assumptions used by the NCSSR:

(in billions, calendar years)

	1984	1985	1986	1987	1988	1989	1984-89
Short-range:	a/	a/	a/	a/	a/	a/	$0.1

Long-range: .01 percent of taxable payroll

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a/ Less than $500 million.

Section 206:

Increase in Benefit Amount for Disabled Widows and Widowers

Present Law: Social security benefits for widows and widowers are first payable at age 60. Benefits are payable in full (i.e., 100% of the worker's primary insurance amount) at age 65, and at reduced rates at ages 60-64 (i.e., phasing up from 71.5 percent of the primary insurance amount at age 60). Benefits are also payable at reduced rates to disabled widows and widowers aged 50-59 (i.e., phasing up from 50 percent of the primary insurance amount at age 50).

Proposed Change: Increase disabled widow(er)s benefits to 71.5 percent of the primary insurance amount, the amount to which widow(er)s are entitled at age 60.

Effective: Effective for monthly social security benefits payable for months after December 1983.

Cost: The following table displays the cost of this proposal to the OASDI trust funds, based on assumptions used by the NCSSR:

(in billions, calendar years)

	1984	1985	1986	1987	1988	1989	1984-89
Short-range:	a/	a/	a/	a/	a/	a/	$1
Long-range:	.01 percent of taxable payroll						

a/ Less than $500 million.

Section 207:

<u>Adjustment of Cost-of-Living Increase When Trust Fund Ratio Falls Below 20 Percent</u>

<u>Present Law</u>: The automatic cost-of-living adjustment (COLA) in social security benefits is applicable to the June benefit, which is payable at the beginning of July. The amount of the increase is equal to the percentage by which the Consumer Price Index (for Urban Wage Earners and Clerical Workers, CPI-W) for the first quarter of the calendar year has increased over the CPI for the first quarter of the previous calendar year. No cost-of-living adjustment is made unless the increase in the CPI is at least three percent.

<u>Proposed Change</u>: To help stabilize social security outgo relative to income, this provision would trigger the indexing of benefits to the lower of the increase in wages or prices whenever trust fund reserves are critically low. When reserves accumulate again, provision would be made for (1) repayment of amounts foregone in earlier years and (2) reinstatement of full ongoing benefit levels based on full CPI increases. The triggering of this modified cost of living adjustment and the payback would be based on the OASDI trust fund ratio (the OASI and DI trust fund balances in the funds, exclusive of any outstanding loans from the HI trust fund, as a percentage of the estimated outgo from the funds in the next year).

More specifically, beginning in 1983, at the earliest, if the ratio for the combined OASDI trust funds at the beginning of a year is less than 20 percent, the COLA payable would be based on the increase in the CPI or the increase in wages, whichever is lower. (For 1988 only, the combined trust fund ratio would be computed on an estimated basis as of December 31, 1988.) When the fund ratio at the beginning of a year (following a period of wage indexing) exceeds the trigger level of 32 percent, "catch-up" payments would be provided and ongoing benefit amounts would be increased to the level they would have been if a full CPI increase had been given in each year.

To determine the "catch-up" amount, the cumulative benefit reduction from the last increase based on the CPI through the beginning of the "catch-up" year would be calculated for each recipient. That amount would be payable over the 12 months of the catch-up year. After the twelve-month payback period, benefits would be increased by the percentage needed to give benefits equal to the amount that would have been paid if all past cost-of-living increases had been based on the CPI. If there were not sufficient funds available to provide a complete "catch-up", then the 12-month period would be pro-rated so that the estimated cost of this "catch-up" would equal the funds available. Individuals would not be repaid for any periods they did not actually receive a COLA at a rate based on wage increases.

This change would not apply to the SSI program, which is financed out of Federal general revenues.

Cost/Savings: This proposal is estimated to have no impact on the trust funds under NCSSR economic assumptions.

Section 208:

Increase In Old-Age Insurance Benefit Amounts on Account of Delayed Retirement

Present Law: A worker who delays retirement beyond age 65 (i.e., does not actually receive social security benefits) is eligible for a delayed retirement credit (DRC). The worker's benefit is increased for each month after age 65 and prior to age 70 (age 72 before 1983) for which benefits are not paid, either because of earnings or because the worker does not claim benefits. For workers eligible for benefits after 1978, the delayed retirement credit is equal to 3 percent per year (one-quarter of 1 percent per month). For workers eligible before 1979, the credit is equal to 1 percent per year (one-twelfth of 1 percent per month).

Proposed Change: Gradually increase, between 1990 and 2010, the delayed retirement credit to 8 percent per year.

Effective: For workers attaining age 65 in 1990 and after.

Cost: This proposal is estimated to cost the OASDI trust funds .1 percent of taxable payroll in the long-range.

Section 302:

Taxation of Social Security Benefits for Higher-Income Persons

Present law: Under a series of rulings in 1938 and 1941 by the Internal Revenue Service, social security benefits are excluded from gross income for purposes of the income tax. Railroad retirement benefits are excluded under a provision of the Railroad Retirement Act.

Proposed Change: Under the provision, one-half of an individual's social security benefits would be included in adjusted gross income if other adjusted gross income exceeded the base amount. The base amount would be $25,000 in the case of a joint return, $20,000 in the case of a single taxpayer or a married taxpayer filing a separate return (except that the base amount would be zero in the case of a married taxpayer filing a separate return when the taxpayer does not live apart from his spouse at all times during the taxable year).

The Secretary of Health and Human Services would be required to file information returns with respect to social security payments, indicating the amount of social security benefits paid to an individual during the year and the name and address of the individual to whom paid. Copies of these returns would be provided to the recipients of social security benefits.

Beginning in 1984, the Secretary of the Treasury would be required to transfer to the appropriate trust funds, on at least a quarterly basis, the revenues generated under this provision.

Effective date: The provision would apply to benefits received after December 31, 1983, which are attributable to periods after that date.

Revenue Gain: The following table displays the estimated additional revenues to the OASDI trust funds:

(in billions, calendar years)

	1984	1985	1986	1987	1988	1989	1984-89
Short-range:	$1	$4	$5	$6	$7	$8	$30

Long-range: .60 percent of taxable payroll.

