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SOCIAL SECURITY SYSTEM

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GOALS AND INTERGOVERNMENTAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

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TUESDAY, SEPTEMBER, 25, 1984

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GOALS
AND INTERGOVERNMENTAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 340, Cannon House Office Building, Hon. Lee H. Hamilton (chairman of the subcommittee) presiding.

Present: Representatives Hamilton, Snowe, and Roybal.

Also present: James K. Galbraith, deputy director; and Mary E. Eccles and Christopher J. Frenze, professional staff members.

OPENING STATEMENT OF REPRESENTATIVE HAMILTON, CHAIRMAN

Representative HAMILTON. The subcommittee will come to order.

I understand Congressman Roybal will be here shortly and when he arrives we will interrupt our schedule to permit him to make an opening statement.

Today's hearing on Social Security will address two sets of issues: Are the programs on which 32 million Americans depend and to which over 115 million Americans contribute fiscally solvent in the near future? Are there other reasons apart from the present financial condition of the system to consider revising Social Security, and what are the economic consequences of such actions?

Too often Social Security questions are examined in a crisis atmosphere, amid public fears that the system could go bankrupt. Fortunately, today, this is not the case. To deal with the prospect of financial imbalances, the Social Security legislation enacted last year provided $165 billion for short-term funding and phased in important longer run reforms.

The latest figures from the system's trustees show Social Security in good shape financially through the 1980's and into the next century. Barring an extremely poor economic performance, the basic retirement and disability programs should not run into difficulty.

Over the past several months the administration has hinted that Social Security might have to be revisited or revamped before the end of this decade. While the President and his spokesmen disclaim any intention of cutting Social Security benefits for those currently retired, it's not clear from their statements what is meant.

It seems likely, given the enormous Federal budget deficit stretching ahead of us, that the Congress will be asked to consider proposals to limit the growth of Social Security programs in some fashion. Today's witnesses will provide us with a better understanding of such proposals, especially their effects on different income groups among the elderly and on different generations of retirees. The witnesses will also discuss whether and when further action could be necessary to deal with longer term pressures on Social Security programs, including hospital insurance under Medicare.

I am pleased to welcome the following panel of experts: Ms. Munnell, Senior Vice President and Director of Research, Federal Reserve Bank, Boston; Mr. Myers, Consultant, former Executive Director, National Commission on Social Security Reform; and Mr. Burtless, senior fellow, Brookings Institution.

We have your prepared statements. Of course, those statements will be entered into the record in full. We would appreciate your summarizing those statements in 10 minutes or less and then we will turn to questions.

First, I will ask my colleague, Congresswoman Snowe, if she has any opening comments.

Representative SNOWE. No, I don't, Mr. Chairman, but I am looking forward to the testimony from the witnesses here this morning on what is always a very important subject. Thank you, Mr. Chairman.

Representative HAMILTON. Ms. Munnell, we'll let you begin and she will be followed by Mr. Myers and he by Mr. Burtless.

STATEMENT OF ALICIA H. MUNNELL, SENIOR VICE PRESIDENT AND DIRECTOR OF RESEARCH, FEDERAL RESERVE BANK, BOSTON

Ms. MUNNELL. Thank you, Mr. Chairman.

I'd like to make it clear that I appear today on my own behalf; my views do not necessarily reflect the position of the Boston Fed or the Federal Reserve System.

I appreciate the opportunity to discuss with you the outlook for Social Security financing and to present my opinion on how the program should be treated as Congress approaches the difficult task of bringing down the large Federal deficits. My goal today is to urge Congress to consider alternatives to substantial cost-of-living reductions as a means of restoring balance to the unified budget. In this regard, I would like to suggest some financing and coverage reforms that provide appealing alternatives both for increasing revenues and for improving the equity of the system. To support my views I would like to make three points today.

First, Social Security is a self-financed program with adequate revenues to cover benefit payments in both the short and long run. Therefore, no changes are needed in the system, either to insure its own financial stability or to eliminate adverse effects on the deficit. In fact, Social Security is scheduled to run annual surpluses for the next 35 years and thereby strengthen the fiscal condition of the Federal Government.

Second, substantial reductions in the cost-of-living adjustment undermine other congressional efforts to maintain a consistent retirement income system and, in many cases, would cause economic hardship.

Finally, several desirable changes can be made on the financing and coverage side of the Social Security Program that will significantly increase revenues.

Let us turn first to the current status of Social Security financing.

Twice during the last decade the financial problems of the old-age, survivors, and disability insurance program have provided material for front-page stories. Questions were raised about the ability of this program to continue to pay benefits and some analysts predicted the system's imminent bankruptcy.

Now, a year and a half after Congress passed the 1983 amendments to the Social Security Act, Social Security is out of the headlines and out of the red. In fact, its Board of Trustees asserts that revenues will cover benefits for the next 75 years. Even the President agrees with this. The question is, are these predictions reasonable or is there a chance that we will run into short-run or long-run problems again?

Because trust fund revenues are now so low, the most pressing question is whether revenues will cover benefits between now and 1988, when substantial tax increases go into effect. According to the system's trustees, Social Security revenues will exceed benefit payments between now and 1988 even under a pessimistic economic scenario. Four factors lend credence to their projection.

The first is that their pessimistic scenario is very bleak. They have almost no growth in wages between now and 1988 and they have very high levels of unemployment, much higher than current forcasts by private firms.

Second, the time between now and 1988 is relatively brief. There is little room for a really serious recession of the size that could cause a problem. If we can get through 1986 and it looks like we can, then even if we had a situation as serious as the 1979–80 period, we should have reserves enough to get us through to 1988.

Third, the 1983 amendments include a provision to avoid the financial drain that results when prices rise faster than wages. As you know, if trust fund balances are low, benefits would be adjusted by the lesser of price or wage increases, which would prevent the real wage differential from falling below zero.

Finally, until 1988, the OASDI trust funds can borrow from the hospital insurance trust fund. Even though the hospital insurance fund may face its own problems in the 1990's, it can provide a source of revenue up to that point.

In short, the combination of borrowing capacity, revised indexing procedures, a reasonably healthy economic outlook and new revenues beginning in 1988 makes the possibility of another short-term Social Security crisis unlikely.

After 1988, in addition to new revenues from tax increases, the system will start to benefit from favorable demographics. This, combined with the increased revenues, will allow the Retirement and Disability Programs to run substantial annual surpluses. Even under the trustees' pessimistic mortality and economic assumptions, the system will run annual surpluses until 2015 and have positive trust fund balances until 2025.

Thus, the system is in no way contributing to the large Federal deficits. On the contrary, small surpluses in the 1980's, increasing to substantial annual surpluses in the 1990's and thereafter, will improve the net fiscal position of the Federal Government.

Despite the fact that the Social Security Program is alleviating rather than aggravating the deficit, proposals are constantly being put forth to cut back on benefits, primarily by reducing the cost-of-living adjustment. These proposals include eliminating the COLA for 1 year, paying only a fraction of the increase in the Consumer Price Index, or awarding a COLA equal to the increase in the CPI minus a fixed percentage. Support has been mounting for a proposal that is designed to make partial indexing of Social Security benefits more palatable by combining it with partial indexing of the brackets of the Federal personal income tax. In my view, any reduction in the cost-of-living adjustments is undesirable and inconsistent with the Nation's retirement income goals and the proposal to combine such reductions with changes in the income tax has only a superficial appearance of equity. Let me list some of my major objections:

The first is, while reasonable people could disagree about the appropriate level at which to establish initial Social Security benefits, few would argue that the subsequent economic well-being of the elderly should depend on the performance of the economy. Unless there are full cost-of-living adjustments throughout the entire retirement period, retirees' living standards will decline with their age. There is no rationale for giving people lower real benefits at age 80 than at age 65.

Second, failure to maintain the real value of Social Security benefits would particularly hurt low-income people. The number of elderly poor would increase by almost 600,000 and the number of near-poor elderly would increase by 350,000. Nearly 20 percent of the reduction would be borne by people either below the poverty level or with incomes less than 125 percent of the poverty level. The poverty gap for the elderly—the difference between poor peoples' income and the Census Bureau's definition of poverty—would be increased by almost $1 billion.

Third, balancing COLA reductions for Social Security with reduced indexing of the income tax does not make the proposal any more equitable.

We are coming out of a period where income taxpayers have just benefited from a 23-percent reduction in their tax liabilities. While the after-tax income of workers has increased, Social Security beneficiaries have had their benefits reduced by 2 percent and higher income people have had their benefits subject to the income tax.

On an annual basis, income tax liabilities have been reduced by about $70 billion per year by 1985, while Social Security benefits will have been cut by $10 billion a year. Therefore, taxpayers and beneficiaries will be starting in very different positions in terms of being able to withstand additional cuts.

Second, even though limiting the indexing in the income tax and reducing the COLA for Social Security produces about the same amount of revenues, the proposed cuts have much more severe impact on the elderly than on the average taxpayer.

While changing the benefits of Social Security is not a desirable means for solving these deficit problems, money can be gained by reforming the revenue and coverage side of the program. The appealing characteristic of each of the following proposals is that they are intrinsically desirable reforms, rather than ad hoc responses to budget pressures.

My first proposal would be to extend the payroll tax to all forms of employer-provided fringe benefits. This would raise approximately $28 billion in 1985 and almost $141 billion over the period 1985–88. This would not only increase the short-term revenues, but would also improve the equity of the system.

Even though benefits would have to be paid later on these additional contributions, including fringe benefits in the tax base would also reduce the long-run cost of Social Security. The actuaries indicate the savings would be as much as six-tenths of a percent of payroll, which is a substantial amount in the Social Security context.

Thus, broadening the tax base would require lower long-term payroll tax rates, would improve the equity of the tax structure, and would produce immediate revenues to simultaneously accelerate the buildup of the seriously depleted trust funds and reduce the overall level of Government borrowing.

My second proposal is to increase the proportion of Social Security benefits subject to income taxation for higher-income beneficiaries. This would produce revenues of about $2 billion in 1985 and about $12 billion between 1985 and 1988.

As you know, the 1983 amendments included one-half of the Social Security benefits in the taxable income of higher income beneficiaries. The rationale for the one-half was that employees contribute half to their pension and the employer contributes the other half.

This change does move the taxation of Social Security benefits somewhat closer to the taxation of private pension benefits. Private pension benefits, however, are taxed in full to the extent that they exceed the employee's own contributions. If you did the same kind of calculation for Social Security, you would find that the employee contributed only 17 percent of the total benefits. Therefore, 83 percent, not 50 percent, of the total benefits should be subject to the taxation. Of course, the precise percentage of benefits attributed to employee contributions would change over time as the system continues to mature. Nevertheless, the equity of the tax structure would be improved by adopting the principle that beneficiaries pay taxes on all Social Security benefits in excess of their own contributions.

The third proposal would be to extend coverage to all State and local workers immediately under the hospital insurance program and all newly hired State and local employees under OASDI. This reform would increase revenues by $2 billion in 1985 and about $17 billion over the 1985–88 period.

As you know, the 1983 amendments extended full Social Security coverage to employees of nonprofit institutions and new Federal employees. The one-third of State and local employees currently not covered were not included in this reform because of concern about constitutional issues. In my view, coverage ought to be extended and then the courts can decide whether the constitutional problems exist.

My conclusion, therefore, is not that the Social Security Program should be considered untouchable in the deficit reduction deliberations, but rather that care should be taken to ensure that changes made to the system are consistent with the Nation's tax and retirement income policies. Hence, I would urge Congress to consider alternatives to substantial cost-of-living reductions for Social Security beneficiaries. The proposals to include fringe benefits in the payroll tax base, to tax a greater portion of the benefits of the higher income people, and to extend coverage to State and local workers would not only improve the equity of the tax and benefit system, but would also produce $32 billion in additional revenues in 1985 and $170 billion over the 4-year period 1985–88.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Munnell follows:]

Social Security and Budget Deficits

Mr. Chairman and Members of the Committee:

My name is Alicia Munnell. I am Senior Vice President and Director of Research at the Federal Reserve Bank of Boston. I appear today on my own behalf; my views do not necessarily reflect the position of the Boston Fed or the Federal Reserve System.

I appreciate the opportunity to discuss with you the outlook for Social Security financing and to present my opinion on how the program should be treated as Congress approaches the difficult task of bringing down the large projected federal deficits. My goal today is to urge Congress to consider alternatives to substantial cost-of-living reductions for Social Security beneficiaries as a means of restoring balance to the unified budget. In this regard, I would like to suggest some financing and coverage reforms that provide an appealing alternative both for increasing revenues and for improving the equity of the system. To support my views, I will make three points.

1. Social Security is a self-financed program with adequate revenues to cover benefit payments in both the short- and long-run. Therefore, no changes are required in the program, either to insure its own financial stability or to eliminate adverse effects on the deficit. In fact, Social Security is scheduled to run annual surpluses for the next 35 years, and thereby strengthen the fiscal condition of the federal government.
2. Substantial reductions in the cost-of-living adjustment undermine other Congressional efforts to maintain a consistent retirement income system and, in many cases, would cause economic hardship.

The views expressed are solely those of the author and do not necessarily reflect the official position of the Federal Reserve Bank of Boston or the Federal Reserve System.

3. Finally, several desirable changes can be made on the financing and coverage side of the social security program that will significantly increase revenues. The options include broadening the payroll tax base to include the value of employer-provided fringe benefits; increasing the proportion of social security benefits subject to tax for higher income people; and expanding social security coverage to the noncovered portion of state and local workers.

Let us turn first to the current status of social security financing.

I. Social Security is Adequately Financed

Twice during the last decade the financial problems of the old-age, survivors, and disability insurance program, which makes up the bulk of the Social Security system, have provided material for front-page stories. Questions were raised about the ability of this program to continue to pay benefits and some analysts predicted the system's imminent bankruptcy.

Now, a year and a half after Congress passed the 1983 amendments to the Social Security Act, resolving the program's crisis, Social Security is out of the headlines - and out of the red. In fact, its Board of Trustees asserts that revenues will cover benefits for the next 75 years.

Still, can we be reasonably sure that another crisis is not around the corner? It is only through understanding how Social Security works and how it differs from private pension plans that we can evaluate how sound it is now. (This discussion does not include Medicare, the other part of Social Security, which may experience financial problems in the 1990s.)

The Social Security system is now financed on a pay-as-you-go basis. Workers and their employers pay taxes to finance benefits for retired and disabled workers and their dependents and survivors. The idea has been not to build up a large reserve from which benefits will be paid, but rather to accumulate sufficient money in the trust funds to provide a buffer against brief, unanticipated economic fluctuations. Relatively small trust fund balances should generally not cause concern, because the Government can increase Social Security taxes if future obligations turn out to be higher than expected.

But pay-as-you-go financing makes Social Security sensitive to economic fluctuations. Indeed, Social Security's short-term financial difficulties have been almost entirely the result of the unanticipated poor performance of the economy during the 1970's and early 1980's.

The year 1972 is a useful point from which to trace the origins of these difficulties. Because of legislation passed that year, benefits for the first time were adjusted automatically to keep pace with inflation, and the taxable wage base was increased each year to reflect the growth in average wages. Since tax revenues vary with the growth of wages and benefits rise with increases in the Consumer Price Index (CPI), the key economic variable in an automatically adjusted system is the difference between the rate of wage growth and the rate of price increase. This difference is called the real wage differential.

When the new tax and benefit schedules were set in 1972, Social Security revenue and outlay projections were based on the historical real wage differential of 2.25 percent a year. But from 1973 to 1977, that differential averaged -0.5, causing Social Security to run sharp, annual deficits.

Legislation passed in 1977 dramatically revised the Social Security financing and benefit provisions and it greatly strengthened the financing of the program. But the tax schedule was set on the assumption that historical rates of real growth would reappear, that is, that the real wage differential would average 1.8 percent from 1978 through 1982. In fact, that differential averaged -1.3 percent in that period, which led to the need for financing changes in 1983.

The 1983 amendments were projected to produce a total of $166 billion between 1983 and 1990 and to place the system in financial balance for the next 75 years. Increased short-term revenues were derived primarily from delaying for six months the automatic cost-of-living adjustment, accelerating scheduled payroll tax increases and taxing Social Security benefits for higher-income recipients. Increasing taxes on the self-employed, broadening coverage, and speeding up Treasury reimbursement for some of the benefits paid to members of the armed services also contributed to greater short-run revenues. In addition to providing much needed short-term revenues, these reforms eliminated two-thirds of the 75-year deficit. Congress closed the remaining long-term gap between revenues and outlays by instituting a schedule that will gradually extend the normal retirement age to 67.

Because trust fund balances are now so low, the most pressing question is whether revenues will cover benefits between now and 1988, when a tax rise of 0.36 percent each for employees and employers is scheduled to take effect. (An additional 0.14 percent increase is scheduled for 1990.) According to the system's Trustees, social security revenues will exceed benefit payments between now and 1988 even under a pessimistic economic scenario. Four factors lend credence to their projection.

First, the economic activity underlying the pessimistic projections is dismal. The crucial real wage differential is assumed to average zero percent between now and 1988 and the unemployment rate is projected to hover around 8.6 percent (see Table 1). Both these numbers are more pessimistic than recent forecasts by private firms such as Data Resources Inc. and Chase Econometrics.

Table 1 . Comparison of Projections, as of 2nd Quarter 1984, of the Real Wage Differential and Unemployment Rate by the Social Security Trustees and Private Forecasters, 1984-1987

	Real Wage Differential[a]			Unemployment Rate		
Year	Social Security Trustees[b]	Chase[c]	DRI[c]	Social Security Trustees[b]	Chase	DRI
1984	-0.1	0.6	0.2	8.2	7.5	7.5
1985	-0.7	-0.9	-1.4	9.0	7.1	7.5
1986	0.4	0.8	-0.3	8.8	7.1	7.9
1987	0.4	2.2	0.6	8.4	6.9	7.6

[a]The difference between the percentage increase in average annual wages in covered employment and the percentage increase in the annual CPI for all wage and salaried workers.

[b]The Social Security Trustees pessimistic (Alternative III) set of economic assumptions.

[c]Since the private forecasters do not project wages in covered employment, wage growth is calculated on the basis of wages and salaries per worker in the private sector. For Chase and DRI standard long-term forecast were used, moderate growth and trend, respectively.

Source: Social Security Administration, Office of the Actuary, 1984 Annual Report of the Board of Trustees of the Federal Old-Age and survivors Insurance and disability Insurance Trust Funds (GPO, April 1984), Table 10, pp. 32 and 33; and Data Resources, Inc. and Chase Econometrics/Interactive Data Corp., projections based on data available before August 30, 1984.

Second, the time between now and 1988 is relatively brief, leaving little room for a serious recession of the size that could cause a problem. By 1986 even with a repetition of the disastrous conditions of 1979 and 1980, the OASDI trust funds should have adequate balances to continue payments through 1988 when the new revenues will be available.

Third, the 1983 amendments include a provision to avoid the financial drain that results when prices rise faster than wages. If trust fund balances drop below 15 percent of annual outlays, benefits would be adjusted by the lesser of price or wage increases, which prevents the real wage differential from falling below zero.

Finally, the OASDI trust funds can borrow from the hospital insurance trust fund until 1988. That fund may face its own financial problems in the 1990's, but can serve as a buffer for the retirement and disability programs for the next few years.

In short, the combination of borrowing capacity, revised indexing procedures, a reasonably healthy economic outlook and new revenues beginning in 1988 makes the possibility of another short-term Social Security crisis unlikely.

After 1988, in addition to new revenues from tax increases, the system will start to benefit from favorable demographics - the low fertility rates of the late 1920's and 1930's will cause a slowing in the rate of increase in the population over age 65 during the 1990's and the first decade of the 21st century. At the same time, the baby-boom generation will continue to swell the labor force. With the resulting stable ratio of beneficiaries to workers, even modest productivity gains will reduce the cost of Social Security as a percent of payroll. This decline, combined with increased revenues from the 1988 and 1990 tax hikes, will allow the retirement and disability programs to run substantial annual surpluses. Even under the Trustees' pessimistic mortality and economic assumptions, the system will run annual surpluses until 2015 and have positive trust fund balances until 2025.

As the baby boom retires after 2020, the system is expected to run annual deficits. If the assets are accumulated before then, as expected under the Trustees central assumptions, they will be sufficient to cover the subsequent deficits. Of course, if the economy performs poorly or if Congress diverts surplus payroll tax revenues for other purposes between 1988 and 2020, fewer assets would be accumulated and some new taxes would be required to cover current costs. Any required increases, however, should be quite manageable.

The important conclusion that emerges from the foregoing analysis is that, even under unrealistically pessimistic demographic and economic assumptions, Social Security revenues will be more than adequate to cover promised benefits until 2025. Thus, the system is in no way contributing to the large federal deficits. On the contrary, small surpluses in the 1980s, increasing to substantial annual surpluses in the 1990s and thereafter, will improve the net fiscal position of the federal government.

II. Reducing Cost-of-Living Adjustments Is Inconsistent with A Rational Retirement Income Policy.

Despite the fact that the Social Security program is alleviating rather than aggravating the federal deficit, proposals are constantly being made to cut back on benefits, primarily by reducing the cost-of-living adjustment (COLA). Specific suggestions include eliminating the COLA for one year, paying only a fraction of the increase in the Consumer Price Index, or awarding a COLA equal to the increase in the CPI minus a fixed percent. Support has been mounting for a proposal that is designed to make partial indexing of Social Security benefits more palatable by combining it with partial indexing of the brackets of the federal personal income tax. In my

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view, any reduction in the cost-of-living adjustments is undesirable and inconsistent with the nation's retirement income goals and the proposal to combine such reductions with changes in the income tax has only a superficial appearance of equity. Let me list some of my major objections:

1. <u>While reasonable people could differ about the appropriate level at which to establish intitial Social Security benefits, few would argue that the subsequent economic well-being of the elderly should depend on the rate of inflation during their retirement years.</u>

Unless there are full cost-of-living adjustments throughout the entire retirement period, retirees' living standards will decline as inflation erodes the purchasing power of their benefits. Since the future pattern of prices cannot be predicted, no amount of pre-planning can ensure protection from inflation. Without full adjustment for rising prices, a retiree's economic welfare depends entirely on the vagaries of the economy - a situation that undermines the establishment of a rational retirement system.

The only way to design a sensible system is to determine the proper level of benefits that people should get at the time of first receipt and then to maintain the purchasing power of that benefit. No rationale exists for paying higher real benefits at age 65 than at age 80, especially since the income needs of many elderly increase with age. If we feel that we cannot afford to maintain the current level of benefits in real terms, then it would make more sense to pay lower initial benefits and maintain those lower amounts in real terms.

2. <u>Failure to maintain the real value of social security benefits would particularly hurt low-income people</u>

Social Security benefits are the primary factor behind the dramatic decline in the incidence of poverty among the elderly over the last few decades. Consequently, any reduction in Social Security benefits will force a substantial number of retirees back below the poverty line.

The adverse effects of reducing the COLA can be seen by examining the impact of a proposal considered by the Senate Finance Committee that would limit for three years the cost-of-living adjustment to the increase in the CPI only in excess of 3 percent. Such a proposal would lower real benefits by roughly 9 percent and some of the effects on low-income people from such a reduction would include:

(a) The number of elderly poor would be increased by 700,000 and the number of near-poor elderly (125 percent of the poverty level) by 400,000.

(b) Nearly 20 percent of the reduction would be borne by people either below the poverty level ($4,774 per year for a single person over 65 and $6,032 for an elderly couple in 1983) or with incomes less than 125% of the poverty level. Some of this, perhaps a fourth, would be made up for by additional payments from Supplemental Security Income (SSI).

(c) The poverty gap for the elderly--the difference between poor peoples' income and the Census Bureau's definition of poverty--would be increased by over $1 billion.

3. <u>Balancing COLA reductions for Social Security with reduced indexing of the income tax does not make the proposal any more equitable.</u>

Two factors make this approach less equitable than it would appear. The first is that income taxpayers have just experienced an enormous increase in their after-tax incomes, since the Economic Recovery Tax Act of 1981 (ERTA) reduced income tax liabilities by 23 percent over a three-year period. In contrast, the 1983 Social Security amendments postponed the 1983 cost-of-living adjustment for six months and put it permanently on a calendar year basis, reducing lifetime benefits for the average retiree by approximately 2 percent. In addition, one half of the Social Security benefits of higher-income individuals (about 10 percent of all beneficiaries) are now subject to taxation under the personal income tax. In short, by 1985, legislated changes in the personal income tax will have increased taxpayers' disposable income by approximately $70 billion per year and reduced Social Security benefits by roughly $10 billion annually. Hence, taxpayers and beneficiaries will be starting in very different places in terms of their ability to withstand reductions in income.

Second, even though limiting the indexing in the income tax and reducing the COLA for Social Security benefits contribute roughly the same amount to deficit reduction, the effect of instituting these provisions on the income of the average worker and retiree is quite different. Since the number of beneficiaries is only one quarter that of taxpayers, the per capita benefit cuts that result from reducing the COLA are four times as large as the reduction in after-tax income caused by only partially indexing the income tax brackets. The fact that the income of the typical beneficiary is considerably lower than that of the typical taxpayer makes the disproportionately larger reduction for Social Security recipients even more burdensome.

III. Social Security Revenue and Coverage Reforms Can Help Reduce the Deficit

Although changing the benefit structure of Social Security seems an undesirable approach to reducing federal deficits, fiscal relief can be gained by reforming the revenue and coverage side of the program. The appealing characteristic of each of the following suggestions is that they are intrinsically desirable reforms in their own right, rather than *ad hoc* responses to budget pressures.

1. Extending the payroll tax to all forms of employer-provided fringe benefits would raise $28 billion in 1985 and $141 billion over the 1985-88 period.

Including employer-provided fringe benefits in the tax base for payroll tax purposes would not only increase revenues substantially, but also reduce the long-run cost of the Social Security program. In addition, such a change would improve the equity of the tax structure.

In the United States, it has generally been agreed that income should be defined broadly for the purposes of levying taxes, since this approach ensures that taxpayers with equal economic resources are assessed equal amounts of taxes and those with different capabilities are assessed different amounts. Excluding the value of fringe benefits from the tax base or deferring taxation until the recipient faces lower marginal tax rates create two types of inequities. First, two individuals, who are equally well off in an economic sense, will pay different amounts of payroll tax over their lifetimes. Second, such an exclusion has an adverse impact on the distribution of income, since fringe benefits are concentrated among higher-paid employees. Yet, all taxpayers must pay higher taxes to compensate for the favorable tax treatment accorded employee benefits.

Including the major statutory benefits - pensions, group life insurance and group health insurance - in the payroll tax base may increase 1985 payroll tax receipts by as much as $28 billion; over the four years, 1985 through 1988, payroll taxes might be as much as $141 billion higher than currently projected (see Table 2).

Of course in the long run, broadening the payroll tax base to include employer-provided fringes will mean higher future Social Security benefits. The resulting benefit increases, however, will be less than the additional tax receipts produced by including fringes in the tax base. The reason for this phenomenon is the weighted benefit formula, which provides that a smaller percentage of wages are replaced at higher earnings levels than at lower

Table 2. Additional Payroll Tax Receipts From Taxation of Employer-Provided Fringe Benefits, 1985-1988

Billions

Benefit	1985	1986	1987	1988
Group Health Insurance	$10.9	$12.5	$14.2	$16.2
Group Life Insurance	1.1	1.4	1.3	1.4
Pensions & Profit Sharing	15.8	18.6	22.0	25.9
Total	27.8	32.5	37.5	43.5

Source: Congressional Budget Office, Tax Expenditures: Current Issues and Five-Year Budget Projections for Fiscal Years 1984-1988 (CBO, 1983), Table A-1, pp. 55 and 56 and author's calculations. These calculations assume that the ratio of revenue loss under the payroll tax to revenue loss under the income tax remains constant at the 1983 level through 1988.

ones. Since most of the increase in the payroll tax base would occur at higher earnings levels, benefit payments would not increase proportionately. Thus, the long-range costs of the program would be reduced by including employer-provided fringes in the payroll tax base.

Preliminary estimates by the Social Security actuaries indicate that including employer-provided fringe benefits in full in the payroll tax base would reduce long-run costs by 0.6 percent of taxable payrolls. That is, instead of requiring revenues equal to 13.0 percent of taxable payrolls to cover promised benefits, the system could be financed for the next 75 years at an average cost of 12.4 percent.

Thus, broadening the tax base would require lower long-term payroll tax rates, would improve the equity of the tax structure, and would produce immediate revenues to simultaneously accelerate the build-up of the seriously depleted trust funds, and reduce the overall level of government borrowing.

2. Increasing the proportion of Social Security benefits subject to income taxation for higher-income beneficiaries would increase revenues by $2 billion in 1985 and $12 billion over the 1985-88 period.

