25. SOCIAL SECURITY

Table 25–1. FEDERAL RESOURCES IN SUPPORT OF SOCIAL SECURITY

(In millions of dollars)

Function 650	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	3,140	3,457	3,303	3,256	3,246	3,246	3,251
Mandatory Outlays:							
Existing law	347,051	364,232	380,935	398,622	417,735	437,963	459,686
Proposed legislation	....	....	....	–5	1	7	13
Tax Expenditures:							
Existing law	22,890	24,170	25,285	26,465	27,765	28,875	29,935

The Old-Age, Survivors, and Disability Insurance (OASDI) program, popularly known as Social Security, will spend about $380 billion in 1998 to provide a comprehensive package of protection against the loss of earnings due to retirement, disability, or death.

OASDI provides monthly benefits as a matter of earned right to retired and disabled workers who gain insured status, and to their eligible spouses, children, and survivors (see Chart 25–1). The Social Security Act of 1935 provided retirement benefits, and the 1939 amendments provided benefits for survivors and dependents. These benefits now comprise the Old Age and Survivors Insurance Program (OASI). Congress provided disability benefits by enacting the Disability Insurance (DI) program in 1956, and benefits for the dependents of disabled workers by enacting the 1958 amendments.

Social Security was founded on two important principles, social adequacy and individual equity. Social adequacy means that benefits will provide a certain standard of living for all contributors. Individual equity means that contributors receive benefits directly related to the amount of their contributions. These principles still guide Social Security today.

What Social Security Does

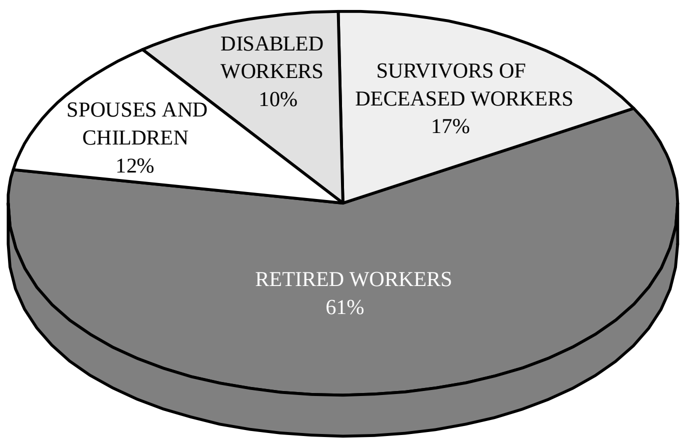
Social Security helps alleviate poverty, provide income security, and maintain the lifestyles of beneficiaries.

Alleviating Poverty: Before the 1960s, when an economist at the Social Security Administration developed a measure to assess poverty, experts believed that a large share of the elderly were poor, although it was not clear exactly how many. In 1970, an estimated 25 percent of the elderly were living in poverty. Now, only about 11 percent of them do.[1]

Social Security is largely responsible for the progress (see Chart 25–2). In 1995, 17 percent of elderly, unmarried beneficiaries had family incomes below the poverty line. Without Social Security retirement benefits, 60 percent of them would have fallen into poverty. For elderly couples, Social Security had a similar effect. In 1995, three percent of the elderly who were married had incomes below the poverty line. Without Social Security retirement benefits, 42 percent of them would have.

[1] These estimates as well as those that follow are based on a definition of poverty that uses pre-tax cash income—the Census Bureau's definition of income for official income and poverty statistics. In the Income Security function discussion of how cash and non-cash means-tested benefits affect poverty, a more comprehensive definition of income is used. The estimated impacts on poverty are not directly comparable across chapters.

