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Social Security Financing

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UNITED STATES SENATE
ROBERT J. DOLE, *Chairman*

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INTRODUCTION

The Social Security programs of Old-Age, Survivors, Disability, and Hospital Insurance operate on a self-financing theory under which benefit payments are guaranteed out of the revenues raised by earmarked payroll taxes. Because confidence in the security provided by the programs is based on the ability of the social security tax revenues to cover benefit obligations, Congress has traditionally insisted on periodic and thorough analyses of the actuarial status of the programs both over the short range and over a long-range period extending well into the future. In particular, the law requires such an analysis of the status of each of the trust funds to be prepared annually under the direction of the Board of Trustees of those funds. (The Secretaries of Health and Human Services, Labor, and Treasury constitute the Board of Trustees.) The Trustees are required to transmit these annual reports to the Congress no later than April 1 of each year. Once transmitted, the Trustees' reports and their findings as to the financial status of the funds form the usual benchmarks for discussion of the short-range and long-range status of the programs.

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

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

The changes enacted in 1977 were projected at that time to be sufficient to assure adequate funds to meet benefit payments in the cash benefits programs until some time beyond the year 2025, although earlier action would be required to deal with the deficits in the HI program. The 1977 projections were proved inaccurate, however, by continuing adverse economic conditions. The projections in the 1981 report of the Board of Trustees indicate a need for additional action in the present Congress to assure the social security trust funds will continue to meet their obligations.

This document describes the current method of financing the social security system, as well as the financial status of the system in the short- and long-term, as evaluated under a broad set of economic and demographic assumptions. In addition to updating projections made in the 1981 Trustees' report to take account of the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35), this document provides similarly updated projections based on the President's Mid-session 1981 budget and economic assumptions (issued in July 1981). The document also provides a broader view of the long-run situation by including projections for the HI program into the 75-year forecast. Forecasts of this length are usually only done for the OASDI programs. HI projections typically do not span a period of more than 25 years into the future.

I. METHOD OF FINANCING THE SYSTEM

BASIS OF SOCIAL SECURITY FINANCING

The Constitution provides that "no money shall be drawn from the Treasury, but in consequence of appropriations made by law." For most Federal programs, funding is made out of the general revenues of the government on an annual basis in one of the several departmental appropriations acts. Social security operates on a totally different basis. The Social Security Act provides for an appropriation out of the Treasury and into specified trust funds of amounts exactly equivalent to amounts of social security taxes imposed on employers and employees and on self-employed persons. This is a permanent appropriation and transfers to the trust funds under its authority are made on a daily basis consistent with the pattern of tax collections.

Once moneys have been transferred to each of the trust funds, they are available to be expended to meet benefit costs without any further action on the part of the Congress. (Trust funds are also available for administrative costs of social security, but may be expended for that purpose only up to limits established in annual appropriations acts.) Conversely, if benefit costs for a social security program should exceed the available balance in the applicable trust fund, there is no statutory authority to meet the deficit from surplus balances in the other trust funds or from general revenue appropriations.

The various social security programs are thus designed to operate on a self-sustaining basis. There are three major social security programs of this type. The OASI program pays benefits to retired workers and their dependent spouses and minor children and to the surviving spouses and minor children of deceased workers. The DI program pays benefits to disabled workers and to their dependent spouses and minor children. The HI program provides for the costs of hospitalization and certain skilled nursing home and home health care for social security beneficiaries who are over age 65 or who have been on the DI rolls for more than 2 years.[1]

For each of these programs there is a separate trust fund which receives a share of the overall social security tax. The proportion of the tax each year that is allocated to each trust fund is specified by law. by law.

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[1] There is also a separate Supplementary Medical Insurance trust fund for Part B of Medicare; this fund is not financed from payroll taxes.

SOURCES OF INCOME TO THE SYSTEM

About 116 million workers and their employers will pay social security taxes in 1981, rising to around 125 million by 1985. The social security payroll tax is a composite of three separate tax rates supporting OASI, DI, and HI (or part A of medicare). (Actually there are only two separate taxes in the law—OASDI and HI—but the OASI/DI allocations are statutorily specified.) Part B of medicare or supplementary medical insurance (SMI) is also considered a social security program but is financed from premiums paid by persons covered by the program and from general funds rather than from payroll taxes.

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

The three trust funds also receive payments from the General Fund of the Treasury for various limited expenditures from the trust funds which the Congress believes are more appropriately financed by general taxation. For example, the trust funds are reimbursed from general revenues for costs attributable to social security credits which are provided on the basis of military service during World War II. In addition, the three trust funds receive payments consisting of interest on the investments of the trust funds.

In calendar year 1980, 97.5 percent of the receipts of the OASDI trust funds consisted of tax revenues, 0.6 percent represented transfers from the general fund for various expenditures, and 2 percent represented interest on investments. As for the HI trust fund, 92.1 percent of its receipts consisted of tax revenues, 3.4 percent represented transfers from the general fund for various expenditures, and 4.3 percent represented interest on investments.

CURRENTLY SCHEDULED TAX RATES AND TAXABLE EARNINGS BASE

Tax rates

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

TABLE 1.—TAX RATES FOR THE SOCIAL SECURITY TRUST FUNDS, 1977 AND AFTER

[In percent]

Calendar years	OASI [1]	DI [2]	OASDI	HI [3]	Total (OASDHI)
EMPLOYERS AND EMPLOYEES, EACH					
1977	4.375	0.575	4.95	0.90	5.85
1978	4.275	0.775	5.05	1.00	6.05
1979	4.330	0.750	5.08	1.05	6.13
1980	4.520	0.560	5.08	1.05	6.13
1981	4.700	0.650	5.35	1.30	5.65
1982–84	4.575	0.825	5.40	1.30	6.70
1985	4.750	0.950	5.70	1.35	7.05
1986–89	4.750	0.950	5.70	1.45	7.15
1990 and later	5.100	1.100	6.20	1.45	7.65
SELF-EMPLOYED PERSONS					
1977	6.1850	0.8150	7.00	0.90	7.90
1978	6.0100	1.0900	7.10	1.00	8.10
1979	6.0100	1.0400	7.05	1.05	8.10
1980	6.2725	0.7775	7.05	1.05	8.10
1981	7.0250	0.9750	8.00	1.30	9.30
1982–84	6.8125	1.2375	8.05	1.30	9.35
1985	7.1250	1.4250	8.55	1.35	9.90
1986–89	7.1250	1.4250	8.55	1.45	10.00
1990 and later	7.6500	1.6500	9.30	1.45	10.75

[1] Old-age and survivors insurance.
[2] Disability insurance.
[3] Hospital insurance (part A of medicare).

Tax base

In 1981, the tax applies to the first $29,700 of an individual's earnings. In future years, the amount of earnings subject to the tax will rise depending on the increase in average wages that occurs from one year to the next.

The table which follows shows the potential increases in the earnings base over the next 5 years, as reflected under assumptions in the 1981 report of the social security trustees and other forecasts.

TABLE 2.—ANNUAL EARNINGS SUBJECT TO SOCIAL SECURITY TAX

	Mid-session	CBO	Intermediate II-B	Worst case
Calendar year:				
1980	$25,900	$25,900	$25,900	$25,900
1981	29,700	29,700	29,700	29,700
1982	32,100	32,100	32,100	32,100
1983	35,400	34,800	35,400	35,400
1984	39,000	37,500	38,700	39,300
1985	42,300	40,800	42,600	43,500
1986	45,600 [1]	44,100	46,200	48,600 [1]
1987		47,400	49,800	
1988		51,000	53,400	
1989		54,600	57,000	
1990		52,200	60,600	

[1] Projections do not extend beyond 1986.

Source: Congressional Research Service. August 1981.

WORKERS WITH COVERED EARNINGS

In 1940, approximately 35 million persons worked in employment covered by the social security system. In 1974, the number of covered workers passed the 100 million mark. In 1981, the figure is estimated to exceed 116 million.

Ninety percent of all workers in the U.S. contribute to social security. While coverage is compulsory for most types of employment, approximately 8 million jobs are exempt from participation in the program. The majority of these noncovered positions are in the Federal, State and local governments and nonprofit organizations. Certain self-employed and part-time workers are exempted from the program largely because of their minimal annual net earnings, the irregularity of their work schedules and the administrative difficulty of maintaining their earnings records.

BRIEF HISTORY OF PAYROLL TAX STRUCTURE

Collection of payroll taxes began in 1937. Since that time the financing of the system has been amended more than 20 times. Beginning with a tax rate on employees and employers, each, of 1 percent on earnings up to $3,000 annually, the tax structure remained constant until 1950 when the rate rose to 1.5 percent. (Earlier increases had been scheduled, but legislation during the period precluded them from going into effect.) In 1951, the earnings base increased for the first time to $3,600 annually, and the self-employed were brought under the system with a tax rate of 2.25 percent, i.e., 1.5 times the employee/employer rate. The employee/employer rate rose again to 2 percent in 1954. Coupled with many expansions in the system (the introduction of disability insurance and medicare foremost among them), more than a dozen changes in the financial structure of the system have been made since the early 1950's. Today, the maximum employee tax is $1,975 (6.65 percent times $29,700) and the maximum tax for a self-employed worker is $2,762 (9.3 percent times $29,700). A summary of the year-by-year tax rates and earnings bases since 1937 is provided in the following table.

TABLE 3.—HISTORICAL TABLE OF PAYROLL TAX RATES AND TAXABLE EARNINGS BASES

Calendar years	OASDHI tax rates and taxable earnings bases: Taxble earnings base	OASDHI tax rates and taxable earnings bases: Employer and employee, each	OASDHI tax rates and taxable earnings bases: Self-employed	Maximum OASDHI tax payment: Employer and employee, each	Maximum OASDHI tax payment: Self-employed
1937–49	$3,000	1.0	....	$30.00	....
1950	3,000	1.5	....	45.00	....
1951–53	3,600	1.5	2.25	54.00	$81.00
1954	3,600	2.0	3.0	72.00	108.00
1955–56	4,200	2.0	3.0	84.00	126.00
1957–58	4,200	2.25	3.375	94.50	141.75
1959	4,800	2.50	3.75	120.00	180.00
1960–61	4,800	3.0	4.5	144.00	216.00
1962	4,800	3.125	4.7	150.00	225.60
1963–65	4,800	3.625	5.4	174.00	259.20
1966	6,600	4.2	6.15	277.20	405.90
1967	6,600	4.4	6.4	290.40	422.40
1968	7,800	4.4	6.4	343.20	499.20
1969–70	7,800	4.8	6.9	374.40	538.20
1971	7,800	5.2	7.5	405.60	585.00
1972	9,000	5.2	7.5	468.00	675.00
1973	10,800	5.85	8.0	631.80	864.00
1974	13,200	5.85	7.9	772.20	1,042.80
1975	14,100	5.85	7.9	824.85	1,113.90
1976	15,300	5.85	7.9	895.05	1,208.70
1977	16,500	5.85	7.9	965.25	1,303.50
1978	17,700	6.05	8.1	1,070.85	1,433.70
1979	22,900	6.13	8.1	1,403.77	1,854.90
1980	25,900	6.13	8.1	1,587.67	2,097.90
1981	29,700	6.65	9.3	1,975.05	2,762.10

II. The Current Status of the Program

In order to meet social security's benefit obligations, the taxes allocated to each of its three programs must be sufficient to cover benefit costs for that program. The matching of revenues and benefit costs need not be exact in any given year (and rarely is) since each fund may meet a deficit by drawing down reserves remaining in the fund from prior year surpluses. Over any given period of time, however, each individual program must have revenues which, when added to its reserves at the start of that period, at least equal its benefit obligations. In any case where revenues plus reserves fall short of this requirement, the program would be unable to fully meet its benefit obligations. This situation has never arisen. However, in the absence of new legislation, it is now estimated to occur under both the short-range and long-range projections of present law.

THE SHORT-RANGE SITUATION

The income and outgo of the social security funds are highly sensitive to changes in economic conditions. High rates of unemployment, for example, tend to depress social security tax collections while high rates of inflation increase tax collections but even more substantially increase benefit outgo. Traditionally, the social security trustees have used three paths to estimate the short-range status of the trust funds: an optimistic, a pessimistic, and an intermediate path. In the 1981 trustees' report, two additional paths were presented: a "worst case" path which is somewhat more pessimistic than the usual trustees' pessimistic path and an "intermediate II–A" which modifies the usual intermediate path to reflect the somewhat more optimistic economic outlook forecasted by the Administration.

Under existing law, the reserve balance in the largest of the trust funds—the OASI fund—was approximately $23 billion at the start of this calendar year. (See table 7.) This represents 18 percent of the expected $127 billion in payments to be made during the year, or about

2 month's worth of benefits. Under the most current economic assumptions used by the Administration (Mid-session 1981 Budget assumptions), the balance in this fund will decline under present law in each of the next 2 years. In late 1982, the OASI Fund would begin to have difficulty meeting its benefit payments on time. Sometime in early 1983, the fund is projected to be totally exhausted so that, in the absence of some legislative action, benefit payments would have to be withheld.

More pessimistic assumptions, the so-called "worst case" assumptions, show even more severe deficits. (See table 9.) This point of inability to meet benefit obligations would occur in late 1982. The total excess of OASI outgo over income during the years 1981–1986, however, would be substantially greater. Under the "worst case" assumptions, OASI outgo would exceed income by $148 billion as compared with $23 billion under the Administration's Mid-session economic assumptions. (See tables 4 and 5.)

Under Mid-session assumptions, this means that once the $23 billion in OASI reserves are used up, an additional $2 billion would have to be found simply to cover the gap between outgo and income in 1984 and 1985. No reserves would be maintained. Under "worst case" assumptions, the deficiency would be much greater—$125 billion would have to be found for the entire 1981–1986 period.

The situation is somewhat less severe in the short-range if the three trust funds are viewed in combination. However, it must be remembered that the funds are in fact statutorily separate. Legislation would have to be enacted to permit a surplus in one fund to be used to meet a deficit in another fund. Moreover, the Mid-session projections, like most other projections used for social security purposes, assume no cyclical economic behavior. Even though the combined reserve balance is projected to exceed the "bare minimum" level needed as a safety cushion, it does so by a very small amount. Combined reserves would only amount to about 2½ months' worth of expenditures in 1983. Another economic downturn in the mid to late 1980's could reduce or eliminate this small cushion to the extent that benefit payments might not be able to be met.

Also, the more favorable short-range situation of the combined funds largely results from very near-term surpluses in the HI trust fund. Over the next 25 years, however, that fund is seriously underfunded. Thus, any shifting of funds from HI to OASI will aggravate the long-range actuarial imbalance in that program.

TABLE 4.—1981-86 DEFICIT IN SOCIAL SECURITY TRUST FUNDS UNDER PRESENT LAW—ADMINISTRATION MID-SESSION ASSUMPTIONS

[In billions of dollars]

Fund	Reserve at start of CY 1981	Cumulative 1981-86 surplus or deficit (—)	Deficit
OASI	23	[1]—23	0
OASI and DI	27	37	0
OASI, DI, and HI	40	77	0

[1] This would be—$25 billion for the period 1981-1985 leaving a net deficit of about $2 billion at the end of that 2 period.

TABLE 5.—1981-86 DEFICIT IN SOCIAL SECURITY TRUST FUNDS UNDER PRESENT LAW—"WORST CASE" ASSUMPTIONS

[In billions of dollars]

Fund	Reserve at start of 1981	1981-86 cumulative surplus or deficit (—)	Deficit
OASI	23	—148	—125
OASI and DI	27	—97	—70
OASI, DI, and HI	40	—67	—27

The present law situation in the tables above reflects the impact of the cost-saving measures recently enacted by the Congress as a part of the Omnibus Reconciliation Act (Public Law 97-35). Major items of short-term savings for the trust funds in that Act are listed in Table 6.

TABLE 6.—ESTIMATED REDUCTION IN OASDHI BENEFIT PAYMENTS RESULTING FROM THE "OMNIBUS BUDGET RECONCILIATION ACT OF 1981," ON THE BASIS OF THE 1981 TRUSTEES' REPORT INTERMEDIATE II–B ASSUMPTIONS, 1981–86

[In millions]

Provision	Effective date	Calendar year— 1981	1982	1983	1984	1985	1986
OASDI provisions:							
Eliminate minimum benefit for new beneficiaries and for beneficiaries already on the rolls	(1)	(2)	$980	$1,370	$1,430	$1,500	$1,560
Eliminate lump-sum death benefits when there is no surviving spouse or surviving entitled child	Sept. 1981	$15	182	188	190	192	193
Begin retired workers' and spouses' benefits with first full month of entitlement	Sept. 1981	35	205	230	250	270	290

Retain retirement test exempt age at 72 through 1982	Jan. 1982		460	40			
Phase out mothers' and fathers' benefits when youngest child is aged 16 or over	Sept. 1981	1	40	160	450	490	530
Round benefits to next lower dime at each intermediate step and to next lower dollar at final step	Sept. 1981	(*)	140	270	320	370	420
Modify workmen's compensation offset provision	Sept. 1981	9	49	82	119	164	210
Limit trust fund payments for Vocational Rehabilitation to cases of successful rehabilitation	Oct. 1981	19	86	74	65	68	72
Phase out postsecondary students' benefits	May 1982		915	1,715	2,260	2,570	2,730
OASDI reduction subtotal, taking account of interaction		79	3,050	4,110	5,060	5,600	5,980

TABLE 6.—ESTIMATED REDUCTION IN OASDHI BENEFIT PAYMENTS RESULTING FROM THE "OMNIBUS BUDGET RECONCILIATION ACT OF 1981," ON THE BASIS OF THE 1981 TRUSTEES' REPORT INTERMEDIATE II-B ASSUMPTIONS, 1981–86—Continued

[In millions]

Provision	Effective date	Calendar year— 1981	1982	1983	1984	1985	1986
HI provisions:							
Reduce nursing differential to 5 percent		13	56	67	77	86	97
Reduce sec. 223 hospital limits to 108 percent of mean		18	76	94	106	120	124
Increase part A deductible		0	261	319	373	430	495
Repeal 12-month limit on agreements with SNF's		0	0	0	0	0	0
Base HI coinsurance on current year's deductible		0	7	10	10	10	10
Repeal of alcohol detoxification facilities		18	75	95	112	123	142
Repeal of temporary delay in PIP		7	0	0	0	0	0
Establish utilization guidelines for HHA's		(3)	(3)	(3)	(3)	(3)	(3)
Eliminate occupancy test for hospital long-term care		1	5	5	6	11	13
Incentive reimbursement rate for dialysis		(3)	(3)	(3)	(3)	(3)	(3)

Lower limits to 75th percentile for HHA reimbursement	2	10	14	16	18	21
Payments to promote closing/conversion of underutilized facilities	([2])	([2])	([2])	([2])	([2])	([2])
Keep occupational therapy as criterion for HHA services						
Only when other qualifying services are discontinued	0	0	0	0	0	0
HI reduction subtotal, taking account of interaction	59	490	604	700	798	912
Change in income:						
Medicare secondary payor for first 12 months after ESRD eligibility	(0)	(0)	(30)	(50)	(70)	(80)
Composite OASDI and HI totals	138	3,540	4,714	5,760	6,398	6,982

[1] Effective months are (1) November 1981 for persons who first become eligible for benefits after October 1981 and (2) March 1982 for persons first eligible for benefits before November 1981.
[2] Less than $500,000.
[3] No estimate possible.