The 1983 Social Security amendments included a provision to tax one-half of the Social Security benefits of single people with incomes in excess of $25,000 and of married couples with incomes over $32,000 and to return these revenues to the Social Security trust funds. This reform enhanced the equity of the income tax by making somewhat more equal the tax treatment of Social Security benefits and private pensions, which are taxed in full to the extent that they exceed the employee's own contributions.

The inclusion in taxable income of only one half of the benefits reflected the common, although inaccurate, perception that employee contributions pay for one half of total benefits. A strict application of the principles of private pension taxation, however, would require the calculation of the precise portion of Social Security benefits attributable to the employee. In the aggregate, the Office of the Actuary of the Social Security Administration estimates that workers now entering covered employment will make payroll tax contributions totaling no more than 17 percent of the benefits they can expect to receive. Another 17 percent will be derived from employer contributions, while the remaining 66 percent can be considered equivalent, for tax purposes, to the earnings on a funded pension plan. Therefore, if Social Security benefits were accorded the same tax treatment as private pensions, only 17 percent of the benefit would be exempt from tax when received and 83 percent would be taxable. Including 83 percent of Social Security benefits in the tax base for higher-income people would produce an additional $2.3 billion in 1985 and $11.7 more over the period 1985-1988.

Of course, the precise percentage of benefits attributable to employee contributions will change over time as the system continues to mature. Nevertheless, the equity of the tax structure would be improved by adopting the principle that beneficiaries pay taxes on all Social Security benefits in excess of their own contributions.

3. <u>Extending coverage to include all state and local workers immediately under the hospital insurance program and all newly hired state and local employees under OASDI would increase revenues by $2 billion in 1985 and $17 billion over the 1985-88 period.</u>

The 1983 amendments extended full Social Security coverage to employees of nonprofit institutions and new federal workers. Federal employees were already covered under the hospital insurance program as a result of earlier legislation. The rationale for the extension of Social Security coverage was twofold. First, under the existing system employees without coverage could easily achieve insured status and receive Social Security benefits in addition to their regular pension. These dual beneficiaries profit from the progressive benefit formula, which was designed to help low-wage workers rather than workers whose second career entitles them to benefits. More fundamentally, it made little sense to have a government insurance program from which government and nonprofit workers are excluded.

Although the preceding arguments support universal Social Security coverage, the ~~two~~ one-third~~s~~ of state and local employees who do not presently participate in the Social Security system were not included in the 1983 amendments, because of the concern that constitutional barriers might preclude mandatory coverage. In my view, coverage ought to be extended and the courts can then decide whether constitutional problems exist.

Covering all new state and local employees under the retirement and disability portion of the program would produce roughly $1.1 billion in 1985 and $9.0 billion over the period 1985-88. Immediate inclusion in the medicare program would provide another $1.4 billion in 1985 and $8.3 billion over the four-year period.

IV. <u>Conclusion</u>

My conclusion, therefore, is not that the Social Security program should be considered untouchable in the deficit reduction deliberations, but rather that care should be taken to insure that changes made to the system are consistent with the nation's tax and retirement income policies. Hence, I would urge Congress to consider alternatives to substantial cost-of-living reductions for Social Security beneficiaries. The proposals to include fringe benefits in the payroll tax base, to tax a greater portion of the benefits of the higher-income people, and to extend coverage to state and local workers would not only improve the equity of the tax and benefit system, but would also produce $32 billion in additional revenues in 1985 and $170 billion over the four-year period 1985-1988.

In short, although, I generally oppose using the Social Security trust funds to balance the unified budget, this is an unusual situation, where implementing the reform is intrinsically desirable, where accelerating the accumulation of contingency reserves will enhance the financial stability of the system, and where reducing the level of projected government borrowing in private credit markets is essential. Eventually, I would hope balance will be restored to the non-Social Security portion of the budget and the accumulated surpluses in the trust funds could be used to reduce scheduled future payroll tax rates.

Representative HAMILTON. Thank you very much, Ms. Munnell. Mr. Myers.

STATEMENT OF ROBERT J. MYERS, FORMER EXECUTIVE DIRECTOR, NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

Mr. MYERS. Thank you, Mr. Chairman.

In the following remarks I shall deal only with the Old-Age, Survivors, and Disability Insurance Program and not with Medicare, although I think we all recognize that the hospital insurance portion of Medicare has some very serious financial problems coming down the road 5 or 6 years from now.

As to the short-range financing aspects of the OASDI Program, there have been people who have said that there may well be another financing crisis in the next year or two. I think this is completely wrong. These people base their views on a misconception; namely, they believe that the financing basis which the National Commission recommended and which the Congress adopted was based on intermediate estimates and assumptions as to the performance of the economy.

The fact is that both the congressional action and the recommendations of the National Commission were based on rather pessimistic assumptions.

To date, the experience has actually been somewhat more favorable than even the intermediate assumptions. A very good estimate can be made of what the fund balance will be at the end of this month—about $1.3 billion higher than under the intermediate estimate made in 1983 when the legislation was enacted and $3.8 billion higher than the pessimistic estimate.

As to the likely outlook, I think that there is a very high probability that there will be no financing problems facing the OASDI system in the 1980's and very likely in the 1990's and early 2000's. The only thing that could cause a problem would be extremely bad performance of the economy; namely, very high unemployment and wages rising only about as rapidly as prices or even less rapidly.

As to the long-range financing, the 1983 amendments did put the system into long-range actuarial balance over the 75-year valuation period under the intermediate estimate. I think that is about as good as can be done. Quite obviously, over a 75-year period, there can be quite a different experience than the assumptions so there could be problems 30 or 40 years down the road. But I think the assumptions and the estimates were reasonable, and people can rest assured that over the long run the system is in reasonably good balance. Since 1983, there has been nothing that has changed the long-range outlook.

Next, with regard to Social Security and the unified budget, you will recall that, until fiscal year 1969, the operations of the Social Security System were outside the unified budget, but they have been in it since then. I think that this is highly undesirable. Social Security is a self-financed, self-contained system. Over the almost 50 years of its operations, its budget has been in balance. In other words, the problems that we are having today with the national budget are not Social Security's fault, but rather the fault of the general Federal budget. Social Security should not be asked to solve a problem that it did not create and has not contributed to. Or to put it another way, as also Ms. Munnell has said, Social Security changes should be made for Social Security Program reasons only, and not primarily to balance the budget.

The National Commission recommended that the Social Security Program should be taken out of the unified budget as soon as possible. However, the 1983 act did this only effective beginning with fiscal year 1993. With the very strong views on the subject that I have just put forth, I think Social Security should be out of the unified budget just as soon as can possibly be done.

Now as to possible changes that might be made in the Social Security Program—and again changes from a program standpoint—I agree completely with Ms. Munnell that the changes should not be made in the cost-of-living or COLA provisions, specifically just to help balance the budget. There may be some changes needed for program reasons, but not for budget balancing purposes, like cutting the COLA in half or eliminating it for 1 year, or that sort of thing.

Legislation is currently pending, and the Committee on Ways and Means held hearings on it just a few days ago, about removing the 3-percent trigger requirement on the COLA. I believe that legislation should be enacted, and this trigger should be removed. It was put in only for arbitrary, really administrative, reasons that no longer exist. As it so happened, with the blip upward, as it were, in the CPI for August, it appears now very likely that the COLA is going to go above the 3-percent trigger anyhow. However, there is a small possibility that there might be a blip the other way, and the 3-percent trigger requirement will not be met. So it is sort of like playing Russian roulette. Even though there is only a small chance of losing, I would not want to play that game.

So, I would hope that Congress would remove this antiquated 3-percent trigger requirement.

Also, I should point out that, despite what some critics have said, this is desirable from a program standpoint. It is not fiscally irresponsible. Although, if the trigger were not met, there would be about $5 billion more in outgo in calendar year 1985 than if the trigger were waived, this would be partially offset by about $1.5 billion of additional taxes, because the earnings base would be raised.

Then, the vast majority, if not all, of the remainder of that difference would be made up over the years because of a technical flaw in the trigger requirement. That flaw gives overly large benefits at the next COLA to people who first become eligible for benefits in 1985. They, in effect, get a double COLA, which really is not equitable, and it would create another notch situation. Undoubtedly, you have heard in the past about the so-called notch-year babies of 1979–83. Another notch would be created if this trigger were not removed, and if the CPI did not go up 3 percent. And if this situation does not occur this year, there is always the possibility that it will happen at some future time. So, I hope that Congress will remedy the situation now.

I think that no other structural changes in the Social Security Program should be made at this time. After the very extensive legislation of 1983, the system ought to rest for a few years. But I do believe that certain changes are desirable in the long run, and I will mention a few of these.

First, I think that the stabilizing and fail-safe devices should be improved and should be made more effective. One way to do this is to no longer index the benefits by changes in the CPI, but rather do as the National Commission considered, but at the last moment did not adopt. This was to index the benefits by the increase in wages minus 1.5 percentage points.

The rationale of this procedure is that 1.5 percent represents the gain in productivity or real wages, and wages minus 1.5 percent is a good proxy for the CPI. At times, it might give more to the beneficiaries, and at times it might give less, but it will probably average out about the same. But yet, at the same time, it will make the system more financially stable by basing all the indexing on one economic factor; namely, increases in wages, rather than mixing wages and the CPI, which in certain years can move in opposite directions, and thus the wrong directions as far as financing is concerned.

Still another thing that should be done as to the COLA is that there should be a higher trigger point where the increase is to be based on the lesser of the increase in wages or prices. The present trigger of 15 percent—or ultimately 20 percent—of the year's outgo—if the trust fund goes below that, this procedure goes into effect—should occur at a higher point. Thus, if wages rise less than prices, the beneficiaries should have a lower COLA, just as workers have lower wage increases.

Another thing that I think should be done is that the changes in the retirement earnings test which were made in the 1983 amendments, which do not go into effect until 1990 and then only gradually for the next 20 years, should be speeded up. I have come to the reluctant conclusion that the retirement earnings test is a great disincentive to employment of many older people in the middle and even upper middle wage brackets and that, therefore, there should be this encouragement for them to work.

I still do not like to see paying retirement benefits to people who are not retired, but at least in part that is now offset by the fact that high-income people who are still working and have Social Security benefits as well do pay income tax on their benefits.

Another thing that I think should be done is a provision for automatic adjustment of the tax rates beginning after the 1980's. As Ms. Munnell has said, the intermediate estimates show a tremendous fund building up in the 1990's, one that I think is far too large. I think that the fund now is too small, but it should grow only to somewhere around half a year's balance. When that point is reached, the tax rate ought to be automatically adjusted thereafter. In other words, it should be reduced if the fund balance gets too large or increased again if the fund balance gets too small.

Finally, I believe that ultimately—and by ultimately I am talking as an actuary and mean three and four decades from now—the normal retirement age—that is the age at which full unreduced benefits are paid, which is currently 65 and which will increase to 67 by the year 2027 under the 1983 amendments—should go even higher than 67. It should go to 68, or possibly many decades hence, up to 70. Because people are living longer, they should be able to work longer. The system should reflect not only economic changes in adjusting benefits to keep up with economic conditions, it should also adjust the retirement age to keep up with demographic changes.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Myers follows:]

PREPARED STATEMENT OF ROBERT J. MYERS

Mr. Chairman and Members of the Subcommittee: My name is Robert J. Myers. I served in various actuarial capacities with the Social Security Administration and its predecessor agencies from 1934 to 1970, being Chief Actuary the last 23 years. In 1981-82, I was Deputy Commissioner of Social Security. Then in 1982-83, I was Executive Director of the National Commission on Social Security Reform. In 1979-81, I was a member of the National Commission on Social Security, having been appointed by the House of Representatives.

The following remarks will be addressed solely to the Old-Age, Survivors, and Disability Insurance (OASDI) portion of the Social Security program and will not consider the Medicare portion. It should be noted, however, that the Hospital Insurance part of Medicare will have very serious financial problems in about 1990 or shortly thereafter.

Short-Range Financial Status of OASDI Program

The Social Security Amendments of 1983 (P.L. 98-21) had the basic intention of restoring the financial solvency of the OASDI program over both the short range (the 1980s) and the long range (the next 75 years). Consideration of the short-range financing problem was based on actuarial estimates using reasonably pessimistic economic assumptions, whereas the analysis for the long-range situation was based on intermediate assumptions. A number of persons have proclaimed that there may well be a financing crisis in the next few years, but this is because they incorrectly believe that the short-range financing was based on the use of intermediate economic assumptions, and that the actual experience may turn out to be less favorable.

To put the record straight, the National Commission on Social Security Reform recommended that additional net revenues (from increased income or a reduction in the rate of growth of outgo) should, under the proposed legislation, be $150-200 billion for 1983-89. This figure was based on pessimistic economic assumptions. Under the intermediate economic assumptions, the corresponding figure was $75 billion.

The official actuarial cost estimates for the legislation actually enacted showed a figure of about $165 billion for the additional net revenues during the 1980s, or close to the middle of the range recommended by the National Commission. Actually, the situation was even more favorable than the foregoing figures would seem to indicate, because the recommendation of $150-200 billion was based on economic assumptions which assumed more inflation in the 1980s than did the assumptions underlying the figure of $165 billion. If the latter figure had been determined under the same economic assumptions as the former ones, it would have been about $180-185 billion, or well above the midpoint of the recommended range of the additional financing needed.

The actual experience to date has been favorable -- somewhat better than the intermediate-cost estimate, and considerably more favorable than the pessimistic-cost estimate made at about the time of enactment of the 1983 Amendments. The balance in the OASDI Trust Fund at the end of this month will be about $1.3 billion higher than under the intermediate estimate for that date, and $3.8 billion higher than under the pessimistic estimate.

I believe that there is an extremely high probability that the OASDI program will not have another financing crisis in the 1980s and also very likely for the following two decades at least. The only thing that could cause such difficulties in the 1980s would be extremely poor performance of the economy -- namely, wages increasing less rapidly than prices over a period of years, coupled with high unemployment.

Long-Range Financial Status of the OASDI Program

The long-range financial status of the OASDI program is measured over a 75-period. I believe that this is essential so that the emerging future costs will be reasonably recognized, particularly those resulting from the maturing of the population as those of the post-World War II baby boom constitute the retirement group.

I recognize that estimates made for such a long period in advance cannot be expected to be precise. Such estimates are dependent not only on demographic elements, but equally importantly, on economic elements such as future price and wage inflation. Nonetheless, estimates made with realistic assumptions can be a very helpful guide to the necessary future financing of the program.

The intermediate-cost estimate that was made at the time of enactment of the 1983 Amendments indicated that the OASDI program was in very close long-range actuarial balance. In fact, the changes made were developed so as to produce this result. Subsequent long-range estimates continue to show that long-range actuarial balance is present.

Social Security and the Unified Budget

Before fiscal year 1969, the operations of the OASDI program were excluded from the general budget of the United States Government. This situation was then changed, and its operations were included in the Unified Budget. I believe that this was undesirable, because OASDI is a self-contained, self-financed program, and its structure should not be changed solely for budgetary purposes, but rather only for necessary program changes. It is most important to note that, over the almost 50 years of operation of OASDI, it has been in budgetary balance -- in fact, with aggregate income slightly exceeding outgo. Thus, OASDI has not contributed to our soaring deficits and national debt, and changes should not be made in it to remedy such problems.

The National Commission on Social Security Reform recommended that the operations of the OASDI program should be removed from the Unified Budget for the reasons which I have just stated. The 1983 Amendments adopted this change, but effective only beginning with fiscal year 1993. I believe that this effective date should be made earlier.

Possible Changes in OASDI program

Question has been raised as to whether the OASDI program should be changed so as to assist in reducing general budget deficits. For example, this might be done by putting a cap on the cost-of-living adjustments, by expanding the income-taxation of benefits, or by otherwise reducing or eliminating the benefits of high-income persons. As I have discussed previously, I would strongly oppose such action, because the OASDI program will not very likely produce any budget deficits in the near future years, and also not likely over the long run. Therefore, it should not be modified solely to assist in the balancing of the general budget, but only for program reasons. And I do not believe that any of those suggested changes are desirable.

On the whole, I believe that no major structural changes should be made in the OASDI program in the next few years, because of the extensive changes which were made in the 1983 Amendments. However, I strongly support the current legislative efforts to provide a cost-of-living adjustment in the benefits for December, even if the 3-percent trigger specified in present law is not met. As you know, President Reagan proposed this in late July, and the Senate acted on it shortly thereafter. The Committee on Ways and Means has recently held a hearing on this subject, and my testimony gave several reasons why this step should be taken, as well as the negligible cost effect thereof.

Although such a change might result in additional benefit outgo in 1985 of about \$5 billion, this will be immediately partially offset by about \$1½ billion of additional taxes as a result of the accompanying increase in the maximum taxable earnings base. The remainder of the additional outgo will be approximately made up over the years by preventing a windfall for persons who first become eligible for benefits in 1985. Specifically, the last-mentioned group will, under present law, receive an unduly large COLA for December 1985; without any change in the law, such persons would receive the COLA for December 1984, which should not be paid to them, plus the COLA for December 1985.

I believe that, over the long run, several major structural changes in the OASDI program would be desirable. The COLAs should be based on the increase in wages minus $1\frac{1}{2}$ percentage points, which is an estimated productivity gain over the years in the intermediate estimate -- rather than on the change in the CPI. If this is not done, changes should be made in the present limited fail-safe device of using the lower of the wage increase or the CPI increase when the trust fund balance is low. First, the measuring periods for the wage increase and the CPI increase should be on a more consistent and comparable basis than is prescribed under present law. Second, and more important, the trigger point for measuring when the fund balance is low is now set at too low a level, and it should be at least 30 percent (instead of the present 15 percent until 1989, and then 20 percent). As an emergency -- and virtually certain -- fail-safe device, the COLA might be made subject to reduction (or even elimination) when the fund balance is extremely low.

The retirement earnings test has always been a very controversial matter. For a considerable range of earnings, it acts as a significant disincentive for employment after age 65. The 1983 Amendments alleviate this situation considerably ultimately, beginning in 1990 and fully effective two decades later -- by having a larger increase in benefits for delaying retirement and a smaller withholding of benefits for earnings in excess of the annual exempt amount. Such provisions should go into effect much sooner and without any gradual phasing in.

If the experience of the OASDI program in the 1980s is as favorable as now anticipated in the intermediate-cost estimate, the tax rates in the following two decades are too high and will result in the build-up of a dangerously excessive fund. This should be prevented by an automatic-adjustment procedure which will lower the tax rates when the fund balance exceeds, say, 50 - 60 percent of annual outgo -- and which will increase the tax rates when the fund balance falls somewhat below this range.

Finally, I believe that the normal retirement age (at which unreduced benefits are first payable) should be increased beyond the age of 67, presently scheduled for 2027. An increase to 68 or possibly even 70 many years hence, would be reasonable and desirable so as to prevent too heavy a tax burden on the young working population. This should be done well in advance, so that the people affected can plan accordingly.

Representative HAMILTON. Thank you, Mr. Myers. Mr. Burtless.

STATEMENT OF GARY BURTLESS, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. BURTLESS. Thank you.

In the past 15 years, real Social Security benefits were raised on two occasions, in 1969–70 and in 1972, and they were reduced on two occasions, in 1977 and 1983. In each case, an important motivation for raising or lowering benefits was an unanticipated change in the economic environment.

In the late 1960's and early 1970's, it appeared that future Social Security revenues would be higher than planned. It was, therefore, possible to give beneficiaries a 20-percent boost in real payment levels without substantially raising tax rates in the short run.

The rise in benefits contributed to a big decline in poverty rates among the elderly, especially in comparison to poverty rates among the nonelderly which have been rising.

Congress voted small benefit decreases in 1977 and larger ones in 1983. In both cases, the cuts were needed to protect the solvency of the OASDI funds. Inflation was higher than expected, real wages were falling, and in 1980 to 1983, the economy plunged into a severe recession. Each of these events unexpectedly raised OASDI outgo or reduced revenues or did both at the same time.

The shortrun prospects of Social Security now appear much brighter than they did 18 months ago when Congress passed the 1983 amendments. Employment growth has been stronger than anticipated and price inflation has been running lower than expected. In my prepared statement, I compare the Social Security actuary's forecast from last year to the one just submitted to Congress last month. If you look at those numbers, you will notice that revenue projections for the next 5 years are approximately unchanged. That's because the higher expected employment levels are just about offset by the lower rates of expected wage inflation. The projections of outgo are much lower.

The cost-of-living benefit increase is now predicted to be 2 points lower than it was at the time the forecast was made last year.

By the end of 1989, the actuaries expect the combined OASDI trust fund to rise above $150 billion. That's more than 70 percent above the level forecast last year.

Since I'm not an economic forecaster, I cannot provide a detailed projection of the future. However, I am generally familiar with recent economic history. The actuary's forecast is based on a prediction of uninterrupted economic expansion through the end of the decade, but the average postwar expansion has lasted only 3 or 4 years. So based on past experience, the Nation can expect a recession within the next couple of years.

I don't think a recession will cause Social Security to become insolvent, unless the recession is especially severe or prolonged.

Trust fund balances as a percentage of annual outlays should be rising in the next couple of years. So the system should have enough reserves to weather an ordinary recession. But I should emphasize that twice in recent years, Congress has been forced to reform Social Security because of unexpected economic events. It could happen again.

The 1983 amendments protect the system against certain economic events. The automatic stabilizer limits the COLA benefit increase in years when trust fund balances fall below 15 percent of annual outlays. The present automatic stabilizer is not foolproof, however. The stabilizer simply limits COLA increases to the lower of current price inflation and past wage inflation. At the present time, price inflation is running below past wage inflation. Therefore, in the event of a recession, the automatic stabilizer would not reduce the COLA adjustment below the rate of CPI increase even if trust fund balances fell to dangerously low levels.

So, in short, the present stabilizing mechanism does not protect Social Security against all economic events, just against some of them.

If Congress really wants to guarantee shortrun solvency, it should consider a broader automatic stabilizer. For example, every time trust fund balances fall below 15 percent, the payroll tax could be automatically raised and real benefit levels reduced, possibly by reducing the COLA increase below the rate of CPI change. The amount of tax increase and the amount of real benefit reduction could be tied to the level of trust fund balances directly. As reserves fall further below the 15-percent threshold—or whatever threshold Congress chooses—the tax rate increases and benefit decreases could get larger. This kind of formula would protect Social Security as well as Congress against the necessity for reforming Social Security every time economic events turn out to be worse than anticipated. But I don't see a pressing need for this kind of reform.

In the past, each time we have had to scale back benefits to keep Social Security solvent, Congress has acted quickly enough and responsibly enough to keep the system working smoothly. If Social Security faces a future crisis in financing brought on by unexpected economic events—and I don't think that is impossible in the long run—it may be better to rescue the program through informed public and congressional debate rather than reliance on an automatic stabilizer mechanism.

The last question I'll address involves the issue of Social Security benefit cuts in the near-term. Many people, including me, worry about the consequences of large and growing structural Federal deficits. Some who worry about deficits also propose Social Security cuts as a solution. Since Social Security benefits now account for over a fifth of Federal outlays, this solution may appear reasonable. It isn't.

In the first place, the problem of future deficits does not involve OASDI at all, as both earlier witnesses have already mentioned. While the OASI and DI programs were running a combined deficit in recent years, the deficit has been eliminated. By the end of the decade, even under pessimistic assumptions, OASI should be earning large surpluses. Those should grow early in the next century. A cut in Social Security benefits would make the surpluses grow even faster, but it will not affect the imbalance between non-Social Security outlays and revenues which is the source of the deficit problem.

The main purpose of Social Security surpluses, in my opinion, should be to finance the huge expected outlays that will occur when the baby boom generation retires in the next century. Their purpose should not be to finance large continuing deficits in the non-OASDI portion of the Federal budget.

A second fact usually overlooked by those who prefer benefit cuts at the present time is that payments were just cut last year. In addition to cutting benefits for current recipients, the 1983 amendments scaled back benefits for future recipients.

The most important cut was the delay in the normal retirement age from 65 to 66 for those born after 1942 and to age 67 for those born after 1959. Taking account of the COLA delay, the taxation of benefits, and the retirement age delay, this amounts to a total benefit cut of about 12 percent for most of those retiring after 2005, and to a cut of almost 20 percent for those retiring after 2022.

So the fact is that retirement benefits have already been cut substantially for future retirees. Those cuts will cause some people to postpone their retirement, but only by a little bit and not nearly enough to leave their monthly Social Security benefit unchanged. They will be living on lower incomes.

I conclude that benefit cuts are not needed to keep OASDI solvent, nor are they warranted in light of the cuts already made by Congress last year. If Congress is seriously considering trimming Social Security payments, I think it will require a much better rationale than the fact that the overall Federal deficit is high.

I also discuss the HI Program at some length in my prepared statement. The large expected deficits in HI may pose an indirect threat to the OASDI Program. If medical inflation persists at a much higher rate than other inflation, outlays in HI will greatly exceed HI revenues in the next decade.

In my view, Congress and the administration should take strong action to limit the rise of HI expenditures and to reduce medical inflation more generally. If it does not do so, HI payroll taxes will have to rise to cover HI outlays. Workers will resist increases in overall payroll tax rates. To offset part of the rise in HI taxes, the country may want to reduce OASDI rates below their scheduled levels. This implies that we might have to reduce future OASDI payment levels from their current scheduled rates if Social Security and Medicare together are to maintain long-term solvency.

In the immediate future, the Nation should concentrate on limiting the rapid rise of medical expenditures. Only if we fail to achieve that goal should we consider Social Security cutbacks.

I was going to make a few remarks about the inadvisability of skipping scheduled COLA increases or of indexing Social Security benefits to an index that's lower than the CPI. But since both the previous witnesses have already discussed that, I will skip over those points.

If it is necessary to reduce Social Security benefits, it seems to me that a more evenhanded way than some of the ones that have been proposed is to tax a higher fraction of payments, a higher fraction than is currently taxed. This could be accomplished by reducing the tax income threshold so that a higher fraction of Social Security recipients are subject to Federal taxes.

This change would make many recipients angry, of course, but it would protect the living standards of the most economically disadvantaged elderly and disabled people, and I think that is an important objective of the system.

Another reasonable way to reduce benefits if you're going to delay or eliminate a cost-of-living increase, is to, at the same time an adjustment, a proportional adjustment, in the initial payment level that you make to future retirees. Otherwise you will create a notch in which future retirees will be receiving benefits that are 4 percent or 3 percent higher than those of current retirees because the current retirees did not have a full COLA benefit increase.

In closing, let me repeat something I stated earlier. There is no strong reason to cut the benefits we now pay to the disabled and elderly. The Federal deficit arises because of problems outside the OASDI programs. It is irrational to seek a solution to the deficit problem by creating a new one in programs that are already soundly financed. Thank you.

[The prepared statement of Mr. Burtless follows:]

Prepared Statement of Gary Burtless*

The Financial Condition and Possible Reform of the Social Security System

Background

Since 1969 there have been four waves of reform in the main Social Security benefit formula. Real benefits were raised by about 10 percent in 1969-70. Benefits were raised another 10 percent in inflation-adjusted dollars in 1972 and, more important, for the first time were indexed to the rate of inflation in legislation passed that year. In 1977 Congress acted to correct a defective wage indexing provision in the existing Social Security Act. That reform effectively reduced real benefits to workers attaining age 62 in or after 1979. Last year Congress further reduced the real value of benefits by permanently delaying cost of living increases, taxing part of benefits for the first time, and advancing the normal retirement age for workers born in or after 1938. Thus, after rising sharply in the early 1970s and more modestly in the mid-1970s, real Social Security benefits have been cut back in the early 1980s, although the full effect of the cuts will not be felt until the next century.

The reforms just mentioned did not occur in a vacuum. The financial condition of Social Security as well as American attitudes toward the elderly have changed markedly in the past 15 years. When real benefits were raised in 1970, the poverty rate of persons 65 and

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*The views expressed here are solely those of the author and do not necessarily represent those of the Brookings Institution, its staff, or its Trustees.

older was 24 percent, while the rate for nonaged persons was just 12 percent. The distressing level of poverty among elderly families was a problem that could be directly addressed through increases in basic Social Security payments. Moreover, because of a trend of rapidly rising real and nominal wages in the late 1960s, the system could apparently afford to provide large benefit increases without imposing steep increases in the payroll tax rate.

By the end of the 1970s the financial fortunes of Social Security were reversed. Because of the high and indexed value of Social Security benefits and the decline in average real wages, the system was lurching toward insolvency. At the same time, the poverty rate among the aged fell, so that the rate is presently below that for nonaged persons. In fact, largely because of rises in Social Security benefits, the elderly are one of the few groups who have enjoyed rising real incomes since 1970. Younger people have suffered declining real wages and money incomes.

