

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

## **CONTENTS**

- Basic Social Security Information**
- General**
  - Brief Description of Social Security Programs**
  - Concept of Social Insurance**
  - Financing Mechanism**
- Brief History**
- Social Security Coverage of the Work Force**
- Benefits**
  - Eligibility for Workers**
  - Disability**
  - Eligibility for Dependents and Survivors**
- Benefit Computation**
  - Full Retirement Age**
  - Trends in Retirement Age**
  - Trends in Longevity**
  - Average Indexed Monthly Earnings**
  - Benefit Formula**
  - Special Minimum Benefit**
- Benefit Amounts**
- Replacement Rates**
- Benefit Reduction and Increase**
  - Dual Entitlement**
  - Actuarial Reduction**
  - Delayed Retirement Credit**
  - Maximum Family Benefit**
  - Earnings Limit**
  - Offsets**
  - Suspension of Benefits to Prisoners**
- Cost-of-Living Adjustments**
- Taxation of Benefits**
- Social Security Benefits for Noncitizens**
- Determination of Disability Benefits**
  - Determination of Disability**
  - Application of Law and Regulations**
  - Federal Review of State Determinations**
  - Periodic Review of Individuals Receiving Disability Benefits**
  - Medical Improvement Standard**
  - Medical Evidence**
  - Attorneys' Fees and Representation**
- Vocational Rehabilitation**

- Disability Claims and Appeals Structure**
- Changes in Enrollment and Applicant Backlogs**
  - Disability Insurance (DI) Awards and Recipients**
  - Pending Claims in the Disability Determination Services**
- Characteristics of Recipients**
  - Old-Age, Survivors, and Disability Insurance**
  - Disability Insurance**
- Social Security Financing**
  - Current Law**
  - Status of OASDI Trust Funds**
  - How the Status of the Trust Funds is Measured**
  - Nature of the Social Security Trust Funds**
- Budgetary Treatment of OASDI**
  - Current Budget Rules Pertaining to Social Security**
  - Current House and Senate Procedural Rules to Protect Social Security's Financial Condition**
  - Budgetary Treatment of Administrative Expenses**
- Legislative History**
  - Changes in the 103d Congress**
  - Changes in the 104th Congress**
  - Changes in the 105th Congress**
- Appendix**
  - Relationship of Taxes to Benefits for Social Security**
    - Retirees: Illustrations of the Amount of Time It Takes To Recover the Value of Taxes Paid, Plus Interest**
    - Illustrative Payback Times**
- References**

**BASIC SOCIAL SECURITY INFORMATION***Tax rate:*

Employee/employer each—7.65%;  
(6.20%—OASDI; 1.45%—HI).

Self-employed—15.30%;  
(12.40%—OASDI; 2.90%—HI).

*Maximum taxable earnings base for 1998:*

Social Security (OASDI) .....	\$68,400
Medicare (HI) .....	No Limit

*Maximum FICA/SECA tax:*<sup>1</sup>

	OASDI	HI
Employee/employer, each .....	\$4,241	No limit
Self-employed .....	8,482	No limit

*OASDI workers covered.*—1997 (est.)—145.9 million.

*Average wage level.*—1997 (est.)—\$26,732

*Earnings required in 1998 for a quarter of coverage.*—\$700; (\$2,800 for four).

*Earnings limit exempt amounts in 1998:*

\$14,500 for beneficiaries age 65–69;<sup>2</sup> (\$1 for \$3 withholding rate).  
\$9,120 for beneficiaries under age 65; (\$1 for \$2 withholding rate).

*Medicare (SMI) premium.*—\$43.80/month.

*Number of OASDI beneficiaries (12/96) (in millions):*

Total OASDI beneficiaries .....	43.7
OASDI beneficiaries .....	37.5
Retired workers .....	26.9
Families and survivors .....	10.8
DI beneficiaries .....	6.0
Disabled workers .....	4.4
Family members .....	1.7

*Average monthly benefits (12/96):*

Retired worker .....	\$745
Retired worker and aged spouse .....	1,256
Disabled worker .....	704
Disabled worker, spouse and children .....	1,172
Aged widow(er) .....	707
Widowed mother/father and two children .....	1,421

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

<sup>2</sup> Will gradually increase to \$30,000 in the year 2002.

**BASIC SOCIAL SECURITY INFORMATION—Continued**

Monthly benefits for 1997 retirees	At 62	At 65
Low earner (45% of average wages) .....	\$448	\$565
Average earner .....	738	933
Maximum earner .....	1,049	1,326

*Long-range replacement rates (in percent):*

Retirement at age 67 in 2030 and later:

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

COLA (effective January 1998).—2.1%.

*Taxation of benefits—percent of benefits taxed:*

Percent taxed	Income threshold	Filing status
Up to 50% .....	\$25,000–\$34,000 .....	Individual.
	\$32,000–\$44,000 .....	Joint.
Up to 85% .....	\$34,001 + .....	Individual.
	\$44,001 + .....	Joint.

*Substantial gainful activity in 1998:*

\$500/month disabled/nonblind;

\$1,050/month blind.

*OASDI Trust Fund operations (in billions of dollars):*

Calendar year	OASDI Trust Fund operations			
	Income	Outgo	Net increase	Balance
1996 .....	\$424.5	\$353.6	\$70.9	\$567.0
1997 (est.) .....	451.3	370.8	80.5	647.4

*Fiscal year 1996 OASDI outlays.*—\$350 billion—22.4% of total U.S. budget of \$1.56 trillion.

*For SSA information, call:* 1–800–SSA–1213.

*SSA On Line.*—[http://www.ssa.gov/SSA\\_Home.html](http://www.ssa.gov/SSA_Home.html)

Source: Social Security Administration and Board of Trustees (1997).

## GENERAL

### BRIEF DESCRIPTION OF SOCIAL SECURITY PROGRAMS

The Old-Age, Survivors, and Disability Insurance (OASDI) Programs provide monthly benefits to retired and disabled workers, their dependents and survivors. The OASDI Programs are contained in title II of the Social Security Act, and are commonly known as "Social Security." Old-age benefits were provided for retired workers by the original Social Security Act of 1935, benefits for dependents and survivors were provided by the 1939 amendments, and benefits for disabled workers were enacted in 1956. The Medicare Hospital Insurance (HI) Program, enacted in 1965 as title XVIII of the Social Security Act, is closely related to the OASDI Program. (The HI Program is described in section 2.)

### CONCEPT OF SOCIAL INSURANCE

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

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

### FINANCING MECHANISM

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

The taxes for wage and salaried workers are imposed under the Federal Insurance Contributions Act (FICA, chapter 21 of the Internal Revenue Code). Taxes are based on earnings up to the annual maximum taxable wage base (\$68,400 in 1998 for OASDI, with no limit on wages subject to HI). The employee share of the payroll tax is withheld from wage and salary payments, and is matched by employers, currently at a rate of 7.65 percent each. Self-employed persons are covered by the Self-Employment Contributions Act (SECA, chapter 2 of the Internal Revenue Code). They pay contributions on their net earnings annually up to the

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

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

### **BRIEF HISTORY**

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

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

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

### **SOCIAL SECURITY COVERAGE OF THE WORK FORCE**

In 1937, approximately 33 million persons worked in employment covered by the Social Security system. Over the years, major categories of workers were brought under the system, such as self-employed individuals, State and local government employees (on a voluntary basis), regularly employed farm and domestic workers, members of the armed services, and members of the clergy and religious orders (on a voluntary basis). In 1997, of a total work force of approximately 151.9 million workers, about 145.3 million work-

ers and an estimated 96 percent of all jobs in the United States are covered under Social Security. Of the total work force, an estimated 14.1 million workers were self-employed in 1997. In 1996, an estimated 86 percent of all earnings from jobs covered by Social Security were taxable (see tables 1-2 and 1-3).

TABLE 1-1.—SOCIAL SECURITY BENEFIT INCREASES FROM THE BEGINNING OF THE PROGRAM THROUGH JANUARY 1998

[In percent]

Date increase paid	Amount of increase
January 1998 .....	2.1
January 1997 .....	2.9
January 1996 .....	2.6
January 1995 .....	2.8
January 1994 .....	2.6
January 1993 .....	3.0
January 1992 .....	3.7
January 1991 .....	5.4
January 1990 .....	4.7
January 1989 .....	4.0
January 1988 .....	4.2
January 1987 .....	1.3
January 1986 .....	3.1
January 1985 .....	3.5
January 1984 .....	3.5
July 1982 .....	7.4
July 1981 .....	11.2
July 1980 .....	14.3
July 1979 .....	9.9
July 1978 .....	6.5
July 1977 .....	5.9
July 1976 .....	6.4
July 1975 <sup>1</sup> .....	8.0
April/July 1974 <sup>2</sup> .....	11.0
October 1972 .....	20.0
February 1971 .....	10.0
February 1970 .....	15.0
March 1968 .....	13.0
February 1965 .....	7.0
February 1959 .....	7.0
October 1954 .....	13.0
October 1952 .....	12.5
October 1950 .....	77.0

<sup>1</sup> Automatic COLAs began.

<sup>2</sup> Increase came in two steps.

Source: Social Security Administration.

TABLE 1-2.—CIVILIAN WORKERS COVERED BY SOCIAL SECURITY SYSTEM, 1939–96

[Numbers in millions]

Year	Paid civilian employees <sup>1</sup>	OASDI coverage		OASDI and HI-only coverage	
		Number	Percent	Number	Percent
1939 <sup>2</sup> .....	43.6	24.0	55.1	24.0	55.1
1944 <sup>2</sup> .....	51.2	30.8	60.2	30.8	60.2
1949 <sup>2</sup> .....	56.7	34.3	60.5	34.3	60.5
1955 .....	62.8	51.8	82.5	51.8	82.5
1960 .....	64.6	55.7	86.2	55.7	86.2
1961 .....	65.3	56.1	85.9	56.1	85.9
1962 .....	66.4	57.3	86.3	57.3	86.3
1963 .....	67.6	58.5	86.5	58.5	86.5
1964 .....	69.3	60.1	86.7	60.1	86.7
1965 .....	71.6	62.7	87.6	62.7	87.6
1966 .....	73.6	64.9	88.2	64.9	88.2
1967 .....	74.4	65.7	88.3	65.7	88.3
1968 .....	75.9	67.1	88.4	67.1	88.4
1969 .....	78.0	68.6	87.9	68.6	87.9
1970 .....	77.8	69.9	89.9	69.9	89.9
1971 .....	79.6	71.7	90.1	71.7	90.1
1972 .....	82.6	74.7	90.4	74.7	90.4
1973 .....	85.6	77.6	90.6	77.6	90.6
1974 .....	85.4	77.3	90.5	77.3	90.5
1975 .....	86.0	77.9	90.6	77.9	90.6
1976 .....	89.2	81.0	90.9	81.0	90.9
1977 .....	93.5	85.1	91.0	85.1	91.0
1978 .....	97.0	88.4	91.2	88.4	91.2
1979 .....	99.4	90.7	91.3	90.7	91.3
1980 .....	98.9	89.3	90.3	89.3	90.3
1981 .....	99.0	90.2	91.1	90.2	91.1
1982 .....	98.3	89.8	91.4	89.8	91.4
1983 .....	102.2	93.6	91.6	96.0	94.0
1984 .....	105.5	97.9	92.7	100.3	95.0
1985 .....	107.7	100.0	92.9	102.4	95.1
1986 .....	110.2	104.3	94.6	106.7	96.8
1987 .....	113.3	107.5	94.9	110.0	97.1
1988 .....	115.6	109.8	95.0	112.4	97.2
1989 .....	117.4	111.7	95.2	114.3	97.4
1990 .....	117.0	112.2	95.2	114.9	97.5
1991 .....	117.1	111.6	95.3	114.2	97.5
1992 .....	118.7	113.2	95.4	115.7	97.5
1993 .....	121.3	115.9	95.5	118.4	97.6
1994 .....	124.6	119.3	95.7	121.8	97.7
1995 .....	125.0	119.8	95.8	122.3	97.8
1996 .....	127.7	122.6	96.0	125.1	97.9

<sup>1</sup> Includes paid employees and self-employed for all years.<sup>2</sup> Monthly average for these years, all other years as of December.

Source: Office of the Chief Actuary, Social Security Administration.



TABLE 1-3.—EARNINGS COVERED BY OASDI SYSTEM, 1950–96<sup>1</sup>

[Dollars in billions]

Year	Total earnings	Earnings in covered employment		Total earnings in covered employment	Covered earnings as a percent of total earnings	Taxable earnings	Taxable earnings as a percent of total earnings in covered employment
		Employed	Self-employed				
1950	\$186.1	\$109.8	.....	\$109.8	59.0	\$87.5	79.7
1955	257.4	171.6	\$24.5	196.1	76.2	157.5	80.3
1960	324.9	236.0	29.2	265.2	81.6	207.0	78.1
1965	428.8	311.4	40.3	351.7	82.0	250.7	71.3
1970	631.7	483.6	49.9	533.5	84.4	415.6	77.9
1975	940.1	717.2	70.4	787.6	83.8	664.7	84.4
1976	1037.2	797.2	76.8	874.0	84.3	737.7	84.4
1977	1140.4	879.5	80.8	960.3	84.2	816.6	85.0
1978	1288.6	999.0	94.0	1093.0	84.8	915.3	83.7
1979	1437.1	1122.0	100.6	1222.6	85.1	1073.8	87.8
1980	1548.4	1230.9	97.9	1328.8	85.8	1178.3	88.7
1981	1696.5	1352.0	98.7	1450.7	85.5	1295.0	89.3
1982	1763.8	1422.2	98.6	1520.8	86.2	1365.5	89.8
1983	1867.0	1500.9	109.9	1610.8	86.3	1455.0	90.3
1984	2093.0	1667.1	128.2	1795.3	85.8	1610.0	89.7
1985	2253.3	1799.6	141.8	1941.4	86.2	1726.2	88.9
1986	2384.3	1922.5	158.6	2081.1	87.3	1845.5	88.7
1987	2565.6	2057.2	177.9	2235.1	87.1	1960.1	87.7
1988	2776.5	2232.6	199.7	2432.3	87.6	2092.2	86.0
1989	2943.1	2362.5	210.9	2573.4	87.4	2237.7	87.0
1990	3118.5	2509.9	193.8	2703.7	86.7	2358.4	87.2
1991	3190.5	2565.4	195.5	2760.9	86.5	2422.1	87.7
1992	3395.9	2710.5	205.8	2916.3	85.9	2532.3	86.8
1993 <sup>2</sup>	3510.7	2821.4	212.0	3033.4	86.4	2649.0	87.3
1994 <sup>2</sup>	3692.7	2954.0	221.5	3175.5	86.0	2782.7	87.6
1995 <sup>2</sup>	3908.9	3139.8	234.9	3374.7	86.3	2924.0	86.6
1996 <sup>2</sup>	4147.9	3328.3	254.2	3582.5	86.4	3082.8	86.1

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

<sup>2</sup> Preliminary.

Source: Office of the Actuary, Social Security Administration.

While coverage is compulsory for most types of employment, approximately 6.6 million workers did not have any coverage under Social Security in 1996. The majority of these noncovered workers were and still are in State and local governments or the Federal Government (see tables 1-4 and 1-5 for the most recently available statistical breakout). Beginning January 1, 1983, Federal employees were covered under the Medicare (HI) portion of the Social Security tax, and all Federal employees hired after 1983 are covered under the OASDI portion as well. In 1992, 75 percent of State and local government workers (15.5 million out of 20.6 million) were covered by Social Security. Beginning January 1, 1984, all employees of nonprofit organizations became covered, and as of April 1983

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

TABLE 1-4.—ESTIMATED SOCIAL SECURITY COVERAGE, 1996

	Total (millions)	Noncovered (millions)	Percent covered
Workers <sup>1</sup> .....	150.3	6.6	95.6
Jobs: <sup>2</sup>			
State and local government <sup>3</sup> .....	22.3	5.5	75.3
Federal civilian .....	4.0	1.3	67.5
Students <sup>4</sup> .....	2.3	2.2	4.3

<sup>1</sup> Includes both employees and self-employed.

<sup>2</sup> Because workers may work at more than one job during the year, the total number of noncovered jobs exceeds the total number of noncovered workers. Because this table includes workers who worked only in a noncovered job at any time during the year, it shows a higher number of noncovered jobs than does table 1-2, which is based on coverage status in December of each year.

<sup>3</sup> Excludes students.

<sup>4</sup> Includes students employed at both public and private colleges and universities.

Source: Social Security Administration.

TABLE 1-5.—ESTIMATED SOCIAL SECURITY COVERAGE OF WORKERS WITH STATE AND LOCAL GOVERNMENT EMPLOYMENT, 1992

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

State	All workers <sup>1</sup>	Covered workers	Percent covered
Alabama .....	360	324	90
Alaska .....	82	34	41
Arizona .....	340	324	95
Arkansas .....	191	172	90
California .....	2,198	1,069	49
Colorado .....	330	122	37
Connecticut .....	255	174	68
Delaware .....	65	60	92
Florida .....	1,003	927	92
Georgia .....	580	461	79
Hawaii .....	107	88	82
Idaho .....	113	108	96
Illinois .....	985	515	52
Indiana .....	436	378	87
Iowa .....	270	242	90
Kansas .....	257	233	91
Kentucky .....	325	241	74
Louisiana .....	396	114	29

TABLE 1-5.—ESTIMATED SOCIAL SECURITY COVERAGE OF WORKERS WITH STATE AND LOCAL GOVERNMENT EMPLOYMENT, 1992—Continued

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

State	All workers <sup>1</sup>	Covered workers	Percent covered
Maine .....	110	51	46
Maryland .....	396	357	90
Massachusetts .....	325	46	14
Michigan .....	790	674	85
Minnesota .....	422	658	156
Mississippi .....	222	202	91
Missouri .....	385	313	81
Montana .....	93	77	83
Nebraska .....	165	152	92
Nevada .....	93	32	34
New Hampshire .....	88	74	84
New Jersey .....	591	556	94
New Mexico .....	175	145	83
New York .....	1,673	1,553	93
North Carolina .....	579	532	92
North Dakota .....	70	61	87
Ohio .....	800	61	8
Oklahoma .....	267	250	94
Oregon .....	264	246	93
Pennsylvania .....	740	690	93
Rhode Island .....	74	61	82
South Carolina .....	310	280	90
South Dakota .....	75	72	96
Tennessee .....	409	353	86
Texas .....	1,355	793	59
Utah .....	165	147	89
Vermont .....	52	50	96
Virginia .....	518	471	91
Washington .....	437	374	86
West Virginia .....	154	145	94
Wisconsin .....	464	399	86
Wyoming .....	66	56	85
Total .....	20,620	15,518	75

<sup>1</sup> Includes seasonal and part-time workers for whom State and local government employment was not the major job.

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

While the most recent year for which actual data are available is 1992, the Social Security Administration estimates that in 1996, 22.3 million individuals will work at some time during the year for a State or local government, and the wages of 75 percent of these individuals will be covered by Social Security.

**BENEFITS**

## ELIGIBILITY FOR WORKERS

*Insured status*

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

Before 1978, one quarter of coverage was earned for each calendar quarter in which a worker was paid \$50 or more in wages for covered employment, or received \$100 in self-employment income. A worker could also receive a calendar quarter for each multiple of \$100 in annual agricultural earnings, up to a maximum of 4 quarters of coverage per year. Since the beginning of 1978, the crediting of quarters of coverage has been on an annual rather than a quarterly basis up to a maximum of four quarters of coverage per year. In 1978, a worker earned one quarter of coverage (up to a maximum of four) for each \$250 of annual earnings reported from covered employment or self-employment. The amount of annual earnings needed for a quarter of coverage is increased each year in proportion to increases in average wages in the economy. In 1998 the amount of earnings needed for a quarter of coverage is \$700. Table 1–6 shows amounts needed since 1978.

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

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

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

*Age*

Workers must be at least age 62 to be eligible for retirement benefits. There is no minimum age requirement for disability benefits, but disabled workers who attain the “full retirement age” (see below) automatically receive full retirement benefits, rather than

disability benefits. Disability benefits are computed as if the worker reached full retirement age on the day he became totally disabled.

TABLE 1-6.—AMOUNT OF COVERED WAGES NEEDED TO EARN ONE QUARTER OF COVERAGE, 1978-2002

1978	\$250
1979	260
1980	290
1981	310
1982	340
1983	370
1984	390
1985	410
1986	440
1987	460
1988	470
1989	500
1990	520
1991	540
1992	570
1993	590
1994	620
1995	630
1996	640
1997	670
1998	700
1999	<sup>1</sup> 720
2000	<sup>1</sup> 750
2001	<sup>1</sup> 780
2002	<sup>1</sup> 810

<sup>1</sup> Based on economic assumptions in the 1997 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

Source: Office of the Actuary, Social Security Administration.

## DISABILITY

### *Definition*

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

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

The Commissioner<sup>3</sup> has specific regulatory authority to prescribe the criteria for determining at what level earnings from employment demonstrate an individual's ability to engage in substantial gainful activity (SGA). Effective January 1, 1990, the SGA earnings level was raised to \$500 a month (net of impairment-related work expenses), based on regulations published by the Commissioner. Table 1-7 shows SGA amounts applicable to nonblind disabled workers since 1968.

TABLE 1-7.—MONTHLY SGA AMOUNTS SINCE 1968

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

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

#### *Waiting period*

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

#### *Work incentive provisions*

The law provides a 45-month period for disabled beneficiaries to test their ability to work without losing their entitlement to all benefits. The period consists of: (1) a "trial work period" (TWP), which allows disabled beneficiaries to work for up to 9 months (within a 5-year period)<sup>4</sup> with no effect on their disability or Medicare benefits; followed by (2) a 36-month "extended period of eligibility," during the last 33 of which cash disability benefits are suspended for any month in which the individual is engaged in SGA. Medicare coverage continues so long as the individual remains entitled to disability benefits and, depending on when the last month of SGA occurs, may continue for 3-24 months after entitlement to disability benefits ends. When Medicare entitlement ends because of the individual's work activity, but she is still medically disabled, she may purchase Medicare protection.

If beneficiaries medically recover to the extent that they no longer meet the definition of disability, both disability and Medicare benefits are terminated after 3 months, regardless of the status of their trial work period or extended period of eligibility. How-

<sup>3</sup>As used in this section, "Commissioner" is the Commissioner of Social Security.