Source: Office of the Actuary, SSA and HCFA, September 1981.

Note: The estimates shown for each proposal represent the effect of the proposal itself, without taking account of interaction with other proposals. The estimates for the composite total effect do reflect interaction.

The tables which follow display the operations of the trust funds under several alternative assumptions. (The Administration's more recent mid-session budget assumptions are used in place of II–A intermediate assumptions, and CBO projections are also presented.)

TABLE 7.—ESTIMATED OPERATIONS OF THE OASI, DI, AND HI TRUST FUNDS AS MODIFIED BY THE "OMNIBUS BUDGET RECONCILIATION ACT OF 1981," MID-SESSION REVIEW ASSUMPTIONS, 1980-86

(Amounts in billions)

Calendar year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	$105.8	$13.9	$119.7	$26.1	$145.8	$107.7	$15.9	$123.5	$25.6	$149.1
1981	123.6	17.0	140.7	35.4	176.1	126.7	18.0	144.7	29.5	174.3
1982	133.2	24.0	157.2	40.4	197.6	140.6	19.0	159.7	33.6	193.2
1983	146.8	27.6	174.4	45.3	219.7	154.3	19.9	174.2	38.6	212.8
1984	161.1	31.0	192.1	50.2	242.3	168.0	20.9	188.9	44.3	233.2
1985	182.3	39.3	221.5	56.8	278.3	182.4	22.1	204.4	50.7	255.1
1986	199.2	44.1	243.3	65.9	309.2	196.6	23.3	219.9	57.7	277.7

Calendar year	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−$1.8	−$2.0	−$3.8	$0.5	−$3.3	$22.8	$3.6	$26.5	$13.7	$40.2	23%	35%	25%	52%	29%
1981	−3.1	−1.0	−4.0	5.8	1.8	19.7	2.7	22.4	19.6	42.0	18	20	18	47	23
1982	−7.4	4.9	−2.5	6.9	4.4	12.3	7.6	19.9	26.5	46.4	14	14	14	58	22
1983	−7.5	7.7	.2	6.7	6.9	4.8	15.3	20.1	33.2	53.3	8	38	11	69	22
1984	−7.0	10.1	3.2	5.9	9.1	−2.1	25.4	23.3	39.1	62.4	3	73	11	75	23
1985	−.1	17.2	17.1	6.1	23.2	−2.2	42.6	40.4	45.2	85.6	−1	115	11	77	24
1986	2.6	20.7	23.3	8.2	31.5	.4	63.4	63.7	53.4	117.1	−1	183	18	78	31

Note: Estimates for 1983 and later are theoretical since the OASI Trust Fund would become depleted early in 1983 when assets become insufficient to pay benefits when due.

Source: Office of the Actuary, SSA, Aug. 14, 1981.

TABLE 8.—ESTIMATED OPERATIONS OF THE OASI, DI, AND HI TRUST FUNDS AS MODIFIED BY THE "OMNIBUS BUDGET RECONCILIATION ACT OF 1981," 1981 TRUSTEES REPORT INTERMEDIATE II-B ASSUMPTIONS, 1980-90

(Amounts in billions)

Calendar year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	$105.8	$13.9	$119.7	$26.1	$145.8	$107.7	$15.9	$123.5	$25.6	$149.1
1981	123.3	17.0	140.2	35.3	175.5	127.0	18.0	145.0	29.5	174.5
1982	132.9	23.9	156.8	40.3	197.1	142.1	19.3	161.4	33.7	195.1
1983	146.9	27.6	174.4	45.3	219.8	159.7	20.5	180.3	39.2	219.4
1984	161.1	31.1	192.2	50.3	242.5	178.8	22.1	200.9	45.4	246.3
1985	182.6	39.6	222.2	57.2	279.4	199.0	23.8	222.9	52.7	275.6
1986	198.5	44.6	243.0	66.5	309.5	219.6	25.6	245.2	60.6	305.8
1987	213.9	49.4	263.3	72.3	335.6	240.1	27.6	267.6	69.3	336.9
1988	228.9	54.3	283.2	77.5	360.7	260.1	29.7	289.9	78.5	368.4
1989	243.4	59.3	302.7	82.4	385.1	279.3	31.8	311.2	88.0	399.1
1990	278.4	72.8	351.2	87.1	438.3	298.2	34.0	332.2	98.9	431.0

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980.........	−$1.8	−$2.0	−$3.8	$0.5	−$3.3	$22.8	$3.6	$26.5	$13.7	$40.2	23%	35%	25%	52%	29%
1981.........	−3.7	−1.1	−4.7	5.[illegible]	1.0	19.1	2.6	21.7	19.5	41.2	18	20	18	47	23
1982.........	−9.2	4.6	−4.6	6.6	2.0	9.9	7.2	17.1	26.1	43.2	13	13	13	58	21
1983.........	−12.9	7.0	−5.8	6.2	.3	−2.9	14.2	11.3	32.3	43.6	6	35	9	67	20
1984.........	−17.7	8.9	−8.7	4.9	−3.9	−20.6	23.2	2.6	37.2	39.7	−2	64	6	71	18
1985.........	−16.4	15.8	−.6	4.5	3.9	−37.0	38.9	2.0	41.7	43.6	−10	97	1	71	14
1986.........	−21.1	18.9	−2.2	5.8	3.7	−58.1	57.9	−.2	47.5	47.3	−17	152	1	69	14
1987.........	−26.2	21.8	−4.3	3.0	−1.3	−84.3	79.7	−4.5	50.5	46.0	−24	210	(1)	69	14
1988.........	−31.3	24.6	−6.7	−1.0	−7.7	−115.5	104.3	−11.2	49.5	38.3	−32	268	−2	64	12
1989.........	−35.9	27.5	−8.4	−5.6	−14.0	−151.4	131.8	−19.7	43.9	24.2	−41	328	−4	56	10
1990.........	−19.8	38.8	19.0	−11.7	7.2	−171.3	170.3	−.7	32.1	31.5	−51	388	−6	44	6

[1] Between 0 and −0.5 percent.

Note: Estimates for 1982 and later are theoretical since the OASI Trust Fund would become depleted late in 1982 when assets become insufficient to pay benefits when due.

Source: Office of the Actuary, SSA. Aug. 14, 1981.

TABLE 9.—ESTIMATED OPERATIONS OF THE OASI, DI, AND HI TRUST FUNDS AS MODIFIED BY THE "OMNIBUS BUDGET RECONCILIATION ACT OF 1981," 1981 TRUSTEES REPORT "WORST-CASE" ASSUMPTIONS, 1980–86

(Amounts in billions)

Calendar year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980..........	$105.8	$13.9	$119.7	$26.1	$145.8	$107.7	$15.9	$123.5	$25.6	$149.1
1981..........	122.8	17.0	139.8	35.3	175.0	126.8	18.0	144.8	29.5	174.4
1982..........	132.9	23.9	156.8	40.3	197.1	145.3	19.7	164.9	34.1	199.1
1983..........	143.6	27.2	170.8	44.7	215.5	168.4	21.6	190.0	40.2	230.2
1984..........	160.6	31.5	192.1	50.9	243.0	193.2	23.8	217.0	47.5	264.4
1985..........	186.2	41.3	227.5	59.4	287.0	219.9	26.1	246.0	55.7	301.7
1986..........	206.7	47.7	254.4	70.8	325.3	247.3	28.4	275.6	64.9	340.5

Calendar year	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980..........	−$1.8	−$2.0	−$3.8	$0.5	−$3.3	$22.8	$3.6	$26.5	$13.7	$40.2	23	35	25	52	29
1981..........	−4.1	−1.0	−5.1	5.7	.7	18.8	2.6	21.4	19.5	40.9	18	20	18	47	23
1982..........	−12.4	4.2	−8.1	6.2	−1.9	6.4	6.8	13.2	25.7	38.9	13	13	13	57	21
1983..........	−24.8	5.6	−19.3	4.6	−14.7	−18.4	12.4	−6.0	30.2	24.2	4	32	7	64	17
1984..........	−32.5	7.7	−24.8	3.4	−21.4	−51.0	20.1	−30.8	33.7	2.8	−10	52	−3	64	9
1985..........	−33.7	15.3	−18.5	3.7	−14.8	−84.7	35.4	−49.3	37.4	−11.9	−23	77	−13	60	1
1986..........	−40.6	19.4	−21.2	6.0	−15.2	−125.3	54.8	−70.5	43.3	−27.2	−34	125	−18	58	−4

Note: Estimates for 1982 and later are theoretical since the OASI Trust Fund would become depleted late in 1982 when assets become insufficient to pay benefits when due.

Source: Office of the Actuary, SSA, Aug. 14, 1981.

TABLE 10.—ESTIMATED OPERATIONS OF THE OASI, DI AND HI TRUST FUNDS AS MODIFIED BY THE "OMNIBUS BUDGET RECONCILIATION ACT OF 1981," CBO ECONOMIC ASSUMPTIONS, 1980-90

	Income					Outgo				
Calendar year	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980.......	$105.8	$13.9	$119.7	$26.1	$145.8	$107.7	$15.9	$123.5	$25.6	$149.1
1981.......	123.1	17.0	140.1	35.2	175.3	126.9	18.1	145.0	30.1	175.1
1982.......	130.1	23.3	153.4	39.3	192.8	141.0	19.8	160.8	34.4	195.1
1983.......	142.8	26.5	169.3	43.7	213.0	155.4	20.6	176.0	39.6	215.6
1984.......	156.6	29.8	186.4	48.3	234.8	170.0	21.8	191.8	45.4	237.2
1985.......	177.0	37.8	214.8	54.6	269.4	185.0	23.3	208.3	51.8	260.1
1986.......	192.5	42.6	235.1	63.3	298.4	211.2	25.3	236.5	58.9	295.5
1987.......	207.9	47.4	255.3	68.7	324.1	218.9	27.2	246.1	67.0	313.1
1988.......	223.2	52.5	275.7	73.6	349.2	238.7	29.2	267.9	76.3	344.2
1989.......	237.7	57.7	295.4	77.8	373.2	261.3	31.7	293.0	86.7	379.7
1990.......	271.0	71.4	342.4	81.5	424.0	285.7	34.3	320.0	98.5	418.6

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
Calendar year	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980.......	−$1.8	−$2.0	−$3.8	$0.5	$3.3	$22.8	$3.6	$26.5	$13.7	$40.2	23	35	25	52	29
1981.......	−3.8	−1.1	−4.9	5.1	.2	19.1	2.5	21.6	18.9	40.4	18	20	18	46	23
1982.......	−10.9	3.5	−7.4	4.9	−2.3	8.2	6.1	14.3	23.8	38.1	13	13	13	55	21
1983.......	−12.6	5.9	−6.7	4.1	−2.6	−4.4	12.0	7.6	28.0	35.5	5	29	8	60	18
1984.......	−13.4	8.0	−5.4	2.9	−2.4	−17.7	19.9	2.2	31.0	33.1	−3	55	4	62	15
1985.......	−8.0	14.5	6.5	2.8	9.3	−25.8	34.4	8.6	33.8	42.4	−10	85	1	60	13
1986.......	−18.7	17.3	−1.4	4.4	2.9	−44.5	51.7	7.2	38.1	45.3	−12	136	4	57	14
1987.......	−11.0	20.2	9.2	1.7	11.0	−55.5	72.0	16.5	39.8	56.3	−20	190	3	57	14
1988.......	−15.5	23.3	7.8	−2.7	5.0	−71.1	95.2	24.1	37.1	61.3	−23	246	6	52	16
1989.......	−23.6	26.0	2.4	−8.9	−6.5	−94.7	121.2	26.5	28.2	54.8	−27	300	8	43	16
1990.......	−14.7	37.1	22.4	−17.0	5.4	−109.3	158.3	49.0	11.3	60.2	−33	353	8	29	13

Source: CBO—September 1981.

A major item of short-term saving for the trust funds included in the Omnibus Budget Reconciliation Act of 1981 is the elimination of the minimum benefit for people on the social security rolls as well as for future beneficiaries. H.R. 4331, passed by the House of Representatives on July 31, 1981 would restore the minimum benefit for everyone. Table 11 shows the amount of additional OASDI benefit payments that would be made under Trustees' intermediate II–B assumptions if the provision eliminating the minimum were repealed for everyone or only for those eligible for benefits before November 1981.

If the minimum were restored for everyone, about $7 billion in additional OASDI benefit payments would be made over the next 5 years and $13 billion over the next 10 years. This increase in expenditures would have a significant impact on the status of the trust funds. Even if borrowing among the OASDI, DI and HI trust funds were legislated, by 1985, the combined assets of the three funds, under II–B assumptions would represent only 13% of the expected $277 billion in payments to be made during the year. With reserves at this level, the trust funds could not withstand a normal cyclical downturn in the economy. Even without cyclical behavior, the reserves would continue to decline after 1985. and the trust funds would begin to have difficulty meeting benefit payments on time sometime in 1988. (See table 12.)

TABLE 11.—ESTIMATED AMOUNTS OF INCREASES IN OASDI BENEFIT PAYMENTS RESULTING FROM PROPOSALS TO RESTORE THE MINIMUM BENEFIT PROVISIONS ELIMINATED BY PUBLIC LAW 97-35, CALENDAR YEARS 1981-90

[In billions]

Calendar year	Increases in OASDI benefit payments resulting from restoration of the minimum benefit provisions for—	
	All beneficiaries (1)	Beneficiaries eligible for benefits before November 1981
1981	(2)	
1982	$1.0	$0.9
1983	1.4	1.3
1984	1.4	1.3
1985	1.5	1.3
1986	1.6	1.3
1987	1.6	1.3
1988	1.6	1.3
1989	1.6	1.3
1990	1.5	1.2

[1] Provided for in H.R. 4331.
[2] Less than $50 million.

Note: The above estimates are based on the intermediate II-B assumptions in the 1981 Trustees' Report. The long-range cost under either approach is 0.01 percent of taxable payroll. The amounts shown in the table represent the effect on the social security trust funds. The impact on the Federal budget would be somewhat lower because of offsetting impacts on general fund programs, primarily SSI.

Source: Office of the Actuary, SSA. Aug. 21, 1981.

TABLE 12.—COMPARISON OF OASDHI RESERVES PROJECTED UNDER II-B ASSUMPTIONS (1981–1990) IF MINIMUM BENEFIT IS RESTORED

Calendar years	Combined OASDHI reserves at beginning of year as percent of outgo during the year—post-reconciliation: Present law	Minimum restored for all beneficiaries [1]	Minimum restored for beneficiaries eligible for benefits before November 1981
1981	23	23	23
1982	21	21	21
1983	20	19	19
1984	18	17	17
1985	14	13	13
1986	14	12	13
1987	14	12	12
1988	14	10	10
1989	10	7	7
1990	6	3	3

[1] Provided for in H.R. 4331.

Source: Congressional Research Service, August 1981.

THE LONG-RANGE SITUATION

Because the social security program has been designed as a quasi-contractual 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—this would generally be long enough to cover the anticipated retirement years of those currently in the work force. Since the enactment in 1965 of the Hospital Insurance program, long-range actuarial analyses of that program have also been made, but "official" HI estimates are made only over a 25-year period.

The long-range status of the social security 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 "one percent of taxable payroll", this means that the social security tax rates now in the law would have to be increased by .5 percentage points on employee and employer, each, 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 1.5 percent of taxable payroll and expenditures are projected to be 10 percent of taxable payroll, then, under the given set of assumptions, 15 percent (1.5 divided by 10) of expenditures could not be met with that tax schedule. At the present time, total taxable payroll amounts to approximately $1.3 trillion so that in 1981 terms, 1.5 percent of payroll represents about $20 billion.

Table 13 provides estimates of the long-range actuarial status of the social security cash benefit programs over the next 75 years. These estimates are based on the intermediate II–B assumptions used in the 1981 Trustees' report. The leftmost column in the table shows that the cash benefits trust funds, despite their deficit in the next few years, have a surplus over the next 25 years. However, the HI program has, over that same period, a deficit of more than 2 times the magnitude of the cash benefit surplus. When all three funds are combined, the programs have an aggregate deficit both over the next 25 years and throughout the 75-year valuation period.

TABLE 13.—LONG-RANGE STATUS OF THE OASDHI TRUST FUNDS

[Percent of taxable payroll]

	25-year periods			75-year period, 1981–2055
	1981–2005	2006–2030	2031–2055	
OASDI:				
Income	11.94	12.40	12.40	12.25
Outgo	11.32	13.73	16.65	13.90
Balance	.62	−1.33	−4.25	−1.65
HI:				
Income	2.84	2.90	2.90	2.88
Outgo	4.12	7.83	10.05	7.33
Balance	−1.28	−4.93	−7.15	−4.45
OASDHI:				
Income	14.78	15.30	15.30	15.13
Outgo	15.44	21.56	26.70	21.23
Balance	−.66	−6.26	−11.40	−6.10

Source: SSA, HCFA based on 1981 trustees' intermediate II–B assumptions, adjusted to reflect enactment of P.L. 97–35.

Over the next 75 years, the cash benefits programs have a deficit of 1.65 percent of payroll. This means that—under the actuaries' best current estimates—social security taxes would have to be increased by a combined 1.65 percentage points (or $22 billion in 1981 terms) for each of the next 75 years. This (again in 1981 terms) represents a total deficit of $1.6 trillion over the next 75 years.