The Social Security legislation passed last year was an attempt to address both short-run and long-run financing problems in the OASDI programs. The trust funds are now solvent under plausible assumptions about the future course of economic events. Short-term solvency was attained by modestly raising tax rates, increasing the size of the population required to pay the tax, and reducing net, after-tax benefits, especially for affluent beneficiaries who will be required to pay federal taxes on half of their benefits. In the longer run, solvency was achieved by raising the normal retirement age -- thus reducing benefits for future retirees -- and taxing part of Social Security benefits for a growing fraction of retirees.[1] In eliminating the long-run actuarial imbalance in the OASDI trust funds, Congress relied mainly on reducing future benefits rather than raising future taxes.

Possible Financing Problems

It is sometimes claimed that Social Security's financing problems were permanently solved by the reforms passed in 1983. This view is overstated. Near-term financing problems were resolved under plausible assumptions about the behavior of the economy. Plausible assumptions are not equivalent to accurate forecasts, however. Trust fund balances in the mid-1980s are very low, so an especially severe recession in the next two or three years might cause the OASDI trust fund balances to fall below the amount needed to pay one month's benefits. I am not competent to say exactly how severe such a recession would have to be before the trust funds would become insolvent. I think it unlikely that a suffuciently severe recession will occur. I will return to this issue below.

1. Only a small fraction of Social Security recipients now owe taxes on their benfits, because the base amount of income before taxes are owed is quite high. However, since that base amount is not indexed to inflation, a greater fraction of recipients will owe taxes in the future.

For the two decades after 1990 there appears little reason to anticipate major financing problems in OASDI. The number of recipients and taxpayers is known with reasonably certainty, for most beneficiaries and tax payers in that period have already been born. The cost of OASI and DI as a fraction of taxable wages should be declining until 2010. Tax revenues as a proportion of payroll, on the other hand, should be constant or rising. Total trust fund balances should grow, even under fairly pessimistic assumptions.

In the long run the financial condition of Social Security is far less certain. Long run solvency depends on events and trends about which experts are divided. The two most crucial unknowns are the rates of growth of real wages and the working population.[2] If either or both of these grow strongly the long term solvency of OASDI is reasonably assured. If they grow weakly or not at all, the programs will rapidly become insolvent after 2025 when much of the baby boom generation will have retired. The nation has taken prudent measures to protect itself against this contingency by planning to accumulate large trust fund balances in the twenty years after 1990. If fertility rates or real wages turn out to be disappointingly low over that interval, Congress can increase payroll taxes or scale back promises of future Social Security benefits with ample advance warning to both taxpayers and

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2. In the long run, the rate of growth of the working population depends on future fertility rates, a subject on which we have almost no knowledge.

beneficiaries. Given our economic uncertainty, as well as the prospect of large trust fund reserves, I do not think the possibility of long-term insolvency is an issue that requires Congressional attention in the next decade.

A more immediate concern is the near-term solvency of the OASDI programs. As mentioned above, it is unlikely, though not impossible, that the system will face critical problems in the short run. Since Congress passed the Social Security amendments last year, the economic news, both on employment growth and price inflation, has been better than expected. This is reflected in forecasts of OASDI income and outlays issued by the Social Security Administration actuaries. In Table 1, I report the estimates submitted to Congress in September 1983 and compare them with the most recent forecasts, prepared in August 1984 and based on the Administration's mid-session review of 1985 budget assumptions. Note that income projections are not very different in the two forecasts. This is because of offsetting changes in the economic outlook that approximately cancel. Wage inflation is lower than originally forecast, which reduces payroll tax revenues below earlier projections, but employment growth is more rapid, which raises taxable wages. The revised price inflation forecast has a substantial impact on projected outlays, especially toward the end of the decade. With a lower rate of increase in the consumer price index (CPI), projected COLA benefit increases are now well below those forecast a year ago. The combined OASDI trust fund balances are now

Table 1. Estimated Operations of OASI and DI Trust Funds on Basis of 1983 II-b Assumptions and Mid-Session Review of Fiscal Year 1985 Budget Assumptions, Calendar Years 1983-1989. (Dollar amounts in billions)

Calendar year	Income				Outgo				Funds at end of year			
	OASI		DI		OASI		DI		OASI		DI	
	1983[a]	1984[a]	1983	1984	1983	1984	1983	1984	1093	1984	1983	1984
1983	150.9	150.6	21.1	20.7	151.6	153.0	17.7	18.2	21.3	19.7	6.0	5.2
1984	165.2	168.6	17.3	17.3	162.6	162.6	17.9	18.7	23.6	25.7	5.4	3.9
1985	183.8	184.1	18.7	18.3	178.6	172.9	18.9	18.8	28.9	35.5[b]	5.2	3.9[b]
1986	201.1	200.3	20.3	19.7	196.3	186.0	20.1	19.7	32.0[b]	40.8[b]	5.3	4.3[b]
1987	219.4	218.3	22.0	21.3	213.2	199.5	21.3	20.7	35.9[b]	55.5[b]	6.1	5.9[b]
1988	253.3	252.5	25.2	24.3	230.8	213.1	22.7	21.8	50.1[b]	91.8[b]	8.5	11.4[b]
1989	277.2	274.8	27.4	26.3	248.7	226.6	24.2	23.0	73.6[b]	140.0	16.8[b]	14.6

Source: Committee on Ways and Means, U.S. House of Representatives, Actuarial Cost Estimates of the Effects of Public Law 98-21 on OASDI and HI Programs, U.S. GPO, Washington, D.C., September 8, 1983, Table 6; and Steven F. McKay, Office of the Actuary, "Estimated Operations of the OASI, DI, and HI Trust Funds on the Basis of the Mid-Session Review of the President's Fiscal Year 1985 Budget Assumptions," memorandum, Social Security Administration, August 20, 1984, Table 2.

a. 1983 refers to forecast made in 1983; 1984 refers to forecast made in 1984.

b. Interfund borrowing transfers are forecast in the indicated years.

projected to rise above $150 billion by 1989, more than 70 percent above the level forecast last year.

We must remember that the most recent forecast is based on a relatively optimistic view of future economic events. Real GNP is projected to rise at a 4 percent rate over the remainder of the decade, implying that unemployment will continue to fall, though slowly, over the entire period. Inflation will remain low, in spite of the length and vigor of the projected expansion. I am not a macroeconomist so cannot provide an independent forecast of the economic outlook. However, a brief check of historical statistics shows that the average post-war economic expansion has lasted just 15 calendar quarters, about half the duration necessary for the current expansion to last through 1989.[3]

I consider it unlikely that a sufficiently severe recession will occur to threaten Social Security's short-term solvency. But we should remember that the threats to OASDI solvency in the early 1980s were unforeseen as recently as 1977, when the payroll tax and benefit formulas were last modified. An unexpected combination of high price inflation and moderate wage inflation in the late 1970s and severe unemployment in 1980-82 was enough to seriously endanger the OASDI

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3. Only one expansion, the one from 1961 through 1969, lasted the required number of quarters, and that expansion was probably prolonged by the Vietnam war. The average length of remaining economic recoveries was 12 1/2 quarters -- about three years.

trust funds.

The 1983 reform legislation contains an automatic stabilizer provision that makes it unlikely that the same combination of economic events would drive the OASDI trust funds to insolvency. The stabilizer limits COLA benefit increases in years when trust fund balances fall below a designated threshold ratio (15 percent of annual expenditures in 1984 through 1988 and 20 percent of expenditures thereafter). However, this provision reduces outlays only in years in which the rate of CPI increase is above the rate of average wage growth for the preceding year. In recent years the rate of price inflation as measured by the CPI has fallen quite sharply, and in fact has been below the rate of wage inflation in the preceding year. Hence, it is easy to conceive of a recession in the mid to late 1980s in which the automatic stabilizer legislated in 1983 would fail to limit COLA benefit increases, even if trust fund balances fell dangerously low. Outlays would continue to rise because of COLA benefit increases, but payroll tax revenues would be reduced due to the effects of a recession.

The problem with the present stabilizer mechanism arises because real Social Security benefit levels can be reduced only if price inflation exceeds past wage inflation. A combination of high price inflation and low wage inflation is, of course, one event that seriously threatens trust fund balances, as we learned in the late 1970s. But other events, such a prolonged recession, can also endanger solvency, and such events are not dealt with in the present stabilizer formula. A general automatic stabilizer would provide a mechanism for limiting outlays or raising revenues every time trust fund balances fall below a critical ratio, say 15 percent of annual outlays. The effectiveness of a general stabilizer would not depend on the relative rates of price and wage inflation.[4] If Congress enacted such a stabilizer mechanism, it could spare itself (and the country) the pain of periodically reforming Social Security whenever economic events turn out to be significantly less pleasant than originally forecast. While there is much to recommend this course of action, I do not believe its benefits would substantially exceed its costs. Our periodic debates about Social Security, although sometimes painful, have forced us to think carefully about both the objectives and the expense of this vital social insurance program. The program benefits from this kind of close scrutiny.

Permanent Reforms in the Benefit Formula

The nation currently faces a large and probably growing structural budget deficit. Many observers, including me, believe the long run consequence of high future deficits may be to limit economic growth. The structural deficit arose because income and corporate tax rates

4. For example, a general stabilizer mechanism might prescribe a certain percentage rise in payroll tax rates or reduction in inflation-adjusted benefit levels for each percentage point by which the trust fund ratio falls below 15 percent.

have been reduced while the sum of domestic and defence spending and interest outlays has not been reduced commensurately.

The OASDI programs, which formerly contributed to the deficit, now modestly contribute toward reducing it. Income in the programs exceeds outgo and will sharply rise relative to outgo in the late 1980s. The OASDI contribution to the deficit problem was eliminated by the Social Security amendments passed last year. Nonetheless, many plans to cut the federal deficit involve cuts in Social Security benefits. In the remainder of this testimony I will comment on these proposals.

The logic behind cutting OASDI benefits seems plausible on the surface. Federal spending will be much higher than federal taxes for the foreseeable future. A workable plan to close the gap between taxes and spending must involve a balanced program of tax rises and budget reductions, one that spreads the pain evenly across various groups. Since Social Security payments are a large part of federal outlays -- 21 percent in fiscal year 1983 -- cutbacks in the Social Security program are needed if reduction goals are to be met and budget cuts are to be evenhanded.

One flaw in this logic is that the federal budget problem is in no way attributable to excessive outlays in the OASDI programs. The main sources of change in the budget outlook between 1981 and today have been tax rate reductions, increases in future military outlays, and a rise in anticipated interest payments. These changes were partially offset by spending reductions in domestic programs. Tax revenues specifically designated for OASDI payments are more than sufficient to cover expected OASDI outlays for the next three decades. If Social Security payment levels were reduced, the surpluses would grow and the trust funds would have additional reserves to lend to the federal Treasury. But the discrepancy between non-OASDI outlays and revenues would not be diminished. Beginning with fiscal year 1993, trust fund operations of the OASI, DI, and HI programs will be removed from the unified budget. So in a technical sense, reductions in OASDI outlays will not reduce the federal deficit after that year.

Many who recommend benefit reductions appear unaware that Social Security benefits were cut last year. The delay in COLA benefit increases, for example, amounts to a permanent reduction of about 2 percent in the real value of Social Security. (The exact amount of reduction depends on the course of inflation.) The taxation of half of Social Security benefits for some recipients amounts to a benefit cut of about 1 1/2 percent. Because of the effects of inflation and rising incomes, the number of recipients paying taxes on Social Security will increase in the future. Consequently, by the year 2010, taxation of benefits will reduce the after-tax value of Social Security by a little more than 4 percent.[5]

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5. Board of Trustees, OASDI Trust Funds, 1984 Annual Report, Committee on Ways and Means, U.S. House of Representatives, U.S. GPO, Washington, D.C., April 5, 1984, p. 72.

The benefit reductions just described are borne by current as well as future Social Security beneficiaries. In addition, the 1983 amendments imposed substantial cuts solely on future beneficiaries. The delay in the normal retirement age effectively reduces benefits to people presently aged 30 to 41 years old by a little more than 6 percent, assuming they retire before age 66 as most will. Thus, taking account of the COLA delay, the taxation of benefits, and the delay in retirement age, workers now aged 30 to 41 years can expect to receive benefits that are about 12 percent lower than they would have received on the basis of the formula in effect before 1983. For older workers the cuts are smaller, and for younger workers they are larger.

For people now aged 24 or less, the benefit cut was sharper. The normal retirement age for this group was raised from 65 to 67. This effectively reduces benefits by about 13 percent for those who begin collecting benefits before age 65, by 9 percent for those collecting at 66, and by 6 percent for those collecting at 67. (Those who start collecting benefits at age 68 will receive approximately unchanged benefits, while those who start collecting at later ages will receive somewhat larger benefits. However, the number of people who begin to collect benefits at age 68 or later is very small.) For most young workers now entering the labor force, the 1983 amendments effectively reduced benefits by almost one-fifth in comparison to benefits they could anticipate based on previous law.

Those who suggest benefit cuts in Social Security in order to close the federal deficit seem to ignore the benefit cuts recently enacted. Those cuts, together with modest tax increases, eliminated the short run deficit in Social Security and sharply reduced or eliminated the long run deficit. In considering proposed cuts, Congress and the public should be aware that past benefit cuts amounted to 3 1/2 percent for current retirees and up to about 20 percent for future retirees.

In my testimony thus far, I have considered only the status of the Old Age and Survivors and Disability Insurance programs. I have not mentioned the condition of the Health Insurance (HI or Medicare) program. But the fortunes of HI may affect those of the OASDI programs.

Clearly, the long term prospects of HI are much bleaker than those of OASDI. A major problem in HI is the rapid rate of inflation in medical care. Another financial problem is caused by the development of modestly effective but terribly expensive techniques to lengthen the lifespan or reduce physical pain. Although the rate of medical inflation has fallen sharply, it remains substantially above the rate for most other goods and services. One of the nation's most urgent problems is to reduce the rate of growth of expenditures on health care, not only in the HI program but for consumers of medical care more generally. This may involve fundamental reforms in our provision of medical insurance or in our allocation mechanisms for medical services.

The exact nature of such reform is a topic for other Congressional hearings.

If reform does not occur and HI outlays continue to rise as fast as now anticipated, the HI program will be insolvent in the 1990s. Although HI could continue paying for medical care with loans from the OASDI trust funds, which will by then be large, this solution would be extremely ill advised. The purpose of OASDI reserves should be to pay the large Social Security liabilities expected when the baby boom generation retires in the next century. The HI program should similarly raise its trust fund reserves in the 1990s to pay for the rise in expenditures which will occur when that generation retires.

If the nation does not succeed in limiting outlays in the HI program, there will be a reasonable ground for enacting cuts in OASDI. If we fail to make the painful choices that will reduce the rate of rise in health expenditures, all groups in society -- including the elderly and disabled -- should be asked to share the cost of our failure. HI payroll taxes would have to rise to pay the growing HI bill, but the OASDI payroll tax should simultaneously be lowered to limit the rise in the combined OASDHI tax. With a fall in OASDI payroll tax revenues, OASDI benefits must be trimmed in order to maintain actuarial balance in the trust funds.

In sum, my opinion about the future desirability of Social Security benefit cuts depends on the nation's success in limiting HI expenditures. In the near term, the Congress and public should concentrate on our serious problems in HI. If those can be solved, the case for additional Social Security cuts, beyond those enacted last year, is extremely weak.

Representative HAMILTON. Thank you, Mr. Burtless, and thanks to each of you for excellent statements.

Before we turn to questions, I want to say that the Joint Economic Committee is very pleased to have with us today Congressman Roybal. He is the chairman of the Select Committee on Aging in the House of Representatives, which has recently produced a background paper of some importance, I think.

Congressman Roybal has been asked to join us this morning. We are delighted to have him here and I turn to him now for any statement that he chooses to make.

OPENING STATEMENT OF REPRESENTATIVE ROYBAL

Representative ROYBAL. Thank you, Mr. Chairman.

I'd like to express my deep appreciation to Chairman Hamilton for allowing me the privilege to sit in with this subcommittee. This subcommittee is to be commended for addressing issues surrounding the future of Social Security and Medicare, programs that are vital to the future of this Nation's senior citizens.

I would like to also commend the witnesses for the excellent testimony that they have presented and I say that I totally agree with the recommendations that you have made.

Now, as chairman of the Select Committee on Aging. I am concerned about the different deficit reduction plans that are being introduced that might affect Social Security and Medicare. I would like to take the opportunity at this time to share some information with you, that is, information that was revealed by a study that was made by the Committee on Aging, and this deals with future deficit reduction and its impact on the aged and the poor. In fact, that is the title of this background paper.

Now there is little disagreement that the Federal deficit needs to be reduced. We all agree with that. However, there is great disagreement over how it should be reduced. I think that this background paper addresses itself to that particular problem.

It is my intention to release that paper today and to make the first copy available to Congressman Hamilton in the hope that it will be useful to him and to his subcommittee as they study the problems of Social Security and the economic problems of this Nation.

Now one of the proposals that this report is based on is the one recently made not to raise revenues and not slow defense growth, one that relies almost solely upon spending cuts to reduce the deficit. In other words, the proposal that we will not in any way increase taxes; we will not slow down defense spending; and, nevertheless, somewhere down the line we are going to balance this budget.

Now this study takes that assumption and says if all of this is true, then somewhere down the line some programs have to suffer the consequences. For example, the study takes a 21-percent reduction in nondefense spending for 1989 and comes up with certain answers.

Now if these cuts were made across the board, $80 billion would be cut from Social Security, medicare, and medicaid. Now this is an average of $2,050 cut from the elderly of this Nation. Similar cuts would also be faced by the poor in the United States.

Under this proposal again, the report shows that the elderly could lose an average of $1,315 of income in 1989. This alone would push 1 million more elderly into poverty. Don't forget that these are assumptions that are being made, but they are based on statements that, if adopted, would definitely establish a policy and a trend with regard to cutbacks in the Federal bureaucracy.

Now as if this were not enough, this report shows that Medicare and Medicaid benefits are likely to be cut by as much as $735 per person, again if we project that to the year 1989.

This action would result in the elderly having to use nearly a quarter of their income for health care.

Now before Medicare and Medicaid, the elderly were paying approximately 15 percent of their income for health care. Then came Medicaid, Medicare, and so on. Now we find that the elderly are once again paying 15 percent of their income, in spite of the fact that millions of dollars are put into the Medicare and Medicaid system.

Now deficit reduction actions like this would result in the elderly having to use nearly a quarter of their income for health care which means 60 percent more than they were paying when Medicare began.

Now this is a situation that is totally unacceptable. The report, I think, is interesting. I think it looks to the future and I think that it says that if we don't do something now, we are going to be faced with a problem.

It is a background paper and one that is designed to be read by as many Members of Congress as possible, and to be read by those who are interested in the problems of Social Security and Medicare, I hope that as a consensus is reached that it is one that will benefit the program and not result in the reductions that we see in this background paper.

It's my pleasure to make the first copy available to Congressman Hamilton and I will be sure that the three witnesses that are before us today will also this day receive a copy. A copy then will be released to the press and we hope that many, many people of the United States will be reading it.

Thank you very much, Mr. Chairman, for this opportunity.

[The study referred to by Representative Roybal follows:]

FUTURE DEFICIT REDUCTION: IMPACT ON AGED AND POOR

A BACKGROUND PAPER

PRESENTED BY

EDWARD R. ROYBAL, CHAIRMAN

SELECT COMMITTEE ON AGING

HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS
Second Session

September, 1984

CONTENTS

ADMINISTRATION'S DEFICIT REDUCTION POLICIES MEAN DEVASTATING CUTS TO ELDERLY AND POOR

Reducing future federal budget deficits by this Administration's current policies of not raising taxes and not slowing defense spending growth will require a 21 percent cut in nondefense spending in 1989. Assuming that these cuts are made across-the-board, the impact on the elderly and poor will be devastating:

- **Social Security, Medicare, and Medicaid cuts will amount to $2,050 per elderly person.**
- **Social Security cuts will push one million more elderly into poverty.**
- **Medicare and Medicaid cuts will force the elderly to use as much as a quarter of their income for health care — 60 percent more than before Medicare and Medicaid began.**

EXECUTIVE SUMMARY

Over the past four years, there have been many attempts to cut the programs for the elderly and poor as a means to reduce current federal budget deficits. While the threat of cutbacks still hangs over the elderly and poor, it is important to remember that the fiscal year 1985-89 total of budget deficits ($1,090 billion) are projected to be **$2 billion less** than the 1985-89 total of tax cuts and defense spending growth ($1,092 billion).

Future federal deficits facing this nation will exceed $200 billion by the second half of the 1980s.

- The 1989 federal budget deficit will total $263 billion — **more than $1,000 for each American.**
- The total deficits for fiscal years 1985 through 1989 will grow to 4.9 percent of the Gross National Product and total $1,090 billion primarily due to tax cuts and defense spending growth which total $1,092 billion — **$2 billion more than the five year deficit.**
- Reducing deficits to the level of the 1970s (2 percent of GNP) will require that the deficit be reduced by $156 billion in 1989 **— approximately a 60 percent reduction.**

With concern growing over the impact of these deficits on the economy, virtually everyone is in agreement that deficits must be reduced.

- Seventy percent of the American public feel that these large deficits are **very serious** for the country.

However, the major area of disagreement is over how the deficit will be reduced. Here the choice is critical. Depending on which approach is chosen, the impact on the elderly and poor will be anywhere from minor to catastrophic. Two options being discussed currently are as follows:

- Option A for reducing deficits raises revenues, slows defense spending growth, and contains health care costs. This option will **avoid beneficiary cuts.**

- Option B for reducing deficits does not raise revenues and allows defense spending to grow. This option will require a 21 percent reduction in nondefense spending in 1989.

  - A 21 percent reduction in Social Security, Medicare and Medicaid translates into a cut of $65.2 billion in expenditures for the elderly — **approximately $2,050 per elderly person.**

  - A 21 percent cut in Social Security will average $1,315 for each elderly person — **a 10 percent reduction in average income.** This reduction will push approximately **1 million more elderly into poverty.**

  - A 21 percent cut in Medicare and Medicaid will average **$735 for each elderly person.** If these are beneficiary cuts, this will greatly **increase elderly out-of-pocket costs to nearly one-quarter of their income — 60 percent more than before Medicare began and 100 percent more than in 1977.**

The latter option for reducing deficits includes spending cuts in social programs such as Social Security, Medicare and Medicaid. However, there are several reasons for not making cuts in these programs.

First, Social Security and Medicare are in relatively good shape financially.

- Over the next five years, **the deficit problem is not with Social Security and Medicare Trust Funds** since revenues will exceed outlays by 8 percent and the Trust Funds will generate a surplus of $122.6 billion. (The government as a whole will run deficits totalling $1,090 billion for the same period.)

- Revised figures project that the Medicare Hospital Trust Fund is likely to be solvent several years past the 1991 date projected by the Medicare Trustees.

Second, not only do we not have to cut these social programs, but we should not want to make additional cuts in programs serving the elderly and poor. Their burden is already large.

- As compared to pre-Medicare days, the elderly are using increasing amounts of their income for health care. Currently, the elderly are using 15 percent of their income — more than before Medicare began. This percentage will continue to rise rapidly and will **exceed 18 percent by 1989.** During this period, the elderly's costs will increase twice as fast as their income.

- Nearly **8 million elderly persons** (over 30 percent of the elderly) have incomes below 150 percent of poverty. In the total population, the percentage of poor or near poor people is also high and has **risen from 23.1 percent in 1980 to 25.6 percent (59.3 million people) in 1983.**

- By **a ratio of nearly 2 to 1,** the elderly and poor feel that neither they nor the country as a whole are better off than four years ago.

As for how to reduce deficits, the public not only believes that deficits must be reduced but that raising taxes will be part of deficit reduction.

- **Eighty-one percent of the public** feel that federal taxes will be raised next year.

When the time comes to choose among the options for reducing deficits and making spending cuts, the general public and the elderly have already indicated their preferences.

- Given the choice of where to make spending cuts, the public and the elderly **favor cuts in defense over cuts in either Social Security, Medicare or Medicaid by a ratio of 3 to 1.**

Based upon the analysis described in this background paper, future federal budget deficits could have been avoided by different actions in the past. More importantly, future deficits can and should be reduced without cutting benefits for the elderly and poor. This Administration's policy of reducing deficits through major spending cuts should be rejected by the American people. Clearly, the elderly and poor have suffered enough and can not absorb any further cuts.

FUTURE DEFICIT REDUCTION: IMPACT ON AGED AND POOR

BACKGROUND PAPER

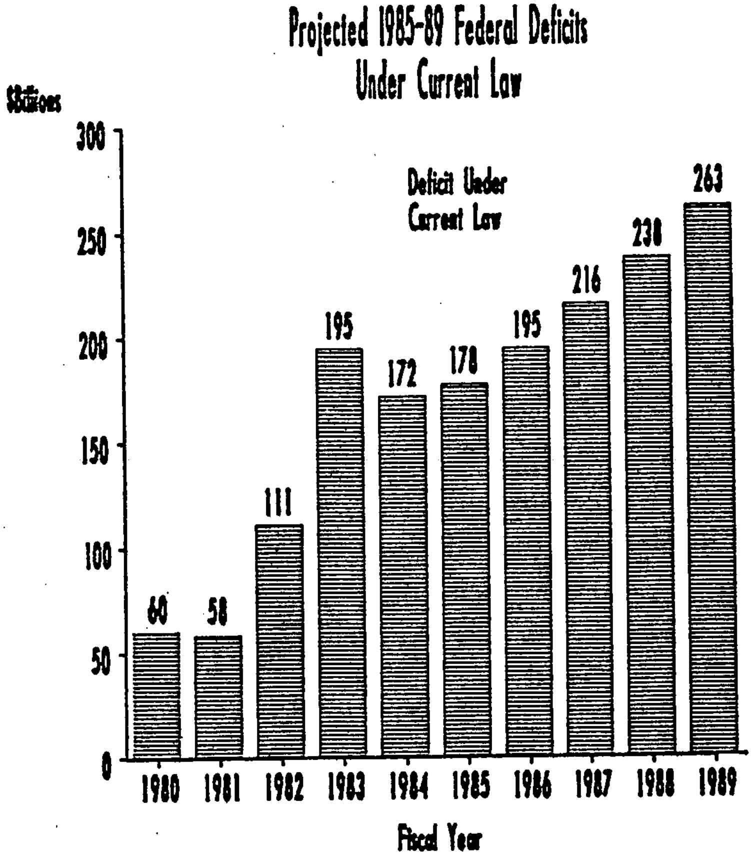
This background paper by the Chairman of the House Select Committee on Aging examines the issue of federal budget deficits and the potential impact of deficit reduction on the elderly and poor of this nation. The magnitude of the deficit problem is described as well as the need for deficit reduction. Having laid that groundwork, several options are considered for dealing with deficits and analyzed for their potential impact on the programs which provide income and health security for the aged and poor. Option A is being proposed by policymakers and will do relatively little harm to the elderly and poor while Option B will result in massive cuts in programs such as Social Security, Medicare and Medicaid. The final conclusion is that while deficit reduction is critical, there is no need to make beneficiary cuts in Social Security, Medicare or Medicaid and there are strong arguments for not making any cuts beyond those already made these past four years.

FEDERAL BUDGET DEFICITS

Annual Deficits Grow to $263 Billion by 1989. Most experts agree that federal budget deficits will continue to grow for the foreseeable future unless some action is taken. While annual budget deficits were running about 1.9 percent of Gross National Product through the 1970s, the projected annual budget deficit will grow from 4.5 percent of GNP in 1985 to 4.9 percent in 1989. The Congressional Budget Office forecasts that the 1989 federal budget deficit alone will total $263 billion — more than $1,000 for every person in America. (See Figure 1) For the period 1985-89, five years worth of annual budget deficits will total $1.090 trillion.

Tax Cuts and Defense Growth Total More Than Deficits. Though the past recession had a substantial impact on past deficits, future deficits occur in a more optimistic future with at least moderate economic growth. Future deficits are heavily affected by two federal actions: the 1981 tax cuts and the growth in defense spending. The tax cuts proposed by the Administration and enacted as part of the Economic Recovery Tax Act of 1981 amounted to a $329 billion revenue reduction in 1989. (See Figure 2) Though adjustments have been made since 1981, the impact of what remains of the 1981 tax cuts will still amount to $217 billion for 1989. On the spending side, the continued real growth in defense spending will add $77 billion to the 1989 deficit. Based upon this analysis, the total effect of four years worth of tax changes and defense spending growth ($294 billion) more than equals the projected federal deficit ($263 billion) for 1989. (See Figure 3)

FIGURE 1



NOTE: For the period 1985 through 1989, the annual federal budget defiicts will total $1,090 billion.