<sup>4</sup>Only one TWP is allowed in any one period of disability. By regulation, earnings of more than \$200 a month constitute "trial work."

ever, persons who contest this determination may elect to continue to receive disability benefits (subject to recovery) and Medicare while their appeal is being reviewed.

#### ELIGIBILITY FOR DEPENDENTS AND SURVIVORS

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

##### *Spouse's benefit*

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

##### *Widow(er)'s benefit*

A monthly survivor benefit is payable to a widow(er) or divorced spouse of a worker who was fully insured at the time of death. The widow(er) or divorced spouse must be unmarried (unless the remarriage occurred after the widow(er) first became eligible for benefits as a widow(er)); and must be either (1) age 60 or older or (2) age 50–59 and disabled throughout a waiting period of 5 consecutive calendar months that began no later than 7 years after the month the worker died or after the end of the individual's entitlement to benefits as a widowed mother or father.

##### *Child's benefit*

A monthly benefit is payable to a dependent, unmarried biological or adopted child, stepchild, and grandchild, of a retired, disabled, or deceased worker who was fully or currently insured at death. Dependency is deemed for the insured's biological children and most adopted children. The child must be either: (1) under age 18; (2) a full-time elementary or secondary student under age 19; or (3) a disabled person age 18 or over whose disability began before age 22.

##### *Mother's/father's benefit*

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

*Parent's benefit*

A monthly survivor benefit is payable to a parent of a deceased fully-insured worker who is age 62 or over, and has not married since the worker's death. The parent must have been receiving at least one-half of her support from the worker at the time of the worker's death or, if the worker had a period of disability which continued until death, at the beginning of the period of disability. Proof of support must be filed within 2 years after the worker's death or the month in which the worker filed for disability.

*Lump-sum death benefit*

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

[See table 1–8 for 1996 OASDI beneficiary statistics; table 1–9 for OASDI benefits paid 1940–96; table 1–10 for monthly benefit amounts for selected families; and the “Benefit Computation” section for further information on AIME.]

**BENEFIT COMPUTATION**

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

**FULL RETIREMENT AGE**

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



TABLE 1-8.—OASDI BENEFICIARIES IN CURRENT PAYMENT STATUS AND NEW AWARDS, DECEMBER 1996

	Number in current payment (in thousands)	Percent of beneficiary population	Average monthly benefit	Number of new awards (in thousands)	Average new award
Retired workers .....	26,898	61.5	\$745	1,581	\$713
Wives and husbands of retired workers .....	2,970	6.8	384	244	347
Children of retired workers .....	443	1.0	337	99	312
Disabled workers .....	4,386	10.0	704	624	714
Wives and husbands of disabled workers .....	224	0.5	171	58	182
Children of disabled workers .....	1,463	3.3	194	397	186
Widowed mothers and fathers .....	242	0.6	515	49	498
Surviving children .....	1,898	4.3	487	302	483
Widows and widowers ...	5,028	11.5	707	409	689
Disabled widow(er)s .....	182	0.4	471	29	463
Parents .....	4	( <sup>1</sup> )	614	( <sup>2</sup> )	602
Special age-72 .....	1	( <sup>1</sup> )	197	( <sup>2</sup> )	156
Totals and averages .....	43,737	100.0	\$673	3,793	\$591

<sup>1</sup> Less than 0.05 percent.<sup>2</sup> Fewer than 500.

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

TABLE 1-9.—OASDI BENEFITS PAID, 1940-96

[In millions of dollars]

Year	OASDI	OASI	DI
1940 .....	\$35	\$35	.....
1950 .....	961	961	.....
1960 .....	11,245	10,677	\$568
1970 .....	31,863	28,796	3,067
1980 .....	120,511	105,074	15,437
1985 <sup>1</sup> .....	186,196	167,360	18,836
1990 <sup>1</sup> .....	247,796	222,993	24,803
1991 <sup>1</sup> .....	268,098	240,436	27,662
1992 <sup>1</sup> .....	286,030	254,939	31,091
1993 <sup>1</sup> .....	302,402	267,804	34,598
1994 <sup>1</sup> .....	316,772	279,068	37,704
1995 <sup>1</sup> .....	332,580	291,682	40,898
1996 <sup>1</sup> .....	347,088	302,914	44,174

<sup>1</sup> Unnegotiated checks not deducted.

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

TABLE 1-10.—MONTHLY BENEFIT AMOUNTS FOR SELECTED BENEFICIARY FAMILIES WITH FIRST ELIGIBILITY IN 1996, FOR SELECTED WAGE LEVELS, DECEMBER 1996

Beneficiary family	Workers with yearly earnings equal to		
	Federal minimum wage <sup>1</sup>	Average wage <sup>2</sup>	Maximum taxable earnings <sup>3</sup>
<b>Retired-worker families:<sup>4</sup></b>			
Average indexed monthly earnings .....	\$983.00	\$1,981.00	\$3,657.00
Primary insurance amount .....	584.40	913.00	1,286.10
Maximum family benefit .....	887.90	1,666.10	2,249.70
Monthly benefit amount:			
Retired worker claiming benefits at age 62: <sup>4</sup>			
Worker alone .....	467.00	730.00	1,028.00
Worker with spouse claiming benefits at—			
Age 65 or older .....	759.00	1,186.00	1,671.00
Age 62 <sup>4</sup> .....	686.00	1,072.00	1,510.00
<b>Survivor families:<sup>5</sup></b>			
Average indexed monthly earnings .....	882.00	1,985.00	4,793.00
Primary insurance amount .....	551.20	914.30	1,461.40
Maximum family benefit .....	826.80	1,668.00	2,556.50
Monthly benefit amount:			
Survivors of worker deceased at age 40: <sup>5</sup>			
One surviving child .....	413.00	685.00	1,096.00
Widowed mother or father and one child .....	826.00	1,370.00	2,192.00
Widowed mother or father and two children .....	825.00	1,668.00	2,556.00
<b>Disabled worker families:<sup>6</sup></b>			
Average monthly indexed earnings .....	938.00	1,982.00	4,273.00
Primary insurance amount .....	569.60	913.40	1,381.20
Maximum family benefit <sup>7</sup> .....	820.40	1,370.10	2,071.70
Monthly benefit amount:			
Disabled worker age 50: <sup>6</sup>			
Worker alone .....	569.00	913.00	1,381.00
Worker, spouse, and one child .....	819.00	1,369.00	2,071.00

<sup>1</sup>The annual wage was calculated by multiplying the Federal minimum hourly wage of \$4.25 in effect during the period January to September by 1,560 and adding to it the product of \$4.75—the minimum for the period October to December. The minimum was raised to \$5.15 effective September 1997 as legislated by Public Law 104-188.

<sup>2</sup>Worker earned the national average wage in each year used in the computation of the benefit.

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

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

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

<sup>6</sup>Assumes the worker began work at age 22, became disabled at age 50, and had no prior disability.

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

Source: Social Security Administration.

Benefits of workers who choose to retire after their full retirement age are increased by delayed retirement credits, as are the

benefits payable to their widow(er)s. The delayed retirement credit is 1 percent per year for workers who attained age 65 before 1982, and 3 percent per year for workers who attained age 65 between 1982 and 1989. Starting in 1990, the delayed retirement credit increases by one-half of 1 percent every other year until it reaches 8 percent for workers reaching age 65 after 2007 (see section on “Benefit Reduction and Increase”). Table 1–11 shows the schedule of increases in the full retirement age and delayed retirement credits for workers.

#### TRENDS IN RETIREMENT AGE

Table 1–12 shows the percentage of workers who elected to receive retirement benefits at selected ages since the beginning of the Social Security Program. It clearly illustrates a trend toward early retirement. Retirement at age 62 has become the norm. Reduced benefits were not available to women until 1956, and to men until 1961. Table 1–13 shows the percentage of retired workers electing reduced benefits since they first became available.

#### TRENDS IN LONGEVITY

Table 1–14 shows how life expectancies have increased since Social Security benefits were first paid in 1940, and what they are projected to be in the future, as well as fertility and death rates.

#### AVERAGE INDEXED MONTHLY EARNINGS

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

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

TABLE 1-11.—INCREASES IN FULL RETIREMENT AGE AND DELAYED RETIREMENT CREDITS WITH RESULTING BENEFIT, AS A PERCENT OF PRIMARY INSURANCE AMOUNT [PIA], PAYABLE AT SELECTED AGES, FOR PERSONS BORN IN 1924 OR LATER

Year of birth	Age 62 attained in—	"Normal retirement age"	Credit for each year of delayed retirement after normal retirement age	Benefit, as a percent of PIA, beginning at age—						
				62	65	66	67	70		
1924	1986	65	3	80	100	103	106	115		
1925-26	1987-88	65	3½	80	100	103½	107	117½		
1927-28	1989-90	65	4	80	100	104	108	120		
1929-30	1991-92	65	4½	80	100	104½	109	122½		
1931-32	1993-94	65	5	80	100	105	110	125		
1933-34	1995-96	65	5½	80	100	105½	111	127½		
1935-36	1997-98	65	6	80	100	106	112	130		
1937	1999	65	6½	80	100	106½	113	132½		
1938	2000	65, 2 mo	6½	79½	98½	105½	111½	131½		
1939	2001	65, 4 mo	7	78½	97½	104½	111½	132½		
1940	2002	65, 6 mo	7	77½	96½	103½	110½	131½		
1941	2003	65, 8 mo	7½	76½	95½	102½	110	132½		
1942	2004	65, 10 mo	7½	75½	94½	101½	108¾	131¼		
1943-54	2005-16	66	8	75	93½	100	108	132		
1955	2017	66, 2 mo	8	74½	92½	98½	106½	130½		
1956	2018	66, 4 mo	8	73½	91½	97½	105½	129½		
1957	2019	66, 6 mo	8	72½	90	96½	104	128		
1958	2020	66, 8 mo	8	71½	88½	95½	102½	126½		
1959	2021	66, 10 mo	8	70½	87½	94½	101½	125½		
1960 or later	2022 or later	67	8	70	86½	93½	100	124		

Source: Ballantyne (1984).

TABLE 1-12.—PERCENTAGE OF WORKERS ELECTING SOCIAL SECURITY RETIREMENT BENEFITS AT VARIOUS AGES, SELECTED YEARS 1940-95<sup>1</sup>

Year	Age 62	Ages 63-64	Age 65	Ages 66+	Average age
1940	(2)	(2)	8.3	91.7	68.7
1945	(2)	(2)	17.9	82.1	70.0
1950	(2)	(2)	23.1	76.9	68.5
1955	(2)	(2)	41.2	58.8	68.2
1960	10.0	7.9	35.3	46.7	66.2
1965	23.0	17.7	23.4	35.9	65.9
1970	27.8	23.2	36.9	12.1	64.2
1975	35.7	24.5	31.1	8.7	63.9
1980	40.5	22.2	30.7	6.6	63.7
1985	57.2	21.1	17.7	4.0	63.6
1990	56.6	20.2	16.6	6.7	63.6
1995	58.3	19.5	16.3	6.0	63.6

<sup>1</sup> Excludes conversions at age 65 from disability to retirement rolls.<sup>2</sup> Retirement before age 65 was not available.

Source: Congressional Research Service and Social Security Administration.

TABLE 1-13.—NUMBER OF SOCIAL SECURITY RETIRED WORKER NEW BENEFIT AWARDS AND PERCENT RECEIVING REDUCED BENEFITS BECAUSE OF ENTITLEMENT BEFORE AGE 65, SELECTED YEARS 1956-96<sup>1</sup>

[Numbers in millions]

Year <sup>1</sup>	Total		Men		Women	
	Number	Percent	Number	Percent	Number	Percent
1956	0.9	12	0.6	.....	0.4	31
1960	1.0	21	0.6	.....	0.4	60
1965	1.2	49	0.7	43	0.4	60
1970	1.3	63	0.8	57	0.5	72
1975	1.5	73	0.9	69	0.6	79
1980	1.6	76	0.9	73	0.7	80
1985	1.7	74	1.0	70	0.7	79
1986	1.7	74	1.0	71	0.7	79
1987	1.7	74	1.0	71	0.7	79
1988	1.6	74	0.9	70	0.7	78
1989	1.7	73	1.0	69	0.7	78
1990	1.7	74	1.0	71	0.7	78
1991	1.7	72	1.0	69	0.7	76
1992	1.7	72	1.0	69	0.7	76
1993	1.7	72	1.0	70	0.7	75
1994	1.6	73	0.9	70	0.7	76
1995	1.6	72	0.9	69	0.7	75
1996	1.6	72	0.9	69	0.7	75

<sup>1</sup> As of December of given year; data for 1985-90 based on a 1-percent sample; data for other years based on 100 percent. Includes conversions at age 65 from disability to retirement rolls.

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

TABLE 1-14.—FERTILITY, DEATH RATE AND LIFE EXPECTANCY ASSUMPTIONS, SELECTED YEARS 1940–2075

Calendar year	Total fertility rate <sup>1</sup> (per woman)	Age-sex-adjusted death rate <sup>2</sup> (per 100,000)	Life expectancy <sup>3</sup> at birth		Life expectancy <sup>3</sup> at age 65	
			Male	Female	Male	Female
<b>Actual:</b>						
1940 .....	2.23	1,672.6	61.4	65.7	11.9	13.4
1945 .....	2.42	1,488.6	62.9	68.4	12.6	14.4
1950 .....	3.03	1,339.9	65.6	71.1	12.8	15.1
1955 .....	3.50	1,243.0	66.7	72.8	13.1	15.6
1960 .....	3.61	1,237.9	66.7	73.2	12.9	15.9
1965 .....	2.88	1,210.8	66.8	73.8	12.9	16.3
1970 .....	2.43	1,138.4	67.1	74.9	13.1	17.1
1975 .....	1.77	1,020.9	68.7	76.6	13.7	18.0
1976 .....	1.74	1,010.1	69.1	76.8	13.7	18.1
1977 .....	1.79	981.8	69.4	77.2	13.9	18.3
1978 .....	1.76	976.3	69.6	77.2	13.9	18.3
1979 .....	1.82	944.8	70.0	77.7	14.2	18.6
1980 .....	1.85	961.1	69.9	77.5	14.0	18.4
1981 .....	1.83	934.5	70.4	77.8	14.2	18.6
1982 .....	1.83	906.4	70.8	78.2	14.5	18.8
1983 .....	1.81	916.0	70.9	78.1	14.3	18.6
1984 .....	1.80	909.2	71.1	78.2	14.4	18.7
1985 .....	1.84	912.3	71.1	78.2	14.4	18.6
1986 .....	1.84	904.8	71.1	78.3	14.5	18.7
1987 .....	1.87	895.6	71.3	78.4	14.6	18.7
1988 .....	1.93	906.0	71.2	78.3	14.6	18.7
1989 .....	2.01	882.4	71.5	78.6	14.8	18.9
1990 .....	2.07	865.9	71.8	78.9	15.0	19.0
1991 .....	2.07	854.8	71.9	79.0	15.1	19.1
1992 .....	2.06	843.6	72.2	79.2	15.2	19.2
1993 .....	2.04	863.4	72.0	78.9	15.1	19.0
1994 .....	2.04	852.2	72.2	79.0	15.3	19.0
<b>Estimated:</b>						
1995 .....	2.02	838.4	72.6	79.0	15.6	19.0
1996 .....	2.01	832.0	72.6	79.3	15.5	19.2
<b>Projected:</b>						
1997 .....	2.01	824.9	72.8	79.4	15.6	19.2
2000 .....	2.00	804.7	73.2	79.7	15.8	19.3
2005 .....	1.97	771.7	74.1	80.1	16.0	19.5
2010 .....	1.95	746.7	74.7	80.5	16.2	19.6
2015 .....	1.93	725.0	75.1	80.8	16.4	19.8
2020 .....	1.90	704.0	75.5	81.1	16.6	20.0
2025 .....	1.90	684.0	75.8	81.5	16.8	20.2
2030 .....	1.90	665.0	76.2	81.8	17.0	20.4
2035 .....	1.90	646.9	76.5	82.1	17.3	20.7
2040 .....	1.90	629.7	76.8	82.4	17.5	20.9
2045 .....	1.90	613.4	77.2	82.7	17.7	21.1
2050 .....	1.90	597.8	77.5	82.9	17.8	21.3
2055 .....	1.90	582.9	77.8	83.2	18.0	21.5
2060 .....	1.90	568.7	78.1	83.5	18.2	21.7

TABLE 1-14.—FERTILITY, DEATH RATE AND LIFE EXPECTANCY ASSUMPTIONS, SELECTED YEARS 1940-2075—Continued

Calendar year	Total fertility rate <sup>1</sup> (per woman)	Age-sex-adjusted death rate <sup>2</sup> (per 100,000)	Life expectancy <sup>3</sup> at birth		Life expectancy <sup>3</sup> at age 65	
			Male	Female	Male	Female
2065 .....	1.90	555.2	78.4	83.7	18.4	21.9
2070 .....	1.90	542.2	78.6	84.0	18.6	22.1
2075 .....	1.90	529.8	78.9	84.3	18.8	22.3

<sup>1</sup>The total fertility rate for any year is the average number of children who would be born to a woman in her lifetime if she were to experience that year's age-specific birth rates throughout her life, and if she were to survive the entire childbearing period.

<sup>2</sup>The age-sex-adjusted death rate for any year is the crude rate that would occur in the total population (enumerated as of April 1, 1990), if that population were to experience that year's age-sex-specific death rates.

<sup>3</sup>The life expectancy for any year is the average number of years of life remaining for a person, if that person were to experience that year's age-sex-specific death rates throughout the remainder of his life.

Source: Board of Trustees (1997; intermediate assumptions).

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

The indexed earnings histories (rounded to whole dollars) are illustrated in table 1-15 for three hypothetical workers retiring in 1997 at age 62. The actual earnings for the three workers are shown in the first three columns. These are multiplied by the indexing factor (column 4) to arrive at indexed earnings (last 3 columns). The indexing factor for 1960 is based on average wages when the individual turned 60 (\$24,705.66), divided by average wages for 1960 (\$4,007.12). The highest 35 years of indexed earnings are used. For example, a lifelong full-time worker who had maximum creditable earnings would drop low earnings in 1958, 1962, 1963, 1964, and 1965, and would have total indexed earnings of \$1,628,473 (see table 1-15). Dividing total indexed earnings by the number of months in the computation period (35 years × 12 months = 420 months) results in average indexed monthly earnings (AIME) of \$3,877. The corresponding AIMEs for the average and low earners are \$2,061 and \$927, respectively. Low earners are defined as earning 45 percent of the average wage.

TABLE 1-15.—EARNINGS HISTORIES FOR HYPOTHETICAL WORKERS AGE 62 IN 1997

[Rounded to nearest dollar]

Year	Nominal earnings			Indexing factor	Indexed earnings		
	Low <sup>1</sup>	Average <sup>2</sup>	Maximum <sup>3</sup>		Low <sup>1</sup>	Average <sup>2</sup>	Maximum <sup>3</sup>
1957	\$1,639	\$3,642	\$4,200	6.7841	<sup>4</sup> \$11,118	<sup>4</sup> \$24,706	\$28,493
1958	1,653	3,674	4,200	6.7248	<sup>4</sup> 11,118	<sup>4</sup> 24,706	<sup>4</sup> 28,244
1959	1,735	3,856	4,800	6.4074	<sup>4</sup> 11,118	<sup>4</sup> 24,706	30,756
1960	1,803	4,007	4,800	6.1654	<sup>4</sup> 11,118	<sup>4</sup> 24,706	29,594
1961	1,839	4,087	4,800	6.0453	<sup>4</sup> 11,118	<sup>4</sup> 24,706	29,017
1962	1,931	4,291	4,800	5.7570	11,118	24,706	<sup>4</sup> 27,634
1963	1,978	4,397	4,800	5.6192	11,118	24,706	<sup>4</sup> 26,972
1964	2,059	4,576	4,800	5.3986	11,118	24,706	<sup>4</sup> 25,913
1965	2,096	4,659	4,800	5.3031	11,118	24,706	<sup>4</sup> 25,455
1966	2,222	4,938	6,600	5.0028	11,118	24,706	33,019
1967	2,346	5,213	6,600	4.7388	11,118	24,706	31,276
1968	2,507	5,572	7,800	4.4341	11,118	24,706	34,586
1969	2,652	5,894	7,800	4.1918	11,118	24,706	32,696
1970	2,784	6,186	7,800	3.9936	11,118	24,706	31,150
1971	2,924	6,497	7,800	3.8026	11,118	24,706	29,660
1972	3,210	7,134	9,000	3.4632	11,118	24,706	31,169
1973	3,411	7,580	10,800	3.2593	11,118	24,706	35,200
1974	3,614	8,031	13,200	3.0764	11,118	24,706	40,608
1975	3,884	8,631	14,100	2.8625	11,118	24,706	40,361
1976	4,152	9,226	15,300	2.6777	11,118	24,706	40,969
1977	4,401	9,779	16,500	2.5263	11,118	24,706	41,684
1978	4,750	10,556	17,700	2.3404	11,118	24,706	41,426
1979	5,166	11,479	22,900	2.1522	11,118	24,706	49,285
1980	5,631	12,513	25,900	1.9743	11,118	24,706	51,135
1981	6,198	13,773	29,700	1.7938	11,118	24,706	53,275
1982	6,539	14,531	32,400	1.7002	11,118	24,706	55,085
1983	6,858	15,239	35,700	1.6212	11,118	24,706	57,876
1984	7,261	16,135	37,800	1.5312	11,118	24,706	57,879
1985	7,570	16,823	39,600	1.4686	11,118	24,706	58,157
1986	7,795	17,322	42,000	1.4263	11,118	24,706	59,904
1987	8,292	18,427	43,800	1.3408	11,118	24,706	58,726
1988	8,700	19,334	45,000	1.2778	11,118	24,706	57,502
1989	9,045	20,100	48,000	1.2292	11,118	24,706	59,000
1990	9,463	21,028	51,300	1.1749	11,118	24,706	60,272
1991	9,815	21,812	53,400	1.1327	11,118	24,706	60,485
1992	10,321	22,935	55,500	1.0772	11,118	24,706	59,784
1993	10,410	23,133	57,600	1.0680	11,118	24,706	61,517
1994	10,689	23,754	60,600	1.0401	11,118	24,706	63,029
1995	11,118	24,706	61,200	1.0000	11,118	24,706	61,200
1996	<sup>5</sup> 11,576	<sup>5</sup> 25,724	62,700	1.0000	<sup>5</sup> 11,576	<sup>5</sup> 25,724	62,700

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

Source: Office of the Actuary, Social Security Administration.



