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# Social Security Financing

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COMMITTEE ON FINANCE
UNITED STATES SENATE

RUSSELL B. LONG, *Chairman*

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Data and Materials Prepared by the Staff of the Committee on Finance for the Use of the

SUBCOMMITTEE ON SOCIAL SECURITY

GAYLORD NELSON, Wisconsin, *Chairman*

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## INTRODUCTION

In the period between 1973 and 1977, actuarial forecasts of the financial condition of the social security programs repeatedly warned that the programs were not adequately financed. Moreover, these forecasts grew dramatically worse from one report to the next. In 1973, the Board of Trustees of the Old Age, Survivors and Disability Insurance programs reported a long-range deficit of .32 percent of taxable payroll, an amount equal to slightly less than 3 percent of the expected expenditures of the program. No financial difficulties were foreseen for the next 5 years, and it was estimated that trust fund reserves on hand at the beginning of 1977 would amount to more than 9 months worth of benefits. In 1977, just 4 years later, the trustees were projecting a long-range deficit of 8.2 percent of taxable payroll, an amount equal to more than 40 percent of the expected expenditures of the program. Moreover, it was estimated then that the assets of the Disability Insurance Trust Fund would be exhausted by 1979, the assets of the Old Age and Survivors Insurance Trust Fund would be exhausted by the mid-1980's, and the assets of the Hospital Insurance Trust Fund would be exhausted by the late 1980's.

In response to this deteriorating financial situation, legislation was enacted in 1977 which revised certain benefit provisions in a manner which resulted in some reduction in outgo, and also provided for additional income by increasing both the social security tax rates and the amount of annual earnings subject to social security taxation.

While the increased taxes provided for in the 1977 amendments were necessary to assure that benefit obligations could be met over the near term, there has been continuing interest in finding ways to reduce or offset the impact of the higher social security taxes without endangering the financial security of the program. In 1978, Congress acted to offset the impact of the 1979 payroll tax increases by enacting reductions in Federal income taxes. Interest continues in proposals to provide relief from the further increases scheduled for 1981 and later.

Coupled with this interest is a growing concern about the financial soundness of the program over the next few years. Recent forecasts of the impact of high inflation and an upcoming recession on the social security trust funds indicate that at least one of them, the Old Age and Survivors Insurance Trust Fund, may not have adequate enough resources to meet its benefit obligations completely beginning possibly as soon as late 1981.

## I. Current Method of Financing the System

### SOURCES OF INCOME TO THE SYSTEM

About 115 million workers and their employers, will pay social security taxes in 1980, rising to around 125 million by 1984. The social security payroll tax is a composite of three separate tax rates supporting: (1) the old-age and survivors insurance program (OASI); (2) the disability insurance program (DI); and (3) the hospital insurance program (HI or part A of medicare). (Part B of medicare or supplementary medical insurance is also considered a social security program but is financed from premiums and general funds rather than from payroll taxes.)

Each of the three components of the overall social security tax—OASI, DI, and HI—has a separate trust fund which receives all of the taxes generated by its portion of the overall tax, and the assets accumulated from those receipts are not transferable from one fund to another.

The three trust funds also receive payments from the General Fund of the Treasury for various limited expenditures from the trust funds which the Congress believes are more appropriately financed by general taxation. For example, the trust funds are reimbursed from general revenues for costs attributable to social security credits which are provided on the basis of military service during World War II. In addition, the three trust funds receive payments consisting of interest on the investments of the trust funds and net interest on amounts of interfund transfers arising between the trust funds and the general fund out of adjustments in the allocation of administrative expenses, construction costs, and the costs of vocational rehabilitation services for prior fiscal years.

In calendar year 1978, 96.7 percent of the receipts of the OASDI trust funds consisted of tax revenues, 0.8 percent represented transfers from the general fund for various expenditures, and 2.5 percent represented interest on investments. As for the HI trust fund 90.2 percent of its receipts consisted of tax revenues, 5.6 percent represented transfers from the general fund for various expenditures, and 4.2 percent represented interest on investments.

### CURRENTLY SCHEDULED TAX RATES AND TAXABLE EARNINGS BASE

*Tax rates*

The tax rate on earnings is paid by employees, employers and the self-employed. The future schedule of tax rates in present law is shown in the following table:

## TABLE 1.—SOCIAL SECURITY TAX RATES

[In percent]

| | OASI | DI | OASDI | HI | Total |
|---|---|---|---|---|---|
| | Employee-employer, each | | | | |
| Calendar year: | | | | | |
| 1979–80 | 4.33 | 0.75 | 5.08 | 1.05 | 6.13 |
| 1981 | 4.525 | .825 | 5.35 | 1.3 | 6.65 |
| 1982–84 | 4.575 | .825 | 5.40 | 1.3 | 6.7 |
| 1985 | 4.75 | .95 | 5.7 | 1.35 | 7.05 |
| 1986–89 | 4.75 | .95 | 5.7 | 1.45 | 7.15 |
| 1990 and later | 5.1 | 1.1 | 6.2 | 1.45 | 7.65 |
| | Self-employment | | | | |
| Calendar year: | | | | | |
| 1979–80 | 6.01 | 1.04 | 7.05 | 1.05 | 8.1 |
| 1981 | 6.7625 | 1.2375 | 8 | 1.3 | 9.3 |
| 1982–84 | 6.8125 | 1.2375 | 8.05 | 1.3 | 9.35 |
| 1985 | 7.125 | 1.425 | 8.55 | 1.35 | 9.9 |
| 1986–89 | 7.125 | 1.425 | 8.55 | 1.45 | 10 |
| 1990 and later | 7.65 | 1.65 | 9.3 | 1.45 | 10.75 |

*Tax base*

In 1980 the tax applies to the first $25,900 of an individual's earnings. In 1981 the maximum level will rise to $29,700. These levels for 1980 and 1981—as well as the 1979 level of $22,900—were fixed in law by the 1977 Social Security Amendments. In future years the amount of earnings subject to the tax will rise depending on the increase in average earnings that occurs from one year to the next.

The table which follows shows the potential increases in the earnings base over the next 5 years, as reflected under the optimistic, intermediate and pessimistic assumptions in the 1979 report of the social security trustees and as reflected under the President's fiscal year 1981 budget assumptions.

## TABLE 2.—ANNUAL EARNINGS SUBJECT TO SOCIAL SECURITY TAX

| | 1979 trustees report | | | President's fiscal year 1981 budget assumptions |
|---|---|---|---|---|
| | Optimistic assumptions | Intermediate assumptions | Pessimistic assumptions | |
| Calendar year: | | | | |
| 1980 | $25,900 | $25,900 | $25,900 | $25,900 |
| 1981 | 29,700 | 29,700 | 29,700 | 29,700 |
| 1982 | 32,400 | 32,400 | 32,400 | 32,400 |
| 1983 | 35,100 | 35,100 | 35,400 | 35,400 |
| 1984 | 37,800 | 37,800 | 38,100 | 39,000 |
| 1985 | 39,900 | 40,200 | 40,800 | 42,900 |

Note: Table 9 shows the estimated taxable earnings base under present law for the period 1986–1989 based on the administration's fiscal year 1981 budget assumptions extended.

Source: 1979 OASDI Trustees Report and Social Security Administration, Office of the Actuary.

### WORKERS WITH COVERED EARNINGS

In 1940 approximately 35 million persons worked in employment covered by the social security system. In 1974, the number of covered workers passed the 100 million mark. In 1980, the figure is estimated to exceed 115 million.

Ninety percent of all workers in the U.S. contribute to the social security program. (Table 56 in the Appendix shows the historical growth rate of the percent of total employment covered by the social security system). While coverage is compulsory for most types of employment, approximately 8 million jobs are exempt from participation in the program. The majority of these noncovered positions are in the Federal, State and local governments and nonprofit organizations. Certain self-employed and part-time workers have been exempted from the program largely because of their minimal annual net earnings, the irregularity of their work schedule and the administrative difficulty of maintaining their earnings records.

The table which follows shows the growth in covered employment over the life of the program, and projections through 1990 of the number of persons who will be in covered employment.

## TABLE 3.—WORKERS WITH COVERED EARNINGS [1]

[Workers in thousands]

| Calendar year | Number of covered workers | | | |
|---|---|---|---|---|
| | Actual | Estimates based on 1979 trustees report assumptions | | |
| | | Optimistic | Intermediate | Pessimistic |
| 1945 | 46,390 | | | |
| 1950 | 48,280 | | | |
| 1955 | 65,200 | | | |
| 1960 | 72,530 | | | |
| 1965 | 80,680 | | | |
| 1970 | 93,090 | | | |
| 1975 | 100,400 | | | |
| 1978 | 110,480 | | | |
| 1979 | | 113,570 | 113,570 | 113,180 |
| 1980 | | 115,470 | 115,400 | 112,650 |
| 1985 | | 127,960 | 126,400 | 124,930 |
| 1990 | | 134,710 | 133,100 | 131,520 |

[1] All workers with taxable earnings at some point during the year.

Source: 1979 OASDI trustees report.

The next table shows projections of average earnings in covered employment, for both wage and salaried workers and the self-employed. It also shows the average taxable earnings for workers in covered employment.

## TABLE 4.—ESTIMATED AVERAGE EARNINGS OF WORKERS IN COVERED EMPLOYMENT, 1979–85 [1]

| Calendar year | Average earnings of all covered workers [2] | Average covered earnings of wage and salaried workers | Average covered earnings of self-employed | Average taxable earnings of all covered workers [2] |
|---|---|---|---|---|
| 1979 | $10,633 | $10,281 | $12,389 | $9,346 |
| 1980 | 11,534 | 11,215 | 12,659 | 10,217 |
| 1981 | 12,491 | 12,216 | 12,599 | 11,195 |
| 1982 | 13,728 | 13,452 | 13,533 | 12,294 |
| 1983 | 15,070 | 14,750 | 15,174 | 13,483 |
| 1984 | 16,431 | 16,065 | 16,896 | 14,733 |
| 1985 | 17,711 | 17,305 | 18,477 | 15,928 |

[1] Based on the administration's fiscal year 1981 budget economic assumptions.
[2] Includes self-employed workers.

Source: Office of Research and Statistics, SSA.

## BRIEF HISTORY OF PAYROLL TAX STRUCTURE

Collection of payroll taxes began in 1937. Since that time the financing of the system has been amended almost 20 times. Beginning with a tax rate on employee and employer each of 1 percent on earnings up to $3,000 annually, the tax structure remained constant until 1950 when the rate rose to 1.5 percent. (Earlier increases had been scheduled, but legislation during the period precluded them from going into effect.) In 1951 the earnings base increased for the first time to $3,600 annually, and the self-employed were brought under the system with a tax rate of 2.25 percent, i.e., 1.5 times the employee/employer rate. The employee/employer rate rose again to 2 percent in 1954. Coupled with many expansions in the system (the introduction of disability insurance and medicare foremost among them), almost a dozen changes in the financial structure of the system have been made since the early 1950's. A summary of the year-by-year tax rate and earnings base since 1937 is provided in the following table.

### TABLE 5.—HISTORICAL TABLE OF PAYROLL TAX RATES AND TAXABLE EARNINGS BASES

| Years | OASDHI tax rates and taxable earnings base | | |
|---|---|---|---|
| | Taxable earnings base | Employer and employee each | Self-employed |
| 1937–49 | $3,000 | 1.0 | ............ |
| 1950 | 3,000 | 1.5 | ............ |
| 1951–53 | 3,600 | 1.5 | 2.25 |
| 1954 | 3,600 | 2.0 | 3.0 |
| 1955–56 | 4,200 | 2.0 | 3.0 |
| 1957–58 | 4,200 | 2.25 | 3.375 |
| 1959 | 4,800 | 2.50 | 3.75 |
| 1960–61 | 4,800 | 3.0 | 4.5 |
| 1962 | 4,800 | 3.125 | 4.7 |
| 1963–65 | 4,800 | 3.625 | 5.4 |

## TABLE 5.—HISTORICAL TABLE OF PAYROLL TAX RATES AND TAXABLE EARNINGS BASES—Continued

| Years | OASDHI tax rates and taxable earnings base: Taxable earnings base | Tax rate (percent): Employer and employee each | Tax rate (percent): Self-employed |
|---|---|---|---|
| 1966 | 6,600 | 4.2 | 6.15 |
| 1967 | 6,600 | 4.4 | 6.4 |
| 1968 | 7,800 | 4.4 | 6.4 |
| 1969 | 7,800 | 4.8 | 6.9 |
| 1970 | 7,800 | 4.8 | 6.9 |
| 1971 | 7,800 | 5.2 | 7.5 |
| 1972 | 9,000 | 5.2 | 7.5 |
| 1973 | 10,800 | 5.85 | 8.0 |
| 1974 | 13,200 | 5.85 | 7.9 |
| 1975 | 14,100 | 5.85 | 7.9 |
| 1976 | 15,300 | 5.85 | 7.9 |
| 1977 | 16,500 | 5.85 | 7.9 |
| 1978 | 17,700 | 6.05 | 8.1 |
| 1979 | 22,900 | 6.13 | 8.1 |
| 1980 | 25,900 | 6.13 | 8.1 |

## PAYROLL TAX CHANGES RESULTING FROM THE 1977 SOCIAL SECURITY AMENDMENTS

### *Changes in the tax rate schedule*

A new OASDHI tax-rate schedule for employees and employers and for the self-employed was included in the 1977 legislation. Also additional allocation of the overall tax rate to the DI program was included and beginning in 1981 the self-employed tax rate for OASDI will be equal to approximately 150 percent of the employee rate. The tax rate schedules for employees and employers, each, and for the self-employed were modified as follows:

## TABLE 6.—PRE- AND POST-1977 AMENDMENT TAX RATES

[In percent]

| Year | Prior to amendments: OASDI | Prior to amendments: HI | Prior to amendments: Total | After amendments: OASDI | After amendments: HI | After amendments: Total | Change in total rate |
|---|---|---|---|---|---|---|---|
| Employer and employee, each: | | | | | | | |
| 1978 | 4.95 | 1.10 | 6.05 | 5.05 | 1.00 | 6.05 | None |
| 1979–80 | 4.95 | 1.10 | 6.05 | 5.08 | 1.05 | 6.13 | +0.08 |
| 1981 | 4.95 | 1.35 | 6.30 | 5.35 | 1.30 | 6.65 | +.35 |
| 1982–84 | 4.95 | 1.35 | 6.30 | 5.40 | 1.30 | 6.70 | +.40 |
| 1985 | 4.95 | 1.35 | 6.30 | 5.70 | 1.35 | 7.05 | +.75 |
| 1986–89 | 4.95 | 1.50 | 6.45 | 5.70 | 1.45 | 7.15 | +.70 |
| 1990–2010 | 4.95 | 1.50 | 6.45 | 6.20 | 1.45 | 7.65 | +1.20 |
| 2011 and later | 5.95 | 1.50 | 7.45 | 6.20 | 1.45 | 7.65 | +.20 |
| Self-employed: | | | | | | | |
| 1978 | 7.00 | 1.10 | 8.10 | 7.10 | 1.00 | 8.10 | None |
| 1979–80 | 7.00 | 1.10 | 8.10 | 7.05 | 1.05 | 8.10 | None |
| 1981 | 7.00 | 1.35 | 8.35 | 8.00 | 1.30 | 9.30 | +.95 |
| 1982–84 | 7.00 | 1.35 | 8.35 | 8.05 | 1.30 | 9.35 | +1.00 |
| 1985 | 7.00 | 1.35 | 8.35 | 8.55 | 1.35 | 9.90 | +1.55 |
| 1986–89 | 7.00 | 1.50 | 8.50 | 8.55 | 1.45 | 10.00 | +1.50 |
| 1990 and later | 7.00 | 1.50 | 8.50 | 9.30 | 1.45 | 10.75 | +2.25 |

As the table shows, three employee/employer tax rate increases had been scheduled for future years under the law as it existed prior to the 1977 legislation (in 1981, 1986 and 2011). Two increases had been scheduled for the self-employment rate (in 1981 and 1986). The 1977 legislation put in place six increases in the employee/employer rate between 1979 and 1990 (five for the self-employed between 1981 and 1990). While the ultimate employee/employer rate of 7.65 percent incorporated in the 1977 legislation is only 0.20 percent higher than the ultimate rate scheduled under the pre-1977 law, the 1977 legislation greatly accelerated the time frame in which the ultimate rate would be reached. Under prior law, the employee/employer tax rate would not have gone higher than 6.45 percent until the year 2011. Under current law, the employee/employer tax rate will rise to 6.65 percent in 1981, and to 7.05 percent in 1985. The prior law rate for the self-employed would never have gone above 8.50 percent, while under current law, the rate will rise to 9.30 percent in 1981 and to an ultimate rate of 10.75 percent in 1990. The reason for the more substantial increases in the self-employed rate was that the 1977 Amendments restored the original decision to set the self-employed OASDI tax rate at 75 percent of the combined employer-employee rate.

*Changes in the tax base*

The amount of the taxable earnings base was increased as follows:

### TABLE 7.—PRE- AND POST-1977 AMENDMENTS EARNINGS BASES

| Year | Prior to amendments | After amendments | Change |
|---|---|---|---|
| 1978 | $17,700 | $17,700 | None |
| 1979 | [1] 18,900 | 22,900 | +$4,000 |
| 1980 | [1] 20,400 | 25,900 | +5,500 |
| 1981 | [1] 21,900 | 29,700 | +7,800 |

[1] Projected under the automatic adjustment provisions made in December 1977 upon enactment of the 1977 Social Security Amendments. Under current assumptions, the prior law-earnings base as now estimated would be $22,200 for 1981.

Source: Office of Actuary, SSA.

For 1982 and later, the earnings base will continue to be indexed according to changes in average earnings in covered employment.

## ESTIMATED REVENUES FROM UPCOMING "RATE" AND "BASE" INCREASES

The following table shows the added revenues brought into the system by the increases in the tax rate and taxable earnings base scheduled for the next few years beginning with the increase in the taxable earnings base in 1980. These estimates are based on the Administration's FY 1981 budget economic assumptions.

These estimates show the effect of holding tax rates constant at 1980 or 1981 levels and for automatic increases in the earnings base after 1979, or 1980, in lieu of the ad hoc increases prescribed under present law. Table 9 contains estimates of what the taxable earnings base would be if it were to rise automatically after 1979 and after 1980.

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TABLE 8.—REDUCTION IN PAYROLL TAX REVENUES IN CALENDAR YEARS 1980–85 THAT WOULD RESULT FROM VARIOUS SOCIAL SECURITY TAX ROLLBACK APPROACHES

[In billions]

| | Total (OASDHI)[1] | | | | | |
|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
| Combined effects of (1) automatic increases in base, instead of ad hoc increases, and (2) elimination of tax-rate increases: | | | | | | |
| 1. Automatic increases in base after 1979 and tax rates held constant at 1980 levels | $1.3 | $15.4 | $20.2 | $23.0 | $25.6 | $41.3 |
| 2. Automatic increases in base after 1980 and tax rates held constant at 1980 levels | | 13.6 | 18.1 | 20.6 | 23.3 | 38.7 |
| 3. Automatic increases in base after 1979 and tax rates held constant at 1981 levels | 1.3 | 3.3 | 5.4 | 6.2 | 6.8 | 20.6 |
| 4. Automatic increases in base after 1980 and tax rates held constant at 1981 levels | | 1.4 | 3.0 | 3.7 | 4.3 | 17.7 |

TABLE 8.—REDUCTION IN PAYROLL TAX REVENUES IN CALENDAR YEARS 1980-85 THAT WOULD RESULT FROM VARIOUS SOCIAL SECURITY TAX ROLLBACK APPROACHES—Con.

[In billions]

| | Total (OASDHI)[1] | | | | | |
|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
| Elimination of tax-rate increases, with no change in base scheduled under present law: | | | | | | |
| 5. Tax rates held constant at 1980 levels | | 12.4 | 16.5 | 18.7 | 21.0 | 36.1 |
| 6. Tax rates held constant at 1981 levels | | | 1.3 | 1.6 | 1.8 | 15.0 |
| Automatic increases in base, instead of ad hoc increases, with no change in tax rates scheduled under present law: | | | | | | |
| 7. Automatic increases after 1979 | 1.3 | 3.3 | 4.1 | 4.7 | 5.1 | 5.9 |
| 8. Automatic increases after 1980 | | 1.4 | 1.7 | 2.1 | 2.5 | 2.9 |

[1] Tables 50 and 51 in the appendix show how these revenues are distributed between the OASDI and HI programs, on calendar year and fiscal year basis.

Note: The above estimates are based on the President's 1981 budget assumptions, extended through 1990 and modified so that the unemployment rate does not fall below 5 percent. Totals do not necessarily equal the sum of rounded components.

Source: Office of the Actuary, SSA.

TABLE 9.—ANNUAL EARNINGS SUBJECT TO SOCIAL SECURITY TAX, 1979–89: UNDER PRESENT LAW AND 2 ALTERNATIVES

| Calendar year | Present law | Automatic increase after 1979 | Automatic increase after 1980 |
|---|---|---|---|
| 1979 | $22,900 | $22,900 | $22,900 |
| 1980 | 25,900 | 24,600 | 25,900 |
| 1981 | 29,700 | 26,700 | 28,200 |
| 1982 | 32,400 | 29,100 | 30,900 |
| 1983 | 35,400 | 31,800 | 33,600 |
| 1984 | 39,000 | 35,100 | 36,900 |
| 1985 | 42,900 | 38,400 | 40,500 |
| 1986 | 46,800 | 42,000 | 44,100 |
| 1987 | 50,400 | 45,300 | 47,700 |
| 1988 | 54,000 | 48,300 | 51,000 |
| 1989 | 57,600 | 51,600 | 54,300 |

Source: Social Security Administration, Office of the Actuary: Feb. 5, 1980.