SOURCE: Congressional Budget Office, September 1984

FIGURE 2

REVENUE REDUCTIONS RELATIVE TO FISCAL YEAR 1985-89 FEDERAL BUDGET DEFICITS

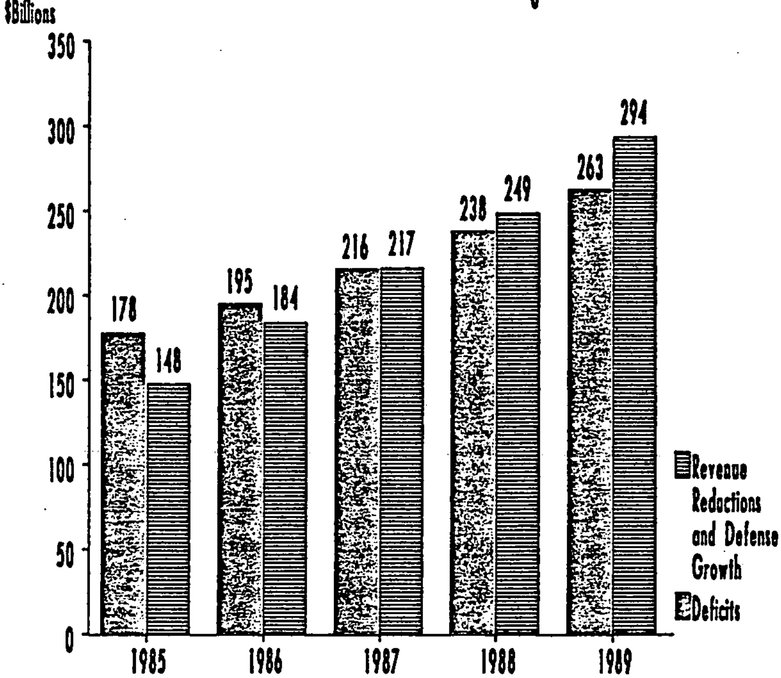
	FISCAL YEARS				
	1985	1986	1987	1988	1989
DEFICITS	-178	-195	-216	-238	-263
REVENUE REDUCTIONS					
ERTA 1981	-173	-220	-258	-291	-329
1982 Legislation	42	52	62	60	56
1983 Legislation	7	7	9	20	28
1984 Legislation	11	17	23	25	27
Other	1	3	2	2	2
NET REDUCTIONS	-112	-142	-163	-184	-217

NOTE: The deficits for the 1985-89 period total $1,090 billion. The net revenue reduction resulting from legislation enacted in the last four years totals $818 billion — the total four-year reduction resulting from the 1981 ERTA legislation totals $1,271 billion.

SOURCE: Congressional Budget Office, September 1984

FIGURE 3

Federal Revenue Reductions and Defense Growth
Relative To Fiscal Year 1985-89 Budget Deficits



NOTE: The deficits for the 1985-89 period total $1,090 billion. For the same period, the net revenue reduction resulting from legislation enacted in the last four years totals $818 billion. Increases due to growth in defense spending totals $274 billion. Revenue reductions and growth in defense spending together total $1,092 billion — $2 billion more than the deficit.

SOURCE: House Select Committee On Aging, September 1984; Congressional Budget Office, September 1984

Over 70 percent of the American public feel large deficits are serious and the burden will fall on future generations. Most policymakers view these large federal deficits as growing threats to a healthy economy and agree that something must be done to bring annual deficits down to a more reasonable level. The general public agrees as expressed in a recent poll by Lou Harris. In that poll, 70 percent feel that large deficits are very serious for the country and 75 feel that most of the burden will fall on future generations.

DEFICIT REDUCTION TARGETS

Deficit Reduction Target of 2 Percent of GNP. After arriving at substantial agreement that annual deficits should be reduced, the next task is to determine by how much. Some might argue, as the Congress has in the past, that a target of no more than 3 percent of GNP is appropriate. Others might argue for a balanced budget with no annual deficits. This analysis uses a target which is between these two levels — a deficit target of 2 percent of GNP. Annual deficits of 2 percent of GNP are roughly equivalent to the average of 1.9 percent occurring in the 1970s.

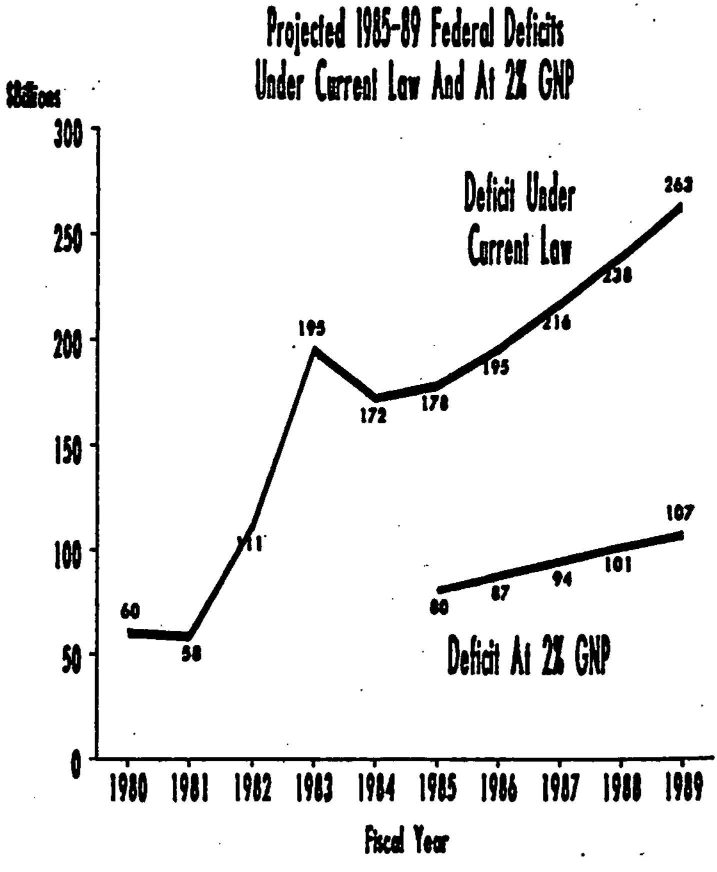
Five-year Deficit Reduction Target Totals Over $1 Trillion. This target is approximately a 60 percent reduction from current law and will reduce the 1989 deficit to $107 billion. (See Figure 4) In order to meet this target, the 1989 budget will have to be reduced by $156 billion. The total deficit reduction for fiscal years 1985-89 will total $630 billion.

OPTIONS FOR DEFICIT REDUCTION

Though economic growth is a major factor in increasing revenues, and therefore reducing deficits, the above deficit projections already take into account moderate growth in the economy. The economy would have to far outperform the projection to make even a dent in the total of $630 billion needed to meet the 2 percent of GNP target.

Grace Commission Proposals Provide Limited Savings and Go Beyond Administrative Efficiency. Another suggestion which has been advanced is to implement the recommendations of the Grace Commission.. However, a 1984 analysis by the Congressional Budget Office and the General Accounting Office concluded that the savings will be much less than the Grace Commission estimates. CBO and GAO estimated savings of around $100 billion for the 1985-87 period. However, these savings are not just management proposals for greater efficiency. Approximately 60 percent of the savings result from changing policies or restructuring programs. Though implementing the management proposals might be helpful, they will make only a small dent in future deficits.

FIGURE 4



NOTE: If the 1989 deficit were to be limited to 2% of GNP, $156 billion (59 percent of the 1989 deficit) in revenue increases or spending cuts will have to be made. If the federal debt were to be stopped from growing, the 1989 deficit of $263 billion will have to be eliminated through revenue increases or spending cuts. The 1984 Deficit Reduction Bill spending cuts reduced the projected 1989 deficit by $5 billion.

SOURCE: House Select Committee on Aging, September 1984; Congressional Budget Office, September 1984

Even taking into account economic growth and improved efficiency, most experts agree that deficits will only be reduced through major federal legislation.* By analyzing several of the options currently being advanced, we have attempted to estimate the potential impact on the elderly and poor.

Raising Revenues and Limiting Defense Growth May Avoid Beneficiary Cuts. Option A includes a limited increase in taxes and contains spending generally. Defense spending will not be cut substantially, but it will probably grow at a rate of 2 percent rather than 5 percent. If other spending reductions will be needed, they are not be at the expense of the aged and poor. In the case of the Medicare and Medicaid cost problems, cost reductions will be obtained through systemwide cost containment coupled with protection for the aged and poor beneficiaries against declines in quality and increases in cost sharing.

Not Raising Revenues and Not Limiting Defense Growth Results in 21 Percent Cut in Nondefense Spending. Other proposals have been made which treat taxes and spending differently and thus result in a very different impact on the aged and poor. For example, Option B will reduce deficits but without raising taxes. (See Figure 5) According to Congressional Budget Office forecasts for 1989, this will require a reduction of approximately $156 billion or 13 percent for all noninterest spending (defense, Social Security, Medicare, Medicaid, other means tested benefits, other nonmeans tested benefits, nondefense discretionary spending). If we were to take this option a step further and allow defense spending to continue to grow at a rate of 5 percent above inflation, the reduction in the nondefense spending categories will be 21 percent — still $156 billion.

IMPACT OF DEFICIT REDUCTION ON AGED AND POOR

As outlined above, different approaches can have very different impacts on the aged and poor. Option A — an approach incorporating limited revenue increases, slower defense growth, and health care cost containment — will avoid beneficiary cuts.

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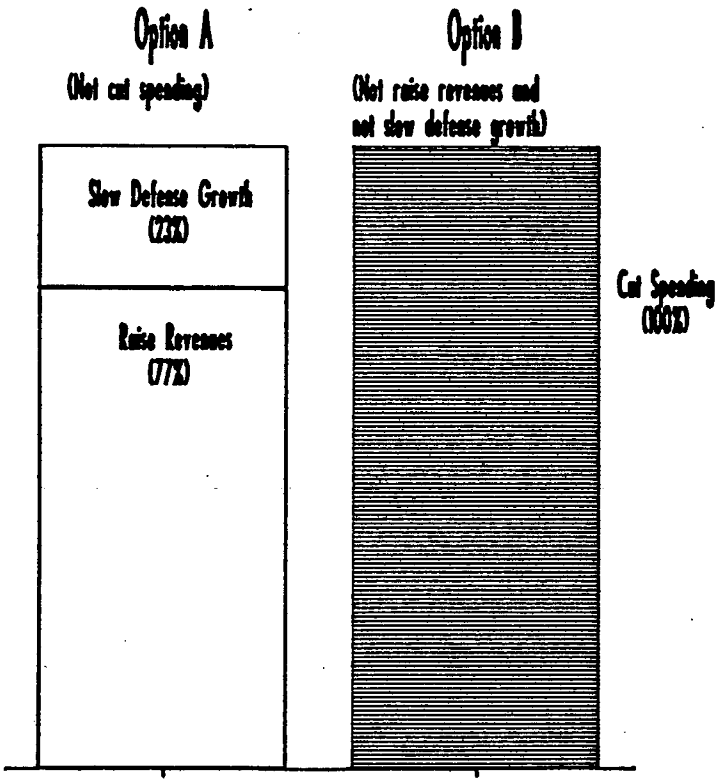
* A change which reduces the deficit also reduces future interest payments. However, the magnitude of interest payment reduction in any given year depends on when deficit reduction occurs. For example, spending cuts in 1989 will have virtually no effect on 1989 interest payments. In this paper, the impact on interest payments is not calculated since it is uncertain when deficit reduction actions might occur and, therefore, when interest payment reductions should be factored in.

FIGURE 5

Options For Reducing Federal Budget Deficits In 1989



NOTE: These two options have been proposed in recent months and have very different consequences for the elderly and poor. Option A slows defense growth, raises revenues and avoids beneficiary cuts. Option B does not slow defense growth or raise revenues but focuses on spending cuts. If Option B were followed, 21 percent will have to be cut from nondefense spending in 1989. An across-the-board cut of 21 percent in Social Security, Medicare and Medicaid will translate into an \$80.6 billion in 1989. In the case of programs affecting the elderly, this will mean an average cut of \$2,050 per elderly person.

SOURCE: House Select Committee on Aging, September 1984

Twenty-one Percent Cut Will Mean $2,050 Reduction per Elderly Person in 1989. Option B — an approach without revenue increases and with continued defense growth — will have to include major spending cuts. In order to achieve the deficit reduction of $156 billion in 1989, the remainder of the budget will have to be cut by 21 percent. The total spending cuts in the recently enacted deficit reduction bill only total $5 billion for 1989 of which Medicare accounted for the largest portion. Since programs serving the aged and poor make up the bulk of this portion of the budget, cuts will almost certainly be made in those programs serving the aged and poor. (See Figure 6) We estimate that if an across-the-board cut were made of 21 percent, this will result in 1989 cuts of $80.6 billion in Social Security, Medicare and Medicaid. The elderly's portion of these cuts is approximately $62.5 billion — $2,050 per elderly person.

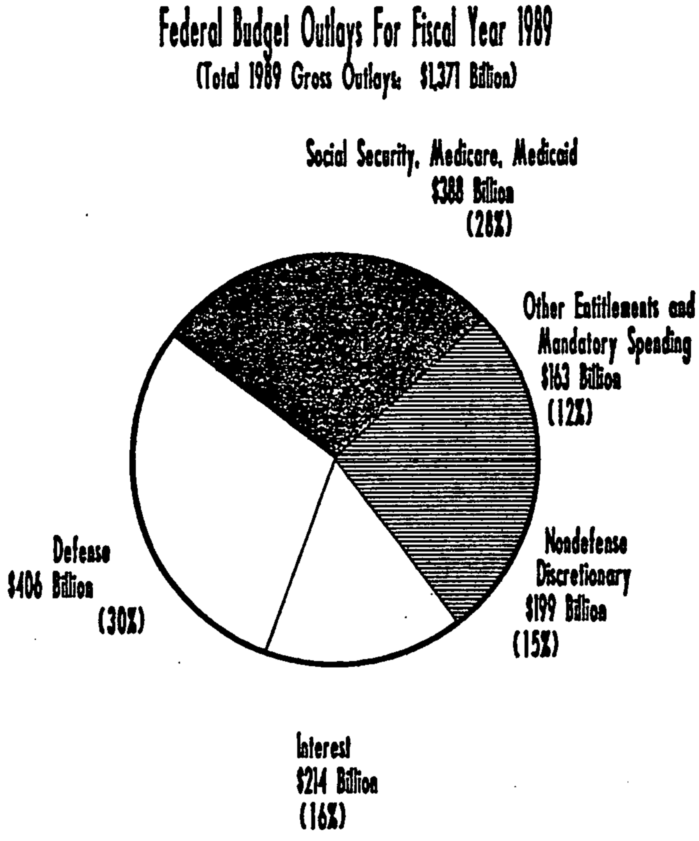
Twenty-one Percent Cut Will Push One Million Elderly into Poverty. Under this option, we estimate that Social Security cuts will average $1,315 per elderly person and result in a 10 percent reduction in the elderly's average income. Given the large number of elderly living below or near poverty, this reduction will push approximately 1 million more elderly into poverty.

Twenty-one Percent Cut Will Force Elderly to Use One-quarter of Income for Health Care. As for the Medicare and Medicaid programs under this option, we estimate that a 21 percent cut will mean an average cut of $735 for the elderly. If these cuts were made through increases in premiums, deductibles or coinsurance or through other benefit cuts, the elderly will no longer be using 18 percent of their income for health care in 1989 but 24 percent. Spending nearly one-quarter of their income on health care is 60 percent more than before Medicare began in 1966 and 100 percent more than in 1977.

Thirty-one Percent Cut in Medicare and Medicaid Will Cut Over $1,400 per Elderly Beneficiary in 1989. If the decision were made that Social Security should be spared under Option B, we estimate that the remainder of the budget will have to be cut by 27 percent in 1987 and by 31 percent in 1989. An across-the-board cut of 31% in 1989 will translate into a $45.0 billion cut in Medicare and Medicaid — $1,400 per elderly beneficiary. Looking at estimated 1987 Medicare and Medicaid outlays for the elderly, 27 percent in cuts amount to $31.5 billion. Even if all the proposals made in 1984 had been enacted, we will still face cuts of an additional $26.3 billion in 1987. (See Figure 7) The impact of the cuts will be made worse because cuts in federal Medicaid payments will almost certainly be matched by cuts at the state level. Medicaid cuts will have the greatest impact on the poor in general and on the poor elderly in particular.

However, many experts argue that Option B need not be taken. The deficit can be reduced through Option A which deals with the deficit by raising revenues, holding down defense, and containing health care costs. This approach will result in no additional cuts in the programs serving the aged and poor.

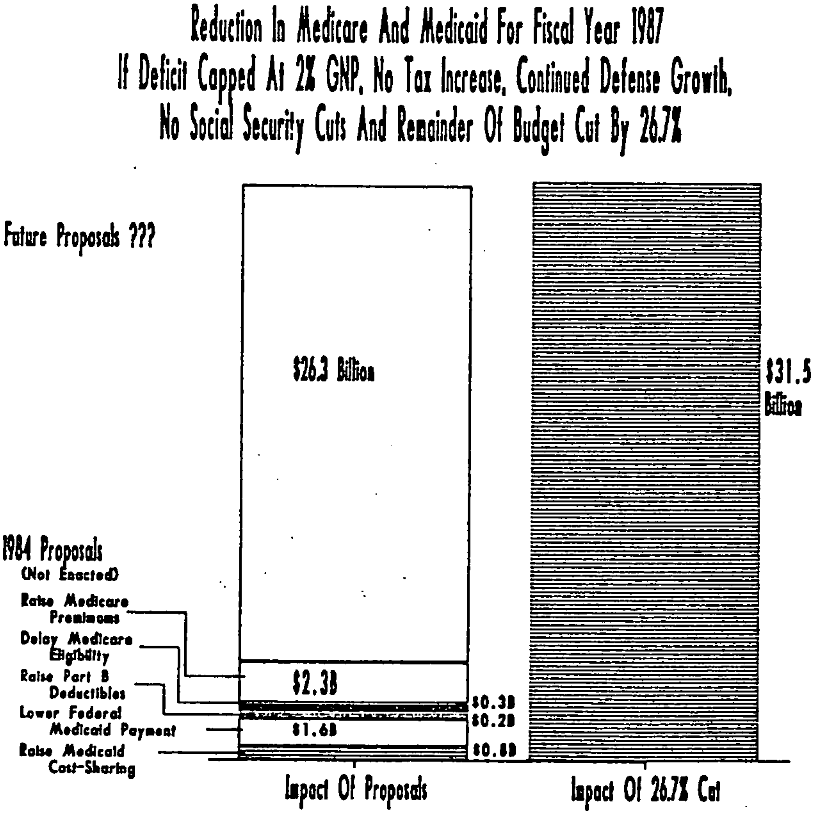
FIGURE 6



NOTE: In order to reduce annual deficits to no more than 2 percent GNP, $156 billion in revenue increases or spending cuts will be needed in 1989. If interest is not reduced, and defense is allowed to increase (5% annually), then the remaining spending will have to be cut by 21 percent. An across-the-board cut of 21 percent will translate into a $80.6 billion cut from Social Security, Medicare and Medicaid.

SOURCE: House Select Committee on Aging, September 1984; Congressional Budget Office, August 1984

FIGURE 7



SOURCE: House Select Committee on Aging, September 1984; Congressional Budget Office, August 1984; Health Care Financing Administration, August 1984

ARGUMENTS AGAINST CUTTING BENEFITS FOR AGED AND POOR

Much is at stake as policymakers decide among the various approaches. It is critical that these decisions be made in the context of past federal actions, the status of the elderly and poor, and projections for the future.

Social Security and Medicare Running Surpluses Through 1989. There is some question as to whether or not there is a need to make quick cuts in Social Security and Medicare. Current projections for the Social Security program show it being solvent for approximately 75 years. In the case of the Medicare program, major changes over the last four years argue for focusing on cost containment strategies and avoiding more beneficiary cuts. Recent analyses suggest that the Medicare Hospital Trust Fund is in better shape than was projected by the Medicare Board of Trustees earlier this year. Because of reductions in outlays, the insolvency of the Trust Fund is more likely to occur several years after 1991.

In fact, looking at both Social Security and Medicare over the next five years, we project that both will run surpluses — an average of 8 percent per year — at the same time that the total budget will run large deficits. Over the next five years, the combined Social Security and Medicare surplus totals $122.6 billion while the total budget deficit is $1,090 billion. (See Figure 8)

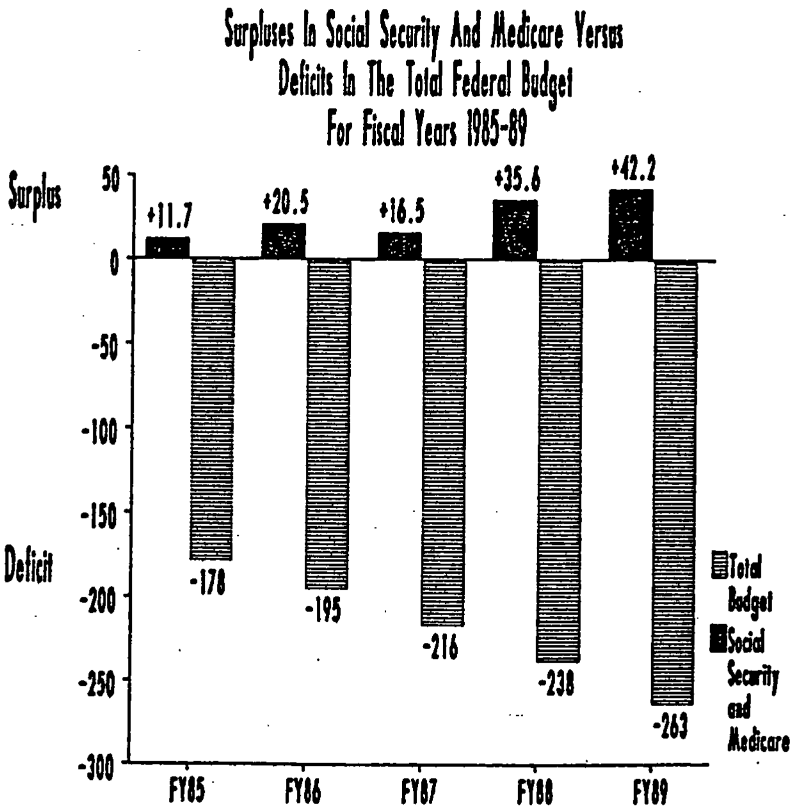
However, there is little doubt that there will be a need to develop further cost containment strategies for Medicare as well as health care in general. The key is that we have the time to develop health care cost containment that does not result in cuts in needed services and does not shift a greater financial burden onto the aged and poor.

Past Cuts Already Severe. Even if there were some pressure to reduce Social Security, Medicare and Medicaid costs, it is important to remember that the cuts over the past four years have already been severe. Though Medicaid is part of the growing deficit problem, it has been the most successful in slowing down increases in expenditures. Most experts agree that any cuts, beyond those already enacted, will come out of reductions in eligibility or benefits.

Large Percentage are Poor or Near Poor. According to the Census Bureau, a third of the elderly — 7.9 million elderly — had incomes below 150 percent of poverty in 1983. For the total population, over a quarter — 59.3 million people — were below the 150 percent level. Though some progress have been made on the elderly, a substantially higher percentage are poor or near poor than the population as a whole. The poor and near poor in the total population is high and continuing to grow. (See Figure 9)

Elderly Out-of-pocket Costs Rising to More Than 18 Percent of Income. The elderly and poor are hardest hit by health care costs. For example, the elderly are expected to continue paying for 36 percent of their health care out-of-pocket. (See Figure 10) While in 1977 the elderly were using 12 percent of their income for health care, we estimate that the elderly are now using more of their income — 15 percent in 1984 — for health care than before Medicare and Medicaid began.

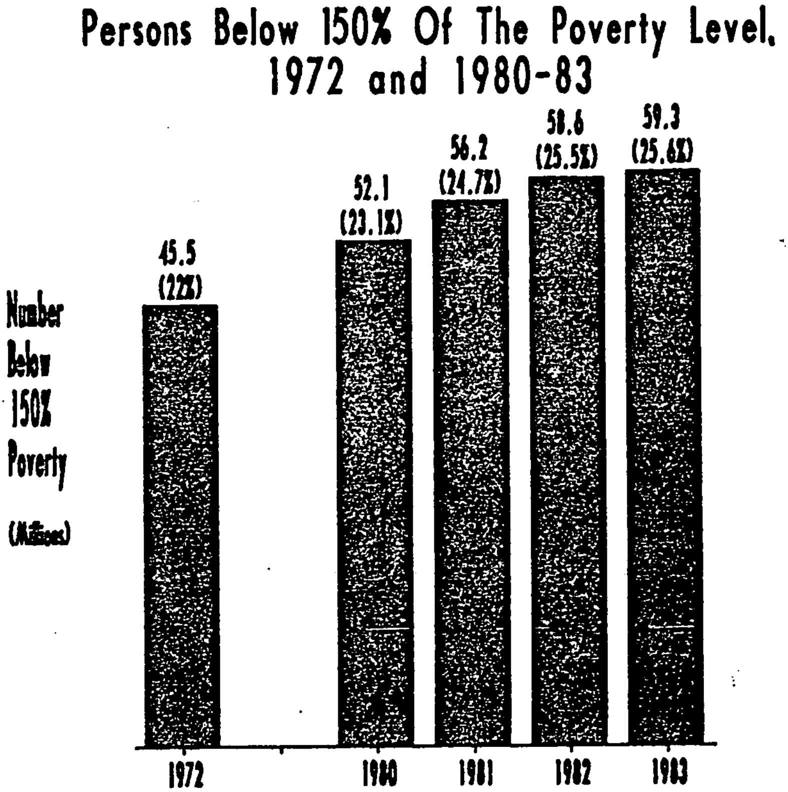
FIGURE 8



NOTE: For the period 1985 through 1989, Social Security and Medicare show a five year surplus of $126.1 billion and a ratio of revenues to outlays of 1.08. During the same period, the total federal budget has a deficit of $1,090 billion and a ratio of .80.

SOURCE: House Select Committee on Aging, September 1984; Congressional Budget Office, August 1984; Health Care Financing Administration, August 1984

FIGURE 9

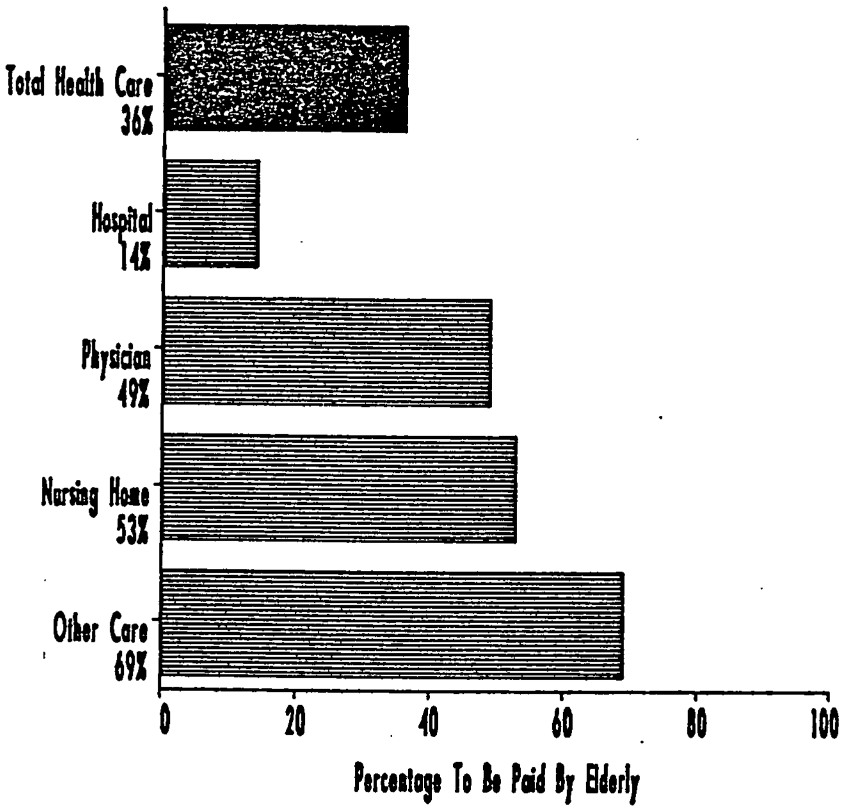


NOTE: Though the percent below 150% of poverty is high for all persons, the percentage is substantially higher for the elderly — over 30 percent (7,949,000 elderly persons) of the elderly in 1983.