Section 303:

Acceleration of Increase in FICA Taxes; 1984 Employee FICA Tax Credit

Present Law: The Federal Insurance Contributions Act (FICA) imposes two taxes--old-age, survivor and disability insurance (OASDI), and hospital insurance (HI) on employees and employers. These social security taxes are paid at the same rate by both the employer and employee on wages earned in employment covered by social security, up to the maximum amount creditable for the year. The current OASDI rate is 5.40 percent. This rate is scheduled to increase to 5.70 percent in 1985 and to 6.20 percent in 1990.

Also, under present law employees do not receive an income tax credit for OASDI or HI taxes paid.

Proposal: This provision would: (1) move the 1985 OASDI tax rate of 5.7 percent for employers and employees to 1984; (2) keep the current law rate of 5.7 percent for 1985-87; (3) reschedule the 1988-89 rate to 6.06 percent, and (4) make no change in the tax rate for 1990 and thereafter. In addition, for wages received during calendar year 1984, employees would be eligible for a refundable tax credit in an amount equal to the increase in the employee rate caused by accelerating the 1985 tax rate into 1984 (i.e., 0.3 percent of their includable wages). Employees would receive this credit as an offset to the amount of FICA tax withheld from their paychecks during calendar year 1984.

The HI tax rate schedules now in the law would not be altered. Moreover, these rate increases would not apply to railroad retirement taxes.

The following table compares the proposed tax changes with current law:

SOCIAL SECURITY TAX RATES
EMPLOYERS AND EMPLOYEES, EACH

Calendar Years	OASDI Current Law	OASDI Proposed Change	HI Current Law	OASDHI Current Law	OASDHI Proposed Change
1983	5.40%	5.40%	1.30%	6.70%	6.70%
1984	5.40	5.70	1.30	6.70	7.00
1985	5.70	5.70	1.35	7.05	7.05
1986-87	5.70	5.70	1.45	7.15	7.15
1988-89	5.70	6.06	1.45	7.15	7.51
1990	6.20	6.20	1.45	7.65	7.65

Section 303, Cont.

Revenue Gain: The following table displays the estimated additional revenues to the OASDI trust funds, based on assumptions used by the NCSSR.

(in billions, calendar years)

	1984	1985	1986	1987	1988	1989	1984-89
Short-range:	$9	a/	0	0	$15	$16	$40

Long-range: .02 percent of taxable payroll

a/ Less than $500 million.

Section 304:

Self-Employment Taxes; Deduction for 50 percent of Self-Employment Tax

Present Law: The Self-Employment Contributions Act imposes two taxes (OASDI and HI) on self-employed individuals. The OASDI tax rate on the self-employed is approximately equal to 1.5 times the employee rate. It is scheduled to rise from 8.05% in 1983 to 8.55% in 1985, and 9.3% in 1990 and thereafter. Under present law, self-employed persons cannot deduct from Federal income taxes, as a business expense, any OASDI taxes paid.

Proposed Change: This provision would make the self-employed OASDI tax rate equal to the combined employer-employee rate, beginning in 1984, as those rates are rescheduled under Section 103. Also beginning in 1984, self-employed individuals would be allowed to deduct for income tax purposes 50 percent of self-employment OASDI taxes paid. This deduction would be allowed in computing adjusted gross income.

The HI tax rate schedule for the self-employed now in the law would not be altered.

The following table compares the proposed tax changes with current law:

SOCIAL SECURITY TAX RATES FOR THE SELF-EMPLOYED

	OASDI		HI	OASDHI	
Calendar Years	Current Law	Proposed Law	Current Law	Current Law	Proposed Law
1983	8.05%	8.05%	1.30%	9.35%	9.35%
1984	8.05	11.40	1.30	9.35	12.70
1985	8.55	11.40	1.35	9.90	12.75
1986-87	8.55	11.40	1.45	10.00	12.85
1988-89	8.55	12.12	1.45	10.00	13.57
1990	9.30	12.40	1.45	10.75	13.85

Revenue Gain: The following table displays the estimated additional revenues to the OASDI trust funds:

(in billions, calendar years)

	1984	1985	1986	1987	1988	1989	1984-89
Short-range:	$1	$3	$3	$3	$4	$5	$18

Long-range: .19 percent of taxable payroll

Section 305:

Coverage of Payments Under Salary Reduction Plans

Present Law: Any payment to or on behalf of an employee or his beneficiary to or from a qualified tax-free trust forming part of a stock bonus, pension, or profit-sharing plan of an employer under section 401 of the Internal Revenue Code (IRC) is excluded from social security coverage. Such payments are not subject to the OASDI or HI tax, nor are they deemed covered earnings for purposes of social security. IRC amendments enacted in 1978 provide that a plan may qualify under section 401 even though it offers employees a choice of receiving cash or having contributions made to the trust. (If the employee elects to receive cash, the payments are covered under social security.)

Proposed Change: Include in taxable wages for purposes of OASDHI, those salary reductions made under salary-reduction plans qualifying under Section 401(k) of the Internal Revenue Code.

Effective: Applies to payments made after December 31, 1983.

Cost/Savings: This proposal would not produce significant additional income to the OASDHI programs currently, because not many of these salary-reduction plans have yet been put into effect. However, if the proposal is not enacted, it is quite probable that many such plans will be instituted and that, in the absence of the proposal, considerable decreases in OASDHI tax income and in benefit credits to the trust funds would result.

Section 401:

Allocations to Disability Insurance Trust Fund

Present Law: The following table displays the tax rate allocation between OASI and DI for employers, employees and the self-employed:

OASDI TAX RATES

	Employers and Employees, Each			Self-Employed		
	OASI	DI	OASDI	OASI	DI	OASDI
1983-84	4.575%	0.825%	5.4%	6.8125%	1.2375%	8.05%
1985-89	4.750	0.950	5.7	7.1250	1.4250	8.55
1990 and later	5.100	1.100	6.2	7.6500	1.6500	9.30

Proposed change: Reallocate the OASDI tax rates in order to achieve approximately the same trust fund ratios (the balance in a trust fund at the beginning of a year as a percentage of the projected outgo for that year) in both the OASI and DI trust funds. The allocation for the self-employed would be double the employee tax rate because of the impact of section 104 of the bill. The following table displays the new tax rate allocation under the proposal:

OASDI TAX RATES

	Employers and Employees, Each			Self-Employed		
	OASI	DI	OASDI	OASI	DI	OASDI
1984	5.45%	.25%	5.7%	10.9%	0.5%	11.40%
1985-87	5.20	.50	5.7	10.4	1.0	11.40
1988-89	5.56	.50	6.06	11.2	1.0	12.12
1990 and later	5.40	.80	6.20	10.8	1.6	12.40

Cost/Savings: There would be a negligible impact on the combined OASDI trust funds.