## II. Financial Condition of System

### ADVERSE FORECASTS OF THE MID-1970'S

Beginning with its report of 1973, the Board of Trustees of the Old Age, Survivors, and Disability Insurance program repeatedly forecast a worsening financial situation for the program both in the near-term, i.e., for the late 1970's and early 1980's, and over the long-run, i.e., until the middle of the next century. The 1975 report showed the DI program as having difficulty meeting its benefit obligations beginning in 1980. By 1977 the trustees were reporting that DI reserves would fall to zero in early 1979; and similarly, OASI reserves would be used up by 1983. The HI trust fund was estimated to be exhausted in 1988.

The following table shows the projected OASI and DI trust fund reserve ratios prior to the 1977 Social Security Amendments. This table shows that the trust fund reserve ratio for each of the two programs was expected to drop quickly to zero.

### TABLE 10.—ESTIMATED OASDI TRUST FUND RESERVE RATIOS PRIOR TO 1977 AMENDMENTS, CALENDAR YEARS 1977–84

| | Funds at beginning of year as percentage of disbursements during year | | | Funds at end of year as percentage of disbursements during year | | |
|---|---|---|---|---|---|---|
| Calendar year | OASI | DI | OASDI | OASI | DI | OASDI |
| 1977 | 47 | 48 | 47 | 43 | 27 | 41 |
| 1978 | 38 | 24 | 36 | 33 | 4 | 29 |
| 1979 | 31 | 3 | 27 | 26 | (1) | [2] 19 |
| 1980 | 24 | (1) | [2] 18 | 19 | (1) | [2] 10 |
| 1981 | 18 | (1) | [2] 9 | 12 | (1) | (2 3) |
| 1982 | 11 | (1) | (2 3) | 3 | (1) | (4) |
| 1983 | 3 | (1) | (4) | (5) | (1) | (4) |
| 1984 | (5) | (1) | (4) | (5) | (1) | (4) |

[1] DI trust fund exhausted in 1979.
[2] Figures are theoretical because the DI trust fund exhausted in 1979.
[3] Figure is less than 0.5 percent.
[4] Combined OASDI trust funds exhausted in 1982.
[5] OASI trust fund exhausted in 1983.

Source: Office of Actuary, Social Security Administration.

As for the long run, the 1973 report showed a deficit equal to 0.32 percent of taxable payroll; the 1974 report showed a deficit of 2.98 percent of taxable payroll; by 1977 the projected deficit reached 8.2 percent of taxable payroll. The 1977 projected deficit of 8.2 percent of taxable payroll reflected an average shortfall in revenues of more than 40 percent of the costs of the program through the long-range 75-year measuring period, 1977 to 2051. (In today's dollar values, 1 percent of taxable payroll is equal to approximately $12 billion annually—although it should be noted that the greater part of the "long-range" deficit was attributable to shortfalls late in this century and early next century.)

The following table shows a breakdown of the longrange deficit between the OASI and DI programs and the size of the pre-1977 amendments deficit in each of the three 25-year segments of the 75-year actuarial measuring period.

TABLE 11.—COMPARISON OF THE ESTIMATED OASDI EXPENDITURES WITH THE SCHEDULED TAX RATES PRIOR TO THE 1977 AMENDMENTS, CALENDAR YEARS 1977–2051

[In percent of taxable payroll]

| Calendar year | Estimated expenditures: Old-age and survivor insurance | Estimated expenditures: Disability insurance | Total | Tax rate | Difference |
|---|---|---|---|---|---|
| 25-yr averages: | | | | | |
| 1977–2001 | 10.00 | 2.24 | 12.24 | 9.90 | −2.34 |
| 2002–26 | 14.65 | 4.20 | 18.86 | 11.18 | −7.68 |
| 2027–51 | 21.86 | 4.61 | 26.47 | 11.90 | −14.57 |
| 75-yr average: 1977–2051 | 15.51 | 3.68 | 19.19 | 10.99 | −8.20 |

Note: Expenditures and taxable payroll are based on the intermediate set of assumptions in the 1977 Report of the Board of Trustees of the Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

## EFFECT OF THE 1977 AMENDMENTS

With the passage of the Social Security Amendments of 1977, forecasts of the financial condition of the program improved significantly. At the time of enactment, the Social Security actuaries projected that the OASDI program would be in a surplus position through the next 25-year period. While annual deficits occurring in 1978 and 1979 would bring OASDI reserve balances down to a level equivalent to 25 percent of 1981 outgo (a little more than 3 months worth of benefit expenditures), annual surpluses beginning in 1980 and continuing thereafter would bring reserve balances up to 59 percent of 1 year's outgo by 1987.

(There is no absolute rule as to the optimum relationship between the trust fund and benefit obligations at any given time. However, a common rule-of-thumb in previous years held that trust fund assets should generally fall between 75 percent and 125 percent of a year's benefit obligations. Clearly, cash flow can be maintained at lower reserve levels. However, trust fund balances in the 75- to 125-percent range would serve to provide a margin of safety and to assure ample time and reserves to deal with unanticipated developments.)

The improved short-run outlook was brought about by legislated changes on the revenue side, estimated at that time to add some $80 billion in new revenues to the OASDI programs in the 1978–83 period, as well as changes in benefits resulting in net reductions of outgo of $7.5 billion during that same period.

The revenue increases were the result of (1) ad-hoc increases in the taxable earnings base above the increases that would have occurred automatically, (2) a reallocation to the OASDI trust funds of a portion of the already scheduled increases in the HI tax rate, (3) increases in the overall tax rate beginning in 1979, and (4) increases in the OASDI portion of the self-employment tax rate in 1981 bringing it up to 1½ times the employee rate.

(The reallocation of the HI tax rate was designed essentially to transfer to the OASDI funds the full increase attributable to the higher tax base. The overall status of the HI program was not significantly changed by the 1977 amendments.)

The principal benefit changes affecting outgo included (1) revamping of the OASDI benefit formula to lessen the overcompensation for inflation in the future (referred to as the "decoupling" provisions), (2) modifications to the retirement test, (3) correction of a major technical flaw in computing benefit increases for early retirees, (4) improvements in protection for divorced and widowed spouses, (5) limitations on the receipt of retroactive benefits, and (6) a reduction in social security dependent's benefits for persons receiving public pensions from noncovered employment. Some of these latter provisions resulted in savings to the system, while others increased its cost; however, the net effect was a reduction in expenditures.

According to the official estimates at the time the 1977 amendments were adopted, the amendments improved the long-range financial condition by reducing the projected deficit of 8.2 percent of taxable payroll to 1.46 percent of taxable payroll representing an average revenue shortfall over the 75-year period of less than 10 percent of the costs of the program.

While this deficit was still in excess of actuarial standards for long-range financial soundness, it represented a significant improvement and was expected to provide short-term soundness which would permit Congress adequate time to develop a more complete solution to the long-range financing situation. Almost three-fourths of this improvement was brought about by the benefit formula changes.

The following table provides a breakdown of the impact on the long-range condition of the OASDI program of the major provisions of the 1977 amendments, as estimated at the time of enactment.

TABLE 12.—IMPACT OF 1977 AMENDMENTS ON ACTUARIAL BALANCE OF THE OASDI PROGRAM OVER THE PERIOD 1977-2051

[In percentage of taxable payroll]

| Description of item | OASI | DI | Total |
|---|---|---|---|
| Cost of social security system under prior law | 15.51 | 3.68 | 19.19 |
| Balance under prior law | −6.06 | −2.14 | −8.20 |
| Changes of the 1977 amendments: | | | |
| Decoupling | 9.10 | 2.19 | 11.29 |
| 5 percent reduction in benefit level | .53 | .13 | .66 |
| New (wage-indexed) benefit formula | −5.19 | −1.24 | −7.16 |
| Other benefit provisions | .16 | .01 | .18 |
| Total net effect of benefit changes | 3.88 | 1.09 | 4.97 |
| Change tax base | .45 | .08 | .54 |
| Self-employed tax rate to 1¼ times employee tax rate | .08 | .02 | .10 |
| New tax schedule | .57 | .57 | 1.14 |
| Total net effect of financing changes (including tax base) | 1.11 | .67 | 1.78 |
| Total net cost effect | 4.98 | 1.75 | 6.74 |
| Balance under present law | −1.08 | −.38 | −1.46 |

## CONDITIONS AS REPORTED IN THE LATEST TRUSTEES' REPORT

Each year, the Board of Trustees of the social security programs issues a report on the near- and long-term financial condition of the programs. As has been the practice in recent years, the latest report, issued in April 1979, contains future financial projections under three different sets of economic and demographic assumptions intended to show what would happen under optimistic, intermediate, and pessimistic circumstances. Projections under the intermediate assumptions are typically the ones used in considering the financial impact of new legislation.

Under the optimistic and intermediate sets of assumptions, the report indicated that all three of the trust funds would be in sound financial condition for the next 5 years. Under the pessimistic assumptions, however, OASI trust fund reserves were expected to fall to a level in which cash-flow problems could arise. As explained in a later section, the economic situation has changed so that the "pessimistic" assumptions are now closer to the most current projections, at least in the near-term future.

(*a*) *OASI situation.*—Under the pessimistic assumptions, there would be cause for concern since the reserve balance in the OASI trust fund would fall from a level of 39 percent of 1978 outgo to 2 percent of 1985 outgo. As indicated earlier, optimum reserve balances of 75 to 125 percent of a year's benefits were previously considered desirable. In any case, however, reserve balances representing less than 9 percent of annual expenditures (slightly more than 1 month's outgo), are on an absolute basis too low because the Treasury may be unable in that situation to meet the benefit obligations paid on the 3d of each month with the cash on hand. Discussion of a 2-percent level of reserves in 1985 is purely theoretical because problems in meeting benefit obligations would occur long before that point.

The following table compares estimates of OASI trust fund reserve ratios made in December 1977 upon enactment of the 1977 amendments with those resulting from the intermediate and pessimistic assumptions in the 1979 trustees report.

TABLE 13.—COMPARISON OF OASI TRUST FUND RESERVE RATIOS ESTIMATED UPON ENACTMENT OF 1977 AMENDMENTS TO THOSE IN THE 1979 TRUSTEES REPORT

| Calendar year | OASI reserves at the beginning of the year as percent of expenditures during the year: December 1977 estimates | 1979 OASI trustees report estimates: Under intermediate assumptions | 1979 OASI trustees report estimates: Under pessimistic assumptions |
|---|---|---|---|
| 1979 | 30 | 30 | 30 |
| 1980 | 26 | 24 | 23 |
| 1981 | 26 | 19 | 16 |
| 1982 | 30 | 17 | 12 |
| 1983 | 36 | 18 | 8 |
| 1984 | 41 | 18 | 5 |
| 1985 | 45 | 18 | 2 |
| 1986 | 52 | 22 | 2 |
| 1987 | 58 | 26 | 2 |

Source: Social Security Administration.

This more pessimistic scenario for the OASI program principally showed what would happen under adverse economic circumstances, in which high inflation increases trust fund expenditures, and higher unemployment reduces trust fund receipts.

(*b*) *DI situation.*—The DI trust fund, on the other hand, would have sufficient reserves to avoid cash-flow problems even under these adverse economic assumptions, where the reserve balance would rise steadily from 26 percent in 1978 to 97 percent in 1985. This improved forecast for the DI trust fund over previous reports is caused by projections of lower rates of enrollment than were made previously based on an actual slowdown in new awards since the last quarter of 1977 (although it should be noted that enrollment is still projected to rise in the future under all three sets of assumptions in the 1979 Trustees' report). The Trustees noted that "this reduction in the incidence of disability was not anticipated and its causes are not very clear, so it is uncertain whether the trend will continue in the future."

In view of the situation which could arise in the OASI trust fund under the pessimistic assumptions, the trustees included this cautious note in the report:

> * * * a severe or prolonged economic downturn could jeopardize the short-range actuarial soundness of the Old Age and Survivor's Insurance program * * * (further recommending that) no reduction be made in the scheduled revenues of Old Age and Survivors Insurance and Disability Insurance trust funds without making provisions for offsetting reductions in expenditures or alternative financing arrangements, (and that) it might be advisable to examine the need for flexibility to reallocate funds between the two trust funds in the short run. (1979 OASDI Trustees Report.)

(*c*) *HI situation.*—Similar to the situation of the DI program, the 1979 trustees report for the HI program shows improvement in the condition of the HI program from that reported upon enactment of the 1977 amendments. In December 1977 it was estimated that HI financing would be adequate in the early to mid 1980's, but that reserves would fall to zero by 1988. The intermediate assumptions in the latest trustees report actually show that HI will be adequately financed throughout the decade. Even the pessimistic assumptions indicate a slightly more favorable situation than that reported upon enactment of the 1977 amendments, although it should be noted that reserves would fall to zero sometime in 1989.

The following table compares estimates of HI trust fund reserve ratios made upon enactment of the 1977 amendments with those resulting from the intermediate and pessimistic assumptions in the 1979 trustees report.

TABLE 14.—COMPARISON OF HI TRUST FUND RESERVE RATIOS ESTIMATED UPON ENACTMENT OF 1977 AMENDMENTS TO THOSE IN 1979 TRUSTEES REPORT

| | HI reserves at the beginning of the year as percent of expenditures during the year | | |
|---|---|---|---|
| | | 1979 HI trustees report estimates | |
| Calendar year | December 1977 estimates | Under intermediate assumptions | Under pessimistic assumptions |
| 1979 | 48 | 53 | 53 |
| 1980 | 45 | 53 | 53 |
| 1981 | 39 | 51 | 50 |
| 1982 | 47 | 64 | 60 |
| 1983 | 50 | 73 | 66 |
| 1984 | 47 | 77 | 64 |
| 1985 | 39 | 76 | 57 |
| 1986 | 29 | 73 | 47 |
| 1987 | 22 | 71 | 38 |
| 1988 | [1] | 65 | 23 |

[1] Precise estimates were not made for the period after 1987.

Source: Social Security Administration.

## WORSENING ECONOMIC CONDITIONS AND TRUST FUND FORECASTS

While the financial condition of the programs as reflected under the intermediate assumptions in the trustees report is typically viewed as the most likely or realistic path that trust fund operations will follow in the future, it became apparent within a few months after issuance of the 1979 trustees report that the economy, particularly with respect to the cost of living, was not moving in line with the short-range, intermediate economic forecast of the trustees. Economic forecasts made in June and July 1979, reflecting both higher rates of inflation and unemployment, were made by the Administration, both congressional budget committees and a number of private forecasters. Generally these forecasts indicated a recession was ahead coupled with a high rate of inflation. For social security this meant higher than anticipated outgo with increases in revenues which would not keep pace with the additional outgo.

(*a*) *Projections made in the summer of 1979.*—The Administration's "midsession" economic forecast and budget estimates fell between the trustees report intermediate and pessimistic paths. OASI reserve balances were projected to fall to a low of 9 percent of 1985 expenditures, as compared to 17 percent under the trustees intermediate assumptions and 2 percent under the trustees pessimistic ones. After that the reserve level was expected to rise again reaching almost 20 percent of 1988 expenditures. Balances in the DI and HI trust funds once again were reported to be more than adequate for cash flow purposes throughout the decade.

The Congressional Budget Office (CBO) also prepared a midyear economic update for 1979 and 1980, indicating an even more pessimistic trend than the Administration's forecast. Similarly, forecasts by both the House and Senate Budget Committees were more pessimistic than the Administration's forecast, not only through 1980, but for a number of subsequent years as well.

In a July 31, 1979, letter to the committee, the Director of CBO stated that estimates prepared by CBO for the House and Senate Budget Committees show that under their respective assumptions, the balance of the OASI trust fund would fall between 5.4 percent of 1984 outgo (House version) and 7.7 percent of 1984 outgo (Senate version). Once again, both would represent precariously low OASI trust fund reserve levels. The DI trust fund would have 1984 reserves in the range of 55 percent to 60 percent of outgo.

In other testimony given to the Subcommittee on Social Security of the House Ways and Means Committee in October 1979 hearings, private forecasting groups also indicated a worsening economic trend, in some cases worse than the Administration's "midsession" forecast. The consensus among these forecasters was that the program would have cash-flow problems in the early to mid-1980s.

More recent forecasts made by these private forecasters continue to show adverse economic conditions ahead. The following table highlights their projections of cost-of-living increases and unemployment rates for the next few years.

TABLE 15.—RECENT FORECASTS OF INFLATION AND UNEMPLOYMENT BY PRIVATE FORECASTING GROUPS[1]

[In percent]

| | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|---|
| CPI (year over year increases): | | | | | | | |
| DRI | 11.4 | 11.9 | 10.0 | 9.6 | 8.8 | 8.2 | 8.2 |
| Chase Econometrics | 11.4 | 11.2 | 9.1 | 8.9 | 7.7 | 6.9 | 6.5 |
| Wharton | 11.4 | 11.9 | 9.3 | Not available | | | |
| Unemployment rate: | | | | | | | |
| DRI | 5.8 | 7.1 | 7.8 | 7.3 | 7.1 | 7.1 | 7.0 |
| Chase Econometrics | 5.8 | 7.7 | 8.2 | 8.2 | 8.2 | 7.7 | 7.2 |
| Wharton | 5.9 | 7.1 | 7.8 | Not available | | | |

[1] Forecasts, issued in January 1980. Inflation is measured by Consumers Price Index (CPI).

Source: Social Security Administration.

(b) *Administration's and CBO's latest forecasts.*—Similar to the direction taken by private forecasting groups, the Administration's and CBO's latest economic assumptions and trust fund projections show even further deterioration of the financial condition of the OASI program over the next few years. This deterioration is due principally to the higher than previously expected rate of inflation. The following table shows the change in the cost-of-living and unemployment rate assumptions reflected in the Administration's fiscal year 1981 budget and in CBO's latest forecast (a more complete table of the latest economic assumptions is provided in table 37 in the appendix).

TABLE 16.—RECENT FORECASTS OF INFLATION AND UNEMPLOYMENT BY THE ADMINISTRATION AND CBO[1]

[In percent]

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|
| CPI (year over year increases): | | | | | | |
| Administration fiscal year 1981 budget | 11.8 | 9.2 | 8.2 | 7.4 | 6.8 | 6.1 |
| Administration midsession (July 1979) | 8.6 | 7.5 | 6.6 | 6.2 | 5.6 | 5.1 |
| CBO current | 11.3 | 8.9 | 9.2 | 8.4 | 8.0 | 7.7 |
| Unemployment rate: | | | | | | |
| Administration fiscal year 1981 budget | 7.0 | 7.4 | 6.8 | 5.9 | 5.1 | 4.3 |
| Administration midsession (July 1979) | 6.8 | 6.5 | 6.1 | 5.8 | 5.6 | 5.4 |
| CBO current | 7.0 | 8.0 | 7.7 | 7.1 | 6.4 | 6.0 |

[1] The Administration's assumptions for 1984 and 1985 were altered slightly in other parts of this document so that they could be blended with the longer range intermediate economic assumptions of the 1979 trustees report explained below.

Source: SSA and CBO.

The following table shows the expected reserve ratios at the beginning of each calendar year, 1980–89, for the three trust funds under the Administration's fiscal year 1981 budget economic assumptions and under the ones recently made by the Congressional Budget Office (CBO). In extending the Administration's fiscal year 1981 budget projections beyond 1985, the unemployment rate was modified beginning in 1984 so that it would level out over the long run at 5 percent. The Administration's budget shows it falling to 4.3 percent in 1985. The higher unemployment rate was used for the purpose of blending the fiscal year 1981 budget assumptions with the intermediate set of economic assumptions in the 1979 trustees report, under which the longrun unemployment rate is held at 5 percent.

# TABLE 17.—RESERVE RATIOS FOR EACH TRUST FUND UNDER ADMINISTRATION'S AND CBO'S LATEST ECONOMIC ASSUMPTIONS

| Calendar year | Reserves at the beginning of the year as a percent of outgo during the year | | | | | |
|---|---|---|---|---|---|---|
| | OASI | | DI | | HI | |
| | Administration | CBO | Administration | CBO | Administration | CBO |
| 1980 | 23 | 23 | 35 | 34 | 54 | 54 |
| 1981 | 14 | 14 | 43 | 38 | 55 | 55 |
| 1982 | 6 | 5 | 58 | 46 | 72 | 69 |
| 1983 | (1) | (1) | 76 | 55 | 88 | 80 |
| 1984 | (1) | (1) | 96 | 66 | 102 | 88 |
| 1985 | (1) | (1) | 117 | 82 | 113 | 92 |
| 1986 | (1) | (1) | 158 | 116 | 125 | 97 |
| 1987 | (1) | (1) | 199 | 147 | 139 | 104 |
| 1988 | (1) | (1) | 240 | 172 | 148 | 107 |
| 1989 | (1) | (1) | 279 | 188 | 152 | 104 |

[1] No reserves remaining.

Source: Office of Actuary, SSA and CBO.

Under the Administration's projections, the OASI trust fund would probably run into cash-flow problems in late calendar year 1981. Reserves actually would be exhausted in 1982. CBO's projections are similar.

The combined reserve balance of the OASI and DI trust funds similarly is inadequate through 1985 to avoid cash-flow problems under both the Administration's and CBO's projections. Under the Administration's projections the combined reserve balance of the two trusts funds falls to 8 percent of 1983 outgo at the beginning of that year and declines further to a low of 3 percent of 1985 outgo. After that, the combined reserve balance would grow again because of the tax rate increase scheduled for 1985. Under CBO's projections, the combined reserve balance would fall to 5 percent of 1983 outgo, and to zero at some point in 1984.

The combined reserve balance of the three trust funds—OASI, DI and HI—on the other hand, is expected to be sufficient to avoid cash-flow problems in the coming decade under both the Administration's and CBO's projections. Under the Administration's projections, the combined OASDHI trust fund reserve balance falls to a low of 21 percent of 1983 outgo and begins to rise again in 1985, continuing upward through the end of the decade. Under CBO's projections, the combined OASDHI reserve balance falls to a low of 16 percent of 1985 outgo and then rises again in 1986 and through the end of the decade.

The following table shows the combined reserve balance first for the OASI and DI trust funds, and second for the OASI, DI and HI trust funds.