SOURCE: House Select Committee on Aging, September 1984; Bureau of the Census, August 1984; Health Care Financing Adminstration, August 1984

FIGURE 10

Health Costs To Be Paid By Elderly In 1989



* NOTE: Other care includes dental, drugs, eye, hearing, rehabilitation, and mental health care.

SOURCE: House Select Committee on Aging, September 1984; Health Care Financing Administration; August 1984

Even without further cuts in Medicare and Medicaid, we project that this percentage will increase beyond 18 percent by 1989 — more than a 50 percent increase over 1977. (See Figure 11) Furthermore, the next five years will see the elderly's health care cost increasing over twice as fast as their income — a trend that is likely to continue into the 1990s.

Medicaid Cuts Impact Heavily on Poor and Near Poor. As indicated above, the 22 million poor covered by Medicaid have already experienced major cuts. Neither they or the States have any more ability to absorb additional federal cuts. However, many people have no insurance coverage. Approximately one-half of the poor are not eligible for Medicaid. As for the combined poor and near poor population, the total poor and near poor not covered by any insurance is now estimated to be between 20 and 30 million people. These poor and near poor have yet to receive Medicare or Medicaid benefits and almost certainly will not receive any relief if major cuts are made in Medicaid.

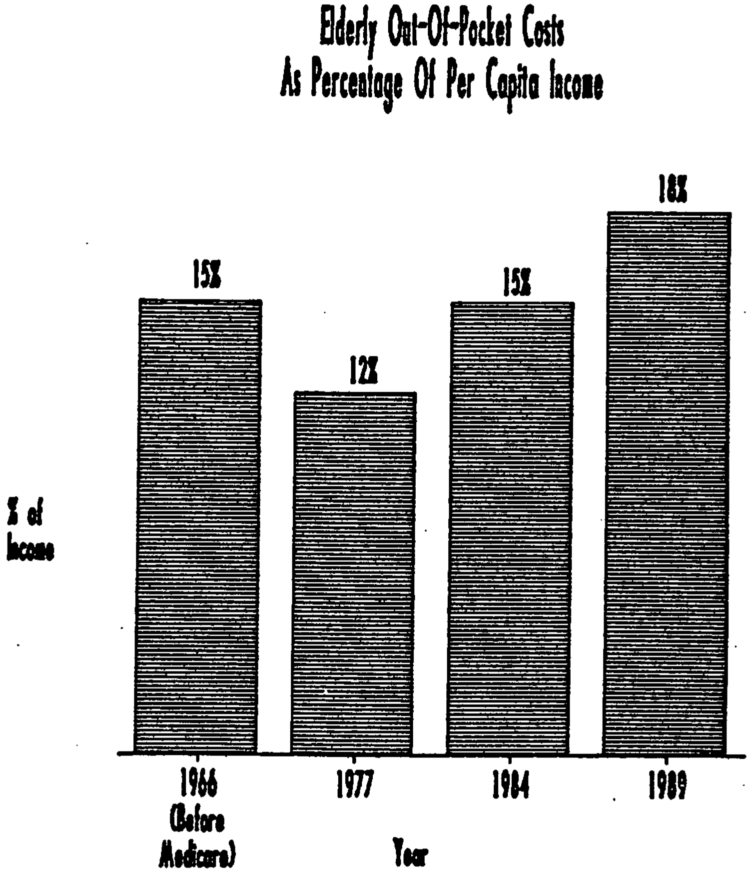
Elderly and Poor Feel Worse Off Today. The elderly and poor are much less likely to feel that they are better off today than in the past. An August poll by the New York Times and CBS News found that 69 percent of the elderly believe that they are not better off than four years ago and 57 percent believe the country as whole is not better off. By almost a 2 to 1 ratio, those with incomes below $12,500 also believe that they and the country are not better off. Similar results have been found in the polls conducted by Lou Harris. In these surveys, the elderly report, by a ratio of nearly 2 to 1, that they are not better off financially then they were in 1981. By almost the same 2 to 1 margin, the poor report that they are not better off.

General Public and Elderly Expect Tax Increases and Favor Defense Cuts Over Social Program Cuts. The general public does not want cuts in programs such as Social Security, Medicare and Medicaid. A 1984 poll by Lou Harris asked that if they had to choose, would they prefer more cuts in social programs or cuts in the increased defense budget. Overwhelmingly, the public chose cuts in defense spending over cuts in Social Security, Medicare and Medicaid.

	Total Public	Over 65	
Cut Social Security		14.4%	9.4%
Cut Defense	75.8%	75.1%	
Cut Medicare	18.1%	12.6%	
Cut Defense	71.6%	71.0%	
Cut Medicaid	19.3%	14.0%	
Cut Defense	69.6%	66.4%	

On the issue of tax increases, a recent Lou Harris poll found that 82 percent of the general public feel that federal taxes will be raised next year.

FIGURE 11



NOTE: In 1984, the elderly will be using a larger percentage of their income (15 percent) for health care than before Medicare and Medicaid began in 1966. This percentage will grow rapidly in future years and will exceed 18 percent by 1989 — a 50 percent increase over 1977.

SOURCE: House Select Committee on Aging, September 1984; Health Care Financing Administration; August 1984

Finally, there is the question of fairness. Clearly, tax cuts and defense growth have been major contibutors to the deficit problems we face in the near future. The total impact of four years worth of tax cuts will be $217 billion in 1989 alone. Real growth in defense spending will add another $77 billion to the federal budget in 1989. The total combined effect of tax cuts and defense spending growth in 1989 alone will total $294 billion — $31 billion more than the 1989 deficit.

CONCLUSION

Reducing future federal budget deficits by this Administration's current policies of not raising taxes and not slowing defense spending growth will require a 21 percent cut in nondefense spending in 1989. Assuming that these cuts are made across-the-board, the impact on the elderly and poor will be devastating:

- Social Security, Medicare, and Medicaid cuts will amount to $2,050 per elderly person.
- Social Security cuts will push one million more elderly into poverty.
- Medicare and Medicaid cuts will force the elderly to use as much as a quarter of their income for health care — 60 percent more than before Medicare and Medicaid began.

The Administration's deficit reduction plan must be rejected along with any other plans which impact negatively on the less advantaged. Instead, those options should be pursued which reduce the deficit just as effectively but protect the poor and elderly. The elderly and poor have already suffered major cuts in their benefits and can absorb no further cuts.

Representative HAMILTON. Thank you very much, Congressman Roybal. Let me express appreciation to you for the study that you and your colleagues on the select committee have done. Clearly, it's a very important study and it's one I think the conclusion of which I would certainly concur with—and I think most of my colleagues would—that the future deficits should be reduced without cutting benefits for the elderly and the poor.

If I understood the statements of our witnesses a few minutes ago, they were saying the same things to us in their testimony.

So we are very pleased indeed to have the study that you have made available to the Joint Economic Committee. We commend you for it and we hope that it will be widely distributed and read as I think it certainly will be.

We will begin now with questions of the witnesses and I will turn to Congresswoman Snowe.

Representative SNOWE. Thank you, Mr. Chairman.

Certainly I appreciate your testimony that you have offered here today in terms of providing an insight as to the changes that we have made and what effect they will have on the Social Security System in the future.

Just so that I can be clear, do you think at this point Congress should address any changes in the Social Security System or rather should it be an urgent need for Congress to address some changes in the Social Security System at this point? I know, Ms. Munnell, you mentioned a few changes that could be made, but at this point do you think Congress or in 1985 should make any structural changes or any additional changes in the Social Security System?

Ms. MUNNELL. I really share Bob Myers' view. I think that the Social Security Program was fiddled around with enough last year and it should be left alone for a while. I don't see any need for structural changes.

Representative SNOWE. I know you suggested that perhaps we could increase taxes on the proportion of income one earns. For example, we made that change in 1983. And you're suggesting a change in that regard. Should it be necessary for Congress to address that at this point?

Ms. MUNNELL. I view that almost more as a tax equity question than a program question, even though the payroll tax does finance the Social Security Program. I think taxing employer-provided benefits would make the payroll tax much more equitable. Fringe benefits tend to be received by higher income people, and by broadening the base, this reform would make the payroll tax less regressive.

Representative SNOWE. At what level of income would you recommend? Right now Social Security taxes are up to a level of income of $37,000, depending on whether or not we give the cost-of-living adjustment. At what point do you think we would increase that, to what level of salary?

Ms. MUNNELL. Well, you wouldn't necessarily need to change the maximum taxable level. What you would do is just include not only taxed wages, but also the value of health insurance and the value of life insurance and even the value of pension contributions when each person calculates his or her taxable incomes and then the payroll tax would be levied on that amount.

Representative SNOWE. So you're recommending including all of those forms of income and benefits?

Ms. MUNNELL. Yes.

Representative SNOWE. What do you think, Mr. Myers, about that proposal?

Mr. MYERS. At this point I cannot agree entirely with my good friend, Alicia. I think that we should always be on the alert that the base does not erode because of fringe benefits. In the 1983 amendments, this was taken care of for the so-called section 401(k), where this was going to open up a big loophole that should not have been. I believe that there are difficulties in assessing what the value of, say, life insurance or pensions are. As long as there are not abuses I would not try to tighten up. We should certainly be aware of any loopholes that people develop.

There is one particular loophole that I wish would be closed. It is a small one. People who serve on the boards of directors of corporations and get fairly good amounts—$10,000 or $15,000 a year or even more—are considered as self-employed. What many of them are doing is deferring the compensation until after age 70 so that they get full Social Security benefits between when they retire from employment as employees between 65 and 70, and then at 70 they receive this deferred compensation. Although it is taxable at that time, the earnings test no longer applies.

This could be remedied very easily by defining directors as being employees for Social Security purposes, rather than as self-employed persons.

I think that the fringe benefits field is a very complex one. We always have to look out for sharpshooters who are trying to dilute the Social Security base in an undesirable manner. But I would not go as far as Alicia would in taxing all fringe benefits.

Representative SNOWE. And you, Mr. Burtless, what do you think about increasing the proportion of Social Security benefits subject to taxation?

Mr. BURTLESS. I think that would be a reasonable way to reduce the net value of Social Security benefits and, as Ms. Munnell said earlier, it would be a more equitable way to treat Social Security income.

I don't think there's a pressing need to make these kinds of changes in the near term, though. I think that a lot of older people in this country got very worried about the solvency of Social Security in the last couple years. A lot of charlatans have suggested that Social Security is near insolvency. So every time we reopen discussion of this program I think it should be for a very serious shortrun or a very serious long-run problem that we are trying to address. I just don't see these kinds of problems as being that grave.

Representative SNOWE. Do any of you have any problems with the changes that were made in 1983 in the bipartisan effort to increase revenues to the Social Security fund? Do you see any future implications with any of those changes?

Ms. MUNNELL. I think that's a package for which the standard line is, "I don't agree with each one but I think the overall package is really quite good." I think the compromise was to be commended and I think picking it apart probably is not a useful thing to do at this point, since I'm sure each of us have something in there that they don't like.

Mr. MYERS. That is exactly what I was going to say.

Mr. BURTLESS. I agree completely.

Representative SNOWE. Then I'll ask about one specific that I certainly had concerns with. I think there's no question when you change the Cost-of-Living Index it does disproportionately affect the elderly, particularly those who rely solely on Social Security as a means of income. Clearly this is a concern in my district in the State of Maine. Do you see the delay in the cost-of-living adjustment as having an adverse effect on elderly who are solely or heavily reliant on Social Security?

Ms. MUNNELL. There's no question that delaying the cost-of-living adjustment reduced Social Security benefits. The estimate is that over the life of the average retiree, the delay resulted in about a 2-percent reduction in real benefits. No one likes to do that and it's not a desirable thing to do, but I think it was a necessary part of the overall compromise.

Mr. MYERS. Again, I agree.

Representative SNOWE. You're a very agreeable group here this morning.

Is there any situation over the next 10 years that you foresee that would require some major changes in Social Security? I know that you have said it's probably unlikely we will have a severe recession and that the Social Security funds could probably withstand a recession or inflation at this point over the next 10 years. But are there any circumstances that would require Congress to make some changes?

Ms. MUNNELL. What Gary said earlier, if we had a very, very, very serious recession, then there may be some need to institute financing changes. Other than that, however, I think the system is in very good shape and should be left alone for as long as possible.

Mr. MYERS. There is one thing that I can see coming down the road where there should be some action taken—not in the next couple of years, but certainly before 1990. I look with considerable concern about large trust fund balances that will be built up in the 1990's if—and I emphasize "if"—the intermediate estimate turns out to be correct. I would certainly like to see the fund balances much larger relatively than they are now, On the other hand, I do not want them to be excessively large, and I think something should be done about that.

Mr. BURTLESS. I mentioned in my testimony one event that may hurt OASDI, and that is insolvency in the HI Program. Both insurance programs are financed with the same payroll tax mechanism. If health expenditures on the elderly through the HI program continue to rise as anticipated and there is no alternative to higher payroll taxes for the HI Program, then it does seem to me that there would be reasonable grounds to adjust OASDI taxes down and reduce OASDI benefits commensurately.

Representative SNOWE. Would you favor a means tested Medicare Program?

Mr. BURTLESS. I actually haven't thought carefully of how I would reduce the rate of growth in Medicare.

Representative SNOWE. Can either of you comment on that?

Mr. MYERS. I would certainly oppose any means testing of either the cash benefits or the Medicare benefits.

Ms. MUNNELL. I agree with Bob.

Representative SNOWE. On the question of earnings sharing, I would like to have your views. At this point there is a study underway in the Health and Human Services Department concerning this particular issue and the report was supposed to be forthcoming in July of this year. I understand it will not be completed until the end of this year. But in any event, I'd like to have your opinions on this particular issue because there's no question, in my own opinion, that discrimination exists within the Social Security System against homemakers, divorced women, and two-earner couples.

Ms. MUNNELL. Can I start on this one?

Representative SNOWE. Yes.

Ms. MUNNELL. I think that my views on this issue are not very mainstream. I recognize that a lot of people believe that women are treated unfairly under the Social Security System and, indeed, there are cases where elderly women haven't received adequate benefits, particularly divorced elderly women.

In general, however, I think that women are treated very well under the Social Security System. Indeed, they are treated favorably. Women workers are treated exactly as men workers. In addition, women who work inside the home receive an additional benefit. That additional benefit is the source of the inequity between one-earner and two-earner couples and also between couples and single people. However, since we live in a society where women play mixed roles, even if I were establishing the system today I might set it up with both types of provisions.

When you take into account the fact that women are generally lower paid and therefore profit from the progressive benefit formula, and the fact that they live longer, then you realize that they do very well under Social Security. My major concern is that change which appears to make the system easier to understand and more equitable will in the end hurt women as a group.

Representative SNOWE. So you wouldn't favor any change in that respect?

Ms. MUNNELL. No. I know I have a minority view on this, but I would not make any changes.

Mr. MYERS. I always find this a very difficult subject to discuss. I think the record will show that, over the years, I have worked very hard to have equal treatment of men and women under Social Security. I worked with ex-Congresswoman Martha Griffiths many years ago on eliminating certain inequities that then existed.

Now with the 1983 amendments, there is completely equal treatment in the program, so that the same benefits are paid for the same earnings record and the same demographic conditions, regardless of sex.

I recognize the arguments that advocates of earnings sharing make. I think that, if I were starting the system from scratch now, I would probably do that. However, the system has been operating 50 years. You just cannot get from here to there, I believe.

In theory, yes, but in practice, it just could not be done without tremendous expenditures. Otherwise, there would be a large number of losers, as well as a large number of winners.

I think that one trap that some of the advocates of earnings sharing fall into is that they try to equate the system to one of individual equity, with the view that everybody ought to get exactly their money's worth. As you well know, this is a social benefits system. Lower paid people get more than higher paid people relatively, and so forth. Many of the so-called inequities that are pointed out are merely that there is not complete individual equity in those cases.

I think that the solution to any real problems should be achieved by incremental methods. As you know, in the 1983 amendments, there were four changes made that largely affected situations where women were treated unfairly, although men could have fallen into the same positions. As these situations occur, I think that they can be largely remedied within the existing system, instead of turning the system completely upside down and trying to start over again.

Representative SNOWE. Mr. Burtless.

Mr. BURTLESS. Well, I would have to see an exact proposal on income sharing before I could make up my mind what I thought of it. But in general, if it's simply a question of dividing the earnings credits earned by a married worker between the worker and his or her spouse, I don't think that that change by itself would be an improvement in the system because it's not clear to me what larger social objective is being obtained by that kind of provision.

If the argument is that in the long run the spouse would then have a right to receive a Social Security benefit under those earnings credits, then to some degree the spouse already has those rights protected by virtue of the fact that "spousal benefits" go to the person if a marriage has lasted 10 years. So I'm not quite sure what additional protection is needed beyond what we already have in the current system.

Representative SNOWE. But as you know, women have particularly different work patterns from men. They come in and out of the work force. They don't get the benefits accrued to them as a result of working because of the different nature of their work patterns as well as child rearing and childbearing. Clearly it makes a different situation and a lot of women lose out even in terms of averaging. A lot of zeros are added into their record, put 1 year after every 5, and so they lose out even at the end in terms of averaging what the Social Security benefits will be.

Mr. BURTLESS. But the benefit formula in Social Security is very advantageous for people with low average earnings. So on the basis of the payroll taxes they pay, they are getting a better deal than the average person who works in an uninterrupted career. So you see that's not awfully persuasive.

Representative SNOWE. Well, on the other hand, I think it's a fundamental difference in terms of policy approach in Social Security and recognizing not only—first of all, that women as homemakers certainly should be entitled to credit; second, because of the nature of their work patterns; and I don't think it's always the case as you suggest that women in the final analysis will benefit more based on the current Social Security Program.

Mr. BURTLESS. Well, per payroll tax dollar, they definitely will benefit more if they are entitled to a benefit in their own right and had an interrupted earnings history, because the benefit formula is simply more advantageous for low-wage workers than for high-average-wage workers.

Representative SNOWE. I guess we will see the report.

Ms. MUNNELL. You have a very conservative panel here.

Representative SNOWE. Yes. OK. Thank you.

Thank you, Mr. Chairman.

Representative HAMILTON. Mr. Myers, let me ask you to help me out a little bit on this notch problem. I'm not as familiar with that as many people are and it just comes up constantly wherever I go.

What do I tell people about that? What hope do I offer for them? Is it something that can't be resolved easily?

Mr. MYERS. I regret very much that this is a very painful subject for me to talk about.

Representative HAMILTON. That's a bad start, Mr. Myers. I was looking for some hope.

Mr. MYERS. I will try to give you some.

Representative HAMILTON. All right.

Mr. MYERS. But first, I have to start off with regrets on this.

Back in 1977, when in essence the provision was developed which created the notch, I testified before the Committee on Ways and Means that this was going to be a problem, and I suggested what ought to be done about it. I did not foresee that it was going to be as great a problem as it turned out, because of economic conditions. Unfortunately, the Social Security Administration said that it could not handle my proposed procedure. It advocated the procedure the way it is in the law.

In 1978, Chairman Pickle held hearings and we went through the same thing again.

It is a situation that, as I say, is most unfortunate. It is unfair, but it is not quite so in the way that your constituents probably say.

People who were born in 1917 and later are not getting unfairly too little. The problem is the fact that people who were born before 1917 and who keep on working beyond age 62 get too much. There was a flaw in the law before the 1977 amendments, and it continues to operate for them so that they are getting too much. You never hear any complaints from them on that.

The situation could have been remedied, as I said, back in 1977–79 by cutting back on the increases in benefits for people before the notch years. That was not done. Now, both politically and humanely, you cannot take money away from the people who are getting this windfall. Even in 1981, something could have been done about it, so as to at least prevent the notch from getting larger, but again, with the legislative snarl that Social Security got into in 1981, it was not possible to do it.

By 1983, it was really too late. So, the only thing I can say is that you just have to take the unenviable position that the notch is wrong, but that there is nothing that can be done about it without really "breaking the bank." If you raise the benefits of the people born in 1917 and later, it costs a tremendous amount of money. Anyhow, as I say, I think that they are getting quite good benefits, quite fair benefits. It is just that somebody else is getting a windfall.

Representative HAMILTON. It's highly unlikely that any action will be taken to smooth the problem?

Mr. MYERS. I think that is a correct prediction, at least politically. I think that the members of the House Ways and Means Committee and the Senate Finance Committee are standing firm on this and take the view I take. It is very unfortunate that this occurred. There is nothing that can be done about it now.

Representative HAMILTON. Now President Reagan said not long ago that there's a probability that many young people now paying into Social Security will never be able to receive as much as they're paying in. That statement was fairly widely reported and it's also raised a number of questions.

I'd like to get the reaction of any of you to that statement. Is that a correct statement?

Mr. MYERS. Much as I hate to say it, I think that the President was misinformed. There have been actuarial studies made on this matter. The National Commission on Social Security Reform, in one of its technical memorandums, studied this matter. The conclusion was reached that younger people do get a fair deal under the program, but not as much of a break as people who were older when the system started. This is exactly what happens generally under most private pension plans. The people who come in at the very beginning get considerably more than they have contributed—if it was a contributory plan. Social Security is very much the same way.

Then, too, there is the question which economists can chase all around the barn about whether you should consider just the tax that the employee pays, or should you consider the combined employer-employee tax. If you consider only the tax which the employee pays, almost inevitably people will get more than their money's worth in protection. Some people might not get all of their money back if they die early and do not leave dependents. But looking at it from an actuarial standpoint and just looking at the employee taxes, all younger workers will definitely get a very good deal out of it in the form of value of protection. If you look at the combined contribution rate, then there may be certain categories that do not do quite as well as they would otherwise in private investments. In my view, which my economist colleagues might try to shoot down, I think that you should only look at the employee's taxes because the employer's tax is something that is pooled for the general benefit of the whole system. This is just as in a private pension plan; generally, the employer does not pay the same percentage of payroll for each employee. The employer pays more for older people and less for the younger ones. There is an average rate, but that is just not assignable to each person individually.

Representative HAMILTON. Do you agree. Ms. Munnell and Mr. Burtless? I'd like you both to comment on the President's statement if you would.

Ms. MUNNELL. I agree essentially with Bob Myers. It's generally acknowledged that the rate of return on Social Security contributions is going to decline over time as the system matures. This is inevitable in a pay as you go system. People retiring today are getting large benefits relative to what they put in. People retiring in the future will get relatively smaller benefits. As a group, I think future retirees will get back not only their contribution and the contributions of their employers, plus a small real rate of return.

I agree with Bob Myers that there may be some groups, such as high income single individuals, that may not get a positive return when you consider both the employee and the employer contribution.

I think that it's important, though, to remember that the Social Security Program is trying to do more than just act as a pure insurance scheme. It's a social insurance program. It's not clear to me that these money's worth calculations are extremely useful.

Mr. BURTLESS. I agree completely with that last statement.

Representative HAMILTON. OK. Now there seems to be good agreement among you about the financial condition of Social Security.

Mr. Burtless, you were a little more pessimistic than the other two, though, it seemed to me. Did you get that impression?

Mr. BURTLESS. Well, I'm not as sanguine about the long-term outlook for Social Security, but that's because I think that the long-term holds a lot of economic uncertainty. It's very difficult to predict the variables which determine the long-term solvency of Social Security.

Representative HAMILTON. How about the short term?

Mr. BURTLESS. The short term, I'm as confident as the other witnesses are.

Representative HAMILTON. Now if you had a recession, for example, like we just went through, a long, tough, deep recession, you're all saying to us that the Social Security System is in sufficiently good shape that we wouldn't have any problem?

Ms. MUNNELL. It would be a lot better if the recession started in 1987 than if it started today. I think the period between now and 1988 is a little tricky and it's always been acknowledged as being a little tricky. I think that, on balance, there is a pretty good probability that we'll get through, but it would be silly not to acknowledge that there are some risks.

Representative HAMILTON. I see. So if in 1985 you began a recession like the one we just came out of, we would have some problems. Is that what you're saying?

Ms. MUNNELL. I think that's possible, yes.

Representative HAMILTON. Do you agree with that, Mr. Myers?

Mr. MYERS. Yes; I agree. There are economic scenarios which you can imagine that are not impossible that would cause problems. However, if I had to assess a number to it, I would say that there is a 95-percent chance that there is not going to be any problem.

Representative HAMILTON. Now we've got this business of the reserves. By the end of 1989, they are expected to hit $140 billion. What is a prudent level of reserves for these trust funds?

Ms. MUNNELL. I just updated some simulations that had been done by people in HEW in the mid-1970's to try to figure out what is a prudent level. The simulations were rather simple, but I came up with a number someplace between 80 and 120 percent of annual outlays, and that's a little higher than what Bob said. He said 50 percent of annual outlays. But I think somewhere in that range, between 50 to 120, let's say.

Representative HAMILTON. If you get above that, do you agree with Mr. Myers that you ought to cut the tax?

Ms. MUNNELL. I tried to think about that and tried to figure out what would happen if we accumulated these large reserves in the 1990's, and I guess my concern is that these reserves are going to be used, in effect, to finance other programs. I don't have a problem with that if they are used to finance the health insurance program, and the decision is made explicitly. That seems like an appropriate thing to do.

Now if you do that, then, of course, you're going to have to raise payroll taxes later because these reserves are being accumulated to pay for future benefits. I guess, on balance, I agree with Bob in that I'd like to see the system returned to more of a pay-as-you-go system.

Mr. MYERS. Could I just add one thing, Mr. Chairman? What I am concerned about is the financing basis of the present program. Under the intermediate estimate, very large funds are going to be built up, and for the purpose of them using them up 40 or 50 years from now. Then, when they are used up, what happens? In other words, I think that it is not the proper way to finance a pension plan or a social insurance system to build up reserve funds solely for the purpose of liquidating them over a long period. They should be built up for short-run cyclical needs, but not for the purpose of meeting the rising costs 40 or 50 years from now that are anticipated.

Representative HAMILTON. When we talk about reserves here, what are we really talking about? Are we talking about money sitting in a bank?

Mr. MYERS. What we are talking about is the way that moneys have always been invested, in Government obligations, mostly so-called special issues. They are valid investments. They are part of the national debt. They pay interest rates which are fair both to the general fund, who is the payer of the interest, and to the trust funds, who receive the interest. So, these are legitimate reserves. The funds are not invested in the private sector in bonds and stocks, and I do not think that they should be. I think that it is a perfectly valid method of investing the funds.

I think however, that the method of determining the interest rate on the investments could be changed. The National Commission had recommended a change that, largely, had been proposed by Senator Proxmire. Unfortunately, at the last moment, it appeared that the trend in interest rates was going to be different than had been anticipated. This new method, although more equitable, might cause a little loss to the system in the near future. So, this is one of the few recommendation of the National Commission that was not adopted by the Congress.

As a minor point, at some time, I think that Congress ought to reconsider that matter and make the investment procedure more equitable and easy to understand.

Representative HAMILTON. What are the economic implications of letting this fund build up? Spell that out for me a little bit.

Ms. MUNNELL. I think it's an extremely difficult topic to think about. Whether there's "money in the bank" really depends on what's happening with the rest of the Government budget, because if you're running deficits in the non-Social Security portion of the budget, what you're really doing is borrowing money from the Social Security fund to cover the deficits in the non-Social Security portion. Therefore, you're not really accumulating any assets at the Federal level and when you get to the time to pay benefits, what you're going to have to do is to essentially raise general revenues to pay off the bonds to pay the benefits. So if you're running deficits in the rest of the budget, what happens from the surpluses is that you essentially finance general expenditures during the buildup period with payroll tax revenues and then during the drawing down period you have to raise general revenues to pay off the bonds in the fund and you are really financing the benefits by the income tax.

Now if you really run surpluses in the aggregate unified budget, then the question is whether that a sensible way to finance the Social Security Program? You really are putting aside resources now to pay off benefits later. I guess my view is that even though the rate of growth in real income has slowed, we really live in a world where future generations are going to be richer than current generations.

Representative HAMILTON. One of the fears that people have about the Social Security System is that we will use that money to finance other programs in Government—— welfare programs, food stamp programs, national defense, whatever. What do you say to those people?

Ms. MUNNELL. I think there's a good chance that they're right and I think for that reason——

Representative HAMILTON. You're not helping me much with my constituents this morning. I'll tell you that.

Ms. MUNNELL. Just tell them that we're going to return it to pay-as-you-go and we won't have to worry about all this buildup and it would also mean that probably we won't have to put in the 1988 and 1990 increases. It depends on how things go up to that point, but I think that would be rather appealing.

Representative HAMILTON. Do you support Mr. Myers' suggestion about the unified budget, taking the Social Security out of the unified budget?