Section 402:

Interfund Borrowing Extension

Present Law: Public Law 97-123 authorized, through December 31, 1982, borrowing between the OASI, DI, and HI trust funds whenever it was determined by the Managing Trustee (the Secretary of Treasury) that additional funds were needed to pay benefits. The Conference Report specified that amounts borrowed could not exceed what was required to ensure benefit payments for six months. Under this authority, $17.5 billion was transferred to the OASI trust fund from the DI and HI trust funds in 1982. This transfer is expected to be sufficient to permit timely payment of OASI benefits through June 1983.

Under the law, the borrowing fund is required to make periodic interest payments on outstanding balances. Also the loan must be repaid when the Managing Trustee determines that the assets of the borrowing fund are sufficient to begin repayment. Accrued interest on the amounts borrowed by OASI totaled $33 million at the end of 1982 and is projected to total approximately $800 million by July 1983.

Proposed Change: Through 1987, authorize interfund borrowing between the OASI and DI trust funds and from the HI trust fund. Provisions governing repayment of the debt and interest payments on outstanding balances would be the same as under current law.

Effective: On enactment.

Cost/Savings: Negligible.

Section 403:

Crediting Amounts of Unnegotiated Checks to the Trust Funds

Present Law: When payments are made to social security beneficiaries, a voucher is submitted by the Social Security Administration to the Treasury Department for the amount of the benefits. This amount is then withdrawn from the social security trust funds and the payments are sent to the beneficiaries. For any number of reasons, some benefit checks are not cashed. Under present procedure, regardless of why a check is not cashed, the money has technically been spent by the social security trust funds. The General Fund of the Treasury holds these funds until the check is cashed.

Proposed Change: Reimburse from the General Fund of the Treasury to the OASDI trust funds a lump sum payment equal to the amount of uncashed OASDI checks which were issued prior to the enactment of this provision, which on the date of enactment remain unnegotiated twelve months after their date of issuance. In the future, the Secretary of Treasury would be required to take such actions as may be necessary to ensure that the social security trust funds are credited on an ongoing basis for the amount of unnegotiated checks.

Effective Date: The lump sum transfer would be made thirty days after the enactment of this provision.

Revenue Gain: The following table displays the savings to the OASDI trust funds, based on assumptions used by the NCSSR.

(in billions, calendar years)

	1983	1984	1985	1986	1987	1988	1989	1983-89
Short-range:	$0.8	a/	a/	a/	a/	a/	a/	$1.1
Long-range:			Negligible					

a/ Less than $500 million.

Sections 404 and 405:

Military Wage Credits

Present Law: Since 1946, the OASDI system has provided noncontributory wage credits to persons who served in the military forces. Such military personnel have been credited with earnings on which no payroll taxes have been paid. Two types of credits have been given:

Pre-1957 Military Wage Credits--For World War II veterans, noncontributory wage credits of $160 for each month of active military service. These credits were provided to protect veterans from losing social security coverage during their military service. This type of credit applies to military service from 1940 to 1957.

Post-1956 Military Wage Credits--Noncontributory wage credits of $300 per quarter ($1,200 per year, subject to the maximum earnings base) for military service performed after 1956 to recognize the value of non-cash compensation, such as food, shelter and medical services. (In 1957, members of the military were compulsorily covered under social security.)

To finance the additional costs incurred in paying the benefits based on periods of military service for which no contributions were made, the social security trust funds receive reimbursements from the General Fund of the Treasury. The annual reimbursement to the trust funds has been about $700 million in recent years.

Proposed Change: Credit the OASDI trust funds, in a lump sum, with an amount equal to the estimated additional cost of providing future benefits based on pre-1957 military wage credits. This estimate would be adjusted every five years to reflect actual experience.

In addition, the OASDI trust funds would be credited with a lump sum payment equaling the taxes that would have been collected and the interest that would have been earned if the credits for service after 1956 and before 1983 had been taxed as they were earned, less the reimbursements already received. Beginning in 1983, a general fund appropriation would reimburse the trust funds annually for the employer-employee taxes on additional military wage credits given for non-cash compensation in the previous year.

Effective: Lump sums would be payable 30 days after the enactment of this provision.

Revenue Gain: The additional revenue to the OASDI trust funds is reflected in the following table, based on assumptions used by the NCSSR.

(in billions, calendar years)

	1983	1984	1985	1986	1987	1988	1989	1983-89
Short-range:	18.4	a/	a/	a/	a/	a/	a/	16.5
Long-range:		negligible						

a/ Revenue loss of less than $500 million.

Section 406:

Trust Fund Investment Procedure

Present Law: The Managing Trustee of the social security trust funds is obligated by law to "invest such portions of the trust funds as is not, in his judgment, required to meet current withdrawals". Investments must be made in special public-debt obligations (special issues not available to the general public) unless the managing trustee determines that investing in U.S. Government obligations available in the open market is in the public interest. Historically, over 90 percent of the investments have been in special issues.

Special issues have maturity dates which are to be set with "due regard" for the needs of the trust funds. They learn a rate of interest equal to the average market yield on all marketable interest-bearing obligations of the U.S. which are not due or callable for at least 4 years.

The maturity dates of newly issued special issues and the redemption schedule for trust fund investments are not set by law, but by Treasury procedure. The Treasury attempts to set the maturity dates for special issues from 1 to 15 years--so that about 1/15 of the total portfolio comes due in each of the next 15 years. When securities must be sold to meet benefit obligations, special issues with the shortest duration until maturity are sold first. In the event that there are several securities with the same duration until maturity, those with the lowest interest rate are sold first.