If the deficit in the OASDI program is not addressed in the near term, it becomes substantially larger on an annual basis in the future. For the last one-third of the 75-year period, an average annual deficit of 4.25 percent of taxable payroll (over $55 billion per year in 1981 terms) is projected.

Although the official long-range estimates of the HI program are made on a 25-year basis, that program faces some of the same longer range problems as the cash benefits program—for example, the increased size of the beneficiary population relative to the taxpaying population. The staff asked the Health Care Financing Administration actuaries to make a 75-year estimate of the status of the HI trust fund. Under that projection, the HI fund has a 75-year deficit of 4.45 percent of taxable payroll. When this is combined with the 1.65 percent deficit of the OASDI system, the total social security program shows an average deficit in each of the next 75 years of 6.10 percent—in 1981 terms, $79 billion per year or $6 trillion over the entire period.

Table 14 shows the relationship between income and outgo of the cash benefits trust funds over the next 75 years. In 1981, the cost of the OASDI program is equal to a tax rate of 11.29 percent while the actual tax rate for cash benefits is 10.7 percent—a shortfall of 0.59 percent. Over the next two decades, the situation reverses and income substantially exceeds outgo—partly as a result of additional increases in social security tax rates which are scheduled to occur under present law. After the turn of the century, the cost of the program rises sharply growing to a level nearing 17 percent of payroll for cash benefits by 2035. Table 15 shows similar information for the HI program over the next 25 years. When the longer range cost of the HI program is taken into account, the total cost of the 3 social security programs in these future years would require almost a 27-percent payroll tax. Under pessimistic assumptions, the cost of OASDHI would require a payroll tax of almost 50 percent in the year 2055.

III. The Goal of Financial Adequacy

Social security financing must provide revenues which are sufficient to match planned benefit payments. To achieve that goal, Congress needs reasonably reliable projections of future income and outgo. In addition, a margin for error must be left so that the system can ride out unpredictable fluctuations and so that there will be time for Congressional action to compensate for any situation where the projections prove seriously inaccurate.

Prior to the 1972 amendments, the program had a built-in safety margin in that benefit increases could occur only through specific legislative action. In addition, actuarial projections were intentionally made on what was called a level-wage basis. This means that actuarial estimates were made on the basis of wage rates in effect the year the estimates were made with no anticipation of future growth. In other words, prior to 1972, productivity gains were not predicted—and therefore not spent—until they actually developed. When productivity gains did occur, they were available either to compensate for errors in estimation or to pay the cost of benefit increases or other liberalizations which might be enacted.

The 1972 amendments, which adopted automatic benefit increases, required a shift to dynamic estimates of future income to actuarially account for the financing of those increases. These changes made the system much more sensitive to changes in economic conditions and therefore made estimates of its future financial condition much more uncertain.

A more detailed discussion of the difficulties of accurately projecting the short-term financial status of the social security trust funds is included as an appendix to this print.

SHORT-RANGE FINANCIAL ADEQUACY

In the short-range, in order to assure that benefit payments can be made when due, a margin must be allowed to accommodate cyclical patterns of tax collections and benefit outgo. A further margin is necessary to accommodate actual economic experience which proves more adverse than projected trends, so that Congress will have time to enact necessary changes in the law (tax increases or benefit reductions) and to provide time for any such changes to be implemented in an orderly manner.

In the early 1970's, the standard of adequacy in the short term was a trust fund reserve level equivalent to between 9 months and 15 months of benefit payments or 75 to 125 percent of annual outgo. That standard has not been met since 1973.

TABLE 14.—COMBINED OASDI OUTGO AS A PERCENT OF TAXABLE PAYROLL, COMPARISON WITH SCHEDULED TAX RATE, AND TRUST FUND RATIOS 1981–2055[1] (INTERMEDIATE II-B ASSUMPTIONS)

[Percent of taxable payroll]

Calendar year	OASDI outgo	Tax rate	Difference	Trust fund ratio[2]
1981	11.29	10.70	−0.59	18
1982	11.23	10.80	−.43	13
1983	11.20	10.80	−.40	9
1984	11.28	10.80	−.48	6
1985	11.35	11.40	.05	1
1986	11.45	11.40	−.05	1
1987	11.52	11.40	−.12	0
1988	11.59	11.40	−.19	−2
1989	11.62	11.40	−.22	−4
1990	11.61	12.40	.79	−6
1991	11.59	12.40	.81	0
1992	11.57	12.40	.83	6
1993	11.54	12.40	.86	13
1994	11.50	12.40	.90	20
1995	11.51	12.40	.89	28
1996	11.43	12.40	.97	35
1997	11.33	12.40	1.07	43
1998	11.23	12.40	1.17	53
1999	11.12	12.40	1.28	63
2000	11.05	12.40	1.35	74

See footnotes at end of table.

TABLE 14.—COMBINED OASDI OUTGO AS A PERCENT OF TAXABLE PAYROLL, COMPARISON WITH SCHEDULED TAX RATE, AND TRUST FUND RATIOS 1981-2055 [1] (INTERMEDIATE II-B ASSUMPTIONS)—Continued

[Percent of taxable payroll]

Calendar year	OASDI outgo	Tax rate	Difference	Trust fund ratio [2]
2001	11.03	12.40	1.37	86
2002	11.00	12.40	1.40	98
2003	10.97	12.40	1.43	110
2004	10.96	12.40	1.44	122
2005	10.97	12.40	1.43	134
2010	11.49	12.40	.91	180
2015	12.74	12.40	−.34	181
2020	14.29	12.40	−1.89	131
2025	14.76	12.40	−3.36	42
2030	16.62	12.40	−4.22	(3)
2035	16.86	12.40	−4.46	(3)
2040	16.66	12.40	−4.26	(3)
2045	16.52	12.40	−4.12	(3)
2050	16.58	12.40	−4.18	(3)
2055	16.66	12.40	−4.26	(3)
25-year averages:				
1981-2005	11.32	11.94	.62	....
2006-2030	13.73	12.40	−1.33	....
2031-2055	16.65	12.40	−4.25	....
75-year average:				
1981-2055	13.90	12.25	−1.65	....

[1] Based on 1981 trustees report, alternative II-B assumptions, including effects of Public Law 97-35.
[2] The fund is projected to be first exhausted in 1983.
[3] The fund is projected to be exhausted and not to recover before the end of the projection period.

TABLE 15.—HI OUTGO AS PERCENT OF TAXABLE PAYROLL, AND COMPARISON WITH SCHEDULED TAX RATE [1] (INTERMEDIATE II-B ASSUMPTIONS)

[Percent of taxable payroll]

Calendar year	HI outgo	Tax rate	Difference
1980	2.19	2.10	−0.09
1981	2.27	2.60	+.33
1982	2.33	2.60	+.27
1983	2.42	2.60	+.18
1984	2.54	2.60	+.06
1985	2.68	2.70	+.02
1986	2.83	2.90	+.07
1987	2.99	2.90	−.09
1988	3.15	2.90	−.25
1989	3.31	2.90	−.41
1990	3.49	2.90	−.59
1991	3.68	2.90	−.78
1992	3.88	2.90	−.98
1993	4.10	2.90	−1.20
1994	4.28	2.90	−1.38
1995	4.47	2.90	−1.57
1996	4.66	2.90	−1.76
1997	4.84	2.90	−1.94
1998	5.03	2.90	−2.13
1999	5.19	2.90	−2.29
2000	5.35	2.90	−2.45
2001	5.52	2.90	−2.62
2002	5.70	2.90	−2.80
2003	5.88	2.90	−2.98
2004	6.07	2.90	−3.17
2005	6.27	2.90	−3.37

See footnotes at end of table.

TABLE 15.—HI OUTGO AS PERCENT OF TAXABLE PAYROLL, AND COMPARISON WITH SCHEDULED TAX RATE[1] (INTERMEDIATE II-B ASSUMPTIONS)—Continued

[Percent of taxable payroll]

Calendar year	HI Outgo	Tax rate	Difference
2010	6.62	2.90	−3.72
2015	7.24	2.90	−4.34
2020	8.04	2.90	−5.14
2025	8.93	2.90	−6.03
2030	9.67	2.90	−6.77
2035	10.06	2.90	−7.16
2040	10.16	2.90	−7.26
2045	10.09	2.90	−7.19
2050	10.05	2.90	−7.15
2055	10.04	2.90	−7.14
Averages:			
1981–2005	4.12	2.84	−1.28
2006–2030	7.83	2.90	−4.93
2031–2055	10.05	2.90	−7.15
1981–2055	7.33	2.88	−4.45

[1] Based on 1981 trustees report, alternative II–B assumptions, including effects of Public Law 97–35. Costs for years after 2005 are based on unpublished estimates, assuming that medical care unit cost increases after the year 2005 will be equal to average wage increases in covered employment.

Source: Office of Actuary, HCFA September 1981.

TABLE 16.—COMBINED OASDHI OUTGO AS PERCENT OF TAXABLE PAYROLL, AND COMPARISON WITH SCHEDULE TAX RATE [1] (INTERMEDIATE II-B ASSUMPTIONS)

[Percent of taxable payroll]

Calendar year	OASDHI outgo	Tax rate	Difference
1981	13.56	13.40	−0.26
1982	13.56	13.40	−.16
1983	13.62	13.40	−.22
1984	13.82	14.10	−.42
1985	14.03	14.30	.07
1986	14.28	14.30	.02
1987	14.51	14.30	−.21
1988	14.74	14.30	−.44
1989	14.93	15.30	−.63
1990	15.10	15.30	.20
1991	15.27	15.30	.03
1992	15.45	15.30	−.15
1993	15.64	15.30	−.34
1994	15.78	15.30	−.48
1995	15.98	15.30	−.68
1996	16.09	15.30	−.79
1997	16.17	15.30	−.87
1998	16.26	15.30	−.96
1999	16.31	15.30	−1.01
2000	16.40	15.30	−1.10

See footnotes at end of table.

TABLE 16.—COMBINED OASDHI OUTGO AS PERCENT OF TAXABLE PAYROLL, AND COMPARISON WITH SCHEDULE TAX RATE [1] (INTERMEDIATE II-B ASSUMPTIONS)—Continued

[Percent of taxable payroll]

Calendar year	OASDHI outgo	Tax rate	Difference
2001	16.55	15.30	−1.25
2002	16.70	15.30	−1.40
2003	16.85	15.30	−1.55
2004	17.03	15.30	−1.73
2005	17.24	15.30	−1.94
2010	18.11	15.30	−2.81
2015	19.98	15.30	−4.68
2020	22.33	15.30	−7.03
2025	24.69	15.30	−9.39
2030	26.29	15.30	−10.98
2035	26.92	15.30	−11.62
2040	26.82	15.30	−11.52
2045	26.61	15.30	−11.31
2050	26.63	15.30	−11.33
2055	26.70	15.30	−11.40
25-year averages:			
1981–2005	15.44	14.78	−.66
2006–2030	21.56	15.30	−6.26
2031–2055	26.70	15.30	−11.40
75-year average:			
1981–2055	21.23	15.13	−6.10

[1] Based on 1981 trustees' report, alternative II-B assumptions, including effects of Public Law 97-35.

TABLE 17.—OASDHI OUTGO AS A PERCENT OF GNP,[1] 1981–2055

Year	Intermediate II-B assumptions			Pessimistic assumptions		
	OASDI [1]	HI [1]	OASDHI [1]	OASDI [2]	HI [2]	OASDHI [2]
1981	4.97	1.00	5.97	4.93	0.99	5.92
1982	4.88	1.01	5.89	4.94	1.03	5.97
1983	4.84	1.05	5.89	5.00	1.07	6.07
1984	4.85	1.09	5.94	4.95	1.14	6.09
1985	4.86	1.15	6.01	4.97	1.22	6.19
1986	4.88	1.21	6.09	5.00	1.30	6.30
1987	4.89	1.27	6.16	5.03	1.39	6.42
1988	4.90	1.33	6.23	5.04	1.48	6.52
1989	4.90	1.39	6.29	5.05	1.58	6.63
1990	4.88	1.47	6.35	5.07	1.69	6.76
1991	4.85	1.54	6.39	5.11	1.81	6.92
1992	4.82	1.62	6.44	5.14	1.95	7.09
1993	4.79	1.70	6.49	5.15	2.09	6.24
1994	4.75	1.77	6.52	5.14	2.21	7.35
1995	4.74	1.84	6.58	5.18	2.34	7.52
1996	4.68	1.91	6.59	5.17	2.47	7.64
1997	4.62	1.97	6.59	5.13	2.61	7.74
1998	4.56	2.04	6.60	5.10	2.75	7.85
1999	4.50	2.10	6.60	5.05	2.88	7.93
2000	4.45	2.16	6.61	5.03	3.01	8.04

See footnotes at end of table.

TABLE 17.—OASDHI OUTGO AS A PERCENT OF GNP,[1] 1981-2055

Year	Intermediate II-B assumptions			Pessimistic assumptions		
	OASDI [1]	HI [1]	OASDHI [1]	OASDI [2]	HI [2]	OASDHI [2]
2001..............	4.43	2.22	6.65	5.04	3.15	8.19
2002..............	4.40	2.28	6.68	5.04	3.30	8.34
2003..............	4.37	2.34	6.71	5.04	3.46	8.50
2004..............	4.35	2.41	6.76	5.04	3.63	8.67
2005..............	4.34	2.48	6.82	5.06	3.80	8.86
2010..............	4.46	2.57	7.03	5.31	4.29	9.60
2015..............	4.85	2.75	7.60	5.88	4.92	10.80
2020..............	5.33	3.00	8.33	6.64	5.63	12.27
2025..............	5.77	3.27	9.04	7.41	6.32	13.73
2030..............	5.97	3.47	9.44	7.95	6.79	14.74
2035..............	5.94	3.55	9.49	8.27	6.92	15.19
2040..............	5.76	3.51	9.27	8.40	6.86	15.26
2045..............	5.61	3.42	9.03	8.56	6.68	15.24
2050..............	5.52	3.35	8.87	8.75	6.53	15.28
2055..............	5.44	3.28	8.72	8.88	6.40	15.28
75-year average: 1981-2055....	5.18	2.69	7.87	6.65	4.74	11.39

[1] Based on 1981 trustees' report, alternative II-B assumptions, including effects of Public Law 97-35.
[2] Based on 1981 trustees' report, alternative III assumptions, including effects of Public Law 97-35.

Source: SSA, HCFA Actuaries. September 1981.

At the beginning of 1970, the assets of both the OASI and DI trust funds exceeded 100 percent of expenditures for that year. Prior to 1970, assets always exceeded 100 percent of expenditures. However, since 1970, assets of the OASDI trust funds have declined steadily so that by the beginning of 1981, combined assets of the OASDI funds represented only 18 percent of expenditures—a little over 2 months' worth of benefits. Table 18A shows the number of months' worth of expenditures on hand in the OASDI and HI trust funds from 1950–1981.

TABLE 18A.—HISTORICAL LEVELS OF OASDI AND HI TRUST FUND ASSETS, NUMBER OF MONTHS' WORTH OF EXPENDITURES ON HAND (1950 to 1981)

Calendar year	Number of months' worth of expenditures on hand at beginning of year		
	OASDI	HI	OASDHI
1950	138.7	(1)	138.7
1960	22.3	(1)	22.3
1965	13.2	(1)	13.2
1970	12.4	5.6	11.3
1975	8.0	9.4	8.2
1980	2.9	6.2	3.5
1981	2.2	5.6	2.8

[1] Medicare program not enacted until 1965.

Source: Various trustees' reports since 1950. Prepared by Congressional Research Service August 1981.

TABLE 18B.—HISTORICAL LEVELS OF OASI, DI AND HI TRUST FUND ASSETS, ACTUAL AMOUNTS (1950 TO 1980)

[In billions of dollars]

Calendar year	Assets in the trust fund, end of year		
	OASDI	HI	OASDHI combined
1950	13.7	(1)	13.7
1955	21.8	(1)	21.8
1960	22.6	(1)	22.6
1965	19.8	(1)	19.8
1970	38.1	3.2	41.3
1975	44.3	10.5	[2] 54.8
1980	26.5	13.7	40.2

[1] HI (part A of medicare) enacted in 1965.
[2] The highest combined level of reserves (OASDHI) was reached in 1974, with a total of approximately $55 billion.

Source: Various trustees' reports since 1950. Prepared by Congressional Research Service, August 1981.

The 1977 amendments provided substantial additional financing for the program both through benefit reductions and tax increases. Further strengthening of the system resulted from benefit reductions enacted in 1980. At the time of the 1977 Amendments, it was estimated that the changes made that year would assure a minimum OASDI reserve level of at least 25 percent of one year's benefits in the near term—a reserve of 3 months of benefit payments. As shown in tables 19–21, that projection proved wide of the mark and did not leave enough margin to avoid the need for further legislation in this Congress. (The 1977 Amendments intentionally left the program in an unsound long-range condition and current estimates show a substantially unchanged long-range status. See table 22).

TABLE 19.—COMPARISON OF OASDI RESERVES PROJECTED UPON ENACTMENT OF 1977 AMENDMENTS AND VARIOUS CURRENT FORECASTS

[In percent]

Calendar years	OASDI reserves at beginning of year as percent of outgo during the year				
	1977 estimate	Mid-session[1]	1981 trustees' II-B[1]	CBO[1]	"worst-case"
1980	26	25	25	25	25
1981	25	18	18	18	18
1982	30	14	13	13	13
1983	36	11	9	8	7
1984	41	11	6	4	−3
1985	45	11	1	1	−13
1986	52	[3] 18	1	4	[3] −18
1987	59	....	[2]	3	....

[1] All estimates assume savings from "Omnibus Budget Reconciliation Act of 1981," Public Law 97-35.
[2] Between 0 and −0.5 percent.
[3] Estimates not made after 1986.

Source: Congressional Research Service, August 1981.

TABLE 20.—COMPARISON OF HI RESERVES PROJECTED UPON ENACTMENT OF 1977 AMENDMENTS AND VARIOUS CURRENT FORECASTS

[In percent]

Calendar years	HI reserves at beginning of year as percent of outgo during the year				
	1977 estimate	Mid-session[1]	1981 trustees' II-B[1]	CBO[1]	"Worst case"[1]
1980	45	52	52	52	52
1981	39	47	47	46	47
1982	47	58	58	55	57
1983	50	69	67	60	64
1984	47	75	71	62	64
1985	39	77	71	60	60
1986	29	[2] 78	69	57	[2] 58
1987	22	....	69	57	....