Ms. MUNNELL. I have mixed feelings. As a person who has strong maternal feelings toward the Social Security Program, I do like it out of the budget and protected. As an economist, it seems as if you should probably consider it with other expenditures and tax programs. I guess, on balance, I would prefer it out, since it is safer.

Mr. BURTLESS. May I address the issue of the reserves?

Representative HAMILTON. Yes, indeed.

Mr. BURTLESS. I think we have finally reached a point where we disagree. I think the purpose of the reserves should be explicitly to pay off later expected benefits to the large generation that's going to retire after the year 2020. I believe that it would be bad policy for the Federal Government to run large deficits simply because those deficits can be financed with the large Social Security surpluses. If, in fact, the Federal deficit were reasonable over a business cycle, then part of the Federal debt would be bought up by Social Security surpluses. But that would still free up other investment to go into real capital investment. I don't think it's necessarily the case that Social Security's large surpluses will ultimately be used simply to buy up Government bonds and to keep paying for large continuing deficits. I think that real resources should be set aside for the future generation to retire because we have already good reason to expect it's going to be a very large generation retiring, while the generation that will pay for the baby boom's benefits will be relatively small.

Representative HAMILTON. Are we still going to face a real crunch in the year 2020 when this baby boom generation starts to retire?

Mr. BURTLESS. I don't think we will if we build up prudent reserves as we're now scheduled to do. I think it's too early to say much beyond that.

Representative HAMILTON. How good are our projections that far in the future? Are we just looking at paper figures the economists dream up or are we looking at something that's meaningful?

Mr. BURTLESS. I think probably the 25-year projections are much more meaningful than the ones for the 50 years after that. I realize under the law of the Social Security Act actuaries have to give 75-year projections, but there are some things about the distant future we do not know.

Representative HAMILTON. Is this something that we ought to worry about, this status of the Social Security System in the year 2020?

Mr. BURTLESS. Yes; I think we should worry about it because we want to persuade current taxpayers, the young workers today, that indeed, this is a reasonable retirement system for them. And I do not think it would be a persuasive promise to them if we did not have large enough reserves so that the promise appeared valid.

Representative HAMILTON. Now, none of you seem to like this business of COLA minus one or COLA minus two; is that right? And the reason you don't like it is because it bites pretty hard on lower income people?

Mr. BURTLESS. Especially the older people. I think if CPI minus two were continued for 20 years out, you would be receiving a real benefit that's only two-thirds the level of benefit you initially received.

Representative HAMILTON. Are those people hurt more by COLA based on a CPI minus two or are they hurt more by a delay or a freeze for 1 year? Or does it make any difference?

Mr. BURTLESS. I think CPI minus two is worse.

Ms. MUNNELL. Are you referring to CPI minus two for only 1 year?

Representative HAMILTON. Both approaches are bad, I guess, in your view?

Ms. MUNNELL. Yes.

Mr. MYERS. Mr. Chairman, I think that it is undesirable not only for low-income people, but as a general principle in a social insurance system, all of the participants should have a reasonable assurance that their benefits will be kept up to date with changes in economic conditions.

Representative HAMILTON. Now you want to drive up the retirement age a little higher. That's not going to go over very well with my constituents either and they don't like that kind of suggestion.

What does that do? I usually hear any time we talk about that that you're going to make it tough on younger people getting jobs because you will keep the older people in the labor force longer.

Mr. MYERS. My proposal, as you recall, was not to do this immediately. Things like this have to be phased in very gradually and deferred, as Congress did in the 1983 amendments. I would say, unlike Mr. Burtless, that this is not a cut in benefits. It is merely keeping the retirement age up to date with changes in demographic conditions.

Representative HAMILTON. How come it isn't a cut in benefits if you do not let them get any benefits for 5 years?

Mr. MYERS. I do not think that it is a cut. For example, consider the present law. People age 67 in the year 2027 will live longer than people age 65 do today. Therefore, I say what it represents is a reduction of, in essence, a windfall that they were getting of larger benefits because they are going to live longer. So, I think the retirement age should reflect the general economy. As to younger people getting jobs, certainly in an economy, if people can work, there ought to be plenty of jobs for all, both the young and the old. You should not have a retirement system solely for the purpose of solving unemployment problems.

Mr. BURTLESS. May I make a comment on that?

Representative HAMILTON. Yes, sir. Go right ahead.

Mr. BURTLESS. Well, the normal retirement age in Social Security bears some relationship to when people actually retire, but if you'll look, over the years you will see that a higher and higher fraction of people are collecting benefits starting at 62, 63, and 64. I do not think that postponing the retirement age from 67, which it's scheduled to be in the next century, to 70 would actually be anything different for most people than a reduction in benefits. It may reflect their longevity but it does not reflect the actual patterns of work over later life. People like to retire younger.

Mr. MYERS. I think that the matter of retirement is, in part, a psychological one. People think that they are supposed to retire by age 65. If you say that the retirement age is higher, people will work longer. Now, I would be among the first to say when the year 2000 comes around, if people are still retiring early and cannot get jobs at the older ages, then the retirement age should not be increased, and the country will therefore have to bear higher taxes for Social Security. But I think that this change in the 1983 amendments will get people to think about the matter and get people to work longer. However, only experience will show, and we have time to make any changes. But certainly you must plan these things in advance. You cannot put them into effect overnight. People now are on warning that the retirement age is going to increase. I think this will have an effect on people's work habits.

Representative HAMILTON. I wanted to ask about this—you called it an automatic stabilizer, Mr. Burtless, in your prepared statement, and I think a couple of you suggested some change in this stabilizing mechanism. I guess under present law the COLA is based on the increase in the CPI or the increase in average wages, whichever is lower; is that right? Am I correct in that?

Ms. MUNNELL. Only when the trust fund is low.

Representative HAMILTON. When the trust fund is low, and Mr. Burtless was suggesting that he thinks we ought to have an automatic stabilizer in there.

Mr. BURTLESS. I said that was a possible reform, although since Congress acts so expeditiously to reform Social Security when it's in dire straits, I do not see a strong reason to make that change. You could make it if you really want to remove short-term Social Security financing problems from your agenda.

Representative HAMILTON. My question really was, why did we do it the way we did rather than doing it the way you're suggesting in your prepared statement?

Mr. MYERS. As far as the National Commission was concerned, that is one of the options that was considered, and some people favored it. They also favored the "wages minus 1½ percent" approach, which would also stabilize the program more than the present provisions of "the lesser of wage or prices." But the package which constituted the consensus agreement, as I indicated, was a political compromise. Some groups did not want to touch the COLA at all, and others wanted to do more with it. We came out with the consensus agreement, which was the way that it was, with a relatively low trigger point and with a stabilizing device that was only a partially effective one.

I certainly agree that what Mr. Burtless has said is one of the quite possible approaches. I would like to see a stabilizer or fail-safe device that I could tell groups that this system under almost any foreseeable economic conditions will carry on. At present, we always have to hedge a little, as we have done, and say that in 1985–86 it is conceivable that, something could go wrong. I would like to be able to say that there is an ironclad guarantee, and we cannot do that now.

Ms. MUNNELL. May I just make a comment? I think this proposal of wages minus 1½ is so appealing because once you do that you have locked in your assumptions and you positively guarantee the outcome of balancing income and outlays. The bad part of this proposal, however, is that it shifts all risks to the beneficiaries. In periods where wages rise less fast than prices and the cost of living is reduced by another 1½ percent, beneficiaries are subject to severe real benefit cuts. So even though it's neat, I am not in favor of it as a solution to the problem.

Representative HAMILTON. One and a half percent is the productivity increase?

Mr. MYERS. It is the estimated productivity increase, the real wage increase, that is used in the cost estimates.

Representative HAMILTON. Is not that pretty arbitrary?

Mr. MYERS. It is arbitrary but reasonable.

Representative HAMILTON. Reasonable arbitrariness.

OK. Congresswoman Snowe.

Representative SNOWE. What do the reserves earn in interest? Does the Social Security funds make much money in the reserve accounts?

Mr. MYERS. Yes; indeed, they do. The new issues currently are getting about 11 or 12 percent. It varies by month of issue. There has been a bit of criticism of this procedure, as you may recall. Senator Proxmire first made the criticism that the interest earned was too low, until he realized that he had made a mistake; that he had looked at the rate that was being earned by the whole trust fund, including investments made years ago when the rates were low, and these securities had been held onto because they are long-term securities. The trust fund as a whole is earning an average of about 8 or 9 percent, but this is the same situation as other investment organizations, like a large life insurance company that started years ago. Such a company has lots of old, lower investment rate-of-return securities that pull down their average rate. But the trust funds on the average earn what long established life insurance companies do. However, if you start up an insurance company today, you might be able to average 12 percent, because that is the current new money rate. So, the fund has been treated fairly and has earned a large amount of interest.

In hindsight, with a different investment policy in the 1970's, it could have done better, but many other things in the investment area could be done better in hindsight.

Briefly, what Senator Proxmire recommended in my opinion, was, right, and unfortunately, was not adopted. He recommended that the rate on the entire investment portfolio, should change every month, like money market funds, so that you are always up to date. On the average, the proposed procedure would probably turn out the same as under the present procedure, but it looks better to the public. When it is told currently that the Social Security is only making 9 percent on its money, it believes that Social Security is being cheated. It is not. It just was unfortunate that it had investments made years ago at a lower interest rate, like anybody else.

Representative SNOWE. Are there any limitations on what the money can be invested in?

Mr. MYERS. It must be invested in securities of the Federal Government or securities guaranteed by the Federal Government, which in essence means that the investments are almost all Federal Government securities. There are a few so-called FNMA's in the fund that are guaranteed by the Government, but a very tiny fraction of the total assets. The civil service retirement fund is similarly invested.

Representative SNOWE. Most young people, based on survey data that has been used in the past, do not feel that the Social Security System will be around when it comes time for them to retire. There is certainly a pessimistic attitude about the Social Security System, its survivability, and its solvency long into the future. What is your response to this?

Mr. MYERS. It is, of course, quite true that surveys made before the legislation showed that perhaps 75 percent thought that the system was not going to be around when they retired. This dismayed me very much because of my great love and devotion to the Social Security System. I just hope the going around and making talks in various places that this view will switch around.

I have not seen a survey made nationally since then. I would hope that, at least, the proportion of doubters would be lower, but it takes a long time to educate the public. This is so particularly when people come out in headlines and say, "We're going to have another financing crisis in 2 or 3 years," because they misunderstand the cost estimates and the assumptions on which the amendments were founded. So, I hope that this view of the public will gradually switch around, I hope that many people, including Members of Congress, will tell their constituents what the real facts of the matter are. They should not assert that the system absolutely is guaranteed to be in sound financial conditions, but rather that there is a very high likelihood of it.

Representative SNOWE. Finally, just one last question. On the subject of maximum allowability, what about increasing these earnings from $6,900 without subjecting the beneficiary to losses in their Social Security benefits? Is maximum allowability sort of indexing out at this point? I receive a lot of requests from my constituents who would like to work and have increased earnings without losing Social Security benefits.

Mr. MYERS. Yes; you are correct. This year, it is $6,960 for people aged 65 and over. Next year, if the cost-of-living adjustment is given in benefits either by legislation or by the CPI going up, it will be indexed again and go up roughly 4 to 5 percent. I do not believe that it should be increased more. What I believe should be done, and what is being phased in as a result of the 1983 amendments, is to more rapidly pay people larger so-called delayed retirement credits. Now, if you do not collect benefits for 1 year beyond age 65, you get 3 percent more. That is not actuarially adequate or actuarially equivalent. However, in the present law, that increase eventually is going to be 8 percent. That is an actuarially fair rate of return if benefits are delayed for a year, and 8 percent more is paid later.

I would like to see that 8 percent be made applicable sooner. I think that it is better to do that than to let people get the benefits while they are working substantially, because it is a better retirement-income policy. While they are working, if you add Social Security on top of earnings, then when they quit working, they will only get that same Social Security. But this suggested way, while they are working, they will get their wages, and then when they retire later, they will get a larger benefit. This gives a better pattern of income over their lifetimes.

Representative SNOWE. Thank you.

Mr. BURTLESS. I think there's a widespread misunderstanding about the earnings test. People who investigated it have found that the reduction in benefits before 65 is a temporary reduction in benefits; benefits are permanently raised later on to reflect the temporary benefit loss arising from the earnings that you had. Even after age 65, I think there's still some credit.

Mr. MYERS. Persons who work after age 65 can get larger benefits in two ways. First, they get the delayed retirement credit, as I mentioned, which I would like to see be made larger. Also, if they have higher earnings than in previous years, they can get larger benefits by having a higher average wage for benefit-computation purposes. But the latter will not always be the case. There can be people whose earnings after age 65 are high but not as high as they had been before, and such earnings after age 65 may or may not help.

Representative SNOWE. Thank you, Mr. Chairman.

Representative HAMILTON. We didn't ask you to testify on the Medicare portion, but I'd like to get from you, if you know, some sense of how bad that problem is. Should we begin now to prepare constituents for the fact that they're either going to have to pay more in taxes or take a cut in benefits? If we do, how severely do we describe the problem?

Ms. MUNNELL. I'm not an expert on Medicare. My knowledge comes from CBO testimony which indicates that things look a little better than we had expected. I think at this point, it may be better if it is possible for you not to tell your constituents anything for a while, since Congress has just put in this new cost-containment legislation. It is reasonable to wait a year and see how effective the cost-containment legislation is, and then we will have a better idea of how big the problem is. At this point it does look like something is going to have to be done in the mid-1990's.

Representative HAMILTON. Something being, cut benefits or increase taxes?

Ms. MUNNELL. Increase taxes.

Mr. BURTLESS. But there is the other alternative, and that is to change the way we pay for or provide medical care. This recent change in the payment mechanism in HI was a step in that direction.

Mr. MYERS. Mr. Chairman, I very much hope that the new DRG financing method will be a help, but I'm not convinced that it will be until I see the experience. I think there is a problem coming down the road and there is, of course, the third alternative of how you put greater efficiency into the medical care delivery system. One way I don't think is setting up quotas and saying we're just not going to give medical care. So it's a much greater problem I think than the Social Security problem was in the last couple of years. It's one that I hope beginning next year people would be getting down to work on and try to find some agreeable and possible solutions to the problem.

Representative HAMILTON. If you move to some kind of a limitation on the COLA, is it possible in some way to exempt the low-income elderly or does that just get us into too many problems?

Mr. MYERS. This again is something which I think is very appealing on the surface, but it gets you into a great many problems administratively and policywise as to what benefits you are talking about. If people retired early, they get lower benefits because of this; not necessarily because they were low-income persons. I think that, as to the basic floor of Social Security benefits, it is desirable to give uniform treatment for the COLA. If COLA's are cut, which I am opposed to, and then if people were in need, they do have the SSI Program to fall back on. But, as I say, to start off with, I do not like the premise that COLA's are going to be cut.

Mr. BURTLESS. It seems to me there's an easier way to do that effectively and that is to change the taxing of Social Security benefits. That, by definition, would limit the amount of benefit reduction for people whose overall incomes are very low.

Representative HAMILTON. I constantly run into people who are in their early fifties, midfifties, or even late fifties, who are desperately waiting to get on Social Security and for all practical purposes they are unemployable, at least in my area of the country. What do you tell those people?

Mr. MYERS. In my view, the Social Security System cannot handle all of the special problems such as people like that have. I think that, for those kinds of situations, the answer is some sort of public assistance program.

Mr. BURTLESS. I'm not sure what you tell them. In the next century you're going to have to tell them a more painful story because when they turn 62 they will be eligible under current law for benefits that are considerably lower. And so even if they wait until age 62 to start collecting benefits, those benefits will not protect their standard of living the way the present benefit levels do.

Representative HAMILTON. Well, let me thank each one of you for excellent testimony. You have been very helpful to us. Thank you very much.

The subcommittee stands adjourned.

[Whereupon, at 11:50 a.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

Testimony for the

Joint Economic Committee

Subcommittee on Economic Goals and Intergovernmental Policy

Congresswoman Mary Rose Oakar

September 25, 1984

Mr. Chairman. I am pleased to have the opportunity to submit my statement for the record as part of this hearing on Social Security Assessment. I commend the Chairman, Congressman Hamilton, for his foresight and leadership in providing this forum for a discussion of the future of the Social Security system. I want to focus on the ways in which women are treated under this system. I respectfully disagree with the views of the previous witnesses regarding this issue. I believe that it is important to explore this most important subject from all perspectives and in respect to all groups of recipients. In particular I appreciate Congresswoman Snowe, who has raised the issue of the discrimination that exists within the system against homemakers, divorced women, and two-earner couples.

As Chairwoman of the Task Force on Social Security and Women of the Select Committee on Aging, I am very concerned about the ways in which women are unfairly treated by the Social Security system. In September, 1983, this Task Force conducted a hearing on this subject during which we received testimony from 13 Members of Congress and 9 representatives from national organizations documenting the existence of system inequities toward women. These inequities today affect over 10 million women who receive monthly checks from the largest retirement insurance program in the world. Such inequities are the essence of the gender gap in economic justice. I am extremely pleased that in 1983 my colleagues in this Congress saw fit to close the solvency gap which threatened Social Security. We must now focus on closing the gender gap which denies women fair coverage under Social Security.

At least 90 out of 100 women who are covered by the Social Security system can expect to experience some form of discrimination during retirement. Working spouses often receive a benefit that is less than if they had never worked or paid into the system at all. Homemakers, who go in and out of the labor force to have and raise children or care for a sick parent, are not eligible for disability if they have been out of the work force for more than 5 years. Divorced women who were married for less than 10 years receive no benefits. Widows cannot receive benefits before the age of 60 unlesss they are disabled or have children under 16. Widows who choose to accept benefits at age 60 due to financial necessity receive greatly reduced benefits for their entire lives.

Today, older women are among our country's poorest. The 1980 Census found the median annual income for women over age 65 was $4,226. This was almost half the income for men over age 65 and just slightly above the poverty level. The inequities in Social Security are largely responsible for this blot on our national conscience.

Social Security was established 50 years ago as a retirement safety net. Unfortunately, the system is anything but a safety net for elderly women who depend on its monthly checks as their sole means of support. Almost 90 percent of American women are discriminated against in one form or another in the Social Security benefits structure. In 1983, the average benefit for a retired female worker was about $380 a month compared to the average retired male's monthly benefit of $489. The poverty rate for elderly women is almost twice that of elderly men.

Government figures show the extent of the poverty and hardship many women face: 16 percent of the 20.5 million women over age 65 rely completely on their monthly Social Security check. Nearly one-third of these women have annual incomes below the poverty level and most are single or widowed. In addition, only 10 percent of women over age 65 received benefits from private pension plans in 1980, compared with 27 percent of men in the same age group.

Our treatment of elderly women is nothing less than callous and unfair. Women who spend all their lives raising families and working find that Social Security fails them in old age. This is because the system is premised in part on the demographics of the 1930's which no longer exist. The system was based on lifetime families consisting of breadwinners and dependents. Women were expected to stay home, raise the children and remain married to the same spouse for life. The Social Security benefit structure was not designed to account for divorce, two-income couples, and homemakers who go in and out of the labor force. Today, in contrast, we find that one out of two marriages ends in divorce, half of all married women work, and women account for 70 percent of all part-time workers.

If the Social Security system remains unchanged, women can continue to look forward to:

-Ineligibility for their own Social Security beneifts. A woman is eligible if she has worked and contributed to Social Security for 10 years or more. However, because many women go in and out of the labor force to have and raise children or care for a sick parent, they may not have worked the required 10 years to qualify independently for benefits.

-Lower benefits because of wage discrimination and time spent out of the work force. Women suffer pervasive discrimination in education and employment which ultimately reduces their Social Security work record, since individual benefits are based on average lifetime earnings. Women earn about 60 cents for every dollar men earn.

-Difficulty receiving disability benefits. A woman may recieve disability benefits only if she has worked 5 of the previous 10 years at the onset of disability. However, many women fail this test because they are away from the work force for more than five years for homemaking responsibilities.

-A penalty for two-income marriages. Two-income couples are likely to receive lower benefits at retirement than one-income couples with the same earnings because of the formula used for calculating Social Security benefits. For example, a one-income family with average monthly earnings of $1,000 can receive higher social security benefits than a two-income family with the exact same earnings. This is because the contributions of both spouses are not given equal weight. The survivor of such a two-income family will also get lower benefits than the survivor of a one-income family.

-Possible loss of benefits because of divorce. Divorced women are eligible for their ex-husbands' Social Security benefits only if their marriage lasted more than 10 years.

It is imperative that Social Security be fair and that its gender gap be eliminated. A new set of criteria must be used to determine Social Security benefits. I believe that the principle of earnings sharing should be applied to the computation of these benefits. Under this approach, marriage would be treated as an economic partnership. Social Security credits earned by each spouse before or after a marriage would not be affected by earnings sharing, but would be added to the worker's record. This is the fairest way to end discrimination against women in the current Social Security system.

Six of the 15 members of President Reagan's National Commission on Social Security Reform pointed to earnings sharing as the way to provide equal protection and equal benefits for women.

The earnings sharing principle would eliminate a large number of the problems encountered by women. For example, the two-income couple would no longer be shortchanged. The divorced woman would carry Social Security credits from her marriage. Women entering and leaving the workplace would be able to use all Social Security credits to determine their benefits. Moreover, homemakers would become eligible for disability benefits.

During this session of Congress I introduced legislation which would be a vehicle for making these reforms. More than 40 of my colleagues are cosponsors of this legislation, H.R. 2742, which is known as the Mandatory Earnings Sharing Act. It recognizes marriage as an economic partnership and acknowledges the economic importance of women who work outside and inside the home. It places all women -- single, married, divorced, homemakers and workers in the paid labor force -- on equal footing. A companion bill was introduced in the Senate by Senator Alan Cranston.

The Department of Health and Human Services was mandated by the Social Security Amendments of 1983 to report to this Congress by July 1, 1984, on the steps needed to implement this earnings sharing principle into the Social Security System. Unfortunately, the Department ignored its mandated deadline and has yet failed to comply with the law in this regard. It was only after inquiry from Senator Cranston and myself that the Department acknowledged its failure to produce the mandated report on schedule. Its projected completion date is now the end of 1984.

I do not want to underestimate the task that confronts us in these reforms. Many details must be worked out in restructuring the present Social Security system to incorporate the earnings sharing concept. How the program should be designed and the type of transitional mechanisms needed to protect the interests of all beneficiaries are issues which must be thoroughly analyzed, anticipated, and addressed. In my opinion, however, it is essential that we accept the earnings sharing concept. With that accomplished, it is only a matter of working out the details to close the Social

Security gender gap so that women will finally be treated equitably by the system.

As I previously stated, the Task Force on Social Security and Women of the Select Committee on Aging held a hearing last year regarding inequities toward women in the Social Security system. The record from this hearing provides extremely large quantities of data documenting these inequities as presented by representatives from such national organizations as the Women's Equity Action League, the Older Women's League, the National Federation of Business and Professional Women's Clubs, Inc., the National Organization for Women, the National Women's Political Caucus, the Technical Committee on Social Security Reform for Women, the Association of Junior Leagues, Inc., the American Association of University Women, the National Farmers Union, and the Hoover Institution. I would like to include as part of my testimony for the present hearing before the Subcommittee on Economic Goals and Intergovernmental Policy of the Joint Economic Committee two statements which are now part of the record from the September 22, 1983 hearing of the Task Force on Social Security and Women. These statements by Maxine Forman, Director of Policy Analysis, Women's Equity Action League, and Alice Quinlan, Government Relations Director, Older Women's League, provide a very useful view of current problems affecting women within the Social Security system along with proposals to alleviate such problems. As such, these two statements are representative of the much larger body of testimony which we received and which is of course available in full in that hearing record.

I look forward to the completion of the tardy report from the Secretary of the Department of Health and Human Services and plan upon its release to further pursue efforts through the Task Force on Women and Social Security and all other available means to alter current inequities. Again, I appreciate the opportunity to present my testimony for this hearing regarding the future of Social Security and I thank my colleagues on the Joint Economic Committee for their attention to this most important issue.

Attachment

ATTACHMENT

EXCERPT FROM THE RECORD:

HEARING ON

INEQUITIES TOWARD WOMEN IN THE SOCIAL SECURITY SYSTEM

Before The

Task Force on Social Security and Women

of the

Subcommittee on Retirement Income and Employment

and the

Select Committee on Aging

House of Representatives

Ninety-Eighth Congress, First Session

September 22, 1983

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WEAL
Women's Equity Action League

Specialists in Women's Economic Issues

SOCIAL SECURITY AND WOMEN

STATEMENT OF
MAXINE FORMAN
DIRECTOR OF POLICY ANALYSIS, WEAL

BEFORE THE TASK FORCE ON
SOCIAL SECURITY AND WOMEN OF THE
SELECT COMMITTEE ON AGING

UNITED STATES HOUSE OF REPRESENTATIVES
SEPTEMBER 22, 1983

805 15th Street NW, Suite 822, Washington, DC 20005 (202) 638-1961

WEAL
Women's Equity Action League

Specialists in Women's Economic Issues

TESTIMONY PRESENTED BEFORE

THE TASK FORCE ON SOCIAL SECURITY AND WOMEN

OF THE HOUSE SELECT COMMITTEE ON AGING

REPRESENTATIVE OAKAR, MEMBERS OF THE COMMITTEE, I AM PLEASED TO BE HERE TODAY REPRESENTING THE VIEWS OF THE WOMEN'S EQUITY ACTION LEAGUE (KNOWN AS WEAL.)

FOUNDED IN 1968, WEAL IS A NATIONAL NONPROFIT ORGANIZATION SPECIALIZING IN WOMEN'S ECONOMIC ISSUES THROUGH RESEARCH, EDUCATION PROJECTS, THE SUPPORT OF LITIGATION, AND LEGISLATIVE ADVOCACY. WE ARE WELL AWARE THAT IF IT WERE NOT FOR YOUR INTEREST IN SOCIAL SECURITY, YOUR COMMITMENT TO MAKE IT MORE RESPONSIVE TO THE CONCERNS OF WOMEN, AND YOUR PERSISTENCE IN BRINGING THESE CONCERNS TO THE ATTENTION OF THE PUBLIC AND YOUR COLLEAGUES, WE WOULD NOT BE FEELING THE SPARK OF OPTIMISM THAT WE ARE FEELING TODAY.

YOUR WORK HAS HELPED TO SHOW THAT SOCIAL SECURITY IS INDEED A WOMAN'S ISSUE. CLEARLY, MORE INDIVIDUALS NEED TO RECOGNIZE HOW IMPORTANT SOCIAL SECURITY IS TO WOMEN AND HOW PROFOUNDLY THE SYSTEM AFFECTS THEIR LIVES.

IN FACT, MOST PEOPLE THINK THAT THE TYPICAL SOCIAL SECURITY RECIPIENT IS AN ELDERLY MALE WITH SEVERAL RESOURCES OF RETIREMENT INCOME AND A FULL WORKLIFE OF AVERAGE OR HIGH EARNINGS BEHIND HIM. THE TRUTH IS

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THAT WOMEN AND CHILDREN ARE ALMOST TWO-THIRDS OF ALL SOCIAL SECURITY RECIPIENTS. (MEN COMPRISE THE REMAINING 35 PERCENT.) WOMEN ARE 60 PERCENT OF THE ELDERLY RECEIVING SOCIAL SECURITY.

DESPITE THE EXISTENCE OF SOCIAL SECURITY ELDERLY WOMEN REMAIN POOR

WOMEN RECEIVE SOCIAL SECURITY BENEFITS AS WORKERS, WIVES, AND SURVIVORS UNDER THE SOCIAL SECURITY SYSTEM. IN ALL THREE CATEGORIES, THEIR BENEFITS ARE VERY LOW. IN APRIL, 1982, THE AVERAGE MONTHLY BENEFIT FOR A RETIRED WOMAN WORKER WAS $355, AS COMPARED WITH $432 FOR MEN; SPOUSES AVERAGED $196, WHILE WIDOWS RECEIVED $351.[1] IN GENERAL WOMEN'S LOW SOCIAL SECURITY BENEFITS CAN BE ATTRIBUTED TO LOW WAGES RESULTING FROM A LIFETIME OF DISCRIMINATION IN EDUCATION AND EMPLOYMENT. TIME SPENT OUT OF THE PAID WORK FORCE BECUASE OF HOMEMAKING RESPONSIBILITIES, AND PROVISIONS THAT TREAT DIVORCED WOMEN AND ELDERLY WOMEN INADEQUATELY. ACTUARIAL REDUCTIONS FOR TAKING BENEFITS BEFORE THE AGE OF 65 ALSO PLAY A PART IN DECREASING WOMEN'S MONTHLY CHECKS.

