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STAFF DATA WITH RESPECT TO

FINANCING SOCIAL SECURITY CASH BENEFITS

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

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FINANCING SOCIAL SECURITY CASH BENEFITS

The House-passed bill would provide for additional benefit payments amounting to about $3.7 billion in the first year while the Committee's tentative decisions would increase this cost to about $7 billion if benefits are increased 10 percent and to about $9 billion if a 15 percent benefit increase is assumed. If the House-passed bill were to provide a 20 percent benefit increase as suggested by the Chairman of the House Committee on Ways and Means, the first-year cost of the bill would rise to about $11 billion.

In order to pay the cost of the House-passed bill, the House would modify the schedule of social security taxes in the law as follows:

TABLE 1.—TAX RATES FOR THE SOCIAL SECURITY CASH BENEFIT PROGRAMS

(Employee and employer taxes combined)

[In percent]

Year	Present law	H.R. 1 [1]
1972	9.2	8.4
1973-74	10.0	8.4
1975	10.0	10.0
1976	10.3	10.0
1977 and after	10.3	12.2

[1] $10,200 contribution and benefit base for 1972 with automatic adjustments to increases in earnings levels thereafter.

Actuarial Assumptions

The tax schedule shown above is based on the traditional long-range level-cost actuarial estimates which assume that earnings and benefit levels would not change over the next 75 years. Under this schedule, the cash benefits programs can be said to be actuarially sound—that is, over the next 75 years the estimated future income from contributions and interest earnings on the accumulated trust fund investments would pay the estimated benefits and administrative expenses.

The assumption that neither wages nor prices would increase in the future is not an economic forecast but rather it is a purposefully conservative assumption on which to base a measure of the long-range cost of the program and proposed changes in the program. The assumptions recognize the probability that wage levels will continue to rise in the future and that Congress will act to increase benefits.

Moreover, because of the conservative nature of the assumptions, when the costs are expressed in terms of a percentage of payroll, they allow for an increase in benefit levels in proportion to any rise in wage levels that actually does occur. In fact, as earnings levels and prices have actually increased, actuarial surpluses accumulated which could be and were used to finance a part of the cost of further benefit increases. As a practical matter, the legislation enacted by the Congress in the past decade has resulted in the social security program being operated on a pay-as-you-go basis.

On April 1, 1971, an Advisory Council on Social Security submitted a report which recommended a revision in the long-range actuarial assumptions that have been used in determining the cost of the social security program and which are, therefore, the basis for the schedule of tax rates that is in the law. In essence, the Council's recommendation is that the actuarial projections assume an increase in both wages and prices in future years.

The Advisory Council appointed a panel of actuaries and economists to examine the assumptions on which the actuarial estimates are based. This panel stated—and the Council concurred—that the way in which the present estimates are made has resulted in actuarial surpluses which ". . . have been used in the past, partly to finance cost-of-living increases, partly to maintain replacement ratios, and partly to expand benefit provisions". In the panel's opinion, the mechanism is not "generally understood" and the panel believed that understanding and analysis of the program would be improved if the present level-wage assumptions were to be ". . . replaced with reasonable assumptions concerning the future growth in average covered wages". With regard to the economic assumptions to be used the panel recommended: ". . . that the economic assumptions for the cost projections should be related, for the short range, as now, to those used by the Administration for budgetary purposes, and for the longer range, should be based on the expectations of continuation of historical price and wage trends".

Meeting the Cost of the Committee Bill

In order that the Committee would have some idea of how the costs of its bill might be met, the staff with the cooperation of the Office of the Actuary in the Social Security Administration prepared some illustrative tax schedules based on the decisions made by the Committee and assuming that there would be more than a 5 percent benefit increase. In addition, the staff assumed that the Committee would drop three provisions of the House-passed bill which were not in the 1970 Senate-passed bill, thus reducing the long-term tax rates by about one-half of one percent (equivalent to the long-term cost of a five percent benefit increase). These provisions and the cost under the House-passed bill are shown below:

Provision	Long-range cost as a percent of taxable payroll	Cost on an average annual basis
Additional dropout years.—Allows a beneficiary to disregard 1 additional year of low earnings (for purposes of computing average monthly wages on which benefits are based) for each 15 years of coverage	0.20	$1,000,000,000
Combined earnings for couple.—Allows couples married at least 20 years to combine wage credits (up to maximum taxable wages for any one year) for benefit computation purposes	.18	900,000,000
Actuarially reduced benefits.—Eliminates the provision in present law under which the actuarial reduction made in 1 benefit (for example, a widow's benefit) lowers the amount of another type of benefit taken later based on another earnings record (for example, a retirement benefit based on one's own earnings)	.13	650,000,000
Total	.51	2,550,000,000

The tax schedules below are based on the assumption that neither the social security tax rates or tax base would be increased in 1972, and that from 1973 through 1975 there would be a single tax rate which would provide enough income to meet the costs of the program and at the same time keep the December 1975 balance in the combined old-age and disability trust funds at approximately 90 percent of the estimated expenditures for 1976. If a $10,200 tax base were to go into effect in January 1973, a combined employer-employee tax rate of 10 percent would be needed. If a $12,000 tax base were to be adopted, a tax rate of 9.6 percent would be sufficient.

The tables that follow compare the tax rates under present law, the House-passed bill and under an assumed Committee bill. The schedules shown for the committee bill are believed to be reasonably accurate for illustration, but should be reviewed by the actuaries before made final.

TABLE 2.—ILLUSTRATIVE TAX RATES FOR THE SOCIAL SECURITY CASH BENEFIT PROGRAMS: **10-PERCENT BENEFIT INCREASE**

(Employee and employer taxes combined)

[In percent]

Year	Present law	H.R. 1 [1]	Committee bill [2]
a. $10,200 wage base for committee bill:			
1972	9.2	8.4	9.2
1973–74	10.0	8.4	9.5
1975	10.0	10.0	9.5
1976–79	10.3	10.0	10.9
1980 and after	10.3	12.2	12.9
b. $12,000 wage base for committee bill:			
1972	9.2	8.4	9.2
1973–74	10.0	8.4	9.0
1975	10.0	10.0	9.0
1976–79	10.3	10.0	10.4
1980 and after	10.3	12.2	12.8

[1] $10,200 wage base for 1972 with automatic adjustments with increases in earnings levels thereafter.

[2] In alternative a, $10,200 wage base for 1973 with automatic adjustments with earnings levels thereafter; in alternative b, $12,000 wage base for 1973 with automatic adjustments thereafter.

TABLE 3.—ILLUSTRATIVE TAX RATES FOR THE SOCIAL SECURITY CASH BENEFIT PROGRAMS: **15 PERCENT BENEFIT INCREASE**

(Employee and employer taxes combined)

[In percent]

Year	Present law	H.R. 1 [1]	Committee bill [2]
a. $10,200 wage base for committee bill:			
1972	9.2	8.4	9.2
1973–74	10.0	8.4	10.0
1975	10.0	10.0	10.0
1976–79	10.3	10.0	11.4
1980 and after	10.3	12.2	13.4
b. $12,000 wage base for committee bill:			
1972	9.2	8.4	9.2
1973–74	10.0	8.4	9.6
1975	10.0	10.0	9.6
1976–79	10.3	10.0	11.0
1980 and after	10.3	12.2	13.2

[1] $10,200 wage base for 1972 with automatic adjustments with increases in earnings levels thereafter.

[2] In alternative a, $10,200 wage base for 1973 with automatic adjustments with earnings levels thereafter; in alternative b, $12,000 wage base for 1973 with automatic adjustments thereafter.

TABLE 4.—ILLUSTRATIVE TAX RATES FOR THE SOCIAL SECURITY CASH BENEFIT PROGRAMS: **20-PERCENT BENEFIT INCREASE**

(Employee and employer taxes combined)

[In percent]

Year	Present law	H.R. 1 [1]	Committee bill [2]
a. $10,200 wago baso for commit-too bill:			
1972	9.2	8.4	9.2
1973–74	10.0	8.4	10.6
1975	10.0	10.0	10.6
196–79	10.3	10.0	11.9
1980 and after	10.3	12.2	13.9
b, $12,000 wago baso for commit-too bill:			
1972	9.2	8.4	9.2
1973–74	10.0	8.4	10.0
1975	10.0	10.0	10.0
1976–79	10.3	10.0	11.4
1980 and after	10.3	12.2	13.8

[1] $10,200 wage base for 1972 with automatic adjustments with increases in earnings levels thereafter.