TABLE 18.—COMBINED RESERVE RATIOS OF THE TRUST FUNDS UNDER THE ADMINISTRATION'S AND CBO'S LATEST ECONOMIC ASSUMPTIONS

| Calendar year | Reserves at the beginning of the year as a percent of outgo during the year | | | |
|---|---|---|---|---|
| | OASI and DI combined reserves | | OASI, DI, and HI combined reserves | |
| | Administration | CBO | Administration | CBO |
| 1980 | 24 | 24 | 29 | 29 |
| 1981 | 18 | 17 | 24 | 23 |
| 1982 | 12 | 10 | 22 | 20 |
| 1983 | 8 | 5 | 21 | 17 |
| 1984 | 5 | 1 | 21 | 16 |
| 1985 | 3 | (1) | 23 | 16 |
| 1986 | 7 | 3 | 29 | 21 |
| 1987 | 12 | 9 | 36 | 27 |
| 1988 | 17 | 13 | 42 | 32 |
| 1989 | 22 | 17 | 49 | 35 |

[1] No reserves remaining.

Source: Office of the Actuary, SSA and CBO.

Neither of these low points in the combined reserve balance of the three trust funds—21 percent of 1983 outgo under the Administration's assumptions and 16 percent of 1985 outgo under CBO's assumptions—reflects a comfortable reserve cushion. While they would be adequate to avoid cash-flow problems, they leave very little margin for error or for possibly worse economic conditions than the respective economic assumptions now reflect. The margin is particularly small with respect to the CBO projections.

In this regard, it should be noted that both CBO and the Administration are more optimistic than some of the major private forecasters about the extent to which inflation will decline, as is indicated on table 15 and 16 above. Moreover, neither the Administration's nor CBO's economic assumptions reflect another adverse economic period after the current one at any time during the remainder of the decade. Typically longer range projections assume that low and high points in the economy will balance out. It would be particularly difficult and highly speculative for economists to predict the timing of the cyclical nature of the economy and/or high inflation following the current period. (This has been demonstrated by the illusive nature of the current recession.) However, both the current adverse condition of the economy and the adverse conditions which occurred in the mid-1970's appear to be heavily responsible for the current financial problems of the system. In 1974 the combined reserves of the OASDI trust funds amounted to almost 75 percent of that year's expenditures. By the beginning of 1978, it had fallen to 37 percent of annual expenditures. Similarly, the OASI trust fund had cash on hand at the beginning of 1980 amounting to 23 percent of 1980 expenditures. OASI reserves are now predicted to run out by 1983. Consequently, with the possibility of the economy turning downward again coupled with high inflation late in the decade, a combined reserve cushion in the 15- to 20-percent range for the three trust funds at the beginning of 1985 very likely would be inadequate.

The appendix to this document contains more detailed CBO and Administration projections of the status of the trust funds.

## LONG-RANGE CONDITION

The Social Security Act requires that the trustees reports include "a statement of the actuarial status of the trust funds." To carry out this mandate the reports include estimates for a 75-year period in the future for OASDI, and a 25-year period for HI. Separate reports are issued for the OASDI and HI programs.

The long-range financial condition of the social security programs will be determined by rates of fertility, mortality, net immigration, labor force participation, marriage, unemployment, inflation, use of the health care system, trends in retirement, and other economic and demographic conditions. Clearly these are things which are virtually impossible to predict with accuracy as far in the future as 75 years.

Long-range projections, even with this uncertainty and imprecision, however, are important in programs such as social security which is by its nature a long-term system. Many individuals now entering the work force and paying social security taxes will still be receiving benefits 75 years from now. Making such long term projections forces analysis of the changes in population and other demographic conditions which will affect the financial condition of the system. Such identification allows for gradual rather than sudden changes to be made, if necessary, to strengthen the programs.

The 1979 trustees reports include three different estimates called optimistic, intermediate, and pessimistic. These are based on different assumptions concerning economic, demographic, and actuarial conditions. The trustees reports do not state that one set of assumptions is more accurate than any other, although most often the intermediate projections are highlighted. The pessimistic assumptions are those which would result in larger program imbalances, and optimistic assumptions would bring about smaller trust fund imbalances or even a surplus. For example, an assumption that people live longer would be included in the "pessimistic" estimates since it would result in a larger expenditure of trust funds. On the other hand, a larger estimated increase in the birth rate is included in the optimistic assumptions since this would result in a higher amount of revenues over the 75-year period.

*The OASDI forecasts.*—The OASDI trustees report indicates that the combined OASDI trust fund condition is actuarially sound over the next 25 years under all three sets of assumptions. Expressing the financial condition of the programs as a percent of taxable payroll (taxable payroll being total earnings subject to the social security tax), the trustees projected the following average financial surpluses through the year 2003:

TABLE 19.—OASDI TRUST FUND SURPLUS OVER NEXT 25 YEARS AS REPORTED IN 1979 TRUSTEES REPORT

| | OASDI surplus (as percent of taxable payroll) | |
|---|---|---|
| | 1978 report | 1979 report |
| Optimistic assumptions | 1.35 | 1.75 |
| Intermediate assumptions | 1.02 | 1.17 |
| Pessimistic assumptions | .58 | .60 |

Source: 1978 and 1979 OASDI Trustees Reports.

More simply stated, what the numbers above mean is that, on average, revenues will be 17 percent higher than expenditures under the optimistic assumptions, 11 percent higher under the intermediate assumptions and 5 percent higher under the pessimistic ones.

As the table indicates, the current projections for the medium-range future do not show much change from the projections made in 1978 with the exception of some modest improvement under the optimistic and the intermediate assumptions. However, as with the short-range projections, the mix of the surplus is somewhat different than that shown in the 1978 report, with the DI program showing improvement and the OASI program losing some ground.

Under the pessimistic assumptions, the cash-flow problems in the OASI program which would begin around 1983, continue until 1991 or 1992. The problem would fade at that point because additional revenues would be brought into the system by a tax increase currently scheduled in the law to go into effect in 1990.

As for the 75-year long-range projections, only the optimistic assumptions show the program in actuarial balance:

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TABLE 20.—75-YEAR PROJECTIONS OF COMBINED OASDI SURPLUS (+)/DEFICIT (−) AS REPORTED IN 1979 TRUSTEES REPORT

[Percent of taxable payroll]

| | Percent |
|---|---|
| Optimistic assumptions | +0.87 |
| Intermediate assumptions | −1.20 |
| Pessimistic assumptions | −4.69 |

Source: 1979 OASDI Trustees Report.

The deficit under the intermediate assumptions is equivalent to 9 percent of the average cost of the programs over the 75-year period—38 percent of the average cost under the pessimistic ones. The intermediate assumptions show a 0.20 percent of payroll improvement over the 1978 report when the deficit was shown at 1.40 percent of payroll. But as with the short-range and medium-range projections, the mix of conditions between the two programs has changed somewhat. The following table shows that the DI program has changed from a deficit to a surplus condition while the OASI program has a slightly higher deficit than was shown in the 1978 trustees report.

TABLE 21.—75-YEAR PROJECTIONS OF SEPARATE OASI AND DI SURPLUS (+)/DEFICIT (−)

[Percent of taxable payroll]

| | 1978 trustees report | | 1979 trustees report | |
|---|---|---|---|---|
| | DI | OASI | DI | OASI |
| Under immediate assumptions | −0.14 | −1.26 | +0.21 | −1.41 |

Source: 1978 and 1979 OASDI Trustees Reports.

While a combined long-range deficit is projected for the programs, under the intermediate assumptions, the trustees point out that:

* * * by the turn of the century, the combined trust funds will have increased to levels ranging from about 100 to 350 percent of annual expenditures, depending on the economic and demographic assumptions. Trust fund levels in this range are higher than is generally considered necessary for contingency reserves. The Board believes that the question of long-range financing of the system, including the appropriate size of the trust funds, should be the subject of extensive study during the next several years. (1979 OASDI Trustees Report.)

In regard to disability, the report also points out that the incidence of disability is predicted to be lower under the intermediate assumptions than in the 1978 report, resulting in lower projections of DI beneficiaries. The 1979 report shows a 10 percent increase in the rate of disability for the period 1979–98, remaining constant thereafter. The prior year's report showed a 25 percent increase in the rate of disability for the period 1978–97, remaining constant thereafter. The current report shows the number of DI beneficiaries rising from approximately 4.9 million in 1978 to 7.8 million in the year 2000. In contrast, the 1978 report showed the number of DI beneficiaries rising from 4.7 million in 1977 to 9.4 million in the year 2000.

The report concludes with the following note of caution about the changes in the disability assumptions:

The projections indicate that the increase in the DI trust fund that began in 1978 will continue throughout the next 75 years under both the intermediate and optimistic assumptions, and through the turn of the century under the pessimistic assumptions. The increase in 1978 was primarily due to the reallocation of contribution rates provided under the 1977 amendments, as well as to lower disability incidence rates in 1978. This reduction in the incidence of disability was not anticipated and its causes are not very clear, so it is uncertain whether the trend will continue in the future. Thus, the higher DI trust fund levels projected in this report (as compared to last year's report) are contingent on the realization of the lower incidence rates assumed in this year's report. (1979 OASDI Trustees Report.)

The following table shows the long-range tax rate and estimated expenditures of the OASDI program as projected under the three sets of assumptions in the 1979 trustees report. The table breaks the projections down into the three 25-year segments of the 75-year actuarial measuring period.

# TABLE 22.—ESTIMATED EXPENDITURES OF OASDI SYSTEM AND COMPARISON WITH SCHEDULED TAX RATE AS REFLECTED IN 1979 TRUSTEES REPORT

[As percent of taxable payroll]

| Calendar year | Average scheduled tax rate | Estimated average expenditures by alternative assumptions | | | Difference by alternative assumptions | | |
|---|---|---|---|---|---|---|---|
| | | Optimistic | Intermediate | Pessimistic | Optimistic | Intermediate | Pessimistic |
| OASI: | | | | | | | |
| 25-year averages: | | | | | | | |
| 1979 to 2003 | 9.76 | 8.60 | 9.07 | 9.54 | 1.16 | 0.69 | 0.22 |
| 2004 to 2028 | 10.20 | 9.62 | 11.12 | 13.25 | .58 | −.92 | −3.05 |
| 2029 to 2053 | 10.20 | 10.71 | 14.21 | 21.14 | −.51 | −4.01 | −10.94 |
| 75-year average: | | | | | | | |
| 1979 to 2053 | 10.05 | 9.65 | 11.47 | 14.65 | .41 | −1.41 | −4.59 |
| DI: | | | | | | | |
| 25-year averages: | | | | | | | |
| 1979 to 2003 | 2.00 | 1.41 | 1.52 | 1.62 | .59 | .48 | .38 |
| 2004 to 2028 | 2.20 | 1.86 | 2.15 | 2.49 | .34 | .05 | −.29 |
| 2029 to 2053 | 2.20 | 1.74 | 2.09 | 2.60 | .46 | .11 | −.40 |
| 75-year average: | | | | | | | |
| 1979 to 2053 | 2.13 | 1.67 | 1.92 | 2.24 | .47 | .21 | −.10 |
| Total: | | | | | | | |
| 25-year averages: | | | | | | | |
| 1979 to 2003 | 11.76 | 10.01 | 10.59 | 11.16 | 1.75 | 1.17 | .60 |
| 2004 to 2028 | 12.40 | 11.48 | 13.26 | 15.74 | .92 | −.86 | −3.34 |
| 2029 to 2053 | 12.40 | 12.45 | 16.30 | 23.74 | −.05 | −3.90 | −11.34 |
| 75-year average: | | | | | | | |
| 1979 to 2053 | 12.19 | 11.31 | 13.38 | 16.88 | .87 | −1.20 | −4.69 |

Note: Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

Source: 1979 OASDI Trustees Report.

At the request of staff, the office of the actuary in SSA re-estimated the long-range financial forecast of the OASDI program under the intermediate set of assumptions in the 1979 Trustees Report to take account of recent changes in the short-run economic outlook and recent changes in the incidence of disability. The following table shows that with these changes an increase is projected in the overall OASDI long-range deficit of 0.05 percent of payroll (the deficit is now projected to be 1.25 percent of payroll instead of 1.20 percent of payroll). Similarly, the long-range deficit of the OASI program increased by 0.08 percent of payroll. The DI forecast, on the other hand, showed some small improvement with an increase in its surplus position of 0.03 percent of payroll.

## TABLE 23.—ESTIMATED LONG-RANGE EXPENDITURES OF OASDI SYSTEM AND COMPARISON WITH SCHEDULED TAX RATE UNDER TRUSTEES INTERMEDIATE ASSUMPTIONS, MODIFIED FOR CURRENT CONDITIONS, 1979-2053

[As percent of taxable payroll]

| Calendar year | Average scheduled tax rate | Estimate average expeditures modified intermediate assumptions | Difference |
|---|---|---|---|
| OASI: | | | |
| 25-year averages: | | | |
| 1979 to 2003... | 9.76 | 9.28 | -0.48 |
| 2004 to 2028.... | 10.20 | 11.11 | -.91 |
| 2029 to 2053.... | 10.20 | 14.22 | -4.02 |
| 75-year averages: | | | |
| 1979 to 2053..... | 10.05 | 11.54 | -1.49 |
| DI: | | | |
| 25-year averages: | | | |
| 1979 to 2003.... | 2.00 | 1.46 | .54 |
| 2004 to 2028.... | 2.20 | 2.14 | .06 |
| 2029 to 2053.... | 2.20 | 2.09 | .11 |
| 75-year average: | | | |
| 1979 to 2053...... | 2.13 | 1.89 | .24 |
| Total: | | | |
| 25-year averages: | | | |
| 1979 to 20[illegible] .. | 11.76 | 10.74 | 1.02 |
| 2004 to 20[illegible] .... | 12.40 | 13.25 | -.85 |
| 2029 to 2053.... | 12.40 | 16.31 | -3.91 |
| 75-year average: | | | |
| 1979 to 2053...... | 12.19 | 13.43 | -1.25 |

Note: Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

Source: Office of Actuary, SSA.

Table 52 in the appendix shows the year-by-year forecast, 1979–2055, of the financial condition of the two programs under the intermediate assumptions as modified per the request of staff. Table 53 in the appendix shows projections year by year of the reserve ratios for each of the programs and combined, 1979–2055, resulting from these modified assumptions.

Table 54 in the appendix shows the long-range projections of covered workers and beneficiaries under the three sets of assumptions in the 1979 trustees report.

*The HI forecast.*—Unlike the OASDI program, the trustees report for the HI program covers a 25-year rather than 75-year future actuarial valuation period. In regard to this valuation period, the 1979 HI Trustees Report states:

> Long-range cost estimates for the hospital insurance program have been made, since the beginning of the program, for the 25-year period beginning with the year of the report. A relatively long valuation period, such as 25 years, is necessary in order to depict the pattern of rising costs which will ensue if trends over the past two decades continue into the future. Even a valuation period as long as 25 years fails to present fully the future contingencies that reasonably may be expected, such as the impact of the demographic shift after the turn of the century which is discussed in the old-age, survivors, and disability insurance report. On the other hand, the degree of uncertainty concerning future hospital costs, relative to the remainder of the economy, is sufficiently great as to limit the usefulness of projections beyond 25 years. A precise prediction of the future is not possible, even in the short range; however, both short- and long-range estimates can be made, based on reasonable assumptions, which will indicate the trend and general range of future costs. (Source: 1979 HI Trustees Report.)

Also unlike the OASDI projections which show a long-range surplus under the optimistic assumptions, the current financial projections of the Al program show no circumstances in which there would be a long-run actuarially balanced system. Under each of its three alternative sets of assumptions, the 1979 HI Trustees Report shows an actuarial imbalance. The following table shows the magnitude of the imbalance resulting under the three alternative projections:

TABLE 24.—ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM, UNDER ALTERNATIVE SETS OF ASSUMPTIONS

[As percent of taxable payroll]

| | Alternative | | |
|---|---|---|---|
| | Optimistic | Intermediate | Pessimistic |
| Average contribution rate, scheduled under present law [1] | 2.78 | 2.78 | 2.78 |
| Average cost of the program, for expenditures and for trust fund building and maintenance | 3.11 | 3.82 | 4.88 |
| Actuarial balance | −.33 | −1.04 | −2.10 |

[1] Average for the 25-year period 1979 to 2003.

Source: 1979 HI Trustees Report.

It should be noted, however, that while the HI trustees report reflects a long-range deficit during the next 25-year period under a full range of possible circumstances, the recent forecasts of the financial condition of the program by the Administration show the program to be in actuarial balance at least through the end of the decade. The reserve situation over the next 10 years, as shown in appendix table 40, is actually better under the Administration's latest forecast, than under the optimistic assumptions in the 1979 trustees report. This, however, assumes implementation and full effectiveness of several proposed changes in the administration of the program.

## III. Financing Alternatives

As indicated in the earlier sections of this document, two separate but closely related issues are faced by the committee: the need to assure adequate funds to meet benefit obligations and the issue of whether and in what way to lessen the impact of scheduled payroll tax increases. Several alternative approaches to these issues are possible.

### REALLOCATION OF TRUST FUND RECEIPTS AND AUTHORITY FOR INTERFUND LOANS

Even in the absence of any action to modify the scheduled increases in payroll tax rates or the tax base, the financial status of the trust funds will require legislative action to assure that benefit obligations can be met over the next few years. One action which might be taken to deal with cash flow problems in the OASI Trust Fund is a reallocation of income among the trust funds.

In its interim report of January 11, 1980 to the President and the Congress, the National Commission on Social Security recommended a reallocation of tax receipts from the DI program to the OASI program. The reallocation would be permanent and would not involve the HI program. This was one element of a four part recommendation to assure that the financing of the program is adequate enough in the near term to avoid cash-flow problems. The Commission's report states:

> It is clearly evident to the Commission that the OASI system needs additional financing in the short run, whereas the DI system has more than adequate short-term financing when considered from a cash-flow standpoint.
>
> The first step that should be taken to improve the financial status of OASI is to increase its allocation from the combined OASDI tax to the extent that this can be done while assuring adequate financing of the DI program. The amount of the employer rate and the employee rate transferred from DI to OASI is 0.125 percent in 1981–84, 0.2 percent in 1985–89, and 0.1 percent in 1990 and after. (Source: Interim Report of the National Commission on Social Security, Jan. 11, 1980.)

The Commission's report show the reserve balances resulting from this reallocation using both the pessimistic economic assumptions in the 1979 trustees report as well as an even more pessimistic forecast developed specifically for the use of the Commission. The following table shows the reserve levels of the OASI and DI trust funds under these two different sets of assumptions reflected in the Commission's report.

TABLE 25.—ESTIMATED TRUST FUND RESERVE RATIOS RESULTING FROM THE REVISED ALLOCATION OF THE TAX RATE RECOMMENDED BY THE NATIONAL COMMISSION ON SOCIAL SECURITY

| Calendar year | Reserves at the beginning of the year as a percent of outgo during the year | | | |
|---|---|---|---|---|
| | Trustees report pessimistic assumptions | | National Commission's assumptions | |
| | OASI | DI | OASI | DI |
| 1980 | 23 | 34 | 23 | 34 |
| 1981 | 16 | 39 | 15 | 37 |
| 1982 | 14 | 37 | 13 | 33 |
| 1983 | 13 | 36 | 11 | 30 |
| 1984 | 12 | 34 | 9 | 28 |
| 1985 | 11 | 33 | 8 | 26 |

Source: Interim report of the National Commission on Social Security, Jan. 11, 1980.

Using its own pessimistic economic assumptions, the National Commission concludes that its proposed reallocation would still produce results for the OASI trust fund in the short run that are unsatisfactory, since the OASI reserve balance could fall below the level of one month's benefits. Given this possible situation, the Commission further recommends the creation of a borrowing authority to allow for loans from the DI and HI trust funds to the OASI trust fund, as well as loans from the General Fund of the Treasury to OASI trust fund if necessary. The Commission's report states:

> Because of the possibility that economic conditions in the next few years may be worse than the Commission and others have assumed, reallocation of the OASDI tax rates may not provide sufficient funds to assure prompt payment of benefits. The Commission therefore recommends that legislation be enacted authorizing the OASI trust fund to borrow moneys from either the DI trust fund or the Hospital Insurance Trust Fund when needed to assure prompt payment of benefits, provided that the other trust fund can make the loan without jeopardizing its own cash-flow position. It seems likely that this borrowing authority will be sufficient to meet the cash-flow needs of the OASI Trust Fund. If it is not, the Commission also recommends that legislation be enacted authorizing the OASI Trust Fund to borrow from the general fund of the Treasury. (For consistency, the same borrowing

authority should be made available to the DI Trust Fund). (Source: Interim Report of the National Commission on Social Security, Jan. 11, 1980.)

As part of its legislative recommendations in its fiscal year 1981 budget, the Administration also has proposed the creation of a borrowing authority under which the OASI trust fund could receive loans from the DI and HI trust funds.

The Department of Health and Human Service's press release on the fiscal year 1981 budget states:

> The major issue affecting the social security trust funds is that continuing high inflation and anticipated increases in unemployment may have an adverse effect on the financial status of the Old Age and Survivors' (OASI) Trust Fund by 1982. However, overall resources in the three trust funds financed by the payroll tax (OASI, Disability Insurance and Hospital Insurance) will be adequate throughout this period, based on the tax increases now scheduled to take effect in 1981 and in later years. The Administration is therefore recommending an interfund borrowing authority to ensure against any possible shortfalls in OASI. (Source: Press release from Department of Health and Human Services on the fiscal year 1981 budget, January 28, 1980.)

Under the Administration's proposal, the interfund borrowing authority would apply to all three of the trust funds, OASI, DI and HI. It would be triggered whenever the assets of one of the trust funds fell to a level of less than 25 percent of the outgo from that fund during the preceding 12-month period. The Managing Trustee (the Secretary of the Treasury) would have the discretion to determine from which of the other two funds the loan would be made (if not from both), as well as the amount of the loan. The loan would be repaid with interest whenever the assets of the borrowing trust fund reached a level of 30 percent or more of the outgo from that fund during the preceding 12-month period. The borrowing authority would expire in fiscal year 1990.