Proposed Change: This proposal would eliminate discretion in the investment of trust fund assets. All trust fund assets would be reinvested each month at a rate of interest based on the average market rate on all long-term public-debt obligations currently held by Treasury.

The proposal would require the Managing Trustee to: (1) redeem all present special issues at their face amount; (2) redeem all flower bonds (marketable government bonds which, for inheritance tax purposes, are redeemable at par) at their current market values; and (3) invest, on a monthly basis, the redeemed investments and all future funds only in special issues. The interest rate on special issues would be determined on a month-to-month basis and would be based on the average market rate on all public-debt obligations with a duration of four or more years until maturity.

Effective: The first day of the month following the date of enactment.

Revenue Gain: No significant gain or loss anticipated.

Section 407:

Addition of Public Members to Board of Trustees

Present Law: The Board of Trustees of the four social security trust funds (Old-Age and Survivors Insurance, Disability Insurance, Hospital Insurance, and Supplemental Medical Insurance) consists of, *ex officio*, the Secretaries of the Treasury, Health and Human Services, and Labor, with the Secretary of the Treasury serving as the managing trustee. Among other responsibilities, the Board of Trustees is required to report to each year on the operation and status of the trust funds, and review the general policies followed in managing the trust funds, and recommend changes in such policies.

Proposed Change: In order to improve public confidence in the integrity of the trust funds, two public members would be added to the Board of Trustees of the four social security trust funds. The public members would be nominated by the President and confirmed by the Senate. The two public members could not be from the same political party.

Effective: Upon enactment.

Revenue Gain: Negligible.

MEMORANDUM February 28, 1983

FROM: Eli N. Donkar SNS
Office of the Actuary

SUBJECT: Estimated Operations of the OASI, DI, and HI Trust Funds Under Present Law on the Basis of the 1983 Alternative II-B and III Assumptions

The attached tables present estimates of the operations of the OASI, DI, and HI Trust Funds under present law for years 1982-92 on the basis of two sets of assumptions, alternatives II-B and III, that have been developed for the 1983 Trustees Report. A summary of these two sets of assumptions is shown in table 1.

The estimated operations of the trust funds are presented in tables 2-5 on a calendar-year and a fiscal-year basis. The estimates in these tables reflect the effects of the interfund borrowing that took place during calendar year 1982 under the authority provided by Public Law 97-123. Under that authority, a total of $17.5 billion had been transferred to the OASI Trust Fund by the end of December 1982, when the authority expired. Of the total amount loaned to the OASI Trust Fund, $5.1 billion was borrowed from the DI Trust Fund and $12.4 billion was borrowed from the HI Trust Fund.

As indicated in my memorandum of January 20, 1983, discussing estimates under the President's Fiscal Year 1984 Budget assumptions, the continuation and severity of the recession in 1982 has made the status of the trust funds much worse than shown in the estimates based on intermediate assumptions made prior to the beginning of this year. As has been noted for some time, the OASI Trust Fund will be unable to pay benefits on time beginning with July 1983 unless corrective legislation is enacted before that time. Similarly, the HI Trust Fund is expected to be depleted in calendar years 1986 or 1985 under alternatives II-B or III, respectively, several years earlier than anticipated on the basis of estimates prepared under the corresponding 1982 Trustees Report assumptions. It should be noted that part of the decline in the financial status of the HI program is attributable to the interfund loan from HI to OASI in December 1982; this loan was significantly greater than expected, primarily as a result of the lower tax income in 1982 (actual) and 1983 (expected) caused by the recession.

The estimates under the 1983 alternative II-B assumptions (the more optimistic of the current two sets) show that the assets of the OASI, DI, and HI Trust Funds, combined, as a percentage of annual outgo, are lower through 1985 than had been estimated even under the pessimistic assumptions in the 1982 Trustees Report. (For comparison, see the memorandum which I coauthored with Solomon M. Mussey of the Health Care Financing Administration dated September 17, 1982.)

As a consequence, the current estimates indicate that if interfund borrowing were extended, and no other changes were made, the combined assets of the three trust funds would probably be insufficient to pay benefits on time beginning in the fourth quarter of 1983.

All HI trust fund estimates shown in the attached tables were prepared by the Office of Financial and Actuarial Analysis in the Health Care Financing Administration. In contrast to the September 17, 1982 memorandum mentioned above, the current HI estimates do not assume that the temporary limitation on hospital cost reimbursement enacted under Public Law 97-248 (TEFRA) would be extended beyond 1985.

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Attachments: 5

Table 1.--Summary of economic assumptions under the 1983 alternatives II-B and III

	Calendar year										
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Percent change in real GNP:											
Alternative II-B........	-1.8%	1.4%	3.9%	3.7%	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Alternative III.........	-1.8	-0.1	1.6	3.5	3.4	2.7	2.7	2.7	2.7	2.7	2.7
Unemployment rate (civilian):											
Alternative II-B........	9.7	10.7	9.7	8.8	8.4	8.1	7.8	7.5	7.1	6.7	6.4
Alternative III.........	9.7	11.0	10.8	10.1	9.3	9.0	8.6	8.2	7.8	7.4	7.0
Percent change in CPI:											
Alternative II-B........	6.0	4.1	6.2	6.5	5.7	5.5	5.3	5.0	4.4	4.0	4.0
Alternative III.........	6.0	5.2	7.7	7.5	6.5	6.2	5.8	5.5	5.0	5.0	5.0
Percent change in average covered wage:											
Alternative II-B........	5.6	4.3	7.3	6.9	6.6	6.8	6.7	6.5	5.7	5.7	5.6
Alternative III.........	5.6	4.2	7.0	6.8	6.7	6.9	6.6	6.6	6.0	6.4	6.2
Real wage differential:											
Alternative II-B........	-0.4	0.2	1.1	0.4	0.9	1.3	1.4	1.5	1.3	1.7	1.6
Alternative III.........	-0.4	-1.0	-0.7	-0.7	0.2	0.7	0.8	1.1	1.0	1.4	1.2
Present-law benefit increase:											
Alternative II-B........	7.4	3.9	6.0	6.5	6.0	5.6	5.4	5.1	4.6	4.2	4.0
Alternative III.........	7.4	4.1	7.9	7.8	6.8	6.3	5.9	5.6	5.1	5.0	5.0