[2] In alternative a, $10,200 wage base for 1973 with automatic adjustments with earnings levels thereafter; in alternative b, $12,000 wage base for 1974 with automatic adjustments thereafter.

The staff was unable to make long-range projections of the cost of the tentative Committee bill under assumptions similar to those recommended by the social security Advisory Council. However, it seems reasonable to assume that if the similar assumptions were to be used the tax rates shown in the above schedules for years after 1976 or 1980 and up through the early years of the 21st century would be reduced, perhaps by about one-half of one percent. This reduction, of course, comes about because the assumption would be that future benefits would increase about one-half as fast as was assumed in preparing the schedule.

The Committee decision regarding the financing of the automatic cost-of-living benefit increases contains, in effect, built-in assumptions that conflict with the Advisory Council assumptions. The Committee decision assumes that the financing of the program, by providing for increases in tax rates and the tax base to meet the full cost of the cost-of-living benefit increases, will be such that additional actuarial surpluses will occur just as they would if there were no automatic cost-of-living increases in benefits. In contrast to this conservative approach, advisory-council like assumptions assume that there will be no actuarial surplus, that the tax schedule will not be changed, that the benefits will rise in step with prices and that the tax base will rise in step with wages, and that the full cost of the benefit increases will be met from the taxes paid on an increasing taxable payroll.

Effective Dates

The staff has been advised that if the general benefit increase is to be reflected in the checks delivered to beneficiaries on October 3, 1972, final Congressional action would have to come not later than July 10; if the increase is to be reflected in the checks delivered on November 3, final action would have to be no later than August 10. Moreover, it would not be possible to meet this schedule if the increases resulting from all of the other provisions were to be included in the check for the same month as the benefit increase.

Staff suggestion.—It is recommended that the across-the-board increase be effective with respect to the month of June, 1972 (the effective date of the House-passed bill), and that the other cash benefit provisions be effective January, 1973.

TABLE 5.—1ST-YEAR BENEFIT COSTS AND NUMBER OF PERSONS AFFECTED BY OLD-AGE, SURVIVORS, AND DISABILITY PROVISIONS OF HOUSE BILL AND COMMITTEE BILL

[Amounts in millions; numbers of persons in thousands]

Provision	1st-year benefit costs	Present-law beneficiaries immediately affected	Newly eligible persons
House bill:			
1. 5 percent benefit increase	$2,102	27,800	40
2. Retirement test changes:			
a. $2,000 exempt amount; 1 for 2 above $2,000	593	1,100	420
b. Earnings in year of attainment of age 72	11	20	...
3. Increased benefits for widows and widowers to 100 percent of PIA (limited to OAIB)	868	3,700	...
4. Children disabled at ages 18 to 21	14	...	13
5. Noncontributory credits for military service after 1956	39	130	...
6. Election to receive larger future benefits by certain beneficiaries eligible for more than 1 actuarially reduced benefit	29	100	...
7. Eliminate support requirement for divorced wives and surviving divorced wives	18	...	10

TABLE 5.—1ST-YEAR BENEFIT COSTS AND NUMBER OF PERSONS AFFECTED BY OLD-AGE, SURVIVORS, AND DISABILITY PROVISIONS OF HOUSE BILL AND COMMITTEE BILL—Continued

[Amounts in millions; numbers of persons in thousands]