Under the Administration's current trust fund projections, a loan for the OASI trust fund would be triggered in 1980 since reserves are expected to fall below the 25-percent trigger sometime during the year. The current projections also show that the loan(s) could not be repaid prior to the expiration of the borrowing authority in 1990.

One purpose of maintaining separate trust funds for the retirement, disability, and medicare programs is that of calling attention to developing problems in each of these programs which might be masked if they were funded out of a common account. Congress has on several occasions in the past acted to change the proportions of the overall social security tax allocated to the different trust funds in order to accommodate changing projections and to assure that each of the funds will be adequately financed. In doing so, however, the Congress has up to now made all such changes by specific legislative action and required that further legislation be sought if the need for reallocation again arose. The present imbalance in the trust funds could be addressed by this same type of specific legislative reallocation.

Given the current projections, either a proposal to reallocate the tax rates among the trust funds or to allow for interfund borrowing would be inadequate if confined solely to the OASI and DI trust funds. Use of HI reserves would be necessary in addition to those of the DI fund to shore up the OASI trust fund.

The following table shows a possible reallocation of the existing overall tax rates for the next five years between the OASI, DI and HI trust funds. The intent of this possible reallocation would be to create equal reserves in the three trust funds by 1985.

## TABLE 26.—POSSIBLE REVISED ALLOCATION OF THE SOCIAL SECURITY TAX RATES, 1980 TO 1985 [1]

[In percent]

| Calendar year | OASDHI tax rates (employee/employer) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Present law | | | | | Possible revised allocation | | | | |
| | OASDI | OASI | DI | HI | Total | OASDI | OASI | DI | HI | Total |
| 1980...... | 5.08 | 4.330 | 0.750 | 1.05 | 6.13 | 5.08 | 4.330 | 0.750 | 1.05 | 6.13 |
| 1981...... | 5.35 | 4.525 | .825 | 1.30 | 6.65 | 5.70 | 5.075 | .625 | .95 | 6.65 |
| 1982...... | 5.40 | 4.575 | .825 | 1.30 | 6.70 | 5.70 | 5.075 | .625 | 1.00 | 6.70 |
| 1983...... | 5.40 | 4.575 | .825 | 1.30 | 6.70 | 5.70 | 5.025 | .675 | 1.00 | 6.70 |
| 1984...... | 5.40 | 4.575 | .825 | 1.30 | 6.70 | 5.65 | 4.975 | .675 | 1.05 | 6.70 |
| 1985...... | 5.70 | 4.750 | .950 | 1.35 | 7.05 | 5.70 | 5.005 | .695 | 1.35 | 7.05 |

[1] Based on administration's fiscal year 1981 budget assumptions.

Source: Office of Actuary, SSA.

As indicated earlier in this document, the combined reserves of the three funds are barely adequate to maintain cash flow over the next several years under present projections and would be likely to prove inadequate if there is another economic downturn or inflationary spurt. Moreover, the long-range status of the programs are in deficit and, in particular, the hospital insurance program faces a projected deficit over the next 25-year period. Consequently, proposals for borrowing or reallocations among the funds represent only temporary solutions to the financing problems of the trust funds.

## IMPACT OF TAX BASE

The financing of the social security program involves both a tax rate which is paid by employers and employees as a percentage of each worker's wages and a tax base which limits the total annual earnings per employee to which the rate applies. In making changes to the financing of the program in previous years, Congress has altered both the tax rate and the tax base. In the 1977 amendments, the tax base was substantially increased so that it now is scheduled to be maintained at a level which will result in about 90 percent of all wages being subject to the social security tax rate.

The interrelationship of the tax rate and the tax base can be illustrated by showing how the rates and bases could be changed without altering the overall level of social security tax revenues. At one extreme, the earnings base might be raised to higher levels than are currently scheduled with a commensurate reduction in the tax rate, or at the other extreme the earnings base might be frozen at its current level or even reduced with a commensurate increase in the tax rate. A change of this type would not alter the amount or nature of financing of the system—which would still be derived from a payroll tax—but it would alter the distribution of the tax burden. Deriving new revenues by increasing the earnings base places more of the tax burden on higher income workers. Raising the new revenues through an increase in the tax rate tends to place more of the burden on lower income workers where the increase in taxes represents a greater percentage of the worker's earnings than it does for persons whose earnings exceed the taxable earnings base. However, it should be noted that an increase in the earnings base would ultimately result in higher benefit expenditures, because it would increase the "average monthly earnings" of many workers for benefit computation purposes. An increase in the tax rate would result in no new benefit obligations.

The following table shows the effects of three hypothetical changes to the current earnings base provisions. As previously mentioned the earnings base is $25,900 in 1980 and will rise to $29,700 in 1981. In subsequent years, it will rise at the same rate as earnings in the economy rise. The first alternative would reduce the earnings base to the 1979 level of $22,900 and freeze it at that level. The second alternative would freeze the earnings base at the current 1980 level of $25,900. Under both changes the earnings base would not rise automatically in the near term. The third alternative would remove the earnings base limit entirely. All earnings would be subject to the tax. The table shows the change in the percent of the population whose entire earnings would fall below the earnings base under these proposals. (Tables 55 and 56 in the appendix show the historical percentages of covered workers whose earnings are above and below the earnings base, as well as the aggregate amount of earnings from covered employment upon which the tax is levied.) The lower portion of the table shows the increase in the tax rates needed to make up for the lost revenues resulting from the two possible earnings base freezes, and the tax rate reduction which could be made by removing the earnings base limit.

TABLE 27.—PERCENTAGE OF ALL COVERED WORKERS WITH TOTAL EARNINGS BELOW EARNINGS BASE, AND PERCENTAGE OF TOTAL EARNINGS IN COVERED EMPLOYMENT THAT IS TAXABLE TO WORKERS, UNDER PRESENT LAW AND VARIOUS ALTERNATIVES, CALENDAR YEARS 1978-83

| Calendar year | Maximum taxable earnings [1] | Percentage of all covered workers with total earnings below maximum contribution and benefit base | Percentage of total earnings in covered employment that is taxable to workers |
|---|---|---|---|
| Present law: | | | |
| 1978 | $17,700 | 84.9 | 84.1 |
| 1979 | 22,900 | 90.3 | 87.9 |
| 1980 | 25,900 | 91.3 | 88.6 |
| 1981 | 29,700 | 92.6 | 89.7 |
| 1982 | 32,400 | 92.4 | 89.6 |
| 1983 | 35,400 | 92.3 | 89.5 |
| Earnings base frozen at the 1979 level: | | | |
| 1980 | 22,900 | 87.8 | 86.1 |
| 1981 | 22,900 | 85.2 | 84.3 |
| 1982 | 22,900 | 81.9 | 81.9 |
| 1983 | 22,900 | 78.6 | 79.2 |
| Earnings base frozen at the 1980 level: | | | |
| 1980 | 25,900 | 91.3 | 88.6 |
| 1981 | 25,900 | 89.1 | 87.2 |
| 1982 | 25,900 | 86.1 | 85.1 |
| 1983 | 25,900 | 83.0 | 82.7 |

See footnote at end of table.

TABLE 27.—PERCENTAGE OF ALL COVERED WORKERS WITH TOTAL EARNINGS BELOW EARNINGS BASE, AND PERCENTAGE OF TOTAL EARNINGS IN COVERED EMPLOYMENT THAT IS TAXABLE TO WORKERS, UNDER PRESENT LAW AND VARIOUS ALTERNATIVES, CALENDAR YEARS 1978-83—Continued

| Calendar year | Maximum taxable earnings [1] | Percentage of all covered workers with total earnings below maximum contribution and benefit base | Percentage of total earnings in covered employment that is taxable to workers |
|---|---|---|---|
| Earnings base eliminated after 1979: | | | |
| 1980 | Unlimited | 100.0 | 100.0 |
| 1981 | Unlimited | 100.0 | 100.0 |
| 1982 | Unlimited | 100.0 | 100.0 |
| 1983 | Unlimited | 100.0 | 100.0 |

[1] Under the alternative earnings base schedules, changes in the tax rate schedule would also be necessary if total OASDHI tax income is to remain approximately the same as under present law. The following table indicates such modified OASDHI tax rates (employee and employer, each) through 1985.

[In percent]

| Calendar year | Present law | With wage base frozen after 1979 | With wage base frozen after 1980 | With wage base eliminated after 1979 |
|---|---|---|---|---|
| 1980 | 6.13 | 6.13 | 6.13 | 6.13 |
| 1981 | 6.65 | 7.13 | 6.82 | 6.11 |
| 1982 | 6.70 | 7.65 | 7.25 | 6.08 |
| 1983 | 6.70 | 7.65 | 7.25 | 6.08 |
| 1984 | 6.70 | 7.65 | 7.25 | 6.08 |
| 1985 | 7.05 | 8.40 | 8.10 | 6.05 |

Source: Office of Actuary, SSA.

The following table shows the amount and percent increase in the payroll taxes to be paid by workers at various earnings levels under these alternatives.

TABLE 28.—PAYROLL TAXES REQUIRED OF WORKERS AT VARIOUS EARNINGS LEVELS UNDER PRESENT LAW AND AS A RESULT OF VARIOUS HYPOTHETICAL CHANGES IN THE EARNINGS BASE

| Calendar year | OASDHI tax rates (percent)[1] | Earnings base | $10,000 wage earner: Annual contributions | $10,000 wage earner: Increase over prior year | $20,000 wage earner: Annual contributions | $20,000 wage earner: Increase over prior year | $100,000 wage earner: Annual contributions | $100,000 wage earner: Increase over prior year |
|---|---|---|---|---|---|---|---|---|
| Present law: | | | | | | | | |
| 1978 | 6.05 | $17,700 | $605 | $20 | $1,070.85 | $105.60 | $1,070.85 | $105.60 |
| 1979 | 6.13 | 22,900 | 613 | 8 | 1,226.00 | 155.15 | 1,403.77 | 332.92 |
| 1980 | 6.13 | 25,900 | 613 | | 1,226.00 | | 1,587.67 | 183.90 |
| 1981 | 6.65 | 29,700 | 665 | 52 | 1,330.00 | 104.00 | 1,975.05 | 387.38 |
| 1982 | 6.70 | 32,400 | 670 | 5 | 1,340.00 | 10.00 | 2,170.80 | 195.75 |
| 1983 | 6.70 | 35,400 | 670 | | 1,340.00 | | 2,371.80 | 201.00 |
| 1984 | 6.70 | 39,000 | 670 | | 1,340.00 | | 2,613.00 | 241.20 |
| 1985 | 7.05 | 42,900 | 705 | 35 | 1,410.00 | 70.00 | 3,024.45 | 411.45 |
| Base frozen at 1979 level: | | | | | | | | |
| 1980 | 6.13 | 22,900 | 613 | 8 | 1,226.00 | | 1,403.77 | |
| 1981 | 7.13 | 22,900 | 713 | 100 | 1,426.00 | 200.00 | 1,632.77 | 229.00 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 1982 | 7.65 | 22,900 | 765 | 52 | 1,530.00 | 104.00 | 1,751.85 | 119.08 |
| 1983 | 7.65 | 22,900 | 765 | ... | 1,530.00 | ... | 1,751.85 | ... |
| 1984 | 7.65 | 22,900 | 765 | ... | 1,530.00 | ... | 1,751.85 | ... |
| 1985 | 8.40 | 22,900 | 840 | 75 | 1,680.00 | 150.00 | 1,923.60 | 171.75 |
| Base frozen at 1980 level: | | | | | | | | |
| 1980 | 6.13 | 25,900 | 613 | 8 | 1,226.00 | ... | 1,587.67 | 183.90 |
| 1981 | 6.82 | 25,900 | 682 | 69 | 1,364.00 | 138.00 | 1,766.38 | 178.71 |
| 1982 | 7.25 | 25,900 | 725 | 43 | 1,450.00 | 86.00 | 1,877.75 | 111.37 |
| 1983 | 7.25 | 25,900 | 725 | ... | 1,450.00 | ... | 1,877.75 | ... |
| 1984 | 7.25 | 25,900 | 725 | ... | 1,450.00 | ... | 1,877.75 | ... |
| 1985 | 8.10 | 25,900 | 810 | 85 | 1,620.00 | 170.00 | 2,097.90 | 220.15 |
| Elimination of base after 1979: | | | | | | | | |
| 1980 | 6.13 | [2] | 613 | 8 | 1,226.00 | ... | 6,130.00 | 4,726.23 |
| 1981 | 6.11 | [2] | 611 | −2 | 1,222.00 | −4.00 | 6,110.00 | −30.00 |
| 1982 | 6.08 | [2] | 608 | −3 | 1,216.00 | −6.00 | 6,080.00 | −30.00 |
| 1983 | 6.08 | [2] | 608 | ... | 1,216.00 | ... | 6,080.00 | ... |
| 1984 | 6.08 | [2] | 608 | ... | 1,216.00 | ... | 6,080.00 | ... |
| 1985 | 6.05 | [2] | 605 | −3 | 1,210.00 | −6.00 | 6,050.00 | −30.00 |

[1] Hypothetical rates which would produce the same revenue as the present law rates and base.

[2] Eliminate wage base after 1979.

Source: Office of the Actuary, Feb. 5, 1980.

## TAX RELIEF ALTERNATIVES

The reallocation or borrowing proposals could be used to meet the very short term financial problems otherwise facing the social security system. However, such action will not suffice to fully restore the long-range solvency of the program nor will it allow for any reduction in or offset against the now scheduled payroll tax levels. Addressing these issues would require new sources of revenues or reductions in benefit liabilities or a combination of both.

In an effort to assure budgetary flexibility for some action to address the issues of offsetting the social security tax burden, the committee recommended and the Senate passed provisions of the Crude Oil Windfall Profits Tax Act of 1979 (H.R. 3919) setting aside the added general revenues resulting from the decontrol of oil prices through creation of a "Taxpayer's Trust Fund." The committee report to the Senate on the bill states:

> The significant social security tax increases which are scheduled for 1981 were enacted as a part of the 1977 Social Security Amendments to assure that adequate resources would be available to enable that program to meet its benefit obligations. That need continues to be a matter of high priority. At the same time, the committee is keenly aware of the importance of exploring ways to reduce the heavy burden of payroll taxation, particularly in the light of the existing situation in which taxpayers also face the economic impact resulting from the decontrol of oil prices. The committee addressed this problem in 1978 through a general reduction in income taxes which tended to offset the impact of social security tax increases at that time. The committee anticipates that it will want to take some action in 1980 to address the problems which the economy generally and taxpayers individually would otherwise face when the 1981 social security taxes become effective. However, the importance of that program to the economic security of millions of Americans requires that the problem be addressed only after careful study and consideration of the financing needs of the social security program. The committee fully intends promptly to commit itself to such careful study with a view to making recommendations in this area to the Senate early next year. The committee is concerned, however, over the possibility that its ability to take the action which might be most appropriate and desirable could be foreclosed if adequate budgetary resources are not now set aside. For this reason, the committee substitute provides for the establishment of the Taxpayer Trust Fund using increases in income tax revenues which will result from decontrol of oil prices * * *.

The committee substitute sets aside in a newly established Taxpayer Trust Fund an amount equivalent to general revenues received as a result of oil price decontrol in an amount sufficient to offset the scheduled 1981 increases in social security taxes (about $18.7 billion). The committeee is not at this time recommending such a modification in the financing of social security, but the committee intends to study this issue carefully next year. The establishment of the Taxpayer Trust Fund would assure that adequate revenues have been set aside for the action the committee may recommend next year.

*Leaving the Payroll Tax Structure in Place, But Making Offsetting Reductions in Income Taxes*

One approach to provide relief from the upcoming payroll tax increases is to allow the scheduled payroll tax increases to go into effect, but make offsetting reductions in income taxes. This would be similar to the action taken by the 95th Congress in the Revenue Act of 1978 when it reduced individual income taxes to offset the increases in 1979 payroll taxes.

Under this approach, overall income tax reductions amounting to $1 billion in calendar year 1980, $15 billion in 1981, and $20 billion in 1982 would be needed to offset the aggregate new revenues arising from the payroll tax increases beginning in 1980. The payroll tax increases will not be proportional for workers of all incomes. The increases in the earnings base in 1980 and 1981 will result in relatively larger increases in social security taxes for persons with annual earnings in the low $20,000 range and higher. For example, an individual with annual earnings of $15,000 will have a payroll tax increase of 8 percent in 1981 over 1980. An individual with annual earnings of $30,000 will have a payroll tax increase of approximately 20 percent in 1981 over 1980. Consequently, an income tax reduction intended to closely offset the approximate payroll tax increases for persons in various earnings groups would have to be scaled up in size for persons with relatively higher earnings.

Proposals to provide income tax relief to take account of rising social security taxes have been introduced by Representatives Gephardt (H.R. 4990) and Senator Eagleton (S. 1719). H.R. 4990 and S. 1719 would provide for an income tax credit equal to 20 percent of each individual's annual payroll taxes for calendar years 1980 and 1981. The credit would be available to individuals for whom taxes are due and to those entitled to refunds. The credit would be provided on the employer's share, but would act to reduce the employer's income tax deduction for such payments currently allowed under the Internal Revenue Code.

In contrast to the across-the-board approach in the Revenue Act of 1978, this approach limits the income tax reductions only to those who actually pay social security taxes.

In estimates prepared last summer by the Joint Committee on Taxation, the following reductions in Federal revenues were projected to result from H.R. 4990:

TABLE 29.—ESTIMATED REVENUE LOSS RESULTING FROM INCOME TAX CREDIT EQUIVALENT TO 20 PERCENT OF SOCIAL SECURITY TAX

[In billions of dollars]

| | 1980 | 1981 |
|---|---|---|
| Calendar year basis | $22.7 | $27.4 |
| Fiscal year basis | 15.8 | 26.1 |

Source: Staff of the Joint Committee on Taxation.

H.R. 4990 and S. 1719 would reduce aggregate income taxes by more than the amount of the aggregate revenues that would be brought about by the payroll tax increases.

*Substituting New Sources of Revenue for a Portion of the Payroll Tax*

Given the pay-as-you-go nature of the social security programs and the relatively minor role played by the assets of the trust funds as contingent reserves, a substantial reduction in the payroll tax can be accomplished only through the substitution of alternative revenue sources or through a reduction of future benefit obligations. A payroll tax reduction by itself would leave the trust funds with insufficient revenues to pay benefits.

In consideration of the 1977 amendments, the Congress rejected the approach suggested by the Administration to turn to the General Fund of the Treasury to meet the near-term benefit requirements of the system, and adopted instead the more traditional approach of meeting the program's financial needs through an increase in the payroll tax rate and earnings base. Interest continues, however, in proposals to finance social security not only with infusions from the General Fund of the Treasury, but through the creation of new forms of taxation. A brief summary of some alternative revenue measures follows.

a. *General Fund financing.*—Proposals for the use of general revenues as a source of financing for social security are as old as the system itself. In 1935, the Committee on Economic Security under President Roosevelt, the architects of the program, had recommended to the President that a relatively large deficit anticipated to arise after 1965 under their plan be financed by general revenues. He rejected the recommendation in deference to a plan for a self-supporting system.

However, general revenue financing again was recommended by the 1938 Advisory Council on Social Security. The Council proposed a plan under which the costs of the program would be shared equally by employees, employers, and the Federal Government.

The Congress did not adopt the proposal. However, in 1944 the Congress did enact a "contingency" authority to appropriate general funds to the system if the need should arise. This was coupled with legislation which precluded the then 1-percent tax rate from increasing as had been previously scheduled. No use of the authority was anticipated at the time nor was the authority ever used since revenues throughout the 1940's far exceeded expectations.

The 1948 Advisory Council on Social Security again recommended a direct infusion of general funds into the system. This too was rejected by the Congress, and in 1950 the Congress went so far as to repeal the 1944 amendment authorizing the general fund "contingency."

General revenue financing reappeared in the OASDI program in 1965 as a means of financing noncontributory wage credits granted for military service. In 1966, authority was enacted to use general funds to reimburse the trust funds for benefits authorized to persons who reached age 72 prior to 1968 without earning any quarters of coverage. General funds also appeared in the medicare program in 1965 (i.e., upon enactment of the program) to finance the costs of blanketing in older noninsured persons under HI (part A of medicare). It should be noted that these uses of general revenues were not considered to be a major departure from the traditional method of financing the social security system. In the case of gratuitous military wage credits, the general fund payment was in the nature of an employer paying both the employer and employee share—a special benefit related to the period of military service. The Congress even expected that it would be part of the Defense Department's budget, rather than as part of the SSA budget. The general fund payments for the cash benefits provided to the noninsured and the blanketing-in of the noninsured under HI were to be explicitly related to the costs of the benefits provided; they were expected to be relatively small and, in time, disappear.

However, in 1965 the Congress did make one significant departure from the traditional method of the financing program changes. Instead of a payroll tax on employers and employees during their working years, the SMI program (part B of medicare) was initially funded half from beneficiary premiums and half from a government contribution from general funds. As a result of legislation in the early 1970s, limiting annual premium increases to no more than the annual percentage increases in social security cash benefits, the government share of part B has actually grown and now represents 71 percent of the cost of that program.

Recent advisory councils have continued the theme of expanding the use of general revenues in the system, but only for the medicare program.

The 1965 Advisory Council recommended the limited use of general revenues for hospital insurance to cover the cost of benefits for the uninsured (as previously mentioned, this was enacted).

The 1971 Advisory Council recommended that one-third of the combined cost of the HI and SMI programs (medicare parts A and B) be financed from the general revenues.

The 1975 Advisory Council recommended consideration of gradually shifting the entire cost of the HI program to the general revenues and using the then legislated HI payroll tax rate to solve the financing problems of the OASDI program.

Neither the 1971 nor 1975 Council's recommendation was acted on by Congress.