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Table 2.—Estimated operations of the OASI, DI, and HI Trust Funds under present law on the basis of the 1983 alternative II-B assumptions, calendar years 1982-92

(Amounts in billions)

Calendar year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1982	$142.7	$17.6	$160.3	$25.6	$185.9	$142.1	$18.0	$160.1	$36.2	$196.3
1983	126.8	24.2	151.0	41.2	192.2	154.5	18.0	172.5	41.1	213.6
1984	137.9	27.3	165.2	44.8	210.0	167.1	18.4	185.5	46.8	232.3
1985	154.8	34.6	189.4	50.1	239.5	183.4	19.3	202.7	53.1	255.8
1986	166.6	38.8	205.4	57.6	263.0	201.1	20.4	221.5	61.9	283.5
1987	178.4	43.3	221.7	61.9	283.6	218.7	21.7	240.4	71.1	311.4
1988	190.7	48.0	238.7	65.9	304.6	236.8	23.1	259.9	81.1	341.0
1989	203.4	53.0	256.4	69.6	326.0	255.3	24.7	280.0	92.4	372.4
1990	232.4	65.3	297.8	72.8	370.6	273.7	26.4	300.1	104.1	404.2
1991	248.4	72.1	320.4	75.7	396.1	291.8	28.3	320.1	116.2	436.3
1992	263.8	78.6	342.5	78.1	420.6	309.9	30.3	340.2	129.8	470.0

Calendar year	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1982	$0.6	-$0.4	$0.2	-$10.6	-$10.3	$22.1	$2.7	$24.8	$8.2	$32.9	15%	17%	15%	52%	22%
1983	-27.7	6.2	-21.5	.1	-21.4	-5.6	8.8	3.3	8.2	11.5	14	15	14	20	15
1984	-29.2	8.9	-20.3	-2.1	-22.4	-34.8	17.8	-17.0	6.1	-10.9	-3	48	2	18	5
1985	-28.6	15.3	-13.3	-3.0	-16.3	-63.4	33.1	-30.3	3.1	-27.2	-19	92	-8	12	-4
1986	-34.5	18.4	-16.1	-4.4	-20.5	-97.9	51.5	-46.5	-1.2	-47.7	-32	162	-14	5	-10
1987	-40.2	21.6	-18.6	-9.1	-27.8	-138.1	73.0	-65.1	-10.4	-75.5	-45	237	-19	-2	-15
1988	-46.0	24.9	-21.2	-15.2	-36.4	-184.2	97.9	-86.3	-25.6	-111.9	-58	316	-25	-13	-22
1989	-51.9	28.3	-23.6	-22.8	-46.4	-236.1	126.2	-109.9	-48.4	-158.3	-72	396	-31	-28	-30
1990	-41.3	38.9	-2.4	-31.3	-33.7	-277.4	165.1	-112.2	-79.7	-191.9	-86	478	-37	-46	-39
1991	-43.4	43.8	.3	-40.5	-40.2	-320.8	208.9	-111.9	-120.2	-232.1	-95	584	-35	-69	-44
1992	-46.0	48.3	2.3	-51.7	-49.4	-366.8	257.2	-109.6	-171.9	-281.5	-104	689	-33	-93	-49

Notes: 1. The income figures for 1982, and the end-of-year asset figures for 1982 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97-123. By the end of December 1982, when this authority expired, a total of $17.5 billion had been transferred to OASI, $5.1 billion from DI and $12.4 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since the OASI Trust Fund would be depleted in July 1983. Similarly, the HI Trust Fund operations in 1986 and later are theoretical, since the fund would be depleted in 1986 under this set of assumptions.

3. The estimates of HI Trust Fund operations were prepared by the Office of Financial and Actuarial Analysis in the Health Care Financing Administration.

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Table 3.—Estimated operations of the OASI, DI, and HI Trust Funds under present law on the basis of the 1983 alternative II-B assumptions, fiscal years 1982-92

(Amounts in billions)

iscal year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1982	$126.6	$21.4	$148.0	$37.6	$185.6	$137.9	$18.0	$156.0	$34.9	$190.8
1983	144.4	18.6	163.0	27.9	190.9	152.7	18.0	170.8	39.1	209.9
1984	136.1	26.4	162.5	44.0	206.5	163.4	18.2	181.6	45.2	226.8
1985	151.7	32.6	184.2	49.0	233.3	179.2	19.0	198.1	52.3	250.5
1986	164.8	37.5	202.3	56.0	258.3	196.8	20.1	216.9	59.5	276.4
1987	176.0	41.7	217.7	61.0	278.7	214.2	21.4	235.6	68.7	304.3
1988	189.2	46.5	235.7	65.4	301.1	232.2	22.8	255.0	78.4	333.4
1989	201.4	51.3	252.7	69.2	321.9	250.7	24.3	275.0	89.4	364.4
1990	226.1	61.7	287.8	72.7	360.5	269.2	26.0	295.2	101.0	396.2
1991	245.4	69.8	315.3	75.7	391.0	287.3	27.8	315.1	112.9	428.0
1992	259.9	76.1	336.0	78.2	414.2	305.3	29.8	335.1	126.2	461.3

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1982	-$11.3	$3.4	-$7.9	$2.7	-$5.2	$12.5	$6.8	$19.3	$20.8	$40.1	17%	19%	17%	52%	24%
1983	-8.3	.5	-7.8	-11.3	-19.0	4.2	7.3	11.5	9.6	21.1	8	37	11	53	19
1984	-27.2	8.2	-19.0	-1.2	-20.2	-23.0	15.5	-7.5	8.4	.9	3	40	6	21	9
1985	-27.5	13.6	-13.9	-3.3	-17.2	-50.5	29.1	-21.4	5.1	-16.3	-13	82	-4	16	(1/)
1986	-32.0	17.4	-14.6	-3.5	-18.1	-82.5	46.5	-36.0	1.6	-34.5	-26	144	-10	9	-6
1987	-38.3	20.3	-17.9	-7.7	-25.6	-120.8	66.8	-54.0	-6.1	-60.1	-39	217	-15	2	-11
1988	-43.0	23.8	-19.3	-13.0	-32.3	-163.8	90.6	-73.2	-19.1	-92.4	-52	294	-21	-8	-18
1989	-49.3	27.0	-22.3	-20.2	-42.5	-213.1	117.6	-95.5	-39.3	-134.8	-65	373	-27	-21	-25
1990	-43.1	35.8	-7.3	-28.4	-35.7	-256.2	153.4	-102.8	-67.7	-170.5	-79	453	-32	-39	-34
1991	-41.9	42.1	.1	-37.2	-37.1	-298.1	195.5	-102.7	-104.9	-207.6	-89	552	-33	-60	-40
1992	-45.4	46.3	.9	-48.0	-47.1	-343.6	241.8	-101.7	-152.9	-254.7	-98	656	-31	-83	-45