## BENEFIT FORMULA

The primary insurance amount (PIA) is determined by applying the primary benefit formula to the AIME. For a worker becoming eligible in 1997, the PIA is determined as follows:

Factor	Average indexed monthly earnings	Example of worker with monthly earnings of \$3,500
90 percent .....	first \$455, plus .....	\$409.50
32 percent .....	\$455 through \$2,741, plus .....	731.52
15 percent .....	over \$2,741 .....	113.85
Total .....	.....	1,254.87

Applying this formula to the AIMEs of the three hypothetical workers results in PIAs of \$560.50 for the low-wage worker, \$923.40 for the average-wage worker, and \$1,311.40 for the maximum-wage worker. (For the low-wage worker, the 1997 special minimum benefit (see below) PIA of \$548.30 is less than AIME-based PIA of \$560.50, and therefore is not used to determine his or her benefits.) The numbers \$455 and \$2,741 are often referred to as “bend points” of the PIA formula. These points are adjusted each year by the change in average wages. After the year of initial eligibility (age 62 for retired workers), the PIA is increased each year for the increase in the Consumer Price Index (CPI). The PIAs of \$560.50, \$923.40, and \$1,311.40 would be in effect for January through November 1997, and will be increased by the cost-of-living adjustment effective beginning December 1997.

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

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

## SPECIAL MINIMUM BENEFIT

The special minimum benefit is not based on the amount of a worker’s average earnings, but instead on his or her number of years of covered employment. It is structured to provide a larger benefit than would otherwise be payable to those who worked in covered employment for many years but had low earnings. The amount of the special minimum is computed by multiplying the number of years of coverage in excess of 10 years and up to 30 years by \$11.50 for monthly benefits payable in 1979, with automatic cost-of-living increases applicable to years 1979 and later. The number of years of coverage for the purpose of qualifying for a special minimum benefit equals the number obtained by dividing total creditable wages in 1937–50 by \$900 (not to exceed 14), plus the number of years after 1950 and before 1991 for which the worker is credited with at least 25 percent of the annual maximum

taxable earnings. For this purpose, for years after 1978, annual maximum taxable earnings are defined as the “old-law” taxable earnings base (i.e., the hypothetical earnings base that would be in effect if the ad hoc increases in the base enacted in 1977 were disregarded). In addition, for years after 1990, a year of coverage is earned if the worker is credited with at least 15 percent of the “old-law” taxable earnings base. The special minimum benefit is not subject to the delayed retirement credit provisions described earlier.

### BENEFIT AMOUNTS

The monthly benefit amount payable to a disabled worker under age 65, or to a retired worker who first receives benefits at the full retirement age, is the PIA rounded to the next lower dollar, if not already a multiple of \$1. Auxiliary benefit amounts are also based on the worker’s PIA. Table 1–16 lists major types of benefits and the percent of the insured worker’s PIA that is applicable to benefits paid at the full rate, unreduced for early election of retirement.

TABLE 1–16.—PERCENTAGE OF PRIMARY INSURANCE AMOUNT (PIA) PAID FOR DEPENDENTS’ AND SURVIVORS’ BENEFITS

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

<sup>1</sup> Subject to maximum family benefit limitation.

<sup>2</sup> Subject to general limitation that the survivor cannot get a higher benefit than the deceased worker would be getting if alive.

<sup>3</sup> These percentages decrease as the full retirement age increases for workers born after 1937.

Source: Congressional Research Service.

### REPLACEMENT RATES

Frequently, Social Security benefits are discussed in terms of how much of a person’s preretirement earnings the benefits represent. Benefits expressed as a percent of a person’s earnings in the year before retirement are called replacement rates. Table 1–17 shows replacement rates based on the benefits of hypothetical workers who retired at the full retirement age after full-time careers with steady earnings equal to: (1) 45 percent of average earnings in the economy as recorded through the Social Security average wage index (low earner); (2) average earnings in the economy (average earner); and (3) the Social Security maximum taxable earnings base (maximum earner).

TABLE 1-17.—SOCIAL SECURITY REPLACEMENT RATES, SELECTED YEARS 1940–2040

[In percent]

Year of birth	Year of attaining age 65 <sup>2</sup>	Replacement rates <sup>1</sup>		
		Low earner <sup>3</sup>	Average earner <sup>4</sup>	Maximum earner <sup>5</sup>
1875 .....	1940	39.4	26.2	16.5
1885 .....	1950	33.2	19.7	21.2
1895 .....	1960	49.1	33.3	29.8
1900 .....	1965	45.6	31.4	32.9
1905 .....	1970	48.5	34.3	29.2
1910 .....	1975	<sup>7</sup> 59.9	42.3	30.1
1911 .....	1976	60.1	43.7	32.1
1912 .....	1977	61.0	44.8	33.5
1913 .....	1978	63.4	46.7	34.7
1914 .....	1979	64.4	48.1	36.1
1915 .....	1980	68.1	51.1	32.5
1916 .....	1981	72.5	54.4	33.4
1917 .....	1982	<sup>6</sup> 65.8	<sup>6</sup> 48.7	<sup>6</sup> 28.6
1918 .....	1983	<sup>7</sup> 63.5	45.8	26.3
1919 .....	1984	<sup>7</sup> 62.6	42.8	23.7
1920 .....	1985	<sup>7</sup> 61.1	40.9	22.8
1921 .....	1986	<sup>7</sup> 60.3	41.1	23.1
1922 .....	1987	<sup>7</sup> 59.5	41.2	22.6
1923 .....	1988	<sup>7</sup> 58.4	40.9	23.0
1924 .....	1989	<sup>7</sup> 57.9	41.6	24.1
1925 .....	1990	58.2	43.2	24.5
1935 .....	2000	57.8	43.0	25.4
1945 .....	2010	53.1	39.5	25.4
1955 .....	2020	52.5	39.0	25.8
1965 .....	2030	49.4	36.7	24.2
1975 .....	2040	49.4	36.7	24.2

<sup>1</sup>Total monthly benefits payable for year of entitlement at age 65 expressed as percent of earnings in previous year for workers with steady career earnings. Projections for 1997 and later are based on the intermediate II assumptions of the 1997 OASDI Trustees' Report.

<sup>2</sup>The age for full (unreduced) retirement benefits will rise from 65 starting with workers born in 1938 and will ultimately reach 67 for workers born in 1960 and later. The lower rates projected for 1945 and later in the table reflect the increased actuarial reduction applied to the benefits of workers retiring at age 65.

<sup>3</sup>Earnings equal to 45 percent of the Social Security average-wage index.

<sup>4</sup>Earnings equal to the Social Security average-wage index.

<sup>5</sup>Earnings equal to the maximum wage taxable for Social Security purposes.

<sup>6</sup>"Transition guarantee" under 1977 amendments.

<sup>7</sup>Special minimum benefit.

Source: Office of the Actuary, Social Security Administration.

### BENEFIT REDUCTION AND INCREASE

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

## DUAL ENTITLEMENT

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

## ACTUARIAL REDUCTION

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

*Retired workers*

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

Although the minimum age of eligibility for reduced benefits remains age 62 (age 60 for widows and widowers), the increase in the full retirement age will be accompanied by increases in the amount of reduction for retirement at age 62 for individuals born after 1937. For them, the PIA will be reduced by five-twelfths of 1 percent for each month in excess of 36. For example, for persons born from 1943 through 1954, for whom the normal retirement age will be 66, the benefit payable at age 62 will be 75 percent of the PIA. For persons born in 1960 and later, for whom the normal retirement age will be 67, the benefit payable at age 62 will be 70 percent of the PIA (see table 1–11).

*Spouses*

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

*Widow(er)s*

The rate of reduction is nineteen-fortieths of 1 percent for each month of entitlement between age 60 and age 65 (maximum reduction of 28.5 percent). There is no scheduled increase in the maxi-

mum reduction for widow(er)s. Disabled widow(er)s ages 50 to 59 receive 71.5 percent of the PIA.

Generally, benefits continue to be paid at these reduced rates for as long as the recipients remain on the rolls. However, at attainment of the full retirement age for all recipients, and also at age 62 for a widow, widower, and a surviving divorced spouse, the number of months of reduction is adjusted by dropping months for which full benefits were not paid. Data on benefits paid to new retired workers in 1996 indicate that 72 percent of all such benefits were actuarially reduced (69 percent of those payable to men, and 75 percent to women). Table 1-13 presents information on the number of workers retiring in a given year who file for actuarially reduced benefits.

#### DELAYED RETIREMENT CREDIT

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

As a result of the Social Security Amendments of 1983, beginning with workers who attain age 65 in 1990 (i.e., age 62 in 1987) the increment for delaying retirement past the normal retirement age (DRC) will increase by one-half of 1 percent every second year until reaching 8 percent per year of delayed retirement for workers attaining age 65 after 2007 (see table 1-11).

#### MAXIMUM FAMILY BENEFIT

##### *Old-age and survivors insurance (OASI)*

The maximum monthly amount that can be paid on a worker's earnings record varies with the PIA. For benefits payable on the earnings records of retired and deceased workers, the maximum varies from 150 to 188 percent of the PIA. The family maximum cannot be exceeded regardless of the number of recipients entitled on that earnings record. The family maximum is computed by adding fixed percentages of dollar amounts that are part of the PIA. For the family of a worker who turns 62 or dies in 1997, the total amount of benefits payable is limited to:

- 150 percent of the first \$581 of PIA, plus;
- 272 percent of PIA from \$581 through \$839, plus;
- 134 percent of PIA from \$839 through \$1,094, plus;

175 percent of PIA over \$1,094.

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

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

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

#### *Disability insurance (DI)*

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

#### EARNINGS LIMIT

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

Variations of the earnings limit have been part of the Social Security Program since its beginning. In 1998, recipients under age 65 may earn up to \$9,120 a year in wages or self-employment income without having their benefits affected. Those aged 65–69 can earn up to \$14,500 a year. For earnings above these amounts, recipients under age 65 lose \$1 of benefits for each \$2 of earnings, and those age 65–69 lose \$1 in benefits for every \$3 of earnings. The earnings limit does not apply to recipients aged 70 or older, or to those who are disabled. The earnings limits rise each year indexed to the rise in average wages in the economy.

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

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

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

Before enactment of Public Law 104–121, about 1.4 million recipients lost some or all of their benefits because of the earnings limit each year. They represented about 3 percent of all recipients.

Of recipients age 65–69, about 9 percent (860,000) were affected, and an additional 110,000 persons were estimated to be deterred from filing for benefits because of the earnings limit.

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

Examples of effects of the earnings limit:

1. John—Age 63 with \$4,000 in annual benefits before the earnings limit is applied:	
Earnings in 1998 .....	\$10,120
Exempt amount for under age 65 .....	9,120
	-----
Excess over exempt amount .....	1,000
Benefit reduction = 50 percent of excess .....	500
Benefits John will receive in 1998 .....	3,500
2. Ida—Age 67 with \$4,000 in annual benefits before the earnings limit is applied:	
Earnings in 1998 .....	15,100
Exempt amount for 65 and older .....	14,500
	-----
Excess over exempt amount .....	600
Benefit reduction = 33⅓ percent of excess .....	200
Benefits Ida will receive in 1998 .....	3,800

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

#### *History of the earnings limit*

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

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

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

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

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

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

Before 1997, recipients under age 70 who earned more than the limits were required to file a report of their earnings to SSA by April 15 of each year. Because W-2s and self-employment income are now being recorded more rapidly, under new rules most recipients need not file annual reports of earnings.

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



Table 1–18 shows amounts exempt from the earnings limit since 1975.

TABLE 1–18.—RETIREMENT TEST EXEMPT AMOUNTS, 1975–2002

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

<sup>1</sup>In 1955–82, retirement earnings test did not apply at ages 72 and over; beginning in 1983, it does not apply at ages 70 and over. Amounts for 1978–82 specified by Public Law 95–216; for 1996–2002, Public Law 104–121.

<sup>2</sup>Based on economic assumptions in the 1997 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

Source: Office of the Chief Actuary, Social Security Administration.

### *Earnings of retired workers*

Of 9.5 million recipients entitled to retired worker benefits who were under the age of 70 in 1994, about 3.5 million had earnings from work. Table 1–19 shows the distribution of the earnings of these workers.

### OFFSETS

#### *Offset for other public disability benefits*

When a worker receiving Social Security disability benefits also qualifies for other disability benefits that are provided by Federal, State or local governments or worker's compensation, any Social

Security benefits payable to the worker and his or her family are reduced by the amount, if any, that the total monthly benefits payable under the two or more programs exceed 80 percent of average current earnings before the worker became disabled. Needs-tested benefits, Veterans Administration disability benefits, and benefits based on public employment covered by Social Security are not subject to the reduction. A worker's average current earnings for this purpose are the larger of: (1) the average monthly earnings used for computing Social Security benefits; or (2) the average monthly earnings in employment or self-employment covered by Social Security during the 5 consecutive years of highest covered earnings after 1950; or (3) the average monthly earnings during the calendar year of highest covered earnings during a period consisting of the year in which disability began and the preceding 5 years without regard to the limitations which specify a maximum amount of earnings creditable for Social Security benefits. The combined payments after the reduction are never less than the total amount of the DI benefits payable before the reduction. In addition, the Social Security benefit after the reduction is increased by the full amount of the cost-of-living increase as applied to the unreduced benefit. Every 3 years the original amount of benefits subject to reduction is redetermined to reflect changes in average wage levels. If increases in average national wages would result in a higher benefit than that payable based on the original computation, the benefit is increased effective in January of the redetermination year.

TABLE 1-19.—RETIRED WORKERS WITH EARNINGS IN 1994

Total earnings	Ages 62-64	Ages 65-69
\$1-4,999 .....	501,200	977,300
5,000-9,999 .....	346,800	537,300
10,000-14,999 .....	111,600	305,300
15,000-19,999 .....	52,800	123,000
20,000-24,999 .....	32,300	87,600
25,000-29,999 .....	20,500	71,000
30,000-34,999 .....	16,300	54,500
35,000-39,999 .....	9,100	40,100
40,000-44,999 .....	9,400	31,700
45,000-49,999 .....	5,600	25,200
50,000-54,999 .....	3,600	20,100
55,000-59,999 .....	3,300	15,100
60,000-64,999 .....	3,500	35,800
65,000-69,999 .....	1,000	7,500
70,000-74,999 .....	2,100	6,300
75,000-79,999 .....	1,100	5,700
80,000-84,999 .....	1,000	4,500
85,000-89,999 .....	400	3,700
90,000-94,999 .....	800	3,100
95,000-99,999 .....	200	3,200
100,000 + .....	2,900	29,300
Total .....	1,125,500	2,387,300

Source: Social Security Administration; 1994 Continuous Work History Sample (CWHS).

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

*Offsets for receipt of pension from noncovered employment*

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

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

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

The windfall benefit formula is intended to remove this advantage for these workers. It does so by substituting 40 percent for the 90 percent factor in the first bracket of the benefit formula (see discussion in earlier section on "Benefit Formula"). The resulting re-

duction in the worker's Social Security benefit is limited to one-half the amount of the noncovered pension. The new law was phased in over a 5-year period and affects those first eligible for both Social Security benefits and noncovered pensions after 1985.

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

TABLE 1–20.—WINDFALL BENEFIT FORMULA FACTORS

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

Source: Social Security Administration.

#### SUSPENSION OF BENEFITS TO PRISONERS

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

#### COST-OF-LIVING ADJUSTMENTS

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

Social Security beneficiaries receive a COLA in January of each year if there is a measurable annual increase in prices (0.1 percent). The Consumer Price Index for Wage Earners and Clerical Workers (CPI–W), updated monthly by the Bureau of Labor Statistics (BLS), is the measure used to compute the increase. The aver-

age CPI-W for the third calendar quarter of one year is compared to the average CPI-W for the third calendar quarter of the next year, and the resulting percentage increase represents the COLA that will become effective for the following December. The increase actually becomes effective for Social Security checks payable beginning in January, since Social Security checks always reflect the benefits due for the preceding month.

A COLA of 2.1 percent beginning with checks payable in January 1998 was triggered by the rise in the CPI-W from the third quarter of 1996 to the third quarter of 1997. As in all years since 1975, this COLA, in turn, triggered identical percentage increases in Supplemental Security Income (SSI), veterans' pensions, and railroad retirement benefits, and caused other changes in the Social Security Program. Although COLAs under the Federal Civil Service Retirement System and the Federal Military Retirement Program are not triggered by the Social Security COLA, these programs use the same measuring period and formula for computing their COLAs.

#### *Determination of the COLA*

The 2.1 percent COLA for January 1998 became known on October 16, 1997, when the BLS announced the CPI-W figure for September 1997. With release of the September index, the two July-September sets of CPI-W figures needed to compute the 1998 COLA—one for 1996 and another for 1997—became available.

Table 1-21 shows how the January 1998 COLA was computed under procedures set forth in the law.<sup>5</sup> Table 1-22 shows the comparison between average wage increases and changes in the CPI from 1965 to 1997.

TABLE 1-21.—COMPUTATION OF THE SOCIAL SECURITY COLA, JANUARY 1998

Month	CPI-W index points	
	1996	1997
July .....	154.3	157.5
August .....	154.5	157.8
September .....	155.1	158.3
3-month average .....	154.6	157.9

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

Source: Bureau of Labor Statistics.

Based on the third quarter index points shown in table 1-21, there are three steps to calculating the annual Social Security COLA. First, the annual increase in CPI index points from the third quarter of 1996 to the third quarter of 1997 is calculated ( $157.9 - 154.6 = 3.3$ ). Second, the rate of increase is converted into a percentage by dividing the increase in index points by the base year level ( $3.3/154.6 = 2.135$ ). Finally, the resulting figure (2.135) is rounded to the nearest tenth of a percent, making the 1998 COLA 2.1 percent.

<sup>5</sup> Under section 215(i) of the Social Security Act.

TABLE 1-22.—HISTORICAL COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN CPI, 1965-97

[In percent]

Calendar year	Increase in wages <sup>1</sup>		Increase in CPI <sup>2</sup>		Increase in benefits <sup>3</sup>	
	Over prior year	Cumulative from each year to 1997	Over prior year	Cumulative from each year to 1997	Over prior year	Cumulative from each year to 1997
1965 .....	1.8	476.1	1.6	397.2	7.0	501.5
1966 .....	6.0	443.5	3.2	382.0	0.0	501.5
1967 .....	5.6	414.8	2.8	369.0	0.0	501.5
1968 .....	6.9	381.7	4.2	350.3	13.0	432.3
1969 .....	5.8	355.4	5.4	327.1	0.0	432.3
1970 .....	5.0	333.8	5.7	304.1	15.0	362.9
1971 .....	5.0	313.1	4.4	287.2	10.0	320.8
1972 .....	9.8	276.2	3.4	274.3	20.0	250.6
1973 .....	6.3	254.1	6.2	252.6	0.0	250.6
1974 .....	5.9	234.2	11.0	217.7	11.0	215.9
1975 .....	7.5	211.0	9.1	101.3	8.0	192.5
1976 .....	6.9	190.9	5.7	175.5	6.4	174.9
1977 .....	6.0	174.4	6.5	158.8	5.9	159.6
1978 .....	7.9	154.3	7.7	140.2	6.5	143.7
1979 .....	8.7	133.8	11.4	115.6	9.9	121.8
1980 .....	9.0	114.5	13.4	90.1	14.3	94.0
1981 .....	10.1	94.9	10.3	72.4	11.2	74.5
1982 .....	5.5	84.7	6.0	62.6	7.4	62.5
1983 .....	4.9	76.1	3.0	57.9	<sup>4</sup> 3.5	57.0
1984 .....	5.9	66.3	3.5	52.6	3.5	51.7
1985 .....	4.3	59.5	3.5	47.4	3.1	47.1
1986 .....	3.0	54.9	1.6	45.1	1.3	45.2
1987 .....	6.4	45.7	3.6	40.1	4.2	39.4
1988 .....	4.9	38.8	4.0	34.7	4.0	34.0
1989 .....	4.0	33.5	4.8	28.5	4.7	28.0
1990 .....	4.6	27.6	5.2	22.2	5.4	21.4
1991 .....	3.7	23.0	4.1	17.3	3.7	17.1
1992 .....	5.2	17.0	2.9	14.0	3.0	13.7
1993 .....	0.9	16.0	2.8	10.9	2.6	10.8
1994 .....	2.7	13.0	2.5	8.2	2.8	7.8
1995 .....	4.0	8.6	2.9	5.2	2.6	5.1
1996 .....	4.9	3.6	2.9	2.3	2.9	2.1
1997 .....	<sup>5</sup> 3.6	.....	2.3	.....	<sup>6</sup> 2.1	.....

<sup>1</sup> Average annual wages used to index earnings records.<sup>2</sup> Increase in annual average CPI-W.<sup>3</sup> Legislated benefit increases through 1975 and increases based on CPI thereafter. After 1975, the CPI and benefit increases are different because they reflect the change in prices measured over different periods of time.<sup>4</sup> As a result of the Social Security Amendments of 1983, COLAs are provided on a calendar year basis, with the benefit increase payable in January rather than July. The July 1983 COLA was delayed to January 1984. This delay and a change in the computation period led to 6 months of 1983 (first quarter-third quarter) not being accounted for in any COLA increase—a period in which the CPI increased 2.4 percent.<sup>5</sup> Preliminary.<sup>6</sup> Effective December 1997, payable in January 1998.

Source: Office of the Chief Actuary, Social Security Administration.

### TAXATION OF BENEFITS

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

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

#### WORKSHEET FOR DETERMINING THE TAXABLE PORTION OF SOCIAL SECURITY BENEFITS

1. Enter yearly Social Security benefits \_\_\_\_\_
2. Multiply line 1 by 0.50 \_\_\_\_\_
3. Enter adjusted gross income plus tax-free interest \_\_\_\_\_
4. Add line 2 and line 3 \_\_\_\_\_
5. Enter: \$25,000 if single or head of household; \$32,000 if married filing jointly; \$0 if married filing separately \_\_\_\_\_
6. Subtract line 5 from line 4 \_\_\_\_\_  
(If result on line 6 is zero or a negative number, stop; no benefits are taxable.)
7. Divide line 6 by 2 \_\_\_\_\_
8. Enter smaller of amounts on line 2 or line 7 \_\_\_\_\_
9. Enter amount on line 4 \_\_\_\_\_
10. Enter: \$34,000 if single or head of household; \$44,000 if married filing jointly; \$0 if married filing separately \_\_\_\_\_
11. Subtract line 10 from line 9 \_\_\_\_\_  
(If result on line 11 is zero or a negative number, stop; amount on line 8 is amount of benefits taxable.)
12. Multiply line 11 by 0.85 \_\_\_\_\_
13. Enter smallest of: amount on line 8; \$4,500 if single or head of household; \$6,000 if married filing jointly; \$0 if married filing separately \_\_\_\_\_
14. Add amounts on line 12 and line 13 \_\_\_\_\_
15. Multiply line 1 by 0.85 \_\_\_\_\_

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

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

Source: Congressional Research Service.