The 1979 Advisory Council also endorsed the infusion of general revenues into the HI program. This Council's approach differs from the prior Councils' suggestions in that it would provide for a special allocation or earmarking of general funds in place of a portion of the payroll tax now earmarked for HI. The remaining portion of the payroll tax earmarked for HI would be diverted to OASDI. The council recommended that a certain portion of each individual's income tax would be identified—on a separate line on the tax return—as being his medicare tax. The council further proposed that those taxes be matched from general revenues and that the matching funds be "designated as coming from corporation income tax collections."

Another approach for the use of general funds in the system is the one approved by the House when it passed the 1977 amendments, under which standby authority for a loan from the General Fund of the Treasury would be created. The House-passed bill called for such a loan whenever the assets of either of the trust funds at the end of a calendar year amounted to less than 25 percent of the expenditures during that year. Repayment of the loan and imposition of additional taxes would have been required under certain conditions. The provision was eliminated in conference.

Yet another approach, included in the Administration's bill leading up to the 1977 amendments is that whenever the economy takes a noticeable downturn, as indicated by an unemployment rate in excess of 6 percent, general revenues be provided to the system to make up for the payroll tax revenues lost because of the slump. An amount equal to the difference between the social security taxes actually paid and those that would have been collected for the year if unemployment had been no more than 6 percent would be transferred from the General Fund of the Treasury to the trust funds. The plan was referred to as "countercyclical" general revenue financing. Neither the House nor Senate adopted this idea in their bills leading up to the amendments. This proposal also was endorsed by the recent Advisory Council.

A number of bills were introduced in the first session of the 96th Congress proposing the use of general revenues to finance the system. A number of them renew the idea of the Federal Government as an equal partner in supporting the system, with the Government picking up a third of its cost. Others propose that some or all of the portion of the payroll tax going to HI be reallocated to OASDI or that the DI portion be reallocated to OASI and HI. Still other bills would infuse general revenues into both HI and DI.

b. *Mandatory, universal coverage.*—As is the idea of using general revenues in the social security system, recommendations to mandate the coverage of government workers under the social security system (as well as other noncovered workers) are as old as the system itself. Recommendations to cover Federal civilian employees were made by the 1938, 1948, 1971, 1975 and 1979 Advisory Councils on Social Security. In 1954, a congressionally mandated study group (the Kaplan committee) recommended coverage of Federal and military employment. In 1960 and 1965, the Ways and Means Committee directed that further studies be done. And again in 1967, the Congress mandated yet another study. None of these reports and studies resulted in options acceptable to the Congress, other than the extension of social security to military employment which became effective in 1957.

In its recommendations to the House leading up to the 1977 amendments, the Committee on Ways and Means proposed mandatory social security coverage of some 6 million jobs in Federal civilian, State and local, and nonprofit employment. The effective date of the provision was set for January 1, 1982, and if it had been enacted, about 97 percent of all employment in the United States would have come under the system (up from 90 percent today). An amendment introduced by Congressman Fisher on the floor of the House, proposing deletion of the mandatory coverage provision, was accepted by the House. However, a 2-year study of the extension was mandated. (The report of the study group was due to be submitted in December 1979; however, as of the time this document was printed, the report required by the legislation had not been submitted.)

The interest then and now in extending social security coverage to employment not currently under the system has its origin in both programmatic and financing concerns.

The programmatic concerns are stated in the report of the Committee on Ways and Means to the House on the 1977 amendments (H.R. 9346):

> There are gaps in protection of workers who have worked both under the CSR [Civil Service Retirement] system and social security; some employees only qualify for benefits under one system so that their benefits are not based on their lifetime earnings and contributions to both systems, while other employees fail to get benefits under either system. The second problem is that many employees who have worked under both systems are able to qualify for social security benefits by working for relatively short periods in jobs covered under social security, and to also qualify for substantial CSR benefits.
>
> These social security benefits generally are based on substantially less than a full lifetime of covered work and are

> heavily weighted and represent a very high return on the employee's contributions. This situation is unfair to all workers covered under social security and to their employers, who must bear the cost of the windfall benefits payable to Federal employees. (H. Rept. 95-702.)

Similar concerns are expressed about employees of State and local governments and nonprofit organizations whose jobs are not covered by social security. There also is concern that if many of the employees of State and local governments which are currently under the system exercise their option to withdraw, this could have a rather large negative impact on social security revenues.

As for the financing implications of mandatory coverage, depending on the method used, the extensions of coverage could result in significant increases in revenues to the social security system in the short run. Under the bill reported by the Committee on Ways and Means prior to House action on the 1977 amendments, the proposed extensions were estimated to bring in new revenues amounting to $14.7 billion in 1982 and $17.8 billion in 1983 (including HI revenues)—while outlays resulting from the new coverage would have been negligible in 1982 and amounted to less than $100 million in 1983.

The action proposed by the Ways and Means Committee might be considered as one end of the spectrum, since it would have blanketed-in all workers in noncovered employment regardless of their age or length of service in their government jobs. The other extreme which is reflected in a number of more recent proposals, including that of the recent Advisory Council, would be to cover only new government workers on a mandatory basis. The added financing from this approach would be much less significant, but still substantial, as reflected by the following estimates of added revenues:

TABLE 30.—REVENUES RESULTING FROM COVERAGE OF NEW EMPLOYEES ENTERING EMPLOYMENT NOT PRESENTLY COVERED BY SOCIAL SECURITY BEGINNING JAN. 1, 1981

| Calendar year | Billions [1] |
|---|---|
| 1981 | $0.6 |
| 1982 | 1.5 |
| 1983 | 2.5 |
| 1984 | 3.4 |
| 1985 | 4.6 |

[1] Based on administration's mid-session 1979 economic assumptions.

Source: Office of the Actuary, Social Security Administration.

The long-range savings estimated to result from this proposal is roughly 0.5 percent of taxable payroll. Slightly more than half of this savings is estimated to result from elimination of the "windfall benefits" now attributed to the dual benefit structure. The remainder is due to the revenue surplus resulting from the initial transition to full coverage.

*Reduction of Payroll Taxes With Offsetting Reductions in Future Benefit Obligations*

It would also be possible to lower the upcoming payroll tax increases by reducing the future benefit obligations of the system. Given that the estimated revenues from the tax increases will total more than $125 billion in the 1980–85 period, the benefit reductions needed to completely offset the increases would have to be massive and could only be achieved by reducing benefits for both new beneficiaries and persons already on the benefit roll. Other proposals would only affect new beneficiaries and have relatively small financial effects in the short run, but would result in rather large reductions in program costs 5 to 10 years into the future.

a. *Altering the benefit formula.*—The benefit formula was changed substantially with the passage of the Social Security Amendments of 1977. The so-called decoupling provisions, by maintaining replacement rates (the ratio of benefits to prior earnings) at roughly constant levels through time, were intended to avoid the situation which would have occurred under the prior law where many future beneficiaries ultimately would have received more in benefits than they made in their final year of working. The approach adopted in the 1977 amendments is referred to as "wage indexing." The principle behind it is that each generation of future retirees should have roughly the same proportion of their pre-retirement earnings replaced by social security benefits as the preceding one. For instance, a typical worker with average earnings retiring at age 65 in 1983 will receive benefits representing approximately 42 percent of his last year's earnings. Under the "wage-indexing" provisions the typical worker with average earnings retiring at age 65 in the year 2002 also will receive benefits representing about 42 percent of his last year's earnings.

Prior to enactment of the amendments, alternatives to the "wage-indexing" approach were considered. These approaches typically involved the use of a price index where a wage index is now used in the computation of benefits.

Under the new wage-indexing procedure, the worker's earnings used to compute his "average monthly earnings" amount for social security purposes are indexed to reflect what they would be if earned today (actually they are indexed to the year in which the retired worker reaches age 60 or to the second year prior to the worker's death or onset of disability). Each year of countable earnings is raised to the level it would have been if it had been earned during the more recent year.

Also indexed are the so-called "bend points" in the benefit formula. These are the two points in the benefit formula at which average indexed monthly earnings are converted into benefits at a lower percentage rate. For instance, in 1980 the benefit formula for newly awarded benefits will be 90 percent of the first $194 of average indexed monthly earnings (AIME), 32 percent of the next $977 of AIME and 15 percent for the remaining AIME. The bend points are $194 and $1,171. These dollar amounts will be raised each year to reflect rising earnings levels.

At the time of enactment of the 1977 amendments it was expected that wages would tend to rise faster than prices (as had generally been the situation in the past) and thus a price-indexed formula would result in lower benefits for future retirees than a wage-indexed one.

Where a wage-indexed system was perceived to keep replacement rates relatively constant through time, price indexing was expected to result in a gradual decline in future replacement rates. In other words, each new successive cohort of beneficiaries would be expected to receive benefits representing a slightly lower percentage of their preretirement earnings than the preceding cohort of retirees.

This long-run perspective about the relationship of wages and prices did not ignore the possibility that periods might arise in which prices would climb at a faster pace than wages. Nonetheless, the assumptions used at that time did not actually anticipate any specific point in the future where wages would grow at a slower rate than prices.

The more current economic indicators, however, show that such a situation occurred in 1979. Under the Administration's latest economic report (as reflected in its fiscal year 1981 Budget), the difference between the increases in wage and price levels—frequently referred to as the real-wage differential—is estimated to have been a minus 3.2 percent in 1979. For 1980, the real wage differential is estimated to be minus 2.7 percent. What this means is that prices are growing at a faster rate than wages and consequently any immediate action taken to peg the benefit formula in one way or another to changes in prices, using 1979, 1980 or 1981 as the base year, would result in higher benefits for persons retiring in the 1981–83 period than that which results from the current wage-indexed system. Thus, the overall costs of the system in the immediate future would be higher than those currently projected. Under the extremely volatile economic assumptions now being used, a price-indexed system could not begin to reduce cost until 1984 at the earliest.

While wage-indexing and price-indexing were the two principal alternatives considered in 1977 when the benefit formula was being reexamined by the committee, there are numerous other ways in which the benefit formula could be altered to reduce the costs of the system.

For instance, rather than focusing attention on the method by which the benefit formula is to be adjusted over time, such as through the use of a wage-index or a price-index, the focus could be on establishing a flexible procedure for adjusting the benefit formula that has the goal of keeping costs at a level sustainable within the existing tax rate schedule.

In other words, the benefit formula could be pegged to the tax rate itself. The portion of the overall tax rate going to the OASDI program in 1980 is 5.08 percent (10.16 percent for the employee and employer, combined). The remaining portion, 1.05 percent, is earmarked for the HI program. A proposal whose purpose is to keep costs within the resources provided by the existing tax rate would allow adjustments to be made to the benefit formula only to the extent that such adjustments do not result in costs which exceed 10.16 percent of taxable payroll (the combined employee-employer OASDI rate).

A number of approaches could be considered to illustrate how the benefit formula could be altered in a way which brings the costs of the OASDI system down to a level sustainable by the current tax rate, Three such illustrative proposals are described below. The basic differences between the three proposals is the speed at which the cost of the system is brought down to 10.16 percent of taxable payroll.

The first proposal would make no adjustments in the bend points of the benefit formula beginning in 1981, and would continue the freeze until the cost of the system fell to 10.16 percent of taxable payroll. In other words the bend points would be frozen at their 1980 levels of $194 and $1.171 respectively for a number of years. Based on current economic assumptions, the "freeze" would be in effect until 1983. After that, wage-indexing of the bend points could be resumed.

The second proposal would increase the bend points at half of the rate of increase in prices or wages, whichever is lower, until the cost of the system was brought down to 10.16 percent of taxable payroll. Under current economic assumptions, this slower rate of change to the bend points than current law provides would continue until 1987, at which point wage-indexing of the bend points could be resumed.

The third proposal would increase the bend points at the full rate that prices increase (or wages if lower). Under current economic assumptions the switch to price adjustments wouldn't begin until 1984, since as previously mentioned under current economic assumptions wages will rise at a lower rate than prices until 1982. If the bend points were adjusted to reflect changes in prices, rather than wages, prior to 1984 (1981 being the year of measure for 1983 changes in the bend points) the cost of the system would simply increase. When prices again begin to rise at a slower rate than wages, a price index could be used to adjust the bend points with a resulting reduction in costs. Under current economic assumptions, full price-indexing of the bend points would bring the cost of the system down to 10.16 percent of taxable payroll in 1994. After that wage indexing could be resumed.

Under all three illustrative proposals, only the bend points in the benefit formula would be altered. It is assumed that wage-indexing of earnings histories would continue as it is done today. Other proposals could be devised that also alter the indexing provisions affecting earnings histories but these illustrative proposals were confined to adjustments in the bend points for the purpose of simplifying the discussion. Automatic cost-of-living adjustments also would continue for persons on the benefit roll as is done today.

The following tables show the impact of these proposals on the cost of the system, the tax rate needed to support it, and trust fund reserve balances. They also show the changes in replacement rates for representative workers and the differences in the growth of the purchasing power of the benefit that would result from these proposals.

# TABLE 31.—LONG-RANGE COST OF OASDI SYSTEM COMPARED TO TAX RATE UNDER PRESENT LAW AND UNDER 3 ALTERNATIVE PROPOSALS ALTERING BENEFIT FORMULA "BEND POINTS"

[In percent of taxable payroll]

| Calendar year | Present law tax rate (OASDI) | Expenditures of the OASDI system under: Present law | Bend points frozen for 3 years [1] | Bend points rise at ½ increase of CPI or wages [2] | Bend points rise at full rate of increase of CPI [3] |
|---|---|---|---|---|---|
| 1979 | 10.16 | 10.34 | 10.34 | 10.34 | 10.34 |
| 1980 | 10.16 | 10.89 | 10.89 | 10.89 | 10.89 |
| 1981 | 10.70 | 11.24 | 11.23 | 11.23 | 11.24 |
| 1982 | 10.80 | 11.25 | 11.23 | 11.24 | 11.25 |
| 1983 | 10.80 | 11.08 | 11.02 | 11.05 | 11.08 |
| 1984 | 10.80 | 10.90 | 10.80 | 10.85 | 10.90 |
| 1985 | 11.40 | 10.85 | 10.69 | 10.75 | 10.85 |
| 1986 | 11.40 | 10.84 | 10.61 | 10.68 | 10.83 |
| 1987 | 11.40 | 10.81 | 10.52 | 10.58 | 10.78 |
| 1988 | 11.40 | 10.77 | 10.42 | 10.47 | 10.73 |
| 1989 | 11.40 | 10.74 | 10.30 | 10.29 | 10.66 |
| 1990 | 12.40 | 10.72 | 10.19 | 10.11 | 10.58 |
| 1991 | 12.40 | 10.70 | 10.12 | 10.00 | 10.52 |
| 1992 | 12.40 | 10.67 | 10.05 | 9.89 | 10.44 |
| 1993 | 12.40 | 10.64 | 9.98 | 9.79 | 10.37 |
| 1994 | 12.40 | 10.63 | 9.92 | 9.70 | 10.30 |
| 1995 | 12.40 | 10.61 | 9.87 | 9.63 | 10.23 |
| 1966 | 12.40 | 10.59 | 9.81 | 9.54 | 10.15 |
| 1997 | 12.40 | 10.57 | 9.77 | 9.47 | 10.09 |
| 1998 | 12.40 | 10.57 | 9.73 | 9.41 | 10.04 |
| 1999 | 12.40 | 10.57 | 9.71 | 9.36 | 9.99 |
| 2000 | 12.40 | 10.57 | 9.68 | 9.31 | 9.95 |
| 2001 | 12.40 | 10.58 | 9.66 | 9.28 | 9.92 |
| 2002 | 12.40 | 10.61 | 9.67 | 9.27 | 9.92 |
| 2003 | 12.40 | 10.67 | 9.71 | 9.29 | 9.94 |

See footnotes at end of table.

## TABLE 31.—LONG-RANGE COST OF OASDI SYSTEM COMPARED TO TAX RATE UNDER PRESENT LAW AND UNDER 3 ALTERNATIVE PROPOSALS ALTERING BENEFIT FORMULA "BEND POINTS"—Continued

[In percent of payroll taxable]

| Calendar year | Present law tax rate (OASDI) | Expenditures of the OASDI system under: Present law | Bend points frozen for 3 years [1] | Bend points rise at ½ increase of CPI or wages [2] | Bend points rise at full rate of increase of CPI [3] |
|---|---|---|---|---|---|
| 2005 | 12.40 | 10.81 | 9.82 | 9.36 | 10.01 |
| 2010 | 12.40 | 11.58 | 10.51 | 9.99 | 10.64 |
| 2015 | 12.40 | 12.78 | 11.58 | 11.02 | 11.71 |
| 2020 | 11.40 | 14.29 | 12.94 | 12.31 | 13.08 |
| 2025 | 12.40 | 15.65 | 14.17 | 13.48 | 14.32 |
| 2030 | 12.40 | 16.41 | 14.86 | 14.13 | 15.02 |
| 2035 | 12.40 | 16.57 | 15.00 | 14.27 | 15.17 |
| 2040 | 12.40 | 16.30 | 14.75 | 14.03 | 14.91 |
| 2045 | 12,40 | 16.15 | 14.62 | 13.90 | 14.78 |
| 2050 | 12.40 | 16.18 | 14.65 | 13.93 | 14.81 |
| 2055 | 12.40 | 16.30 | 14.75 | 14.03 | 14.91 |
| 25-year averages: | | | | | |
| 1979–2003 | 11.76 | 10.74 | 10.24 | 10.10 | 10.48 |
| 2004–2028 | 12.40 | 13.25 | 12.01 | 11.43 | 12.16 |
| 2029–2053 | 12.40 | 16.31 | 14.77 | 14.05 | 14.93 |
| 75-year average: | | | | | |
| 1979–2053 | 12.19 | 13.43 | 12.34 | 11.86 | 12.52 |
| Long-range deficit (−) or surplus (+) | | −1.25 | −.15 | +.33 | −.34 |

[1] The 1980 PIA formula bend points ($194 and $1,171) are frozen for 3 years, through 1983. From 1984 on, the bend points increase by the increase in wages, as in present law.

[2] The 1980 PIA formula bend points ($194 and $1,171) increase by ½ of the lesser of the increase in wages or prices from 1981 to 1987. From 1988 on, the bend points increase by the increase in wages, as in present law.

[3] The 1980 PIA formula bend points ($194 and $1,171) increase by the lesser of the increase in wages or prices from 1981 to 1994. From 1995 on, the bend points increase by the increase in wages, as in present law.

Note: The above estimates are based on the fiscal year 1981 budget assumptions blended into the long-range intermediate assumptions of the 1979 trustees report.

Source: Office of the Actuary, SSA.

## TABLE 32.—NEAR TERM REDUCTIONS IN OASDI BENEFIT PAYMENTS UNDER 3 ALTERNATIVE PROPOSALS ALTERING BENEFIT FORMULA "BEND POINTS," CALENDAR YEARS 1981–89

[In billions]

| Calendar year | Bend points frozen for 3 years | Bend points rise at ½ CPI increase [1] | Bend points rise at full CPI increase [2] |
|---|---|---|---|
| 1981 | $0.1 | ([3]) | |
| 1982 | .4 | $0.2 | |
| 1983 | 1.0 | .5 | |
| 1984 | 2.0 | 1.1 | ([3]) |
| 1985 | 3.3 | 2.0 | $0.1 |
| 1986 | 4.9 | 3.4 | .3 |
| 1987 | 6.8 | 5.3 | .6 |
| 1988 | 8.9 | 7.6 | 1.0 |
| 1989 | 11.2 | 10.3 | 1.6 |

[1] Bend point increases based on increase in average wages, if less than increase in CPI. After 1987, bend points rise according to increase in average wages.
[2] Bend point increases based on increase in average wages, if less than increase in CPI.
[3] Less than $50 million.

## TABLE 33.—LONG-RANGE OASDI RESERVE BALANCES UNDER PRESENT LAW AND UNDER 3 ALTERNATIVE PROPOSALS ALTERING BENEFIT FORMULA "BEND POINTS"

[Expenditures at the beginning of the year as percent of outgo during the year]

| Calendar year | Reserves of the OASDI system under— | | | |
|---|---|---|---|---|
| | Present law | Bend points frozen for 3 years [1] | Bend points rise at ½ increase of CPI or wages [2] | Bend points rise at full rate of increase of CPI [3] |
| 1979 | 30 | 30 | 30 | 30 |
| 1980 | 24 | 24 | 24 | 24 |
| 1981 | 18 | 18 | 18 | 18 |
| 1982 | 12 | 12 | 12 | 12 |
| 1983 | [4] 8 | 8 | 8 | 8 |
| 1984 | [4] 5 | 6 | 5 | 5 |
| 1985 | [4] 3 | 5 | 4 | 3 |
| 1986 | [4] 7 | 11 | 9 | 8 |
| 1987 | [4] 12 | 18 | 15 | 12 |
| 1988 | [4] 17 | 25 | 23 | 17 |

See footnotes at end of table.

