SECTION 1. SOCIAL SECURITY: THE OLD AGE, SURVIVORS, AND DISABILITY INSURANCE (OASDI) PROGRAMS

CONTENTS

1996 SOCIAL SECURITY INFORMATION

Tax rate:

Employee/employer each—7.65%;
(6.20%—OASDI; 1.45%—HI).
Self-employed—15.30%;
(12.40%—OASDI; 2.90%—HI).

Maximum taxable earnings base:

Social Security (OASDI)	$62,700
Medicare (HI)	No Limit

Maximum FICA/SECA tax: [1]

	OASDI	HI
Employee/employer	$3,887	No limit.
Self-employed	7,774	No limit.

OASDI workers covered.—1996 (est.)—142 million.

Average Wage Level.—1994—$23,753.53.

Earnings required for a quarter of coverage.—$640; ($2,560 for 4).

Earnings limit exempt amounts:

$12,500 for beneficiaries age 65–69;
($1 for $3 withholding rate).
$8,280 for beneficiaries under age 65;
($1 for $2 withholding rate).

Medicare (SMI) premium.—$42.50/month.

Number of OASDI beneficiaries (12/95) (in millions):

Total OASDI beneficiaries	43.4
OASI beneficiaries	37.5
Retired workers	26.7
Families and survivors	10.9
DI beneficiaries	5.9
Disabled workers	4.2
Family members	1.7

Average monthly benefits (12/95):

Retired Worker	$720
Retired worker and aged spouse	1,215
Disabled worker	682
Disabled worker, spouse and children	1,140
Aged widow(er)	680
Widowed mother/father and 2 children	1,377

[1] FICA/SECA tax paid by employers and self-employed can be partially deducted under income tax rules.

1996 SOCIAL SECURITY INFORMATION—Continued

Monthly benefits for 1996 retirees	At 62	At 65
Low earner (45% of average wages)	$430	$537
Average earner	709	886
Maximum earner	999	1,248

Long-range replacement rates (in percent):

Retirement at age 67 in 2030 and later:

Low earner (45% of average wages)	56
Average earner	42
Maximum earner	28

COLA (effective January 1996).—2.6%.

Taxation of benefits—percent of benefits taxed:

Percent taxed	Income threshold	Filing status
Up to 50%	$25,000–$34,000	Individual.
	$32,000–$44,000	Joint.
Up to 85%	$34,000 +	Individual.
	$44,000 +	Joint.

Substantial gainful activity:

$500/month disabled/nonblind;
$960/month blind.

OASDI Trust Fund operations (in billions of dollars):

Calendar year	OASDI Trust Fund operations			
	Income	Outgo	Net increase	Balance
1995	$399.5	$339.8	$59.7	$496.1
1996 (est.)	424.9	354.6	70.3	566.4

Fiscal Year 1995 OASDI Outlays.—$336 billion—21.8% of total U.S. Budget of $1.54 trillion.

SAA info.—1–800–SSA–1213.

SSA On Line.—http://www.ssa.gov/SSA_*Home.html*

Source: Social Security Administration and Board of Trustees (1996).

GENERAL

BRIEF DESCRIPTION OF SOCIAL SECURITY PROGRAMS

The Old-Age, Survivors, and Disability Insurance (OASDI) Programs provide monthly benefits to retired and disabled workers, their dependents and survivors. The OASDI Programs are contained in title II of the Social Security Act, and are commonly known as "Social Security." Old-age benefits were provided for retired workers by the original Social Security Act of 1935, benefits for dependents and survivors were provided by the 1939 amendments, and benefits for disabled workers were enacted in 1956. The Hospital Insurance (HI) Program, enacted in 1965 as title XVIII of the Social Security Act, is closely related to the OASDI Program. (The HI Program is discussed in later sections.)

CONCEPT OF SOCIAL INSURANCE

When the OASDI Programs were created, "insurance" was included in their titles to show that their purpose is to replace income that is lost to a family through the retirement, death, or disability of a worker who has earned protection against these "risks." This protection was to be obtained by working in jobs that are covered under Social Security and therefore subject to payroll taxes that finance Social Security benefits. Once workers worked long enough in covered jobs to be "insured," they and their families would have eligibility for their benefits as a matter of "earned right." The level of benefits is based on the amount the worker earned in covered jobs, and are paid without a test of economic need.

However, the social ends the programs serve diverge somewhat from the insurance analogy. The programs are national, and coverage is generally compulsory and nearly universal. They are designed to address such social purposes as alleviating poverty, providing added protection of families versus single workers, and providing a larger degree of earnings replacement for low-paid versus high-paid workers. The OASDI Programs were therefore described as "social" insurance.

FINANCING MECHANISM

The primary source of revenue for OASDI is the payroll tax paid by workers covered by the program and their employers. OASI and DI have separate tax rates set by law. Coverage under Social Security is generally compulsory. Currently, an estimated 96 percent of the Nation's paid work force is covered either voluntarily or mandatorily.

The taxes for wage and salaried workers are imposed under the Federal Insurance Contributions Act (FICA, chapter 21 of the Internal Revenue Code). Taxes are based on earnings up to the annual maximum taxable wage base ($62,700 in 1996 for OASDI, with no limit on wages subject to HI). The employee share of the payroll tax is withheld from wage and salary payments, and is matched by employers, currently at a rate of 7.65 percent each. Self-employed persons are covered by the Self-Employment Contributions Act (SECA, chapter 2 of the Internal Revenue Code).

They pay contributions on their net earnings annually up to the same maximum as employees, but at a rate that is equal to the combined employee-employer tax rate. However, the self-employed may deduct 7.65 percent from their net earnings before computing their Social Security tax and may also deduct half of their Social Security tax as a business expense for income tax purposes.

Revenue from the OASI and DI portion of the tax is credited to the Old-Age and Survivors Insurance Trust Fund and the Disability Insurance Trust Fund. In addition, the revenue derived from the taxation of a portion of 50 percent of Social Security benefits is credited to each trust fund (for additional detail, see section on "Taxation of Benefits"). The trust funds are the source of payment for: (1) monthly benefits when the worker retires, becomes totally disabled, or dies (including a financial interchange with the Railroad Retirement System), and (2) administrative expenses for the program. A discussion of OASDI administrative costs may be found in a later section on "Budgetary Treatment of OASDI."

BRIEF HISTORY

The 1935 Social Security Act covered only workers in commerce and industry, then about 60 percent of the work force. At first, the act provided only monthly benefits to retired workers age 65 and over, and a lump-sum death benefit to the estate of these workers. The monthly benefits were to begin on January 1, 1942. The 1939 Social Security amendments provided benefits to dependents of retired workers (wives aged 65 and over and children under age 16); and to survivors of deceased workers (widows aged 65 and over, mothers caring for an eligible child, children under age 16, and dependent parents). In addition, the 1939 amendments provided that these benefits would begin in 1940. The 1939 amendments were the first in a nearly 40-year series of program expansions.

In 1956, benefits were extended to disabled workers aged 50–64, and to disabled children over age 18 of retired, disabled, or deceased workers, if they became disabled before age 18 (changed to disabled before age 22 in 1973). The 1958 amendments provided benefits to dependents of disabled workers on the same basis as dependents of retired workers. Benefits for disabled workers under age 50 were provided in 1960.

Monthly cash benefits were increased on an ad hoc basis 10 times before the first automatic cost-of-living adjustment was implemented by the Social Security amendments of 1972. Beginning in 1975, benefits have been automatically adjusted to keep pace with inflation. Since 1975, there have been increases annually except during calendar year 1983, when the adjustment was delayed 6 months (see table 1–1).

SOCIAL SECURITY COVERAGE OF THE WORK FORCE

In 1939, approximately 24 million persons worked in employment covered by the Social Security system. Over the years, major categories of workers were brought under the system, such as self-employed individuals, State and local government employees (on a voluntary basis), regularly employed farm and domestic workers, members of the armed services, and members of the clergy and religious orders (on a voluntary basis). In 1996, of a total work force of approximately 148.8 million workers, about 142 million workers and an estimated 96 percent of all jobs in the United States are covered under Social Security. Of the total work force, an estimated 13.7 million workers were self-employed in 1996. In 1994, an estimated 87 percent of all earnings from jobs covered by Social Security were taxable (see tables 1–2 and 1–3).

TABLE 1–1.—SOCIAL SECURITY BENEFIT INCREASES SINCE THE BEGINNING OF THE PROGRAM

[In percent]

Date increase paid	Amount of increase
January 1996	2.6
January 1995	2.8
January 1994	2.6
January 1993	3.0
January 1992	3.7
January 1991	5.4
January 1990	4.7
January 1989	4.0
January 1988	4.2
January 1987	1.3
January 1986	3.1
January 1985	3.5
January 1984	3.5
July 1982	7.4
July 1981	11.2
July 1980	14.3
July 1979	9.9
July 1978	6.5
July 1977	5.9
July 1976	6.4
July 1975 [1]	8.0
April/July 1974 [2]	11.0
October 1972	20.0
February 1971	10.0
February 1970	15.0
March 1968	13.0
February 1965	7.0
February 1959	7.0
October 1954	13.0
October 1952	12.5
October 1950	77.0

[1] Automatic COLAs began.
[2] Increase came in two steps.

Source: Social Security Administration.

TABLE 1–2.—CIVILIAN WORKERS COVERED BY SOCIAL SECURITY SYSTEM, 1939–94

[In millions]

Year	Paid civilian employees [1]	OASDI coverage	Percent covered	OASDI and HI-only coverage	Percent covered
1939 [2]	43.6	24.0	55.1	24.0	55.1
1944 [2]	51.2	30.8	60.2	30.8	60.2
1949 [2]	56.7	34.3	60.5	34.3	60.5
1955	62.8	51.8	82.5	51.8	82.5
1960	64.6	55.7	86.2	55.7	86.2
1961	65.3	56.1	85.9	56.1	85.9
1962	66.4	57.3	86.3	57.3	86.3
1963	67.6	58.5	86.5	58.5	86.5
1964	69.3	60.1	86.7	60.1	86.7
1965	71.6	62.7	87.6	62.7	87.6
1966	73.6	64.9	88.2	64.9	88.2
1967	74.4	65.7	88.3	65.7	88.3
1968	75.9	67.1	88.4	67.1	88.4
1969	78.0	68.6	87.9	68.6	87.9
1970	77.8	69.9	89.9	69.9	89.9
1971	79.6	71.7	90.1	71.7	90.1
1972	82.6	74.7	90.4	74.7	90.4
1973	85.6	77.6	90.6	77.6	90.6
1974	85.4	77.3	90.5	77.3	90.5
1975	86.0	77.9	90.6	77.9	90.6
1976	89.2	81.0	90.9	81.0	90.9
1977	93.5	85.1	91.0	85.1	91.0
1978	97.0	88.4	91.2	88.4	91.2
1979	99.4	90.7	91.3	90.7	91.3
1980	98.9	89.3	90.3	89.3	90.3
1981	99.0	90.2	91.1	90.2	91.1
1982	98.3	89.8	91.4	89.8	91.4
1983	102.2	93.6	91.6	96.0	94.0
1984	105.5	97.9	92.7	100.3	95.0
1985	107.7	100.0	92.9	102.4	95.1
1986	110.2	104.1	94.4	106.5	96.6
1987	113.3	107.5	94.8	110.0	97.1
1988	115.6	109.8	95.0	112.4	97.3
1989	117.4	111.7	95.2	114.4	97.4
1990	117.0	111.3	95.2	114.1	97.5
1991	116.3	111.0	95.5	113.3	97.5
1992	117.8	112.7	95.7	114.8	97.5
1993	120.3	115.3	95.8	117.4	97.6
1994	124.6	119.7	96.1	121.8	97.8

[1] Includes paid employees and self-employed for all years.
[2] Monthly average for these years, all other years as of December.

Source: Office of Research and Statistics, Social Security Administration.

TABLE 1–3.—CIVILIAN WAGES COVERED BY OASDI SYSTEM, 1950–94 [1]

[Dollars in billions]

Year	Total earnings	Earnings in covered employment		Total earnings in covered employment	Covered earnings as a percent of total earnings	Taxable earnings	Taxable earnings as a percent of total earnings in covered employment
		Employed	Self-employed				
1950	186.1	109.8	....	109.8	59.0	87.5	79.7
1955	257.4	171.6	24.5	196.1	76.2	157.5	80.3
1960	324.9	236.0	29.2	265.2	81.6	207.0	78.1
1965	428.8	311.4	40.3	351.7	82.0	250.7	71.3
1970	631.7	483.6	48.0	531.6	85.2	415.6	78.2
1975	940.1	717.2	70.4	787.6	83.8	664.7	84.4
1976	1,037.2	797.2	76.8	874.7	84.3	737.7	84.3
1977	1,140.4	879.5	80.6	960.1	84.2	816.6	85.0
1978	1,288.6	998.9	93.7	1,092.6	84.8	915.6	83.8
1979	1,437.1	1,122.0	100.2	1,222.2	85.0	1,067.0	87.3
1980	1,548.4	1,231.0	97.8	1,328.8	85.8	1,180.7	88.9
1981	1,696.5	1,352.0	98.9	1,450.9	85.5	1,294.1	89.2
1982	1,764.0	1,418.0	98.6	1,516.6	86.0	1,365.3	90.0
1983	1,870.8	1,502.0	113.2	1,615.2	86.3	1,454.1	90.0
1984	2,086.0	1,671.5	129.3	1,800.8	86.3	1,608.8	89.3
1985	2,246.2	1,794.5	142.3	1,936.8	86.2	1,722.6	88.9
1986	2,389.2	1,921.0	160.8	2,081.8	87.1	1,844.4	88.6
1987	2,571.4	2,057.1	179.9	2,237.0	87.0	1,960.0	87.6
1988	2,767.3	2,227.9	199.7	2,427.6	87.7	2,088.4	86.0
1989	2,933.7	2,371.7	210.9	2,582.6	88.0	2,239.5	86.7
1990 [2]	3,108.3	2,511.3	195.6	2,706.9	87.1	2,358.7	87.1
1991 [2]	3,192.4	2,565.2	197.2	2,762.4	86.6	2,423.5	87.7
1992 [2]	3,389.1	2,718.7	210.0	2,928.7	86.5	2,534.5	86.5
1993 [2]	3,522.4	2,796.3	224.8	3,021.1	85.8	2,635.8	87.2
1994 [2]	3,756.8	2,986.3	243.1	3,229.4	86.0	2,818.5	87.3

[1] Sum of wages and salaries and proprietors' income with inventory valuation and capital consumption adjustments, as estimated by the Bureau of Economic Analysis in the National Income and Product Accounts.

[2] Preliminary.

Source: Social Security Administration (1995) and Office of Research and Statistics, Social Security Administration.

While coverage is compulsory for most types of employment, approximately 6.7 million workers did not have any coverage under Social Security in 1994. The majority of these noncovered workers were and still are in State and local governments or the Federal Government (see tables 1–4 and 1–5 for the most recently available statistical breakout). Beginning January 1, 1983, Federal employees were covered under the Medicare (HI) portion of the Social Security tax, and all Federal employees hired after 1983 are covered under the OASDI portion as well. In 1991, 70.2 percent of State and local government workers (14.4 million out of 20.5 million) were covered by Social Security. Beginning January 1, 1984, all employees of nonprofit organizations became covered, and as of

April 1983 terminations of Social Security coverage by State government entities were no longer allowed. State and local employees hired after March 31, 1986 are mandatorily covered under the Medicare Program and must pay HI payroll taxes. Beginning July 1, 1991, State and local employees who were not members of a public retirement system were mandatorily covered under Social Security. This requirement was contained in the 1990 Omnibus Budget Reconciliation Act (Public Law 101–508).

TABLE 1–4.—ESTIMATED SOCIAL SECURITY COVERAGE, 1994

	Total (millions)	Noncovered (millions)	Percent covered
Workers [1]	145.5	6.7	95.4
Jobs: [2]			
State and local government [3]	21.7	5.5	74.7
Federal civilian	4.2	1.5	64.3
Students [4]	2.3	2.2	4.3

[1] Includes both employees and self employed.
[2] Because workers may work at more than one job during the year, the total number of noncovered jobs exceeds the total number of noncovered workers. Because this table includes workers who worked only in a noncovered job at any time during the year, it shows a higher number of noncovered jobs than does table 1–2, which is based on coverage status in December of each year.
[3] Excludes students.
[4] Includes students employed at both public and private colleges and universities.

Source: Social Security Administration.

While the most recent year for which actual data are available is 1991, the Social Security Administration estimates that in 1994, 23.2 million individuals will work at some time during the year for a State or local government, and the wages of 70 percent of these individuals will be covered by Social Security.

TABLE 1–5.—ESTIMATED SOCIAL SECURITY COVERAGE OF WORKERS WITH STATE OR LOCAL GOVERNMENT EMPLOYMENT, 1991

[Based on 1-percent sample; numbers in thousands]

State	All workers [1]	Covered workers	Percent covered
Alabama	350	316	90
Alaska	81	32	40
Arizona	349	309	89
Arkansas	192	173	90
California	2,194	916	42
Colorado	326	110	34
Connecticut	252	165	65
Delaware	65	50	77
Florida	983	859	87
Georgia	574	448	78
Hawaii	105	80	76
Idaho	113	106	94
Illinois	981	499	51

TABLE 1–5.—ESTIMATED SOCIAL SECURITY COVERAGE OF WORKERS WITH STATE OR LOCAL GOVERNMENT EMPLOYMENT, 1991—Continued

[Based on 1-percent sample; numbers in thousands]

State	All workers [1]	Covered workers	Percent covered
Indiana	434	372	86
Iowa	270	230	85
Kansas	250	222	89
Kentucky	319	239	75
Louisiana	398	119	30
Maine	110	48	44
Maryland	396	345	87
Massachusetts	325	43	13
Michigan	784	664	85
Minnesota	414	326	79
Mississippi	220	194	88
Missouri	381	295	77
Montana	93	77	83
Nebraska	160	142	89
Nevada	89	25	28
New Hampshire	88	74	84
New Jersey	580	544	94
New Mexico	172	136	79
New York	1,673	1,491	89
North Carolina	562	504	90
North Dakota	70	61	87
Ohio	850	32	4
Oklahoma	278	244	88
Oregon	259	232	90
Pennsylvania	733	674	92
Rhode Island	73	54	74
South Carolina	310	278	90
South Dakota	74	66	89
Tennessee	397	324	82
Texas	1,316	729	55
Utah	161	144	89
Vermont	54	52	96
Virginia	508	467	92
Washington	428	361	84
West Virginia	150	122	81
Wisconsin	451	376	83
Wyoming	66	56	85
Total	20,461	14,425	70

[1] Includes seasonal and part-time workers for whom State and local government employment was not their major job.

Source: Office of Research and Statistics, Social Security Administration.

BENEFITS

ELIGIBILITY FOR WORKERS

Insured status

Benefits can be paid to workers, and their dependents or survivors, only if the worker has worked long enough in covered employment to be "insured" for these benefits. Insured status is measured in terms of "quarters of coverage."

Before 1978, one quarter of coverage was earned for each calendar quarter in which a worker was paid $50 or more in wages for covered employment (except for agricultural labor). Since the beginning of 1978 the crediting of quarters of coverage has been on an annual rather than a quarterly basis up to a maximum of four quarters of coverage per year. In 1978, a worker earned one quarter of coverage (up to a maximum of four) for each $250 of annual earnings reported from covered employment or self-employment. The amount of annual earnings needed for a quarter of coverage is increased each year in proportion to increases in average wages in the economy. In 1996 the amount of earnings needed for a quarter of coverage is $640. Table 1–6 shows amounts needed since 1978.

TABLE 1–6.—AMOUNT OF COVERED WAGES NEEDED TO EARN ONE QUARTER OF COVERAGE SINCE 1978

1978	$250
1979	260
1980	290
1981	310
1982	340
1983	370
1984	390
1985	410
1986	440
1987	460
1988	470
1989	500
1990	520
1991	540
1992	570
1993	590
1994	620
1995	630
1996	640
1997	[1] 670
1998	[1] 690
1999	[1] 720
2000	[1] 750
2001	[1] 780

[1] Based on economic assumptions in the 1996 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

Source: Office of the Actuary, Social Security Administration.

For the purpose of the OASI Program, there are two types of insured status: "fully insured" and "currently insured." Workers are fully insured for benefits for themselves and for their eligible dependents if they have earned one quarter of coverage for each year elapsing after the year they reached age 21 up to the year in which they reach age 62, become disabled, or die. Fully-insured status is required for eligibility for all types of benefits except certain survivor benefits. No matter how young, a worker must have at least six quarters of coverage to be fully insured, with the minimum number increasing with age. A worker with 40 quarters of coverage is fully insured for life.

Survivors of a worker who was not fully insured may still be eligible for benefits if the worker was currently insured. Workers are currently insured if they have six quarters of coverage during the thirteen calendar quarters ending with the quarter in which they died.

Workers are insured for *disability* if they are fully insured and have a total of at least 20 quarters of coverage during the 40-quarter period ending with the quarter in which they became disabled. Workers who are disabled before age 31 are insured for disability if they have total quarters of coverage equal to half the calendar quarters which have elapsed since the worker reached age 21, ending in the quarter in which they became disabled. However, a minimum of 6 quarters of coverge is required.

Age

Workers must be at least age 62 to be eligible for retirement benefits. There is no minimum age requirement for disability benefits, but disabled workers who attain the "full retirement age" (see below) automatically receive full retirement benefits, rather than disability benefits. Disability benefits are computed as if the worker reached full retirement age on the day he became totally disabled.

DISABILITY

Definition

Generally, disability is defined as the inability to engage in substantial gainful activity by reason of a physical or mental impairment. The impairment must be medically determinable and expected to last for not less than 12 months, or to result in death. Applicants may be determined to be disabled only if, due to such an impairment, they are unable to engage in any kind of substantial gainful work, considering their age, education, and work experience. The work need not exist in the immediate area in which the applicant lives, nor must a specific job vacancy exist for the individual. Moreover, no showing is required that the worker would be hired for the job if she applied.

There are special definition and eligibility requirements for persons who are blind, which are described in the section on "Determination of Disability Benefits."

The Commissioner[1] has specific regulatory authority to prescribe the criteria for determining when earnings derived from employment demonstrate an individual's ability to engage in substantial gainful activity (SGA).

Effective January 1, 1990, the SGA earnings level was raised to $500 a month (net of impairment-related work expenses), based on regulations published by the Commissioner. Table 1–7 shows SGA amounts applicable to nonblind disabled workers since 1968.

TABLE 1–7.—MONTHLY SGA AMOUNTS SINCE 1968

Year	SGA
July 1968–73	$140
1974–75	200
1976	230
1977	240
1978	260
1979	280
1980–89	300
1990 and thereafter	500

Source: Office of Research and Statistics, Social Security Administration.

Waiting period

An initial 5-month waiting period is required before DI benefits are paid. Benefits are payable beginning with the sixth full month of disability. However, benefits may be paid for the first full month of disability to a worker who becomes disabled within 60 months after termination of DI benefits from an earlier period of disability (for a disabled widow or widower the period is 84 months).

Work incentive provisions

The law provides a 45-month period for disabled beneficiaries to test their ability to work without losing their entitlement to all benefits. The period consists of (1) a "trial work period" (TWP), which allows disabled beneficiaries to work for up to 9 months (within a 5-year period)[2] with no effect on their disability or Medicare benefits; followed by (2) a 36-month "extended period of eligibility," during the last 33 of which cash disability benefits are suspended for any month in which the individual is engaged in SGA. Medicare coverage continues so long as the individual remains entitled to disability benefits and, depending on when the last month of SGA occurs, may continue for 3 to 24 months after entitlement to disability benefits ends. When Medicare entitlement ends because of the individual's work activity, but she is still medically disabled, she may purchase Medicare protection.

If beneficiaries medically recover to the extent that they no longer meet the definition of disability, disability and Medicare benefits are terminated 3 months thereafter, regardless of the sta-

[1] Throughout the remainder of this section when Commissioner is used, it is the Commissioner of Social Security.

[2] Only one TWP is allowed in any one period of disability. The TWP is completed only if the 9 months are within a 60-month period. By regulation, earnings of more than $200 a month constitute "trial work."

tus of their trial work period or extended period of eligibility. However, persons who contest this determination may elect to continue to receive disability benefits (subject to recovery) and Medicare benefits while their appeal is being reviewed.

ELIGIBILITY FOR DEPENDENTS AND SURVIVORS

Dependents' benefits are payable in addition to benefits payable to the worker.

Spouse's benefit

A benefit is payable to a spouse of a retired or disabled worker under one of the following conditions: (1) currently-married spouse is at least 62 or is caring for one or more of the worker's entitled children who are disabled or have not reached age 16; or (2) divorced spouse is at least 62, is not married, and the marriage had lasted at least 10 years before the divorce became final. A divorced spouse may be entitled independently of the worker's retirement if both the worker and divorced spouse are age 62, and if the divorce has been final for at least 2 years.

Widow(er)'s benefit

A monthly survivor benefit is payable to a widow(er) or divorced spouse of a worker who was fully insured at the time of death. The widow(er) or divorced spouse must be unmarried (unless the remarriage occurred after the widow(er) first became eligible for benefits as a widow(er)); and must be either (a) age 60 or older or (b) age 50–59 and disabled throughout a waiting period of 5 consecutive calendar months that began no later than 7 years after the month the worker died or after the end of his or her entitlement to benefits as a widowed mother or father.

Child's benefit

A monthly benefit is payable to an unmarried child, or eligible dependent grandchild, of a retired, disabled, or deceased worker who was fully or currently insured at death. The child or grandchild must be either: (1) under age 18; (2) a full-time elementary or secondary student under age 19; or (3) a disabled person age 18 or over whose disability began before age 22. A grandchild is eligible for benefits on a grandparent's earnings record if the grandchild was adopted by the grandparent and may be entitled under certain circumstances if there is no adoption. If adopted by the surviving spouse of that grandparent, the child would be eligible if he lived with or received one-half support from the grandparent prior to the grandparent's death.

Mother's/father's benefit

A monthly survivor benefit is payable to a mother (father) or surviving divorced mother (father) if: (1) the deceased worker on whose account the benefit is payable was fully or currently insured at time of death and (2) the mother (father) or surviving divorced mother (father) is not married and has one or more entitled children of the worker in his or her care. These payments continue as long as the youngest child being cared for is under age 16 or disabled (see "Child's benefit" above).

Parent's benefit

A monthly survivor benefit is payable to a parent, age 62 or over, of a deceased fully-insured worker. The worker must have been providing at least one-half of the parent's support.

Lump-sum death benefit

A one-time lump-sum benefit of $255 is payable upon the death of a fully or currently-insured worker to the surviving spouse who was living with the deceased worker or was eligible to receive monthly cash survivor benefits upon the worker's death. If there is no eligible spouse, the lump-sum death benefit is payable to any child of the deceased worker who is eligible to receive monthly cash benefits as a surviving child. If there is no surviving spouse, or children of the worker eligible for monthly benefits, then the lump-sum death benefit is not paid.

[See table 1–7a for 1995 OASDI beneficiary statistics; table 1–7b for OASDI benefits paid 1940–95; table 1–7c for monthly benefit amounts for selected families; and the "Benefit Computation" section for further information on AIME.]

TABLE 1–7a.—OASDI BENEFICIARIES IN CURRENT PAYMENT STATUS AND NEW AWARDS, DECEMBER 1995

	Number in current payment (thousands)	Percent of beneficiary population	Average monthly benefit	Number of new awards (in thousands)	Average new award
Retired workers	26,673	61.5	$720	1,609	$689
Wives and husbands of retired workers	3,026	7.0	370	259	334
Children of retired workers	442	1.0	322	101	298
Disabled workers	4,185	9.6	682	646	694
Wives and husbands of disabled workers	264	0.6	164	63	175
Children of disabled workers	1,409	3.2	183	401	176
Widowed mothers and fathers	275	0.6	478	52	464
Surviving children	1,884	4.3	469	306	464
Widows and widowers	5,052	11.6	680	415	667
Disabled widow(er)s	173	0.4	458	30	458
Parents	4	(1)	591	(2)	607
Special age-72	1	(1)	192	(2)	136
Totals and averages	43,387	100.0	$649	3,382	$587

1 Less than 0.05 percent.
2 Fewer than 500.

Source: Office of Research and Statistics, Social Security Administration.

TABLE 1–7b.—OASDI BENEFITS PAID, 1940–95

[In millions of dollars]

Year	OASDI	OASI	DI
1940	$35	$35	....
1950	961	961	....
1960	11,245	10,677	$568
1970	31,863	28,796	3,067
1980	120,511	105,074	15,437
1985 [1]	186,196	167,360	18,836
1990 [1]	247,796	222,993	24,803
1991 [1]	268,098	240,436	27,662
1992 [1]	286,030	254,939	31,091
1993 [1]	302,402	267,804	34,598
1994 [1]	316,772	279,068	37,704
1995 [1]	332,580	291,682	40,898

[1] Unnegotiated checks not deducted.

Source: Office of Research and Statistics, Social Security Administration.

BENEFIT COMPUTATION

All monthly benefits are computed based on a worker's primary insurance amount (PIA). The PIA is a monthly amount based on the application of the Social Security benefit formula to a worker's average lifetime covered earnings. It is also the monthly benefit amount payable to a worker who retires at the full retirement age, or becomes entitled to disability benefits.

FULL RETIREMENT AGE

Benefits for retired workers, aged spouses and widow(er)s taken before the "full retirement age" are subject to an actuarial reduction. The full retirement age is the earliest age at which unreduced retirement benefits can be received. The full retirement age currently is age 65, but it will gradually rise in two steps beginning in the next century. First, the full retirement age will increase by 2 months for each year that a person is born after 1937, until it reaches age 66 for those who were born in 1943. Second, it will increase again by 2 months for each year that a person is born after 1954, until it reaches age 67 for those who were born after 1959. Early retirement still will be available, beginning at age 62 for workers and their spouses, and at age 60 for widow(er)s, but benefits will be lower. The actuarial reduction on retirement benefits at age 62 ultimately will be 30 percent, instead of the present 20 percent. The age for full benefits for aged spouses and widow(er)s likewise will rise to 67.

Benefits of workers who choose to retire after their full retirement age are increased by "delayed retirement credits," as are the benefits payable to their widow(er)s. The delayed retirement credit is 1 percent per year for workers who attained age 65 before 1982, and 3 percent per year for workers who attained age 65 between 1982 and 1989. Starting in 1990, the delayed retirement credit increases by one-half of 1 percent every other year until it reaches

8 percent for workers reaching age 65 after 2007 (see section on "Benefit Reduction and Increase"). Table 1–8 shows the schedule of increases in the full retirement age and delayed retirement credits for workers.