Provision	1st-year benefit costs	Present-law beneficiaries immediately affected	Newly eligible persons
House bill—Continued			
8. Student child's benefits continued after age 22 to end of semester	$16	55	6
9. Special minimum PIA up to $150	30	300	....
10. Liberalized workmen's compensation offset (80 percent of high 1 year)	4	65	....
11. Liberalized disability insured status provision for the blind	29	....	30
12. Increased allowance for vocational rehabilitation expenditures	22	....	....
13. Age 62 computation point for men	6	85	1
14. Benefits based on combined earnings of husband and wife	3	10	....
15. Credit for delayed retirement	13	550	....
16. Additional dropout year for every 15 years of coverage	23	700	....
17. Reduce disability waiting period to 5 months	102	950	4
Total, cash benefit changes under House bill	3,922	(1)	529
Committee changes: Deletions:			
18. Election to receive larger future benefits by certain beneficiaries eligible for more than 1 actuarially reduced benefit	−29	−100	....

[1] Figures not additive because a person may be affected by more than one provision.

TABLE 5.—1ST-YEAR BENEFIT COSTS AND NUMBER OF PERSONS AFFECTED BY OLD-AGE, SURVIVORS, AND DISABILITY PROVISIONS OF HOUSE BILL AND COMMITTEE BILL—Continued

[Amounts in millions; numbers of persons in thousands]

Provision	1st year benefit costs	Present-law beneficiaries immediately affected	Newly eligible persons
Committee changes: Deletions—Con.			
19. Benefits based on combined earnings of husband and wife	—$3	—10	
20. Additional drop-out year every 15 years of coverage	—23	—700	
Changed provisions:			
21. Special minimum PIA up to $200	275		
22. Retrospective application of delayed retirement credit	275		
23. Liberalized disability benefits for the blind	155		
24. Reduce disability waiting period to 4 months	20		
25. Benefits for dependent brothers and sisters	69		50
Net change	739		+50
Total cash benefit changes under committee bill	4,661		579
Benefit increases:			
26. 10 percent benefit increase instead of 5 percent	2,217	27,800	
27. 15 percent benefit increase instead of 5 percent	4,073	27,800	57
28. 20 percent benefit increase instead of 5 percent	6,175	27,800	

TABLE 6.—CHANGES IN ACTUARIAL BALANCE OF OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE SYSTEM UNDER HOUSE BILL AND COMMITTEE BILL

	Long-range cost as a percent of taxable payroll
Actuarial balance of present system	+0.05
House bill:	
1. Increase in earnings base	+.28
2. Additional dropout years (prospective)	−.20
3. Age-62 point for men (prospective)	−.07
4. Earnings test changes	−.16
5. Widow's benefits of 100 percent PIA at 65	−.21
6. Special minimum benefit of $150	−.12
7. Election of actuarial reduction changes	−.13
8. Combined earnings (prospective)	−.18
9. Delayed retirement increment (prospective)	−.07
10. 5-month disability waiting period	−.02
11. Miscellaneous changes [1]	−.03
12. Benefit increase of 5 percent	−.54
13. Increased taxes	+1.27
Total effect of changes in House bill	−.18
Actuarial balance under House bill	−.13
Committee modifications:	
14. Deletion of items 2, 7, and 8 above	+.51
15. Special minimum benefit of $200 16. Delayed retirement increment for present beneficiaries 17. 4-month disability waiting period 18. Disability benefits for the blind 19. Dependent sisters and brothers	−.29
Subtotal, Committee modifications	+.22
Benefit increase of:	
20. 10% instead of 5%	−.55
21. 15% instead of 5%	−1.09
22. 20% instead of 5%	−1.63

[1] Includes the following: Workmen's compensation offset based on 80 percent of highest earnings; child's benefits to children disabled at ages 18 to 21; disabled-child 7 years re-entitlement; broaden definition of adopted child; student's benefits to end of attainment of age 22; child's benefits on grandparent's account if full orphan and supported by him; elimination of support requirement for divorced wife's and widow's benefits; reduced widower's benefits at age 60, and liberalizations of insured status requirements for disability benefits with respect to blind persons.

Amendments to H.R. 1 Not Previously Discussed Relating to Social Security Cash Benefits

AMENDMENT NO. 1050 (HARTKE)

Provides for an across-the-board 20 percent benefit increase with a minimum benefit of $84.50 effective June 1972.