TABLE 33.—LONG-RANGE OASDI RESERVE BALANCES UNDER PRESENT LAW AND UNDER 3 ALTERNATIVE PROPOSALS ALTERING BENEFIT FORMULA "BEND POINTS"—Continued

[Expenditures at the beginning of the year as percent of outgo during the year]

| Calendar year | Reserves of the OASDI system under— | | | |
|---|---|---|---|---|
| | Present law | Bend points frozen for 3 years [1] | Bend points rise at ½ increase of CPI or wages [2] | Bend points rise at full rate of increase of CPI [3] |
| 1989 | [4] 22 | 34 | 31 | 23 |
| 1990 | [4] 28 | 45 | 42 | 30 |
| 1991 | [4] 43 | 66 | 65 | 46 |
| 1992 | [4] 58 | 88 | 88 | 64 |
| 1993 | [4] 74 | 111 | 114 | 82 |
| 1994 | [4] 90 | 135 | 141 | 102 |
| 1995 | [4] 106 | 160 | 169 | 122 |
| 1996 | [4] 122 | 186 | 199 | 144 |
| 1997 | [4] 139 | 213 | 230 | 166 |
| 1998 | [4] 156 | 240 | 262 | 189 |
| 1999 | [4] 173 | 268 | 294 | 213 |
| 2000 | [4] 189 | 296 | 328 | 238 |
| 2001 | [4] 206 | 323 | 361 | 262 |
| 2002 | [4] 221 | 350 | 394 | 286 |
| 2003 | [4] 230 | 376 | 426 | 310 |
| 2005 | [4] 263 | 424 | 486 | 355 |
| 2010 | [4] 301 | 507 | 596 | 434 |
| 2015 | [4] 292 | 533 | 643 | 460 |
| 2020 | [4] 236 | 503 | 630 | 430 |
| 2025 | [4] 144 | 439 | 581 | 365 |
| 2030 | [4] 33 | 362 | 523 | 285 |
| 2035 | ([5]) | 284 | 468 | 201 |
| 2040 | ([5]) | 210 | 424 | 120 |
| 2045 | ([5]) | 139 | 381 | 40 |
| 2050 | ([5]) | 65 | 335 | ([5]) |
| 2055 | ([5]) | ([5]) | 285 | ([5]) |

[1] The 1980 PIA formula bend points ($194 and $1,171) are frozen for 3 years, through 1983. From 1984 on, the bend points increase by the increase in wages, as in present law.

[2] The 1980 PIA formula bend points ($194 and $1,171) increase by ½ of the lesser of the increase in wages or prices from 1981 to 1987. From 1988 on, the bend points increase by the increase in wages, as in present law.

[3] The 1980 PIA formula bend points ($194 and $1,171) increase by the lesser of the increase in wages or prices from 1981 to 1994. From 1995 on, the bend points increase by the increase in wages, as in present law.

[4] This figure is theoretical, because the OASI trust fund is projected to be exhausted.

[5] The combined reserve balance is projected to be zero.

## TABLE 34.—REPLACEMENT RATES FOR WORKER WITH AVERAGE EARNINGS UNDER PRESENT LAW AND 3 ALTERNATIVE PROPOSALS ALTERING BENEFIT FORMULA "BEND POINTS" [1]

[In percent]

| Calendar year | Replacement rates for worker with average earnings | | | |
|---|---|---|---|---|
| | Present law | Bend points frozen for 3 years [2] | Bend points rise at ½ rate of increase of CPI or wages [3] | Bend points rise at full rate of CPI increase [4] |
| 1979 | 48.1 | 48.1 | 48.1 | 48.1 |
| 1980 | 51.0 | 51.0 | 51.0 | 51.0 |
| 1985 | 41.6 | 39.9 | 40.7 | 41.6 |
| 1990 | 41.6 | 39.0 | 37.3 | 40.8 |
| 1995 | 41.5 | 38.9 | 37.3 | 39.9 |
| 2000 | 41.7 | 39.1 | 37.5 | 39.7 |
| 2005 | 41.8 | 39.1 | 37.5 | 39.8 |
| 2010 | 41.8 | 39.1 | 37.5 | 39.8 |
| 2015 | 41.8 | 39.1 | 37.5 | 39.8 |
| 2020 | 41.8 | 39.1 | 37.5 | 39.8 |
| 2025 | 41.8 | 39.1 | 37.5 | 39.8 |
| 2030 | 41.8 | 39.1 | 37.5 | 39.8 |
| 2035 | 41.8 | 39.1 | 37.5 | 39.8 |
| 2040 | 41.8 | 39.1 | 37.5 | 39.8 |
| 2045 | 41.8 | 39.1 | 37.5 | 39.8 |
| 2050 | 41.8 | 39.1 | 37.5 | 39.8 |
| 2055 | 41.8 | 39.1 | 37.5 | 39.8 |

[1] For this table, replacement rate is defined as total benefits in the first year of retirement expressed as a percent of earnings in the previous year, for age 65 retirees.
[2] The 1980 PIA formula bend points ($194 and $1,171) are frozen for 3 years, through 1983. From 1984 on, the bend points increase by the increase in wages, as in present law.
[3] The 1980 PIA formula bend points ($194 and $1,171) increase by one-half of the lesser of the increase in wages or prices from 1981 to 1987. From 1988 on, the bend points increase by the increase in wages, as in present law.
[4] The 1980 PIA formula bend points ($194 and $1,171) increase by the lesser of the increase in wages or prices from 1981 to 1994. From 1995, on the bend points increase by the increase in wages, as in present law.

Source: Office of Actuary, Social Security Administration.

TABLE 35.—PURCHASING POWER OF BENEFIT FOR WORKER WITH AVERAGE EARNINGS UNDER PRESENT LAW AND 3 ALTERNATIVE PROPOSALS ALTERING BENEFIT FORMULA "BEND POINTS"

| Calendar year | Purchasing power of benefit of worker with average earnings expressed in 1979 dollars | | | |
|---|---|---|---|---|
| | Present law | Bend points frozen for 3 years [1] | Bend points rise at ½ rate of increase of CPI or wages [2] | Bend points rise at full rate of CPI increase [3] |
| 1979 | $5,082 | $5,082 | $5,082 | $5,082 |
| 1980 | 5,065 | 5,065 | 5,065 | 5,065 |
| 1985 | 4,602 | 4,407 | 4,502 | 4,602 |
| 1990 | 5,126 | 4,806 | 4,596 | 5,034 |
| 1995 | 5,613 | 5,261 | 5,042 | 5,398 |
| 2000 | 6,145 | 5,761 | 5,521 | 5,854 |
| 2005 | 6,688 | 6,269 | 6,009 | 6,373 |
| 2010 | 7,270 | 6,813 | 6,530 | 6,927 |
| 2015 | 7,902 | 7,406 | 7,099 | 7,530 |
| 2020 | 8,589 | 8,051 | 7,716 | 8,186 |
| 2025 | 9,338 | 8,751 | 8,387 | 8,898 |
| 2030 | 10,151 | 9,512 | 9,117 | 9,671 |
| 2035 | 11,033 | 10,340 | 9,910 | 10,513 |
| 2040 | 11,993 | 11,240 | 10,772 | 11,428 |
| 2045 | 13,037 | 12,218 | 11,710 | 12,422 |
| 2050 | 14,171 | 13,282 | 12,729 | 13,503 |
| 2055 | 15,404 | 14,437 | 13,836 | 14,678 |

[1] The 1980 PIA formula bend points ($194 and $1,171) are frozen for 3 years, through 1983. From 1984 on, the bend points increase by the increase in wages, as in present law.

[2] The 1980 PIA formula bend points ($194 and $1,171) increase by one-half of the lesser of the increase in wages or prices from 1981 to 1987. From 1988 on, the bend points increase by the increase in wages, as in present law.

[3] The 1980 PIA formula bend points ($194 and $1,171) increase by the lesser of the increase in wages or prices from 1981 to 1994. From 1995 on, the bend points increase by the increase in wages, as in present law.

Source: Office of Actuary, Social Security Administration.

b. *Other benefit reduction proposals.*—Other suggestions have been made of possible ways to reduce future benefits under social security. Among them are a number of proposals contained in a bill cited as the "Social Security Amendments of 1979" submitted by the Administration in April 1979. The Administration's letter to the Congress stated that the provisions of the bill were "designed to constrain social security expenditures by refining the focus of the program on its most important objectives." These proposals would:

1. Reduce OASDI benefits by $1 for each $3 of any Federal pension a beneficiary receives based on noncovered employment, but only to the extent that the pension exceeds the average social security retirement benefit then currently awarded. In no case would the OASDI benefit be reduced to less than 32 percent of the beneficiary's average indexed monthly earnings;

2. Repeal the minimum benefit provision for individuals who first become eligible for retirement benefits or entitled to disability benefits after May, 1979;

3. Reduce the number of drop-out years used to compute the AIME of younger deceased workers (in a manner similar to the provision affecting young disabled workers contained in the pending disability bill);

4. Terminate mother's or father's benefits when the youngest child attains age 16 instead of age 18 as under current law;

5. Eliminate child's and mother's insurance benefits based upon the earnings record of a deceased individual who was currently insured, but not fully insured, at the time of death;

6. Eliminate benefits for children age 18 through 21, attending postsecondary schools;

7. Eliminate the lump-sum death payment (while simultaneously creating one in the SSI program);

8. Round benefits to the nearest multiple of one dollar (instead of rounding up to the next higher ten cents).

For the most part, these proposals were not designed to affect individuals currently on the benefit roll. The exceptions are the proposal to terminate mother's or father's benefit when their youngest child reaches age 16, where the Administration proposed a 2-year phase-in for individuals on the roll, and the proposal to eliminate benefits for children in postsecondary school which would have applied to current child beneficiaries unless they had already passed the age of 18.

The Administration's estimate of savings resulting from these proposals (under its 1979 mid-session economic assumptions) are as follows:

TABLE 36.—EXPENDITURE REDUCTIONS FROM PRESIDENT'S FISCAL YEAR 1980 BUDGET PROPOSALS[1]

| Fiscal year: | Billions |
|---|---|
| 1980 | $0.4 |
| 1981 | 1.2 |
| 1982 | 2.1 |
| 1983 | 2.6 |
| 1984 | 3.4 |

[1] These estimates were made last summer, so the actual impact would probably be less than shown in this table because the effective dates of the provisions would have to be slipped forward.

The long-range savings estimated to result from these proposals is 0.20 percent of taxable payroll.

It should be noted that the Administration did not resubmit these proposals in its 1981 Budget recommendations.

# APPENDIX

## ADDITIONAL TABLES

NOTE.—The first several tables in the appendix are detailed projections by the Social Security Actuary of the status of the trust funds over the next 10 years. For the first five years, the estimates generally are based on the economic assumptions underlying the President's budget and thereafter on the intermediate assumptions of the 1979 trustees' report. However, a modification was made from the Budget assumptions starting after 1983 to achieve a smoother transition from the Budget assumptions to the trustee's assumptions. It should be noted that the long-range assumptions in the President's budget are presented as "goals" in accord with the Humphrey-Hawkins Act rather than as projections of the most likely economic conditions.



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TABLE 37.—PRINCIPAL ECONOMIC ASSUMPTIONS RELATED TO SOCIAL SECURITY FINANCIAL PROJECTIONS

[In percent, except earnings]

| Assumptions | Calendar years 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|---|---|
| [illegible]ation's forecast: (Fiscal [illegible].31 budget):[1] | | | | | | | |
| Consumer Price Index (CPI) percent change | 11.4 | 11.8 | 9.2 | 8.2 | 7.4 | 6.8 | 6.1 |
| Automatic benefit increase | 9.9 | 13.0 | 9.9 | 8.4 | 7.7 | 7.1 | 6.3 |
| Average covered wage increase | 8.3 | 9.1 | 8.9 | 10.1 | 9.6 | 9.1 | 7.9 |
| Taxable earnings base | $22,900 | $25,900 | $29,700 | $32,400 | $35,400 | $39,000 | $42,900 |
| Unemployment rate | 5.8 | 7.0 | 7.4 | 6.8 | 5.9 | 5.1 | 5.0 |
| CBO's forecast: (January 1980): | | | | | | | |
| CPI | 11.4 | 11.3 | 8.9 | 9.2 | 8.4 | 8.0 | 7.7 |
| Automatic benefit increase | 9.9 | 13.2 | 8.5 | 9.5 | 8.6 | 8.1 | 7.8 |
| Average covered wage increase | 8.3 | 8.8 | 10.1 | 10.9 | 11.1 | 10.3 | 10.5 |
| Taxable earnings base | $22,900 | $25,900 | $29,700 | $32,400 | $35,700 | $39,600 | $44,100 |
| Unemployment rate | 5.8 | 7.0 | 8.0 | 7.7 | 7.1 | 6.4 | 6.0 |

[1] The figures above, representing the administration's forecast, were slightly altered in order to blend them with the "intermediate" assumptions in the 1979 trustees for purposes of making trust fund projections. The alteration does not affect assumptions prior to 1984.

Source: Office of Research and Statistics, SSA and CBO.

TABLE 38.—ESTIMATED OPERATIONS OF THE OASI TRUST FUND UNDER PRESENT LAW AND PRESENT REGULATIONS, ON THE BASIS OF THE PRESIDENT'S 1981 BUDGET ASSUMPTIONS, MODIFIED IN 1984 AND 1985 AND EXTENDED THROUGH 1989 AS REQUESTED BY THE STAFF OF THE SENATE FINANCE COMMITTEE, CALENDAR YEARS 1978–89

[Amounts in billions]

| Calendar year | Income | Outgo | Net increase in fund | Fund at end of year | Fund at beginning of year as a percentage of outgo during year |
|---|---|---|---|---|---|
| 1978 | $78.1 | $83.1 | −$5.0 | $27.5 | 39 |
| 1979 | 90.1 | 93.2 | −3.1 | 24.5 | 30 |
| 1980 | 101.8 | 108.3 | −6.5 | 18.0 | 23 |
| 1981 | 115.4 | 125.2 | −9.8 | 8.1 | 14 |
| 1982 | 130.7 | 141.5 | −10.8 | −2.7 | 6 |
| 1983 | 146.7 | 157.5 | −10.8 | −13.6 | (1) |
| 1984 | 163.8 | 173.9 | −10.1 | −23.6 | (1) |
| 1985 | 186.5 | 190.4 | −3.9 | −27.5 | (1) |
| 1986 | 202.7 | 206.2 | −3.5 | −31.0 | (1) |
| 1987 | 218.6 | 221.9 | −3.3 | −34.3 | (1) |
| 1988 | 235.2 | 237.3 | −2.1 | −36.4 | (1) |
| 1989 | 251.6 | 252.5 | −.9 | −37.3 | (1) |

1 The fund is exhausted in 1982.

Note: Totals do not necessarily equal the sum of rounded components.

Source: Social Security Administration, Office of the Actuary, Feb. 5, 1980.

TABLE 39.—ESTIMATED OPERATIONS OF THE DI TRUST FUND UNDER PRESENT LAW AND PRESENT REGULATIONS, ON THE BASIS OF THE PRESIDENT'S 1981 BUDGET ASSUMPTIONS, MODIFIED IN 1984 AND 1985 AND EXTENDED THROUGH 1989 AS REQUESTED BY THE STAFF OF THE SENATE FINANCE COMMITTEE, CALENDAR YEARS 1978-89

[Amounts in billions]

| Calendar year | Income | Outgo | Net increase in fund | Fund at end of year | Fund at beginning of year as a percentage of outgo during year |
|---|---|---|---|---|---|
| 1978 | $13.8 | $13.0 | $0.9 | $4.2 | 26 |
| 1979 | 15.6 | 14.3 | 1.4 | 5.6 | 30 |
| 1980 | 17.9 | 15.9 | 2.0 | 7.7 | 35 |
| 1981 | 21.6 | 17.8 | 3.8 | 11.4 | 43 |
| 1982 | 24.8 | 19.8 | 5.0 | 16.5 | 58 |
| 1983 | 28.3 | 21.8 | 6.5 | 23.0 | 76 |
| 1984 | 32.0 | 24.0 | 8.0 | 31.0 | 96 |
| 1985 | 40.4 | 26.4 | 14.0 | 45.0 | 117 |
| 1986 | 44.9 | 28.5 | 16.4 | 61.3 | 158 |
| 1987 | 49.2 | 30.8 | 18.4 | 79.8 | 199 |
| 1988 | 53.8 | 33.3 | 20.4 | 100.3 | 240 |
| 1989 | 58.5 | 35.9 | 22.6 | 122.9 | 279 |

Note: Totals do not necessarily equal the sum of rounded components.

Source: Social Security Administration, Office of the Actuary, Feb. 5, 1980.

TABLE 40.—ESTIMATED OPERATIONS OF THE HI TRUST FUND, UNDER PRESENT LAW AND PRESENT REGULATIONS, ON THE BASIS OF THE PRESIDENT'S 1981 BUDGET ASSUMPTIONS, MODIFIED IN 1984 AND 1985 AND EXTENDED THROUGH 1989 AS REQUESTED BY THE STAFF OF THE SENATE FINANCE COMMITTEE, CALENDAR YEARS 1978-89

[Amounts in billions]

| Calendar year | Income | Outgo | Net increase in fund | Fund at end of year | Fund at beginning of year as a percentage of outgo during year |
|---|---|---|---|---|---|
| 1978 | $19.2 | $18.2 | $1.0 | $11.5 | 57 |
| 1979 | 22.7 | 21.3 | 1.4 | 12.9 | 54 |
| 1980 | 26.2 | 24.0 | 2.2 | 15.0 | 54 |
| 1981 | 34.8 | 27.3 | 7.5 | 22.5 | 55 |
| 1982 | 40.0 | 31.2 | 8.8 | 31.3 | 72 |
| 1983 | 45.6 | 35.6 | 10.0 | 41.3 | 88 |
| 1984 | 51.4 | 40.5 | 10.9 | 52.2 | 102 |
| 1985 | 58.7 | 46.0 | 12.7 | 64.9 | 113 |
| 1986 | 68.3 | 51.9 | 16.4 | 81.3 | 125 |
| 1987 | 74.5 | 58.4 | 16.1 | 97.4 | 139 |
| 1988 | 80.6 | 65.8 | 14.8 | 112.2 | 148 |
| 1989 | 86.5 | 73.9 | 12.6 | 124.8 | 152 |

Notes: 1. These projections should be used with caution. They reflect significant savings from recent regulations on reimbursements for malpractice costs, which are currently under litigation, and other administrative initiatives.

2. Totals do not necessarily equal the sum of rounded components.

TABLE 41.—ESTIMATED OPERATIONS OF THE OASI AND DI TRUST FUNDS, COMBINED, UNDER PRESENT LAW AND PRESENT REGULATIONS, ON THE BASIS OF THE PRESIDENT'S 1981 BUDGET ASSUMPTIONS, MODIFIED IN 1984 AND 1985 AND EXTENDED THROUGH 1989 AS REQUESTED BY THE STAFF OF THE SENATE FINANCE COMMITTEE, CALENDAR YEARS 1978-89

[Amounts in billions]

| Calendar year | Income | Outgo | Net increase in fund | Fund at end of year | Fund at beginning of year as a percentage of outgo during year |
|---|---|---|---|---|---|
| 1978 | $91.9 | $96.0 | −$4.1 | $31.7 | 37 |
| 1979 | 105.8 | 107.4 | −1.7 | 30.1 | 30 |
| 1980 | 119.8 | 124.2 | −4.5 | 25.6 | 24 |
| 1981 | 137.0 | 143.0 | −6.0 | 19.6 | 18 |
| 1982 | 155.5 | 161.3 | −5.8 | 13.8 | 12 |
| 1983 | 174.9 | 179.3 | −4.3 | 9.4 | 8 |
| 1984 | 195.8 | 197.9 | −2.1 | 7.4 | 5 |
| 1985 | 226.9 | 216.8 | 10.1 | 17.5 | 3 |
| 1986 | 247.6 | 234.7 | 12.9 | 30.3 | 7 |
| 1987 | 267.8 | 252.6 | 15.2 | 45.5 | 12 |
| 1988 | 289.0 | 270.6 | 18.4 | 63.9 | 17 |
| 1989 | 310.1 | 288.5 | 21.6 | 85.5 | 22 |

Note: Totals do not necessarily equal the sum of rounded components.

Source: Social Security Administration, Office of the Actuary, Feb. 5, 1980.

TABLE 42.—ESTIMATED OPERATIONS OF THE OASI, DI, AND HI TRUST FUNDS, COMBINED, UNDER PRESENT LAW AND PRESENT REGULATIONS, ON THE BASIS OF THE PRESIDENT'S 1981 BUDGET ASSUMPTIONS, MODIFIED IN 1984 AND 1985 AND EXTENDED THROUGH 1989 AS REQUESTED BY THE STAFF OF THE SENATE FINANCE COMMITTEE, CALENDAR YEARS 1978-89

[Amounts in billions]

| Calendar year | Income | Outgo | Net increase in fund | Fund at end of year | Fund at beginning of year as a percentage of outgo during year |
|---|---|---|---|---|---|
| 1978 | $111.1 | $114.2 | −$3.1 | $43.2 | 41 |
| 1979 | 128.5 | 128.7 | −.3 | 42.9 | 34 |
| 1980 | 145.9 | 148.2 | −2.3 | 40.7 | 29 |
| 1981 | 171.8 | 170.3 | 1.4 | 42.1 | 24 |
| 1982 | 195.5 | 192.5 | 3.0 | 45.1 | 22 |
| 1983 | 220.5 | 214.8 | 5.7 | 50.8 | 21 |
| 1984 | 247.3 | 238.4 | 8.8 | 59.6 | 21 |
| 1985 | 285.6 | 262.8 | 22.8 | 82.4 | 23 |
| 1986 | 315.9 | 286.6 | 29.3 | 111.7 | 29 |
| 1987 | 342.3 | 311.1 | 31.2 | 142.9 | 36 |
| 1988 | 369.6 | 336.4 | 33.2 | 176.1 | 42 |
| 1989 | 396.6 | 362.3 | 34.3 | 210.4 | 94 |

Note: Totals do not necessarily equal the sum of rounded components.

Source: Social Security Administration, Office of the Actuary, Feb. 5, 1980.

TABLE 43.—ESTIMATED OPERATIONS OF THE OASI TRUST FUND, UNDER PRESENT LAW AND PRESENT REGULATIONS, ON THE BASIS OF THE PRESIDENT'S 1981 BUDGET ASSUMPTIONS, MODIFIED IN 1984 AND 1985 AND EXTENDED THROUGH 1989 AS REQUESTED BY THE STAFF OF THE SENATE FINANCE COMMITTEE, FISCAL YEARS 1979–89

[Amounts in billions]

| Fiscal year | Income | Outgo | Net increase in fund | Fund at end of year |
|---|---|---|---|---|
| 1979 | $86.9 | $90.1 | −$3.2 | $27.7 |
| 1980 | 99.5 | 104.0 | −4.5 | 23.2 |
| 1981 | 111.2 | 121.2 | −9.9 | 13.3 |
| 1982 | 127.4 | 137.6 | −10.2 | 3.1 |
| 1983 | 143.6 | 153.6 | −10.0 | −6.9 |
| 1984 | 160.2 | 169.9 | −9.7 | −16.6 |
| 1985 | 181.5 | 186.4 | −5.0 | −21.6 |
| 1986 | 199.1 | 202.4 | −3.3 | −24.9 |
| 1987 | 214.6 | 218.1 | −3.5 | −28.4 |
| 1988 | 232.0 | 233.7 | −1.7 | −30.1 |
| 1989 | 247.9 | 248.9 | −.9 | −31.0 |

Note: Totals do not necessarily equal the sum of rounded components.