TABLE 1–7c.—MONTHLY BENEFIT AMOUNTS FOR SELECTED BENEFICIARY FAMILIES WITH FIRST ELIGIBILITY IN 1995, FOR SELECTED WAGE LEVELS, DECEMBER 1995

Beneficiary family	Worker with yearly earnings equal to		
	Federal minimum wage [1]	Average wage [2]	Maximum taxable earnings [3]
RETIRED WORKER FAMILIES: [4]			
Average indexed monthly earnings	$969.00	$1,929.00	$3,493.00
Primary insurance amount	571.50	886.70	1,238.70
Maximum family benefit	873.70	1,618.70	2,167.60
Monthly benefit amount:			
Retired worker claiming benefits:			
Worker alone at age 62 [4]	457.00	709.00	990.00
Worker at age 62 with spouse [4]	671.00	1,041.00	1,454.00
Worker at age 65 with spouse	742.00	1,152.00	1,609.00
SURVIVOR FAMILIES: [5]			
Average indexed monthly earnings	873.00	1,931.00	4,627.00
Primary insurance amount	540.00	887.40	1,413.30
Maximum family benefit	810.10	1,619.70	2,473.00
Monthly benefit amount:			
Survivors of worker deceased at age 40: [5]			
One surviving child	405.00	665.00	1,059.00
Widowed mother/father and one child	810.00	1,330.00	2,118.00
Widowed mother/father and two children	810.00	1,617.00	2,472.00
DISABLED WORKER FAMILIES: [6]			
Average indexed monthly earnings	927.00	1,929.00	4,069.00
Primary insurance amount	557.80	886.70	1,327.40
Disability maximum family benefit [7]	808.30	1,330.10	1,991.10
Monthly benefit amount:			
Disabled worker age 50: [6]			
Worker alone	557.00	886.00	1,327.00
Worker, spouse, and one child	807.00	1,328.00	1,989.00

[1] Annual earnings are calculated by multiplying the Federal minimum hourly wage ($4.25 when this table was prepared) by 2,080 hours. In 1996, Congress increased the minimum wage in two stages to $5.15 per hour as part of Public Law 104–188. This increase will be reflected in benefit calculations for this table beginning with the fourth quarter of 1996.

[2] Worker earned the national average wage in each year used in the computation of the benefit.

[3] Worker earned the maximum amount of wages that can be credited to a worker's Social Security record in all years used in the computation of the benefit.

[4] Assumes the worker began to work at age 22, retired at age 62 in 1995 with maximum reduction, and had no prior period of disability.

[5] Assumes the deceased worker began to work at age 22, died in 1995 at age 40, had no earnings in that year, and had no prior period of disability.

[6] Assumes the worker began work at age 22, became disabled at age 50, and had no prior disability.

[7] The 1980 amendments to the Social Security Act provide for different family maximum amount for disability cases. For disabled workers entitled after June 1980, the maximum is the smaller of (1) 85 percent of the worker's AIME (or 100 percent of the PIA, if larger) or (2) 150 percent of the PIA.

Source: Social Security Administration.

TABLE 1–8.—INCREASES IN FULL RETIREMENT AGE AND DELAYED RETIREMENT CREDITS, WITH RESULTING BENEFIT, AS A PERCENT OF PRIMARY INSURANCE AMOUNT [PIA], PAYABLE AT SELECTED AGES, FOR PERSONS BORN IN 1924 OR LATER

Year of birth	Age 62 attained in—	"Normal retirement age"	Credit for each year of delayed retirement after normal retirement age	Benefit, as a percent of PIA, beginning at age—				
				62	65	66	67	70
1924	1986	65	3	80	100	103	106	115
1925–26	1987–88	65	3½	80	100	103½	107	117½
1927–28	1989–90	65	4	80	100	104	108	120
1929–30	1991–92	65	4½	80	100	104½	109	122½
1931–32	1993–94	65	5	80	100	105	110	125
1933–34	1995–96	65	5½	80	100	105½	111	127½
1935–36	1997–98	65	6	80	100	106	112	130
1937	1999	65	6½	80	100	106½	113	132½
1938	2000	65, 2 mo	6½	79⅙	98⁸⁄₉	105⁵⁄₁₂	111¹¹⁄₁₂	131⁵⁄₁₂
1939	2001	65, 4 mo	7	78⅓	97⁷⁄₉	104⅔	111⅔	132⅔
1940	2002	65, 6 mo	7	77½	96⅔	103½	110½	131½
1941	2003	65, 8 mo	7½	76⅔	95⁵⁄₉	102½	110	132½
1942	2004	65, 10 mo	7½	75⅚	94⁴⁄₉	101¼	108¾	131¼
1943–54	2005–16	66	8	75	93⅓	100	108	132
1955	2017	66, 2 mo	8	74⅙	92²⁄₉	98⁸⁄₉	106⅔	130⅔
1956	2018	66, 4 mo	8	73⅓	91⅑	97⁷⁄₉	105⅓	129⅓
1957	2019	66, 6 mo	8	72½	90	96⅔	104	128
1958	2020	66, 8 mo	8	71⅔	88⁸⁄₉	95⁵⁄₉	102⅔	126⅔
1959	2021	66, 10 mo	8	70⅚	87⁷⁄₉	94⁴⁄₉	101⅓	125⅓
1960 or later	2022 or later	67	8	70	86⅔	93⅓	100	124

Source: Ballantyne (1984).

TRENDS IN RETIREMENT AGE

Table 1–9 shows the percentage of workers who elected to receive retirement benefits at selected ages since the beginning of the Social Security Program. It clearly illustrates a trend toward early retirement. Retirement at age 62 has become the norm. Reduced benefits were not available to women until 1956, and to men until 1961. Table 1–10 shows the percentage of retired workers electing reduced benefits since they first became available.

TABLE 1–9.—PERCENTAGE OF WORKERS ELECTING SOCIAL SECURITY RETIREMENT BENEFITS AT VARIOUS AGES SINCE 1940 [1]

Year	Age 62	Ages 63–64	Age 65	Ages 66+	Average age
1940	([2])	([2])	8.3	91.7	68.8
1945	([2])	([2])	17.9	82.1	69.6
1950	([2])	([2])	23.1	76.9	68.7
1955	([2])	([2])	41.2	58.8	68.4
1960	10.0	7.9	35.3	46.7	66.8
1965	23.0	17.7	23.4	35.9	65.8
1970	27.8	23.2	36.9	12.1	64.4
1975	35.7	24.5	31.1	8.7	64.0
1980	40.5	22.2	30.7	6.6	63.9
1985	57.2	21.1	17.7	4.0	63.7
1990	56.6	20.2	16.6	6.7	63.7
1994	58.9	20.0	15.7	5.4	63.6

[1] Excludes conversions at age 65 from disability to retirement rolls.
[2] Retirement before age 65 was not available.

Source: Congressional Research Service and Social Security Administration.

TRENDS IN LONGEVITY

Table 1–11 shows how life expectancies have increased since Social Security benefits were first paid in 1940, and what they are projected to be in the future, as well as fertility and death rates.

AVERAGE INDEXED MONTHLY EARNINGS

Except for workers who became eligible for benefits before 1984, or who are eligible for a “Special Minimum Benefit” (see below), the primary insurance amount (PIA) is determined through a formula applied to the worker’s average indexed monthly earnings (AIME). The AIME is a dollar amount that represents the average monthly earnings from Social Security-covered employment over most of the worker’s adult life indexed to the increase in average annual wages. Indexing the earnings to changes in wage levels ensures that the same relative value is accorded to wages no matter when earned. Because actual average-wage data take over a year to become available, past earnings are updated to the second calendar year (the “indexing year”) before the worker becomes eligible for retirement (age 62) or, if earlier, becomes disabled or dies. This means that the year a worker turns age 60 is used as the indexing year for computing retirement benefits. Earnings in and after the indexing year are not indexed.

TABLE 1–10.—NUMBER OF SOCIAL SECURITY RETIRED WORKER NEW BENEFIT AWARDS AND PERCENT RECEIVING REDUCED BENEFITS BECAUSE OF ENTITLEMENT BEFORE AGE 65, AS OF DECEMBER OF GIVEN YEAR [1]

[Numbers in millions]

Year [1]	Total		Men		Women	
	Number	Percent	Number	Percent	Number	Percent
1956	0.9	12	0.6	....	0.4	31
1960	1.0	21	0.6	....	0.4	60
1965	1.2	49	0.7	43	0.4	60
1970	1.3	63	0.8	57	0.5	72
1975	1.5	73	0.9	69	0.6	79
1980	1.6	76	0.9	73	0.7	80
1985	1.7	74	1.0	70	0.7	79
1986	1.7	74	1.0	71	0.7	79
1987	1.7	74	1.0	71	0.7	79
1988	1.6	74	0.9	70	0.7	78
1989	1.7	73	1.0	69	0.7	78
1990	1.7	74	1.0	71	0.7	78
1991	1.7	72	1.0	69	0.7	76
1992	1.7	72	1.0	69	0.7	76
1993	1.7	72	1.0	70	0.7	75
1994	1.6	73	0.9	70	0.7	76
1995	1.6	72	0.9	69	0.7	75

[1] Data for 1985–90 based on a 1-percent sample; data for other years based on 100 percent. Includes conversions at age 65 from disability to retirement rolls.

Source: Office of Research and Statistics, Social Security Administration.

TABLE 1–11.—SELECTED DEMOGRAPHIC ASSUMPTIONS, 1940–2070

Calendar year	Total fertility rate [1]	Age-sex-adjusted death rate [2] (per 100,000)	Life expectancy [3]			
			All birth		At age 65	
			Male	Female	Male	Female
1940	2.23	1,532.8	61.4	65.7	11.9	13.4
1945	2.42	1,366.4	62.9	68.4	12.6	14.4
1950	3.03	1,225.3	65.6	71.1	12.8	15.1
1955	3.50	1,134.2	66.7	72.8	13.1	15.6
1960	3.61	1,128.6	66.7	73.2	12.9	15.9
1965	2.88	1,103.6	66.8	73.8	12.9	16.3
1970	2.43	1,041.8	67.1	74.9	13.1	17.1
1975	1.77	934.0	68.7	76.6	13.7	18.0
1976	1.74	923.2	69.1	76.8	13.7	18.1
1977	1.79	898.0	69.4	77.2	13.9	18.3
1978	1.76	892.4	69.6	77.2	13.9	18.3
1979	1.82	864.2	70.0	77.7	14.2	18.6
1980	1.85	878.1	69.9	77.5	14.0	18.4

TABLE 1–11.—SELECTED DEMOGRAPHIC ASSUMPTIONS, 1940–2070—Continued

Calendar year	Total fertility rate [1]	Age-sex-adjusted death rate [2] (per 100,000)	Life expectancy [3]			
			All birth		At age 65	
			Male	Female	Male	Female
1981	1.83	853.8	70.4	77.8	14.2	18.6
1982	1.83	828.5	70.8	78.2	14.5	18.8
1983	1.81	836.1	70.9	78.1	14.3	18.6
1984	1.80	829.6	71.1	78.2	14.4	18.7
1985	1.84	831.8	71.1	78.2	14.4	18.6
1986	1.84	824.8	71.1	78.3	14.5	18.7
1987	1.87	816.1	71.3	78.4	14.6	18.7
1988	1.93	824.5	71.2	78.3	14.6	18.7
1989	2.01	804.1	71.5	78.6	14.8	18.9
1990	2.07	789.0	71.8	78.8	15.0	19.0
1991	2.07	778.8	71.9	78.9	15.1	19.1
1992 [4]	2.06	764.3	72.2	79.2	15.2	19.3
1993 [4]	2.04	784.2	71.9	78.9	15.1	19.0
1994 [4]	2.04	775.9	72.2	79.0	15.3	19.0
1995 [4]	2.04	763.8	72.3	79.2	15.4	19.2
1996	2.03	757.0	72.5	79.3	15.4	19.2
2000	2.02	731.3	73.0	79.7	15.6	19.4
2005	1.99	700.5	73.9	80.2	15.9	19.5
2010	1.96	677.3	74.5	80.5	16.1	19.7
2015	1.93	657.4	74.9	80.9	16.3	19.9
2020	1.90	638.4	75.3	81.2	16.5	20.1
2025	1.90	620.4	75.6	81.5	16.7	20.3
2030	1.90	603.2	76.0	81.8	16.9	20.5
2035	1.90	587.0	76.3	82.1	17.1	20.7
2040	1.90	571.5	76.6	82.4	17.3	21.0
2045	1.90	556.7	76.9	82.7	17.5	21.2
2050	1.90	542.7	77.2	83.0	17.7	21.4
2055	1.90	529.3	77.5	83.3	17.9	21.6
2060	1.90	516.5	77.8	83.6	18.0	21.8
2065	1.90	504.3	78.1	83.8	18.2	22.0
2070	1.90	492.6	78.4	84.1	18.4	22.2

[1] The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age observed in, or assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate is assumed to be reached in 2020.

[2] The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 1980, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year.

[3] The life expectancy for any year is the average number of years of life remaining for a person if that person were to experience the death rates by age observed in, or assumed for, the selected year.

[4] Preliminary or estimated.

Source: Board of Trustees (1996), intermediate assumptions.

There are several steps in determining the AIME: (1) the "index" for a worker's earnings is determined by multiplying the earnings for a given year by the ratio of the average wage for the indexing year divided by the average wage for that year; and (2) the number of "computation years" is based on the number of years elapsing after 1950 (or year of attainment of age 21, if later) up to the year the worker attains age 62, becomes disabled, or dies, minus any "dropout" years. There are five dropout years in retirement and survivor computations (for workers disabled before age 47, the number of dropout years varies from one to four, depending on the worker's age and number of child care dropout years). The minimum number of computation years is two.

The computation years are selected from the highest indexed yearly earnings in all years of earnings after 1950, up to a maximum of 35 years. (The highest 35 years are selected in computing retirement benefits for all workers born after 1929.) The sum of the indexed earnings in the selected years is divided by the number of months in the computation period (i.e, the number of the selected years times 12) to determine the AIME.

The indexed earnings histories (rounded to whole dollars) are illustrated in table 1–12 for three hypothetical workers retiring in 1996 at age 62. The actual earnings for the three workers are shown in the first three columns. These are multiplied by the indexing factor (column 4) to arrive at indexed earnings (last 3 columns of table 1–12). The indexing factor for 1960 is based on average wages when the individual turned 60 ($23,753.53), divided by average wages for 1960 ($4,007.12). The highest 35 years of indexed earnings are used. For example, a lifelong full-time worker who had maximum creditable earnings would drop low earnings in 1958, 1962, 1963, 1964, and 1965, and would have total indexed earnings of $1,536,031 (see table 1–12). Dividing this by the number of months in the computation period (35 years × 12 months = 420 months) results in average indexed monthly earnings (AIME) of $3,657. The corresponding AIMEs for the average and low earners are $1,981 and $891, respectively. Low earners are defined as earning 45 percent of the average wage.

BENEFIT FORMULA

The Primary Insurance Amount (PIA) is determined by applying the "primary benefit formula" to the AIME. For a worker becoming eligible in 1996, the PIA is determined as follows:

Factor	Average indexed monthly earnings
90 percent	first $437, plus
32 percent	$437 through $2,635, plus
15 percent	over $2,635

Applying this formula to the AIMEs of the three hypothetical workers results in PIAs of $538.50 for the low-wage worker, $887.30 for the average-wage worker, and $1,249.90 for the maximum-wage worker. (For the low-wage worker, the 1996 special minimum benefit (see below) PIA of $532.90 is less than AIME-based PIA of $538.50, and therefore is not used to determine his or her benefits.) The numbers $437 and $2,635 are often referred to as "bend points" of the PIA formula. These are adjusted each year by the change in average wages. After the year of initial eligibility (age 62 for retired workers), the PIA is increased each year for the increase in the Consumer Price Index (CPI). The PIAs of

$538.50, $887.30, and $1,249.90 would be in effect for January through November 1996, and will be increased by the cost-of-living adjustment effective beginning December 1996.

TABLE 1–12.—EARNINGS HISTORIES FOR HYPOTHETICAL WORKERS AGE 62 IN 1996

[Rounded to nearest dollar]

Year	Nominal earnings			Indexing factor	Indexed earnings		
	Low [1]	Average [2]	Maximum [3]		Low [1]	Average [2]	Maximum [3]
1956	1,590	3,532	4,200	6.7245	[4] 10,689	[4] 23,754	28,243
1957	1,639	3,642	4,200	6.5226	[4] 10,689	[4] 23,754	27,395
1958	1,653	3,674	4,200	6.4657	[4] 10,689	[4] 23,754	[4] 27,156
1959	1,735	3,856	4,800	6.1605	[4] 10,689	[4] 23,754	29,570
1960	1,803	4,007	4,800	5.9278	[4] 10,689	[4] 23,754	28,454
1961	1,839	4,087	4,800	5.8123	10,689	23,754	27,899
1962	1,931	4,291	4,800	5.5351	10,689	23,754	[4] 26,569
1963	1,978	4,397	4,800	5.4027	10,689	23,754	[4] 25,933
1964	2,059	4,576	4,800	5.1905	10,689	23,754	[4] 24,915
1965	2,096	4,659	4,800	5.0987	10,689	23,754	[4] 24,474
1966	2,222	4,938	6,600	4.8100	10,689	23,754	31,746
1967	2,346	5,213	6,600	4.5562	10,689	23,754	30,071
1968	2,507	5,572	7,800	4.2632	10,689	23,754	33,253
1969	2,652	5,894	7,800	4.0303	10,689	23,754	31,436
1970	2,784	6,186	7,800	3.8397	10,689	23,754	29,950
1971	2,924	6,497	7,800	3.6560	10,689	23,754	28,517
1972	3,210	7,134	9,000	3.3297	10,689	23,754	29,967
1973	3,411	7,580	10,800	3.1336	10,689	23,754	33,843
1974	3,614	8,031	13,200	2.9578	10,689	23,754	39,043
1975	3,884	8,631	14,100	2.7521	10,689	23,754	38,805
1976	4,152	9,226	15,300	2.5745	10,689	23,754	39,390
1977	4,401	9,779	16,500	2.4289	10,689	23,754	40,077
1978	4,750	10,556	17,700	2.2502	10,689	23,754	39,829
1979	5,166	11,479	22,900	2.0692	10,689	23,754	47,385
1980	5,631	12,513	25,900	1.8982	10,689	23,754	49,164
1981	6,198	13,773	29,700	1.7246	10,689	23,754	51,222
1982	6,539	14,531	32,400	1.6346	10,689	23,754	52,962
1983	6,858	15,239	35,700	1.5587	10,689	23,754	55,646
1984	7,261	16,135	37,800	1.4722	10,689	23,754	55,648
1985	7,570	16,823	39,600	1.4120	10,689	23,754	55,916
1986	7,795	17,322	42,000	1.3713	10,689	23,754	57,595
1987	8,292	18,427	43,800	1.2891	10,689	23,754	56,462
1988	8,700	19,334	45,000	1.2286	10,689	23,754	55,286
1989	9,045	20,100	48,000	1.1818	10,689	23,754	56,726
1990	9,463	21,028	51,300	1.1296	10,689	23,754	57,949
1991	9,815	21,812	53,400	1.0890	10,689	23,754	58,154
1992	10,321	22,935	55,500	1.0357	10,689	23,754	57,480
1993	10,410	23,133	57,600	1.0268	10,689	23,754	59,146
1994	10,689	23,754	60,600	1.0000	10,689	23,754	60,600
1995	[5] 11,103	[5] 24,673	61,200	1.0000	[5] 11,103	[5] 24,673	61,200

[1] Worker with earnings equal to 45 percent of the Social Security average wage index.
[2] Worker with earnings equal to the Social Security average wage index.
[3] Worker with earnings equal to the Social Security maximum taxable earnings.
[4] Dropout years.
[5] Estimated.

Source: Office of the Actuary, Social Security Administration.

The PIA is recomputed after each year that an entitled worker has earnings that may lead to a higher benefit.

Other methods for determining a PIA also exist, and PIAs based on different methods must be compared to select the highest one, which is used to determine the worker's benefits. The most common of these other methods is the one used to determine the special minimum PIA. This PIA is designed to assist workers with long-term low earnings.

SPECIAL MINIMUM BENEFIT

The special minimum benefit is not based on the amount of a worker's average earnings, but instead on his or her number of years of covered employment. It is structured to provide a larger benefit than would otherwise be payable to those who worked in covered employment for many years but had low earnings. The amount of the special minimum is computed by multiplying the number of years of coverage in excess of 10 years and up to 30 years by $11.50 for monthly benefits payable in 1979, with automatic cost-of-living increases applicable to years 1979 and later. The number of years of coverage for the purpose of qualifying for a special minimum benefit equals the number obtained by dividing total creditable wages in 1937–50 by $900 (not to exceed 14), plus the number of years after 1950 and before 1991 for which the worker is credited with at least 25 percent of the annual maximum taxable earnings. For this purpose, for years after 1978, annual maximum taxable earnings are defined as the "old-law" taxable earnings base (i.e., the hypothetical earnings base that would be in effect if the ad hoc increases in the base enacted in 1977 were disregarded). In addition, for years after 1990, a year of coverage is earned if the worker is credited with at least 15 percent of the "old-law" taxable earnings base. The special minimum benefit is not subject to the delayed retirement credit provisions described earlier.

BENEFIT AMOUNTS

The monthly benefit amount payable to a disabled worker under age 65, or to a retired worker who first receives benefits at the full retirement age, is the PIA rounded to the next lower dollar, if not already a multiple of $1. Auxiliary benefit amounts are also based on the worker's PIA. Table 1–13 lists major types of benefits and the percent of the insured worker's PIA that is applicable to benefits paid at the full rate, unreduced for early election of retirement.

REPLACEMENT RATES

Frequently, Social Security benefits are discussed in terms of how much of a person's preretirement earnings the benefits represent. Benefits expressed as a percent of a person's earnings in the year before retirement are called replacement rates. Table 1–14 shows replacement rates based on the benefits of hypothetical workers who retired at the full retirement age after full-time careers with steady earnings equal to: (1) 45 percent of average earnings in the economy as recorded through the Social Security average wage index (low earner); (2) 100 percent of average earnings in the economy (average earner); and (3) the Social Security maximum taxable earnings base (maximum earner).

TABLE 1–13.—PERCENTAGE OF PRIMARY INSURANCE AMOUNT (PIA) PAID FOR DEPENDENTS' AND SURVIVORS' BENEFITS

Type of monthly benefit	Percent of PIA
Dependents: [1]	
Wives, husbands—age 65	[3] 50.0
Mothers, fathers, children, grandchildren	50.0
Survivors: [1]	
Widows, widowers—age 65 [2]	[3] 100.0
Dependent parent—age 62	82.5
Widows, widowers—age 60; disabled—ages 50–59	71.5
Mothers, fathers, children	75.0

[1] Subject to maximum family benefit limitation.

[2] Subject to general limitation that the survivor cannot get a higher benefit than the deceased worker would be getting if alive.

[3] These percentages decrease as the full retirement age increases for workers born after 1937.

Source: Congressional Research Service.

BENEFIT REDUCTION AND INCREASE

Social Security benefits may be reduced, withheld, or increased for various reasons.

DUAL ENTITLEMENT

An individual may be entitled to benefits both as a worker, based on his or her own earnings, and also as a dependent (spouse or widow(er)) of another worker. In these cases, the individual does not collect both benefits. The amount of the benefit as a spouse or widow(er) is offset dollar for dollar by the amount of any benefit the individual is entitled to as a worker. In other words, she first always receives the benefit based on his or her work record, and the dependent benefit is payable only to the extent it is greater than the worker benefit. In effect, the total amount "dually entitled" recipients receive is equal to the larger of the two benefits.

ACTUARIAL REDUCTION

This term is used to signify that the reduction imposed on "early retirement" benefits is approximately one that will, if the recipient lives a normal lifespan, lead to the same total lifetime benefits as would be paid if the person chose "full retirement" benefits. It applies to: entitlement before the full retirement age for retired workers; spouses (including divorced spouses) of a retired or disabled worker (if entitlement is not based on having a child beneficiary in their care); and widows, widowers, and surviving divorced spouses. At the time of initial entitlement, reductions in benefit amounts are made for these benefit categories, as described below.

TABLE 1–14.—SOCIAL SECURITY REPLACEMENT RATES, 1940–2040

[In percent]

Year of birth	Year of attaining normal retirement age [2]	Replacement rates [1]		
		Low earner [3]	Average earner [4]	Maximum earner [5]
1875	1940	39.4	26.2	16.5
1885	1950	33.2	19.7	21.2
1895	1960	49.1	33.3	29.8
1900	1965	45.6	31.4	32.9
1905	1970	48.5	34.3	29.2
1910	1975	[7] 59.9	42.3	30.1
1911	1976	60.1	43.7	32.1
1912	1977	61.0	44.8	33.5
1913	1978	63.4	46.7	34.7
1914	1979	64.4	48.1	36.1
1915	1980	68.1	51.1	32.5
1916	1981	72.5	54.4	33.4
1917	1982	[6] 65.8	[6] 48.7	[6] 28.6
1918	1983	[7] 63.5	45.8	26.3
1919	1984	[7] 62.6	42.8	23.7
1920	1985	[7] 61.1	40.9	22.8
1921	1986	[7] 60.3	41.1	23.1
1922	1987	[7] 59.5	41.2	22.6
1923	1988	[7] 58.4	40.9	23.0
1924	1989	[7] 57.9	41.6	24.1
1925	1990	58.2	43.2	24.5
1935	2000	57.1	42.4	25.6
1945	2011	56.2	41.9	27.2
1955	2021	56.2	41.8	27.8
1965	2032	56.0	41.8	27.7
1975	2042	56.0	41.8	27.6

[1] Total monthly benefits payable for year of entitlement at normal retirement age expressed as percent of earnings in year prior to entitlement for workers with steady career earnings. Projections for 1996 and later are based on the intermediate II assumptions of the 1996 OASDI Trustees' Report.

[2] Normal retirement age will rise from 65 starting with workers who attain age 62 in 2000 and will ultimately reach 67 for workers attaining age 62 in 2022 and later.

[3] Earnings equal to 45 percent of the ''Social Security average-wage index.''

[4] Earnings equal to the ''Social Security average-wage index.''

[5] Earnings equal to the maximum wage taxable for Social Security purposes.

[6] ''Transition guarantee'' under 1977 amendments.

[7] Special minimum benefit.

Source: Office of the Actuary, Social Security Administration.

Retired workers

Today, the reduction rate is five-ninths of 1 percent for each month of entitlement before age 65 (maximum reduction of 20 percent). Workers retiring today at age 62 therefore receive 80 percent of the PIA.

Although the minimum age of eligibility for reduced benefits remains age 62 (age 60 for widows and widowers), the increase in the full retirement age will be accompanied by increases in the amount of reduction for retirement at age 62 for individuals born after 1937. For them, the PIA will be reduced by five-twelfths of 1 percent for each month in excess of 36. For example, for persons born from 1943 through 1954, for whom the normal retirement age will be 66, the benefit payable at age 62 will be 75 percent of the PIA. For persons born in 1960 and later, for whom the normal retirement age will be 67, the benefit payable at age 62 will be 70 percent of the PIA (see table 1–8).

Spouses

The current reduction rate is twenty-five thirty-sixths of 1 percent for each month of entitlement before full retirement age. The maximum reduction is 25 percent. For spouses born after 1937, the benefit will be reduced by five-twelfths of 1 percent for each month of early retirement in excess of 36 months.

Widow(er)s

Today, the rate of reduction is nineteen-fortieths of 1 percent for each month of entitlement between age 60 and age 65 (maximum reduction of 28.5 percent). There is no scheduled increase in the maximum reduction for widow(er)s. Disabled widow(er)s ages 50 to 59 receive 71.5 percent of the PIA.

Generally benefits continue to be paid at these reduced rates for as long as the recipients remain on the rolls. However, at attainment of the full retirement age for all recipients, and also at age 62 for a widow, widower, and a surviving divorced spouse, the number of months of reduction is adjusted by dropping months for which full benefits were not paid. Data on benefits paid to new retired workers in 1995 indicates that 72 percent of all such benefits were actuarially reduced (69 percent of those payable to men, and 75 percent to women). Table 1–10 presents information on the number of workers retiring in a given year who file for actuarially reduced benefits.

Delayed Retirement Credit

A worker is eligible for a delayed retirement credit (DRC) for each month the worker: (1) was fully insured; (2) had attained full retirement age but was not yet age 70; and (3) did not receive benefits because the worker had not filed an application or was working. Each DRC increases the worker's monthly benefit by one-twelfth of 1 percent for workers who attained age 62 before 1979 and by one-fourth of 1 percent for workers attaining age 62 from 1979 through 1986 (unless the benefit is based on a special minimum PIA). The increase is applicable to the worker's monthly benefit amount but not to the PIA. Therefore, dependents' benefits are generally not affected. The exception is that an individual receiving benefits as a widow(er) or surviving divorced spouse is entitled, for months after May 1978, to the same increase that was applied to the benefit of the worker, or for which the worker was eligible at the time of death.

As a result of the Social Security amendments of 1983, beginning with workers who attain age 65 in 1990 (i.e., age 62 in 1987) the increment for delaying retirement past the normal retirement age

(DRC) will increase by one-half of 1 percent every second year until reaching 8 percent per year of delayed retirement for workers attaining age 65 after 2007 (see table 1–8).

MAXIMUM FAMILY BENEFIT

Old Age and Survivor Insurance (OASI)

The maximum monthly amount that can be paid on a worker's earnings record varies with the PIA. For benefits payable on the earnings records of retired and deceased workers, the maximum varies from 150 to 188 percent of the PIA. The family maximum cannot be exceeded regardless of the number of recipients entitled on that earnings record. The family maximum is computed by adding fixed percentages of dollar amounts that are part of the PIA. For the family of a worker who turns 62 or dies in 1996, the total amount of benefits payable is limited to:

150 percent of the first $559 of PIA, plus;
272 percent of PIA from $559 through $806, plus;
134 percent of PIA from $806 through $1,052, plus;
175 percent of PIA over $1,052.

The dollar amounts in this benefit formula (i.e., the "bend points") are adjusted annually by the same index used to update the bend points in the primary benefit formula.

Whenever the total of the individual monthly benefits payable to all the recipients entitled on one earnings record exceeds the maximum, each dependent's or survivor's benefit is reduced in equal proportion to bring the total within the maximum.

In computing the maximum family benefit for entitlements based on a single earnings record, any benefit payable to a divorced spouse or to a surviving divorced spouse is not included.

Disability Insurance (DI)

The maximum family benefit is the smaller of 85 percent of the worker's average indexed monthly earnings (AIME), or 150 percent of the worker's primary insurance amount (PIA). However, in no case can the benefit be less than 100 percent of the worker's PIA.

EARNINGS LIMIT

The earnings limit is a provision in the law that reduces benefits for nondisabled recipients who earn income from work above a certain amount.

Variations of the earnings limit have been part of the Social Security Program since its beginning. In 1996, recipients under age 65 may earn up to $8,280 a year in wages or self-employment income without having their benefits affected. Those aged 65–69 can earn up to $12,500 a year. For earnings above these amounts, recipients under age 65 lose $1 of benefits for each $2 of earnings, and those age 65–69 lose $1 in benefits for every $3 of earnings. The earnings limit does not apply to recipients over age 69, or to those who are disabled. The earnings limits rise each year indexed to the rise in average wages in the economy.

Beginning in 1996, the exempt amounts for those who have attained the full retirement age will be increased on an *ad hoc* basis, according to the following schedule:

Year	Exempt amount
1996	$12,500
1997	13,500
1998	14,500
1999	15,500
2000	17,000
2001	25,000
2002	30,000

These changes were included in Public Law 104–121 enacted on March 29, 1996. After 2002, the exempt amounts for those who have attained the full retirement age again will be adjusted to rise at the same rate as average wages in the economy.

Before enactment of Public Law 104–121, about 1.4 million recipients lost some or all of their benefits because of the earnings limit each year. They represented about 4 percent of all recipients. Of recipients age 65–69, about 10 percent (925,999) were affected, and an additional 140,000 persons were estimated to be deterred from filing for benefits because of the earnings limit.

Retired workers whose benefits are not paid due to the earnings limit for one or more months are compensated through future increases in their benefit amount known as delayed retirement credits, or DRCs (discussed earlier). For workers under age 65, their actuarial reduction factor is reduced. Beneficiaries age 65–69 get a DRC for each month benefits were not paid.