Examples of results of applying worksheet (1997):

	Single	Single	Married	Married	Married
Total income (including Social Security) .....	\$31,000	\$35,000	\$38,000	\$50,000	\$80,000
Social Security benefits	12,000	7,000	12,000	12,000	18,000
Amount of benefits taxable .....	0	3,250	0	6,000	15,300
Percent of benefits taxable .....	0	46	0	50	85
Income tax liability on all benefits taxable ..	0	488	0	900	4,284

For calendar year 1998 (see table 1-23), CBO projects that 26 percent of Social Security beneficiaries will be affected by the taxation of benefits (see table 1-23). Table 1-24 shows amounts credited to trust funds from taxation of benefits.

### **SOCIAL SECURITY BENEFITS FOR NONCITIZENS**

Provisions in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 and the Immigration Responsibility Act of 1996 affect the way Social Security benefits are paid to aliens in the United States. Effective December 1, 1996, persons applying for title II monthly benefits in the United States must provide evidence that they are U.S. citizens, nationals, or aliens who are lawfully present in the United States in order to get Social Security benefits.

To be considered a lawfully present alien in the United States, the beneficiary must be an alien:

- lawfully admitted for permanent residence;
- admitted as a refugee under section 207 of the Immigration and Nationality Act (INA);
- granted asylum under section 208 of the INA;
- granted conditional entry as a refugee under section 203(a)(7) of the INA prior to April 1, 1980;
- who has submitted application for political asylum under section 208 of the INA; or
- who belongs to any class of aliens permitted to reside in the United States for humanitarian or other reasons.



TABLE 1-23.—PROJECTED EFFECT OF TAXING SOCIAL SECURITY BENEFITS BY INCOME CLASS, CALENDAR YEAR 1998

[Numbers of persons in thousands; dollars in millions]

Level of individual or couple income <sup>1</sup>	Persons age 65 and over			All recipients			Aggregate amount of Social Security benefits	Aggregate amount of taxes on benefits	Taxes as a percent of benefits
	Number	Number affected by taxation <sup>2</sup>	Percent affected by taxation <sup>2</sup>	Number of Social Security beneficiaries <sup>3</sup>	Number affected by taxation <sup>3</sup>	Percent affected by taxation <sup>3</sup>			
Less than \$10,000 .....	6,196	0	0	7,852	0	0	\$46,246	0	0
\$10,000-\$15,000 .....	4,132	0	0	5,189	0	0	42,291	0	0
\$15,000-\$20,000 .....	3,786	0	0	4,472	0	0	38,149	0	0
\$20,000-\$25,000 .....	3,150	0	0	3,621	0	0	31,525	0	0
\$25,000-\$30,000 .....	2,862	118	4.1	3,247	147	4.5	27,691	\$16	0.1
\$30,000-\$40,000 .....	4,185	1,017	24.3	4,928	1,315	26.7	42,577	395	0.9
\$40,000-\$50,000 .....	2,611	1,982	75.9	3,098	2,529	81.6	28,214	1,157	4.1
\$50,000-\$100,000 .....	3,922	3,533	90.1	4,606	4,450	96.6	46,000	6,155	13.4
Over \$100,000 .....	1,527	1,304	85.4	1,475	1,447	98.1	17,524	4,104	23.4
All .....	32,372	7,959	24.6	38,488	9,894	25.7	320,216	11,834	3.7

<sup>1</sup> Cash income (based on income of tax filing unit) plus capital gains realizations.

<sup>2</sup> Some elderly individuals do not receive Social Security benefits and thus are not affected by taxation of benefits.

<sup>3</sup> Includes beneficiaries under and over age 65.

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

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

TABLE 1-24.—TAXATION OF OASDI BENEFITS BY TRUST FUNDS CREDITED AND AS A PERCENT OF TOTAL OASDI BENEFIT PAYMENTS, 1984-2002

[Dollars in millions]

Fiscal year	Total OASDI benefits	Taxes credited to trust funds from the taxation of OASDI benefits			Taxes credited to trust funds as percent of OASDI benefits		
		OASDI	HI	Total	OASDI	HI	Total
1984 .....	\$173,603	\$2,275	.....	\$2,275	1.3	.....	1.3
1985 .....	183,959	3,368	.....	3,368	1.8	.....	1.8
1986 .....	193,869	3,558	.....	3,558	1.8	.....	1.8
1987 .....	202,430	3,307	.....	3,307	1.6	.....	1.6
1988 .....	213,907	3,390	.....	3,390	1.6	.....	1.6
1989 .....	227,150	3,772	.....	3,772	1.7	.....	1.7
1990 .....	243,275	3,081	.....	3,081	1.3	.....	1.3
1991 .....	263,104	5,921	.....	5,921	2.3	.....	2.3
1992 .....	281,650	6,237	.....	6,237	2.2	.....	2.2
1993 .....	298,176	6,161	.....	6,161	2.1	.....	2.1
1994 .....	313,129	5,656	\$1,625	7,281	1.8	0.5	2.3
1995 .....	328,841	5,449	3,883	9,332	1.7	1.2	2.8
1996 .....	343,235	6,155	4,039	10,194	1.8	1.2	3.0
1997 <sup>1</sup> .....	359,232	7,198	4,001	11,199	2.0	1.1	3.1
1998 <sup>1</sup> .....	376,907	7,632	4,328	11,960	2.0	1.1	3.2
1999 <sup>1</sup> .....	396,628	8,166	4,591	12,757	2.1	1.2	3.2
2000 <sup>1</sup> .....	417,393	8,773	4,975	13,748	2.1	1.2	3.3
2001 <sup>1</sup> .....	440,311	9,437	5,368	14,805	2.1	1.2	3.4
2002 <sup>1</sup> .....	465,390	10,175	5,802	15,977	2.2	1.2	3.4

<sup>1</sup> Projected; based on intermediate assumptions in the 1997 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

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

Source: Office of the Chief Actuary, Social Security Administration.

## DETERMINATION OF DISABILITY BENEFITS

### DETERMINATION OF DISABILITY

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

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

## APPLICATION OF LAW AND REGULATIONS

Claims are determined on a sequential basis. The first step is to determine whether the individual is engaging in substantial gainful activity (SGA). Under current regulations, in most cases if a person is earning more than \$500 a month (net of impairment-related work expenses), he will be considered to be engaging in SGA. In the case of blind individuals, SGA is \$1,000 a month in 1997 (\$1,050 in 1998). If it is determined that the individual is engaging in SGA, a decision is made that he is not disabled without considering medical factors. If an individual is found not to be engaging in SGA, the severity and duration of the impairment are explored. If the impairment is determined to be "not severe" (i.e., it does not significantly limit the individual's capacity to perform work), the individual's disability claim is denied. If the impairment is "severe," a determination is made as to whether the impairment "meets" or "equals" the medical listings published in regulations by SSA,<sup>6</sup> and whether it will last for 12 months. If the impairment neither "meets" nor "equals" the listing (which would result in an allowance), but meets the 12-month duration rule, the individual's residual functional capacity (what an individual still can do despite his limitations) and the physical and mental demands of his past relevant work must be evaluated. If the impairment does not prevent the individual from meeting the demands of his past relevant work, then benefits are denied. If it does, then it must be determined whether the impairment prevents other work.

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

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

---

<sup>6</sup>The listing of impairments contains over 100 examples of medical conditions that would ordinarily prevent an individual from engaging in substantial gainful activity. Each listing describes a degree of severity such that an individual who is not working, and has such an impairment, is considered unable to work by reason of the medical impairment. The listing describes specific medically acceptable clinical and laboratory findings and signs which establish the severity of the impairments. An impairment or combination of impairments is said to "equal the listings" if the medical findings for the impairment are at least equivalent in severity and duration to the findings of a listed impairment.

#### FEDERAL REVIEW OF STATE DETERMINATIONS

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

#### PERIODIC REVIEW OF INDIVIDUALS RECEIVING DISABILITY BENEFITS

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

#### MEDICAL IMPROVEMENT STANDARD

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

#### MEDICAL EVIDENCE

An individual is not considered to be under a disability unless she furnishes such medical and other evidence as the Commissioner may require. The Commissioner will generally reimburse physicians or hospitals for supplying medical evidence in support of claims for DI benefits. The Commissioner also pays for medical examinations that are needed to adjudicate the claim.

#### ATTORNEYS' FEES AND REPRESENTATION

A claimant may be represented by an attorney or any other qualified person in proceedings before SSA. A person who has been suspended or disqualified by SSA from representing Social Security claimants or who is otherwise prohibited by law from acting as a representative may not represent claimants.

The claimant must appoint a representative in writing over his own signature and file the written appointment with SSA. If the representative is not an attorney, he also must submit a written acceptance of appointment to SSA.

The appointed representative may obtain the same information about the claimant that would be available to the claimant. The representative may also submit evidence, make statements about facts and law, and make any request or give any notice concerning the proceedings. She may not sign an application on behalf of a claimant for rights or benefits, or testify on the claimant's behalf in any administrative proceeding.

The amount of any fee that an attorney or other person may charge and collect from the claimant for services performed as a representative in proceedings before SSA must be authorized by

SSA. SSA has two methods of authorizing fees for representation: Fee petition and fee agreement.

Under the fee petition process, the representative must file a fee petition with SSA after completing his services on a claim and send a copy of the fee petition to the claimant. All Social Security offices have forms available that list the information required to petition for a fee. The representative should submit the petition for a fee for services rendered as soon as possible after all proceedings are complete.

SSA determines the amount of the fee authorized under the fee petition process based on several factors, including, but not limited to, the extent and type of services the representative performed, the complexity of the case, and the amount of time the representative spent on the case. SSA notifies both the claimant and representative of the fee authorized and gives a complete explanation of how the amount of the fee was determined. The claimant or representative, or both, may request a review of the fee determined under a fee petition within 30 days after receipt of the notice.

Under the fee agreement process, the claimant and representative must file a written agreement with SSA before the date SSA makes a favorable determination or decision on the claim. SSA usually will approve the fee agreement if (1) it is signed by both the claimant and representative; (2) the fee specified in the agreement does not exceed the lesser of 25 percent of the past-due benefits or \$4,000; (3) SSA's determination or decision in the claim is fully or partially favorable; and (4) the claim results in past-due benefits. The claimant, the claimant's representative, or the SSA agent determining the fee, may request a review of the fee within 15 days after receipt of the notice.

If the claimant is represented by an attorney and the claim is for Social Security benefits, SSA withholds 25 percent of past-due benefits owed the claimant and any auxiliary beneficiary or beneficiaries, and certifies for direct payment to the attorney the lesser of the amount of the authorized fee or 25 percent of past-due benefits.

SSA assumes no responsibility for payment of any authorized fee if the representative is not an attorney or if the claim is for payments under title XVI of the act (Supplemental Security Income).

A Federal court that renders a judgment favorable to a Social Security claimant may allow as part of its judgment a reasonable fee to an attorney who represented the claimant in court. The fee allowed by the court cannot exceed 25 percent of the past-due benefits resulting from the favorable judgment. SSA may certify the amount of the fee allowed by the court for payment directly to the attorney out of the title II past-due benefits.

### **VOCATIONAL REHABILITATION**

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

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

Using the administrative rulemaking process available under current law, SSA issued new regulations in the *Federal Register* on March 15, 1994 on the use of alternative rehabilitation providers. The regulations expanded the use of private vocational rehabilitation providers and public non-State VR providers by allowing SSA to refer beneficiaries to such providers if SSA does not receive notification within a specified period of time that the State VR agency has accepted a beneficiary for services or extended evaluation.

### **DISABILITY CLAIMS AND APPEALS STRUCTURE**

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

If upon reconsideration the applicant is again denied benefits, the applicant will be given a hearing before an administrative law judge (ALJ) in SSA's Office of Hearings and Appeals (OHA), provided he or she files a request for hearing within 60 days of receipt of the notice of denial. If the claim is denied by the ALJ, the applicant has 60 days to request review by the appeals council. The appeals council is a 24-member body located in the OHA. The appeals council may also, on its own motion, review a decision within 60 days of the ALJ's decision. The 1980 disability amendments re-

quired the appeals council to review a percentage of ALJ hearing decisions.

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

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

Chart 1-1 shows the number of cases allowed and appealed at various levels of appeal for application decisions and continuing disability reviews (CDRs) processed by State agencies. Table 1-25 presents information for fiscal years 1979-96 on the number of cases that were reviewed and reversed at the ALJ level. Table 1-26 presents information on the number of continuing disability reviews that were conducted in fiscal years 1977-96 on DI cases. Due to an unprecedented increase in initial claims, the number of CDRs processed declined sharply in the early 1990s. National implementation of a new CDR process in 1993 has since enabled the Social Security Administration to increase the number of CDRs significantly.

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

## **CHANGES IN ENROLLMENT AND APPLICANT BACKLOGS**

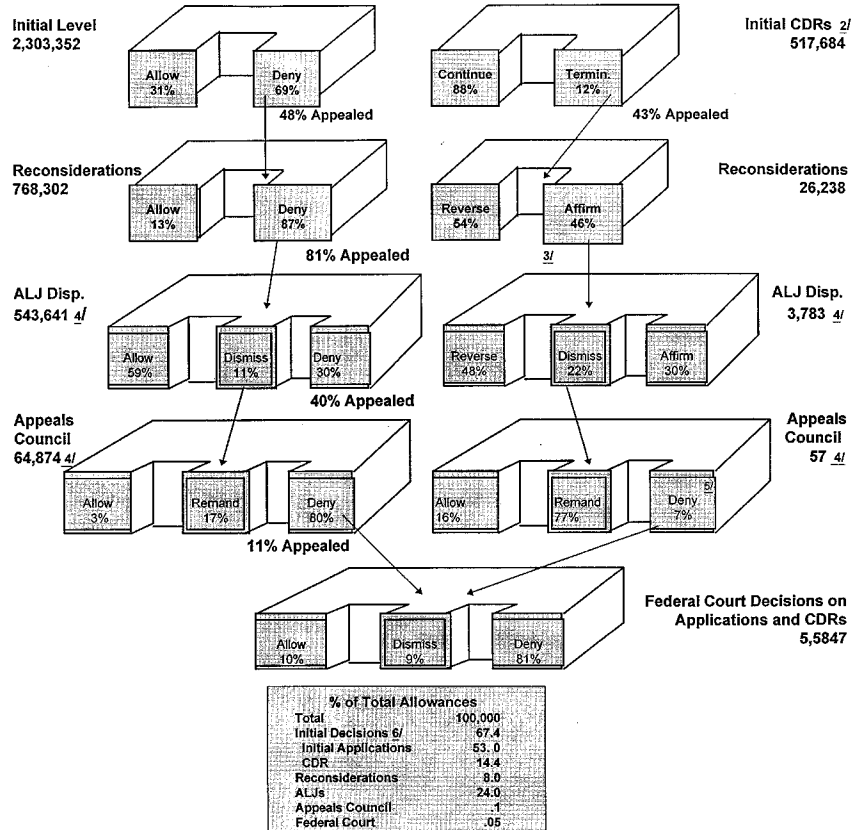
### **DISABILITY INSURANCE (DI) AWARDS AND RECIPIENTS**

Over the past 18 years, the DI Program experienced a period of declining enrollment followed by a rebound in growth. The number of DI beneficiaries (disabled workers and their dependents) receiving benefits first peaked at 4.9 million in May 1978. The beneficiary population then declined sharply to 3.8 million by July 1984. Thereafter, the number of beneficiaries rose steadily, reaching 6.1 million in December 1996 (table 1-28).

Similarly, the number of new DI benefit awards declined from 592,000 in 1975 to approximately 299,000 in 1982. As shown in table 1-27, awards then rose almost steadily, reaching 646,000 in 1995 before declining by 1997 to 587,000. (The large 1992 increase is partially attributable to SSA's short-term measures for dealing with increased DI applications. Increasing the volume of applications processed resulted in increases in both awards and denials.)

**CHART 1-1. DISABILITY DETERMINATIONS AND APPEALS, FISCAL YEAR 1996**

TITLE II, TITLE XVI AND CONCURRENT TITLE II AND XVI DECISIONS FOR DISABILITY CLAIMS BY WORKERS, WIDOWS, AND DISABLED ADULT CHILDREN <sup>1</sup>



<sup>1</sup> The data relate to workloads processed (but not necessarily received) in fiscal year 1996, i.e., the case processed at each adjudicatory level may include cases received at one or more of the lower adjudicatory levels prior to fiscal year 1996. The data include determinations on initial applications as well as continuing disability reviews (both periodic reviews and medical diary cases).

<sup>2</sup> Includes non-State CDR mailer continuations. Also includes 16,189 CDRs where there was "no decision." The continuance and termination rates are computed without the "no decision" cases.

<sup>3</sup> Many ALJ dispositions and appeals council (AC) decisions are based on DDS determinations from a previous year. Therefore, a percent appealed is not provided.

<sup>4</sup> Preliminary data.

<sup>5</sup> Includes ALJ decisions not appealed further by the claimant but reviewed by the appeals council on "own motion" authority.

<sup>6</sup> Includes affirmations, denials and dismissals of requests for review, and own motion reopening cases.

Source: Social Security Administration.



TABLE 1-25.—ADMINISTRATIVE LAW JUDGE DISABILITY INSURANCE<sup>1</sup> DECISION RATES, INITIAL DENIALS AND TERMINATIONS,<sup>2</sup> FISCAL YEARS 1979-96

Fiscal year	Dismissed	Unfavorable	Favorable	Total	Percent favorable
Initial denials:					
1979 .....	6,332	31,485	48,934	86,751	56.4
1980 .....	7,093	31,703	56,733	95,529	59.4
1981 .....	15,141	59,930	98,129	173,200	56.7
1982 .....	15,403	67,481	91,865	174,749	52.6
1983 .....	14,334	65,626	79,427	159,387	49.8
1984 .....	15,075	63,381	88,301	166,757	53.0
1985 .....	14,806	61,161	92,118	168,085	54.8
1986 .....	28,792	44,223	78,737	151,752	51.9
1987 .....	15,271	58,412	98,180	171,863	57.1
1988 .....	18,213	58,788	111,748	188,749	59.2
1989 .....	19,695	54,284	122,070	196,049	62.3
1990 .....	19,297	45,264	127,707	192,268	66.4
1991 .....	19,880	44,594	144,945	209,419	69.2
1992 .....	19,665	48,407	166,661	234,733	71.0
1993 .....	20,190	47,579	171,508	239,277	71.7
1994 .....	23,576	49,110	189,373	262,059	72.3
1995 .....	44,234	65,415	220,558	330,207	66.8
1996 .....	33,367	89,817	237,131	360,315	65.8
Terminations:					
1979 .....	1,401	4,078	8,052	13,531	59.5
1980 .....	1,431	4,197	9,909	15,537	63.8
1981 .....	2,623	6,945	16,685	26,253	63.6
1982 .....	4,670	17,502	37,306	59,478	62.7
1983 .....	9,247	37,284	73,821	120,352	61.3
1984 .....	25,681	22,590	56,327	104,598	53.9
1985 .....	4,176	2,415	3,126	9,717	32.2
1986 .....	1,095	2,129	2,014	5,238	38.4
1987 .....	812	1,954	2,014	4,780	42.1
1988 .....	1,031	2,807	3,426	7,264	47.2
1989 .....	1,220	3,482	4,882	9,584	50.9
1990 .....	1,166	2,940	4,695	8,801	53.3
1991 .....	1,007	2,140	3,935	7,082	55.6
1992 .....	812	1,642	2,812	5,266	53.4
1993 .....	720	1,281	2,079	4,080	51.0
1994 .....	656	1,082	1,540	3,278	47.0
1995 .....	821	1,173	1,807	3,801	47.5
1996 .....	1,172	2,275	2,488	5,935	41.9

<sup>1</sup>Includes title II and concurrent title II/title XVI disability cases and concurrent title II/title XVI aged cases.

<sup>2</sup>Includes all termination cases regardless of the basis of termination.

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

TABLE 1-26.—CONTINUING DISABILITY REVIEW (CDR) CESSATIONS AND CONTINUATIONS, FISCAL YEARS 1977-96

Fiscal year	Cessations		Continuations		Total cases		
	Number	Per- cent <sup>1</sup>	Number	Per- cent <sup>2</sup>	Cessations and con- tinuations	Total disabled persons <sup>3</sup>	Percent re- viewed <sup>4</sup>
1977 .....	41,475	38.7	65,745	61.3	107,220	3,322,230	3.2
1978 .....	38,847	46.4	44,804	53.6	83,651	3,447,767	2.4
1979 .....	45,216	48.1	48,868	51.9	94,084	3,457,837	2.7
1980 .....	44,273	46.8	50,227	53.2	94,550	3,454,010	2.7
1981 .....	80,956	47.9	87,966	52.1	168,922	3,413,602	4.9
1982 .....	179,857	44.8	221,325	55.2	401,182	3,263,354	12.3
1983 .....	182,074	41.7	254,424	58.3	436,498	3,226,888	13.5
1984 <sup>5</sup> .....	31,927	24.6	97,752	75.4	129,679	3,249,367	4.0
1985 <sup>5</sup> .....	475	14.6	2,785	85.4	3,260	3,332,870	0.1
1986 .....	2,554	5.6	42,805	94.4	45,359	3,261,768	1.4
1987 .....	20,343	12.4	143,712	87.6	164,055	3,433,524	4.8
1988 .....	33,565	11.5	257,377	88.5	290,942	3,492,762	8.3
1989 .....	24,102	9.2	237,722	90.8	261,824	3,559,840	7.4
1990 <sup>6</sup> .....	15,154	10.5	129,026	89.5	144,180	3,678,509	3.9
1991 <sup>7</sup> .....	5,697	12.5	39,749	87.5	45,446	3,866,645	1.2
1992 .....	6,923	15.0	39,291	85.0	46,214	4,165,133	1.1
1993 <sup>8</sup> .....	4,886	9.9	44,316	90.1	49,202	4,457,500	1.1
1994 <sup>8</sup> .....	13,940	14.1	85,189	85.9	99,129	4,729,948	2.1
1995 <sup>8</sup> .....	31,694	16.1	164,281	83.9	196,575	4,980,462	4.0
1996 .....	35,452	10.0	311,041	90.0	346,493	5,216,126	6.6

<sup>1</sup>Percent of cessations = number of cessations ÷ (number of cessations + number of continuances) × 100.