Chart 25-1. COMPOSITION OF SOCIAL SECURITY RECIPIENTS



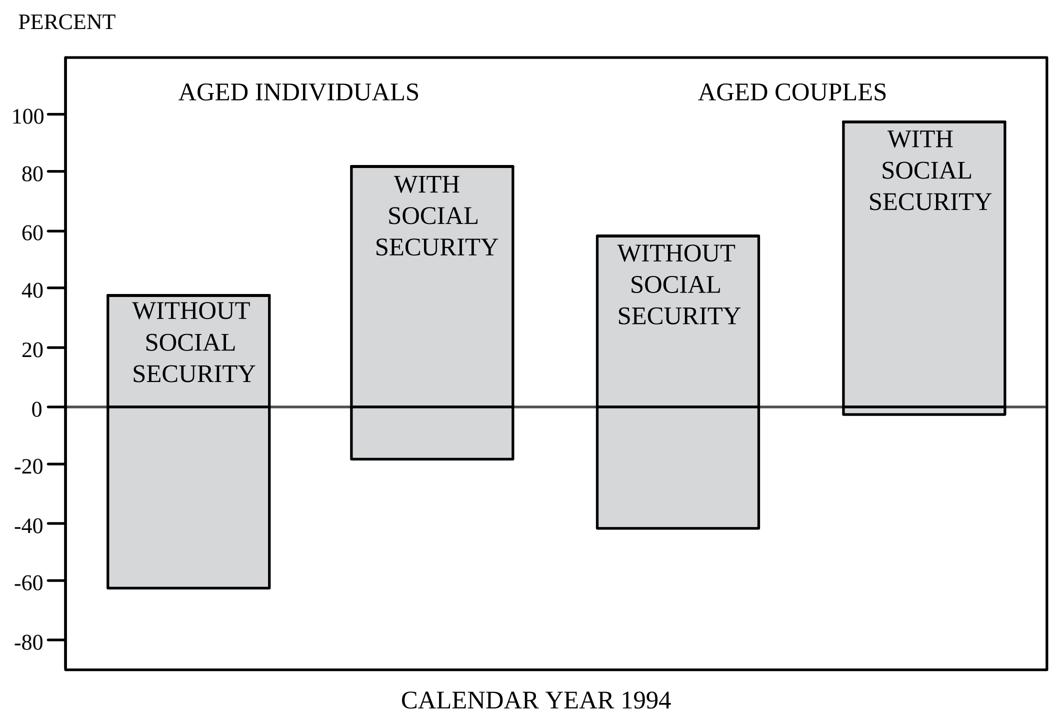
Income Security: Social Security was originally designed to provide a continuing income base for eligible workers so they could maintain a reasonable income when they retired. In 1935, personal savings, family support, and Federal welfare programs were the main sources of income for those 65 and older who did not work. Today, two-thirds of those over 65 get the major portion of their income from Social Security (see Chart 25–3). The average retiree receives a Social Security benefit equal to 43.1 percent of pre-retirement income. In 1996, Social Security paid about $300 billion in retirement, survivor, and family benefits to about 38 million beneficiaries.

Along with retirement benefits, Social Security also provides income security for survivors and dependents. In 1996, Social Security paid about $69 billion in benefits to over seven million survivors and deceased workers.

The Disability Insurance (DI) program also provides income security for workers and their families who lose earned income when the family provider becomes disabled. Before DI, workers often had no protection against income loss due to disability. To be sure, employees disabled on the job may have benefited from State workmen's compensation laws. But in 1956, only about five percent of all permanent and total disability cases were work-related. Congress enacted DI to protect the resources, self-reliance, dignity, and self-respect of disabled workers, according to congressional committee reports. DI protection can be extremely valuable, especially for young families that have not been able to sufficiently protect themselves against the risk of the worker's disability.

Maintaining Lifestyles: Before Social Security, about half of those over 65 depended on others, primarily relatives and friends, for all of their income. The same was often true for people with disabilities. Now, with Social Security, the vast majority of those over age 65 and those with disabilities can live relatively

Chart 25-2. BENEFICIARY POPULATION WITH FAMILY INCOME ABOVE AND BELOW THE POVERTY LINE



independent lives. Moreover, their families no longer carry the sole responsibility of providing their financial support.

Growth in Retirement Benefits

The retirement part of Social Security is facing financial stress, due to changing demographics and the program's financing. The retirement program is largely a "pay as you go" program—current retirement benefits are financed by current payroll contributions. Such financing has worked well in the past, when five workers were paying for every retiree. But, when the baby boom generation retires, eventually only two workers will be paying for every retiree.