/ Between 0.0 and 0.5 percent.

otes: 1. The income figures for 1983, and the end-of-year asset figures for 1983 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97-123. By the end of December 1982, when this authority expired, a total of $17.5 billion had been transferred to OASI, $5.1 billion from DI and $12.4 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since the OASI Trust Fund would be depleted in July 1983. Similarly, the HI Trust Fund operations in 1987 and later are theoretical, since the fund would be depleted in 1987 under this set of assumptions.

3. The estimates of HI Trust Fund operations were prepared by the Office of Financial and Actuarial Analysis in the Health Care Financing Administration.

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Table 4.—Estimated operations of the OASI, DI, and HI Trust Funds under present law on the basis of the 1983 alternative III assumptions, calendar years 1982-92

(Amounts in billions)

Calendar year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1982	$142.7	$17.6	$160.3	$25.6	$185.9	$142.1	$18.0	$160.1	$36.2	$196.3
1983	126.2	24.1	150.3	41.0	191.2	154.7	18.0	172.8	41.1	213.9
1984	134.8	26.8	161.6	44.0	205.6	169.2	18.6	187.7	47.0	234.7
1985	149.5	33.9	183.4	48.8	232.2	188.5	19.7	208.2	54.0	262.2
1986	160.3	38.3	198.6	56.0	254.6	208.8	21.0	229.8	64.3	294.1
1987	170.6	42.9	213.5	59.9	273.4	228.6	22.4	251.0	75.1	326.1
1988	180.8	47.7	228.5	63.2	291.6	249.0	23.8	272.8	87.3	360.1
1989	191.6	52.8	244.4	66.0	310.4	269.7	25.4	295.1	101.4	396.5
1990	218.4	65.2	283.7	68.1	351.7	290.4	27.2	317.6	116.5	434.2
1991	233.1	72.3	305.4	69.7	375.1	311.5	29.1	340.6	133.0	473.6
1992	247.4	79.3	326.7	70.6	397.3	333.5	31.2	364.8	152.0	516.8

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1982	$0.6	-$0.4	$0.2	-$10.6	-$10.3	$22.1	$2.7	$24.8	$8.2	$32.9	15%	17%	15%	52%	22%
1983	-28.5	6.0	-22.5	-.2	-22.7	-6.5	8.7	2.3	8.0	10.3	14	15	14	20	15
1984	-34.4	8.3	-26.1	-3.0	-29.1	-40.8	17.0	-23.8	5.0	-18.9	-4	47	1	17	4
1985	-39.0	14.2	-24.8	-5.2	-30.0	-79.8	31.2	-48.7	-.3	-48.9	-22	86	-11	9	-7
1986	-48.5	17.3	-31.2	-8.2	-39.4	-128.3	48.5	-79.8	-8.5	-88.3	-38	148	-21	(1/)	-17
1987	-58.0	20.5	-37.5	-15.2	-52.7	-186.3	69.0	-117.3	-23.7	-141.0	-56	217	-32	-11	-27
1988	-68.1	23.8	-44.3	-24.1	-68.5	-254.5	92.8	-161.7	-47.8	-209.5	-75	289	-43	-27	-39
1989	-78.1	27.4	-50.7	-35.4	-86.1	-332.5	120.2	-212.4	-83.2	-295.6	-94	365	-55	-47	-53
1990	-72.0	38.1	-34.0	-48.5	-82.4	-404.5	158.2	-246.3	-131.7	-378.0	-114	442	-67	-71	-68
1991	-78.4	43.2	-35.2	-63.3	-98.5	-482.9	201.4	-281.5	-195.0	-476.5	-130	544	-72	-99	-80
1992	-86.1	48.1	-38.0	-81.4	-119.5	-569.1	249.5	-319.5	-276.5	-596.0	-145	645	-77	-128	-92

1/ Between 0.0 and -0.5 percent.

Notes: 1. The income figures for 1982, and the end-of-year asset figures for 1982 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97-123. By the end of December 1982, when this authority expired, a total of $17.5 billion had been transferred to OASI, $5.1 billion from DI and $12.4 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since the OASI Trust Fund would be depleted in July 1983. Similarly, the HI Trust Fund operations in 1985 and later are theoretical, since the fund would be depleted in 1985 under this set of assumptions.

3. The estimates of HI Trust Fund operations were prepared by the Office of Financial and Actuarial Analysis in the Health Care Financing Administration.

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Table 5.—Estimated operations of the OASI, DI, and HI Trust Funds under present law on the basis of the 1983 alternative III assumptions, fiscal years 1982-92

(Amounts in billions)

Fiscal year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1982	$126.6	$21.4	$148.0	$37.6	$185.6	$137.9	$18.0	$156.0	$34.9	$190.8
1983	144.2	18.5	162.7	27.8	190.4	152.8	18.1	170.9	39.1	210.0
1984	133.6	26.0	159.7	43.3	203.0	164.6	18.3	182.9	45.3	228.3
1985	147.0	31.9	178.9	47.8	226.8	183.5	19.4	202.9	53.0	255.9
1986	159.0	37.0	196.0	54.5	250.5	203.9	20.7	224.6	61.4	286.0
1987	169.0	41.3	210.3	59.3	269.6	223.6	22.0	245.6	72.4	318.0
1988	180.1	46.1	226.2	63.0	289.2	243.9	23.5	267.3	84.1	351.4
1989	190.5	51.1	241.6	66.0	307.6	264.5	25.0	289.5	97.7	387.2
1990	213.2	61.5	274.7	68.5	343.2	285.3	26.7	312.0	112.6	424.6
1991	231.1	70.0	301.1	70.4	371.5	306.2	28.6	334.7	128.5	463.3
1992	244.4	76.7	321.1	71.6	392.6	327.9	30.7	358.5	147.0	505.6