<sup>2</sup>Percent of continuances = number of continuances ÷ (number of cessations + number of continuances) × 100.

<sup>3</sup>In current pay at end of fiscal year.

<sup>4</sup>Percent of total disabled persons reviewed = (number of cessations + number of continuances) ÷ total disabled persons × 100.

<sup>5</sup>The decline in the number of reviews in 1984 and 1985 was due to the national moratorium on reviews pending enactment and implementation of new legislation that revised criteria for CDRs (legislation enacted in fiscal year 1984; regulations promulgated late fiscal year 1985).

<sup>6</sup>The decline in CDR processing in 1990 was due to the unanticipated demands of processing approximately 40,000 class action court cases.

<sup>7</sup>The continued decline in CDR processing was due to the increase in the initial claims workloads.

<sup>8</sup>Includes non-State CDR mailer continuations.

Source: Office of Disability, Social Security Administration.

The incidence of disability (number of awards per 1,000 insured workers) fell from an all-time high of 7.1 in 1975 to an all-time low of 2.9 in 1982. In 1996, the rate was 4.9 percent (see table 1-27).

Table 1-28 shows the number of DI beneficiaries for selected fiscal years.

TABLE 1-27.—DISABLED WORKERS' APPLICATIONS, AWARDS, AWARDS AS A PERCENT OF APPLICATIONS, AND AWARDS PER 1,000 INSURED WORKERS FOR SELECTED YEARS, 1960-97

[Number of applications and total awards in thousands]

	Number of applications	Total awards	Awards as a percent of applications	Awards per 1,000 insured workers
1960 .....	418.6	207.8	49.6	4.5
1965 .....	532.9	253.5	47.9	4.7
1970 .....	868.2	350.4	40.3	4.8
1971 .....	924.4	415.9	45.0	5.6
1972 .....	947.8	455.4	48.1	6.0
1973 .....	1,066.9	491.6	46.1	6.3
1974 .....	1,330.2	536.0	40.3	6.7
1975 .....	1,285.3	592.0	46.1	7.1
1976 .....	1,232.2	551.5	44.8	6.5
1977 .....	1,235.2	568.9	46.1	6.5
1978 .....	1,184.7	464.4	39.2	5.2
1979 .....	1,187.8	416.7	35.1	4.4
1980 .....	1,262.3	396.6	31.4	4.0
1981 .....	1,161.3	345.3	30.3	3.4
1982 .....	1,020.0	298.5	29.1	2.9
1983 .....	1,017.7	311.5	30.6	3.0
1984 .....	1,035.7	357.1	34.9	3.4
1985 .....	1,066.2	377.4	35.4	3.5
1986 .....	1,118.4	416.9	37.3	3.8
1987 .....	1,108.9	415.8	37.5	3.7
1988 .....	1,017.9	409.5	40.2	3.6
1989 .....	984.9	425.6	43.2	3.7
1990 .....	1,067.7	468.0	43.8	4.0
1994 .....	1,208.7	536.4	44.4	4.5
1992 .....	1,335.1	636.6	47.8	5.2
1993 .....	1,425.8	635.2	44.6	5.2
1994 .....	1,443.8	631.9	43.8	5.1
1995 .....	1,338.1	645.8	48.3	5.1
1996 .....	1,279.2	624.3	48.8	4.9
1997 .....	1,180.2	587.4	49.8	4.5

Source: Office of the Chief Actuary, Social Security Administration.

#### PENDING CLAIMS IN THE DISABILITY DETERMINATION SERVICES

Until fiscal year 1991, State disability determination services workloads remained relatively constant at about 2.5 million cases per year. In fiscal year 1991, claims began to increase significantly each year to a level of over 3.7 million in fiscal year 1996. During the period of fiscal years 1988-94, pending cases also increased as the ability to hire and train staff did not keep pace with the increases in claims. However, in fiscal year 1995 pending cases were significantly reduced to 590,000 due largely to increased productivity in the States and the additional budgetary resources directed to disability case processing which enabled an aggressive hiring effort in the States. In fiscal year 1996, pending cases again increased

significantly. The major cause of this increase was that Congress increased SSA's workload by requiring additional drug addiction and alcoholism reviews. This workload has now been completed but pending cases have risen again due to workloads mandated by welfare reform legislation. Table 1-29 shows disability cases pending and the weeks of work on hand in the States at the end of each fiscal year from 1988 through 1996.

TABLE 1-28.—NUMBER OF DISABILITY INSURANCE BENEFICIARIES FOR SELECTED YEARS, 1960-96

[Current payment status as of December]

Year	Disabled workers	Spouses	Children	Total
1960 .....	455,371	76,599	155,481	687,451
1965 .....	988,074	193,362	557,615	1,739,051
1970 .....	1,492,948	283,447	888,600	2,664,995
1975 .....	2,488,774	452,922	1,410,504	4,352,200
1980 .....	2,861,253	462,204	1,358,715	4,682,172
1981 .....	2,776,519	428,212	1,251,543	4,456,274
1982 .....	2,603,713	365,883	1,003,869	3,973,465
1983 .....	2,568,966	308,060	935,904	3,812,930
1984 .....	2,596,535	303,984	921,285	3,821,804
1985 .....	2,656,500	305,528	945,141	3,907,169
1986 .....	2,727,386	300,592	965,301	3,993,279
1987 .....	2,785,885	290,895	967,944	4,044,724
1988 .....	2,830,284	280,821	963,195	4,074,300
1989 .....	2,895,364	271,488	961,975	4,128,827
1990 .....	3,011,294	265,890	988,797	4,265,981
1991 .....	3,194,938	266,219	1,051,883	4,513,040
1992 .....	3,467,783	270,674	1,151,239	4,889,696
1993 .....	3,725,966	272,759	1,254,841	5,253,566
1994 .....	3,962,954	271,054	1,349,511	5,583,519
1995 .....	4,185,263	263,539	1,408,854	5,857,656
1996 .....	4,385,623	223,854	1,462,557	6,072,034

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

## CHARACTERISTICS OF RECIPIENTS

### OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE

Table 1-30 provides detailed information on the number of OASDI beneficiaries in various categories, and the average amount of monthly benefits by type of beneficiary for both new awards and all beneficiaries currently receiving payments.

### DISABILITY INSURANCE

Tables 1-31 and 1-32 present data on the demographic, social, and medical characteristics of the disabled population over time. For instance, table 1-31 shows the increase in the receipt of benefits by women, which reflects larger societal trends in female work force participation. Table 1-31 also indicates the higher levels of

educational attainment that characterize the present disabled population in comparison to that of 1970.

TABLE 1-29.—DISABILITY CASES PENDING AND WAITING TIMES, 1988-96

[Cases pending and weeks of work on hand at State disability determination services]

Fiscal year	Total cases pending at end of year	Weeks of work on hand
1988 .....	407,000	8.4
1989 .....	479,000	9.8
1990 .....	538,000	11.1
1991 .....	693,000	13.3
1992 .....	725,000	12.0
1993 .....	717,000	10.7
1994 .....	721,000	10.4
1995 .....	590,000	8.4
1996 .....	702,000	9.8

Source: National Council of Disability Determination Directors.

TABLE 1-30.—NUMBER AND PERCENTAGE OF OASDI RECIPIENTS AND AVERAGE BENEFITS BY AGE, SEX, AND MARITAL STATUS, DECEMBER 1996

[Based on a 10-percent sample]

Beneficiaries	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Retired workers .....	26,898	61.5	\$745	68.1
Retired men .....	14,011	32.0	838	39.9
Retired women .....	12,887	29.5	644	28.2
Disabled workers .....	4,386	10.0	704	10.5
Disabled men .....	2,644	6.0	788	7.1
Disabled women .....	1,741	4.0	577	3.4
Spouses of retired workers .....	2,970	6.8	384	3.9
Wives of retired workers .....	2,941	6.7	385	3.8
Wives with entitled children .....	68	0.2	277	0.1
Wives age 62 and over without entitled children .....	2,872	6.6	388	3.8
Husbands of retired workers .....	30	0.1	226	( <sup>1</sup> )
Spouses of disabled workers .....	224	0.5	171	0.1
Wives of disabled workers .....	218	0.5	173	0.1
Wives with entitled children .....	167	0.4	147	0.1
Wives age 62 and over without entitled children .....	52	0.1	256	( <sup>1</sup> )
Husbands of disabled workers .....	5	( <sup>1</sup> )	125	( <sup>1</sup> )
Children .....	3,803	8.7	357	4.6
Children of retired workers .....	443	1.0	337	0.5
Minor children (age 0-17) .....	242	0.6	303	0.2
Student children (age 18 and 19) .....	11	( <sup>1</sup> )	375	( <sup>1</sup> )

TABLE 1-30.—NUMBER AND PERCENTAGE OF OASDI RECIPIENTS AND AVERAGE BENEFITS BY AGE, SEX, AND MARITAL STATUS, DECEMBER 1996—Continued

[Based on a 10-percent sample]

Beneficiaries	Number (thousands)	Percent of total bene- ficiaries	Average monthly benefit	Percent of total bene- fits
Disabled children (age 18 and over) .....	190	0.4	378	0.2
Children of deceased workers .....	1,898	4.3	487	3.1
Minor children (age 0-17) ....	1,391	3.2	478	2.3
Student children (age 18 and 19) .....	52	0.1	561	0.1
Disabled children (age 18 and over) .....	454	1.0	506	0.8
Children of disabled workers .....	1,463	3.3	194	1.0
Minor children (age 0-17) ....	1,377	3.1	188	0.9
Student children (age 18 and 19) .....	33	0.1	295	(1)
Disabled children (age 18 and over) .....	53	0.1	282	0.1
Widowed mothers and fathers .....	242	0.6	515	0.4
Widowed mothers .....	231	0.5	520	0.4
Widowed fathers .....	11	(1)	416	(1)
Widows and widowers (nondisabled) .....	5,028	11.5	707	12.1
Widows (nondisabled) .....	4,990	11.4	708	12.0
Widowers (nondisabled) .....	38	0.1	521	0.1
Widows and widowers (disabled) .....	182	0.4	471	0.3
Widows (disabled) .....	178	0.4	474	0.3
Widowers (disabled) .....	4	(1)	318	(1)
Parents total .....	4	(1)	614	(1)
Special age 72 (primary) .....	1	(1)	197	(1)
<b>Total OASI beneficiaries .....</b>	<b>37,665</b>	<b>86.1</b>	<b>691</b>	<b>88.4</b>
<b>Total DI beneficiaries .....</b>	<b>6,072</b>	<b>13.9</b>	<b>561</b>	<b>11.6</b>
<b>Total OASDI beneficiaries .....</b>	<b>43,737</b>	<b>100.0</b>	<b>673</b>	<b>100.0</b>

<sup>1</sup>Less than 0.5 percent.

Note.—Columns may not add due to rounding.

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

TABLE 1-31.—PERCENT DISTRIBUTION BY AGE, SEX AND EDUCATION OF TITLE II DISABLED WORKER BENEFICIARIES GRANTED BENEFITS IN SELECTED CALENDAR YEARS 1970-96, COMPARED WITH ADULT U.S. POPULATION IN 1990

Characteristics	Year granted benefits													Adult U.S. population <sup>1</sup>	
	1970	1975	1979	1982	1985	1988	1989	1990	1991	1992	1993	1994	1995		1996
Age:															
Under 35 .....	9.0	11.0	13.6	14.4	16.8	15.2	16.2	15.7	15.7	16.8	16.2	14.7	13.3	12.3	45.6
35-44 .....	11.0	10.0	11.5	12.3	15.0	16.5	17.9	18.7	19.6	20.4	20.9	20.7	20.4	20.4	24.4
45-54 .....	26.0	26.0	27.2	26.5	25.7	23.3	24.7	24.7	25.1	25.6	26.8	27.7	28.3	29.7	16.3
55-59 .....	24.0	23.0	27.0	27.2	23.9	20.6	20.4	19.9	19.5	18.5	18.6	19.2	19.9	20.0	6.8
60 and over .....	30.0	30.0	20.6	19.6	18.7	24.4	20.9	21.0	20.1	18.7	17.6	17.8	18.0	17.4	6.9
Median age (years) .....	56.0	55.6	53.4	53.1	51.7	53.3	52.1	51.9	51.4	50.5	50.3	50.8	51.3	51.3	32.9
Sex:															
Male .....	74	68	69	70	67	66	64	64	64	63	62	60	58.4	56.7	49.5
Female .....	26	32	31	30	33	34	36	36	36	37	38	40	41.4	43.2	50.5
Education (years of school completed):															
No schooling <sup>2</sup> .....	2	1	1	1	2	1	1	1	1	1	1	1	1	1	1
Elementary school (1-8) ..	44	37	29	26	23	18	17	16	16	12	11	12	NA	10	9
Some high school .....	46	52	55	56	59	59	60	62	62	50	45	55	NA	58	45
9-11 .....	23	24	23	22	22	20	19	19	19	15	14	16	NA	16	11
12 .....	23	28	32	34	37	39	41	43	43	35	31	39	NA	42	34
Some college .....	9	10	12	14	14	15	17	17	17	14	12	16	NA	3	45
Unknown .....	0	0	3	3	2	7	5	5	5	23	31	16	NA	28	0

<sup>1</sup> Derived from 1990 census. Figures for age based on population aged 18-64. Figures for education based on persons aged 25 and over.

<sup>2</sup> Also includes special schools for handicapped.

NA—Not available.

Source: Office of Disability, Social Security Administration.

TABLE 1-32.—PERCENT DISTRIBUTION BY DISABLING CONDITION OF TITLE II DISABLED WORKER BENEFICIARIES GRANTED BENEFITS IN SELECTED CALENDAR YEARS, 1970-96

Disabling condition	Year granted benefits																
	1970	1975	1979	1982	1985	1988	1989	1990	1991	1992	1993	1994	1995	1996			
Infective and parasitic diseases <sup>1</sup> .....	3	1	1	1	1	0	1	6	6	7	7	6	6	5			
Neoplasms .....	10	10	14	17	15	16	18	17	16	13	15	16	16	17			
Allergic, endocrine system, metabolic and nutritional diseases .....	4	3	3	4	5	3	3	3	4	5	5	5	5	5			
Mental, psychoneurotic and personality disorders .....	11	11	11	11	18	22	22	23	24	25	26	24	22	22			
Diseases of the nervous system and sense organs .....	6	7	8	9	8	8	9	9	8	8	7	8	8	8			
Circulatory system .....	31	32	28	25	19	18	17	16	15	14	15	14	14	14			
Respiratory system .....	7	7	6	7	5	5	5	5	5	4	5	5	5	5			
Digestive system .....	3	3	2	2	2	2	2	2	2	2	2	2	2	2			
Musculoskeletal .....	15	17	17	16	13	14	11	12	13	13	12	12	12	12			
Accidents, poisonings and violence .....	8	6	6	6	4	5	4	4	4	4	3	3	3	4			
Other/unknown .....	2	3	3	2	11	7	9	5	5	5	5	6	6	6			
Total percent <sup>2</sup> .....	100	100	100	100	100	100	100	100	100	100	100	100	100	100			

<sup>1</sup> Beginning in 1990, AIDS/HIV cases are included in this category.

<sup>2</sup> May not add to 100 percent due to rounding.

Source: Office of Disability, Social Security Administration.



## SOCIAL SECURITY FINANCING

### CURRENT LAW

Financing for OASDI Programs, as well as for the hospital insurance (HI) part of Medicare, is provided primarily by taxes levied on wages and net self-employment income. These taxes often are referred to as FICA and SECA taxes (Federal Insurance Contributions Act and Self-Employment Contributions Act, respectively). More than 95 percent of the work force, or an estimated 147.9 million workers in 1997 (of whom 3.3 million pay only HI taxes), is required to pay FICA or SECA. The FICA tax is paid equally by both employees and employers; the SECA tax is paid by the self-employed.

Both taxes have three components: OASI, DI, and HI. The FICA tax was first levied in 1937 at a rate of 1 percent each for the employee and employer on earnings up to \$3,000 a year. In 1998, the rate is 7.65 percent of which 6.2 percent goes to OASDI and 1.45 percent goes to HI. The SECA rate for the self-employed is 12.4 percent for OASDI and 2.9 percent for HI. The OASDI rate is levied on earnings up to \$68,400 (up from \$65,400 in 1997); the earnings level rises annually at the same rate as average wages in the economy. For the HI portion, all earnings are taxable. The three programs also receive interest income on securities recorded to its trust funds, income taxes levied on Social Security benefits, and income from various other minor sources.

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

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

- The base of the self-employment tax is adjusted downward to reflect the fact that employees do not pay FICA tax on the value of the employer's FICA tax. The base is equivalent to net earnings from self-employment (up to the taxable wage base), less 7.65 percent, and
- A deduction is allowed for income tax purposes for half of SECA liability, to allow for the fact that employees do not pay income tax on the value of the employer's FICA tax.

Tables 1–33, 1–34, 1–35 and 1–36 show FICA and SECA tax rates (in percent), taxes (in dollars), and taxable earnings bases, both past and future. Table 1–37 shows categories of workers exempt from FICA and SECA taxes.

TABLE 1–33.—FICA AND SECA TAX RATES, SELECTED YEARS 1937–2000  
[In percent]

Calendar year	Rate paid by employee and employer					Self-employed rate	Maximum taxable earnings
	OASI	DI	OASDI	HI	Total		
1937 .....	1.0	.....	.....	.....	1.0	.....	\$3,000
1950 .....	1.5	.....	.....	.....	3.0	.....	3,000
1960 .....	3.0	0.25	2.75	.....	3.0	4.5	4,800
1970 .....	3.65	0.55	4.20	0.60	4.8	6.9	7,800
1980 .....	4.52	0.56	5.08	1.05	6.13	8.1	25,900
1990 .....	5.60	0.60	6.20	1.45	7.65	15.3	51,300
1995 .....	5.26	0.94	6.20	1.45	7.65	15.3	<sup>1</sup> 61,200
1996 .....	5.26	0.94	6.20	1.45	7.65	15.3	<sup>1</sup> 62,700
1997 .....	5.35	0.85	6.20	1.45	7.65	15.3	<sup>1</sup> 65,400
1998 .....	5.35	0.85	6.20	1.45	7.65	15.3	68,400
1999 .....	5.35	0.85	6.20	1.45	7.65	15.3	( <sup>2</sup> )
2000 .....	5.30	0.90	6.20	1.45	7.65	15.3	( <sup>2</sup> )

<sup>1</sup> OASDI; no limit (HI).

<sup>2</sup> Not yet determined for OASDI; no limit (HI).

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

Source: Congressional Research Service.

TABLE 1–34.—FICA AND SECA TAX PAYMENTS FOR AVERAGE AND HIGH EARNERS, SELECTED YEARS 1950–97

Calendar year	Annual tax payments			
	Average earner <sup>1</sup>		High earner <sup>1</sup>	
	FICA <sup>1</sup>	SECA <sup>2</sup>	FICA <sup>1</sup>	SECA <sup>2</sup>
1950 .....	\$38	.....	\$45	.....
1960 .....	120	\$180	144	\$216
1970 .....	297	427	374	538
1980 .....	767	1,014	1,588	2,098
1996 .....	1,968	3,126	6,787	10,768
Cumulative 1953–96 <sup>3</sup> .....	105,322	157,039	205,699	314,144
1997 .....	2,045	3,248	6,955	11,042

<sup>1</sup> Employee share only for FICA column. Average earner means someone who earned average wages throughout his or her working years (average wages are estimated for 1996 and 1997). For years before 1994, high earner means someone who earned the maximum wage level subject to OASDI and HI taxes. For 1994 onward it is assumed to be someone who earns \$200,000 a year.

<sup>2</sup> Figures in table are net of income tax deduction equal to one half of SECA taxes.

<sup>3</sup> Includes interest compounded at rates of long-term Treasury issues. Encompasses a hypothetical 44-year career that began at age 21 and ended at age 65.

Source: Congressional Research Service.

TABLE 1-35.—PAYROLL TAX RATES FOR EMPLOYEES AND EMPLOYERS, 1937-2000

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

TABLE 1–35.—PAYROLL TAX RATES FOR EMPLOYEES AND EMPLOYERS, 1937–2000—  
Continued

Calendar years	OASDI wage base <sup>1</sup>	Tax rates (percent) for employer and employee, each			
		Total	OASI	DI	HI
1998 .....	68,400	7.650	5.350	0.850	1.450
1999 .....	( <sup>2</sup> )	7.650	5.350	0.850	1.450
2000– .....	( <sup>2</sup> )	7.650	5.300	0.900	1.450

<sup>1</sup>The maximum amount of taxable earnings for the HI Program was the same as that for the OASDI Program for 1966–90; \$125,000, \$130,200, and \$135,000 for 1991–93, respectively; no limit after 1993.

<sup>2</sup>Increases automatically with increases in the average wage index.

Source: Office of the Actuary, Social Security Administration.

TABLE 1–36.—TAX RATES FOR SELF-EMPLOYED INDIVIDUALS, 1980 AND AFTER

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

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

Source: Congressional Research Service.

TABLE 1–37.—WORKERS EXEMPT FROM FICA AND SECA TAXES

- State and local government workers participating in alternative retirement systems (HI tax is mandatory for State and local government workers hired since April 1, 1986).
- Election workers earning \$1,000 or less a year (beginning in 1995).
- Ministers who choose not to be covered, and certain religious sects.
- Federal workers hired before 1984 (the HI portion is mandatory for all Federal workers).<sup>1</sup>
- College students working at their academic institutions.
- Household workers earning less than \$1,100 in 1998, or those under age 18 for whom household work is not their principal occupation.
- Self-employed workers with annual net earnings below \$400.

<sup>1</sup>Elected office holders, political appointees, and judges are mandatorily covered by both OASDI and HI regardless of when their service began.

Source: Congressional Research Service.