Examples of effects of the earnings limit:

1. John—Age 63 with $4,000 in annual benefits before the earnings limit is applied:

Earnings in 1996	$9,280
Exempt amount for under age 65	8,280
Excess over exempt amount	1,000
Benefit reduction = 50 percent of excess	500
Benefits John will receive in 1996	3,500

2. Ida—Age 67 with $4,000 in annual benefits before the earnings limit is applied:

Earnings in 1996	13,100
Exempt amount for 65 and older	12,500
Excess over exempt amount	600
Benefit reduction = 33⅓ percent of excess	200
Benefits Ida will receive in 1996	3,800

The earnings limit does not apply to pensions, rents, dividends, interest, and other types of "unearned" income. These forms of income have always been exempted in order to encourage savings for retirement to supplement Social Security.

History of the earnings limit

The earnings limit was part of the original plan that led to Social Security. The 1935 report of the Committee on Economic Security appointed by President Franklin D. Roosevelt recommended that no benefits be paid before a person had "retired from gainful employment." Initially, the Social Security Act provided that benefits would not be paid for any month in which the individual had received "wages with respect to regular employment." Before any benefits were payable under the program, Congress modified this provision in the Social Security amendments of 1939. No benefits would be paid for any month in which wages from covered employment were $15 or more. This arrangement prevailed until 1950.

The 1950 amendments extended Social Security coverage to the bulk of nonfarm self-employed workers. Because it was believed that many self-employed people never retired and therefore would never receive benefits, the 1950 act exempted persons age 75 and over from the earnings limit. In addition, in the first of many legislative actions to increase the amount of earnings permitted, allowable monthly income from wages was increased from $14.99 to $50.

Over the years, the earnings limits, the affected ages, and the formulas for reducing benefits have been changed many times. Starting with the 1954 amendments, benefits were no longer totally withheld if the retiree had earnings above the monthly exempt amount. Instead, a reduced benefit was payable. In addition, the 1954 act exempted persons age 72 and over from the earnings limit.

The 1972 amendments reduced benefits by $1 for every $2 of earnings above the exempt amount. The 1972 amendments also provided that, beginning in 1975, the exempt amounts would be "indexed" to rise at the same rate as wage growth. To compensate workers who did not receive benefits for months between ages 65 and 72, the amendments established the delayed retirement credit.

In the consideration of major Social Security legislation in 1977, there was considerable pressure to eliminate the earnings limit for persons over age 65. As a compromise, the earnings limit was raised for persons age 65 and older, and since then two different exempt amounts have applied, one for those under full retirement age (currently age 65) and one for those between full retirement age and age 70. (The 1977 amendments also lowered from 72 to 70 the age at which the earnings limit would no longer apply, to be effective in 1982, later postponed until 1983.) In response to criticism that the monthly earnings limit discriminated in favor of workers who had substantial but irregular employment (e.g., teachers), Congress also eliminated the monthly limit except for the first year of retirement. In 1980, Congress extended the monthly limit to the year a dependent beneficiary became ineligible for benefits.

As part of major legislation restoring financial integrity to the Social Security system in 1983, Congress made two liberalizations affecting persons who continue to work after attaining retirement age. The first provided that, beginning in 1990, beneficiaries who have attained the full retirement age will lose only $1 in benefits for each $3 in earnings above the exempt amount. The second increased the delayed retirement credit (DRC). Prior to the increase, the DRC was equal to one-fourth of 1 percent for each month (3 percent a year) beyond the full retirement age that a person did not receive benefits. Under the 1983 provision, the DRC increases gradually to two-thirds of 1 percent per month between 1990 and 2009 (8 percent a year).

As a result of a legislative change in the Deficit Reduction Act of 1984, the Social Security Administration requests earlier reports of earnings from beneficiaries who are most likely to have earnings in excess of the exempt amount. As a result, these beneficiaries have their benefits reduced in the actual year that they have excess earnings, rather than receiving overpayments which must then be recouped later when they may no longer be working.

On March 29, 1996, President Clinton signed H.R. 3136, the Contract with America Advancement Act of 1996 (Public Law 104–121), which increases the Social Security earnings limit "exempt amounts"—the amount of earnings Social Security recipients may earn before their benefits are reduced—for recipients between the "full retirement age" (currently age 65) and age 70. Their exempt amounts will increase gradually by higher amounts than under prior law over the period 1996–2000, and then more rapidly over the next 2 years, reaching $30,000 in 2002.

Table 1–14a shows amounts exempt from the earnings limit since 1975.

Earnings of retired workers

Of 9.5 million recipients entitled to retired worker benefits who were under the age of 70 in 1993, about 3.5 million had earnings from work. Table 1–15 shows the distribution of the earnings of these workers.

OFFSETS

Offset for other public disability benefits

When a worker receiving Social Security disability benefits also qualifies for other disability benefits that are provided by Federal, State or local governments or worker's compensation, any Social Security benefits payable to him or her and his or her family are reduced by the amount, if any, that the total monthly benefits payable under the two or more programs exceed 80 percent of average current earnings before he became disabled. Needs-tested benefits, Veterans' Administration disability benefits, and benefits based on public employment covered by Social Security are not subject to the provision. A worker's average current earnings for this purpose are the larger of (a) the average monthly earnings used for computing Social Security benefits, or (b) the average monthly earnings in employment or self-employment covered by Social Security during the 5 consecutive years of highest covered earnings after 1950, or (c) the average monthly earnings during the calendar year of highest covered earnings during a period consisting of the year in which disability began and the preceding 5 years without regard to the limitations which specify a maximum amount of earnings creditable for Social Security benefits. The combined payments after the reduction are never less than the total amount of the DI benefits payable before the reduction. In addition, the Social Security benefit after the reduction is increased by the full amount of the cost-of-living increase as applied to the unreduced benefit. Every 3 years the original amount of benefits subject to reduction is redetermined to reflect changes in average wage levels. If increases in average national wages would result in a higher benefit than that payable based on the original computation, the benefit is increased effective January of the redetermination year.

TABLE 1–14a.—AMOUNTS EXEMPT FROM THE EARNINGS LIMIT, 1975–2002

Year	Under age 65	Age 65 and over [2]
1975	$2,520	$2,520
1976	2,760	2,760
1977	3,000	3,000
1978	3,240	4,000
1979	3,480	4,500
1980	3,720	5,000
1981	4,080	5,500
1982	4,440	6,000
1983	4,920	6,600
1984	5,160	6,960
1985	5,400	7,320
1986	5,760	7,800
1987	6,000	8,160
1988	6,120	8,400
1989	6,480	8,880
1990	6,840	9,360
1991	7,080	9,720
1992	7,440	10,200
1993	7,680	10,560
1994	8,040	11,160
1995	8,160	11,280
1996	8,280	[3] 12,500
1997	[1] 8,640	[3] 13,500
1998	[1] 9,000	[3] 14,500
1999	[1] 9,360	[3] 15,500
2000	[1] 9,720	[3] 17,000
2001	[1] 10,080	[3] 25,000
2002	[1] 10,560	[3] 30,000

[1] Based on economic assumptions in the 1996 Annual Report of the Board of Trustees of the Federal Old-Age, Survivors, and Disability Insurance Trust Funds.

[2] From 1955 to 1982, earnings limits did not apply at ages 72 and over; beginning in 1983, they do not apply at ages 70 and over.

[3] Public Law 104–121.

Source: Office of the Actuary, Social Security Administration.

The offset begins in the month during which concurrent entitlement begins under a Federal or State law. However, the offset will not be made if the State workers' compensation law provides for an offset against Social Security disability benefits.

Offsets for receipt of pension from noncovered employment

Government pension offset.—Social Security benefits payable to spouses of retired, disabled, or deceased workers are generally reduced to take account of any public pension the spouse receives as a result of work in a government job (Federal, State, or local) not covered by Social Security. The amount of the reduction is equal to two-thirds of the government pension. This provision is intended to place spouses who worked in jobs not covered by Social Security in the same position as other workers by imposing on them the equivalent of the Social Security "dual entitlement" rule, which imposes a dollar-for-dollar offset of spouses' benefits (discussed earlier). Two-thirds of the government pension represents a surrogate of the Social Security worker's benefit that would be subtracted from any Social Security spousal benefit. The offset does not apply to workers whose government job is covered by Social Security on the last day of the person's employment.

TABLE 1–15.—RETIRED WORKERS WITH EARNINGS IN 1993

Total earnings	Ages 62–64	Ages 65–69
$1–4,999	501,800	919,100
5,000–9,999	344,000	568,600
10,000–14,999	106,000	285,300
15,000–19,999	55,800	126,000
20,000–24,999	32,700	93,500
25,000–29,999	20,000	68,500
30,000–34,999	14,900	54,300
35,000–39,999	9,300	37,300
40,000–44,999	7,300	34,000
45,000–49,999	4,600	22,300
50,000–54,999	3,000	16,900
55,000–59,999	2,700	19,900
60,000–64,999	2,600	12,900
65,000–69,999	1,000	9,600
70,000–74,999	900	8,800
75,000–79,999	1,000	5,800
80,000–84,999	300	5,300
85,000–89,999	400	6,500
90,000–94,999	800	4,400
95,000–99,999	300	10,100
100,000 +	4,000	30,700
Total	1,113,400	2,339,800

Source: Social Security Administration.

Generally, Federal workers hired before 1984 are part of the Civil Service Retirement System (CSRS) and are not covered by Social Security. Federal workers hired after 1983 are covered by the Federal Employee's Retirement System Act of 1986 (FERS), which includes coverage by Social Security. Employees covered by the CSRS were given the opportunity in 1987, to join FERS and thereby obtain Social Security coverage.

Windfall elimination provision.—Under the so-called "windfall elimination" provision of the Social Security amendments of 1983, a different benefit formula reduces the Social Security benefits of most workers who also have pensions from work that was not covered by Social Security (e.g., work under the Federal Civil Service Retirement System). The regular benefit formula (see earlier discussion) is weighted, in order to help workers who spend their work careers in low-paying jobs, by providing them with a benefit that replaces a higher proportion of their earnings than the benefit that is provided for workers with high earnings. However, the formula cannot differentiate between those who worked in low-paid jobs throughout their careers and other workers who appeared to have been low paid because they worked many years in jobs not covered by Social Security (these noncovered earnings are shown as zeros for Social Security benefit purposes). Thus, before the law was changed, workers who were employed for only a portion of their careers in jobs covered by Social Security also received the advantage of the "weighted" formula, because their few years of covered earnings were averaged over their entire working career to determine the average covered earnings on which their Social Security benefits were based. This was the case even if their noncovered earnings were high.

The windfall benefit formula is intended to remove this advantage for these workers. It does so by substituting 40 percent for the 90 percent factor in the first bracket of the benefit formula (see discussion in earlier section on "Benefit Formula"). (The second and third factors remain the same.) The resulting reduction in the worker's Social Security benefit is limited to one-half the amount of the noncovered pension. The new law was phased in over a 5-year period and affects those first eligible for both Social Security benefits and noncovered pensions after 1985.

Workers who have 30 years or more of substantial Social Security coverage are fully exempt from this provision. For workers who have 21–29 years of coverage, the percentage in the first bracket in the formula increases by 5 percentage points for each year over 20, as shown in table 1–16.

Suspension of Benefits to Prisoners

In 1980, legislation was enacted barring payment of disability benefits to prisoners who committed felonies (Public Law 96–473). In 1983, the prohibition was broadened to include retirement and survivor benefits (Public Law 98–21); and in 1994, payment of benefits was barred to those in public institutions who committed serious crimes, but who were found incompetent to stand trial, or not guilty by reason of insanity (Public Law 103–387). Only benefits to the prisoner are barred; benefits to a prisoner's eligible spouse and/or children are payable.

COST-OF-LIVING ADJUSTMENTS

Monthly cash benefits were increased on an ad hoc basis 10 times before the first automatic cost-of-living adjustment (COLA) was implemented as a result of the Social Security amendments of 1972. Beginning in 1975, benefits have been automatically adjusted to keep pace with inflation. Since 1975, there have been increases annually except during calendar year 1983, when the adjustment was delayed 6 months (see table 1–1).

TABLE 1–16.—WINDFALL BENEFIT FORMULA FACTORS

Years of Social Security coverage	First factor in formula (percent)
20 or fewer	40
21	45
22	50
23	55
24	60
25	65
26	70
27	75
28	80
29	85
30 or more	90

Source: Social Security Administration.

Social Security beneficiaries receive a COLA in January of each year if there is a measurable annual increase in prices (0.1 percent). The Consumer Price Index for Wage Earners and Clerical Workers (CPI–W), updated monthly by the Bureau of Labor Statistics (BLS), is the measure used to compute the increase. The average CPI–W for the third calendar quarter of one year is compared to the average CPI–W for the third calendar quarter of the next year, and the resulting percentage increase represents the COLA that will become effective for the following December. The increase actually becomes effective for Social Security checks payable beginning in January, since Social Security checks always reflect the benefits due for the preceding month.

A COLA of 2.6 percent beginning with checks payable in January 1996 was triggered by the rise in the CPI–W from the third quarter of 1994 to the third quarter of 1995. As in all years since 1975, this COLA, in turn, triggered identical percentage increases in Supplemental Security Income (SSI), veterans' pensions, and railroad retirement benefits, and caused other changes in the Social Security and Medicare Programs. Although COLAs under the Federal Civil Service Retirement System (CSRS) and the Federal Military Retirement Program are not triggered by the Social Security COLA, these programs use the same measuring period and formula for computing their COLAs.

Determination of the COLA

The 2.6 percent COLA for January 1996 became known on October 13, 1995, when the BLS announced the CPI–W figure for September 1995. With release of the September index, the two July-September sets of CPI–W figures needed to compute the COLA—one for 1994 and another for 1995—became available.

Table 1–17 shows how the January 1996 COLA was computed under procedures set forth in the law.[3] Table 1–18 shows the com-

[3] Under section 215(i) of the Social Security Act.

parison between average wage increases and changes in the CPI from 1965 to 1995.

TABLE 1–17.—COMPUTATION OF THE SOCIAL SECURITY COLA, JANUARY 1996

Month	CPI–W index points	
	1994	1995
July	145.8	149.9
August	146.5	150.2
September	146.9	150.6
3-month average	146.4	150.2

Note.—The reference base period for the CPI–W is 1982–84, i.e., the period when the index equalled 100.

Source: Bureau of Labor Statistics.

Increase in CPI index points from the third quarter of 1994 to the third quarter of 1995:

$$150.2 - 146.4 = 3.8$$

Percent increase in average CPI for the 2 quarters:

$$3.8 \div 146.4 = 2.596\%$$

COLA = 2.6%.

By law, the change must be rounded to the nearest tenth of a percent.

TAXATION OF BENEFITS

Beneficiaries with income (defined as adjusted gross income plus tax-exempt bond interest plus one-half of Social Security benefits) above certain thresholds are required to include a portion of their Social Security benefits (and railroad retirement tier 1 benefits) in their federally taxable income. The Social Security Amendments of 1983 required beneficiaries with income of more than $25,000 if single, and $32,000 if married, to include up to 50 percent of their benefits in their taxable income, beginning in 1984. Revenues from this provision are credited to the OASDI Trust Funds. The Omnibus Budget Reconciliation Act of 1993 required beneficiaries with incomes of more than $34,000 if single, and $44,000 if married, to include up to 85 percent of their benefits in their taxable income, beginning in 1994. Revenues from this provision are credited to the Medicare HI Trust Fund.

TABLE 1–18.—HISTORICAL COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN CPI, 1965–95

[In percent]

Calendar year	Increase in wages [1]		Increase in CPI [2]		Increase in benefits [3]	
	Over prior year	Cumulative from each year to 1995	Over prior year	Cumulative from each year to 1995	Over prior year	Cumulative from each year to 1995
1965	1.8	429.6	1.6	372.6	7.0	472.5
1966	6.0	399.6	3.2	358.1	0.0	472.5
1967	5.6	373.3	2.8	345.8	0.0	472.5
1968	6.9	342.8	4.2	328.0	13.0	406.6
1969	5.8	318.6	5.4	306.0	0.0	406.6
1970	5.0	298.8	5.7	284.1	15.0	340.6
1971	5.0	279.8	4.4	268.1	10.0	300.5
1972	9.8	245.9	3.4	255.8	20.0	233.8
1973	6.3	225.5	6.2	235.1	0.0	233.8
1974	5.9	207.2	11.0	202.0	11.0	200.7
1975	7.5	185.9	9.1	176.9	8.0	178.4
1976	6.9	167.4	5.7	161.9	6.4	161.7
1977	6.0	152.3	6.5	146.0	5.9	147.1
1978	7.9	133.7	7.7	128.4	6.5	132.0
1979	8.7	114.9	11.4	104.9	9.9	111.1
1980	9.0	97.2	13.4	80.7	14.3	84.7
1981	10.1	79.1	10.3	63.9	11.2	66.1
1982	5.5	69.8	6.0	54.6	7.4	54.6
1983	4.9	61.9	3.0	50.1	[4] 3.5	49.4
1984	5.9	52.9	3.5	45.0	3.5	44.4
1985	4.3	46.7	3.5	40.1	3.1	40.0
1986	3.0	42.4	1.6	37.9	1.3	38.2
1987	6.4	33.9	3.6	33.2	4.2	32.7
1988	4.9	27.6	4.0	28.0	4.0	27.6
1989	4.0	22.8	4.8	22.2	4.7	21.8
1990	4.6	17.3	5.2	16.1	5.4	15.6
1991	3.7	13.1	4.1	11.5	3.7	11.5
1992	5.2	7.6	2.9	8.4	3.0	8.2
1993	0.9	6.7	2.8	5.4	2.6	5.5
1994	2.7	3.9	2.5	2.9	2.8	2.6
1995	[5] 3.9	NA	[6] 2.9	NA	2.6	NA

[1] Average annual wages used to index earnings records.
[2] Increase in annual average CPI–W.
[3] Legislated benefit increases through 1975 and increases based on CPI thereafter. After 1975, the CPI and benefit increases are different because they reflect the change in prices measured over different periods of time.
[4] As a result of the Social Security amendments of 1983, COLAs are provided on a calendar year basis, with the benefit increase payable in January rather than July. The July 1983 COLA was delayed to January 1984. This delay and a change in the computation period led to the last 6 months of 1983 not being accounted for in any COLA increase—a period during which the CPI increased 2.4 percent.
[5] Preliminary.
[6] Effective December 1995, payable January 3, 1996.

NA—Not available.

Source: Office of the Actuary, Social Security Administration.

The following worksheet shows the steps involved in determining how much of a beneficiary's Social Security benefits are taxable.

WORKSHEET FOR DETERMINING THE TAXABLE PORTION OF SOCIAL SECURITY BENEFITS

1. Enter yearly Social Security benefits ____________

2. Multiply line 1 by 0.50 ____________

3. Enter adjusted gross income plus tax-free interest ____________

4. Add line 2 and line 3 ____________

5. Enter: $25,000 if single or head of household; $32,000 if married filing jointly; $0 if married filing separately ____________

6. Subtract line 5 from line 4 ____________

(If result on line 6 is zero or a negative number, stop; no benefits are taxable.)

7. Divide line 6 by 2 ____________

8. Enter smaller of amounts on line 2 or line 7 ____________

9. Enter amount on line 4 ____________

10. Enter: $34,000 if single or head of household; $44,000 if married filing jointly; $0 if married filing separately ____________

11. Subtract line 10 from line 9 ____________

(If result on line 11 is zero or a negative number, stop; amount on line 8 is amount of benefits taxable.)

12. Multiply line 11 by 0.85 ____________

13. Enter smallest of: amount on line 8; $4,500 if single or head of household; $6,000 if married filing jointly; $0 if married filing separately ____________

14. Add amounts on line 12 and line 13 ____________

15. Multiply line 1 by 0.85 ____________

16. Enter smaller of amounts on line 14 or line 15 ____________

(The amount on line 16 is the total amount of benefits taxable.)

Source: Congressional Research Service.

Examples of results of applying worksheet (1996):

	Single	Single	Married	Married	Married
Total income (including Social Security)	$27,000	$35,000	$38,000	$50,000	$80,000
Social Security benefits	12,000	7,000	12,000	12,000	18,000
Amount of benefits taxable	0	3,250	0	6,000	15,300
Percent of benefits taxable	0	46	0	50	85
Income tax liability on all benefits taxable	0	488	0	900	4,284

For calendar year 1997 (see table 1–19), CBO projects that 25 percent of Social Security beneficiaries will be affected by the taxation of benefits (see table 1–19). Table 1–20 shows amounts credited to trust funds from taxation of benefits.

DETERMINATION OF DISABILITY BENEFITS

DETERMINATION OF DISABILITY

Disability determinations are generally made by State agencies, which are 100 percent federally funded. These agencies agree to make such determinations and in doing so to substantially comply with the regulations of the Commissioner, which specify performance standards and administrative requirements and procedures to be followed in performing the disability determination function.

The law authorizes the Commissioner to terminate State administration and assume responsibility for making disability determinations when a State Disability Determination Service (DDS) is substantially failing to make determinations consistent with regulations. The law also allows for termination by the State.

APPLICATION OF LAW AND REGULATIONS

Claims are adjudicated on a sequential basis. The first step is to determine whether the individual is engaging in substantial gainful activity (SGA). Under current regulations, if a person is earning more than $500 a month (net of impairment-related work expenses), she ordinarily will be considered to be engaging in SGA. By law, SGA is $960 a month for disabled blind individuals in 1996. If it is determined that the individual is engaging in SGA, a decision is made that he is not disabled without considering medical factors. If an individual is found not to be engaging in SGA, the severity and duration of the impairment are explored. If the impairment is determined to be "not severe" (i.e., it does not significantly limit the individual's capacity to perform work), the individual's disability claim is denied. If the impairment is "severe," a determination is made as to whether the impairment "meets" or "equals" the medical listings published in regulations by SSA,[4] and

[4] The Listing of Impairments contains over 100 examples of medical conditions that would ordinarily prevent an individual from engaging in substantial gainful activity. Each listing describes a degree of severity such that an individual who is not working, and has such an impairment, is considered unable to work by reason of the medical impairment. The listing describes specific medically acceptable clinical and laboratory findings and signs which establish the se-

whether it will last for 12 months. If the impairment neither "meets" nor "equals" the listing (which would result in an allowance), but meets the 12-month duration rule, the individual's residual functional capacity (what an individual still can do despite his or her limitations), and the physical and mental demands of his or her past relevant work, must be evaluated. If the impairment does not prevent the individual from meeting the demands of his past relevant work, then benefits are denied. If it does, then it must be determined if the impairment prevents other work.

At this stage in the adjudication process, because of a judicial opinion and subsequent administrative and legislative ratification, the burden of proof switches to the government to show that the individual can, considering his impairment, age, education, and work experience, engage in some other kind of substantial gainful activity that exists in the national economy. Such work does not have to exist in the immediate area in which he lives, and a specific job vacancy does not have to be available to him. Work in the national economy is defined in statute as work which exists in significant numbers either in the region where such individual lives or in several regions of the country.

SSA has developed a vocational "grid" designed to reduce the subjectivity and lack of uniformity in applying the vocational factor. The grid regulations embody in a formula certain worker characteristics such as age, education, and past work experience, in relation to the individual's residual functional capacity to perform work-related physical and mental activities. If the applicant has a particular level of residual work capability—characterized by the terms sedentary, light, medium, heavy and very heavy—an automatic finding of "disabled" or "not disabled" is required when such capability is applied to various combinations of age, education, and work experience.

FEDERAL REVIEW OF STATE DETERMINATIONS

The law requires that the Commissioner review 50 percent of the disability allowances and a sufficient number of other determinations to ensure a high degree of accuracy. The Commissioner may also, on his or her own motion, review any determination by a DDS.

PERIODIC REVIEW OF INDIVIDUALS RECEIVING DISABILITY BENEFITS

The 1980 disability amendments required that, at least once every 3 years, the Social Security Administration reexamine every individual on the rolls who is determined to be nonpermanently disabled. Where there is a finding of permanent disability, the Commissioner may reexamine at such times as is determined to be appropriate. These reviews are in addition to the administrative eligibility review procedures existing before the 1980 amendments.

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verity of the impairments. An impairment or combination of impairments is said to "equal the listings" if the medical findings for the impairment are at least equivalent in severity and duration to the listed findings of a listed impairment.

TABLE 1–19.—EFFECT OF TAXING SOCIAL SECURITY BENEFITS BY INCOME CLASS, PROJECTED CALENDAR YEAR 1997

[Numbers of persons in thousands; dollars in billions]

Level of individual or couple income [1]	Persons age 65 and over			All recipients			Aggregate amount of Social Security benefits	Aggregate amount of taxes on benefits	Taxes as a percent of benefits
	Number	Number affected by taxation [2]	Percent affected by taxation [2]	Number of Social Security beneficiaries [3]	Number affected by taxation [3]	Percent affected by taxation [3]			
Less than $10,000	7,062	0	0	10,049	0	0	57,246	0	0
$10,000–$15,000	4,392	0	0	6,043	0	0	47,906	0	0
$15,000–$20,000	3,762	0	0	4,828	0	0	39,179	0	0
$20,000–$25,000	3,100	0	0	3,936	0	0	34,402	0	0
$25,000–$30,000	2,805	69	2.5	3,644	146	4.0	31,748	12	0
$30,000–$40,000	4,315	988	22.9	5,518	1,466	26.6	48,676	410	0.8
$40,000–$50,000	2,730	2,167	79.4	3,405	2,886	84.8	30,864	1,338	4.3
$50,000–$100,000	4,171	3,771	90.4	5,124	5,016	97.9	48,128	7,084	14.7
Over $100,000	1,553	1,192	76.8	1,508	1,350	89.5	15,492	3,474	22.4
All	33,890	8,187	24.2	44,055	10,864	24.7	353,641	12,318	3.5

[1] Cash income (based on income of tax filing unit) plus capital gains realizations.

[2] Some elderly individuals do not receive Social Security benefits and are therefore not affected by taxation of benefits.

[3] Includes beneficiaries under and over age 65.

Note.—Aggregate benefits and revenues are understated by about 10 percent because of benefits paid abroad, deaths of recipients before March interview, and exclusion of institutionalized beneficiaries. The number of beneficiaries is also understated.

Source: Congressional Budget Office simulations based on data from the Current Population Survey.

TABLE 1–20.—TAXATION OF OASDI BENEFITS BY TRUST FUNDS CREDITED AND AS A PERCENT OF TOTAL BENEFIT PAYMENTS, 1984–2001

[Dollars in millions]

Fiscal year	Total OASDI benefits	Taxes credited to trust funds from the taxation of OASDI benefits			Taxes credited to trust funds as percent of OASDI benefits		
		OASDI	Hospital insurance	Total	OASDI	Hospital insurance	Total
Past experience:							
1984	$173,603	$2,275	....	$2,275	1.3	....	1.3
1985	183,959	3,368	....	3,368	1.8	....	1.8
1986	193,869	3,558	....	3,558	1.8	....	1.8
1987	202,430	3,307	....	3,307	1.6	....	1.6
1988	213,907	3,390	....	3,390	1.6	....	1.6
1989	227,150	3,772	....	3,772	1.7	....	1.7
1990	243,275	3,081	....	3,081	1.3	....	1.3
1991	263,104	5,921	....	5,921	2.3	....	2.3
1992	281,650	6,237	....	6,237	2.2	....	2.2
1993	298,176	6,161	....	6,161	2.1	....	2.1
1994	313,129	5,656	$1,625	7,281	1.8	0.5	2.3
1995	328,841	5,449	3,883	9,332	1.7	1.2	2.8
Projected: [1]							
1996	343,778	6,159	3,976	10,135	1.8	1.2	2.9
1997	361,123	7,195	4,331	11,526	2.0	1.2	3.2
1998	379,488	7,694	4,623	12,317	2.0	1.2	3.2
1999	399,288	8,242	4,926	13,168	2.1	1.2	3.3
2000	420,885	8,837	5,259	14,096	2.1	1.2	3.3
2001	444,329	9,500	5,626	15,126	2.1	1.3	3.4

[1] Based on intermediate assumptions in the 1996 Annual Reports of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds and the Hospital Insurance Trust Fund.

Note.—Tax amounts are the amounts collected through the Federal income tax system (including adjustments for actual experience in prior years) plus, for OASDI only, taxes withheld from the OASDI benefits of certain nonresident aliens.

Source: Office of the Actuary, Social Security Administration.

MEDICAL IMPROVEMENT STANDARD

The 1984 Disability Benefits Reform Act amended the law to require that in continuing eligibility review cases, benefits may be terminated only if the Commissioner finds that there has been medical improvement in the person's condition and that the individual is now able to engage in substantial gainful activity. There are several exceptions to this standard, which are described in greater detail in the "Recent Legislation" section of this chapter.

MEDICAL EVIDENCE

An individual is not considered to be under a disability unless he furnishes such medical and other evidence as the Commissioner may require.

Under the law, the Commissioner will generally reimburse physicians or hospitals for supplying medical evidence in support of claims for DI benefits. The Commissioner also pays for medical examinations that are needed to adjudicate the claim.

ATTORNEYS' FEES AND REPRESENTATION

Attorneys and other individuals who represent disability applicants in any proceeding before SSA, and who wish to charge a fee for their services, must have the fee authorized by SSA.

SSA approves a fee agreement filed before the date of the favorable decision and signed jointly by the applicant and the representative, if the agreed-upon fee does not exceed the lesser of 25 percent of past-due benefits or $4,000.

Under both the fee petition and fee arrangement process, SSA withholds 25 percent of the past-due benefits of an applicant represented by an attorney and certifies direct payment of the authorized fee to the attorney.

A court that renders a favorable decision for Social Security benefits is permitted to set a reasonable fee for the attorney who represented the applicant before the court. The fee cannot exceed 25 percent of the past-due benefits that result from the court's decision.

VOCATIONAL REHABILITATION

The Social Security Act requires that persons applying for a determination of disability be promptly referred to State vocational rehabilitation (VR) agencies for necessary rehabilitation services. The act provides for withholding of benefits for refusal, without good cause, to accept rehabilitation services available under a State plan approved under the Vocational Rehabilitation Act.

Public Law 97–35 eliminated reimbursement from the DI Trust Funds to the State vocational rehabilitation agencies for rehabilitation services except in cases where the services result in the beneficiary's performance of substantial gainful activity (SGA) for a continuous period of at least 9 months. Such a 9-month period could begin while the individual is under a vocational rehabilitation program and may also coincide with the trial work period or the individual's waiting period for benefits. The services must be performed under a State plan for vocational rehabilitation services under title I of the Rehabilitation Act. In the case of any State that is unwilling to participate or does not have a plan that meets the requirements of the Vocational Rehabilitation Act, the Commissioner of Social Security may provide such services by agreement or contract with other public or private agencies, organizations, institutions or individuals. The determination that the vocational rehabilitation services contributed to the successful return of the individual to SGA, and the determination of the amount of costs to be reimbursed, are made by the Commissioner. Payments under this provision can be made in advance or by reimbursement, with necessary adjustments for overpayments or underpayments.

Using the rulemaking process, SSA gained significant new authority when regulations were published in the Federal Register on March 15, 1994. The regulations expanded the use of private vocational rehabilitation providers and public non-State VR providers when a State VR agency declines to provide services for an individual referred to it.

DISABILITY CLAIMS AND APPEALS STRUCTURE

The Social Security appeals and case review process is a complex multilayered structure that is inextricably linked with the disability determination process. The application for disability benefits is made at the Social Security district office where the applicant is interviewed and the sources of medical evidence are recorded. After determining whether the applicant meets the insured status requirements, the SSA district office then sends the case to the State Disability Determination Service (DDS), which makes the initial determination of disability. If an applicant or beneficiary is dissatisfied with an initial denial or termination of disability benefits by the DDS, she can request a reconsideration within 60 days of receipt of the notice of denial. The reconsideration on the disability claim is also carried out by the DDS, but by personnel other than those who made the initial determination.