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1982	-$11.3	$3.4	-$7.9	$2.7	-$5.2	$12.5	$6.8	$19.3	$20.8	$40.1	17%	19%	17%	52%	24%
1983	-8.7	.5	-8.2	-11.4	-19.6	3.8	7.2	11.1	9.5	20.5	8	37	11	53	19
1984	-31.0	7.7	-23.3	-2.0	-25.3	-27.1	14.9	-12.2	7.5	-4.7	2	39	6	21	9
1985	-36.5	12.5	-24.0	-5.2	-29.1	-63.6	27.4	-36.2	2.3	-33.9	-15	77	-6	14	-2
1986	-44.8	16.2	-28.6	-6.9	-35.5	-108.4	43.7	-64.8	-4.6	-69.4	-31	132	-16	4	-12
1987	-54.6	19.3	-35.3	-13.1	-48.4	-163.0	62.9	-100.1	-17.7	-117.7	-48	198	-26	-6	-22
1988	-63.8	22.7	-41.1	-21.1	-62.2	-226.8	85.6	-141.2	-38.8	-179.9	-67	268	-37	-21	-34
1989	-74.0	26.0	-47.9	-31.6	-79.6	-300.7	111.6	-189.1	-70.4	-259.5	-86	342	-49	-40	-46
1990	-72.1	34.8	-37.3	-44.1	-81.4	-372.9	146.4	-226.4	-114.4	-340.9	-105	418	-61	-63	-61
1991	-75.1	41.4	-33.6	-58.1	-91.7	-447.9	187.9	-260.1	-172.6	-432.6	-122	513	-68	-89	-74
1992	-83.5	46.0	-37.5	-75.5	-112.9	-531.4	233.9	-297.5	-248.0	-545.5	-137	612	-73	-117	-86

Notes: 1. The income figures for 1983, and the end-of-year asset figures for 1983 and later, reflect the transfer of funds from the DI and HI Trust Funds to the OASI Trust Fund under the interfund borrowing authority provided by Public Law 97-123. By the end of December 1982, when this authority expired, a total of $17.5 billion had been transferred to OASI, $5.1 billion from DI and $12.4 billion from HI.

2. The estimated operations for OASI, OASDI, and OASDI and HI combined in 1983 and later are theoretical since the OASI Trust Fund would be depleted in July 1983. Similarly, the HI Trust Fund operations in 1986 and later are theoretical, since the fund would be depleted in 1986 under this set of assumptions.

3. The estimates of HI Trust Fund operations were prepared by the Office of Financial and Actuarial Analysis in the Health Care Financing Administration.

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Table 4.--Illustrative OASDI and OASDHI trust fund ratios under three sets of proposals and in conjunction with a maximum application of a proposal to advance OASDI tax transfers, based on 1983 alternative II-B assumptions, calendar years 1983-92

Calendar year	Assets at the beginning of the year, including 100 percent advance OASDI tax transfer, expressed as a percentage of annual expenditures under-- National Commission recommendations with extension to HI, and continuation of TEFRA hospital reimbursement limitation	National Commission recommendations with extension to HI, but without continuation of TEFRA hospital reimbursement limitation	National Commission recommendations only
	OASDI		
1983	15%	15%	15%
1984	22	22	22
1985	20	20	20
1986	22	22	21
1987	22	22	21
1988	22	22	20
1989	28	28	29
1990	38	38	38
1991	50	50	50
1992	64	64	64
	OASDI and HI, combined		
1983	16%	16%	16%
1984	22	22	21
1985	20	20	19
1986	21	20	18
1987	21	20	18
1988	22	19	16
1989	26	22	18
1990	30	24	20
1991	35	26	22
1992	39	28	24

te: See text of accompanying memorandum for a more complete description of the three sets of proposals. Under the first two sets, the advance tax transfer proposal would operate only if needed to enable the timely payment of OASDI benefits. The estimates shown above, for illustrative purposes, indicate the effect of transferring 100 percent of OASDI taxes to the trust funds at the beginning of each month, rather than just the portion needed to pay benefits on time. While the advance tax transfer proposal is not part of the National Commission recommendations, the maximum potential effects of this proposal are shown above in conjunction with their recommendations for comparative purposes.

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Table 4.--Illustrative OASDI and OASDHI trust fund ratios under three sets of proposals and in conjunction with a maximum application of a proposal to advance OASDI tax transfers, based on 1983 alternative III assumptions, calendar years 1983-92

Calendar year	Assets at the beginning of the year, including 100 percent advance OASDI tax transfer, expressed as a percentage of annual expenditures under-- National Commission recommendations with extension to HI, and continuation of TEFRA hospital reimbursement limitation	National Commission recommendations with extension to HI, but without continuation of TEFRA hospital reimbursement limitation	National Commission recommendations only
		OASDI	
1983	15%	15%	15%
1984	21	21	21
1985	17	17	17
1986	15	15	15
1987	12	12	12
1988	9	9	9
1989	12	12	12
1990	15	15	15
1991	21	21	21
1992	27	27	27
		OASDI and HI, combined	
1983	16%	16%	16%
1984	22	22	20
1985	17	17	16
1986	14	14	12
1987	10	9	7
1988	6	4	1
1989	4	(1/)	-3
1990	1	-4	-8
1991	-1	-9	-13
1992	-4	-14	-18

1/ Between 0.0 and 0.5 percent.

Note: See text of accompanying memorandum for a more complete description of the three sets of proposals. Under the first two sets, the advance tax transfer proposal would operate only to the extent needed to enable the timely payment of OASDI benefits. The estimates shown above, for illustrative purposes, indicate the effect of transferring 100 percent of OASDI taxes to the trust funds at the beginning of each month, rather than just the portion needed to pay benefits on time. While the advance tax transfer proposal is not part of the National Commission recommendations, the maximum potential effects of this proposal are shown above in conjunction with their recommendations for comparison.