## STATUS OF OASDI TRUST FUNDS

*Summary*

Social Security's financial condition is assessed annually by its Board of Trustees, comprised of the Secretaries of Treasury (who is the Managing Trustee), Labor, and Health and Human Services, the Commissioner of Social Security, and two representatives of the public. The Board of Trustees' 1997 Report was released on April 24, 1997. The Congressional Budget Office (CBO) also makes Social Security projections, the latest of which were released on January 7, 1998. The Trustees' projections cover a period extending 75 years into the future, whereas CBO's projections are only for the next 10 years. For this near-term period, both the Trustees and CBO show that through the remainder of this decade, and for some period into the next century, the favorable demographic pattern of a large baby boom generation at peak earning years, combined with the retirement of the relatively small generation born during the Depression, should ensure large trust fund reserves. Under the Trustees' "intermediate" (or moderate) set of assumptions, the annual excess of income over outlays will reach \$127 billion by fiscal year 2006, and the reserve balance of the trust funds will represent 2.4 years' worth of outgo. [Under CBO's most recent assumptions, the annual excess of income over outlays will reach \$179 billion by fiscal year 2006.]

Table 1-38 shows both historical and projected operations of the combined OASI and DI Trust Funds in the short run according to CBO estimates released in January 1998.

For the long run, the projections are troubling. For a number of years, the Trustees' Reports have projected long-range financing problems for the system. Although their latest report continues to show a near-term buildup of trust fund reserves, their intermediate forecast for the next 75 years shows that, on average, Social Security expenditures will be 17 percent more than its income. The trust fund buildup would peak at \$2.9 trillion in nominal dollars in 2018, and then be drawn down as the post-World War II baby boomers retire (see chart 1-2). The Trustees estimate that by 2015 the DI Trust Fund would be exhausted, and by 2031 the OASI Trust Fund would be exhausted as shown in table 1-39. On a combined basis the two trust funds would be exhausted in 2029. (The term "exhausted" is commonly used to indicate that trust fund reserves plus payroll taxes and other revenues would be insufficient to pay all benefits when they are due.)

*Background*

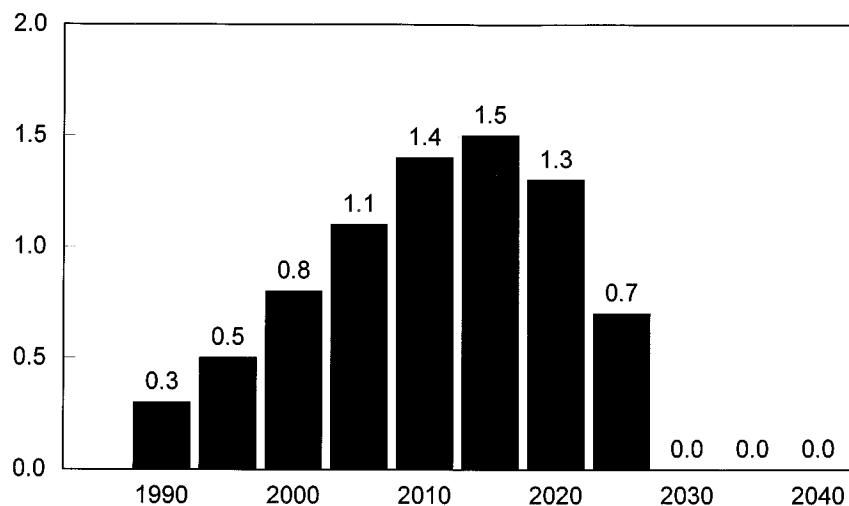
Social Security taxes flow into the Federal Treasury, with each program's share credited to separate trust funds (one for OASI, another for DI). The crediting occurs through the posting of interest-bearing Federal securities (the interest rate is the same as the average rate prevailing on outstanding Federal bonds with a maturity of 4 years or longer). When the government receives the money, it records new securities to the appropriate fund; when it makes payments, it writes some off. These securities represent obligations that the government has issued to itself. In effect, they are not assets for the government, but claims against it. Their primary

TABLE 1-38.—HISTORICAL AND PROJECTED OPERATIONS OF THE COMBINED OASI AND DI TRUST FUNDS DURING FISCAL YEARS 1994-2008  
 [In millions of dollars]

	1994 actual	1995 actual	1996 actual	1997 pro- jected	1998 pro- jected	1999 pro- jected	2000 pro- jected	2001 pro- jected	2002 pro- jected	2003 pro- jected	2004 pro- jected	2005 pro- jected	2006 pro- jected	2007 pro- jected	2008 pro- jected
<b>Combined OASDI Trust Funds:</b>															
Income:															
Revenues .....	\$335.0	\$351.1	\$367.5	\$392.0	\$417.3	\$438.2	\$457.7	\$477.1	\$497.8	\$520.7	\$545.7	\$574.4	\$601.2	\$629.8	\$657.9
Intragovernmental:															
Taxes on benefits	5.7	5.5	6.2	6.9	8.8	9.3	9.3	10.5	11.2	12.1	12.9	13.8	14.9	16.0	17.2
Federal employer share .....	6.4	6.4	6.3	6.5	7.1	7.7	8.3	8.9	9.6	10.4	11.2	12.1	13.0	13.9	15.0
Interest .....	29.2	33.3	36.5	41.2	46.5	52.8	59.0	65.4	72.2	79.5	87.4	96.1	105.5	115.4	126.0
Other .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subtotal, intragovernmental .....	41.3	45.2	48.9	54.6	62.5	69.8	77.2	84.8	93.1	101.9	111.6	122.1	133.3	145.3	158.1
Total income .....	376.3	396.3	416.4	446.6	479.7	508.1	535.0	561.9	590.9	622.6	657.2	696.5	734.5	775.1	816.0
Outgo:															
Benefits .....	313.2	328.9	343.3	358.3	371.8	387.5	404.8	423.9	444.7	467.2	491.5	518.1	547.0	577.6	610.0
Discretionary administration .....	2.7	2.6	2.6	3.0	3.3	3.3	3.4	3.5	3.6	3.8	3.9	4.0	4.2	4.3	4.5
Treasury administration .....	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Railroad transfer .....	3.5	4.1	3.6	3.7	3.8	3.8	3.8	3.7	3.8	3.8	3.8	3.8	3.8	3.9	3.9
Interest on tax transfers & interfund loans .....															
Quinquennial .....			0.3												
Total outgo .....	319.6	335.8	350.0	365.3	379.1	394.8	412.2	431.8	452.4	475.0	499.4	526.2	555.2	586.1	618.6
Surplus .....	56.8	60.5	66.4	81.3	100.6	113.2	122.8	130.0	138.5	147.6	157.8	170.4	179.4	189.0	197.4



CHART 1-2. SOCIAL SECURITY TRUST FUND ASSETS



Note.—At end of calendar year, constant 1997 dollars, in trillions.

Source: Board of Trustees (1997; intermediate assumptions).

TABLE 1-39.—MAXIMUM TRUST FUND RATIOS AND YEAR OF EXHAUSTION FOR THE OASDI TRUST FUNDS UNDER ALTERNATIVE ASSUMPTIONS

Assumption	OASI	DI	Combined
Alternative I (optimistic):			
Maximum trust fund ratio (percent) .....	469	1276	457
Year attained .....	2017	2071	2018
Year of exhaustion .....	.....	.....	.....
Alternative II (intermediate):			
Maximum trust fund ratio (percent) .....	306	152	265
Year attained .....	2013	2003	2011
Year of exhaustion .....	2031	2015	2029
Alternative III (pessimistic):			
Maximum trust fund ratio (percent) .....	195	115	175
Year attained .....	2007	1998	2001
Year of exhaustion .....	2022	2007	2018

Source: Board of Trustees (1997).



role is to be reserve “spending authority.” As long as a trust fund has a positive balance, the Treasury Department is authorized to make payments owed against it from the Treasury; the fund itself does not contain actual cash resources to do so.

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

Before 1971, the balances of the trust funds had never fallen below 1 year’s worth of outgo. Beginning in 1973, the program’s income lagged its outgo, and the trust funds declined rapidly. Congress had to step in five times during the 1970s and early 1980s to keep them from being exhausted. Although major changes enacted in 1977 greatly reduced the program’s longrun deficit, they did not eliminate it, and the shortrun changes made by the legislation were not large enough to enable the program to withstand back-to-back recessions in 1980 and 1982. A disability bill in 1980 and temporary fixes in 1980 and 1981 were followed by another major reform package in 1983.

The 1983 changes, along with better economic conditions, helped alter the picture. Income began to exceed outgo in 1983 and the trust funds grew substantially. Cumulatively, the changes were projected to yield \$96 billion in surplus income by 1990, and to raise the trust funds’ balances to \$123 billion. The funds actually were credited with \$200 billion in surplus income by 1990, and their balances reached \$225 billion by the end of that year. Under the Congressional Budget Office January 1998 estimate, surplus income of \$602 billion is projected for the 1994–2000 period, and the trust funds’ balances would rise to \$967 billion by the beginning of 2001. These assets would be equivalent to 240 percent of expenditures in 2001 (or almost 2½ years’ worth of benefits).

The longer range picture for Social Security has been worsening gradually since 1983. By raising Social Security’s age for receiving full benefits from 65 to 67, subjecting benefits to income taxes, and making new Federal and nonprofit workers join the system, Congress had attempted in 1983 to eliminate the longrun problem. In fact, projections made then showed that Congress had stemmed the red ink, at least on average, for the following 75 years. However, the average condition of the two trust funds did not represent their condition over the entire period. The funds were not shown to be insolvent at any point, but their expenditures were expected to exceed their income by 2025 and to remain higher thereafter. Simply stated, 40 years of surpluses were to be followed by an indefinite period of deficits. With each passing year since 1983, the Trustees’ 75-year averaging period has picked up 1 deficit year at the back end and dropped a surplus year from the front end. This, by itself, would cause the average condition to worsen. However, in recent

reports assumptions about birth rates, economic growth, and wages have been lowered, causing further deterioration in the outlook. A small long-range deficit appeared in the 1984 report and the gap has grown larger (with the point of insolvency coming closer) in subsequent reports.

*The Trustees' April 1997 long-range forecast*

The 1997 report showed an average 75-year deficit equal to 17 percent of program income and projected that the trust funds (viewed on a combined basis) will become insolvent in 2029. These long-range projections assume that GDP will rise annually at rates ranging from 2.5 percent in 1996 to 1.3 percent in 2050, wages will rise at an ultimate rate of 4.4 percent per year, the cost of living will go up at a 3.5 percent rate, unemployment will average 6 percent, and Social Security benefits will fall in relative terms as the age at which full benefits are payable rises from 65 to 67 over the first few decades of the next century. The higher age for full benefits will mean that people retiring in the future at less than age 67 will get less than under the previous age rules. These assumptions by themselves would seem to bode well for the system; however, looming demographic shifts are projected to overwhelm them.

During the next two decades, the 76 million baby boomers born between 1946 and 1964 will be in their prime productive years, and the "baby trough" generation of the 1930s Depression will be in retirement. Together, these factors will lead to a stable ratio of workers to recipients. However, as baby boomers begin retiring around 2010, this ratio will erode quickly. By 2025, most of the surviving baby boomers will be 65 and older. The number of people 65 and older is predicted to rise by 75 percent, growing from 35 million today to 61 million in 2025. The number of workers will have grown from 145 million to 166 million, or by only 15 percent. Consequently, the ratio of workers to recipients will have fallen from 3.3 to 1 today to 2.2 to 1 in 2025 and 2.0 to 1 in 2030. Projected worker/beneficiary ratios and dependency rates are shown in table 1-40.

Under this forecast, the trust funds (on a combined basis) would be credited with surplus income until 2018 or so, bringing their balances to \$2.9 trillion. They would decline thereafter and would be depleted by 2029. However, tax receipts begin lagging outgo much sooner, in 2012. At that point, the program would have to rely on the interest credited to its trust funds for part of its income. Repayment of this interest would have to be funded from general revenue. In 2019, the principal on the trust funds would begin to be drawn down. By 2025, \$1 out of every \$5 of the program's outgo would be dependent upon general fund expenditures for interest payments and the redemption of the government bonds credited to the trust funds. The government has never defaulted on the securities it posts to its trust funds, but the magnitude of these potential claims has prompted many observers to ask where the government will find the money to cover them. Unless economic and demographic conditions are better than currently assumed, the government will have three basic options: raise other taxes, curtail other spending, or borrow money from the financial markets. There is

nothing now in the law that will dictate or determine what the government actually will (or can) do then.

TABLE 1-40.—POPULATION, WORK FORCE, AND OASDI BENEFICIARY DATA AND DEPENDENCY RATIOS, SELECTED YEARS 1960–2040

Work force measure	1960	1980	2000	2020	2040
Total population (in millions) .....	190	235	285	328	355
Covered workers (in millions) .....	73	112	149	166	171
OASDI beneficiaries (in millions) .....	14	35	46	69	86
Worker/beneficiary ratio .....	5.1	3.2	3.3	2.4	2.0
Aged dependency ratio <sup>1</sup> .....	0.173	0.195	0.211	0.275	0.369
Total dependency ratio <sup>2</sup> .....	0.904	0.749	0.695	0.699	0.789

<sup>1</sup> Ratio of the number of persons aged 65 and over to the number of persons aged 20–64.

<sup>2</sup> Ratio of the number of persons aged 65 and over plus the number of persons aged under 20, to the number of persons aged 20–64.

Source: Board of Trustees (1997; intermediate assumptions).

Economists argue that if the surplus taxes projected for the next 15 years were to cause the government to borrow less from financial markets, more money would be available for investment, which could lead to greater economic growth. If this happened, extracting resources from the economy in the future to honor Social Security claims may be less burdensome. Put another way, if one accepts the premise that reductions in Federal borrowing today will increase the amount of resources available for investment, then surplus Social Security taxes today could help build a higher economic base in the future from which to draw the needed resources.

However, surplus Social Security taxes do not necessarily reduce government borrowing from the markets. Reductions in borrowing occur when the government reduces its overall deficit, not when one of its programs generates surplus taxes. Even if economic growth were enhanced in the coming decades by less government borrowing, Social Security's problems would not necessarily be resolved. Enhanced economic growth could improve actuarial balance somewhat if it also improves worker productivity, but not proportionately because higher productivity would likely result in higher wages, which in turn would lead to larger benefits (see table 1-41). Further, as their numbers swell, the baby boomers and subsequent retirees will raise financial demands on all retirement systems, not only Social Security. The goods and services to be consumed by society cannot be stockpiled in advance, and the economy will have to adjust. Whether this adjustment would be mild or severe is mostly conjecture.

The 1997 Trustees' Report projects that Social Security will generate sufficient tax receipts to cover its commitments during the next 15 years. The long-range outlook, however, leaves little about which to be sanguine. The program has a growing 75-year average deficit. The HI Trust Fund's problems are more imminent, as insol-

vency is projected for 2001.<sup>7</sup> Resources could be reallocated to HI from Social Security; however, this would only move Social Security's problems closer. If Social Security and HI are considered together, their combined expenditures are expected to be higher than their tax receipts beginning in 1999 and to remain higher thereafter. Their outgo as a percent of the Nation's payrolls would rise from 15.2 percent today to 24 percent in 2025, a level that contrasts sharply with a combined tax rate that is set now in the law at 15.3 percent. As a percent of GDP, Social Security and HI outgo would rise from about 6.4 percent today to 9.9 percent in 2025 (see table 1-42). Including supplemental medical insurance (SMI) expenditures would raise the Social Security and HI outgo from 7 to 13 percent of GDP. In contrast, the tax receipts and premiums collected to support these programs are projected to hover in the range of 7-8 percent of GDP throughout the period.

TABLE 1-41.—OASDI INCOME RATE, COST RATE, AND ACTUARIAL BALANCE PROJECTIONS OVER 25-, 50-, AND 75-YEAR PERIODS <sup>1</sup>

[As a percentage of taxable payroll]

Valuation period	Ultimate percentage increase in wages <sup>2</sup>		
	3.9	4.4	4.9
Summarized income rate:			
25-year: 1997-2021 .....	13.68	13.62	13.57
50-year: 1997-2046 .....	13.48	13.41	13.34
75-year: 1997-2071 .....	13.45	13.37	13.30
Summarized cost rate:			
25-year: 1997-2021 .....	13.68	13.28	12.89
50-year: 1997-2046 .....	15.43	14.86	14.30
75-year: 1997-2071 .....	16.20	15.60	14.99
Balance:			
25-year: 1997-2021 .....	+0.00	+0.35	+0.68
50-year: 1997-2046 .....	-1.95	-1.45	-0.96
75-year: 1997-2071 .....	-2.75	-2.23	-1.69

<sup>1</sup> Based on intermediate estimates with various real-wage assumptions.

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

Source: Board of Trustees (1997).

These projections are not based on pessimistic economic assumptions. A modest but sustained rise in GDP and moderate inflation and unemployment are assumed as shown in table 1-43. In large part, the projections hinge on demographic factors that are in place today—the post-World War II baby boom, the subsequent birth dearth, and the general aging of society. These projections suggest that to restore longrun solvency, income needs to be raised or expenditures cut. Beyond possible changes to the programs themselves, important unknowns that can alter the outlook include

<sup>7</sup> As a result of passage of Public Law 105-33, the Balanced Budget Act of 1997, the HI Trust Fund is projected to be solvent until 2006 or 2007. These changes in the law were passed after the 1997 Trustees' Report was issued.

whether an effective means can be found to rein in the spiraling cost of medical care generally and whether future technological advances will propel productivity.

TABLE 1-42.—ESTIMATED COST OF OASDI AND HI PROGRAMS, SELECTED CALENDAR YEARS 1997-2075

[As percent of gross domestic product]

Calendar year	OASDI	HI	OASDI and HI
Annual cost rates:			
1997 .....	4.66	1.76	6.41
1998 .....	4.65	1.81	6.46
1999 .....	4.65	1.86	6.52
2000 .....	4.65	1.92	6.57
2001 .....	4.66	1.97	6.63
2002 .....	4.67	2.03	6.70
2003 .....	4.68	2.08	6.76
2004 .....	4.69	2.13	6.83
2005 .....	4.71	2.18	6.89
2006 .....	4.72	2.23	6.95
2010 .....	4.87	2.43	7.30
2015 .....	5.27	2.77	8.04
2020 .....	5.80	3.18	8.99
2025 .....	6.27	3.61	9.88
2030 .....	6.57	4.01	10.57
2035 .....	6.64	4.31	10.95
2040 .....	6.56	4.49	11.05
2045 .....	6.50	4.59	11.08
2050 .....	6.50	4.63	11.13
2055 .....	6.58	4.67	11.25
2060 .....	6.64	4.74	11.39
2065 .....	6.67	4.84	11.51
2070 .....	6.68	4.96	11.64
2075 .....	6.69	5.08	11.77
Summarized cost rates:			
1997-2021 .....	5.20	2.51	7.71
1997-2046 .....	5.71	3.16	8.88
1997-2071 .....	5.90	3.50	9.40

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

Source: Board of Trustees (1997; intermediate assumptions).

TABLE 1-43.—SELECTED ECONOMIC ASSUMPTIONS, SELECTED YEARS 1960–2075

Calendar year	Average annual percentage change in—			Real-wage differential <sup>3</sup> (percent)	Average annual interest rate <sup>4</sup> (percent)	Average annual unemployment rate <sup>5</sup> (percent)	Average annual percentage increase in labor force <sup>6</sup>
	Real GDP <sup>1</sup>	Average annual wage in covered employment	Consumer Price Index <sup>2</sup>				
1960–64 .....	4.6	3.4	1.2	2.2	3.7	5.7	1.3
1965–69 .....	4.2	6.1	3.9	2.2	5.2	3.8	2.1
1970–74 .....	3.5	6.6	6.2	0.4	6.7	5.4	2.3
1975 .....	–0.6	6.7	9.1	–2.4	7.4	8.5	1.9
1976 .....	5.6	8.5	5.7	2.8	7.1	7.7	2.4
1977 .....	4.9	6.8	6.5	0.3	7.1	7.1	2.9
1978 .....	5.0	8.9	7.7	1.2	8.2	6.1	3.2
1979 .....	2.9	10.1	11.4	–1.3	9.1	5.8	2.6
1980 .....	–0.3	9.4	13.4	–4.0	11.0	7.1	1.9
1981 .....	2.5	9.7	10.3	–0.5	13.3	7.6	1.6
1982 .....	–2.1	6.4	6.0	0.4	12.8	9.7	1.4
1983 .....	4.0	5.0	3.0	2.0	11.0	9.6	1.2
1984 .....	6.8	7.3	3.5	3.8	12.4	7.5	1.8
1985 .....	3.7	4.7	3.5	1.2	10.8	7.2	1.7
1986 .....	3.0	4.6	1.6	3.0	8.0	7.0	2.0
1987 .....	2.9	4.6	3.6	1.0	8.4	6.2	1.7
1988 .....	3.8	5.3	4.0	1.3	8.8	5.5	1.4
1989 .....	3.4	3.9	4.8	–0.9	8.7	5.3	1.8
1990 .....	1.3	5.1	5.2	–0.1	8.6	5.5	0.7
1991 .....	–1.0	3.0	4.1	–1.1	8.0	6.7	0.4
1992 .....	2.7	4.9	2.9	2.0	7.1	7.4	1.2
1993 .....	2.3	2.5	2.8	–0.3	6.1	6.8	0.7
1994 .....	3.5	3.0	2.5	0.5	7.1	6.1	2.3
1995 .....	2.0	3.9	2.9	1.0	6.9	5.6	0.9
1996 .....	2.5	4.2	2.9	1.4	6.6	5.4	1.2
1997 .....	2.5	4.0	3.2	0.8	6.6	5.4	1.3
1998 .....	2.0	3.2	3.2	0.0	6.7	5.7	0.9
1999 .....	2.0	4.1	3.2	0.8	6.7	5.8	0.9
2000 .....	2.0	4.3	3.4	0.9	6.7	5.8	1.0
2001 .....	2.0	4.3	3.5	0.8	6.6	5.9	1.1
2002 .....	2.0	4.4	3.5	0.9	6.6	6.0	1.0
2003 .....	2.0	4.5	3.5	1.0	6.6	6.0	0.8
2004 .....	2.0	4.5	3.5	1.0	6.5	6.0	0.9
2005 .....	2.0	4.5	3.5	1.0	6.4	6.0	0.9
2006 .....	2.0	4.5	3.5	0.9	6.3	6.0	0.9
2010 .....	1.8	4.5	3.5	1.0	6.2	6.0	0.7
2020 .....	1.3	4.4	3.5	0.9	6.2	6.0	0.2
2030 .....	1.4	4.4	3.5	0.9	6.2	6.0	0.2
2040 .....	1.4	4.4	3.5	0.9	6.2	6.0	0.2
2050 .....	1.3	4.4	3.5	0.9	6.2	6.0	0.1
2060 .....	1.3	4.4	3.5	0.9	6.2	6.0	0.1
2070 .....	1.3	4.4	3.5	0.9	6.2	6.0	0.1
2075 .....	1.3	4.4	3.5	0.9	6.2	6.0	0.1

<sup>1</sup>The real gross domestic product is the gross domestic product, expressed in 1992 dollars.