If upon reconsideration the applicant is again denied benefits, the applicant will be given a hearing before an administrative law judge (ALJ) in SSA's Office of Hearings and Appeals (OHA), providing he files a request for hearing within 60 days of receipt of the notice of denial. If the claim is denied by the ALJ, the applicant has 60 days to request review by the Appeals Council. The Appeals Council is a 15-member body located in the OHA. The Appeals Council may also, on its own motion, review a decision within 60 days of the ALJ's decision. The 1980 disability amendments required a review of a percentage of ALJ hearing decisions, and this review is being conducted by the Appeals Council.

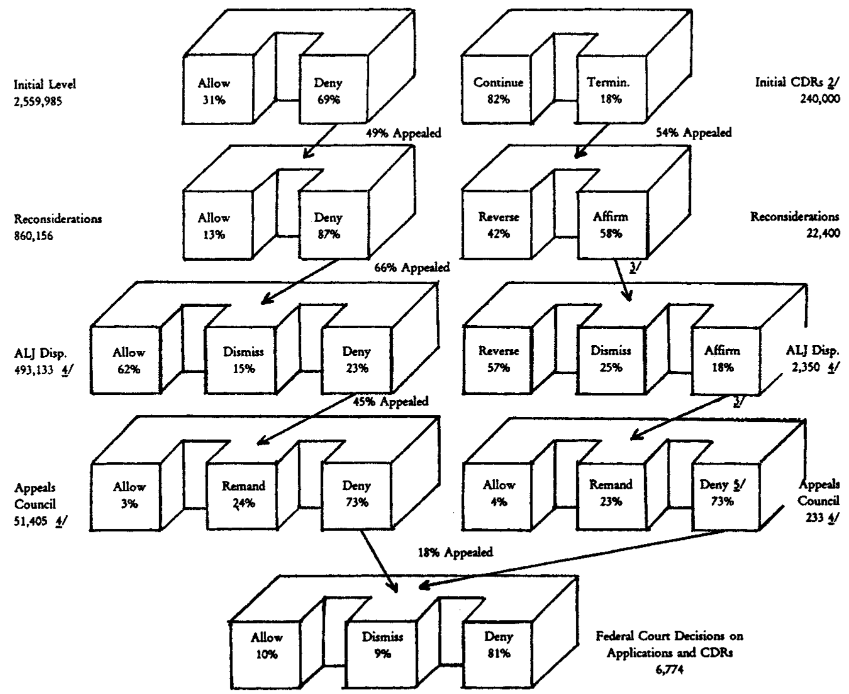
The Appeals Council may review, affirm, modify or reverse the decision of the ALJ, or it may remand it to the ALJ for further development. The applicant is notified in writing of the final action of the Appeals Council, and is informed of his right to obtain further review by commencing a civil action within 60 days in a U.S. District Court.

Under current law, as amended by the 1984 Disability Benefits Reform Act, DI beneficiaries whose benefits have been terminated because of recovery or improvement in the medical condition that was the basis for the disability can elect to continue to receive disability and Medicare benefits through the hearing stage of the appeals process, subject to recovery.

Chart 1–1 shows the number of cases allowed and appealed at various levels of appeal for application decisions and continuing disability reviews (CDRs) processed by State agencies. Table 1–21 presents information for fiscal years 1979 through 1995 on the number of cases that were reviewed and reversed at the ALJ level. Table 1–22 presents information on the number of title II DI continuing disability reviews that were conducted in fiscal years 1977–95. Due to an unprecedented increase in initial claims, the number of CDRs processed declined sharply in the early 1990s. National implementation of a new CDR process in 1993 enabled SSA to increase the number of CDRs being conducted significantly.

CHART 1–1. DISABILITY DETERMINATIONS AND APPEALS, FISCAL YEAR 1995

TITLE II, TITLE XVI AND CONCURRENT TITLE II AND XVI DECISIONS FOR DISABILITY CLAIMS BY WORKERS, WIDOWS, WIDOWERS AND DISABLED ADULT CHILDREN [1]



% of Total Allowances

Total	100.00
Initial Decisions 6/	69.4
Initial Applications	56.2
CDR	13.2
Reconsiderations	8.6
ALJs	21.9
Appeals Council	.1
Federal Court	.05

[1] The data relate to workloads processed (but not necessarily received) in fiscal year 1995, i.e., the case processed at each adjudicatory level may include cases received at one or more of the lower adjudicatory levels prior to fiscal year 1995. The data include determinations on initial applications as well as continuing disability reviews (both periodic reviews and medical diary cases).

[2] Includes non-State CDR mailer continuations. Also includes 12,800 CDRs where there was "no decision." The continuance and termination rates are computed without the "no decision" cases.

[3] Many ALJ dispositions and AC decisions are based on DDS determinations from a previous year. Therefore, a percent appealed is not provided.

[4] Preliminary data.

[5] Includes ALJ decisions not appealed further by the claimant but reviewed by the Appeals Council on "own motion" authority.

[6] Includes affirmations, denials and dismissals of requests for review, own motion reopening cases.

Source: Social Security Administration.

Public Law 104–121 authorized significant additional administrative funding exempt from the discretionary spending cap, and above the annual $200 million currently authorized, to enable SSA to clear its CDR backlog of roughly 3.4 million cases more quickly. Total fiscal year authorizations are: 1996, $260 million; 1997, $360 million; 1998, $570 million; and 1999–2002, $720 million.

TABLE 1–21.—ADMINISTRATIVE LAW JUDGE DISABILITY INSURANCE [1] FAVORABLE DECISION RATES, INITIAL DENIALS AND TERMINATIONS, [2] FISCAL YEARS 1979–95

Fiscal year	Dismissed	Unfavorable	Favorable	Total	Percent favorable
Initial denials:					
1979	6,332	31,485	48,934	86,751	56.4
1980	7,093	31,703	56,733	95,529	59.4
1981	15,141	59,930	98,129	173,200	56.7
1982	15,403	67,481	91,865	174,749	52.6
1983	14,334	65,626	79,427	159,387	49.8
1984	15,075	63,381	88,301	166,757	53.0
1985	14,806	61,161	92,118	168,085	54.8
1986	28,792	44,223	78,737	151,752	51.9
1987	15,271	58,412	98,180	171,863	57.1
1988	18,213	58,788	111,748	188,749	59.2
1989	19,695	54,284	122,070	196,049	62.3
1990	19,297	45,264	127,707	192,268	66.4
1991 [3]	19,880	44,594	144,945	209,419	69.2
1992 [3]	19,665	48,407	166,661	234,733	71.0
1993 [3]	20,190	47,579	171,508	239,277	71.7
1994 [4]	23,576	49,110	189,373	262,059	72.3
1995	44,234	65,415	220,558	330,207	66.8
Terminations:					
1979	1,401	4,078	8,052	13,531	59.5
1980	1,431	4,197	9,909	15,537	63.8
1981	2,623	6,945	16,685	26,253	63.6
1982	4,670	17,502	37,306	59,478	62.7
1983	9,247	37,284	73,821	120,352	61.3
1984	25,681	22,590	56,327	104,598	53.9
1985	4,176	2,415	3,126	9,717	32.2
1986	1,095	2,129	2,014	5,238	38.4
1987	812	1,954	2,014	4,780	42.1
1988	1,031	2,807	3,426	7,264	47.2
1989	1,220	3,482	4,882	9,584	50.9
1990	1,166	2,940	4,695	8,801	53.3
1991 [3]	1,007	2,140	3,935	7,082	55.6
1992 [3]	812	1,642	2,812	5,266	53.4
1993 [3]	720	1,281	2,079	4,080	51.0
1994 [4]	656	1,082	1,540	3,278	47.0
1995	821	1,173	1,807	3,801	47.5

[1] Includes title II and concurrent title II/title XVI disability cases and concurrent title II/title XVI aged cases.
[2] Includes all termination cases regardless of the basis for termination.
[3] Final data.
[4] Revised February 1996.

Source: Office of Hearings and Appeals, Social Security Administration.

TABLE 1–22.—CONTINUING DISABILITY REVIEW (CDR) CESSATIONS AND CONTINUATIONS, FISCAL YEARS 1977–95

	Cessations		Continuations		Total cases		
	Number	Percent	Number	Percent	Cessations and continuations	Total disabled persons	Percent reviewed
1977	41,475	38.7	65,745	61.3	107,220	[1] 3,322,230	3.2
1978	38,847	46.4	44,804	53.6	83,651	3,447,767	2.4
1979	45,216	48.1	48,868	51.9	94,084	3,457,837	2.7
1980	44,273	46.8	50,227	53.2	94,550	3,454,010	2.7
1981	80,956	47.9	87,966	52.1	168,922	3,413,602	4.9
1982	179,857	44.8	221,325	55.2	401,182	3,263,354	12.3
1983	182,074	41.7	254,424	58.3	436,498	3,226,888	13.5
1984 [2]	31,927	24.6	97,752	75.4	129,679	3,249,367	4.0
1985 [2]	475	14.6	2,785	85.4	3,260	3,332,870	0.1
1986	2,554	5.6	42,805	94.4	45,359	3,261,768	1.4
1987	20,343	12.4	143,712	87.6	164,055	3,433,524	4.8
1988	33,565	11.5	257,377	88.5	290,942	3,492,762	8.3
1989	24,102	9.2	237,722	90.8	261,824	3,559,840	7.4
1990 [3]	15,154	10.5	129,026	89.5	144,180	3,678,509	3.9
1991 [4]	5,697	12.5	39,749	87.5	45,446	3,866,645	1.2
1992	6,923	15.0	39,291	85.0	46,214	4,165,133	1.1
1993 [5]	4,886	9.9	44,316	90.1	49,202	4,457,500	1.1
1994 [5]	13,940	14.1	85,189	85.9	99,129	4,729,948	2.1
1995 [5]	31,694	16.1	164,281	83.9	196,575	4,980,462	4.0

[1] In current pay at end of fiscal year.
[2] The decline in the number of reviews in 1984 and 1985 was due to the national moratorium on reviews pending enactment and implementation of new legislation that revised criteria for CDRs (legislation enacted in fiscal year 1984; regulations promulgated late fiscal year 1985).
[3] The decline in CDR processing in 1990 was due to the unanticipated demands of processing approximately 40,000 class action court cases.
[4] The continued decline in CDR processing is due to the increase in the initial claims workloads.
[5] Includes non-State CDR mailer continuations.

Source: Office of Disability, Social Security Administration.

CHANGES IN ENROLLMENT AND APPLICANT BACKLOGS

DISABILITY INSURANCE (DI) AWARDS AND RECIPIENTS

Over the past 18 years, the DI Program experienced a period of declining enrollment followed by a rebound in growth. The number of DI beneficiaries (disabled workers and their dependents) receiving benefits peaked at 4.9 million in May 1978. The beneficiary population then declined sharply to 3.8 million in July 1984. Thereafter, the number of beneficiaries rose steadily, reaching 5.9 million in December 1995.

Similarly, the number of new DI benefit awards declined from 592,000 in 1975 to approximately 299,000 in 1982. As shown in table 1–23, awards then rose almost steadily, reaching 646,000 in 1995. (The large 1992 increase is partially attributable to SSA's short-term measures for dealing with increased DI applications. Increasing the volume of applications processed resulted in increases in both awards and denials.)

TABLE 1–23.—DISABLED WORKERS' APPLICATIONS, AWARDS, RATIO OF AWARDS TO APPLICATIONS, AND INSURED WORKERS FOR SELECTED YEARS, 1960–95

	Number of applications (in thousands)	Total awards	Awards as a percent of applications	Awards per 1,000 insured workers
1960	418.6	207,805	50	4.5
1965	532.9	253,499	48	4.7
1970	868.2	350,384	40	4.8
1971	924.4	415,897	45	5.6
1972	947.8	455,438	48	6.0
1973	1,066.9	491,616	46	6.3
1974	1,330.2	535,977	40	6.7
1975	1,285.3	592,049	46	7.1
1976	1,232.2	551,460	45	6.5
1977	1,235.2	568,874	46	6.5
1978	1,184.7	464,415	39	5.2
1979	1,187.8	416,713	35	4.4
1980	1,262.3	396,559	31	4.0
1981	1,161.3	345,254	30	3.4
1982	1,020.0	298,531	29	2.9
1983	1,017.7	311,491	31	3.0
1984	1,035.7	357,141	34	3.4
1985	1,066.2	377,371	35	3.5
1986	1,118.4	416,865	37	3.8
1987	1,108.9	415,848	37	3.7
1988	1,017.9	409,490	40	3.6
1989	984.9	425,582	43	3.7
1990	1,067.7	467,977	44	4.0
1991	1,208.7	536,434	44	4.5
1992	1,335.1	636,637	48	5.2
1993	1,425.8	635,238	45	5.2
1994	1,443.8	631,870	44	5.1
1995	1,338.1	645,832	48	5.1

Source: Office of the Actuary, Social Security Administration.

The incidence of disability (number of awards per 1,000 insured workers) fell from an all-time high of 7.1 in 1975 to an all-time low of 2.9 in 1982. In 1995, the rate was 5.1 percent (see table 1–23).

Table 1–24 shows the number of DI beneficiaries for selected fiscal years.

PENDING CLAIMS AND WAITING TIMES

In recent years, the combination of increasing workloads and reduced staff left the State Disability Determination Services unable to keep pace with their workloads.[5] As shown in table 1–25, pending cases rose sharply between 1988 and 1992. During that time, applications pending at the DDSs rose from 323,000 to 725,000, causing applicants to wait 50 percent longer, or 3 months instead of 2, for an eligibility decision. However, by the end of 1995, applications pending had dropped to 590,000, with applicants' waiting

[5] Between 1984 and 1990, DDS staff was cut by 19 percent—from 14,500 to 11,800.

time reduced to about 2 months. Additional budgetary resources were directed specifically to disability case processing in fiscal years 1994 and 1995. These targeted resources have assisted SSA in efforts to hold down the growth in pending disability work. Table 1–25 shows actual disability cases pending and applicant waiting times since fiscal year 1988.

TABLE 1–24.—NUMBER OF DISABILITY INSURANCE BENEFICIARIES FOR SELECTED YEARS, 1960–95

[Current payment status, December]

	Disabled workers	Spouses	Children	Total
Year:				
1960	455,371	76,599	155,481	687,451
1965	988,074	193,362	557,615	1,739,051
1970	1,492,948	283,447	888,600	2,664,995
1975	2,488,774	452,922	1,410,504	4,352,200
1980	2,861,253	462,204	1,358,715	4,682,172
1981	2,776,519	428,212	1,251,543	4,456,274
1982	2,603,713	365,883	1,003,869	3,973,465
1983	2,568,966	308,060	935,904	3,812,930
1984	2,596,535	303,984	921,285	3,821,804
1985	2,656,500	305,528	945,141	3,907,169
1986	2,727,386	300,592	965,301	3,993,279
1987	2,785,885	290,895	967,944	4,044,724
1988	2,830,284	280,821	963,195	4,074,300
1989	2,895,364	271,488	961,975	4,128,827
1990	3,011,294	265,890	988,797	4,265,981
1991	3,194,938	266,219	1,051,883	4,513,040
1992	3,467,783	270,674	1,151,239	4,889,696
1993	3,725,966	272,759	1,254,841	5,253,566
1994	3,962,954	271,054	1,349,511	5,583,519
1995	4,185,263	263,539	1,408,854	5,857,656

Source: Office of Research and Statistics, Social Security Administration.

CHARACTERISTICS OF RECIPIENTS

OASDI

Table 1–26 provides detailed information on the number of OASDI beneficiaries in various categories, and the average amount of monthly benefits by type of beneficiary for both new awards and all beneficiaries currently receiving payments.

DI

Tables 1–27 and 1–28 present data on the demographic, social, and medical characteristics of the disabled population over time. For instance, table 1–27 shows the increase in the receipt of benefits by women, which reflects larger societal trends in female work force participation. Table 1–27 also indicates the higher levels of educational attainment that characterize the present disabled population in comparison to that of 1970.

TABLE 1–25.—DISABILITY CASES PENDING AND WAITING TIMES, 1988–95

[Cases pending and weeks of work on hand at State Disability Determination Services (DDSs)]

Year	Total claims pending at end of year	Weeks of work on hand [1]
1988	323,000	8.4
1989	479,000	10.0
1990	538,000	11.3
1991	693,000	14.3
1992	725,000	12.1
1993	712,000	10.9
1994	729,000	10.3
1995	590,000	8.4

[1] The number of weeks of work pending in DDSs provides the best approximation of the amount of time an applicant must wait for an eligibility decision.

Source: National Council of Disability Determination Directors.

TABLE 1–26.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1995

[Based on a 10-percent sample]

Beneficiaries	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percentage of total benefits
Retired workers	26,763	61.5	$720	68.2
Retired men	13,914	32.1	810	40.0
Retired women	12,759	29.4	621	28.2
Disabled workers	4,185	9.6	682	10.1
Disabled men	2,568	5.9	762	6.9
Disabled women	1,617	3.7	555	3.2
Spouses of retired workers	3,026	7.0	370	4.0
Wives of retired workers	2,996	6.9	372	4.0
Wives with entitled children	79	0.2	257	0.1
Wives age 62 and over without entitled children	2,918	6.7	375	3.9
Husbands of retired workers	30	0.1	221	([1])
Spouses of disabled workers	264	0.6	164	0.2
Wives of disabled workers	256	0.6	165	0.1
Wives with entitled children	202	0.5	143	0.1
Wives age 62 and over without entitled children	54	0.1	247	([1])
Husbands of disabled workers	8	([1])	117	([1])
Children	3,734	8.6	344	4.6
Children of retired workers	442	1.0	322	0.5
Minor children (age 0–17)	242	0.6	287	0.2
Student children (age 18 and 19)	11	([1])	360	([1])
Disabled children (age 18 and over)	189	0.4	364	0.2
Children of deceased workers	1,884	4.3	469	3.1

TABLE 1–26.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1995—Continued

[Based on a 10-percent sample]

Beneficiaries	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percentage of total benefits
Minor children (age 0–17)	1,386	3.2	460	2.3
Student children (age 18 and 19)	51	0.1	547	0.1
Disabled children (age 18 and over)	446	1.0	487	0.8
Children of disabled workers	1,409	3.2	183	0.9
Minor children (age 0–17)	1,329	3.1	178	0.8
Student children (age 18 and 19)	29	0.1	284	(1)
Disabled children (age 18 and over)	51	0.1	270	(1)
Widowed mothers and fathers	275	0.6	478	0.5
Widowed mothers	260	0.6	485	0.4
Widowed fathers	15	(1)	351	(1)
Widows and widowers (nondisabled)	5,052	11.6	680	12.2
Widows (nondisabled)	5,015	11.6	681	12.1
Widowers (nondisabled)	38	0.1	500	0.1
Widows and widowers (disabled)	173	0.4	458	0.3
Widows (disabled)	169	0.4	461	0.3
Widowers (disabled)	4	(1)	308	(1)
Parents total	4	(1)	591	(1)
Special age 72 (primary)	1	(1)	192	(1)
Total OASI beneficiaries	37,530	86.5	666	88.8
Total DI beneficiaries	5,858	13.5	539	11.2
Total OASDI beneficiaries	43,387	100.0	649	100.0

[1] Less than 0.1 percent.

Note.—Columns may not add due to rounding.

Source: Office of Research and Statistics, Social Security Administration.

TABLE 1–27.—PERCENT DISTRIBUTION BY AGE, SEX AND EDUCATION OF TITLE II DISABLED WORKER BENEFICIARIES ALLOWED BENEFITS IN SELECTED CALENDAR YEARS 1970–95, COMPARED WITH ADULT U.S. POPULATION IN 1990

Characteristics	Year allowed benefits														Adult U.S. population [1]
	1970	1975	1979	1982	1985	1987	1988	1989	1990	1991	1992	1993	1994	1995	
Age:															
Under 35	9.0	11.0	13.6	14.4	16.8	17.1	15.2	16.2	15.7	15.7	16.8	16.2	14.7	13.3	46
35–44	11.0	10.0	11.5	12.3	15.0	16.0	16.5	17.9	18.7	19.6	20.4	20.9	20.7	20.4	24
45–54	26.0	26.0	27.2	26.5	25.7	22.9	23.3	24.7	24.7	25.1	25.6	26.8	27.7	28.3	16
55–59	24.0	23.0	27.0	27.2	23.9	20.8	20.6	20.4	19.9	19.5	18.5	18.6	19.2	19.9	7
60 and over	30.0	30.0	20.6	19.6	18.7	23.2	24.4	20.9	21.0	20.1	18.7	17.6	17.8	18.0	7
Median age (years)	56.0	55.6	53.4	53.1	51.7	53.0	53.3	52.1	51.9	51.4	50.5	50.3	50.8	51.3	32.9
Sex:															
Male	74	68	69	70	67	66	66	64	64	64	63	62	60	58.4	49
Female	26	32	31	30	33	34	34	36	36	36	37	38	40	41.4	51
Education (years of school completed):															
No schooling [2]	2	1	1	1	2	1	1	1	1	1	1	1	1	NA	1
Elementary school (1–8)	44	37	29	26	23	18	18	17	16	16	12	11	12	NA	9
High school	46	52	55	56	59	57	59	60	62	62	50	45	55	NA	45
9–11	23	24	23	22	22	19	20	19	19	19	15	14	16	NA	11
12	23	28	32	34	37	38	39	41	43	43	35	31	39	NA	34
Some college	9	10	12	14	14	16	15	17	17	17	14	12	16	NA	45
Unknown	0	0	3	3	2	8	7	5	5	5	23	31	16	NA	0
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

[1] Derived from 1990 census. Figures for age based on population aged 18–64. Figures for education based on persons aged 25 and over.
[2] Also includes special schools for handicapped.

NA—Not available.

Source: Office of Disability, Social Security Administration.

TABLE 1–28.—PERCENT DISTRIBUTION BY DISABLING CONDITION OF TITLE II DISABLED WORKER BENEFICIARIES ALLOWED BENEFITS IN SELECTED CALENDAR YEARS 1970–95

Disabling condition and mobility	Year allowed benefits													
	1970	1975	1979	1982	1985	1987	1988	1989	1990	1991	1992	1993	1994	1995
Disabling condition:														
Infective and parasitic diseases [1]	3	1	1	1	1	1	0	1	6	6	7	7	6	6
Neoplasms	10	10	14	17	15	12	16	18	17	16	13	15	16	16
Allergic, endocrine system, metabolic and nutritional diseases	4	3	3	4	5	5	3	3	3	4	5	5	5	5
Mental, psychoneurotic and personality disorders	11	11	11	11	18	23	22	22	23	24	25	26	24	22
Diseases of the nervous system and sense organs	6	7	8	9	8	8	8	9	9	8	8	7	8	8
Circulatory system	31	32	28	25	19	17	18	17	16	15	14	15	14	14
Respiratory system	7	7	6	7	5	5	5	5	5	5	4	5	5	5
Digestive system	3	3	2	2	2	1	2	2	2	2	2	2	2	2
Skeletal musculo	15	17	17	16	13	14	14	11	12	13	13	12	12	12
Accidents, poisonings and violence	8	6	6	6	4	5	5	4	4	4	4	3	3	3
Other/unknown	2	3	3	2	11	9	7	9	5	5	5	5	6	6
Total percent [2]	100	100	100	100	100	100	100	100	100	100	100	100	100	100

[1] Beginning in 1990, AIDS/HIV cases are included in this category.
[2] Due to rounding, may not add to 100 percent.

Source: Office of Disability, Social Security Administration.

SOCIAL SECURITY FINANCING

CURRENT LAW

Financing for Social Security—Old Age, Survivors, and Disability Insurance (OASDI)—and the Hospital Insurance (HI) part of Medicare—is provided primarily by taxes levied on wages and net self-employment income. These taxes often are referred to as FICA and SECA taxes (Federal Insurance Contributions Act and Self-Employment Contributions Act, respectively). More than 95 percent of the work force, or an estimated 145.3 million workers in 1996 (of whom 3.2 million pay only HI taxes), is required to pay FICA or SECA. The FICA tax is paid equally by both employees and employers; the SECA tax is paid by the self-employed.

Both taxes have three components: One each for OASI, DI, and HI. The FICA tax was first levied in 1937 at a rate of 1 percent each for the employee and employer on earnings up to $3,000 a year. In 1996, the rate is 7.65 percent of which 6.2 percent goes to OASDI and 1.45 percent goes to HI. The SECA rate for the self-employed is 12.4 percent for OASDI and 2.9 percent for HI. The OASDI rate is levied on earnings up to $62,700. (This level rises annually at the same rate as average wages in the economy.) For the HI portion, all earnings are taxable. The three programs also receive interest income on securities recorded to its trust funds, income taxes levied on Social Security benefits, and income from various other minor sources.

Most income to the system goes out directly to meet current benefit obligations. Any funds collected in excess of the amount needed to make benefit payments are credited to the OASI and DI Trust Funds as reserves, in the form of government securities. These reserves serve as a cushion against temporary shortfalls in revenues or large increases in outlays due to economic fluctuations. The trust funds also are credited with interest income. Social Security benefit outlays are drawn against the trust funds and are made under a permanent appropriation provided for in the Social Security Act. Administrative expenses also are charged against the trust funds, but are subject to an annual limitation set by appropriations acts.

Before 1984, self-employed workers paid a tax rate which was less than the combined employee-employer rate. Effective in 1984, self-employed workers began to pay Social Security taxes that were equivalent to the combined employer-employee rate and to receive a partial credit against that tax through 1989. Effective in 1990 and thereafter, the credit was replaced with a system designed to achieve parity between employees and the self-employed. Under this system:

—The base of the self-employment tax is adjusted downward to reflect the fact that employees do not pay FICA tax on the value of the employer's FICA tax. The base is equivalent to net earnings from self-employment (up to the taxable wage base), less 7.65 percent, and

—A deduction is allowed for income tax purposes for half of SECA liability, to allow for the fact that employees do not pay income tax on the value of the employer's FICA tax.

Tables 1–29, 1–30, 1–31 and 1–32 show FICA and SECA tax rates (in percent), taxes (in dollars), and taxable earnings bases, both past and future. Table 1–32a shows categories of workers exempt from FICA and SECA taxes.

TABLE 1–29.—FICA AND SECA TAX RATES, SELECTED YEARS 1937–2000

[In percent]

Calendar year	OASI	Rate paid by employee and employer				Self-employed rate	Maximum taxable earnings
		DI	OASDI	HI	Total		
1937	1.0	....	....	....	1.0	....	$3,000
1950	1.5	....	....	....	3.0	....	3,000
1960	3.0	0.25	2.75	....	3.0	4.5	4,800
1970	3.65	0.55	4.20	0.60	4.8	6.9	7,800
1980	4.52	0.56	5.08	1.05	6.13	8.1	25,900
1990	5.60	0.60	6.20	1.45	7.65	15.3	51,300
1995	5.26	0.94	6.20	1.45	7.65	15.3	[1] 61,200
1996	5.26	0.94	6.20	1.45	7.65	15.3	[1] 62,700
1997–99	5.26	0.85	6.20	1.45	7.65	15.3	([2])
2000	5.30	0.90	6.20	1.45	7.65	15.3	([2])

[1] OASDI; no limit (HI).
[2] Not yet determined for OASDI; no limit (HI).

Note.—Until 1991 the maximum taxable earnings for HI were the same as for OASDI. In 1991, 1992, and 1993 maximum taxable earnings were $125,000, $130,200, and $135,000 respectively, with no limit after 1993. Only 92.35 percent net self-employment earnings are taxable and half of the SECA taxes so computed is deductible for income tax purposes.

Source: Congressional Research Service.

TABLE 1–30.—FICA AND SECA TAXES, SELECTED YEARS 1950–96

	Annual tax payments			
	Average earner [1]		High earner [1]	
	FICA [1]	SECA [2]	FICA [1]	SECA [2]
1950	$38	....	$45	....
1960	120	$180	144	$216
1970	297	427	374	538
1980	767	1,014	1,588	2,098
1995	1,887	2,998	6,694	10,615
Cumulative 1951–95 [3]	99,656	143,815	190,332	285,164
1996	1,963	3,118	6,787	10,768

[1] Employee share only for FICA column. Average earner means someone who earned average wages throughout his or her working years (average wages are estimated for 1995 and 1996). For years before 1994, high earner means someone who earned at least the maximum wage level subject to OASDI and HI taxes. For 1994, 1995, and 1996, it is assumed to be someone who earns $200,000 a year.
[2] For 1995 and 1996, figures in table are net of income tax deduction equal to one half of SECA taxes.
[3] Includes interest compounded at rates of long-term Treasury issues. Encompasses a hypothetical 44-year career that began at age 21 and ended at age 65.

Source: Congressional Research Service.

TABLE 1–31.—PAYROLL TAX RATES FOR EMPLOYEES AND EMPLOYERS, 1937–2000

Calendar years	OASDI wage base [1]	Tax rates (percent) for employer and employee, each			
		Total	OASI	DI	HI
1937–49	$3,000	1.000	1.000	....	....
1950	3,000	1.500	1.500	....	....
1951–53	3,600	1.500	1.500	....	....
1954	3,600	2.000	2.000	....	....
1955–56	4,200	2.000	2.000	....	....
1957–58	4,200	2.250	2.000	0.250	....
1959	4,800	2.500	2.250	0.250	....
1960–61	4,800	3.000	2.750	0.250	....
1962	4,800	3.125	2.875	0.250	....
1963–65	4,800	3.625	3.375	0.250	....
1966	6,600	4.200	3.500	0.350	0.350
1967	6,600	4.400	3.550	0.350	0.500
1968	7,800	4.400	3.325	0.475	0.600
1969	7,800	4.800	3.725	0.475	0.600
1970	7,800	4.800	3.650	0.550	0.600
1971	7,800	5.200	4.050	0.550	0.600
1972	9,000	5.200	4.050	0.550	0.600
1973	10,800	5.850	4.300	0.550	1.000
1974	13,200	5.850	4.375	0.575	0.900
1975	14,100	5.850	4.375	0.575	0.900
1976	15,300	5.850	4.375	0.575	0.900
1977	16,500	5.850	4.375	0.575	0.900
1978	17,700	6.050	4.275	0.775	1.000
1979	22,900	6.130	4.330	0.750	1.050
1980	25,900	6.130	4.520	0.560	1.050
1981	29,700	6.650	4.700	0.650	1.300
1982	32,400	6.700	4.575	0.825	1.300
1983	35,700	6.700	4.775	0.625	1.300
1984	37,800	7.000	5.200	0.500	1.300
1985	39,600	7.050	5.200	0.500	1.350
1986	42,000	7.150	5.200	0.500	1.450
1987	43,800	7.150	5.200	0.500	1.450
1988	45,000	7.510	5.530	0.530	1.450
1989	48,000	7.510	5.530	0.530	1.450
1990	51,300	7.650	5.600	0.600	1.450
1991	53,400	7.650	5.600	0.600	1.450
1992	55,500	7.650	5.600	0.600	1.450
1993	57,600	7.650	5.600	0.600	1.450
1994	60,600	7.650	5.260	0.940	1.450
1995	61,200	7.650	5.260	0.940	1.450
1996	62,700	7.650	5.260	0.940	1.450
1997–99	([2])	7.650	5.350	0.850	1.450
2000–	([2])	7.650	5.300	0.900	1.450

[1] The maximum amount of taxable earnings for the HI Program is the same as that for the OASDI Program for 1966–90; $125,000, $130,200, and $135,000 for 1991–93, respectively; no limit after 1993.

[2] Increases automatically with increases in the average wage index. The CBO estimates that the OASDI wage base will be $63,900 in 1997; $66,900 in 1998; and $72,000 in 1999.