Cost.—1.65 percent of taxable payroll, about $8.3 billion on an average annual basis.

AMENDMENT NO. 1078 (HUMPHREY)

Provides for a 25 percent across-the-board benefit increase rather than the 5 percent increase contained in H.R. 1. The minimum benefit is $100.

Cost.—2.28 percent of taxable payroll, about $11.4 billion on an average annual basis.

AMENDMENT NO. 1119 (INOUYE)

Provides that deemed wage credits be granted to Japanese Americans interned during World War II and establishes a formula for the granting of such credits. (The social security trust funds would be reimbursed by general revenues.)

Cost.—Negligible.

AMENDMENT NO. 1128 (MONDALE)

Provides that the additional drop-out provision of H.R. 1, will be effective for monthly benefits payable after December 1972 without regard to date of birth and provides for recomputing monthly social security benefits so that the provision will be applicable to all monthly social security benefits payable after December 1972.

Cost.—0.11 percent of taxable payroll, about $550 million on an average annual basis.

AMENDMENT NO. 1129 (MONDALE)

Changes effective date of the Age–62 Computation Point for Men provision in HR 1 so that the provision would apply after December 1972. It would apply not only to those who come on the benefit rolls in and after January 1973 but also for recomputing average monthly earnings for those on the benefit rolls as of December 1972. It would also provide for determining insured status for men up to age 62 effective for benefits after December 1972.

Cost.—.07 percent of taxable payroll, about $350 million on an average annual basis.

AMENDMENT NO. 1130 (MONDALE)

Amends the provision of HR 1 relating to the computation of benefits based on combined earnings of a married couple, so that neither member of the couple has to attain age 62 after 1971 and also provides for recomputations for all beneficiaries on the rolls in December 1971.

Cost.—.10 percent of taxable payroll, about $500 million on an average annual basis.

AMENDMENT NO. 1135 (MONDALE)

Provides that the period over which earnings are averaged for determining social security benefits will, in addition to the 5 years provided under present law, be reduced so that in no event shall there be more than 10 years used for benefit computation purposes. Provides for a recomputation of all benefits for those on the rolls in the month of enactment without a new application.

Cost.—.76 percent of taxable payroll, about $3.8 billion on an average annual basis.

AMENDMENT NO. 1136 (MONDALE)

Increases the annual exempt amount under the retirement test to $2400 and amends H.R. 1 by raising the monthly test from $166.66⅔ to $200.

Cost.—.10 percent of taxable payroll, about $500 million on an average annual basis.

AMENDMENT NO. 1137 (MONDALE)

Provides for a 25-percent across-the-board benefit increase, effective for June 1972 with a minimum benefit of $100, that the contribution and benefit base be increased to $12,000, and revises the schedule of tax rates.

Cost.—3.51 percent of taxable payroll, about $17.5 billion on an average annual basis.

AMENDMENT NO. 1166 (MAGNUSON)

Lowers the minimum retirement age for Old-age, Wife's, Husband's and Parents' Benefits to age 60, with an actuarial reduction of 19/40 of 1% of such benefit for each month the date of entitlement precedes the date on which the defined retirement age is attained.

Cost.—15 percent of taxable payroll, about $750 million on an average annual basis.

AMENDMENT NO. 1173 (METCALF)

Changes the definition of disability to provide that an individual must be incapable of engaging in any substantial gainful activity available to him within a reasonable distance from his residence rather than any substantial gainful activity which exist in the national economy.

Cost.—.32 percent of taxable payroll, about $1.6 billion on an average annual basis.

AMENDMENT NO. 1207 (CRANSTON)

VOLUNTARY SOCIAL SECURITY COVERAGE FOR FEDERAL CIVILIAN EMPLOYEES.—Permits Federal civilian employees to elect social security coverage under the Federal civilian employee retirement program. An election of coverage would be effective for as much as 4 quarters before the quarter in which the election was made and would be irrevocable.

AMENDMENT NO. 1166 (MAGNUSON)

SOCIAL SECURITY BENEFITS AT AGE 60.—Provides for the payments of actuarially reduced social security benefits starting as early as age 60, rather than age 62.

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