[1] All estimates assume savings from "Omnibus Budget Reconciliation Act of 1981," Public Law 97-35.
[2] Estimates not made after 1986.

Source: Congressional Research Service, August 1981.

TABLE 21.—COMPARISON OF COMBINED OASDHI RESERVES PROJECTED UPON ENACTMENT OF 1977 AMENDMENTS AND VARIOUS CURRENT FORECASTS

[In percent]

Calendar years	OASDHI reserves at beginning of year as percent of outgo during the year				
	1977 estimate	Mid-session [1]	1981 trustees' II–B [1]	CBO [1]	"Worst case" [1]
1980	28	29	29	29	29
1981	25	23	23	23	23
1982	30	22	21	21	21
1983	35	22	20	18	17
1984	40	23	18	15	9
1985	42	24	14	13	1
1986	48	[2] 31	14	14	[2] –4
1987	54		14	14	
1988	[3] 59		12	16	
1989			10	16	
1990			6	13	

[1] All estimates assume savings from "Omnibus Budget Reconciliation Act of 1981," P.L. 97-35.
[2] Estimates not made after 1986.
[3] Estimates (reserve ratios) not made after 1988.

Source: Congressional Research Service, August 1981.

TABLE 22.—LONG-RANGE OASDHI FINANCIAL FORECASTS IN PREVIOUS TRUSTEES' REPORTS, 1977–81

[In percent of taxable payroll]

	Average scheduled tax rate	Average expen-ditures	Difference (actuarial imbalance)
OASDI PROGRAM [1]			
Prior to 1977 amendments (1977 Trustees' Report).	10.99	19.19	–8.20
Just after enactment of 1977 amendments	12.12	13.58	–1.46
1978 Trustees' Report	12.16	13.55	–1.40
1979 Trustees' Report	12.19	13.38	–1.20
1980 Trustees' Report	12.22	13.74	–1.52
1981 Trustees' Report: (II–B)	12.25	14.07	–1.82
1981 Trustees' Report (II–B Post Reconciliation)	12.25	13.90	–1.65
HI PROGRAM [2]			
Prior to 1977 amendments	2.80	3.96	–1.16
Just after enactment of 1977 amendments	long-range projections not made at that time.		
1978 Trustees' Report	2.74	3.86	–1.12
1979 Trustees' Report	2.78	3.82	–1.04
1980 Trustees' Report	2.81	3.80	–0.99
1981 Trustees' Report: (II–B)	2.84	4.28	–1.44
1981 Trustees' Report: (II–B Post Reconciliation)	2.84	4.12	–1.28

[1] 75-year projections, intermediate assumptions.
[2] 25-year projections, intermediate assumptions.

Source: OASDI and HI Trustees' Reports, 1977–81, and Office of Actuaries, SSA and HCFA, September 1981.

There is no hard and fast rule as to what is the minimum acceptable trust fund level. If the trust fund balance falls below 9 percent at the start of a month, there would be inadequate funds to meet that month's benefit payments. A somewhat higher level would be needed to provide a margin of safety. Just how much higher is a matter of judgment.

After taking account of the saving resulting from Public Law 97–35 (the Omnibus Reconciliation Act of 1981) and under the Trustee's Intermediate II–B assumptions, the OASI trust fund would fall below the 9-percent level and become insufficient to pay benefits when due late in 1982; the combined assets of the OASI and DI funds would fall below that level and become unable to meet benefit obligations timely by the end of 1983. The combined assets of the three funds would become insufficient to pay the combined benefits when due by 1989.

During the period 1985–1988, while the combined assets of the three funds would be sufficient to pay total benefits timely, the assets would be increasing less rapidly than total expenditures. The assets would represent only 14 percent of outgo in those years. With a safety margin that slim, the combined trust fund assets would be unable to withstand a normal cyclical downturn in the economy.

Under the "worst case" assumptions, the combined assets of the three funds would be insufficient to pay total benefits on a timely basis in 1984.

The 1972 and 1977 experiences would seem to argue for using a relatively pessimistic set of economic assumptions in determining whatever minimum reserve level is chosen. Table 23–A shows the amount of additional funding which would be required to achieve a variety of minimum reserve levels using different sets of short-range economic assumptions. The amount of required additional funding shown already assumes a combining of the resources of the three trust funds. In other words, the table shows how much additional money is needed in the short-range even if a tax reallocation or interfund borrowing were legislated. Table 23–B shows similar information over the short term if the minimum benefit is restored.

TABLE 23-A.—ADDITIONAL RESOURCES REQUIRED UNDER PRESENT LAW IN THE NEAR TERM TO BRING OASDHI RESERVES UP TO CERTAIN LEVELS

[In billions of dollars]

	Additional resources required—Post reconciliation [1]			
	Mid-session 1981 assumptions [2]	1981 trustees' intermediate (II-B)	CBO assumptions	Administration "worst-case" [2]
Percent of 1 year's expenditures desired at beginning of 1986:				
9 percent (1 mo)	0	0	0	43
13 percent	0	0	0	56
20 percent	0	18	17	80
30 percent	0	49	46	114
40 percent	25	80	76	148
50 percent (6 mo)	53	111	105	182
Percent of 1 year's expenditures desired at beginning of 1990:				
9 percent (1 mo)		15	0	
13 percent		32	0	
20 percent		62	29	
30 percent		105	71	
40 percent		148	113	
50 percent (6 mo)		192	155	

[1] Table already assumes savings from Public Law 97-35, the Omnibus Reconciliation Act of 1981.

[2] The mid-session and "worst-case" economic assumptions only go through 1986.

Source: Congressional Research Service, September 1981.

TABLE 23-B.—COMPARISON OF ADDITIONAL RESOURCES REQUIRED TO BRING OASDHI RESERVES UP TO CERTAIN LEVELS IF MINIMUM BENEFIT IS RESTORED

[In billions of dollars]

	Additional resources required—Post reconciliation [1] (Intermediate II-B assumptions)		
	Present law	Restored to all beneficiaries	Restored only to beneficiaries eligible for benefits before November 1981
Percent of 1 year's expenditures desired at beginning of 1986:			
9 percent (1 mo)	0	0	0
13 percent	0	2	1
20 percent	18	24	23
30 percent	49	55	54
40 percent	80	86	85
50 percent (6 mo)	111	118	116
Percent of 1 year's expenditures desired at beginning of 1990:			
9 percent (1 mo)	15	26	25
13 percent	32	44	42
20 percent	62	74	72
30 percent	105	117	116
40 percent	148	161	159
50 percent (6 mo)	192	204	202

[1] Table already assumes savings from Public Law 97-35, the Omnibus Reconciliation Act of 1981.

Source: Congressional Research Service, September 1981.

LONG-RANGE STANDARD OF FINANCIAL ADEQUACY

The long-range status of the trust fund is estimated on the basis of a variety of economic and demographic factors. Many of these are highly subject to fluctuation and very difficult to predict with any degree of accuracy. Included are such factors as birth and immigration rates, level of economic activity, inflation, and mortality. Three paths have usually been projected in making long-range estimates: a pessimistic path, an optimistic path, and an intermediate path. (The 1981 report also includes a fourth path (II-A) which reflects more optimistic economic assumptions combined with intermediate demographic assumptions).

It is unlikely, of course, that the actuaries will actually succeed in projecting an intermediate path which exactly predicts the net outcome of all the various elements over a 75-year period. However, the projections do represent a "best estimate" as of any point in time. As such, the long-range projections provide a valuable guide to trends which indicate an imbalance in the system, allowing Congress to make necessary corrections gradually and thus avoid sudden shocks that the system would have difficulty absorbing, and that taxpayers and beneficiaries would have difficulty accepting. Precisely because of their long-range nature, the intermediate assumptions are generally considered to be an acceptable gauge of long-range soundness. Using those assumptions, the system is considered to be sound if income is sufficient over the 75-year period to meet outgo. As shown in Table 13, the social security program currently falls substantially short of this standard. The average cost of the cash benefits system over the 75-year period is estimated to be 1.65 percent greater than the system's estimated income.

IV. Approaches to Resolving the Financing Problem

As long as the nature of the social security program as a self contained system is maintained, the adequacy of its financing will depend on its generating enough income to cover planned benefit payments and to provide whatever additional reserve margin is determined to be necessary. In the simplest terms, restoring the soundness of the program must be achieved by increasing revenues, by reducing benefits, or by a combination of the two.

INCREASING REVENUES

The most direct method of increasing revenues to the program is through an increase in the social security tax rate or in the taxable earnings base (the maximum amount of annual earnings to which the tax rate applies). The 1977 Amendments provided for significant increases in both of these elements. The increased income to the program in 1978–1990 from the tax rate and base increases is shown in table 24. While further increases in social security tax rates could be enacted, there will be substantial rate increases occurring over the next few years under present law as shown in table 1. The 1977 increases in the taxable earnings base have increased it to a level where approximately 91 percent of all wages will ultimately be subject to the tax and 94 percent of all workers covered by social security will have their full earnings taxed. Increases above this level have frequently been opposed because they result in very large individual tax payments and also because of the relationship between taxable earnings and benefits—large benefit levels and long-range benefit costs which substantially offset the additional revenue. While a tax rate increase results in no additional future outgo, an earnings base increase will ultimately result in $1 of additional outgo for each $2 of additional income it generates.

TABLE 24.—ADDITIONAL TAX INCOME IN 1978 TO 1990 TO THE OASI, DI, AND HI TRUST FUNDS DUE TO THE SOCIAL SECURITY AMENDMENTS OF 1977

[In billions]

Calendar years	Additional tax income		
	OASDI	HI	Total
1978	$1.7	−$1.6	(1)
1979	6.8	−.2	6.6
1980	9.7	.3	10.0
1981	18.7	1.1	19.7
1982	23.5	1.3	24.8
1983	26.3	1.5	27.8
1984	29.1	1.7	30.8
1985	43.0	3.6	46.6
1986	47.4	2.4	49.7
1987	51.0	2.4	53.4
1988	54.6	2.5	57.0
1989	57.9	2.5	60.4
1990	88.4	2.6	91.0

[1] Less than $50 million.

Note: Based on the 1981 Trustees' Report Intermediate (II-B) economic assumptions.

Source: Office of Actuary, SSA. August 14, 1981

Additional revenue could also be achieved by expanding the coverage of the program. The major noncovered groups are Federal employees, those State and local employees who have not been covered under Federal-State agreements and employees of nonprofit organizations who have not elected coverage.

Other potential revenue sources sometimes advocated include general revenues or earmarked revenues from some source other than the payroll tax such as an income surtax or a value-added tax. Questions can be raised, however, as to whether such proposals should be viewed as providing additional revenues to the system or as representing a fundamental change in the self-contained, earnings-related nature of the program.

DECREASING OUTGO

The other alternative for improving the financial situation of social security is a change in the benefit structure which results in lower benefit payments.

In general, proposals to improve the program's financial status by reducing benefit costs can be categorized as (1) targeted proposals designed to eliminate features which the Congress has found to be inappropriate (as in the case of last year's action generally eliminating benefits for prisoners) or of relatively lower priority (as in the case of this year's phasing out of student benefits) or (2) general reductions which apply in a substantially equal way to all beneficiaries (or at least to all future beneficiaries). An example of a general reduction would be the recently enacted change in the benefit rounding rules which will have a minor, but fairly uniform impact on all beneficiaries.

Another way of classifying proposals is between those which represent a cutback from where the program is at present and those which restrain future program growth. Most "targeted" reductions—since they deal with specific elements of entitlements now in the law—would fall in the category of cutbacks from where the program is at present. Generalized reductions, however, can fall in either category. An example of this distinction can be found in the 1977 changes in the benefit computation formula. The automatic indexing provisions enacted in 1972 resulted in a rate of benefit growth which by 1977 was generally recognized as excessive. To curb this growth rate, Congress in the 1977 amendments adopted a new formula for computing initial benefit amounts. If that 1977 change had simply slowed the rate of future growth, it could have been categorized as representing a restraint on program growth, but not a cutback from the then current situation of the program. In fact, however, in order to improve the financial status of the program, the 1977 amendments not only slowed future growth but actually rolled back initial benefit amounts from the level they had already reached.

The tables which follow show the improvements in the financial status of the social security programs resulting from the revenue increases and benefit reductions enacted in recent years.

Table 25 summarizes the reduction in program costs resulting from legislation in the 95th and 96th Congresses. Reductions were also achieved as a part of the recently enacted budget reconciliation legislation of the current Congress. The projected savings of the social security program resulting from this action (Public Law 97–35) is also shown in table 25.

The following tables also illustrate the growth the program has experienced in the past and the growth which is projected to occur in costs and real benefit levels under present law.

TABLE 25.—ORIGINAL SHORT-RANGE ESTIMATES OF REDUCTION IN OASDI AND HI BENEFIT PAYMENTS DUE TO AMENDMENTS OF 1977 AND 1980, AND THE OMNIBUS RECONCILIATION ACT OF 1981

[In billions]

Calendar years	Estimates of net reduction in benefit payments, made at time of enactment, of each set of amendments[1]		
	1977 amendments	1980 amendments[2]	1981 reconciliation
1978	$0.4		
1979	0.5		
1980	0.8	(3)	
1981	1.4	$0.2	$0.1
1982	1.7	0.7	3.5
1983	2.6	1.1	4.7
1984	3.7	1.4	5.8
1985	4.9	1.8	6.4
1986	6.4	2.2	6.9

[1] Figures do not add across because the assumptions underpinning each set of amendments were different from one another. In addition, these estimates were made at the time of enactment and have not been individually re-evaluated since that time.

[2] Figures represent the sums of the estimates made for Public Law 96-265 (the Social Security Disability Amendments of 1980), Public Law 96-473, and Public Law 96-499 (the Omnibus Reconciliation Act of 1980).

[3] Less than $50,000,000.

Source: Office of Actuary, SSA and HCFA, September 1981.

TABLE 26.—GROWTH OF SOCIAL SECURITY COSTS, SELECTED CALENDAR YEARS 1940 TO 1980

[In billions of dollars]

Calendar years	Social security expenditures: OASDI	HI	SMI	Total
1940	(1)	(2)	(2)	(1)
1950	1.0			1.0
1960	11.8			11.8
1970	34.7	5.3	2.2	42.2
1975	64.3	11.6	4.7	80.6
1980	123.5	25.6	11.2	160.3

[1] Less than $100,000,000.
[2] Medicare programs not enacted until 1965.
Source: Congressional Research Service, August 1981.

TABLE 27.—SOCIAL SECURITY EXPENDITURES, CALENDAR YEARS 1960-80

[Dollar amounts in millions]

	Cash benefits: OASI	Cash benefits: DI	Total OASDI	1980 dollars [1]	Medicare: HI	Medicare: SMI	Total (OASI, DI, HI, SMI)	1980 dollars [1]
1960	$11,198	$600	$11,798	$32,798			$11,798	$32,798
1961	12,432	956	13,388	36,817			13,388	36,817
1962	13,973	1,183	15,156	41,224			15,156	41,224
1963	14,920	1,297	16,217	43,624			16,217	43,624
1964	15,613	1,407	17,020	45,273			17,020	45,273
1965	17,501	1,687	19,188	50,081			19,188	50,081
1966	18,967	1,947	20,914	53,122	$999	$203	22,116	56,175
1967	20,382	2,089	22,471	55,503	3,430	1,307	27,208	67,204
1968	23,557	2,458	26,015	61,656	4,277	1,702	31,994	75,826
1969	25,176	2,716	27,892	62,757	4,857	2,061	34,810	78,322
1970	29,848	3,259	33,107	70,187	5,281	2,212	40,600	86,072
1971	34,542	4,000	38,542	78,240	5,900	2,377	46,819	95,042
1972	38,522	4,759	43,281	85,264	6,503	2,614	52,398	103,224
1973	47,175	5,973	53,148	98,324	7,289	2,844	63,281	117,070
1974	53,397	7,196	60,593	101,190	9,372	3,728	73,693	123,067
1975	60,395	8,790	69,185	105,854	11,581	4,735	85,501	130,816
1976	67,876	10,366	78,242	113,451	13,679	5,622	97,543	141,438
1977	75,309	11,946	87,255	118,667	16,019	6,505	109,779	149,299
1978	83,064	12,954	96,018	120,983	18,178	7,755	121,951	153,658
1979	93,133	14,186	107,319	121,270	21,073	9,265	137,657	155,522
1980	107,678	15,872	123,550	123,550	25,577	11,245	160,372	160,372

[1] Based on CPI, all items.
Source: Congressional Research Service, August 1981.

TABLE 28.—HISTORICAL COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN CPI

[In percent]

	Increase in wages [1]		Increase in CPI		Benefit increases	
	Year to year	Cumulative since year of each benefit increase to 1981	Year to year	Cumulative since year of each benefit increase to 1981	Increase during year	Cumulative since year of each benefit increase to 1981
1965	....	194.6	....	190.8	7.0	269.0
1968	19.6	146.3	10.3	163.6	13.0	244.8
1970	11.0	121.9	11.6	136.2	15.0	205.1
1971	5.0	111.3	4.3	126.5	10.0	165.3
1972	9.8	92.4	3.3	119.3	20.0	141.2
1974	12.6	70.9	17.9	86.0	11.0	101.0
1975 [1]	7.5	59.0	9.1	70.5	8.0	81.1
1976	6.9	48.7	5.8	61.2	6.4	67.7
1977	6.0	40.3	6.5	51.4	5.9	57.6
1978	7.9	30.0	7.7	40.6	6.5	48.8
1979	[3] 8.7	19.6	11.5	26.1	9.9	39.7
1980	[3] 8.5	[3] 10.2	13.5	[3] 11.1	14.3	27.1
1981	10.2	....	11.1	....	11.2	11.2

[1] Increases from 1975 on were tied to increases in the CPI.
[2] Based on average of total wages used for social security indexing series.
[3] Estimates from 1981 Trustees' Report intermediate II–B assumptions.

Source: Congressional Research Service, August 1981.