Adding to the financial stress, baby boomers are having fewer babies and living longer. In 1957, women had an average of 3.7 babies, compared to 2.03 today. Males born in 1935 had an average life expectancy of 60 years, and females of 63 years. By contrast, baby boom males have an average life expectancy of about 67 years, and females of about 73. The longer people live, the longer they will collect Social Security. The more time that people spend retired, the more people there are to support at any one time and the fewer there are working and contributing to provide that support.

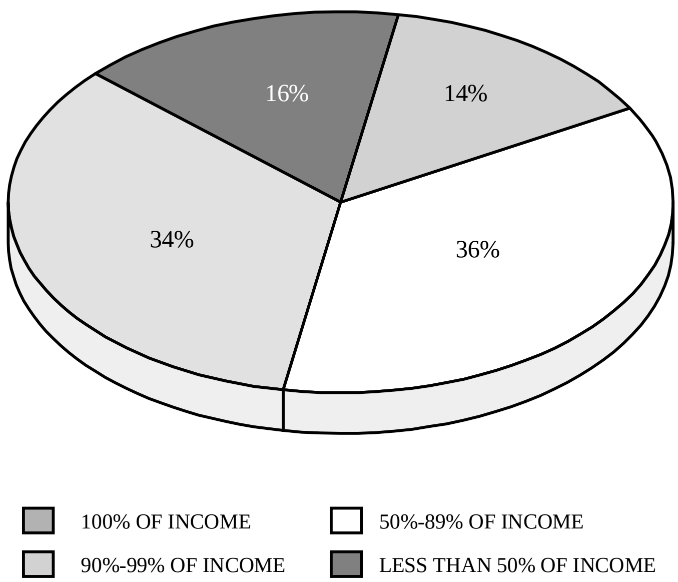
Growth in Disability Benefits

DI has grown rapidly. The program provided about $43 billion to about six million disabled beneficiaries and their families in 1996, compared to $57 million for 150,000 disabled workers in 1957. Growth has been especially rapid in the last 10 years, with the number of beneficiaries rising by 75 percent and benefits rising by 125 percent.

Why? Because growing numbers of baby boomers are reaching the age at which they are increasingly prone to disabilities; more women are insured; and laws, regulations, and court decisions have expanded eligibility for benefits. In addition, the annual share

Chart 25-3. PORTION OF BENEFICIARIES THAT RELY HEAVILY ON SOCIAL SECURITY

(Calendar year 1994)



of beneficiaries leaving the rolls has fallen steadily, raising questions about whether those remaining on the rolls are all, in fact, eligible for benefits. To maintain DI's integrity, the Administration proposes to maintain support for continuing disability reviews (CDRs)—a periodic review of individual cases that ensures that only those eligible continue to receive benefits.

The budget proposes a pilot program to encourage DI beneficiaries (and recipients of Supplemental Security Income, or SSI) to re-enter the workforce. Currently, the Social Security Administration refers DI or SSI beneficiaries to State Vocational Rehabilitation agencies. Under the Administration's proposal, beneficiaries could choose their own public or private vocational rehabilitation provider—and the provider could keep a share of the DI and SSI benefits that the Federal Government no longer pays to these individuals after they leave the rolls.

A Long-range Problem, but No Crisis

The OASDI trust funds are not in balance over the next 75 years—the period over which the Social Security Trustees measure Social Security's well-being. The President wants to work with Congress on a bipartisan basis to develop a long-term solution to the financing challenge, but it does not constitute an imminent crisis.

In their 1996 report, the Trustees estimated that the combined OASDI trust funds would have a cash imbalance in 2012 and be insolvent in 2029. The OASI Trust Fund would have a cash imbalance in 2014 and be insolvent in 2031. The DI Trust Fund would face a cash imbalance in 2003 and be insolvent in 2015.

Tax Expenditures

Social Security recipients pay taxes on their Social Security benefits when their combined income (including Social Security) exceeds certain income thresholds. These exclusions reduce Social Security beneficiary taxes by $25 billion in 1998 and $138 billion from 1998 to 2002.