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Table 3.--Estimated operations of the OASDI and HI Trust Funds under the National Commission Bipartisan Agreement, based on 1983 alternative II-B assumptions, calendar years 1982-92

(Amounts in billions)

Calendar year	Income OASDI	Income HI	Income Total	Outgo OASDI	Outgo HI	Outgo Total
1982	$160.3	$25.6	$185.9	$160.1	$36.2	$196.3
1983	171.2	41.2	212.4	169.3	41.1	210.5
1984	180.1	45.1	225.2	180.5	46.8	227.3
1985	201.3	52.0	253.2	197.4	53.1	250.6
1986	217.7	62.0	279.7	216.3	61.9	278.3
1987	234.7	69.6	304.4	234.5	71.1	305.5
1988	278.8	66.5	345.3	253.5	81.1	334.6
1989	304.7	70.5	375.2	272.9	92.4	365.3
1990	336.7	73.9	410.6	292.7	104.1	396.8
1991	364.8	77.0	441.8	312.3	116.2	428.5
1992	393.9	79.8	473.7	331.7	129.8	461.5

Calendar year	Net increase in funds OASDI	Net increase in funds HI	Net increase in funds Total	Funds at end of year OASDI	Funds at end of year HI	Funds at end of year Total	Assets at beginning of year as a percentage of outgo during year OASDI	Assets ... HI	Assets ... Total
1982	$0.2	-$10.6	-$10.3	$24.8	$8.2	$32.9	15%	52%	22%
1983	1.8	.1	1.9	26.6	8.2	34.8	15	20	16
1984	-.4	-1.7	-2.2	26.2	6.5	32.7	15	18	15
1985	3.8	-1.2	2.6	30.0	5.3	35.3	13	12	13
1986	1.3	.1	1.4	31.4	5.4	36.7	14	9	13
1987	.3	-1.4	-1.2	31.6	3.9	35.6	13	8	12
1988	25.3	-14.6	10.7	56.9	-10.7	46.2	12	5	11
1989	31.8	-21.9	9.8	88.7	-32.7	56.1	21	-12	13
1990	44.1	-30.2	13.8	132.8	-62.9	69.9	30	-31	14
1991	52.5	-39.2	13.4	185.3	-102.1	83.2	43	-54	16
1992	62.2	-50.0	12.1	247.4	-152.1	95.4	56	-79	18

Notes: 1. See text of accompanying memorandum for description of proposal. It is assumed that the OASDI lump-sum reimbursement for military service wage credits and unnegotiated checks would be received by July 1, 1983.

2. Income and end-of-year asset figures reflect transfers of assets between the OASI and HI Trust Funds under the interfund borrowing authority provided by P.L. 97-123. These projections assume that of the $12.4 billion borrowed by OASI from HI, $1.4 billion would be repaid in 1985, $3.9 billion in 1986, and $7.2 billion in 1987.

3. Under the package described above, and based on this set of assumptions, the HI Trust Fund would be depleted in 1988. Subsequent HI operations as shown above are theoretical.

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Table 3.--Estimated operations of the OASDI and HI Trust Funds under the National Commission Bipartisan Agreement, based on 1983 alternative III assumptions, calendar years 1982-92

(Amounts in billions)

Calendar year	Income OASDI	Income HI	Income Total	Outgo OASDI	Outgo HI	Outgo Total
1982	$160.3	$25.6	$185.9	$160.1	$36.2	$196.3
1983	170.5	41.0	211.5	169.4	41.1	210.6
1984	176.6	44.3	220.9	181.0	47.0	228.1
1985	197.3	49.3	246.6	200.7	54.0	254.7
1986	216.0	56.7	272.7	221.7	64.3	286.0
1987	235.4	60.8	296.2	242.1	75.1	317.3
1988	270.5	64.2	334.8	263.5	87.3	350.8
1989	295.4	67.4	362.8	284.9	101.4	386.3
1990	326.4	69.7	396.1	306.9	116.6	423.4
1991	354.3	71.6	425.9	329.2	133.0	462.2
1992	383.6	72.9	456.5	352.8	152.1	504.8

Calendar year	Net increase in funds			Funds at end of year			Assets at beginning of year as a percentage of outgo during year		
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total
1982	$0.2	-$10.6	-$10.3	$24.8	$8.2	$32.9	15%	52%	22%
1983	1.0	-.1	.9	25.8	8.0	33.9	15	20	16
1984	-4.5	-2.7	-7.2	21.3	5.3	26.7	14	17	15
1985	-3.3	-4.7	-8.1	18.0	.6	18.6	11	10	10
1986	-5.7	-7.6	-13.3	12.3	-7.0	5.3	8	1	7
1987	-6.7	-14.4	-21.1	5.6	-21.4	-15.8	5	-9	2
1988	7.0	-23.1	-16.0	12.6	-44.4	-31.8	2	-24	-5
1989	10.5	-34.1	-23.5	23.1	-78.5	-55.3	4	-44	-8
1990	19.5	-46.9	-27.4	42.6	-125.4	-82.7	8	-67	-13
1991	25.1	-61.4	-36.3	67.8	-186.8	-119.0	13	-94	-18
1992	30.8	-79.1	-48.4	98.5	-265.9	-167.4	19	-123	-24

Notes: 1. See accompanying memorandum for description of proposal. It is assumed that the OASDI lump-sum reimbursement for military service wage credits and unnegotiated checks would be received by July 1, 1983.

2. Income and end-of-year asset figures reflect transfer of $12.4 billion from the HI Trust Fund to the OASI Trust Fund in 1982 under the interfund borrowing authority provided by P.L. 97-123. Under the alternative III assumptions, OASI would be unable to repay this loan prior to the depletion of the HI Trust Fund. Thus the effect of repayment is not shown in the estimates above.

3. Under this package, and based on this set of assumptions, the HI Trust Fund would be depleted in late 1985 or early 1986. Subsequent HI operations as shown above are theoretical. Similarly, the OASDI Trust Funds would be depleted at about the same time and subsequent operations are theoretical.

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