Source: Office of the Actuary, Social Security Administration.

TABLE 1–32.—TAX RATES FOR SELF-EMPLOYED INDIVIDUALS, 1980 AND AFTER

Calendar year	OASI	DI	OASDI combined	HI	OASDHI combined
1980	6.2725	0.7775	7.05	1.05	8.10
1981	7.0250	0.9750	8.00	1.30	9.30
1982	6.8125	1.2375	8.05	1.30	9.35
1983	7.1125	0.9375	8.05	1.30	9.35
1984	10.4000	1.0000	11.40	2.60	[1] 14.00
1985	10.4000	1.0000	11.40	2.70	[1] 14.10
1986–87	10.4000	1.0000	11.40	2.90	[1] 14.30
1988–89	11.0600	1.0600	12.12	2.90	[1] 15.02
1990–93	11.2000	1.2000	12.40	2.90	15.30
1994–96	10.5200	1.8800	12.40	2.90	15.30
1997–99	10.7000	1.7000	12.40	2.90	15.30
2000–	10.6000	1.8000	12.40	2.90	15.30

[1] Tax credits for the self-employed equaled 2.7 percent in 1984, 2.3 percent in 1985, and 2.0 percent in 1986–89. The tax rate shown is not reduced for these credits. See text for explanation of change in tax treatment of the self-employed.

Source: Congressional Research Service.

TABLE 1–32a.—WORKERS EXEMPT FROM FICA AND SECA TAXES

State and local government workers participating in alternative retirement systems (HI tax is mandatory for state and local government workers hired since April 1, 1986).
Election workers earning $1,000 or less a year (beginning in 1995).
Ministers who choose not to be covered, and certain religious sects.
Federal workers hired before 1984 (the HI portion is mandatory for all Federal workers).[1]
College students working at their academic institutions.
Household workers earning less than $1,000 a year (effective in 1994), or for those under age 18 for whom household work is not their principal occupation.
Self-employed workers with annual net earnings below $400.

[1] Elected office holders, political appointees, and judges are mandatorily covered by both OASDI and HI regardless of when their service began.

Source: Congressional Research Service.

STATUS OF OASDI TRUST FUNDS

Summary

Social Security's financial condition is assessed annually by its Board of Trustees, comprised of the Secretaries of Treasury (Managing Trustee), Labor, and Health and Human Services, the Commissioner of Social Security, and two representatives of the public. Their 1996 report was released on June 5, 1996. The Congressional Budget Office (CBO) also makes Social Security projections, the latest of which were released on May 23, 1996. The Trustees' projections cover a period extending 75 years into the future, whereas CBO's projections are only for the next 10 years. For this near-term period, both the Trustees and CBO show that through the remainder of this decade, and for some period into the next century, the favorable demographic pattern of a large baby boom generation at peak earning years, combined with the retirement of the relatively small generation born during the Depression, should ensure large trust fund reserves. Under CBO's assumptions, the annual excess of income over outlays will reach $127 billion by fiscal year 2005 and the reserve balance of the trust funds will represent 2.6 years' worth of outgo. Under the Trustees' "intermediate" (or moderate) set of assumptions, the annual excess of income over outlays will reach $115 billion by fiscal year 2005, and the reserve balance of the trust funds will represent 2.2 years' worth of outgo.

Table 1–33 shows both historical and estimated operations of the OASI and DI Trust Funds in the short run.

For the long run, the projections are more troubling. For a number of years, the Trustees' reports have projected long-range financing problems for the system. Although their latest report continues to show a near-term buildup of "trust fund" reserves, their "intermediate" forecast for the next 75 years shows that, on average, Social Security expenditures will be 16.4 percent more than its income. The trust fund buildup would peak at $2.9 trillion in nominal dollars in 2018, and then be drawn down as the post-World War II baby boomers retire (see chart 1–2). The Trustees estimate that by 2015 the DI Trust Fund would be exhausted, and by 2031 the OASI Trust Fund would be exhausted as shown in table 1–34. On a combined basis the two trust funds would be exhausted in 2029. The term "exhausted" is commonly used to indicate that trust fund reserves plus payroll taxes and other revenues would be insufficient to pay all benefits when they are due.

Background

The Social Security taxes people pay flow into the Federal Treasury, with each program's share credited to separate trust funds (one for OASI, another for DI). The crediting occurs through the posting of interest-bearing Federal securities (the interest rate is the same as the average rate prevailing on outstanding Federal bonds with a maturity of 4 years or longer). When the government receives the money, it records new securities to the appropriate fund; when it makes payments, it writes some off. These securities represent obligations that the government has issued to itself. In effect, they are not assets for the government, but claims against it. Their primary role is to be reserve "spending authority." As long as a trust fund has a balance, the Treasury Department is authorized to make payments owed against it from the Treasury; the fund itself does not contain actual cash resources to do so.

For more than three decades after Social Security taxes were first levied in 1937, the system's income routinely exceeded its outgo, and its trust funds grew. However, the situation changed in the early 1970s. Enactment of major benefit increases in the 1968–72 period was followed by higher inflation and leaner economic conditions than had been expected. Prices rose faster than wages, the post-World War II baby boom ended precipitously (leading to a large cut in projected birth rates), and Congress adopted faulty benefit rules in 1972 that overcompensated new Social Security retirees for inflation. These factors combined to sour the outlook for Social Security and it remained poor through the mid-1980s.

TABLE 1–33.—OPERATIONS OF THE OASDI TRUST FUNDS DURING SELECTED FISCAL YEARS 1960–95 AND ESTIMATED FUTURE OPERATIONS DURING FISCAL YEARS 1996–2005, ON THE BASIS OF THE INTERMEDIATE SET OF ASSUMPTIONS

[In millions of dollars]

Fiscal year [1]	Income					Expenditures				Assets	
	Total	Net contributions [2]	Income from taxation of benefits	Payments from the general fund of the Treasury [3]	Net interest [4]	Total	Benefit payments [6]	Administrative expenses	Transfers to Railroad Retirement Program	Net increase during year	Amount at end of period
Historical data:											
1960	11,394	10,830	....	....	564	11,606	10,798	234	574	−212	22,996
1965	17,681	17,032	....	....	648	17,456	16,618	379	459	224	22,187
1970	36,127	34,096	....	458	1,572	30,275	29,063	623	589	5,851	37,720
1975	66,677	63,374	....	499	2,804	64,658	62,547	1,101	1,010	2,018	48,138
1980	117,427	114,413	....	675	2,339	118,548	115,624	1,494	1,430	−1,121	32,246
1985	197,865	192,181	3,368	105	2,211	188,504	183,959	2,192	2,353	[7] 7,538	39,750
1986	215,461	205,146	3,558	3,310	3,447	198,730	193,869	2,209	2,653	[7] 6,117	45,867
1987	226,893	218,878	3,307	69	4,638	207,323	202,430	2,279	2,614	19,570	65,437
1988	258,090	248,145	3,390	55	6,500	219,290	213,907	2,532	2,851	38,800	104,237
1989	284,936	270,811	3,772	43	10,310	232,491	227,150	2,407	2,934	52,445	156,682
1990	306,822	288,797	3,081	34	14,909	248,605	243,275	2,280	3,049	58,217	214,900
1991	322,611	299,794	5,921	−2,864	19,759	269,096	263,104	2,535	3,457	53,515	268,415
1992	338,270	308,377	6,237	19	23,637	287,524	281,650	2,668	3,206	50,746	319,161
1993	351,354	318,391	6,161	14	26,788	304,566	298,176	2,955	3,435	46,788	365,949
1994	376,307	341,438	5,656	10	29,203	319,551	313,129	2,896	3,526	56,757	422,706
1995	396,276	357,516	5,449	7	33,304	335,830	328,841	2,870	4,120	60,446	483,152
Estimates:											
1996	416,220	373,897	6,159	−327	36,491	350,453	343,778	3,119	3,556	65,766	548,918
1997	437,852	390,169	7,195	3	40,485	368,446	361,123	3,484	3,838	69,407	618,325

1998	460,545	408,185	7,694	2	44,664	386,552	379,488	3,180	3,884	73,993	692,318
1999	486,582	429,177	8,242	2	49,162	406,623	399,288	3,373	3,962	79,959	772,277
2000	513,841	451,064	8,837	1	53,939	428,449	420,885	3,506	4,057	85,393	857,670
2001	540,892	472,145	9,500	170	59,078	452,110	444,329	3,636	4,145	88,782	946,452
2002	571,743	496,973	10,228	([5])	64,541	477,922	469,910	3,778	4,234	93,821	1,040,273
2003	604,793	523,434	11,019	([5])	70,340	505,812	497,531	3,934	4,347	98,981	1,139,254
2004	639,417	551,086	11,887	([5])	76,444	536,128	527,554	4,102	4,472	103,289	1,242,543
2005	683,612	587,871	12,836	([5])	82,905	568,700	559,820	4,280	4,600	114,912	1,357,455

[1] Under the Congressional Budget Act of 1974 (Public Law 93–344) fiscal years 1977 and later consist of the 12 months ending on September 30 of each year. Fiscal years prior to 1977 consisted of the 12 months ending on June 30 of each year.

[2] Beginning in 1983, includes transfers from general fund of Treasury representing contributions that would have been paid on deemed wage credits for military service in 1957 and later, if such credits were considered to be covered wages.

[3] Includes payments (1) in 1947–52 and in 1967 and later, for costs of noncontributory wage credits for military service performed before 1957; (2) in 1972–83, for costs of deemed wage credits for military service performed after 1956; and (3) in 1969 and later, for costs of benefits to certain uninsured persons who attained age 72 before 1968.

[4] Net interest includes net profits or losses on marketable investments. Beginning in 1967, administrative expenses are charged currently to the trust funds on an estimated basis, with a final adjustment, including interest made in the following fiscal year. The amounts of these interest adjustments are included in net interest. For years prior to 1967, a description of the method of accounting for administrative expenses is contained in the 1970 Annual Report. Beginning in October 1973, the figures shown include relatively small amounts of gifts to the funds. Net interest for 1983–86 reflects payments from a borrowing trust fund to a lending trust fund for interest on amounts owed under the interfund borrowing provisions. During 1983–91, interest paid from the trust funds to the general fund on advance tax transfers is reflected. The amounts shown for 1985 and 1986 include interest adjustments of $91.3 million and $11.5 million, respectively, on unnegotiated checks issued before April 1985.

[5] Less than $500,000.

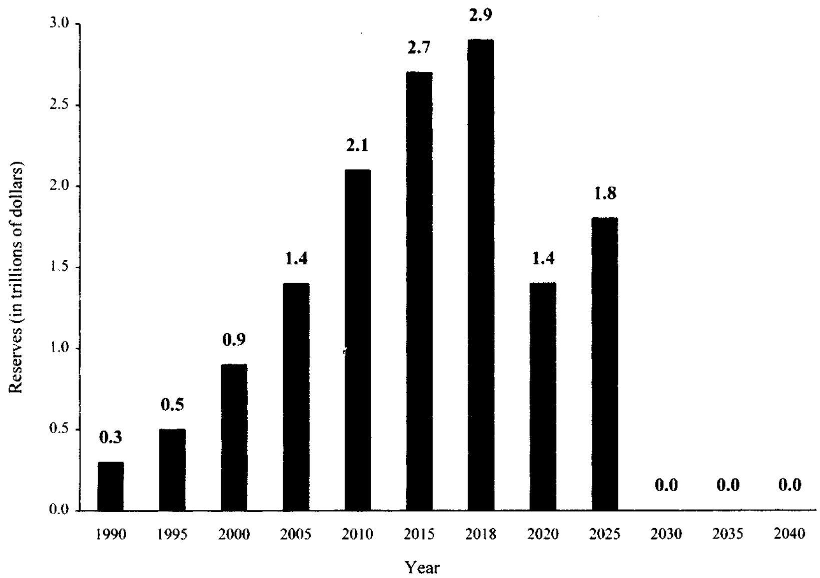
[6] Beginning in 1967, includes payments for vocational rehabilitation services furnished to disabled persons receiving benefits because of their disabilities. Beginning in 1983, amounts are reduced by amount of reimbursement for unnegotiated benefit checks.

[7] Reflects offset for repayment from the OASI Trust Fund of amounts borrowed from the HI Trust Fund in 1982. The amount repaid in 1985 was $1,824 million; in 1986, the amount was $10,613 million.

Note.—Totals do not necessarily equal the sums of rounded components.

Source: Board of Trustees (1996).

CHART 1–2. OASDI TRUST FUND RESERVES AT END OF SELECTED CALENDAR YEARS



Note.—In nominal dollars.

Source: Board of Trustees (1996), intermediate assumptions, and Office of the Actuary, Social Security Administration.

TABLE 1–34.—MAXIMUM TRUST FUND RATIOS AND YEAR OF EXHAUSTION FOR THE OASI, DI AND COMBINED TRUST FUNDS UNDER ALTERNATIVE ASSUMPTIONS

Assumption	OASI	DI	Combined
Alternative I (optimistic):			
Maximum trust fund ratio (percent)	487	1390	479
Year attained	2017	2070	2018
Year of exhaustion	....	....	....
Alternative II (moderate):			
Maximum trust fund ratio (percent)	284	136	245
Year attained	2012	2002	2011
Year of exhaustion	2031	2015	2029
Alternative III (pessimistic):			
Maximum trust fund ratio (percent)	172	103	159
Year attained	2001	1998	2000
Year of exhaustion	2020	2005	2016

Source: Board of Trustees (1996).

Before 1971, the balances of the trust funds had never fallen below 1 year's worth of outgo. Beginning in 1973, the program's income lagged its outgo, and its trust funds declined rapidly. Congress had to step in five times to keep them from being exhausted.

Although major changes enacted in 1977 greatly reduced the program's longrun deficit, they did not eliminate it, and the shortrun changes made by the legislation were not large enough to enable the program to withstand back-to-back recessions in 1980 and 1982. A disability bill in 1980 and temporary fixes in 1980 and 1981 were followed by another major reform package in 1983.

The 1983 changes, along with better economic conditions, helped to alter the picture. Income began to exceed outgo in 1983 and the trust funds grew substantially. Cumulatively, the changes were projected to yield $96 billion in surplus income by 1990, and to raise the trust funds' balances to $123 billion. The funds actually were credited with $200 billion in surplus income by 1990, and their balances reached $225 billion by the end of that year. Under the Trustees' 1996 "intermediate" forecast (the one cited as their "best estimate"), surplus income of $656 billion is projected for the 1991–2000 period, and the trust funds' balances would rise to $881 billion by the beginning of 2001. This would be equivalent to 192 percent of annual expenditures (or 1.9 years' worth).

The longer range picture for Social Security has been worsening gradually since 1983. By raising Social Security's age for full benefits from 65 to 67, subjecting benefits to income taxes, and making new Federal and nonprofit workers join the system, Congress had attempted in 1983 to eliminate the longrun problem. In fact, projections made then showed that it had, at least on average, for the following 75 years. However, the average condition of the two trust funds did not represent their condition over the entire period. The funds were not shown to be insolvent at any point, but their expenditures were expected to exceed their income in 2025 and to remain higher thereafter. Simply stated, 40 years of surpluses were to be followed by an indefinite period of deficits. With each passing year since 1983, the Trustees' 75-year averaging period has picked up 1 deficit year at the back end and dropped a surplus year from the front end. This, by itself, would cause the average condition to worsen. However, in recent reports assumptions about birth rates, economic growth, and wages have been lowered, causing further deterioration in the outlook. A small long-range deficit appeared in the 1984 report and the gap has grown larger (with the point of insolvency coming closer) in subsequent reports.

The Trustees' June 1996 long-range forecast

The 1996 report showed an average 75-year deficit equal to 16 percent of program income and projected that the trust funds (viewed on a combined basis) will become insolvent in 2029. These long-range projections assume that GDP will rise annually at rates ranging from 2.2 percent in 1996 to 1.2 percent in 2050, wages will rise at an ultimate rate of 5 percent per year, the cost of living will go up at a 4 percent rate, unemployment will average 6 percent, and that Social Security benefits will fall in relative terms as the age at which full benefits are payable rises from 65 to 67 over the first few decades of the next century. The higher age for full benefits will mean that people retiring in the future at age 67 or younger will get less than under the previous age rules. These assumptions by themselves would seem to bode well for the system; however, looming demographic shifts are projected to overwhelm them.

During the next two decades, the 76 million baby boomers born between 1946 and 1964 will be in their prime productive years, and the baby trough generation of the 1930s Depression will be in retirement. Together, these factors will lead to a stable ratio of workers to recipients. However, as the baby boomers begin retiring around 2010, this ratio will erode quickly. By 2025, most of the surviving baby boomers will be 65 and older. The number of people 65 and older will have nearly doubled, growing from 34 million today to 61 million then. The number of workers will have grown from 142 million to 163 million, or by only 15 percent. Consequently, the ratio of workers to recipients will have fallen from 3.2 to 1 today to 2.2 to 1 in 2025 and 2 to 1 in 2030. Projected worker/beneficiary ratios and dependency rates are shown in table 1–35.

TABLE 1–35.—COVERED WORK FORCE—NUMBER OF BENEFICIARIES AND DEPENDENCY RATES, SELECTED YEARS 1960–2040

Work force measure	1960	1980	2000	2020	2040
Total population (in millions)	190	235	285	327	353
Covered workers	73	112	146	162	168
Beneficiaries (OASDI)	14	35	46	68	85
Aged dependency ratio [1]	0.173	0.195	0.210	0.275	0.368
Total dependency ratio [2]	0.904	0.749	0.695	0.700	0.789
Worker/beneficiary ratio	5.1	3.2	3.2	2.4	2.0

[1] Ratio of persons aged 65 and over to the number of persons aged 20–64.
[2] Ratio of non-working-age to working-age population—population under 20 plus population 65 and over divided by population 20–64.

Source: Board of Trustees (1996), intermediate assumptions.

Under this forecast, the trust funds (on a combined basis) would be credited with surplus income until 2018 or so, bringing their balances to a level of $2.9 trillion. They would decline thereafter and would be depleted by 2029. However, tax receipts begin lagging outgo much sooner, in 2012. At that point, the program would have to rely on the interest credited to its trust funds for part of its income. Repayment of this interest would have to be funded from general revenue. Beginning in 2019, the principal on the trust funds would begin to be drawn down. By 2025, $1 out of every $5 of the program's outgo would be dependent upon general fund expenditures for interest payments and the redemption of the government bonds credited to the trust funds. The government has never defaulted on the securities it posts to its trust funds, but the magnitude of these potential claims has prompted many observers to ask where the government will find the money to cover them, given the large deficits it is running today. Unless economic and demographic conditions are better than currently assumed, the government will have three basic options: raise other taxes, curtail other spending, or borrow money from the financial markets. There is nothing now in the law that will dictate or determine what the government actually will (or can) do then.

Economists argue that if the surplus taxes projected for the next 16 years were to cause the government to borrow less from financial markets, more money would be available for investment, which could lead to greater economic growth. If this happened, extracting resources from the economy in the future to honor Social Security claims may be less burdensome. Said another way, if one accepts the premise that reductions in Federal borrowing today will increase the amount of resources available for investment, then surplus Social Security taxes today could help build a higher economic base in the future from which to draw the needed resources.

However, surplus Social Security taxes do not necessarily reduce government borrowing from the markets. Reductions in borrowing occur when the government reduces its overall deficit, not when one of its programs generates surplus taxes. Even if economic growth were enhanced in the coming decades by less government borrowing, Social Security's problems would not necessarily be resolved. Enhanced economic growth could improve actuarial balance somewhat if it also improves worker productivity, but not proportionately so, since higher productivity would likely result in higher wages, which in turn would lead to larger benefits (see table 1–36). Further, as their numbers swell, the baby boomers and subsequent retirees will raise financial demands on all retirement systems, not only Social Security. The goods and services to be consumed by society cannot be stockpiled in advance, and the economy will have to adjust. Whether this adjustment would be mild or severe is mostly conjecture.

TABLE 1–36.—ESTIMATED OASDI INCOME RATES, COST RATES, AND ACTUARIAL BALANCES [1]

[As a percentage of taxable payroll]

Valuation period	Ultimate percentage increase in wages—CPI [2]		
	4.5–4.0	5.0–4.0	5.5–4.0
Summarized income rate:			
25-year: 1996–2020	13.59	13.54	13.49
50-year: 1996–2045	13.41	13.35	13.29
75-year: 1996–2070	13.40	13.33	13.26
Summarized cost rate:			
25-year: 1996–2020	13.58	13.18	12.78
50-year: 1996–2045	15.32	14.74	14.17
75-year: 1996–2070	16.14	15.52	14.90
Balance:			
25-year: 1996–2020	+.01	+.36	+.71
50-year: 1996–2045	−1.91	−1.39	−0.87
75-year: 1996–2070	−2.75	−2.19	−1.63

[1] Based on intermediate estimates with various real-wage assumptions.

[2] The first value in each pair is the assumed ultimate annual percentage increase in average wages in covered employment. The second value is the assumed ultimate annual percentage increase in the Consumer Price Index. The difference between the two values is the real-wage differential.

Source: Board of Trustees (1996).

The 1996 report projects that Social Security will generate sufficient tax receipts to cover its commitments during the next 16 years. The long-range outlook, however, leaves little to be sanguine about. The program has a growing 75-year average deficit. The HI Trust Fund's problems are more imminent, as insolvency is projected for 2001. Resources could be reallocated to HI from Social Security; however, this would only move Social Security's problems closer. If Social Security and HI are considered together, their combined expenditures are expected to be higher than their tax receipts beginning in 1999 and to remain higher thereafter. Their outgo as a percent of the Nation's payrolls would rise from 15.2 percent today to 23.8 percent in 2025, a level that contrasts sharply with a combined tax rate that is set now in the law at 15.3 percent. As a percent of GDP, Social Security and HI outgo would rise from about 6.4 percent today to 9.7 percent in 2025 (see table 1–37). Including supplemental medical insurance (SMI) expenditures would raise it from 7 to 13 percent. In contrast, the tax receipts and premiums collected to support these programs are projected to hover in the range of 7 to 8 percent of GDP throughout the period.

These projections are not based on pessimistic economic assumptions. A modest but sustained rise in GDP and moderate inflation and unemployment are assumed as shown in table 1–38. In large part, the projections hinge on demographic factors that are in place today—the post-World War II baby boom, the subsequent birth dearth, and the general aging of society. These projections suggest that to restore longrun solvency, income needs to be raised or expenditures cut. Beyond possible changes to the programs themselves, important unknowns that can alter the outlook include whether an effective means can be found to rein in the spiraling cost of medical care generally, and whether future technological advances will propel productivity. Also unknown and little understood is the effect of potential shifts in society's wants and needs, from raising families, buying houses, and educating children to meeting the health and service demands of an older population. Will the higher future costs of Social Security and Medicare place a large strain on the economy or merely reflect a shift of the Nation's consumption priorities?

How the Status of the Trust Funds is Measured

In the short range, the financial soundness of each of the trust funds can be assessed by considering the size of the trust fund balance, in absolute terms and as a percentage of the annual expenditures, and whether the balance is growing or declining. In the long range, the traditional measure of financial soundness has been the actuarial balance of the system. The actuarial balance is defined as the difference between the total summarized income rate and the total summarized cost rate.

Because the Social Security Program has been designed as a contributory system in which those who pay the taxes supporting it are considered to be earning the right to future benefits, Congress has traditionally required long-range estimates of the program's actuarial balance and has set future tax rates with a view to assuring that the income of the program will be sufficient to cover its outgo. Under current procedures, the long-range actuarial analysis of the cash benefits program covers a 75-year period, which would generally be long enough to cover the anticipated retirement years of those currently in the work force.

TABLE 1–37.—ESTIMATED COST OF OASDI AND HI SYSTEMS, SELECTED CALENDAR YEARS 1996–2070

[As percent of gross domestic product]

Calendar year	OASDI	HI	OASDI and HI
Annual cost rates:			
1996	4.68	1.71	6.39
1997	4.68	1.78	6.46
1998	4.68	1.85	6.53
1999	4.69	1.91	6.60
2000	4.70	1.97	6.68
2001	4.71	2.03	6.74
2002	4.72	2.07	6.79
2003	4.72	2.12	6.83
2004	4.73	2.16	6.88
2005	4.73	2.20	6.93
2010	4.85	2.41	7.26
2015	5.22	2.73	7.95
2020	5.73	3.13	8.86
2025	6.15	3.52	9.67
2030	6.42	3.92	10.34
2035	6.47	4.22	10.69
2040	6.37	4.40	10.78
2045	6.32	4.52	10.84
2050	6.33	4.59	10.92
2055	6.42	4.65	11.07
2060	6.50	4.75	11.25
2065	6.53	4.89	11.42
2070	6.56	5.04	11.59
Summarized cost rates:			
1996–2020	5.16	2.46	7.62
1996–2045	5.66	3.14	8.80
1996–2070	5.85	3.55	9.40

Note.—Summarized rates are calculated on the present value basis including the value of the trust funds in the first year and the cost of reaching and maintaining a target trust fund level of 1 year's expenditures by the last year. Totals do not necessarily equal the sum of rounded components.

Source: Board of Trustees (1996), intermediate assumptions.

The long-range status of the trust funds is ordinarily expressed in terms of "percent of taxable payroll" rather than in dollar amounts. This permits a direct comparison between the tax rate actually in the law and the cost of the program. For example, if the program is projected to have a deficit of "2 percent of taxable payroll," this means that the OASDI tax rates now in the law would have to be increased by 1 percentage point each for employee and employer, in order to pay for the benefits due under present law. Alternatively, the program could be brought back into balance by an equivalent reduction in benefit outgo or by a combination of revenue increases and outgo reductions. If the program is projected to have a deficit of 2 percent of taxable payroll, and expenditures are projected to be 10 percent of taxable payroll, then, under the given set of assumptions, 20 percent (2 divided by 10) of expenditures could not be met with that tax schedule. In 1996, the total taxable payroll is estimated to be $3.05 trillion so that, in 1996 terms, 2 percent of payroll represented about $61 billion.

TABLE 1–38.—SELECTED ECONOMIC ASSUMPTIONS, 1960–2070

Calendar year	Average annual percentage change in— Real GDP [1]	Average annual wage in covered employment	Consumer Price Index [2]	Real-wage differential [3] (percent)	Average annual interest rate [4] (percent)	Average annual unemployment rate [5] (percent)	Average annual percentage increase in labor force [6]
1960–64	4.6	3.4	1.2	2.2	3.7	5.7	1.3
1965–69	4.2	6.1	3.9	2.2	5.2	3.8	2.1
1970–74	3.5	6.6	6.2	0.4	6.7	5.4	2.3
1975	−0.6	6.7	9.1	−2.4	7.4	8.5	1.9
1976	5.6	8.5	5.7	2.8	7.1	7.7	2.4
1977	4.9	6.8	6.5	0.3	7.1	7.1	2.9
1978	5.0	8.9	7.7	1.2	8.2	6.1	3.2
1979	2.9	10.1	11.4	−1.3	9.1	5.8	2.6
1980	−0.3	9.4	13.4	−4.0	11.0	7.1	1.9
1981	2.5	9.7	10.3	−0.6	13.3	7.6	1.6
1982	−2.1	6.4	6.0	0.4	12.8	9.7	1.4
1983	4.0	5.0	3.0	2.0	11.0	9.6	1.2
1984	6.8	7.3	3.5	3.8	12.4	7.5	1.8
1985	3.7	4.7	3.5	1.2	10.8	7.2	1.7
1986	3.0	4.6	1.6	3.0	8.0	7.0	2.0
1987	2.9	4.6	3.6	1.0	8.4	6.2	1.7
1988	3.8	5.3	4.0	1.3	8.8	5.5	1.4
1989	3.4	3.9	4.8	−0.9	8.7	5.3	1.8
1990	1.3	5.1	5.2	−0.1	8.6	5.5	0.7
1991	−1.0	3.0	4.1	−1.1	8.0	6.7	0.4
1992	2.7	[7] 4.9	2.9	2.0	7.1	7.4	1.2
1993	2.2	[7] 2.3	2.8	−0.5	6.1	6.8	0.7
1994	3.5	[7] 2.5	2.5	0.0	7.1	6.1	2.3
1995	[7] 2.1	[7] 4.1	2.9	1.2	6.9	5.6	0.9
1996	2.1	4.1	2.7	1.3	6.4	5.7	0.9
1997	2.2	4.3	3.2	1.1	6.5	5.8	1.0
1998	2.0	4.0	3.2	0.8	6.5	5.8	1.0
1999	2.0	4.2	3.4	0.8	6.5	5.9	0.9
2000	2.0	4.3	3.5	0.8	6.5	6.0	0.9
2001	2.0	4.4	3.6	0.7	6.5	6.0	0.9
2002	2.0	4.6	3.9	0.7	6.5	6.0	0.9
2003	2.0	4.9	4.0	0.9	6.5	6.0	0.8
2004	2.0	5.0	4.0	1.1	6.5	6.0	0.8
2005	2.0	5.1	4.0	1.1	6.4	6.0	0.8
2010	1.8	5.0	4.0	1.0	6.3	6.0	0.6
2020	1.3	5.1	4.0	1.1	6.3	6.0	0.2
2030	1.4	5.0	4.0	1.0	6.3	6.0	0.2
2040	1.4	5.0	4.0	1.0	6.3	6.0	0.2
2050	1.2	5.0	4.0	1.0	6.3	6.0	0.0
2060	1.3	5.0	4.0	1.0	6.3	6.0	0.1

TABLE 1–38.—SELECTED ECONOMIC ASSUMPTIONS, 1960–2070—Continued

Calendar year	Average annual percentage change in— Real GDP [1]	Average annual wage in covered employment	Consumer Price Index [2]	Real-wage differential [3] (percent)	Average annual interest rate [4] (percent)	Average annual unemployment rate [5] (percent)	Average annual percentage increase in labor force [6]
2070	1.2	5.0	4.0	1.0	6.3	6.0	0.1

[1] The real GDP is the value of total output of goods and services, expressed in 1992 dollars.
[2] The Consumer Price Index is the annual average value for the calendar year of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI–W).
[3] The real-wage differential is the difference between the percentage increases, before rounding, in (1) the average annual wage in covered employment, and (2) the average annual Consumer Price Index.
[4] The average annual interest rate is the average of the nominal interest rates, which, in practice, are compounded semiannually, for special public-debt obligations issuable to the trust funds in each of the 12 months of the year.
[5] Through 2005, the rates shown are unadjusted civilian unemployment rates. After 2005, the rates are total rates (including military personnel), adjusted by age and sex based on the average labor force for 1994.
[6] Labor force is the total for the United States (including military personnel) and reflects the average of the monthly numbers of persons in the labor force for each year.
[7] Preliminary. Wages in covered employment are considered preliminary for several years primarily due to uncertainty associated with estimates of amounts above the benefit and contribution base.

Source: Board of Trustees (1996), intermediate assumptions.

Long-range projections are affected by three basic types of factors: (1) demographic factors, such as rates of fertility, life expectancy, and labor force participation, which determine how many workers there will be in society in relation to nonworking beneficiaries; (2) economic factors such as unemployment, productivity, and inflation; and (3) factors specifically related to the Social Security Program, such as benefit levels, total number of covered workers, and percent of eligible workers drawing early retirement benefits. The actuaries at SSA employ three sets of alternative economic and demographic assumptions. Alternative I is based on optimistic assumptions; alternative II, based on "intermediate" assumptions, is considered their "best guess" forecast, and is the most frequently cited; and alternative III is based on pessimistic assumptions. In general, alternative II is considered the most balanced estimate of long-term solvency. It is clear that underlying factors cannot be predicted with any certainty as far into the future as 75 years, and that long-range projections should not be taken as absolute predictions of deficits or surpluses in the funds.