TABLE 29.—PAST AND FUTURE EARNINGS LEVELS, BENEFITS IN ACTUAL AND CONSTANT DOLLARS, AND REPLACEMENT RATES, UNDER PRESENT LAW, 1952–2055[1]

Calendar year	Actual earnings in previous year			Annual initial benefit amount (actual dollars)			Annual initial benefit amounts (1981 constant dollars)			Replacement rates[3] (in percent)		
	Low earner	Average earner	Maximum earner[2]	Low earner	Average earner	Maximum earner[2]	Low earner	Average earner	Maximum earner[2]	Low earner	Average earner	Maximum earner[2]
1953	1,600	2,800	3,600	[4]700	[4]900	[4]1,000	[4]2,800	[4]3,700	[4]4,200	46	31	28
1955	1,600	3,100	3,600	800	1,100	1,200	2,800	3,900	4,200	50	35	33
1960	2,100	3,700	4,200	900	1,300	1,400	3,100	4,300	4,700	45	33	30
1965	2,500	4,400	4,800	1,000	1,400	1,580	3,200	4,500	4,900	40	31	33
1970	3,300	5,600	7,800	1,400	2,000	2,300	3,400	4,800	5,400	43	34	29
1975	3,300	7,600	10,800	2,300	3,400	3,900	3,800	5,500	6,500	60	42	30
1980	5,500	10,600	17,700	3,900	5,900	7,400	[5]4,400	[5]6,700	[5]8,500	[5]64	[5]51	[5]33
1990	12,000	23,600	53,400	7,000	10,500	14,000	3,900	5,800	7,800	56	42	25
2000	20,500	40,300	92,400	11,900	17,900	25,500	4,400	6,700	9,500	55	42	26
2010	34,900	68,800	157,800	20,000	30,600	46,400	5,000	7,700	11,700	54	42	28
2020	59,700	117,600	269,700	33,800	52,300	81,000	5,700	8,900	13,800	54	42	29
2030	101,900	200,900	460,500	57,700	89,300	138,700	6,600	10,200	15,900	54	42	29
2040	174,100	343,100	786,600	98,600	152,500	236,800	7,600	11,800	18,300	54	42	29
2055	388,800	765,000	1,755,300	220,200	340,500	528,600	9,500	14,600	22,700	54	42	29

[1] For workers age 65 upon retirement with steady career earnings and benefits rounded to nearest $100.
[2] Earnings equal to the social security taxable earnings base.
[3] Initial benefits expressed as percent of earnings in year prior to entitlement.
[4] 1953 benefit awards.
[5] Benefit levels and replacement rates for these workers were unaffected by the 1977 amendments.

Source: Office of Actuary, SSA, August 1981.

V. Description of Administration's Social Security Proposals, as Made in Statement of Secretary Schweiker on May 12, 1981

EXTEND COVERAGE TO FIRST 6 MONTHS OF SICK PAY

Present law

Sick pay is subject to Social Security taxes and is treated as covered earnings unless it is either: (1) paid under a qualified plan or system or (2) paid more than 6 months after the last month the employee worked. A plan or system is "qualified" if it applies to the employees of a firm generally (or to classes of employees) and has definite standards both for eligibility, and for duration and amount of benefits. If the employer's plan or system is qualified, the payments are excluded regardless of whether they are made from the employer's regular wage or salary account or from a separate fund or insurance.

Administration proposal

Remove exclusion of sick pay under a plan or system during the first 6 months the employee is off work if the payments are made from the employer's regular wage or salary account.

SAVING [1]

[In billions of dollars, calendar years]

	1982	1983	1984	1985	1986
Short-range (added revenue): OASDHI	.4	.4	.5	.6	.6
Long-range	0.02 percent of taxable payroll				

[1] The cost effects over the long-range represent an excess of increased OASDHI revenue over benefit outgo. In the short-range, the primary effect would be increased OASDHI revenues.

NOTE.—References to present law relate to law as it is *after* the Omnibus Budget Reconciliation Act of 1981.

CHANGE BENEFIT COMPUTATION POINT FROM AGE 62 TO 65

Present law

A worker's primary insurance amount (PIA) is calculated by applying a formula to the worker's average monthly earnings over a certain number of years. In retirement cases, the number used generally equals 5 less than the number of years after 1950 (or after age 21, if later) and up to the year in which the worker reaches age 62. For workers reaching age 62 in 1981, this means that earnings are averaged over 25 years. After 1990, a 35-year averaging period will apply to all retirees.

Administration proposal

The period over which earnings are averaged would be extended by 3 years—up to the year the worker reaches age 65. This extension of the computation period would be accomplished over a 3-year phase-in period. Under the phase-in, the number of years over which benefits are averaged would be increased by 1 year for those reaching age 62 in 1983, by 2 years for those reaching age 62 in 1984, and by 3 years for those reaching age 62 after 1984.

SAVING[1]

[In billions of dollars, calendar years]

	1982	1983	1984	1985	1986
Short-range:					
OASDI	(1)	.1	.2	.4	.7
Long-range	0.28 percent of taxable payroll				

[1] Savings less than $50 million.

INCREASE BEND POINTS BY 50 PERCENT INSTEAD OF 100 PERCENT OF WAGE INCREASES FOR 1982 THROUGH 1987

Present law

A primary insurance amount (PIA) is computed from average indexed earnings (AIME) through a formula originally specified in law and automatically updated each year to reflect increases in economy-wide wage levels. The year the worker reaches age 62, or becomes disabled or dies before age 62 determines the applicable benefit formula. For example, for persons who reach age 62 or become disabled or die before age 62 in 1981, the following benefit formula applies: 90 percent of first $211 of AIME, plus 32 percent of AIME over $211 and up to $1,274 plus 15 percent of AIME in excess of $1,274. The percentages in the formula do not change from year to year but the dollar amounts (bend points) to which each of the percentages apply are indexed annually to reflect changes in average wage levels.

Administration proposal

Effective for the years 1982 through 1987, increase the dollar amounts to which each of the percentages apply—the bend points in the benefit formula—by 50 percent, rather than 100 percent, of average wage increases.

SAVING [1]

[In billions of dollars, calendar years]

	1982	1983	1984	1985	1986
Short-range: OASDI	(1)	.2	.6	1.3	2.3
Long-range	1.33 percent of taxable payroll				

[1] Less than $50 million.

REDUCE BENEFITS FOR EARLY RETIREMENT

Present law

Retirement benefits are payable as early as age 62, but the amount is reduced to take account of the longer period over which the benefit is expected to be paid. Benefits for workers are reduced by 5/9 of 1 percent for each month benefits are received before age 65. At age 62 the benefit is equal to 80 percent of the full benefit. Benefits for spouses of retired or disabled workers are first available at age 62 and are reduced by 25/36 of 1 percent per month so that at age 62 the benefit is reduced by 25 percent.

Administration proposal

Effective for workers who reach age 62 in January 1982 and later, the reduction factor would be increased to 1¼ percent for each month the benefit is paid before age 65 so that the age-62 benefit would be equal to 55 percent of the full benefit. The reduction factor for spouses would also be increased to 1¼ percent per month so that at age 62 the benefit would be reduced by 45 percent, rather than 25 percent as under present law.

SAVING

[In billions of dollars, calendar years]

	1982	1983	1984	1985	1986
Short-range: OASDI	.6	1.9	3.7	5.4	7.0
Long-range	0.71 percent of taxable payroll				

ELIMINATE DEPENDENTS' BENEFITS IN EARLY-RETIREMENT CASES

Present law

Under present law, unmarried children (1) under age 18, and (2) under age 19, if full-time elementary or secondary students, and (3) age 18 or older, if disabled before age 22, are eligible to receive monthly Social Security benefits based on the earnings of a retired worker. (Until July 1985, certain post-secondary student beneficiaries are also eligible for benefits at ages 18–21, on a gradually phased-down basis.)

Administration proposal

Eliminate child's benefits based on the earnings of workers who elect to receive early-retirement benefits. Children could receive benefits when a worker who elected early retirement reaches age 65.

(The proposal would also effectively eliminate under age 62 wife's and husband's benefits in early retirement cases since such individuals are eligible only if they have in their care a child who is receiving benefits.)

SAVING

[In billions of dollars, calendar years]

	1982	1983	1984	1985	1986
Short-range: OASDI	(1)	.3	.4	.5	.6
Long-range	0.02 percent of taxable payroll				

1 Less than $50 million.

EXTEND DISABILITY MAXIMUM FAMILY BENEFIT TO RETIREMENT AND SURVIVORS CASES

Present law

Under Social Security there is a limit on the amount of monthly benefits that can be paid on the earnings record of one worker. This limit is known as the maximum family benefit (MFB). In retirement and survivor cases, the MFB ranges from 150 percent to 188 percent of the PIA. In disability cases the MFB can be no more than 85 percent of the AIME or 150 percent of the PIA but, in any case, no less than 100 percent of the PIA.

Administration proposal

The present law disability maximum family benefit formula would be extended to retirement and survivors cases for workers reaching age 62 or dying after 1981.

SAVING

[In billions of dollars, calendar years]

	1982	1983	1984	1985	1986
Short-range: OASDI	.1	.5	.6	.8	1.0
Long-range	0.10 percent of taxable payroll				

ELIMINATE "WINDFALL" BENEFITS FOR NONCOVERED EMPLOYMENT

Present law

Social Security benefits for workers with low average earnings are a relatively high proportion (up to 90 percent) of their average earnings under Social Security. However, no distinction is now made between (1) persons who have a lifetime of low earnings in employment covered by Social Security and (2) those who have low average covered earnings when averaged over their potential working lifetimes because they worked only a few years in covered employment (possibly at high wages) and many years in employment not covered by Social Security. Both groups receive the heavily weighted Social Security benefit that is intended for the first group—workers who have been fully dependent on low covered wages during their working lifetimes. The heavily weighted benefit paid to the second group is often referred to as a windfall.

The present law benefit formula for persons who reach age 62 or become disabled in 1981 is: 90 percent of first $211 of AIME, plus 32 percent of AIME over $211 and up to $1,274, plus 15 percent of AIME in excess of $1,274.

Administration proposal

Retired and disabled workers who become eligible for Social Security benefits after 1981 would have their benefit reduced (but not eliminated) if they also receive a pension based on their own earnings in noncovered employment. For such workers, the heavily weighted 90-percent factor in the first band of the benefit formula would be replaced by a factor of 32 percent. There would be a guarantee that the total benefit under the proposal would not be less than the present law Social Security benefit plus 50 percent of the worker's pension based on noncovered employment.

SAVING

[In billions of dollars, calendar years]

	1982	1983	1984	1985	1986
Short-range: OASDI	([1])	.1	.1	.1	.2
Long-range	0.09 percent of taxable payroll				

[1] Less than $50 million.

ELIMINATION OF VOCATIONAL FACTORS

Present law

A person is considered disabled under Social Security and SSI if his medically determinable impairment(s) are of such severity that he is not only unable to do his previous work but cannot, considering his age, education, and work experience, engage in any kind of substantial gainful work which exists in the national economy. Thus, there are two major factors in the disability determination process: (1) the medical, and (2) the nonmedical and vocational. (However, a person can become entitled to disabled widow(er)'s benefits at age 50 only on the basis of medical factors.)

Administration proposal

Provide that an individual would qualify for disability benefits solely on the basis of medical factors. Nonmedical, vocational factors, such as age, education, and work experience would no longer be considered in determining whether or not an individual is disabled. The provision would be effective for entitlement to disability benefits after December 1981 based on disabilities that began after June 1981. The SSI definition of disability would not be changed.

SAVING

[In billions of dollars, calendar years]

	1982	1983	1984	1985	1986
Short-range:					
OASDI	.3	1.1	1.7	2.3	2.7
Long-range	0.06 percent of taxable payroll				

REQUIRE PROGNOSIS OF NOT LESS THAN 24 MONTHS OF DISABILITY

Present law

One requirement to receive Social Security and SSI disability benefits is that an individual's impairment must be expected to result in death or last for a continuous period of not less than 12 months.

Administration proposal

Extends the prognosis-duration requirement from 12 months to 24 months. (The SSI prognosis-duration requirement would not be changed.) The provision would be effective for entitlement to disability benefits after December 1981 based on disability that began after June 1981.

SAVING

[In billions of dollars, calendar years]

	1982	1983	1984	1985	1986
Short-range:					
OASDI	.1	.4	.6	.8	.9
Long-range	0.07 percent of taxable payroll				

INCREASE DISABILITY INSURED-STATUS REQUIREMENT TO 30-OUT-OF-40 QUARTERS

Present law

To be insured for Social Security disability benefits, a worker generally must meet two requirements: (1) he must be "fully insured"—that is, he must have one quarter of coverage for each year after 1950 (or age 21, if later) and up to the year in which he becomes disabled, and (2) a disabled worker aged 31 and older must have 20 quarters of coverage (about 5 years of work covered under Social Security) during the 40-quarter period (10 years) ending with the quarter of disability. A disabled worker under age 31 must have one quarter of coverage for each two quarters elapsing after the year he becomes age 21 and up to the quarter of disability (with a minimum of six quarters of coverage). A blind disabled worker must meet only the "fully insured" requirement.

Administration proposal

Change the 20-out-of-40 quarters requirement so that a person aged 31 and older would need 30 quarters of coverage (about 7½ years of covered work) in the 40-quarter period preceding disability in order to qualify for disability benefits. The disabled worker under age 31 would need 3 quarters of coverage for each 4 quarters elapsing after the year he became age 21 and up to the quarter of disability (a minimum of 6 quarters of coverage would still be required). Effective for disability benefits payable after December 1981 but only if a worker becomes disabled after June 1981.

This 30-out-of-40 proposal would be in addition to the Administration's proposal in connection with the fiscal year 1982 Budget which would require that the worker have 6 quarters of coverage during the last 13-quarter period preceding disability; fully insured status also would be required, as under present law. (The 6-out-of-13 requirement was passed by the Senate as a part of the reconciliation legislation but was not accepted by the conference committee.)

The requirement that a blind worker need only be "fully-insured" would not be changed.

SAVING

[In billions of dollars, calendar years]

	1982	1983	1984	1985	1986
Short-range:					
OASDI	.2	.8	1.7	2.7	3.5
Long-range	0.19 percent of taxable payroll				

INCREASE WAITING PERIOD TO 6 MONTHS

Present law

Social Security disability benefits are not payable until the worker (or widow(er) aged 50–59) has been totally disabled throughout a waiting period of 5 full calendar months.

Administration proposal

Increase the waiting period from 5 to 6 full calendar months. Effective with respect to benefits that begin after December 1981 for those who became disabled after June 1981.

SAVING

[In billions of dollars, calendar years]

	1982	1983	1984	1985	1986
Shortrange:					
OASDI	.1	.3	.3	.3	.3
Long-range	0.03 percent of taxable payroll				

MOVE DATE FOR AUTOMATIC BENEFIT INCREASES FROM JUNE TO SEPTEMBER

Present law

The automatic cost-of-living increase is effective for the month of June, payable at the start of July. The amount of the increase is equal to the percentage by which the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI) for the first quarter of the current calendar year has increased over the average of the CPI for the first quarter of the previous calendar year. No cost-of-living increases is paid unless the increase in the CPI is at least 3 percent. The June 1981 increase was 11.2 percent, and current projections indicate that the June 1982 increase will be 9.3 percent.

The data for calculating the increase first become available late in April when the Bureau of Labor Statistics announces the March CPI increase. The correct percentage increase must be incorporated immediately into the many computer programs which are used to increase benefits payable in the July check.

Cost-of-living increases in the SSI payment levels are coordinated with the Social Security increases and are payable in early July of each year. (Cost-of-living increases in Social Security benefits also can have an effect on the amount of the annual increase in the SMI premium, which also occurs for each July.)

Administration proposal

Effective with the 1982 increase, the Social Security and SSI cost-of-living increases would be changed to a fiscal-year basis. Annual Social Security benefit increases would be provided for the month of September, payable in October of each year. In addition, the Consumer Price Index for All Urban Consumers (CPI–U) would be used instead of the CPI.

SAVING

[In billions of dollars, calendar years]

	1982	1983	1984	1985	1986
Short-range: Federal OASDI	3.3	2.8	2.7	2.5	2.1
Long-range	0.12 percent of taxable payroll				

PHASE OUT RETIREMENT EARNINGS TEST BY 1986

Present law

The earnings test applies to people under age 72 (age 70 in 1983 and after). If a beneficiary's earnings exceed an an' ıal exempt amount, Social Security benefits are reduced $1 for each $2 in earnings above that amount. The exempt amount for those age 65 up to the exempt age is $5,500 in 1981 and $6,000 in 1982, with future increases tied to increases in average wages. (The exempt amount is lower for those under age 65.)

Administration proposal

Phase out the earnings test over a 3-year period for those age 65 and over by increasing the exempt amount to $10,000 in 1983, $15,000 in 1984 and $20,000 in 1985. Eliminate the test entirely for persons aged 65 and and over beginning in 1986. The proposal would also elminate, after 1985, the delayed retirement credit in present law, which increases the benefits payable to a worker who loses benefits after age 65 (except as to such credits earned before 1986).

COST

[In billions of dollars, calendar years]

	1982	1983	1984	1985	1986
Short-range: OASDI		.6	1.2	2.0	3.1
Long-range	0.14 percent of taxable payroll				

MODIFICATION OF PROVISION REDUCING DISABILITY BENEFITS ON ACCOUNT OF OTHER BENEFITS

Present law

Under present law, an individual entitled to social security disability benefits may have those benefits reduced if he also receives worker's compensation or certain other benefits. The reduction is such as to assure that the combined benefits do not exceed 80 percent of his "average current earnings" (ACE).

There are three methods in present law for determining an individual's ACE: (1) the average monthly wage (AMW) as it would have been determined for purposes of the pre-1977 social security benefit formula; (2) the average of the 5 consecutive years after 1950 with the highest earnings; and (3) the one calendar year in which the worker's earnings were highest, selected from the period consisting of the year of onset and the 5 preceding years. The method used is the one which results in the highest ACE. Indexed earnings are not used in any of the three methods for determining the ACE. Only covered earnings are used in computing the ACE, except that earnings above the contribution and benefit base are used if they would otherwise have been covered.

Administration proposal

Eliminate the use of AMW as a method for measuring ACE with respect to entitlements to disability benefits for months beginning after December 1981, but only in cases of individuals who become disabled after June 1981.

Savings

Negligible.