Source: Social Security Administration, Office of the Actuary, Feb. 5, 1980.

TABLE 44.—ESTIMATED OPERATIONS OF THE DI TRUST FUND, UNDER PRESENT LAW AND PRESENT REGULATIONS, ON THE BASIS OF THE PRESIDENT'S 1981 BUDGET ASSUMPTIONS, MODIFIED IN 1984 AND 1985 AND EXTENDED THROUGH 1989 AS REQUESTED BY THE STAFF OF THE SENATE FINANCE COMMITTEE, FISCAL YEARS 1979–89

[Amounts in billions]

| Fiscal year | Income | Outgo | Net increase in fund | Fund at end of year |
|---|---|---|---|---|
| 1979 | $15.2 | $13.9 | $1.3 | $5.6 |
| 1980 | 17.4 | 15.4 | 2.0 | 7.7 |
| 1981 | 20.5 | 17.4 | 3.1 | 10.7 |
| 1982 | 24.0 | 19.3 | 4.7 | 15.4 |
| 1983 | 27.4 | 21.2 | 6.2 | 21.6 |
| 1984 | 31.0 | 23.4 | 7.6 | 29.2 |
| 1985 | 38.2 | 25.8 | 12.4 | 41.6 |
| 1986 | 43.6 | 28.0 | 15.6 | 57.2 |
| 1987 | 47.8 | 30.1 | 17.7 | 74.8 |
| 1988 | 52.5 | 32.6 | 19.9 | 94.7 |
| 1989 | 57.0 | 35.2 | 21.8 | 116.5 |

Note: Totals do not necessarily equal the sum of rounded components.

Source: Social Security Administration, Office of the Actuary, Feb. 5, 1980.

TABLE 45.—ESTIMATED OPERATIONS OF THE HI TRUST FUND, UNDER PRESENT LAW AND PRESENT REGULATIONS, ON THE BASIS OF THE PRESIDENT'S 1981 BUDGET ASSUMPTIONS, MODIFIED IN 1984 AND 1985 AND EXTENDED THROUGH 1989 AS REQUESTED BY THE STAFF OF THE SENATE FINANCE COMMITTEE, FISCAL YEARS 1979-89

[Amounts in billions]

| Fiscal year | Income | Outgo | Net increase in fund | Fund at end of year |
|---|---|---|---|---|
| 1979 | $21.9 | $20.3 | $1.6 | $13.4 |
| 1980 | 25.5 | 23.2 | 2.3 | 15.7 |
| 1981 | 32.4 | 26.5 | 5.9 | 21.5 |
| 1982 | 38.8 | 30.3 | 8.5 | 30.0 |
| 1983 | 44.3 | 34.5 | 9.7 | 39.7 |
| 1984 | 49.9 | 39.3 | 10.6 | 50.4 |
| 1985 | 56.9 | 44.8 | 12.1 | 62.4 |
| 1986 | 65.8 | 50.4 | 15.4 | 77.8 |
| 1987 | 72.8 | 56.8 | 16.0 | 93.9 |
| 1988 | 79.1 | 63.9 | 15.3 | 109.1 |
| 1989 | 85.0 | 71.8 | 13.2 | 122.3 |

Notes: 1. These projections should be used with caution. They reflect significant savings from recent regulations on reimbursements for malpractice costs, which are currently under litigation, and other administrative initiatives.

2. Totals do not necessarily equal the sum of rounded components.

TABLE 46.—ESTIMATED OPERATIONS OF THE OASI AND DI TRUST FUNDS, COMBINED, UNDER PRESENT LAW AND PRESENT REGULATIONS, ON THE BASIS OF THE PRESIDENT'S 1981 BUDGET ASSUMPTIONS, MODIFIED IN 1984 AND 1985 AND EXTENDED THROUGH 1989 AS REQUESTED BY THE STAFF OF THE SENATE FINANCE COMMITTEE, FISCAL YEARS 1979-89

[Amounts in billions]

| Fiscal year | Income | Outgo | Net increase in funds | Fund at end of year |
|---|---|---|---|---|
| 1979 | $102.1 | $104.1 | −$2.0 | $33.4 |
| 1980 | 116.9 | 119.4 | −2.5 | 30.9 |
| 1981 | 131.7 | 138.6 | −6.9 | 24.0 |
| 1982 | 151.4 | 156.9 | −5.6 | 18.5 |
| 1983 | 171.0 | 174.8 | −3.8 | 14.7 |
| 1984 | 191.2 | 193.3 | −2.1 | 12.6 |
| 1985 | 219.6 | 212.2 | 7.4 | 20.0 |
| 1986 | 242.7 | 230.4 | 12.3 | 32.3 |
| 1987 | 262.4 | 248.2 | 14.1 | 46.4 |
| 1988 | 284.5 | 266.3 | 18.2 | 64.6 |
| 1989 | 305.0 | 284.1 | 20.9 | 85.5 |

Note: Totals do not necessarily equal the sum of rounded components.

Source: Social Security Administration, Office of the Actuary, Feb. 5, 1980.

TABLE 47.—ESTIMATED OPERATIONS OF THE OASI, DI, AND HI TRUST FUNDS, COMBINED, UNDER PRESENT LAW AND PRESENT REGULATIONS, ON THE BASIS OF THE PRESIDENT'S 1981 BUDGET ASSUMPTIONS, MODIFIED IN 1984 AND 1985 AND EXTENDED THROUGH 1989 AS REQUESTED BY THE STAFF OF THE SENATE FINANCE COMMITTEE, FISCAL YEARS 1979–89

[Amounts in billions]

| Fiscal year | Income | Outgo | Net increase in funds | Funds at end of year |
|---|---|---|---|---|
| 1979 | $124.0 | $124.4 | –$0.4 | $46.7 |
| 1980 | 142.4 | 142.6 | –.2 | 46.6 |
| 1981 | 164.1 | 165.0 | –1.0 | 45.6 |
| 1982 | 190.1 | 187.2 | 2.9 | 48.5 |
| 1983 | 215.2 | 209.3 | 5.9 | 54.4 |
| 1984 | 241.2 | 232.6 | 8.6 | 63.0 |
| 1985 | 276.5 | 257.0 | 19.5 | 82.4 |
| 1986 | 308.5 | 280.8 | 27.7 | 110.2 |
| 1987 | 335.2 | 305.0 | 30.1 | 140.3 |
| 1988 | 363.6 | 330.2 | 33.4 | 173.7 |
| 1989 | 389.9 | 355.9 | 34.0 | 207.8 |

Note: Totals do not necessarily equal the sum of rounded components.

Source: Social Security Administration, Office of the Actuary, Feb. 5, 1980.

TABLE 48.—CBO'S CURRENT PROJECTIONS OF OLD AGE AND SURVIVORS INSURANCE, DISABILITY INSURANCE, AND COMBINED OASDI OUTLAYS, INCOME, TRUST FUND REVENUES, AND TRUST FUND BALANCES: BY CALENDAR YEAR [1]

[In billions of dollars]

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Old age and survivors insurance (OASI): | | | | | | | | | | | |
| Outlays | 108.5 | 125.5 | 142.0 | 158.3 | 175.7 | 194.2 | 214.5 | 237.0 | 262.1 | 291.0 | 323.2 |
| Income | 101.4 | 114.9 | 130.5 | 147.4 | 165.8 | 192.2 | 214.3 | 236.5 | 261.4 | 288.0 | 340.1 |
| Trust fund balance at end of year | 17.6 | 6.9 | −4.6 | −15.6 | −25.4 | −27.4 | −27.6 | −28.1 | −28.7 | −31.7 | −14.6 |
| Trust fund balance at beginning of year, as a percent of outlays | 22.8 | 14.0 | 4.9 | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (2) |
| Disability insurance (DI): | | | | | | | | | | | |
| Outlays | 16.4 | 18.6 | 21.2 | 23.6 | 25.8 | 28.0 | 30.6 | 34.9 | 39.7 | 46.2 | 53.9 |
| Income | 17.8 | 21.3 | 24.4 | 27.8 | 31.6 | 40.7 | 46.3 | 51.9 | 58.1 | 64.7 | 81.8 |
| Trust fund balance at end of year | 7.0 | 9.7 | 12.9 | 17.1 | 22.9 | 35.6 | 51.3 | 68.3 | 86.7 | 105.3 | 133.2 |
| Trust fund balance at beginning of year, as a percent of outlays | 34.2 | 37.7 | 46.0 | 54.7 | 66.3 | 81.9 | 116.3 | 146.9 | 172.0 | 187.9 | 195.4 |
| Combined OASDI: | | | | | | | | | | | |
| Outlays | 124.9 | 144.1 | 163.2 | 182.0 | 201.5 | 222.2 | 245.1 | 271.9 | 301.8 | 337.1 | 377.1 |
| Income | 119.2 | 136.2 | 154.8 | 175.2 | 197.5 | 232.9 | 260.6 | 288.4 | 319.6 | 352.7 | 421.8 |
| Trust fund balance at end of year | 24.6 | 16.7 | 8.3 | 1.6 | −2.5 | 8.2 | 23.7 | 40.2 | 58.0 | 73.6 | 118.3 |
| Trust fund balance at beginning of year, as a percent of outlays | 24.3 | 17.1 | 10.2 | 4.6 | .8 | (2) | 3.3 | 8.7 | 13.3 | 17.2 | 19.5 |

[1] Based on CBO's January, 1980 economic assumptions. Preliminary, subject to change.

[2] Negative balance.

Note: May not add due to rounding.

## TABLE 49.—CBO'S CURRENT PROJECTIONS OF OASI, DI, AND HI TRUST FUND BALANCES AT THE START OF YEAR AS A PERCENT OF OUTLAYS, BY CALENDAR YEAR [1]

[Trust fund balance at start of year as percent of outlays during the year]

| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| OASI | 22.8 | 14.0 | 4.9 | (2) | (2) | (2) | (2) | (2) | (2) | (2) | (2) |
| DI | 34.2 | 37.7 | 46.0 | 54.7 | 66.3 | 81.9 | 116.3 | 146.9 | 172.0 | 187.9 | 195.4 |
| HI | 54.0 | 54.8 | 68.9 | 79.9 | 87.7 | 92.3 | 96.7 | 104.3 | 106.7 | 104.0 | 96.5 |
| OASDI | 24.3 | 17.1 | 10.2 | 4.6 | .8 | (2) | 3.3 | 8.7 | 13.3 | 17.2 | 19.5 |
| OASDHI | 29.2 | 23.1 | 19.9 | 17.3 | 16.0 | 15.9 | 21.1 | 27.4 | 32.2 | 35.3 | 36.0 |

[1] Based on CBO's January 1980 economic assumptions.
[2] Negative balance.

TABLE 50.—REDUCTION IN REVENUES RESULTING FROM VARIOUS PROPOSALS TO ROLLBACK PAYROLL TAX INCREASES (OR PORTIONS THEREOF) ENACTED IN 1977, OASDI AND HI EACH, IN CALENDAR YEARS 1980–85

[In billions of dollars]

| | Total | | | | | | OASDI | | | | | | HI | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
| Combined effects of (1) automatic increases in base, instead of ad hoc increases, and (2) elimination of tax-rate increases: | | | | | | | | | | | | | | | | | | |
| 1. Automatic increases in base after 1979 and tax rates held constant at 1980 levels | 1.3 | 15.4 | 20.2 | 23.0 | 25.6 | 41.3 | 1.0 | 9.0 | 12.6 | 14.3 | 16.0 | 28.8 | 0.2 | 6.4 | 7.6 | 8.6 | 9.7 | 12.5 |
| 2. Automatic increases in base after 1980 and tax tates held constant at 1980 levels | ...... | 13.6 | 18.1 | 20.6 | 23.3 | 38.7 | ...... | 7.5 | 10.8 | 12.4 | 14.0 | 26.6 | ...... | 6.1 | 7.3 | 8.2 | 9.3 | 12.1 |
| 3. Automatic increases in base after 1979 and tax rates held constant at 1981 levels | 1.3 | 3.3 | 5.4 | 6.2 | 6.8 | 20.6 | 1.0 | 2.6 | 4.6 | 5.3 | 5.9 | 17.6 | .2 | .6 | .8 | .9 | 1.0 | 2.9 |

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| | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 4. Automatic increases in base after 1980 and tax rates held constant at 1981 levels | | 1.4 | 3.0 | 3.7 | 4.3 | 17.7 | | 1.1 | 2.7 | 3.3 | 3.8 | 15.4 | | .3 | .3 | .4 | .5 | 2.4 |
| Elimination of tax-rate increases, with no change in base scheduled under present law: | | | | | | | | | | | | | | | | | | |
| 5. Tax rates held constant at 1980 levels | | 12.4 | 16.5 | 18.7 | 21.0 | 36.1 | | 6.5 | 9.5 | 10.8 | 12.1 | 24.5 | | 5.9 | 7.0 | 7.9 | 8.9 | 11.6 |
| 6. Tax rates held constant at 1981 levels | | | 1.3 | 1.6 | 1.8 | 15.0 | | | 1.3 | 1.6 | 1.8 | 13.1 | | | | | | 1.9 |
| Automatic increases in base, instead of ad hoc increases, with no change in tax rates scheduled under present law: | | | | | | | | | | | | | | | | | | |
| 7. Automatic increases after 1979 | 1.3 | 3.3 | 4.1 | 4.7 | 5.1 | 5.9 | 1.0 | 2.6 | 3.3 | 3.8 | 4.1 | 4.8 | .2 | .6 | .8 | .9 | 1.0 | 1.1 |
| 8. Automatic increases after 1980 | | 1.4 | 1.7 | 2.1 | 2.5 | 2.9 | | 1.1 | 1.4 | 1.7 | 2.0 | 2.4 | | .3 | .3 | .4 | .5 | .5 |

Note: The above estimates are based on the President's 1981 budget assumptions, extended through 1990 and modified so that the unemployment rate does not fall below 5 percent. Totals do not necessarily equal the sum of rounded components.

TABLE 51.—REDUCTION IN REVENUES RESULTING FROM VARIOUS PROPOSALS TO ROLLBACK PAYROLL TAX INCREASES (OR PORTIONS THEREOF) ENACTED IN 1977, OASDI AND HI EACH, IN FISCAL YEARS 1980–85

[In billions of dollars]

| | Total | | | | | | OASDI | | | | | | HI | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 |
| Combined effects of (1) automatic increases in base, instead of ad hoc increases, and (2) elimination of tax-rate increases: | | | | | | | | | | | | | | | | | | |
| 1. Automatic increases in base after 1979 and tax rates held constant at 1980 levels | 0.5 | 11.4 | 19.3 | 22.3 | 25.0 | 37.4 | 0.4 | 6.6 | 11.8 | 13.9 | 15.5 | 25.6 | 0.1 | 4.8 | 7.4 | 8.4 | 9.4 | 11.8 |
| 2. Automatic increases in base after 1980 and tax rates held constant at 1980 levels | ...... | 9.8 | 17.3 | 20.0 | 22.6 | 34.9 | ...... | 5.3 | 10.2 | 12.0 | 13.6 | 23.5 | ...... | 4.5 | 7.1 | 8.0 | 9.0 | 11.4 |
| 3. Automatic increases in base after 1979 and tax rates held constant at 1981 levels | .5 | 2.2 | 4.8 | 5.9 | 6.6 | 17.1 | .4 | 1.8 | 4.1 | 5.1 | 5.7 | 14.7 | .1 | .4 | .7 | .8 | .9 | 2.4 |

| | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 4. Automatic increases in base after 1980 and tax rates held constant at 1981 levels | ...... | .5 | 2.7 | 3.4 | 4.0 | 14.4 | ...... | .4 | 2.4 | 3.1 | 3.6 | 12.5 | ...... | .1 | .3 | .4 | .4 | 1.9 |
| Elimination of tax-rate increases, with no change in base scheduled under present law: | | | | | | | | | | | | | | | | | | |
| 5. Tax rates held constant at 1980 levels | ...... | 9.3 | 15.8 | 18.2 | 20.5 | 32.5 | ...... | 4.9 | 8.9 | 10.5 | 11.8 | 21.5 | ...... | 4.4 | 6.8 | 7.7 | 8.7 | 11.0 |
| 6. Tax rates held constant at 1981 levels | ...... | ...... | 1.0 | 1.5 | 1.7 | 11.8 | ...... | ...... | 1.0 | 1.5 | 1.7 | 10.4 | ...... | ...... | ...... | ...... | ...... | 1.4 |
| Automatic increases in base, instead of ad hoc increases, with no change in tax rates scheduled under present law: | | | | | | | | | | | | | | | | | | |
| 7. Automatic increases after 1979 | .5 | 2.2 | 3.8 | 4.4 | 4.9 | 5.5 | .4 | 1.8 | 3.1 | 3.6 | 4.0 | 4.4 | .1 | .4 | .7 | .8 | .9 | 1.0 |
| 8. Automatic increases after 1980 | ...... | .5 | 1.7 | 1.9 | 2.3 | 2.7 | ...... | .4 | 1.4 | 1.5 | 1.9 | 2.2 | ...... | .1 | .3 | .4 | .4 | .5 |

Note: The above estimates are based on the President's 1981 budget assumptions, extended through 1990 and modified so that the unemployment rate does not fall below 5 percent. Totals do not necessarily equal the sum of rounded components.

## TABLE 52.—OASDI LONG-RANGE COST PROJECTIONS FOR SELECTED YEARS 1979 TO 2055, BASED ON TRUSTEES MODIFIED INTERMEDIATE ASSUMPTIONS

[Percent of taxable payroll]

| Calendar year | OASI cost | DI cost | OASDI cost | OASDI tax rate | Difference |
|---|---|---|---|---|---|
| 1979 | 8.97 | 1.37 | 10.34 | 10.16 | −0.18 |
| 1980 | 9.[illegible]9 | 1.39 | 10.89 | 10.16 | −.72 |
| 1981 | 9.83 | 1.40 | 11.24 | 10.70 | −.54 |
| 1982 | 9 88 | 1 38 | 11 25 | 10 80 | −.45 |
| 1983 | 9.74 | 1.35 | 11.08 | 10.80 | −.28 |
| 1984 | 9.58 | 1.32 | 10.90 | 10.80 | −.10 |
| 1985 | 9.53 | 1.32 | 10.85 | 11.40 | .55 |
| 1986 | 9.52 | 1.32 | 10.84 | 11.40 | .56 |
| 1987 | 9.49 | 1.32 | 10.81 | 11.40 | .59 |
| 1988 | 9.45 | 1.32 | 10.77 | 11.40 | .63 |
| 1989 | 9.41 | 1.34 | 10.74 | 11.40 | .66 |
| 1990 | 9.36 | 1.36 | 10.72 | 12.40 | 1.68 |
| 1991 | 9.33 | 1.37 | 10.70 | 12.40 | 1.70 |
| 1992 | 9.29 | 1.38 | 10.67 | 12.40 | 1.73 |
| 1993 | 9.25 | 1.39 | 10.64 | 12.40 | 1.76 |
| 1994 | 9.22 | 1.40 | 10.63 | 12.40 | 1.77 |
| 1995 | 9.19 | 1.42 | 10.61 | 12.40 | 1.79 |
| 1996 | 9.12 | 1.47 | 10.59 | 12.40 | 1.81 |
| 1997 | 9.05 | 1.52 | 10.57 | 12.40 | 1.83 |
| 1998 | 8.99 | 1.58 | 10.57 | 12.40 | 1.83 |
| 1999 | 8.94 | 1.63 | 10.57 | 12.40 | 1.83 |
| 2000 | 8.89 | 1.68 | 10.57 | 12.40 | 1.83 |
| 2001 | 8.85 | 1.73 | 10.58 | 12.40 | 1.82 |
| 2002 | 8.83 | 1.78 | 10.61 | 12.40 | 1.79 |
| 2003 | 8.84 | 1.84 | 10.67 | 12.40 | 1.73 |
| 2005 | 8.87 | 1.94 | 10.81 | 12.40 | 1.59 |
| 2010 | 9.47 | 2.11 | 11.58 | 12.40 | .82 |
| 2015 | 10.57 | 2.21 | 12.78 | 12.40 | −.38 |
| 2020 | 12.05 | 2.24 | 14.29 | 12.40 | −1.89 |
| 2025 | 13.47 | 2.18 | 15.65 | 12.40 | −3.25 |
| 2030 | 14.33 | 2.08 | 16.41 | 12.40 | −4.01 |
| 2035 | 14.53 | 2.04 | 16.57 | 12.40 | −4.17 |
| 2040 | 14.23 | 2.07 | 16.30 | 12.40 | −3.90 |
| 2045 | 14.03 | 2.12 | 16.15 | 12.40 | −3.75 |
| 2050 | 14.06 | 2.13 | 15.18 | 12.40 | −3.78 |
| 2055 | 14.20 | 2.10 | 16.30 | 12.40 | −3.90 |

Note: The above estimates are based on the fiscal year 1981 budget assumptions blended into the long-range intermediate assumptions of the 1979 trustees report.