Beginning with the 1988 Trustees' Report, the Social Security Trustees used an alternative method of determining actuarial balance. Under the "present value" method, interest earnings on the fund are more fully recognized. Calculations were based on the present value of future income, outgo, and taxable payroll by discounting the future annual amounts at an assumed rate of interest.

Traditionally, the Trustees based their conclusion about the long-range actuarial condition of the program on the "closeness" of the income and cost rates when averaged over a 75-year period. If the income rate was between 95 and 105 percent of the cost rate over this projection period, the system was said to be in close actuarial balance. The 1991 Trustees' Report incorporated a more refined measure of actuarial soundness "designed to reveal problems occurring at any time during the" 75-year measuring period. The 5-percent "tolerance" (i.e., the amount of acceptable actuarial deficit) was retained in measuring the program's actuarial soundness for the 75-year period as a whole, but less tolerance is now permitted for shorter periods of valuation.

The spread between income and outgo is evaluated throughout the measuring period in reaching a conclusion of whether close actuarial balance exists, with the amount of acceptable deviation gradually declining from 5 percent for the full 75-year period to 0 (or no acceptable deviation) for the first 10-year segment of the measuring period.

To meet the short-range test of financial adequacy, the reserve balance at the end of the first 10-year segment must be at or higher than 100 percent of annual expenditures, a condition that is consistent with the 10-year segment of the long-range test of close actuarial balance. It also must be expected to reach that level within the first 5 years and then remain there. Under this revised limit, if income were at least 95 percent of the cost level for the 75-year period as a whole, the trust funds still could be deemed to be out of close actuarial balance if income and outgo were too small, compared to cost, for shorter segments of the measuring period.

Under these measures, the Trustees concluded in their 1996 report, as they did in their five previous reports, that OASDI is not in close actuarial balance over the long run. In the long run, income and expenditures are generally expressed as a percentage of the total amount of earnings subject to taxation under the OASDI Program. Summarized income and cost rates over the 75-year long-range period are determined through present-value calculations and by taking into account actual beginning fund balances and targeted ending fund balances (or reserves) of 100 percent of annual expenditures.

Overall, for the period 1996–2070, the difference between the summarized income and cost rates for the OASDI Program is a deficit of 2.19 percent of taxable payroll based on the intermediate assumptions. Therefore, on a combined basis, the OASDI Program is not in close actuarial balance over the next 75 years. In addition, the individual OASI and DI Trust Funds are not in close actuarial balance.

Income from OASDI payroll taxes represents 12.4 percent of taxable payroll. Since the tax rate is not scheduled to change in the future under present law, OASDI payroll tax income as a percentage of taxable payroll remains constant at 12.4 percent. Adding the OASDI income from the income taxation of benefits to the income from payroll taxes yields a total "income rate" of 12.63 percent. This rate is estimated to increase gradually to 13.32 percent of taxable payroll by the end of the 75-year projection period based on the intermediate assumptions. The growth is attributable, in part, to increasing proportions in both the number of beneficiaries and the amount of their benefits subject to taxation in the future. These proportions will increase because the income thresholds, above which benefits are taxable, are fixed dollar amounts, and, as time goes by, the incomes of more people will exceed them due to the expected rise in wages and prices.

OASDI expenditures for benefit payments and administrative expenses currently represent about 11.64 percent of taxable payroll. This "cost rate" is estimated to remain below the corresponding income rate for the next 15 years, based on the intermediate assumptions. With the retirement of the 76 million members of the "baby boom" generation starting in about 2010, OASDI costs will increase rapidly relative to the taxable earnings of workers. By the end of the 75-year projection period, the OASDI cost rate is estimated to reach 18.8 percent under the intermediate assumptions, resulting in an annual deficit of 5.5 percent, as shown in table 1–39. Table 1–40 shows estimated trust fund assets, and table 1–41 shows estimated trust fund operations, both over the long run.

NATURE OF THE SOCIAL SECURITY TRUST FUNDS

Contrary to popular belief, Social Security taxes are not deposited into the Social Security Trust Funds. They flow each day into thousands of depository accounts maintained by the government with financial institutions across the country. Along with many other forms of revenues, these Social Security taxes become part of the government's operating cash pool, or what is more commonly referred to as the U.S. Treasury. In effect, once these taxes are received, they become indistinguishable from other moneys the government takes in. They are accounted for separately through the issuance of Federal securities to the Social Security Trust Funds—which basically involves a series of bookkeeping entries by the Treasury Department—but the trust funds themselves do not receive or hold money. They are simply accounts. Similarly, benefits are not paid from the trust funds, but from the Treasury. As the checks are paid, securities of an equivalent value are removed from the trust fund accounts.

When more Social Security taxes are received than are spent, the money does not sit idle in the Treasury, but is used to finance other operations of the government. The surplus is then reflected in a higher balance of securities being posted to the trust funds. Simply put, these balances, like those of a bank account, represent a promise that, if needed to pay Social Security benefits, the government will obtain resources in the future equal to the value of the securities.

TABLE 1–39.—ESTIMATED INCOME RATES AND COST RATES, SELECTED CALENDAR YEARS 1996–2070

[As a percentage of taxable payroll]

Calendar year	OASI			DI			Combined		
	Income rate	Cost rate	Balance	Income rate	Cost rate	Balance	Income rate	Cost rate	Balance
1996	10.73	10.15	0.58	1.89	1.49	0.40	12.63	11.64	0.98
1997	10.92	10.15	0.77	1.71	1.54	0.17	12.63	11.69	0.94
1998	10.92	10.13	0.79	1.71	1.58	0.13	12.63	11.72	0.92
1999	10.93	10.14	0.78	1.71	1.63	0.08	12.64	11.77	0.87
2000	10.83	10.15	0.68	1.81	1.68	0.13	12.65	11.84	0.81
2001	10.84	10.16	0.68	1.82	1.73	0.09	12.65	11.89	0.76
2002	10.84	10.16	0.68	1.82	1.77	0.04	12.66	11.93	0.72
2003	10.84	10.15	0.69	1.82	1.82	−0.01	12.66	11.97	0.69
2004	10.85	10.15	0.70	1.82	1.88	−0.06	12.67	12.03	0.64
2005	10.85	10.14	0.71	1.82	1.93	−0.11	12.67	12.07	0.61
2010	10.92	10.34	0.58	1.82	2.11	−0.29	12.74	12.46	0.29
2015	11.01	11.32	−0.31	1.83	2.17	−0.34	12.84	13.50	−0.66
2020	11.11	12.73	−1.62	1.83	2.22	−0.39	12.94	14.95	−2.02
2025	11.19	13.92	−2.72	1.83	2.29	−0.45	13.03	16.20	−3.17
2030	11.27	14.80	−3.53	1.84	2.29	−0.45	13.10	17.08	−3.98
2035	11.31	15.14	−3.83	1.84	2.24	−0.40	13.15	17.38	−4.23
2040	11.33	15.05	−3.71	1.84	2.25	−0.41	13.17	17.29	−4.12
2045	11.35	14.96	−3.61	1.84	2.35	−0.51	13.19	17.31	−4.12
2050	11.37	15.10	−3.73	1.84	2.41	−0.57	13.21	17.51	−4.30
2055	11.40	15.47	−4.07	1.85	2.45	−0.61	13.25	17.92	−4.67
2060	11.43	15.88	−4.44	1.85	2.43	−0.59	13.28	18.31	−5.03
2065	11.46	16.17	−4.71	1.85	2.43	−0.58	13.30	18.59	−5.29
2070	11.47	16.39	−4.91	1.85	2.44	−0.60	13.32	18.83	−5.51

Note.—Totals do not necessarily equal the sums of rounded components.

Source: Board of Trustees (1996), intermediate assumptions.

TABLE 1–40.—ESTIMATED TRUST FUND ASSETS, SELECTED CALENDAR YEARS 1996–2070

[As a percentage of annual expenditures]

Beginning of calendar year	OASI	DI	OASDI
1996	148	83	140
1997	159	108	152
1998	170	118	163
1999	182	124	174
2000	193	127	183
2001	202	133	192
2002	212	136	201
2003	221	136	208
2004	230	133	215
2005	239	127	221
2010	278	76	244
2015	276	9	232
2020	226	0	181
2025	143	0	98
2030	37	0	0
2035	0	0	0
2040	0	0	0
2045	0	0	0
2050	0	0	0
2055	0	0	0
2060	0	0	0
2065	0	0	0
2070	0	0	0
Trust fund is estimated to become exhausted in	2031	2015	2029

Note.—The assets for the combined funds for years after a component fund has been exhausted are shown for illustrative purposes only since no legal authority currently exists for interfund borrowing between OASI and DI.

Source: Board of Trustees (1996), intermediate assumptions.

Are the Federal securities issued to the trust funds the same sort of financial assets that individuals and other entities buy?

Yes. They earn interest at market rates, have specific maturity dates, and by law represent "obligations" of the U.S. Government. But what confuses people is that they often see these securities as assets for the government. When an individual buys a government bond, he has established a financial claim against the government. When the government issues a security to one of its own accounts, it hasn't purchased anything or established a claim against some other person or entity. It is simply creating an IOU from one of its accounts to another. Hence, the building up of Federal securities in a Federal trust fund—like that of Social Security—is not a means in and of itself for the government to accumulate assets. It certainly has established claims against the government for the Social Security system, but the Social Security system is part of the government. Those claims are not resources the government has at its disposal to pay future Social Security benefits.

TABLE 1–41.—ESTIMATED OPERATIONS OF THE COMBINED OASI AND DI TRUST FUNDS, SELECTED CALENDAR YEARS 1996–2070

[Constant 1996 dollars, in billions]

Calendar year	Income excluding interest	Interest income	Total income	Outgo	Assets at end of year
1996	386.5	38.4	424.9	354.6	566.4
1997	389.2	41.2	430.4	361.0	617.9
1998	395.3	44.0	439.3	367.2	670.7
1999	400.3	46.7	447.0	373.6	722.0
2000	406.1	49.5	455.7	380.6	772.8
2001	412.0	52.3	464.3	387.7	822.2
2002	417.6	54.9	472.5	394.5	869.3
2003	423.8	57.4	481.2	401.6	915.3
2004	430.2	59.9	490.2	409.5	961.0
2005	437.9	62.5	500.4	417.7	1,006.6
2010	478.1	72.8	550.9	468.1	1,223.8
2015	516.6	79.2	595.8	543.8	1,315.5
2020	552.0	70.1	622.1	638.9	1,137.0
2025	587.3	40.2	627.5	731.5	613.9
2030	0.0	0.0	0.0	0.0	0.0
2035	0.0	0.0	0.0	0.0	0.0
2040	0.0	0.0	0.0	0.0	0.0
2045	0.0	0.0	0.0	0.0	0.0
2050	0.0	0.0	0.0	0.0	0.0
2055	0.0	0.0	0.0	0.0	0.0
2060	0.0	0.0	0.0	0.0	0.0
2065	0.0	0.0	0.0	0.0	0.0
2070	0.0	0.0	0.0	0.0	0.0

Note.—Figures are not shown for years after which the combined OASI and DI Trust Funds are estimated to be exhausted. Adjustment from current to constant dollars is by the CPI. Totals do not necessarily equal the sum of rounded components.

Source: Board of Trustees (1996), intermediate assumptions.

What then is the purpose of the trust funds?

Generally speaking, the Federal securities issued to any Federal trust fund represent "permission to spend." As long as a trust fund has a balance of securities posted to it, the Treasury Department has legal authority to keep issuing checks for the program. In a sense, the mechanics of a Federal trust fund are similar to those of a bank account. The bank takes in a depositor's money, credits the amount to the depositor's account, and then loans it out. As long as the account shows a balance, the depositor can write checks that the bank must honor. In Social Security's case, its taxes flow into the Treasury, and its trust funds are credited with Federal securities. The government then uses the money to meet whatever expenses are pending at the time. The fact that this money is not set aside for Social Security purposes does not dismiss the government's responsibility to honor the trust funds' account balances. As long as they have balances, the Treasury Department must continue to issue Social Security checks. The key point is that the trust funds themselves do not hold financial resources to pay benefits. Rather, they provide authority for the Treasury Department to use whatever money it has on hand to pay them.

The significance of having trust funds for Social Security is that they represent a long-term commitment of the government to the program. While the funds do not hold "resources" that the government can call on to pay Social Security benefits, the balances of Federal securities posted to them represent and have served as financial claims against the government—claims on which the Treasury has never defaulted, nor used directly as a basis to finance anything but Social Security expenditures.

Is this trust fund arrangement really different from that used by other programs of the government? Doesn't the Treasury Department maintain accounts for them as well?

The Treasury Department maintains accounts for all government programs. The difference is that many other programs, particularly those not accounted for through trust funds, get their operating balances—i.e., their permission to spend—through the annual appropriations process. Congress must pass legislation (an appropriations act) each year giving the Treasury Department permission to expend funds for them. In technical jargon, this permission to spend is referred to as "budget authority." For many programs accounted for through trust funds, annual appropriations are not needed. As long as their trust fund accounts show a balance of Federal securities, the Treasury Department has "budget authority" to expend funds for them.

Another difference is that a trust fund account earns interest, since it is comprised of Federal securities. In the case of the Social Security Trust Funds, the interest is equal to the prevailing average rate on outstanding Federal securities with a maturity of 4 years or longer. This interest is credited to the trust funds twice a year (on June 30 and December 31) by issuing more securities to them. So in effect, a trust fund account can automatically build future "budget authority" for the program, but other accounts, dependent on annual appropriations, cannot.

Does taking Social Security out of the Federal budget change where the surplus taxes go?

Legislation enacted in 1990 (the Budget Enforcement Act, included in Public Law 101–508) removed Social Security taxes and benefits from the budget and from calculations of the budget deficit. In large part this was done to prevent Social Security from masking the size of the deficit and to protect it from budgetary cuts. It was based on the supposition that Congress would act differently in trying to achieve deficit-reduction targets if Social Security surpluses were not counted in reaching the budget totals; i.e., that Congress would ignore Social Security in devising the Nation's overall fiscal policies. It was not done to change where Social Security taxes go. The Federal budget is not a cash management account—it is simply a statement or summary of what policymakers want the government's financial flows to be during any given time period. Whether this summary is presented in a unified or fragmented form will not in and of itself change how much money is received and spent by the government, and it will not alter where

Federal tax receipts of any sort go. Social Security taxes will go into the Treasury regardless of whether the program is counted in reaching budget totals. Social Security taxes will go elsewhere only if Congress decides they will go elsewhere.

Are surplus Social Security taxes giving the government more money to spend?

The fact that surplus Social Security taxes are used by the government to meet other financial commitments does not necessarily mean that the government has more money to spend than it would have if these receipts were not available. Decisions about Social Security funds and the finances of the rest of the government have never been made in isolation of one another, and those decisions have had overlapping influences. Past increases in Social Security taxes may have made it more difficult for Congress to raise other forms of taxes. For instance, Social Security taxes were raised in 1977 to shore up the program's financing, but the following year Congress enacted reductions in income taxes to offset the impact of these hikes. Similarly, the earned income credit (EIC), which reduces income taxes or permits a refundable credit to be paid to low-income workers with children, is intended in part to offset the Social Security tax bite. Hence, other taxes might have taken the place of the surplus Social Security taxes if Social Security tax rates were lower than they are now. Therefore, whether these surplus taxes are allowing the government to spend more is a matter of conjecture.

Are surplus Social Security taxes allowing the government to borrow less from the public?

Today, the government is spending more overall than it is taking in through taxes, and it covers the shortfall by borrowing money. No single activity of the government determines the size of this shortfall. To say surplus Social Security taxes are reducing the amount that must be borrowed assumes that all other spending and taxation decisions have been made without any regard for Social Security's income and outgo, and vice versa. If increases in Social Security taxes over the past decade have caused other taxes to be reduced or kept them from rising, such increases may have added little to the government's total revenues. By the same token, when Social Security taxes are smaller than the program's spending—as they were for all but five fiscal years after 1957 and through 1984—it is not clear that this shortfall causes the government to borrow more than it would otherwise. Government borrowing from the public is not clearly linked to any particular aspect of what the government does. It borrows as it needs to, for whatever obligations it has to meet. Therefore, whether surplus Social Security taxes are currently allowing the government to borrow less from the public than it otherwise would is also a matter of conjecture.

Isn't there some way to actually save the Social Security surpluses?

Perceiving that surplus Social Security taxes simply give the government more money to spend, people sometimes ask why they can't be invested in stocks or bonds. They believe that this would really save the money for the future.

Actually, the surplus Social Security taxes being collected today are not the means through which much of the future cost of the system will be met. Most of today's taxes are used to cover payments to today's retirees. In 1996, the system's taxes will amount to an estimated $386 billion; its expenditures, $355 billion. At their peak in 2010, the balances of the Social Security Trust Funds are expected to equal only 2½ years' worth of payments. Thus, the future costs of the system, as is the case today, will largely be met through future taxation. The promise of future benefits rests primarily on the government's ability to levy taxes in the future, not on the balances of the trust funds.

The more immediate concern about investing the surplus taxes elsewhere is that doing so would reduce the government's revenues. How would the government make up this loss? What other taxes would take their place, what spending would be cut—or would the government simply borrow more money from the financial markets?

In a sense, the idea of investing surplus Social Security taxes in private investments is only half a proposal. If the government borrowed money from the financial markets to make up the loss, it simply would be putting money into the markets with one hand and taking it back with another. On balance, it would not have added any new money to the Nation's pool of investment resources. If, on the other hand, the government were to reduce its spending or raise other taxes, it would not have to borrow any new funds (or it would borrow less than the full amount of Social Security money it diverted to the markets). This presumably would result in a net increase in savings in the economy. The bottom line is that it is not simply how surplus Social Security taxes are invested that determines whether or not real savings is increased. It is the steps that fiscal policymakers take to reduce the government's overall draw on financial markets that really matter.

BUDGETARY TREATMENT OF OASDI

Social Security and other Federal programs that operate through trust funds were counted officially in the budget beginning in fiscal year 1969. This was done administratively by President Johnson. At the time Congress did not have a budgetmaking process. In 1974, with passage of the Congressional Budget and Impoundment Control Act (Public Law 93–344), Congress adopted procedures for setting budget goals through passage of annual budget resolutions. Like the budgets prepared by the President, these resolutions were to reflect a "unified" budget that included trust fund programs such as Social Security.

Beginning in the late 1970s, financial problems confronting Social Security and concern over its growing costs led to enactment of a number of benefit changes in 1977, 1980, 1981, and 1983. However, because the Federal budget deficit remained large, interest in curbing Social Security spending continued. This consideration of Social Security constraints led to concerns that changes in Social Security were being proposed for budgetary purposes rather than programmatic ones. In response, measures were enacted in

1983, 1985, and 1987 making the program a more distinct part of the budget and permitting floor objections (points of order) to be raised against budget bills containing Social Security changes.

Later in the decade, when Social Security surpluses emerged, critics argued that the program was masking the size of the budget deficits. In response, Congress in 1990 excluded it from calculations of the budget and largely exempted it from procedures for controlling spending (Omnibus Budget Reconciliation Act of 1990, Public Law 101–508). By these actions, however, Congress excluded Social Security from procedural constraints designed to discourage measures that would increase the deficits. Concerned that this would encourage Social Security spending increases and tax cuts that could weaken Social Security's financial condition, Congress also included provisions permitting floor objections to be raised against bills that would erode the balances of the Social Security Trust Funds. A more detailed explanation of budget and procedural rules affecting Social Security follows.

Table 1–42 shows projected budget deficits with and without Social Security.

TABLE 1–42.—PROJECTED BUDGET DEFICITS WITH AND WITHOUT SOCIAL SECURITY, 1996–2006

[By fiscal year, in billions of dollars]

Year	With Social Security	Without Social Security
1996	$144	$208
1997	171	243
1998	194	270
1999	219	303
2000	244	336
2001	259	356
2002	285	389
2003	311	421
2004	342	459
2005	376	503
2006	403	540

Source: Congressional Budget Office, May 1996 baseline projections.

CURRENT BUDGET RULES PERTAINING TO SOCIAL SECURITY

Two key elements of the budget process are explicit dollar limits on discretionary spending (mostly for programs requiring annual appropriations) and a "pay-as-you-go" rule that requires that increases in direct spending (mostly for entitlement programs) and/or cuts in revenues must be offset by other changes so as not to increase the deficit. Originally written to cover the period from fiscal years 1991 to 1995, these budget rules will now apply through fiscal year 1998 (as a result of provisions in the Omnibus Budget Reconciliation Act of 1993—Public Law 103–66). If the explicit spending limits or "pay-as-you-go" rules are violated during this period, the President may be required to sequester funds (i.e., cut spending). By law, Social Security is not to be included in these calculations and is exempt from any potential sequestration, with the exception of administrative expenses (which are counted as discretionary spending). Table 1–43 shows total OASDI administrative expenses, and administrative expenses as a percentage of benefit payments. The law further permits floor objections to be raised against budget bills (so-called "reconciliation" bills) that contain Social Security measures.

TABLE 1–43.—OASDI ADMINISTRATIVE EXPENSES IN BILLIONS OF DOLLARS AND AS A PERCENTAGE OF BENEFIT PAYMENTS, FISCAL YEARS 1989–95

Fiscal year	Total administrative expenses (in billions of dollars)	OASI administrative expenses [1]	DI administrative expenses [1]	Total administrative expenses [1]
1989	$2.407	0.8	3.3	1.1
1990	2.280	0.7	3.0	0.9
1991	2.535	0.7	2.9	1.0
1992	2.668	0.7	2.8	0.9
1993	2.955	0.8	2.8	1.0
1994	2.896	0.7	2.8	0.9
1995	2.870	0.6	2.7	0.9

[1] As a percentage of OASI, DI and total benefit payments.

Source: Office of the Actuary, Social Security Administration.

CURRENT HOUSE AND SENATE PROCEDURAL RULES TO PROTECT SOCIAL SECURITY'S FINANCIAL CONDITION

Under the budget rules that existed before 1991, Social Security was included in calculations of the budget deficit. This had the effect of potentially thwarting attempts to expand its benefits or cut its taxes if they were not accompanied by measures to offset the cost or revenue loss. Floor objections could be raised against such actions if they violated the budget totals or allocations. If enacted, other programs were potentially threatened with sequestration because the deficit would be made larger. The old process imposed the same fiscal discipline on Social Security as applied to other programs. Since Social Security is now exempt from the budget limits (excepting its administrative expenses), these fiscal constraints no longer apply. In their place are rules intended to make it difficult to bring up measures for a vote that would weaken the program's financial condition. These procedural rules are sometimes referred to as the Social Security "firewall" provisions.

In the House, a floor objection can be raised against a bill that proposes more than $250 million in Social Security spending increases or tax cuts over 5 years (counting the fiscal year it becomes effective and the following 4 years) unless the bill also contains offsetting changes to bring the net impact within the $250 million limit. Costs of prior legislation that fall within the 5-year period must be counted. An objection also can be raised against a measure that would increase long-range (75-year) average costs or reduce long-range revenues by at least 0.02 percent of taxable payroll (i.e., national earnings subject to Social Security taxes).

In the Senate, budget resolutions must include separate amounts for Social Security income and outgo for the first year and 5-year period covered by the resolution (i.e., separate from the budget totals). These amounts cannot cause the balances of the Social Security Trust Funds to be lower than projected under current law. Measures that would do so could draw an objection, which can be overridden only by a vote of three-fifths of the Senate. Once the resolution is enacted, subsequent measures that on balance would cause Social Security outlay increases or revenue reductions could draw an objection, which again can be overridden only when three-fifths of the Senate votes to do so.

BUDGETARY TREATMENT OF ADMINISTRATIVE EXPENSES

The costs of administering the Social Security Retirement and Disability Programs are financed from the Social Security Trust Funds, subject to annual appropriations. Traditionally these costs are low, comprising between 1 and 2 percent of annual benefit payments (see table 1–43). During fiscal year 1995, they amounted to $2.9 billion.

These trust-fund-financed administrative funds comprised 46 percent of the Social Security Administration's fiscal year 1995 administrative budget. The agency received another 14 percent from the Medicare Trust Funds, as well as 40 percent from general revenues for administration of the Supplemental Security Income Program. This brought SSA's total 1995 administrative budget to $5.1 billion (excluding the special appropriations for disability processing and automation investments).

Social Security benefit payments were taken off budget as provided by the Budget Enforcement Act (BEA) of 1990. The BEA specifically exempts certain programs from the discretionary spending cap, but not SSA's administrative expenses.

LEGISLATIVE HISTORY

CHANGES IN THE 95TH CONGRESS

The 95th Congress had to resolve major problems in the financing of the Social Security Program. The 1977 amendments (Public Law 95–216) increased future revenues by raising tax rates and the earnings base, but more significantly, they changed the benefit formula that was raising initial benefits too rapidly. For individuals who became eligible after 1978, benefits were to be determined by a formula designed to give a stable relationship between one's benefit and preretirement career earnings. This would be accomplished by indexing both the formula for determining initial benefits and a person's earnings to reflect changing wage levels. The change in the computation rules was called "decoupling," which, according to some, resulted in a so-called benefit "notch." The following is a summary of the major provisions of the law.

Change in benefit formula

For those reaching age 62, becoming disabled, or dying in 1979 or later, initial benefits would be computed using a formula that would be indexed to the growth in average wages over the years, so that they would generally maintain pace with the standard of living. To ease transition to the new rules, those attaining age 62 in 1979–83 could have their benefits computed under the old rules, with some limitations, if they were higher than benefits computed under the new rules.

Increases in payroll tax rates

Raised OASDI tax rates slightly in 1979 and 1980, and more significantly in 1981 and later. The ultimate OASDHI tax rate would be 7.65 percent each on employees and employers in 1990. (Formerly, the rate in 1990 was 6.45 percent, and the ultimate rate, 7.45 percent in 2011.)

Increases in the earnings base

On an ad hoc basis, the base was raised to $22,900 in 1979, $25,900 in 1980, and $29,700 in 1981. After 1981, the base would be adjusted automatically to keep up with increases in average wages as under the prior law.

Increases in the delayed retirement credit (DRC)

Raised the DRC to 3 percent a year for workers reaching age 62 after 1978 (those subject to the new way of computing benefits).

Earnings limit changes

Lowered from 72 to 70 the age at which the earnings limit no longer applies, effective in 1982. Also increased, on an ad hoc basis for 5 years, the annual exempt amount in the earnings limit for those age 65 and over. (The amount for those under age 65 was not changed but left to continue to be indexed to wage growth.) After 1982, the annual exempt amount for those over age 65 would again rise automatically with wage growth.

Government pension offset

Reduced a spouse's and surviving spouse's benefits dollar for dollar by the amount of the government pension derived from his or her own work not covered by Social Security. (Later modified to a two-thirds offset by Public Law 98–21.)

Change in quarter-of-coverage measure

Beginning in 1978, a worker would receive one quarter of coverage (up to four per year) for each $250 of annual wages (instead of for $50 or more earned per calendar quarter). The $250 figure would be increased automatically in future years to take account of increases in average wages.

Divorced spouses

Reduced the duration-of-marriage requirement for divorced spouses and surviving divorced spouses from 20 to 10 years.

Freeze in minimum benefit

"Froze" initial minimum benefit levels—at $122—so they would not rise in future years (although COLAs would be given beneficiaries once they were on the rolls).

CHANGES IN THE 96TH CONGRESS

Public Law 96–265, the Social Security disability amendments of 1980, made substantial changes to the disability programs. Major provisions were:

Periodic review of disability determinations

Required that, unless a finding has been made that a recipient's disability is permanent, the case will be reviewed every 3 years to determine if the recipient is still disabled.

Family benefit cap

Limited family benefits in disability cases to the lesser of 85 percent of the average indexed monthly earnings (AIME) or 150 percent of the primary insurance amount (PIA), but no less than 100 percent of the PIA.

Variable dropout years

In the computation of benefits for workers disabled before age 47, the dropout years were reduced from 5 years to a range of from 1 to 4 years, depending on the worker's age and child care dropout years.

Automatic reentitlement to benefits

Medically disabled recipients who return to work would be automatically reentitled to benefits if they stopped performing substantial gainful activity (SGA) within 15 months following the end of the trial work period (TWP).

Extension of Medicare coverage

Provided continued Medicare coverage for up to 24 months after the entitlement to disability benefits ends for medically disabled recipients who return to work.

Work expense deductions

Allowed deductions in DI cases of the cost of impairment-related services and devices and attendant care costs from earnings in determining SGA, if they are necessary for the recipient to work and the recipient pays for them.

Administration of the DI Program

Gave the Federal Government the authority to set standards for Disability Determinations Services (DDS) performance and the option of taking over the State disability determination process. Also required the SSA to review DDS allowances before they go into effect.

Also in 1980, Public Law 96–473 modified the earnings limit to allow a "grace year" in which the monthly earnings limit could be used rather than the yearly one, so that dependents could use the monthly earnings limit in their last year of entitlement and retirees would not be penalized for earnings before their retired. In addition, in order to shore up financing of the OASI Program, Public

Law 96–403 reallocated part of the DI tax to OASI, and denied DI benefits to prisoners incarcerated upon conviction of a felony.

CHANGES IN THE 97TH CONGRESS

The 97th Congress made numerous changes in the OASDI Program. The major changes were included in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35). Table 1–44 lists these changes.

TABLE 1–44.—ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASDI DURING 1981 (PUBLIC LAW 97–35) (JANUARY 1982 ESTIMATES), FISCAL YEARS 1982–84

[In millions of dollars]

	Fiscal year		
	1982	1983	1984
Elimination of minimum benefit for future beneficiaries	−81	−180	−210
Elimination of benefits for postsecondary students	−567	−1,580	−2,033
Restrictions on payment of lump-sum death benefits	−200	−210	−215
Modification of month of initial entitlement for certain workers and their dependents	−190	−220	−240
Temporary extension of earnings limitation to include all persons aged less than 72	−380	−120	0
Termination of mother's and father's benefits when youngest child attains age 16	−30	−88	−496
Modification of rounding rules	−79	−272	−314
Cost reimbursement for provision of earnings information	−1	−2	−5
Revision of reimbursements for vocational rehabilitation services	−87	−86	−73
Modification of worker's compensation offset to: (1) apply offset to certain other public disability benefits-megacap; (2) apply offset to benefits of workers aged 62–64; and (3) begin offset in first month of dual-benefit payment	−87	−122	−156
Extension of coverage to first 6 months of sick pay (revenue increase)	−534	−762	−828
Total OASDI	−2,236	−3,642	−4,570

Source: Congressional Budget Office.

CHANGES IN THE 98TH CONGRESS

The 98th Congress made extensive changes in OASDI Programs in the Social Security amendments of 1983 (Public Law 98–21), enacted to restore the financial status of the Social Security Trust Funds. Table 1–45 outlines the estimated outlay and revenue effects of the 1983 amendments under the intermediate assumptions of the 1983 Trustees' Report. At the time, it was estimated that in the period 1983 through 1989, the OASDI and HI Trust Funds would receive $166.2 billion and $33.6 billion, respectively, in additional financing. Table 1–46 shows the estimated long-range effects of the 1983 amendments, under 1983 assumptions.

Public Law 98–460, the Disability Benefits Reform Act of 1984, made several substantial changes in the standards for review of disability beneficiaries, and in other provisions of the program as well. The following is a summary of the law.