INTERFUND BORROWING

Present law

The distribution of social security tax collections among the OASI, DI, and HI trust funds is specified by law. Once amounts have been placed in each of these trust funds they may be withdrawn only to meet the costs of operating the particular program which the trust fund supports. Surplus funds in one of the trust funds may not be given or loaned to another trust fund.

Administration proposal

The Managing Trustee of the Federal Old-Age and Survivors Insurance Trust Fund or the Federal Disability Insurance Trust Fund could borrow from either such fund for the benefit of the other fund if he considers that the amounts in the other fund are unduly small. The Managing Trustee may also borrow from the Federal Hospital Insurance Trust Fund on behalf of either the OASI or the DI Trust Fund (but may not borrow on behalf of the HI trust fund).

Interest on any such loan would be payable by the borrowing fund to the lending fund as though the lending fund had made an investment of the type currently authorized (i.e., in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States).

If the Managing Trustees determines that the assets of a borrowing fund are sufficiently large, the lending fund may be repaid from those assets so much as deemed appropriate.

Saving

Not applicable.

REDUCE SOCIAL SECURITY TAXES

The following table compares the tax rate schedule under present law, and the Administration proposal.

Period	OASDHI tax rate schedule (percent), employers and employees, each	
	Present law	Administration proposals
1981	6.65	6.65
1982–84	6.70	6.70
1985	7.05	6.85
1986–89	7.15	7.05
1990–2019	7.65	6.45
2020 and after	7.65	7.55

Administration proposal

Each October beginning in 1982, the Secretary of the Treasury will determine the combined assets of the OASDI funds. If the combined assets are less than 55 percent of expenditures for the 12-month period ending June 30th of that year, OASDI tax rates for the following year will remain as under then-current law. Whenever the combined assets have increased from the previous year and exceed 55 percent, the OASDI tax rate for employees and employers, each, for the following year will be reduced by 0.20 percent, and the tax rate for the self-employed will be reduced by 0.30 percent. Once tax rates have been reduced by this procedure, the following provisions apply:—If the combined assets fall between 50 and 55 percent, then the OASDI tax rate for the following year will be the same as the tax rate of the current year. If the combined assets are less than 50 percent, then the rate for the following year will be increased by 0.20 percent for employees and employers, each, and by 0.30 percent for the self-employed.

TABLE 30.—ESTIMATED OPERATIONS OF THE OASI, DI, AND HI TRUST FUNDS AS MODIFIED BY THE ADMINISTRATION'S FINANCING REFORM PROPOSALS 1980–90

(Amounts in billions)

Calendar year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980.......	$105.8	$13.9	$119.7	$26.1	$145.8	$107.7	$15.9	$123.5	$25.6	$149.1
1981.......	123.3	17.0	140.2	35.3	175.5	127.0	18.0	145.0	29.5	174.5
1982.......	139.8	17.5	157.3	40.4	197.7	138.8	18.2	157.0	33.7	190.7
1983.......	158.1	17.7	175.8	45.4	221.3	155.3	17.8	173.0	39.2	212.2
1984.......	176.9	17.7	194.6	50.5	254.1	172.9	17.5	190.4	45.3	235.7
1985.......	204.1	18.0	222.1	57.4	279.5	191.8	16.9	208.7	52.3	261.0
1986.......	223.9	19.6	243.6	66.7	310.3	211.0	16.8	227.8	59.9	287.7
1987.......	243.6	21.6	265.1	72.6	337.7	229.3	16.5	245.7	68.1	313.9
1988.......	263.0	23.6	286.6	78.0	364.6	246.4	16.3	262.7	77.1	339.8
1989.......	282.3	25.7	308.1	83.0	391.0	262.6	15.8	278.5	86.2	364.6
1990.......	269.2	28.2	297.4	87.9	385.3	278.0	15.6	293.6	96.6	390.2

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980.......	−$1.8	−$2.0	−$3.8	$0.5	−$3.3	$22.8	$3.6	$26.5	$13.7	$40.2	23	35	25	52	29
1981.......	−3.7	−1.1	−4.7	5.8	1.0	19.1	2.6	21.7	19.5	41.2	18	20	18	47	23
1982.......	1.0	−.7	.3	6.7	7.0	20.2	1.8	22.0	26.2	48.2	14	14	14	58	22
1983.......	2.9	−.1	2.8	6.3	9.1	23.0	1.8	24.8	32.5	57.3	13	10	13	67	23
1984.......	4.1	.1	4.2	5.1	9.4	27.1	1.9	29.0	37.6	66.6	13	10	13	72	24
1985.......	12.3	1.1	13.4	5.1	18.5	39.4	3.0	42.4	42.7	85.1	14	11	14	72	26
1986.......	13.0	2.8	15.8	6.9	22.6	52.4	5.8	58.2	49.6	107.8	19	18	19	71	30
1987.......	14.3	5.1	19.4	4.5	23.9	66.7	10.9	77.6	54.0	131.6	23	35	24	73	34
1988.......	16.6	7.3	23.9	.9	24.8	83.3	18.2	101.5	54.9	156.4	27	67	30	70	39
1989.......	19.7	9.9	29.6	−3.2	26.4	103.0	28.1	131.1	51.7	182.8	32	115	36	64	43
1990.......	−8.8	12.6	3.8	−8.7	−5.0	94.2	40.7	134.9	43.0	177.9	37	180	45	54	47

Note: The estimates are based on the intermediate (II-B) assumptions in the 1981 Trustees Report.

Source: Office of the Actuary, SSA, September 1981.

TABLE 31A.—ESTIMATED AMOUNT OF REDUCTION IN OASDHI BENEFIT PAYMENTS THAT WOULD RESULT FROM THE ADMINISTRATION'S FINANCING REFORM PROPOSALS, BY PROVISION, 1982-90

(In billions)

Proposal [1]	Calendar year—									
	1982	1983	1984	1985	1986	1987	1988	1989	1990	1982-90
OASDI:										
1. Change computation point for AIME from age 62 to 65	(²)	$0.1	$0.2	$0.4	$0.7	$1.1	$1.6	$2.2	$2.9	$9.2
2. Increase PIA formula bendpoints by 50 percent (instead of 100 percent) of wage increases in 1982-87	(²)	.2	.6	1.3	2.3	3.8	5.6	7.7	10.1	31.6
3. Pay benefit rate of 55 percent of PIA for retired workers (and 27½ percent for spouses) at age 62	$0.6	1.9	3.7	5.4	7.0	8.6	10.4	12.0	13.6	63.2
4. Eliminate benefits for children of retired workers aged 62 to 64	(²)	.3	.4	.5	.6	.6	.7	.7	.8	4.6
5. Apply DI family maximum to OASI cases	.1	.5	.6	.8	1.0	1.1	1.3	1.5	1.7	8.6
6. Eliminate "windfall portion" of benefits for persons with pensions from noncovered employment	(²)	.1	.1	.1	.2	.2	.3	.4	.5	1.9
7. Require "medical only" determination of disability (i.e., exclude vocational factors)	.3	1.1	1.7	2.3	2.7	3.4	4.0	4.7	5.3	25.5
8. Increase DI waiting period from 5 to 6 mo	.1	.3	.3	.3	.3	.4	.4	.5	.5	3.1

9. Require disability prognosis of 24+ mo (instead of 12 mo)	.1	.4	.6	.8	.9	1.0	1.1	1.2	1.3	7.4
10. Require currently insured status for DI benefits	([2])	.1	.4	.7	1.0	1.4	1.7	2.0	2.3	9.6
11. Require 30 quarters of coverage out of last 40 quarters for disability benefits (instead of 20/40)	.2	.3	1.7	2.7	3.5	4.3	5.2	6.1	6.9	31.4
12. Move date for automatic benefit increase from June to September (and use 12-mo average)	3.3	2.8	2.7	2.5	2.1	1.7	1.2	.5	.1	16.9
13. Raise retirement test exempt amount for age 65+ to $10,000 in 1983, $15,000 in 1984, $20,000 in 1985, and eliminate test in 1986		−.6	−1.2	−2.0	−3.1	−3.5	−3.7	−3.9	−4.1	−22.1
14. Cover sick pay in first 6 mo.[3]	.4	.4	.5	.6	.6	.7	.7	.8	.9	5.6
OASDI reduction subtotal, taking account of interaction	4.8	7.6	11.0	14.8	18.0	22.7	28.0	33.6	39.6	180.1
Effect of Administration proposals on HI:										
HI reduction subtotal, taking account of interaction		([2])	.2	.5	1.0	1.4	1.8	2.3	2.8	10.0
Income	(.1)	(.1)	(.1)	(.1)	(.1)	(.1)	(.2)	(.2)	(.2)	(1.2)
Composite OASDI and HI totals	4.8	7.6	11.2	15.3	19.0	24.1	29.8	35.9	42.4	190.1

[1] Except where noted, amounts shown are estimated reductions in OASDI benefit payments.
[2] Less than $50,000,000.
[3] Represents additional social security tax income, including HI.

Note: The estimates are based on the intermediate (II-B) assumptions in the 1981 Trustees Report. Total amounts shown represent net effect of all proposals *after* interaction. Figures shown for the individual proposals do *not* include the effect of interaction with the other proposals.

Source: Office of the Actuary, SSA, and HCFA, September 1981.

Staff note: Previous references to resources needed by 1986 and by 1990 to reach certain reserve levels assume the effects of new legislation only through 1985 and 1989, respectively (not through 1990). Therefore, readers should be cautious about using cumulative savings refleced in this table to assess the level of reserves reached by one or more of the proposals listed above.

TABLE 31-B.—ESTIMATED CHANGE IN LONG-RANGE OASDI COST UNDER THE ADMINISTRATION'S FINANCING REFORM PROPOSALS

[In percent]

Item	OASI	DI	OASDI
Estimated long-range OASDI cost under present law[1]	12.42	1.48	13.90
Estimated change in long-range cost, by proposal:[2]			
Change computation point for AIME from age 62 to age 65	−.28	−.01	−.28
Increase reduction for early retirement to 11/4 percent per month for retired worker and aged spouse beneficiaries	−.75	.04	−.71
Reduce PIA for persons with pensions from noncovered employment	−.09	(3)	−.09
Require 24-mo disability prognosis (instead of 12 mo)	(3)	−.07	−.07
Require medical only determination of disability (i.e. eliminate vocational factors)	(3)	−.06	−.06
Increase disability waiting period from 5 to 6 mo.	(3)	−.03	−.03
Require currently insured status for DI benefits.	(3)	−.08	−.09
Require 30 QC out of last 40 quarters for DI benefits (instead of 20/40)	−.02	−.18	−.19
Remove AMW computation from definition of ACE		(3)	(3)
Eliminate benefits for children of retired workers aged 62 to 64	−.02	(3)	−.02
Extend DI maximum family benefit to OASI beneficiaries	−.10	(3)	−.10
Increase PIA formula bend points by 50 percent (instead of 100 percent) of wage increases, 1982 through 1987	−1.19	−.14	−1.33
Apply automatic benefit increases for September (instead of June)	−.11	−.01	−.12
Cover sick pay in first 6 mo	−.02	(3)	−.02
Phase out earnings test for persons age 65 and older	−.14	(3)	+.14
Interfund borrowing between OASI and DI trust funds and from HI fund	(3)	(3)	(3)
Total estimated effect of the administration's financing reform proposals	−2.27	−.43	−2.70
Estimated OASDI long-range cost assuming enactment of the administration's financing reform proposals	10.15	1.05	11.20

[1] Present law estimates include the estimated effects of enactment of Public Law 97-35, the "Omnibus Budget Reconciliation Act of 1981."

[2] Estimates for individual proposals do not include interaction. Total estimated effect includes interaction among proposals.

[3] Estimated long-range cost or income effect is less than 0.005 percent of taxable payroll.

Note: Estimates are 75-year average (1981-2055) cost or income effect as a percentage of taxable payroll based on the Alternative II-B assumptions of the 1981 Trustees Report.

TABLE 32.—SELECTED ESTIMATES RELATING TO THE OASDI PROGRAM, CALENDAR YEARS 1980–1986[1]

Item	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
1. Contribution and benefit base:											
(a) Present law	$25,900	$29,700	$32,100	$35,400	$38,700	$42,600	$46,200	$49,800	$53,400	$57,000	$60,600
(b) Old law, prior to 1977 amendments[2]	$20,400	$22,200	$24,000	$26,400	$28,800	$31,500	$34,200	$36,900	$39,600	$42,300	$45,000
2. Average wages for indexing purposes	$12,454	$13,729	$15,045	$16,509	$17,961	$19,418	$20,838	$22,253	$23,627	$24,920	$26,263
3. Number of workers in covered employment (in millions)	115.1	115.7	118.5	121.0	123.0	125.0	126.9	128.7	130.4	132.2	1 3.9
4. Percentage of covered workers with earnings entirely below the taxable maximum	91.5	92.5	92.2	92.3	92.5	92.9	93.1	93.4	93.6	93.8	94.0
5. Percentage of covered earnings which are taxable	88.4	89.2	89.0	89.2	89.3	89.7	89.9	90.1	90.3	90.5	90.6
6. Total amount of taxable earnings (in billions)	$1,175	$1,310	$1,466	$1,643	$1,817	$2,002	$2,184	$2,368	$2,549	$2,728	$2,914
7. Average benefit payable to retired workers in current-payment status at end of December:											
(a) In current dollars[1]	$341	$386	$424	$467	$511	$554	$595	$634	$670	$703	$733
(b) In constant December 1981 dollars	$376	$386	$388	$393	$399	$404	$409	$413	$417	$421	$422

[1] Based on the intermediate II–B assumptions in the 1981 trustees' report.
[2] These amounts represent the levels to which the earnings base would have risen automatically if ad hoc increases had not been enacted in 1977.

Source: Office of the Actuary, SSA.—August 1981.

TABLE 33.—SOCIAL SECURITY TAXES PAID BY WAGE AND SALARIED WORKERS IN SELECTED YEARS, 1960-90

Worker with annual wages of:	Amount of worker's social security tax liability in calendar years					
	1960	1970	1975	1981	1986 [1]	1990 [1]
$ 5,000	$144	$240.00	$292.50	$332.50	$357.50	$382.50
$10,000	144	374.40	824.85	665.00	715.00	765.00
$20,000	144	374.40	824.85	1,330.00	1,430.00	1,530.00
$30,000	144	374.40	824.85	1,975.05	2,145.00	2,295.00
$40,000	144	374.40	824.85	1,975.05	2,860.00	3,060.00
$50,000	144	374.40	824.85	1,975.05	3,303.30	3,825.00

[1] Based on 1986 and 1990 taxable earnings bases of $46,200 and $60,600 projected under the intermediate II-B assumptions of the 1981 trustees' report and current law tax rates.

TABLE 34.—SOCIAL SECURITY TAXES PAID BY SELF-EMPLOYED WORKERS IN SELECTED YEARS, 1960-90

Self-employed worker with annual earnings of:	Amount of worker's social security tax liability in calendar years					
	1960	1970	1975	1981	1986 [1]	1990 [1]
$5,000	$216	$345.00	$395.00	$465.00	$500	$537.50
$10,000	216	538.20	790.00	930.00	1,000	1,075.00
$20,000	216	538.20	1,113.90	1,860.00	2,000	2,150.00
$30,000	216	538.20	1,113.90	2,752.10	3,000	3,225.00
$40,000	216	538.20	1,113.90	2,762.10	4,000	4,300.00
$50,000	216	538.20	1,113.90	2,762.10	4,620	5,375.00

[1] Based on 1986 and 1990 taxable earnings bases of $46,200 and $60,600 projected under the intermediate II-B assumptions of the 1981 trustees' report.

TABLE 35.—HISTORICAL AND PROJECTED FUTURE CHANGES IN LIFE EXPECTANCY OF AN AGE 65 RETIREE, 1940 TO 2040

Year	Male (years)	Female (years)
Life expectancy of worker retiring at 65 in:		
1940	12.1	13.6
1950	12.7	15.0
1960	13.0	15.8
1980	14.2	18.8
2000	15.5	21.2
2020	16.1	22.0
2040	16.6	22.8

Source: Office of the Actuary, SSA, June 1981.

TABLE 36.—DEMOGRAPHIC ASSUMPTIONS, 1960-2055

Calendar year	Total fertility rate [1]	Age-adjusted mortality rate [2]		Age-adjusted gross disability incidence rate [3]	
		Male	Female	Male	Female
Past experience:					
1960	3,608	12.56	8.17	4.68	3.34
1965	2,885	12.49	7.73	4.94	3.52
1970	2,432	12.18	7.22	5.05	3.60
1975	1,770	11.09	6.38	7.51	6.05
1976	1,745	10.94	6.32	6.94	5.43
1977	1,795	10.69	6.13	7.11	5.42
1978	1,764	10.61	6.10	5.77	4.26
1979 [4]	1,812	10.27	5.88	4.97	3.67
1980 [4]	1,845	10.27	5.88	4.66	3.44
Optimistic:					
1981	1,867	10.19	5.82	4.52	3.34
1982	1,889	10.12	5.76	4.53	3.35
1983	1,912	10.04	5.71	4.57	3.37
1984	1,934	9.97	5.65	4.60	3.40
1985	1,956	9.89	5.59	4.63	3.42
1990	2,067	9.57	5.36	4.78	3.53
1995	2,178	9.35	5.21	4.80	3.54
2000	2,289	9.24	5.14	4.81	3.55
2005 and later	2,400	[5] 9.15	[5] 5.09	4.81	3.55
Intermediate II-A and II-B:					
1981	1,855	10.12	5.77	4.61	3.41
1982	1,865	9.97	5.66	4.66	3.44
1983	1,876	9.82	5.54	4.75	3.51
1984	1,886	9.67	5.43	4.85	3.58
1985	1,896	9.52	5.32	4.94	3.65
1990	1,947	8.91	4.89	5.34	3.94
1995	1,998	8.51	4.63	5.46	4.03
2000	2,049	8.31	4.50	5.49	4.05
2005 and later	2,100	[5] 8.16	[5] 4.41	5.49	4.05

See footnotes at end of table.