TABLE 52.—OASDI LONG-RANGE COST PROJECTIONS FOR SELECTED YEARS 1979 TO 2055, BASED ON TRUSTEES MODIFIED INTERMEDIATE ASSUMPTIONS—Continued

[Percent of taxable payroll]

| Calendar year | OASI cost | DI cost | OASDI cost | OASDI tax rate | Difference |
|---|---|---|---|---|---|
| 25-year averages: | | | | | |
| 1979 to 2003... | 9.28 | 1.46 | 10.74 | 11.76 | 1.02 |
| 2004 to 2028... | 11.11 | 2.14 | 13.25 | 12.40 | −.85 |
| 2029 to 2053... | 14.22 | 2.09 | 16.31 | 12.40 | −3.91 |
| 75-year average: | | | | | |
| 1979 to 2053... | 11.54 | 1.89 | 13.43 | 12.19 | −1.25 |

Note: The above estimates are based on the fiscal year 1981 budget assumptions blended into the long-range intermediate assumptions of the 1979 trustees report.

TABLE 53.—OASDI LONG-RANGE TRUST FUND RESERVES FOR SELECTED YEARS 1979 TO 2055, BASED ON TRUSTEES MODIFIED INTERMEDIATE ASSUMPTIONS

| Calendar year | Reserves at beginning of year as a percent of outgo during the year | | |
|---|---|---|---|
| | OASI | DI | Total |
| 1979 | 30 | 30 | 30 |
| 1980 | 23 | 35 | 24 |
| 1981 | 14 | 43 | 18 |
| 1982 | 6 | 58 | 12 |
| 1983 | (1) | 76 | [2] 8 |
| 1984 | (1) | 96 | [2] 5 |
| 1985 | (1) | 117 | [2] 3 |
| 1986 | (1) | 158 | [2] 7 |
| 1987 | (1) | 199 | [2] 12 |
| 1988 | (1) | 240 | [2] 17 |
| 1989 | (1) | 279 | [2] 22 |
| 1990 | (1) | 315 | [2] 28 |
| 1991 | (1) | 373 | [2] 43 |
| 1992 | (1) | 428 | [2] 58 |
| 1993 | (1) | 482 | [2] 74 |
| 1994 | (1) | 533 | [2] 90 |
| 1995 | (1) | 582 | [2] 106 |
| 1996 | (1) | 614 | [2] 122 |
| 1997 | (1) | 641 | [2] 139 |
| 1998 | (1) | 662 | [2] 156 |
| 1999 | (1) | 680 | [2] 173 |
| 2000 | (1) | 694 | [2] 189 |
| 2001 | (1) | 702 | [2] 206 |
| 2002 | (1) | 707 | [2] 221 |
| 2003 | (1) | 710 | [2] 230 |
| 2005 | (1) | 706 | [2] 263 |
| 2010 | (1) | 701 | [2] 301 |
| 2015 | (1) | 698 | [2] 292 |
| 2020 | (1) | 707 | [2] 236 |
| 2025 | (1) | 747 | [2] 144 |
| 2030 | (1) | 820 | [2] 33 |
| 2035 | (1) | 888 | (1) |
| 2040 | (1) | 930 | (1) |
| 2045 | (1) | 956 | (1) |
| 2050 | (1) | 993 | (1) |
| 2055 | (1) | 1050 | (1) |

See footnotes at end of table.

TABLE 53.—OASDI LONG-RANGE TRUST FUND RESERVES FOR SELECTED YEARS 1979 TO 2055, BASED ON TRUSTEES MODIFIED INTERMEDIATE ASSUMPTIONS—Continued

| Calendar year | Reserves at beginning of year as a percent of outgo during the year | | |
|---|---|---|---|
| | OASI | DI | Total |
| Trust fund is projected to be first exhausted in calendar year | 1,983 | (3) | 2,031 |

[1] The fund is projected to be exhausted.
[2] This figure is theoretical, because the OASI trust fund is projected to be exhausted.
[3] The fund is not projected to be exhausted within the projection period.

Note: The above estimates are based on the fiscal year 1981 Budget assumptions blended into the long-range intermediate assumptions of the 1979 trustees report. The trust fund ratio is defined to be the trust fund assets at the beginning of the year expressed as a percentage of expenditures during that year.

# TABLE 54.—LONG-RANGE ESTIMATES OF OASDI BENEFICIARIES AND COVERED WORKERS, AS SHOWN IN 1979 OASDI TRUSTEES REPORT

| Calendar year | Covered workers (in thousands)[1] | Beneficiaries (in thousands)[2] | | | Covered workers per OASDI beneficiary | OASDI beneficiaries per 100 covered workers |
|---|---|---|---|---|---|---|
| | | OASI | DI | Total | | |
| 1945... | 46,390 | 1,106 | .......... | 1,106 | 41.9 | 2 |
| 1950... | 48,280 | 2,930 | .......... | 2,930 | 16.5 | 6 |
| 1955... | 65,200 | 7,563 | .......... | 7,563 | 8.6 | 12 |
| 1960... | 72,530 | 13,740 | 522 | 14,262 | 5.1 | 20 |
| 1965... | 80,680 | 18,509 | 1,648 | 20,157 | 4.0 | 25 |
| 1970... | 93,090 | 23,185 | 2,568 | 25,753 | 3.6 | 28 |
| 1975... | 100,400 | 27,244 | 4,125 | 31,369 | 3.2 | 31 |
| 1978... | 110,480 | 29,327 | 4,861 | 34,188 | 3.2 | 31 |
| | | Optimistic Assumptions | | | | |
| 1979... | 113,570 | 29,900 | 4,879 | 34,779 | 3.3 | 31 |
| 1980... | 115,470 | 30,523 | 4,904 | 35,427 | 3.3 | 31 |
| 1985... | 127,960 | 33,637 | 5,187 | 38,824 | 3.3 | 30 |
| 1990... | 134,710 | 35,435 | 5,696 | 41,131 | 3.3 | 31 |
| 1995... | 138,190 | 37,006 | 6,397 | 43,403 | 3.2 | 31 |
| 2000... | 142,040 | 37,880 | 7,395 | 45,275 | 3.1 | 32 |
| 2005... | 149,020 | 39,248 | 8,538 | 47,786 | 3.1 | 32 |
| 2010... | 155,370 | 42,433 | 9,535 | 51,968 | 3.0 | 33 |
| 2015... | 159,960 | 47,427 | 10,150 | 57,577 | 2.8 | 36 |
| 2020... | 163,610 | 53,652 | 10,430 | 64,082 | 2.6 | 39 |
| 2025... | 167,990 | 59,774 | 10,318 | 70,092 | 2.4 | 42 |
| 2030... | 174,040 | 63,457 | 10,077 | 73,534 | 2.4 | 42 |
| 2035... | 181,510 | 64,455 | 10,209 | 74,664 | 2.4 | 41 |
| 2040... | 189,690 | 63,554 | 10,775 | 74,329 | 2.6 | 39 |
| 2045... | 197,920 | 63,506 | 11,578 | 74,084 | 2.6 | 38 |
| 2050... | 206,320 | 65,483 | 12,181 | 77,664 | 2.7 | 38 |
| 2055... | 215,150 | 68,697 | 12,550 | 81,247 | 2.6 | 38 |

See footnotes at end of table.

# TABLE 54.—LONG-RANGE ESTIMATES OF OASDI BENEFICIARIES AND COVERED WORKERS, AS SHOWN IN 1979 OASDI TRUSTEES REPORT—Continued

| Calendar year | Covered workers (in thousands)[1] | Beneficiaries (in thousands)[2] | | | Covered workers per OASDI beneficiary | OASDI beneficiaries per 100 covered workers |
|---|---|---|---|---|---|---|
| | | OASI | DI | Total | | |
| | | **Intermediate Assumptions** | | | | |
| 1979... | 113,570 | 29,923 | 4,881 | 34,804 | 3.3 | 31 |
| 1980... | 115,400 | 30,593 | 4,914 | 35,507 | 3.3 | 31 |
| 1985... | 126,400 | 33,976 | 5,315 | 39,291 | 3.2 | 31 |
| 1990... | 133,100 | 36,060 | 5,971 | 42,031 | 3.2 | 32 |
| 1995... | 136,780 | 37,834 | 6,765 | 44,599 | 3.1 | 33 |
| 2000... | 143,680 | 38,908 | 7,819 | 46,727 | 3.0 | 33 |
| 2005... | 145,480 | 40,488 | 9,005 | 49,493 | 2.9 | 34 |
| 2010... | 149,340 | 43,972 | 10,015 | 53,987 | 2.8 | 36 |
| 2015... | 151,170 | 49,927 | 10,606 | 59,903 | 2.5 | 40 |
| 2020... | 151,700 | 55,985 | 10,806 | 66,791 | 2.3 | 44 |
| 2025... | 152,190 | 62,618 | 10,569 | 73,187 | 2.1 | 48 |
| 2030... | 153,540 | 66,898 | 10,168 | 77,066 | 2.0 | 50 |
| 2035... | 155,630 | 68,463 | 10,097 | 78,560 | 2.0 | 50 |
| 2040... | 158,080 | 68,016 | 10,367 | 78,383 | 2.0 | 50 |
| 2045... | 160,300 | 67,921 | 10,754 | 78,675 | 2.0 | 49 |
| 2050... | 162,410 | 68,916 | 10,946 | 79,682 | 2.0 | 49 |
| 2055... | 164,520 | 70,475 | 10,974 | 81,449 | 2.0 | 50 |
| | | **Pessimistic Assumptions** | | | | |
| 1979... | 113,180 | 29,946 | 4,885 | 34,831 | 3.2 | 31 |
| 1980... | 112,650 | 30,678 | 4,927 | 35,605 | 3.2 | 32 |
| 1985... | 124,930 | 34,345 | 5,447 | 39,792 | 3.1 | 32 |
| 1990... | 131,520 | 36,806 | 6,225 | 43,031 | 3.1 | 33 |
| 1995... | 134,990 | 38,862 | 7,067 | 45,929 | 2.9 | 34 |
| 2000... | 138,270 | 40,103 | 8,103 | 48,206 | 2.9 | 35 |
| 2005... | 140,640 | 41,878 | 9,244 | 51,122 | 2.8 | 36 |
| 2010... | 140,609 | 45,638 | 10,204 | 55,842 | 2.5 | 40 |
| 2015... | 138,270 | 51,321 | 10,703 | 62,024 | 2.2 | 45 |
| 2020... | 134,260 | 58,416 | 10,759 | 69,175 | 1.9 | 52 |
| 2025... | 129,540 | 65,576 | 10,336 | 75,912 | 1.7 | 59 |
| 2030... | 124,770 | 70,471 | 9,701 | 80,172 | 1.6 | 64 |
| 2035... | 120,280 | 72,626 | 9,319 | 81,945 | 1.5 | 68 |
| 2040... | 116,010 | 72,657 | 9,110 | 81,767 | 1.4 | 70 |
| 2045... | 111,650 | 72,337 | 8,851 | 81,188 | 1.4 | 73 |
| 2050... | 107,280 | 71,589 | 8,438 | 80,027 | 1.3 | 75 |
| 2055... | 103,160 | 70,202 | 8,013 | 78,215 | 1.3 | 76 |

[1] Workers with taxable earnings at some time during the year.
[2] Those with monthly benefits in current-payment status as of June 30.

## TABLE 55.—WORKERS, TOTAL AND TAXABLE EARNINGS, AND EMPLOYERS REPORTING TAXABLE WAGES, OASDHI 1940–77

| Period | Workers (in thousands) | | | Earnings | | | | | Employers reporting taxable wages (in thousands) |
|---|---|---|---|---|---|---|---|---|---|
| | | Reported with taxable earnings [1] | | | Reported taxable [1] | | Average per worker | | |
| | Total, in covered employment | Total | Reported reaching maximum earnings | Total, in covered employment [2] (in millions) | Amount (in millions) | Percent of total | Total, in covered employment | Reported taxable | |
| **All reported employment:** [3] | | | | | | | | | |
| 1940......... | 35,390 | 35,390 | 1,191 | $35,700 | $32,970 | 92.4 | $1,009 | $932 | 2,500 |
| 1945......... | 46,390 | 46,390 | 6,361 | 71,600 | 62,950 | 87.9 | 1,543 | 1,357 | 2,610 |
| 1950......... | 48,280 | 48,280 | 13,936 | 109,800 | 87,500 | 79.7 | 2,274 | 1,812 | 3,350 |
| 1955......... | 65,200 | 65,200 | 16,704 | 196,100 | 157,540 | 80.3 | 3,008 | 2,416 | 4,910 |
| 1960......... | 72,530 | 72,530 | 20,310 | 265,200 | 207,000 | 78.1 | 3,656 | 2,854 | 5,670 |
| 1961......... | 72,820 | 82,820 | 21,265 | 270,700 | 209,640 | 77.4 | 3,717 | 2,879 | 5,860 |
| 1962......... | 74,280 | 74,280 | 23,154 | 289,000 | 219,050 | 75.8 | 3,891 | 2,949 | 5,910 |
| 1963......... | 75,540 | 75,540 | 24,570 | 302,300 | 225,550 | 74.6 | 4,002 | 2,986 | 6,000 |
| 1964......... | 77,430 | 77,430 | 26,717 | 324,500 | 236,390 | 72.8 | 4,191 | 3,053 | 6,090 |
| 1965......... | 80,680 | 80,680 | 29,136 | 351,700 | 250,730 | 71.3 | 4,359 | 3,108 | 6,090 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1966 | 84,600 | 84,600 | 20,498 | 390,700 | 312,540 | 80.0 | 4,618 | 3,694 | 5,990 |
| 1967 | 87,040 | 87,040 | 22,948 | 422,300 | 329,960 | 78.1 | 4,852 | 3,791 | 5,920 |
| 1968 | 89,380 | 89,380 | 19,120 | 460,000 | 375,840 | 81.7 | 5,147 | 4,205 | 5,820 |
| 1969 | 92,060 | 92,060 | 22,577 | 502,800 | 402,550 | 80.1 | 5,462 | 4,373 | 5,790 |
| 1970 | 93,090 | 93,090 | 24,224 | 531,600 | 415,600 | 78.2 | 5,711 | 4,464 | 5,690 |
| 1971 | 93,340 | 93,340 | 26,404 | 559,700 | 426,960 | 76.3 | 5,996 | 4,574 | 5,760 |
| 1972 | 96,240 | 96,240 | 24,074 | 617,900 | 484,110 | 78.3 | 6,420 | 5,030 | 5,710 |
| 1973 | 99,830 | 99,830 | 20,250 | 686,700 | 561,850 | 81.8 | 6,879 | 5,628 | 5,760 |
| 1974 [4] | 101,370 | 101,370 | 15,340 | 747,900 | 637,950 | 85.3 | 7,378 | 6,293 | 5,750 |
| 1975 [4] | 100,400 | 100,400 | 15,110 | 786,800 | 665,660 | 84.6 | 7,837 | 6,630 | 5,720 |
| 1976 [4] | 103,100 | 103,100 | 15,430 | 878,300 | 738,400 | 84.1 | 8,524 | 7,167 | 5,850 |
| 1977 [4] | 106,100 | 106,100 | 15,700 | 925,400 | 814,000 | 83.5 | 9,153 | 7,672 | 5,920 |

[1] Taxable earnings include wages and salaries on which employer taxes or contributions are based. The taxable limit was $3,000 in annual wages from each employer for years through 1950; $4,200 in annual wages or self-employment earnings in 1955; $4,800 during 1960–65; $6,600 during 1966–67; $7,800 during 1968–71; $9,000 in 1972, $10,800 in 1973, $13,200 in 1974, $14,100 in 1975, $15,300 in 1976 and $16,500 in 1977.

[2] Total wages through 1950, and total earnings beginning 1955; including estimated amounts above the taxable maximum.

[3] Beginning 1955, workers and earnings includes self-employment.

[4] Preliminary data.

Source: Social Security Administration, Office of Research and Statistics, Division of OASDI Statistics, Earnings and Employment Statistics Branch.

## TABLE 56.—ESTIMATED AVERAGE NUMBER OF WORKERS IN PAID EMPLOYMENT AND COVERAGE STATUS UNDER OASDHI, 1940–75

[In thousands, except for percentages. Beginning 1960, includes Alaska and Hawaii]

| | | Covered [3] | | | | |
|---|---|---|---|---|---|---|
| | | Total | | | | |
| Year [1] | Total paid employment [2] | Number | As percent of of paid employment | Wage and salary | Self-employed [4] | Not covered [5] |
| 1940 | 46,400 | 26,800 | 57.8 | 26,800 | ........ | 19,600 |
| 1941 | 50,400 | 31,300 | 62.1 | 31,300 | ........ | 19,100 |
| 1942 | 55,800 | 36,300 | 65.1 | 36,300 | ........ | 19,500 |
| 1943 | 60,800 | 42,000 | 69.1 | 42,000 | ........ | 18,800 |
| 1944 | 62,600 | 44,000 | 70.3 | 44,000 | ........ | 18,600 |
| 1945 | 61,000 | 42,000 | 68.9 | 42,000 | ........ | 19,000 |
| 1946 | 56,200 | 36,400 | 64.8 | 36,400 | ........ | 19,800 |
| 1947 | 57,700 | 37,300 | 64.6 | 37,300 | ........ | 20,400 |
| 1948 | 59,000 | 38,500 | 65.3 | 38,500 | ........ | 20,500 |
| 1949 | 58,400 | 37,400 | 64.0 | 37,400 | ........ | 21,000 |
| 1950 | 60,000 | 38,700 | 64.5 | 38,700 | ........ | 21,300 |
| 1951 | 62,500 | 49,500 | 79.5 | 45,200 | 4,200 | 13,000 |
| 1952 | 63,300 | 50,500 | 79.8 | 46,400 | 4,100 | 12,800 |
| 1953 | 63,800 | 51,100 | 80.1 | 47,100 | 4,000 | 12,800 |
| 1954 | 62,800 | 49,800 | 79.3 | 45,700 | 4,100 | 13,000 |
| 1955 | 64,500 | 55,000 | 85.3 | 48,300 | 6,700 | 9,500 |
| 1956 | 66,000 | 57,200 | 86.7 | 50,300 | 6,900 | 8,800 |
| 1957 | 66,000 | 57,400 | 87.0 | 50,600 | 6,800 | 8,600 |
| 1958 | 64,900 | 56,800 | 87.5 | 50,100 | 6,700 | 8,100 |
| 1959 | 66,600 | 58,500 | 87.8 | 51,600 | 6,900 | 8,100 |
| 1960 | 67,500 | 59,400 | 88.0 | 52,600 | 6,800 | 8,100 |
| 1961 | 67,900 | 59,700 | 87.9 | 53,000 | 6,800 | 8,100 |
| 1962 | 69,300 | 61,000 | 88.0 | 54,600 | 6,400 | 8,200 |
| 1963 | 70,200 | 61,900 | 88.2 | 55,600 | 6,300 | 8,400 |
| 1964 | 71,700 | 63,300 | 88.3 | 57,100 | 6,200 | 8,500 |
| 1965 | 73,600 | 65,600 | 89.1 | 59,400 | 6,200 | 8,000 |
| 1966 | 76,000 | 68,000 | 89.5 | 62,000 | 6,000 | 8,000 |
| 1967 [6] | 76,900 | 68,900 | 89.6 | 63,000 | 6,000 | 8,000 |
| 1968 | 78,600 | 70,700 | 89.9 | 64,700 | 6,000 | 7,900 |
| 1969 | 80,500 | 72,700 | 90.3 | 66,700 | 6,000 | 7,800 |

See footnotes at end of table.

# TABLE 56.—ESTIMATED AVERAGE NUMBER OF WORKERS IN PAID EMPLOYMENT AND COVERAGE STATUS UNDER OASDHI, 1940-75—Continued

[In thousands, except for percentages. Beginning 1960, includes Alaska and Hawaii]

| Year [1] | Total paid employment [2] | Covered [3] | | | | Not covered [5] |
|---|---|---|---|---|---|---|
| | | Total | | Wage and salary | Self-employed [4] | |
| | | Number | As percent of of paid employment | | | |
| 1970 | 80,600 | 72,100 | 89.5 | 66,300 | 6,000 | 8,500 |
| 1971 | 81,500 | 72,900 | 89.4 | 66,900 | 6,000 | 8,600 |
| 1972 | 83,500 | 74,900 | 89.6 | 68,900 | 6,000 | 8,600 |
| 1973 | 85,900 | 77,300 | 90.0 | 71,100 | 6,200 | 8,600 |
| 1974 | 87,100 | 78,400 | 90.0 | 72,100 | 6,300 | 8,700 |
| 1975 | 86,200 | 77,600 | 90.0 | 71,300 | 6,300 | 8,600 |
| 1976 | 88,925 | Not available | | | | |
| 1977 | 92,207 | | | | | |

[1] Annual averages based on data for the calendar week in the months of March, June, September, and December in which the current population survey was taken.

[2] Based on data from the current population survey and published by the Bureau of the Census and the Bureau of Labor Statistics. Includes all members of the Armed Forces. Relates to persons aged 14 and over through December 1966; beginning March 1967, to persons aged 16 and over. Data on industry and class of employment based on the job with the greatest number of hours worked during the survey week.

[3] Includes railroad employees, who are counted as covered because of joint railroad-OASDHI coverage provisions, and all persons covered by Federal law except those on a group-elective or individual voluntary basis for whom coverage has not been arranged.

[4] Since the self-employed report their earnings on an annual basis, coverage estimates are based on the number expected to report their earnings at the end of the year.

[5] Includes persons whose coverage was authorized but not arranged on a group-elective or individual voluntary basis, in addition to those excluded by Federal law.

[6] Beginning 1967, not completely comparable with earlier data in series, but exclusion of 14- and 15-year-olds (generally about 1 million in paid employment) and other changes do not significantly affect proportion of paid employment covered.

Note: Statistics under columns headed "covered" and "non-covered" are derived from estimates and not from data collection techniques. For 1976 and 1977, SSA has not yet developed a satisfactory methodology to obtain the covered and noncovered employment statistics shown for earlier years. Statistics representing total covered employment differ from those on table 55 because they represent the number of persons working at a specific point in time during the year, whereas Table 55 shows the total number of persons who had worked at any time during the year (they do not represent an "average" for the year).

Source: Social Security Bulletin, Annual Statistical Supplement, 1975. 1976 and 1977 employment figures supplied by the Social Security Administration.

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