Medical improvement standard

The law established a medical improvement standard under which the Secretary (now the Commissioner) may terminate disability benefits on the basis that the person is no longer disabled only if:

1. There is substantial evidence demonstrating that (a) there has been medical improvement in the individual's impairment or combination of impairments (other than medical improvement which is not related to the person's ability to work), (b) the individual is now able to engage in substantial gainful activity (SGA);
2. There is substantial evidence consisting of new medical evidence and a new assessment of residual functional capacity (RFC) that demonstrates that although there is no medical improvement, (a) the person has benefited from advances in medical or vocational therapy or technology related to ability to work, and (b) that she is now able to perform SGA;
3. There is substantial evidence that although there is no medical improvement (a) the person has benefited from vocational therapy and (b) the beneficiary can now perform SGA;
4. There is substantial evidence that, based on new or improved diagnostic techniques or evaluations, the person's impairment or combination of impairments is not as disabling as it was considered to be at the time of the prior determination, and that therefore the individual is able to perform SGA;
5. There is substantial evidence either in the file at the original determination or newly obtained showing that the prior determination was in error;
6. There is substantial evidence that the original decision was fraudulently obtained; or
7. If the individual is engaging in SGA (except where he is eligible under section 1619), fails without good cause to cooperate in the review or follow prescribed treatment or cannot be located.

In making the determination, the Secretary (now the Commissioner) was required to consider the evidence in the file as well as any additional information concerning the applicant's current or prior condition secured by the Secretary (now the Commissioner) or provided by the applicant.

Determinations under this provision had to be made on the basis of the weight of the evidence, and on a neutral basis with regard to the individual's condition, without any inference as to the presence or absence of disability based on the previous finding of disability.

TABLE 1–45.—ESTIMATED CHANGES IN OASDI RECEIPTS AND BENEFIT PAYMENTS RESULTING FROM THE 1983 SOCIAL SECURITY AMENDMENTS (PUBLIC LAW 98–21), CALENDAR YEARS 1983–89

[In billions of dollars]

Provision	Calendar year—							Total, 1983–89
	1983	1984	1985	1986	1987	1988	1989	
Increase tax rate on covered wages and salaries	....	8.6	0.3	....	....	14.5	16.0	39.4
Increase tax rate on covered self-employment earnings	....	1.1	3.1	3.0	3.2	3.7	4.4	18.5
Cover all Federal elected officials and political appointees	....	([1])	([1])	([1])	([1])	([1])	([1])	0.1
Cover new Federal employees	....	0.2	0.7	1.2	1.8	2.4	3.1	9.3
Cover all nonprofit employees	....	1.3	1.5	1.8	2.1	2.6	3.0	12.4
Total for new coverage	....	1.5	2.2	3.0	3.9	5.0	6.1	21.8
Prohibit State and local government terminations	....	0.1	2.	0.4	6.	8.	1.1	3.2
Accelerate collection of State and local taxes	....	0.6	([1])	([1])	0.1	0.1	0.1	1.0
Modify general fund financing basis for noncontributory military service credits	18.4	−0.4	−0.4	−0.3	−0.4	−0.4	−0.4	16.1
Provide reimbursements from general fund for unnegotiated checks	1.3	0.1	0.1	0.1	0.1	0.1	0.1	1.6
Delay benefit increases 6 months	3.2	5.2	5.4	5.5	6.2	6.7	7.3	39.4
Continue benefits on remarriage	....	([2])	([2])	([2])	([2])	([2])	([2])	−0.1
Modify indexing of deferred survivors' benefits	....	....	([2])	([2])	([2])	([2])	([2])	([2])
Raise disabled widow(er)s' benefits to 71.5 percent of PIA	....	−0.2	−0.2	−0.2	−0.2	−0.3	−0.3	−1.4
Pay divorced spouses whether or not worker has retired	....	....	([2])	([2])	([2])	([2])	([2])	−0.1
Eliminate "windfall" benefits for individuals receiving pensions from noncovered employment	....	....	....	([3])	([3])	([3])	0.1	0.1
Offset spouses' benefits by two-thirds of noncovered government pension (public pension offset)	([2])	([2])	([2])	([2])	([2])	([2])	([2])	([2])

TABLE 1–45.—ESTIMATED CHANGES IN OASDI RECEIPTS AND BENEFIT PAYMENTS RESULTING FROM THE 1983 SOCIAL SECURITY AMENDMENTS (PUBLIC LAW 98–21), CALENDAR YEARS 1983–89—Continued

[In billions of dollars]

Provision	Calendar year—							Total, 1983–89
	1983	1984	1985	1986	1987	1988	1989	
Expand use of death certificates to stop benefits	([3])	([3])	([3])	([3])	([3])	([3])	([3])	0.1
Impose 5-year residency requirement for certain aliens	....	....	([3])	([3])	([3])	([3])	([3])	0.1
Tax one-half of benefits for high-income beneficiaries	....	2.6	3.2	3.9	4.7	5.6	6.7	26.6
All other changes	([2])	([2])	([2])	([2])	([2])	([2])	([2])	−0.1
Total for all changes	22.8	19.2	13.9	15.3	18.0	35.8	41.2	166.2

[1] New additional taxes of less than $50 million.
[2] Additional benefits of less than $50 million.
[3] Reduction in benefits of less than $50 million.

Note.—Based on 1983 alternative II–B assumptions. Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reduction in benefits. Negative figures represent reductions in income or increases in benefits.

Source: Office of the Actuary, Social Security Administration.

TABLE 1–46.—ESTIMATED LONG-RANGE OASDI COST EFFECTS OF THE SOCIAL SECURITY AMENDMENTS OF 1983 (PUBLIC LAW 98–21)

Provision	Effect as percent of payroll		
	OASI	DI	OASDI
Present law prior to amendments:			
Average cost rate	13.04	1.34	14.38
Average tax rate	10.13	2.17	12.29
Actuarial balance	−2.92	+.83	−2.09
Changes included in titles I and III of the amendments: [1]			
Cover new Federal employees	+.26	+.02	+.28
Cover all nonprofit employees	+.09	+.01	+.10
Prohibit State and local terminations	+.06	+.00	+.06
Delay benefit increases 6 months	+.28	+.03	+.30
Eliminate "windfall" benefits	+.04	+.00	+.04
Raise delayed retirement credits	−0.10	....	−0.10
Tax one-half of benefits	+.56	+.05	+.61
Accelerate tax rate increase	+.03	....	+.03
Increase tax rate on self-employment	+.17	+.02	+.19
Adjust self-employment income	−0.02	−0.00	−0.03
Change DI rate allocation	+.81	−0.81	....
Continue benefits on remarriage	−0.00	−0.00	−0.00
Pay divorced spouse of nonretired	−0.01	−0.00	−0.01
Modify indexing of survivor's benefits	−0.05	....	−0.05
Raise disabled widow's benefits	−0.01	....	−0.01
Modify military credits financing	+.01	+.00	+.01
Credit unnegotiated checks	+.00	+.00	+.00
Tax certain salary reduction plans	+.03	+.00	+.03
Modify public pension offset	−0.00	−0.00	−0.00
Suspend auxiliary benefits for certain aliens	+.00	+.00	+.00
Modify earnings limit for those aged 65 and over [2]	−0.01	....	−0.01
All other provisions of titles I and III	−0.00	−0.00	−0.00
Subtotal for the effect of the above provisions [3]	+2.07	−0.68	+1.38
Remaining deficit after the above provisions	−0.85	+.15	−0.71
Additional change relating to long-term financing (title II): [4] Raise normal retirement age to 67	+.83	−0.12	+.71
Total effect of all of the provisions [5]	+2.89	−0.80	+2.09
After the amendments:			
Actuarial balance	−0.03	+.03	−0.00
Average income rate	11.47	1.42	12.89
Average cost rate	11.50	1.39	12.89

[1] The values of each of the individual provisions listed from title I and title III represent the effect over present law and do not take into account interaction with other provisions with the exception of the provision relating to the earnings limit. [2] Estimates from modifying the earnings limit take into account interaction with the provision raising delayed retirement credits. [3] The values in the subtotal for all provisions included in title I and title III take into account the estimated interactions among these provisions. [4] The values for each of the provisions of title II take into account interaction with the provisions included in title I and title III. [5] The values for the total effect of the amendments take into account interactions among all of the provisions.

Note.—The above estimates are based on preliminary 1983 Trustees' Report Alternative II–B assumptions. Individual estimates may not add to totals due to rounding and/or interaction among proposals.

Source: Svahn & Ross (1983).

Effective date

Applied only with respect to the following categories:

1. Determinations by the Secretary made after the date of enactment (and Commissioner after March 31, 1995);
2. Cases pending at any level of the administrative process on the date of enactment;
3. Cases of individual litigants pending in Federal court on the date the conference report was filed;
4. Cases of named plaintiffs in pending class action suits;
5. Cases of unnamed plaintiffs in class action suits certified prior to that date; and
6. Cases where a request for judicial review was made on a decision of the Secretary made during the 60 days preceding enactment.

Cases in categories (3), (4), (5), and (6) had to be remanded to the Secretary or Commissioner, as appropriate, for review under this standard. Individuals in (5) were to be sent a notice via certified mail informing them that they had 120 days after the date of receipt of the notice to request a review under the medical improvement standard.

No class action could be certified after the date the conference report was filed, which raised the issue of medical improvement with respect to an individual whose benefits were terminated prior to that date.

Persons whose cases were remanded to the Secretary or Commissioner were to receive benefits pending the Secretary's or Commissioner's decision and appeal of that decision if they so elected. If found eligible, any person whose case was remanded under this provision was to receive benefits retroactive to the date they were last found ineligible.

Evaluation of pain

The Secretary of HHS was required, in conjunction with the National Academy of Sciences, to conduct a study addressing two issues: using subjective evidence of pain in determining whether a person is under a disability; and the state of the art of preventing, reducing, or coping with pain. This study was completed and a report was submitted to the House Committee on Ways and Means and the Senate Committee on Finance by the Social Security Administration in 1986. While making many recommendations, it basically supported the existing treatment of allegations of pain in disability determinations.

The provision also established a statutory standard for considering pain, which was in effect until December 31, 1986.

Multiple impairments

In determining whether a person's impairment or impairments are of a sufficient medical severity to be the basis of a finding of eligibility for benefits, the Secretary (now Commissioner) was required to consider the combined effect of all of the person's impairments, whether or not any one impairment alone would be severe enough to qualify the person for benefits. The provision became effective for all determinations made on or after 30 days after enactment.

Moratorium on mental impairment reviews

A moratorium was imposed on reviews of all cases of mental impairment disability until the mental impairment criteria in the Listing of Impairments were revised to realistically evaluate the person's ability to engage in SGA in a competitive workplace environment. The moratorium applied to all cases on which an administrative or judicial appeal was pending on or after June 7, 1983. All persons claiming benefits based on mental impairment disability who received an unfavorable initial or continuing disability decision after March 1, 1981 were permitted to reapply for benefits within 12 months of enactment. The revised criteria were published in 1985.

Pretermination notice

The Secretary (now the Commissioner) was required to initiate demonstration projects on providing face-to-face interviews for (1) pretermination continuing disability cases; and (2) all initial denial cases, in lieu of face-to-face evidentiary hearings at reconsideration, to be done in at least five States with a report due to the House Committee on Ways and Means and the Senate Committee on Finance on April 1, 1986. The Secretary (now the Commissioner) was also required to notify individuals, upon initiating a periodic eligibility review, that termination of benefits could be the result of the review, and that medical evidence may be provided. Although these studies have been completed, the report has not yet been submitted to Congress.

Continuation of benefits during appeal

This provision provided for continuation of disability and Medicare benefits during appeal for all continuing disability review cases through the decision of the ALJ, at the election of the individual. Where the ALJ's decision is adverse to the individual, the disability benefits were to be repaid. The provision was made permanent for SSI disability recipients, and applied to DI beneficiaries through December 1987. (The Omnibus Budget Reconciliation Act of 1987 extended the provision for DI beneficiaries through December 1988; the 1988 tax technical corrections bill extended the provisions through December 1989; and the Omnibus Budget Reconciliation Act of 1989 extended them through December 1990.)

Qualifications of medical professionals

This provision required the Secretary (now Commissioner) to make every reasonable effort, in cases based on mental impairments, to ensure that a qualified psychiatrist or psychologist completes the medical portion of the case review and of the residual functional capacity assessment before any determination is made that an individual is not disabled. The Secretary (now Commissioner) was given the authority to contract directly for such services if the DDS is unable to do so.

Standards for consultative examinations/medical evidence

The Secretary was required to promulgate regulations regarding consultative examinations, including when they should be obtained, the type of referral to be made, and the procedures for monitoring the referral process. Further, the Secretary (now the Commissioner) was required to make every effort to obtain necessary medical evidence from the treating physician before evaluating medical evidence from any other source, and to consider all evidence in the case record and development of complete medical history over at least the preceding 12-month period.

Administrative procedure and uniform standards

As required, regulations were published setting forth uniform standards for DI and SSI disability determinations under section 553 of the Administrative Procedure Act, to be binding at all levels of adjudication.

Nonacquiescence

While the conference agreement dropped both the House and Senate provisions relating to the Secretary's acquiescence with Court rulings, the intent was not to endorse the practice of "nonacquiescence." The conferees noted that questions had been raised about the constitutional basis of the practice, that many of the conferees had strong concerns about the practice, and that a policy of nonacquiescence should be followed only where steps have been taken or are intended to be taken to receive a review of the disputed issue in the Supreme Court. The conferees also urged the Secretary to seek a resolution of the nonacquiescence issue in the Supreme Court.

In January 1990, SSA issued regulations relating to its adherence with circuit court decisions which are in conflict with SSA's policies. Their key provisions are that: (a) SSA will apply a circuit court decision that conflicts with SSA policy, within the circuit and at all levels of administrative adjudication, unless the government decides to appeal the decision; and (b) SSA will publish in the Federal Register an Acquiescence Ruling explaining how adjudicators should apply the circuit court decision. SSA will also publish all other Social Security Rulings in the Federal Register.

Payment of costs of rehabilitation services

The provision permitted reimbursement to State agencies for costs of VR services provided to individuals receiving DI benefits under section 225(b) of the Social Security Act who medically recover while in VR, whether or not the person worked at SGA for 9 months, and whether or not the person failed to cooperate in the program.

Direction for Quadrennial Social Security Advisory Council

The provision required the next quadrennial advisory council to study the medical and vocational aspects of disability using ad hoc panels of experts where appropriate. The study was to include an analysis of alternative approaches to work evaluation for SSI recipients, the effectiveness of VR programs, and other disability program policies, standards, and procedures. The Council issued its report in March 1988.

Staff attorneys

The Secretary was to report, within 120 days of enactment, to the House Committee on Ways and Means and the Senate Committee on Finance, on the actions taken by the Secretary to establish positions which enable staff attorneys to gain the qualifying experience and quality of experience necessary to compete for ALJ positions. Statement of managers stated that it was assumed, given U.S. Office of Personnel Management (OPM) actions at the time, that statutory requirements for establishing specific positions were not required, and the Secretary was urged to take all reasonable steps to see that the OPM actions resulted in SSA staff attorneys becoming qualified for GS–15 ALJ positions.

SSI benefits for persons working despite impairment

This provision extended sections 1619 (a) and (b) through June 30, 1987, and required the Secretaries of HHS and Education to establish training programs for staff personnel in SSA district offices and State VR agencies, and disseminate information to SSI applicants, recipients, and potentially-interested public and private organizations. Sections 1619 (a) and (b) were made permanent in 1986.

Frequency of continuing eligibility reviews

The Secretary was required to promulgate regulations establishing standards for determining the frequency of continuing eligibility reviews. Final regulations were to be issued within 6 months and during that period no individual could be subjected to more than one periodic review.

Representative payees for Social Security and SSI beneficiaries

The Secretary (now Commissioner) was required to (1) evaluate qualifications of prospective payees prior to or within 45 days following certification, (2) establish a system of annual accountability monitoring where payments are made to someone other than a parent or spouse living in the same household with the beneficiary, and (3) report to Congress on implementation, and annually on the number of cases of misused funds and disposition of such cases.

CHANGES IN THE 99TH CONGRESS

Several legislative changes were made in the Social Security Program in the 99th Congress. The Consolidated Omnibus Reconciliation Act of 1985 (Public Law 99–272) included a variety of minor and technical legislative changes in Social Security. Additionally, Public Law 99–272 contained provisions to: (a) exempt wages paid to retired Federal judges performing active duty, for purposes of FICA taxation and the Social Security earnings limit; and (b) to protect certain Social Security beneficiaries who receive overpayments through the electronic direct deposit system.

The Emergency Deficit Reduction and Balanced Budget Act of 1985 (Public Law 99–177) contained a provision to remove the receipts and disbursements of the Social Security Trust Funds from the unified budget effective in fiscal year 1986, and to restrict consideration of legislative changes in Social Security as part of the congressional budget process. It also contained measures intended to bring the Federal budget into balance by fiscal year 1991, and under those measures, Social Security income and outgo were to be used in calculating the Federal deficit. However, the benefits were made exempt from any automatic cuts required to reduce the deficit. Moreover, the act contained provisions making it difficult for Social Security changes to be brought up in the congressional budget process by permitting floor objections, or "points of order," against such measures.

The Omnibus Budget Reconciliation Act of 1986 (Public Law 99–509) included two significant Social Security provisions. The first eliminated the requirement that the annual rise in the Consumer Price Index must exceed 3 percent in order for a cost-of-living adjustment to be paid to Social Security beneficiaries. The new law required that a cost-of-living adjustment be paid in any year in which there was a measurable increase in consumer inflation. Second, Public Law 99–509 removed from the States the responsibility for collecting and depositing with the Federal Government Social Security contributions on behalf of their political subdivisions. All State and local entities now deposit their Social Security contributions directly to the Federal Government on a time schedule that parallels the treatment of private employers.

CHANGES IN THE 100TH CONGRESS

Public Law 100–203, the Budget Reconciliation Act of 1987, made a number of changes in coverage.

Armed Services reservists

FICA taxes were extended to "inactive duty training" (generally weekend training drill sessions).

Agricultural workers

Wages paid to an employee who received less than $150 in annual cash remuneration from an agricultural employer were subject to FICA if the employer paid more than $2,500 in the year to all employees, unless the employee: (1) is a hand-harvest laborer and is paid on a piece-rate basis in an operation which has been customarily recognized as having been paid on a piece-rate basis in the region of employment; (2) commutes daily from his or her permanent residence; and (3) has been employed in agriculture less than 13 weeks during the preceding calendar year.

Individuals age 18–21

FICA taxes were extended to services performed by individuals between the ages of 18 and 21 who are employed in their parent's trade or business.

Spouses

FICA taxes were extended to services performed by an individual in the employ of his or her spouse's trade or business.

Tips

The employer's share of FICA taxes was extended to include all cash tips (up to the Social Security wage base).

Phaseout of reduction in windfall benefits

The phaseout of the reduction of benefits for workers with non-covered pensions was changed from 25 through 30 years of Social Security coverage to 20 through 30 years.

Treatment of group-term life insurance wages under FICA

Employer-provided group-term life insurance was included in wages for FICA tax purposes if such insurance were includable for gross income tax purposes, effective January 1, 1988.

Correction in government pension offset

Federal employees who switched from the Civil Service Retirement System (CSRS) to the Federal Employees' Retirement System (FERS) on or after January 1, 1988 were exempted from the government pension offset only if they had 5 or more years of Federal employment covered by Social Security after December 31, 1987.

Public Law 100–203 also made changes to the DI Program:

Continuation of benefits during appeal

The existing provision for continued payment of disability benefits during the administrative appeal process was extended through 1988.

Lengthening of the extended period of eligibility for disability benefits

The extended period of eligibility during which a disability beneficiary who returns to work may become automatically reentitled to benefits, was lengthened from the current 15 months to 36 months. Medicare eligibility is not continued beyond the period provided under current law.

Payment of attorneys' fees

The administrative policy which permits ALJs to authorize attorneys' fees of up to $3,000 without approval by an SSA regional office was reinstated.

Public Law 100–647, the Technical and Miscellaneous Revenue Act of 1988, further modified the DI Program:

Continuation of benefits during appeal

The existing provision for continued payment of benefits was again extended, through 1989.

Interim benefits in cases of delayed final decisions

Interim benefits will be paid to individuals who have received a favorable decision from an administrative law judge but whose cases are under review by the Appeals Council and the Council has not rendered a decision within 110 days. These interim payments are not subject to recovery as overpayments if the final determination is unfavorable.

CHANGES IN THE 101ST CONGRESS

Public Law 101–239, the Omnibus Budget Reconciliation Act of 1989, made various changes to OASDI:

Continuation of benefits during appeal

The existing provision for continued payment of disability benefits during administrative appeal was extended through 1990.

Extension of Disability Insurance Program demonstration authority

The authority of the Secretary (now the Commissioner) to waive compliance with the benefit requirements of titles II and XVIII for the purpose of conducting work incentive demonstration projects was extended for 3 years, through June 9, 1993.

Representation of applicants

Effective June 1, 1991, the Secretary (now the Commissioner) would be required to maintain an electronically retrievable list of applicants' legal representatives.

Public Law 101–508, the Omnibus Budget Reconciliation Act of 1990, made additional OASDI changes:

Continuation of disability benefits during appeal

The provision permitting disability insurance beneficiaries to elect to have their benefits continued during administrative appeal was made permanent.

Payment of benefits to a child adopted after a parent's entitlement to retirement or disability benefits or adopted by a surviving spouse

A child adopted after a worker became entitled to retirement or disability benefits was made eligible for child's insurance benefits regardless of whether she was living with and dependent on the worker prior to the worker's entitlement.

A child adopted by the surviving spouse of a deceased worker was made eligible for benefits regardless of whether he had been receiving support from anyone other than the worker and the worker's spouse, as long as the child either lived with the worker or received one-half support from the worker in the year preceding the worker's death.

Repeal of carryover reduction in retirement or disability insurance benefits due to receipt of widow(er)'s benefits before age 62

The carryover reduction applied to retirement or disability benefits received by widow(er)s who collected widow(er)'s benefits before age 62 was eliminated.

Improvements in Social Security Administration services and beneficiary protections

A number of improvements were made in SSA procedures regarding correction of earnings records; standards applicable in determinations of fault, good faith and good cause; same-day interviews on time-sensitive matters; notices sent to blind Social Security beneficiaries; legal representatives of applicants; and the avenues of recourse open to potential applicants who lose benefits because SSA provides them with inaccurate or incomplete information. In addition, SSA was required to issue a report on options for increasing its use of foreign language notices. Conforming changes were also made in the SSI Program as applicable.

Earnings and benefit statements

SSA was required, upon request, to provide individuals with a statement of their earnings and contributions and an estimate of their future benefits. Beginning in 1995, these statements will be provided to all individuals who attain age 60. Beginning in October 1999, these statements will be provided annually to all workers over age 24 covered under Social Security.

Inclusion of certain deferred compensation in the calculation of average wages under the Social Security Act

Contributions to deferred compensation plans, including amounts deferred in 401(k) plans, were included in the determination of average wages for Social Security purposes.

Treatment of refunds by employers under the Medicare Catastrophic Coverage Act of 1988 for FICA and other purposes

Refunds provided to individuals by employers under the maintenance-of-effort provision of the Medicare Catastrophic Coverage Act of 1988 were excluded from wages for FICA, FUTA, and railroad retirement and railroad unemployment insurance tax purposes. In addition, the Secretary of the Treasury was given authority to prescribe the manner in which the refunds were to be reported.

Extension of Social Security coverage exemption for members of certain religious faiths

The exemption from Social Security coverage for workers who are members of certain religious groups was extended to: (a) qualifying employees of partnerships in which each partner holds a religious exemption from Social Security coverage, and (b) qualifying employees of churches and church-controlled nonprofit organizations who would otherwise be covered as self-employed for purposes of Social Security taxation.

Prohibition against termination of coverage of U.S. citizens and residents employed abroad by a foreign affiliate of an American employer

American employers were prohibited from terminating the Social Security coverage of U.S. citizens and residents employed abroad in their foreign affiliates.

Extension of Disability Insurance Program demonstration project authority

The authority of the Secretary of HHS [now the Commissioner] to conduct work incentive demonstration projects was extended through June 9, 1996.

Inclusion of employer cost of group-term life insurance in compensation under the Railroad Retirement Tax Act

Employer-paid premiums for group-term life insurance coverage in excess of $50,000 were made subject to the railroad retirement payroll tax, bringing the treatment of such premiums into conformity with their treatment under the Social Security Act.

Inclusion of deferred compensation arrangements, including 401(k) plans, in compensation under the Railroad Retirement Tax Act

Contributions to 401(k) deferred compensation plans were made subject to the railroad retirement payroll tax, bringing the treatment of such contributions into conformity with their treatment under the Social Security Act.

Codification of the Rowan *decision with respect to railroad retirement*

Except for meals and lodging provided for the convenience of the employer, it was stipulated that nothing in Internal Revenue Service (IRS) regulations defining wages for purposes of the income tax is to be construed as requiring a similar definition for purposes of the railroad retirement payroll tax, thus conforming the Railroad Retirement Tax Act to the Social Security Act.

Extension of general fund transfers to Railroad Retirement Tier II Trust Fund

The transfer of proceeds from the income taxation of railroad retirement Tier II benefits from the general fund of the Treasury to the Railroad Retirement Trust Fund was extended to October 1, 1992.

Social Security coverage of State and local employees not covered by a public retirement system

Employees of State and local governments (excluding students who are employed by public schools, colleges, or universities) who are not covered by a public retirement system were covered by Social Security and Medicare (i.e., Old-Age, Survivors, and Disability Insurance (OASDI) and Hospital Insurance (HI); effective after July 1, 1991.

Budgetary treatment of Social Security Trust Funds

The Social Security Trust Funds (OASDI Trust Funds) were removed from the calculation of the deficit under the Gramm-Rudman-Hollings law beginning with fiscal year 1991, thereby taking Social Security "off budget." The trust funds were protected against legislation which would reduce trust fund balances, in both the House and Senate, by the establishment of floor objections, or "points of order," against such legislation.

Improvement of the definition of disability applied to disabled widow(er)s

The stricter definition of disability that was previously applied only to widow(er)s was repealed, and they were made subject to the same definition of disability as already applied to disabled workers.

Improvements in the OASDI and Supplemental Security Income (SSI) representative payee system

The representative payee system was improved by: (a) requiring the Secretary of Health and Human Services (now the Commissioner) to conduct a more extensive investigation of the representative payee applicant; (b) providing stricter standards in determining the fitness of the representative payee applicant to manage benefit payments on behalf of the beneficiary; and (c) directing the Social Security Administration to make recommendations regarding the application of stricter accounting procedures to certain high-risk representative payees.

In addition, certain community-based nonprofit social service agencies providing representative payee services of last resort were allowed to collect a fee from an individual's Social Security or SSI benefit for expenses incurred in providing such services.

Streamlining of the attorney fee payment process

The process by which SSA reviews and approves any fee charged by an attorney representing an applicant before the agency was reformed. The existing fee petition process was generally replaced by a streamlined procedure under which fees are paid up to a limit of 25 percent of past-due benefits not to exceed $4,000, unless the attorney, applicant, or administrative law judge objects. The fee petition was retained in cases for which the fee requested exceeds the limits, or if the determination made on the claim is not favorable.

Restoration of telephone access to the local offices of SSA

SSA was required to reestablish telephone access to its local offices at the level generally available on September 30, 1989, the day before it established a national 800 number and cut off access to local offices serving 40 percent of the population.

Creation of a rolling 5-year trial work period for all disabled beneficiaries

Effective January 1, 1992, the trial work period was liberalized so that a disabled beneficiary would exhaust this period only after completing 9 trial work months in any rolling 60-month period. In addition, beneficiaries would receive a new trial work period for each period of eligibility.

Continuation of benefits on account of participation in a non-State vocational rehabilitation program

Beneficiaries who medically recover while participating in an approved non-State vocational rehabilitation program were granted the same benefit continuation rights as those who medically recover while participating in a State-sponsored program.

Elimination of advance tax transfer

The Social Security Trust Funds were credited with tax receipts as they were collected throughout the month, rather than in advance (at the first of the month), as under previous law. However, the advance tax-transfer mechanism (enacted to help meet the Social Security funding emergency that existed prior to the 1983 amendments) was retained as a contingency to be used if the trust funds drop to such a low level that it is needed in order to pay current benefits.

Repeal of retroactive benefits for certain categories of individuals

Retroactive benefits were eliminated for two categories of individuals eligible for reduced benefits: (a) those with dependents entitled to unreduced benefits, and (b) those with preretirement earnings over the amount allowed under the retirement limit who had used the retroactive benefits to charge off their excess earnings.

Consolidation of old computation methods

A number of little-used, pre-1968 benefit computation formulas were eliminated.

Suspension of dependents' benefits when a disabled worker is in an extended period of eligibility

Current SSA practice regarding the nonpayment of benefits to a disabled worker's dependents when that worker is in an extended period of eligibility and is not receiving monthly Social Security benefits was codified.

Payment of benefits to a deemed spouse and a legal spouse

Eligibility requirements for payment of benefits to a "deemed spouse"—a spouse whose marriage is found to be invalid—were changed so that the entitlement of the worker's legal spouse would no longer terminate payment of benefits to a deemed spouse.

Creation of a vocational rehabilitation demonstration project

SSA was required to carry out a demonstration project testing the advantages and disadvantages of permitting disabled Social Security beneficiaries to select a qualified vocational rehabilitation provider, either public or private, from which to receive services aimed at enabling them to obtain work and leave the disability rolls.

Use of Social Security number by certain legalized aliens

Certain aliens who were granted amnesty under the provisions of the Immigration Reform and Control Act of 1986 were exempted from criminal penalties for fraudulent use of a Social Security card. The exemption did not apply to those individuals who sold Social Security cards, possessed cards with intent to sell, or counterfeited or possessed counterfeited cards with the intent to sell.

Reduction in amount of wages needed to earn a year of coverage toward the special minimum benefit

Effective in 1991, the amount of earnings needed to earn a year of coverage toward the special minimum benefit (designed to assist long-term, low-wage workers) was reduced from 25 percent of the "old law" contribution and benefit base ($10,725 in 1993), to 15 percent of the base ($6,435 in 1993).

Charging of earnings of corporate directors

A provision of previous law that treated a corporate director's earnings as taxable when the services to which they are attributable were performed was repealed. A director's earnings continue to be treated as received when the services are performed for purposes of the Social Security earnings limit.

Collection of employee Social Security tax on group-term life insurance

In cases where an employer continues to provide taxable group-term life insurance to an individual who has left his employment, the former employee was required to pay the employee portion of the Social Security tax directly.

Waiver of the 2-year waiting period for certain divorced spouses

The 2-year waiting period for independent entitlement to divorced spouse benefits was waived in cases where the worker was entitled to benefits prior to the divorce.

Preeffectuation review of favorable decisions by the Social Security Administration

The percentage of favorable decisions made by State disability determination services that must be reviewed by SSA was reduced from 65 percent of all such decisions to 50 percent of allowances and as many continuances as are required to maintain a high level of accuracy in such decisions. The reviews are to be targeted on those cases most likely to contain errors.

Recovery of overpayments from former Social Security beneficiaries through tax refund offset

SSA was permitted to recover overpayments from former beneficiaries through arrangements with the Internal Revenue Service (IRS) to offset the former beneficiary's tax refund.

CHANGES IN THE 102D CONGRESS

No amendments to title II of the Social Security Act were made during the 102d Congress.

CHANGES IN THE 103D CONGRESS

The Omnibus Budget Reconciliation Act of 1993 (Public Law 103–66) made the following tax changes relating to Social Security and Medicare:

Increased taxation of benefits

Made up to 85 percent of Social Security benefits subject to the income tax for recipients whose income plus one-half of their benefits exceed $34,000 (single) and $44,000 (couple).