<sup>2</sup>The consumer price index is the value of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), averaged over 12 (or 60) months.

<sup>3</sup>The real-wage differential is the difference between the percentage increases, before rounding, in (1) the average annual wage in covered employment, and (2) the average annual Consumer Price Index.

<sup>4</sup>The average annual interest rate is the average of the nominal rates for special public-debt obligations issuable to the trust funds.

<sup>5</sup>Through 2006, the rates shown are unadjusted civilian unemployment rates. After 2006, the rates are total rates (including military personnel), adjusted by age and sex based on the labor force for 1995, and averaged over 12 (or 60) months.

<sup>6</sup>The labor force is the total for the United States (including military personnel), averaged over 12 (or 60) months.

Source: Board of Trustees (1997; intermediate assumptions).

### HOW THE STATUS OF THE TRUST FUNDS IS MEASURED

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

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

The long-range status of the trust funds is often expressed in terms of percent of taxable payroll rather than in dollar amounts. This permits a direct comparison between the tax rate actually in the law and the cost of the program. For example, if the program is projected to have a deficit of 2 percent of taxable payroll, the OASDI tax rates now in the law would have to be increased by 1 percentage point each for employee and employer (a total of 2 percent) in order to pay for the benefits due. Alternatively, the program could be brought back into balance by an equivalent reduction in benefit outgo or by a combination of revenue increases and outgo reductions. If the program is projected to have a deficit of 2 percent of taxable payroll, and expenditures are projected to be 10 percent of taxable payroll, then, under the given set of assumptions, 20 percent (2 divided by 10) of expenditures could not be met with that tax schedule. In 1997, the total taxable payroll is estimated to be \$3.23 trillion. Thus, in 1997 terms, 2 percent of payroll represented about \$65 billion.

Long-range projections are affected by three basic types of factors: (1) demographic factors, such as rates of fertility, life expectancy, and labor force participation, which determine the number of workers in relation to nonworking beneficiaries; (2) economic factors such as unemployment, productivity, and inflation; and (3) factors specifically related to the Social Security Program, such as benefit levels, total number of covered workers, and percent of eligible workers drawing early retirement benefits. The actuaries at

SSA employ three sets of alternative economic and demographic assumptions. Alternative I is based on optimistic assumptions; alternative II is based on intermediate assumptions; and alternative III is based on pessimistic assumptions. Alternative II is considered the most balanced estimate of long-term solvency and is the most frequently cited. It is clear that underlying factors cannot be predicted with any certainty as far into the future as 75 years, and that long-range projections should not be taken as absolute predictions of deficits or surpluses in the funds.

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

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

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

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

Under these measures, the Trustees concluded in their 1997 report, as they did in their six previous reports, that OASDI is not in close actuarial balance over the long run. In the long run, income and expenditures are generally expressed as a percentage of the total amount of earnings subject to taxation under the OASDI Program. Summarized income and cost rates over the 75-year long-range period are determined through present-value calculations and by taking into account actual beginning fund balances and targeted ending fund balances (or reserves) of 100 percent of annual expenditures.



Overall, for the period 1997–2071, the difference between the summarized income and cost rates for the OASDI Program is a deficit of 2.23 percent of taxable payroll based on the intermediate assumptions. Therefore, on a combined basis, the OASDI Program is not in close actuarial balance over the next 75 years. In addition, the individual OASI and DI Trust Funds are not in close actuarial balance.

Income from OASDI payroll taxes represents 12.4 percent of taxable payroll. Since the tax rate is not scheduled to change in the future under present law, OASDI payroll tax income as a percentage of taxable payroll remains constant at 12.4 percent. Adding the OASDI income from the income taxation of benefits to the income from payroll taxes yields a total “income rate” of 12.63 percent. This rate is estimated to increase gradually to 13.34 percent of taxable payroll by the end of the 75-year projection period based on the intermediate assumptions. The growth is attributable, in part, to increasing proportions in both the number of beneficiaries and the amount of their benefits subject to taxation in the future. These proportions will increase because the income thresholds, above which benefits are taxable, are fixed dollar amounts, and, as time goes by, the incomes of more people will exceed them due to the expected rise in wages and prices.

OASDI expenditures for benefit payments and administrative expenses currently represent about 11.49 percent of taxable payroll. This cost rate is estimated to remain below the corresponding income rate for the next 15 years, based on the intermediate assumptions. However, with the retirement of the 76 million members of the baby boom generation starting in about 2010, OASDI costs will increase rapidly relative to the taxable earnings of workers. By 2075 the OASDI cost rate is estimated to reach 19.42 percent under the intermediate assumptions, resulting in an annual deficit of 6.07 percent (see table 1–44). Table 1–45 shows estimated trust fund assets; table 1–46 shows estimated trust fund operations, both over the long run.

#### NATURE OF THE SOCIAL SECURITY TRUST FUNDS

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

TABLE 1-44.—ESTIMATED INCOME RATES AND COST RATES, AS A PERCENTAGE OF TAXABLE PAYROLL, SELECTED CALENDAR YEARS 1997-2075

Calendar year	OASI			DI			Combined		
	Income rate	Cost rate	Balance	Income rate	Cost rate	Balance	Income rate	Cost rate	Balance
1997	10.91	9.97	0.94	1.71	1.51	0.20	12.63	11.49	1.14
1998	10.92	10.05	0.86	1.71	1.56	0.15	12.63	11.61	1.02
1999	10.92	10.08	0.84	1.71	1.60	0.11	12.64	11.68	0.95
2000	10.82	10.09	0.74	1.81	1.64	0.18	12.64	11.73	0.91
2001	10.83	10.08	0.75	1.82	1.68	0.13	12.65	11.77	0.88
2002	10.84	10.09	0.75	1.82	1.74	0.08	12.66	11.83	0.83
2003	10.84	10.09	0.76	1.82	1.79	0.03	12.66	11.87	0.79
2004	10.85	10.09	0.77	1.82	1.85	-0.03	12.67	11.93	0.74
2005	10.86	10.07	0.78	1.82	1.90	-0.09	12.67	11.98	0.70
2006	10.86	10.07	0.79	1.82	1.96	-0.14	12.68	12.03	0.65
2010	10.91	10.34	0.57	1.82	2.14	-0.31	12.73	12.48	0.26
2015	10.99	11.38	-0.39	1.83	2.24	-0.41	12.82	13.62	-0.80
2020	11.09	12.84	-1.75	1.83	2.30	-0.47	12.92	15.14	-2.22
2025	11.18	14.13	-2.96	1.83	2.39	-0.56	13.01	16.53	-3.51
2030	11.25	15.07	-3.82	1.84	2.40	-0.56	13.09	17.47	-4.38
2035	11.30	15.49	-4.19	1.84	2.35	-0.51	13.14	17.84	-4.70
2040	11.32	15.42	-4.10	1.84	2.36	-0.52	13.16	17.78	-4.61
2045	11.34	15.32	-3.98	1.84	2.46	-0.62	13.18	17.78	-4.60
2050	11.37	15.45	-4.08	1.84	2.52	-0.68	13.21	17.97	-4.76
2055	11.40	15.80	-4.40	1.85	2.55	-0.71	13.25	18.36	-5.11
2060	11.43	16.20	-4.77	1.85	2.53	-0.68	13.28	18.72	-5.45
2065	11.46	16.46	-5.00	1.85	2.51	-0.67	13.30	18.97	-5.67
2070	11.48	16.65	-5.17	1.85	2.53	-0.69	13.32	19.18	-5.86
2075	11.49	16.85	-5.36	1.85	2.57	-0.72	13.34	19.42	-6.07

Note.—Totals may not add due to rounding.

Source: Board of Trustees (1997; intermediate assumptions).

TABLE 1-45.—ESTIMATED TRUST FUND ASSETS, SELECTED CALENDAR YEARS 1997–2075

[As a percentage of annual expenditures]

Beginning of calendar year	OASI	DI	Combined
1997 .....	160	108	153
1998 .....	173	122	166
1999 .....	186	130	178
2000 .....	198	136	189
2001 .....	209	145	200
2002 .....	220	150	209
2003 .....	231	152	219
2004 .....	242	151	228
2005 .....	253	147	236
2006 .....	264	140	244
2010 .....	298	95	264
2015 .....	299	12	252
2020 .....	249	0	198
2025 .....	162	0	110
2030 .....	50	0	0
2035 .....	0	0	0
2040 .....	0	0	0
2045 .....	0	0	0
2050 .....	0	0	0
2055 .....	0	0	0
2060 .....	0	0	0
2065 .....	0	0	0
2070 .....	0	0	0
2075 .....	0	0	0
Trust fund is estimated to become exhausted in	2031	2015	2029

Note.—The assets for the combined funds for years after a component fund has been exhausted are shown for illustrative purposes only, since no legal authority exists for interfund borrowing between OASI and DI. Totals may not add due to rounding.

Source: Board of Trustees (1997; intermediate assumptions).

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

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

Yes. They earn interest at market rates, have specific maturity dates, and by law represent “obligations” of the U.S. Government. But what confuses people is that they often see these securities as assets for the government. When an individual buys a government bond, he has established a financial claim against the government. When the government issues a security to one of its own accounts, it hasn’t purchased anything or established a claim against some

other person or entity. It is simply creating an IOU from one of its accounts to another. Hence, the building up of Federal securities in the Social Security Trust Fund is not a means in and of itself for the government to accumulate assets. Federal securities in the trust fund establish claims against the government for the Social Security system, but the Social Security system is part of the government. Those claims are not resources the government has at its disposal to pay future Social Security benefits.

TABLE 1-46.—ESTIMATED OPERATIONS OF THE COMBINED OASI AND DI TRUST FUNDS, SELECTED CALENDAR YEARS 1997-2075

[Constant 1997 dollars, in billions]

Calendar year	Income excluding interest	Interest income	Total income	Outgo	Assets at end of year
1997 .....	\$407.7	\$43.7	\$451.3	\$370.8	\$647.4
1998 .....	409.1	47.1	456.2	377.0	706.5
1999 .....	414.4	50.4	464.8	384.1	765.1
2000 .....	420.4	53.8	474.3	390.9	823.5
2001 .....	427.6	57.1	484.8	398.6	882.0
2002 .....	434.4	60.5	494.9	406.9	940.3
2003 .....	441.3	63.9	505.2	414.9	998.7
2004 .....	448.6	67.1	515.7	423.9	1056.7
2005 .....	457.2	70.3	527.5	433.0	1115.6
2006 .....	464.7	73.3	538.0	442.3	1173.5
2010 .....	497.4	81.3	578.7	489.0	1378.5
2015 .....	533.1	87.1	620.2	568.1	1484.6
2020 .....	565.7	77.2	642.9	665.0	1293.5
2025 .....	596.9	44.5	641.3	760.4	717.0
2030 .....	0.0	0.0	0.0	0.0	0.0
2035 .....	0.0	0.0	0.0	0.0	0.0
2040 .....	0.0	0.0	0.0	0.0	0.0
2045 .....	0.0	0.0	0.0	0.0	0.0
2050 .....	0.0	0.0	0.0	0.0	0.0
2055 .....	0.0	0.0	0.0	0.0	0.0
2060 .....	0.0	0.0	0.0	0.0	0.0
2065 .....	0.0	0.0	0.0	0.0	0.0
2070 .....	0.0	0.0	0.0	0.0	0.0
2075 .....	0.0	0.0	0.0	0.0	0.0

Note.—Figures are not shown for years after which the combined OASI and DI Trust Funds are estimated to be exhausted. Adjustment from current to constant dollars is by the CPI. Totals may not add due to rounding.

Source: Board of Trustees (1997; intermediate assumptions).

#### *What then is the purpose of the trust funds?*

Generally speaking, the Federal securities issued to any Federal trust fund represent “permission to spend.” As long as a trust fund has a balance of securities posted to it, the Treasury Department has legal authority to keep issuing checks for the program. In a sense, the mechanics of a Federal trust fund are similar to those of a bank account. The bank takes in a depositor’s money, credits the amount to the depositor’s account, and then loans it out. As

long as the account shows a balance, the depositor can write checks that the bank must honor. In Social Security's case, its taxes flow into the Treasury, and its trust funds are credited with Federal securities. The government then uses the money to meet whatever expenses are pending at the time. The fact that this money is not set aside for Social Security purposes does not dismiss the government's responsibility to honor the trust funds' account balances. As long as the trust funds have balances, the Treasury Department must continue to issue Social Security checks. The key point is that the trust funds themselves do not hold financial resources to pay benefits. Rather, they provide authority for the Treasury Department to use whatever money it has on hand to pay them.

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

*How does the Social Security Trust Fund differ from the financing of other government programs?*

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

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

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

Legislation enacted in 1990 (the Budget Enforcement Act, included in Public Law 101-508) removed Social Security taxes and benefits from the budget and from calculations of the budget deficit. In large part this was done both to prevent Social Security from masking the size of the deficit and to protect it from budgetary cuts. Taking Social Security off budget was based on the supposition that Congress would act differently in trying to achieve

deficit-reduction targets if Social Security surpluses were not counted in reaching the budget totals. However, removing Social Security from the Federal budget does not change where Social Security taxes go. The Federal budget is not a cash management account—it is simply a statement or summary of what policymakers want the government's financial flows to be during any given period. Whether this summary is presented in a unified or fragmented form will not in and of itself change how much money is received and spent by the government, and it will not alter where Federal tax receipts of any sort go. Social Security taxes will go into the Treasury regardless of whether the program is counted in reaching budget totals. Social Security taxes will go elsewhere only if Congress decides they will go elsewhere.

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

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

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

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

currently allowing the government to borrow less from the public than it otherwise would is also a matter of conjecture.

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

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

Actually, the surplus Social Security taxes collected today are not the means through which the future cost of the system will be met. Most of today's taxes are used to cover payments to today's retirees. In 1997, the system's taxes will amount to an estimated \$408 billion; its expenditures, \$371 billion. At their peak in 2011, the balances of the Social Security Trust Funds are expected to equal only 2⅓ years' worth of payments. Thus, the future costs of the system, as is the case today, will largely be met through future taxation. The promise of future benefits rests primarily on the government's ability to levy taxes in the future, not on the balances of the trust funds.

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

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

### **BUDGETARY TREATMENT OF OASDI**

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

Financial problems confronting Social Security and concern over its growing costs led to enactment of a number of benefit changes

in 1977, 1980, 1981, and 1983. However, because the Federal budget deficit remained large, interest in curbing Social Security spending continued. This consideration of Social Security constraints led to concerns that changes in Social Security were being proposed for budgetary purposes rather than programmatic ones. In response, measures were enacted in 1983, 1985, and 1987 making the program a more distinct part of the budget and permitting floor objections (points of order) to be raised against budget bills containing Social Security changes.

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

Table 1-47 shows projected budget surpluses and deficits with and without Social Security.

TABLE 1-47.—PROJECTED BUDGET SURPLUSES AND DEFICITS<sup>1</sup> WITH AND WITHOUT SOCIAL SECURITY, 1997-2008

[By fiscal year, in billions of dollars]

Year	With Social Security	Without Social Security
1997 .....	+\$8	-\$73
1998 .....	+9	-92
1999 .....	+2	-111
2000 .....	+1	-122
2001 .....	+13	-116
2002 .....	+67	-71
2003 .....	+53	-95
2004 .....	+70	-88
2005 .....	+75	-95
2006 .....	+115	-64
2007 .....	+130	-59
2008 .....	+138	-59

<sup>1</sup> Surpluses are depicted with +, deficits with -.

Source: Congressional Budget Office, March 1998 baseline projections.



## CURRENT BUDGET RULES PERTAINING TO SOCIAL SECURITY

Two key elements of the budget process are explicit dollar limits on discretionary spending (mostly for programs requiring annual appropriations) and a “pay-as-you-go” rule that requires that increases in direct spending (mostly for entitlement programs) and/or cuts in revenues must be offset by other changes so as not to increase the deficit. Originally written to cover the period from fiscal years 1991 to 1995, these budget rules apply through fiscal year 1998 (as a result of provisions in the Omnibus Budget Reconciliation Act of 1993—Public Law 103–66). If the explicit spending limits or “pay-as-you-go” rules are violated during this period, the President may be required to sequester funds (i.e., cut spending). By law, Social Security is not to be included in these calculations and is exempt from any potential sequestration, with the exception of administrative expenses (which are counted as discretionary spending). Table 1–48 shows total OASDI administrative expenses, and administrative expenses as a percentage of benefit payments. The law further permits floor objections to be raised against budget bills (so-called “reconciliation” bills) that contain Social Security measures.

TABLE 1–48.—NET ADMINISTRATIVE EXPENSES AND ADMINISTRATIVE EXPENSES AS A PERCENTAGE OF BENEFIT PAYMENTS, FISCAL YEARS 1992–96

[Dollars in billions]

Fiscal year	Total administrative expenses	Administrative expenses as a percentage of benefit payments paid from		
		OASI Trust Fund <sup>1</sup>	DI Trust Fund <sup>1</sup>	Combined funds <sup>1</sup>
1992 .....	\$2.668	0.7	2.8	0.9
1993 .....	2.955	0.8	2.8	1.0
1994 .....	2.896	0.7	2.8	0.9
1995 .....	2.870	0.6	2.7	0.9
1996 .....	2.862	0.6	2.5	0.8

Source: Office of the Actuary, Social Security Administration.

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

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

it difficult to bring up measures for a vote that would weaken the program's financial condition. These procedural rules are sometimes referred to as the Social Security "firewall" provisions.

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

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

#### BUDGETARY TREATMENT OF ADMINISTRATIVE EXPENSES

The costs of administering the Social Security Retirement and Disability Programs are financed from the Social Security Trust Funds, subject to annual appropriations. Traditionally these costs are low, now comprising less than 1 percent of annual benefit payments (see table 1-48). During fiscal year 1996, they amounted to \$2.9 billion.

These trust-fund-financed administrative funds comprised about 50 percent of the Social Security Administration's fiscal year 1996 administrative budget. The agency received another 16 percent from the Medicare Trust Funds, as well as 34 percent from general revenues for administration of the Supplemental Security Income Program. SSA's total 1996 administrative budget was \$5.3 billion (excluding the special appropriations for disability processing, automation investments, funding for additional continuing disability reviews, and funding for the Office of the Inspector General).

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

#### LEGISLATIVE HISTORY

(For a description of legislative changes made in the 95th-102d Congresses, refer to the 1996 Green Book.)

#### CHANGES IN THE 103D CONGRESS

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

*Increased taxation of benefits*

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

*Eliminated maximum taxable earnings base for HI*

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

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

*Independent agency*

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

*Substance abusers*

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

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

*Domestic workers*

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

*Disability Insurance Trust Fund financing*

Reallocated a percentage of taxes from the OASI fund to the DI fund (see table 1–35).

*Barred benefit payments to the criminally insane*

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

## CHANGES IN THE 104TH CONGRESS

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

*Establishment of a continuing disability review (CDRs) authorization*

An authorization to provide additional administrative funding to enable the Social Security Administration to increase CDRs is created. Amounts spent for CDRs above the already assumed base funding levels are not subject to the discretionary spending caps through fiscal year 2002. SSA must report annually on CDR ex-

penditures and savings to the Social Security, Supplemental Security Income, Medicaid and Medicare Programs.

*Increase in the Social Security earnings limit*

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

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

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

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

Benefits are payable to a stepchild only if it is established that the stepchild is dependent upon the stepparent for at least one-half of his or her financial support. In addition, benefits to the stepchild are terminated if the stepchild's natural parent and stepparent are divorced. The dependency requirement is effective for stepchildren who become entitled to benefits 3 months after March 1996. In cases of a subsequent divorce, benefits to stepchildren terminate 1 month after the divorce becomes final. Stepparents are required to notify SSA of the divorce. In addition, SSA is required to notify annually those potentially affected by this provision.

*Denial of benefits based on disability to drug addicts and alcoholics*

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

If a person qualifying for benefits based on another disability is also determined to be an alcoholic or drug addict incapable of managing his or her benefits, a representative payee will be appointed to receive and manage the individual's checks. Recipients who are unable to manage their own benefits as a result of alcoholism or

drug addiction will be referred to the appropriate State agency for substance abuse treatment services. For each of 2 years beginning with fiscal year 1997, \$50 million is authorized to fund additional drug (including alcohol) treatment programs and services. Individuals entitled to benefits before the month of enactment continue to be eligible for benefits until January 1, 1997.

*Benefit and contribution statement pilot*

Requires the Commissioner of Social Security to conduct a 2-year pilot study, beginning in 1996, of the efficacy of providing individual benefit and contribution information to recipients of old-age and survivors insurance benefits.

*Protection of Social Security and Medicare Trust Funds*

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

*Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Public Law 104-193)*

*Denial of benefits to those unlawfully present in the United States.*—Prohibits payment of Social Security benefits to any non-citizen in the United States who is not lawfully present in the United States, unless the payment is made pursuant to a totalization agreement or treaty obligation.

*Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Public Law 104-134)*

*Mandatory electronic funds transfers.*—Provides that Federal payments, including Social Security and Supplemental Security Income benefits payable beginning after July 1996 to persons with bank accounts, must be paid by electronic funds transfer (EFT). All recurring Federal payments made after January 1, 1999 will be made by EFT, except that the Secretary of the Treasury may waive the requirement under certain circumstances.

*Debt collection.*—Provides Social Security Administration with permanent debt collection authorities, including administrative offset of other Federal benefit payments, offset of Federal salaries, reporting of delinquent debt to credit bureaus, use of private collection agencies, and assessment of late charges.

CHANGES IN THE 105TH CONGRESS

*Summary of major provisions of the Revenue Reconciliation Act of 1997 (incorporated into Public Law 105-34)*

*Expanded SSA records for tax collection.*—Provides that, for an application for a Social Security number (SSN) for a person under age 18, SSA must collect the SSNs of each parent, in addition to currently required evidence of age, identity, and citizenship, and share this information with the Internal Revenue Service for administration of tax benefits based on support or residency of a child.