TABLE 36.—DEMOGRAPHIC ASSUMPTIONS, 1960-2055

Calendar year	Total fertility rate[1]	Age-adjusted mortality rate[2]		Age-adjusted gross disability incidence rate[3]	
		Male	Female	Male	Female
Pessimistic:					
1981	1,839	9.98	5.67	4.71	3.47
1982	1,833	9.69	5.46	4.78	3.53
1983	1,828	9.39	5.24	4.94	3.65
1984	1,822	9.10	5.03	5.09	3.76
1985	1,816	8.81	4.82	5.25	3.87
1990	1,787	7.73	4.07	5.91	4.36
1995	1,758	7.06	3.64	6.17	4.56
2000	1,729	6.72	3.45	6.24	4.60
2005 and later	1,700	[5] 6.49	[5] 3.31	6.24	4.60

[1] The total fertility rate for any year is the number of children who would be born to 1,000 women in their lifetime if they were to experience the birth rates by age assumed for the selected year and if they were to survive the entire child-bearing period.

[2] The age-adjusted mortality rate for any year is the annual number of deaths per 1,000 persons that would have occurred in the enumerated total population as of Apr. 1, 1970, if that population had experienced the death rates by age assumed for the selected year.

[3] The age-adjusted gross disability incidence rate for any year is the annual number of awards per 1,000 persons that would have occurred in the total population exposed to disability during 1976, if that population had experienced the disability incidence rates by age assumed for the selected year.

[4] Preliminary.

[5] This value is for the year 2005. Mortality rates are assumed to continue declining during the remainder of the projection period. For men, the rates in 2005 are 8.46, 6.98, and 6.98, under optimistic, Intermediate 11-A and 11-B, and Pessimistic assumptions, respectively. For women, the corresponding rates are 4.63, 3.66, 3.66, and 2.30.

Source: 1981 OASDI Trustees' Report.

TABLE 37.—LONG RANGE WORKER TO BENEFICIARY RATIOS, 1945–2055

Calendar year	Covered workers [1] (in thousands)	Beneficiaries [2] (in thousands)			Covered workers per OASDI beneficiary	Beneficiaries per 100 covered workers
		OASI	DI	Total		
1945	46,390	1,106		1,106	41.9	2
1950	48,280	2,930		2,930	16.5	6
1955	65,200	7,563		7,563	8.6	12
1960	72,530	13,740	522	14,262	5.1	20
1965	80,680	18,509	1,648	20,157	4.0	25
1970	93,090	23,185	2,568	25,753	3.6	28
1975	100,200	27,244	4,125	31,369	3.2	31
1980	115,110	30,384	4,734	35,118	3.3	31
Optimistic:						
1981	115,962	31,072	4,697	35,769	3.2	31
1985	127,820	33,697	4,475	38,172	3.3	30
1990	137,654	36,886	4,358	41,244	3.3	30
1995	140,702	38,281	4,603	42,884	3.3	30
2000	146,317	39,280	5,122	44,402	3.3	30
2005	151,773	40,814	5,394	46,208	3.3	30
2010	156,133	44,061	5,974	50,035	3.1	32
2015	158,994	49,322	6,356	55,678	2.9	35
2020	161,418	55,549	6,527	62,076	2.6	38
2025	164,581	61,716	6,431	68,147	2.4	41
2030	169,142	65,608	6,217	71,825	2.4	42
2035	174,339	67,055	6,216	73,271	2.4	42
2040	180,178	66,564	6,470	73,034	2.5	41
2045	186,370	66,457	6,852	73,309	2.5	39
2050	192,869	67,627	7,105	74,732	2.6	39
2055	199,652	69,365	7,257	76,622	2.6	38
Intermediate II–A:						
1981	115,748	31,072	4,697	35,679	3.2	31
1985	125,838	33,786	4,519	38,305	3.3	30
1990	134,556	37,260	4,750	42,010	3.2	31
1995	138,153	39,076	5,014	44,090	3.1	32
2000	143,732	40,504	5,690	46,194	3.1	32
2005	148,714	42,449	6,353	48,802	3.0	33
2010	152,055	46,109	7,057	53,166	2.9	35
2015	153,475	51,834	7,509	59,343	2.6	39
2020	153,940	58,624	7,703	66,327	2.3	43
2025	154,650	65,470	7,561	73,031	2.1	47
2030	155,730	70,062	7,250	77,312	2.0	50
2035	157,554	72,222	7,173	79,395	2.0	50
2040	159,683	72,368	7,352	79,720	2.0	50
2045	161,755	72,796	7,628	80,424	2.0	50
2050	163,708	74,016	7,721	81,737	2.0	50
2055	165,682	75,305	7,697	83,002	2.0	50

See footnotes at end of table.

TABLE 37.—LONG RANGE WORKER TO BENEFICIARY RATIOS, 1945–2055

Calendar year	Covered workers[1] (in thousands)	Beneficiaries[2] (in thousands) OASI	DI	Total	Covered workers per OASDI beneficiary	Beneficiaries per 100 covered workers
Intermediate II-B:						
1981	115,738	31,072	4,697	35,769	3.2	31
1985	124,998	33,724	4,519	38,243	3.3	31
1990	133,873	37,067	4,750	41,817	3.2	31
1995	137,438	39,073	5,014	44,087	3.1	32
2000	143,481	40,502	5,686	46,188	3.1	32
2005	148,446	42,440	6,349	48,789	3.0	33
2010	151,784	46,102	7,056	53,158	2.9	35
2015	153,207	51,824	7,506	59,330	2.6	39
2020	153,679	58,604	7,697	66,301	2.3	43
2025	154,287	65,468	7,558	73,026	2.1	47
2030	155,465	70,046	7,247	77,293	2.0	50
2035	157,284	72,214	7,170	79,384	2.0	50
2040	159,410	72,368	7,350	79,718	2.0	50
2045	161,483	72,780	7,626	80,406	2.0	50
2050	163,429	74,011	7,720	81,731	2.0	50
2055	165,399	75,307	7,696	63,003	2.0	50
Pessimistic:						
1981	115,599	31,072	4,696	35,768	3.2	31
1985	123,181	33,827	4,560	38,387	3.2	31
1990	131,608	37,699	4,958	42,657	3.1	32
1995	135,537	40,694	5,355	46,049	2.9	34
2000	141,172	43,071	6,175	49,246	2.9	35
2005	145,630	45,978	7,433	53,411	2.7	37
2010	147,754	50,678	8,268	58,946	2.5	40
2015	147,402	57,516	8,797	66,313	2.2	45
2020	145,415	65,573	9,005	74,578	1.9	51
2025	142,871	73,945	8,794	82,739	1.7	58
2030	140,452	80,118	8,344	88,462	1.6	63
2035	138,390	83,941	8,135	92,076	1.5	67
2040	136,364	85,739	8,168	93,907	1.5	69
2045	133,991	87,671	8,240	95,911	1.4	72
2050	131,247	89,858	8,056	97,914	1.3	75
2055	128,446	91,238	7,739	98,977	1.3	77

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

Source: 1981 OASDI Trustees' Report.

TABLE 38.—ECONOMIC ASSUMPTIONS 1960-2055

Calendar years	Average annual percentage increase in— Real GNP [1]	Average wages in covered employment	Consumer price index	Real wage differential [2] (percent)	Average annual interest rate [3] (percent)	Average annual unemployment rate
Past experience:						
1960-64	4.0	3.4	1.3	2.1	3.7	5.7
1965-69	4.4	5.4	3.4	2.0	5.2	3.8
1970-74	2.8	6.3	6.1	.2	6.7	5.4
1975-79	3.5	[4] 7.8	8.1	[4] -.3	7.8	7.0
1980	-.1	[4] 8.5	13.5	[4] -5.0	11.0	7.1
Optimistic:						
1981	1.7	10.6	10.7	-0.1	11.4	7.7
1982	4.8	9.6	8.3	1.3	9.4	7.1
1983	5.3	9.1	6.5	2.6	8.1	6.5
1984	4.7	7.6	5.0	2.6	7.1	6.0
1985	4.4	6.8	4.1	2.7	6.4	5.7
1990	3.9	4.6	2.0	2.6	5.0	5.2
1995	3.2	4.5	2.0	2.5	5.1	4.5
2000 and later	[5] 3.5	4.5	2.0	2.5	5.1	4.0
Administration 1981 mid-session:						
1981	2.6	9.8	9.9	-0.1	....	7.5
1982	3.4	10.4	7.0	3.2	....	7.3
1983	5.0	8.4	5.7	2.5	....	6.6
1984	4.5	7.7	5.2	2.4	....	6.2
1985	4.2	7.1	4.6	2.4	....	5.8
1986	4.2	6.9	4.2	2.6	....	5.5
Intermediate II-A: [6]						
1981	1.1	10.2	11.1	-0.9	10.9	7.8
1982	4.2	9.8	8.3	1.5	9.6	7.2
1983	5.0	8.6	6.2	2.4	8.9	6.6
1984	4.5	7.9	5.5	2.4	8.1	6.4
1985	4.2	7.1	4.7	2.4	7.3	5.9
1990	3.4	5.1	3.0	2.1	5.6	5.5
1995	2.8	5.0	3.0	2.0	5.6	5.0
2000 and later	[5] 3.1	5.0	3.0	2.0	5.6	5.0

See footnotes at end of table.

TABLE 38.—ECONOMIC ASSUMPTIONS 1960–2055—Continued

Calendar years	Average annual percentage increase in— Real GNP[1]	Average wages in covered employment	Consumer price index	Real wage differential[2] (percent)	Average annual interest rate[3] (percent)	Average annual unemployment rate
Intermediate II-B:						
1981	1.1	10.2	11.1	−.9	11.4	7.8
1982	3.7	9.6	9.4	.2	9.9	7.5
1983	3.5	9.7	9.0	.7	9.1	7.2
1984	2.9	8.8	8.2	.6	8.4	7.0
1985	2.9	8.1	7.4	.7	7.9	6.8
1990	3.0	5.4	4.0	1.4	6.1	5.9
1995	2.4	5.5	4.0	1.5	6.1	5.4
2000 and later	[5] 2.7	5.5	4.0	1.5	6.1	5.0
Pessimistic:						
1981	.7	11.5	12.6	−1.1	12.0	7.9
1982	1.1	10.9	12.5	−1.6	10.9	8.0
1983	2.2	11.1	11.1	0	10.2	8.8
1984	3.9	11.4	10.7	.7	9.7	7.9
1985	3.0	10.1	9.7	.4	9.2	7.4
1990	2.4	8.2	7.4	.8	7.7	6.3
1995	2.3	6.4	5.4	1.0	6.8	6.0
2000 and later	[5] 2.2	6.0	5.0	1.0	6.6	6.0
"Worst-case":						
1981	−.1	10.6	12.8	−2.2	12.1	8.3
1982	.7	11.0	13.6	−2.6	11.1	8.7
1983	.7	10.3	11.6	−1.3	10.4	9.7
1984	4.4	12.0	10.9	1.1	9.8	9.1
1985	4.4	10.4	9.7	.7	9.2	8.0
1986	3.4	9.2	8.6	.6	8.6	7.4

[1] The real GNP (Gross National Product) is the total output of goods and services expressed in constant dollars.
[2] The difference between the percentage increase in average annual wages in covered employment and the percentage increase in the average annual CPI.
[3] The average of the interest rates determined in each of the 12 months of the year for special public-debt obligations issuable to the trust funds.
[4] Preliminary.
[5] This value is for the year 2000. The annual percentage increase in real GNP is assumed to continue to change after 2000 under each alternative so as to reflect the dependence of labor force growth on the size and age-sex distribution of the population. The percentage increases for 2055 are 3.4, 2.5, 2.1, and 0.9 for Optimistic, Intermediate II-A and II-B, and Pessimistic, respectively.
[6] The economic assumptions in Intermediate II-A for 1981–86 are identical to or derived from the assumptions underlying the President's fiscal year 1982 budget.

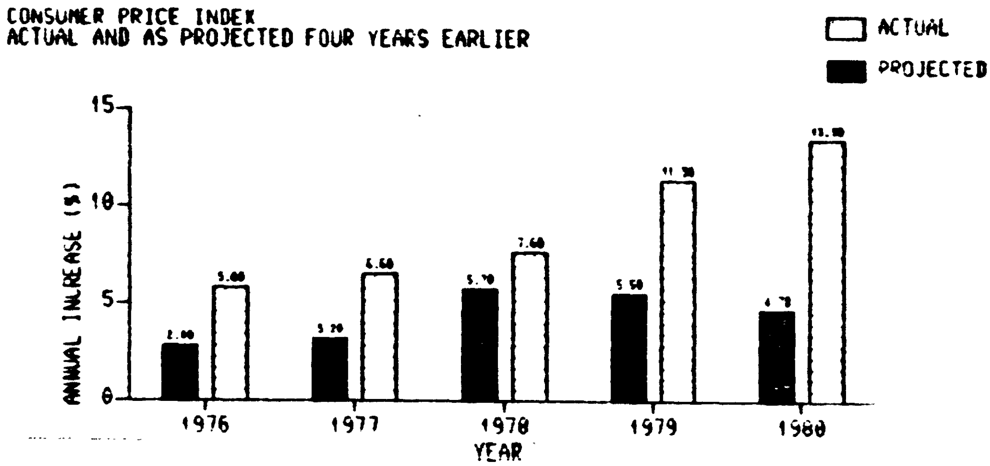
TABLE 39.—ADDITIONAL TAX CONTRIBUTION INCOME TO THE OASI, DI, AND HI TRUST FUNDS RESULTING FROM SCHEDULED INCREASES IN TAX RATES AND THE TAXABLE EARNINGS BASE FOR 1982 AND LATER, 1982–90

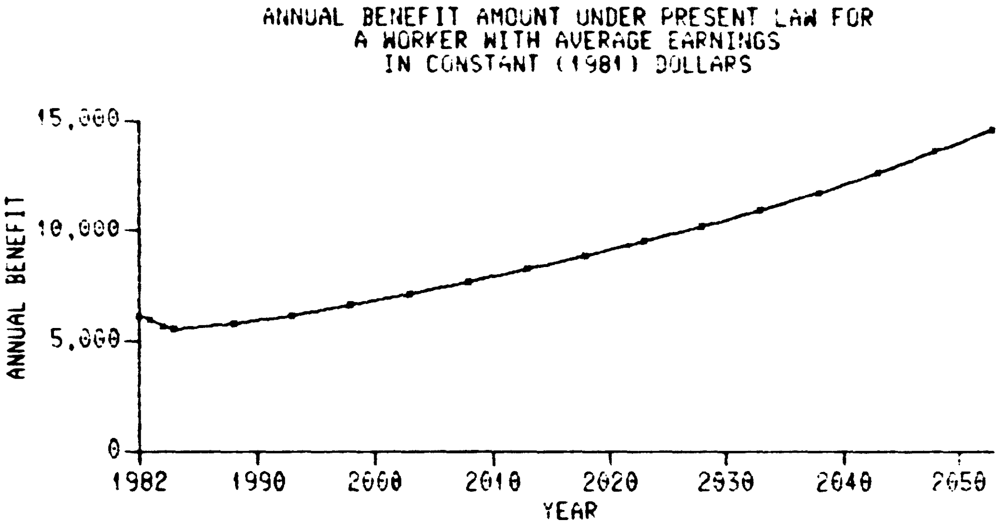
[In billions]

Calendar year	Additional tax contributions due to— Increases in the taxable earnings base over the 1981 level: OASDI	HI	Total	Increases in tax rates over the 1981 level: OASDI	HI	Total
1982	$2.1	$0.5	$2.6	$1.3		$1.3
1983	6.2	1.5	7.7	1.6		1.6
1984	11.5	2.7	14.2	1.7		1.7
1985	19.2	4.5	23.7	13.0	$1.8	14.8
1986	27.2	6.8	34.0	15.0	6.1	21.1
1987	36.0	9.0	45.0	16.2	6.8	23.1
1988	45.4	11.3	56.7	17.5	7.4	24.9
1989	55.1	13.8	68.9	18.7	7.9	26.6
1990	70.9	16.5	87.4	46.9	8.4	55.4

Note: The above estimates are based on the economic assumptions underlying the intermediate II–B case in the 1981 Trustees' Report.

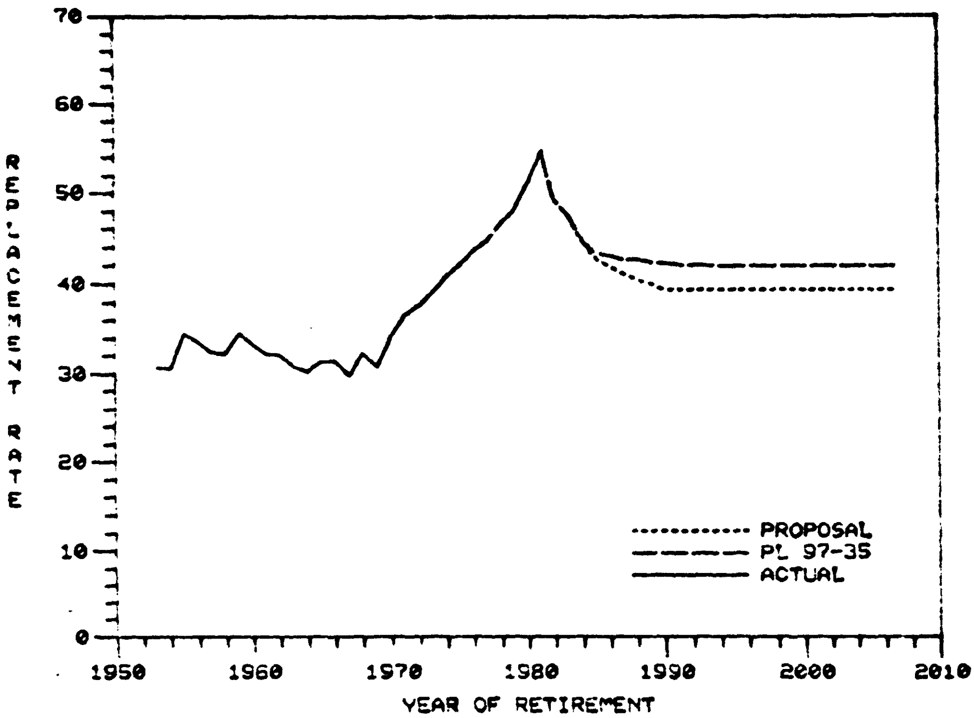
Source: Office of the Actuary, SSA, Aug. 14, 1981.





Based on 1981 Trustees' Intermediate II-B Assumptions: See table 29.