AS LOW AS WOMEN'S BENEFITS ARE, THEY ARE OFTEN THE PRIMARY OR SOLE SOURCE OF INCOME. FOR MOST WOMEN, A HISTORY OF LOW OR NO EARNINGS WORKS AGAINST BUILDING A NEST EGG TO SUPPLEMENT MEAGER SOCIAL SECURITY BENEFITS. IN ADDITION, FEW WOMEN RECEIVE PENSIONS, EITHER AS WORKERS OR SURVIVORS--AND WHEN THEY DO THE AMOUNTS ARE SMALL. ONLY 10 PERCENT OF WOMEN AGED 65 AND OLDER RECEIVED BENEFITS FROM PRIVATE PENSION PLANS IN 1980, AS COMPARED WITH 27 PERCENT OF MEN OVER 65.[2] WOMEN RECEIVED A MEDIAN INCOME OF ONLY $1,400 FROM PRIVATE PENSION PLANS BASED ON EITHER THEIR OWN WORK EXPERIENCE OR AS SURVIVORS OF WORKING SPOUSES.[3] FOR MEN, THE MEDIAN INCOME WAS $3,000.[4] THE MEDIAN ANNUAL INCOME FOR ALL WOMEN OVER THE AGE OF 65 FROM ALL SOURCES (I.E. EARNINGS, INTEREST FROM ASSETS,

PENSIONS, AND SOCIAL SECURITY) WAS ONLY $4,757, AS COMPARED WITH $8,173 FOR MEN.[5]

IT IS NOT SURPRISING, THEN, THAT THE 1981 POVERTY RATE FOR ELDERLY WOMEN WAS HIGHER THAN FOR THE OVER-65 POPULATION IN GENERAL--18.6 PERCENT, AS COMPARED WITH 15.3 PERCENT.[6] IT IS ALSO NOT SURPRISING THAT THE LOSS OF A HUSBAND CAN SEND AN ELDERLY WOMAN MORE DEEPLY INTO POVERTY BECAUSE THE EVENT OFTEN SIGNALS THE END OF EARNINGS OR PENSIONS. ONLY 22 PERCENT OF ELDERLY WIDOWS RECEIVE RETIREMENT BENEFITS OTHER THAN SOCIAL SECURITY.[7] ONLY 14 PERCENT OF UNMARRIED ELDERLY WOMEN HAVE EARNINGS OF THEIR OWN, AND ONLY 28 PERCENT OF THOSE WITH EARNINGS WORK FULLTIME.[8] OF ALMOST 16 MILLION WOMEN OVER THE AGE OF 65, ONLY 6.1 MILLION (38 PERCENT) ARE MARRIED. 8.1 MILLION ARE WIDOWED, 900,600 WERE NEVER MARRIED, AND 695,200 ARE SEPARATED OR DIVORCED.[9] OF THESE 9.7 MILLION UNMARRIED WOMEN OVER THE AGE OF 65, ABOUT 6.7 MILLION (OR 42 PERCENT OF ALL WOMEN OVER THE AGE OF 65) LIVE ALONE OR WITH UNRELATED ADULTS.[10] (ELDERLY WOMEN, WHO HAVE AN 18-YEAR LIFE EXPECTANCY AT AGE 65, SELDOM REMARRY AND OFTEN REMAIN ALONE FOR THE REMAINDER OF THEIR LIVES.) IN 1981, OVER 2 MILLION OF THESE WOMEN WERE OFFICIALLY "POOR" (INCOME BELOW $4,359.)[11] (THEY COMPRISE 85 PERCENT OF ALL ELDERLY PEOPLE LIVING ALONE BELOW THE POVERTY LINE.)[12] USING 125 PERCENT OF THE POVERTY LEVEL (INCOME BELOW $5,449) THE FIGURE FOR ELDERLY WOMEN LIVING ALONE AT OR NEAR POVERTY SOARS FROM ABOUT 31 PERCENT TO OVER 50 PERCENT.[13] FOR MINORITY ELDERLY WOMEN LIVING ALONE, THE STATISTICS ARE SUBSTANTIALLY HIGHER. IT IS NOT SURPRISING, THEN, THAT WOMEN COMPRISE 73 PERCENT OF ELDERLY RECIPIENTS OF SUPPLEMENTAL SECURITY INCOME (SSI), A FORM OF INCOME ASSISTANCE FOR THE POOREST OF THE ELDERLY, DISABLED AND BLIND.[14]

WOMEN HAVE ALSO BEEN DISADVANTAGED BY CHANGES IN SOCIAL SECURITY IN THE 1981 BUDGET ACT. NOW A WIDOW (WHO IS NOT DISABLED) CANNOT RECEIVE BENEFITS BEFORE THE AGE OF 60 UNLESS SHE IS CARING FOR A CHILD UNDER AGE 16 (PREVIOUSLY IT WAS AGE 18). IN ADDITION, SOCIAL SECURITY DEPENDENTS BENEFITS TO CHILDREN OVER 18 OF RETIRED, DECEASED, AND DISABLED WORKERS ARE BEING GRADUALLY REDUCED, WITH TOTAL ELIMINATION PLANNED BY SEPTEMBER, 1985. NOW WIDOWED MOTHERS, MOST BETWEEN THE AGES OF 40 AND 60, WILL HAVE TO DIP INTO THEIR OWN RESOURCES TO EDUCATE THEIR COLLEGE-AGE CHILDREN. ESPECIALLY BURDENED WILL BE THE HIGH PROPORTION OF OLDER BLACK WOMEN WHO RAISE AND EDUCATE THEIR CHILDREN AND GRANDCHILDREN. PERHAPS THE MOST CONTROVERSIAL CHANGE WAS THE ELIMINATION OF THE MINIMUM SOCIAL SECURITY BENEFIT FOR FUTURE RECIPIENTS. THE ADMINISTRATION PORTRAYED THESE BENEFICIARIES AS "DOUBLE-DIPPING" RETIREES WITH HIGH GOVERNMENT PENSIONS. BUT THE OVERWHELMING MAJORITY ARE ELDERLY WOMEN, MOST OF WHOM HAVE EARNED LOW WAGES DURING THEIR WORK LIFE. NOW THESE WOMEN WILL RECEIVE SOCIAL SECURITY BENEFITS BASED SOLELY ON THEIR WAGE RECORD--NO MATTER HOW LOW, UNLESS THEY RECEIVE A HIGHER SPOUSE BENEFIT.

SEX DISCRIMINATION AND SOCIAL SECURITY

DOES THE SOCIAL SECURITY SYSTEM REALLY DISCRIMINATE AGAINST WOMEN? IN EFFECT, YES. SOCIAL SECURITY LAWS ARE THE SAME FOR BOTH SEXES, BUT WOMEN MORE THAN MEN ARE DISADVANTAGED UNDER THE SYSTEM. THIS IS TRUE FOR HOMEMAKERS AND FOR WOMEN WHO WORK FOR PAY. FOR EXAMPLE:

- A WORKER CAN RECEIVE A SOCIAL SECURITY RETIREMENT BENEFIT ONLY IF SHE WORKS FOR 40 QUARTERS (THE EQUIVALENT OF 10 YEARS) AND PAYS SOCIAL SECURITY TAXES. BECAUSE WOMEN'S EMPLOYMENT

PATTERNS AND HOMEMAKING RESPONSIBILITIES DIFFER FROM THOSE OF MEN, WOMEN MAY NOT MEET THE NUMBER OF YEARS IN COVERED EMPLOYMENT TO QUALIFY FOR BENEFIT AS A WORKER.

- A WOMAN WHO DOES QUALIFY FOR WORKER'S BENEFITS RECEIVES AN ADEQUATE OR SUBSTANTIAL BENEFIT ONLY IF SHE WORKS AT AVERAGE OR HIGH-PAYING JOBS FOR A FULL WORKLIFE, WITH FEWER THAN FIVE YEARS OUT OF THE WORKFORCE. BUT WOMEN CONTINUE TO RECEIVE SUBSTANTIALLY LOWER WAGES THAN MEN -- IN PART A RESULT OF DISCRIMINATION IN EDUCATION AND EMPLOYMENT. AND WOMEN, MORE THAN MEN, TAKE TIME OUT TO CARE FOR CHILDREN OR ELDERLY OR DISABLED DEPENDENTS. FOR EVERY YEAR OVER FIVE SPENT THIS WAY, A ZERO IS AVERAGED INTO A WOMAN'S WAGE RECORD, LOWERING HER BENEFIT FOR LIFE. MEN USUALLY DROP FIVE LOWEST EARNING YEARS WHILE WOMEN RARELY DO. THEY HAVE ALREADY USED UP THEIR FIVE DROP OUT YEARS FOR TIME SPENT IN DEPENDENT CARE -- THEIR ZERO EARNING YEARS.
- A WORKER IS ELIGIBLE FOR DISABILITY BENEFITS ONLY IF SHE WORKED FIVE OF THE PREVIOUS TEN YEARS AT THE ONSET OF DISABILITY. WOMEN OFTEN CANNOT PASS THIS "RECENCY OF WORK" TEST BECAUSE THEY ARE OUT OF THE LABOR FORCE FORCE FOR MORE THAN FIVE YEARS FOR HOMEMAKING RESPONSIBILITIES. WHEN THESE WOMEN REENTER THE LABOR FORCE, THEY MUST BEGIN ALL OVER AGAIN TO MEET THE FIVE YEAR REQUIREMENT. PROPOSALS TO TIGHTEN THE RECENCY OF WORK TEST WOULD FURTHER DISADVANTAGE WOMEN.
- DISABLED WIDOWS MUST MEET A TOUGHER TEST THAN DISABLED WORKERS TO QUALIFY FOR SOCIAL SECURITY DISABILITY BENEFITS. THE TEST

CONSIDERS MEDICAL FACTORS, BUT IGNORES AGE, EDUCATION AND WORK EXPERIENCE. DISABLED WORKERS WHO CANNOT WORK IN PAID EMPLOYMENT ARE ELIGIBLE FOR BENEFITS, BUT BENEFITS ARE PROVIDED TO WIDOWS ONLY IF THEY ARE UNABLE TO DO ANY PRODUCTIVE ACTIVITY. 98 PERCENT OF DISABLED WIDOW(ER) BENEFICIARIES ARE WOMEN. THE STRICTER DEFINITION OF DISABILITY FOR WIDOWS LEAVES MANY ELDERLY WOMEN UNABLE TO QUALIFY FOR DISABILITY BENEFITS.

ISSUES OF EQUITY AND ADEQUACY

THE PAST TWENTY YEARS HAVE BROUGHT INCREASING CONCERN ABOUT THE STATUS OF WOMEN UNDER SOCIAL SECURITY. WOMEN'S ORGANIZATIONS, POLICY MAKERS, INDEED WOMEN THEMSELVES, ARE RECOGNIZING THAT THE SYSTEM IS BECOMING LESS AND LESS APPROPRIATE FOR A SOCIETY WHICH HAS CHANGED QUITE DRASTICALLY SINCE THE SYSTEM BEGAN ITS DEVELOPMENT IN THE 1930'S. THE SYSTEM'S PURPOSE HAS BEEN TO PROVIDE WORKERS AND THEIR FAMILIES WITH INCOME ADEQUATELY ENOUGH TO REPLACE THE INCOME LOST THROUGH RETIREMENT, DISABILITY OR DEATH. ONE TYPE OF DERIVATIVE OR DEPENDENT BENEFIT WAS THE SPOUSE BENEFIT WHICH WAS TO SUPPORT THE WORKER AND SPOUSE IN A SOCIETY IN WHICH WORKERS WERE OVERWHELMINGLY MALE, IN WHICH MARRIAGES LASTED A LIFETIME, AND IN WHICH THE DIFFERENCE IN LIFE EXPECTANCY BETWEEN THE SEXES AT AGE 65 WAS SMALLER THAN TODAY. TODAY'S REALITY IS THAT WOMEN ARE 47 PERCENT OF THE WORKFORCE, THAT THE DIVORCE RATE IS 50 PERCENT, AND ELDERLY WOMEN SPEND MOST OF THEIR LATER YEARS WIDOWED AND LIVING ALONE, IT SEEMS CLEAR THAT THAT, DESPITE THE FACT THAT A SOCIAL SECURITY CHECK IS MADE OUT TO HER, THE WIFE'S BENEFIT WAS NOT VIEWED AS A VEHICLE TO

COMPENSATE A WOMAN FOR HER ECONOMIC CONTRIBUTION TO THE HOUSEHOLD OR MARRIAGE. ELSE WHY PROVIDE A BENEFIT EQUAL TO ONLY 1/3 OF THE COUPLE'S COMBINED AGE 65 BENEFIT? EXAMPLES OF ISSUES OF CONCERN TO WOMEN FOLLOW:

1. A WOMAN IS ENTITLED TO RECEIVE RETIREMENT BENEFITS ON EITHER HER HUSBAND'S WAGE RECORD (AS A SPOUSE) OR HER OWN. HER HUSBAND'S WORK RECORD CAN PROVIDE A BENEFIT UP TO 50 PERCENT OF HIS. IN MANY CASES A WOMAN'S WORK BENEFIT IS SO LOW THAT SHE RECEIVES THE HIGHER SPOUSE BENEFIT, AN AMOUNT NO GREATER THAN WHAT SHE WOULD HAVE RECEIVED ANYWAY -- WITHOUT WORKING OUTSIDE THE HOME AND CONTRIBUTING SOCIAL SECURITY TAXES (IF HER OWN WORKER BENEFIT <u>IS</u> GREATER THAN HER SPOUSE BENEFIT, IT IS OFTEN NOT GREATER BY MUCH, AS A RESULT OF LOW WAGES AND ZEROS AVERAGED IN FOR YEARS OUT OF THE WORKFORCE.) MORE AND MORE WOMEN RESENT PAYING SOCIAL SECURITY TAXES FOR 10 OR MORE YEARS ONLY TO RECEIVE THE SPOUSE BENEFIT OR A BIT MORE IN THEIR OWN WORKER BENEFIT. IT IS IMPORTANT TO NOTE THAT A 1982 STUDY BY THE SOCIAL SECURITY ADMINISTRATION DETERMINED THAT THE POTENTIAL RATE IS INCREASING FOR WIVES ENTITLED TO A WORKER BENEFIT TO RECEIVE A RETIREMENT BENEFIT NO GREATER THAN THE AMOUNT OF THEIR SPOUSE BENEFIT (DUAL ENTITLEMENT.)[15]
2. A ONE-EARNER COUPLE WITH THE SAME TOTAL LIFETIME AVERAGE EARNINGS AS A TWO-EARNER MAY RECEIVE A LARGER RETIREMENT CHECK. IN ADDITION, SURVIVORS OF SUCH TWO-EARNER COUPLES RECEIVE SUBSTANTIALLY LOWER BENEFITS. THIS OCCURS BECAUSE THE ONE-EARNER COUPLE RECEIVES AN ADDITIONAL SPOUSE BENEFIT OF 50 PERCENT.

(CONT. #2) SOCIAL SECURITY BENEFITS IN 1982

Earnings	One Earner Couple	Two Earner Couple
Husband	$1200	$600
Wife	0	$600
Retirement Benefits		
Husband	$517	$325
Wife	$259	$325
TOTAL	$776	$650
Survivor Benefits	$517	$325

(Source: Adapted from Jane Sherburne, "Women and Social Security: Seizing the Moment for Change." The Georgetown Law Review 70 (August 1982): 153-1604.)

3. MANY WIDOWED HOMEMAKERS ARE NOT ENTITLED TO RECEIVE BENEFITS WHEN THEIR HUSBANDS DIE. A WIDOW WILL RECIEVE BENEFITS ONLY IF SHE IS 60 YEARS OLD OR OLDER, OR DISABLED AND AT LEAST 50, OR IS CARING FOR CHILDREN UNDER 16 YEARS OF AGE. IF SHE RECEIVES HER BENEFITS BEFORE AGE 65, THEY ARE REDUCED FOR LIFE. WIDOWS (UNLESS DISABLED) ARE NOT ENTITLED TO SOCIAL SECURITY DURING THE "WIDOW'S GAP": THE PERIOD BETWEEN THE TIME HER LAST CHILD REACHES AGE 16 AND SHE REACHES AGE 60. THE LOSS OF INCOME DURING THIS PERIOD CREATES SEVERE HARDSHIPS FOR MANY WIDOWED HOMEMAKERS.
4. IF A HOMEMAKER BECOMES DISABLED OR DIES, HER FAMILY RECEIVES NO SOCIAL SECURITY BENEFIT SINCE HOMEMAKERS ARE UNPAID LABORERS AND NO TAXES ARE PAID INTO THE SYSTEM ON THEIR BEHALF. THE MONETARY VALUE OF HOMEMAKING AND CHILD CARE SERVICES -- WHICH ARE COSTLY TO REPLACE -- IS NOT RECOGNIZED UNDER THE SYSTEM.

5. A DIVORCED HOMEMAKER IS ELIGIBLE FOR A MAXIMUM OF 50 PERCENT OF HER EX-HUSBAND'S SOCIAL SECURITY BENEFIT, BUT ONLY IF HER MARRIAGE LASTED TEN YEARS OR MORE AND HER EX-HUSBAND HAS RETIRED. (THE 1983 SOCIAL SECURITY AMENDMENTS PROVIDE THAT BEGINNING IN 1985 A WOMAN AGE 62 AND OVER, DIVORCED FOR AT LEAST TWO YEARS, CAN COLLECT HER BENEFIT EVEN IF HER HUSBAND HAS NOT APPLIED FOR BENEFITS.) A SEPARATE PROBLEM EXISTS WHEN THE DIVORCED HOMEMAKER IS ELIGIBLE FOR THE SPOUSE BENEFIT BASED ON A TEN YEAR OR LONGER MARRIAGE BUT IS NOT ENTITLED TO A WORKER BENEFIT. SUCH WOMEN MUST SURVIVE ON A MEAGER WIFE'S BENEFIT WHICH WAS NEVER INTENDED TO MAINTAIN A SEPARATE HOUSEHOLD, BUT RATHER TO SUPPLEMENT A WORKER BENEFIT IN A MARRIAGE.

THE FOLLOWING SCENARIO ILLUSTRATES THE UNFAIRNESS OF THE CURRENT SOCIAL SECURITY SYSTEM TO A DIVORCED WOMAN WHO NEEDS TO COMBINE HOMEMAKING AND PAID WORK DURING HER LIFETIME: A WOMAN MARRIES AT AGE 22 AFTER 4 YEARS OF PAID WORK AND REMAINS AT HOME FOR 8 YEARS CARING FOR CHILDREN. SHE DIVORCES AT AGE 31 AFTER A 9 YEAR MARRIAGE. NOT HAVING WORKED LONG ENOUGH TO EARN ELIGIBILITY AS A WORKER YET, AND NOT HAVING BEEN MARRIED FOR 10 YEARS, SHE FINDS HERSELF WITH TWO PRE-SCHOOLERS, NO MARKETABLE SKILLS OR RECENT WORK EXPERIENCE AND NOT ONE CENT -- EITHER AS A SPOUSE OR AS A WORKER -- GUARANTEED TOWARD HER SOCIAL SECURITY RETIREMENT BENEFIT. YET SHE PERFORMED UNPAID HOMEMAKING SERVICES FOR 8 YEARS, FREEING HER HUSBAND TO WORK IN PAID EMPLOYMENT, TO CONTRIBUTE TO THE SYSTEM AND TO BE FULLY CREDITED FOR HIMSELF TO THAT SYSTEM.

NOW ASSUME THAT THE SAME WOMAN IS SUCCESSFUL IN FINDING CHILD-CARE AND RE-ENTERING THE WORKFORCE SO SHE CAN BUILD UP A SOCIAL SECURITY RECORD AS A WORKER. SHE ALREADY HAS 3 ZEROS ON HER EARNING RECORD AND WILL NOT BE ABLE TO DROP HER 5 LOWEST EARNING YEARS BECAUSE SHE ALREADY DROPPED 5 OF HER NO EARNINGS YEARS. IN ADDITION, BECAUSE OF HER NEW STATUS AS A COVERED WORKER UNDER SOCIAL SECURITY, SHE IS NEITHER INSURED FOR DISABILITY NOR FOR SURVIVOR BENEFITS FOR HER CHILDREN UNTIL SHE WORKS FOR THE NUMBER OF YEARS REQUIRED FOR ELIGIBILITY.*

SOLUTIONS TO PROBLEMS OF WOMEN UNDER THE SOCIAL SECURITY SYSTEM

THE PROBLEMS REGARDING THE STATUS OF WOMEN UNDER SOCIAL SECURITY REQUIRE SOLUTIONS THAT WOULD NOT ONLY EXPAND ELIGIBILITY AND IMPROVE BENEFIT LEVELS FOR CERTAIN CATEGORIES OF WOMEN BUT WOULD ALSO INCREASE FAIRNESS BETWEEN ONE AND TWO-EARNER COUPLES AND CERTAIN CATEGORIES OF INDIVIDUALS.

IN WEAL'S VIEW PREFERRED PROPOSALS FOR CHANGE WOULD BE THOSE WHICH RECOGNIZE THE ECONOMIC VALUE OF DEPENDENT CARE AND HOMEMAKING TO A MARRIAGE AND PROVIDE EACH INDIVIDUAL WITH AN INDEPENDENT "PORTABLE" EARNINGS RECORD. FOR THE FUTURE, THAT IS FOR PEOPLE RETIRING AROUND THE TURN OF THE CENTURY, WE SUPPORT THE CONCEPT OF MARRIAGE AS A PARTNERSHIP OF EQUALS, I.E. EARNINGS-SHARING, BUT WE ALSO URGE ADOPTION OF PROPOSALS THAT COULD HELP ELDERLY WOMEN WHO WILL BE RECEIVING BENEFITS BEFORE A "PARTNERSHIP" NOTION COULD BE FULLY IMPLEMENTED

*For disability coverage, the requirement is 20 quarters out of 40 calendar quarters at the onset of disability, for survivor benefits for her children, six quarters during the 13 quarter period immediately preceding her death.

IN GENERAL, WE URGE CAUTION ABOUT PROPOSALS THAT ARE WITHOUT ADEQUATE TRANSITION PERIODS. WITHOUT SUCH PERIODS, PEOPLE'S PLANS AND EXPECTATIONS CAN BE SERIOUSLY DISRUPTED. ALSO, WE WOULD BE AGAINST PROPOSALS WHICH COULD RESULT IN REDUCED BENEFITS FOR PEOPLE WHO ALREADY HAVE LOW BENEFITS UNDER THE CURRENT SYSTEM.

IN ADDITION, ANY PROPOSALS, ESPECIALLY FAR-REACHING ONES, SHOULD BE EXAMINED AS TO THEIR IMPACT ON VARIOUS CATEGORIES OF BENEFICIARIES. FACTORS THAT SHOULD BE ANALYZED INCLUDE SEX, AGE, RACE, MARITAL STATUS, CURRENT BENEFIT LEVEL, AND OTHER SOURCES OF INCOME.

THE 1979 ADVISORY COUNCIL ON SOCIAL SECURITY[16] SPENT A GOOD PROPORTION OF ITS DELIBERATIONS DISCUSSING SOCIAL SECURITY AND WOMEN. I WOULD BRIEFLY LIKE TO REVIEW SOME OF THE COUNCIL'S CONCLUSIONS ABOUT PROPOSALS WHICH HAVE CONTINUED TO BE DISCUSSED AS POLICY OPTIONS.

HOMEMAKER CREDITS

THE COUNCIL EXPLORED BUT REJECTED A PLAN TO PROVIDE HOMEMAKERS CREDITS FOR YEARS SPENT IN THE HOME. BENEFITS BASED ON THESE CREDITS WOULD HAVE REPLACED CURRENT SPOUSE AND/OR SURVIVOR BENEFITS. ALTHOUGH THERE WERE DEFINITE ADVANTAGES TO THIS PROPOSAL INCLUDING DISABILITY FOR HOMEMAKERS, THE COUNCIL FELT THAT ELIGIBILITY CRITERIA FOR HOMEMAKER CREDITS WOULD BE TOO DIFFICULT TO DEVISE. IN ADDITION, FINANCING THE PLAN WAS VIEWED AS A BARRIER. NEITHER GENERAL REVENUES NOR INCREASED TAXES FROM ONE-EARNER COUPLES WERE ACCEPTABLE. THE COUNCIL CONCLUDED THAT IF THE CREDITS WERE USED TO REPLACE THE AGED WIDOW'S BENEFITS, WIDOWS WOULD RECEIVE MUCH LOWER BENEFITS THAN THEY RECEIVE NOW.

CHILDCARE DROPOUT YEARS

THE COUNCIL CONSIDERED BUT DID NOT RECOMMEND, BECAUSE IT WAS NOT COST EFFECTIVE, A PLAN TO ALLOW PERSONS CARING FOR YOUNG CHILDREN ADDI-

TIONAL DROP-OUT YEARS (CURRENTLY 5). SUCH A PROPOSAL WOULD HAVE IMPROVED THE BENEFIT LEVELS OF CERTAIN CATEGORIES OF WOMEN. A VARIETY OF PROPOSALS RANGED IN COST FROM 0.1 PERCENT TO 0.5 PERCENT OF TAXABLE PAYROLL DEPENDING ON THE NUMBER OF ADDITIONAL DROPOUT YEARS AND FACTORS RELATING TO EARNINGS AND PERIODS OF EMPLOYMENT. A NARROW MAJORITY OF THE COUNCIL FELT THIS PROPOSAL SHOULD BE RECONSIDERED WHEN THE SYSTEM WAS IN A BETTER FINANCIAL POSITION. WEAL URGES CONSIDERATION OF ADDITIONAL DEPENDENT CARE DROPOUT YEARS TO DETERMINE HOW SUCH A PLAN MIGHT BE COORDINATED WITH OTHER MORE COMPREHENSIVE PLANS, SUCH AS EARNINGS-SHARING.

ANOTHER PROPOSAL DESERVING OF CAREFUL REVIEW EITHER BY ITSELF OR IN COORDINATION WITH EARNINGS-SHARING IS ONE RECOMMENDED BY THE NATIONAL COMMISSION ON SOCIAL SECURITY.[17] A SIMILAR PROPOSAL CAN BE FOUND IN REP. OAKAR'S COMPREHENSIVE PACKAGE OF BILLS INTRODUCED IN THE 98th CONGRESS.

THE PROPOSAL WOULD MODIFY THE SPCIAL MINIMUM BENEFIT NOW AWARDED TO LONG-TERM, LOW-WAGE WORKERS TO 1) ALLOW CREDIT FOR UP TO 10 CHILD-CARE YEARS AND 2) INCREASE THE NUMBER OF YEARS COUNTED TOWARD THE SPECIAL MINIMUM BENEFIT FROM 30 TO 35 YEARS. THE PROPOSAL WOULD RAISE BENEFITS FOR WOMEN WHO WORKED MANY YEARS FOR LOW WAGES AND HAVE HAD GAPS FOR CHILDCARE RESPONSIBILITIES. IT WOULD ENABLE INDIVIDUALS WITH FULL WORKLIVES OF 34 OR MORE YEARS (INCLUDING THE 10 CHILDCARE YEARS) TO RECEIVE BENEFITS THAT MEET THE POVERTY THRESHOLD. ACCORDING TO THE COMMISSION, THIS CHANGE COULD INCREASE BENEFITS FOR ABOUT 20 PERCENT OF RETIRED WOMEN AND 5 PERCENT OF RETIRED MEN. THE WOMEN HELPED BY THIS PLAN WOULD MOST LIKELY BE DIVORCED WOMEN AND MARRIED

WOMEN WHO HAD COMBINED PERIODS OF HOMEMAKING WITH LONGTERM, LOW-WAGE PAID EMPLOYMENT. (EVEN MORE WOMEN COULD BE HELPED IF THE EARNINGS REQUIREMENT FOR ELIGIBILITY FOR THE SPECIAL MINIMUM BENEFIT WERE LOWERED.) THE NATIONAL COMMISSION ESTIMATED THE LONG-RANGE AVERAGE COST OF THE CHILDCARE SPECIAL MINIMUM BENEFIT TO BE 14 PERCENT OF TAXABLE PAYROLL. (A FULL DISCUSSION OF THIS PROPOSAL IS FOUND ON P. 233 OF THE COMMISION'S REPORT.)

TWO OTHER PLANS ALSO HAVE DISCUSSED. ONE WOULD INCREASE BENEFITS TO ALL WORKERS AND DECREASE THE DEPENDENT SPOUSE BENEFIT. THE OTHER WOULD INCREASE BENEFITS TO WORKING SPOUSES.