*Exclusion of termination payments made to insurance salesmen.*—Payments made to a self-employed insurance salesman after his agreement to work for the insurance company has terminated are excluded from Social Security coverage if: he performed no additional work for the company in that taxable year; he entered into a covenant not to compete with the company; and the amount of the payment was based entirely on the policies he sold during the last year of the agreement which remain in force and not on his length of service or overall earnings from the company.

### APPENDIX

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

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

This analysis seeks to avoid judgmental conclusions by providing a range of illustrations that vary these subjective factors. It does not evaluate the "moneysworth" of Social Security (answering whether recipients get a good deal from their investment), nor does it provide an "actuarial analysis" of how whole age cohorts fare. Rather, it simply presents illustrations of the amount of time it takes, and is projected to take, to recover the value of taxes paid plus interest (see table 1-52). The illustrations represent a range of possible payback times, depending on variations in the assumptions used. In this way, no conclusions are made—but the illustrations allow readers to make their own judgments.

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

calculations that are useful in presenting possible outcomes of policies currently incorporated in the law.

Calculations of the relationship of benefits to taxes for future retirees involve many key factors. The rate of Social Security taxation is set by law. The portion of the tax that provides cash benefits (Old-Age, Survivors, and Disability Insurance, or OASDI) to employees is 6.2 percent. However, the old-age and survivors insurance portion of the tax, currently 5.35 percent, and from which retirement benefits are paid, is scheduled to drop to 5.3 percent in 2000 and remain level thereafter. The tax rate applies to earnings up to a maximum amount. The "maximum taxable earnings" is \$65,400 in 1997 but will rise in the future at the same rate as average wages in the economy. Therefore, the amount of Social Security taxes an employee will pay under current law is a direct function of her earnings. If one knows the amounts of an individual employee's earnings, and what the maximum taxable earnings are each year, the amount of tax paid is easily calculated.

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

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

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

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

Nevertheless, models can produce projections of future benefits, based on assumptions about wage and price growth, for workers with designated work histories and characteristics. This analysis makes such projections using several common assumptions about

illustrative workers. It assumes that each worker retires at age 65 in January of the designated year after having worked full time in employment covered by Social Security beginning at age 21. Similarly, all the illustrations reflect three lifetime earnings patterns—workers who always earned either (1) the Federal minimum wage; (2) a wage equal to Social Security’s “average wage series”; or (3) a wage equal to the maximum amount creditable under Social Security.

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

Calculations are based on the alternative II (intermediate) assumptions of the 1997 Social Security Trustees’ Report to forecast wage and price growth. Under these assumptions, wages grow for most of the projected period by 4.4 percent a year, prices by 3.5 percent.

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

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



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

Of course, any calculation of such a relationship is heavily dependent on the interest rate assumptions used. The value of taxes over time is equivalent to their worth if invested. However, the amount of interest is not easily determinable. Were the value of taxes paid invested wisely its total real worth theoretically could be many times its nominal value. On the other hand, it is possible that the principal could be wiped out by poor investment choices. To obtain a middle ground, consisting of a reasonable and safe investment history, one could assume that the value of taxes paid was always placed in U.S. Government obligations. Excess Social Security taxes have always been invested in U.S. Government securities, so, to provide illustrations, we use the effective interest rates earned by the Social Security Trust Funds over the years and those projected for the future. Under the alternative II assumptions, average annual interest rates are projected ultimately to be 6.2 percent, a “real” interest rate of 2.7 percent (i.e., 2.7 percent above inflation). The interest is assumed to be tax free.

The cumulative value of taxes plus interest at the 3 different earnings levels for workers retiring in 1997 are shown in tables 1-49, 1-50, and 1-51.

#### ILLUSTRATIVE PAYBACK TIMES

Table 1-52 shows past and projected payback times for workers retiring in various years from 1940 to 2025. In these illustrations, benefits are for the worker alone. However, the value of the benefit could be higher if the worker had dependents who were eligible for benefits. For example, if these workers had spouses who also were the full retirement age and were not entitled to a Social Security benefit on their own account, then the value of the monthly benefit

TABLE 1-49.—SOCIAL SECURITY TAXES PAID BY A WAGE EARNER WHO HAS ALWAYS EARNED THE MINIMUM WAGE, 1953-96

Calendar year	Earnings	Tax rates (in percent)		Taxes paid		Effective interest rate <sup>2</sup> (in percent)
		OASI	Old age <sup>1</sup>	OASI	Old age	
1953	\$1,560	1.500	1.085	\$23.40	\$16.93	2.310
1954	1,560	2.000	1.470	31.20	22.94	2.296
1955	1,560	2.000	1.509	31.20	23.54	2.198
1956	1,993	2.000	1.526	39.86	30.42	2.401
1957	2,080	2.000	1.548	41.60	32.21	2.492
1958	2,080	2.000	1.555	41.60	32.34	2.516
1959	2,080	2.250	1.739	46.80	36.17	2.578
1960	2,080	2.750	2.111	57.20	43.91	2.598
1961	2,184	2.750	2.094	60.06	45.73	2.755
1962	2,392	2.875	2.187	68.77	52.32	2.825
1963	2,461	3.375	2.563	83.06	63.07	2.923
1964	2,600	3.375	2.553	87.75	66.37	3.084
1965	2,600	3.375	2.529	87.75	65.76	3.184
1966	2,600	3.500	2.568	91.00	66.78	3.483
1967	2,886	3.550	2.604	102.45	75.14	3.753
1968	3,293	3.325	2.415	109.49	79.52	3.950
1969	3,328	3.725	2.710	123.97	90.20	4.437
1970	3,328	3.650	2.661	121.47	88.55	5.074
1971	3,328	4.050	2.961	134.78	98.54	5.286
1972	3,328	4.050	2.973	134.78	98.94	5.406
1973	3,328	4.300	3.101	143.10	103.19	5.754
1974	3,883	4.375	3.168	169.88	123.03	6.218
1975	4,368	4.375	3.184	191.10	139.06	6.593
1976	4,784	4.375	3.201	209.30	153.12	6.731
1977	4,784	4.375	3.213	209.30	153.70	6.958
1978	5,512	4.275	3.153	235.64	173.80	7.199

1979	6,032	4,330	3,206	261.19	193.36	7,524
1980	6,448	4,520	3,355	291.45	216.33	8,568
1981	6,968	4,700	3,514	327.50	244.87	9,947
1982	6,968	4,575	3,460	318.79	241.07	11,178
1983	6,968	4,775	3,645	332.72	253.96	10,768
1984	6,968	<sup>3</sup> 4,926	<sup>3</sup> 3,776	343.24	263.12	11,601
1985	6,968	5,200	3,993	362.34	278.25	11,213
1986	6,968	5,200	3,997	362.34	278.52	11,091
1987	6,968	5,200	4,002	362.34	278.83	10,063
1988	6,968	5,530	4,257	385.33	296.64	9,773
1989	6,968	5,530	4,264	385.33	297.08	9,573
1990	7,670	5,600	4,320	429.52	331.37	9,324
1991	8,606	5,600	4,321	481.94	371.91	9,090
1992	8,840	5,600	4,320	495.04	381.92	8,745
1993	8,840	5,600	4,315	495.04	381.47	8,322
1994	8,840	5,260	4,050	464.98	357.99	8,040
1995	8,840	5,260	4,046	464.98	357.70	7,859
1996	9,100	5,260	4,045	478.66	368.08	7,615
<b>Total taxes paid 1953-96:</b>						
Accumulated without interest				9,719.26	7,367.75	
Accumulated with interest				38,363.69	28,751.26	

<sup>1</sup> Old-age tax rates were derived by applying the ratio of old-age benefits/total OASI benefits to the OASI tax rates.  
<sup>2</sup> Interest rates for 1953-96 are from the SSA Office of the Actuary, and reflect the interest rate earned by the Social Security Trust Funds.  
<sup>3</sup> In 1984, employees received a tax credit of 0.3 percent against OASDI taxes. The OASI and old-age tax rates reflect a proportional allocation of the tax credit.  
 Note.—Initial benefit amount upon retirement in January 1997 at age 65: \$603.00 worker only; \$904.00 worker and spouse (both age 65).  
 Source: Kollmann (1997).

TABLE 1-50.—SOCIAL SECURITY TAXES PAID BY A WAGE EARNER WITH AVERAGE EARNINGS, 1953-96<sup>1</sup>

Calendar year	Earnings	Tax rates (in percent)		Taxes paid		Effective interest rate <sup>3</sup> (in percent)
		OASI	Old age <sup>2</sup>	OASI	Old age	
1953	\$3,139.44	1.500	1.085	\$47.09	\$34.07	2.310
1954	3,155.64	2.000	1.470	63.11	46.40	2.296
1955	3,301.44	2.000	1.509	66.03	49.81	2.198
1956	3,532.36	2.000	1.526	70.65	53.91	2.401
1957	3,641.72	2.000	1.548	72.83	56.39	2.492
1958	3,673.80	2.000	1.555	73.48	57.13	2.516
1959	3,855.80	2.250	1.739	86.76	67.05	2.578
1960	4,007.12	2.750	2.111	110.20	84.59	2.598
1961	4,086.76	2.750	2.094	112.39	85.57	2.755
1962	4,291.40	2.875	2.187	123.38	93.87	2.825
1963	4,396.64	3.375	2.563	148.39	112.67	2.923
1964	4,576.32	3.375	2.553	154.45	116.83	3.084
1965	4,658.72	3.375	2.529	157.23	117.82	3.184
1966	4,938.36	3.500	2.568	172.84	126.84	3.483
1967	5,213.44	3.550	2.604	185.08	135.74	3.753
1968	5,571.76	3.325	2.415	185.26	134.55	3.950
1969	5,893.76	3.725	2.710	219.54	159.75	4.437
1970	6,186.24	3.650	2.661	225.80	164.61	5.074
1971	6,497.08	4.050	2.961	263.13	192.37	5.286
1972	7,133.80	4.050	2.973	288.92	212.09	5.406
1973	7,580.16	4.300	3.101	325.95	235.04	5.754
1974	8,030.76	4.375	3.168	351.35	254.45	6.218
1975	8,630.92	4.375	3.184	377.60	274.77	6.593
1976	9,226.48	4.375	3.201	403.66	295.30	6.731
1977	9,779.44	4.375	3.213	427.85	314.19	6.958
1978	10,556.03	4.275	3.153	451.27	332.84	7.199

1979	11,479.46	4,330	3,206	497.06	367.99	7,524
1980	12,513.46	4,520	3,355	565.61	419.83	8,568
1981	13,773.10	4,700	3,514	647.34	484.01	9,947
1982	14,531.34	4,575	3,460	664.81	502.73	11,178
1983	15,239.24	4,775	3,645	727.67	555.42	10,768
1984	16,135.07	<sup>4</sup> 4,926	<sup>4</sup> 3,776	794.86	609.29	11,601
1985	16,822.51	5,200	3,993	874.77	671.77	11,213
1986	17,321.82	5,200	3,997	900.73	692.38	11,091
1987	18,426.51	5,200	4,002	958.18	737.35	10,063
1988	19,334.04	5,530	4,257	1,069.17	823.09	9,773
1989	20,099.55	5,530	4,264	1,111.51	856.95	9,573
1990	21,027.98	5,600	4,320	1,177.57	908.48	9,324
1991	21,811.60	5,600	4,321	1,221.45	942.58	9,090
1992	22,935.42	5,600	4,320	1,284.38	990.89	8,745
1993	23,132.67	5,600	4,315	1,295.43	998.23	8,322
1994	23,753.53	5,260	4,050	1,249.44	961.95	8,040
1995	24,705.66	5,260	4,045	1,299.52	999.67	7,859
1996	25,723.87	5,260	4,045	1,353.08	1,040.50	7,615
<b>Total taxes paid 1953-96:</b>						
Accumulated without interest	.....	.....	.....	22,856.79	17,371.77	
Accumulated with interest	.....	.....	.....	80,694.71	60,595.36	

<sup>1</sup> This table uses the average wage series for indexing earnings, for the period 1953-95, developed by SSA in computing benefit amounts. The average wage for 1996 is based on Alternative II assumptions in the 1997 report of the Social Security Board of Trustees.

<sup>2</sup> Old-age tax rates were derived by applying the ratio of old-age benefits/total OASI benefits to the OASI tax rates.

<sup>3</sup> Interest rates for 1953-96 are from the SSA Office of the Actuary.

<sup>4</sup> In 1984, employees received a tax credit of 0.3 percent against OASDI taxes. The OASI and old-age tax rates reflect a proportional allocation of the tax credit.

Note.—Initial benefit amount upon retirement in January 1997 at age 65: \$933.00 worker only; \$1,399.00 worker and spouse (both age 65).

Source: Kollmann (1997).

TABLE 1-51.—SOCIAL SECURITY TAXES PAID BY A WAGE EARNER WITH MAXIMUM TAXABLE EARNINGS, 1953-96

Calendar year	Earnings	Tax rates (in percent)		Taxes paid		Effective interest rate <sup>2</sup> (in percent)
		OASI	Old age <sup>1</sup>	OASI	Old age	
1953	\$3,600	1.500	1.085	\$54.00	\$39.07	2.310
1954	3,600	2.000	1.470	72.00	52.93	2.296
1955	4,200	2.000	1.509	84.00	63.37	2.198
1956	4,200	2.000	1.526	84.00	64.10	2.401
1957	4,200	2.000	1.548	84.00	65.03	2.492
1958	4,200	2.000	1.555	84.00	65.31	2.516
1959	4,800	2.250	1.739	108.00	83.47	2.578
1960	4,800	2.750	2.111	132.00	101.33	2.598
1961	4,800	2.750	2.094	132.00	100.51	2.755
1962	4,800	2.875	2.187	138.00	105.00	2.825
1963	4,800	3.375	2.563	162.00	123.01	2.923
1964	4,800	3.375	2.553	162.00	122.54	3.084
1965	4,800	3.375	2.529	162.00	121.40	3.184
1966	6,600	3.500	2.568	231.00	169.52	3.483
1967	6,600	3.550	2.604	234.30	171.84	3.753
1968	7,800	3.325	2.415	259.35	188.35	3.950
1969	7,800	3.725	2.710	290.55	211.42	4.437
1970	7,800	3.650	2.661	284.70	207.55	5.074
1971	7,800	4.050	2.961	315.90	230.95	5.286
1972	9,000	4.050	0.973	364.50	267.57	5.406
1973	10,800	4.300	3.101	464.40	334.87	5.754
1974	13,200	0.375	3.168	577.50	418.24	6.218
1975	14,100	4.375	3.184	616.88	448.87	6.593
1976	15,300	4.375	3.201	669.38	489.69	6.731
1977	16,500	4.375	3.213	721.88	530.11	6.958
1978	17,700	4.275	3.153	756.67	558.09	7.199

1979	22,900	4,330	3,206	991.57	734.09	7,524
1980	25,900	4,520	3,355	1,170.68	868.96	8,568
1981	29,700	4,700	3,514	1,395.90	1,043.70	9,947
1982	32,400	4,575	3,460	1,482.30	1,120.92	11,178
1983	35,700	4,775	3,645	1,704.68	1,301.16	10,768
1984	<sup>3</sup> 37,800	<sup>3</sup> 4,926	<sup>3</sup> 3,776	1,862.03	1,427.40	11,601
1985	39,600	5,200	3,993	2,059.20	1,581.35	11,213
1986	42,000	5,200	3,997	2,184.00	1,678.81	11,091
1987	43,800	5,200	4,002	2,277.60	1,752.70	10,063
1988	45,000	5,530	4,257	2,488.50	1,915.74	9,773
1989	48,000	5,530	4,264	2,654.40	2,046.50	9,573
1990	51,300	5,600	4,320	2,872.80	2,216.34	9,324
1991	53,400	5,600	4,321	2,990.40	2,307.66	9,090
1992	55,500	5,600	4,320	3,108.00	2,397.79	8,745
1993	57,600	5,600	4,315	3,225.60	2,485.57	8,322
1994	60,600	5,260	4,050	3,187.56	2,454.12	8,040
1995	61,200	5,260	4,046	3,219.16	2,476.35	7,859
1996	62,700	5,260	4,045	3,298.02	2,536.14	7,615

Total taxes paid 1953-96:

Accumulated without interest	49,417.47	37,679.43
Accumulated with interest	145,768.34	109,879.77

<sup>1</sup> Old-age tax rates were derived by applying the ratio of old-age benefits/total OASI benefits to the OASI tax rates.

<sup>2</sup> Interest rates for 1953-96 are from the SSA Office of the Actuary.

<sup>3</sup> In 1984, employees received a tax credit of 0.3 percent against OASDI taxes. The OASI and old-age tax rates reflect a proportional allocation of the tax credit.

Note—Initial benefit amount upon retirement in January 1997 at age 65: \$1,326.00 worker only; \$1,989.00 worker and spouse (both age 65).

Source: Kollmann (1996a).

TABLE 1-52.—NUMBER OF YEARS TO RECOVER TAXES PLUS INTEREST FOR VARIOUS WORKERS RETIRING AT AGE 65,<sup>1</sup> SELECTED YEARS 1940–2025

Year of retirement	Minimum earner	Average earner	Maximum earner
Illustration 1: Years to recover employee's OASI taxes			
1940 .....	( <sup>2</sup> )	0.1	0.2
1960 .....	0.5	0.8	1.0
1980 .....	1.5	2.0	2.1
1997 .....	6.0	8.5	11.3
2005 .....	8.4	12.0	16.2
2015 .....	9.7	14.1	20.8
2025 .....	9.6	14.6	24.7
Illustration 2: Years to recover combined employee-employer OASI taxes			
1940 .....	( <sup>2</sup> )	0.2	0.4
1960 .....	1.0	1.6	2.0
1980 .....	3.0	3.9	4.4
1997 .....	13.6	20.2	28.5
2005 .....	19.4	29.7	45.5
2015 .....	22.8	37.0	71.3
2025 .....	22.5	38.8	125.7
Illustration 3: Years to recover retirement portion of employee's OASI taxes			
1940 .....	( <sup>2</sup> )	0.1	0.2
1960 .....	0.4	0.6	0.7
1980 .....	1.1	1.4	1.6
1997 .....	4.4	6.2	8.1
2005 .....	6.1	8.6	11.5
2015 .....	7.1	10.2	14.7
2025 .....	7.2	10.8	17.7
Illustration 4: Years to recover retirement portion of combined employee-employer OASI taxes			
1940 .....	( <sup>2</sup> )	0.2	0.4
1960 .....	0.7	1.1	1.4
1980 .....	2.2	2.8	3.1
1997 .....	9.6	13.9	19.1
2005 .....	13.5	19.9	28.4
2015 .....	15.9	24.2	39.2
2025 .....	16.2	26.2	52.4

<sup>1</sup> Under the alternative II assumptions and taking into account benefit increases and continued accrual of interest after retirement but not the taxation of benefits. The retiree is assumed to attain age 65 and retire in January of the designated year. The current law increase in the retirement age is reflected.

<sup>2</sup> Less than 0.1 years.

Source: Kollmann (1997).

would increase by 50 percent. This would shorten the payback times considerably.

While these illustrations do not purport to address the “moneysworth” question, they do show the relationship of payback times of past, current, and future beneficiaries. It is readily apparent that past retirees recovered the value of their taxes very quickly. Payback times have lengthened for workers retiring today, but



they are still significantly shorter than those projected for future retirees. This decline in value is ameliorated somewhat by the projection that future retirees are expected to live longer, and thus collect benefits longer. Table 1–53 shows the life expectancies for people turning age 65 in the illustrated years.

TABLE 1–53.—LIFE EXPECTANCY AT AGE 65, SELECTED YEARS 1940–2025

Year	Life expectancy (in years)	
	Male	Female
1940 .....	11.9	13.4
1960 .....	12.9	15.9
1980 .....	14.0	18.4
1997 .....	15.6	19.2
2005 .....	16.0	19.5
2015 .....	16.4	19.8
2025 .....	16.8	20.2

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

Source: Board of Trustees (1997).

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

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

Critics of Social Security point to these social welfare features as a basic flaw in the program. They argue that by combining the goals of social adequacy, which is welfare-related, with individual equity, which loosely ties benefits to taxes paid, the program has

become a mishmash that accomplishes neither goal well and creates inequities. One inequity they cite is that future beneficiaries will on the whole receive retirement benefits inferior to those that the equivalence of their taxes could purchase in the private sector. Furthermore, they say when interest is included, many workers (for example, those earning at least average wages; see table 1-52) will not recoup what they and their employer paid in taxes. Often buttressing these arguments are calculations that show what individuals could receive if their Social Security taxes were invested privately.

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

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

#### REFERENCES

- Ballantyne, H.C. (1984). Present policies and methods regarding the long-term adjustment of benefits. *Social Security Bulletin*, 47(10), pp. 9-12.
- Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund. (1996, June 5). *The 1996 annual report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (House Document 104-228). Washington, DC: U.S. Government Printing Office.
- Board of Trustees, Federal Hospital Insurance Trust Fund. (1996, June 1). *The 1996 annual report of the Board of Trustees of the Federal Hospital Insurance Trust Fund* (House Document 104-227). Washington, DC: U.S. Government Printing Office.
- Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund. (1991, May 22). *1991 annual report of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund* (House Document 102-88). Washington, DC: U.S. Government Printing Office.
- Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund. (1988, May 9). *The Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (House Document 100-192). Washington, DC: U.S. Government Printing Office.

- Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund. (1984, April 5). *1984 annual report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (House Document 98–200). Washington, DC: U.S. Government Printing Office.
- Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund. (1983, June 27). *1983 annual report Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund* (House Document 98–74). Washington, DC: U.S. Government Printing Office.
- Committee on Economic Security. (1935). *Report to the President*. Washington, DC: U.S. Government Printing Office.
- Congressional Budget Office. (1996, May). *The economic and budget outlook: Fiscal years 1997–2006*. Washington, DC: Author.
- Kollman, G. (1996a). *How long does it take new retirees to recover the value of their Social Security taxes?* (94–5 EPW). Washington, DC: Congressional Research Service.
- Kollman, G. (1997). *Social Security: The relationship of taxes and benefits for past, present, and future retirees* (95–149 EPW). Washington, DC: Congressional Research Service.
- Social Security Administration. (1995). *Annual Statistical Supplement to the Social Security Bulletin, 1995*. Washington, DC: Author.
- Social Security Administration. (1986). *Report of the Commission on the Evaluation of Pain* (SSA Pub. 64–031–3197). Washington, DC: Author.
- Svahn, J.A., & Ross, M. (1983). Social Security Amendments of 1983: Legislative history. *Social Security Bulletin*, 46(7), pp. 3–48.