REPLACEMENT RATES FOR STEADY WORKERS (1953 - 2007)
WORKER RETIRING AT AGE 65 WITH AVERAGE EARNINGS HISTORY



APPENDIX

DIFFICULTY OF PREDICTING NEAR TERM STATUS OF TRUST FUNDS[1]

The Use of Economic Assumptions in Social Security Projections

The Social Security Act requires an annual report from the Social Security Board of Trustees on the financial condition of the social security programs, including both near and long-term forecasts. The near term projections encompass the five year period following the year of the Report. The long term forecasts, consisting of what the law refers to as "a report on the actuarial status of the trust funds", encompass a period extending 75 years into the future. Making such forecasts requires the social security actuaries to evaluate numerous varied factors which could influence the future financial condition of the programs. They include such things as rates of fertility and mortality, immigration, trends in retirement, the incidence of disability, family composition, labor force participation, inflation, earnings levels, unemployment as well as numerous other factors.

Since 1972 when the automatic benefit increase provisions were enacted, the economic assumptions used in making these future projections have been made on what is known as a "dynamic" basis. Instead of assuming little or no future change in the condition of the economy from the state it is in at the time the projections are made, the current forecasting procedure assumes the economy will continue to grow along a path suggested by past behavior and recent trends. The old "static economy" methodology used in the long range projections included only one dynamic economic variable, which allowed for changes in the size of the labor force. However, many viewed this variable as the natural outcome of making demographic projections, not economic ones. While the aggregate amount of wages and salaries earned in the economy would be assumed to grow in the future, this was due only to the expected growth of the labor force, not to increases in wages.

The shift from static to dynamic assumptions was a logical consequence of adopting automatic benefit increases and earnings base increases for the future. Since benefit levels, and thus program expenditures, would rise in the future with changes in the consumer price index (CPI) and the earnings base would rise with changes in average earnings levels in the economy, it seemed reasonable that future changes in the economy should be assumed in making the projections. The program was no longer static, since it was not necessary to have explicit congressional action to trigger these increases.

However, it was speculated at the time of adoption, and has since been well affirmed, that what was done made future forecasting of the financial condition of the system much more difficult. The automatic provisions of the program, by design, made the projections of future benefit costs and revenues extremely sensitive to changing economic conditions, particularly near term fluctuations. And the consequence has been that the system's financial condition was made far less predictable.

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[1] Adapted from "Social Security and Economic Cycles" (Committee Print—House Committee on Ways and Means, November 12, 1980).

Economic Forecasts of the 1970's

The economic assumptions used in the spring of 1972 and in late 1977, when major changes were made to both the benefit structure and financing provisions of the program, have turned out to be extremely optimistic. For instance, as the table which follows shows, the CPI, to which the benefit increase provisions were tied, was estimated in 1972 to increase at a little more than 3 percent per year for the first half of the 1970's and then phase down to a long-run increase of about 2.75 percent per year. As it turned out, the CPI rose by 6.2 percent in 1973; it rose by 11.0 percent in 1974, and after settling down to an average increase of a little more than 6.5 percent per year for the years 1976–1978, it rose by 11.5 percent in 1979 and 13.5 percent in 1980.

Even more important, however, is the fact that the rate of growth of "real wages" lagged behind the 1972 forecast. Even though the inflation assumptions may have been greatly understated, the program's financing would not have deteriorated as fast as it did if average earnings in the economy had grown at a comparably larger rate. Table A–1 shows that "real wages" (the increase in nominal wages over prices) were predicted to grow at an average rate of approximately 2.25 percent per year (with average covered earnings growing at 5 percent per year and prices growing at 2.75 percent per year). As it turned out, real wages declined by 3.5 percent in 1974 and by 2.5 percent in 1975, and after rebounding with a 2.5 percent increase in 1976, they fell to an average rate of increase of less than 0.5 percent per year for 1977 and 1978. In 1979 they declined by 3.1 percent, and again by 5 percent in 1980.

A similar scenario is illustrated by the table for the unemployment rate.

TABLE A–1.—COMPARISON OF ESTIMATED AND ACTUAL KEY ECONOMIC INDICATORS, 1972–73 FORECASTS [1]

[In percent]

Calendar year	CPI increase: Estimated in 1972	CPI increase: Estimated in 1973	CPI increase: Actual	Real wage differential [2]: Estimated in 1972 [3]	Real wage differential [2]: Estimated in 1973 [3]	Real wage differential [2]: Actual	Unemployment rate: Estimated in 1972	Unemployment rate: Estimated in 1973	Unemployment rate: Actual
1972		....	3.3		....	4.0		....	5.6
1973			6.2			0.7			4.9
1974			11.0			−3.5			5.6
1975	2.75	3.3	9.1	2.25	2.9	−2.5	4.2	4.5	8.5
1976			5.8			2.5			7.7
1977		2.75	6.5			0.4			7.0
1978		2.75	7.7		2.25	0.5			6.0
1979		2.75	11.5		2.25	−3.1			5.8
1980		2.75	13.5		2.25	−5.0			7.1

[1] There were a number of legislative changes made to the "automatic" provisions between July 1972 and December 1973.

[2] Real wage: Defined as the increase in average nominal wages over prices.

[3] Actually, the long-range trust fund projections had a safety margin of ¼ of a percent built into the real wage differential. For trust fund projection purposes the average increase in real wages was assumed to be 1¾ percent per year (reflected by an annual increase in the CPI of 3¼ percent).

As for the assumptions used in 1977, Table A-2 shows that they too have proven to be too optimistic with respect to the key economic indicators. Most illustrative are the ones assumed for 1980, in which the CPI was estimated to rise by 4.7 percent and a real wage *increase* of 2.4 percent would occur. Unemployment would be only 5.2 percent. The CPI actually rose by 13.5 percent in 1980 with a real wage *loss* of 5 percent. The unemployment rate was 7.1 percent.

TABLE A-2.—COMPARISON OF ESTIMATED AND ACTUAL KEY ECONOMIC INDICATORS, 1977 FORECAST [1]

[In percent]

Calendar year	Key economic indicators					
	CPI increase		Real wage differential		Unemployment rate	
	Estimated	Actual	Estimated	Actual	Estimated	Actual
1977	6.0	6.5	2.4	0.4	7.1	7.0
1978	5.4	7.7	2.7	0.5	6.3	6.0
1979	5.3	11.5	2.5	−3.1	5.7	5.8
1980	4.7	13.5	2.4	−5.0	5.2	7.1
1981	4.1	[2] 11.1	2.3	[2] −0.9	5.0	[2] 7.8

[1] The 1977 forecast was based on the intermediate set of assumptions in the 1977 trustees' report.
[2] Estimates based on the economic assumptions under the II-B path in the 1981 trustees' report.

In summary, what has occurred with respect to both the 1972–73 and 1977 Trust Fund forecasts is that the higher than projected inflation rate caused benefits to increase far beyond expectations, and aggregate expenditures to do likewise, while lower real wage growth and higher unemployment caused revenues to grow at an inadequate rate.

In December 1973, when the "automatic" increase provisions were revised to their current form, overall OASDI revenues were estimated to amount to $342 billion between 1973 and 1977, while OASDI outgo would be $333 billion. In other words, about $9 billion was to have been added to the system's reserves during the period. Total reserves of $52 billion at the beginning of 1978 would have represented 60 percent of 1978 expenditures (7 month's worth of expenditures would have been on hand). As it turned out, actual income was right on target with the 1973 estimate at $342 billion for the 5-year period, but outgo, totalling $348 billion, significantly exceeded the 1973 estimate, and caused a $7 billion deficit for the 5-year period. Outgo actually exceeded income by more than $5 billion in 1977 alone. OASDI combined reserves amounted to only $36 billion at the beginning of 1978 (rather than $52 billion), representing only 38 percent of 1978 expenditures (rather than 60 percent). The DI trust funds would have run out of reserves completely in late 1978 or early 1979 had the 1977 Amendments not shifted revenues to it.

In December 1977, when the 1977 Amendments were enacted, the OASDI system was predicted to remain in sound financial condition until sometime well into the next century. OASDI combined reserves were expected to grow from $36 billion at the beginning of 1978 to $119 billion by the beginning of 1987 (representing nearly 60 percent of estimated 1987 outgo). The 1978 Trustees' Report released six months later showed the combined OASDI reserves growing steadily throughout the remainder of the century reaching a level in the year 2010 of 279 percent of that year's outgo (nearly 3 year's worth of benefits would be in reserve). In December 1977, aggregate income to the two trust funds was estimated to be $455 billion during the period 1978 through 1981, while outgo would have amounted to $449 billion. Combined OASDI reserves would have been $42 billion at the beginning of 1982. The latest Trustees' Report forecast (intermediate II-B) shows aggregate income to the trust funds will total $458 billion for 1978–1981, approximately what was estimated, but aggregate outgo at $472 billion again will greatly exceed the 1977 estimate. Combined OASDI reserves at the beginning of 1982 will total only $22 billion (rather than $42 billion), with the OASDI Trust Fund beginning to have cash-flow problems in 1982 and running out of reserves in 1984.

In summary, the overall performance of the economy during the 1970's created two near-term periods of financial difficulty for the social security system. Certainly no one could foresee the double digit inflation of the mid-1970's or of recent years, given that the overall inflation rate for the 1960's averaged less than 3 percent per year and was even lower in the 1950's. And it was not unreasonable to assume that real wages would grow by 2 percent or more per year, given that the rate of real wage growth was 2 to 3 percent per year through most of the 1950's and 1960's. The point is that it is not just the assumptions used for social security projections that were too optimistic, but more so that the economy itself did not perform in a manner predicted by many economists. Moreover, it did not grow in a manner that resembled its behavior in the two preceding decades.

The "Phasing-in" Methodology

While the adverse performance of the economy was the principal cause for these near-term periods of financial difficulty for the system, there is an aspect of the methodology employed in developing the economic projections which may have contributed to the underestimation of the financial needs of the system in the 1972–73 period and in 1977. Even though the economic assumptions used in making future social security projections are dynamic, they do not explicitly depict fluctuations in the future behavior of the economy. They attempt to reflect a future trend. In the actuarial analysis accompanying the Ways and Means Committee report on H.R. 11333 (containing the "automatic" provisions that largely make up the present law), the following statement was made with respect to the use of "dynamic" earnings and prices assumptions:

> It should be observed that the assumptions of constant annual increases in earnings and in the CPI were not adopted because it was felt that these increases would remain constant in the future. These assumptions are intended to represent average increases over the long-range future, with the increases being higher in some years and lower in others.

In other words, the new approach implicitly assumed that there would be both adverse and favorable economic periods in the future, i.e., that there would be recessions and recoveries. Because of the inherent difficulty in forecasting when future fluctuations might come and how large they might be, the methodology simply assumed that future shocks, using economic jargon, would balance out over time.

In the annual Trustees' Report the future rates of change of the various economic variables which are expected to influence the financial operations of the program are the same from year to year. If the cost-of-living is expected to rise on average over the long run by 6 percent per year, the Trustees' Report will show the inflation rate for the near term gradually decreasing to that future trend level without future ups or downs working themselves in. If the long-term average unemployment rate is expected to be 5 percent, the Report will show a phasing down in the near term until the rate blends into the long range forecast. Further, while the Trustees' Report typically provides three alternative Trust Fund forecasts labeled "optimistic, intermediate, and pessimistic," which in themselves reflect different degrees of economic activity and growth, they do not display any cyclical behavior.

Even for the short run (5 to 10 years into the future), the methodology does not fully reflect cyclical economic conditions. A Report issued during a favorable economic period, such as during a recovery period following a recession, certainly would contain projections reflecting a slowdown, but no recession would be reflected unless the economy were immediately about to enter one (as was the situation in the 1979 Trustees' Report). No further adverse economic period would be explicitly encompassed in the projections. If, on the other hand, the Report was issued when the economy was in an adverse state, a recovery would be foreseen, but no further forecast of a later recession would be included in the projections.

The point here is not to suggest that the financial problems of the system during the mid-1970's and again today would have been avoided if the economic assumptions underpinning the estimates used in the 1972–1973 amendments and in the 1977 amendments had explicitly incorporated swings in the economy. But the amount of the financial shortfalls may have been less. If a downturn in the economy had been assumed in the estimates for some time during the mid-1970's when the 1972–1973 amendments were being considered—not an unreasonable assumption given the past behavior of the economy—additional financing might have been built into the 1972–1973 changes to the program. Similarly, if the estimates used in preparing for the 1977 amendments had anticipated a recession at some point in the following 5-year period, additional steps might have been taken to get the system's reserves up more quickly in order to withstand or mitigate the adverse effects of a downturn such as we are now experiencing.

In the 1981 Trustees' Report the short range economic scenario under all the assumptions is that the economy will be in a downturn or recessionary period for a year or two and then recover. Following the recovery, the assumptions show the economy leveling out into the long-range growth pattern of the various alternative forecasts. The difference between the alternatives in the short range is how long the economic downturn will last, how large the recovery will be, and how long it will take to phase into the long-range growth path. *They all phase into long-range "constant" growth path.* No further economic downturns (or upturns for that matter) are built into the assumptions following the immediate period of economic recovery.

In the early 1970's, reserves equal to 1 year's worth of expenditures were considered necessary in order to assure the system was adequately financed. The 1971 Advisory Council felt that a range of from 75 percent to 125 percent of 1 year's outgo, as the minimum and maximum level of reserves, should be on hand in the trust funds in order to meet unforeseen contingencies. Beginning in 1973, the combined level of OASDI reserves dropped below 75 percent of 1 year's outgo, and continued to fall steadily to a low of 24 percent of 1 year's outgo at the beginning of 1980. Under the 1981 Trustees' Report intermediate (II-B) assumptions. OASDI reserves are expected to continue to decline in the future to the point where they are almost completely exhausted in 1984 after which they will grow again. Under the "worst case" assumptions they will be exhausted by 1983, and operating deficits (without any funds in reserve to pay benefits) will occur each year thereafter. Furthermore, this decline in the reserve cushion is expected to occur under both alternative forecasts even while the economy recovers from the current recession. Given the past behavior of the economy, another downturn in the mid-1980's is not an unlikely event. This is not to predict that such will happen—but, only that it is a reasonable possibility. If this should occur, the unfavorable financial condition of the system as reported in the Trustees' Report might even be optimistic with respect to the latter part of the 1980's. The system's financial needs might be greater than suggested in the Report. Later recoveries from another recession might balance out the losses to the system caused by the downturn. If the system had a reserve approaching 1 year's benefit payments, this averaging affect would adequately protect the program. With the present narrow reserve margins, however, the later upswings are likely to come too late to meet the needs of the system during the earlier recessionary period.

The basic point is that the short-range financial integrity of the social security system will continue to be in doubt for as long as its reserve cushion remains relatively low. The question will linger as to whether a relatively low reserve cushion will be sufficient to allow the system to weather downturns in the economy even if the overall projections prove accurate on average.

The Potential Impact on the Trust Funds of a Volatile Economy

A recent analysis done by the Congressional Research Service and the Office of the Actuary of the Social Security Administration showed that the cyclical behavior of the economy could cause substantial differences in projecting the financial condition of the social security programs. Two sets of economic assumptions were developed subjectively, which revolved around the economic assumptions of the Carter Administration's "mid-session" 1980 budget. These two sets of assumptions showed the same general path for the economy (or trend as it is sometimes called) as the "mid-session" trend forecast except that cyclical behavior was introduced. One assumed a slow recovery from the current recession. The other assumed a fairly rapid recovery. The social security actuaries then priced out the impact of these alternative assumptions on the social security programs. The following table illustrates the reserve ratios of the trust funds which resulted from these projections.

TABLE A-3.—COMPARISON OF OASDHI RESERVES UNDER TREND LINE AND CYCLICAL ECONOMIC ASSUMPTIONS

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

Calendar year	Trend-line projections (noncyclical)	Slow recovery cycle	Fast recovery cycle
1979	34	34	34
1980	29	29	29
1981	23	23	23
1982	19	18	19
1983	16	14	17
1984	12	10	16
1985	8	7	13
1986	9	4	11
1987	12	3	14
1988	15	5	17
1989	17	5	16
1990	19	2	14

Source: "Social Security and Economic Cycles" (WMCP: 96-75) Nov. 12, 1980.

One of the most significant observations to be drawn from the table is that a slow recovery from the current recession coupled with continued cyclical economic behavior could create as much as a 17 percent lower reserve ratio than similar economic assumptions that are noncyclical. In terms of the condition of the social security program, it reflects the difference between an adequately financed program (with a 19-percent combined reserve level) and an inadequately financed program (with a 2-percent combined reserve level).

The following table showing the actual projected levels of trust-fund assets in 1990 further illustrates the differences cyclical economic behavior could create.

TABLE A-4.—PROJECTED ASSETS IN THE COMBINED OASDHI TRUST FUNDS, END OF YEAR

[In billions of dollars]

Calendar year	Trend-line projections (noncyclical)	Fast recovery cycle	Slow recovery cycle
1980	40.2	40.2	40.2
1983	28.6	39.7	25.5
1985	27.3	33.8	10.8
1987	51.3	60.5	17.5
1990	123.7	101.4	38.5

Source: "Social Security and Economic Cycles" (WMCP: 96-75) Nov. 12, 1980.

What the preceding table shows is that reserves on hand at the end of 1990 could range from $123.7 billion to only $38.5 billion depending simply on the nature of the swings in the economy, not the general path. A more pessimistic path could produce an even wider range of possible reserve balances.

Yet another way of viewing the potential volatility of the financial condition of the program under these alternative projections is to observe the amount of new resources that would have to be brought into the program over those arising under current law in order to achieve a reserve ratio of say 20 or 30 percent by the beginning of 1990. The following table shows the amounts of new resources that would have to be legislated:

TABLE A-5.—PROJECTED NEW ASSETS NEEDED TO BUILD OASDHI RESERVES UP TO 30 PERCENT LEVEL AT BEGINNING OF 1990, UNDER CYCLICAL AND NONCYCLICAL ECONOMIC ASSUMPTIONS

[In billions of dollars]

Reserve ratio desired	Amount of new resources needed: Trend assumptions (noncyclical)	Fast recovery cycle	Slow recovery cycle
20 percent	+4	+20	+75
30 percent	+46	+66	+118

Note: This table is not based on most recent economic and demographic assumptions.

Source: Congressional Research Service, August 1981.

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