THE FIRST PROPOSAL WOULD RESULT IN LESS DUPLICATION FOR WOMEN WHO PAY SOCIAL SECURITY TAXES AND WOULD INCREASE BENEFITS FOR TWO EARNER COUPLES, SINGLE WORKERS, AND WIDOWS. BUT IT WOULD REDUCE BENEFITS FOR DIVORCED HOMEMAKERS, RETAIN THE CONCEPT OF DEPENDENCY, AND IN ADDITION, WOULD COST AS MUCH AS 1.5 PERCENT OF TAXABLE PAYROLL. THE SECOND PROPOSAL WOULD PAY A LESSER EARNING SPOUSE ELIGIBLE FOR BENEFITS BOTH AS A WORKER AND A SPOUSE A BENEFIT EQUAL TO 100 PERCENT OF THE HIGHER BENEFIT PLUS 25 PERCENT OF THE LOWER BENEFIT. WHILE THIS PLAN WOULD INCREASE BENEFITS FOR ALL LOWER EARNING SPOUSES, EX-SPOUSES AND WIDOWS, IT WOULD WORSEN OTHER DISPARITIES AND DO NOTHING TO IMPROVE THE SITUATION OF DISABLED HOMEMAKERS. THIS PLAN TOO WOULD CONTINUE THE NOTION OF DEPENDENCY-BASED BENEFITS AND WOULD HAVE AN AVERAGE LONG-RANGE COST OF ABOUT .7 PERCENT OF PAYROLL.

THE PROPOSAL CONSIDERED BY THE 1979 ADVISORY COUNCIL AS "THE MOST PROMISING APPROACH" FOR THE TREATMENT OF WOMEN UNDER SOCIAL SECURITY WAS EARNINGS SHARING. THE PRESIDENT'S COMMISSION ON PENSION POLICY AND THE DEPARTMENT OF JUSTICE TASK FORCE ON SEX DISCRIMINATION ALSO SINGLED OUT

EARNINGS SHARING AS THE OPTION WITH THE BEST POTENTIAL FOR REFORM OF THE SYSTEM. THE 1981 REPORT OF THE NATIONAL COMMISSION ON SOCIAL SECURITY, HOWEVER, DID NOT ADOPT THE 1979 ADVISORY'S RECOMMENDATION FOR A MODIFIED EARNINGS-SHARING PLAN. THE COMMISSION HELD THAT THE PLAN REDUCED BENEFITS FOR SOME INDIVIDUALS WHILE RAISING BENEFITS FOR OTHERS AND, IN ADDITION, WOULD NOT HELP ELDERLY WOMEN DIVORCED BEFORE THE PLAN'S IMPLEMENTATION. LAST, THE COMMISSION FELT IT WOULD COST TOO MUCH TO GUARANTEE WIDOW'S BENEFITS AT LEAST AS LARGE AS UNDER CURRENT LAW.

AS RECENTLY AS 1983, EARNINGS SHARING WAS ONCE AGAIN SINGLED OUT AS A PROMISING APPROACH TO THE CONCERNS OF WOMEN UNDER THE SOCIAL SECURITY SYSTEM -- FIRST IN THE MINORITY REPORT OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM AND SOON AFTER BY THE 1983 SOCIAL SECURITY AMENDMENTS. THE NEW LAW MANDATED THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) TO DEVELOP PLANS ON THE IMPLEMENTATION,IMPACT AND COSTS OF VARIOUS EARNINGS SHARING PROPOSALS AND REPORT BACK TO CONGRESS BY JULY 1984.

EARNINGS SHARING

EARNINGS SHARING IS A SYSTEM WHICH VIEWS MARRIAGE AS AN ECONOMIC PARTNERSHIP AND BASES SOCIAL SECURITY BENEFITS ON EARNINGS RECORDS SHARED EQUALLY BETWEEN SPOUSES FOR EACH YEAR OF THEIR MARRIAGE. THE SOCIAL SECURITY RETIREMENT BENEFIT WOULD BE BASED ON AN INDIVIDUAL'S EARNINGS BEFORE AND AFTER THE MARRIAGE PLUS HALF OF THE SHARED EARNINGS DURING THE MARRIAGE. EACH PERSON, HUSBAND AND WIFE, WOULD HAVE AN INDIVIDUAL EARNINGS RECORD AS A "WORKER" -- EVEN IF SOME OR ALL OF THE WORK WAS UNPAID HOMEMAKING. FOR EXAMPLE TWO PARTNERS IN A ONE EARNER COUPLE

WITH EARNINGS OF $500 WOULD EACH BE CREDITED WITH $250 IN EARNINGS. SIMILARLY, THE PARTNERS IN A TWO EARNER COUPLE WOULD SHARE EQUALLY THE SUM OF THEIR MONTHLY EARNINGS. HALF WOULD BE CREDITED TO THE SOCIAL SECURITY WAGE RECORD OF EACH. IN THIS WAY, UNPAID WORK IN THE HOME AND PAID WORK OUTSIDE THE HOME ARE VALUED EQUALLY WITHIN THE ECONOMIC UNIT. AT SPECIFIED EVENTS, SUCH AS RETIREMENT, DIVORCE, OR DISABILITY, BENEFITS WOULD BE BASED ON SHARED EARNINGS. UPON THE DEATH OF A SPOUSE, THE SURVIVING INDIVIDUAL COULD INHERIT THE EARNINGS CREDITS OF THE DECEASED SPOUSE. CLEARLY, EARNINGS-SHARING WOULD WORK BEST IF IT WERE ACCOMPANIED BY EQUAL PAY BETWEEN THE SEXES, THE ELIMINATION OF JOB SEGREGATION AND THE AVAILABILITY OF GOOD AFFORDABLE CARE FOR CHILDREN AND DEPENDENT ELDERLY.

WHILE ALL EARNINGS-SHARING MODELS TREAT MARRIAGE AS A PARTNERSHIP OF EQUALS, THEY MAY DIFFER IN WAYS INCLUDING BUT NOT LIMITED TO THE FOLLOWING:

- WHETHER SHARING IS MANDATORY OR VOLUNTARY
- WHEN AND HOW SHARING SHOULD TAKE PLACE
- THE TREATMENT OF ELDERLY AND OTHER WIDOW(ER)S
- THE TREATMENT OF DISABLED INDIVIDUALS
- THE TREATMENT OF CHILDREN OF RETIRED, DISABLED OR DECEASED INDIVIDUALS
- THE LENGTH OF THE TRANSITION PERIOD BETWEEN THE CURRENT SYSTEM AND EARNINGS-SHARING
- THE COST SAVINGS OR ADDITIONAL COST TO THE SYSTEM

(FOR BRIEF DESCRIPTIONS OF TYPES OF EARNINGS SHARING MODELS, SEE P. H 7 AND H 8, <u>FINAL REPORT OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM, JANUARY 1983.</u>)

EXAMPLES FOLLOW OF HOW EARNINGS SHARING CAN PROVIDE SOLUTIONS TO PROBLEMS IN THE CURRENT SYSTEM.

- CURRENT LAW: A WOMAN IS PENALIZED FOR YEARS SPENT AT HOME IN CHILDREARING AND HOMEMAKING RESPONSIBILITIES BY RECEIVING ZEROS ON HER EARNINGS RECORD FOR EVERY YEAR AFTER FIVE SHE IS OUT OF THE WORKFORCE. IF 10 YEARS OF EARNINGS ARE NOT ACCUMULATED, A WOMAN IS NOT ENTITLED TO A SOCIAL SECURITY BENEFIT BASED ON HER OWN EARNINGS.

  EARNINGS SHARING: A MARRIED WOMAN WHO LEAVES THE LABOR FORCE FOR HOMEMAKING WILL CONTINUE TO RECEIVE EARNINGS CREDITS FROM HER HUSBAND's INCOME. UPON REENTERING THE LABOR FORCE, THE WOMAN'S EARNINGS ARE ADDED TO THE COUPLE'S TOTAL INCOME, PROVIDING HER WITH PORTABLE SOCIAL SECURITY PROTECTION BETWEEN LABOR MARKET WORK AND UNPAID WORK. THE ROLE OF THE HOMEMAKER IS RECOGNIZED AS A VALUABLE ECONOMIC ASSET TO SOCIETY.

- CURRENT LAW: HOMEMAKERS ARE NOT ENTITLED TO DISABILITY BENEFITS IF THEY HAVE NOT PARTICIPATED IN THE LABOR MARKET FOR 5 OUT OF THE PREVIOUS 10 YEARS TO THEIR DISABILITY EVEN THOUGH THEIR DISABILITY RESULTS IN ECONOMIC HARDSHIP FOR HER FAMILY.

  EARNINGS SHARING: EACH INDIVIDUAL HAS HIS/HER OWN WAGE RECORD REGARDLESS OF PARTICIPATION IN THE LABOR MARKET. FULL-TIME HOMEMAKERS COULD BE ELIGIBLE FOR DISABILITY BENEFITS BASED ON SHARED CREDITS.

- CURRENT LAW: SOCIAL SECURITY BENEFITS ARE INADEQUATE FOR DIVORCED WOMEN -- AVERAGING $192/ MONTH IN 1982. THESE BENEFITS WERE INTENDED TO SUPPLEMENT A HUSBAND'S BENEFIT AND ARE TOO MEAGER TO MAINTAIN A SEPARATE HOUSEHOLD. IN ADDITION, A MARRIAGE MUST LAW 10 YEARS FOR A SPOUSE TO BE ELIGIBLE FOR HER SPOUSE BENEFITS.

  EARNINGS SHARING: A DIVORCED SPOUSE WOULD BE ENTITLED TO HALF THE EARNINGS CREDITS DURING A MARRIAGE, THUS PROVIDING THE DIVORCED WIFE WITH AN EARNINGS RECORD THAT SHE CAN BUILD ON AFTER THE DIVORCE WITH HER OWN LABOR MARKET WORK. THE 10 YEAR MARRIAGE REQUIREMENT WOULD BE ELIMINATED.

- CURRENT LAW: ELDERLY WIDOWS RECEIVE VERY LOW SOCIAL SECURITY BENEFITS -- AVERAGING $351 IN 1982.

  EARNINGS SHARING: WIDOWS WOULD INHERIT THE TOTAL EARNINGS CREDITS ACCUMULATED BY THE COUPLE DURING THEIR MARRIAGE, THEREBY PROVIDING A HIGHER SOCIAL SECURITY BENEFIT (IN MOST CASES) AND MORE FINANCIAL STABILITY IN LATER YEARS.

- CURRENT LAW: FAMILIES OF DECEASED WOMEN ARE NOT ELIGIBLE FOR BENEFITS UNDER THE PRESENT SYSTEM IF THE WOMAN HAS NOT PARTICIPATED IN THE LABOR FORCE LONG ENOUGH TO QUALIFY FOR BENEFITS.

  EARNINGS SHARING: A DECEASED WOMAN'S FAMILY COULD RECEIVE BENEFITS BASED ON HER EARNINGS CREDITS ACCUMULATED DURING HER MARRIAGE.

- CURRENT LAW: A TWO EARNER COUPLE MAY RECEIVE LOWER MONTHLY RETIREMENT BENEFITS THAN A ONE EARNER COUPLE WITH THE SAME TOTAL EARNINGS.

EARNINGS SHARING: THE TOTAL INCOME OF A COUPLE IS COMPUTED FOR EACH SPOUSE'S SOCIAL SECURITY BENEFITS BASED ON ½ THE TOTAL INCOME, REGARDLESS OF WHETHER THE COUPLE HAS ONE OR TWO EARNERS. A TWO EARNER COUPLE MAY ACTUALLY RECEIVE HIGHER BENEFITS DUE TO THE WEIGHTED BENEFIT FORMULA.

- CURRENT LAW: A WOMAN IS OFTEN ENTITLED TO A HIGHER BENEFIT AS A SPOUSE THAN AS A WORKER. HER SPOUSE BENEFIT MAY BE NO GREATER THAN THE BENEFIT SHE WOULD HAVE RECEIVED HAD SHE NEVER WORKED OUTSIDE THE HOME AND NEVER PAID SOCIAL SECURITY TAXES. A WOMAN WORKER HAS TO EARN OVER ONE-THIRD OF THE COUPLE'S TOTAL EARNINGS FOR HER WORKER BENEFIT TO EXCEED HER SPOUSE BENEFIT.

  EARNINGS SHARING: A WOMAN IS ENTITLED TO BENEFITS BASED ON HALF THE TOTAL EARNINGS DURING A MARRIAGE REGARDLESS OF HER STATUS IN THE WORKFORCE. THE CONCEPT OF A "SPOUSE BENEFIT" IS ELIMINATED.

- CURRENT LAW: THE PRESENT SOCIAL SECURITY SYSTEM INCORPORATES THE NOTION OF "DEPENDENCY" FOR SPOUSES BECAUSE THEIR BENEFIT IS OFTEN CALCULATED BASED ON THEIR HUSBAND'S WAGE RECORD AND NOT THEIR OWN.

  EARNINGS SHARING: THE NOTION OF DEPENDENCY IS ELIMINATED BY EARNINGS SHARING PLANS BECAUSE MARRIAGE IS CONSIDERED AN ECONOMIC PARTNERSHIP AND EACH PARTNER'S CONTRIBUTION TO THAT MARRIAGE IS VALUED.

AS WEAL'S REPRESENTATIVE TO THE TECHNICAL COMMITTEE, A GROUP OF INDIVIDUALS WHICH HAS BEEN WORKING WITH THE URBAN INSTITUTE TO DEVELOP AN EARNINGS SHARING MODEL AND SIMULATE ITS EFFECTS,

I CAN ATTEST TO THE COMPLEXITY OF THE ISSUE AND THE DEGREE OF EXPERTISE, TIME, AND PERSERVERANCE THIS PROJECT HAS REQUIRED. THE COMMITTEE HAS BEGUN TO RESOLVE SOME HARD QUESTIONS AND HAS OFTEN RAISED TWO OR THREE QUESTIONS FOR EVERY ONE RESOLVED. OUR MEETINGS HAVE BEEN ATTENDED BY ADVOCATES AS WELL AS TECHNICAL EXPERTS, INCLUDING EXPERTS FROM THE DEPARTMENT OF HEALTH AND HUMAN SERVICES, WHICH, AS I MENTIONED EARLIER, HAS BEEN MANDATED TO ADDRESS THE ISSUE OF EARNINGS SHARING.

AT THIS TIME, THAT IS BEFORE THE RESULTS OF THE TECHNICAL COMMITTEE AND HHS ARE MADE PUBLIC, WEAL IS NOT SUPPORTING A SPECIFIC EARNINGS SHARING PLAN, BUT WE WOULD LIKE TO LIST SOME FEATURES WHICH WE CONSIDER IMPORTANT TO A GOOD PLAN.

- EARNINGS SHARING SHOULD BE MANDATORY
- THE TRANSITION PERIOD SHOULD BE ADEQUATE TO INSURE THAT PLANS AND EXPECTATIONS ARE NOT DISRUPTED
- THERE SHOULD BE NO MINIMUM NUMBER OF YEARS OF MARRIAGE REQUIRED FOR EARNINGS SHARING AT DIVORCE
- INHERITANCE OF EARNINGS CREDITS FOR SURVIVORS SHOULD BE 100 PERCENT OF COMBINED EARNINGS DURING A MARRIAGE
- DISABLED INDIVIDUALS SHOULD BE ELIGIBLE FOR BENEFITS AT ANY AGE
- IF TRANSITIONAL BENEFITS FOR WIDOWS ARE PART OF A PLAN, THEY SHOULD BE PROVIDED FOR A PERIOD LONG ENOUGH TO HELP A WIDOW PRE-PARE FOR EMPLOYMENT, E.G. 2 YEARS

WEAL WOULD WELCOME THE OPPORTUNITY TO TESTIFY AGAIN ON EARNINGS SHARING WHEN BOTH THE TECHNICAL COMMITTEE AND HHS HAVE COMPLETED THEIR WORK. AT THAT TIME WE WILL BE ABLE TO POINT TO THE DATA AND DOCUMENT OUR POSITION ON THE ADVANTAGES AND DISADVANTAGES OF SPECIFIC EARNINGS

FOOTNOTES

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STATEMENT OF THE OLDER WOMEN'S LEAGUE

before the

TASK FORCE ON SOCIAL SECURITY AND WOMEN

of the

HOUSE SELECT COMMITTEE ON AGING

September 22, 1983

Madam Chair, members of the Task Force on Women and Social Security, good morning. I am Alice Quinlan, Government Relations Director of the Older Women's League. We appreciate this opportunity to share our views on women and Social Security, since it is an issue of such critical importance to our members. The Older Women's League was formed following the White House Mini-Conference on Older Women in 1980, and now has more than 7,000 members and chartered chapters in 30 states. Through education, research and advocacy, we work for changes in public policy to eliminate the inequities women face in their later years.

Of all the issues women face in their retirement years--- among them health, housing, widowhood and long-term health care needs --- none is more critically important than retirement income. Although income security in old age is theoretically sustained by Social Security, pensions and savings, women depend primarily on Social Security, and as a last resort, Supplemental Security Income.

Social Security is this country's most important social program. It has served as a family support system, insuring against the loss of income through the death or disability of wage earners, and it has significantly reduced poverty among the elderly.

But "the elderly" are not a homogeneous group. Some are well off, and others are poor; some enjoy excellent health, while others suffer from multiple problems that force early retirement; some live with spouses, while others live alone or with other family members. One demographic factor provides important insights into the life circumstances of the elderly, however, and that factor is gender. On the whole, men and women in the U.S. experience aging very differently. The most important differences--in longevity, income, and marital status--have an important relationship to Social Security.

As of July 1982, there were 26.8 million persons in the United States who were age 65 or over, including about 10.8 million men and 16 million women. Thus women make up the majority (60%) of those over 65. Because of differences in longevity, women outnumber men two to one in the older age categories. There is no significant difference between the proportions of men and women over age 65 who are divorced, separated, or never married, but there are profound differences among the widowed and married. While about three-fourths of all men over age 65 are married and living with a spouse, only a little more than a third of older women are in similar circumstances. Men are twice as likely to be married as women are, while women are four times more likely to be widowed. (In 1981, 85% of all surviving spouses over age 65 were women). The result in absolute numbers means many more older women than men live alone. In 1981, about 7.5 million elderly lived alone, of whom 6 million (80%) were women.

It is important to keep this demographic information in mind when examining data about income and poverty among the elderly. At any adult age, there are dramatic differences between the incomes of men and women. For those over age 65, the median total money income in 1981 was $8173 for men and $4757 for women. (Thus women have median annual incomes within $400 of the poverty level for a person living alone--$4359). When data on income and poverty is shown by race/ Spanish origin, the special vulnerability of older minority women is very evident. Black women are five times more likely to live in poverty in old age than white men are. And overall, women make up a disproportionate (73%) share of the aged poor

These figures have been noted to point out how critically important Social Security is to women. In old age, women are likely to end up alone, and near or in poverty. Yet they must stretch lower incomes over a longer lifetime than men. No wonder that women's advocates and older women themselves ask why there are such differences in the incomes of men and women when they reach their later years, and why most old poor people are women. No wonder Social Security has come under our scrutiny, along with other issues directly or indirectly related to retirement income: public and private pension policy, the combined impact of age and sex discrimination in the workplace, the economic consequences of divorce for women, the devaluing of women's work, pay equity and comparable worth, and an array of related topics. Our concerns have a clear bottom line: improving the economic status of women.

Social Security is a lifeline for women. The majority of older women alone, for example, have no other source of significant income; less than 20% of all older women currently receive any pension benefits, whether as spouses or as vested employees. But Social Security, like the private pension system, can and must be improved to take into account the differing life experiences of men and women, and the social changes that have occurred since the system was established in the 1930's. At that time, Social Security was based on an earnings replacement concept that put men in the role of sole breadwinner, and most women in the role of their "non-working," non-earning dependents. The system worked best for single-earner couples in life-long marriages in which the wife did not outlive the husband by many years.

If most families fit those criteria in the past, they certainly don't today. Half of all adult women are in the paid labor force, more than one in three marriages today end in divorce, and women increasingly live longer and outlive men. The results for women are inequities and inadequacies that often add up to a retirement income crisis. Aged widows have inadequately low benefits, women in two-earner couples realize little increase in retirement benefits from their Social Security taxes, and divorced homemakers are frequently left in precarious financial circumstances.

For at least ten years, ideas have been put forward on how to modify the Social Security system to take into account the current roles of men and women in our society. It is interesting to note that the very first published report of the then-new House Select Committee on Aging in 1975, entitled "Income Security for Older Women: Path to Equality," resulted in part from hearings on "Social Security Inequities Against Women," and addressed such problems as the widow's gap, the need for individually-maintained Social Security earnings records for homemakers, and the benefit inequities between one and two earner couples.

Reports and hearings, Commissions and Councils have examined these and related problems over the years. In 1977, the Congressional Research Service could describe as "perennial" certain proposals it believed would be "reintroduced into this and future sessions of Congress ("Social Security: Some Perennial

Legislative Issues", 77-81 ED). Among those discussed were OASDI coverage for homemakers, combined earnings options for couples, elimination of differential treatment based on sex, reduction in duration of marriage requirements for divorced spouses, lowering the age at which benefits are payable to widows, and elimination of the recency of work requirement for disability insurance benefits.

"Earnings sharing" is one of the ideas that has evolved as a promising means of restructuring Social Security to address the problems women face. Earnings sharing refers to proposals that for Social Security benefit purposes, the earnings of a couple be divided equally between them during their marriage. Under the current system, workers are treated as individuals for the purpose of building an earnings record, but are seen as part of a family unit with "dependents" for the purpose of paying benefits. Earnings sharing would treat the family as a unit in both the building of eligibility records and in the payment of benefits under Social Security. Earnings sharing would treat marriage as an economic partnership to which both members of a couple contribute, whether in the paid labor force or caring for family members. It would substitute a more realistic model of marriage for the outmoded worker-dependent model now used.

How would earnings sharing work? Throughout their married life, the earnings of a couple would be pooled, with equal shares credited to the Social Security records of each spouse. This would have several important results.

- Since the married couple would be treated as an economic unit, a full-time homemaker would accumulate Social Security credits for the time she spends in child rearing and caring for family members. Under the present system, the five years of lowest or no earnings are dropped before a worker's retirement benefits are calculated. But many women spend more than five years out of the paid labor force, and their unpaid labor in the home counts for nothing under Social Security.

Under earnings sharing, should the marriage end in divorce, the homemaker would have half of the couple's Social Security credits accumulated during the period of their marriage.

- By combining and then equally dividing the earnings of both members of a two-earner couple, women in the paid labor force will get a more equitable retirement benefit return on their contributions to Social Security. Millions of women are entitled to collect benefits either as dependent spouses or on their own employment record, in effect, whichever is greater. Because of occupational segregation, pay inequities, and differences in employment patterns, many women collect higher benefits as dependents, which means they receive no greater retirement benefits than if they had not been in the paid labor force. (They do have disability and survivor benefit coverage, family protections that homemakers do not have).

Earnings sharing might be implemented in a number of ways, with different effects on sub-groups of Social Security recipients, such as survivors, dependent children, widowed and divorced persons, retired couples, longtime homemakers. The impact of earnings sharing on current or future beneficiaries would depend on a number of questions, such as these:

- o When will earnings sharing begin to take effect?
- o What kind of phase-in and transitions will be provided?
- o Will earnings sharing be optional or mandatory?
- o Will credits be shared only upon divorce? Will credits be inherited by one spouse upon the death of the other?
- o How will survivor and homemaker disability benefits be handled?
- o Will the benefits of some be increased by reducing the benefits of others?

Earnings sharing is not a new idea. Legislation calling for earnings sharing under Social Security was first introduced by former Congressman Donald Fraser (D-Minn.) in 1975. Since that time, a variety of governmental and private groups have studied and reported on the idea, and bills are regularly introduced. We are grateful to you, Congresswoman Oakar, for your continued interest and support, both in the legislation you have sponsored, and in the attention directed to this issue by the Task Force on Social Security and Women.

As members of this body know, the Social Security Amendments of 1983 mandate the development of plans to implement earnings sharing. The Secretary of Health and Human Services, in consultation with the Senate Finance and the House Ways and Means Committees, is to complete its report on earnings sharing by July, 1984. The following month, the Congressional Budget Office will analyze the report, which can then be used as the basis for legislation on earnings sharing. What is called for here is not just another study, but rather specific plans for making Social Security more equitable for women. The Amendments require that the report include how and when to implement earnings sharing, what changes will cost, and how to protect various categories of beneficiaries as the transition takes place.

The Older Women's League has just completed the formation of a citizen advocacy group to monitor the development of the earnings sharing plans. The Citizens' Council on Earnings Sharing will be a watchdog and a catalyst to insure that a comprehensive report is developed is a timely fashion. We have had ten years of studies, proposals, reports, paper, and platitudes. Now that the Social Security system has been placed on a sound financial basis, it is time seriously to address women's concerns and to effect needed changes. The Older Women's League believes that in developing plans to implement earnings sharing, it is possible to balance the need for equity and the need for adequate benefits. Social Security can--indeed, must--be improved. We urge you to see that it is.

SELECTED DATA ON PERSONS AGE 65+: INCOME, POVERTY, MARITAL STATUS

Table 1

TOTAL MONEY INCOME IN 1981, BY SEX AND AGE

Age	Men	Women
45-49	$21,248	$ 7,494
50-54	20,796	6,513
55-59	19,879	5,926
60-64	14,807	4,966
65+	8,173	4,757

(Poverty level in 1981 for a person living alone: $4359)

(Source: Census Bureau, Current Population Reports P-60, No. 134, Table 10)

Table 2

POVERTY RATES BY SEX AND RACE/SPANISH ORIGIN FOR PERSONS AGE 65 OR OVER IN 1981

	Total	White	Black	Spanish Origin
Men	10.5%	9.0%	32.3%	23.6%
Women	18.6%	16.2%	43.5%	27.4%

(Poverty ra in 1981 fo persons 65- 15.3%)

Table 3

NUMBERS OF PERSONS AGE 65 OR OVER IN POVERTY IN 1981, BY SEX AND RACE/SPANISH ORIGIN

	Total	White	Black	Spanish Origin
Men	1,080,000	787,000	272,000	60,000
Women	2,773,000	2,191,000	547,000	86,000

(Source: P-60, No. 134, Table 17)

Table 4

MARITAL STATUS OF PERSONS 65+ IN 1981, BY SEX

Status	Men	Women
married	77%	38%
widowed	13%	51%
separated/divorced	6%	5%
never married	4%	6%

Table 5

MARITAL STATUS OF PERSONS OVER 65, BY SEX AND AGE

WIDOWED	65 to 74	75+
Men	8%	22%
Women	40%	68%

MARRIED	65 to 74	75+
Men	81%	70%
Women	48%	22%

(Source: P-20, No. 372, Tables 1 and E)

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EARNINGS SHARING -- A Selected Chronology

1975 House Aging Committee hearings: "Social Security Inequities Against Women"

Senate Aging Committee working paper: "Women and Social Security: Adapting to a New Era."

1976 Earnings sharing legislation introduced by Rep. Donald Fraser (D-Minn.)

National Commission on the Observance of International Women's Year recommends homemakers be covered under Social Security in their own right

1977 Earnings sharing legislation introduced by Rep. Martha Keys (D-Kans.) and 60 co-sponsors

National Women's Conference in Houston recommends earnings sharing

HEW Secretary Joseph Califano appoints HEW Task Force on the Treatment of Women under Social Security

Social Security Amendments of 1977 (PL 95-216): Congress mandates a study of proposals to eliminate dependency as a factor in entitlement to spouse benefits and to eliminate sex discrimination under Social Security

Dept. of Justice Task Force on Sex Discrimination studying women and Social Security

1979 HEW study released: Social Security and the Changing Roles of Men and Women, with extensive discussion of earnings sharing

1979 Advisory Council on Social Security report contains positive recommendations on earnings sharing

Ways and Means Committee hearings: "Treatment of Men and Women under the Social Security Program"

1980 HEW, Social Security Advisory Council's Interim Recommendations on the Treatment of Women

1981 National Commission on Social Security report, Social Security in America's Future is "sympathetic to the philosophy" but does not recommend earnings sharing because it might be harmful to some, or could cost too much

President's Commission on Pension Policy report, Coming of Age: Toward a National Retirement Income Policy recommends earnings sharing at divorce, and inheritance of credits for surviving spouses of two-earner couples

House Aging Committe hearings: "Treatment of Women Under Social Security."

Earnings sharing legislation reintroduced by Sen. Alan Cranston (D-Cal.) and Rep. Mary Rose Oakar (D-Ohio)

1983 National Commission on Social Security Reform; minority report favors the further development of earnings sharing concepts

Social Security Amendments of 1983 - mandates the development of implementation plans for earnings sharing

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