Eliminated maximum taxable earnings base for HI

Subjected all earnings to the HI tax, effective in 1994.

The Social Security Administrative Reform Act of 1994 (Public Law 103–296) made significant administrative and program changes:

Independent agency

Established the Social Security Administration as an independent agency, effective March 31, 1995.

Substance abusers

Restricted DI and SSI benefits payable to drug addicts and alcoholics by creating sanctions for failing to get treatment, limiting their enrollment to 3 years, and requiring that those receiving DI benefits have a representative payee (formerly required only of SSI recipients).

The Social Security Domestic Reform Act of 1994 (Public Law 103–387):

Domestic workers

Raised the threshold for Social Security coverage of household employees from remuneration of $50 in wages a quarter to $1,000 a year.

Disability Insurance Trust Fund financing

Reallocated a percentage of taxes from the OASI fund to the DI fund (see table 1–31).

Barred benefit payments to the criminally insane

Extended the prohibition against benefit payments to prisoners to those in public institutions who committed serious crimes but are found not guilty by reason of insanity, or incompetent to stand trial.

Changes in the 104th Congress

Summary of major provisions of the "Senior Citizens' Right To Work Act of 1996" (Incorporated into Public Law 104–121, the Contract With America Advancement Act of 1996):

Increase in the Social Security earnings limit

Gradually raised the earnings limit for those between age 65 and 70 to $30,000 by the year 2002, phased in over 7 years as follows:

Year	Old law	New law
1996	$11,520	$12,500
1997	$11,880	$13,500
1998	$12,240	$14,500
1999	$12,720	$15,500
2000	$13,200	$17,000
2001	$13,800	$25,000
2002	$14,400	$30,000

Senior citizens between full retirement age (currently age 65) and 70 who earn over the given earnings limit continue to lose $1 in benefits for every $3 earned over the limit. After 2002, the annual exempt amounts are indexed to growth in average wages. The substantial gainful activity (SGA) amount applicable to individuals under 65 who are eligible for disability benefits on the basis of blindness is no longer linked to the earnings limit amount for those now age 65 to 69. As under current law, this SGA amount continues to be wage-indexed in the future, and is projected to rise to $14,400 by 2002.

Establishment of a continuing disability review (CDRs) authorization

An authorization to provide additional administrative funding to enable the Social Security Administration to increase CDRs is created. Amounts spent for CDRs above the already assumed base funding levels are not subject to the discretionary spending caps through fiscal year 2002. SSA must report annually on CDR expenditures and savings to the Social Security, Supplemental Security Income, Medicaid and Medicare Programs.

Entitlement of stepchildren to child's benefits based on actual dependency on stepparent support

Benefits are payable to a stepchild only if it is established that the stepchild is dependent upon the stepparent for at least one-half of his or her financial support. In addition, benefits to the stepchild are terminated if the stepchild's natural parent and stepparent are divorced. The dependency requirement is effective for stepchildren who become entitled or reentitled to benefits 3 months after the month of enactment. In cases of a subsequent divorce, benefits to stepchildren terminate 1 month after the divorce becomes final. Stepparents are required to notify SSA of the divorce. In addition, SSA is required to notify annually those potentially affected by this provision.

Denial of benefits based on disability to drug addicts and alcoholics

An individual is not considered disabled for purposes of entitlement to cash Social Security and Supplemental Security Income disability benefits if drug addiction or alcoholism is the contributing factor material to his or her disability. Individuals with drug addiction or alcoholism who have another severe disabling condition (such as AIDS, cancer, cirrhosis) can qualify for benefits based on that disabling condition.

If a person qualifying for benefits based on another disability is also determined to be an alcoholic or drug addict incapable of managing his or her benefits, a representative payee will be appointed to receive and manage the individual's checks. Recipients who are unable to manage their own benefits as a result of alcoholism or drug addiction will be referred to the appropriate State agency for substance abuse treatment services. For each of two years beginning with fiscal year 1997, $50 million is authorized to fund additional drug (including alcohol) treatment programs and services. Individuals entitled to benefits before the month of enactment continue to be eligible for benefits until January 1, 1997.

Benefit and contribution statement pilot

Requires the Commissioner of Social Security to conduct a 2-year pilot study, beginning in 1996, of the efficacy of providing individual benefit and contribution information to recipients of Old-Age and Survivor Insurance benefits.

Protection of Social Security and Medicare Trust Funds

Codifies Congress' understanding of present law that the Secretary of the Treasury and other Federal officials are not authorized to use Social Security and Medicare funds for debt management purposes.

APPENDIX

RELATIONSHIP OF TAXES TO BENEFITS FOR SOCIAL SECURITY RETIREES: ILLUSTRATIONS OF THE AMOUNT OF TIME IT TAKES TO RECOVER THE VALUE OF TAXES PAID, PLUS INTEREST

The issue of the relative value of Social Security benefits, compared to the value of the payroll taxes paid to acquire those benefits, is often brought up in discussions of the nature of the program. This comparison is complex and involves many judgments, and is not easily answered with general aggregate numbers. In addition to all the technical factors that must be addressed, the nature of the Social Security law complicates such computations. Not only do analysts disagree on the proper techniques to use in making calculations, there are often fundamental disagreements involving subjective factors: what work patterns to use; what part of the Social Security tax to count; whether or not to include the employer's share of the tax; and what rate of interest to use.

This analysis seeks to avoid judgmental conclusions by providing a range of illustrations that vary these subjective factors. It does not evaluate the "moneysworth" of Social Security, nor does it provide an "actuarial analysis" of how whole age cohorts fare. Rather, it simply presents illustrations of the amount of time it takes, and is projected to take, to recover the value of taxes paid plus interest (see table 1–50). The illustrations represent a range of possible payback times, depending on variations in the assumptions used. In this way, no judgments need be made—the use of the illustrations is the reader's choice.

Many things complicate any determination of the relationship of benefits to taxes for future retirees. For example, although Social Security tax rates and benefit formulas are set by law, they are not immutable. Since Congress has modified taxes and benefits many times since the beginning of the program, it is clearly inconsistent with the program's history to calculate taxes and benefits into the future on the assumption that these key elements will not change. There is little doubt they eventually will be altered, as it is projected that demographic phenomena will cause the program's projected outgo to outstrip its resources significantly in 33 years. Higher taxes or benefit cuts would be necessary, at that point or before, if the self-supporting character of the program is to be continued. These changes obviously would affect the relationship of taxes to benefits. However, the nature of future changes is unknown, whereas current law is a given. Therefore, in order to assess the relationship of future taxes and benefits, this analysis uses calculations that are useful in presenting possible outcomes of policies currently incorporated in the law.

Calculations of the relationship of benefits to taxes for future retirees involve many key factors. The rate of Social Security taxation is set by law. The portion of the tax that provides cash benefits (Old-Age, Survivors and Disability Insurance, or OASDI) to employees is 6.2 percent. However, the Old-Age and Survivors Insurance portion of the tax, from which retirement benefits are paid, currently 5.26 percent, is scheduled to rise to 5.35 percent in 1997 and drop to 5.3 percent in 2000 and remain level thereafter. The tax rate applies to earnings up to a maximum amount. The "maximum taxable earnings" is $62,700 in 1996, but will rise in the future, as prescribed by law, at the same rate as average wages in the economy. Therefore, the amount of Social Security taxes an employee will pay under current law is a direct function of his or her earnings. If one knows the amounts of an individual employee's earnings, and what the maximum taxable earnings are each year, the amount of tax paid is easily calculated.

Future initial benefit amounts are also in part a function of one's earnings. They are computed at first eligibility (age 62 for retirement) by a method that indexes both earnings over the worker's career and the benefit formula to changes in average wages in the economy. After age 62, benefits rise in tandem with the cost of living. As these factors are unknown, future benefit amounts cannot be predicted with certainty.

Further complicating the issue is the nature of the program. As a "social insurance" program, Social Security has both social and insurance goals. The social-goal features provide a design that deliberately gives a better return on taxes to some workers than to others. For example, the basic formula for calculating Social Security benefits is tilted to replace a higher proportion of earnings for low-paid workers. Also, a complex array of dependents' benefits is available at no additional cost for workers with families.

As with insurance, the exact relationship of Social Security benefits received to total taxes paid cannot be predicted for each and every worker. For example, workers who die before or shortly after retirement and leave no survivors may collect only a few dollars in benefits or perhaps none at all. Other workers may collect Social Security benefits for many years after retirement and receive benefits substantially greater than the value of their Social Security taxes. Workers who become disabled or die at an early age might have paid relatively little in Social Security taxes, but they or their families may receive benefits for many years, recovering the value of the worker's taxes many times.

Also, there really is no "typical" Social Security beneficiary with a "typical" work history. An "average" benefit can be the result of many different work histories and thus be based on different amounts of taxes paid. For example, because the benefit formula does not require that all earnings be used in the benefit computation, workers with gaps in their earnings history may receive the same benefits as other workers, but pay less in total taxes.

Nevertheless, models can produce projections of future benefits, based on assumptions about wage and price growth, for workers with designated work histories and characteristics. This analysis makes such projections using several common assumptions about illustrative workers. It assumes that each worker retires at age 65 in January of the designated year after having worked full time in employment covered by Social Security beginning at age 21. Similarly, all the illustrations reflect three lifetime earnings patterns—workers who always earned either (1) the Federal minimum wage; (2) a wage equal to Social Security's "average wage series"; and (3) a wage equal to the maximum amount creditable under Social Security.

These work histories and characteristics are necessarily arbitrary. Many variations could be constructed that would alter the payback times. However, by comparing similar examples of workers in what may be considered illustrative situations one may make a number of observations without having to resolve all the judgmental questions concerning what constitutes a typical worker or having to provide a voluminous array of illustrations.

The model uses the alternative II assumptions of the 1996 Social Security Trustees' report to forecast wage and price growth. Under these assumptions, wages grow for most of the projected period by 5.0 percent a year, prices by 4.0 percent.

Although using common assumptions and focusing on certain examples allows comparisons across generations, there are other factors that can be varied depending on one's view of the Social Security system. Among these is whether to count the employer's share of the payroll tax. There is some disagreement concerning who really bears the burden of the Social Security tax paid by employers. Some say that employees pay for it in the form of foregone wages. Others maintain that employers are actually paying for income maintenance protection that they would have to pay for anyway in one form or another in the absence of the Social Security Program, and that they absorb part of it and pass the rest along to the general public in the form of higher prices. This analysis does not attempt to resolve this debate, but rather presents examples using both assumptions.

Another variable subject to the reader's choice is the proportion of the Social Security tax to apply to retirement benefits. The payroll tax consists of three elements—Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), and Hospital Insurance (HI). Because the DI and HI Programs have earmarked taxes, their own trust funds, and designated tax rates specified in the law, they are clearly and easily excludable from computations of taxes that pay for retirement benefits. OASI taxes pay for survivor as well as retirement benefits, and it would be inconsistent to include taxes that pay for survivor benefits on the tax side, but not include the value of survivor benefits on the benefit side, in computing payback times. However, there is no separate allocation of taxes in the law for survivor or old-age benefits. It is possible to derive hypothetical year-by-year tax allocations for old-age benefits by assuming that such taxes would be in the same proportion to OASI tax rates as old-age benefits are to OASI benefits for each year. The Social Security Administration's actuaries have year-by-year projections of these benefits and this analysis uses them to compute taxes attributable solely to old-age benefits.

A problem with this approach is that the survivor portion of the tax cannot so easily be assigned to a benefit. While the DI and HI taxes protect against risks that really do not involve an element of choice—all workers possibly can become too disabled to work or suffer illness in old age—there is an element of choice in whether a worker has dependents. Nevertheless, the worker still must pay the full OASI tax. An unmarried childless worker can maintain that it is inaccurate to say that only the old-age portion of the OASI tax should be used to compute the payback times of his or her retirement benefit when she is forced to pay a tax (the survivor portion of the OASI tax) for which he can derive no benefit. Also, it can be asserted that this approach understates the value of the accumulated taxes because it does not take account of the subsidy provided by workers who die before reaching retirement. However, such a subsidy is theoretical, whereas the illustrations refer to individuals who in fact have survived to retirement age and use the tax they actually would have paid. Also, because Social Security taxes are adjusted periodically to take account of current and projected program experience, it can reasonably be assumed that any subsidy effect is reflected in the rate of the OASI tax. Again, this analysis does not resolve this argument of whether or not to count the survivor portion of the OASI tax. It simply shows both ways of computing the relationship of benefits to taxes.

Also, any calculation of such a relationship is heavily dependent upon the interest rate assumptions used. The value of taxes over time is equivalent to their worth if invested. However, the amount of interest is not easily determinable. Were the value of taxes paid invested wisely (or luckily), its total real worth theoretically could be many times its nominal value. On the other hand, it is possible that the principal could be virtually wiped out by poor investment choices. To obtain a middle ground, consisting of a reasonable and safe investment history, one could assume that the Social Security contributions were always placed in U.S. Government obligations. Excess Social Security taxes have always been invested in U.S. Government securities, so, to provide illustrations, this paper uses the effective interest rates earned by the Social Security trust funds over the years and those projected for the future. Under the alternative II assumptions, average annual interest rates are projected ultimately to be 6.3 percent, a "real" interest rate of 2.3 percent (i.e., 2.3 percent above inflation). The interest is assumed to be tax free.

The cumulative value of taxes plus interest at the 3 different earnings levels for workers retiring in 1996 are shown in tables 1–47, 1–48, and 1–49.

ILLUSTRATIVE PAYBACK TIMES

Table 1–50 shows past and projected payback times for workers retiring in various years from 1940 to 2025. In these illustrations, benefits are for the worker alone. However, the value of the benefit could be higher if the worker had dependents who were eligible for benefits. For example, if these workers had spouses who also were the full retirement age and were not entitled to a Social Security benefit on their own account, then the value of the monthly benefit would increase by 50 percent. This would shorten the payback times considerably.

TABLE 1–47.—SOCIAL SECURITY TAXES PAID BY A WAGE EARNER WHO HAS ALWAYS EARNED THE MINIMUM WAGE, 1952–95

Calendar year	Earnings	Tax rates		Taxes paid		Effective interest rate [2]
		OASI	Old-Age [1]	OASI	Old-Age	
1952	$1,560	1.500	1.052	$23.40	$16.41	2.240
1953	1,560	1.500	1.085	23.40	16.93	2.310
1954	1,560	2.000	1.470	31.20	22.94	2.296
1955	1,560	2.000	1.509	31.20	23.54	2.198
1956	1,993	2.000	1.526	39.86	30.42	2.401
1957	2,080	2.000	1.548	41.60	32.21	2.492
1958	2,080	2.000	1.555	41.60	32.34	2.516
1959	2,080	2.250	1.739	46.80	36.17	2.578
1960	2,080	2.750	2.111	57.20	43.91	2.598
1961	2,184	2.750	2.094	60.06	45.73	2.755
1962	2,392	2.875	2.187	68.77	52.32	2.825
1963	2,461	3.375	2.563	83.06	63.07	2.923
1964	2,600	3.375	2.553	87.75	66.37	3.084
1965	2,600	3.375	2.529	87.75	65.76	3.184
1966	2,600	3.500	2.568	91.00	66.78	3.483
1967	2,886	3.550	2.604	102.45	75.14	3.753
1968	3,293	3.325	2.415	109.49	79.52	3.950
1969	3,328	3.725	2.710	123.97	90.20	4.437
1970	3,328	3.650	2.661	121.47	88.55	5.074
1971	3,328	4.050	2.961	134.78	98.54	5.286
1972	3,328	4.050	2.973	134.78	98.94	5.406
1973	3,328	4.300	3.101	143.10	103.19	5.754
1974	3,883	4.375	3.168	169.88	123.03	6.218
1975	4,368	4.375	3.184	191.10	139.06	6.593
1976	4,784	4.375	3.201	209.30	153.12	6.731
1977	4,784	4.375	3.213	209.30	153.70	6.958

1978	5,512	4.275	3.153	235.64	173.80	7.199
1979	6,032	4.330	3.206	261.19	193.36	7.524
1980	6,448	4.520	3.355	291.45	216.33	8.568
1981	6,968	4.700	3.514	327.50	244.87	9.947
1982	6,968	4.575	3.460	318.79	241.07	11.178
1983	6,968	4.775	3.645	332.72	253.96	10.768
1984	6,968	[3] 4.926	[3] 3.776	343.24	263.12	11.601
1985	6,968	5.200	3.993	362.34	278.25	11.213
1986	6,968	5.200	3.997	362.34	278.52	11.091
1987	6,968	5.200	4.002	362.34	278.83	10.063
1988	6,968	5.530	4.257	385.33	296.64	9.773
1989	6,968	5.530	4.264	385.33	297.08	9.555
1990	7,670	5.600	4.320	429.52	331.37	9.305
1991	8,606	5.600	4.321	481.94	371.91	9.082
1992	8,840	5.600	4.320	495.04	381.92	8.737
1993	8,840	5.600	4.315	495.04	381.47	8.318
1994	8,840	5.260	4.047	464.98	357.79	8.000
1995	8,840	5.260	4.048	464.98	357.83	7.958
Total taxes paid 1952–95:						
Accumulated without interest	....	....	....	9,264.00	7,016.01	
Accumulated with interest	....	....	....	36,737.56	27,502.36	

[1] Old-Age tax rates were derived by applying the ratio of Old-Age benefits/total OASI benefits to the OASI tax rates.
[2] Interest rates for 1952–94 are from the Office of the Actuary of SSA. The rate for 1995 is an estimate.
[3] In 1984, employees received a tax credit of 0.3 percent against OASDI taxes. The OASI and Old-Age tax rates reflect a proportional allocation of the tax credit.

Note.—Initial benefit amount upon retirement in January 1996 at age 65: $574.00 worker only; $861.00 worker and spouse (both age 65).

Source: Kollmann (1996a).

TABLE 1–48.—SOCIAL SECURITY TAXES PAID BY A WAGE EARNER WITH AVERAGE EARNINGS, 1952–95 [1]

Calendar year	Earnings	Tax rates (in percent)		Taxes paid		Effective interest rate [3] (in percent)
		OASI	Old-Age [2]	OASI	Old-Age	
1952	$2,973.32	1.500	1.052	$44.60	$31.28	2.240
1953	3,139.44	1.500	1.085	47.09	34.07	2.310
1954	3,155.64	2.000	1.470	63.11	46.40	2.296
1955	3,301.44	2.000	1.509	66.03	49.81	2.198
1956	3,532.36	2.000	1.526	70.65	53.91	2.401
1957	3,641.72	2.000	1.548	72.83	56.39	2.492
1958	3,673.80	2.000	1.555	73.48	57.13	2.516
1959	3,855.80	2.250	1.739	86.76	67.05	2.578
1960	4,007.12	2.750	2.111	110.20	84.59	2.598
1961	4,086.76	2.750	2.094	112.39	85.57	2.755
1962	4,291.40	2.875	2.187	123.38	93.87	2.825
1963	4,396.64	3.375	2.563	148.39	112.67	2.923
1964	4,576.32	3.375	2.553	154.45	116.83	3.084
1965	4,658.72	3.375	2.529	157.23	117.82	3.184
1966	4,938.36	3.500	2.568	172.84	126.84	3.483
1967	5,213.44	3.550	2.604	185.08	135.74	3.753
1968	5,571.76	3.325	2.415	185.26	134.55	3.950
1969	5,893.76	3.725	2.710	219.54	159.75	4.437
1970	6,186.24	3.650	2.661	225.80	164.61	5.074
1971	6,497.08	4.050	2.961	263.13	192.37	5.286
1972	7,133.80	4.050	2.973	288.92	212.09	5.406
1973	7,580.16	4.300	3.101	325.95	235.04	5.754
1974	8,030.76	4.375	3.168	351.35	254.45	6.218
1975	8,630.92	4.375	3.184	377.60	274.77	6.593
1976	9,226.48	4.375	3.201	403.66	295.30	6.731
1977	9,779.44	4.375	3.213	427.85	314.19	6.958

1978	10,556.03	4.275	3.153	451.27	332.84	7.199
1979	11,479.46	4.330	3.206	497.06	367.99	7.524
1980	12,513.46	4.520	3.355	565.61	419.83	8.568
1981	13,773.10	4.700	3.514	647.34	484.01	9.947
1982	14,531.34	4.575	3.460	664.81	502.73	11.178
1983	15,239.24	4.775	3.645	727.67	555.42	10.768
1984	16,135.07	[4] 4.926	[4] 3.776	794.86	609.29	11.601
1985	16,822.51	5.200	3.993	874.77	671.77	11.213
1986	17,321.82	5.200	3.997	900.73	692.38	11.091
1987	18,426.51	5.200	4.002	958.18	737.35	10.063
1988	19,334.04	5.530	4.257	1,069.17	823.09	9.773
1989	20,099.55	5.530	4.264	1,111.51	856.95	9.555
1990	21,027.98	5.600	4.320	1,177.57	908.48	9.305
1991	21,811.60	5.600	4.321	1,221.45	942.58	9.082
1992	22,935.42	5.600	4.320	1,284.38	990.89	8.737
1993	23,132.67	5.600	4.315	1,295.43	998.23	8.318
1994	23,753.53	5.260	4.047	1,249.74	961.39	8.000
1995	24,669.85	5.260	4.048	1,297.63	998.64	7.958
Total taxes paid 1952–95:						
Accumulated without interest	....	....	....	21,546.43	16,361.16	
Accumulated with interest	....	....	....	76,718.45	57,541.76	

[1] This table uses the average wage series for indexing earnings, for the period 1952 through 1994, developed by SSA in computing benefit amounts. The average wage for 1995 is based on Alternative II assumptions in the 1996 report of the Social Security Board of Trustees.

[2] Old-Age tax rates were derived by applying the ratio of Old-Age benefits/total OASI benefits to the OASI tax rates.

[3] Interest rates for 1952–94 are from the Office of the Actuary of SSA. The rate for 1995 is an estimate.

[4] In 1984, employees received a tax credit of 0.3 percent against OASDI taxes. The OASI and Old-Age tax rates reflect a proportional allocation of the tax credit.

Note.—Initial benefit amount upon retirement in January 1996 at age 65: $886.00 worker only; $1,329.00 worker and spouse (both age 65).

Source: Kollmann (1996a).

TABLE 1–49.—SOCIAL SECURITY TAXES PAID BY A WAGE EARNER WITH MAXIMUM TAXABLE EARNINGS, 1952–95

Calendar year	Earnings	Tax rates (in percent)		Taxes paid		Effective interest rate [2] (in percent)
		OASI	Old-Age [1]	OASI	Old-Age	
1952	$3,600	1.500	1.052	$54.00	$37.88	2.240
1953	3,600	1.500	1.085	54.00	39.07	2.310
1954	3,600	2.000	1.470	72.00	52.93	2.296
1955	4,200	2.000	1.509	84.00	63.37	2.198
1956	4,200	2.000	1.526	84.00	64.10	2.401
1957	4,200	2.000	1.548	84.00	65.03	2.492
1958	4,200	2.000	1.555	84.00	65.31	2.516
1959	4,800	2.250	1.739	108.00	83.47	2.578
1960	4,800	2.750	2.111	132.00	101.33	2.598
1961	4,800	2.750	2.094	132.00	100.51	2.755
1962	4,800	2.875	2.187	138.00	105.00	2.825
1963	4,800	3.375	2.563	162.00	123.01	2.923
1964	4,800	3.375	2.553	162.00	122.54	3.084
1965	4,800	3.375	2.529	162.00	121.40	3.184
1966	6,600	3.500	2.568	231.00	169.52	3.483
1967	6,600	3.550	2.604	234.30	171.84	3.753
1968	7,800	3.325	2.415	259.35	188.35	3.950
1969	7,800	3.725	2.710	290.55	211.42	4.437
1970	7,800	3.650	2.661	284.70	207.55	5.074
1971	7,800	4.050	2.961	315.90	230.95	5.286
1972	9,000	4.050	2.973	364.50	267.57	5.406
1973	10,800	4.300	3.101	464.40	334.87	5.754
1974	13,200	4.375	3.168	577.50	418.24	6.218
1975	14,100	4.375	3.184	616.88	448.87	6.593
1976	15,300	4.375	3.201	669.38	489.69	6.731
1977	16,500	4.375	3.213	721.88	530.11	6.958

1978	17,700	4.275	3.153	756.67	558.09	7.199
1979	22,900	4.330	3.206	991.57	734.09	7.524
1980	25,900	4.520	3.355	1,170.68	868.96	8.568
1981	29,700	4.700	3.514	1,395.90	1,043.70	9.947
1982	32,400	4.575	3.460	1,482.30	1,120.92	11.178
1983	35,700	4.775	3.645	1,704.68	1,301.16	10.768
1984	[3] 37,800	[3] 4.926	[3] 3.776	1,862.03	1,427.40	11.601
1985	39,600	5.200	3.993	2,059.20	1,581.35	11.213
1986	42,000	5.200	3.997	2,184.00	1,678.81	11.091
1987	43,800	5.200	4.002	2,277.60	1,752.70	10.063
1988	45,000	5.530	4.257	2,488.50	1,915.74	9.773
1989	48,000	5.530	4.264	2,654.40	2,046.50	9.555
1990	51,300	5.600	4.320	2,872.80	2,216.34	9.305
1991	53,400	5.600	4.321	2,990.40	2,307.66	9.082
1992	55,500	5.600	4.320	3,108.00	2,397.79	8.737
1993	57,600	5.600	4.315	3,225.60	2,487.13	8.318
1994	60,600	5.260	4.047	3,187.56	2,452.70	8.000
1995	61,200	5.260	4.048	3,219.16	2,477.25	7.958
Total taxes paid 1952–95:						
Accumulated without interest	....	....	....	46,173.45	35,180.65	
Accumulated with interest	....	....	....	136,841.77	103,035.15	

[1] Old-Age tax rates were derived by applying the ratio of Old-Age benefits/total OASI benefits to the OASI tax rates.
[2] Interest rates for 1952–94 are from the Office of the Actuary of SSA. The rate for 1995 is an estimate.
[3] In 1984, employees received a tax credit of 0.3 percent against OASDI taxes. The OASI and Old-Age tax rates reflect a proportional allocation of the tax credit.

Note.—Initial benefit amount upon retirement in January 1996 at age 65: $1,249.00 worker only; $1,873.00 worker and spouse (both age 65).

Source: Kollmann (1996a).

TABLE 1–50.—NUMBER OF YEARS TO RECOVER TAXES PLUS INTEREST FOR WORKERS RETIRING AT AGE 65,[1] SELECTED YEARS 1940–2025

Year of retirement	Minimum earner	Maximum earner	Average earner
Illustration 1: Years to recover employee's OASI taxes			
1940	([2])	0.1	0.2
1960	0.5	0.8	1.0
1980	1.5	2.0	2.1
1996	6.2	8.8	11.6
2005	8.8	12.4	16.6
2015	9.6	13.8	20.0
2025	8.8	13.4	22.0
Illustration 2: Years to recover combined employee-employer OASI taxes			
1940	([2])	0.2	0.4
1960	1.0	1.6	2.0
1980	3.0	3.9	4.4
1996	14.1	20.8	28.8
2005	19.8	29.9	43.7
2015	21.9	34.1	57.7
2025	19.8	32.8	68.1
Illustration 3: Years to recover retirement portion of employee's OASI taxes			
1940	([2])	0.1	0.2
1960	0.4	0.6	0.7
1980	1.1	1.4	1.6
1996	4.5	6.3	8.3
2005	6.4	9.0	11.9
2015	7.1	10.1	14.4
2025	6.7	10.1	16.2
Illustration 4: Years to recover retirement portion of combined employee-employer OASI taxes			
1940	([2])	0.2	0.4
1960	0.7	1.1	1.4
1980	2.2	2.8	3.1
1996	9.9	14.3	19.5
2005	13.9	20.4	28.4
2015	15.4	23.2	35.8
2025	14.6	23.3	42.0

[1] Under the alternative II assumptions and taking into account benefit increases and continued accrual of interest after retirement but not the taxation of benefits. The retiree is assumed to attain age 65 and retire in January of the designated year.
[2] Less than 0.1 years.

Source: Kollmann (1996b).

While these illustrations do not purport to address the "moneysworth" questions, i.e., will Social Security be a "good deal" or a "bad deal," they do show the relative relationship of payback times of past, current, and future beneficiaries. It is readily apparent that past retirees recovered the value of their taxes very quickly. Payback times have lengthened for workers retiring today, but they are still significantly shorter than those projected for future retirees. This is ameliorated somewhat by the projection that future retirees are expected to live longer, and thus collect benefits longer. Table 1–51 shows the life expectancies for people turning age 65 in the illustrated years.

Defenders of Social Security tend to discount the phenomenon of lengthening payback times, arguing that the program serves social ends that transcend calculations of which individuals, or generations, obtain some sort of balance-sheet profit or loss. They point out that pay-as-you-go retirement systems such as Social Security by their nature often provide large returns on the contributions of the initial generations. In the early years of such programs, the ratio of workers to recipients is very high, allowing tax or contribution rates to be low. As the program matures, rates rise to reflect the increase in the number of beneficiaries. This is not unique to Social Security. Establishing benefit levels for early recipients in excess of what contributions would dictate is also found in private pension systems.

TABLE 1–51.—LIFE EXPECTANCY AT AGE 65, SELECTED YEARS 1940–2025

Year	Life expectancy (in years)	
	Male	Female
1940	11.9	13.4
1960	12.9	15.9
1980	14.0	18.4
1996	15.4	19.2
2005	15.9	19.5
2015	16.3	19.9
2025	16.7	20.3

Note.—The life expectancy for any year is the average number of years of life remaining for a person if that person were to experience the death rates by age observed in or assumed for the selected year. Actual average lifetimes will probably be a little longer than the projected expectancies because of lower mortality rates assumed in future years.

Source: Board of Trustees (1996).

Furthermore, proponents of Social Security note that providing "adequate" benefits to initial Social Security recipients that were essentially "unearned" in relation to their contributions to the system was deliberate social policy. Providing a minimum level of protection to the first workers to participate in the system was considered more important, in a period of economic depression, than concerns about excessive rates of return on taxes paid. Besides, the social benefits of giving a measure of economic independence for the elderly, and later for orphaned children, surviving spouses, and the disabled, are believed by many to be immense. For example, younger workers are in large part relieved from the financial burden of supporting their parents, and the elderly are afforded an opportunity to live independently and with dignity.

Critics of Social Security point to these social welfare features as a basic flaw in the program. They argue that by combining the goals of social adequacy, which is welfare-related, with individual equity, which loosely ties benefits to taxes paid, the program has become a mishmash that accomplishes neither goal well and creates inequities. One inequity they cite is that future beneficiaries will on the whole receive retirement benefits inferior to those that the equivalence of their taxes could purchase in the private sector. Furthermore, they say when interest is included, some categories of workers will not recoup what they and their employer paid in taxes. Often buttressing these arguments are calculations that show what individuals could receive if their Social Security taxes were invested privately.

This latter argument is dependent on the interest rate assumed on such investment. The "proper" interest rate is problematic. Those who project high investment returns often refer to the historical performance of the stock market, showing that a portfolio of broad-based stocks would have earned on average substantial rates of return over the years, and that this performance can be expected to continue in the future. Also, high real interest rates may not seem so unlikely given the relationship of nominal interest rates and inflation over the past decade.

Critics of such analysis point out that such investments have an element of risk that they believe should be unacceptable in providing a national system of retirement income, and that if a safe-as-possible mix of investment vehicles were used instead, projected rates of return would be smaller. They also contend that recent high real interest rates are a historical anomaly that will not be sustained in the future. The key point for the reader is to be aware of the influence exerted by the projected rate of return in these sorts of calculations, and the large degree to which the argument about the value of Social Security hinges around it.

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